**Market Strategy**

**01 Mar, 2022**

## Market strategy

# Assessment the mixed impact of geopolitical tensions on economic sectors

- We weight the mixed impact of Russia sanctions and the commodities prices hike on Vietnam economic sectors.
- Sectors which likely benefit from commodities prices hike include oil & gas, steel export producers and fertilizer, in our view.
- On the other hand, we see slight negative impact to edible oil, animal feed producers and air tourism.

| Sectors | Impact | Rationale (max 5*) | Comments |
|---|---|---|---|
| Oil and gas | Positive | ***** | - Brent oil price is expected to stay on the high base due to the combined effects of the current global supply shortage and geopolitical tension in Ukraine.<br>- The expected strong oil price will not only drive share prices sentiments in short-term, but also improve the industry's prospect in long-term as it could boost E&P activities, strengthening the industry's fundamental. |
| Steel | Positive | **** | According to the World Steel Association (WSA), Russia and Ukraine produced 97.4m tonnes and exported about 57m tonnes of steel in 2021. Especially in the EU, Russia-Ukraine are the 2nd-4th largest steel exporters to this region in 11M21, respectively, with about 21% of total import volumes, according to Eurofer.<br>The EU is also Vietnam's third largest export market in 2021. Therefore, we believe that Vietnam's leading steel exporters have opportunity to increase its sales volume in EU in near future. |
| Fertilizer | Positive | ** | Russia accounts for 13% of the global trade of key fertilize intermediaries and almost 16% of the global trade of key finished fertilizers. Therefore, the sanctions, imposed by EU and US on Russia, will cause a global supply shortage, leading to an increase in fertilizer prices.<br>In Vietnam, fertilizer prices are affected by world fertilizer prices. As a result, fertilizer prices are likely to increase and help improve gross profit margin in the context of high input gas prices. |
| Fishery product | Positive | * | Vietnam's pangasius industry can indirectly benefit from the tension between Russia-Ukraine. EU sanctions against Russia may cause difficulties for Russian commodity exports in general, including the export of pollock, one of the main substitutes for Vietnamese pangasius to EU market. The EU imports 160,000 tonnes of pollock from Russia each year, accounting for 19% of total EU pollock imports.<br>Meanwhile, EU market was the 4th largest export market of Vietnam pangasius industry in 2021. We expect that the Vietnamese pangasius industry can take advantage of this situation to expand market share in the EU. |

**VNDIRECT Research Team**

research@vndirect.com.vn

## ASSESSMENT THE MIXED IMPACT OF GEOPOLITICAL TENSIONS ON ECONOMIC SECTORS

| Sectors | Impact | Rationale (max 5*) | Comments |
|---|---|---|---|
| Edible oil | Negative | *** | Palm oil and soybean oil prices tend to increase as demand shifts from sunflower oil to palm oil and soybean oil to serve short-term production needs as Ukraine is the largest sunflower oil exporter. If the conflict takes place in the short term and Ukraine soon restores sunflower oil exports, edible companies will be less affected thanks to previous contracts and high inventory since End-2021. However, if it persists in the long term, edible oil companies' GPM will be significantly compressed in 2022. |
| Animal Feed | Negative | *** | - Russia and Ukraine are the world's 1st and 3rd largest wheat exporters, respectively which account for nearly a third of total world trade in wheat. The tension between Russia-Ukraine was driving wheat prices up 17.8% from pre-war levels.<br>- In addition, Ukraine is also the 4th largest exporter of corn, accounting for 22% of world trade, causing the price of corn products to increase by 8.4% compared to before the conflict.<br>- Wheat and corn are one of the main ingredients to produce animal feed. |
| Air transportation | Negative | ** | - The sharp increase in oil prices negatively affects profit margin of airlines.<br>- Temporary suspension of commercial flights to/from Russia and Ukraine may slightly affects the recovery of international pax (Russian passenger accounted for ~5% of total international pax before the pandemic) in short-term. |
| Gas-fired | Negative | * | - Oil price surge leads to higher gas input price, passing through power price. Higher electricity selling price reduces gas-fired power competitiveness due to low Qc assigned, and narrows its profit margin.<br>- The possible delay of power projects from Russia investors, including thermal (Long Phu 1, Quang Tri), RE (Vinh Phong), etc… |
| Coal-fired | Negative | * | - In 2021, Russia is the third largest coal export market to Vietnam (about US$527m), mainly thermal coal. Russia is also the world's third largest coal exporter in 2020, according to the IEA. Therefore, we believe that coal-fired power plants in Vietnam will face the risk of supply shortage when it is difficult to switch suppliers in the short term. However, we expect a minimal effect as Vietnam consumed about only 12% of exported coal annually. |

## DISCLAIMER

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.



### RECOMMENDATION FRAMEWORK

| **Stock Ratings** | Definition: |
|---|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

| **Sector Ratings** | Definition: |
|---|---|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

**Hien Tran Khanh – Research Director**
Email: hien.trankhanh@vndirect.com.vn

**VNDIRECT Securities Corporation**
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi
Tel: +84 2439724568
Email: research@vndirect.com.vn
Website: https://vndirect.com.vn