PetroVietnam Transportation Corporation (HSX:PVT)

KB Securities VIETNAM

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BUSINESS PERFORMANCE & PLAN IN 2019

Revenue in 1H2019 gained 5.1% yoy, NPAT rose 12.9% yoy, completing 109.4% profit plan of the year

Revenue was VND2,212 billion, up by 5.6% yoy in Q2/2019, reached VND4,074 billion, up by 5.1% yoy in the first 6M2019, completing 40.2% of the year plan. GPM in 1H2019 hit 14.16%, gaining 2.34% over the same period in 2018. NPAT in 1H2019 was VND437.8 billion, gaining 12.9% yoy, completing 109.4% of the profit plan for 2019.

Revenue from crude oil transportation climbed 34.2% yoy in 1H2019 with a force from oil transportation to Nghi Son Refinery.

Revenue gained from crude oil transportation in 1H2019 was VND993 billion, up 34.2% yoy thanks to the new force from the transportation of 25% input oil for Nghi Son Refinery (NSR). Currently, PVT are operating 4 ships for crude oil transportation, in which there are 2 serving Dung Quat Refinery Factory with a capacity of 6.5 million tons/year; 1 ship used for some customers from Middle East; and 1 ship received in June. In addition, PVT has an outsourced PLCC ship with a capacity of 300,000 DWT to ship crude oil from Middle East to Nghi Son Refinery once a month on average. At the end of Q3, and beginning of Q4, PVT expects to buy a new VLCC ship at USD45 million instead of outsourcing, thereby raising GPM to 23-24% for oil transportation to Nghi Son.

Revenue from finished oil transportation climbed 15.3% yoy.

1H2019, revenue from finished oil transportation reached VND519 billion, increasing 15.3% yoy, GPM was13.6%. The force of growth came from: (1) Transportation fees gained roughly 10% in 1H2019 due to new principles on IMO materials which are about to become effective by 2020. Specifically, large container vessels will have to switch to cleaner and higher-priced materials and shipping lines have agreed that customers will have to pay the increased fuel costs; (2) Nghi Son Refinery has started to give contribution. Currently, PVT is operating a fleet of 10 ships including 2 domestic ships and 8 other ships with international routes. In the last 6 months, PVT plans to invest in two new 20,000 DWT chemical tankers worth about USD14-15 million/tanker and a 13,000 DWT mechanical ship worth USD9-10 million.

Revenue from LPG transportation reached VND581 billion, equal to 48% revenue recorded in 2018.

1H2019, revenue from LPG transportation reached VND 581 billion, GPM was 21.1%. According to PVT, the demand fof LPG on domestic market has been increasing by 10% each year, equal to 2 million tons/year, while PVT handles both domestic transporation and importation. PVT has currently owned 13 ship with a capacity ranging from 3,000 CBM to 7,000 CBM, of which 2 ships were received in 1H2019. PVT expects to buy 2 new ships in the last 6 months of the year, with an investment cost of about USD10 million for 5,000 CBM ships.

Revenue from coal transportation increased 33% yoy, GPM hit 12.8%, surging over the same period with only 7%.

Revenue in 1H2019 hit VND 133 billion, rising 33% yoy; GPM hit 12.8%, surging over the same period last year (+7%.) GPM skyrocketed as PVT has currently had its owned ship fleet instead of outsourced ships which incurred expenses; transportation fees also gained in 1H2019. At the moment, PVT is operating 2 ships - 28 thousand ton *Aroma* from Cam Pha to Duyen Hai Power Plant 1 & 3, and to Vinh Tan Power Plant 4; and 56 thousand ton *Sharphire* from Indonesia to Duyen Hai Power Plant 3. The main force of growth for coal transportation in the coming years will come from the two power plan projects Long Phu 1 and Song Hau 1. The total demand for coal of these two projects is estimated to be about 6 million tons, and PVT will make efforts to handle about 3 million tons, tripling the volume of coal transported in 1H2019. In order to meet the increasing demand in the near future, PVT plans to invest another 5-10 barges (the price of each barge is about USD4 million for 10,000 DWT type).

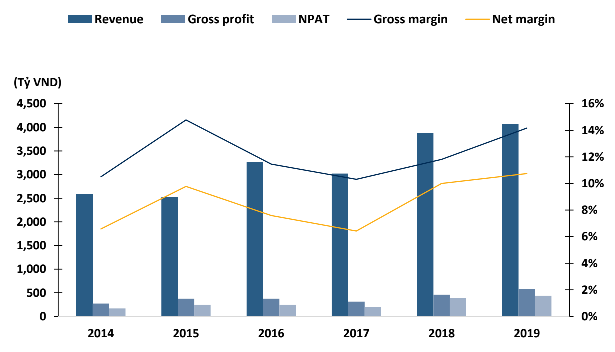
Revenue from FSO was down by 4.8% yoy, gross margin reached 33.2%, decreasing 3.8% YoY

Revenue in 1H2019 achieved VND436 billion, down by 4.8% yoy. This revenue was mainly contributed by the leasing of FSO Dai Hung queen. GPM reached 33.2%, losing over the same period in 2018 (+37%). The main reason for the decrease in gross revenue margin was the fall in oil prices over the same period in 2018. According to the plan from early this year, FSO Dai Hung Queen will start the routine maintenance, and change to a FPSO. The charge of this transformation may be about USD 20 million, and PVEP partner will be responsible for the charge. However, FSO Dai Hung Queen has only started to be maintained, the cost is about VND30 billion.

The divestment plans are expect to start on schedule from the end of 2019 to early 2020

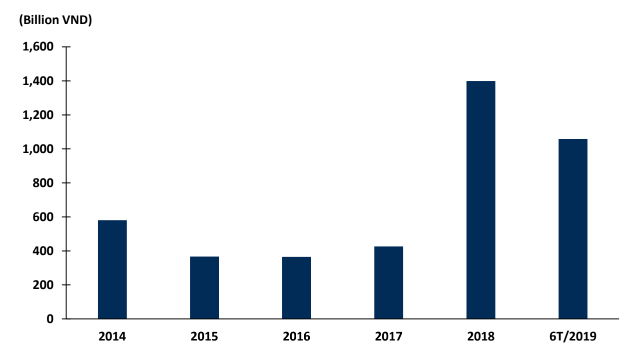
The divestment schedule of PVN at PVT from 51% to 36% is still being implemented, which is expected to be completed by the end of 2019 or the beginning of 2020. The plan to divest is expected to increase the charter capital to reduce PVN's ownership ratio. PVT is still trying to find strategic partners, prioritizing partners operating in the same industry for further support in business activities. In addition, PVT plans to divest part of its capital from Gas Shipping (GSP), reducing its ownership from 67.7% to 51% by the end of this year. The divestment was implemented by dividing the bonus share by 20% and privately issuing VND200 billion to invest in 80,000 DWT refrigerated vessels.

Figure 1: 6M business performance in 2014-2019



Source: PVT

Figure 2: Investment cost for fixed assets 2014-2019



Source: PVT

ASSESSMENT

At the moment, PVT shares are traded at VND18,000/share (on August 22, 2019), equal to P/E trailing at 7.29x. Considering the development of revenue and GPM growth in almost all business segments except for FSO, the growth force from Nghi Son Refinery, and expectations about the company's divestment, we assess PVT has **POSITIVE** outlooks in mid-long term. However, investors should consider that the growth of PVT would be under a stronger pressure since depreciation expense and interest expense as PVT are in the stage of promoting fixed asset investment.

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

DISCLAIMER

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