THE IMPACT EVALUATION OF THE DISRUPTION IN THE RED SEA ON THE EXPORT & IMPORT AND OIL & GAS SECTORS

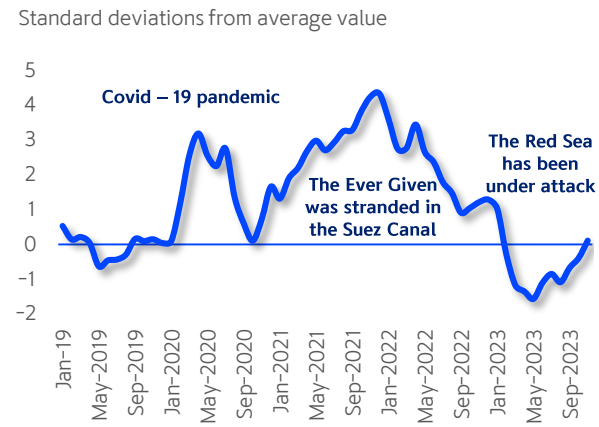
January 4th, 2024

A new blow to the global supply chain

Pressures mount on the maritime transport industry

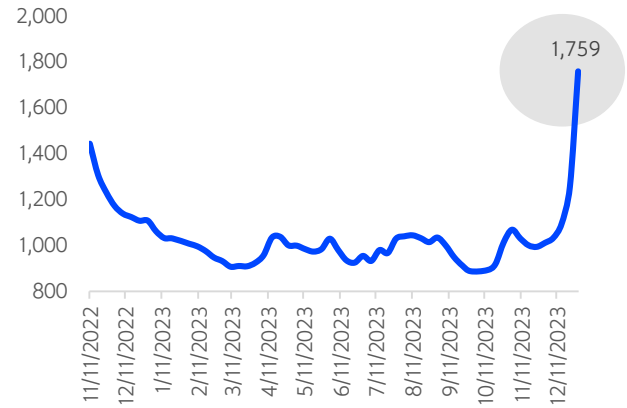
Since December 15, 2023, the Houthi movement in Yemen has launched over 100 missile and drone attacks on ships in the Red Sea. Some major shipping companies such as Hapag-Lloyd, MSC, CMA CGM,... have temporarily suspended operations on the shipping route through the Red Sea. These attacks have posed a threat to maritime security and global trade.

Global supply chain pressure index (GSCPI) (*)



Source: FRED, Shinhan Securities Vietnam

Shanghai Container Freight Index (USD/TEU)



Source: Bloomberg, Shinhan Securities Vietnam

After the COVID-19 pandemic, global supply chains are almost back to normal. However, tensions in the Red Sea have raised concerns about the risk of global supply chain disruptions. The Shanghai Container Freight Index (SCFI) has now increased by up to 70% from the beginning of December.

The current situation can be compared to the port congestion period in 2021-2022 (the period of the Ever Given accident that took place in 6 days). However, we assess that there are some differences at the present time:

- The cost of fuel and insurance has increased, while port congestion typically leads to increased container storage costs. According to a report by Marsh, shipping insurance for Red Sea transit has increased by an average of 20% compared to the container ship Ever Given was stranded in the Suez Canal in March 2021.

- Delivery time stability: Rerouting typically provides more stable delivery times than port congestion.

Maersk said it has temporarily suspended all voyages through the Red Sea for 48 hours following the attack on December 31, 2023. Evergreen and Hapag-Lloyd will diverting theirs ships away from the Red Sea.

(*) Global Supply Chain Pressure Index (GSCPI): The Global Supply Chain Pressure Index (GSCPI) is a tool developed by the Federal Reserve Bank of New York to measure pressure on global supply chains.

