PETROVIETNAM GAS JSC (GAS)

ADD (Upgrade from HOLD)

Current Price	VND82,600
52Wk High/Low	VND91,663/73,500
Target Price	VND93,500
Previous TP	VND84,100
TP vs Consensus	9.7%
Upside	13.2%
Dividend Yield	3.7%
Total stock return	16.9%

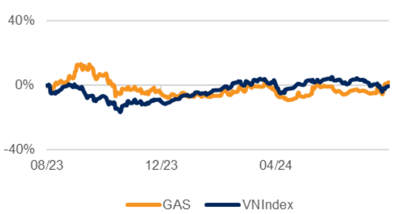
Growth rating	Positive
Value rating	Positive
ST Technical Analysis	Positive

Market Cap	USD7,541.2mn
3m Avg daily value	USD4.3mn
Avail Foreign Room	USD3,550.3mn
Outstanding Shares	2,296.7mn
Fully diluted O/S	2,296.7mn

	GAS	Peers	VNI
P/E TTM	16.5x	13.2x	14.5x
P/B Current	2.7x	1.7x	1.8x
ROA	11.9%	7.1%	2.1%
ROE	16.1%	15.3%	12.0%

**as of 8/16/2024*

Share Price performance



Share price (%)	1M	3M	12M
Ordinary share	5.8%	9.3%	1.1%
Relative to index	-3.9%	-1.2%	-0.2%

Ownership

PetroVietnam Group	95.8%
Others	4.2%

Business Description

PetroVietnam Gas JSC (GAS) provides natural gas for domestic consumption through its five pipeline systems in Vietnam, particularly for electricity generation and fertilizer production. GAS is also the market leader in LPG distribution with roughly 65% total market share. GAS is also the first enterprise qualified to distribute LNG in Vietnam with the LNG Thi Vai terminal coming online in 2023.

Analyst(s):

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LNG-to-power transition on track

- We upgrade GAS to ADD with 13.2% upside and a 3.7% dividend yield. We increase our TP by 12% while the share price has increased by 7% since our last report.
- The main drivers of our higher TP are adjustments to FY24-25 EPS forecasts and WACC revision.
- FY24 P/E of 16.5x is below its five-year average of 17.1x amid an expected high oil price environment (around USD84/85bbl in FY24-25). Thus, we believe this is a good entry point to accumulate the stock.

Financial Highlights

- 2Q24 revenue grew 25% YoY to VND30tn (USD1.2bn) as an increase in LPG and LNG volumes offset a decrease in dry gas sales volume.
- 2Q24 net profit inched up 5.2% YoY to VND3.3tn (USD125mn) mainly due to a higher gross margin following a higher oil price, which offset a surge in SG&A expense.
- We forecast gas sales volume to fall 5.6% YoY in FY24, then bounce back 3.5% YoY in FY25 with earnings growth of -2.2%/10.3% YoY, respectively.

Investment Thesis

Higher oil price reduces pressure from depleting domestic gas

We expect global oil prices to average USD84-85/bbl in 2024-25, driven by the extension of voluntary OPEC+ production cuts, geopolitical tensions and increasing global oil demand. The high oil price environment will support GAS's GM as its ASPs are directly linked to global oil prices. This helps reduce pressure from the combined effect of low gas volume and higher domestic input gas costs due to Vietnam's declining oil and gas production in recent years.

LNG transition supports total gas sales volume growth

Falling global LNG prices, driven by sluggish demand and increased liquefaction capacity from late 2024, should accelerate Vietnam's shift to LNG. Favorable prices and recent policy efforts are likely to speed up the PPA negotiation process for NT3 and 4. Thus, we expect GAS's sales volume to grow 3.5%/5.0% YoY in FY25-26 from a decline of 5.6% YoY in 2024, but this may hurt GPM as LNG is less profitable than dry gas.

Financial health ensures stable dividend yield

Supported by robust financial health, including huge net cash of VND43.9tn (USD1.8bn) at end-2Q24 and a healthy net debt/equity ratio (-56% at the end of 2Q24), GAS is also offering a ~4% annual dividend yield, making the stock a stable and promising investment.

A good play in the O&G sector with promising projects in the pipeline

GAS is a key player in Vietnam's energy infrastructure and well-positioned for long-term growth, with major projects in the pipeline ensuring gas supply for power generation in Vietnam, such as LNG terminals (Thi Vai 2, Son My) and mega project Block B – O Mon, which is expected to start operations in 2027.

	2023A	2024E	2025F	2026F
Revenue growth	(10.7%)	13.2%	8.2%	5.2%
EPS growth	(34.6%)	(2.2%)	10.3%	(7.2%)
Gross margin	18.8%	17.3%	16.8%	15.0%
Net profit margin	12.9%	11.1%	11.4%	10.0%
P/E (x)	16.1	16.5	15.0	16.8
Rolling P/B (x)	2.7			
ROAE	18.7%	18.0%	19.6%	16.3%
Net debt to equity	(53.4%)	(49.8%)	(49.2%)	(49.3%)

