

Sector: Oil&Gas (Latest Report : [Link](#))

Vietnam Gas Corporation - JSC (HSX: GAS)

Prospects prosper

Recommendation BUY

Current price: 90,300
Previous target price: 78,500
New target price: **110,200**
Dividend yield: 5.3%
Upside 22%

Date: 17/03/2021
Outstanding Shares (Million): 1,914
Market Cap (VND billion): 166,322
Avg. 6M Trading vol: 825,378
% Foreign float: 3.12%

SHAREHOLDER STRUCTURE	
VIETNAM OIL & GAS GR	95.8%
SUMITOMO MITSUI FINANCE	0.13%
MIRAE ASSET GLOBAL	0.11%
DAIWA SECURITY GROUP	0.11%

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Target price : 107,000 VND
Stop-loss price : 79,500 VND

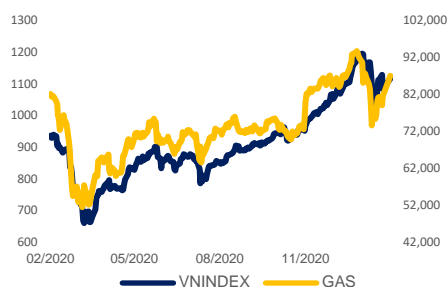
Valuation

- We raise our recommendation from NEUTRAL to **BUY** with a 2021 target price of **110,200 VND/share** (+22% compared to the closing price on 16/03/2021) due to (1) re-evaluating the oil price outlook for 2021 to \$57/barrel and (2) raise the target P/E ratio for 2021 to **18x**.

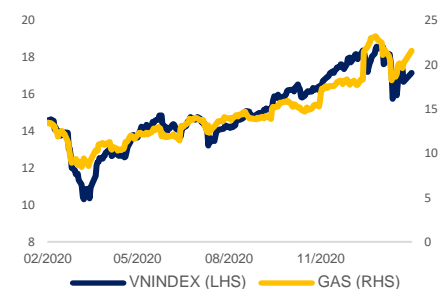
Forecast of business results

- BSC forecasts that GAS's parent company's revenue and NPAT in 2021 will reach **VND 77,145 billion (+20% yoy)** and **VND 11,718 billion (+50% yoy)**, 2021 FW EPS = **VND 6,122/share** with the assumption (1) Sao Vang - Dai Nguyet field adds 1.5 billion m3 of gas/year (+16% of output), and (2) the average oil price in 2021 will reach \$57/barrel (+36% yoy).

Price comparison between GAS and VN index



P/E comparison between GAS and VN index



Catalyst

- The proportion of GAS shares in iShare fund is expected to increase from 0.14% to 0.35% in 2021, equivalent to a purchase value of USD 0.8 million (Refer to [Link](#) for details).
- The LNG segment is the long-term growth driver, helping GAS to be reassessed.

Investment Thesis

- Average oil price in 2021 is forecast to recover to \$57/barrel, helping to improve GAS's profit.** It is estimated that a \$10 increase in oil price will improve GAS's gross margin by 3% - 4%.
- Sao Vang – Dai Nguyet gas field will be put into operation from November 2020, supplementing from **1.5 billion m3 of gas/year** from 2021.

Risks

- Upstream incidents that cause unplanned reductions/stops of gas supply at blocks/fields.

