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In 2Q22, GAS's revenue grew by 21.8% YoY and NPAT hit its all-time high

In 2Q22, PV Gas (GAS) maintained impressive business results with NPAT of VND5,141 billion (+123.4% YoY) and revenue of VND27,653 billion (+21.8% YoY). GAS's production output decreased slightly YoY with the total dry gas output of 2.01 billion m³ (-1.8% YoY) and LPG output of 465 thousand tons (-15.4% YoY).

We raise our oil price forecast given positive price movements in 1H22 and unresolved bottlenecks in crude oil supply chain

KBSV forecasts the average Brent crude oil price in 2022 to reach USD100/barrel (+41% YoY). Besides, the prices of FO and LPG, two crude oil derivatives directly impacting the selling prices of GAS's products, have close correlations with the Brent prices, with the five-year correlation between Brent and FO prices reaching 94.2%. Therefore, Brent price rallies would boost FO and LPG prices, thus leading to a higher average selling price of gas products of GAS.

Thermal power plants, GAS's main customers, will face challenges during the rainy season in 2H2022, but the outlook will be brighter in 2023

International meteorological organizations anticipate the La Nina phenomenon will continue until the end-2022, ensuring the amount of water for hydropower plants. However, their forecast also implies that the probability of the weather pattern entering the neutral phase will be above 50% from 2023, meaning less water to reservoirs of hydropower plants compared to the 2021 - 2022 period. Therefore, 2023 would mark the rise of gas-fired power plants following the fadeaway of La Nina and the weakening of renewable energy projects.

We maintain our BUY recommendation for GAS stock with a target price of VND151,100

Based on FCF and P/E valuation methods, business outlook and possible risks, we recommend BUY for GAS stock. The target price is VND151,100/share with a total return of 34.9% compared to the closing price on August 3, 2022.

Buy maintain

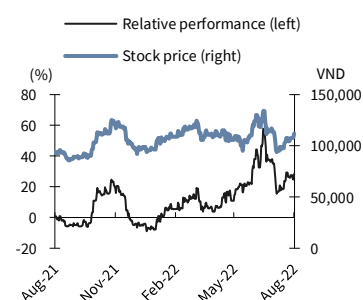
Target price	VND151,100
Upside/Downside	34.9%
Current price (Aug 3, 2022)	VND112,000
Consensus target price	VND145,000
Market cap (VNDbn)	214,368

Trading data	
Free float	4.2%
3M avg trading value (VNDbn)	119.93
Foreign ownership	45.9%
Major shareholder	PetroVietnam (95.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-4.2	2.1	-0.7	16.3
Relative	-7.5	12.4	18.2	24.9

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	64,135	78,992	105,821	109,661
EBIT (VNDbn)	8,694	10,374	17,615	16,470
NPATMI (VNDbn)	7,855	8,673	14,300	13,346
EPS (VND)	4,028	4,356	7,471	6,973
EPS growth (%)	-34.4	8.1	72.0	-7.0
P/E (x)	10.5	16.6	20.0	21.4
EV/EBITDA (x)	7.1	10.6	14.2	15.1
P/B (x)	1.7	2.7	4.4	3.7
ROE (%)	16.1	17.0	22.4	17.8
Dividend yield (%)	8.4	4.2	2.0	2.0



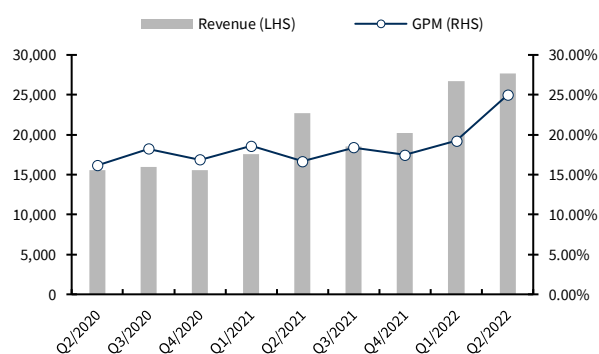
Source: Bloomberg, KB Securities Vietnam

