

PETROVIETNAM GAS JSC (GAS) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND90,300	VND97,300	3.99%	HOLD	UTILITIES

5 April 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Neutral

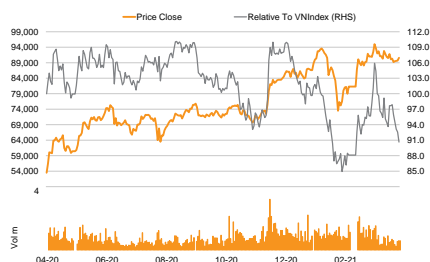
Consensus*: Add:8 Hold:2 Reduce:0

Target price / Consensus: -8.3%

Key changes in the report

➤ Increase FY21-23F EPS by 0.7%/5.8%/2.4%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	95,000
52w low (VND)	56,434
3m Avg daily value (VNDmn)	80,669
Market cap (VND bn)	171,681
Free float (%)	4
TTM P/E (x)	22.0
Current P/B (x)	3.58

Ownership

PetroVietnam Group	95.8%
Others	4.2%

Source: VND RESEARCH

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Decreasing gas sales volume blurs positive impact of oil price rally

- We upgrade our average Brent oil price assumption to US\$60/bbl in 2021 on the back of global economy recovery and positive supply side signals.
- FY21-23F EPS forecasts are slightly raised by 0.7%-5.8% due to the combination of higher oil price and lower dry gas volume assumption.
- Downgrade to Hold with higher TP of VND97,300 as share price has largely priced in GAS's positive prospect in FY21F.

Higher Brent oil price to benefit GAS's core business...

We upgrade our 2021F average Brent oil price forecast to US\$60/bbl (+13.2% vs previous assumption) to reflect: 1) the positive supply-side signals, especially OPEC+ members unexpectedly extended the production cuts since Jan, and 2) the global vaccines rollout and the U.S. stimulus could boost the oil demand recovery. GAS can be directly benefited from higher ASP on the above take-or-pay (TOP) dry gas sales volume as well as higher LPG price premium. We estimate that this adjustment alone could boost FY21F EPS forecast by 4.7%.

... but lower-than-expected dry gas volume blurs this positive effect

We observed that the electricity volume generated by gas-fired plants declined c.36% yoy in 2M21, as the hydropower sector recovered thanks to the La Nina phenomenon. Given that La Nina would last by May 2021, we believe the gas demand from power plants would trail our expectation of dry gas sales volume in 1H21F. Hence we reduce our FY21F dry gas sales volume forecast by 2.1%. Overall, we slightly raise our FY21-23F EPS by 0.7%-5.8% on the combined effects of a higher oil price and lower gas sales volume.

We forecast net profit CAGR of 16.0% in FY21-23F

The bottom line is forecasted to strongly recover after the pandemic, based on: 1) a dry gas sales volume CAGR of 4.6% in FY21-23F thanks to higher contribution of Sao Vang – Dai Nguyet fields from 2021 onwards, 2) the improvement in oil price to lift blended GPM by 2.7% pts to 20.5% in FY21F, and 3) the stable profit from gas transport segment, which is less affected by oil price fluctuation (~20% of total gross profit in FY21-23F, in our estimate).

Downgrade to Hold with a target price of VND97,300

Our TP is based on DCF valuation and target FY21-23F P/E of 16.6x, weighted equally. We downgrade to Hold as the current market price has largely priced in the company's positive FY21F outlook. Upside risk is higher-than-expected oil price. Downside risks come from lower-than-expected oil & gas demand and the delay in gas field development.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	75,005	64,135	81,615	87,385
Revenue growth	(0.8%)	(14.5%)	27.3%	7.1%
Gross margin	22.6%	17.8%	20.5%	19.5%
EBITDA margin	23.9%	19.7%	22.8%	22.1%
Net profit (bn)	11,902	7,878	11,338	11,341
Net profit growth	3.9%	(33.8%)	43.9%	0.0%
Recurring profit growth	5.2%	(34.7%)	45.1%	0.0%
Basic EPS	6,219	4,116	5,924	5,925
Adjusted EPS	6,142	4,011	5,820	5,821
BVPS	25,344	25,307	27,439	29,213
ROAE	25.4%	16.3%	22.5%	20.9%

