

Industry : Oil and Gas

Recommendation

NEUTRAL

PetroVietnam Gas Joint Stock Company (HSX: GAS)
Difficulties Ahead

Current price:	73,200	Date:	12/11/2020	Shareholder structure	
Previous target price	-	Outstanding shares (Million)	1,914	VIETNAM OIL & GAS GR	95.76%
Target price:	78,500	Capitalization (billion VND)	138,379	SEAFARER CAPITAL PAR	0.5%
Dividend yield	7.4%	Average liquidity for 6 months:	760,590	KOREA INVESTMENT MGM	0.49%
Upside	7%	% foreign float	3.12%	TOKIO MARINE HOLDING	0.25%

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Target price (VND): 85,000 VND
Stop-loss price (VND): 65,000 VND

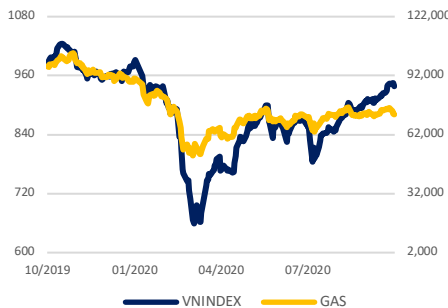
Valuation

- We recommend **TRACKING** for GAS stock with a 2021 target price of VND **78,500/share, +7%** from 11/11/2020 based on P/E 2021 = **16x** method.

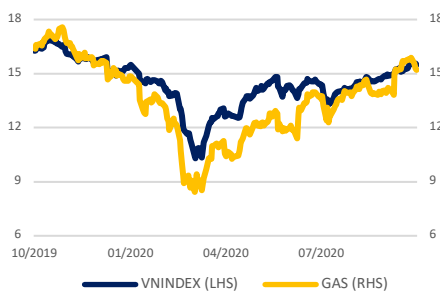
Performance Forecast

- 2020: net revenue = VND **63,991 billion (-15% yoy)** and parent company's NPAT = VND **8,035 billion (-32% yoy)**, EPS FW 2020 = VND **4,198/share**. Assume (1) gas output -10% yoy and (2) average oil price 2020 USD 41/barrel (-36% yoy).
- 2021: net revenue = **75,257 billion VND (+18% YoY)** and parent company's NPAT = **9,391 billion VND (+17% YoY)**, EPS FW 2021 = **4,907 VND/share**. Assume (1) Sao Vang – Dai Nguyet field provides 1,500 m3 of gas/year, and (2) output of old fields -10% yoy.

Share price & VN index movement



GAS's P/E & VN index movement



Catalyst

- Vietnam market will receive new cash flow after MSCI Review in November 2020. Accordingly, the proportion of GAS shares in the iShare fund is expected to increase from 0.14% to 0.35%, equivalent to a purchase value of \$0.8 million (Refer to [Link](#) for details).

Investment thesis

- The slow recovery of oil prices negatively affected GAS's revenue.** It is estimated that per USD change in oil price will affect VND 400 billion revenue and VND 100 billion NPAT of GAS in the same direction
- Gas output from old fields is estimated to decrease on **average by 10% - 20%/year**.
- Sao Vang – Dai Nguyet gas field will be exploited from November 2020, supplementing from **1,500 million m3 of gas/year** from 2021, contributing about **VND 13,000 billion** in revenue.

Investment risks

- Unplanned upstream incidents cause the fields to reduce/stop the gas supply.

Business update

- Net revenue and NPAT in 9M2020 reached **VND 49,420 billion (-15% yoy)** and VND **6,071 billion (-33% yoy)**, respectively, due to declining gas output and low oil prices. GAS completed 75% of its revenue plan and 91% of its profit plan.

