# PETROVIETNAM OIL CORPORATION (PVOIL) – IPO NOTE

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**IPO information**

| | |
|---|---|
| Expected date of IPO | Jan 25, 2018 |
| Initial price (VND/share) | 13,400 |
| Shares offered (shares) | 206,845,900 |
| % of current outstanding shares | 20% |
| Structure | Secondary |
| Asset valuation (VNDbn) | 19,309 |
| Book value of state owned capital (VNDbn) | 10,342 |
| Chartered Capital (VNDbn) | 10,342 |

**Key statistics**

| | |
|---|---|
| Market cap @ initial price(VNDbn) | 13,859 |
| 2017 EPS (VND) | 489 |
| 2017 ROE | 4.9% |
| 2017 P/E (*) | 27.4x |
| 2017 P/B (*) | 1.3x |

*(*) Calculated based on initial price*

**Expected ownership after IPO**

| | |
|---|---|
| Public | 20.0% |
| ESOP | 0.2% |
| Strategic | 44.7% |
| State | 35.1% |

**PetroVietnam Oil Corporation (PVOIL) is the second largest petroleum distributor**, accounting for 20% of the domestic market as of 2016. The company also has a monopoly on crude importing, exporting and trading in Vietnam. PVOIL also ranks second in terms of market share of petroleum distribution and retailing in Laos. Moreover, PVOIL is the only unit of PVN that has completed all downstream stages, from petroleum processing, transportation to distribution and retail. PVOIL can self-supply 15%-20% of the demand for refined products through its condensate processing plant (PVOIL Phu My) and buys the rest from Dung Quat refinery (accounting for 55%-60%) and imported sources (accounting for 25%). Therefore, nearly 80% of PVOIL's input comes from a stable domestic source, which reduces its transportation fees and transit times compared to other competitors in the industry.

**PVOIL has a bright outlook in the next few years. It has ample room to grow and improve its profit margin after equitization:**

- **Vietnam's petroleum market is forecast to maintain a high growth rate of 4.7% per year according to BMI**, which is three times the global petroleum consumption growth rate.
- **PVOIL can outpace the industry's growth.** Currently, PLX holds approximately 50% of the total market share and therefore PLX is limited in its ability to acquire other petroleum distributors or distributor agents due to anti-trust competition laws in Vietnam. In contrast, PVOIL only accounts for 20% of the market, and still has plenty of room for growth.
- **PVOIL aims to increase the efficiency of its oil distribution segment by focusing on the retail channel**, which has a higher gross profit margin than the wholesale channel**.** Specifically, PVOIL aims to increase the number of its own petrol stations by 1,010 stations during the 2018-2022 period, thus increasing the proportion of revenue from retail channel from 23% in 2017 to 35% in 2022 and lifting the gross profit margin of PVOIL from 4.9% currently to 8.6% in 2022. PVOIL plans to grow the consolidated earnings before tax of this segment by 32.8% per annum.
- **PVOIL plans to develop more value-added services at its petro stations** such as convenience stores, car maintenance workshops, and restaurants, thus improving yield per station. PVOIL plans to earn VND372bn in profit before tax in 2022 non-oil services segment (other business), with an annual growth rate of 96.4%.

**We believe that PVOIL will attract strategic investors** thanks to its comprehensive and expanding distribution system and we also believe that strategic involvement can improve PVOIL's efficiency.

**We estimate the fair value of PVOIL at VND21,216 per share** (based on peer comparables), which is 58.3% higher than the IPO initial price of VND13,400 per share, as we think that the improving

profitability profile and growth potential of the company are not captured in the asset-based IPO valuation.

**PVOIL will hold an IPO auction on January the 25th,** offering a 20% stake to the public (equivalent to 206.84mn secondary shares) at a tentative initial price of VND13,400/share. After the IPO, another 44.72% stake will be offered to strategic investors who will be selected based on their financial ability, vision and industry expertise. PVOIL will also sell 1.86mn shares (accounting for 0.18% of its chartered capital) to employees. Therefore, the government will only retain 35.1% of the chartered capital after equitization, down from 100% today.

PVOIL's valuation has been completed already and the total value of its assets currently stands at VND19,309bn (US$848mn). The total book value of the state-owned capital is VND10,342bn (US$454mn).

