

PV Transportation (PVT)

Key beneficiary of growing energy imports

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Initiate coverage with BUY rating and target price of VND17,300

We initiate our coverage of PVT with a BUY rating and a target price of VND17,300. Our target price is based on a mid-cycle P/B multiple derived from our three-stage dividend discount model. We apply a mid-cycle valuation for our target price to reflect our view for more modest recovery in freight rates amid an extended period of weak oil prices.

Best positioned to capture the boom in Vietnam's energy imports

Vietnam's growing energy demand has already outstripped local supplies and shortages will require more energy imports. PVT is the most likely candidate to win these lucrative transportation contracts for Vietnam's coming energy import boom. Currently, PVT mainly focuses on LPG (Liquefied Petroleum Gas) and crude oil imports – and clearly shown in the company's current fleet expansion plan – but management will now need to prepare for 2022E's opening of the *Thi Vai* LNG terminal scheduled to go online in 2022E.

Await the new fleet expansion plan that will need to include LNG carriers

Management has only announced its fleet expansion plan for 2020E–2021E but we expect a new plan for ships purchased for 2022E onwards should reveal the size and timing of expansion into the lucrative LNG market. New tonnage in the near term will likely include a Very Large Crude Carrier (VLCC) that will allow the company to secure supply contracts to transport 2.5 million tons of crude to Nghi Son Refinery.

BUY initiate

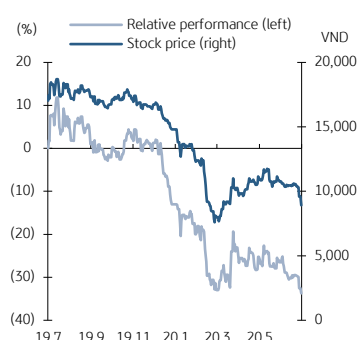
Target Price	VND17,300
Total return (%)	104.9%
Current price (Jul 27)	VND8,930
Consensus target price	VND12,800
Mkt capitalization (USDbn)	USD108mn

Trading data	
Free float (%)	44.0%
Avg trading value (3M)	USD0.68mn
Foreign available (%)	26.6%
Major shareholders (%)	PetroVietnam (51%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-16.9	-10.7	-39.7	-47.6
Relative	-9.9	-12.3	-23.8	-33.7

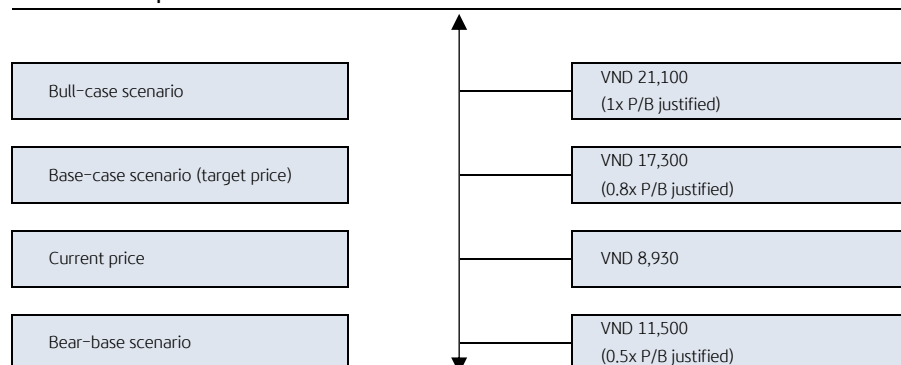
Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	7,758	7,138	8,561	10,700
EBIT	928	934	1,212	1,681
NP attributable to parent	690	538	699	971
EPS (VND)	2,450	1,912	2,485	3,451
EPS growth (%)	5.8	(22.0)	30.0	38.9
P/E (x)	3.6	4.7	3.6	2.6
EV/EBITDA (x)	2.7	3.5	3.5	3.2
P/B (x)	0.4	0.4	0.4	0.3
ROE (%)	12.7	9.1	11.0	13.9
Div yield (%)	13.5	11.2	13.4	15.7



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) Brent prices above USD55 in 2021E
- 2) 4Q earnings recovery
- 3) Recovery in freight rates

Bull-case scenario: upside risk

- 1) Brent prices above USD55 in 2020E
- 2) Strong freight rates
- 3) Correction in used VLCC prices

Bear-case scenario: downside risk

- 1) Coronavirus second wave
- 2) Weak freight rates
- 3) Spike in used VLCC prices

Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue						
EBIT						
OP						
NP after MI						

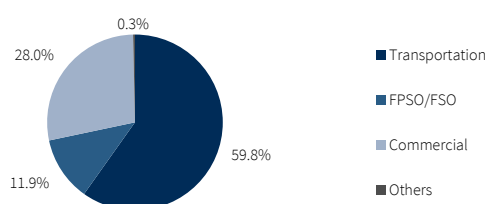
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,138	8,561	6,567	7,455	8.7	14.8
EBIT	934	1,212	758	892	23.2	35.8
OP	795	1,001	739	882	7.6	13.5
NP after MI	538	699	437	527	23.1	32.7

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
PVT VN	0.1	5.4	-6.9	9.4	0.4
GAS VN	5.3	14.3	-5.7	17.6	2.4
PLX VN	2.2	19.8	0.0	11.8	1.9
PVS VN	0.2	6.5	-7.5	6.6	0.4
PVD VN	0.2	21.9	13.8	0.9	0.3
BSR VN	0.8	-6.7	-18.7	2.1	0.6

Source: Bloomberg, KB Securities Vietnam

Key beneficiary of growing energy imports

PV Transportation (PVT): Preparing to serve the lucrative LNG transportation segment for the upcoming LNG import boom

We initiate our coverage of PVT with a BUY rating and a target price of VND17,300. Our target price is based on a mid-cycle P/B multiple derived from our three-stage dividend discount model. We apply a mid-cycle valuation for our target price to reflect our view for more modest recovery in freight rates amid an extended period of weak oil prices.

