

# PV Tech Services (PVS VN)

M&C division & one-off gains the main drivers

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## Mechanical & construction (M&C) division the main driver for core earnings

M&C backlogs have grown to USD3 billion and include mega projects like Blue Whale (USD800 million) and Block B (US1.07 billion), making this division the main earnings driver for PVS. Management guides revenue recognition will reach about USD400 million in 2020E as they book completed work for the Nam Du U Minh (USD260 million) and LNG Terminal (USD100 million) projects. That said, competition remains intense and lower Brent oil price may only see the GPM hit 4.7% in the current year. Healthy offshore backlogs should also help the Offshore Service Vessel (OSV), Port Base and Operating & Maintenance (O&M) businesses.

## One-off reversal for FPSO Lam Son helps protect earnings from lower oil prices

PVS has signed an official long-term contract with Petro Vietnam for FPSO Lam Son that should allow the company to book one-off gains in 2020E. PVS has been forced to use lower temporary day rates for FPSO Lam Son on the Thang Long-Dong Do project after Lam Son JOC exited the project and cancelled its original contract in June 2017. The official contract should now allow PVS to retroactively book higher day rates (an increase of 20%) from July 2017.

## Only trading at 6.2x consensus 2020E earnings vs five-year weekly average of 7.8x

PVS currently trades at a P/E of only 6.2x consensus earnings for 2020E. This compares to the weekly average P/E multiple of 7.8x for the past five years of trading history or VND15,500 per share, implying that PVS is undervalued. The Bloomberg consensus target price sits at VND18,700. Risks: Southeast Asia breakeven oil prices at USD45-55/bbl and weak oil prices could lead to delay or cancellation of drilling contracts.

# No Rating

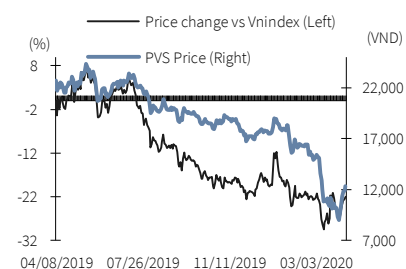
Target price	NA
Upside/downside (%)	na
Current price (Apr 09)	VND 12,300
Consensus target price	VND 18,700
Market cap (VNDtn/USDbn)	5.7/0.2

Trading data	
Free float (%)	48.5%
Trading value (VNDbn/USDm)	45.1/1.9
Foreign available shares (%)	33.7%
Major shareholders (%)	Vietnam Oil & Gas Group (51.38%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute Return	-7	-18.9	-20.7	-5.7
Relative Return	-5.2	-10.4	-15.6	-5.8

## Forecast earnings & valuation

FY-end	2016A	2017A	2018A	2019A
Net sales (VND bn)	18,682	16,921	14,638	17,233
Oper profit/(loss) (VND bn)	964	958	1,535	842
Attributable net profit (VND bn)	1,039	1,007	1,047	731
EPS (VND)	1,983	1,792	2,028	1,356
EPS growth (%)	-27.2%	-9.7%	13.2%	-33.1%
P/E (x)	6.2	6.9	6.1	9.1
P/B (x)	0.6	0.5	0.5	0.5
ROE (%)	9.2%	8.3%	8.2%	6.2%
Dividend yield, common (%)	7.6%	3.8%	6.5%	na



Source: Bloomberg.

## M&C division & one-off gains the main drivers

**Mechanical & construction division should see good growth in 2020 and be the main earnings driver**

Mechanical & construction (M&C) revenue reached VND8.62 trillion (+57.2% YoY) with two main projects: Sao Vang-Dai Nguyet and Gallaf (Al Shaheen). But competition from international bidders and weak upstream demand in Southeast Asia kept the GPM thin at 2.06%. Management indicates it will recognize about USD400 million (+21.6% YoY) in revenue from the Nam Du U Minh (USD260 million) and LNG Terminal (USD100 million) projects in 2020 but Brent oil prices averaging USD56/bbl will likely keep the GPM low at 4.7%. M&C backlogs total USD3 billion, including the Blue Whale (USD800 million) and Block B (USD1.07 billion) projects (Vietnam is focusing on natural gas fields to meet growing electricity demand). Other PVS segments – Offshore Service Vessel (OSV), Port Base, Operating & Maintenance (O&M) should also benefit from offshore projects.