## Business model

**Figure 1: Import/Export crude oil (2014-2016)**

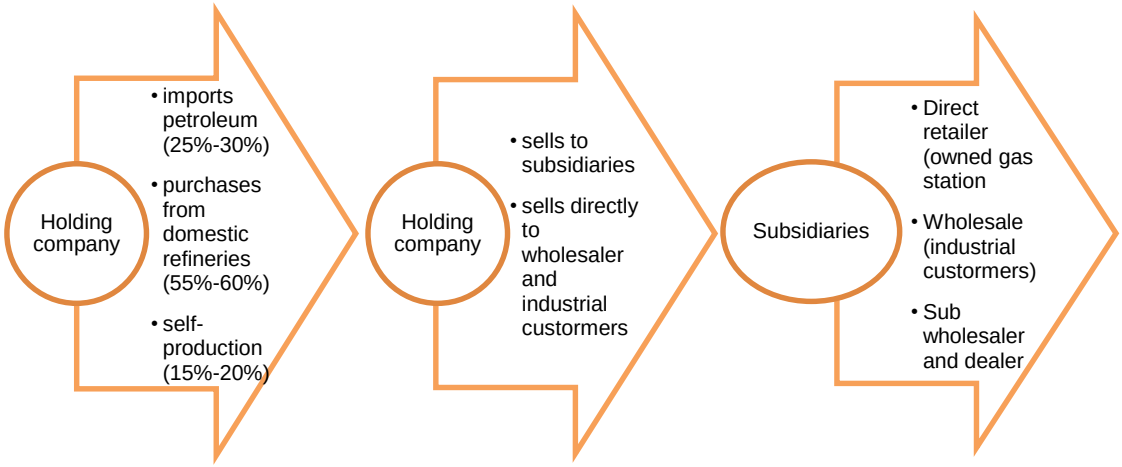
| Units (1000m3/tonne) | 2014 | 2015 | 2016 |
|---|---|---|---|
| Crude oil export/sale | 15,212 | 16,341 | 14,972 |
| Crude oil supply to Dung Quat refinery | 6,322 | 7,300 | 7,530 |
| Domestic sources | 5,629 | 7,188 | 7,095 |
| Imported crude | 693 | 182 | 435 |

Source: PVOIL

**PetroVietnam Oil Corporation (PVOIL) is the second largest petroleum distributor in Vietnam**, accounting for 20% of the domestic market as of 2016. The company's major business activities include: (1) importing, exporting and trading of crude oil domestically and internationally, (2) production of Petroleum and Ethanol (E100) products, (3) Importing, exporting, and distributing petroleum products and (4) Ancillary businesses such as oil transportation, storage leasing, brokerage and shipping services.

PVOIL has an integrated and complete petrochemical value chain, all the way from the production stage to retail distribution.

**Figure 2: PVOIL's value chain**




PVOIL has 28 subsidiaries, including 26 companies operating in the crude oil business and refining and distribution of petrochemical products, as well as 2 companies operating in other fields (transportation supply shipping services and storage leasing).

## PVOIL has a monopoly on importing and exporting crude oil

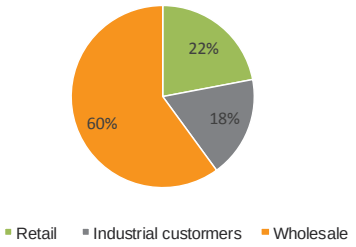
PVOIL is the only company in Vietnam that provides marketing and services for the export/sale of crude oil sourced from Vietnam and the crude oil extracted from PVN exploited in oil wells in foreign countries with an average output of 15mn tonnes per year.

**Figure 3: Sales volume of PVOIL products for the period 2014-2016**

| Units (1000m3/tonne) | 2014 | 2015 | 2016 |
|---|---|---|---|
| Domestic market | 2,989 | 3,209 | 3,109 |
| Laos market | 98 | 96 | 105 |
| Total | 3,087 | 3,305 | 3,214 |

Source: PVOIL

**Figure 4: Sales by channel of PVOIL**




Source: PVOIL

**Figure 5: Customer category**

| | Direct wholesale | Franchise | Retail |
|---|---|---|---|
| Customer | Oil and Gas contractors, power plants,etc | Customers are dealers, agents and general agents who are eligible for petroleum and oil trading under regulation | Sales through 540 petrol stations which are owned or controlled by PVOIL |
| Number of petro stations | | 3000 | 540 |
| Proportion of total output | 18%-20% | 60% | 20%-22% |

Source: VNDIRECT, PVOIL

PVOIL also provides all of the crude oil for Dung Quat Refinery, with an average of 7mn tonnes per year of feedstock from domestic and imported sources.

The import/export crude oil activity contributes approximately VND160bn in revenue annually, accounting for less than 1% of total revenue but 10% of total profit. This also helps PVOIL solidify its relationship with traditional partners such as Dung Quat Refinery (BSR) and other subsidiaries of PVN.

## PVOIL is the second largest petroleum distributor in Vietnam and Laos, but lags PLX in efficiency

In the petroleum wholesale and retail segment, PVOIL has domestic output of approximately 3.2mn tonnes/year, ranking second in the market for petroleum distribution, and accounting for 20% of the total market as of 2016. PLX is the largest player, accounting for approximately 50% of the total market.

In Laos, PVOIL is the second largest company, with a 15% market share (including wholesale, retail and direct sales to industrial clients).

PVOIL is one of only two enterprises that has a distribution network covering all 63 provinces and all cities nationwide. PVOIL has nearly 540 petrol stations that it owns or directly controls. 184 of these stations are located in the North, 181 stations are in central Vietnam and 171 stations are located in southern Vietnam.

PVOIL has a system of 30 petroleum depots with a capacity of nearly 1mn m3 nationwide (the second largest in Vietnam). PVOIL currently only uses 50% of the total designed capacity of its warehousing system, thus ensuring PVOIL's development needs for at least five to seven years.

PVOIL owns 120 petrol tank-trucks with a total capacity of 2,000m3 and 7 barges with a total capacity of 4,000m3, together meeting only 50% of internal transportation needs.

