April, 2020

PETROVIETNAM TRANSPORTATION CORP (HSX: PVT)

Short-term risk is an opportunity for the long-term

Particulars (VND B)	4Q-FY19	3Q-FY19	*+/-qoq*	4Q-FY18	*+/-yoy*
Net revenue	1,916	1,743	9.9%	1,923	-0.3%
PAT	190	139	36.4%	222	-14.5%
EBIT	245	206	18.9%	294	-16.5%
EBIT margin	12.8%	11.8%	96bps	15.3%	-248bps

Source: PVT, Rong Viet Securities

4Q2019 results: Decline in the transportation and FSO/FPSO segments

- 4Q2019 sales remained stable at VND1,983bn, compared to the same period last year. Excluding commercial sales, 4Q2019 revenue decreased by 3.8% YoY to VND1.479bn. The transportation segment recorded VND1,186bn in revenue, down 6.2% YoY while FSO/FPSO posted VND272bn, down 31.8% YoY.
- 4Q2019 gross margin declined from 17.0% (in 4Q2018) to 21.6% because of the transportation segment. The main reason may come from higher expenses and low charter rates. As a result, the gross profit plunged 21.3% to VND325bn.
- 4Q2019 NPATMI decreased by 14.4% YoY to VND190bn.

2020 prospects: Keep expanding the fleets but growth to subside

PVT will continue to expand its fleet in 2020 at a total cost of USD318mn. However, we believe that PVT will only fulfill part of its plan. Investments will focus on crude oil tanker as well as LPG tanker.

With the initial effects of COVID-19, transport demand has slowed down, affecting the crude oil and oil product tankers in 1Q2020. In addition, the maintenance of the Dung Quat plant and higher crude oil imports from this plant will also greatly affect PVT's business, although Nghi Son's plant is expected to operate more stably in 2020. Besides, IMO 2020 is also a factor causing higher operating costs. Based on these assumptions, we project 2020 revenue and net profit for the parent company to be VND7,516bn (-2.9% YoY) and VND 544 bn (-20.1% YoY), respectively. With a 10% stock dividend, the 2020 EPS is estimated at VND1,652. Of noted, we have not counted the extra profit from selling Athena vessel in 2020.

Valuation and recommendation

Higher crude oil imports from Binh Son and COVID-19 will hit the 2020 bottom line. Moreover, the slump of oil price has impacted the stock price. As a result, we lower our 2020 earnings forecast by 27%, compared to the number in our 2020 strategy report and the target price is adjusted down 44% to ***VND11,890*** *per share.*

However, PVT is running a good business. The company will not pay 2019 cash dividend to save money for future investment. From a low base of 2020, PVT will easily grow in 2021. In the long term, the growth driver will come from the fleet expansion. With an expected return of ***51.5%,*** *compared to the closing price on* ***March 31, 2020****, we reiterate our* ***BUY*** *recommendation on PVT.*

BUY +51%

CMP (VND)	7,850
Target price (VND)	11,890
Cash dividend (VND)*	

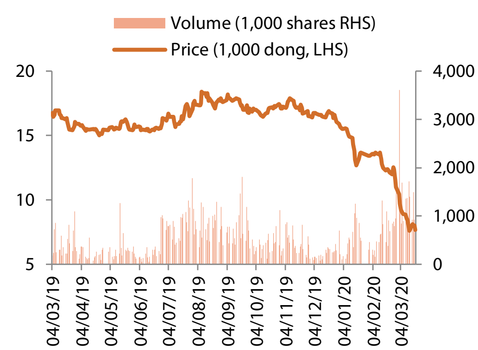
** Expected in the next 12 months*

Stock info

Sector	Transportation
Market Cap (VND bn)	4,418
Current Shares O/S	281,440,144
Avg. Daily Volume (in 20 sessions)	1,245,226
Free float (%)	42.8
52 weeks High	18,400
52 weeks Low	7,600
Beta	1.02