Business performance

In 2Q22, GAS's revenue grew by 21.8% YoY and NPAT hit its all-time high

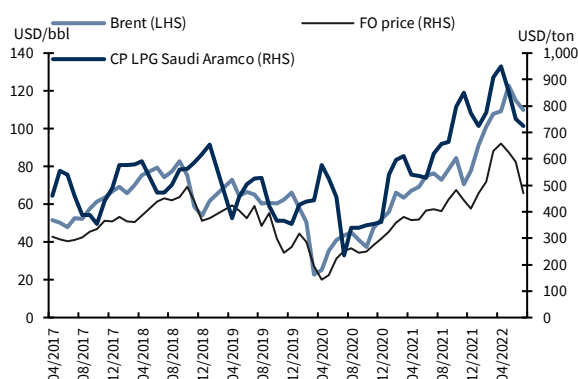
In the second quarter of 2022, GAS's NPAT reached VND5,141 billion (+123.4% YoY) on revenue of VND27,653 billion (+21.8% YoY). The company's production decreased slightly YoY, with the total dry gas output of 2.01 billion m³ (-1.8% YoY) and LPG (liquefied petroleum gas) output of 465 thousand tons (-15.4% YoY). Despite shrinking production output, the business performance remained impressive thanks to high prices of Brent crude oil, FO (fuel oil), and LPG. During the period, the Brent averaged USD112/barrel (+62.0% YoY) against USD69.1/barrel in 2Q21. The average LPG price in the second quarter of 2022 also recorded an average increase of 59.4% YoY to the threshold of USD851.7/ton. GAS's gross profit margin continued to expand by 5.75ppts QoQ to the highest level of 25% over the last ten quarters.

Fig 1. GAS – Business results



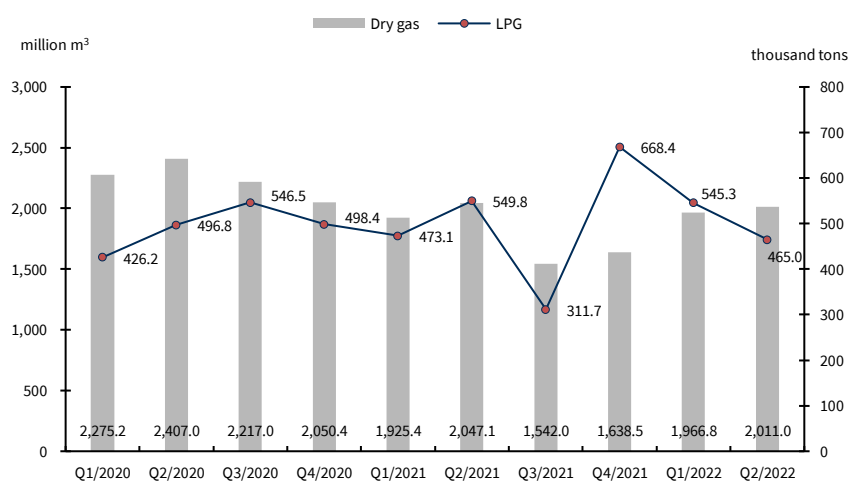
Source: PV Gas, KB Securities Vietnam

Fig 2. Global – Brent, FO, CP LPG Aramco prices



Source: Bloomberg, KB Securities Vietnam

Fig 3. GAS – Dry gas and LPG output (million m³, thousand tons)



