

Harder hit from weak oil prices

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Initiate coverage with HOLD rating and target price of VND11,100

We initiate our coverage of PVS with a BUY rating and a target price of VND11,100. Our target price is based on a mid-cycle P/B multiple derived from our three-stage dividend discount model. We apply a mid-cycle valuation for our target price to reflect our view for more modest recovery in FPSO day rates (Floating, Production, Storage & Offloading) amid an extended period of weak oil prices.

Margins continually under pressure at current and upcoming projects

Project delays include the *Sao Vang-Dai Nguyet* and *Gallaf* gas fields and although they may restart in mid 3Q both projects are in the finishing phase (albeit offering higher margins in the short term during this phase). Backlogs are still under pressure as competition squeezes margins at the upcoming *Su Tu Trang* and *Thi Vai* LNG projects.

Not just exposed to weak oil prices but also operating in a sunset industry

Vietnam's mature oil and gas fields also exacerbate the situation for upstream operators as higher extraction costs translate into quicker production cutbacks on any fall in oil prices. No new crude oil projects are scheduled and approvals for the large gas mega projects – *Blue Whale* and *Block B* – still face uncertainties amid ongoing delays.

HOLD initiate

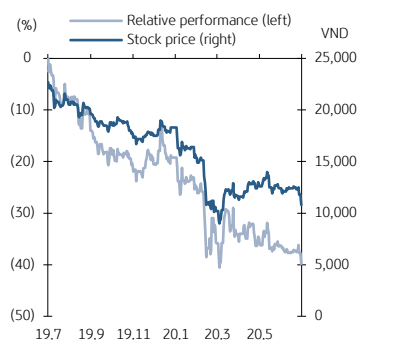
Target Price	VND11,000
Total return (%)	8.3%
Current price (Jul 27)	VND10,800
Consensus target price	VND16,500
Mkt capitalization (USDbn)	USD223mn

Trading data	
Free float (%)	48.5%
Avg trading value (3M)	USD2.41mn
Foreign available (%)	37.5%
Major shareholders (%)	PetroVietnam (51.4%)

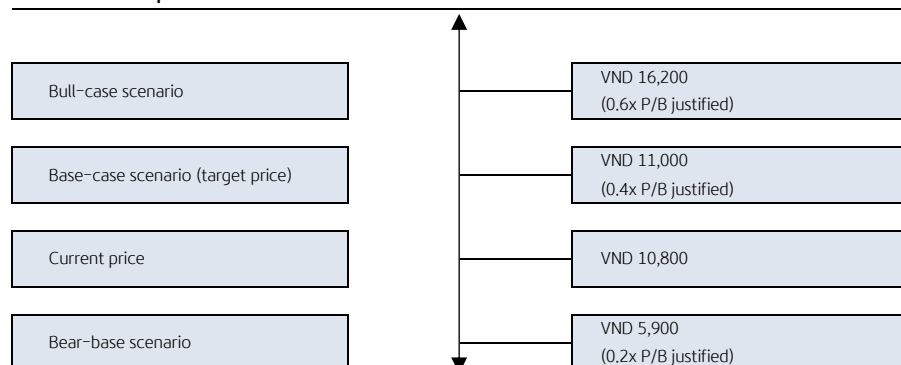
Share price performance				
(%)	1M	3M	6M	12M
Absolute	-12.9	-6.9	-41.0	-52.4
Relative	-5.5	-8.6	-25.5	-39.8

Forecast earnings & valuation

Fiscal year-end	2019A	2020E	2021E	2022E
Revenue (VNDbn)	16,968	17,039	15,358	16,126
EBIT	140	531	330	364
NP attributable to parent	849	902	1,195	1,427
EPS (VND)	1,777	1,887	2,499	2,985
EPS growth (%)	(23.3)	6.2	32.4	19.4
P/E (x)	6.1	5.7	4.3	3.6
EV/EBITDA (x)	(0.6)	1.3	1.7	1.6
P/B (x)	0.4	0.4	0.4	0.3
ROE (%)	6.7	6.9	8.7	9.7
Div yield (%)	7.7	6.5	7.4	9.3



Investment opinion & risks



Base-case scenario: catalysts

- 1) Brent prices above USD55 in 2021E
- 2) Project delays
- 3) Weak FPSO day rates

