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Oil & Gas & Chemicals Analyst
Nguyen Vinh
vinhn@kbsec.com.vn

PV Transportation (PVT)

1Q tumbles on refinery shutdown & falling oil prices

1Q earnings plunge 49% YoY as shutdown hits transport volume & less FSO profits

— 1Q earnings tumbled to VND89 billion (down 49.0% YoY) mainly due to: 1) lower oil transport volumes from the unscheduled shutdown at the Nghi Son Refinery; 2) reduced output from Floating Storage & Offloading (FSO) operations amid the sharp drop in oil prices; and 3) FX losses for overseas debt. Revenue also fell by 15.3% YoY to VND1.58 trillion as the company reduced exposure to the low-margin commercial segment, with sales down 92.6% YoY for bulk product purchases and resale to third parties. The Nghi Son Refinery went into scheduled maintenance from November 2019 to January 2020 but delayed restart until after February 2020. The unscheduled shutdown suspended oil shipments after the refinery cancelled the voyage charter for that month. The sharp drop in oil prices also lowered output and earnings from the FSO. Moreover, weaker exchange rates during the quarter raised interest costs and led to FX losses for overseas debt.

"Tank top" market may lead to temporary suspension of crude oil imports

— Usually PVT benefits from lower oil prices as refiners build inventories of cheap oil. But with oil prices at such depressed levels and futures in record contango, Vietnam's two refiners – Binh Son Refinery and Nghi Son Refinery – have reached "tank top" levels and maxed out all storage facilities. The Vietnam Oil & Gas Group (PVN) submitted a proposal to the government to temporarily pause new crude imports, which could negatively impact PVT's transport volumes. Moreover, the Binh Son Refinery enters its 60-day maintenance turnover in June/July and full operations of the new Nghi Son Refinery have yet to be determined, adding more uncertainty for PVT's transport volumes in 2020E.

Aggressive fleet expansion may suspend cash dividends and boost interest expenses

— PVT plans to add thirteen new tankers to its fleet (including VLCCs, Aframax, Suexmax and barges) for current and upcoming energy projects and has earmarked a capex budget of US350 million over the next two to three years. Management indicates that it will need to finance about USD150 million of this budget and plans to suspend its 2020E cash dividend to cover rising interest expenses expected in the years ahead. Currently, the company plans to purchase a VLCC for the Nghi Son Refinery in 3Q for USD50 million (right now PVT leases a VLCC from SK Shipping) due to the sharp rise in VLCC day rates to around USD200,000/day (up 87% YTD and up 156% YoY) after the introduction of IMO 2020.

KB SECURITIES VIETNAM RESEARCH

Head of Research – Nguyen Xuan Binh
binhnx@kbsec.com.vn

Macro/Strategy

Head of Macro & Strategy – Tran Duc Anh
anhtd@kbsec.com.vn

Macro Analyst – Thai Thi Viet Trinh
trinhttv@kbsec.com.vn

Market Strategist – Le Anh Tung
tungla@kbsec.com.vn

Equity (Hanoi)

Head of Equity Research (Hanoi) – Duong Duc Hieu
hieudd@kbsec.com.vn

Information Technology & Logistics Analyst – Nguyen Anh Tung
tungna@kbsec.com.vn

Property Analyst – Pham Hoang Bao Nga
ngaphb@kbsec.com.vn

Power & Construction Material Analyst – Le Thanh Cong
conglt@kbsec.com.vn

Financials Analyst – Nguyen Thi Thu Huyen
huyenntt@kbsec.com.vn

Equity (Ho Chi Minh)

Head of Equity Research (Ho Chi Minh) – Harrison Kim
harrison.kim@kbfg.com

Consumer & Retailing Analyst – Dao Phuc Phuong Dung
dungdpp@kbsec.com.vn

Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh
danhnt@kbsec.com.vn

Oil & Gas & Chemicals Analyst – Nguyen Vinh
vinhn@kbsec.com.vn

Research Marketing

Korea Marketing Analyst – Seon Yeong Shin
shin.sy@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:
Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

Hanoi Branch:
Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 - Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:
Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 - Fax: (+84) 28 3914 1969

Saigon Branch:
Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

CONTACT INFORMATION
Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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