Company Update

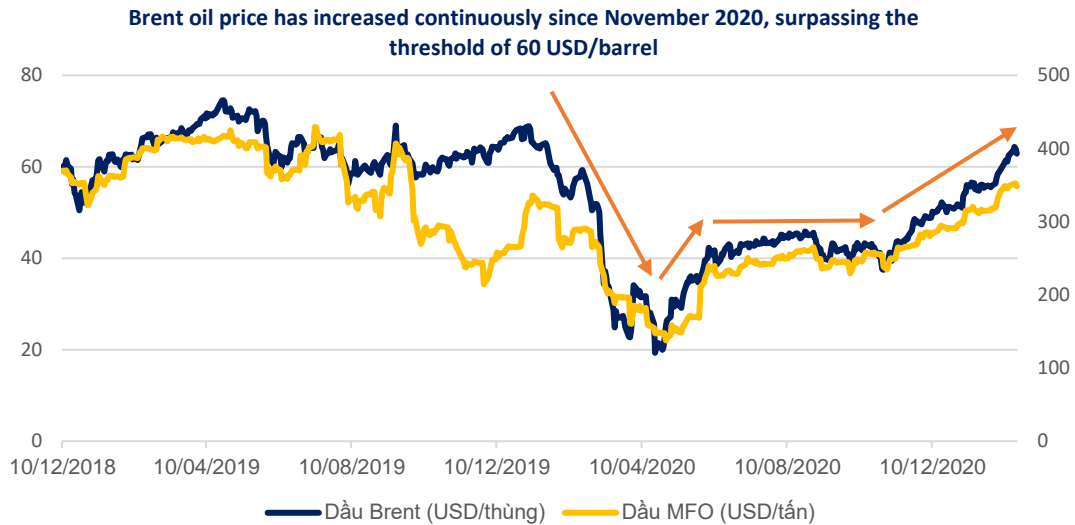
- In 2020, GAS recorded Net revenue = **64,150 billion VND (-15% yoy)** and NPAT = **7,928 billion VND (-35% yoy)** due to (1) ashore gas production decreased by -11% yoy and (2) oil price dropped to an average of 42 USD/barrel (-34% yoy) in 2020.
- LNG Thi Vai project is constructed on schedule, expected to be completed in Q4/2022.

	2020	2021F	Peer	VN-Index		2018	2019	2020	2021F
PE (x)	18.2	18.0	16.9	16.9	DTT	75,612	75,005	64,150	77,145
PB (x)	3.4	4.1	3.2	2.2	LNG	17,491	16,919	11,357	16,726
PS (x)	2.6	2.7	1.7	1.7	LNST CĐ công ty mẹ	11,454	11,902	7,812	11,718
ROE (%)	16.0	23.6	15.0	12.9	EPS	5,911	6,142	4,081	6,122
ROA (%)	12.6	18.2	7.0	2.2	Tăng trưởng EPS	18%	4%	-34%	50%
EV/ EBITDA (x)	-	-	9.5	15.6	Nợ ròng/ VCSH	34%	25%	28%	28%

INVESTMENT THESIS

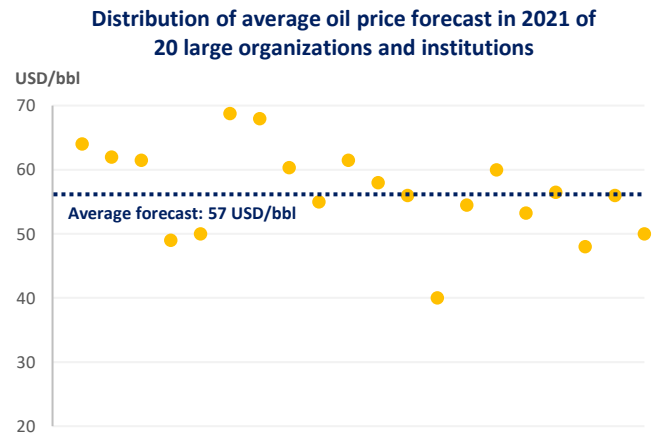
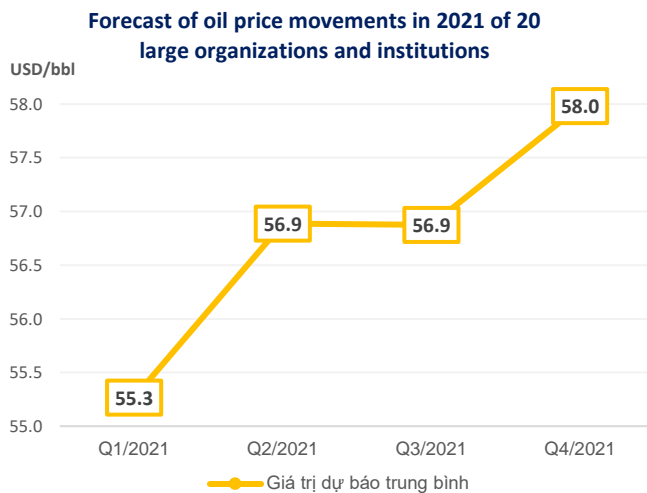
(1) Average oil price in 2021 is forecasted to recover to 57 USD/barrel (+36% yoy), helping to improve GAS's profit.