Bull-case scenario: upside risk

- 1) Brent prices above USD55 in 2020E
- 2) New gas fields approved
- 3) Strong FPSO day rates

Bear-case scenario: downside risk

- 1) Coronavirus second wave
- 2) Project cancellations
- 3) FPSO provisions

Revised earnings estimates

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

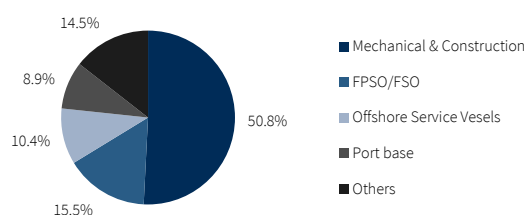
Source: Bloomberg, KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2020E	2021E	2020E	2021E	2020E	2021E
Revenue	17,039	15,358	15,628	17,292	9.0	(11.2)
EBIT	531	330	285	334	86.4	(1.1)
OP	1,330	1,709	271	450	390.6	279.8
NP after MI	902	1,195	788	862	14.4	38.6

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
PVS VN	0.2	6.5	-7.5	6.6	0.4
GAS VN	5.3	14.3	-5.7	17.6	2.4
PLX VN	2.2	19.8	0.0	11.8	1.9
PVD VN	0.2	21.9	13.8	0.9	0.3
BSR VN	0.8	-6.7	-18.7	2.1	0.6
PVT VN	0.1	5.4	-6.9	9.4	0.4

Source: Bloomberg, KB Securities Vietnam

Harder hit from weak oil prices

PV Technical Services (PVS): Most exposed to weak crude oil prices as production cuts lead to project delays & cancellations

We initiate our coverage of PVS with a BUY rating and a target price of VND11,100. Our target price is based on a mid-cycle P/B multiple derived from our three-stage dividend discount model. We apply a mid-cycle valuation for our target price to reflect our view for more modest recovery in FPSO day rates (Floating, Production, Storage & Offloading) amid an extended period of weak oil prices.

Project delays include the *Sao Vang-Dai Nguyet* and *Gallaf* gas fields and although they may restart in mid 3Q both projects are in the finishing phase (albeit offering higher margins in the short term during this phase). Backlogs are still under pressure as competition squeezes margins at the upcoming *Su Tu Trang* and *Thi Vai* LNG projects.

Our 13.6% earnings CAGR between 2021E and 2025E assumes PVS will win EPC contracts (Engineering, Procurement & Construction) for major gas projects, including *White Lion Phase 2* and *Nam Du-U Minh*. We have excluded the mega gas projects – *Blue Whale* and *Block B* – given the complexity of the approval process and our expectations for extended delays. Notwithstanding, the operating environment for Vietnam’s upstream operators should be characterized by industry decline, intensifying competition and weak oil prices that should continue to squeeze margins and exacerbate any delays from offshore tensions and complications in the approval process.

Table 1. PV Technical Services (PVS) – Valuation (DDM) & target price (VND, %)

Line item	Notation		Notes
Cost of equity	K_E	16.6%	$r_f + (B_E * m)$
Re-levered beta	B_E	1.527	$B_A(1 + ((1-t)*D/E))$
Unlevered beta	B_A	1.414	PVS unlevered beta
Terminal assumptions			
Sustainable ROE	ROE	3.5%	Long-term ROE
Div payout ratio	p	60.0%	Long-term payout ratio
Sustainable growth	g	1.4%	$ROE * (1 - p)$
Assumptions			
Target gearing	D/E	10.0%	Long-term debt/equity ratio
Statutory tax rate	t	20.0%	Marginal corporate tax rate
Market risk premium	m	8.9%	10-year expected market return – risk free rate
Risk free rate	r_f	3.0%	10-year government bond
<hr/>			
Terminal value as % of firm value		73.4%	
PV of future dividends (VNDbn)		2,061	
PV of terminal value (VNDbn)		5,867	
PV of Firm (VNDbn)		7,749	
<hr/>			
Total return		8.3%	
Target price (VND)		11,000	
Dividend per share (VND)		700	

Source: KB Securities Vietnam

Our 12-month target price set to mid-cycle price objective vs fully-growth loaded valuation

Our valuation is based on the three-stage dividend discount model (DDM) that utilizes the capital asset pricing model (CAPM) to determine an appropriate discount rate for projected cash dividends/stock buybacks for individual stocks. We consider valuations generated from the DDM as fully-growth loaded assessments of value. Additionally, we estimate the ex-growth price-to-book multiple by modifying the Gordon Growth model $[(ROE-g)/(COE-g)]$ to assume zero growth or simply the company's sustainable return on equity (ROE) divided by the cost of equity (COE). Our mid-cycle target prices is then based the average of the fully-growth loaded value of the company and the ex-growth estimate.

