

Vietnam: Oil & Gas
13 March 2024
PVD VN
BUY
TP upside +26.3%
Close 12 March 2024

Price	VND 30,300
12M Target	VND 38,259
Previous Target	VND 36,103
Change	+6.0%

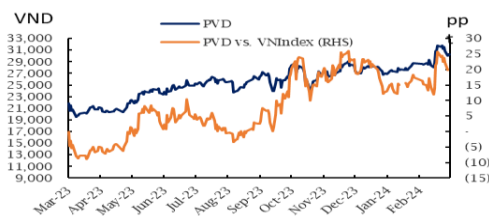
What's new?

- ▶ Our new 2024 day rate assumption is US\$100k (+28% YoY / +54% from 2022).
- ▶ Southeast Asia day rates should stay high as industry rig utilization has reached 95%.
- ▶ All of PVD's rigs are fully contracted for 2024–2025.
- ▶ In addition, PVD is looking to acquire an additional jack-up rig.

Our view

- ▶ We reiterate BUY on PVD with TP of VND 38,260, implying further TSR of 25.4%.
- ▶ We project FY2024E PATMI to soar by 114% YoY to reach VND 1,239bn .
- ▶ PVD is well-positioned for long-term business development from 2026 onward.
- ▶ Risks: Oil prices are the key short-term trading risk. Possible delays for Block B could negatively impact future earnings.

Company profile: PVD is a provider of integrated drilling services. The core business range comprises drilling and well services, mechanical repairs, manpower services, and spare parts trading. The company owns four jackup rigs, a Tender Assist Drilling (TAD) rig, 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\$625mn
6M avg. daily turnover	US\$5.8mn
Outstanding shares	556mn
Free float	55.0%
FINI ownership	22.0%
Major shareholders	50.41%
Net debt/Equity	1.9%
2024E EV/EBITDA	7.0x
2024E P/B	1.0x
Trading platform	HOSE
FOL Room	27.0%

Financial outlook (VND bn)

Year to Dec	2023A	2024E	2025E	2026E
Sales	5,812	7,402	9,565	10,272
Op. profit	756	1,319	2,445	2,813
Net profit	579	1,239	2,159	2,500
EPS (VND)	1,041	2,228	3,881	4,494
EPS chg (%)	n/a	113.9	74.2	15.8
P/E (x)	13.6	7.8	6.7	7.0
ROE (%)	4.2	8.8	14.5	15.5
Div. yield (%)		2.3	2.3	2.3
DPS (VND)		700	700	700

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PV Drilling (PVD VN)
The upcycle is just beginning

Day rate soared with no sign of short-term correction. Average day-rate reached US\$150,000 per day in January, increased by +15% YoY but up 114% vs 2022. The drilling industry is busy and day rates exhibit continued strength including 1) marketed utilization hit a record high of around 95% in SEA; and 2) the rig supply deficit in SEA is projected to drop to -3 rigs in May 2024, a multiple-year trough.

PVD has locked in drilling contracts for 2024–2025. In a recent analyst meeting, PVD disclosed that all self-owned jack-up rigs are contracted for 2024–25 and it is now concentrating on 2026 bookings. PVD III (a jack-up rig) has a 3-year contract to 2027 with an optional extension to 2029. We project 2024E drilling revenue to reach VND 5,039bn, (+23.8% YoY), which accounts for 68% of projected total revenue.

Short-term catalysts: 1) Higher average day rates are very likely to extend into 2026. 2) We assume PVD will acquire another jackup rig at a cost of US\$90mn with another US\$20mn in equipment spending in 2024. 3) Potential launch of Block B, O Mon in 2025, which should trigger further demand for drilling related services.

Yuanta vs. the Street. We forecast 2024F revenue of VND7.4 trillion (+27.4% YoY), which is 9.7% higher than the Bloomberg consensus. We anticipate increased day rates to support a +3.3ppt YoY expansion in gross margin, resulting in our 2024F PATMI forecast of VND1.2 trillion (+114% YoY), which is 34.3% above the Street.

We reiterate BUY and raise our target price by 6.0% to VND38,259, implying 26.3% 12-m TSR. Our new target price is the highest of any sell-side analysts listed in Bloomberg, reflecting our very bullish outlook for the company. Risks to our view include the stock's high correlation with volatile oil prices and possible delays for Block B.

