

PetroVietnam Gas (GAS VN)

4Q22E still positive

Maintain BUY

Despite weaker oil prices in 4Q22, we expect GAS to post 12% YoY earnings growth for the quarter, driven by higher volumes as gas-fired electricity consumption recovered from last year's low base. Its LNG terminals and Block B pipeline will secure supply growth in the long term. Maintain BUY with an unchanged TP of VND133,000.

Softer 4Q22E growth (+12% YoY)

The average 4Q fuel oil price, which is a benchmark to formulate selling price for half of GAS's dry gas volume, has dropped 40% from its 2Q peak, and is down 15% YoY. However, we expect a 20% increase in dry gas consumption from power plants thanks to strong recovery in gas-fired electricity demand in 4Q. As volume consumed by these power plants account for 75% of total volume, we expect 4Q dry gas volume to increase by 15% YoY. All in all, we expect 4Q PATMI growth to slow to 12% YoY compared to 9M's 72% growth. FY22E PATMI should reach VND13,741b (+58% YoY) even though dry gas volume may fall short of guidance by 12%, per our estimates.

51% ownership of Block B pipeline project

GAS will be the co-owner (51% ownership) of Block B pipeline to transfer dry gas from Block B to onshore power plants in the south of Vietnam. The project valued at USD1.3b with designed capacity of 6.4bcu.m pa, should raise Vietnam's total dry gas supply capacity by 60% when completed. Front-end engineering design has been completed and is ready for EPC (engineering-procurement-construction) bidding, which will be followed by 36 months of construction prior to first gas. As it needs to synchronize with other Block B project components, we only expect first gas delivery by this pipeline in 2026.

First LNG terminal ready, not yet commercialised

With 97% of the construction phase completed by Oct'22, we expect the 1MTPA Thi Vai LNG terminal should be ready for commissioning by now. However, as global LNG prices remain elevated and there is a lack of proper mechanism for high-cost power generating, we believe there is little chance of LNG demand in Vietnam in the short term. In our view, LNG terminals will be for long-term energy security.

FYE Dec (VND b)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	64,135	78,992	98,738	89,753	94,648
EBITDA	11,248	13,447	19,983	19,632	21,114
Core net profit	7,855	8,673	13,741	13,177	14,393
Core EPS (VND)	4,105	4,531	7,180	6,885	7,520
Core EPS growth (%)	(34.0)	10.4	58.4	(4.1)	9.2
Net DPS (VND)	3,000	2,500	5,200	5,000	5,500
Core P/E (x)	21.1	21.2	14.7	15.3	14.0
P/BV (x)	3.4	3.6	3.7	3.4	3.2
Net dividend yield (%)	3.5	2.6	4.9	4.8	5.2
ROAE (%)	16.2	17.4	25.9	23.2	23.8
ROAA (%)	12.5	12.2	17.5	16.6	17.6
EV/EBITDA (x)	12.7	12.1	9.0	8.9	8.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	13,906	13,764	14,906
MKE vs. Consensus (%)	-	-	(1.2)	(4.3)	(3.4)

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BUY

Share Price	VND 105,200
12m Price Target	VND 133,000 (+29%)
Previous Price Target	VND 133,000

Company Description

Monopoly in natural gas distribution. Major owner of pipeline systems and gas processing facilities. Largest LPG provider with 70% market share.

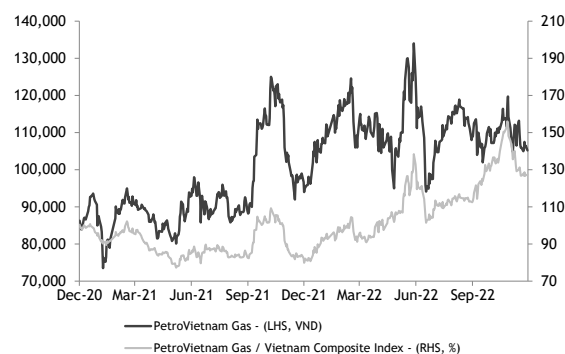
Statistics

52w high/low (VND)	134,000/94,000
3m avg turnover (USDm)	1.7
Free float (%)	4.2
Issued shares (m)	1,913
Market capitalisation	VND201.3T USD8.5B

