

# PV Gas (GAS)

Expected to rebound strongly in FY22

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**Revenue and NPAT in 1Q22 increased by 51.9% YoY and 69.9% YoY, respectively**

In 1Q22, PV Gas (GAS) achieved impressive business results with NPAT of VND3,495 billion (+69.9% YoY) and revenue of VND26,689 billion (+51.9% YoY). GAS's production was flat YoY with a total dry gas output of 1.97 billion m<sup>3</sup> (+2.2% YoY) and LPG output of 545.3 thousand tons (+15.3% YoY).

**High world oil prices would contribute to the growth of GAS**

We forecast the average Brent crude oil price in 2022 to reach USD90/barrel (+27% YoY). The prices of crude oil derivatives (FO and LPG) may affect the selling price of GAS. Besides, we note that fuel oil (FO) and liquefied petroleum gas (LPG) prices have close correlations with Brent prices, with the five-year correlation between Brent and FO prices reaching 94.2%. Therefore, the increase in Brent crude prices will positively impact FO and LPG prices, leading to a higher average gas price for GAS.

**GAS will benefit from rising gas demand from power plants due to coal shortages for coal-fired power plants**

As coal shortages may continue in the coming period, we believe that Vietnam Electricity (EVN) will need to look to other stable power supplies to ensure the electricity demand during the hot season. In particular, gas power can offset coal-fired power thanks to domestic supplies. GAS, a gas supplier for gas-fired power plants, will benefit from this trend in the short term.

**We recommend BUY for GAS shares with a target price of VND140,400**

We recommend BUY for GAS shares based on valuation results, business outlook, and possible risks. The target price is VND140,400/share, 34.7% higher than the closing price on May 24, 2022.

**Buy** maintain

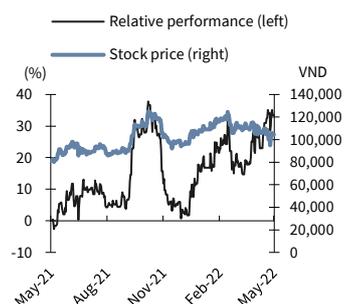
<b>Target price</b>	<b>VND140,400</b>
Upside/Downside	34.7%
Current price (May 24, 2022)	VND105,800
Consensus target price	VND138,800
Market cap (VNDbn)	202,501

<b>Trading data</b>	
Free float	4.2%
3M avg trading value (VNDbn)	96.77
Foreign ownership	46.1%
Major shareholder	PetroVietnam (95.8%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-6.9	-10.3	2.4	29.0
<b>Relative</b>	3.4	8.7	19.4	33.5

#### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	64,135	78,992	102,613	105,506
EBIT (VNDbn)	8,694	10,374	14,904	15,964
NPATMI (VNDbn)	7,855	8,673	12,203	12,984
EPS (VND)	4,028	4,356	6,376	6,784
EPS growth (%)	-34.4	8.1	46.0	6.0
P/E (x)	10.5	16.6	22.3	21.0
EV/EBITDA (x)	7.1	10.6	15.7	14.8
P/B (x)	1.7	2.7	4.4	3.7
ROE (%)	16.1	17.0	20.0	18.1
Dividend yield (%)	8.4	4.2	2.1	2.1



Source: Bloomberg, KB Securities Vietnam

## Business performance

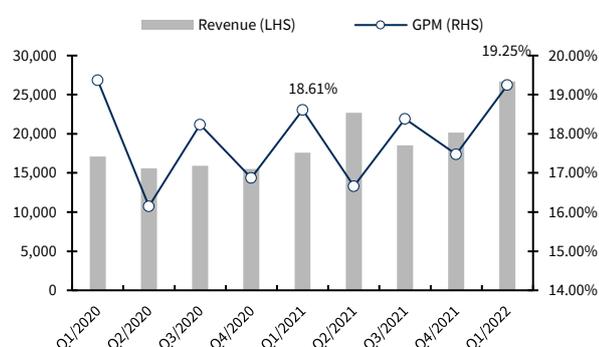
### Revenue and NPAT in 1Q22 increased by 51.9% YoY and 69.9% YoY, respectively

