

Petrosetco (PET – HSX)

Samsung techs distribution short of expectation

Particulars (VND bn)	3QFY13	2QFY13	% (qoq)	3QFY12	% (yoy)
Net Revenues	2,939.4	2,711.0	8.4%	2,428.1	21.1%
EBIT	40.4	46.6	-13.4%	45.4	-11.0%
PAT	99.0	111.0	-10.8%	97.4	1.6%
EBIT margin (%)	3.4%	4.1%	-73 bps	4.0%	-64 bps

Source: PET, RongViet Securities

Revenue saw steady growth, Samsung smartphones accounted for 37%. Sales of Samsung smartphones reached over VND1,100 bn, up by ~30% compared to previous two quarters in Q3. 9-month distribution revenue stopped at ~VND2,800 bn, helped bringing PET's total revenue to VND8,403.6 bn or 93% of the annual guidance.

Profit growth trailed that of revenue growth due to gross margin shrinkage. The gross profit margin dropped down to 6.4% in 9M2013 from 7.5% from the average of a year earlier.

PSD to double share capital, PET has no plan to divest. On October 22, 2013, PSD held an extraordinary AGM, wishing to bring the plan to double its current capital via new share issuances for existing shareholders in front of its equity owners. As far as we concern, PET has not planned to withdraw from PSD thus far, and the company intends to maintain its ownership at the current level (79.87%).

Outlook and valuation: An unvarying dividend policy (the lowest dividend recorded in recent years was 16%) facilitated by a cash pile being kept consistently above than VND1,000 bn is the main attraction of PET. From our viewpoint, however, whilst revenue growth may sustain, the gross profit margin may not rebound in last quarter of the year. Although PET plans to re-negotiate its commission policy with Samsung, we revise down of next year's gross profit margin as an act of prudence, which results in a reduced forward EPS FY2014.

Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M/FY2013	FY2013E	FY2014F
Net Revenues	10,320.7	10,153.8	8,403.5	11,636.9	13,382.5
% chg	4.7	-1.6	10.1	14.6	15.0
PAT	285.4	187.8	133.4	180.8	228.1
% chg	53.1	-34.2	-5.3	-3.7	26.2
EBIT margin (%)	2.8	1.8	1.6	1.6	1.7
ROA (%)	6.7	4.5		4.0	4.4
ROE (%)	24.6	15.3		14.3	17.1
EPS (VND)	4,086.3	2,689.0		2,588.7	3,266.2
Adjusted EPS (VND)					
Book value (VND)	17,356.6	17,771.7		18,368.0	19,934.3
Cash dividend (VND)	1,800.0	1,600.0		1,700.0	1,700.0
P/E (x)	2.3	4.4		8.2	6.5
P/BV (x)	0.5	0.7		1.1	1.1

Source: ABC, Stock price as of

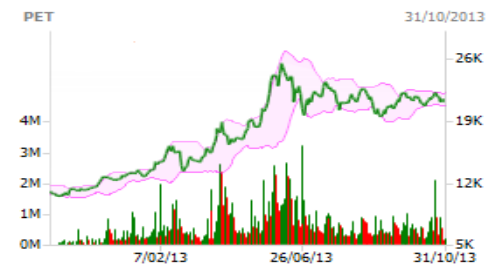
NEUTRAL

CMP (VND)	21,100
Target Price (VND)	23,400

Investment Period Intermediate

Stock Info

Sector	Distribution - Retail
Market Cap (VND bn)	1,473.7
Shares O/S	69,842,000
Beta	1.04
Free float (%)	46.9
52 weeks High	24,400
52 weeks Low	9,100
Avg. Daily Volume (in 20 sessions)	551,610



Performance (%)

	3M	1Y	3Y
PET	8.25	116.5	23.0
Distribution - Retail	-10.4	-20.5	N/A
VN30 Index	3.6	20.8	N/A
HSX Index	2.3	27.0	9.8

Major Shareholders (%)

