

# PV Drilling & Well (PVD)

Potential growth in the long term

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## 9M23 revenue and profit improved from 9M22

In 9M23, revenue of PV Drilling & Well Services (PVD) inched up 3% YoY. The company did not record revenue from renting rigs, but the average rate gained 30% YoY and operating performance improved sharply, which helped cushion revenue from a steep fall and raised 9M NPAT to VND304 billion from a loss of VND201 in 9M22. In 3Q, PVD received full compensation of USD6 million from customers for changing lease agreements.

## Rig supply will remain tight in the long term

Brent prices are stably high, but the number of drilling rigs in key areas around the world has mostly moved sideways or decreased since December 2022. We believe that this may continue until the 2024–2025 period because (1) the number of new jack-up rig orders is reaching record lows while (2) a large number of rigs are likely to become out of order due to their ages.

## The demand for rig rental should increase sharply in the next two years

Strong rental demand in the Middle East and Southeast Asia may cause the market to have a supply deficit of jack-up rigs. Jack-up rig performance is returning to 2014 levels (the latest peak of the oil price cycle) thanks to a favorable supply-demand balance. PVD's jack-up rigs are expected to be fully occupied until 2025.

## BUY recommendation with target price of VND34,300/share

Based on FCF valuation, business prospects and possible risks of PVD, we recommend BUY for PVD stock. The target price is VND34,300/share, equivalent to an upside of 19.4% compared to the price on December 5, 2023.

## Buy maintain

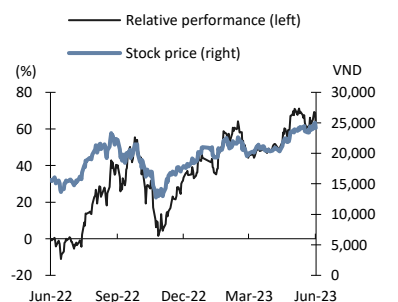
<b>Target price</b>	<b>VND34,300</b>
Upside	19.4%
Current price (Dec 5, 2023)	VND28,750
Consensus market price	VND32,500
Market cap (VNDbn, USDmn)	15,759/656

<b>Trading data</b>	
Free float	45.9%
3M avg trading value (VNDbn, USDmn)	153.5/6.4
Foreign ownership	23.6%
Major shareholder	Petrovietnam (PVN, 50.5%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	14.3	9.8	16.4	83.0
<b>Relative</b>	8.9	22.8	14.7	73.3

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	3,996	5,432	5,337	6,158
Operating income (VNDbn)	172	30	750	1,289
NPAT of the parent (VNDbn)	20	-103	402	901
EPS (VND)	-36	-250	723	1,620
EPS growth (%)	-113	594	-389	124
P/E (x)	-798.61	-115.00	39.76	17.75
P/B (x)	0.89	1.15	1.12	1.05
ROE (%)	0.3	-1.1	2.8	5.8
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## 9M23 performance updates

Table 1. PVD – 9M23 business results

	9M22	9M23	YoY %	KBSV's notes
<b>Revenue (VNDbn)</b>	<b>3,892</b>	<b>4,021</b>	<b>3%</b>	
Drilling services	2,572	2,827	10%	Jack-up rig rates gained 30% YoY, and operating utilization increased to 92% (vs 75% in 9M22), but no revenue was generated from rented drilling rigs as in 9M22.
Commercial services	67	123	84%	
Well and other services	1,253	1,070	-15%	The decline was mainly due to subdued domestic E&P activities in 1H23. Revenue from the well engineering segment in 3Q23 showed signs of improvement, increasing by 12.5% YoY.
<b>Gross profit (VDNbn)</b>	<b>309</b>	<b>892</b>	<b>189%</b>	
<b>Gross profit margin (%)</b>	<b>7.9%</b>	<b>22.2%</b>		
Drilling service	-1.1%	18.8%		GPM of rig rental services improved significantly thanks to increased rental rates and operating utilization while capital costs did not change significantly. PVD did not hire rigs from others, which also contributes to improving GPM.
Commercial services	17.9%	6.5%		
Well and other services	26.0%	33.0%		
SG&A costs (VNDbn)	-316	-375		
% SG&A/revenue (%)	-4	517	N.M	
Operating income (VDNbn)	82	95	16.6%	
Financial income (VDNbn)	-221	-311	40.6%	Interest expenses increased mainly due to the sharp increase in international LIBOR interest rates. Exchange rate loss spiked in 3Q23 (+74% YoY).
Financial expenses (VDNbn)	-43	101	N.M	PVD received full compensation of USD6 million from customers changing lease contracts.
<b>Other incomes (net) (VDNbn)</b>	<b>-168</b>	<b>428</b>	<b>N.M</b>	
<b>Profit before taxes (VDNbn)</b>	<b>-201</b>	<b>340</b>	<b>N.M</b>	

