

PETROVIETNAM GAS JSC (GAS) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND108,000	VND143,100	3.70%	ADD	UTILITIES

4 May 2022

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

Consensus*: Add:9 Hold:1 Reduce:0

Target price / Consensus: 6.3%

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	125,000
52w low (VND)	80,100
3m Avg daily value (VNDmn)	97,151
Market cap (VND bn)	206,132
Free float (%)	4
TTM P/E (x)	23.3
Current P/B (x)	3.95

Ownership

PetroVietnam Group	95.8%
Others	4.2%

Source: VND RESEARCH

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Riding on global energy price hike

- 1Q22 net profit (NP) rose 68.9% yoy to VND3,429bn, fulfilling 29.8% of our full-year forecast.
- The current coal supply shortage is likely to open opportunities for gas-generated electricity mobilization in some months ahead.
- Reiterate ADD at unchanged target price (TP) of VND143,100.

Strong 1Q22 earnings thanks to higher oil prices

1Q22 net revenue grew 51.9% yoy to VND26,689bn on the combination of the global energy prices spike and a 19% yoy increase in LPG sales volume to c.563,000 tonnes, while dry gas sales volume was flat yoy at c.2.0 cbm. In the period, blended GPM ameliorated 0.6% pts to 19.2% thanks to higher contribution of dry gas segment compared to 1Q21. On the other hand, 1Q22 net financial income declined 23.1% yoy to VND159bn as GAS increased its debt (+2 times yoy) to finance its major infrastructure projects. At the bottom line, GAS posted a 68.9% yoy increase in 1Q22 NP to VND3,429bn, coming in at 29.8% of our FY22F forecast.

Benefiting from coal supply shortage in near term

According to EVN, total inputs to EVN' coal-fired power plants just met 76.8% of the plan in 1Q22, leading to lower-than-expected utilization rate from late-1Q22. We consider these plants to face the supply shortage in near term as they are difficult in seeking alternative sources (imported sources) due to the high coal price environment caused by Ukraine crisis. Hence, we believe gas-based electricity to be the feasible power source to offset to coal-fired power thanks to the domestic supply autonomy, benefiting for GAS in the next couple of months. Overall, we expect FY22F GAS's dry gas volume to increase by 26.6% yoy, playing a main role in a FY22F NP growth rate of 32.7% yoy.

We expect FY22F earnings to beat company's business plan

GAS targets an overly cautious plan for 2022 with revenue of VND80,044bn (+1.3% yoy) and NP of VND6,929bn (-20.0% yoy). We highlight that the guidance is based on the Brent oil price assumption of US\$60/bbl and 1Q22 results has fulfilled 49.5% of this plan. For 2022F, we forecast GAS's NP of VND11,513bn (+32.7% yoy), 66% above GAS's plan thanks to higher oil price assumption and dry gas sales volume recovery. According to 2022 AGM, LNG Thi Vai terminal will come online in 4Q22F, and GAS expect to start importing LNG in late-2022 or early-2023, depending on global market situation. Besides, GAS plans to pay cash dividend of VND2,500/share for FY22F.

Reiterate ADD with unchanged TP of VND143,100

We reiterate our ADD rating at unchanged TP of VND143,100, based on an equal weighting of DCF valuation and the target FY22-24F P/E of 22.3x. Re-rating catalyst is higher oil price. Downside risks include the decline in oil price and lower-than-expected dry gas sales volume.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	64,135	78,992	97,668	103,541
Revenue growth	(14.5%)	23.2%	23.6%	6.0%
Gross margin	17.8%	17.7%	18.1%	18.8%
EBITDA margin	19.7%	18.7%	19.8%	21.0%
Net profit (bn)	7,855	8,673	11,510	12,825
Net profit growth	(34.0%)	10.4%	32.7%	11.4%
Recurring profit growth	(34.9%)	10.7%	33.5%	11.6%
Basic EPS	4,104	4,531	6,014	6,701
Adjusted EPS	4,000	4,427	5,909	6,597
BVPS	25,307	26,696	27,313	29,187
ROAE	16.2%	17.4%	22.3%	23.7%

