

Industry : Petrochemical (Latest update report: [Link](#))

Petrolimex Petrochemical Corporation - JSC (HNX: PLC)

The surging of asphalt

Recommendation BUY

Current price:	24,500	Date:	11/11/2020	Shareholder's structure	
Previous target price	18,800	Outstanding shares (million)	80.8	PETROLIMEX	79.1%
Target price:	34,700	Capitalization (billion VND)	1,939	VU VAN CHIEN	0.5%
Dividend yield	5.8%	Avg. 6m Trading vol:	416,027	ANDBANK ASSET MANAGEMENT	0.4%
Upside	42%	% foreign float	1.09%	NGUYEN VAN DUC	0.2%

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Target price: 33,500 VND
Stop-loss price: 21,500 VND

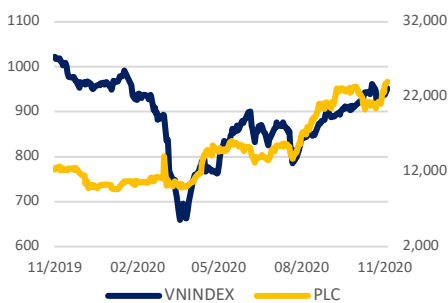
Valuation

- BSC raised its recommendation from MONITOR to **BUY** for PLC stock and raised its 2021 target price to **34,700 VND/share** (+42% compared to the price on November 10, 2020) due to stock reevaluation and forecast improvement of the 2021 business results report. We raise our 2021 target PE from 10x to 11x

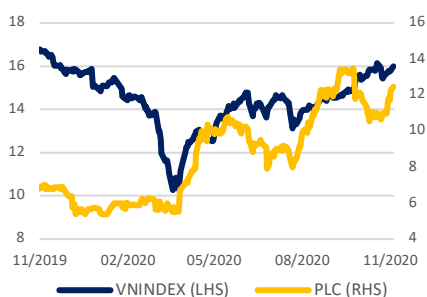
Performance forecast

- 2020: Revenue = **5,498 billion VND** (-11% yoy) and NPAT = **170 billion VND (+17% yoy)**, EPS FW 2020 = **2,106 VND/share**. Assume (1) asphalt production +25% yoy, (2) lubricant production -10% yoy, and (3) chemical yield -35% yoy.
- 2021: Net Revenue = **6,649 billion VND** (+21% YoY) and NPAT = **255 billion VND (+50% YoY)**, EPS FW 2021 = **3,153 VND/share**. Assume (1) asphalt production +30% yoy, and (2) lubricant production and light recovery chemicals +10% yoy.

Bảng so sánh giá CP và VN- Index



Bảng so sánh P/E và VN index



Catalyst

- The North-South Expressway investment project brings growth prospects to the material industry, including asphalt.

Investment thesis

- Low oil prices help improve PLC's GPM.** It is estimated that for every 1 USD decrease in oil price, PLC's gross profit margin improves by 0.3%
- Trung Luong – My Thuan Expressway project accelerates progress, crNPATing +25% yoy growth in short term (2020-2021) for PLC's asphalt segment.
- North South Expressway project** accelerates progress and converts to Public Investment, crNPATing and average growth engine of +30% yoy in the period 2021-2023 for PLC's asphalt segment.

Investment risk

- Bad debts from public investment projects due to procedures and slow disbursement progress.

Business update

- Revenue and NPAT of 9M2020 reached **VND 3,914 billion (-10% yoy)** and **VND 124 billion (+10% yoy)**, respectively, completing 78% of the revenue plan and 120% of the 2020 profit plan thanks to a strong increase in asphalt demand and low oil prices.

