Petroleum Equipment Assembly-Metal Structure (PXS – HSX)

Solid performance

Particulars (VND bn)	4QFY13	3QFY13	% (qoq)	4QFY12	% (yoy)
Net Revenues	327.6	303.3	8	186.3	76
EBIT	27.2	33.5	-19	3.9	605
PAT	61.0	58.1	5	24.6	148
EBIT margin (%)	18.6%	19.2%	-53bps	13.2%	540bps

Sources: PXS, RongViet Securities

- In spite of an unattained business plan, PXS did plenty in 2013, including a capital restructure and the search for a potential strategic partner.
- Signed EPCC projects promise an estimated 64.3-percent increase in 2014's revenue.
- The effect of the capital restructure is to be seen as soon as 1Q2014.

Outlook and Valuation:

PXS does most of its business in a niche market of the construction sector with a relatively high profit margin as compared to that of industry peers Trimmed interest expenses due to the repayment of VND 160 billion of long-term debt along with solid earnings from contracted projects is the highlight PXS' 2014 outlook. EPCC projects with the contracts in place such as Thai Binh ($30 million), P3P4 (VND600 billion) will be pushed since Q2. Besides, over 30% of the total value of EPCC project Diamond ($57 million) will continued to the recorded in Q1, further ensuring this year's revenue.

In front of the large opportunity for Vietnamese oil and gas constructors in general and PXS' current projects in particular, we revise our target price for the stock to VND27,300/share up from VND15,500/share (dated 28th November 2013) and rate the stock as **ACCUMULATE**. The changes in our recommendation are primarily due to the rather optimistic outlook for the Company's performance in 2014. Moreover, the recent increase of the overall market has significantly raised the average P/E ratio of the Oil & Gas industry, which in turn affected the outcome of the comparable valuation approach.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	1,196.9	1,009.3	1,658.3	1,741.3
% chg	12.7%	-15.7%	64.3%	5.0%
PAT	67.4	75.9	145.0	150.1
% chg	-42.5%	12.6%	90.9%	3.5%
EBIT margin (%)	5.6%	7.5%	8.7%	8.6%
ROA (%)	4.6%	5.3%	9.2%	9.2%
ROE (%)	14.2%	13.8%	22.1%	20.7%
EPS (VND)	1,797	1,908	2,899	3,002
Adjusted EPS (VND)	2,308	1,908	2,899	3,002
Book value (VND)	12,758	12,438	13,775	15,257
Cash dividend (VND)	1,500	1,300	1,300	1,500
P/E (x)	4.3	7.7	8.5	8.2
P/BV (x)	0.6	1.2	1.8	1.6

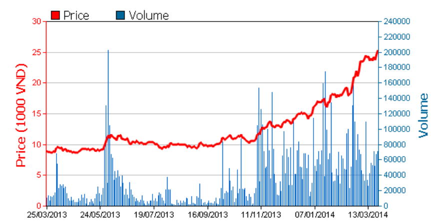
Sources: PXS, RongViet Securities, stock price of 03/24/2014

Accumulated

CMP (VND)	24,600
Target Price (VND)	27,300
Investment Period	Medium

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	655
Current Shares O/S	50,000,000
Beta	1.47
Free float (%)	38.07
52 weeks High	24,600
52 weeks Low	7,434
Avg. Daily Volume (in 20 sessions)	684,763



Performance (%)

	3M	1Y	3Y
PXS	64	89	89
Oil & Gas	31	75	N/A
VN30 Index	21	22	37
HSX Index	19	22	29

Major Shareholders (%)

PVC	44.88
McPECOM	10.00
VF2	5.97
Foreigner investor room (%)	38.07

Tam Bui

(084) 08- 6299 2006 – Ext 348

tam.bt@vdsc.com.vn

Exhibit 1: 4QFY2013 and YTD Results

Particulars (VND bn)	4QFY13	3QFY13	% chg (qoq)	4QFY12	% chg (yoy)
Net Revenues	327.6	303.3	8.0	186.3	75.8
Gross profits	93.9	70.9	32.4	35.7	163.3
SG&AC	22.7	14.9	51.7	12.9	75.5
Operating Income	71.2	56.0	27.3	22.8	213.0
EBITDA	76.2	72.1	5.7	33.4	127.9
EBIT	61.0	58.1	5.0	24.6	147.7
Financial expenses	36.5	13.6	167.3	19.8	84.3
- Interest Expenses	24.7	13.4	84.2	18.8	31.4
Dep.andamortization	-15.2	-14.0	8.8	-8.8	72.7
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	36.3	44.7	-18.8	5.8	521.4
PAT	27.2	33.5	-18.8	3.9	604.8
(*) Adjusted PAT	27.2	33.5	-18.8	3.9	604.8

