

PVD – OUTPERFORM

STOCK STATISTICS
(September 12th, 2019)

| Exchanges | HOSE |
|--------------------|-------------|
| Market price (VND) | 17,700 |
| 10 Avg. daily vol | 2,592,997 |
| Mkt cap (VND bn) | 7,264 |
| Volume | 421,129,789 |

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PVD: WAITING FOR SOME NEWS ABOUT TAD V

HIGHLIGHT UPDATES

Drilling market: VCBS maintain our point of view on PVD's jack-up utilization rate of 94% in 2019 due to the increase in number of upstream projects in Malaysia.

PVD's business activities are now depending crucially in Malaysian market meanwhile PVD has modest amounts of jobs in domestic market.

Utilization rates & Day rates: VCBS think that day rate rises in short term due to the temporary shortage of rigs at Malaysian market meanwhile the bulk of rigs are being either under stand-by status or under construction in Singapore.

Highlight in PVD's performance arises from the bidding of TAD project in Brunei: In good case of PVD's successfully bidding TAD V project, VCBS saw PVD's cash flow positively grow by major drilling activities. Although PVD's cash flow is improved, its bottom line is not likely to be as good as its cash flow.

Well – related service captured our attention: VCBS think that gross margin of well technical services will decrease by the restriction from Malaysian market.

RECOMMENDATION

VCBS biases toward the winning in bidding TAD of PVD thanks to the pressure from TAD's loans on PVD's financial to force PVD supposed to win this project.

We raise our recommendation of PVD to **OUTPERFORM** with target price of **VND20,428** in case of **winning in bidding TAD**.

| Income Statement | Winning In Bidding TAD | | Failing In Bidding TAD | |
|------------------------|------------------------|-----------|------------------------|-----------|
| | 2020F | 2021F | 2020F | 2021F |
| Revenue | 6,064,570 | 6,262,251 | 5,311,367 | 5,493,984 |
| - Cost of goods sold | 5,215,607 | 5,349,556 | 4,472,995 | 4,606,944 |
| Gross profit | 848,963 | 912,695 | 838,372 | 887,040 |
| - Sales & marketing | 22,546 | 21,082 | 19,746 | 18,495 |
| - General & admin | 363,874 | 375,735 | 318,682 | 329,639 |
| Operating profit | 462,543 | 515,878 | 499,944 | 538,906 |
| - Forex gains/(losses) | 140,226 | 132,872 | 122,810 | 116,571 |
| - Net non-op gains | 93,147 | 105,894 | 93,147 | 105,894 |
| EBIT | 695,916 | 754,644 | 715,902 | 761,371 |
| - Interest expense | 154,610 | 161,456 | 132,133 | 118,224 |
| EBT | 541,306 | 593,188 | 583,768 | 643,146 |
| - Income tax expense | 147,314 | 71,183 | 158,870 | 77,178 |
| Profit after tax | 393,992 | 522,006 | 424,899 | 565,969 |
| - Minority interests | -60,812 | -59,876 | -65,582 | -64,918 |
| Net Income to common | 454,804 | 581,882 | 490,481 | 630,887 |
| EPS | 1,079 | 1,380 | 1,163 | 1,496 |
| Target price | 20,428 | | 17,570 | |

Source: VCBS research

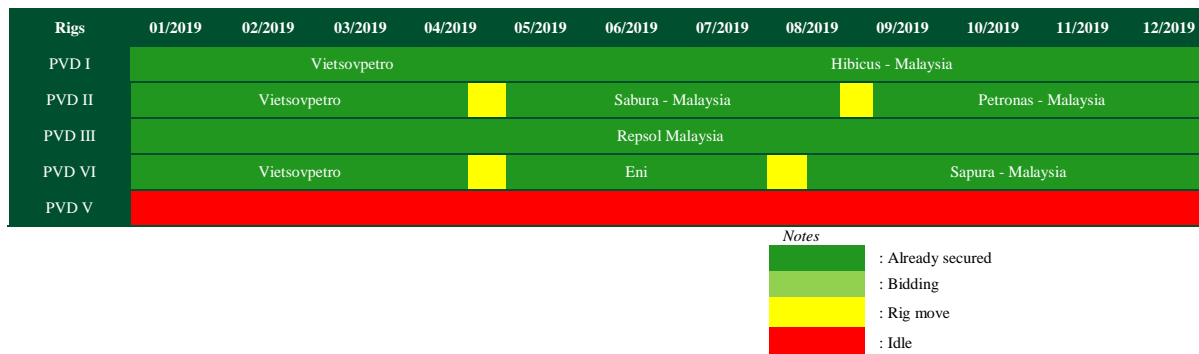
PERFORMANCE ANALYSIS

Drilling market

VCBS maintain our point of view on PVD's jack-up utilization rate at 94% in 2019 due to the increase in numbers of upstream projects in Malaysia.