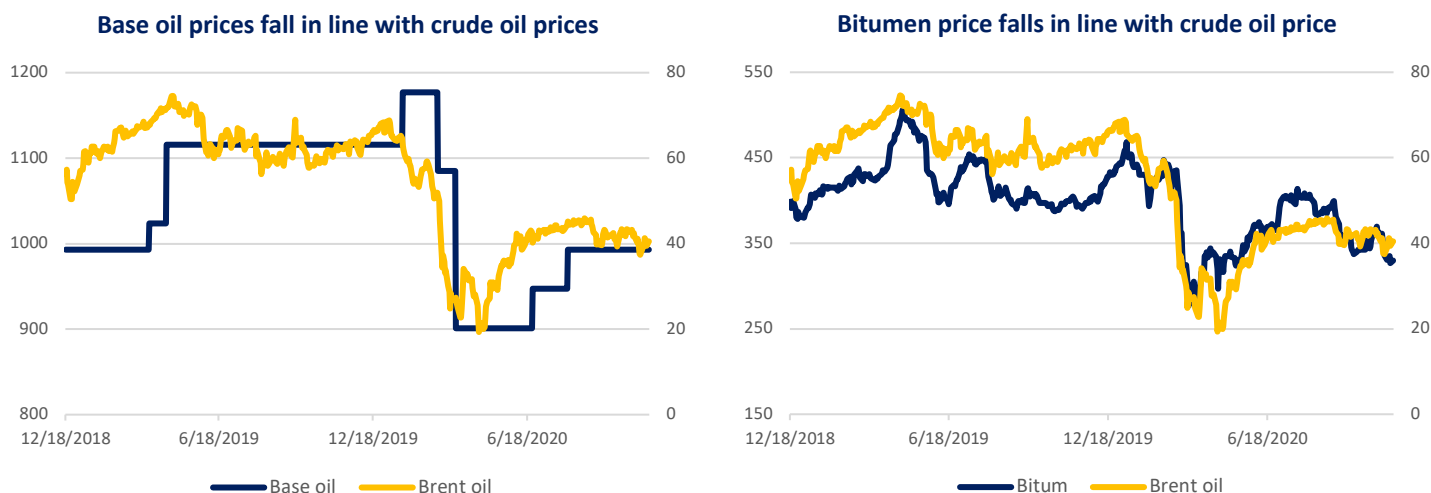
	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	7.0	11.4	12.7	14.7	Revenue	6,434	6,160	5,498	6,649
PB (x)	0.8	1.4	1.1	2.0	Gross profit	871	841	867	1,133
PS (x)	0.2	0.3	0.9	1.5	NPAT	153	145	170	255
ROE (%)	11.0	12.6	6.3	13.3	EPS	1,893	1,797	2,106	3,153

ROA (%)	3.1	3.8	3.9	2.4	EPS growth	-11%	-5%	17%	50%
EV/ EBITDA (x)	8.0	8.2	8.2	14.0	Debt/ Equity	1.70	1.30	1.30	0.99

INVESTMENT THESIS

(1) Low oil prices help improve PLC's Gross profit margin. It is estimated that for every 1 USD decrease in oil price, PLC's Gross profit margin improves by 0.3%.

The average price of Brent oil in 9M2020 reached 41 USD/barrel (-36% yoy). Along with that, the price of base oil (the main raw material of lubricants) and the price of bitumen (the main raw material of asphalt) in 9 months also decreased by -7% yoy and -12% yoy, respectively.



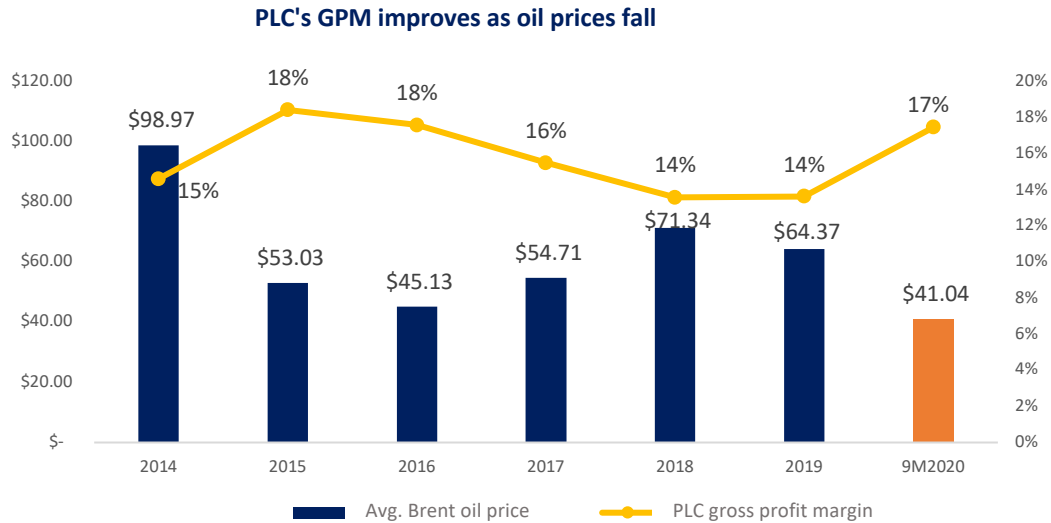
Source: Bloomberg, BSC Research

Large global organizations and institutions all forecast the average Brent oil price in 2020 at about 40-42 USD/barrel and the average price in 2021 at about 47-51 USD/barrel. BSC also considers the oil price of 41 USD/barrel as reasonable to use as the base scenario for the 2020 forecast. However, due to many uncertain factors affecting the oil price recovery next year, we cautiously using the price of 45 USD/barrel as the base scenario for the forecast for 2021.

