

# Portfolio recommendations:

## Remove VJC & add GAS

November 13, 2020

### **The outlook of international airlines is not so bright**

The International Air Transport Association (IATA) recently forecast a plunge in the airline industry revenue in 2021. Local airlines, though are not hit as hard as other peers worldwide during the COVID-19 pandemic, but still suffer from a big loss in October compared to the same period last year. Furthermore, the prices of domestic flight tickets are low due to competitive pressure, so experts predict Vietnamese airlines might continue to log lower performance in 4Q20 and hardly recover in early 2021. As a result, we decided to remove Vietjet Aviation (VJC) from the investment portfolio and consider to add it again in case of any surprising rebounds of global airlines or imminent mass production of COVID-19 vaccine.

### **The demand for liquefied natural gas (LNG) and oil prices are expected to increase in the coming time, so we believe that PV Gas (GAS) would have a brighter prospect.**

The power shortage and the delays of new gas projects underscore the importance of Thi Vai LNG gas terminal. Vietnam Government's lately permission to import LNG will also allow oil refineries to make more petrochemical products. Meanwhile, hopes of Coronavirus vaccine strides and expectation on OPEC+'s delay in production hike should bolster oil prices in the upcoming months. Also, our valuation model show GAS is trading at attractive price, so we decided to replace VJC with GAS.

## Portfolio recommendations

### Switching to GAS from VJC

We delete VJC as the stock price rebound is outpaced by the general market, while its business performance is expected to remain subdued in the short and medium term. The vaccine production news just gave VJC a glimmer hope. In fact, we assume that the global aviation industry in general and Vietnam in particular would still have to face many Coronavirus-led challenges in 2021, although the recovery speed depends on the pandemic development and the time when COVID-19 vaccine is available in local drugstores.

We will consider returning to aviation stocks when we see clearer signals about the possibility of recovering international trade routes.

We add GAS to our model portfolio when observing this stock outlook improved with higher need for LNG and higher oil prices thanks to the news about OPEC+ and COVID vaccine. More importantly, our valuation model show GAS is trading at attractive price for medium and long-term investment.

**Table 1. Model portfolio – Additions & deletions**

Ticker	Action	Rationale
GAS	Addition	<ul style="list-style-type: none"> <li>- Rising demand for LNG amid protracted power shortage</li> <li>- Expectations of oil price bounceback</li> <li>- Strong pricing</li> </ul>
VJC	Deletion	<ul style="list-style-type: none"> <li>- Underperformed trading</li> <li>- No clear signs of recovery in 2021E</li> <li>- Uptrend oil prices</li> </ul>

Source: KB Securities Vietnam

We add oil & gas stocks to our model portfolio with the inclusion of GAS and not involve in aviation sector with the removal of PVS

### The 2021 outlook for global and domestic airlines remains subdued

IATA gave a forecast about a 46% loss in 2021E global airline revenue, much worse than the 29% decline previously projected, versus the pre-pandemic levels in 2019.

Although domestic flight routes have been resumed, October local passenger traffic only reached 22.9 million passengers (down 26.8% YoY), while ticket prices are low due to oversupply, hence further declines in revenue. Vietnamese airlines welcomed 2.7 million international passengers in October (down 81.2% YoY). The number of flights operated by five major domestic airlines last month, namely Vietnam Airlines, VieJet Air, Jestar Pacifics, Vasco, and Bamboo Airlines was only 15,916 (down 44.3% YoY). Vietnamese airlines are expected to sharp writedowns in 4Q20, and unlikely to rebound quickly in early 2021.



# Companies

PV Gas (GAS)

# PV Gas (GAS)

On track for sequential recovery

July 27, 2020

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## Initiate coverage with BUY rating and target price of VND89,200

We initiate our coverage of GAS with a BUY rating and a target price of VND89,200. Our target price is based on a mid-cycle P/B multiple derived from our three-stage dividend discount model. We apply a mid-cycle valuation for our target price to reflect our view for more modest recovery in HSFO prices amid an extended period of weak oil prices.