The price of Brent oil has increased continuously since the beginning of November 2020 and surpassed the threshold of 65 USD/barrel thanks to the recovering economy and tight oil supply (For details refer to [Industry Outlook Report](#)). Along with that, the price of MFO fuel oil (the determining factor in gas selling prices) has also increased to the highest level since October 2019.



Source: Bloomberg, BSC Research

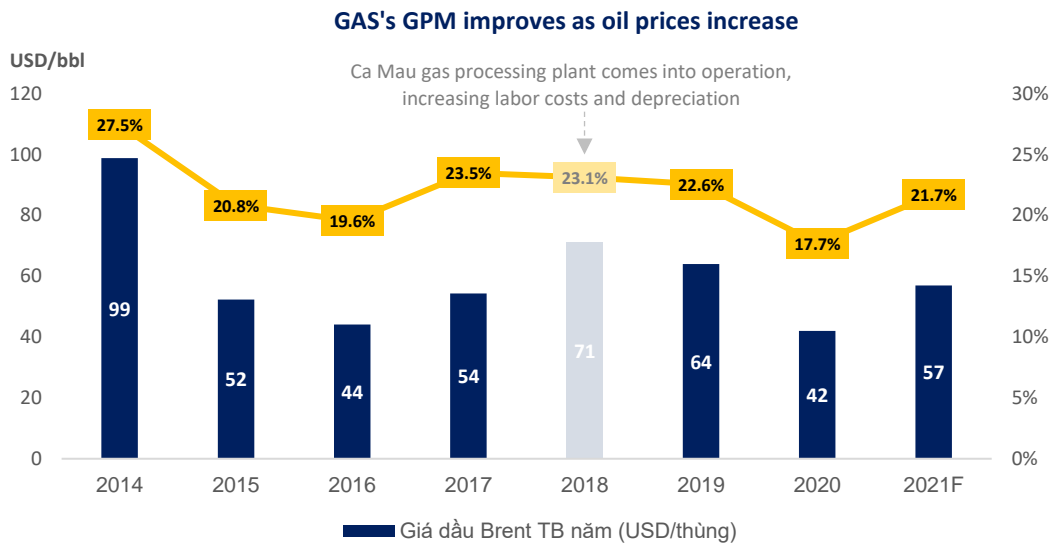
Major organizations and institutions in the world have also revised up their forecasts for the average Brent oil price in 2021 with the average forecast value at 57 USD/barrel (Details refer to the Appendix). Based on that, **BSC assesses that the oil price of 57 USD/barrel is suitable to serve as the base scenario for the forecast for 2021** (compared to the old baseline scenario of 45 USD/barrel).



