

## Flash Notes | September 4, 2018

NOT-RATED

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## Trading Data and Key Metrics

Ticker	OIL
Sector	Gas Distributor
Listed since	March, 2018
Price as of August 31 <sup>st</sup> , 2018	14,500
52-week range (VND'000)	13.5/24.2
Shares outstanding (mn)	200
15-day average volume	659,196

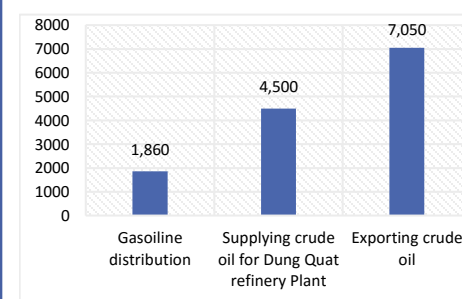
Source: FiinPro, TVS Research

## Company Description

PVOil (OIL – UpCOM) is the second largest oil distributor in Vietnam. The company's advantages lie in its distribution networks, with spreading out from the North to the South and in Cambodia and Laos. The company currently owns 28 subsidiaries (>50% ownership), 12 joint ventures and 9 branches.

The company's main segments include exporting/importing crude oil, Petroleum products distribution, International crude oil trading, Petroleum products processing and Bio-fuels processing and distribution.

## Product Portfolio (7M2018, thousand tons)



Source: PVOil, TVS Research

PetroVietnam Oil Corporation (PVOil), the second largest gas and oil distributor, recently hold the 1H2018 Analyst Meeting and 2018 AGM. There are some following highlights:

## 6M2018 earnings result – Stronger performance thanks to higher oil prices and increasing consumption

- Revenue and Net profit (reviewed and audited) reached VND 32,324bn (+14.35% YoY) and VND 331bn (+62% YoY). Sales volume was 1.64 mn tons, increasing by 8% YoY. The company delivered the better performance thanks to the recovery of oil prices and an increase in retail consumption. Of which a VND330bn profit, the company recorded the VND120bn from 2017 tax refund and VND50bn from subsidiaries' dividend, leaving the core earnings of VND 160bn.
- PVOIL completed an initial public offering (IPO) in Jan, 2018 and listed on UpCOM with OIL ticker in March, 2018. The company also continued seeking strategic investors to divest the state-owned stake. OIL revealed that there were four strategic investors having an interest in the company. The divestment process, however, was stuck due to government's bureaucracy, and as the result, the process will extend to 2019. The company plans to divest state-owned stake through direct transaction or put-through transaction. Since August, 2018, the company transformed its business model to Join stock company and will remain its foreign investor room at 6.69%.
- In April, 2018 PVOil launched PV Oil Easy, which is a **cashless payment app** for drivers and petrol stations. This application is used for smartphones and tablets that help users to buy and manage their petrol purchase via a QR code. Viettel Post was one of the first customers to sign up and use the app. Petrolimex, OIL's competitor, launched non-cash payment (ATM card) service since 2017.

## 2018 estimates and 2018 – 2022 Plan – The Industry consolidator

- According to the 2018 Prospectus, **PVOil sets the high target plan for the 2018-2022 period**, in which, net revenue and NPBT CAGR growth are at 17.8% and 32.3%, respectively. The company intends to become an industrial consolidator through M&A and building their own distribution network. Gasoline store increases from 540 to 1550. Sales volume will grow at a 19.4% CAGR from 2018-2022.
- The company projected that 2018 revenue and profit before tax will reach VND 43,240bn (-28% YoY) and VND 500bn (-7% YoY), respectively. Sales volume will be at 3.15mn tons (-2% YoY). The company remains conservative about the next five-month performance due to uncertain movement of oil price.
- At the beginning of 2018, the company planned to open 42 new stations. However, **the rising land cost and delaying divestment plan hinder the ability to opening new stores**. In 1H2018, the company opened only 13 stores.

