

PV Drilling (PVD)

Expecting recovery of E&P activities in 2024–25

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In 2023, revenue only picked up 6% YoY but gross profit climbed 127% YoY due to 2022's low base

For the whole year 2023, PV Drilling & Well Services (PVD) posted a slight increase of 6% YoY in revenue. PVD did not record revenue from outsourced rigs as in 2022, but the average day rate rose ~34% YoY, and the utilization improved markedly from 83% to 96%. The drilling services segment witnessed a 12% YoY decline due to sluggish domestic exploration and production (E&P) activities. Gross profit surged by 127% YoY largely thanks to higher day rates and improved utilization, while operating expenses remained relatively unchanged.

Global rig demand is set to maintain its upward trend in the 2024–2025 period

The key driver for the global demand for jack-up rigs still comes from the Middle East. S&P Global forecasts that this region will require ~180 rigs during 2024–2025 (from 122 rigs in 2022). Jack-up rigs from Southeast Asia will also be drawn to the Middle East, breeding a potential supply shortage in the region in 2024–2025.

Jack-up rig utilization surged globally, which would further push the day rates

The utilization of jack-up rigs globally is approaching the peak of 2014. We expect it to remain high for at least the next two years as the global fleet is aging while the order book is at a record low. Consequently, the day rates are expected to grow strongly and surpass the USD150,000 threshold seen in 2013–2014.

We recommend BUY for PVD with a target price of VND37,800/share

We maintain our BUY recommendation for PVD. The target price is VND37,800 per share, 20.2% higher than the closing price on March 19, 2024. Our 8.6% upward revision compared to the previous projection is due to (1) lower risk-free rate and market risk premium assumptions and (2) the addition of new jack-up rigs into the model assumptions.

Buy maintain

Target price VND37,800

Upside	20.2%
Current price (Mar 19, 2024)	VND 31,450
Consensus target price	VND 34,500
Market cap (VNDbn/USDmn)	18,621/776

Trading data

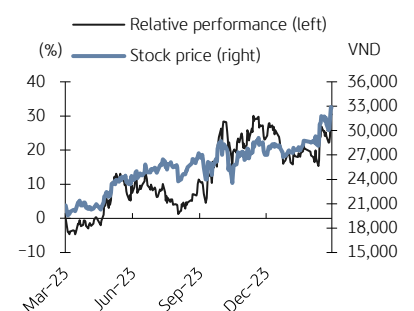
Free float	45.9%
3M avg trading value (VNDbn/USDmn)	147.1/6.1
Foreign ownership	25.5%
Major shareholder	Petrovietnam (50.5%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	14.7	21.5	20.6	52.9
Relative	9.1	6.0	17.1	28.5