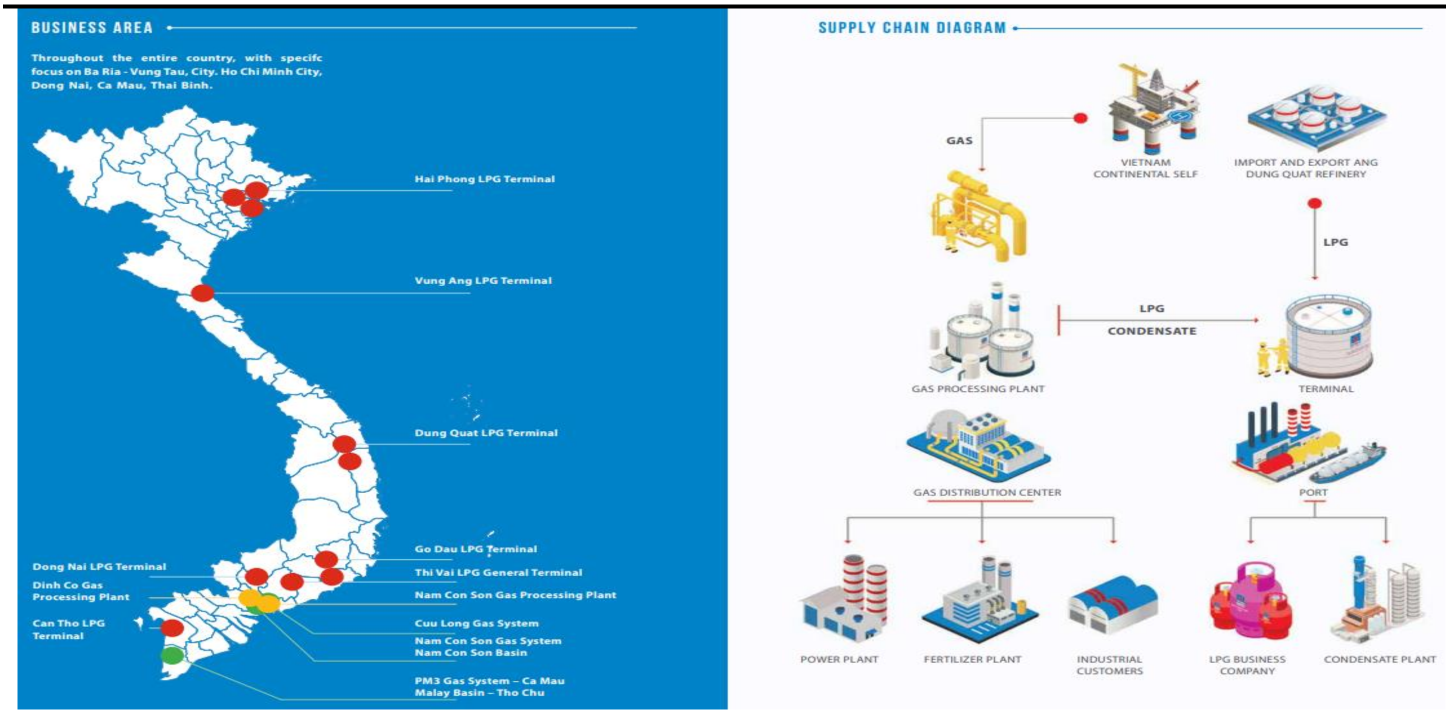
Source: VNDIRECT RESEARCH

Company Profile: Gas industry monopoly

The principal activities of PetroVietnam Gas (GAS) are to collect and distribute dry gas, and to produce and distribute liquid petroleum gas (LPG). The company also participates in producing and distributing other gas products such as liquefied natural gas (LNG), condensate and compressed natural gas (CNG).

With the advantage of being a subsidiary of PVN Group (accounting for 95.8% of the company's shares), GAS is a monopoly enterprise in the distribution and trading of dry gas in Vietnam, including five gas pipelines: the Cuu Long system, Nam Con Son 1 system, Ham Rong – Thai Binh system, Nam Con Son 2 system and MP3 – Ca Mau gas system. Total annual gas collection and transportation capacity reaches about 17.5 billion cubic meters.

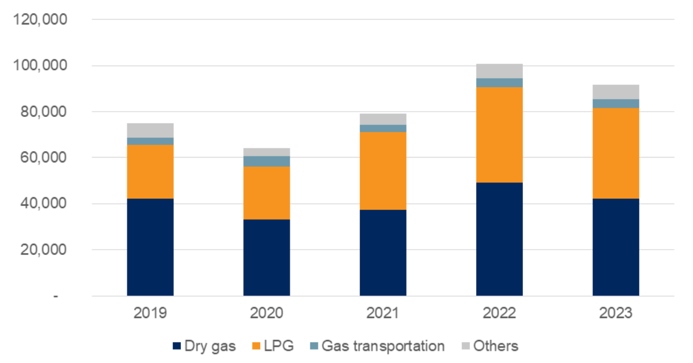
Figure 1: GAS's business area and supply chain



Source: GAS

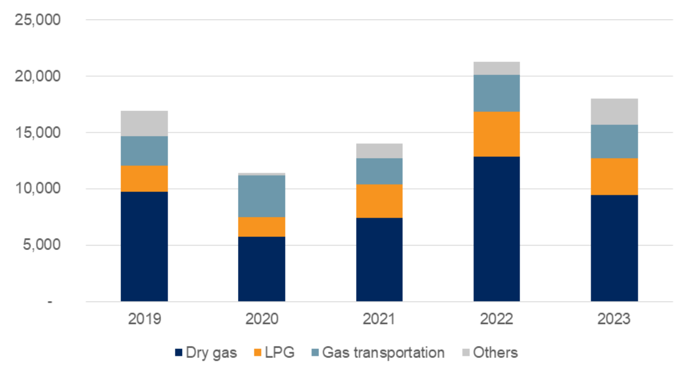
The dry gas business contributes 46% to the company's revenue, followed by the LPG segment with 43% in FY23, per our estimate. Although the gas transportation segment only contributes 4% to revenue, it is the segment with the highest profit margin (>75%), helping the segment contribute 17% to the company's gross profit structure.

Figure 2: Revenue breakdown by segment (VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 3: Gross profit breakdown by segment (VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORT

Results Recap: Higher oil price supports earnings

Figure 4: 2Q24 results review

VNDbn	2Q24	2Q23	%YoY	1H24	% YoY	2024	1H24/2024F
Brent oil (USD/bbl)	85.0	77.8	9.3%	83.4	4.3%	85	98%
FO Singapore price (USD/tonne)	505	438	15.3%	478	13.3%	461	104%
LPG CP price(USD/tonne)	590	632	-6.6%	612	0.0%	627	98%
Dry gas volume (mcm)	1,680	2,103	-20.1%	3,312	-14.0%	6,416	52%
LPG volume ('000 tonne)	817	673	21.4%	1,500	67.0%	2,681	56%
Net revenue	30,052	24,042	25.0%	53,367	17.9%	98,645	54%
Gross profit	5,736	4,343	32.1%	9,426	2.6%	16,825	56%
SG&A	1,726	852	102.6%	2,528	31.9%	3,847	66%
Net financial income	216	504	-57.1%	498	-48.3%	1,339	37%
PBT	4,239	4,003	5.9%	7,409	-10.4%	14,368	52%
NPAT-MI	3,320	3,156	5.2%	5,832	-10.3%	11,391	51%
GPM	19.1%	18.1%	1.0% pts	17.7%	-2.6% pts	17.8%	
NPM	11.0%	13.1%	-2.1% pts	10.9%	-3.4% pts	11.5%	

Source: VNDIRECT RESEARCH, COMPANY REPORTS

2Q24 revenue increased thanks to higher oil price, stronger LPG segment

GAS reported a 25% YoY increase in 2Q24 net revenue to VND30tn (USD1.2bn) as higher oil prices (Singapore FO price: +15% YoY), an increase in LPG volume (+21% YoY) and the contribution of LNG (~240 mcm in 2Q24) offset a decrease in domestic gas sales volume (-20% YoY). Domestic dry gas sales volume dropped 20% YoY to ~1.68 bcm mainly as gas-fired power mobilization fell 13.7% YoY in 2Q24 due to strong competition from other power sources, coupled with depleting domestic gas sources. LPG revenue extended its uptrend, which was driven by the mixed impact of strong volume growth of 21% YoY to 817,000 tonnes and a 6% YoY decrease in the benchmark LPG CP price.

