

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

Recommendation

BUY

Petrovietnam Gas JSC (HSX: GAS)

Positive in the long term

Current price:	90,400	Date	06/09/2021	Shareholder Structure	
Previous target price	110,200	Outstanding Shares (Million)	1,914	VIETNAM OIL & GAS GR	95.8%
New target price:	109,400	Market Cap (VND billion)	166,322	SUMITOMO MITSUI FINANCE	0.13%
Dividend yield	4.0%	Avg. 6M Trading vol	825,378	MIRAE ASSET GLOBAL	0.11%
Upside	21%	% Foreign float	3.12%	DAIWA SECURITY GROUP	0.11%

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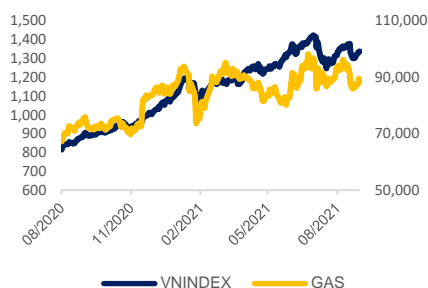
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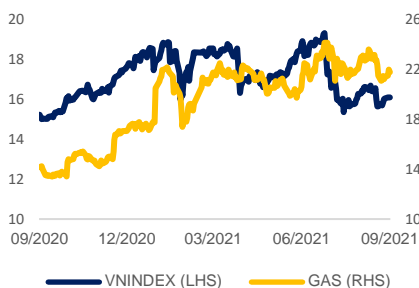
Giá khuyến nghị: 97,000 VND

Giá cắt lỗ: 88,000 VND

Price comparison between GAS and VN index



P/E comparison between GAS and VN index



Valuation

- We continue to maintain our **BUY** recommendation with a 2022 target price of **VND109,400/share** (+21% from the closing price on September 6, 2021), equivalent to a target P/E of 18x .

Forecast of business results

- BSC forecasts that GAS's revenue and NPATMI in 2021 will reach **VND 74,989 billion (+17% yoy)** and **VND 9,682 billion (+23% yoy)**, **EPS FW = VND 5,059/share** with the assumption: (1) Sao Vang - Dai Nguyet field adds 1.5 billion m³ of gas/year (+16% of output), (2) Su Tu Trang field in Phase 2A has an output of 200 million m³ of gas, and (3) average oil price in 2021 reached 68 USD/barrel (+36% yoy).
- BSC forecasts that GAS's revenue and NPAT in 2022 will reach **VND 87,312 billion (+16% yoy)** and **VND 11,635 billion (+20% yoy)**, **EPS FW = VND 6,079/share** with the assumption (1) Average oil price average in 2022 is 72 USD/barrel (+7% yoy); (2) Su Tu Trang Field Phase 2A, with an output of 500 million m³ of gas; and (3) the LPG segment maintains an output of 2.1 million tons.

Investment Thesis

- Oil price in 2021 remains around 70 USD/barrel, helping to improve GAS's profit.
- Su Tu Trang gas field, phase 2A, will come into operation from June 2021, adding about 500 million m³ of gas to GAS's annual output..
- The LNG segment is the long-term growth driver, helping GAS to be re-evaluated.

Risks

- Upstream incidents that cause unplanned reductions/stops of gas supply at blocks/fields
- Key gas field projects are behind schedule.

Company Update

- In 6M2021, GAS recorded a revenue of **VND 40,272 billion (23% yoy)** thanks to the significant increase in fuel oil (+80% yoy) and LPG (+72% yoy) prices in Q2. However, profit from Financial activities decreased by 55% yoy, along with SG&A expenses increased by 46%, making NPAT only **VND 4,359 billion (+4% yoy)**.
- LNG Thi Vai project was built on schedule, expected to be completed in Q4/2022.

