

PV Gas (GAS)

Embracing challenges ahead

March 7, 2024

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In 2023, both revenue and gross profit fell sharply YoY

In 2023, PV Gas (GAS) saw an 11% YoY decrease in revenue and a substantial 21% YoY decline in gross profit. Brent, fuel oil (FO), and liquefied petroleum gas (LPG) prices contracted by 24%, 29%, and 26% YoY respectively, delivering a blow to GAS. In the latter half of 2023, hydropower generation rebounded on widespread rainfall, while stable operations of coal-fired and renewable power plants led to a decline in dry gas consumption by thermal power plants.

2024F business results may not see significant changes as Brent and FO prices are forecast to be flat YoY

We raised our forecast for Brent crude oil price to USD83/barrel (flat YoY) and FO price to USD442/ton (flat YoY) for 2024F. We anticipate a tightening of the crude oil supply, offsetting the slowing growth of crude oil consumption in 2024, helping to balance supply and demand. Under these assumptions, we assess that GAS could achieve a humble growth of 3.2% YoY in net profit in 2024F.

2024F LNG consumption should be modest, so it will not contribute much to overall revenue

We lowered our assumption for LNG sales volume in 2024F from 150 to 40 thousand tons due to the official commercial power generation for the Nhon Trach 3 thermal power plant rescheduled to the end of 1Q2025. In 2024, 100% of the LNG production should be supplied to industrial parks in the Southern region. Given the absence of a LNG pricing mechanism, we temporarily assume that GAS will offer a 5% price subsidy against the imported price for LNG in 2024 and 2025.

We recommend HOLD for GAS with a target price of VND87,100/share

Considering valuation results and business prospects, we reiterate our HOLD recommendation for GAS. The target price is VND87,100/share, equivalent to an 8.3% upside against the closing price on March 7, 2024.

Hold maintain

Target price VND87,100

Upside	8.3%
Current price (Mar 7, 2024)	VND80,400
Consensus target price	VND87,400
Market cap (VNDbn/USDmn)	183,969/7,665

Trading data

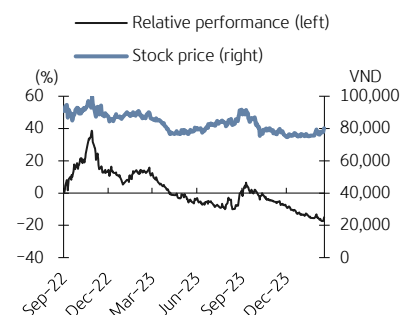
Free float	4.2%
3M avg trading value (VNDbn/USDmn)	69.0/2.7
Foreign ownership	2.8%
Major shareholder	PetroVietnam (PVN, 95.8%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	5.8	2.8	-3.5	-8.0
Relative	-0.4	-8.7	-5.6	-24.4

