

PV Gas (GAS)

Growth driven by gas projects

March 15, 2023

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Both profit & revenue grew strongly

PV Gas (GAS) recorded 2022 NPAT of VND15,062 billion (+70% YoY) on revenue of VND100,723 billion (+27.5% YoY). Strong performance was attributable to (1) positive sales vs 2021 when the demand for gas recovered and (2) high prices of Brent oil, FO and LPG. GAS's full year profit margin improved to 21.16%.

The demand for dry gas from power plant customers is expected to recover in 2023

The probability of El Nino is forecast to rise to over 50% from May 2023, which means the amount of water reserves in hydropower plants will decrease compared to the period of 2021 – 2022, and gas power plants (main customers of GAS) should be mobilized more. We forecast that gas volume sold to power plants will continue to recover in 2023, reaching about 6,032 million m³ (+10.4% YoY).

GAS's growth would be underpinned by LNG consumption

The development of LNG power plants should be prioritized in the future, which will benefit GAS, the pioneer investor owning nine out of 14 LNG terminals. Thi Vai LNG is the first LNG terminal of GAS which provides gas to Nhon Trach 3 & 4 gas thermal power plants and other industrial customers. However, the Nhon Trach 3 & 4 still face many obstacles in negotiating output commitments for the project. We believe that the completion of Nhon Trach 3 & 4 and the decrease in imported LNG prices would be the catalysts to this LNG warehouse's operation.

HOLD recommendation with the target price of VND118,300/share

Based on FCF and P/E methods, GAS's business outlook and possible risks, we recommend HOLD for GAS stocks with the target price of VND118/share, equal to a return of 9.8% compared to the price on March 14, 2023.

Hold update

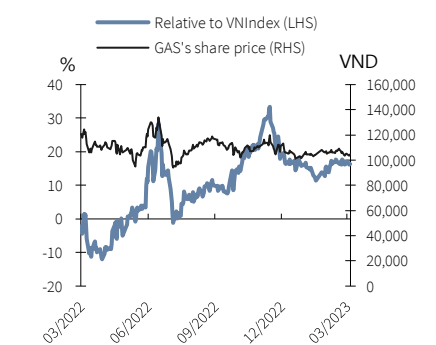
Target price	VND118,300
Upside/Downside	9.8%
Current price (Mar 15, 2023)	VND107,700
Consensus target price	131,000
Market cap	206

Trading data	
Free float	5%
3M average trading value (VNDbn)	24.8
Foreign ownership	3%
Major shareholder	PetroVietnam (95.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1	-7	-11	-13
Relative	3	-10	7	16

Forecast earnings & valuation

FY-end	2021A	2022	2023F	2024F
Revenue (VNDbn)	78,992	100,724	95,667	100,451
EBIT (VNDbn)	10,374	17,799	15,096	16,324
NPATMI (VNDbn)	8,673	14,794	12,446	13,285
EPS (VND)	4,356	7,647	6,503	6,941
EPS growth (%)	8.1	75.6	-15.0	7.0
P/E (x)	16.6	14.0	18.0	16.9
EV/EBITDA (x)	10.6	9.7	12.1	11.0
P/B (x)	2.7	3.4	3.3	3.0
ROE (%)	17.0	24.6	18.6	18.0
Dividend yield (%)	4.2	2.9	2.6	3.0



Source: Bloomberg, KB Securities Vietnam

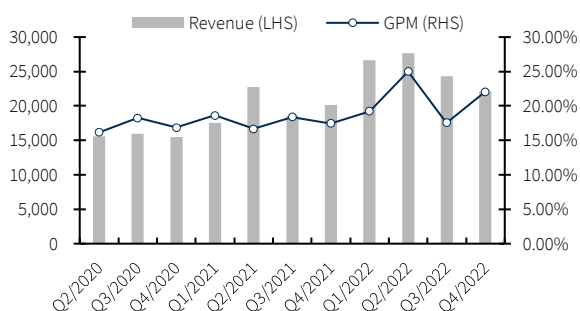
Business performance

GAS's revenue and profit after tax in 2022 grew positively

In Q4/2022, GAS continued to record positive business results with Revenue and Profit after tax reaching VND 22,053 billion (+9.3% YoY) and VND 3,250 billion (+65.5% YoY), respectively.