	FY2019	Current
EPS	2,421	2,421
EPS growth (%)	4.5	4.5
Adjusted EPS	2,421	2,421
P/E	6.9	3.2
P/B	0.8	0.4
EV/EBITDA	3.3	1.8
Cash dividend	0	0
ROE (%)	15.6	15.6

Price performance



Major Shareholders (%)

PVN	51.0
Foreign ownership room (%)	20

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Exhibit 1: 4Q2019 results

Particulars (VND Bn)	4Q-FY19	3Q-FY18	+/-(QoQ)	4Q-FY18	+/-(YoY)	YTD-FY19	+/-(YoY)
Net revenue	1,916	1,743	9.9%	1,923	-0.3%	7,742	2.9%
Gross profit	325	277	17.5%	386	-15.6%	1,179	8.8%
SG&A	80	71	13.6%	92	-12.5%	251	-10.8%
Operating income	245	206	18.9%	294	-16.5%	928	15.7%
EBITDA	462	400	15.4%	461	0.1%	1,678	19.7%
EBIT	245	206	18.9%	294	-16.5%	928	15.7%
Financial expenses	45	54	-17.3%	42	5.3%	193	21.8%
- Interest Expenses	43	39	10.8%	25	71.6%	153	26.1%
Dep. and amortization	217	194	11.7%	168	29.4%	750	25.1%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	292	209	39.5%	346	-15.8%	1,012	3.8%
PAT	190	139	36.4%	222	-14.5%	681	3.9%
(*) Adjusted PAT	190	139	36.4%	222	-14.5%	681	

Source: PVT, Rong Viet Securities

Exhibit 2: 4Q2019 performance analysis

Particulars	4Q-FY18	3Q-FY18	+/-(QoQ)	4Q-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	17.0	15.9	110bps	20.1	-307bps
EBITDA margin	24.1	23.0	114bps	24.0	12bps
EBIT margin	12.8	11.8	96bps	15.3	-248bps
Net margin	9.9	8.0	193bps	11.6	-164bps
Adjusted net margin	9.9	8.0	193bps	11.6	-164bps
Turnover *(x)					
-Inventories	53.5	46.7	6.8	53.3	0.2
-Receivables	8.7	7.3	1.4	6.7	2.0
-Payables	5.2	4.4	0.9	4.7	0.6
Leverage (%)					
Total debt/ equity	40.7%	41.3%	-59bps	43.7%	-295bps

Source: PVT, (*) Annualized turnover

Exhibit 3: 1Q2020 performance forecast

Particulars (VND Bn)	1Q-FY20	+/-(QoQ)	+/-(YoY)
Revenue	1,676	-12.5%	-10.0%
Gross profit	235	-27.7%	-14.5%
EBIT	173	-29.3%	-36.6%
NPAT	113	-40.5%	-23.1%

Source: PVT, Rong Viet Securities

1Q2020 forecast comment:

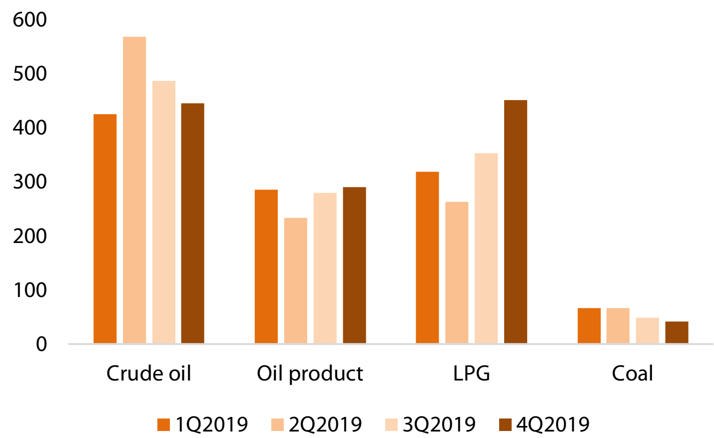
+ Stable sales from other segment expect the decrease in crude oil tanker as the transportation volume for Binh Son declines.
+ Gross margin of 13.5%.

