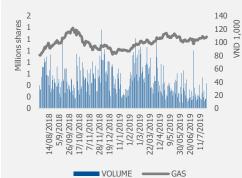


HOLD (maintain)

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%

Price movement



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

Major Shareholders

PVN

PetroVietnam Gas JSC (HSX: GAS)

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.

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

95.8%

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
	Revenue	75,611	74,100	72,401	78,072
	EBIT	14,979	14,709	13,937	15,504
	Net profit	11,454	11,461	10,923	12,148
	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%
	P/E (x)	18	18	19	17
	EV/EBITDA (x)	13	12	13	12
	DPS (VND)	4,000	5,300	4,000	4,000
22	Dividend yield (%)	4%	5%	4%	4%
	P/B (x)	4.4	4.3	4.0	3.7
ng Bich Ngoc	ROE (%)	25%	24%	22%	23%
470 1272	Net debt/equity (%)	40%	14%	22%	27%
enhoangbich@mbs.com.vn	Source: MBS Research				



Financial Summary

Income statement (VND bn)	FY18	FY19F	FY20F	FY21F	Ratios
Revenue	75,611	74,100	72,401	78,072	Valuation
Cost of goods sold	58,120	56,976	56,048	59,878	EPS (VND)
Gross profit	17,491	17,124	16,352	18,194	BVPS (VND)
Financial income	1,477	1,459	1,450	1,450	P/E
Financial expenses	617	326	271	296	P/B
SG&A expenses	3,767	3,788	3,778	4,051	Profitability
Profit before tax	14,539	14,476	13,760	15,304	Gross profit margin
Profit after tax	11,708	11,695	11,146	12,396	EBITDA margin
Profit after tax for parent company	11,454	11,461	10,923	12,148	Net profit margin
Non-controlling interest	254	234	223	248	ROE
					ROA
Balance sheet (VND bn)	FY18	FY19F	FY20F	FY21F	Growth
Current assets	40,932	47,609	49,183	54,063	Revenue growth
I. Cash & cash equivalents	6,705	13,554	15,199	18,737	EBT growth
II. Short-term investments	21,602	21,602	21,602	21,602	Profit after tax
III. Current accounts receivable	10,213	10,437	10,197	10,996	EPS
IV. Inventories	1,948	1,759	1,730	1,848	Total assets
V. Other current assets	462	257	455	880	Equity
Non-current assets	21,682	20,640	27,918	34,324	Liquidity
I. Long-term receivables	217	217	217	217	Current ratio
II. Fixed assets	18,609	15,718	12,837	13,587	Quick ratio
1. Tangible fixed assets	18,149	15,295	12,432	13,200	Liabilities/Total assets
2. Intangible fixed assets	440	423	405	387	Liabilities/Equity
III. Investment properties	24	24	22	20	Interest coverage ratio
IV. Long-term assets in progress	1,235	3,258	13,419	19,077	Operating efficiency
V. Long-term investments	63	64	64	64	Receivables turnover
VI. Other long-term assets	1,534	1,359	1,359	1,359	Days sales outstanding
Total assets	62,614	68,249	77,101	88,387	Inventory turnover
Liabilities	25,388	20,408	26,320	33,478	Days sales of Inventory
I. Current liabilities	21,487	15,864	14,742	15,380	Payables turnover
1. Short-term payables	19,997	13,948	13,393	13,975	Days payables outstanding
2. Short-term loans	1,490	1,916	1,349	1,405	
II. Non-current liabilities	3,901	4,544	11,578	18,098	Cashflow Statement (VND bn)
1. Long-term payables	505	907	1,453	2,010	CFO
2. Long-term loans	3,396	3,637	10,125	16,087	CFI
Equity	37,226	47,841	50,781	54,909	CFF
1. Charter capital	, 19,140	, 19,140	, 19,140	19,140	Net cash flows during the period
2. Surplus	211	211	211	211	
3. Retained earnings	16,081	26,696	29,636	33,764	
4. Foreign exchange differences	0	0	0	0	
5. Minorities interests	1,794	1,794	1,794	1,794	
Total liabilities & equity	62,614	68,249	77,101	88,387	

FY18 FY19F FY20F FY21F 5,911 5,808 5,536 6,157 24,486 24,995 26,531 28,688 18 18 19 17 4.4 4.3 4.0 3.7 23% 23% 23% 23% 24% 24% 24% 25% 15% 15% 15% 16% 25% 24% 22% 23% 18.4% 17.5% 15.0% 14.7% 17% -2% -2% 8% 15% 0% -5% 11% 18% 0% -5% 11% 20% -2% -5% 11% 15% 13% 1% 9% -14% 29% 8% 6% 1.90 3.00 3.34 3.52 2.89 3.39 1.81 3.22 41% 30% 34% 38% 0.54 0.43 0.52 0.61 34 55 33 22 8 7 7 7 47 51 51 51 32 32 32 32 11 11 11 11 4 4 4 4 85 92 89 87

Cashflow Statement (VND bn)	FY18	FY19F	FY20F	FY21F
CFO	12,421	17,085	12,278	13,322
CFI	(7,315)	(760)	(8,898)	(8,147)
CFF	(11,905)	(9,477)	(1,736)	(1,637)
Net cash flows during the period	(6,799)	6,848	1,645	3,538

Source: MBS Research

CONTACT: Equity Research



MBS Equity Research				
Nguyễn Thị Huyền Dương – (<u>Duong.NguyenThiHuyen@mbs.com.vn</u> – Tel: 098	2268088) – Southern Area Team Leader			
Banking	Consumer Goods			
Nguyễn Thị Quế Anh	Nguyễn Thị Huyền Dương			
(<u>Anh.NguyenThiQue@mbs.com.vn</u> – Tel: 0908762227)	(<u>Duong.NguyenThiHuyen@mbs.com.vn</u> – Tel: 0982268088)			
Construction Materials	<u>Securities</u>			
Nguyễn Bảo Trung	Phạm Việt Duy			
<u>(Trung.NguyenBao@mbs.com.vn</u> – Tel: 0988739505)	(<u>Duy.PhamViet@mbs.com.vn</u> – Tel: 0986696617)			
Aviation	<u>Oil, Gas & Power</u>			
Nguyễn Nam Khoa	Nguyễn Hoàng Bích Ngọc			
<u>(Khoa.NguyenNam@mbs.com.vn</u> – Tel: 0912323051)	<u>(Ngoc.NguyenHoangBich@mbs.com.vn</u> – Tel: 0774701272)			
Pharmacy, Natural Rubber	Logistics			
Nguyễn Đăng Thiện	Lê Khánh Tùng			
<u>(Thien.NguyenDang@mbs.com.vn</u> – Tel: 0909917939)	<u>(Tung.LeKhanh@mbs.com.vn</u> – Tel: 0335699989)			
<u>Fisheries</u>	Real estate, Construction			
Nguyễn Thanh Danh	Nguyễn Tiến Dương			
<u>(Danh.NguyenThanh@mbs.com.vn</u> – Tel: 0354358427)	<u>(Duong.NguyenTien@mbs.com.vn</u> – 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 p	price			

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

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MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600 Website: <u>www.mbs.com.vn</u>

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