

# Phoenix Petroleum Philippines (PNX PM)

Share Price: PHP4.91

MCap (USD): 156M

Philippines

Target Price: PHP7.44(+51%)

ADTV (USD): 0.1M

Oil &amp; Gas

**BUY**

(Unchanged)

## On track to meet its goals

- Maintain BUY with a target price of PHP7.44.
- On track to meet goal of 500 stations in 2015 and becoming the third biggest player in 2017. Currently, it has 368 retail stations and market share of 7.2%.
- Although share price has outperformed the PSEi by 5.44 pts YTD, we believe that there is still plenty of room for further appreciation with the stock underperforming the index 36.55 pts last year.

### What's New

Phoenix Petroleum Phils (PNX) announced revenues grew 26% to PHP43.5b in 2013 driven by a 28% rise in volume sales. Implied volume sales in 2013 reached around 1,125m liters (L) in 2013, in line with our estimate of 1,144m L. A total of 68 retail stations were added last year, putting PNx's retail network at 368 outlets.

### What's Our View

We maintain our positive view on PNx as it continuously proves it can deliver on its goals. In 2009, it announced its vision of being the leading independent oil player in the Philippine retail segment and achieved this in 1H12. PNx also set a mission of becoming the third major petroleum company in the country and to grow its network to 500 stations by 2015. With a market share that is closing in on Chevron, the current third player, and 368 stations in its network, we believe that PNx's goals are realistic.

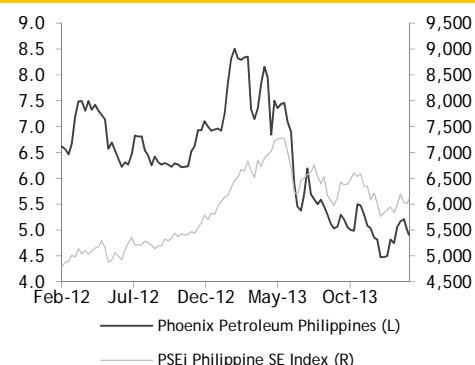
We expect PNx's growth momentum to continue in 2014 with forecast volume growth of 22% to 1,391m L. We expect strong growth in both the retail and commercial, industrial and aviation (CIA) segments growing by 20% and 22%, respectively. Barring surprises in oil price movements, our gross margin (per liter) assumptions are also higher 8% in 2014. Overall, we forecast net income to grow 72% to PHP1.1b this year.

FYE Dec (PHP m)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue	27,451.0	34,585.6	46,349.4	59,370.1	65,976.3
EBITDA	1,168.9	1,530.1	1,726.5	2,341.3	2,693.9
Core net profit	559.7	625.7	745.1	1,237.1	1,459.4
Core EPS (PHP)	0.64	0.55	0.49	0.81	0.96
Core EPS growth (%)	12.9	(12.8)	(11.9)	66.0	18.0
Net DPS (PHP)	0.04	0.05	0.08	0.10	0.10
Core P/E (x)	7.7	8.8	10.0	6.0	5.1
P/BV (x)	1.3	1.6	1.1	1.0	0.9
Net dividend yield (%)	0.8	1.0	1.6	2.0	2.0
ROAE (%)	16.5	15.2	13.8	18.1	18.2
ROAA (%)	5.0	4.2	4.0	5.7	6.0
EV/EBITDA (x)	8.6	11.3	9.5	7.3	6.3
Net debt/equity (%)	133.5	210.6	140.5	129.8	111.0

### Key Data

52w high/low (PHP)	8.40/4.35
Free float (%)	31.0
Issued shares (m)	1,429
Market capitalization	PHP7.0B
Major shareholders:	
-Phoenix Petroleum Holdings, Inc.	41%
-Udena Management & Resources Corp.	18%
-Udena Corp.	9%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute(%)	3.4	(6.5)	(41.4)
Relative to country (%)	(1.1)	(4.0)	(38.1)

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	2	0	0
<b>Maybank Consensus</b>			
Target Price (PHP)	7.44	7.72	(3.7)
2013 PATMI(PHPm)	745	na	na
2014 PATMI(PHPm)	1,237	na	na