Table 2. KBSV – Valuation methodology

Gordon growth model	
Justified P/B multiple	= $\frac{(ROE - g)}{(COE - g)}$
Ex-growth model	
Ex-growth P/B multiple	= $\frac{ROE}{COE}$
Mid-cycle model	
Mid-cycle P/B multiple	= Average of: [DDM valuation & Ex-growth valuation]

Source: KB Securities Vietnam

2Q earnings beat on one-off bad debt repayment from PVEP

2Q's earnings surged by 61.2% to VND272 billion on revenue of VND5,473 (up 13.4% YoY) due to: 1) VND51 billion in provision reversals for a debt repayment from PetroVietnam Exploration Production (PVEP); and 2) base effect from 2Q19's sizable non-operating losses. General expenses were down 44% YoY after PVEP repaid VND51 billion in bad debt. Year-over-year performance also benefitted from last year's VND120 billion in non-operating losses related to the disposal of the unprofitable seismic survey segment. Despite the one-offs, 2Q results still showed disruptions to M&C (Mechanical & Construction) projects from the pandemic and lower day rates for the FPSO (Floating, Production, Storage & Offloading) on weak oil prices. Management also warned of additional delays to upcoming M&C contracts due to the pandemic. 1H earnings were VND393 billion and down 39% YoY.

Pandemic leading to delays for upstream operators

We expect 3Q earnings of VND271 billion or flat on the quarter but up 222% YoY and 4Q profits at VND295 billion or up 9% QoQ and up 73% YoY. But given project delays and limited number of ongoing projects, even our forecasts rely heavily on the *Sao Vang-Dai Nguyet* and *Gallaf* gas projects as they peak and enter the finishing phase in 4Q. Projects in the finishing phase usually offer higher margins.

Earnings CAGR of 13.6% between 2021E-2025E but still risk of delays

Our 13.6% earnings CAGR between 2021E and 2025E assumes PVS will win EPC contracts (Engineering, Procurement & Construction) for major gas projects, including *White Lion Phase 2* and *Nam Du-U Minh*. We have excluded the mega gas projects – *Blue Whale* and *Block B* – given the complexity of the approval process and our expectations for extended delays. Notwithstanding, the operating environment for Vietnam's upstream operators should be characterized by industry decline, intensifying competition and weak oil prices that should continue to squeeze margins and exacerbate any delays from offshore tensions and complications in the approval process.

Table 3. PV Technical Services (PVS) – Natural gas E&P projects, 2018–2025E (USD)

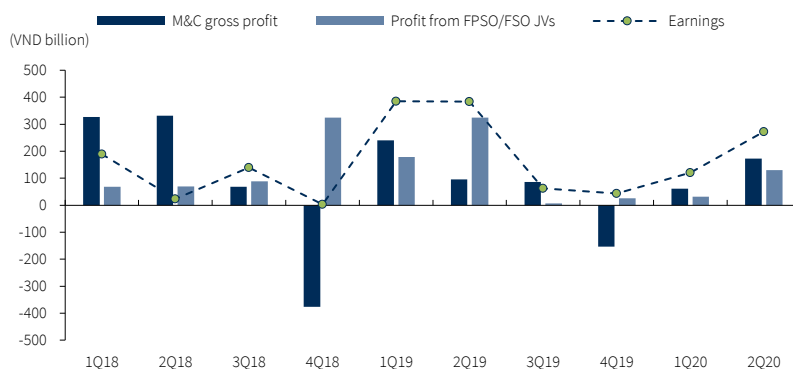
Projects	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	
<i>Sao Vang Dai Nguyet</i>	EPC + FSO + JUs (USD600 mn)								
<i>White Lion Phase 2</i>			EPC + FSO (USD500 mn)						
<i>Nam Du – U Minh</i>			EPC + FSO (USD850 mn)						
<i>Blue Whale</i>			(Estimated investment value = USD10 billion)						
<i>Block B – O Mon</i>					EPC + FSO + 1 tender barge + 1 JUs (USD1.2 bn)				
<i>Red Emperor</i>	Suspended								

EPC = Engineering, Procurement & Construction; FSO = Floating, Storage & Offloading; JU = Jackup rigs

Note: Red Emperor (*Ca Rong Do*) suspended due to offshore tensions.

