Fertilizer Industry: Amendment in VAT Law is expected to support 2025 profit growth

- Under the newly approved Amended Value Added Tax (VAT) Law, fertilizers will be subject to a 5% VAT rate starting from July 2025.
- The imposition of VAT on fertilizers is expected to support the profitability of certain domestic fertilizer manufacturers by allowing them to claim input VAT refunds.
- We expect that certain fertilizer companies will benefit from this change in the VAT law, including **DCM, DPM, DDV**, and **LAS**.

Fertilizers will be subject to a 5% VAT rate starting from July 2025

On November 26, 2024, the National Assembly passed the amended Value-Added Tax (VAT) Law. Accordingly, starting from July 1, 2025, fertilizers will be subject to a VAT rate of 5%. Previously, under Law No. 71/2014/QH13 amending various tax laws, which took effect on January 1, 2015, fertilizers were exempt from output VAT. Since its implementation, Tax Law No. 71 has showed several limitations. While fertilizers were not subject to output VAT, their input materials were still taxed at VAT rates ranging from 5% to 10%. This prevented domestic manufacturers from claiming input VAT deductions, forcing them to increase their selling prices.

Imposing VAT on fertilizers will enhance the profitability of domestic manufacturers and create an incentive to reduce selling price

We believe that the recent changes in the VAT Law will support the profitability of domestic fertilizer manufacturers by allowing them to deduct input VAT, which accounts for a significant portion of production costs (ranging from 50% to 70%). Theoretically, the imposition of VAT could lead to higher fertilizer prices. However, the support for profitability will enable domestic fertilizer manufacturers to lower their selling prices, thereby enhancing competitiveness against imported fertilizers, which previously had a cost advantage over domestic products.

Companies expected to benefit from the changes: DCM, DPM, DDV, LAS

We believe that 2025 profit growth of certain domestic fertilizer manufacturers could be supported by the recent changes in the VAT Law, especially in the context of stable fertilizer prices and stagnant production capacity. Manufacturers primarily producing straight fertilizers (urea, phosphate) and DAP fertilizers, such as **DCM, DPM, DDV**, and **LAS**, are expected to benefit from this change thanks to input VAT refunds. Meanwhile, NPK manufacturers are unlikely to see significant advantages, as their key inputs are straight fertilizers, and the imposition of VAT on fertilizers has minimal impact on their profitability.

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Figure 1: Impact assessment of a 5% VAT on fertilizers for domestic fertilizer companies

Companies	Scenario 1: Fertilizers are exempt from VAT	Scenario 2: Fertilizers are subject to a 5% VAT rate
Manufacturers of urea, phosphate and DAP fertilizers	- VAT on raw materials costs (with rates ranging from 5% to 10%) is non-refundable. - To reflect this, the selling price must be increased.	- VAT on raw material costs is refundable, supporting the company's profits. - This will be an incentive for companies to reduce the selling price before adding the 5% output VAT rate.
Manufacturers of NPK fertilizer	- Input straight fertilizers are exempt from VAT. - Output compound fertilizers are exempt from VAT.	- Input straight fertilizers are subject to VAT. - Output compound fertilizers are subject to VAT.
Fertilizer Importing companies	- VAT has been deducted in the exporting country. - The selling price is exempt from VAT.	- No additional costs can be deducted as VAT has mostly been deducted in the exporting country. - The selling price is 5% higher than the previous one.

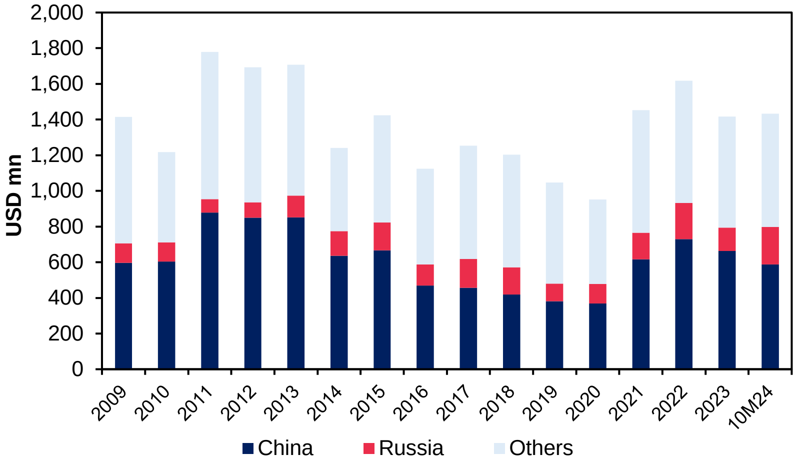
Source: MBS Research

Fertilizer will be subject to a 5% VAT tax rate starting from July 2025

On November 26, 2024, the National Assembly approved the draft amendment to the Value-Added Tax (VAT) Law, which stipulates that, starting from July 1, 2025, fertilizers will officially be subject to an output VAT rate of 5%. Previously, under the amended Tax Law No.71/2014/QH13, which took effect on January 1, 2015, fertilizers were exempt from output VAT.

