September, 2018

PetroVietnam Transportation Corp (HSX: PVT)

Operation of Nghi Son adding more jobs from 2019

Particulars (VND B)	Q2-FY18	Q1-FY18	*+/-qoq*	Q2-FY17	*+/-yoy*
Net revenue	2,093	1,782	17%	1,370	53%
PAT	192	127	51%	52	272%
EBIT	170	185	-8%	54	213%
EBIT margin	8.1%	10.4%	-228bps	4.0%	416bps

Source: PVT, RongViet Securities

Q2 2018 performance: significant growth in bottom line thanks to abnormal income

Revenue in Q2 2018 increased by 52.7% to VND 2,093 bn, mainly came from the transportation segment. The overall gross margin improved from 9.1% to 10.9% and the abnormal income of VND 78 bn from selling Hercules vessel that pushed the bottom line to VND 229 bn, 3.6x higher than the same period last year.

2018 prospect: a lot of vessels to be on dock in 2H 2018 but the 2018 result will still be good

According to PVT, the transportation cost increased in Q2 2018 when the fuel price hiked but the charter rate for international routes as well as domestic ones kept unchanged. And if this trend remains, the 2H 2018 result will be affected. However, we believe the charter rate for domestic routes will be adjusted from Q3 2018 due to the increasing demand for transporting products from Nghi Son Refinery.

Moreover, the new bareboat rate, applied for FSO Dai Hung Queen, will ensure a good earnings although the some vessels of PVT will be on dock in the last 6 month in 2018. Then the 2018 number is still positive. For 2018, we forecast the revenue and net profit attributable to parent company to achieve VND 7,653 bn (+24.5% YoY) and VND 537 bn (+27% YoY), respectively.

Valuation and recommendation:

The operation of Nghi Son will add more jobs for PVT as the company will be in charge of transporting the crude oil input as well as the gasoline products output. Besides, the leasing rate's adjustment of the FSO Dai Hung Queen from 2018 will push up the net profit of PVT in the future. Moreover, the high possibility of lifting the charter rate for the domestic routes in 2H 2018 will also support for the company's business. Regarding to bulk shipping, the fierce competition prevents PVT from expanding the operation as the initial plan. So, PVT will prefer the thermal power plants, invested by PVN instead of EVN's ones.

*Not only the positive general business, the divestment story in 2019-2020 is also a good news for stock price. Based on the target price of **VND 21,200** per share and the expected cash dividend of **VND 700** per share, generating a total return of **26.2%,** compared to the closing price on Sep 6th 2018, we recommend **BUY** the stock.*

BUY +26.2%

CMP (VND)	17,350
Target price (VND)	21,200
Cash dividend (VND)*	700

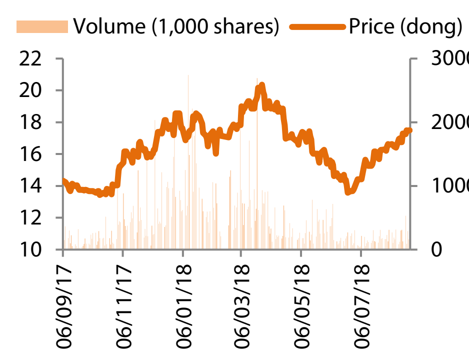
** Expected in the next 12 months*

Stock info

Sector	Marine transportation
Market Cap (VND billion)	4,292
Current Shares O/S	281
Avg. Daily Volume (in 20 sessions)	206
Free float (%)	43.9
52 weeks High	20,358
52 weeks Low	13,431
Beta	0.56

	FY2017	Current
EPS	1,436	2,070
EPS growth (%)	1.8	15.5
Adjusted EPS	1,436	2,070
P/E	11.8	8.3
P/B	1.1	1.3
EV/EBITDA	4.3	4.5
Cash dividend	700	700
ROE (%)	11.5	12.5

Price performance



Major Shareholders (%)

PVN	51.0
Yuri Vietnam Securities Investment	6.0
PVcom Bank	5.9
Foreign ownership room (%)	14.6

