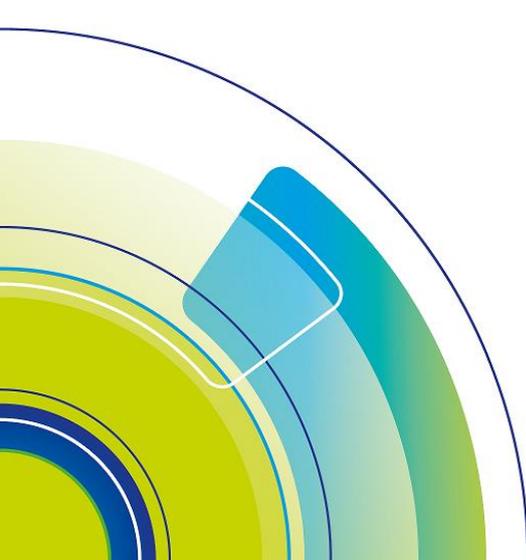




PLX Update Report – Outperform

June 24, 2024



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Update Report

Recommendation

Outperform

HSX: **PLX**

Petroleum distribution

Target price (VND)	46,300
Market price (VND)	42,300
Expected share price return	9.4%
Expected dividend yield	2.4%
Expected total return	11.8%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	24.8	12.8	14.4	19.4
Relative	12.0	12.0	13.4	2.6

Source: Bloomberg



Ownership

State	77.3%
ENEOS	13.3%

Stock Statistics 21-Jun-24

Bloomberg code	PLX VN
52-week range (VND)	31,300 - 43,400
Shares O/S (m)	1,271
Mkt cap (VND bn)	52,603
Mkt cap (USD m)	2,066
Foreign room left (%)	2.5
Est. free float (m)	4.2
3m avg daily vol (shrs)	1,712,969
VND/USD	25.465
Index: VNIndex / HNX	1282.02/244.36

Vietnam National Petroleum Group (PLXVN)

PLX's business results continue to recover from the bottom in 2022 thanks to the strong improvement of net profit margin and stability of output. Therefore, PLX announced Q1/2024 business results with NPAT-MI reaching VND1,072 billion (+73.2% YoY), higher than our expectations. With this result, PLX completed 49.7% of its annual plan and 29% of our full year forecast.

PLX recorded Q1/2024 revenue reaching VND75,106 billion (+11.4% YoY) and NPAT-MI reaching VND1,072 billion (+73.2% YoY). This increase in revenue and profit is due to:

- Selling volume is stable, increasing slightly by 0.4% YoY to 2.6 million tons
- Gross profit margin increased to 6.2% from 5.3% over the same period, thanks to the increase in Regulated costs in the petrol price formula (applied from July 2023). In particular, the regulated cost for gasoline increased by 2.9% and diesel increased by 6.8% compared to the last adjustment from 2014.

However, the outlook for business results in the Q2/2024 may be less positive than Q1/2024. In May 2024, gasoline selling prices are decreasing compared to March and April 2024 due to falling oil prices. This decrease may put PLX at a disadvantage in terms of high-priced inventory. In addition, the petroleum import tax from 2024 will be reduced to 0% under FTA agreements, which can reduce PLX's differential tax benefit.

Regarding the outlook for the whole year 2024, along with stable petroleum sources, PLX will benefit from applying new regulated costs for the whole year 2024 instead of from July 2023. Selling volume is estimated to increase by 4% YoY thanks to recovery in production activities. In addition, according to Decree 80/2023, transportation costs for bringing petroleum from abroad to Vietnamese ports, insurance costs, and premiums in the selling price formula are also adjusted more frequently, every 3 months (instead of 6 months as before) helps reduce the risk of closure of some small petroleum stations as in 2022. In addition, the draft amendment to Decree 80/2023 also has many support points for major petroleum wholesaler/distributor like PLX.

