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Oil: Portfolio

Recommendations

Deleting PVS & switching into KBC

Collapsing oil prices changes the picture. Breakdown in OPEC production cuts adds to the COVID-19 shock to markets. Although we do not rule out a near-term bounce back in oil prices, we remove Petrovietnam Technical Services (PVS) from our model portfolio on a loss cut and replace the stock with Kinh Bach City Development (KBC). Collapsing oil prices changes the picture for recovery as falling oil prices often signals capital outflows from emerging markets.

Opportunities in oil & gas stocks may be limited to trading the volatility for now.

Given the sharp drop in oil prices, the surge in volatility of oil prices will also likely transfer to oil & gas stocks. Opportunities, however, may be limited to trading the volatility as we believe funds outflow from emerging markets – and continued foreign selling in Vietnam – may weigh on the recovery for the oil & gas sector for now. After the change, we carry no exposure to the oil & gas sector in our model portfolio. We will revisit the sector after we can gauge the full extent of the global spread of the COVID-19 outbreak.

Outbreak may accelerate re-location of supply chains to Vietnam

We have re-positioned our model portfolio to benefit from recovery after the outbreak begins to wane. One important theme after the outbreak ends will be the re-location of supply chains to Vietnam and the COVID-19 outbreak only further highlights this trend. Multinational companies have already announced their need to move more of their production facilities to Southeast Asia, especially Vietnam and Thailand, to offset their reliance on China. Combined with the EU-Vietnam free trade agreement, we believe the prospects for Vietnam's industrial parks have improved dramatically and add Kinh Bac City Development (KBC) to our model portfolio.

Portfolio Recommendations

Switching into Kinh Bac City Development (KBC) from Petrovietnam Technical Services (PVS)

We add industrial parks to our model portfolio with the inclusion of KBC and remove all exposure to the oil & gas sector with the removal of PVS

We remove Petrovietnam Technical Services (PVS) on a stop loss and add Kinh Bac City Development (KBC) to our model portfolio. Our outlook for industrial parks has improved in two key areas: 1) growing demand for better quality industrial land amid tightening supply as more global supply chains diversify into Vietnam; and 2) likelihood that greater access to local markets from the EU-Vietnam FTA will justify more production capabilities in Vietnam for EU companies (the EU was only Vietnam's fourth-largest trading partner in 2019).

Table 1. Model Portfolio – Additions & Deletions

Ticker	Action	Rationale
KBC	Addition	<ul style="list-style-type: none"> - Strong pricing for upcoming land sales after Trang Due urban land sales in 4Q19 - Beneficiary of more production facilities from EU companies after EU-Vietnam FTA - Re-location of supply chains from China after COVID-19 scare
PVS	Deletion	<ul style="list-style-type: none"> - Stop loss - Opportunities limited to trading volatility - Delayed recovery amid foreign selling

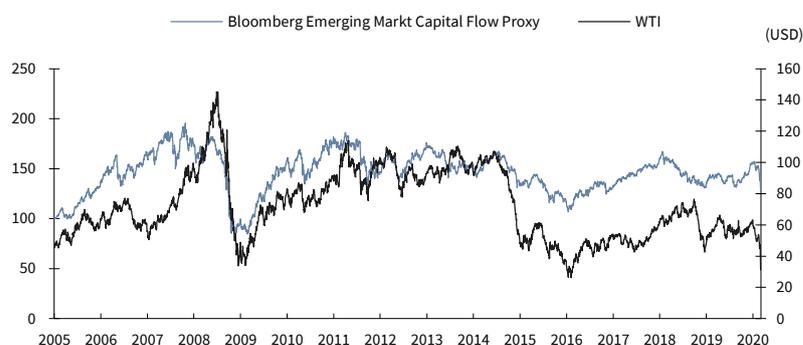
Source: KB Securities Vietnam

Falling oil prices often signals outflows from the emerging markets

Emerging markets may witness further funds outflows amid concerns of a global macro slowdown signaled by falling oil prices

We believe the spread of COVID-19 to the status of a global outbreak has raised concerns of a weaker global economy ahead and has already triggered the outflow of funds from the emerging markets. The collapse in oil prices has only exacerbated these concerns, with outflows likely to continue until the full extent of the damage from the COVID-19 virus can be ascertained. Oil has often signaled outflows from emerging markets as indicated by Bloomberg's Emerging Market Capital Flow Proxy (a composite index that mimics money flows of the emerging markets comprised of the Goldman Sachs Commodity Index, MSCI EM Equity Index, EMBI Bond Spreads and EM FX Carry Trade Index).