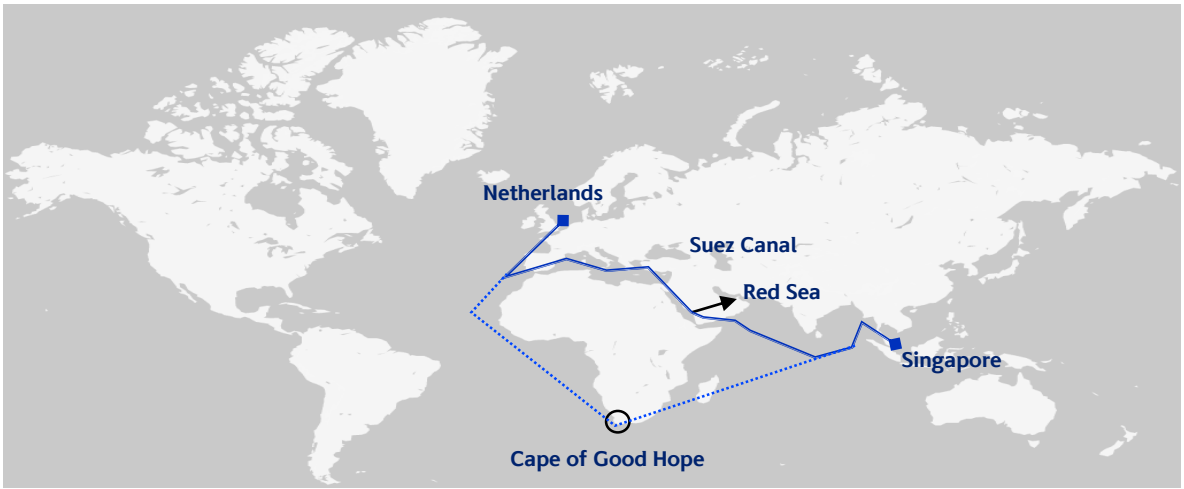
This document is provided for information purposes only. Any forecasts, figures, opinions and strategies set out are based on certain assumptions and current market conditions and subject to change without prior notice. All information presented herein is considered to be accurate at the time of production, but no warranty of accuracy and no liability in respect of any error or omission.

Thao Nguyen
☎ (84-28)6299-8004 ✉ thao.np@shinhan.com

THE IMPACT EVALUATION OF THE DISRUPTION IN THE RED SEA ON THE EXPORT & IMPORT AND OIL & GAS SECTORS

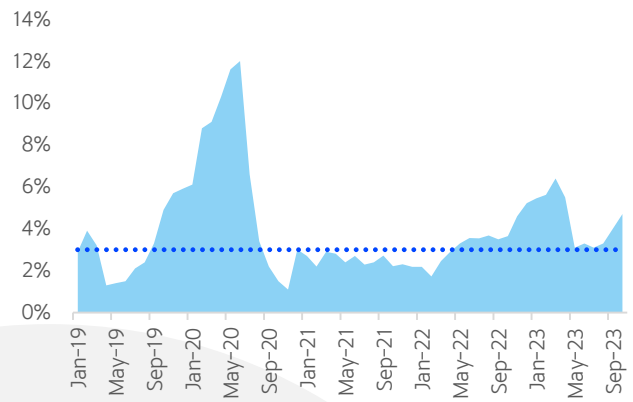
January 4th, 2024

The latest news reports show that the number of ships passing through the Suez Canal has fallen by about a third from normal levels in recent days. Tensions in the Red Sea have forced major shipping companies to reroute, and it is expected that more ships will go around the Cape of Good Hope in South Africa. This route is about 16,000 km longer than the route through the Suez Canal and will add an additional 3-4 weeks of travel time.



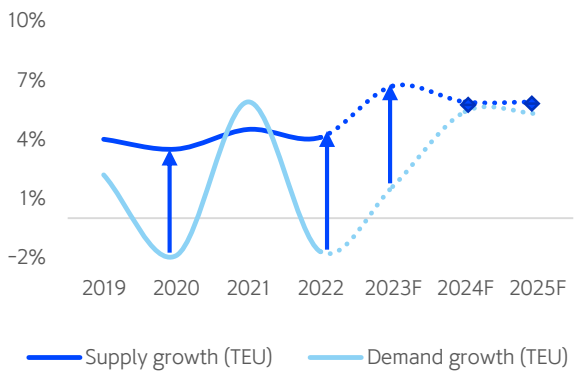
According to a study by Fitch Ratings, the extended travel time will reduce the capacity of the global fleet by 10-15% compared to normal period. The current rate of inactive container ships is still at an average level, around 4.3%. This rate is still higher than the 2021 period due to the low current demand for goods and the oversupply of containers.

