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As a developing country, Vietnam's demand for petroleum products has been growing by 7% each year on average in the past 10 years: This rate is relatively high compared to the rest of the world: world petroleum consumption growth rate in 2010 was 3.1%, with countries in the Asia-Pacific region seeing growth at 5.3%. As gasoline/petroleum products are special commodity, Vietnam's companies must meet certain business conditions in order to become a key gasoline/petroleum distributor (with the right to import and export petroleum products). There are currently 13 businesses with permission to distribute gasoline, among which, based on the market share of import quotas, Petrolimex currently has the largest market share and always accounts for more than 50% of total imported petroleum and about 30% of retail market share. As the first established company in Vietnam's petroleum distribution market, PLX possesses significant business advantages owing to:

- (1) The largest market share in distribution of petroleum products;
- (2) Large and stable client base
- (3) Large-scale assets with advantageous business location
- (4) Widespread distribution system including both wholesale and retail
- (5) Closed and mutually supported business model

**Business outlook:** For its key petroleum distribution business, PLX plans to expand output growth by 6% on average in the coming years. With consumption level at 7.5-8 million tones/m3 of petroleum products/year and minimum effects of world gasoline price volatility, the company can earn a profit of more than 2000 billion VND/year.

Apart from profit generated from core business area, profit after tax of subsidiaries/associates in other business areas (petrochemicals, gas, transportation, ports, construction, banking, insurance, etc) may reach 1000 billion VND/year in normal business conditions. The biggest contributor to profits within the subsidiary group is PGBank (PLX owns 40%), waterway transportation companies (PLX own 51%) and PLC (PLX owns 79%).

In 2011, PLX has been adversely affected by movements in world gasoline price. PLX's consolidated net profit target is 1663bn VND, EPS is 1079VND, similar to last year's EPS at 1074VND. At share price of 15,000VND/share, 2011PE is 13.9x. In 2012, PLX targets net profit of 2947bn VND, at which 2012 EPS is calculated at 2456VND and PE at 6x.

Although there are particular limitations and risks if world oil prices rise steeply, in the future when the petroleum market is totally regulated by the market mechanism, PLX will have outstanding advantages to expand and achieve high profitability.

mil VND	2009A	2010A	2011P
Net revenue	103,501,181	137,188,394	183,547,000
EBIT	4,755,803	2,124,290	
Net profit	3,394,671	924,863	1,663,000
EPS (VND)	6,994	1,074	1,079
Total Asset	38,720,806	52,137,314	
Short-term debt	14,807,838	20,893,205	
Long-term debt	3,130,469	3,066,526	
Chartered capital	4,422,246	4,980,909	10,700,000
BVPS (VND)	14,470.65	13,314.98	



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## Overview of petroleum import-export mechanism & Role of petroleum importer

Vietnam is a country with crude oil resources; however most petroleum products have to be imported. From 2009, Dzung Quat refinery was put into operation and aims to meet about 30% of domestic demand. The majority of petroleum products consumed in Vietnam consist of: diesel, gasoline, fuel oil (FO) and kerosene, among which diesel accounts for the largest proportion of petroleum consumption, followed by gasoline; kerosene sales being the smallest.

**Petroleum is a special commodity**, specifically in the following aspects:

- ❖ It is essential goods for the economy and the fuel input for production and transportation. Therefore reserves are crucial to prevent unexpected shortages.
- ❖ Trading of this commodity requires special conditions, such as safe transportation and storage, and specialized transportation equipment are also needed.

Because of the above factors, in Vietnam petroleum sales is tightly managed and regulated by several governmental bodies, among them the Ministry of Finance and the Ministry of Industry and Trade. One of the most important legal document regulating petroleum trading activities is Decree No. 84/2009/ND-CP issued on October 15 2009, in effect from December 2009, and Circular 234 guiding the implementation of Decree No. 84.

Important aspects of regulations governing petroleum distribution include:

- ❖ **Quantity:** Only importers are responsible for the storage of petroleum. Each year the Ministry of Planning and Investment and the Ministry of Industry and Trade determine the next year's petroleum import volume. Based on this import volume, the Ministry of Industry and Trade will allocate minimum quotas to distributors. Petroleum distributors are given **minimum import quotas** for the year, and have to **ensure stable petroleum reserve for at least 30 days**, supplying all categories, according to the yearly consumption plan of that distributor.
- ❖ **Prices:** Decree No. 84 prescribes the retail price as the base price derived from a predetermined formula. Wholesale prices between suppliers are based on negotiation. The base price formula is as follows:

Base price = (CIF + Import tax + Special Consumption tax) \* Exchange rate + Fixed cost margin + Price Stabilization Fund + Fixed profit margin + VAT + fuel fees + Other Taxes and charges.

In the base price formula, Import Tax and the use of Price Stabilization Fund recently have been used most commonly. Specifically, Import Tax is currently 0% but the Tax bracket can be adjusted from 0-40%. Price Stabilization Fund contribution is 400VND/liter for gasoline and 300VND/liter for other petroleum products; however the use of the Fund is also very flexible. Fixed cost margin is at 600VND/liter.

**Petroleum retail price adjustment mechanism** Retail prices are not adjusted continuously, but there is a **specific time gap between adjustments** (for example, two events of price adjustments must be at least 10 days apart). In case world gasoline price is in downtrend, the price adjustment mechanism allows increase in state budget contribution if price reduction level is significant: (1) If prices drop within 12% of the current retail price ( $\leq 12\%$ ), distributors must reduce retail prices accordingly. (2) If prices reduce by more than 12% ( $> 12\%$ ) of the current retail

price, after competent authorities have implemented adjustment in related regulations (Import Tax, Price Stabilization Fund, etc.), the distributor may continue to reduce its retail price.