Quick comment: We forecast 2024 business results with expected revenue of VND289,614 billion (+5.6% YoY) and NPAT-MI of VND3,797 billion (+35% YoY). Our target price for PLX by the end of 2025 is 46,300 VND/share, equivalent to a total profit margin of 11.8%.

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	304,064	274,253	289,614	289,782	293,282
Growth (%)	80%	-10%	6%	0%	1%
EBITDA (VNDbn)	2,433	4,355	5,394	5,170	5,363
EBITDA margin (%)	1%	2%	2%	2%	2%
Net Profit (VNDbn)	1,450	2,812	3,797	3,624	3,801
Growth (%)	-49%	94%	35%	-5%	5%
EPS (bonus-adjusted, VND)	913	1,771	2,391	2,282	2,393
Growth (%)	-54%	94%	35%	-5%	5%
ROE	7%	11%	14%	12%	12%
ROIC	2%	4%	5%	4%	4%
Net debt/EBITDA (times)	-1.8	-2.3	-2.2	-2.7	-3.0
PER (times)	46.3	23.9	17.7	18.5	17.7
EV/EBITDA (times)	20.8	11.6	9.4	9.8	9.4
PBR (times)	1.9	1.8	1.7	1.6	1.5
DPS (VND)	1,200	700	1,500	1,000	1,000
Dividend yield (%)	3%	1%	4%	2%	2%

Business results in Q1/2024 grew impressively

PLX announced Q1/2024 business results with revenue reaching VND75,106 billion (+11.4% YoY) and NPAT-MI reaching VND1,072 billion (+73.2% YoY).

Key Items	Q1/2023	Q2/2023	Q3/2023	Q4/2023	Q1/2024
Domestic Sale volume (thousand ton)	2,612	2,660	2,574	2,484	2,622
Gross profit margin	5.3%	5.8%	5.2%	5.8%	6.2%
NPAT-MI (VND bil)	620	773	738	641	1,072
YoY	155%	n/a	646%	-45%	73%

Source: PLX, ACBS

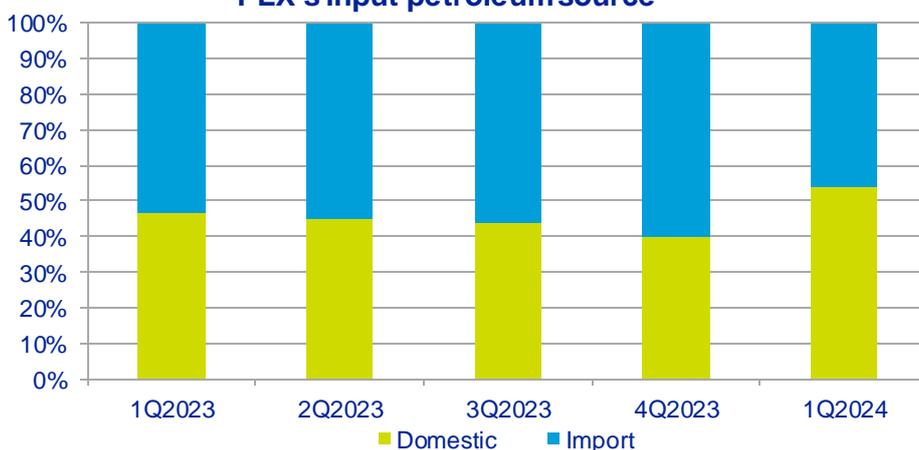
The increase in Revenue comes from:

- (1) selling volume maintains at a high level, increasing by 0.4% YoY to 2.6 million tons.
- (2) Q1/2024 gross profit margin increased to 6.2% from 5.3% in the same period.

In particular, the improvement of gross profit margin comes from the following factors:

- (1) the trend of petroleum selling prices increasing in Q1/2024 by an average of 10% helps PLX benefit from low-priced inventory. During the same period last year, gasoline prices fluctuated more up and down.
- (2) regulated costs in the petroleum price formula increase (applied from July 2023). Of which, gasoline increased by 2.9% and diesel increased by 6.8% compared to the last adjustment from 2014.
- (3) stable domestic petroleum supply helps PLX save costs from reducing imported petroleum input by 38.2% (for domestic consumption) in Q1/2024.