2Q24 gross margin (GM) improved thanks to higher oil price

Blended 2Q24 GM expanded 1% pts YoY to 19.1% mainly thanks to a surging Singapore fuel oil price of USD505/bbl (+15% YoY). However, 1H24 GM still compressed 2.6% pts YoY to 17.7% due to a lower contribution from the dry gas segment.

Net financial income slumped, putting pressure on 2Q24 earnings

2Q24 net financial income slumped 57% YoY to VND216bn (USD8.8mn), adding to a 1H24 decrease of 48% YoY. This mainly came from: 1) a 20% YoY decrease in deposit income to VND830mn (USD33.7mn); and 2) a 141% YoY jump in 1H24 financial expenses to VND410bn (USD16.6mn) due to the combination of a 55% YoY increase in interest expenses of VND192bn (USD7.8mn) and a surging net FX loss of VND141bn (USD5.7mn), compared to a 1H23 net FX gain of VND55bn (USD2.3mn).

SG&A surged due to provision for bad debt, weighed on bottom line

In 2Q24, GAS recorded a provision expense of VND815bn (USD33.1mn) for the overdue debt of its power plant customers, leading 2Q24 SG&A to surge 102.6% YoY to VND1.73tn (USD70.1mn). As a result, 2Q24 NP inched up 5.2% YoY to VND3.3tn (USD135mn) despite strong revenue growth and GM expansion.

1H24 results were in line with our expectation

1H24 net profit decreased 10% YoY to VND5.8tn (USD237mn). This bottom line was in line with our expectation at 51% of our full-year forecast.

Healthy financial condition is a buffer for long-term investment plan

GAS has accumulated a huge net cash balance of VND43.9tn (USD1.8bn) at end-2Q24 for future capex needs. GAS also keeps net cash flow from operating activities consistently positive over time and its net debt/equity ratio at a very healthy level (-56% at the end of 2Q24).

Given GAS's robust financial health, we believe the company will maintain its stability even after distributing a 60% cash dividend of VND13.8tn (USD560mn) in 4Q24 and recognizing provisions for power plants receivable. This financial strength will continue to support future investments in LNG and the Block B O Mon projects.

Figure 5: Balance Sheet Analysis

VNDbn	2Q23	3Q23	4Q23	1Q24	2Q24
Cash and cash equivalent	40,767	39,760	40,754	42,613	43,920
A/R Days	46	50	48	51	48
Inventory Days	10	12	15	15	10
A/P Days	20	23	28	32	28
Capex	245	218	775	46	838
Depreciation	735	755	771	703	608
Fixed Assets	15,130	19,555	19,532	19,160	18,798
Net Debt / Equity	-51%	-54%	-53%	-54%	-56%

**cash and cash equivalents included short-term investments*

Source: VNDIRECT RESEARCH, COMPANY REPORTS

FY24-25F outlook: LNG-to-power transition on track

Figure 6: FY24-25 earnings forecast revisions

VNDbn	Actual	Old		New			%YoY		%∆		Comments
	2023	2024	2025	2024	2025	2026	2024	2025	2024	2025	
Brent crude oil price (USD/bbl)	82	85	80	84	85	75	2.2%	1.2%	-1.2%	6.3%	Based on our new Brent oil price assumption
Singapore FO price (USD/tonne)	455	461	434	465	470	415	2.2%	1.2%	0.8%	8.3%	
Total gas volume	7,225	6,824	7,050	6,824	7,064	7,415	-5.6%	3.5%	0.0%	0.2%	
Domestic gas volume (mcm)	7,225	6,416	6,234	6,416	6,112	6,191	-11.2%	-4.7%	0.0%	-1.9%	
LNG volume (mcm)	-	408	816	408	952	1,224	0.0%	133.3%	0.0%	16.7%	
LPG volume ('000 tonnes)	2,451	2,681	2,723	2,838	2,862	2,908	15.8%	0.9%	5.9%	5.1%	We increase LPG volume to match the higher-than-expected 1H24 volume rise, as GAS continues to promote LPG trading in the international market
LPG CP price (USD/tonne)	576	628	609	628	635	648	9.0%	1.2%	0.0%	4.3%	
Net revenue	**89,954**	**98,645**	**101,781**	**101,796**	**110,121**	**115,764**	**13.2%**	**8.2%**	**3.2%**	**8.2%**	FY24-25 revenue forecast is increased mainly due to higher LNG and LPG revenue following the higher-than-expected volume from both segments
Gross profit	**16,925**	**16,825**	**17,124**	**17,605**	**18,453**	**17,380**	**4.0%**	**4.8%**	**4.6%**	**7.8%**	
Gross margin (%)	*18.8%*	*17.1%*	*16.8%*	*17.3%*	*16.8%*	*15.0%*	*-1.5% pts*	*-3.1% pts*	*0.2% pts*	*-0.1% pts*	
SG&A expenses	4,019	3,847	3,511	4,479	3,854	3,704	11.5%	-13.9%	16.4%	9.8%	We revised up FY24F SG&A expenses to reflect potential provision from receivables from power plants.
Operating profit	12,906	12,978	13,613	13,126	14,598	13,676	1.7%	11.2%	1.1%	7.2%	
Net financial income (expenses)	1,686	1,339	1,414	1,136	1,130	920	-32.6%	-0.5%	-15.1%	-20.0%	
Financial income	2,273	1,919	1,969	1,758	1,728	1,599	-22.6%	-1.7%	-8.3%	-12.2%	
Financial expenses	587	580	555	622	598	678	6.1%	-3.9%	7.3%	7.7%	
Pre-tax profit	14,640	14,368	15,080	14,315	15,786	14,657	-2.2%	10.3%	-0.4%	4.7%	
Net profit	**11,606**	**11,391**	**11,955**	**11,349**	**12,515**	**11,620**	**-2.2%**	**10.3%**	**-0.4%**	**4.7%**	

Source: VNDIRECT RESEARCH

We forecast NP to fall 2.2% YoY in FY24 before rebounding in 2025

All in all, we expect GAS's revenue to increase by 13.2% YoY as higher LPG and LNG volume offsets the negative impact of lower domestic dry gas sales volume (-11% YoY) in 2024. We expect revenue to increase by 8.2% YoY in 2025, mainly driven by a 3.5% YoY improvement in total gas sales volume and a 1.2% increase in the Brent oil price. For the bottom line, we estimate net profit to decrease by 2.2% YoY in FY24 before rebounding 10.3% YoY in 2025.