In case world gasoline price is in uptrend, **retail price adjustment mechanism allows the use of Price Stabilization Fund and other stabilization measures if price increase is significant:** (1) if the base price increases by within 7% ( $\leq 07\%$ ) of current retail price, distributors are allowed to increase retail price accordingly. (2) If base price increases by more than 7% ( $> 07\%$ ) to 12% ( $\leq 12\%$ ) of current retail price, distributors can increase the retail price as in scenario (1) plus 60% of the increase in base price between 07% and 12%; the remaining 40% is compensated by the Price Stabilization Fund under the guidance of the Ministry of Finance; (3) If base price increases by above 12% ( $> 12\%$ ) of the current retail price, or the price rise affects economic-social development and people's living, the Government will announce price stabilization measures through tax administration and Price Stabilization Fund in accordance with current legislation.

However, in particular time periods, petroleum price rises/falls are still actively adjusted by the Government to avoid negative influences on inflation and people's living.

**Trading rights** include the right to import-export goods in accordance with WTO's regulations. Vietnam permits domestic and foreign enterprises to have the right of import and export except for those commodities belonging to the State trading list, which includes petroleum. However, this does not mean that foreign petroleum companies are prohibited from trading in the market at the downstream stages; and this is just a matter of time.

### **Role of suppliers**

According to Decree No. 84, **Vietnam's businesses must meet special business conditions in order to become a petroleum distributor** (with the right to import and export petroleum) such as possessing specialized ports with minimum capacity of 7000 tons, warehouses with minimum capacity 15,000m<sup>3</sup>, specialized transportation vehicles and an agents network of at least 40 retailed stations as well as own retailed stations (at least 10 stations). There are currently 13 companies with permission to import petroleum.

Among the key petroleum distributors, based on the import quotas, Petrolimex has the largest market share and consistently accounts for more than 50% of total imported petroleum in Vietnam. Some other large suppliers include Petec (under PVN, equitized at the end of 2010), PVOil (under PVN, recently acquired Petechim), MIPEC (under Ministry of Defense).

**PLX: Petroleum importer with the largest market share and scale****Overview:**

PLX was founded in 1956 with the task of becoming a Corporation responsible for the stabilization and development of the domestic petroleum market, as well as other products in the industry. Petroleum distribution (both wholesale and retail) is PLX's strongest business activity. PLX currently has 42 subsidiaries (with 100% ownership) responsible for distributing petroleum to provinces across the country. With these subsidiaries, PLX are in control of most central issues such as capital structure, supply source, buying and selling price, management, human resources and investments. This business model of PLX aims to ensure that its supply and retail price of petroleum in the market are closely monitored and are consistent throughout the country.

In addition, PLX also owns subsidiaries/associates in the sectors of petrochemicals, gas, transportation, warehouses, building, real estate, banking and insurance. Until now, 10 of PLX's subsidiaries have been equitized.

The main petroleum products currently provided by PLX are:

- ❖ Gasoline (RON92, RON95): like other suppliers, PLX has to maintain sufficient reserve of gasoline of at least 30 days, in accordance with Decree No. 84ND-CP. Petroleum is mainly imported from Singapore, Taiwan, China, Korea, the Middle East, Russia and produced by the Dzung Quat refinery. Main suppliers include BP, Shell, SK Energy, Unipeq, Vitol, Conoco Phillips, Gunvor, Petronas and Simosa.
- ❖ Diesel: mainly used for vehicle engines and power plants.
- ❖ FO: used for power plants, production of steel, cement and construction materials, production of food, and shipping.
- ❖ Kerosene: very low consumption.

**Largest market share based on output of petroleum distribution; large and stable system of clients**

Being the oldest and largest business in the petroleum import-export/distribution sector, until now PLX consistently accounts for more than 50% of domestic petroleum trading volume calculated based on import quota. The largest suppliers (including PLX, Petec, PVOil, and MPC) make up about 80% of total market share. In the retail sales market, within 13,500 petroleum retail stores across the country, PLX accounts for 16%, however consumption through PLX's retail stores is very high, so PLX's retail sales market share totals to about 30%.

PLX's strength comes from its economies of scale, which is why petroleum import level is always maintained even when oil prices move in unfavourable direction to the distributor. When oil prices are on the rise, some importers may restrict or stop importing whereas PLX still guarantees constant supply, therefore maintaining a very stable client base.

Total domestic petroleum product consumption of PLX is approximately 7.5 million tones, with annual growth rate of about 6-8%.

Unit: kg for FO, liter for gasoline &amp; DO

No.	Volume	2008	2009	2010
<b>I</b>	<b>Purchase</b>	<b>8,508,557,243</b>	<b>9,355,100,974</b>	<b>8,905,390,721</b>
	- Imported	8,508,557,243	8,946,536,753	6,928,256,493
	- From Dzung Quat refinery		408,564,221	1,977,134,228
<b>II</b>	<b>Purchase</b>	<b>8,508,557,243</b>	<b>9,355,100,974</b>	<b>8,905,390,721</b>
	Domestic	6,929,160,609	7,477,225,582	7,439,203,158
	Re-exported	999,902,271	1,308,585,831	1350173544
	Transshipped	579,494,363	569,289,561	116014019
<b>II</b>	<b>Sales</b>	<b>8,331,081,614</b>	<b>9,313,733,443</b>	<b>8,925,881,871</b>
	- Domestic	6,832,705,991	7,425,961,473	7,617,883,768
	- Re-exported	1,498,375,623	1,887,771,970	1,307,998,103

### Petrolimex's petroleum sales plan from 2011 – 2013

Unit: m<sup>3</sup>/ton

Year	2011	2012	2013
Sales	9.171.000	10.174.000	10.765.000

Source: Petrolimex

### Large-scale assets with convenient business location

An important factor to a distributor is widespread wholesale and retail system, with strategic location in most provinces across the country. PLX has been established since 1995 thus having an advantage over its competitors in developing distribution network. With a large fixed asset system in a convenient location, combined with a large market share, PLX is in a solid position to expand business and actively seize business opportunities in the sector.

PLX's assets consist of a large warehouse – transportation – land system (refer to table below). PLX's total tangible fixed asset value is 2048 billion VND and after revaluation totals to 4002 billion VND; land-use rights are worth 1925 billion VND after revaluation. At this point these assets have depreciated by about 50%.

With a large warehouse and port system, PLX also provide import services for other importers, because for some importers the importing of a single batch is not cost-efficient.

