

PV Tech Services (PVS)

O Mon Block B made progress

September 25, 2023

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Revenue and gross profit in 1H23 increased YoY

PV Technical Services' (PVS) 1H23 revenue rose 11% YoY while gross profit gained 16% YoY. The growth is mainly attributable to the Mechanical & construction (M&C) segment with projects Galaff Batch 3, Shwe Phase 3, Hai Long 2&3 and Greater Chanhua 2a&4. The oil and gas port performed well, but the cargo port was affected by weak exports.

The domestic M&C segment should be more vibrant from 2024 thanks to new progress of Block B O Mon

In September 2023, PetroVietnam (PVN) issued a resolution to resolve issues with the Block B O Mon project. As PVS won EPCI 1 package with a value of USD1.08 billion, we expect the company to start implementing part of the work in 1H24. Domestic projects like Golden Camel A&B and White Lion 2B should also create a big workload for PVS in 2024-2027.

Competitive advantage in the renewable energy M&C segment will give PVS new development strategies

We appreciate PVS's position in the region because of (1) limited number of competitors in the industry, (2) the hesitancy of leading energy M&C contractors in East Asia in participating in the local market, and (3) PVS's outstanding advantage in port yards that are much more suitable for the wind power M&C segment than its main competitors in Southeast Asia. We expect PVS's wind power segment's profit margin to gradually improve from 2024 as the company focuses on optimizing warehouses after sacrificing profits to penetrate the industry.

BUY recommendation with target price VND45,700/share

Based on FCFF valuation and PVS business prospects, we recommend BUY for PVS stock. The target price is VND45,700/share, equivalent to an upside of 28.3% compared to the price on September 25, 2023.

Buy change

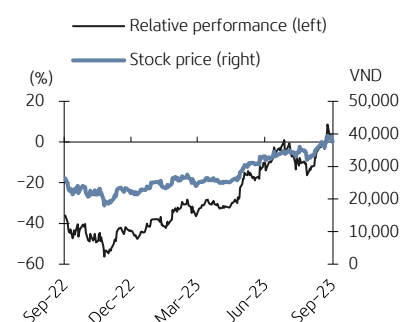
Target price	VND45,700
Upside	28.3%
Current price (Sep 25, 2023)	VND35,600
Consensus market price	VND40,300
Market cap (VNDbn/USDmn)	17,828/731

Trading data	
Free float	48.5%
3M avg trading value (VNDbn/USDmn)	226.69/9.3
Foreign ownership	20.3%
Major shareholder	Petrovietnam (PVN, 51.38%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	17.1	16.0	60.0	46.0
Relative	13.9	7.6	35.0	46.2

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	14,260	16,373	18,141	24,909
Operating income (VNDbn)	850	1,154	1,208	1,566
NPAT of the parent (VNDbn)	675	884	953	1,221
EPS (VND)	887	1,575	1,993	2,554
EPS growth (%)	-15.2	77.6	27.0	28.0
P/E (x)	29.8	13.6	22.9	17.9
P/B (x)	1.0	0.8	1.6	1.5
ROE (%)	6.0	7.3	7.2	9.0
Dividend yield (%)	4.4	4.2	2.2	2.2



Source: Bloomberg, KB Securities Vietnam

1H23 performance updates

Table 1. PVS – 1H23 updated results

(VNDbn)	1H22	1H23	YoY %	KBSV's notes
Revenue	7,579	8,416	11.0%	
Offshore support vessels (OSV)	725	726	0.2%	
FSO/FPSO operation	896	971	8.3%	
Survey/repair with remotely operated vehicles (ROV)	248	67	-72.8%	The decrease resulted from (1) difficulties related to low domestic workload while not being able to penetrate the international market and (2) PVS's restructuring.
Port base	698	662	-5.1%	The oil and gas port operates well. The decline was mainly due to cargo ports being affected by weak exports.
M&C	3,795	4,965	30.8%	PVS recorded revenue from projects Galaff Batch 3, Shwe Phase 3, Hai Long 2&3 and Greater Chanhua 2a&4.
O&M	865	745	-13.9%	Domestic projects are quiet while bidding for new international projects is still underway.
Other services	352	279	-20.9%	
Gross profit	337	391	16.0%	
OSV	49	83	69.8%	
FSO/FPSO operation	60	91	53.1%	
Survey/repair with ROV	-2	-37	1425.0%	
Port base	160	119	-25.9%	
M&C	43	105	144.2%	
O&M	12	26	116.5%	
Other services	21	5	-75.1%	
Gross profit margin (%)	4.4%	4.6%		Except for survey/repair with ROV, port base and other segments all improved in gross profit margin over the same period in 2022.
SG&A costs	-534	-439	-17.8%	The labor costs allocated to 1H23 sharply decreased.
Operating income	-197	-48	-75.7%	
Financial income	230	304	32.2%	Interest rates and cash balances were larger than 1H22.
Profits from joint ventures/affiliations	335	334	-0.3%	
Financial expenses	-52	-66	26.9%	
Other incomes (net)	58	35	-39.7%	
Profit before taxes	375	559	49.1%	
Profit after taxes	262	464	77.1%	
Net profit margin (%)	3.5%	5.5%		
Brent oil price (USD/barrel)	105	80	-24.3%	

