

# Petrolimex (PLX)

## Renewed interest from JX Nippon

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**JX Nippon parent has successfully bought 1.0% in treasury shares; maintain BUY and raise our 12-month target price to VND59,800 from VND59,000**

ENEOS of Japan – JX Nippon Oil & Energy Vietnam’s parent – has successfully bought 13 million treasury shares or 1.0% of outstanding shares to boost the group’s holdings to 9.0% from 8.0%. This would be the first purchase of additional shares since JX Nippon Vietnam bought its original 8% strategic stake in 2016. We maintain our BUY rating and increase our 12-month target price to VND59,800 from VND59,000 to reflect: 1) 44% upward revision to 2020E earnings following restatement of corporate taxes in 2Q audited results; and 2) 4.5% increase to our 2020E book value per share to VND20,000 from VND19,150 after reflecting higher 2Q after tax earnings and re-issuance of 13 million treasury shares.

**New channels of demand opened up for the remaining 6.2% treasury shares**

The schedule may be tight to sell the remaining 6.2% treasury shares by the end of the year as per management’s plan but renewed interest from JX Nippon and willingness to consider additional strategic partners should allow completion by early 2021E. Current foreign availability may allow up to a 4.4% stake to a foreign strategic investor but management has already begun efforts to boost the foreign ownership limit to 49% to facilitate any stake sale.

**Low base effect boosts 2020E forecast by 44% after 2Q’s revised taxes & 3Q on track for strong 12% YoY rebound after adjusting for higher volumes**

Our 2020E earnings increase sharply by 44% to VND1,315 billion or VND1,128 per share due to the low base effect after reflecting 2Q’s revised taxes and higher volumes/lower GP margin for 3Q/4Q forecasts. Upcoming 3Q results should post a strong 12% YoY rebound as volume recovery continues for another quarter despite lower gross profit margins from waning low-cost inventory benefits in 2H.

## BUY

 maintain

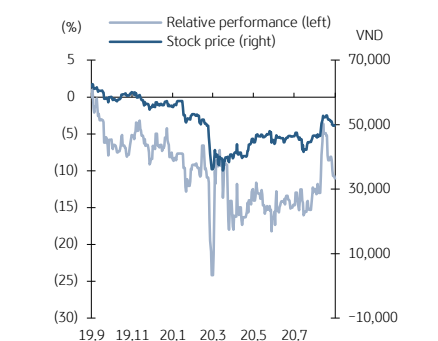
<b>Target Price</b>	<b>VND59,800</b>
Total return (%)	24.3%
Current price (Sep 17)	VND50,000
Consensus target price	VND49,700
Mkt capitalization (USDbn)	USD2,791mn

<b>Trading data</b>	
Free float (%)	11.0%
Avg trading value (3M)	USD2.24mn
Foreign available (%)	4.4%
Major shareholders (%)	MOIT (75.9%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	8.2	9.3	27.1	-18.4
Relative	2.9	4.4	6.0	-9.2

