

PV Gas (GAS)

Achieved strong improvement in 2Q24

September 4, 2024

Analyst Pham Minh Hieu
hieupm@kbsec.com.vn

2Q24 business results improved considerably thanks to favorable product prices

Revenue and gross profit of PV Gas (GAS) in 2Q24 surged 25.0% and 32.1% YoY, respectively mainly due to higher FO price (+15.3%), LPG price (+14.7%) and LPG consumption (+19.6%). 2Q sales volume growth was mainly supported by imports.

KBSV maintains prudent forecast for crude oil price due to gloomy consumption demand outlook and less tight supply

Economic data from the world's two largest crude oil consumers, the US and China, are showing a less optimistic picture. The political instability in Libya is showing signs of improvement, easing concerns about supply shortages and putting strong downward pressure on crude oil prices in the short term. We temporarily maintain our assumption that the price in 2024 will reach USD83/barrel and decrease to USD80/barrel in 2025.

Asian LNG prices increased sharply in 2Q due to a surge in demand

Japan LNG prices (a gauge of Asian LNG prices) gained 32.9% in 2Q. Japan and China have raised LNG imports sharply due to the surge in demand for cooling and conversion of LNG-powered trucks. The strong volatility in imported LNG prices has a negative impact on the long-term prospects of LNG projects.

GAS plans to pay dividends in cash and issue shares

GAS plans to pay VND6,000/share for 2023 dividends and issue additional shares at a ratio of 50:1 to increase its share capital with its equity. The ex-right date is September 13, 2024 and the expected payable date is November 28, 2024.

Valuation: BUY rating – Target price VND87,100/share

We set a target price for GAS shares of VND87,100/share, 4.6% higher than the closing price of VND83,300/share on August 30, 2024. We change our rating to NEUTRAL as the expected total return is no longer attractive.

Neutral change

Target price VND87,100

Upside	4.6%
Current price (Aug 30, 2024)	VND83,300
Consensus target price	VND88,000
Market cap (VNDtn/USDbn)	191.3/7.7

Trading data

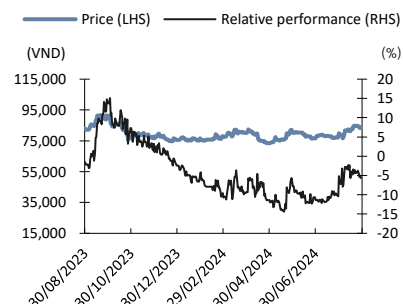
Free float	4.2%
3M avg trading value (VNDbn/USDmn)	108.2/4.3
Foreign ownership	1.9%
Major shareholder	PetroVietnam (PVN, 92.1%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	8.0	2.8	7.8	0.8
Relative	5.1	1.6	5.5	-4.8

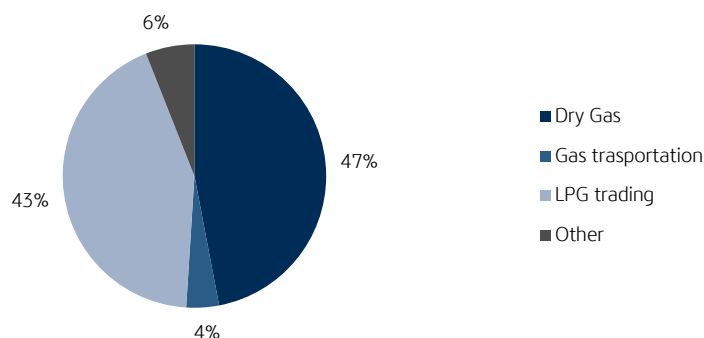
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	100,724	89,954	97,364	104,523
Operating income/loss (VNDbn)	17,799	12,906	13,244	13,440
NPAT-MI (VNDbn)	14,794	11,606	11,410	11,471
EPS (VND)	7,647	4,972	4,967	4,994
EPS growth (%)	75.6	-35.0	0.0	1.0
P/E (x)	10.9	16.8	16.8	16.7
P/B (x)	2.6	3.0	3.0	2.8
ROE (%)	24.6	18.1	18.0	16.7
Dividend yield (%)	3.7	7.2	4.2	4.2



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: PV Gas, KB Securities Vietnam

Business operation

PetroVietnam Gas JSC (GAS) was established in 1990 and has been a member unit of the Vietnam National Oil and Gas Group. GAS mainly operates in the fields of collecting, transporting, storing, processing, exporting, importing, and trading gas and gas products. The JSC holds the No. 1 position in supplying dry gas, LPG and LNG in Vietnam.

Investment Catalysts

Crude oil prices remain high. Crude oil prices averaged USD85/barrel in 1H24, supporting business results amid weakening domestic gas consumption due to the priority of other power sources.

