Sector Note

OIL & GAS

Breaking dawn

- We expect Brent oil price to average at US$80-85 per barrel in FY23-24F as OPEC+ production cuts extension may cause the deficit in oil market.
- We see sharp outlook for upstream services providers as E&P activities are picking up in both international and domestic market.
- Our top picks are PVD, PVS and GAS.

We expect Brent oil price to average around US$80-85 per barrel in FY23-24F

Brent oil price declined to around US$75/bbl at end-1H23 from the peak of US$120/bbl in mid-2022 as fear of global economy slowdown weighed on the global oil demand outlook. However, we expect OPEC+ production cuts extension through end-2024 may cause the deficit in oil market as global oil consumption is projected to keep growing in 2023-24F. Thus, we assume Brent oil price to gradually ramp up in 2H23F due to limited supply, averaging at US$80/85 per barrel in 2023-24F.

Domestic E&P activities should be more vibrant from 2024 onwards

From our perspective, the recent energy crisis due to geopolitical tension has highlighted the important of the national energy supply autonomy, thereby possibly providing motivation for the authority to boost E&P activities. Actually, we see many small and medium O&G development projects were given the green light and got significant movements in the past few months, such as Dai Hung Phase 3, Kinh Ngu Trang and Lac Da Vang. Meanwhile, there are also many signals that the multibillion-dollar gas field project Block B – O Mon could be kicked-off from late-2023F, becoming the key growth motivation for the industry in coming years. These will provide the huge potential backlog for local O&G upstream service providers, firstly for EPC contractors and drilling service providers.

Prepare for the LNG-to-power transition

According to Power Development Plan 8, gas-fired power from both domestic sources and LNG will take a spotlight in 2022-30F with a capacity CAGR of 23.1%, accounting for 25% of total capacity in 2030F. In which, we see LNG-to-power is the promising segment in coming years (accounting for 15% of total capacity in 2030F) thanks to its stability in power generation and the possibility to easily enhance capacity through import, playing a vital role in Vietnam's power as the base power source. Notably, the recent global LNG prices slump may facilitate the LNG development in Vietnam as the benchmark LNG price in Asia has retreated to the favorable territory.

Top picks: We prefer PVD, PVS and GAS

We expect the sharp prospect of E&P activities in Vietnam from 2024F onwards to be a strong upside catalyst for upstream service companies like PVD and PVS as it will provide huge potential backlog, ensuring these companies' workload in many years ahead. Meanwhile, for long-term horizon, we also believe GAS is a good investment selection following the LNG-to-power transition and domestic gas-fired power development. The key downside risks include: (1) lower-than-expected oil price, and (2) further delays in major projects.

Project	Basin	Operator	Capex (US$m)	Timeline					
				2022	2023F	2024F	2025F	2026F	2027F
Bach Ho expansion	Cuu Long	Vietsovpetro	90						
Dai Hung Phase 3	Nam Con Son	PVEP POC	112						
Kinh Ngu Trang	Cuu Long	Vietsovpetro	650						
Lac Da Vang	Cuu Long	Murphy	693						
Su Tu Trang 2B	Cuu Long	Cuu Long JOC	1,100						
Nam Du - U Minh	PM3 - Ca Mau	Jadestone	N/A						
Block B - O Mon	PM3 - Ca Mau	Phu Quoc POC	6,700						

Source: VNDIRECT RESEARCH, COMPANY REPORTS

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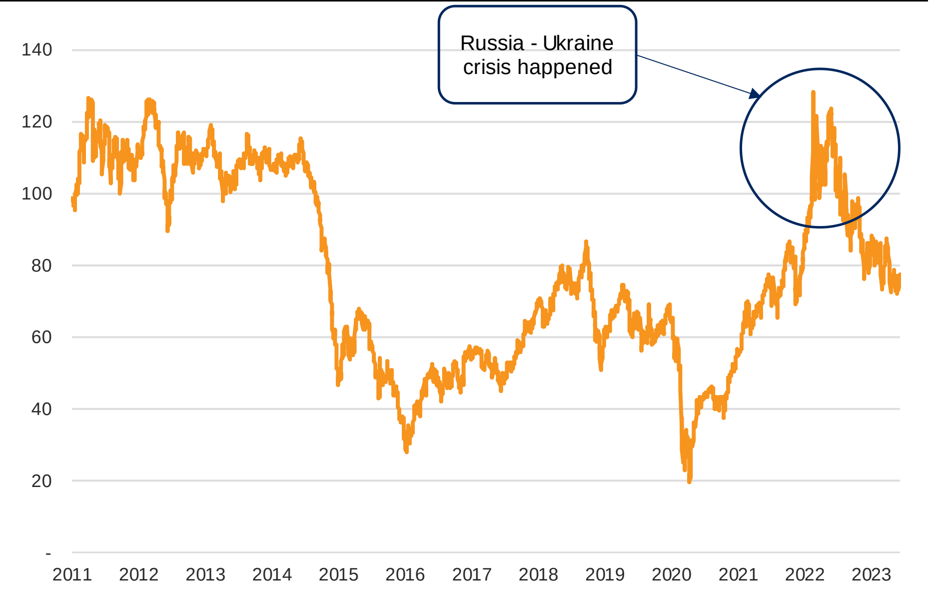
Breaking Dawn

We expect Brent oil price to average around US$80-85 per barrel in FY23-24F

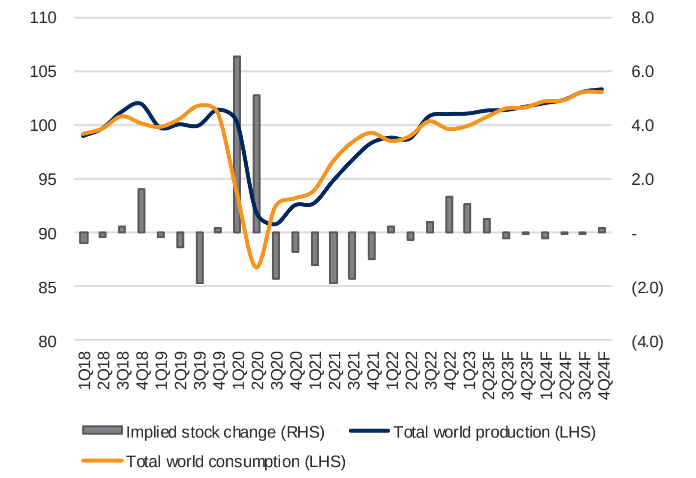
Figure 1: Brent oil price retreated to the pre-crisis level, but remain above 2015-2021 period (Unit: US$/bbl)



Source: VNDIRECT

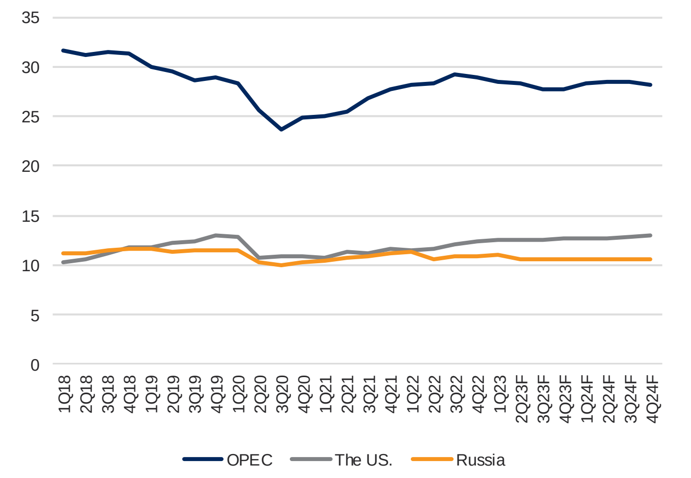
At the end of 1H23, Brent oil price declined to around US$75/bbl (-24% yoy), significantly lower than the peak of US$120/bbl in mid-2022 as fear of global economy slowdown, particularly in Europe and US, weighed on the global oil demand outlook.