Source: PV Technical Services, KB Securities Vietnam

Global upstream E&P growth will help the international oil and gas M&C segment to thrive

The current Brent oil prices far exceeding the threshold USD70/barrel will encourage exploration and production (E&P) activities around the world. We see that global E&P activities are very hot, especially in the Middle East region when countries must step up E&P activities in the period 2023–2030 to gradually reduce their dependence on oil & gas revenue. We believe that the global E&P segment will likely enter a new growth cycle with investment capital returning to the industry after the subdued period 2015–2021 (due to the oil price crisis and Covid-19). In addition to ongoing projects such as Galaff 3 (Qatar) and Shwe Jacket 3 (Myanmar), PVS is rushing to bid on a number of large projects in Qatar to seize the opportunity. We expect new projects in the Middle East to create a significant workload for PVS in the period 2025–2027.

The domestic M&C segment should be more vibrant from 2024 thanks to new progress of Block B O Mon

We still believe that PVS's applying for a final investment decision (FID) for the Block B O Mon project would be delayed until mid-2024 because core issues in the mid-downstream stage have not yet been resolved. However, in September 2023, PVN issued a resolution to the project. Accordingly, PVN will be allowed to carry out limited letters of award (LLOA) for EPCI 1 package and a number of other upstream-midstream packages with the approved budget in the next six months. In case the FID is still delayed in the next six months, a side agreement will be negotiated during the implementation of the LLOA, which will allow PVN to continue implementing the project until there is an FID. Having won the EPCI 1 package with a value of about USD1.08 billion, PVS should be able to start implementing part of the work in 1H24.

In addition to Block B O Mon, there are a number of domestic projects that will soon go into operation like Camel Vang A&B, Su Tu Trang 2B, and possibly Nam Du U Minh project in the future. We expect that these projects will help to create a large amount of work for PVS in the period 2024–2027.

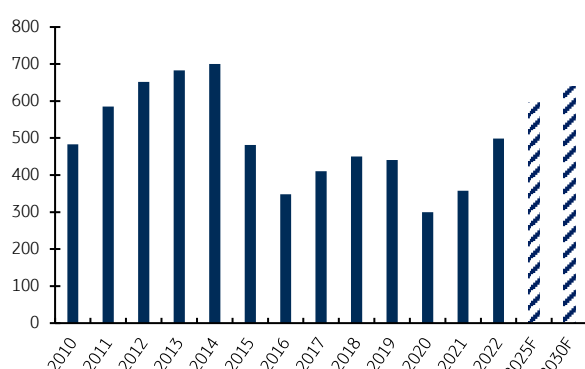
Competitive advantage in the renewable energy M&C segment will give PVS new development strategies

PVS's renewable energy M&C segment has a certain workload until 2026 with the Hai Long 2&3 and Greater Changhua (Taiwan) and Baltica 2 (Poland) projects. Although PVS has just entered the industry, we still highly appreciate its position in the region because of (1) limited number of competitors in the industry, (2) the hesitancy of leading energy M&C contractors in East Asia in participating in the local market, and (3) PVS's outstanding advantage in port yards that are much more suitable for the wind power M&C segment than its main competitors in Southeast Asia. Malaysia and Indonesia do not have port yards, Thailand has port yards, but they are very small compared to Vietnam's. We expect PVS's wind power segment's profit margin to gradually improve from 2024 as the company focuses on optimizing warehouses after sacrificing profits to penetrate the industry.

