

7 Nov 2022

PetroVietnam Services (PET)

Hit by stock market dwindle

Mixed performance; brisk revenue but tepid earning growth

PET's 3Q22 revenue increased by 17% yoy to VND4.5tn mainly driven by merchandise distribution revenue growth of 22% yoy to VND4tn. Cell phones segment was bullish with a VND1,721bn revenue, +37% yoy while laptop distribution was flattish with VND1,623bn revenue, 3% yoy. Gross margin (GM) stayed at 4.9%, -0.2%p yoy, due to lower selling ICT products price. Hence, NPATMI slightly fell 5% yoy to VND52bn, resulting in net margin drop of 0.2%p yoy to 1.2% in 3Q22.

Allowance for investment ingested NPAT in 9M22

In 9M22, PET's revenue rose by 12% yoy to VND12.8tn (fulfilling 64% of full-year guidance). 9M22 stellar performance was mainly driven by greater sales of smartphones that grew by 16.2% yoy to VND4.8tn. GM improved to 5.6%, +0.5%p yoy in 9M22 thanks to better price discount from suppliers. NPAT slightly rose by 2% yoy to VND177bn, fulfilling 53% of the full-year guidance. We attribute the slower NPAT growth to the allowance of VND166bn for security investment, equal to the temporary loss of 48% from security investment as of end-3Q22. Financial interest also spiked by 158% yoy to VND94bn in 9M22. However, NPATMI declined 13% yoy to VND135bn, resulting in net margin drop of 0.3%p yoy to 1% in 9M22.

Stronger USD could squeeze the GM in 4Q22F

Iphone 4 series might contribute to the increase of smartphone sales in Oct 2022, in term of both price and demand. In contrast, we expect a downtrend in laptop sales on the quarterly basis due to the off-peak season. We also anticipate a yoy decrease in laptop sales in 4Q22F due to expensive price of imported models following stronger USD. Furthermore, ICT distributors and retailers no longer enjoyed an abnormally high demand for laptops to work/study from home witnessed in 4Q21.

Plan of issuing stocks to pay short-term loan

In Sep 2022, the company mentioned they could issue nearly 44.9mn shares at VND15,000 per share to finance the bank short-term debt for purchasing Apple products. In which, the loan payments will be paid to BIDV (VND300bn), MBB (VND274bn) and VCB (VND100bn). However, we are skeptical about the feasibility of the issuance plan given the current market downturn and PET's vulnerable business prospect in 2022F-23F which is hit by gloomy economic conditions.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2017A	10,703	245	131	1,487	(10.4)	328	15.5	9.3	1.2	8.7	5.6
2018A	11,092	219	113	831	(44.1)	287	27.7	10.2	1.2	7.9	6.0
2019F	10,008	136	122	252	(69.7)	202	91.3	13.3	1.2	7.8	5.7
2020F	13,453	235	137	1,579	526.9	299	14.6	9.2	1.2	8.5	4.6
2021F	17,598	383	265	2,831	79.2	445	8.1	6.2	1.1	17.3	5.3

12M rating **Non-rated**

12M TP **N.A**

Up/Downside **N/a**

Stock Data

VNIndex (07 Nov, pt)	975
Stock price (07 Nov, VND)	20,600
Market cap (USD mn)	75
Shares outstanding (mn)	90
52-Week high/low (VND)	67,800/20,600
6M avg. daily turnover (USD mn)	1.38
Free float / Foreign ownership (%)	67.7/0
VNIndex (07 Nov, pt)	975
Stock price (07 Nov, VND)	20,600

Performance

	1M	6M	12M
Absolute (%)	(26.0)	(52.9)	(33.7)
Relative to VNIndex (%p)	(20.2)	(27.0)	(1.6)