Over the last quarter, GAS posted NPAT of VND3,495 billion (+69.9% YoY) and revenue of VND26,689 billion (+51.9% YoY). GAS's production was flat YoY with a total dry gas output of 1.97 billion m<sup>3</sup> (+2.2% YoY) and LPG output of 545.3 thousand tons (+15.3% YoY). However, the company still achieved exceptional business results thanks to high Brent oil prices. The average oil price reached USD97.9/barrel in 1Q22, up 59.7% from USD61.3/barrel in 1Q21. Gross profit margin improved by 64 bps YoY thanks to a higher contribution from dry gas transportation and distribution with a higher gross margin than LPG, the traditional business of GAS.

### The BOD set a conservative business plan for 2022

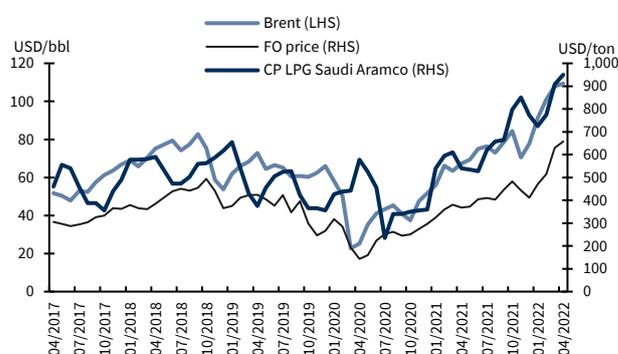
At the FY21 AGM, management set targets for NPAT of the parent company of VND7,038 billion (-18.8% YoY) on revenue of VND80,043 billion (+1% YoY), assuming the Brent oil price of USD60/barrel. GAS's business plan is relatively conservative in the context that oil prices remain high due to geopolitical tensions between Russia and Western countries. We note that GAS has exceeded the business plan over the past five years and will likely continue to surpass its targets this year on the output recovery and spiraling oil prices.

Fig 1. GAS – Revenue, gross profit margin (VNDbn, %YoY)



Source: PV Gas, KB Securities Vietnam

Fig 2. GAS – Brent, FO, LPG prices (USD/bbl, USD/ton)



Source: PV Gas, KB Securities Vietnam

Table 1. GAS – 1Q22 business results

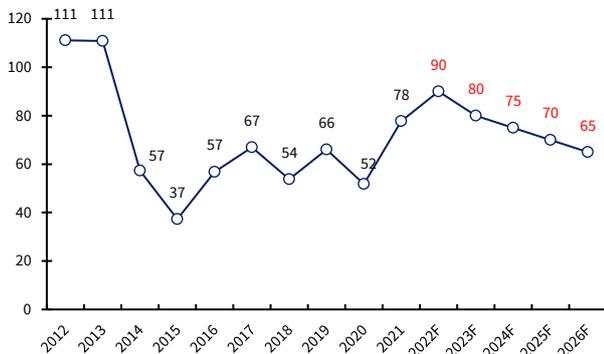
VND bn	1Q2021	1Q2022	%YoY	Notes
Oil price				Oil prices remained at new highs due to geopolitical tensions occurring in 1Q2022, leading to products that are closely correlated with oil prices also being affected.
Average Brent (USD/bbl)	61.3	97.9	59.7%	
Average FO (USD/ton)	355.0	533.1	50.2%	
CP LPG Saudi Aramco price (USD/ton)	581.7	802.5	38.0%	
Output				
Dry gas output (million m <sup>3</sup> )	1925.4	1966.8	2.2%	
Power plants	1415.1	1420.4	0.4%	Electricity supply to customers was flat YoY, but recovered 34% QoQ compared to 4Q2021 thanks to a higher proportion of gas-fired mobilization from EVN.
Fertilizer producers	280.2	292	4.2%	
IPs	230.1	254.4	10.6%	
LPG output (thousand tons)	473.1	545.3	15.3%	
<b>Revenue (VND bn)</b>	<b>17,571</b>	<b>26,689</b>	<b>51.9%</b>	Revenue increased strongly thanks to a strong increase in Brent oil price (the basis for calculating gas selling price) compared to the same period last year
<b>Gross profit</b>	<b>3,269</b>	<b>5,137</b>	<b>57.1%</b>	
<b>GPM (%)</b>	<b>18.61%</b>	<b>19.25%</b>		Thanks to the contribution of the segment with higher gross profit margin are gas trading and transportation
SG&A	(887)	(953)		
% SG&A / Revenue	-5.05%	-3.57%		
Profit from operating activities	2,382	4,184		
Financial income	263	262		
Financial expenses	(56)	(102)	82.4%	The increase in financial expenses mainly comes from increased interest expense due to GAS increasing debt to finance large projects such as Nam Con Son 2 pipeline, LNG Thi Vai.
Other net income	49	39		
<b>Profit before tax</b>	<b>2,638</b>	<b>4,382</b>	<b>66.1%</b>	
<b>Profit after tax</b>	<b>2,057</b>	<b>3,495</b>	<b>69.9%</b>	
NPM (%)	11.71%	13.10%		

