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PV Gas (GAS)

2Q down by 43.9% YoY due to lower HSFO prices

2Q earnings down 43.9% YoY due to lower HSFO prices & lower gas output

— 2Q earnings tumbled to VND 1,712 billion (down 43.9%YoY) on revenue of VND 15,627 billion (down by 23.3% YoY) due to the: 1) 55.4% YoY fall in average 2Q High Sulfur Fuel Oil (HSFO) prices to USD179.4 per ton that are used to price the company's gas prices; and 2) 8.6% YoY drop in 2Q gas output to 2.46 billion cubic metres. Year-to-date earnings for 1H were down 33.8% YoY to VND4,063 billion but have already met 61.3% of management's low-balled 2020E guidance. Gas prices for PV Gas are the maximum price between 46%HSFO prices or wellhead prices (wholesale price at point of production) plus transportation tariffs:

Selling price = MAX [46% HSFO price, wellhead price] + tariffs.

Earnings recovery is likely to improve in the coming quarters as the close correlation of HSFO prices to Brent oil prices should see higher HSFO pricing for the remainder of the year. Technical issues continue to plague the Block 11.2 gas field and reduce gas output, with the ramp up of new fields running behind schedule due to the coronavirus and approval delays.

Construction of the *Thi Vai* LNG terminal ahead of schedule...

— Construction of the *Thi Vai* terminal is currently running ahead of schedule and management is indicating construction may be completed by 2Q2022E or about two to three months ahead of schedule. This bodes well for the start of commercial operations within 2022E to boost gas output. Liquefied Natural Gas (LNG) prices are now trading at USD5.00 per million BTU, which is relatively low compared to the wellhead prices of upcoming gas fields.

...but faces competition from *Hai Linh* LNG from 2021

— Hai Linh's new *Ba Ria-Vung Tau* LNG terminal and Vietnam's first regasification project will soon begin test runs and will likely begin commercial operations in 2021E. This will make Hai Linh the first privately-owned company to supply Vietnam Electricity Corporation (EVN) with LNG from 2021E and effectively break the monopoly of PV Gas as the sole supplier for Vietnam's gas-fired plants. That said, the addition of a competitor to PV Gas should not pose any serious threat as the demand for gas and LNG from Vietnam's power sector should remain high over the next several years given the degree of power shortages and expansion of gas-fired power plants.

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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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