OIL & GAS

GOOD TIME FOR UPSTREAM

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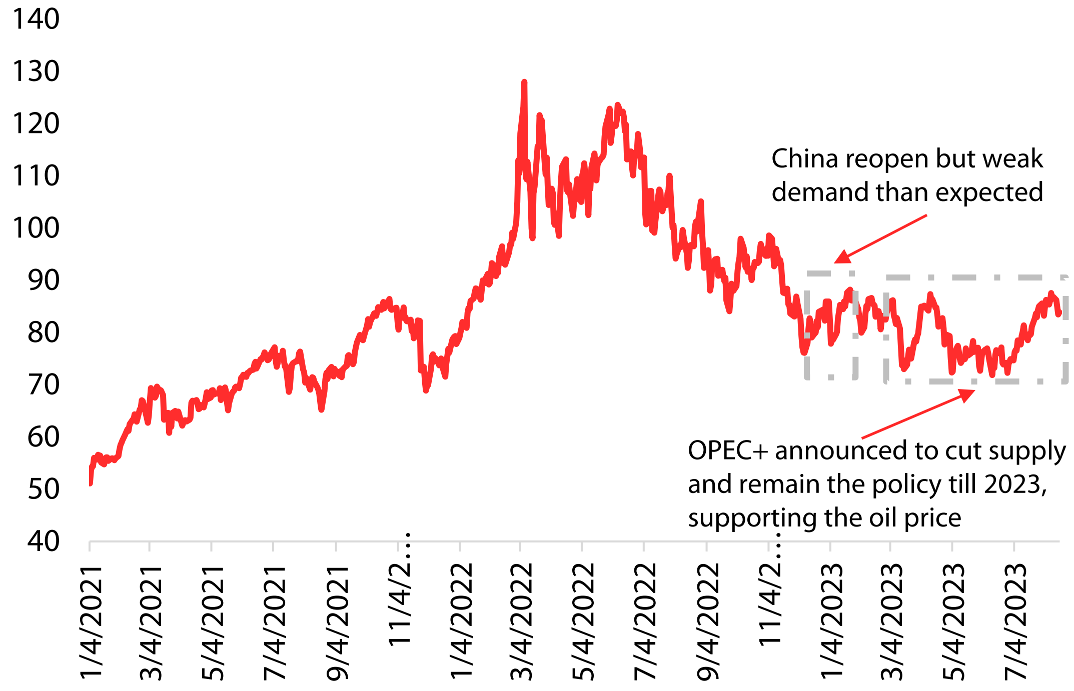
OIL & GAS - GOOD TIME FOR UPSTREAM

Investment Rating	Negative — Neutral — **Positive** (rating arrow between Neutral and Positive)
Overview	High oil price environment has been supporting the overall sector from Oil&Gas (O&G) services price to E&P activities. Hence, the potential jobs for the upstream companies are now available. In terms of domestic market, Block B is the main catalyst for O&G sector. However, the FID announcement is still being delayed, which is the notable downside risk as the O&G stock price has been increasing significantly before thanks to this. Without this project, we believe that the upstream companies will post positive earnings growth in 2023, 2024 compared to the negative number of mid and downstream.
Highlights	**Supply cut to support the oil price amid the weak demand** • OPEC+ announced voluntary cut in April with 1.66 mbpd till 2023. Totally, the group is cutting 3.66 mbpd ~ 3.7% of global demand, in which Saudi Arabia and Russia are the top two contributors. Thanks to the curb, the oil surplus has narrowed down since June 2023, supporting the oil price. **Upstream companies to post significant earnings growth while downstream ones did not** • Thanks to the improvement in O&G services price, PVD and PVS posted impressive profit growth in 1H2023. While the unfavorable price movement of oil-related products impacted on BSR, GAS, OIL. **Exciting E&P activities to shine the outlook for upstream** • With pressure to increase oil and gas production output, we believe that PVN will try to push key projects into operation soon. In addition, the new Oil and Gas Law is another motivation to bolster PVN and ease some burdens in E&P investment. So we see a bright outlook for upstream companies.
Valuation	• On the back of FID approval of Block B, upstream companies experienced outstanding stock prices movement compared to others. Besides, 1H2023 earnings have shown better numbers than 1H2022. However, we see some stocks that are being traded at fair value such as PVS, GAS if excluding the impact of Block B.
Stocks Recommendation	**PVT** (ACCUMULATE, TP: VND 26,000), **PVD** (NEUTRAL, TP: VND 26,800), **PVS** (REDUCE, TP: VND 27.800)
Risks	• Oil price to drop that impact to the E&P investment as well as O&G services price. • FID of Block B to be delayed.

OPEC+ has been keep lowering the oil supply to support the oil price

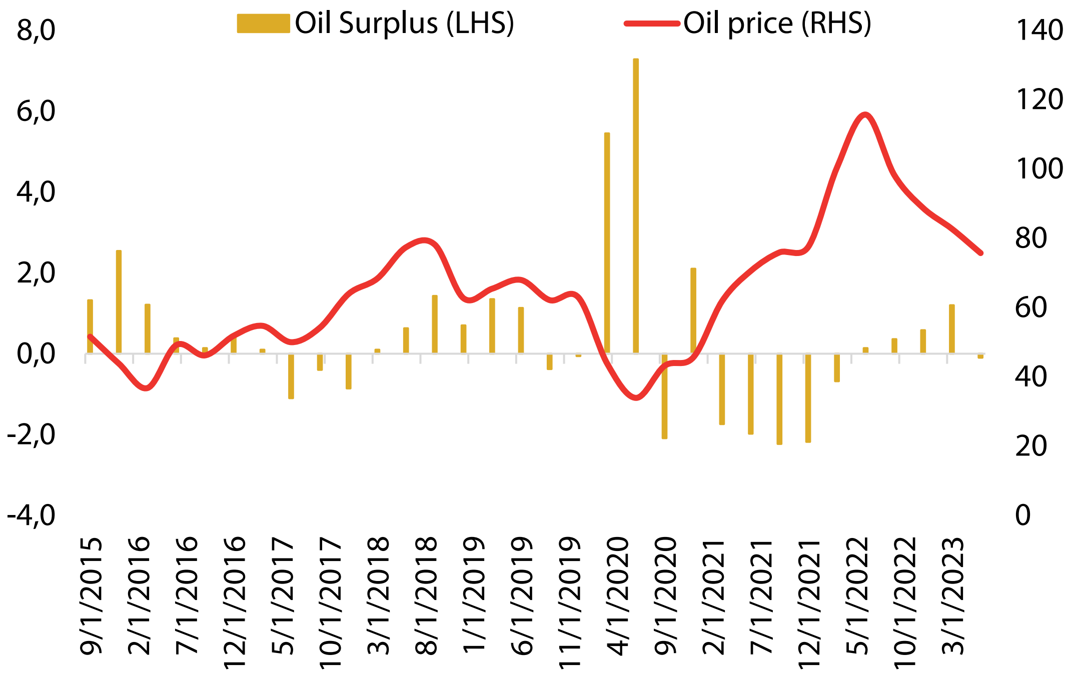
- China began to re-open its economy in early 2023 but the global oil demand was not as expectation due to the high inflation environment. As a result, OPEC+ announced voluntary cut in April with 1.66 mbpd till 2023. Totally, the group is cutting 3.66 mbpd ~ 3.7% of global demand, in which Saudi Arabia and Russia are the top two contributors.
- Thanks to the curb, the oil surplus has narrowed down since June 2023, supporting the oil price. Currently, the Brent oil price is being traded above 80 USD/barrel compared to the low 70 USD/barrel months ago.

