

PV Transportation (PVT)

Fleet expansion supports long-term growth

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In 2021, revenue and NPAT were flat YoY due to social distancing measures

In 2021, PV Transportation (PVT) achieved VND838 billion (+ 0.9% YoY) in NPAT on net revenue of VND7,368 billion (-0.2% YoY). Business results were flat YoY due to: (1) the negative impacts of lockdowns on FSO and FPSO services; and (2) Covid-related costs.

Freight rates would recover thanks to increased consumption and the Russia-Ukraine conflict

The US Energy Information Agency (EIA) forecast the supply-demand chain to fully recover in 2022, promoting petroleum transportation and significantly improving tanker charter rates. In addition, the Russia-Ukraine conflict may benefit energy transport logistics as the dwindling oil supply from Russia may lead to a growing demand for imported petroleum, helping freight rates and charter rates of PVT to rise.

PVT's fleet expansion plan will support the long-term growth potential of PVT

We believe the fleet expansion of PVT, the largest transporter and maritime service provider in the industry, will drive the business's long-term growth thanks to its lower time charter rates which will attract new customers. With the expansion plan in 2022-2023, we expect the total weight capacity of PVT's fleet to double from 978 thousand DWT in late 2021 to 1,707 thousand DWT by the end of 2023.

We recommend BUYING PVT shares with a target price of VND34,400

Based on FCFF and P/E valuation methods at a rate of 50:50, we recommend BUYING PVT shares with a target price of VND34,400/share, 30.8% higher than the closing price on March 14, 2022.

Buy maintain

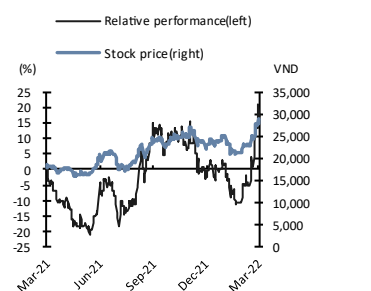
Target price	VND34,400
Upside/Downside	30.8%
Current price (Mar 14, 2022)	VND26,300
Consensus target price	VND29,300
Market cap (VNDbn)	8,966

Trading data	
Free float	48.9%
3M avg trading value (VNDbn)	89.68
Foreign ownership	37.8%
Major shareholder	PetroVietnam (51.0%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	24.5	22.0	16.1	53.9
Relative	26.8	20.3	5.1	21.3

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	7,383	7,368	8,871	9,837
EBIT	854	963	1,219	1,321
NPATMI (VNDbn)	669	666	901	895
EPS (VND)	1,946	2,056	2,783	2,765
EPS growth (VND)	-16.1	5.7	35.0	-1.0
P/E (x)	5.0	11.1	12.7	12.8
EV/EBITDA (x)	3.3	5.8	7.4	6.7
P/B (x)	0.5	1.1	1.4	1.2
ROE (%)	13.2	12.1	13.5	11.7
Dividend yield (%)	5.4	5.1	2.8	2.8



Source: Bloomberg, KB Securities Vietnam

Updated business performance

In 2021, revenue and NPAT were flat YoY due to the impact of social distancing

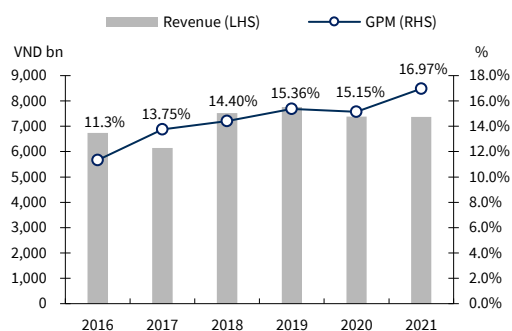
For the whole year of 2021, PVT recorded VND838 billion in NPAT (+0.9% YoY) on net revenue of VND7,368 billion (-0.2% YoY). The business results were flat YoY due to: (1) the negative impact of stringent social distancing protocols on FPSO (Floating Production Storage and Offloading) and FSO (Floating Storage and Offloading) services; and (2) incurred costs to combat the COVID-19 pandemic.

With a cautious plan for 2021, PVT delivered 207.4% and 122.8% of its targets for NPAT (VND404 billion) and revenue (VND6,000 billion).

