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Petrolimex (PLX)

Fourth treasury sale; free float increases to 10%

PLX announces fourth tranche of treasury share sell down

— PLX registered to sell another 15 million treasury shares between June 16 and July 15 or 1.3% of shares outstanding and 14% of current free-float. After selling this tranche remaining treasuries would be 88 million shares or 7.3% of outstanding shares and 82% of current free float. Implications include: 1) creating near-term overhang on PLX shares as the volume of treasury shares represents about 15-trading days of stock (unless cleared by block trades in the put-through market); but 2) will boost the thin free-float to 10.0% from 8.9%; and 3) allow the company to book about VND543 billion in gains to shareholders' equity or a 2.5% increase to 1Q's book value per share as the average purchase prices for these shares was VND10,600 per share.

Proceeds from treasury sale adds to PLX's cash pile & healthy *Price Stabilization Fund*

— Despite 1Q's negative operating cash flow, PLX is sitting on a large VND15 trillion cash pile or 27% of total assets vs VND343 billion in debt due this year. Moreover, contributions to the *Price Stabilization Fund* to offset sharp rises in retail pump prices are at healthy levels at VND2.3 trillion. Management will likely use these extra cash resources to continue the acquisition of existing gas stations as well as opening new locations to expand the network of directly-owned gas stations.

Treasury shares a legacy from 2011's privatization & boosts free float

— We view any treasury sale positively to resolve legacy issues from the company's privatization and additional boost to free float. The current treasury sell down has its roots in the company's privatization in 2011 when the government provided PLX with VND2.8 trillion in receivables to make up for a capital shortfall just prior to its quasi-listing. The spinout of PLX from the government was conducted at an asset value of VND 7.3 trillion vs the original VND10.2 trillion asset value due to falling land prices and the differential of VND2.8 trillion was resolved by: 1) VND2.4 trillion in suspended dividends as the government gave up cash dividends between 2012–2016 to pay down its receivables obligation; and 2) VND350 billion in redeemable preferred shares that were ultimately converted to common shares and bought into treasury shares. PLX originally issued 155 million redeemable preferred shares in 2016 as part of a bonus share offering that the company would redeem at VND10,000 par value plus an additional VND600 per share by the end of the year. Minorities received payment for redeemed shares but the government's preferred shares were converted to common shares. The government, however, used these common shares for payment in kind against the claim on the receivables, with PLX taking these shares into treasury.

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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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