Major shareholders:

PETRO VIETNAM	95.8%
KOREA INVESTMENT MGM	0.8%
NORGES BANK	0.3%

Price Performance



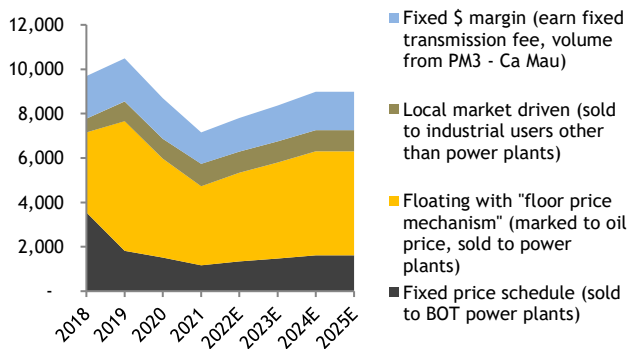
	-1M	-3M	-12M
Absolute (%)	(8)	(3)	6
Relative to index (%)	(14)	13	51

Source: FactSet

Value Proposition

- GAS has a monopoly in dry gas distribution and is the largest LPG provider in Vietnam with 70% market share.
- Gas-fired power plants are scheduled to increase the nation's output to meet surging electricity demand. This is a key driver for long-term gas demand.
- Government is incentivised to support GAS due to its large income contribution. In return, its corporate strategies and operations are dependent on government mandates.
- Dry gas business comprises pure transmission and trading revenues. Unclear mix between the two in the future adds some uncertainty.

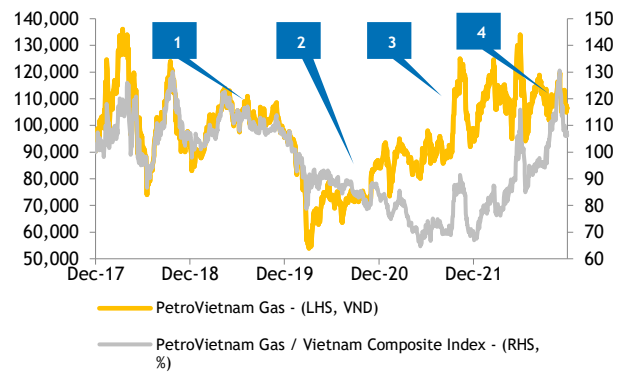
Dry gas volume breakdown by selling price mechanism



Source: Maybank IBG Research

Price Drivers

Historical share price trend



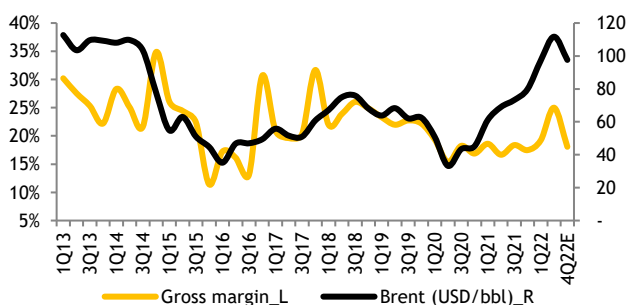
Source: Company, Maybank IBG Research

- New pricing mechanism: floating price applied for committed volume sold to GENCO3.
- IMO 2020 took effect in Jan 2020.
- Earnings improved thanks to oil price recovery.
- Construction phase for Thi Vai LNG terminal almost completed

Financial Metrics

- Volume growth is supported by new LNG terminals amid delays in upstream gas field investment.
- Gross margin captures the spread between input prices (mostly fixed) and output prices, which can change dramatically depending on the output pricing mechanism for dry gas.
- Heavy capex is required for the long-term gas infrastructure master plan. IRR of such projects should be monitored closely as they often reflect the priority of energy security rather than financial returns.
- Dividend payout ratio of 95% on average during the past three years. Despite that, GAS has still kept abundant cash for years in low interest rate bank deposits.

