

PV Gas (GAS)

FO & LPG prices should go up in 2H23

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First-half revenue and gross profit fell sharply over the same period in 2022

In the January-through-June period, PV Gas (GAS) posted revenue down 17% YoY and cost of goods sold (COGS) down 15% YoY, causing gross profit to drop sharply by 24% YoY. Crude oil, fuel oil (FO), and liquefied petroleum gas (LPG) prices fell by 24%, 29%, and 26% YoY respectively, dampening GAS's business results. Dry gas consumption rose among power plants but diminished at fertilizer plants and industrial parks (IPs), making aggregate sales almost unchanged.

Brent crude oil and FO prices are expected to go up in 2H23

We reiterate our belief that Brent crude oil prices will surpass USD80/barrel by the end of 2023, pushing FO prices up. FO will likely maintain its uptrend in 2H23 due to (1) growing energy demand for cooling in the wake of global temperatures reaching fresh new highs and (2) OPEC+ member countries tightening crude oil supply, boosting the demand for FO as an alternative input by Asian oil refineries.

LNG terminals remain a long-term growth driver

We find GAS's LNG terminals the solution to the problem of future declining natural gas supply. In July 2023, GAS received the first imported LNG shipment from supplier Shell to test operation at Thi Vai LNG Terminal Phase 1. Besides, Binh Thuan Province granted Investment Approval for Son My LNG Terminal. However, these projects are confronting risks in the midstream and downstream phases due to unresolved issues under sales and purchase agreements. We assess the profitability of LNG warehouses as low in their early stage.

We recommend BUY for GAS with a target price of VND118,800/share

Based on FCFE and P/E valuation methods, we recommend BUY for GAS. The target price is VND118,800 /share, equivalent to a total return of 15.7%.

Buy maintain

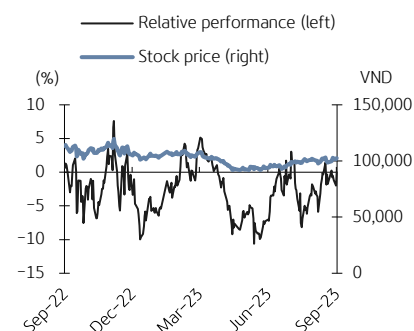
Target price	VND118,800
Upside	15.7%
Current price (Sep 12, 2023)	VND102,700
Consensus target price	VND112,400
Market cap (VNDbn/USDmn)	196,568/8,139

Trading data	
Free float	4.2%
3M avg trading value (VNDbn/USDmn)	60.9/2.5
Foreign ownership	2.9%
Major shareholder	PetroVietnam (PVN) (95.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-0.1	8.0	-5.2	-10.8
Relative	0.6	-1.5	-18.4	-8.9

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	78,992	100,724	89,617	91,879
EBIT (VNDbn)	10,374	17,799	14,893	15,573
NPAT of parent company (VNDbn)	8,673	14,794	13,089	13,889
EPS (VND)	4,356	7,647	6,859	7,257
EPS growth (%)	8.1	75.6	-11.0	6.0
P/E (x)	16.6	14.0	17.4	16.4
P/B (x)	2.7	3.4	3.3	2.9
ROE (%)	17.0	24.6	19.3	18.3
Dividend yield (%)	4.2	2.9	2.5	2.5



Source: Bloomberg, KB Securities Vietnam

Business performance

First-half revenue and gross profit fell sharply over the same period in 2022

In the January-through-June period, GAS posted revenue down 17% YoY and COGS down 15% YoY, causing gross profit to drop sharply by 24% YoY. Crude oil, FO, and LPG prices fell by 24%, 29%, and 26% YoY respectively, dampening GAS's business results. Dry gas consumption rose among power plants due to unfavorable hydrological conditions but diminished at fertilizer plants and industrial parks (IPs), making aggregate sales almost unchanged.