**Figure 6: PVOIL's distribution system is not efficient as compared to PLX**

| Company | Petrolimex | PVOIL | Thalexim | Saigon Petrol | Mipec |
|---|---|---|---|---|---|
| Total output of petroleum (mn tonnes, m3) | 8.3 | 3.3 | 1 | 1 | 1 |
| Market share | 50% | 20% | 6% | 6% | 6% |
| Storage facilities (m3) | 2,200,000 | 1,000,000 | 36,000 | Na | <265,400 |
| Number of outlets | ≈ 5,400 | ≈ 3,500 | 1,150 | 1,010 | 666 |
| *Owned stores* | 2400 | 540 | 80 | 10 | 93 |
| *Retail agents* | ≈3,000 | ≈3,000 | 1,070 | 1,000 | 573 |
| Average output per unit (m3) | ≈1,600 | ≈950 | ≈900 | ≈1,000 | ≈1,400 |
| Presence | Nationwide | Nationwide | Stronger presence in the South | Most operations are in the south | Stronger presence in the North |

Source: VNDIRECT

**Figure 7: Advantages and disadvantages of PVOIL's distribution system versus other competitors**

| Items | Advantages | Disadvantages |
|---|---|---|
| Supply | · 55%-60% of PVOIL's inputs currently come from Dung Quat Refinery (only 20-25% of PVOIL's inputs come from imported sources). Therefore, PVOIL has more stable inputs and less transportation fees than other competitors, which buy 30%-40% of petroleum inputs from domestic sources. | · Beginning in 2018, PVOIL will buy petroleum from Nghi Son Refinery due to its close relationship with PVN. In the first stage, petroleum products from Nghi Son Refinery may be unstable in quality and output. |
| Distribution system | · PVOIL is one of two enterprises (PVOIL and Petrolimex) with a distribution network covering all 63 provinces and all cities nationwide. | · 60% of PVOIL's output is distributed through agents, which usually has lower gross profit margin compared with distributing through its own petrol stations. Meanwhile, 60%-70% of PLX's output is sold by owned stores. |
| | · PVOIL's has the second highest number of petrol stations (540 owned stores) after PLX (2,400 owned stores), while the 3rd largest player, Thalexim, only has 80 owned stores. | · PVOIL owns 120 petrol tank-trucks with a total capacity of 2,000m3 and 7 barges with a total capacity of 4,000m3, together meeting only 50% of internal transportation needs. |
| | · PVOIL's market share continues to expand steadily through M&A activities. The maximum market share that can be held by a single petroleum distributor in Vietnam is 50%, so PVOIL has ample room for growth | · The majority of PVOIL's petrol stations are located in rural areas so the average output per unit is slightly lower than the industry's average. |
| | · PVOIL has a traditional customer base in the petroleum industry | · PVOIL's distribution is less present in some big cities, especially Hanoi and Ho Chi Minh City. |
| Storage | · PVOIL has a system of 30 petroleum depots with a capacity of nearly 1mn m3 nationwide (the second largest in Vietnam). | · PVOIL's warehouse system is mainly located in the South, while missing storage in the North. |
| | · PVOIL currently uses only 50% of the total designed capacity of its warehouse system, thus meeting PVOIL's development needs for at least five to seven years. | · Excessive storage capacity also increases PVOIL's operating costs. |

Source: VNDIRECT

**Figure 8: Petroleum, lubricant production in 3 years pior to equitization**

| Units (1000m3/tonne) | 2014 | 2015 | 2016 |
|---|---|---|---|
| Petroleum | 296.0 | 597.0 | 508.0 |
| Lubricant | 3.5 | 3.5 | 4.0 |
| Biofuel E5 | 52.0 | 152.0 | 169.0 |
| Total | 351.5 | 752.5 | 681.0 |

Source: PVOIL

**Figure 9: List of petro processing plants in Vietnam**

| No | Manufactures | Capacity ('000 tonne) | Gasoline ('000 tonne) | Diesel ('000 tonne) |
|---|---|---|---|---|
| **I** | **Refinery** | **15,450** | **5,053** | **6,472** |
| 1 | BSR | 6,700 | 2,746 | 3,068 |
| 2 | NSRP (active in 2018) | 8,750 | 2,307 | 3,674 |
| **II** | **Condensate factories** | **690** | **690** | |
| 1 | PVOil Phu My | 130 | 130 | |
| 2 | Saigon Petrol | 260 | 260 | |
| 3 | Nam Viet Oil | 200 | 200 | |
| 4 | Dong Phuong | 100 | 100 | |
| **III** | **Total** | **16,140** | **5,473** | **6,472** |

Source: VNDIRECT

## Processing domestic condensate and producing biofuels are the key strengths of PVOIL

**PVOIL has many advantages in processing domestic condensate**: PVOIL owns the PVOIL Phu My plant with processing capacity of 130,000 tonnes of condensate per year. The stable supply comes from condensate sources exploited domestically by PVN. From 2014, the main output product of this processing has been A92 gasoline with production output of 400,000-600,000 m3/year, accounting for 15%-20% of the total gasoline supplied across PVOIL's network.

