

Vietnam

Overweight (no change)

Chemicals - Others

Policy change on the fast track

- A change in VAT policy on fertilisers would give Vietnamese fertiliser producers the opportunity to cut costs and improve margins.
- The change in VAT policy, if expedited, could be approved as early as mid-Nov and trigger a sector re-rating. Maintain sector Overweight.
- We expect urea producers such as DPM and DCM to benefit more from this policy change than NPK and phosphate producers.

VAT policy change back on the table

On 8 Oct, Vietnam’s Ministry of Finance published a Draft of the Resolution on changes in VAT policy to support fertiliser producers. This draft was submitted to the government and the Standing Committee of the National Assembly for review and presentation at the upcoming National Assembly meeting from 20 Oct to 17 Nov. The proposal for a change in VAT policy on fertilisers was first proposed in 2017 as part of a new Law on the amendment of six Tax Laws; but due to the complexity of the content, the review process was delayed indefinitely. This is the first time since 2017 that a VAT policy change has been put back on the table with a visible timeline. We deem this as a positive sign and think the Resolution would go through this time, given: (1) a Resolution takes much less time than a new Law to be approved, (2) this change could bring additional revenue to the State Budget and support the government’s use of fiscal policy to deal with Covid-19 disruptions, and (3) consensus opinions (from Ministry of Finance, Ministry of Industry and Trade, Ministry of Agriculture and Rural Development, and Vietnam Fertiliser Association) are unanimous in their support for the policy revision.

How producers could benefit from the change

According to the Resolution, fertiliser products (both domestic and imports) would be reclassified from the tax-exempt bracket to the 5% VAT bracket. This means producers could earn VAT deductions for input materials, resulting in lower COGS, improved margins and possibly better cash flows. This could also erase the tax advantage of importers, who currently bear little to no VAT tax for both input and output.

Urea producers could earn greater benefit than NPK producers

We maintain our Overweight rating on the sector in light of the anticipated benefits from the VAT policy change. However, we note that producers could gain unequal benefits due to differences in cost structures and ability to pass through the VAT onto prices charged to farmers. We believe urea manufacturers DPM (DPM VN, Hold, TP: VND17,100) and DCM (DCM VN, Add, TP: VND9,900) would benefit more than NPK producers and fertiliser importers. According to our estimates, VAT accounts for a larger proportion of COGS for urea producers, as (1) more than 50% of their inputs are subject to VAT, while the bulk of inputs of NPK producers are currently tax-free, and (2) urea inputs (natural gas, additives) are subjected to a higher VAT rate of 10% vs. 5% for phosphate inputs (apatite ore, serpentine), implying higher deductible amount for urea producers. Increases in material costs which could partially or wholly offset the benefits from the policy change are a key downside risk.

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Figure 1: Estimated changes in 2020 business results in the case of policy revision*, based on companies’ FY20 guidance and 1H20 GPM

Company	Main products	Market cap (VNDbn)	COGS (VNDbn)	GPM (%)	Adjusted COGS (VNDbn)	Adjusted GPM (%)	Δ GPM (pts)
DPM	Urea and NPK	6,809	7,071	23.5%	6,585	28.7%	5.3%
DCM	Urea	6,406	6,459	18.8%	6,118	23.1%	4.3%
BFC	NPK	978	5,216	13.4%	5,209	13.5%	0.1%
LAS	Phosphaste and NPK	813	2,437	17.7%	2,370	20.0%	2.3%
SFG	NPK and phosphate	337	1,658	7.9%	1,636	9.1%	1.3%
VAF	Phosphaste and NPK	336	718	23.4%	690	26.3%	2.9%

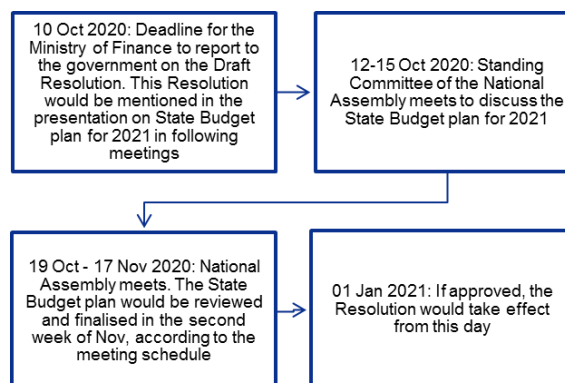
*Assuming 100% passthrough of output VAT obligations. Market cap as at 09 Oct 2020.

SOURCES: VND RESEARCH, COMPANY REPORTS

KEY CHARTS

Estimated timeline for the policy change ➤

We expect the Resolution would be approved by the Standing Committee and the National Assembly to support the State Budget, which is being used effectively as a fiscal tool to help revive the economy post Covid-19 outbreak.



Benefits to be gained by producers vary due to differences in cost structures and input tax rates ➤

Inputs subjected to VAT often account for more than 50% of total inputs for urea producers, while the majority of inputs used by NPK producers are single-nutrient fertilisers which are currently tax-exempted. This results in a higher amount of tax deductible for the former group of companies. Also, urea producers like DPM and DCM currently incur an input VAT of 10% for natural gas, electricity, additives, etc. Meanwhile, for phosphate producers like LAS and VAF, key materials such as apatite ore, serpentine, etc. are subjected to a 5% input tax rate, implying higher deductible amount for urea producers than phosphate producers.

Input	Input tax rate	Output	Output tax rate
Coal	10%	Urea	5%
Gas	10%	Phosphate	5%
Apatite ore	5%	NPK	5%
Sulphur	10%		
Urea	5%		
DAP/SA/Phosphate	5%		
Potassium	5%		

Potential impact on cash flow of fertiliser producers based on FY20 guidance ➤

Assuming the output VAT is fully passed on to customers, the impact on fertiliser companies' cash flows should be equal to the changes in input tax deductions.

Companies	Tax amount to be deducted	Net changes in tax deducted	Tax amount payable	Net changes in tax payable	1H20 pretax profit
LAS	104	68	147	(68)	(11)
VAF	38	27	47	(27)	14
DCM	342	342	307	(342)	383
DPM	499	485	329	(485)	493
SFG	59	23	84	(23)	3
BFC	242	7	301	(7)	96

Unit: VNDbn

SOURCES: VND RESEARCH, COMPANY REPORTS

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THAI, THANI, THG, TISCO, TKN, TMB, TOA, TOP, TPIPP, TQM, TRUE, TTW, TU, VGI, WHA, BEAUTY, JMART, LPN, SISB, WORK.

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2020		
795 companies under coverage for quarter ended on 30 September 2020		
	Rating Distribution (%)	Investment Banking clients (%)
Add	63.0%	0.5%
Hold	25.2%	0.1%
Reduce	11.8%	0.3%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, n/a, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** - Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TMB** - Excellent, Certified, **TNR** – Very Good, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

[1 CG Score 2019 from Thai Institute of Directors Association \(IOD\)](#)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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