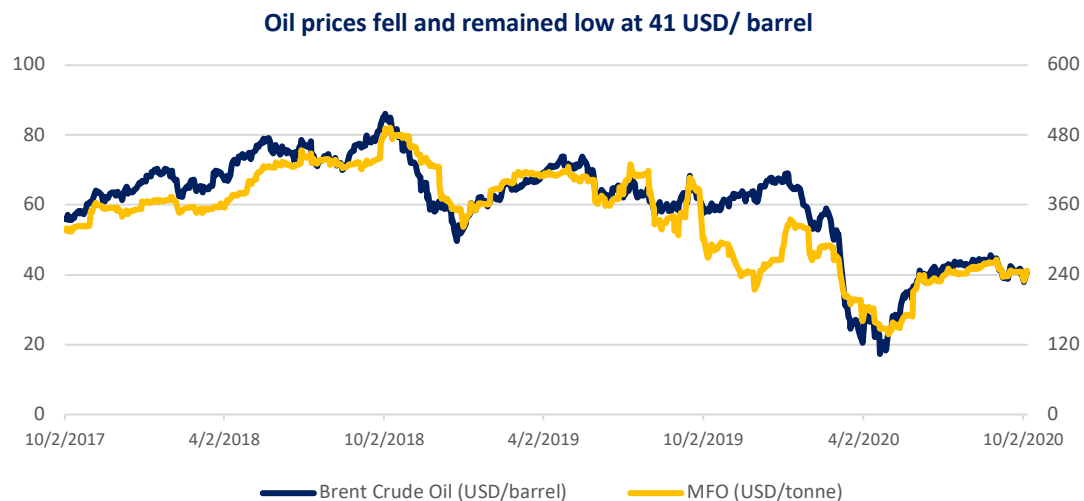
- The super projects **Block B - O Mon** and **Blue Whale** continue to be behind **schedule** due to problems in agreement and financial difficulties, commercial exploitation time has not been determined.

	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	15.9	15.2	17.4	14.7	Total Revenue	75,612	75,005	63,991	75,257
PB (x)	2.9	2.2	2.9	2.0	Gross profit	17,491	16,919	11,193	13,398
PS (x)	1.7	2.1	1.4	1.5	NPAT	11,709	12,086	8,199	9,583
ROE (%)	24.4	19.7	13.9	13.3	EPS	5,911	6,142	4,198	4,907
ROA (%)	19.4	14.6	6.63	2.4	EPS growth	18%	4%	-32%	17%
EV/ EBITDA (x)	15.6	9.2	9.1	14.0	Debt/ Equity	34%	25%	31%	34%

INVESTMENT THESIS

- (1) The slow recovery of oil price has negatively impacted on GAS's revenue and profit, it is estimated that per USD increase in oil price will have a positive impact on about VND 400 billion revenue and VND 100 billion NPAT of GAS.**

The average price of Brent oil in 9M2020 reached 41 USD/barrel (-36% yoy), much lower than the oil price as planned by GAS at 60 USD/barrel. Along with that, the price of MFO fuel oil (the determinant of gas selling price) and Aramco's CP price (the determining factor of LPG selling price) also decreased by -39% yoy and -15% yoy, respectively.



Source: Bloomberg, BSC Research

Large global organizations and institutions all forecast the average Brent oil price in 2020 at about 40-42 USD/barrel and the average price in 2021 at about 47-51 USD/barrel. BSC also considers the oil price of 41 USD/barrel as reasonable to use as the base scenario for the 2020 forecast. However, due to many uncertain factors affecting the oil price recovery next year, we cautiously using the price of 45 USD/barrel as the base scenario for the forecast for 2021.

Brent Oil price	2019A	2020F	2021F	Forecast time
EIA	64.37	41	47	T10/2020
Morgan stanley	64.37	40	-	T5/2020
JP Morgan	64.37	40	47	T7/2020
Goldman Sachs	64.37	42	51	T9/2020

