

VIPCO (VIP – HSX)

Between a rock and a hard place

Particulars (VND bn)	3QFY13	2QFY13	% (qoq)	3QFY12	% (yoy)
Net Revenues	209.5	203.3	3%	202.9	3%
PAT	11.8	11.5	2%	7.9	50%
EBIT	26.4	28.5	-7%	24.2	9%
EBIT margin (%)	12.6%	14.0%	-142bps	11.9%	66bps

Sources: VIP, Rông Việt Securities

- 9 months profit increased impressively, but the main business was still in trouble.
- 4th quarter revenue may be little changed from Q3 but net income is seen better.
- The Company is expected to maintain stable operations in 2014.
- With a lack of capital, VIPCO now has to choose “between a rock and a hard place”.

Outlook and Valuation:

During the golden age of the shipping industry, VIPCO made ambitious moves into a wide variety of core and non-core sectors such as finance, real estate, port, etc..., which has left the Company with an over-diversified portfolio and a handful of money to continue any of its project.

With regard to the shipping business, VIPCO's main source profit is its time charter contract with the parent Petrolimex. Given its subsidiary status, VIPCO has little chance in the re-negotiation of contract price. Thus, neither the revenue nor income VIPCO's from main operations may experience significant growth in 2014.

In general, we hardly see anything particularly positive in VIPCO's operations except for the fact that its assets, most notably is the container port recently converted from petroleum port right next to Nam Hai Dinh Vu port, have not been properly revalued. This alone may make the stock relatively appealing to some investors. Combining all the information above and rather prudent valuation, we come up with a target price of about VND 14.300, which, under our rating guidelines, calls for an **ACCUMULATE** recommendation for VIP.

Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M-FY2013	FY2013E	FY2014F
Net Revenues	1,712.1	1,000.6	614.9	828.3	877.1
% chg	20.9%	-41.6%	-25.7%	-17.2%	5.9%
PAT	53.9	54.4	135.4	157.7	58.6
% chg	-29.9%	0.8%	215.7%	189.9%	-62.9%
EBIT margin (%)	3.1%	5.4%	22.0%	19.0%	6.7%
ROA (%)	2.5%	2.7%		8.3%	3.2%
ROE (%)	6.3%	6.3%		16.8%	5.7%
EPS (VND)	899	917		2,658	979
Adjusted EPS (VND)	899	917		2,658	979
Book value (VND)	14,295	14,607		16,708	17,767
Cash dividend (VND)					
P/E (x)	4.7	6.8		4.4	8.9
P/BV (x)	0.3	0.4		0.8	0.8

Sources: VIP, Rông Việt Securities

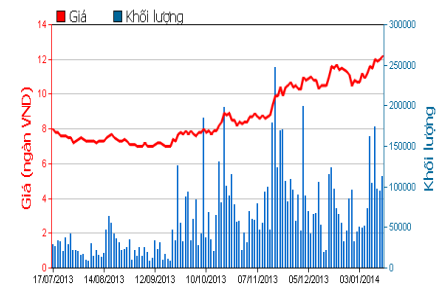
ACCUMULATE

CMP (VND)	11,800
Target Price (VND)	14,300

Investment Period Intermediate- term

Stock Info

Sector	Shipping
Market Cap (VND bn)	688,16
Current Shares O/S	59,323,879
Beta	1.25
Free float (%)	42.8
52 weeks High	12,200
52 weeks Low	5,800
Avg. Daily Volume (in 20 sessions)	969,718



Performance (%)

	3M	1Y	3Y
VIP	54.4	69.4	14
Shipping	17.6	46.1	N/A
VN30 Index	5.8	7.9	14.9
HSX Index	6.9	14.7	7.7

Major Shareholders (%)

PG Tanker	51.42%
PIJICO	5.83%

Foreigner Investor Room (%) 40.1

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Exhibit 1: 3QFY2013 and YTD Results

Particulars (VND bn)	3QFY13	2QFY13	% chg (qoq)	3QFY12	% chg (yoy)	9M/FY13	% chg (yoy)
Net Revenues	209.5	203.3	3.1%	202.9	3.3%	614.9	-25.7%
Gross profits	58.2	55.8	4.2%	47.8	21.6%	138.9	-7.6%
SG&AC	32.2	13.0	147.2%	12.0	168.6%	55.4	39.2%
Operating Income	26.0	42.8	-39.3%	35.9	-27.5%	83.5	100.0%
EBITDA	65.6	67.9	-3.4%	64.0	2.5%	336.3	51.7%
EBIT	26.4	28.5	-7.4%	24.2	9.0%	218.5	110.9%
Financial expenses	11.1	24.7	-55.1%	26.7	-58.3%	49.8	-32.0%
- Interest Expenses	10.5	9.7	8.1%	13.7	-23.2%	34.4	-25.7%
Dep. and amortization	-39.2	-39.4	-0.5%	-39.8	-1.5%	-117.8	-0.3%
Non-recurring Items (*)	-19.1	-13.9		-12.7		114.4	
Extraordinary Items (*)							
PBT	15.9	18.7	-15.4%	10.5	51.0%	184.1	221.3%
PAT	11.8	11.5	2.3%	7.9	50.3%	135.4	215.7%
(*) Adjusted PAT	25.9	20.0	29.6%	17.3	49.8%	51.3	

