Southern Gas Joint Stock Company (PGS – HNX)

Commendable Growth in LPG Segment

Particulars (VND bn)	Q1-FY17	Q4-FY16	*+/- qoq*	Q1-FY16	*+/-yoy*
Net revenue	1,650	1,515	9%	1,229	34%
PAT	25	20	24%	185	-87%
EBIT	33	25	29%	14	126%
EBIT margin	2.0%	1.7%	0.3%	1.2%	0.8%

*Sources: PGS, RongViet Research**

In Q1 2017, PGS achieved VND1,650 bil (+34% YoY) in revenue. Even though PBT appeared to significantly decline by 87% YoY, equivalent to VND30.96 bil, there were a significant improvement of more than 90% YoY if we exclude the extraordinary profit from CNG divestment last year. PAT was VND24.72 bil in Q1 2017.

LPG Segment: commendable growth. The domestic retail price has been much more stable than the global price due to the components of domestic price which include premium, commission and discount for retailers and transportation cost. In Q1 2017, CP Aramco averaged USD 520/ton, equivalent to the increase of 60% YoY while the selling price of LPG also surged to over VND330,000/12 kg tank (+20.3% YoY). Along with the positive increase in output (more than 61,000 tons in Q1 2017, +7% YoY), those were the main reasons for a strong increase in revenue with 43% YoY*, equivalent to VND1,336 bil. Profit margin also improved when we compare with the same period last year and previous quarter thanks to the focus on tank segment.

CNG Segment: narrowed profit margin. Average FO 3%S price in Q1 2017 increased by 52.7% YoY, equivalent to VND 11,760/liter, resulting in the increase in CNG selling price. Moreover, output reached 25.8 million m^3 (+23% YoY). Consequently, revenue of this segment was VND316 bil (+125% YoY)*. However, profit margin dropped from 64.8% in Q1 2016 to 42.2% in Q1 2017, it is also the lowest level since 2014. The reason comes from the adjustment of price mechanism from GAS. However, thanks to the increase in both volume and selling prices, gross profit of CNG segment still grew by 46% YoY.

2017 Outlook: Better Outlook After the Divestment of CNG

We expect future improvement in efficiency for the company's LPG segment thanks to (1) increase the number of sale outlets, (2) stable input prices and (3) boosting marketing and brand awareness. In contrast, there will be moderate growth for its CNG segment because improvement in selling prices will be partially eliminated by the decline in profit margin. Dividend payment for this year is expected to be 16% which is from 8% of 2016 (06/06/2017) and prepaid 8% for 2017 earnings. Dividend yield is around 8 – 9%.

Recommendation and Valuation. With the orientation to focus more on LPG products to make a firm base of PGS's business, there will be continuous expansion and improvement in business efficiency for this segment. Its CNG segment will experience the modest performance due to the control of GAS in term of input prices. RongViet Research forecasted revenue and PAT of PGS for 2017 to be VND 6,780 bil (+36.4% YoY) and VND 124 bil, respectively. Fair price for PGS is projected to be **VND 21,700/share**. Therefore, our recommendation is **ACCUMULATE** for this stock in **INTERMEDIATE**.

ACCUMULATE

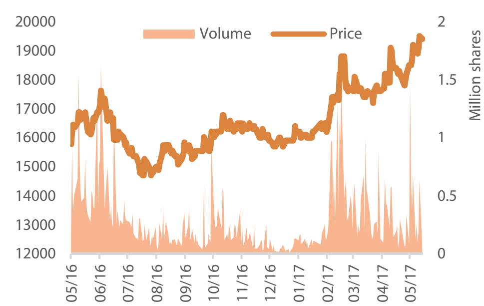
CMP (VND)	19,500
Target Price (VND)	21,700
Investment Period	Intermediate

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	975
Current Shares O/S	59,998,794
Beta	1.49
Free float (%)	49
52 weeks High	19,700
52 weeks Low	14,500
Avg. Daily Volume (in 20 sessions)	300,000

	FY16	Current
EPS	6,834	2,464
EPS Growth	206.7%	-63.9%
Diluted EPS	6,834	2,464
P/E	2.3	7.8
P/B	0.8	0.9
EV/EBITDA	2.9	2.9
Cash dividend (on par)	30%	15%
ROE	35.3%	12.3%

Price performance



Major Shareholders (%)

PVGas	26.80
MB Capital	4.87
Halley Sicav - Halley Asian Prosperity	4.26
Foreign Investor Room (%)	35.94