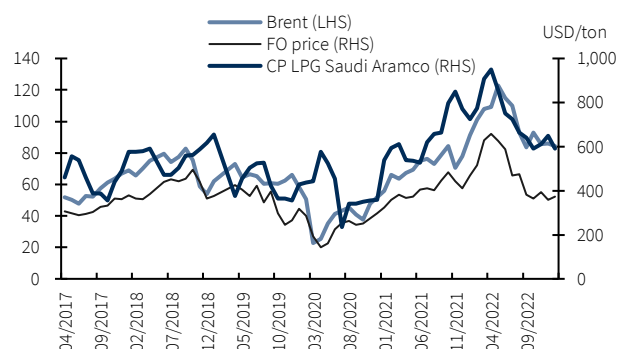
In the whole year of 2022, GAS's revenue reached VND 100,723 billion (+27.5% YoY) and profit after tax was VND 15,062 billion (+70% YoY). Revenue and profit had good growth results thanks to (1) Positive sales volume compared to 2021 due to recovery in consumption demand. According to our estimates, GAS has supplied about 7.9 billion m³ of dry gas (+9% YoY) in 2022. Condensate and LPG output will reach over 100 million tons (+55% YoY) and 2 million tons (+55% YoY) respectively. 2% YoY (2) The price of Brent oil, FO oil as well as LPG is anchored at a high level. GAS's full year profit margin in 2022 improved, reaching 21.16%.

Fig 1. GAS – Revenue & GPM (VNDbn, %)



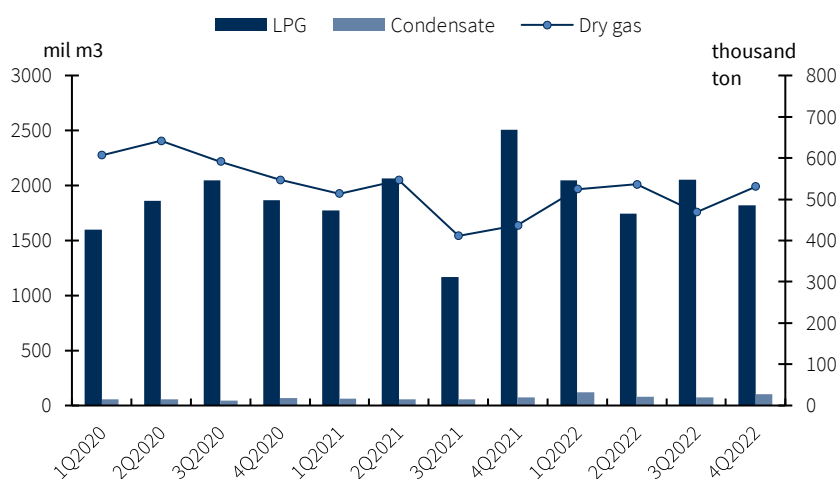
Source: PV Gas, KB Securities Vietnam

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



Source: PV Gas, KB Securities Vietnam

Fig 3. GAS – Estimated dry gas and LPG volume (million m³, thousand tons)