Figure 1: Oil price performance and key events



Source: Bloomberg, RongViet Securities

Figure 2: Oil surplus (LHS) and the Brent price (RHS)



Source: IEA, Bloomberg

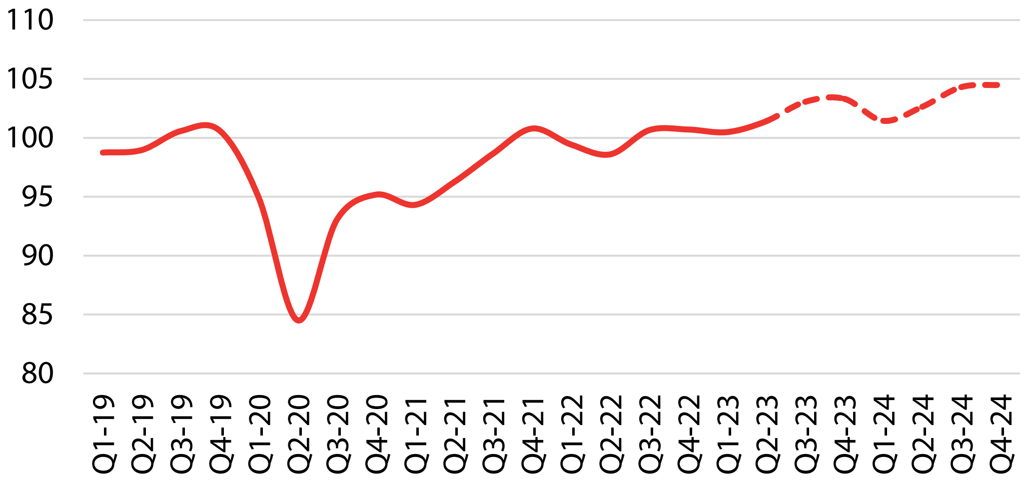
Asia/Pacific is the main demand driver

- IEA forecasts that the global oil demand will gradually increase till 4Q2023 with 103.3 mbpd and even till 4Q2024, driven by the Asia/Pacific.
- The cool down inflation is likely to be the main catalyst for growing oil demand amid the economic slowdown concerns.

Brent is forecasted to be 80 USD/barrel

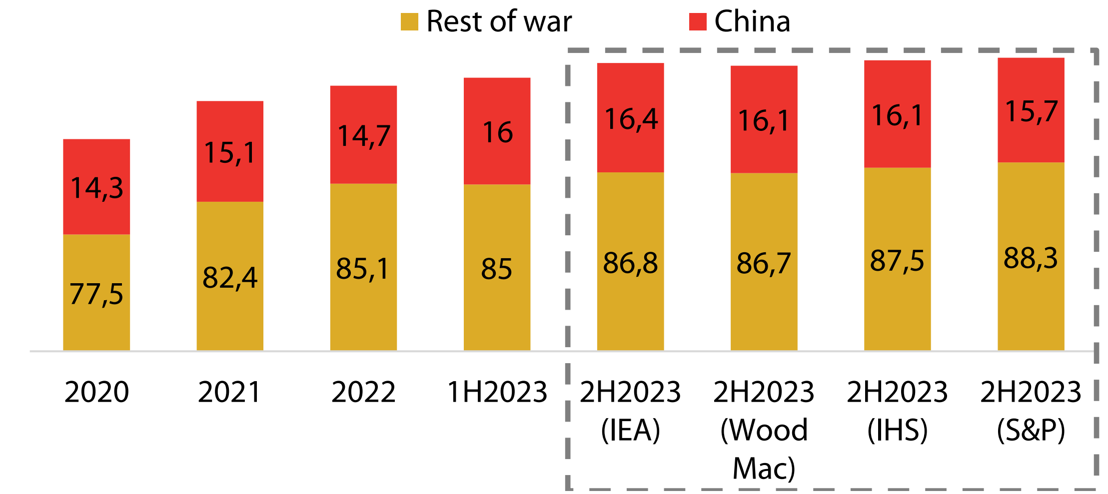
- With the tight supply and rising demand, the oil market is likely to remain deficit in the 2H2023. Then, most of the projections are betting the Brent oil price to keep stable in 2H2023 from the current level 80 USD/barrel and can not be over 100 USD/barrel like 2022.
- Goldman Sachs sees Brent oil averaging 80-86 USD/barrel while Morgan Stanley expects Brent prices to be around 80 USD/barrel by the end of 2023.

Figure 3: World oil demand (mbpd)



Source: IEA, RongViet Securities

Figure 4: Global oil demand (mbpd)



Source: IEA, Saudi Aramco

Figure 5: Change in oil demand by region (mbpd)