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**Note for this report*

***For the total revenue (and earnings) of PGS**, we compared Q1 2017 figure to the consolidated report.*

***For the revenue of LPG**, we compared Q1 2017 figure to revenue of Q1 2016 from consolidated report because it truly reflects the whole LPG segment of the company.*

***For the revenue of CNG**, we compared Q1 2017 figure to revenue of Q1 2016 from parent report because it truly reflects the CNG segment of PGS, excluding CNG Vietnam in Q1 2016.*

Exhibit 1: Q1-FY2017 Results (Consolidated)

Particulars (VND bn)	Q1-FY17	Q4-FY16	% chg (qoq)	Q1-FY16	% chg (yoy)
Net Revenues	1,650.4	1,515.2	8.9%	1,229.0	34.3%
Gross profits	263.9	306.7	-14.0%	216.2	22.0%
SG&AC	211.1	213.1	-0.9%	144.3	46.3%
Operating Income	52.8	93.6	-43.6%	71.9	-26.6%
EBITDA	32.7	25.4	28.8%	14.5	125.8%
EBIT	32.7	25.4	28.8%	14.5	125.8%
Financial expenses	4.5	4.5	0.2%	32.4	-86.2%
- Interest Expenses	4.4	4.2	4.5%	7.3	-39.5%
Dep. and amortization	0.0	0.0	-	-	-
Non-recurring Items (*)			-	-	-
Extraordinary Items (*)			-	242.0	-
PBT	31.0	25.0	23.6%	257.7	-88.0%
PAT	24.7	19.9	24.1%	184.6	-86.6%
(*) Adjusted PAT	24.7	19.9	24.1%	12.6	96.0%

Sources: PGS, RongViet Research

Exhibit 2: Q1-FY2017 performance analysis (Consolidated)

Particulars	Q1-FY17	Q4-FY16	% chg (qoq)	Q1-FY16	% chg (yoy)
Profitability Ratios (%)					
Gross Margin	16.0%	20.2%	-4.3%	17.6%	-1.6%
EBITDA Margin	2.0%	1.7%	0.3%	1.2%	0.8%
EBIT Margin	2.0%	1.7%	0.3%	1.2%	0.8%
Net Margin	1.5%	1.3%	0.2%	15.0%	-13.5%
Adjusted Net Margin	1.5%	1.3%	0.2%	15.0%	-13.5%
Turnover *(x)					
-Inventories	34.8	38.2	-3.3	31.6	3.2
-Receivables	11.2	9.0	2.3	7.8	3.5
-Payables	6.1	5.2	0.9	4.0	2.1
Leverage (%)					
Total Debt/ Equity	119.9%	116.4%	3.5%	123.2%	-3.3%