Petro Vietnam	35.2
Halley Sicav-Halley Asian Property	9.5
Deutsche Bank AG London	4.3
PVFC	4.1
Foreigner Investor Room	18.4

Lam Nguyen

(084) 08- 6299 2006 – Ext 318

lam.ntp@vdsc.com.vn

Exhibit 1: 3QFY2013 and YTD Results

Particulars (VND bn)	3QFY13	2QFY13	% chg (qoq)	3QFY12	% chg (yoy)	9M/FY13	% chg (yoy)
Net Revenues	2,939.4	2,711.0	8.4	2,428.1	21.1	8,403.5	10.1
Gross profits	181.0	194.1	-6.7	181.2	-0.1	541.3	-7.1
SG&AC	105.2	108.9	-3.4	115.1	-8.6	303.0	-7.4
Operating Income	75.8	85.2	-11.0	66.1	14.8	238.4	-6.7
EBITDA	105.1	113.6	-7.5	81.8	28.4	314.9	13.0
EBIT	97.7	105.9	-7.7	77.9	25.5	291.8	-4.2
Financial expenses	33.0	35.4	-6.7	29.5	11.7	93.8	-6.0
- Interest Expenses	28.4	27.0	5.0	26.8	6.1	75.4	-8.5
Dep. and amortization	7.3	7.6	-4.4	3.9	85.6	23.1	-190.2
Non-recurring Items (*)							
Extraordinary Items (*)	1.3	5.1	-75.3	19.5	-93.6	9.2	-66.2
PBT	70.6	84.0	-15.9	70.7	-0.1	225.6	1.6
PAT	40.4	46.6	-13.4	45.4	-11.0	133.4	-5.3
(*) Adjusted PAT	39.5	42.9	-7.9	30.6	29.1	126.7	0.1

Source: PET, RongViet Securities

Exhibit 2: 3QFY2013 performance analysis

Particulars	3QFY13	2QFY13	% Chg. (qoq)	FY2012	% Chg
Profitability Ratios (%)					
Gross Margin	6.2	7.2	-100 bps	7.5	-130 bps
EBITDA Margin	3.6	4.2	-62 bps	3.4	20 bps
EBIT Margin	3.3	3.9	-58 bps	3.2	12 bps
Net Margin	1.4	1.7	-35 bps	1.9	-49 bps
Adjusted Net Margin	1.3	1.6	-24 bps	1.3	8 bps
Turnover (Quarterly) (x)					
-Inventories	8.8	8.1	0.7	9.5	-0.7
-Receivables	9.3	9.0	0.3	7.1	2.2
-Payables	3.4	3.4	0.0	3.5	-0.1
Leverage (x)					
Total Debt/ Equity	1.5	1.6	-0.1	0.9	0.6

Source: Rongviet Securities

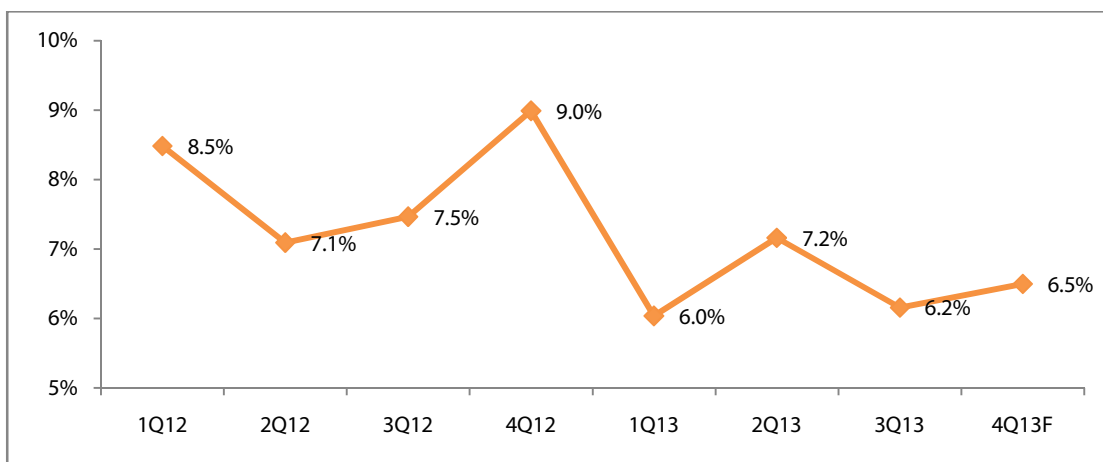
Revenue saw steady growth, Samsung smartphones made up 37%. PSD, a subsidiary of PET, started to distribute Samsung Galaxy Note 3 as early as September 2013. The tech toy has enjoyed positive feedbacks from consumer such that its sales contributed significantly to PET's revenue growth. We was told that revenue from Samsung smartphones reached more than VND1,100 bn in 3Q and around VND2,800 bn in the 9-month period. These figures do not look so bright when compare to the guidance of VND4,000-4,500 bn however.

