Southern Gas Joint Stock Company (PGS – HNX)

CNG divestment improves PGS's financial capability

Particulars (VND bn)	Q1-FY16	Q4-FY15	*+/- qoq*	Q1-FY15	*+/-yoy*
Net revenue	1,229.0	1,489.1	-17%	1,431.0	-14%
PAT	184.6	4.1	4,354%	33.4	452%
EBIT	265.0	44.1	501%	60.4	339%
EBIT margin	21.6%	3.0%	1,860bps	4.2%	1,734bps

Sources: PGS, RongViet Research

Extraordinary profit in Q1/2016 came from CNG divestment. In Q12016, PGS achieved a record profit after tax with VND 184.6 billion (+452% yoy) thanks to the completion in CNG Vietnam divestment with total value of approximately USD 310 billion. However, revenue and profit after tax of parent company (excluding financial profit) in Q1/2016 significantly deteriorated with -12.7% yoy and -50.3% yoy, equivalent to VND 842 billion and VND 21 billion. The decline in core business activities resulted from low crude oil prices in Q12016 with the bottom of 10 years. Therefore, average selling price of gas dropped by 7.6% in 2016, negatively affected revenue and gross profit.

CNG segment will be the leading growth factor for PGS

In 2016, we expect that growth in CNG segment will come from new customer, Samsung CE to start operation with expected input of 6 – 7 million m3 CNG. In addition, PGS also succeed in negotiation for an additional discount level to match with lower oil price. This will support PGS to maintain a stable profit under the worst case scenario of global crude price.

Moreover, LPG segment continues low growth rates due to fixed market share and fierce competition. Forecasted output is relatively equivalent to PGS's annual plan with 241,185 tons. With extra ordination gain from CNG divestment, PGS improved its financial capability to enhance profitability and business efficiency through M&A deals with other LPG companies. We believe this is the most suitable strategy for PGS in order to expanse business activities.

Revenue and profit after tax in 2016 of PGS (excluding the divestment factor) are forecasted to achieve VND 4.618 billion (+16.0%) and VND 100 billion (-12.6% yoy).

Attractive dividend yield

According to the Company, dividend for 2016 will reach 30%, equivalent to dividend yield of 15%. PGS has gone through the process to make the advance payment with 15% for 2016 and 6% for 2015 in Q22016. The remaining 15% is expected to be an attractive factor and could be paid out at the end of this year.

Recommendation and Valuation. LPG prospects has demonstrated no significant improvement while CNG segment has only one additional major customer (Samsung CE). Consequently, we believe that growth prospects of PGS's business results will maintain at low level. The appropriate price for PGS stock is forecasted at **VND 20,600/share*** based on FCFE and P/E valuation method. RongViet Research recommends to **ACCUMULATE** in **INTERMEDIATE**.

ACCUMULATE

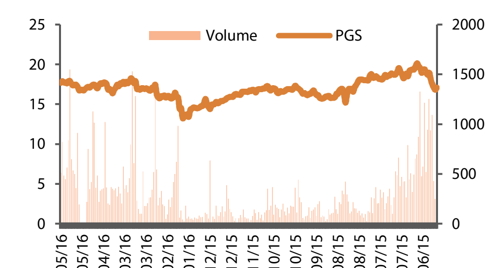
CMP (VND)	17,900
Target Price (VND)	20,600
Investment Period	Intermediate

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	890
Current Shares O/S (million shares)	50
Beta	1.0
Free float (%)	58.7%
52 weeks High	20,134
52 weeks Low	13,246
Avg. Daily Volume (in 20 sessions)	468,444

	FY15	Current
EPS	2,458	6,971
EPS Growth	-40%	209%
Diluted EPS	2,458	6,971
P/E	6.4	3.8
P/B	1.0	0.9
EV/EBITDA	2.06	1.05
Cash dividend (on par)	14%	30%
ROE	18%	24%

Price performance



Major Shareholders (%)

PVGas	35.26
Halley Sicav - Halley Asian Prosperity	9.66
MB Capital	5.98
Foreign Investor Room (%)	28.78

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**FCFE and P/E valuation method excluded the extraordinary profit from CNG divestment. This gain (equivalent to ~5,000VND/share) and the elimination of dividend payment (equivalent to ~2,100VND/share) were taken into the forecasted stock price.*

Exhibit 1: Q1-FY2016 Results (Consolidated)

