

Oil & Gas

3Q24F Preview: low Gas, robust Drilling

Pipeline natural gas: retreat on low season

In 3Q24F, we forecast that pipeline gas consumption may decline by 16% yoy and 34% qoq, reaching a total of 1.3 BCM. The main driver is a record low consumption of Power, which we estimate to decline by 24% yoy. On the other hand, we project consumption from Fertilizer and Industrial customers to go flat during this period. Besides, supply capacity (for Power) bottomed to 9mn Sm³/day in Aug (-34% yoy), and motivated gas mobilization from more expensive sources like Sao Vang – Dai Nguyet. Gas price in Aug, accordingly, surged by 10%, regardless FO price declined by 15% yoy. We project that gas price in 3Q24F can reach an average of USD9.1/mmBTU, increasing by 7%, while the average FO price declines by 7% yoy.

LNG: thrive on sales to industrial customers

We believe the motivation for the blooming LNG back in 2Q24 (electricity shortage) will not repeat for the rest of 2024 owing to much stronger hydropower backed by the rainy season and the La Nina effects. In Sept, PV GAS, via its subsidiary CNG Vietnam, also delivered the first LNG batch to the North via railways, which we assess to be a positive tiding for CNG Vietnam. However, we believe this will not have a significant impact on the whole industry scale, as the volume remains small and is quite restricted in scalability. Total LNG via this channel is expected to reach respectively 0.7mn Sm³ in 3Q24F and around 2-4mn Sm³ in 2H24F. Besides, we believe the sustainable and significant motivation for LNG should be the GSA between PV GAS and NT3&4 which can be achieved within this year, with the contracted volume of 0.98 BCM/year.

E&P: drilling day rates may pick up on restricted supply

As of August, the number of offshore rigs active in SEA remained tight at 26 rigs (unchanged yoy and mom), which means suspended rigs in the Middle East seem to not migrate to Southeast Asia (SEA) to compete for drilling jobs. This catalyst may continue to support regional drilling day rates amid remaining high E&P demand as SEA nations issue ambitious upstream investment plans. Accordingly, PVD is the most benefited listed firm as it is one of the most active drillers in the SEA, we forecast that PVD's day rate can exceed the average day rate of USD100,000 in 3Q24F (+30% yoy, +4% qoq).

Neutral

Company	Rating	TP (VND)
PV GAS	Non-rated	-
CNG Vietnam	Non-rated	-
PV Drilling	Non-rated	-

Table 1. Coverage valuation

Recommendation & TP			Earnings & Valuation										
Company			Sales (VNDbn)	OP (VNDbn)	NP (VNDbn)	EPS (VNDbn)	BPS (VNDbn)	PE (X)	PB (X)	ROE (%)	EV/ EBITDA (X)	DY (%)	
GAS	Recommendation	NON - RATED	2020A	64,135	8,694	7,855	3,351	20,675	17.8	2.9	16.2	12.7	4.8
	TP (VND)	-	2021A	78,992	10,374	8,673	3,579	21,810	19.2	3.1	17.4	12.1	3.6
	Price (Oct 1, VND)	73,000	2022A	100,724	17,799	14,798	6,266	25,551	11.9	2.9	26.7	8.0	3.3
	Market cap. (VNDbn)	171,015	2023A	89,954	12,906	11,606	5,112	27,340	13.4	2.5	18.7	8.8	4.3
			2024F	98,152	11,829	10,696	4,583	26,333	18.2	3.2	16.9	16.4	7.1
CNG	Recommendation:	NON - RATED	2020A	2,338	52	51	1,114	14,511	11.9	0.9	7.4	1.1	14.6
	TP (VND)	-	2021A	3,058	105	82	2,231	14,864	9.3	1.4	15.2	2.4	7.4
	Price (Oct 1, VND)	35,200	2022A	4,185	150	118	3,351	16,164	5.2	1.1	21.6	1.0	8.8
	Market cap. (VNDbn)	1,235	2023A	3,112	117	110	3,142	17,169	8.7	1.6	18.8	3.2	5.6
			2024F	3,127	155	132	3,757	19,265	9.5	1.8	20.6	4.0	3.1
PVD	Recommendation:	NON - RATED	2020A	5,229	1	187	311	24,842	39.7	0.5	1.4	18.1	-
	TP (VND)	-	2021A	3,995	-27	20	49	24,619	461.3	0.9	0.1	27.7	-
	Price (Oct 1, VND)	27,400	2022A	5,432	67	-104	-245	25,101	N/A	0.7	-0.7	13.4	-
	Market cap. (VNDbn)	15,231	2023A	5,804	764	589	838	26,519	33.2	1.1	4.1	9.5	-
			2024F	8,582	1,282	903	1,622	27,599	16.4	1.0	6.0	11.5	-

