

PV DRILLING (PVD VN EQUITY)

1H19 results show turnaround, JU rigs remain utilized to end 2020

BUY

Current price: VND 16,850

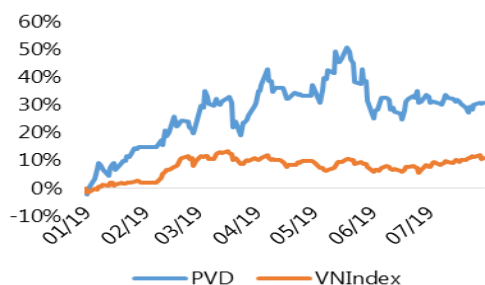
Target price: VND 21,707
Upside: 28.8%

PVD just released its 1H2019 results which are mainly in line with [preliminary numbers](#). The management, in an analyst meeting on Jul 29, confirmed that JU rigs can secure jobs toward end of 2020 given the drilling market is getting busier. PVD V bidding result will be informed in three weeks. In 3Q19, PVD is confident to recover VND 100 bn bad debt from PVEP. The land rig will only operate 27 days in Algeria in 3Q19.

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52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
11,091-20,545	USD 300mn	0%	28%	38.3%	USD2.1mn

Price performance



Event catalysts

- 1H2019 results provide further evidence of an operational turnaround.
- Four jackup rigs to remain utilized to end-2020.
- PVD is bidding for a deep water project in Brunei 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.

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)	469	750	1,782
EPS growth (%)	337	60	138
PE (x)	35.9	22.5	9.5
PB (x)	0.5	0.5	0.5

1H19 financial statements mainly confirmed operational turnaround in drilling business. 1H19 PATMI reached VND 24.2 bn vs the VND 307.5 bn 1H18 net loss. This is mainly attributed to: 1) gross margin expanded to 10.6%, up from 0.2% in 1H18 due to day rate improvement; 2) Profit from JVs rose by 152% YoY to VND 52.5bn; 3) other profit reached VND 61.5bn, up from VND 1.5bn YoY.

Management said that the bidding result of deep water project in Brunei will be informed in three weeks from this week. As mentioned in an earlier report, four jackup rigs will remain utilized to end-2020, equivalent to 95-97% utilization and slightly better than our conservative 2020 utilization assumption of 93.4%. PVD also expects uptrend in JU rig average day rate from USD 59k in 2019 to USD 65k in 2020 and USD 75k 2021.

Cutting low-margin trading and land rig revenue forecast. We cut parts trading revenue forecast by 24% (VND 348 bn) to VND 1,043bn on lower than expected 1H2019. In addition, land rig is only operating 27 days in 3Q19, so we reduce our land rig utilization from 97% to 75% in 2019. Therefore, our new forecast revenue of VND 6,156 bn and PATMI of 316 bn are 6% and 14% lower than the previous forecast. The management is confident in recovering VND 100 bn bad debt from PVEP of 100bn in 2H19, which is not factored in our model.

We trim our target price by 2.7% to VND 21,707 (implying 0.61x FY2020E PBR) after cutting revenue and PATMI forecast. Maintain **BUY** recommendation.

PROFIT AND LOSS (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Revenue	3,891	5,500	6,156	7,683	8,029
<i>Drilling</i>	1,744	2,085	2,393	3,475	3,754
<i>Trading</i>	408	1,350	1,057	1,078	1,135
<i>Drilling related services</i>	1,738	2,066	2,707	3,131	3,141
<i>Others</i>					
Cost of goods sold	(3,699)	(5,103)	(5,394)	(6,324)	(6,466)
Gross profits	192	397	762	1,359	1,564
Operating expenses	(588)	(297)	(443)	(516)	(555)
Operating profits	(396)	100	319	844	1,008
Net financial income	(81)	(67)	(30)	(6)	16
Net income from JVs	5	61	86	95	97
Net other incomes	623	200	-	-	-
Pretax profits	151	293	374	933	1,121
Income taxes	(115)	(121)	(75)	(187)	(224)
Minority interests	10	25	17	5	(5)
Net profits	45	198	316	752	892
<i>Core earnings</i>	(462)	44	316	752	892
EBITDA	393	708	863	1,509	1,685
EPS (VND)	107	469	750	1,782	2,116

