

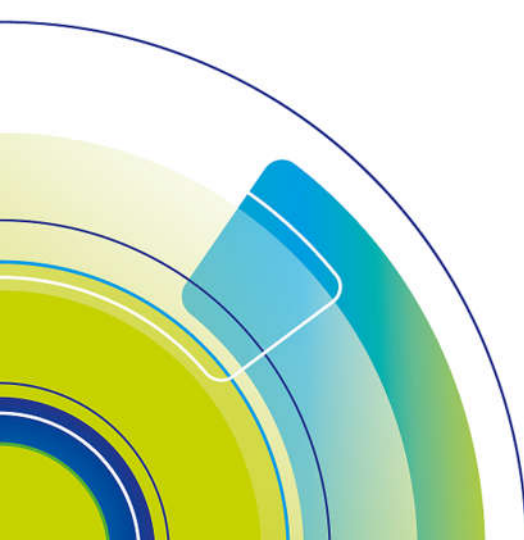


# Sector Update

## Oil & Fertilizer

Thursday, October 05, 2023

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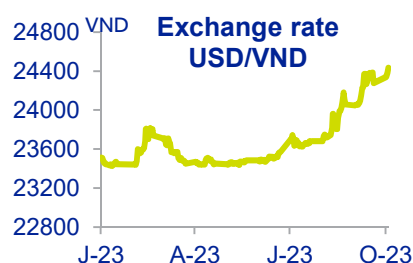
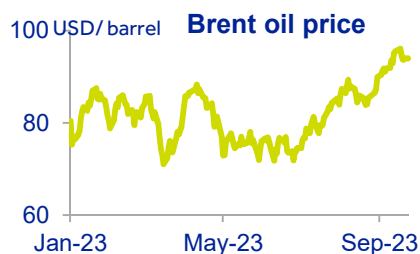


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### Sector Update



**High oil prices and increasing pressure on the USD/VND exchange rate generally have a positive impact on the Oil & gas companies, while not having much impact on the fertilizer group.**

Crude oil prices have increased sharply by more than 17% since the beginning of 2023 and at one time traded at 94 USD/barrel before decreasing again in recent days. The main reason is that OPEC+ and Russia continue to cut their production. Many studies forecast that oil prices will continue to trade at high levels in 2024.

The impact of high oil prices on the business activities of Oil & Gas companies can be high or low depending on each enterprises' business nature. Among them, companies providing upstream services (PVD, PVS) will benefit the most if oil prices stay high for a long time. Meanwhile, business activities of midstream/downstream enterprises are rapidly affected by changes in oil prices.

For fertilizer companies, the impact of oil prices on business activities is quite neutral. Because, in case oil prices increase, input gas prices increase at the same time, creating motivation for fertilizer prices to increase, so the total impact is eliminated. However, it should be noted that the movement of fertilizer prices depends more on fertilizer supply/demand.

Another factor affecting the business activities of the oil, gas and fertilizer group is that the USDVND exchange rate is gradually increasing since August 2023. For most businesses in the oil and gas industry, rising exchange rates have a slight positive impact on business results, thanks to their high proportion of revenue in foreign currencies, low debt, or, input costs and sales prices are adjusted according to the average exchange rate of the last 10-15 days.

For the group of fertilizer businesses under PVN, the USDVND exchange rate risk is low due to low Debt balance. In addition, these companies also have revenue in USD from exports to help offset the impact of input gas prices in USD.

The market price of most oil, gas & fertilizer companies in our analysis portfolio has nearly reached the target price for 2023 business results. We are reviewing and updating the business outlook for the period 2024-2026 and valuation with a view to the end of 2024. This information will be reflected in our upcoming update reports.