Source: FactSet; Maybank

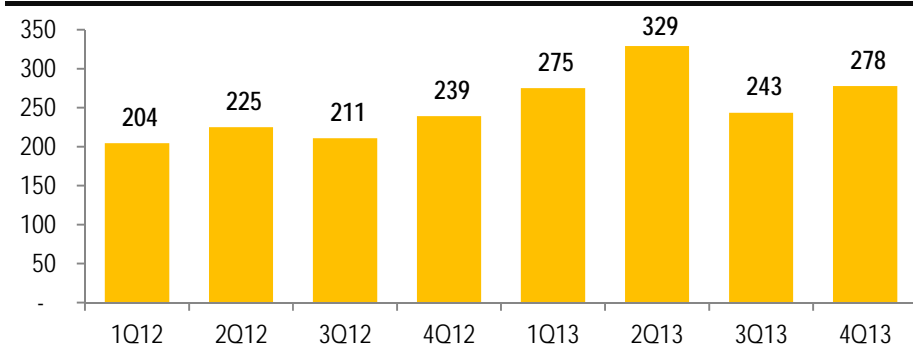
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### Growth momentum sustained

PNX's revenues reached PHP43.5b in 2013, up 26% YoY, driven by strong volume sales growth of 28% to 1,125m L which is largely within our estimate of 1,144m L. Although slower than the previous years, this marks PNX's 7th consecutive double-digit volume growth, translating to a CAGR of 57%. In 4Q13, we saw volume sales strongly rebounding from a decline in 3Q13. Volume for the quarter grew 14% QoQ and 16% YoY to 278m L.

Figure 1. Quarterly volume sales (in m liters)

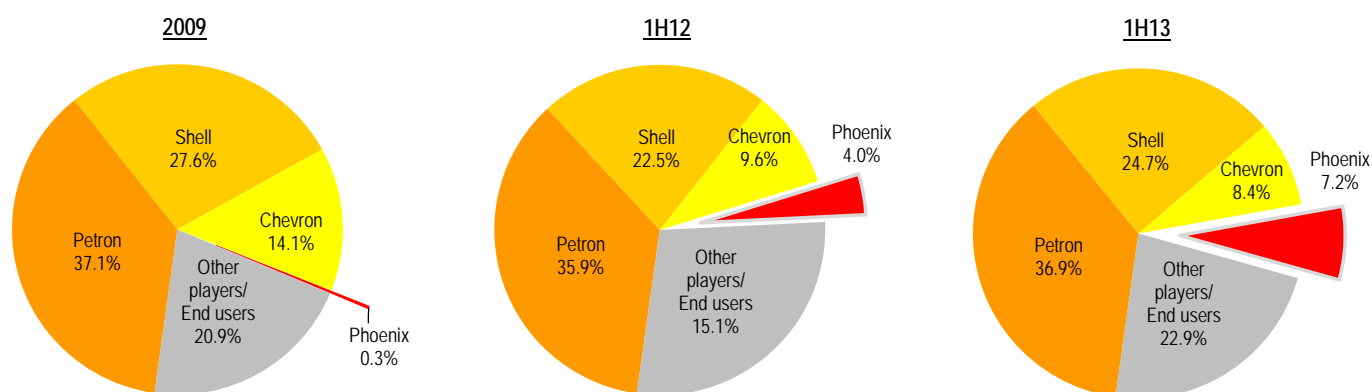


Source: PNX, Maybank ATR Kim Eng Estimates

### Third biggest player by 2017?

We maintain our positive view on PNX as it continuously proves that it can deliver on its goals. In 2009, it announced its new vision of being the leading independent oil player in the Philippine retail segment. PNX achieved this by 1H12, and even topped their goal by becoming the largest independent (fourth after the three oil majors - Petron Corp, Shell and Chevron), not just in the retail segment, but in the total petroleum market. At that time, PNX's market share was 4.0%, overtaking Total Phils' 3.4% market share.

