COMPANY REPORT

KB Securities VIETNAM

PV Gas (GAS)

Bright outlook for the long term

June 9, 2023

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1Q NPAT was still positive despite a sharp contraction in revenue dropped

PetroVietnam Gas's (GAS) In 1Q revenue fell 20.5% YoY due to a sharp drop in prices of FO and LPG. Consumption volume decreased YoY as the operation of industrial customers sagged. NPAT declined by only 2.2% YoY, protected by the stable profit from power plants and fertilizer customers.

Crude oil prices should rebound from the end of 2Q to the end of 3Q

We expect oil prices to rebound from the end of 2Q when the world enters the peak summer consumption season. From July 2023, OPEC+ will cut up to 4.66 million barrels per day (bpd), equivalent to about 4.6% of the world's consumption demand. The EIA forecasts that world crude oil inventories may likely decrease from 3Q to the end of 2023 because of OPEC+ output cuts.

Asian LNG prices fell to reasonable levels, helping to increase the feasibility of LNG projects

The first phase of Thi Vai LNG Terminal has been completed and put into trial operation by the end of 2Q. GAS offered to buy the first LNG batch in Vietnam in May, and the deliveries should complete between June 1 to July 31. USD10-15/mmBTU is a reasonable import price of LNG for gas power plant projects to be economically viable in the long term. LNG prices in Asia and Europe markets have plunged to USD11-13 USD/mmBTU in 2Q, and the IEA also forecasts that Asian LNG prices will be under USD15/mmBTU in 2H23 and 2024.

BUY recommendation with the target price VND118,000

Based on FCFF valuation, long-term business outlook and possible risks, we recommend BUY for GAS stock. The target price is VND118,000/share with an upside of 25.9% compared to the price on June 9, 2023.

Buy change

Target price	VND118,000
Upside	25.9%
Current price (Jun 9, 2023)	VND93,700
Consensus target price	VND113,533
Market cap (VNDbn)	179,342

Trading data

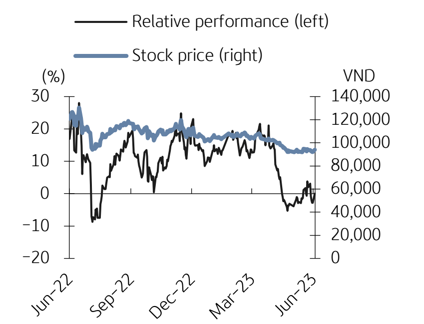
Free float	4.2%
3M average trading value (VNDbn)	179,911
Foreign ownership	2.9%
Major shareholder	Petrovietnam (95.76%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	2.3	-9.4	-17.0	-25.7
Relative	-3.1	-15.2	-17.3	-12.7

Forecast earnings & valuation

FY-end	2021A	2022	2023F	2024F
Revenue (VNDbn)	78,992	100,724	88,343	92,440
EBIT (VNDbn)	10,374	17,799	14,673	15,954
NPAT of the parent (VNDbn)	8,673	14,794	12,799	14,139
EPS (VND)	4,356	7,647	6,687	7,387
EPS growth (%)	8.1	75.6	-13.0	10.0
P/E (x)	16.6	14.0	18.0	16.3
EV/EBITDA (x)	10.6	9.7	12.7	11.1
P/B (x)	2.7	3.4	3.3	2.9
ROE (%)	17.0	24.6	18.5	18.1
Dividend yield (%)	4.2	2.9	1.7	2.5



