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Petrolimex (PLX)

1Q loss on sizable inventory provision

1Q loss from huge inventory provision

— 1Q loss of VND1.8 trillion (vs 1Q earnings of VND1.3 trillion in 2019) due to: 1) VND1.6 trillion in inventory provisioning to reflect plummeting oil product prices; and 2) lower volume demand during the nationwide lockdown that caused 1Q revenue to shrink by 8.3% YoY to VND38.5 trillion. Retail pump prices have already fallen below the average cost of inventory during the April 1–15 pricing period and caused management to book inventory provisions for expected losses in the upcoming quarter. Provisions will likely be a moving target as higher retail pump prices can also generate provision reversals (retail pump prices are determined every two weeks using a formula of product prices). Volume demand also fell by 10% after the coronavirus led to a 6% YoY contraction in nationwide passenger traffic (including private and public transportation) and 27.8% YoY drop in tourism sales during the quarter.

Expansion of the COCO station network remains on track

— PLX opened 28 new COCO stations (company owned–company operated) in 1Q and now operates 2,780 COCO and 3,000 DODO (dealer owned–dealer operated) locations. Management will maintain its retail-focused strategy – and take advantage of the turbulent times of the coronavirus – to use M&A to expand the COCO network that offers higher retail margins vs the wholesale margins of its DODO pumps.

Potential cut in environment tax could boost retail volume demand

— Currently, the environmental tax is VND4,000 per liter for gasoline and VND2,000 per liter for other refined products or about 20%–32% of retail prices for petroleum products. The Ministry of Industry & Trade submitted a proposal on April 10 to cut this tax, which could lower pump prices and trigger the faster-than-expected recovery in retail volumes without any undue impact to product margins.

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(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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