Sector note

27 Sep 2021

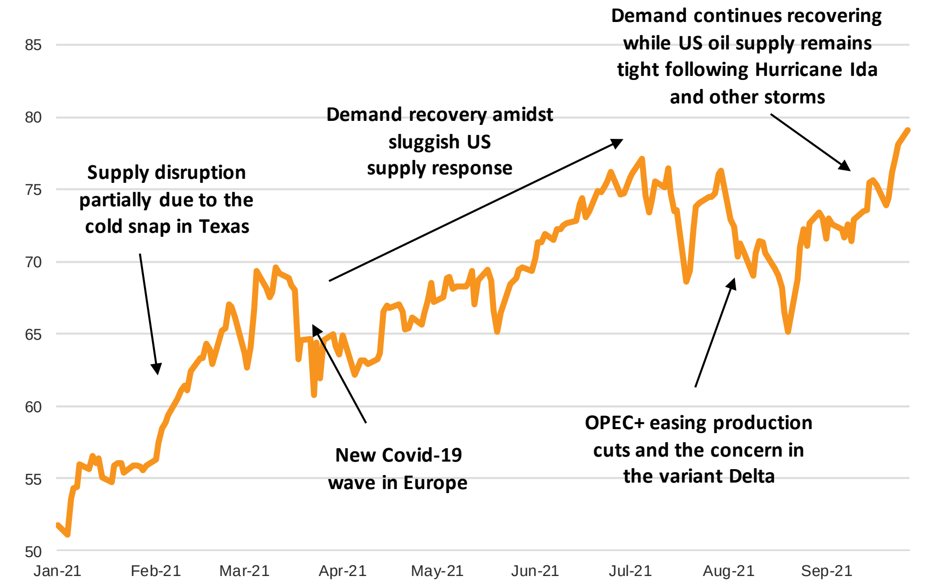
OIL & GAS

What will happen if oil price break US$80/bbl or higher?

- Brent oil price is likely to continue its bullish trend thanks to the sluggish supply in response to global demand recovery.
- Strong oil price would still be the leading driver for oil & gas share prices in coming times.

9M21 Brent oil price recap

Figure 1: Brent oil price movements in 9M21



Source: BLOOMBERG, VNDIRECT RESEARCH

Brent oil price reached the level of $US79/bbl in July – the highest level since October 2018, increasing 52.5% YTD and nearly 88% compared to the 2020 average price (~$US42/bbl). The impressive price rally came from global demand recovery after the pandemic amidst the sluggish supply response in 9M21.

Brent oil price is likely to continue its bullish trend this year

While global demand is on track to the recovery….

- Vaccination campaigns have opened the economies. Thanks to the positive vaccination campaigns (e.g., the vaccinated rate in US, UK is 63.4% and 71.4% as of 24 September, respectively) combined with the fiscal stimulus, some major economies strongly have recovery in 1H21. In June 2021, World Bank forecasted that China's GDP could increase to 8.4% and 8.5% in 2021 instead of the target of 6% set by the Chinese Government. Hence the strong growth of China, along with the US recovery, will be the leading driver of the global economic prosperity after the pandemic, thereby boosting global oil demand.
- Based on US Energy Information Administration (EIA) in September, the U.S. stockpiles fell by 3.5 million barrels to 414 million, which is near a three-year low. EIA forecasts the global oil demand could increase by 5.0 million barrels per day (mbd) in 2021F to the average of 97.4 mbd from the sharp fall of 8.6 mbd in 2020, before reaching the average of 101.0 mbd in 2022F, almost even with pre-Covid level (2019).

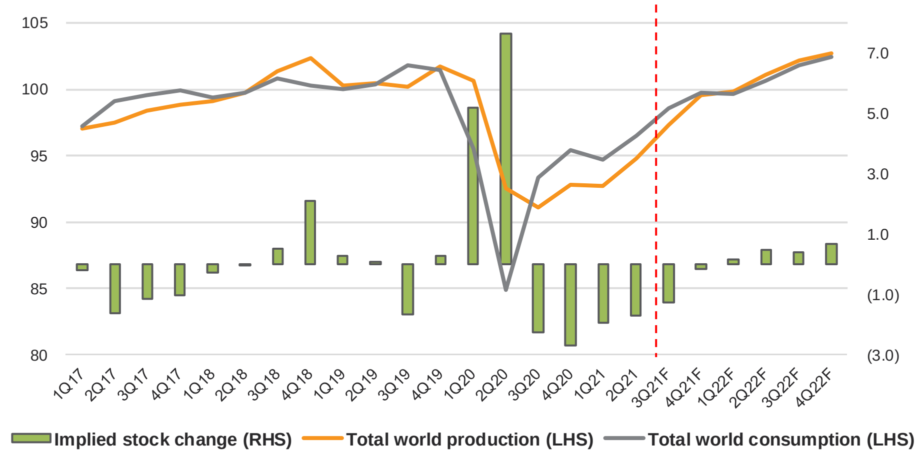
Analyst(s):

