

Sector note

31 May 2022

OIL & GAS

Block B – O Mon kick-off is imminent?

- There are some signals that Block B field development project to be awarded FID (Final Investment Decision) in July 2022, setting a premise for this project chain to kick-off.
- Block B – O Mon chain will be a great growth motivation for companies in Vietnam’s oil and gas value chain in coming years.
- We prefer PVS, PVD, and GAS in “Block B-O Mon” investment story.

The time for kick-off is coming

In the meeting with Can Tho authorities in May, the representative of PVN said that Block B – O Mon chain could be awarded FID in July 2022, setting the stage for Block B – O Mon project to kick off in 2H22F. Besides, the operator of Block B gas field (Phu Quoc POC) has been in progress of EPCI tenders opening, targeting to award gas field development-related contracts (EPCI contract, FSO contract...) as soon as Block B chain receives FID. These signal that the time for Block B kick-off is coming and we expect first gas for this project is from late-2025F or early-2026F.

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

As we have mentioned in [“Which O&G stocks to ride on Block B – O Mon kick off?”](#) report published in Jan 2022, this super project will be a new growth engine for companies in Vietnam’s oil and gas value chain, strengthening industry’s fundamental and driving O&G companies’ earnings growth in coming years. With a total investment of roughly US\$10bn, Block B – O Mon chain is likely to create many jobs opportunities for upstream services providers and EPC contractors in Vietnam. Block B with estimate gas reserve of 107 bcm (billion cubic meter) will also ensure gas supply for electricity generation, replacing some mature gas fields which are in their final stage. Furthermore, four gas-fired power plants in O Mon Power Center will bring the total capacity of 3,810MW, supplementing power supply for the South in the future.

We prefer PVS, PVD and GAS in “Block B-O Mon” investment story

In our views, the leading companies in the industry have more chances to trail Block B project footprint, including the upstream services providers and EPC contractors like PVS or PVD. Besides, as a major investor for Block B – O Mon pipeline (occupying 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.

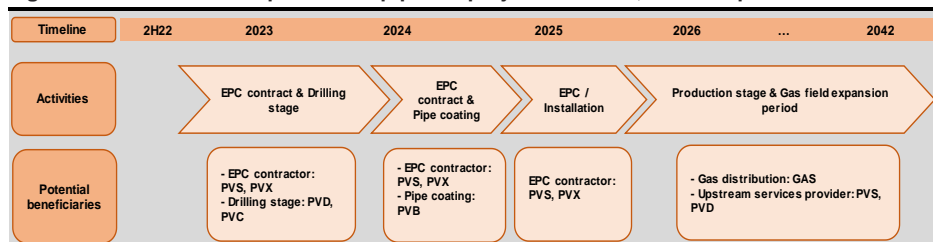
Analyst(s):



