PV DRILLING (PVD VN EQUITY)

Drill, baby, drill! Becoming a global provider of integrated drilling services

BUY

Current price: VND 17,750

Target price: VND 24,535

Upside: 38.2%

Our view: PVD is an outstanding competitor with international peers due to its strong safety record, solid management, and ability to provide integrated services. With four jackup rigs already contracted overseas, FY2019E utilization should hit 95% (up 10ppt YoY) with day rates up 7% YoY. PVD's bid for a Brunei deep-water project could offer stable work for TAD PVD-V for six years starting from 2020. We think the consensus is ignoring a much-improved outlook, and we initiate coverage with a Buy rating on PVD.

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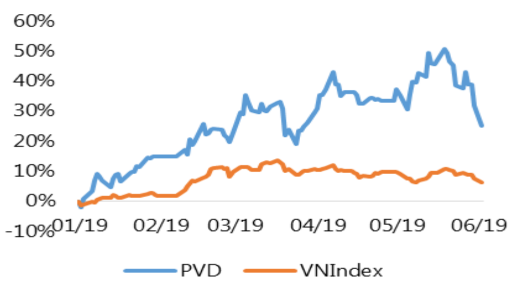
52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
12,200-22,600	**USD 307mn**	**0%**	**28%**	**38.3%**	**USD3.0mn**

Price performance



Event catalysts

- FY 2019 utilization rate to reach 95% vs. 85% last year.
- FY 2019 average day rate to reach USD 60,000, up by 7% YoY.
- PVD is bidding for a deep water project in Brunei starting in 2020.

Risks to our call

- Oil price volatility affects day rates and thus PVD's business performance.
- The PVEP bad debt recovery process may slow down.
- Success of the PVD V (TAD) bid is not a certainty.

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Company profile: PVD is a provider of integrated drilling services. The core business ranges from drilling services to well services, mechanical repair, manpower, and spare parts trading. The company owns four jackup rigs, a TAD, and a land rig that has a highly respectable safety record of Zero LTI. This advanced business model has enabled the company to maintain its business throughout the low day rate period.

Key metrics	2018A	2019E	2020E
Revenue growth (%)	41.4	19.2	22.4
NPAT growth (%)	386	103	115
GPM (%)	7.2	12.6	17.0
Debt/Equity (x)	4.1	4.6	net cash
ROAE (%)	1.4	2.6	5.2
ROAA (%)	0.9	1.8	3.6
EPS (VND/share)	516	956	1,974
EPS growth (%)	337	85	106
PE (x)	34.4	18.6	9.0
PB (x)	0.5	0.5	0.5

Extending its operations overseas. PVD mainly operated jackup rigs domestically historically, but it secured contracts for three jackup rigs in Malaysia in 2018 and another rig in 2019. This clearly demonstrates that PVD is not totally dependent on domestic E&P – a major positive change, in our view.

Short-term catalysts: higher day rates, more workload. Strong oil prices have sent the FY2019E day rate to USD 60.000, a +7% YoY increase. PVD's 2019 utilization should reach 95%, a remarkable increase from just 85% in 2018. Assuming the market remains hot, we agree with management's view that the FY2020E day rate may reach USD 65,000 in 2020E.

Yuanta vs consensus. Our 2020E forecasts are 84% higher than the market consensus. We believe the Street is ignoring the potential for the PVD V rig to be operational in Brunei from 2020. We also believe that the consensus has not yet factored in the hired jackup rig that PVD contracted out from October 2019.

We initiate coverage with BUY and VND 24,535 target price (implying 0.7x FY2020E PBR) based on our FCFE model and EV/EBITDA multiple approach.

Becoming a global provider of integrated drilling services

Global drilling market is expected to deliver CAGR of about 9% during 2019-2023.

We view PVD as an outstanding and internationally competitive company due to its respectable safety track record, strong management team, and ability to provide integrated services. Currently all of its jackup rigs are contracted overseas. This has sent PVD's utilization ratio to 95% in 2019, up from 85% in 2018.

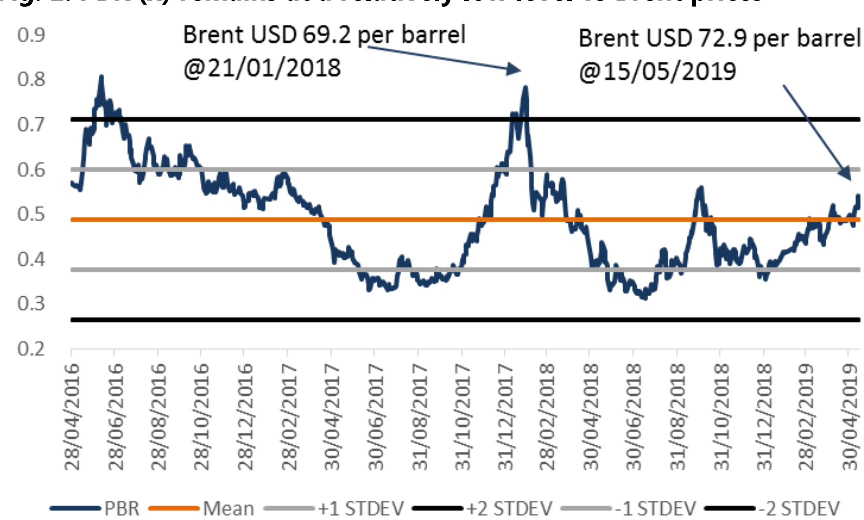
Worldwide marketed utilization is currently above 80%, near the 85% threshold at which day rates typically kick off substantially. In the short-term, PVD is already enjoying a +7% YoY hike in day rates, and this looks likely to continue to rise based on current global trends.

Longer term, PVD is participating in the bidding process for a deep-water project in Brunei, which may offer stable cashflows from its TAD PVD V for six years starting from 2020E. We initiate coverage with a BUY recommendation and target price of VND 24,535.

Stock view: PVD's impressive c25% YTD performance reflects the 2019 oil price surge and resulting improvement in day rates. Given the stock's strong historical correlation with oil prices, it is likely that any short-term oil price corrections could dampen the share price.

However, the historical data indicates that as long as Brent remains above 60 USD per barrel, the utilization has remained intact. Thus, our view is that any short-term volatility when Brent falls – but remains at levels above that USD 60 line – should be seen as an opportunity to enter or add to positions in the stock.