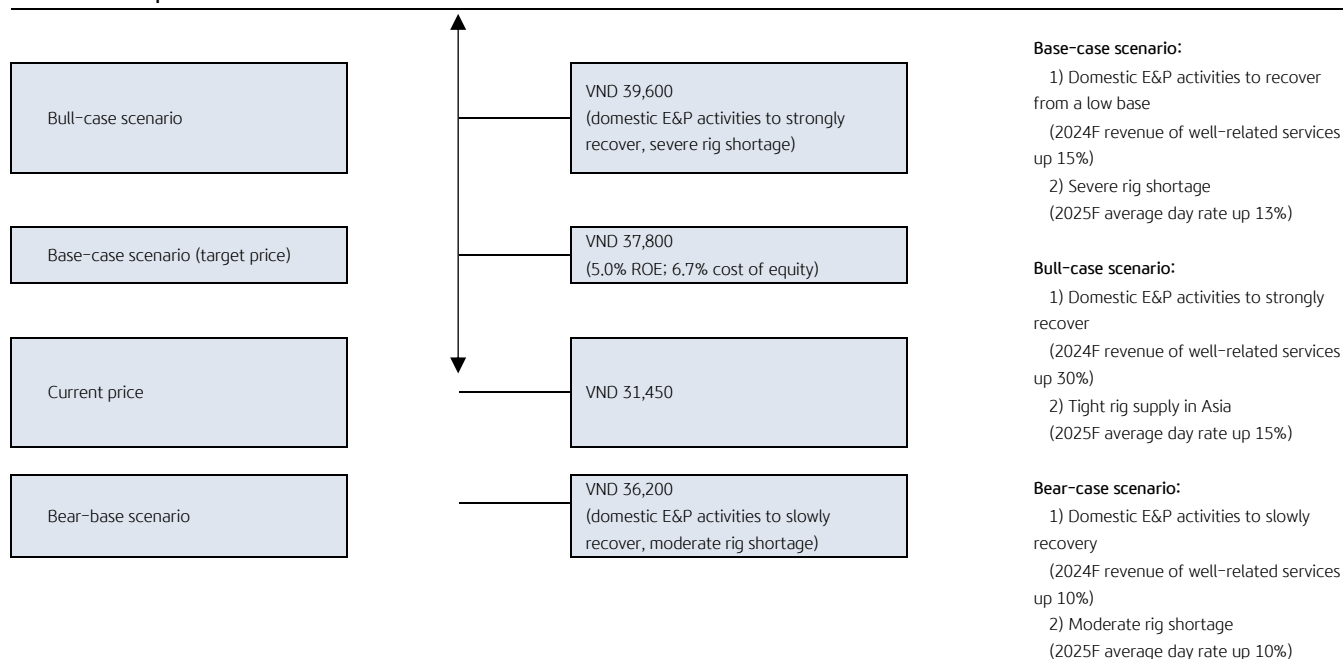
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	5,432	5,812	6,895	8,280
Operating income/loss (VNDbn)	30	907	1,404	2,059
NPAT-MI (VNDbn)	-103	579	928	1,426
EPS (VND)	-250	803	1,668	2,563
EPS growth (%)	594	-421	108	54
P/E (x)	-131.20	40.85	19.66	12.80
P/B (x)	1.31	1.24	1.19	1.11
ROE (%)	-1.1	3.6	5.9	8.6
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

Business performance

In 2023, revenue only picked up 6% YoY but gross profit climbed 127% YoY due to 2022's low base

For the whole year 2023, PV Drilling & Well Services (PVD) posted a slight increase of 6% YoY in revenue. PVD did not generate revenue from outsourced rigs as in 2022, but the average day rate rose ~34% YoY, and the utilization improved markedly from 83% to 96%. The drilling services segment witnessed a 12% YoY decline due to sluggish domestic exploration and production (E&P) activities. Gross profit surged by 127% YoY largely thanks to higher day rates and improved utilization, while operating expenses remained relatively unchanged.

Table 1. PVD – 2022A–2023A business results

(VNDbn)	4Q2022	4Q2023	%YoY	2022A	2023A	%YoY	KBSV's comments
Revenue	1,458	1,748	20%	5,432	5,768	6%	
Drilling services	909	1,211	33%	3,535	4,038	14%	The average jack-up rig day rate jumped by about 34% YoY and the utilization improved to 96% from 83% in the same period. However, no revenue was recorded from outsourced rigs as in 2022.
Trade	46	31	-33%	115	154	34%	
Well-related services & others	503	506	1%	1,781	1,576	-12%	The decline was mainly due to sluggish domestic E&P activities in 1H2023, which started to show signs of recovery from 2H2023.
Gross profit	1,125	1,125	0%	577	1,308	127%	
Gross profit margin (%)	23.0%	36.0%		10.6%	22.7%		
Drilling services	17.0%	27.0%		3.6%	21.2%		GPM of rig rental services improved markedly due to increased day rates and utilization while operating expenses remained relatively unchanged. PVD did not outsource rigs, contributing to improving GPM.
Trade	41.0%	0.0%		24.3%	5.2%		
Well-related services & others	14.0%	18.0%		23.7%	28.3%		Started improving from 2H2023
SG&A	-188	-165	-12%	-511	-544		
Operating income	73	233	222%	66	757	1047%	
Financial income	35	36	4%	118	134	13.6%	
Financial expenses	-87	-78	-10%	-313	-392	25.2%	Interest expenses increased mainly due to a sharp increase in the LIBOR interest rates. Foreign exchange loss spiked in 3Q2023 (+74% YoY) but declined in 4Q2023.
Net other income	-12	-10	-10%	-56	-64	14.3%	Received the compensation worth USD6 million for the termination of a drilling contract with Valeura Energy (Thailand).
PBT	36	220	508%	-139	656	N.M	
NPAT	53	194	264%	-155	541	N.M	

