Vietnam Tanker JSC (VTO – HSX)

Profitability sets for steady improvement

Possessing the largest tanker fleet in Vietnam gives VTO an important competitive advantage

VTO's fleet currently consists of 8 petroleum tankers boasting the largest capacity domestically of 162,000 DWT. The relatively young fleet age (under 10 years) helps reduce repair and maintenance expense, minimise laying time and fuel cost. In addition, VTO's latest move to modernise the coastal tanker fleet was deemed strategic to meet potential increase in petroleum transport demand from expanded refinery capacity in the upcoming years such as Dung Quat (second phase), Nghi Son and Vung Ro refinery project.

Domestic tanker business is under high competition from all sized competitors including national firms as the likes of PetroVietnam Transportation Corporation (HSX: PVT), VIPCO (HSX: VIP) or private shipping firm such as Au Lac JSC.

VTO and these companies share the similarities of having the young and large fleet capacity but differ in the types of tanker leasing contract and transporting routes. In particulars, while private firm like Au Lac mainly serves spot contract deals on regional routes; the majority of VTO, PVT and VIP fleets provide shipping services to parent firms under time charter contracts. Thus, the domestic tanker market share is clearly defined between subsidiaries of PetroVietnam and Petrolimex. More importantly, Petrolimex (owing 52.5% VTO via PG Tanker) is Vietnam's largest petroleum retailer serving almost 47% domestic demand each year (15.4 million tons in 2014).

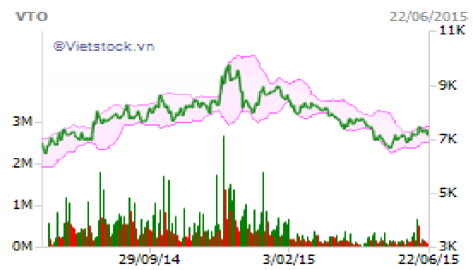
Petrolimex's dominating position in domestic petroleum retail market certainly benefits its subsidiaries, for instance, VTO in terms of transport volume stability. Over the past years, VTO has leased a significant proportion of its tanker fleet to PG Tanker on time charter terms which stood at 90% in 2014.

MONITOR

Market price (VND)	7,200
Target price (VND)	n/a

Stock Info

Sector	Petroleum shipping
Market Cap (VND bn)	575.7
Current Shares O/S	78,866,666
Beta	1.04
Free Float (%)	47.4
52 weeks High	9,500
52 weeks Low	6,200
Avg. Daily Volume (in 20 sessions)	181,409



Source: Vietstock

Performance (%)

	3T	1N	3N
VTO	-9.9	4.3	28.1
Industrial transportation	0.6	38.6	
VN30 Index	-1.6	-3.1	
VNIndex	-0.2	1.4	33.2

Major Shareholders (%)

PG Tanker	52.5
Sacombank	4.9
Foreigner Investor Room (%)	43.34

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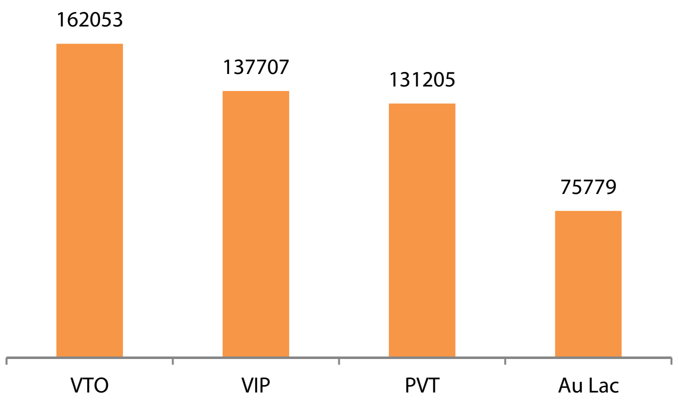
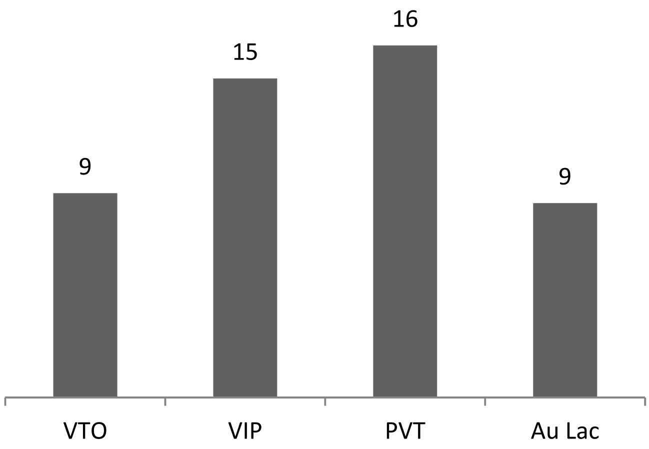
Graph 01: Tanker fleet capacity (DWT)



