

PV Drilling (PVD)

New Cambodia contract fails to excite

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New Cambodia contract already expected and not enough to overcome lackluster 2020E; maintain HOLD recommendation & VND9,600 target price

Low Brent prices to keep upstream weak for remainder of 2020E and recovery not expected until 2021E

PREFER DOWNSTREAM OVER UPSTREAM: Continue to recommend investors switch into GAS from PVD or PVS

PVD's stock price rose sharply on a new drilling contract with Kris Energy (KRIS SP) for the *PVD Drilling-III* jackup rig. Despite the positive reaction, we believe this contract falls short of overcoming weak Brent oil prices. Work for this contract will begin in early September in Cambodia but should only last for two to three months as the *PVD Drilling-III* jackup rig is already pledged to Spain's Repsol (REP SM) for a project in Malaysia from 2021E (after the coronavirus pushed back the start date from 2H). Moreover, we have already reflected this short-term contract into our 2020E earnings forecast but still expect PVD to record weaker 2H performance.

Brent prices at only USD45.00 should keep day rates on jackup rigs flat at only USD65,000 for 2020E and into 2021E. We believe recovery in day rates will need to see Brent prices back above Vietnam's USD55.00 breakeven level for at least six months or more before oil & gas operators can consider restarting E&P activities.

Given our expectations for a slower recovery in oil prices and return above Vietnam's USD55.00 breakeven level not until 2021E, we prefer downstream companies offering secular growth over upstream operators. Earnings at downstream PV Gas (GAS) are linked to high-sulphur fuel oil (HSFO) prices that have already demonstrated recovery vs more complex pricing mechanisms for day rates at upstream PVD and PV Technical Services (PVS) that usually require oil prices remain above extraction costs to boost rig utilization before recovery can be realized. GAS (BUY, TP VND89,200) remains our top sector pick and we recommend investors use any price strength to reduce positions in PVD (HOLD, TP VND9,600) and PVS (HOLD, TP VND 11,000).

HOLD maintain

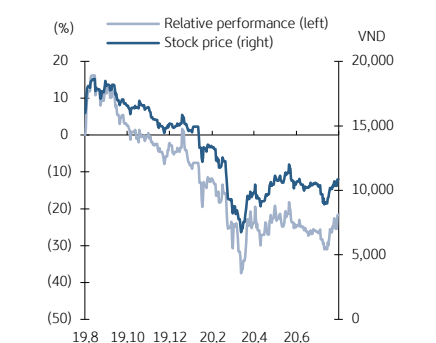
Target Price	VND9,600
Total return (%)	-11.5%
Current price (Aug 17)	VND10,850
Consensus target price	VND11,100
Mkt capitalization (USDmn)	USD197mn

Trading data	
Free float (%)	49.4%
Avg trading value (3M)	USD2.03mn
Foreign available (%)	37.0%
Major shareholders (%)	PetroVietnam (50.46%)
Free float (%)	49.4%

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3.3	-0.5	-18.7	-32.2
Relative	6.2	-1.8	-11.1	-21.6

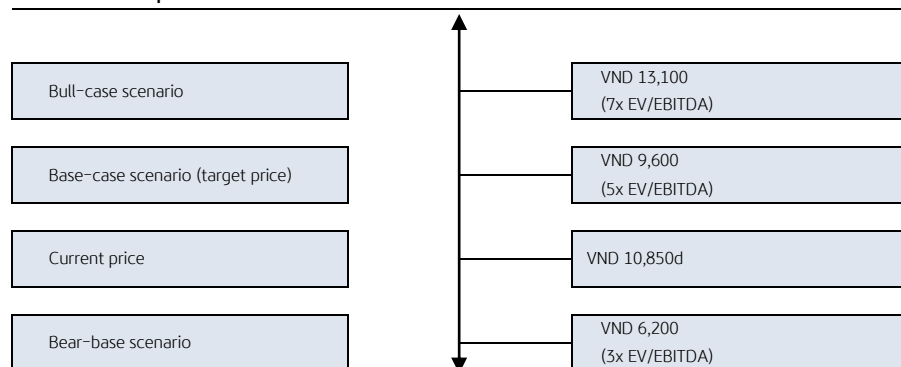
Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	4,368	5,087	5,709	6,597
EBIT	37	80	135	498
NP attributable to parent	184	143	165	475
EPS (VND)	438	340	392	1,121
EPS growth (%)	(6.3)	(22.3)	15.3	186.3
P/E (x)	21.6	27.8	24.2	8.4
EV/EBITDA (x)	9.1	9.7	8.4	5.3
P/B (x)	0.3	0.3	0.3	0.3
ROE (%)	1.3	1.0	1.2	3.3
Div yield (%)	0.1	0.0	0.0	0.0