Gross profit margin improved by 1.8 percentage points to 17% thanks to optimized transportation costs and increased FSO/FPSO charter rates

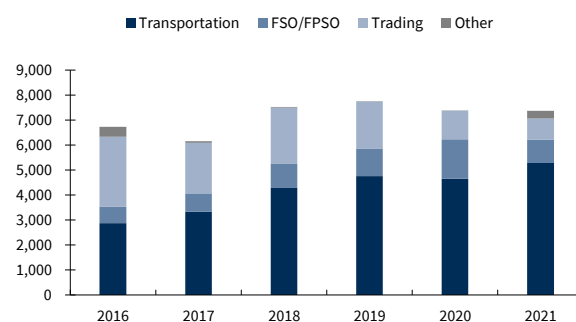
By the end of 2021, PVT's gross profit margin improved from 15.2% to 17.0%, supported by the transportation segment (up 2.2 percentage points to 17.7%) and the FPO/FPSO segment (up 5.2 percentage points to 29.4%). In particular: (1) PVT purchased five more new vessels, raising the total number of ships to 36; (2) in 2020, PVT accounted for costs associated with ship maintenance and the remaining depreciation charge of the Athena ship whose liquidation was planned in 2021 but was behind schedule due to procedural difficulties; and (3) PetroVietnam (PVN) adjusted up Dai Hung Queen's dayrate from the 2020 lows.

Fig 1. PVT – Revenue and gross profit margin (VNDbn, %)



Source: PV Transportation, KB Securities Vietnam

Fig 2. PVT – Revenue breakdown (VNDbn)



Source: PV Transportation, KB Securities Vietnam

Table 1. PVT – 2021A business results

VND bn	2020A	2021A	YoY %	Notes
Revenue (bn VND)	7,383	7,368	-0.2%	Flat revenue due to transportation and FSO/FPSO segment were negatively affected by social distancing.
Transportation	4,653	5,279	13.5%	Thanks to the purchase of 5 new vessels, including 4 product/chemical tankers and 1 VLGC vessel.
FSO/FPSO	1,576	940	-40.4%	The impact of the Covid-19 caused the FSO/FPSO storage operations in Dai Hung Queen to be affected even though the dayrate increased in line with world oil prices.
Commercial trading	1,146	840	-26.7%	
Other	8	312	3794.5%	
Gross profit	1,119	1,250	11.7%	
GPM (%)	15.16%	16.96%		
Transportation	15.5%	17.7%		Higher gross profit margin thanks to: (1) Contribution of new vessels, (2) PVT has accounted for the periodic maintenance costs of the ships and the remaining depreciation expense of Athena (expected to be sold 2021) in 2020.
FSO/FPSO	24.2%	29.4%		The profit margin is higher thanks to the dayrate of FPSO Dai Hung Queen increased from low base of 2020.
Commercial trading	1.0%	1.5%		
Other	62.5%	9.0%		
SG&A expenses	(265)	(287)		Higher costs due to costs incurred from Covid-19 pandemic prevention
% SG&A / Revenue	-3.59%	-3.90%		
Operating profit	854	963		
Financial income	272	181		
Financial expenses	174	157		
Net other income	0	0		
Profit before tax	1,040	1,050	1.0%	
Profit after tax	830	838	0.9%	
NPM (%)	11.25%	11.37%		

Source: PV Transportation, KB Securities Vietnam

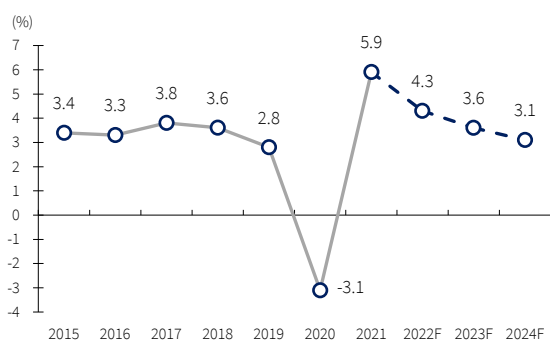
Freight rates would bounce back given the recovery in oil demand and the Russia-Ukraine conflict

We expect the rollout of vaccination programs globally will be the driver for the resilience of the world economy. Along with that, normalized production, transportation, and tourism should all boost oil and gas demand. According to the US EIA, the supply-demand chain will fully recover in 2022, promoting tanker demand and improving oil tanker rates significantly.