Source: Bloomberg, KISVN estimate

Table 2: 3Q24F business results forecast, KIS coverage

(VNDbn, %, %p)

	Revenue			NPAT		
	3Q24F	yoy	qoq	3Q24F	yoy	qoq
GAS	22,153	1	(25)	2,396	(0)	(30)
CNG	820	4	(2)	38	27	(15)
PVD	2,329	69	3	160	20	22
KIS coverage list	25,576	5	(23)	2,594	1	(28)

Source: Company data, KISVN estimate

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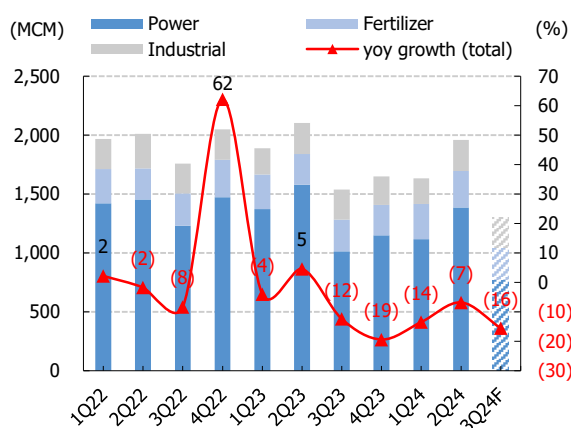
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I. Pipeline natural gas: retreat on low season

3Q24F – pipeline dry gas consumption may decline on weak demand from Power plants

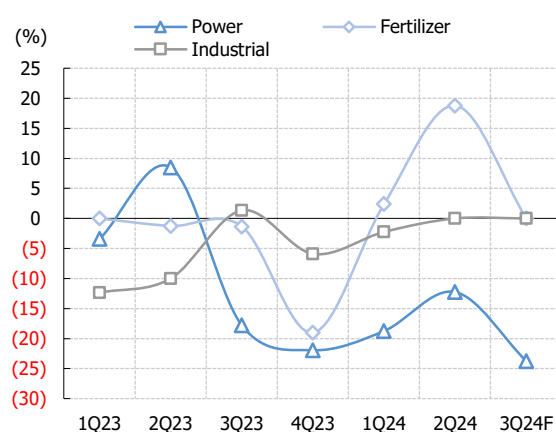
We forecast total pipeline dry gas consumption to reach 1.3 BCM (-16% yoy, -34% qoq) in 3Q24F. The driver being a record low demand of Power, estimated to reach around 0.8 BCM (-24% yoy). Conversely, consumption for Fertilizer and industrial customers may flat yoy in 3Q24F.

Figure 1. Total pipeline natural gas may decline by 16% yoy



Source: Company data, KISVN estimate

Figure 2. Yoy growth by customer groups



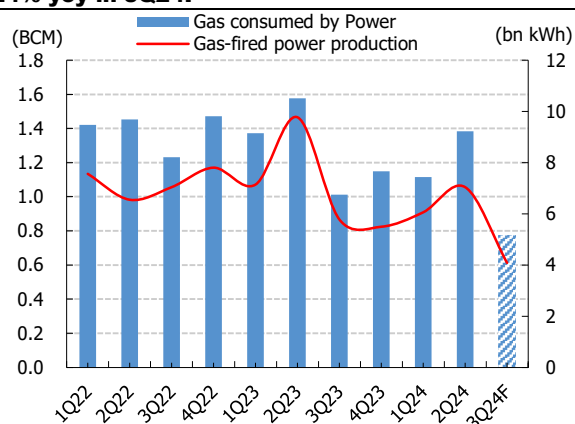
Source: Company data, KISVN estimate

- **Demand of gas-fired power plants**

In 3Q24F, we project that natural gas consumption in Power plants may plunge by 24% yoy, reaching 0.8 BCM. The number is based on the total power production of gas-fired power plants, which reached a total of only 4.1bn kWh in 3Q24 (-29% yoy, figure 3). This can be attributed to:

- (1) The comeback of the rainy season in the South and the La Nina in 3Q24F leading to a higher capacity of hydropower, and hence, less demand for thermal powers (Figure 4).
- (2) Phu My 3 power plant had its BOT contract expire in March, which means EVN is no longer obligated to buy electricity from this. Accordingly, volume from Phu My 3 (consuming 0.8 BCM per year) may decline significantly in 3Q24F and may even reach zero at low times.