Source: Bloomberg, BSC Research

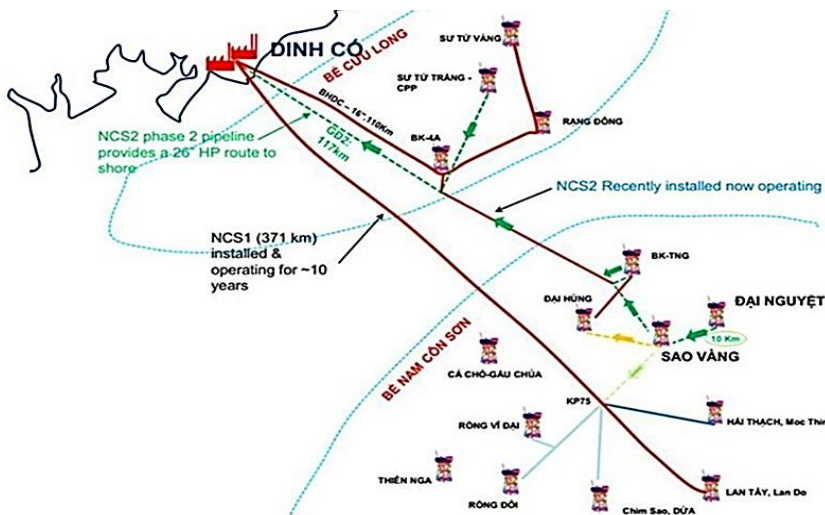
The price of MFO oil (the basis for determining the selling price of dry gas) and the price of Aramco's CP (the basis for determining the selling price of LPG) fluctuate according to the price of Brent oil. Therefore, the positive recovery prospect of Brent oil price has a positive impact on GAS' main business segments such as dry gas segment and LPG segment.

It is estimated that for every USD 10 change in the average annual Brent oil price, GAS's gross profit margin will fluctuate in the same direction by about 3% - 4% (assuming other factors remain unchanged). In the past, GAS's gross profit margin has always improved markedly in years of rising oil prices (the exception being 2018 when the Ca Mau Gas Processing Plant went into operation, increasing labor and depreciation costs). In 2021, we expect GAS' gross margin to improve to 21.7% (in 2020: 17.7%) thanks to oil price recovering from an average of 57 USD/barrel (+36% yoy).



Source: PV GAS, BSC Research

(2) Sao Vang - Dai Nguyet gas field is expected to add 1.5 billion m3 of gas per year (+17% of wet gas production).

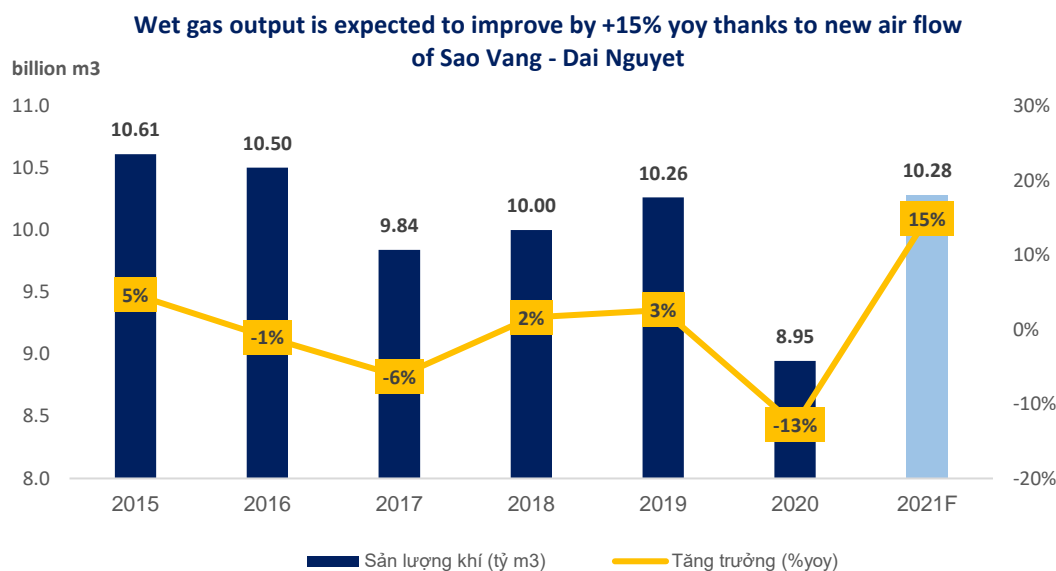


Source: Vietnam Energy

Sao Vang - Dai Nguyet (SV-DN) gas field in Block 05-1 of Nam Con Son basin with a total exploited gas reserve of 16 billion m3 will **contribute to an increase of 1.5 billion m3 of gas per year (17% of current production) for GAS.**

The SV-DN field gas collection and transportation pipeline project has completed construction and installation, and received the first gas flow in November 2020. According to the field development plan, the SV-DN field can achieve the highest output of about 1.7 billion m3 of gas/year in the first 10 years of the mine's life.

