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PV Tech Services (PVS)

Overly optimistic guidance but new order momentum

Overly aggressive guidance based on questionable USD60 Brent & 7% cash dividend

— Management released 2020E guidance for shareholders' approval at VND640 billion for earnings or down by 20.8% YoY on revenue of VND15,000 billion or down by 12.0% YoY. This compares to recent consensus earnings at about VND530–570 billion and the overly optimistic outlook is largely due to an unexplained base case scenario for Brent averaging USD60. Brent prices have averaged about USD38.40 so far this year are unlikely to rise fast enough to average USD60 as economies are only slowly reopening after the coronavirus. Aside from the questionable base case for oil, one positive development was management's confidence that main projects will be able to contribute more to 2020E profitability. This bodes well for the *Sao Vang-Dai Nguyet* and *Gallaf - Al Shaheen* projects and indicates both are on schedule to enter the peak & finishing process phase this year, which potentially offers USD100 million in additional revenue. On-time completion of these two projects should allow greater opportunity for PVS to bid for an estimated VND3 billion in new orders for projects planned over the next six years according to the consensus. Moreover, management plans to declare a VND700-per-share cash dividend for 2019 performance. Shareholders will meet on June 24.

Order book gaining momentum in 2020E but margins may be squeezed

— The new order pipeline remains promising, with PVS well-positioned to win several international orders – especially, the *Gallaf batch 2* (Qatar), *Pecean FPSO* topside module (Ghana) and *Fenix* (Argentina) projects – as well as important local orders – including, *Block B*, *Blue Whale* and the *Nam Du U Minh* Engineering Procurement Construction (EPC) contract – but low oil prices and competition are likely to squeeze margins. Moreover, PVS already finished the Front End Engineering Design (FEED) process for the *Nam Du U Minh* project in 2019, which should open up the bidding for an additional USD250 million in new orders.

No further details on 1Q's incident with the JV for *Floating Storage Offloading MV12*

— Technical issues at the JV for the *Floating Storage Offloading (FSO) MV12* led to provisions that caused equity method gains from joint ventures to fall by 82% in 1Q. Management has yet to follow up with any further details or whether the technical issues have been resolved. Other JVs for FPSO/FSO operations (Floating Production Storage Offloading/Floating Storage Offloading) continue to run normally, with the investment process for *FSO Sao Vang Dai Nguyet* still on schedule to go online in 2021E.

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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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