Stock price trend



Source: Bloomberg

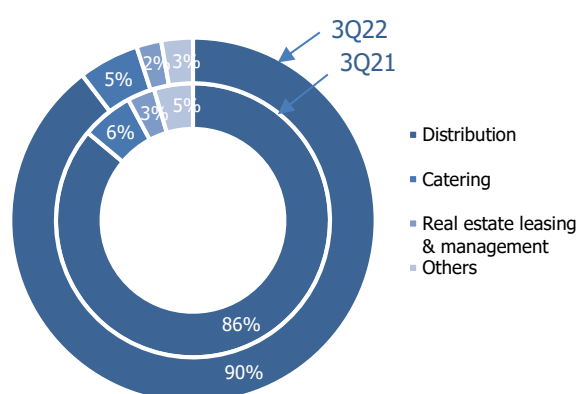
Ngoc Pham

ngoc.pt@kisvn.vn

Mixed performance; brisk revenue but tepid earning growth

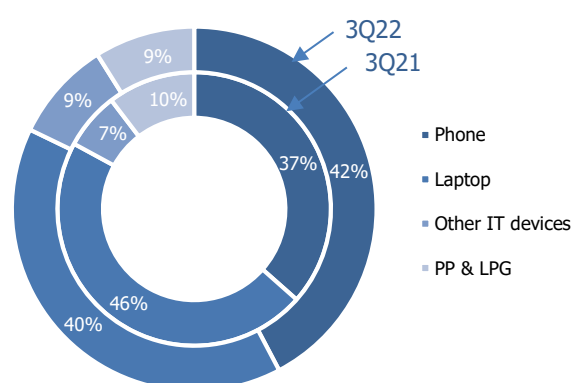
PET's revenue in 3Q22 increased by 17.7% yoy to VND4.5tn mainly driven by merchandise distribution, which upped 22% yoy to VND4tn. Revenue of PET's distribution segment in 3Q22 mostly came from cell phones of VND1,721bn (42% of distribution revenue, upped 37% yoy), laptop distribution of VND1,623bn (40% of distribution revenue, upped 3% yoy), PP & LPG of VND363bn (9% of distribution revenue), and other IT products of VND363bn (9% of distribution revenue). The company posted the gross profit of VND225bn in 3Q22, up 13.6% yoy. However, GPM reached 4.9%, slightly down from 5.1% in 3Q21, driven by lower selling ICT products prices thanks to (1) resumed supply sources post-COVID-19 (2) lower laptop demand as schools and offices back to operate offline instead of online. Meanwhile, NPATMI slightly fell by 5% yoy to VND52bn. NPATMI margin in 3Q22 was 1.2%, down 0.2%p yoy.