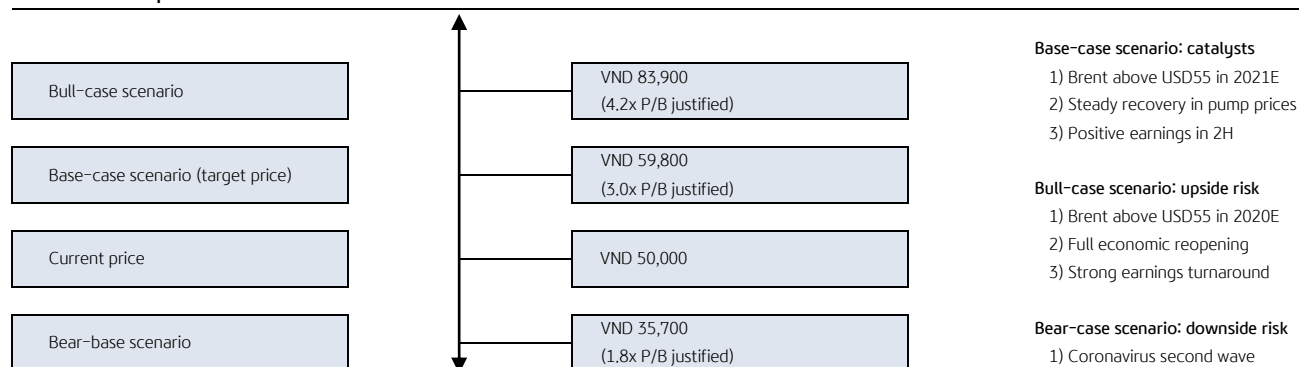
### Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	189,604	134,570	177,889	190,342
EBIT	4,827	1,141	4,975	6,873
NP attributable to parent	4,158	1,315	4,114	5,495
EPS (VND)	3,213	1,016	3,179	4,247
EPS growth (%)	10.9	(68.4)	212.9	33.6
P/E (x)	15.6	49.2	15.7	11.8
EV/EBITDA (x)	10.9	26.4	9.5	7.9
P/B (x)	2.5	2.5	2.4	2.2
ROE (%)	17.0	5.1	15.4	19.2
Div yield (%)	6.2	4.7	5.6	7.2



Source: KBSource

## Investment opinion &amp; risks



## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	134,570	177,889	131,314	177,889	2.5	0.0
EBIT	1,141	4,975	1,147	4,975	(0.5)	0.0
OP	1,638	5,449	1,652	5,449	(0.8)	0.0
NP after MI	1,315	4,114	915	4,115	43.7	0.0

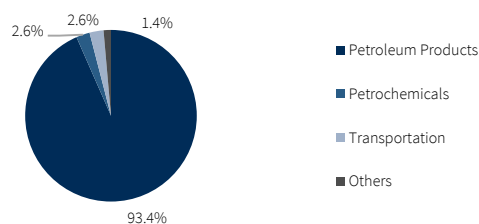
Source: Bloomberg, KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	134,570	177,889	129,744	175,230	3.7	1.5
EBIT	1,141	4,975	2,351	4,164	(51.5)	19.5
OP	1,638	5,449	2,152	4,799	(23.9)	13.5
NP after MI	1,315	4,114	1,653	3,731	(20.5)	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	2.6	21.8	-0.7	12.4	2.2
GAS VN	5.9	15.3	-5.6	18.1	2.7
BSR VN	0.9	18.6	-9.7	4.0	0.7
PVT VN	0.2	7.4	-7.6	9.7	0.6
PVS VN	0.3	7.9	-8.2	6.5	0.5
PVD VN	0.2	26.1	11.6	0.8	0.3

Source: Bloomberg, KB Securities Vietnam

### Small but meaningful purchase of additional shares by JX Nippon

The strategic stake held by JX Nippon Oil & Energy Vietnam and its parent, ENEOS Corporation, should increase to 9.0% from 8.0% after purchasing 13 million treasury shares. Although the size of the stake is small, we believe the purchase reaffirms JX Nippon's commitment to PLX. Immediate benefits are: 1) clears overhang from treasury share sales given previous skepticism of additional stake purchases from JX Nippon; 2) ensures further technical assistance on integrating car wash and maintenance service centers into PLX's gas stations (JX Nippon operates more than 11,000 gas station network across Japan under the brand name *ENEOS*); 3) secures a steady supply of competitively-priced and higher-quality refined products to meet PLX's 20% import needs; and 4) provides expertise for PLX's expansion into LNG (liquefied natural gas) scheduled for 2025E.