Source: RongViet Securities

Graph 02: Tanker fleet's age (years)



Source: RongViet Securities

Table: VTO's tanker fleet

No.	Ocean tankers	Capacity (DWT)	Year of delivery
1	Petrolimex 08	37,453	2003
2	Petrolimex 09	40,019	2007
3	Petrolimex 11	40,000	2008
4	Petrolimex 12	13,000	2008
5	Petrolimex 14	13,000	2008
	Coastal tankers		
1	Nhà bè 06 (DWT)	6,788	2003
2	Nhà bè 08 (MT)	7,000	2003
3	Nhà bè 03 (MT)	4,793	1978
	Total capacity	**162,053**	

Source: VTO, RongViet Securities

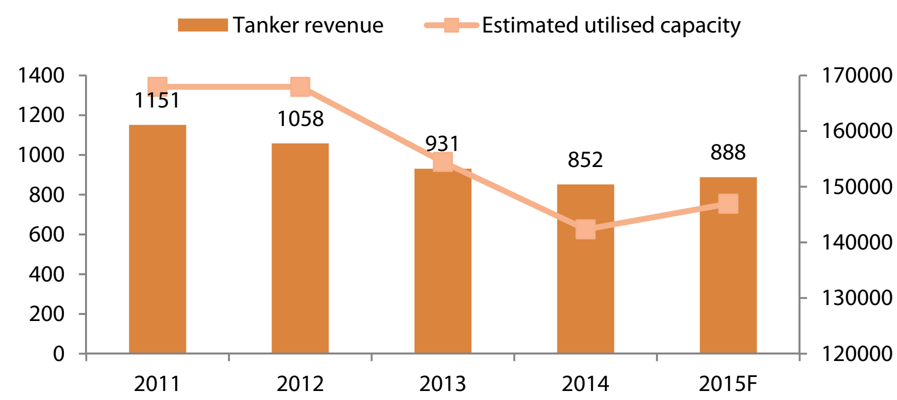
Core tanker business is gradually improving but faces rather limited growth prospect

Despite such advantages, VTO business performance did not see living up to expectation during 2011-2013 period presumably due to: (1) subtantial interest payment and FX loss burden from USD denominated loans to finance tankers acquisition in 2007-2008 and (2) declining petroleum demand as world economies entered recession thereafter.

However, the company performance has recently started to demonstrate signs of real recovery. First of all, VTO decided to stabilise its tanker operation by leasing out the entire ocean tanker fleet to PG Tanker on time charter contract at the end of 2013 to guard against volatile oil prices. In 2014, total revenue fell slightly 2.4% (yoy) but net profit achiened a positive growth of 16.7% compared to last year (given the negative 5.5% CARG of net profit during 2011-2014 period).

In 2015, VTO aims to achieve VND1,329 billion in total revenue (down 12.8% versus 2014 recorded figure). The lower revenue target seen is because the company scales down its petroleum trading operation, having insignificant profit margin, to alleviate risk of high priced inventory. Regarding the 2015 profit before tax (PBT) target, the company looks cautious after setting PBT of VND69.88 billion for the entire year (up slightly 3.7%). As far as we concern, VTO would record roughly VND17 billion in profits this year from the disposal of Nha Be 01 and 02 tankers and replaced them by Nha Be 06 in 07/2014 and Nha Be 08 in 04/2015 at 7,000DWT/ tanker. As a result, the fleet capacity would increase by 4.8% compared to 2014 year-end.