Table 1. GAS – 1H22–1H23 business results

(VND bn)	1H2022	1H2023	YoY %	Comments
Revenue (VND bn)	54,343	45,257	-17%	Revenue decreased mainly due to a sharp decline in crude oil and FO prices against the high base of the same period (-24% YoY and -29% YoY). Sales volume did not change much.
Gross profit	12,049	9,185	-24%	
Gross profit margin (%)	22%	20%		
SG&A	-1,669	-1,915	15%	
EBIT	10,380	7,270	-30%	
Financial income	641	1,135	77%	Driven by higher interest rates and cash balance against the same period a year ago
Financial expense	-305	-170	-44%	Driven by a sharp decrease in liabilities over the same period
Net other income	56	23	-59%	
Profit before tax (PBT)	10,772	8,257	-23%	
NPAT	8,637	6,613	-23%	
Net profit margin (%)	16%	15%		
Dry gas consumption (million tons)	3,978	3,990	0.3%	
By power plants	2,874	2,949	3%	Consumption demand increased due to the impact of El Nino
By fertilizer plants	556	553	-1%	PV Fertilizer & Chemicals (DPM) and PV Ca Mau Fertilizer (DCM) carried out maintenance. Meanwhile, dry gas was prioritized for power plants.
By industrial parks	548	487	-11%	Weak domestic production led to a decline in consumption demand from industrial parks.
LPG consumption (thousand tons)	1,010	1,090	8%	
Condensate consumption (thousand tons)	53	47	-13%	
Brent (USD/barrel)	105	80	-24%	
FO price (USD/ton)	581	415	-29%	
LPG price (USD/ton)	827	611	-26%	

Source: PV Gas, KB Securities Vietnam

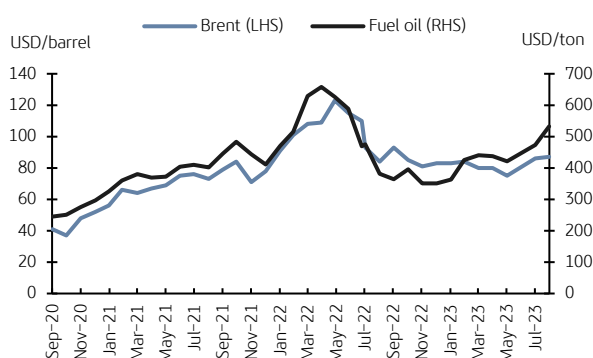
Brent crude oil and FO prices are expected to go up in 2H23

OPEC+'s production cuts resulted in Brent crude oil prices recovering with an 8% increase since April 2023. We reiterate our belief that Brent will surpass USD80/barrel by the end of 2023, pushing FO prices up. FO will likely maintain its uptrend in 2H23 due to (1) growing energy demand for cooling in the wake of global temperatures reaching fresh new highs, especially in the Middle East and (2) surging fuel demand in the US and EU as well as rising demand for FO as an alternative input by Asian oil refineries following OPEC+ member countries tightening crude oil supply.

The outlook for the LPG market is bright in 2H23

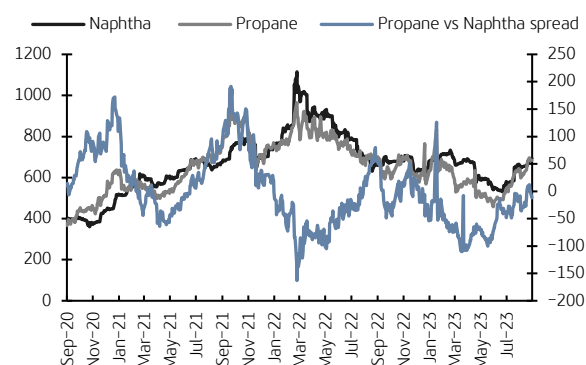
LPG (Propane) prices in Asia have increased substantially since June 2023 as LPG prices remained at low levels versus Naphtha prices throughout 1H23, encouraging LPG purchases from petrochemical plants. By September 2023, the LPG-Naphtha spread in Asia had narrowed significantly. Despite that, we assess LPG prices will enjoy increases towards the end of 2023 thanks to surging demand in the region when PDH (propane dehydrogenation) plants in China come into operation.