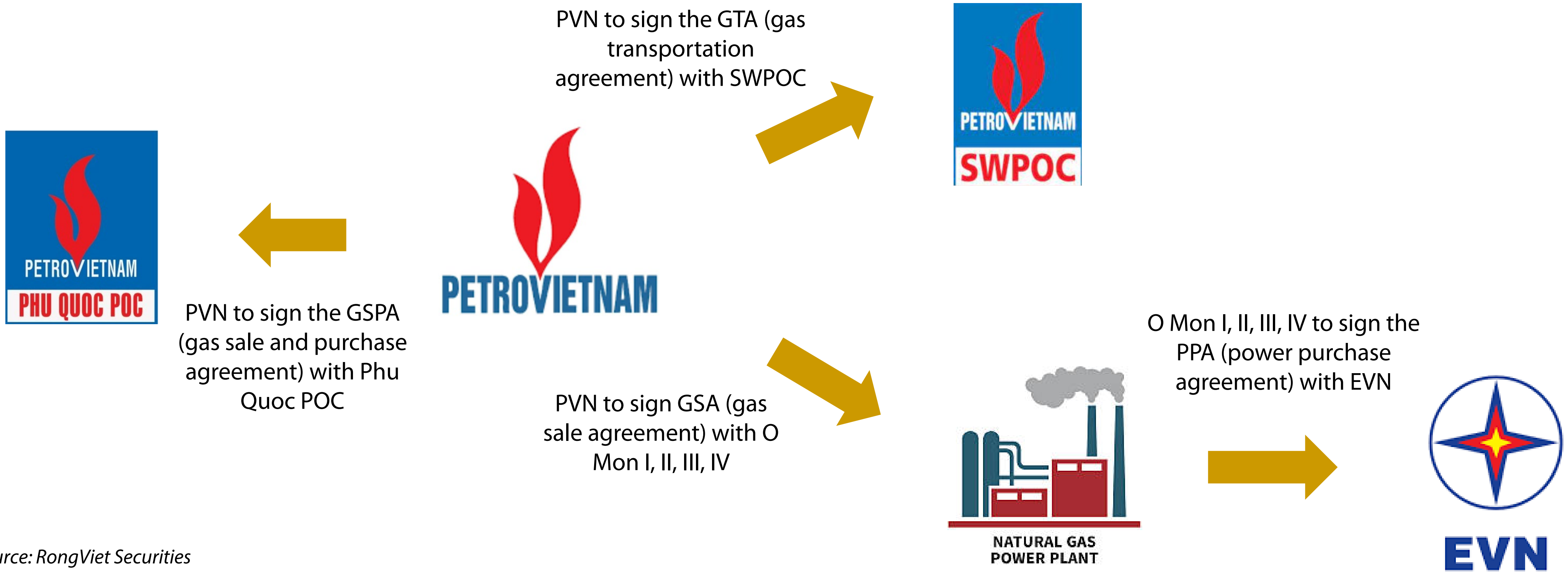
	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Q4-23	**Total**
Africa	0.01	0.13	-0.01	-0.20	0.00	0.17	**0.10**
America	0.54	-0.44	-0.46	0.77	0.43	-0.43	**0.41**
Asia/Pacific	0.14	1.62	0.90	-0.04	-0.15	1.64	**4.11**
Europe	0.63	-0.68	-0.30	0.16	0.68	-0.52	**-0.03**
FSU	0.37	-0.03	-0.23	-0.04	0.19	-0.03	**0.23**
Middle East	0.39	-0.53	-0.11	0.24	0.50	-0.55	**-0.06**
Total	**2.08**	**0.07**	**-0.21**	**0.89**	**1.65**	**0.28**	

Source: IEA, RongViet Securities.

High gas price and downstream investment delay to prevents the FID's approval

- Currently, PVN is the main coordinator in signing the GSPA, GSA, GTA with the related parties. However, the downstream investment delay is preventing the GSA being signed then impact to the FID's approval.
- Besides, the high input gas price also leads to the high output power price, which makes the EVN find hard to sign the PPA.
- The market expects that the Government will solve these problems and unlock the FID in 2024.

Figure x: Gas purchasing and selling process in Block B

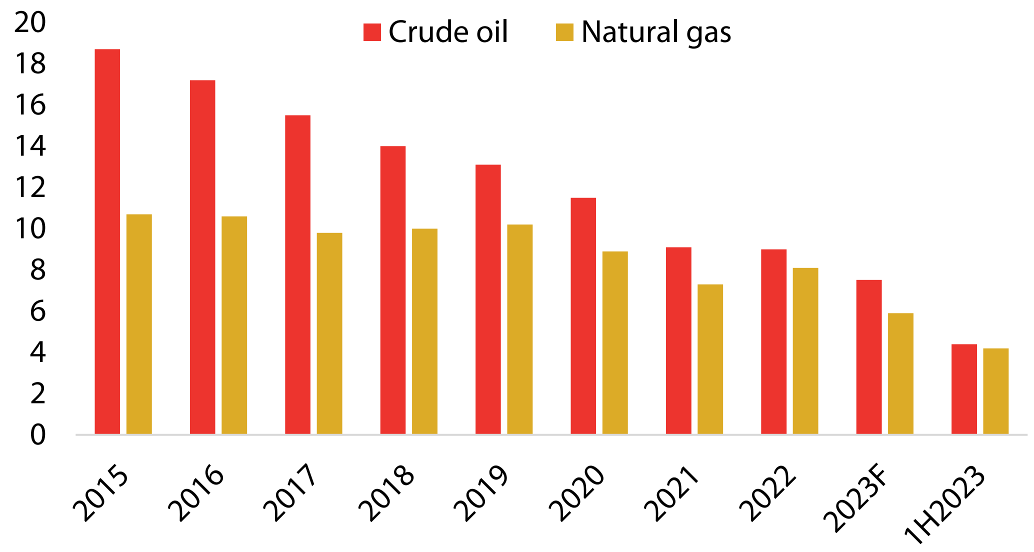


Source: RongViet Securities

We expect the acceleration of E&P activities will benefit the upstream companies

- With pressure to increase oil and gas production output, we believe that PVN will try to push key projects into operation soon. In addition, the new Oil and Gas Law is another motivation to bolster PVN and ease some burdens in E&P investment. We see some notable E&P activities in Vietnam that will take place in 2H2023 as well as 2024 such as Te Giac Trang, Ca Ngu Vang (Hoang Long, Hoang Vu JOC), Dai Hung Phase 3, Su Tu Trang 2B ...
- On the back of the kick-off from these projects, we anticipate the promising outlook for upstream companies such as PVD, PVS as they will secure lot of new contracts in the coming years.
- While the less favorable environment of oil price, cracking spread or the gasoline price, compared to the wonderful year 2022, will impact the 2023, 2024 prospect of downstream companies.

Figure 6: Crude oil (mn tons) and gas (bn m3) production in Vietnam



Source: PVN

Table 1: Some notable E&P in Vietnam during 2023-2024

Operator	Projects
Hoang Long/ Hoan Vu JOC	+ Issue a tender to drill for 540 days at Te Giac Trang, Ca Ngu Vang.
Idemitsu	+ Plan to drill two wells on Block 05-1b/c offshore Vietnam in 2024.
PVEP	+ Drill 12 wells in the Dai Hung Phase 3 in Block 05-1(a) from mid-July 2024.
Cuu Long JOC	+ Plan to drill for Su Tu Trang Phase 2B in 2024.
Murphy	+ Lac Da Vang to start its development phase in July/August 2024.
Phu Quoc POC	+ Waiting for Final Investment Development of Block B, expected in 2024.

