

Vietnam: Oil & Gas
7 November 2019
PVD VN
BUY
TP upside +18.4%
Close 6 Nov 2018

Price	VND 16,800
12M Target	VND 19,896
Previous Target	VND 21,707
Change	-8.3%

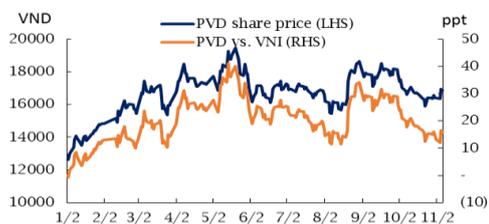
What's new?

- ▶ **Core business to improve in 2020** due to higher day rate and increased workload.
- ▶ **Unexpected capex in deep water project.** Possible capex will be ~USD 30–35mn.
- ▶ **We cut our target price by 8.3% to VND19,896** and reduce our earnings forecasts for 2020E after discussions with management.

Our view

- ▶ **Average day rates have increased by 10% YoY to USD65,000** and high utilization rates in Southeast Asia should support pricing.
- ▶ **Possible capex of USD30–35mn** for the Brunei project was a negative surprise to us, but it is now factored into our model.
- ▶ **We reiterate our BUY recommendation.** We believe that the adverse news is more than fully discounted in the valuation.

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 Lost Time Incidents (LTI).

Share price performance relative to VNI


Market cap	US\$306mn
6M avg. daily turnover	US\$2.02mn
Outstanding shares	421 mn
Free float	49%
FINI ownership	22.8%
Major shareholders	50.46%
Asset/equity	1.5x
2020E EV/EBITDA	10.1x
2020E P/B	0.5x
Trading platform	HOSE
FOL Room	26.2%

Financial outlook (VND bn)

Year to Dec	2018A	2019E	2020E	2021E
Sales	5,500	4,751	5,792	7,155
Op. profit	100	57	293	826
Net profit	198	101	323	739
EPS (VND)	469	241	765	1,753
EPS chg (%)	337	(49)	218	129
P/E (x)	35.8	69.8	22.0	9.6
ROE (%)	1.4	0.7	2.3	5.1
Div. yield (%)	–	–	–	4.2
DPS (VND)	0	0	0	700

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PV Drilling (PVD VN)
Unexpected capex in deep water project

Unexpected capex for deep water project. PVD V should be operational in Brunei starting from April 2021. However, management estimates possible upfront capex for drilling equipment at USD30–35 mn, which we had not previously factored into our model.

The drilling business should improve in 2020 on increased day rates and higher workload. PVD stated that average day rates have increased by 10% YoY to USD65,000, underpinned by high regional utilization of 80%. This level typically triggers a significant increase in day rates. The drilling schedule in 2020E should be busier than it was in 2019 and the land rig should return to work in 1Q20. Utilization is likely to increase in 2020 given less downtime now that most rigs have secured jobs in Malaysia (except for a 30–day transport period for PVD VI). In addition, the two hired rigs should be operational starting from Nov 2019.

Model revisit: cutting our 2020E forecasts. Our new FY2020 revenue forecast is VND5,792bn, which is 25% lower than our previous forecast but still reflects growth of +21.9% YoY. We also cut our FY2020 PATMI forecast by 58% to VND317bn (+213.9% YoY). We slash our forecasts because 1) the land rig will be idle until 1Q20, 2) PVD VI will have a 30–days rig move in 2020, and 3) we have reduced our assumptions for drilling services and trading due to the dampened domestic market.

3Q19 results update. 3Q19 PAT declined by 75.9% YoY to VND27.1 bn mainly due to 1) the land rig temporary shutdown and 2) lower utilization (3Q19 utilization fell to 91% in 3Q19 from 94% in 3Q18) that was due to an unexpected 2–month rig move (PVD II – PVD VI). For further detail, please see our [3Q19 results note](#).

We reiterate BUY but trim our valuation by 8.3% to VND19,896, implying a FY2021 EV/EBITDA of 6.3x. We think the adverse news is more than reflected in the share price and retain our positive view on PVD.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