Gross margin vs. Brent



Source: Company; Maybank IBG Research

Swing Factors

Upside

- New LNG terminal to be completed in 2022.
- Demand from power plants will recover in 2022 as Vietnam's economy rebounds, supported by better vaccination progress.
- Increasing contribution from newly operating gas fields.

Downside

- Higher participation of renewables is a threat to dry gas recovery
- Slow progress of the government's adoption of a new pricing mechanism, i.e. replacing HSFO as a benchmark for dry gas selling price.



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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- GAS is the extended arm of the NOC PetroVietnam to specialize in developing the country’s gas supply infrastructure. As a result, its ‘G’ metric is well established in some aspects: (i) reporting standards; and (ii) strict monitoring and management of capex/ investment projects. That said, highly-concentrated state ownership (95.8%) means the company will ultimately focus on the Government’s energy security targets; other metrics are given relatively lower priority.
- In the top 50 listed companies as ranked by Forbes Vietnam for 9 consecutive years.
- Among key areas for improvement, we believe the company needs more disclosures of natural capitals data for ‘E’ indicators, such as carbon emissions and related targets, and more improvement in its investor relations practices.
- Overall, we are comfortable with GAS’s ESG performance. The company is amongst the top players in its sector nationwide, and we expect to see progressive improvements in its broad ESG framework going forward.

Material E issues

- It supplies natural gas to produce 20% of Vietnam’s electricity output, hence reducing the need to use coal-fired power plants. It also supplies CNG, a clean fuel for 100 buses operating in HCMC.
- Natural gas is the key material. In 2020, it reported using 8.948 billion cubic meters of natural gas, 97.12% of which was transformed into dry gas sold to end users. It burned 46.5m cubic meters natural gas as fuel and used 1804.8 tonnes of DO. It consumed 82 mKwh of electricity.
- It consumed 356m cubic meters of water; no water is currently recycled or reused.
- Environment protection is its priority. It has a unit specialized on safety-health-environment which operates to tackle environmental issues. No penalty relating to environment was recorded.
- GAS has a provision for future wells cleaning cost of VND1,700b at year-end 2020, equivalent to 2.7% of total assets.

Material S issues

- It has a workforce of 1,350, 77% of which has college degree and above. Due to the nature of its technical-oriented operations, the majority (80%) of employees are male.
- Training budget in 2020 was VND25b, equivalent to 0.3% of net profit.
- As a corporate with concentrated state-ownership (95.8% owned by PetroVietnam - the NOC), it has a protective policy for employees in terms of job security. It reported no staff retrenchment.
- In 2020, it spent VND120b, equivalent to 1.5% of net profit, for social security activities.