Fig. 1: PBR (x) remains at a relatively low level vs Brent prices

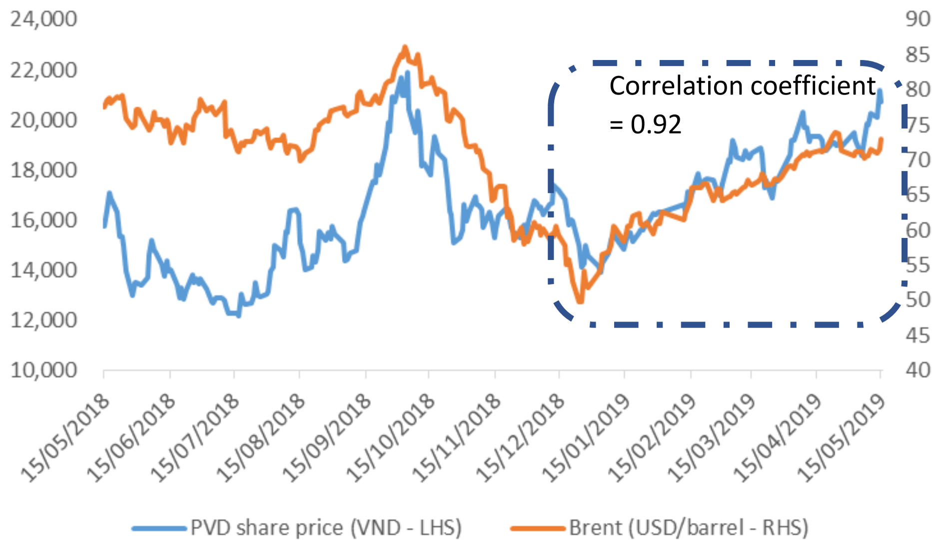


Source: Bloomberg

Strong correlation between oil price and PVD's share price has been especially evident in 2019.

The strong correlation between oil prices and PVD's share price has been especially evident since the beginning of 2019. Our analysis shows that the correlation coefficient between PVD's share price and Brent since the beginning of 2019 has been 0.92, which indicates a strong correlation (1= perfect correlation). So a potential further increase in oil prices may be a short-term catalyst for PVD.

Fig. 2: PVD VN is highly correlated with Brent crude prices



Source: Bloomberg

Sector outlook

Oil price increase led to utilization recovery

Consensus expects oil prices to remain above 2018 levels in 2019

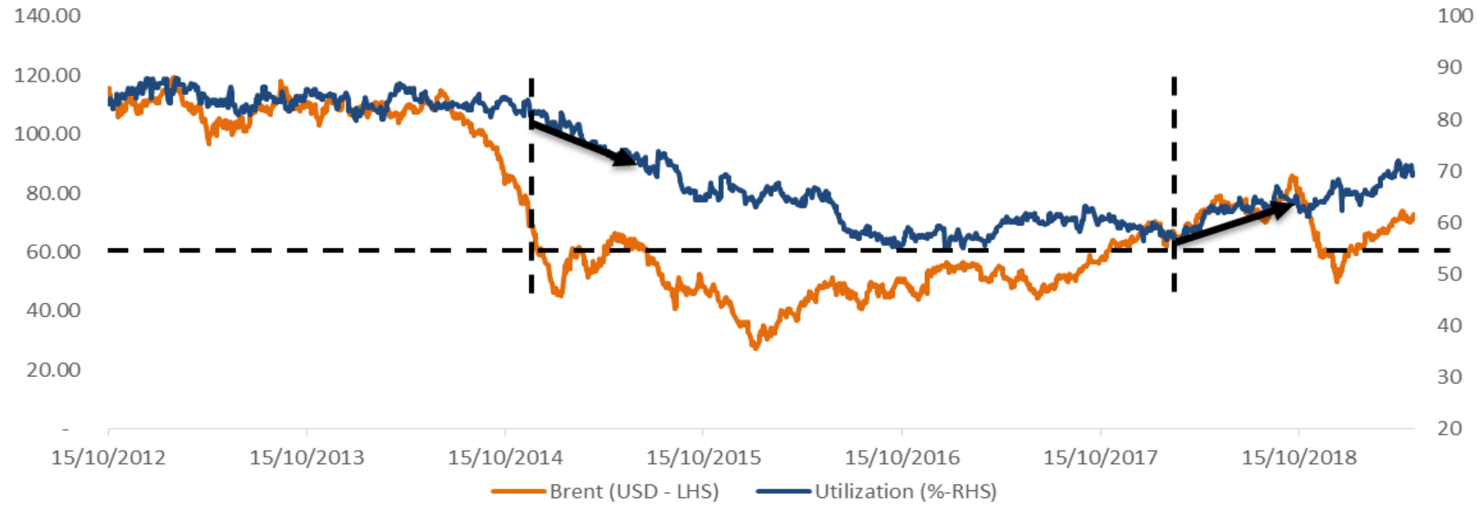
CNBC consensus estimates for the average WTI price in 2019 range between USD 59-66 per barrel. Meanwhile, Brent forecasts range from USD 68-73 per barrel, slightly higher than the 2018 average price of USD 71.3.

In 2020, the Street appears to expect a correction, and with Brent ranging between USD 65 -67 per barrel. This is largely due to an expected increase in US oil production of more than 930K barrels per day to 13.4 million barrels per day. In addition, oil demand is likely to slow, sending stockpiles up.

Yuanta regional commodities analyst Sabrina Huang agrees that oil prices should largely remain above US$60 per barrel in 2H2019 and 2020.

Yuanta regional commodity analyst Sabrina Huang agrees that oil prices will correct in 2020 but she expects them largely to remain above USD 60. Sabrina projects Brent to range between USD 63-68 in 2H2019 before it corrects to USD 56 -66 in 2020.

Fig. 3: Oil price and worldwide utilization (300ft water depth jackups)



Source: Bloomberg, Rigzone

Brent at USD 60 typically triggers long-term changes in utilization rates.

However, as long as Brent remains above USD 60 per barrel, we expect PVD's long-term utilization to be stable due to the positive historical relationship between oil prices and utilization rates. The chart above shows that 1) when oil prices breaches the USD 60 per barrel line in either direction (i.e., a breakout through $60 either on the upside or the downside), it triggers long-term changes in utilization rates, 2) utilization data typically reflects the change six months after the oil price trigger. This implies that while a correction in oil prices may affect PVD's share price, as long as Brent remains above USD 60 per barrel, the long-term business operations will remain stable.

This also represents a risk to our call. If Brent price falls below USD 60, our assumptions (especially those for utilization) would require downward revisions.