Source: PV Gas, KB Securities Vietnam

### High world oil prices would contribute to the growth of GAS

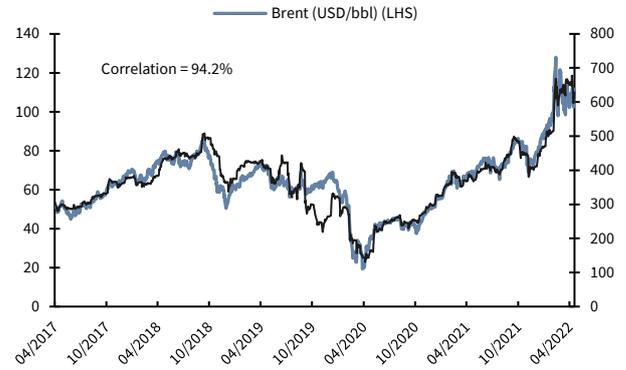
Brent crude oil prices have rebounded dramatically since 2021 from the bottom in 2020, surpassing USD100/barrel in September 2014 after Russia attacked Ukraine. Besides, global energy markets are also tightening upstream activities to cut costs during the COVID-19 pandemic. Furthermore, the OPEC+ group production hike fell short of expectations, increasing by only 50,000 out of 400,000 barrels per day under a deal in 2021. From our observations, geopolitical tensions between Russia and Western countries will less likely ease off in the coming period, further driving oil prices. As a result, we keep our forecast average Brent oil price in 2022 at USD90/barrel (+27% YoY). Besides, the prices of crude oil derivatives (FO and LPG) may affect the selling price of GAS. We also note that FO and LPG prices have close correlations with Brent prices, with the five-year correlation between FO and Brent prices reaching 94.2%. Therefore, Brent price rallies will positively impact FO and LPG prices, leading to higher gas prices for GAS.

Fig 3. Global – 2017A–2026E Brent crude oil prices (USD/bbl)



Source: Bloomberg, KB Securities Vietnam

Fig 4. Global – Correlation between Brent & FO prices



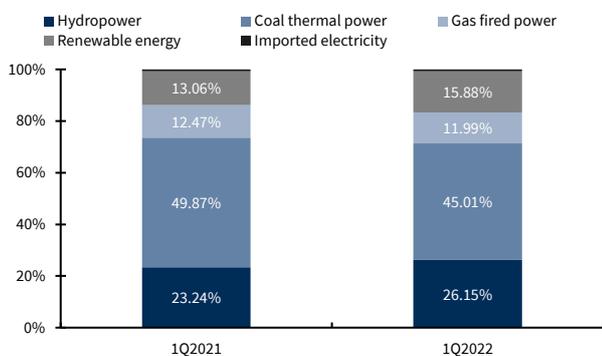
Source: Bloomberg, KB Securities Vietnam

**GAS will benefit from rising gas demand from power plants due to coal shortages for coal-fired power**

EVN's mobilization has witnessed a marked decline in coal-fired power from 49.9% in 1Q21 to 45% in 1Q22. EVN shared that the coal supply for EVN's coal-fired power plants is only 4.49 million tons out of 5.85 million tons required, or 76.8% of the plants' demand. It leads to reduced capacity of large coal-fired power plants in the North. We believe that these plants will face coal shortages in the foreseeable future since domestic suppliers will have difficulty finding alternative sources at lower costs to stabilize domestic coal prices under the negative impact of the war in Ukraine.