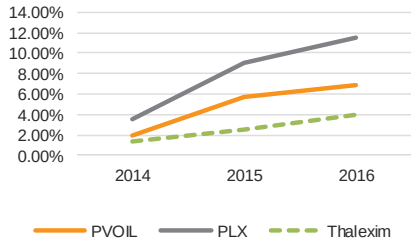
**PVOIL is the pioneering company in biofuel production**: PVOIL owns a stake ranging from 31.1% to 39.8% in 3 biofuel plants (out of 5 biofuel plants in Vietnam) and the capacity of each factory is 100,000 m3 of E100 per year; the company has completed two factories and one factory is under construction. These investments ensure the E100 supply for blending E5 gasoline. PVOIL also has 10 stations for blending E5 gasoline (5 in tank stations and 5 in line stations) with total capacity of 900,000m3 E5/year. These investments ensured E100 supply for blending E5, thus providing a sufficient supply of E5 gasoline for PV Oil's entire distribution network. Furthermore, PVOIL can also provide blending services of E5 gasoline for other distributors who do not have enough infrastructure to mix enough E5 gasoline to meet the demand of their distribution systems.

## HISTORICAL BUSINESS PERFORMANCE

### PVOIL's business performance before equitization has not been adequate, given its scale, market share and potential for growth.

**PVOIL's gross profit margin is lower compared to PLX, but still higher than Thalexim's gross profit margin:**

**Figure 10: Gross profit margin (%) (2014-2016)**

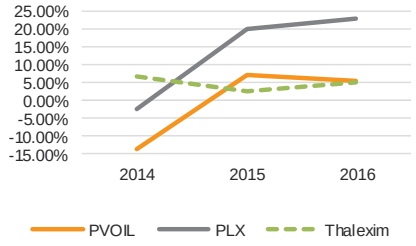



Source: VNDIRECT

- PVOIL sells more than 60% of its total output through petroleum agents, at a very low gross profit of VND200-300/liter while PLX sells 60-70% of its total output through its own petroleum stores, at a gross profit of VND1200-1500/liter.
- PVOIL purchases 55%-60% of its refined products from Binh Son Refinery (BSR). Prior to 2017, the sale price of BSR products was higher than imported products due to higher taxes, as this was contributed to both the state budget and the local budget.
- The company's profit margin improved during 2017, because BSR's selling price decreased due to tax reductions (tax reduced by 3-7 percentage points).

**PV Oil's business performance was harmed by the large provision for the accumulated losses at Petec and 2 out of 3 of its biofuel factories.**

**Figure 11: ROE (%) (2014-2016)**




Source: VNDIRECT

During 2014-2016, the average long-term financial investment per year was VND6,500bn. PVOIL invested VND2,464bn of this in Petec (PVOIL's subsidiary which focuses on wholesale petroleum distribution) and more than VND850bn of this in 3 biofuel factories. PVOIL provisioned nearly VND150 billion annually for Petec, which has 93% of total sales coming from its wholesale channel with the lowest gross profit margin. Moreover, its 2 biofuel factories operated at a low capacity due to the unfavourable market for biofuel products during 2014-2016. This harmed the company's business performance during this period.

However, the company plans to divest from Petec and to increase production of the biofuel plants to meet the fast increasing demand of E100 for blending E5 from 1 January 2018. PVOIL consequently expects that it will no longer need to make provision for these investments after its equitization.

**Figure 12: The details of long-term financial investments during 2014-2016**

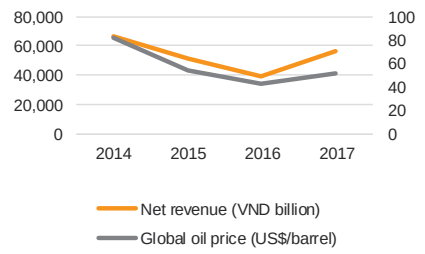
| No | Investment (Unit: VND billion) | 2014 | 2015 | 2016 | |
|---|---|---|---|---|---|
| | | | | Value | Ratio |
| 1 | **Investment in subsidiaries** | 5,060 | 5,084 | 5,108 | 78.00% |
| | *In which: Petec* | 2,464 | 2,464 | 2,464 | 37.60% |
| 2 | **Investment in associates** | 12,269 | 1,263 | 1,271 | 19% |
| | *In which: 3 biofuel factories* | 858 | 858 | 875 | 13.00% |
| 3 | **Other investment** | 165 | 162 | 167 | 3% |
| | Total | 6,494 | 6,509 | 6,546 | 100% |

Source: VNDIRECT

### PVOIL has not cleared all the accumulated losses of 2014

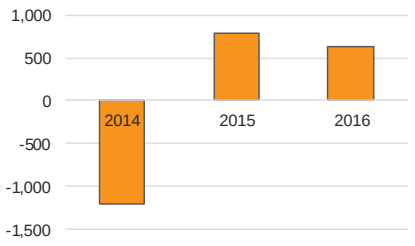
PVOIL recorded VND1,509bn of losses in 2014 because of the rapid and continuous decline in crude oil prices in the last six months of 2014, and lagged effect between the minimum 30-day inventory (calculated by FIFO) and 15-day base price calculation method which

**Figure 13: PVOIL's revenue and WTI crude oil price (2014-2017)**




Source: PVOIL, BIOOMBERG

**Figure 14: Profit before tax (VND billion)**




Source: PVOIL

applied to calculate the gasoline retail price. Besides, Dung Quat refinery closed for two months in 2014 for maintenance, leading PVOIL to increase the proportion of imported products before the sharp drop in world crude oil prices, thus increasing the cost of inventory. Although PVOIL recorded net profit after tax of VND674bn and VND 565bn in 2015 and 2016, respectively, PVOIL was unable to fully offset its accumulated losses which stood at VND1,912bn as of 31st of December, 2016.