Sources: VIP, Rông Việt Securities

Exhibit 2: 3QFY2013 performance analysis

Particulars	3QFY13	2QFY13	% Chg. (qoq)	3QFY12	% Chg.(yoy)
Profitability Ratios (%)					
Gross Margin	27.8%	27.5%	29bps	23.6%	419bps
EBITDA Margin	31.3%	33.4%	-208bps	31.5%	-25bps
EBIT Margin	12.6%	14.0%	-142bps	11.9%	66bps
Net Margin	5.6%	5.7%	-4bps	3.9%	176bps
Adjusted Net Margin	12.4%	9.8%	253bps	3.9%	851bps
Turnover *(x)					
-Inventories	6.1	5.6	0.5	6.0	0.1
-Receivables	13.2	9.9	3.4	8.2	5.1
-Payables	26.5	20.9	5.5	34.9	-8.4
Leverage (%)					
Total Debt/ Equity	93.6%	95.1%	-148bps	136.5%	-4284bps

Sources: (*) Annualized turnover, VIP, Rông Việt Securities

9 months profit increased impressively, but the main business was still in trouble.

The market for tankers has been going in divergence with the general shipping market. Whereas the Baltic Dry Index (for dry cargo shipping) almost tripled and the Baltic Dirty Tanker Index (for crude oil shipping) increased roughly 45% in 2013, Baltic Clean Tanker Index (for oil product shipping) declined by 15% throughout the year. This points out that oil product shipping has not recovered as the general shipping market did.

VIP's 9-month revenue decreased 25% yoy mainly due to its petroleum trading revenue shrinking by half over the same period of 2012. However, its earnings before tax rose by 320% thanks to asset liquidation. Adjusted for extraordinary items, VIP's earnings-before-tax equaled just 83.4% of the number reported for the same period of the previous year. We feel it necessary to repeat ourselves that VIPCO sold its container port to Nam Hai Dinh Vu joint venture (which the Company has 40% of stake) for a profit of more than VND 147 billion, which made up 80% of its third-quarter EBT. This port is a part of VIPCO's petroleum-container port complex. In the 4th quarter, VIPCO proceeded to sell the remaining

stake in the joint venture to Germadept at book value while simultaneously convert the petroleum port into a container port for further development.

Along with the shipping business contracting slightly from a year earlier, the petroleum trading arm continued to take small losses. This operation seems to have been downsized that its revenue decreased almost 50% from the previous year. 3rd quarter profit could have been better without the VND-19-billion bad-debt reserve the Company laid out for its receivable from Thien Loc Phu.

Fourth-quarter revenue may be little changed from Q3 but net income is seen better.

VIPCO's shipping operation now relies on a fleet of 4 tankers including Petrolimex 06, 10,15 and 16, all of which are under time charters. Therefore we expect Q4 profits to be little changed from the earlier quarter. Although the transfer of its stake in the Nam Hai Dinh Vu joint-venture did not generate profit, the Company will receive a good amount of cash under the contracted payment schedule which dictates the first installment of VND 40 billion in Q4/2013 and the remaining VND 80 billion Q1/2014. In addition, without an allowance for bad debts as in Q3, Q4 results are likely better. We estimated VIP's net income for the last quarter of 2013 at around VND 14.8 billion.

Concerning the real estate business, the Company has 2 big projects currently in operation. The first one is Anh Dung 7, which still has around 28 thousand m2 of unsold land area even though it has been completed for quite some time and sold a significant part. In 2013, the company managed to sell only 1.000 m2 for an average price of VND-5-to-6 million per square meter. The second project is Central Tower (43 Quang Trung), of which only 60% of total floor area (7000 m2) is occupied at rents ranging from USD17 to USD18 per square meter per month. Despite its being a relatively small part of VIPCO's revenue to VIPCO, the real estate business posts a pretty good gross profit margin of about 60%.

We estimated that VIPCO's revenue for the whole year of 2013 could decrease by about 17% from 2012 and net income could be around VND 157 billion.