Source: PV Gas, KB Securities Vietnam

Table 1. GAS – Business results in 2021–2022

	2021	2022	% YoY	Notes
Oil price				Oil prices stayed high in 2022 due to political tensions and the world's tight oil supply while the alternative supply has not been found.
Average Brent price (USD/bbl)	71	100	41%	
Average FO price (USD/ton)	398.7	494	23.8%	
CP LPG Saudi Aramco price (USD/ton)	639.0	735.6	15%	
Output				
Dry gas output (million m ³)	7,153.0	7,875	8%	Gas output increased slightly YoY from the low base level of 2021, but gas power mobilization is still limited due to high mobilized capacity from hydropower plants.
LPG output (thousand tons)	2,003	2040	2%	
Revenue (VNDbn)	78,992	100,723.5	27.5%	Revenue increased thanks to high gas prices such as Brent, FO oil and LPG over the same period. Dry gas production strongly rebounded.
Gross profit (VNDbn)	13,986	21,314.49	52%	
Gross profit margin (%)	17.71%	21.16%		
SG&A expenses (VNDbn)	(3,612)	(3,515)		
SG&A to revenue ratio (%)	-4.6%	-3.5%		
Operating profit (VNDbn)	10,374	17,799		
Financial income (VNDbn)	1,187	1,568		
Financial expenses (VNDbn)	(403)	(671)	66.5%	Interest expenses increased. The group also recorded losses from exchange rate differences and revaluation of foreign currency principal items
Other net incomes (VNDbn)	32	78		
Profit before taxes (VNDbn)	11,205	18,802.2	68%	
Profit after taxes (VNDbn)	8,852	15,062.27	70%	NPAT increased thanks to the recovery of dry gas output and good selling prices
Net profit margin (%)	11.21%	15%		

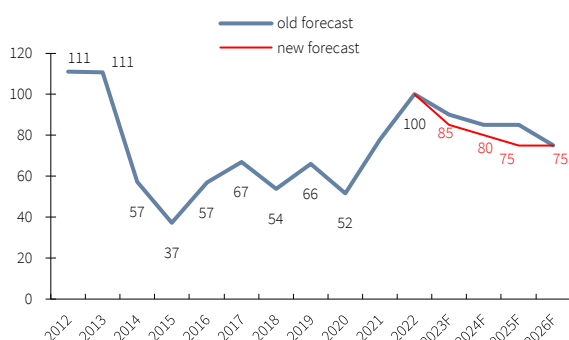
Source: PV Gas, KB Securities Vietnam

Oil prices are expected to post modest decreases in 2023

In 4Q22, Brent oil price traded at an average of USD89/barrel (+14.3 % YoY). In the coming time, oil prices will also be under downward pressure from the fear of economic recession in many countries and the increase in interest rates of the Fed, which also weighs on energy demand. Therefore, we lower our forecast for oil prices but keep the high of USD85/barrel for 2023 as (1) the Russia-Ukraine conflict continues to affect the global oil market; (2) leading crude oil exporters like Russia and OPEC are still cutting output; and (3) global consumption demand is boosted by the reopening of China's economy. According to our observations, the major forecasters all believe that although oil prices have slightly decreased compared to 2022, they are still anchored at high levels due to concerns about supply shortages when Russia cuts production and China's consumption increases.

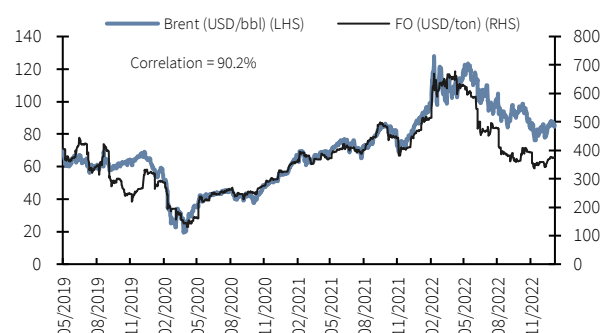
With the developments and forecasts of Brent oil prices below, we expect the dry gas prices of GAS to decrease slightly by 7% in line with Brent oil prices in 2023. Correspondingly, the average LPG price is forecasted to be USD678/tons (-8% YoY).

Fig 4. Global – Forecast Brent oil prices (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

Fig 5. Global – Correlation between Brent and FO



Source: Bloomberg, KB Securities Vietnam

Table 2. Global – Forecast oil prices (USD/barrel)

