

Petrolimex (PLX)

2Q GPM beats big on cheap stockpiles

August 7, 2020

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

2Q operations beat on strong GPM, maintain BUY rating & raise target price to VND59,000 from VND57,800

Strong GPM on stockpiling of cheap gasoline inventory; lower commissions to dealers and larger-than-expected provision reversals

Revise up full-year 2020E earnings by 47% to reflect 2Q's strong quarter

Buy maintain

Target Price	VND59,000
Total return (%)	37.3%
Current price (Aug 5)	VND44,600
Consensus target price	VND48,400
Mkt capitalization (USDbn)	USD2,490mn

Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	189,604	131,314	177,889	190,342
EBIT	4,827	1,147	4,975	6,878
NP attributable to parent	4,158	915	4,115	5,500
EPS (VND)	3,215	707	3,180	4,251
EPS growth (%)	10.9	(78.0)	349.6	33.7
P/E (x)	13.9	63.1	14.0	10.5
EV/EBITDA (x)	9.8	23.6	8.5	6.9
P/B (x)	2.2	2.3	2.2	2.0
ROE (%)	17.0	3.6	16.1	20.0
Div yield (%)	7.0	5.0	6.3	8.1

Headline 2Q earnings of VND677 billion beat our estimate by 104% on a strong gross profit margin and lower dealer commissions but also higher provision reversals booked in the current quarter. Following the strong quarter, we revise up our 12-month target price by 2% to VND59,000 from VND57,800 and maintain our BUY recommendation. Our target price is based on a mid-cycle P/B multiple using the average of our 3-stage DDM and ex-growth P/B multiple and reflects: 1) 47% upward revision to 2020E earnings on strong 2Q results; 2) 48% boost to 2020E dividend to VND2,222 per share on higher-than-expected payment for 2019 performance; and 3) 5% higher 2020E book value per share to VND19,149 on management's accounting adjustment to retained earnings.

The 2Q gross profit margin came at 10.3% vs 1Q's 1.2% and beat our expectations for 9.4% on what we believe was stockpiling of cheap gasoline inventory bought during the lows in ex-factory prices at the refiners. Selling expenses were lower-than-expected at VND2,082 billion vs our VND2,160 billion estimate as commissions fell alongside less wholesale fuel sales to the gas station dealer network. Inventory reversals also came in higher at VND1,504 billion or 94% of the total vs our estimate for 90% in the current quarter.

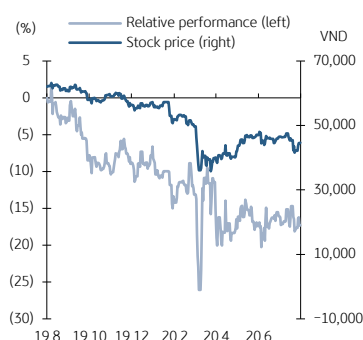
We increase our full-year 2020E earnings by 47% to VND915 billion or VND707 per share from VND623 billion or VND481 per share to reflect 2Q's better-than-expected operations. Our 3Q earnings fall by 5% after adjusting for 2Q's provision reversal but we still expect a strong 55% QoQ bounce back in sequential earnings. Forecasts for 2021E-2025E remain unchanged

Trading data

Free float (%)	10.0%
Avg trading value (3M)	USD1.89mn
Foreign available (%)	5.4%
Major shareholders (%)	MOIT (75.9%)