Fig 2. Global – Brent & FO prices (USD/barrel, USD/ton)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Asia – Propane-naphtha spread (USD/ton)



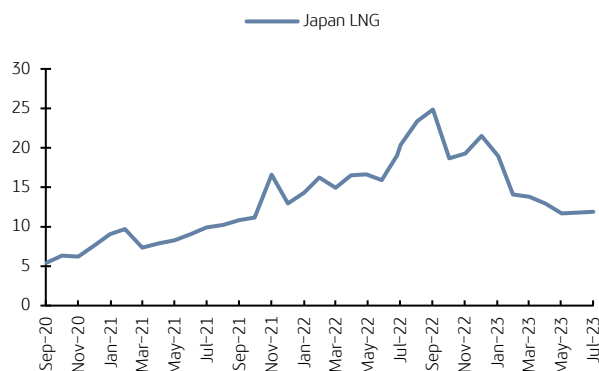
Source: Bloomberg, KB Securities Vietnam

LNG terminals remain a long-term growth driver

We find GAS's LNG terminals the solution to the problem of future declining natural gas supply before the Block B-O Mon gas project comes into operation. In July 2023, GAS received the first imported LNG shipment from supplier Shell to test operation at Thi Vai LNG Terminal Phase 1. The largest customer of this project is Nhon Trach 3&4 thermal power projects, which should start running in late 2024 and early 2025. Also, Binh Thuan Province granted Investment Approval for Son My LNG Terminal in July. The project will serve Son My 1 and 2 power plants, with operation expected in 2027-2028.

To date, Nhon Trach 3&4 thermal power plants have not got a power purchase contract (PPA) and gas sales and purchase agreement (GSPA) due to problems between PV Power (POW) and Vietnam Electricity (EVN). We are concerned that the delay of the Nhon Trach 3&4 projects will tremendously impact the prospects of GAS's LNG terminals. Also, we assess the profitability of LNG warehouses as low in their early stage as GAS has not had LNG prices under contracts finalized with its customers. Because imported LNG prices are much higher than domestic natural gas prices, GAS may have to lower selling prices to support thermal power plants. Meanwhile, imported LNG prices will likely swing wildly as LNG producers in the world could be counted on the fingers of one hand while consumption demand is huge due to the tendency to prioritize utilizing low-emission energy sources like LNG. The strikes at Australian LNG facilities may cause LNG prices to spiral in the foreseeable future.

Fig 4. Japan – LNG prices (USD/mmBTU)



Source: Bloomberg, KB Securities Vietnam

Fig 5. GAS – Some LNG Terminal projects

LNG terminals	Capacity (thousand tons/year)	Investment (USDmn)	Expected launch	GAS's ownership
Thi Vai Phase 1				
Thi Vai Phase 2	1,000	285	2024	100%
Thi Vai Phase 3	3,000	200	2027	100%
Son My Phase 1	6,000	200	N/A	100%
Son My Phase 2	3,000	1,330	2027	61%
	6,000	40	N/A	61%

Source: PV Gas, KB Securities Vietnam

The Block B-O Mon gas project has not yet seen much progress

In June 2023, the O Mon 3&4 thermal power plants were transferred ownership from EVN to PVN as EVN had difficulty raising capital for the two projects. However, we believe the progress of applying for the final investment decision (FID) for the Block B-O Mon project may last until mid-2024 due to unresolved issues under midstream and downstream power and gas purchase agreements.

