

# Vietnam Oil & Gas

## Transfer of coverage: maintain Neutral outlook

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## Neutral maintain

### Recommendations

PV Gas (GAS)	Buy
Current Price	VND71,400
Target Price	VND89,200

Petrolimex (PLX)	Buy
Current Price	VND48,500
Target Price	VND59,800

PV Transportation (PVT)	Buy
Current Price	VND14,100
Target Price	VND16,800

Binh Son Refinery (BSR)	Buy
Current Price	VND6,800
Target Price	VND8,100

PV Technical Services (PVS)	Hold
Current Price	VND13,700
Target Price	VND11,000

PV Drilling & Well Services (PVD)	Hold
Current Price	VND11,350
Target Price	VND9,600

### Assuming coverage of Vietnam's Oil & Gas sector with Neutral sector stance

We maintain our Neutral outlook for the Oil & Gas sector due to expectations for a slow recovery in crude oil prices that remain below Vietnam's USD55 breakeven level. We continue to recommend investors switch out of cyclical upstream operators like **PV Technical Services (PVS, HOLD, TP VND11,000)** and **PV Drilling & Well Services (PVD, HOLD, TP VND9,600)** – with earnings more exposed to weak oil prices – and shift holdings to downstream segments offering more secular growth. Our top pick remains **PV Gas (GAS, BUY, TP VND89,200)** as the key beneficiary of Vietnam's switch to liquefied natural gas (LNG) imports for power generation in the coming years. We also reiterate BUY ratings on **Petrolimex (PLX, BUY, TP VND59,800)**, **PV Transportation (PVT, BUY, TP VND16,800)** and **Binh Son Refinery (BSR, BUY, TP VND8,100)** as all offer attractive long-term growth opportunities alongside Vietnam's growing energy demand.

### Target prices unchanged but earnings revised to reflect mixed 3Q results

We reiterate our 12-month target prices but adjust our 2020E forecasts across the sector to reflect mixed 3Q performance amid lackluster crude oil prices and the second wave that pushed back demand recovery. Our outlook for 4Q remains largely unchanged as well as forecasts for 2021E–2025E. Changes to our 2020E full-year earnings estimates include:

**PV Gas (GAS):** Cut by 1.6% to VND8,092 billion or VND4,228 per share and now 1.2% above the VND7,993 billion consensus (VND4,347 per share).

**Petrolimex (PLX):** Cut by 16.8% to VND1,094 billion or VND846 per share and now 15.3% below the VND1,292 billion consensus (VND983 per share).

**PV Transportation (PVT):** Increased by 3.6% to VND598 billion or VND2,125 per share and now 24.3% above the VND481 billion consensus (VND1,672 per share).

**Binh Son Refinery (BSR):** 14.5% wider net losses to VND3,383 billion or VND1,091 per share versus VND2,043 billion consensus losses (VND923 per share).

**PV Technical Services (PVS):** Cut by 6.7% to VND858 billion or VND1,794 per share and now 25.5% above the VND683 billion consensus (VND1,159 per share).

**PV Drilling & Well Services (PVD):** Increased by 5.6% to VND152 billion or VND359 per share and now 22.0% above the VND125 billion consensus (VND261 per share).

## Top pick: PV GAS (GAS, BUY, TP VN89,200)

Top pick remains PV Gas (GAS) as Vietnam shifts to LNG imports to fuel the rapid expansion of power generating capacity in the coming years

We reiterate our BUY on PV Gas (GAS, BUY, TP VND89,200) and 12-month target price of VND89,200 as the main beneficiary of growing LNG demand that should also perform alongside the slow recovery in oil prices.

We lower our 2020E earnings estimate by 1.6% to VND8,092 billion or VND4,228 per share to reflect 3Q earnings that came in 6% below our expectations due to continuing production issues at *Block 11.2* that reduced wet natural gas output during the quarter.

Table 1. PV Gas (GAS) – Earnings revisions, 2020E–2021E (VND billion, %)

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	64,242	74,820	64,487	74,820	(0.4)	0.0
EBIT	9,158	14,114	9,450	14,114	(3.1)	0.0
OP	10,370	14,885	10,541	14,885	(1.6)	0.0
NP after MI	8,092	11,560	8,226	11,560	(1.6)	0.0

Source: Company reports, KB Securities Vietnam

Table 2. PV Gas (GAS) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	64,242	74,820	61,752	71,488	4.0	4.7
EBIT	9,158	14,114	9,442	11,357	(3.0)	24.3
OP	10,370	14,885	9,699	11,894	6.9	25.1
NP after MI	8,092	11,560	7,993	9,355	1.2	23.6

Source: Company reports, KB Securities Vietnam

Table 3. PV Gas (GAS) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	17,094	15,594	15,937	15,617
GP	3,312	2,519	2,906	3,179
EBIT	2,679	1,909	2,239	2,332
OP	2,963	2,276	2,605	2,526
EBITDA	3,316	2,951	2,848	3,276
NP after MI	2,333	1,773	2,023	1,963
GPM	19.4	16.2	18.2	20.4
EBIT margin	15.7	12.2	14.0	14.9
OPM	17.3	14.6	16.3	16.2
NPM	19.4	18.9	17.9	21.0

Source: Company reports, KB Securities Vietnam

## Petrolimex (PLX, BUY, TP VND59,800)

### Growth at PLX driven by continuing growth in retail energy demand and the transition to retailing

We maintain a positive view on Petrolimex (PLX, BUY, TP VND59,800) and reiterate our BUY recommendation and 12-month target price of VND59,800. PLX should continue to benefit from growing consumer energy demand as well the transition to a retailing model following government privatization. We revise down our 2020E earnings forecast by 16.8% to VND1,094 billion or VND846 per share after 3Q earnings missed our expectation by 21% due to delayed volume recovery for retail sales following Vietnam's second wave.