Source: PV Drilling & Well Services, KB Securities Vietnam

Global rig demand is set to maintain its upward trend in the 2024–2025 period

We observe that Brent crude oil prices hovering around USD83 per barrel as they are currently will encourage upstream companies to intensify their exploration activities, thus driving the demand for jack-up drilling rigs. S&P Global forecasts that the global upstream oil and gas investment growth will achieve a 4% CAGR (compound annual growth rate) during 2023–2027. As noted in previous reports, the primary driver for the global demand for jack-up rigs still comes from the Middle East region. S&P Global predicts that the Middle East will require ~180 rigs in the 2024–2025 period (compared to only 122 rigs in 2022). Jack-up rigs from Southeast Asia will also be drawn to the Middle East, breeding a potential supply shortage in the region in 2024–2025.

Jack-up rig utilization surged globally, which would further push the day rates

From our observation, the utilization of jack-up rigs globally is approaching the peak level of the latest oil and gas life cycle in 2014. We expect it to remain high at least over the next two years as the global fleet of jack-up rigs is aging while the order book is at a record low (accounting for only 4% of the total current rigs). Consequently, the day rates are expected to grow strongly and surpass the USD150,000 threshold seen in the 2013–2014 period.

The addition of new drilling rigs in 2024 is forecast to boost PVD's earnings growth in the long term

We are incorporating new jack-up rigs into the model assumptions as PVD's management demonstrates their confidence in this investment project. PVD expects to purchase a jack-up rig with a useful life of about 10 years in the fourth quarter of 2024. The total investment cost for the project will be ~USD90 million, which is funded by 70% long-term debt and expected to be put into operation from early 2025 with a day rate of ~USD120,000.

Fig 2. PVD – Utilization rate, day rate of IC 350+ jack-up rig (% , USD)



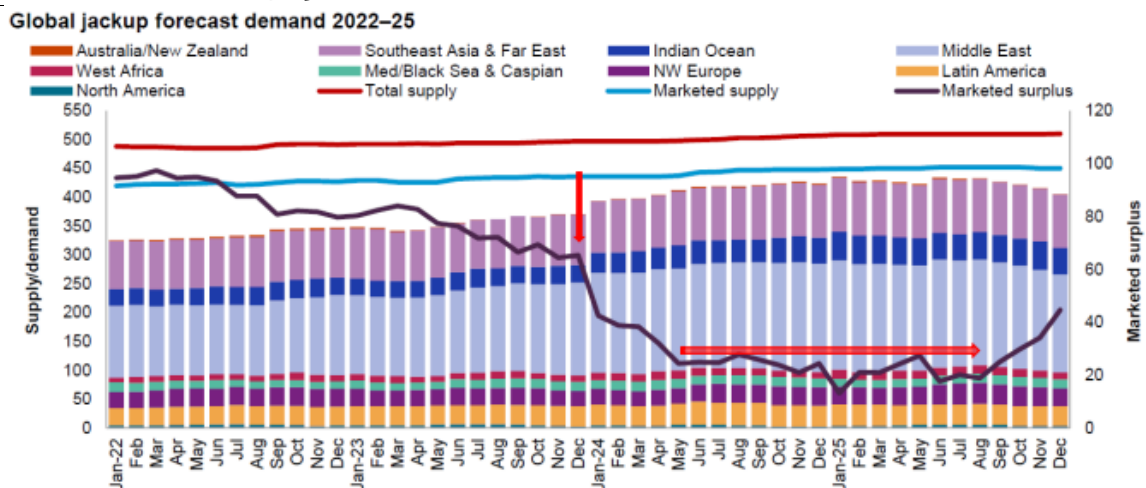
Source: PV Drilling & Well Services, S&P Global Petrodata, KB Securities Vietnam