Update:

Transportation to decrease in 4Q2019 but still grow for the whole year

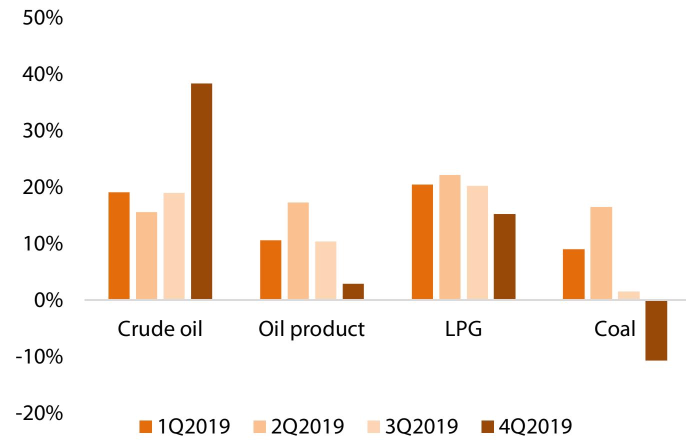
In 4Q2019, revenue from transportation was slightly down 1.8% YoY to VND1,186 bn. However, gross profit dropped by 25.3% YoY to VND244bn as the gross profit margin dropped sharply from 25.9% (in 4Q2018) to 20.6%. The main reason came from oil product tanker and LPG tanker when fuel cost increased strongly, hitting the gross margin. Specially, the oil product tanker segment was affected the most as the international charter rate had no improvement in 2019.

Figure 1: Quarterly sales of transportation segment (Unit: VND bn)



Source: Rong Viet Securities

Figure2: Quarterly gross margin of transportation segment (Unit: %)



Source: Rong Viet Securities

For 2019, the transportation segment recorded a revenue growth of 16.1% to VND 4,792 bn thanks to good performance in all segments: crude oil tanker (7.5%), oil product tanker (18.2%), LPG tanker (13.7%). And the growth of the transportation segment came from the expansion of the fleet in 2019 with one crude oil tanker, three oil product tankers, three LPG tankers, pushing transportation volume up compared to 2018. However, in terms of gross profit margin, the low freight rates in the last months of the year combined with the sharp increase in fuel costs have affected the overall performance. Consequently, the gross profit margin of the transportation segment remained stable at 17.7% despite the sharp increase in 9M2019 gross margin.

Table 1: Transportation performance in 2018 and 2019

	2018			2019		
	Volume	Sales (VND Bn)	Gross margin (%)	Volume	Sales (VND Bn)	Gross margin (%)
Crude oil	7.2 mn tons	1,791	21.1	8.7 mn tons	1,925	22.4
Oil product	2.1 mn m3	928	12.4	2.4 mn m3	1,087	9.9
LPG	1.2 mn m3	1,210	18.3	1.3 mn m3	1,384	18.9
Coal	1.1 mn tons	200	6.4	0.9 mn tons	209	5.9

Source: PVT

For 2020, we forecast that the transportation segment will face headwinds since the crude oil tanker will be hit while the transportation demand will be weak in the first months of the year due to the impact of the COVID-19 epidemic. Meanwhile, fuel costs are forecast to increase as PVT is more likely to use low sulfur fuel for its fleet instead of installing scrubbers.

Crude oil tanker: In 2020, Binh Son is expected to consume 6.1 mn tons of crude oil in the context of the plant maintenance. In which, 40% will be imported, meaning the remaining 60% ~ 3.66 mn tons will be transported by PVT from internal source. **Compared to 2018, the carrying volume for Binh Son plant is forecasted to decrease by 42.8%**, negatively impacting the crude oil business when revenue from Binh Son usually accounts for a large proportion. In the coming years, Binh Son will accelerate its import activity, then the volume of transportation for Binh Son will decrease. For the Nghi Son refinery, we think that PVT will keep cooperating with SK to carry the input instead of investing into a VLCC vessel. However, we expect Nghi Son to run more smoothly this year. For the international market, freight rates at the present time remain at a stable level. Therefore, the time-charter contracts, which are about to expire at the end of 1Q2020, are likely to be signed at the same price.

