

PV Gas (GAS)

High world oil prices as a strong driver

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GAS's 3Q21 profit was hard hit by COVID-19 but was offset by rising processed gas prices

PV Gas (GAS) announced its consolidated financial statement for 3Q21 with NPAT of VND2.4 trillion (+7% QoQ, +19.1% YoY) on net revenue of VND18.5 trillion (-18.3%QoQ, +16.3% YoY). Although gas consumption plummeted in 3Q due to social distancing in the southern provinces, the company's profit was still positive thanks to a strong increase in processed gas prices in line with high world oil prices.

GAS will benefit from stably high world oil prices and recovering demand for gas in the coming time

We expect gas demand to recover in 4Q when Vietnam goes into the phase of living with the Coronavirus and Brent oil prices will be likely to stay high in the near future thanks to close correlation between Mazut (FO) and Brent oil prices, which will strongly benefit GAS.

LNG is a long-term growth driver of GAS

Given high demand for electricity and the plan to raise the proportion of gas power (including LNG power) in the National Power Development Plan 8 (NPDP8), the prospect of LNG segment should be positive and become an important driving force of GAS in the coming time.

We maintain our BUY recommendation for GAS shares with a target price of VND125,000

Basing on P/E valuation method, business outlook as well as possible risks, we maintain our BUY recommendation for GAS shares. The target price is VND125,000/share, 26.8% higher than the closing price on December 16, 2021.

Buy maintain

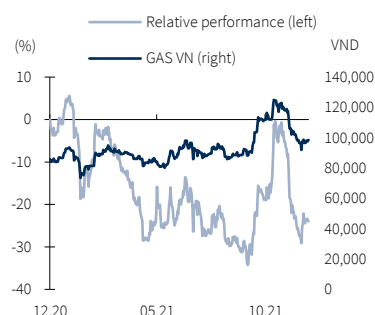
Target price	VND125,000
Upside/Downside	26.8%
Current price (Dec 16, 2021)	VND98,600
Consensus target price	VND130,300
Market cap	USD8,203mn

Trading data	
Free float	4.2%
3M avg trading value	USD7.9mn
Foreign room available	46.3%
Major shareholder	PetroVietnam Group (PVN 95.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-15.5	6.5	7.3	17.2
Relative	-16.7	6.5	-5.6	-22.2

Forecast earnings & valuation

FY-end	2020A	2021P	2022P	2023P
Net sales (VNDbn)	64,135	78,236	97,897	116,423
Gross profit (VNDbn)	11,406	14,104	17,384	20,729
Profit attributable to parent (VNDbn)	7,855	9,294	11,126	13,108
EPS (VND)	4,089	4,834	5,791	6,824
EPS growth (%)	-33.6	18.2	19.8	17.8
P/E (x)	20.5	23.2	21.6	19.9
P/B (x)	3.3	4.3	4.5	4.4
ROE (%)	16.2	18.9	21.5	23.3
Dividend yield (%)	3.0	4.1	4.1	4.1



Source: Bloomberg, KB Securities Vietnam

Business performance

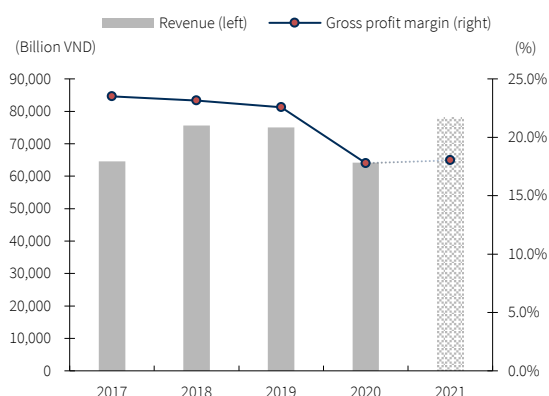
GAS's 3Q21 profit was hard hit by the pandemic but was offset by high world oil prices

