RONGVIET SECURITIES

December 11st, 2014

CUU LONG PETRO GAS SERVICE TRANSPORTATION (PCT-HNX)

Restructuring

Steadying in the growth

As of 3Q2014, PCT reported revenue of 837.2 billion, 40% higher than a year earlier and exceeding the whole-year target by 3.3%. Profit-after-tax also added 61.2% from 3Q2014 to VND11.2 billion or 95.6% of the yearly PBT guidance. Though the commercial business took up the highest proportion of revenue (~79%), growing 57.2% over the one-year period, it had the smallest proportion in net income of only 6%. In contrast, the transport segment generated only 19% of the revenue in the 9 months ended September but still made up the majority (~78%) of the period's NPAT. We estimate PCT's 2014 revenue at VND1,100 billion and NPAT at about VND15 billion, up 16% and 62% from 2013, respectively.

Particulars (VND bn)	3QFY14	2QFY14	*% Chg. (qoq)*	3QFY13	*% Chg. (yoy)*
Net revenue	284.2	273.7	4%	162.7	75%
NPAT	3.9	3.8	1%	2.5	55%
EBIT	4.9	4.9	1%	4.1	20%
EBIT margin	1.7%	1.8%	-5bps	2.5%	-80bps

Sources: PCT Financial statement, RongViet Securities

Why PCT needs an overhaul

PCT operates mainly in transport (taxi, office car and tank truck rental services) and commercials (machineries, spare parts and gas products). Of the two, the commercial business has had the larger proportion of revenue yet very low profit margin while the transport segment has accounted for only 20% of sales but remained the major profit contributor.

	2012	2013	3Q2014
Revenue structure			
Transportation	19%	22%	19%
Trading	76%	74%	79%
Other	4%	4%	2%
Gross profit structure			
Transportation	43%	76%	78%
Trading	28%	9%	6%
Other	28%	14%	16%

Sources: PCT, RongViet Securities

Yet, PCT's transport business is now in a gray picture where only car and tank truck rental services bring material revenue to the Company. Meanwhile, the taxi service, PCT's core business, has become increasingly unprofitable, swinging between break-even and losses. The Company now has 300 cars of its own, which run mainly in Vung Tau and HCMC, where Petroleum taxis are clearly not as popular as Mai Linh or Vinasun given the limited gas filing stations and passenger terminal. In Vung Tau, the Company still fare better with over 100 vehicles in operation.

MONITOR

CMP (VND)	7,700
Investment Period	Long term

Stock Info

Sector	Transportation
Market Cap (VND bn)	172.5
Current Shares O/S	23,000,000
Beta	1.11
Free float (%)	53.04
52 weeks High	8,400
52 weeks Low	4,000
Avg. Daily Volume (in 20 sessions)	64,658

Peformance (%)

	3M	1Y	3Y
PCT	15.4	82.9	188.5
Transportation	6.3	34.9	
HNX30	-6.1	35.4	
HNX Index	-3.0	28.8	38.1

Major Shareholders (%)

PV Trans	22.63
PetroVietnam Gas	19.57
PVCombank	4.76
Foreign Investors' Room (%)	43.48

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Office car rental, with the biggest profit margin and accounting for 40-50% of the transport revenue, is a highlight in PCT's business. The segment has been operating efficiently thanks to the PCT's relations with other PVN member companies; notable customers in this segment include: Nam Con Son Pipeline, PVEP, PTSC…

Gross profit	2012	2013	Q12014	Q22014	Q32014	3Q2014
Transportation	5.1%	6.6%	7.6%	10.5%	6.5%	8.1%
Trading	0.9%	0.2%	-0.4%	0.8%	0.2%	0.2%
Other	15.3%	6.0%	24.8%	14.2%	5.3%	15.9%

Sources: PCT, RongViet Securities

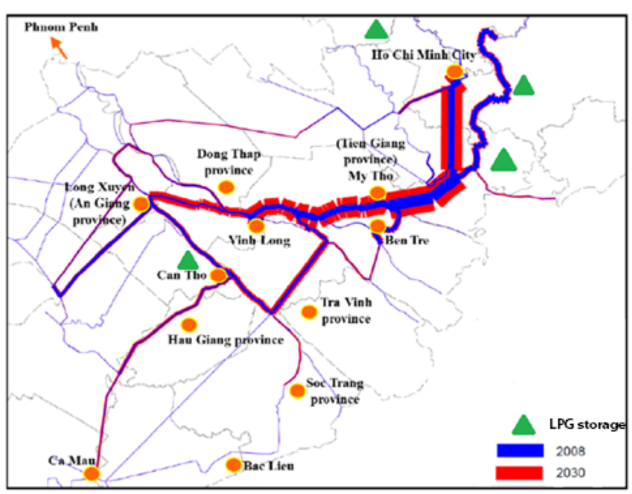
The first steps

Taxi services: The Company has planned to transfer to liquidate its entire taxi fleet given the disappointing results of taxi business. It will also change its taxi brand name to Eco Taxi under the instructions of PVN. The method of franchising has been employed by a number of taxi companies, and is expected to help PCT boost the efficiency of this segment while cutting expenses. PCT expects to decrease the number of vehicles in possession to 100 is by the end of 2014 and complete the process of franchising its taxi brand next year.