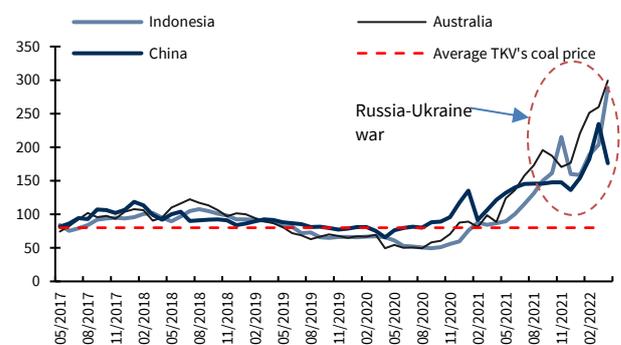
We also note that the peak of the dry season falls between May and August. It leads to a sudden increase in electricity demand and the need for stable operation of coal-fired power plants to make up for the lack of hydropower. As the coal shortage may continue in the coming period, we believe that EVN will need to look to other stable power supplies to ensure electricity demand during the hot season. Gas power can offset coal-fired power thanks to domestic supplies. GAS, a gas supplier for gas-fired power plants, will benefit from this trend in the short term.

Fig 5. EVN – Mobilization of different power sources



Source: Vietnam Electricity, KB Securities Vietnam

Fig 6. Global – Coal prices (USD/ton)



Source: Bloomberg, Vinacomin, KB Securities Vietnam

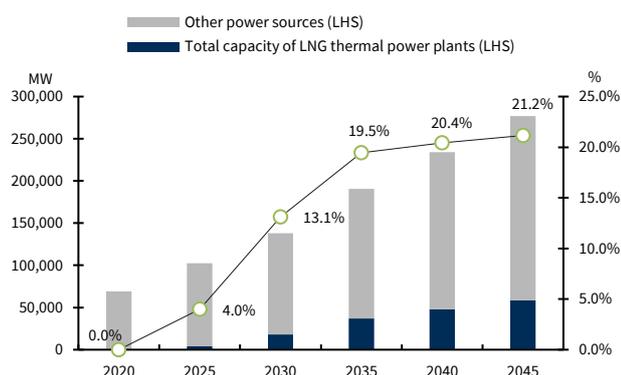
## LNG is the long-term growth driver

With the oil and gas supplies shrinking over the years amid rising electricity demand, the Government has implemented National Power Development Plan VIII to ensure electricity supplies for economic growth and develop LNG-fueled power plants in the time ahead. We believe GAS, the largest LNG importer, will benefit from the increase in LNG consumption, contributing to the growth of GAS in the medium and long term. GAS is currently the pioneer when owning nine out of 14 LNG terminals built and put into operation in the coming period.

We expect GAS's first LNG project, the Thi Vai LNG terminal, will be completed on schedule and put into operation in late 2022, with a capacity of 1 million tons/year in Phase 1 and 3 million tons/year in 2023.

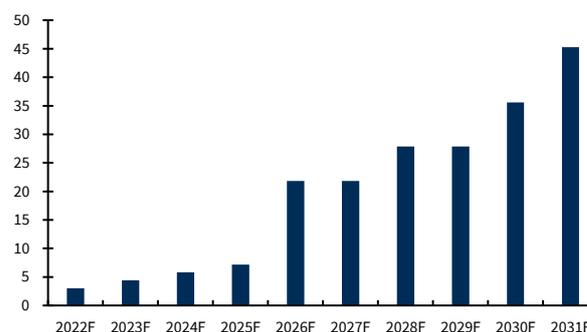
Besides, GAS also signed a joint venture agreement on establishing Son My LNG Terminal Co., Ltd with AES, with a capacity of 3.6 million tons/year in phase 1 and 10 million tons/year by 2030. The terminal will receive, process, and supply reprocessed LNG for Son My 1 and Son My 2 power plants, with the operation expected in late 2025.