Figure 1. Revenue structure in 3Q22 & 3Q21



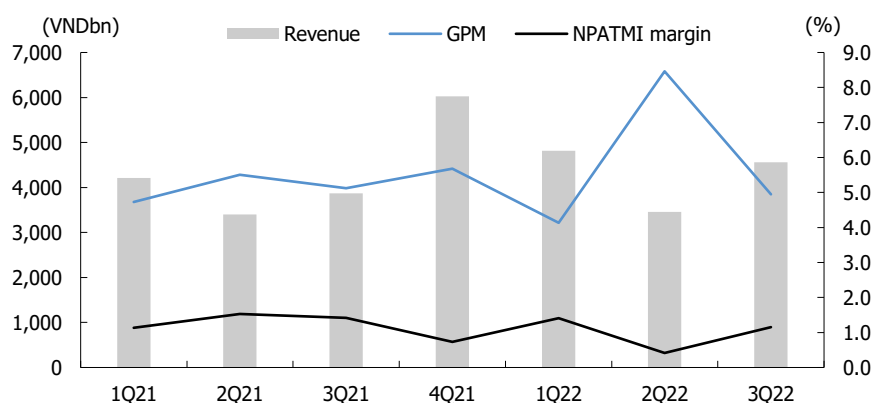
Source: Company data

Figure 2. Breakdown of distribution revenue



Source: Company data

Figure 3. PET's quarterly performance



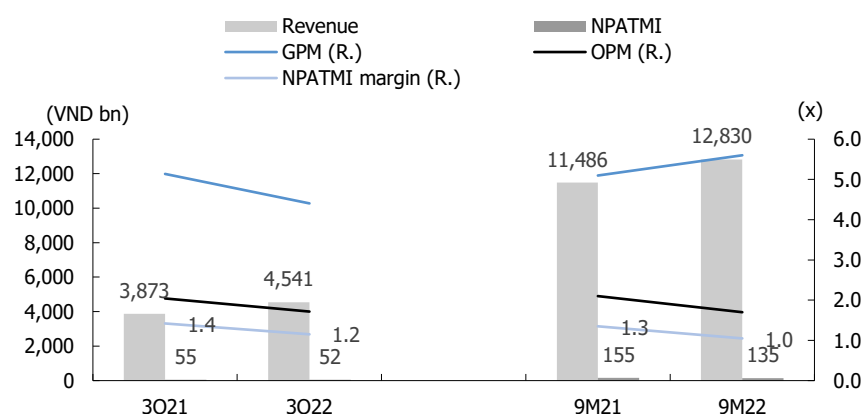
Source: Company data, KIS

Allowance for investment ingested NPAT in 9M22

In 9M22, PET revenue rose by 12% yoy to VND12.8tn (fulfilling 64% of full-year guidance). 9M22 stellar performance was mainly driven by greater sales of

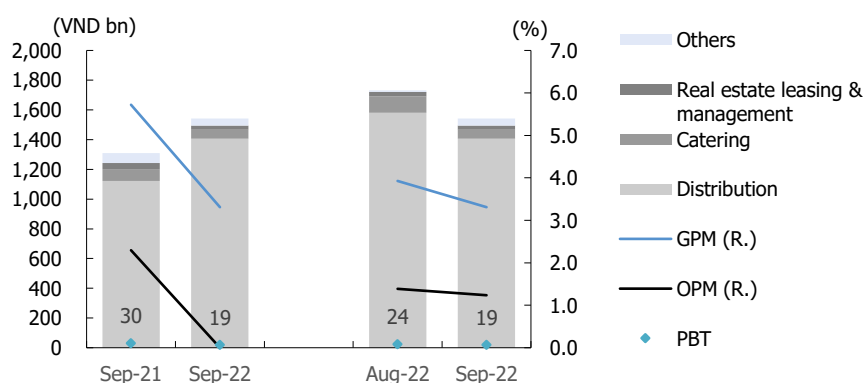
smartphones that grew by 16.2% yoy to VND4.8tn and GP rose by 22.6% yoy to VND717bn. GPM in 9M22 improved to 5.6% from 5.1% in 9M21 thanks to better price discount from suppliers. NPAT slightly rose by 2% yoy to VND177bn, fulfilled 53% of the full-year guidance. However, NPATMI in 9M22 declined 13% yoy to VND135bn, with NPATMI margin fell by 0.3%p yoy to 1% in 9M22 mainly due to the allowance of VND166bn for security investment and increasing of financial interest upped by 158% yoy to VND94bn.

Figure 4. Accumulated revenue movement



Source: Company data, KIS

Figure 5. Monthly revenue movement



Source: Company data, KIS

Stronger USD puts pressure on GPM in 4Q22

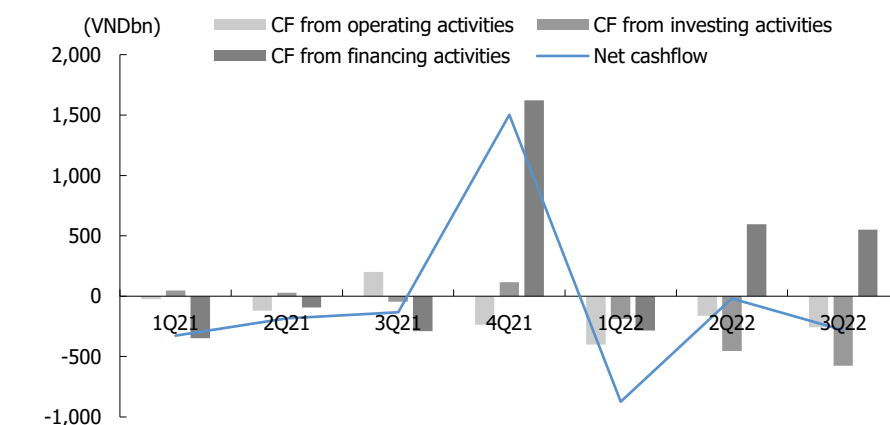
iPhone 4 series might contribute to the increase of smartphone sales in Oct 2022, in term of both price and demand. In contrast, we expect a downtrend in laptop sales on the quarterly basis due to the off-peak season. We also anticipate a yoy decrease in laptop sales in 4Q22F due to expensive price of imported models following stronger USD. Furthermore, ICT distributors and retailers no longer enjoyed an abnormally high demand for laptops to work/study from home witnessed in 4Q21.