Graph 03: VTO's tanker operation revenue (VND bil) and estimated utilised capacity (DWT)



Source: VTO, RongViet Securities

Assuming VTO's tanker fleet utilisation rate of 92% and a slight increase in time-charter freight of 1% this year, tanker operation is projected to record VND888.1 billion in revenue in 2015, up 4.3% yoy. Regarding profit margin, we believe revenue growth from added fleet capacity could sufficiently offset additional depreciation expense from the operation of 2 new tankers and periodic maintenance expenditure for Petrolimex 08 tanker towards the end of this year. So, tanker operation's gross profit margin is likely to remain unchanged to 2014 figure at ~17.5%

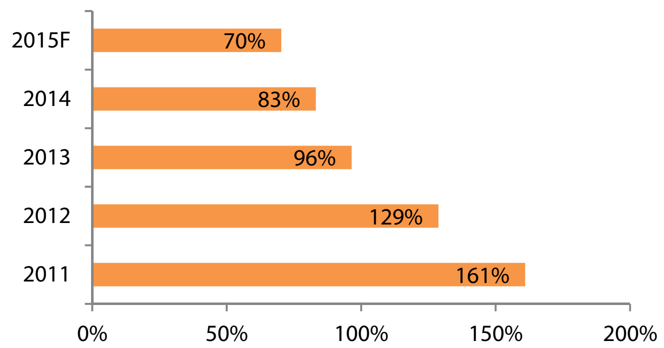
VTO's prudent business target in 2015 reflects the fact that its tanker business is higly relied on transporting demand from Petrolimex who consequentially sets a fixed freight rate for the company's tanker services. Therefore, the company's growth prospect in the long run depends significantly on its ability to: (1) control its core-business operating expense, (2) increase fleet capacity and (3) re-negotiate tanker freight with Petrolimex. Of those, any chances for tanker freight upward revision looks to be determined by Petrolimex's business performance.

Strengthening balance sheet and profitability from diminishing debt level

VTO's financial position has seen positive changes in the past few years with financial leverage ratio adjusting to sustainable level. Graph 04 and 05 show sustained reduction in Debt/Equity (D/E) ratio every year, which stayed below that of average industry at the end of 2014 (~108%). In particulars, total debt figure has dropped nearly 4 times since 2008 (when VTO added nearly 45% the current fleet capacity) to VND873 billion in 2014. Of which, 68% were loans taken to finance vessel purchases. In 2015, VTO purchased Nha Be 08 tanker at the cost of~ VND165 billion financed by 30% from equity and 70% by debt. Nevertheless, we estimate the new investment will not negatively affect VTO's financial levergage which is forecast to get down to 70% at the end of 2015.

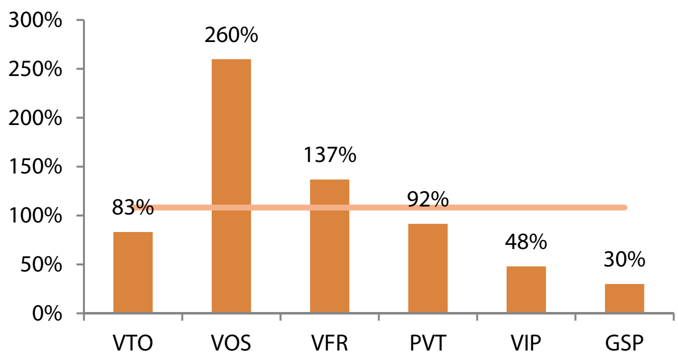
The stable transport demand from Petrolimex is vital for VTO to maintain annual operating cashflow and thus the progress of its loan repayment. Hence, together with downsizing debt amount, the company's liquidity ratio (EBITDA/interest expense) also rises to 6.7 at the end of 2014 from 3.5 in 2011 (Graph 06). Looking forward, we think that VTO could save in the region of VND10-15 billion a year in interest expense from 2015 if interest environment remains stable as currently.

Graph 04: VTO's financial leverage (D/E)



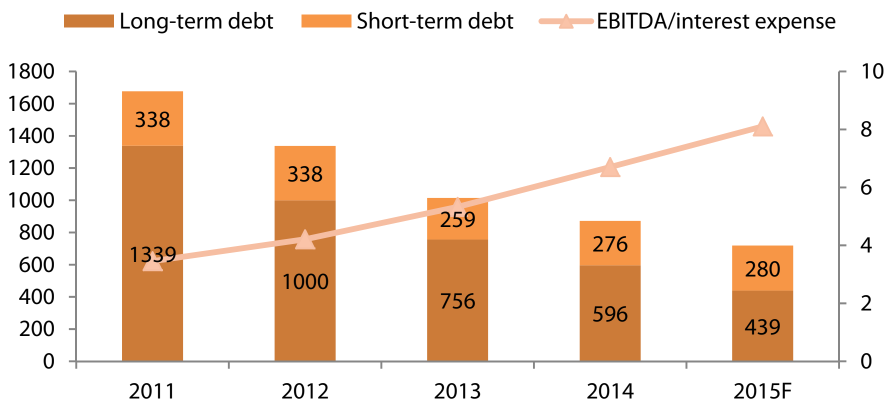
Source: VTO, RongViet Securities

Graph 05: Average D/E of shipping industry



Source: VTO, RongViet Securities

Graph 06: VTO's debt structure (VND bil)