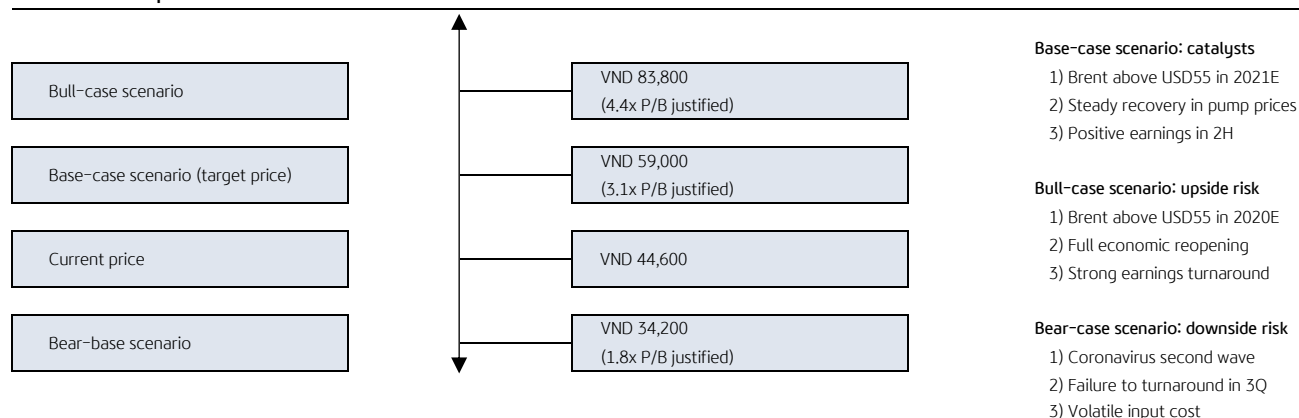
Share price performance

(%)	1M	3M	6M	12M
Absolute	-3.9	6.3	-14.2	-28.1
Relative	-1.5	-1.0	-4.2	-17.3



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	131,314	177,889	131,940	177,889	(0.5)	0.0
EBIT	1,147	4,975	995	4,975	15.3	0.0
OP	1,652	5,450	1,424	5,450	16.0	0.0
NP after MI	915	4,115	623	4,115	46.9	0.0

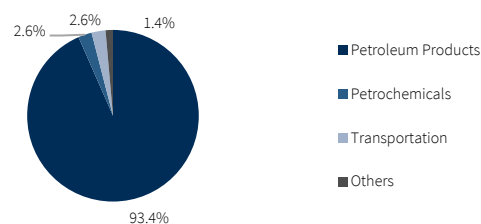
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	131,314	177,889	129,744	175,230	1.2	1.5
EBIT	1,147	4,975	2,351	4,164	(51.2)	19.5
OP	1,652	5,450	2,152	4,799	(23.2)	13.6
NP after MI	915	4,115	1,653	3,731	(44.6)	10.3

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

Peer group comparison

(USDbn, x, %)	Mkt Cap	12m fwd P/E	3y EPS CAGR	12m fwd ROE	12m fwd P/B
PLX VN	2.3	20.4	0.0	12.0	2.0
GAS VN	5.7	15.2	-5.6	17.7	2.6
BSR VN	0.9	-6.7	-18.7	2.4	0.6
PVT VN	0.1	6.2	-6.9	9.5	0.5
PVS VN	0.2	7.1	-7.5	6.6	0.5
PVD VN	0.2	24.4	13.8	0.9	0.3

Source: Bloomberg, KB Securities Vietnam

2Q recovery stronger than expected and beats our estimate by 104%

PLX delivered strong 2Q earnings at VND677 billion (down 43% YoY) that beat our estimate by 104%. Sales were VND26,709 billion in 2Q and still down 31% QoQ and down 46% YoY but volume recovered by 11% QoQ, implying that recovery is underway and we expect volumes to pick up further in 2H. Better-than-expected results were largely due to: 1) strong rebound in the gross profit margin that came in at 10.3% vs 1Q's 1.2% and beat our estimate for 9.4%; 2) lower commissions paid to the dealer network with the drop in wholesale fuel sales; and 3) higher-than-expected provision reversals in the current quarter at VND1,504 billion or 94% of the total vs our expectations for 90%. The gross profit margin was the biggest surprise and performed well due to what we suspect was the stock piling of cheap gasoline inventories bought when ex-factory prices at the refiners were at their lows. Inventory days rose to 30 days in 2Q from the 20-day average usually seen. PLX also managed to reduce commissions paid to the gas station dealer network with the drop in wholesale fuel sales during the quarter. Management opted to take the bulk of provision reversals in the current quarter at VND1,504 billion or 94% of the total, leaving VND92 billion that will likely be booked in 3Q.

Table 1. Petrolimex (PLX) – 2Q2020 Quarterly earnings review (VND billion, %)

(VND bn, %)	2Q19	1Q20	2Q20				Difference		
			Actual	KBSV est.	Consensus	YoY	QoQ	KBSV est.	Consensus
Sales	49,701	38,478	26,709	27,336	na	-46.3	-30.6	-2.3	na
GP	3,678	450	2,752	2,561	na	-25.2	511.7	7.5	na
EBIT	1,515	(1,715)	484	263	na	-68.1	-128.2	83.9	na
OP	1,589	(1,703)	692	397	na	-56.4	-140.6	74.2	na
EBITDA	2,513	709	(118)	(390)	na	-104.7	-116.7	-69.6	na
NP after MI	1,181	(1,893)	677	333	na	-42.7	-135.8	103.6	na
GPM	7.4	1.2	10.3	9.4	na				
EBIT margin	3.0	(4.5)	1.8	1.0	na				
OPM	3.2	(4.4)	2.6	1.5	na				
NPM	2.4	(4.9)	2.5	1.2	na				