Key G metrics and issues

- In 2021 GAS was ranked in the top 50 best listed companies by Forbes Vietnam for 9 consecutive years.
- The board is composed of 6 directors - 2 independent non-executive directors (INEDs), 3 non-independent non-executive directors (NINED) and 1 NIED (CEO).
- GAS has a very experienced board with average working experience in O&G industry of 25 years.
- The board is predominantly male with only 1 female representation.
- GAS’s auditors are from the Big Four accounting firms. It was audited by Deloitte for more than 10 years and changed auditor to PricewaterhouseCoopers from 2020.
- Related-party transactions (RTPs), mainly on purchasing and selling of products & services, accounted for 23% and 33% of revenue (2020), respectively. No questionable RTPs have been recorded.
- Concentrated state-ownership; 95.8% is owned by Vietnam national oil company PetroVietnam.
- State divestment plan (from 95.8% to target ownership of 75%) was postponed as Vietnam needs to maintain controlling interest over GAS, a crucial player to implement the nation’s strategic plan for gas - electricity industry.
- GAS has an important position in developing gas-based power infrastructure in Vietnam, which creates incentives for the Government to adopt protective policies for the company, including: (i) marked-to-market selling price adopted in 2015 and (ii) floor-price mechanism adopted in 2016.
- The board’s remuneration package and bonus & welfare reserves for FY20 were approved at 0.2% and 3.5% of net profit, respectively. From 2020, it released an investor bulletin on a quarterly basis to increase transparency.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 42)						
	Particulars	Unit	2019	2020	2021	TPIA IJ (2021)
E	Scope 1 GHG emissions	k tCO ₂ e	76.1	92.8	66.4	706
	Scope 2 GHG emissions	k tCO ₂ e	17.7	19.1	18.2	0.3
	Total	k tCO₂e	93.8	111.9	84.7	706.8
	Scope 3 GHG emissions	k tCO ₂ e	N/A	N/A	N/A	706.8
	Total	k tCO₂e	N/A	N/A	N/A	N/A
	GHG intensity (Scope 1 and 2) by revenue	kg CO ₂ e/VNDm	1.25	1.74	1.07	0.06
	Energy consumption	MWh	76	82	78.27	11.43
	Energy consumption intensity by revenue	Kwh/VNDm	1.01	1.28	0.99	0.04
	Water usage	k cbm	325	356	316	N/A
S	% of women in workforce	%	N/A	20.00%	20.00%	15.20%
	% of women in management roles	%	11.76%	16.67%	18.75%	21.30%
	Lost time injury frequency (LTIF) rate	number	N/A	N/A	N/A	N/A
G	MD/CEO salary as % of reported net profit	%	N/A	N/A	N/A	0.90%
	Board salary as % of reported net profit	%	N/A	N/A	N/A	1.90%
	Independent directors on the Board	%	33%	33%	33%	57%
	Female directors on the Board	%	17%	17%	14%	29%

Qualitative Parameters (Score: 50)

Qualitative Parameters (Score: 100)

- a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?
Yes. It has established (i) 'Safety - Health - Environment' report, and (ii) 'human resource development policy' attached in annual report. There is not a standalone ESG committee yet.
- b) Is the senior management salary linked to fulfilling ESG targets?
No, as there is not yet a clear ESG target for management. However, management do put effort on improving ESG metrics.
- c) Does the company invest in ESG?
Yes. It (i) invests in switching from diesel burning to associated gas burning to reduce carbon emission and (ii) commits to fund social security campaigns of VND319b in 2021
- d) Does it track its ESG progress?
Yes. It clearly reports key ESG metrics including amount of energy/water/chemicals usage.
- e) Does the company follow TCFD framework for ESG reporting
No
- f) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?
No

Target (Score: 100)

Particulars	Target	Achieved
Develop gas-based power infrastructure to help the country reach neutral carbon target	2050	N/A
Switching from diesel burning to associated gas burning	2020/2050	N/A
No violation of environment regulations	100%	100%
Impact		
NA		
Overall Score: 60		
As per our ESG matrix, PetroVietnam GAS (GAS VN) has an overall score of 60.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	42	21
Qualitative	25%	50	13
Target	25%	60	15
Total			49

As per our ESG assessment, GAS has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. GAS overall ESG score is 49, which makes its ESG rating at average in our view (average ESG rating = 50).