The rate of inactive container ships (%)



Source: Alphaliner, Shinhan Securities Vietnam

Supply - demand of world containers



Source: MSC, Shinhan Securities Vietnam

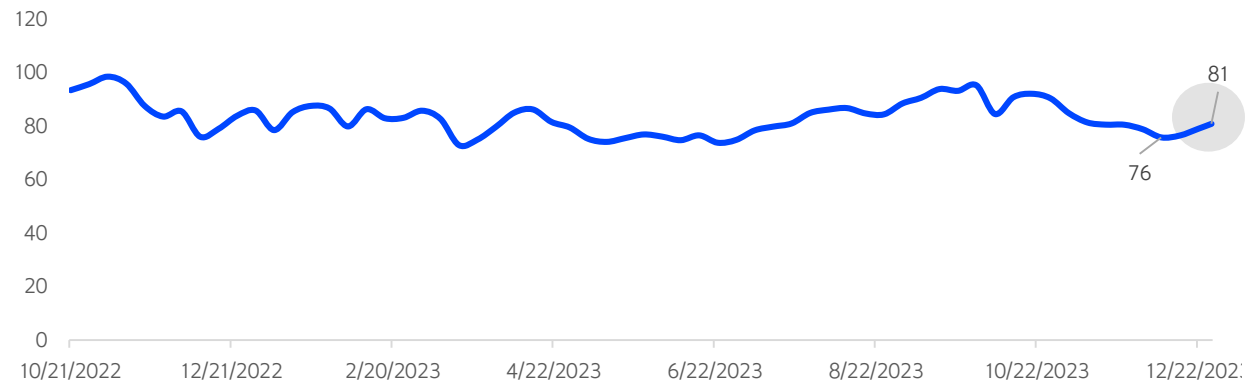
In the short term, we believe that the situation in the Red Sea will address the oversupply of containers. In the medium term, if the disruption persists, this will have a significant impact on the supply-demand balance of container shipping, with the risk of pushing up container freight rates.

Domino effect on the energy market

The Suez Canal is one of the most important shipping routes for energy transportation. According to the U.S. Energy Information Administration (EIA), about 5% of the world's crude oil, 10% of petroleum products, and 4-8% of LNG transported by sea pass through the Suez Canal. In which, about 25% of LNG exports from the Middle East also use this route, mainly to supply gas to European customers.

Oil prices have risen more than 8% and surpassed $80 per barrel in just one week due to concerns about attacks by Houthi rebels in Yemen targeting oil tankers passing through the Red Sea. On December 18, 2023, the oil giant BP announced that it had suspended all oil shipments through the Red Sea, following attacks by Yemen's Houthi rebels.

Brent crude oil price (USD/barrel)



Source: Bloomberg, Shinhan Securities Vietnam

According to Goldman Sachs estimates, the main alternative route to the Red Sea, which goes around Africa via the Cape of Good Hope, will add about two weeks to the journey, potentially increasing freight rates by up to 1 USD/barrel for crude oil and 4 USD/barrel for refined products. According to data from insurance broker Willis Towers Watson, the additional insurance premium for war risk has increased from 0.1-0.15% to 0.2% of the value of the ship, up from 0.07% previously.

We assess that any disruption to oil transportation through the Red Sea could lead to higher oil prices. This is due to limited supply and concerns about escalating tensions in the Middle East.

We note that security issues in the Red Sea threaten supply chains and drive up oil prices, both of which contribute to rising inflation.

Red Sea's mixed impact on Vietnamese import-export and oil and gas enterprises

◈ Import and Export Enterprises:

We note that export enterprises to the European region and the East Coast of North America are the group affected by the change in transportation routes.

For listed seafood and textile enterprises: we believe that they will be less affected, transportation costs account for less than 5% of total operating costs (even in the year of peak freight rates).

◈ Logistics enterprises (transportation):

The disruption in the Red Sea has led to higher freight rates, with shipping companies set to benefit in the short term. We have a positive assessment for the group of shipping companies, including HAH specialized in container transportation, VOS, VNA specialized in international dry cargo transportation,…

◈ Oil and gas enterprises:

The tense situation in the Red Sea continues to support rising oil prices. High oil prices have a positive impact on upstream companies, oil refining companies, and oil transportation companies. Some notable companies are as follows: PVS, PVD (upstream segment); BSR (oil refining); PVT (oil/gas transportation).