Figure 2: EIA forecasts global oil consumption to likely exceed oil production in 2H23 (Unit: mbd)



Source: EIA, VNDIRECT RESEARCH

Figure 3: EIA forecasts OPEC+ production output will slight decline as they extend their out production cut through end-2024 (Unit: mbd)



Source: EIA, VNDIRECT RESEARCH

For 2H23F and beyond, US Energy Information Administration (EIA) forecasts global oil consumption will rise by 1.6 mbd in 2023 from an average of 99.4 mbd last year, then keeping growing by 1.7 mbd in 2024F. Most of this growth comes from non-OECD countries. On the other hand, the OPEC+ announcement about extending crude oil production cuts through 2024 may cause the deficit in global oil market from late-2023F as global oil consumption is projected to keep growing in 2023-24F, putting some upward pressure on crude oil prices.

Fundamentally, we assume Brent oil price to gradually ramp up in 2H23F due to limited supply, averaging at US$80/85 per barrel in 2023-24F.

Figure 4: List of global events should affect oil price. We believe supply-side obstacles (due to Russia – Ukraine crisis and OPEC+ intervention) will keep oil price to remain high in the next couple of years

Side	Event	Impact on oil price	Comments
Demand	China's demand recovery after reopening		China is currently the second largest oil consumer, accounting for ~15% of total world oil consumption. Chinese oil demand will be a key driver for global oil consumption growth
	FED raising interest rate		The tightening monetary policy could push the global economy into recession, hampering crude oil consumption. Besides, stronger USD also negatively affects on commodity prices included oil prices
Supply	The revival of Iran nuclear deal / Easing sanctions against Venezuela		Iran nuclear deal may be the most feasible solution to cool down oil prices in the short term as it could lead to the return of Iranian exporter with the additional capacity up to 1 mbd
	The increasing shale oil production in US		EIA projects US crude production will rise 6.1% to 12.61 mbd in 2023F and 1.3% to 12.77 mbd in 2024F
	Lingering Russia - Ukraine crisis		EU embargo on Russia will negatively impact on global oil supply. Besides, the geopolitical tension possibly causes unexpected supply disruptions in near term
	OPEC+ intervention to address market developments		OPEC+ decided to extend its oil production cuts through the end of 2024 in last June meeting. Furthermore, Saudi Arabia also announced that it would extend its voluntary cut of 1 mbd to August 2023. Theses signal that they will be always ready to support oil price

NOTE: Positive; Negative

Source: VNDIRECT RESEARCH

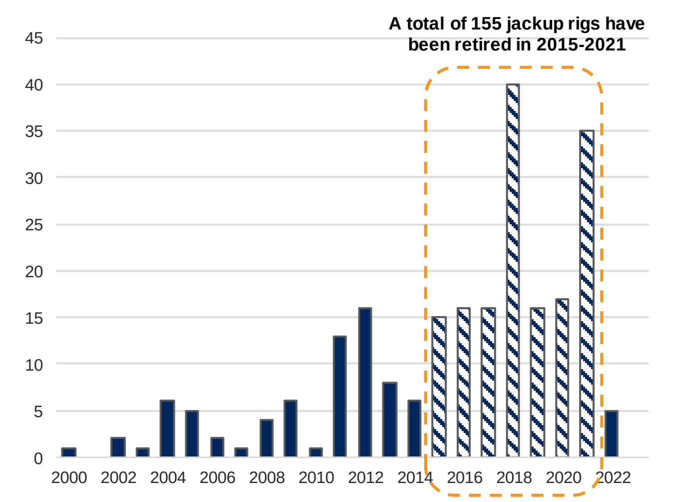
Upstream: Time for upstream service providers

Drilling market is picking up globally

Global jackup (JU) rig supply seems to get tighter…

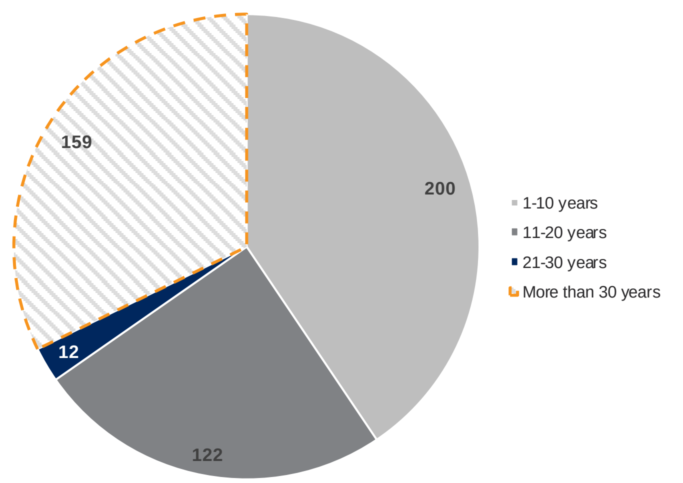
According to IHS Markit, a total of 155 JU rigs have been retired from the global feet in 2015-21 period, while there are only 20 new JUs left in various shipyards, which could be delivered to the operators over the next few years due to lower orderbook as drilling market was sluggish after the oil price crash in 2014. Furthermore, over 30% of total JU fleet was more than 30 years, which is difficult to meet the current higher requirements of many drilling campaigns nowadays.

Figure 5: A total of 155 JU rigs have been retired from the global feet in 2015-21 period (Unit: rig)



Source: IHS MARKIT

Figure 6: Currently, there are 159 rigs aging more than 30 years, including 60 rigs as non-marketed supply (Unit: rig)



Source: IHS MARKIT

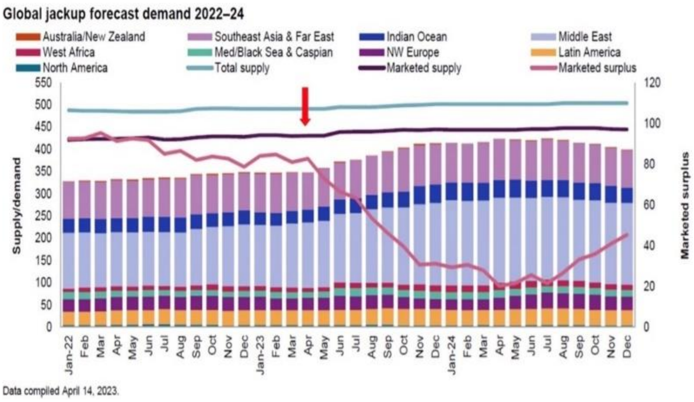
With the extremely slow marketed JU rig supply expansion (c.14 rigs added to marketed JU fleet within next 2 years) amid demand increasing, we expect JU market to get tighter in the couple of years.

…while drilling demand is accelerating globally

According to IHS Markit, ME jackup demand is expected to increase from 125 units in 2022 to 158 units (+26.4% yoy) in 2023F and 187 units (+18.4% yoy) in 2024F, becoming the main driver for global drilling market. This has caused a mass movement of jackup rigs into this region during recent times. The main driver from ME will lift global average marketed JU utilisation rate from c.80% in 2022 to 86%/93% in 2023-24F.

