Petrovietnam Transportation Corporation

PVTrans • PVT

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Ownership

State	43,200,000	60.00%
Foreign	2,066,400	2.87%
Domestic	26,733,600	37.13%
Outstanding shares	72,0000,000	100.00%

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RICH VALUATION!!! NOT RATED

Company's Statistics

Exchange	Ho Chi Minh City Stock Exchange	Last price	VND18,100 • US$ 1.13
Sector	Oil Transportation	Expected EPS	VND417 • US$ 0.03
Index weight	0.69%	Trailing EPS	VND310• US$ 0.02
Market cap.	VND1,303bn • US$81.5mn	BPS	VND9,948 • US$ 0.62
52-week range	VND96,000 – VND18,100	Hist DPS	VND200 • US$ 0.01
30-day average daily turnover	US$0.02mn	Dividend yield	1.1%
Beta	n.a.	Expected PER	43.4x
ROCE	6.3%	P/BV	1.8

Investment Highlights

Sole domestic crude oil export transporter. PetroVietnam Transportation Corporation (PVT) is the only domestic shipping company to transport crude oil abroad for PetroVietnam (PVN). The Group has also been authorized by PVN to provide all oil transportation services for the upcoming oil refineries starting with Dung Quat refinery which is expected to commence operation in 1H2009. This could boost its domestic transportation volume to at least 10mn tonnes from 2009 – 2012 from the current 1.5mn tonnes. The volume will be more than double when Nghi Son Refinery comes on streams in 2013 consuming 10mn tonnes of crude oil in the first phase then increasing to 20mn tonnes annually in the second phase.

Expect double digit growth in top and bottom lines for FY08. We expect the Group's revenue and net earnings to increase by 83.4% and 38.0% respectively for FY08 driven by consolidation of financial results of quasi subsidiaries, contract extension from its regular consumer and addition of a new 40,000-50,000 deadweight tonnes (DWT) oil product tanker.

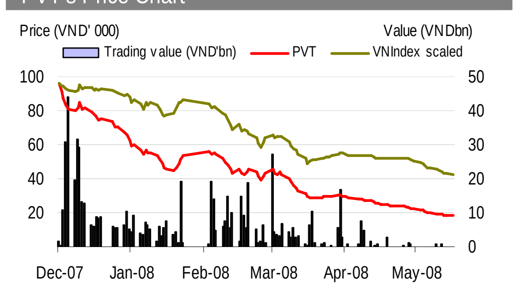
Richly valued!!! The Group is currently trading at an expected PER of 43.4x, which we deem to be expensive compared with its global peers that trade at an average PER of 13.6x. Furthermore, PVT has planned to issue an additional 75.6mn shares worth US$47mn in 2008 to fund their purchase of new vessels. The massive amount of share issuance could well significantly dilute the Group's EPS in FY08, although we believe management may potentially defer the new share issuance in view of the current weak market condition.

Remain optimistic of the Group's prospects!! Nonetheless, we are optimistic of the Group's long term prospect with the expected recovery in tanker spot rate upon the complete phase out of single hull tankers, aggressive fleet expansion and the increased demand with the commencement of operations in Dung Quat port.

Analysis of Share Performance

PVT has underperformed the general market since its listing on the 11th of December 2007. Its share price has fallen sharply by 81% compared with the decline in VN Index of 56%. Foreign interests on the stock remain modest with foreign ownership remains at 2.87%. We believe that this is mainly due to the disappointment with regards to its financial performance in 2007 and concern of potential earnings dilution with regards to its upcoming new share issuance.

PVT's Price Chart



Earnings Outlook

Volatile historical financial performance…. PVT's earnings have been volatile in the past two years in line with the fluctuation of global oil tanker rates. The Group suffered a 35.9% decline in net earnings in 2007 primarily due to lower oil tanker spot rates coupled with rising fuel costs.