It is obvious that PVD's rigs utilization rate should get better in 2019. VCBS believe that 2020 will continue to be a good year for PVD in term of its utilization rates and day rates due to the several amount of drilling consumption in Malaysia.

Figure 1: Drilling plan



Source: VCBS research

However, VCBS concern about the unstable movement at Malaysia's drilling market. Obviously, Malaysia has already imposed the limitation on foreign investors who are seeking jobs in Malaysian Oil & Gas market since 2015. There was a safeguard treatment of Malaysian government on its domestic companies during difficult circumstances in 2015.

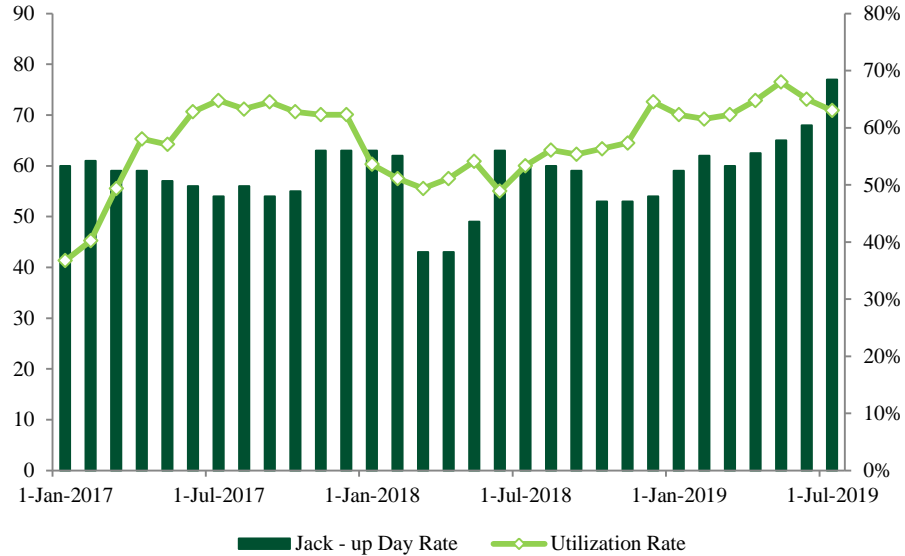
Currently, the majority of Malaysian oil & gas projects which have been pending from 2015 are being relaunched aggressively in 2019 as a result of the good performance of global oil movement in 2017-2018. Many projects run simultaneously that result in the higher consumption in upstream services including drilling jobs. Given the unstable in global Brent oil market as our analysis in "VCBS Oil & Gas Sector Report 2H.2019", VCBS worries about PVD's workload in worst case of descending in Brent Oil price making Malaysian Oil & Gas project to be suspended. PVD's business activities are now depending crucially on Malaysian market meanwhile PVD has modest amounts of jobs in domestic market.

Utilization rates & SEA regional day rate to be surprisingly high Day rates

Although there is a large gap between supply & demand of rigs in region, day rate has recorded high in July 2019 of above 75,000 USD/day. As our analysis in "Drilling market", VCSB saw Malaysia increasingly employ rigs since 1H.2019 that supported regional day rates to rise up in 2019. In Malaysian market, if the aggregate Brent oil price in 1 year stays above the breakeven point of each specific project, it will restart immediately.

As our concern about the Brent Oil movement in "VCBS Oil & Gas Sector Report 2H.2019", we mentioned that Brent Oil is amid ongoing unrest with large fluctuation range. In worst case of Brent Oil below USD50/barrel, Malaysian government is likely to put its Oil & Gas projects into offline status, setting barriers over its domestic market again.

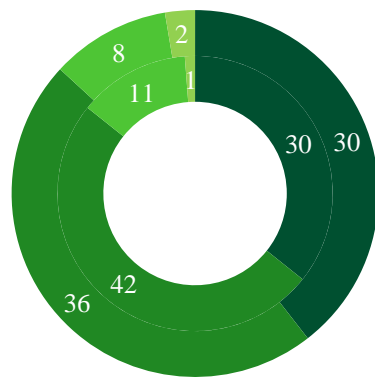
Figure 2: Regional jack - up day rates in South East Asia



