

COMPANY REPORT
PETROVIETNAM LOW PRESSURE GAS
DISTRIBUTION JOINT STOCK COMPANY
TICKER: PGD-HSX

Nov 2015

STOCK INFORMATION

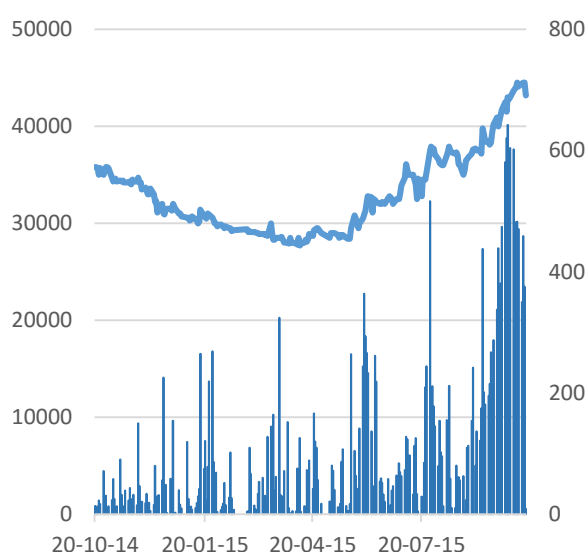
LISTING INFORMATION

Company name	PetroVietnam Low pressure gas distribution JSC
ICB Subsector	Gas distribution
Exchange	HOSE
Ticker	PGD
Charter capital	VND 600B
Market cap 16/11/2015	VND 2,766B
Price 16/11/2015	VND 46,100 VND/share

Shareholder structure

PV Gas	50.5%
Other	49.5%

Historical price (volume in '000)



KEY FINANCIAL RATIOS (VND billion)

	2011	2012	2013	2014
Net revenue	3342.2	5487.6	6422.1	6964.9
Gross profit	528.6	475.5	519.1	488.0
Operating profit	403.4	304.0	281.5	214.4
Net income	303.8	228.0	209.1	165.5
EPS (VND)	7,082	5,315	4,874	3,108

VALUATION RESULT

P/E multiples method	VND 52,000-56,000/share
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PetroVietnam Low pressure gas distribution JSC (PV Gas D) engages in trading and distribution of low pressure natural gas through pipeline system. PV Gas D has been in operation for not so long but with drastic and strong measures, it has got a thorough grasp of technology, and able to take initiative in investment, operation of distribution system.

INVESTMENT RATIONALE

Monopoly position in low pressure gas distribution in Vietnam: PV gas D is the only low pressure gas distributor in Vietnam with current widening distribution system.

Stock price insensitive to market condition: Beta of PGD (based on monthly historical price of the past 3 years) is only 0.57, so PGD is quite involatile to market fluctuation, hence is quite suitable for investors that are seeking a safeguard against market fluctuation.

Widening distribution network: From mid 2015, Ham Rong and Tien Hai gas fields started to operate, and gas distribution for Tien Hai industrial zone started to commerce. This helped the company to enter the north market, then can increase production.

Strong financial strength: PGS has a strong financial strength with total liabilities staying at 56% of total sources of capital (of which, proportion of interest bearing liabilities is quite low). Liquidity ratios is also quite strong.

Good operating cash flows: Strong business performance along with good cash management lead to good operating cash flows in recent years.

INVESTMENT RISKS

Gas production and distribution activities involves numerous risks: fire, explosion, and once happen, they can cause huge damage. So, the company has to maintain a pretty amount of resources to minimize risks and ensure the continuation of business activities.

Supply risks: At present, all gas input of PGD is supplied by parent company PV Gas. If there is substantial change in policy of PV Gas in price or volume, business performance of PGD will be strongly stirred.