Unit: mil VND

Fixed assets	Revaluated value		
	Cost	Depreciation	Remaining value
<b>Tangible fixed assets</b>			
- Buildings	5,688,652	2,473,380	3,215,272
- Machines and equipment	1,244,001	741,997	502,004
- Transportation vehicles	451,352	228,538	222,813
<b>Intangible fixed assets</b>			
- Land-use rights	1,971,119	46,445	1,924,673

❖ **Land:**

Land category (m2)	Area	Percentage
Land for offices	218.485	2,84%
Land for gasoline stations	6.988.618	90,77%
Other	93.271	1,21%
Land to be cleared and handed over to local authorities	398.777	5,18%
<b>Total land area</b>	<b>7.699.151</b>	<b>100%</b>

- Source: Petrolimex

❖ **Transportation vehicles:**

**Pipelines:** PLX owns a 570km pipeline with capacity reaching over 4 million tons/year – which makes PLX the **only transporter of gasoline by pipeline**. PLX has plans to invest in a pipeline connecting to China to import petroleum from China.

**Transporting vehicles:** PLX owns 860 trucks to transport petroleum in land across the country and re-export to Laos and Cambodia.

**Ocean vessels:** PLX currently owns 12 ocean vessels with total capacity of 452.7 thousand tons, including one Aframax vessel with 105.3 thousand tons capacity - the largest oil vessel in Vietnam currently.

**Waterway vessels:** PLX owns 91 river vessels with total capacity of 42.8 thousand m3.

❖ **Warehouse:** PLX owns petroleum warehouses with total capacity of about 1.7 million m3, the largest in the country, including import warehouses with volume of about 1.6 million m3 and storage volume at gasoline stations are 100,000m3.

❖ **Port:** PLX owns a system of 13 sea ports and 17 river ports for petroleum transportation with convenient location, including:

Bãi Cháy Port - Quảng Ninh province	Quy Nhơn Floating Port - Bình Định province
Thượng Lý Port – Hải Phòng province	Vĩnh Nguyên Floating Port Khánh Hòa province
Nghi Hương Port - Nghệ An province	K2 Port - Vũng Tàu province
Gianh Port - Quảng Bình province	Nhà bè Port - Hồ Chí Minh
Thuận An Port – Huế	Trà Nóc Wharf - Cần Thơ
Mỹ Khê Port - Đà Nẵng province	Miền Tây Wharf - Cần Thơ
Nại Hiên Port - Đà Nẵng province	

### Widespread distribution network including both wholesale and retail

PLX currently distributes through 3 main channels:

❖ **Direct sales:** Gasoline, DO, FO and kerosene are all sold directly to customers but 95% of sales volume via this channel includes DO and FO; petrol only accounts for 5% of total direct sales. This channel of sales has very

competitive prices (usually through competitive bidding) and has long payment terms. Consumption through this channel has an annual growth rate of approx. 5%/year.

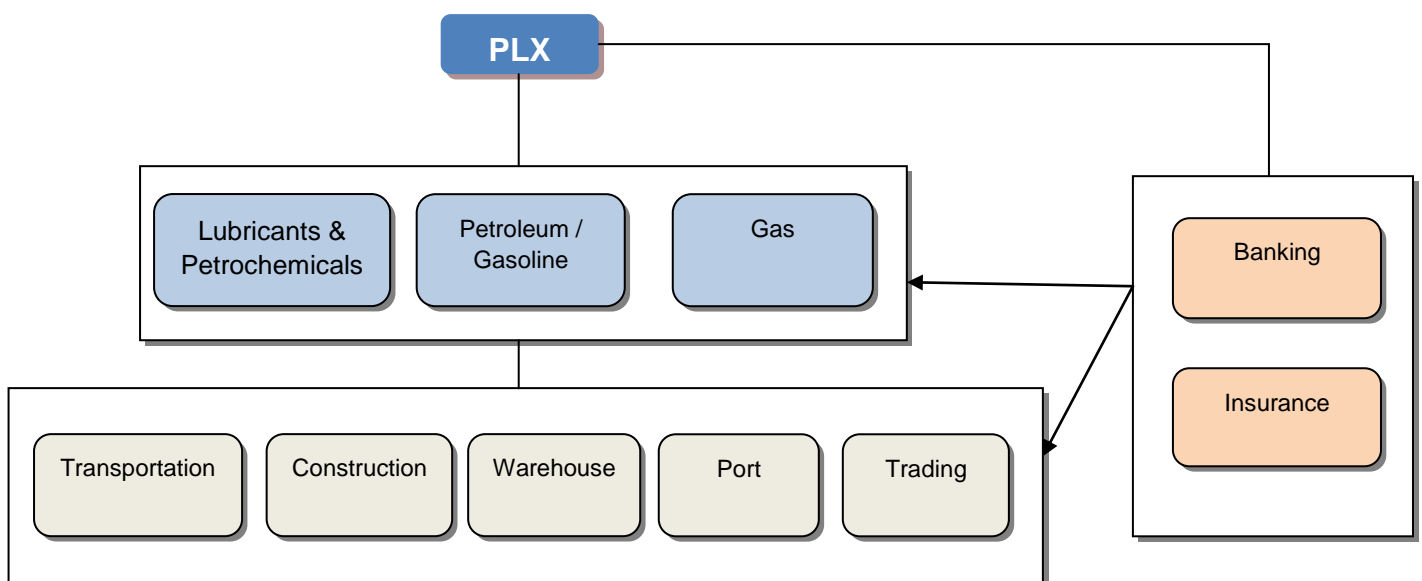
- ❖ **Wholesale to agents:** Gasoline, DO, FO are distributed through this channel. PLX's agents system currently owns about 4000 gasoline stations. Sales through this channel account for about 44% of total consumption and sees average growth of 4-5% pa however output fluctuates from year to year due to fluctuation in gasoline prices. Some large petroleum agents include COM, SFC.
- ❖ **Retail sales of petroleum:** PLX directly owns 2100 petroleum retail stores accounting for about 16% of all Vietnam's petroleum stations but sales volume through PLX's retail stores are higher than average therefore accounting for about 30% of the market share. PLX's retail stations make use of the Flexicard payment method provided by PG Bank. Output through this channel has an annual growth rate of about 10%/year.

