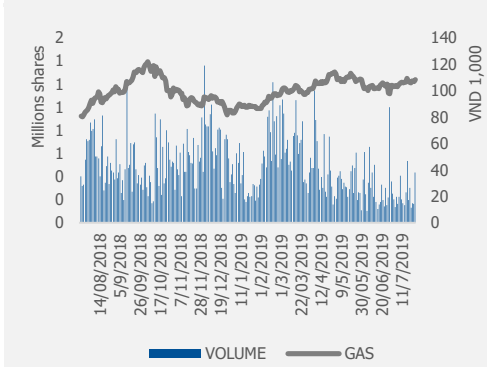


**HOLD** (maintain)**PetroVietnam Gas JSC (HSX: GAS)**

Report date	July 25, 2019
Current price	VND 106,800
Target price	VND 102,600
Upside	-4%
Bloomberg	GAS VN
Market cap	VND 204,415bn USD 8,622mn
52 weeks movement	VND 79,900 – VND 121,600
Average daily value	VND 49bn USD 2.1mn
FOL	49%
Current FO	3.71%

**Flat earnings for FY19 and FY20****Our takeaway**

- We revise down our 12-month target price by 9% to VND 102,600 (-4% upside) and maintain our HOLD recommendation for GAS. Any upside potential of our target price will come from new pricing mechanism for take-or-pay volume, translating to a 14% increase to our FY19 net profit forecast. On the other hand, territorial disputes in the South China Sea imply a downside risk.
- Long-term provisions for pipeline decommissioning and abandonment plans lower earnings forecast in FY19 and FY20 by 6% and 7% respectively. We anticipate annual provision of VND 560bn on average in the period of 2020-2022.

**Price movement**

Stock performance	1M	3M	12M
GAS (%)	+4%	-4%	+34%
VN-Index (%)	+4%	+2%	+7%

Source: Bloomberg

**Major Shareholders**

PVN	95.8%
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**What's new**

**1H19 earnings update.** In 1H19, GAS recorded a net profit of VND 6,037bn (+6% yoy) thanks to higher gross profit margin of core business (from 23% to 24%) and higher financial profit of VND 548bn (+112% yoy). Nevertheless, VND 390bn of pipeline decommissioning and abandonment provisions narrowed 1H19 net profit growth rate. The results are equivalent to 53% our full year net profit forecast and 81% of the company's FY19 target.

**We lower our FY19 and FY20 earnings forecast by 6% and 7% respectively due to long-term provisions for pipeline decommissioning and abandonment plans.** According to GAS, there are two plans of pipeline decommissioning and abandonment, Cuu Long basin in FY22 and PM3 – Ca Mau basin in FY27, with total expenses of USD 98.83mn. Thus, we anticipate annual provision of VND 560bn on average, in the period of 2020-2022 and VND 74bn, on average, in the period of 2023-2027.

**FY19 net profit forecast of VND 11,461bn (equivalent to that of FY18 and 1.5x higher than plan).** Due to a drop in MFO prices and Saudi Aramco LPG contract prices, we expect GAS will record 16% yoy lower core-business earnings in 2H19. However, given no one-off expense (loss of VND 840bn in 2H18), net profit will only decrease slightly by 6% yoy to reach VND 5,424bn in 2H19.

**FY20 net profit is expected to reduce by 5% yoy to VND 10,923bn.** This is due to an 8% yoy decline in MFO prices and a 36% higher pipeline decommissioning and abandonment provisions of VND 546bn.

**Valuation**

We revise down our 12-month target price by 9% to VND 102,600 (-4% upside) on lower earnings forecast and maintain our HOLD recommendation for GAS. Our target price is based on EV/EBITDA and P/E multiple at 12x and 18x respectively. The stock price has moved sideways since our latest report dated April 2019. GAS is currently trading at FY19F P/E of 18x and FY20F P/E of 19x, about 5% higher than that of peers.

