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Petrolimex (PLX)

Government approves divestment plan

Authorities approve PLX's plan to sell down government stake to 51% ownership

— As part of proceedings that began on September 21st, the Commission for the Management of State Capital (CMSC) – the entity in charge of divesting government stakes in state-owned companies – announced approval of Petrolimex's (PLX, BUY, TP VND59,800) plan to sell down the government's current 76% stake to 51%. Implications from this decision include: 1) enhancing PLX's ability to sell its remaining 6.2% treasury shares with the potential to offer a larger 20% strategic stake in 2021E; and 2) providing more room to add an additional strategic stakeholder focusing on upgrading gas stations to include convenience stores to initiate the move to retailing. While we still expect management to focus on selling its treasury shares this year (which may prove difficult due to the short time frame), the potential to link this treasury stake sale to a larger more meaningful strategic stake sale in 2021E greatly improves the attractiveness of the treasury stake sale. Moreover, we do not expect the treasury share sale to be bundled together with any potential government stake so any potential new strategic partner for convenience stores may be revealed before any government stake sale is completed. JX Nippon's 9% strategic stake only focuses on upgrading gas stations for car washes and service centers and we believe PLX will likely need to seek another strategic stakeholder for the convenience store business. Originally, PLX planned to begin the divestment process for the government stake in 2019–2020 but this plan was delayed due to weak conditions in the local stock market.

Remaining treasury stake sale likely to occur in 2021E but much more meaningful now

— While we continue to believe time constraints limits any treasury stake sale for 2020E, we do expect the sale to be completed in early 2021E. This sale should also be much more meaningful given management's ability to link this treasury sale to the government stake and ability to establish the necessary strategic partners to set PLX on its course to boost its retailing operations. This would not only be a positive catalyst for the stock but may also come in well ahead of expectations and accelerate PLX's move to retailing. We reiterate our BUY on PLX with 12-month target price of VND59,800 on expectations for continued benefits from the growth in retail energy demand, expansion of more profitable directly-owned gas stations and greater use of convenience stores to boost revenue from the gas station network. Moreover, near-term recovery is clearly underway with PLX's petroleum products volume (including both domestic & re-export volume) up by 8.1% YoY to 8.3 million litres or 72.8% of managements full-year target for the first eight months of the year.

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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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