

Sector: Petroleum (Latest report: [Link](#))

Recommendation

BUY

PetroVietnam Gas Joint Stock Corporation (HSX: GAS) Bright prospect

Current price: 130,000
Previous target price: 130,000
New target price: 151,400
Dividend yield: 2%
Upside: 17%

Date: 08/06/2022
Outstanding Shares (Million): 1,914
Market Capitalization (Billion): 248,622
Avg liquidity in 6 months: 825,378
Remaining Foreign Ownership: 3.12%

Shareholder structure

| | |
|-------------------------|-------|
| PVN | 95.8% |
| SUMITOMO MITSUI FINANCE | 0.13% |
| MIRAE ASSET GLOBAL | 0.11% |
| DAIWA SECURITY GROUP | 0.11% |

Industry Analyst:

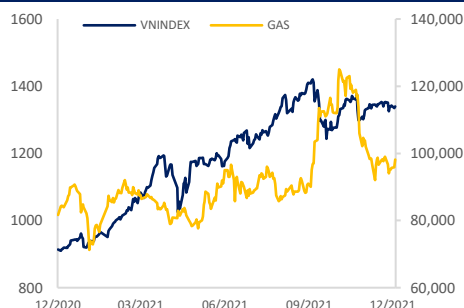
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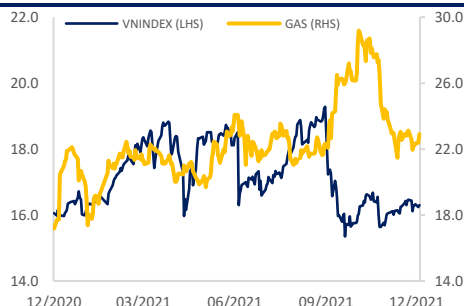
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Target price: 144,000 VND
Stop loss price: 120,000 VND

Comparison table between the stock price of GAS and VN-Index



Comparison table between the P/E of GAS and VN-Index



VALUATION

- We maintain our **BUY** recommendation for GAS, with the target price in 2022 being 151,400 VND/share (+17% compared to the closing price on June 7, 2022), equivalent to a target P/E of 22x.

FORECASTING BUSINESS PERFORMANCE

- BSC forecasts that the net revenue and profit after tax of GAS in 2022 will reach **105,313 billion VND (+33% YoY)** and **13,438 billion VND (+52% YoY)**, **EPS FW = 6,881 VND/share** with the assumptions (1) Average oil price in 2022 will reach 100 USD/barrel (+37% YoY); (2) Dry gas consumption reach 8.7 billion m2 (+24% YoY), LPG reach 2.1 million tons (+5% YoY).; and (3) The Thi Vai NLG port warehouse has not been put into the forecast in 2022.

INVESTMENT THESIS

- High oil prices in 2022 will help improve the profit of GAS.
- Gas output improves due to the demand for gas mobilization from power plants.
- The LNG segment is a long-term growth driver, helping GAS to be re-evaluated.

RISKS

- Dry gas and fuel prices are lower than estimated.
- Key gas field projects are behind schedule.

BUSINESS PERFORMANCE UPDATE

- The revenue of GAS in Q4/2021 is nearly 21,185 billion VND (+36% YoY) and Profit Before Tax is 1,846 billion VND (-12% YoY). In 2021, GAS's revenue reached 80,000 billion VND (+25% YoY), and NPAT reached 8,380 billion VND (+5% YoY), completing 119% of the plan.
- LNG Thi Vai project was built on schedule, expected to be completed in Q4/2022.

| | 2020 | 2021 | 2022F | VN-Index |
|----------------|------|------|-------|----------|
| PE (x) | 18.2 | 21.2 | 18.7 | 12.7 |
| PB (x) | 3.4 | 3.5 | 4.2 | 2.0 |
| PS (x) | 2.6 | 2.3 | 2.3 | 3.5 |
| ROE (%) | 16.1 | 17.0 | 22.9 | 14.7 |
| ROA (%) | 12.6 | 11.2 | 16.2 | 6.6 |
| EV/ EBITDA (x) | 12.9 | 12.8 | 17.2 | N/A |

| | 2019 | 2020 | 2021E | 2022F |
|-----------------|--------|--------|---------|--------|
| Revenue | 64,135 | 78,992 | 105,313 | 64,135 |
| Gross profit | 11,406 | 13,986 | 20,390 | 11,406 |
| NPATMI | 7,855 | 8,673 | 13,169 | 7,855 |
| EPS | 4,028 | 4,356 | 6,881 | 4,028 |
| EPS Growth | -34% | 10% | 52% | -34% |
| Net Debt/Equity | 28% | 51% | 41% | 28% |