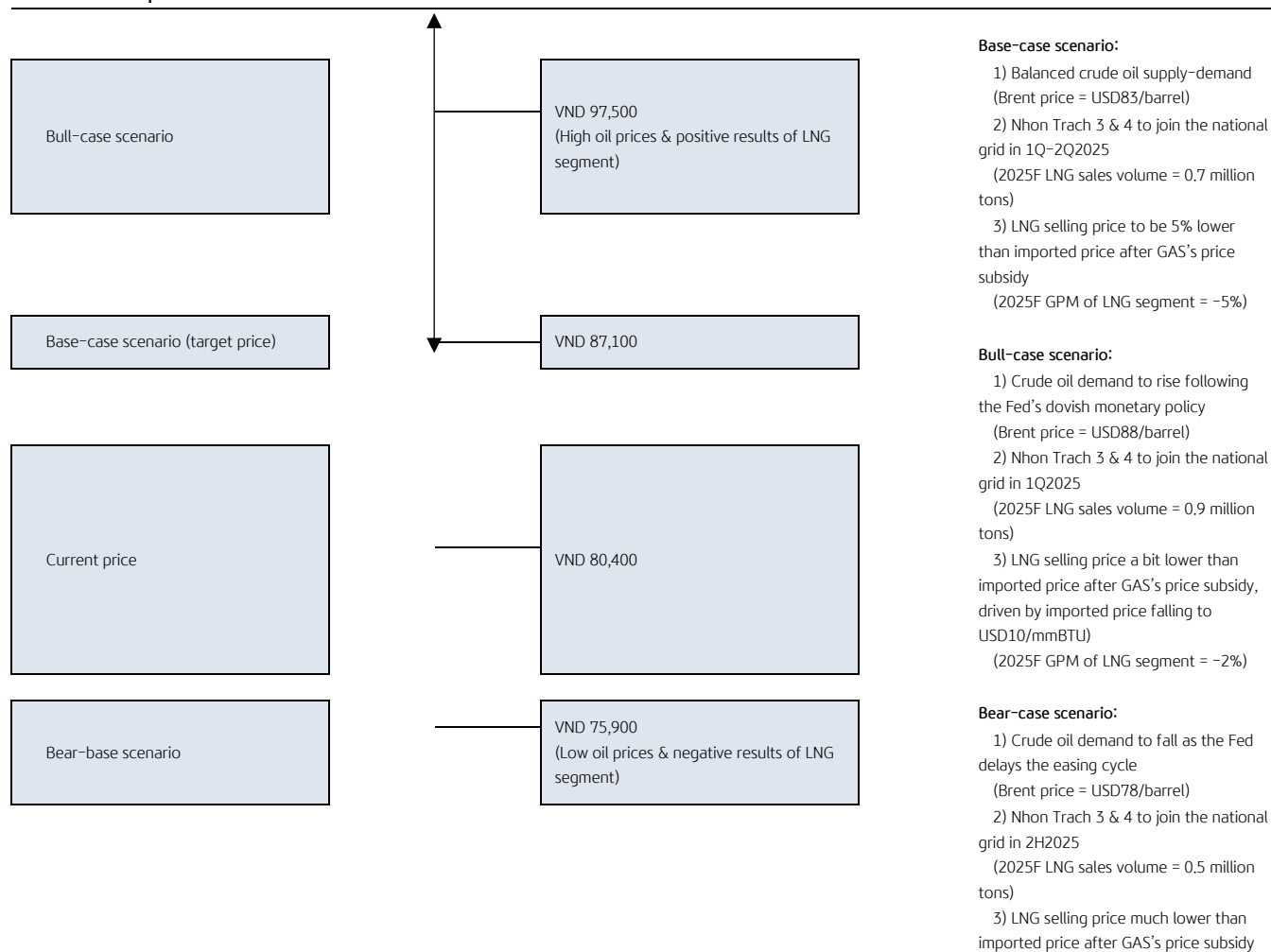
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	100,724	89,954	91,503	96,355
Operating income/loss (VNDbn)	17,799	12,906	13,496	14,081
NPAT-MI (VNDbn)	14,794	11,606	11,929	12,244
EPS (VND)	7,647	4,972	5,193	5,330
EPS growth (%)	75.6	-35.0	4.0	3.0
P/E (x)	10.2	15.8	15.1	14.7
P/B (x)	2.5	2.8	2.5	2.3
ROE (%)	24.6	18.1	16.8	15.9
Dividend yield (%)	3.9	4.0	3.8	4.5



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: Bloomberg, KB Securities Vietnam

Business performance

In 2023, both revenue and gross profit fell sharply YoY

In 2023, GAS's revenue experienced an 11% YoY decline, while the cost of goods sold (COGS) only shrank by 8.0% YoY, resulting in a substantial 21% YoY drop in gross profit. Brent, FO, and LPG prices fell by 24%, 29%, and 26% YoY respectively, delivering a blow to GAS. In the latter half of 2023, hydropower generation rebounded due to widespread rainfall, while stable operations of coal-fired and renewable power plants led to a decline in dry gas consumption by thermal power plants. Stagnant domestic production also contributed to a sharp 11% YoY decline in dry gas demand from industrial parks.