## Our investment view

**Experiencing fastest market share growing but seeing the “behind the plan”.** PVOil currently ranks the 2<sup>nd</sup> in domestic gasoline market and 2<sup>nd</sup> in Laos market with 22% and 20% market share respectively. The company has experienced a fastest growing market share in recent years. In the long-term strategy, the company plans to expand the network distribution with domestic market share target of 35%. The delaying divestment process, however, contains the company's long-term growth plan. The company has to revise the 2018-2022 plan and their expansion distribution network.

**Less attractive performance in 2018.** In addition, the company delivered the less effective performance than PLX, the main competitor (*See Figure 1*). The company shows the more expensive valuation and less attractive performance than competitor. Therefore, with no new catalyst in 2018, the investor should put OIL in watch list and wait for more clear information of the divestment process in 2019.

Figure 1: OIL vs PLX

Indicator	OIL	PLX
Market share (%)	22%	48%
Revenue per share (VND)	54,888	118,788
ROE (%)	4.06%	14.89%
ROA (%)	1.80%	5.98%
Gross margin (%)	4.19%	8.00%
Pretax margin (%)	0.90%	3.11%
P/E trailing (x)	36.7	25.67
P/B trailing (x)	1.63	4.34

Source: FiinPro, TVS research

Figure 2: OIL's 7M2018 earnings result and 2018 Estimates (Unit: VNDbn)

Indicator	7M2018E	2018E
Gasoline consumption (mn tons)	1.86	3.15
Revenue	28,000	43,240
PBT	370	500

Source: OIL, TVS research

Figure 3: OIL's 2018-2022F plan (Unit: VNDbn)

Unit: VNDbn	2018F	2019F	2020F	2021F	2022F
Gasoline consumption (mn tons)	3.41	4.32	5.22	6.08	6.93
Revenue	45,804	57,244	67,597	77,702	88,057
COGS	42,610	53,057	62,354	71,363	80,450
Gross profit	3,194	4,187	5,243	6,339	7,607
PBT	730	1,101	1,517	1,880	2,243

Source: OIL, TVS research

## SUMMARY FINANCIALS

Earning Model (VNDbn)	2015A	2016A	2017A	1H2018
<b>Net sales</b>	<b>50,910</b>	<b>39,263</b>	<b>59,742</b>	<b>32,324</b>
Cost of sales	47,999	36,562	57,236	30,828
<b>Gross profit</b>	<b>2,912</b>	<b>2,701</b>	<b>2,506</b>	<b>1,496</b>
Selling expenses	1,445	1,452	1,521	794
General administration expenses	702	726	641	349
<b>EBITDA</b>	<b>1,141</b>	<b>897</b>	<b>710</b>	<b>545</b>
Depreciation & Amortization	376	374	366	192
<b>EBIT</b>	<b>765</b>	<b>523</b>	<b>344</b>	<b>353</b>
Net interest income/(expenses)	-22	24	174	53
Net investment income	-33	16	5	-11
Others (recurring)	80	63	17	-12
<b>Pretax Profit</b>	<b>789</b>	<b>626</b>	<b>539</b>	<b>383</b>
Income tax	115	61	51	51
Tax rate (%)	10%	9%	7.6%	14%
Minorities	56	67	61	30
<b>Net Income</b>	<b>618</b>	<b>498</b>	<b>428</b>	<b>301</b>

Growth and Margin (%)				
Sales Growth (%)	-23.2%	-22.9%	52.2%	14.4%
EBITDA Growth (%)	-283.1%	-21.4%	-20.8%	52%
EBIT Growth (%)	-176.2%	-31.6%	-34.2%	108%
Net Income Growth (%)	-149.1%	-16.2%	-13.6%	62.4%
EPS Growth (%)	-144.4%	-19.3%	-14.2%	68.5%
Gross Margin (%)	5.7%	6.9%	4.2%	4.6%
EBITDA Margin (%)	2.2%	2.3%	1.2%	1.7%
EBT Margin (%)	1.6%	1.6%	0.9%	1.1%
Net Income Margin (%)	1.3%	1.4%	0.8%	1.0%