PVS has the potential of winning FSO/FPSO bidding packages for upcoming domestic projects

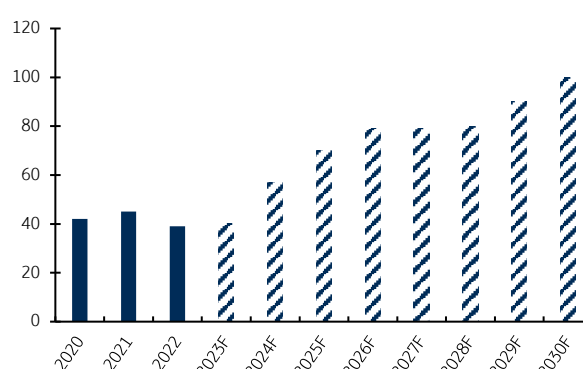
We expect the vessels FSO Orkid, FPSO Ruby II, FSO Bien Dong 01, FSO Golden Star and FSO MV12 to operate stably until 2027. FPSO Lam Son is currently in the process of negotiating to extend the contract from 2025. In the near future, we believe that the FSO/FPSO segment will benefit from the warming of the domestic E&P market. PVS is bidding for the Golden Camel project. We forecast that the company will invest in an FSO/FPSO worth USD300 million exclusively for the entire project life cycle (10 years) in the form of capital contribution with partners.

Fig 2. Global – Capital expenditures for upstream oil & gas projects (USDbn)



Source: IEF, S&P Global Commodity Insights, KB Securities Vietnam

Fig 3. Global – Capital expenditures for offshore wind power projects (USDbn)



Source: Rystad Energy, KB Securities Vietnam

Table 4. PVS – List of potential projects

Project	Expected period	Contract value (USDmn)
Implementing		
Galaff Batch 3 (Qatar)	2022-2023	380
Shwe Jacket Phase 3 (Myanmar)	2022-2024	200
Hai Long 2&3 (Taiwan)	2023-2024	80
Greater Changhua 2a & 4 (Taiwan)	2023-2024	300
Thi Vai LPG tanker	2023-2024	32
To be implemented		
White Lion Phase 2	2024-2026	250
Lot B O Mon	2024-2027	1,000
Golden Camel A	2024-2026	245
Golden Camel B	2025-2027	38
Nam Du U Minh	2025-2028	850
Blue Whale	2028-2030	850
Baltica 2 (Poland)	2024-2026	180
Thi Vai LNG Terminal Phase 2	2024-2026	300
Son My LNG Terminal Phase 1	2025-2027	300
Other projects	2024-2027	600

Source: PV Technical Services, KB Securities Vietnam

The outlook for the oil and gas port base segment remains positive while the cargo port segment faces difficulties

We expect the oil and gas port base to be positive thanks to (1) benefits from the busy domestic E&P market from 2024 and (2) monopoly position in the domestic market that helps profit margins remain high. However, we realize that the cargo port segment will still be negatively impacted by the difficult export situation in Vietnam. With recent signs of recovery in export activities, we expect the cargo port segment to have a slight improvement in 2H23.

Forecast & valuation

Table 11. PVS – 2023–2024F results

(VNDbn)	2022	2023F	YoY %	2024F	YoY %	KBSV's notes
Revenue	16,373	18,141	10.8%	24,909	37.3%	
OSV	1,570	1,649	5.0%	1,698	3.0%	It is expected the domestic E&P market to warm up from the end of 2023.
FSO/FPSO operation	1,874	1,968	5.0%	2,066	5.0%	
Survey/repair with remotely operated vehicles (ROV)	510	204	-60.0%	204	0.0%	There will not be many breakthroughs until 2024 due to (1) difficulties due to low domestic workload and (2) PVS's restructuring.
Port base	1,456	1,456	0.0%	1,500	3.0%	The cargo port segment should improve slightly in 2H23.
M&C	8,697	10,570	21.5%	16,661	57.6%	PVS should record revenue from Galaff Batch 3, Shwe Phase 3, Hai Long 2&3 and Greater Chanhua 2a&4 projects in 2023 and from Block B, Camel Vang A, Su Tu Trang 2B, Baltica 2 projects from 2024.
O&M	1,555	1,726	11.0%	2,223	28.8%	Revenue from this segment should improve from 2H23 when the domestic market warms up at the end of 2023. PVS can also win some bidding packages in the Middle East.
Other services	711	569	-20.0%	557	-2.0%	
Gross profit	915	953	4.2%	1,551	62.7%	
OSV	145	190	30.8%	195	3.0%	
FSO/FPSO operation	139	177	27.3%	227	28.5%	
Survey/repair with ROV	45	-82	-283.4%	-	N/A	
Port base	328	262	-20.1%	345	31.6%	
M&C	162	317	96.1%	666	110.2%	Revenue may surge and GPM should improve thanks to PVS's focusing on optimizing the offshore wind power.
O&M	34	60	77.1%	89	47.2%	
Other services	63	28	-54.8%	28	-1.8%	
Gross profit margin (%)	5.6%	5.3%		6.2%		
SG&A costs	-907	-865	-4.7%	-1,190	37.6%	
Operating income	7	89	1113.7%	361	307.7%	
Financial income	489	587	20.0%	646	10.1%	Financial income should increase thanks to the large cash balance accumulated from the end of 2022.
Profits from joint ventures/affiliations	507	532	5.0%	559	5.0%	
Financial expenses	-163	-120	-26.2%	-121	0.8%	Lower debt is attributable to accumulated cash balance from 2022.
Other incomes (net)	183	183	0.0%	183	0.0%	
Profit before taxes	1,174	1,270	8.2%	1,628	28.1%	
Profit after taxes	945	1,016	7.6%	1,302	28.1%	
Net profit margin (%)	5.8%	5.6%		5.6%		
Brent oil price (USD/barrel)	105	80	-24.3%	75	-6.0%	

