

# PV Transportation (PVT)

Positive outlook in 2H2022 and 2023

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In 2Q22, revenue rose by 19.6% YoY while NPAT decreased by 16.5% YoY

Revenue and profit will start to accelerate from 3Q22 onwards

The fleet expansion plan would further drive long-term growth

We recommend BUY for PVT stocks with a target price of VND29,200

**Buy** maintain

<b>Target price</b>	<b>VND29,200</b>
Upside/Downside	39.7%
Current price (Aug 22, 2022)	VND20,900
Consensus target price	VND28,900
Market cap (VNDbn)	7,442

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	7,383	7,368	9,149	10,380
EBIT (VNDbn)	854	963	1,205	1,414
NPATMI (VNDbn)	669	666	939	881
EPS (VND)	1,946	2,056	2,763	2,474
EPS growth (%)	-16.1	5.7	34.0	-10.0
P/E (x)	5.0	11.1	10.7	12.0
EV/EBITDA (x)	3.3	5.8	7.3	6.5
P/B (x)	0.5	1.1	1.2	1.1
ROE (%)	13.2	12.1	12.9	10.8
Dividend yield (%)	5.4	5.1	0.0	3.4

In 2Q22, PV Transportation (PVT) obtained VND2,265 billion (+19.6% YoY) in revenue thanks to the robust growth of the transportation segment (+27.0% YoY). However, financial income suffered while financial expenses spiraled, causing PVT's net profit to deteriorate, reaching only VND266 billion (-16.5% YoY).

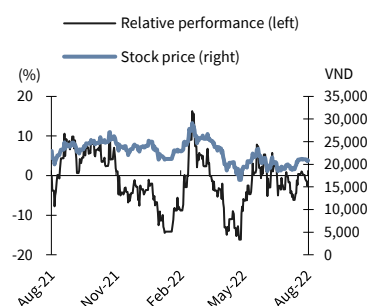
We believe the prolonged Russia-Ukraine war and the embargo on Russian fuel would boost the demand for transportation of alternative supplies to make up for the shortfall in Russian oil, leading to higher charter rates in 2H2022 and 2023. This may help PVT lift freight rates in 2H2022 when its time charter (T/C) contracts will be negotiated for extension during this time in light of rising transportation demand, especially for crude oil and oil products. KBSV expects PVT's gross profit and revenue in 2H2022 to grow strongly to VND556 billion (+19.8% YoY) and VND3,621 billion (+35.2% YoY), respectively.

As the largest transporter and maritime service provider in the logistics industry, we believe the fleet expansion plan will accelerate the business's long-term growth thanks to lower charter rates which will captivate future customers. In the 2022-2023 period, PVT's total fleet capacity may reach 1,565 thousand DWT by the end of 2023 against 942 thousand DWT by the end of 2021.

Based on valuation results and business outlook, we recommend BUY for PVT stocks with a target price of VND29,200/share, 39.7% higher than the closing price on August 22, 2022.

Trading data	
Free float	48.9%
3M avg trading value	58.08
Foreign ownership	35.1%
Major shareholder	PetroVietnam (51.0%)

Share price performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	5.6	9.8	-9.6	-9.8
<b>Relative</b>	-2.4	7.0	6.8	-2.6



Source: Bloomberg, KB Securities Vietnam

## Business performance

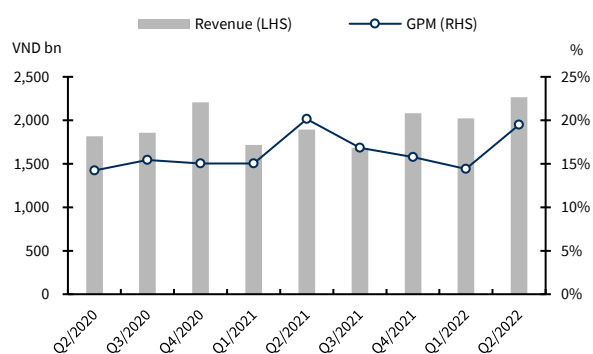
**In 2Q22, revenue rose by 19.6% YoY while NPAT decreased by 16.5% YoY**

In 2Q22, PV Transportation (PVT) obtained VND2,265 billion (+19.6% YoY) in revenue. The gain was thanks to the robust growth of the transportation segment (+27.0% YoY), supported by: (1) the renewal of T/Cs for some vessels with higher daily charter rates and (2) the contribution of new vessels to total revenue. However, financial income declined YoY to VND41 billion (-50.7% YoY) due to lower deposit and lending interest rates over 2Q21. Furthermore, financial expenses increased sharply to VND73 billion (+3.8x YoY) for the following reasons: (1) interest expenses from loans to finance fleet expansion rose markedly to VND55 billion (+164.8% YoY) and (2) PVT suffered an exchange loss of VND18 billion (+6.8x YoY). As a result, PVT's net profit decreased by 16.5% YoY to VND266 billion.