**Table 4. Petrolimex (PLX) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	128,493	177,889	134,570	177,889	(4.5)	0.0
EBIT	856	4,975	1,141	4,975	(24.9)	0.0
OP	1,324	5,449	1,638	5,449	(19.2)	0.0
NP after MI	1,094	4,114	1,315	4,114	(16.8)	0.0

Source: Company reports, KB Securities Vietnam

**Table 5. Petrolimex (PLX) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	128,493	177,889	138,625	183,219	(7.3)	(2.9)
EBIT	856	4,975	2,351	4,164	(63.6)	19.5
OP	1,324	5,449	1,555	4,849	(14.8)	12.4
NP after MI	1,094	4,114	1,292	3,903	(15.3)	5.4

Source: Company reports, KB Securities Vietnam

**Table 6. Petrolimex (PLX) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)**

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	38,478	26,708	27,462	35,845
GP	450	2,732	3,136	3,377
EBIT	(1,715)	481	908	1,182
OP	(1,703)	682	1,028	1,318
EBITDA	709	(154)	1,672	1,896
NP after MI	(1,893)	1,077	853	1,057
GPM	1.2	10.2	11.4	9.4
EBIT margin	(4.5)	1.8	3.3	3.3
OPM	(4.4)	2.6	3.7	3.7
NPM	1.8	(0.6)	6.1	5.3

Source: Company reports, KB Securities Vietnam

## PV Transportation (PVT, BUY, TP VND16,800)

### PVT's next fleet expansion should focus on lucrative LNG transportation contracts

We maintain our BUY rating on PV Transportation (PVT, BUY, TP VND16,800) and expect strong recovery in 4Q earnings with the end of the two-month maintenance overhaul at BSR's *Dung Quat* refinery. Over the longer term, PVT's fleet expansion should focus on lucrative LNG transportation contracts. Our 2020E earnings forecast increase by 3.6% to VND598 billion or VND2,125 per share after beating our 3Q estimate by 34% on stronger-than-expected international day rates for short-term charter contracts.

**Table 7. PV Transportation (PVT) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,376	8,561	7,102	8,561	3.9	0.0
EBIT	964	1,212	911	1,212	5.8	0.0
OP	920	1,001	814	1,001	13.0	0.0
NP after MI	598	699	578	699	3.6	0.0

Source: Company reports, KB Securities Vietnam

**Table 8. PV Transportation (PVT) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	7,376	8,561	6,813	7,472	8.3	14.6
EBIT	964	1,212	699	790	37.9	53.4
OP	920	1,001	724	907	27.0	10.4
NP after MI	598	699	481	569	24.3	22.9

Source: Company reports, KB Securities Vietnam

**Table 9. PV Transportation (PVT) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)**

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	1,578	1,817	1,856	2,126
GP	226	259	286	437
EBIT	177	192	208	387
OP	120	270	212	317
EBITDA	293	647	442	630
NP after MI	67	194	108	228
GPM	14.3	14.2	15.4	20.6
EBIT margin	11.2	10.6	11.2	18.2
OPM	7.6	14.9	11.4	14.9
NPM	18.6	35.6	23.8	29.6

Source: Company reports, KB Securities Vietnam

## Binh Son Refinery (BSR, BUY, TP VND8,100)

Although delayed in 3Q due to the second wave, we expect sequential earnings recovery into the end of the year.

We reiterate our BUY rating on Binh Son Refinery (BSR, BUY, TP VND8,100) and expect recovery in ex-factory prices (following the company's two-month maintenance shutdown) to drive margin recovery in the coming quarters. Moreover, further details on the upgrading facilities – especially the financing of this project that has been a concern of the market – should act as a positive catalyst on the stock. We increase our full-year 2020E net loss forecast to VND3,383 billion (minus VND1,091 per share) or 15% in additional losses after the second wave delayed demand recovery and caused the company to miss our 3Q forecast by 34%. Nonetheless, we keep our 4Q outlook unchanged and expect sequential earnings recovery to accelerate into the end of the year.