**Attractive one-off gains from FPSO Lam Son to protect earnings from lower oil prices**

Management also expects to recognize one-off earnings related to June 2017's cancellation of its FPSO (floating production storage & offloading) operating contract with Lam Son JOC for the Thang Long-Dong Do (TL-DD) project. After low oil prices and higher-than-expected operating expenses forced Lam Son JOC to give up on the Thang Long-Dong Do oil field, the parent holding company Vietnam Oil & Gas Group (Petro Vietnam) assumed the project and temporarily hired the FPSO Lam Son at a day rate of only USD50,600 per day (much lower than its initial day rate with Lam Son JOC). On March 17, 2020 PVS replaced the temporary hire for its FPSO Lam Son with an official four-year contract effective from July 2017. With the new contract in place, the company expects retroactively replace the temporary day rates with the new official rates – that boosted the day rate by 20% – and book VND221 billion or VND464 per share in one-off gains.

**Undervalued and only trading at a P/E of 6.1x consensus earnings for 2020E vs an average weekly P/E multiple of 7.8x**

Currently, PVS trades at 6.2x consensus earnings for 2020E. Given consensus earnings for 2020E at VND1.055 trillion or and EPS of VND1,986, the outlook for this year should reflect the one-off earnings as well as downward revisions from lower average oil prices. Weekly P/E multiples for PVS have averaged 7.8x over the last five years, implying a share price of VND15,500 off the 2020E consensus EPS should the stock return to historical trading levels. This compares to the Bloomberg consensus target price of VND18,700. Main risks include: breakeven oil prices for oil fields in Southeast Asia range from USD45-55/bbl and low oil prices could lead to the postponement or termination of oil drilling contracts.

## Income statement

(VNDmn) (Reporting standard)	2016A	2017A	2018A	2019A
	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Net sales	18,682,081	16,920,712	14,638,124	17,232,812
Cost of sales	17,899,328	15,840,839	13,519,382	16,239,300
Gross profit	782,753	1,079,873	1,118,742	993,512
Financial income	0	294,746	505,848	323,252
Financial expenses	0	84,487	66,171	67,399
of which: interest expenses	0	37,946	26,802	33,778
Gain/(loss) from joint ventures	0	461,167	722,592	435,681
Selling expenses	91,960	85,233	101,506	107,511
General & admin expenses	540,231	708,004	644,551	735,191
Operating profit/(loss)	964,394	958,064	1,534,954	842,344
Other incomes	304,152	5,274,476	88,610	396,472
Other expenses	12,410	4,932,827	647,231	290,516
Net other income/(expenses)	291,742	341,648	-558,620	105,956
Pretax profit/(loss)	1,256,136	1,299,713	976,334	948,300
Income tax	346,392	265,877	403,217	267,568
Net profit/(loss)	909,744	1,033,836	573,117	680,731
Minority interest	-128,999	26,938	-474,170	-49,936
Net profit attributable to shrhdrs	1,038,743	1,006,897	1,047,286	730,667

## Operating statistics

(%)	2016A	2017A	2018A	2019A
Gross profit margin	4.2%	6.4%	7.6%	5.8%
EBITDA margin	9.8%	9.5%	11.9%	7.4%
EBIT margin	5.2%	4.4%	7.5%	3.4%
Pre-tax profit margin	6.7%	7.7%	6.7%	5.5%
Operating profit margin	5.2%	5.7%	10.5%	4.9%
Net profit margin	5.6%	6.0%	7.2%	4.2%

## Cash flow statement

(VNDmn)	2016A	2017A	2018A	2019A
Net profit/(loss) before tax	1,256,136	1,299,713	976,334	948,300
Depreciation & amortization	858,373	855,436	652,766	680,367
Profit/(loss) from investing	-858,135	-725,172	-998,438	-693,627
Interest expense	74,450	43,939	651,590	33,778
Oper profit/(loss) before WC changes	1,330,823	473,915	1,282,252	974,596
(Inc)/dec in receivables	-609,824	290,533	-951,711	593,272
(Inc)/dec in inventories	-455,860	1,497,617	-30,055	-560,223
Inc/(dec) in payables	56,367	-1,393,495	227,953	1,350,284
(Inc)/dec in prepaid expenses	47,561	-225	43,384	2,583
Trading sec, int exp & taxes	-445,354	-883,478	-380,238	-554,843
Net oper cash inflows/(outflows)	-76,287	984,867	191,585	1,805,668
Fixed & other LT assets	-447,571	-435,787	-354,534	-870,967
Disposal of fixed assets	1,037	8,964	2,235	4,995
Loans granted & debt bought	-1,245,394	-1,782,128	-690,838	-1,925,557
Loan collection & debt sales	918,029	1,191,388	1,348,310	1,099,591
Investments in other entities	0	0	0	0
Divestment in other entities	5,000	0	855,133	0
Dividends & interest received	217,921	559,596	770,079	462,833
Net invest cash inflows/(outflows)	-550,977	-457,966	1,075,253	-1,229,104
Proceeds from issue of shares	0	0	0	0
Payments for shrs/repurchases	0	0	0	0
Proceeds from borrowings	59,165	62,710	33,818	553,762
Repayment of borrowings	-735,068	-429,712	-289,859	-109,940
Finance lease principal payments	0	0	0	0
Dividends paid	-808,800	-284,048	-508,775	-371,384
Interest, dividends & profits	0	0	0	0
Net finance cash inflows/(outflows)	-1,484,703	-651,050	-764,815	72,439
Net inc in cash & equiv	-2,111,967	-124,149	502,023	649,003
Cash & equiv (beginning)	7,991,387	5,883,670	5,761,373	6,310,817
Cash & equiv (ending-net FX)	5,883,670	5,761,373	6,310,817	6,949,115

