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PV Transportation (PVT)

Management lowball's guidance again

Cautious 2020E earnings guidance as expected; volumes likely to suffer in 2020E

— Management released cautious earnings guidance 2020E of VND 433 billion or down 47% on revenue of VND 6,200 billion or down 20% YoY in the proposal for the annual shareholders' meeting scheduled for June 18. This should not pose a concern as management has historically lowballed guidance, with 2019's original full-year guidance for earnings at VND400 billion despite delivering VND642 billion in net profit last year. More importantly, management disclosed that low pricing for oil has boosted rates for VLCCs and Aframax tankers, with year-to-date average day rates up 102% YoY as refiners stockpile additional oil inventory in tankers. Despite the better pricing environment, transport volumes at PVT are likely to suffer in 2020E due to: 1) the two-month maintenance overhaul at Binh Son Refining's *Dung Quat* facility at year-end; and 2) slow ramp up of the *Nghi Son Refinery*. When these two refineries operate at full capacity, PVT's total transport volumes could reach 9 million tons of crude oil per year (Binh Son Refining 6.5-7.0 million tons per year and Nghi Son Refinery 2.5 million tons per year) compared to a little over 6 million tons transported now and PVT's total capacity of 10 million tons per year.

Multi-year capex budget of USD 300 million & only 15% stock dividend for 2019 results

— Management will also seek shareholder approval for USD300 million in capital expenditures for 14-16 new vessels. The financing plan includes: 1) USD187 million in additional debt; and 2) 91% of the total investment funded in US dollars. This will largely represent the bulk of the company's financial burden in the upcoming years. Given the multi-year expansion proposal, management will suspend the cash dividend for 2019 performance (cash dividend was VND1,000 per share for 2018 performance) and only declare a 15% stock dividend.

VLCC purchase still being delayed and now need to wait for prices to drop

— PVT's need to purchase a VLCC (Very Large Crude Carrier) remains an outstanding issue for 2020E. Management originally wanted to purchase a used VLCC tanker for USD45 million in 2H 2019 but this plan was pushed back to 2020E after the parent PetroVietnam (Vietnam Oil & Gas Group) delayed approval. Purchase prices for VLCC tankers have now exceeded PVT's maximum USD50 million budget due to the increase in scrapped vessels following the introduction of IMO2020. Management will now need to wait for VLCC prices to fall or purchase an older vessel to resolve this issue. Currently, PVT runs low-margin voyage charters for the *Nghi Son Refinery* using ships from SK Shipping. The purchase of its own VLCC will allow the company to switch to higher-margin time charters that offer fixed rates per day, only require costs for crew and deprecation and avoid fuel costs.

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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