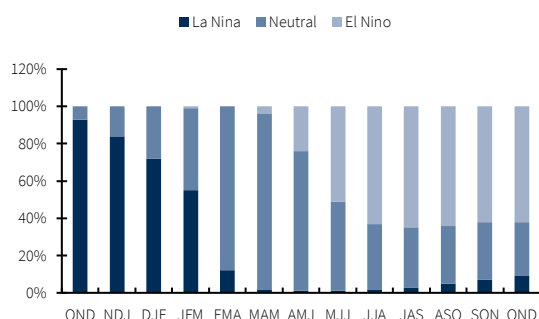
BNP Paribas SA	88	93		
Intesa Sanpalo SpA	85.95	82	80	78
Rabobank International	87.09	96.31	100.04	103.69
Citigroup Inc	80	72		
Fitch Solution	95	88	88	85
Banco Santander SA	80	73	66	62
Goldman Sachs Group Inc	92	100	90	90
Capital Economics Ltd	87.25	85	67.88	
Natixis SA	91.75	92.25		
Deutsche Bank AG	77.5	80	82	80.3
Panmure Gordon & CO	86.75	85	82	
JP Morgan Chase & CO	90	98		
Average	86.77	87.05	81.99	83.17

Source: Bloomberg, KB Securities Vietnam

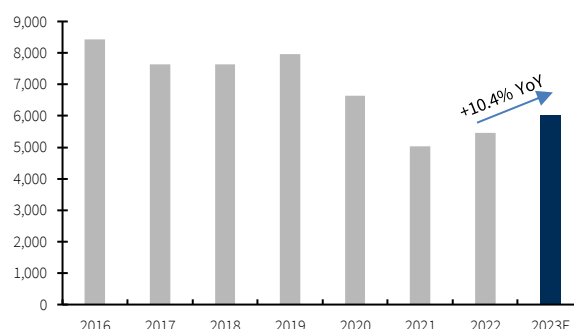
Gas demand from power plant customers should be positive in 2023

According to forecasts from international meteorological organizations, probability of El Nino is forecast to rise to over 50% from May 2023, which means the amount of water reserves in hydropower plants will decrease compared to the period of 2021 – 2022, and gas power plants (main customers of GAS) should be prioritized for power generation compared to the period of 2021–2022 when La Nina and massively developed renewable energy power projects put pressure on gas power plants. Accordingly, gas output sold to power plants is expected to continue to recover in 2023, reaching 6,032 million m³ (+10.4% YoY).

Fig 6. Global – Probability of El Nino (%)



Source: Vietnam Electricity, KB Securities Vietnam

Fig 7. GAS – Forecast gas output sold to power plants (million m³)

Source: PV Gas, KB Securities Vietnam

Bright prospects from LNG import projects

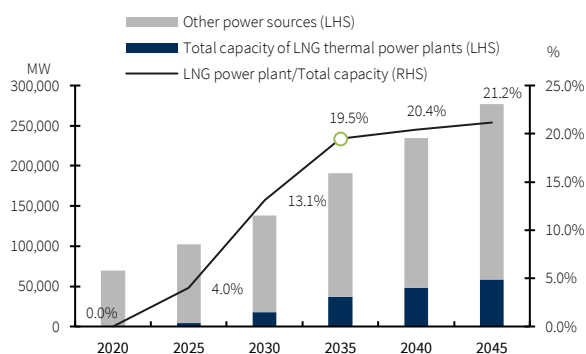
As the current oil and gas source is gradually exhausted while the electricity demand for economic development is large, the Government has directed the implementation of PMP8 to develop a new source of electricity generation which is LNG-fired thermal power.

We believe that the prospect of LNG consumption will be positive and GAS, the largest LNG importer in Vietnam, would benefit in the medium and long term. GAS currently has nine out of 14 LNG warehouses that will be built and exploited in the coming period.

The first LNG project of GAS is the Thi Vai LNG Terminal, which will supply gas for Nhon Trach 3&4 gas-fired thermal power plants and other industrial customers. It should partially compensate for the shortage of gas in the country from 2022. However, the Nhon Trach 3 & 4 still face many obstacles in negotiating output commitments for the project. We believe that the completion of Nhon Trach 3 & 4 and the decrease in imported LNG prices would be the catalysts to this LNG warehouse's operation. Therefore, we consider delaying the forecast time of putting the Thi Vai LNG Terminal into operation to 2024.