Fig 7. EVN – Proportion of mobilized power sources (MW, %)



Source: National Power Development Plan VIII, KB Securities Vietnam

Fig 8. Vietnam – 2022F–2031F imported LNG (bcm)



Source: PV Gas, National Power Development Plan VIII, KB Securities Vietnam

Table 2. GAS – 2022E–2035E LNG terminals (MMTPA)

Projects	Expected time of operation	Capacity (MMTPA)	Investor
Thi Vai LNG Terminal	2022	1 (Phase 1)	PV GAS
	2023 (Phase 2)	2 (Phase 2)	
Hon Khoai LNG Terminal (Ca Mau)	2022 – 2025 (Phase 1)	1 (Phase 1)	
	After 2025 (Phase 2)	2 (Phase 2)	
Son My LNG Terminal (Binh Thuan)	2023 – 2025 (Phase 1)	3.6 (Phase 1)	PV GAS
	2027 – 2030 (Phase 2)	2.4 (Phase 2)	
	2031 – 2035 (Phase 3)	4 (Phase 3)	
Ha Tinh LNG Terminal	2031 – 2035	2 – 3	
Nam Du FSRU LNG Terminal (Kien Giang)	2028 – 2029	1 – 3	
Long Son LNG Terminal (Vung Tau)	2031 – 2035	3 – 6	
Hon Me FSRU LNG Terminal (Thanh Hoa)	2022 – 2025	1	
Lach Huyen LNG Terminal (Hai Phong)	2030 – 2035	3 – 4	ExxonMobil
Nam Van Phong LNG Terminal (Khanh Hoa)	2030 – 2035	2 – 3	Petrolimex
Hai Linh LNG Terminal (Vung Tau)	2022 – 2025	1.2	Hai Linh Co., Ltd

Source: PV Gas, National Power Development Plan VIII, KB Securities Vietnam

## Forecast & Valuation

### 2022F business results

We estimate GAS's NPAT to reach VND12,445 billion (+ 41% YoY) on revenue of VND102,613 billion (+ 30% YoY), assuming that:

- Brent oil price averages of USD90/barrel.
- Dry gas output reaches 10.117 million m<sup>3</sup> (+17.3% YoY).
- Gross profit margin should be 18.9%, given a higher contribution from dry gas transportation and distribution.
- Interest expense is VND640 billion (+59% YoY) since GAS would speed up borrowing to finance large projects in the coming time.

**Table 3. GAS – 2022E business results**

VND bn	2021A	2022E	%YoY	Notes
<b>Oil price</b>				
Average Brent (USD/bbl)	71	90	26.8%	
Average FO (USD/ton)	398.7	505.6	26.8%	
CP LPG Saudi Aramco price (USD/ton)	639.0	724.63	13.4%	
<b>Output</b>				
Dry gas output (million cbm)	7,153.0	8,629.1	20.6%	
Power plants	5,041.0	6,644.4	31.8%	Output for power plants recovered over the same period due to difficulties in coal supply for thermal power plants and 2021 is a low base due to hydropower is prioritized for mobilization.
Fertilizer producers	1,102.0	1,164.9	5.7%	
IPs	1,010.0	819.8	-18.8%	
LPG output (thousand tons)	2,003	2,003	0.0%	
<b>Revenue (VND bn)</b>				
	<b>78,992</b>	<b>102,613</b>	<b>29.9%</b>	Revenue increased strongly thanks to a strong increase in the price of Brent oil (the basis for calculating gas selling price) over the same period and a recovery in output from the low base of 2021.
<b>Gross profit</b>				
	<b>13,986</b>	<b>19,376</b>	<b>38.5%</b>	
<b>GPM (%)</b>				
	<b>17.71%</b>	<b>18.88%</b>		Thanks to the contribution of the segment with higher gross profit margin are gas trading and transportation
SG&A	(3,612)	(4,472)		
% SG&A / Revenue	-4.57%	-4.36%		
Profit from operating activities	10,374	14,904		
Financial income	1,187	1,271		
Financial expenses	(403)	(640)	58.8%	The increase in financial expenses mainly comes from increased interest expense due to GAS increasing debt to finance large projects such as Nam Con Son 2 pipeline, LNG Thi Vai.
Other net income	49	39		
Profit before tax	<b>11,205</b>	<b>15,556</b>	<b>38.8%</b>	
Profit after tax	<b>8,852</b>	<b>12,445</b>	<b>40.6%</b>	

