Petrovietnam General Services JS Corporation (PET – HSX)

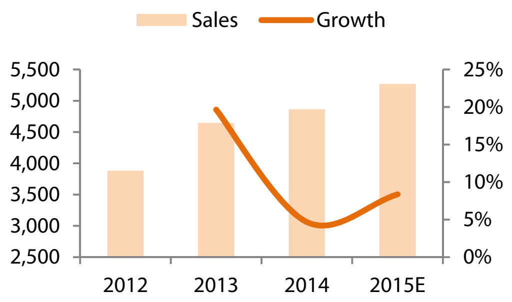
Tracking the progress of Thanh Da land plot transfer

Mobile phone distribution business looks saturating

Total revenue in the first half of 2015 fell 11% yoy to VND 5,100 billion caused by a drop in distribution business. In particulars, the segment recorded the 6M2015 sales and PBT of VND 4,081 billion (-15% yoy) and VND 75 billion (-13% yoy) respectively. Of which, mobile phone distribution revenue (constituting over 50% of total distribution revenue) saw a year-on year decrease of 18%, down to VND 2,108 billion.

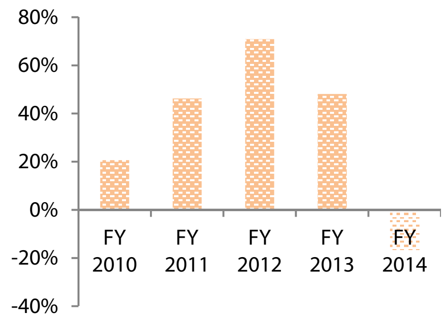
As observed, mobile phone distribution activity has seen a slow-down from a spectacular annual growth of 20% in 2013 to 5% in 2014 and going negative in 1H2015. The less than positive sales figure of Samsung mobile devices was singled as the major cause due to its relatively significant contribution in PET distribution revenue (~76%). According to Samsung Electronics Co Ltd. latest financial statement, the firm's consolidated mobile devices sales in 2014 and 1Q2015 dropped by 16.5% and 22.6% (yoy) respectively. Likewise, Samsung mobile devices sales via PET also decreased over 20% in 1H2015. More new players joining the market and the lack of breakthrough products (e.g. Galaxy S3) are hampering Samsung growth.

Figure: PET's mobile distribution sales growth (2012-2015)



Source: PET, Rongviet Research

Figure: Mobile sales growth of Samsung Electronics Co Ltd (yoy)



Source: Bloomberg, Rongviet Research

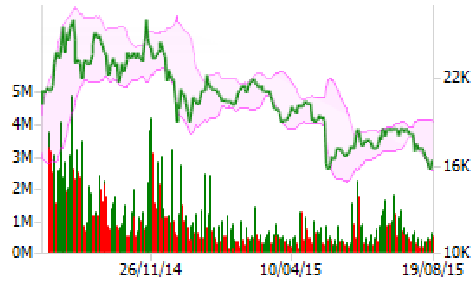
In that context, PET looks to make up by increasing the distribution of other mobile devices brands, especially of new players. Hence, that caused the proportion of Samsung products to fall 2 percentage points in 6M2015 (yoy).

STABLE

Market price (VND)	16,300
Target price (VND)	n/a

Stock Info

Sector	Retail
Market Cap (VND bn)	1,378
Current Shares O/S	84,600,124
Beta	1.2
Free Float (%)	52%
52 weeks High	20,700
52 weeks Low	14,900
Avg. Daily Volume (in 20 sessions)	1,088,007



Source: Vietstock

Peformance (%)

	3T	1N	3N
PET	4	-1	105
Retail	-2	-32	NA
VN30 Index	9	-6	17
VNIndex	7	-4	31

Major Shareholders (%)

PVN	25
Halley Sicav - Halley Asian Prosperity	9
Deutsche Bank AG & Deutsche Asset Management (Asia) Ltd	5
PVFC	4
Deutsche Bank AG London	4
Foreigner Investor Room (%)	31

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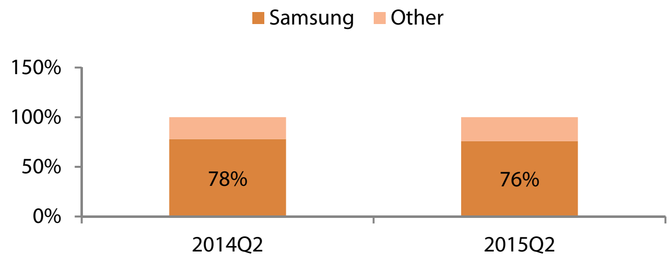
Figure: Mobile sales structure by brands