Source: Company reports, KB Securities Vietnam

Raise our full-year 2020E earnings by 47% to reflect 2Q's strong results; 3Q earnings adjusted down for the provision reversal

We upwardly revise our full-year 2020E earnings by 47% to VND 915 billion or VND707 per share from VND623 billion or VND481 per share to reflect 2Q's strong performance. Our 3Q earnings decrease by 5% to VND1,049 billion from VND1,101 billion after moving our original 3Q estimate for the provision reversal into 2Q results. Importantly, we continue to believe that PLX is poised to deliver sequential earnings improvement in 2H and expect sequential earnings to jump by 55% QoQ in 3Q (+9% YoY) and remain steady at 3% QoQ growth for 4Q (+33% YoY).

Target price revised up to VND59,000 on strong 2Q, higher cash dividend and management's adjustment to retained earnings

Our 12-month target price increases to VND59,000 from VND57,800 to reflect: 1) 47% increase in our 2020E earnings estimate; 2) 48% boost to our 2020E cash dividend forecast to VND2,222 per share from VND1,500; and 3) 5% increase in 2020E book value per share to VND19,149 on management's accounting adjustment to retained earnings. Our 2020E dividend increases to VND2,222 per share after management paid a higher-than-expected amount for 2019 performance. Management upped its dividend guidance to VND3,000 per share for 2019 performance at June's general shareholders' meeting (from a minimum of VND1,200 before) and we expect the remaining VND1,000 per share cash dividend to be pushed back to 2021E due to the tough operating environment. We are encouraged that management was willing to pay a higher dividend for 2019 performance, which bodes well for our expectations for a sharp improvement in earnings performance in 2H. We reiterate our Buy rating on PLX.

Table 2. Petrolimex (PLX) – 3Q & 4Q 2020E Quarterly revised earnings estimates (VND billion, %)

(VNDbn, %)	Revised		Previous		Change	
	3Q20E	4Q20E	3Q20E	4Q20E	3Q20E	4Q20E
Revenue	31,616	34,511	31,616	34,511	0.0	0.0
EBIT	1,163	1,215	1,231	1,215	(5.5)	0.0
OP	1,312	1,351	1,379	1,351	(4.9)	0.0
NP after MI	1,049	1,082	1,101	1,082	(4.8)	0.0

Source: Company reports, KB Securities Vietnam

Table 3. Petrolimex (PLX) – 2020E & 2021E Yearly revised earnings estimates (VND billion, %)

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	131,314	177,889	131,940	177,889	(0.5)	0.0
EBIT	1,147	4,975	995	4,975	15.4	0.0
OP	1,652	5,450	1,424	5,450	16.0	0.0
NP after MI	915	4,115	623	4,115	47.0	0.0

Source: Company reports, KB Securities Vietnam

Table 4. Petrolimex (PLX) – 2020E & 2021E Estimated & Consensus Estimates (VND billion, %)

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	131,314	177,889	129,744	175,230	1.2	1.5
EBIT	1,147	4,975	2,351	4,164	(51.2)	19.5
OP	1,652	5,450	2,152	4,799	(23.2)	13.6
NP after MI	915	4,115	1,653	3,731	(44.6)	10.3

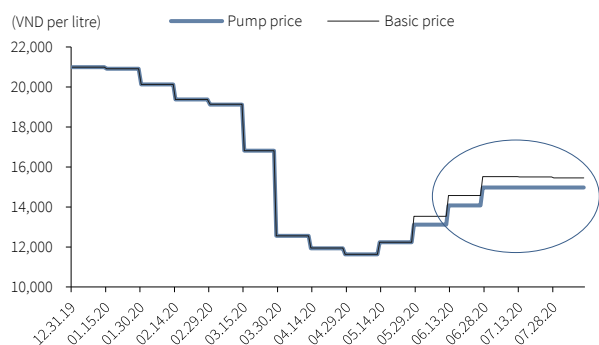
Source: Company reports, KB Securities Vietnam

Table 5. Petrolimex (PLX) – 2020E Quarterly revised earnings estimates (VND billion, %)

