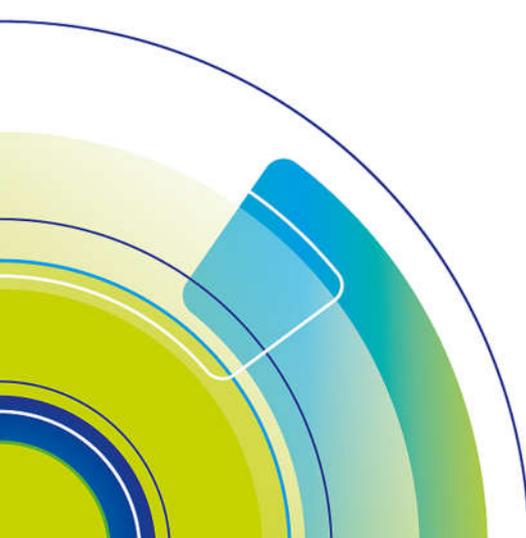




GAS Update - HOLD

Wednesday, January 27, 2021



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Update Report

Recommendation

HOLD

HOSE: GAS

Natural Gas Distribution

Current price (VND) **83,300**

Target price (VND) **85,800**

Expected share price return 3.0%

Expected dividend yield 3.6%

Expected total return **6.6%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-3.8	0.6	15.2	-6.4
Relative	-6.8	-7.1	-6.7	-26.3

Source: Bloomberg



Ownership

PetroVietnam 95.76%

Stock Statistics

26-Jan-21

Bloomberg code	GAS VN
52-week range (VND)	53,900 - 94,700
Shares O/S (m)	1,914
Mkt cap (VND bn)	159,432
Mkt cap (USD m)	6,882
Foreign room left (%)	46.0
Est. free float (m)	4.2
3m avg daily vol (shrs)	1,134,288
VND/USD	23,165
Index: VNIndex / HNX	1136.12/227.82

PetroVietnam Gas Joint Stock Corporation (GAS)

Business results recover from 2021

Continuing the decline from the beginning of 2020, GAS recorded business results in Q4/2020 with revenue of VND15,524 billion (-10.4% YoY) and NPAT of parent company's shareholders VND1,682 billion (-44.1% YoY). The company's gross profit margin also dropped to 16.9% from 22.2% in the same period. Natural gas demand from thermal power plants decreased as weather conditions was more favorable for hydropower plants. In addition, the effects of the Covid-19 epidemic, the incident at the Block 11.2 gas field (from March 3rd to Aug 7th, 2020) as well as the slump in Brent oil price 2020 (-35.1% YoY) caused a decline in gas supply and demand as well as gas selling price in 2020.

With this result, GAS records 2020 revenue at VND64,150 billion (-14.8% YoY) and NPAT of parent company's shareholders VND7,811 billion (-34.3% YoY). Thereby, the company has completed 96% and 119% of its revenue & NPAT plan for 2020, respectively.

Regard 2021 and onward outlooks, there are some pros and cons to consider:

- + Sao Vang-Dai Nguyet gas field started operating from 11/2020 (with capacity of ~1.5 billion m3 of gas/ year) to help offset the depletion in low-cost gas fields. Therefore, gas production in 2021 is expected to increase 8% YoY.

- + Brent oil price is forecasted to rebound thanks to demand recovery in Asian countries but still slow due to new lockdown across Europe and flight bans from UK

- + LNG Thi Vai storage (Phase 1) will operate from Q3/2022: providing 1.4 billion m3 of gas / year for Nhon Trach 3 & 4 power plants and industrial customers. In addition, to compensate for the gas depletion in Vietnam and support GAS's long-term growth, other LNG projects (Son My, Long An, Hai Phong) are also under consideration by GAS.

- The gradually decreasing source of low-cost gas will reduce the competitiveness of gas-fired power plants in the Competitive electricity generation market.