BUSINESS PERFORMANCE UPDATE

Table 1: Update business performance of GAS

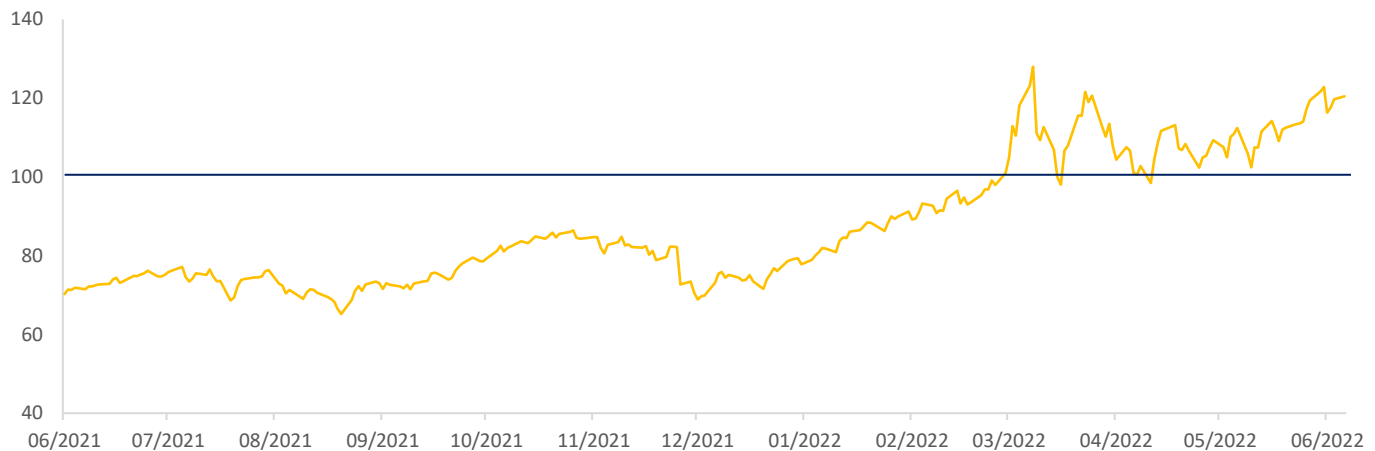
| | Q1/2022 | Q1/2021 | % | Update business performance of GAS in Q1/2022 |
|--------------------------|---------------|---------------|------------|---|
| Net revenue | 26,689 | 17,570 | 52% | In Q1/2022, the net revenue of GAS reached 26,689 billion VND (+52% YoY), and profit after tax reached 3,494 billion VND (+70% YoY). |
| Gross profit | 5,136 | 3,269 | 57% | |
| Gross profit margin | 19.2% | 18.6% | | In the four months of 2022, the net revenue of GAS reached 37,500 billion VND (+52% YoY), and profit after tax reached 4,540 billion VND (+61% YoY). GAS said that they had provided 2.7 billion m3 of dry gas, producing and trading 760 thousand tons of LPG (537 thousand tons in the domestic market, 223 thousand tons for export and international business); condensate output reached 41 thousand tons. |
| Selling expenses | 601 | 534 | 13% | |
| G&A expenses | 351 | 353 | -1% | |
| SG&A/Rev | 3.6% | 5.0% | | |
| EBIT | 4,184 | 2,382 | 76% | In 2022, GAS plans to achieve revenue of 80 trillion VND (+1.3% YoY) and profit after tax of 7,000 billion VND (-20.5% YoY), based on the assumption that Brent oil price is 60 USD/barrel. GAS plans to produce 9 billion m3 of dry gas and 2 million tons of LPG. Thus, by the end of 4 months, GAS has completed 47% of the revenue plan and nearly 65% of the year plan profit. |
| Financial revenue | 262 | 263 | -1% | |
| Financial expenses | 102 | 56 | 83% | |
| Other income, net | 39 | 49 | -20% | |
| Profit before tax | 4,381 | 2,637 | 66% | The cash dividend for 2021 was approved at the shareholder meeting at the rate of 30%. In 2022, the company plans to pay a cash dividend of 25%. |
| Profit after tax | 3,495 | 2,057 | 70% | |
| Quantity | | | | |
| Dry gas (mm3) | 1,967 | 1,925 | 2% | |
| LPG (1000T) | 545 | 473 | 15% | |
| Condensate (1000T) | 32 | 16 | 98% | |