Figure 3. Natural gas to power plants may decline by 24% yoy in 3Q24F



Source: Company data, KISVN estimate

Figure 4. Gas-fired electric capacity factor may down to 24% in 3Q24F

cf	Total	Hydro	Coal	Gas + DO	Solar	Wind
1Q23	39%	31%	50%	45%	34%	32%
2Q23	46%	29%	68%	59%	38%	17%
3Q23	45%	51%	54%	34%	31%	22%
4Q23	44%	43%	57%	34%	27%	29%
1Q24	42%	21%	65%	38%	33%	36%
2Q24	32%	36%	74%	42%	38%	14%
3Q24E	50%	75%	48%	24%	35%	24%

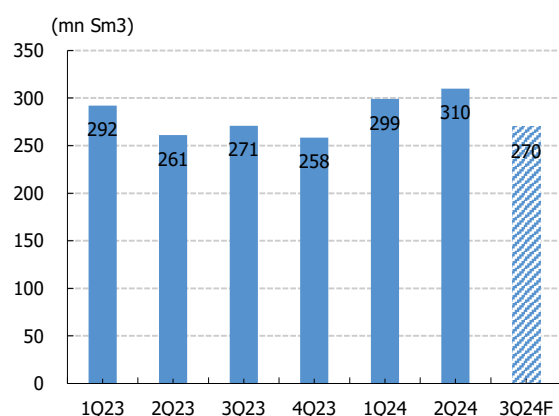
Source: EVN, KISVN estimate

- **Demand of fertilizer**

In 3Q24F, we project that natural gas for Fertilizer may decline qoq but remain almost flat yoy reaching around 270mn Sm³ (Figure 5). The main driver can be nitrogen fertilizer (urea) production, which we project to reach 427 thousand tonnes (unchanged yoy, -9% qoq, figure 6).

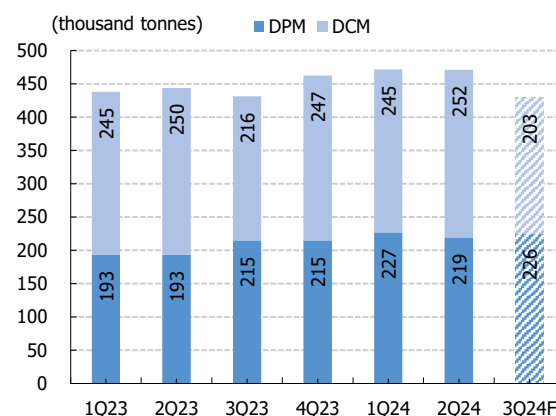
Total urea production reached a total of 282 thousand tonnes in July and August, which is a 4.4% yoy increase (vs the same figure last year of 271 thousand tonnes). However, DCM set a low target for September of only 67 thousand tonnes (-18% yoy), we believe this will impact the whole industry's urea production, offset the growth previously, and make 3Q24F almost unchanged in yoy terms.

Figure 5. Natural gas for urea production may flat...



Source: Company data, KISVN estimate

Figure 6. ... as total urea production unchange yoy



Source: Company data, PVN, KISVN estimate

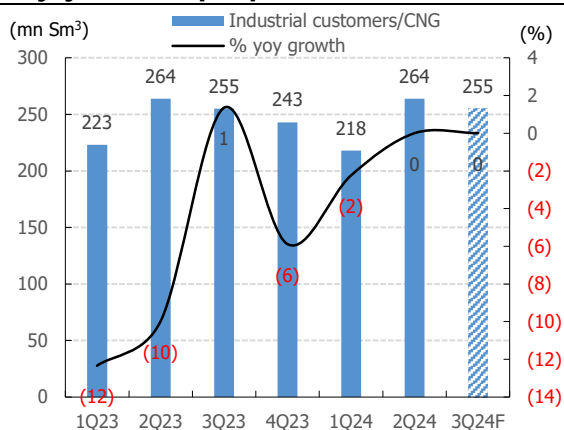
- **Demand of industrial customers**

We expect 3Q24F volume to industrial customers may flat yoy, reaching 0.26 BCM (Figure 7) owing to mixed prospects:

(1) The overall manufacturing sector remained positive, reflected by Vietnam's MPMI (Figure 8),

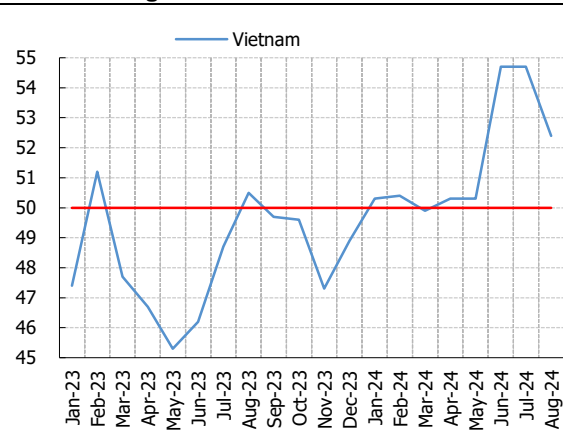
- (2) Manufacturing activities of construction materials companies, in general, are more improved with the recovery of steel companies (Figure 9). However, we project that slow construction activities may remain impactful on tiles companies (Figure 10).