### Market expectations for a quick follow-on treasury sale may be misplaced given limited room under the current foreign ownership limit

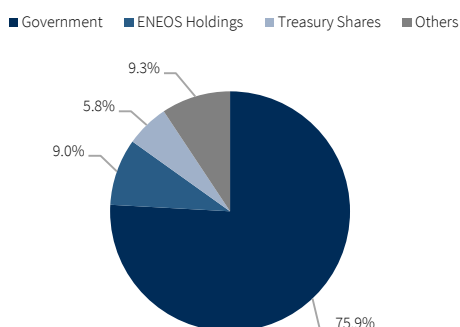
Although not a formal deadline, management originally planned to sell all of its treasury shares within this year but we believe this may be difficult to do given such a short time frame. A quick follow-on treasury share would undoubtedly be a positive catalyst for PLX shares and even our 2020E book value per share estimate increases by 14.4% to VND22,877 if the shares are sold by year end. Management will likely need to raise its 20% foreign shareholder limit to facilitate any sale to a foreign strategic investor as PLX only has enough room to sell a 4.4% stake vs the 6.2% remaining treasury stake. Management is currently working with government officials to boost the company's foreign ownership limit to 49% (albeit the original request was made as early as 2018) and PV Oil (OIL) increased its limit to 49% in 2018 (Vietnam's second-largest state-owned gas station operator). Nonetheless, we do believe PLX will successfully sell this stake to an existing or new strategic shareholder or portfolio investors in early 2021E (but we have yet to reflect this event into our 2021E book value estimate). Management could not provide any specific details on the government's plan to reduce its stake in PLX to 51% other than saying this plan could include PLX issuing new shares to dilute the government's stake or a direct stake sale.

**Table 1. Petrolimex (PLX) – Foreign ownership estimate (million shares, %)**

	Before Sep-20	After Sep-20	If sold 67.6 million treasury sale
Outstanding Shares	1,206	1,219	1,286
FOL (20%)	241	244	257
Treasury Shares	88	75	7.4
% of outstanding	7.3%	6.2%	0.6%
Foreign ownership	177	190	257
Available foreign room	69	54	0
% of outstanding	5.7%	4.4%	0.0%

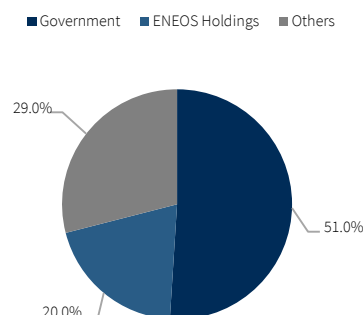
Source: Fiinpro, KB Securities Vietnam

Fig 1. Petrolimex (PLX) – Shareholder structure after treasury sale (%)



Source: Company reports, KB Securities Vietnam

Fig 2. Petrolimex (PLX) – Target shareholder structure (%)



Source: Company reports, KB Securities Vietnam

**ENEOS strategic partnership focused on integrating gas stations for car washes and service centers but excludes convenience stores**

PLX’s current strategic relationship with JX Nippon primarily focuses on integrating car washes and lubricant/repair maintenance centers at its filling stations. Notably, management informs us that JX Nippon does not have any expertise in integrating convenience stores so the company may also consider another strategic investor to fill this role. PLX has internally identified at least 400 COCO stations (out of a total 2,820 COCO locations) that meet the minimum criterion of 2,000 square meters of space to upgrade facilities to include car washes, lubricant/repair services, cafeterias and convenience stores. ENEOS and PLX estimate about 20%-30% in additional profits from stations offering these services given the strong growth in motorization in Vietnam. Currently, PLX only has one pilot location in Long Bien (Hanoi) with a car wash, service center and cafeteria. ENEOS has also introduced its *Kaizen* business philosophy (“change for the better”) to PLX to promote better corporate governance, staff efficiency, optimization of nationwide transportation and distribution routes as well as research and development for new business segments. This program has seen early success in reducing operating expenses at the gas station level by 10%-15% in 2019.