**Gross profit margin improved by 5.06% QoQ thanks to the spiking gross profit margin of PVT's core business**

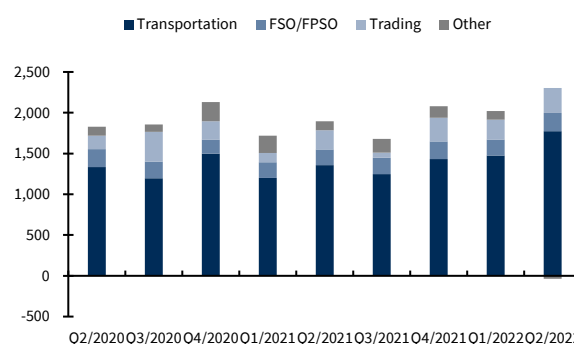
PVT's gross profit margin in 2Q22 increased significantly over the previous quarter to 19.5%, with the growth momentum gained from the spiking gross profit margin of the transportation segment at 20.2% (+6.4% QoQ). The remarkable growth was backed by: (1) Crude oil tanker freight rate was up 20-30% QoQ, leading to higher freight rates for oil tankers to Dung Quat and Nghi Son refineries as well as higher daily charter rates for PVT Apollo under renewed T/C contracts; (2) the relatively dynamic product/chemical transportation market boosted T/C rates and PVT entered into contracts for some new vessels to operate in Europe where the demand for oil and petroleum products transportation is mounting; and (3) the global economic recovery would put the bulk shipping segment back in spotlight.

Fig 1. PVT – Business results



Source: PV Transportation, KB Securities Vietnam

Fig 2. PVT – Revenue breakdown (VNDbn)



Source: PV Transportation, KB Securities Vietnam

Table 1. PVT – 1H2022 business results

VND bn	1H2021	1H2022	YoY %	Notes
<b>Revenue (bn VND)</b>	<b>3,611</b>	<b>4,287</b>	<b>18.7%</b>	<b>Mainly thanks to the growth of the core business, which offset the decline of the other commercial and service segments</b>
Transportation	2,556	3,247	27.0%	Transportation segment grew strongly thanks to a strong growth of 30.7% YoY in Q2/2022 thanks to renewed T/C contracts with higher freight rates and newly invested vessels contributing to PVT's revenue.
FSO/FPSO	386	422	9.3%	
Commercial trading	349	547	56.9%	
Other	320	71	-77.8%	
<b>Gross profit</b>	<b>639</b>	<b>733</b>	<b>14.6%</b>	
<b>GPM (%)</b>	<b>17.70%</b>	<b>17.09%</b>		
Transportation	17.5%	17.2%		1H2022 profit margin is lower because 1Q2022 is low season and T/C contracts have not been adjusted and renewed for higher rates
FSO/FPSO	31.3%	30.3%		
Commercial trading	1.8%	1.6%		
Other	20.4%	51.4%		
SG&A expenses	(145)	(158)		
% SG&A / Revenue	-4.02%	-3.68%		
Operating profit	494	575		
Financial income	121	79	-34.7%	Mainly comes from less interest income from deposits and loans in Q2/2022
Financial expenses	65	123	88.7%	Interest expense increased due to PVT increasing debt to finance fleet expansion and loss from exchange rate difference due to USD appreciation in Q2/2022
Net other income	43	19	-56.9%	In Q1/2022, only 9 billion worth of income was recorded from the liquidation of Phuong Dong Star compared to 39 billion VND from the liquidation of PVT Sea Lion in Q1/2021.
<b>Profit before tax</b>	<b>593</b>	<b>550</b>	<b>-7.3%</b>	
<b>Profit after tax</b>	<b>492</b>	<b>460</b>	<b>-6.6%</b>	
NPM (%)	13.63%	10.72%		

