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Oil & Gas

OPEC+ may only agree to one-month extension

Preliminary agreement to extend 9.7-million-production-cut for another month

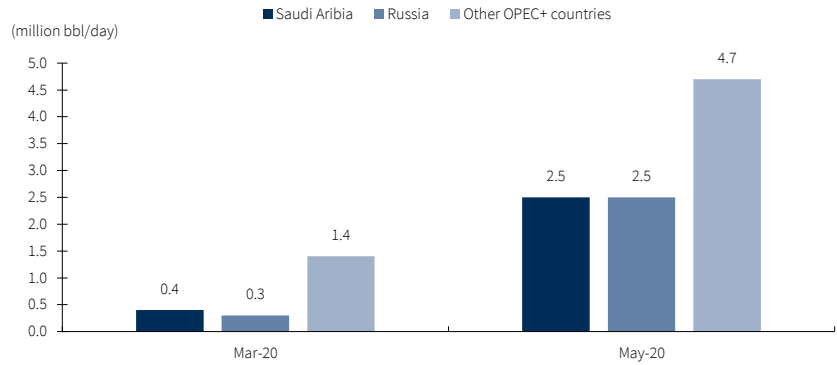
— Saudi Arabia & Russia have tentatively agreed to extend the production cuts for 9.7 million barrels per day for another month, with the sticking point for any longer extension being non-compliance on existing cuts by other OPEC members. Iraq – OPEC’s second-largest oil producer – only met 38% of May’s new production cuts, while Nigeria (another OPEC member) only met with 19%. Extending the deep production cuts to year-end looks unlikely given the non-compliance issues and the deep cuts may only last until July or possibly September according to market watchers. While we do not expect this disappointment to have an overly negative impact on oil price recovery, implications to Vietnam’s oil and gas stocks are: 1) positive catalysts from production cuts are likely over; 2) oil prices should recover at a slower pace and be determined more by economic recovery; and 3) volatility for oil & gas stocks should fall and also slow the trajectory of share price performance (volatility for Vietnam’s oil & gas stocks have peaked and are already starting to fall – see Fig 2). Importantly, the correlation of Vietnam’s oil & gas stocks to oil prices may start to diverge, especially for PV Technical Services (PVS) and PV Drilling & Well Services (PVD) that are more exposed to falling upstream day rates. Our preferred stock for oil price recovery remains PV Gas (GAS) given its product pricing formula and earnings that are more closely linked to recovering oil prices, with performance expected to peak when Brent prices move above Vietnam’s USD55 price level.

Production cuts may need to be closely monitored after oil moves above USD40

— US share oil operators have started to reopen well heads as oil prices move closer to USD40 or near the USD46 breakeven for the more efficient producers. Although this may encourage more non-compliance by OPEC+ members, we believe most will adhere to May’s production cut agreement for now as the recovery in oil prices remains fragile until economies fully reopen after the coronavirus. That said, production cuts may need to be monitored more closely in the months ahead when oil prices move above USD40 and allow US shale producers to restart production, which may also impact the pace of the oil price recovery.



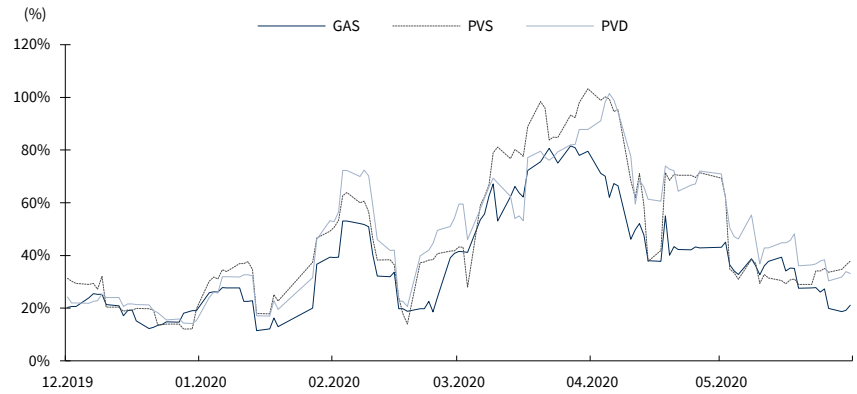
Fig 1. OPEC+ – Agreed output cut before March 2020 & after May 2020



Source: Reuters, KB Securities Vietnam

Volatility for the oil & gas stocks have already started to fall as the recovery in oil prices begins to top out

Fig 2. Vietnam Oil & Gas – 10-day annualized volatility, Jan 2020 – Jun 2020 (%)



Source: Bloomberg, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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