

## Petroleum Equipment Assembly-Metal Structure (PXS – HSX)

## Gem in the rough

Particulars (VND bn)	3QFY13	2QFY13	% (qoq)	3QFY12	% (yoY)
Net Revenues	303.3	254.7	19%	249.7	21%
NPAT	33.5	10.6	215%	2.0	1,569%
EBIT	58.1	31.7	83%	23.9	143%
EBIT margin (%)	19.2%	12.4%	672bps	9.6%	957bps

Sources: PXS, RongViet Securities.

- Q3 rocketed thanks to revenue from the assembly of Diamond drilling platform.
- The Diamond project will continue to generate most of Q4 revenue.
- The plant to debt repaying plan lifts concerns over interest burden.
- 2014 looks promising with new contracts in place.

## Outlook and Valuation:

As PXS does most of its business in a niche market of the construction sector, it has been able to maintain a relatively high profit margin compared to its industry peers. Moreover, the completion of Sao Mai Ben Dinh manufacturing yard for first-time running at the beginning of 2012 has greatly enhanced the Company reputation. With proven capacity and infrastructure quality, PXS has begun to take on more high-value EPCC projects to replace the current plain processing works. In another aspect, the firm's plans to solidify its capital structure and pay back VND160 billion of long-term debt should partly relieve the interest service in the following years. Furthermore, the signing of two more EPCC (engineering, procurement, construction and commissioning) contracts, namely Thai Binh (\$30 million) and P3, P4 (VND600 billion) has established a solid ground growth for revenue growth 2014. With Company's tendency to pay out lucrative and stable cash dividends, PXS's dividend yield is also an investment attraction. Based on these arguments, we rate the stock as **ACCUMULATE** in the intermediate term with a target price of 15,500 VND.

## Key financials

Y/E Dec (VND bn)	FY2011	FY2012	9M/FY2013	FY2013E	FY2014F
Net Revenues	1,061.9	1,196.9	681.8	1,086.2	1,746.0
% chg	117.0	12.7	-31.9	-9.2	60.7
PAT	117.3	67.4	49.2	76.5	132.4
% chg	33.7	-42.5	-20.8	13.5	73.0
EBIT margin (%)	11.0	5.6	7.2	7.0	7.6
ROA (%)	10.4	4.6		5.4	8.6
ROE (%)	32.0	14.2		14.0	21.0
EPS (VND)	3,713	1,797		1,896	2,647
Adjusted EPS (VND)	4,015	1,797		1,896	2,647
Book value (VND)	12,622	12,758		12,260	12,895
Cash dividend (VND)	1,800	1,500		1,300	1,800
P/E (x)	1.9	4.3		6.4	6.5
P/BV (x)	0.6	0.6		0.9	1.0

Sources: PXS, RongViet Securities, Stock price of 11/28/2013

## Accumulated

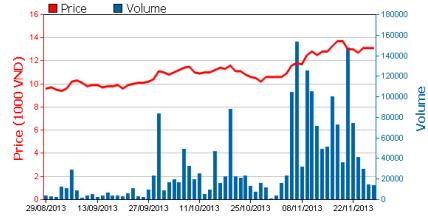
CMP (VND)	13,100
Target Price (VND)	15,500

## Investment Period

Medium

## Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	655
Current Shares O/S	50,000,000
Beta	1.11
Free float (%)	39.2
52 weeks High	13,700
52 weeks Low	5,800
Avg. Daily Volume (in 20 sessions)	230,003



## Performance (%)

	3M	1Y	3Y
PXS	37.9	87	-3.7
Oil & Gas	1.8	N/A	N/A
VN30 Index	7.9	29	21.9
HSX Index	7.2	35	13.7

