February 6th, 2023

Shinhan Securities



Vietnam National Petroleum Group Joint Stock Company

[Vietnam / OIL & GAS]

Bloomberg Code (PLX VN) | Reuters Code (PLX.HM)

BUY

Initiate Coverage

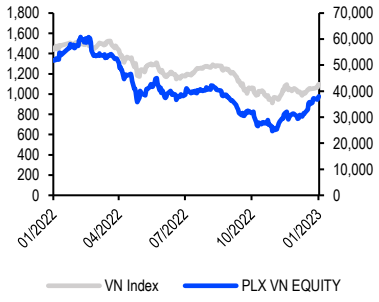
Target price (12 months)	**45,100 VND**
Current price (01/02/23)	38,800 VND
Upside/downside (%)	16.2%

VNINDEX	1,089
HNXINDEX	214
Market Cap (bn VND)	49,299
Outstanding shares (mn)	1,270
Free-Floating (mn)	127
52-Wk High/Low (VND)	65,900/22,950
90-day avg. trading volume (mn)	0.98
90-day avg. turnover (bn VND)	33

Major shareholders (%)	State Capital	75.9
	Eneos Corporation	13.1

Performance	3T	6T	12T
Absolute (%)	34.7	-6.8	-30.8
Relative to VN-Index (%)	26.6	6.2	-4.5

Source: Bloomberg



On Track To Recovery

Initiate coverage with BUY rating and target price of VND 45,100

Vietnam National Petroleum Joint Stock Bank (PLX) is a pioneer in Vietnam's petroleum distribution sector. In 2022, PLX's net profit reported VND 1,840 bn (-41.1% y.o.y), due to (1) oil price volatility (2) a sudden shortage from Nghi Son Refinery led to increase imports and transportation costs. We expect a strong rebound of PLX's profit in 2023, which is supported by the oil recovery of domestic supply and stable oil price. We value PLX for the first time at VND 45,100, equivalent to a 16.2% return.

PLX is a pioneer in domestic petroleum distribution and holds a 50% market share.

PLX is the leading player in terms of distribution network and efficiency. Relating to the distribution network, it has around 2,700 COCO stations (company-owned company-operated) and 2,800 DODO stations (dealer-owned dealer–operated). PLX's station is about 1.5 times the second largest player – OIL. Relating to efficiency, PLX profit margin is higher than OIL profit margin.

A strong rebound profit in 2023 from a low base in 2022.

PLX net profit is expected to see a significant upturn in 2023, up to 88.9%, due to (1) relatively stable petroleum price which is trading around 80 USD/barrel, (2) The base retail price mechanism encourages local petroleum traders to expand its profit margin (3) JetA1 fuel consumption is predicted to soar along with aviation recovery and (4) The stable supply from Nghi Son refinery and Binh Son refinery.

In the long-term, the strong domestic consumption for petroleum products in Vietnam has witnessed a CAGR 5.5% in the 2023-2030, underpinning for PLX to grow in coming years.

The divestment will be a plus catalyst for the stock price.

PLX targets to complete divestment of PGB in H1 2023 after receiving in-principle approval for this divestment plan from the Management of State Capital at Enterprises (CMSC). We estimate that PLX's profit will earn VND 1,200 bn from this divestment, which will support the company's profit in 2023. We don't include the extraordinary profit in our forecast in 2023.

Risks (1) Volatile oil price; (2) Exchange rate risk.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**304,080**	**208,763**	**229,618**	**238,764**	**264,463**
OP (bn VND)	1,927	3,899	4,168	5,224	5,850
NP (bn VND)	**1,840**	**3,476**	**3,665**	**4,525**	**5,035**
EPS (VND)	1,088	2,437	2,569	3,172	3,529
BPS (VND)	18,985	21,671	24,504	28,001	31,893
OPM (%)	0.6	1.9	1.8	2.2	2.2
NPM (%)	0.6	1.7	1.6	1.9	1.9
ROE (%)	**6.6**	**11.0**	**10.3**	**11.2**	**10.9**
PER (x)	41.2	18.5	17.6	14.2	12.8
PBR (x)	2.4	2.1	1.8	1.6	1.4
EV/EBITDA (x)	13.5	7.2	7.0	6.1	5.7

Source: Company data, Shinhan Securities Vietnam

Open account

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Company background

History

In 2017, Petrolimex was officially listed on Ho Chi Minh Stock Exchange (HSX) with the sticker "PLX". PLX is the dominant petroleum distributor with a nationwide network of more than 5,500 petroleum stations, occupying nearly 50% of the total market share. PLX is operating in the field of importing/exporting and trading petroleum, refinery and petrochemical products and other related services. Therein, petroleum trading is an essential part and made up 85% of gross profit.