Source: VND RESEARCH

DECREASING GAS SALES VOLUME BLURS POSITIVE IMPACT OF OIL PRICE RALLY

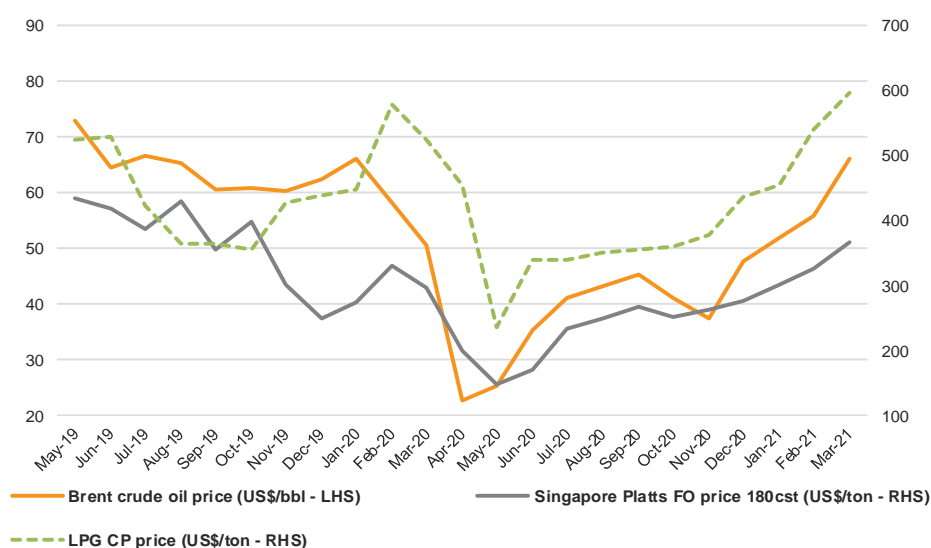
Higher Brent oil price assumption to benefit GAS's core business...

We raise our 2021F average Brent oil price assumption to US\$60/bbl, up 13.2% from the previous forecast (US\$53/bbl) on the back of: 1) positive signals from the supply side, especially the repeated extension in OPEC+ production cuts and Saudi Arab's extra 1mbd cut since the January meeting, and 2) an expected rebound of global economy thanks to faster-than-expected vaccine rollouts progress and U.S. fiscal stimulus (More details in our recent sector report: [Stronger bounce back underway](#)). News recently reported that OPEC+ has decided to gradually ease the production cuts by raising 350,000 mbd in each of May and June, and 400,000 mbd in July 2021 after the ministerial meeting on 1 April.

Accordingly, we assume the average Singapore FO price to move in the same direction as Brent price, averaging ~US\$343/tonne in 2021F. In addition, we also revise up our LPG price assumption to US\$535/tonne (+25.8% versus previous forecast) to reflect the stronger-than-expected recovery of LPG price since the beginning of 2021.

We note that GAS will be directly benefited from higher ASP on the above take-or-pay (TOP) dry gas sales volume as well as higher LPG price premium, while the benefit from higher ASP on the TOP volumes would transfer to the state budget. We estimate FY21F EPS to improve by 4.7% compared to our previous forecast due to higher oil price and LPG price assumption.

Figure 1: Oil prices and LPG price movement



Source: BLOOMBERG, VND RESEARCH

... but lower-than-expected dry gas volume could blur this positive effect

In early-2021, the Ministry of Industry and Trade (MoIT) issued the Decision No. 3598/QD-BCT about the national power supply and operation plan in 2021, in which gas-based electricity volume is planned to reach 34,708m kWh in 2021, decreasing ~9% compared to that in 2020. This is a result of a significant recovery in the hydropower sector thanks to the La Nina phenomenon from November 2020 to May 2021 (according to the National Centre for Hydro-Meteorological Forecasting). In 2M21, EVN posted that hydropower sources mobilization surged 55.9% yoy, whilst thermal coal-based electricity volumes declined 16.7% yoy. Based on the data from EVN, we estimate that in 2M21

gas-based electricity volume also fell ~36% yoy to 3,883m kWh, implying a weaker-than-expected gas demand from power plant customers.