Source: PV Gas, KB Securities Vietnam

Table 1. GAS – 1H21–1H22 business results

VND bn	1H2021	1H2022	%YoY	Notes
Oil price				Oil prices have continuously remained high in 1H2022 in the context of prolonged geopolitical tensions and unresolved oil supply chains
Average Brent (USD/bbl)	65.2	104.9	60.9%	
Average FO (USD/ton)	367.9	579.7	57.6%	
CP LPG Saudi Aramco price (USD/ton)	557.9	827.1	48.2%	
Output				
Dry gas output (million cbm)	3,972.5	3,977.8	0.1%	
Power plants	3,018.4	2,873.7	-4.8%	Output in the second quarter of 2022 decreased by 9.4% YoY due to the early arrival of the rainy season, leading to an increase in mobilization from hydropower in May and June 2022
Fertilizer producers	449.3	556.3	23.8%	
IPs	504.8	547.7	8.5%	
LPG output (thousand tons)	1,022.9	1,010.3	-1.2%	
Revenue (VND bn)	40,272	54,343	34.9%	Revenue increased strongly thanks to the base products used to calculate gas prices such as Brent, FO oil and LPG with strong increases compared to the same period last year
Gross profit	7,052	12,049	70.9%	
GPM (%)	17.51%	22.17%		Thanks to the contribution of the segment with higher gross profit margin than gas trading and transportation
SG&A	(1,816)	(1,669)		
% SG&A / Revenue	-4.51%	-3.07%		
Profit from operating activities	5,236	10,380		
Financial income	467	641		
Financial expenses	(169)	(305)	80.5%	The increase in financial expenses mainly comes from increased interest expense due to GAS increasing debt to finance large projects such as Nam Con Son 2 pipeline, Thi Vai LNG
Other net income	34	56		
Profit before tax	5,567	10,772	93.5%	
Profit after tax	4,358	8,637	98.2%	
NPM (%)	10.82%	15.89%		

Source: PV Gas, KB Securities Vietnam

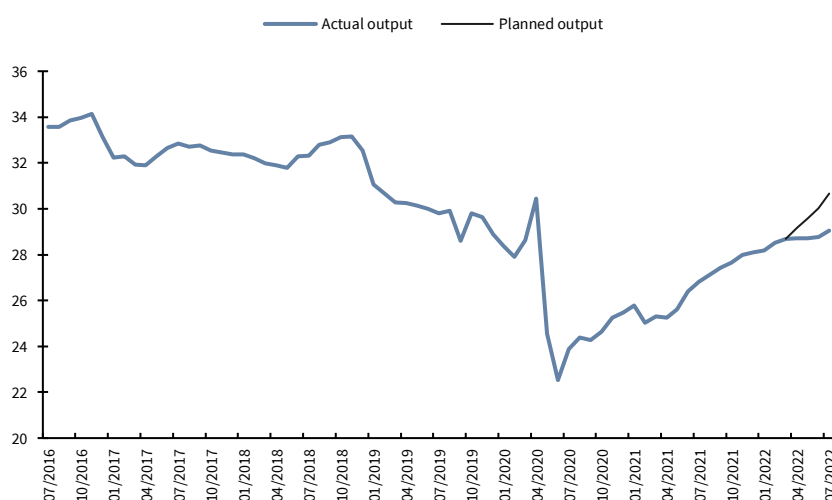
We raise our oil price forecast given positive price movements in 1H22 and unresolved bottlenecks in crude oil supply chain

In 1H2022, the average Brent oil price exceeded our expectations, spiking 60.9% YOY to USD105/barrel due to (1) prolonged Russia–Ukraine conflict which led to a decline in global oil supply, (2) failed attempt to raise production output by OPEC+, and (3) increasing demand for crude oil following the economic reopening.

With the oil supply accounting for over 40% of the global market, every decision made by OPEC + is important amid Western sanctions against Russia whose crude oil production equals 10% of the market supply. During monthly meetings in 4Q21 and 1Q22, OPEC+ decided to stick to its plan to increase production by 400,000 bpd until April 2022 (with an option to extend to December 2022). OPEC+ announced to raise output to 432,000 barrels per day (bpd) by May 2022 in its March meeting and to 648,000 bpd by July–August 2022 in its recent June meeting, signaling OPEC+ would restore production to the pre-pandemic levels in August 2022. However, the actual output by OPEC+ in May and June 2022 fell short of targets as some OPEC+ members such as Nigeria and Libya could not ensure monthly output hike due to domestic uncertainties and limited capacity for oil production, transportation, and storage. In our view, it will take time for OPEC+ to gradually make up for the shortfall in output from Russia due to recent geopolitical tensions, which will be the driving force for Brent crude oil prices to stay high in 2H2022 and 2023.

