

December 11, 2023

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### 9M23 revenue and gross profit decreased sharply YoY

For 9M23, PV Gas (GAS) saw revenue down 14% YoY and gross profit down 22% YoY. Despite an improvement in 3Q23, crude oil, FO, and LPG prices still decreased 24%, 29%, and 26% YoY in 9M23, respectively, dampening GAS's business results. In 3Q23, dry gas consumption decreased among power plants (following better-than-expected hydrological conditions) and industrial parks (-3% YoY) while it remained flat YoY by fertilizer producers.

### Brent and FO prices may be under pressure in the short term

We maintain our conservative assumptions for Brent and FO prices, averaging USD78/barrel and USD398/ton for 2024F. In late 2023 and early 2024, oil prices will be negatively affected by (1) deteriorating macroeconomic data in the US and China, (2) low season, and (3) rising crude oil production across non-OPEC+ countries. FO prices will fluctuate alongside crude oil prices but are partly supported by heating demand in winter.

### LNG terminals remain a long-term growth driver, but the issue of downstream gas prices should be thoroughly resolved

In 2024, we expect GAS to officially launch the Thi Vai 1 LNG terminal though it cannot record significant profits in the early stages as GAS may have to subsidize LNG prices. We emphasize that imported LNG prices can swing widely, given limited supplies and strong demand due to the trend of prioritizing low-carbon energy sources. Therefore, LNG price negotiations under sales and purchase agreements should be reached, a prerequisite for the project's profitability.

### We recommend HOLD for GAS with target price of VND87,300/share

Based on valuation results and possible risks, we recommend HOLD for GAS. The target price is VND87,300/share, equivalent to an 11.5% upside.

## Hold update

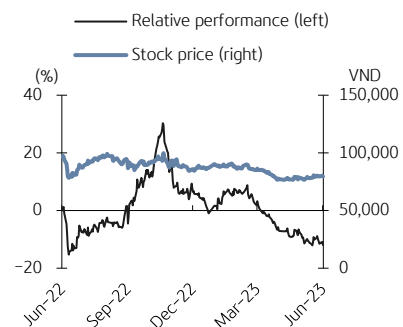
<b>Target price</b>	<b>VND87,300</b>
Upside	11.5%
Current price (Dec 11, 2023)	VND78,300
Consensus target price	VND93,100
Market cap (VNDbn/USDmn)	179,145/7,464

<b>Trading data</b>	
Free float	4.2%
3M avg trading value (VNDbn/USDmn)	48.7/2.0
Foreign ownership	2.8%
Major shareholder	PVN (95.8%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-1.1	-8.5	-1.7	-11.8
<b>Relative</b>	-4.8	1.3	-2.9	-17.4

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	64,135	78,992	100,724	94,019
Operating income/loss (VNDbn)	8,694	10,374	17,799	13,460
NPAT-MI (VNDbn)	7,855	8,673	14,794	11,847
EPS (VND)	4,028	4,356	7,647	5,158
EPS growth (%)	-34.4	8.1	75.6	2.0
P/E (x)	19.3	17.9	10.2	15.1
P/B (x)	3.0	2.9	2.5	2.4
ROE (%)	16.1	17.0	24.6	16.0
Dividend yield (%)	4.6	3.9	3.9	3.9



Source: Bloomberg, KB Securities Vietnam

## Business performance

### 9M23 revenue and gross profit decreased sharply YoY

9M23 revenue contracted by 14% YoY while cost of goods sold (COGS) only dropped by 12% YoY, causing gross profit to plunge 22% YoY. Despite an improvement in 3Q23, crude oil, FO, and LPG prices in 9M23 performed much worse than in the same period a year ago (down 24% YoY, 29% YoY and 26% YoY respectively), dampening GAS's business results. In 3Q23, dry gas consumption decreased among power plants (following better-than-expected hydrological conditions) and industrial parks (-3% YoY) while it remained flat YoY by fertilizer producers.