Particulars (VND bn)	Q1-FY16	Q4-FY15	% chg (qoq)	Q1-FY15	% chg (yoy)
Net Revenues	1,229.0	1,489.1	-17.5%	1,431.0	-14.1%
Gross profits	216.2	273.3	-20.9%	258.3	-16.3%
SG&AC	201.7	237.9	-15.2%	205.6	-1.9%
Operating Income	14.5	35.4	-59.1%	52.6	-72.5%
EBITDA	302.1	150.7	29.8%	124.8	56.6%
EBIT	265.0	44.1	501.3%	60.4	338.9%
Financial expenses	32.4	7.2	349.7%	7.3	341.2%
- Interest Expenses	7.3	6.8	7.4%	7.2	0.8%
Dep. and amortization	69.5	-106.6	-165.2%	-64.4	-207.9%
Non-recurring Items (*)					
Extraordinary Items (*)	240.0				
PBT	257.7	37.3	591.2%	53.1	384.9%
PAT	184.6	4.1	4353.7%	33.4	452.2%
(*) Adjusted PAT	6.4	4.1	54.5%	33.4	-80.8%

Sources: PGS, RongViet Research

Exhibit 2: Q1-FY2016 performance analysis (Consolidated)

Particulars	Q1-FY16	Q4-FY15	% chg (qoq)	Q1-FY15	% chg (yoy)
Profitability Ratios (%)					
Gross Margin	17.6%	18.3%	-76bps	18.0%	-46bps
EBITDA Margin	24.6%	34.3%	-4,761bps	-12.4%	-96bps
EBIT Margin	21.6%	3.0%	1,860bps	4.2%	1,734bps
Net Margin	15.0%	0.3%	1,474bps	2.3%	1,268bps
Adjusted Net Margin	15.0%	0.3%	1,474bps	2.3%	1,268bps
Turnover *(x)					
-Inventories	31.6	33.3	-1.7	25.8	5.9
-Receivables	7.8	8.3	-0.6	6.6	1.2
-Payables	4.0	4.9	-0.8	3.5	0.5
Leverage (%)					
Total Debt/ Equity	1.4	1.5	-0.1	1.8	-0.4

Sources: PGS (*) Annualized turnover

Exhibit 1: Q1-FY2016 Results (Parent)

Particulars (VND bn)	Q1-FY16	Q4-FY15	% chg (qoq)	Q1-FY15	% chg (yoy)
Net Revenues	828.9	1,021.7	-18.9%	953.7	-13.1%
Gross profits	136.7	167.8	-18.5%	153.1	-10.7%
SG&AC	141.5	172.4	-17.9%	133.9	5.7%
Operating Income	-4.8	-4.6	4.6%	19.2	-125.1%
EBITDA	372.3	110.2	237.8%	98.3	278.6%
EBIT	336.6	24.2	1.293.6%	50.8	562.4%
Financial expenses	30.9	5.1	511.1%	5.8	431.4%
- Interest Expenses	5.8	4.9	18.2%	5.8	0.5%
Dep. and amortization	-35.7	-86.1	-58.5%	-47.5	-24.9%
Non-recurring Items (*)					
Extraordinary Items (*)	310.0				
PBT	330.8	19.2	1618.6%	45.1	634.3%
PAT	269.1	9.2	2812.9%	42.2	537.4%
(*) Adjusted PAT	16.9	9.2	83.0%	42.2	-60.0%

Sources: PGS, RongViet Research

Exhibit 2: Q1-FY2016 performance analysis (Parent)

Particulars	Q1-FY16	Q4-FY15	% chg (qoq)	Q1-FY15	% chg (yoy)
Profitability Ratios (%)					
Gross Margin	16.5%	16.4%	7bps	16.1%	44bps
EBITDA Margin	44.9%	10.8%	3,413bps	10.3%	3,460bps
EBIT Margin	40.6%	2.4%	3,824bps	5.3%	3,528bps
Net Margin	32.5%	0.9%	3,156bps	4.4%	2,804bps
Adjusted Net Margin	2.0%	0.9%	114bps	4.4%	-239bps
Turnover *(x)					
-Inventories	26.6	30.7	-4.1	20.5	6.1
-Receivables	7.0	7.9	-0.9	6.6	0.4
-Payables	3.6	8.8	-5.2	7.6	-4.0
Leverage (%)					
Total Debt/ Equity	1.1	1.4	-0.3	1.5	-0.4

Sources: PGS (*) Annualized turnover

Updated information

Average **CP Aramco** in Q1 has dropped to USD324/ton (-21.8% compared with Q42015). However, retail domestic selling price has lower decrease with only -7.6%.

In term of 2016 plan, PGS provided different scenario for global crude oil price at USD 60, 50, 40 and 30/barrel. After excluding the financial factor, PGS's plan is relatively appropriate without much volatility. With current average crude oil price has been ~USD40/barrel this year and the perspective that oil price will be under the long-term recovery trend, RongViet Research will use USD45/barrel (Brent) as the base case scenario for the valuation of stock price and forecasted business results.