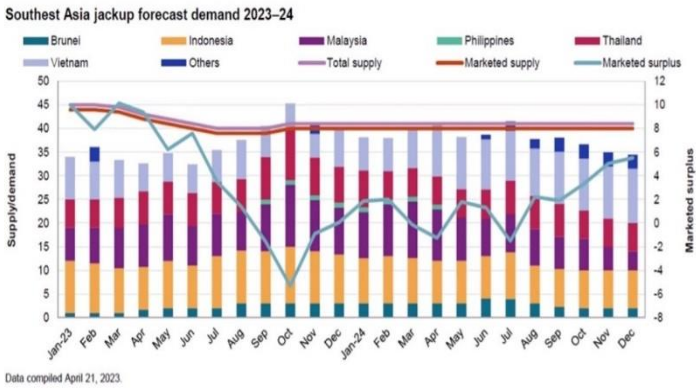
For SEA market, IHS forecasts average JU demand to also pick up from 32.4 units in 2022 to 36.8/38.2 units in 2023/24F with main drivers from Indonesia and Malaysia. In contrast, there are around 28 JU rigs moving out of the Asia Pacific to ME in 2022-23. This may lead the short of JU supply from 3Q23 when SEA countries ramp up E&P campaigns.

Figure 7: Global JU demand will accelerate in the next two years, driven by burgeoning demand from Middle East (ME)



Source: IHS MARKIT

Figure 8: IHS Markit forecasts Southeast Asia (SEA) JU market will remain tight in coming times

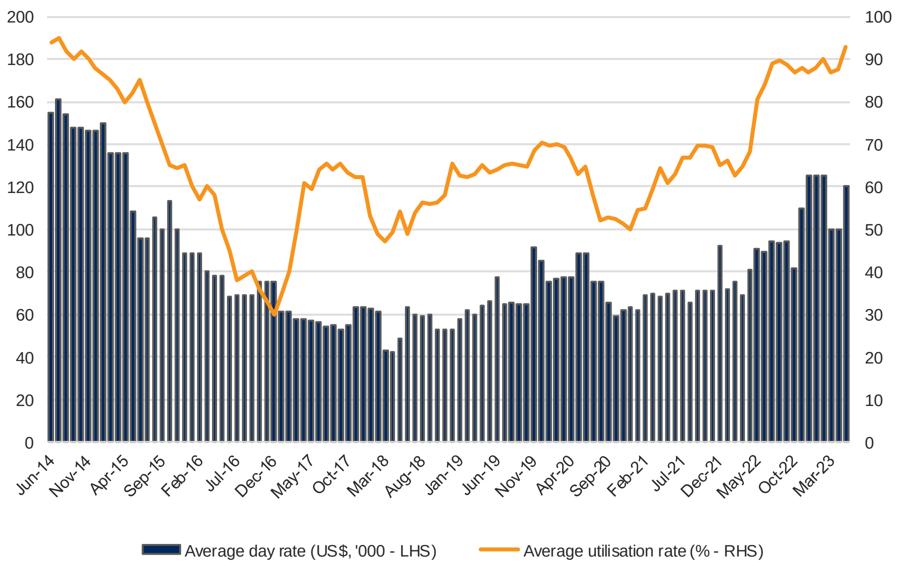


Source: IHS MARKIT

SEA drilling market accelerate on the combination of improved demand and shrank JU fleet due to JU rigs moving out of SEA to ME

Following the global drilling market tightness, SEA average JU utilisation has jumped to 90% from 2H22 due to regional JU fleet compress as many rig moved out to ME. This has lifted the benchmark range for the JU 301-400 category to the level not seen since 2015 from late-2022, ranging from US$95,000 to US$134,000. Overall, we think SEA average JU day rate to remain well above US$120,000 in coming times as demand keeps increasing amidst supply shrinking and newbuilds unlikely in near term.

Figure 9: SEA jack up day rate has reached the level not seen since 2015, boding well for drilling service providers



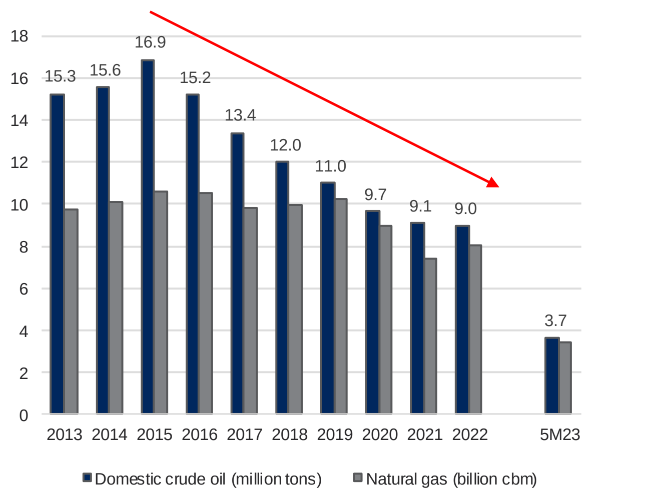
Source: IHS MARKIT, VNDIRECT RESEARCH

Notably, we expect the domestic drilling market to be more vibrant from 2024 onwards with many E&P projects insight, including some medium projects like Kinh Ngu Trang or Lac Da Vang, and a Multibillion-dollar gas project Block B – O Mon (as we mention more detail below). This should trigger many drilling programs and provide more job opportunities for drilling service players, particularly a local company like PVD.

Domestic E&P activities should be vibrant from 2024F onwards

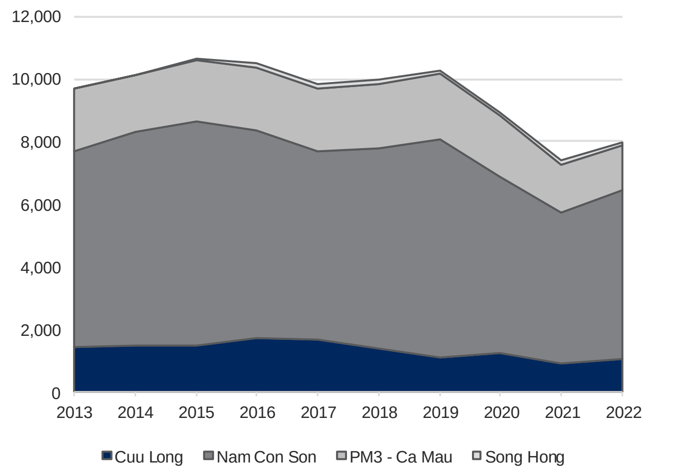
Many O&G field development projects in sight…

Figure 10: Domestic oil and gas production has been continuously falling since 2015 due to lack of new major production projects



Source: VNDIRECT RESEARCH, PVN

Figure 11: Gas supply by basin ('000 cbm). Gas production has dropped over the past 3 years due to production outputs naturally declining and low gas-fired power mobilisation



Source: VNDIRECT RESEARCH, PVGAS

We see O&G production has been continuously falling since 2015 due to lack of major E&P projects. It was mainly as oil price crashed in 2014 and maintained its low base in many years, making new major production projects unprofitable. In our view, the recent energy crisis due to geopolitical tension has highlighted the important of the national energy supply autonomy, thereby possibly providing motivation for the authority to boost E&P activities, particularly when most of the existing fields in Vietnam have been already in their final stages with production outputs naturally declining by 15%-25% annually. Overall, we believe domestic E&P activities to be more vibrant from 2024 onwards, driven by high oil price environment, the important of energy supply autonomy, and the new Petroleum Law (effective from July 2023).

