

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

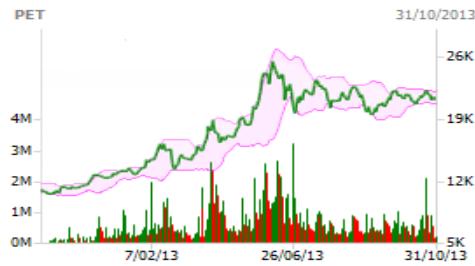
NEUTRAL

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 were 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	BALANCE SHEET		2011A	2012A	2013E	2014F
Revenue		10,320.7	10,153.8	11,636.9	13,382.5	Cash and equivalents		364	1,130	1,443	1,513
COGS		9,321.3	9,393.6	10,885.4	12,459.1	Short-term investment		19	18	18	18
Gross profit		999.4	760.2	751.5	923.4	Receivables		1,446	1,300	1,315	1,593
Selling Expense		238.1	201.4	219.9	281.0	Inventories		1,292	1,024	1,197	1,433
G&A Expense		226.5	218.0	209.1	240.9	Other current assets		193	182	300	331
Finance Income		91.2	80.2	100.0	120.1	Total Current Asset		3,314	3,654	4,275	4,887
Finance Expense		308.2	144.8	127.9	174.1	Tangible Fixed Assets		231	172	175	204
Other profits		85.2	27.4	11.2	40.1	Intangible Fixed Assets		118	119	121	123
PBT		402.8	303.5	305.8	387.5	Construction in Progress		25	17	20	24
Prov. of Tax		113.9	93.3	82.7	101.5	Investment Property		0	0	0	0
Minority's Interest		7.4	24.8	43.3	60.6	Long-term Investment		156	38	20	20
PAT to Equity Shareholder		175.0	116.9	140.4	184.6	Other long-term assets		266	266	259	255
EBIT		563.8	409.1	412.9	526.0	Long-term Asset		796	613	595	627
EBITDA		596.6	443.0	443.7	562.1	Total Asset		4,110	4,267	4,869	5,514
%						Payables		966	1,147	1,143	1,346
FINANCIAL RATIO		2011A	2012A	2013E	2014F	Other current liabilities		146	80	148	170
Growth						Current Debt		1,389	1,418	1,955	2,195
Revenue		4.7	-1.6	14.6	15.0	Long-term Debt		46	0	0	0
Operating Income		55.9	-36.3	-5.4	24.5	Other long-term liabilities		40	46	53	53
EBITDA		54.1	-25.7	0.2	26.7	Total Liability		2,768	2,866	3,497	4,024
EBIT		54.9	-27.4	0.9	27.4	Owner's Equity		1,212	1,241	1,283	1,392
PAT		53.1	-34.2	-3.7	26.2	Capital		698	698	698	698
Total Assets		-6.2	3.8	14.1	13.2	Retained Earnings		274	284	286	361
Equity		9.9	2.4	3.4	8.5	Funds & Reverses		70	96	138	172
Internal growth rate		13.5	6.9	6.0	9.9	Others		0	0	0	0
Profitability						Total Equity		1,212	1,241	1,283	1,392
Gross profit/Revenue		9.7	7.5	6.5	6.9	Minority's Interest		74	89	90	97
Operating profit/ Revenue		5.2	3.4	2.8	3.0	TOTAL RESOURCE		4,054	4,197	4,869	5,514
EBITDA/ Revenue		5.8	4.4	3.8	4.2	CASH FLOW STATEMENT	2011A	2012A	2013E	2014F	
EBITDA/ Revenue		5.5	4.0	3.5	3.9	Net Income		285.4	187.8	180.8	228.1
Net margin		1.7	1.2	1.2	1.4	-Depreciation		32.8	33.9	30.8	36.1
ROAA		6.7	4.5	4.0	4.4	-Adjustments		8.5	84.0	-61.8	-71.5
ROIC or RONA		20.8	13.6	12.7	14.8	+/- Working capital		75.7	534.6	-221.1	-255.1
ROAE		24.6	15.3	14.3	17.1	Net Operating CFs		402.4	840.3	-71.3	-62.4
Efficiency (x)						+/- Fixed Asset		-92.7	28.2	-24.6	-55.9
Receivable Turnover		7.7	7.4	8.9	9.2	+/- Deposit, equity investment		0.0	0.0	0.0	0.0
Inventory Turnover		6.5	8.1	9.8	9.5	Interest, dividend, cash profit received		91.2	80.2	100.0	120.1
Payable Turnover		7.0	7.0	7.5	7.6	Net Investing CFs		-1.6	108.4	75.4	64.2
Liquidity						+/- Capital		0.0	0.0	0.0	0.0
Current		1.2	1.3	1.2	1.2	+/- Debt		-441.0	-57.0	491.0	186.5
Quick		0.8	0.9	0.9	0.9	Dividend paid		-111.7	-125.7	-181.6	-118.7
Solvency						Net Financing CFs		-552.8	-182.7	309.4	67.8
Total Debt/Equity		118.4	114.2	152.4	157.6	+/- cash & equivalents		-151.9	766.0	313.6	69.6
Current Debt/Equity		114.6	114.2	152.4	157.6	Beginning cash & equivalents		533.5	363.9	1,129.9	1,443.5
Long-term Debt/ Equity		3.8	0.0	0.0	0.0	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

Please refer to important disclosures at the end of this report

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Satra, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

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

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

DISCLAIMERS

This report is prepared in order to provide information and analysis to Rong Viet's clients only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase or subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. The readers should be aware that Rong Viet may have a conflict of interest with investors when does this research. Investors are advised to make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. Rong Viet will not take any responsibility for any loss/damages occurred as a result of using the information herein.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

The information herein is believed by Rong Viet to be reliable and is based on public sources believed to be reliable. We do not warrant its accuracy or completeness. Opinions, estimations and projection expressed in this report represent the current views of the author as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.

Copyright 2013 Viet Dragon Securities Corporation. This report shall not be copied, reproduced, published or redistributed by any person for any purpose without the express permission of Rong Viet in writing.

Copyright 2013 Viet Dragon Securities Corporation.