

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 short-term bank debt for purchasing Apple products. In which, the loan 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

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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
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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

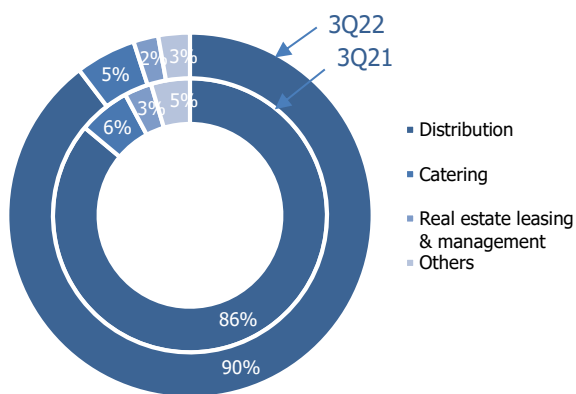
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Mixed performance; brisk revenue but tepid earning growth

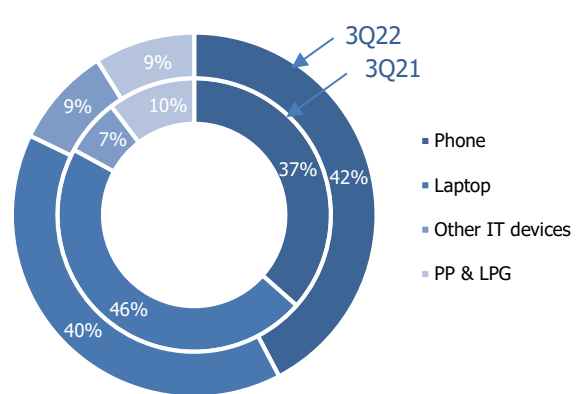
PET's revenue in 3Q22 increased by 17.7% yoy to VND4.5tn mainly driven by merchandise distribution, which upped 22% yoy to VND4tn. Revenue of PET's distribution segment in 3Q22 mostly came from cell phones of VND1,721bn (42% of distribution revenue, upped 37% yoy), laptop distribution of VND1,623bn (40% 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