(VND bn, %)	Revised				Previous			
	1Q20	2Q20	3Q20E	4Q20E	1Q20	2Q20	3Q20E	4Q20E
Sales	38,478	26,709	31,616	34,511	38,478	27,336	31,616	34,511
GP	450	2,752	3,184	3,410	450	2,561	3,252	3,410
EBIT	(1,715)	484	1,163	1,215	(1,715)	263	1,231	1,215
OP	(1,703)	692	1,312	1,351	(1,703)	397	1,379	1,351
EBITDA	709	(118)	1,313	1,929	709	(390)	1,797	1,929
NP after MI	(1,893)	677	1,049	1,082	(1,893)	333	1,101	1,082
GPM	1.2	10.3	10.1	9.9	1.2	9.4	10.3	9.9
EBIT margin	(4.5)	1.8	3.7	3.5	(4.5)	1.0	3.9	3.5
OPM	(4.4)	2.6	4.1	3.9	(4.4)	1.5	4.4	3.9
NPM	1.8	(0.4)	4.2	5.6	1.8	(1.4)	5.7	5.6

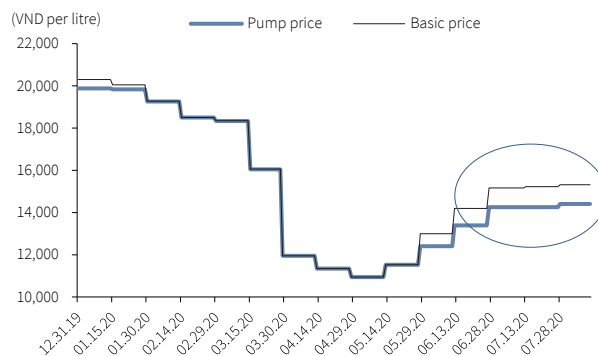
Source: Company reports, KB Securities Vietnam

Fig 1. Petrolimex (PLX) – RON95 pump prices (premium), Jan 20–Jul 20 (VND per litre)



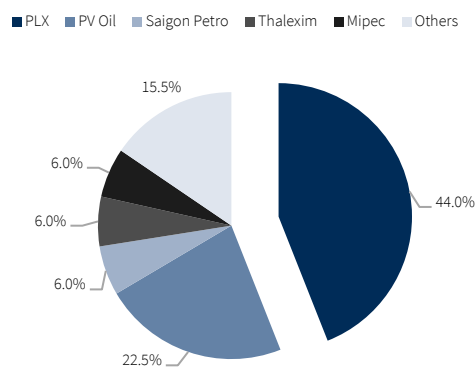
Note: Fuel subsidy provided when the basic price is higher than the pump price.
Source: Ministry of Industry & Trade, KB Securities Vietnam

Fig 2. Petrolimex (PLX) – E5RON92 pump prices (biofuel), Jan 20–Jul 20 (VND per litre)



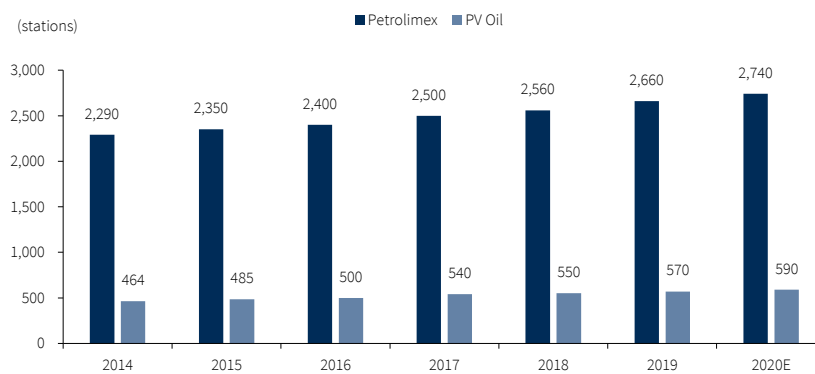
Note: Fuel subsidy provided when the basic price is higher than the pump price.
Source: Ministry of Industry & Trade, KB Securities Vietnam

Fig 3. Petrolimex (PLX) – Retail gasoline market share, 2020E (%)



Source: Company reports, KB Securities Vietnam

Fig 4. Petrolimex (PLX) – COCO stations, 2014–2020E (stations)



COCO = Company Owned–Company Operated
Source: Company reports, KB Securities Vietnam