Source: VND RESEARCH

RIDING ON GLOBAL ENERGY PRICE HIKE

Strong 1Q22 earnings thanks to higher oil prices

Figure 1: 1Q22 results overview

FYE Dec (VNDbn)	1Q21	1Q22	% yoy	% vs. FY22F forecasts	Comments
Brent crude oil price (US\$/bbl)	61.3	97.9	59.7%		
Singapore FO price (US\$/tonne)	358.5	547.6	52.8%		
LPG CP price (US\$/tonne)	581.7	802.5	38.0%		
Dry gas volume (bcm)	2.0	2.0	0.0%	21.9%	Despite flat yoy growth, dry gas sales volume recovered on q-o-q basis in 1Q22 thanks to the rebound in gas-fired electricity mobilization. Based on EVN's data, gas-fired electricity accounted for 12% of total output, significantly higher than 4Q21 (8.4% of total output)
LPG volume ('000 tonnes)	473.1	563.0	19.0%	28.1%	
Net revenue	17,570	26,689	51.9%	27.3%	1Q22 net revenue rose 51.9% yoy on the back of: (1) the surge in global energy prices, and (2) the increase in LPG sales volume (+19% yoy)
Gross profit	3,269	5,136	57.1%	29.0%	
Gross profit margin (%)	18.6%	19.2%	0.6% pts		Blended GPM improved thanks to higher contribution of dry gas business which usually earns better profit margin
Selling expenses	(534)	(601)	12.6%		
G&A expenses	(353)	(351)	-0.5%		
Operating profit	2,382	4,184	75.6%		
Net financial income (expenses)	207	159	-23.1%		Net financial income dropped in 1Q22 mainly due to higher interest expenses (+55% yoy) as GAS continued to increase its debt to finance its major projects. At the end of 1Q22, GAS's total borrowing rose over 2 times to VND8,615bn compared to that at end-1Q21
Financial income	263	262	-0.6%		
Financial expenses	(56)	(102)	83.1%		
Pre-tax profit	2,637	4,381	66.1%		
Net profit	2,030	3,429	68.9%	29.8%	In line with our expectations

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Reiterate ADD with unchanged TP of VND143,100

We maintain our ADD rating for GAS with unchanged TP of VND143,100, still based on an equal weighting of DCF valuation and the target FY22-24F P/E of 22.3x. Generally, we are optimistic in GAS's prospect in coming year as dry gas sales volume is expected to rebound from 2022F following gas-based power recovery and GAS is in the investment phase to set the stage for long-term growth.

Re-rating catalyst and downside risks:

- Re-rating catalyst is higher oil price.
- Downside risks come from the decline in oil price and lower-than-expected dry gas sales volume.

Figure 2: Target price

Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
DCF	140,622	50%	70,311
FY22-24F target P/E of 22.3x	145,612	50%	72,806
Blended value			143,117
Target price			143,100

Source: VNDIRECT RESEARCH

Figure 3: DCF Valuation - Summary of free cash flow (FCF)

VNDbn	Dec-22F	Dec-23F	Dec-24F	Dec-25F	Dec-30F	Dec-35F	CAGR 21-35
Net revenue	97,668	103,541	105,878	114,348	152,255	180,663	6.1%
% growth y-o-y	23.6%	6.0%	2.3%	8.0%	4.7%	2.8%	
COGS & OPEX	(83,856)	(88,017)	(90,038)	(97,241)	(129,477)	(153,635)	
Unlevered profit / EBIT	13,812	15,524	15,840	17,107	22,778	27,028	7.1%
Operating margin	14.1%	15.0%	15.0%	15.0%	15.0%	15.0%	
Effective tax rate	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	
EBIT * (1-Tax) or NOPAT	16,574	18,629	19,008	20,528	27,333	32,433	7.0%
+ D&A	4,214	4,941	5,579	6,026	8,023	9,520	
% of revenue	4.3%	4.8%	5.3%	5.3%	5.3%	5.3%	
- CapEx	(6,208)	(8,660)	(8,152)	(7,483)	(5,557)	(3,805)	
% of revenue	-6.4%	-8.4%	-7.7%	-6.5%	-3.6%	-2.1%	
+ Δ WC	(985)	(533)	(142)	(457)	(609)	(690)	
% of revenue	-1.0%	-0.5%	-0.1%	-0.4%	-0.4%	-0.4%	
Interest and other financial activities, net	873	838	946	1,885	2,511	2,979	
% of revenue	0.9%	0.8%	0.9%	1.6%	1.6%	1.6%	
UFCF	14,468	15,216	17,239	20,499	31,701	40,438	