Source: Bloomberg, KB Securities Vietnam

Business performance updates

Table 1. GAS – 1Q23 business results

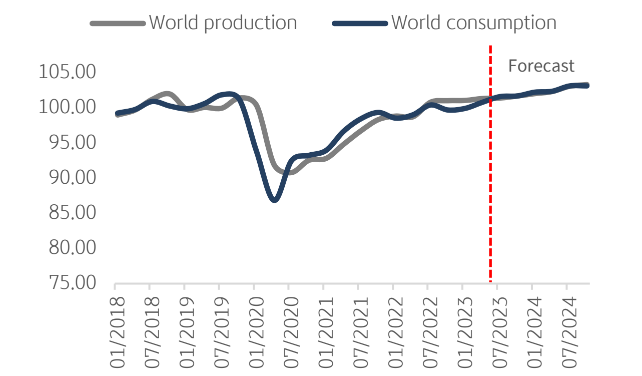
	1Q22	1Q23	YoY %	KBSV's notes
Oil price				
Average Brent price (USD/bbl)	98	82	-16.2%	Crude oil prices in 1Q23 dropped sharply YoY due to oversupply of oil as countries ramped up production to take advantage of high prices. Consumption demand declined due to the weakening world economy.
Average FO price (USD/ton)	538	401	-25.5%	
CP LPG Saudi Aramco price (USD/ton)	803	679	-15.3%	
Output				
Dry gas output (million m³)	1,967	1,887	-4.1%	
Power plant customers	1,420	1,372	-3.4%	
Fertilizer customers	292	292	0.0%	
Industrial customers	254	223	-12.3%	Weak domestic production led to a decline in consumption demand from industrial parks.
LPG output (thousand tons)	545	417	-23.5%	Consumption demand from industrial customers decreased.
Revenue (VNDbn)	**26,689**	**21,215**	**-20.5%**	Revenue fell due to a sharp drop in the prices of products used as a reference for GAS product selling prices (FO & LPG). Consumption volume was also lower than the same period last year.
Gross profit (VNDbn)	**5,137**	**4,842**	**-5.7%**	The average output price dropped but still ensured stable profit. Contracts signed with power plants and fertilizer factories can generate more stable profit, compared with industrial customers.
Gross profit margin (%)	**19%**	**23%**		Profit margin increased as gross profit declined more slowly than revenue.
SG&A expenses (VNDbn)	(601)	(636)		
SG&A to revenue ratio (%)	-2.3%	-3.0%		
Operating profit (VNDbn)	4,184	3,779		
Financial income (VNDbn)	262	536	105.0%	Financial income strongly gained thanks to higher interest rates and higher cash volume (+47% YoY).
Financial expenses (VNDbn)	(102)	(75)	-26.5%	
Other net incomes (VNDbn)	39	27		
Profit before taxes (VNDbn)	**4,382**	**4,268**	**-2.6%**	
Profit after taxes (VNDbn)	**3,495**	**3,417**	**-2.2%**	
Net profit margin (%)	13.1%	16.1%		

Source: PV Gas, KB Securities Vietnam

Crude oil prices are expected to recover from the end of 2Q to the end of 3Q23

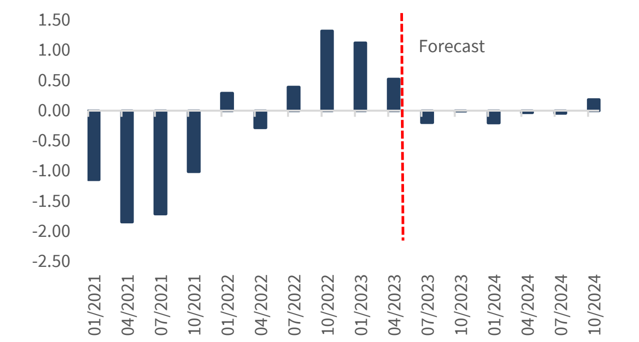
Adverse oil price movements from 1Q to early 2Q will probably cause GAS's 2Q 2Q business results to record the strongest YoY decrease of the year. However, we expect oil prices to recover from the end of 2Q when the world enters the peak summer consumption season. Moreover, at the beginning of June, OPEC+ members agreed to maintain an output cut of 3.66 million bpd until the end of 2023 to support crude oil prices on the market. Saudi Arabia volunteered to cut another 1 million bpd from July 2023, bringing the total OPEC+ cuts to 4.66 million bpd, equivalent to about 4.6% of the world's consumption demand. The US EIA forecasts that world crude oil inventories will likely record a continuous decline from 3Q to the end of 2023 due to the OPEC+ cut.
Therefore, we forecast that the price of Brent crude oil in 2H23 may touch USD80-85/barrel. However, we note that uncertainties about the world economic outlook are likely to have a strong impact on consumption demand and crude oil prices on the market.