Since its implementation, Tax Law No.71 has showed several limitations, especially in the fertilizer industry. While fertilizers were exempt from output VAT, the input materials were still subject to VAT. This resulted in domestic companies being unable to claim input VAT refunds, forcing them to raise prices to account for these additional costs. This situation has not only impacted the profitability of domestic fertilizer manufacturers but also placed pressure on end consumers, mainly farmers, who then turned to imported fertilizers, which were cheaper. Most imported fertilizers to Vietnam have already had VAT deducted in the exporting country. As a result, even with a 5% import tax (on urea and phosphate fertilizers), the overall price of imported fertilizers remains lower than that of domestically produced fertilizers.

Figure 2: Vietnamese imported fertilizer value by country, in which China and Russia are two countries holding the largest market share



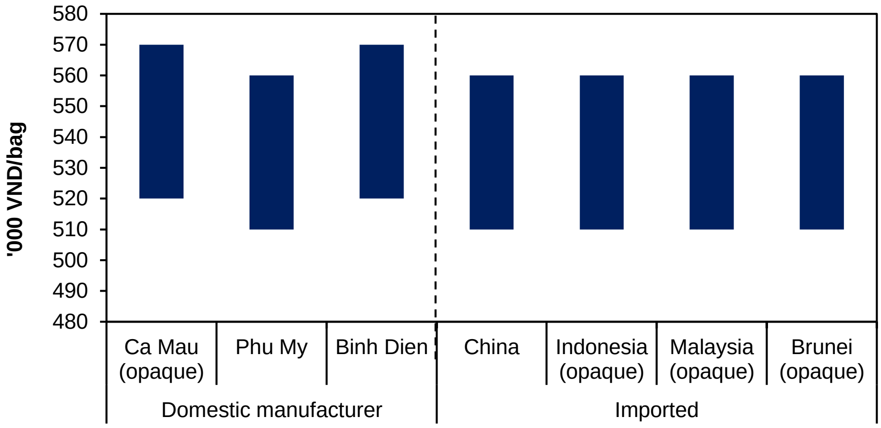
Source: GSO, MBS Research

Figure 3: VAT rate on fertilizers in some countries

Nation	VAT rate for fertilizers
China	13%
Russia	12.5% - 20%
Germany	7% - 19%
Brazil	From 1% (2022) to 4% (2025)
Vietnam	0% (since July 2025: 5%)

Source: MBS Research's compilation

Figure 4: Price range of urea fertilizers in the Southeast and Central Highlands regions: The price of domestic opaque urea is higher than that of imported opaque urea (data as of November 25, 2024).



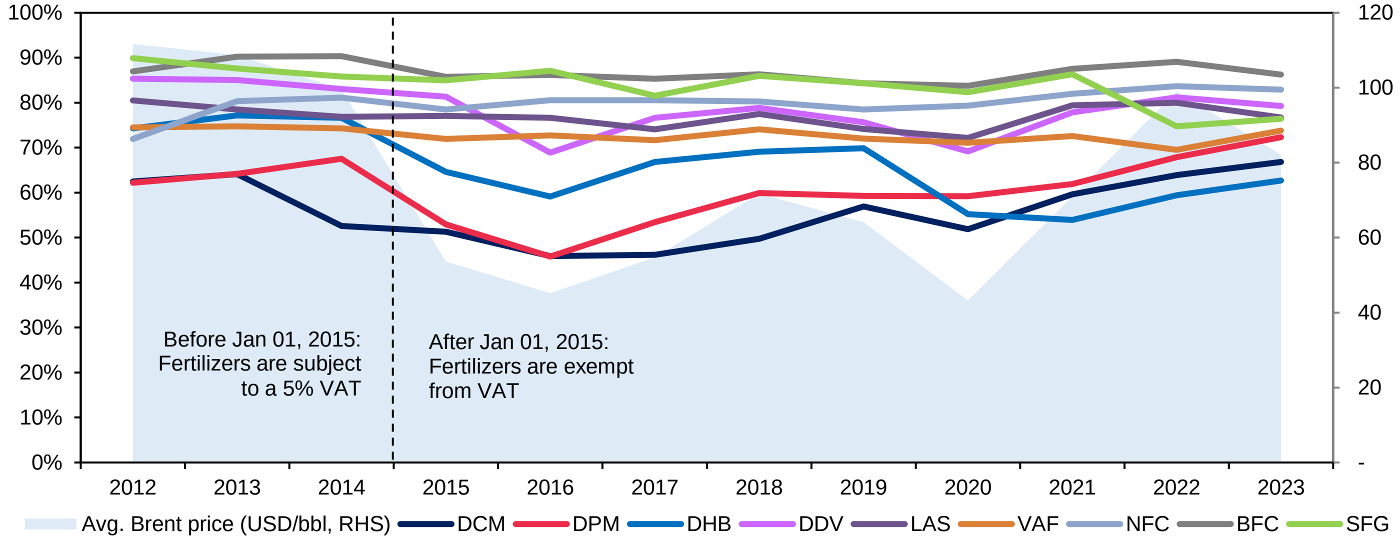
(*) Note: Price of opaque urea is higher than that of transparent urea