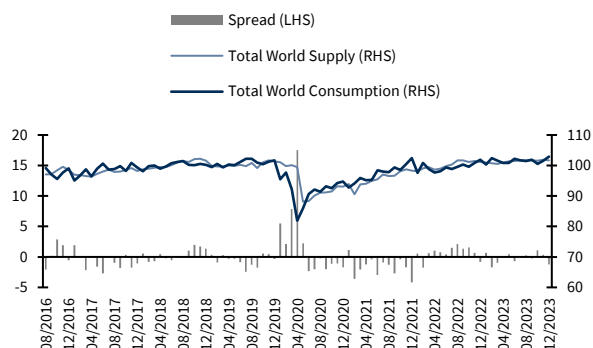
Source: PV Transportation, KB Securities Vietnam

### Freight rates should bounce back in 2H2022 and 2023

The freight rates for vessels carrying liquid products, especially crude oil, finished petroleum & chemicals, which are PVT's core businesses, have dropped significantly since the demand has not fully recovered to the pre-pandemic levels. However, freight rates showed signs of improvement in the first half of 2022 alongside the economic recovery. Data from the Energy Information Administration (EIA) indicate that global petroleum consumption surpassed 100 million barrels per day (bpd) this past July, up from 98.3 million bpd a year earlier, and is likely to maintain at this threshold throughout 2022 and 2023. This is, in our view, a positive signal for the oil & gas transportation sector against the backdrop of the daily charter rates and T/C rates dropping to their two-year lows. The recovery of global oil demand would signify an increase in the volume of crude oil and finished petroleum products transported by sea, thus pushing freight rates and charter rates.

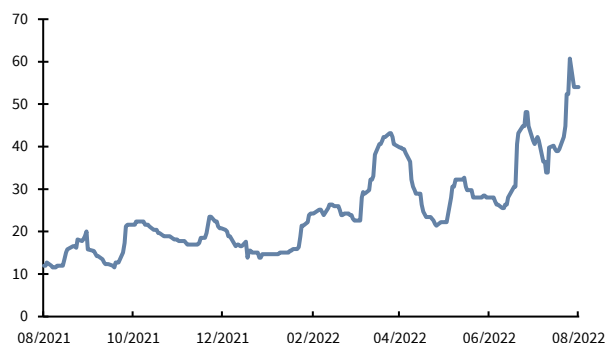
From our observations, crude oil and product/chemical transportation should be the key driver for PVT's transportation segment. Statistically, Russia provided 25% of seaborne crude oil imports into the EU in the twelve months of 2021. This reflects the heavy reliance of the EU bloc (especially Poland, Germany, and the Netherlands) on the Russian Urals. Europe has proposed an outline of a plan to wean itself off Russian energy overdependence well before 2030. However, the amount of Russian crude oil exported to Europe has not shown any decline, even before Russia's invasion of Ukraine. Therefore, it is safe to say that import bans on Russian oil would only aggravate the situation. The EU and the US will likely look to alternative supplies in the Middle East and Venezuela, given the similar characteristics between the crude oil in these regions and the Russian Urals. This would boost freight rates and spot rates of Aframax, ensuring upward momentum for PVT during 2H2022 and the whole year of 2023 as the oil supply remains tight and PVT will benefit from the adjustment of T/C rates based on market prices. Additionally, the tight supply of ships will continue in light of the high average age of the global fleet (>15 years) and mounting ship liquidation. Meanwhile, the number of newly built ships is not enough to offset that of ships liquidated.

Fig 3. Global – Crude oil supply-demand (mn bbl/day)



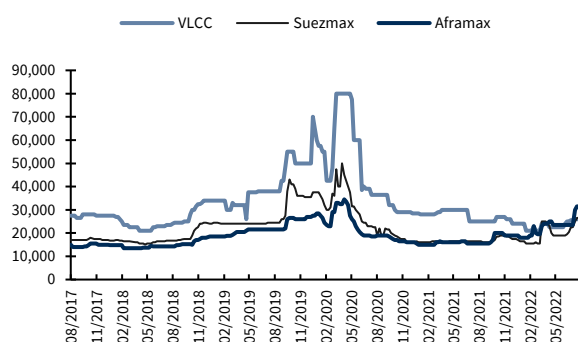
Source: Energy Information Administration, KB Securities Vietnam