Expect double digit growth in top and bottom lines for FY08. We expect the Group's revenue and earnings to increase by 83.4% and 38.0% respectively for FY08 driven by the following factors:

- Consolidation of financial results of quasi subsidiaries (note: Please refer to appendix 3 for the explanation of quasi subsidiaries).
- Contract extension from its regular consumer.
- Addition of a new 40,000-50,000 deadweight tonnes (DWT) oil product tanker.

Consolidation of quasi subsidiaries to boost financial performance. PVT owns a significant stake in some companies which were not previously consolidated into the Group's financial statements. Management has decided to consolidate these companies in its financial statements in 2008 as 'quasi subsidiaries' which will boost the Group's FY08 revenue and net earnings significantly. These companies include PVT's 35% holding in PVT Gas and up to 33% shareholdings in companies that are engaged in various operations include taxi services, domestic containers, bulk dry transportation and the leasing of floating production, storage and offloading (FPSO).

Continued contract extension in 2008. Although PVT's fleets are operating on short term contracts based on market spot rates, we understand that the Group has managed to replenish sizeable order books for its fleets in 2008 due to the extension of contracts in 2007 with its tanker rates readjusted to the prevailing Worldscale Index (WSI). In addition, the Group has secured a yearly renewal contract for its newly acquired 40,000 – 50,000DWT oil product tanker that serves international routes. The new tanker is scheduled to be operational in June 2008.

Our earnings estimates have been conservative compared with management guidance. Our net earnings estimates of US$1.9mn is lower compared with management guidance since we have not included the potential earnings contribution from the upcoming three new vessels, namely a shipping container, dry bulk vessel and oil product tanker in our forecast. Management believes that these vessels will come on stream by the 4QFY08. Nonetheless, we have not incorporated earnings contribution from these vessels due to the lack of financial information, uncertainties with regards to the purchase and operation schedules of these vessels and the securitization of contracts.

*Optimistic of its prospects……*We remain optimistic of PVT's earnings prospects going forward. The Group plans to expand its fleet size from the current two to forty vessels by 2015 with expected capital requirements of around US$3bn. The Group has also been authorized by PVN to provide all oil transportation services for the upcoming oil refineries starting with Dung Quat refinery which is expected to commence operation in 1H2009. This could boost its domestic transportation volume to at least 10mn tonnes from 2009 – 2012 from the current 1.5mn tonnes. The volume will be more than double when Nghi Son Refinery comes on streams in 2013 consuming 10mn tonnes of crude oil in the first phase then increasing to 20mn tonnes annually in the second phase. Furthermore PVN has formed a strategic alliance with a Kuwaiti partner to supply crude oil to Nghi Son refinery that will enable PVT to expand its operations to Middle East routes over the long term. Finally, although global oil tanker rates are expected to remain soft in the near term, they are likely to recover in the medium term supported by the complete phasing out of single hull tankers by 2011.

Investment Risks

Although PVT is the designated crude oil transporter for PVN for oil export under cost freight (CFR) terms and being authorized as the sole transporter for the upcoming domestic oil refineries, we believe that investing in the Group is subject to the following risk:

Limited fleet size. PVT currently owns only two crude oil tankers with total transportation capacity of 190,000 DWT/day. Therefore, the Group is still not able to meet demand from global oil giants who require a larger transportation capacity. At present, the Group mainly focuses on fulfilling domestic demand. Management plans to expand its fleet size from the current two to forty vessels by 2015 to address the issues.

Volatility in tanker spot rates. PVT has been contracting their Aframax based on the prevailing tanker spot rates using WSI which has exposed the Group to volatility in the global oil tanker rates. This has put the Group in an undesirable position with the decline of oil tanker rate in 2007 as global tanker supply outstrips demand. According to a recent report published by Overseas Shipholding Group Incorporated, global supply of Aframax has increased to 764 vessels (78.3mn DWT) in 2007 compared with 714 vessels (72.5mn DWT) in 2006 since single hull tankers will only be completely phased out in 2011. On the other hand, the demand for crude oil transportation has remained soft in the absence of the sizeable increase in oil production coupled with the supply disruptions in Nigeria, Venezuela and Iraq. Therefore, Aframax oil tanker spot rates have declined by around 30% on average from 196 in 2005 to 152 points in 2007 based on WSI.