Source: MBS Research's compilation

The imposition of VAT on fertilizers will support the profitability of domestic fertilizer manufacturers and create an incentive for lowering selling prices

We believe that the imposition of a 5% VAT on fertilizers will allow companies to claim input VAT deductions, thereby supporting the profitability of domestic fertilizer manufacturers. The cost of raw materials used in manufacturing fertilizers often accounts for a significant portion of the total production costs for fertilizer companies, ranging from 50% to 80%. The input raw materials used for fertilizer production are relatively diverse and are often subject to VAT rates ranging from 5% to 10%.

Figure 5: The ratio of Input material costs/ Total production cost by factor of some domestic fertilizer manufacturers



(*) Note: The price of crude oil follows a similar trend to the input gas prices of some fertilizer manufacturers such as DCM and DPM

Source: FiinProX, MBS Research

Figure 6: Some domestic fertilizer manufacturers

Company	Ticker	Main fertilizer	Main input materials
PetroVietnam Ca Mau Fertilizer JSC	DCM	Urea	Natural gas
PetroVietnam Fertilizer and Chemicals Co.	DPM	Urea	Natural gas
Ha Bac Nitrogenous Fertilizer & Chemicals	DHB	Urea	Coal
DAP - Vinachem	DDV	DAP	Apatite ore
Lam Thao Fertilizers & Chemicals JSC	LAS	Phosphate	Apatite ore
Van Dien Fused Magnesium Phosphate Fertilizer	VAF	Phosphate	Apatite ore & Serpentine ore
Ninh Binh Phosphate Fertilizer JSC	NFC	Phosphate	Apatite ore & Serpentine ore
Binh Dien Fertilizer JSC	BFC	NPK	Straight fertilizer
Southern Fertilizer JSC	SFG	NPK	Straight fertilizer

Source: MBS Research's compilation

Figure 7: VAT rates of some input materials used in fertilizer production

Input materials	VAT rate
Natural gas	10%
Coal	10%
Apatite ore	5%
Serpentine ore	5%

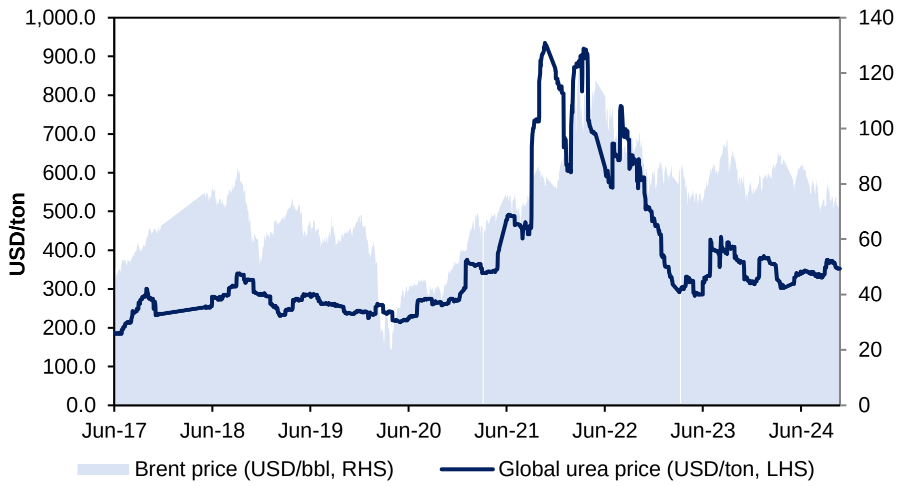
Source: MBS Research's compilation

If fertilizers are exempt from output VAT, the VAT on input materials cannot be deducted and must be included as part of the production costs. As a result, manufacturers are forced to increase prices to cover these costs, making it difficult to compete with imported fertilizers on price. In contrast, if fertilizers are subject to a 5% output VAT, input VAT can be refunded, and companies will benefit from reduced costs compared to previous years.