Sources: GAS, BSC Research

BUSINESS OUTLOOK

High oil prices support the profits of GAS. Since 2022, the oil price has continued to increase enormously. It has maintained around the threshold of 120 USD/barrel in the first period of June. In a recent report ([link](#)), BSC has comments and views on oil prices that will remain high and reach 100 USD/barrel on average in 2022. According to BSC, the positive prospect of oil prices will positively affect the main business segments of GAS. According to GAS management, GAS's revenue and profit before tax of GAS will increase by VND 1,500 billion and VND 500 billion for every \$5 increase in crude oil price. With an average crude oil price of USD 100/barrel (+37% YoY), we forecast that the profit margin of the dry gas segment will increase by 2%YoY, and the LPG segment is expected to increase by 0.8%YoY.

Figure 1: The world crude oil price remains above 100 USD/barrel



Sources: Bloomberg, BSC Research

Output recovered due to increased mobilization from gas-fired power plants. According to EVN, input materials for EVN's coal-fired power plants only reached 76.8% of the plan in Q1/22, resulting in lower operating capacity than expected. We believe that coal-fired power plants will face a supply shortage due to the high coal prices from the impact of the Russia-Ukraine war. Therefore, gas-fired power may be mobilized to replace coal-fired power from self-sufficiency in domestic supply, thereby indirectly benefiting GAS. **BSC expects that the dry gas consumption of GAS can reach 8.7 billion m3 (+24% YoY) in 2022** due to (1) Demand for industrial electricity recovers after the epidemic, and (2) Gas power is prioritized to mobilize because of the high price of input coal.

Figure 2: Fuel coal prices remain high, causing difficulties for coal-fired power plants

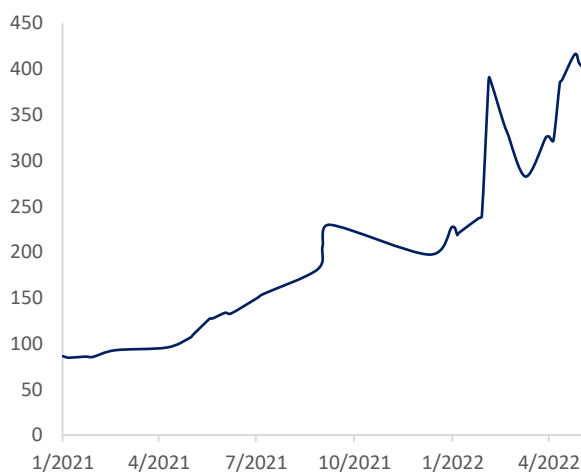
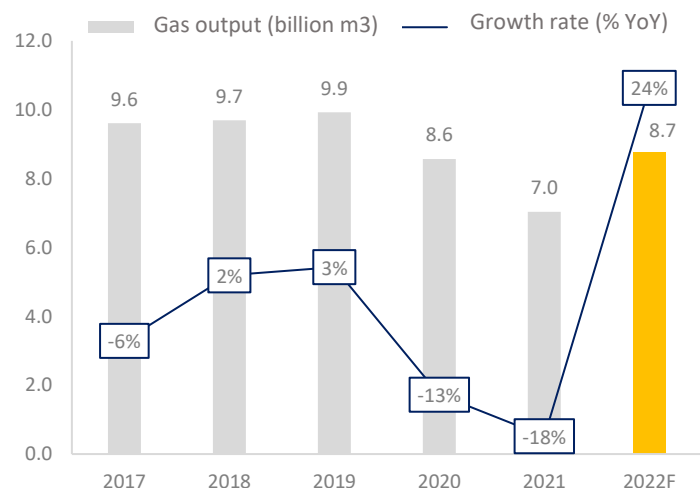


Figure 3: Gas consumption volume of GAS is expected to increase 24%YoY



Sources: GAS, Bloomberg, BSC Research

We have not included LNG Thi Vai in our forecast for this year. LNG Thi Vai Terminal is expected to operate from Q4/2022. However, GAS has not yet planned to import LNG because the Nhon Trach 3 and 4 LNG power plant projects have not been completed (expected to operate from 2024). Most power plant projects using LNG in Vietnam are still in the investment stage (see table below). Therefore, BSC believes that LNG projects will contribute to the profit of GAS from 2024.