Figure 12: Some highlights from the amended Petroleum Law, which is officially effective from 1 July 2023

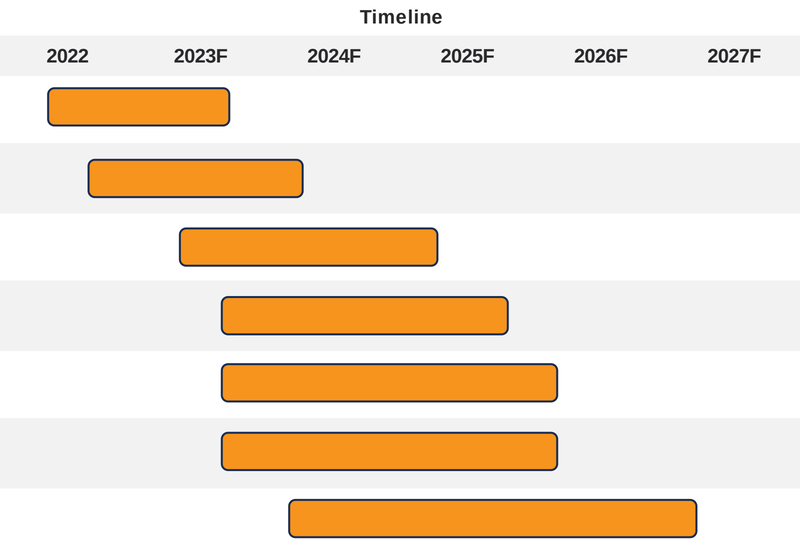
No.	Content	New points
1	For investment incentives	Supplementing classification and policy for blocks eligible investment incentives (compared to the current policy for all projects: the corporate income tax rate of 32-50%, export duty of 10% on crude oil, and cost of recovery rate of 50-70% of annual production) • Classification criteria: based on locations, exploitation conditions… • For investment incentive projects: these rates would be 32%, 10%, and 70%, respectively • For special incentive projects: these rates would be 25%, 5%, and 80%, respectively
2	Regarding oil and gas contract	• Increase contract term from 25 to 30 years (and 35 years for blocks eligible investment incentives).
3	Regulations for state-owned enterprises	• Supplementing and clarifying regulations for state-owned enterprises (PVN) and wholly-owned subsidiaries of PVN (PVPEP)

Source: PETROLEUM LAW, VNDIRECT RESEARCH

Over the past few month, we see many small and medium O&G development projects were given the green light and got significant movements, such as Dai Hung Phase 3, Kinh Ngu Trang and Lac Da Vang. Thanks to the high oil price environment and existing offshore facilities, we think these projects will not face any significant headwinds for implementation, potentially providing some buffer for local O&G service providers, firstly for EPC contractors and drilling service providers.

Figure 13: Some domestic O&G projects in sight

Project	Basin	Operator	Capex (US$m)
Bach Ho expansion	Cuu Long	Vietsovpetro	90
Dai Hung Phase 3	Nam Con Son	PVEP POC	112
Kinh Ngu Trang	Cuu Long	Vietsovpetro	650
Lac Da Vang	Cuu Long	Murphy	693
Su Tu Trang 2B	Cuu Long	Cuu Long JOC	1,100
Nam Du - U Minh	PM3 - Ca Mau	Jadestone	N/A
Block B - O Mon	PM3 - Ca Mau	Phu Quoc POC	6,700



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We expect the kickoff of Block B – O Mon to be key driver for O&G value chain from late-2023F

As EVN is currently facing great difficulties in using ODA capital for O Mon 3 project as well as the ability to mobilise commercial loans for O Mon 4, the investor of these two projects will be transferred from EVN to PVN. From our perspective, it is a feasible solution to solve a bottleneck in O Mon 3 power plant project, boosting Block B – O Mon chain movement as PVN is currently the investor of upstream and midstream segment and hold a strong financial position. However, it will take times for transfer progress, that may affect the FID target in June 2023. As there are still key steps to be completed involving ODA financing for O Mon III power plant and commercial negotiation finalization (GSPA, GSA, and PPA), we think the FID milestone for this project will fall in late-2023F instead of mid-2023F as planned. Fundamentally, Block B – O Mon will be still a key growth engine for Vietnam's O&G industry in coming times.

Figure 14: 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	Potential impact
Upstream: Block B field development project	6,700	• 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	• PVS • PVX, PXS	
				FSO	PVS	
				Drilling / Well services	PVD	
				Drilling fluids	PVC	
Midstream: Block B - O Mon pipeline	1,300	• 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: • 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 landfall station and gas distribution centers (GDC) along the pipelines.	Gas distribution	GAS	
				Pipe coating	PVB	
				EPCI contract	• PVS, POS • PVX, PXT	
Downstream: Gas-fired power plants	NA	• Marubeni • PVN	Three new thermal power plants in O Mon power center (O Mon II, III and IV)	EPC contract	-	
				Power generation	-	

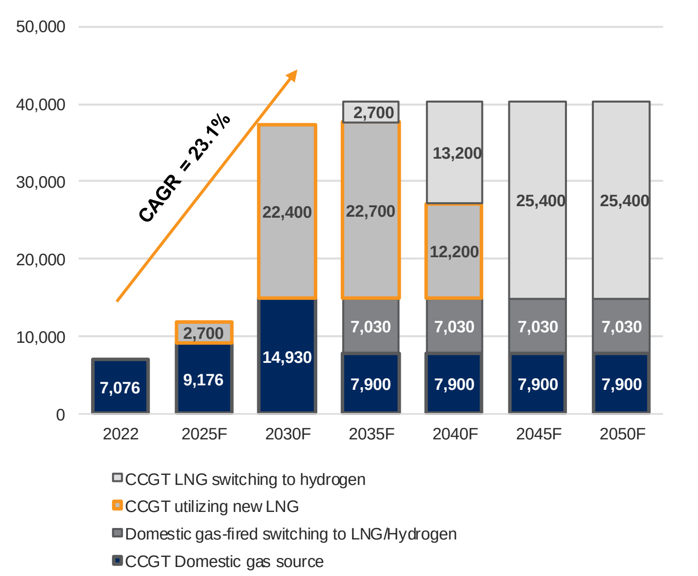
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Midstream: Prepare for the LNG-to-power transition

Power Development Plan 8 (PDP8) highlights the priority in gas-fired power, including both domestic gas sources and LNG