PLX's wholesale and retail system are managed quite efficiently.

FINANCIAL RATIOS	2009A	2010A
<b>Working capital management</b>		
Op. Working capital ratio turnover	50.2	369.0
Days' receivables	32.65	37.69
Days' inventory	34.4	28.9
Days' payables	25.38	34.16

### Closed and mutually supported business model

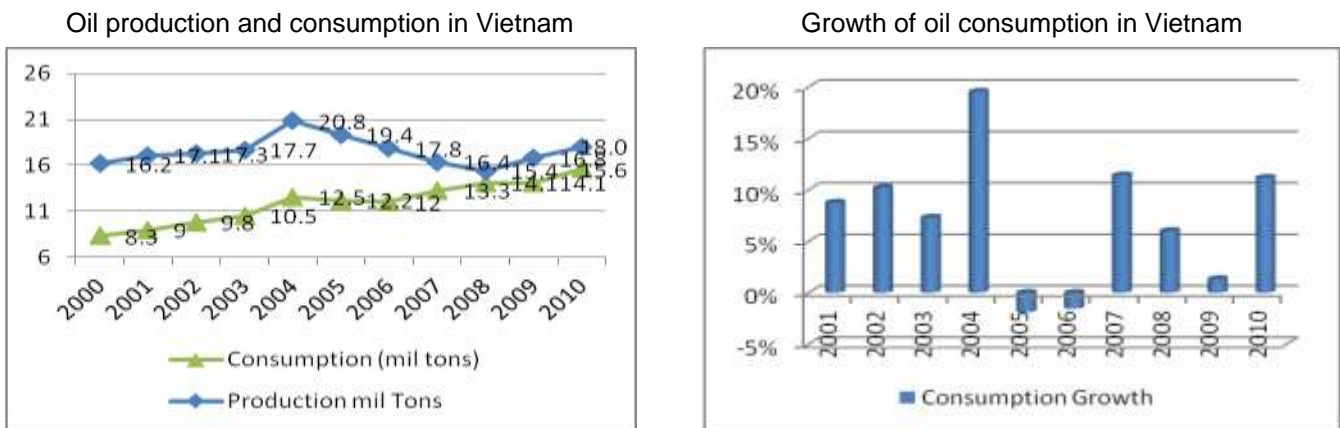
PLX trades not only petroleum but during its development has also built a complete network of businesses within the value chain, such as *trading goods of the same industry* (lubricant, gas, other petrochemical products), and *accompanying services* such as transportation, warehouse, port, trading and *supportive services* such as banking and insurance. This system enables PLX's and subsidiaries' business activities to closely support each other and creates conditions for profit margin improvement for the whole group.



**BUSINESS OUTLOOK**

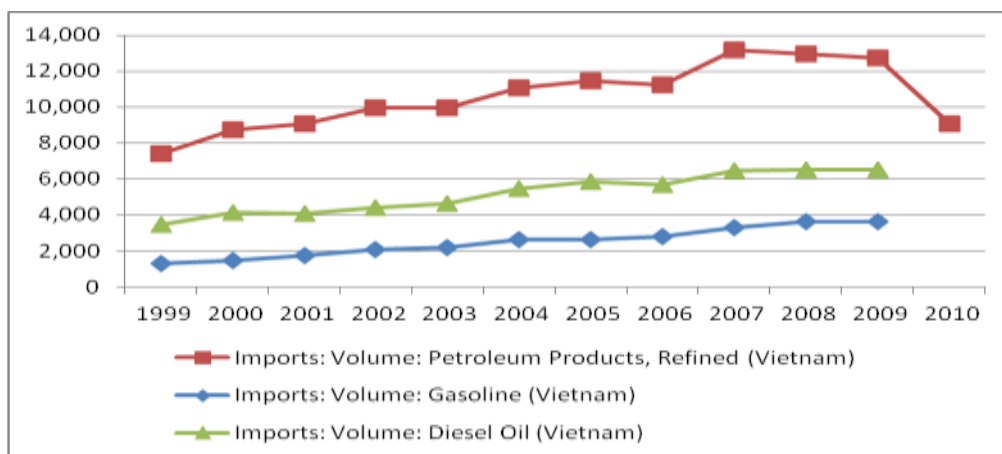
**Petroleum demand in Vietnam grows in pace with growth of the economy**

**Production and consumption of petroleum products in Vietnam**



Source: BP statistics

As a developing country, Vietnam’s consumption of petroleum products on average grows by 7% each year in the past 10 years (although growth rates throughout the years may differ, partly due to changes in the consumption structure of petroleum products). This is a high rate compared to the rest of the world: global consumption growth rate in 2010 was 3.1%, with countries in the Asia-Pacific region seeing growth at 5.3% (source: BP statistics). To meet this demand, and since Vietnam cannot produce its own petroleum products, supply is mainly via importation. Petroleum product import levels declined sharply in 2010 due to Dzung Quat oil refinery coming into operation providing the nation with about 1/3 of annual gasoline consumption.



Source: CEIC

Petroleum imports consist of mainly diesel (about 48%) followed by gasoline (on average about 22%). The ratio of PLX’s imported petroleum’s market share is always above 50% of Vietnam’s total imports (based on annual total import quota) and has a similar structure.

The PLX’s market share of imported petroleum products in 2010 was higher than previous years because 2010 was the first year when gasoline domestically produced by Dzung Quat refinery was consumed.

### Distribution of petroleum products contributes the largest part in revenue and profit

PLX's petroleum output is the highest in the industry with total domestic consumption of 6.8 million m3, 7.4 million m3 and 7.6 million m3 in the years 2008, 2009 and 2010 respectively. Beside domestic consumption, re-export output of PLX is more than 1mil m3/year.

In the revenue structure, the trading of petroleum products makes up the largest proportion, which was 86% in 2010, however the profit margin of this sector is not as high as in some other sectors such as: petrochemical products, banking, and insurance.