Energy shortages will require more energy imports and PVT is the most likely candidate to win these lucrative transportation contracts for Vietnam's coming energy import boom. Currently, PVT mainly focuses on LPG (Liquefied Petroleum Gas) and crude oil imports – and clearly shown in the company's current fleet expansion plan – but management will now need to prepare for 2022E's opening of the *Thi Vai* LNG terminal scheduled to go online in 2022E.

Our 19.6% CAGR for 2020E–2025E could be overly conservative given new opportunities in LNG terminals and petrochemicals. Fleet expansion plans are only up to 2022E and we await details on potential LNG carriers, chemical tankers or product tankers. The company has budgeted USD300 million in capital expenditure for 14–16 ships but we believe PVT will need to include purchasing or leasing LNG tankers for the *Thi Vai* LNG terminal in 2022E. Any new plan may need to reflect Vietnam's construction of 9 LNG terminals over the next 15 years as well as ships to transport chemical products for the new *Long Son* Petrochemicals plant.

Table 1. PV Transportation (PVT) – Valuation (DDM) & target price (VND, %)

Line item	Notation		Notes
Cost of equity	K_E	8.9%	$r_f + (B_E * m)$
Re-levered beta	B_E	1.142	$B_A(1 + ((1-t)*D/E))$
Unlevered beta	B_A	0.635	PVT unlevered beta
Terminal assumptions			
Sustainable ROE	ROE	7.0%	Long-term ROE
Div payout ratio	p	70.0%	Long-term payout ratio
Sustainable growth	g	2.1%	$ROE * (1 - p)$
Assumptions			
Target gearing	D/E	100.0%	Long-term debt/equity ratio
Statutory tax rate	t	20.0%	Marginal corporate tax rate
Market risk premium	m	8.9%	10-year expected market return – risk free rate
Risk free rate	r_f	3.0%	10-year government bond
<hr/>			
Terminal value as % of firm value		71.4%	
PV of future dividends (VNDbn)		1,698	
PV of terminal value (VNDbn)		4,247	
PV of Firm (VNDbn)		5,944	
<hr/>			
Total return		104.9%	
Target price (VND)		17,300	
Dividend per share (VND)		1,000	

Source: KB Securities Vietnam

Our 12-month target price set to mid-cycle price objective vs fully-growth loaded valuation

Our valuation is based on the three-stage dividend discount model (DDM) that utilizes the capital asset pricing model (CAPM) to determine an appropriate discount rate for projected cash dividends/stock buybacks for individual stocks. We consider valuations generated from the DDM as fully-growth loaded assessments of value. Additionally, we estimate the ex-growth price-to-book multiple by modifying the Gordon Growth model $[(ROE-g)/(COE-g)]$ to assume zero growth or simply the company's sustainable return on equity (ROE) divided by the cost of equity (COE). Our mid-cycle target prices is then based the average of the fully-growth loaded value of the company and the ex-growth estimate.

Table 2. KBSV – Valuation methodology

Gordon growth model	
Justified P/B multiple	= $\frac{(ROE - g)}{(COE - g)}$
Ex-growth model	
Ex-growth P/B multiple	= $\frac{ROE}{COE}$
Mid-cycle model	
Mid-cycle P/B multiple	= Average of: [DDM valuation & Ex-growth valuation]

Source: KB Securities Vietnam

2Q earnings down by 36% YoY due to: 1) lower freight rates offered to BSR; and 2) drop in FSO day rates from production cuts

Management released 2Q earnings of VND157 billion or down 36% YoY due to: 1) a 10% drop in freight rates for the Binh Son Refinery (BSR); and 2) 20% fall in FSO day rates (Floating, Storage & Offloading) for the *Dai Hung Queen*. Results for 1H were 57% of management's conservative business targets for the year. Management agreed to lower freight rates to BSR as part of an *ad hoc* cost sharing agreement to offer some relief over the next two quarters. Weak Brent prices and production cuts largely explain the 20% drop in day rates to the USD40,000 level for FSO *Dai Hung Queen*.

3Q likely to see another tough quarter before recovering in 4Q

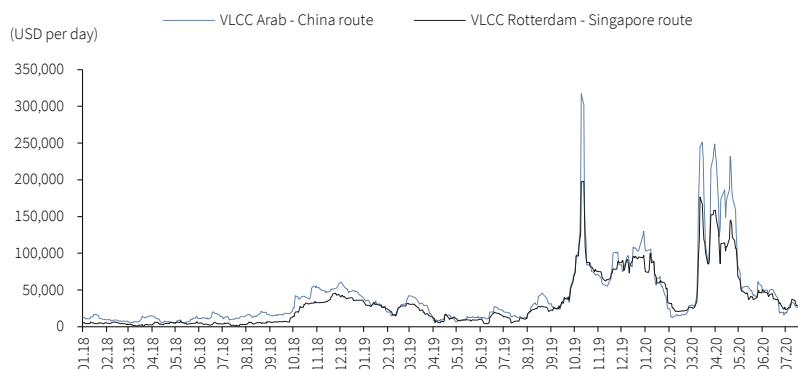
We expect a further drop in 3Q earnings to VND117 billion or down another 26% QoQ on suspended crude oil shipments to BSR during its two-month maintenance shutdown. BSR will conduct its three-year facility overhaul in August and September. That said, we expect earnings to recover to VND292 billion when the purchase of a VLCC tanker (Very Large Crude Carrier) allows the company to secure long-term crude transportation contracts with Nghi Son Refinery (NSR). Currently, margins are thin on its VLCC contract due to the reliance on a leased tanker from SK Shipping.