Oil product tanker: In 2020, volume for PVOil from the Binh Son plant will decrease by 23% due to the plant maintenance. However, assuming that Nghi Son operates better, the decline in Binh Son's output will be offset by the Nghi Son's plant. **In total, transportation volume for PVOil in 2020 is expected to increase by 22% to 2.2 mn tons**. However, the performance in international routes are likely not to improve because of low charter rates.

LPG tanker: We expect the total LPG carrying volume will keep growing at 21% as Nhat Viet – a subsidiary of PVT, will buy one VLGC to be involved more in LPG import activity while still maintaining a 100% market share in the domestic market.

The transportation segment is projected to post revenues of VND4,992bn in 2020, up 4.2% YoY. But gross profit is forecasted to be down 8.2% YoY to VND764bn.

FSO Dai Hung Queen to be on dock for upgrade since May 2020 with a new contract

FSO Dai Hung Queen will be converted to FPSO from May 2020 and lasts for four months with 100% of revenue in the first month and 95% of revenue in the following three months. The current contract of this FSO will expire in May 2020 and must be renewed. Amid the low oil price environment, the new contract should be kept at the same rate of 56,000USD/day. The rate will fall if Brent oil price continues to remain below 50USD/barrel for the next three months. Therefore, if oil prices remain below this level till June 2020, the revenue of FSO Dai Hung Queen will be affected. **For 2020, we project oil and gas related services (including O&M and FSO Dai Hung Queen) to reach VND1,004bn, down 4.5% YoY. The gross profit is forecasted to be VND290bn, down 3.1% YoY with the assumption that Brent oil price will return to over 50 USD/barrel in the near future**. If the price stays below 50USD/barrel until June 2020, the revenue of the segment will decrease by VND 51 bn, equivalent to a gross profit of VND15bn compared to the current forecast

COVID-19 affects transport demand, thereby affecting charter rates

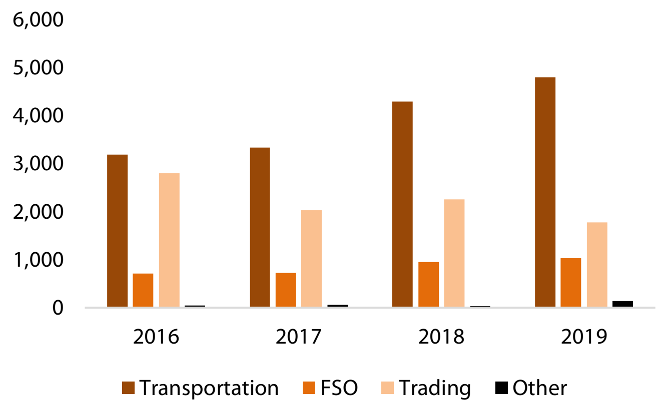
Normally, when the oil price fall, the demand for transporting crude oil or oil product increases to take advantage of the low price and build reserve. However, due to the outbreak of COVID-19 from China - a country that accounts for 15% of global crude oil demand and 20% of global crude oil trading value, the number of routes to Asia dropped as Chinese production was delayed almost for all of 1Q2020. This impacted the global charter rates from mid-February 2020 to mid-March 2020. The return of Chinese production has supported charter rates recently. However, the spread of COVID-19, especially in the US, may once again make the situation worse. In terms of oil product, the lockdown activity or moving limitation having impacted the airline industry. As a result, the demand for petroleum products is anticipated to decrease by 5.6%, Jet A1 (mainly used in airline industry) will decrease by 20% in 2020, according to Rystad Energy.

Forecast and valuation

For 2020, we project revenue and net profit for the parent company at VND7,516bn (-2.9% YoY) and VND 544 bn (-20.1% YoY), respectively. With a 10% stock dividend, the 2020 EPS is estimated at VND1,652. In this projection, we have not counted the extra profit from selling Athena vessel.