Million VND	Petroleum business (*)	Petrochemical businesses	Gas business	Insurance business	Banking business	Other businesses	Total
<b>2010</b>							
<b>Net revenue</b>	117,369,017	5,231,120	2,460,267	1,580,485	1,585,253	8,962,253	137,188,395
<b>% of net revenue</b>	86%	4%	2%	1%	1%	7%	100%
<b>Cost price</b>	112,242,585	4,310,708	2,076,075	1,159,752	1,027,101	8,698,328	129,514,549
<b>% of cost price</b>	87%	3%	2%	1%	1%	7%	100%
<b>Gross profit</b>	5,126,432	920,412	384,192	420,733	558,152	263,925	7,673,846
<b>% of gross profit</b>	67%	12%	5%	5%	7%	3%	100%

Source: Audited FS of PLX

### Crucial factors that have impact on PLX's bottom line:

❖ **Output growth:** Growth forecast for output growth of PLX will grow at a rate equivalent to that of GDP, i.e. 6-8%. PLX will maintain a consistent market share of above 50% in the coming years. Specifically:

- Gasoline: average growth rate at 9%/year.
- DO: average growth rate at 5%/year.
- FO: average growth rate at 3%/year.
- Kerosene: no growth

In the first 9 month of 2011, PLX output plan is 6.98mil tons, and output plan for 4Q11 is 2.19mil tons. Total distribution volume of PLX in 2011 grows at 3% as compared to 2010.

### Output of PLX and its peers.

	2011	PLX	Petec	PVOil
Distribution volume (m3, tons)		9,171,000	1,570,000	5,800,000*
Profit before tax target (bn VND)		2,110	50**	n/a

\* Distribution volume of PVOil is in 2010

\*\* 50bn VND is the target for the last 7 months of 2011 of Petec, while the company made a loss in the first 5 months

❖ **Cost structure:** In distribution of petroleum products, the largest weight in cost structure is COGS (92 - 97% of total revenue). Selling expense usually accounts for about 3-4% of total revenue of PLX. Global fluctuations of oil price therefore have a big influence on COGS of PLX and other petroleum suppliers. Note that according to Decree No. 84, (1) adjustments in the domestic gasoline retail price lag behind global price changes for a period of time, and (2) petroleum importers (PLX being the biggest) are required to maintain a minimum reserve lasting for at least 30 days. Due to these two regulations, when world oil price increases sharply and domestic prices have not yet adjusted, importing and storing reserves of oil in large volumes means the importers has to bear substantial risks. However, in the opposite scenario where world oil price decreases, the importers' profit margin can be improved.

If oil prices remain stable or does not fluctuate greatly, petroleum importers will benefit from a stable profit margin on total output (Profit margin is higher in the retail segment)

### Profit margin and cost structure of PLX

Description	2007A	2008A	2009A	2010A
Net revenue	83,340,156	120,531,806	103,501,181	137,188,394
<i>Net revenue growth %</i>		45%	-14%	33%
COGS	80,523,953	113,663,458	94,403,395	129,514,549
<i>COGS as % of revenue</i>	97%	94%	91%	94%
<b>Gross profit</b>	<b>2,816,204</b>	<b>6,868,348</b>	<b>9,097,787</b>	<b>7,673,845</b>
<b><i>Gross profit margin</i></b>	<b>3%</b>	<b>6%</b>	<b>9%</b>	<b>6%</b>
Selling expense	1,815,766	3,011,323	3,695,213	4,664,116
<i>Selling expense as % of revenue</i>	2%	2%	4%	3%
Administration expense	336,982	457,578	646,771	885,439
<i>Administration expense as % of revenue</i>	0.4%	0.4%	0.6%	0.6%
<b>Operating profit (EBIT)</b>	<b>663,455</b>	<b>3,399,447</b>	<b>4,755,803</b>	<b>2,124,290</b>
<b><i>Operating profit margin</i></b>	<b>0.8%</b>	<b>2.8%</b>	<b>4.6%</b>	<b>1.5%</b>
Financial income	557,675	804,987	444,669	563,464
<i>Financial income as % of revenue</i>	0.7%	0.7%	0.4%	0.4%
Financial expense	707,021	3,053,937	1,695,012	1,762,287
<i>Financial expense as % of revenue</i>	0.8%	2.5%	1.6%	1.3%
Interest expense	526,855	828,616	487,769	537,027
<b>Gain/Loss from financial activities</b>	<b>(149,346)</b>	<b>(2,248,950)</b>	<b>(1,250,343)</b>	<b>(1,198,823)</b>
Other income	261,825	157,780	270,347	326,372
Other expense	141,078	112,146	125,706	126,965
<b>Gain/Loss from other activities</b>	<b>120,746</b>	<b>45,634</b>	<b>144,641</b>	<b>199,407</b>
Equity income	48,169	70,580	223,382	257,484
<i>Equity income as % of PBT</i>	7%	6%	6%	19%
<b>Earnings before income tax</b>	<b>683,025</b>	<b>1,266,711</b>	<b>3,873,482</b>	<b>1,382,358</b>
<b><i>Earnings before income tax margin</i></b>	<b>0.8%</b>	<b>1.1%</b>	<b>3.7%</b>	<b>1.0%</b>

Description	2007A	2008A	2009A	2010A
Tax provision	120,968	183,452	478,811	457,495
<i>Tax provision as % of PBT</i>	18%	14%	12%	33%
<b>Net earnings</b>	<b>562,058</b>	<b>1,083,259</b>	<b>3,394,671</b>	<b>924,863</b>
<b>Net earnings margin</b>	<b>0.7%</b>	<b>0.9%</b>	<b>3.3%</b>	<b>0.7%</b>
<i>Attributable to:</i>				
Minority interest	286,030	171,592	301,619	389,771
% of minority interest	50.9%	15.8%	8.9%	42.1%
Equity holders of the parent	276,027	911,667	3,093,052	535,092
Number of shares	-	-	442,224,582	498,090,900
EPS			7,676	1,074
<b>ROE</b>			53%	14%
<b>ROA</b>			9%	2%