Source: Company reports, KB Securities Vietnam

Fig 1. PV Technical Services (PVS)– M&C gross profit, profits from FPSO/FSO joint ventures & total earnings (VND billion)



M&C = Mechanical & Construction; FPSO/FSO: Floating (Production) Storage Offloading

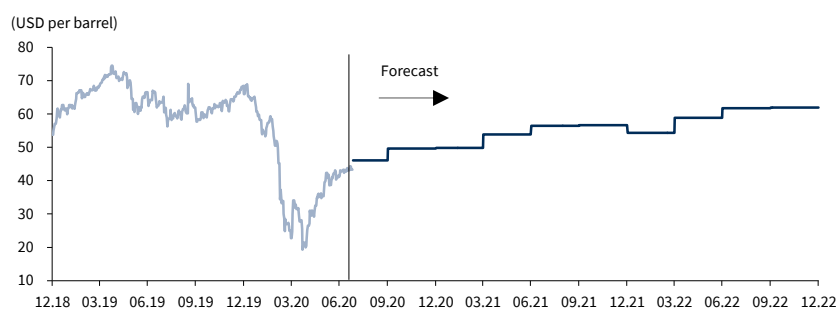
Source: Company reports, KB Securities Vietnam

Unwinding the cyclical trade

Bounce back in Brent crude prices largely over and we recommend unwinding trades in the upstream operators PVS & PVD

Our global commodities team at KB Securities in Korea expects a slower recovery trend for crude oil prices for the remainder of 2020E. WTI crude oil prices are likely to average USD40.10 in 3Q and USD43.60 in 4Q vs 2Q's lows of USD28.00. In Brent terms – the more relevant benchmark oil price for Vietnam – these prices would equate to average quarterly prices of USD46.10 for 3Q and USD49.60 for 4Q compared to 2Q's USD33.39. Our house forecasts imply a sharp slowdown in momentum, with recovery at only 7.6% in 4Q compared to the 38.1% rebound between 2Q and 3Q average prices. Moreover, growing signs of a second wave of coronavirus outbreaks in many large economies may put our house view on oil prices at risk of downgrades in the coming weeks.

Fig 2. Oil – Brent crude oil prices & forecasts, Jan 19–Dec 22E (USD per barrel)

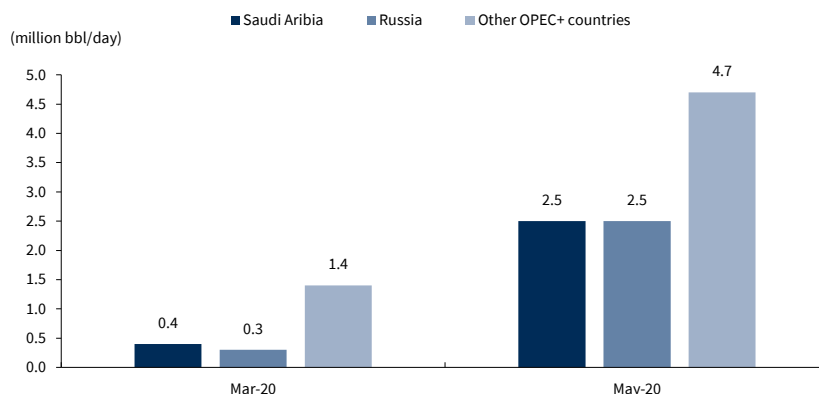


Source: Bloomberg, KB Securities Vietnam

OPEC+ countries unlikely to add to existing production cuts

The OPEC+ countries agreed to a second round of deeper production cuts in May but may be less willing to add to these. May's new production cuts began at a higher level than the original March agreement but are scheduled to be gradually lowered until April 2022. Cuts began at 9.7 million barrels a day for May and June and should fall to 7.7 million barrels per day from July to December; and then 5.8 million barrels a day for the remaining sixteen months of the agreement.