## Major Shareholders (%)

PVC	44.88
McPECOM	10.00
VF2	5.97
Foreigner Investor Room (%)	47.5

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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	303.3	254.7	19.1%	249.7	21.5%	681.8	-31.9%
Gross profits	70.9	43.1	64.3%	39.1	81.2%	153.2	-17.3%
SG&AC	14.9	12.5	19.8%	16.4	-8.7%	41.5	2.3%
Operating Income	56.0	30.7	82.5%	22.8	145.8%	111.7	34.6%
EBITDA	72.1	45.4	58.7%	37.0	94.8%	157.0	-19.7%
EBIT	58.1	31.7	83.4%	23.9	142.7%	116.0	-26.8%
Financial expenses	13.6	17.8	-23.5%	21.5	-36.6%	50.9	-34.0%
- Interest Expenses	13.4	17.5	-23.4%	21.1	-36.4%	50.3	-33.0%
Dep. and amortization	13.0	-13.7	-194.3%	-13.1	-199.2%	-14.0	-62.2%
Non-recurring Items (*)							
Extraordinary Items (*)							
PBT	44.7	14.2	215.2%	2.9	1449.0%	65.8	-21.3%
PAT	33.5	10.6	215.1%	2.0	1569.3%	49.2	-20.8%
(*) Adjusted PAT	33.5	10.6	215.1%	2.0	1569.3%	49.2	-20.8%

Sources: PXS, RongViet Securities

**Exhibit 2: 3QFY2013 performance analysis**

Particulars	3QFY13	2QFY13	% Chg. (qoq)	3QFY12	% Chg.(yoY)
<b>Profitability Ratios (%)</b>					
Gross Margin	23.4%	16.9%	643bps	15.7%	770bps
EBITDA Margin	23.8%	17.8%	593bps	14.8%	895bps
EBIT Margin	19.2%	12.4%	672bps	9.6%	957bps
Net Margin	11.0%	4.2%	687bps	0.8%	1023bps
Adjusted Net Margin	11.0%	4.2%	687bps	0.8%	1023bps
<b>Turnover *(x)</b>					
-Inventories	11.8	12.3	-0.5	5.8	6.0
-Receivables	5.4	4.2	1.2	3.1	2.3
-Payables	34.3	42.9	-8.6	11.7	22.6
<b>Leverage (%)</b>					
Total Debt/ Equity	1.6	1.7	-0.1	1.7	-0.1

Sources: RongViet Securities (\*) Annualized turnover

**Q3 earnings rocketed thanks to revenue from the assembly of Diamond drilling platform (\$57 million).**

Q3 NPAT doubled from the previous quarter and climbed 15 times over the same period last year although revenue increased only 20%. According to the firm, the booking of the high-margined construction value of the Diamond drilling platform falls mainly in last two quarters of the year. This is the second EPCC project (after the Topside H4-White Rhinoceros (\$50 million USD) in 2012), the Company has taken on since Sao Mai Ben Dinh manufacturing yard, which started operating in December 2011. The Diamond project was launched in March 2013 with schedule construction time of 12 months and total contract value of \$57 million. Booking from this one project was the main reason for PXS' rapid revenue growth after the first quarter. By the end of Q3, this project had contributed approximately VND500 billion VND to the Company's total revenue.

Interest expense was another point worth looking at in Q3 statements as the amount dropped over 23% from that of Q2 and of 36% over the same period of 2012, validated by the lowered interest rates platform, between 7-8% for short-term and about 11% for long term loans.

**In Q4, the Diamond project will continue to be the primary revenue driver.**

We expect that PXS will continue booking over VND300 billion from the Diamond project as revenue in the last quarter of this year. Projects such as E-House Brown Lion and BK16 rig base, which will have finished by year-end, also promise another VND60 billion. Adding up, Q4 revenue should be around VND404 billion but the gross margin may be a little lower from that of Q3. However, the withdrawal from ~6.5 million shares of PVPIPE at VND 8,481/ share may cost PXS ~VND10 billion in form of financial expense. For the bottom line, Q4 NPAT may decline to around VND28 billion. 2013 revenue and NPAT are thus expected at VND 1,080 billion and VND77.6 billion respectively.

