

AGM Note | April 26, 2018

NOT-RATED

*We attended PMG's AGM with the following key points:*

**2017 Performance: Strong Growth after M&A with V-Gas.**

- **PMG posted strong growth in 2017.** Revenue achieved VND 886bn (+98% YoY) and net profit after tax reached VND 49bn (+119% YoY). The top-line and bottom-line both exceeded 61% and 49% of the 2017 plan, respectively.
- **Maintaining dominant position in Central region.** PMG's current market covers from Hue province to South-West, locating in Vietnam Central region, in which Hue province accounts for 90% market share, followed Quang Nam - Binh Dinh province (>75%), Highland (>50%), Dong Nai province and Ba Ria province (>45%), Ho Chi Minh city and South-West region (20-30%).
- **Higher new entry barrier from Decree 19-2017/NQ-CP.** Ministry of Finance (MoF) implemented the new requirements for gas distribution sector. In particular, MoF required gas distributors must have at least 100,000 gas cylinders, and 300m<sup>3</sup> storage.
- **Stock dividend payment:** The company will pay 15% of stock dividend.

**2018 – 2020 onwards Plan – M&A and market share expansion are the main catalysts.**

- In 2018, the company sets a revenue of VND 1,062bn (+20% YoY), NPAT of VND 58bn (+15% YoY) and dividend payment of 15-20%.
- **Southward expansion after M&A with V-GAS.** It aims to gain more Southern market share and develop its brand name through horizontal merger with V-Gas. The region is a promising market due to high population density compared with Central and Highland regions.
- **High demand due to low gas consumption per capita.** Vietnam has lowest gas consumption per capita (116 m<sup>3</sup>) compared with region such as Malaysia (1,300 m<sup>3</sup>) and Thailand (778 m<sup>3</sup>). This creates more room for growth for gas distribution business in Vietnam.
- In 2020, the company's revenue is projected to achieve VND 2,000bn, with a CAGR of 46.78%.

#### Our investment view

Gas distribution is a conditional business **with high new entry barriers** and capital intensive due to restricted requirements from regulators. Vietnam gas consumption volume is expected to increase by 7.03% per year in the next 5 years. With low gas consumption per capita, the segment show **a potential growth** thanks to high living standard leading to the changing consumption habits from natural resources (coal, firewood) to environmentally energy (gas, electricity).

PMG is the private gas distributors with having the **largest share in Central region**. The company run by a **20-year experience management team**. Owing to wide-spread distribution network, the company is gradually developing the brand name and moving South-ward expansion. In addition, the company could **increase its gross profit margin** as the current price level is low compared with competitors due to market expansion. Currently retail gas prices are determined by the company and reported to Ministry of Finance. In coming times, the company plans to find strategic investors and could increase its charter capital to support future growth.

**Investment Risks:** (1) Fire accident; (2) High competition market and (3) Concentrated shareholder structure.

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#### Trading Data and Key Metrics

|                              |                 |
|------------------------------|-----------------|
| Ticker                       | PMG             |
| Sector                       | Gas Distributor |
| Listed since                 | Jan, 2018       |
| Price as of April 23rd, 2018 | 24,550          |
| 52-week range (VND'000)      | 16.8/28,100     |
| Shares outstanding (mn)      | 33              |
| Free Float (mn)              | 15.13           |
| 15-day average volume        | 235,000         |
| 2017 P/BV (x)                | N/a             |
| 2017 P/E (x)                 | N/a             |
| Dividend yield               | N/a             |
| Debt to Equity (x)           | 1.03            |

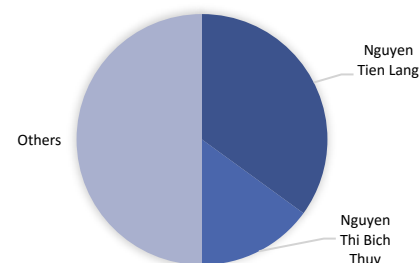
Source: PMG, Bloomberg, TVS Research

#### Company Description

Petro Center Corporation., (PMG – HSX) is one of the largest private retail gas distributor in Vietnam, which was established since May, 2007. The company listed on HOSE in Jan, 2018. PMG's customers includes shopping malls, restaurants, hotels, resorts and household.

The company owns the large assets including 1.4 million gas cylinders under three brand names (Picnic Gas, PMGas and VGas); 03 warehouses in Chu Lai, Dien Ban (Quang Nam Province) and Dong Nai Province and 02 wharfs linked with the warehouses which could receive ships of 5,000-20,000 tons at Chu Lai port and Dong Nai port; 09 storages and 01 gas cylinder manufacturing factory (total capacity: 120,000 gas cylinders/year), 04 gas cylinder maintenance factory (total capacity: 200,000 gas cylinders/year).