	2020	2021E	Peer	VN-Index		2019	2020	2021E	2022F
PE (x)	18.2	17.6	16.9	17.2	Net Sales	75,005	64,135	74,989	87,313
PB (x)	3.4	3.5	3.2	2.7	Gross Profit	16,919	11,406	14,992	17,860
PS (x)	2.6	2.3	1.7	2.2	NPAT	11,902	7,855	9,682	11,635
ROE (%)	16.0	18.5	15.0	16.1	EPS	6,142	4,028	5,059	6,079
ROA (%)	12.6	14.2	7.0	2.6	EPS Growth	4%	-34%	23%	20%
EV/ EBITDA (x)	12.9	18.1	9.5	16.1	Net Debt/ Equity	25%	28%	31%	33%

COMPANY UPDATE

In 6M2021, GAS recorded revenue = **VND 40,272 billion (23% yoy)** and NPAT = **VND 4,359 billion (4% yoy)**, completing 57% and 62% of the full year plan, respectively. In there:

- Exploited moist gas output reached 4,168 million m³ (-13% yoy)
- Distributed dry gas volume reached 4,034 million m³ (-13% yoy)
- Distributed LPG output reached 1,023 thousand tons (+11% yoy)

GAS's revenue grew strongly thanks to the significant increase in **FO price (+80% yoy)** and **LPG (+72% yoy)** in Q2. However, financial income decreased by 55% yoy, Sale and G&A expenses increased by 16% yoy and 120% yoy respectively, making 6M2021 NPAT only increase by 4% yoy.

Table 1: Updated 6M2021 business results of GAS

(billions VND)	Q2/2020	Q2/2021	% yoy	6M2020	6M2021	% yoy
Net Revenue	15,627	22,702	45%	32,688	40,272	23%
Gross profit	2,402	3,782	57%	5,831	7,052	21%
Selling expenses	-443	-491	11%	-884	-1,025	16%
G&A expenses	-167	-438	162%	-359	-791	120%
EBIT	1,792	2,853	59%	4,588	5,236	14%
Financial revenue	402	204	-49%	779	468	-40%
Financial expenses	-34	-113	232%	-117	-169	44%
PBT	2,161	2,933	36%	5,246	5,570	6%
NPAT	1,713	2,301	34%	4,179	4,359	4%
Consumption:						
Dry gas (mm ³)	2,357.5	2,047	-13%	4,773	4,072.6	-15%
LPG (1000T)	490.9	549.8	12%	917.1	1,022.9	12%
Condensate (1000T)	15.8	14.7	-7%	31.0	30.8	-1%

Source: GAS, BSC Research

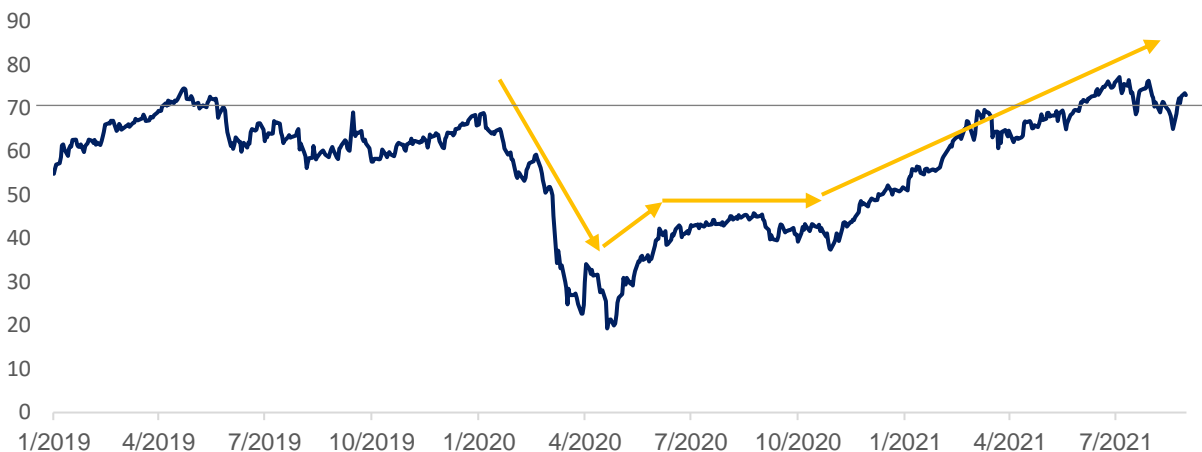
GAS has signed a contract with PTSC to store and transport refrigerated LPG in the Northern region. Accordingly, GAS is expected to focus on developing the LPG consumption market in the Northern region to meet the regional market's energy demand and reduce dependence on imported LPG sources. We expect that GAS's LPG storage in the context of high gas prices will help improve the company's business results in 2021.