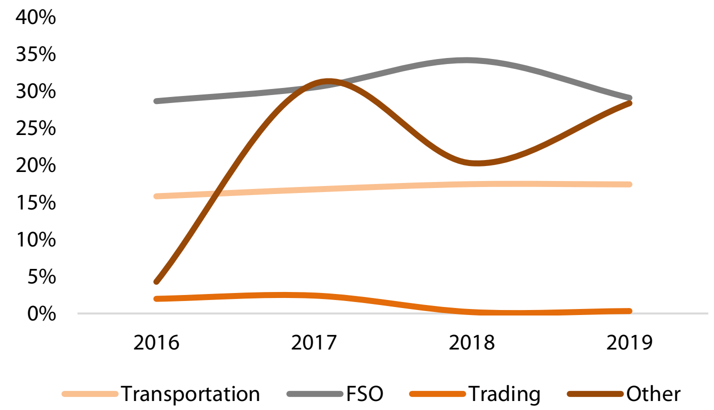
In terms of valuation, we combine P/E and FCFF to evaluate the PVT share price. In terms of P/E method, we keep the previous multiple P/E of 8x and use 2020 EPS of VND1,652. So we come up with a price of VDN13,214. In term of FCFF, we value PVT's share at the price of VND10,567 based on the WACC of 13.2%. With 50% proportion for each method, we think the fair price for PVT should be VND11,890 per share.

Figure 1: Revenue by segment (Unit: VND bn)



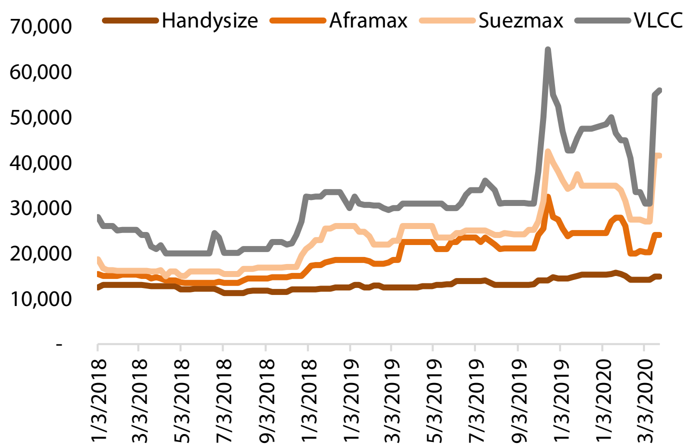
Source: PVT

Figure 2: Gross margin by segment (Unit: %)



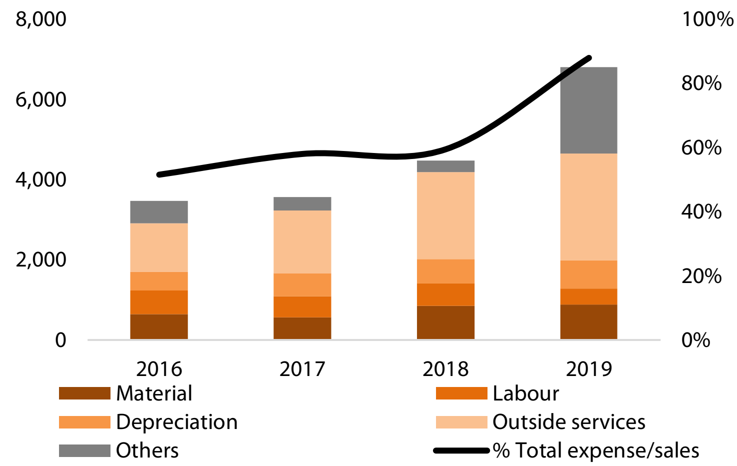
Source: PVT

Figure 3: 1-year time charter rate (Unit: USD/day)



Source: Rong Viet Securities

Figure 4: Expenses breakdown (LHS) and total expense/revenue (RHS)



