

Sector note

27 Sep 2022

OIL & GAS

Sailing on the rising tanker freight rates

- Russia – Ukraine crisis is reshaping the global energy trade, making the voyages longer and putting pressure on global tanker shipping market.
- We expect oil tanker freight rates to remain robust in near future due to upcoming embargo of the EU on Russia.
- We prefer PVT the most for this investment theme.

Russia – Ukraine crisis is reshaping global oil trade flows

In response to Russia-Ukraine conflicts, the EU has adopted sanctions on Russian oil. Based on the latest sanctions package, most imports of crude oil and petroleum products via the sea to the EU will be banned by the end of 2022. Thus, they have to switch to other oil supplies, particularly from the US and Middle East, sparking the reconfiguration of global oil trade flows. Indeed, Bloomberg estimates that oil volume from Middle East to Europe in July has been 90% higher than that in January. In contrast, Russia is shifting oil exports to Asian buyers like China and India.

We expect stronger tanker freight rates ahead

Demand for tankers (in form of both dirty and clean tankers) has been climbing since the EU imposed sanctions on Russia, and we expect this trend to keep increasing in coming months as the EU embargo comes into effect later this year. Notably, as a feasible alternative source for gas in electricity generation, we suppose European diesel demand to accelerate in coming months, lifting demand for clean tankers. Furthermore, the diversion of Russian oil and fuels has changed the shipping routes, making the voyages longer and putting pressure on global tanker shipping market. Citing data from Clarksons Research, the report said the two-week average profit for an oil product tanker (to August 8) had jumped to US\$400,000 - the highest since 1997. Overall, we expect in stronger tanker rates in the coming times, benefiting O&G transporters.

We prefer PVT the most, followed by GSP and PVP on this investment story

For Vietnam’s O&G transportation sector, the company with high exposure on international market like PVTrans ([PVT VN, ADD, TP: VND26,300](#)) will be a key beneficiary from the global rising tanker rates. Currently, c.80% of PVT’s fleet is running in international voyages and most of them are signed in form of time charter contracts which we believe it should be renewed with higher rates in the coming times. Besides, we prefer GSP and PVP as they are also operating crude and refined products tankers in international market.

Investment risks

Potential upside risks are stronger-than-expected global oil and fuels demand and the lingering Russia – Ukraine crisis to boost tanker rates hike. Downside risk is lower-than-expected global demand due to the economy recession.

Figure 1: Crude and refined product tanker spot earnings has accelerated after Russia attacked Ukraine in February



Source: CLARKSONS RESEARCH

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SAILING ON THE RISING TANKER FREIGHT RATES

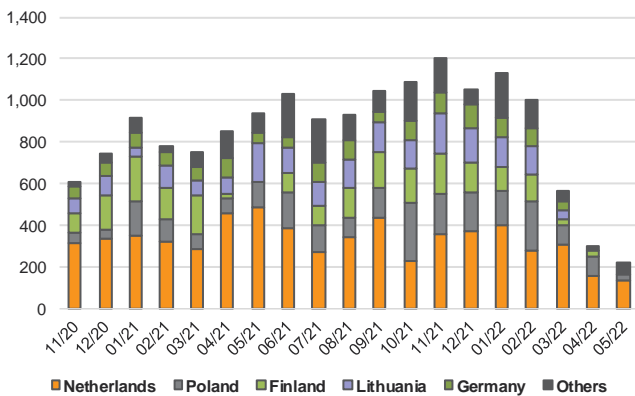
We expect stronger tanker freight rates ahead

Russian oil has been heading to Asian buyers like China and India after Russia – Ukraine crisis occurred, reshaping global oil trade flows. As the EU bans Russia oil and fuels, demand for both dirty and clean tankers has been rising due to the reconfiguration of global oil trade flows. For crude shipping market, Clarsons Research estimates crude transport demand to slightly increase in the next two years due to the rerouting oil shipping voyages. Meanwhile, tanker supply is expected to rise modestly, boding well for crude shipping charter rate.

For fuel shipping market, it looks like brighter for this sector due to longer shipping routes amidst global consumption recovered after the pandemic. Longer shipping routes will reduce fuel volume transported, causing potential shortage on clean tanker market. As clean tanker fleet growth is relatively low compared to the rising demand (Figure 5), we expect oil product tanker earnings to significantly accelerate in coming times.

