June, 2019

PETROVIETNAM TRANSPORTATION CORP (HSX: PVT)

Contribution from new fleets

Particulars (VND B)	1Q-FY19	4Q-FY18	+/-qoq	1Q-FY18	+/-yoy
Net revenue	1,862	1,923	-3%	1,782	5%
PAT	147	222	-34%	127	15%
EBIT	223	294	-24%	185	20%
EBIT margin	12.0%	15.3%	-332bps	10.4%	155bps

Source: PVT, Rong Viet Securities

1Q 2019 results: Transportation is the main growth engine

In 1Q 2019, PVT posted VND1,862 bn in revenue, up 4.4% YoY and driven by the transportation segment that had net sales worth VND 1,140 bn, up +26.8% YoY thanks to the contribution of the new vessels, bought in 2018.

The overall gross profit margin of PVT increased 180 basis points to 14.7%, supported by the transportation segment although the margin of FSO strongly decreased from 42.8% to 32.5%. As a result, the company made VND 275 bn in gross profit, up 19.5% YoY.

Ending 1Q 2019, the parent company's profit increased by 15.7% to VND 147 bn.

2019 prospects: Overall earning decrease but the core earning increase

We forecast the revenue of core business – transportation, will post a growth of 17% in 2019 as the new fleets, bought in 2018, are starting to contribute to the business. Currently, crude oil and LPG fleets are the top performances while the oil product vessels are still facing difficulties because most of them are running the international routes (low charter rate) and the workload from Nghi Son is not stable.

For FSO segment, sales may not be affected when FSO Dai Hung Queen will be on dock within 3 months, starting from July.

In addition, there will be no abnormal item from selling 1 vessel in 2019.

For 2019, we project revenue and net profit for parent company will come in at VND 8,033 bn (+6.8% YoY) and VND 596 bn (-8.5% YoY), respectively. Excluding VND97 bn from selling the vessel in 2018, the core earning still post 3.6% growth.

Valuation and recommendation

PVT is on the way to rejuvenate its fleets as well as to improve the capacity. Plus the favorable conditions (1) stable workload (2) increasing charter rate, we expect that PVT can maintain a growth of 10% - 12% in the core business.

*We rate **BUY** for PVT with a target price of **VND20,100** per share, based on the FCFF and P/E method. Including the VND1,000 cash dividend, we arrive at a total return of **29%**, based on the closing price on **Jun 27th, 2019**.*

BUY	+29%
CMP (VND)	16,350
Target price (VND)	20,100
Cash dividend (VND)*	1,000

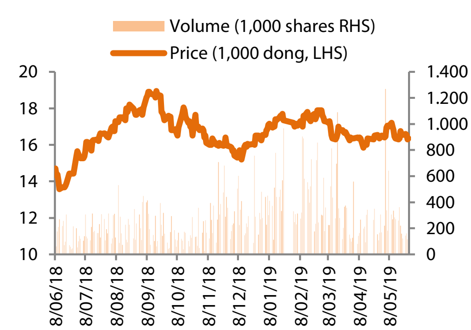
** Expected in the next 12 months*

Stock info

Sector	Transportation
Market Cap (VND billion)	4,418
Current Shares O/S	281,440,144
Avg. Daily Volume (in 20 sessions)	293,990
Free float (%)	15.8
52 weeks High	18,950
52 weeks Low	13,572
Beta	0.65

	FY2018	Current
EPS	2,183	2,351
EPS growth (%)	52.0	49.5
Adjusted EPS	2,183	2,351
P/E	7.2	6.9
P/B	0.9	1.2
EV/EBITDA	3.3	4.9
Cash dividend	0	0
ROE (%)	16.2	13.4

Price performance



Major Shareholders (%)

PVN	51.4
Yuri Vietnam Sec Invest Trust	5.97
PVcom Bank	5.07
Foreign ownership room (%)	23.03

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Exhibit 1: 1Q 2019 results

Particulars (VND B)	1Q-FY19	4Q-FY18	+/-(QoQ)	1Q-FY18	+/-(YoY)	YTD-FY19	+/-(YoY)
Net revenue	1,862	1,923	-3.1%	1,782	4.5%	1,862	4.5%
Gross profit	275	386	-28.8%	231	19.1%	275	19.1%
SG&A	-46	-85	-45.9%	-41	11.7%	-46	15.1%
Operating income	321	471	-31.9%	272	18.0%	321	18.8%
EBITDA	391	461	-15.2%	341	14.6%	391	14.6%
EBIT	223	294	-24.2%	185	20.0%	223	20.0%
Financial expenses	50	42	18.5%	38	32.2%	50	32.2%
- Interest Expenses	46	25	85.1%	32	43.3%	46	43.3%
Dep. and amortization	168	168	0.6%	156	8.1%	168	8.1%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	223	346	-35.8%	196	13.6%	223	15.5%
PAT	147	222	-34.1%	127	15.5%	147	13.6%
(*) Adjusted PAT	147	222	-34.1%	127	15.5%	147	