BUSINESS PERFORMANCE FOR THE FIRST 9 MONTHS OF 2015

Downtrend of price of oil and other petroleum products still continues in 2015. Due to the sharp decrease in gas price, revenue of PGD also declined sharply, for the first 3 quarter of 2015, revenue only reached 3,747B, 25% lower than previous year. However, because gas input price is also pegged to price of other fuel (FO, DO, LPG), PGS saw an increase in average profit margin. Production increased slightly, along with significant increase in profit margin, lead to surging gross profit. For the first 9 months of 2015, gross profit reached 548B, 50% higher than 2014, operating profit reached 217B, up 27%, net income reached 191B, up 26%.

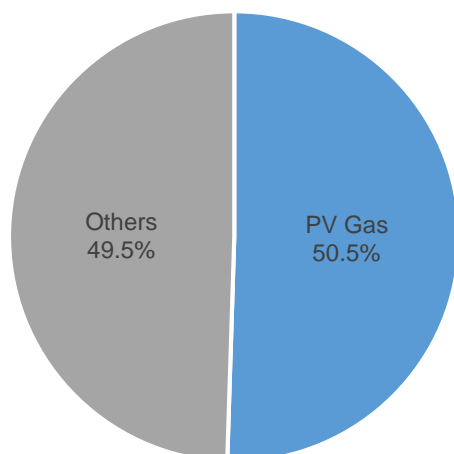
Production slightly surpass 2015's plan, reaching 470 million m3, equivalent to 80% of 2015's plan. With the starting operation of gas distribution system to Tien Hai industrial zone, production is expected to further increase in the last quarter of 2015 and coming years.

We estimate production for the whole 2015 of 650 million m3, average profit reaching VND 1,100 per m3, gross profit reaching 715B. At the same level of other incomes and expenses, operating profit can reach 310B, net income can reach 240B.

PGD has planned to issue bonus shares in the last quarter of 2015, but we use the current number of outstanding share to calculate EPS. The corresponding EPS is VND 4,000 per share.



Shareholder structure



COMPANY OVERVIEW

Company information

BASIC INFORMATION	
Company name	PetroVietnam Low pressure gas distribution JSC
Short name	PV Gas D
Business licence number	0304998686 grante by Department of Planning and Investment of HCM city from 25/11/2014
Charter capital	VND 600B
Head quarter	Level 7, PV Gas Tower, 673 Nguyen Huu Tho, Phuoc Kien, Nha Be, HCM city
Address line	08.3784.0445
Fax	08 3784 0446
Website	www.pvgasd.com.vn

History of development

- PV Gas D is the successor of Vung Tau low pressure gas trading company.
- 23/5/2007: PV Gas D was officially established under business licence number 4103006815 granted by Department of Planning and Investment of HCM city with initial charter capital of VND 300B.
- 26/11/2009: 30 million shares of PGD are listed on HOSE.

Main business operations

- Low pressure gas distribution through pipeline system;
- Gasoline, oil, viscid oil, dry natural gas, LPG, CNG, LNG transportation services.

Main operating area

- Phu My – My Xuan – Go Dau, Ba Ria – Vung Tau;
- Nhon Trach Industrial Zone, Dong Nai;
- Hiep Phuoc Industrial Zone, HCM city;
- Tien Hai Industrial Zone, Thai Binh;
- North Vietnam.

Charter capital

Charter capital of PGS as of September 2015 is VND 600B, corresponding to 60 million shares.

Shareholder structure as of September 2015:

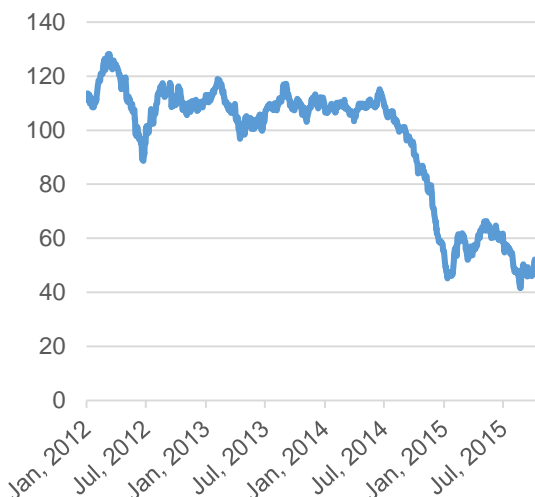
Shareholder	No. of shares	% of Ownership
PV Gas	30,300,000	50.5%
Other	29,700,000	49.5%
Total	60,000,000	100%

