

## Vietnam Oil and Gas

14 February 2020



## What's new?

- ▶ Oil prices have recovered for three consecutive days on expectations of production cuts by OPEC (and allies).
- ▶ However, the fire at the Exxon-Mobil refinery is a negative catalyst – it may actually worsen oil demand.
- ▶ As stated in our Feb 6 sector [update](#), we remain bullish on O&G stocks, but the epidemic will determine how oil price trends play out.

## Market outlook

- ▶ Oil price rebound may catalyze O&G stocks such as PVD (BUY), GAS (not rated) and PVS (not rated) given their high correlation.
- ▶ We reiterate BUY on PVD as its core business is improving, with utilization having increased to 95% in 4Q19, up from 90% in 4Q18.
- ▶ We expect PVD's workload and day rates to improve further in 2020.

## Oil price rebound to lift O&G stocks

**Oil prices have been up for three consecutive days** in expectation that OPEC and its allies will cut production. In addition, the price surge is also underpinned by optimism that the demand slide caused by the coronavirus outbreak may have peaked. Currently WTI is trading at 51.5 USD per barrel, up by 4.0% from the bottom earlier this week. Brent is trading at 56.2 USD, up 5.6% from the nearest bottom.

**As mentioned in our update last week, we remain bullish on O&G stocks.** The Exxon-Mobil refinery fire is not a positive as it may worsen oil demand in the short term. But realistically, global news regarding the coronavirus epidemic will determine how this plays out. If the outbreak can be contained reasonably quickly, a rapid resurgence of economic activity (and thus, power- and transportation-related demand for oil and gas input) should allow for a quick recovery in O&G stocks such as **PVD (BUY), GAS (not rated) and PVS (not rated)**.

**PVD: core operations are improving.** Utilization in 4Q19 rose to 95% in 4Q19, up from 90% in 4Q18. Short-term catalysts are also visible, as we expect PVD's workload and day rates to continue improving in 2020.

- **For workload, PVD contracted out two hired rigs for domestic market on the top of four rigs that secured jobs in Malaysia in 2020.** In addition, we expect the land rig, which has been idle since 3Q19, will be back in use in 1Q20. Management expects to extend its jack up rig contract to 2021 on the top of Deep Water (PVD V) TAD that has secured job in Brunei.
- **2020 day rate trending higher.** Management guides for the jack up rig day rate to increase by 8.3% YoY to USD 65,000 this year.

**FY2019 performance review.** FY19 PATMI fell by 3.9% YoY to VND 189 bn although FY2019 gross profit margin expanded to 10.3% up from 7.2% in 2018 thanks to a 5% improvement in the dayrate. FY19 revenue was down 20% YoY as low-margin trading revenue fell by 69% YoY (2018 saw large one-off trading gains). Drilling revenue, which accounted for 50% of total revenue, rose by 4% YoY to VND 2.2 tn, thanks to the improved day rate. SG&A increased by 39% YoY to VND 414 bn, but this was based on a low base due to provision reversals in 2018.

**We reiterate BUY on PVD** with target price of VND 19,896. PVD is now trading at an attractive 0.4x 2019 book value.

	GAS	PVS	PVD
<b>FY19 PAT (VND bn)</b>	12,158	681	177
<b>Growth YoY (%)</b>	3.9	18.8	2.5
<b>FY19 PATMI (VND bn)</b>	11,940	731	189
<b>Growth YoY (%)</b>	4.2	-30.2	4.3
<b>2019 PE (x)</b>	14.0	10.7	30.0
<b>2019 PB (x)</b>	3.5	0.7	0.4
<b>ROE</b>	24.7	5.8	1.4
<b>ROA</b>	19.1	3.0	0.9

Source: FIINPro, Yuanta Vietnam

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