Fig 1. Global – Forecast oil supply & demand (million barrels/day)



Source: Energy Information Administration, KB Securities Vietnam

Fig 2. Global – Forecast crude oil inventories (million barrels/day)

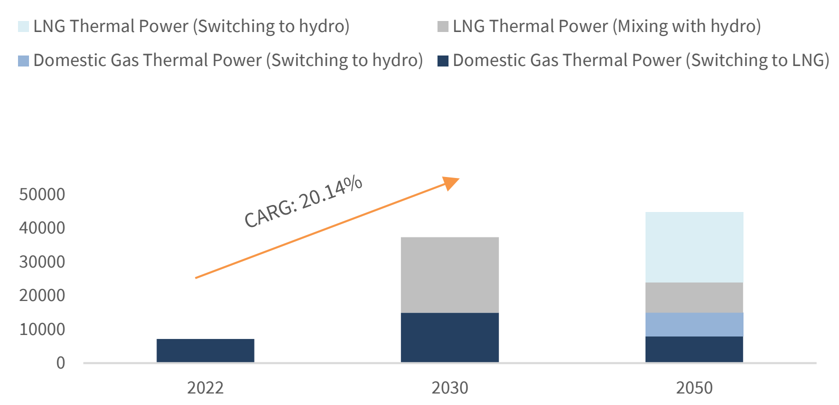


Source: Energy Information Administration, KB Securities Vietnam

Power Master Plan 8 ensures GAS's long-term outlook

On May 15, 2023, the Government officially approved the Power Master Plan 8. Accordingly, gas power should become the spearhead of development in the period 2022-2035. GAS, as an input gas distributor for domestic thermal power plants, will be one of the businesses benefiting the most from this plan. It should be noted that gas power plants are the main customers of GAS, contributing a large part in the revenue structure and generating a stable profit for GAS over the years.

Fig 3. Vietnam – Gas power structure by 2050



Source: Power Master Plan 8, KB Securities Vietnam

Asian LNG prices fell to reasonable levels, helping to increase the feasibility of LNG business projects

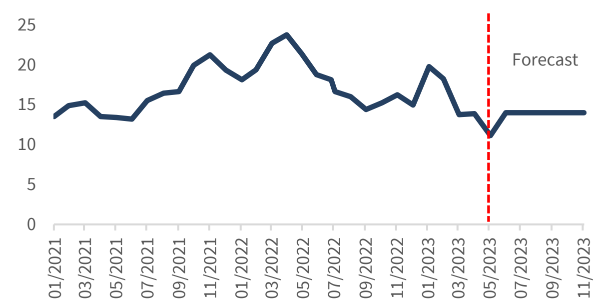
Imported LNG is identified as the solution to the problem of shortage of gas from domestic fields. Both key LNG terminals and storage projects (Thi Vai and Son My LNG terminals) highlighted in the Master Plan are owned or co-owned by GAS. In which, LNG Thi Vai warehouse phase 1 has been completed and put into trial operation by the end of 2Q2023. The first phase of Thi Vai LNG Terminal has been completed and put into trial operation by the end of 2Q. GAS offered to buy the first LNG batch in Vietnam in May (50,000 – 70,000 tons), and the deliveries should complete between June 1 to July 31.
We estimate USD10-15/mmBTU is a reasonable import price of LNG for gas power plant projects to be economically viable in the long term. LNG prices in Asia and Europe markets have plunged to USD11-13 USD/mmBTU in 2Q since there is no gas competition between Europe and Asia as in 2022. The IEA also forecasts that Asian LNG prices will be under USD15/mmBTU in 2H23 and 2024. This bodes well for GAS's LNG import business, especially when Nhon Trach 3 & 4 gas-fired power plants are expected to start operating from 2024.

