



Company Note

Vietnam

HOLD (previously *REDUCE*)

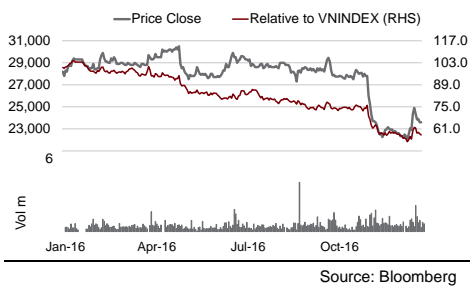
Consensus ratings*: Buy 3 Hold 3 Sell 1

Current price: VND23,600
 Target price: VND25,167
 Previous target: VND26,443
 Up/downside: 6.6%
 CIMB / Consensus: -13.1%

Reuters: DPM.HM
 Bloomberg: DPM VN
 Market cap: US\$409.2m
 VND9,235,489m
 Average daily turnover: US\$0.72m
 VND16,242m
 Current shares o/s: 380.0m
 Free float: 40.4%
 *Source: Bloomberg

Key changes in this note

- FY16F EPS increased by 8%.
- FY17F EPS reduced by 6%.
- FY18F EPS increased by 11.5%.



Price performance	1M	3M	12M
Absolute (%)	2.6	-18.9	-14.5
Relative (%)	-1	-18.9	-44.1

Major shareholders	% held
PetroVietnam	59.6
Market Vector	4.5
Deutsche Bank AG London	4.5

Analyst(s)



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PetroVietnam Fertilizer and Chemicals

Investors' interest in fertiliser stocks is picking up

- Local investors' interest in fertiliser stocks is reviving, following DPM's 44% share price underperformance vs. the VNI in 2016 and DPM's recent 6% urea price hike.
- DPM's 13% dividend yield has attracted investors' interest but input price hikes outpaced urea price hikes, so the company's dividend pay-out ratio reached 100%.
- Natural gas prices surged 30%, versus the 6% increase in DPM's urea selling price.

Rising investor interest in DPM

DPM fell out of favour with investors over the last two years due to a plunge in urea prices and a change in the tax code that put the company at a disadvantage (discussed below). The stock's expected 13% FY17F dividend yield has attracted investors' interest, especially given that DPM currently holds cash equivalent to 48% of the company's market cap – so its high dividend is sustainable. However, since local urea prices are still low, despite a surge in natural gas prices, DPM's payout ratio has reached ~100%.

VAT relief could boost DPM's margins

In 2015, the government abolished value-added tax (VAT) on fertiliser to support the agricultural sector. However, DPM continued to pay VAT on the production materials it purchased. This squeezed margins, as it was unable to offset the VAT collected on the products it sold against the VAT it paid on raw materials purchased. As a result, DPM's gross margin contracted by about 5%pts to 32%, ceteris paribus. The government is considering granting DPM tax relief to remedy its disadvantageous VAT situation.

However, urea selling prices in Vietnam are weak...

DPM recently raised its urea selling price by just 6%, versus a ~35% increase in global urea prices in Sep-Dec 2016 because of: 1) a severe drought, which dampened demand for fertiliser last year, and 2) Vietnam's small surplus of local urea production capacity.

...and input costs have surged

Natural gas accounts for 60% of DPM's COGS and gas prices increased by about 30% over the last 4 months, when DPM raised its urea selling price by 6% - which is the reason that we expect EPS to fall by ~10% in FY17F. On the other hand, coal prices surged by 200% from trough to peak in 2016. This forced some of the Chinese coal-based urea producers to shut down production facilities, which should boost urea prices.

New NPK factory under construction

DPM is constructing a new NPK fertiliser factory that is due to start operations in 2018. We do not expect the US\$95m factory to have sizeable impact on local supply-demand balance, as most of the NPK produced by DPM's competitors is of lower quality.