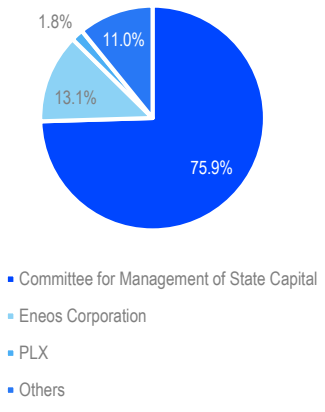
PLX's revenue breakdown by segment (VND bn)



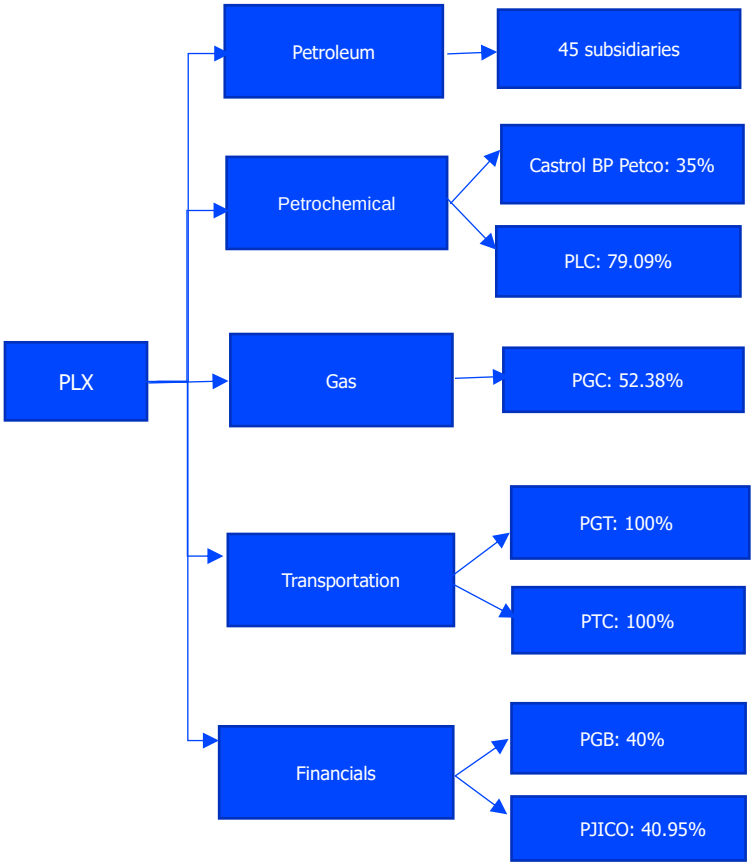
PLX's gross profit breakdown by segment (VND bn)



Shareholder Structure 01/02/2023



Model of Governance

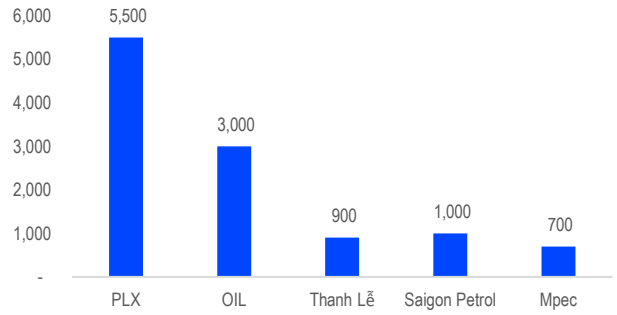


Investment Catalyst & Theses

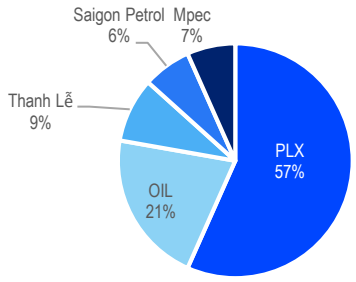
PLX is a pioneer in domestic petroleum distribution and holds a 50% market share

1. PLX is the leading player in terms of distribution network

The station network of petroleum distribution 2022



Petroleum distribution market share in 2022



Source: PLX, OIL, Shinhan Securities Vietnam

PLX owns the largest petroleum station network in VietNam. Up to 2022, PLX has around 5,500 stations, including: 2,700 COCO[1] stations and 2,800 DODO[2] stations across 63 provinces/cities nationwide. PLX's station is about 1.5 times the second largest player – OIL. PLX's orientation is developing stations located in the center of the big city. We believe this creates a competitive advantage thanks to its favorable location and limited land in the city which other entry players can not easily expand their retail network.

2. PLX is the leading player in terms of efficiency

PLX strategically focuses on the COCO channel creating an outstanding advantage. The retail sales volume accounted for 56% of PLX's domestic consumption volume, compared to 26% of PV Oil (OIL). Therefore, PLX always posted an outperforming gross margin compared to OIL

On the COCO channel, the company gains whole the regulated cost and regulated profit. On the DODO channel, the company has to share the regulated cost and regulated profit with its dealers in form of a wholesale method.

