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PV Drilling (PVD)

Headwinds ahead

Lower utilization from Malaysian production cuts & delays explains cautious guidance

— Main takeaways from the shareholders' meeting include: 1) approval of the conservative earnings guidance; 2) falling utilizations from Malaysian production cuts and delays; 3) pick up in capex related to Brunei Shell Petroleum contract; and 4) no cash dividends and only 10% stock dividends for 2019 and 2020E performance. Shareholders approved management's conservative 2020E earnings guidance at VND68 billion or down 63% YoY on VND4,680 billion in revenue or up 7% YoY. Management failed to explain its questionable USD60 assumption for average Brent prices this year but warned of headwinds to operations from the coronavirus and protracted US-China trade war. Management did highlight that plunging oil prices have already forced Malaysian contractors to cut production and delay some of PVD's drilling contracts that should lower the company's utilization rate to 89% from 99% at the start of the year. To compensate for this, PVD will also try to expand opportunities in Australia, Indonesia and the Middle East to reduce dependence on E&P activities in Southeast Asia.

Big pickup in capex with USD35 million ear marked for Brunei Shell Petroleum contract

— Capex related to the Brunei Shell Petroleum (BSP) contract will total USD35 million and lead to a sharp pick up in the capex budget for 2020E (total capex in 2019 was only USD2.5 million). PVD will use 30% equity and 70% debt to finance investments for the Derrick Equipment Set (DES) needed for the *PV Drilling V*-Tender Assisted Rig (TAD) to fulfill the drilling contract for Brunei Shell Petroleum. In November 2019, management announced that the *PV Drilling V*-TAD won a six-year contract with Brunei Shell Petroleum (with a four-year extension option) after sitting idle for the past three years.

Only 10% stock dividend for 2019/2020E and will try to collect bad debt from PVEP

— PVD will only issue a 10% stock dividend for performance in 2019 and 2020E due to difficulties being faced by the company and the drilling industry. To shore up its cash position, PVD will try to collect the remaining VND45.3 billion in bad debt from PetroVietnam Exploration Production (PVEP) for outstanding amounts related 2015's drilling contracts for *Block 09-2/09* and *Block 102/10 & 106/10* oil fields. That said, given the financial difficulties being faced by all of Vietnam's oil & gas industry, the attempt may prove futile this year.

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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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