Theoretically, the imposition of VAT will lead to higher fertilizer prices. However, the support for profitability will create an incentive for domestic fertilizer manufacturers to lower their selling prices, thereby increasing competitiveness with imported fertilizers, which previously had a cost advantage over domestic ones. As a result, end consumers will ultimately benefit. It is noted that fertilizer importers will not be significantly affected by this tax law change, as both input and output tax rates are set at 5%, meaning their profitability remains unchanged.

We expect that companies manufacturing straight fertilizers (urea, phosphate) and DAP fertilizers, such as **DCM, DPM, DDV**, and **LAS**, will benefit from this change thanks to the input VAT refunds on raw materials. On the other hand, companies manufacturing NPK fertilizers are unlikely to benefit significantly, as their key inputs are straight fertilizers, and the imposition of VAT on fertilizers has little impact on their profitability. In the context of stagnant domestic production capacity and a lack of clear upward momentum for fertilizer price in the coming year, we believe that the imposition of VAT will drive profit growth for fertilizer manufacturers in 2025.

Figure 8: The global price of urea has remained relatively stable in recent times, as oil prices have not experienced significant fluctuations, and the demand for fertilizers has been growing slowly



Source: Bloomberg, MBS Research

Companies expected to benefit from the change in the VAT Law: DCM, DPM, DDV, LAS

As mentioned above, we expect that profit growth in 2025 of some fertilizer companies producing straight fertilizers and DAP fertilizer will benefit from thanks to the amendment in the Value-Added Tax (VAT) Law, including: DCM, DPM, DDV, and LAS. However, since the implementation of the 5% VAT on fertilizers (starting from July 2025) will occur later than our previous forecast (January 2025), we lower our projection for DCM's net profit in 2025 by 12% compared to the previous one. According to the previous forecast, if the amended VAT law takes effect in January 2025, it could support DCM to reduce input costs by approximately VND 400 billion per year, thereby supporting profit growth in 2025. We are also adjusting DCM's 2024 profit forecast to reflect the one-off profit from the acquisition of the Han Viet NPK plant at a lower price.

Figure 9: Projected results for some fertilizer companies

VND bn	DCM		
	2023	2024F	2025F
Revenue	12,571	12,585	13,163
% yoy	*-21.1%*	*0.1%*	*4.6%*
Gross profit	2,032	2,554	3,060
Gross profit margin (%)	*16.2%*	*20.3%*	*23.2%*
EBITDA	1,766	1,611	2,105
EBITDA margin (%)	*14.0%*	*12.8%*	*16.0%*
Net profit after tax and minority interest	1,109	1,579	1,847
% yoy	*-74.3%*	*42.4%*	*16.9%*
EPS (VND/share)	2,095	2,983	3,488
BVPS (VND/share)	18,768	19,763	21,265
Net cash/ Share (VND/share)	18,286	18,248	19,796
Debt/ Equity	8.5%	13.1%	12.4%
Dividend yield (%)	8.0%	5.3%	5.3%
ROAE (%)	10.8%	15.5%	17.0%
ROAA (%)	7.5%	10.2%	11.4%

Source: MBS Research's projection

Figure 10: Peer comparision in fertilizer industry

Company	Ticker	Target price (VND/share)	RCM	Market cap	P/E (x)	P/B (x)	ROA%		ROE (%)	
				VND bn	TTM	Current	2024F	2025F	2024F	2025F
PetroVietnam Ca Mau Fertilizer JSC	DCM	41,700	Add	19,958	13.1	2.0	10.2	11.4	15.5	17.0
PetroVietnam Fertilizer and Chemicals Company	DPM	n/a	n/a	13,853	20.9	1.2	n/a	n/a	n/a	n/a
DAP - Vinachem JSC	DDV	n/a	n/a	2,761	15.7	1.6	n/a	n/a	n/a	n/a
Lam Thao Fertilizers & Chemicals JSC	LAS	n/a	n/a	2,460	11.8	1.7	n/a	n/a	n/a	n/a
Ha Bac Nitrogenous Fertilizer & Chemicals	DHB	n/a	n/a	2,259	1.4	4.0	n/a	n/a	n/a	n/a
Binh Dien Fertilizer JSC	BFC	n/a	n/a	2,261	7.0	1.6	n/a	n/a	n/a	n/a

Source: Bloomberg, MBS Research

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ADD	The stock can generate a profitability of 15% or more
HOLD	The stock can generate a profitability of between -15% and 15%
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NEUTRAL	Industry stocks have Hold recommendations on a weighted market capitalization basis
NEGATIVE	Industry stocks have Reduce recommendations on a weighted market capitalization basis

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