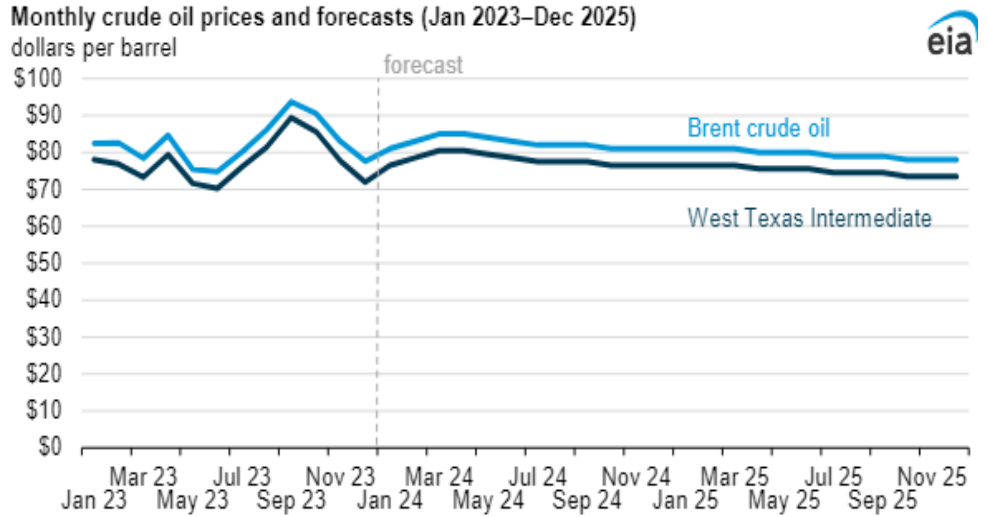
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Day rates continue to soar

Oil prices to remain high over the next two years at least. Brent futures currently trade at around US\$82pb, flat YoY but up +12.5% from the nearest bottom in December. We expect Brent to remain robust over the next two years under the assumption of relative balance in global supply and demand. The US Energy Information Administration (EIA) in January projected that Brent will average US\$82 pb in 2024 and US\$79pb in 2025, in line with its average of US\$82pb in 2023.

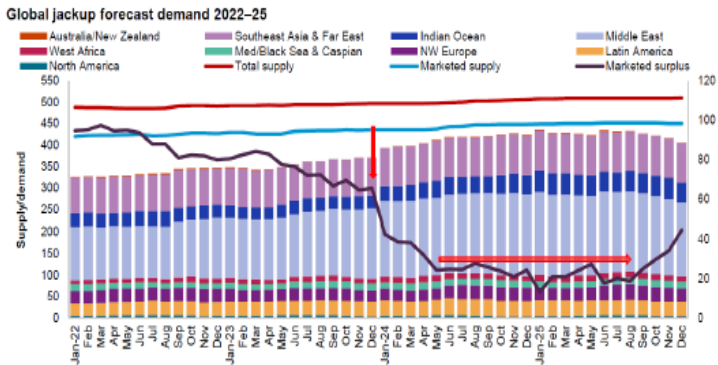
Fig.1: EIA projects Brent to remain stable in 2024-2025



Source: EIA

Drilling day rate is heading higher as demand remains high. The average SEA day rate reached US\$150,000 (per day) in January, up by +15% YoY and a whopping +114% since 2022. Demand for drilling rigs remains high as marketed rig utilization has reached 95%. S&P Global projects the worldwide marketed surplus (supply minus demand) to hit bottom in Jan 2025 at less than 20 rigs before recovering to 40 rigs in Dec 2025. But for now, rig supply is extremely tight – S&P expects the marketed surplus in Southeast Asia to hit bottom in May 2024 at -3 (i.e., a three-rig deficit).