Fig 3. Petrolimex (PLX) – Cafeteria at Long Bien (Hanoi) integrated gas station



Source: Company reports, KB Securities Vietnam

Fig 4. Petrolimex (PLX) – Automatic car wash service at Long Bien (Hanoi) integrated gas station



Source: Company reports, KB Securities Vietnam

**Raise our full year 2020E earnings by 43.7% mostly due to 2Q's tax reversals in the audited statements**

We increase our full-year 2020E earnings by 43.7% to VND1,315 billion or VND1,128 per share mostly due to the restatement of corporate taxes in the audited 2Q financials. Audited 2Q earnings were VND1,077 billion vs the original VND733 billion or an increase of 59%. We estimate 1Q's non-operating losses (NOLs) at VND417 billion assuming an 18% effective tax rate for 1Q's VND1,700 pretax losses which implies most were used in 2Q given the VND397 billion in tax reversals recognized in the 2Q audited results. PLX booked VND339 billion in tax credits in the audited statements vs the VND58 billion in tax expenses for the unaudited results.

**Table 2. Petrolimex (PLX) – Audited & unaudited quarterly earnings, 2Q20A (VND billion, %)**

(VNDbn, %)	Audited	Unaudited	Change
	2Q20E	2Q20E	2Q20E
Revenue	26,708	26,709	(0.0)
EBIT	481	484	(0.7)
OP	682	692	(1.4)
EBT	782	791	(1.2)
Tax expense	(339)	58	nm
NP after MI	1,077	677	59.1

Source: Fiiipro, KB Securities Vietnam

**Table 3. Petrolimex (PLX) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	134,570	177,889	131,314	177,889	2.5	0.0
EBIT	1,141	4,975	1,147	4,975	(0.5)	0.0
OP	1,638	5,449	1,652	5,449	(0.8)	0.0
NP after MI	1,315	4,114	915	4,114	43.7	0.0

Source: Company reports, KB Securities Vietnam

**Table 4. Petrolimex (PLX) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	134,570	177,889	129,744	175,230	3.7	1.5
EBIT	1,141	4,975	2,351	4,164	(51.5)	19.5
OP	1,638	5,449	2,152	4,799	(23.9)	13.5
NP after MI	1,315	4,114	1,653	3,751	(20.5)	10.3

Source: Company reports, KB Securities Vietnam

**3Q PREVIEW: 3Q earnings adjusted higher by 2.4% as volume recovery continues for another quarter but lower GPMs reduce our outlook for 4Q by 2.3%**

We modestly increase 3Q earnings by 2.4% to VND1,074 billion (up 11.9% YoY) as higher sales volumes offset a lower gross profit margin. The main takeaway from 3Q results should be the reduced benefit from 2Q's low-cost inventory that led to the earnings surprise in the previous quarter. Management indicates that the low-cost inventories bought during the coronavirus lockdown were largely used in 2Q and the company guides for less benefits in 3Q earnings. That said, volumes should remain healthy in 3Q and record another quarter of recovery as PLX's DODO stations continue to restock inventories. Volume recovery should normalize by 4Q and we reduce our earnings estimate by 2.3% to VND1,057 billion (up 29.5% YoY) as the lower gross profit margin makes a larger negative impact on earnings amid reduced volume support. Steady recovery in retail pump prices should also support topline growth and we increase our 3Q and 4Q sales forecasts by 6.1% and 3.9%, respectively.

**Table 5. Petrolimex (PLX) – Quarterly earnings revisions, 3Q20E & 4Q20E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	3Q20E	4Q20E	3Q20E	4Q20E	3Q20E	4Q20E
Revenue	33,539	35,845	31,616	34,511	6.1	3.9
EBIT	1,193	1,182	1,163	1,215	2.6	(2.7)
OP	1,342	1,318	1,312	1,351	2.3	(2.5)
NP after MI	1,074	1,057	1,049	1,082	2.4	(2.3)