Fig 4. Global – Spot rate of Aframax on Caribe-EU route (USD/ton)



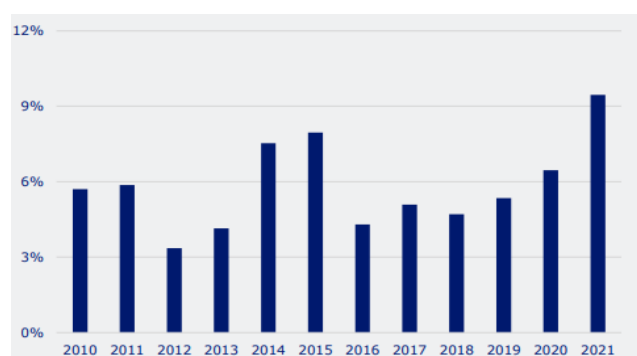
Source: Bloomberg, KB Securities Vietnam

Fig 5. PVT – One-year T/C contract (USD/day)



Source: Bloomberg, KB Securities Vietnam

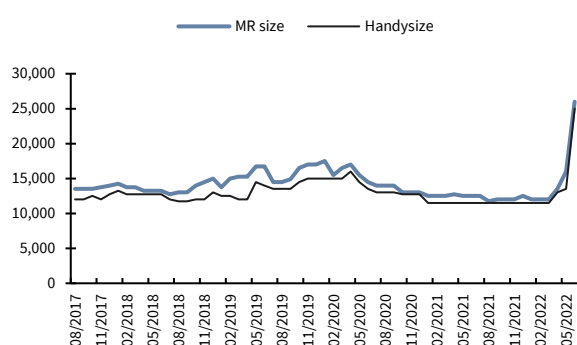
Fig 6. Global – Liquidated crude oil tankers to total crude oil tankers (%)



Source: Clarksons, Danish Ship Finance

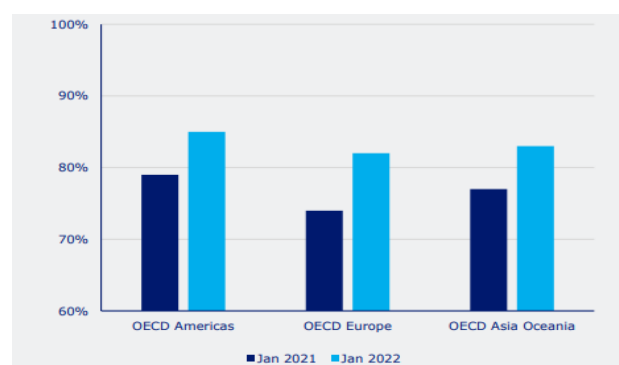
Concerning the transportation of oil & chemical products, diesel (DO) accounts for 35% of total finished oil demand in Europe. Although European refineries are now operating at 115% of their design capacity, Europe still imports gasoline and diesel to ensure enough supply. Data show that about 40% of Europe's imported diesel output is from Russia. Cutting down on imports of Russian oil products, including diesel, will affect the production output of finished petroleum products among European refineries in the coming period. We also note that it takes time for refineries to upgrade their equipment to change the proportion of final products, which is bucking the commitment to the net zero emission target by 2050 under COP26. As a result, European countries will need to seek more alternative sources to fully replace Russian fuels, thus further driving freight rates for finished petroleum products in the coming period.

**Fig 7. Global – One-year T/C rate of MR size and Handysize (USD/day)**



Source: Bloomberg, KB Securities Vietnam

**Fig 8. Global – Capacity of European refineries**



Source: Clarksons, Danish Ship Finance

KBSV estimates PVT's 2H22 gross profit and revenue to reach VND556 billion (+19.8% YoY) and VND3,621 billion (+35.2% YoY), respectively. The main contributions to revenue growth should come from crude oil transportation with VND774 billion (+27.1% YoY) and oil & chemical transportation with VND1,256 billion (+171.8% YoY).