- The construction of LNG gas thermal power plants can face difficulties in negotiating the Power Purchase Agreement (PPA) with EVN, which then affecting the progress of LNG projects.

Overall, with the forecasted Brent oil price at USD53 / barrel, we project GAS's 2021 business results to improve with revenue of VND75,339 billion (+17.4% YoY) and NPAT of parent company's shareholders VND9,673 billion (+23.8% YoY). Along with the risks of oil price, gas supply as well as government policy, we maintain a **HOLD** recommendation with a target price of VND85,800 for 2021.

	2018	2019	2020	2021F	2022F
Net Sales (VNDbn)	75,612	75,005	64,150	75,339	81,496
Growth (%)	17%	-1%	-14%	17%	8%
EBITDA (VNDbn)	16,553	16,340	11,178	13,280	14,652
EBITDA margin (%)	22%	22%	17%	18%	18%
NPAT-MI (VNDbn)	11,454	11,902	7,812	9,674	10,479
Growth (%)	18%	4%	-34%	24%	8%
EPS (VND)	5,823	6,051	3,971	4,918	5,327
Growth (%)	18%	4%	-34%	24%	8%
ROE (%)	26%	25%	16%	19%	19%
ROIC (%)	18%	18%	11%	14%	14%
Net debt/EBITDA (x)	-1.4	-1.6	-2.1	-1.8	-1.8
PER (x)	14.3	13.8	21.0	16.9	15.6
EV/EBITDA (x)	8.6	8.7	12.7	10.7	9.7
PBR (x)	3.4	3.2	3.2	3.0	2.7
DPS (VND)	4,000	3,000	3,000	3,000	3,000
Dividend yield (%)	5%	4%	4%	4%	4%

GAS FINANCIALS MODEL

(VND bn except where stated)	2016	2017	2018	2019	2020	2021F	2022F
Total Net Sales	59,076	64,522	75,612	75,005	64,150	75,339	81,496
<i>Sales growth (%)</i>	-8%	9%	17%	-1%	-14%	17%	8%
CoGS ex-dep'n	44,212	46,646	55,292	55,395	50,260	58,819	63,176
SG&A	3,096	3,535	3,767	3,270	2,712	3,240	3,667
<i>SG&A as % of sales</i>	5%	5%	5%	4%	4%	4%	5%
EBITDA	11,768	14,341	16,553	16,340	11,178	13,280	14,652
<i>EBITDA margin (%)</i>	20%	22%	22%	22%	17%	18%	18%
Depreciation	3,309	2,713	2,829	2,691	2,533	2,374	2,662
Operating profit	8,459	11,627	13,725	13,649	8,645	10,906	11,991
<i>Operating profit margin (%)</i>	14%	18%	18%	18%	13%	14%	15%
Net interest expense	-713	-939	-1004	-1401	-1515	-1383	-1339
<i>as % of avg, net debt</i>	5%	6%	5%	6%	6%	6%	5%
Tax	1,980	2,650	2,831	2,983	2,009	2,481	2,688
<i>Effective tax rate (%)</i>	22%	21%	19%	20%	20%	20%	20%
Minorities	152	253	255	183	116	147	160
Net profit	7,020	9,685	11,454	11,902	7,812	9,674	10,479
<i>Net profit margin (%)</i>	12%	15%	15%	16%	12%	13%	13%
Cash earnings	10,481	12,651	14,537	14,777	10,461	12,195	13,300
Number of shares (m)	1914	1914	1914	1914	1914	1914	1914
EPS (VND)	3,569	4,924	5,823	6,051	3,971	4,918	5,327
Bonus factor (x)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	3,569	4,924	5,823	6,051	3,971	4,918	5,327
<i>EPS growth (%)</i>	-18%	38%	18%	4%	-34%	24%	8%