Source: PV Drilling, KB Securities Vietnam

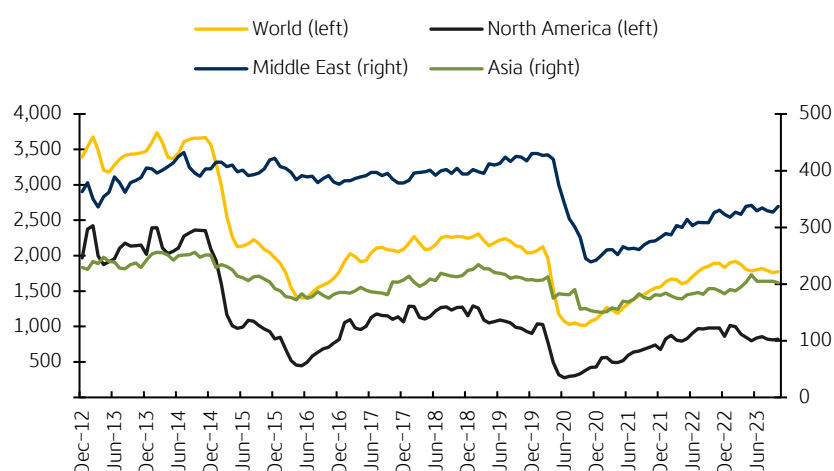
## Investment catalysts

**The number of rigs worldwide has not improved despite favorable oil prices**

### 1. Tightened supply of rigs in the long term

The average Brent crude oil price in 9M23 reached USD83/barrel, far exceeding the break-even point (averaging USD70/barrel) for the majority of global crude oil exploitation projects. However, the number of drilling rigs in key areas around the world has mostly remained flat or decreased since December 2022. We believe that this may continue until the 2024–2025 period because (1) the number of new jack-up rig orders is reaching record lows while (2) a large number of rigs are likely to become out of order due to their ages.

**Fig 2. Global – The number of rigs by region (rig)**

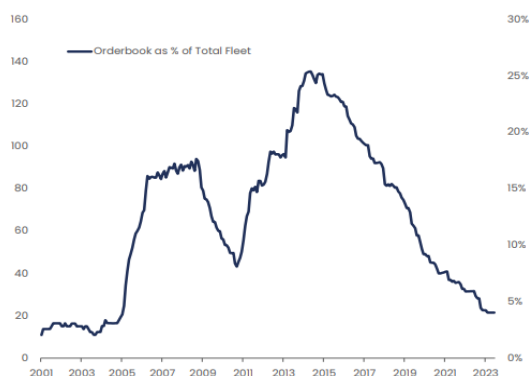


Source: Baker Hughes, KB Securities Vietnam

**Orders for new jack-up drilling rigs are at a record low**

The number of newbuilding orders is currently reaching 20-year lows, equivalent to less than 5% of the total number of jack-up rigs available on the market. We think there are two main reasons for this: (1) Sharp increases in interest expenses and inflation caused investment costs to escalate, lowering the need to invest in new drilling rigs in North America. (2) Large rig companies are not ready to receive orders to operate at full capacity because they have not fully recovered from the Covid-19 pandemic. Currently, there are only 20 new jack-up rig orders expected to be delivered between 4Q23 and 4Q25. Most of these new rigs will come into operation in the Middle East region. In case a sudden increase in oil prices stimulates operators to place new orders in 2024, the rigs on these new orders should be handed over no sooner than 2026 as the average time to build a jack-up platform is about two or three years. Therefore, we assess the possibility of a large number of new rigs entering the market in the period 2024–2025 to be very low.