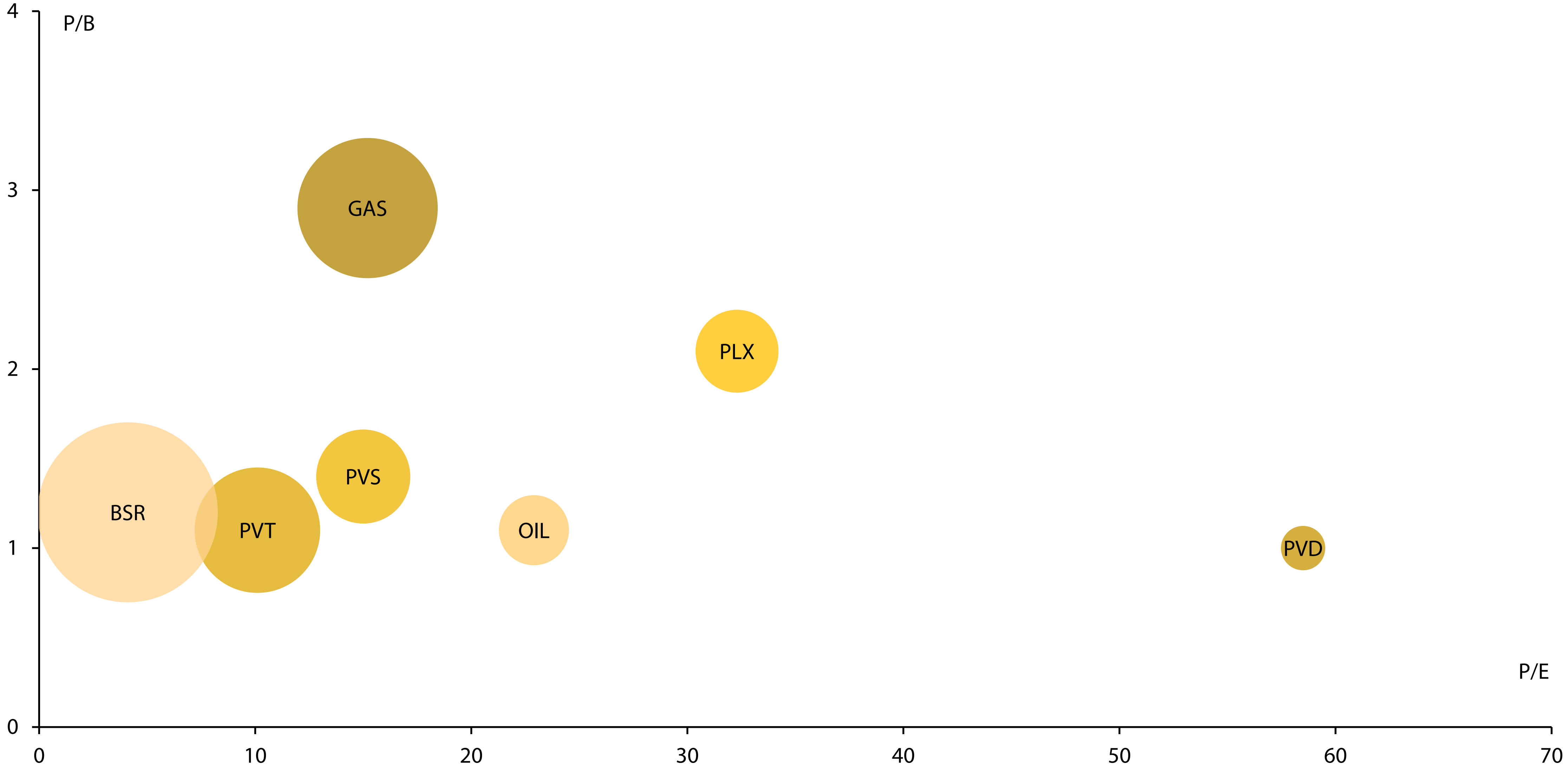
Source: PVD

INDUSTRY COMPARABLE (TTM)

Ticker	Mkt Cap. ($mn)	Target price (VND)	Closing price (07/31/2022	NTM Cash dividend	Foreign room leftover %	Revenue growth %YoY			NPAT-MI growth %YoY			2023 's Profitability		P/E		P/B	
						2022A	2023F	2024F	2022A	2023F	2024F	ROE(*)	ROA(*)	Cur.(*)	5 Yr. AVG	Cur.(*)	5 Yr. AVG
PVS	714	27,800	34,400	700	28.6	14.8	20.2	14.0	69.5	2.8	29.2	6.4	2.9	20.7	16.1	1.3	0.8
PVD	633	26,800	26,200	0	27.8	36.2	25.8	9.6	807.4	-449.1	88.1	2.4	1.6	42.3	n.a	1.0	0.6
PVT	332	26,000	23,600	0	34.5	21.3	1.9	4.4	2.2	0.0	-6.2	14.2	5.6	8.9	8.6	1.2	1.2
GAS	8,454	N.R	101,600	n.a	46.1	27.5	n.a	n.a	75.3	n.a	n.a	20.4	14.5	15.2	17.4	2.9	3.5
PLX	2,292	N.R	41,500	n.a	2.6	79.9	n.a	n.a	-46.6	n.a	n.a	11.0	3.2	32.3	35.3	2.1	2.7
OIL	508	N.R	11,300	n.a	1.0	80.2	n.a	n.a	-1.2	n.a	n.a	5.0	2.3	22.9	n.a	1.1	1.3
BSR	2,642	N.R	19,600	n.a	48.6	65.3	n.a	n.a	125.3	n.a	n.a	33.2	20.3	4.1	n.a	1.2	1.2

Source: Bloomberg, RongViet Securities. Data was updated as of 07 31th ,2023.
**For covered stocks: ROE, ROA, P/B, and P/E are estimated based on 2023 earnings*
For followed stocks: the ratios was updated based on last 12 months data
N.R: Non rate
N.A: Not available
NPAT-MI: Net profit after tax and minority interest

PE, PB AND ROE (TTM)

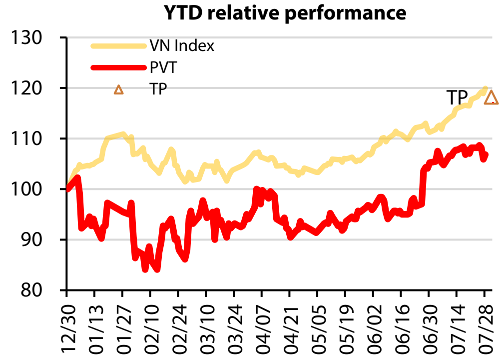


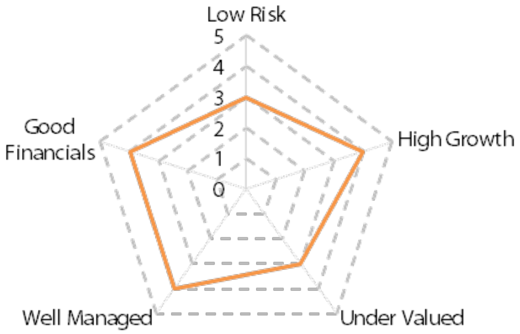
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 31 Jul 2023.