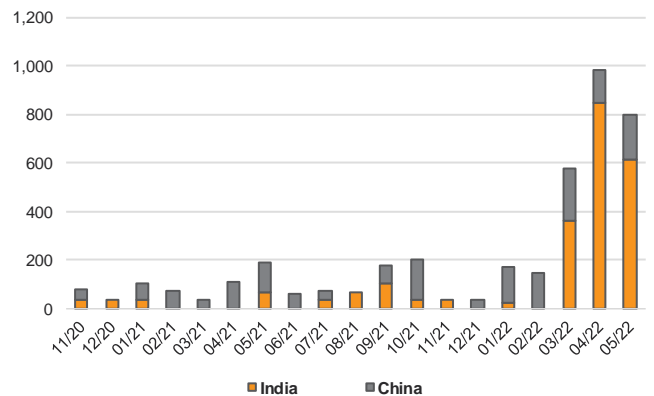
Notably, as geopolitical tension is intensifying, Russia has choked off the supplies of cheap natural gas to the EU. Thus, we believe European diesel demand to be likely to accelerate ahead of an upcoming severe winter and global tight fuel market as it has multiple usages, particularly in industry and power generation (to replace gas-fired power). This should boost clean tanker demand, further intensifying competition for a limited fleet of clean tankers.

Figure 2: Russian oil exports to Northwest Europe have plunged more than 80% from their peak in Nov 2021 ('000 barrel per day)



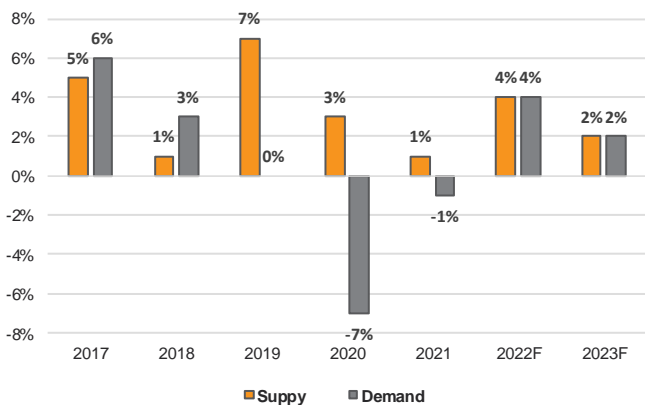
Source: KPLER, CNBC

Figure 3: Indian imports of Russian oil are nine times compared to 12 months ago ('000 barrel per day)



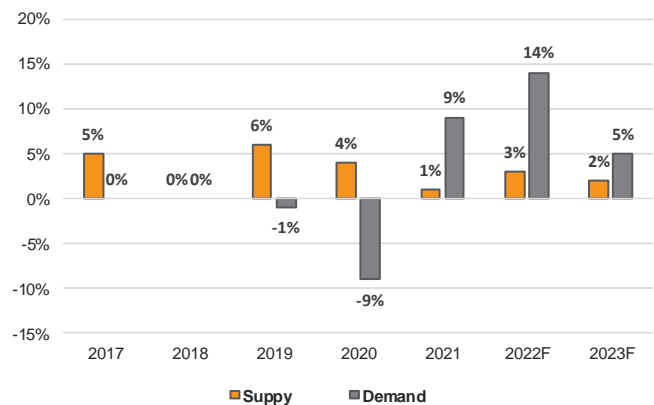
Source: KPLER, CNBC

Figure 4: Supply - Demand balance of crude oil shipping market (DWT & tonne-mile - % growth)



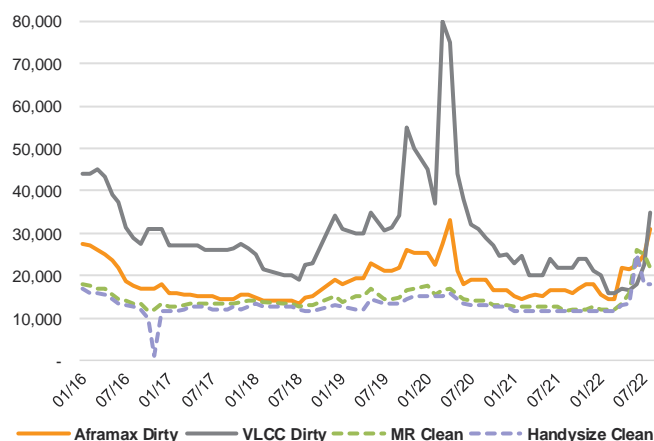
Source: CLARKSONS RESEARCH

Figure 5: Supply - Demand balance of refined product shipping market (DWT & tonne-mile - % growth)