Source: financial report



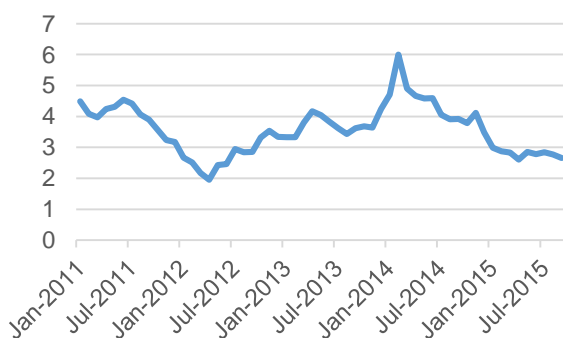
Natural gas extraction

Europe Brent Spot Price FOB
(Dollars per Barrel)



Source: eia.gov

Henry Hub Natural Gas Spot Price,
Monthly, USD/mmBTU



Source: Thomson-Reuters

BUSINESS OVERVIEW

Up to now, low pressure gas is the only product of PGD. Gas trading and distribution is done through pipeline system.

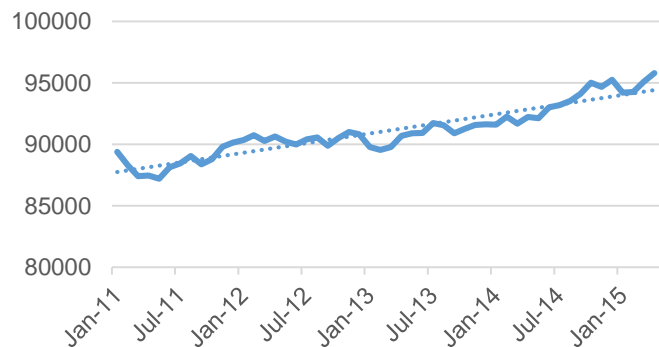
Low pressure gas is natural gas compressed at low pressure. Main components are methane (85% volume), ethan. Besides, there is a small amount of propane, butane and some other gases.

Natural gas is quite new in Vietnam, but has proved its superior over other heating fuels.

Market condition

Till mid 2014, oil price ranged around USD 100 per barrel. After that, it started to decline sharply, reaching only USD 50 per barrel at the beginning of 2015 and then stay at this level.

World oil production ('000 barrels per day)



Source: eia.gov

Despite the record low price level, oil production has not seen a sign of decreasing, leading to prolonged trend. According to EIA, oil will still stuck at this low price level in several years.

Low oil price put pressure on natural price: from mid 2014 to now, gas price decreased from 6 USD/mmBTU to only 2.7 USD/mmBTU, or a decrease of 55%.

Overview of PGD low pressure gas distribution and trading business

Gas input

All gas input of PGD is supplied by parent company PV Gas, then redistribute to customers through pipeline.

Gas input price

Before 2015, gas input price was determined under a crawling price system, making price increase every year. But from 2015 onwards, it is pegged to price of other fuel, such as LPG, FO, and DO. Change from the crawling price to pegging price led to the decrease in input price in the first 9 months of 2015.