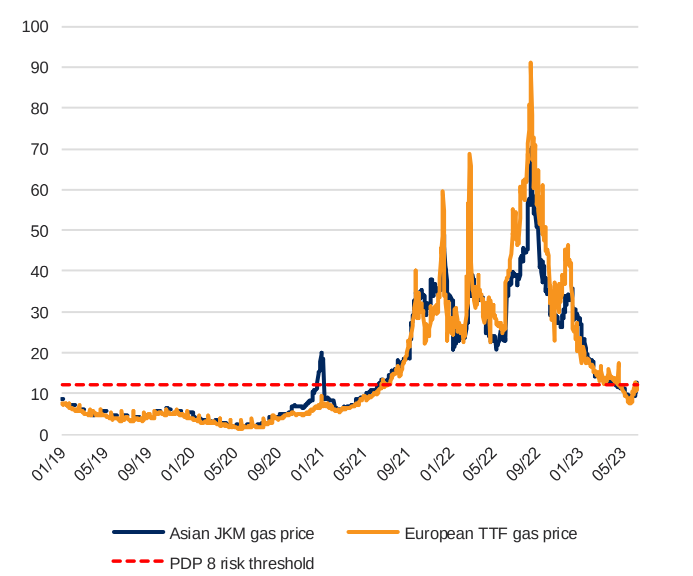
In progress of transition towards clean energy, gas-fired power will play a vital role in Vietnam's power as the base power source thanks to its stability in power generation and its fewer emissions compared to burning coal when producing an equal amount of energy. According to PDP8, gas-fired power (from both domestic sources and LNG) will take a spotlight in 2022-30F with a capacity CAGR of 23.1%, accounting for 25% of total capacity in 2030F. This may be the motivation to boost long-stalled, multibillion-dollar gas field projects like Block B and Blue Whale in coming years. Besides, for LNG, the recent global LNG prices slump could facilitate the LNG development in Vietnam as the benchmark LNG price in Asia has retreated to the favorable territory. Moreover, we note that long-term LNG contracts tend not to be publicly disclosed, but most contracts being priced as a percentage of a benchmark crude oil, which is usually lower and more stable than spot price.

Figure 15: According to PDP 8, gas-fired power (from both domestic sources and LNG) will be the major spearhead in 2022-30F (Unit: MW)



Source: VNDIRECT RESEARCH, PDP8

Figure 16: The benchmark Asian LNG price has retreated to the favorable territory, which could ensure the economic efficiency and boost the progress of LNG projects in Vietnam (Unit: US$/mmbtu)



Source: VNDIRECT RESEARCH, BLOOMBERG

Figure 17: LNG power plants cited from PDP 8

No.	Project	Location	Capacity (MW)	Timeline	Investor
1	LNG Quang Ninh	Quang Ninh	1500	2021-30F	PVPower - Colavi - Tokyo Gas - Marubeni
2	LNG Thai Binh	Thai Binh	1500	2021-30F	Truong Thanh VN - Tokyo Gas - Kyuden
3	LNG Nghi Son	Thanh Hoa	1500	2021-30F	Milennium
4	LNG Quang Trach II	Quang Binh	1500	2021-30F	EVN
5	LNG Quynh Lap	Nghe An	1500	2021-30F	-
6	LNG Hai Lang I	Quang Tri	1500	2021-30F	T&T Group - Hanwha - Kospo - Kogas
7	LNG Ca Na	Ninh Thuan	1500	2021-30F	-
8	Son My I (BOT)	Binh Thuan	2250	2021-30F	EDF - Sojitz - Kyushu - Pacific Group
9	Son My II	Binh Thuan	2250	2021-30F	AES Group
10	LNG Long Son	Ba Ria - Vung Tau	1500	2021-35F	PGV - TTC - TV2 - Mitsubishi - GE - GTPP
11	**Nhon Trach 3&4**	**Dong Nai**	**1624**	**2021-30F**	**PVPower**
12	LNG Hiep Phuoc I	HCMC	1200	2021-30F	Hai Linh Company Ltd
13	LNG Long An I	Long An	1500	2021-30F	VinaCapital - GE
14	LNG Long An II	Long An	1500	2031-35F	VinaCapital - GE
15	LNG Bac Lieu	Bac Lieu	3200	2021-30F	Delta Offshore Energy

Source: : VNDIRECT

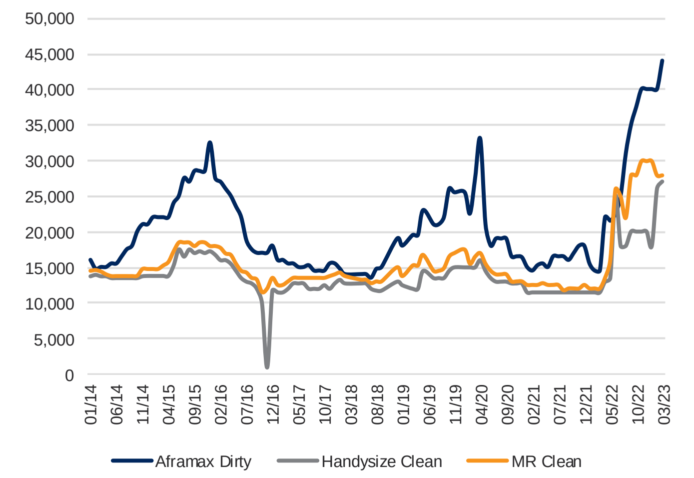
Amongst these above projects, we see NT3&4 to feasibly become the first LNG-fired power plant in Vietnam. Currently, GAS has completed the construction of LNG Thi Vai terminal and expect to provide Vietnam's first LNG in July, becoming the first LNG-related project coming online in Vietnam and being ready to supply LNG for NT3&4 from late-2024 as planned. Riding on PDP 8 priority, GAS will be the key beneficiary as an energy infrastructure developer with many major projects (like LNG terminals and Block B – O Mon pipeline) as well as LNG provider.

O&G transporters will still enjoy high charter rate base in coming times

For both dirty and clean shipping market, we see market condition remain firm with the outlook this year appearing positive thanks to: (1) shifts in trade flow towards longer-haul voyages following the EU ban on imports from Russia and improved Chinese demand after reopening, and (2) limited tanker fleet growth due to small orderbook in recent years, particularly for clean tanker fleet. Moreover, new emissions regulations are expected to have a further moderating impact on active tanker supply.

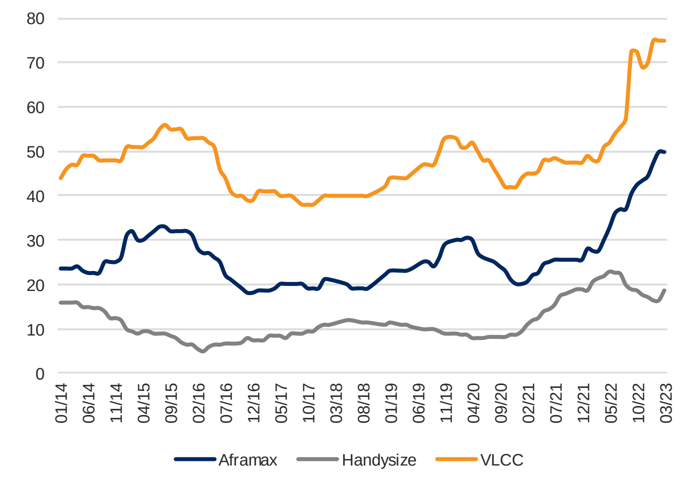
Generally, the irreversible shifts in global energy trade flow will keep tanker charter rates stay in the high base, creating the favorable business condition for O&G transporters. And we believe the transportation company with high exposure to international market like PVT will be a key beneficiary.