Upside potential of our target price comes from new pricing mechanism for take-or-pay volume since March 20, 2019 with additional expected net profit of VND 1,600bn per year (+14% to our FY19 forecast). However, there is still no official announcement on ability to transfer this profit to the Government. On the other hand, territorial disputes in the South China Sea imply a downside risk, given the fact that Chinese and Vietnamese ships have been engaged in a standoff in a resource-rich part since early July 2019.

Unit: VND billion	FY18	FY19F	FY20F	FY21F
<b>Revenue</b>	<b>75,611</b>	<b>74,100</b>	<b>72,401</b>	<b>78,072</b>
EBIT	14,979	14,709	13,937	15,504
<b>Net profit</b>	<b>11,454</b>	<b>11,461</b>	<b>10,923</b>	<b>12,148</b>
Net profit (basic)	12,130	11,786	11,365	12,599
EPS (VND)	5,911	5,808	5,536	6,157
EPS growth rate (%)	20%	-2%	-5%	11%
<b>P/E (x)</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>17</b>
EV/EBITDA (x)	13	12	13	12
DPS (VND)	4,000	5,300	4,000	4,000
Dividend yield (%)	4%	5%	4%	4%
P/B (x)	4.4	4.3	4.0	3.7
ROE (%)	25%	24%	22%	23%
Net debt/equity (%)	40%	14%	22%	27%

Source: MBS Research

**Nguyen Hoang Bich Ngoc**

(+84) 77 470 1272

ngoc.nguyenhoangbich@mbs.com.vn



**CONTACT: Equity Research****MBS Equity Research**

**Nguyễn Thị Huyền Dương** – ([Duong.NguyenThiHuyen@mbs.com.vn](mailto:Duong.NguyenThiHuyen@mbs.com.vn) – Tel: 0982268088) – Southern Area Team Leader

**Banking**

**Nguyễn Thị Quế Anh**

([Anh.NguyenThiQue@mbs.com.vn](mailto:Anh.NguyenThiQue@mbs.com.vn) – Tel: 0908762227)

**Construction Materials**

**Nguyễn Bảo Trung**

([Trung.NguyenBao@mbs.com.vn](mailto:Trung.NguyenBao@mbs.com.vn) – Tel: 0988739505)

**Aviation**

**Nguyễn Nam Khoa**

([Khoa.NguyenNam@mbs.com.vn](mailto:Khoa.NguyenNam@mbs.com.vn) – Tel: 0912323051)

**Pharmacy, Natural Rubber**

**Nguyễn Đăng Thiện**

([Thien.NguyenDang@mbs.com.vn](mailto:Thien.NguyenDang@mbs.com.vn) – Tel: 0909917939)

**Fisheries**

**Nguyễn Thanh Danh**

([Danh.NguyenThanh@mbs.com.vn](mailto:Danh.NguyenThanh@mbs.com.vn) – Tel: 0354358427)

**Consumer Goods**

**Nguyễn Thị Huyền Dương**

([Duong.NguyenThiHuyen@mbs.com.vn](mailto:Duong.NguyenThiHuyen@mbs.com.vn) – Tel: 0982268088)

**Securities**

**Phạm Việt Duy**

([Duy.PhamViet@mbs.com.vn](mailto:Duy.PhamViet@mbs.com.vn) – Tel: 0986696617)

**Oil, Gas & Power**

**Nguyễn Hoàng Bích Ngọc**

([Ngoc.NguyenHoangBich@mbs.com.vn](mailto:Ngoc.NguyenHoangBich@mbs.com.vn) – Tel: 0774701272)

**Logistics**

**Lê Khánh Tùng**

([Tung.LeKhanh@mbs.com.vn](mailto:Tung.LeKhanh@mbs.com.vn) – Tel: 0335699989)

**Real estate, Construction**

**Nguyễn Tiến Dương**

([Duong.NguyenTien@mbs.com.vn](mailto:Duong.NguyenTien@mbs.com.vn) – Tel: 0911225869)

**STOCK RATING:** The recommendation is based on the difference between the 12-month target price and the current price:

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

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**MBS HEAD OFFICE**

MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi

Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600

Website: [www.mbs.com.vn](http://www.mbs.com.vn)

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