Forecast

Table 6. GAS – 2022A–2023F business results

(VND bn)	2022A	2023F	% YoY	Comments
Revenue (VND bn)				Revenue decreased mainly due to a sharp decline in crude oil and FO prices from the high base of the same period (~21% YoY and ~21% YoY). Sales volume decreased slightly by 0.7% largely due to reduced consumption by fertilizer plants and industrial parks.
	100,724	89,617	-11%	
Gross profit	21,314	18,355	-14%	
Gross profit margin (%)	21.2%	20.5%		
SG&A	-3,515	-3,420	-3%	
EBIT	17,799	14,893	-16%	
Financial income	1,568	2,038	30%	Large cash balance accumulated from 2022 with no large investments in new projects
Financial expense	-671	-372	-45%	Driven by a sharp fall in liabilities over the same period
Net other income	78	32	-59%	
Profit before tax (PBT)	18,802	16,665	-11%	
NPAT	15,062	13,349	-11%	
Net profit margin (%)	15.0%	14.9%		
Dry gas consumption (million tons)	7,798	7,744	-0.7%	
By power plants	5,550	5,808	5%	Consumption demand increased under the impact of El Nino.
By fertilizer plants	1,150	1,084	-6%	PV Fertilizer & Chemicals (DPM) and PV Ca Mau Fertilizer (DCM) carried out maintenance. Meanwhile, dry gas was prioritized for power plants.
By industrial parks	1,100	852	-23%	Weak domestic production led to a decline in consumption demand from industrial parks.
LPG consumption (thousand tons)	2,068	2,068	0%	
Condensate consumption (thousand tons)	101	97	-4%	
Brent (USD/barrel)	101	80	-21%	
FO price (USD/ton)	494	417	-16%	FO prices are forecast to increase in line with global prices.
LPG price (USD/ton)	737	615	-17%	

Source: PV Gas, KB Securities Vietnam

Valuation

We recommend BUY for GAS with a target price of VND118,800/share

We use a 70:30 combination of the free cash flow to the firm (FCFF) and P/E valuation methods to assess GAS's value. We recommend BUY for GAS with a target price of VND118,800/share, equivalent to an upside of 15.7% compared to the closing price of VND102,700/share on September 12, 2023.

Table 7. GAS – FCFF model assumptions

Risk-free rate	5%	PV of terminal value (VND bn)	165,702
Market risk premium	8.2%	PV in 2023–2027	39,996
Beta	0.69	Total present value	205,698
Average interest rate	7.5%	+ Cash & short-term investments	34,275
Corporate tax rate	20.0%	– Debt	–6,083
WACC	9.8%	– Minority interest	–1,458
Terminal growth	1.5%	Equity value	232,432
		Outstanding shares (million shares)	1,914.00
		Value per share (VND)	121,400

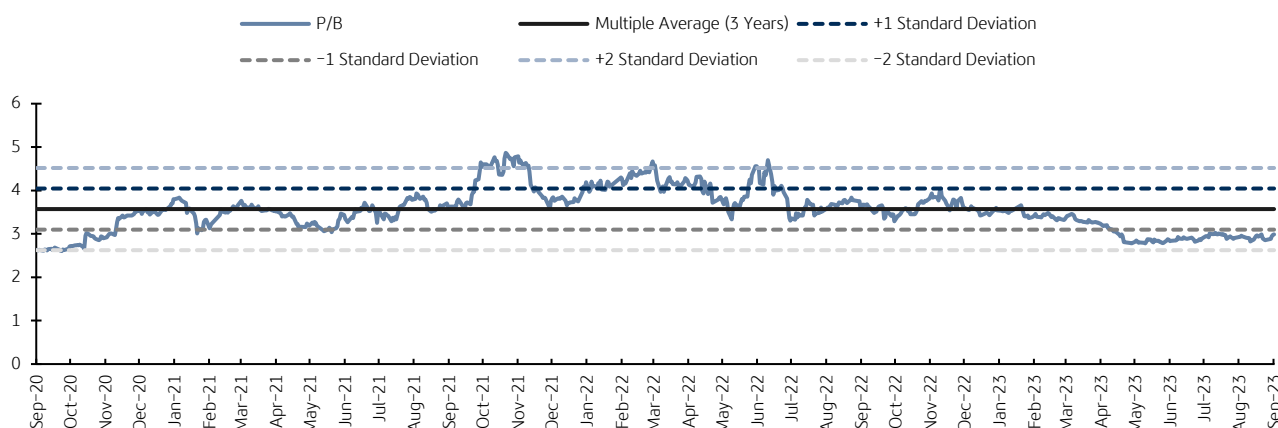
Source: Bloomberg, KB Securities Vietnam