Hai Nguyen Ngoc

hai.nguyennhoc2@vndirect.com.vn

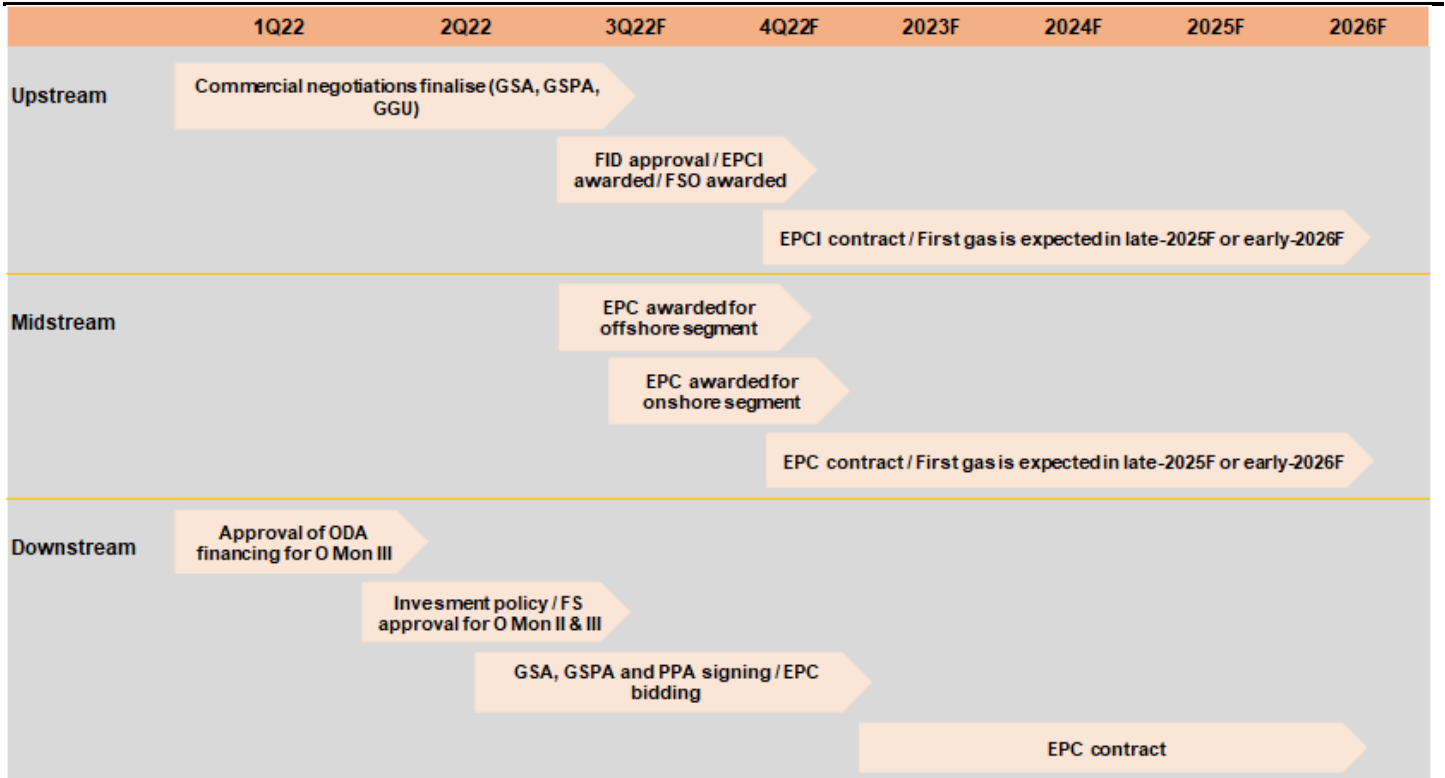
Figure 1: Gas field development and pipeline projects timeline, in our expectations



Source: VNDIRECT RESEARCH, COMPANY REPORTS

BLOCK B – O MON KICK-OFF IS IMMINENT?

Figure 2: 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 or early-2026F



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

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

Riding on Block B – O Mon project development, we see many job opportunities for oil and gas upstream service providers along the project lifetime. The table below 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 3: 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 (US\$m)	Investors	Workload scope	Activities	Potential beneficiaries	Impact	Comments
Upstream: Block B field development project	6,700	<ul style="list-style-type: none"> • PVN (42.9%) • PVEP (26.8%) • MOECO (22.6%) • PTTEP (7.7%) 	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	<ul style="list-style-type: none"> • 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.
				FSO	PVS		PVS will participate in this package bidding. Currently, PVS is the biggest FSO/FPSO provider in Vietnam, operating 6 FSO/FPSO in Vietnam in form of joint ventures with foreign partners. Thus, we appreciate the possibility that PVS wins this FSO contract.
				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 PVDrilling (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	<ul style="list-style-type: none"> • PVGAS (51%) • PVN (28.7%) • MOECO & PTTEP (20.3%) 	The pipelines have total length of 431km with design capacity of 20.3m cbm per day, including: <ul style="list-style-type: none"> • 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, PVCcoating (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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Marubeni • EVN 	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

We prefer PVS, PVD and GAS in “Block B-O Mon” investment story

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 and EPC contractors like PVS and PVD, and GAS in midstream segment.

Figure 4: Our current forecast summary for FY22-24F period (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 catalyst for these 3 stocks