In the context of the decline in gas sources from old fields (refer to the [Latest report](#)), gas from SV-DN field will be an important additional source, contributing to supply and meet consumption demand in the Southeast region. . In which, gas-fired power plants in this area account for about 22% of the country's electricity output, and this area's fertilizer plant (Phu My Fertilizer) provides about 35% of the national urea output. **SV-DN mine is estimated to bring about VND 8,000 billion in revenue and VND 1,600 billion in gross profit for GAS.**



Source: PV GAS, BSC Research

CATALYST

The LNG segment will become a long-term growth driver for GAS in the context of high gas demand and shortage of gas resources. BSC assesses that Vietnam's gas-fired thermal power industry will depend on imported LNG in the coming years due to (1) the decrease in domestic gas supply, while (2) the total amount of gas needed for power production is expected to increase. average 14%/year in the period 2020 - 2030. Therefore, the proportion of imported LNG in the power generation structure is expected to increase gradually and from 0% to 8.5% during this period (Refer to the [Industry Outlook Report](#)).

According to the Master Plan Master Plan for Vietnam Gas Industry Development to 2025, with a vision to 2035, there are 07 warehouses and ports planned to 2035 with a total capacity of more than 26 million tons/year. Specifically:

2016 - 2025 period			
No	Project	Operation time	Capacity (million tons/year)
1	Thi Vai LNG Warehouse	2022 - 2025	1 - 3
2	Son My LNG Warehouse (Binh Thuan) Phase 1	2023 - 2025	1 - 3
3	Southwest LNG warehouse (Ca Mau) Phase 1	2022 - 2025	1
4	Southeast LNG warehouse	2022 - 2025	4 - 6
2026 - 2035 period			
No	Project	Operation time	Capacity (million tons/year)
1	Southwest LNG warehouse (Ca Mau) Phase 2	2026 - 2030	2
2	Floating LNG warehouse (FSRU) Thai Binh	2026 - 2030	0.2 - 0.5
3	Son My LNG Warehouse (Binh Thuan) Phase 2	2027 - 2030	3
4	Son My LNG Warehouse (Binh Thuan) Phase 3	2031 - 2035	3
5	Northern LNG warehouse (Hai Phong)	2030 - 2035	1 - 3
6	Khanh Hoa LNG warehouse	2030 - 2035	3

Source: BSC Research

With 2 LNG storage projects being actively implemented in Thi Vai and Son My, GAS is considered a leading enterprise and benefits from this shifting trend. Although the projects will not be completed in 2021, the LNG segment may be the factor that helps GAS to be revalued, reflecting the market's expectation about the long-term growth potential from this activity.

Update progress of LNG storage projects

Project	Total investment	Expected capacity	Location	Expected completion time	Progress	Customer(s)
Thi Vai LNG Warehouse	\$285.8 million (Phase 1)	<u>Phase 1:</u> 1 million tons/year <u>Phase 2:</u> 3 million tons/year	Cai Mep Industrial Park, Phu My Town, Ba Ria Vung Tau Province	<u>Phase 1:</u> Q3/2022 <u>Phase 2:</u> Q4/2023	Basically complete the concrete shell Finishing construction and lifting the roof of the tank	Nhon Trach 3 & 4 Power Plants and other consumers
Son My LNG Warehouse	\$1.3 billion	3.6 million tons/year	Son My Industrial Park, Binh Thuan Province	Q4/2023	GAS is working with partners to establish a joint venture company	Son My 1 & 2 Power Plants