Source: PVT, Rong Viet Securities

Exhibit 2: 1Q 2019 performance analysis

Particulars	4Q-FY18	3Q-FY18	+/-(QoQ)	4Q-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	14.7	20.1	-530bps	12.9	181bps
EBITDA margin	21.0	24.0	-298bps	19.1	185bps
EBIT margin	12.0	15.3	-332bps	10.4	155bps
Net margin	7.9	11.6	-369bps	7.1	75bps
Adjusted net margin	7.9	11.6	-369bps	7.1	75bps
Turnover *(x)					
-Inventories	47.8	53.3	-5.6	75.2	-27.5
-Receivables	6.8	6.7	0.2	7.5	-0.7
-Payables	4.2	4.7	-0.5	5.2	-1.1
Leverage (%)					
Total debt/ equity	52.4	43.7	870bps	41.0	1,140bps

Source: PVT, (*) Annualized turnover

Exhibit 3: 2Q 2019 performance forecast

Particulars (VND B)	2Q-FY19	+/-(QoQ)	+/-(YoY)
Revenue	2,154	15.6%	2.9%
Gross profit	321	17.0%	41.3%
EBIT	228	2.2%	33.9%
NPAT	163	11.2%	-15.0%

Source: PVT, Rong Viet Securities

Update:

New fleets push the transportation segment to grow

Transportation's revenue posted VND 1,140 bn, up 26,8% mainly from crude oil and LPG tankers. From the middle of 2018, PVT has bought 5 vessels, including 1 crude oil tanker (Hera) and 4 LPG tankers (Thang Long Gas, Oceanus 08, Lady Favia and Lady Linn). Besides, the charter rate is on the way up, improving the overall gross margin from 13.4% to 16.5%.

In term of crude oil, PVT continues to carry oil input for Dung Quat and Nghi Son Refinery, in which Dung Quat is the main contribution in revenue as well as profit while Nghi Son only takes a small proportion because PVT is playing as an agent of SK, getting a thin margin. In this year, PVT is likely to buy a VLCC (very large crude carrier) to supply the crude oil for Nghi Son by itself, improving the gross margin.

For Dung Quat Refinery, PVT continues to be in charge of carrying crude oil input (from domestic projects) by its fleet. However, the domestic oil volume is decreasing, leading to a higher proportion of imported crude oil. As a result, PVT has started to outsource others to transport crude oil to the plant from other countries. As the outsourced vessels are not as effective as the owned ones and PVT will increase the number of outsourced vessels in the coming times as Dung Quat is anticipated to be highly depended on imported oil in the future, leading to a lower margin in the crude oil transportation.

In term of LPG, PVT continues to hold 100% market share in the domestic market. In the near future, its subsidiaries such as Nhat Viet or Gas Shipping will continue to invest more fleets to expand the market. In particular, Gas Shipping will continue to invest a VLGC with a total value of USD 40 mn to operate in the international market and is expected to return to Vietnam when LNG or LPG storage projects are completed.

Compared to crude oil and LPG, the performance of oil product tankers are weaker because (1) 7/9 ships are running international routes which are unstable in terms of workload and lower charter rate, compared to the domestic routes (2) the transportation for domestic gasoline distributors was hurt because Nghi Son factory has been operating at low capacity.

Not too much impact on the business from upgrading FSO Dai Hung Queen

Currently, FSO Dai Hung Queen is the key contribution for FSO segment and PVT plans to upgrade this FSO to FPSO within 3 months, starting from July. Therefore, 3Q revenue is expected to be slightly affected because PVT only enjoys 95% of the current rate of USD 65,000 per day in August and September. However, all the expenses are accrued by the renter so the conversion will not hurt this segment's profit much.