Source: CLARKSONS RESEARCH

Figure 6: We expect in stronger tanker freight rates ahead due to the reconfiguration of global energy trade flow (US\$/day)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 7: Average prices of 10-year-old vessels significantly increased this year (US\$m)



Source: BLOOMBERG, VNDIRECT RESEARCH

We prefer PVT the most, followed by GSP and PVP on this investment story

Figure 8: Potential impact of rising global tanker rates on some Vietnamese O&G transportation company

Stocks	Potential impact	Comments
PVT		PVT is the leading firm in crude oil and petroleum products transportation in Vietnam. Currently, PVT is managing the total of 40 tankers/vessels in its fleet with a total capacity of 1.11m DWT. Notably, most PVT's clean tankers (in total 15 clean tankers with capacity of over 300,000 DWT) are operating in international voyages, which could earn higher tanker charter rates on the current rising rate environment in coming times
GSP		GSP is a subsidiary of PVT, operating 6 LPG vessels with capacity of 18,000 DWT and 2 new clean tankers with capacity of 40,000 DWT (purchased in 2H21 and 2022). Following the rising product tanker earnings, we believe GSP to earn more benefits in coming times
PVP		PVP, a subsidiary of PVT, is responsible for crude oil transport segment and FSO/FPSO segment. Currently, PVT Appollo - a crude oil tanker with capacity of 105,000 DWT (held by PVP) is operating in international market, which we believe it could benefit from the rising global tanker rates
VIP		VIP and VTO are members of Petrolimex Group. They manage the clean tanker fleet with total capacity of over 300,000 DWT, mainly transporting fuels for their parent company - PLX. This will limit their abilities to benefit from the rising global tanker rates
VTO		

Source: VNDIRECT RESEARCH

Figure 9: Oil & Gas transportation sector comparison

Company	Ticker	Recom.	Price		Mkt Cap	P/E (x)			3-yr EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)			
			LC\$	Target Price LC\$		US\$ m	TTM	FY22F		FY23F	Current	FY22F	FY23F	TTM	FY22F	FY23F	TTM	FY22F	FY23F
PVTrans	PVT	VN	ADD	19,850	26,300	271	9.3	7.9	7.5	13.0%	1.2	1.2	1.2	14.5%	15.7%	16.3%	6.1%	6.2%	6.0%
Gas Shipping	GSP	VN	NR	10,600	NA	25	8.3	NA	NA		0.9	NA	NA	10.7%	NA	NA	5.3%	NA	NA
PVTrans Pacific	PVP	VN	NR	11,900	NA	47	6.1	NA	NA		0.7	NA	NA	12.4%	NA	NA	8.2%	NA	NA
Vietnam Petroleum Trans	VIP	VN	NR	7,070	NA	20	NA	NA	NA		0.5	NA	NA	-4.5%	NA	NA	-3.3%	NA	NA
Vietnam Tanker JSC	VTO	VN	NR	7,730	NA	26	6.6	NA	NA		0.6	NA	NA	8.6%	NA	NA	5.2%	NA	NA
MISC Bhd	MISC	MK	NR	6.95	NA	6,727	25.5	19.5	17.12		0.9	0.9	0.9	3.5%	0.9%	0.9%	2.1%	4.7%	4.7%
Thoresen Thai Agencies PCL	TTA	TB	NR	8.15	NA	392	2.9	4.7	6.38		0.6	0.6	0.6	25.0%	0.6%	0.6%	13.9%	2.5%	2.6%
Shipping Corp of India Ltd	SCI	IN	NR	112.9	NA	646	6.1	NA	NA		0.6	NA	NA	10.0%	NA	NA	6.3%	NA	NA
Average							9.2	10.7	10.3		0.7	0.9	0.9	10.0%	5.7%	5.9%	5.5%	4.4%	4.4%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 26 SEP)

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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. |

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