Source: Bloomberg, KB Securities

Investment opinion & risks



Base-case scenario: catalysts

- 1) Brent prices above USD55 in 2021E
- 2) Jack up day rates at USD65,000'
- 3) Tender Assisted Rigs in 2H21

Bull-case scenario: upside risk

- 1) Brent prices above USD55 in 2020E
- 2) Jack up day rates above USD70,000
- 3) Tender Assisted Rigs before 2H21

Bear-case scenario: downside risk

- 1) Coronavirus second wave
- 2) Jack up day rates below USD65,000
- 3) Tender Assisted Rigs after 2H21

Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue						
EBIT						
OP						
NP after MI						

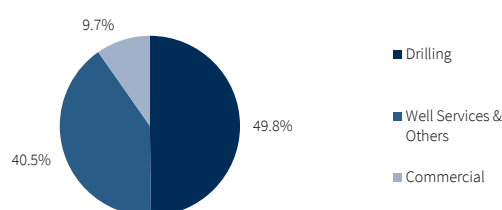
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	5,087	5,709	4,736	4,736	7.4	20.5
EBIT	80	135	162	336	(50.5)	(59.7)
OP	100	42	150	221	(33.5)	(80.8)
NP after MI	143	165	107	120	33.9	37.6

Source: Bloomberg, KB Securities Vietnam

Revenue composition (2019)



Source: Company reports, KB Securities Vietnam

Peer group comparison

(USDbn, x, %)	Mkt Cap	12m fwd P/E	3y EPS CAGR	12m fwd ROE	12m fwd P/B
PVD VN	0.2	25.3	13.8	0.9	0.3
GAS VN	6.0	15.8	-5.6	17.8	2.7
PLX VN	2.4	21.5	-0.7	11.6	2.1
PVS VN	0.2	7.3	-7.5	6.6	0.5
BSR VN	0.8	-6.7	-18.7	2.6	0.6
PVT VN	0.1	6.7	-7.6	9.6	0.6

Source: Bloomberg, KB Securities Vietnam

Cambodia contract already reflected in our weak 2H outlook

The recently announced contract with Kris Energy for its Cambodia project has already been included in our weak outlook for 2H. More critical will be new contracts for 2H 2021E after most existing projects for the jackup rigs are completed by 1H 2021E. PVD's current order book only consists of the TAD (tender assisted drilling) rig for the Brunei Shell Petroleum project from 2H 2021E. Consequently, we expect falling rig utilization rates in 2H to result in weaker sequential earnings performance for PVD at only VND31 billion or down 39% QoQ and VND27 billion or down 14% QoQ.