Figure 7. Gas volume to industrial customers may flat yoy on mixed prospects



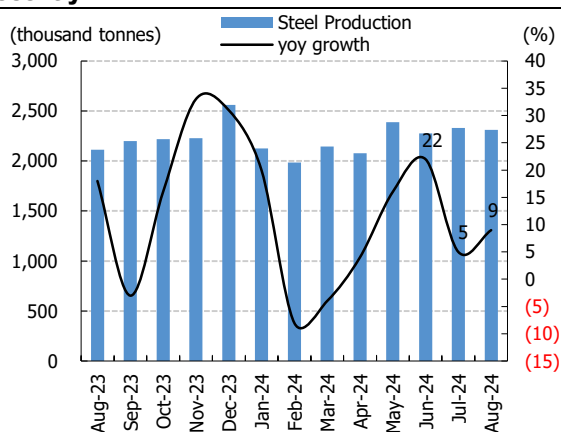
Source: Company data, KISVN estimate

Figure 8. Vietnam MPMI implies recovery of overall manufacturing sector



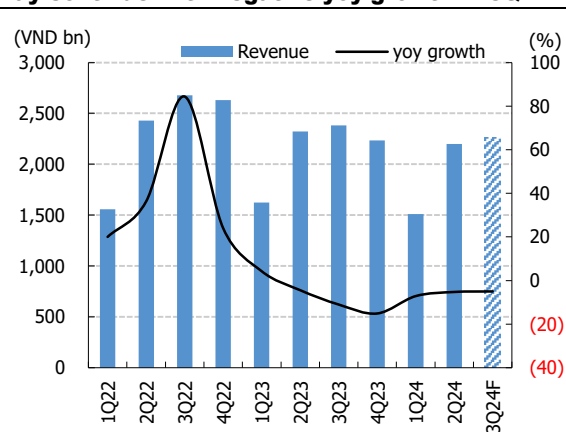
Source: Bloomberg, KISVN

Figure 9. Steel production saw improvements recently...



Source: VSA, KISVN

Figure 10. ...but revenue of tiles (listed companies) may continue with negative yoy growth in 3Q24F



Note: total revenue of the tile segment of all listed companies
Source: Company data, KISVN

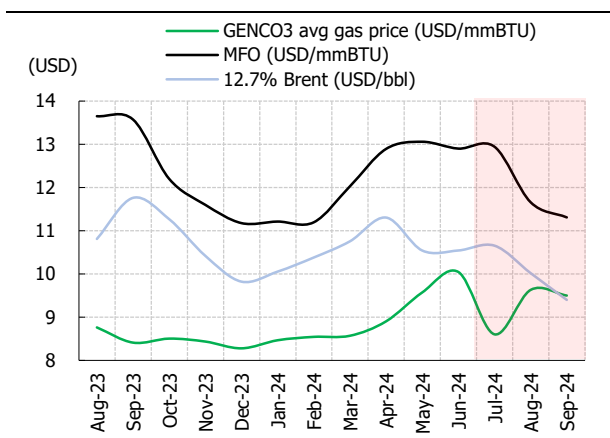
Declining supply capacity may lead to significantly higher selling price in 3Q24

Gas price to Power plants (GENCO3¹) in Aug surged by a whopping 10% yoy reaching USD9.6/mmBTU (Figure 11), which contradicts with FO price that plunged by 15% yoy in Aug. The main reason is the restricted supply capacity in Aug of only 9mn Sm³/day (-34% yoy, Figure 12) leading to more gas mobilization from Sao Vang – Dai Nguyen which has a higher well-head price.

We project that the average gas price will reach USD9.1/mmBTU in 3Q24F (+7% yoy), regardless of the poor prospect of FO price, which we forecast to decline by 7% yoy in 3Q24F.

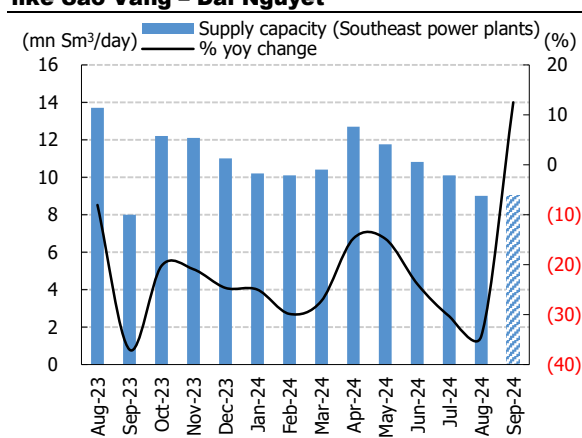
¹ EVN GENCO3 (HSX: PGV) consumes roughly 40% of natural gas for Southeast Power plants.

