

Sector note

13 Jan 2022

OIL & GAS

Which O&G stocks to ride on Block B – O Mon kick off?

- The Decree 114/2021/ND-CP related to the use of ODA released on Dec 2021, is expected to untangle the bottleneck of the Block B – O Mon chain.
- We expect Block B – O Mon project to start soon in 2H22F, becoming a great growth motivation for companies in Vietnam’s oil and gas value chain in coming years.
- We like PVS, PVD and GAS in “Block B-O Mon” investment theme.

We expect Block B – O Mon project to be kicked off in 2H22F

After delaying for many years due to a bottleneck in O Mon III power plant project, we finally see the light at the end of the tunnel for Block B – O Mon chain when the Government has issued Decree No.114/2021/ND-CP (dated December 16, 2021) on the management and use of Official Development Assistance (ODA) to replace Decree 56, creating a key legal basis for approving investment policy for O Mon III power plant. Accordingly, we expect the upstream project to have a final investment decision (FID) in late-2Q22F after the Government approves investment policy for O Mon III in 2Q22F, setting the stage for Block B – O Mon project chain to kick off in 2H22F.

We believe the project to bode well for O&G companies in coming period

Block B – O Mon is one of the largest gas projects in Vietnam to date, with total investment of roughly US\$10bn for many sub-projects from upstream to downstream. According to PVN, an estimated US\$19.23bn will be added to the state budget during the project’s 20-year lifetime from gas field development and pipeline projects. Furthermore, four gas-fired power plants in O Mon would bring the total capacity of 3,810MW, supplementing power supply for the South in the future. Thus, we believe the start of a giant project like Block B – O Mon to be a growth motivation for companies in Vietnam’s oil and gas value chain, strengthening industry’s fundamental and driving O&G companies’ earnings growth in coming years.

We like PVS, PVD and GAS in “Block B-O Mon” investment theme

In our views, the leading companies in the industry have more chances to trail Block B project footprint, including the upstream services providers like PVS and PVD. Besides, as a major investor for Block B – O Mon pipeline (51% of total investment), we also believe GAS to be a key beneficiary from this project thanks to the Block B’s additional gas source and gas transportation tariff.

Investment risks

Upside risks include faster-than-expected project progress and higher-than-expected workload for local upstream service providers. The key downside risk is the further delay in this project’s investment approval and EPC award.

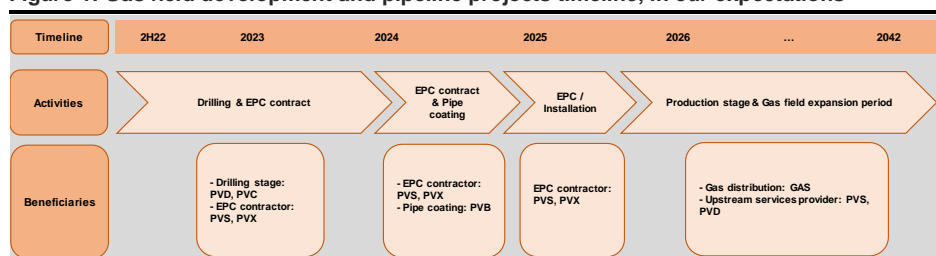
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Figure 1: Gas field development and pipeline projects timeline, in our expectations