Distribution pipeline

At present, PGD has developed 4 distribution pipeline channels, supplying low pressure gas to 4 areas:

1. Tien Hai Industrial Zone pipeline system

Location: Dong Co, Tien Hai, Thai Binh

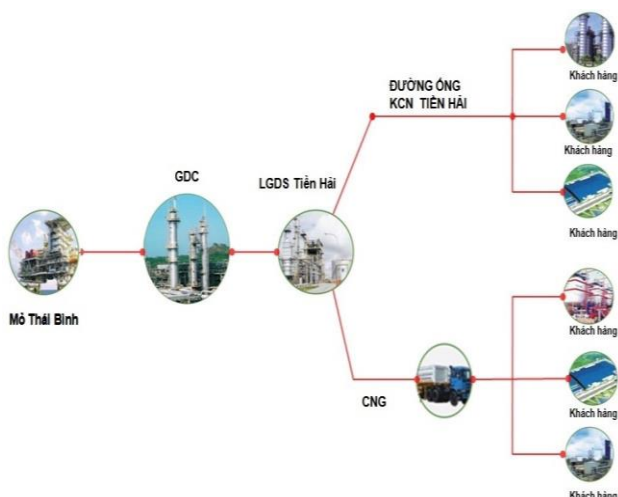
Area: 2 ha

Total investment: VND 1,311.3B

Output capacity:

+Pipeline: 1 million m3 per day

+CNG compressor: 150 million m3 per year



2. Nhon Trach Industrial Zone pipeline system

This pipeline system is to supply gas to customers in 09 Industrial Zones (Nhon Trach I, II, III, V, VI, Nhon Trach II – Loc Khang, Nhon Trach II – Nhon Phu, Ong Keo, Det May).

Total Investment: VND 346B, including 2 stages:

-The first stage has total investment of VND 288.7B. The main pipeline 10" and 14", subpipeline 6", 4", 3", 6 customer terminals and the LDGS Nhon Trach have been completed

-The second stage has total investment of around 117.3B. The stage is expected to complete in 2017 to distribute gas to Nha Be Steel, Formosa, Sam Hwan Vina. At present, the 4" pipeline to Nhon Trac III – Formosa has been completed.

3. Hiep Phuoc and Long Hau Industrial Zones pipeline system

The pipeline system is to distribute gas to Hiep Phuoc and Long Hau Industrial Zone.

Total investment is 44.08B

Output capacity: 300 million m3 per year

The whole pipeline system lies inside Hiep Phuoc Industrial Zone, starting from holding point at the LGDS Hiep Phuoc, which belongs to Phu My – HCM Gas pipeline of PV Gas.

4. Phu My, My Xuan, Go Dau Industrial zones pipeline system

Components of the system include Go Dau gas station (in My Xuan Industrial Zone) with total area of 0,7ha and Off-take gas station.

Total investment: USD 6.5m

Output capacity: 3 million m3 per day

Customers:

Some representative customers:

- PV Gas South
- CNG VietNam
- Customers in industrial zones

Operating performance

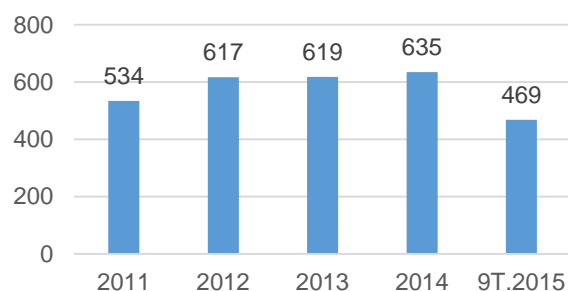
Production increased slowly. From 2011-2014, production increased from 533.6 million to 634,9 million m3, corresponding to 6% compounding growth rate. For the first 9 months of 2015, production reached 468.7 million m3, up 13% in comparison with 2014.

However, the increase mostly came from two big wholesale customers, PV Gas South and CNG Viet Nam. Demand from others seems to be sluggish.