Tank trucks: PCT intends to upgrade this segment into its core business. In 2014, the company invested in two new trucks at was VND3-4 billion/unit, thereby increasing its fleet to 5 vehicles. To meet increasing demand, the Company is hiring 15 tanker trucks with total capacity about 30-40% of the entire Southern region's LPG transport market. Company said its aim is to become a major provider of LPG transport service in the Southern region, owning 20 LPG tank trucks in 2017.

Car rental: PCT now owns about 140 cars of diverse brands (Camry, Innova…) and will invest in another 20 vehicles in 2015 given the growth potential of this segment. Car rental service is relatively new in Vietnam yet it has captured the interest of and been experimented by many passenger carrier companies. We believe the subsidiary status a state-owned energy monopoly gives PCT an edge over its rivals. However, the other members under PVN's umbrella of are also investing in this segment. This limits the expansion potential of the car rental business even though it still generates a large portion of revenue for PCT.

Figure: Inland Waterways from Ca Mau to HCM City



Sources: WB, RongViet Securities

Potential from LPG's IWT (Inland Waterways Transport): PCT's BoD is considering another restructuring option that dictates investing in LPG carriers to transport LPG for Ca Mau Gas Processing Plant by inland waterways. Considering the plant's production capacity of about 18,000 tons of LPG a month, the gas carrier fleet will be sized to include 4-5 ships of 500-700 DWT, worth about VND40-50 billion each. The prospect of LPG inland waterways transport is very promising given the monopolistic nature of the business and the readiness of both supply and demand. That prospect, however, ties to the operation of Ca Mau Gas Processing plant, which, as far as we concern, will not come into operation until 2017.

In 2015, the downtrend of LPG price will weigh on the trading segment's revenue. Yet the Company said they might set the bar just as high as in FY2014 (VND800 billion of revenue and VND11.7 billion of NPAT).

Healthy balance sheet

	2010	2011	2012	2013	Q32014
Current ratio	2.27	1.48	2.02	1.96	2.47
Quick ratio	2.15	1.44	1.98	1.90	2.43
Cash ratio	1.31	0.70	1.11	1.37	1.65
Days of sales outstanding	48.68	38.25	30.03	27.95	22.35
Days of inventory on hand	4.54	3.83	1.52	2.38	1.55
Days of payables	21.77	52.32	40.49	44.02	34.77
Cash conversion cycle	31.44	(10.24)	(8.95)	(13.69)	(10.88)
Debt/Equity	0.40	0.46	0.43	0.60	0.44

Sources: PCT, RongViet Securities

The average days of sales outstanding have been improving over the years and are still less than 30 days. The payable account declined significantly in 3Q2014, shortening the average days of payables to 35 days and causing operating cash flow to turn negative. However, the ending cash balance remained relatively high at more than VND100 billion and the liquidity ratios were well secured. Plus, the Debt/Equity ratio was as low as 0.4 times. The deposits by taxi franchisee on top of the abundant cash should sufficient funds to finance new investments in the tank truck and car rental businesses next year.

Outlook:

PCT's 2014 profit is expected to increase strongly thanks to improvement in transport business's gross margin and proceeds from assets liquidation. We believe that these are the first achievements in PCT's business orientation plan to transfer its taxi business to interested parties beginning in 2013. As planned, the restructuring of the taxi business, focusing on office car leasing operation and tank truck could lift up the firm's profitability. In addition, we foresee the potential in the future for the firm provided that LPG transport business be deployed.

Given the share's book value as at 3Q2014 of VND11,200/share, P/B of PCT is just 0.67x. However, the efficiency from restructuring current segments may not enough to create a significant change for the Company and the prospect from LPG's IWT is still uncertain. Thus, in waiting for more sustainable steps in progress of restructuring process, we recommend **MONITOR** for the stock of PCT.

Exhibit: Key financials

Y/E Dec (VND bn)	FY2011	FY2012	FY2013	FY2014E
Net Revenues	579.2	892.4	945.0	1,100.0
% chg	16.1%	54.1%	5.9%	16.4%
PAT	2.3	7.5	9.3	15.0
% chg	-52.6%	230.5%	23.7%	61.6%
EBIT margin (%)	0.4%	0.8%	1.0%	1.4%
ROA (%)	0.7%	2.2%	2.5%	3.6%
ROE (%)	1.0%	3.2%	3.8%	5.9%
EPS (VND)	99	326	404	652
Adjusted EPS (VND)	18	81	404	652
Book value (VND)	10,101	10,417	10,779	11,400
Cash dividend (VND)		-		-
P/E (x)	20.2	9.5	10.6	11.8*
P/BV (x)	0.2	0.3	0.4	0.7*

*Sources: PCT Financial statement, RongViet Securities, *As of 11/12/2014*

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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