Tight global supply to keep oil prices high in 2H24 and 2025

In 2H24, we expect global oil prices to remain relatively high, with 2024 averaging around USD84 per barrel (+2% YoY). We also anticipated 2025 oil price to average USD85 per barrel, which in line with the EIA (Energy Information Administration) expectation of the Brent spot price averaging USD84.44 per barrel this year and USD85.71 per barrel next year, due to a combination of the following factors:

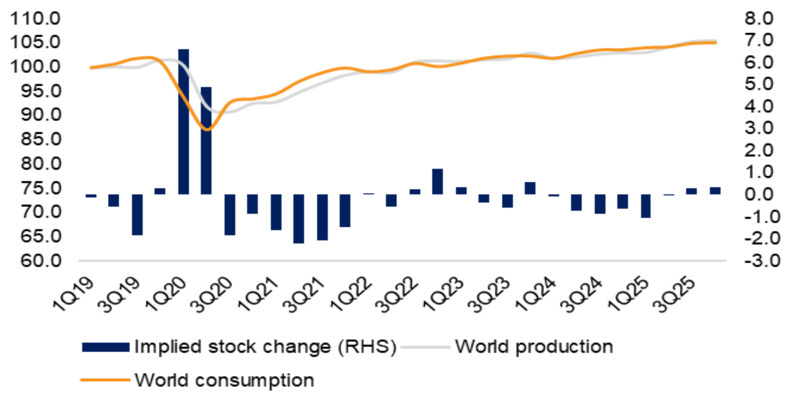
- The EIA forecasts that global consumption of liquid fuels will increase by 1.1 million b/d in 2024 and 1.6 million b/d in 2025 (up from 900,000 b/d in 2024 and 1.4 million b/d in 2025 from May Update). Most of the expected growth is from non-OECD countries, led by China and India, which are expected will increase consumption by a combined 600,000 b/d in 2024 and 600,000 b/d in 2025. In addition, the EIA expects an increase in liquid fuels consumption from non-OECD Asia because of increased bunker fuel demand driven by Red Sea disruptions and longer shipping routes for tankers. The EIA expects this increase in bunker fuels demand will contribute around 10% to total oil consumption growth in 2024.

- The EIA expect OPEC+ will begin to relax some voluntary production cuts beginning in 4Q24, instead of 3Q24 as forecast in May. As a result, we expect that the extension of voluntary OPEC+ production cuts will reduce global oil inventories over the next quarters and push oil prices higher in the near term. The EIA noted that it expects global oil inventories will decrease by an average of 800,000 barrels per day in the 1H24, with further declines in 1Q25.

- Uncertainty persists regarding heightened tensions in the Middle East, particularly the recent escalation in the conflict between Iran and Israel in August, coupled with an increase in Houthi attacks on shipping vessels in the Red Sea. These attacks have significantly disrupted key shipping channels for oil transport. Although these tensions have not yet directly reduced oil supply, the potential for further escalation and the absence of any foreseeable resolution have contributed to a sustained risk premium on oil prices in the near term.

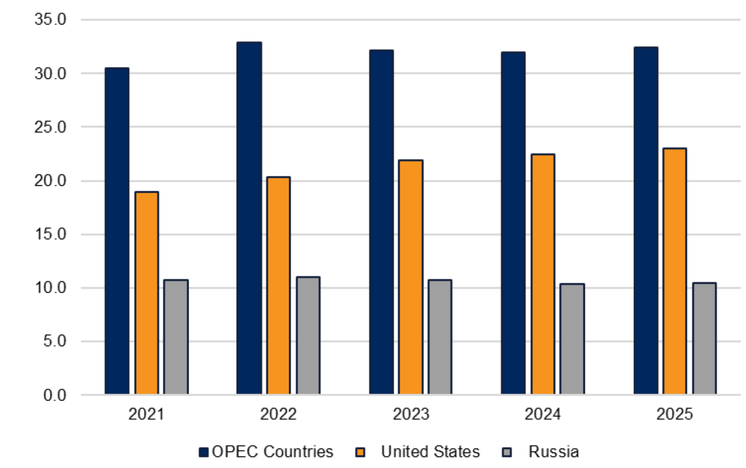
- We expect mounting concerns over a possible recession in the US may further drive rate cut bets from the markets, as seen in the newfound optimism for a 50-bps rate cut in September. A faster Fed rate cut policy would help support global oil prices.

Figure 7: Supply - Demand Balance (Unit: mdb).



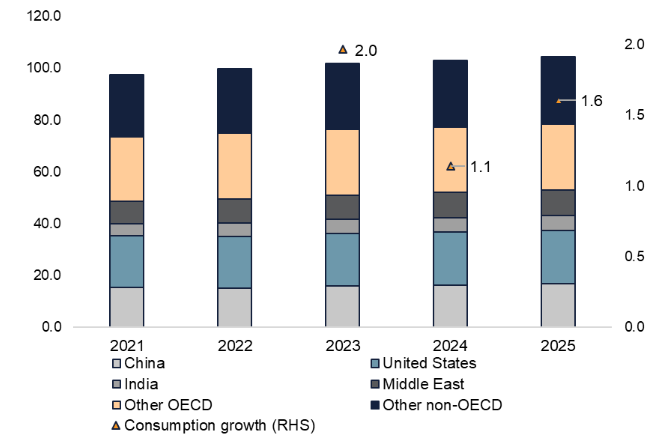
Source: EIA, VNDIRECT RESEARCH

Figure 8: OPEC+ oil output forecast by EIA (Unit: mbd)



Source: EIA, VNDIRECT RESEARCH

Figure 9: Annual change in world liquid fuels consumption (mbd)



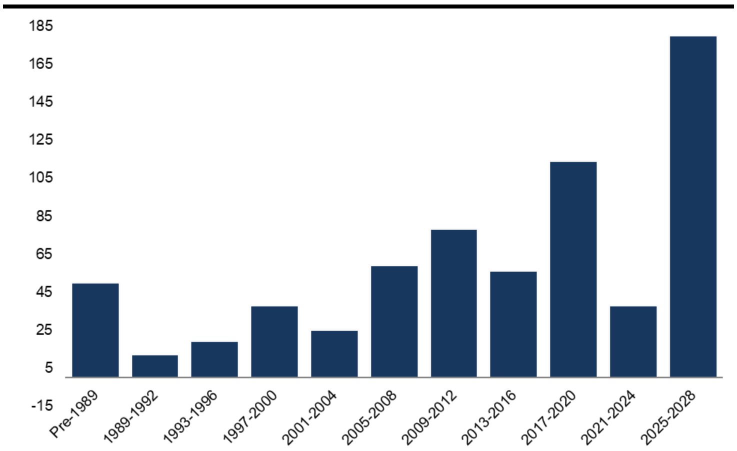
Source: EIA, VNDIRECT RESEARCH

Lower global LNG price should promote Vietnam's LNG transition

We expect that lackluster demand growth and a massive wave of new export capacity are poised to send global liquefied natural gas (LNG) markets into oversupply within two years, keeping LNG prices low assuming no "black-swan" events.