INVESTMENT THESIS

(1) The high level of world oil price in 2021 will be a strong support factor for GAS's profit.

Oil prices (Brent) have rebounded strongly since the beginning of 2021, and surpassed the USD 70/barrel in the second quarter thanks to the recovering economy and tight oil supply. For 5 consecutive months from June 2020, oil price has moved sideways in the range of 40-45 USD/barrel. However, the price of Brent oil has increased for 8 consecutive months since the beginning of November 2020, surpassing the resistance level of 70 USD/barrel, establishing a new uptrend thanks to improved demand and tight supply.

Figure 1: Brent oil price recovers strongly in 2021



Source: Bloomberg, BSC Research

However, the rise in oil prices may be halted by OPEC+'s plan to increase production. In July 2021, the OPEC+ group **agreed to increase production by 400,000 bbl/day** through the end of 2021, and set a goal of restoring the full current cut of 5.8 million bbl/day by September 2022. BSC believes that this action will help **stabilize the world oil supply, and contribute to stabilizing oil prices**, when oil demand recovers along with post-pandemic business activities. Therefore, we are optimistic to **raise the average oil price to USD 68/barrel** as a base scenario for our forecast for 2021.

Figure 2: OPEC plans to increase production until 2022

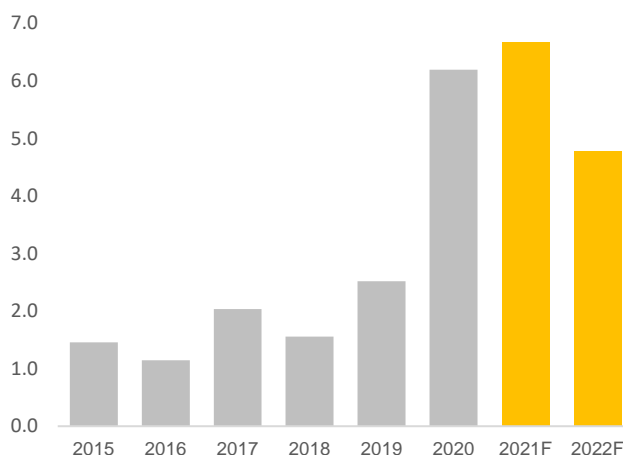
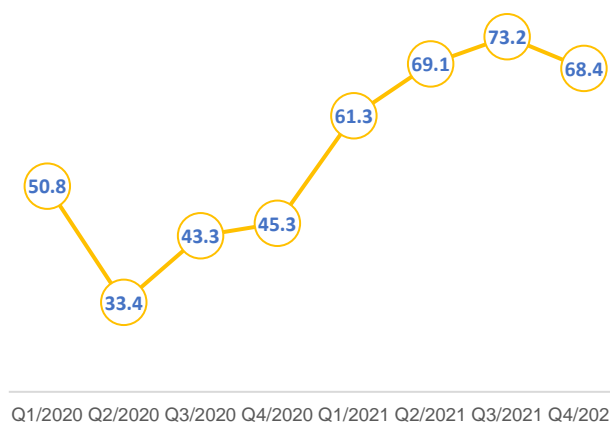