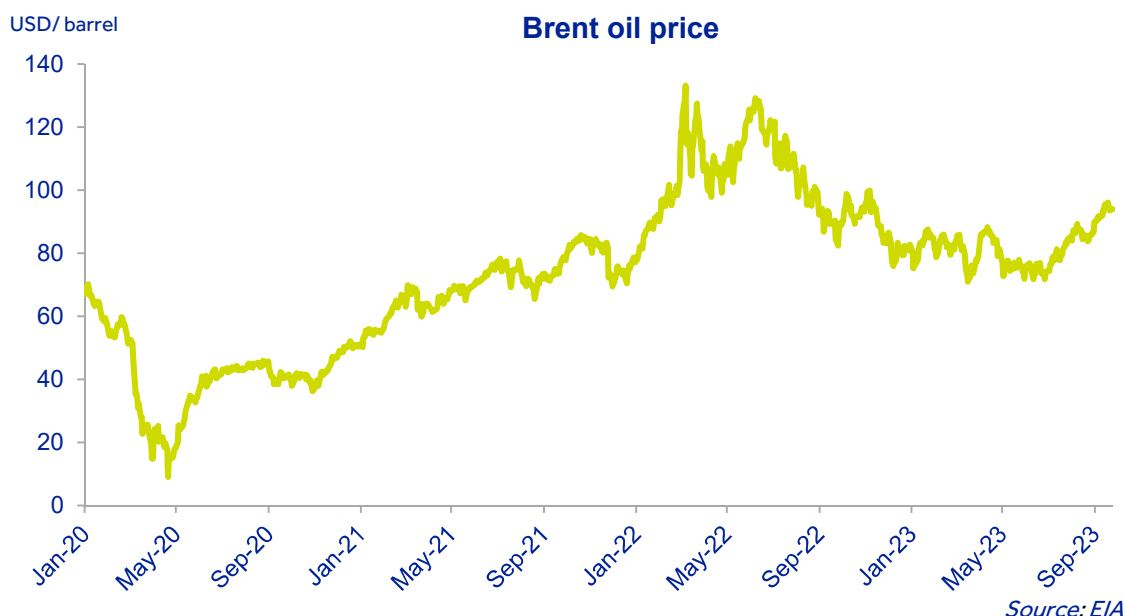
Ticker	Rating	Oil price impact	Exchange rate impact	Target price 2023 (VND)	% Upside
GAS	Updating	High	+	89,700	+4.5%
BSR	Updating	Medium	+	20,200	-1.5%
PLX	Updating	Medium	+	40,000	+10.3%
PVS	Updating	Low	+	38,500	+3.5%
PVD	Updating	Low	- - -	27,700	+8.8%
DPM	Updating	Medium	- -	41,200	+4.8%
DCM	Updating	Medium	- -	36,800	+5.1%

### Trends and Impact of oil prices

After fluctuating mainly around the price range of 72-86 USD/barrel during the first 8 months of the year, Brent oil price has increased from the beginning of September 2023 to the range of 90-94 USD/barrel. This increase is due to tight supply as Saudi Arabia announced it would maintain a voluntary cut of 1 million barrels per day (bpd) until the end of December 2023 that was originally scheduled to the end of 9/2023 to continue supporting oil prices. Russia also pledged to maintain a production reduction of 300,000 bpd over the same period. This commitment brings total OPEC+ production cuts to 4.96 million bpd (about 5% of global demand) in October.

According to the US Energy Information Administration (EIA), the average Brent oil price in Q4/2023 is expected to maintain around USD 93/barrel, bringing the average price for the whole year 2023 to 84 USD/ barrel and 88 USD/ barrel for 2024. This forecast is similar to the forecast from 42 economists + analysts surveyed by Reuters in 9/2023 with 84 USD/ barrel for 2023 and 86.45 USD/ barrel for 2024. With that, we forecast Brent oil price:

(Unit: USD/ barrel)	2023	2024
<b>Brent oil price</b>	84	87



When oil prices increase, companies in the Oil & gas industry generally benefit. However, the level of benefit/impact will be different for each companies:

Tickers	Oil price impacts	Explains
GAS	High	Gas sales prices increased because the sales price calculation formula is marked to FO oil and Brent oil prices + transportation tariff. Meanwhile, part of the input gas volume is also based on FO oil price and the rest (accounting for about 60-65% of total gas input) is calculated at a fixed price + an increase of 2%/year.
PLX + BSR	Medium	Benefited from low-priced inventory because BSR and PLX must maintain inventory for at least 20 days according to regulations. Petroleum selling prices are based on international petroleum selling prices published on Singapore's Platts magazine and have a strong positive correlation with Brent oil prices.

PVD	Low	There is a delay of about 6-12 months because drilling rigs are usually signed on contracts for 6 months - 1 year. Oil prices remaining at a high level for a long time will increase drilling demand => increase rig day rate.
PVS	Low	There is a delay of about 6-12 months. Oil prices remain high for a long time, promoting the implementation of oil and gas and exploitation projects => bringing construction contracts for PVS and increased demand for supporting services.
DPM + DCM	Medium	Input gas prices increased because they were marked to FO oil and Brent oil prices + transportation tariff. While the selling price depends not only on the increase in oil prices, but also more on supply and demand. In particular, for the domestic market, Chinese fertilizer prices (most of which use coal as input material so they are cheaper) are the main competitive factor.