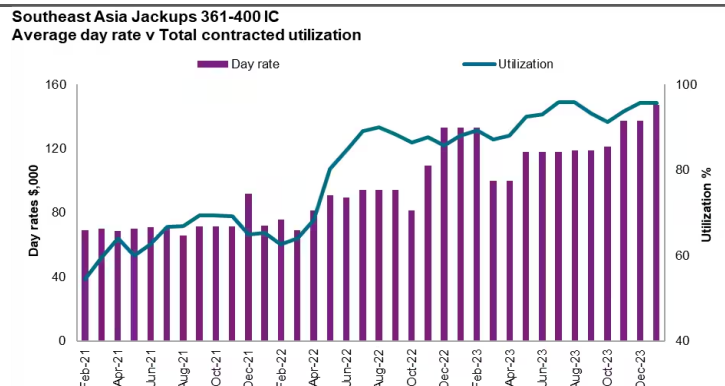
Fig.2: Rig supply to remain tight out to Jan 2025



Data compiled Dec. 18, 2023.
Source: S&P Global Commodity Insights upstream E&P content (Petrodata Rigs).
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Source: S&P global

Fig. 3: Day rate is heading to US\$150 per day



Data compiled Feb.14, 2024.
Source: S&P Global Commodity Insights upstream E&P content (Petrodata Rigs).
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Source: S&P global, Yuanta Vietnam

Rig supply tightening situation may persist longer. Despite the surging demand of the drilling market, there are very few rigs in the production pipeline. According to ODS Petrodata, there are only 18 rigs (12 of which are slated for China drillers) in the production pipeline, equivalent to 4.1% of the total marketed supply. Out of these 18

rigs in development, ten are slated for delivery in 2024, 3 in 2025, 3 in 2026, and 2 for subsequent years. In-progress rig production is much lower than it was in the previous cycle of 2014, when there were 141 rigs in production out of 453 marketed rigs (31.1%).

We believe that the production of new rigs is unlikely to ramp up quickly given the pressures of ESG compliance, and thus the situation of very tight rig supply is likely to persist for much longer this time around.

Fig.4: few rigs are in production (c.63%)

GLOBAL NEW BUILD JACKUP – JAN 2024				
No.	Rig Name	Manager	Delivered Date	Country/Area
1	West Tethys	Dalian Shipbuilding Industry Co (DSIC)	08-Feb-2024	China
2	West Umbriel	Dalian Shipbuilding Industry Co (DSIC)	08-Feb-2024	China
3	West Dione	Dalian Shipbuilding Industry Co (DSIC)	08-Jun-2024	China
4	Gulf Driller V	Ocean Challenger	09-Jul-2024	China
5	TS Jade	Shanhaiguan Shipyard	08-Aug-2024	China
6	TS Coral	Shanhaiguan Shipyard	08-Aug-2024	China
7	B370	Rigco Holding Pte Ltd	08-Oct-2024	Singapore
8	Ayu	Dalian Shipbuilding Industry Co (DSIC)	09-Nov-2024	China
9	Vale	Borr Drilling	30-Nov-2024	Singapore
10	West Mimas	Dalian Shipbuilding Industry Co (DSIC)	08-Dec-2024	China
11	Var	Borr Drilling	01-Jan-2025	Singapore
12	TS Opal	Shanhaiguan Shipyard	08-Jan-2025	China
13	West Hyperion	COSL	09-Mar-2025	China
14	TS Emerald	Shanhaiguan Shipyard	06-Jan-2026	China
15	Essar 309	Essar Oilfields Services	07-Jan-2026	India
16	Essar 308	Essar Oilfields Services	07-Jan-2026	India
17	Xin Sheng Li San Hao	Shengli Offshore	Provided later	China
18	Kingdom 2	ARO Drilling	Provided later	UAE

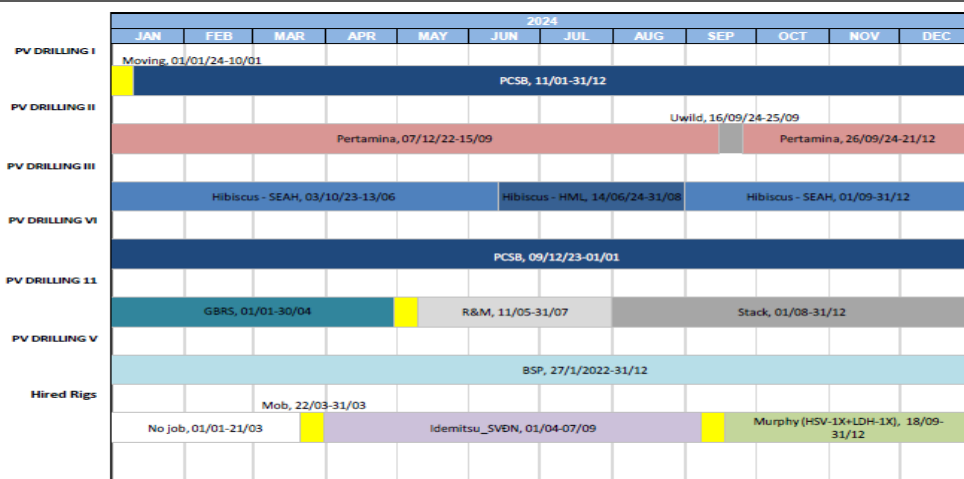
GLOBAL NEW BUILD JACKUP IN 10 YEARS (2014 VS 2024)