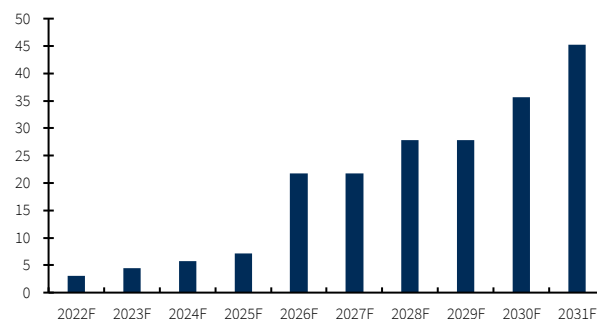
Besides, GAS also signed an agreement to establish joint venture Son My LNG Warehouse Co., Ltd with AES. The terminal capacity of phase 1 is 3.6 million tons/year and should reach 10 million tons/year by 2030. The terminal is supposed to receive, process and supply reprocessed LNG as fuel for Son My 1 and Son My 2 power plants, which are expected to be put into operation from the end of 2025.

Fig 8. Vietnam – Proportion of LNG power in PMP8 (%)



Source: Power Master Plan 8, KB Securities Vietnam

Fig 3. GAS – Forecast imported LNG volume via terminals (million tons/year)



Source: PV Gas, Power Master Plan 8, KB Securities Vietnam

Table 3. GAS – Forecasts of LNG terminals in 2022–2035

Projects	Operation time	Capacity (MMTPA)	Developer
Thi Vai LNG Terminal	2022	1 (Phase 1)	PV GAS
	2023–2025 (Phase 2)	2 (Phase 2)	
Hon Khoai LNG Terminal (Ca Mau)	2022 – 2025 (Phase 1)	1 (Phase 1)	
	After 2025 (Phase 2)	2 (Phase 2)	
Son My LNG Terminal (Binh Thuan)	2023 – 2025 (Phase 1)	3.6 (Phase 1)	PV GAS
	2027 – 2030 (Phase 2)	2.4 (Phase 2)	
	2031 – 2035 (Phase 3)	4 (Phase 3)	
Ha Tinh LNG Terminal	2031 – 2035	2 – 3	
Nam Du FSRU (Kien Giang)	2028 – 2029	1 – 3	
Long Son LNG Terminal (Vung Tau)	2031 – 2035	3 – 6	
Hon Me FSRU (Thanh Hoa)	2022 – 2025	1	
Lach Huyen LNG Terminal (Hai Phong)	2030 – 2035	3 – 4	ExxonMobil
Nam Van Phong LNG Terminal (Khanh Hoa)	2030 – 2035	2 – 3	Petrolimex
Hai Linh LNG Terminal (Vung Tau)	2022 – 2025	1.2	Hai Linh Co. Ltd.

Source: PV Gas, Power Master Plan 8, KB Securities Vietnam

Forecast & valuation

We estimate 2023 revenue at VND95,667 billion (-5% YoY)

We estimate GAS's revenue and NPAT in 2023 will respectively reach VND95,667 billion (-5% YoY) and VND12,617 billion (-16.2% YoY), based on the following assumptions:

- Average Brent oil price is USD85/barrel.
- Consumption volume is positive at 8.5 billion m³ (+8.9% YoY) thanks to the increased demand from gas power plants.
- GPM is 19.27%, assuming output gas prices would fall in line with oil prices.

Table 4. GAS – 2022–2023F performance

	2022	2023F	Notes
Oil price			
Average Brent price (USD/bbl)	100	85	Oil prices are expected to modestly decline on recession fears but remain high due to political tensions and tight supply as oil producing countries cut output and the demand returns in China.
Average FO price (USD/ton)	493.91	415.87	
CP LPG Saudi Aramco price (USD/ton)	736.88	678.67	
Output			
Dry gas output (million m ³)	7,802.67	8,496.67	The weather has a high probability of entering the neutral phase and El Nino, we expect gas thermal power to be mobilized more. Accordingly, output for power plant customers will be improved by 2023.
%YoY	9%	8.9%	
LPG output (thousand tons)	2,125	2,231	Since it is mostly for people's usage (non-industrial purposes), we assume a stable growth rate of around 5% in 2023.
Revenue (VNDbn)	100,723.5	95,667	We assume that gas prices fall in line with Brent oil prices.
%YoY	27.5%	-5.0%	
Gross profit (VNDbn)	21,314.49	18,435	
Gross profit margin (%)	21.16%	19.27%	
SG&A expenses (VNDbn)	3,515	3,339	
SG&A to revenue ratio (%)	3.5%	3.5%	
Operating profit (VNDbn)	17,799	15,096	
Financial income (VNDbn)	1,568	1,192	
Financial expenses (VNDbn)	671	643	
Other net incomes (VNDbn)	78	32	
Profit before taxes (VNDbn)	18,802.2	15,751	
Profit after taxes (VNDbn)	15,062.27	12,617	
%YoY	70%	-16.2%	
Net profit margin (%)	15.0%	13.19%	