Profit growth trailed that of revenue growth due to gross margin shrinkage.

Despite satisfying sales of Samsung smartphones, a trimmed gross profit margin subdued Q3 profits. On the one hand, this is due to harsher competition among smartphone seller, especially in the current period of hinder consumer spending. On the other hand, the commission policies offered by Samsung may not have been very accommodating.

In our knowledge, the share of commission for distributors like PET is based on progressive levels of committed revenue. We believe that the gross profit margin will be better once the sales reaches VND4,500 bn or above. However, it seem unlikely that PET to generate VND1,700 bn of sales from Samsung hi-tech products in the fourth quarter.

Graphs 01: PET's gross profit margin (1Q12 – 4Q13F)



Source: Rongviet Securities

Consolidated profit-before-tax increased while earnings for parent company's shareholders dropped due to levied minority interest.

9-month consolidated PBT reached VND225.6 bn, up by 1.6% y-o-y and fulfilling 94% of PET's annual target. NPAT, however, was posted just VND133 bn, down by 5.3% y-o-y and completing only 73% of the fiscal year's guidance due to higher minority interest.

Exhibit 3: 3QFY2013 Actual vs. Estimates

Particulars (VND bn)	Actual	Estimates	Var (%)
Net Revenues	2,939.4	3,068.2	-4.2
Gross profits	181.0	252.4	-28.3
EBIT	99.0	134.2	-26.2
PAT	40.4	60.2	-33.0

Source: RongViet Securities

Exhibit 4: 4QFY2013 Forecast

Particulars (VND bn)	4QFY13	%chg (qoq)	%chg (yoy)
Net Revenues	3,233.4	10.0	28.0
Gross profits	210.2	16.1	-7.4
EBIT	111.9	13.1	4.5
PAT	47.4	17.3	38.6

Source: RongViet Securities

Revenue growth expected to sustain, gross margin recovery not seen for Q4 and FY2014.

We expect ICT product sales to reach the peak in the fourth quarter. Revenue from Samsung smartphone distribution is forecasted around VND1,350 bn, up by 20% q-o-q, taking into account the effect of holiday shopping. The results of the other segments such as oil and gas services and building management, on the other hand, are expected to be little changed.

PET now has a plan to re-negotiate its commission policy with Samsung, said the company's representative. However, we fear that the talks may stretch over multiple periods, and if the revenue contributions of the other, higher-margin segments do not grow quickly enough to compensate for the limited margin of smartphone sales, the overall margin may be maintained as low as ~6.5%.

Revenue and NPAT in Q4 are forecasted at VND3,233.4 bn and VND47.4 bn, up by 10% q-o-q and 17% q-o-q, respectively. For the whole FY2013, revenue may reach as high as VND11,637 bn and PAT ~VND180.8 bn, translating into forward EPS of VND2,589. The forecasted revenue is 29% higher than initially planned by the company while PAT may not vary substantially, driven by the trimmed profit margin and the increased minority interest following PSD's selective placement to its staffs to lower PET proportionate ownership to comply with the listing requirement of the Hanoi Stock Exchange.