Table 3. PV Transportation (PVT) – Fleet expansion plans, 2020E–2021E (vessels, dry weight tons in thousands)

Type	Current fleet		New tonnage		Expected fleet size	
	Quantity	DWT (thous)	Quantity	DWT (thous)	Quantity	DWT (thous)
Crude oil tanker	4	418	3	560	7	978
Product carrier	11	190	7	133	18	323
LPG carrier	14	47	2	170	16	217
Bulk carrier	2	83	1	15	3	98
FPSO/FSO	2	199	0	0	2	199
Total	33	938	13	878	46	1,816

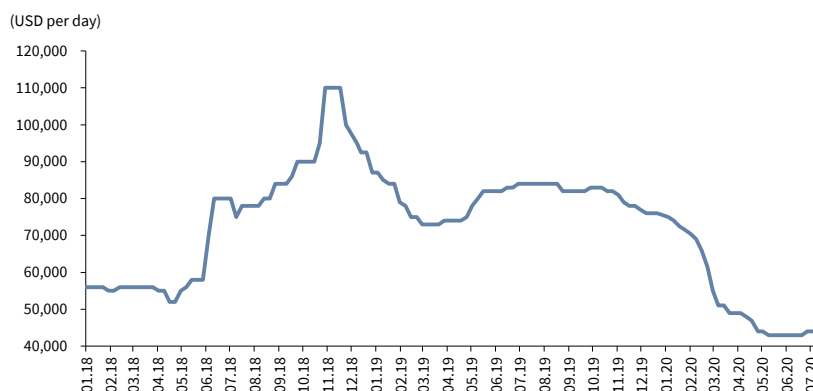
Source: Company reports, KB Securities Vietnam

Fig 1. PV Transportation (PVT) – VLCC tanker day rates of Arabian Gulf–China route & Rotterdam–Singapore route, Jan 2018–July 2020 (USD)



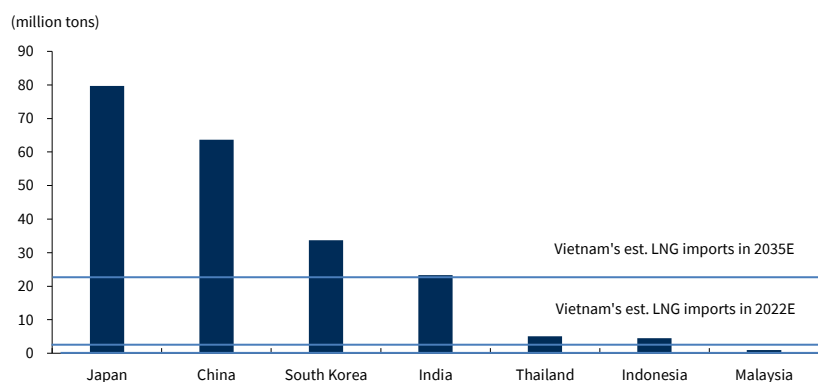
VLCC = Very Large Crude Carrier
 Source: Bloomberg, KB Securities Vietnam

Fig 2. PV Transportation (PVT) – US LNG tanker day rates, Jan 2018–Jul 2020 (USD)



Source: Bloomberg, KB Securities Vietnam

Fig 3. PV Transportation (PVT) – Asia LNG imports by country, 2019 (million tons)



Source: Bloomberg, KB Securities Vietnam

LNG the secular growth opportunity

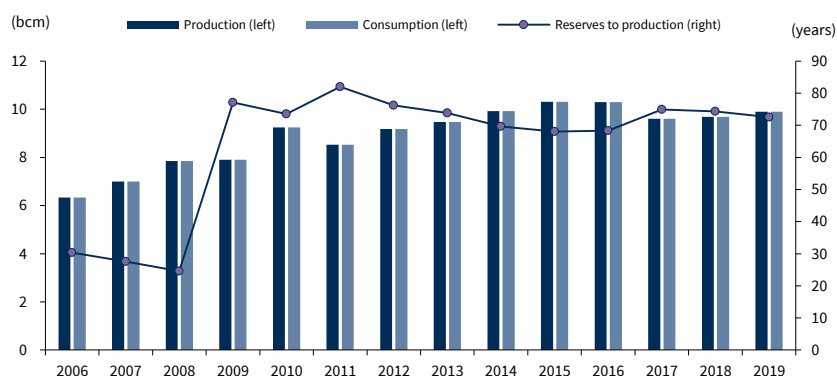
GAS & PVT to benefit most from LNG imports

GAS and PVT should benefit most from the start of LNG imports in 2021E/2022E with the startup of Vietnam's first regasification facilities. Imports will need to make up for increasing shortfalls arising from what we expect will be slowing production volumes at Vietnam's existing gas fields (our forecasts assume extended delays but eventual start up of the new large gas fields). According to Vietnam's long-term LNG road map, PV Gas will own seven out of nine LNG terminals that are scheduled for construction over the next fifteen years. PVT is also the leading candidate to win the transportation contracts for these new facilities in the lucrative transportation segment and is already preparing plans to purchase or charter a fleet of LNG carriers.

Gas consumption held back by lack of LNG importing infrastructure

Currently, GAS is Vietnam's sole provider of natural gas transported by pipelines from offshore gas fields and we estimate existing production may only satisfy about 79% of real demand from gas-fired power plants in 2020E. Natural gas consumption has equaled production for more than a decade as consumption is limited to locally-available gas supplies due to Vietnam's lack of regasification facilities that prohibits the import of LNG. Moreover, natural gas shortages have been exacerbated by slowing production output from Vietnam's mature gas fields.

Fig 4. Vietnam oil & gas – Natural gas historical production, consumption & reserves to production ratios, 2008–2019 (billion cubic metres, years)

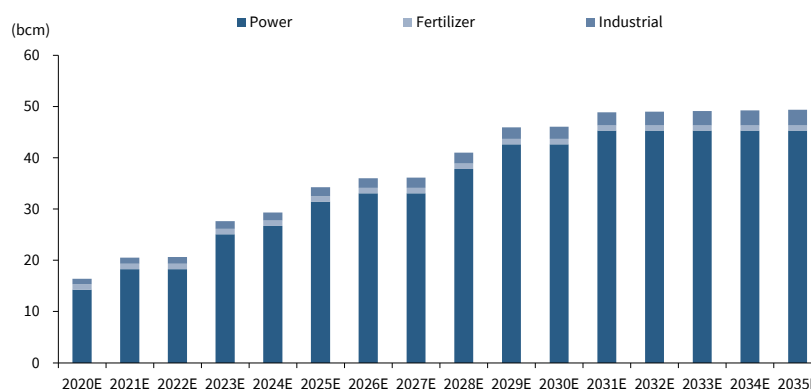


Source: General Statistics Office Vietnam, KB Securities Vietnam

We estimate gas demand from power clients will triple in next 15 years

We estimate that expansion of Vietnam Electricity's (EVN) power grid alone could triple natural gas demand by 2035E given the construction plan for new gas-fired power plants. Most of this demand will need to be met by LNG imports as Vietnam's natural gas production from existing fields is likely to contract by 12.2% annually without the exploitation of new fields.