Petrolimex (PLX) – Three-stage dividend discount model

PV OF DIVIDENDS

Cost of Equity	Sustainable growth						
	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%
9.7%	118,207	124,802	132,460	141,462	152,196	165,213	181,329
10.2%	109,297	114,837	121,204	128,599	137,290	147,652	160,220
10.7%	101,538	106,234	111,583	117,730	124,869	133,260	143,265
11.2%	94,728	98,741	103,276	108,440	114,375	121,267	129,369
11.7%	88,711	92,165	96,040	100,418	105,404	111,154	117,788
12.2%	83,363	86,354	89,688	93,429	97,656	102,470	108,003
12.7%	78,585	81,189	84,076	87,296	90,907	94,988	99,636

PV OF EQUITY PER SHARE

Cost of Equity	Sustainable growth							Ex-growth
	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	
9.7%	91,400	96,500	102,400	109,300	117,600	127,700	140,100	1.8x
10.2%	84,500	88,800	93,700	99,400	106,100	114,100	123,800	34,200
10.7%	78,500	82,100	86,200	91,000	96,500	103,000	110,700	-23.3%
11.2%	73,200	76,300	79,800	83,800	88,400	93,700	100,000	Mid-cycle
11.7%	68,600	71,200	74,200	77,600	81,500	85,900	91,000	3.1x
12.2%	64,400	66,700	69,300	72,200	75,500	79,200	83,500	59,000
12.7%	60,700	62,700	65,000	67,500	70,300	73,400	77,000	32.3%

Projected Distributions

(VNDbn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Net income	3,079	4,669	3,468	3,748	4,158	915	4,115	5,500	5,855	6,927	6,953
Preferred dividend paid – cash	0	0	0	0	0	0	0	0	0	0	0
Preferred dividend per share	0	0	0	0	0	0	0	0	0	0	0
% of par value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Internally-generated capital	3,079	4,669	3,468	3,748	4,158	915	4,115	5,500	5,855	6,927	6,953
Less: capital @ 30% D/E	-942	-1,736	1,878	-433	207	356	476	290	260	209	136
Cash for dividends/buybacks	4,021	6,405	1,590	4,181	3,951	559	3,638	5,210	5,595	6,718	6,817
Common dividend paid – cash	49	150	3,978	3,689	3,371	2,382	3,001	3,859	4,287	5,145	5,359
Common dividend per share	45	152	3,556	3,297	3,102	2,222	2,800	3,600	4,000	4,800	5,000
% of par value	0.5%	1.3%	35.6%	33.0%	31.0%	22.2%	28.0%	36.0%	40.0%	48.0%	50.0%
Payout ratio	1.6%	3.2%	114.7%	98.4%	81.1%	260.2%	72.9%	70.2%	73.2%	74.3%	77.1%
Net share buybacks	4	0	757	0	0	0	0	0	0	0	0
Total distributions	53	150	4,735	3,689	3,371	2,382	3,001	3,859	4,287	5,145	5,359
Net distribution ratio (%)	1.7%	3.2%	136.5%	98.4%	81.1%	260.2%	72.9%	70.2%	73.2%	74.3%	77.1%
Discount factor	0.00	0.00	0.00	0.00	0.00	1.05	1.17	1.30	1.45	1.61	1.79
Present value	0	0	0	0	0	2,262	2,563	2,964	2,961	3,195	2,993

Cost of equity	Terminal Assumptions	Share Information
Risk free rate	Sustainable ROE	PV of future dividend flows (VNDbn)
3.0%	20.0%	16,939
Equity risk premium	Dividend payout ratio	PV of terminal value (VNDbn)
8.9%	80.0%	91,501
Unlevered beta	Sustainable growth	Terminal value as % of firm value
0.747	4.0%	84.4%
Re-levered beta	Forecast period growth	Current shares outstanding (mn)
0.926	27.2%	1,293.9
Cost of equity	Target gearing	Statutory corporate tax rate
11.2%	30.0%	20.0%
Forecast period	Transition period	
5 Yrs	10 Yrs	

Memorandum

(VNDbn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Reported common equity	16,632	23,201	23,584	23,092	25,923	24,776	26,346	28,599	30,818	33,369	35,735
Debt/equity ratio	94.3%	42.6%	69.1%	63.7%	59.4%	66.9%	69.0%	66.9%	64.9%	62.0%	59.2%
Debt	15,676	9,890	16,152	14,708	15,398	16,586	18,174	19,141	20,007	20,704	21,158
YoY % Change	-16.7%	-36.9%	63.3%	-8.9%	4.7%	7.7%	9.6%	5.3%	4.5%	3.5%	2.2%

Source: Company reports, KB Securities Vietnam

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

trinhhtt@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@kbfq.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

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