

Petrovietnam Fertilizer and Chemicals Joint Stock Company

PVFCCo • DPM

Target Price: VND72,000 • US\$4.50 (+45.5%)

www.mekongsecurities.com



Office: Waseco building
10 Pho Quang, Ward 2
Tan Binh Dist., HCMC, Vietnam
Telephone: (+84 8) 997 4748
Fax: (+84 8) 997 4757
Website: www.damphumy.vn
Email: dpm@pvfcco.com.vn
Contact: Mr Pham Thanh Vinh
Deputy General Director

Ownership

State	233,204,253	61.37%
Foreign	51,307,817	13.50%
Domestic	95,487,930	25.13%
Outstanding shares	380,000,000	100.00%

DPM • Trading history (adj.)



King Yoong Cheah, ACA, CFA
Head of Research
king.cheah@mekongsecurities.com

Nguyen Duy Manh
Analyst
manh.d.nguyen@mekongsecurities.com

Opera Business Centre,
Floor 9A, 60 Ly Thai To,
Hoan Kiem District
Hanoi, Vietnam
Tel.: +84 4 936 1389
Fax: +84 4 936 1393

Saigon Finance Centre, Floor 9
9 Dinh Tien Hoang, District 1
Ho Chi Minh City, Vietnam
Tel.: +84 8 520 2050
Fax: +84 8 822 8014

Benefiting from soaring urea prices!!**BUY**

Company's Statistics

Exchange	Ho Chi Minh City Stock Exchange	Last price	VND 49,500 • USD 3.09
Sector	Chemicals	BPS	VND 11,467 • USD 0.72
Index weight	8.5%	EPS	VND 3,476 • USD 0.22
Market cap.	VND 18,810bn • USD 1.18bn	EPS trailing	n.a.
52-week range	VND 98,000 – VND 45,200	Hist DPS	n.a.
30-day average daily turnover	US\$2.7mn	Dividend yield	n.a.
Beta	n.a.	PER	14.2x
ROCE	30.9%	P/BV	4.3x

Results Highlights

- **Surge in the price of urea boosted 1QFY08 results.** Petrovietnam Fertilizer and Chemicals Joint Stock Company (DPM) reported revenue of US\$60.7mn and net profit of US\$24.6mn for the 1QFY08, representing a 193% and 63.7% increase compared with the corresponding period last year. The strong financial performance was mainly due to the surge in urea prices. Average selling price of urea reached VND6,260/kg (US\$391/tonne) in 1QFY08, which is 39.4% and 40.6% higher than the average selling price reported in 1QFY07 and 4QFY07 respectively.

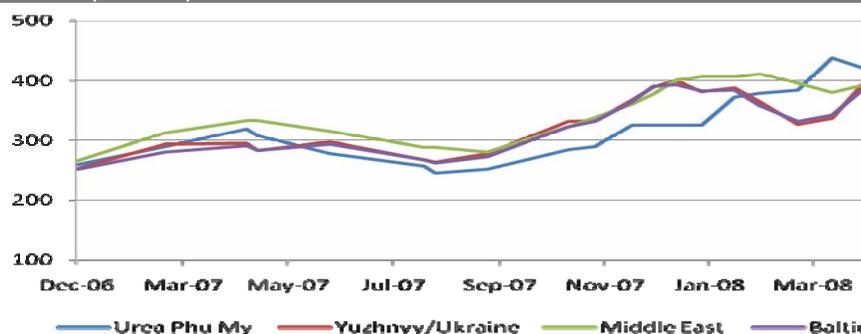
Quarterly Results (US\$m)	*1Q 2007	1Q 2008	Change YoY %
Revenue	31.4	60.7	93.0%
Urea (production)	26.4	40.1	51.9%
Urea (imports)	2.3	15.9	578.5%
Others	2.7	4.7	73.9%
Gross Profit	16.3	26.5	62.1%
Urea (production)	14.7	23.4	59.1%
Urea (imports)	0.1	0.6	581.1%
Others	1.7	3.1	88.3%
Pre-Tax Profit	15.0	26.4	76.0%
Net Profit	15.0	24.6	63.7%
Gross Profit Margin (%)	52.0%	43.6%	-16.0%
Pre-tax Margin (%)	47.7%	43.5%	-8.8%
Net Margin (%)	47.7%	40.5%	-15.2%

Source: company data, *estimated figures

- **Increased selling price in April is expected to boost earnings growth in 2QFY08.** Given that the second quarter is traditionally the peak season for urea consumption, we foresee that earnings growth should remain strong in 2QFY08. Furthermore, the Group has increased the selling price of urea fertilizer from VND7,100/kg (US\$444/tonne) in 31st of March to VND8,000/kg (US\$500/tonne) on 22nd of April. This compared favorably to VND4,800/kg (US\$300/tonne), which was the highest selling price recorded in the second quarter of last year.
- **Expect the uptrend in urea prices to continue...** International urea prices have increased to around US\$500/tonnes in April 2008. We expect this trend to continue and such upward price momentum will be driven by:
 1. China, which is the largest global fertilizer manufacturer, has increased export tariffs on fertilizer products and its related raw materials by 100% to 135% respectively from 20th of April 20 to 30th of September to ensure sufficient domestic supply.
 2. The surge in price of natural gas and crude oil, which are the major feedstocks to produce urea, has substantially increased the cost of production.

