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Petrolimex (PLX)

Treasury share sale unlikely to impact free float

PLX announces fifth treasury share sell down

— PLX notified the Ho Chi Minh Stock Exchange that it will sell another 13 million treasury shares or 1.1% outstanding shares between August 27 and September 25. After selling this latest tranche, remaining treasuries would be 75 million shares or 6.2% of outstanding. The current treasury share sale represents about nine trading days of stocks so the sale will likely be conducted via the put-through market. Successful completion of the sale at current market prices would realize about VND481 billion in gains (assuming average acquisition cost of around VND10,000 per share) booked directly to shareholders' equity (ie, not reflected in the income statement) and increase our 2020E book value per share estimate by a modest 1.9%.

Proceeds from treasury sale adds to PLX's cash pile & healthy *Price Stabilization Fund*

— PLX's cash pile was still large at VND12 trillion in 2Q or 21% of total assets compared to a mere VND343 billion in debt due this year. Moreover, contributions have kept the *Price Stabilization Fund* at a healthy level of VND4.4 trillion to offset sharp rises in retail pump prices. With ample cash reserves, we believe management will likely use the extra cash proceeds from the treasury sale to continue the acquisition of existing gas stations as well as opening new locations to expand the network of directly-owned gas stations.

Little impact to free float as treasury shares may be sold to portfolio investors

Management announced at this year's annual general shareholders' meeting held in June that it would contact the parent of NX Nippon Oil & Energy Vietnam to ask whether they would be interested in purchasing the company's treasury shares. We now believe this current tranche of treasury shares will be sold to local Vietnamese portfolio investors instead of PLX's strategic investor, which would not impact the 9.0% free float. PLX's free float at 9.0% is already below the 10.0% free float requirement for inclusion in the VN30 Index but remains a member of the index due to the free-float adjusted market capitalization rule. Notably, the largest oil & gas stock in the VN30 Index is PV Gas (GAS) at only 5% free float. Although we believe management still prefers selling a portion of its remaining 6.2% treasury shares to strategic investors, we expect any additional sell downs should not put PLX at risk of being dropped from the VN30 Index. This, however, does highlight again the low free floats of Vietnam's oil & gas stocks due to delayed privatization. We reiterate our BUY recommendation on PLX and 12-month target price of VND59,000 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.

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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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