CNG Viet Nam Joint Stock Company (CNG – HSX)

Potential growth from building materials industry's well-being

Particulars (VND bn)	Q3-FY14	Q2-FY14	+/- qoq	Q3-FY13	+/- yoy
Net Revenues	299.7	278.6	8%	261.2	15%
PAT	37.2	29.0	28%	28.2	32%
EBIT	47.2	34.4	37%	28.3	67%
EBIT margin (%)	15.8%	12.3%	342bps	10.8%	494bps

Sources: CNG

- **2014 profits grow high at unchanged input gas price since Q2**
- **Sales growth linked to building materials industry's well-being**
- **To merge into or disassociate from PGS will be decided beyond 2015**
- **2015: Ham Rong – Thai Binh project and the magnitude of gas price increase on focus**

Outlook and Valuation:

Compared with other oil and gas companies, CNG appeal comes from its good fundamentals, relative simple business structure and focus on core activities. The Company is the first and largest manufacturer and distributor of compressed natural gas in Vietnam with a capacity of up to 70 million m^3. CNG's primary market is the Southeast region and surrounding areas such as Ba Ria-Vung Tau, Binh Duong, Dong Nai, Ho Chi Minh City, Long An and Binh Thuan.

CNG has posted optimistic and stable business results throughout 2014 thanks to adjusted input gas price since Q2. In 2015, the increase of input gas price by PVGas will be a big challenge for CNG. However, given observed efforts of the Company to maintain a stable gross profit margin in the past, 2015 business results may not be a letdown to CNG's shareholders. In addition, natural gas gathering and distributing projects of Ham Rong and Thai Binh make the bases for CNG's venture to the Northern market. For those reasons, we recommend **ACCUMULATION** on the stock of CNG in the **LONG TERM** at a target price of **VND46,000/share**.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	Lũy kế đến HT	FY2014E	FY2015F
Net Revenues	801.2	949.8	810.5	1,102.7	1,272.8
% chg	9.5%	18.5%	14.3%	16.1%	15.4%
PAT	117.9	123.9	91.1	127.2	123.8
% chg	-42.0%	5.1%	-3.7%	2.7%	-2.7%
EBIT margin (%)	14.7%	13.0%	11.2%	11.5%	9.7%
ROA (%)	17.7%	19.8%		19.0%	16.9%
ROE (%)	30.7%	30.1%		27.7%	25.6%
EPS (VND)	4,736	4,736		4,712	4,586
Adjusted EPS (VND)	1,245	4,736		4,712	4,586
Book value (VND)	17,844	16,426		17,632	18,224
Cash dividend (VND)					
P/E (x)	5.1	6.6		8.5	9.3
P/BV (x)	1.4	1.9		3.0	2.8

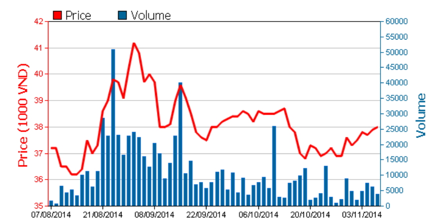
Sources: CNG, Stock price as of10/11/2014

ACCUMULATION

CMP (VND)	37,800
Target Price (VND)	46,000
Investment Period	Long term

Stock Info

Sector	Utilities
Market Cap (VND bn)	1,023
Current Shares O/S	27,000,000
Beta	0.70
Free float (%)	44.12
52 weeks High	46,400
52 weeks Low	27,100
Avg. Daily Volume (in 20 sessions)	63,624



Performance (%)

	3M	1Y	3Y
CNG	4	22	N/a
Utilities	19	41	N/a
VN30 Index	1	15	N/a
HSX Index	0	20	50

Major Shareholders (%)

PGSouth	55.2
Vu Tuan Ngoc	0.26
Dang Van Vinh	0.25
Foreigner Investor Room (%)	49

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Exhibit 1: 3QFY2014 and YTD Results