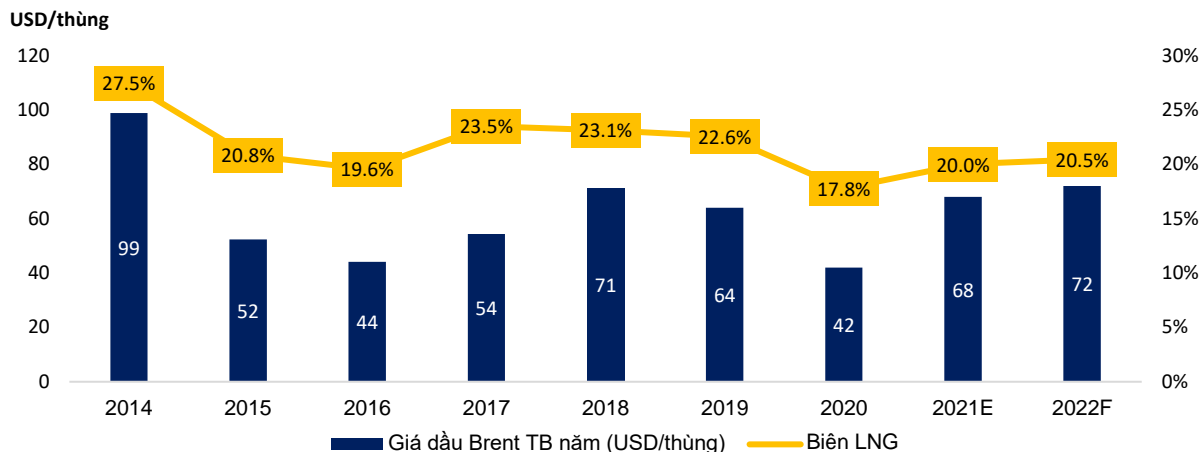
Figure 3: Oil price forecast in 2021



Source: Bloomberg, BSC Research

Oil price is directly proportional to GAS's profit. 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. Besides, we find that GAS's gross profit margin tends to improve markedly in the years when the price of Brent oil increases. Therefore, BSC expects **GAS's gross profit margin in 2021 to improve to 20% (+2.2% yoy)**, assuming an average annual oil price of \$68/barrel (+60% yoy).

Figure 4: GAS's GPM improves as oil prices increase

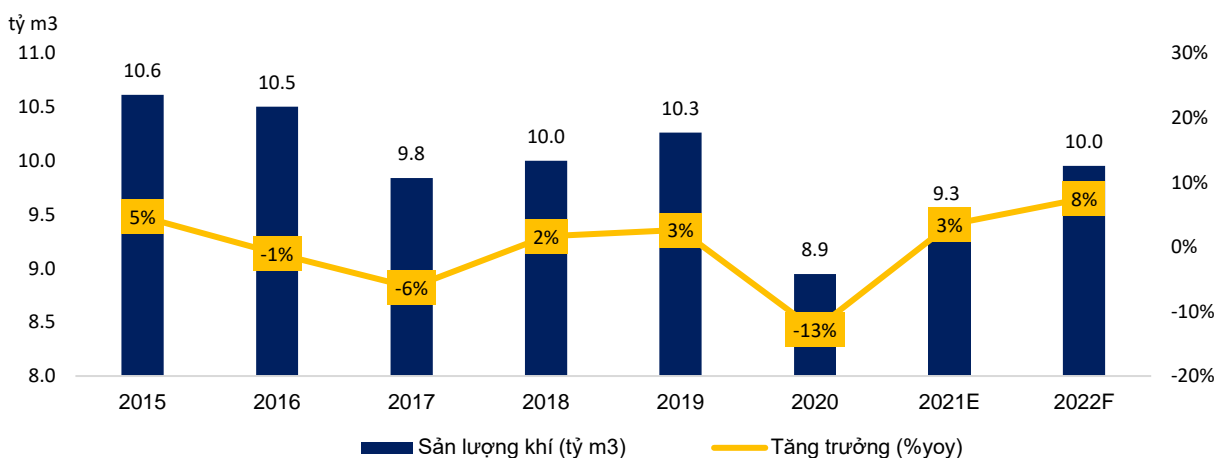


Source: PV GAS, BSC Research

(2) Gas source from Su Tu Trang field phase 2A will add about 500 million m³ gas/year to GAS's output in the period of 2022 - 2025.

In the second quarter of 2021, GAS announced to receive the first gas flow from the Su Tu Trang project phase 2A, supplementing the gas source from the Cuu Long basin for current consumers in the Southeast region. With an offtake output of more than 14 billion cubic feet of gas/year and can be extended until 2025, we estimate that the gas source from this field can contribute about 500 million m³ of gas/year (nearly 6% of production). annual volume of GAS).