THE CORE BUSINESS TO ENJOY THE FAVORABLE CHARTER RATE AND FLEET EXPANSION

HSX: PVT

ACCUMULATE: +10% **MP: 23,600** **TP: 26,000**





STOCK INFO

Sector	Industrial Goods
Market Cap ($ mn)	322
Current Shares O/S (mn shares)	324
3M Avg. Volume (K)	3,685
3M Avg. Trading Value (VND Bn)	83
Remaining foreign room (%)	35.1
52-week range ('000 VND)	13.5 – 24.65

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	9,048	9,060	9,939
NPATMI (VND bn)	861	884	940
ROA (%)	6.0	5.8	5.8
ROE (%)	14.3	13.2	12.7
EPS (VND)	2,661	2,568	2,731
Book Value (VND)	18,557	20,625	22,856
Cash dividend (VND)	1,000	500	500
P/E (x)	8.3	9.2	8.6
P/B (x)	1.2	1.1	1.0

INVESTMENT RATIONALES

Strong earnings growth in 1H2023 but FY2023 to be flat

- Thanks to the favorable charter rate, fleet expansion as well as the abnormal profit from liquidating 2 vessels PVT Dragon and PVT Apollo Pacific, PVT experienced a strong earnings growth in 1H2023 ~ 33%. However, the 2023 bottom line will slightly grow 2.6% due to the high base in 2H2022 as PVT recorded an abnormal profit of VND292bn from liquidating Athena.
- Excluding the abnormal earnings, PVT is expected to post earnings growth of 17% in 2023.

PVT will keep rejuvenating its fleets by adding new vessels as well as liquidating the old ones

- In 1H2023, PVT purchased 8 vessels, including oil product tanker, VLGC, LPG carrier and bulk carrier. At the end of 2023, PVT targets to achieve 63 vessels, compared to the number of 41 at the end of 2022. However, we believe that PVT will partly fulfill its investment plan due to the high tanker price.

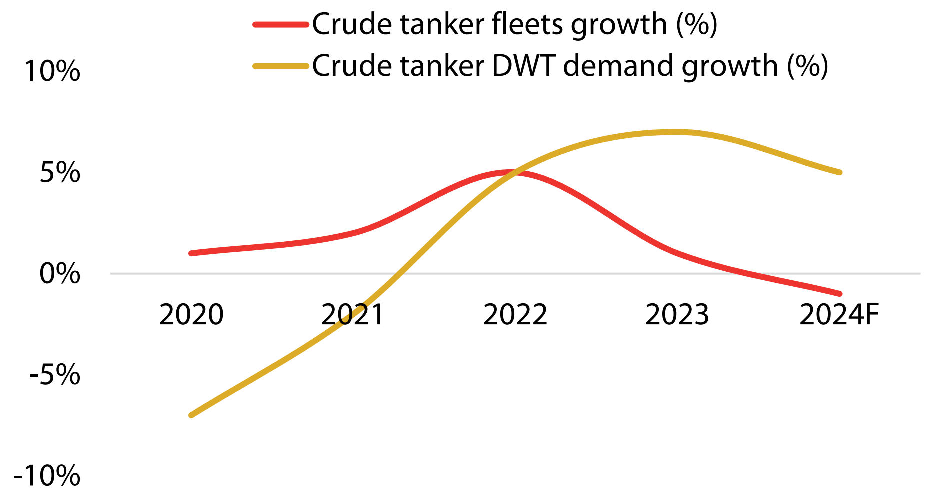
Earnings to keep growing in 2024 that makes the stock look attractive

- In 2024, crude oil tanker as well as oil product tanker are expected to benefit from the shortage of fleet supply. Coupled with the fleet expansion, we believe that PVT can maintain its growth momentum at least 6% . At this time, PVT share is being traded with P/E of 7.9x.

RISKS TO OUR CALL

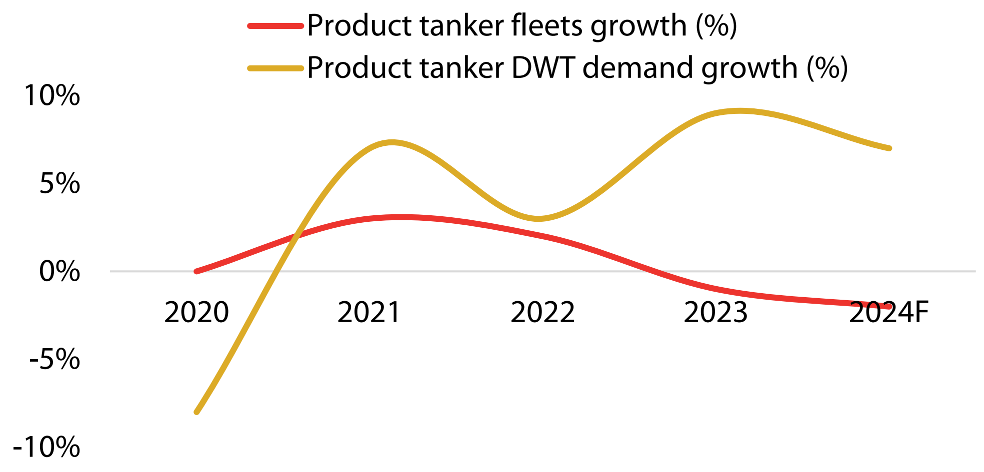
- The charter rate may cool down.
- The fleet expansion is not as expectation.

