

PV Gas (GAS)

Strong earnings outlook

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1Q21 earnings fell 13% YoY and were lower than expected

PV Gas (GAS) reported strong 1Q performance with earnings of VND2,029 billion (-13% YoY) on revenue of VND17,571 billion (+3% YoY). The main reason comes from the low demand for gas when Vietnam Electricity (EVN) increased mobilization from hydroelectricity instead of gas power.

The outlook for the dry gas segment remains positive thanks to rising demand and high Brent oil prices

We are still optimistic that GAS' dry gas consumption will be more positive from 2Q and exceed the company's plan, supported by 1) recovering economic growth and (2) fading *La Lina* phenomenon. Besides, the uptrend of Brent oil prices in 2021 is also a big favorable factor for profit growth of dry gas segment.

LNG – the long-term growth driver

Limited domestic gas supply amid spiking electricity demand makes the outlook of the liquefied natural gas (LNG) segment of GAS brighter. GAS is the main developer of nine out of 14 LNG terminals in the coming years. According to GAS, the Thi Vai LNG Terminal project exceeded the construction schedule and may start operating in 2022.

Maintained BUY recommendation with a target price of VND107,800

Based on P/E valuation, business outlook and possible risks, we maintain our BUY recommendation for GAS shares. The target price is VND107,800/share, 32.3% higher than the price on May 28, 2021.

Buy maintain

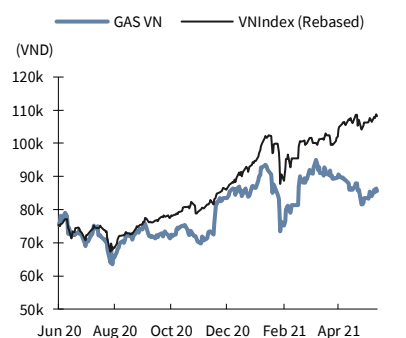
Target Price	VND 107,800
Total return (%)	32.3%
Current price (May 28)	82,000
Consensus target price	VND 103,038
Mkt capitalization (USDmn)	156,944

Trading data	
Free float (%)	4.2%
Avg trading value (3M)	24.4
Foreign available (%)	46.6%
Major shareholders (%)	PetroVietnam (95.76%)

Share price performance				
(%)	YTD	1M	3M	12M
GAS	-5.9%	-2.4%	-8.7%	+9.5%
VNIndex	+19.6%	+6.5%	+13.0%	+52.7%

Forecast earnings & valuation

Fiscal year-end	2019A	2020A	2021E	2022E
Revenue (VNDbn)	75,005	64,135	77,291	81,442
EBIT	13,648	8,682	12,116	12,267
NP attributable to parent	11,902	7,855	10,135	10,854
EPS (VND)	6,142	4032	5,295	5,671
EPS growth (%)	3.9	-34.4	31.5	7.1
P/E (x)	15.3	21.5	20	16.3
EV/EBITDA (x)	9.4	12.7	8.9	8.1
P/B (x)	3.7	3.4	5.0	4.6
ROE (%)	25.1	15.9	19.2	18.5
Div yield (%)	6.8	4.7	2.9	4.8



Source: Bloomberg, KB Securities Vietnam

Updated business performance

1Q profit decreased due to low gas demand

1Q results were subdued with earnings of VND2,029 billion (-13% YoY) on net revenue of VND17,571 billion (+3% YoY). This was attributable to lower-than-expected volume of onshore wet gas (1,998 million cubic metres, -15% YoY) due to low gas demand as EVN prioritized mobilizing power from renewable power sources (+180.6% YoY) and hydropower (+55.4% YoY) during the La Nina in 4Q20 and 1Q21.