**Exhibit 3: 4QFY2013 Forecast**

Particulars (VND bn)	4QFY13	%chg (qoq)	%chg (oy)
Net Revenues	404	33%	117%
Gross profits	79	11%	121%
EBIT	49	-16%	99%
PAT	28	-16%	631%

*Sources: RongViet Securities*

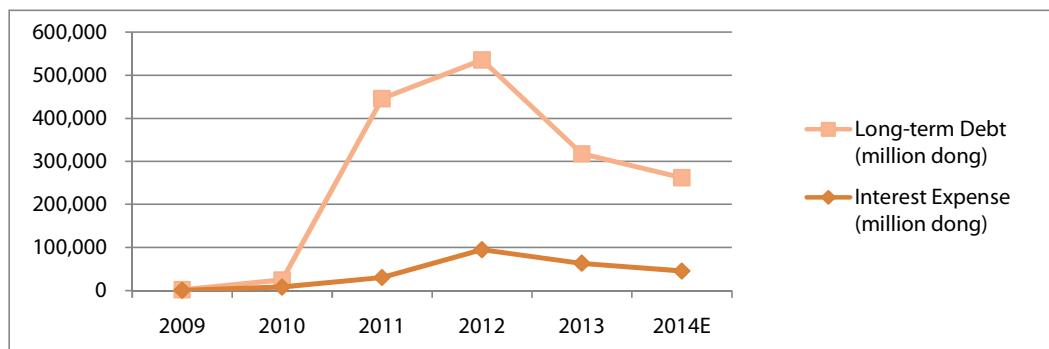
**The plant to debt repaying plan lifts concerns over interest burden.**

This year, PXS has had a success launching its capital restructuring initiative which includes a capital raise, long-term debt restructuring and the liquidation of its unprofitable investment in PVPIPE. Tracking PXS' performance, it can be seen that interest expense has had a huge impact on the Company's net income in the two most recent years. In fact, the 480-billion-dong long-term debt the Company has taken on to fund the Sao Mai Ben Dinh project requires an equal principal payment of VND160 billion per year for the period of 2012-2014. This puts heavy pressure on the firm's financials as the progress at most of its projects has slowed down significantly in recent years. Fortunately, the Company has recently reached an agreement with its lender to extend the remaining principal payment over the five-year period of 2013-2017.

Besides, PXS has increased its chartered capital from VND375 billion to VND500 billion via private placements and share offerings to current shareholders. McPEC Offshore & Marine Pte Ltd (McPECOM), a Singaporean peer of PXS, bought 10% of the new capital and is committed to two years of holding. In search for overseas works, and the foreign shareholder now has its representative standing as the head of PXS' International Marketing Unit. Last quarter, McPECOM handed over to PXS the 360-ton E-house - Brown Lion project.

As mentioned above, PXS has withdrawn from the remaining investment in PVPIPE for VND55.1 billion. This, combined with the proceeds from the latest share issuance, is going to fund the first installment of the long-term debt payment, effectively trimming the debt principal balance to ~VND320 billion. A reduced debt pile and stretched pay-back period should make the service of principal and interests less of a problem for a few more years.

### Long-term loans and interest expense over years



### 2014 looks promising with new contracts in place.

PXS said that it has signed the contracts for two more EPCC projects, namely Thai Binh and P3, P4 drilling rigs with have estimated contract values of \$30 million and VND600 billion and construction periods between 7 and 12 months. The Thai Binh project is in the procurement process and construction should start by the end of December. On the other hand, the execution of the Diamond project is scheduled to stretch over to 2014 with remaining work value of about \$18.5 million to be recognized in next year's first quarter.

To sum up, the three EPCC projects should contribute about VND1,600 billion to next year's revenue. The firm itself has estimated revenue at about VND1,800 billion and NPAT around VND120-135 billion for the fiscal year of 2014.