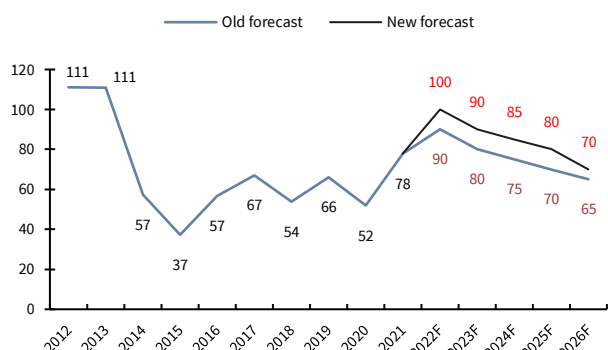
Major organizations forecast that the oil market will continue to tighten for the following reasons: (1) Oil demand in 2023 is likely to exceed pre-Covid-19 levels while alternatives Russian oil have not been found; (2) heavier sanctions from European countries could reduce Russia's global oil exports; and (3) OPEC+ may not raise its capacity as the output in May and June 2022 did not meet expectations. As a result, KBSV raises average forecast for Brent oil for 2022 and 2023 to USD100/barrel and USD90/barrel, respectively (Figure 4). With the forecast that Brent oil prices staying high in the coming period, we also believe that FO – the reference for pump prices in Vietnam will move upwards like Brent as the correlation between these two products over the past five years is over 90%, implying a higher average price for GAS.

Fig 4. OPEC – Actual and planned output in 2016–2022 (million bpd)



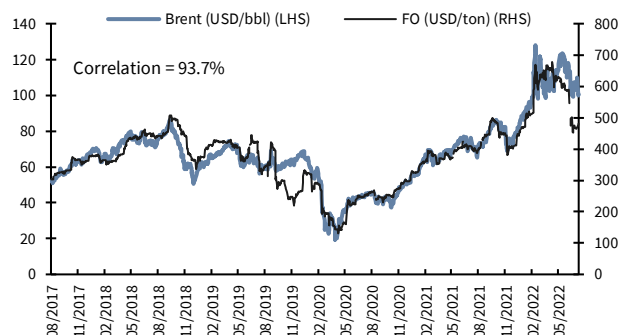
Source: PV Gas, KB Securities Vietnam

Fig 5. KBSV – Brent oil price forecast in 2017–2026 (USD/bbl)



Source: Bloomberg, KB Securities Vietnam

Fig 6. Global – Correlation between Brent & FO in 2017–2022

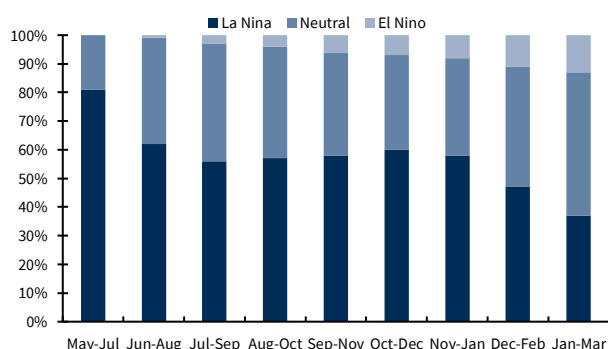


Source: Bloomberg, KB Securities Vietnam

GAS's main customers are thermal power plants which may face difficulties in 2H22 due to the rainy season, but the outlook will be brighter in 2023