Table 1. GAS – 9M22–9M23 business results

(VNDbn)	9M2022	9M2023	%YoY	Comments
Revenue	78,672	67,383	-14%	Revenue decreased mainly due to a sharp fall in crude oil and FO prices from their high base over the same period last year (-20% YoY and -18% YoY). Consumption decreased slightly by 1.1% YoY.
Gross profit	16,446	12,867	-22%	
Gross profit margin (%)	20.9%	19.1%		
SG&A	-2,483	-2,913	17%	Recorded VND257 billion in bad debt provision expenses for POW.
Operating income/loss	13,963	9,954	-29%	
Financial income	1,079	1,729	60%	Driven by higher interest rates and deposits than in the same period last year.
Financial expenses	-488	-448	-8%	Mainly due to a sharp decrease in loan balance over the same period.
Net other income	58	24	-59%	
PBT	14,612	11,258	-23%	
NPAT	11,726	9,017	-23%	
Net profit margin (%)	14.9%	13.4%		
Dry gas sales volume (million tons)	5,735	5,673	-1.1%	
Power plants	4,105	4,067	-1%	Nhon Trach 2 and Ca Mau 2 thermal power plants underwent a major maintenance in 3Q23. Gas-fired power generation mobilization was unstable in 3Q23 due to high amounts of precipitation.
Fertilizer producers	831	830	0%	PV Fertilizer & Chemicals Corporation (DPM) and PV Ca Mau Fertilizer (DCM) conducted maintenance in 2Q and 3Q23, respectively.
Industrial parks	799	776	-3%	Stagnating domestic production led to a decline in consumption from industrial parks.
LPG sales volume (thousand tons)	1,557	1,900	22%	
Brent crude oil price (USD/barrel)	103	82	-20%	
FO price (USD/ton)	535	441	-18%	
LPG price (USD/ton)	777	564	-27%	

Source: PV Gas, KB Securities Vietnam

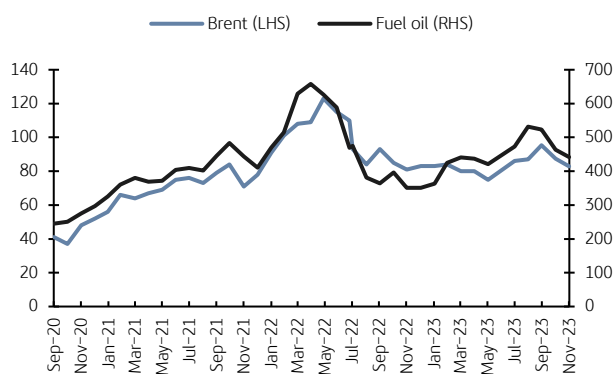
### Brent and FO prices may be under pressure in the short term

We maintain our conservative assumption for Brent prices, averaging USD80/barrel for 2023F and USD78/barrel for 2024F. As stated in our last Update Report on the Oil and Gas Industry, in late 2023 and early 2024, oil prices will be negatively affected by (1) deteriorating macroeconomic data in the US and China, (2) low season, and (3) rising crude oil production across non-OPEC+ countries. In November 2023, OPEC+ agreed to an additional voluntary output cut of 2.2 million barrels/day for 2024, of which up to 1.3 million barrels/day is an extension of cuts by Saudi Arabia and Russia. We assess that this move reflects many negative signals in the short term: (1) the OPEC+ bloc could not reach an agreement on a shared cut level; (2) the level of voluntary production cuts is not compulsory to member countries; and (3) the reduction efforts are primarily coming from two countries, Saudi Arabia and Russia, which is unsustainable as both countries are facing budget deficits. FO prices in 4Q23 dropped sharply due to (1) falling crude oil prices; (2) the end of the peak season for finished oil products consumption amid less tight crude oil supply, causing refineries to reduce the use of FO as an alternative input material; and (3) a substantial decrease in supply from the Middle East. In the short term, we believe FO prices will fluctuate in line with crude oil prices but will be somewhat supported by heating demand this winter. We maintain a conservative forecast for FO prices, averaging USD417/ton for 2023 and USD398/ton for 2024.

