

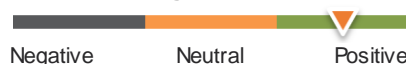
VIETNAM NATIONAL PETROLEUM GROUP (PLX) – EARNINGS UPDATE

Market Price VND77,100	Target Price N/A	Dividend Yield 1.46%	Rating NON-RATED	Sector OIL & GAS
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Outlook – Short term



Outlook – Long term



Valuation



7 February 2018

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Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	93,100
52w low (VND)	44,100
3m Avg daily volume (shares)	1.04mn
3m Avg daily value (VNDmn)	83,383
Market cap (VNDbn)	88,297
Outstanding shares (m)	1,105
Free float (%)	5.7
TTM P/E	25.6
Current P/B	4.0

Ownership

Ministry of Investment and Trade (MoIT)	75.9%
Treasury shares	10.4%
JX Nippon Oil & Energy Vietnam	8.0%
Others	5.7%

Source: VNDIRECT

PLX's profit slumped this year from a high base set in 2016; balance sheet deteriorated

PLX's 4Q17 net revenue surged by 23.3% mainly due to the increase of petroleum output (+5.0% yoy) and the rise in global crude oil prices (+17.4% yoy). However, gross profit dropped by 31.8% for the following reasons: (1) tapering off of tailwinds from low import tariffs on petroleum imported from South Korea and (2) the negative impact of the new method for calculating the weighted average import duties on gasoline, which came into effect in November 2017. This caused the company's gross margin to drop to 7.1%, compared to 8.3% in 3Q2017 and 12.8% in 4Q2016.

Interest expenses in 4Q17 increased by 57.1% yoy and 37.5% qoq, due to a sharp increase in short-term debt in this period. Short-term debt reached VND13,875bn (+56.6% qoq and +97.1% yoy) while long term debt fell to VND2,432bn (-11.2% qoq and -14.7% yoy). The D/E ratio in 12/31/2017 stood at 0.67x, a sharp rise from the ratio at the end of the third quarter (0.50x) and year end 2016 (0.43x). However, the resulting increase in interest expenses was offset by a decline in other financial expenses, mainly due to a decrease in forex losses. Total financial expenses declined to VND188bn (-1.1% yoy).

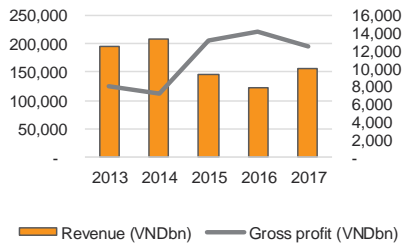
PLX also witnessed a significant increase in its inventories in the second half of this year, especially before January 1, 2018 when the government required all petroleum distributors in Vietnam to stop distributing RON92 gasoline and to replace it with E5 gasoline. Year-end inventory holding rose to VND12,710bn (+47% yoy and 22% qoq).

At yesterday's closing price, PLX is trading at a discount to domestic peers. PLX's trailing PE of 25.6x is lower than the average P/E of its domestic peers (30.0x), including PVOIL (41.3x) and Thalexim (18.8x) based on the average price in their recent auctions.

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	206,781	146,920	123,097	155,651
Revenue growth	5.5%	(28.9%)	(16.2%)	26.4%
Gross margin	3.5%	9.0%	11.5%	8.0%
EBITDA margin	1.1%	4.5%	7.2%	4.8%
Net profit (bn)	(771)	3,079	4,669	3,467
Net profit growth	(156.0%)		51.7%	(25.8%)
Recurring profit growth	(156.0%)		51.3%	(25.9%)
Basic EPS	(721)	2,877	3,951	3,017
Adjusted EPS	(721)	2,877	3,942	3,006
BVPS	13,170	12,850	17,543	17,626
ROAE	(5.7%)	22.1%	27.7%	17.2%

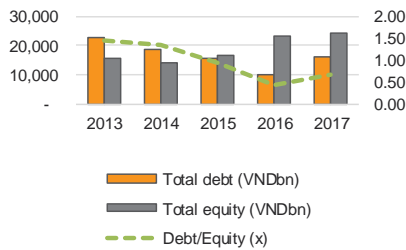
Source: VNDIRECT

Figure 1: Revenue and gross profit (2013-2017)



Source: VNDIRECT

Figure 2: Total debt and total equity (2013-2017)



Source: VNDIRECT

Profits from joint ventures and associate companies in 4Q17 declined by 45.1% yoy. In 2017, profits from joint ventures and associate companies fell to VND433 bn, a 28% yoy decline. This occurred due to a sharp decrease in profit from its joint venture Castro BP Petro.