Figure 11. 3Q24F gas price may rise yoy regardless of weaker global prices ...



Source: GENCO3, Bloomberg, KISVN estimate

Figure 12. ... as for declining supply capacity that lead to more mobilization from expensive sources like Sao Vang – Dai Nguyet



Source: GENCO3, KISVN estimate

II. Liquefied natural gas (LNG): thrive on sales to industrial customers

In 2Q24, LNG volume bloomed on short-term electricity shortage amid the dry season, when EVN used LNG to maintain gridline stability regardless of its high costs. We estimate that PV GAS has imported 250,000 tonnes of LNG, and distributed over 300,000 tonnes of LNG to Power plants just in 2Q24. However, we assess that such motivation will not happen again for the rest of 2024 given the facts that (1) hydropower sources are anticipated to remain strong in 2H24 that is backed by the rainy season and La Nina effects and (2) input cost of LNG is expensive, causing higher electricity price, and hence, more losses for EVN.

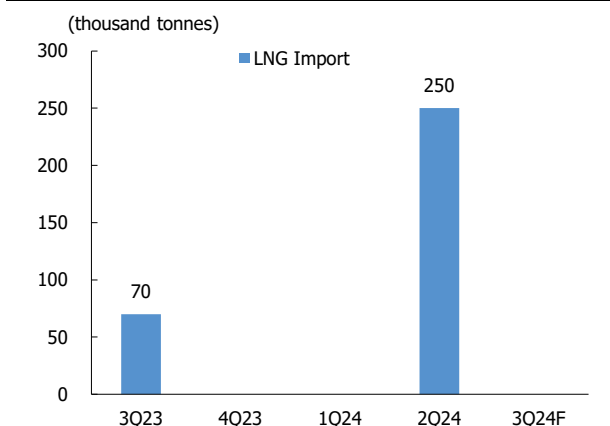
On Sept 5, the first LNG batch of 16 ISO tank containers (total ~300 tonnes) was delivered by railways from the South (where the Thi Vai LNG terminal is located) to industrial customers in the North. The batch equals 2-3.5 days of consumption of customers in the North. This is a remarkable step forward in the development of the LNG distribution network, however, we assess that the impact remained limited on the whole industry scale because (1) the consumers are mainly current customers of compressed natural gas (CNG) in the North who has the consume capacity of around 50-75mn Sm³/year vs whole industry of 5-6 BCM/year and (2) we believe that high distance remained a great constrain to scale up this model as for limited infrastructures.

We estimate that, by this method, PV GAS via its subsidiary CNG Vietnam can distribute around 1.2-3.0 thousand tonnes (2-4mn Sm³) to the North this year, equalizing 3%-8% of CNG's target gas for the North. CNG Vietnam may stand to benefit the most from these tidings as it relieves the serious shortage of gas for CNG production. Yet, we believe the impact in 3Q24F is low, as there is only less than 1 month left since the first railway LNG batch arrived (Figure 14).

In terms of price, we estimate that the average COGS of GAS's LNG batches at Thi Vai Terminal is USD9.5/mmBTU according to trade data. Compared to domestic low-pressure gas for CNG production of around USD10/mmBTU and average low-pressure gas selling price of USD12/mmBTU. Thus, we assess

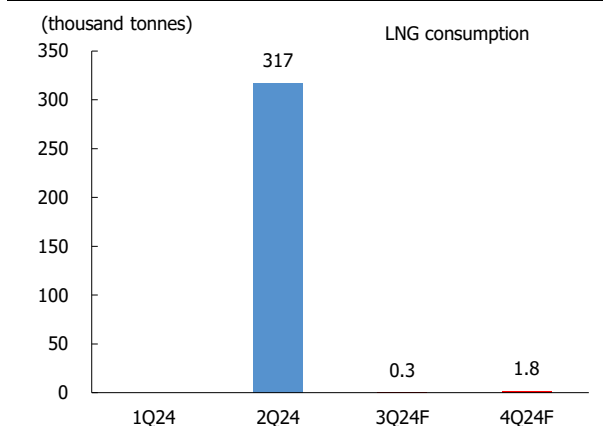
that with the current price, LNG distribution to industrial customers has potential and may still remain competitive.