Sources: PGS (*) Annualized turnover

Updated information

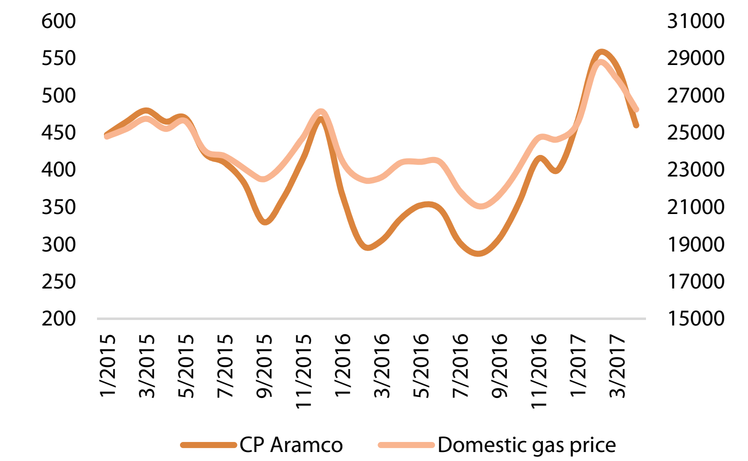
LPG Segment

- In 05/2017, Aramco contract price (CP) for propane and butane were set at USD 385/ton and USD 390/ton. There were significantly drops of -10.5% MoM and -20.4% MoM respectively.
- In 05/2017, gas price averaged VND 294,000/tank in Southern region. The declines were -6.6% MoM and -7.3% YoY. Currently, gas price has been relatively stable along with global oil prices. Stability will benefit PGS in long-term due to no adjustment in selling price and more efficiency in inventory and sale management.
- LPG output in Q1 2016 was around 57,000 tons. This figure for Q1 2017 was around 61,100 tons, increased by over 7% YoY. This output included both tank and bulk segments of LPG.
- PGS is concentrating on opening new stores which will increase the total number of outlets by 20 – 30% this year. The strategy from PGS is to directly distribute the products and not go through any other medium.
- Currently, with 35% market share in Southern region, PGS has the comparative advantage compared to private distributors in term of financial health and the coverage. LPG tank output is projected to be 181,160 tons, increased by 10% YoY in 2017.
- Profit margin is expected to maintain at around 12 – 13%. For LPG tank, RongViet Research believes higher premium policy will be implemented. We think PGS has the ability to transfer the increase in input prices to selling prices for customers.
- The improvement in profit margin in Q1 2017 could come from the proportion of LPG tank. Because of higher profit margin of this segment (around 18 – 19%) compared to 1 – 2% of LPG bulk, there might even be increase in margin when output decline (output of LPG bulk drops).
- Projected revenue for LPG segment is VND 5,264 bil (+30% YoY).

CNG Segment

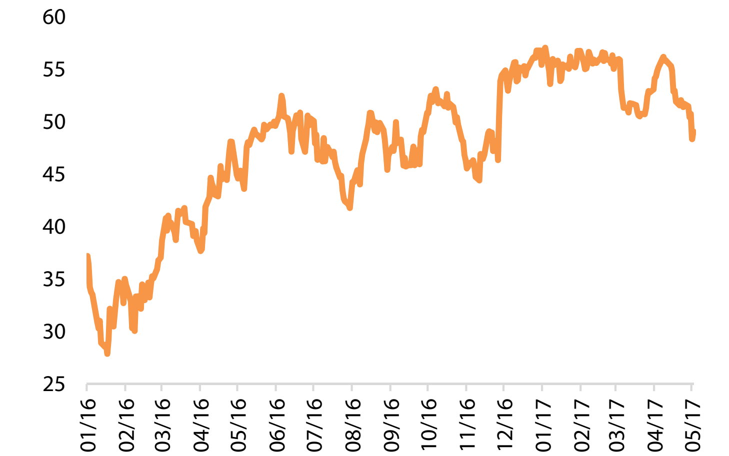
- CNG segment will significantly increase in term of consumption with new customers and higher demand from existing ones.
  - Samsung CE will increase the consumption to around 6 – 7 million m^3 while Nam Kim 3 factory is projected to consume 10 million m^3 of CNG.
  - New customers such as Tay Nam Steel, TVP 2 Steel, Net 2 detergent, Bellituf artificial grass, BMT Bien Hoa and especially transportation segment will contribute positively to the increase in output for CNG.
- Q1 2017 output is estimated to be 25.8 million m^3. Q1 2016 output was only around 21 million m^3. Therefore, the growth rate in output was nearly 23% YoY.
- RongViet Research forecasted total output will improve by more than 15 million m^3, equivalent to more than 122 million m^3 of CNG in 2017 (+16% YoY).
- Related to the adjustment for the input price of CNG segment, we expect the discount ratio based on FO prices will decline by the addition of 5 – 7%. In Q1 2017, margin already decreased by nearly 20%. We think that GAS will make further adjustment to smoothen the earnings of CNG further in the next quarters. Therefore, the gross margin of CNG segment will drop by 10 – 15% in 2017.
- However, it is not a serious problem for FY2017 because FO prices are projected to be 50% higher than previous year. Therefore, it helps PGS to eliminate the risk of declining profit in term of value. Moreover, the recovery of base price will provide more room for CNG to cope with further changes from GAS or sudden movement of global prices.
- RongViet Research projected the profit margin of CNG for this year to be around 44% based on the assumption above.
- Projected revenue of CNG segment is VND 1,340 bil (+65% YoY).