Brent oil price	2019A	2020F	2021F	Forecasting date
EIA	64.37	41	47	T10/2020
Morgan stanley	64.37	40	-	T5/2020
JP Morgan	64.37	40	47	T7/2020
Goldman Sachs	64.37	42	51	T9/2020

Source: BSC Research

The low oil price had a positive impact on the gross profit margin of PLC's two key business segments, Lubricants and Asphalt, by reducing the cost of petroleum-based raw materials. It is estimated that for every 1 USD decrease in the average annual oil price, PLC's gross profit margin will improve by about 0.3% (assuming other factors remain unchanged).

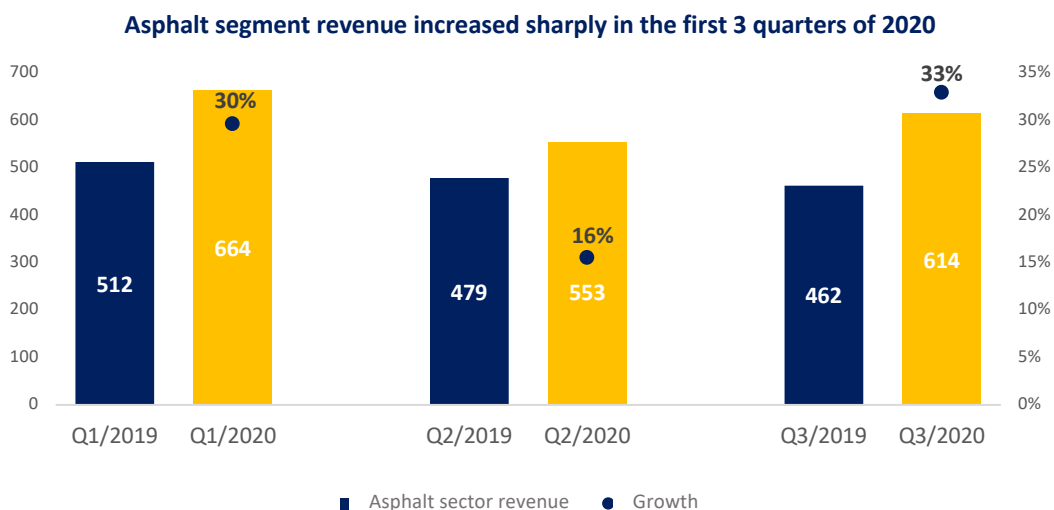


Source: PLC, BSC Research

(2) Trung Luong – My Thuan Expressway project is accelerated, creating a growth engine of +30% yoy in the short term (2020-2021) for PLC's asphalt segment.

The Trung Luong – My Thuan expressway project with a total length of 51.1 km has been started for 10 years (since 2009) but stalled due to many problems. However, from the beginning of 2020, the project has removed all difficulties and obstacles, speeded up the progress, completed the handover of 100% of the site, disburse state capital and credit capital according to the project schedule.

Currently the project has completed 60% of the work volume, is expected to open in December 2020 and complete by the end of Q2/2021 in order to synchronously connect to the entire Ho Chi Minh City – Can Tho – Ca Mau route as planned. At this stage, many bidding packages and construction units are conducting asphalt pavement. This has motivated PLC's 9M2020 asphalt segment revenue to grow by +26% yoy



Source: PLC, BSC Research

In 2021, BSC assesses that PLC's asphalt segment will continue to grow by +25% yoy thanks to the motivation from the Trung Luong – My Thuan expressway project to complete the road surface phase.

(3) North – South expressway project accelerates progress and converts to Public investment. CrNPATing an average growth engine of +30% yoy in the period 2021-2023 for PLC’s asphalt segment.