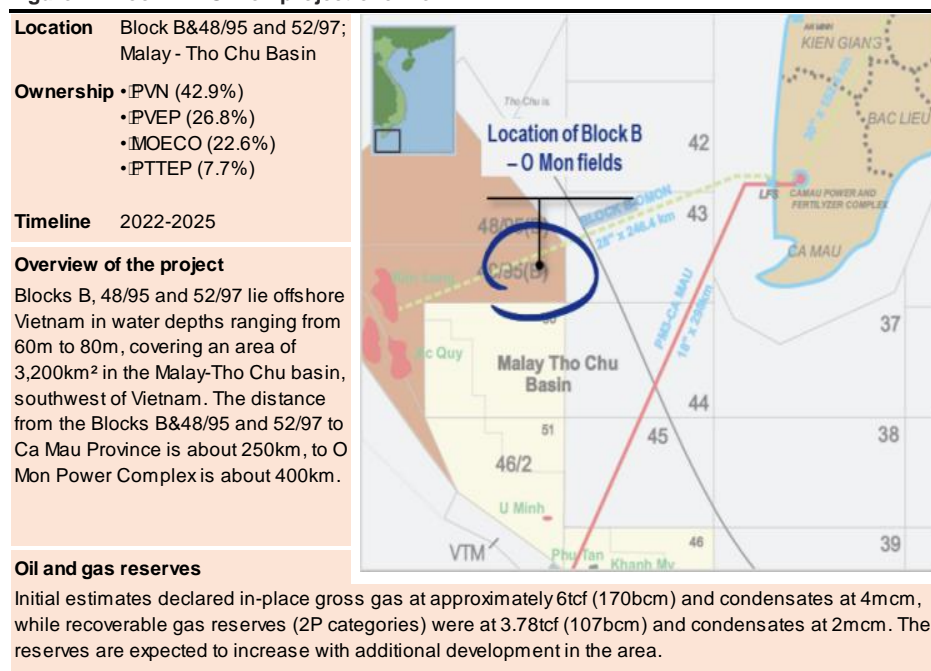
Source: VNDIRECT RESEARCH, COMPANY REPORTS

WHICH O&G STOCKS TO RIDE ON BLOCK B – O MON KICK OFF?

We expect Block B – O Mon project to be kicked off in 2H22F

Block B – O Mon is one of the largest gas projects in Vietnam to date, with total investment of roughly US\$10bn for many sub-projects from upstream to downstream (power plants). According to PVN, an estimated US\$19.23bn will be added to the state budget during the project's 20-year lifetime from upstream and pipeline projects. Furthermore, four gas-fired power plants in O Mon would bring the total capacity of 3,810MW, supplementing power supply for the South in the future. We believe gas demand for power generation to greatly increase in coming period as the Power Development Plan 8 Draft targets gas-fired power to be the key power source toward 2030 thanks to its stability and its relative clean compared to coal-driven power, making up 23% of total system capacity in 2030F from the current 12%. Thus, we highlight the urgency in implementing a giant gas fields project Block B – O Mon, particularly amid the gas supply autonomy of Vietnam is extremely important after the recent global natural gas crisis.