**Table 10. Binh Son Refinery (BSR) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	56,718	90,817	61,428	90,817	(7.7)	0.0
EBIT	(3,345)	4,063	(2,702)	4,063	23.8	0.0
OP	(3,390)	3,547	(2,912)	3,547	16.4	0.0
NP after MI	(3,383)	3,355	(2,954)	3,355	14.5	0.0

Source: Company reports, KB Securities Vietnam

**Table 11. Binh Son Refinery (BSR) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	56,718	90,817	51,458	86,440	10.2	5.1
EBIT	(3,345)	4,063	(3,303)	2,911	1.3	39.6
OP	(3,390)	3,547	(1,193)	1,944	184.2	82.5
NP after MI	(3,383)	3,355	(2,043)	2,659	65.6	26.2

Source: Company reports, KB Securities Vietnam

**Table 12. Binh Son Refinery (BSR) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)**

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	17,991	13,736	9,098	15,894
GP	(1,991)	(1,878)	282	1,030
EBIT	(2,221)	(2,091)	121	847
OP	(2,349)	(1,922)	160	721
EBITDA	(986)	(1,994)	755	1,247
NP after MI	(2,330)	(1,906)	173	680
GPM	(11.1)	(13.7)	3.1	6.5
EBIT margin	(12.3)	(15.2)	1.3	5.3
OPM	(13.1)	(14.0)	1.8	4.5
NPM	(5.5)	(14.5)	8.3	7.8

Source: Company reports, KB Securities Vietnam

## PV Technical Services (PVS, HOLD, TP VND11,000)

### Oil prices below breakeven levels puts PVS at risk of EPC contract delays

We maintain our cautious view on PV Technical Services (PVS, HOLD, TP VND11,000) as weak oil prices risk delays in EPC contracts, especially with 3Q's near completion of the *Sao Vang-Dai Nguyet* and *Gallaf-Al Shaheen* projects. Following 3Q results that missed our estimate by 24% due to the negative impact of weak oil prices on the FPSO (floating, production, storage & offloading) JV, we revise down our 2020E earnings forecast by 6.7% to VND858 billion or VND1,794 per share.

**Table 13. PV Technical Services (PVS) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	18,634	15,389	17,084	15,389	9.1	0.0
EBIT	501	333	400	333	25.3	0.0
OP	1,116	1,712	1,198	1,712	(6.8)	0.0
NP after MI	858	1,197	920	1,197	(6.7)	0.0

Source: Company reports, KB Securities Vietnam

**Table 14. PV Technical Services (PVS) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	18,634	15,389	15,492	16,990	20.3	(9.4)
EBIT	501	333	333	226	50.3	47.1
OP	1,116	1,712	271	353	311.8	385.0
NP after MI	858	1,197	683	745	25.5	60.7

Source: Company reports, KB Securities Vietnam

**Table 15. PV Technical Services (PVS) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)**

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	3,241	5,518	5,966	3,909
GP	192	245	433	251
EBIT	43	114	250	95
OP	151	275	286	404
EBITDA	119	238	372	274
NP after MI	111	266	197	283
GPM	5.9	4.4	7.3	6.4
EBIT margin	1.3	2.1	4.2	2.4
OPM	4.7	5.0	4.8	10.3
NPM	3.7	4.3	6.2	7.0

Source: Company reports, KB Securities Vietnam

## PV Drilling & Well Services (PVD, HOLD, TP VND9,600)

**Crude oil prices below breakeven levels should continue to weigh on jack up day rates and hinder earnings recovery**

We reiterate our HOLD rating on PV Drilling & Well Services (PVD, HOLD, TP VND9,600) as crude oil prices below breakeven levels hit exploration and drilling activities harder than downstream operations. Our full-year 2020E earnings estimates increase by 5.6% to VND152 billion or VND359 per share after 3Q earnings beat our forecast by 23% from increased contribution from Baker-Hughes joint venture.

**Table 16. PV Drilling & Well Services (PVD) – Earnings revisions, 2020E–2021E (VND billion, %)**

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,454	5,714	5,092	5,714	7.1	0.0
EBIT	80	136	81	136	(1.2)	0.0
OP	150	43	105	43	42.9	0.0
NP after MI	152	165	144	166	5.6	(0.6)

Source: Company reports, KB Securities Vietnam

**Table 17. PV Drilling & Well Services (PVD) – Earnings versus consensus estimates, 2020E–2021E (VND billion, %)**

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,454	5,714	5,215	5,360	4.6	6.6
EBIT	80	136	141	120	(43.3)	13.3
OP	150	43	126	255	19.0	(83.1)
NP after MI	152	165	125	168	22.0	(1.7)

Source: Company reports, KB Securities Vietnam

**Table 18. PV Drilling & Well Services (PVD) – Quarterly earnings forecasts, 1Q20–4Q20E (VND billion, %)**

(VND bn, %)	1Q20	2Q20	3Q20	4Q20E
Sales	1,675	1,469	1,271	1,039
GP	157	57	79	105
EBIT	63	(11)	12	16
OP	26	68	56	0
EBITDA	236	116	89	160
NP after MI	24	62	39	26
GPM	9.4	3.9	6.2	10.1
EBIT margin	3.8	(0.7)	0.9	1.5
OPM	1.5	4.6	4.4	0.0
NPM	14.1	7.9	7.0	15.4

Source: Company reports, KB Securities Vietnam

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## Investment ratings & definitions

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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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