Vulnerable to interest rate changes. PVT is planning to fund its upcoming tanker purchase using 70:30 debt/equity ratio with variable rates of financing. This expected increase in leverage coupled with variable rates financing may make the Group vulnerable to any potential increase in interest rates going forward.

Susceptive to an increased oil price. Fuel cost remains PVT's major cost component, constituting more than 40% of the total cost of its core business. The fuel input price has surged more than 40% from US$350 to US$500/tonne between 2006 and 2008. High fuel cost is expected to persist and will continue to put a downward pressure on its profit margins since PVD has to absorb bulk of the increased costs particularly in the unfavorable market conditions.

Valuation

Richly valued!!! The Group is currently trading at an expected PER of 43.4x, which we deem to be expensive compared with average global peers that trade at a PER of 13.6x. Furthermore, PVT has planned to issue an additional 75.6mn shares worth US$47mn in 2008 to fund their purchase of new vessels. The massive amount of share issuance could well significantly dilute the Group's EPS in FY08, although we believe management may potentially defer the new share issuance in view of the current weak market condition.

Nonetheless, we are optimistic of the Group's long term prospect with the expected recovery in tanker spot rate upon the complete phase out of single hull tankers, aggressive fleet expansion and the increased demand with the commencement of operations in Dung Quat port.

Name	Stock Exchange	Market cap (US$mn)	P/E 2007	P/E 2008	P/B	P/S
Teekay Corp	BH	3,723	21.8	15.3	1.5	1.4
General Maritime Corp	US	906	19.3	14.2	4.4	3.3
China Merchants Energy-A	China	4,306	35.2	22.2	3.4	12.3
STX Pan Ocean Co Ltd	S. Korea	5,179	11.1	6.9	3.0	1.0
Overseas Shipholding Group	US	2,420	11.5	9.4	1.3	2.0
Average			19.8	13.6	2.7	4.0
Petrovietnam Transportation	VN	82	58.4	43.4	1.8	3.0

APPENDICES

1. Corporate Profile

PetroVietnam Transportation Corporation (PVT) was incorporated in 2002. It is the only domestic shipping company authorized by PVN to transport crude oil abroad. The Group carries about 10% of total exported volume of crude oil. The Group is also engaged in the provision of chartering and agency services, maintenance services for marine vehicles as well as trading of parts and supplies for maritime fleets. PVT purchased its first 96,000DWT Aframax tanker, known as the Poseidon M, in 2003 and its second 96,000DWT vessel, known as the Hercules M, in 2003 and May 2006 respectively. The addition of two vessels has boosted PVT's income significantly prior to the listing on the Ho Chi Minh City Stock Exchange in December 2007.

The Group transports its goods mainly to ports in Australia, Japan, China, Singapore and Korea. PVT's major clients are PVN group and multinational oil and gas giants which include Shell International Eastern Trading Company (Sietco), BP, Exxon Mobil, Petronas, China Marine and SK Shipping. Sietco is PVT's major client, accounting for 50% of the Group's total contract value in 2007 worth US$8.9mn. Management guided that these contracts will be extended in 2008 with tanker spot rates readjusted to prevailing Worldscale Index.

The Group aims to carry up to 30% of Vietnam's oil export volume and gradually expand to North Asia and Middle East markets. Besides that, PVT also plans to diversify into other operations like FPSO, chemical and LPG transportation and seaborne transportation such as dry bulk vessel and containers. To realize its vision, PVT will aggressively expand its fleet size from the current two to forty vessels by 2015 with expected capital spending of around US$3bn.