Fig 5. Vietnam oil & gas – Natural gas demand forecasts by industry, 2020E–2035E (billion cubic metres)



Source: General Statistics Office Vietnam, KB Securities Vietnam

Table 4. Vietnam power generation sector – Vietnam Electric (EVN) new power plant construction plans, 2022E–2028E (megawatts)

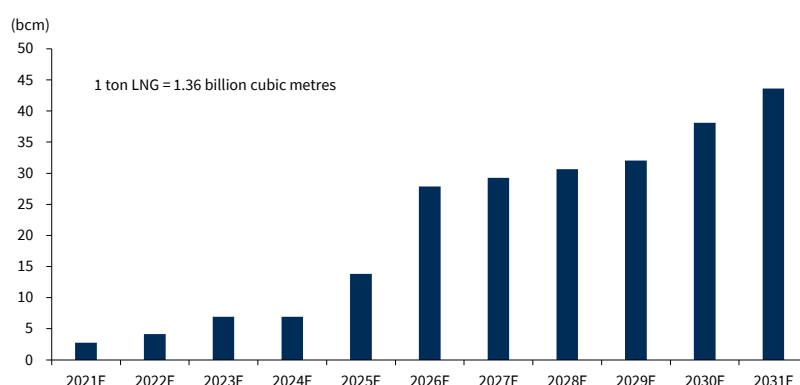
Power plants	Owner	Capacity	Start up year
<i>Nhon Trach 3</i>	PVN	750 MW	2022
<i>Nhon Trach 4</i>		750 MW	2022
<i>Son My 2.1</i>	AES Corporation, PV GAS	750 MW	2023
<i>Son My 2.2</i>		750 MW	2024
<i>Son My 2.3</i>		750 MW	2025
<i>Son My 1.1</i>	EDF, Kyushu, Sojitz, PAC	750 MW	2026
<i>Son My 1.2</i>		750 MW	2027
<i>Son My 1.3</i>		750 MW	2028
<i>O Mon 3</i>	EVN (ODA)	750 MW	2020
<i>O Mon 4</i>	EVN	750 MW	2021
<i>O Mon 2</i>	None	750 MW	2026
<i>Kien Giang 1</i>	PVN	750 MW	2021
<i>Kien Giang 2</i>		750 MW	2022
<i>Mien Trung 1</i>	PVN	750 MW	2023
<i>Mien Trung 2</i>		750 MW	2024
<i>Dung Quat 1</i>	EVN	750 MW	2023
<i>Dung Quat 2</i>	BOT	750 MW	2024
<i>Dung Quat 3</i>	EVN	750 MW	2025
Total Capacity		13,500 MW	

Source: Company reports, KB Securities Vietnam

GAS will lead the facilities investment for LNG terminals needed to close the demand gap

GAS will invest in seven of nine LNG terminals scheduled for completion between 2022E and 2035E. If construction goes to plan, we estimate maximum import capacity at 25 MTPA (million tons per annum) or 150% of natural gas demand by 2035E. The *Hai Linh* terminal owned by Hai Linh Limited will be Vietnam's first LNG terminal and is scheduled for startup in 2021E but should be quickly followed up by the *Thi Vai* terminal owned by PV Gas with commercial operations in 2022E. Moreover, PV Gas has already opened bidding for feasibility studies for *Thi Vai* Phase 2 to accelerate expansion to 2023E.

Fig 6. Vietnam oil & gas – LNG output from new terminals, 2021E–2031E (billion cubic metres)



Source: Vietnam Gas Master Plan, KB Securities Vietnam

Table 5. Vietnam oil & gas – Upcoming LNG terminals, 2021E–2035E (million tons per year)

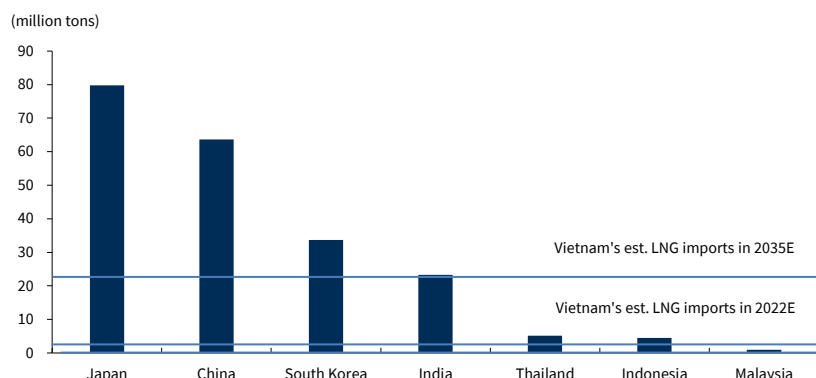
LNG import terminal	Startup year	Main investor	Capacity (MTPA)
<i>Thi Vai (Ba Ria Vung Tau)</i>	2022		1–3 MT
<i>Hon Khoai (Ca Mau)</i>	2022–25 (phase 1) 2025 – (phase 2)		1MT (phase 1) 2MT (phase 2)
<i>Tien Giang (Tien Giang)</i>	2022–25		4–6 MT
<i>Son My (Binh Thuan)</i>	2023–25 (phase 1) 2027–30 (phase 2) 2031–35 (phase 3)	PV Gas (GAS)	1–3 MT (phase 1), 3 MT (phase 2) & 3 MT (phase 3)
<i>Thai Binh FSRU</i>	2026–30		0.2–0.5 MT
<i>My Giang (Khanh Hoa)</i>	2030–35		3 MT
<i>Cat Hai (Hai Phong)</i>	2030–35		1–3 MT
<i>Nam Van Phong (Khanh Hoa)</i>	2025	Petrolimex (PLX)	1 MT
<i>Hai Linh LNG (Vung Tau)</i>	2021 (phase 1) 2023–25 (phase 2)	Hai Linh Limited (unlisted)	2–3 MT (phase 1) 6 MT (phase 2)

Source: Vietnam Gas Master Plan, KB Securities Vietnam

Vietnam would join the club of LNG importers as Asia’s 8th-largest LNG customer

By 2022E, Hai Linh’s 2 MTPA capacity at the *Hai Linh* terminal scheduled for startup in 2021E and GAS’s 1 MTPA capacity at the *Thi Vai* terminal scheduled for commercial operations in 2022E would initially rank Vietnam as Asia’s 8-largest LNG importer by 2022E. Over our forecast period, Vietnam’s LNG imports will likely reach similar levels to Thailand and Indonesia.