The north-south east route from Hanoi to Can Tho is 1,800 km long (654 km of which is expressway) under 11 component projects. Total capital is expected to be over 118,000 billion VND, including 55,000 billion VND of the State capital and more than 63,000 billion VND mobilized from outside the budget. Currently, 6 component projects have been started, expected to be completed in the period of 2022-2023

From 03 component projects that were initially planned for public investment, there are now 03 more projects converted to public investment form and 02 projects are being considered for conversion. The transition to public investment has a positive impact on construction material suppliers (including PLC) by speeding up disbursement and limiting bad debts.

North – South expressway component project

Projects	Length (km)	Estimated capital (tỷ VND)	Estimated starting time	Estimated finishing time	Investment form
Cao Bo – Mai Son	15	1,600	09/2019	2021	
Cam Lo – La Son	98	7,670	11/2019	2021	Public investment
My Thuan bridge 2	7	5,000	02/2019	2021	
Mai Son – Highway 45	63	12,920	09/2020	2022-2023	Public investment (converted from PPP)
Vinh Hao – Phan Thiet	101	11,600	09/2020	2022-2023	
Phan Thiet – Dau Giay	99	14,360	09/2020	2022-2023	
Highway 45 – Nghi Son	43	6,330	2021	2022-2023	PPP (considering conversion to public investment due to failure to select investors)
Nghi Son – Dien Chau	50	8,380	2021	2022-2023	
Dien Chau – Bai Vot	50	13,340	2021	2022-2023	PPP (finished selecting investors as contractors)
Nha Trang – Cam lam	49	6,715	2021	2022-2023	
Cam Lam – Vinh Hao	78	13,690	2021	2022-2023	

Source: BSC Research

With a 25-30% market share of Vietnam's asphalt, PLC has grNPAT competitiveness to benefit from the North-South expressway project in the long term. PLC's hot solid asphalt products (accounting for 80% of output) are not much different from competitors. However, PLC has a much larger production capacity than its competitors (about 350,000 tons/year), a system of 7 factories covering the whole country, many warehouses and a distribution system through PLX's stores.

However, the asphalt array will only really benefit at the end of these projects when the pavement is completed. Therefore, PLC's asphalt segment is expected to start recording strong growth (+30% yoy on average) from the end of 2021 to the beginning of 2022.

BUSINESS UPDATE

9M2020 – Growth despite the epidemic thanks to increased asphalt demand and improved gross profit margin

In 9M2020, PLC recorded revenue = **3,914 billion VND (-10% yoy)**, NPAT = **124 billion VND (+10% yoy)**, completing **78% of the revenue plan** and **120% of the 2020 profit plan** due to the following factors:

- **Asphalt segment +26%** thanks to:
 - Obstacles have been removed from the Trung Luong – My Thuan Expressway project, speeding up disbursement and construction
 - The project of Ring Road 2, Ring Road 3 in Hanoi rush to complete the final stages.
- **Sales of Lubricants -6% yoy** due to the impact of the Covid-19 epidemic causing interruption of production and transportation activities.
- **Sales of the Chemicals segment -42% yoy** due to the impact of the Covid-19 epidemic and low oil prices.
- **Gross profit margin improved to 17%** (compared to 14% in the same period last year) thanks to lower raw material costs in line with oil prices

FORECAST OF BUSINESS PERFORMANCE

PLC's 9M2020 business result were better than our expectations in the most updated report dated 15/05/2020 ([Link](#)). Therefore, BSC adjusts PLC's forecast as follows:

2020 – Profit growth thanks to increased asphalt demand and falling oil prices

In 2020, BSC forecasts that PLC will achieve net income = VND 5,498 billion (-11% yoy) and NPAT = VND 170 billion (+17% yoy), equivalent to EPS = 2,106 VND/share based on the following assumptions:

- Asphalt output +25% yoy thanks to increased demand for Trung Luong – My Thuan Expressway projects, Ring Road 2, and the Ring Road 3 projects in Hanoi.
- Lubricant output -10% yoy due to reduced demand for production, transportation and consumption of new vehicles.
- Chemical output -35% yoy due to decrease in industrial production demand.
- GPM improved from 14% to 16%..
- The average crude oil price in 2020 is at USD 41/barrel.