Particulars (VND bn)	Q3-FY14	Q2-FY14	+/- (qoq)	Q3-FY13	+/- (yoy)	Lũy kế đến HT	+/-(yoy)
Net Revenues	299.7	278.6	7.6%	261.2	14.8%	810.5	*14.3%*
Gross profits	63.4	61.5	3.2%	53.8	17.9%	177.8	*15.1%*
SG&AC	21.9	24.1	-9.2%	23.2	-5.5%	72.3	*42.3%*
Operating Income	41.5	37.4	11.1%	30.6	35.6%	105.5	*-1.4%*
EBITDA	65.7	52.1	26.1%	60.4	8.7%	171.8	*-18.7%*
EBIT	47.2	34.4	37.5%	28.3	67.2%	111.3	*0.0%*
Financial expenses	1.9	1.8	5.5%	3.2	-39.4%	5.8	*-51.2%*
- Interest Expenses	1.9	1.8	8.6%	-3.2	-160.6%	5.7	*7.7%*
Dep. and amortization	-18.4	-17.7	4.0%	-32.2	-42.7%	-60.5	*-39.5%*
Non-recurring Items (*)							
Extraordinary Items (*)							
PBT	45.3	32.6	39.0%	31.4	44.1%	105.6	*-0.4%*
PAT	37.2	29.0	28.4%	28.2	31.9%	91.1	*-3.7%*
(*) Adjusted PAT	37.2	29.0	28.4%	28.2	31.9%	91.1	

Sources: CNG, RongViet Securities

Exhibit 2: 3QFY2014 performance analysis

Particulars	Q3-FY14	Q2-FY14	+/- (qoq)	Q3-FY13	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	21.2%	22.1%	-91bps	20.6%	56bps
EBITDA Margin	21.9%	18.7%	321bps	23.1%	-123bps
EBIT Margin	15.8%	12.3%	342bps	10.8%	494bps
Net Margin	12.4%	10.4%	201bps	10.8%	161bps
Adjusted Net Margin	12.4%	10.4%	201bps	10.8%	161bps
Turnover *(x)					
-Inventories	53.6	44.5	9.1	38.4	15.2
-Receivables	6.2	6.1	0.1	6.4	-0.2
-Payables	4.6	4.8	-0.2	6.7	-2.1
Leverage (%)					
Total Debt/ Equity	0.6	0.8	-0.2	0.6	0.0

Sources: CNG, RongViet Securities

2014 profits grow high at unchanged input gas price since Q2

Revenue in 9M2014 reached VND810 billion, up 14% over a one-year period. The gas output was also estimated at around 54 million m^3. The average purchase price in 1Q2014 was USD 8.96 /mmBTU; however, CNG has managed to get GAS agree not to raise its input gas price in 2Q2014 (USD 8.53 /mmBTU) to assist the Company as its customers are switching to biomass for lower energy costs, the one thing that will immediately have a negative impact on CNG's consumption volume. Therefore, the average input price in 9M2014 was only USD8.64/mmBTU. On average, however, selling price has little change at approximately USD17.4/mmBTU.

NPAT in 9M2014 was estimated at VND91 billion; down 4% at the incurrence of a fine for late tax payment of VND7.15 billion. Included in Other expenses, the amount was slashed off NPAT. Besides, the Company was subject to a retroactive tax collection including VAT, corporate income tax, personal income tax and foreign withholding tax for the period 2011-2013 that was worth about VND20.53 billion. Fortunately, this amount has been deducted directly from equity by means of provision.

In contract, depreciation expense has declined sharply so far in 2014 as CNG switched to accelerated depreciation from 2011 to 2013. Depreciation expense is estimated to drop 39% this year as compared to 2013.

We believe that revenue for 2014 will grow about 16% to VND1.102 billion but NPAT only 2.68% to VND127 billion as the result of adjusted income tax.

Exhibit 3: Quarter 4/2014 Estimates

Particulars (VND bn)	Q4-FY14	+/- qoq	+/- yoy
Net Revenues	292	-3%	21%
Gross profits	65	3%	28%
EBIT	46	-3%	28%
PAT	36	-3%	23%

Sources: CNG, RongViet Securities

Exhibit 4: Key Assumption

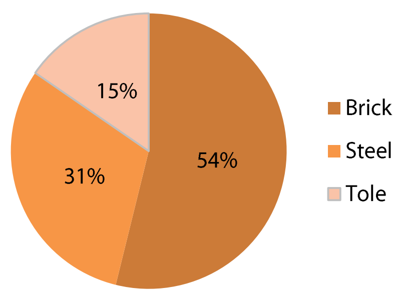
Particular	Revised Estimates	
	FY2014E	FY2015F
Revenue growth (%)	16%	15%
Volume growth (%)		
Gross margin (%)	22%	20%
EBIT margin (%)	14%	12%

Sales growth linked to building materials industry's well-being

CNG Vietnam supplies gas to customers in the construction materials and the food industry. In 2013, construction materials and food customers accounted for 60% and 40% of revenue, respectively. 70% of CNG's revenue now comes from construction materials clients and 30% from food producers. One of the reasons for the changes in the revenue structure by customer type is increasing competition cheaper alternative fuels such as coal and biomass.