Source: PV GAS, BSC Research

COMPANY UPDATE

Tr In 2020, GAS recorded **Net revenue = 64,150 billion VND (-14% yoy)** and **NPAT of parent company = 7,812 billion VND (-35% yoy)** due to:

- Exploited wet gas output reached 8,947 million m3 (-13% yoy due to the decline in output of long-term gas fields)
- Distributed LPG output reached 1,962 thousand tons (+11% yoy)
- Distributed condensate output reached 58.3 thousand tons (-17% yoy)
- The annual average price of Brent oil reached 42 USD/barrel (-36% yoy), along with that, the price of MFO fuel oil (the determinant of gas price) decreased by -39% yoy

Update progress of developing gas fields

Project	Expected Output	Expected Life Cycle	Expected Total Investment	Expected Operation Time	Progress
White Lion phase 2 (Block 15-1)	1.5 billion m3 of gas/year Recovery of more than 24 billion m3 of gas over the life of the field	15 – 20 years	\$2 billion	Q4/2023	- Approved the mine development outline plan (OPD) in December 2019 - Expected to be approved Feasibility Study Report (FS) in Q1/2021
Block B - O Mon	5-7 billion m3 of gas/year Total reserves of 176 billion m3 of gas	20 years	\$8.1 billion	Sept 2024 (FID condition no later than March 2021)	- Stakeholders are finalizing the project's commercial agreements (GSPA, GSA, GTA). - The project is waiting for final investment decision (FID) approval
Blue Whale (Block 118)	Total reserves of 150 billion m3 of gas	25 years	\$10 billion	June 2024	- The project is waiting for the Mine Development Report (FDP), and the project

implementation plan (EPC) after the investment decision (FID).
- PVN and Exxon Mobil are completing negotiations for a gas sale agreement (GSA)

Source: BSC Research

FORECAST OF BUSINESS RESULTS

BSC forecasts that GAS's revenue and NPAT of parent company in 2021 will reach **VND 77,145 billion (+20% yoy)** and **VND 11,718 billion (+50% yoy)**, equivalent to 2021 FW EPS = **VND 6,122/share** based on assumptions:

- Gas output from Sao Vang - Dai Nguyet field in 2021 will reach 1.5 m3 of gas/year.
- GAS produces and distributes 10.3 billion m2 of dry gas (+15% yoy), 2.1 million tons of LPG (+5% yoy) and 62,000 tons of condensate (+6% yoy).
- Brent oil price recovered to the 2021 average of 57 USD/barrel (+36% yoy).

RECOMMENDATION - BUY

BSC raises our recommendation from NEUTRAL to **BUY** for GAS shares with a fair value of **110,200 VND/share** in 2021 (equivalent to **22% upside** compared to the closing price on March 16, 2021 at 90,300 VND/share) due to (1) reassess oil price outlook in 2021 from \$45/barrel to \$57/barrel and (2) raise target P/E to 18x.

We use a P/E valuation method with a 2021 target ratio of **18x**, 12.5% above the 2019 average P/E of 16x thanks to:

- The long-term growth prospect from the LNG segment is reflected in the price.
- Interest rates are expected to stay low in 2021 (about 12% lower than in 2019 – Refer to [Industry Outlook Report](#)) to help businesses in the whole market improve their valuations.



Source: Bloomberg, BSC Research

APPENDIX

IS (VND billion)	2018	2019	2020	2021F
Net revenue	75,612	75,005	64,150	77,145
COGS	-58,120	-58,087	-52,793	-60,419
Gross profit	17,491	16,919	11,357	16,726
Selling expenses	-2,639	-2,394	-1,943	-2,302
G&A	-1,128	-875	-769	-891
Operating income	13,725	13,649	8,645	13,533
Financial income	1,477	1,665	1,451	1,611
Financial expenses	-617	-241	-161	-193
Interest expenses	-440	-198	-102	-128
Gain/loss from affiliates	-4	-1	-11	-5
Other gain/loss	-41	-4	14	-10
Profit before tax	14,540	15,068	9,937	14,946
Corporate tax payment	-2,831	-2,983	-2,037	-2,989
Profit after tax	11,709	12,086	7,928	11,957
Minority interest	255	183	116	239
NPATMI	11,454	11,902	7,812	11,718
EBITDA	10,893	10,957	6,101	10,600
EPS	5,911	6,142	4,081	6,122