Fig 3. PVD – Jack-up rig order book/market supply between the peak in 2014 and 2024

	Apr 2014	Jan 2024	Change
Total market supply	453	437	-16
Total order book	141	18	-123
Order book/Total supply (%)	31%	4%	-27%

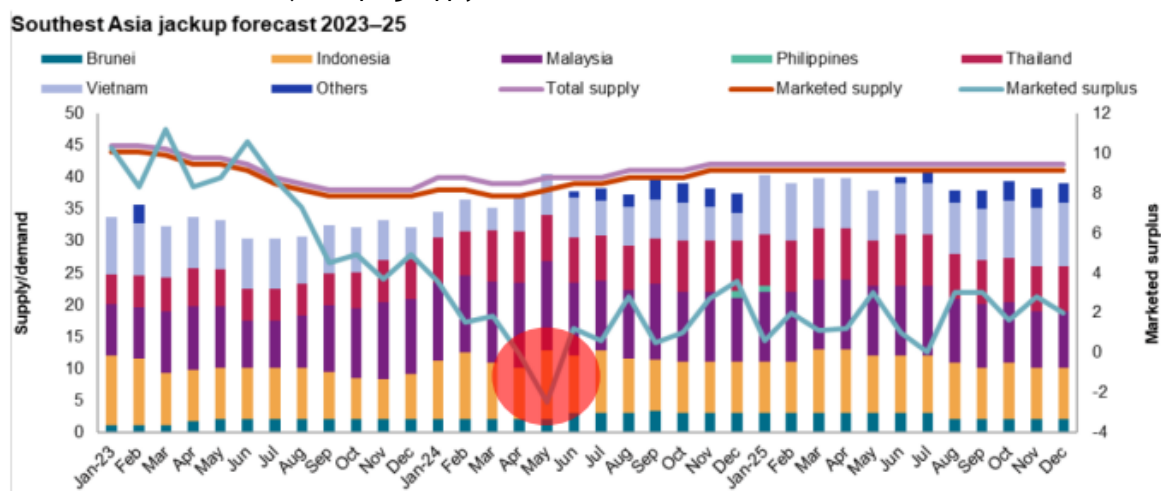
Source: PV Drilling & Well Services, S&P Global Petrodata, KB Securities Vietnam

Fig 4. Global – Forecast for Jack-up rig demand



Source: PV Drilling & Well Services, S&P Global Petrodata

Fig 5. Southeast Asia – Forecast for jack-up rig supply-demand



Source: PV Drilling & Well Services, S&P Global Petrodata

Forecast

Table 6. PVD – 2023A–2024F business results

(VNDbn)	2023A	2024F	%YoY	KBSV's comments
Average jack-up rig day rate ('000 USD)	82	96	17.1%	
Jack-up rig utilization (%)	96.4%	96.2%		
Revenue	5,812	6,895	18.6%	
Drilling services	4,038	4,921	21.9%	Due to an increase in the average day rate and contribution from outsourced drilling rigs
Trade	154	161.7	5.0%	
Well-related services	1,576	1,812	15.0%	Domestic E&P activities are expected to be more vibrant from 2024.
Gross profit	1,301	1,923	47.9%	
Gross profit margin (%)	21.3%	27.4%		
Drilling services	21.2%	28.5%		Because the day rates are expected to rise while operating expenses would remain relatively unchanged.
Trade	5.2%	5.2%		
Well-related services & others	28.3%	28.3%		
SG&A	-544	-578	6.3%	Stable operation of the jack-up rig fleet is expected thanks to long-term contracts.
Operating income	757	1,345	77.7%	
Financial income	134	134	0.0%	
Financial expenses	-392	-327	-16.6%	Long-term debts may increase by USD70 million by the end of 2024 to finance a new rig but interest payments should begin in 2025.
Net other income	-64	0	-100.0%	
PBT	656	1,218	85.7%	
NPAT	541	974	80.2%	