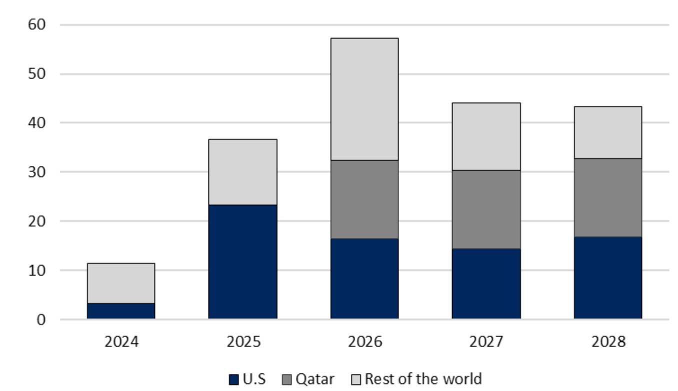
Starting in late 2024, the global LNG market will witness an unprecedented wave of new liquefaction projects coming online. According to the Institute for Energy Economics and Financial Analysis (IEEFA), global liquefaction capacity will soar in 2024-28 with many new LNG projects added in this period, led by the US and Qatar. Counting only projects that are under construction or approved by financially capable backers, IEEFA anticipates that global LNG production capacity will grow by roughly 193 MTPA (million tonnes per annum) from 2024 through 2028. This will be the fastest capacity growth in the global LNG industry's brief history, representing a 40% increase in just five years.

Figure 10: Net global LNG supply additions (mtpa)



Source: IEEFA, VNDIRECT RESEARCH

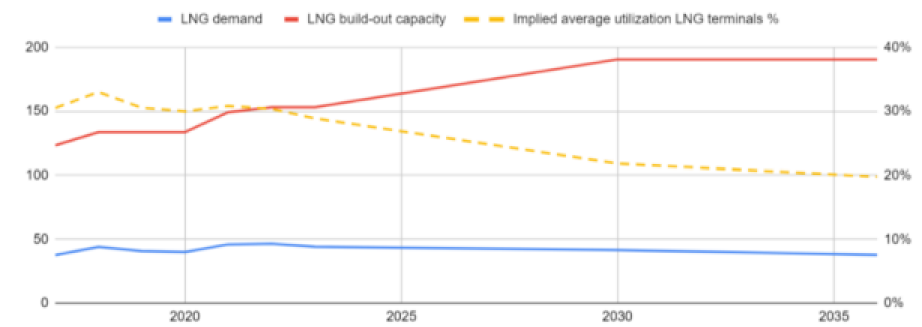
Figure 11: Forecast liquefaction capacity additions, 2024-28 (mtpa)



Source: IEEFA, VNDIRECT RESEARCH

Meanwhile, IEEFA also expects that global LNG demand growth through 2028 will likely disappoint optimistic industry expectations. Demand fundamentals in Europe, Japan and South Korea - which together accounted for more than half of global LNG consumption in 2023 - point to long-term declines in LNG imports. Zooming into the Asian market, Japan, the world's second-largest LNG importer, has already seen a 20% decline in LNG demand since 2018. Energy and climate plans aiming to boost renewables and nuclear-fired power generation could cause LNG demand to fall by one-third from 2019 levels. South Korean demand is also likely to fall as the share of LNG in power generation falls.

Figure 12: Forecast South Korea demand for LNG vs LNG import capacity (mtpa)



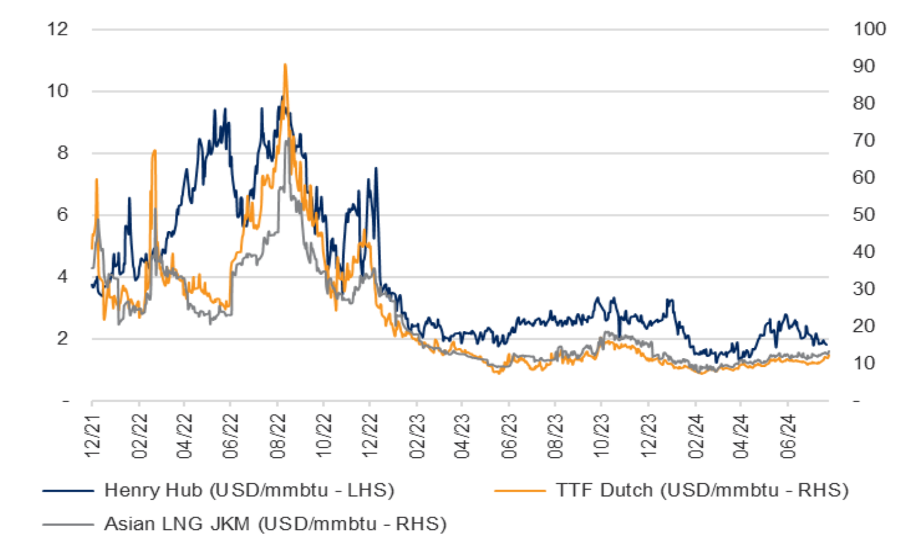
Source: IEEFA, VNDIRECT RESEARCH

We see that the LNG price slump could facilitate the LNG transition trend in Vietnam in coming years as the benchmark LNG price in Asia has retreated to favorable territory, which could ensure economic efficiency for LNG projects and boost the progress of LNG projects in Vietnam, such as NT3 and 4.

According to the price framework, the range for LNG-fired power in 2024 is from VND0 - 2,590.85/kWh (excluding value added tax). The LNG price level to calculate the celling price of VND2,590.85/kWh is USD12.98/mmbtu, still higher than the average 7M24 JKM LNG price of USD10.9/mmbtu.

Moreover, we note that long-term LNG contracts tend not to be publicly disclosed, but most contracts are priced as a percentage of a benchmark crude oil, which is usually lower and more stable than the spot price.

Figure 13: JKM LNG price stays at average of USD10.9/mmbtu in 7M24 , boding well for LNG transition in Vietnam



Source: BLOOMBERG, VNDIRECT RESEARCH

LNG to be key driver for GAS's gas sales volume in 2025

Strong LNG volume in 1H24, but limited demand for electricity in 2H24

According to the management of PV GAS, the company has imported 330 mcm of LNG (which equivalent to 25% of designed capacity of Thi Vai LNG terminal, per our estimate) to serve domestic demand; and provided 240 million m3 of LNG to power plants to produce over 1.2 billion kWh of electricity, contributing to ensuring electricity supply. To meet strong electricity demand during the peak dry season, gas-fired power plants were operated using LNG as fuel. However, we anticipate that the upcoming rainfall season will increase hydropower production, reducing the need for LNG-fueled gas power generation in 2H24.

