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PV Drilling (PVD)

1Q turns positive as producers pump more oil before cuts

1Q earnings turn positive after 3 years of consecutive losses

— 1Q earnings turn positive to VND 24.3 billion (vs 1Q19's loss at VND 87.1 billion) on revenue of VND 1,676.9 billion (84.4% higher YoY) due to: 1) still high jack-up drilling rates; and 2) higher utilization rates as Malaysians maximize production volumes ahead of expected cuts. With drilling rates largely lagging oil prices by six months, PVD's average drilling rates increased by 10% YoY during the recent quarter as demand from Southeast Asia remained firm. Moreover, management estimates 1Q utilization rates for PVD's four jack up rigs at around 100% compared to the 82.5% seen during 1Q last year as Malaysian contractors pumped as much oil as they could before production cuts kicked in from late April. Higher utilization also led to lower "rig move" expenses that helped profitability. This would be PVD's first profit in three years without any reversals from the Investment & Development Fund (I&D Fund) and management has stated it would not need to continue making reversals in 2020E given the improving trend in margins.

Prepping Tender Assisted Drilling (TAD) rig for start up after sitting idle for past 3 years

— PVD will move ahead with investments for the derrick equipment set needed to start up the Tender Assisted Drilling rig after sitting idle for the past three years. Total capex for the derrick equipment set should be around USD30 million and PVD has already opened a Letter of Credit (LC) for USD15 million in 1Q. Management plans to have the TAD rig warm stacked by 4Q and expects to generate cash flow from 2H in 2021E. Last November 2019, PVD announced that the PVD Drilling V (TAD) won a six-year tender (with four-year extension option) with Brunei's Brunei Shell Petroleum (BSP) company.

Collecting bad debt from PVEP

— Management expects PVD to collect half of its outstanding VND45.3 billion in bad debt from Petro Vietnam Exploration Production (PVEP) in 2020E and the remaining portion in 2021E. In 2019, PVD managed to recover VND45.7 billion in bad debt from PVEP.

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Investment ratings & definitions

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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