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	18.3	20.7	14.7	15.3	14.0
Core P/E (x)	21.1	21.2	14.7	15.3	14.0
P/BV (x)	3.4	3.6	3.7	3.4	3.2
P/NTA (x)	3.5	3.6	3.7	3.5	3.3
Net dividend yield (%)	3.5	2.6	4.9	4.8	5.2
FCF yield (%)	2.0	1.8	5.8	6.8	5.2
EV/EBITDA (x)	12.7	12.1	9.0	8.9	8.2
EV/EBIT (x)	16.4	15.7	10.6	10.6	9.8
INCOME STATEMENT (VND b)					
Revenue	64,135.0	78,992.2	98,737.9	89,752.7	94,648.4
EBITDA	11,247.9	13,447.3	19,982.7	19,631.8	21,114.2
Depreciation	(2,554.1)	(3,073.3)	(3,131.1)	(3,214.3)	(3,319.9)
Amortisation	0.0	0.0	(17.0)	(17.5)	(18.1)
EBIT	8,693.8	10,374.0	16,834.6	16,400.0	17,776.1
Net interest income / (exp)	1,225.8	636.7	639.4	732.7	914.8
Associates & JV	(11.4)	15.1	18.8	17.1	18.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	69.8	179.2	130.0	(250.0)	(250.0)
Pretax profit	9,978.1	11,205.0	17,622.8	16,899.7	18,458.9
Income tax	(2,006.3)	(2,353.2)	(3,598.2)	(3,450.6)	(3,768.9)
Minorities	(116.8)	(178.8)	(283.4)	(271.7)	(296.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7,855.0	8,673.0	13,741.2	13,177.4	14,393.2
Core net profit	7,855.0	8,673.0	13,741.2	13,177.4	14,393.2
BALANCE SHEET (VND b)					
Cash & Short Term Investments	26,850.5	30,100.2	31,180.6	34,796.5	34,447.5
Accounts receivable	10,239.2	16,920.2	16,785.9	17,264.9	17,941.6
Inventory	1,662.6	3,241.2	2,129.9	1,900.9	1,989.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	19,335.1	17,688.0	15,311.8	14,343.7	12,584.5
Intangible assets	438.5	410.2	401.8	410.0	409.7
Investment in Associates & JVs	369.2	390.2	409.0	426.1	444.1
Other assets	4,313.4	10,018.1	11,923.8	11,230.5	15,706.7
Total assets	63,208.4	78,768.1	78,142.8	80,372.6	83,523.2
ST interest bearing debt	1,017.5	484.7	484.7	484.7	484.7
Accounts payable	2,676.6	6,630.9	2,588.7	2,310.4	2,417.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,963.9	7,510.1	6,510.1	5,510.1	4,510.1
Other liabilities	8,051.0	11,950.0	11,936.0	11,908.0	11,931.0
Total Liabilities	13,708.7	26,575.3	21,519.4	20,213.1	19,343.1
Shareholders Equity	48,435.6	51,094.3	54,882.9	58,490.6	62,357.1
Minority Interest	1,064.1	1,098.5	1,740.4	1,669.0	1,823.0
Total shareholder equity	49,499.7	52,192.7	56,623.3	60,159.6	64,180.0
Total liabilities and equity	63,208.4	78,768.1	78,142.8	80,372.6	83,523.2
CASH FLOW (VND b)					
Pretax profit	9,978.1	11,205.0	17,622.8	16,899.7	18,458.9
Depreciation & amortisation	2,554.1	3,073.3	3,148.1	3,231.8	3,338.0
Adj net interest (income)/exp	(1,225.8)	(636.7)	(639.4)	(732.7)	(914.8)
Change in working capital	(1,404.8)	(3,705.0)	(2,810.3)	(556.4)	(634.8)
Cash taxes paid	(2,090.4)	(2,275.0)	(3,598.2)	(3,450.6)	(3,768.9)
Cash flow from operations	7,425.8	7,857.3	14,141.3	15,281.7	16,567.6
Capex	(4,146.9)	(4,566.5)	(2,497.7)	(1,578.6)	(6,054.8)
Free cash flow	3,278.9	3,290.8	11,643.6	13,703.1	10,512.9
Dividends paid	(6,850.1)	(5,864.9)	(9,952.5)	(9,569.8)	(10,526.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	181.8	5,090.6	(1,000.0)	(1,000.0)	(1,000.0)
Other invest/financing cash flow	848.8	735.6	389.4	482.7	664.8
Effect of exch rate changes	0.1	(2.4)	0.0	0.0	0.0
Net cash flow	(2,540.4)	3,249.7	1,080.4	3,616.0	(349.1)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(14.5)	23.2	25.0	(9.1)	5.5
EBITDA growth	(31.2)	19.6	48.6	(1.8)	7.6
EBIT growth	(36.3)	19.3	62.3	(2.6)	8.4
Pretax growth	(33.8)	12.3	57.3	(4.1)	9.2
Reported net profit growth	(34.0)	10.4	58.4	(4.1)	9.2
Core net profit growth	(34.0)	10.4	58.4	(4.1)	9.2
Profitability ratios (%)					
EBITDA margin	17.5	17.0	20.2	21.9	22.3
EBIT margin	13.6	13.1	17.0	18.3	18.8
Pretax profit margin	15.6	14.2	17.8	18.8	19.5
Payout ratio	73.1	55.2	72.4	72.6	73.1
DuPont analysis					
Net profit margin (%)	12.2	11.0	13.9	14.7	15.2
Revenue/Assets (x)	1.0	1.0	1.3	1.1	1.1
Assets/Equity (x)	1.3	1.5	1.4	1.4	1.3
ROAE (%)	16.2	17.4	25.9	23.2	23.8
ROAA (%)	12.5	12.2	17.5	16.6	17.6
Liquidity & Efficiency					
Cash conversion cycle	53.2	49.7	52.6	66.1	64.9
Days receivable outstanding	57.8	61.9	61.4	68.3	67.0
Days inventory outstanding	11.1	13.6	12.3	10.3	9.5
Days payables outstanding	15.7	25.8	21.1	12.6	11.6
Dividend cover (x)	1.4	1.8	1.4	1.4	1.4
Current ratio (x)	4.0	3.1	4.1	4.5	4.5
Leverage & Expense Analysis					
Asset/Liability (x)	4.6	3.0	3.6	4.0	4.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.3	0.6	0.4	0.3	0.2
Capex/revenue (%)	6.5	5.8	2.5	1.8	6.4
Net debt/ (net cash)	(23,869.1)	(22,105.3)	(24,185.7)	(28,801.7)	(29,452.6)