Source: VNDIRECT RESEARCH

Figure 4: Cost of equity

Cost of equity	
Risk Free Rate	3.0%
Beta	1.0
Risk Premium	11.0%
Cost of Equity	14.0%

Source: VNDIRECT RESEARCH

Figure 5: WACC and Long-term growth rate

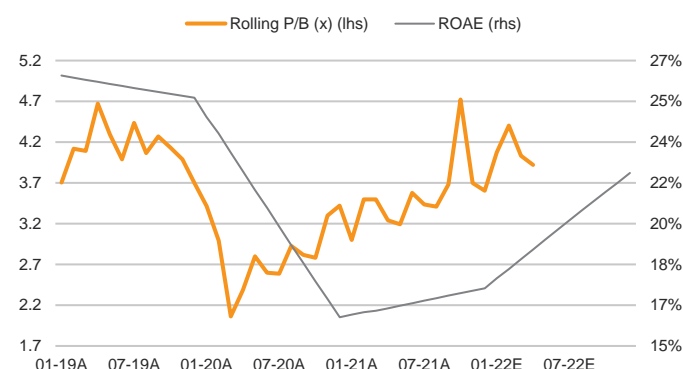
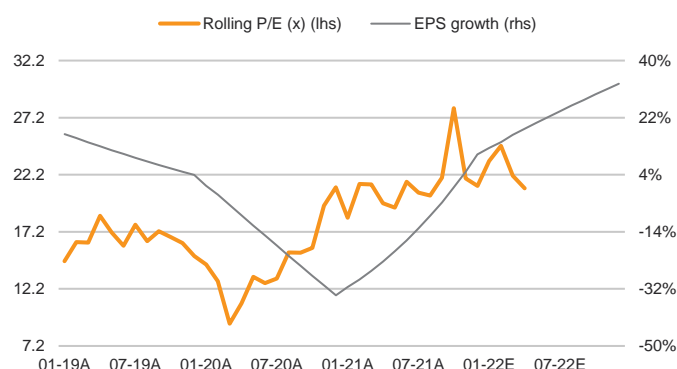
VNDbn	
Equity	80%
Debt	20%
Cost of Debt	5.0%
Tax Rate	20.0%
WACC	12.0%
Perpetual Growth Rate	1.7%

Source: VNDIRECT RESEARCH

Figure 6: Sector comparison

Company	Ticker	Recom.	Price	Target Price	Mkt Cap	P/E (x)		3-yr EPS CAGR (%)	P/B (x)		ROE (%)		ROA (%)	
			LC\$	LC\$		FY22F	FY23F		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
PTT PLC	PTT TB	NR	37	NA	30,981	9.1	9.1		1.0	1.0	10.6%	10.2%	4.3%	4.3%
China Gas Holdings	384 HK	NR	10	NA	6,613	6.3	5.2		0.8	0.7	14.0%	14.7%	5.9%	6.4%
Petronas Gas Bhd	PTG MK	NR	17	NA	7,750	17.1	17.0		2.5	2.5	14.5%	14.3%	10.4%	10.2%
Gail India	GAIL IN	NR	158	NA	9,180	6.5	6.9		1.2	1.1	18.5%	15.4%	16.0%	11.6%
Toho Gas Ltd	9533 JP	NR	2,920	NA	2,363	18.1	17.8		0.8	0.8	4.2%	4.2%	2.6%	2.7%
Indraprastha Gas	IGL IN	NR	346	NA	3,166	15.6	14.1		NA	NA	NA	NA	NA	NA
Oil & Natural Gas Corp	ONGC IN	NR	162	NA	26,660	4.7	3.7		0.8	0.7	18.6%	19.6%	8.4%	9.6%
Average						11.1	10.5		1.2	1.1	13.4%	13.1%	7.9%	7.5%
PV GAS	GAS VN	ADD	108,000	143,100	8,999	18.0	16.1	14.9%	4.0	3.7	22.3%	23.7%	14.6%	15.8%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 04 MAY)