These lead to our reduction in FY21F dry gas sales volume forecast by 2.1%. Overall, we slightly raise our FY21-23F EPS by 0.7%-5.8% on the combined effects of higher oil price assumption and lower FY21F dry gas volume forecast.

Forecast revision

Figure 2: Forecast revision

Unit: VNDbn	2021F			2022F			2023F			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Brent crude oil price (US\$/bbl)	53	60	13.2%	55	58	5.5%	58	58		We raise our 2021F average Brent oil price assumptions to US\$60/bbl due to the expectations in global economic recovery and positive supply-side factors (OPEC+ extension production cuts through April). Consequently, 2021F Singapore FO price is expected to increase to the level of US\$343/tonne. We also revise up 2022F oil prices assumption to US\$58/bbl for Brent, in line with EIA forecast.
Singapore FO price (US\$/tonne)	303	343	13.3%	315	332	5.5%	332	332		
Dry gas volume (mcm)	9,547	9,350	-2.1%	9,450	9,450		10,154	10,154		We reduce FY21F dry gas volume forecast to reflect the lower-than-expected gas-based power mobilization in 1Q21
LPG CP price (US\$/tonne)	426	535	25.8%	434	546	25.8%	443	557	25.8%	We also revise up our 2021F LPG price assumption to US\$535/tonne to reflect the stronger-than-expected recovery of LPG price since the beginning of 2021
Net revenue	78,760	81,615	3.6%	82,796	87,385	5.5%	93,552	97,407	4.1%	We adjust the gas sales prices as well as LPG prices to reflect higher oil prices assumption
COGS	62,183	64,846	4.3%	66,698	70,321	5.4%	75,307	78,560	4.3%	
Gross profit	16,577	16,769	1.2%	16,097	17,064	6.0%	18,245	18,847	3.3%	
Gross margin (%)	21.0%	20.5%	-0.5% pts	19.4%	19.5%	0.1% pts	19.5%	19.3%	-0.2% pts	Blended GPM contracted due to the higher contribution of LPG segment (the lowest margin segment)
SG&A expenses	3,330	3,451	3.6%	3,501	3,695	5.6%	3,955	4,119	4.1%	Adjusted in line with revenue
Operating profit	13,247	13,318	0.5%	12,597	13,368	6.1%	14,290	14,728	3.1%	
Financial income	1,462	1,450	-0.8%	1,548	1,529	-1.3%	1,706	1,593	-6.6%	
Financial expenses	394	405	2.8%	516	534	3.5%	709	738	4.2%	
Pre-tax profit	14,318	14,394	0.5%	13,632	14,397	5.6%	15,290	15,621	2.2%	
Net profit	11,256	11,338	0.7%	10,716	11,341	5.8%	12,019	12,305	2.4%	
Basic EPS (VND)	5,881	5,924	0.7%	5,599	5,925	5.8%	6,280	6,429	2.4%	

Source: VND RESEARCH

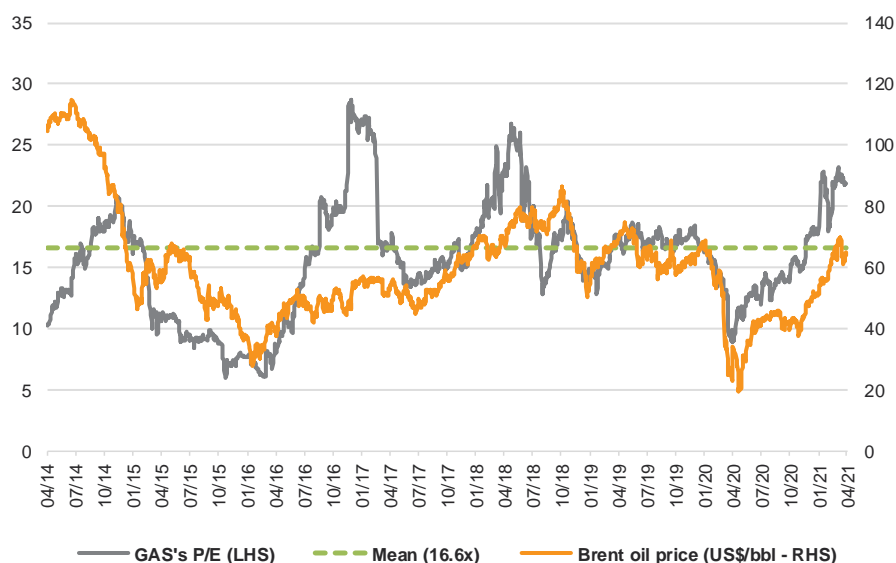
Downgrade to Hold with a target price of VND97,300

