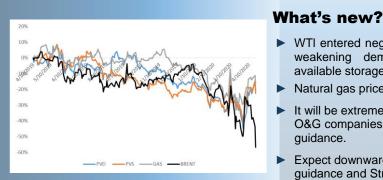


#### **Vietnam Oil and Gas** 22 April 2020



## WTI entered negative territory due to weakening demand and lack of available storage.

- Natural gas price still remains stable.
- It will be extremely challenging for O&G companies to fulfill their 2020 guidance.
- Expect downward revisions to guidance and Street forecasts.

# Market outlook

- Guidance from PVN and its subsidiaries was based on assumed average Brent price of 50-60 dollars in 2020.
- We think it nearly impossible for Brent to recover to that point this year.
- O&G firms are thus substantially affected by the oil prices crash.
- Beneficiaries include transportation, electricity generation, and fertilizer.

#### **PVS** PVD **GAS** FY19 EBITDA (VND bn) 16,340 619 627 Growth YoY (%) -1.2 -3.4% -11.4 FY19 PATMI (VND bn) 11,940 731 189 Growth YoY (%) 4.2 -30.2 -4.4 2019 PE (x) 10.4 6.6 22.2 2019 PB (x) 2.5 0.5 0.3 ROE 24.7 6.7 1.3 **ROA** 19.1 3.5 0.9

Source: FIINPro. Yuanta Vietnam

# Oil price crash hits 0&G stocks

Oil price has crashed, but natural gas has not. On April 20, WTI fell into negative territory to fall as low as -37.63 USD per barrel due to pressure from futures contracts expiry on April 21. As we write, WTI then rebounded and is trading at 13.6 USD / barrel, down from c.60 USD per barrel in early 2020. Even if the negative price effect is short-lived, low prices are likely to persist given weak demand due to COVID-19 and lack of storage availability. However, natural gas prices have been relatively stable. Natural gas is trading at 1.96 USD / mmBTU, which is up +8.35% YTD (albeit down -22.0% YoY).

O&G companies are not likely to achieve 2020 guidance. PVN and the majority of its subsidiaries in Vietnam built their 2020 business plans based on assumed oil prices of 50-60 USD / barrel (for Brent), as indicated in their recently published annual reports. Currently Brent is trading at 19.6 USD / barrel, down 73.6% YoY. We reiterate our view that it is nearly impossible for Brent to recover to levels where it averages USD 50-60 per barrel this year, which in turn implies underperformance against the O&G sector's initial guidance.

O&G businesses are negatively affected by oil prices but the magnitude depends on the business model. We view upstream companies (i.e., mining, exploration) as most directly impacted by the oil price crash. However, some businesses have secured contracts to provide core services for the whole year of 2020, such as PVD (HOLD O/P, TP VND 10.425). In such cases, the impact of the oil price crash should be limited in the short-term. Gas distribution companies (GAS, not rated) will see limited impact from the oil price plunge because they earn the gap between purchasing and selling prices as transportation fees. Retail-oriented fuel companies (PLX and OIL, both Not Rated) are affected in the short term due to high inventory costs.

Beneficiaries of oil price crashes are sectors that have oil and gas as inputs, such as transportation (PVT-Not Rated), electricity generation firms through their non-Qc business (POW-Buy; NT2-Hold-O/P), and fertilizer suppliers (DPM and DCM, both Not Rated) in terms of input prices. Additionally, companies that have inputs the prices of which are highly correlated with oil should also benefit. These include plastics companies (BMP, NTP, and AAA - all Not Rated) which may benefit from lower related input prices.

### Binh Truong

Deputy Head of Research +84 28 3622 6868 ext. 3845 binh.truong@yuanta.com.vn

http://yuanta.com.vn Bloomberg code: YUTA

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Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research Yuanta Securities Investment Consulting 4F, 225, Section 3 Nanking East Road, Taipei 104 Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research Yuanta Securities (Hong Kong) Co. Ltd 23/F, Tower 1, Admiralty Centre 18 Harcourt Road, Hong Kong Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office Yuanta Securities Building Euljiro 76 Jung-gu Seoul, Korea 100-845 Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research PT YUANTA SECURITIES INDONESIA (A member of the Yuanta Group) Equity Tower, 10th Floor Unit EFGH SCBD Lot 9 Jl. Jend. Sudirman Kav. 52–53

Tel: (6221) - 5153608 (General)

Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department Yuanta Securities (Thailand) 127 Gaysorn Tower, 16th floor Ratchadamri Road, Pathumwan Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department Yuanta Securities (Vietnam) 4th Floor, Saigon Centre Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

### YUANTA SECURITIES NETWORK



# YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

# Institutional Research Matthew Smith, CFA

Head of Research

Tel: +84 28 3622 6868 (ext. 3815) matthew.smith@yuanta.com.vn

### Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

tam.nguyen@yuanta.com.vn

# **Institutional Sales**

## **Huy Nguyen**

Head of Institutional sales Tel: +84 28 3622 6868 (3808) Huy.nguyen@yuanta.com.vn

### **Binh Truong**

Deputy Head of Research (O&G, Energy) Tel: +84 28 3622 6868 (3845) binh.truong@yuanta.com.vn

### **Tanh Tran**

Analyst (Banks)

Tel: +84 28 3622 6868 (3874) tanh.tran@yuanta.com.vn

## **Duyen Nguyen**

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890) duyen.nguyen@yuanta.com.vn