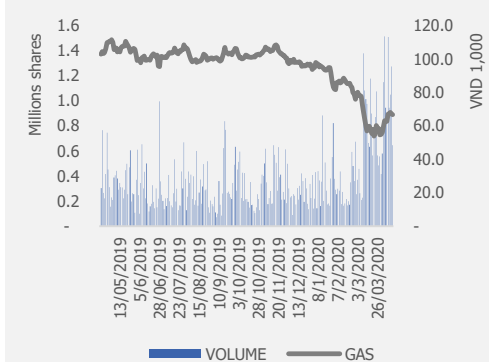


HOLD (downgrade)**PetroVietnam Gas JSC (HSX: GAS)**

Report date	Apr 15, 2020
Current price	VND 66,600
Target price	VND 67,400
Upside	+1%
Bloomberg	GAS VN
Market cap	VND 127,469bn
	USD 5,433mn
52 weeks movement	VND 53,900 –
	VND 111,400
Average daily value	VND 34bn
	USD 1.4mn
FOL	49%
Current FO	3.42%

Falling oil prices driving down FY20 earnings**Our takeaway**

- 1Q20 revenue and EAT preliminary results decreased by 6% yoy and 30% yoy respectively as expected, due to a reduction in selling volume of dry gas and MFO price.
- We expect EAT to decline by 21% yoy in the remaining nine months and FY20 EAT to fall by 23% yoy to VND 9,294bn. Both trading dry gas and LPG segment will record lower results.
- We maintain our target price at VND 67,400 (1% upside) and downgrade our recommendation from BUY to HOLD as stock price has risen by 18% since our last report.

What's new**Price movement**

1Q20 preliminary performance is in line with our forecast. The company reported 1Q20 revenue of VND 17,576bn (-6% yoy) and EAT of VND 2,140bn (-30% yoy). The results came from a 9% yoy drop in selling volume of dry gas and a 31% yoy fall in MFO price. Output from Nam Con Son basin decreased by 12% yoy as Block 11.2 (accounting for 11% of the basin volume) has stopped supplying gas for at least four months from Mar 8, 2020 to resolve its technical problem. The 1Q20 performance of trading LPG segment can be attributed to a 12% yoy rise in Saudi Aramco LPG price.

EAT forecast of VND 7,153bn in the rest of nine months of FY20 (-21% yoy). We anticipate a 42% yoy decrease in MFO and Saudi Aramco LPG future prices and a reduction in selling volume of dry gas (-3% yoy) and LPG (-4% yoy) in the last nine months. GAS will face revenue and profit headwind as the MFO and LPG prices have sharply fallen since Mar 2020 and the Block 11.2 issue will last into 2Q20. Besides, GAS has not consolidated PV Gas South JSC since Oct 2019 and recorded it as an associated company (GAS holds 35.26% shares), leading to slightly decline in total LPG volume.

We assume GAS will continue to record revenue and profit from take-or-pay volume sold to GENCO3 under new pricing mechanism with effect from Mar 20, 2019 (FY19 recording VND 1,186bn). However, GAS may be obligated to transfer this profit to the State budget in the future. For pipeline decommissioning and abandonment provisions, we estimate a 50% yoy lower provision of VND 391bn in FY20. Our forecasts do not take into account one-off expense including a retroactive amount of VND 219bn in COGS in 4Q19.

Stock performance	1M	3M	12M
GAS (%)	+17%	-30%	-36%
VN-Index (%)	+3%	-21%	-21%

Source: Bloomberg

Major Shareholders

PVN	95.8%
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Valuation

We maintain our target price at VND 67,400 (1% upside). GAS is currently trading at FY20F P/E of 14x and FY21F P/E of 12x, compared to peers of 14x. Our forecasts are based on an assumed average Brent oil price of USD 40/barrel. If the average Brent oil price decreases to USD 30/barrel, driving down the average prices of MFO and LPG by USD 50/ton, EAT will decline by 9% compared to our FY20 base case. Thus, our target price will adjust to VND 63,700.