Table 1. PV Drilling & Well Services (PVD) – Jackup Projects, Jan 20–Dec 21E

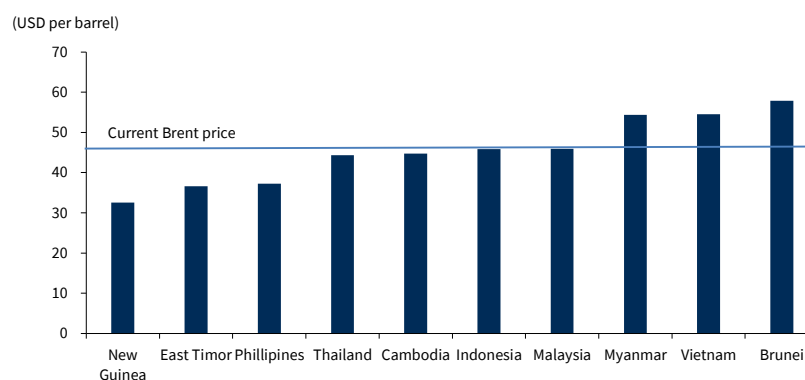
Names	Types	2020E												2021E											
		1Q			2Q			3Q			4Q			1Q			2Q			3Q			4Q		
		1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
PVD I	Jackup	Hibicus												No official plan											
PVD II	Jackup	Petronas						Not announced						Petronas						No official plan					
PVD III	Jackup	Repsol						Cambodia						Kris Energy & Repsol						No official plan					
PVD VI	Jackup	Sapura			Rosneft									No official plan											
TAD	TAD	Idle												Brunei Shell Petroleum											

Source: Company reports & KB Securities Vietnam

Oil prices below breakeven also likely to weigh on day rates for jackup rigs

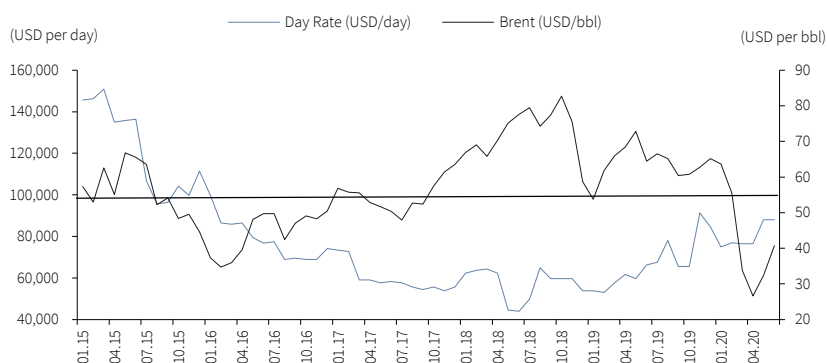
Day rates on jackup rigs are likely to remain weak as long as Brent crude oil prices are below breakeven levels for Vietnam and neighboring countries like Malaysia. Currently, we estimate day rates to remain flat at around USD65,000 for 2020E and into 2021E and are unlikely to move higher until Brent prices regain Vietnam's USD55.00 breakeven level. Pricing on any new contracts for projects in 2H 2021E and beyond will play an important role in determining any turnaround for PVD. Even the TAD rig contract for the Brunei Shell Petroleum project scheduled to be in 2H 2021E is only priced at a mediocre day rate of USD85,000–90,000 and should have a minimum impact on earnings over the initial four-year contract period.

Fig 1. Southeast Asia oil & gas – Breakeven crude oil prices, 2019 (USD per barrel)



Source: Bloomberg, KB Securities Vietnam

Fig 2. PV Drilling & Well Services (PVD) – Southeast Asia jackup drilling day rates, Jan 15–Jun 20 (USD per day, USD per barrel)

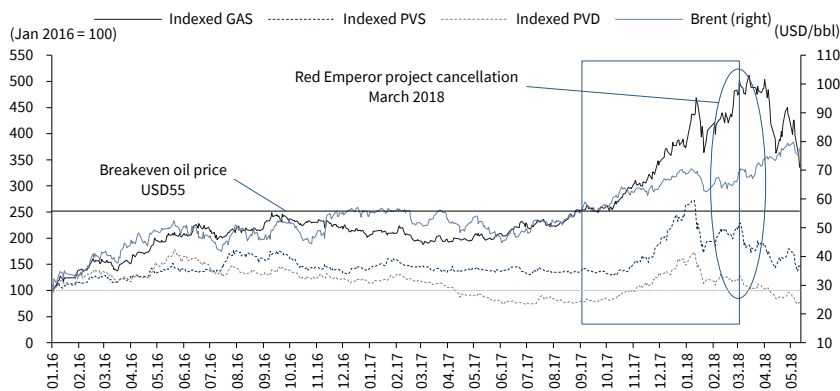


Source: IHS Markit, KB Securities Vietnam

Upstream PVD and PVS usually need Brent prices above Vietnam’s breakeven to perform better