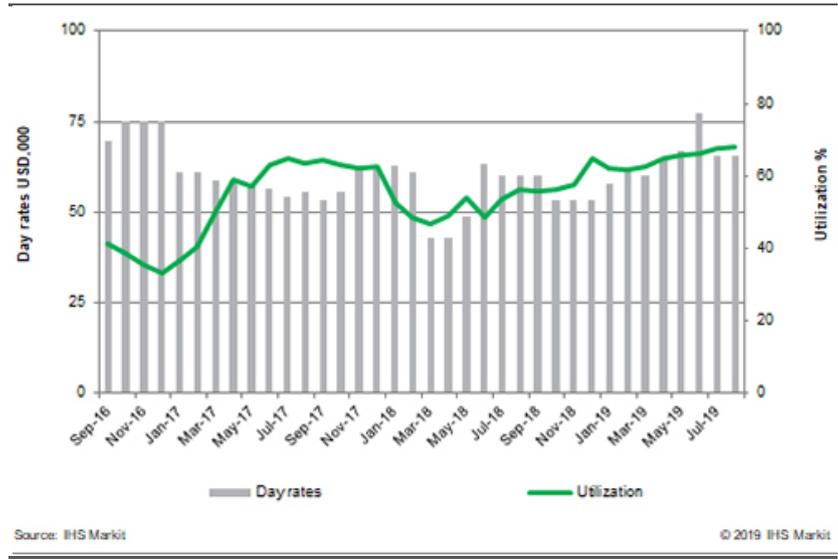
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The drilling business will improve in 2020 thanks to increased day rate and higher workload

PVD guided that the average day rates of new contracts for 2020 have increased by 10% YoY to USD65,000. The 2020 day rates are in line with our expectation.

The strengthening trend in day rates is underpinned by higher regional utilization to near 80%, a level that typically trigger significant increase in day rates.

Fig 1: South East Asia jackup rigs: Average day rates and utilization



Source: IHS Markit

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The FY2020 drilling schedule is busier than that of 2019. Management is fairly confident that the land rig (PVD 11) will secure a contract in 1Q20 given the improved market.

We believe that utilization should grow going forward given fewer rig moves now that most of PVD's rigs have secured jobs in Malaysia. The exception is a likely 30-day rig move for PVD VI.

In addition, the two hired rigs should be operational starting from this month (November 2019). Our understanding is that HAKYRU 11 has secured a one-year contract, and IDUN has secured a 2- or 3-month contract.

Model revisit: 2020 earnings should still improve, but not as much as we previously thought

We cut our FY19 revenue forecast by 23% compared to the previous forecast to VND4,752 bn and slash our PATMI forecast by 68% to VND 101bn.

The downward revisions are mainly due to 1) the land rig is temporarily out of work since 3Q19, when it only operated for 27 days, 2) much lower than expected trading revenue in 9M19 that is not likely to recover during the monsoon in 4Q19, and 3) a 2-week gap for PVD II due to the rig move from Vietnam to Malaysia in 4Q19.

Fig. 2: FY2019 revision

	FY2019 old forecast	FY2019 new forecast	New forecast/Old forecast
Revenue	6,156	4,751	-23%
<i>Drilling</i>	2,393	2,110	-12%
<i>Trading</i>	1,057	695	-34%
<i>Drilling related services</i>	2,707	1,946	-28%
PATMI	316	101	-68%

Source: YSVN

We have revised down our FY2020 forecast but we still expect an improvement compared to FY2019. Specifically, we now project FY2020 revenue to reach VND5,792bn (+21.9% YoY), which is 25% lower than our previous forecast. We also slash our 2020E PATMI forecast by 57% to VND317bn (+213.9% YoY).

We cut our FY2020 forecasts on three primary assumption changes. 1) The land rig has been temporarily out of work since August and is likely to remain idle until 1Q20, which we had not foreseen. 2) PVD VI will be idle during its 30-day rig move in 2020. 3) Management states that parent company Petrovietnam (PVN - Unlisted) has not yet provided it with an exploration and production (E&P) plan; this signals a slowdown in the domestic market and triggers us to lower our forecasts for drilling-related services and trading.

Fig.3 : FY2020 revision

	FY2020 old forecast	FY2020 new forecast	New forecast/Old forecast
Revenue	7,683	5,792	-25%
<i>Drilling</i>	3,475	2,842	-18%
<i>Trading</i>	1,078	709	-34%
<i>Drilling related services</i>	3,131	2,241	-28%
PATMI	752	323	-57%