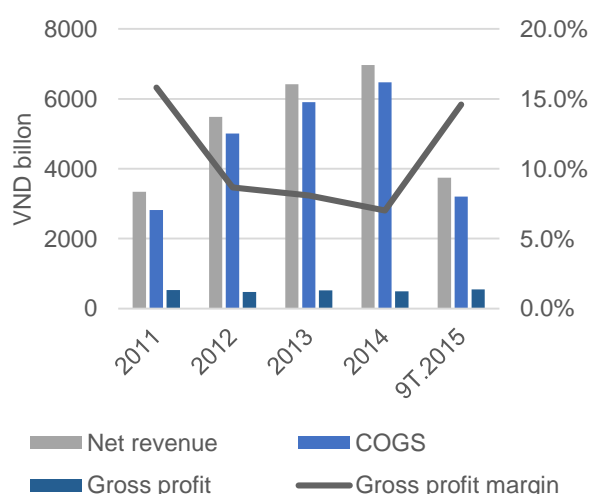
	Unit	2011	2012	2013	2014
Total demand	Million m3	533.6	617.3	618.6	634.9
From PGS & CNG	Million m3	118.0	116.8	141.9	159.3
From others	Million m3	415.6	500.5	476.7	475.5

Source: BCTN, PSI

Gas production (million m3)



Revenue and profit

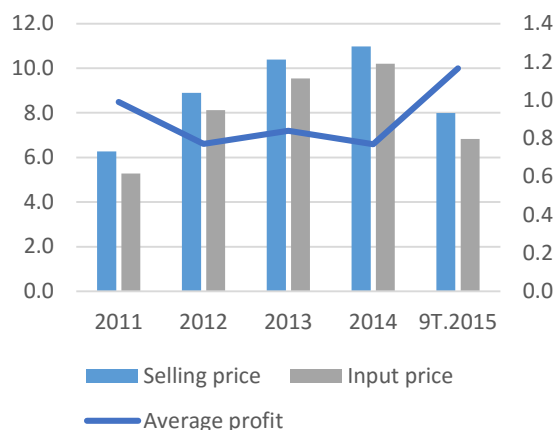


BUSINESS PERFORMANCE

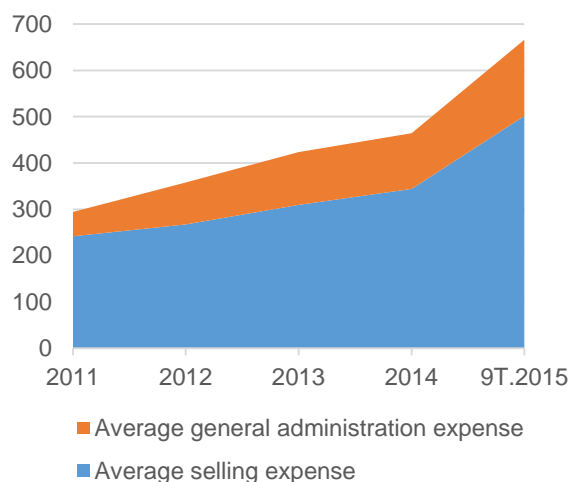
Production increased steadily from 2011 to present. From 2011-2014, average selling price also increased, leading to 9% growth rate of revenue. For the first 9 months of 2015, decline in oil price put pressure on gas price, then, average selling price declined notably: from average of VND 11,000 per m3 to only VND 8,000 per m3. Revenue also declined sharply, reaching only 3,746B, down 25% in comparison with corresponding period of 2014.

However, gas input price also declined thanks to the change in the price determining system from a crawling to a pegging one. The average input price for 9 months of 2015 was only VND 6,830 per m3, while that of 2014 was VND

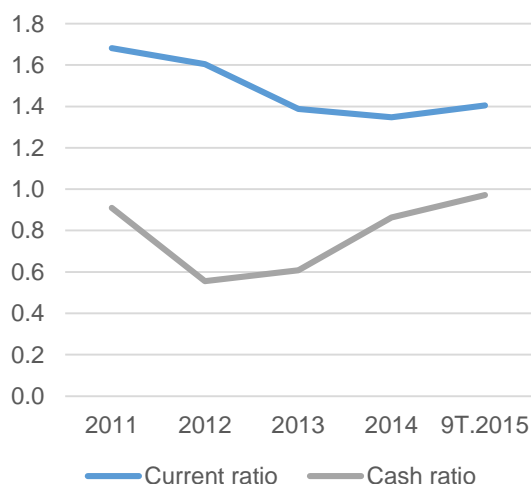
Selling price and input price (VND thousand per m3)



Expenses in VND



Liquidity ratio



10,200 per m3.