#### Shareholder structure



Source: PMG, TVS Research

## SUMMARY FINANCIALS

| Earning Model (VNDbn)           | 2014A      | 2015A      | 2016A      | 2017A      |
|---------------------------------|------------|------------|------------|------------|
| <b>Net sales</b>                | <b>531</b> | <b>377</b> | <b>447</b> | <b>880</b> |
| Cost of sales                   | 515        | 336        | 367        | 727        |
| <b>Gross profit</b>             | <b>16</b>  | <b>41</b>  | <b>80</b>  | <b>153</b> |
| Selling expenses                | 9          | 22         | 45         | 74         |
| General administration expenses | 5          | 8          | 20         | 24         |
| <b>EBITDA</b>                   | <b>5</b>   | <b>19</b>  | <b>35</b>  | <b>72</b>  |
| Depreciation & Amortization     | 3          | 7          | 20         | 18         |
| <b>EBIT</b>                     | <b>2</b>   | <b>12</b>  | <b>15</b>  | <b>54</b>  |
| Net interest income/(expenses)  | (13)       | (1)        | 14         | (7)        |
| Net investment income           | 0          | 0          | 0          | 2          |
| Others (recurring)              | 12         | 0          | 4          | 10         |
| <b>Pretax Profit</b>            | <b>1</b>   | <b>11</b>  | <b>33</b>  | <b>58</b>  |
| Income tax                      | 0          | 2          | 10         | 12         |
| Tax rate (%)                    | 24%        | 14%        | 19%        | 19%        |
| Minorities                      | 0          | 0          | 0          | -2         |
| <b>Net Income</b>               | <b>1</b>   | <b>10</b>  | <b>22</b>  | <b>49</b>  |

| Growth and Margin (%) |      |        |        |        |
|-----------------------|------|--------|--------|--------|
| Sales Growth (%)      | N/a  | -29.0% | 18.6%  | 96.7%  |
| EBITDA Growth (%)     | N/a  | 247.0% | 91.5%  | 103.1% |
| EBIT Growth (%)       | N/a  | 410.3% | 27.5%  | 259.0% |
| Net Income Growth (%) | N/a  | 410.3% | 27.5%  | 259.0% |
| EPS Growth (%)        | N/a  | 1,347% | 135.1% | 117.6% |
| Gross Margin (%)      | 3.1% | 10.9%  | 17.9%  | 17.3%  |
| EBITDA Margin (%)     | 1.0% | 4.9%   | 7.9%   | 8.2%   |
| EBT Margin (%)        | 0.2% | 2.9%   | 7.4%   | 6.6%   |
| Net Income Margin (%) | 0.1% | 2.5%   | 5.0%   | 5.3%   |

| Cash flow Statements (VNDbn)     | 2014A        | 2015A       | 2016A        | 2017A       |
|----------------------------------|--------------|-------------|--------------|-------------|
| Pretax profit                    | 1            | 11          | 33           | 58          |
| <i>Adjustments for:</i>          |              |             |              |             |
| Depreciation and amortization    | 3            | 7           | 20           | 18          |
| Change in inventories            | 30           | (16)        | 7            | (11)        |
| Change in trade receivables      | (4)          | 225         | (112)        | 46          |
| Change in trade payables         | 118          | (178)       | 95           | (23)        |
| Other operating cash flow        | (13)         | (84)        | 180          | (75)        |
| <b>Cash flow from operations</b> | <b>144</b>   | <b>(33)</b> | <b>232</b>   | <b>27</b>   |
| Net Capital expenditure          | (1)          | (151)       | (136)        | (146)       |
| Change in Financial investment   | (144)        | -           | (220)        | -           |
| Divestures                       | -            | 82          | -            | 278         |
| Other investments, net           | 0            | 0           | (82)         | (183)       |
| <b>Cash flow from investing</b>  | <b>(145)</b> | <b>(69)</b> | <b>(438)</b> | <b>(51)</b> |
| Equity issued                    | 130          | 0           | 150          | 0           |
| Net borrowings                   | 323          | 430         | 496          | 916         |
| Dividends to shareholders        | 0            | 0           | 0            | 0           |
| <b>Cash flow from financing</b>  | <b>(14)</b>  | <b>107</b>  | <b>228</b>   | <b>25</b>   |
| <b>Net cash flow</b>             | <b>(15)</b>  | <b>5</b>    | <b>22</b>    | <b>1</b>    |
| Opening cash                     | (15)         | 5           | 22           | 1           |
| <b>Closing cash</b>              | <b>4</b>     | <b>9</b>    | <b>31</b>    | <b>33</b>   |