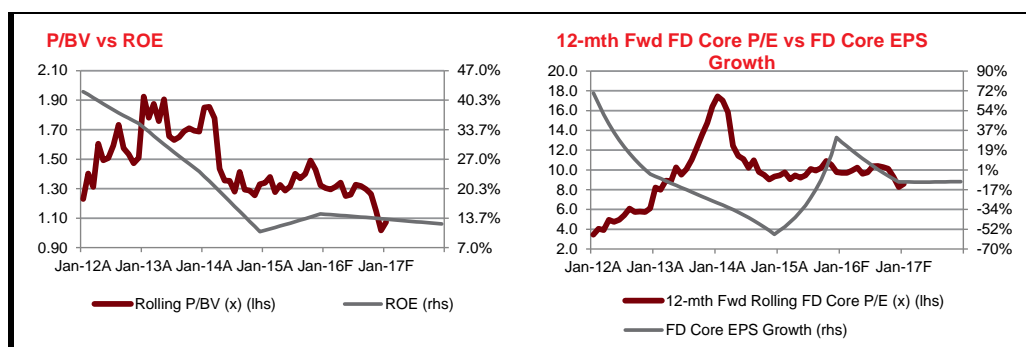
Upgrade to Hold rating

We lower our DCF-based target price (14.6% WACC) by 5% due to the increase in natural gas prices, but upgrade our DPM rating to Hold because the stock underperformed the VN-Index by 44% in 2016, because of the stock's high dividend yield, and because of potential upside in urea prices (which lagged the increase in natural gas prices). Downside (and upside) risks include lower (and higher) urea prices. Note that we lifted our FY18 EPS estimate because of the VAT issue mentioned above.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (VNDb)	9,549	9,765	8,856	8,938	12,763
Operating EBITDA (VNDb)	1,424	2,069	1,643	1,537	1,912
Net Profit (VNDb)	961	1,252	1,131	1,025	1,220
Core EPS (VND)	2,532	3,298	2,980	2,701	3,214
Core EPS Growth	(56.7%)	30.3%	(9.6%)	(9.4%)	19.0%
FD Core P/E (x)	9.32	7.16	7.92	8.74	7.34
DPS (VND)	3,994	1,501	3,000	3,000	3,000
Dividend Yield	16.9%	6.4%	12.7%	12.7%	12.7%
EV/EBITDA (x)	2.80	1.73	3.05	3.77	3.07
P/FCFE (x)	3.50	7.58	NA	15.21	7.56
Net Gearing	(55.3%)	(64.8%)	(48.3%)	(40.0%)	(38.9%)
P/BV (x)	1.02	1.07	1.07	1.09	1.08
ROE	10.6%	14.6%	13.5%	12.4%	14.7%
% Change In Core EPS Estimates			8.7%	(6.1%)	11.5%
CIMB/consensus EPS (x)			1.03	0.95	1.02

SOURCE: COMPANY DATA, CIMB FORECASTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	9,549	9,765	8,856	8,938	12,763
Gross Profit	2,696	3,417	2,865	2,771	3,674
Operating EBITDA	1,424	2,069	1,643	1,537	1,912
Depreciation And Amortisation	(269)	(265)	(267)	(257)	(332)
Operating EBIT	1,156	1,804	1,376	1,280	1,580
Financial Income/(Expense)	319	249	234	179	156
Pretax Income/(Loss) from Assoc.	(280)	(198)	0	0	0
Non-Operating Income/(Expense)	90	25	(1)	(1)	(1)
Profit Before Tax (pre-EI)	1,284	1,880	1,609	1,458	1,735
Exceptional Items					
Pre-tax Profit	1,284	1,880	1,609	1,458	1,735
Taxation	(149)	(358)	(241)	(219)	(260)
Exceptional Income - post-tax					
Profit After Tax	1,136	1,522	1,367	1,239	1,475
Minority Interests	(38)	(34)	(31)	(28)	(33)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(136)	(236)	(205)	(186)	(221)
Net Profit	961	1,252	1,131	1,025	1,220
Recurring Net Profit	961	1,252	1,131	1,025	1,220
Fully Diluted Recurring Net Profit	961	1,252	1,131	1,025	1,220

Cash Flow

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	1,424	2,069	1,643	1,537	1,912
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(619)	695	(106)	(5)	(252)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(1)		(1)	(1)	(1)
Other Operating Cashflow	18	(842)	(205)	(186)	(221)
Net Interest (Paid)/Received	327	246	234	179	156
Tax Paid	(124)	(280)	(241)	(219)	(260)
Cashflow From Operations	1,026	1,889	1,324	1,305	1,333
Capex	(178)	(960)	(1,585)	(910)	(243)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,686	69			
Cash Flow From Investing	1,508	(891)	(1,585)	(910)	(243)
Debt Raised/(repaid)	28	184	148	195	95
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,516)	(570)	(1,139)	(1,139)	(1,139)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(1,488)	(386)	(991)	(944)	(1,044)
Total Cash Generated	1,046	612	(1,252)	(550)	47
Free Cashflow To Equity	2,562	1,182	(113)	589	1,185
Free Cashflow To Firm	2,537	1,000	(238)	428	1,134