VNDbn	GAS			PVS			PVD		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	97,668	103,541	105,878	19,654	23,276	20,449	5,763	5,823	6,127
% growth	23.6%	6.0%	2.3%	38.2%	18.4%	-12.1%	44.2%	1.0%	5.2%
Gross profit	17,718	19,459	19,863	1,209	1,490	1,402	769	1,031	1,191
Gross margin (%)	18.1%	18.8%	18.8%	6.2%	6.4%	6.9%	13.3%	17.7%	19.4%
Net profit	11,510	12,825	13,157	938	1,137	1,224	340	593	715
% growth	32.7%	11.4%	2.6%	55.9%	21.2%	7.6%	1636.3%	74.7%	20.5%
Investment catalysts	We are optimistic in GAS's prospect in coming year as (1) dry gas sales volume is expected to rebound from 2022F following gas-based power recovery, and (2) GAS is in the investment phase with major energy infrastructure projects to set the stage for long term growth. For Block B - O Mon, we expect this project to significantly contribute to GAS's performance from 2026F onwards			We forecast FY22-24F net profit to achieve a CAGR of 26.7%, driven by: (1) the solid contribution of FSO/FPSO joint ventures, and (2) the improved prospect of M&C business from 2022. Currently, we have just taken the potential workload from Block B - O Mon pipeline into our model. Hence, we consider any other workload from Block B field project as the upside catalyst for PVS			We believe in the stronger recovery of PVD in coming periods as: (1) TAD rig officially reactivated from Jan 2022, and (2) drilling demand is expected to strongly recover thanks to the current oil price spike. For Block B - O Mon, this project would provide more workload for PVD's drilling segment in FY23-24F in case of participating, strengthening the company's prospect		
Target price (VND)	143,100			35,500			30,500		

Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 5: Sector comparison

Company	Ticker	Mkt Cap US\$ m	P/E (x)		3-yr EPS CAGR (%)	P/BV (x)		ROE (%)		ROA (%)	
			FY22F	FY23F		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Gas distribution companies											
PV GAS	GAS VN	9,081	18.3	16.4	14.9%	4.0	3.8	22.3%	23.7%	14.6%	15.8%
Indraprastha Gas	IGL IN	3,405	17.7	15.3		3.0	2.6	22.7%	21.2%	NA	NA
Toho Gas Ltd	9533 JP	2,344	18.6	17.1		0.8	0.7	3.6%	4.2%	2.1%	2.5%
Petronas Gas Bhd	PTG MK	7,534	17.2	16.7		2.5	2.4	14.3%	14.3%	10.2%	10.1%
China Gas Holdings	384 HK	7,653	7.2	6.0		0.9	0.8	14.5%	15.2%	5.6%	6.6%
PTT Plc	PTT TB	31,653	9.3	9.3		1.0	1.0	10.6%	10.1%	4.2%	4.2%
Average - Gas distribution peers (excluding GAS)			14.0	12.9		1.6	1.5	13.1%	13.0%	5.5%	5.8%
Oil services companies											
PTSC	PVS VN	598	14.8	12.2	26.7%	1.1	1.1	7.8%	9.3%	3.8%	4.6%
Malaysia Marine Eng	MMHE MK	148	NA	31.2		0.4	0.4	0.4%	1.9%	1.4%	1.4%
Yinson Holdings	YNS MK	1,275	13.9	9.9		1.7	1.1	12.2%	14.6%	4.0%	5.6%
Sembcorp Marine	SMM SP	2,686	NA	NA		1.0	1.0	-3.4%	-0.1%	-2.9%	-0.5%
Hyundai Engineering	000720 KS	3,818	9.8	8.6		0.6	0.6	6.6%	7.2%	3.1%	3.5%
Keppel Corp	KEP SP	8,874	14.0	13.2		1.0	1.0	6.9%	7.8%	2.7%	2.8%
Average - Oil services peers (excluding PVS)			12.6	15.7		0.9	0.8	4.5%	6.3%	1.7%	2.6%
Offshore drilling companies											
PV Drilling	PVD VN	484	33.1	18.9	231.9%	0.8	0.8	2.5%	4.4%	1.6%	2.9%
Borr Drilling Ltd	BORR NO	762	NA	NA		1.2	1.3	-14.0%	-0.8%	NA	NA
Velesto Energy Bhd	VEB MK	226	NA	30.0		0.6	0.8	2.3%	3.6%	0.0%	1.9%
Sapura Energy Bhd	SAPE MK	311	NA	NA		0.4	1.2	-81.0%	5.6%	-3.5%	-2.4%
Valaris Ltd	VAL US	4,519	93.1	16.2		4.2	3.1	10.4%	28.2%	NA	NA
Transocean	RIG US	2,847	NA	NA		0.3	0.3	-4.4%	-2.8%	-1.9%	-0.8%
Average - Offshore drilling peers (excluding PVD)			NA	23.1		1.3	1.3	-17.3%	6.7%	-1.8%	-0.4%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 30 MAY)

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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

Dzung Nguyen – Senior Analyst

Email: dung.nguyentien5@vndirect.com.vn

Hai Nguyen Ngoc – Analyst

Email: hai.nguyennhoc2@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>