**PVOIL's profit in 2017 decreased significantly due to unfavourable oil price movements in 6M2017 and because it was unable to continue to benefit from lower Korean tariffs.**

Global oil prices plunged by 13% YoY in the first half of 2017, compared to the 45% increase of global oil prices in the same period of 2016, which weighed on PVOIL's 6M2017 gross profit margin. Moreover, the company was not able to benefit from lower Korean tariffs on petroleum products, as it previously did during 2016.

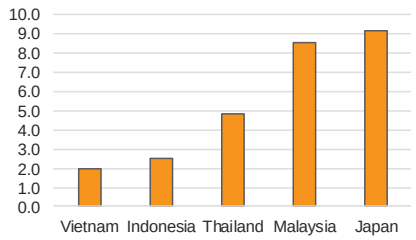
As a result, PVOIL's consolidated revenue in 2017 is estimated at VND55,979bn (+42.6% YoY), equivalent to 165% of its annual plan. PVOIL also exceeded its profit target in 2017. The profit of parent company is estimated at VND325bn. Profit of subsidiaries was estimated at VND173 billion. The company's consolidated pre-tax profit in 2017 is estimated at VND410 billion (-34.5% YoY), fulfilling 125% of the full year target. However, if import taxes from Asean and Korea are refunded, the parent company's pre-tax profit of 2017 will be VND485bn and consolidated profit pre-tax will be VND560bn (-9.0% YoY), as PVOIL announced.

## FUTURE OUTLOOK

### PVOIL has ample room to grow and improve its profit margin after equitization

**a. The petroleum market is forecast to maintain a high growth rate of 4.7% per year according to BMI** (three times the global petroleum consumption growth rate)

**Figure 15: Oil consumption (barrels/capita/year)**




Source: PVOIL

Wood Mackenzie, a famous research firm in the energy market, also forecasts that Vietnam's gasoline consumption can increase by an annual growth rate of 4.9% over the next 10 years. These forecasts are based on the following three factors:

- Strong GDP growth of around 6.5%-7%. In the past, petroleum consumption growth was in line with GDP growth.
- Personal car sales have been increasing rapidly. BMI projects that personal car sales will continue to grow by 15% per annum for the next five years.
- Petroleum consumption per capita in Vietnam is still low, at only 40% and 25% of the levels of Thailand and Malaysia, respectively.

**b. PVOIL can outpace the industry's growth**

Currently, PLX holds approximately 50% of the total market share and therefore PLX is limited in its ability to acquire other petroleum distributors or distributor agents due to competition laws in Vietnam. In

contrast, PVOIL only accounts for 20% of the market, and still has ample room for growth.

Realizing this advantage, PLX sets a target of "35-35-35" for the next 5-year period after equitization (2018-2022).

- Increasing its total domestic petroleum market share from 20% to 35% by 2022. To fulfill this target, PVOIL will expand its distribution network through M&A activities and increasingly investing in opening new gas stations.
- Increasing the proportion of retail sales (through owned petrol station network) from 23% to 35% in 2022. To meet this target, PVOIL plans to construct 50 petrol stations/year in the next five years.
- Increasing the proportion of sales to industrial customers from 18% to 35% in 2022.

Although this target is very challenging, we believe that PVOIL will be able to meet the target due to the scale of its business, strong financial capability and extensive experience in many successful M&A deals in the past. In the period 2010-2015, PVOIL was able to expand its petrol station network through M&A activities, from over 100 petrol stations in 2010 to 540 stations by 2017.

PVOIL has advantages in acquiring smaller petroleum distributors as compared to other main competitors including PLX (limited by anti-trust competition restrictions), Thalexim, Mipec and Saigon Petro. These activities will help PVOIL expand its distribution network and increase retail sales volume to improve the efficiency of the business.

**c. PVOIL plans to invest heavily to meet its ambitious 5 year growth target**

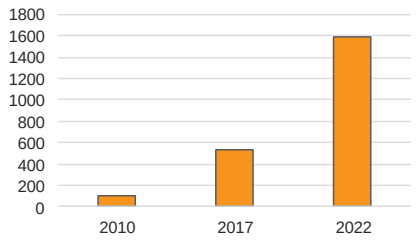
**Investment in construction and equipment**

During 2018-2022, PVOIL plans to invest a total of VND7,049bn (US$310mn), averaging VND1,410bn (US$62mn) per year in the following projects:

- New construction of 50 petroleum stations per year
- Establishing non-oil services at its petro stations.
- Expansion (phase II) of Nghi Son storage project
- Equipment for Jet A1 (Aviation fuel) supply
- Maintaining depots and terminals
- Buying new tanker-trucks

PVOIL expects to continue to increase its transportation capacity at its subsidiaries to meet 100% of its internal needs (including needs of agents).

**Figure 16: Number of owned petrol stations**




Source: PVOIL Plan

**Inorganic growth**

PVOIL plans to acquire small and ineffective companies and then to restructure them to improve business performance. PVOIL plans to add 1,010 new petrol stations between 2018-2022. 560 stations will be from M&A, 250 stations will be constructed (mentioned above) and the remaining 200 fuel stations will be leased.