Gas output growth in the medium term will mainly come from the LNG segment. Imported LNG will supplement gas supply in the 2024–2026 period when domestic gas fields are decreasing in output.

Notes

Please find more details [here](#)

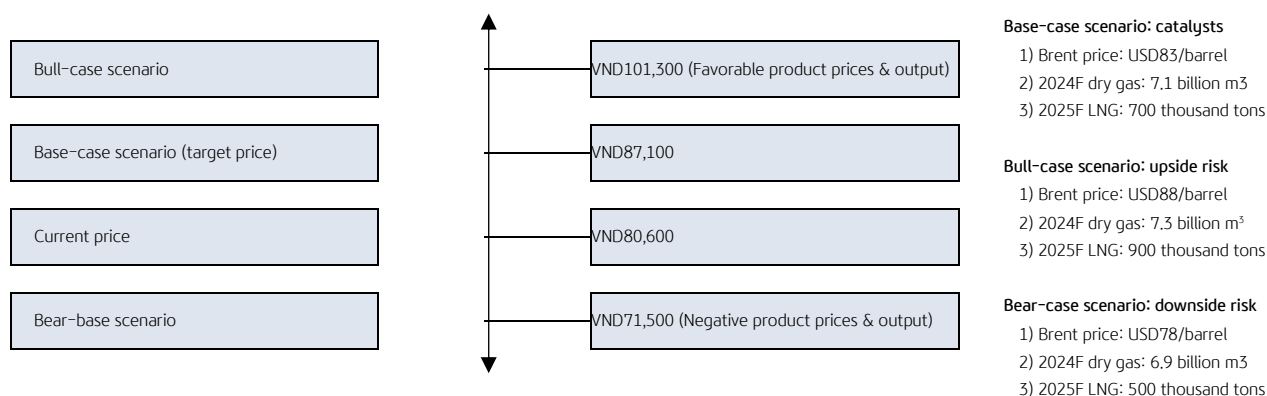
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	97,364	104,523	7%	5%	95,452	101,077	2%	3%
EBIT	13,244	13,440	1%	-6%	13,627	14,561	-3%	-8%
NP after MI	11,410	11,471	-2%	-7%	12,624	12,680	-10%	-10%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q business results improved strongly thanks to favorable output prices

Revenue and gross profit of GAS in 2Q24 surged 25.0% and 32.1% YoY, respectively mainly due to higher FO price (+15.3%), LPG price (+14.7%) and LPG consumption (+19.6%). In 2Q24, the overall situation of dry gas consumption from domestic sources has not improved much. The growth in gas sales volume mainly came from imported LNG gas sources. GAS also recorded a provision for bad debt of VND815 billion related to the fee issue at the Phu My – Ho Chi Minh City pipeline. However, the company expects to be able to reverse this provision in the future.

Table 1. GAS – 2Q24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	6M23	6M24	+/-%YoY	Notes
Revenue	24,043	30,052	25.0%	45,257	53,367	17.9%	The increase in revenue was attributable to a strong increase in FO price, consumption output and LPG price.
Gross profit	4,343	5,736	32.1%	9,185	9,427	2.6%	LNG in 2Q spiked thanks to favorable output prices, helping to offset less positive results in 1Q.
Gross profit margin	18.1%	19.1%		20.3%	17.7%		
Financial income	598	445	-25.7%	1,135	908	-20.0%	
Financial expenses	95	229	141.1%	170	410	141.2%	It is mainly due to exchange losses.
Profit from affiliates	10	13.5	35.0%	9.0	13.0	44.4%	
SG&A	853	1,726	102.4%	1,915	2,529	32.1%	It is due to the provision for bad debt of VND815 billion related to Phu My – Ho Chi Minh City pipeline fees.
Operating income/loss	4,004	4,240	5.9%	8,244	7,409	-10.1%	
Other income	-4	0	-100.0%	23	1	-95.7%	
Profit before taxes (PBT)	3,990	4,226	5.9%	8,257	7,397	-10.4%	
Profit after taxes (NPAT)	3,196	3,416	6.9%	6,613	5,960	-9.9%	
NPAT after MI	3,156	3,321	5.2%	6,506	5,832	-10.4%	
NPAT margin	13.1%	11.1%		14.4%	10.9%		
Dry gas consumption (million tons)	1,632	1,957	19.9%	3,990	3,589	-10.1%	
By power plants	1,115	1,384	24.1%	2,949	2,499	-15.3%	Domestic electricity mobilization was low due to the Ministry of Industry and Trade prioritizing other power sources in 1Q24. The improvement in 2Q was mainly supported by LNG.
By fertilizer plants	299	310	3.7%	553	609	10.1%	
By industrial parks	218	264	21.1%	487	482	-1.0%	It was supported by LNG.
LPG consumption (thousand tons)	683	817	19.6%	1,090	1,500	37.6%	The increase was attributable to exports to overseas markets.
Brent price (USD/barrel)	78	85	8.9%	80	83	4.8%	
FO price (USD/ton)	433	499	15.3%	406	469	15.4%	
LPG price (USD/ton)	517	593	14.7%	611	606	-1.0%	