Source: Company reports, KB Securities Vietnam

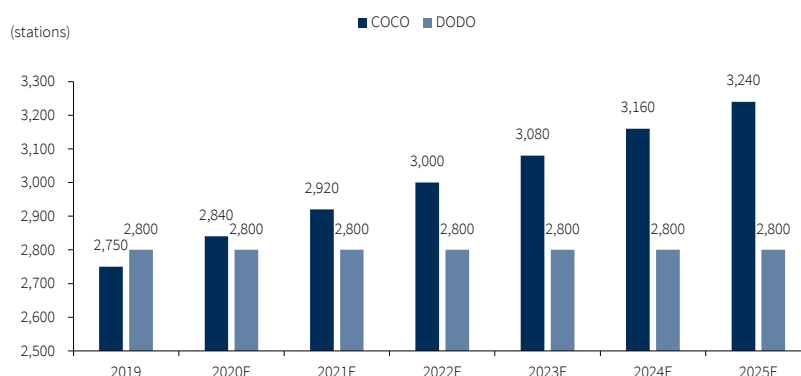
**Target price revised up to VND59,800 after earnings upgrade and higher book value from re-issuance of treasury shares**

Our 12-month target price increases to VND59,800 from VND59,000 to reflect: 1) the 44% boost to our 2020E earnings estimate; 2) 4.5% upward adjustment to our 2020E book value per share to VND20,000 with the re-issuance of 13 million treasury shares; and 3) adjustments to 3Q/4Q earnings. The sale of additional treasury shares should also act as a positive catalyst with the 6.2% of remaining treasury shares likely used to strengthen the strategic commitment from JX Nippon/ENEOS or introduce another strategic investor (possibly a strategic investor for convenience stores) and we reiterate our BUY recommendation on PLX shares.

**COCO station acquisitions on track for 2020E and little impact from the coronavirus; should add 80 new directly-owned and operated locations this year**

The coronavirus has not delayed PLX's acquisition of COCO stations (Company Owned – Company Operated) and management affirms that it will successfully purchase another 80 COCO stations this year to bring the total to 2,840 locations or 50% of the gas station network. PLX should continue to pursue its strategy to purchase or open 80 COCO stations per year to reach at least 3,240 locations by 2025E or 54% of the network while DODO (Distributor Owned – Distributor Operated) stations should remain flat at 2,800. COCO stations already deliver higher gross profit margins at about 11%–13% vs DODO stations at 6%–9% for fuel sales with the addition of other retail services promising even higher margins in the future. The company opened/acquired 35–40 new COCO stations in 1H 2020.

Fig 5. Petrolimex (PLX) – COCO &amp; DODO stations, 2019–2025E (stations)

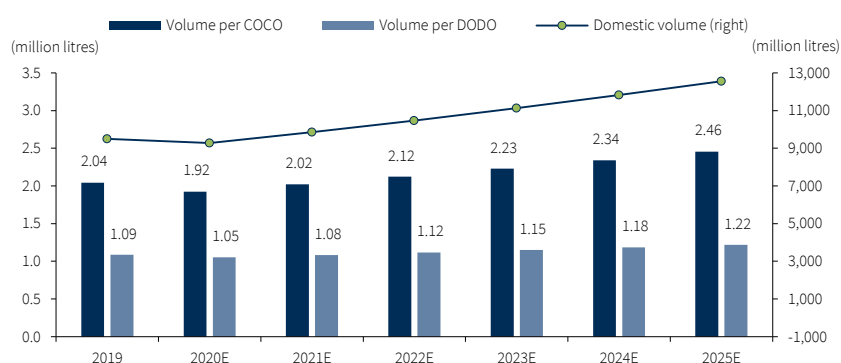


Note: COCO = Company Owned – Company Operated; DODO = Distributors Owned – Distributors Operated  
Source: Company reports, KB Securities Vietnam