Source: PV Technical Services, KB Securities Vietnam

BUY recommendation with target price VND45,700

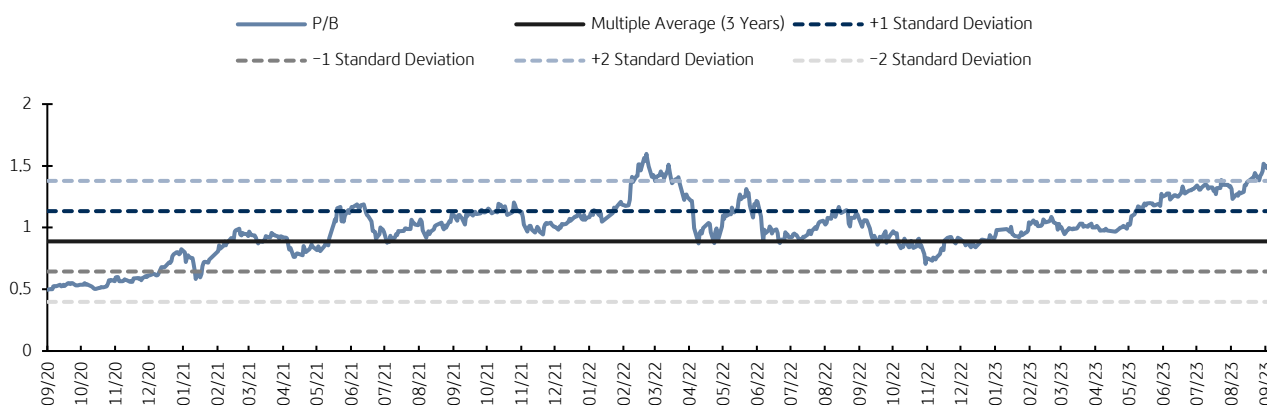
We used the FCFF method to give a BUY recommendation for PVS with a target price of VND45,700/share, equivalent to an upside of 28.3% compared to the closing price of VND35,600 on September 25, 2023.

Table 12. PVS – FCFF valuation

Risk-free rate	5.0%	Present value of terminal value (VNDbn)	11,049
Equity risk premium	8.2%	Total present value for the period 2023–2027	2,939
Beta	1.15	Total present value	13,988
Average interest rate	7.0%	Plus: Cash & short-term investments	9,859
Taxes	20.0%	Minus: Net debt	-1,202
Weighted cost of capital	11.8%	Minus: Minority interest	-793
Terminal growth rate	1.5%	Equity value	21,852
		Number of shares outstanding (million shares)	478.00
		Equity value/share (VND)	45,700
		Current price (September 22, 2023)	37,300
		Upside	22.5%

Source: Bloomberg, KB Securities Vietnam

Fig 14. PVS – P/B in 2020–2023 (x)