GAS announced its consolidated financial statement for 3Q21 with NPAT of VND2.4 trillion (+7% QoQ, +19.1% YoY) and net revenue of VND18.5 trillion (-18.3% QoQ, +16.3% YoY). Social distancing measures during the fourth wave of COVID-19 in southern provinces have strongly affected the gas demand of power plants, causing 3Q21 dry gas consumption to decrease to 1.5 billion m³ (-30% YoY) and 9M21 dry gas output to hit only 5.6 billion m³ (-18% YoY). However, the company's profit was still positive thanks to a sharp increase in the processed gas prices in line with high world oil prices. By the end of the third quarter, Brent oil was sold at USD78/barrel, nearly 86% higher than the 2020 average at approximately USD42/barrel.

In 9M21, GAS recorded NPAT of VND6.8 trillion (+9.2% YoY) and net revenue of VND58.8 trillion (+21% YoY), completing 97% and 84% of the full-year plan for profit and revenue respectively.

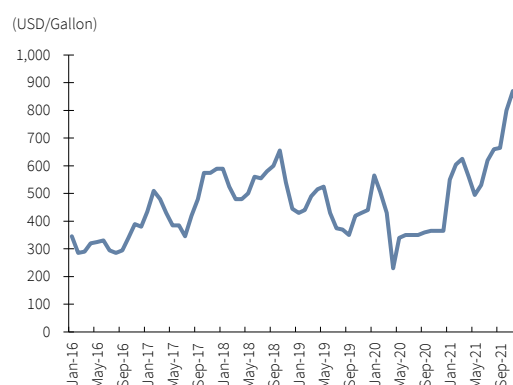
Despite the negative impacts of the pandemic, GAS's Liquefied Petroleum Gas (LPG) segment recorded positive results with 9M21 output reaching 1.5 thousand tons (+4% YoY) thanks to benefiting from the uptrend of LPG prices.

Fig 1. GAS – Revenue and gross profit (VNDbn, %)



Source: Bloomberg, KB Securities Vietnam

Fig 2. Global – LPG prices by Saudi Aramco (USD/gallon)

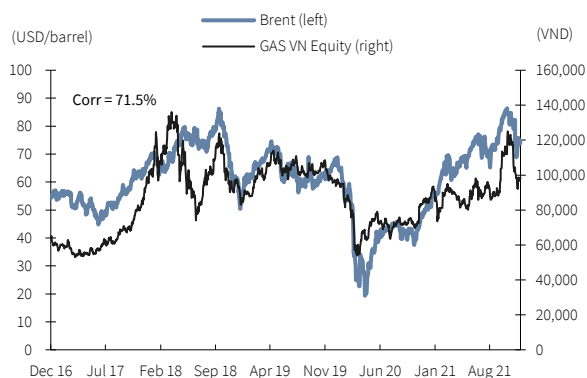


Source: Bloomberg, KB Securities Vietnam

High world oil prices along with the recovery of gas demand will contribute to the profit of GAS in the coming time

We expect gas demand to recover in 4Q as Vietnam goes into the phase of living with Covid instead of “zero Covid”. However, it may be somewhat hindered by the increased competition of renewable electricity as well as hydropower in the event of high chance of La Nina continuing in early 2022. Moreover, Brent oil prices will be likely to stay high in the near future thanks to the close correlation between FO and Brent oil prices, which will also strongly benefit GAS.

Fig 2. GAS & global – Brent oil prices (USD/barrel, VND)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – Forecast average Brent oil price (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

LNG is a long-term growth driver of GAS

Given high demand for electricity and the plan to increase the proportion of gas power (including LNG power) in the draft NPDP8, the prospect of LNG consumption should be positive and become the driving force of GAS in the coming time. GAS is currently the main investor of nine out of 14 LNG terminals.

Thi Vai LNG Warehouse project is still on schedule and should start operating by the end of 2022. Its capacity is 1 million tons per annum in the first phase and can be raised to 3-6 million tons per year in 2024-2025.