Fig 1. Emerging markets – Oil prices vs Bloomberg Capital Flow Proxy, 2005–Mar 2020 (index points, US dollars)



Note: Proxy is a composite of the Goldman Sachs Commodity Index, MSCI EM Equity Index, EMBI Bond Spreads & EM FX Carry Trade Index created by Bloomberg.

Source: Bloomberg, KB Securities Vietnam

ETF flows have recently turned negative for Vietnam

Net inflows for Asia-Pacific ETFs have quickly turned negative in the past month compared with the performance from the previous three months. Vietnam's position as one of the most popular destinations for ETF inflows has now turned negative. Consequently, we expect foreign selling to weigh on the Vietnam's more cyclical sectors – including the oil & gas sector – and we prefer to focus on stocks that are supported by secular growth. This explains our recent additions of airlines (Vietjet, VJC), banks (Vietinbank, CTG) and now industrial parks (Kinh Bac City Development, KBC) to our model portfolio.

Table 2. Asia-Pacific – 3-month ETF netflows (USDmn)

(USDmn)	3M ETF netflow
Asia Pacific	(29)
Taiwan	1,417
India	448
Vietnam	30
Pakistan	3
Hong Kong	2
South Korea	0
Bangladesh	(3)
Philippines	(27)
Malaysia	(98)
Thailand	(101)
Greater China	(118)
Indonesia	(131)
China	(1,448)

Source: Bloomberg, KB Securities Vietnam

Table 3. Asia-Pacific – 1-month ETF netflows (USDmn)

(USDmn)	1M ETF netflow
Asia Pacific	(2,895)
Taiwan	601
Greater China	6
Hong Kong	1
South Korea	0
Bangladesh	(1)
Philippines	(3)
Vietnam	(5)
Thailand	(6)
Pakistan	(10)
Indonesia	(38)
Malaysia	(60)
India	(273)
China	(3,106)

Source: Bloomberg, KB Securities Vietnam



Companies

Kinh Bac City
Development (KBC)

Kinh Bac City Dev (KBC)

Beneficiary of supply chain diversification

March 10, 2020

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Vietnam establishing a good track record on containing COVID-19 amid the growing need to diversify supply chains

Adding to the US-China trade war, we expect the COVID-19 outbreak to support further FDI into Vietnam as multinational companies feel the need to diversify supply chains. Vietnam – and its industrial parks – should benefit and we have already seen production facilities re-located to Vietnam to avoid punitive tariffs applied China's exports. Importantly, Vietnam has demonstrated its ability contain the outbreak and avoided any large-scale disruptions to production as seen in the minimal disruption to Samsung's mobile phone manufacturing.

The EU only ranks as Vietnam's fourth-largest trade partner but the EU-Vietnam FTA opens a very large opportunity

Vietnam's trade with the EU was only USD56 billion per year or 10.9% of the total in 2019, ranking the EU as Vietnam's fourth-largest trading partner after the US, China and Korea. The approval of the EU-Vietnam FTA provides a very large opportunity to boost overall trade and the EU's ranking. Moreover, we expect greater access to Vietnam will compel more European companies to consider establishing local manufacturing capabilities to the benefit of the industrial parks.

Strong selling price for first tranche of the Trang Due urban land sale bodes well for near-term earnings

Strong pricing for the first portion of the Trang Due urban area land sale in 4Q19 sets an important benchmark for the remaining parcels to be sold. This should allow KBC to deliver solid earnings performance as more land sales are likely booked in 2020. We also expect less availability of industrial land – and ample demand from growing FDI – to facilitate higher rents for KBC to offset higher project development costs for the Phuc Ninh urban area.