Source: VCBS research, IHS

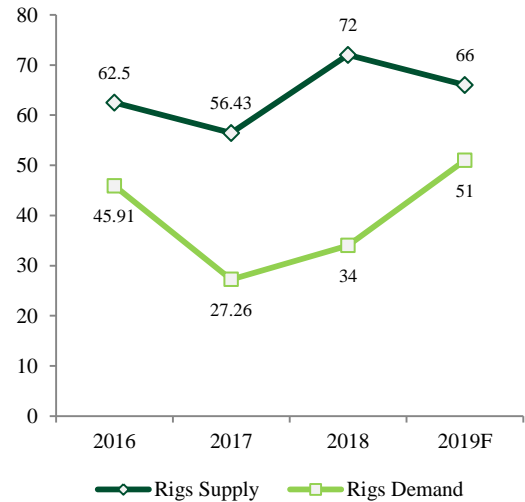
VCBS think that day rates rises in short term due to the temporary shortage of rigs at Malaysian market meanwhile the bulk of rigs are being either under stand-by status or under construction in Singapore.

Figure 4: Rigs in South East Asia (2018: Inside; 2019: Outside)



■ Drilling ■ Stacked & yard ■ Under construction ■ Fixing

Figure 5: Supply - Demand of drilling services in South East Asia



◆ Rigs Supply □ Rigs Demand

Source: VCBS research

Although there is an increase in drilling services consumption, only 51 over 66 rigs are being put into operation. In detail, among those working rigs, 30 ones are now drilling at full power while the rests are in warm stacked status.

Highlight in PVD's In good case of PVD's successfully bidding TAD V project, VCBS saw PVD's cash flow positively grow by

performance is bidding of TAD at Brunei

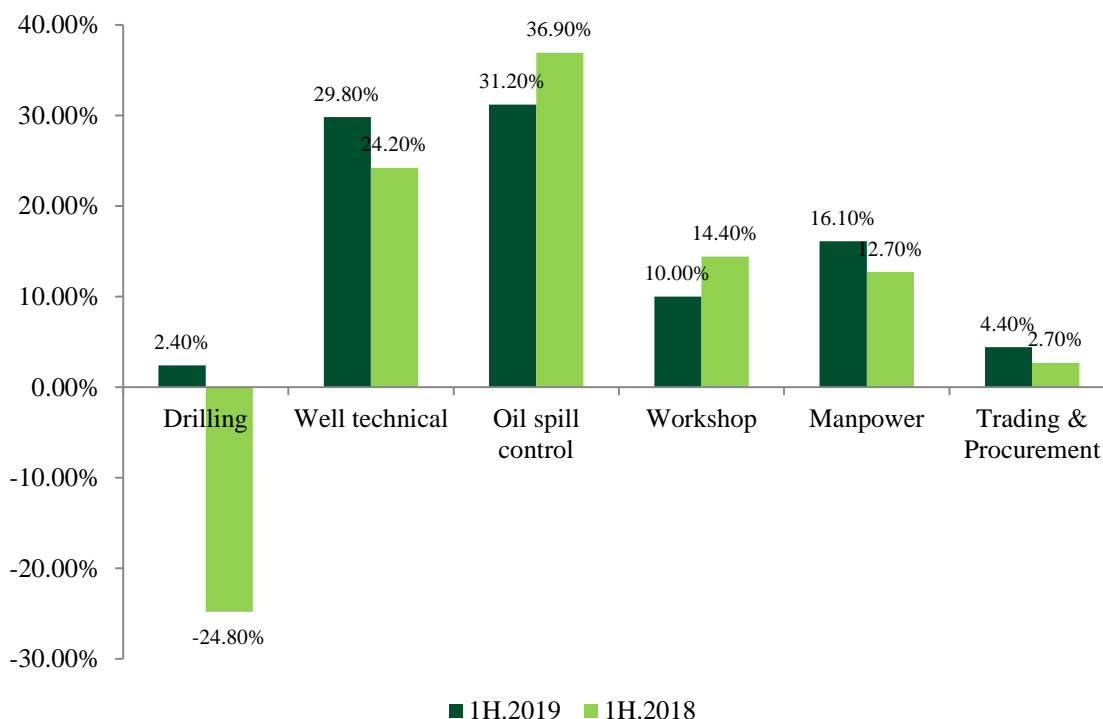
major drilling activities. Although PVD’s cash flow is improved, its bottom line is not likely to be as good as its cash flow. It depend on day rates of TAD V in rental contract, VCBS forecast PVD would set TAD V day rates relatively low with USD85,000/day to compete with other contractors. Although TAD V’s cash costs approximately USD70,000/day in its OPEX. We are concerning that significant non-cash cost (e.g: depreciation expense) may narrow the profit margin of this project.

Additionally, TAD V rig should be transform from cold stacked to warm stacked with total cost of USD30 mn capitalizing in its book value.

