Petrolimex Chemical JSC (PLC – HNX)

Expect better business results in Q22016

Particulars (VND bn)	Q1-FY16	Q4-FY15	+/- qoq	Q1-FY15	+/-yoy
Net revenue	1,171.0	1,626.3	-28%	1,818.3	-36%
PAT	39.2	53.8	-27%	59.2	-34%
EBIT	61.5	89.0	-31%	84.7	-27%
EBIT margin	5.2%	5.5%	-23bps	4.7%	59bps

Sources: PLC, RongViet Research

Negative Q1/2016 business result. In Q1/2015, PLC's revenue and PAT achieved VND 1,171 billion (-36% yoy) and VND 39 billion (-34% yoy). The reasons came from (1) significant decline in asphalt demand while the Company could barely manage this segment to have profit; (2) profit margin deteriorated when PLC boosted selling volume through emulsion products and dropping selling prices. At this moment, PLC average selling price of asphalt products have decreased by ~30% compared to late 2015, faster than input prices. Remarkably, chemical segment has positively contributed to PLC's results with increasing profit margin since Q52015, achieved 11.5% in Q12016 and doubled the ratio from same period. We believe that PLC could continue to take advantages of cheap inputs from expanding its warehouses.

Asphalt segment expects to improve in near future.

We believe that Q1 difficulties could gradually deteriorate and asphalt demand will pick up in the future when highway projects that require polymer products were initiated such as Da Nang – Quang Ngai (130 km), Ninh Binh – Thanh Hoa (121 km), Noi Bai – Ha Long – Mong Cai (294 km) … In addition, 2016 is the start of new investment cycle for the period of 2016 – 2020, although the surge in consumption will not happen in intermediate, it will be the firm base for long-term development.

In term of lubricant products, high consumption for automobile supported the improvement in lubricant consumption over years. However, it could not compensate for the deterioration in asphalt segment but high profit margin could be the stable factor for PLC's business. Furthermore, the improvement in chemical segment help stabilize the decline of asphalt, despite of low contribution in business results.

2016 revenue and profit are forecasted at VND 6,182 billion (-10.6% yoy) and VND 270 billion (-17.7% yoy). EPS is expected to achieve VND 3,347/share.

Recommendation and Valuation. In Q2/2016, PLC's business result could be more optimistic when oil price recovered from the bottom in Q1. Furthermore, infrastructure construction projects that were initiated could provide substantial demand for PLC. Therefore, PLC's selling price trend could reverse, leading to the improvement in revenue and the dropping point for profit could be the second half of this year.

With consumption lower than expectation and increasing competition (Advisory Diary on 05/01/2016), we adjusted the forecasts for 2016 business results and target stock price of PLC compared with previous report, from VND 40,500/share to VND 32,300/share with the suggestion of **ACCUMULATION** in **INTERMEDIATE.**

ACCUMULATE

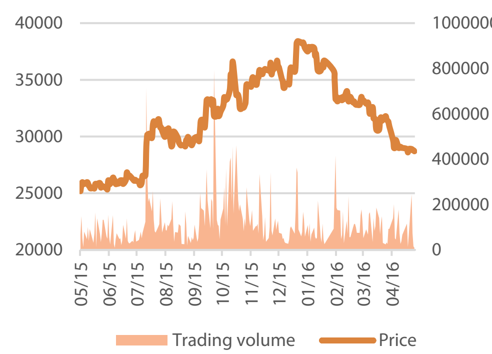
CMP (VND)	29,100
Target Price (VND)	32,300
Investment Period	Intermediate

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	2,351
Current Shares O/S	80,798,000
Beta	-0.14
Free float (%)	20.0
52 weeks High	38,400
52 weeks Low	25,342
Avg. Daily Volume (in 20 sessions)	89,009

	FY15	Current
EPS	4.414	4,056
EPS Growth	16.2%	-8.1%
Diluted EPS	4.414	4,056
P/E	8.3	7.6
P/B	2.5	2.0
EV/EBITDA	6.7	5.8
Cash dividend (on par)	30%	20%
ROE	28.5%	25.9%

Price performance



Major Shareholders (%)

Petrolimex	79.1
Do Thi Hanh	1.8
Intereffekt Investment Funds N.V	1.1
Foreign Investor Room (%)	43.6

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Exhibit 1: Q1-FY2016 Results