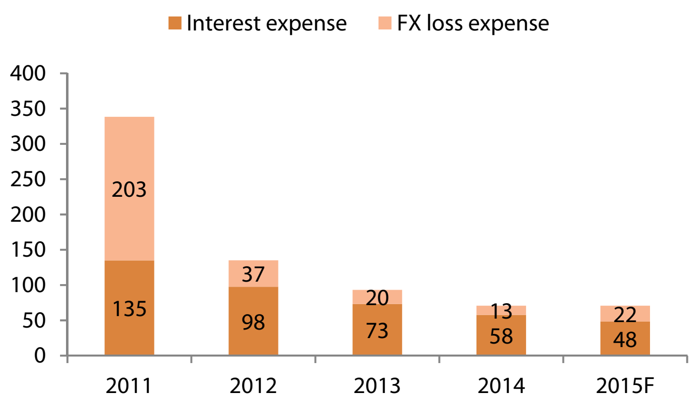
Source: VTO, RongViet Securities

Apart from that, foreign exchange (FX) risk is another concern for shipping firms taking on USD denominated loans to finance vessel acquisitions. For this matter, VTO's 2015 business plan already provided the provision for this particular risk under the scenario that VND depreciating ~2.5% versus USD. Hence, investors could be confident that this risk would not have adverse impact on VTO's 2015 result especially after the State Bank of Vietnam reiterating commitment to keep the depreciation of VND against USD at 2% for the rest of

2015 and the good momentum of VTO's debt repayment (2015 debt figure expectedly falling 18% yoy). In reverse, the company's business result would suffer detrimentally.

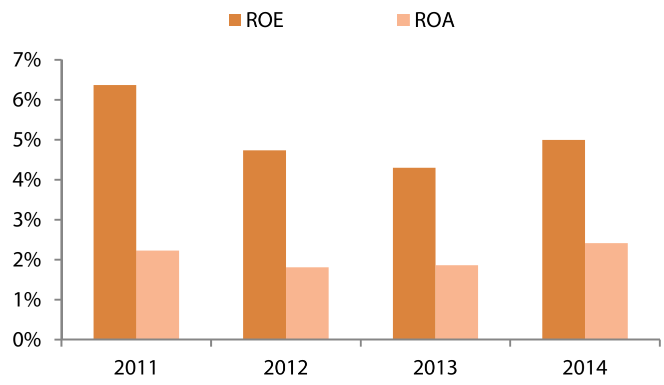
We estimate falling interest expense from reducing debt amount would not have immediate impact on VTO's bottom line this year due to financing of the additional new tankers. As a result, 2015 net profit is expected to grow about 5.6% (yoy) to VND55.4 billion. However, we forecast the company would be able to save an annualised 30% in financial expense in 2016 (or ~ VND20 billion in absolute amount) and thus improve such profitability measures as ROE and ROA.

Graph 07: Financial expense structure (VND bil)



Source: VTO, RongViet Securities

Graph 08: VTO's profitability measures



Source: VTO, RongViet Securities

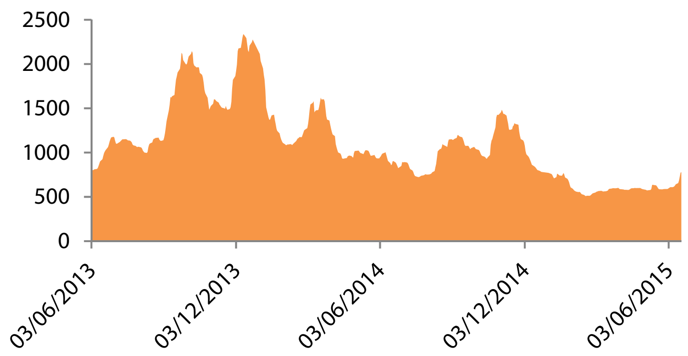
Recovering regional petroleum demand and expected positive business prospect of Petrolimex in 2015 open the possibility of tanker freight increase

Petroleum is currently dominating ASEAN's energy consumption at the share of 31%. Therefore, impact from the world recession has been rather less severe on petroleum shipping operation than dry bulk and container shipping firms. Report from IEA indicated ASEAN's petroleum demand would grow at an annualised rate of 2.3% during 2011-2020 period. Graph 09 and 10 show the constrasting picture of steady recovery in tanker freight (BCTI) versus the lingering low freight level for dry bulk carriers (BDI). The main reason is attributed to the wave of factories relocation from China to emegring ASEAN countires. According to Vietnam Petroleum Association, the country's total petroleum demand in 2015 would reach 16.4 million tons or a 6% annual rise in equivalent.

