

Cash dividend assure a stable return to investors

Neutral

Target price **VND 27,200**
Current price **VND 27,600**

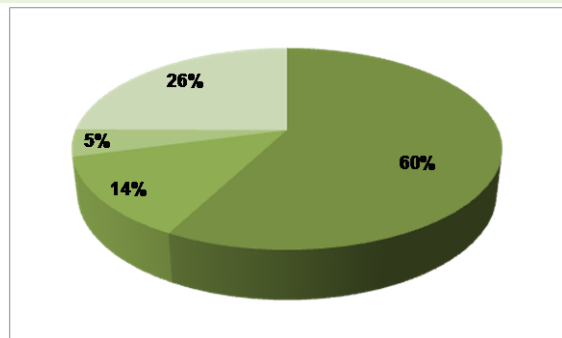
Phạm Nhật Bích
(+84-8) 5413-5479
bichpham@phs.vn

Co. Profile

Ticker	CNG
Charter Capital (VND bil)	213
Outstanding shares (mil)	21.3
Market Capital (VND bil)	546
52W range (VND)	22,000 – 36,200
Ave. trading volume 3M ('000)	225.2
Beta	0.75
Foreign Ownership	25.9%
First listing date	23 November 2011

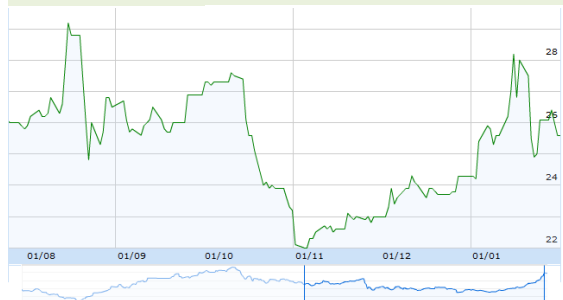
Major shareholders

Petro Vietnam Southern Gas	60%
IEV Group Sdn. Bhd	14%
IEV Energy Sdn. Bhd	5%



Price movement

	3M	6M	12M
Absolute	+3.7	+2.5	+7.6
Percentage (%)	+16.9	+10.8	+42.2



- Profit failed to follow decent revenue performance in 2012:**
CNG ended fiscal 2012 with reporting VND801 bil in revenue, up 9.5% yoy. However, net profit faced an unexpected 41.8% decline to VND118 bil. Q4/12 net margin showed weakening at 14%, down by 8% comparing to 22% of 1H12 due to a 35% surge of input gas price. The monopolistic natural gas supplier, PVGas D (PGD), has decided to increase the selling price to CNG from 6.2 to 8.4 USD/MMBTU. As restricted by competitive business environment, CNG had limited power to transfer its rising cost to customers and only increased 9% in its product price after the cost soared. Currently, the company can only rely on new customers, who had signed contracts with CNG on last quarter, can help to stabilize the earning performance by propelling the revenue growth.
- Price of input materials overshadows the earning prospect:**
The sale cost of input gas of PGD increased to 10.5 USD/MMBTU in the mid of 2Q12. According to historical experience, PGD often transferred all of increasing cost to its customers. We thus forecast that this time PGD will need to raise its selling gas price by 25% to CNG from 8.4 to at least 10.5 USD/MMBTU. Different from PGD, CNG can only partially pass the rising cost to its clients. Intend to enhance its visibility and to establish reputation. CNG has to keep the selling price at competitive level. As a result, the company's profit margin may continue to be eroding. PHS estimates its FY2013 gross profit margin will decline 2 percent to about 21%. Fortunately, CNG had signed four new contracts in last 4Q. The new contracts are estimated to increase total company production next year to around 57.8 mil m³, up 10% YoY, and lift revenue and PAT to VND920 bil and VND126 bil, or up 15% and 7% yoy respectively.
- Huge cash balance brings stable dividend:** Currently, most of company projects are pending due to gas supply shortage. It seems that the situation cannot be improved in the near future. How to properly utilize the huge cash on hand will be an important issue to CNG. We forecast that the company will use cash to pay debt partly and unveil a cash dividend. Once debt ratio decreases from 21% to 15%, the interest payment may decline as well. Based on historical data, CNG paid high cash dividend to shareholders, as a dividend ratio of 45% in FY2010, 60% in FY2011 and 35% in FY2012. We forecast CNG will maintain dividend ratio around 35 – 40% in FY2013, or equal to 12.5% -14% dividend yields.
- Valuation:** We use multiple valuation methods as DDM (50% weight), P/E (30% weight) and P/B (20% weight) to get the target price of VND27,200. We evaluated its core business by using five-year average figure of P/E (translates into 3.7x P/E) and P/B method (translates into 1.5x P/B). Because CNG pays high dividends, we also value it by DDM with the assumption of 9.75% risk-free rate, 0.75x beta and 16% expected return. Ultimately, the objective justified price is about 3% lower than current market price. We hence rated "NEUTRAL" on CNG.