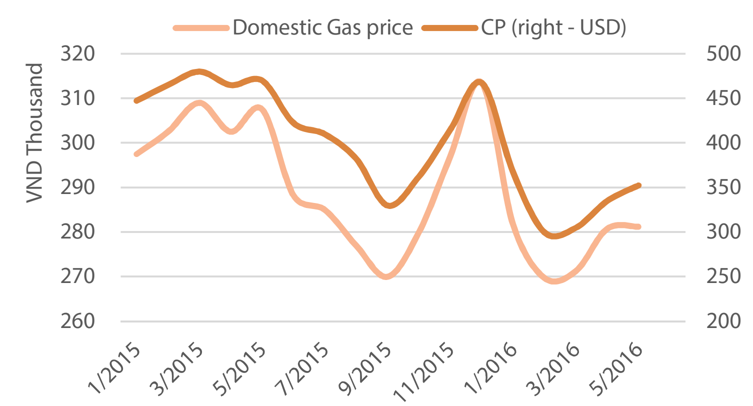
Financial profit after tax in 2016 is expected to be VND 248 billion. Dividend this year will contain 15% from this profit and retained earnings could be used for (1) loan restructuring and (2) core business investment. We believe that PGS could expand LPG activities through M&A deal or focus on LNG segment in the future.

2016 plan according to oil price scenario

No.	Criteria	Unit	Oil price - 60 USD	Oil price - 50 USD	Oil price - 40 USD	Oil price - 30 USD
1	**CNG**	Million m3	90	90	90	90
2	**LPG**	Tons	248,000	248,000	248,000	248,000
3	**Revenue**	VND Billion	5,107.96	5,013.02	4,945.35	4,888.73
4	**Profit after tax**	VND Billion	412.68	391.19	365.21	336.33