Particulars (VND bn)	Q1-FY16	Q4-FY15	*% chg (qoq)*	Q1-FY15	*% chg (yoy)*
Net Revenues	1,171.0	1,626.3	-28.0%	1,818.3	-35.6%
Gross profits	174.7	290.5	-39.9%	252.7	-30.9%
SG&AC	123.9	205.2	-39.6%	151.1	-18.0%
Operating Income	50.8	85.3	-40.4%	101.7	-50.0%
EBITDA	81.9	102.2	-19.8%	99.4	-17.6%
EBIT	61.5	89.0	-31.0%	84.7	-27.5%
Financial expenses	13.8	37.0	-62.7%	29.8	-53.6%
- Interest Expenses	12.0	23.3	-48.6%	7.1	68.0%
Dep. and amortization	-20.4	-13.1	55.8%	-14.6	39.6%
Non-recurring Items (*)					
Extraordinary Items (*)					
PBT	49.5	65.7	-24.7%	77.6	-36.2%
PAT	39.2	53.8	-27.2%	59.2	-33.9%
(*) Adjusted PAT	39.2	53.8	-27.2%	59.2	-33.9%

Sources: PLC, RongViet Research

Exhibit 2: Q1-FY2016 performance analysis

Particulars	Q4-FY15	Q3-FY15	*% Chg. (qoq)*	Q4-FY14	*% Chg.(yoy)*
Profitability Ratios (%)					
Gross Margin	14.9%	17.9%	-295bps	13.9%	102bps
EBITDA Margin	7.0%	6.3%	71bps	5.5%	153bps
EBIT Margin	5.2%	5.5%	-23bps	4.7%	59bps
Net Margin	3.3%	3.3%	4bps	3.3%	9bps
Adjusted Net Margin	3.3%	3.3%	4bps	3.3%	9bps
Turnover *(x)					
-Inventories	4.8	5.6	-0.8	7.2	-2.4
-Receivables	4.2	5.7	-1.5	6.8	-2.6
-Payables	9.6	5.1	4.4	5.3	4.2
Leverage (%)					
Total Debt/ Equity	1.9	2.6	-0.6	2.1	-0.1

Sources: (*) Annualized turnover

Exhibit 3: Q1-FY2016 Actual vs. Estimates

Particulars (VND bn)	Actual	Estimates	*Var (%)*
Net Revenues	1,171	1,242	-6.7%
Gross profits	175	245	-28.6%
EBIT	61	96	-36.5%
PAT	39	60	-35.0%

Sources: PLC, RongViet Research

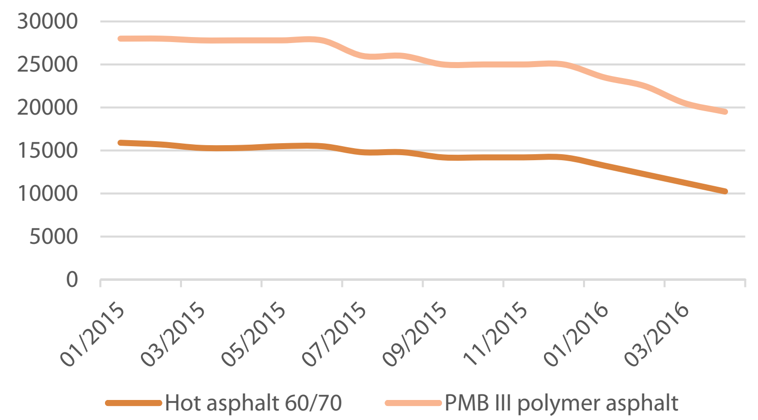
Exhibit 4: Q2-FY2016 Forecast

Particulars (VND bn)	Q2-FY16	%chg (qoq)	%chg (yoy)
Net Revenues	1,479	+26.3%	-17.0%
Gross profits	242	+38.3%	-40.1%
EBIT	112	+80.6%	-42.6%
PAT	82	+110.0%	-35.7%

Sources: PLC, RongViet Research

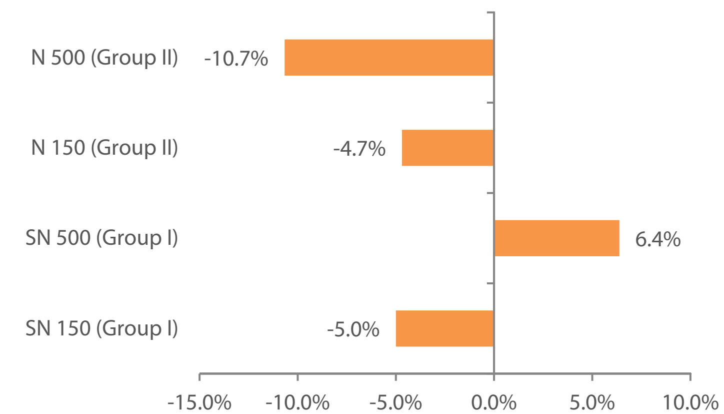
Infographic: Asphalt price from PLC significantly declined over the first 4 months of 2016 due to low oil prices. This issue negatively impacts on Q12016 business results. Gross profit margin also maintained at low level of 14.9% compared to 17.9% from last quarter and 13.9% in Q12015.