Input price declines faster than selling price leads to an increase in average profit margin: average profit margin increased to VND 1,170 per m3 from VND 800 per m3 of 2014. Along with the steady increase in production, it makes gross profit surge: only in 9 months of 2015, gross profit has reached 550B, equivalent to 150% of corresponding period of 2014, and already surpassed the whole 2014 value.

The two biggest expenses have seen a rise recently. Selling expense increased from 2011 value of VND 241 per m3 to VND 500 per m3 for 9 months of 2015. General administration expense tripled from VND 53 per m3 to VND 165 per m3. Total of these two expenses were VND 295 per m3 in 2011, for 9 months of 2015, it increased to VND 666 per m3.

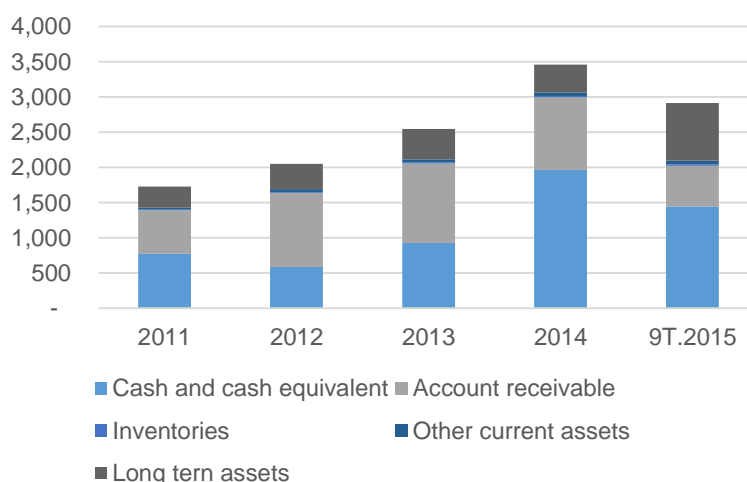
Rapid increase of expense brought down profit of PGD in the period 2011-2014. Operating profit decreased a half from 403B of 2011 to only 214B of 2014.

In 9 months of 2015, it went up again, reaching 247B (in only 9 months), more than the value for the whole 2014 financial year. EBT in 9 months of 2015 reached VND 246B, net income reached 191B.

FINANCIAL POSITION

We have analyzed financial strength of PGD and come to a very strong financial strength evaluation.

Structure of assets



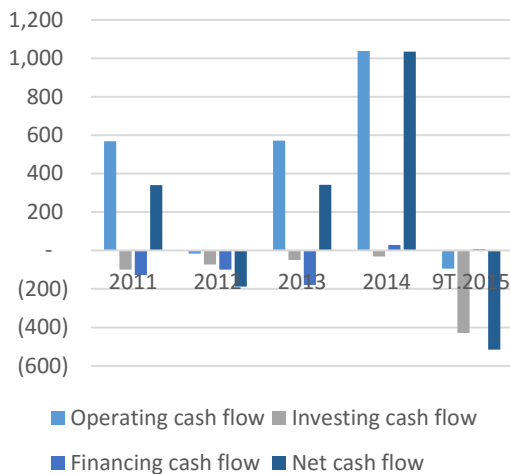
As of Sept 2015, total assets reached VND 3,000B, of which, cash and cash equivalent contribution is 1,450B or nearly 50% of total assets. Account receivable is 1576B, down significantly from 983B as of beginning of 2015.

Fixed asset increased sharply in 2015, from 396B to 817B, or more than 100% increase due to investment in Tien Hai Industrial Zone pipeline system.