PVT has also acquired substantial shareholdings in other companies. Although the Group holds less than 50% stakes in these companies, it has significant influence on the day to day operations in these businesses which allow the Group to consolidate financial results of these companies in its financial statements as 'quasi subsidiaries'. The Group's subsidiaries and quasi subsidiaries are listed below:

Subsidiaries	Chartered capital (US$mn)	Ownership	Voting right
Hanoi Oil Transportation Co. Ltd	0.625	100.00%	100%
Vung Tau Oil Transportation Co.Ltd	0.625	100.00%	100%
Quasi subsidiaries			
PVT Gas International JSC	18.75	35.00%	>50%
Oriental Oil Transportation	6.25	33.00%	73%
Cuu Long Oil Transportation & Services JSC	18.75	8.52%	60%

2. Management Team

Board of Directors	
Mr Do Van Lien	Chairman
Mr Pham Viet Anh	Member
Mr Nguyen Xuan Son	Member
Mr Nguen Phung Hung	Member
Mr Do Minh Toan	Member

Board of Management	
Mr Pham Viet Anh	Managing Director
Mr Tran Tuan Nam	Deputy General Director
Mr Nguyen Phung Hung	Deputy General Director
Mr Do Van Lien	Deputy General Director
Mr Thai Ngoc Lan	Chief Financial Officer

3. Quasi Subsidiaries

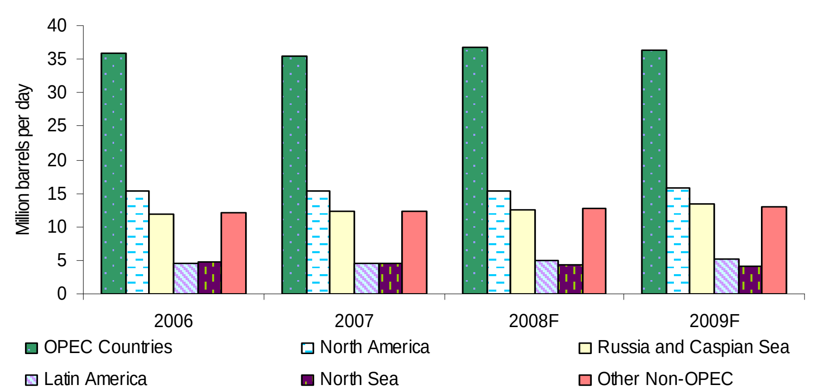
Under Financial Reporting Standard (FRS) 5, a quasi subsidiary of a reporting entity is a company, trust, partnership or other vehicle that, though not fulfilling the definition of a subsidiary, is directly or indirectly controlled by the reporting entity and gives rise to benefits for that entity that are in substance no different from those that would arise were the vehicle a subsidiary. In practice, if entity A controls more than 50% voting rights of entity B and/or entity A has significant influence on the day to day management and operations of entity B, entity B will be considered as a quasi subsidiary of entity A even though entity A holds less than 50% shareholdings in entity B.

4. Sector Outlook

Rising oil demand……. EIA forecasts that the global demand for oil to rise by 1.2% on a y-o-y basis, reaching 86.8mn barrels per day (bpd) in 2008 compared with 2007 despite the slow down of US oil consumption. The growth in Asian countries, and in particular the insatiable thirst for oil in China and India, are the significant forces driving the global demand growth. EIA has subsequently revised upwards its 2008 target of average crude oil price to $100.61 per barrel. On the other hand, a report published by McQuilling Services predicts that world oil demand will continue to rise by 2% and 2.2% in 2009 and 2010 respectively.

........to spur production activities. The persistent high crude oil price coupled with the lower production from many mature oil fields particularly in the North Sea area are expected to accelerate the exploration and production (E&P) activities going forward. EIA estimates the global oil production to increase by 2.4% in 2008 compared with only 0.1% in 2007 led by the OPEC countries and significant addition from non OPEC countries as illustrated below:

Short term Energy Outlook - World Oil Production Source: EIA



Gradual recovery of oil tanker rates. Oil tanker rates have softened somewhat in 2007, adversely impacted by no significant increase in production output from OPEC coupled with the capacity build up of global oil tankers. For Aframax tanker, the global fleet size has expanded by 7% from 714 vessels (72.5mn DWT) in 2006 to 764 tankers (78.3mn DWT) in 2007. Besides that, the co-existing of single hull tankers has further crowded the supply which dragged down the rates. Nonetheless, with more restrictions imposed on the operations of single hull tankers, we are cautiously optimistic that tanker rates will gradually recover in 2008 supported by increased demand for oil transportation services. Our optimism is supported by the need to build up oil reserves in major OECD countries, the Philippines' decision to prohibit single hull tankers from entering its ports from April 2008 and expectation that other regional ports may follow suit going forward. We also expect more single hull tankers to be due for conversion to dry bulk carriers or floating storage units going forward. Nevertheless, many sector experts expect the recovery in oil tanker rates to remain weak until 2011 when single hull tankers are completely phased out.