Source: Bloomberg, KB Securities Vietnam

PVS – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND billion)	2021A	2022A	2023F	2024F	(VND billion)	2021A	2022A	2023F	2024F
Net sales	14,260	16,373	18,141	24,909	CURRENT ASSETS	24,871	25,827	26,914	29,645
Cost of sales	-13,393	-15,458	-17,188	-23,359	Cash and cash equivalents	15,395	16,388	17,257	19,651
Gross Profit	867	915	953	1,551	Short-term investments	5,747	5,219	3,998	3,074
Financial income	278	489	587	646	Accounts receivable	2,677	4,837	5,861	6,444
Financial expenses	-94	-163	-120	-121	Inventories	4,642	5,043	5,368	7,370
of which: interest expenses	-46	-51	-42	-42	LONG-TERM ASSETS	2,103	1,012	1,742	2,368
Gain/(loss) from joint ventures (from 2015)	191	507	532	559	Long-term trade receivables	9,476	9,439	9,657	9,994
Selling expenses	-89	-79	-87	-119	Fixed assets	175	124	124	124
General and admin expenses	-713	-828	-778	-1,070	Investment properties	2,991	3,040	3,262	3,602
Operating profit/(loss)	440	841	1,087	1,446	Long-term incomplete assets	184	172	172	172
Other incomes	235	219	219	219	Long-term investments	174	169	165	162
Other expenses	21	37	37	37	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	214	182	182	182	LIABILITIES	12,263	12,879	12,870	15,232
Income from investments in other entities	0	0	0	1	Current liabilities	8,692	9,199	9,337	11,673
Net accounting profit/(loss) before tax	654	1,023	1,269	1,628	Trade accounts payable	4,282	5,301	5,318	7,302
Corporate income tax expenses	-219	-229	-254	-326	Advances from customers	222	214	265	260
Net profit/(loss) after tax	751	945	1,016	1,302	Short-term unrealized revenue	711	752	725	709
Minority interests	76	61	63	81	Short-term borrowings	3,571	3,680	3,533	3,559
Attributable to parent company	675	884	953	1,221	Long-term liabilities	0	0	0	0
					Long-term trade payables	855	855	855	0
					Long-term advances from customers	0	0	0	222
					Unrealized revenue	534	624	477	503
					Long-term borrowings	12,608	12,949	14,044	14,413
					OWNER'S EQUITY	4,780	4,780	4,780	4,780
					Paid-in capital	40	40	40	40
					Share premium	3,694	3,791	4,824	5,111
					Undistributed earnings	3,366	3,608	3,607	3,608
					Minority interests	728	730	793	874
Margin ratio					Key ratios				
-	2021A	2022A	2023F	2024F	-				
Gross profit margin	6.1%	5.6%	5.3%	6.2%	Multiple				
EBITDA margin	9.4%	9.9%	9.5%	8.5%	P/E	29.8	13.6	22.9	17.9
EBIT margin	6.0%	7.1%	6.7%	6.3%	P/E diluted	29.8	13.6	22.9	17.9
Pre-tax profit margin	6.8%	7.2%	7.0%	6.5%	P/B	1.0	0.8	1.6	1.5
Operating profit margin	3.1%	5.1%	6.0%	5.8%	P/S	0.9	0.6	1.2	0.9
Net profit margin	5.3%	5.8%	5.6%	5.2%	P/Tangible Book	1.0	0.8	1.6	1.5
					P/Cash Flow	-91.5	6.8	-67.6	74.8
					EV/EBITDA	6.6	4.4	11.6	9.9
					EV/EBIT	10.4	6.2	16.4	13.3
					Operating performance				
					ROE	6.0%	7.3%	7.2%	9.0%
					ROA	3.0%	3.7%	3.8%	4.4%
					ROIC	7.6%	9.5%	8.5%	10.0%
					Financial structure				
					Cash Ratio	1.0	1.1	1.1	0.8
					Quick Ratio	1.5	1.6	1.6	1.5
					Current Ratio	1.8	1.8	1.9	1.7
					LT Debt/Equity	0.0	0.0	0.0	0.0
					LT Debt/Total Assets	0.0	0.0	0.0	0.0
					Debt/Equity	0.1	0.1	0.1	0.0
					Debt/Total Assets	0.0	0.0	0.0	0.0
					ST Liabilities/Equity	0.7	0.7	0.7	0.8
					ST Liabilities/Total Assets	0.3	0.4	0.3	0.4
					Total Liabilities/Equity	1.0	1.0	0.9	1.1
					Total Liabilities/Total Assets	0.5	0.5	0.5	0.5
					Activity ratios				
					Account Receivable Turnover	2.8	3.4	3.5	3.9
					Inventory Turnover	6.4	9.9	12.5	11.4
					Account Payable Turnover	2.7	3.4	3.4	4.0

Source: PV Technical 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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