Source: PV Gas, KB Securities Vietnam

Final valuation: HOLD recommendation

We use FCFF and P/E method, weighting 50–50 to give GAS a HOLD recommendation with a target price of VND118,300/share, equivalent to an upside of 9.8% compared to the closing price of VND107,700 apiece on March 14, 2023.

Table 9. GAS – DCF valuation

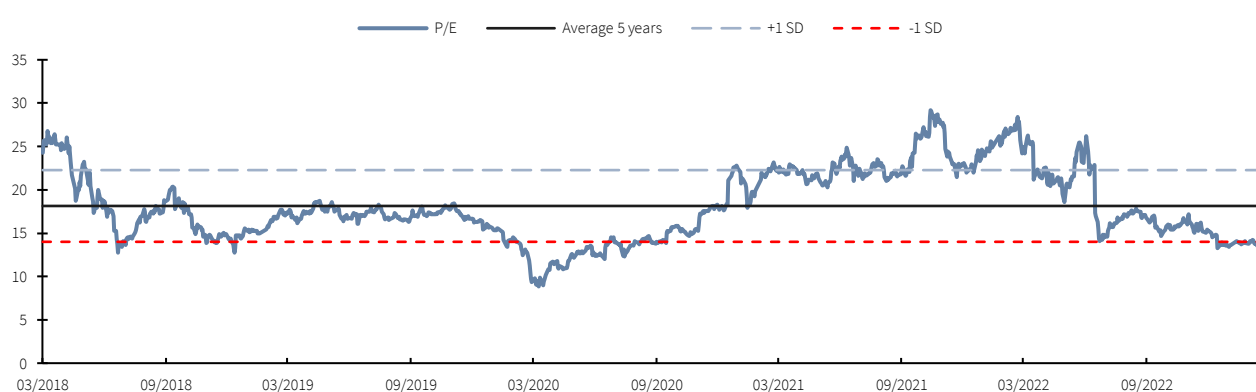
K _e	13.1%	Terminal value (VNDbn)	157,808
Risk-free rate	5%	Present Value for the period 2023–2027 (VNDbn)	44,336
Risk premium	8.1%	Total present value (VNDbn)	202,144
Beta	1.00	Plus: Money & short-term investment (VNDbn)	34,276
Average interest rate	7.5%	Minus: Gross debt (VNDbn)	-6,083
Taxes	20.0%	Minus: Minority interests (VNDbn)	-1,458
Average cost of capital	10.26%	Owner equity (VNDbn)	228,879
Long term growth	2.0%	Number of outstanding shares (million shares)	1,914.0
		Equity/share (VND)	119,500

Source: KB Securities Vietnam

P/E valuation

We choose GAS's target P/E in 2022 at 18x. This P/E is currently in line with GAS's five-year average P/E, which is higher than other peers in the region (17x). This valuation reflects our expectation about GAS's potential of being a pioneer distributor in the field of LNG and gas projects in Vietnam.

Fig 9. GAS – P/E developments (x)



Source: Bloomberg, KB Securities Vietnam

Table 5. GAS – Final valuation

Method	Forecast price	Weight	Price per weight
FCFF	VND119,500	50%	VND59,750
P/E (18x)	VND117,054	50%	VND58,527
Target price (rounded)			VND118,300
Current price (March 15, 2023)			VND107,700
Upside			9.8%

Source: 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

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