According to decree 95/2921/NĐ-CP, the base retail price includes:

Base retail price = imported petroleum price * weight of import petroleum (%) + domestic petroleum price * weight of domestic petroleum (%)+ VAT + Regulated cost + Regulated profit +/- Amount to "Petrol price stabilization fund" + Environment tax + Other fees and tax. In which:

(1) Imported petroleum price = average of petroleum prices as registered by Platt of Singapore between two fuel price regulating dates +/- premium + freight & insurance cost to transport fuel to Vietnam

(2) Domestic petroleum price = the price at the factory gate of domestic refineries as defined in the contract +/- premium+ the cost of bringing petroleum from domestic refineries' gate to port (if any)

• Regulated cost: is adjusted every year following the MOF's calculation of the inflated cost of petroleum storage, trading and retailing in Vietnam

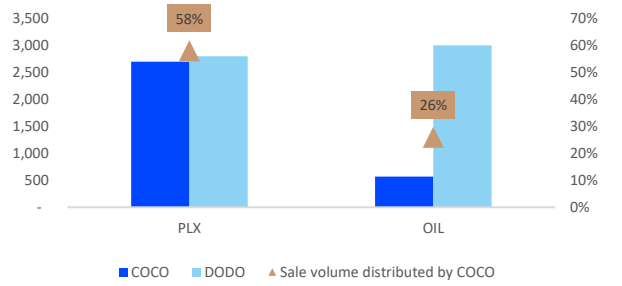
• Price stabilization fund: is fixed at VND 300 per litre for all types of petroleum products. can be changed between price regulating dates following the government's price/CPI regulating goals.

[1] COCO: company-owned company-operated, retail sale
[2] DODO: dealer-owned dealer–operated, wholesale

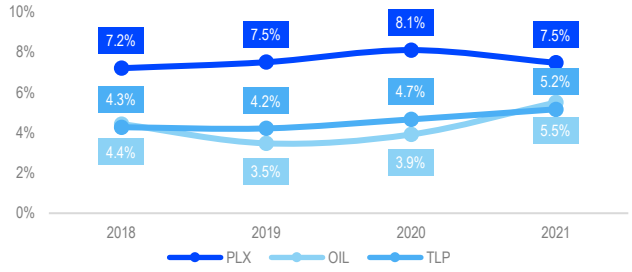
• Regulated profit: is fixed at VND 300 per litre for all types of petroleum products. Normative unit profit is adjusted every year following the MOF's calculation of the inflated cost of petroleum storage, trading, and retailing in Vietnam, while normative unit profit

• Excise tax, environmental protection tax, VAT, and other fees are all provided by the MOF.

The station network of petroleum distribution by channel



Gross margin of petroleum distributor



Source: Company data, Shinhan Securities Vietnam

PLX not only owns the largest storage system but also has diversified oil transportation. Thanks to this outstanding depot system, PLX can optimize costs and actively manage its inventory turnover in case of significant fluctuations in input prices. PLX has a storage system with a capacity up to 2,200,200 m^3 and more than 570 km of petroleum pipeline.

Oil storage system (thousand m^3)



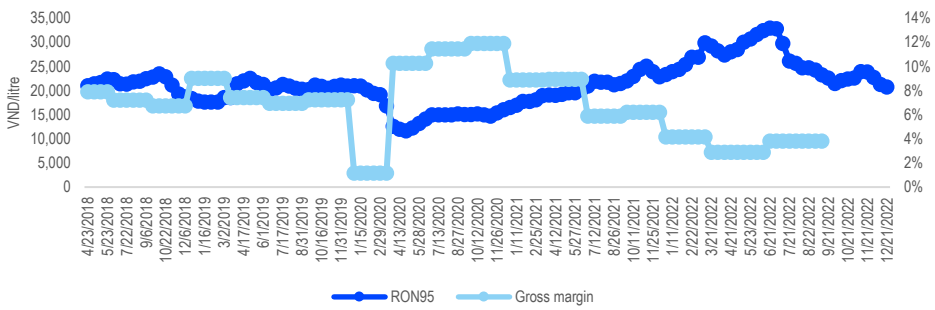
Source: Company data, Shinhan Securities Vietnam

A strong rebound profit in 2023 from a low base in 2022

In 2022, PLX's net profit reported VND 1,840 bn (-41.1% y.o.y), due to (1) oil price volatility (2) a sudden shortage from Nghi Son Refinery led to increase imports and transportation costs.

- Oil price volatility: Basically, PLX's profit is fixed at each per litre. In practice, PLX's profit is affected by inventory and the global oil price tendency. In detail, the base price is calculated on a 10-day basis while petroleum traders are required to carry a compulsory inventory at least of 20 days.
- A sudden shortage from Nghi Son Refinery led to increase imports and transportation costs.

The oil price volatility and PLX profit



PLX's net profit is expected to see a significant upturn in 2023, up to 88.9% Y.o.Y, due to (1) relatively stable petroleum price which is trading around 80 USD/barrel (2) The base retail price mechanism encourages PLX to expand its profit margin (3) JetA1 fuel consumption is predicted to soar along with aviation recovery (4) the stable supply from Nghi Son refinery and Binh Son refinery. In long-term, the strong domestic consumption for petroleum products in Vietnam has witnessed a CAGR 5.5% in the 2023-2030, supporting for PLX to grow in coming years.

