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PV Drilling (PVD)

Preliminary 3Q earnings may be down 44% YoY

Preliminary 3Q earnings may be down as much as 44% YoY

— According to a local press article in the online *Nguoi Dong Hanh* news, PVD's preliminary 3Q earnings may come in as low as VND15 billion or down 44% YoY on revenue of VND1,156 billion or up 8% YoY. This would mean 3Q earnings could miss our VN32 billion estimate by 50% despite topline sales coming in 27% higher than our VND909 billion forecast (albeit these preliminary results are coming out even before the quarter has ended). Preliminary earnings performance for the first nine months were VND100 billion or up 105% YoY on revenue of VND4,300 billion or up 44% YoY according to the article.

Spillover of pandemic-related costs into 3Q may explain the earnings miss

— Initially, we suspect that better-than-expected sales may be due to PVD leasing additional jackup rigs for use in Vietnam and stronger-than-expected demand recovery for well-related services. Lower earnings performance may be attributable to another quarter of high operating costs for the four jackup rigs in Malaysia due to the coronavirus lockdown. Operating expenses were high in 2Q due to Malaysia's *Movement Control Order* that required additional staffing to compensate for the restricted movement of workers. We will review our 2020E earnings forecasts when official 3Q results are released in the coming weeks.

Maintain Hold and 12-month of VND9,600; switch to downstream GAS, PLX, PVT & BSR

— We continue to recommend that investors switch out of PV Drilling & Well Services (PVD, HOLD, TP VND9,600) and prefer downstream operators like PV Gas (GAS, BUY, TP VND89,200), Petrolimex (PLX, BUY, TP VND59,800), PV Transportation (PVT, BUY, TP VND16,800) and Binh Son Refining (BSR, BUY, TP VND8,100). We expect upstream oil & gas operators to come under increasing earnings pressure as weak oil prices hit exploration and drilling activities harder than downstream players that are better positioned to weather the slow recovery in crude oil prices & energy demand.

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Investment ratings & definitions

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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