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Exhibit 1: Q2 2018 results

Particulars (VND B)	Q2-FY18	Q1-FY18	+/-(QoQ)	Q2-FY17	+/-(YoY)	2Q-FY18	+/-(YoY)
Net revenue	2,093	1,782	17.4%	1,370	52.7%	3,875	28.2%
Gross profit	227	231	-1.4%	124	82.7%	458	46.9%
SG&A	(54)	(41)	32.2%	(65)	-15.9%	(96)	-13.4%
Operating income	282	272	3.7%	189	49.0%	554	72.7%
EBITDA	308	341	-9.7%	171	80.0%	650	53.3%
EBIT	170	185	-8.3%	54	212.7%	356	83.8%
Financial expenses	35	38	-7.6%	38	-8.1%	73	-5.6%
- Interest Expenses	25	32	-22.0%	37	-31.3%	57	-21.5%
Dep and amortization	138	156	-11.2%	117	18.3%	294	27.7%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	280	196	42.8%	79	254.0%	476	101.0%
PAT	192	127	51.1%	52	272.0%	319	96.6%
(*) Adjusted PAT	192	127	51.1%	52	272.0%	319	

Source: PVT, RongViet Securities

Exhibit 2: Q2 2018 performance analysis

Particulars	Q2-FY18	Q1-FY18	+/-(QoQ)	Q2-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	10.9	12.9	-208bps	9.1	178bps
EBITDA margin	14.7	19.1	-442bps	12.5	223bps
EBIT margin	8.1	10.4	-228bps	4.0	416bps
Net margin	9.2	7.1	204bps	3.8	540bps
Adjusted net margin	9.2	7.1	204bps	3.8	540bps
Turnover *(x)					
-Inventories	97.4	75.2	22.1	64.3	33.1
-Receivables	8.1	7.5	0.5	6.9	1.1
-Payables	5.5	5.2	0.3	4.3	1.2
Leverage (%)					
Total debt/ equity	54.5	41.0	1360bps	46.3	8250bps

Source: PVT, (*) Annualized turnover

Exhibit 3: 2H 2018 forecast

Particulars (VND B)	2H 18	+/- 1H 18	+/- 2H 17
Revenue	3,778	2.5%	21.6%
Gross profit	541	18.1%	9.3%
EBIT	356	-5.9%	-5.6%
NPAT	218	-31.4%	-17.2%

Source: PVT, RongViet Securities.

Updates

Full operation of Nghi Son Refinery at the end of Q3 2018 will increase the demand for the domestic transportation

Nghi Son Refinery came online from April 2018 and has launched its commercial products Ron 92, Ron 95. This refinery plant is expected to run at it full capacity at the end of Q3 2018. In the first few months operation, the demand for Nghi Son's product was not high as the gasoline distributor mainly imported from Korea, Singapore. So the full operation of Nghi Son from Q3 2018 will increase the demand from the domestic transportation and PVT can benefit from the trend.

In term of crude oil input for Nghi Son, PVT is now hiring a third party to carry crude oil for the plant before investing a VLCC in 2019 to in charge of this job by its self. As a result, the gross margin for Nghi Son crude oil input will be low and only improve from 2019. For the charter rate, it will follow the international rate plus a fixed margin.

High possibility for adjusting the charter rate in 2H 2018

In the first 6 months, the transportation cost increased when the fuel price hiked but the the charter rate kept unchanged. However, the charter rate is expected to increase from Q3 2018 when the demand for carrying Nghi Son's products from gasoline distributors is higher. PVT will be responsible of 20% total output for the main customer – PVOil.

A lot of vessel to be on dock in 2H 2018 but the 2018 number will still be good

For 2H 2018, some vessels will be on dock for maintenance every two years, lasting from two to four weeks. The docking plan will partly impact on the PVT's operation but the possibility of increasing charter rate and the higher bareboat rate of FSO Dai Hung Queen will ensure a positive number for the bottom line in 2018.