Fig 7. Asia LNG – LNG import by country, 2019 (million tons)

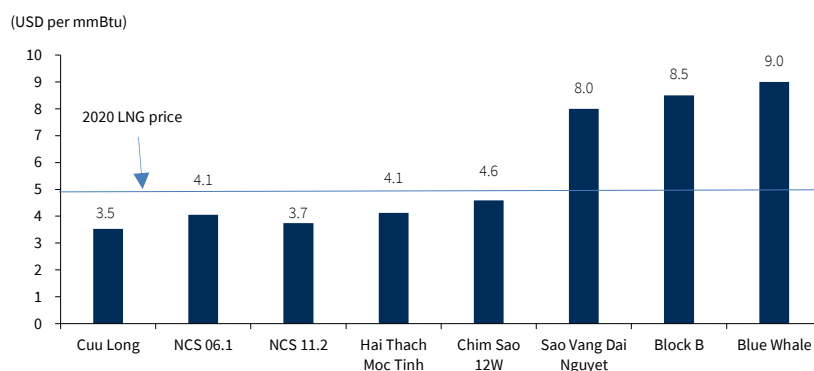


Source: Bloomberg, KB Securities Vietnam

LNG import prices should be low enough to compete favorably with the wellhead prices of Vietnam's new gas fields

Prices for US & Russian LNG exports currently trade at around USD5.00 per mmBtu (million British thermal units) and should remain competitively-priced against industry estimates for the wellhead prices (or wholesale prices at the source of production) of Vietnam's major upcoming gas projects. Vietnam's major new gas fields include *Sao Vang-Dai Nguyet* located in the *Nam Con* basin and *White Lion* in the *Cuu Long* basin both located off the southern coast and the two largest fields of *Block B* located in the *Malay-Tho Chu* basin off the southwest coast and *Blue Whale* located in the *Song Hong* basin off the northeastern coast. Industry estimates put wellhead prices at USD8.00 per mmBtu for *Sao Vang-Dai Nguyet*, USD9.00 per mmBtu for *Blue Whale* and USD8.50 per mmBtu for *Block B* (no available estimates for *White Lion*). After adding a 30% estimate for transportation & regasification costs, we expect LNG import prices to be competitive against locally-produced natural gas for power generation companies.

Fig 8. Vietnam oil & gas – Wellhead prices of current & future gas fields (USD per million British thermal unit)



Source: PV Gas, Bloomberg, KB Securities Vietnam

Vietnam's current gas pricing and cost regime is complex

Vietnam's pricing and cost regime for natural gas is complex. Selling prices for all of Vietnam's energy products are based on government pricing formulas (including electricity tariffs), while the cost of gas is set according to a mix of fixed and floating prices depending on the gas field. Some of this has since changed due to the elimination of the *Take or pay* (ToP) segment of the market. Natural gas has been sold to power plants under two pricing schemes: 1) legacy *Take or pay* (ToP) agreements for power plants located in the southeast region; and 2) *Above ToP* prices for gas volumes sold above any existing ToP agreements or gas sold to power plants outside of the southeastern region.

ToP agreements: ToP agreements have since been eliminated but were agreements based on an annual selling prices set at the start of each year using a 2015 base year price of USD5.57 per mmBtu and adding a 2% inflator each year. About 35% of annual volumes at GAS were sold under ToP agreements. GAS recently ended ToP agreements in March 2019 and rolled over to the *Above ToP* pricing formula but uncertainties still exist as to whether GAS will transfer gains from this transition to the government or not.

***Above ToP* prices:** *Above ToP* prices are pegged to Singaporean High Sulphur Fuel Oil (HSFO) prices according to the following formula:

$$\text{Selling price} = \text{Max [46\% HSFO price, wellhead price]} \\ + \text{transportation \& tariffs (including markup)}$$

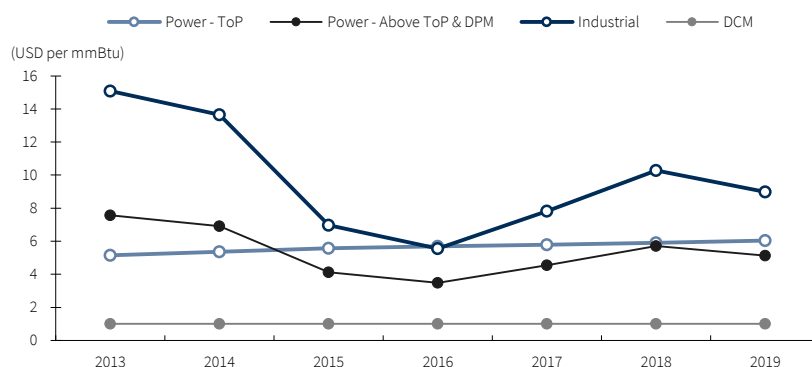
Selling prices are either 46% of the HSFO price or the wellhead price including transportation costs and tariffs to ensure GAS breaks even for all gas sold and earns its mark up even if HSFO prices fall sharply. Transportation costs are determined by the pipeline used to deliver the gas.

Industrial prices: Prices for natural gas sold to industrial customers are negotiated at the start of the year or based on the following formula:

$$\text{Selling price} = \text{Max [100\% HSFO price, wellhead price]} \\ + \text{transportation \& tariffs (including markup)}$$

Fertilizer companies: Vietnam's two fertilizer companies are also major buyers of natural gas, with both Phu My Fertilizer (DPM) and Ca Mau Fertilizer (DCM) now applying *Above ToP* prices for gas purchases since 2019. Prior to this, DCM received preferential pricing by only paying for the transportation & tariffs for gas purchased from the *PM3-CAA* gas field as part of a subsidy to ensure the company achieved its mandated minimum ROE of 12%. The *PM3-CAA* gas field is a joint-venture between Malaysia and Vietnam located in the Gulf of Thailand.