Sources: PXS, RongViet Securities

Exhibit 2: 4QFY2013 performance analysis

Particulars	4QFY13	3QFY13	% Chg. (qoq)	4QFY12	% Chg.(yoy)
Profitability Ratios (%)					
Gross Margin	28.7	23.4	528bps	19.1	952bps
EBITDA Margin	23.3	23.8	-50bps	18.0	532bps
EBIT Margin	18.6	19.2	-53bps	13.2	540bps
Net Margin	8.3	11.0	-273bps	2.1	623bps
Adjusted Net Margin	8.3	11.0	-273bps	2.1	623bps
Turnover *(x)					
-Inventories	9.5	11.8	-2.3	6.3	3.2
-Receivables	5.8	5.4	0.5	4.0	1.8
-Payables	4.0	6.9	-2.9	5.1	-1.1
Leverage (%)					
Total Debt/ Equity	1.5	1.6	-0.1	1.7	-0.2

Sources: RongViet Securities, (*) Annualized metrics

In spite of an unattained business plan, PXS did plenty in 2013

2013 revenue was recorded $1,009 billion, lower than annual target of VND1,380 billion. The main reason for the shortfall was the delay of the EPCC project Diamond (mid-March 2013), the result of which was that only 67% of the total contract value was booked in revenue. In addition, the withdrawal at PVPIPE, which cost PXS VND$10 billion in form of financial expense, caused NPAT in 2013 to stop only at 77% of the target (VND$76 billion). Such figures closely matched the estimates of our previous result update report.

However, the year 2013 was marked by some of PXS' important undertakings.

(1) PXS successfully launched its capital restructure in order to lower its financial leverage, which had been raised to a high level to fund the investment in Sao Mai Ben Dinh manufacturing yard. As a step of the restructuring scheme, PXS' charted capital was increased from $375 billion to $500 billion via private placements and share offerings to current shareholders. The funds from the offerings as well as the Company's divestment from PVPIPE were used to pay off VND160 billion of long-term debt so as to reduce the interest burden in upcoming years.

(2) An establishment of strategic partnership between PXS and McPECOM is expected to set the stage for the Company's expansion in the regional market. In the first phase of the agreement, the two parties have shaken hands to begin the construction of the 360-ton EHouse Brown Lion task.

Signed EPCC projects promise surprise revenue increase in 2014

As far as we concern, PVC has imposed a schedule of performance targets for PXS in 2014 with revenue of up to VND1,400 billion and NPAT of VND81.9 billion.

Exhibit 3: Performance plan by PVC

Particulars	Units	Plan 2014
Net Revenue	BillionVND	1,400
PBT	BillionVND	105
NPAT	BillionVND	81.9
Dividend Ratio	%	13

Sources: PXS

Given its current portfolio, PXS said if all projects are implemented according to the planned schedule, 2014 revenue might reach as high as VND2,000 billion (Exhibit 4).

Exhibit 4: List of recognizable projects in 2014

Projects	Contractors	Total value	Initiation date	Estimated revenue 2014
Diamond	Petronas	1,208	QI/2013	320.5
P3,P4	BQP	600	QI/2014	600.0
Thai Binh rig base	Petronas	652	QII/2014	550.0
BK16 rig base	VSP	41	QIV/2013	30.0
Ham Rong	Petronas	N/A	QII/2014	400.0
Thien Ung rig base	VSP	N/A	QII/2014	32.5.0
NghiSơn	Japan-PVN	N/A	QIV/2014	11.0
H5	HL JOC	N/A	QIII/2014	169.0
LNG	PVGAS	N/A	QIII/2014	11.0
Others				50.0
Total				**2,174.0**

Sources: PXS

However, on the basis of reasonable caution, we estimate that total revenue would be only VND1,658 billion, the majority of which would come from the two EPCC projects, i.e. Thai Binh and P3P4, and the remaining value of the Diamond project (~27% of the total contracted value). The former two were both signed at year-end 2013 and are to be executed in Q1 and Q2 respectively. Therefore, the risk of delay is rather low and the certainty of revenue is relatively high.

On the other hand, for profit margins in recent quarter have maintained quite high and interest expense has been on a decline, we expect that 2014 NPAT would be somewhat optimistic at VND145 billion.

The effect of the capital restructure is to be seen as soon as 1Q2014.