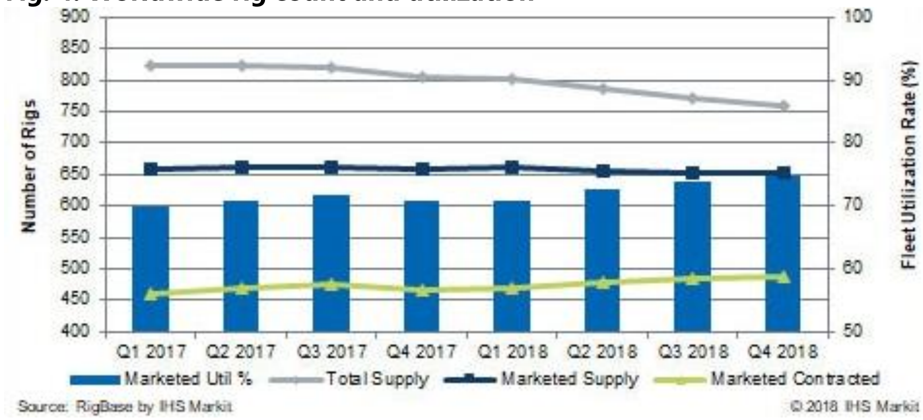
Drilling market is warming up

Global drilling market should post c.9% CAGR in 2019-2023E.

We are positive about the prospects for global day rates and believe that the global offshore drilling market will extend its growth momentum. Technavio Research's forecasts suggest that drilling market is expected to deliver CAGR of c.9% in 2019-2023, driven by deep water and ultra-deep water E&P activities.

The surge in oil prices has led to an increase in rig demand. As illustrated in the figure below, the average worldwide offshore rig supply significantly decreased while utilization recovered in 4Q18, resulting in a positive move in 2019 day rates. Note that rig counts include all jackup rigs, semi-submersibles, and drill ships.

Fig. 4: Worldwide rig count and utilization



Source: IHS Markit
Notes: Rig counts include jackups, semi-submersibles, and drill ships. "Marketed Contracted" reflects all marketed rigs that have a contract in place.

Marketed utilization is approaching the 85% threshold.

The utilization momentum extended to 2Q19 (Fig. 5), when marketed utilization reached 80.2% – a significant improvement compared to 2018's 74.3% marketed utilization. This indicates substantial room for further day rate increases, in our opinion. Historically, when utilization has reached 85%, day rates typically have started to rise at a faster pace.

Fig. 5: Recent utilization ratio approach 85% threshold (May)

Worldwide	This week (6 May 2019)	Last week	Last Month	Last year
Total Supply	756	759	756	788
Marketed Supply	646	646	647	653
Marketed Contracted	518	517	510	485
Marketed Utilization (%)	80.2%	80.0%	78.8%	74.3%

Source: IHS Markit

Southeast Asia's rig count has also posted positive signals.

The Southeast Asia (SEA) market has significantly improved compared to the rest of the world in 2019. Marketed utilization has reached 79% this year vs 60.9% last year, a remarkable recovery.

Fig. 6: Increasing marketed utilization in Southeast Asia

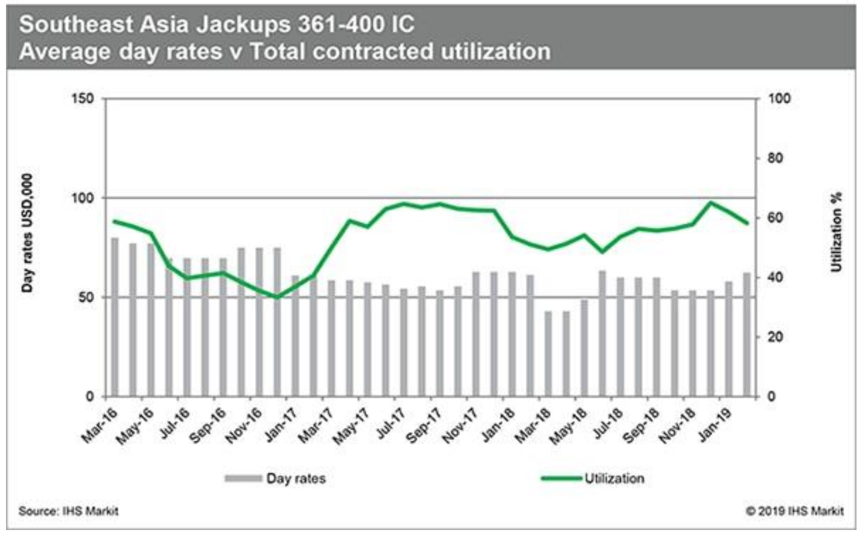
South East Asia	This week	Last week	Last Month	Last year
Total Supply	79	79	79	87
Marketed Supply	62	62	62	69
Marketed Contracted	49	50	46	42
Marketed Utilization (%)	79.0%	80.7%	74.2%	60.9%

Source: IHS Markit

Jackups day charter rates also improve

Demand for jackup rigs alone in SEA have also improved considerably. Utilization hit 60% in February 2019, up from 35% in January 2017. As a result, day rates have increased by 5.3% YoY to USD 60,000, up around 30% from the bottom.

Fig. 7: Average day rates in Southeast Asia picking up



Source: IHS Markit

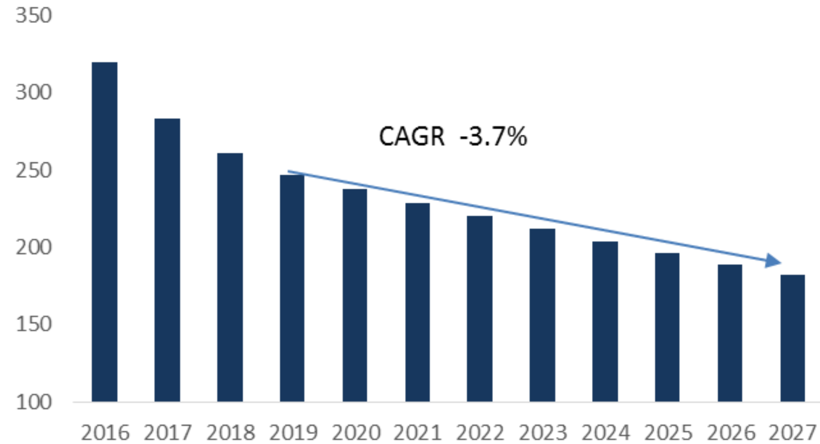
Increased E&P spending leading to increased drilling in Southeast Asia.