Fig 3. Global – New orders/total available rigs (%)

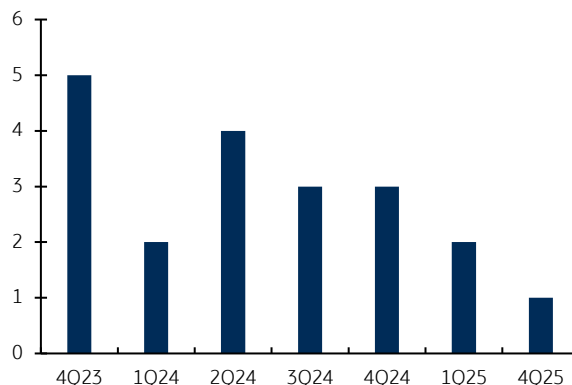


Source: S&P Global Petrodata

**A large number of drilling rigs are likely to leave the market due to their operating ages**

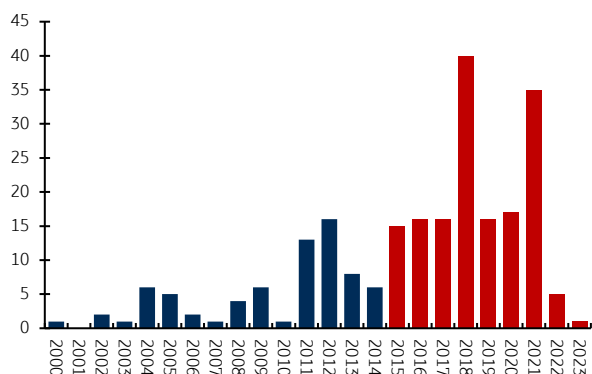
During the period 2015–2023, a total of 163 jack-up rigs were removed from the market because of old age or no longer being able to operate stably. Jack-up drilling rigs reaching 30 years old often cannot be rented due to concerns about stability, fire safety and increased maintenance costs. However, the current market still has 163 rigs over 30 years old, of which 62 rigs are officially no longer able to operate. The fact that these rigs must leave the market soon will make supply even tighter, especially when the market has only 20 rigs expected to be added in the next two years as we mentioned above.

Fig 4. Global – Number of jack-up rigs to be delivered in 4Q23–4Q25F



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

Fig 5. PVD – Number of rigs omitted from the market over the years (rig)

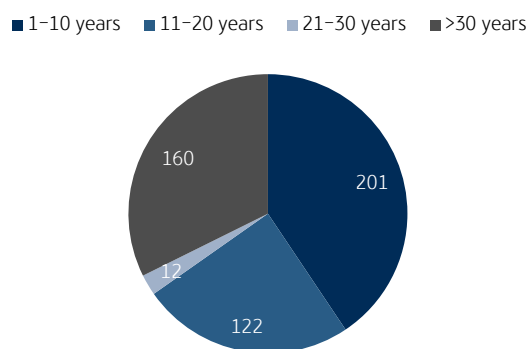


Source: PV Drilling & Well Services, &P Global Petrodata, KB Securities Vietnam

**PVD has a good competitive advantage of its young drilling rig fleet compared to regional competitors**

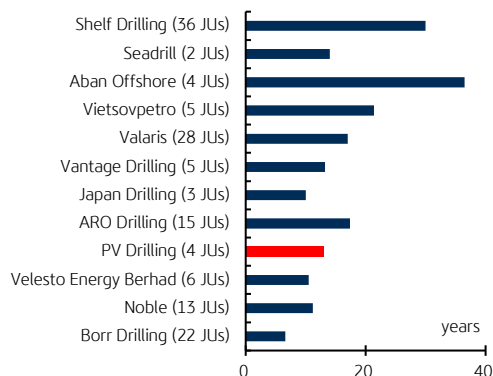
With a large number of jack-up rigs aging and at risk of leaving the market soon, PVD's rig fleet become more competitive than regional competitors. On average, PVD's jack-up rigs are only 13 years old, meeting the minimum input conditions of the most stringent oil and gas exploitation companies in the world. Young age will help drilling rigs minimize maintenance costs, reduce the risk of failure, increase operating utilization and charter rates. This, when combined with relatively cheap labor costs compared to competitors, will help PVD have a huge advantage in negotiating contracts with customers in Southeast Asia and the Middle East.