Asphalt prices



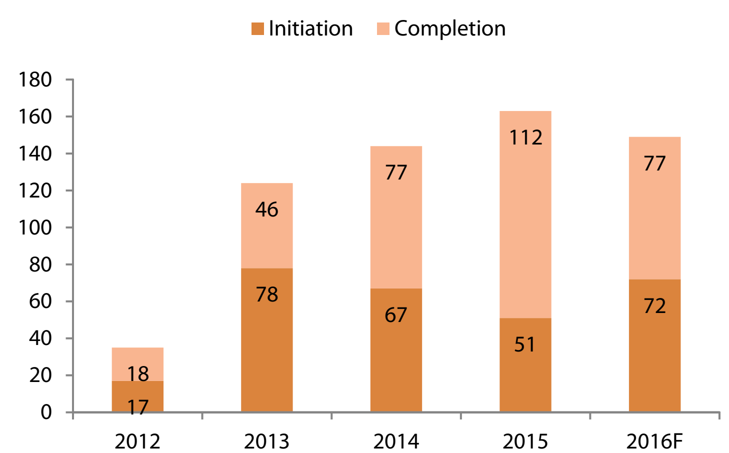
Source: PLC

Base oil prices (compared to end-2015)



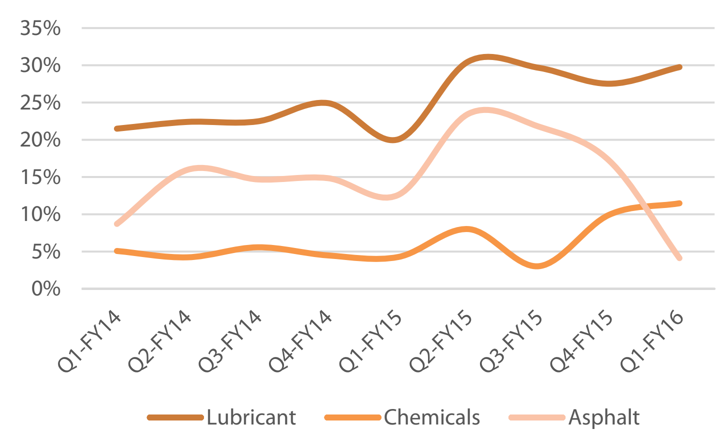
Source: RongViet Research, as of 12/05/2016