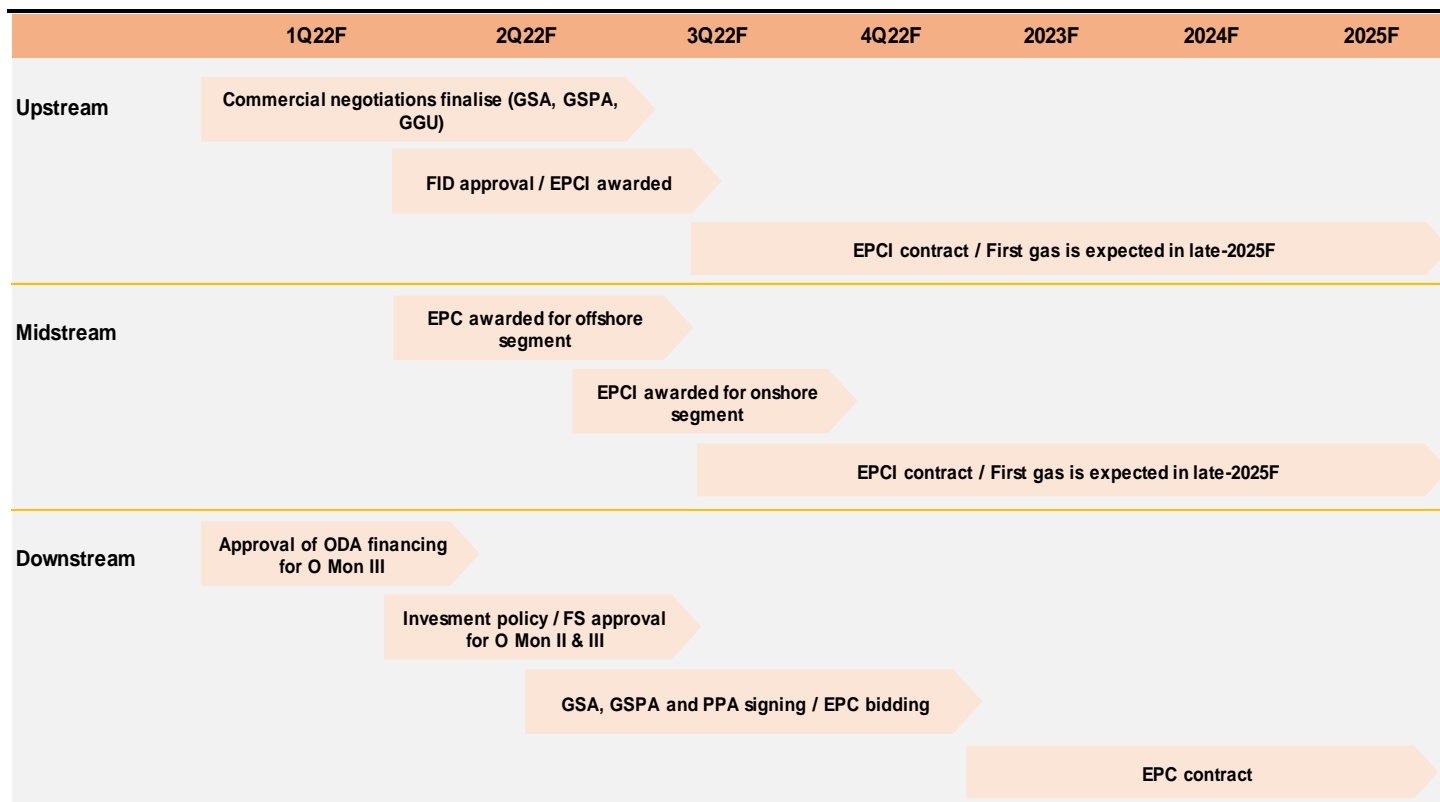
Figure 2: Block B – O Mon project overview



Source: VNDIRECT RESEARCH, PVN

Despite the huge potential, this project has been delayed for many years due to the bottleneck in downstream power plant project (O Mon III) related to ODA financing for this downstream project. The reason of this status was due to the inability to identify the competent authority to approve investment policy for O Mon III using ODA loans. This delay has also brought about deadlock of Block B – O Mon chain as the approval of O Mon III is the premise to finalise commercial negotiations and select the EPC contractors for upstream and midstream segments. However, we finally see the light at the end of the tunnel after the Government has issued Decree No.114/2021/ND-CP (dated December 16, 2021) on the management and use of Official Development Assistance (ODA) to replace Decree 56, creating a key legal basis for approving investment policy for O Mon III power plant. Hence, we expect the upstream project to have a final investment decision (FID) in late-2Q22F after the Government approves investment policy for O Mon III in 2Q22F, setting the stage for Block B – O Mon project chain to kick off in 2H22F.

Figure 3: Block B – O Mon project milestones in our expectation. We expect Block B – O Mon project to kick off from 2H22F and the first gas from late-2025F



GSA: Gas Sale Agreement
 GSPA: Gas Sale and Purchase Agreement
 PPA: Power Purchase Agreement
 GGU: Government Guarantee and Undertaking
 FS: Feasibility Study

Source: VNDIRECT RESEARCH, VIETNAM ENERGY ASSOCIATION (VEA)

How will listed O&G stocks trail the footprint of Block B – O Mon?