In the 2014 Annual General Meeting, CNG also said some of its smaller food-producing customers had switched to use biomass. Even so, it is higher thermal requirements of the construction materials industry that makes CNG the fuel of choice. Therefore, the building material segments CNG will have its focus on in the near future include brick, steel and corrugated manufacturers. This is the segments expected to rebound strongly in 2014 and 2015 onwards as the result of improvements of the overall economy and the strengthening of infrastructure investment.

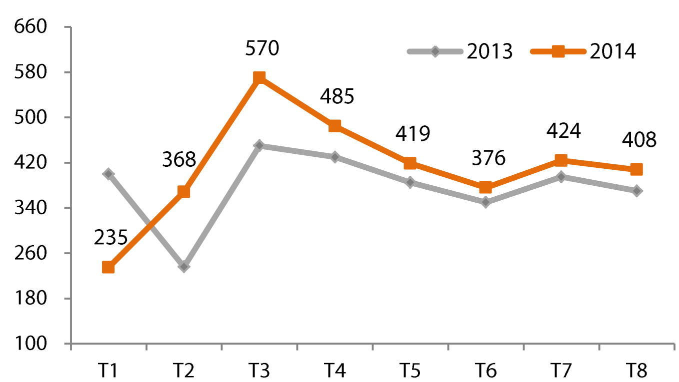
Exhibit: Structure of construction materials customers 2014



Source: CNG

In early 2014, the utilization of the construction material industry showed positive progress. According to Vietnam Steel Association, by August, domestic construction steel sector was able to maintain the level of production and consumption above the average of several years as well as the same period of 2013. In general, the member firm of the VSA produced 3.2 million tons of construction steel, up by 9.09% over a year earlier during the 8-month period. The total sales volume was 3.3 million tons, also up by 10.17%.

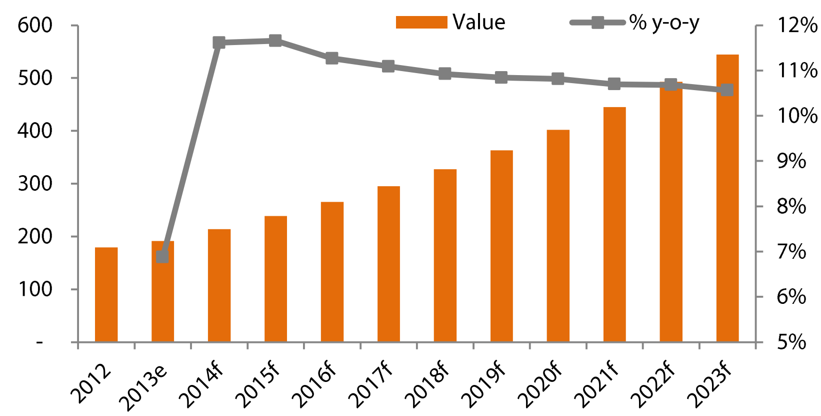
Exhibit 1: Construction steel sales chart for the first 8 months 2014 (Unit: thousand ton)



Source: VSA

In addition, combining BMI's forecast of two-digit growth for the construction industry from 2014 onwards as well as our own observations, we see a high chance that the construction material industry will see brighter picture next year even though a remarkable "jump" of the output is not expected. The implication of this is that CNG consumption growth can only come from the firm's efforts to find new customers.

Exhibit 2: Construction industry value from 2012-2023F (Unit: trillion VND)



Source: BMI

Based on the concentration of the construction material customers, we see it likely that CNG's production output will remain stable next year. Nonetheless, it is also as risk that CNG's operations are heavily exposed to the well-being of the construction material industry.

To merge into or disassociate from PGS will be decided beyond 2015

CNG is now a subsidiary of PGS, who holds about 55.2% of CNG's share capital. Under the restructuring scheme of the PVGas, third-level companies must not be organized under a parent-subsidiary model. It means that PGS may have to divest in part or wholly from CNG or increase the percentage to 100%. However, through discussions with the firm, we see that the likelihood of the divestment is quite low. Instead, company can ask for permission to maintain its current structure.