PSD to double share capital, PET has no plan to divest.

On October 22, 2013, PSD held an extraordinary AGM, wishing to bring the plan to double its current capital via new share issuances for existing shareholders in front of its equity owners. The issuance aims firstly to enhance the stock's liquidity and secondly to prepare the capital for widened network and product diversification. PET has not planned to withdraw from PSD thus far, and the company intends to maintain its ownership at the current level (79.87%), implying that it will also involve as a buyer in PSD's coming offerings.

Outlook and valuation

PET has seen satisfying growth in revenue since its switch to distributing Samsung products. It is easy to notice how the company's working capital turnovers have been improving ever since. The cash balance has been kept consistently above VND1,000 bn, which has, in turn, facilitated an unvarying stable dividend policy (the lowest dividend recorded in recent years was 16%). All these makes up the main attractions of PET. Nevertheless, the drop of profitability last quarter may have not satisfied the company's shareholders.

Although PET is looking to re-negotiate its commission policies with Samsung, we revise down our forecast for next year gross profit margin as an act of prudence, which results in a reduction in the projected EPS for FY2014. We also adjust our reference PER down to 7.6x, from 8.0x in our last update. As the result of the combined changes, the target price for PET is revised down to VND23,400 per share from VND25,000 per share in the previous report. We recommend NEUTRAL for PET.

Exhibit 5: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2013E	FY2014E	FY2013E	FY2014E
Revenue growth (%)	16.8	17.1	14.6	15.0
Volume growth (%)				
Gross margin (%)	7.5	7.7	6.5	6.9
EBIT margin (%)	4.1	4.3	2.5	2.7

Source: Rongviet Securities

Exhibit 6: Changes in Estimates

Particular (VND bn)	FY2013E			FY2014E		
	Earlier Estimates	Revised Estimates	Var (%)	Earlier Estimates	Revised Estimates	Var (%)
Net Revenues	11,856.3	11,636.9	-1.8	13,889.0	13,382.5	-3.6
Gross profits	7.5	6.5	-102 bps	7.7	6.9	-80 bps
SG&AC	492.0	425.8	-13.5	590.3	521.9	-11.6
Operating Income	394.1	325.7	-17.4	479.2	401.5	-16.2
Financial expenses	136.8	127.9	-6.5	160.3	174.1	8.7
PBT	374.9	310.0	-17.3	466.8	390.2	-16.4
PAT	218.6	182.7	-16.4	272.9	228.1	-16.4
EBITDA	514.3	319.6	-37.9	629.0	400.0	-36.4
EBIT	481.6	288.8	-40.0	591.8	363.9	-38.5

Source: Rongviet Securities

VND Billion

INCOME STATEMENT	2011A	2012A	2013E	2014F
Revenue	10,320.7	10,153.8	11,636.9	13,382.5
COGS	9,321.3	9,393.6	10,885.4	12,459.1
Gross profit	999.4	760.2	751.5	923.4
Selling Expense	238.1	201.4	219.9	281.0
G&A Expense	226.5	218.0	209.1	240.9
Finance Income	91.2	80.2	100.0	120.1
Finance Expense	308.2	144.8	127.9	174.1
Other profits	85.2	27.4	11.2	40.1
PBT	402.8	303.5	305.8	387.5
Prov. of Tax	113.9	93.3	82.7	101.5
Minority's Interest	7.4	24.8	43.3	60.6
PAT to Equity Shareholder	175.0	116.9	140.4	184.6
EBIT	563.8	409.1	412.9	526.0
EBITDA	596.6	443.0	443.7	562.1