Figure 2. Historical market share of total Philippine petroleum demand

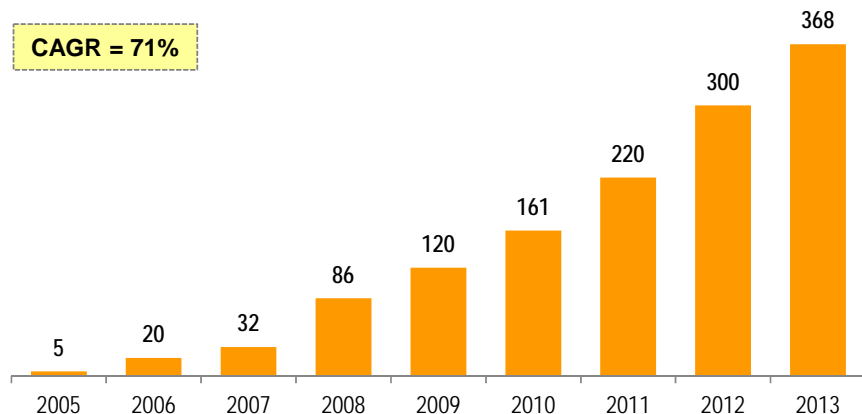


Source: Department of Energy, Maybank ATR Kim Eng Estimates

PNX has embarked on the mission: "to be the third major petroleum company in the Philippines and with the Best Customer Experience by 2017." Part of its medium-term plan is to grow to 500 stations by 2015. With the rate that PNX is expanding and given its accomplishments so far, we believe these are realistic goals. Based on Department of Energy reports, PNX's market share of total petroleum demand in the Philippines had grown to 7.2% in 1H13. This is not far from Chevron's 8.4% market share and close to making PNX the third biggest downstream petroleum

company. By end-2013, its retail station network already reached 368. Although this is behind its 400 initial target, we think 500 stations by 2015 is achievable with only 66 new stations to target each year from 2014-2015.

Figure 3. Historical number of retail stations



Source: PNX, Maybank ATR Kim Eng Estimates

### Robust growth in profits in 2014

We expect PNX's growth momentum to continue in 2014 with forecast volume growth of 22% to 1,391m L. We expect strength in both the retail and commercial, industrial and aviation (CIA) segments, with growth of 20% and 22%, respectively. Barring surprises in oil price movements, our gross margin (per liter) assumptions are also higher 8% to PHP3.03/L from PHP2.82/L in 2013. Together, these should result in a 31% increase in gross profits. Moreover, with PNX gaining scale in operations and with most fixed costs already incurred, we expect the increase in cash operating expenses to slow to 25% in 2014. Overall, we forecast net income after preferred dividends at PHP1.14b, up 72% from PHP664m in 2013.

### Still deeply undervalued

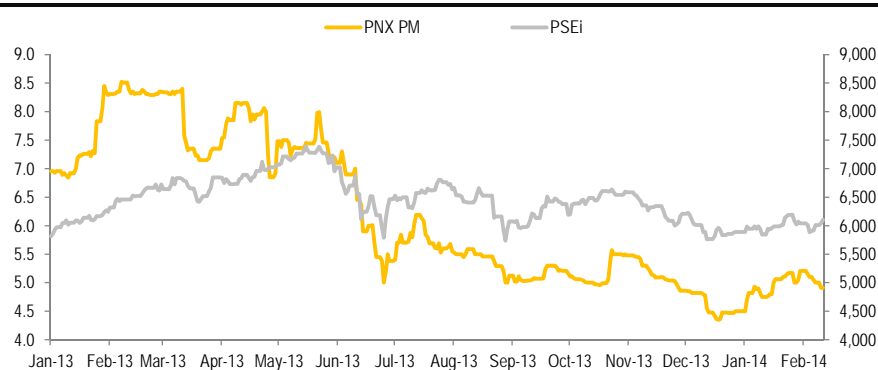
Although PNX share price has outperformed the PSEi by 5.44ppts YTD, we believe there is still plenty of room for price appreciation. In 2012, the re-emergence of the smuggling case against PNX's president caused its share price to plunge from a high of PHP8.52 on 7 February 2013 to end the year at PHP4.50. We have a target price of PHP7.44 which is based on a 20% discount to our DCF-based fair value of PHP9.30. The discount is to account for the margin risk from the volatility of oil prices. Based on its last close of PHP4.91, the stock offers a potential upside of 51.5% against our target price. Maintain BUY.