The total amount of long term investment over the 2018-2022 will be around VND4,194bn (US$185mn), averaging VND839bn (US$37mn) per year.

**Funding for Capex plan and long term investments**

The company's total funding needs including capex and funding investment is VND11,240bn (US$495mn), an average of VND2,250bn (US$99mn) per year and this will be funded from the following sources:

- Self-funding: Approximately VND7,000bn, which will be arranged from existing cash reserves and future operating cash flow. According to PVOIL's enterprise valuation report, cash and cash equivalents of PVOIL reached VND6,193bn.
- Borrowings: Approximately VND4,000bn. According to PVOIL's enterprise valuation report, short-term and long-term loans of PVOIL are VND2,477bn and VND202bn, accounting for only 12.6% of the total capital of the enterprise. The company's D/E ratio is only at 0.24x, so PVOIL has plenty of room for borrowing to finance long-term investments.

**Divestment plan at Petec**

Petec is PVOIL's subsidiary, which focuses on the wholesale channel of petroleum distribution.

Petec has current sales of more than 350,000m3/year of petroleum products, which accounts for more than 10% of PVOIL's total sales. 93% of Petec's total sales comes from its wholesale channel, which is the most inefficient channel with the lowest gross profit margin. At the time of PVOIL's merger (May 2013), Petec had accumulated losses of nearly VND1,200bn. After four years in PVOIL's system, Petec has continued to suffer a loss of nearly VND500bn and PVOIL made an annual provision of nearly VND100bn for its investment in Petec. Petec's equity at the time of valuation of PVOIL (as mentioned in PVOIL's enterprise valuation report) was VND851bn, net of accumulated provisions of approximately VND1,613bn.

In order to restructure and improve its business performance and reduce internal competition, PVOIL is planning to divest its stake in Petec, post-equitization.

## PVOIL's business plan for 2018-2022

**Import/export crude oil:** Maintaining stable volume

**Figure 17: Five-year plan for import/export of crude oil (2018-2022)**

| Targets (Unit: 1000 tonnes) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Exports of crude oil | 14,990 | 16,421 | 15,506 | 15,000 | 15,000 |
| Supply of crude oil for refinery | 7,000 | 7,000 | 7,000 | 7,000 | 7,000 |
| *From domestic sources* | *6,300* | *6,300* | *5,600* | *5,600* | *7,600* |
| *Imports* | *700* | *700* | *1400* | *1400* | *1900* |

Source: PVOIL

**Oil production and blending:** Increasing bio-gasoline E5/E10, with an average annual growth rate of 19.7%.

PVOIL will blend E5 gasoline to replace the entire RON92 gasoline throughout its network beginning from 1 January 2018.

**Figure 18: Five-year plan for production quantity (2018-2022)**

| Products (Unit:1000m3/tonne) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Bio-gasoline E5/E10 | 900 | 1,150 | 1,400 | 1,600 | 1,850 |
| Lubricant | 4.2 | 4.6 | 5.1 | 5.6 | 5.6 |
| Total | 904 | 1,155 | 1,405 | 1,606 | 1,856 |

Source: PVOIL

**Petroleum distribution:** PVOIL aims to increase its market share to 35% in 2022, with a domestic annual output growth of 19.8%, compared to the 5% growth rate for the industry.

**Figure 19: Gasoline consumption plan for 2018-2022**

| Market (Unit: 1000m3/tonne) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Domestic market | 3,300 | 4,200 | 5,100 | 5,950 | 6,800 |
| Laos market | 110 | 116 | 121 | 127 | 134 |
| Total | 3,410 | 4,316 | 5,221 | 6,077 | 6,934 |

Source: VNDIRECT

For the Laos market, PVOIL plans to maintain a stable market share, with an average output growth of 5%, on par with the country's GDP growth rate.

### Revenue and earnings plan for 2018-2022

**Figure 20: Consolidated earnings before tax by business segments after equitization**

| Business segments (Unit: VND billion) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Entrusted import/export crude Oil | 160 | 179 | 171 | 167 | 175 |
| Oil distribution and retail | 545 | 867 | 1,226 | 1,493 | 1,697 |
| Others | 25 | 56 | 120 | 220 | 372 |
| Total | 730 | 1,101 | 1,517 | 1,880 | 2,243 |

Source: PVOIL

- **Oil distribution and retail:** PVOIL aims to increase the efficiency of its oil distribution and retail segment by increasing its focus on its own petrol stations, which have a higher gross profit margin. PVOIL aims to increase the number of its own petrol stations from 540 petro stations currently to 1,550 stations in 2022. As a result, PVOIL plans to grow the consolidated earnings before tax of this

segment by 32.8% per annum, supported by a 300 bps targeted gross margin expansion from 2016 levels to touch 8.6% in 2022.

- **Other business:** Besides, PVOIL plans to develop more value added services at its petro stations (non-oil services) such as convenience stores, car maintenance workshops, and restaurants, thus improving PVOIL's revenue per outlet. PVOIL plans to earn VND372bn in profit before tax in 2022 from other business (including non-oil services, transportation and storage leasing), with an annual growth rate of 96.4%.