Table 1: Docking vessel list

Vessel name	Type of Vessel
Hera	Crude oil tanker
Athena	Crude oil tanker
Dolphin	Gas tanker

Source: PVT

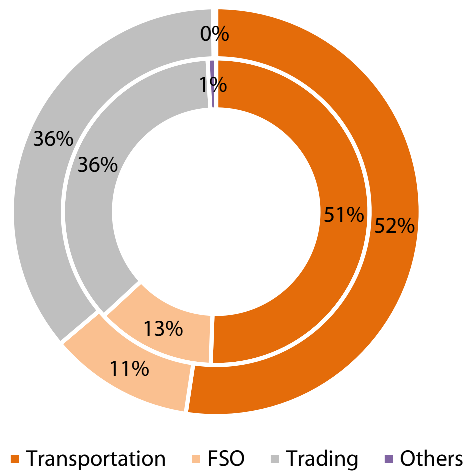
Difficulties from bulk shipping segment delay the fleet investment

PVT plans to buy two bulk carriers with the total investment of USD 36 mn to transport coal for the thermal power plants. However, the fierce competition prevents PVT from expanding its business. As a result, the company will focus on the thermal power plants, invested by PVN, instead of EVN's ones. And PVT will make its priority on the VLCC and product tanker for Nghi Son.

Divestment story

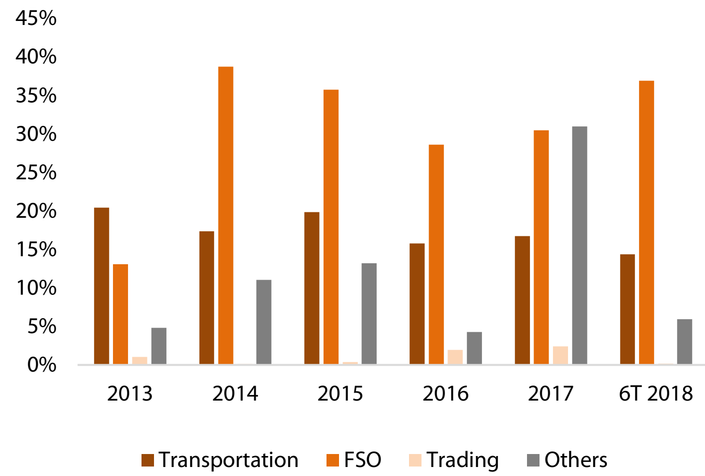
PVN has already planned to decrease the ownership in PVT from 51% to 36% during 2019-2020. Possibly, PVN will make it through the stock exchange. Looking further, we believe the method of issuing more shares to reduce the ownership of PVN will be the best way because (1) the company can accumulate money for its future investment plan (2) there will not so much pressure on the stock price. However, the detail of the divestment plan will be announced in the coming times.

Figure 1: % Revenue breakdown 1H 2017 (inside) and 1H 2018 (outside)



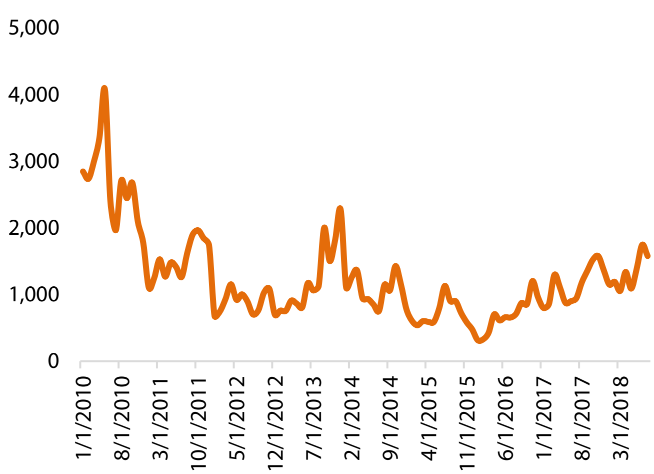
Source: PVT

Figure 2: Gross margin by segment (%)



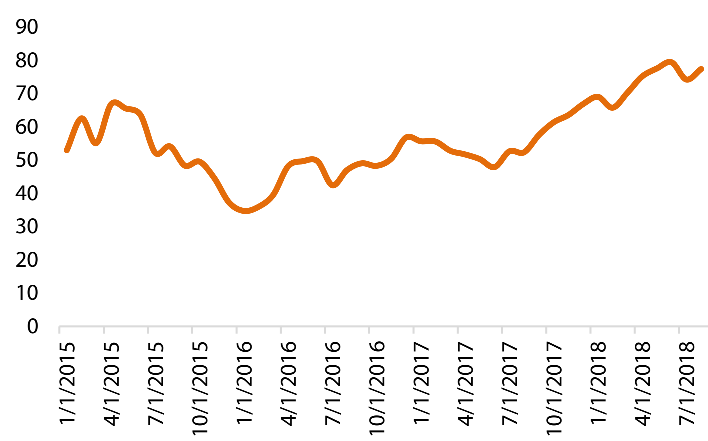
Source: PVT

Figure 3: BDI Index (Baltic Dry Index)