During the last upturn in oil prices between 2016 and 2018, the share prices of upstream oil & gas operators like PVD and PVS performed better only after Brent crude prices moved about Vietnam’s USD55.00 break even. That said, GAS demonstrated the best performance and strongest correlation to recovery Brent oil prices during the same time.

Fig 3. Vietnam oil & gas – Indexed share prices vs Brent, 1/2016–5/2018 (USD/bbl)



Source: Bloomberg, KB Securities Vietnam

PV Drilling (PVD) – Discounted cash flow model

		Terminal value (VND in billions)					Terminal value (US\$ in millions)				
		4,557	6,076	7,595	9,114	10,633	197	262	328	393	459
		Present value of firm					Present value of firm				
WACC		3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
14.0%		5,469	6,258	7,047	7,835	8,624	234	268	302	336	370
15.0%		5,368	6,123	6,878	7,633	8,388	229	262	295	327	360
16.0%		5,272	5,995	6,718	7,441	8,164	225	257	288	319	350
17.0%		5,181	5,873	6,566	7,259	7,952	221	251	281	311	341
18.0%		5,094	5,758	6,422	7,086	7,750	218	246	275	304	332
		Present value of equity per share					Present value of equity per share				
WACC		3.0x	4.0x	5.0x	6.0x	7.0x	3.0x	4.0x	5.0x	6.0x	7.0x
14.0%		6,600	8,500	10,400	12,200	14,100	0.30	0.40	0.40	0.50	0.60
15.0%		6,400	8,200	10,000	11,800	13,600	0.30	0.30	0.40	0.50	0.60
16.0%		6,200	7,900	9,600	11,300	13,000	0.30	0.30	0.40	0.50	0.60
17.0%		5,900	7,600	9,200	10,900	12,500	0.30	0.30	0.40	0.50	0.50
18.0%		5,700	7,300	8,900	10,500	12,000	0.20	0.30	0.40	0.40	0.50

Projected Unlevered Free Cash Flows (VNDbn)												
	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	2,939	2,146	161	-396	100	37	80	135	498	486	591	650
Taxes on EBIT @ 20.0%	588	429	32	-79	20	7	16	27	100	97	118	130
Earnings before interest	2,351	1,717	129	-317	80	29	64	108	398	388	473	520
Depreciation & provisions	1,162	1,643	921	791	501	576	588	788	970	1,021	997	966
(Profit)/loss from investing	-387	-372	-231	-143	-163	-223	-145	-154	-167	-180	-194	-210
Other adj for oper activities	-180	-1	-462	-707	-154	-153	88	139	220	226	238	242
Cash flow from operations	2,946	2,987	356	-376	263	229	595	881	1,421	1,456	1,513	1,519
Change in working capital	113	-252	641	139	-193	-450	269	-141	-21	-13	-14	-9
Capital expenditures	-1,801	-4,418	-635	-55	-163	-44	-651	-336	-212	-200	-187	-174
Decrease in investments	342	16	-6	64	-27	-63	-52	-56	-61	-65	-71	-76
Unlevered free cash flow	1,599	-1,667	356	-228	-119	-328	160	347	1,127	1,177	1,242	1,259
Forecasted exchange rate	21,388	22,445	22,761	22,698	23,175	23,175	23,266	23,359	23,453	23,547	23,641	23,736
Unlevered FCF (US\$m)	75	-74	16	-10	-5	-14	7	15	48	50	53	53