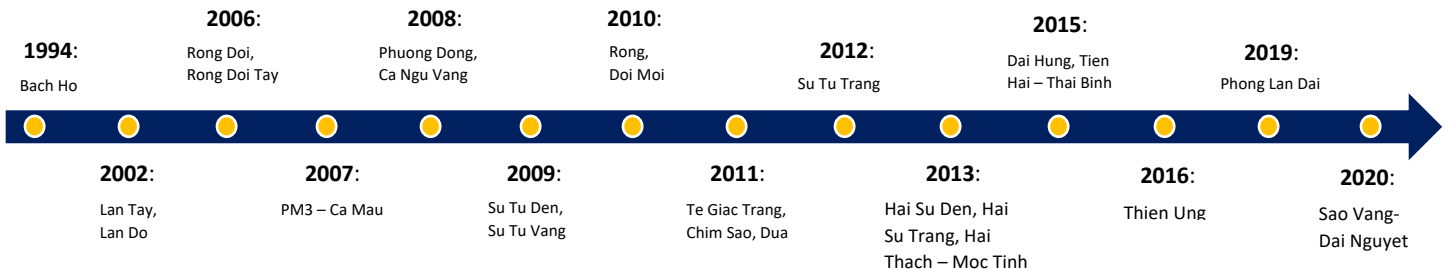
Source: BSC Research

The poor recovery prospect of oil price negatively impacted GAS' main business segments such as dry gas and LPG segment. It is estimated that for every USD 1 change in the annual average oil price, GAS's revenue and profit after tax will fluctuate in the same direction by about VND 400 billion and VND 100 billion, respectively (assuming other factors remain unchanged).

(2) Natural gas output is estimated to decrease on average by 10% - 20%/year.

The output of gas fields in the Southeast region is on the decline, especially in large fields that have been exploited for more than 10 years (for example, Bach Ho field, Lan Tay - Lan Do field cluster). These gas fields are forecasted to continue to decline rapidly (average 10%-20%/year) in the future according to the laws of natural exploitation.

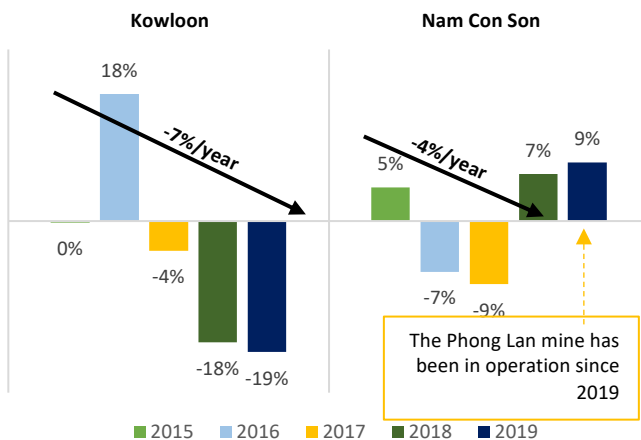
Statistics on commercial exploitation of gas fields



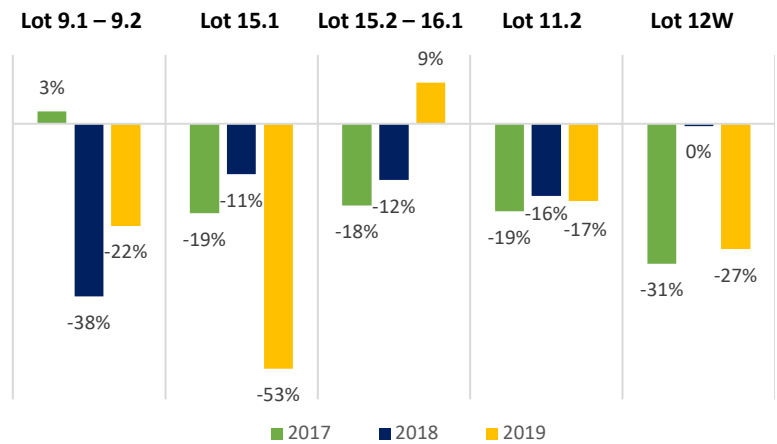
Source:: BSC Research

In addition, upstream incidents are increasing, some lots/fields have to reduce/stop gas supply to carry out maintenance and repair work and connect new systems. Specifically, the incident of Block 11.2 of Nam Con Son basin leaked gas, had to stop supplying gas for 5 months from March 8, 2020, causing a decrease in output of about 1.7 million m3 of gas/day.