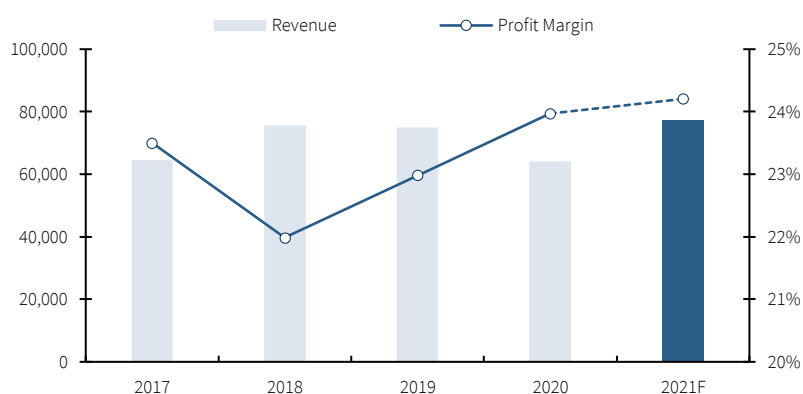
However, we believe that GAS's dry gas consumption will recover strongly from 2Q and exceed the company's plan, supported by 1) recovering economic growth and (2) fading *La Nina* phenomenon. According to WMO, the Oceanic Nino Index in tropical Pacific Ocean region should return to the neutral status from April. Along with that, the National Center for Hydro-Meteorological Forecasting also said that domestic rainfall should be average in 2021 and lower than that in 2020.

Table 1. GAS – Business results

(Thousand Billion VND)	1Q2021	1Q2020	% YoY
Revenue	17.57	17.09	2.80%
Gross profit	3.27	3.31	-1.30%
Operating profit	2.59	2.96	-12.60%
PBT	2.64	2.97	-11.20%
Net profit	2.03	2.33	-13.00%

Source: PV Gas, KB Securities Vietnam

Fig 1. GAS – Revenue & gross profit margin in 2017 – 2021F (VNDbn, %)

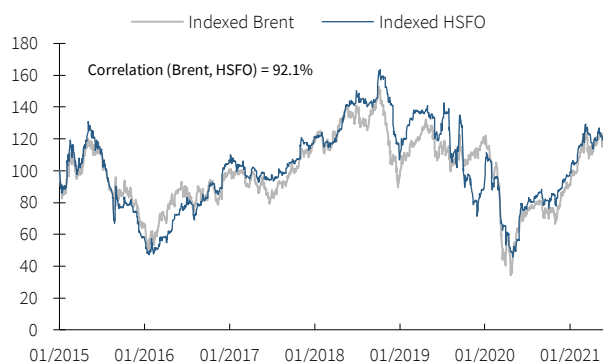


Source: PV Gas, KB Securities Vietnam

High world oil prices in 2021 will be a strong growth driver for GAS' profit

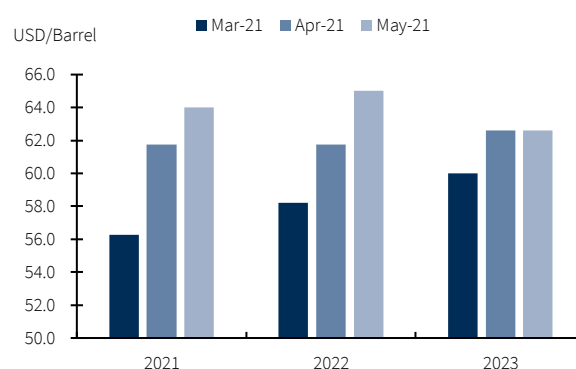
Hopes about a strong global economic recovery triggered a rise in commodity prices, including Brent oil prices. We raise the base price of Brent oil in 2021 to USD60/barrel in line with the up-revised forecasts on Bloomberg. High prices of Brent oil help GAS to adjust the FO prices and LPG prices as these two types have a close correlation with the Brent prices.

Fig 2. GAS – Brent oil prices, HSFO (index point)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Bloomberg – Forecast average oil price (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

LNG – long-term growth force

We believe in the prospect of GAS's LNG segment given limited domestic gas supply and increasing electricity demand. GAS is the main developer of nine out of 14 LNG terminals in the coming years. According to GAS, the Thi Vai LNG Terminal project exceeded the construction schedule and may start operating in 2022. Besides, GAS bid and successfully gained the the gas/LNG supply contract with EVN GENCO3 power plant, ensuring output for Thi Vai LNG Terminal while waiting for two main customers, Nhon Trach 3 & 4 gas power plants to be inaugurated and put into operation.