Table 2. Vietnam – LNG terminal projects in the coming period

Projects	Construction timeline	Capacity (mil tons/year)
LNG Thi Vai warehouse Phase 1	2015-2022	1
LNG Thi Vai warehouse Phase 2	2024-2025	3
LNG Son My warehouse Phase 1	2024-2026	3.6
LNG Son My warehouse Phase 2	N/A	6

Source: PV Gas, KB Securities Vietnam

Fig 4. Global – Forecast LNG prices until the end of 2023 (USD/mmBTU)



Source: International Energy Agency, KB Securities Vietnam

Block B – O Mon is expected to progress positively

Block B – O Mon is one of the two big projects of gas exploitation to supply downstream thermal power plants highlighted in the Master Plan. GAS is one of the businesses benefiting the most from the project with the contribution of 51% of the investment capital of a 400 km gas pipeline from upstream fields to thermal power plants. The project is expected to receive its first gas flow in 2026 and provide about 5-7 billion m^3 of gas within 23 years. We expect the project to create a long-term growth driver for GAS with a significant contribution to the revenue structure from 2026 when the old gas fields are exhausted.

Vietnam Oil & Gas Group (PVN) is working with the parties to get approval for the final investment decision (FID) in June 2023. We believe that it will be difficult for the FID to be approved before this deadline because the megaproject requires synchronous coordination between the parties, and the issues related to the gas purchase and sale contract have not been resolved yet. We expect PVN will get FID approval by the end of 2023 so that the project can ensure the exploitation schedule in 2026.

Forecast & valuation

Table 3. GAS – 2023F results

	2022	2023F	KBSV's notes
Oil price			
Average Brent price (USD/bbl)	101	80	Positive factors: (1) OPEC+ price support and (2) the peak season demand. Negative factors: World economic outlook.
Average FO price (USD/ton)	494	391	
CP LPG Saudi Aramco price (USD/ton)	737	660	
Output			
Dry gas output (million m^3)	7,798	7,744	Consumption from power plant customers is stable thanks to favorable weather. Consumption volume from industrial customers may decline due to the bad economic situation.
%YoY	9.0%	-0.7%	
LPG output (thousand tons)	2,068	2,068	LPG is widely used for daily purposes so its output should remain stable. The growth is flat as weak domestic production, services and retail sales affect industrial customers and catering services.
Revenue (VNDbn)	**100,724**	**88,343**	2Q23 business results are subdued due to negative oil and gas price movements. We expect GAS business results to recover from 3Q23.
%YoY	27.5%	-12.3%	
Gross profit (VNDbn)	**21,314**	**17,756**	Profit margin would slightly decrease because (1 contracts signed with power plants and fertilizer factories can generate more stable profit, compared with industrial customer; and (2) positive gross profit in 1Q can make up for the expected low 2Q23 profit.
Gross profit margin (%)	**21.2%**	**20.1%**	
SG&A expenses (VNDbn)	(3,515)	(3,083)	
SG&A to revenue ratio (%)	-3.5%	-3.5%	
Operating profit (VNDbn)	17,799	14,673	
Financial income (VNDbn)	1,568	1,865	
Financial expenses (VNDbn)	(671)	(348)	
Other net incomes (VNDbn)	78	32	
Profit before taxes (VNDbn)	**18,802**	**16,296**	
Profit after taxes (VNDbn)	**15,062**	**13,053**	
%YoY	70.0%	-13.3%	
Net profit margin (%)	15.0%	14.8%	

Source: PV Gas, KB Securities Vietnam

Valuation: BUY recommendation – target price VND118,000

We used the FCFF method to reflect the potential of GAS's long-term projects. We raise our recommendation to BUY for GAS stocks, although we lower our target price to VND118,000/share as the market price has fallen to an attractive level. This is equivalent to an upside of 25.9% from the closing price on June 9, 2023.