About sources of capital structure: total liabilities as of Sept 2015 is 1,627B, accounting for 56% of total sources of capital, of which 1,156B is account payables. With value of 1,156B, account payables contributes to 71% of total liabilities. Interest bearing liabilities make up only small portion of total liabilities: as of Sept 2015, PGD reported no short term debt, 112B of long term debt, so total interest bearing is less than 10% of total liabilities.

Liquidities ratios are quite good: current ratio is 1.4x. Cash ratio is very high, reaching 1 as of Sept 2015.

Cash flow



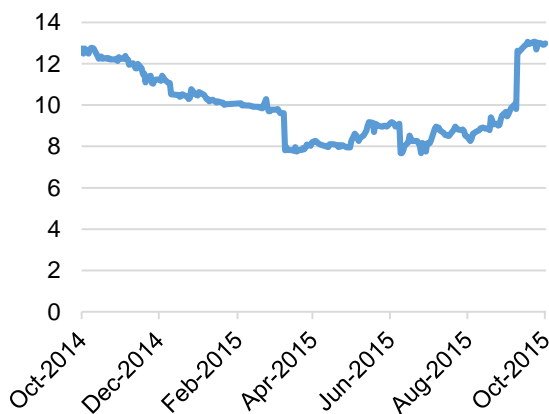
CASH FLOWS

Good profit and efficient cash management lead to quite strong operating cash flow. In 2014, operating cash flow reached over VND 1,000B.

Investing cash flow is also quite stable because need for investment is not high. For the first 9 months of 2015 only, PGD reported a big investing cash outflow. The reason for this cash outflow is the development of Tien Hai Industrial Zone LGDS. However, in the near future, there will be no other major investment so investing cash flow will come to its historical level shortly, and may stay at around 100B.

Thanks to strong operating cash flow and low investing cash outflow, PGD has quite high free cash flow to pay dividend. For the period of 2011-2014, it reported no additional debt. In 2015, due to increase in investment in Tien Hai pipeline system, it reported a borrowing 112B.

Price Earnings Ratio (P/E) (PGD VN Equity)



Source: Bloomberg

VALUATION

We used P/E multiples method to perform valuation of the company stock. We assumed gas production of 2015 of 650m m3, average profit of VND 1.100 per m3, other incomes and expenses of the same proportion with these of the first 9 months of 2015.

With above assumption, estimated EPS is VND 4,000/share. PGD recently traded at P/E of 13-14x, a bit higher than historical average of around 12x.

Outlook for 2015 is quite positive so we believe that PGD will still be an attractive stock for investors, and will still be traded at current P/E.

Estimated EPS is VND 4,000/share so target price for P/E of 13x-14x is from VND 52,000 to VND 56,000 per share.

FINANCIAL STATEMENTS

Income statement (VND billion)					
	2011	2012	2013	2014	9T.2015
Net revenue	3,342	5,488	6,422	6,965	3,747
COGS	2,814	5,012	5,903	6,477	3,200
Gross profit	529	475	519	488	548
Finance income	32	50	24	21	14
Finance expense	0	0	0	0	2
Selling expense	129	165	191	219	235
G&A express	28	56	70	76	77
Operating income	403	304	281	214	247
Other incomes	4	0	0	0	1
Other expenses	2	0	0	1	2
Other profit	2	0	(0)	(1)	(1)
Earning before Tax	405	304	281	214	246
Income Tax	101	76	72	48	56
Net income	304	228	209	165	191