Fig 6. PVD – Existing jack-up rigs by age group (rig)



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

Fig 7. PVD – Average age of the rig fleet compared to competitors (year old)



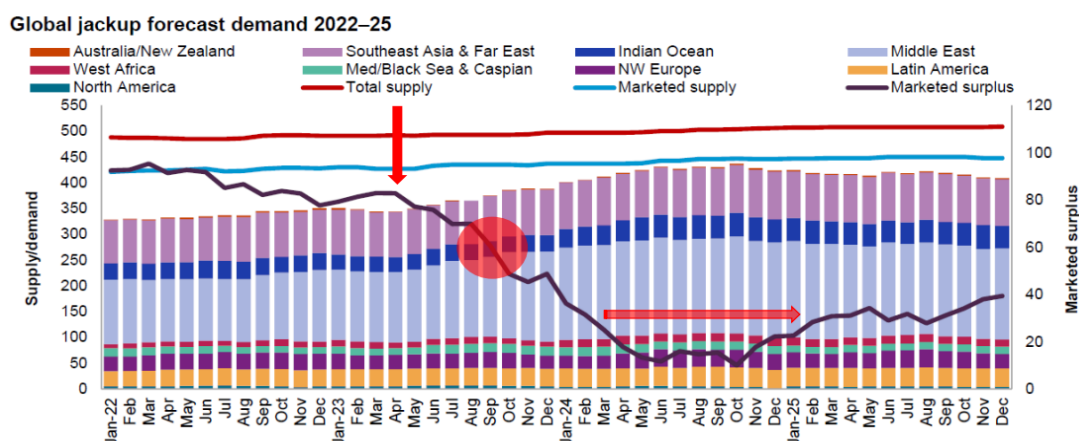
Source: PV Drilling & Well Services, KB Securities Vietnam

Large rental demand in the Middle East and Southeast Asia may trigger a supply deficit for jack-up rigs

**2. Potential surge in the demand for renting rigs in the next two years**

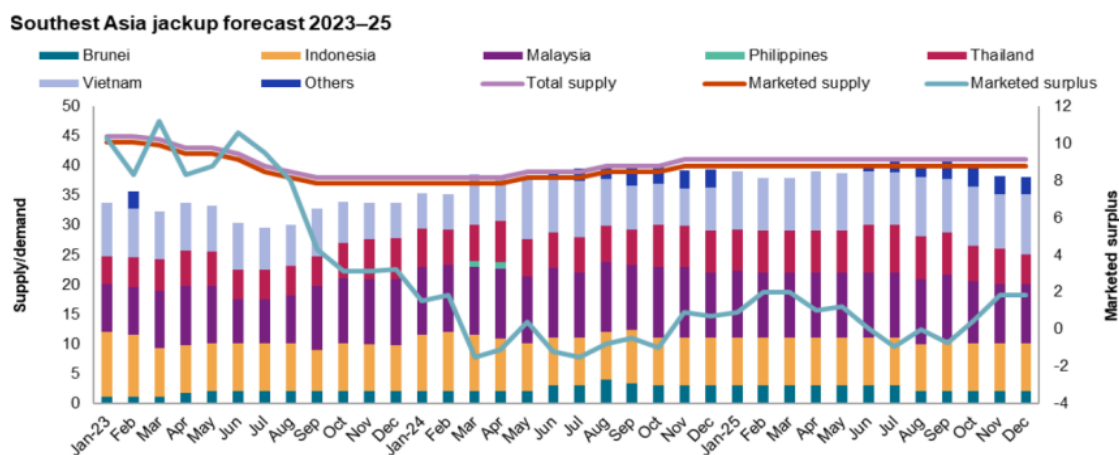
Oil prices showing no signs of slipping from USD70/barrel threshold will encourage global E&P activities. As we mentioned in the PVD 2Q23 update report, the demand for drilling rigs in the region is surging as Middle Eastern countries promote E&P activities in the period 2023–2030. S&P Global maintains its forecast that demand for jack-up rigs in the Middle East will increase from 125 rigs in 2022 to 184 rigs in 2024. Rental demand in Southeast Asia is also very high, benefiting from (1) customers from Middle East and (2) major E&P projects in the region. The corporation also forecasts that rig supply in Southeast Asia will begin to be in deficit in late 1Q24.