We believe that the selection of strategic investors after the IPO will play a decisive role in the ability of PVOIL to accomplish these targets during 2018-2022, especially in the establishment and development of non-oil services segment.

**Figure 21: Business performance targets for 2018-2022**

| Items (Unit: VND billion) | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Consolidated revenue | 45,804 | 57,244 | 67,597 | 77,702 | 88,057 |
| COGS | 42,610 | 53,057 | 62,354 | 71,363 | 80,450 |
| Gross profit margin | 6.97% | 7.31% | 7.76% | 8.16% | 8.64% |
| Expenses | 2,465 | 3,086 | 3,727 | 4,509 | 5,414 |
| EBITDA | 1,115 | 1,678 | 2,231 | 2,673 | 3,193 |
| % revenue | 2.40% | 2.90% | 3.30% | 3.40% | 3.60% |
| Consolidated earnings before tax | 730 | 1,101 | 1,517 | 1,880 | 2,243 |
| Consolidated earnings after tax | 584 | 881 | 1,214 | 1,504 | 1,795 |
| **Parent company** | | | | | |
| Net revenue | 26,519 | 34,857 | 42,212 | 49,390 | 56,768 |
| Earnings before tax | 618 | 727 | 862 | 1,001 | 1,146 |
| Earnings after tax | 524 | 629 | 753 | 881 | 1,013 |
| Equity | 10,342 | 10,463 | 10,628 | 10,832 | 11,078 |
| ROE | 5.10% | 6.00% | 7.10% | 8.10% | 9.10% |
| Dividend (% on par value) (dividend payout ratio will be 60% of EAT) | 3.00% | 3.60% | 4.40% | 5.10% | 5.90% |

Source: PVOIL

We think that PVOIL's sales volume target is quite challenging but achievable if the company succeeds in expanding its retail distribution network. PVOIL plans to increase its total sales volume of petroleum products by 103% during 2018-2022, while its consolidated revenue only increases by 92% over the same period. Besides, the company's consolidated revenue target for 2018 is VND45,804bn, which is far lower than its estimated revenue for 2017 (VND56,000bn) even though global oil prices have continued to strengthen.

PVOIL aims to increase its ROE from 5%-6% in 2016-2018 period to above 9% in 2022, still low compared to PLX's existing ROE of around 20%. We believe PVOIL can meet this target if it can lift gross margins through increased contribution from its retail channel and, particularly, from its own gas stations. PVOIL also plans to take 60% of its net profit to pay dividends to shareholders at 3%-6% of par value.

## Valuation and recommendation

**Figure 22: Regional peer comparison**

| Name | Nation | Market Cap US$ bn | P/E | EV/EBITDA | EV/Sales | P/S | P/B | ROE (%) |
|---|---|---|---|---|---|---|---|---|
| Indian Oil Corp Ltd | India | 29.10 | 9.13 | 7.15 | 0.70 | 0.52 | 1.84 | 20.67% |
| JXTG Holding Inc | Japan | 23.74 | 8.50 | 6.89 | 0.51 | 0.24 | 1.12 | 13.81% |
| SK Innovaton Co Ltd | Korea | 16.87 | 9.25 | 4.94 | 0.47 | 0.41 | 0.99 | 11.17% |
| Bharat Petroleum Corp Ltd | India | 15.94 | 10.58 | 8.99 | 0.62 | 0.46 | 3.30 | 29.76% |
| S-Oil Corp | Korea | 12.43 | 13.52 | 11.65 | 0.98 | 0.68 | 2.06 | 11.05% |
| Hindustan Petroleum Corp Ltd | India | 9.59 | 7.43 | 6.49 | 0.38 | 0.33 | 2.90 | 43.65% |
| Idemitsu Kossan Co Ltd | Japan | 8.19 | 5.94 | 5.54 | 0.42 | 0.21 | 1.20 | 19.84% |
| Caltex Australia Ltd | Australia | 7.25 | 16.22 | 8.26 | 0.46 | 0.46 | 3.12 | 20.17% |
| Thai Oil PCL | Thailand | 6.44 | 8.64 | 5.59 | 0.62 | 0.63 | 1.77 | 21.91% |
| Showa Shell Sekiyu KK | Japan | 5.55 | 24.66 | 7.03 | 0.33 | 0.32 | 2.69 | 15.53% |
| **PLX** | **Vietnam** | **4.75** | **34.09** | **10.34** | **0.48** | **0.72** | **5.54** | **22.75%** |
| IRPC PCL | Thailand | 4.68 | 17.31 | 10.79 | 0.94 | 0.73 | 1.79 | 10.50% |
| Mangalore Refinery & Petro | India | 3.55 | 6.53 | 5.18 | 0.71 | 0.52 | 2.39 | 44.70% |
| Esso Thailand PCL | Thailand | 2.06 | 9.77 | 6.03 | 0.37 | 0.39 | 2.58 | 30.94% |
| Petron Corp | Philippines | 1.71 | 9.53 | 6.28 | 0.61 | 0.21 | 0.95 | 10.37% |
| **Thalexim*** | **Vietnam** | **0.17** | **32.65** | **17.83** | **0.68** | **0.50** | **1.52** | **4.90%** |
| **Average** | | **9.50** | **13.98** | **8.06** | **0.58** | **0.46** | **2.24** | **20.73%** |
| **Median** | | **6.85** | **9.65** | **6.96** | **0.56** | **0.46** | **1.95** | **20.01%** |
| **PVOIL*** | **Vietnam** | **0.61** | **27.42** | **11.97** | **0.25** | **0.25** | **1.34** | **4.89%** |

Source: VNDIRECT, BLOOMBERG

The P/B and P/S ratios of PVOIL are lower than regional peers, while its P/E ratio is higher than the industry average, which reflects its below average ROE.

