

25 July 2012



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Update

Target price 44,100
Upside % 22

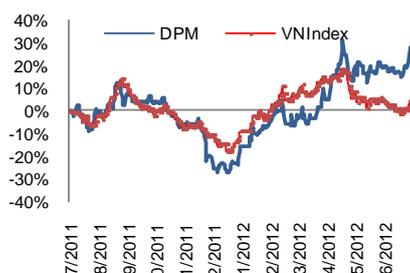
Chemicals

Key Indicators

Price on 25 July 2012	36,200
52-week low	20,942
52-week high	37,975
Avg. 30-day trading volume	345,579
Outstanding shares (mn)	378
Market capitalization (VND bn)	13,667
Market capitalization (USD mn)	651
Foreign ownership %	26

Valuation	2011	2012F	2013F
EPS (basic)	8,169	8,339	5,923
EPS growth %	82.3	2.1	-29.0
P/E at market	4.4	4.3	6.1
P/B at market	1.7	1.3	1.2
EV / EBITDA	3.8	5.3	6.3
ROE	42.9	29.8	18.1
ROA	37.6	18.7	10.0
ROIC	41.9	19.7	10.3
Debt/equity %	0.1	83.0	69.7
Dividend yld %	9.7	6.9	6.9

Performance	3M	6M	12M
Absolute %	4.7	59.2	24.4
Relative %	6.2	41.0	21.6



Ownership Structure

PVN	61.4
Deutsche Bank	9.4
Other foreigners	16.1
Others	13.1

1H2012 Earnings update

DPM results came in unexpectedly strong on both volume and price increase and surprise interest income. We up our full year forecast: revenue of VND11,075 billion (+20% yoy) and net income of VND3,169 billion (+2.1% yoy). Our full year EPS forecast is now 14% higher at VND8,339/share which would translate to a relatively attractive forward P/E of 4.3x. We affirm our recent BUY rating with a target price of VND44,100 (upside 22%).

Better-than-expected earnings (109% of company target). DPM's 1H2012 net earnings were particularly strong jumping 33% yoy to VND1,960 billion (EPS VND5,200) on sales of VND7,397 billion (+63% yoy). The better-than-expected results came on the back of a 30% increase urea average selling price (USD475/tonne) and 14% volume compared with 1H2011 which helped offset a 40% increase in input gas price at the beginning of the year.

Revise earnings forecast up 14% on increased volume. We up our volume forecast to 850 from 800 thousand tonnes (+6.3%). In 1H2012, DPM sold 462 thousand tonnes urea due to strong demand for urea during the winter-spring and summer-autumn crop in Vietnam. We expect DPM to sell 388 thousand tonnes urea in 2H2012.

Surprise interest income from cash holdings. In our previous earnings model we did not include interest income assuming that DPM would have closed the deal on the Ca Mau acquisition by end of 1H. However, since the deal is not expected to close until next year, we expect the company to gain interest income from undisbursed cash. At the end of June 2012, the company held VND5,125 billion in cash and equivalent. The company booked VND300 billion in interest income in the first half.

Figure 1: DPM 1H results summary

	Unit	1H2011	1H2012	yoy %
Phu My revenue	VND bn	3,060	4,608	50.6
Volume	tonne	404,473	462,000	14.2
ASP	\$/tonne	365	475	30.1
Unit cost	\$/tonne	142	194	23.3
Ca Mau revenue	VND bn	-	1,836	N/A
Volume	tonne	-	190,900	N/A
ASP	\$/tonne	-	458	N/A
NPK revenue	VND bn	-	136	N/A
Volume	tonne	-	12,200	N/A
ASP	\$/tonne	-	531	N/A
Others	VND bn	1,476	817	-44.6
Revenue	VND bn	4,536	7,397	63.1
Net profit	VND bn	1,473	1,960	33.1

Source: DPM

DCM did not contribute to DPM's bottom line in 1H2012. The Ca Mau fertiliser plant has just officially started to produce commercial products in July 2012. In 1H2012, the DCM plant produced 191,000 tonnes of test products.

DPM helped DCM sell the test products via several auctions with winning bids of USD458/tonne on average. Starting from July 2012, DPM will be the distributor for DCM products. According to the contract between the two parties, DPM's purchase price will be the Southeast Asia (FOB price) delivered from the DCM plant. According to DPM management, distribution of DCM products is expected contribute VND50 billion to the company's profit before tax earnings in 2H2012.