Table 1. GAS – 2022–2023A business results

(VNDbn)	4Q2022	4Q2023	YoY %	2022A	2023A	YoY %	KBSV's comments
Revenue	22,052	22,571	2%	100,724	89,954	-11%	Revenue decreased mainly due to the sharp decline in crude oil and FO prices from the high base level in the same period (-19% YoY and -11% YoY). Sales volume decreased by 6.4% YoY.
Gross profit	4,869	4,058	-17%	21,314	16,925	-21%	
Gross profit margin	22.1%	18.0%		21.2%	18.8%		
SG&A	-1,032	-1,105	7%	-3,515	-4,019	14%	Recorded VND153 billion in provision costs for accounts receivable for PV Power (POW)
Operating income/loss	3,836	2,953	-23%	17,799	12,906	-27%	
Financial income	490	544	11%	1,568	2,273	45%	Driven by a large amount of bank deposits coupled with rising interest rates compared to the same period in 2022
Financial expenses	-183	-138	-25%	-671	-587	-13%	
Net other income	20	-6	-130%	78	-13	-117%	Driven by a sharp fall in loan balance over the same period
PBT	4,163	3,353	-19%	18,802	14,640	-22%	
NPAT	3,337	2,776	-17%	15,062	11,793	-22%	
NPAT margin (%)	15.1%	12.3%		15.0%	13.1%		
Dry gas consumption (million tons)	2,048	1,773	-13.4%	7,798	7,300	-6.4%	
By power plants	1,445	1,228	-15%	5,550	5,189	-7%	In the fourth quarter of 2023, hydropower generation recovered thanks to widespread rainfall, while stable operations of coal-fired and renewable power plants led to a decline in dry gas consumption at thermal power plants. A slight decrease was due to maintenance at fertilizer plants. Weak domestic production led to a decline in consumption demand from industrial parks.
By fertilizer plants	319	308	-3%	1,150	1,132	-2%	
By industrial parks	301	204	-32%	1,100	980	-11%	
LPG consumption (thousand tons)	483	590	22%	2,040	2,450	20%	
Brent price (USD/barrel)	86	82	-5%	103	83	-19%	
FO price (USD/ton)	370	446	20%	494	442	-11%	
LPG price (USD/ton)	612	613	0%	737	577	-22%	

Source: PV Gas, KB Securities Vietnam

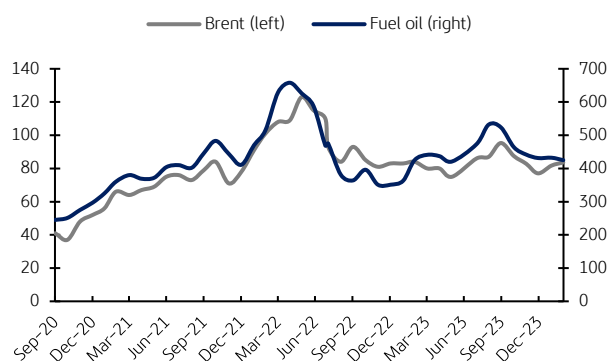
In 2024F, Brent and FO prices are forecast to be flat YoY

We raised our forecast for Brent crude oil price to USD83/barrel (flat YoY) and FO price to USD442/ton (flat YoY) for 2024F. Despite still being in the low season, crude oil prices in 1Q2024 increased stronger than our projection, primarily due to the OPEC+'s crude oil production cuts of 2.2 million barrels/day taking effect in the market and geopolitical tensions in the Red Sea region disrupting the global crude oil supply chain. In March 2024, the OPEC+ bloc also agreed to extend the production cut policy until the end of June 2024. As noted in our 2024 Strategy Report, we believe global demand will remain low growth and only see improvement when the Fed begins loosening its monetary policy (expected in 3Q2024). On the other hand, we anticipate that global supply will remain tight throughout 2024, primarily due to (1) potential limitations on production growth from non-OPEC+ countries due to drilling rig shortages and (2) fears of lasting bottlenecks in the Red Sea region, resulting in a substantial reduction in global crude oil supply. We expect the tight supply to offset the stagnant growth of crude oil consumption in 2024F.

2024F LNG consumption should be modest due to downstream thermal power projects falling behind schedule

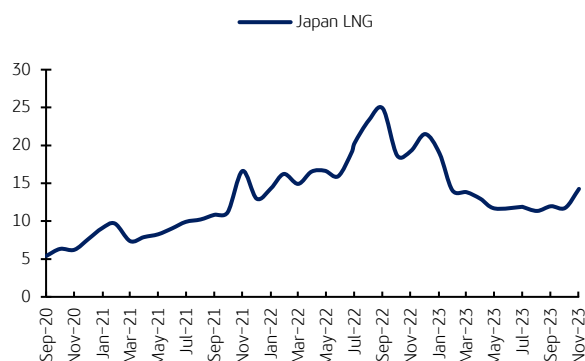
The LNG segment will remain a growth driver for GAS in the medium term, especially considering that the Block B – O Mon project may not receive its first gas flow until 2027. Currently, the project still faces two main issues in the downstream stage, including (1) the plan to connect the Nhon Trach 3 & 4 thermal power plants with the national power grid to be pushed back and (2) the absence of a specific LNG pricing mechanism to balance the interests between PetroVietnam (PVN) and Vietnam Electricity (EVN). We lowered our forecast for LNG consumption in 2024F from 150 thousand tons to 40 thousand tons due to the assumption that the official commercial power generation for the Nhon Trach 3 thermal power plant will be rescheduled to the end of 1Q2025. In 2024, 100% of the LNG production should be supplied to industrial parks in the Southern region. Given the absence of the LNG pricing mechanism, we temporarily assume that GAS will offer a 5% price subsidy against the imported price for LNG in 2024 and 2025, assuming Asian LNG price is USD12/mmBTU and USD11.5/mmBTU in 2024F and 2025F, respectively.