Figure 5: Moist gas production is expected to improve from 2022



Source: PV GAS, BSC Research

In addition to Sao Vang - Dai Nguyet mine, which will be exploited at the end of 2020 (refer to [Latest report](#)), Su Tu Trang field phase 2A will be an important additional source, helping to partially alleviate the shortage of natural resources. gas supply in the context that the existing fields in the Nam Con Son basin are gradually exhausted. BSC expects that **Su Tu Trang field Phase 2A, will bring about VND 3,000 billion in revenue and VND 800 billion in gross profit for GAS.**

Development of natural gas fields is urgent in the context of increasing electricity demand in Vietnam. According to the Draft Power Plan 8, electricity demand is forecasted to grow by 8-9% per year in the period 2021 – 2030. In which, gas-fired thermal power is expected to account for 20% of the total system capacity by 2030. (from the current 15%), then increase to 25% of total capacity by 2045. GAS is in the investment phase to create a premise for the company's long-term development, in which **key gas exploitation projects (Block B, Blue Whale...)** will be the main growth drivers. (For progress of developing gas fields, refer to [Latest report](#))

(3) The LNG segment is the long-term growth driver for GAS

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 [Sector Outlook](#)).

Table 2: LNG projects in Vietnam in the period of 2021 - 2035

Project	Operation time	Capacity (million tons/year)	Investor
LNG Thi Vai Warehouse	2022 – 2025	1 – 3	PV GAS
Hon Khoai LNG warehouse (Ca Mau)	2022 – 2025 (GD1)	1 (GD1)	
	Sau 2025 (GD2)	2 (GD2)	
Son My LNG Warehouse (Binh Thuan)	2023 – 2025 (GD1)	1 – 3 (GD1)	PV GAS
	2027 – 2030 (GD2)	3 (GD2)	
	2031 – 2035 (GD3)	3 (GD3)	
Southeast LNG warehouse (Tien Giang)	2022 – 2025	4 – 6	
Floating LNG warehouse (FSRU) Thai Binh	2026 – 2030	0.2 – 0.5	
Cat Hai LNG warehouse (Hai Phong)	2030 – 2035	1 – 3	ExxonMobil
Nam Van Phong LNG warehouse (Khanh Hoa)	2030 – 2035	3	Petrolimex
Hai Linh LNG Warehouse (Vung Tau)	2021 – GD1	2 – 3 (GD1)	Hai Linh Co., Ltd
	2023 – 2025 (GD2)	6 (GD2)	

Source: Vietnam Gas Industry Development Master Plan, BSC Research

Construction investment is being actively implemented by GAS, in which the 1 million tons LNG storage project in Thi Vai has completed construction and raised the roof of the tank, expected to be completed by the end of 2022 on schedule, proposed level. The total disbursed value for construction investment in the first 6 months of the year was VND 3,327 billion, if excluding the Block B-O Mon gas pipeline project (which is being operated by Vietnam Oil and Gas Group), the results the company's disbursement reached 136% of the plan for the first half of the year.

FORECAST OF BUSINESS RESULTS

BSC forecasts GAS's revenue and NPATMI in 2021 will reach **VND 74,989 billion (+17% yoy)** and **VND 9,682 billion (+23% yoy)**, equivalent to **EPS FW = VND 5,059/share** based on assumptions:

- Gas output from Sao Vang - Dai Nguyet field in 2021 will reach 1.5 billion 1.5 tỷ m³ of gas/year.
- Su Tu Trang Field, Phase 2A, with an output of 200 million m³ of gas
- GAS produces and distributes 9.1 billion m³ of dry gas (+1% yoy), 2.1 million tons of LPG (+5% yoy) and 62,000 tons of condensate (+6% yoy)
- The average price of Brent oil in 2021 is USD 68/barrel (+62% yoy).

For 2022, BSC forecasts GAS's revenue and NPAT will reach VND 87,312 billion (+16% yoy) and VND 11,635 billion (+20% yoy), EPS FW = VND 6,079/share base on assumptions (1) Oil price average in 2022 will reach 72 USD/barrel (+7% yoy); (2) Su Tu Trang Field, Phase 2A, with an output of 500 million m³ of gas; and (3) LPG segment maintains output of 2.1 million tons.