We used the peer comparables method to set a target price for PVOIL. We used a target P/S ratio, target P/E ratio and target P/B ratio in equal weighting. We based the target P/B and P/S ratio on the regional peer average.

For the target P/E ratio, we only used the average 2018 forward P/E of PLX (33.9x) and Thalexim (26.3x), as they have similar characteristics. Most regional peers have better business performance represented by a high ROE ratio, as most of them focus on retail distribution and include many non-oil services. On the other hand, most domestic petroleum distributors have less favourable business performance as they focus on wholesale distribution rather than non-oil services, which have a higher gross profit margin.

We believe a higher P/E ratio is justifiable, given that Vietnam's petroleum industry will grow at three times the pace of the global industry.

We assume EPS of VND565 for 2018 based on the earnings targets that PVOIL announced in the company's prospectus.

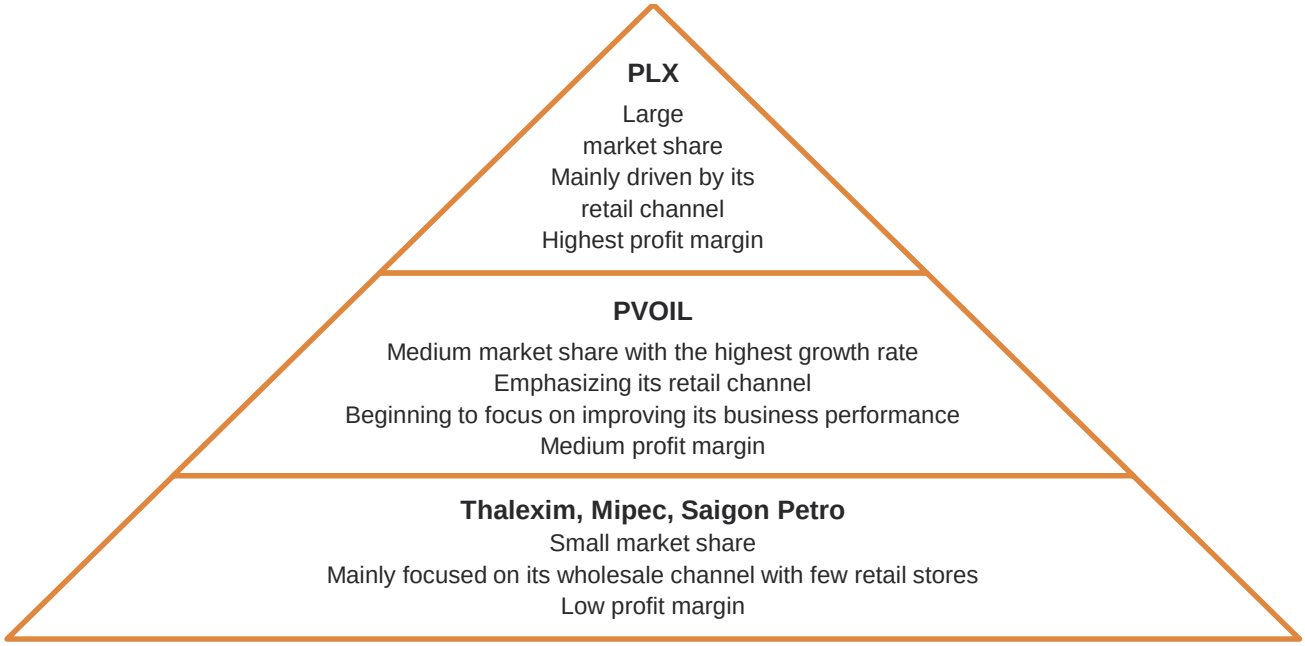
**Figure 23: PVOIL's estimated fair value**

| Method | Target ratio | Estimated fair price per share (VND) | Weighting | Amount of contribution (VND) |
|---|---|---|---|---|
| P/B | 2.24 | 22400 | 33% | 7392 |
| P/S | 0.46 | 24899 | 33% | 8217 |
| P/E | 30.09 | 16991 | 33% | 5607 |
| **Target price** | | | | **21216** |

Source: VNDIRECT

**We value PVOil at VND21,216 per share, which is 58.3% higher than the initial price of VND13,400 per share. At this price, PVOIL's 2018 forward P/E works out to 37.5x, which is higher than the forward P/E of both PLX and Thalexim. However, we believe that this premium to local peers is justified by PVOil's higher growth potential relative to local peers. We believe there will be substantial changes for PVOIL after the IPO because the company is in the midst of a critical transition from a wholesale-focused distributor to a retail-focused distributor. As a result, we expect its profitability to see a marked improvement over the next few years.**

**Figure 24: PVOIL is in the midst of a transition from a wholesale-focused (Thalexim, Mipec, Saigon Petro) to a retail-focused (PLX) distributor.**

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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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