The Company is expected to maintain stable operations in 2014.

The oil product shipping market has had a slow year. However, in the past two months, the BCIY index has picked up more than 23%. Estimated tanker demand may outgrow supply by 3% and the average rate for medium range tankers is expected to rise by 13% in 2014 (Clarksons). These signals indicate a brighter future for product tanker shipping this year. Nevertheless, given the special relationship between VIPCO and its parent company, contract price re-negotiation is beyond the reach of market turnings. It is unlikely that these initial positive signals from global market will be reflected in VIPCO's operating results in 2014. Otherwise, in case of periodic shutdown at Dung Quat refinery for maintenance (19/5- 9/7 this year), VIPCO's shipping operation would be stable. Moreover, without a plan for new tanker purchase in 2014, VIPCO's current 4-vessel fleet is just enough to cater its parent's shipping demand, which eliminates the possibility of a profit jump this year.

In addition, to enhance occupancy at Central Tower while retaining current customers, the Company is considering cutting down its rents 5-10% in 2014. Also, while sales of Anh Dung 7 is largely at the mercy of a real estate market now struggling for recovery, the other 2 projects, i.e. the recently converted container port and VIPCO Tower, are still in construction and will not be commercially available in 2014. Thus, VIP can do little but maintaining its current standing for another year.

Without additional long term borrowings and steady debt payment recent years, VIPCO has been reducing both its principal and interest burdens. We estimated that the interest cost could decrease by about 21% in 2014. Assuming a 3-percent increase in the USD/VND exchange rate this year, the reserve for currency translation may be just about VND 19 billion.

On prudent assumptions about the shipping business and sales growth at Anh Dung 7, we expect VIP's 2014 revenue and net income at VND 877 billion and VND 58 billion (or VND979 per share), respectively.

With a lack of capital, VIPCO now has to choose “between a rock and a hard place”.

In 2013, VIPCO collected a substantial amount from the sale of its port, which, however, was used to service its debts. From that, it is not hard to see that the pressure on VIPCO’s liquidity is still relatively high. Given the long-term debt balance at the end of 2013 of about VND 681 billion and the loan repayment schedule, we estimate that the company will have to set aside VND 150 billion each year to pay back the principal of its debts. The long-term debt balance will be cut down significantly each year in the period between 2016 and 2018 as long as the Company does not take on more borrowings. However, lacking funds for development, the construction of 25- floor real estate at 37 Phan Boi Chau was halted at the 15th floor for the entire FY2013. Another project of VIP, Central Tower, is no more than another stroke in gloomy landscape of the office rental market in Hai Phong. After years of operation, the building has by far achieved only 60% occupancy. The company intends to open the remaining floors for sale, but has found no potential buyers yet. Given the fate of its sister project, the future of 37 Phan Boi Chau is still in question.

VIP completed the paper works for conversion of its petroleum port to container port project in 2013. Land clearance is finished and the port now has wharfs in place. Located right next to Nam Hai Dinh Vu Port in a land area of equally size, the new contain port has a value at least equal to that of its neighbor. If VIP is to sell this port in a near future, it will be a great boost for the Company’s profit and liquidity.

Now that its two biggest projects, i.e. the 37 Phan Boi Chau building and the new container port, are both under construction but lack funding for continued development, we see a high chance that VIP will get its hands off one (or even two) project(s) in a near future. Weighing an half-way real estate trapped in of a gloomy market (Central Tower located right behind VIPCO Tower has just operated at 60% of capacity) against a promising container port right in the middle of a booming sea port neighborhood, we see more possibility for the scenario where VIPCO would sell its stake in 37 Phan Boi Chau to fund the new container port. Given the current conditions of the real estate market and size of Hai Phong market in particular, even if VIPCO manages to find a buyer, it will likely have to let go of the building at a significant discount. On the basis of prudence, we estimate that the building sale, if successful, can bring VIP about VND 140 billion of revenue in 2015. The amount will allow the Company to proceed with the construction of the container port project without having to take on more debts. The prospect of VIP is seen brighter starting 2016 when the port goes into operation.

Otherwise, if VIPCO chooses an easier way that is to sell the in-the-money port to finish VIPCO Tower, it could just repeat what happened in 2013. However, that choice will create great dependence on recovery of real estate market in Hai Phong in the long run.