PLX's input petroleum source



Source: PLX, ACBS

Financial revenue in Q1/2024 decreased by 12.4% YoY mainly due to a decrease in exchange rate while financial costs decreased by 1.9% YoY. As a result, PLX's Q1/2024 net financial income decreased by 42.9% YoY, reaching VND75 billion

Sales and administrative expenses in Q1/2024 increased by 14% YoY to a total of VND3,436 billion. However, the proportion of Sales & Administrative Expenses/Revenue of Q1/2024 is 4.6%, only a slight increase compared to 4.5% of Q1/2023.

PLX sets its 2024 business plan low

For 2024, PLX sets a low business plan, specifically:

- Revenue at VND188,000 billion (-31.4% YoY).
- EBT VND2,900 billion (-26.2% YoY).
- Sale volume at 13,033,200 (-9.5% YoY).
- Dividend: VND1,000/share.

We believe this plan is quite conservative as with Q1/2024 results, PLX has already completed 49.7% of its yearly profit plan. In the past, PLX's planning and implementation did not follow each other closely.

Projected business outlook for 2024

The business results of the Q2/2024 may be less positive than the Q1/2024 due to:

- (1) In May, gasoline prices are decreasing compared to March and April 2024 due to falling oil prices and the return to operation of some oil refineries in Europe, which increased the supply. This development may put PLX at a disadvantage in terms of high-priced inventory because it must maintain enough inventory for 20 days while petroleum retail prices are adjusted every 7 days according to Decree 80/2023.
- (2) In addition, the petroleum import tax under FTA commitments (VKFTA and ATIGA) from 2024 will decrease to 0%, which will reduce PLX's differential tax benefit. This factor will be reflected in Q2 because the import tax in the base price formula is calculated based on the previous quarter.

However, in 2024 as a whole, PLX will still benefit from high gross profit margins thanks to:

- Apply new higher regulated costs for the whole year 2024 compared to the half-year period of 2023 (from July 2023).
- Full year selling volume is also expected to increase by 4% YoY thanks to the recovery of domestic production activities. In addition, the Government has recently monitored the petroleum market more strictly as many petroleum distributors and wholesale business had their licenses revoked and fined. This development is expected to slightly positively support the output of large and reputable enterprises such as PLX.
- Stable petroleum supplies due to stable operation of domestic oil refineries + scheduled maintenance on time + more realistic adjustment of petroleum business costs from the Government.
- According to Decree 80/2023 (effective from November 2023), transportation costs for bringing petroleum from abroad to Vietnamese ports, insurance and premium costs are also adjusted more frequently, every 3 months. (instead of 6 months as before), helping to minimize the closure/suspension of operations of some small petroleum stations (poor financial capacity, high debt) like in 2022 due to costs not being adjusted regularly and appropriately.

In addition, the recent draft amendment to Decree 80/2023 also has many support points for major petroleum wholesaler like PLX in the long term. These include:

- Distributors are not allowed to buy goods from each other, they can only buy goods from major wholesalers => reduce costs in the intermediary stage.
- Increase the conditions to become wholesaler.
- The wholesaler and distributor of petroleum have the right to decide the retail selling price but not higher than the price prescribed by the price formula. This development aims to build a competitive environment and reduce State intervention. With PLX's advantages such as the largest petroleum storage, convenient gas station location and brand awareness, PLX will compete better than other competitors.
- Maximum regulated costs and profit in the draft are higher than the current levels.

Risk

However, in PLX's business activities there are also some risks as follows:

- Oil price movements will have a strong impact on PLX's profit margin due to the lag effect between inventory and retail prices adjustment. PLX will benefit when oil prices are in a steady upward trend, and vice versa, when oil prices enter a medium-long-term downtrend, PLX's profits will be affected.
- Government policy in regulating petroleum business activities.