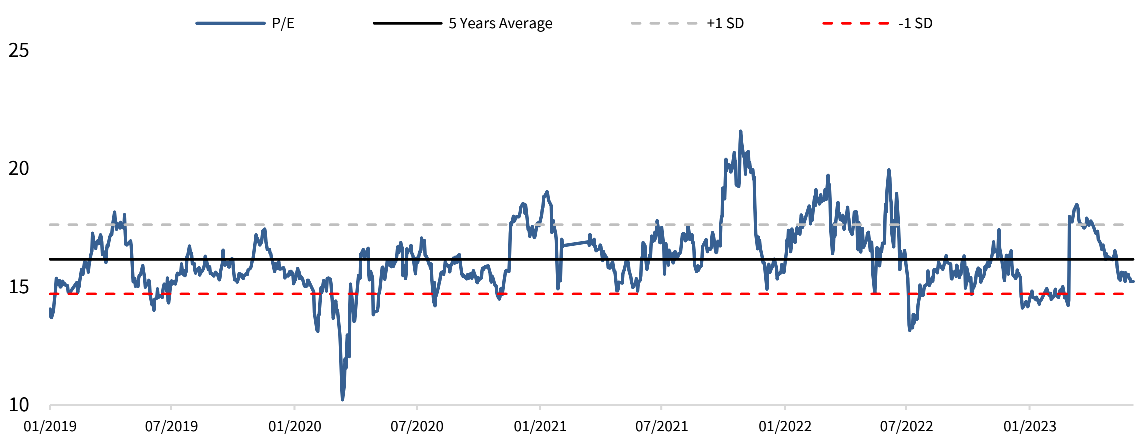
Table 4. GAS – FCFF valuation

Cost of equity	13.1%	Present value of terminal value	156,449
Risk-free rate	5.0%	Total present value for the period 2023-2027	42,826
Equity risk premium	8.1%	**Total present value for the period 2023-2027**	**199,275**
Beta	1.0	Plus: Cash & Short-term investments	34,275
Average interest rate	7.5%	Minus: Net Debt	-6,083
Taxes	20.0%	Minus: Minority interest	-1,458
Weighted cost of capital	**10.4%**	**Equity value**	**226,009**
Terminal growth rate	2.0%	Number of shares outstanding (million shares)	1,914.0
		Equity value/share (VND)	**118,000**
		Market price (13/06/2023)	93,700
		Upside	25.9%

Source: KB Securities Vietnam

Currently, GAS is trading at a P/E of 15.2x, significantly lower than the five-year average P/E of 16.16x. We expect the market to re-evaluate GAS when business results improve from 3Q23, and the megaproject Block B O Mon shows clearer progresses.

Fig 6. GAS – P/E (x)



Source: Bloomberg, KB Securities Vietnam

GAS – 2021A–2024F financials

Income Statement (VND billion)	2021	2022	2023F	2024F
Net sales	78,992	100,724	88,343	92,440
Cost of sales	-65,007	-79,409	-70,587	-73,260
Gross Profit	13,986	21,314	17,756	19,180
Financial income	1,187	1,568	1,898	2,135
Financial expenses	-403	-671	-348	-239
of which: interest expenses	-304	-337	-174	-120
Gain/(loss) from joint ventures (from 2015)	15	28	28	28
Selling expenses	-2,133	-2,440	-2,140	-2,239
General and admin expenses	-1,479	-1,075	-943	-987
Operating profit/(loss)	11,173	18,724	16,251	17,878
Other incomes	83	112	112	112
Other expenses	51	34	34	34
Net other income/(expenses)	32	78	78	78
Income from investments in other entities	0	0	0	1
Net accounting profit/(loss) before tax	11,205	18,802	16,329	17,956
Corporate income tax expenses	-2,353	-3,740	-3,249	-3,573
Net profit/(loss) after tax	8,852	15,062	13,080	14,383
Minority interests	179	268	255	280
Attributable to parent company	8,673	14,794	12,825	14,103

Margin ratio	2021	2022F	2023F	2023F
Gross profit margin	17.7%	21.2%	20.1%	20.8%
EBITDA margin	17.0%	20.8%	19.5%	20.7%
EBIT margin	13.1%	17.7%	16.6%	17.3%
Pre-tax profit margin	14.2%	18.7%	18.5%	19.4%
Operating profit margin	14.1%	18.6%	18.4%	19.3%
Net profit margin	11.2%	15.0%	14.8%	15.6%