Figure 18: Time charter rates have picked up due to the recalibration of global energy trade flow (Unit: US$)



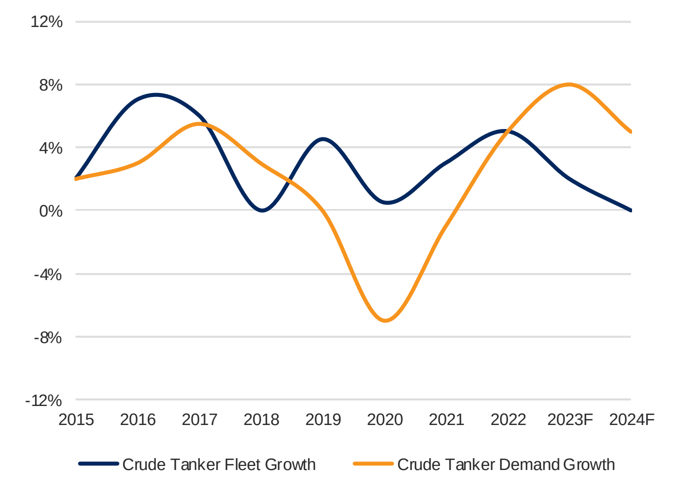
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 19: Average prices of 10-year-old tankers has surged since early-2022 (Unit: US$m)



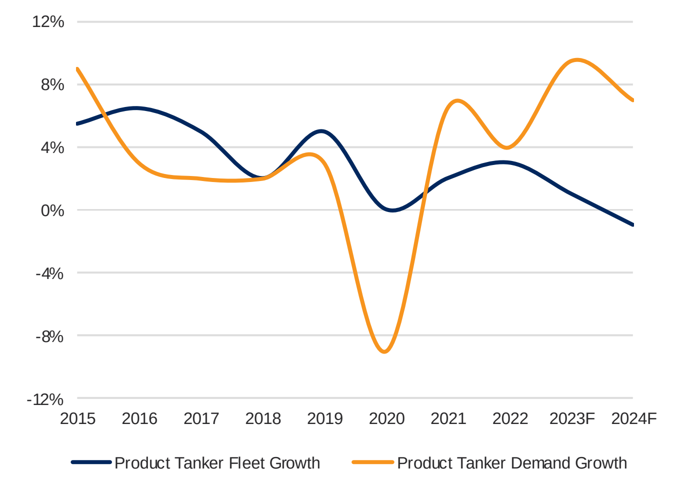
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 20: Supply - Demand balance of crude oil shipping market



Source: CLARKSONS, VNDIRECT RESEARCH

Figure 21: Supply - Demand balance of refined product oil shipping market



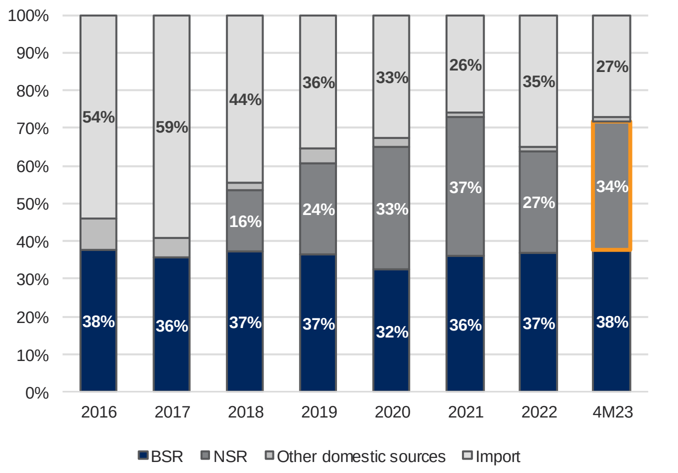
Source: CLARKSONS, VNDIRECT RESEARCH

Downstream: A reversed picture for refineries and petroleum distributors in 2023

Petroleum distribution: The worst has stayed behind

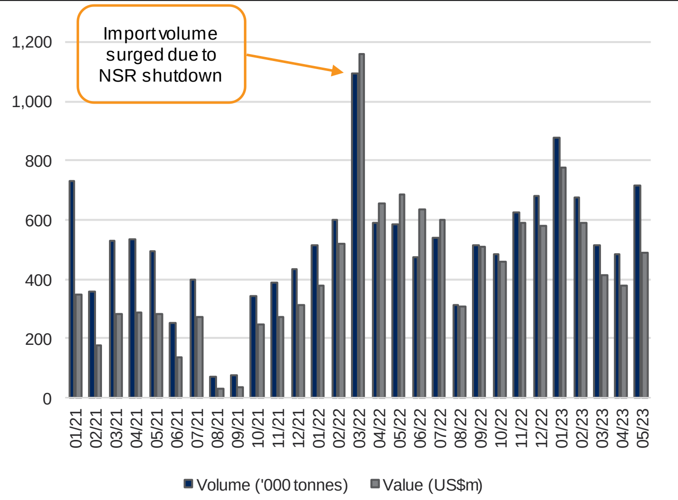
After an unprecedented 2022, domestic petroleum market has turned into normal situation as Nghi Son refinery (NSR) operated at full capacity and the authorities adjusted costs calculated base price from late-2022, supporting for domestic petroleum distributors. For instance, a giant distributor PLX (with c.50% market share) has showed signs of recovery in 1Q23 with a NP growth of 155% yoy. Generally, we see bright outlook for this sector due to: (1) domestic market to be re-stable from 2023 thanks to NSR fully operating, (2) the authority's on-time and adequate petroleum trading surcharges adjustments, limiting unexpected petroleum trading costs like that incurred in 2022, and (3) Vietnam's growing petroleum demand (+c.4.3% annually in FY22-30F).

Figure 22: Proportion of Vietnam's petroleum supply. Nghi Son refinery full operation brought Vietnam's petroleum market to the normal situation from late-2022



Source: VIETNAM CUSTOMS, VNDIRECT RESEARCH

Figure 23: Vietnam net imports of petroleum products in term of volume and value



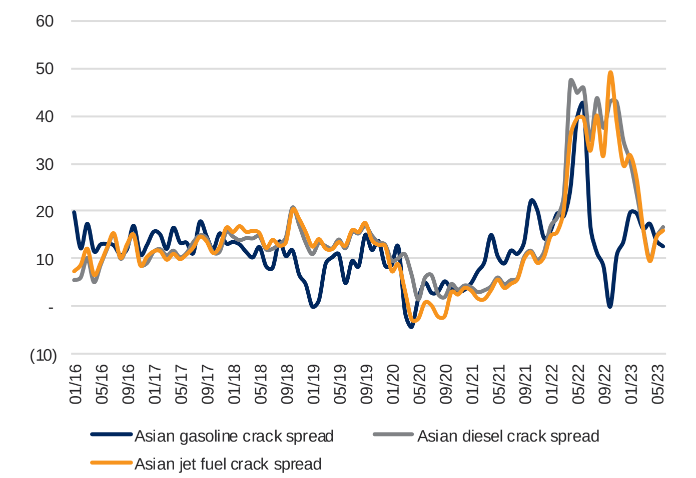
Source: VIETNAM CUSTOMS, VNDIRECT RESEARCH

Refinery: Refining margin to significant ease from 2022 record level

Refineries will face the significant decrease in earnings this year due to refining margin easing to pre-crisis level as economic slowdown intensified, especially in Europe amidst ample supply, coming from: (1) the return of China refined product exports, (2) the successful re-routing of Russia's distillate exports to the Middle East, Africa and South America, and (3) new refinery capacities in the Middle East.