Table 3: Forecast of GAS's business results

Unit: Billion VND	2019	2020	2021E	2022F
Net revenue	75,005	64,135	74,989	87,313
Gross profit	16,919	11,406	14,992	17,860
GPM	23%	18%	20%	20%
Selling expenses	-2,394	-1,943	-2,269	-2,631
G&A expenses	-875	-769	-849	-989

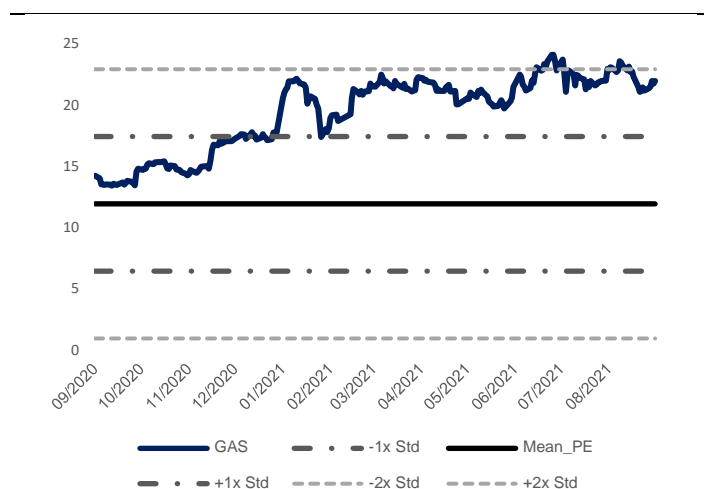
EBIT	13,648	8,682	11,869	14,241
Financial revenue	1,665	1,451	806	1,086
Financial expenses	-241	-169	-353	-510
Other income	-4	14	28	23
PBT	15,068	9,978	12,350	14,841
NPAT	12,086	7,972	9,880	11,873
<i>NPM</i>	16%	12%	13%	14%
EPS	6,142	4,028	5,059	6,079

Source: GAS, BSC Research

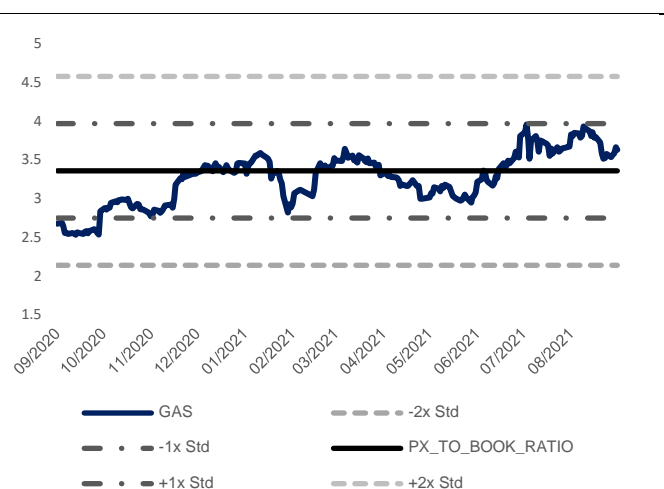
VALUATION AND RECOMMENDATION

BSC maintains a **BUY** recommendation for GAS with a target value of **VND 109,400/share** in 2022 (**upside 21%** compared to the closing price on 31/08/2021 of 90,400 VND/share), equivalent to the level Target P/E 18x. We remain optimistic about GAS's prospects in the coming years thanks 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-than-expected oil prices and delays in key gas fields development.