### Fleet expansion is the long-term growth driver

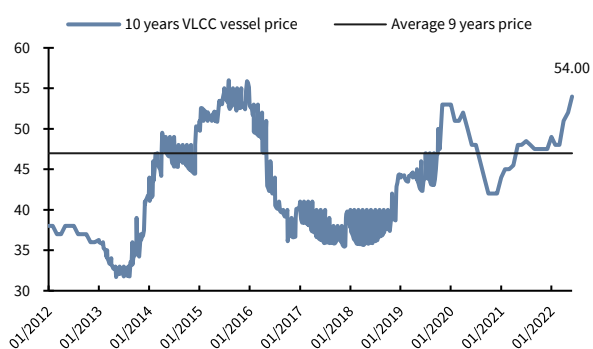
As the largest transporter and maritime service provider in the logistics industry, we believe the fleet expansion plan will accelerate the PVT's long-term growth thanks to lower charter rates which will captivate future customers. In 2021, PVT purchased 4 new ships, including 3 petroleum tankers and 1 VLGC. PVT planned to buy one more VLGC vessel in the second half of 2021 but pushed it back due to the complicated pandemic. Therefore, we expect PVT will get this done in 2H22 and all new ships purchased last year will operate at full capacity in 2023.

However, PVT will likely reschedule its plan to buy VLCC until 2023 for the following reasons:

- Since Binh Son Refinery (BSR) has boosted imports to diversify its input materials, Nghi Son Refinery, one of two refineries in Vietnam, will likely become PVT's primary customer in the time ahead. However, due to financial setbacks, Nghi Son Refinery had to lower its capacity to 60-80% of its design capacity, which means less transport volume for PVT. We believe the situation will persist until 2Q22 at the least, and crude oil volume transported to Nghi Son will only stay consistent from 2023 onwards. However, investing in more VLCC will help PVT improve its profit margin and secure its long-term commitment with Nghi Son to transport 2.5 million tons of crude oil per annum. PVT currently transports crude oil to Nghi Son by chartered ships of SK Shipping, bringing a lower profit margin compared to using its current fleet.
- 10-year-old VLCC prices are staying high at around USD54 million, 14.9% higher than the 9-year average and far beyond the BOD's expectation at USD47 million. We, therefore, believe it is not high time to buy VLCC in 2022.

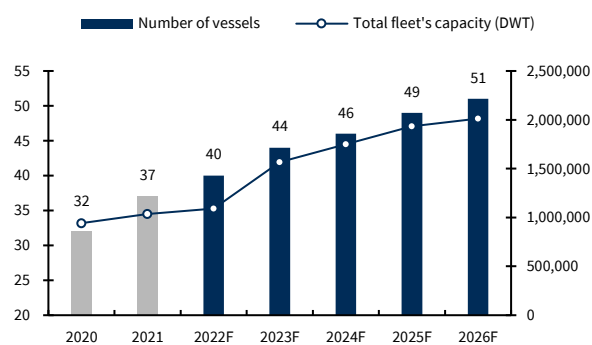
In 2H22, PVT would purchase 2 MR product tankers, 1 VLGC, 1 bulk carrier and barge for coal transportation to the Song Hau 1 thermal power plant. In 2023, the enterprise may invest in 1 VLCC, 1 Aframax, 2 product/chemical tankers (including 1 LR and 1 MR), and 1 bulk carrier. With an estimated investment of USD241 million, we expect PVT's total fleet capacity to reach 1,565 thousand DWT by the end of 2023 vs. 942 thousand DWT in late 2021.

Fig 9. Global - 10-year-old VLCC prices (USDmn)



Source: Bloomberg, KB Securities Vietnam

Fig 10. PVT - Estimated capacity of the fleet (DWT)