- ❖ **Inventories:** With the requirement to keep reserve for a period of time, fluctuation in global prices can create a big provision for loss in the value of inventory. However in 2010, as gasoline price is still regulated by the Government, PLX's audited FS did not record any provision for loss in inventory.
- ❖ **The role of Price Stabilization Fund:** In accordance with Decree No. 84, 400VND/liter for petrol and 300VND/liter for other petroleum products will be deducted from every liter of petroleum sold. Although the level of deduction is fixed, the fund usage is flexible case by case. This deduction to the Fund puts pressure on the cost price but the Fund on the other hand acts to compensate for the loss during unfavourable oil price volatility.
- ❖ **Debts and Interest Expense:** Like other petroleum distributors, PLX utilizes debt to finance working capital. Debt/Equity ratio in 2010 was 233%, with short-term borrowings being used to finance working capital accounting for 87% of total debt. Most of borrowing are in USD, including (1) Long-term debt of 66 million USD, of which 45 million USD bears interest rate of 6.6%/year and a 20.9 million USD at SIBOR + premium. This debt is revaluated annually and VND depreciation will cause a loss from exchange rate; (2) Short-term debt equivalent to 20 trillion VND at the end of 2010. However PLX's cash level in VND at the same time is also quite high, at more than 9 trillion VND. This situation happens when PLX already receives sales revenue but has not yet purchased USD to repay the bank and continues to keep its deposit in VND. Because most of its borrowings are in USD, the average interest rate that PLX is currently paying is relatively low (around 5%).

PLX's financial activities are conducted mainly through PG Bank.

FINANCIAL RATIOS	2009A	2010A
<b>Current Liabilities and short-term liquidity</b>		
Current Ratio	108%	101%
Quick Ratio	69%	70%
Cash Ratio	27%	25%
<b>Debt and long term solvency</b>		
Liabilities-to-equity ratio	328%	397%
Debt-to-equity ratio	202%	233%

- ❖ **Demand for USD used for importing:** PLX mainly imports gasoline so its USD demand is high. However, since petroleum is an essential input for the operation of the economy, PLX usually did not encounter too many difficulties in securing its source of USD from the bank.
- ❖ **Taxes:** Taxes make up a large component of gasoline price. There are many taxes in petroleum trading, among which import tax being the most important; it is used as a tool for adjusting retail price, with adjustment rate ranging from 0-40% (current import rate on gasoline being 0%)

Base price = (CIF + Import tax + Special Consumption tax) \* Exchange rate + Fixed cost margin + Price Stabilization Fund + Fixed profit margin + VAT + fuel fees + Other taxes and charges.

PLX's tax payments remain high throughout the years, approximately 25-30 trillion VND/year, with tax liabilities to the state consistently above 2000 billion VND each month.

No.	Target	2007	%	2008	%	2009	%
<b>I.</b>	<b>Taxes</b>	<b>10,616,680</b>	<b>82.08</b>	<b>13,953,674</b>	<b>85.72</b>	<b>23,075,105</b>	<b>81.86</b>
1	VAT on domestic sales	245,720	1.90	385,491	2.37	780,920	2.77
2	VAT on imported goods	6,425,825	49.68	8,943,595	54.94	7,070,158	25.08
3	Special consumption tax	2,268,895	17.54	3,005,557	18.46	2,829,237	10.04
4	Import-export tax	1,565,742	12.10	1,426,299	8.76	12,010,621	42.61
5	CIT	53,882	0.42	127,669	0.78	327,438	1.16
6	Other taxes	56,615	0.44	65,065	0.40	56,731	0.20
<b>II</b>	<b>Fuel fees and other charges</b>	<b>2,318,525</b>	<b>17.92</b>	<b>2,325,187</b>	<b>14.28</b>	<b>5,113,724</b>	<b>18.14</b>
	<b>Total</b>	<b>12,935,205</b>	<b>100.00</b>	<b>16,278,861</b>	<b>100.00</b>	<b>28,188,829</b>	<b>100.00</b>

Source: Petrolimex, mil VND

#### CAPEX plan:

Unit: million VND

No	Content	2011	2012	2013
1	Building and renovation of gasoline stations	263,000	330,000	453,000
2	Building and renovation of Warehouses	288,000	373,000	403,000
3	Building and renovation of ports	14,000	13,000	20,000
4	Upgrading and repairing pipelines	133,000	75,000	110,000
5	Offices	2,000	20,000	32,000
6	Purchasing and repairing equipment	76,000	95,000	95,000
	<b>Total</b>	<b>776,000</b>	<b>906,000</b>	<b>1,113,000</b>

Source: Petrolimex

A big component of the investment project is the building/renovation of gasoline stations and warehouses, including Van Phong bonded warehouse with disbursed cost of 811 billion VND on 31/12/2010. In addition to distribution network expansion, one of PLX's important investment projects in the long run is building the Nam Van Phong refinery. Owning an oil refinery will help PLX reduce its dependence of imports and world oil price fluctuations, as well as improve its rate of return. However, the initial investment will be demanding and operation will also be a great challenge.

The plan to build Nam Van Phong refinery has been ratified by the Prime Minister. Total investment is approximately 4.4 - 4.8 billion USD with debt/equity ratio of 70/30. PLX's plans to raise capital in the coming years will mainly be used to fund this project.

**Capital contribution/divestment plan:** Capital contribution/divestment plans for subsidiaries and associates from 2010 to 2013 are as follows:

Year	Unit: mil VND		
	2011	2012	2013
Investment/divestment at subsidiaries/associates	833,470	601,110	(325,090)

Source: Petrolimex

Capital divestment will mainly take place at PG Bank and PJCO, two businesses in the banking/insurance fields - outside PLX's core industry. As prescribed by the Government, PLX will decrease its percentage of ownership down to 20%.

The increase in capital contribution to subsidiaries/associates in 2011 until now is happening slower than anticipated due to difficult stock market conditions.

### Business Plan and Outlook

- ❖ For its main petroleum business, PLX plans to expand output growth by 6% on average in the coming years. With average consumption level at 7.5-8 million tones/m<sup>3</sup> /year, with minimum effects of world gasoline price volatility, fixed profit margin can bring a profit of more than 2000 billion VND/year to PLX's petroleum business.