## TOP PICK: Beneficiary of growing LNG demand & should perform alongside slower recovery in oil prices

GAS is our top pick for Vietnam's oil & gas sector as the main beneficiary of growing LNG demand that should also perform alongside our expectations for a slower recovery in oil prices. Supply shortages for the power generation sector and delayed approvals of new gas fields underscore the need for the *Thi Vai* LNG regasification facilities currently under construction. Moreover, Vietnam's new-found ability to import LNG should also provide the feedstock for downstream refiners preparing to start local petrochemical production.

## Outsized benefits to HSFO prices from OPEC+ production cuts

Deeper production cuts by Middle East producers – that usually yield a higher percentage of fuel oil – have curtailed fuel oil supply and provided outsized gains to HSFO prices from the OPEC+ production cuts. This – and the installation of more scrubbers by ship owners to improve longer-term sentiment on fuel oil in the aftermath of IMO2020 – make us more confident that HSFO prices have bottomed. With gas selling prices indexed to HSFO prices, we believe GAS is now set to deliver sequential earnings improvement.

## BUY initiate

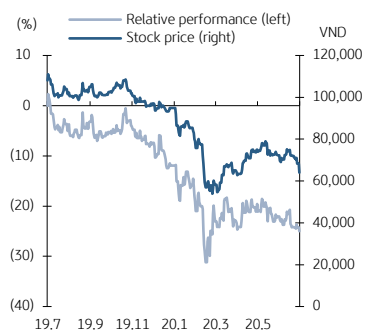
<b>Target Price</b>	<b>VND89,200</b>
Total return (%)	44.1%
Current price (Jul 27)	VND64,000
Consensus target price	VND71,000
Mkt capitalization (USDbn)	USD5,284mn

<b>Trading data</b>	
Free float (%)	4.2%
Avg trading value (3M)	USD2.13mn
Foreign available (%)	45.7%
Major shareholders (%)	PetroVietnam (95.8%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	-11.4	-0.3	-32.6	-40.7
Relative	-3.8	-2.1	-14.8	-25.0

### Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	75,005	64,521	74,860	89,831
EBIT	13,649	9,334	14,125	16,798
NP attributable to parent	11,902	8,168	11,569	13,651
EPS (VND)	6,219	4,268	6,044	7,132
EPS growth (%)	3.9	(31.4)	41.6	18.0
P/E (x)	10.3	15.0	10.6	9.0
EV/EBITDA (x)	7.0	9.6	7.1	6.1
P/B (x)	2.5	2.4	2.2	2.1
ROE (%)	24.7	16.1	21.6	23.8
Div yield (%)	6.8	4.7	6.9	8.1