Source: PVS, KB Securities Vietnam

## Balance sheet

(VNDmn) (Reporting standard)	2016A	2017A	2018A	2019A
	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Total assets	25,541,110	24,849,784	23,089,469	25,075,058
Current assets	15,151,148	13,752,725	14,128,722	15,329,912
Cash & equivalents	5,883,670	5,761,373	6,310,817	6,949,115
ST investments	911,017	1,524,757	1,726,317	2,742,983
Receivables & others	5,920,849	5,638,574	5,339,240	4,196,902
Inventories	1,650,745	465,759	493,936	1,061,408
Long-term assets	10,389,961	11,097,059	8,960,746	9,745,146
LT trade receivables & others	415,418	1,343,288	1,116,147	1,311,321
Fixed assets & inv properties	4,150,439	3,687,545	2,633,626	3,180,502
LT incomplete assets	128,187	163,811	117,432	131,976
LT investments	4,733,713	5,709,610	4,905,470	4,938,011
Goodwill	0	0	0	0
Total liabilities	13,788,658	11,737,934	10,384,222	12,544,128
Current liabilities	9,743,163	7,315,550	6,825,236	8,286,384
Trade payables & others	7,254,156	6,397,628	5,602,119	6,715,394
Advances & unrealized sales	1,452,225	356,732	162,312	385,905
Short-term borrowings	432,147	254,716	721,241	771,273
Long-term liabilities	4,045,495	4,422,384	3,558,986	4,257,744
LT trade payables	0	0	0	200
LT customer advances	1,827,199	2,100,922	2,159,056	2,380,634
Unrealized revenue	1,012,903	1,357,619	1,146,148	1,232,706
Long-term borrowings	1,143,509	900,701	192,809	584,274
Owners' equity	11,752,452	13,111,850	12,705,247	12,530,930
Paid-in capital	4,467,004	4,467,004	4,779,663	4,779,663
Share premium	39,617	39,617	39,617	39,617
Undistributed earnings	3,188,956	3,715,435	3,825,925	3,745,518
Reserves & other adj	0	0	0	0
Minority interests	1,430,755	1,381,469	832,970	705,342

## Key ratios

(x, %, VND)	2016A	2017A	2018A	2019A
<b>Multiples</b>				
P/E	5.7	5.8	5.6	8.0
P/E diluted	5.7	5.8	5.6	8.0
P/B	0.6	0.5	0.5	0.5
P/S	0.3	0.3	0.4	0.3
P/tangible book	0.6	0.5	0.5	0.5
P/cash flow	(77.1)	6.0	30.7	3.3
EV/EBITDA	0.8	0.7	0.2	0.1
EV/EBIT	1.5	1.5	0.3	0.2
<b>Operating performance</b>				
ROE	10.1%	9.1%	8.9%	6.2%
ROA	4.0%	4.0%	4.4%	3.0%
ROIC	13.3%	9.1%	9.5%	6.6%
<b>Financial structure</b>				
Cash ratio	60.4%	78.8%	92.5%	83.9%
Quick ratio	118.7%	146.2%	161.9%	151.5%
Current ratio	155.5%	188.0%	207.0%	185.0%
LT debt/equity	11.1%	7.7%	1.6%	4.9%
LT debt/total assets	4.5%	3.6%	0.8%	2.3%
Debt/equity	15.3%	9.8%	7.7%	11.5%
Debt/total assets	6.2%	4.6%	4.0%	5.4%
ST liabilities/equity	94.4%	62.4%	57.5%	70.1%
ST liabilities/total assets	38.1%	29.4%	29.6%	33.0%
Total liabilities/equity	133.6%	100.1%	87.5%	106.1%
Total liabilities/total assets	54.0%	47.2%	45.0%	50.0%
<b>Activity ratios</b>				
Asset turnover	0.7	0.7	0.6	0.7
Inventory turnover	12.6	15.0	28.2	20.9
Account payables turnover	4.3	4.4	4.3	4.5

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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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