Fig 8. Global – Jack-up forecast demand until 2025 (rig)



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

Fig 9. Southeast Asia – Jack-up forecast demand until 2025 (rig)



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

**Jack-up rig utilization is returning to 2014 levels (the latest peak of oil price cycle) thanks to a favorable supply-demand balance**

Global jack-up rig performance has increased to an average of 82% in November 2023, approaching the 86% peak in April 2014, mainly thanks to strong rental demand while the rig supplies are limited. We believe that the average operating performance in the market will increase sharply since the expected total number of drilling rigs (total number of available rigs on the market + number of new rigs being built) is 145 rigs lower than that of April 2014. We assess that it is very unlikely that operating utilization will fall back to 80% as expected consumer demand is able to absorb all supply in the next two years.

Fig 10. Global – Jack-up utilization in 2013–2023 (%)



Source: Bloomberg, KB Securities Vietnam

Table 11. PVD – Changes in the jack-up market from 2014 to 2023

Region	Rigs under contract		Changes
	April 2014	November 2023	
Middle East	127	179	52
India	32	34	2
West African	20	13	-7
Southeast Asia	67	36	-31
North Sea	46	29	-17
Mexico	50	33	-17
Gulf of Mexico, USA	15	4	-11
China	30	55	25
Others	42	20	-22
<b>Number of rigs under contract</b>	<b>429</b>	<b>403</b>	<b>-26</b>
Rigs ready for new contracts (excluding rigs that cannot work)	24	26	2
<b>Number of rigs on the market</b>	<b>453</b>	<b>429</b>	<b>-24</b>
<b>Number of rigs under construction</b>	<b>141</b>	<b>20</b>	<b>-121</b>
<b>Expected number of rigs after deliveries</b>	<b>594</b>	<b>447</b>	<b>-145</b>
<b>% average operating utilization</b>	<b>86%</b>	<b>82%</b>	<b>-4%</b>

Source: PV Drilling &amp; Well Services, KB Securities Vietnam

### PVD's jack-up rigs are expected to be fully occupied until 2025

PVD I and VI rigs will be moved to Malaysia in 4Q23 to carry out the contract until the end of 2025. PVD II rig is still under the contract with Indonesia until the end of 2025. In November 2023, PVD signed an agreement with partner Pertamina for PVD III rig to work in Indonesia from 3Q24 to the end of 2025. Thus, all of PVD's jack-up rigs are fully occupied for the next two years. We forecast that the utilization of jack-up rigs will increase from 92% in 2023 to about 96% - 97% in the period 2024-2025 because the rigs only operate in a fixed location for a long time. In addition, contrary to our expectations, PVD will not bring any existing jack-up rigs home to serve the Block B O Mon project. PVD is currently studying the feasibility of investing in a new jack-up rig especially for the Block B project. We will include this new rig in the forecast model when we have more information.

Table 12. PVD – Working schedule of the fleet in 2023-2024

Rig	1Q23	2Q23	3Q23		4Q23		1Q24	2Q24	3Q24	4Q24
PVD I	VSP (Vietnam)	JVPC (Vietnam)	VSP (Vietnam)	Thang Long (Vietnam)		NGP (Thailand)	Petronas (Malaysia)	Petronas (Malaysia)		
PVD II	Pertamina (Indonesia)									
PVD III	Hibiscus (Malaysia)								Pertamina (Indonesia)	
PVD VI	POVO (Vietnam)	PVEP (Vietnam)			SK Innovation (Vietnam)			Petronas (Malaysia)		
PVD V	Brunei Shell (Brunei)									
PVD 11	GBRS (Algeria)						GBRS (Algeria)			