**PLX's volume sales expected to fall modestly by 2.3% due to the pandemic but rise by a 6.4% CAGR until 2025E**

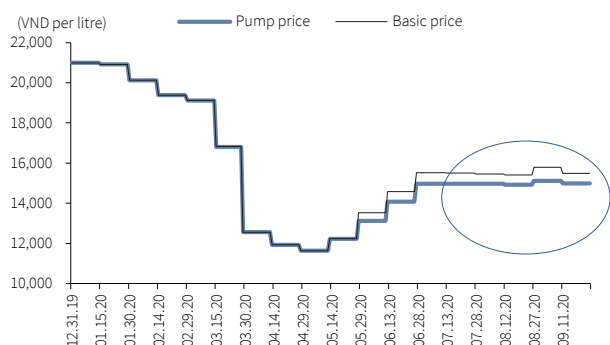
Although PLX's domestic volumes for petroleum products may fall modestly by 2.3% YoY to 9,282 million litres this year due to the pandemic, growth should remain strong over the longer term and we expect PLX's total volumes to grow at a 6.4% CAGR until 2025E. Specifically, we estimate that 2020E volumes per COCO station will fall by 5.9% YoY to 1.92 million litres and volumes per DODO station will drop by 3.7% YoY to 1.02 million litres. That said, PLX's continued push into the retail segment should see volumes per COCO station rebound from 2021E and grow at a 5.0% CAGR until reaching 2.46 million litres by 2025E. We estimate volume growth per DODO station at only a 3.0% CAGR during the same period. Taken together with management's expansion strategy for COCO stations, we expect PLX's total domestic petroleum product volumes to grow at a CAGR of 6.2% to reach 12,550 million litres by 2025E.

Fig 6. Petrolimex (PLX) – Annual volume sales per COCO &amp; DODO station &amp; total domestic petroleum product volumes, 2019–2025E (million litres)



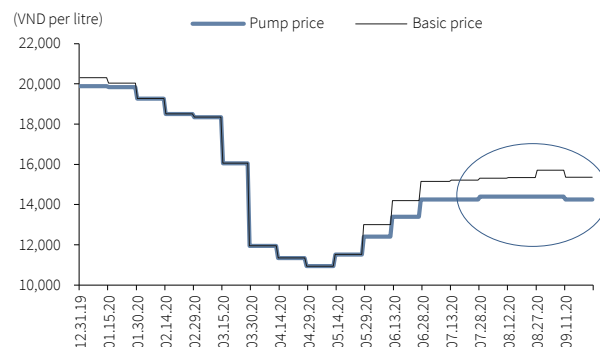
Note: COCO = Company Owned – Company Operated; DODO = Distributors Owned – Distributors Operated  
Source: Company reports, KB Securities Vietnam

**Fig 7. Petrolimex (PLX) – RON95 pump prices (premium), Jan 20 – Sep 20 (VND per litre)**



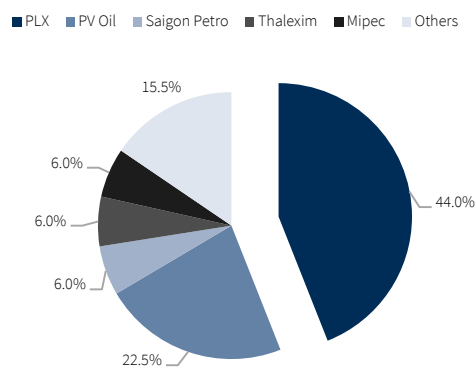
Note: Fuel subsidy provided when the basic price is higher than the pump price.  
Source: Ministry of Industry & Trade, KB Securities Vietnam

**Fig 8. Petrolimex (PLX) – E5RON92 pump prices (biofuel), Jan 20 – Sep 20 (VND per litre)**



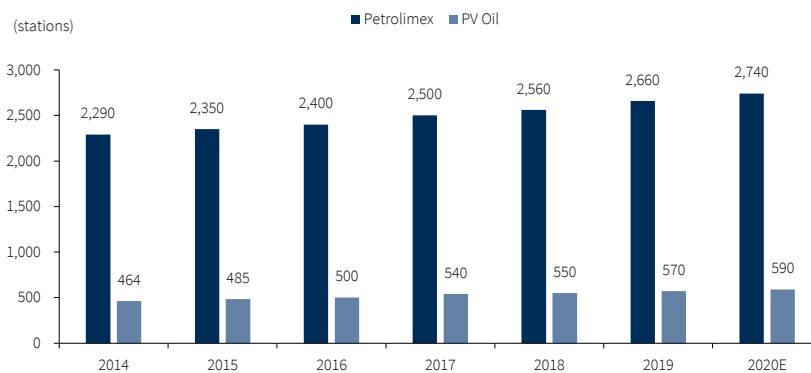
Note: Fuel subsidy provided when the basic price is higher than the pump price.  
Source: Ministry of Industry & Trade, KB Securities Vietnam