Table 2: Some LNG power plant projects in Vietnam

| Project | Wattage | Operation time |
|--|-------------------|----------------|
| Nhon Trach 3&4 LNG Power Plant | 1,500 MW | 2024 – 2025 |
| Son My 1, 2 Thermal Power Plant | 4,000 MW | 2024 – 2027 |
| Ca Na LNG Power Center Phase 1 | 1,500 MW | 2025 – 2026 |
| LNG Long Son Power Center Phase 1 | 1200-1500MW | 2025 – 2026 |
| LNG Bac Lieu Thermal Power Center | Phase 1: 800 MW | 2024 – 2025 |
| | Phase 2: 2,400 MW | 2026 – 2027 |
| Quang Ninh LNG gas power plant | 1,500 MW | 2027 – 2028 |
| Cai Mep Ha LNG Power Project | 1,600 MW | N/A |
| Van Phong 2 LNG gas power project | 3,000 MW | N/A |
| Long An LNG Power Center | 2,800 MW | N/A |
| Quang Nam LNG gas power plant | 4,000 MW | N/A |
| Quang Tri 1, 2 LNG Thermal Power Plant | 3,000 MW | N/A |

Sources: National electricity planning VIII, BSC Research

GAS plans to contribute capital of 51% to the Block B - O Mon gas pipeline project. At the Annual General Meeting of Shareholders in 2022, the company's management shared that the company is planning to contribute capital to the Block B - O Mon Gas Pipeline Project (with a total investment equivalent to 28,788 billion VND). It is expected that the Block B - O Mon gas-electricity project chain will have an investment decision in Q3/2022 and have the first gas flow in Q4/2025 (refer to [oil and gas industry report](#)). As the largest investor (51% of total investment), GAS will be the primary beneficiary of this project due to the additional gas source from Block B and gas transportation charges. BSC believes that the Block B gas field with an estimated gas reserve of 107 billion m3 will ensure gas supply for power generation, replacing some gas fields in the final stage of GAS exploitation.

FORECAST OF BUSINESS PERFORMANCE

BSC forecasts that the net revenue and profit after tax of GAS in 2022 will reach **105,313 billion VND (+33% YoY)** and **13,438 billion VND (+52% YoY)**, equivalent to **EPS FW = 6,881 VND/share** based on assumptions:

- The average Brent oil price in 2022 will reach 100 USD/barrel (+37% YoY).
- Dry gas consumption reached 8.7 billion m2 (+24% YoY), and LPG reached 2.1 million tons (+5% YoY).
- The LNG Thi Vai port warehouse has not been included in the forecast for 2022.

We expect the positive business performance of GAS in 2022 due to (1) world oil prices remaining high and (2) Gas output recovering due to the mobilization demand of industrial parks and power plants increasing again after the epidemic. We believe GAS is the bright spot in the medium and long term as it has become the largest LNG supplier since 2023.

Table 3: Forecasting Business Performance of GAS

| Unit: Billion VND | 2019 | 2020 | 2021 | 2022F |
|--------------------------------|---------------|---------------|---------------|----------------|
| Net revenue | 75,005 | 64,135 | 78,992 | 105,313 |
| Gross profit | 16,919 | 11,406 | 13,986 | 20,390 |
| <i>Gross profit margin</i> | <i>23%</i> | <i>18%</i> | <i>18%</i> | <i>19%</i> |
| Selling expenses | -2,394 | -1,943 | -2,133 | -2,815 |
| SG&A expenses | -875 | -769 | -1,479 | -1,573 |
| EBIT | 15,266 | 8,682 | 11,509 | 17,183 |
| Financial revenue | 1,665 | 1,451 | 1,187 | 1,330 |
| Financial expenses | -241 | -169 | -403 | -559 |
| Other revenue | -4 | 14 | 32 | 24 |
| Profit before tax | 15,068 | 9,978 | 11,205 | 16,797 |
| Profit after tax | 12,086 | 7,972 | 8,852 | 13,438 |
| Profit after tax margin | <i>16%</i> | <i>12%</i> | <i>11%</i> | <i>13%</i> |
| EPS | 6,142 | 4,028 | 4,356 | 6,881 |