Vietnam's crude oil production remains strong. Vietnam has surpassed Brunei and Thailand to become the third largest oil producer in the region trailing only behind Malaysia and Indonesia. To pursue its long term production target of having an annual crude oil output amounting to 18-20mn tonnes till 2015, state-owned oil giant, PVN, has increased its investment spending on E&P activities both domestically and abroad such as in Kazakstan, Venezuela and Cuba.

Increase in oil demand and oil related products inducing stronger transportation service. Vietnam imported 12mn of refined oil in 2007, representing an increase of 12% compared with 2006. A research report published by Business Monitor International (BMI) expects the domestic refined oil demand to grow by 8% annually to reach 18mn tonnes in 2010. Given that the total output capacity of Dung Quat oil refinery (amounted to 3-4mn tonnes of refined products) is only able to meet around 30% of domestic demand, the remaining 70% will still need to be fulfilled through imports. On the other hand, PVN has signed a 30-year agreement to supply imported low grade crude oil for these refineries so that the oil giant will continue to sell premium grade low-sulfur crude oil to the global market. The rising trade activities for crude oil particularly with the commencement of new oil refineries are expected to increase the demand for oil transportation.

Crude oil transportation for export continues to be dominated by foreign players. PVT captured about 10% of the export market share with the remains dominated by foreign carriers such as Teekay Shipping (Canada), America Eagle Tanke-AET (Malaysia) and Sietco. The presence of domestic players other than PVT has been weak due to their small fleet size and the lack of international recognition.

Commencement of domestic oil refineries to boost demand for oil related transportation services. PVT has been authorized by PVN to provide all oil transportation services for the upcoming Dung Quat refinery which is expected to commence operation in 1H2009. This could boost its domestic transportation volume to at least 10mn tonnes from 2009 – 2012 from the current 1.5mn tonnes. The volume will be more than double when Nghi Son Refinery comes on streams in 2013 consuming 10mn tonnes of crude oil in the first phase then increasing to 20mn tonnes annually in the second phase. Furthermore PVN has formed a strategic alliance with a Kuwaiti partner to supply crude oil for the Nghi Son refinery that enables PVT to expand its operations to Middle East routes over the long term. Although global oil tanker rates are expected to remain soft in the near term, they are expected to recover in the medium term supported by the complete phasing out of single hull tankers by 2011.

Emerging of dry bulk shipping market for domestic player. Seaborne shipping accounts for over 80% of the import and export of goods. At present, the domestic fleet can only serve around 15% of the domestic demand. Most of the fleet carries dry goods whilst demand for container carriers still remains very slim. This promises an enormous potential for domestic players to participate in the growing market.

Increasing pressure on controlling fuel cost. According to the forecast of IEA, soaring oil prices are expected to persist over the next few years. Since fuel costs account for more than 50% of transportation costs, this could put downward pressure on profit margins for shipping operators.

5. Summary of Financials

Income Statement (US$ mn)	2005A	2006A	2007A	2008F
Net Revenue	13.6	27.1	29.9	54.6
COGS	9.3	18.9	23.3	45.7
Gross Profit	4.2	8.2	6.6	8.9
Financial revenue	0.1	0.5	1.1	1.2
Financial expense	1.0	3.4	3.6	3.5
SG&A	1.7	2.6	2.2	4.0
Operating Income	1.7	2.7	2.0	2.6
Net other income/(expense)	0.0	0.0	0.0	0.0
Pre-tax Income	1.7	2.7	2.0	2.6
Income Tax	0.5	0.6	0.6	0.7
Net Income	1.2	2.1	1.4	1.9
Minority Interest	-	-	-	0.4
Profit attributable to shareholders	1.2	2.1	1.4	1.5