Progress of Ca Mau acquisition. The parties involved DCM, DPM and PVN are still in negotiations along with the government. A meeting will be hold between the Government's Office and PVN in late July or early August. Once the acquisition is approved by the government, PVN will have to continue further negotiations with DPM regarding the sales and purchase agreement for DCM. According to DPM's management, the acquisition is most likely to be approved citing the fact that DCM is already online and cannot operate effectively without DPM's support. Furthermore, DPM says PVN needs the anticipated cash from the deal to fund a number of other projects. However, the deal is now expected to close in 2013.

DPM's management set a prudent target for 2H2012. For 2H2012, DPM has set guidance at VND6,716 billion in revenue and VND680 billion in net income. We think the targets are again very prudent for 2H2012. Currently, domestic urea is trading at USD457/tonne, 15% higher than DPM's price forecast for the 2H (USD397/tonne). Again we reiterate our own full year forecast: revenue of VND11,075 billion (we exclude trade revenue) and net income of VND3,169 billion.

Figure 2: DPM actual and guidance for FY2012

VND billion	1H	2H	FY2012	FY2011	%
	actual	guidance	(1H + 2H)	actual	Δ yoy
Revenue	7,397	6,716	14,113	9,227	52.9
Net profit	1,960	680	2,640	3,104	14.9
Volume (DPM+DCM)	652,900	530,000	1,182,900	752,000	57.3
Avg. sell price USD/tonne	470	397	437	411	6.3

Source: DPM and VCSC summary

Figure 3: Summary of changes to VCSC forecast for 2012

	Unit	2011	2012 old VCSC forecast	2012 new VCSC forecast	Change %
Revenue	VND bn	9,227	10,962	11,075	1.0
Volume	Tonne	1,082,000	1,160,000	1,172,000	1.0
ASP	USD/tonne	412	450	450	0.0
COGs	VND bn	(5,191)	(6,130)	(5,992)	-2.2
Gross profit	VND bn	4,035	4,832	5,083	5.2
Operating cost	VND bn	(995)	(990)	(1,092)	10.3

PVFCCo (DPM)

Buy

Financial income	VND bn	498	6	270	N/M
Interest expenses	VND bn	(28)	(470)	(470)	0.0
Profit before tax	VND bn	3,510	3,378	3,792	12.3
Net income	VND bn	3,104	2,769	3,169	14.4
EPS	VND	8,169	7,288	8,339	14.4
P/E		4.4	4.9	4.3	