Sources: GAS, BSC Research

VALUATION AND RECOMMENDATION

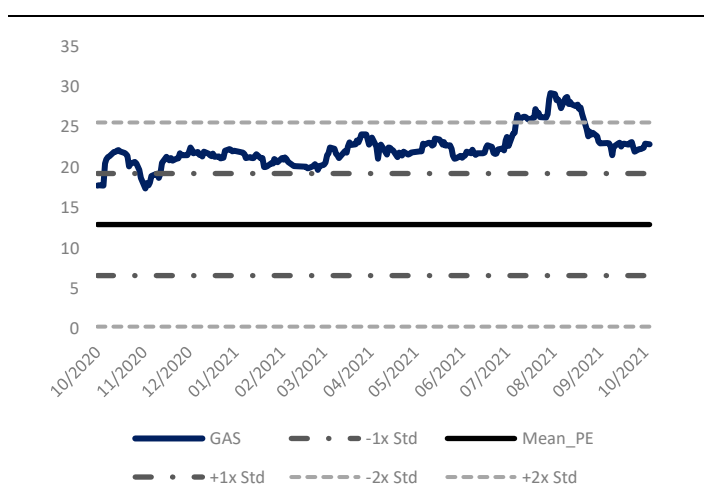
BSC still recommends **BUY** for GAS and raises the target price in 2022 to **151,400 VND/Share** (upside of 17% compared to the closing price on 07/06/2022 is 130,000 VND/Share), equivalent to the target P/E of 22x. The base scenario assumes that the average oil price in 2022 will reach \$100/barrel. We remain optimistic about the prospects of GAS in the coming years due to its leading position in gas processing and distribution, the recovering trend of oil prices, and the long-term outlook for the LNG segment. Downside risks come from lower oil prices than expected and delays in developing key gas fields.

Table 4: Oil price scenario & valuation

| Brent oil price in 2022 | 90 | 95 | 100 | 105 | 110 |
|-------------------------|---------|---------|----------------|---------|---------|
| Target price | 142,400 | 146,900 | 151,400 | 155,900 | 160,400 |
| Upside (%) | 9.6% | 13.1% | 16.5% | 20.0% | 23.5% |