Plan of issuing stocks to pay short-term loan

By 9M22, PET recorded a net cash outflow of VND1.2tn, operation and investing activities were mainly financed by the net short-term loans, which recorded the net increase of VND900bn in 9M22. In Sep 2022, the company planned to issue 44.9mn shares to existing shareholders at the execution rate of 2:1 and the price of VND15,000 per share, entirely used to finance the short-

term debt to purchase Apple products. In which, the loan payment was to BIDV (VND300bn), MBB (VND274bn), and VCB (VND100bn) from 4Q21 to 2Q23. However, among negative news of some issuers' credit and the gloomy stock market status, we consider the manager may have difficulty in executing the plan.

Figure 6. PET's quarterly cashflow

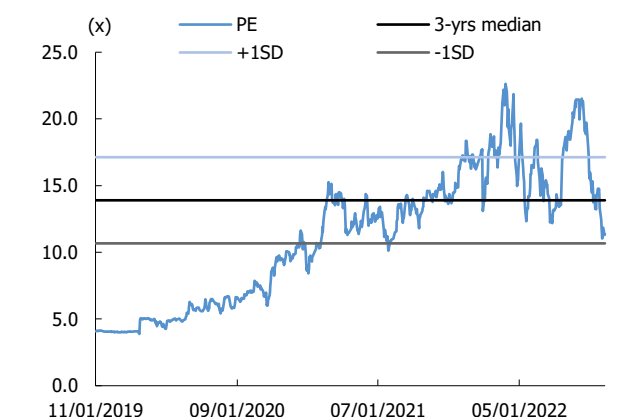


Source: Company data, KIS

Valuation

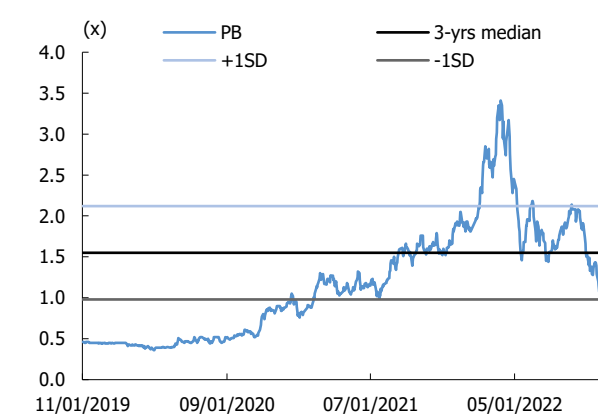
PET is currently trading at PE of 11.19x and PB of 1.06x, lower than three years average of 13.9x and 1.6x correspondingly. PE and PB are also approaching one standard deviation lower than the 3-years median. We think this valuation is fair with low profitability ratios ROE and ROA were 3.6% and 0.8%, respectively.

Figure 7. PET's 3-years TTM PE



Source: Company data

Figure 8. PET's 3 years TTM PB



Source: Company data

Company overview

PETROSETCO was established in June 1996. 2007 is the remarkable year in the development of PETROSETCO when the company was officially listed on Hochiminh city Stock Exchange (HOSE) with PET code and changed the name into PetroVietnam General Services Joint stock organization. The Corporation is a multi-industry business enterprise, in many fields, including: distribution services, supply and logistics services, life services, and real estate services. This includes the distribution of information technology products and telecommunications equipment.