Besides, GAS signed an agreement to establish a joint venture called Son My LNG Warehouse Co., Ltd with AES. The warehouse capacity is 3.6 million tons per annum in the first phase and may rise to 9 million tons in the next phase. The terminal will receive, process and provide LNG reprocessed as fuel for two power plants Son My 1 and Son My 2, which is expected to run from the end of 2025.

Table 1. Vietnam – 2021E – 2035E LNG terminals (million tons)

LNG terminal	Expected time of operation	Capacity (MTPA)
Thi Vai LNG Terminal	2020 – 2022	1-3 MT
Hon Khoai LNG Terminal (Ca Mau)	2022 – 2025 (phase 1)	1 (phase 1)
	Sau 2025 (phase 2)	2 (phase 2)
Son My LNG Terminal (Binh Thuan)	2023 – 2025 (phase 1)	1-3 (phase 1)
	2027 – 2030 (phase 2)	3 (phase 2)
	2031 – 2035 (phase 3)	3 (phase 3)
Tien Giang Southeast Terminal	2022 – 2025	4-6
Land-based LNG Terminal (Thai Binh)	2026 – 2030	0.2 – 0.5
Cat Hai LNG Terminal (Hai Phong)	2030 – 2035	1-3
Nam Van Phong LNG Terminal (Khanh Hoa)	2030 – 2035	3
Hai Linh LNG Terminal (Vung Tau)	2021 (phase 1)	2-3 (phase 1)
	2023 – 2025 (phase 2)	6 (phase 2)

Source: National Gas Development Plan, KB Securities Vietnam

Forecast business performance

We expect GAS to report positive business results in 2021-2022

In 2021, we forecast GAS may record earnings of VND9.4 trillion (+18% YoY) on revenue of VND78 trillion (+22% YoY). These figures may rise to VND11.2 trillion (+19.4% YoY) and VND97.8 trillion (+25% YoY) in 2022 thanks to the recovery of gas demand and stably high average Brent oil price, assuming at USD68 per barrel.

We recommend BUYING GAS shares with a target price of VND125,000 apiece

GAS is currently trading at a 2021 forward P/E of 19.4x, close to +1SD of the past five-year average. We believe that GAS will continue to operate in this area, given the bright outlook of the LNG segment and high world oil prices in the near future. Accordingly, we still recommend BUYING GAS shares and raise the target price to VND125,000 per share (corresponding to a 2022 P/E of 21.5), 26.8% higher than the closing price on December 16, 2021.

Fig 4. GAS - 12M forward P/E (x)



Source: Bloomberg, KB Securities Vietnam

Fig 5. GAS - 12M forward P/B (x)