Asia is the largest global driver of oil consumption growth but regional oil production has been declining in recent years. As a result, oil imports have surged to ~USD 500bn per year. Southeast Asian producers strongly desire to improve this situation. Following a slow period for regional oil development that started in 2014, Rystad Energy Research suggests that 50 O&G fields are likely to be approved for development in 2018-2020, requiring USD 28bn in capex. In addition to economic factors, countries such as Vietnam and Thailand are incentivized to produce more oil and gas to ensure their national energy security.

Vietnam is also under pressure to find new source of energy

Vietnam is facing falling output due to reserves depletion and insufficient investment in E&P activities. Fitch Solutions' forecast suggest that oil production will slide by 3% CAGR in the period 2018-2027. Thus, we believe that Vietnam is also under considerable pressure to increase its O&G production.

Fig. 8: Vietnam oil production forecast ('000 b/d)



Source: Fitch Solutions

We expect the decline in production output to trigger the need to increase E&P spending. Indeed, the government set its total investment for 2016-2020 at VND 782 tn, of which E&P spending accounts for VND 192.5tn, equivalent to a 64% increase compared to the previous five-year planning period. Delays related to recent disputes and corruption at PVN could create more pressure to seek out new sources of oil and gas to ensure the country's energy security. In line with this trend, PVD recently hired out a jackup rig to supply a domestic project. This indicates that the domestic market may indeed be warming up.

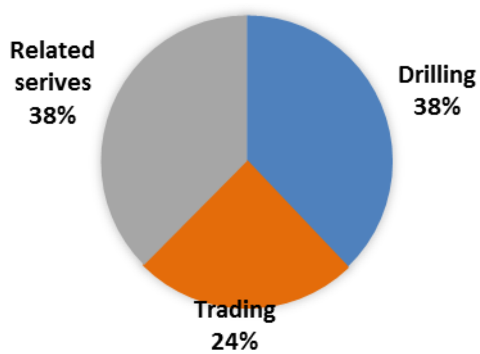
PVD is becoming a global driller

Integrated services provider

The company is an integrated drilling services provider.

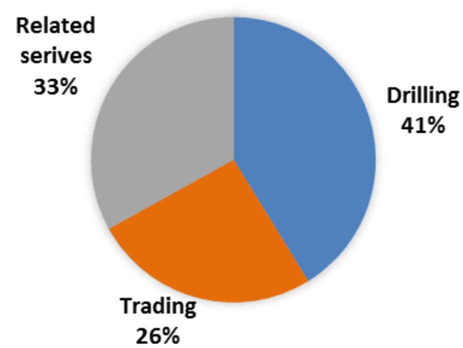
PVD offers a range of services including drilling, drilling-related services, and trading. Other related services include well services, manpower, training, and logging services. In 2018, PVD started to provide bundled services to Premier Oil and Thang Long (generating 6.3% of 2018 revenue), to help these clients reduce costs.

Fig. 9: FY2018 Revenue mix



Source: PVD

Fig. 10: FY2018 COGS mix

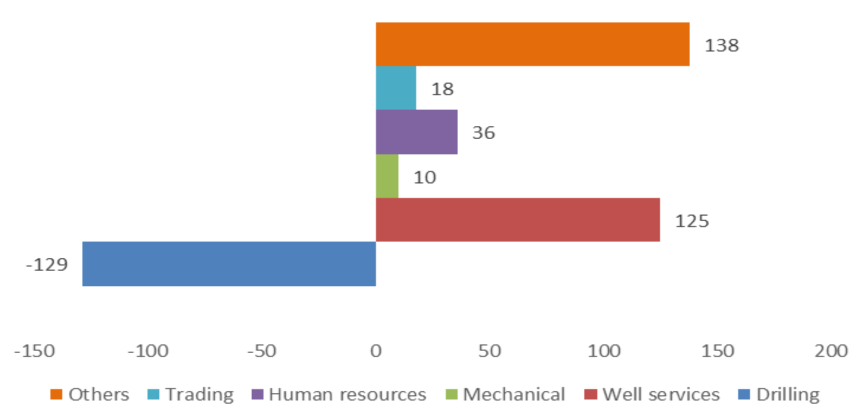


Source: PVD

The unique business model enables company to sustain operations through low-day-rate periods.

The quite unique business model enables company to sustain operations through periods of low day rates. For example, drilling led to losses last year, but well services delivered VND 125bn in earnings (the largest contributor) in 2018. Thus, PVD's integrated model allowed it to compensate for the drilling business net losses. We forecast the drilling business to generate profit from 2019 on the back of the increased workload and day rates.

Fig 11: FY2018 PAT



Source: PVD

Drilling services: Shifting overseas

Historically, PVD mainly provided services for domestic E&P projects.

PVD owns four jackup rigs (PVD I, PVD II, PVD III, PVD VI), one land rig (PVD 11) and one semi-submersible rig (PVD V or TAD). Historically, PVD mainly provided services for domestic E&P projects (the exception is its land rig (PVD 11), which has been operating largely in Algeria in recent years). Its traditional clients include domestic upstream players Vietsopetro, Cuu Long, and Hoang Long–Hoan Vu.

In 2019, all PVD jackups have secured contracts overseas.

Since 2018, PVD has been operating jackup rigs in Malaysia. By the end of 2019, all of PVD's jackup rigs will be operating in several projects in Malaysia. In other words, most of the company's rigs have secured contracts for 2019, which we expect to boost the utilization ratio to 95%, up 10ppt from the 85% ratio in 2018.

Fig 12: Most of PVD's jackups have secured job in 2019

Source: PVD

PVD's overseas operations illustrate that it is not entirely dependent on domestic E&P activities. More importantly, it also demonstrates the company's ability to compete with global peers in winning international assignments. This achievement can be attributed to: 1) PVD's strong management; 2) its excellent safety track record; and 3) its ability to provide integrated services.

Bidding to secure a job for the TAD rig

By contrast, the semi-submersible rig (PVD V) remains cold stacked. According to management guidance, the company is participating in the bidding process for a deep-water project in Brunei, and it hopes to win the job for PVD V. The project is scheduled to begin in 2020 and may last for 6 years. PVD's competitive advantage in this bid is the relatively young age of its rig (7 years old) as compared to competing bidders, at least one of which is operating an old rig (>10 years).

Together with PVD's respectable safety record and ability to offer a wide range of services, we think that PVD has a good chance to win the job for its last vacant rig. According to IHS Markit, current worldwide day rates for semi-submersibles have nearly reached USD 200.000, vs our more conservative forecast of USD 130,000 for PVD V.

