

April 21, 2020

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PV Gas (GAS)

1Q down on lower benchmark HSFO prices & gas output

1Q earnings down 23.2% due to drop in High Sulphur Fuel Oil (HSFO) prices & gas output

— The introduction of IMO 2020 environmental restrictions (to reduce shipping sulfur emissions) and sharp drop in Brent oil prices (down 31.8% YoY) caused benchmark High Sulphur Fuel Oil (HSFO) prices to fall by 29.9% YoY. This translated into lower gas selling prices as HSFO prices are used to determine gas selling prices gas by taking the maximum price between HSFO prices or wellhead prices and adding tariffs (selling price = Max[46% HSFO price, wellhead price] + tariffs). Lower reserves also led to a 10.1% drop in natural gas output to 2,366.8 million m³ and negatively impacted 1Q earnings. 1Q earnings were VND3,028 billion (down 23.2% YoY) on revenue of VND18,638 billion (down 8.8% YoY).

Thi Vai Terminal on schedule after starting construction in October 2019

— The Thi Vai Terminal is on track to receive its first LNG shipment by 2022 (phase 1 storage facilities of 1 million tons). Construction for the new storage facilities began in October 2019 in order to meet Vietnam's growing demand for gas output for the country's increasing electricity demand.

No update on changing pricing formula benchmark and possible one-off gains

— Management failed to provide any update during 1Q results on its proposal to the government to change the benchmark used in the pricing formula for gas selling prices as mentioned during last year's 4Q results call. Given the waning relevance of HSFO prices after the implementation of IMO 2020, new benchmarks being considered include: 1) Brent oil prices or 2) diesel prices. Although the depressed levels of Brent pricing are also leading to lower diesel prices - and limiting any immediate benefit to earnings - management did indicate that a change in the pricing formula benchmark could lead to one-off gains and allow the company to benefit more from any recovery in oil prices.

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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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