Table 2. Vietnam – Some new LNG projects in 2021 – 2035 (million tons)

LNG Import terminal	Startup year	Capacity (MTPA)	Main investors
Thi Vai	2020 – 2022	1–3 MT	PVGAS
Hon Khoai	2022 – 2025 (phase 1)	1 MT – Phase 1	
	Sau 2025 (phase 2)	2 MT – Phase 2	
Son My	2023 – 2025 (phase 1)	1–3MT (Phase 1)	PV GAS
	2027 – 2030 (phase 2)	3MT (Phase 2)	
	2031 – 2035 (phase 3)	3MT (Phase 3)	
Tien Giang	2022 – 2025	4–6MT	
Thai Binh FSRU	2026 – 2030	0,2 – 0,5 MT	
Cai Hai	2030 – 2035	1–3 MT	ExxonMobil
Hai Linh LNG	2021 – phase 1	2–3 (MT)	Limited
	2023 – 2025 (phase 2)	6 (MT)	(unlisted)

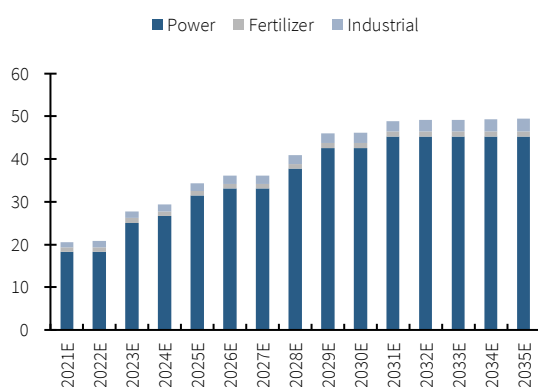
Source: Vietnam gas industry master plan, KB Securities Vietnam

Table 3. Vietnam – Some new LNG projects in 2021 – 2035 (million tons)

Power Plants	Owner	Capacity	Startup year
Nhon Trạch 3	PVN	750 MW	2022
Nhon Trạch 4		750 MW	2022
Sơn Mỹ 2.1	AES Corporation, PV GAS	750 MW	2023
Sơn Mỹ 2.2		750 MW	2024
Sơn Mỹ 2.3		750 MW	2025
Sơn Mỹ 1.1	EDF, Kyushu, Sojitz, PAC	750 MW	2026
Sơn Mỹ 1.2		750 MW	2027
Sơn Mỹ 1.3		750 MW	2028
Ô Môn 3	EVN (ODA)	750 MW	2020
Ô Môn 4	EVN	750 MW	2021
Ô Môn 2	None	750 MW	2026
Kiên Giang 1	PVN	750 MW	2021
Kiên Giang 2		750 MW	2022
Miền Trung 1	PVN	750 MW	2023
Miền Trung 2		750 MW	2024
Dung Quất 1	EVN	750 MW	2023
Dung Quất 2	BOT	750 MW	2024
Dung Quất 3	EVN	750 MW	2025
Total Capacity		13,500 MW	

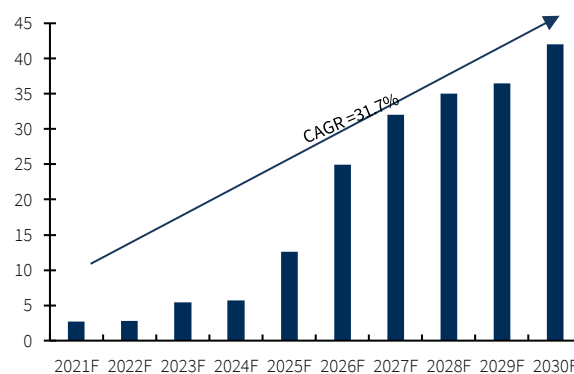
Source: PV Gas, KB Securities Vietnam

Fig 4. PetroVietnam – Forecast of natural gas consumption by sector, 2021E – 2023E (billion cubic meters)



Source: Vietnam Customs, KB Securities Vietnam

Fig 5. PetroVietnam – LNG output from new ports, 2021E – 2031E (billion cubic meters)



Source: Vietnam gas industry master plan, KB Securities Vietnam

The company's business plan is prudent with low oil price assumption

The 2021 Annual Shareholders' Meeting approved GAS's 2021E guidance including VND7,036 billion (-11.7% YoY) in earnings on revenue of VND70,169 billion (+9.4% YoY), based on the assumption that Brent oil prices are low at about USD 45/barrel. We note that the company tends to set a low profit plan.