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	4,786	4,331	3,715	5,083	7,164
Cash & cash equivalent	1,371	1,066	916	2,026	2,993
Accounts & other receivables	2,229	1,847	1,451	2,086	2,495
Inventory	775	1,006	1,122	784	1,447
Non-current assets (Adj.)	1,387	1,232	1,251	1,238	1,329
Fixed Asset	204	191	202	196	261
Investment assets	947	820	796	753	791
Others	639	626	449	445	475
Total assets	6,173	5,563	4,966	6,321	8,493
Advances from customers	304	89	86	134	117
Unearned revenue	110	80	48	21	0
Trade payables	1,376	1,428	1,306	1,353	2,241
Others	412	451	360	435	539
ST debt & bond	2,031	1,614	1,271	2,508	3,561
LT debt & bond	279	280	255	207	95
Total liabilities	4,512	3,943	3,326	4,658	6,553
Controlling interest	1,497	1,477	1,512	1,543	1,816
Capital stock	866	866	866	866	905
Share premium	134	134	134	121	160
Other reserves	229	263	404	404	414
Retained earnings	303	264	158	178	343
Minority interest	164	143	129	120	123
Owners' equity	1,661	1,620	1,640	1,663	1,940

Cash flow

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	4	197	312	(41)	(150)
Net profit	144	130	127	140	311
Depreciation	83	68	66	64	62
Net incr. in W/C	(222)	(1)	119	(245)	(524)
C/F from investing	(2)	49	(21)	(47)	(12)
Capex	(35)	(12)	(42)	(16)	(22)
Incr. in investment	33	61	21	(31)	10
C/F from financing	(354)	(551)	(513)	1,079	930
Incr. in equity	2	(15)	3	(20)	99
Incr. in debts	(244)	(416)	(403)	1,190	941
Dividends	(112)	(120)	(113)	(91)	(109)
C/F from others	0	0	0	0	0
Increase in cash	(352)	(304)	(222)	992	768

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	10,703	11,092	10,008	13,453	17,598
COGS	9,955	10,430	9,397	12,784	16,659
Gross profit	748	662	611	669	939
SG&A	503	444	475	434	556
Operating profit	245	219	136	235	383
Financial income	66	81	38	49	108
Interest income	49	61	27	26	41
Financial expenses	113	125	73	84	99
Interest expenses	106	93	68	76	81
Other non-operating profit	4	9	85	8	24
Gains (Losses) in associates, subsidiaries and JV	0	(1)	(0)	(1)	(1)
Earnings before tax	202	183	185	207	415
Income taxes	59	53	58	67	104
Net profit	144	130	127	140	311
Net profit of controlling interest	131	113	122	137	265
EBITDA	328	287	202	299	445

Key financial ratio

	2017A	2018A	2019A	2020A	2021A
Per-share (VND)					
EPS	1,487	831	252	1,579	2,831
BPS	19,175	18,711	18,941	19,205	21,445
DPS	1,299	1,387	1,308	1,051	1,209
Profitability (%)					
OP margin	2.3	2.0	1.4	1.7	2.2
NP margin	1.3	1.2	1.3	1.0	1.8
EBITDA margin	3.1	2.6	2.0	2.2	2.5
ROA	2.3	2.2	2.4	2.5	4.2
ROE (excl MI)	8.7	7.9	7.8	8.5	17.3
Dividend yield	5.6	6.0	5.7	4.6	5.3
Dividend payout ratio	87.4	167.0	519.2	66.6	42.7
Stability					
Net debt (VND bn)	939	828	610	689	663
Net debt/equity (%)	56.6	51.1	37.2	41.4	34.2
Valuation (x)					
PE	15.5	27.7	91.3	14.6	8.1
PB	1.2	1.2	1.2	1.2	1.1
EV/EBITDA	9.3	10.2	13.3	9.2	6.2

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 7 Nov 2022.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 7 Nov 2022.

KIS Vietnam Securities Corp. has issued CW with underlying stocks of PetroVietnam Services (PET) and is the liquidity provider.

Prepared by: Ngoc Pham

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2022 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..