Figure 4. Forecasts

	2013F	2014F	2015F
	(PHPm)	(PHPm)	(PHPm)
Operating revenues	46,349	59,370	65,976
Cost of sales	(43,117)	(55,141)	(61,093)
Other operating expenses	(1,506)	(1,888)	(2,189)
<b>EBITDA</b>	<b>1,727</b>	<b>2,341</b>	<b>2,694</b>
Depreciation and amortization	(377)	(496)	(584)
<b>Operating income</b>	<b>1,350</b>	<b>1,845</b>	<b>2,110</b>
Other income (charges)	(580)	(569)	(546)
Finance income (costs)	(580)	(585)	(562)
Others	0	16	16
<b>Pre-tax income</b>	<b>769</b>	<b>1,277</b>	<b>1,564</b>
Provision for income tax	(24)	(40)	(105)
<b>Net profit</b>	<b>745</b>	<b>1,237</b>	<b>1,459</b>
Preferred dividends	(58)	(58)	(58)
<b>Net profit to common</b>	<b>688</b>	<b>1,180</b>	<b>1,402</b>
Non-recurring items	-	-	-
<b>Recurring net profit to common</b>	<b>688</b>	<b>1,180</b>	<b>1,402</b>
Gross margin (total)	3,232	4,229	4,883
Gross margin per liter (total)	2.83	3.04	3.16
Volume sales (m liters)	1,144	1,391	1,547

Source: Maybank ATR Kim Eng Estimates

Figure 5. Price comparison of PNx and PSEi



Source: Maybank ATR Kim Eng Estimates

FYE 31 Dec (PHP m)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Metrics</b>					
P/E (reported) (x)	7.7	8.8	10.0	6.0	5.1
Core P/E (x)	7.7	8.8	10.0	6.0	5.1
P/BV (x)	1.3	1.6	1.1	1.0	0.9
P/NTA (x)	na	na	na	na	na
Net dividend yield (%)	0.8	1.0	1.6	2.0	2.0
FCF yield (%)	nm	nm	21.6	nm	nm
EV/EBITDA (x)	8.6	11.3	9.5	7.3	6.3
EV/EBIT (x)	11.6	15.4	12.1	9.2	8.1
<b>Income Statement</b>					
Revenue	27,451.0	34,585.6	46,349.4	59,370.1	65,976.3
Gross profit	2,035.8	2,570.0	2,855.4	3,733.2	4,299.3
EBITDA	1,168.9	1,530.1	1,726.5	2,341.3	2,693.9
Depreciation	(299.1)	(405.8)	(376.9)	(495.9)	(583.9)
Amortisation	na	na	na	na	na
EBIT	869.8	1,124.3	1,349.6	1,845.4	2,109.9
Net interest income / (exp)	(324.6)	(493.6)	(580.1)	(584.6)	(561.7)
Associates & JV	na	na	na	na	na
Exceptionals	na	na	na	na	na
Other pretax income	56.9	16.1	0.0	16.0	16.0
Pretax profit	602.1	646.8	769.5	1,276.8	1,564.2
Income tax	(42.4)	(21.1)	(24.4)	(39.7)	(104.8)
Minorities	0.0	0.0	0.0	0.0	0.0
Reported net profit	559.7	625.7	745.1	1,237.1	1,459.4
Core net profit	559.7	625.7	745.1	1,237.1	1,459.4
Distributable Income	499.0	568.2	687.6	1,179.6	1,401.9
<b>Balance Sheet</b>					
Cash & Short Term Investments	924.0	438.5	928.1	870.5	894.6
Property, Plant & Equip (net)	5,572.3	6,998.8	7,831.2	9,144.7	9,667.4
Intangible assets	85.8	84.5	85.3	85.3	85.3
Investment in Associates & JVs	na	na	na	na	na
Other assets	6,376.6	8,985.4	11,474.0	13,145.1	14,497.2
Total assets	12,958.7	16,507.2	20,318.6	23,245.6	25,144.5
ST interest bearing debt	4,031.2	4,119.3	4,373.6	6,139.4	7,640.6
LT interest bearing debt	1,846.1	5,796.0	5,382.5	4,301.5	2,867.1
Other liabilities	3,370.4	2,091.4	4,277.1	5,430.4	5,977.8
Total Liabilities	9,247.7	12,006.7	14,033.2	15,871.3	16,485.5
Shareholders Equity	3,711.0	4,500.5	6,285.3	7,374.3	8,659.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholders equity	3,711.0	4,500.5	6,285.3	7,374.3	8,659.0
<b>Cash Flow</b>					
Pretax profit	602.1	646.8	769.5	1,276.8	1,564.2
Depreciation & amortisation	299.1	405.8	376.9	495.9	583.9
Adj net interest (income)/exp	247.7	458.0	580.1	584.6	561.7
Change in working capital	(832.3)	(4,134.1)	(1,295.0)	(1,343.4)	(925.6)
Cash taxes paid	(34.7)	(0.6)	(24.4)	(39.7)	(104.8)
Other operating cash flow	23.7	37.9	0.0	0.0	0.0
Cash flow from operations	305.6	(2,586.2)	407.1	974.1	1,679.4
Capex	(1,144.5)	(1,612.1)	(1,209.3)	(1,809.4)	(1,106.6)
Free cash flow	1,450.2	(974.1)	1,616.5	2,783.5	2,786.1
Dividends paid	(108.3)	(92.1)	(148.1)	(148.1)	(174.7)
Equity raised / (purchased)	0.0	0.0	1,187.9	0.0	0.0
Change in Debt	1,646.1	4,038.0	1,149.7	684.7	66.9
OTH investing/financing cash flow	(280.2)	(233.1)	(897.6)	241.1	(440.9)
Effect of exch rate changes	na	na	na	na	na
Net cash flow	418.7	(485.5)	489.6	(57.6)	24.1