We raise our FY21-23F EPS by 0.7%-5.8% on applying the latest assumption in oil prices and dry gas sales volume. And we also upgrade target P/E to 16.6x (P/E 5-yr mean) and reduce the stock beta from 1.3 to 1.2 (1-yr Bloomberg estimate) due to supports from the significant increase in oil prices (Brent oil: +25.2% YTD) and higher market liquidity, resulting in a higher target price of VND97,300. Our target price is based on DCF valuation and target FY21-23F P/E of 16.6x, weighted equally. We downgrade our rating from Add to Hold as market price has largely priced in the company's positive outlook in FY21F.

Upside risk is higher-than-expected oil price. Downside risks to our forecast come from the delay in vaccine rollout progress that could hamper the oil and gas demand recovery and the delay in gas field development.

We upgrade to use P/E 5-yr mean of 16.6x as our target P/E because we see that GAS's historical P/E fluctuated around this level during the end of 2018-2019 when Brent oil price moved in the range of US\$60-70/bbl.

Figure 3: GAS's historical P/E from 2014 to date



Source: BLOOMBERG, VND RESEARCH

Figure 4: DCF Valuation - Summary of free cash flow (FCF)

VNDbn	Dec-20A	Dec-21F	Dec-22F	Dec-23F	Dec-24F	Dec-25F	Dec-30F	Dec-35F	CAGR 20-35
Net revenue	64,135	81,615	87,385	97,407	108,579	117,265	156,139	185,273	7.3%
% growth y-o-y	-14.5%	27.3%	7.1%	11.5%	11.5%	8.0%	4.7%	2.8%	
COGS & OPEX	(55,441)	(68,297)	(74,016)	(82,679)	(93,861)	(101,369)	(134,974)	(160,158)	
Unlevered profit / EBIT	8,694	13,318	13,368	14,728	14,718	15,896	21,165	25,115	7.3%
Operating margin	13.6%	16.3%	15.3%	15.1%	13.6%	13.6%	13.6%	13.6%	
Effective tax rate	-20.1%	-20.1%	-20.1%	-20.1%	-20.1%	-20.1%	-20.1%	-20.1%	
EBIT * (1-Tax) or NOPAT	10,438	15,989	16,050	17,683	17,671	19,085	25,411	30,153	7.3%
+ D&A	2,554	3,912	4,503	5,329	5,830	6,356	8,447	10,026	
% of revenue	4.0%	4.8%	5.2%	5.5%	5.4%	5.4%	5.4%	5.4%	
- CapEx	(4,174)	(8,392)	(7,166)	(10,410)	(7,766)	(7,548)	(7,804)	(5,468)	
% of revenue	-6.5%	-10.3%	-8.2%	-10.7%	-7.2%	-6.4%	-5.0%	-3.0%	
+ Δ WC	(1,405)	(1,001)	(290)	(616)	(1,001)	(469)	(625)	(556)	
% of revenue	-2.2%	-1.2%	-0.3%	-0.6%	-0.9%	-0.4%	-0.4%	-0.3%	
Interest and other financial activities, n	1,307	1,077	1,029	893	972	1,169	1,482	1,759	
% of revenue	2.0%	1.3%	1.2%	0.9%	0.9%	1.0%	0.9%	0.9%	
UFCF	8,720	11,585	14,125	12,879	15,706	18,592	26,912	35,915	