%

FINANCIAL RATIO	2011A	2012A	2013E	2014F
Growth				
Revenue	4.7	-1.6	14.6	15.0
Operating Income	55.9	-36.3	-5.4	24.5
EBITDA	54.1	-25.7	0.2	26.7
EBIT	54.9	-27.4	0.9	27.4
PAT	53.1	-34.2	-3.7	26.2
Total Assets	-6.2	3.8	14.1	13.2
Equity	9.9	2.4	3.4	8.5
Internal growth rate	13.5	6.9	6.0	9.9
Profitability				
Gross profit/Revenue	9.7	7.5	6.5	6.9
Operating profit/ Revenue	5.2	3.4	2.8	3.0
EBITDA/ Revenue	5.8	4.4	3.8	4.2
EBITDA/ Revenue	5.5	4.0	3.5	3.9
Net margin	1.7	1.2	1.2	1.4
ROAA	6.7	4.5	4.0	4.4
ROIC or RONA	20.8	13.6	12.7	14.8
ROAE	24.6	15.3	14.3	17.1
Efficiency (x)				
Receivable Turnover	7.7	7.4	8.9	9.2
Inventory Turnover	6.5	8.1	9.8	9.5
Payable Turnover	7.0	7.0	7.5	7.6
Liquidity				
Current	1.2	1.3	1.2	1.2
Quick	0.8	0.9	0.9	0.9
Solvency				
Total Debt/Equity	118.4	114.2	152.4	157.6
Current Debt/Equity	114.6	114.2	152.4	157.6
Long-term Debt/ Equity	3.8	0.0	0.0	0.0

VND Billion

BALANCE SHEET	2011A	2012A	2013E	2014F
Cash and equivalents	364	1,130	1,443	1,513
Short-term investment	19	18	18	18
Receivables	1,446	1,300	1,315	1,593
Inventories	1,292	1,024	1,197	1,433
Other current assets	193	182	300	331
Total Current Asset	3,314	3,654	4,275	4,887
Tangible Fixed Assets	231	172	175	204
Intangible Fixed Assets	118	119	121	123
Construction in Progress	25	17	20	24
Investment Property	0	0	0	0
Long-term Invest ment	156	38	20	20
Other long-term assets	266	266	259	255
Long-term Asset	796	613	595	627
Total Asset	4,110	4,267	4,869	5,514
Payables	966	1,147	1,143	1,346
Other current liabilities	146	80	148	170
Current Debt	1,389	1,418	1,955	2,195
Long-term Debt	46	0	0	0
Other long-term liabilities	40	46	53	53
Total Liability	2,768	2,866	3,497	4,024
Owner's Equity	1,212	1,241	1,283	1,392
Capital	698	698	698	698
Retained Earnings	274	284	286	361
Funds & Reverses	70	96	138	172
Others	0	0	0	0
Total Equity	1,212	1,241	1,283	1,392
Minority's Interest	74	89	90	97
TOTAL RESOURCE	4,054	4,197	4,869	5,514
CASH FLOW STATEMENT	2011A	2012A	2013E	2014F
Net Income	285.4	187.8	180.8	228.1
-Depreciation	32.8	33.9	30.8	36.1
-Adjustments	8.5	84.0	-61.8	-71.5
+/- Working capital	75.7	534.6	-221.1	-255.1
Net Operating CFs	402.4	840.3	-71.3	-62.4
+/- Fixed Asset	-92.7	28.2	-24.6	-55.9
+/- Deposit, equity investment	0.0	0.0	0.0	0.0
Interest, dividend, cash profit received	91.2	80.2	100.0	120.1
Net Investing CFs	-1.6	108.4	75.4	64.2
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-441.0	-57.0	491.0	186.5
Dividend paid	-111.7	-125.7	-181.6	-118.7
Net Financing CFs	-552.8	-182.7	309.4	67.8
+/- cash & equivalents	-151.9	766.0	313.6	69.6
Beginning cash & equivalents	533.5	363.9	1,129.9	1,443.5
Impact of exchange rate	-17.6	0.0	0.0	0.0
Ending cash & equivalents	363.9	1,129.9	1,443.5	1,513.1

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.

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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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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

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

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