2021 – Strong growth thanks to the wave of public investment

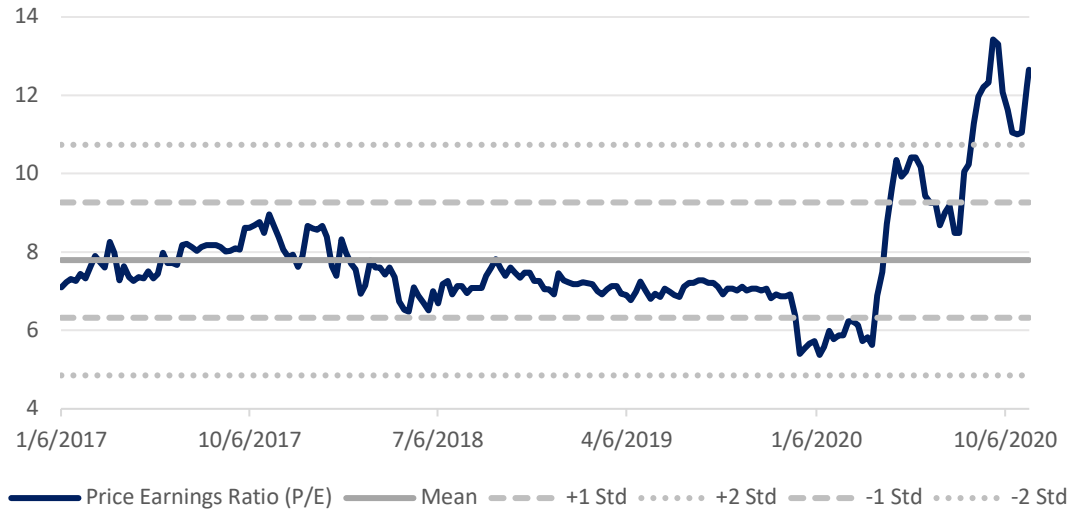
In 2021, BSC forecasts that PLC will reach a revenue of VND 6,649 billion (+21% yoy) and a net profit of VND 255 billion (+50% yoy), equivalent to EPS = VND 3,153 per share based on the following assumptions:

- Asphalt output +30% yoy thanks to increased asphalt demand for Trung Luong - My Thuan Expressway project, and North – South Expressway project.
- Lubricant output +10% yoy thanks to recovery in demand for production, transportation and consumption of new vehicles.
- Chemical output +10% yoy due to slow recovery of industrial demand.
- Gross profit margin reached 17%.
- Average crude oil price in 2021 is at 45 USD/ barrel.

VALUATION - ATTRACTIVE

BSC recommends BUY for PLC shares with a fair value of in 2021 of VND 34,700/share. This price is equivalent to upside 42% (according to the closing price on 11/10/2020 is 24,500). We raise the target P/E 2021 from 10x to 11x, 1.5 times higher than the 3 - year average P/E of 3 years 2017-2019 of 7.4x, as BSC assesses that PLC will benefit from strong growth from projects public investment in the coming period.

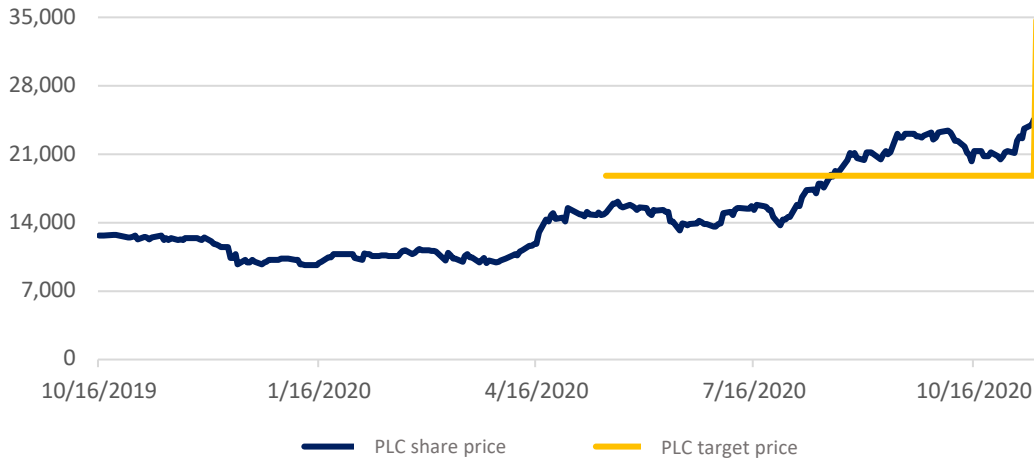
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Source: Bloomberg

The increase in PLC stock price in the recent period also partly reflects the expectation of business results growth in the near future when investment projects on roads and airports increase sharply again.