Hai Nguyen Ngoc

hai.nguyenngoc2@vndirect.com.vn

- Currently, in the context of natural gas in short supply leading to the soaring gas prices, there would be more focus on crude oil as one of the only viable alternatives. We expect this would be potential bullish catalyst for the oil market this winter, larger than the downside risk to global oil demand from another Delta-like Covid wave. The US investment bank Goldman Sachs has predicted that Brent could reach US$90/bbl if the weather in the northern hemisphere turns out to be colder than normal this winter, which is a US$10/bbl more than its current forecast.

Figure 2: Supply - Demand Balance (mdb). EIA forecasts the global oil demand to reach the pre-covid level of 100mbd by the end of 2021

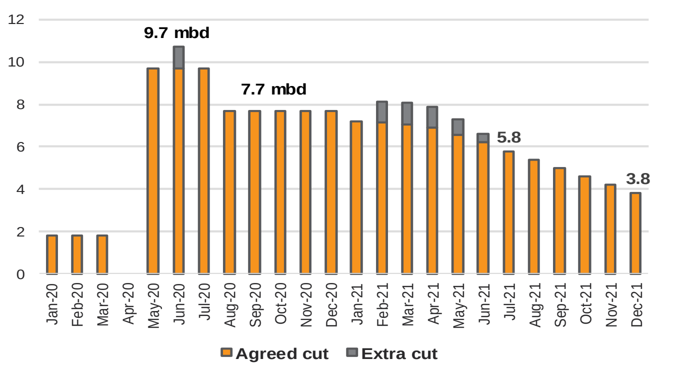


Source: EIA, VNDIRECT RESEARCH

… The supply seems to be still tightened due to OPEC+ conservative in raising productions and the slow recovery of the US oil industry.

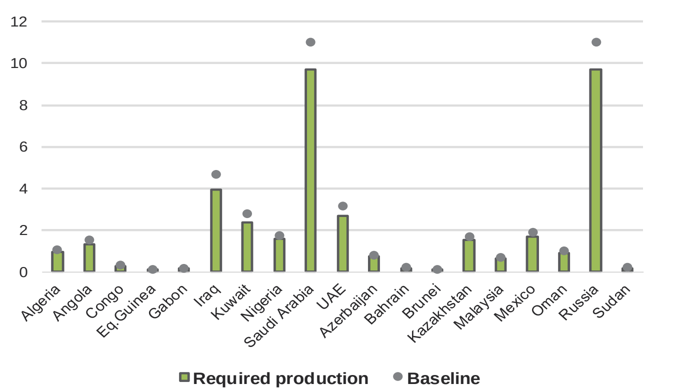
Despite the strong recovery in global demand, OPEC+ is still conservative in raising outputs. On 18 Jul, OPEC+ decided to gradually increase overall crude production by 400k barrels per day on monthly basis starting from Aug to Dec 2021, ramping up output by 2 mbd in total by the end of this year. Additionally, the deal also gives that the supply management pact is extended from Apr 2022 to end-2022. This agreement shows that a moderate increase in production would keep the market in supply deficit in the coming months. Meanwhile, despite increasing production following the agreement, OPEC's oil production was still at ~10% below the total quota applicable to the 10 members in August due to lack of investment or delayed maintenance during the pandemic.

Figure 3: OPEC+ production cuts



Source: OPEC, VNDIRECT RESEARCH

Figure 4: OPEC+ required production in Aug 2021 vs. baselines. The baselines for UAE, Saudi Arabia and Russia will be increased from May 2022.