To maintain target profit, PLX need to improve the efficiency of price forecast as well as increasing the efficiency of the distribution system, especially the retail system.

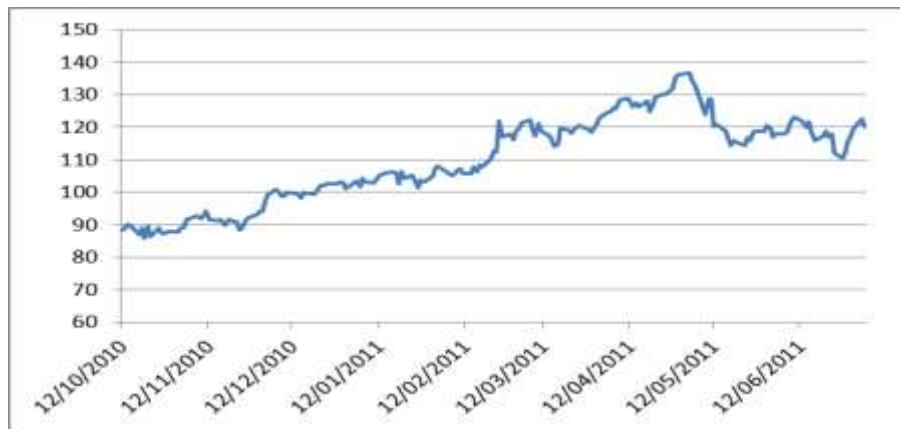
Target	Earning target of holding company				
	2011			2012	2013
	Before equitisation – first 9 months of the year	Plan for remaining 3 months	All 2011		
Chartered Capital	4,980,000	10,700,000	10,700,000	12,000,000	13,500,000
Revenue	121,072,000	40,020,000	161,092,000	189,600,000	200,800,000
Profit before tax	- (*)	648,500	648,500	2,684,000	3,333,000
Profit after tax	-	491,375	491,375	2,109,250	2,605,625

Source: Petrolimex

**1H2011** was a period of sharp increases in world oil & gas prices while domestic gasoline price increase was still adjusted but at a lower level and slower rate to help control inflation and support the economy. This is the main reason why petroleum/gas distribution businesses encountered great difficulty in the first quarter and many suffered loss including PLX. However at the end of the second quarter, with the Government's effort to control inflation and the global economy still not recovering as forecasted, oil price has stabilized and the business situation of petroleum suppliers has gradually improved. As a result, expected loss from gasoline distribution of

PLX in the first 9 months of 2011 is 1,220 billion VND. However it should be noted that this happened during the period before equitisation, so the entire loss was handled by the State and recorded profit for 2011 of *holding company* will be profit of 4Q11.

**Fluctuations in price of RON92 gasoline, FOB Singapore**



Source: Bloomberg

Apart from profit generated from core business area, profit after tax of subsidiaries/associates belonging to other business areas (petrochemicals, gas, transportation, ports, construction, banking, insurance, etc) can reach 1000 billion VND/year in normal business condition. The biggest contributor to profits within the subsidiaries is PGBank (40% ownership by PLX), sea transportation group (51% ownership by PLX) and PLC (PLX owns 79%).

Target	Unit	2011	2012	2013
<b>Petrolimex petrochemical Company – PLC (PLX owns 79%)</b>				
Charter Capital	Mil VND	500,000	500,000	700,000
Total revenue	"	5,931,957	6,300,000	7,300,000
Profit before tax	"	241,500	341,700	374,080
Profit after tax	"	181,125	256,700	281,580
Dividends	%	15%	15%	15%
<b>Petrolimex Gas Company (52%)</b>				
Charter Capital	"	375,000	500,000	500,000
Total revenue	"	2,182,000	2,403,000	2,575,000
Profit before tax	"	27,000	82,952	103,179
Profit after tax	"	20,203	60,552	75,179
Dividends	%	5%	12%	12%
<b>Petrolimex Insurance Company(51%)</b>				
Charter Capital	"	709,000	709,000	800,000

Target	Unit	2011	2012	2013
Total revenue	"	2,247,700	2,698,000	3,238,000
Profit before tax	"	135,000	143,516	165,346
Profit after tax	"	101,250	107,637	124,010
Dividends	%	13%	12%	12%
<b>Petrolimex joint-stock commercial bank – PG Bank (40%)</b>				
Charter Capital	"	3,000,000	3,000,000	5,000,000
Total revenue	"	2,752,000	3,302,000	3,962,000
Profit before tax	"	560,375	582,802	863,315
Profit after tax	"	420,380	437,100	622,449
Dividends	%	12%	12%	12%
<b>Waterway transportation Co (approx. 51%)</b>				
Charter Capital	"	1,950,600	2,350,600	2,350,600
Total revenue	"	3,998,000	4,684,000	5,152,000
Profit before tax	"	294,014	384,653	473,431
Profit after tax	"	211,690	276,950	340,870
Dividends	%	8%	10%	12%
<b>Petroleum Services Co</b>				
Charter Capital	"	219,000	369,000	519,000
Total revenue	"	3,700,000	4,093,000	4,560,000
Profit before tax	"	44,000	73,800	103,800
Profit after tax	"	33,000	55,350	77,850
Dividends	%	12%	12%	12%
<b>Construction company (30%)</b>				
Charter Capital	"	361,000	500,000	500,000
Total revenue	"	2,418,000	2,974,000	3,569,000
Profit before tax	"	48,133	100,000	110,000
Profit after tax	"	39,725	79,000	86,875
Dividends	%	8%	12%	12%
<b>Other units: PIT,PJF,PIAC,PTN, Vân Phong Warehouse Co.</b>				

Target	Unit	2011	2012	2013
Charter Capital	"	836,000	857,000	857,000
Total revenue	"	3,031,000	3,940,300	4,728,360
Profit before tax	"	111,467	125,693	148,547
Profit after tax	"	83,600	94,270	111,410
Dividends	%	8%	10%	12%

Source: Petrolimex, mil VND

In 2011, due to difficulties in 1H as mentioned above, net profits of PLX targets is 1663 billion VND (of which profit from holding company is 491bn VND), EPS at 1079VND, similar to last year's EPS of 1074VND. At share price of 15,000VND/share, 2011PE is 13.9x.