Our model suggests that If PVD fails to win the Brunei bid and PVD V remains cold-stacked, our FY2020E EPS would decrease by 42.8%. However, this outcome is highly unlikely. PVD management has alternative plans for its TAD if they fail to win the bid in Brunei. One option is to sell the rig and repay the corresponding debt (USD 16.9 mn as at Dec 2018). Another option is to transform the rig into a jackup unit that is suitable for domestic oil field operations.

We believe that the Street is ignoring the possible Brunei deal and its alternatives – all of which would add value to the business results. We think this is a key reason for our 84% above-consensus 2020E forecasts – and we don't see our forecast as particularly aggressive given the recent trend of increasing day rates for semi-submersible rigs.

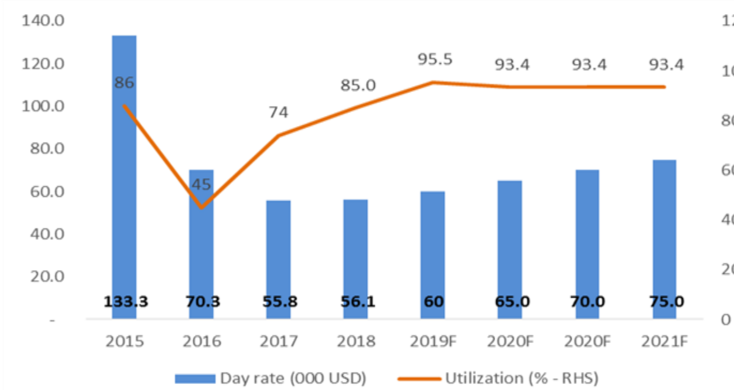
Both utilization and day rates are improving

PVD's utilization and day rates are improving sharply

As mentioned above, average day rates in Southeast Asia have clearly improved in 2019. PVD's latest announcement suggests that its average day rate has reached 59,000, +6% YoY. We expect that the average day rate of PVD's jackup rigs in 2019 may reach 60,000 USD, +7% YoY.

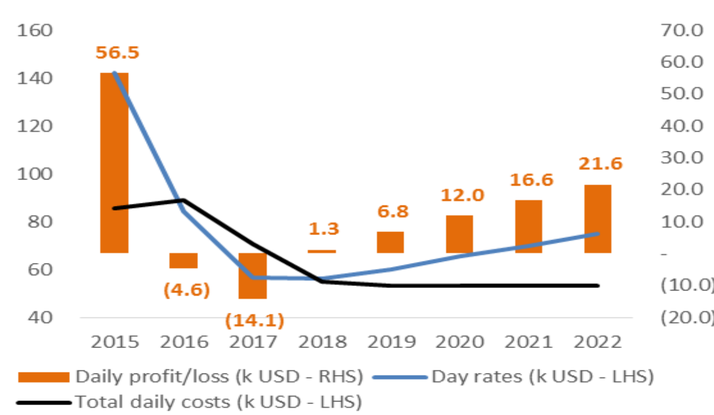
PVD's management believes that the average day rate may reach 65,000 in 2020, an 8.3% YoY increase from our 2019 assumption. Given that regional utilization is approaching 85%, we think that day rates are likely to reach USD 65,000 in 2020.

Fig. 13: Expected utilization and day rates for PVD



Source: PVD, Yuanta Vietnam Research estimates

Fig. 14: JU business break even analysis (one rig - daily)



Source: PVD, Yuanta Vietnam Research estimates

We estimate that PVD will maintain its busy workload for 2020-2021 with average utilization rate of 93%, slightly below that of 2019E (95%). It is worth noting that PVD's utilization usually remains higher than the regional average. PVD's average utilization rate in 2018 reached 85% vs. Southeast Asia's roughly 60% (fig.7). We believe this record demonstrates PVD's advantages in terms of the relatively young average age of its rigs (9 years), possible cost advantages (i.e., a lower day rate than peers), and PVD's ability to offer integrated services.

A respectable safety record

PVD possesses a safe and young fleet of drilling rigs.

PVD's managers are justifiably proud of their safety track record, as demonstrated by lost time incident (LTI). This is the most important parameter for a drilling company when participating in project bids.

Fig. 15: Safety First: Zero LTI (in years) tells the tale

Rigs	Rig Type	Investment (USD m)	Launching	Zero LTI (years)
PVD I	Jack up	115	2007	12
PVD II	Jack up	185	2009	9
PVD III	Jack up	211	2009	9
PVD 11	Land Rig	21	2007	2
PVD V	TAD	198	2012	6
PVD VI	Jack up	227	2015	4

Source: PVD

In addition, with average age of 9.1 years, PVD's fleet is relatively new compared to that of its regional peers. This should also increase the chance of winning contracts.

Strong management team

Board of management members all have at least 25 years of experience in O&G sector.

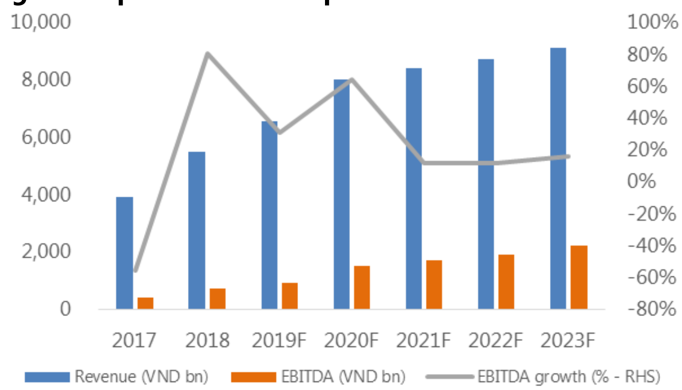
PVD's Board of Management (BOM) comprises eight members with various areas of expertise and O&G work experience of at least 25 years. In addition, some members of the BOM have international backgrounds. We believe that PVD has the strongest BOM of any PVN subsidiary, and that its members have been crucial in driving the company's success.

