

PETROVIETNAM TRANSPORTATION CORP (PVT) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND18,900	VND26,300	5.2%	ADD	INDUSTRIALS

1 August 2022

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:6 Hold:1 Reduce:0

Target price / Consensus: -7.0%

Key changes in the report

➤ NA

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	29,100
52w low (VND)	16,550
3m Avg daily value (VNDmn)	59,901
Market cap (VND bn)	6,214
Free float (%)	28
TTM P/E (x)	9.27
Current P/B (x)	1.18

Ownership

PetroVietnam Group	51.0%
PVCom Bank	5.0%
Yurie Vietnam Securities	4.1%
Others	39.9%

Source: VNDIRECT RESEARCH

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Core business is getting stronger

- 2Q22 revenue increased by 19.6% yoy to VND2,265bn, but 2Q22 net profit (NP) declined 11.8% yoy to VND212.8bn due to higher financial expenses.
- We expect PVT to achieve a NP CAGR of 13% in FY22-24F thanks to: (1) contribution of new tankers, and (2) O&G transportation demand rebound.
- Reiterate ADD at unchanged target price (TP) of VND26,300.

2Q22 net profit (NP) declined mainly due to abnormal financial expenses

2Q22 revenue grew 19.6% yoy to VND2,265bn thanks to strong growth of its core business – transportation (+30.7% yoy), driven by: (1) higher tanker rates following Russia – Ukraine crisis, and (2) contribution from new acquired tankers. However, 2Q22 blended GM retreated 0.7% pts yoy to 19.5% due to trading & services segment. Besides, PVT posed 2Q22 net financial expenses of VND31.5bn compared to 1Q22 net financial income of VND26bn as: (1) PVT increased debt (+19% ytd) to finance its fleet rejuvenating plan, and (2) PVT recorded FX loss of VND18bn (+9 times yoy). As a result, PVT posted a 11.8% yoy decline to VND212.8bn in 2Q22 NP.

For 1H22, revenue increased by 18.7% to VND4,287bn, in which transportation segment rose 27% yoy, accounting for 76% of total revenue (the highest level over the past 5 years). Meanwhile, 1H22 NP slightly decreased by 3.3% yoy to VND365.4bn mainly due to abnormal financial expenses, still be in line with our expectations at 44.9% of our FY22F forecast.

Bright prospect in the next couple of years

As global oil producers are likely to raise output amidst the current high price environment, O&G transportation demand should stronger rebound, benefiting for a O&G transporter like PVT. Thus, we believe in brighter outlook for PVT from 2H22F as many time charter contracts could be renewed with higher rates. Furthermore, Dung Quat refinery operating at full-capacity will ensure transportation volume for PVT in domestic market. Notably, one-off income of c.VND100bn from the tanker liquidation plan in 2H22 should also support for PVT's earnings to grow 23.4% yoy in 2022F. Overall, we forecast PVT to attain a NP CAGR of 13% in FY22-24F, supported by: (1) the contribution of new tankers/vessels, and (2) O&G transportation demand rebound, potentially leading to stronger tanker rates in coming times.

Reiterate ADD at unchanged TP of VND26,300

We reiterate our ADD rating for PVT with a TP of VND26,300, based on DCF valuation and target FY22-23F P/E of 10.4x, weighted equally. Re-rating catalysts include higher tanker rates and non-recurring income from tanker liquidation. Downside risks are lower-than-expected transportation volumes and the decline in oil price which could affect market sentiment on share price.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	7,383	7,460	8,448	9,193
Revenue growth	(4.8%)	1.1%	13.2%	8.8%
Gross margin	15.1%	16.6%	16.9%	17.1%
EBITDA margin	27.9%	28.3%	29.0%	27.8%
Net profit (bn)	669	660	814	859
Net profit growth	(2.9%)	(1.5%)	23.4%	5.5%
Recurring profit growth	(2.9%)	(1.5%)	23.4%	5.5%
Basic EPS	2,213	2,038	2,516	2,655
Adjusted EPS	2,213	2,038	2,516	2,655
BVPS	15,164	16,051	16,031	16,566
ROAE	14.4%	13.1%	15.7%	16.3%