Unit: VND billion	FY19	FY20F	FY21F	FY22F
Revenue	75,005	61,644	72,959	87,840
EBIT	15,266	11,728	14,556	16,955
Net profit after MI	11,902	9,108	11,274	13,102
Net profit (basic)	12,705	9,420	11,590	13,421
EPS (VND)	6,142	4,644	5,749	6,681
EPS growth rate (%)	5%	-24%	24%	16%
P/E (x)	11	14	12	10
EV/EBITDA (x)	8	10	8	7
DPS (VND)	4,300	4,000	4,000	4,000
Dividend yield (%)	6%	6%	6%	6%
P/B (x)	2.6	2.5	2.4	2.1
ROE (%)	25%	18%	21%	23%
Net debt/equity (%)	16%	17%	32%	40%

Source: MBS Research

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Financial Summary

Income statement (VND bn)					Ratios				
	FY19	FY20F	FY21F	FY22F		FY19	FY20F	FY21F	FY22F
Revenue	75,005	61,644	72,959	87,840	Valuation				
Cost of goods sold	58,087	48,441	56,565	68,475	EPS (VND)	6,142	4,644	5,749	6,681
Gross profit	16,918	13,203	16,393	19,365	BVPS (VND)	25,922	26,566	28,315	30,996
Financial income	1,665	1,650	1,650	1,650	P/E	11	14	12	10
Financial expenses	241	160	226	293	P/B	2.6	2.5	2.4	2.1
SG&A expenses	3,269	3,115	3,477	4,050	Profitability				
Profit before tax	15,068	11,617	14,380	16,711	Gross profit margin	23%	21%	22%	22%
Profit after tax	12,086	9,294	11,504	13,369	EBITDA margin	24%	23%	24%	23%
Profit after tax for parent company	11,902	9,108	11,274	13,102	Net profit margin	16%	15%	15%	15%
Non-controlling interest	184	186	230	267	ROE	25%	18%	21%	23%
					ROA	19%	14%	15%	15%
					Growth				
					Revenue growth	-1%	-18%	18%	20%
					EBT growth	4%	-23%	24%	16%
					Profit after tax	3%	-23%	24%	16%
					EPS	5%	-24%	24%	16%
					Total assets	-1%	6%	24%	21%
					Equity	6%	2%	7%	9%
					Liquidity				
					Current ratio	4.20	4.27	4.29	4.00
					Quick ratio	4.04	4.12	4.13	3.85
					Liabilities/Total assets	20%	23%	34%	40%
					Liabilities/Equity	0.25	0.30	0.51	0.66
					Interest coverage ratio	56	57	28	17
					Operating efficiency				
					Receivables turnover	7	7	7	7
					Days sales outstanding	50	50	50	50
					Inventory turnover	33	33	33	33
					Days sales of Inventory	11	11	11	11
					Payables turnover	6	6	6	6
					Days payables outstanding	60	61	62	62
Balance sheet (VND bn)					Cashflow Statement (VND bn)				
	FY19	FY20F	FY21F	FY22F		FY19	FY20F	FY21F	FY22F
Current assets	41,815	41,835	46,626	54,397	CFO	12,681	11,942	12,239	13,760
I. Cash & cash equivalents	4,476	6,789	9,889	15,311	CFI	(4,722)	(4,757)	(11,805)	(10,355)
II. Short-term investments	24,915	24,915	24,915	24,915	CFF	(10,188)	(4,872)	2,666	2,016
III. Current accounts receivable	10,358	8,444	9,994	12,033	Net cash flows during the period	(2,229)	2,313	3,100	5,422
IV. Inventories	1,575	1,468	1,714	2,075					
V. Other current assets	491	219	113	64					
Non-current assets	20,363	24,203	34,990	44,144					
I. Long-term receivables	128	128	128	128					
II. Fixed assets	15,850	13,487	18,125	15,396					
1. Tangible fixed assets	15,438	13,093	17,749	15,038					
2. Intangible fixed assets	412	394	376	358					
III. Investment properties	23	22	21	20					
IV. Long-term assets in progress	3,021	9,307	15,458	27,342					
V. Long-term investments	405	405	405	405					
VI. Other long-term assets	936	853	853	853					
Total assets	62,178	66,038	81,615	98,541					
Liabilities	12,565	15,189	27,420	39,214					
I. Current liabilities	9,965	9,794	10,867	13,583					
1. Short-term payables	8,624	8,074	9,587	12,285					
2. Short-term loans	1,341	1,720	1,280	1,298					
II. Non-current liabilities	2,600	5,396	16,553	25,631					
1. Long-term payables	1,144	1,535	1,930	1,354					
2. Long-term loans	1,456	3,861	14,623	24,277					
Equity	49,613	50,848	54,196	59,327					
1. Charter capital	19,140	19,140	19,140	19,140					
2. Surplus	211	211	211	211					
3. Retained earnings	29,154	30,389	33,737	38,868					
5. Minorities interests	1,108	1,108	1,108	1,108					
Total liabilities & equity	62,178	66,038	81,615	98,541					

Source: MBS Research

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Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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