Source: Bloomberg

Figure 4: Brent Crude Oil price from 2015 (USD/barrel)



Source: Bloomberg

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	6,734	6,148	7,653	8,601
COGS	5,971	5,302	6,654	7,419
Gross profit	**762**	**846**	**999**	**1,182**
Selling expense	9	10	11	13
G&A expense	227	233	253	284
Financial income	159	188	160	192
Financial expense	150	161	144	127
Other income/loss	40	13	88	20
Gain/(loss) from JV	27	0	0	0
PBT	**602**	**644**	**839**	**971**
Tax expense	118	137	181	212
Minority interests	68	84	120	140
PAT	**416**	**423**	**537**	**619**
EBIT	527	604	735	886
EBITDA	992	1,181	1,348	1,565

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	16.9	-8.7	24.5	12.4
EBITDA	-1.3	19.1	14.1	16.1
EBIT	-5.6	14.6	21.8	20.5
PAT	12.9	1.8	27.0	15.2
Total assets	-6.1	1.5	7.3	8.5
Total equity	5.2	3.2	8.4	9.6
Profitability ()				
Gross margin	11.3	13.8	13.1	13.7
EBITDA margin	14.7	19.2	17.6	18.2
EBIT margin	7.8	9.8	9.6	10.3
Net margin	6.2	6.9	7.0	7.2
ROA	4.6	4.6	5.4	5.8
ROE	11.6	11.5	13.4	14.1
Efficiency (x)				
Receivable turnover	9.6	7.5	8.1	8.1
Inventory turnover	69.4	55.6	56.2	56.2
Payable turnover	4.7	4.0	4.1	4.1
Liquidity (x)				
Current	2.1	2.1	2.1	2.2
Solvency ()				
Total debt/equity	82.9	72.9	64.3	60.1
Current debt/equity	14.8	14.6	13.1	11.4
Long-term Debt/equity	68.1	58.4	51.1	48.7

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	1,339	1,959	2,295	2,674
Short term investment	1,560	961	1,200	1,200
Accounts receivable	703	816	944	1,060
Inventories	86	95	119	132
Other current assets	35	63	76	91
Tangible fixed assets	5,058	4,962	4,893	5,209
Intangible fixed assets	5	6	6	2
Long term investment	235	240	240	240
Other non-current assets	50	101	106	112
Total asset	**9,070**	**9,204**	**9,877**	**10,719**
Account payable	1,279	1,341	1,641	1,829
Short term borrowings	530	537	525	500
Long term borrowings	2,432	2,153	2,043	2,133
Other non-current liabilities	430	416	458	503
Bonus and welfare fund	66	95	121	139
Technology -science dev fund	0	0	0	0
Total liabilities	**4,737**	**4,542**	**4,787**	**5,104**
Common stock and APIC	2,814	2,814	2,814	2,814
Treasury stock	0	0	0	0
Retained earnings	581	620	821	1,082
Other comprehensive income / (loss)	47	47	47	47
Investment and development fund	131	206	313	437
Total equity	**3,573**	**3,687**	**3,996**	**4,381**
Minority interest	760	974	1,094	1,234
Total resources	**9,070**	**9,204**	**9,877**	**10,719**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019E
EPS (VND/share)	1,321	1,436	1,795	2,068
P/E (x)	7.9	11.8	9.7	8.4
BVPS (VND/share)	12,696	13,102	14,197	15,565
P/B (x)	0.8	1.1	1.2	1.1
DPS (VND/share)	800	1,000	700	700
Dividend yield ()	6.9	5.3	4.1	4.1

Valuation model	*Price*	*Weight*	*Average*
FCFF	20,850	50	10,425
PE	21,535	50	10,767
Target price (VND)			**21,192**

Valuation history	*Price (*)*	*Recommendation*	*Period*
20/10/2015	12,700	Buy	Long term

(*) Adjusted price

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 that 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	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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