PLC share price movement and target price



Source: Bloomberg, BSC Research

APPENDIX

IS (billion VND)	2018	2019	2020F	2021F	CF (billion VND)	2018	2019	2020F	2021F
Net revenue	6,434	6,160	5,498	6,649	Profit after tax	194	185	214	320
Cost of Goods sold	(5,563)	(5,319)	(4,631)	(5,516)	Depreciation	135	170	207	205
Gross profit	871	841	867	1,133	Change in networking capital	(471)	441	(192)	10
Selling expense	(490)	(469)	(473)	(606)	Other adjustments	-	-	-	-
Administrative expense	(96)	(105)	(110)	(127)	CF from operating activities	(142)	796	228	535
Operating income	286	267	283	400	Fixed asset investment	(222)	(202)	(225)	(84)
Financial income	32	44	62	56	Other investment	(67)	(149)	-	-
Financial expense	(111)	(137)	(132)	(131)	CF from investing activities	(272)	(300)	(198)	(84)
Interest expense	(86)	(127)	(124)	(115)	Dividend paid	(161)	(129)	(113)	(113)
Profit/ Loss from affiliates	(20)	(12)	(6)	(12)	Cash from net borrowing	595	(534)	82	(289)
Other gains/ Losses	8	24	7	7	Other revenue	-	-	-	-
Profit before tax	194	185	214	320	CF from financing activities	433	(663)	(31)	(403)
Tax payment	(41)	(40)	(43)	(65)	Cash & cash equivalent, beginning of the year	565	584	417	416
Profit after tax	153	145	170	255	Cash during the year	19	(167)	(1)	48
Minority interest	-	-	-	-	Cash & cash equivalent, end of the year	584	417	416	464
NPAT - minority interest									
EBITDA	231	212	201	309					
EPS									
	1,766	1,599	2,106	3,153					

BS (billion VND)	2018	2019	2020F	2021F	Ratio (%)	2018	2019	2020F	2021F
Cash & cash equivalent	584	417	416	464	Liquidity ratios				
Short-term investment	111	260	260	260	Current ratio	1.10	1.09	1.12	1.16
Account receivable	1,879	1,569	1,540	1,676	Quick ratio	0.77	0.77	0.78	0.81
Inventory	1,139	990	991	1,039	Solvency ratios				
Other current assets	84	73	89	35	Debt/ Total asset	0.73	0.70	0.69	0.67
Current asset	3,796	3,308	3,296	3,475	Debt/ Equity	2.66	2.38	2.23	2.05
Tangible asset	1,275	1,436	1,661	1,744	Efficiency ratios				
Depreciation	(601)	(673)	(755)	(845)	Days of inventory	62.85	73.04	78.07	67.15
Long-term assets in progress	163	187	34	34	Days of receivable	97.71	102.13	103.19	88.28
Long-term investment	44	32	32	32	Days of payable	59.66	89.03	97.65	84.93
Other non-current assets	167	165	173	182	CCC	100.91	86.14	83.61	70.50
Non-current asset	1,059	1,156	1,154	1,156	Profitability ratios				
Total asset	4,854	4,464	4,450	4,631	Gross profit margin	14%	14%	16%	17%
Account payable	1,259	1,396	1,242	1,571	Net profit margin	2%	2%	3%	4%
Short-term debt	2,160	1,605	1,677	1,398	ROE	12%	11%	12%	17%
Other current liabilities	22	23	23	23	ROA	4%	3%	4%	4%
Current liabilities	3,441	3,024	2,941	2,992	Valuation				
Long-term debt	88	109	120	109	PE	7.36	6.95	11.40	11.10
Other long-term debt	0	10	10	10	PB	0.85	0.76	1.42	1.86
Non-current liabilities	88	119	130	119	Growth				
Total liabilities	3,530	3,143	3,071	3,111	Net revenue growth	27%	-4%	-11%	21%
Paid-in capital	808	808	808	808	EBIT growth	2%	6%	15%	29%
Capital surplus	4	4	4	4	Profit before tax growth	-10%	-4%	15%	50%
Retained earnings	154	143	194	327	EPS growth	-11%	-5%	17%	50%
Other equity	359	367	373	382					
Minority interest	-	-	-	-					
Owner's equity	1,325	1,322	1,379	1,520					
Total resources	4,854	4,464	4,450	4,631					
Outstanding shares	81	81	81	81					

Source: BSC Research.

Disclosure

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