We expect NPAT to recover slightly this year due to continuous growth in revenue and the recovery in gross profit margin. The company's margins will recover this year, as E5 gasoline and RON95 gasoline have higher profit margins than RON92 gasoline. Volumes should rise as PLX plans to invest approximately VND1,000bn to open 70 new petrol stations in 2018, thus lifting petroleum volumes by 6.4%.

We see some potential positive share price catalysts on the horizon including a treasury share sale and the state divestment. PLX still owns 135 million treasury shares with a total book value of VND1,351bn (VND10,000 per share) which it is looking to sell; this could bring in financial gains and boost free float but will also be dilutive to existing shareholders. In addition, the Ministry of Industry and Trade (MoIT) plans to reduce its stake from 75.9% to 51.0% in 2018. This will allow PLX's free float to increase from 5.7% to 30.5%, which will make it more attractive for both individual and institutional investors.

Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	146,920	123,097	155,651
Cost of sales	(133,737)	(108,891)	(143,145)
Gen & admin expenses	(977)	(1,017)	(1,009)
Selling expenses	(6,850)	(7,701)	(7,402)
Operating profit	5,357	5,487	4,096
Operating EBITDA	7,139	7,539	6,173
Depreciation and amortisation	(1,782)	(2,052)	(2,077)
Operating EBIT	5,357	5,487	4,096
Interest income	796	880	833
Financial expense	(2,577)	(844)	(793)
Net other income	127	177	309
Income from associates & JVs	507	600	433
Pre-tax profit	4,210	6,300	4,877
Taxation	(796)	(1,153)	(893)
Minority interests	(335)	(478)	(517)
Net profit	3,079	4,669	3,467
Adj. net profit to ordinary	3,079	4,669	3,467
Ordinary dividends			
Retained earnings	3,079	4,669	3,467

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	11,289	11,354	14,481
Short term investments	1,979	2,654	4,902
Accounts receivables	7,060	6,918	8,358
Inventories	7,617	8,627	12,687
Other current assets	2,386	3,824	4,657
Total current assets	30,331	33,376	45,084
Fixed assets	15,929	16,251	16,619
Total investments	2,958	2,381	2,424
Other long-term assets	1,626	2,237	2,424
Total assets	50,845	54,244	66,550
Short-term debt	12,758	7,038	13,875
Accounts payable	8,733	11,523	15,352
Other current liabilities	9,599	9,381	10,373
Total current liabilities	31,090	27,942	39,600
Total long-term debt	2,918	2,852	2,432
Other liabilities	205	249	259
Share capital	10,700	12,939	12,939
Retained earnings reserve	2,823	5,162	4,472
Shareholders' equity	13,750	19,978	20,425
Minority interests	2,882	3,223	3,835
Total liabilities & equity	50,845	54,244	66,550

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	4,210	6,300	4,877
Depreciation & amortisation	1,782	2,052	2,077
Tax paid			
Other adjustments	(625)	(471)	(329)
Change in working capital	1,064	(3,235)	(3,414)
Cash flow from operations	6,431	4,646	3,211
Capex	(1,973)	(3,196)	(2,343)
Proceeds from assets sales	167	17	28
Others	675	1,029	(1,080)
Other non-current assets changes			
Cash flow from investing activities	(1,131)	(2,149)	(3,395)
New share issuance	0	4,061	1,010
Shares buyback	0	(497)	0
Net borrowings	(3,664)	(5,845)	6,360
Other financing cash flow	0	0	0
Dividends paid	0	(150)	(4,057)
Cash flow from financing activities	(3,664)	(2,432)	3,312
Cash and equivalents at beginning of period	9,653	11,289	11,354
Total cash generated	1,636	65	3,127
Cash and equivalents at the end of period	11,289	11,354	14,481

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	2.1%	3.8%	2.2%
Asset turnover	2.77	2.34	2.58
ROAA	5.8%	8.9%	5.7%
Avg assets/avg equity	3.82	3.12	2.99
ROAE	22.1%	27.7%	17.2%
Efficiency			
Days account receivable	12.3	18.4	17.8
Days inventory	20.8	29.0	32.3
Days creditor	23.8	38.7	39.1
Fixed asset turnover	8.99	7.65	9.47
ROIC	9.5%	14.1%	8.5%
Liquidity			
Current ratio	0.98	1.19	1.14
Quick ratio	0.73	0.89	0.82
Cash ratio	0.43	0.50	0.49
Cash cycle	9.3	8.7	11.0
Growth rate (yoy)			
Revenue growth	(28.9%)	(16.2%)	26.4%
Operating profit growth	2284.2%	2.4%	(25.4%)
Net profit growth		51.7%	(25.8%)
EPS growth		37.3%	(23.6%)
Share value			
Basic EPS (VND)	2,877	3,951	3,017
BVPS (VND)	12,850	17,543	17,626

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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