| Balance Sheet (VNDbn)               | 2014A      | 2015A      | 2016A      | 2017A        |
|-------------------------------------|------------|------------|------------|--------------|
| Cash and equivalents                | 4          | 9          | 31         | 33           |
| Financial investment                | 0          | 0          | 67         | 0            |
| Accounts receivable                 | 457        | 94         | 270        | 178          |
| Inventory                           | 6          | 22         | 15         | 34           |
| Prepaid expenses, other CA          | 3          | 18         | 14         | 27           |
| <b>Total current assets</b>         | <b>470</b> | <b>142</b> | <b>398</b> | <b>272</b>   |
| Net Property and equipment          | 18         | 220        | 158        | 467          |
| Net intangibles                     | 0          | 3          | 1          | 10           |
| Total investment                    | 0          | 49         | 140        | 137          |
| Other long - term assets            | 96         | 173        | 281        | 392          |
| <b>Total Assets</b>                 | <b>584</b> | <b>588</b> | <b>978</b> | <b>1,278</b> |
| Account Payables                    | 264        | 154        | 145        | 193          |
| Short-term debt                     | 76         | 123        | 241        | 330          |
| <b>Total Current Liabilities</b>    | <b>340</b> | <b>277</b> | <b>387</b> | <b>522</b>   |
| Long-term debt                      | 0          | 59         | 0          | 59           |
| Other long-term liabilities         | 47         | 42         | 155        | 192          |
| <b>Total long-term liabilities</b>  | <b>387</b> | <b>378</b> | <b>542</b> | <b>773</b>   |
| <b>Stockholders' equity</b>         | <b>197</b> | <b>210</b> | <b>436</b> | <b>505</b>   |
| Common Equity                       | 180        | 180        | 330        | 330          |
| Treasury shares                     | 0          | 0          | 0          | 0            |
| Capital surplus                     | 0          | 0          | 0          | 0            |
| Retained earnings                   | 0          | 10         | 32         | 81           |
| Budget sources and other funds      | 0          | 0          | 0          | 0            |
| <b>Minority interest</b>            | <b>17</b>  | <b>20</b>  | <b>74</b>  | <b>94</b>    |
| <b>Total liabilities and equity</b> | <b>584</b> | <b>588</b> | <b>978</b> | <b>1,278</b> |

| Ratios             |      |       |       |       |
|--------------------|------|-------|-------|-------|
| ROE (%)            | 0.3% | 4.5%  | 5.1%  | 9.2%  |
| ROA (%)            | 0.0% | 1.6%  | 2.9%  | 4.1%  |
| ROIC (%)           | 0.0% | 9.2%  | 27.6% | -135% |
| Inventory days     | N/a  | 15.0  | 18.4  | 12.5  |
| Receivable days    | N/a  | 267.0 | 148.4 | 92.9  |
| Payable days       | N/a  | 227.3 | 148.7 | 84.8  |
| Asset Turnover (x) | N/a  | 0.6   | 0.6   | 0.8   |
| Debt/equity (x)    | 1.7  | 1.3   | 0.9   | 1.0   |

| Valuation (Multiples) |     |     |     |     |
|-----------------------|-----|-----|-----|-----|
| EV / EBITDA (x)       | N/a | 9.4 | 4.0 | 4.9 |
| P/E (x)               | N/a | N/a | N/a | N/a |
| Dividend Yield (%)    | N/a | N/a | N/a | N/a |
| P/B (x)               | N/a | N/a | N/a | N/a |

Notes: CA = current assets; CL = current liabilities

Source: FiinPro data, TVS Research Model

## ANALYST CERTIFICATION

I, **My Tran**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

## RATING and VIEWS

**Buy (B), Neutral (N), Sell (S)** – Our recommendations are based on absolute return that each stock is rated on the basis of a total return, measured by the upside potential (including capital gains and dividend) over a 12-month time horizon. Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

### TVS Investment Research: Equity Rating Definitions

| 12-month rating   | Definition   |
|-------------------|--|
| <b>Buy</b>        | Total Stock's Return Potential > 15%   |
| <b>Neutral</b>    | Total Stock's Return Potential between (-15%) and 15%  |
| <b>Sell</b>       | Total Stock's Return Potential < (-15%)  |
| Short-term rating | Definition   |
| <b>Buy</b>        | Stock price expected to rise within three-month because of a specific catalyst or event  |
| <b>Sell</b>       | Stock price expected to fall within three-month because of a specific catalyst or event  |
| <b>Not-rated</b>  | The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target. |

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