

Flash Notes | December 12, 2017

We attended PetroVietnam Ca Mau Fertilizer JSC.,'s conference day (Ticker:DCM) with following key points:

2017 Preview – Strong top-line growth thanks to Cambodia fertilizer market expansion

- 2017 estimated revenue and NPAT will reach VND 6,000bn (+21% YoY) and VND 650-680bn (+4-9% YoY), exceeding 13% and 3%-7% of company guidance, respectively. 2017 urea production volume is estimated at 880,000 tons (+9.4% YoY), equivalent to 110% of design capacity. Total expected fertilizer consumption is 955,000 tons, with 880,000 tons of urea and 75,000 tons of other trading fertilizers (NPK, DAP and Potash) (Figure 2).
- In 2017, the company held c.41% market share. Mekong Delta and Cambodia are the target markets of DCM, in which, the shares are c.58% and c.38% for the former and the latter respectively. Regarding South-Eastern and North-North Central region, its shares are c.24% and c.12%, respectively (Figure 1).
- DCM is the leading urea exporter to Cambodia. In 9M2017, the company exported c.79,000 tons urea (+34% YoY) to Cambodia. Total Cambodia fertilizer consumption is 700,000 tons/year and a half of this belongs to urea. With low fertilizer usage rate (30kg/ha) as compared with Vietnam (397 kg/ha), Cambodia has high fertilizer demand and is a promising market that could support for DCM's long-term growth.
- According to the 2017 target plan, the company sets a low gasoline price in 2017, at USD 1.52/MMBTU, to maintain the company's ROE of 12% agreed between DCM and Vietnam government. The figure is lower than 2017F DPM's input price of USD 4.56/MMBTU.

Figure 1: DCM's market share

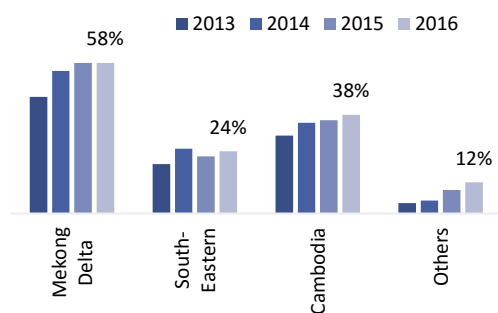
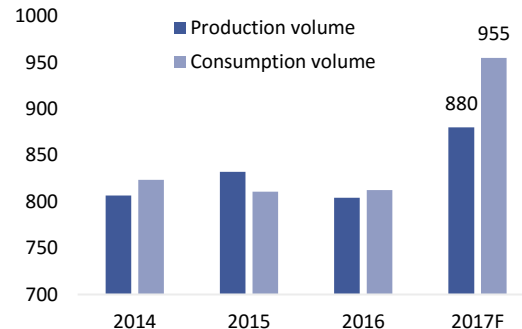


Figure 2: DCM's consumption and production



Source: DCM, TVS research

2018 onwards – Waiting for New Strategic Business and State-owned Divestment Plan

- The 2018 guidance revenue is 10% increase. The company plans to gain more market shares in Mekong Delta and Cambodia to cement its position. 2018 is the last year that DCM will benefit from gasoline price's subsidy (2015-2018 period) in order to maintain ROE of 12%.
- PetroVietNam planned to divest its stake from DCM, reducing to 51% from 75.56%. More detailed information regarding long-term strategy development and divestment plan will be disclosed from Feb, 2018.

NPK project: Total design capacity is 300,000 tons/year (urea liquefied technology) with investment cost is VND 880bn and IRR of 17.4%. The project commenced in November, 2017 and is expected to complete in Q1/2019. In 2020-2030, Mekong Delta will transfer 200,000 hectares of ineffective rice to fruit cultivation. The company's intention is to diversify its portfolio product and capture the increase in NPK usage in Mekong Delta and nation-wide.

NOT-RATED

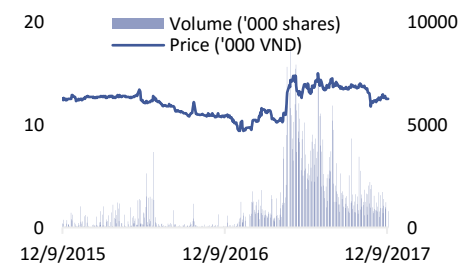
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Trading Data and Key Metrics

Ticker	DCM
Sector	Fertilizer
Listed since	March, 2015
Price as of Dec 11 th , 2017	12,500
52-week range (VND'000)	9,052/15,000
Shares outstanding (mn)	529.4
Free Float (mn)	82.98
15-day average volume	1,020,139
TTM P/BV (x)	1.08
TTM P/E (x)	7.87
Dividend yield	7.2
Debt to Equity (x)	0.8

Source: FiinPro, TVS Research

Price Performance Chart

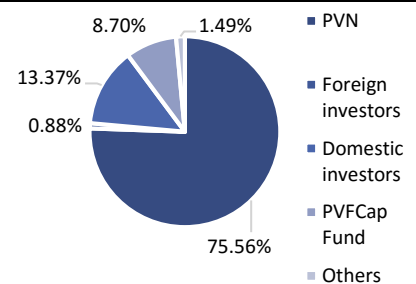


Source: Bloomberg, TVS Research

Company Description

PetroVietnam Ca Mau Fertilizer JSC., (DCM – HSX) is one the two largest domestic urea producer which belongs to PetroVietnam (Vietnam Oil and Gas Group) with 75.56% stake. The company was established in 2011, in which, its main business is involved in manufacturing and distributing urea and other fertilizers including NPK, DAP and Potash nation-wide and in Cambodia.