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



Source: Bloomberg, KB Securities Vietnam

Fig 3. Japan – LNG price (USD/mmBTU)



Source: Bloomberg, KB Securities Vietnam

Forecast

Table 4. GAS – 2023A–2024F business results

(VNDbn)	2023A	2024F	YoY %	KBSV's comments
Revenue	89,954	91,503	2%	Our 3% downward revision compared to the previous assumption is based on (1) 5% reduction in assumed mobilized output for gas thermal power customers compared to the most recent report; (2) reduce commercial LNG production assumption from 150 to 40 thousand tons; and (3) increase the gas selling price assumption by 6% according to FO oil price developments.
Gross profit	16,925	17,706	5%	
Gross profit margin	18.8%	19.4%		
SG&A	-4,019	-4,210	5%	
Operating income/loss	12,906	13,496	4.6%	
Financial income	2,273	2,387	5%	Due to the assumption that GAS will boost borrowing to finance key projects
Financial expenses	-587	-756	29%	
Net other income	-13	-13	0%	
PBT	14,640	15,208	3.9%	
NPAT	11,793	12,166	3.2%	
NPAT margin	13.1%	13.3%		
Dry gas consumption (million tons)	7,300	7,475	2.4%	
By power plants	5,189	5,083	-2%	The Ministry of Industry and Trade may increase mobilization at coal-fired and renewable power plants. Assuming an increase from the low base in 2023 and no major maintenance in 2024 Domestic production is expected to recover.
By fertilizer plants	1,132	1,271	12%	
By industrial parks	980	1,121	14%	
LPG consumption (thousand tons)	2,450	2,450	0%	
Brent price (USD/barrel)	83	83	0%	Revised up 6.4% compared to the previous projection
FO price (USD/ton)	442	442	0%	Revised up 6.0% compared to the previous projection
LPG price (USD/ton)	577	577	0%	Revised up 1.7% compared to the previous projection

Source: PV Gas, KB Securities Vietnam

Valuation

We recommend HOLD for GAS with a target price of VND87,100/share

We combined two valuation methods free cash flow to the firm (FCFF) and P/E comparables with a 70:30 weighting to assess GAS's value. We reiterate our HOLD recommendation for GAS with a target price of VND87,100/share, equivalent to an 8.3% upside compared to the closing price of VND80,400 apiece on March 7, 2024. The target P/E is determined based on the 5-year median P/E of GAS.

Table 5. GAS – FCFF model assumptions

Risk-free rate	4.7%	PV of terminal value (VNDbn)	125,162
Market risk premium	7.6%	PV of 2023–2028	38,365
Beta	0.69	Total present value	163,527
Average interest rate	7.5%	Plus: Cash & short-term investments	49,847
Corporate tax rate	20.0%	Less: debt	-9,244
WACC	9.1%	Less: Minority interest	-1,487
Terminal growth	1.5%	Equity value	202,643
		Outstanding shares (million)	2,297
		Value per share (VND)	88,200

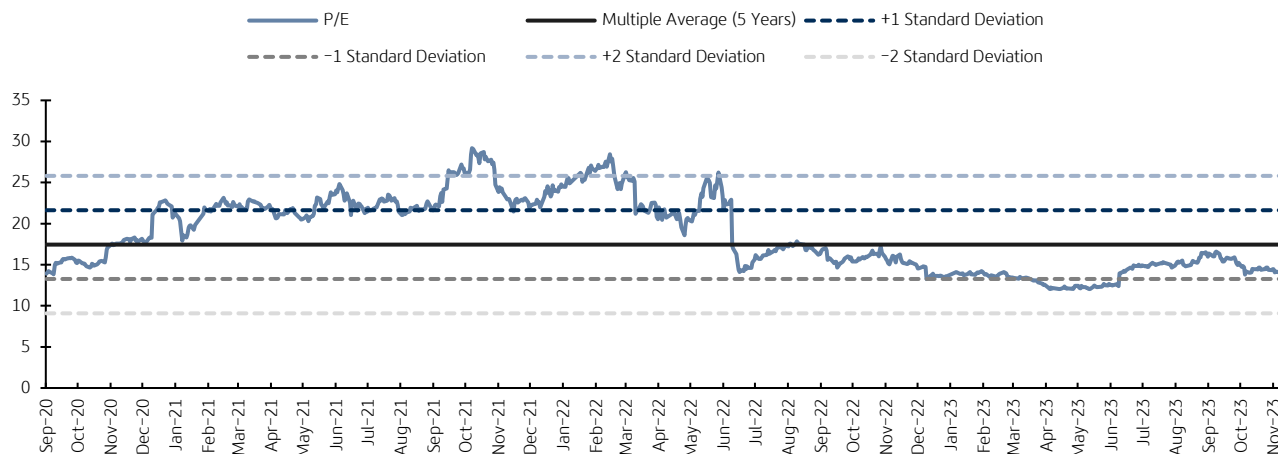
Source: Bloomberg, KB Securities Vietnam