Figure 13. LNG imported at Thi Vai Terminal 3Q23 – 3Q24F



Source: Company data, KISVN estimate

Figure 14. 2H24 LNG may thrive with low volume on the expansion to industrial customers in the North



Source: Company data, KISVN estimate

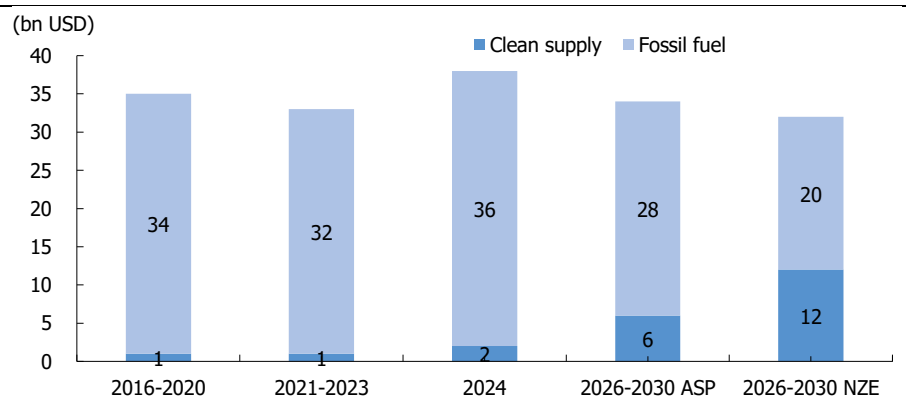
We believe that the key growth catalyst for the LNG segment must be the Gas Sales Agreement (GSA) with Nhon Trach 3&4 power plants (NT3&4). Regarding this, the construction progress at these plants reached over 90% and is expected to test run in 4Q24F. We believe that the GSA between PV GAS and NT3&4 can be achieved within this year, with the contracted volume of 0.98 BCM per annum according to GAS's expectations. Upon the upcoming commercial operations dates of NT3&4 in Feb and May 2025, we believe LNG volume may only visibly and reliably pick up from 2Q25F.

III. E&P: drillers may be benefitted

3Q24F – Drilling day rates may continue to rise on restricted rig supply

As of August, according to Baker Hughes, the offshore rigs active in SEA remained tight at 26 rigs (unchanged yoy and mom, figure 16), suspended rigs in the Middle East seem to not migrate to Southeast Asia (SEA) to compete for drilling jobs. This catalyst will continue to support regional drilling day rates amid remained high E&P demand in SEA when governments issued ambitious upstream investment plans.

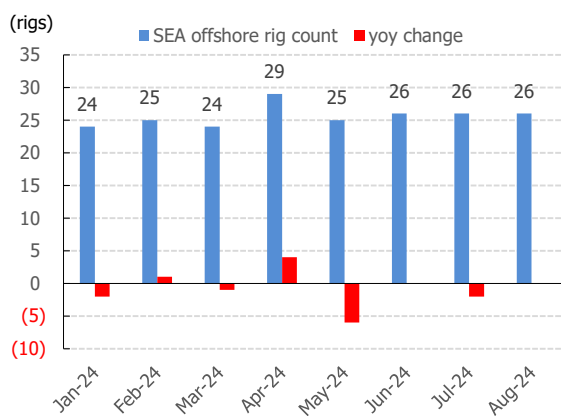
Figure 15. Investment on fuel supply in the Announced Pledges Scenario (ASP) and in the Net Zero Emissions by 2050 Scenario (NZE) of SEA countries



Source: EIA, KIS VN.

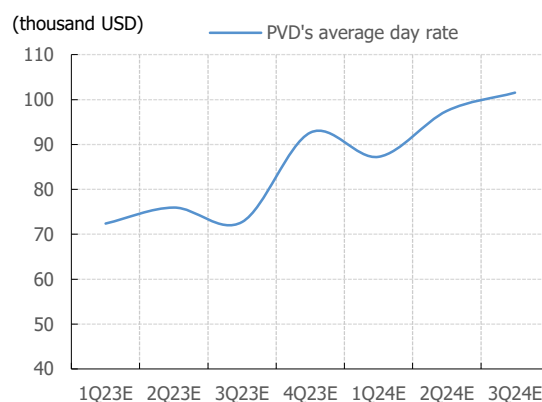
We project that regional drilling day rates may continue its rising trend in 3Q24F. PVD is the most benefited listed firm as it is one of the most active drillers in the SEA, we forecast that PVD's average day rate can exceed USD100,000 in 3Q24F (+30% yoy, +4% qoq, figure 17).