Brent crude oil is hovering at a multi-year high of USD120/barrel. The EIA anticipated that global petroleum consumption would surpass 100 million barrels per day (bpd) in June 2022 and continue until the end of 2023, up from 98.3 million bpd a year earlier. In our view, this is a good sign for the oil and gas transportation industry as its dayrate and time charter rates have fallen to two-year lows. The recovery of global oil demand is considered a springboard for the maritime transportation of crude oil and finished products, thereby pushing freight and charter rates. With a fleet of 36 ships by the end of 2021 and an ambitious expansion plan in the coming years, KBSV believes that PVT will benefit enormously from surging charter rates, thereby improving its profit margin.

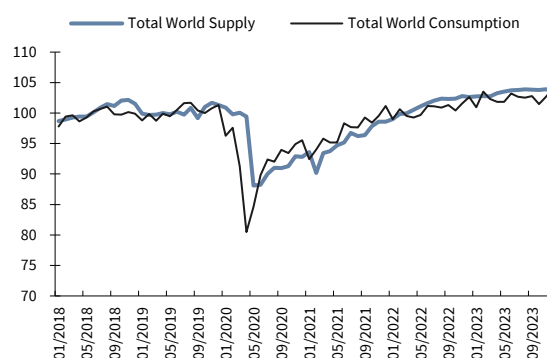
In addition, the Russia-Ukraine crisis may also promote the petroleum shipping industry as the Baltic Exchange Dirty Tanker Index (BDTI) and Baltic Clean Tanker Index (BCTI) jumped by over 100% following the war in Ukraine. Russia is among the largest oil producers, supplying about 10 million bpd, or 10% of global demand. Oil and gas supply disruptions through pipelines from Russia to Europe will boost oil transportation by sea. However, shipowners may experience surging freight rates in Russia and Ukraine. Although PVT mainly leases vessels under time charter agreements in the Middle East, Europe, and the Americas, we believe that if the Russia-Ukraine conflict is prolonged, the shortage of oil supply from Russia will lead to an increase in demand for oil and gas imported from other producers, namely the Middle East, thereby helping to increase freight rates and charter rates for PVT.

Fig 3. Global - Forecast GDP (%)



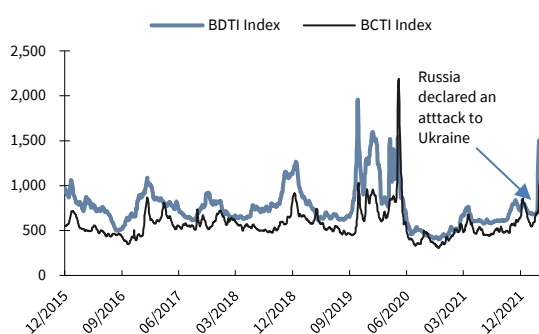
Source: Bloomberg, KB Securities Vietnam

Fig 4. EIA - Forecast oil and gas supply/demand (mn bbl)



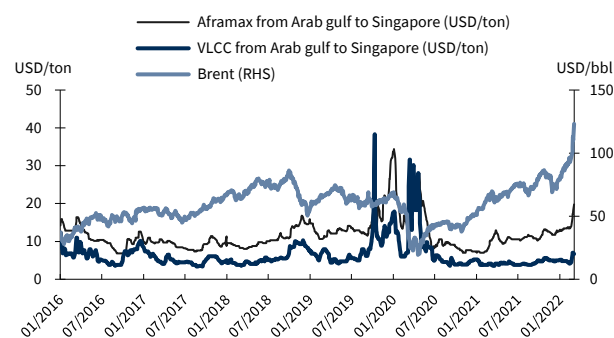
Source: Energy Information Administration, KB Securities Vietnam

Fig 5. Global – BDTI & BCTI



Source: Bloomberg, KB Securities Vietnam

Fig 6. Arab-Singapore – Spot rate (USD/ton, USD/bbl)



Source: Bloomberg, KB Securities Vietnam

Fleet expansion plan drives long-term growth potential for PVT

We believe PVT's fleet expansion plan, combined with its leading position in the industry, will support PVT's long-term growth thanks to gaining more competitive advantage from lower charter rates. In 2021, PVT added four new ships to its fleet, including three product/chemical tankers and one VLGC vessel. 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 to purchase one more VLGC vessel in the second half of 2022 and operate at full capacity in 2023.