Shareholder structure



Source: DCM, TVS Research

SUMMARY FINANCIALS

Earning Model (VNDbn)	2014A	2015A	2016A	9M17A
Net sales	6,044	5,909	4,910	4,196
Cost of sales	4,586	4,099	3,596	(2,967)
Gross profit	1,458	1,810	1,315	1,229
Selling expenses	193	276	276	(294)
General administration expenses	169	203	255	(263)
Other operating income/(expenses)	0	0	0	0
EBITDA	2,448	2,611	2,076	1,321
Depreciation & Amortization	386	1,278	1,293	979
EBIT	1,096	1,331	784	672
Net interest income/(expenses)	(298)	(416)	(151)	(36)
Net investment income	0	0	0	0
Others (recurring)	58	(56)	26	2
Pretax Profit	856	859	659	638
Income tax	35	4	35	34
Tax rate (%)	4%	0%	5.2%	5.3%
Minorities	2	4	5	4
Net Income	819	851	620	600
EPS (basic, reported)	1,789	1,447	1,054	1,050
Weighted shares outstanding (mn)	412	529.4	529.4	529.4
Common dividends declared	-	8%	9%	-
DPS (VND)	-	800	900	-
Dividend Payout ratio (%)	-	50%	77%	-

Growth and Margin (%)				
Sales Growth (%)	-3.5%	-2.2%	-16.9%	32.6%
EBITDA Growth (%)	7.1%	6.7%	-20.5%	-2%
EBIT Growth (%)	14.7%	21.4%	-41.1%	72.5%
Net Income Growth (%)	54.4%	4.2%	-27.0%	57.6%
EPS Growth (%)	54.9%	4.0%	-27.2%	58%
Gross Margin (%)	24.1%	30.6%	26.8%	29.3%
EBITDA Margin (%)	40.5%	44.2%	42.3%	31.5%
EBIT Margin (%)	18.1%	22.5%	16.0%	16.0%
Net Income Margin (%)	13.6%	14.5%	12.7%	14.3%

Cash flow Statements (VNDbn)	2014A	2015A	2016A	9M17A
Pretax profit	856	859	659	638
<i>Adjustments for:</i>	1,244	363	139	192
Depreciation and amortization	386	1,278	1,293	979
Change in inventories	196	(161)	17	(71)
Change in trade receivables	(45)	8	(402)	104
Change in trade payables	2,029	(1,756)	44	58
Other operating cash flow	(224)	(1,952)	(565)	(166)
Cash flow from operations	4,270	540	1,087	1734
Net Capital expenditure	(137)	(169)	(198)	(36)
Change in Financial investment	(3,068)	366	403	(400)
Divestitures	3	4	5	0
Other investments, net	167	190	185	87
Cash flow from investing	(3,035)	391	394	(349)
Equity issued	922	1,174	0	0
Net borrowings	(1,987)	(921)	(1,175)	(1,000)
Dividends to shareholders	(571)	(1,920)	(708)	(268)
Cash flow from financing	(1,635)	(1,667)	(1,882)	(1,268)
Net cash flow	(401)	(737)	(402)	116
Opening cash	2,353	1,952	1,215	814
Closing cash	1,953	1,217	817	930

Balance Sheet (VNDbn)	2014A	2015A	2016A	9M17A
Cash and equivalents	1,952	1,215	814	930
Financial investment	3,068	2,703	2,300	2,900
Accounts receivable	88	80	482	394
Inventory	230	391	374	447
Prepaid expenses, other CA	34	43	65	73
Total current assets	5,372	4,431	4,034	4,744
Net Property and equipment	10,960	9,876	8,771	7,779
Net intangibles	44	68	62	37
Total investment	0	0	0	0
Other long - term assets	167	103	99	23
Total Assets	16,544	14,479	12,967	12,646
Account Payables	2,831	1,076	1,120	413
Short-term debt	1,254	1,319	1,359	1,139
Total Current Liabilities	4,086	2,395	2,479	2,654
Long-term debt	6,739	5,753	4,538	3,752
Other long-term liabilities	86	33	1	0
Total long-term liabilities	6,893	5,851	4,638	3,854
Stockholders' equity	5,546	6,210	5,823	6,139
Common Equity	4,120	5,294	5,294	5,294
Treasury shares	0	0	0	0
Capital surplus	0	0	0	0
Retained earnings	10	543	368	584
Budget sources and other funds	244	373	161	234
Minority interest	19	23	27	27
Total liabilities and equity	16,544	14,479	12,967	12,646

Ratios				
ROE (%)	14.8%	13.7%	10.7%	13.7%
ROA (%)	5.3%	5.5%	4.5%	6.6%
ROIC (%)	10.6%	12.7%	7.4%	10.9%
Inventory days	26.1	27.7	38.9	38.2
Receivable days	4.0	5.2	20.9	30.7
Payable days	144.6	174.0	111.4	106.9
Asset Turnover (x)	0.4	0.4	0.4	0.4
Debt/equity (x)	73.9%	38.9%	43.3%	43.2%

Valuation (Multiples)				
EV / EBITDA (x)	1.2	3.5	3.8	N/a
P/E (x)	N/a	7.0	8.4	N/a
Dividend Yield (%)	N/a	7%	9%	N/a
P/B (x)	N/a	1.0	0.89	N/a

Notes: CA = current assets; CL = current liabilities

Source: FiinPro, TVS Research

ANALYST CERTIFICATION

I, **My Tran**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

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