Fig 3. OPEC+ – Agreed production cuts, Mar 2020 & May 2020 (million bbl/day)

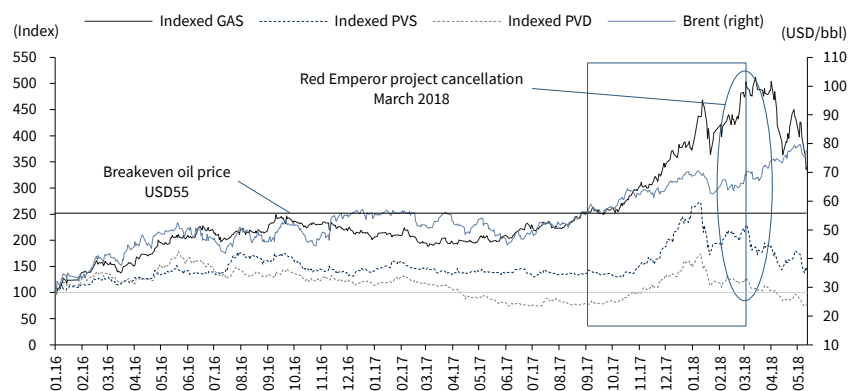


Source: KB Securities Vietnam

Investors should not abandon the oil & gas sector completely as performance only peaks after Brent oil prices recover the USD55.00 breakeven level

We would not recommend that investors abandon all investments in Vietnam’s oil & gas sector despite the growing likelihood of a more muted recovery for oil prices. Looking to the most recent downturn in oil prices in 2015–2016 shows that performance for Vietnam’s oil & gas stocks only peak after Brent prices move above the USD55.00 level. With Vietnam’s oil production becoming profitable above USD55.00, a sustained move above this level usually signals the return of profitability for the sector and provision reversals to boost results further. Strong correlations to Brent usually only last during the initial rebound in oil prices after a severe drop. Historically, PV Gas (GAS) has shown the best ability to fully-track the recovery in oil prices, while PV Technical Services (PVS) and PV Drilling & Well Services (PVD) underperformed against Brent prices. The last cycle for Vietnam’s oil & gas stocks began in January 2016 when Brent prices bottomed out at USD28 and ended with the cancellation of the *Red Emperor* project in March 2018 during which oil prices recovered to US70.00

Fig 4. Vietnam oil & gas – Indexed share prices vs Brent, 2016–2017 (USD/bbl)



Source: Bloomberg, KB Securities Vietnam

Early correlations to oil prices break down after the initial recovery bounce in oil prices; switch out of PVS & PVD into GAS

GAS exhibits the most enduring correlation with oil prices during the recovery period

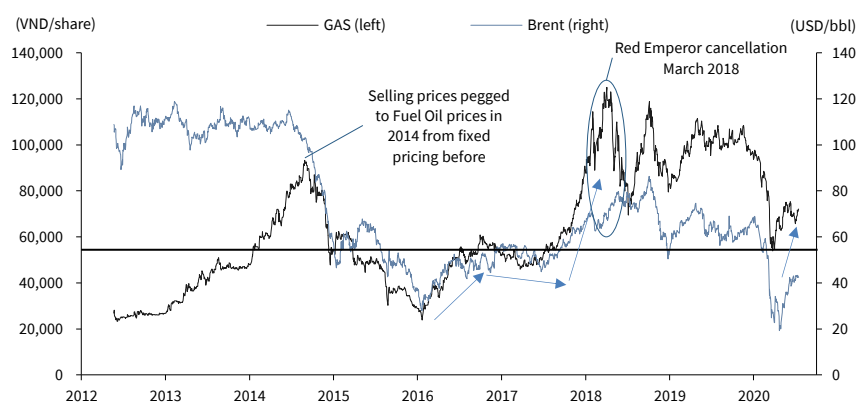
But we do recommend that investors unwind positions in PVS and PVD and switch holdings into GAS. Only GAS has shown the ability to fully track the recovery in oil prices, while PVS and PVD as upstream operators actually deviated quite substantially from oil prices and significantly underperformed the rebound in oil prices. Correlations to oil prices do not last over the entire recovery of oil prices and the short duration of this interaction is clearly seen in previous trading history. Oil & gas stocks have only been able to closely track recovery in Brent prices during the initial recovery bounce that came directly after the steep drop.