Cash flow Statements (VNDbn)	2015A	2016A	2017A	1H2018
Pretax profit	789	626	539	383
<i>Adjustments for:</i>				
Depreciation and amortization	321	339	320	192
Change in inventories	458	(172)	(717)	418
Change in trade receivables	2,559	(503)	(3,855)	2,265
Change in trade payables	(3,689)	729	5,054	(4,363)
Other operating cash flow	99	18	(188)	(39)
<b>Cash flow from operations</b>	<b>(87)</b>	<b>331</b>	<b>1,070</b>	<b>(1,486)</b>
Net Capital expenditure	(321)	(272)	(302)	(132)
Change in Financial investment	1,063	(320)	(1,612)	(1,957)
Divestitures	4	5	6	0
Other investments, net	395	254	438	127
<b>Cash flow from investing</b>	<b>1,126</b>	<b>(317)</b>	<b>(1,413)</b>	<b>(959)</b>
Equity issued	(6)	-	-	-
Net borrowings	8	(114)	(799)	942
Dividends to shareholders	28	(0)	56	0
<b>Cash flow from financing</b>	<b>30</b>	<b>(114)</b>	<b>(743)</b>	<b>943</b>
<b>Net cash flow</b>	<b>1,069</b>	<b>(100)</b>	<b>(1,086)</b>	<b>(1,502)</b>
Opening cash	5,249	6,304	6,193	5,109
<b>Closing cash</b>	<b>6,320</b>	<b>6,207</b>	<b>5,112</b>	<b>3,606</b>

Balance Sheet (VNDbn)	2015A	2016A	2017A	1H2018
Cash and equivalents	6,304	6,193	5,109	3,606
Financial investment	19	417	2,109	3,064
Accounts receivable	5,382	5,885	9,740	7,540
Inventory	14,855	7,772	5,874	2,684
Prepaid expenses, other CA	190	210	214	152
<b>Total current assets</b>	<b>14,108</b>	<b>15,090</b>	<b>20,273</b>	<b>17,046</b>
Net Property and equipment	2,905	2,778	2,639	2,720
Net intangibles	1,578	1,595	1,655	1,667
Total investment	1,137	1,058	979	118
Other long - term assets	717	780	789	973
<b>Total Assets</b>	<b>20,445</b>	<b>21,302</b>	<b>26,335</b>	<b>23,655</b>
Account Payables	7,659	8,169	13,595	2,968
Short-term debt	2,438	2,477	1,707	2,827
<b>Total Current Liabilities</b>	<b>10,116</b>	<b>10,673</b>	<b>15,328</b>	<b>11,789</b>
Long-term debt	355	202	173	211
Other long-term liabilities	62	86	102	101
<b>Total long-term liabilities</b>	<b>417</b>	<b>288</b>	<b>275</b>	<b>312</b>
<b>Stockholders' equity</b>	<b>8,837</b>	<b>9,231</b>	<b>9,314</b>	<b>11,553</b>
Common Equity	10,884	10,884	10,884	10,884
Treasury shares	-6	-6	-6	-6
Capital surplus	0	0	0	0
Retained earnings	-2,371	-1,963	-1,564	-1,676
Budget sources and other funds	330	315	317	305
<b>Minority interest</b>	<b>1,074</b>	<b>1,110</b>	<b>1,102</b>	<b>1,135</b>
<b>Total liabilities and equity</b>	<b>20,445</b>	<b>21,302</b>	<b>26,335</b>	<b>23,655</b>

Ratios				
ROE (%)	6.8%	5.5%	4.6%	N/a
ROA (%)	3.1%	2.7%	2.1%	N/a
ROIC (%)	37.6%	24.5%	10.7%	N/a
Inventory days	18.6	23.0	17.5	N/a
Receivable days	15.2	14.5	15.6	N/a
Payable days	72.8	79.0	69.4	N/a
Asset Turnover (x)	2.3	1.9	2.5	N/a
Debt/equity (x)	102.1%	103%	143%	N/a

Valuation (Multiples)				
EV / EBITDA (x)	N/a	N/a	N/a	N/a
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: FinPro 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.

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**Buy (B), Neutral (N), Sell (S)** – TVS recommendations are based on absolute return, which each stock is rated on the basis of a total return, measured by the upside potential (including dividend and capital gains). 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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