**Fig 9. Petrolimex (PLX) – Retail gasoline market share, 2020E (%)**



Source: Company reports, KB Securities Vietnam

**Fig 10. 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%	118,166	124,751	132,398	141,386	152,103	165,099	181,191
10.2%	109,319	114,853	121,214	128,600	137,283	147,635	160,189
10.7%	101,611	106,305	111,652	117,796	124,931	133,318	143,318
11.2%	94,845	98,859	103,393	108,558	114,493	121,385	129,487
11.7%	88,866	92,321	96,198	100,578	105,567	111,300	117,958
12.2%	83,549	86,543	89,881	93,626	97,857	102,676	108,214
12.7%	78,797	81,405	84,297	87,521	91,139	95,226	99,881

### 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%	91,300	96,400	102,300	109,300	117,600	127,600	140,000	1.8x
10.2%	84,500	88,800	93,700	99,400	106,100	114,100	123,800	35,700
10.7%	78,500	82,200	86,300	91,000	96,600	103,000	110,800	-28.6%
11.2%	73,300	76,400	79,900	83,900	88,500	93,800	100,100	Mid-cycle
11.7%	68,700	71,400	74,300	77,700	81,600	86,000	91,200	3.0x
12.2%	64,600	66,900	69,500	72,400	75,600	79,400	83,600	59,800
12.7%	60,900	62,900	65,200	67,600	70,400	73,600	77,200	19.6%

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	1,315	4,114	5,495	5,851	6,923	6,949
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	1,315	4,114	5,495	5,851	6,923	6,949
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	958	3,638	5,205	5,591	6,714	6,813
Common dividend paid – cash	49	150	3,978	3,689	3,371	2,474	2,965	3,812	4,235	5,082	5,294
Common dividend per share	45	132	3,556	3,297	3,102	2,356	2,800	3,600	4,000	4,800	5,000
% of par value	0.5%	1.3%	35.6%	33.0%	31.0%	23.4%	28.0%	36.0%	40.0%	48.0%	50.0%
Payout ratio	1.6%	3.2%	114.7%	98.4%	81.1%	188.1%	72.1%	69.4%	72.4%	73.4%	76.2%
Net share buybacks	4	0	757	0	0	0	0	0	0	0	0
Total distributions	53	150	4,735	3,689	3,371	2,474	2,965	3,812	4,235	5,082	5,294
Net distribution ratio (%)	1.7%	3.2%	136.5%	98.4%	81.1%	188.1%	72.1%	69.4%	72.4%	73.4%	76.2%
Discount factor	0.00	0.00	0.00	0.00	0.00	1.04	1.16	1.29	1.43	1.59	1.77
Present value	0	0	0	0	0	2,378	2,563	2,964	2,962	3,195	2,993

Cost of equity	Terminal Assumptions	Share Information
Risk free rate	Sustainable ROE	PV of future dividend flows (VNDbn)
Equity risk premium	Dividend payout ratio	PV of terminal value (VNDbn)
Unlevered beta	Sustainable growth	Terminal value as % of firm value
Re-levered beta	Forecast period growth	Current shares outstanding (mn)
Cost of equity	Target gearing	Statutory corporate tax rate
Forecast period	Transition period	

Memorandum (VNDbn)	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Reported common equity	16,632	23,201	23,384	23,092	25,923	25,887	27,494	29,787	32,053	34,663	37,090
Debt/equity ratio	94.3%	42.6%	69.1%	63.7%	59.4%	64.1%	66.1%	64.3%	62.4%	59.7%	57.0%
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



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## Investment ratings & definitions

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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

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