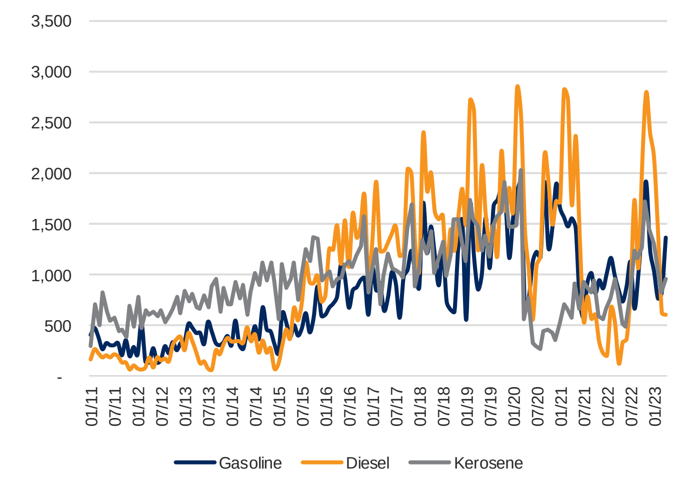
From our perspective, we think middle distillate crack spreads, particularly diesel crack spread to gradually recover in coming months, driven by travel season and heating fuel demand in winter in Western countries. This will support for refining margin in coming times, but still well below the record level of 2022.

Figure 24: Asian refined product crack spreads tumbled to the pre-crisis level (Unit: US$/bbl)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: China refined product exports volume surged in early-2023 before pulling back in March 2023 (Unit: '000 tonnes)

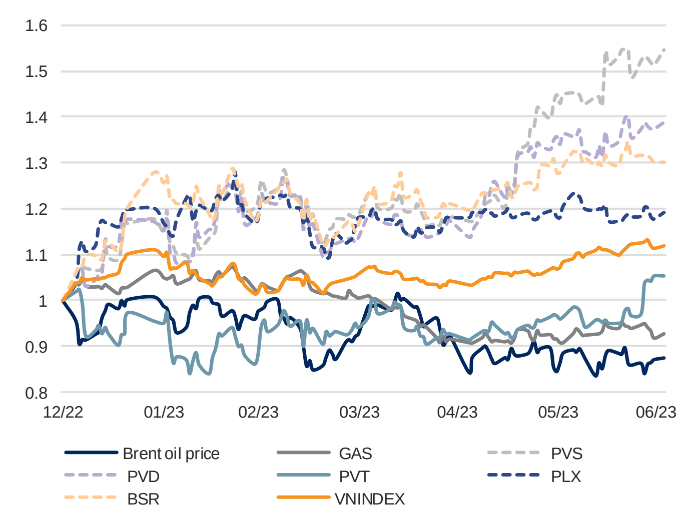


Source: BLOOMBERG, CIMB, VNDIRECT RESEARCH

Stock picks: We prefer PVD, PVS and GAS

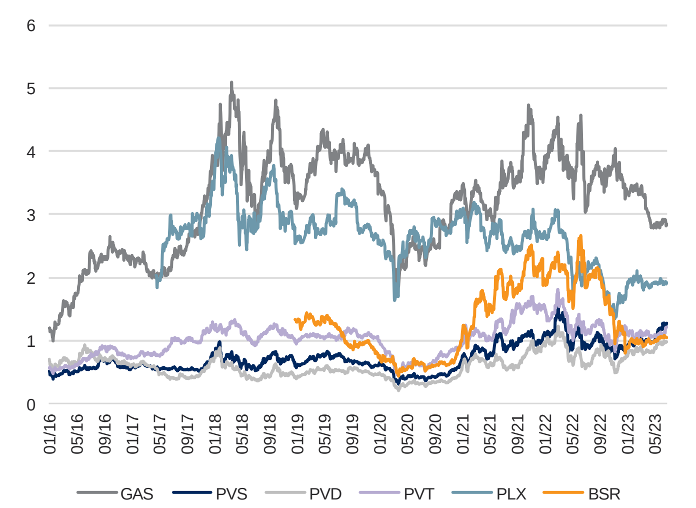
From the beginning of 2023, O&G stock prices have diverged amid oil price retreated, in which we see the outperformance of upstream players (PVS, PVD) and distributors (PLX) thanks to: (1) sharper outlook of upstream segment thanks to E&P activities recovery, and (2) Vietnam's petroleum distribution sector recovery.

Figure 26: O&G stock prices movements. O&G stock prices have diverged since the beginning of 2023 due to the different prospects amidst oil price retreated



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 27: Historical P/B of O&G stocks since 2016



Source: BLOOMBERG, VNDIRECT RESEARCH

Fundamentally, we expect the sharp prospect of E&P activities in Vietnam from 2024F onwards to be a strong upside catalyst for upstream service companies like PVD and PVS as it will provide huge potential backlog, ensuring these companies' workload as well as improving these companies' business performance in many years ahead. Meanwhile, for long-term horizon, we also believe GAS is a good investment selection following the LNG-to-power transition and domestic gas-fired power development.

Figure 28: Investment ideas

No	Ticker	1-year TP (VND/share)	Rating	Investment thesis
1	STOCK PICK **PVD**	29,300	ADD	We prefer PVD for its sharp and solid prospect in coming years on the back of: 1) global drilling market to remain robust in the next couple of years triggered by the production activities ramps up amidst tight JU rigs supply, keeping JU day rate stay in high base and boding well for drilling service providers like PVD. (2) the expectation in vibrant domestic drilling market from 2024F onwards to provider many job opportunities for PVD in coming years. Consequently, we expect PVD's average JU utilisation rate to stay high at 96%/95%/92% in FY23-25F. Overall, we forecast PVD's earnings to strongly rebound from FY23F with a NP of VND470.7bn, then surging 110.8%/21.3% yoy in FY24-25F.
2	STOCK PICK **PVS**	38,100	ADD	We like PVS for both short and long term with net profit CAGR of 18.4% in FY23-25F, regarding to: (1) its leading position in Vietnam's offshore facilities contractors to gain benefits from PDP 8 which highlights the priority in developing major domestic gas fields projects (like Block B – O Mon) and offshore windfarm in both short and long term. Currently, PVS has participated in many offshore windfarm contracts in M&C segment in the international market, such as: Hai Long and Changhua windfarm in Taiwan or Baltica windfarm in Poland. Besides, we also believe PVS will be a key beneficiary from the expectedly vibrant Vietnam's E&P activities from 2024F onwards. (2) strong financial position with a net cash balance of over VND8,800bn (equivalent to VND18,400 per share) and net gearing ratio of -67% at end 1Q23 to ride on the high interest rates environment.
3	STOCK PICK **GAS**	119,900	ADD	Though earnings are expected to ease in 2023F from 2022 record level (-13.7% yoy), we believe GAS is still a good investment selection for long-term horizon based on: (1) its major position in the LNG-to-power transition in long-term with many infrastructure energy projects in sight (LNG terminals: Thi Vai, Son My). (2) strong potential growth from Block B – O Mon project. (3) its strong financial position with a net cash balance of VND30,800bn and net gearing ratio of -47.7% at end-1Q23, which could help GAS earn benefits from high interest rate environment.

Source: VNDIRECT RESEARCH

Investment risks

Key downside risks for the sector include:

- Lower-than-expected oil price as the deep decline in oil prices could weaken the industry's fundamental as well as market sentiment on O&G share prices.
- Further delay in implementing E&P projects, particularly some major projects like Block B – O Mon, as it should negatively affect potential workload for upstream services companies and domestic oil & gas supply in long-term.