The large gas tanks output has declined over the years



The output of old mine has decreased over the years



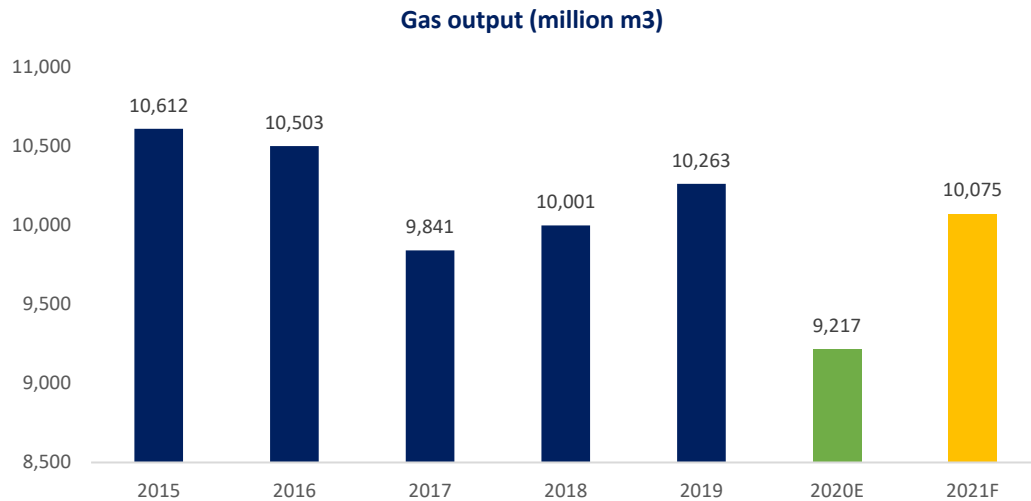
Source: PV GAS, BSC Research

The decline in wet gas output will directly affect the sales of gas products of GAS, especially the dry gas segment. This is the largest operating segment, contributing 50%-60% of GAS's revenue and profit. Therefore, the development of projects to exploit and collect new gas fields is of grNPAT significance to the prospects of enterprises.

(3) Sao Vang – Dai Nguyet gas collection project is expected to be completed in Q4/2020, supplementing from 1,500 million m3 of gas/year from 2021, contributing about VND 13,000 billion in revenue.

Sao Vang - Dai Nguyet gas field in Block 05-1 of Nam Con Son basin with a total expected gas reserve of 16 billion m3 of gas will contribute to increasing gas output from 1,500 million m3 of gas per year (16% of output). present).

Due to the complicated pandemic situation, supplies and equipment for the project continued to arrive behind schedule. Therefore, GAS has postponed the completion plan by 1 month to November 2020. We appreciate the high probability that GAS will receive the first gas flow from Sao Vang - Dai Nguyet field in November 2020.



Source: PV GAS, BSC Research

The Sao Vang - Dai Nguyet gas flow will be an important supplement to the existing gas resources that are declining, contributing to supply and meet the demand for consumption in the Southeast region. In which, gas power plants in the Southeast region account for about 22% of the country's electricity output. It is expected that this field will contribute about 13,000 billion in revenue to GAS in 2021.

FINANCIAL RESULTS & BUSINESS UPDATE

9M2020 – Natural gas output decreases, LPG exceeds the 2020 plan

In 9M2020, GAS recorded net revenue = **49,420 billion VND (-15% yoy)**, NPAT = **6,072 billion VND (-33% yoy)**, completing **75% of revenue plan** and **91% of profit target** of 2020. Net revenue and NPAT decrease over the same period due to:

- **Output declines:**
 - Gas production, trNPATment, and distribution reached 6.978 million m3 (-10% yoy), completing 71% of the plan
 - Distributed LPG output reached 1,442 thousand tons (-3% yoy), completing 111% of the plan
 - Distributed condensate output reached 44.5 thousand tons (-10% yoy), completing 81% of the plan
- **Low oil prices:**
 - Brent oil price averaged \$41/barrel (-36% yoy), along with that of MFO fuel oil -40% yoy
 - Aramco's stock price averaged \$371/ton (-15% yoy), 15% lower than the planned price in 2020

Approving the divestment plan at PV GAS South (PGS), focusing on developing PV GAS LPG

GAS currently owns 35.26% of charter capital at PV GAS South. In 2019, GAS planned to increase this capital contribution ratio to 51% but failed. From 2020, GAS has changed its retail strategy when focusing on investing in PV GAS LPG (formerly PV GAS North).

In October 2020, GAS approved the policy of divesting all stakes in PV GAS South. According to the closing price on October 19, 2020, PGS shares are priced at 14,800 VND/share. If GAS is fully divested, it will gain 260.85 billion VND, recording a loss of investment in joint ventures and associates of nearly 70 billion VND.