Road construction projects



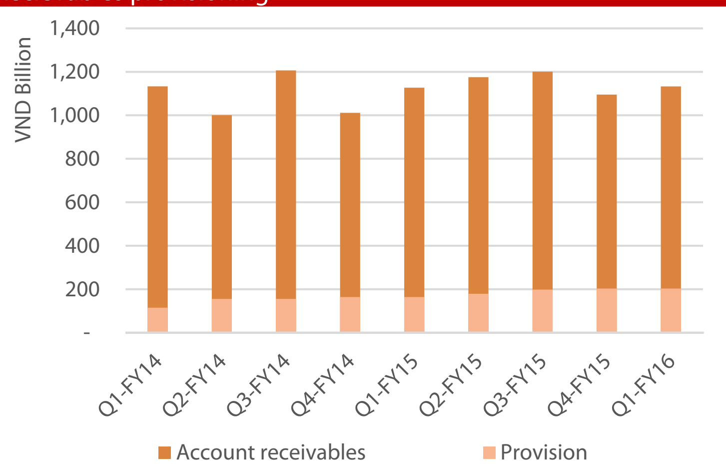
Sources: MT, RongViet Research

Gross margin



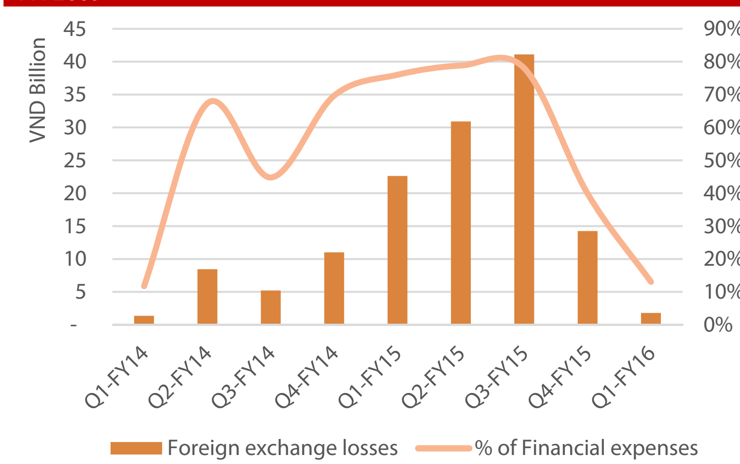
Sources: PLC, RongViet Research

Recievables provisioning



Sources: PLC, RongViet Research

FX Loss



Sources: PLC, RongViet Research

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	6,820.7	6,916.0	6,181.8	6,765.9
COGS	5,825.5	5,640.8	5,107.3	5,604.5
Gross profit	**995.2**	**1,275.2**	**1,074.5**	**1,161.4**
Selling Expense	476.6	590.8	525.5	541.3
G&A Expense	152.1	148.3	132.9	148.8
Finance Income	19.9	41.1	28.4	23.4
Finance Expense	51.6	158.3	112.0	114.6
Other profits	8.4	4.7	5.4	5.4
PBT	**343.2**	**423.6**	**338.0**	**385.5**
Prov. of Tax	76.5	95.0	67.6	77.1
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**266.7**	**328.6**	**270.4**	**308.4**
EBIT	370.8	473.9	396.1	446.2
EBITDA	423.3	553.3	484.5	544.6

%

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	10.0%	1.4%	-10.6%	9.4%
Operating Income	17.2%	46.3%	-22.4%	13.2%
EBITDA	19.5%	30.7%	-12.4%	12.4%
PAT	41.0%	23.2%	-17.7%	14.1%
Total Assets	14.9%	18.1%	-18.5%	1.2%
Equity	-2.7%	4.5%	10.0%	11.3%
Internal growth rate	5.0%	7.7%	9.0%	11.0%
Profitability				
Gross profit/Revenue	14.6%	18.4%	17.4%	17.2%
Operating profit/ Revenue	5.4%	7.8%	6.7%	7.0%
EBITDA/ Revenue	6.2%	8.0%	7.8%	8.0%
Net margin	3.9%	4.8%	4.4%	4.6%
ROAA	8.2%	8.7%	7.3%	9.2%
ROAE	23.9%	29.2%	22.4%	23.1%
Efficiency				
Receivable Turnover	6.8	6.6	5.9	6.5
Inventory Turnover	6.5	6.1	5.9	6.5
Payable Turnover	5.9	6.8	12.2	12.7
Liquidity				
Current	1.2	1.2	1.3	1.4
Quick	0.8	0.8	0.9	0.9
Solvency				
Total Debt/Equity	216.5%	256.8%	164.3%	140.4%
Current Debt/Equity	104.5%	218.1%	129.1%	106.1%
Long-term Debt/ Equity	0.0%	2.4%	2.0%	1.6%

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	885	1,336	774	654
Receivables	1,011	1,095	989	1,083
Inventories	917	923	817	897
Other current assets	26	29	29	29
Total Current Asset	**2,839**	**3,383**	**2,609**	**2,662**
Fixed Assets	342	427	424	427
Construction in Progress	122	129	147	133
Long-term Investment	59	61	61	61
Other long-term assets	113	105	104	104
Long-term Asset	**637**	**724**	**737**	**725**
Total Asset	**3,477**	**4,107**	**3,346**	**3,387**
Payables	959	303	306	336
Current Debt	1,151	2,511	1,634	1,495
Long-term Debt	0	28	25	22
Other long-term liabilities	0	0	0	0
Total Liability	**2,384**	**2,956**	**2,080**	**1,978**
Owner's Equity	*1,101*	*1,151*	*1,266*	*1,409*
Capital	703	808	808	808
Retained Earnings	77	86	165	278
Funds & Reverses	319	254	290	320
Others	**0**	**0**	**0**	**0**
Total Equity	**1,101**	**1,151**	**1,266**	**1,409**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**3,485**	**4,107**	**3,346**	**3,387**

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (dong)	3,798	4,414	3,347	3,817
P/E (x)	4.8	7.4	8.7	7.6
BV (dong)	15,676	14,247	15,673	17,439
P/B (x)	1.2	2.3	1.9	1.7
DPS (dong/cp)	3,000	3,000	2,000	2,000
Dividend yield (%)	16.4	9.2	6.7	6.7

VALUATION MODEL	Price	Weight	Average
FCFE	34.483	50%	17.242
P/E	30.122	50%	15.061
Target price (dong/share)			**32.303**

VALUATION HISTORY	Price	Recommendation	Period
05/11/2015	40.500	Accumulate	Intermediate
05/08/2015	34.500	Accumulate	Intermediate
14/04/2015	40.000	Accumulate	Intermediate

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% 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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