Source: PV Drilling &amp; Well Services, KB Securities Vietnam

### The well technical services segment is very potential thanks to vibrant domestic E&P activities in 2024

### 3. Domestic E&P activities busier from 2024

We expect that 2024 will be a busy year for the Vietnam E&P market. White Rhino project block 16-2; Golden Tuna block 9-2 and block 05-1b/c are expected to go into exploitation at the end of 1Q24. In November 2023, American oil and gas company Murphy Oil also made the final investment decision (FID) for the Golden Camel Block 15-1/05. PVD will benefit from its position as the leading well technical service provider in the domestic market. We forecast that revenue from well technical services in 2024 would grow by at least 15% from a low base in 2023.

### The Block B O Mon project is progressing thanks to PVN's temporary solution

We maintain our view that the progress of applying for the FID of the Block B O Mon project may be delayed until mid-2024 as the main issue of downstream gas-electricity prices and sales volume may hardly be resolved in a short time. However, after the 2Q23 update report, the project has made progress thanks to PVN awarding contracts EPCI#1 and EPCI#2. Furthermore, PVN also proposed a mechanism to allow the parties to negotiate so that PVN has the right to continue the project and has a mechanism to get a refund if the FID is still late. We assess that although this option does not solve the project's root problems, it will contribute to speeding up progress and helping the project go into operation from early 2025. In case PVD decides not to invest in a new drilling rig, the company will only benefit from well technical services for the project in 2025.

**Table 13. PVD – Some domestic E&P projects in 2024**

Project	Exploiters	Expected operating date	Current progress
White Rhino Block 16-2	Hoang Long/Hoan Vu JOC	01/04/2024	Tender for a 226.5-day drilling campaign, two-three wells
Yellow Tuna Block 9-2	Hoang Long/Hoan Vu JOC	01/04/2024	Tender for a 313.5-day drilling campaign, two-three wells
Block 05-1b/c	Idemitsu	01/03/2024	Exploration drilling plan for two wells
Dai Hung GD3 Block 05-1a	PVEP	15/07/2024	Tender for a 12-well drilling campaign
Unconfirmed	Cuu Long JOC	01/02/2024	Preparation to announce drilling plans
Block 15-2/17	Murphy	01/07/2024	Tender for 60-520-day drilling campaign (+400 days option), one-six wells (+4 wells option)
Golden Camel Block 15-1/05	Murphy	01/10/2024	Looking for jack-up rigs for 800-day drilling campaign
Block 09-2	Vietsopetro	01/10/2023	Unconfirmed
Unconfirmed	Vietsopetro	01/09/2023	Tender for an 18-month drilling campaign
Block 11-2	KNOC – Zarubezhneft	01/04/2024	Tender for two-well drilling campaign

Source: PV Drilling & Well Services, KB Securities Vietnam



## Forecast & valuation

**Table 14. PVD – 2023–2024F results**

	2022	2023F	+/-%YoY	2024F	+/-%YoY	KBSV's notes
Average cost of jack-up rigs (USD thousand/day)	61	78	28.0%	93	19.1%	
Jack-up rig utilization (%)	82.5%	92.1%		96%		
<b>Revenue (VNDbn)</b>	<b>5,432</b>	<b>5,337</b>	<b>-1.7%</b>	<b>6,158</b>	<b>15.4%</b>	
Drilling services	3,535	3,607	2.0%	4,182	15.9%	2023: Charter rates and operating utilization increase but no rental rigs like in 2022 2024: Rates and performance continue to increase
Commercial services	115	126.35	10.0%	132.67	5.0%	
Well technical services and other services	1,781	1,603	-10.0%	1,844	15.0%	2023: Domestic E&P activities have not progressed much 2024: Domestic E&P activities should be more vibrant
<b>Gross profit (VNDbn)</b>	<b>577</b>	<b>1,136</b>	<b>96.7%</b>	<b>1,684</b>	<b>48.3%</b>	
<b>Gross profit margin (%)</b>	<b>10.6%</b>	<b>21.3%</b>		<b>27.4%</b>		
Drilling services	3.6%	17.9%		26.9%		2023 & 2024: Sudden increase due to increased rates and operating utilization while capital costs do not change significantly. PVD's not using rented rigs also contributes to improving GPM
Commercial services	24.3%	6.0%		6.0%		
Well technical and other services	23.7%	30.0%		30.0%		
SG&A costs (VNDbn)	-511	-479	-6.3%	-457	-4.6%	
% SG&A/revenue (%)	66	657	895.5%	1,227	86.8%	
Operating income (VNDbn)	118	124	5.1%	130	4.8%	
Financial expenses (VNDbn)	-313	-404	29.1%	-283	-30.0%	2023: Affected by LIBOR interest rates and exchange rate losses 2024: LIBOR interest rate should still be high, but PVD's successful negotiation to change the loan interest structure (from LIBOR +3% to LIBOR +1%) will ease the pressure
Other incomes (net) (VNDbn)	-56	90	N.M	0	-100.0%	2023: Revenue of USD6 million from customers compensating contracts in 2Q and 3Q23
<b>Profit before taxes (VNDbn)</b>	<b>-139</b>	<b>512</b>	<b>N.M</b>	<b>1,119</b>	<b>118.6%</b>	
<b>Profit after taxes (VNDbn)</b>	<b>-155</b>	<b>410</b>	<b>N.M</b>	<b>895</b>	<b>118.3%</b>	