Table 8. GAS – Valuation result

Valuation method	Forecast price	Weighting	Weighted price
FCFF	121,400	70%	84,980
P/E (16.5x)	112,844	30%	33,853
Target price (rounded)			118,800
Current price (Sep 12, 2023)			102,700
Total shareholder return			15.7%

Source: KB Securities Vietnam

Fig 9. GAS – Historical P/B in 2020–2023 (x)



Source: Bloomberg, KB Securities Vietnam

GAS – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND billion)	2021A	2022A	2023F	2024F	(VND billion)	2021A	2022A	2023F	2024F
Net sales	78,992	100,724	89,617	91,879	CURRENT ASSETS	78,768	82,806	86,941	94,918
Cost of sales	-65,007	-79,409	-71,262	-72,756	Cash and cash equivalents	51,395	55,652	58,886	63,786
Gross Profit	13,986	21,314	18,355	19,123	Short-term investments	5,300	10,549	14,073	17,264
Financial income	1,187	1,568	2,038	2,242	Accounts receivable	24,800	23,726	25,400	26,632
Financial expenses	-403	-671	-372	-237	Inventories	16,920	16,191	15,100	15,481
of which: interest expenses	-304	-337	-186	-118	LONG-TERM ASSETS	3,241	4,102	3,026	3,090
Gain/(loss) from joint ventures (from 2015)	15	28	28	28	Long-term trade receivables	27,373	27,155	28,055	31,132
Selling expenses	-2,133	-2,440	-2,172	-2,227	Fixed assets	188	169	169	169
General and admin expenses	-1,479	-1,075	-1,290	-1,323	Investment properties	18,098	16,370	17,270	20,347
Operating profit/(loss)	11,173	18,724	16,587	17,606	Long-term incomplete assets	4,871	6,121	6,121	6,121
Other incomes	83	112	112	112	Long-term investments	22	36	36	36
Other expenses	51	34	34	34	TOTAL ASSETS	1	0	0	0
Net other income/(expenses)	32	78	78	78	LIABILITIES	26,575	21,489	17,844	17,295
Income from investments in other entities	0	0	0	1	Current liabilities	16,561	12,488	11,598	11,705
Net accounting profit/(loss) before tax	11,205	18,802	16,665	17,684	Trade accounts payable	6,631	6,652	5,647	5,790
Corporate income tax expenses	-2,353	-3,740	-3,316	-3,519	Advances from customers	105	128	184	181
Net profit/(loss) after tax	8,852	15,062	13,349	14,165	Short-term unrealized revenue	485	45	432	332
Minority interests	179	268	260	276	Short-term borrowings	10,014	9,001	6,246	5,590
Attributable to parent company	8,673	14,794	13,089	13,889	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	24	24	24	24
					Unrealized revenue	7,510	6,038	3,283	2,627
					Long-term borrowings	52,193	61,317	69,097	77,623
					OWNER'S EQUITY	19,140	19,140	19,140	19,140
					Paid-in capital	0	0	0	0
					Share premium	10,487	19,243	26,723	35,012
					Undistributed earnings	21,468	21,476	21,516	21,477
					Minority interests	1,098	1,458	1,718	1,994
Margin ratio					Key ratios				
-	2021A	2022A	2023F	2024F	-				
Gross profit margin	17.7%	21.2%	20.5%	20.8%	Multiple				
EBITDA margin	17.0%	20.8%	19.5%	20.6%	P/E	16.6	14.0	17.4	16.4
EBIT margin	13.1%	17.7%	16.6%	17.0%	P/E diluted	16.6	14.0	17.4	16.4
Pre-tax profit margin	14.2%	18.7%	18.6%	19.3%	P/B	2.7	3.4	3.3	3.0
Operating profit margin	14.1%	18.6%	18.5%	19.2%	P/S	1.8	2.0	2.6	2.5