As a result, we hold our assumption for LNG volume due to Thi Vai terminal operating at 30% capacity in 2024, resulting in a 465 mcm in FY24.

All eyes on the PPA negotiation for GAS' LNG key customer, NT3 and 4

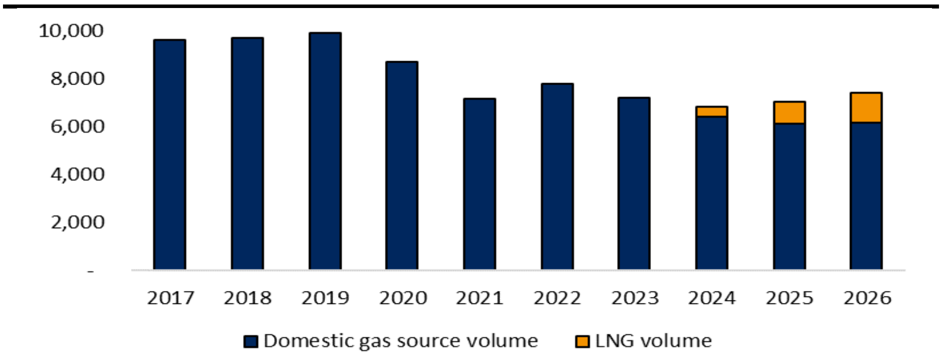
We maintain our expectation that Nhon Trach 3, which is now 90% complete in its EPC phase, will be commercially operational in 1Q25, one quarter behind PVPower's plan of November 2024 due to some bottlenecks in construction mentioned in our previous update.

However, recent policy efforts indicate a strong Government push toward the PPA (Power Purchase Agreement) negotiation process. Early this year, the Ministry of Industry and Trade unveiled a price framework for LNG-fired power, signaling potential progress in POW's negotiations for a PPA with EVN.

The PPA terms remain the primary obstacle. There is a significant difference between EVN and PVN when it comes to Qc ratio estimates. EVN proposes a contracted sales volume ratio (Qc) of 65%, compared to the recommendation of power plant investors of 72% to 90%. EVN is grappling with significant financial challenges due to soaring input costs and elevated financial expenses. While the Government has been reluctant to increase electricity tariffs amid inflationary pressures, a tariff hike is expected once inflation subsides in 4Q24 or 1Q25. This could alleviate EVN's financial burden and potentially expedite the PPA negotiation process for Nhon Trach 3 and 4.

Overall, we project GAS's total gas sales volume to fall 5.6% YoY in FY24 before recovering 3.5%/5.0% YoY in FY25-26 thanks to new contribution from LNG, of which LNG volume will make up 6%/13%/17% of total gas sales volume in FY24-26, respectively.

Figure 14: GAS's volume from 2017-2025 (Unit: mcm)

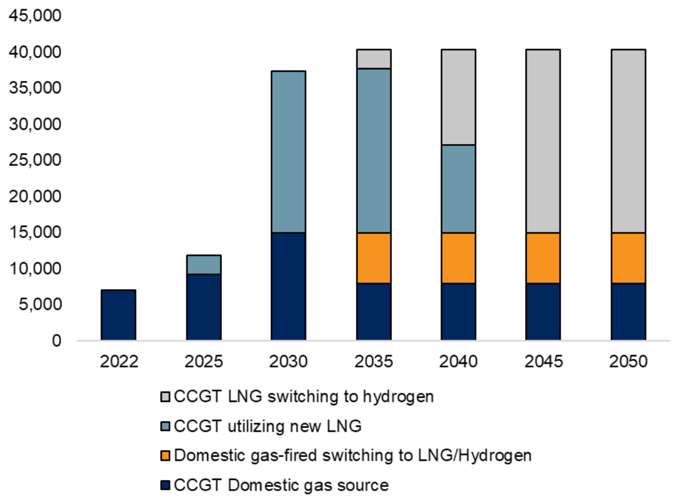


Source: GAS, VNDIRECT RESEARCH

Riding on LNG transition trend in the long term

The LNG-to-power segment is poised to be a promising area in the coming years, thanks to its reliable power generation and the ease of expanding capacity through imports. According to PDP8, LNG is expected to become a key energy source from 2023 to 2035. However, while this transition holds great potential, the development process may face delays compared to the timeline outlined in PDP8 due to challenges such as inadequate supportive policies, land clearance delays, and contract negotiation difficulties. Despite these hurdles, we believe GAS's crucial role as the only company in Vietnam authorized to import and export liquefied natural gas (LNG), combined with its involvement in significant infrastructure projects like LNG Thi Vai Phase 2 and LNG Son My, positions it as a strong long-term investment in the oil and gas industry.

Figure 15: According to PDP8, LNG-to-power will make up 15% of total power capacity by 2030



Source: PDP8, VNDIRECT RESEARCH

Figure 16: GAS's LNG key projects status updates

Project	Progress	Estimated time of completion
Son My LNG import terminal warehouse	People's Committee of Binh Thuan province approved the project's investment policy and investor. The FS is being simultaneously updated and is scheduled to be finalized for submission to the competent authority in 2Q23	2028
Increase the capacity of Thi Vai terminal to 3 million tonnes of LNG/year	Completed FS and submitted to the Ministry of Industry and Trade for appraisal	Synchronize progress with Son My power plant project
LPG/LNG tanker in Northern	Looking for potential to develop the project	TBA

Source: GAS, VNDIRECT RESEARCH

Valuation

Upgrade to ADD recommendation with higher TP of VND93,500

We revise up our TP by 11.8% to VND93,500 due to a higher P/E target of 17.1x (based on five-year average), a lower WACC assumption from 10.2% to 8.6% due to a lower risk premium of 7.79% (based on Damodaran updating the ERPs in July 2024) and rolling our DCF model to mid-2024.