Forecast & valuation

2021F performance

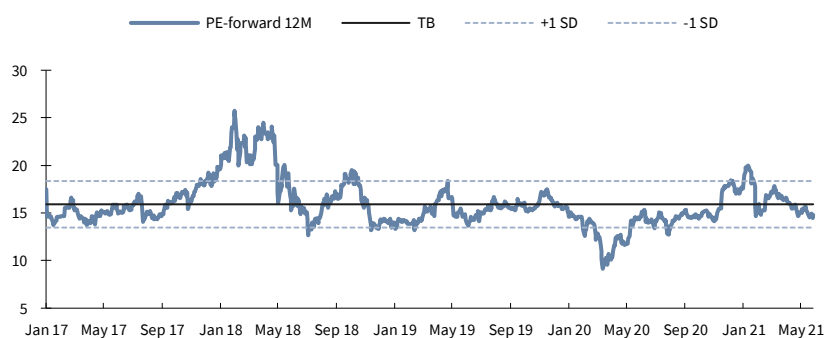
In 2021, we forecast GAS would post VND10,342 billion (+29.7 % YoY) in earnings on revenue of VND77,291 billion (+21.0 % YoY), based on the following assumptions:

- The average price of Brent oil in 2021 is at USD60/barrel.
- Distributed gas output is 9,273 million cubic metres (+8.3% YoY), expecting a brighter outlook when the demand from gas power plants and industrial parks increases again.
- Depreciation expense is VND3,237 billion (+20.3% YoY) when the new gas pipelines for Sao Vang – Dai Nguyet and Nam Con Son phase 2 come into operation.
- Interest expense is VND 533 billion (+427% YoY) as the capital needs increase to implement the project of Thi Vai LNG Terminal and other terminals in the future.

Valuation – BUY recommendation, target price at VND107,800/share

GAS is currently trading at a forward P/E of 14.78x, equivalent to the past average (five years). We think GAS deserves a P/E 2021 of 20x, coming from the prospect of the LNG segment as well as the recovering trend of oil prices in the near future. Accordingly, we maintain our BUY (hold) recommendation for GAS shares and raise the target price to VND107,800/share, 32.3% higher than the price on May 28, 2021.

Fig 5. GAS – 1Y forward P/E of GAS (2017 – 2021)