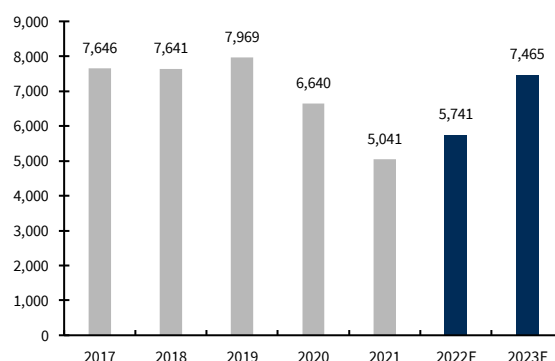
We noted that the second half of the year will be the low season for gas-generated power as EVN will prioritize hydroelectricity in the rainy season save the costs instead of more expensive power sources such as gas thermal power. In addition, according to forecasts from international meteorological organizations, the La Nina will last until the end of this year, which will guarantee the amount of water in hydroelectric plants. However, the probability of the weather pattern entering the neutral phase may surpass the threshold of 50% in 2023, so the water reserves in hydro plants will be lower than that in 2021–2022 period. Therefore, we believe gas-fired thermal power plants would have a brighter prospect in 2023 when La Nina ends and the pressure from renewable energy power projects was lower. For 2022 and 2023, we predict that dry gas volume supplied to gas thermal power plants will reach 5.7 billion m³ (+14% YoY) and 7.5 billion m³ (+30% YoY) respectively.

Fig 7. Global – Probability of weather entering the neutral phase in 2023 (%)



Source: IRI, KB Securities Vietnam

Fig 8. GAS – Gas volume supplied to power plants in 2017–2023 (million m³)



Source: PV Gas, KB Securities Vietnam

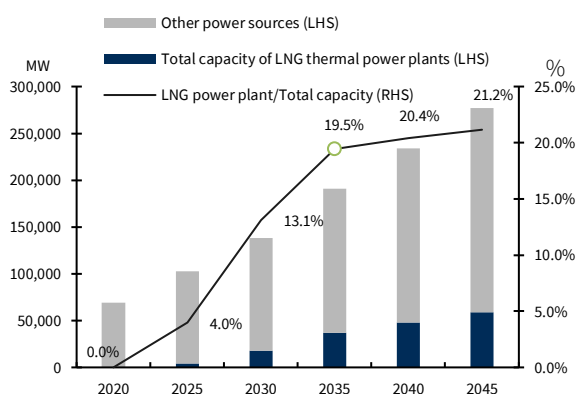
LNG is the long-term growth driver

As the supplies of oil and gas are running low year by year while the demand for electricity for economic development is getting higher, the Government asked to complement the Power Master Plan VIII to ensure the electricity source and develop a new power-generating method which is LNG. We believe that the consumption of LNG would be positive, and GAS would benefit in the medium and long term as it is the largest LNG importer. GAS is currently a pioneer investor as it owns nine out of 14 LNG warehouses that will be built and exploited in the coming period.

We expect that GAS's first LNG project – Thi Vai LNG Terminal will be completed on schedule and will start running from late 2022. Phase 1 capacity of Thi Vai LNG Terminal is 1 million tons/year, which can then be increased to 3 million tons/year in 2023.

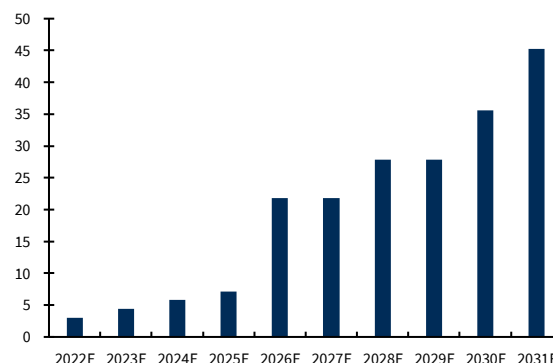
GAS also signed an agreement to establish Son My LNG Terminal joint venture with AES. The capacity of the terminal warehouse in phase 1 is 3.6 million tons/year and will increase the capacity to 10 million tons/year by 2030. The terminal will process and supply reprocessed LNG as fuel for Son My 1 and Son My 2 power plants, which should be put into operation from the end of 2025.