KEY CASHFLOW AND BS ITEMS	2016	2017	2018	2019	2020	2021F	2022F
Increase in working capital	3,158	(3,521)	159	1,504	(155)	675	(368)
Capex	3,736	2,614	637	270	5,508	4,573	5,450
Other cashflow items	1000	1000	1000	1000	1000	1000	1000
Free cash flow	4,588	14,559	14,741	14,003	6,109	7,947	9,219
Share issues (m)	379	0	0	0	0	0	0
Dividends paid	9000	7265	7656	8230	6814	5742	5742
Increase in net debt	4033	-7294	-7086	-5773	706	-2206	-3477
Net debt, end of year	(11,890)	(18,030)	(23,422)	(26,594)	(23,869)	(23,604)	(25,704)
Enterprise value	147,542	141,402	136,010	132,838	135,563	135,828	133,728
Shareholders' equity	40,844	43,272	46,867	49,615	49,408	53,808	58,420
BVPS (VND)	21,340	22,608	24,487	25,923	25,815	28,114	30,523
Net debt / equity (%)	-29%	-42%	-50%	-54%	-48%	-44%	-44%
<i>Net debt / EBITDA (x)</i>	<i>-1.0</i>	<i>-1.3</i>	<i>-1.4</i>	<i>-1.6</i>	<i>-2.1</i>	<i>-1.8</i>	<i>-1.8</i>
Total assets	56,754	61,889	62,614	62,179	63,090	66,634	72,872

KEY RETURN AND VALUATION RATIOS	2016	2017	2018	2019	2020	2021F	2022F
<i>ROE (%)</i>	<i>17.1%</i>	<i>23.6%</i>	<i>26.0%</i>	<i>25.1%</i>	<i>16.0%</i>	<i>19.0%</i>	<i>19.0%</i>
<i>ROA (%)</i>	<i>14.9%</i>	<i>19.6%</i>	<i>22.0%</i>	<i>21.9%</i>	<i>13.8%</i>	<i>16.8%</i>	<i>17.2%</i>
<i>ROIC (%)</i>	<i>11.7%</i>	<i>15.6%</i>	<i>17.6%</i>	<i>17.7%</i>	<i>10.8%</i>	<i>13.5%</i>	<i>13.8%</i>
<i>WACC (%)</i>	<i>12%</i>						
<i>EVA (%)</i>	<i>-0.2%</i>	<i>3.7%</i>	<i>5.7%</i>	<i>5.8%</i>	<i>-1.1%</i>	<i>1.6%</i>	<i>1.9%</i>
<i>PER (x)</i>	<i>23.3</i>	<i>16.9</i>	<i>14.3</i>	<i>13.8</i>	<i>21.0</i>	<i>16.9</i>	<i>15.6</i>
<i>EV/EBITDA (x)</i>	<i>12.0</i>	<i>9.9</i>	<i>8.6</i>	<i>8.7</i>	<i>12.7</i>	<i>10.7</i>	<i>9.7</i>
<i>EV/FCF (x)</i>	<i>30.9</i>	<i>9.7</i>	<i>9.6</i>	<i>10.1</i>	<i>23.2</i>	<i>17.8</i>	<i>15.4</i>
<i>PBR (x)</i>	<i>3.9</i>	<i>3.7</i>	<i>3.4</i>	<i>3.2</i>	<i>3.2</i>	<i>3.0</i>	<i>2.7</i>
<i>PSR (x)</i>	<i>2.7</i>	<i>2.5</i>	<i>2.1</i>	<i>2.1</i>	<i>2.5</i>	<i>2.1</i>	<i>2.0</i>
<i>EV/sales (x)</i>	<i>2.4</i>	<i>2.2</i>	<i>1.9</i>	<i>1.9</i>	<i>2.2</i>	<i>1.9</i>	<i>1.7</i>
<i>Dividend yield (%)</i>	<i>5.6%</i>	<i>4.6%</i>	<i>4.8%</i>	<i>3.6%</i>	<i>3.6%</i>	<i>3.6%</i>	<i>3.6%</i>

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Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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