### LNG terminals remain a long-term growth driver, but the issue of downstream gas prices should be thoroughly resolved

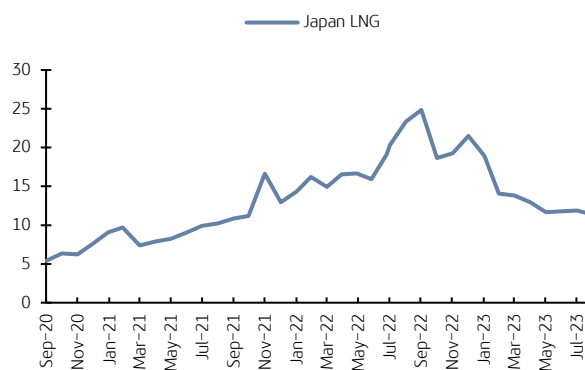
As mentioned in our last Update Report on GAS, we expect GAS will officially launch the Thi Vai 1 LNG terminal but cannot record significant profits in the early stages since the company may have to subsidize LNG prices. We emphasize that imported LNG prices can swing widely given limited supplies and strong demand due to the trend of prioritizing low-carbon energy sources. So far, LNG prices under sales and purchase agreements have not been fixed, which will negatively affect the project's profitability.

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



Source: Bloomberg, KB Securities Vietnam

Fig 3. Japan – LNG prices (USD/mmBTU)



Source: Bloomberg, KB Securities Vietnam

**The Block B – O Mon gas pipeline project has made progress but the root problems remain unresolved**

We reiterate our view that the Block B – O Mon project will not receive a Final Investment Decision (FID) until mid-2024 since it takes time to resolve the core issues related to prices and sales volumes of downstream gas and power. In 4Q23, the project made progress when Vietnam Oil & Gas Group (PVN) allowed issuing the limited letter of acceptance for EPCI#1 and EPCI#2 bidding packages. Furthermore, PVN also proposed a mechanism allowing parties to continue to negotiate so that PVN can continue implementing the project and cover costs itself and will recover expenses later in case the project has not yet received the FID. We assess that although this solution does not resolve the project's root problems, it will contribute to speeding up progress, helping GAS to receive the first gas flow from 2027.

## Forecast & Valuation

Table 4. GAS – 2022A–2024F business results

(VNDbn)	2022A	2023F	%YoY	2024F	%YoY	Comments
Revenue	100,724	89,617	-11%	94,019	5%	2024F dry gas sales revenue should decrease YoY mainly due to crude oil and FO prices down 3% YoY and 5% YoY. Dry gas consumption is forecast to remain relatively unchanged. We expect GAS to start recording revenue from LNG projects in 2024. Our downward revision compared to our last update report is due to reduced gas consumption assumptions from fertilizer producers and industrial parks.
Gross profit	21,314	17,330	-19%	17,981	4%	
Gross profit margin (%)	21.2%	19.3%		19.1%		
SG&A	-3,515	-3,891	11%	-4,521	16%	2024F SG&A is revised up compared to our last update report due to recording bad debt provision expenses for POW.
Operating income/loss	17,799	13,439	-24%	13,460	0.2%	
Financial income	1,568	2,038	30%	2,140	5%	In 2024, the cash balance accumulated from 2022 and 2023 is large while GAS has not yet heavily disbursed into new investment projects.
Financial expenses	-671	-606	-10%	-576	-5%	2023: Our upward revision compared to our last update report is based on the actual situation in 2023. 2024: Driven by a sharp fall in loan balance over the same period. Our upward revision compared to our last update report is based on the actual situation in 2023.
Net other income	78	32	-59%	32	0%	
PBT	18,802	14,931	-21%	15,084	1%	
NPAT	15,062	11,960	-21%	12,082	1%	
Net profit margin (%)	15.0%	13.3%		12.9%		
Dry gas sales volume (million tons)	7,798	7,744	-0.7%	7,775	0.4%	
Power plants	5,550	5,576	0%	5,715	2%	2024: Consumption should increase as the El Nino is forecast to continue in 1H24 before transitioning into the neutral phase.
Fertilizer producers	1,150	1,045	-9%	1,089	4%	2024: Consumption is expected to be more stable from the low base of 2023F and increase sharply in 2H24.
Industrial parks	1,100	1,123	2%	972	-13%	2024: It is forecast that domestic production activities will not make much progress.
LNG sales volume (thousand tons)	2,068	2,068	0%	2,068	0%	
Brent crude oil price (USD/barrel)	101	80	-21%	78	-3%	
FO price (USD/ton)	494	417	-16%	398	-5%	
LPG price (USD/ton)	737	584	-21%	567	-1%	