Source: VNDIRECT RESEARCH

CORE BUSINESS IS GETTING STRONGER

2Q22 NP declined mainly due to abnormal financial expenses

Figure 1: 2Q22 and 1H22 results overview

VNDbn	2Q21	2Q22	% yoy	1H21	1H22	% yoy	% vs FY22 forecasts	Comment
Net revenue	1,894	2,265	19.6%	3,611	4,287	18.7%	50.7%	2Q22 revenue increased by 19.6% mainly thanks to high contribution of the company core business - transportation (+30.7% yoy), which outweighed 22.1% yoy drop in trading & services segment
Transportation	1,356	1,772	30.7%	2,556	3,247	27.0%		Transportation segment significantly grew 30.7% yoy thanks to: (1) higher tanker freight rates following stronger oil price, and (2) the contribution of new acquisition tankers
FSO/FPSO	195	226	16.0%	386	422	9.3%		
Trading & services	343	267	-22.1%	668	618	-7.5%		
Gross profit	381.5	441.2	15.7%	639.1	732.7	14.6%	51.2%	
Transportation	274.3	357.2	30.2%	446.4	559.6	25.3%		
FSO/FPSO	54.6	65.8	20.5%	121.0	127.9	5.7%		
Trading & services	52.6	18.2	-65.3%	71.7	45.3	-36.9%		
Gross profit margin (%)	20.1%	19.5%	-0.7% pts	17.7%	17.1%	-0.6% pts		2Q22 blended GPM retreated mainly due to trading & services segment, which is usually unstable and accounts for small proportion in PVT's results
Transportation	20.2%	20.2%	-0.1% pts	17.5%	17.2%	-0.2% pts		
FSO/FPSO	28.0%	29.1%	1.1% pts	31.3%	30.3%	-1.0% pts		
Trading & services	15.3%	6.8%	-8.5% pts	10.7%	7.3%	-3.4% pts		
Selling expenses	2.4	2.4	1.7%	5.8	4.8	-16.9%		
G&A expenses	87.2	101.0	15.7%	140.2	152.9	9.0%		
Operating profit	291.8	337.8	15.8%	493.1	575.0	16.6%		
Net financial income	26.0	(31.5)	-221.2%	19.4	(44.0)	-326.2%		PVT posted 2Q22 net financial expenses of VND31.5bn compared to 1Q22 net financial income of VND26bn as: (1) PVT actively disbursed capital for its fleet rejuvenating plan, leading to 19% ytd increase in total debt at end-1H22, and (2) PVT recorded FX loss of VND18bn, increasing by VND16bn compared to 2Q21
Net other income	3.8	3.9	3.4%	43.2	18.5	-57.1%		
Pre-tax profit	334.1	323.4	-3.2%	568.2	562.7	-1.0%	44.6%	
Net profit	241.4	212.8	-11.8%	377.8	365.4	-3.3%	44.9%	In line with our expectation

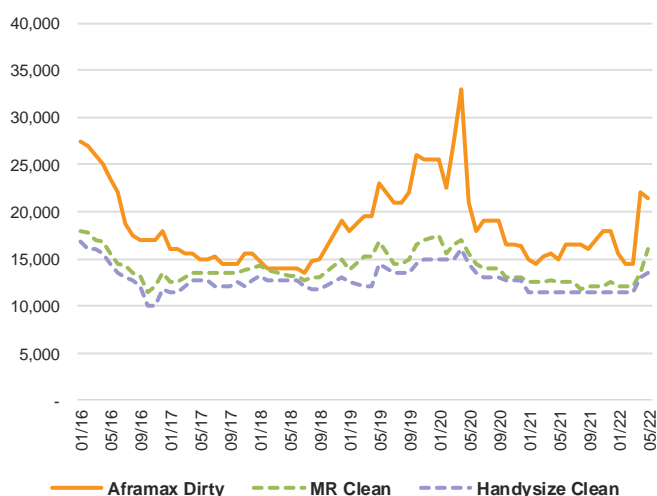
Source: : VNDIRECT RESEARCH, COMPANY REPORTS

FY22-24F outlook: Bright prospect in the next couple of years

We expect in a stronger recovery in tanker rates this year as global oil producers are likely to raise output amidst the current high price environment, translating to higher O&G transportation demand. According to Clarksons Research, tanker tonne-mile demand growth is likely to exceed tanker fleet growth in 2022F for the first time in three years. Besides, seaborne refined product volumes are expected to increase by 13.6% in 2022F and return to the pre-Covid level in 2023F. As a result, we believe in brighter outlook for PVT from 2H22F as many time charter contracts could be renewed with higher rates, especially for PVT's refined product fleet.