### Outlook and Exchange rate risks

In just the past half month, the exchange rate has continuously increased sharply and is forecasted to remain at a high level for the rest of the year as the USD strengthens (DXY index has increased to over 107.11 points - highest level since November 2022) along with increased demand for foreign currency at the end of the year. The USD price increased due to the strength of the US economy and the Fed's strategy of maintaining high interest rates to reduce inflation, amid concerns about the growth of other global regions such as the EU and China.

The increase of USD/VND exchange rate will have certain impacts on the business results. However, the impact of exchange rates will depend on the nature of business activities as well as the debt structure of each company as analyzed below:

**PetroVietnam Technical Services Corporation (HNX: PVS, Rating: Updating, 2023 Target price: 38,500 VND/ share, +3.5%)**

PVS's customers come from many different geographical areas, so the proportion of revenue in foreign currency is high (over 80-90% in recent years), mostly in USD. This is a positive point when the USD/VND exchange rate increases. This USD revenue source also helps reduce cost risks because the Company also imports a part of materials and equipment for winning projects.

According to PVS, the company manages exchange rate risk by balancing revenues and expenditures that involves foreign currency. Exchange rate risk is minimized by matching the contracts signed with clients to the amount payable to suppliers. In addition, PVS also retains a portion of revenue in foreign currency and maintains a minimum foreign currency balance equivalent to its debt obligations in foreign currency to avoid exchange rate and liquidity risks.

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	137	76	231	70
Foreign exchange losses	(86)	(47)	(110)	(27)
Total	51	30	122	43
NPAT	735	677	944	464
Net Fx/ NPAT	6.9%	4.4%	12.9%	9.3%

Source: PTSC, ACBS

Regarding PVS's debt, PVS's long-term debt is 100% in VND. Meanwhile, 85% of short-term loans are in USD. At the end of June 2023, short-term debt in USD was about 640

billion VND, accounting for a low proportion, only 2.4% of Total Assets. Therefore, the impact of the USD/VND exchange rate increase in our opinion is SLIGHTLY POSITIVE.

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency	640					
Additional Financial Expense		6.4	12.8	19.2	25.6	32
Additional Financial Expense /NPAT 2023F		0.6%	1.3%	1.9%	2.5%	3.1%

Source: PTSC, ACBS

## PetroVietnam Drilling and Well Service Corp (HSX: PVD, Rating: Updating, 2023 Target price: 27,000 VND/ share, +8.8%)

PVD's exchange rate risk is high partly due to the sharp decline in NPAT in recent years. The Total debt/Total assets of PVD is at 17-18%. Of which, almost all of it is borrowed in USD with outstanding balance at the end of Q2/2023 at 151.8 million USD, equivalent to VND3,554 billion (floating interest rate based on LIBOR + margin). Although, with a large proportion of long-term loans (accounting for 80% of total debt), PVD will have less pressure on cash flow in the short term. However, re-evaluating the loan will also cause the company to record a loss on the income statement. A 1% increase in USD price will lead to Foreign exchange loss of 35 billion VND.

Regarding business activities, PVD's rig rental contracts are basically collected in USD. Therefore, PVD has enough revenue to pay expenses in USD as well as partially reduce exchange rate risks with those USD loans.

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	47	41	58	26
Foreign exchange losses	(43)	(22)	(135)	(52)
Total	5	19	(77)	(26)
NPAT	181	37	(155)	210
Net Fx/ NPAT	2.6%	52.4%	49.5%	-12.5%

Source: PVD, ACBS

In addition, PVD also uses derivative financial instruments to ensure foreign currency source such as cross currency swap, repurchase agreement (Repo) and option contracts.

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency	3.554					
Additional Financial Expense		36	71	107	142	178
Additional Financial Expense /NPAT 2023F		7,1%	14,2%	21,3%	28,3%	35,4%

Source: PVD, ACBS

**Binh Son Refining and Petrochemical Company Ltd (Upcom: BSR), Rating: Updating, 2023 Target price: 20,200 VND/ share, -1.5%)**

Exchange rates affect both revenue and input costs of BSR. BSR's input is crude oil, delivered regularly every month. Input crude oil prices are calculated based on the 30-day average price of Brent oil. Meanwhile, the selling price is equal to the listed price for each type of gasoline (Ron92-95, DO, etc) on Singapore's Platts site (average 10-15 days) + premium based on agreement between BSR and customers. Because both output and input are calculated in USD, meanwhile, BSR must store inventory for a minimum of 20 days, and the resale price is adjusted every 10-15 days, so in case the exchange rate increases, the impact on the BSR is Slightly POSITIVE.