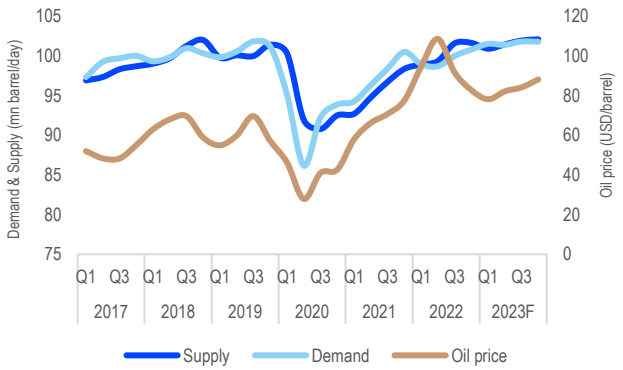
1. The strong domestic consumption with the stable petroleum price

We expect a robust recovery in 2023 due to (1) the strong domestic consumption for petroleum products in Vietnam has witnessed a CAGR of 5.5% in 2023-2030, (2) the relatively stable petroleum price which is around 80 USD/barrel. According to EIA, the oil price will trade at an average $80 as China reopens and OPEC secures fair and stable prices.

Vietnam petroleum consumption (million tons)



Global oil demand and supply



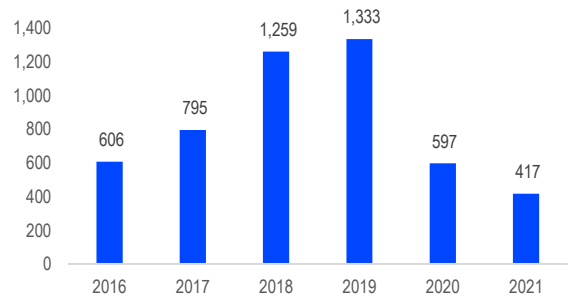
Source: Ministry of Industry and Trade, EIA, Shinhan Securities Vietnam

2. The stable supply from Nghi Son refinery and Binh Son refinery

In 9M/22, Nghi Son refinery operated under-capacity due to financial problems, causing the domestic supply shortage. Therefore, PLX must raise imported and transportation costs. We expect Nghi Son refinery and Binh Son Refinery will stably operate in 2023. Input from NSR and BSR help PLX easily optimize transportation cost and insurance cost; and actively manage its inventory turnover.

3. JetA1 fuel consumption is predicted to soar along with aviation recovery

PLX's jet fuel consumption (thousand m^3)



Jet fuel distribution

Jet A1 fuel	Skypec	Petrolimex Aviation (PA)
Sale volume (m^3/year)	1,500,000	800,000
Market share	65.2%	34.8%
Storage (m^3)	200,000	N/A
Ownership	HVN (100%)	PLX (39%), Mipec (30%), PGBank (6%), Mipedand (5%)

Source: Company data, Shinhan Securities Company

Currently, there are two firms providing jet fuel in Vietnam, in which PLX subsidiary (Petrolimex Aviation Company – PA) accounts for 34% of total market share. In 2020 and 2021 – with the spread of covid 19 pandemic, this segment faced difficulties due to international flight shutdowns and domestic flights. We believe that, the continued hot development of the travel industry will improve PLX 's profit margin.

4. The new base retail price encourages PLX to expand its profit margin

The authority has increased the cost of transportation from the refinery to the port of distributors by 40 – 70 VND/litre and the cost of transportation from abroad to Vietnamese ports by 60 – 660 VND/litre. We believe these adjustments will more closely align with the world oil price, reducing pressure on petroleum distributors like PLX.

The divestment will be a plus catalyst for the stock price

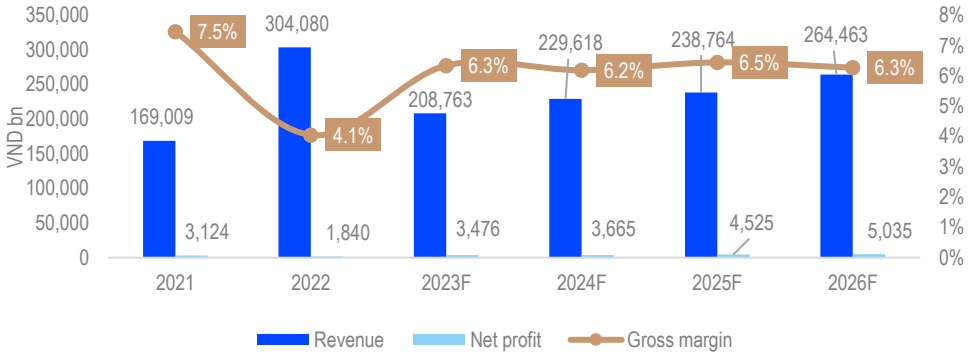
PLX currently holds a 40% stake in PGBank and PLX targets to complete the divestment of PGB in H1 2023. We estimate that PLX's profit will earn VND 1,200 bn from this divestment, which will support the company's profit in 2023. Note that, we don't include the extraordinary profit in our forecast in 2023.

In addition, the company still maintains 40.95% stake in PGI. On the other hand, the company also expects that within the next 3 years, it will completely divest from Petrolimex Construction and Trading Company.