Figure 1: Shortage of crude oil tanker to keep the charter rate high



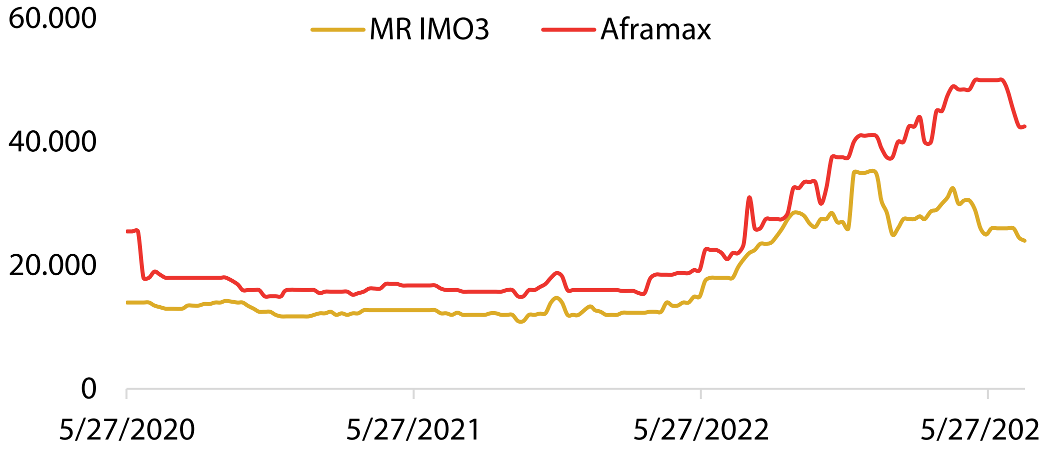
Source: Clarksons , RongViet Securities

Figure 2: and so on with oil product tanker



Source: Clarksons, RongViet Securities

Figure 3: The charter rates are flying high



Source: RongViet Securities

Table 1: PVT keep expanding its fleets

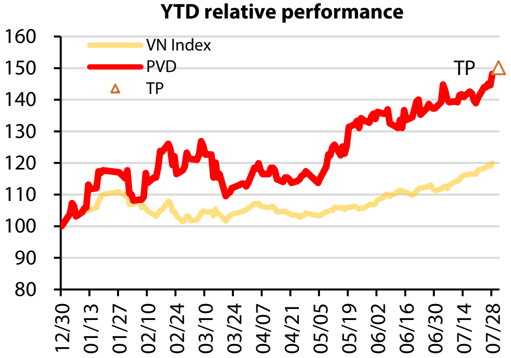
Type of vessels	2022	2023F	2024F	2025F
Crude oil	3	4	5	6
Oil product/chemical	16	28	33	37
LPG	15	20	21	24
Dry bulk	6	10	15	17
FSO	1	1	1	1
Total	**41**	**63**	**75**	**85**

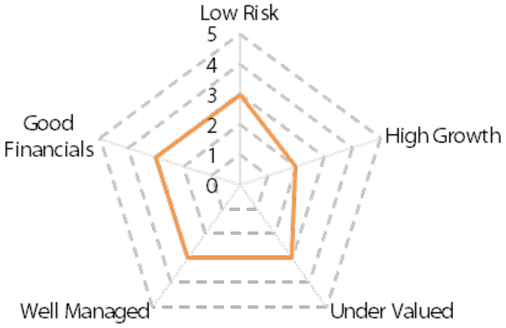
Source: PVT

BRIGHT OUTLOOK THANKS TO THE FAVORABLE DRILLING MARKET

HSX: PVD

NEUTRAL: +2% **MP: 26,200** **TP: 26,800**





STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	615
Current Shares O/S (mn shares)	556
3M Avg. Volume (K)	5,436
3M Avg. Trading Value (VND Bn)	133
Remaining foreign room (%)	27.7
52-week range ('000 VND)	11.9 – 26.85

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	5,432	4,997	5,787
NPATMI (VND bn)	-99	336	710
ROA (%)	-0.5	1.6	3.4
ROE (%)	-0.7	2.4	4.8
EPS (VND)	-242	605	1,264
Book Value (VND)	24,904	25,509	26,773
Cash dividend (VND)	0	0	0
P/E (x)	-73.8	43.3	20.7
P/B (x)	0.7	1.0	1.0

INVESTMENT RATIONALES

Day rate and utilization rate to keep improving in 2H2023

- PVD achieved impressive earnings in 1H2023 with NPATMI of VND 227 bn thanks to the improvement in day rate and the abnormal income from the compensation for terminating the drilling contract with Valeura. In 2H2023, rig day rate is likely to keep improving then the FY 2023 bottom line is projected at VND 336 bn, compared to the loss in 2022.

Jack up rig supply to get tighter while demand to maintain high which will push up the day rate

- The global jackup rig demand is forecasted to hike as the Middle East demand is expected to increase from 125 in 2022 to 169 units on average in 2023 and 183 in 2024. In contrast, there have not been so many new-built rigs, added to the global supply recent years and 1/3 of all jackup rigs are over 30 years old, meaning that they may leave the market in the future. As a result, the jack up rig supply may get tighter, leading to high rig day rate.

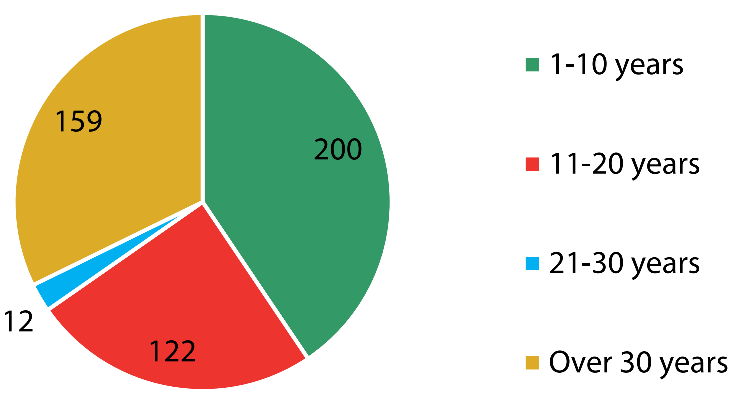
Securing contracts for the fleets with better day rates will support the earnings growth in 2024, resulting in the potential re-valuation

- Recently, PVD have secured some new contracts for 2024. In details, the average new day rate is likely to be around USD 90,000/day, representing a 20% increase compared to 2023.
- The valuation can be re-rated in case the bottom line keep improving in 2024. In the past, PVD used to be traded at P/B of 1.2 and the 2023 P/B is only 1.0.

RISKS TO OUR CALL

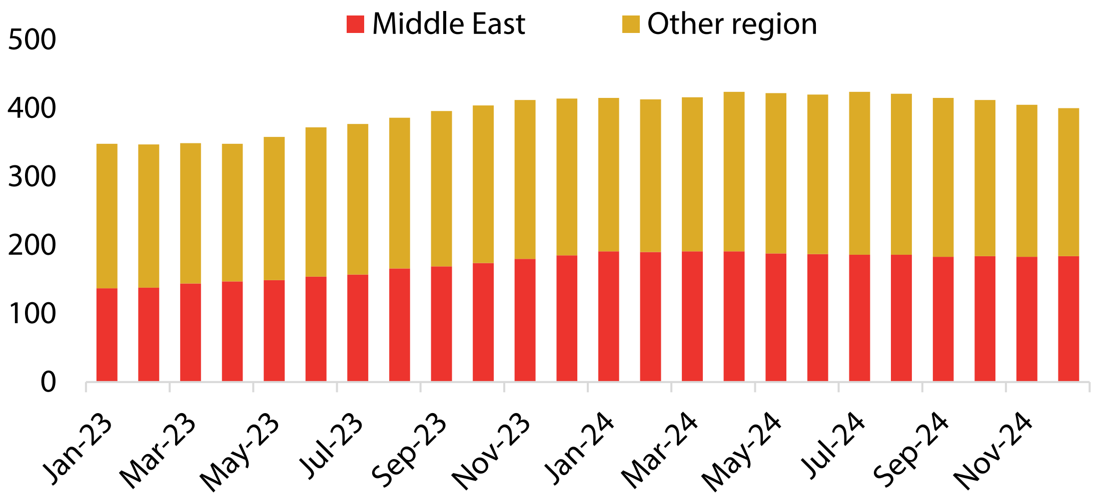
- The regional rig day rate may cool down.
- PVD can not achieve better day rates or can not fulfill the 2024 drilling campaign for its drilling fleets.