Fig 9. PV Gas – Domestic natural gas selling prices, 2013–2019 (USD per mmBtu)



Source: PV Gas, Bloomberg, KB Securities Vietnam

Cost prices for GAS depend on the field supplying the natural gas

The pricing mechanism for the cost of gas differs by gas field in a mix of fixed and floating cost structures. Fixed cost pricing is set according to wellhead prices adjusted up by 2% per year, while floating cost pricing is used to create a markup system based on the *Above ToP* pricing mechanism:

$$\text{Cost price} = \text{Max} [46\% \text{ HSFO price, wellhead price}]$$

Vietnam's main gas producing fields are located in the *Nam Con Son* basin off the southern coast, the *Cuu Long* basin due south of the Mekong Delta, the *PM3-CAA* gas field located in the *Malay-Tho Chu* basin off the southwest coast and the *Ham Rong-Thai Binh* gas fields located in the *Song Hong* basin off the northeast coast. The *Nam Con Son* basin primarily produces natural gas and is Vietnam's largest producer, fields in the *Cuu Long* basin are a mix of oil & gas and the *PM3-CAA* and *Ham Rong-Thai Binh* are smaller gas fields.

Nam Con Son & Cuu Long: As Vietnam's largest gas producing basin, gas fields in *Nam Con Son* mostly use fixed prices to supply ToP agreements. *Cuu Long* also has older gas fields that primarily use fixed pricing for customers on the *Above ToP* pricing scheme. Continued use of fixed pricing for the older gas fields has allowed GAS to realize additional gains with the elimination of ToP agreements.

Ham Rong-Thai Binh: Costs from these fields are mostly based on floating prices, with supply mainly used for industrial clients in *Thai Binh* located southwest from Hai Phong in the northern part of Vietnam.

PM3-CAA: Jointly-owned by Vietnam and Malaysia, this smaller field is sole supplier to Ca Mau Fertilizer (DCM) under a special pricing scheme that previously sold gas for only the transportation cost and tariff before moving to the *Above ToP* system in 2019. Gas to other customers is sold on floating prices.

Table 6. Vietnam oil & gas – Natural gas cost & selling price methods by basin (USD per million British thermal units, billion cubic metres, %)

Natural gas basin	Cost price type	Cost price calculation	Selling price type	Selling price calculation	Customers
<i>Cuu Long</i>	Fixed	USD3.53 per mmBtu in 2019 & 2% per annum increase	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	<i>Above ToP</i> power customers Phu My Fertilizers (DPM)
<i>Nam Con Son</i>	Fixed	USD3.53 per mmBtu in 2019 & 2% per annum increase	Fixed	USD5.81 per mmBtu in 2019 & 2% per annum increase	ToP power customers (up to 3.55 bcm): EVN Genco 3, Phu My 3, Phu My 2.2 BOT
	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	<i>Above ToP</i> power customers Phu My Fertilizers (DPM)
<i>Malay Tho Chu</i>	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	Cau Mau Power Cau Mau Fertilizer (DCM)
<i>Ham Rong-Thai Binh</i>	Floating	MAX (46% HSFO; Wellhead price) + transportation & tariffs	Floating	100% HSFO price or annual negotiated price + transportation & tariffs	Hiep Phuoc industrial zone Other industrial zones

BCM = Billion Cubic Metres

Source: PV Gas, KB Securities Vietnam

One remaining bogey is the pricing formula for LNG imports and the government has yet to release any details on a pricing regime

Vietnam's government has yet to announce any details on the potential pricing mechanism for LNG imports. But after examining LNG import pricing formulas in Thailand, Malaysia and Indonesia, we believe Vietnam will ultimately adopt a regime similar to Thailand's pooling structure. Both markets have similar characteristics, in that, PTT Exploration & Production (PTTEP) plays a similar role to GAS in its home market as a state-owned company that is the sole purchaser, transporter and distributor of natural gas in Thailand. A likely scenario for Vietnam includes using a pooling system to set the selling price for natural gas to power companies as a blended price of domestic wellhead prices and lower LNG import prices. This would effectively allow power companies to use both sources of natural gas to lower its average fuel costs, while allowing LNG importers to sell supply at market prices. Whether this system would also eliminate the current pricing formula pegged to fuel oil prices for locally-sourced natural gas is uncertain but GAS has already indicated its desire to move away from the pricing system indexed to fuel oil prices. Importantly, we expect Vietnam to create a pricing regime that would allow a fair return for LNG infrastructure investments given the importance of LNG imports in meeting the country's energy shortfalls.

Thailand: Natural gas pricing divided into two pools (pool 1 is dedicated to the gas separation industry and pool 2 mainly focused on power generation):

Pool 1 selling price = wholesale price (wellhead price indexed to fuel oil, exchange rate & CPI/PPI)
+ marketing margin, transmission tariff & distribution tariff)

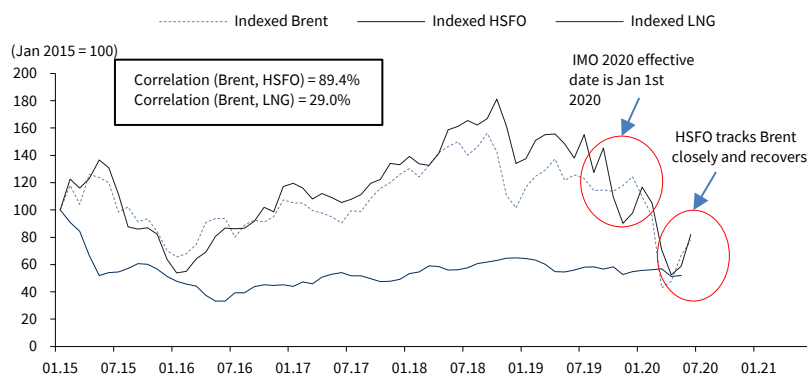
Pool 2 selling price = average (wellhead price, Myanmar import price, LNG import price)
+ marketing margin, transmission tariff & distribution tariff

Malaysia: Imports LNG at market prices but sold to power plants at a discount:

LNG selling price = LNG FOB * (1 - discount rate)
* discount rate = 15% for power companies
& 10% for non-power clients

Indonesia: LNG import prices based on market prices but power sector receives a sizable 50% subsidy directly from the government.