No Rating

Target Price	NA
Upside/downside (%)	26.3%
Current price (Mar 09)	VND 13,700
Consensus target price	VND 17,300
Market cap (VNDtn/USDbn)	6.4/0.3

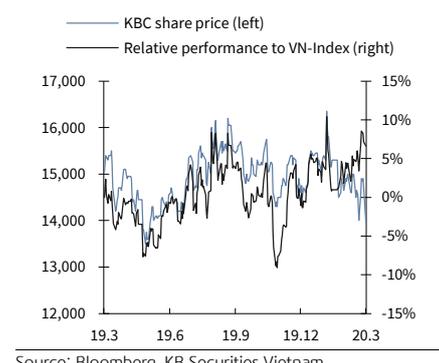
Trading data	
Free float (%)	71.4%
Avg T/O val (VNDbn/USDmn)	41.7/1.8
Foreign available shares (%)	24.5%
Major shareholders (%)	Dang Thanh Tam (9.5%)

Share price performance				
(%)	1M	3M	6M	12M
KBC	-6.4%	-4.5%	-9.7%	-7.3%
VN-Index	-8.9%	-12.3%	-13.0%	-13.9%

Forecast earnings & valuation

FY-end	2016A	2017A	2018A	2019A
Net sales (VNDbn)	1,972	1,260	2,491	3,250
Operating profit/(loss) (VNDbn)	915	813	1,073	1,416
Net profit to shareholders (VNDbn)	557	585	746	855
EPS (VND)	1,186	1,244	1,588	1,820
EPS growth (%)	-11.6%	4.9%	27.7%	14.6%
P/E (x)	11.6	11.0	8.6	7.5
P/B (x)	0.8	0.8	0.7	0.7
ROE (%)	7.5%	7.3%	8.6%	9.3%
Dividend yield, common (%)	0.0%	0.0%	7.3%	na

Source: Bloomberg, KB Securities Vietnam



Income statement

(VNDbn)	2016A	2017A	2018A	2019A
(Reporting standard)	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Net sales	1,972	1,260	2,491	3,250
Cost of sales	865	611	1,022	1,380
Gross profit	1,107	650	1,469	1,869
Financial income	0	431	92	80
Financial expenses	0	109	194	221
of which: interest expenses	0	107	201	199
Gain/(loss) from joint ventures	0	19	14	0
Selling expenses	33	22	142	141
General & admin expenses	121	155	165	172
Operating profit/(loss)	915	813	1,073	1,416
Other incomes	7	3	3	8
Other expenses	1	5	30	35
Net other income/(expenses)	7	(2)	(26)	(27)
Pretax profit/(loss)	921	812	1,047	1,389
Income tax	210	193	238	309
Net profit/(loss)	711	619	809	1,080
Minority interest	154	34	63	225
Net profit attributable to shrhdrs	557	585	746	855

Operating statistics

(%)	2016A	2017A	2018A	2019A
Gross profit margin	56.1%	51.6%	59.0%	57.5%
EBITDA margin	47.2%	39.0%	46.3%	49.0%
EBIT margin	46.4%	39.0%	47.2%	47.9%
Pre-tax profit margin	46.7%	64.4%	42.0%	42.7%
Operating profit margin	46.4%	64.5%	43.1%	43.6%
Net profit margin	28.3%	46.4%	30.0%	26.3%

Cash flow statement

(VNDbn)	2016A	2017A	2018A	2019A
Net profit/(loss) before tax	921	812	1,047	1,389
Depreciation & amortization	15	0	(22)	36
Profit/(loss) from investing	(65)	(432)	(92)	(78)
Interest expense	82	124	214	199
Oper profit/(loss) before WC change	981	527	1,174	1,563
(Inc)/dec in receivables	(958)	(429)	(950)	173
(Inc)/dec in inventories	121	33	(270)	988
(Inc)/dec in payables	983	208	606	(826)
(Inc)/dec in prepaid expenses	(1)	(42)	(18)	(32)
Trading sec, int exp & taxes	(216)	(236)	(412)	(462)
Net oper cash inflows/(outflows)	910	61	130	1,403
Fixed & other LT assets	(58)	(94)	(62)	(138)
Disposal of fixed assets	3	1	0	0
Loans granted & debt bought	(58)	(607)	(119)	(273)
Loan collection & debt sales	0	17	10	61
Investments in other entities	(432)	0	0	0
Divestment in other entities	278	52	7	292
Dividends & interest received	13	7	9	38
Net invest cash inflows/(outflows)	(253)	(623)	(155)	(19)
Proceeds from issue of shares	0	0	0	0
Payments for shrs/repurchases	0	0	0	0
Proceeds from borrowings	226	1,692	912	1,164
Repayment of borrowings	(815)	(914)	(1,158)	(1,639)
Finance lease principal payments	0	0	0	0
Dividends paid	0	(6)	(10)	(480)
Interest, dividends & profits	0	0	0	0
Net finance cash inflows/(outflows)	(589)	772	(255)	(955)
Net inc in cash & equiv	67	209	(280)	428
Cash & equiv (beginning)	228	295	505	224
Cash & equiv (ending-net FX)	295	505	224	652