	Apr-14	Jan-24	Change since peak
Total marketed supply	453	437	-16
Total under construction	141	18	-123
% of new build order book	31.1%	4.1%	-27.0%

Source: PVD, ODS Petrodata

PVD's drilling rigs are fully deployed until end-2025. PVD disclosed that all self-owned jack-up rigs are contracted for 2024-25 and it is now concentrating on 2026 bookings. PVD III has a 3-year contract to 2027 with an optional extension to 2029. PVD is looking for long-term business in 2026.

Fig.5: All of PVD's rigs are fully booked in 2024-2025



Source: PVD

Recent financial performance snapshot

4Q23 PATMI: VND 194bn (up +28.4% QoQ / +264% YoY). This was driven by strong revenue growth (+28.5% QoQ / +19.8% YoY) and soaring gross profit margin of 22.7% in 4Q23, up from 17.9% in 4Q22. The 4Q23 improvement was also underpinned by increased utilization (i.e., 100% in 4Q23 vs. 95% in 2022) and higher day rates (\$92.7k/day, +35% YoY).

FY23 PATMI reached VND540bn, a substantial improvement from the FY22 net loss of VND154.9bn. As such, PVD beat its full-year PATMI guidance by a rather convincing 5.4x driven by GM expansion to 22.3%, up from 10.6% in FY22, and average day rate increase to \$78.7k (+30% YoY). Please see the link to our full 4Q23 results note: [The upcycle is just beginning](#).

Earnings revisions: Hiking our assumptions for drilling operations, but trimming our drilling-related business forecasts.

We now forecast 2024F revenue to reach VND 7,402bn, up by +27.4% YoY. This assumption is -17.6% lower than our previous forecast. This is because we trimmed our projection for the drilling-related revenue down by -57% compared to our previous forecast due to the delay in the Block B project. By contrast, we raise our drilling revenue forecast by +21% vs. the previous estimated after revising up our day rate assumption.

We still expect drilling-related revenue to increase by +16.8% YoY to reach VND 1,856bn in 2024E, accounting for 25% of total revenue. PVD's drilling business is locked in for 2024-2025, but PVD is still expanding its drilling-related business in overseas markets. This segment should pick up in 2025 when Block B is initiated; hence, we project 2025E drilling-related revenue of VND 2,475bn, up +33.3% YoY.

We project 2024E drilling revenue to increase by 23.8% YoY to reach VND 5,039bn, accounting for 68% of PVD's total projected revenue. We assume the average day rate in 2024 to be US\$100k (+28% YoY), with that of 2025 to reach US\$110k (+10% YoY) and 2026 to reach US\$120 (+9% YoY) and remain at that level in 2027-28 (the end of our model's forecasting period). Our day rate assumptions are arguably conservative given that the current-day rate in Southeast Asia is around US\$150k.

In addition, we raise our utilization assumption to 99%, up from our previous assumption of 95%, due to higher-than-anticipated rig demand and the fact that the developers are willing to pay for rig moving time. In addition, PVD plans to have a hired rig beginning in 2H24, and we assume that PVD will acquire another jackup rig in 2024 for full deployment in 2025. We have penciled in 2024E capex for the acquired rig at US\$90mn, plus another US\$20mn for related equipment.

We project FY2024E gross profit margin to expand by +3.3 percentage points YoY to reach 25.7% as the average day rate increases by +28% YoY. Thus, we forecast FY2024F PATMI to reach VND 1,239bn, an increase of an impressive +114% YoY. Further out, we project FY2025F PATMI to jump by another +74% YoY to reach VND 2,159bn, mostly due to improved sales of drilling-related services.