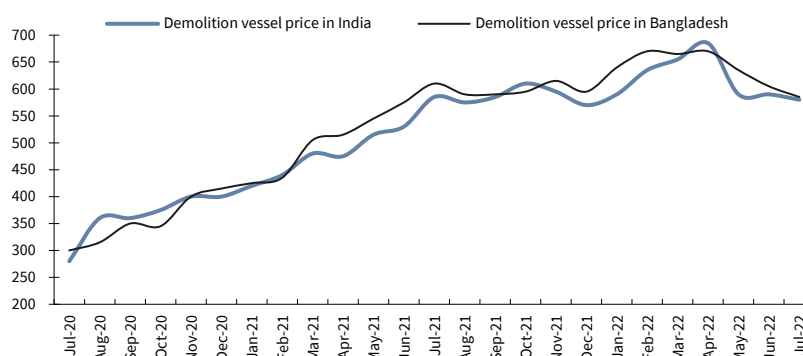


Source: PV Transportation, KB Securities Vietnam

### Unexpected profit from vessel liquidation is the short-term driving force for PVT

PVT plans to liquidate the Aframax-sized PVT Athena crude oil tanker in late 2022 and 2 product/chemical tankers, Song Hau Eagle and PVT Dragon, in 2H22. Given high scrap prices, the liquidation of PVT Athena may bring about VND150 billion in PBT for PVT in 2H22 instead of VND100 billion as previously estimated. In addition, we forecast PVT to earn VND45 billion from liquidating Song Hau Eagle with a deadweight tonnage of 33,425 DWT. Also, PVT may liquidate PVT Dragon in 1Q23 and realize VND10 billion in PBT. In our estimates, PVT will obtain VND199 billion (+424% YoY) from liquidating Phuong Dong Star (1Q22), PVT Athena and Hau Eagle River (2H22). This will be the short-term driver for PVT as this amount would contribute 14% of its PBT in 2022.

Fig 11. Global – Liquidation value of vessels (USD/LDT\*)



Source: Go Shipping, KB Securities Vietnam

LDT (Light displacement tonnage) includes the weight of the hull, machinery, equipment, and spare parts. It is the basis for calculating the liquidation value of the vessels. 1 LDT equals 0.25-0.3 DWT.

### PVT is well-prepared for LNG transportation in the foreseeable future

With the fleet rejuvenation plan, PVT is well-prepared for LNG transportation in the coming time. In light of the rising electricity demand and increased proportion of gas-fired power (including LNG-based power) under National Power Development Plan VIII, LNG consumption will increase, benefiting LNG transportation of PVT. It is expected that the first LNG terminal, the Thi Vai LNG terminal, will be put into operation at the end of this year with a capacity of 1 million tons/year in 2022 and expanded to 3-6 million tons/year in the 2024-2025 period.

Table 2. Vietnam – LNG terminals

LNG terminal	Launch	Capacity (MMTPA)	Investor
Thi Vai LNG terminal	2022	1 (Phase 1)	PV GAS
	2023 (Phase 2)	2 (Phase 2)	
	2022 – 2025 (Phase 1)	1 (Phase 1)	
Hon Khoai LNG terminal (Ca Mau)	Sau 2025 (Phase 2)	2 (Phase 2)	
	2023 – 2025 (Phase 1)	3,6 (Phase 1)	
	2027 – 2030 (Phase 2)	2,4 (Phase 2)	
Son My LNG terminal (Binh Thuan)	2031 – 2035 (Phase 3)	4 (Phase 3)	PV GAS
	2031 – 2035	2 – 3	
	2028 – 2029	1 – 3	
Long Son LNG terminal (Vung Tau)	2031 – 2035	3 – 6	
Hon Me FSRU (Thanh Hoa)	2022 – 2025	1	
Lach Huyen LNG terminal (Hai Phong)	2030 – 2035	3 – 4	ExxonMobil
Nam Van Phong LNG terminal (Khanh Hoa)	2030 – 2035	2 – 3	Petrolimex
Hai Linh LNG Terminal (Vung Tau)	2022 – 2025	1,2	Hai Linh Co., Ltd

Source: PV Gas, National Power Development Plan VIII, KB Securities Vietnam



## Forecast

**In 2022F, PVT's NPAT and revenue should grow by 35.9% YoY and 24.2% YoY, respectively**

In 2022, we estimate PVT's NPAT and revenue at VND1,139 billion (+ 35.9% YoY) and VND9,149 billion (+ 24.2% YoY) respectively, assuming that:

- PVT will purchase 7 new ships and sign bareboat charters for 3 VLGC, 1 oil/chemical tanker, and 1 LPG coaster. New vessels bought in 2021 should operate at maximum capacity.
- Average charter rate should jump by 37% YoY in line with the adjustment of T/C rates thanks to the positive outlook in the second half of 2022.
- Daily charter rate of Dai Hung Queen continues to stay consistently high given high world oil prices.
- PVT may realize VND199 billion from the liquidation of PVT Athena, Phuong Dong Star, and Song Hau Eagle.