Source: Kinh Bac City Development, KB Securities Vietnam

Balance sheet

(VNDbn)	2016A	2017A	2018A	2019A
(Reporting standard)	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Total assets	14,658	15,780	16,910	16,527
Current assets	13,011	13,730	14,862	13,976
Cash & equivalents	295	505	224	653
ST investments	1	1	3	3
Receivables & others	2,806	4,902	6,042	5,714
Inventories	8,244	8,323	8,593	7,605
Long-term assets	1,647	2,050	2,047	2,551
LT trade receivables & others	0	707	614	162
Fixed assets & inv properties	124	118	157	253
LT incomplete assets	234	151	194	839
LT investments	893	912	948	865
Goodwill	0	0	0	0
Total liabilities	6,036	6,742	7,072	6,090
Current liabilities	3,373	3,326	3,933	2,960
Trade payables & others	1,628	1,783	2,271	1,662
Advances & unrealized sales	875	404	450	464
Short-term borrowings	863	1,132	1,204	826
Long-term liabilities	2,664	3,416	3,139	3,130
LT trade payables	785	1,032	1,051	1,074
LT customer advances	768	788	801	952
Unrealized revenue	5	5	5	5
Long-term borrowings	1,105	1,591	1,283	1,100
Owners' equity	8,621	9,038	9,837	10,437
Paid-in capital	4,757	4,757	4,757	4,757
Share premium	989	989	989	989
Undistributed earnings	2,319	2,905	3,651	4,036
Reserves & other adj	0	0	0	0
Minority interests	918	750	803	1,017

Key ratios

(x, % VND)	2016A	2017A	2018A	2019A
Multiples				
P/E	11.5	11.0	8.6	7.5
P/E diluted	11.5	11.0	8.6	7.5
P/B	0.8	0.8	0.7	0.7
P/S	3.3	5.1	2.6	2.0
P/tangible book	0.8	0.8	0.7	0.7
P/cash flow	7.1	106.0	49.6	4.6
EV/EBITDA	8.7	17.6	7.5	4.8
EV/EBIT	8.9	17.6	7.4	5.0
Operating performance				
ROE	7.5%	7.3%	8.6%	9.3%
ROA	3.9%	3.8%	4.6%	5.1%
ROIC	7.5%	3.8%	8.3%	11.0%
Financial structure				
Cash ratio	8.7%	15.2%	5.7%	22.1%
Quick ratio	41.3%	51.8%	50.7%	67.6%
Current ratio	385.7%	412.8%	377.9%	472.2%
LT debt/equity	14.3%	19.2%	14.2%	11.7%
LT debt/total assets	7.5%	10.1%	7.6%	6.7%
Debt/equity	25.5%	32.8%	27.5%	20.4%
Debt/total assets	13.4%	17.3%	14.7%	11.7%
ST liabilities/equity	43.8%	40.1%	43.5%	31.4%
ST liabilities/total assets	23.0%	21.1%	23.3%	17.9%
Total liabilities/equity	78.4%	81.3%	78.3%	64.7%
Total liabilities/total assets	41.2%	42.7%	41.8%	36.9%
Activity ratios				
Asset turnover	0.1	0.1	0.2	0.2
Inventory turnover	0.1	0.1	0.1	0.2
Account payables turnover	9.1	4.9	5.7	4.6

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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