General Info				Price			Key financial ratio			Forecasted business results for 2024		Valuation 24F	
No.	Ticker	Sector	Mkt. Cap (VND bn)	CP (VND)	TP (*) (VND)	Upside (%)	GPM (%)	ROA TTM (%)	ROE TTM (%)	NPAT	NPAT growth (% YoY)	P/E (x)	P/B (x)
1	VHC	Fishery	14,297	63,700	88,580	39.4	10.6	8.7	13.1	1,782	48.0	13.6	2.3
2	ANV	Fishery	4,186	31,450	54,600	73.6	7.7	2.7	5.1	840	630.4	5.9	1.4
3	FMC	Fishery	2,978	45,550	65,800	44.4	10.3	8.6	14.2	348	16.7	9.8	1.3
4	STK	Textile	2,441	25,950	38,800	49.5	14.7	4.3	6.3	227	59.8	10.4	1.7
5	HAH	Port services	4,062	38,500	49,000	27.2	23.2	9.8	20.0	727	24.2	5.3	1.1
6	PVS	Oil & Gas	18,306	38,300	42,500	10.9	4.3	3.3	7.1	1,137	27.1	18.7	1.4
7	BSR	Oil & Gas	58,289	18,800	20,700	10.1	1.9	9.8	14.6	4,213	-47.6	15.6	1.0

(*) Target price (fair value) for the next 12 months under normal conditions. **We will update the valuation of the aforementioned businesses if the disruption in the Red Sea persists, causing a serious impact on business results.**

Source: Fiinpro, Shinhan Securities Vietnam

Data as of 04/01/2024

Shinhan Investment Network

Shinhan Securities

SEOUL

Shinhan Securities Co., Ltd
Shinhan Investment Tower
70, Youido-dong, Yongdungpo-gu,
Seoul, Korea 150-712
Tel : (82-2) 3772-2700, 2702
Fax : (82-2) 6671-7573

SHANGHAI

Shinhan Investment Corp.
Shanghai Representative Office
Room 104, Huaneng Union Mansion No.958,
Luijiazui Ring Road, PuDong, Shanghai, China
Tel : (86-21) 6888-9135/6
Fax : (86-21) 6888-9139

NEW YORK

Shinhan Investment America Inc.
1325 Avenue of the Americas Suite 702,
New York, NY 10019
Tel : (1-212) 397-4000
Fax : (1-212) 397-0032

HO CHI MINH

Shinhan Securities Vietnam Co., Ltd.
22nd Floor, Centec Tower, 72-74 Nguyen Thi Minh Khai Street,
District 3, Ho Chi Minh City, Vietnam
Tel : (84-8) 6299-8000
Fax : (84-8) 6299-4232

HONG KONG

Shinhan Investment Asia Ltd.
Unit 7705 A, Level 77
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong
Tel : (852) 3713-5333
Fax : (852) 3713-5300

HA NOI

Shinhan Securities Vietnam Co., Ltd.
Hanoi Branch
2nd Floor, Leadvisors Building, No. 41A Ly Thai To,
Ly Thai To Ward, Hoan Kiem District,
Hanoi, Vietnam.
Tel : (84-8) 6299-8000

INDONESIA

PT Shinhan Sekuritas Indonesia
30th Floor, IFC 2, Jl. Jend. Sudirman Kav.
22-23, Jakarta, Indonesia
Tel : (62-21) 5140-1133
Fax : (62-21) 5140-1599



Compliance Notice

- Analyst Certification: We/I hereby certify the information and material presented in this report are accurate expressions of their views, and that we/I have not received internally or externally wrongful pressure to express such views.
- All opinions and estimates regarding the company and its securities are accurate representations of the covering analyst's judgments as of this date and may differ from actual results.
- This report is intended to provide information to assist investment decisions only and should not be used or considered an offer or the solicitation of an offer to sell or to buy any securities. Stock selection and final investment decisions should be made at the client's own discretion.
- This report is distributed to our clients only, and any unauthorized use, duplication, or redistribution of this report is strictly prohibited.

Disclaimers

- This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of Shinhan Securities Vietnam Ltd.., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Shinhan Securities Vietnam Ltd.
- This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. Shinhan Securities Vietnam Ltd. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. Shinhan Securities Vietnam Ltd.., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or Shinhan Securities Vietnam Ltd. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.
- Copyright ⓒ 2020 Shinhan Securities Vietnam Ltd. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of Shinhan Securities Vietnam Ltd.