Source: YSVN

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Revenue	3,891	5,500	4,751	5,792	7,155
<i>Drilling</i>	1,744	2,085	2,110	2,842	3,689
<i>Trading</i>	408	1,350	695	709	864
<i>Drilling related ser.</i>	1,738	2,066	1,946	2,241	2,602
<i>Others</i>					
Cost of goods sold	(3,699)	(5,103)	(4,251)	(5,002)	(5,780)
Gross profits	192	397	500	790	1,375
Operating expenses	(588)	(297)	(443)	(496)	(549)
Operating profits	(396)	100	57	293	826
Net interest expenses	(81)	(67)	(30)	8	7
Net investments income/(loss)	5	61	77	94	95
Net other incomes	623	200	-	-	-
Pretax profits	151	293	104	395	928
Income taxes	(115)	(121)	(21)	(79)	(186)
Minority interests	10	25	18	7	(4)
Net profits	45	198	101	323	739
<i>Core earnings</i>	(462)	44	101	323	739
EBITDA	393	708	602	832	1,552
EPS (VND)	107	469	241	765	1,753

KEY RATIOS					
	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	(27)	41	(14)	22	24
<i>Drilling</i>	(35)	20	1	35	30
<i>Trading</i>	(57)	230	(49)	2	22
<i>Drilling related ser.</i>	1	19	(6)	15	16
<i>Other</i>					
Operating profit	(396)	100	57	293	826
EBITDA	-55.8	80	-15	38	86
Net profit	(65)	337	(49)	218	129
EPS (VND)	(65)	337	(49)	218	129
Profitability ratio (%)					
Gross margin	4.9	7.2	10.5	13.6	19.2
Operating margin	(10.2)	1.8	1.2	5.1	11.5
EBITDA margin	10.1	12.9	12.7	14.4	21.7
Net margin	0.9	3.1	1.7	5.5	10.4
ROA	0.2	0.9	0.5	1.6	3.6
ROE	0.3	1.4	0.7	2.3	5.1
Stability					
Net debt/equity (x)	5.4	4.1	0.5	2.0	net cash
Int. coverage (x)	1.8	2.7	1.6	3.9	8.3
Int. & ST debt coverage (x)	0.2	0.9	0.5	0.8	1.5
Cash conversion days	147.3	96.6	95.2	78.3	73.4
Current ratio (X)	1.6	2.0	2.0	1.8	2.0
Quick ratio (X)	1.4	1.8	1.8	1.6	1.8
Net cash/(debt) (VND mn)	(722)	(562)	(72)	(280)	363
Efficiency					
Days receivable outstanding	144	105	114	91	88
Days inventory outstanding	73	50	53	40	37
Days payable outstanding	70	59	71	53	52

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Total assets	21817	21004	20368	20513	20966
Cash & cash equivalents	1803	2265	2279	1810	2277
ST Investment	2148	1012	1012	1012	1012
Accounts receivable	1552	1613	1348	1537	1926
Inventories	754	760	611	667	778
Other current assets	26	25	20	22	26
Net fixed assets	14821	14462	14035	14310	13697
Others	712	867	1063	1156	1250
Total liabilities	8345	7154	6412	6222	6182
Current liabilities	3905	2800	2598	2744	2957
Accounts payable	2562	2438	2172	2243	2379
ST debts	1343	362	425	500	578
Long-term liabilities	4439	4354	3814	3479	3225
Long-term debts	3330	3477	2937	2602	2348
Others	1109	877	877	877	877
Shareholder's equity	13473	13850	13956	14291	14784
Share capital	3833	3833	4217	4217	4217
Treasury stocks	(21)	(21)	(21)	(21)	(21)
Others	5716	5962	5986	6063	6233
Retained earnings	3945	4076	3774	4032	4355
Minority interest	265	257	260	272	294

CASH FLOW (VND bn)					
FY (VND'bn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	118	224	445	454	887
Net income	(462)	44	101	323	739
Dep. & amortisation	788	608	545	539	726
Change in working capital	33	(66)	217	(101)	(290)
Others	(242)	(362)	(418)	(306)	(287)
Investment cash flow	410	1141	45	(663)	25
Net capex	252	(78)	(42)	(750)	(50)
Change in LT investment	300	1	0	0	0
Change in other assets	(0)	1219	87	87	75
Cash flow after invt.	670	1366	490	(208)	912
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	14	(469)	467
Beginning cash flow	2783	1803	2265	2279	1810
Ending Cash Balance	1803	2265	2279	1810	2277

KEY METRICS					
	2017A	2018A	2019E	2020E	2021E
PE (x)	156.5	35.8	69.8	22.0	9.6
Diluted PE (x)	156.5	35.8	69.8	22.0	9.6
PB (x)	0.5	0.5	0.5	0.5	0.5
EBITDA/share	931	1,679	1,427	1,973	3,680
DPS	0	0	0	0	700
Dividend yield (%)	-	-	-	-	4.2
EV/EBITDA (x)	21.5	11.9	14.0	10.1	5.4
EV/EBIT (x)	nm	84.7	147.7	28.7	10.2

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