Source: PV Gas, KB Securities Vietnam

**We recommend BUY for GAS shares with a target price of VND140,400/share**

Based on two valuation methods, Free Cash Flow to Firm (FCFF) and P/E, with a weight of 50–50, we recommend BUY for GAS shares with a target price of VND140,400 apiece, equivalent to a 39.1% upside compared to the closing price of VND105,800/share on May 24, 2022.

**Table 4. GAS – Target price according to DCF method**

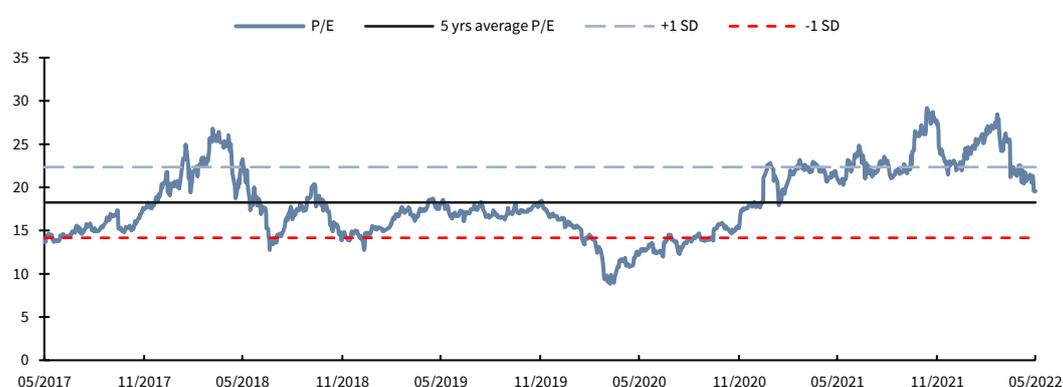
KE	13.0%	PV of Terminal Value	213,694
Risk-free rate	3.0%	PV of Free Cash Flows	33,380
Equity risk premium	10.0%	Total value of FCF and TV	<b>247,074</b>
Beta	1.00	Plus: Cash & ST investments	31,434
Cost of debt	5.5%	Less: Debt	-12,004
Corporate tax rate %	20.0%	Less: Minority Interest	-1,340
<b>WACC</b>	<b>9.6%</b>	Equity Value	<b>265,164</b>
Terminal growth rate	3.0%	Outstanding shares (mn shares)	1,914.0
		Value per share (VND)	<b>138,539</b>

Source: KB Securities Vietnam

### P/E valuation method

Based on the P/E valuation method, we give GAS a target price of VND142,185 per share, equivalent to the end-2022 target P/E of 22.3x +1SD of the 5-year average P/E of GAS. It is a reasonable P/E for GAS due to: (1) positive outlook of GAS in the short and long term driven by high world oil prices; and (2) long-term growth potential from LNG, the development orientation in the future as per National Power Development Plan VIII to ensure the supply and demand of electricity for economic growth.

**Fig 9. GAS – P/E (x)**



Source: Bloomberg, KB Securities Vietnam

**Table 5. GAS – Target price according to valuation methods (VND/share)**

Valuation method	Forecast price	Weight	Weighted forecast price
FCFF	138,539	50%	69,270
P/E (22.3x)	142,185	50%	71,093
<b>Target price (rounded)</b>			<b>140,400</b>
Current price (18/05/2022)			105,800
Upside			32.7%
Div. yield			2.0%
<b>TSR</b>			<b>34.7%</b>

Source: KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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