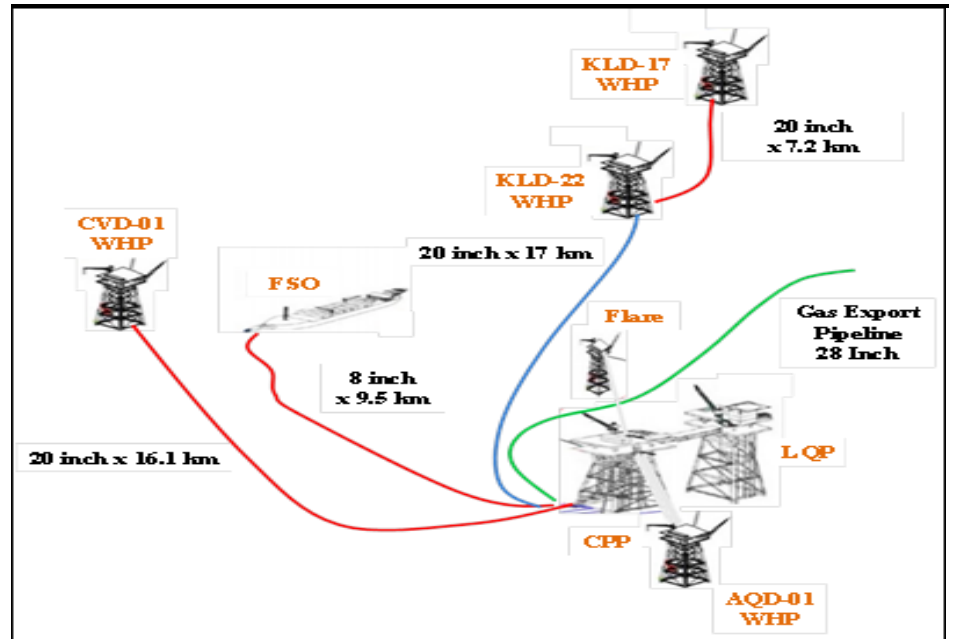
Currently, Vietnam’s domestic oil and gas production has been continuously falling since 2015 due to lack of new major upstream projects. Hence, we believe the start of a giant gas production project like Block B – O Mon to be a growth motivation for companies in Vietnam’s oil and gas value chain, strengthening industry’s fundamental in long-term.

According to full field development plan (FDP), the project comprises Block B field development including the gas fields in block B&48/95 and 52/97 and a Block B – O Mon gas pipeline, as detail:

- Block B field development project has total investment of US\$6.7bn for a period of 20 years.
- Block B – O Mon gas pipeline project has total investment of US\$1.3bn, invested by PVN, PVGAS, MOECO (Japan) and PTTEP (Thailand) in the form of a joint operation.

The upstream project will include one central processing platform (CPP), 46 operations platforms (Wellhead Platform – WHP), one housing platform, one condensate vessel (FSO) and drilling of 750 production wells. The development is planned to produce and transport gas from the three fields to the power plants located in O Mon regions.