### Outlook and valuation

As PXS does most of its business in a niche market of the construction sector, it has been able to maintain a relatively high profit margin compared to its industry peers. Moreover, the completion of Sao Mai Ben Dinh marine service base for first-time running at the beginning of 2012 has greatly enhanced the Company reputation. With proven capacity and infrastructure quality, PXS has begun to take on more high-value EPCC projects to replace the current plain processing works. In another aspect, the firm's plans to solidify its capital structure and pay back VND160 billion of long-term debt should partly relieve the interest service in the following years. Furthermore, the signing of two more EPCC (engineering, procurement, construction and commissioning) contracts, namely Thai Binh (\$30 million) and P3, P4 (VND600 billion) has established a solid ground growth for revenue growth 2014. With Company's tendency to pay out lucrative and stable cash dividends, PXS's dividend yield is also an investment attraction. Based on these arguments, we rate the stock as **ACCUMULATE** in the intermediate term with a target price of 15,500 VND.

### Exhibit 4: Key Assumption

Particular	Earlier Estimates		Revised Estimates	
	FY2013E	FY2014E	FY2013E	FY2014E
Revenue growth (%)	2.5	2.5	-9%	61%
Volume growth (%)				
Gross margin (%)			21%	19%
EBIT margin (%)			15%	13%
SVR (Rubber Price) (USD/ton)				