BS (VND billion)	2018	2019	2020	2021F
Cash & cash equivalent	6,706	4,476	5,335	5,519
Short term investment	21,602	24,915	21,515	24,337
Account receivables	10,214	10,359	10,149	10,436
Inventory	1,948	1,575	1,663	1,871
Other current assets	462	491	693	435
Total current assets	40,932	41,815	39,354	42,599
Tangible assets	50,030	48,514	54,739	54,863
Depreciation	-31,881	-33,076	-35,404	-38,301
Long term incomplete assets	1,235	3,021	2,303	4,466
Long term investment	63	405	380	417
Other non-current assets	1,534	937	1,095	1,149
Total non-current assets	21,682	20,363	23,735	23,245
Total Assets	62,614	62,179	63,090	65,843
Account payables	1,914	2,622	2,107	2,887
Short-term debt	1,490	1,341	1,017	1,543
Other short-term debt	7,693	6,710	6,035	6,948
Current liabilities	11,847	9,964	9,675	10,597
Long-term debt	3,396	1,456	1,964	1,669
Other long-term debt	313	939	1,852	2,032
Non-current liabilities	3,901	2,600	4,007	3,701
Total Liabilities	15,747	12,564	13,682	14,298
Paid-in capital	19,140	19,140	19,140	19,140
Capital surplus	211	0	0	0
Retained earnings	10,599	10,109	9,959	11,498
Other equity	15,124	19,258	19,267	19,626
Minority interest	1,794	1,108	1,043	1,282
Shareholder's equity	46,867	49,615	49,408	51,545
Total Resources	62,614	62,179	63,090	65,843
Number of shares outstanding (million)	1,914	1,914	1,914	1,914

CF (VND billion)	2018	2019	2020	2021F
Profit after tax	14,540	15,068	9,926	14,946
Depreciation	2,566	2,406	2,280	2,635
Change in NWC	-4,119	-4,511	-4,320	-4,514
Other adjustments	-566	-282	-197	-191
CF from operating activities	12,422	12,681	7,688	12,877
Fixed assets investment	-692	-2,690	-5,324	-2,314
Other investment	-6,667	-3,504	5,097	-1,040
CF from investing activities	-7,315	-4,722	-200	-3,354
Dividend paid	-7,656	-8,230	-6,814	-9,570
Cash from net borrowing	-4,297	-1,950	186	231
Other revenue	0	0	0	0
CF from financing activities	-11,905	-10,188	-6,629	-9,339
Beginning cash balance	13,502	6,706	4,476	5,335
Cash in year	-6,798	-2,229	859	183
Ending cash balance	6,706	4,476	5,335	5,519

Ratios (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	2.60	3.33	2.88	2.98
Quick ratio	2.48	3.20	2.75	2.85
Solvency ratios				
Debt/ Total assets	25%	20%	22%	22%
Debt/ Equity	34%	25%	28%	28%
Efficiency ratios				
Days of inventories	11.79	11.51	11.66	11.11
Days of receivables	23.12	22.68	29.11	24.88
Days of payables	15.59	14.48	15.66	14.23
CCC	19.32	19.72	25.12	21.76
Profitability ratios				
Gross profit margin	23%	23%	18%	22%
PBT margin	15%	16%	12%	15%
ROE	25%	24%	16%	23%
ROA	19%	19%	13%	18%
Valuation				
PE	16.8	15.9	18.2	18
PB	4.2	2.9	3.4	4.1
Growth				
Net revenue growth	17%	-1%	-14%	20%
EBIT growth	18%	-1%	-37%	57%
PBT growth	16%	4%	-34%	50%
EPS growth	18%	4%	-34%	50%

Source: BSC Research.