The Diamond project is having its finishing touch and is expected to contribute aboutVND166billion to Q1 revenue. In addition, the Thai Binh project has been just been into the manufacturing stage since February and the implementation will only be boosted starting Q2. As the result, we estimate that this project would account for only VND90 billion of PXS' revenue this quarter. Combined smaller projects such as Ehouse Brown Lion and BK16 rig base, we expect Q1 revenue to be about VND311 billion. Notably, the repayment of the VND160-billion loan at the year-end 2013 should have a positive effect on profits starting this quarter, whereby Q1 interest expense may be lowered to around VND14.7 billion (- 41% from the previous quarter) and NPAT lifted to around VND33 billion.

Exhibit 5: 4QFY2013 Actual vs. Estimates

Particulars (VND bn)	Actual	Estimates	*Var (%)*
Net Revenues	328	404	-19
Gross profits	94	79	19
EBIT	61	49	25
PAT	27.2	28.2	-4

Sources: RongViet Securities

Exhibit 6: 1QFY2014 Forecast

Particulars (VND bn)	1QFY14	%chg (qoq)	%chg (yoy)
Net Revenues	312	-5	152
Gross profits	75	-20	91
EBIT	57	-6	118
PAT	33	21	551

Sources: RongViet Securities

Outlook and valuation

PXS does most of its business in a niche market of the construction sector with a relatively high profit margin as compared to that of industry peers. Trimmed interest expenses due to the repayment of VND 160 billion of long-term debt along with solid earnings from contracted projects is the highlight PXS' 2014 outlook. EPCC projects with the contracts in place such as Thai Binh ($30 million), P3P4 (VND600 billion) will be pushed since Q2. Besides, over 30% of the total value of EPCC project Diamond ($57 million) will continued to the recorded in Q1, further ensuring this year's revenue.

In front of the large opportunity for Vietnamese oil and gas constructors in general and PXS' current projects in particular, we revise our target price for the stock to VND27,300/share up from VND15,500/share (dated 28th November 2013) and rate the stock as **ACCUMULATE**. The changes in our recommendation are primarily due to the rather optimistic outlook for the Company's performance in 2014. Moreover, the recent increase of the overall market has significantly raised the average P/E ratio of the Oil & Gas industry, which in turn affected the outcome of the comparable valuation approach.

Exhibit 7: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2014E	FY2015E	FY2014E	FY2015E
Revenue growth (%)	73	5	64	5
Gross margin (%)	19	18	21	20
EBIT margin (%)	13	12	15	14

Exhibit 8: Changes in Estimates

Particular (VND bn)	FY2014E			FY2015E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	1,746.0	1,658.3	-5	1,833.3	1,741.3	-5
Gross profits	18.7%	21.0%	230bps	17.5%	20.0%	250bps
SG&AC	104.8	107.8	3	100.8	104.5	4
Operating Income	221.7	240.5	8	220.0	243.8	11
Financial expenses	46.7	58.3	25	41.0	55.0	34
PBT	179.0	187.3	5	182.9	193.9	6
PAT	132.4	145.0	10	135.2	150.1	11
EBITDA	285.6	304.8	7	274.5	315.9	15
EBIT	224.7	244.4	9	223.1	247.8	11
EPS (VND)	2,647	2,899	10	2,705	3,002	11

Sources: RongViet Securities

VND Billion

INCOME STATEMENT	**2012A**	**2013A**	**2014E**	**2015F**
Revenue	1,196.9	1,009.3	1,658.3	1,741.3
COGS	972.2	762.1	1,310.1	1,393.0
Gross profit	**224.7**	**247.3**	**348.3**	**348.3**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	55.4	64.0	107.8	104.5
Finance Income	18.4	5.1	5.1	5.1
Finance Expense	96.8	87.4	58.3	55.0
Other profits	0.3	1.0	0.0	0.0
PBT	**91.2**	**102.1**	**187.3**	**193.9**
Prov. of Tax	23.8	26.1	42.3	43.8
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**67.4**	**75.9**	**145.0**	**150.1**
EBIT	**186.2**	**177.0**	**244.4**	**247.8**
EBITDA	238.0	233.2	304.8	315.9