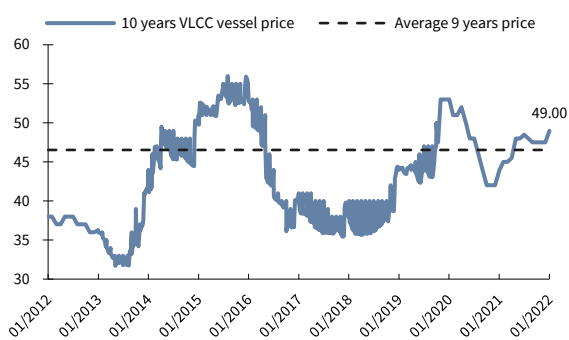
Regarding the plan to buy VLCC, we assume that PVT may push it back until 2023 for the following reasons:

- Since Binh Son Refinery (BSR) has gradually diversified its input materials by importing oil, Nghi Son Refinery, one of two refineries in Vietnam, will likely become PVT's main customer in the future. However, due to financial distress, Nghi Son Oil Refinery had to lower its capacity to 60–80% of its design capacity, which means less transport volume for PVT. We believe that the situation will not get better until 2Q22 at least, and Nghi Son Refinery's crude oil input volumes will only be stable beyond 2023. However, investing in more VLCC vessels will help PVT improve its profit margin and secure long-term commitments with Nghi Son to transport 2.5 million tons of crude oil per year. PVT currently transports crude oil to Nghi Son by chartered ships of SK Shipping with a lower profit margin compared to the company's current fleet.
- The prices of the 10-year-old VLCC are high thanks to the 3.1% MoM increase in January 2022 to USD49 million, 5.3% higher than the 9-year average and exceeding the plan set by the Board of Directors (about USD47 million). We, therefore, believe it is not high time to buy VLCC ships in 2022.

For 2022–2023, we forecast that PVT will invest in five new ships per year: two crude oil tankers, two product/chemical tankers (including one VLGC vessel), and one bulk carrier in 2022; and one VLCC, two product/chemical tankers, one LPG vessel, and one bulk carrier in 2023. With an estimated investment of USD252 million, we expect PVT's total weight capacity to double from 978 thousand DWT in late 2021 to 1,707 thousand DWT by the end of 2023.

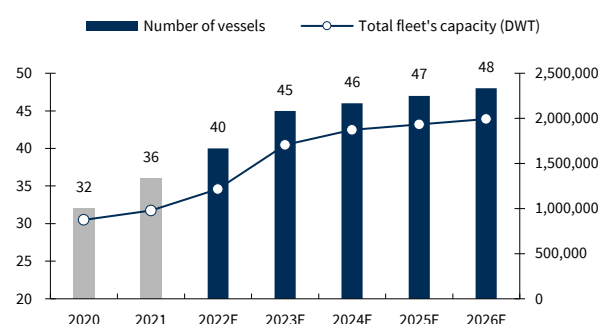
We expect the crude oil carrier, PVT Athena, to be liquidated in 1Q22 instead of 4Q21 as previously planned, bringing an extraordinary profit of about VND100 billion, which is higher than expected at VND50 billion following price rallies of scrap tankers in the international markets since the beginning of the year.

Fig 7. Global – 10-year-old VLCC prices (USDmn)



Source: Bloomberg, KB Securities Vietnam

Fig 8. PVT – Fleet capacity (DWT)



Source: Bloomberg, KB Securities Vietnam

PVT has been well-prepared for LNG transportation in the time ahead

We take a positive stance towards PVT given its fleet rejuvenation and preparations for LNG transportation in the coming months. In the context of high electricity demand and the plan to increase the proportion of gas electricity (including liquified power produced from LNG) in the Draft Power Development Planning of Vietnam, the outlook for LNG is bright and LNG transportation is considered a key growth momentum for PVT. The first LNG terminal, Thi Vai, should be put into operation in late 2022 with a capacity of 1 million tons/year in phase 1 and 3–6 million tons/year in 2024–2025.

Table 2. Vietnam – 2021A–2035E LNG terminals

LNG terminal	Launch	Capacity (MTPA)
Thi Vai LNG terminal	2020 – 2022	1–3 MT
Hon Khoai LNG terminal (Ca Mau)	2022 – 2025 (phase 1)	1 MT (phase 1)
	Sau 2025 (phase 2)	2 MT (phase 2)
	2023 – 2025 (phase 1)	1–3 MT (phase 1)
Son My LNG terminal (Binh Thuan)	2027 – 2030 (phase 2)	3 MT (phase 2)
	2031 – 2035 (phase 3)	3 MT (phase 3)
	2022 – 2025	4–6 MT
Dong Nam Bo LNG terminal (Tien Giang)	2022 – 2025	4–6 MT
Thai Binh floating storage and LNG delivery (FSRU)	2026 – 2030	0.2 – 0.5 MT
Cat Hai LNG terminal (Hai Phong)	2030 – 2035	1–3 MT
Nam Van Phong LNG terminal (Khanh Hoa)	2030 – 2035	3 MT
Hai Linh LNG terminal (Vung Tau)	2021 – phase 1	2–3 MT (phase 1)
	2023 – 2025 (GĐ2)	6 MT (phase 2)