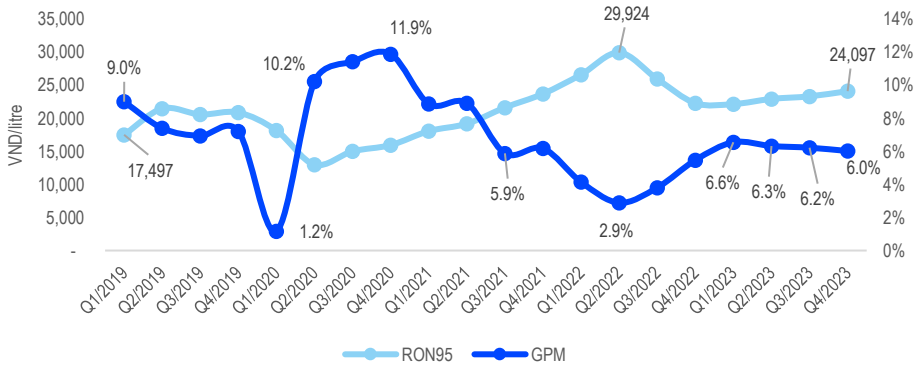
Earnings estimates

In 2023, we forecast PLX's revenue and profit to reach VND 208,763 bn (-31.3% YoY) and VND 3,476 bn (+88.9 YoY), respectively. The above result comes from the assumption that the domestic sales volume growth 4% in 2023 – 2027. We expect a 20.8% YoY oil price decline in 2023 due to the economic slowdown and the strong oil supply. The petroleum prices are expected to be steady, which support PLX's margin stability in 2023.

Forecast of PLX' s revenue, profit and gross profit margin



Forecast of RON95 price and PLX's gross profit margin



Source: Company data, Shinhan Securities Company

PLX's revenue and profit outlook	2022	2023F	YoY	2024F	YoY
Net revenue (bn VND)	**304,080**	**208,763**	-31.3%	**229,618**	10%
Domestic volume (million tons/ year)	9.1	9.5	4%	9.9	4%
Ron95 price (VND/litre)	27,718	22,535		23,430	
Operating Profit (bn VND)	1,927	3,899	102.4%	4,168	6.9%
Net Profit	**1,840**	**3,476**	88.9%	**3,665**	5.4%
EPS (VND)	1,088	2,437		2,569	
BPS (VND)	18,985	21,671		24,504	
OPM	0.6	1.9		1.8	
NPM	0.6	1.7		1.6	
ROE (%)	**6.6**	**11**		**10.3**	
PER (x)	41.1	18.5		17.6	
PBR (x)	2.4	2.1		1.8	
EV/EBITDA (x)	13.5	7.2		7	

Valuation and Recommendation

Initiate coverage with BUY rating and target price of VND 45,100

We initiate coverage (PLX) with a buy recommendation and a target price of VND 45,100, corresponding to an increase of 16.2% from the current price. For a long-term view, PLX is an investment that can be considered with following advantages:

1) PLX is a pioneer in domestic petroleum distribution and holds a 50% market share.

2) The strong domestic consumption for petroleum products in Vietnam.

3) The financial perfomance is expected to see a significant upturn in 2023 from the minimal base in 2022 and the divestment will be a plus catalyst for the stock price.

Valuation

We apply a Discounted Cash Flow (DCF) valuation method to value PLX.

DCF valuation

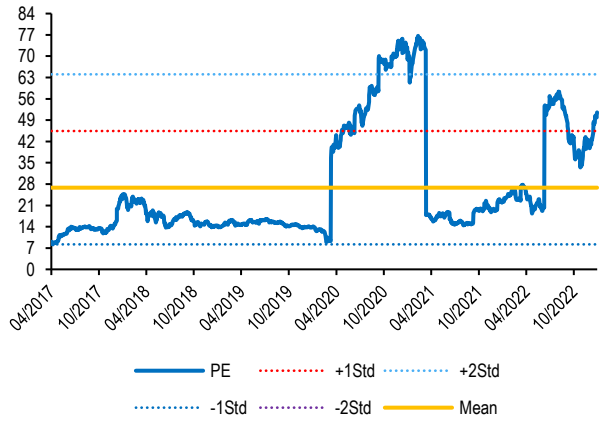
Unit: billion VND	2023F	2024F	2025F	2026F	2027F
Net profit	3,153	3,324	4,104	4,567	4,824
Plus: After-tax interest expense	551	666	705	750	817
Plus: Depreciation & Amortization	2,203	2,335	2,472	2,615	2,764
Minus: Change in working capital	1,287	-30	24	-37	-36
Minus: CapEx	1,542	1,634	1,730	1,830	1,935
Free Cash Flow (FCF)	3,077	4,721	5,526	6,139	6,507
PV of FCF	18,556				
Growth rate	2%				
Present value of long-term value	43,884				
Enterprise value	**62,400**				
Debt	14,857				
Cash and cash equivalents	11,611				
Number of shares outstanding (mn units)	1,270				
Target price (VND)	**45,100**				

WACC	**11%**
Risk-free rate	5%
Equity risk premium	7.8%
Beta	0.88
Debt cost	8%
The cost of equity	12%
Debt-to-equity ratio	33%
Total debt (VND bn)	14,857

Source: Company data, Shinhan Securities Company

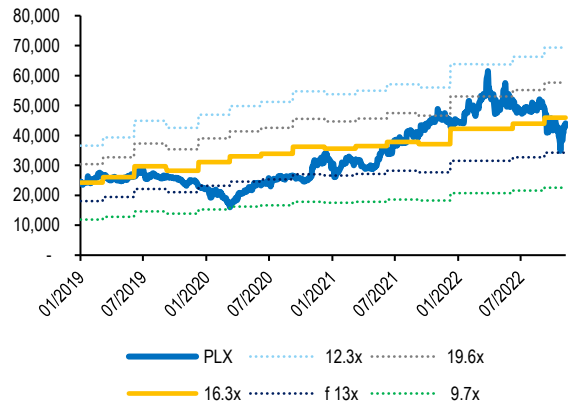
For the Weighted Average Cost of Capital (WACC), we use the 10-year Vietnamese government bond yield at 5% as the risk-free rate. Beta is calculated based on the last 5 years' historical data of PLX and VNINDEX. Based on those assumptions, PLX's FCFF target price is valued at VND 45,100.