Source: Bloomberg, KB Securities Vietnam

## PV Gas (GAS) – Summarized financials &amp; forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	75,005	64,521	74,860	89,831	Total assets	62,179	67,024	75,986	86,564
Cost of sales	58,087	52,248	56,932	68,506	Current assets	41,815	43,874	49,888	57,458
Gross Profit	16,919	12,272	17,928	21,326	Cash & equivalents	4,476	5,288	5,235	5,368
Financial income	1,665	1,486	1,442	1,725	ST investments	24,915	27,885	32,348	37,323
Financial expenses	241	382	667	941	Accounts receivable	10,359	8,841	10,167	12,200
of which: interest expenses	198	177	379	581	Inventory	1,575	1,427	1,641	1,970
Gain/(loss) from joint ventures	(1)	(12)	(4)	(5)	Other current assets	491	432	497	597
Selling expenses	2,394	1,935	2,479	2,875	Long-term assets	20,363	23,150	26,097	29,106
General & admin expenses	875	1,004	1,323	1,653	LT trade receivables	128	114	131	157
Operating profit/(loss)	15,072	10,426	14,896	17,577	Fixed assets	15,850	17,071	21,496	26,618
Other income	16	57	92	110	Investment properties	23	23	23	23
Other expense	20	31	45	54	LT incomplete assets	3,021	4,457	3,157	712
Net other income/(expenses)	(4)	26	47	57	LT investments	405	451	557	729
Pretax profit/(loss)	15,068	10,452	14,943	17,633	Goodwill	83	37	16	6
Income tax	2,983	2,163	3,082	3,636	Other LT assets	854	997	718	862
Net profit/(loss)	12,086	8,289	11,862	13,997	Liabilities	12,564	15,113	20,629	27,157
Minority interests	183	120	293	346	Current liabilities	9,964	9,805	11,037	12,926
Net profit after MI	11,902	8,168	11,569	13,651	Trade accounts payable	6,839	7,048	8,105	9,726
					Advances from customers	203	140	161	194
					ST borrowings	1,341	1,194	1,194	1,194
					Special reserves	425	398	398	398
					Other current liabilities	1,157	1,025	1,179	1,415
					Long-term liabilities	2,600	5,308	9,591	14,230
					LT payables	22	24	28	33
					LT borrowings	1,456	4,806	9,014	13,537
					Other LT liabilities	1,121	478	550	660
					Shareholders' equity	49,615	51,911	55,357	59,408
					Paid-in capital	19,140	19,140	19,140	19,140
					Share premium	211	211	211	211
					Treasury stock	0	0	0	0
					Undistributed earnings	10,109	12,433	15,878	19,929
					Reserve & others	18,851	18,860	18,860	18,860
					Minority interests	1,108	1,071	1,071	1,071
					Total liabilities & equity	62,179	67,024	75,986	86,564
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	(0.8)	(14.0)	16.0	20.0	Valuations				
EBIT growth	(0.6)	(31.6)	51.3	18.9	P/E	10.3	15.0	10.6	9.0
EBITDA growth	3.6	(25.2)	39.4	20.2	P/E diluted	10.3	15.0	10.6	9.0
NP after MI growth	3.9	(31.4)	41.6	18.0	P/B	2.5	2.4	2.2	2.1
Gross profit margin	22.6	19.0	23.9	23.7	P/S	1.6	1.9	1.6	1.4
EBITDA margin	22.9	19.9	23.9	24.0	EV/EBITDA	7.1	9.5	6.8	5.7
EBIT margin	18.2	14.5	18.9	18.7	EV/EBIT	9.0	13.1	8.7	7.3
Pre-tax profit margin	20.1	16.2	20.0	19.6	Dividend yield, ordinary (%)	6.8	4.7	6.9	8.1
Net profit margin	15.9	12.7	15.5	15.2	EPS	6,219	4,268	6,044	7,132
					BVPS	25,923	27,123	28,923	31,039
					SPS	39,189	33,711	39,113	46,935
					DPS (annual, ordinary)	4,382	3,000	4,400	5,200
					Dividend payout ratio (%)	70.4	70.3	72.7	72.9
					Operating performance				
					ROE	24.7	16.1	21.6	23.8
					ROA	19.1	12.6	16.2	16.8
					ROIC	23.9	14.9	20.1	20.8
					Financial structure				
					Total liab/equity	25.3	29.1	37.3	45.7
					Net debt/equity	(3.4)	1.4	9.0	15.8
					Current ratio (x)	4.2	4.5	4.5	4.4
					Interest coverage (x)	69.1	52.8	37.3	28.9
					Activity ratios				
					Asset turnover	1.2	1.0	1.0	1.1
					Receivables turnover	7.3	6.7	7.9	8.0
					Inventory turnover	42.6	43.0	48.8	49.8
					Payables turnover	9.3	9.1	9.7	9.9

Source: Company reports, KB Securities Vietnam

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## Investment ratings & definitions

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### 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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