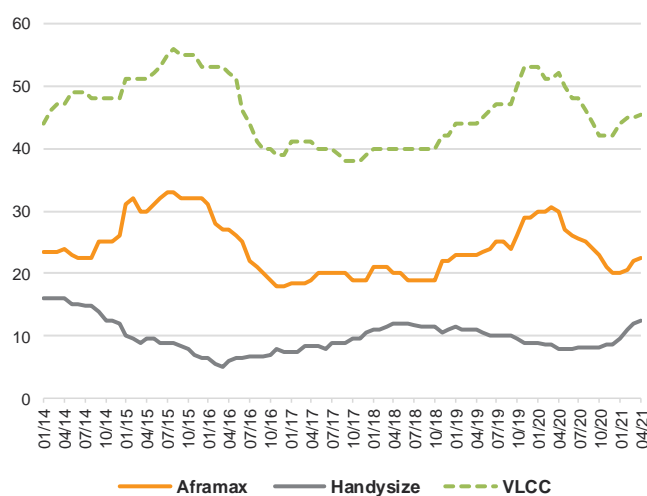
For domestic market, Dung Quat refinery operating at full-capacity will ensure transportation volume for PVT in term of both crude oil and refined product transportation. Notably, PVT plan to liquidate the old crude oil tanker (PVT Athena) in 2H22F which could bring an one-off income of c.VND100bn, supporting for PVT's earnings in 2022F. Hence, we estimate PVT to grow 23.4% yoy in 2022F.

Figure 2: We expect tanker time charter rate to strongly recover this year (US\$/day)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 3: Average prices of 10-year-old vessels (US\$m). The rising prices could affect PVT's rejuvenating fleet pace



Source: BLOOMBERG, VNDIRECT RESEARCH

Overall, we forecast PVT to attain a NP CAGR of 13% in FY22-24F, supported by: (1) the contribution of new acquired tankers/vessels, and (2) O&G transportation demand rebound, potentially leading to stronger tanker rates in coming times.

We reiterate ADD at unchanged TP of VND26,300

We maintain our ADD rating for PVT with a TP of VND26,300, based on DCF valuation and target FY22-23F P/E of 10.4x, weighted equally.

Re-rating catalysts and downside risks:

- Re-rating catalysts include higher tanker rates and non-recurring income from tanker liquidation.
- Downside risks come from lower-than-expected transportation volumes and the decline in oil price which could affect market sentiment on PVT share price.

Figure 4: Target price

Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
DCF	25,630	50%	12,815
FY22-23F target P/E of 10.4x	26,891	50%	13,445
Blended value			26,260
Target price			26,300

Source: VNDIRECT RESEARCH

Figure 5: DCF Valuation – Summary of free cash flow (FCF)

	FY22F	FY23F	FY24F	FY25F	FY30F	FY35F	CAGR 21 - 35F
Total revenue	8,448	9,193	9,724	10,036	11,281	12,091	3.3%
% growth y-o-y	13.2%	8.8%	5.8%	3.2%	1.9%	1.1%	
COGS & OPEX	(7,321)	(7,945)	(8,368)	(8,636)	(9,707)	(10,404)	
Unlevered profit / EBIT	1,127	1,248	1,357	1,400	1,574	1,687	4.6%
Operating margin	13.3%	13.6%	14.0%	14.0%	14.0%	14.0%	
Effective tax rate	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	
EBIT * (1-Tax) or NOPAT	902	999	1,085	1,120	1,259	1,349	4.7%
+ D&A	1,001	1,039	1,068	1,103	1,239	1,328	
% of revenue	11.8%	11.3%	11.0%	11.0%	11.0%	11.0%	
- CapEx	(1,943)	(1,471)	(972)	(1,004)	(1,128)	(1,209)	
% of revenue	-23.0%	-16.0%	-10.0%	-10.0%	-10.0%	-10.0%	
+ Δ WC	78	(76)	(54)	(69)	(78)	(83)	
% of revenue	0.9%	-0.8%	-0.6%	-0.7%	-0.7%	-0.7%	
Financial and other income / expense, net	136	68	101	113	127	136	
% of revenue	1.6%	0.7%	1.0%	1.1%	1.1%	1.1%	
UFCF	173	558	1,228	1,263	1,420	1,522	