Source: VND RESEARCH

Figure 5: Cost of equity

Cost of equity	
Risk Free Rate	3.0%
Beta	1.2
Risk Premium	11.0%
Cost of Equity	16.8%

Source: VND RESEARCH

Figure 6: WACC and Long-term growth rate

VNDbn	
Equity Value	167,471
Debt	2,981
Cost of Debt	7.0%
Tax Rate	20.1%
WACC	16.0%
Perpetual Growth Rate	1.7%

Source: VND RESEARCH

Figure 7: Target price

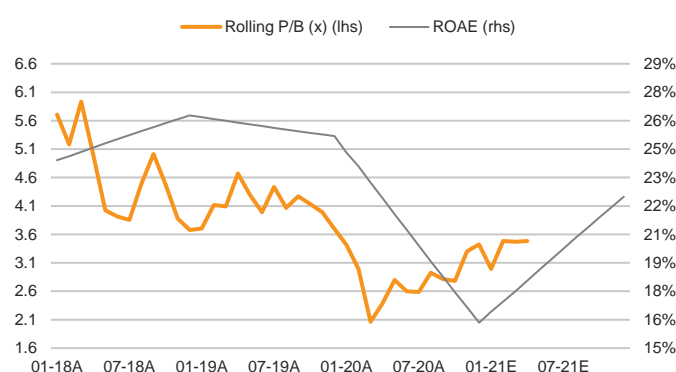
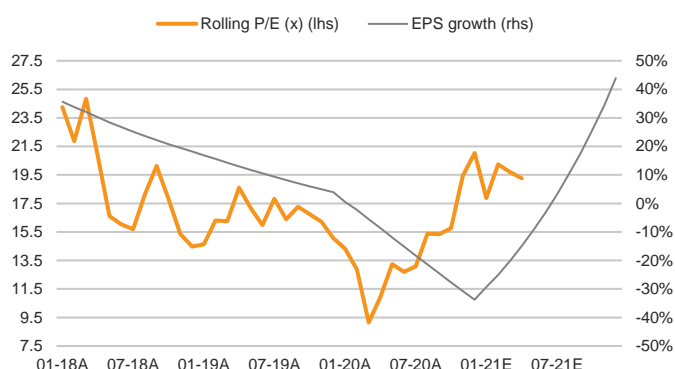
Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
DCF	93,514	50%	46,757
FY21-23F target P/E of 16.6x	101,141	50%	50,571
Blended value			97,328
Target price			97,300

Source: VND RESEARCH

Figure 8: Sector comparison

Company	Bloomberg Ticker	Recom.	Share Price (local cur)	Target Price (local cur)	Market Cap (US\$ m)	P/E (x)		3-yr EPS	P/B (x)		ROE (%)		ROA (%)	
						FY21F	FY22F	CAGR (%)	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
PV GAS	GAS VN	HOLD	90,300	97,300	7,491	15.2	15.2	16.0%	3.3	3.1	22.5%	20.9%	16.9%	15.4%
PTT PLC	PTT TB	NR	41	NA	36,993	11.2	10.4	0.0%	1.2	1.1	10.5%	10.6%	4.5%	4.5%
China Gas Holdings	384 HK	NR	32	NA	21,184	13.1	11.6	0.0%	2.9	2.4	23.3%	22.0%	9.4%	9.4%
Petronas Gas Bhd	PTG MK	NR	16	NA	7,533	15.4	16.0	0.0%	2.4	2.3	15.1%	14.3%	10.4%	10.4%
Gail India	GAIL IN	NR	140	NA	8,504	8.6	8.1	0.0%	1.2	1.1	12.7%	13.7%	9.9%	9.9%
Toho Gas Ltd	9533 JP	NR	6,590	NA	6,302	47.8	44.1	0.0%	NA	NA	4.7%	NA	NA	NA
Indraprastha Gas	IGL IN	NR	526	NA	5,036	24.7	21.6	0.0%	4.9	4.1	21.5%	20.6%	25.9%	25.9%
Average (all)					13,292	19.4	18.1	2.3%	2.6	2.4	15.8%	17.0%	12.9%	12.6%
Average (excluding PV GAS)					14,258	20.1	18.6	0.0%	2.5	2.2	14.6%	16.2%	12.0%	12.0%