Valuation

For the whole year 2024, we forecast PLX revenue to reach VND289,614 billion (+5.6% YoY) and NPAT-MI at VND3,797 billion (+35% YoY). Using the discounted cash flow method, we value PLX with a target price by the end of 2025 of 46,300 VND/share, equivalent to a total profit margin of 11.8%.

PLX FINANCIALS MODEL

(VND bn except where stated)	2021	2022	2023	2024F	2025F	2026F
Total Net Sales	169,009	304,064	274,253	289,614	289,782	293,282
<i>Sales growth (%)</i>	36%	80%	-10%	6%	0%	1%
CoGS ex-dep'n	154,997	290,308	256,829	270,493	270,876	274,018
SG&A	9,839	11,323	13,069	13,728	13,736	13,902
<i>SG&A as % of sales</i>	6%	4%	5%	5%	5%	5%
EBITDA	4,172	2,433	4,355	5,394	5,170	5,363
<i>EBITDA margin (%)</i>	2%	1%	2%	2%	2%	2%
Depreciation	1,389	1,436	2,172	1,551	1,585	1,619
Operating profit	2,784	997	2,183	3,843	3,585	3,743
<i>Operating profit margin (%)</i>	2%	0%	1%	1%	1%	1%
Net interest expense	-80	-224	-270	-547	-561	-644
<i>as % of avg, net debt</i>	3%	6%	4%	5%	4%	4%
Tax	666	368	880	1,032	985	1,033
<i>Effective tax rate (%)</i>	18%	16%	22%	20%	20%	20%
Minorities	285	452	240	330	315	330
Net profit	2,839	1,450	2,812	3,797	3,624	3,801
<i>Net profit margin (%)</i>	2%	0%	1%	1%	1%	1%
Cash earnings	4,512	3,338	5,224	5,678	5,524	5,751
Number of shares (m)	1271	1271	1271	1271	1271	1271
EPS (VND)	1,970	913	1,771	2,391	2,282	2,393
Share split factor (x)	1.00	1.00	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	1,970	913	1,771	2,391	2,282	2,393
<i>EPS growth (%)</i>	345%	-54%	94%	35%	-5%	5%

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	(1,980)	(1,988)	(1,256)	347	(3)
Capex	532	1,151	721	735	750
Other cash flow items	31	32	33	34	35
Free cash flow	4,817	6,093	6,246	4,476	5,039
Share issues (m)	0	0	0	0	0
Dividends paid	1,746	689	1,906	1,271	1,271
Increase in net debt	-1636	-5792	-1895	-1926	-2438
Net debt, end of year	(4,291)	(10,083)	(11,978)	(13,904)	(16,342)
Enterprise value	43,881	38,089	36,194	34,268	31,830
Shareholders' equity	27,783	29,185	31,206	33,226	35,418
BVPS (VND)	21,866	22,970	24,561	26,150	27,875
Net debt / equity (%)	-15%	-35%	-38%	-42%	-46%
Net debt / EBITDA (x)	-1.8	-2.3	-2.2	-2.7	-3.0
Total assets	74,476	78,962	83,791	86,076	89,621

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
ROE (%)	6.8%	10.7%	13.7%	12.2%	12.0%
ROA (%)	1.4%	2.8%	4.7%	4.2%	4.3%
ROIC (%)	2.5%	3.7%	4.6%	4.1%	4.2%
WACC (%)	15%	15%	15%	15%	15%
EVA (%)	-12.5%	-11.3%	-10.4%	-10.9%	-10.8%
PER (x)	46.3	23.9	17.7	18.5	17.7
EV/EBITDA (x)	20.8	11.6	9.4	9.8	9.4
EV/FCF (x)	10.5	8.3	8.1	11.3	10.0
PBR (x)	1.9	1.8	1.7	1.6	1.5
PSR (x)	0.2	0.2	0.2	0.2	0.2
EV/sales (x)	0.2	0.2	0.2	0.2	0.2
Dividend yield (%)	3.2%	1.3%	3.5%	2.4%	2.4%

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BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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