Figure 29: Oil & Gas sector comparison

Company	Ticker	Recom.	Price	Target Price	Mkt Cap	P/E (x)		P/B (x)		3-yr EPS CAGR (%)	ROE (%)		ROA (%)	
			LC$	LC$	US$ m	FY23F	FY24F	FY23F	FY24F		FY23F	FY24F	FY23F	FY24F
Gas distribution companies														
PV GAS	**GAS VN**	**ADD**	**94,700**	**119,900**	**7,631**	**14.2**	**13.8**	**2.9**	**2.6**	**-4.0%**	**20.7%**	**19.9%**	**18.3%**	**15.1%**
Indraprastha Gas	IGL IN	NR	484.7	NA	4,129	18.3	16.2	3.5	3.0		21.6%	20.6%	14.0%	13.7%
Toho Gas Ltd	9533 JP	NR	2,507	NA	1,826	13.6	13.9	0.6	0.6		5.1%	4.1%	3.0%	2.4%
Petronas Gas Bhd	PTG MK	NR	16.9	NA	7,189	18.0	17.7	2.5	2.4		13.9%	13.8%	10.6%	10.7%
China Gas Holdings	384 HK	NR	9.0	NA	6,228	7.8	6.8	0.7	0.7		9.8%	10.4%	3.8%	4.2%
Average						*14.4*	*13.7*	*2.0*	*1.9*		*14.2%*	*13.8%*	*9.9%*	*9.2%*
Median						*14.2*	*13.9*	*2.5*	*2.4*		*13.9%*	*13.8%*	*10.6%*	*10.7%*
Oil services companies														
PTSC	**PVS VN**	**ADD**	**33,900**	**38,100**	**682**	**15.3**	**12.3**	**1.3**	**1.2**	**18.4%**	**8.4%**	**9.8%**	**4.0%**	**4.7%**
Malaysia Marine Eng	MMHE MK	NR	0.55	NA	187	14.7	14.7	0.5	0.5		3.5%	3.2%	2.0%	1.7%
Yinson Holdings	YNS MK	NR	2.56	NA	1,600	10.7	9.7	1.3	1.2		14.2%	13.9%	6.0%	5.7%
Seatrium Ltd	STM SP	NR	0.13	NA	6,409	N/A	25.4	1.0	1.0		-1.5%	3.5%	-0.6%	1.6%
Hyundai Engineering	000720 KS	NR	36,850	NA	3,157	8.2	7.6	0.5	0.5		6.5%	6.6%	2.7%	2.9%
Average						*12.2*	*13.9*	*0.9*	*0.9*		*6.2%*	*7.4%*	*2.8%*	*3.3%*
Median						*12.7*	*12.3*	*1.0*	*1.0*		*6.5%*	*6.6%*	*2.7%*	*2.9%*
Offshore drilling companies														
PV Drilling	**PVD VN**	**ADD**	**25,500**	**29,300**	**597**	**30.1**	**14.3**	**1.0**	**1.0**	**N/A**	**3.4%**	**6.8%**	**2.3%**	**4.7%**
Borr Drilling Ltd	BORR NO	NR	77.8	NA	1,858	6.7	5.2	1.7	1.3		10.0%	22.2%	23.5%	42.7%
Velesto Energy Bhd	VEB MK	NR	0.22	NA	389	14.7	12.9	0.8	0.8		4.1%	4.8%	3.3%	3.8%
Valaris Ltd	VAL US	NR	63.1	NA	4,745	9.1	4.3	3.4	2.4		6.5%	33.0%	1.1%	9.0%
Transocean	RIG US	NR	7.0	NA	5,342	16.1	11.1	0.5	0.5		-5.1%	2.9%	-2.0%	0.6%
Average						*15.4*	*9.6*	*1.5*	*1.2*		*3.8%*	*14.0%*	*5.6%*	*12.2%*
Median						*14.7*	*11.1*	*1.0*	*1.0*		*4.1%*	*6.8%*	*2.3%*	*4.7%*
Transportation companies														
PVTrans	**PVT VN**	**ADD**	**23,500**	**26,300**	**320**	**8.7**	**7.9**	**1.2**	**1.1**	**5.8%**	**14.0%**	**14.2%**	**5.9%**	**6.2%**
Vietnam Tanker JSC	VTO VN	NR	8,960	NA	30	N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A
Great Eastern Shipping	GESCO IN	NR	728	NA	1,265	6.5	8.4	0.9	0.8		14.7%	10.3%	N/A	N/A
Thoresen Thai Agencies	TTA TB	NR	6.8	NA	353	5.8	8.8	0.5	0.4		8.0%	4.9%	6.7%	6.6%
MISC Bhd	MISC MK	NR	7.1	NA	6,775	14.0	13.8	0.8	0.8		5.9%	5.7%	3.8%	3.6%
Average						*8.8*	*9.7*	*0.8*	*0.8*		*10.7%*	*8.8%*	*5.5%*	*5.5%*
Median						*7.6*	*8.6*	*0.9*	*0.8*		*11.0%*	*8.0%*	*5.9%*	*6.2%*
Oil refinery companies														
Binh Son Refining	**BSR VN**	**ADD**	**17,500**	**22,600**	**2,284**	**6.9**	**8.5**	**1.0**	**0.9**	**-20.9%**	**14.9%**	**11.4%**	**10.2%**	**8.3%**
IRPC	IRPC TB	NR	2.4	NA	1,383	17.1	10.6	0.6	0.6		3.5%	5.9%	1.6%	2.7%
Star Petroleum Refining	SPRC TB	NR	8.1	NA	1,007	6.8	6.2	0.8	0.8		12.9%	12.8%	7.4%	8.5%
PTT Global Chemical	PTTGC TB	NR	38.8	NA	5,010	15.9	9.0	0.6	0.6		3.7%	6.2%	1.8%	2.8%
Hindustan Petroleum	HPCL IN	NR	282	NA	4,868	5.9	5.3	1.2	1.1		19.0%	20.7%	4.2%	5.5%
Average						*10.5*	*7.9*	*0.8*	*0.8*		*10.8%*	*11.4%*	*5.0%*	*5.6%*
Median						*6.9*	*8.5*	*0.8*	*0.8*		*12.9%*	*11.4%*	*4.2%*	*5.5%*
Petroleum distribution companies														
Petrolimex	**PLX VN**	**ADD**	**40,150**	**45,600**	**2,148**	**13.7**	**12.4**	**1.9**	**1.8**	**47.2%**	**14.7%**	**15.2%**	**5.1%**	**5.7%**
PVOil	OIL VN	NR	10,400	NA	453	16.3	15.5	1.0	1.0		6.5%	6.7%	6.5%	NA
PTT Oil & Retail	OR TB	NR	21.4	NA	7,364	20.5	18.6	2.3	2.2		11.4%	11.5%	5.3%	5.9%
Petronas Dagangan Bhd	PETD MK	NR	22.1	NA	4,729	23.7	22.7	3.8	3.7		16.4%	16.8%	9.1%	9.4%
Thai Oil PCL	TOP TB	NR	45.3	NA	2,899	7.4	7.5	0.6	0.6		8.5%	8.1%	3.3%	3.4%
Average						*16.3*	*15.3*	*1.9*	*1.9*		*11.5%*	*11.6%*	*5.9%*	*6.1%*
Median						*16.3*	*15.5*	*1.9*	*1.8*		*11.4%*	*11.5%*	*5.3%*	*5.8%*

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 05 JUL)

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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.

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