Figure 17: Target price

Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
DCF	98,203	50%	49,101
FY24F target P/E of 17.1x	88,838	50%	44,419
Blended value			93,520
Target price			**93,500**

Source: VNDIRECT RESEARCH

Figure 18: Cost of equity

Cost of equity	
Risk Free Rate	2.8%
Beta	0.8
Risk Premium	7.8%
Cost of Equity	**9.0%**

Source: VNDIRECT RESEARCH

Figure 19: WACC and long-term growth rate

Equity	59,858
Debt	5,875
Cost of Debt	6.0%
Tax Rate	20.0%
WACC	**8.6%**
Perpetual Growth Rate	**1.5%**

Source: VNDIRECT RESEARCH

Figure 20: DCF Valuation - Summary of free cash flow (FCF)

VNDbn	Dec-24F	Dec-25F	Dec-26F	Dec-27F	Dec-28F	Dec-29F	Dec-30F
Net revenue	**101,796**	**110,121**	**115,764**	**125,899**	**145,400**	**157,856**	**169,005**
% growth y-o-y	*13.2%*	*8.2%*	*5.1%*	*8.8%*	*15.5%*	*8.6%*	*7.1%*
COGS & OPEX	(88,670)	(95,522)	(102,088)	(110,668)	(128,160)	(138,588)	(148,222)
Unlevered profit / EBIT	13,126	14,598	13,676	15,232	17,240	19,268	20,782
Operating margin	*12.9%*	*13.3%*	*11.8%*	*12.1%*	*11.9%*	*12.2%*	*12.3%*
Effective tax rate	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*	*19.4%*
EBIT * (1-Tax) or NOPAT	10,574	11,760	11,017	12,270	13,888	15,522	16,742
+ D&A	3,133	3,540	4,067	4,460	4,738	3,609	2,271
% of revenue	*3.1%*	*3.2%*	*3.5%*	*3.5%*	*3.3%*	*2.3%*	*1.3%*
- CapEx	(3,112)	(5,164)	(7,784)	(5,993)	(4,391)	(3,593)	(4,033)
% of revenue	*-3.1%*	*-4.7%*	*-6.7%*	*-4.8%*	*-3.0%*	*-2.3%*	*-2.4%*
+ ∆ WC	(1,149)	(1,453)	1,926	796	(996)	(1,207)	(977)
% of revenue	*-1.1%*	*-1.3%*	*1.7%*	*0.6%*	*-0.7%*	*-0.8%*	*-0.6%*
Interest and other financial activities, net	1,189	1,188	981	926	1,046	1,091	1,326
% of revenue	*1.2%*	*1.1%*	*0.8%*	*0.7%*	*0.7%*	*0.7%*	*0.8%*
UFCF	10,635	9,870	10,207	12,460	14,285	15,422	15,329

Source: VNDIRECT RESEARCH

Figure 21: Sensitivity analysis for DCF valuation

			WACC (%)				
				Our case			
			7.6%	8.1%	**8.6%**	9.1%	9.6%
Long-term growth rate		0.5%	102,011	96,098	90,916	86,339	82,266
		1.0%	106,710	100,079	94,321	89,274	84,815
	Our case	1.5%	112,176	104,661	98,203	92,594	87,678
		2.0%	118,610	109,988	102,669	96,379	90,915
		2.5%	126,297	116,261	107,863	100,734	94,606

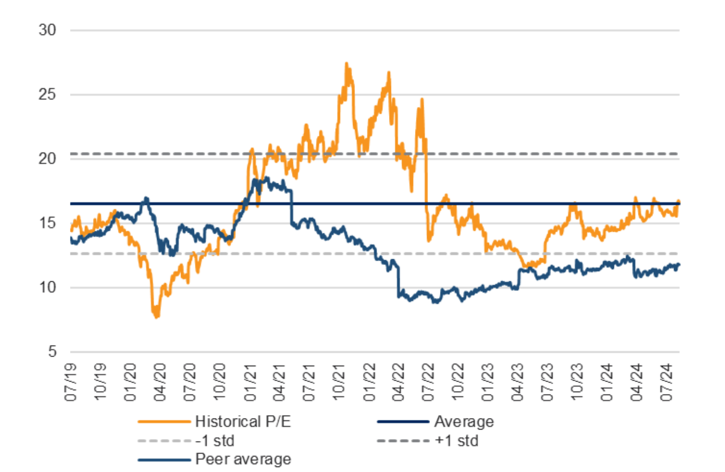
Source: VNDIRECT RESEARCH

Oil price outlook supports a higher P/E valuation

GAS's stock price has had a high correlation with the Brent oil price, thus we believe that GAS is always a favorable choice for investors when the expected Brent oil price is likely be higher in 2025F (around USD84/85bbl in FY24-25).

Moreover, we also note that GAS is worth being traded at a premium compared to regional peers thanks to: 1) its state-owned monopoly position in Vietnam; 2) its profitability compared to peers; and 3) strong business prospects coming from the contribution of the LNG segment and the expected implementation of the Block B – O Mon project.

Figure 22: GAS's historical P/E. GAS has always traded at a premium compared to regional peers in the post-Covid 19 period



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 23: GAS's P/E vs Brent oil price movement since 2019. GAS P/E tends to move in the same direction as Brent oil price

Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 24: Gas distribution sector comparison

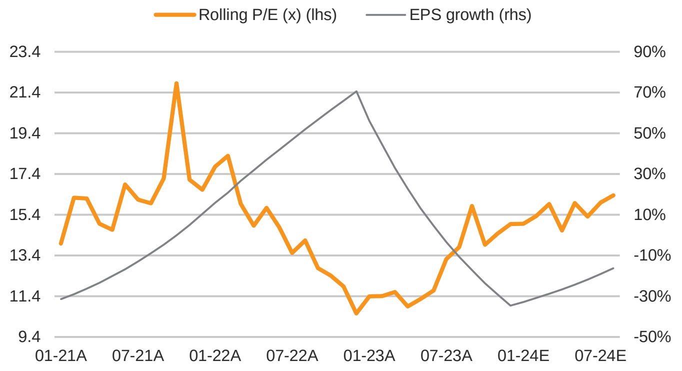
Company	Ticker	Price (LC$)	Mkt Cap (US$m)	Revenue growth (%)		EPS growth (%)		P/E (x)		P/B (x)		ROE (%)		ROA (%)	
				FY24F	FY25F	FY24F	FY25F	TTM	FY24F	Current	FY24F	FY24F	FY25F	FY24F	FY25F
PTT PCL	PTT TB	32.25	26,112	5.8%	-0.4%	-10.5%	10.7%	8.2	9.5	0.8	0.8	8.3%	8.4%	3.4%	3.7%
Indraprastha Gas Ltd	IGL IN	542.0	4,521	-2.4%	7.2%	7.1%	7.9%	19.1	18.6	3.9	3.4	20.2%	19.5%	13.8%	13.8%
China Gas Holdings Ltd	384 HK	7.1	4,946	9.3%	5.4%	45.0%	11.2%	12.0	8.7	0.7	0.7	7.8%	8.2%	2.9%	3.1%
Toho Gas Co Ltd	9533 JP	4,295	3,095	-0.7%	0.6%	-19.0%	2.3%	20.1	20.2	1.0	0.9	4.8%	4.1%	N/A	N/A
Gas Malaysia Bhd	GMB MK	3.6	1,025	9.3%	1.0%	3.9%	-0.4%	11.7	12.4	3.7	3.2	25.2%	23.3%	11.1%	10.5%
Oil & Natural Gas Corp Ltd	ONGC IN	323	48,381	0.0%	0.0%	0.0%	0.0%	8.2	8.4	1.2	1.1	14.3%	14.1%	7.6%	7.6%
Average				*4.2%*	*2.7%*	*5.3%*	*6.4%*	*13.2*	*12.9*	*1.9*	*1.7*	*13.4%*	*12.9%*	*7.7%*	*7.7%*
PV GAS	**GAS VN**	**81,700**	**7,462**	**13.8%**	**7.2%**	**-4.9%**	**15.1%**	**16.7**	**16.5**	**2.7**	**3.0**	**17.9%**	**18.6%**	**13.1%**	**13.6%**