Fig 10. Indexed commodity prices – Brent, HSFO & LNG, Jan 2015 – Jun 2020 (index points)



Source: Bloomberg, KB Securities Vietnam

PV Transportation (PVT) – Three-stage dividend discount model

3-STAGE DDM																																
PV OF DIVIDENDS																																
		Sustainable growth																														
Cost of Equity	0.6%	1.1%	1.6%	2.1%	2.6%	3.1%	3.6%																									
11.7%	6,434	6,600	6,782	6,983	7,206	7,455	7,735																									
12.2%	6,120	6,265	6,424	6,599	6,792	7,007	7,246																									
12.7%	5,834	5,962	6,102	6,255	6,423	6,608	6,814																									
13.2%	5,574	5,687	5,810	5,944	6,091	6,252	6,431																									
13.7%	5,337	5,437	5,546	5,664	5,793	5,933	6,088																									
14.2%	5,119	5,208	5,305	5,409	5,522	5,646	5,781																									
14.7%	4,919	4,999	5,084	5,177	5,277	5,386	5,504																									
PV OF EQUITY PER SHARE																																
		Sustainable growth																														
Cost of Equity	0.6%	1.1%	1.6%	2.1%	2.6%	3.1%	3.6%			Ex-growth																						
11.7%	22,900	23,400	24,100	24,800	25,600	26,500	27,500			0.5x																						
12.2%	21,700	22,300	22,800	23,400	24,100	24,900	25,700			11,500																						
12.7%	20,700	21,200	21,700	22,200	22,800	23,500	24,200			28.8%																						
13.2%	19,800	20,200	20,600	21,100	21,600	22,200	22,800			Mid-cycle																						
13.7%	19,000	19,300	19,700	20,100	20,600	21,100	21,600			0.8x																						
14.2%	18,200	18,500	18,800	19,200	19,600	20,100	20,500			17,300																						
14.7%	17,500	17,800	18,100	18,400	18,800	19,100	19,600			93.7%																						
Projected Distributions (VNDbn)																																
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E																					
Net income	368	416	450	652	690	538	699	971	975	1,176	1,336																					
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	368	416	450	652	690	538	699	971	975	1,176	1,336																					
Less: capital @ 100% D/E	-249	-656	-272	298	445	1,363	1,458	931	362	330	297																					
Cash for dividends/buybacks	618	1,072	722	354	244	0	0	40	614	847	1,038																					
Common dividend paid – cash	41	232	305	311	340	281	338	394	450	507	563																					
Common dividend per share	146	824	1,085	1,106	1,209	1,000	1,200	1,400	1,600	1,800	2,000																					
% of par value	1.5%	8.2%	10.8%	11.1%	12.1%	10.0%	12.0%	14.0%	16.0%	18.0%	20.0%																					
Payout ratio	11.2%	55.8%	67.7%	47.7%	49.3%	52.3%	48.3%	40.6%	46.2%	43.1%	42.1%																					
Net share buybacks	0	0	0	0	0	0	0	0	0	0	0																					
Total distributions	41	232	305	311	340	281	338	394	450	507	563																					
Net distribution ratio (%)	11.2%	55.8%	67.7%	47.7%	49.3%	52.3%	48.3%	40.6%	46.2%	43.1%	42.1%																					
Discount factor	0.00	0.00	0.00	0.00	0.00	1.07	1.21	1.37	1.55	1.75	1.98																					
Present value	0	0	0	0	0	264	280	289	291	289	284																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Cost of equity</th> <th style="width: 33%;">Terminal Assumptions</th> <th style="width: 33%;">Share Information</th> </tr> </thead> <tbody> <tr> <td>Risk free rate</td> <td>Sustainable ROE</td> <td>PV of future dividend flows (VNDbn)</td> </tr> <tr> <td>Equity risk premium</td> <td>Dividend payout ratio</td> <td>PV of terminal value (VNDbn)</td> </tr> <tr> <td>Unlevered beta</td> <td>Sustainable growth</td> <td>Terminal value as % of firm value</td> </tr> <tr> <td>Re-levered beta</td> <td>Forecast period growth</td> <td>Current shares outstanding (mn)</td> </tr> <tr> <td>Cost of equity</td> <td>Target gearing</td> <td>Statutory corporate tax rate</td> </tr> <tr> <td>Forecast period</td> <td>Transition period</td> <td></td> </tr> </tbody> </table>												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	
Cost of equity	Terminal Assumptions	Share Information																														
Risk free rate	Sustainable ROE	PV of future dividend flows (VNDbn)																														
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Forecast period	Transition period																															
Memorandum (VNDbn)																																
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E																					
Reported common equity	4,325	4,333	4,662	5,140	5,691	6,103	6,608	7,384	8,109	9,020	10,066																					
Debt/equity ratio	83.6%	68.4%	57.7%	58.1%	60.3%	78.6%	94.7%	97.3%	93.1%	87.3%	81.2%																					
Debt	3,618	2,962	2,690	2,988	3,433	4,797	6,255	7,186	7,548	7,878	8,175																					
YoY % Change	-6.5%	-18.1%	-9.2%	11.1%	14.9%	39.7%	30.4%	14.9%	5.0%	4.4%	3.8%																					