PLX's PER from 2017



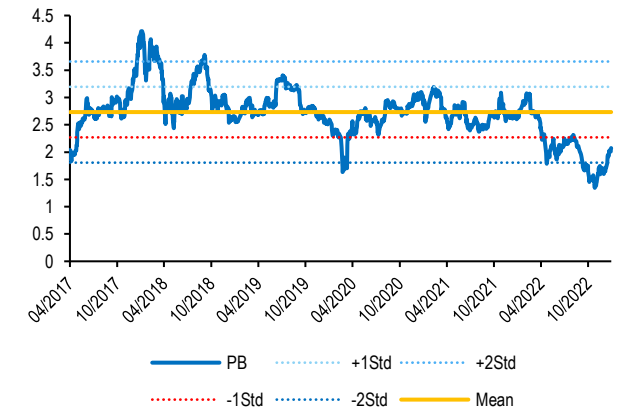
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of PLX



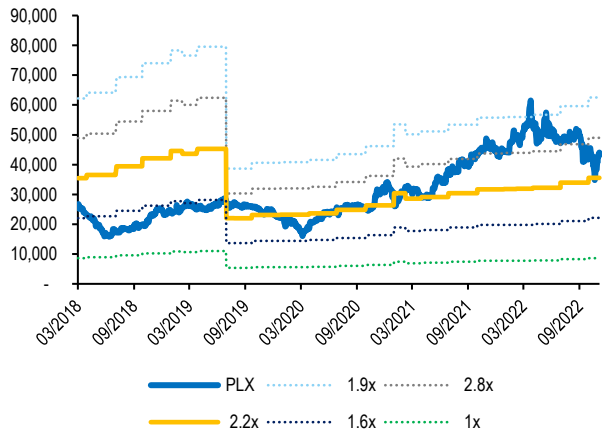
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PLX's PBR from 2017



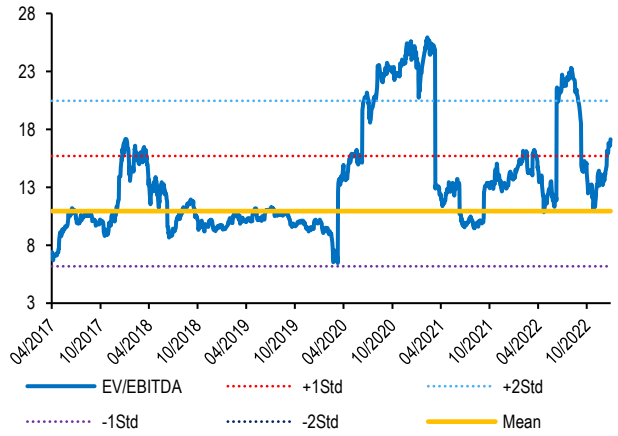
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of PLX



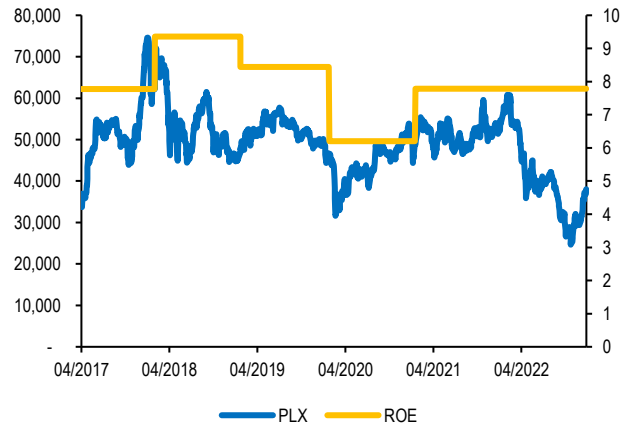
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PLX's EV/EBITDA from 2017