Source: PV Gas, KB Securities Vietnam

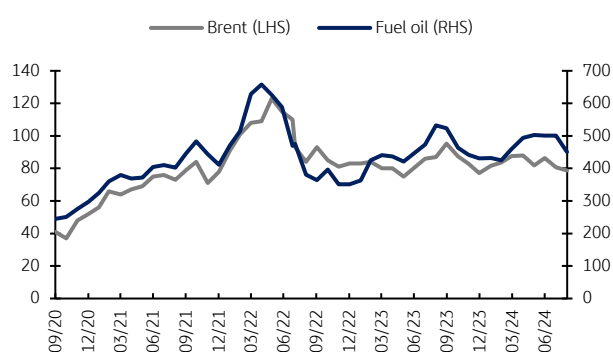
KBSV maintains prudent forecast for crude oil price due to gloomy consumption demand outlook and less tight supply

Brent crude oil prices averaged USD85/barrel in 1H2024 but strongly dropped to only USD79/barrel in July–August 2024. OPEC lowered its forecast for global crude oil demand in 2024 and 2025 by 6.0% and 3.5% YoY, respectively in its latest report. This adjustment may be after the world's two largest crude oil consumers, the US and China, are showing a less optimistic picture in economic data. On the supply side, the OPEC+ in its latest meeting emphasized that the easing of production cuts from 3Q24 will depend on actual market demand. However, the political instability in Libya is showing signs of improvement, easing concerns about supply shortages and putting strong downward pressure on crude oil prices in the short term. We temporarily maintain our assumption that the price in 2024 will reach USD83/barrel and decrease to USD80/barrel in 2025.

Japan LNG prices fluctuated strongly due to surging consumption

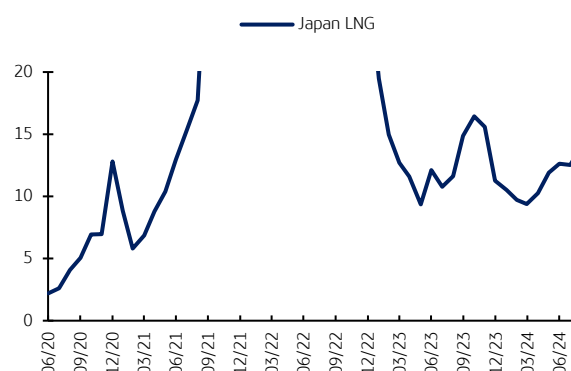
Japan LNG prices (a gauge of Asian LNG prices) increased by 32.9% in 2Q24, reaching USD12.5/mmBTU at the end of July 2024. The two largest consumers in the region, Japan and China, have increased LNG imports sharply to (1) cope with the surge in demand during the record hot summer and (2) meet the need to switch truck fuels from traditional gasoline to LNG. Although the volatility is no longer as high as in 2021–2022, Asian LNG prices are still likely to experience big changes due to the supply shortage in the region. We believe this will have a negative impact on GAS's LNG project prospects, especially when the company is expected to start increasing its business output from 2025.

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



Source: Bloomberg, KB Securities Vietnam

Fig 3. Japanese – LNG price (USD/mmBTU)



Source: Bloomberg, KB Securities Vietnam

GAS plans to pay dividends in cash and issue shares

GAS plans to pay VND6,000/share for 2023 dividends and issue additional shares at a ratio of 50:1 to increase its share capital with its equity. The ex-right date is September 13, 2024 and the expected payable date is November 28, 2024.

Forecast & valuation

Table 4. GAS – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	89,954	97,364	8.2%	104,523	7.4%	2024F LPG consumption output was 20% higher than the previous report.
Gross profit	16,925	17,893	5.7%	18,133	1.3%	
Gross profit margin	18.8%	18.4%		17.3%		2024 forecast was lowered 15% compared to the latest report due to actual results being worse than expected.
Financial income	2,273	1,932	-15.0%	1,932	0.0%	
Financial expenses	587	658	12.1%	775	17.8%	
Profit from affiliates	27	27	1.1%	27	0.0%	
SG&A	4,019	4,649	15.7%	4,693	0.9%	The forecast was raised 14% due to the provision related to the PM-TPHCM pipeline. However, the provision may still be reversed in the future.
Operating income/loss	14,619	14,545	-0.5%	14,624	0.5%	
Other income	-13	0	-100.0%	0	N/A	
Profit before taxes (PBT)	14,640	14,545	-0.6%	14,624	0.5%	
Profit after taxes (NPAT)	11,793	11,636	-1.3%	11,699	0.5%	
NPAT after MI	11,606	11,410	-1.7%	11,471	0.5%	
NPAT margin	12.9%	11.7%		11.0%		
Dry gas consumption (million tons)	7,300	7,125	-2.4%	7,180	0.8%	
By power plants	5,189	4,916	-5.3%	5,098	3.7%	In 2024, the Ministry of Industry and Trade (MOIT) will increase mobilization from coal power and renewable energy. It should be more stable compared to the low base level of 2023. No major maintenance will take place in 2024.
By fertilizer plants	1,132	1,211	7.0%	1,077	-11.1%	
By industrial parks	980	997	1.8%	1,005	0.8%	
LPG consumption (thousand tons)	2,450	2,940	20.0%	2,940	0.0%	Forecast consumption output was increased 20% due to outstanding results in the first half of the year.
Brent price (USD/barrel)	83	83	0.0%	80	-3.6%	
FO price (USD/ton)	442	442	0.0%	426	-3.6%	
LPG price (USD/ton)	577	577	0.0%	566	-1.8%	