Source: PVT

VND in billions

Income statement	FY2018	FY2019	FY2020F	FY2021F
Revenue	**7,523**	**7,742**	**7,516**	**8,215**
COGS	6,440	6,563	6,457	6,960
Gross profit	**1,083**	**1,179**	**1,059**	**1,254**
Selling expense	10	13	10	11
G&A expense	271	238	233	238
Financial income	208	218	250	205
Financial expense	158	193	265	301
Other income/loss	97	26	30	30
Gain/(loss) from JV	26	33	33	33
PBT	**975**	**1,012**	**864**	**972**
Tax expense	195	202	193	215
Minority interests	128	129	127	100
PAT	**652**	**681**	**544**	**657**
EBIT	802	928	816	1,006
EBITDA	1,402	1,678	1,749	2,087

%

Financial ratio	FY2018	FY2019	FY2020F	FY2021F
Growth (%)				
Revenue	22.4	2.9	-2.9	9.3
Operating income	18.7	19.7	4.2	19.3
EBITDA	32.9	15.7	-12.1	23.2
PAT	44.9	4.5	-20.2	20.8
Total assets	10.9	7.9	11.5	9.5
Equity	9.1	8.8	11.7	9.5
Profitability (%)				
Gross margin	14.4	15.2	14.1	15.3
EBITDA margin	18.6	21.7	23.3	25.4
EBIT margin	10.7	12.0	10.9	12.2
Net margin	8.7	8.8	7.2	8.0
ROA	6.4	6.2	4.4	4.9
ROE	16.2	15.6	11.1	12.3
Efficiency (x)				
Receivable turnover	6.9	9.5	7.8	7.8
Inventory turnover	42.6	51.7	56.2	56.2
Payable turnover	3.9	4.7	4.9	4.9
Liquidity (x)				
Current	1.8	1.7	1.8	1.7
Quick	1.8	1.7	1.7	1.6
Solvency (%)				
Total debt/equity	74.3	78.5	85.0	85.9
Current debt/equity	16.5	18.6	10.0	9.0
Long-term Debt/equity	57.8	59.9	75.1	76.9

VND in billions

Balance sheet	FY2018	FY2019	FY2020F	FY2021F
Cash and cash equivalents	1,278	1,208	958	852
Short term investment	1,572	1,481	1,000	1,000
Accounts receivable	1,088	817	968	1,058
Inventories	151	127	115	124
Other current assets	159	151	151	151
Tangible fixed assets	5,623	6,778	8,607	9,751
Intangible fixed assets	5	4	4	-3
Long term investment	191	197	230	263
Other non-current assets	134	241	241	241
Total asset	**10,202**	**11,004**	**12,274**	**13,437**
Account payable	1,643	1,394	1,327	1,430
Short term borrowings	663	813	487	482
Long term borrowings	2,325	2,621	3,667	4,112
Other non-current liabilities	333	388	388	427
Bonus and welfare fund	98	107	85	103
Technology -science dev fund	0	0	0	0
Total liabilities	**5,063**	**5,323**	**5,955**	**6,555**
Common stock and APIC	2,814	2,814	3,096	3,405
Treasury stock	0	0	0	0
Retained earnings	847	985	1,106	1,128
Other comprehensive income / (loss)	47	47	47	47
Investment and development fund	315	528	637	769
Total equity	**4,023**	**4,375**	**4,886**	**5,349**
Minority interest	1,117	1,306	1,433	1,533
Total resources	**10,202**	**11,004**	**12,274**	**13,437**

Valuation ratio	FY2018	FY2019	FY2020F	FY2021F
EPS (VND)	2,183	2,421	1,652	1,814
P/E (x)	7.2	6.9	4.8	4.5
BV (VND)	14,293	15,544	15,783	15,708
P/B (x)	0.9	0.8	0.5	0.5
DPS (VND/cp)	1,000	1,000	0	0
Dividend yield (%)	6.3	5.9	0.0	0.0

Valuation model	*Price*	*Weight*	*Average*
P/E	13,214	50%	6,607
FCFF	10,567	50%	5,283
Target price (VND)			**11,890**

Valuation history	*Price*	*Recommendation*
07/09/2018	20,200*	BUY
28/06/2019	19,100*	BUY

** Adjusted price*

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

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