Expanding fleets mostly for Nghi Son

In 2019, PVT plans to add 8-9 new vessels to the existing fleet, of which 4 will serve Nghi Son factory. Although Nghi Son factory started commercial production from mid-2018, it has not been operating full capacity, leading to an unstable workload for PVT. Since then, the decision to buy new ships is longer than expected. In terms of crude oil vessels, PVT hopes to complete VLCC investment procedures, which has been lasting from 2017, to take advantage of the current reasonable price. For oil product/chemical vessels, PVT will invest 3 more, mainly to transport output for Nghi Son. And PVT prefers chemical-oriented vessels because of the higher demand for chemical transportation than the oil product. Even if the demand for carrying the oil product from Nghi Son is low, PVT can bring ships to run the international market to enjoy a better charter rate.

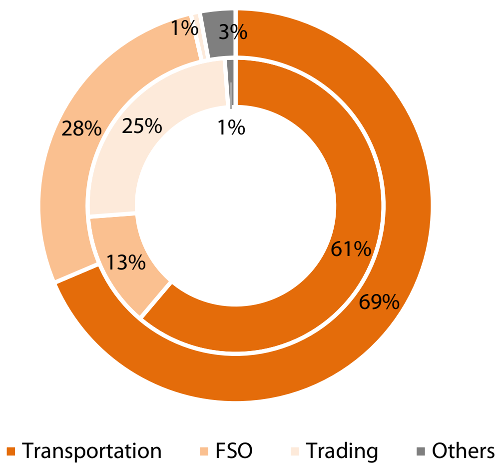
Besides, PVT is going to buy more LPG vessels to run the international market and also bulk cargo vessels to supply coal for thermal power plants that are about to go online in the next few years.

Table 1: Investment plan

	Number of vessel	Comment
Parent company	2	1 chemical vessel and 1 bulk cargo
PVTrans Pacific	2	1 VLCC and 1 Aframax
Phuong Dong Viet	2	2 chemical/oil product
Nhat Viet	1	1 LPG and 1 barge
Gas Shipping	1	1 VLGC

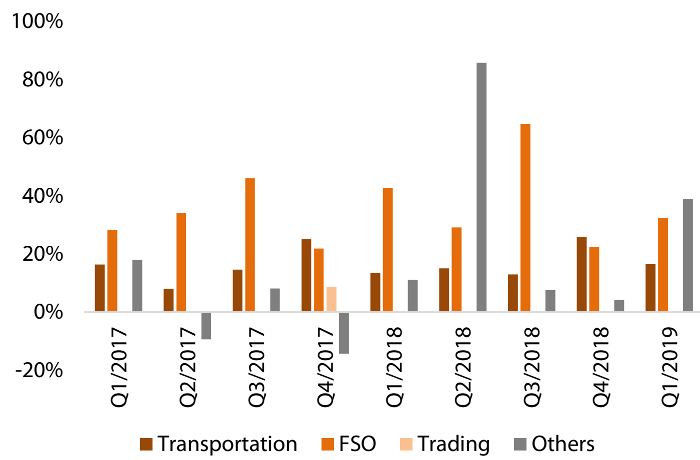
Source: PVT

Figure 1: Revenue proportion (inside) and gross profit proportion (outside) in 1Q 2019



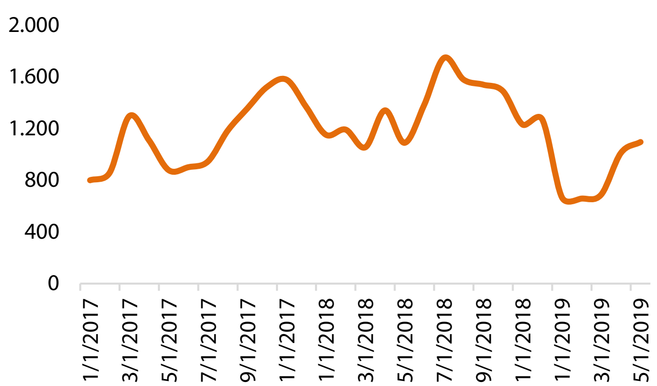
Source: PVT

Figure 2: Gross margin by segment (%)



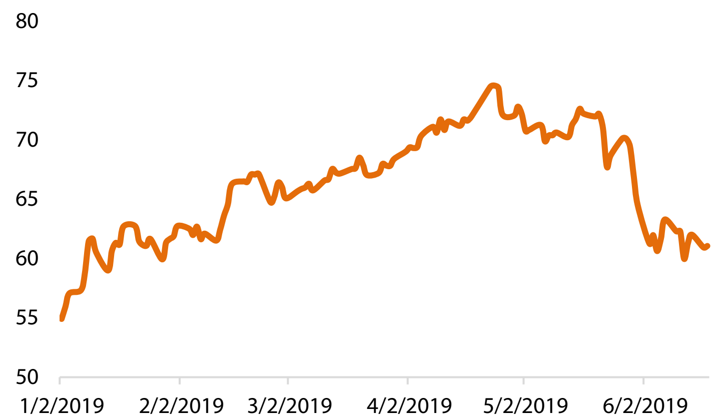
Source: PVT

Figure 3: BDI index (Unit: Point)



