



What's new?

- ▶ Oil prices have plunged 31% to 31 USD per barrel
- ▶ OPEC failed to reach a deal, Saudi Arabia to ramp up its production.
- ▶ Expectations are falling along with pricing. For example, Goldman has cut its 2Q-3Q20 Brent forecast to USD30 per barrel.

Market outlook

- ▶ O&G stocks such as PVD (BUY), GAS (not rated) and PVS (not rated) are under pressure in the short-term.
- ▶ if Brent remains below 60 by the end April, as seems likely, longer-term O&G activities could be curtailed.
- ▶ Oil prices do not immediately affect PVD's 2020 contracted operations. However, reduced regional oil extraction activity could affect PVD in 2021.

Oil price crash hits O&G stocks

Oil price plummeted 31% USD31/bbl (barrel), the lowest since 2016, after OPEC failed to reach a deal with its allies and Saudi Arabia cut its April selling price by USD6-8/bbl. The country's current production is 9.7mn barrel per day (bpd) but it has the capacity to produce 12.5 mn bpd thus inflating the supply. This news immediately depressed O&G stocks such as **GAS (not covered)**, **PVS (not covered)** and **PVD (BUY)**, all of which were limit-down (-7%) in today's trading session.

Goldman cut its second and third quarter Brent forecast to USD30 per barrel over the weekend and predicts that it may reach USD 20 per barrel. Historically, if Brent remains below 60 for more than 3 months, it will trigger long term negative changes in oil and gas activities.

These events are challenging our bullish view. Brent has traded below 60 since Jan 29 2020. If it remains below this threshold through April, we believe long-term O&G activities will be curtailed. As discussed in our [previous report](#), in the more optimistic scenario in which the outbreak can be contained reasonably quickly, a rapid resurgence of economic activity (and thus, power- and transportation-related demand for oil and gas) should allow for a quick recovery in oil price thus O&G stocks. But given that Brent is only trading at half of the USD 60 per barrel threshold, the latter scenario appears increasingly unlikely.

We spoke with PVD this morning for a quick update. Below are the key highlights of our call:

- All jack up rigs (PVD I, II, III, and VI) have contracts signed with day rates fixed for the entirety of 2020, so we can expect no changes in the day rates (USD 65,000 on average, +8.3% YoY) and overall operations of those rigs this year. We continue to expect PVD 11 (the land rig) to secure a job in 1Q20, and PVD reiterated that they are very confident in putting it back to work soon. We assume the land rig day rate will be approximately USD 31,000.
- PVD admits that the oil price plummet may affect its 2021 prospects. This is because they must renew their contracts after 2020; weak oil pricing is likely to pressure day rates and could also result in slower drilling activity.
- PVD is now trading at 0.4x 2020E book value. We are in process of revising our forecasts and valuation.

	GAS	PVS	PVD
FY19 PAT (VND bn)	12,158	681	177
<i>Growth YoY (%)</i>	3.9	18.8	2.5
FY19 PATMI (VND bn)	11,940	731	189
<i>Growth YoY (%)</i>	4.2	-30.2	-4.4
2019 PE (x)	14.4	9.9	27.3
2019 PB (x)	3.1	0.6	0.4
ROE	24.7	5.8	1.4
ROA	19.1	3.0	0.9

Source: FIINPro, Yuanta Vietnam

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