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	5,078	5,771	4,519	3,969	4,016
Total Debtors	404	821	795	802	1,145
Inventories	1,492	1,365	1,238	1,250	1,785
Total Other Current Assets	225	125	213	215	307
Total Current Assets	7,200	8,082	6,765	6,236	7,253
Fixed Assets	2,295	2,466	3,784	4,438	4,349
Total Investments	505	261	261	261	261
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	110	110	110	110	110
Total Non-current Assets	2,911	2,837	4,155	4,809	4,720
Short-term Debt	94	2	50	45	40
Current Portion of Long-Term Debt					
Total Creditors	646	1,371	1,244	1,255	1,792
Other Current Liabilities	303	462	419	423	604
Total Current Liabilities	1,042	1,835	1,713	1,723	2,437
Total Long-term Debt	1	230	330	530	630
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	61	306	306	306	306
Total Non-current Liabilities	62	536	636	836	936
Total Provisions	0	0	0	0	0
Total Liabilities	1,104	2,372	2,349	2,560	3,373
Shareholders' Equity	8,789	8,356	8,348	8,235	8,316
Minority Interests	217	192	223	251	284
Total Equity	9,006	8,548	8,571	8,485	8,600

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	(7.9%)	2.3%	(9.3%)	0.9%	42.8%
Operating EBITDA Growth	(41.0%)	45.3%	(20.6%)	(6.4%)	24.4%
Operating EBITDA Margin	14.9%	21.2%	18.5%	17.2%	15.0%
Net Cash Per Share (VND)	13,129	14,591	10,902	8,940	8,812
BVPS (VND)	23,154	22,011	21,992	21,693	21,907
Gross Interest Cover	394.3	702.7	59.0	38.3	36.2
Effective Tax Rate	11.6%	19.0%	15.0%	15.0%	15.0%
Net Dividend Payout Ratio	158%	46%	101%	111%	93%
Accounts Receivables Days	12.43	22.90	33.38	32.60	27.84
Inventory Days	75.44	82.15	79.53	73.62	60.92
Accounts Payables Days	25.84	20.87	21.05	19.48	16.12
ROIC (%)	38.1%	50.4%	45.0%	28.6%	30.8%
ROCE (%)	15.8%	23.0%	18.4%	16.6%	19.4%
Return On Average Assets	6.51%	9.87%	8.50%	7.96%	9.53%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Oil Price (US\$/bbl)	100.0	50.0	45.0	50.0	50.0
Volume Growth (%)	0.6%	-0.6%	6.6%	-3.4%	0.0%
Ratio Of Up To Downstream (x)	N/A	N/A	N/A	N/A	N/A
Operating Cash Cost (US\$/bbl)	N/A	N/A	N/A	N/A	N/A
Ratio Of High To Low Margin (x)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Corporate Governance Report:

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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. CIMBS 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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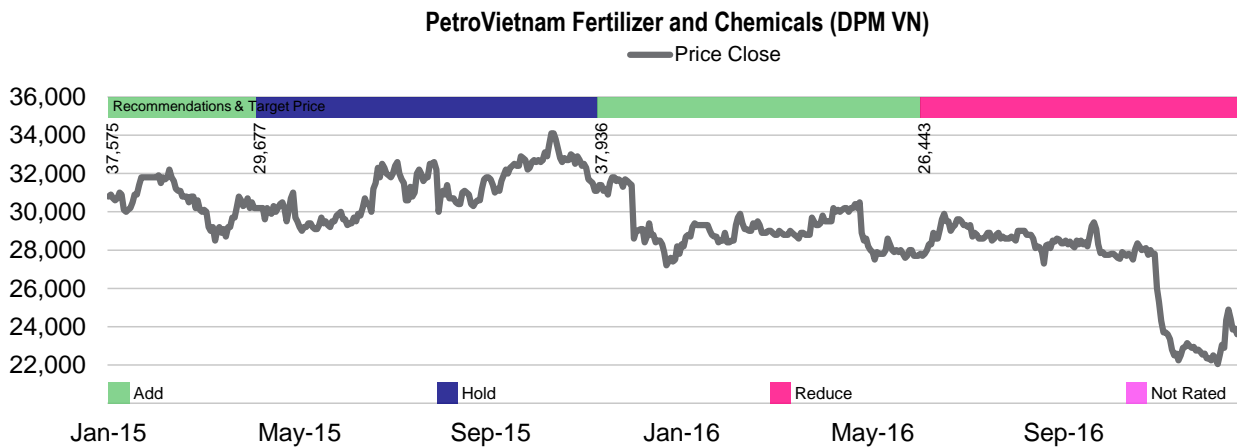
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand’s Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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.