Figure 4: Preliminary gas field layout for first gas

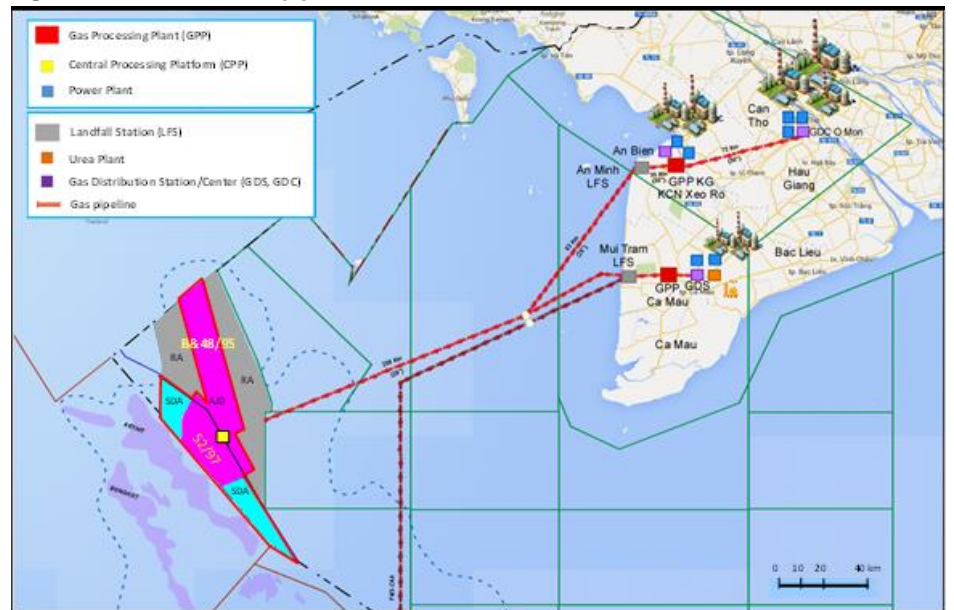


Source: VNDIRECT RESEARCH, PVN

The pipelines have total length of 431km with design capacity of 20.3 million m3, including:

- The 295km-long offshore pipeline with a 28in diameter to transport gas from Block B to the landfall station in Kien Giang.
- The 37km-long branch pipeline to connect from KP209 to Mui Tram landfall station to supplement gas for PM3 - Ca Mau pipeline.
- The 102km-long onshore pipeline with a 30in diameter to supply gas to power plants at O Mon.
- A landfall station, line shutoff valve stations and gas distribution centers (GDC) along the pipelines.

Figure 5: Block B – O Mon pipeline



Source: VNDIRECT RESEARCH, PVN

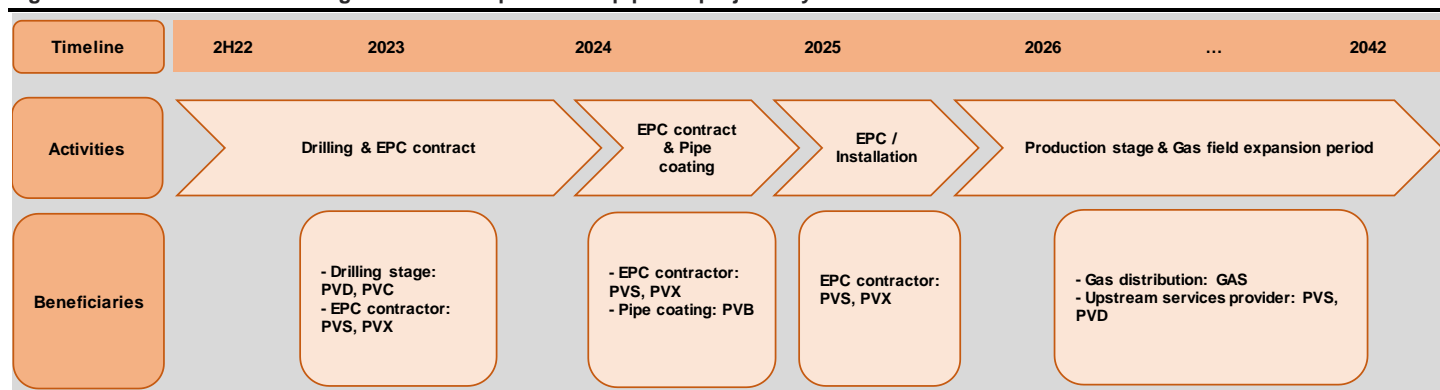
With the huge workload above, we see many job opportunities for oil and gas upstream service providers along the project lifetime. The table below (Figure 6) shows the project’s workload scope and the potential beneficiaries from upstream to downstream (in term of listed companies) regarding to this project, in our view:

Figure 6: With a project period of 20 years, we believe Block B – O Mon project to be great growth motivation for many listed companies in Vietnam’s oil and gas value chain in coming times

	Est. Capex Investors (US\$m)	Workload scope	Activities	Potential beneficiaries	Impact	Comments
Upstream: Block B field development project	6,700	This project will include one central processing platform, 46 wellhead platforms, one housing platform, one condensate vessel and drilling of 750 production wells	EPCI contract	• PVS • PVX, PXS		As a member of PVN, we believe PVS and PVX (including its subsidiary PXS) to be able to participate in EPC activities for gas field development in a consortium with foreign contractors. Notably, PVS has proven its abilities in constructing oilfield platforms in both domestic and overseas market, such as Sao Vang - Dai Nguyet, or Gallaf project in Qatar.
			Drilling/Well services	PVD		Drilling is always one of the first steps of upstream production projects. With the plan of over 700 production wells, we believe this would potentially provide job opportunities for a drilling service firm like PVD Drilling (PVD) for many years.
			Drilling fluids	PVC		As the leading drilling fluids supplier in Vietnam, we suppose PVC to be able to gain benefits from the drilling campaign at Block B field.
Midstream: Block B - O Mon pipeline	1,300	The pipelines have total length of 431km with design capacity of 20.3m cbm per day, including: • The offshore pipeline has the length of approximately 295km, diameter of 28 inches. • The onshore pipeline has the length of 102km, supplying gas to power plants at O Mon Power Center in Can Tho. • There will be landfill station and gas distribution centers (GDC) along the pipelines.	Gas distribution	GAS		As a major investor of Block B - O Mon pipeline, GAS would gain benefits from the additional gas from this field and transportation tariff. We expect the additional gas from 2026F to offset the quick depletion at mature fields, partially support GAS to remain the growth in long-term.
			Pipe coating	PVB		We estimate this stage to account for ~5-6% of total project investment. Owning the only pipe coating factory in Vietnam, PVCoating (PVB) is the unit that performs most of the offshore pipe coating activities in the country, such as Nam Con Son 2. Hence, we believe PVB to continue getting a pipe coating contract in Block B - O Mon pipeline project.
			EPCI contract	• PVS, POS • PVX, PXT		With experience in some other pipeline projects in Vietnam like SV-DN pipeline, Nam Con Son 2 pipeline, we expect PVS and its subsidiary POS to have many opportunities to win EPC contract for this project. Combined to upstream project, these will ensure workload for PVS's M&C segment in coming years. Besides, we suppose another oil and gas constructor like PVX (including its subsidiary PXT) to be able to join in this pipeline project as a sub-contractor.
Downstream: Gas-fired power plants	NA	Three new thermal power plants in O Mon power center (O Mon II, III and IV)	EPC contract	-		Although power plant projects will imply the huge backlog for local EPC contractors, we suppose that there is limited opportunities for the O&G contractor like PVS in this segment.
			Power generation	-		4 gas-burning power plants in O Mon would bring the total capacity of 3,810MW, supplementing power supply in the South.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 7: The beneficiaries from gas field development and pipeline projects by timeline



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We like PVS, PVD and GAS in “Block B-O Mon” investment theme

Generally, we believe Block B – O Mon chain to be a new growth engine for Vietnam’s oil and gas industry in coming period. In our views, the leading companies in the industry have more opportunities to trail this project footprint, including the upstream services providers like PVS and PVD, and GAS in midstream segment.

Figure 8 shows our current forecasts for GAS, PVS and PVD (excluding potential workload from Block B gas field development project). Hence, we consider the kickoff of Block B – O Mon project to be a key upside risk for these 3 stocks.

