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PV Technical Services (PVS)

3Q results a mixed bag but oil drag continues

Mixed 3Q results as sales beat on EPC contracts but continued earnings drag from FPSO

— Preliminary pretax earnings from PVS came in at VND194 billion or up 39% YoY on revenue of VND5,613 billion or up 21% YoY. Pretax earnings missed our estimate by 49% while sales beat our expectations by 29%. We believe stronger-than-expected sales were largely due to stable late-stage contract pricing in the Engineering, Procurement & Construction division (EPC) although some benefit was still offset by higher pandemic-related costs. We attribute the earnings miss to the negative impact of weak oil prices on the FPSO (floating, production, storage & offloading) joint ventures. Pretax earnings for the first nine months were VND800 billion (down 6% YoY) and already reached the company's conservative full-year target on revenue of VND14,372 billion (up 6% YoY) or 96% of its full-year objective (management is well known for overly conservative guidance). This compares to 78% for pretax earnings versus the annual consensus and 81% of our estimate, while year-to-date sales were 93% of the consensus and 109% of our estimate.

Weak oil prices pressuring FPSO earnings as EPC support wanes in coming quarters

— Two offshore gas projects in the EPC division – *Sao Vang-Dai Nguyet* and *Gallaf-Al Shaheen* – are nearing completion and entering the peak finishing phase when contract prices usually climb and earnings improve. While this explains an extra USD50 million in sales for 3Q, additional staff and transportation costs arising from the coronavirus likely muted the possible boost to earnings. Moreover, we expect support from the EPC division to slow in the coming quarters due to the lack of new contracts as weak oil prices force many operators to delay drilling projects. That said, the important FPSO JVs remain the main impediment to earnings recovery with slow recovery in Brent prices keeping day rates low.

Maintain HOLD and 12-month of VND11,000; switch to GAS from PVS & PVD

— We continue to recommend switching into PV Gas (GAS, BUY, TP VND89,200) from both PV Technical Services (PVS, HOLD, TP VND11,000) and PV Drilling & Well Services (PVD, HOLD, TP VND9,600). Weak oil prices – which are still below South East Asia's USD55.00 breakeven – expose upstream operators like PVS and PVD to project delays that may negatively impact the profitability of upcoming EPC and drilling contracts. We believe PV Gas offers more secular growth opportunities given Vietnam's need to import cheaper-priced LNG to meet future natural gas demand (especially for power generation). Delays at the megaprojects (*Block B* representing 7.0 billion cubic metres of annual production or 15% of 2030E demand and *Blue Whale* representing 9.7 billion cubic metres of annual production or 22% of 2030E demand) further highlight this issue. Importantly, we expect LNG to become an important share price driver as GAS moves closer to starting up phase one of its Thi Vai LNG terminal in 2022E (one million tons of LNG per year or 7% of 2022E demand) and phase two scheduled to go online in 2023E (3 million tons of LNG per year or 15% of 2023E demand).

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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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