Figure 16. Offshore rig count in SEA countries remained tight



Source: Baker Hughes, KISVN

Figure 17. PVD's day rate may continue to rise



Source: Company data, KISVN estimate

Block B – O Mon first gas plan may continue to delay

In 1Q24, Block B – O Mon saw important movements, with many key contracts signed (Figure 18). However, as of now, the Block B has only received the FID from MOECO (Japan, 22.4% stake), while PVN & PVEP (Vietnam, 69.9% stake) and PTTEP (Thailand, 7.7% stake) are still pending. This is in contrast with prior expectations that all FIDs achieved by the end-1H24. Per industry experts of Vietnam Energy Magazine (Tap chi nang luong), in September, the Block B first gas plan had slipped, from the end of 2026F to the end of 2027F.

Figure 18. Important contracts of Block B – O Mon project

	Contract names	Related parties	Status			
			O Mon I	O Mon II	O Mon III	O Mon IV
Upstream Key contracts Downstream	GSPA (Gas sale and purchase agreement)	between gas owners (PVN, PVEP, MOECO and PTTEP) and PVN (as purchaser)	Achieved			
	GTA (Gas transport agreement)	between PVN and transporters (PV GAS, MOECO, PTTEP)	Achieved			
	TOSA (Tie-in, operation and service agreement)	between transporters and downstream consumers (electric plants)	Achieved			
	GSA (Gas sales agreement)	between PVN and electric plants	O Mon I	O Mon II	O Mon III	O Mon IV
	PPA (Power purchase agreement)	between electric plants and electricity purchasers (EVN).	O Mon I	O Mon II	O Mon III	O Mon IV

Legend: : contract achieved : contract NOT achieved

Source: PVN, KIS VN.

In short term, the delays of FIDs strongly affect contractors such as PVS (contractor of EPCI#1, 2, 3 packages) as the FIDs are essential for strong implementation and construction. FIDs are the basis for disbursing capital to contractors, as well as the process of capital mobilizing and negotiating bank loans for the project.

In 3Q24F, we think that the project may still face great constrain with issues relating to gas price and take-or-pay ratios and may not achieve all FIDs within this year.

In long term, in post first gas period, the prospects of midstream beneficiaries can be influenced. GAS's rating can be negatively impacted if the first gas date is delayed (GAS is the co-investor of the Block B – O Mon pipeline, owning 51%).

IV. 3Q24F business results of listed firms

GAS – retreat on the low season

Table 3. GAS 3Q24F earnings forecast

(VNDbn, %)

	3Q23A	2Q24A	3Q24F		2024F		Consensus		
			yoy	qoq		yoy	3Q24F	2024F	
FO price (USD/tonne)	511	504	450	(12)	(11)	468	4		
CP price (USD/tonne)	469	591	578	23	(2)	595	3		
Revenue	22,153	30,071	22,427	1	(25)	99,233	10	N/A	99,026.8
Selling and transporting gas	21,864	29,931	22,287	2	(26)	98,632	11		
Office leasing	53	26	26	(51)	1	104	1		
Construction & others	236	114	114	(52)	0	496	(26)		
GP	3,632	5,633	3,674	1	(35)	16,715	(2)	N/A	18,320.0
Financial Revenue	594	445	445	(25)	0	1,797	(21)		
SG&A costs	998	1,726	934	(6)	(46)	4,386	9		
EBT	3,009	4,239	2,980	(1)	(30)	13,489	(8)	N/A	14,328.0
NP	2,404	3,416	2,396	(0)	(30)	10,851	(8)		
Controlling-int. NP	2,377	3,321	2,366	(0)	(29)	10,662	(8)	N/A	11,644.6

Source: Company data, Bloomberg, ARAMCO, KISVN estimate, Bloomberg

Forecast: In 3Q24F, we peg GAS's revenue to reach VND22.4tn (+1% yoy, -25% qoq). Company gross profit (GP) may reach VND3.7tn (+1% yoy, -35% qoq). NPAT is projected to reach VND2.4tn (unchanged yoy, -30% qoq). In particular:

- Natural gas: Volume may reach a total of 1.3 BCM, a decline of 16% yoy, driven by lower consumption in Power plants (-24% yoy, -44% qoq) during low season. FO price may also decline by 7% to USD470/tonne in 3Q24F, but the average selling price may still rise thanks to mobilization from Sao Vang – Dai Nguyet with a higher wellhead price.
- LPG: Revenue from LPG may see a boost in 3Q24F thanks to the growth of selling price, as CP price may increase by 23% to USD578/tonne, from the low base last year. LPG volume may remain high, reaching 800 thousand tonnes (+4% yoy, -3% qoq) driven by trading activities in the international market.