Source: Bloomberg

Figure 4: Brent price (Unit: USD/barrel)



Source: Bloomberg

VND in billions

Income statement	FY2017	FY2018	FY2019F	FY2020F
Revenue	6,148	7,523	8,033	8,062
COGS	5,302	6,440	6,840	6,877
Gross profit	**846**	**1.083**	**1.192**	**1.185**
Selling expense	10	10	10	10
G&A expense	233	271	281	274
Financial income	188	208	216	234
Financial expense	161	158	230	280
Other income/loss	13	97	10	10
Gain/(loss) from JV	27	26	26	26
PBT	**671**	**975**	**923**	**891**
Tax expense	137	195	200	195
Minority interests	84	128	127	100
PAT	**450**	**652**	**596**	**595**
EBIT	604	802	901	900
EBITDA	1,181	1,402	1,644	1,776

%

Financial ratio	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	-8.7	22.4	6.8	0.4
Operating income	19.1	18.7	17.3	8.0
EBITDA	14.6	32.9	12.3	-0.1
PAT	8.3	44.9	-5.1	-3.8
Total assets	1.5	10.9	14.5	4.2
Equity	3.2	9.1	11.0	9.7
Profitability (%)				
Gross margin	13.8	14.4	14.8	14.7
EBITDA margin	19.2	18.6	20.5	22.0
EBIT margin	9.8	10.7	11.2	11.2
Net margin	7.3	8.7	7.7	7.4
ROA	4.9	6.4	5.3	5.0
ROE	12.2	16.2	13.9	12.6
Efficiency (x)				
Receivable turnover	7.5	6.9	7.8	7.4
Inventory turnover	55.6	42.6	56.2	56.2
Payable turnover	4.0	3.9	4.1	4.1
Liquidity (x)				
Current	2.1	1.8	1.7	1.6
Solvency (%)				
Total debt/equity	72.9	74.3	85.7	79.0
Current debt/equity	14.6	16.5	19.3	10.6
Long-term Debt/equity	58.4	57.8	66.4	68.4

VND in billions

Balance sheet	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	1,959	1,278	1,745	909
Short term investment	961	1,572	1,200	1,200
Accounts receivable	816	1,088	1,034	1,082
Inventories	95	151	122	122
Other current assets	63	159	159	159
Tangible fixed assets	4,962	5,623	7,063	8,170
Intangible fixed assets	6	5	5	0
Long term investment	240	191	217	244
Other non-current assets	101	134	134	134
Total asset	**9,204**	**10,202**	**11,680**	**12,020**
Account payable	1,341	1,643	1,687	1,696
Short term borrowings	537	663	862	503
Long term borrowings	2,153	2,325	2,964	3,243
Other non-current liabilities	416	333	366	403
Bonus and welfare fund	95	98	93	90
Technology -science dev fund	0	0	0	0
Total liabilities	**4,542**	**5,063**	**5,972**	**5,934**
Common stock and APIC	2,814	2,814	2,814	2,814
Treasury stock	0	0	0	0
Retained earnings	620	847	1,164	1,323
Other comprehensive income / (loss)	47	47	47	47
Investment and development fund	206	315	438	557
Total equity	**3,687**	**4,023**	**4,464**	**4,742**
Minority interest	974	1,117	1,244	1,344
Total resources	**9,204**	**10,202**	**11,680**	**12,020**

Valuation ratio	FY2017	FY2018	FY2019F	FY2020F
EPS (VND)	1,436	2,183	2,068	1,989
P/E (x)	13.1	7.2	7.9	8.2
BV (VND)	13,102	14,293	15,861	17,210
P/B (x)	1.1	0.9	1.1	1.0
DPS (VND/cp)	1,000	0	1,000	500
Dividend yield (%)	5.3	0	6.1	3.1

Valuation model	*Price*	*Weight*	*Average*
FCFF	19,463	50	9,731
P/E	20,676	50	10,338
Target price (VND)			**20,069**

Valuation history	*Price*	*Recommendation*
07/09/2018	21.200*	BUY

** Adjusted price*

RESULTS UPDATE

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RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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