Figure 1: Nearly 1/3 of fleets are over 30 years old



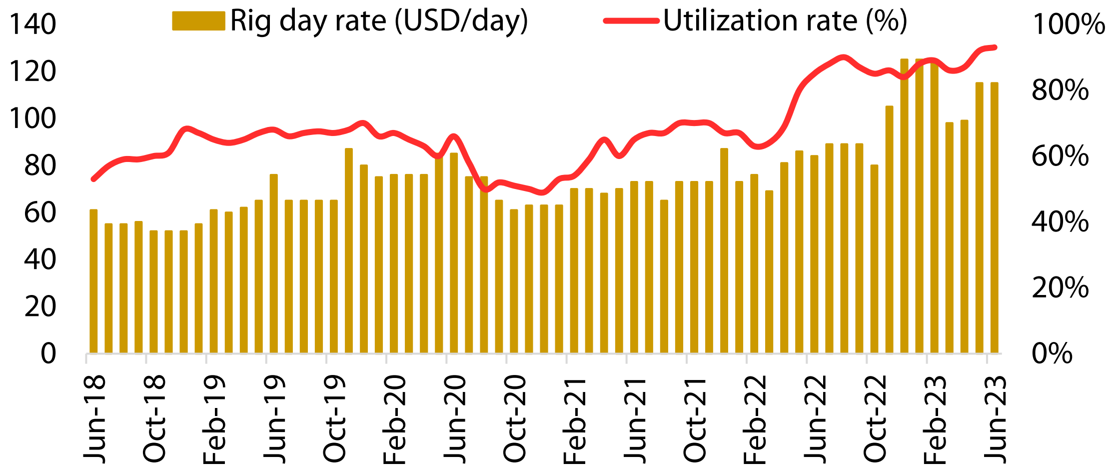
Source: PVD, RongViet Securities

Figure 2: The rig demand is likely to increase thanks to Middle East



Source: S&P Global

Figure 3: The rig day rates are flying high in SEA



Source: S&P Global

Table 1: PVD has secured contracts for 2024 with better day rates

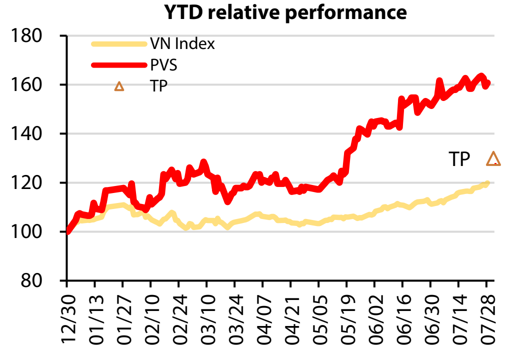
	Client	Expceted day rate
PVD I	PCSB	90,000 USD/day – 100,000 USD/day
PVD II	Pertamina - Indonesia	90,000 USD/day
PVD III	Hibiscus	80,000 USD/day – 90,000 USD/day
PVD VI	PCSB	90,000 USD/day – 100,000 USD/day

Source: PVD, RongViet Securities

TO REFLECT LOT OF EXPECTATION FROM BLOCK B PROJECT

HNX: PVS

REDUCE: -17% **MP: 34,400** **TP: 27,800**



STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	694
Current Shares O/S (mn shares)	478
3M Avg. Volume (K)	7,068
3M Avg. Trading Value (VND Bn)	226
Remaining foreign room (%)	28.7
52-week range ('000 VND)	16.2 – 36.4

FINANCIALS

FINANCIALS	2022A	2023F	2024F
Revenue (VND bn)	16,373	19,677	22,428
NPATMI (VND bn)	884	817	1,048
ROA (%)	3.4	2.9	3.6
ROE (%)	7.2	6.5	7.9
EPS (VND)	1,575	1,539	1,974
Book Value (VND)	25,564	26,397	27,664
Cash dividend (VND)	800	700	700
P/E (x)	13.6	22.4	17.4
P/B (x)	0.8	1.3	1.2

INVESTMENT RATIONALES

PVS has been awarded lot of EPC contracts for offshore wind power

- PVS announced 33 suction bucket jacket foundations contract with a value of more than USD300 mn in 1Q2023. Recently, PVS has been rewarded new contract for the design, manufacturing, and commissioning of offshore substations for the Baltica 2 with the value of USD180 mn. The company is on the way to shift its business to renewable energy segment.
- Offshore wind power is seen as a potential sector in Vietnam as well as in some Asian countries. We believe that PVS will receive more projects in the future thanks to its related experience in Oil & Gas sector and the close relationships with top developers through signing MOUs.

The stock price is reflecting lot of expectations from the Block B O Mon project

- The stock price has increased strongly as the FID of Block B is hopefully to be approved soon. PVS can add USD 0,7 bn - USD 1 bn to the current backlog on the back of the approval. However, it should be noted that the project also has missed the FID deadline so many times before. Then there will be a downside risk if the FID is not as the market's expectation.