Source: PET, Rongviet Research

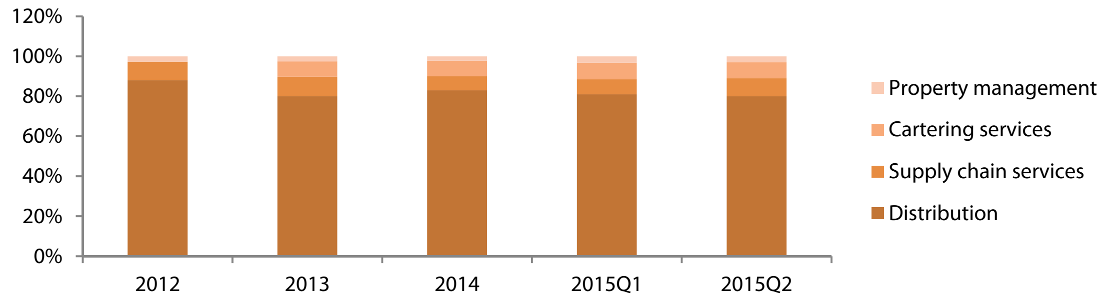
Figure: Worldwide mobile sales growth (by volume)

Brand	2011	2012	2013	2014
AppleInc	81%	73%	20%	13%
LenovoGroup	53%	80%	43%	62%
LGElectronics	173%	23%	81%	24%
Microsoft(Nokia)	-23%	-55%	-13%	30%
SamsungElectronics	313%	133%	44%	1%
SonyMobile	98%	44%	26%	5%
Xiaomi	N/A	2647%	181%	210%

Source: Bloomberg, Rongviet Research

However, we believe the brand diversification move is unlikely to get PET distribution business back on previous year growths yet this year and in 2016. The positive side here would be the improved profit margin (~0.25-0.75 percentage points) expected by distributing smaller mobile devices brands.

Figure: PET's revenue structure by business segment



Source: PET, Rongviet Research

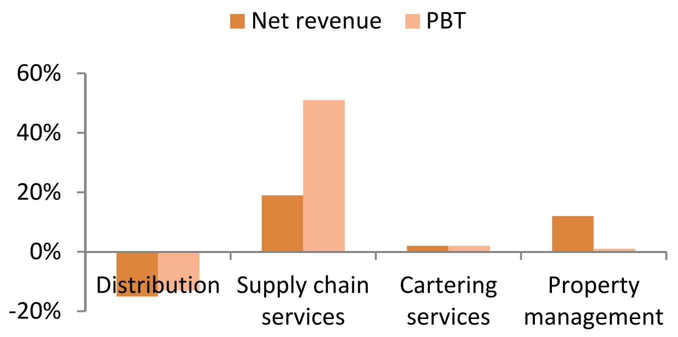
Stable profit margin and extraordinary gain in Equipment and material supply service for Oil and Gas industry resulted in a slight increase in 6M2015 profit figure

PBT achieved VND158 billion (+1.9% yoy) despite an 11% fall in revenue in the same period. Stable PBT margin and extraordinary gain in Equipment and material supply services are attributed to be the important factors for that positive result.

PBT margin of business lines, especially distribution, remain stable regardless of a fall in total revenue. Slight decline in profit margin of IT & electronics parts and Oil&Gas related segment have been offset by mobile phones distribution activity (making up 63% in distribution business' PBT). 6M2015 profit margin of mobile phone distribution improved 0.5 percentage points yoy due to: (1) a gradual shift to other mobile brands commanding higher profit margin such as: Lenovo, Phillips,.. and (2) a fulfillment agreement signed with Samsung (at the end of 2013) offered a stable profit margin level.

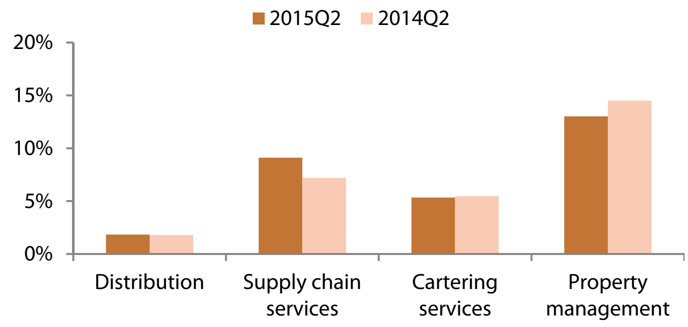
In 2Q2015, PET settled previous years' contract in equipment and material supply and recorded revenue of VND 20 billion. Since PET already accounted for those contracts' expenditure in previous financial years, this settlement amount could be seen as extraordinary gain this year. However, without this gain, the company's PBT could see a similar decline of 11% as revenue.