Source: BSC Research

Stock PE

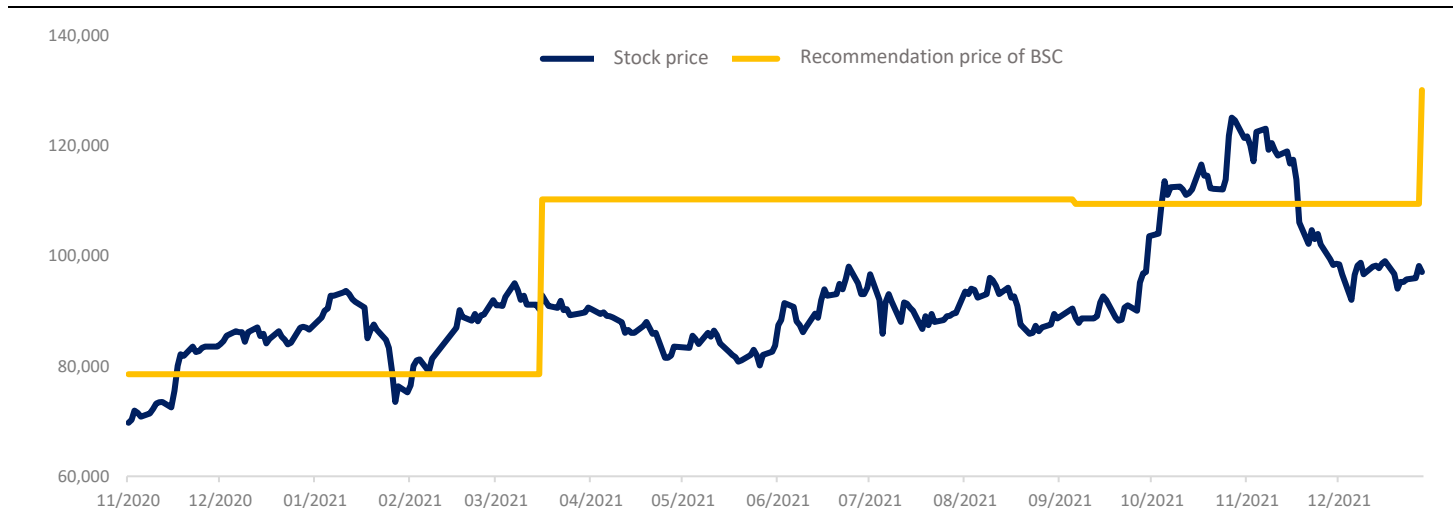


Stock PB



Source: Bloomberg, BSC Research

Stock price movement compared to recommendation price of BSC



Sources: GAS, BSC Research

APPENDIX

| | 2019 | 2020 | 2021E | 2022F | | 2019 | 2020 | 2021E | 2022F |
|--|---------------|---------------|---------------|----------------|--|---------------|---------------|---------------|---------------|
| Net revenue | 75,005 | 64,135 | 78,992 | 105,313 | (Loss)/NPAT | 15,068 | 9,978 | 11,205 | 16,797 |
| Cost of goods sold | -58,087 | -52,729 | -65,007 | -84,924 | Depreciation & amortization | 2,691 | 2,554 | 3,073 | 3,088 |
| Gross profit | 16,919 | 11,406 | 13,986 | 20,390 | Change in working capital | -4,511 | -4,939 | -6,489 | -5,503 |
| Selling expenses | -2,394 | -1,943 | -2,133 | -2,815 | Other adjustments | -568 | -263 | -194 | 377 |
| G&A expenses | -875 | -769 | -1,479 | -1,573 | Cash flow from operating activities | 12,681 | 7,330 | 7,595 | 14,759 |
| Operating income | 13,649 | 8,694 | 10,374 | 16,002 | Fixed assets investment | -2,690 | -4,174 | -4,747 | -6,319 |
| Financial Revenue | 1,665 | 1,451 | 1,187 | 1,330 | Other investment | -3,504 | 4,246 | -2,189 | -545 |
| Financial Expenses | -241 | -169 | -403 | -559 | Cash flow from investing activities | -4,722 | 99 | -6,755 | -6,864 |
| Interest Expenses | -198 | -101 | -304 | -386 | Dividend paid | -8,230 | -6,850 | -5,865 | -6,699 |
| Profit from joint ventures | -1 | -11 | 15 | 0 | Cash from net borrowing | -1,950 | 182 | 5,091 | 919 |
| Other profit/loss | -4 | 14 | 32 | 24 | Other revenue | 0 | 0 | 0 | 0 |
| Profit before tax | 15,068 | 9,978 | 11,205 | 16,797 | Cash flow from financial activities | - | -6,668 | -774 | -5,780 |
| Corporate income tax | -2,983 | -2,037 | -2,304 | -3,359 | | 10,188 | | | |
| Profit after tax | 12,086 | 7,972 | 8,852 | 13,438 | Cash flow at the beginning of the period | 6,706 | 4,476 | 5,237 | 5,300 |
| Minority shareholders | 183 | 117 | 179 | 269 | Money in the period | -2,229 | 761 | 65 | 2,115 |
| Profit after tax - Minority shareholders | 11,902 | 7,855 | 8,673 | 13,169 | Cash flow at the end of the period | 4,476 | 5,237 | 5,300 | 7,416 |
| EBITDA | 12,575 | 9,736 | 11,130 | 14,095 | | | | | |
| EPS | 6,142 | 4,028 | 4,356 | 6,881 | | | | | |