Fig. 5: FY2021 revenue revision

Key Metric	FY2023A	FY2024E	% YoY change	Comments
Revenue	5,812	7,402	27%	
<i>Drilling</i>	4,070	5,039	24% YoY to USD 100k	Average day rate rose by 28%
<i>Trading</i>	154	508	230%	
<i>Drilling related services</i>	1,588	1,856	17%	Drilling related business to find business overseas
		(5,499)		
Gross profit margin (%)	22.4	25.7	+3.3 ppt	Due to improvement in the average day rate
Operating expenses	(544)	(584)	7%	
Operating profits	756	1,319	74%	
Profit from JVs	66	190	187%	
Pretax profits	656	1,507	130%	
PATMI	579	1,239	114%	

Source: YSVN

Valuations: Reiterate BUY

We reiterate our **BUY** recommendation and raise our target price by +6.0% to VND 38,259 per share, equivalent to **TSR of 26.3%**. Our new target price is based on a weighted approach that applies 50% each to our FCFE model and comparable P/B multiples.

Fig. 6: Valuation summary

Method	Target price (VND)	Weighting	Upside
FCFE	38,748	50%	27.9%
P/B	37,771	50%	24.7%
Overall target price	38,259	100%	26.3%

Source: YSVN

We remain conservative in our FCFE valuation. We apply a COE of 15.3%, Beta of 1.3, and terminal growth rate of 2.0%.

Fig. 7: FCFE valuation

FCFE (VND bn)	2024F	2025F	2026F	2027F	2028F	2029F
PBT	1,507	2,651	3,067	2,974	2,951	2,937
(-) Tax	(301)	(530)	(613)	(595)	(590)	(587)
(-) Increase in WC	1,097	(143)	(113)	46	76	83
(-) Capex	(2,638)	(268)	(270)	(274)	(278)	(283)
(+) Depreciation	817	1,122	1,055	1,071	1,087	1,092
FCFE	481	2,832	3,126	3,222	3,245	3,242
NPV	9,375					
Terminal value	24,816					
PV of Terminal value	12,164					
Enterprise value	21,539					
Outstanding shares	555,880,006					
Fair value per share (VND)	38,748					

Source: YSVN

We apply a target P/B of 1.17x, which is 10% discount to that of the regional peer median (1.3x) to justify the fact that PVD is relatively smaller in size.

Fig. 8: The implied P/B is 20% lower than that of regional peer median

P/B multiple method	Target price (VND)
Book value per share	32,283
Target P/B (x)	1.2
Target price	37,771

Source: YSVN

Risks to our view: The main risks for investors include 1) the inevitable short-term oil price declines given the stock's high correlation with oil prices, and 2) more fundamentally, prolonged delays for the Block B project may negatively impact our forecasts.

In addition, short-term profit-taking in this retail investor-dominated stock market may dampen the share price in the short term. However, PVD's fundamentals are extremely sound, and we would consider any such share price correction to be a buying opportunity when and if it occurs.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Revenue	5,432	5,812	7,402	9,565	10,272
<i>Drilling</i>	3,535	4,070	5,039	6,528	7,031
<i>Trading</i>	115	154	508	563	591
<i>Drilling related ser.</i>	1,781	1,588	1,856	2,475	2,650
Cost of goods sold	(4,854)	(4,511)	(5,499)	(6,496)	(6,823)
Gross profits	577	1,301	1,904	3,069	3,449
Operating expenses	(510)	(544)	(584)	(624)	(637)
Operating profits	67	756	1,319	2,445	2,813
Net interest expenses	(195)	(258)	(2)	13	58
Net investments income/(loss)	45	66	190	193	197
Net other incomes	(56)	91	-	-	-
Pretax profits	(139)	656	1,507	2,651	3,067
Income taxes	(16)	(115)	(301)	(530)	(613)
Minority interests	(52)	(39)	(15)	(19)	(27)
Net profits	(103)	579	1,239	2,159	2,500
<i>Core earnings</i>	(103)	579	1,239	2,159	2,500
EBITDA	671	1,613	2,137	3,567	3,868
EPS (VND)	(185)	1,041	2,228	3,881	4,494