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	289	460	843	515
Foreign exchange losses	(171)	(153)	(577)	(327)
Total	118	306	266	187
NPAT	-2,858	6,684	14,699	2,949
Net Fx/ NPAT	-4.1%	4.6%	1.8%	6.4%

Source: BSR, ACBS

Meanwhile, BSR no longer has long-term debt since the end of Q2/2022. For short-term debt, BSR only borrowed 43.9 million USD (equivalent to VND 1,029 billion, accounting for a low proportion 1.37% of total assets). BSR's additional financial expenses in case of increased exchange rates are shown in the table below:

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency	1,029					
Additional Financial Expense		10.3	20.6	30.9	41.2	51.5
Additional Financial Expense /NPAT 2023F		0.1%	0.3%	0.4%	0.6%	0.7%

Source: BSR, ACBS

**Vietnam National Petroleum Group - Petrolimex (HSX: PLX), Rating: Updating, 2023 Target price: 40,000 VND/ share, +10.3%)**

Similar to BSR, exchange rates affect both revenue and input costs of PLX. The Group's petroleum business activities are related to exchange rate issues, mostly the USD/VND exchange rate, due to the import and export activities of petroleum products.

According to Decree 95/2021, PLX's gasoline selling price is adjusted every 10 days and is determined on the principle of calculating a 10-day average according to gasoline prices (Ron92-95 gasoline, DO oil, jet A1, etc) published in Platts Singapore magazine. In particular, the foreign currency exchange rate used to calculate the base price of gasoline is the selling exchange rate of Joint Stock Commercial Bank for Foreign Trade of Vietnam, calculated on the average of that 10 days. In addition, PLX's input costs are also calculated based on prices listed on Singapore's Platts site (average 10-15 days) \* average exchange rate (10-15 days).



Moreover, PLX also prepares daily reports on financial situation, foreign currency loan balance, and foreign currency purchase. One of the very effective options flexibly applied by the Group is to borrow foreign currency and signing a forward exchange contract.

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	192	255	958	403
Foreign exchange losses	(183)	(144)	(913)	(265)
Total	9	111	45	138
NPAT	1,253	3,124	1,902	1,558
Net Fx/ NPAT	0.7%	3.6%	2.3%	9.1%

Source: PLX, ACBS

Besides that, PLX's debt is mainly short-term debt (accounting for 95-96% of total debt). PLX's short-term debts are mainly in VND, with terms of 3-12 months. Therefore, the impact of the rising USD/VND exchange rate on PLX is in our view SLIGHTLY POSITIVE. PLX's additional financial expense in case of exchange rate increase is shown in the table below:

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency (*)	383					
Additional Financial Expense		3.8	7.7	11.5	15.3	19.2
Additional Financial Expense /NPAT 2023F		0.1%	0.2%	0.3%	0.4%	0.6%

(\*: ACBS estimate)

Source: PLX, ACBS

## **PetroVietnam Gas Joint Stock Corporation (HSX: GAS), Rating: Updating, 2023 Target price: 89,700 VND/ share, +4.5%)**

GAS's exchange rate risk is at a SLIGHTLY POSITIVE level as the Net Fx/ NPAT is always below 2%. To explain this: in terms of business activities, GAS is affected by exchange rates in both output and input. GAS's dry gas purchase contracts are calculated in USD while the floating selling price is based on HSFO price also in USD. Therefore, in recent years, although the USD/VND exchange rate has increased by an average of 2-3% each year, GAS often records profit from the exchange rate difference as shown in the table below:

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	113	216	256	90
Foreign exchange losses	(57)	(56)	(325)	(36)
Total	56	160	(69)	55
NPAT	7,972	8,852	15,066	6,613
Net Fx/ NPAT	0.7%	1.8%	-0.5%	0.8%

Source: GAS, ACBS

Besides that, GAS's Total Debt/Total Assets ratio is low, at 6.8% (at the end of Q2/2023), of which mainly long-term debt account for 86%. Outstanding debts in USD are at 4,077 billion VND (equivalent to 4.6% of Total Assets). Thus, if the exchange rate increases by 1%, debt costs will increase to 40 billion, equivalent to 0.26% of 2022 PAT.