Financial analysis

Business performance will continue to improve in FY2019

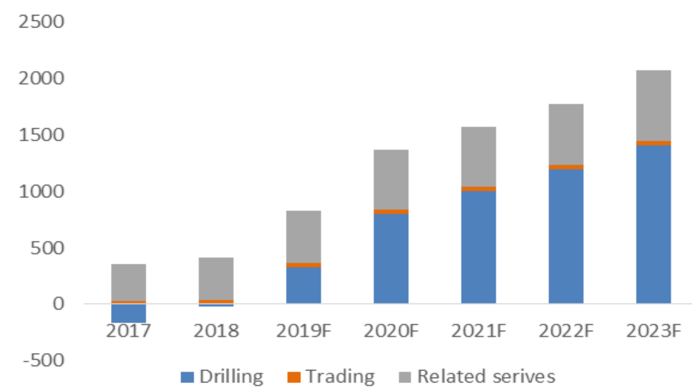
We expect PVD's FY2019 business performance to continue improving on the back of the higher work load (in both drilling and related services) and higher day rates. This is despite the fact that PVD V TAD remains cold stacked. Our assumed day rates for FY2019, FY2020, and FY2021 are USD 60,000, USD 65,000 and USD 70,000, respectively. In addition, PVD added a hired jackup rig in October for a long-term contract in a domestic project.

Fig. 16: Expected financial performance



Source: PVD, Yuanta Vietnam

Fig. 17: Gross profit mix (VND bn)



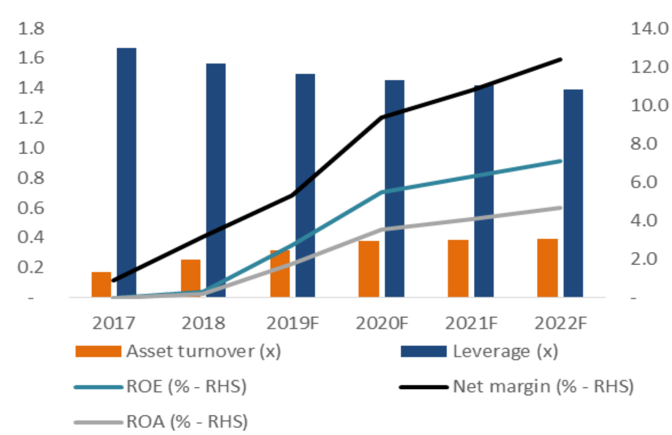
Source: PVD, Yuanta Vietnam

Higher profit margin and asset utilization.

Therefore, we expect profitability (ROE) to increase starting from 2019 as both net margin and asset utilization improve.

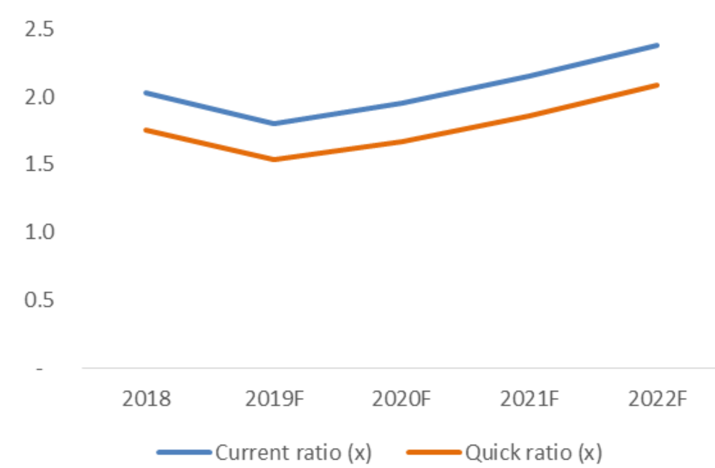
As financial performance improves, we expect the company to deleverage to alleviate financial pressure at its subsidiaries, PVD Overseas-PVD VI and PVD Deepwater-PVD V.

Fig. 18: Dupont Analysis



Source: PVD, Yuanta Vietnam

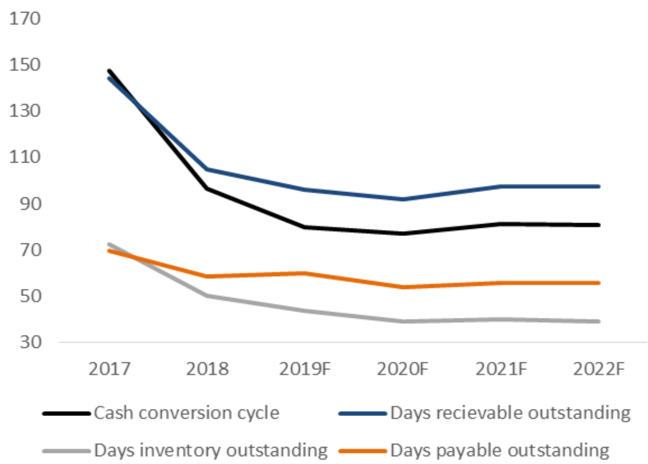
Fig. 19: Liquidity should remain strong



Source: PVD, Yuanta Vietnam

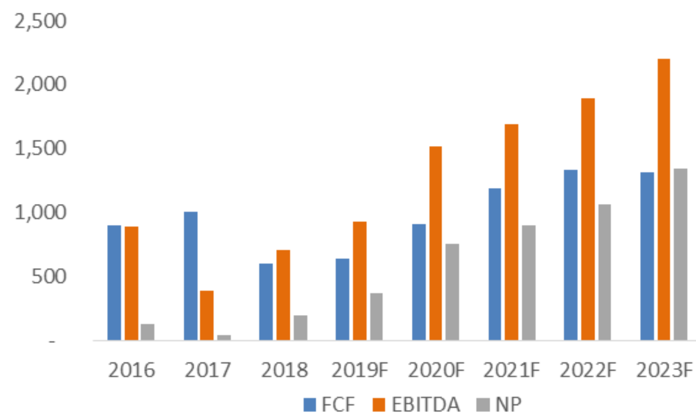
PVD's FY2018 cash conversion cycle improved to 97 days, down from 147 days in the previous year, which was attributable to improvements in receivables and inventory turnover. We expect that PVD will continue to maintain excellent working capital management over the next few years as its financial performance heads northward.

Fig. 20: Efficiency (days)



Source: PVD, Yuanta Vietnam

Fig. 21: Cash flow



Source: PVD, Yuanta Vietnam

Bad debt recoveries from PVEP should lead to reversals in 2019-2020.

Recoveries could be an additional boost to the bottom line in 2018A-2020E. PVD collected VND 400 bn from PVEP in 2018, equivalent to half of the defaulted receivables related to PVEP. This resulted in VND 121.5bn in reversals of provisions in FY2018.

We expect the remaining PVEP exposure of VND 420 bn to be collected in 2H19 and FY2020. However, we have not factored this into our model given that it remains uncertain.

We think it is feasible for PVD to collect on the remaining debt by 2020 given that the recent oil price increase should enhance PVEP's liquidity position. Provisions for bad debts were VND 205 bn as at end-2018, and bad debt recoveries in 2019 should result in related provision reversals in 2019-2020.