The first scenario is CNG will continue to be a subsidiary of PGS and PGS will benefit from preferential income tax, also applicable on dividends, when distributing CNG (gas) to the market through CNG Vietnam. On the other hand, CNG and PGS will be less pressured to compete and can instead support each other. CNG Vietnam will have more resources to focus to expand its volume, and PGS to develop distribution channels and storage capacity. The latter company will even have more room to expand its LPG segment.

In another scenario, PGS will increase ownership of CNG to 100%, which will require the parent company to raise additional capital or shift its capital structure towards more debts. The latter option seems costly for PGS since it will increase the Debt/Owner equity ratio and affect the financial health of PGS, creating a huge pressure for the Company to maintain its focus on core segments and costing it the benefit of preferential income tax from CNG.

From this side-to-side perspective, we see a higher likelihood for scenario wherein the plan either to merge CNG with or to separate it from PGS will not be decided next year.

2015: Ham Rong – Thai Binh project and the magnitude of gas price increase on focus

In the year 2015, CNG outlook will depend on capital investments, the prices of input and output gas and Ham Rong-Thai Bình project.

Until now, CNG has yet to have a specific investment plan for the year 2015. To avoid unnecessary interest, CNG will invest in capacity expansion only when there are new customers. Nevertheless, we believe investors need to follow the progress of gas gathering and distributing at Ham Rong and Thai Binh gas fields in 2015 and the ensuing years. These projects will distribute CNG gas to Tien Hai Bang Industrial Zone by pipes (through PGD), and at the same time to small industrial clients at longer distances by specialized vehicles (PGS, CNG and PVG's undertaking). Gas distribution (CNG and low-pressure gas) is estimated around 560,000 m^3/day (around 200 million m^3/year). According to CNG Viet Nam, realizing the potential to expand gas consumption, the firm has set up an office in the North to access the Northern market.

However, an ongoing risk for CNG is the expected increase of input gas price during 2015 under PVGas' price-raising scheme. We know upon speaking with PGS that the incremental input gas price would be somewhere between 8% and 15%. Therefore, the earnings outlook of CNG will depend on the ability to put through the cost increases to its customer. When this is achieved, however, higher offering prices will have a negative impact on the competitiveness of CNG against alternative fuels such as biomass and charcoal.

Considered both supporting and adverse factors, we believe CNG's business results will not be affected much in the year 2015. Revenue forecasted to grow around 15% to VND1.272 billion. Even though the increase of input gas price would lead to increase production cost, it will not have a significant impact on CNG's gross profit because the depreciation will continue to decrease in 2015, such that NPAT of CNG may drop a slight 2.68%, to VND123.8 billion.

Outlook

Compared with other oil and gas companies, CNG appeal comes from its good fundamentals, relative simple business structure and focus on core activities. The Company is the first and largest manufacturer and distributor of compressed natural gas in Vietnam with a capacity of up to 70 million m^3. CNG's primary market is the Southeast region and surrounding areas such as Ba Ria-Vung Tau, Binh Duong, Dong Nai, Ho Chi Minh City, Long An and Binh Thuan.

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VND Billion

INCOME STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Revenue	801.2	949.8	1,102.7	1,272.8
COGS	616.2	744.3	859.8	1,024.4
Gross profit	**185.0**	**205.5**	**242.9**	**248.4**
Selling Expense	7.3	11.8	13.3	15.6
G&A Expense	39.5	58.7	82.1	94.8
Finance Income	20.8	19.4	15.9	15.1
Finance Expense	23.5	14.7	7.7	6.9
Other profits	-3.3	-0.8	-6.1	0.0
PBT	**132.2**	**139.0**	**149.5**	**146.2**
Prov. of Tax	14.3	15.1	22.3	22.4
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**117.9**	**123.9**	**127.2**	**123.8**
EBIT	**155.7**	**153.5**	**157.2**	**153.1**
EBITDA	275.9	286.6	237.7	239.3