Net profit margin	11.2%	15.0%	14.9%	15.4%	P/Tangible Book	2.7	3.4	3.3	3.0
					P/Cash Flow	18.3	16.5	14.6	14.3
					EV/EBITDA	10.6	9.7	12.6	11.4
					EV/EBIT	13.8	11.4	14.8	13.9
					Operating performance				
					ROE	17.0%	24.6%	19.3%	18.3%
					ROA	11.2%	18.2%	15.4%	14.9%
					ROIC	18.1%	29.8%	24.1%	23.5%
					Financial structure				
					Cash Ratio	1.8	2.7	3.4	3.8
					Quick Ratio	2.8	4.0	4.7	5.1
					Current Ratio	3.1	4.5	5.1	5.5
					LT Debt/Equity	0.1	0.1	0.0	0.0
					LT Debt/Total Assets	0.1	0.1	0.0	0.0
					Debt/Equity	0.0	0.0	0.0	0.0
					Debt/Total Assets	0.0	0.0	0.0	0.0
					ST Liabilities/Equity	0.3	0.2	0.2	0.2
					ST Liabilities/Total Assets	0.2	0.2	0.1	0.1
					Total Liabilities/Equity	0.5	0.4	0.3	0.2
					Total Liabilities/Total Assets	0.3	0.3	0.2	0.2
					Activity ratios				
					Account Receivable Turnover	5.8	6.1	5.7	6.0
					Inventory Turnover	26.5	21.6	23.6	23.6
					Account Payable Turnover	17.0	15.2	14.6	16.1
Cash Flow Statement									
(VND billion)	2021A	2022A	2023F	2024F					
Net profit/(loss) before tax	11,205	18,802	16,665	17,684					
Depreciation and amortisation	3,073	3,104	2,604	3,364					
Profit/loss from investing activities	-992	-992	-992	-992					
Interest expense	304	325	179	114					
Operating profit/(loss) before changes in Working Capital	14,084	21,239	18,456	20,170					
(Increase)/decrease in receivables	-7,153	782	1,091	-381					
(Increase)/decrease in inventories	-1,612	-878	1,076	-64					
Increase/(decrease) in payables	7,801	-3,902	-1,005	143					
(Increase)/decrease in prepaid expenses	-2,740	-290	-290	-290					
Net cash inflows/(outflows) from operating activities	7,595	12,440	15,637	15,923					
Purchases of fixed assets and other long term assets	-4,747	-2,006	-4,338	-6,567					
Proceeds from disposal of fixed assets	181	1	0	0					
Loans granted, purchases of debt instruments	-41,511	-40,613	-37,157	-37,157					
Collection of loans, proceeds from sales of debts instruments	38,324	41,432	36,413	36,413					
Investments in other entities	0	-40	-40	-40					
Proceeds from divestment in other entities	0	-60	-60	-60					
Dividends and interest received	998	1,330	1,164	1,164					
Net cash inflows/(outflows) from investing activities	-6,755	43	-4,004	-6,233					
Proceeds from issue of shares	0	159	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	6,247	1,325	1,255	1,213					
Repayment of borrowings	-1,156	-3,371	-3,623	-1,970					
Finance lease principal payments	0	0	0	0					
Dividends paid	-5,865	-5,882	-5,742	-5,742					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-774	-7,769	-8,110	-6,499					
Net increase in cash and cash equivalents	66	4,715	3,523	3,191					
Cash and cash equivalents at the beginning of period	5,237	5,833	10,550	14,073					
Cash and cash equivalents at the end of period	5,301	10,550	14,073	17,264					

Source: PV Gas, KB Securities Vietnam

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(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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