KEY RATIOS

	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	(27)	41	12	25	5
<i>Drilling</i>	(35)	20	15	45	8
<i>Trading</i>	(57)	230	(22)	2	5
<i>Drilling related services</i>	1	19	31	16	0
<i>Other</i>					
Operating profit	(396)	100	319	844	1008
EBITDA	-55.8	80	22	75	12
Net profit	(65)	337	60	138	19
EPS (VND)	(65)	337	60	138	19
Profitability ratio (%)					
Gross margin	4.9	7.2	12.4	17.7	19.5
Operating margin	(10.2)	1.8	5.2	11.0	12.6
EBITDA margin	10.1	12.9	14.0	19.6	21.0
Net margin	0.9	3.1	4.9	9.7	11.2
ROA	0.2	0.9	1.5	3.6	4.1
ROE	0.3	1.4	2.3	5.2	5.9
Stability					
Net debt/equity (%)	5.4	4.1	4.2	net cash	net cash
Int. coverage (x)	1.8	2.7	3.2	7.8	9.8
Int. &ST debt coverage (x)	0.2	0.9	0.8	1.4	1.6
Cash conversion days	147.3	96.6	82.2	76.0	80.9
Current ratio (X)	1.6	2.0	1.8	2.0	2.2
Quick ratio (X)	1.4	1.8	1.6	1.7	1.9
Net cash/(debt) (VND mn)	(722)	(562)	(590)	66	802
Efficiency					
Days receivable outstanding	144	105	99	91	97
Days inventory outstanding	73	50	45	39	40
Days payable outstanding	70	59	62	53	56

Source: Company data, YSVN

BALANCE SHEET (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Total assets	21817	21004	20768	21395	21860
Cash & cash equivalents	1803	2265	1761	2156	2716
ST Investment	2148	1012	1012	1012	1012
Accounts receivable	1552	1613	1726	2089	2179
Inventories	754	760	765	863	878
Other current assets	26	25	25	28	29
Net fixed assets	14821	14462	14407	14080	13783
Others	712	867	1072	1167	1263
Total liabilities	8345	7154	6597	6458	6302
Current liabilities	3905	2800	2897	3111	3146
Accounts payable	2562	2438	2357	2479	2499
ST debts	1343	362	539	632	647
Long-term liabilities	4439	4354	3700	3347	3156
Long-term debts	3330	3477	2823	2470	2279
Others	1109	877	877	877	877
Shareholder's equity	13473	13850	14172	14937	15557
Share capital	3833	3833	3833	3833	3833
Treasury stocks	(21)	(21)	(21)	(21)	(21)
Others	5716	5962	6031	6194	6396
Retained earnings	3945	4076	4329	4930	5349
Minority interest	265	257	261	275	298

CASH FLOW (VND bn)

<i>FY (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Operating cash flow	118	224	39	857	1263
Net income	(462)	44	316	752	892
Dep. & amortisation	788	608	545	665	677
Change in working capita	33	(66)	(21)	(249)	(72)
Others	(242)	(362)	(801)	(310)	(234)
Investment cash flow	410	1141	(67)	(201)	(232)
Net capex	252	(78)	(154)	(275)	(316)
Change in LT investment	300	1	0	0	0
Change in other assets	(0)	1219	87	73	84
Cash flow after invt.	670	1366	(28)	656	1031
Financing cash flow	(753)	(931)	(477)	(260)	(471)
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	(295)
Net change in cash flow	(225)	462	(504)	395	560
Beginning cash flow	2783	1803	2265	1761	2156
Ending Cash Balance	1803	2265	1761	2156	2716

KEY METRICS

	2017A	2018A	2019E	2020E	2021E
PE (x)	156.9	35.9	22.5	9.5	8.0
Diluted PE (x)	156.9	35.9	22.5	9.5	8.0
PB (x)	0.5	0.5	0.5	0.5	0.5
EBITDA/share	931	1,679	2,047	3,578	3,996
DPS	0	0	0	0	700
Dividend yield (%)	-	-	-	-	4.2
EV/EBITDA (x)	22.8	12.7	10.4	5.9	5.3
EV/EBIT (x)	nm	nm	90.1	28.2	10.6

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