Fig 9. Power Master Plan VIII – Proportion of LNG-fired power (%)



Source: Power Master Plan VIII, KB Securities Vietnam

Fig 10. Power Master Plan VIII – Forecast LNG import via ports (million tons/year)



Source: PV Gas, Power Master Plan VIII, KB Securities Vietnam

Table 2. GAS – LNG terminal to be operated in 2022 – 2035 (million tons)

LNG import terminal	Operating year	Capacity (MMTPA)	Developer
Thi Vai	2022	1 (Phase 1)	PV GAS
	2023 (Phase 2)	2 (Phase 2)	
Hon Khoai (Ca Mau)	2022 – 2025 (Phase 1)	1 (Phase 1)	
	After 2025 (Phase 2)	2 (Phase 2)	
Son My (Binh Thuan)	2023 – 2025 (Phase 1)	3.6 (Phase 1)	PV GAS
	2027 – 2030 (Phase 2)	2.4 (Phase 2)	
	2031 – 2035 (Phase 3)	4 (Phase 3)	
Ha Tinh	2031 – 2035	2 – 3	
Nam Du FSRU (Kien Giang)	2028 – 2029	1 – 3	
Long Son (Vung Tau)	2031 – 2035	3 – 6	
Hon Me FSRU (Thanh Hoa)	2022 – 2025	1	
Lach Huyen (Hai Phong)	2030 – 2035	3 – 4	ExxonMobil
Nam Van Phong (Khanh Hoa)	2030 – 2035	2 – 3	Petrolimex
Hai Linh (Vung Tau)	2022 – 2025	1.2	Hai Linh Co., Ltd

Source: PV Gas, Power Master Plan VIII, KB Securities Vietnam

Forecast

2022F NPAT & revenue grow by 64.8% YoY and 34.0% YoY

We estimate GAS's NPAT and revenue at VND14,584 billion (+65% YoY) and VND105,821 billion (+34% YoY) respectively, based on the following assumptions:

- Brent oil price is at an average of USD90/barrel.
- Dry gas output recovers from 2021 lows to reach 8,085 million m³ (+13.0% YoY).
- GPM is 21.0% thanks to more contribution from dry gas transportation and trading.
- Interest expense is VND677 billion (+68% YoY) due to GAS increasing debt to finance big projects in the future.

Table 3. GAS – 2022F performance

VNDbn	2021	2022	YoY %	Comment
Oil price				
Average Brent (USD/bbl)	71	100	40.8%	
Average FO (USD/ton)	398.7	561.4	40.8%	
CP LPG Saudi Aramco price (USD/ton)	639.0	769.36	20.4%	
Output				
Dry gas output (million cbm)	7,153.0	8,085.8	13.0%	
Power plants	5,041.0	5,740.9	13.9%	Output for power plants recovered over the same period due to difficulties in coal supply for thermal power plants and 2021 is a low base due to hydropower is prioritized for mobilization
Fertilizer producers	1,102.0	1,212.9	10.1%	
IPs	1,010.0	1,132.0	12.1%	
LPG output (thousand tons)	2,003	2,003	0.0%	
Revenue (billion VND)	78,992	105,821	34.0%	Revenue increased strongly thanks to a strong increase in Brent oil price (the basis for calculating gas selling price) over the same period and a recovery in output from the low base of 2021
Gross profit	13,986	22,227	58.9%	
GPM (%)	17.71%	21.00%		Thanks to the contribution of the segment with higher gross profit margin than gas trading and transportation
SG&A	(3,612)	(4,612)		
% SG&A / Revenue	-4.57%	-4.36%		
Profit from operating activities	10,374	17,615		
Financial income	1,187	1,271		
Financial expenses	(403)	(677)	68.0%	The increase in financial expenses mainly comes from increased interest expense due to GAS increasing debt to finance large projects such as Nam Con Son 2 pipeline, LNG Thi Vai
Other net income	49	39		
Profit before tax	11,205	18,230	62.7%	
Profit after tax	8,852	14,584	64.8%	
NPM (%)	11.21%	13.78%		