Source: PV Drilling & Well Services, KB Securities Vietnam

Valuation

We recommend BUY for PVD with a target price of VND37,800/share

By utilizing the free cash flow to the firm (FCFF) valuation method, we reiterate our BUY recommendation for PVD with a target price of VND37,800 per share, representing a 20.2% upside from the closing price of VND31,450 per share on March 19, 2024. Our 8.6% upward revision compared to our previous projection is due to (1) lower risk-free rate and market risk premium assumptions and (2) the addition of new jack-up rigs into the model assumptions.

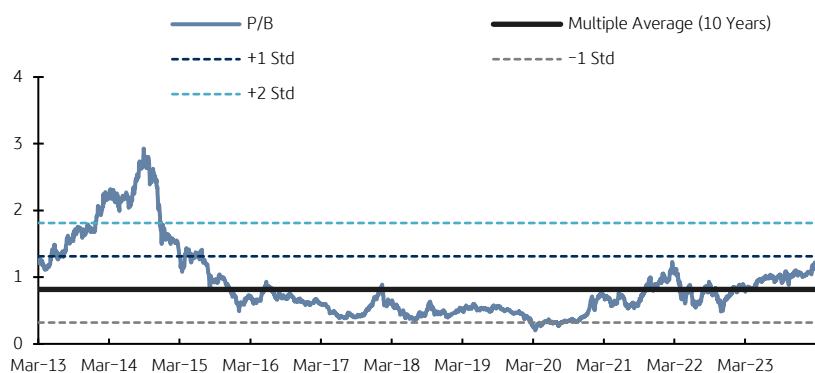
Table 7. PVD – FCFF model assumptions

Risk-free rate	4.7%	PV of terminal value (VND)	14,224
Market risk premium	7.6%	PV of the 2024–2028 period	7,186
Beta	1.5	PV	21,410
Average interest rate	7.5%	Plus: Cash & short-term investments	3,814
Corporate tax rate	20.0%	Less: Total debt	-3,954
WACC	13.1%	Less: Minority interest	-231
Terminal growth	1.5%	Equity value	21,039
		Outstanding shares (million shares)	556.30
		Equity value/share (VND)	37,800
		Current price (Mar 19, 2023)	31,450
		Upside	20.2%

Source: Bloomberg, KB Securities Vietnam

PVD's average P/B was negatively affected by the global energy crisis in the 2015–2022 period. We expect a reasonable P/B for PVD to be re-evaluated as the oil and gas industry is returning to a growth cycle as the 2013–2014 period.

Fig 8. PVD – Historical P/B in 2013–2024 (x)