CNG – kick start a new energy stream

Table 4. CNG 3Q24F earnings forecast

(VNDbn, %)

	3Q23A	2Q24A	3Q24F		2024F		Consensus		
			yoy	qoq	yoy	1Q24F	2024F		
Volume (mn Sm ³)	61	62	62	3	1	234	(5)		
Revenue	785	840	820	4	(2)	3,122	0	N/A	N/A
GP	71	91	83	16	(9)	286	12	N/A	N/A
SG&A costs	35	36	36	3	0	136	(9)		
OP	38	55	47	26	(15)	151	34		
Non-operating P/L	(0)	0	-	-	-	-	-		
EBT	38	56	47	26	(15)	151	17	N/A	N/A
NP	30	45	38	27	(15)	121	17	N/A	N/A

Source: Company data, KISVN estimate

Forecast: In 3Q24F, we expect unchanged total volume for CNG, reaching 62mn Sm³ as we see mixed prospects in the manufacturing sector. We believe the sluggish of the real estate market and basic material customers remain a restriction for volume growth, even though the overall manufacturing sector is improving.

On the other hand, on Sep 5, the company started supplying LNG to Northern customers, with the first batch volume of around 0.7mn Sm³, which we believe may not significantly influence the company's income statement, but reflect the company's commitment to transitioning to LNG². We are expecting the GPM of LNG to reach 7.1%, lower than CNG of around 10.1%.

3Q24F revenue may slightly grow by 4% yoy, reaching VND820bn. Gross profit is forecasted at VND83bn (+16% yoy, -9% qoq) as GPM may reach 10.1% (+1%p yoy). NPAT can reach VND38bn (+27% yoy, -15% qoq).

² CNG targets to replace 100% product mix with LNG after 2029.

PVD – on the grow trend

Table 5. PVD 3Q24F earnings forecast

(VNDbn, %)

	3Q23A	2Q24A	3Q24F		2024F		Consensus		
			yoy	qoq	yoy		3Q24F	2024F	
Revenue	1,381	2,254	2,329	69	3	8,587	48	N/A	7,593.9
Drilling	944	1,538	1,710	81	11	6,040	49		
Technical services	405	556	495	22	(11)	1,921	21		
Trading	32	160	124	281	(23)	626	304		
GP	296	469	468	58	(0)	1,871	44	N/A	1,874.6
Financial Expenses	134	133	97	(27)	(27)	446	115		
Loss from FX	72	67	30	(58)	(55)	180	28		
SG&A costs	118	153	153	30	0	578	7		
OP	91	217	251	177	16	969	73	N/A	1,273.3
Non-operating P/L	62	(12)	(14)	(123)	-	(52)	(158)		
EBT	153	206	237	56	15	917	41	N/A	1,084.2
Tax	20	75	78	295	4	294	157		
Implied tax rate (%/p, based on EBT)	13	36	33	20	(4)	32	15		
NPAT	133	131	160	20	22	623	16		
Controlling-int. NP	151	136	165	9	21	647	12	N/A	847.2

Source: Company data, KISVN estimate, Bloomberg

Forecast: In 3Q24F, we peg PVD revenue to hit a record high of VND2.3tn (+69% yoy, +3% qoq), of which the core business, Drilling, may grow by 81%, thanks to:

- (1) Higher workload: there will be 7.67 rigs active in 3Q24F (including 6 owned rigs and 1.67 leased rigs, versus last year with 6 owned rigs and no leased rigs and last quarter of 7 rigs).
- (2) Higher average day rates: day rates are supported by restricted rig supply and high drilling demand in SEA. We estimate that PVD's average day rate can exceed USD100,000/day in 3Q24F.

Accordingly, GP may surge to VND468bn (+58% yoy, -0% qoq). EBT may grow to VND237bn (+56% yoy, +15% qoq), regardless of the lack of a VND62bn abnormal profit vs last year, thanks to lower FX loss as the USDVND rate cooled down throughout 3Q24F.

Tax provision may reach 33% of EBT in 3Q24F (-4%p qoq, and +20%p yoy) due to significantly higher taxable income³. Thus, NPAT may grow slower at 20% yoy, reaching VND160bn.

PVD's fleet extension plan: In the AGM in May, PVD said it was planning to purchase a used rig in 2024, with a total investment of around USD90mn. However, on July the company said this investment can take longer than expected. We expect the deal to be settled in 1H25 and this rig can generate revenue from 2026F, after a technical reactivation period.

The major downside risks involve (1) further delays of the fleet extension plan and (2) potential competition if suspended rigs in the Middle East move to SEA.

³ PVD's taxable income does not equal to its EBT as for the complex tax regimes from foreign activities; PVD also have loss carryforward amounts (which can be used to deduct taxable income), as well as non-deductible cost items such as FX loss.

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