KEY RATIOS					
	2022A	2023A	2024E	2025E	2026E
Growth (% YoY)					
Sales	35.9	7.0	27.4	29.2	7.4
<i>Drilling</i>	92	15	24	30	8
<i>Trading</i>	(77)	34	230	11	5
<i>Drilling related ser.</i>	7	(11)	17	33	7
<i>Other</i>	4	5	6	7	8
Operating profit	67	756	1,319	2,445	2,813
EBITDA	16	140	32	67	8
Net profit	(521)	n/a	114	74	16
EPS (VND)	(499)	n/a	114	74	16
Profitability ratio (%)					
Gross margin	10.6	22.4	25.7	32.1	33.6
Operating margin	1.2	13.0	17.8	25.6	27.4
EBITDA margin	12.4	27.8	28.9	37.3	37.7
Net margin	(2.9)	9.3	16.3	22.2	23.9
ROA	(0.5)	2.7	5.7	9.2	9.8
ROE	(0.7)	4.2	8.8	14.5	15.5
Stability					
Net debt/equity (%)	9.5	net cash	1.9	net cash	net cash
Int. coverage (x)	0.2	3.6	14.7	27.4	34.3
Int. &ST debt coverage (x)	0.0	1.1	2.7	4.3	5.1
Cash conversion days	184.4	191.6	123.3	72.5	72.2
Current ratio (X)	2.0	2.2	1.5	2.2	3.0
Quick ratio (X)	1.7	1.9	1.2	1.9	2.7
Net cash/(debt) (VND mn)	(1,332)	193	(301)	2,003	4,654
Efficiency					
Days receivable outstanding	138	141	90	51	51
Days inventory outstanding	56	60	43	30	31
Days payable outstanding	9	10	9	9	9

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Total assets	20,704	21,650	21,800	23,500	25,527
Cash & cash equivalents	2,079	2,256	903	2,998	5,458
ST Investment	424	1,278	1,278	1,278	1,278
Accounts receivable	2,163	2,340	1,292	1,396	1,456
Inventories	909	1,000	734	845	892
Other current assets	71	79	58	67	71
Net fixed assets	13,567	13,115	14,911	14,101	13,361
Others	1,491	1,581	2,623	2,816	3,012
Total liabilities	6,626	6,756	5,713	5,541	5,365
Current liabilities	2,868	3,176	2,938	3,017	3,015
Accounts payable	2,033	2,623	2,438	2,476	2,491
ST debts	835	553	500	541	525
Long-term liabilities	3,757	3,580	2,775	2,524	2,349
Long-term debts	3,000	2,788	1,983	1,732	1,557
Others	758	792	792	792	792
Shareholder's equity	14,079	14,894	16,087	17,959	20,163
Share capital	5,563	5,563	5,563	5,563	5,563
Treasury stocks	(21)	(21)	(21)	(21)	(21)
Others	8,101	8,661	8,959	9,016	9,065
Retained earnings	436	691	1,586	3,401	5,556
Minority interest	229	237	222	204	176

CASH FLOW (VND bn)					
FY (VND'bn)	2022A	2023A	2024E	2025E	2026E
Operating cash flow	412	1,986	2,319	2,782	3,077
Net income	(103)	579	1,239	2,159	2,500
Dep. & amortisation	604	857	817	1,122	1,055
Change in working capital	569	(823)	1,097	(143)	(113)
Others	(658)	1,373	(835)	(356)	(365)
Investment cash flow	924	(1,046)	(2,545)	(210)	(157)
Net capex	(256)	(259)	(2,638)	(268)	(270)
Change in LT investment	-	(113)	-	-	-
Change in other assets	1,179	(787)	94	58	113
Cash flow after invt.	1,335	827	(226)	2,572	2,920
Financing cash flow	(387)	(762)	(1,127)	(478)	(460)
Change in share capital	-	-	-	-	-
Net change in debt	(119)	(494)	(858)	(209)	(191)
Change in other LT liab.	(268)	(268)	(268)	(268)	(269)
Net change in cash flow	948	177	(1,353)	2,094	2,460
Beginning cash flow	1,131	2,079	2,256	903	2,998
Ending Cash Balance	2,079	2,256	903	2,998	5,458

KEY METRICS					
	2022A	2023A	2024E	2025E	2026E
PE (x)	(163.7)	29.1	13.6	7.8	6.7
Diluted PE (x)	(163.7)	29.1	13.6	7.8	6.7
PB (x)	1.2	1.1	1.0	0.9	0.8
EBITDA/share	1,207	2,900	3,841	6,412	6,953
DPS			700	700	700
Dividend yield (%)			2.3	2.3	2.3
EV/EBITDA (x)	22.2	9.2	7.0	4.2	3.8

Appendix A: Important Disclosures

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