## Comparison

We have collected information about businesses in the same sector with PLX for reference and to aid investment decision-making. The search criteria used to select the companies below is similar revenue to PLX (about 7 billion USD) and operating in emerging markets. We consider the following criteria: Revenue, Capitalization, PE2011, Operating Margin and Debt/Asset ratio. Most of the companies we have found combine oil refining with distribution, except for Petronas Daganga and Park State Oil. However, in the future when Nam Van Phong oil refinery comes into operation, PLX will become a similar model to these companies.

Ticker	Short Name	Country	Revenue T12M (USD)	Market Cap (USD)	P/E	EPS T12M	Operating margin (%)	Debt/Assets	Description
PCOR PM Equity	PETRON CORP	Phillipines	5,334,595,642	3,210,100,480	16.4	0.0	10.9	46.1	refine, service stations
TOP TB Equity	THAI OIL PCL	Thailand	11,318,325,855	4,991,201,792	10.7	0.2	9.2	28.8	refining and wholesalers
PSO PA Equity	PAK STATE OIL	Pakistan	9,017,978,471	528,601,792	4.2	0.7	3.4	10.3	marketing and storage
ESOIL IN Equity	ESSAR OIL LTD	India	7,706,321,835	3,761,266,176	457.2	0.0	1.0	46.7	refine, marketing and sell
PETD MK Equity	PETRONAS DAGANGA	Malaysia	7,426,146,460	5,351,049,728	18.4	0.3	4.9	0.2	marketing & operate service stations
ESSO TB Equity	ESSO THAILAND	Thailand	6,266,220,582	1,284,324,992	8.5	0.0	7.7	33.0	refine, marketing and sell
BCP TB Equity	BANGCHAK PETROLE	Thailand	4,447,992,654	880,901,824	8.3	0.1	6.8	30.6	refinery and service stations, state-owned

## RISKS

- ❖ **Unfavourable fluctuations in world petroleum prices:** In our opinion this is the biggest risk for PLX. Due to the special management mechanism on petroleum products in Vietnam as mentioned above, suppliers will encounter difficulties when world petroleum prices increase.
- ❖ **Competition:** Currently the number of petroleum importers in Vietnam is quite large (13), while in other countries like China and Malaysia petroleum supply is concentrated to only a few suppliers that allow more effective operation. There are currently too many distributors causing fierce competition and overlaps in the distribution

system. If companies make profits when world petroleum prices fall, competition between companies may push up their agents' commission rate, and this is not efficient for the economy.

PLX's biggest competitor is PVOil (subsidiary of PVN), also actively expanding through many ways including mergers and acquisitions with smaller petroleum distribution companies and cooperation with convenience store chain Circle K recently.

- ❖ **Smuggling** due to difference in domestic and foreign prices of petroleum. When world prices increase sharply while domestic prices have not yet adjusted, smuggling activities (buying petroleum domestically and selling across the border to take advantage of the price difference) take place, resulting in losses to importers (who need to maintain reserves) as well as the whole economy.
- ❖ **Exchange rate:** VND/USD exchange rate increases have negative effects on the rate of return because importers have to use USD to import while selling price may have not yet adjusted. In addition, a depreciating VND has negative effects on PLX's foreign currency loans.
- ❖ The State's petroleum importers have the role of ensuring supply to the market, including to remote locations, highlands etc, where demand is low and transportation cost is high. PLX is the biggest importer therefore needs to fulfill this role. For a long initial period this will increase costs for PLX. However, when the domestic economy grows PLX will already have the facilities to meet growing consumption demand. All petroleum supplies to remote areas are currently provided by PLX.
- ❖ Due to prolonged petroleum price subsidy scheme, consumers find it hard to accept adjustments to increase petroleum prices, even by low percentages.
- ❖ While domestic petroleum consumption demand is met by two sources, imports and domestic production, if import tariff stays high (maximum 40%) oil refineries will lack incentives to keep costs down because they are protected from international competition via high import taxes.

## CONCLUSION

As the first established petroleum company in Vietnam, PLX has considerable business advantages due to its large-scale assets with advantageous business location, and extensive system of wholesale and retail with the highest market share in the country. Although there are particular limitations and risks if world oil prices rise steeply, in the future when the petroleum market is totally regulated by the market mechanism, PLX will have outstanding advantages to expand and achieve high profitability.

In 2011, PLX has been adversely affected by movements in world gasoline price. PLX's consolidated net profit target is 1663bn VND, EPS is 1079VND, similar to last year's EPS at 1074VND. At share price of 15,000VND/share, 2011PE is 13.9x. In 2012, PLX targets net profit of 2947bn VND, at which 2012 EPS is calculated at 2456VND and PE at 6x. We believe in PLX potentials in the long term.

## APPENDIX

## IPO INFORMATION

In the IPO, PLX plans to issue an additional 53,598,133 shares, equivalent to 5.01% charter capital of Petrolimex. Share issuance structure is as follows:

No.	Shareholders	Number of shares	Value	Percentage of charter capital
1	<b>Government</b>	<b>1.016.401.867</b>	<b>10.164.018.670.000</b>	<b>94,99%</b>
2	<b>Public</b>	<b>53.598.133</b>	<b>535.981.330.000</b>	<b>5,01%</b>
2.1	Employees	21.172.200	211.722.000.000	1,98%
2.2	Trade Union (estimated)	5.000.000	50.000.000.000	0,47%
2.3	External investors (other)	27.425.933	274.259.330.000	2,56%
3	<b>Total</b>	<b>1.070.000.000</b>	<b>10.700.000.000.000</b>	<b>100,00%</b>

**Note:** Shares sold to employees and Trade Union is priced at 60% of successful bidding price in IPO

Unit: VND

Most of raised capital will be allocated to Nam Van Phong refinery project; investment in subsidiaries/associates and other CAPEX plan.

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