Super-projects Block B - O Mon and Blue Whale – Continue to be behind schedule due to problems in agreement and financial difficulties

The Block B - O Mon project chain is behind schedule due to many obstacles in the agreement. According to the updated schedule, the earliest time for commercial operation is September 2024, provided that the final investment decision (FID) is not later than March 2021.

The Blue Whale project chain is behind schedule due to the contractor Exxon Mobil having financial difficulties, estimated to lose up to USD 1.86 billion in 2020 and will be short of USD 48 billion in cash in 2021. Recently, the company has decided. cut investment costs by 30%, and consider reducing staff and delaying projects in 2021. PVN and EVN are coordinating with Exxon Mobil to complete negotiations on gas sales contracts (GSA) in Q4/ 2020 - time to decide on upstream investment.

FORECAST OF BUSINESS PERFORMANCE

2020 – Business results decline due to reduced gas output and low oil prices

In 2020, BSC forecasts that GAS will achieve net revenue = 63,991 billion VND (-15% yoy) and parent company's NPAT = 8,035 billion VND (-32% yoy), equivalent to EPS = 4,198 VND/share based on the following assumptions:

- Welcoming the first Sao Vang - Dai Nguyet gas flow in November 2020 with an output of 1.6 million m3/day and night
- Wet gas output reached 9,217 million m3 (-10% yoy), 6% lower than the plan due to the impact of Nam Con Son 2 project phase 2 delay and upstream incidents
- Producing and distributing 8,895 million m2 of dry gas (-12% yoy), 1,842 thousand tons of LPG (+4% yoy) and 64,000 tons of Condensate (-8% yoy).
- The average crude oil price in 2020 is at USD 41/barrel.

2021 – Business results improve thanks to the addition of gas from Sao Vang – Dai Nguyet field

In 2021, BSC forecasts that GAS will reach a revenue of 75,257 billion VND (+18% yoy) and parent company's NPAT = 9,391 billion VND (+17% yoy), equivalent to EPS = 4,907 VND/share based on the following assumptions:

- Gas output from Sao Vang – Dai Nguyet field in 2021 is expected to reach 1,500 m3 of gas
- Gas output from Nam Con Son basin (old fields) and Cuu Long on the decline -10% yoy
- Producing and distributing 9,585 million m2 of dry gas (+8% yoy), 1,948 thousand tons of LPG (+6% yoy) and 67,000 tons of Condensate (+10% yoy).
- Oil price recovered slowly, averaging 45 USD/barrel

VALUATION - UNATTRACTIVE

BSC recommends TRACKING GAS shares with a fair value of VND 78,500/share in 2021. This price is equivalent to an **upside 7%** (according to the closing price on 11/11/2020 is 73,200).

We use the P/E valuation method with a target P/E of 2021 of **16x**, equivalent to the average P/E of 2019. This valuation is not too attractive compared to the average P/E of 3 years at 15.4x or the current P/E of 15.3x.



Source: Bloomberg, BSC Research

Fair value sensitivity analysis (Target price) according to Brent oil price

TP (VND/CP)	Average Brent oil price in 2021 (USD/barrel)										
	40	41	42	43	44	45	46	47	48	49	50
	73,300	74,400	75,400	76,400	77,500	78,500	79,500	80,600	81,600	82,700	83,700

Nguồn: BSC Research

APPENDIX

IS (billion VND)	2018	2019	2020F	2021F
Net revenue	75,612	75,005	63,991	75,257
Cost of Goods Sold	-58,120	-58,087	-52,798	-61,859
Gross profit	17,491	16,919	11,193	13,398
Selling expenses	-2,639	-2,394	-1,691	-2,066
Administrative expenses	-1,128	-875	-747	-878
Operating profit	13,725	13,649	8,756	10,454
Financial income	1,477	1,665	1,705	1,816
Financial expenses	-617	-241	-211	-291
Interest expenses	-440	-198	-192	-242
Profit/ Loss from affiliates	14,581	15,072	10,249	11,979
Other gains/ losses	-41	-4	58	68
Profit before tax	14,540	15,068	10,249	11,979
Tax payment	-2,831	-2,983	-2,050	-2,396
Profit after tax	11,709	12,086	8,199	9,583
Minority interest	255	183	164	192
NPAT – minority interest	11,454	11,902	8,035	9,391
EBITDA	10,893	10,957	6,087	6,854
EPS	5,911	6,142	4,198	4,907