Source: Fiinpro, KB Securities Vietnam

PVD – 2022A–2025F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2022	2023	2024F	2025F		2022	2023	2024F	2025F
Net sales	5,432	5,812	6,895	8,280	CURRENT ASSETS	20,704	21,650	23,453	23,210
Cost of sales	-4,854	-4,511	-4,972	-5,672	Cash and cash equivalents	5,646	6,954	7,553	8,230
Gross Profit	577	1,301	1,923	2,608	Short-term investments	2,079	2,256	2,536	2,554
Financial income	118	134	134	137	Accounts receivable	424	1,278	1,278	1,278
Financial expenses	-313	-392	-392	-450	Inventories	2,163	2,340	2,664	3,199
of which: interest expenses	-168	-251	-251	-288	LONG-TERM ASSETS	909	1,000	1,008	1,150
Gain/(loss) from joint ventures (from 2015)	45	66	66	66	Long-term trade receivables	15,058	14,696	15,900	14,980
Selling expenses	-18	-24	-28	-34	Fixed assets	19	104	104	104
General and admin expenses	-493	-520	-550	-556	Investment properties	13,567	13,115	14,319	13,399
Operating profit/(loss)	-84	565	1,153	1,771	Long-term incomplete assets	8	7	7	7
Other incomes	5	91	0	0	Long-term investments	0	0	0	0
Other expenses	60	-155	0	0	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	-55	246	0	0	LIABILITIES	6,626	6,756	7,926	6,709
Income from investments in other entities	0	0	0	0	Current liabilities	2,868	3,176	3,223	2,984
Net accounting profit/(loss) before tax	-139	811	1,153	1,771	Trade accounts payable	568	567	1,001	1,202
Corporate income tax expenses	-16	16	-231	-354	Advances from customers	86	263	73	80
Net profit/(loss) after tax	-155	541	922	1,417	Short-term unrealized revenue	835	553	655	179
Minority interests	-52	-39	-6	-9	Short-term borrowings	3,757	3,580	4,703	3,725
Attributable to parent company	-103	579	928	1,426	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	3,000	2,788	3,911	2,933
					Long-term borrowings	14,079	14,894	15,527	16,501
					OWNER'S EQUITY	5,563	5,563	5,563	5,563
					Paid-in capital	2,434	2,434	2,434	2,434
					Share premium	436	691	1,330	2,313
					Undistributed earnings	5,438	5,990	5,990	5,990
					Minority interests	229	237	231	222
Margin ratio					Key ratios				
-	2022	2023	2024F	2025F	-				
Gross profit margin	10.6%	22.4%	27.9%	31.5%	Multiple				
EBITDA margin	15.0%	30.4%	37.7%	39.5%	P/E	-131.2	40.9	19.7	12.8
EBIT margin	0.6%	15.6%	20.4%	24.9%	P/E diluted	-131.2	40.9	19.7	12.8
Pre-tax profit margin	-2.6%	11.3%	16.7%	21.4%	P/B	1.3	1.2	1.2	1.1
Operating profit margin	-1.5%	9.7%	16.7%	21.4%	P/S	3.4	3.1	2.7	2.2
Net profit margin	-2.9%	9.3%	13.4%	17.1%	P/Tangible Book	1.3	1.2	1.2	1.1
					P/Cash Flow	-217.2	11.6	10.5	8.3
					EV/EBITDA	24.9	11.1	7.9	5.8
					EV/EBIT	673.7	21.6	14.6	9.2
					Operating performance				
					ROE	-1.1%	3.6%	5.9%	8.6%
					ROA	-0.8%	2.5%	3.9%	6.1%
					ROIC	0.2%	5.4%	7.7%	11.5%
					Financial structure				
					Cash Ratio	0.9	1.1	1.2	1.3
					Quick Ratio	1.6	1.9	2.0	2.4
					Current Ratio	2.0	2.2	2.3	2.8
					LT Debt/Equity	0.2	0.2	0.3	0.2
					LT Debt/Total Assets	0.1	0.1	0.2	0.1
					Debt/Equity	0.1	0.0	0.0	0.0
					Debt/Total Assets	0.0	0.0	0.0	0.0
					ST Liabilities/Equity	0.2	0.2	0.2	0.2
					ST Liabilities/Total Assets	0.1	0.1	0.1	0.1
					Total Liabilities/Equity	0.5	0.5	0.5	0.4
					Total Liabilities/Total Assets	0.3	0.3	0.3	0.3
					Activity ratios				
					Account Receivable Turnover	2.7	2.6	2.8	2.8
					Inventory Turnover	5.8	4.7	4.9	4.9
					Account Payable Turnover	8.1	10.2	8.8	7.5

Source: PV Drilling & Well Services, KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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