Sources: RongViet Securities

VND Billion				
INCOME STATEMENT	2011A	2012A	2013E	2014F
Revenue	1,061.9	1,196.9	1,086.2	1,746.0
COGS	850.2	972.2	854.2	1,419.5
<b>Gross profit</b>	<b>211.7</b>	<b>224.7</b>	<b>232.0</b>	<b>326.5</b>
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	47.4	55.4	61.3	104.8
Finance Income	31.1	18.4	3.9	3.9
Finance Expense	32.6	96.8	72.6	46.7
Other profits	-3.6	0.3	1.4	0.0
<b>PBT</b>	<b>159.2</b>	<b>91.2</b>	<b>103.5</b>	<b>179.0</b>
Prov. of Tax	41.9	23.8	27.0	46.6
Minority's Interest	0.0	0.0	0.0	0.0
<b>PAT to Equity Shareholder</b>	<b>117.3</b>	<b>67.4</b>	<b>76.5</b>	<b>132.4</b>
EBIT	<b>189.8</b>	<b>186.2</b>	<b>164.9</b>	<b>224.7</b>
EBITDA	211.9	238.0	220.0	285.6
%				
FINANCIAL RATIO	2011A	2012A	2013E	2014F
<b>Growth</b>				
Revenue	117.0%	12.7%	-9.2%	60.7%
Operating Income	43.7%	3.1%	0.9%	29.9%
EBITDA	53.5%	12.4%	-7.6%	29.9%
EBIT	51.2%	-1.9%	-11.4%	36.2%
PAT	33.7%	-42.5%	13.5%	73.0%
Total Assets	170.3%	-21.2%	16.3%	3.5%
Equity	82.9%	1.1%	28.1%	5.2%
Internal growth rate	13.6%	2.3%	2.1%	6.7%
<b>Profitability</b>				
Gross profit/Revenue	19.9%	18.8%	21.4%	18.7%
Operating profit/ Revenue	15.5%	14.1%	15.7%	12.7%
EBITDA/ Revenue	20.0%	19.9%	20.3%	16.4%
EBITDA/ Revenue	17.9%	15.6%	15.2%	12.9%
Net margin	11.0%	5.6%	7.0%	7.6%
ROAA	10.4%	4.6%	5.4%	8.6%
ROIC or RONA	31.5%	19.2%	16.9%	24.4%
ROAE	32.0%	14.2%	14.0%	21.0%
<b>Efficiency</b>				
Receivable Turnover	6.4	5.0	4.9	6.6
Inventory Turnover	10.1	10.7	6.2	6.5
Payable Turnover	2.5	3.2	2.8	3.0
<b>Liquidity</b>				
Current	1.0	1.2	1.1	1.0
Quick	0.8	1.0	0.8	0.7
<b>Solvency</b>				
Total Debt/Equity	249.0%	172.2%	147.3%	143.4%
Current Debt/Equity	61.1%	26.2%	22.6%	26.2%
Long-term Debt/ Equity	94.1%	111.9%	51.9%	40.7%
BALANCE SHEET	2011A	2012A	2013E	2014F
Cash and equivalents	257	101	173	200
Short-term investment	0	0	0	0
Receivables	295	182	265	262
Inventories	120	62	215	224
Other current assets	26	4	3	3
<b>Total Current Asset</b>	<b>698</b>	<b>349</b>	<b>657</b>	<b>689</b>
Tangible Fixed Assets	755	702	653	681
Intangible Fixed Assets	17	18	21	21
Construction in Progress	0	9	20	20
Investment Property	0	0	0	0
Long-term Investment	55	70	0	0
Other long-term assets	128	154	165	158
<b>Long-term Asset</b>	<b>955</b>	<b>953</b>	<b>859</b>	<b>880</b>
<b>Total Asset</b>	<b>1,653</b>	<b>1,303</b>	<b>1,516</b>	<b>1,569</b>
Payables	174	52	364	378
Other current liabilities	268	106	80	112
Current Debt	289	126	139	169
Long-term Debt	446	535	318	263
Other long-term liabilities	2	6	3	3
<b>Total Liability</b>	<b>1,179</b>	<b>824</b>	<b>903</b>	<b>924</b>
<b>Owner's Equity</b>	<b>474</b>	<b>479</b>	<b>613</b>	<b>645</b>
Capital	375	375	500	500
Retained Earnings	76	50	45	62
Funds & Reverses	22	53	68	83
<b>Others</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Equity</b>	<b>474</b>	<b>479</b>	<b>613</b>	<b>645</b>
Minority's Interest	0	0	0	0
<b>TOTAL RESOURCES</b>	<b>1,653</b>	<b>1,303</b>	<b>1,516</b>	<b>1,569</b>
CASH FLOW STATEMENT	2011A	2012A	2013E	2014F
Net Income	159.2	91.2	103.5	179.0
-Depreciation	22.1	51.9	55.0	60.9
-Adjustments	4.0	79.0	-10.2	-10.2
+/- Working capital	-271.0	-296.4	2.0	-24.1
<b>Net Operating CFs</b>	<b>-85.7</b>	<b>-74.3</b>	<b>150.3</b>	<b>205.6</b>
+/- Fixed Asset	-478.5	-25.1	-14.8	-93.9
+/- Deposit, equity investment	37.9	65.0	70.0	0.0
Interest, dividend, cash profit	15.4	17.4	9.0	9.0
<b>Net Investing CFs</b>	<b>-425.2</b>	<b>57.3</b>	<b>64.2</b>	<b>-84.9</b>
+/- Capital	175.2	0.0	124.8	0.0
+/- Debt	598.7	-105.5	-177.3	14.6
Dividend paid & Other	-63.2	-33.4	-90.0	-107.9
<b>Net Financing CFs</b>	<b>710.6</b>	<b>-138.9</b>	<b>-142.5</b>	<b>-93.3</b>
+/- cash & equivalents	199.6	-155.9	72.0	27.4
<b>Beginning cash &amp; equivalents</b>	<b>57.1</b>	<b>256.9</b>	<b>101.0</b>	<b>173.0</b>
Impact of exchange rate	0.2	0.0	0.0	0.0
<b>Ending cash &amp; equivalents</b>	<b>256.9</b>	<b>101.0</b>	<b>173.0</b>	<b>200.5</b>

## 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	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Return Potential					
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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**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

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