%

FINANCIAL RATIO	FY2012	FY2013	FY2014E	FY2015F
Growth				
Revenue	9.5%	18.5%	16.1%	15.4%
Operating Income	-43.3%	-2.3%	9.2%	-6.4%
EBITDA	-17.7%	3.9%	-17.1%	0.7%
EBIT	-38.5%	-1.4%	2.4%	-2.6%
PAT	-42.0%	5.1%	2.7%	-2.7%
Total Assets	-11.6%	0.7%	12.7%	7.2%
Equity	-1.9%	16.5%	7.3%	3.4%
Internal growth rate	5.7%	7.1%	7.1%	3.3%
Profitability				
Gross profit/Revenue	23.1%	21.6%	22.0%	19.5%
Operating profit/ Revenue	17.2%	14.2%	13.4%	10.8%
EBITDA/ Revenue	34.4%	30.2%	21.6%	18.8%
EBITDA/ Revenue	19.4%	16.2%	14.3%	12.0%
Net margin	14.7%	13.0%	11.5%	9.7%
ROAA	17.7%	19.8%	19.0%	16.9%
ROIC or RONA	32.6%	32.7%	31.7%	29.2%
ROAE	30.7%	30.1%	27.7%	25.6%
Efficiency				
Receivable Turnover	5.5	5.9	6.2	6.2
Inventory Turnover	39.1	33.3	35.5	37.1
Payable Turnover	4.9	7.0	6.4	5.9
Liquidity				
Current	1.9	3.5	3.1	3.3
Quick	1.8	3.3	2.9	3.2
Solvency				
Total Debt/Equity	63.9%	41.6%	48.8%	54.2%
Current Debt/Equity	15.8%	8.9%	7.6%	6.9%
Long-term Debt/ Equity	18.3%	6.8%	6.0%	7.9%

VND Billion

BALANCE SHEET	FY2012	FY2013	FY2014E	FY2015F
Cash and equivalents	85.3	249.8	393.0	469.5
Short-term investment	55.1	65.0	0.0	0.0
Receivables	152.1	168.6	185.7	227.3
Inventories	21.5	23.2	25.2	30.1
Other current assets	2.4	4.4	0.7	0.7
Total Current Asset	**316.4**	**511.0**	**604.7**	**727.6**
Tangible Fixed Assets	191.8	82.1	99.6	27.6
Intangible Fixed Assets	0.1	0.1	0.8	0.7
Construction in Progress	5.4	1.4	0.0	0.0
Investment Property	0.0	0.0	0.0	0.0
Long-term Invest ment	60.0	0.0	0.0	0.0
Other long-term assets	50.1	33.7	3.1	3.1
Long-term Asset	0.0	0.0	0.0	0.0
Total Asset	**307.3**	**117.2**	**103.5**	**31.3**
Payables	**623.7**	**628.1**	**708.2**	**758.9**
Other current liabilities	91.4	91.0	108.8	127.5
Current Debt	14.8	16.8	51.4	59.3
Long-term Debt	60.2	39.7	36.4	34.1
Other long-term liabilities	69.8	30.2	28.6	39.0
Total Liability	7.0	7.0	7.0	7.0
Owner's Equity	**243.2**	**184.6**	**232.1**	**266.9**
Capital	**380.6**	**443.5**	**476.1**	**492.0**
Retained Earnings	213.3	270.0	270.0	270.0
Funds & Reverses	91.1	125.7	152.1	161.7
Others	74.5	46.1	52.3	58.7
Total Equity	**0.0**	**0.0**	**0.0**	**0.0**
Minority's Interest	**380.6**	**443.5**	**476.1**	**492.0**
TOTAL RESOURCES	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Profit before tax	132.2	139.0	149.5	146.2
-Depreciation	120.3	133.0	80.5	86.2
-Adjustments	*2.1*	*-5.9*	*-50.0*	*-50.0*
+/- Working capital	-78.2	-55.8	14.6	-42.2
Net Operating CFs	**176.4**	**210.4**	**194.6**	**140.2**
+/- Fixed Asset	-48.4	-5.9	-78.4	-9.1
+/- Deposit, equity investment	-52.0	55.9	16.6	0.0
Interest, dividend, cash profit received	21.8	17.9	0.0	0.0
Net Investing CFs	**-78.6**	**67.9**	**-61.8**	**-9.1**
+/- Capital	10.2	10.7	0.0	0.0
+/- Debt	-44.1	-60.2	-4.9	8.2
Dividend paid & other	-157.9	-64.2	15.3	-62.8
Net Financing CFs	**-191.8**	**-113.8**	**10.4**	**-54.7**
+/- cash & equivalents	-94.0	164.5	143.2	76.5
Beginning cash & equivalents	**179.3**	**85.3**	**249.8**	**393.0**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**85.3**	**249.8**	**393.0**	**469.5**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

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Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
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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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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