Source: Bloomberg, KB Securities Vietnam

GAS – 2020A-2023E financial data

Income Statement					Balance Sheet				
(VND)	2020A	2021A	2022P	2023P	(VND)	2020A	2021A	2022P	2023P
Net sales	64,034,965,486,838	78,235,999,615,553	97,897,339,417,223	116,422,580,757,973	Total assets	63,208,401,030,103	68,022,635,070,976	75,927,761,655,482	85,991,330,604,440
Cost of sale	(52,728,949,502,327)	(64,131,764,309,480)	(80,513,816,829,387)	(95,693,567,897,827)	Cash, ST & LT investment	27,229,672,631,765	27,266,123,321,316	27,833,911,240,891	30,909,198,231,067
Gross profit	11,406,015,984,511	14,104,234,852,073	17,383,522,587,837	20,729,012,860,146	Receivables	10,401,262,065,712	12,688,135,466,747	15,876,766,676,104	18,881,147,960,994
Financial income	1,451,117,996,323	1,475,120,500,211	1,490,830,704,048	1,585,550,651,702	Inventory	1,662,572,767,363	1,988,084,693,594	2,495,928,321,711	2,966,500,604,833
Financial expenses	(169,134,841,287)	(181,747,619,709)	(229,061,444,185)	(290,569,410,634)	Other current assets	719,971,606,337	878,268,157,816	1,098,984,059,340	1,306,946,247,588
Gain/(loss) from joint ventures	(11,351,394,583)	(1,847,168,862)	(17,327,074,552)	(20,605,899,489)	Fixed assets	19,773,601,197,998	21,028,474,008,789	23,399,775,161,456	25,716,900,514,090
SG&A	(2,712,209,910,452)	(3,598,855,961,431)	(4,503,277,613,192)	(5,355,438,714,867)	Other LT assets	3,421,320,760,928	4,173,549,422,714	5,222,396,195,980	6,210,637,045,869
Operating profit/(loss)	9,964,437,834,512	11,784,904,602,281	14,124,687,462,291	16,647,949,486,858	Liabilities	13,708,720,044,649	16,952,030,426,838	21,414,392,971,148	26,021,928,344,628
Net other income/(expenses)	13,626,394,185	27,678,122,490	27,678,122,490	27,678,122,490	Payables	2,676,585,638,208	3,255,406,392,955	4,086,979,312,822	4,857,521,948,032
Pretax profit/(loss)	9,978,064,228,697	11,812,582,724,770	14,152,365,284,780	16,675,627,609,348	Advances from customers	228,058,965,321	278,201,147,910	348,115,349,649	413,989,671,720
Income tax	(2,006,273,008,745)	(2,362,516,544,954)	(2,830,473,056,956)	(3,335,125,521,870)	ST borrowings	10,174,700,000,000	1,322,711,000,000	1,719,524,300,000	2,235,381,590,000
Net profit/(loss)	7,971,791,219,952	9,450,066,179,816	11,321,892,227,824	13,340,502,087,478	Other current liabilities	5,826,666,818,542	7,107,746,872,081	8,893,981,229,676	10,577,000,908,665
Minority interests	116,835,298,013	156,471,998,323	195,794,678,834	232,845,161,516	LT borrowings	1,963,867,248,970	2,553,027,423,661	3,318,935,650,759	4,314,616,345,987
Net profit after MI	7,854,955,921,939	9,293,594,181,493	11,126,097,548,990	13,107,656,925,962	Other LT liabilities	1,996,071,373,608	2,434,937,590,230	3,046,857,128,242	3,623,417,880,224
EBIT	8,682,454,679,476	10,491,531,172,779	12,862,917,900,093	15,352,968,245,790	Shareholders' equity	49,499,680,985,454	51,070,604,644,138	54,513,368,684,334	59,969,402,259,812
EBITDA	11,029,855,348,288	13,358,567,619,620	15,738,525,456,057	18,282,751,610,178	Paid-in capital	19,139,500,000,000	19,139,500,000,000	19,139,500,000,000	19,139,500,000,000
EPS	4,089	4,834	5,791	6,824	Undistributed earnings	10,028,673,271,871	11,624,488,061,911	15,052,820,552,951	20,457,372,096,592
BVPS	25,307	26,449	27,969	30,840	Reserve & others	20,120,828,172,286	20,095,937,040,930	20,110,368,590,086	20,116,185,621,923