Source: PV Drilling & Well Services, KB Securities Vietnam

**Valuation: BUY recommendation – target price VND34,300/share**

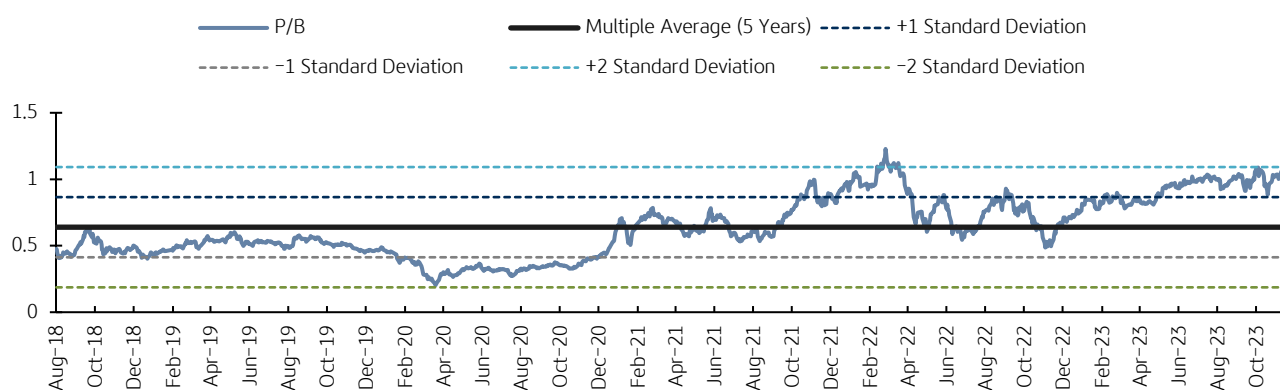
We use the FCFF and issue a BUY recommendation for PVD with a target price of VND34,300/share, equal to an upside of 19.4% compared to the closing price of VND28,750/share on December 5, 2023.

**Table 15. PVD – FCFF valuation results**

Risk-free rate	5.0%	Present value of terminal value	9,967
Equity risk premium	8.2%	Total present value for the period 2023–2028	9,273
Beta	1.5	<b>Total present value</b>	<b>19,240</b>
Average interest rate	7.5%	Plus: Cash & Short-term investments	3,417
Taxes	20.0%	Minus: Net Debt	-3,327
<b>Weighted cost of capital</b>	<b>13.9%</b>	Minus: Minority interest	-227
Terminal growth rate	1.5%	<b>Equity value</b>	<b>19,103</b>
		Number of shares outstanding (million shares)	556.3
		<b>Equity value/share (VND)</b>	<b>34,339</b>
		Market price (08/12/2023)	28,750
		Upside	19.4%

Source: PV Drilling & Well Services, KB Securities Vietnam

**Fig 16. PVD – P/B in 2018–2023 (x)**



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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