**In 2023F, PVT's NPAT and revenue should be down 0.6% YoY and up 10.9% YoY, respectively**

In 2023, we estimate PVT's NPAT and revenue at VND1,086 billion (-0.6% YoY) and VND9,837 billion (+ 11% YoY) respectively, assuming that:

- PVT will purchase 5 new ships.
- Time charter rates continue to gain 5% YoY thanks to the resumption of crude oil transportation demand to speed up the economies around the world.
- Daily charter rate of Dai Hung Queen continues to remain high thanks to the world oil prices setting a new equilibrium level.
- PVT does not realize any profit from the liquidation of old ships as it did in 2022.

## Valuation

**We recommend BUY for PVT stocks with a target price of VND29,200/share**

Combining FCFF (Free Cash Flow to Firm) and P/E valuation methods with a ratio of 50:50, we recommend BUY for PVT stocks with a target price of VND29,200/share, 39.7% higher than the closing price on August 22, 2022.

**Table 3. PVT – Target price according to DCF method (VND/share)**

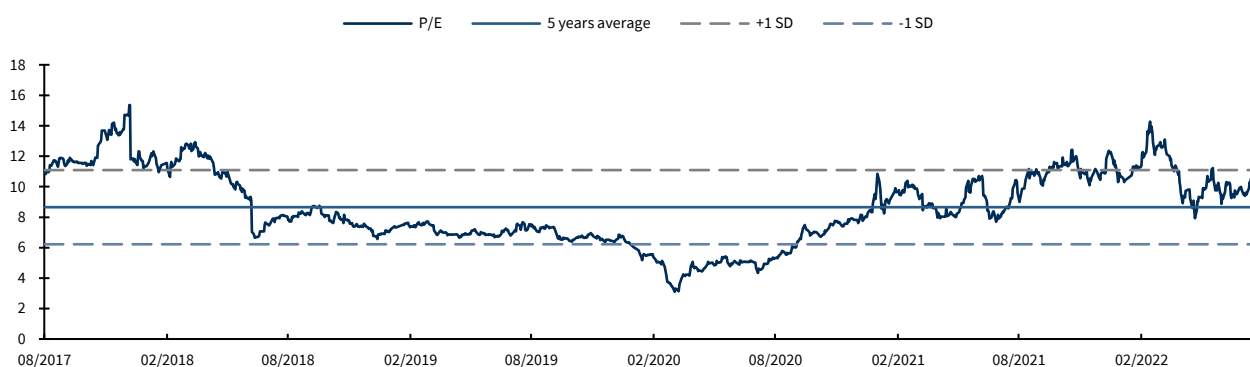
K <sub>E</sub>	15.20%	PV of Terminal Value	11,461
Risk-free rate	3.5%	PV of Free Cash Flows	2,617
Equity risk premium	7.8%	<b>Total value of FCF and TV</b>	<b>14,078</b>
Beta	1.50	Plus: Cash & ST investments	1,332
Cost of debt	7.0%	Less: Debt	-3,847
Corporate tax rate %	20.0%	Less: Minority Interest	-1,977
<b>WACC</b>	<b>12.8%</b>	<b>Equity Value</b>	<b>9,586</b>
Terminal growth rate	1.0%	No. of shares outstanding (mn shares)	323.7
		<b>Value per share (VND)</b>	<b>29,614</b>

Source: KB Securities Vietnam

### P/E valuation method

We give PVT stocks a target P/E of 10.4x, equivalent to PVT's 5-year average P/E. The fair price for PVT stocks based on the P/E method is VND28,735/share. We lower the target P/E for PVT from the previous projection to reflect the risk that the possible oversupply of large vessels and unpredictable fluctuations in ship prices can somewhat affect the plan to expand the fleet of PVT as well as LPG transportation. However, we believe PVT stocks remain attractive since the plan to expand and rejuvenate the fleet will significantly contribute to the future growth of the leading transporter.

**Fig 12. PVT – P/E (x)**



Source: Bloomberg, KB Securities Vietnam

**Table 4. PVT – Target price according to valuation methods (VND/share)**

Valuation method	Forecast price	Weight	Weighted price
FCFF	29,614	50%	14,807
P/E (10.4x)	28,735	50%	14,368
<b>Target price (rounded)</b>			<b>29,200</b>
Current price (Aug 22, 2022)			20,900
<b>Total return</b>			<b>39.7%</b>

Source: KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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