Source: VCSC forecast, N/M = Not meaningful

Financial Statements

Units: VND billion

Income statement	2010	2011	2012	2013	Balance sheet	2010	2011	2012	2013
Revenue	6,619	9,227	11,075	11,770	Assets				
- Cost of goods sold	-4,236	-5,191	-5,992	-7,273	+ Cash & equivalent	3,748	4,070	4,457	5,600
Gross profit	2,383	4,035	5,083	4,497	+ Short-term investment	59	202	202	202
- Sales & marketing	-332	-493	-543	-514	+ Accounts receivable	81	146	547	851
- General & admin	-410	-503	-549	-541	+ Inventories	672	1,160	818	961
Operating profit	1,641	3,040	3,992	3,442	+ Other current assets	265	462	462	462
- Forex gains/(losses)	-62	-39	-130	-111	Total current assets	4,826	6,041	6,486	8,076
- Net non-op gains	351	537	400	0	+ Gross fixed assets	7,283	7,988	24,012	24,082
EBIT	1,930	3,538	4,262	3,331	- Accum. depreciation	-5,405	-5,574	-6,561	-7,548
- Interest expense	-8	-28	-470	-434	+ Net fixed assets	1,878	2,414	17,451	16,534
EBT	1,922	3,510	3,792	2,897	+ Long-term investments	0	0	0	0
- Income tax expense	-215	-370	-559	-350	+ Other long-term assets	715	840	1,282	1,282
Profit after tax	1,707	3,141	3,233	2,547	Total long-term assets	2,593	3,254	18,733	17,816
- Minority interests	-4	-36	-65	-296	Total Assets	7,419	9,295	25,219	25,892
Net Income to common	1,703	3,104	3,169	2,251	Liabilities & Equity				
EPS	4,482	8,169	8,339	5,923	+ Accounts payable	417	324	359	390
EBITDA	1,930	3,708	5,249	4,318	+ Short-term borrowings	86	9	9	9
Depreciation	0	-170	-987	-987	+ Other ST liabilities	422	532	463	401
Revenue growth	-0.2%	39.4%	20.0%	6.3%	Current liabilities	924	864	831	801
Operating profit growth	16.7%	85.2%	31.3%	-13.8%	+ Long-term debt	246	0	11,051	10,290
EBIT growth	27.0%	83.3%	20.5%	-21.9%	+ Other LT liabilities	18	19	19	19
EPS growth	26.3%	82.3%	2.1%	-29.0%	Total LT liabilities	264	19	11,070	10,308
Profitability ratios	2010	2011	2012	2013	Total Liabilities	1,188	883	11,901	11,109
Gross margin	36.0%	43.7%	45.9%	38.2%	+ Total preferred equity	0	0	0	0
Profit after tax margin	25.8%	34.0%	29.2%	21.6%	+ Add't'l paid in capital	0	0	0	0
ROE Dupont	29.0%	42.9%	29.8%	18.1%	+ Share capital	3,800	3,800	3,800	3,800
ROA Dupont	24.8%	37.6%	18.7%	10.0%	+ Retained earnings	2,394	4,427	6,639	7,882
* EBIT Margin	29.2%	38.3%	38.5%	28.3%	+ Minority interest	36	185	2,880	3,101
* Tax burden	88.8%	89.5%	85.3%	87.9%	Total equity	6,230	8,412	13,319	14,783
* Interest burden	99.6%	99.2%	89.0%	87.0%	Liabilities & equity	7,419	9,295	25,219	25,892
* Asset turnover	1.0	1.1	0.6	0.5					
Leverage ratio	1.2	1.1	1.6	1.8	Cash flow	2010	2011	2012	2013
ROIC	27.6%	41.9%	19.7%	10.3%	Beginning cash	2,906	3,748	4,070	4,457
Efficiency ratios	2010	2011	2012	2013	Net Income	1,703	3,104	3,202	2,527
Days inventory on hand	53.5	64.4	60.3	44.6	+ Depreciation	0	181	987	987
Days AR outstanding	3.4	4.5	11.4	21.7	+ Other non-cash adjust.	579	-42	-403	0
Days AP outstanding	27.1	26.0	20.8	18.8	+ Changes in non-cash	990	-626	-92	-477
Cash conversion cycle	29.8	42.9	50.9	47.5	Cash from Operations	3,272	2,617	3,694	3,037
Inventory turnover	6.8	5.7	6.1	8.2	+ Disposal fixed assets	12	0	0	0
Liquidity/Solvency	2010	2011	2012	2013	+ Capex	-992	-782	-4,468	-70
Current ratio	5.22	6.99	7.80	10.09	+ Change in investments	0	0	0	0
Quick ratio	4.49	5.65	6.82	8.89	+ Other investments	-616	-423	0	0
Cash ratio	4.06	4.71	5.36	6.99	Cash from Investing	-1,596	-1,204	-7,285	-70
Debt-to-assets (*)	0.04	0.00	0.44	0.40	+ Dividends paid	-870	-753	-963	-1,063
Debt-to-capital (*)	0.05	0.00	0.45	0.41	+ Change in capital	0	0	0	0
Debt-to-equity (*)	0.05	0.00	0.83	0.70	+ Change in ST debt	58	-76	0	-801
Short-term debt to equity	0.01	0.00	0.00	0.00	+ Change in LT debt	29	-246	0	0
Long-term debt to equity	0.03	0.00	0.44	0.40	+ Other financing act.	0	-1	0	0
Interest coverage ratio	231.14	126.81	9.07	7.68	Cash from Financing	-833	-1,091	3,977	-1,824
Valuation ratios	2010	2011	2012	2013	Net changes in cash	842	322	386	1,144
Price-to-earnings (P/E)	8.1	4.4	4.3	6.1	Ending cash	3,748	4,070	4,457	5,600
Price-to-book value (P/B)	2.2	1.7	1.3	1.2	<i>Units in VND bn</i>				
EV / EBITDA	7.3	3.8	5.3	6.3					
Book value per share	16,299	21,650	27,471	30,743					

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Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
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History of Recommendation

Date	Recommendation	Closing price	Target price
09 July 2012	BUY	34,000	44,100