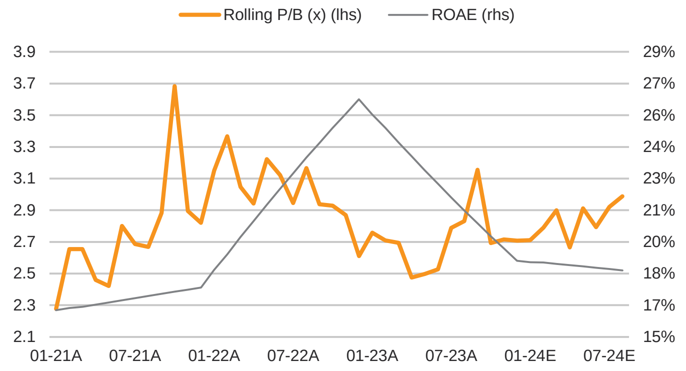
Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 14 August 2024)

Re-rating catalyst and downside risk:

- Re-rating catalysts would be a higher global oil price and the contribution of LNG.
- Downside risks include declines in oil price, further delays of NT3 and NT4 power plants and lower-than-expected dry gas sales volume.

Valuation





Income statement

(VNDbn)	12-23A	12-24E	12-25E
Net revenue	89,954	101,796	110,121
Cost of sales	(73,029)	(84,191)	(91,668)
Gen & admin expenses	(1,475)	(1,934)	(1,321)
Selling expenses	(2,544)	(2,545)	(2,533)
Operating profit	**12,906**	**13,126**	**14,598**
Operating EBITDA	15,957	16,259	18,138
Depreciation and amortisation	**(3,051)**	**(3,133)**	**(3,540)**
Operating EBIT	**12,906**	**13,126**	**14,598**
Interest income	2,273	1,758	1,728
Financial expense	(587)	(622)	(598)
Net other income	20	23	25
Income from associates & JVs	27	30	33
Pre-tax profit	**14,640**	**14,315**	**15,786**
Tax expense	(2,846)	(2,783)	(3,069)
Minority interest	(187)	(183)	(202)
Net profit	**11,606**	**11,349**	**12,515**
Adj. net profit to ordinary	11,606	11,349	12,515
Ordinary dividends	(7,122)	(13,780)	(8,039)
Retained earnings	**4,484**	**(2,431)**	**4,477**

Balance sheet

(VNDbn)	12-23A	12-24E	12-25E
Cash and equivalents	5,669	2,920	4,964
Short term investments	35,085	34,734	34,386
Accounts receivables	16,865	19,086	20,646
Inventories	3,945	3,921	4,269
Other current assets	654	740	801
Total current assets	**62,218**	**61,401**	**65,067**
Fixed assets	19,532	19,512	21,136
Total investments	716	716	716
Other long-term assets	5,288	5,288	5,288
Total assets	**87,754**	**86,917**	**92,208**
Short-term debt	1,605	1,816	1,164
Accounts payable	7,138	7,241	7,833
Other current liabilities	6,229	7,049	7,626
Total current liabilities	**14,972**	**16,106**	**16,622**
Total long-term debt	4,271	4,350	5,029
Other liabilities	3,213	3,213	3,213
Share capital	22,967	22,967	22,967
Retained earnings reserve	16,880	14,773	18,788
Shareholders' equity	**64,049**	**61,942**	**65,957**
Minority interest	1,250	1,305	1,385
Total liabilities & equity	**87,754**	**86,917**	**92,208**

Cash flow statement

(VNDbn)	12-23A	12-24E	12-25E
Pretax profit	**14,640**	**14,315**	**15,786**
Depreciation & amortisation	3,051	3,133	3,540
Tax paid	(3,134)	(2,783)	(3,069)
Other adjustments	(2,338)	(1,697)	(1,855)
Change in working capital	**1,014**	**(1,149)**	**(1,453)**
Cash flow from operations	**13,232**	**11,819**	**12,948**
Capex	(1,769)	(3,112)	(5,164)
Proceeds from assets sales	1	0	0
Others	(8,878)	2,034	2,272
Other non-current assets changes			
Cash flow from investing activities	**(10,647)**	**(1,078)**	**(2,892)**
New share issuance			
Shares buyback			
Net borrowings	(344)	291	27
Other financing cash flow	0	0	0
Dividends paid	(7,122)	(13,780)	(8,039)
Cash flow from financing activities	**(7,465)**	**(13,490)**	**(8,012)**
Cash and equivalents at beginning of period	10,549	5,669	2,920
Total cash generated	**(4,880)**	**(2,749)**	**2,044**
Cash and equivalents at the end of period	5,669	2,920	4,964

Key ratios

	12-23A	12-24E	12-25E
Dupont			
Net profit margin	12.9%	11.1%	11.4%
Asset turnover	1.06	1.17	1.23
ROAA	13.6%	13.0%	14.0%
Avg assets/avg equity	1.38	1.39	1.40
ROAE	18.7%	18.0%	19.6%
Efficiency			
Days account receivable	68.4	68.6	68.4
Days inventory	19.7	17.0	17.0
Days creditor	35.7	31.5	31.2
Fixed asset turnover	5.01	5.21	5.42
ROIC	16.3%	16.3%	17.0%
Liquidity			
Current ratio	4.2	3.8	3.9
Quick ratio	3.9	3.6	3.7
Cash ratio	2.7	2.3	2.4
Cash cycle	52.5	54.2	54.2
Growth rate (yoy)			
Revenue growth	(10.7%)	13.2%	8.2%
Operating profit growth	(27.5%)	1.7%	11.2%
Net profit growth	(21.6%)	(2.2%)	10.3%
EPS growth	(34.6%)	(2.2%)	10.3%

Source: VND RESEARCH

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Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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