CP Aramco and Retail Gas Price in Northern Region (Unit USD/tons for CP and VND/kg for Domestic Price)



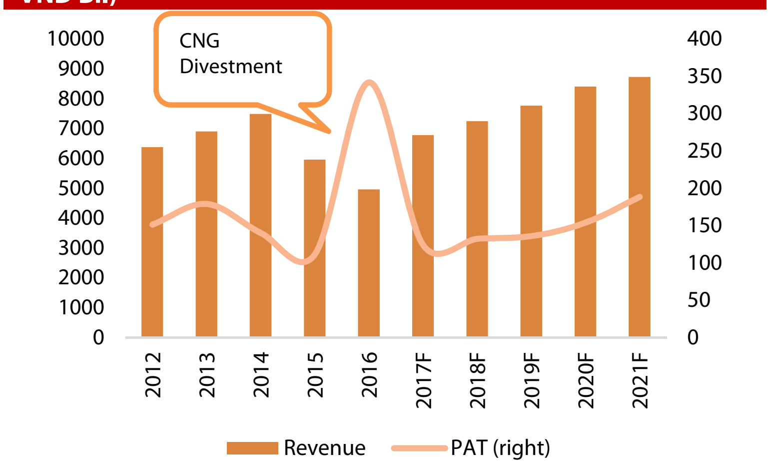
Source: RongViet Research

Global Oil Price (Unit: USD/barrel)



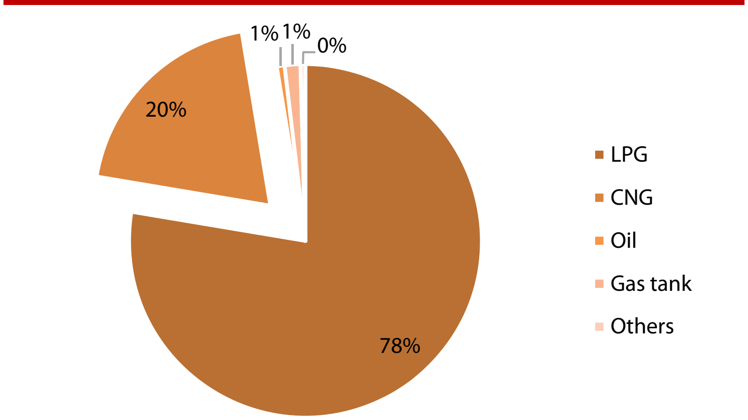
Source: RongViet Research

Forecasted PGS's Business Results During 2017 – 2021 (Unit: VND Bil)



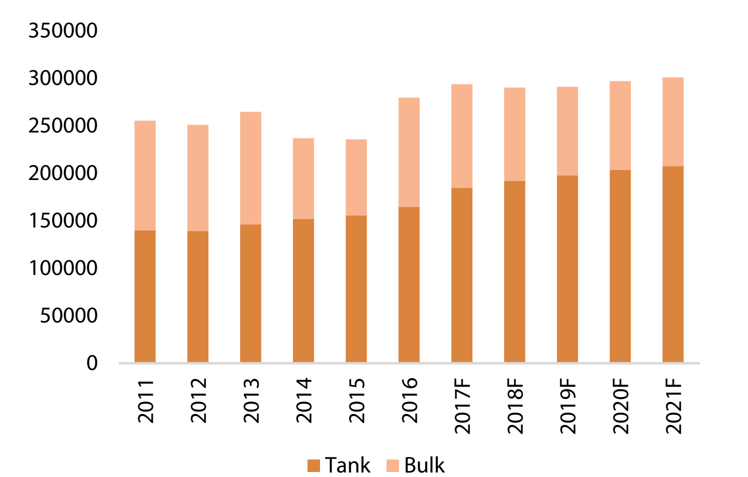
Source: RongViet Research

Revenue Structure in 2017



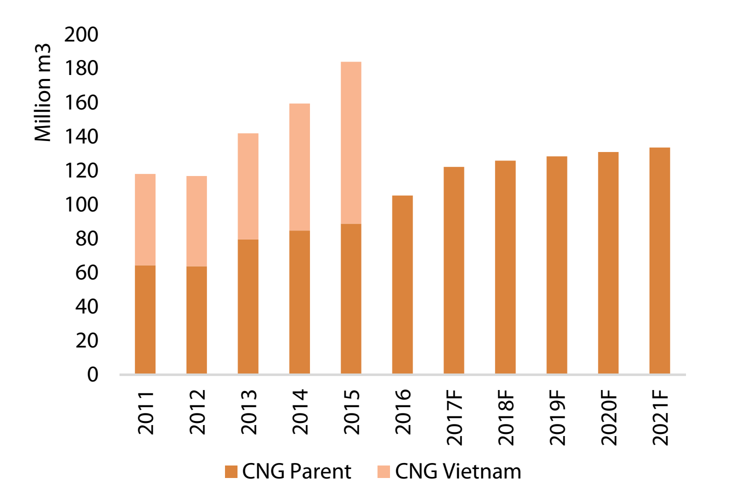
Source: RongViet Research

Forecasted LPG Output (Unit: Tons)