| | 2019 | 2020 | 2021E | 2022F | | 2019 | 2020 | 2021E | 2022F |
|--|---------------|---------------|---------------|---------------|--------------------------|-------|-------|-------|-------|
| Cash and cash equivalent | 4,476 | 5,237 | 5,300 | 6,300 | Liquidity | | | | |
| Short-term investment | 24,915 | 21,613 | 24,800 | 26,211 | Current ratio | 3.33 | 2.88 | 1.93 | 2.14 |
| Short-term receivables | 10,359 | 10,239 | 16,920 | 17,201 | Quick ratio | 3.20 | 2.76 | 1.81 | 2.00 |
| Inventory | 1,575 | 1,663 | 3,241 | 3,480 | Capital structure | | | | |
| Other current assets | 491 | 720 | 1,133 | -1,140 | Debt/Assets | 20% | 22% | 34% | 29% |
| Short-term assets | 41,815 | 39,472 | 51,395 | 52,052 | Debt/Equity | 25% | 28% | 51% | 41% |
| Tangible assets | 48,514 | 54,739 | 56,069 | 57,594 | Working capital | | | | |
| Depreciation | -33,076 | -35,404 | -38,381 | -41,435 | Inventory days | 11.51 | 11.68 | 14.19 | 14.93 |
| Long-term assets in progress | 3,021 | 2,303 | 4,871 | 9,635 | Receivable days | 22.68 | 29.21 | 37.38 | 35.60 |
| Long-term investments | 405 | 379 | 400 | 440 | Payable days | 14.48 | 15.86 | 25.50 | 26.85 |
| Other long-term assets | 937 | 1,096 | 3,794 | 3,984 | CCC | 19.72 | 25.02 | 26.06 | 23.69 |
| Long-term assets | 20,363 | 23,736 | 27,373 | 30,873 | Margin | | | | |
| Total assets | 62,179 | 63,208 | 78,768 | 82,925 | Gross margin | 23% | 18% | 18% | 19% |
| Account payables | 1,914 | 2,677 | 6,631 | 5,906 | NPAT margin | 16% | 12% | 11% | 13% |
| Short-term loans | 1,341 | 1,017 | 485 | 2,106 | ROE | 24% | 16% | 17% | 23% |
| Other current liabilities | 6,710 | 6,055 | 9,446 | 9,478 | ROA | 19% | 13% | 11% | 16% |
| Current Liabilities | 9,964 | 9,749 | 16,561 | 17,490 | Valuation | | | | |
| Long-term loans | 1,456 | 1,964 | 7,510 | 4,321 | PE | 16.8 | 18.2 | 21.2 | 18.7 |
| Other noncurrent liabilities | 939 | 1,803 | 2,263 | 2,484 | PB | 4.2 | 3.4 | 3.5 | 4.2 |
| Non-current liabilities | 2,600 | 3,960 | 10,014 | 6,804 | Growth | | | | |
| Total liabilities | 12,564 | 13,709 | 26,575 | 24,294 | Net revenue growth | -1% | -14% | 23% | 33% |
| Capital | 19,140 | 19,140 | 19,140 | 19,140 | EBIT growth | 2% | -34% | 14% | 49% |
| Surplus equity | 0 | 0 | 0 | 0 | EBT growth | 4% | -34% | 12% | 50% |
| Retained earnings | 10,109 | 10,029 | 10,487 | 16,253 | EPS growth | 4% | -34% | 10% | 52% |
| Other equity | 19,258 | 19,267 | 21,467 | 21,871 | | | | | |
| Minority shareholders | 1,108 | 1,064 | 1,098 | 1,367 | | | | | |
| Total equity | 49,615 | 49,500 | 52,193 | 58,631 | | | | | |
| Total Liabilities & Equity | 62,179 | 63,208 | 78,768 | 82,925 | | | | | |
| Number of outstanding shares (million) | 1,914 | 1,914 | 1,914 | 1,914 | | | | | |

Sources: GAS, BSC Research

TECHNICAL ANALYSIS

Current price: 144

Cut loss price: 120

Technical highlights:

- Current trend: Upward
- MACD trend indicator: MACD is above the signal line
- RSI indicator: is in the overbought zone

Comment: GAS is entering an uptrend after a correction period. The price is already above MA20 and MA50. The MA20 is trending to cut above the MA50, which is the consensus for the stock's price increase. Liquidity is still good as the volume is higher than the average of the last 20 sessions. The technical indicators RSI and MACD are positive when the MACD is still above the signal line, and the RSI is in an uptrend and fluctuates around 70.

Recommendation: BSC recommends that medium-term investors may consider opening a position at 129, take profit at 144, and cut loss if the stock drops below 120.



Source: BSC Research

DISCLOSURE

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