Balance Sheet (US$ mn)	2005A	2006A	2007A	2008F
CURRENT ASSETS				
Cash & Short-term Investments	12.0	17.8	16.0	3.0
Accounts Receivable	0.2	1.4	2.8	5.1
Inventory	0.8	0.7	0.8	1.7
Others	0.2	0.2	0.7	0.4
Total Current Assets	13.1	20.1	20.4	10.2
Fixed Assets, net	21.2	66.5	74.5	114.7
Others	1.5	1.4	15.2	73.6
Total Fixed Assets	22.7	67.9	89.7	188.3
TOTAL ASSETS	35.8	88.0	110.1	198.4
CURRENT LIABILITIES				
Short-term Debt	1.0	1.1	1.2	2.5
Trade & Other Creditors	0.6	1.5	22.8	42.3
Total Current Liabilities	1.6	2.5	24.0	44.9
Net Current Asset/ (Liabilities)	11.6	17.6	(3.6)	(34.7)
NON-CURRENT LIABILITIES				
Long-term borrowings	18.1	51.6	38.5	101.7
Others	0.2	1.7	0.0	3.4
Total Long-term Liabilities	18.4	53.3	38.6	105.1
Net Asset / (Liabilities)	15.9	32.2	47.5	48.5
TOTAL LIABILITIES	19.9	55.8	62.6	149.9
SHAREHOLDERS' EQUITY				
Paid-in capital	12.7	28.0	45.0	45.0
Retained Earnings	0.4	0.0	1.2	2.1
Minority interest	0.0	0.0	0.0	0.4
Other funds & reserves	2.8	4.2	1.4	1.4
Total Shareholders' Equity	15.9	32.2	47.5	48.5

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6. Recent News and Developments

PVT Signs Strategic Alliance Agreement with PVFC

21st March 2008 - Petrovietnam Finance Joint Stock Corporation (PVFC) announced that it has signed a strategic alliance agreement with PVT. The agreement allows both parties to cooperate in all aspects whereas PVFC will give PVT priority with borrowings, investment consultation and all related financial services. [Reuters]

PVT to expand in inland container transportation

13rd Feb 2008 –PVT's Board of Management has approved for its wholly owned subsidiary in Hanoi to invest in 5 container trucks to reap the benefits of this growing sector in Northern Vietnam [PVT]

PVT to invest in port in Dung Quat Economic Zone

5th July 2007 –The Management of Dung Quat Economic Zone has approved for PVT's two projects including a port and custom projects. The port will also include logistic operation servicing PVN's oil tanker fleet. [PVT]

PV Trans signed with three local partners on June 7 to form the Crude Oil Transportation Joint Stock Co with an investment of US$190mn.

9th June 2007 - Partners include PetroVietnam Finance Co, PetroVietnam Insurance and Vietcombank, which each will hold a 10% stake in the new company. The new firm is expected to help PVN meet the increasing demand for crude oil transportation in the local and global market, according to PV Trans CEO Bui Tho Manh. The new company would initially operate three crude oil tankers with a capacity of 105,000 tonnes each, which will be built by the country's leading ship-builder, Vinashin. Those tankers will transport crude oil from offshore oil platforms to oil refineries at Dung Quat, Nghi Son and Long Son. Manh said the new company would increase its fleet to seven by 2010 and would be able to serve foreign customers such as Venezuela and Cuba [VietNamNet – Bridge]

6. Corporate Actions

PVFC buys shares in PVT

13th March 2008 – Trader: PetroVietnam Financial Company; related person: Mr. Nguyen Xuan Son – member of Board of Directors; Volume of shares held before the transaction: 5,325,596 shares (7.4% chartered capital); Volume of shares sold: 500,000 shares; Volume of shares held after the transaction: 5,825, 596 shares (8.09% chartered capital); Time of transaction: January 31, 2008 - March 3, 2008.

Equity Rating Definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between –15% and +15% over 12-months, with low risk of sustained downside.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.