Figure: 2Q2015's revenue and PBT growth by segment



Source: PET, Rongviet Research

Figure: PBT margin by segment

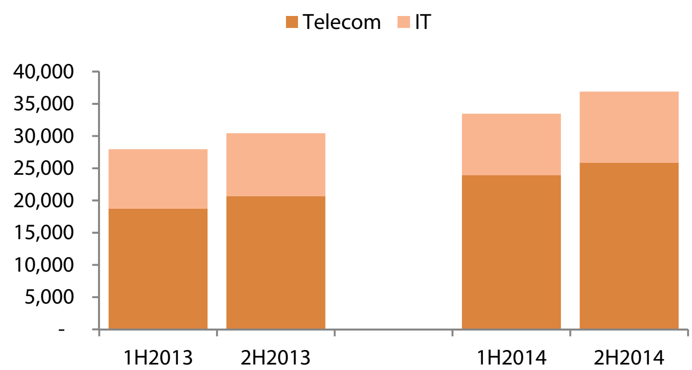


Source: PET, Rongviet Research

Business outlook in 2H2015 expects on seasonal factor

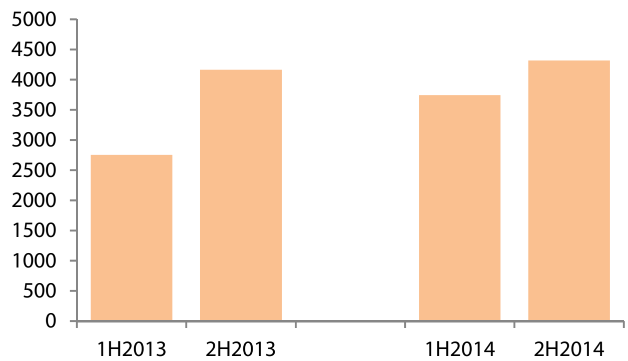
Seasonal factor is expected to boost distribution revenue as the year closing thanks to higher demand for mobile and IT devices, especially laptop. According Gfk statistics, telecommunication (e.g. mobile phone) and IT products (e.g. laptop) sales in the year's final two quarters would grow 9% and 11% respectively compared to the first two quarters. For PET itself, the company's final 6 months business results have been observed to outperform that in the first half of 2014 and 2013, respectively at 15% and 51%.

Figure: telecommunication and IT market sales in 2013-2014 (6M data)



Source: Gfk, Rongviet Research

Figure. TCG revenue of PET in 2013-2014 *(billion VND)*



Source: PET, Rongviet Research

As though, we estimate PET's 2015 revenue and PBT to achieve VND11,850 billion and VND329 billion (3% higher than stated guidance).

Updates on PET projects

Living quarters serving for Nghi Son Refinery and Petrochemical (NSRP) – acceptable risk and high stable income for the future

Petrosetco has taken over Nghi Son living quarter Project:

Table. Summary of project

Project	Living quarters serving for Nghi Son Refinery and Petrochemical (NSRP)
Authorized capital	VND799 billion
Project area	25 ha
Details	Apartment for leasing: 9 blocks with 580 lots: - Max height: 7 floors - Construction area of each block: 880 m^2 - Total floor area of each block: 6,000 m2 Supplemental area including culture house, kindergarten, medical house, sporting house, wastewater treatment,… With total area of 750m2
Estimated time of completion	04/2016

Source: PET

PET has so far received a total advance payment of VND 150 billion to develop the project. We consider the project has low risk and stable margin. Nghi Son Refinery and Petrochemical Limited Liability Company (NSRP) would rent the whole project for 10 years so the occupancy rate in 10 years is nearly 100%. The contract with NSRP ensures PET have approximate 10% EBT margin in the project. Additionally, in terms of the contract with NSRP, customer would pay loan interest of the project for PET based on estimated project capital structure of 50:50 (equity: debt). That means PET role in the project is as contractor (paid by 10%) and whole capital cost of the project (approximate to lending interest) is transferred to NSPR. Specifically PET's economic benefits in the project are: receiving equivalent banking interest for capital contribution, and 10% from annual leasing payment in 10 years.

With the above contracted terms, estimated revenue of project is VND 128 billion per year and PBT of VND 12.8 billion per year. Additionally, PET will own the project after the leasing contract ends in 10 year time.

Thanh Da real estate project update

PET owns a land area of over 20,000 m2 (of which 8,000 m2 is legally clear) at 12AB Thanh Da, Ward 27, Binh Thanh District, HCMC. In 2011, PET established a joint venture company named SSG-Petrosetco with SSG (PET contribution recorded VND 9.9 billion as of the company 2014 FS). The initial plan was to build an office and luxury apartment building complex but adverse slowdown in real estate market put the project to a temporary pause. At recent investor meeting, PET's BOD reveals plan to transfer the Thanh Da land area.