Source: Company; Maybank IBG Research

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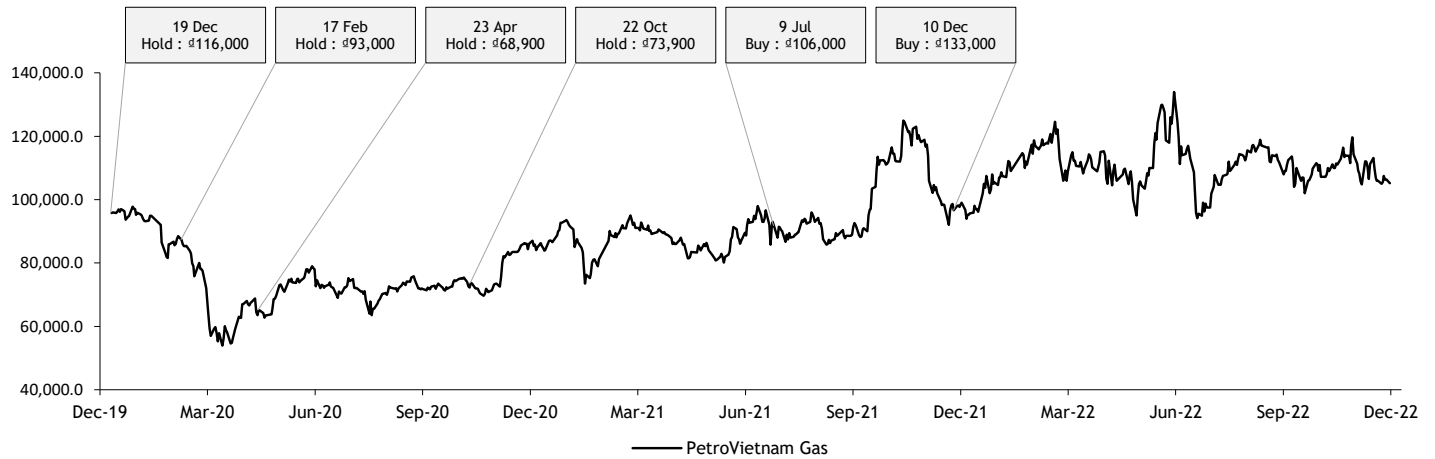
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