Table 6. GAS – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	88,200	70%	61,740
P/E (16.3x)	84,646	30%	25,394
Target price (rounded)			87,100
Current price (Mar 7, 2024)			80,400
Upside			8.3%

Source: KB Securities Vietnam

Fig 7. GAS – Historical P/E in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

GAS – 2022A-2025F financials

Income Statement					Balance Sheet				
(VND billion)	2022A	2023A	2024F	2025F	(VND billion)	2022A	2023A	2024F	2025F
Net sales	100,724	89,954	91,503	96,355	CURRENT ASSETS	82,806	87,755	96,481	105,651
Cost of sales	-79,409	-73,029	-73,797	-77,841	Cash and cash equivalents	55,652	62,218	68,377	72,812
Gross Profit	21,314	16,925	17,706	18,514	Short-term investments	10,549	5,669	14,762	18,246
Financial income	1,568	2,273	2,387	2,506	Accounts receivable	23,726	35,085	35,085	35,085
Financial expenses	-671	-587	-756	-1,059	Inventories	16,191	16,865	15,042	15,839
of which: interest expenses	-337	-340	-438	-614	LONG-TERM ASSETS	4,102	3,945	2,831	2,986
Gain/(loss) from joint ventures (from 2015)	28	27	27	27	Long-term trade receivables	27,155	25,537	28,104	32,839
Selling expenses	-2,440	-2,544	-2,587	-2,724	Fixed assets	169	318	318	318
General and admin expenses	-1,075	-1,475	-1,623	-1,709	Investment properties	16,370	19,532	22,099	26,834
Operating profit/(loss)	17,799	12,906	13,496	14,081	Long-term incomplete assets	6,121	1,781	1,781	1,781
Other incomes	112	20	20	20	Long-term investments	36	32	32	32
Other expenses	34	-34	-34	-34	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	78	-13	-13	-13	LIABILITIES	21,489	22,456	24,201	27,176
Income from investments in other entities	0	1	2	3	Current liabilities	12,488	14,972	13,787	13,860
Net accounting profit/(loss) before tax	18,802	14,640	15,208	15,609	Trade accounts payable	6,652	7,138	5,515	5,808
Corporate income tax expenses	-3,740	-2,812	-3,042	-3,122	Advances from customers	128	119	119	119
Net profit/(loss) after tax	15,062	11,793	12,166	12,487	Short-term unrealized revenue	45	1,605	2,043	1,823
Minority interests	268	187	237	243	Short-term borrowings	9,001	7,484	10,414	13,316
Attributable to parent company	14,794	11,606	11,929	12,244	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	22	22	22	20
					Unrealized revenue	6,038	4,271	7,201	10,103
					Long-term borrowings	61,317	65,299	72,280	78,475
Margin ratio					OWNER'S EQUITY	19,140	22,967	22,970	22,970
-	2022A	2023A	2024F	2025F	Paid-in capital	0	0	0	0
Gross profit margin	21.2%	18.8%	19.4%	19.2%	Share premium	19,243	16,880	23,621	29,573
EBITDA margin	20.8%	17.7%	19.6%	19.7%	Undistributed earnings	21,476	24,202	24,202	24,202
EBIT margin	17.7%	14.4%	14.8%	14.6%	Minority interests	1,458	1,250	1,487	1,730
Pre-tax profit margin	18.7%	16.3%	16.6%	16.2%					
Operating profit margin	17.7%	14.3%	14.7%	14.6%					
Net profit margin	15.0%	13.1%	13.3%	13.0%					
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Source: PV Gas, KB Securities Vietnam

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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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