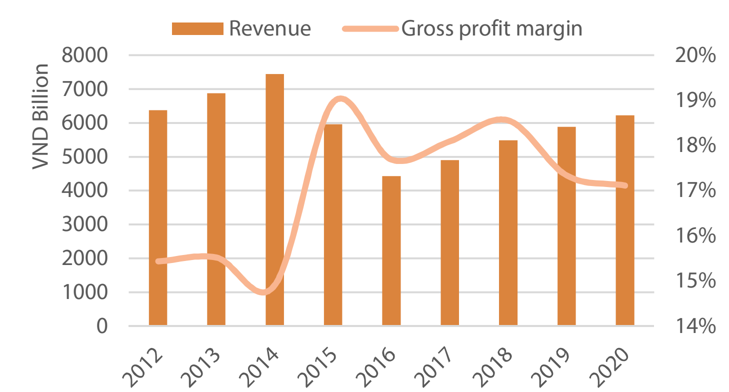
Source: PGS, RongViet Research

CP Aramco and retail gas price in Northern region



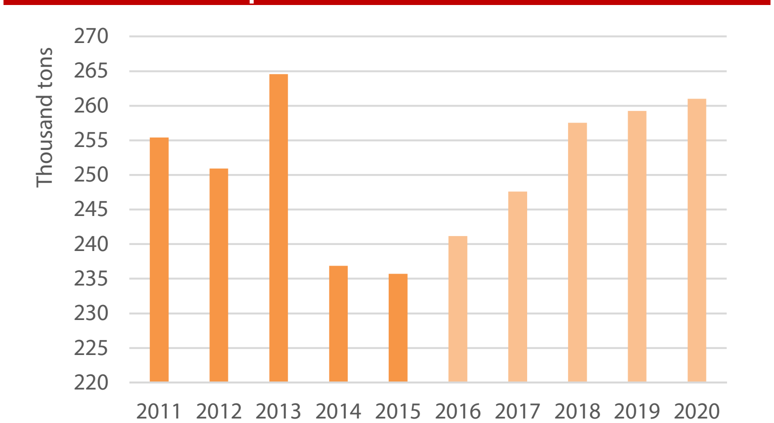
Source: RongViet Research

Forecasted PGS's business results during 2016 – 2020



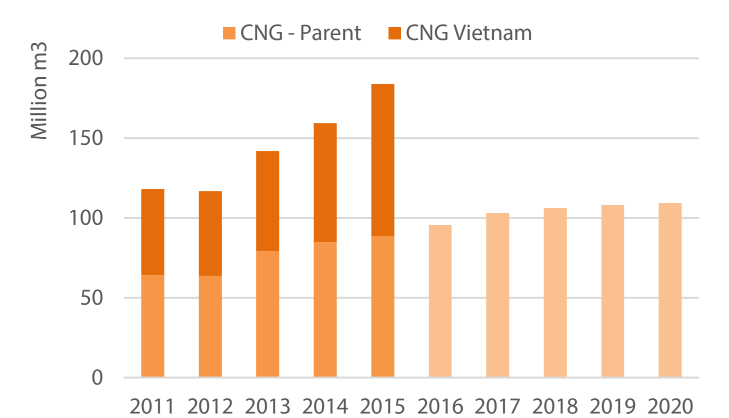
Source: RongViet Research

Forecasted LPG output



Source: RongViet Research

Forecasted CNG output



Source: RongViet Research

VND billion

INCOME STATEMENT	2014A	2015A	2016E	2017F
Revenue	7,484.3	5,956.3	4,618.4	5,107.8
COGS	6,336.2	4,827.1	3,801.5	4,183.5
Gross profit	1,148.1	1,129.3	816.9	924.3
Selling Expense	672.5	718.4	655.8	689.6
G&A Expense	207.4	173.2	92.4	102.2
Finance Income	17.4	10.6	385.8	30.1
Finance Expense	33.4	28.1	27.0	23.1
Other profits	-5.5	6.8	7.6	7.3
PBT	246.6	226.9	435.0	146.8
Prov. of Tax	55.2	62.3	87.0	29.4
Minority's Interest	51.2	53.2	0.0	0.0
PAT to Equity Shareholder	140.3	111.4	348.0	117.5
EBIT	279.3	254.7	461.4	169.3
EBITDA	561.8	333.8	650.1	378.2

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth				
Revenue	8.4%	-20.4%	16.0%	10.6%
Operating Income	-11.7%	-11.4%	-15.4%	93.0%
EBITDA	-14.3%	-40.6%	93.5%	-41.8%
PAT	-21.7%	-20.6%	204.0%	-66.2%
Total Assets	4.3%	-17.3%	8.3%	6.7%
Equity	3.1%	-5.5%	24.5%	4.2%
Internal growth rate	9.0%	4.5%	21.8%	4.1%
Profitability				
Gross profit/Revenue	15.3%	19.0%	17.7%	18.1%
Operating profit/ Revenue	3.6%	4.0%	1.5%	2.6%
EBITDA/ Revenue	7.5%	5.6%	14.1%	7.4%
Net margin	1.9%	1.9%	7.5%	2.3%
ROAA	4.5%	3.8%	46.6%	15.4%
ROAE	15.1%	12.2%	38.4%	11.4%
Efficiency				
Receivable Turnover	8.6	7.6	8.6	8.8
Inventory Turnover	32.6	29.2	32.7	33.9
Payable Turnover	4.6	3.8	5.0	5.3
Liquidity				
Current	1.0	0.9	1.1	1.1
Quick	0.9	0.8	0.9	1.0
Solvency				
Total Debt/Equity	218.9%	177.3%	113.8%	119.0%
Current Debt/Equity	33.5%	38.6%	32.1%	34.1%
Long-term Debt/ Equity	13.2%	10.8%	5.1%	4.4%

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	620	409	415	489
Receivables	918	660	554	613
Inventories	184	146	122	126
Other current assets	84	62	30	30
Total Current Asset	1,846	1,291	1,131	1,262
Fixed Assets	701	703	594	619
Construction in Progress	47	63	50	50
Long-term Investment	0	0	0	0
Other long-term assets	579	572	377	366
Long-term Asset	1,357	1,356	1,021	1,035
Total Asset	3,203	2,647	2,152	2,297
Payables	1,426	886	684	753
Current Debt	315	343	323	358
Long-term Debt	125	96	51	46
Other long-term liabilities	115	118	25	25
Total Liability	2,062	1,578	1,146	1,248
Owner's Equity	942	890	1,006	1,049
Capital	380	500	500	500
Retained Earnings	115	43	231	274
Funds & Reverses	401	301	230	230
Others	0	0	0	0
Total Equity	942	890	1,006	1,049
Minority's Interest	193	179	0	0
TOTAL RESOURCES	3,196	2,647	2,152	2,297

VALUATION RATIO	2014A	2015A	2016E	2017F
EPS (dong)	3,691	2,458	6,960	2,349
P/E (x)	4.4	6.4	2.3	6.7
BV (dong)	24,779	16,169	20,129	20,978
P/B (x)	0.6	1.0	0.8	0.7
DPS (dong/cp)	1,500	1,400	3,000	1,500
Dividend yield (%)	9.2	8.9	15.0	9.6

VALUATION MODEL	Price	Weight	Average
FCFE	21,482	50%	10,740
P/E	14,002	50%	7,001
Target price (dong/share)		**+2,900**	**20,642**

VALUATION HISTORY	Price	Recommendation	Period
10/07/2015	27,000	Buy	Intermediate

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.

RATING GUIDANCE

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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