Source: VNDIRECT RESEARCH

Figure 6: Cost of equity

Cost of equity	
Risk Free Rate	3.0%
Beta	1.1
Risk Premium	11.0%
Cost of Equity	15.0%

Source: VNDIRECT RESEARCH

Figure 7: WACC and Long-term growth rate

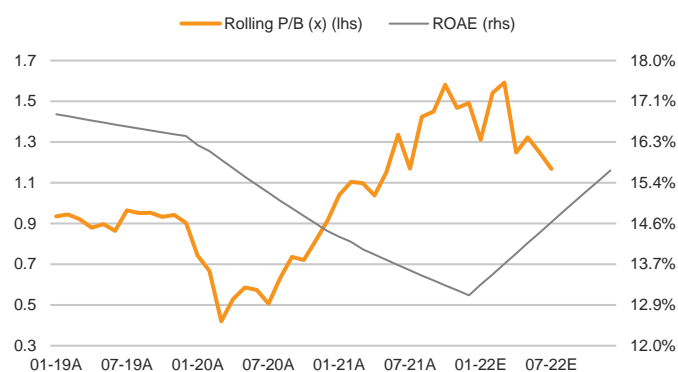
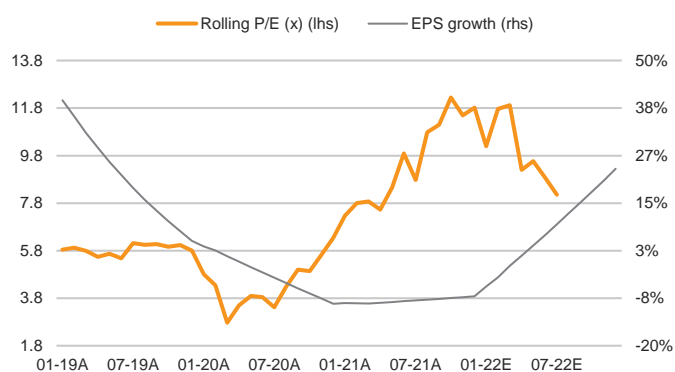
VNDbn	
Equity Value	70%
Debt	30%
Cost of Debt	6.0%
Tax Rate	20.0%
WACC	11.9%
Perpetual Growth Rate	1.0%

Source: VNDIRECT RESEARCH

Figure 8: Oil & Gas transportation sector comparison

Company	Ticker	Recom.	Price		Mkt Cap	P/E (x)			3-yr EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
			LC\$	LC\$		US\$ m	TTM	FY22F		FY23F	Current	FY22F	FY23F	TTM	FY22F	FY23F	TTM	FY22F
Vietnam Petroleum Trans	VIP VN	NR	6,350	NA	19	NA	NA	NA	0.4	NA	NA	4.7%	NA	NA	3.4%	NA	NA	
Vietnam Tanker JSC	VTO VN	NR	7,660	NA	26	6.5	NA	NA	0.6	NA	NA	8.6%	NA	NA	5.2%	NA	NA	
MISC Bhd	MISC MK	NR	7.21	NA	7,228	18.1	17.7	16.4	0.9	0.9	0.9	5.2%	0.9%	0.9%	3.2%	4.5%	4.5%	
Thoresen Thai Agencies PCL	TTA TB	NR	8.80	NA	442	3.4	5.2	7.1	0.7	0.6	0.6	23.8%	0.6%	0.6%	13.3%	2.3%	2.4%	
Buana Lintas Lautan Tbk PT	BULL IJ	NR	146.0	NA	139	NA	NA	NA	0.4	NA	NA	-0.5%	NA	NA	-0.2%	NA	NA	
Shipping Corp of India Ltd	SCI IN	NR	104	NA	613	5.6	NA	NA	0.5	NA	NA	10.0%	NA	NA	6.3%	NA	NA	
Average						8.4	11.5	11.7	0.6	0.8	0.8	8.6%	0.8%	0.8%	5.2%	3.4%	3.5%	
PVTrans	PVT VN	ADD	18,900	26,300	262	9.3	7.5	7.1	13.0%	1.2	1.2	1.1	14.5%	15.7%	16.3%	6.1%	6.2%	6.0%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 29 JUL)