Stock PE



Stock PB



Source: Bloomberg, BSC Research

APPENDIX

IS (VND billion)	2019	2020	2021E	2022F	CF (VND billion)	2019	2020	2021E	2022F
Net revenue	75,005	64,135	74,989	87,313	Profit after tax	15,068	9,978	12,350	14,841
COGS	-58,087	-52,729	-59,996	-69,453	Depreciation	2,566	2,406	2,583	2,630
Gross profit	16,919	11,406	14,992	17,860	Change in NWC	-4,511	-4,939	-4,066	-5,399
Selling expenses	-2,394	-1,943	-2,269	-2,631	Other adjustments	-443	-114	169	246
G&A	-875	-769	-849	-989	CF from operating activities	12,681	7,330	11,036	12,317
Operating income	13,649	8,694	11,874	14,241	Fixed assets investment	-2,690	-4,174	-2,250	-5,239
Financial income	1,665	1,451	806	1,086	Other investment	-3,504	4,246	-1,211	281
Financial expenses	-241	-169	-353	-510	CF from investing activities	-4,722	99	-3,461	-4,958
Interest expenses	-198	-101	-271	-364	Dividend paid	-8,230	-6,850	-5,742	-6,699
Gain/loss from affiliates	-1	-11	-5	0	Cash from net borrowing	-1,950	182	2,446	639
Other gain/loss	-4	14	28	23	Other revenue	0	0	0	0
Profit before tax	15,068	9,978	12,350	14,841	CF from financing activities	-10,188	-6,668	-3,296	-6,060
Corporate tax payment	-2,983	-2,037	-2,470	-2,968	Beginning cash balance	6,706	4,476	5,237	9,517
Profit after tax	12,086	7,972	9,880	11,873	Cash in year	-2,229	761	4,280	1,300
Minority interest	183	117	198	237	Ending cash balance	4,476	5,237	9,517	10,817
NPATMI	11,902	7,855	9,682	11,635					
EBITDA	10,957	5,991	8,947	11,249					
EPS	6,142	4,028	5,059	6,079					

BS (VND billion)	2019	2020	2021E	2022F	Ratios (%)	2019	2020	2021E	2022F
Cash & cash equivalent	4,476	5,237	9,517	10,817	Liquidity ratios				
Short term investment	24,915	21,613	24,435	25,846	Current ratio	3.33	2.88	2.85	2.68
Account receivables	10,359	10,239	10,143	12,470	Quick ratio	3.20	2.76	2.74	2.55
Inventory	1,575	1,663	1,850	2,427	Solvency ratios				
Other current assets	491	720	578	679	Debt/ Total assets	20%	22%	23%	25%
Total current assets	41,815	39,472	46,525	52,240	Debt/ Equity	25%	28%	31%	33%
Tangible assets	48,514	54,739	54,811	55,472	Efficiency ratios				
Depreciation	-33,076	-35,404	-38,296	-41,253	Days of inventories	11.51	11.68	11.12	11.71
Long term incomplete assets	3,021	2,303	4,453	9,001	Days of receivables	22.68	29.21	24.96	23.77
Long term investment	405	379	417	459	Days of payables	14.48	15.86	14.42	14.72
Other non-current assets	937	1,096	1,151	1,208	CCC	19.72	25.02	21.66	20.77
Total non-current assets	20,363	23,736	23,186	25,571	Profitability ratios				
Total Assets	62,179	63,208	69,711	77,811	Gross profit margin	23%	18%	20%	20%
Account payables	1,914	2,677	2,080	3,569	PBT margin	16%	12%	13%	14%
Short-term debt	1,341	1,017	1,500	1,746	ROE	24%	16%	19%	20%
Other short-term debt	6,710	6,055	6,839	7,708	ROA	19%	13%	14%	15%
Current liabilities	9,964	9,749	10,418	13,022	Valuation				
Long-term debt	1,456	1,964	3,928	4,321	PE	15.1	21.1	17.67	14.7
Other long-term debt	939	1,803	1,978	2,170	PB	3.6	3.4	3.5	3.5
Non-current liabilities	2,600	3,960	5,906	6,491	Growth				
Total Liabilities	12,564	13,709	16,324	19,513	Net revenue growth	-1%	-14%	17%	16%
Paid-in capital	19,140	19,140	19,140	19,140	EBIT growth	-1%	-36%	37%	20%
Capital surplus	0	0	0	0	PBT growth	4%	-34%	24%	20%
Retained earnings	10,109	10,029	13,422	17,739	EPS growth	4%	-34%	23%	20%
Other equity	19,258	19,267	19,564	19,920					
Minority interest	1,108	1,064	1,262	1,499					
Shareholder's equity	49,615	49,500	53,387	58,298					
Total Resources	62,179	63,208	69,711	77,811					
Number of shares outstanding (million)	1,914	1,914	1,914	1,914					

Source: GAS, BSC Research

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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