

PV DRILLING (PVD VN EQUITY)

Earnings upgrades ahead following 1H19 results

BUY

Current price: VND 18,200

Target price: VND 24,535
Upside: 38.2%

PVD's 1H2019 preliminary financial performance supports our call for an operational turnaround. The management suggests those JU rigs can secure jobs toward end of 2020. Current data shows that the marketed utilization fluctuating around 80%, up from 66.2% that of last year. The company will organize an analyst meeting (AM) next Monday 29 2019 which should give further information on operational updates.

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52-week Price Range (VND)

12,200-22,600

Market Capitalization

USD 300mn

FY19E Dividend Yield

0%

Remaining Foreign Room

28%

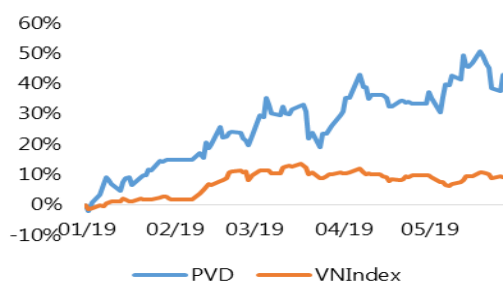
Free-float

38.3%

ADTV-3month

USD2.0mn

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)	516	956	1,974
EPS growth (%)	337	85	106
PE (x)	35.3	19.0	9.2
PB (x)	0.5	0.5	0.5

1H19 PATMI reached VND 24 bn vs the VND 307 bn 1H18 net loss. 2Q19 PATMI reached VND 111 bn vs the 2Q18 VND 68.2bn net loss. 1H19 revenue reached 1,941 bn (-28.8% YoY). But stripping out the low-margin one-off VND 865 bn in 1H18 parts-trading revenue, normalized 1H19 revenue was up 4% YoY.

PVD indicates that the four jackup rigs in Malaysia will remain utilized to end-2020, equivalent to 95-97% utilization and slightly better than our conservative 2020 utilization assumption of 93.4%. Also, PVD contracted out a hired rig HAKURYU 11 for a one-year drilling campaign of Idemitsu in Sao Vang Dai Nguyet fields starting from Oct 2019. Management has no update today on the semi-submersible's (PVD V) bid for the Brunei deep water project in Brunei in 2020, but this should be discussed in Monday's (Jul 29) analyst meeting.

Sector update. PVD quoted IHS forecasts for rig demand in Southeast Asia to reach 40.5 units for 2020, up from 34.7 units in 2019. Current data indicates that overall market utilization is fluctuating around 80%, up from 66.2% last year.

Reiterate BUY with target price of VND 24,535 bn (implying 0.7x FY2020E PBR) based on our FCFE model and EV/EBITDA multiple approach. We maintain our above-consensus FY2019 PATMI forecast of VND 367 bn (+85.4% YoY).

PROFIT AND LOSS (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Revenue	3,891	5,500	6,555	8,024	8,388
<i>Drilling</i>	1,744	2,085	2,458	3,475	3,754
<i>Trading</i>	408	1,350	1,390	1,418	1,493
<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)	(5,730)	(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
<i>Core earnings</i>	(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
<i>Drilling</i>	(35)	20	18	41	8
<i>Trading</i>	(57)	230	3	2	5
<i>Drilling related services</i>	1	19	31	16	0
<i>Other</i>					
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)

<i>FY Dec 31 (VND'bn)</i>	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)

<i>FY (VND'bn)</i>	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)	154.1	35.3	19.0	9.2	7.8
Diluted PE (x)	154.1	35.3	19.0	9.2	7.8
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 (%)	-	-	-	-	3.8
EV/EBITDA (x)	22.7	12.6	9.6	5.9	5.3
EV/EBIT (x)	nm	nm	89.4	23.3	10.4

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BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below -10%

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SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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