

17 May 2024

ANALYST(S)

Nguyen Thien Nhan

nhannguyen@phs.vn

Prospects may improve thanks to policies, but uncertainties remain

- The fertilizer industry faced many challenges in 2023 as both sales volume and price severely decreased compared to the previous year.
- In short run, the Q1/2024 results have shown many positive signs thanks to the seasonal factor and improved exports. However, the long-term prospects of the industry are still ambiguous.
- The amended VAT law, which applies a 5% VAT to fertilizers, will be a notable bright spot for businesses in the industry.

The fertilizer industry struggled through 2023 as selling prices and exports cooled down rapidly

From the high base of 2022, the fertilizer industry experienced a sharp decline in business results in 2023, mainly due to:

1. Selling prices, especially Urea and NPK, quickly fell to pre-Covid reopening levels (end of 2021) and pre-Ukraine War levels (beginning of 2022).
2. Domestic demand only increased slightly while exports declined sharply due to strong competition from China and Russia, while all products were subject to a 5% export tax.
3. Input costs, especially for natural gas, continued to rise.

Due to the saturation of the domestic nitrogen fertilizer market, most key enterprises were severely affected by the above situation. Specifically, DPM and DCM in 2023 recorded a decrease in revenue of 27% and 21% respectively, more seriously, the net profit after tax of these two companies decreased by 90% and 74% compared to 2022.

Meanwhile, companies specializing in NPK fertilizer production such as BFC and LAS showed less impact. By the end of 2023, BFC recorded a net profit after tax decrease of about 30% to 134 billion VND, while LAS even had a strong net profit growth to 148 billion VND (+68% YoY) thanks to proactive cost cutting and sourcing low-cost input materials.

The industry's prospects will be led by policy changes and improving exports.

In Q1/2024, most of the group recorded positive year-on-year business results thanks to the positive short-term changes in exports (reaching over 499k tons, equivalent to USD207mn, up 23% in volume and about 13% in value compared to the same period, according to Vietnam Customs). Notably, DCM recorded a strong increase in gross profit (+24.8% YoY) thanks to the Urea plant being fully depreciated. Regarding the short and long-term prospects of the industry, we see some factors that will have a positive impact on the industry such as:

1. Key fertilizer exporting countries (especially nitrogen fertilizers) such as Russia and China have all issued export restrictions to stabilize the domestic market.
2. In long run, the fertilizer group can benefit greatly from the amended VAT Law (potentially effective from 2025), which stipulates that fertilizers are subject to a 5% VAT instead of being non-VAT as currently. Then, input VAT will be deducted, reducing product costs and significantly improving the industry's margins.