Source: PV Gas, KB Securities Vietnam

**We recommend HOLD for GAS with a target price of VND87,300/share**

We combine two valuation methods free cash flow to the firm (FCFF) and P/E comparables (70:30 weighting) to find a fair price for GAS. Given possible risks in the near term, we recommend HOLD for GAS with a target price of VND87,300/share, equivalent to an 11.5% upside compared to the closing price of VND78,300/share as of December 11, 2023. Investors are encouraged to disburse when GAS's share price retreats to a more attractive price range to enjoy higher returns.

Table 5. GAS – FCFF model assumptions

Risk-free rate	5%	PV of terminal value (VNDbn)	108,489
Market risk premium	8,2%	PV of 2023-2028	57,140
Beta	0.69	<b>Total present value</b>	<b>165,629</b>
Average interest rate	7,5%	Plus: Cash & short-term investments	43,003
Corporate tax rate	20,0%	Less: debt	-2,752
<b>WACC</b>	<b>9,8%</b>	Less: Minority interest	-1,924
Terminal growth	1,5%	<b>Equity value</b>	<b>203,956</b>
		Outstanding shares (million)	2,297
		<b>Value per share (VND)</b>	<b>88,700</b>

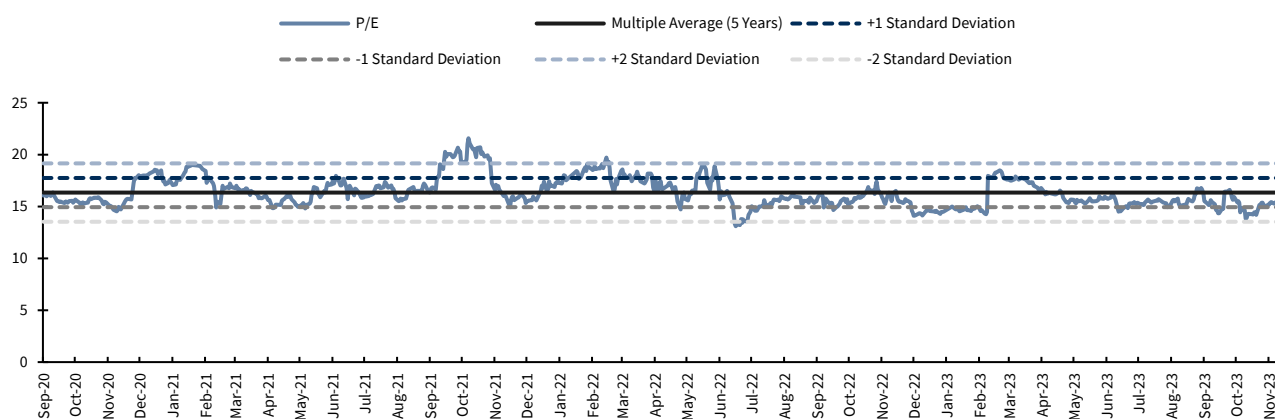
Source: Bloomberg, KB Securities Vietnam

Table 6. GAS – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	88,700	70%	62,090
P/E (16.3x)	84,075	30%	25,223
<b>Target price (rounded)</b>			<b>87,300</b>
Current price (Dec 11, 2023)			78,300
Upside			11.5%

Source: KB Securities Vietnam

Fig 7. GAS – Historical P/E in 2020–2023 (x)