(bil VND)	2010	2011	2012	Co's plan	2013E	2014E
Net Revenue	285	732	801	870	936	983
% gross margin	46%	38%	23%		21%	20%
% OP margin	37%	32%	17%		16%	15%
EBT	106	227	132		144	143
Net profit	105	203	118	120	129	128
% growth YoY	761%	93%	-42%		9%	-1%
EPS (TTM)	8,425	10,016	5,548		6,046	5,989
BVPS	18,654	19,090	17,863		20,909	23,897
P/E	3.3	2.8	5.0		4.6	4.6
P/B	1.5	1.4	1.5		1.3	1.2

Source: CNG and PHS's expectation

Company description

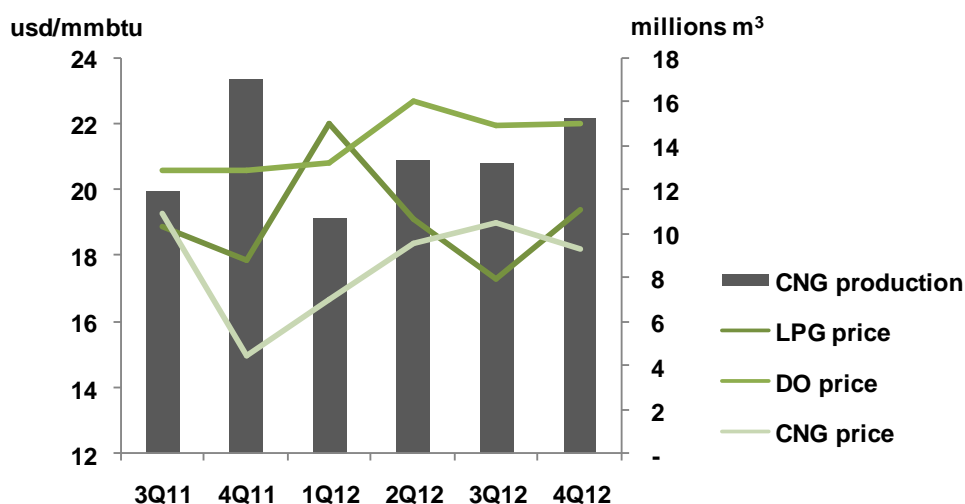
CNG Vietnam is a subsidiary company of the PetroVietnam Southern Gas. CNG is one of the two producers of compressed natural gas product for industry segment. However, its dependence on PV Gas Vietnam in terms of gas supply and purchase price is threatening its profit.

Compressed natural gas (CNG) is the cleanest and safest burning fuel, producing significantly emitting less pollutant than gasoline, oil, diesel or LPG. Its selling price is also 10-20% lower than that of fuel oil and LPG. It can be transported by trucks within a 100km range from a compressor station, enabling customers to use natural gas without going through a pipeline.



Company history

- CNG Vietnam Joint Stock Company was established on 28/05/2007.
- First CNG factory located in Phu My I Industrial Zone (Ba Ria-Vung Tau) was put into operation in 2008.
- On 23/11/2011, listed CNG stock on the Ho Chi Minh City Stock Exchange.