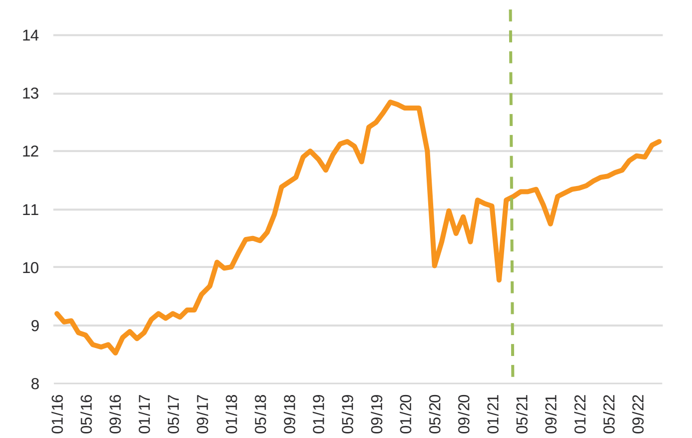


Source: OPEC, VNDIRECT RESEARCH

The US oil production has been sluggish in response to price rally. According to Baker Hughes, the number of oil operating rigs in the U.S. is 521 in September 2021, increasing doubled from the trough in Aug 2020 (244 rigs) but only equal to 55% of the average level in 2019 (around 943 rigs). Consequently, the US oil production has been lacked direction in response to the global oil demand recovery. Beside some issues related to the weather like the cold blast in February or Hurricane Ida in September, we see that one of the main reasons comes from the new policy of US President Joe Biden in constraining the US oil industry, reducing the uses of fossil fuels to cope with climate change. In September, EIA estimates the US oil production to reach 11.1 mbd in 2021F (~10% lower than the pre-Covid level) and 11.7 mbd in 2022F. Hence, we believe supplies would not rise fast enough to keep pace with the predicted demand recovery, creating the shortage gap that could support for the oil price in coming times.

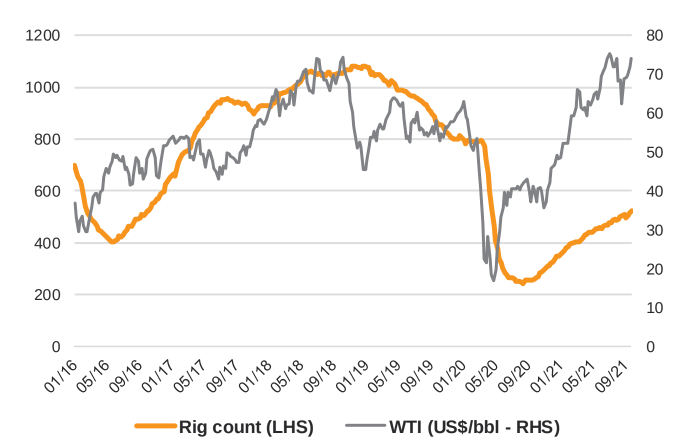
For the supply risk, we consider US-Iran nuclear talks as the major risk as this could lead to the return of Iranian exporter with the additional capacity up to ~2.1 mbd.

Figure 5: The US oil production is slowly recovering



Source: EIA, VNDIRECT RESEARCH

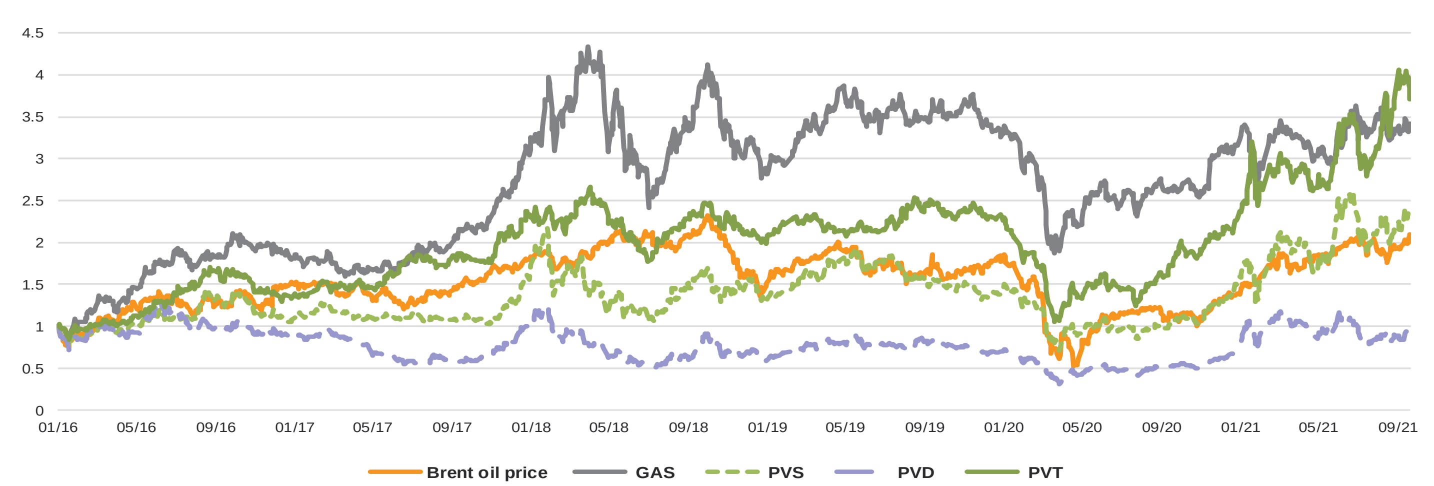
Figure 6: The US rig count is lacked direction in response to the strong oil price rally in 2021



Source: BAKER HUGHES, BLOOMBERG, VNDIRECT RESEARCH

How will listed O&G stock trail the footprint of oil prices?