Source: Bloomberg, KB Securities Vietnam

## GAS – 2021A–2024F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2021A	2022A	2023F	2024F		2021A	2022A	2023F	2024F
Net sales	78,992	100,724	87,853	94,019	CURRENT ASSETS	78,768	82,806	87,630	92,858
Cost of sales	-65,007	-79,409	-70,664	-76,038	Cash and cash equivalents	51,395	55,652	61,804	63,424
Gross Profit	13,986	21,314	17,189	17,981	Short-term investments	5,300	10,549	17,374	16,317
Financial income	1,187	1,568	2,038	2,140	Accounts receivable	24,800	23,726	25,365	26,686
Financial expenses	-403	-671	-606	-576	Inventories	16,920	16,191	14,803	15,842
of which: interest expenses	-304	-337	-303	-288	LONG-TERM ASSETS	3,241	4,102	3,001	3,229
Gain/(loss) from joint ventures (from 2015)	15	28	28	28	Long-term trade receivables	27,373	27,155	25,826	29,434
Selling expenses	-2,133	-2,440	-2,440	-2,562	Fixed assets	188	169	169	169
General and admin expenses	-1,479	-1,075	-1,451	-1,959	Investment properties	18,098	16,370	15,041	18,649
Operating profit/(loss)	11,173	18,724	14,758	15,052	Long-term incomplete assets	4,871	6,121	6,121	6,121
Other incomes	83	112	41	41	Long-term investments	22	36	36	36
Other expenses	51	34	9	9	TOTAL ASSETS	1	0	0	0
Net other income/(expenses)	32	78	32	32	LIABILITIES	26,575	21,489	17,329	17,284
Income from investments in other entities	0	0	0	1	Current liabilities	16,561	12,488	11,505	11,779
Net accounting profit/(loss) before tax	11,205	18,802	14,790	15,084	Trade accounts payable	6,631	6,652	5,536	5,924
Corporate income tax expenses	-2,353	-3,740	-2,943	-3,002	Advances from customers	105	128	184	181
Net profit/(loss) after tax	8,852	15,062	11,847	12,082	Short-term unrealized revenue	485	45	503	210
Minority interests	179	268	231	235	Short-term borrowings	10,014	9,001	5,824	5,505
Attributable to parent company	8,673	14,794	11,616	11,847	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	2,861	2,542
					Long-term borrowings	52,193	61,317	70,301	75,574
					OWNER'S EQUITY	19,140	19,140	22,970	22,970
					Paid-in capital	0	0	211	211
					Share premium	10,487	19,243	24,086	29,163
					Undistributed earnings	21,468	21,476	21,345	21,306
					Minority interests	1,098	1,458	1,689	1,924
<b>Margin ratio</b>					<b>Key ratios</b>				
-	2021A	2022A	2023F	2024F	-				
Gross profit margin	17.7%	21.2%	19.6%	19.1%	Multiple				
EBITDA margin	17.0%	20.8%	18.2%	17.8%	P/E	17.9	10.2	15.4	15.1
EBIT margin	13.1%	17.7%	15.1%	14.3%	P/E diluted	17.9	10.2	15.4	15.1
Pre-tax profit margin	14.2%	18.7%	16.8%	16.0%	P/B	2.9	2.5	2.6	2.4
Operating profit margin	14.1%	18.6%	16.8%	16.0%	P/S	1.9	1.5	2.0	1.9
Net profit margin	11.2%	15.0%	13.5%	12.9%	P/Tangible Book	2.9	2.5	2.6	2.4
					P/Cash Flow	19.6	12.0	12.3	13.7
					EV/EBITDA	11.4	7.0	10.4	10.0
					EV/EBIT	14.8	8.2	12.5	12.4
					Operating performance				
					ROE	17.0%	24.6%	16.9%	16.0%
					ROA	11.2%	18.2%	13.5%	13.0%
					ROIC	18.1%	29.8%	22.4%	20.7%
					Financial structure				
					Cash Ratio	1.8	2.7	3.7	3.7
					Quick Ratio	2.8	4.0	5.0	5.0
					Current Ratio	3.1	4.5	5.4	5.4
					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	6.1
					Inventory Turnover	26.5	21.6	23.6	23.6
					Account Payable Turnover	17.0	15.2	14.4	16.4

Source: PV Gas, 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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