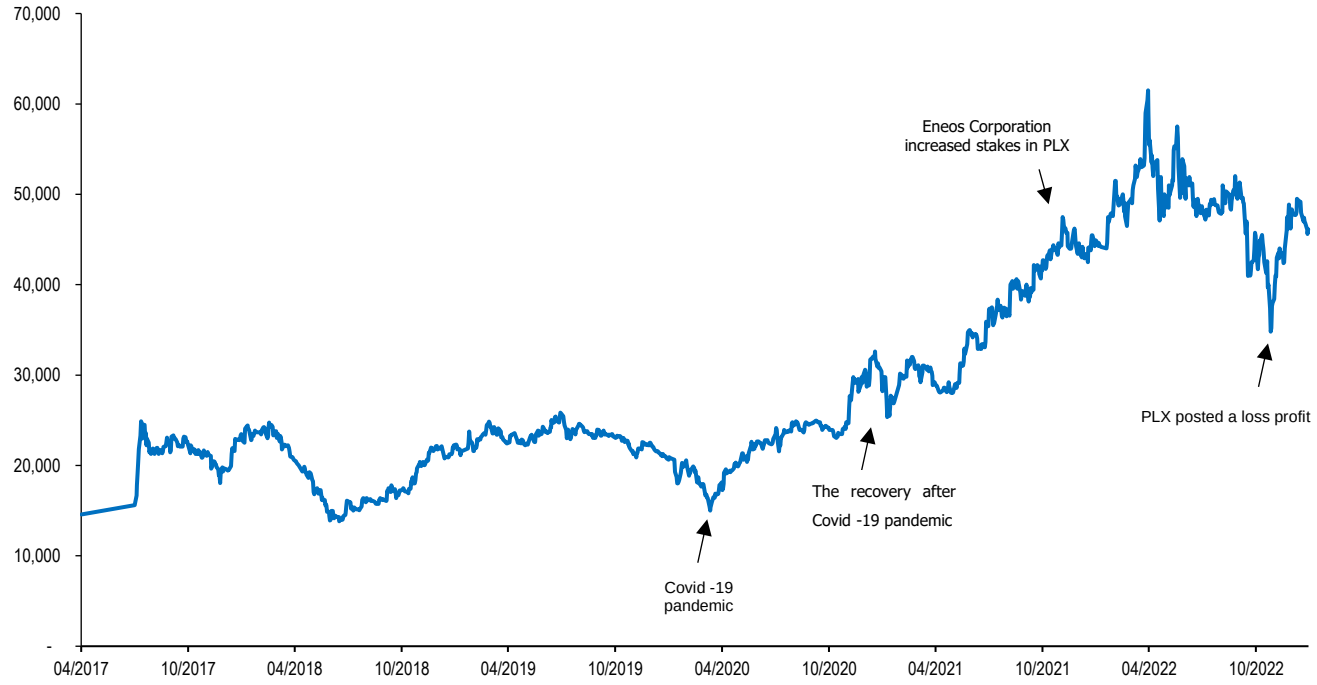
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of price and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key event chart of PLX



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Adversely volatile oil price

Due to maintaining a high inventory of petroleum, the fluctuation of oil price directly affects PLX's performance.

Exchange rate risk

As input prices are anchored to USD while selling prices are based on VND, PLX is affected by a variation in the exchange rate.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	**64,791**	**73,808**	**78,415**	**86,890**	**93,533**
Current assets	41,304	49,477	53,123	60,664	66,333
Cash & equivalents	6,192	11,611	18,695	23,631	28,221
Short-term financial asset	11,832	7,092	7,092	7,092	7,092
Accounts receivable	7,600	11,983	9,489	10,437	10,853
Inventories	13,163	17,234	16,293	17,950	18,614
Non-current assets	23,488	24,334	24,225	24,077	23,889
Net fixed assets	14,907	14,405	14,297	14,149	13,960
Investment assets	587	553	553	553	553
Other long-term assets	7,994	9,376	9,376	9,376	9,376
Total liabilities	**36,531**	**46,003**	**46,808**	**51,277**	**52,974**
Current liabilities	35,207	45,010	45,804	50,428	52,280
Accounts payable	15,883	24,043	19,950	21,980	22,792
Short-term borrowings	14,225	14,034	19,551	21,540	22,336
Others	5,099	6,932	6,303	6,909	7,152
Non-current liabilities	1,324	993	1,004	849	694
Long-term borrowings	1,144	823	834	679	524
Other financial liabilities	180	170	170	170	170
Total shareholders' equity	**28,260**	**27,807**	**31,606**	**35,612**	**40,558**
Capital stock	12,939	12,939	12,939	12,939	12,939
Capital surplus	7,359	7,359	7,359	7,359	7,359
Other capital	1,352	1,296	1,296	1,296	1,296
Retained earnings	3,474	2,970	6,446	10,111	14,636
Non-controlling interest equity	3,137	3,243	3,566	3,907	4,328
*Total debt	15,370	14,858	20,386	22,219	22,861
*Net debt (cash)	2,655	3,845	5,401	8,503	12,452

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**169,009**	**304,080**	**208,763**	**229,618**	**238,764**
Growth (%)		79.9	-31.3	10.0	4.0
COGS	**156,386**	**291,758**	195,512	215,399	223,363
Gross profit	**12,623**	**12,322**	**13,251**	**14,218**	**15,401**
GPM (%)	7.5	4.1	6.3	6.2	6.5
SG&A	**9,839**	**11,337**	9,603	10,562	10,983
Operating profit	**3,517**	**1,926**	**3,899**	**4,168**	**5,224**
Growth (%)		-45.2	102.4	6.9	25.3
OPM (%)	2.1	0.6	1.9	1.8	2.2
Non-operating profit	**164**	**242**	**-519**	**-336**	**-126**
Financial income	1,000	1,932	1,201	1,526	1,783
Financial expense	836	1,690	1,720	1,861	1,909
In which: interest expenses	603	647	676	818	865
Net other non-operating profit	272	334	370	334	334
Pre-tax profit	**3,789**	**2,260**	**4,269**	**4,501**	**5,557**
Income tax	666	420	793	836	1,032
Net profit	**3,124**	**1,840**	**3,476**	**3,665**	**4,525**
Growth (%)		-41.1	88.9	5.4	23.5
NPM (%)	1.8	0.6	1.7	1.6	1.9
Controlling interest	2,839	1,408	3,153	3,324	4,104
Non-controlling interest	285	432	323	341	421
EBIT	**2,784**	**985**	**3,648**	**3,656**	**4,418**
Growth (%)		-64.6	270.4	0.2	20.8
EBIT Margin (%)	1.6	0.3	1.7	1.6	1.9
EBITDA	**5,032**	**3,108**	**5,851**	**5,991**	**6,889**
Growth (%)		-38.2	88.3	2.4	15.0
EBITDA margin (%)	3	1	2.8	2.6	2.9

