

April 29, 2020

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PV Tech Service (PVS)

COVID-19 & lower Brent hit M&C and FPSO operations

1Q results plunge by 65.9% on hits to the M&C division and FPSO JVs

— 1Q earnings dropped to VND 120.9 billion (down 68.5% YoY) due to: 1) work stoppages in the Mechanical & Construction (M&C) division arising from both COVID-19 and lower oil demand; and 2) sharp drop in profits from the Floating Production Storage Offloading (FPSO) joint ventures as they pump less oil. Within the M&C division, COVID-19 and lower oil prices/demand hit hardest on Engineering Procurement & Construction (EPC) projects that saw M&C gross profits tumble by 74.6% YoY to VND61.0 billion. EPC project delays were also the main reason the company's 20.8% YoY drop in overall revenue to VND3.24 trillion. Profits from joint ventures fell by 82.2% YoY to VND31.9 billion as the five FPSO joint ventures witnessed both the drop in day rates and lower oil output amid plummeting oil prices. Moreover, provisions for potential contract cancellations also rose (albeit more clarification will be needed from management on this issue).

2020E energy projects protect against cancellations but delays may still impact profits

— Project terminations are unlikely given the majority of current and future EPC projects are focused on gas fields and related to Vietnam's power-generation shortages. That said, management still warns that disruptions to operations from COVID-19 and weaker pricing power with lower oil demand/prices are still negative factors that can impact profitability. Main projects underway are the *Sao Vang - Dai Nguyet* and *Gallaf* sites and management also expects to recognize USD50 million from the *Thi Vai Terminal*.

Cautious guidance for 2020E & expecting 21% drop in earnings

— PVS issued cautious guidance for 2020E and management expects full-year earnings of only VND640 billion (down 20.8% from 2019) and full-year revenue of VND15 trillion (down 12.0%). Management also warned that 2020E will be a tough year as COVID-19 and depressed Brent oil prices weakens the demand for exploration activities. 1Q results were 18.9% of the company's newly-released earnings target for 2020E and 21.6% of its full-year goal.

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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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