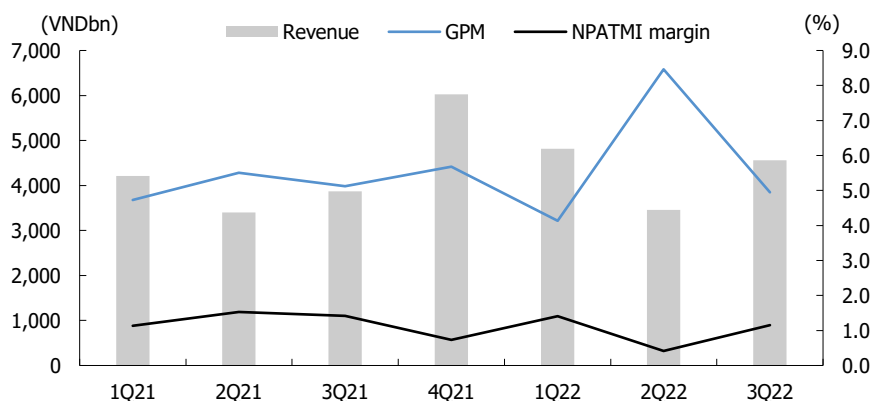
Source: Company data

Figure 2. Breakdown of distribution revenue



Source: Company data

Figure 3. PET's quarterly performance



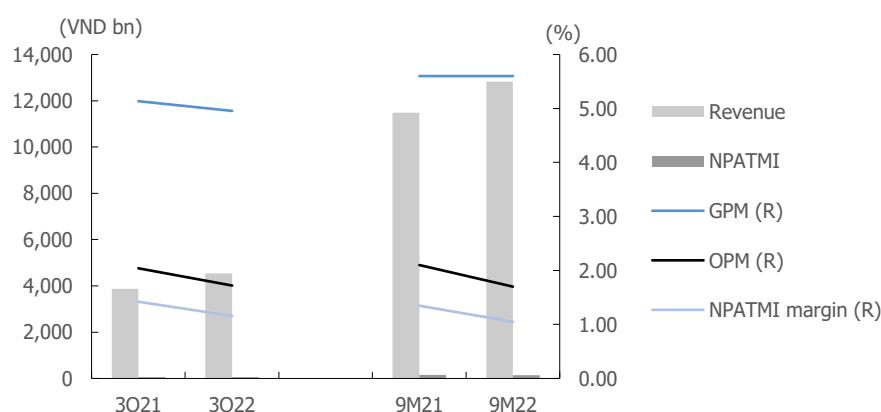
Source: Company data, KIS

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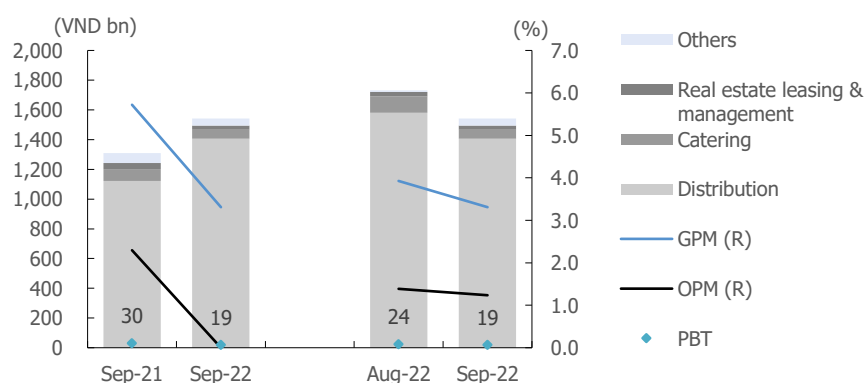
smartphones that grew by 16.2% yoy to VND4.8tn and GP rose by 22.6% yoy to VND717bn. GPM in 9M22 improved to 5.6% from 5.1% in 9M21 thanks to better price discount from suppliers. NPAT slightly rose by 2% yoy to VND177bn, fulfilled 53% of the full-year guidance. However, NPATMI in 9M22 declined 13% yoy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

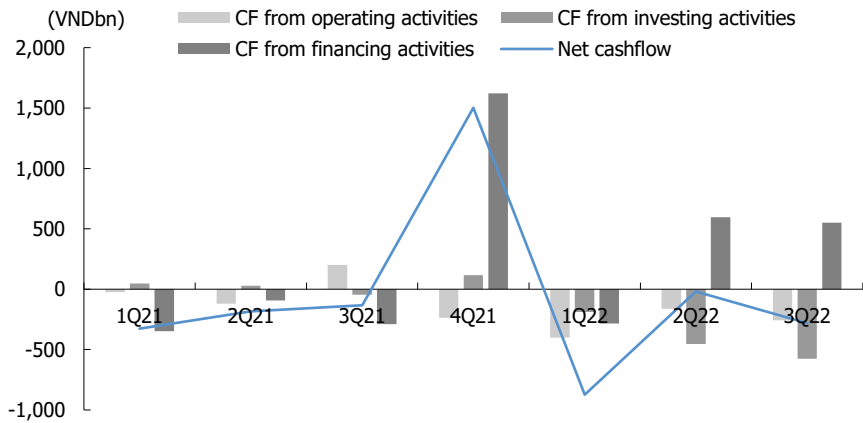
iPhone 4 series might contribute to the increase of smartphone sales in Oct 2022, in term of both price and demand. In contrast, we expect a downtrend in laptop sales on the quarterly basis due to the off-peak season. We also anticipate a yoy decrease in laptop sales in 4Q22F due to expensive price of 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

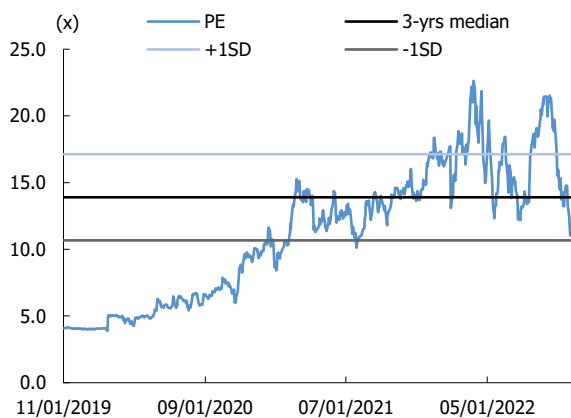


Source: Company data, KIS

Valuation

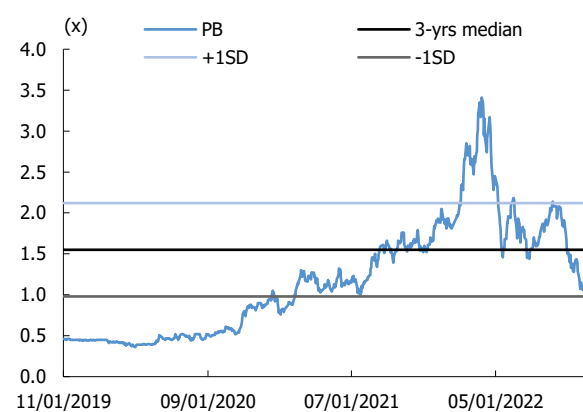
PET is currently trading at TTM PE of 11.19x and TTM PB of 1.06x, lower than three-year average of 13.9x and 1.6x correspondingly. PE and PB are also approaching one standard deviation lower than the 3-year median. We think this valuation is fair, given the low ROE and ROA at 3.6% and 0.8%, respectively.

Figure 7. PET's 3-year TTM PE



Source: Company data

Figure 8. PET's 3-year 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

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- Hold: Expected total return will be between -5% and 15%
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- 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.

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Prepared by: Ngoc Pham

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