Forecast of Brent oil price of major organizations and institutions by quarter (Unit: USD/barrel)

Organization	Forecast date	Q1/2021	Q2/2021	Q3/2021	Q4/2021
MPS Capital Services Banca per le Imprese SpA	26/02/2021	60.0	61.0	62.0	64.0
Landesbank Baden-Wuerttemberg	25/02/2021	61.0	65.0	60.0	60.0
Commerzbank AG	23/02/2021	54.0	45.0	48.0	50.0
Emirates NBD PJSC	23/02/2021	47.5	50.0	50.0	52.5
Intesa Sanpaolo SpA	22/02/2021	60.0	70.0	72.0	73.0
MUFG Bank	17/02/2021	61.0	73.7	71.8	65.4
Rabobank International	16/02/2021	60.0	60.2	60.3	60.7
Capital Economics Ltd	15/02/2021	55.0	59.0	63.5	68.5
ABN AMRO Bank NV	15/02/2021	59.0	57.0	53.0	52.0
Banco Santander SA	08/02/2021	58.0	57.0	55.0	54.0
Westpac Banking Corp	05/02/2021	56.0	56.0	55.0	54.0
Natixis SA	26/01/2021	53.0	55.0	53.0	57.0
Deutsche Bank AG	20/01/2021	55.0	60.0	60.0	65.0
Market Risk Advisory Co Ltd	06/01/2021	52.0	53.0	54.0	54.0
Prestige Economics LLC	29/12/2020	53.5	55.5	57.0	60.0
Santander UK PLC	22/12/2020	48.0	47.5	48.0	48.5
CIMB	09/12/2020	55.0	53.0	52.0	50.0
BNP Paribas SA	23/11/2020	56.0	54.0	55.0	59.0
Bank of Nova Scotia/The	13/10/2020	46.0	49.0	51.0	54.0
		Q1/2021	Q2/2021	Q3/2021	Q4/2021
Median forecast		55.0	56.0	55.0	57.0
Average forecast		55.3	56.9	56.9	58.0
Highest forecast		61.0	73.7	72.0	73.0
Lowest forecast		46.0	45.0	48.0	48.5

Source: Bloomberg, BSC Research

Forecast of Brent oil price of major organizations and institutions by year (Unit: USD/barrel)

Organization	Forecast date	2021	2022
Citigroup Inc	01/03/2021	64.0	
MPS Capital Services Banca per le Imprese SpA	26/02/2021	62.0	
Landesbank Baden-Wuerttemberg	25/02/2021	61.5	63.0
Commerzbank AG	23/02/2021	49.0	54.0
Emirates NBD PJSC	23/02/2021	50.0	
Intesa Sanpaolo SpA	22/02/2021	68.8	75.0
MUFG Bank	17/02/2021	68.0	58.2
Rabobank International	16/02/2021	60.3	61.9
ABN AMRO Bank NV	15/02/2021	55.0	56.0
Capital Economics Ltd	15/02/2021	61.5	59.5
Fitch Solutions	12/02/2021	58.0	56.0
Banco Santander SA	08/02/2021	56.0	53.0
Westpac Banking Corp	05/02/2021	40.0	52.0
Natixis SA	26/01/2021	54.5	61.8
Deutsche Bank AG	20/01/2021	60.0	60.0
Market Risk Advisory Co Ltd	06/01/2021	53.3	57.0
Prestige Economics LLC	29/12/2020	56.5	68.5
Santander UK PLC	22/12/2020	48.0	48.0
BNP Paribas SA	23/11/2020	56.0	61.0
Bank of Nova Scotia/The	13/10/2020	50.0	55.0
		2021	2022
Median forecast		56	58
Average forecast		57	59
Highest forecast		69	75
Lowest forecast		40	48

Source: Bloomberg, BSC Research

Disclosure

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