Firm Value Calculations					
WACC	16.0%	PV of future cash flows (VNDbn)	3,120	2020E Total debt (VNDbn)	4,521
DCF period	5 Yrs	PV of terminal value (VNDbn)	3,616	2020E Cash (VNDbn)	1,849
Terminal EBITDA (VNDbn)	1,519	PV of Firm (VNDbn)	6,736	Terminal value as % of firm value	53.7%
Terminal multiple (x)	5.0x	Current exchange rate (VND)	23,180	Current shares outstanding (mn)	421.5

Cost Of Capital Calculations					
WACC	16.0%	Re-levered beta	1.693	Risk free rate	3.0%
Cost of equity	18.1%	Debt beta	0.449	Market risk premium	8.9%
Cost of debt	7.0%	Unlevered beta	1.459	Target gearing	20.0%
		Statutory corporate tax rate	20.0%	Debt premium	4.0%

Memorandum (VNDbn, USDmn)												
	2014A	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	1.07	1.24	1.44	1.67	1.94	2.25
Present value in VND	0	0	0	0	0	0	150	280	783	705	641	560
Present value in US\$	0	0	0	0	0	0	6	12	33	30	27	24

Source: Company reports, KB Securities Vietnam

PV Drilling (PVD) – Summarized financials & forecasts, 2019–2022E

Income statement					Balance sheet				
(VNDbn)	2019A	2020E	2021E	2022E	(VNDbn)	2019A	2020E	2021E	2022E
Net sales	4,368	5,087	5,709	6,597	Total assets	20,892	21,200	23,670	24,418
Cost of sales	3,918	4,648	5,034	5,455	Current assets	5,705	5,883	8,651	10,044
Gross Profit	450	438	675	1,141	Cash & equivalents	1,890	1,849	1,823	1,940
Financial income	165	168	199	215	ST investments	1,033	1,789	3,460	4,567
Financial expenses	241	258	351	391	Accounts receivable	1,907	1,563	2,345	2,462
of which: interest expenses	158	140	201	230	Inventory	835	645	967	1,015
Gain/(loss) from joint ventures	111	110	59	63	Other current assets	39	37	56	59
Selling expenses	17	9	11	13	Long-term assets	15,187	15,317	15,019	14,373
General & admin expenses	397	349	528	630	LT trade receivables	15	14	20	21
Operating profit/(loss)	71	100	42	385	Fixed assets	13,936	13,775	13,272	12,375
Other income	130	111	171	198	Investment properties	0	0	0	0
Other expense	12	48	17	20	LT incomplete assets	28	233	284	424
Net other income/(expenses)	118	63	154	178	LT investments	1,051	1,192	1,287	1,390
Pretax profit/(loss)	189	163	197	563	Goodwill	0	0	0	0
Income tax	17	37	39	113	Other LT assets	157	104	156	164
Net profit/(loss)	172	126	157	450	Liabilities	6,923	7,114	9,427	9,724
Minority interests	(12)	(18)	(8)	(23)	Current liabilities	2,862	2,921	4,809	4,957
Net profit after MI	184	143	165	473	Trade accounts payable	1,305	1,141	1,712	1,798
					Advances from customers	18	45	68	71
					ST borrowings	521	869	1,769	1,769
					Special reserves	96	77	77	77
					Other current liabilities	923	789	1,184	1,243
					Long-term liabilities	4,061	4,193	4,618	4,767
					LT payables	0	0	0	0
					LT borrowings	3,230	3,653	3,808	3,916
					Other LT liabilities	831	540	810	851
					Shareholders' equity	13,968	14,086	14,243	14,693
					Paid-in capital	4,215	4,215	4,215	4,215
					Share premium	2,434	2,434	2,434	2,434
					Treasury stock	(21)	(21)	(21)	(21)
					Undistributed earnings	3,805	1,956	2,114	2,564