Source: PV Gas, KB Securities Vietnam

GAS – 2019A – 2022E financials

Income Statement					Balance Sheet				
(VND billion)	2019	2020	2021	2022	(VND billion)	2019	2020	2021	2022
Net sales	75,005	64,135	77,291	81,442	CURRENT ASSETS	41,815	39,472	51,574	59,326
Cost of sales	(58,087)	(52,729)	(61,984)	(65,805)	Cash and cash equivalents	4,476	5,237	14,179	19,571
Gross Profit	16,919	11,406	15,307	15,637	Short-term investments	24,915	21,613	24,435	25,846
Financial income	1,665	1,451	1,611	2,317	Accounts receivable	10,359	10,239	10,484	11,347
Financial expenses	(241)	(169)	(800)	(739)	Inventories	1,575	1,663	1,967	2,086
of which: interest expenses	(198)	(101)	(533)	(616)	LONG-TERM ASSETS	20,363	23,736	26,805	28,551
Gain/(loss) from joint ventures (from 2015)	(1)	(11)	(11)	(11)	Long-term trade receivables	128	162	192	230
Selling expenses	(2,394)	(1,943)	(2,326)	(2,471)	Fixed assets	15,850	19,774	19,784	16,916
General and admin expenses	(875)	(769)	(853)	(899)	Investment properties	23	22	22	21
Operating profit/(loss)	15,072	9,964	12,927	13,845	Long-term incomplete assets	3,021	2,303	5,240	9,717
Other incomes	16	50	-	-	Long-term investments	405	379	417	459
Other expenses	(20)	(37)	-	-	TOTAL ASSETS	62,179	63,208	78,379	87,877
Net other income/(expenses)	(4)	14	(10)	-	LIABILITIES	12,564	13,709	24,530	28,000
Income from investments in other entities	-	-	-	-	Current liabilities	9,964	9,749	10,769	12,868
Net accounting profit/(loss) before tax	15,068	9,978	12,927	13,845	Trade accounts payable	1,914	2,677	2,247	3,069
Corporate income tax expenses	(15)	(2,006)	-	-	Advances from customers	203	228	262	288
Net profit/(loss) after tax	12,086	7,972	10,342	11,076	Short-term unrealized revenue	1	77	-	-
Minority interests	183	117	207	222	Short-term borrowings	1,341	1,017	1,546	2,443
Attributable to parent company	11,902	7,855	10,135	10,854	Long-term liabilities	2,600	3,960	13,761	15,132
					Long-term trade payables	-	-	-	-
					Long-term advances from customer	-	-	-	-
					Unrealized revenue	22	22	-	-
					Long-term borrowings	1,456	1,964	11,783	12,962
					OWNER'S EQUITY	49,615	49,500	53,849	59,877
					Paid-in capital	19,140	19,140	19,140	19,140
					Share premium	-	-	-	-
					Undistributed earnings	10,109	10,029	13,861	19,335
					Minority interests	1,108	1,064	1,271	1,492
Margin ratio					Key ratios				
	2019	2020	2021	2018		2019	2020	2021	2022
Gross profit margin	22.6%	17.8%	14.0%	13.0%	Multiple				
EBITDA margin	21.8%	17.5%	12.4%	10.4%	P/E	13.2	20.2	18.0	16.3
EBIT margin	18.2%	13.6%	12.1%	10.2%	P/E diluted	12.9	19.5	18.0	16.3
Pre-tax profit margin	20.1%	15.6%	10.9%	9.6%	P/B	3.2	3.2	5.0	4.6
Operating profit margin	20.1%	15.5%	10.8%	9.6%	P/S	2.0	2.4	1.3	1.3
Net profit margin	16.1%	12.4%	10.0%	8.1%	EV/EBITDA	9.4	12.7	8.9	8.1
					EV/EBIT	11.3	16.4	11.5	10.3
					EPS	6,077	3,957	5,295	5,671
					BVPS	25,344	25,307	28,135	31,285
					Operating performance				
					ROE	24.7%	15.9%	19.2%	18.5%
					ROA	19.1%	12.5%	13.2%	12.6%
					ROIC	26.0%	16.6%	15.1%	14.4%
					Financial structure				
					Cash Ratio	0.5	0.5	1.3	1.5
					Quick Ratio	3.99	3.80	4.56	4.41
					Current Ratio	4.20	4.05	4.79	4.61
					LT Debt/Equity	0.03	0.04	0.22	0.22
					LT Debt/Total Assets	0.02	0.03	0.15	0.15
					Debt/Equity	0.03	0.02	0.03	0.04
					Debt/Total Assets	0.02	0.02	0.02	0.03
					ST Liabilities/Equity	0.20	0.20	0.20	0.21
					ST Liabilities/Total Assets	0.20	0.22	0.31	0.32
					Total Liabilities/Equity	0.25	0.28	0.46	0.47
					Total Liabilities/Total Assets	0.20	0.22	0.31	0.32
					Activity ratios				
					Account Receivable Turnover	16.1	12.5	18.2	14.6
					Inventory Turnover	31.7	31.3	29.1	30.6
					Account Payable Turnover	25.4	23.0	25.3	24.8

Source: PV Gas, KB Securities Vietnam

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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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