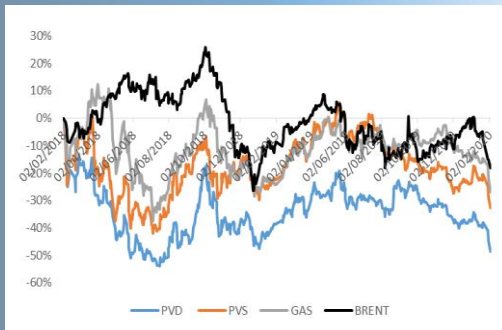


## Vietnam Oil and Gas

6 February 2020


**What's new?**

- ▶ Global oil prices are under pressure due to the economic implications of the coronavirus outbreak.
- ▶ Oil prices have fallen roughly 20% from early January levels.
- ▶ O&G share prices are highly correlated with oil, and are thus under pressure (see chart at left).
- ▶ 4Q2019 financial performance of O&G stocks remain solid.

**Market outlook**

- ▶ Medium-term: Bullish but wary, given the uncertainties surrounding the timing of a recovery in oil demand.
- ▶ Valuations are optically cheap.
- ▶ And unlike share prices, E&P operations do not fluctuate based on day-to-day oil prices.
- ▶ However, history indicates that operations could be curtailed if oil remains below USD60/barrel for over 3 months.

## Short-term pressure on oil prices

**Concerns about global oil demand are on the rise** which is reasonable given that China is the world's largest oil importer. WTI at US\$51.6 and Brent at US\$55.6 per barrel have both fallen c. -20% since early January. US Energy Information Administration forecasts average 2020 prices of US\$59.25 for WTI (+3.9% YoY) and USD 64.83 for Brent (+1%), but these pre-CoV expectations could face downside risk.

**O&G shares are also under pressure.** Sector bellwethers such as GAS, PVS, and PVD have corrected 15%-20% from their early 2020 peak levels. Since Dec 2019, the correlations of sector names and oil prices have remained high: GAS (65%), PVD (76%), and PVS (69%).

**4Q19 financial performance of O&G stocks was solid.** Net profit of GAS (Not Rated) increased by 3.9% YoY to VND 12.2 tn in 4Q19, whereas that of PVS (Not Rated) rose by 18.8% YoY, to VND 680 bn. **PVD (BUY)** recorded a 2.5% normalized increase in PAT to VND 177 bn (after adjusting for the one-off 4Q18 VND 219 bn provision reserve), as the driller exceeded its conservative (i.e., loss-free) guidance for 2019.

**Short-term pressure on sector share prices may persist.** Given the positive correlation with oil prices and the increased risks for global demand for oil amid the coronavirus outbreak, we believe that O&G stock prices are likely to remain under pressure in the short term.

**News regarding the 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 these stocks.

**Short-term share price movements do not necessarily reflect the fundamentals** of the O&G sector, as business operations are not based on day-to-day oil price changes. Regional exploration and production (E&P) activities have historically only been affected when Brent has remained below US\$60/barrel for over three months.

**Medium-term: Risks are higher, but we remain bullish.** If Brent remains pressured at around current levels until late April, regional E&P activities may be curtailed or halted. By contrast, if the disease is successfully managed and Brent recovers to around US\$60/barrel, the impact on O&G fundamentals should be limited. Clearly, the risks have been heightened, but our sense is that market expectations are already overly pessimistic. Thus, we retain a positive outlook on the sector.

	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>	13.9	10.7	29.6
<b>2019 PB (x)</b>	3.4	0.7	0.4
<b>ROE</b>	24.7	5.8	1.4
<b>ROA</b>	19.1	3	0.9

Source: FIINPro, Yuanta Vietnam

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