Figure 8: Forecast summary in FY22-24F for GAS, PVS and PVD

VNDbn	GAS			PVS			PVD		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	95,564	105,830	117,401	21,132	24,375	22,733	5,860	5,843	6,110
% growth	25.1%	10.9%	3.4%	50.7%	15.3%	-6.7%	44.5%	-0.3%	4.6%
Gross profit	18,063	19,977	20,900	1,248	1,475	1,418	879	1,036	1,100
Gross margin (%)	18.9%	18.9%	17.8%	5.9%	6.1%	6.2%	15.0%	17.7%	18.0%
Net profit	11,915	13,212	13,657	1,001	1,110	1,183	499	640	679
% growth	25.1%	10.9%	3.4%	38.3%	10.9%	6.6%	487.4%	28.1%	9.0%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 9: Sector comparison

Company	Bloomberg Ticker	Market Cap (US\$ m)	P/E (x)		3-yr EPS CAGR (%)	P/BV (x)		ROE (%)		ROA (%)	
			FY21F	FY22F		FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
Gas distribution companies											
PV GAS	GAS VN	8,920	21.3	17.0	18.9%	4.0	3.7	19.2%	22.6%	14.4%	16.4%
Indraprastha Gas	IGL IN	4,417	20.1	18.4		4.4	3.7	23.2%	20.8%	NA	NA
Toho Gas Ltd	9533 JP	2,796	31.3	21.0		0.9	0.9	3.3%	4.2%	2.0%	2.6%
Petronas Gas Bhd	PTG MK	7,901	16.1	16.8		2.6	2.5	15.7%	14.6%	11.2%	10.5%
China Gas Holdings	384 HK	11,020	9.5	8.1		1.3	1.2	14.8%	15.6%	6.0%	6.5%
PTT Plc	PTT TB	33,360	10.1	9.6		1.2	1.1	11.4%	11.2%	4.9%	4.8%
Average - Gas distribution peers (excluding GAS)			17.4	14.8		2.1	1.9	13.7%	13.3%	6.0%	6.1%
Oil services companies											
PTSC	PVS VN	604	19.0	13.7	21.2%	1.2	1.2	6.1%	8.6%	3.0%	4.3%
Malaysia Marine Eng	MMHE MK	153	NA	28.6		0.4	0.4	-9.2%	0.9%	-5.0%	0.4%
Yinson Holdings	YNS MK	1,513	17.1	15.1		2.4	1.9	13.7%	13.3%	4.7%	4.6%
Sembcorp Marine	SMM SP	1,929	NA	NA		0.6	0.7	-20.6%	-3.2%	-11.1%	-2.2%
Hyundai Engineering	000720 KS	4,211	13.0	10.3		0.7	0.7	5.8%	7.1%	3.0%	3.5%
Keppel Corp	KEP SP	6,885	14.0	11.4		0.8	0.8	6.1%	7.3%	2.1%	2.6%
Average - Oil services peers (excluding PVS)			14.7	16.4		1.0	0.9	-0.9%	5.1%	-1.3%	1.8%
Offshore drilling companies											
PV Drilling	PVD VN	583	155.7	26.5	50.8%	1.0	1.0	0.6%	3.6%	0.4%	2.4%
Borr Drilling Ltd	BORR NO	314	NA	NA		0.3	0.4	-22.4%	-18.8%	NA	NA
Velesto Energy Bhd	VEB MK	265	NA	27.0		0.5	0.5	-7.0%	1.3%	-5.8%	0.7%
Sapura Energy Bhd	SAPE MK	191	NA	NA		0.1	0.1	-17.5%	-7.5%	-7.5%	-1.5%
Valaris Ltd	VAL US	3,068	NA	12.1		3.4	3.1	32.9%	2.6%	NA	NA
Transocean	RIG US	2,327	NA	NA		0.2	0.2	-3.1%	-3.8%	-2.0%	-1.8%
Average - Offshore drilling peers (excluding PVD)			NA	19.5		0.9	0.9	-3.4%	-5.2%	-5.1%	-0.8%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 12 JAN)

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Definition:

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- 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.

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