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PV Gas (GAS)

3Q earnings may miss & tumble by 38% YoY

Preliminary 3Q earnings may miss and tumble by 38% YoY

— GAS's preliminary 3Q earnings (before minorities) may tumble by 38% YoY to VND1,821 billion on revenue of VND16,183 billion or down 12% YoY. This would be 18% below our 3Q earnings forecast while revenue should come roughly inline. Earnings (before minorities) would be VND6,000 billion (down 34% YoY) and 90% of the company's conservative full-year target on revenue of VND49,500 billion (down 15% YoY) or 75% of its full-year target. Although performance for the first nine months largely reached full-year objectives, the company is well-known for beating its guidance by 40–50%. Preliminary year-to-date earnings were 79% of the consensus and 71% of our estimate, while year-to-date sales were 82% of the consensus and 77% of our estimate.

Lower-than-expected wet natural gas output may explain earnings miss

— We suspect the earnings miss may be attributable to lower-than-expected wet natural gas output. The General Statistics Office of Vietnam estimated 3Q wet natural gas output at 2.22 billion cubic metres or down 9% YoY and 10% lower than our estimates due to what we believe are continuing unresolved technical issues at *Block 11.2*. During normal operations *Block 11.2* should generate around 0.9 billion cubic metres of natural gas a year (or 14% of the *Nam Con Son* field and 9% of Vietnam's total annual gas output). That said, better-than-expected selling prices for gas – which were 6% higher than our estimates during the period – should offset the lower selling volumes and keep topline sales inline with our quarterly forecast. Selling prices are the higher between HSFO prices and wellhead prices plus tariffs (selling price = Max[46% HSFO price, wellhead price] + tariffs). We will review our 2020E earnings when official 3Q results are released.

Maintain Buy and 12-month of VND89,200; switch to GAS from PVS & PVD

— We continue to recommend switching into PV Gas (GAS, BUY, TP VND89,200) from both PV Technical Services (PVS, HOLD, TP VND11,000) and PV Drilling & Well Services (PVD, HOLD, TP VND9,600). PV Gas will likely benefit the most from Vietnam's need to import cheaper-priced LNG to meet future natural gas demand – especially for power generation – due to delays at the megaprojects (*Block B* representing 7.0 billion cubic metres of annual production or 15% of 2030E demand and *Blue Whale* representing 9.7 billion cubic metres of annual production or 22% of 2030E demand). Currently, phase one of GAS's Thi Vai LNG terminal should begin commercial operations by 2022E (one million tons of LNG per year or 7% of 2022E demand) and phase two is expected to go online in 2023E (3 million tons of LNG per year or 15% of 2023E demand). We remain cautious on upstream operators such as PVS and PVD due to the slow recovery in oil prices – which are still below South East Asia's USD55.00 breakeven – and risk of project delays that may negatively impact the profitability of upcoming project contracts.

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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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