Source: Master Plan for Vietnam Gas Industry Development, KB Securities Vietnam

Forecast business performance

In 2022F, revenue and NPAT should grow by 20.4% YoY and 30.4% YoY

We estimate PVT's NPAT at VND1,093 billion (+ 30% YoY) on revenue of VND8,871 billion (+20% YoY) in 2022F on the assumptions that:

- PVT will invest in five new ships in 2022, and the new vessels that PVT purchased in 2021 will operate at maximum capacity.
- Time charter rates should rise by 10% YoY given huge shipping demand and geopolitical tensions between Russia and Ukraine.
- The dayrate of Dai Hung Queen remains high due to high world oil prices.
- PVT is expected to record an extraordinary profit of about VND 100 billion from the liquidation of Athena.

In 2023F, NPAT may decrease by - 0.6% YoY while revenue should increase by 10.9% YoY

We forecast PVT's NPAT to reach VND1,086 billion (- 0.6% YoY) on revenue of VND9,837 billion (+11% YoY) in 2023F on the assumptions that:

- PVT will purchase five new ships in 2023.
- Time charter rates continue to increase by 5% YoY on the growing demand for crude oil transportation when the world economy recovers from the pandemic.
- The dayrate of Dai Hung Queen will remain high thanks to the stable world oil prices at a new equilibrium level.
- PVT realizes no extraordinary profit like the liquidation of old ships as in 2022.

Valuation

FCFF and P/E valuation methods

By using Free Cash Flow to Firm (FCFF) and P/E valuation methods at a rate of 50:50, we recommend BUYING PVT shares with a target price of VND34,400/share, which is equivalent to an upside of 30.8% compared to the closing price of VND26,300/share on March 14, 2022.

Table 3. PVT – DCF valuation method

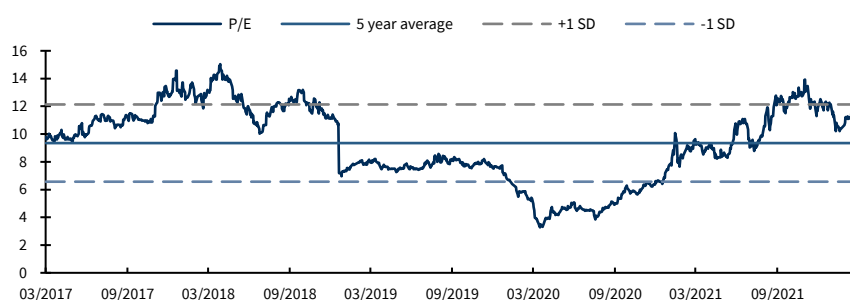
Risk-free rate	2.50%	Terminal growth rate	2%
Equity risk premium	10.0%	PV of Terminal Value	11,731
Beta	1.20	PV of Free Cash Flows	3,465
Cost of equity	14.5%	Total value of FCF and TV	15,196
Cost of debt	7.5%	Plus: Cash & ST investments	2,581
Corporate tax rate %	20%	- Debt	-4,351
Cost of debt after tax	6.0%	- Minority Interest	-1,969
Equity %	75%	Equity Value	11,457
WACC	12.4%	Outstanding shares (mn shares)	323.7
		Value per share (VND)	35,400

Source: KB Securities Vietnam

P/E multiple

Based on the P/E multiple, we give PVT a target P/E of 12.0x, equivalent to +1SD of PVT's five-year average P/E, supported by the following reasons: (1) The outlook for PVT is positive in the short and long term given the growing demand for crude oil transportation in the context of the global economic recovery; and (2) the fleet expansion plan may help double PVT's total weight capacity, boosting growth potential in the future.

Fig 9. PVT – P/B (x)



Source: Bloomberg, KB Securities Vietnam

Table 4. PVT – Target price according to valuation methods

Valuation method	Forecast price (VND)	Weight	Weighted price (VND)
FCFF	33,400	50%	16,700
P/E	35,400	50%	17,700
Target price			34,400
Current price (March 14, 2022)			26,300
Upside			30.8%

Source: KB Securities Vietnam

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Investment ratings & definitions

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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