Moreover, expanding refinery capcity from ASEAN nations including Vietnam could lead to a surge in petroleum transport orders. According to the Vietnamese Government plan, three more refinery projects would be rolled into operation in the coming 3 years being Dung Quat phase 2 (total refinery capcity increases to 8 million barrels/year), Nghi Son (refinery capacity of 10 million barrels/years) and Vung Ro (refinery capacity of 8 million barrels/years). It is expected that the operation of these refineries would greatly benefit Petrolimex and its subsidiaries businesses.

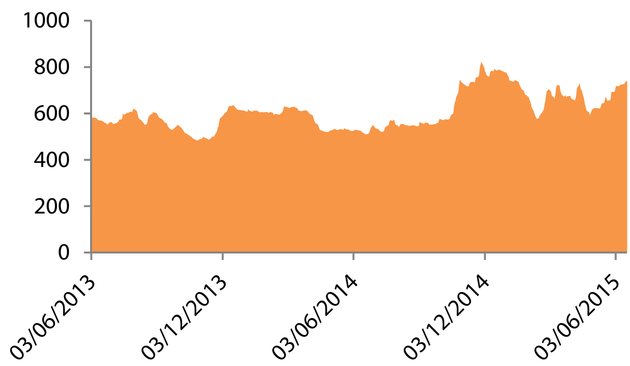
With VTO, the company's business result depends pretty much on parent firm Petrolimex's performance via annual reviews of tanker freight. So, the drastic decline in world oil prices at the end of 2014 detrimentally affected Petrolimex's petroleum trading. This subsequently caused VTO's tanker services freight to be adjusted down by 3% compared to 2013 average level. In 2015, we believe Petrolimex's business performance would bounce back from expectation of more stable oil prices and picked-up fuel demand. What this means to VTO is the greater chances for time charter frieght to be revised up.

Graph 09: Baltic Dry Index (BDI)



Source: Bloomberg , RongViet Securities compiled

Graph 10: Baltic Clean Tanker Index (BCTI)



Source: Bloomberg , RongViet Securities compiled

Outlook

Vietnam Tanker JSC (HSX: VTO) is the country's leading petroleum product shipping company by capacity. Time charter contracts signed with PG Tanker are vital in stabilizing VTO's tanker services revenue and keeping the fleet highly utilised. Over the years, the company has made encouraging efforts in strengthening its financial health through debt repayment program and shoring up liquidity level. So, falling interest expense and the good management of foreign exchange risk are springboards for VTO's bottom-line to improve in the coming years.

In 2015, solid recovery of Vietnamese economy and forecasts of stable oil prices would motivate increasing petroleum demand. In the long-term, expanding refinery capacity from projetcs such as Dung Quat (phase 2), Nghi Son and Vung Ro would lead to an increase in waterborne petroleum transport nationwide. This is considered as an important growth driver for VTO's transport orders and services freight in the future. Nonetheless, it shall be noted that VTO's revenue and profit margin growth hardly get full-swing even in favourable market condition given the time-charter contract nature relative to private firms who enjoy flexible market tanker freight. Last but not least, VTO share which is trading at the EV/EBITDA forward of 3.08x lower than average industry of 3.40x could be another plus for investors to consider.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	1,641.1	1,564.2	1,526.1	1,333.7
% chg	-1.5%	-4.7%	-2.4%	-12.6%
PAT	49.3	45.0	52.5	55.4
% chg	-25.3%	-8.8%	16.7%	5.6%
EBIT margin (%)	3.0%	2.9%	3.4%	4.2%
ROA (%)	1.8%	1.9%	2.4%	2.7%
ROE (%)	4.7%	4.3%	5.0%	5.2%
EPS (VND)	625	570	665	703
Adjusted EPS (VND)	625	570	665	703
Book value (VND)	13,010	13,173	13,132	13,426
Cash dividend (VND)	600	400	400	400
P/E (x)	7.4	11.1	12.6	10.2
P/BV (x)	0.4	0.5	0.6	0.6

*Source: VTO Financial statement, RongViet Securities' compilation and estimates, *As of 22/06/2015*

BRIEF 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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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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