Statement of cash flow

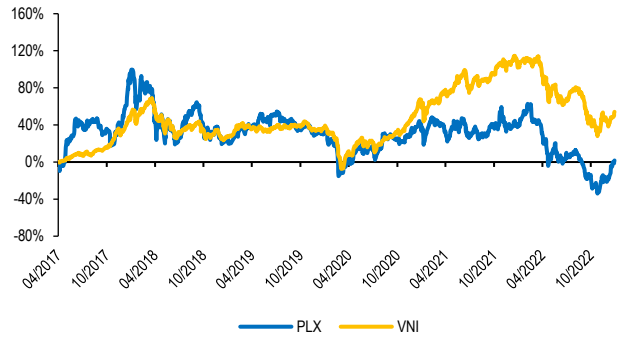
Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**5,349**	**6,033**	**4,069**	**5,689**	**6,552**
Net profit	2,839	1,408	3,153	3,324	4,104
Depreciation expense	2,147	2,123	2,203	2,335	2,472
(Gain) from investing activities	0	0	0	0	0
Change in working capital	1,850	2,502	-1,287	30	-24
Others	-1,486	0	0	0	0
Cash flow from investments	**-3,843**	**-263**	**-1,542**	**-1,634**	**-1,730**
Change in fixed assets	-1,775	-1,635	-1,542	-1,634	-1,730
Change in investment assets	-2,068	1,382	0	0	0
Others	0	0	0	0	0
Cash flow from financing	**-2,171**	**-1,958**	**4,557**	**881**	**-232**
Change in equity	1,343	106	323	341	421
Net borrowing	457	-512	5,528	1,834	641
Dividends	-3,971	-1,553	-1,294	-1,294	-1,294
Change in total cash	**-664**	**3,811**	**7,084**	**4,936**	**4,590**
Beginning cash	10,612	6,192	11,611	18,695	23,631
Change in FX rates	0	0	0	0	0
Ending cash	9,948	10,004	18,695	23,631	28,221

Key ratios

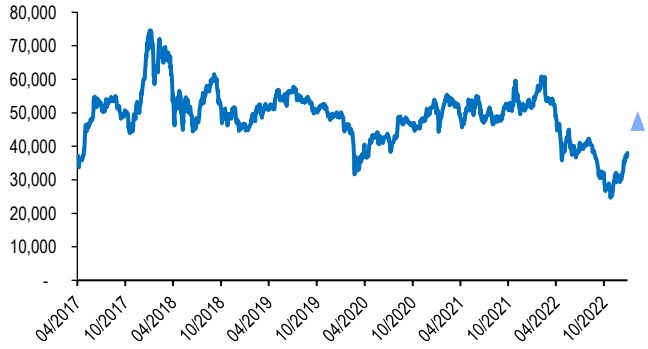
Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	2,194	1,088	2,437	2,569	3,172
BPS (VND)	18,985	21,458	21,671	24,504	28,001
DPS (VND)	1,200	1,000	1,000	1,000	1,000
PER (x)	20.4	41.0	18.5	17.6	14.2
PBR (x)	2.3	2.4	2.1	1.8	1.6
EV/EBITDA (x)	8.4	13.5	7.2	7.0	6.1
Dividend payout ratio (%)	40	92	41	39	32
Dividend yield (%)	2.9	1.8	2.2	2.2	2.2
Profitability					
EBITDA margin (%)	3	1	2.8	2.6	2.9
OPM (%)	2.1	0.6	1.9	1.8	2.2
NPM (%)	1.8	0.6	1.7	1.6	1.9
ROA (%)	4.8	2.5	4.4	4.2	4.8
ROE (%)	11.1	6.6	11	10.3	11.2
Stability					
Debt to equity ratio (%)	54.4	53.4	64.5	62.4	56.4
Net debt ratio (%)	-52.8	-123.7	92.3	141.9	180.7
Cash ratio (%)	17.6	25.8	40.8	46.9	54.0
Interest coverage ratio (x)	4.6	1.5	5.4	4.5	5.1
Activity (%)					
Working capital turnover (times)	10	6	10	10	10
Inventory turnover (days)	31	22	30	30	30
Receivable turnover (days)	16	14	17	17	17

Vietnam National Petroleum Group Joint Company (PLX VN)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
06/02/2023 (Initiation)	BUY	45,100	1.5	-31.5/96.5

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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