Figure 7: Share price vs. Oil price since 2016



(*) Jan-16: oil price was at the previous cycle's trough after falling from the level of US$100/bbl in 2014

Source: BLOOMBERG, VNDIRECT RESEARCH

Due to the high correlation to Brent oil price, we consider oil price would be still the leading driver for oil & gas stocks in coming times. Despite the difficulties in the O&G industry's activities in 2021 due to the current Covid-19 wave, we believe stronger oil price will not only drive share prices sentiments in short-term, but also improve the industry's fundamental in coming years as it could give more incentives for relevant units to restart the major projects in Vietnam, firstly providing huge opportunities for upstream companies like PVD and PVS. For instants, all PVD's jack-up rigs has signed the contracts in 2H21F, signalling that E&P activities in Vietnam have been heating up thanks to higher oil price. Notably, in Vietnam, the Brent oil price sustaining above US$60/bbl is the favourable condition for E&P activities to operate effectively.

In our view, the average Brent oil price is expected to be resilient on the price band around US$70/bbl in FY21-23F, however we still build other scenarios for oil price mainly on the recovery scenarios of the global economy.

Figure 8: Target price sensitivity to the annual average Brent oil price in long-term

Oil price (US$/bbl)	55	60	65	70	75	80	Investment catalysts
GAS	88,200	95,200	103,100	108,900	115,000	120,500	We are confident about GAS's outlook in coming years, mainly due to: (1) Oil price is expected to be resilience on the new base in FY21-23F, (2) the pressing demand of natural gas amid the growing electricity demand in Vietnam, and (3) GAS now is in the investment phase to set the stage for the company growth in the long-term, in which LNG-related projects (Thi Vai terminal...) and some major E&P projects (Block B, Blue Whale...) would be the key driver for GAS in long-term. Overall, we forecast GAS's net profit CAGR of 18.3% in FY21-23F.
Potential upside	*-3%*	*5%*	*13%*	*20%*	*26%*	*32%*	
PVS	19,500	24,600	27,300	30,200	32,700	35,000	As the expected higher oil price base could trigger a day rate upward revision along with the contribution of FSO Golden Star, we expect PVS's affiliates to be the main contributors in near-term. Meanwhile, strong oil price would give incentives for field owners as well as the authorities to start the major gas field projects like Block B - O Mon, Blue Whale, benefiting PVS in long-term. For FY21-23F, we forecast PVS's net profit CAGR of 19.7% thanks to the strong oil price rally.
Potential upside	*-29%*	*-11%*	*-1%*	*9%*	*18%*	*27%*	
PVD	16,500	21,200	24,200	26,100	28,300	29,800	According to figure 7, we see PVD share price has lagged oil price performance as the drilling market is still bleak due to the complicated pandemic. However, we expect that the warming regional drilling market thanks to the strong oil price rally along with the increasing vaccination campaigns could help PVD's jack-up utilisation recover from 2H21F onwards, especially from 2022F when PVD's fleet could operate abroad like 2019. Notably, TAD rig reactivation from 4Q21 in expected after over 4-year cold stacking would open a new stage for PVD in coming years.
Potential upside	*-23%*	*0%*	*14%*	*23%*	*33%*	*40%*	
PVT	19,800	21,200	22,800	24,100	25,300	26,500	The strong oil price rally and the expected global oil demand could give the confidence to OPEC+ to increase production, benefiting tanker freight rates. Hence, we expect: (1) PVT could benefit from the transportation demand recovery after the pandemic, and (2) the company has restarted the ambitious capex plan for the new growth stage. Overall, we forecast PVT's net profit CAGR of 10.2% in FY21-23F, driven by the company fleet expansion plan and the expected improvement in charter rates.
Potential upside	*-13%*	*-7%*	*0%*	*6%*	*11%*	*17%*	

Source: VNDIRECT RESEARCH

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 – Head of Research
Email: hien.trankhanh@vndirect.com.vn
Dzung Nguyen – Senior Analyst
Email: dung.nguyentien5@vndirect.com.vn
Hai Nguyen Ngoc – Analyst
Email: hai.nguyenngoc2@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