Source: Company reports, KB Securities Vietnam

PV Transportation (PVT) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	7,758	7,138	8,561	10,700	Total assets	10,997	13,369	15,555	17,525
Cost of sales	6,567	6,003	7,159	8,818	Current assets	3,841	4,633	4,396	6,395
Gross Profit	1,191	1,134	1,402	1,882	Cash & equivalents	1,208	1,154	1,290	1,225
Financial income	221	132	153	156	ST investments	1,479	2,096	1,795	3,608
Financial expenses	193	270	363	439	Accounts receivable	865	1,165	1,019	1,183
of which: interest expenses	169	217	329	403	Inventory	127	115	121	158
Gain/(loss) from joint ventures	34	0	0	0	Other current assets	162	102	170	221
Selling expenses	14	8	9	11	Long-term assets	7,157	8,736	11,160	11,130
General & admin expenses	249	193	182	191	LT trade receivables	14	26	27	35
Operating profit/(loss)	990	795	1,001	1,398	Fixed assets	6,781	6,545	7,043	7,847
Other income	34	42	63	79	Investment properties	0	0	0	0
Other expense	7	8	10	13	LT incomplete assets	0	1,793	3,705	2,805
Net other income/(expenses)	26	34	53	66	LT investments	199	203	207	211
Pretax profit/(loss)	1,016	829	1,054	1,464	Goodwill	0	0	0	0
Income tax	195	173	211	294	Other LT assets	163	170	179	232
Net profit/(loss)	821	656	843	1,170	Liabilities	5,306	7,266	8,948	10,141
Minority interests	131	118	143	199	Current liabilities	2,523	2,923	3,307	3,461
Net profit after MI	690	538	699	971	Trade accounts payable	796	1,106	1,161	1,072
					Advances from customers	49	35	49	63
					ST borrowings	1,015	1,027	1,027	1,027
					Special reserves	107	100	100	100
					Other current liabilities	557	655	971	1,199
					Long-term liabilities	2,784	4,343	5,641	6,681
					LT payables	236	445	279	347
					LT borrowings	2,419	3,770	5,228	6,160
					Other LT liabilities	129	128	134	174
					Shareholders' equity	5,691	6,103	6,608	7,384
					Paid-in capital	2,814	2,814	2,814	2,814
					Share premium	0	0	0	0
					Treasury stock	0	0	0	0
					Undistributed earnings	991	1,385	1,888	2,664
					Reserve & others	576	576	576	576
					Minority interests	1,310	1,330	1,330	1,330
					Total liabilities & equity	10,997	13,369	15,555	17,525
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	3.1	(8.0)	19.9	25.0	Valuations				
EBIT growth	15.7	0.6	29.8	38.7	P/E	3.6	4.7	3.6	2.6
EBITDA growth	19.7	(0.1)	19.1	24.2	P/E diluted	3.6	4.7	3.6	2.6
NP after MI growth	5.8	(22.0)	30.0	38.9	P/B	0.4	0.4	0.4	0.3
Gross profit margin	15.4	15.9	16.4	17.6	P/S	0.3	0.4	0.3	0.2
EBITDA margin	23.0	24.9	24.8	24.6	EV/EBITDA	1.4	1.4	1.2	1.0
EBIT margin	12.0	13.1	14.2	15.7	EV/EBIT	2.7	2.7	2.1	1.5
Pre-tax profit margin	13.1	11.6	12.3	13.7	Dividend yield, ordinary (%)	13.5	11.2	13.4	15.7
Net profit margin	8.9	7.5	8.2	9.1	EPS	2,450	1,912	2,485	3,451
					BVPS	20,221	21,685	23,478	26,236
					SPS	27,567	25,361	30,418	38,020
					DPS (annual, ordinary)	1,209	1,000	1,200	1,400
					Dividend payout ratio (%)	49.3	52.3	48.3	40.6
					Operating performance				
					ROE	12.7	9.1	11.0	13.9
					ROA	6.5	4.4	4.8	5.9
					ROIC	10.9	8.9	9.6	11.3
					Financial structure				
					Total liab/equity	93.2	119.1	135.4	137.3
					Net debt/equity	39.1	59.7	75.1	80.7
					Current ratio (x)	1.5	1.6	1.3	1.8
					Interest coverage (x)	5.5	4.3	3.7	4.2
					Activity ratios				
					Asset turnover	0.7	0.6	0.6	0.6
					Receivables turnover	7.9	7.0	7.8	9.7
					Inventory turnover	55.8	58.9	72.3	76.7
					Payables turnover	8.2	7.2	7.3	9.1
Cash flow									
(VNDbn)	2019A	2020E	2021E	2022E					
Net profit	821	656	843	1,170					
Plus: depreciation & amort	863	840	909	953					
Plus: investing (profit)/loss	(195)	(161)	(240)	(245)					
Change in working capital	(31)	364	289	(37)					
(Inc)/dec - receivables	218	(312)	145	(172)					
(Inc)/dec - inventory	24	12	(6)	(36)					
(Inc)/dec - other curr assets	(3)	60	(68)	(51)					
Inc/(dec) - payables	(253)	520	(111)	(21)					
Inc/(dec) - advances	31	(14)	14	15					
Inc/(dec) - other curr liab	(49)	99	315	228					
Other adj for operations	19	2	(140)	(118)					
Operating cash flow	1,179	1,569	1,546	1,182					
ST investments	93	(617)	301	(1,813)					
Capital expenditures	(2,008)	(2,403)	(3,320)	(858)					
Investment properties	0	0	0	0					
Investment in subsidiaries	(9)	(4)	(4)	(4)					
Other assets	(36)	(7)	(9)	(54)					
Other adj for investments	437	84	80	82					
Investing cash flow	(1,523)	(2,948)	(2,951)	(2,647)					
Free cash flow	(829)	(834)	(1,774)	324					
Issuance/(repayment) of debt	94	1,351	1,458	931					
ST debt	351	12	0	0					
Other liabilities	60	(1)	6	40					
Issuance/(retirement) of equity	0	0	0	0					
Dividends paid	(340)	(281)	(358)	(394)					
Less: changes in equity	71	37	0	(0)					
Other adj for financing	37	208	415	822					
Financing cash flow	274	1,325	1,541	1,400					
Net increase in cash & equivalents	(70)	(54)	136	(65)					
Cash & equivalents - beginning	1,278	1,208	1,154	1,290					
Cash & equivalents - ending	1,208	1,154	1,290	1,225					

Source: Company reports, KB Securities Vietnam

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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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