Financial ratio (bil VND)

Income statement	2010	2011	2012	2013E	Yearly ratio	2010	2011	2012	2013E
Net sales	285	732	801	936	Growth rate				
Cost of goods sold	154	456	616	740	Revenue growth rate	277%	156%	9%	17%
Gross profit	131	276	185	197	Gross profit growth rate	424%	110%	-33%	6%
Operating costs	21	33	47	55	Net profit growth rate	761%	93%	-42%	9%
Financial income	4	16	21	24	Total asset growth rate	107%	96%	-12%	12%
Financial expense	8	29	23	19	Equity growth rate	218%	66%	-2%	17%
Interest expense	7	26	23	19	Profitability ratios				
Operating profit	106	231	136	147	Gross profit margin	46%	38%	23%	21%
Joint venture with M-I	-	-	-	-	EBT margin	37%	31%	17%	15%
Profit before tax	106	227	132	144	Net profit margin	37%	28%	15%	14%
Profit after tax	105	203	118	129	ROE	29%	29%	19%	19%
Balance sheet	2010	2011	2012	2013E	ROA	45%	52%	31%	29%
Total assets	360	705	623	695	DuPont Analysis				
Current assets	183	396	316	482	Net profit margin(1)	37%	28%	15%	14%
Cash and equivalent cash	93	179	85	211	Asset turnover (2)	79%	104%	129%	135%
Receivables	79	137	152	178	Equity multiplier (3)	154%	182%	164%	156%
Inventories	5	10	22	26	ROE = (1)x(2)x(3)	45%	52%	31%	29%
Long-term assets	177	309	307	213	Management ratios				
Fixed assets	177	292	225	128	Receivable outstanding days	100.67	68.13	69.30	69.30
Long-term investments	-	-	60	60	Inventory outstanding days	11.39	8.02	12.74	13.00
Resources	360	705	623	695	Payable outstanding days	48.56	51.41	41.40	50.00
Liabilities	126	318	242	249	Long-term asset turnover	1.61	2.37	2.61	4.39
Short-term loans	87	207	165	194	Fix asset turnover	1.62	2.50	3.56	7.34
Long-term loans	40	110	77	55	Liquidity ratios				
Equities	233	388	381	446	Current ratio	2.11	1.91	1.91	2.48
Chartered capital	125	203	213	213	Quick ratio	2.05	1.86	1.78	2.34
Retained profit	106	159	92	92	Cash ratio	1.07	0.86	0.52	1.09
Cash flow	2010	2011	2012	2013E	Capital Structure				
Net operating cash flow	79	250	180	254	Total debt/Total Equity	0.54	0.82	0.64	0.56
Profit after tax	105	203	118	129	Total debt/Total Asset	0.35	0.45	0.39	0.36
Net investing cash flow	20	82	120	144	Total asset/Total Equity	1.54	1.82	1.64	1.56
Net financing cash flow	(72)	(253)	(83)	(56)	Index per share				
Net cash flows	49	90	(192)	(72)	PE	3.38	2.85	5.14	4.71
Cash at the beginning	57	87	(94)	126	PBV	1.53	1.49	1.60	1.36
					PS	1.25	0.79	0.76	0.65
					EPS (VND per share)	8,425	10,016	5,548	6,046
					Cash earnings / share	10,056	14,076	11,188	12,817
					Book value	18,654	19,090	17,863	20,909

Source: CNG and PHS's expectation

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

Ratings Definition

Overweight (OW) = Expected to outperform the current market by >10%

Neutral (N) = Expected to in line with the current market by +10%~ -10%

Underweight (UW) = Expected to underperform the current market by >10%.

Performance is defined as 12-month total return (including dividends).

Disclaimer

This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Phu Hung Securities and its affiliates and their officers and employees may or may not have a position in or with respect to the securities mentioned herein. Phu Hung Securities (or one of its affiliates) may from time to time perform investment banking or other services or solicit investment banking or other business for any company mentioned in this report. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

© Phu Hung Securities Corporation.

5th Fl., Lawrence S. Ting Bldg.,
801 Nguyen Van Linh St, Tan Phu Ward, Dist 7, HCMC
Tel: (+84-8) 5413-5479 – Fax: +84 8 54135472
Web: www.phs.vn