The exposure, in our view, is largely attributable to management turbulence in the PVN group in recent years. With a strong leader on board from last year, we believe that PVEP has been guided to finally pay.

1Q19 business performance significantly improved

1Q19 roundup. 1Q revenue decreased by 17.7% YoY to VND 909.5 bn. This is mainly attributable to the 77.5% YoY fall in trading revenues, which reached only VND 86.1 bn. Drilling revenue, which accounted for 42.9% of net revenue, increased by 7.6% YoY to reach VND 390.1bn. This is impressive considering that PVD II has been idle for nearly 50 days. Drilling-related services accounted for 47.6% of 1Q19 net revenue and increased by 20.2% YoY to VND 433.4 bn.

The company's 1Q19 net loss of VND 84.7 bn was largely driven by the following items.

1) Gross profit of VND 51.6 bn (gross margin reached 5.6%) vs 1Q18 gross loss VND of VND 44.6 bn.

2) SG&A-to-revenue was 13.3%, down from 15.6% PCP. This was largely due to 1Q19 bad debt provisions coming in at just VND 48bn vs. VND 85 bn in 1Q18.

Fig 22: PVD's 1Q19 operating performance

	1Q2018	1Q2019
Net sales (VND bn)	1106	910
sales growth(%)	*119.8%*	*-17.7%*
Gross Profit(VND bn)	-45	51
gross margin(%)	*nm*	*5.6%*
SG&A (VND bn)	-172	-121
SG&A/Revenue(%)	*15.6%*	*13.3%*
PATMI (VND bn)	-239	-87

Source: PVD

OUR VIEW, VALUATION, AND RISKS TO OUR CALL

Our view

Favorable day rates and increased workload are the main reasons for the recent share price surge.

Favorable day rates as well as increase in workload are the main drivers of the recent share price surge, in our view. We believe that high day rates will persist through 2020 given our assumption of strong oil prices. Currently four jackup rigs have contracts overseas, boosting the FY2019 utilization ratio to 95%, up from 85% in 2018. In the short-term, PVD is enjoying a 7% YoY hike in day rates. Longer term, PVD is participating in a bidding procedure with the hope of winning a deep-water project in Brunei which may offer stable work for its TAD PVD V for six years starting from 2020. In addition, PVD just hired a jackup rig for a domestic project, indicating that more workload may be coming along.

The company's competitive advantage over competitors can be identified by: 1) its decent management team; 2) its ability to provide integrated services, and 3) its excellent safety track record.

Valuation

Our target price of VND 24,535 was based on a weighted approach

Our target price of VND 24,535 is based on a weighted approach which applies 50% each to our FCFE model and our EV/EBITDA multiple valuation method.

Fig. 23: Valuation method and target price

Method	Target price	Weighting
FCFE	22,585	50%
EV/EBITDA	26,485	50%
Overall target price	24,535	

Source: Yuanta Vietnam Research estimates

The target price of VND 24.535 per share implies 0.66x FY2020F book value, slightly higher than 1 standard deviation over two-year trailing historical mean. We see this level as undemanding in light of the positive underlying trends of increased day rates and higher utilization going forward. Moreover, the PB multiple at our target price would still be well below the recent historical peak of almost 0.8x PB reached in 2017.

Assumed cost of equity and terminal growth rate are 15.7% and 1.5%

Our FCFE valuation assumptions include cost of equity of 15.7% and terminal growth rate of 1.5%. We believe these to be appropriately conservative assumptions. As indicated in Fig 24, applying a more aggressive set of assumptions (e.g., COE: 14% and terminal g of 2.5%) would result in a higher valuation (e.g., VND27,330, or 21% higher than our base case discounted FCFE model).

Fig 24: FCFE valuation

FCFE	2019F	2020F	2021F	2022F	2023F
PBT	437	939	1,129	1,349	1,675
(-) Tax	(87)	(188)	(226)	(270)	(335)
(-) Increase in WC	(97)	(233)	(75)	(71)	(306)
(-) Capex	(154)	(275)	(316)	(363)	(418)
(+) Depreciation	545	665	677	687	697
FCFE	644	909	1,189	1,332	1,313
NPV	3,384				
Terminal value	9,415				
PV of Terminal value	5,263				
Enterprise value	8,647				
Outstanding shares	382,850,160				
Fair value per share	22,585				

Source: Yuanta Vietnam Research estimates

Fig. 25: Sensitivity Analysis

		Terminal growth				
	22,585	1.0%	1.5%	2.0%	2.5%	3%
	13.0%	27,191	28,052	28,991	30,020	31,151
	14.0%	25,008	25,720	26,492	27,330	28,245
Cost of Equity	15.7%	22,051	22,585	23,159	23,776	24,442
	16.0%	21,506	22,011	22,552	23,133	23,759
	17.0%	20,079	20,511	20,971	21,463	21,990

Source: Yuanta Vietnam

For our comparable-based valuation approach, we have applied FY2020 EV/EBITDA of 7.3x, which is a 30% discount to the regional average. We see the discount as appropriate given PVD's smaller size.

Fig. 26: Multiples-based valuation

	Country	Market cap USD mn	EV/EBITDA (x)	PBR (x)	PER (x)	ROE (%)	ROA (%)
2883 HK Equity	CH	43,283	9.1	0.8	18.0	2.2	1.0
SAPE MK Equity	MA	4,622	9.5	0.3	16.1	1.8	0.7
RIG US Equity	US	4,190	10.1	0.3	-	(14.8)	(7.7)
SDRL US Equity	GB	542	17.0	0.2	-	(136.4)	(40.0)
ESV US Equity	GB	1,748	11.7	0.1	-	(8.4)	(4.9)
DO US Equity	US	1,149	13.0	0.3	-	(7.5)	(4.4)
1251 HK Equity	CH	191	3.0	1.1	5.6	8.0	3.7
MMT SP Equity	TH	73	-	0.2	-	(8.3)	(6.3)
			10.5	0.4	13.2	(20.4)	(7.2)
PVD VN Equity	VN	322	5.9	0.5	9.1	6.0	1.7

Source: Bloomberg, Yuanta Vietnam

Risks to our call

- Oil price volatility may affect the share price in the short-term given the very strong correlation between the price of PVD's stock and that of Brent. But the impact on the fundamentals would not be meaningful as long as Brent remains above USD 60 per barrel.
- However, if Brent falls below USD 60 per barrel, our assumptions (especially regarding utilization) would require negative revisions.
- PVEP bad debt recoveries are a short-term boost to earnings, but may slow down going forward.
- Intensified competition from other players.
- The outcome of the bid to put PVD's TAD PVD V to work in Brunei is uncertain. It is possible that the rig may remain cold stacked in 2020. As noted, the downside risk to our earnings if the rig remains idle is 42.8% for 2020E and 39.2% for 2021E.
- Recoveries from the PVEP exposure represent a positive risk for our earnings forecasts in 2019-2020. We have not factored in any further recoveries despite our view that they are very likely to occur eventually.