Exhibit 4: 4QFY2013 Forecast

Particulars (VND bn)	Q4-FY13	+/- (qoq)	+/- (yoy)
Net Revenues	213.4	2%	23%
Gross profits	44.7	-23%	110%
EBIT	30.5	16%	35%
PAT	14.8	26%	36%

Sources: VIP, RongViet Securities

Outlook and valuation

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With regard to the shipping business, VIPCO's main source profit is its time charter contract with the parent Petrolimex. Given its subsidiary status, VIPCO has little chance in the re-negotiation of contract price. Thus, neither the revenue nor income VIPCO's from main operations may experience significant growth in 2014.

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Exhibit 5: Key Assumption

Particular	Estimates	
	FY2013E	FY2014E
Revenue growth (%)	-17%	6%
Volume growth (%)		
Gross margin (%)	22%	21%
EBIT margin (%)	30%	19%

Sources: RongViet Securities

Exhibit 6: Changes in Estimates

Particular (VND bn)	FY2013E			FY2014E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues		828.3			877.1	
Gross profits		22.2%			20.9%	
SG&AC		69.3			55.5	
Operating Income		114.2			127.7	
Financial expenses		60.7			54.6	
PBT		204.5			78.3	
PAT		157.7			58.6	
EBITDA		415.4			277.3	
EBIT		249.8			113.8	
EPS (VND)		2,658			979	

Sources: RongViet Securities

VND Billion					VND Billion				
INCOME STATEMENT	2011A	2012A	2013E	2014F	BALANCE SHEET	2011A	2012A	2013E	2014F
Revenue	1,712.1	1,000.6	828.3	877.1	Cash and equivalents	60	44	79	47
COGS	1,391.4	829.1	644.8	693.9	Short-term investment	3	0	0	0
Gross profit	320.7	171.5	183.6	183.2	Receivables	135	75	58	70
Selling Expense	13.0	8.2	7.2	7.2	Inventories	109	98	84	90
G&A Expense	45.4	51.1	62.1	48.2	Other current assets	26	23	26	26
Finance Income	11.6	5.9	3.8	4.9	Total Current Asset	333	240	247	233
Finance Expense	201.5	64.6	60.7	54.6	Tangible Fixed Assets	1,377	1,225	1,156	1,073
Other profits	0.4	17.6	149.5	0.0	Intangible Fixed Assets	15	15	15	14
PBT	72.8	68.8	204.5	78.3	Construction in Progress	261	330	227	307
Prov. of Tax	18.7	15.9	47.0	19.6	Investment Property	102	104	99	95
Minority's Interest	0.1	-1.5	-0.2	0.2	Long-term Investment	48	39	117	37
PAT to Equity Shareholder	53.9	54.4	157.7	58.6	Other long-term assets	4	4	3	4
EBIT	142.5	126.8	249.8	113.8	Long-term Asset	1,808	1,717	1,618	1,530
EBITDA	298.8	284.7	415.4	277.3	Total Asset	2,141	1,957	1,865	1,763
				%	Payables	117	114	71	62
					Other current liabilities	55	63	47	41
					Current Debt	229	229	203	199
					Long-term Debt	873	668	535	388
					Other long-term liabilities	3	2	2	2
					Total Liability	1,277	1,076	858	693
					Owner's Equity	855	874	999	1,063
					Capital	598	598	598	598
					Retained Earnings	54	54	155	164
					Funds & Reverses	199	219	238	293
					Others	0	0	0	0
					Total Equity	855	874	999	1,063
					Minority's Interest	9	8	7	8
					TOTAL RESOURCES	2,141	1,957	1,865	1,763
					CASH FLOW STATEMENT	2011A	2012A	2013E	2014F
					Profit before tax	72.8	68.8	204.5	78.3
					-Depreciation	156.3	157.9	165.7	163.5
					-Adjustments	181.1	41.6	-138.1	17.2
					+/- Working capital	-19.2	-17.4	-69.1	-54.9
					Net Operating CFs	390.9	250.8	163.0	204.1
					+/- Fixed Asset	-160.0	-48.0	160.1	-155.3
					+/- Deposit, equity investment	10.6	11.1	-77.2	79.5
					Interest, dividend, cash profit received	6.6	4.6	3.8	4.9
					Net Investing CFs	-142.7	-32.3	86.7	-70.9
					+/- Capital	-3.2	0.0	5.1	0.0
					+/- Debt	-201.5	-204.6	-170.4	-167.5
					Dividend paid & other	-41.9	-29.7	-49.2	2.1
					Net Financing CFs	-246.5	-234.3	-214.4	-165.4
					+/- cash & equivalents	1.7	-15.8	35.3	-32.3
					Beginning cash & equivalents	58.1	59.8	44.1	79.3
					Impact of exchange rate	0.1	0.0	0.0	0.0
					Ending cash & equivalents	59.8	44.1	79.3	47.1

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% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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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

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