					Reserve & others	3,288	5,260	5,260	5,260
					Minority interests	247	241	241	241
					Total liabilities & equity	20,892	21,200	23,670	24,418
Operating ratios					Key ratios				
(%)	2019A	2020E	2021E	2022E	(x, %, VND)	2019A	2020E	2021E	2022E
Revenue growth	(20.6)	16.4	12.2	15.5	Valuations				
EBIT growth	(63.2)	119.1	68.9	267.3	P/E	24.8	31.9	27.7	9.7
EBITDA growth	8.3	6.7	34.4	58.8	P/E diluted	24.5	31.6	27.4	9.6
NP after MI growth	(6.3)	(22.3)	15.3	186.3	P/B	0.3	0.3	0.3	0.3
Gross profit margin	10.3	8.6	11.8	17.3	P/S	1.0	0.9	0.8	0.7
EBITDA margin	14.7	13.5	16.2	22.2	EV/EBITDA	7.1	6.7	5.0	3.1
EBIT margin	0.8	1.6	2.4	7.5	EV/EBIT	125.0	57.0	33.8	9.2
Pre-tax profit margin	4.3	3.2	3.4	8.5	Dividend yield, ordinary (%)	0.1	0.0	0.0	0.0
Net profit margin	4.2	2.8	2.9	7.2	EPS	438	340	392	1,121
					BVPS	33,136	33,415	33,788	34,856
					SPS	10,362	12,066	13,543	15,648
					DPS (annual, ordinary)	7	0	0	0
					Dividend payout ratio (%)	1.5	0.0	0.0	0.0
Cash flow					Operating performance				
(VNDbn)	2019A	2020E	2021E	2022E	ROE	1.3	1.0	1.2	3.3
Net profit	172	126	157	450	ROA	0.9	0.7	0.7	2.0
Plus: depreciation & amort	576	588	788	970	ROIC	0.2	0.4	0.6	2.3
Plus: investing (profit)/loss	(223)	(145)	(154)	(167)	Financial structure				
Change in working capital	(450)	269	(141)	(21)	Total liab/equity	49.6	50.5	66.2	66.2
(Inc)/dec – receivables	(294)	345	(788)	(118)	Net debt/equity	13.3	19.0	26.3	25.5
(Inc)/dec – inventory	(76)	191	(322)	(48)	Current ratio (x)	2.0	2.0	1.8	2.0
(Inc)/dec – other curr assets	(15)	2	(19)	(3)	Interest coverage (x)	0.2	0.6	0.7	2.2
Inc/(dec) – payables	(34)	(164)	571	86	Activity ratios				
Inc/(dec) – advances	(12)	28	23	3	Asset turnover	0.2	0.2	0.3	0.3
Inc/(dec) – other curr liab	(19)	(133)	395	59	Receivables turnover	2.5	2.9	2.9	2.7
Other adj for operations	(1)	(462)	(707)	(154)	Inventory turnover	5.5	6.9	7.1	6.7
Operating cash flow	(77)	925	789	1,452	Payables turnover	3.2	4.1	3.8	3.6
ST investments	(21)	(756)	(1,671)	(1,107)					
Capital expenditures	(44)	(651)	(336)	(212)					
Investment properties	0	0	0	0					
Investment in subsidiaries	(63)	(52)	(56)	(61)					
Other assets	(356)	(36)	(91)	(50)					
Other adj for investments	262	970	1,035	1,117					
Investing cash flow	(223)	(525)	(1,120)	(313)					
Free cash flow	(122)	274	452	1,240					
Issuance/(repayment) of debt	(247)	423	155	108					
ST debt	158	348	900	0					
Other liabilities	(46)	(291)	270	41					
Issuance/(retirement) of equity	383	0	0	0					
Dividends paid	(3)	0	0	0					
Less: changes in equity	(434)	(8)	0	(0)					
Other adj for financing	114	(912)	(1,019)	(1,171)					
Financing cash flow	(75)	(441)	306	(1,022)					
Net increase in cash & equivalents	(375)	(41)	(26)	117					
Cash & equivalents – beginning	2,265	1,890	1,849	1,823					
Cash & equivalents – ending	1,890	1,849	1,823	1,940					

Source: Company reports, 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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