PROFIT AND LOSS (VND bn)

FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Revenue	**3,891**	**5,500**	**6,555**	**8,024**	**8,388**
Drilling	*1,744*	*2,085*	*2,458*	*3,475*	*3,754*
Trading	*408*	*1,350*	*1,390*	*1,418*	*1,493*
Drilling related services	*1,738*	*2,066*	*2,707*	*3,131*	*3,141*
Others					
Cost of goods sold	(3,699)	(5,103)	(5,730)	(6,656)	(6,815)
Gross profits	**192**	**397**	**825**	**1,368**	**1,572**
Operating expenses	(588)	(297)	(443)	(516)	(556)
Operating profits	**(396)**	**100**	**381**	**852**	**1,017**
Net financial income	(81)	(67)	(30)	(8)	15
Net income from JVs	5	61	86	95	97
Net other incomes	623	200	-	-	-
Pretax profits	**151**	**293**	**437**	**939**	**1,129**
Income taxes	(115)	(121)	(87)	(188)	(226)
Minority interests	10	25	17	5	(5)
Net profits	**45**	**198**	**367**	**757**	**898**
Core earnings	*(462)*	*44*	*367*	*757*	*898*
EBITDA	393	708	926	1,517	1,694
EPS (VND)	118	516	956	1,974	2,343

KEY RATIOS

	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	*(27)*	*41*	*19*	*22*	*5*
Drilling	*(35)*	*20*	*18*	*41*	*8*
Trading	*(57)*	*230*	*3*	*2*	*5*
Drilling related services	*1*	*19*	*31*	*16*	*0*
Other					
Operating profit	(396)	100	381	852	1017
EBITDA	(55.8)	80	31	64	12
Net profit	(65)	337	85	106	19
EPS (VND)	(65)	337	85	106	19
Profitability ratio (%)					
Gross margin	4.9	7.2	12.6	17.0	18.7
Operating margin	nm	1.8	5.8	10.6	12.1
EBITDA margin	10.1	12.9	14.1	18.9	20.2
Net margin	0.9	3.1	5.3	9.4	10.8
ROA	0.2	0.9	1.8	3.6	4.1
ROE	0.3	1.4	2.6	5.2	5.9
Stability					
Net debt/equity (%)	5.4	4.1	4.6	net cash	net cash
Int. coverage (x)	1.8	2.7	3.6	7.9	9.9
Int. &ST debt coverage (x)	0.2	0.9	0.8	1.3	1.6
Cash conversion days	147.3	96.6	79.9	77.3	81.5
Current ratio (X)	1.6	2.0	1.8	2.0	2.1
Quick ratio (X)	1.4	1.8	1.5	1.7	1.9
Net cash/(debt) (VND mn)	(722)	(562)	(648)	29	793
Efficiency					
Days receivable outstanding	144	105	96	92	97
Days inventory outstanding	73	50	44	39	40
Days payable outstanding	70	59	60	54	56

Source: Company data, YSVN

BALANCE SHEET (VND bn)

FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Total assets	**21,817**	**21,004**	**20,878**	**21,509**	**22,010**
Cash & cash equivalents	1,803	2,265	1,702	2,119	2,707
ST Investment	2,148	1,012	1,012	1,012	1,012
Accounts receivable	1,552	1,613	1,843	2,188	2,284
Inventories	754	760	815	912	930
Other current assets	26	25	26.8	30.0	30.6
Net fixed assets	14,821	14,462	14,407	14,080	13,783
Others	712	867	1,072	1,167	1,263
Total liabilities	**8,345**	**7,154**	**6,656**	**6,516**	**6,364**
Current liabilities	3,905	2,800	2,990	3,203	3,243
Accounts payable	2,562	2,438	2,417	2,537	2,561
ST debts	1,343	362	573	666	682
Long-term liabilities	4,439	4,354	3,666	3,313	3,121
Long-term debts	3,330	3,477	2,789	2,436	2,244
Others	1,109	877	877	877	877
Shareholder's equity	**13,473**	**13,850**	**14,222**	**14,992**	**15,646**
Share capital	3,833	3,833	3,833	3,833	3,833
Treasury stocks	(21)	(21)	(21)	(21)	(21)
Others	5,716	5,962	6,041	6,205	6,409
Retained earnings	3,945	4,076	4,369	4,975	5,425
Minority interest	**265**	**257**	**261**	**275**	**298**

CASH FLOW (VND bn)

FY (VND'bn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	**118**	**224**	**(19)**	**881**	**1265**
Net income	(462)	44	367	757	898
Dep, & amortisation	788	608	545	665	677
Change in working capita	33	(66)	(97)	(233)	(75)
Others	(242)	(362)	(834)	(308)	(234)
Investment cash flow	**410**	**1141**	**(67)**	**(203)**	**(233)**
Net capex	252	(78)	(154)	(275)	(316)
Change in LT investment	300	1	0	0	0
Change in other assets	(0)	1219	87	72	83
Cash flow after invt.	670	1366	(86)	678	1032
Financing cash flow	**(753)**	**(931)**	**(477)**	**(260)**	**(444)**
Change in share capital	0	0	0	0	0
Net change in debt	(752)	(929)	(477)	(260)	(176)
Change in other LT liab.	(1)	(3)	0	0	(268)
Net change in cash flow	**(225)**	**462**	**(563)**	**417**	**588**
Beginning cash flow	2783	1803	2265	1702	2119
Ending Cash Balance	**1803**	**2265**	**1702**	**2119**	**2707**

KEY METRICS

	2017A	2018A	2019E	2020E	2021E
PE (x)	150.3	34.4	18.6	9.0	7.6
Diluted PE (x)	150.3	34.4	18.6	9.0	7.6
PB (x)	0.5	0.5	0.5	0.5	0.4
EBITDA/share	1,024	1,847	2,416	3,957	4,418
DPS	0	0	0	0	700
Dividend yield (%)	-	-	-	-	3.9
EV/EBITDA (x)	22.2	12.3	9.4	5.8	5.2
EV/EBIT (x)	nm	87.7	22.9	10.2	8.6

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