%

FINANCIAL RATIO	**2012A**	**2013A**	**2014E**	**2015F**
Growth				
Revenue	12.7%	-15.7%	64.3%	5.0%
Operating Income	3.1%	8.3%	31.2%	1.4%
EBITDA	12.4%	-2.0%	30.7%	3.6%
EBIT	-1.9%	-4.9%	38.1%	1.4%
PAT	-42.5%	12.6%	90.9%	3.5%
Total Assets	-21.2%	18.4%	5.1%	1.4%
Equity	1.1%	29.9%	10.7%	10.8%
Internal growth rate	2.3%	2.0%	12.2%	10.3%
Profitability				
Gross profit/Revenue	18.8%	24.5%	21.0%	20.0%
Operating profit/ Revenue	14.1%	18.2%	14.5%	14.0%
EBITDA/ Revenue	19.9%	23.1%	18.4%	18.1%
EBITDA/ Revenue	15.6%	17.5%	14.7%	14.2%
Net margin	5.6%	7.5%	8.7%	8.6%
ROAA	4.6%	5.3%	9.2%	9.2%
ROIC or RONA	19.2%	19.3%	27.3%	25.1%
ROAE	14.2%	13.8%	22.1%	20.7%
Efficiency				
Receivable Turnover	5.0	4.6	6.4	6.6
Inventory Turnover	10.7	9.5	11.4	9.8
Payable Turnover	3.2	2.5	2.8	2.9
Liquidity				
Current	1.2	0.9	1.1	1.2
Quick	1.0	0.8	0.9	0.9
Solvency				
Total Debt/Equity	172.2%	146.9%	135.4%	115.5%
Current Debt/Equity	26.2%	43.9%	24.2%	20.0%
Long-term Debt/ Equity	111.9%	28.1%	41.0%	30.5%

VND Billion

BALANCE SHEET	**2012A**	**2013A**	**2014E**	**2015F**
Cash and equivalents	101	312	329	328
Short-term investment	0	3	3	3
Receivables	182	252	265	261
Inventories	62	99	131	153
Other current assets	4	2	2	3
Total Current Asset	**349**	**668**	**731**	**748**
Tangible Fixed Assets	702	671	692	706
Intangible Fixed Assets	18	20	20	19
Construction in Progress	9	16	16	16
Investment Property	0	0	0	0
Long-term Invest ment	70	0	0	0
Other long-term assets	154	167	163	155
Long-term Asset	**953**	**874**	**890**	**896**
Total Asset	**1,303**	**1,542**	**1,621**	**1,644**
Payables	52	375	364	371
Other current liabilities	106	78	116	121
Current Debt	126	273	167	152
Long-term Debt	535	175	282	233
Other long-term liabilities	6	13	3	3
Total Liability	**824**	**913**	**933**	**881**
Owner's Equity	**479**	**622**	**689**	**763**
Capital	375	500	500	500
Retained Earnings	50	52	104	151
Funds & Reverses	53	70	84	112
Others	**0**	**0**	**0**	**0**
Total Equity	**479**	**622**	**689**	**763**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**1,303**	**1,535**	**1,621**	**1,644**

CASH FLOW STATEMENT	**2012A**	**2013A**	**2014E**	**2015F**
Profit before tax	91.2	102.1	187.3	193.9
-Depreciation	51.9	56.2	60.4	68.0
-Adjustments	*79.0*	*82.2*	*-10.2*	*-10.2*
+/- Working capital	-296.4	107.6	-89.5	-68.5
Net Operating CFs	**-74.3**	**348.1**	**147.9**	**183.2**
+/- Fixed Asset	-25.1	-36.7	-75.3	-85.9
+/- Deposit, equity investment	65.0	55.1	0.0	0.0
Interest, dividend, cash profit	17.4	4.3	9.0	9.0
Net Investing CFs	**57.3**	**22.6**	**-66.3**	**-76.9**
+/- Capital	0.0	104.4	0.0	0.0
+/- Debt	-105.5	-213.5	-7.1	-65.4
Dividend paid	-33.4	-50.8	-57.2	-42.4
Net Financing CFs	**-138.9**	**-159.9**	**-64.4**	**-107.9**
+/- cash & equivalents	-155.9	210.8	17.3	-1.6
Beginning cash & equivalents	**256.9**	**101.0**	**312.1**	**329.4**
Impact of exchange rate	0.0	0.2	0.0	0.0
Ending cash & equivalents	**101.0**	**312.1**	**329.4**	**327.8**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.eEximbank, Satra, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

NhaTrang Branch

50Bis Yersin - NhaTrang

Can Tho Branch

08 PhanDinhPhung –CầnThơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to RongViet's clients only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase of subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. The readers should be aware that RongViet may have a conflict of interest with investors when does this research. Investors are advised make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. RongViet will not take any responsibility for any loss/damages occurred as a result of using the information herein.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

The information herein is believed by RongViet to be reliable and is based on public sources believed to be reliable. We do not warrant its accuracy or completeness. Opinions, estimations and projection expressed in this report represent the current views of the author as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.