FYE 31 Dec (PHP m)	FY11A	FY12A	FY13E	FY14E	FY15E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	83.9	26.0	34.0	28.1	11.1
EBITDA growth	15.6	30.9	12.8	35.6	15.1
EBIT growth	9.0	29.3	20.0	36.7	14.3
Pretax growth	55.0	7.4	19.0	65.9	22.5
Reported net profit growth	35.6	11.8	19.1	66.0	18.0
Core net profit growth	35.6	11.8	19.1	66.0	18.0
<b>Profitability ratios (%)</b>					
EBITDA margin	4.3	4.4	3.7	3.9	4.1
EBIT margin	3.2	3.3	2.9	3.1	3.2
Pretax profit margin	2.2	1.9	1.7	2.2	2.4
Payout ratio	6.2	9.2	15.7	12.3	10.4
<b>DuPont analysis</b>					
Net profit margin (%)	2.0	1.8	1.6	2.1	2.2
Revenue/Assets (x)	2.1	2.1	2.3	2.6	2.6
Assets/Equity (x)	3.5	3.7	3.2	3.2	2.9
ROAE (%)	16.5	15.2	13.8	18.1	18.2
ROAA (%)	5.0	4.2	4.0	5.7	6.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	22.6	40.1	41.5	32.8	34.7
Days receivable outstanding	35.6	33.4	30.2	29.2	31.6
Days inventory outstanding	22.6	32.7	33.2	31.1	32.5
Days payables outstanding	35.5	26.0	21.9	27.5	29.3
Dividend cover (x)	16.1	10.8	6.4	8.1	9.6
Current ratio (x)	1.0	1.6	1.4	1.2	1.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net debt/equity (%)	133.5	210.6	140.5	129.8	111.0
Net interest cover (x)	2.7	2.3	2.3	3.2	3.8
Debt/EBITDA (x)	5.0	6.5	5.7	4.5	3.9
Capex/revenue (%)	4.2	4.7	2.6	3.0	1.7
Net debt/ (net cash)	4,953.3	9,476.8	8,828.0	9,570.3	9,613.1

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