Well – related service captured our attention

Although Drilling service segment accounted a large proportion in PVD’s revenue, it only contributed a small amount in PVD’s profit. The majority of earning comes from Well – Related service segment with high gross profit margin. As you can see in the figure below, both of Drilling & Well – related services gross margin increased in 1H.2019 compared to the same period.

Figure 6: PVD’s segment gross profit margin



Source: VCBS research

VCBS think that Well technical gross margin will decrease by the restriction from Malaysian market. Particularly, we saw PVD difficultly embed its well – related service with drilling service in oversea market. From 2H.2019, PVD’s rigs works mostly in offshore, which leads to a slump in its well – related gross margin.

VALUATION

Forecast

VCBS saw an important of TAD rig’s activities in PVD’s performance, so we supposed to generate two scenarios in our valuation depend on TAD bidding result.

Regional day rates although went up to USD70.000, VCBS maintain our forecast for PVD’s business result in 2019 because the most of drilling contract in 2019 was completely in identification of day rates and terms.

In term of TAD drilling contract, the works will deployed during 6 years from 2021. VCBS forecast PVD’s performance from 2019 to 2021of each scenario.

PVD's performance in case of winning in bidding TAD

| Income Statement | 2019F | 2020F | 2021F |
|------------------------|-----------|-----------|-----------|
| Revenue | 5,099,537 | 6,064,570 | 6,262,251 |
| - Cost of goods sold | 4,343,157 | 5,215,607 | 5,349,556 |
| Gross profit | 756,381 | 848,963 | 912,695 |
| - Sales & marketing | 20,935 | 22,546 | 21,082 |
| - General & admin | 305,972 | 363,874 | 375,735 |
| Operating profit | 429,473 | 462,543 | 515,878 |
| - Forex gains/(losses) | 111,278 | 140,226 | 132,872 |
| - Net non-op gains | 110,944 | 93,147 | 105,894 |
| EBIT | 651,696 | 695,916 | 754,644 |
| - Interest expense | 150,336 | 154,610 | 161,456 |
| EBT | 501,360 | 541,306 | 593,188 |
| - Income tax expense | 136,443 | 147,314 | 71,183 |
| Profit after tax | 364,917 | 393,992 | 522,006 |
| - Minority interests | -14,606 | -60,812 | -59,876 |
| Net Income to common | 379,523 | 454,804 | 581,882 |
| EPS | 900 | 1,079 | 1,380 |

PVD's performance in case of failing in bidding TAD

| Income Statement | 2019F | 2020F | 2021F |
|------------------------|-----------|-----------|-----------|
| Revenue | 5,099,537 | 5,311,367 | 5,493,984 |
| - Cost of goods sold | 4,343,157 | 4,472,995 | 4,606,944 |
| Gross profit | 756,381 | 838,372 | 887,040 |
| - Sales & marketing | 20,935 | 19,746 | 18,495 |
| - General & admin | 305,972 | 318,682 | 329,639 |
| Operating profit | 429,473 | 499,944 | 538,906 |
| - Forex gains/(losses) | 111,278 | 122,810 | 116,571 |
| - Net non-op gains | 110,944 | 93,147 | 105,894 |
| EBIT | 651,696 | 715,902 | 761,371 |
| - Interest expense | 146,336 | 132,133 | 118,224 |
| EBT | 505,360 | 583,768 | 643,146 |
| - Income tax expense | 137,531 | 158,870 | 77,178 |
| Profit after tax | 367,829 | 424,899 | 565,969 |
| - Minority interests | -14,722 | -65,582 | -64,918 |
| Net Income to common | 382,551 | 490,481 | 630,887 |
| EPS | 907 | 1,163 | 1,496 |

Valuation: VCBS evaluate the value of PVD's share at VND20,428 in this case.

| DCF | 2019 |
|----------------------------|---------------|
| Risk Free rate | 4.65% |
| Equity Risk Premium for VN | 10.27% |
| Beta | 1.49 |
| WACC | 17.65% |
| FCFF | 20,936 |
| FCFE | 19,920 |
| Fair value | 20,428 |

Valuation: Valuation: VCBS evaluate the value of PVD's share at VND17,570 in this case.

| DCF | 2019 |
|----------------------------|---------------|
| Risk Free rate | 4.65% |
| Equity Risk Premium for VN | 10.27% |
| Beta | 1.49 |
| WACC | 17.80% |
| FCFF | 18,838 |
| FCFE | 16,302 |
| Fair value | 17,570 |

RECOMMENDATION

OUTPERFORM

VCBS biases toward the winning in bidding TAD of PVD thanks to the pressure from TAD's loans on PVD's financial to force PVD supposed to win this project.

We raise our recommendation of PVD to **OUTPERFORM** with target price of **VND20,428** in case of **winning in bidding TAD**.

DISCLAIMER

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