GAS's additional financial expenses in case of increased exchange rates are shown in the table below:

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency (*)	4,077					
Additional Financial Expense		41	82	122	163	204
Additional Financial Expense /NPAT 2023F		0.3%	0.6%	0.9%	1.2%	1.5%

Source: GAS, ACBS

## PetroVietnam Fertilizer and Chemicals Corporation (HSX: DPM), Rating: Updating, 2023 Target price: 41,200 VND/ share, +4.8%)

DPM's exchange rate risk is at MODERATE level as its Net Fx/NPAT is always below 1%. To explain this: Total debt/Total assets of DPM is low at 4%. while debt in USD is relatively low with an estimated outstanding of only VND170 billion at the end of Q2/2023, accounting for 1.1% of total assets.

DPM's additional financial expense in case the exchange rate increases are shown in the table below:

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency (*)	170					
Additional Financial Expense		1.7	3.4	5.1	6.8	8.5
Additional Financial Expense /NPAT 2023F		0.1%	0.3%	0.4%	0.5%	0.7%

Source: DPM, ACBS

In addition, regarding DPM's business activities, the company also has USD revenue from fertilizer export (2022 accounts for 18% of revenue) to help offset part of the risk of input gas prices (in USD).

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	5	8	37	0
Foreign exchange losses	(4)	(5)	(17)	(3)
Total	0,4	4	20	(3)
NPAT	701	3,171	5,584	368
Net Fx/ NPAT	0.1%	0.1%	0.4%	-0.9%

Source: DPM, ACBS

## PetroVietnam Ca Mau Fertilizer JSC (HSX: DCM), Rating: Updating, 2023 Target price: 36,800 VND/ share, +5.1%)

Similar to DPM, DCM's exchange rate risk is MODERATE with a low Net Fx/NPAT of around 1-2%. Previously, when DCM first came into operation, DCM's exchange rate risk was quite high due to its high USD loan balance at over 7,000 billion VND (2015). However, DCM's debt has decreased continuously since then with Total Debt at only 306 billion VND (mainly short-term debt in USD) at the end of Q2/2023. Total debt/Total assets is at a low level of 1.9%. In addition, DCM also has USD revenue from



fertilizer export (accounting for an average of 20-25% of Revenue) to help offset part of the risk of input gas prices (in USD).

(Unit: bil VND)	2020	2021	2022	6M2023
Foreign exchange gains	16	30	39	15
Foreign exchange losses	(17)	(24)	(50)	(5)
Total	(1)	6	(11)	10
NPAT	662	1,826	4,321	542
Net Fx/ NPAT	-0.2%	0.3%	-0.3%	1.9%

Source: DCM, ACBS

DCM's additional financial expense in case the exchange rate increases are shown in the table below:

(Unit: bil VND)	6M2023	% Increase USD/VND				
		+1%	+2%	+3%	+4%	+5%
Debt in Foreign currency (*)	303					
Additional Financial Expense		3	6	9	12	15
Additional Financial Expense /NPAT 2023F		0.2%	0.5%	0.7%	1%	1.2%

Source: DCM, ACBS

## Conclusions

With the prospect of oil prices remaining at high level along with pressure from exchange rates in the time coming, oil and gas stocks will generally benefit more than fertilizer stocks. However, these effects are only being considered from a single perspective, assuming that other business conditions remain unchanged. In fact, for the fertilizer industry, domestic and export urea prices have the greatest impact on the business results of fertilizer enterprises.

In our forecast model, we assume the average Brent oil price for the whole year 2023 is 84 USD/barrel, and the actual average price for 9 months is 81.7 USD/barrel. Using the DCF discounted cash flow method, we value the above stocks at target prices by the end of 2023 as follows:

Ticker	Rating	Oil price impact	Exchange rate impact	Target price 2023 (VND)	% Upside
GAS	Updating	High	+	89,700	+4.5%
BSR	Updating	Medium	+	20,200	-1.5%
PLX	Updating	Medium	+	40,000	+10.3%
PVS	Updating	Low	+	38,500	+3.5%
PVD	Updating	Low	- - -	27,700	+8.8%
DPM	Updating	Medium	- -	41,200	+4.8%
DCM	Updating	Medium	- -	36,800	+5.1%

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**HOLD:** where we believe it will be -15% to 15%.

**SELL:** where we believe it will be lower than -15%.

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