Source: BLOOMBERG, VND RESEARCH (DATA AS AT 04 APRIL)

Valuation

Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	64,135	81,615	87,385
Cost of sales	(52,729)	(64,846)	(70,321)
Gen & admin expenses	(769)	(979)	(1,048)
Selling expenses	(1,943)	(2,473)	(2,647)
Operating profit	8,694	13,318	13,368
Operating EBITDA	11,248	17,229	17,871
Depreciation and amortisation	(2,554)	(3,912)	(4,503)
Operating EBIT	8,694	13,318	13,368
Interest income	1,451	1,450	1,529
Financial expense	(169)	(405)	(534)
Net other income	14	17	19
Income from associates & JVs	11	14	15
Pre-tax profit	10,001	14,394	14,397
Tax expense	(2,006)	(2,888)	(2,888)
Minority interest	(117)	(168)	(168)
Net profit	7,878	11,338	11,341
Adj. net profit to ordinary	7,878	11,338	11,341
Ordinary dividends	(6,850)	(7,656)	(7,656)
Retained earnings	1,028	3,683	3,685

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	5,237	14,903	14,259
Short term investments	21,613	12,968	15,562
Accounts receivables	10,239	12,149	13,008
Inventories	1,663	1,979	2,146
Other current assets	720	726	731
Total current assets	39,472	42,725	45,706
Fixed assets	19,774	24,254	26,918
Total investments	541	517	495
Other long-term assets	3,421	3,421	3,421
Total assets	63,208	70,918	76,540
Short-term debt	1,017	1,640	1,606
Accounts payable	2,677	2,706	2,897
Other current liabilities	6,055	6,634	7,218
Total current liabilities	9,749	10,980	11,722
Total long-term debt	1,964	4,030	5,309
Other liabilities	1,996	2,495	2,869
Share capital	19,140	19,140	19,140
Retained earnings reserve	10,029	12,409	14,103
Shareholders' equity	48,436	52,517	55,912
Minority interest	1,064	896	728
Total liabilities & equity	63,208	70,918	76,540

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	10,001	14,394	14,397
Depreciation & amortisation	2,554	3,912	4,503
Tax paid	(2,090)	(2,888)	(2,888)
Other adjustments	(1,718)	6,641	(4,756)
Change in working capital	(1,405)	(1,001)	(290)
Cash flow from operations	7,342	21,059	10,966
Capex	(4,174)	(8,392)	(7,166)
Proceeds from assets sales	27	16	16
Others	4,246	1,951	1,951
Other non-current assets changes			
Cash flow from investing activities	99	(6,425)	(5,200)
New share issuance			
Shares buyback			
Net borrowings	182	2,689	1,246
Other financing cash flow	0	0	0
Dividends paid	(6,850)	(7,656)	(7,656)
Cash flow from financing activities	(6,668)	(4,967)	(6,410)
Cash and equivalents at beginning of period	4,476	5,237	14,903
Total cash generated	773	9,666	(645)
Cash and equivalents at the end of period	5,249	14,903	14,259

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	12.3%	13.9%	13.0%
Asset turnover	1.02	1.22	1.19
ROAA	12.6%	16.9%	15.4%
Avg assets/avg equity	1.29	1.33	1.36
ROAE	16.3%	22.5%	20.9%
Efficiency			
Days account receivable	58.4	54.3	54.3
Days inventory	11.5	11.1	11.1
Days creditor	18.6	15.2	15.0
Fixed asset turnover	3.60	3.71	3.42
ROIC	15.0%	19.2%	17.8%
Liquidity			
Current ratio	4.0	3.9	3.9
Quick ratio	3.9	3.7	3.7
Cash ratio	2.8	2.5	2.5
Cash cycle	51.4	50.2	50.4
Growth rate (yoy)			
Revenue growth	(14.5%)	27.3%	7.1%
Operating profit growth	(36.3%)	53.2%	0.4%
Net profit growth	(33.8%)	43.9%	0.0%
EPS growth	(33.8%)	43.9%	0.0%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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