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	7,460	8,448	9,193
Cost of sales	(6,222)	(7,017)	(7,620)
Gen & admin expenses	(277)	(292)	(313)
Selling expenses	(10)	(12)	(13)
Operating profit	950	1,127	1,248
Operating EBITDA	1,880	2,128	2,287
Depreciation and amortisation	(930)	(1,001)	(1,039)
Operating EBIT	950	1,127	1,248
Interest income	180	185	228
Financial expense	(156)	(207)	(223)
Net other income	42	130	33
Income from associates & JVs	25	28	30
Pre-tax profit	1,040	1,263	1,316
Tax expense	(206)	(253)	(263)
Minority interest	(175)	(196)	(194)
Net profit	660	814	859
Adj. net profit to ordinary	660	814	859
Ordinary dividends	(383)	(324)	(324)
Retained earnings	277	491	536

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	1,283	1,881	2,414
Short term investments	1,790	1,611	1,450
Accounts receivables	1,477	1,461	1,590
Inventories	142	143	156
Other current assets	158	179	195
Total current assets	4,850	5,275	5,804
Fixed assets	6,976	7,918	8,350
Total investments	304	206	196
Other long-term assets	364	375	387
Total assets	12,493	13,775	14,738
Short-term debt	778	1,013	1,135
Accounts payable	677	740	805
Other current liabilities	995	1,126	1,226
Total current liabilities	2,450	2,879	3,166
Total long-term debt	2,468	3,211	3,599
Other liabilities	612	612	612
Share capital	3,237	3,237	3,237
Retained earnings reserve	944	934	1,103
Shareholders' equity	5,195	5,189	5,362
Minority interest	1,768	1,884	2,000
Total liabilities & equity	12,493	13,775	14,738

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	1,040	1,263	1,316
Depreciation & amortisation	930	1,001	1,039
Tax paid	(235)	(253)	(263)
Other adjustments	(112)	(373)	(370)
Change in working capital	(796)	78	(76)
Cash flow from operations	827	1,715	1,646
Capex	(1,936)	(1,943)	(1,471)
Proceeds from assets sales	101	0	0
Others	235	172	172
Other non-current assets changes			
Cash flow from investing activities	(1,599)	(1,771)	(1,299)
New share issuance	239	0	0
Shares buyback			
Net borrowings	726	977	510
Other financing cash flow			
Dividends paid	(383)	(324)	(324)
Cash flow from financing activities	583	654	186
Cash and equivalents at beginning of period	1,473	1,283	1,881
Total cash generated	(190)	598	532
Cash and equivalents at the end of period	1,283	1,881	2,414

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	8.8%	9.6%	9.3%
Asset turnover	0.63	0.64	0.64
ROAA	5.6%	6.2%	6.0%
Avg assets/avg equity	2.34	2.53	2.70
ROAE	13.1%	15.7%	16.3%
Efficiency			
Days account receivable	72.3	63.1	63.1
Days inventory	8.3	7.5	7.5
Days creditor	39.7	38.5	38.6
Fixed asset turnover	1.16	1.13	1.13
ROIC	6.5%	7.2%	7.1%
Liquidity			
Current ratio	2.0	1.8	1.8
Quick ratio	1.9	1.8	1.8
Cash ratio	1.3	1.2	1.2
Cash cycle	40.9	32.1	32.0
Growth rate (yoy)			
Revenue growth	1.1%	13.2%	8.8%
Operating profit growth	11.3%	18.6%	10.8%
Net profit growth	(1.5%)	23.4%	5.5%
EPS growth	(7.9%)	23.4%	5.5%

Source: VND RESEARCH

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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.

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