Based on our preliminary valuation result, that land plot is valued about VND 215.2 billion (before tax). If transferred, PET will record an extraordinary income of VND89.8 billion, equivalent to an additional earning per share of VND 1,125.

The company's not planned to distribute the potential proceeds if transferred successfully. However, as the financing status of PET's projects is well planned, we thus expect PET to pay higher dividend than usual (average dividend payout is 17%) after the transfer.

Table. Assumptions used in our Thanh Da real estate's valuation

Indicator	Value	Unit
Land area	20,000	m2
Legally clear area	8,000	m2
Book value	100,000	Million dong
Reference price	31.5	Million dong/m2
Discount rate	12	%
Price used in model	28.1	Million dong/m2
Revenue from transfer	225,000	Million dong
Tax	22	%
Gains after tax	97,500	Million dong

Source: PET, Rongviet Research

Project of manufacturing electronic parts and information technology & communications components – a "startup" business

PET has partnered with Korean firm Enter Tech to establish ASSA joint venture to manufacture karaoke devices. The factory plant could be 5,000 m2 in area located in land plot of 22,000 m2 owned by PET in Dong Nai province. Currently, PET plays a role as an outsourcing partner. Hence, though the factory has been in operation for over 3 months we do not expect PET will receive significant revenue as well as income from the project in 2015.

Table. Main financial indicator

Y/E Dec (VND bn)	2013	2014	Accumulated to current	FY2015E
Net revenue	11,516	11,581	5,369	11,850
%	13.4%	0.6%	-5.3%	2.3%
PAT	158	193	101	210
%	-15.6%	21.6%	4.3%	8.9%
PAT margin (%)	1.4%	1.7%	1.9%	1.8%
ROA (%)	3.0%	3.2%		3.5%
ROE (%)	12.8%	14.9%		14.4%
EPS (VND)	2,278	2,760		2,424
Adjusted EPS (VND)	2,278	2,760		2,442
BV (VND)	17,660	19,356		18,146
Cash dividend (VND)	1,700	-		1,700
P/E (x)	9.1	7.5		6.7
P/BV (x)	1.2	1.1		1.1

*Source: PET, Rongviet Research, *base on market price at 19/08/2015*

Outlook

PET has stable business operation and looked cautious in its investment and expansion plan. In 2012-2014, the company's PAT remained stable (CAGR of 1%) with major contribution from technical consumer goods distribution, especially mobile devices. However, slowdown from PET's key customer, Samsung, has made mobile distribution prospect less positive. In order to reduce reliance on Samsung product, PET's BOD has diversified the distribution portfolio by signing contracts with new mobile manufacturers.

Besides, thanks to good relationship with members of PVN, PET has opportunity to take over projects managed by PVN. Considerably, Living quarters serving for Nghi Son Refinery and Petrochemical (NSRP), to be completed in April 2016, will bring stable profit of VND12 billion per year after 2016.

The company's 2015 revenue and PBT are forecasted to be VND11,850 billion and VND329 billion, equivalent to EPS of VND 2,442. PET's forward PE is 6.6x, lower than industry average (the reference average after discounting country risk is 10.5). Besides, if Thanh Da project is transferred, PET's value per share will be added by VND1,125.

Under investor perspective, PET seems to turn to a value stock from a growth stock. Although growth is hardly maintained at 2-digit figure, profit would be stable going forward. Also, PET also pay high cash dividend with previous 3-year dividend yield of 7% (2012-2014). In May 2015, PET paid share dividend of 19% for 2014 and the Company paid 2015's cash dividend in advance of 10% after the 6M2015 business result audited.

Table: PE reference *(dated 19/08/2015)*

Ticker	Country	Market cap (VND)	PE
PET VN Equity	VIETNAM	1,363,006	6.6
PCCC US Equity	UNITED STATES	12,506,866	12.6
NSIT US Equity	UNITED STATES	21,882,175	13.6
DTC SJ Equity	SOUTH AFRICA	25,786,682	15.2
TECD US Equity	UNITED STATES	46,547,004	12.0
IM US Equity	UNITED STATES	92,175,336	11.7
ALSN SW Equity	SWITZERLAND	17,520,421	11.0
PRT IM Equity	ITALY	10,117,609	16.4
SNX US Equity	UNITED STATES	69,675,983	14.4
Average			**13.1**
Reference average			**10.5**

Source: Bloomberg, Rongviet Research

BRIEF UPDATE

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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%

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