Statement of financial position (VND billion)					
	2011	2012	2013	2014	9T.2015
A. Current assets	1,429	1,690	2,114	3,063	2,096
I. Cash and cash equivalent	773	585	927	1,963	1,448
II. Short term receivables	620	1,053	1,130	1,036	577
III. Inventory	9	9	11	16	19
IV. Other current assets	27	42	46	48	52
B. Long term assets	299	359	433	396	817
I. Long term receivables	0	0	0	0	5
II. Fixed assets	297	355	420	365	770
III. Goodwill	2	3	3	4	0
IV. Other long term assets	0	1	11	28	42
Total assets	1,728	2,049	2,547	3,460	2,913
A. Liabilities	850	1,054	1,523	2,297	1,628
I. Short term liabilities	850	1,054	1,523	2,273	1,491
<i>Account payables</i>	808	1,004	1,478	2,106	1,156
<i>Deferred revenue</i>	0	0	0	101	94
II. Long term loans	0	0	0	24	136
<i>Other long term loans</i>	0	0	0	0	112
B. Owner's equity	878	996	1,024	1,162	1,285
<i>Contributed capital</i>	429	429	429	600	600
<i>Retained earnings</i>	224	182	120	72	195
<i>Other sources of capital</i>	225	385	475	491	491
Total liabilities and owner's equity	1,728	2,049	2,547	3,460	2,913

Source: PGS financial statements

Cash flow statement (VND billion)					
	2011	2012	2013	2014	9T.2015
I. Operating cash flow					
EBT	405	304	281	214	246
Depreciation	12	36	42	49	79
Lãi từ hoạt động đầu tư	(34)	(50)	(24)	(21)	(12)
Chi phí lãi vay	-	-	-	-	(2)
Giảm các khoản phải thu	(155)	(433)	(115)	137	406
Giảm hàng tồn kho	(2)	0	(2)	(5)	(3)
Tăng các khoản phải trả	482	210	498	735	(781)
Giảm chi phí trả trước	(0)	(6)	(7)	(17)	(17)
Thuế TNDN đã nộp	(128)	(69)	(93)	(45)	(55)
Tiền thu khác từ HĐKD	-	-	-	-	47
Tiền chi khác cho HĐKD	(11)	(11)	(8)	(9)	9
Net operating cash flow	569	(17)	572	1,038	(94)
II. Investing cash flow					
Cash used to acquire and construct fixed assets and other long term assets	(132)	(125)	(73)	(53)	(442)
Interest received	29	53	23	21	13
Net investing cash flow	(99)	(72)	(50)	(31)	(429)
III. Financing cash flow					
Cash from securities insurance	0	-	-	116	-
Loans received	-	-	-	-	112
Dividend paid out	(129)	(99)	(180)	(87)	(104)
Net financing cash flow	(128)	(99)	(180)	29	8
Net cash flow	341	(188)	342	1,036	(515)

Financial ratios				
	2011	2012	2013	2014
Liquidity ratio				
Current ratio	1.68	1.60	1.39	1.35
Cash ratio	0.91	0.56	0.61	0.86
Operating ratio				
Average cash collection period	66.77	69.11	63.34	53.53
Account receivable turn over	5.39	5.21	5.68	6.73
Fixed asset turn over	11.24	15.45	15.31	19.09
Total asset turn over	1.93	2.68	2.52	2.01
Financial leverage ratio				
Debt to asset	0.49	0.51	0.60	0.66
Debt to equity	0.97	1.06	1.49	1.98
Profitability ratio				
Gross profit margin	15.82%	8.66%	8.08%	7.01%
Operating profit margin	12.07%	5.54%	4.38%	3.08%
Net income margin	9.09%	4.16%	3.26%	2.38%
Cash flow to revenue	10.21%	-3.42%	5.32%	14.87%
ROA	17.58%	11.13%	8.21%	4.78%
ROE	34.59%	22.90%	20.42%	14.24%

STOCK RECOMMENDATION SYSTEM

PSI stock recommendation generation is based on the disparity between valuation results and stock price at the time of valuation. The recommendation is valid 6 months from the publication date. Each stock will receive one in 3 ratings in the recommendation system corresponding to 3 levels of disparity. Ratings are subject to change after every update or review to become more suitable to business performance of the company reported.

- **BUY:** if market price is 15% lower than valuation result
- **HOLD:** if market price is between +/- 15% range of valuation result
- **SELL:** if market price is 15% higher than valuation result

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