Source: PV Gas, KB Securities Vietnam

Valuation: BUY rating – Target price VND87,100/share

Using FCFF and P/E comparison for GAS valuation, we found the price target was VND87,100/share, equivalent to an upside of 4.6% compared to the closing price of VND83,300/share on August 29, 2024. The target P/E of 16.3x is chosen based on the median P/E of GAS over the past five years. We downgraded our recommendation for GAS to NEUTRAL because the expected return is no longer attractive.

Table 5. GAS – FCFF valuation

Risk-free rate	4.7%	Present value of terminal value (VNDbn)	131,129
Equity risk premium	7.6%	Total present value for the period 2024–2028	39,895
Beta	0.69	Total present value	171,024
Average interest rate	7.5%	Plus: Cash & Short-term investments	42,857
Taxes	20.0%	Minus: Net Debt	-5,927
Weighted cost of capital	9.1%	Minus: Minority interest	-1,476
Terminal growth rate	1.5%	Equity value	206,478
		Number of shares outstanding (million shares)	2,297
		Equity value/share (VND)	89,800

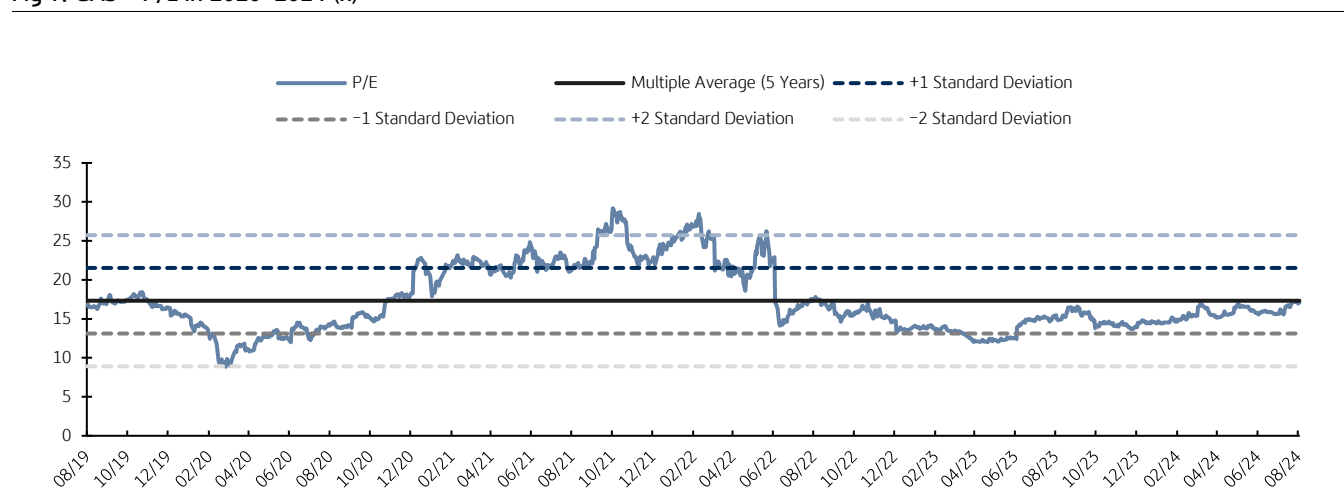
Source: Bloomberg, KB Securities Vietnam

Table 6. GAS – Final valuation

Valuation method	Forecast price	Weighting	Price per weight
FCFF	89,800	70%	62,860
P/E (16.3x)	80,962	30%	24,289
Target price (rounded)			87,100
Current price (August 29, 2024)			83,300
Upside			4.6%
Dividend yield			4.2%
Total return			8.8%

Source: Bloomberg, KB Securities Vietnam

Fig 7. GAS – P/E in 2020–2024 (x)



Source: Bloomberg, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Manager
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Support team

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.