



Company Visit Note

CNG Viet Nam JSC

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Sep 28th 2016, CNG is trading at VND 40,800/ share, equivalent to P/E trailing of 9.4x and P/B of 2.8x.

Oil price rallies by 5.03% due to the agreement to the need to cut output by OPEC. On Sept 29th 2016, OPEC approved the outline to cut oil output. The cut is expected to be 75 thousand barrels per day, equivalent to 2% of current output. The details will be decided on Nov 30th 2016. The agreement has boosted up WTI price by 5.03% to \$47.05/barrel.

CNG enjoy a stable gross margin: both input and output price are pegged to FO price, which maintains stable gross margin, of around 24% to 25%.

CNG output in 2016 is expected to reach 117 million m3 (+24% yoy), higher than the plan of 110 million m3. Specifically, Northern market consumes about 27 million m3, 3 times higher than of 2015; Southern market consumes about 90 million m3 (+5% yoy). Northern market has strong growth as the Thai Binh CNG system just started operation from August 2015.

However, Northern market has contributed significantly to the profitability of CNG. The input price of PV Gas in Tien Hai – Thai Binh system was fixed at high level, therefore PV Gas currently covers losses for CNG. Accordingly, CNG only is only at breakeven point for the output in the North.

Vigracera's plant will start to use CNG from the beginning of 2017, which is expected to contribute 18-20 million m3 of CNG per year, equivalent to 18% of planned production in 2016. Most of investment activities related to this project were transferred to the customer, and CNG only needs to invest about VND 50 to 60 billion (compared with over VND 158 billion of investment in plan). This will help reduce depreciation expense, as CNG applies depreciation time of 3 years.

Among oil & gas stocks, CNG maintains the stability and profitability thanks to the price policy that pegged both input and output price to FO price. This is a key strength of CNG in the context of high volatility in oil price. Also, the 3 year depreciation policy helps reduce depreciation expense in coming years, in case CNG does not have new customers and does not require major investment. In 2016, BSC expects CNG will exceed its profit target for 2016. Consumption volume is expected to rise thanks to the growth in construction sector, which contributes more than 70% of CNG consumption. Outlook for 2017 is positive thanks to the contribution from Vigracera.

Disclosure

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