Source: RongViet Research

Forecasted CNG Output



Source: RongViet Research

VND billion

INCOME STATEMENT	2015A	2016A	2017F	2018F
Revenue	5,956	4,972	6,780	7,243
COGS	4,827	4,031	5,546	5,878
Gross profit	1,129	941	1,234	1,365
Selling expenses	718	767	963	1,072
G&A expenses	173	80	108	123
Financial income	11	398	29	36
Financial expense	28	72	39	43
Other income/loss	7	2	2	2
Gain/(loss) from joint ventures	0	0	0	0
PBT	227	423	155	165
Tax expense	62	81	31	33
Minority interests	53	0	0	0
PAT	111	342	124	132
EBIT	238	94	163	170

FINANCIAL RATIO	2015A	2016A	2017F	2018F
Growth				
Revenue	-20.5%	-16.5%	36.4%	6.8%
Operating Income	-12.3%	-50.3%	37.3%	5.2%
EBITDA	-11.6%	-60.3%	72.8%	4.1%
PAT	-20.6%	206.7%	-63.7%	6.7%
Total Assets	-19.3%	-12.9%	24.3%	5.3%
Equity	-5.5%	8.6%	4.3%	4.9%
Internal growth rate	-20.5%	-16.5%	36.4%	6.8%
Profitability				
Gross profit/Revenue	19.0%	18.9%	18.2%	18.8%
Operating profit/ Revenue	8.1%	4.8%	4.9%	4.8%
EBITDA/ Revenue	4.0%	1.9%	2.4%	2.3%
Net margin	1.9%	6.9%	1.8%	1.8%
ROAA	4.3%	15.2%	4.4%	4.5%
ROAE	19.2%	8.2%	13.7%	13.7%
Efficiency				
Receivable Turnover	9.0	8.9	8.9	8.9
Inventory Turnover	33.0	33.5	34.6	34.6
Payable Turnover	4.8	4.9	4.5	4.5
Liquidity				
Current	1.0	1.0	1.1	1.1
Quick	0.9	0.9	1.0	1.0
Solvency				
Total Debt/Equity	49.3%	33.3%	41.1%	41.6%
Current Debt/Equity	38.6%	29.0%	37.0%	37.7%
Long-term Debt/ Equity	10.8%	4.3%	4.1%	3.9%

VND billion

BALANCE SHEET	2015A	2016A	2017F	2018F
Cash and cash equivalents	409	408	779	919
Short-term investments	13	7	7	7
Accounts receivable	660	559	761	813
Inventories	146	120	160	170
Other current assets	62	41	41	41
Property, plant & equipment	737	581	515	439
Acquired intangible assets	52	28	28	27
Long-term investments	0	0	0	0
Other non-current assets	504	505	505	530
Total assets	**2,584**	**2,250**	**2,797**	**2,946**
Accounts payable	1,003	825	1,233	1,306
Short-term borrowings	343	280	373	398
Long-term borrowings	96	42	42	42
Other non-current liabilities	111	119	125	125
Bonus and Welfare fund	18	16	16	16
Technology-science development fund	7	0	0	0
Total liabilities	**1,578**	**1,283**	**1,788**	**1,888**
Common stock and APIC	546	546	546	546
Treasury stock	0	0	0	0
Retained earnings	43	64	105	155
Other comprehensive income	5	0	0	0
Investment and Development	296	357	357	357
Total equity	**890**	**967**	**1,008**	**1,058**
Minority Interest	**179**	**0**	**0**	**0**

VALUATION RATIO	2015A	2016A	2017F	2018F
EPS (dong)	2,228	6,837	2,464	2,632
P/E (x)	6.6	2.3	7.8	7.3
BV (dong)	21,375	19,339	20,167	21,162
P/B (x)	0.7	0.8	0.9	0.9
DPS (dong/cp)	1,500	3,000	1,500	1,500
Dividend yield (%)	10	19	8	8

VALUATION MODEL	Price	Weight	Average
FCFE	21,200	50%	10,600
P/E	22,200	50%	11,100
Target price (dong/share)			**21,700**

VALUATION HISTORY	Price	Recommendation	Period
26/05/2016	20,600	Accumulate	Intermediate
10/07/2015	27,000	Buy	Intermediate

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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