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	78,992	97,668	103,541
Cost of sales	(65,007)	(79,950)	(84,083)
Gen & admin expenses	(1,479)	(1,270)	(1,242)
Selling expenses	(2,133)	(2,637)	(2,692)
Operating profit	10,374	13,812	15,524
Operating EBITDA	13,612	18,026	20,466
Depreciation and amortisation	(3,238)	(4,214)	(4,941)
Operating EBIT	10,374	13,812	15,524
Interest income	1,187	1,414	1,477
Financial expense	(403)	(581)	(680)
Net other income	32	21	22
Income from associates & JVs	15	19	20
Pre-tax profit	11,205	14,684	16,362
Tax expense	(2,353)	(2,937)	(3,272)
Minority interest	(179)	(237)	(264)
Net profit	8,673	11,510	12,825
Adj. net profit to ordinary	8,673	11,510	12,825
Ordinary dividends	(5,865)	(7,656)	(7,656)
Retained earnings	2,808	3,854	5,170

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	5,600	4,436	5,328
Short term investments	24,500	26,950	27,489
Accounts receivables	16,921	16,237	17,214
Inventories	3,241	2,735	2,876
Other current assets	1,133	1,249	1,324
Total current assets	51,395	51,606	54,231
Fixed assets	18,098	20,092	23,811
Total investments	587	609	633
Other long-term assets	8,687	6,081	4,865
Total assets	78,768	78,389	83,540
Short-term debt	485	1,074	1,139
Accounts payable	6,631	4,625	4,903
Other current liabilities	9,446	8,803	9,120
Total current liabilities	16,561	14,502	15,162
Total long-term debt	7,510	7,871	8,894
Other liabilities	2,504	2,880	3,024
Share capital	19,140	19,140	19,140
Retained earnings reserve	10,487	11,094	14,039
Shareholders' equity	51,094	52,276	55,863
Minority interest	1,098	861	597
Total liabilities & equity	78,768	78,389	83,540

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	11,205	14,684	16,362
Depreciation & amortisation	3,238	4,214	4,941
Tax paid	(2,272)	(2,937)	(3,272)
Other adjustments	(592)	(4,313)	(2,473)
Change in working capital	(4,172)	(985)	(533)
Cash flow from operations	7,407	10,664	15,025
Capex	(4,747)	(6,208)	(8,660)
Proceeds from assets sales	181	57	66
Others	(1,704)	1,029	1,029
Other non-current assets changes			
Cash flow from investing activities	(6,270)	(5,123)	(7,565)
New share issuance			
Shares buyback			
Net borrowings	5,091	950	1,089
Other financing cash flow	0	0	0
Dividends paid	(5,865)	(7,656)	(7,656)
Cash flow from financing activities	(774)	(6,706)	(6,567)
Cash and equivalents at beginning of period	5,237	5,600	4,436
Total cash generated	363	(1,164)	893
Cash and equivalents at the end of period	5,600	4,436	5,328

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	11.0%	11.8%	12.4%
Asset turnover	1.11	1.24	1.28
ROAA	12.2%	14.6%	15.8%
Avg assets/avg equity	1.43	1.52	1.50
ROAE	17.4%	22.3%	23.7%
Efficiency			
Days account receivable	78.2	60.7	60.7
Days inventory	18.2	12.5	12.5
Days creditor	37.2	21.1	21.3
Fixed asset turnover	4.17	5.11	4.72
ROIC	14.4%	18.5%	19.3%
Liquidity			
Current ratio	3.1	3.6	3.6
Quick ratio	2.9	3.4	3.4
Cash ratio	1.8	2.2	2.2
Cash cycle	59.2	52.1	51.9
Growth rate (yoy)			
Revenue growth	23.2%	23.6%	6.0%
Operating profit growth	19.3%	33.1%	12.4%
Net profit growth	10.4%	32.7%	11.4%
EPS growth	10.4%	32.7%	11.4%

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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