Dividend yield (%)	3.0%	4.1%	4.1%	4.1%	Total liabilities & equity	63,208,401,030,103	68,022,635,070,976	75,927,761,655,482	85,991,330,604,440
Operating ratios					Valuation				
(VND)	2020A	2021A	2022P	2023P	(VND, X, %)	2020A	2021A	2022P	2023P
Pretax profit	9,978,064,228,697	11,812,582,724,770	14,152,365,284,780	16,675,627,609,348	Valuations				
Depreciation & amort	2,347,400,668,812	2,867,035,897,841	2,875,607,555,964	2,929,783,355,998	P/E	20.5	23.2	21.6	19.9
Tax	(2,006,273,008,745)	(2,362,516,544,954)	(2,830,473,056,956)	(3,335,125,521,870)	P/B	3.3	4.3	4.5	4.4
Change in Working capital	(123,971,497,552)	(860,638,887,869)	(1,229,469,259,797)	(1,163,479,119,990)	P/S	2.5	2.7	2.4	2.2
(Inc)/Dec - receivables	85,420,373,495	(2,286,873,401,035)	(3,188,631,209,357)	(3,004,381,284,890)	Operating performance				
(Inc)/Dec - inventory	(87,870,244,255)	(325,511,926,231)	(507,843,628,117)	(470,572,283,122)	ROEA	16.2%	18.9%	21.5%	23.3%
(Inc)/Dec - other curr assets	(228,964,592,846)	(158,296,551,479)	(220,715,901,524)	(207,962,188,248)	ROAA	12.5%	14.2%	15.5%	16.2%
(Inc)/Dec - payables	762,692,679,474	578,820,754,747	831,572,919,867	770,542,635,210	Operating performance				
(Inc)/Dec - advances	25,221,419,193	50,142,182,589	69,914,201,738	65,874,322,071	Current ratio	4.1	3.6	3.1	3.0
(Inc)/Dec - other curr liab	(680,471,205,333)	1,281,080,053,539	1,786,234,357,595	1,683,019,678,989	Total liab/equity	27.7%	33.2%	39.3%	43.4%
Change in non-curr assets	559,618,763,480	(752,228,661,786)	(1,048,846,773,266)	(988,240,849,889)	Net debt/equity	6.0%	7.6%	9.2%	10.9%
Change in non-curr liab	852,181,647,748	438,866,216,622	611,919,538,012	576,560,751,982	Net debt/Total assets	4.7%	5.7%	6.6%	7.6%
Operating cashflow	11,607,020,802,440	11,143,100,744,624	12,531,103,288,737	14,695,126,225,580	Growth				
CAPEX	(6,271,129,096,432)	(4,121,908,708,632)	(5,246,908,708,632)	(5,246,908,708,632)	Revenue growth	-14.5%	22.0%	25.1%	18.9%
Change in ST & LT investments	3,327,268,049,452	-	-	-	EBIT growth	-36.4%	20.8%	22.6%	19.4%
Investing cashflow	(2,943,861,046,980)	(4,121,908,708,632)	(5,246,908,708,632)	(5,246,908,708,632)	EBITDA growth	-25.8%	21.1%	17.8%	16.2%
Change in LT borrowings	507,937,248,970	599,160,174,691	765,908,227,098	995,680,695,228	NP after MI growth	-34.0%	18.3%	19.7%	17.8%
Change in ST borrowings	(323,097,890,126)	305,241,000,000	396,813,300,000	515,857,290,000	Gross profit margin	17.8%	18.0%	17.8%	17.8%
Dividend	(5,741,850,000,000)	(7,655,800,000,000)	(7,655,800,000,000)	(7,655,800,000,000)	EBITDA margin	17.2%	17.1%	16.1%	15.7%
Other adj for financing	(2,344,791,592,129)	(223,342,521,132)	(223,328,167,629)	(228,668,512,000)	Net profit margin	12.2%	11.9%	11.4%	11.3%
Financing cashflow	(7,901,802,193,285)	(6,984,741,346,441)	(6,716,406,660,531)	(6,372,930,526,772)	Operating ratios				
Cash & equivalents - beginning	4,475,889,167,227	5,237,246,729,402	5,273,697,418,953	5,841,485,338,528	Asset turnover	1.0	1.2	1.4	1.4
Net increase in cash & equivalents	76,135,562,175	36,450,689,551	567,787,919,575	3,075,286,990,175	Receivables turnover	6.1	6.8	6.9	6.7
Cash & equivalents - ending	5,237,246,729,402	5,273,697,418,953	5,841,485,338,528	8,916,772,328,704	Inventory turnover	32.6	35.1	35.9	35.0
					Payable turnover	17.8	17.5	18.0	18.3

Source: PV Gas, 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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