Source: PV Gas, KB Securities Vietnam

Valuation

We used DCF & P/E valuation methods

We combined two valuation methods discounted cash flow (DCF) method and P/E at the ratio 50:50. Basing on the valuation, we recommend BUY for GAS stocks with a target price of VND151,100/share (upside 34.9% compared to the closing price of VND112,000 /share on May 19, 2022).

Table 4. GAS – DCF model

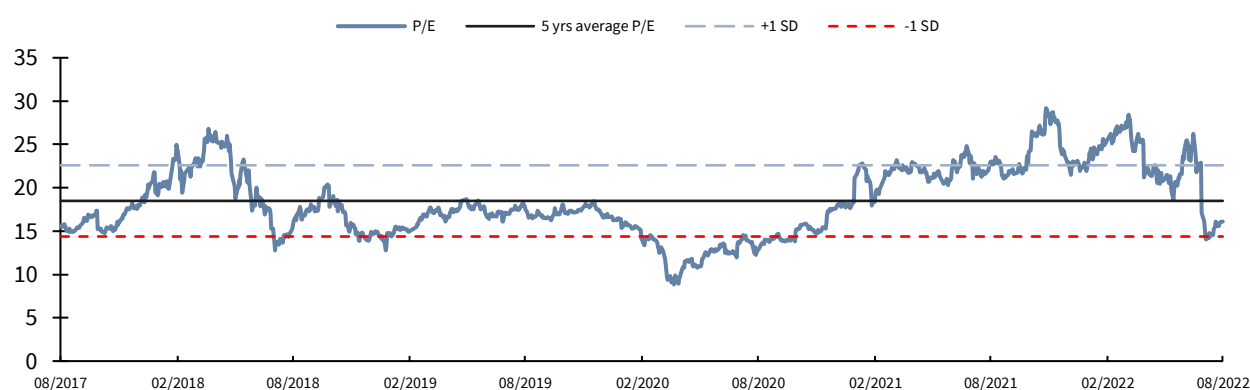
K_E	13,00%	PV of Terminal Value	230,457
Risk-free rate	3,43%	PV of Free Cash Flows	34,602
Equity risk premium	7,8%	Total value of FCF and TV	265,059
Beta	1,00	Plus: Cash & ST investments	36,672
Cost of debt	7,0%	Less: Debt	-8,227
Corporate tax rate %	20%	Less: Minority Interest	-1,193
WACC	9,0%	Equity Value	292,311
Terminal growth rate	3%	No. of shares outstanding (mn shares)	1,914.0
		Value per share (VND)	152,723

Source: KB Securities Vietnam

P/E valuation

We lower GAS's target P/E in 2022 to 20x, lower than in the previous report because Block B – the largest gas field in Vietnam is not making progress as expected and GAS should contribute a 51% stake in the Block B gas pipeline. However, this P/E is still higher than GAS's five-year average P/E, reflecting our expectation on the prospect of GAS's recovery in the coming years and its position as a pioneer in the LNG sector.

Fig 11. GAS – P/E (x)



Source: Bloomberg, KB Securities Vietnam

Table 5. GAS – Valuation results

Valuation method	Forecast price	Weight	Weighted forecast price
FCFF	152,723	50%	76,362
P/E (22.3x)	149,420	50%	74,710
Target price (rounded)			151,100
Current price (18/05/2022)			112,000
Upside			34.9%

Source: KB Securities Vietnam

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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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