3. We also believe that rising agricultural prices will encourage farmers to use more fertilizers to boost yields.
- **Management has recently raised its earnings forecast.** Management has recently raised its revenue and PBT targets for FY08 by 7.9% and 29.4% to VND4,754bn (US\$297mn) and VND1,540bn (US\$96mn) respectively. Nonetheless, we believe that the revenue and earnings targets forecast by the management remain conservative given the current price level and the underlying fundamentals.
 - **Revise upwards our earnings estimates...** We have increased our assumption of average price of urea fertilizer from an initial US\$303/tonne to US\$378/tonne for FY08 and subsequently our earnings estimates for the Group by 33% to US\$124.6mn. Given that sales volume recorded in the 1QFY08 only represents 13.9% of whole year plan, we believe that earnings growth in the coming quarters could also stem from the higher sales volume.
 - **.....and upgraded our fair value on DPM to VND72,000 (US\$4.5).** DPM's share price has contracted by 33.1% on a year to date basis in line with the prolonged consolidation in the general market although it has outperformed the 46.9% drop in the VN Index. We believe the selling is unwarranted as the Group's fundamentals remain intact. Therefore, we recommend investors to take this opportunity to accumulate the stock in view of its current price weakness. We have revised upwards our target price for the Group to VND72,000 (US\$4.50) per share based on the revised DCF model. This gives an implied expected PER of 9.4x, which is lower than the average PER of regional comparables which stands at 19.9x. BUY recommendation maintained.
 - **Regulatory risk remains the key concern to our recommendation...** Key risks to our earnings target include potential Government's intervention to control the rising urea price in order to curb high inflation which we believe is unlikely. Nevertheless, the surging urea price may induce the Government to remove subsidies on natural gas, which is the major feedstock for the Group.

Urea Price (US\$/tonne)



Company	Country	Market Cap (US\$m)	P/E 2007	P/B 2007	P/S 2007	ROE	P/E 2008E	P/E 2009E
China Blue Chemical	China	2,744	13.4	2.4	4.4	19.6	14.0	12.8
Hubei Yihua Chemical Industry	China	1,720	31.0	6.7	2.4	23.8	20.1	16.1
Fauji Fertilizer	Pakistan	1,028	12.9	5.6	1.7	43.0	11.2	9.6
Engro Chemical Pakistan	Pakistan	1,047	22.1	4.5	1.9	23.7	18.0	18.4
Chambal Fertilizers & Chemicals	India	676	24.4	3.1	1.1	12.9	n.a.	n.a.
Gujarat Narmada Valley Fertilizers	India	599	6.7	1.9	1.0	31.9	n.a.	n.a.
Taiwan Fertilizer	Taiwan	4,917	39.8	2.9	12.7	7.4	35.3	31.2
Namhae Chemical	Korea	1,390	48.8	4.7	1.7	10.2	20.9	11.5
Average			21.5	4.0	3.4	21.6	19.9	16.6
Petrovietnam Fertilizer and Chemicals	Vietnam	1,176	14.2	4.3	5.0	29.2	9.4	8.3

Source: Bloomberg,
Notes: Yunnan Yuntianhua Co (600096.CH) and Sichuan Lutianhua Co (000912.CH) were suspended so we exclude them from the comparable list

Income Statement (US\$ mn)	2005A	2006A	2007A	2008F	2009F
Net Revenue	158.6	190.7	236.2	385.4	463.4
Gross Profit	56.4	70.4	92.6	151.1	164.3
Operating Income	43.4	51.3	82.1	134.8	153.1
Pre-tax Income	49.5	72.6	82.6	135.6	154.1
Net Income	49.5	72.6	82.5	124.6	141.2
Dividend	n.a.	n.a.	0.0	111.0	98.8
Gross Profit Growth (%)	n.a.	24.8	31.5	63.3	8.7
Operating Income Growth (%)	n.a.	18.3	60.0	64.2	13.6
Pre-tax Income Growth (%)	n.a.	46.7	13.7	64.2	13.6
Net Income Growth (%)	n.a.	46.7	13.7	50.9	13.3
Gross Margin (%)	35.6	36.9	39.2	39.2	35.5
Operating Margin (%)	27.4	26.9	34.8	35.0	33.0
Pre-tax Income Margin (%)	31.2	38.1	35.0	35.2	33.3
Net Profit Margin (%)	31.2	38.1	35.0	32.3	30.5
Dividend Payout Ratio (%)	n.a.	n.a.	0.0	89.1	70.0

Equity Rating Definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -15% and +15% over 12-months, with low risk of sustained downside.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Disclaimer

Copyright 2008 Mekong Securities. All rights reserved. This research is prepared on the basis of information believed to be reliable at the time of publication. Mekong Securities makes no representation or warranty regarding the completeness or accuracy of such information. Opinions, estimates and projections expressed in this document are subject to change without notice. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. Neither the information nor any opinion expressed in this research constitutes an offer or solicitation to purchase or sell any securities or any option, futures contract or other derivative instruments in any jurisdiction. Directors, associates, employees and affiliates of Mekong Securities may have a financial interest in securities mentioned in this research or in related instruments and also undertake brokerage, investment banking and advisory services for companies described herein. This document may not be copied, reproduced, published or redistributed by any person for any purpose without the express written permission of Mekong Securities. Please cite sources when quoting.