We see a strong earnings growth in 2024 while 2023 number is flat

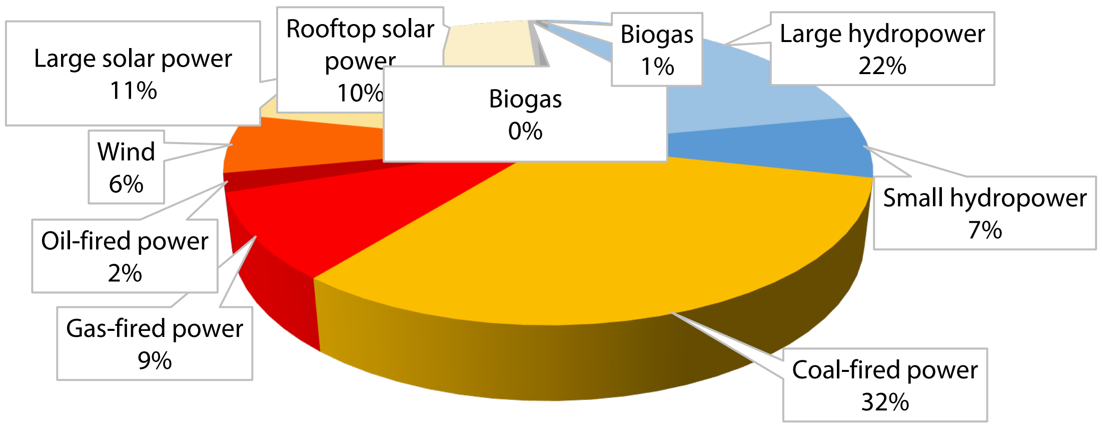
- For 2023, PVS is anticipated to reach VND 19,677 bn (+20.2%) in revenue and VND 817 bn (-7.5%) in NPATMI. For 2024, the bottom line is forecasted to increase by 28,2% to VND1,048bn without the Block B.
- In case of winning Block B, CAGR of net profit will be 14.5% during 2024-2026. Otherwise, the 2024-2026 earnings will find hard to maintain the growth.

RISKS TO OUR CALL

- FID of Block B can not get approval.
- The value of new EPC contract, especially offshore wind projects, is under expectation.

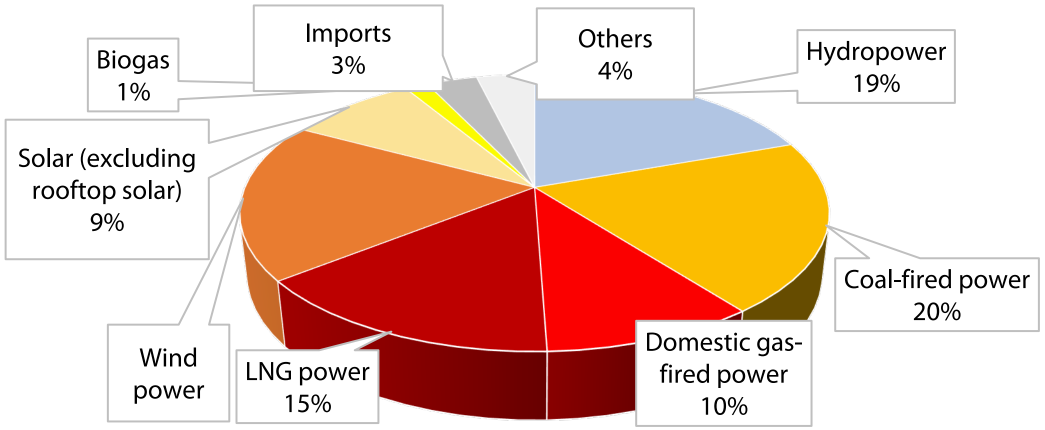
FOOTPRINT TO THE POTENTIAL SEGMENT – WIND POWER

Figure 1: Wind power accounts for 6% in 2022 capacity



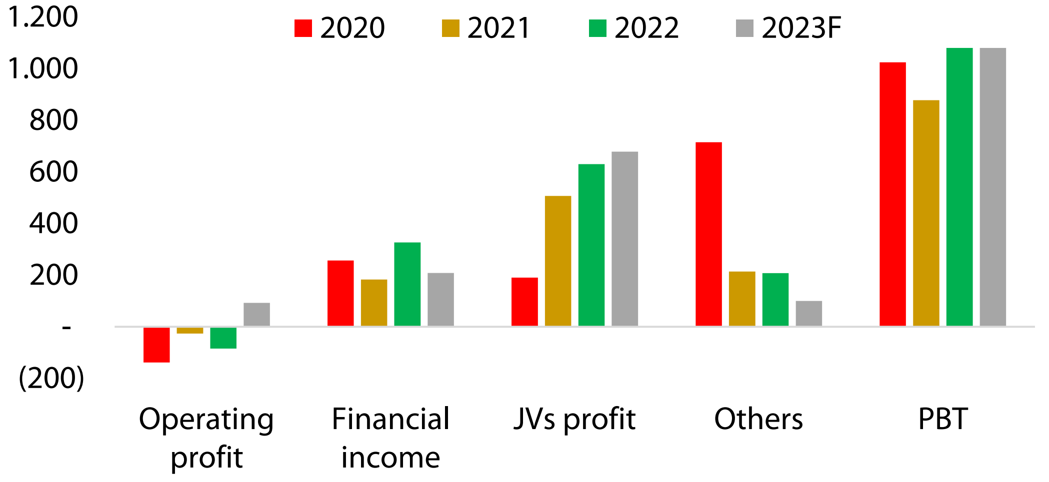
Source: PDP8 , RongViet Securities

Figure 2: and 16% till 2030



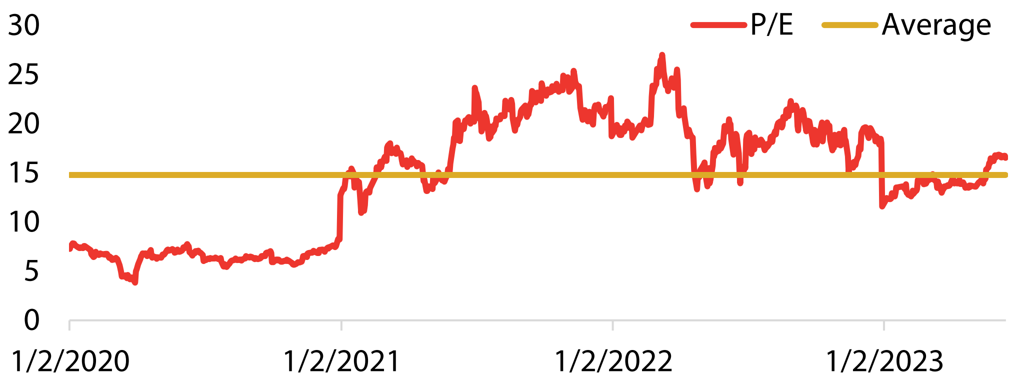
Source: PDP8 , RongViet Securities

Figure 3: 2023 earnings to be flat (VND bn)



Source: RongViet Securities forecast

Figure 4: But the stock price has been on fire



Source: RongViet Securities forecast

Table 1: Current and potential backlogs

Projects	Value (USD mn)	Timeline			
Current backlogs		**2023**	**2024**	**2025**	**2026**
33 suction bucket jacket foundations	330				
Substation for Baltica 2	180				
Substation for Hai Long 2, 3	90				
Shwe Phase 3	200				
Gallaf Batch 3	360				
LPG Thi Vai	80				
Potential backlogs					
CPP – Block B	500				
Pipeline – Block B	600				
Yellow Camel (Lac Da Vang)	300				
White Lion (Su Tu Trang) Phase 2	700				

Source: RongViet Securities

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