CF (billion VND)	2018	2019	2020F	2021F
Profit after tax	14,540	15,068	10,249	11,979
Depreciation	1,998	2,123	1,623	2,548
Change in networking capital	-3,730	-4,097	-2,108	-3,477
Other adjustments	-390	-414	-455	-501
CF from operating activities	12,422	12,681	9,309	10,550
Fixed asset investments	-692	-2,690	-6,399	-6,397
Other investment activities	-6,667	-3,504	2,525	576
CF from investing activities	-7,315	-4,722	-3,874	-5,821
Dividend paid	-7,656	-8,230	-8,613	-5,742
Cash from net borrowing	-4,297	-1,950	3,603	1,682
Other revenue	0	0	0	0
CF from financial activities	-11,905	-10,188	-5,010	-4,060
Cash & cash equivalent, beginning of the year	13,502	6,706	4,476	4,900
CF during the year	-6,798	-2,229	424	668
Cash & cash equivalent, end of the year	6,706	4,476	4,900	5,568

BS (billion VND)	2018	2019	2020F	2021F
Cash & cash equivalent	6,706	4,476	4,900	5,568
Short-term investment	21,602	24,915	23,255	23,587
Account receivables	10,214	10,359	10,032	11,456
Inventory	1,948	1,575	1,785	1,969
Other current assets	462	491	514	540
Total Current assets	40,932	41,815	40,486	43,977
Tangible assets	18,149	15,438	13,469	19,185
Depreciation	-31,881	-33,076	-35,716	-39,284
Long-term assets in progress	1,235	3,021	8,721	5,805
Long-term investment	63	405	189	208
Other non-current assets	1,534	937	984	1,033
Total non-current asset	21,682	20,363	23,975	26,873
Total asset	62,614	62,179	64,461	70,850
Account payable	9,338	7,160	7,509	8,311
Short-term debt	1,490	1,341	1,920	2,258
Other short-term debt	1,018	1,454	1,247	1,333
Current liabilities	11,847	9,964	10,676	11,902
Long-term debt	3,396	1,456	4,479	5,823
Other long-term debt	313	939	148	172
Non-current liabilities	3,901	2,600	4,627	5,995
Total liabilities	15,747	12,564	15,303	17,897
Paid-in capital	19,140	19,140	19,140	19,140
Capital surplus	211	211	211	211
Retained earnings	10,599	10,109	9,325	12,641
Other equity	15,124	19,047	19,211	19,499
Minority interest	1,794	1,108	1,272	1,463
Owner's equity	46,867	49,615	49,159	52,953
TOTAL RESOURCES	62,614	62,179	64,461	70,850
Shares outstanding (million)	1,914	1,914	1,914	1,914

Ratio (%)	2018	2019	2020F	2021F
Liquidity ratios				
Current ratio	2.60	3.33	2.65	2.46
Quick ratio	2.48	3.20	2.53	2.35
Solvency ratios				
Debt/ Total assets	25%	20%	24%	25%
Debt/ Equity	34%	25%	31%	34%
Efficiency ratios				
Days of inventory	11.79	11.51	12.12	11.54
Days of receivable	23.12	22.68	25.20	22.91
Days of payable	15.59	14.48	15.24	14.94
CCC	19.32	19.72	22.08	19.51
Profitability ratios				
Gross profit margin	23%	23%	17%	18%
EBIT margin	15%	16%	13%	13%
ROE	25%	24%	17%	18%
ROA	19%	19%	13%	14%
Valuation				
PE	16.8	15.9	15.2	15.9
PB	4.2	2.9	2.2	2.4
Growth				
Net revenue growth	17%	-1%	-15%	18%
EBIT growth	18%	-1%	-36%	19%
NPAT growth	16%	4%	-32%	17%
EPS growth	18%	4%	-32%	17%

Source: BSC Research.

Disclosure

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