Balance Sheet (VND billion)	2021	2022	2023F	2024F
CURRENT ASSETS	78,768	82,806	88,471	97,421
Cash and cash equivalents	51,395	55,652	61,406	66,922
Short-term investments	5,300	10,549	18,129	23,476
Accounts receivable	24,800	23,726	23,726	23,726
Inventories	16,920	16,191	15,006	15,398
LONG-TERM ASSETS	3,241	4,102	3,346	3,533
Long-term trade receivables	27,373	27,155	27,065	30,499
Fixed assets	188	169	169	169
Investment properties	18,098	16,370	16,280	19,714
Long-term incomplete assets	4,871	6,121	6,121	6,121
Long-term investments	22	36	36	36
TOTAL ASSETS	1	0	0	0
LIABILITIES	26,575	21,489	17,731	17,935
Current liabilities	16,561	12,488	11,701	12,390
Trade accounts payable	6,631	6,652	5,809	6,382
Advances from customers	105	128	184	181
Short-term unrealized revenue	485	45	411	409
Short-term borrowings	10,014	9,001	6,030	5,545
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	3,067	2,582
Long-term borrowings	52,193	61,317	70,740	79,486
OWNER'S EQUITY	19,140	19,140	19,140	19,140
Paid-in capital	0	0	0	0
Share premium	10,487	19,243	28,371	36,876
Undistributed earnings	21,468	21,476	21,516	21,477
Minority interests	1,098	1,458	1,713	1,993

Cash Flow Statement (VND billion)	2021	2022	2023F	2024F
Net profit/(loss) before tax	11,205	18,802	16,329	17,956
Depreciation and amortisation	3,073	3,104	2,514	3,217
Profit/loss from investing activities	-992	-992	-992	-992
Interest expense	304	325	168	116
Operating profit/(loss) before changes in Working Capital	14,084	21,239	18,019	20,297
(Increase)/decrease in receivables	-7,153	782	1,185	-392
(Increase)/decrease in inventories	-1,612	-878	756	-187
Increase/(decrease) in payables	7,801	-3,902	-843	573
(Increase)/decrease in prepaid expenses	-2,740	-290	-290	-290
Net cash inflows/(outflows) from operating activities	7,595	12,440	15,234	16,263
Purchases of fixed assets and other long term assets	-4,747	-2,006	-3,258	-6,777
Proceeds from disposal of fixed assets	181	1	0	0
Loans granted, purchases of debt instruments	-41,511	-40,613	-40,613	-40,613
Collection of loans, proceeds from sales of debts instruments	38,324	41,432	41,432	41,432
Investments in other entities	0	-40	-40	-40
Proceeds from divestment in other entities	0	-60	-60	-60
Dividends and interest received	998	1,330	1,330	1,330
Net cash inflows/(outflows) from investing activities	-6,755	43	-1,195	-4,714
Proceeds from issue of shares	0	159	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	6,247	1,325	1,018	1,353
Repayment of borrowings	-1,156	-3,371	-3,623	-1,840
Finance lease principal payments	0	0	0	0
Dividends paid	-5,865	-5,882	-3,828	-5,742
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-774	-7,769	-6,433	-6,229
Net increase in cash and cash equivalents	66	4,715	7,606	5,320
Cash and cash equivalents at the beginning of period	5,237	5,833	10,550	18,156
Cash and cash equivalents at the end of period	5,301	10,550	18,156	23,476

Key ratios				
Multiple				
P/E	16.6	14.0	18.0	16.4
P/E diluted	16.6	14.0	18.0	16.4
P/B	2.7	3.4	3.3	2.9
P/S	1.8	2.0	2.6	2.5
P/Tangible Book	2.7	3.4	3.3	2.9
P/Cash Flow	18.3	16.5	15.2	14.2
EV/EBITDA	10.6	9.7	12.7	11.1
EV/EBIT	13.8	11.4	14.9	13.3
Operating performance				
ROE	17.0%	24.6%	18.5%	18.1%
ROA	11.2%	18.2%	14.8%	14.8%
ROIC	18.1%	29.8%	24.9%	25.8%
Financial structure				
Cash Ratio	1.8	2.7	3.6	3.8
Quick Ratio	2.8	4.0	4.9	5.1
Current Ratio	3.1	4.5	5.3	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	21.1	20.7
Account Payable Turnover	17.0	15.2	14.2	15.2

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