Share performance at GAS is the most closely related to underlying Brent prices largely due to the floating price system adopted in 2014. Product prices are pegged to High Sulphur Fuel Oil (HSFO) prices based on the following formula:

$$\text{Selling price} = \text{Max [46\% HSFO price, wellhead price]} \\ + \text{transportation \& tariffs (including markup)}$$

This pricing formula gives GAS the most direct relationship to Brent oil prices among the oil & gas stocks, with the direction of earnings determined by HSFO prices helping to sustain the close relationship between the share prices and the recovery in oil prices.

Fig 5. Vietnam oil & gas – GAS vs Brent, 2012–2020 (VND, USD/bbl)

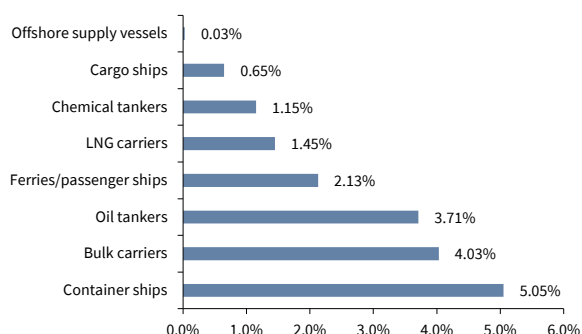


Source: Bloomberg, KB Securities Vietnam

We also believe HSFO prices have bottomed

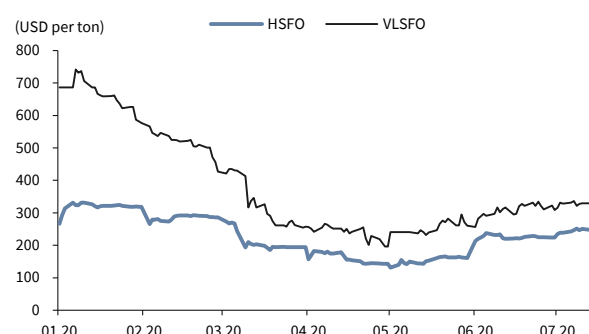
HSFO prices should recover from lows seen with the introduction of IMO2020 (International Maritime Organization 2020) in January that forced vessels to lower sulfur emissions. This pressured earnings at GAS as falling HSFO prices also lowered domestic dry gas selling prices. Scrubber installations should also increase as higher-priced Very Low Sulphur Fuel Oil (VLSFO) encourage shipping companies to add the devices to lower sulphur emissions and allow the use of HSFO for bunkering. Currently, about 4,000 vessels or 6% of the global fleet are equipped with scrubbers.

Fig 6. Global shipping – Scrubber installations by vessel type, 2019 (% of global fleet)



Source: Statistics, KB Securities Vietnam

Fig 7. Global commodities – HSFO & VLSFO prices, Jan 2020 – Jul 2020 (USD per ton)



Source: Bloomberg, KB Securities Vietnam

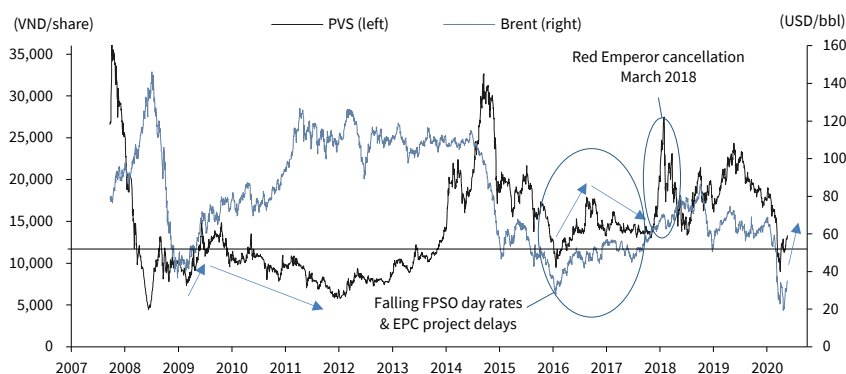
PVS & PVD share prices impacted more by upstream day rates and prevented both stocks from fully tracking the recovery in Brent prices in the past

Share prices and earnings at PVS and PVD are more influenced by day rates in the upstream market. Moreover, pricing mechanisms for day rates are complex and usually require that oil prices remain above extraction costs to boost rig utilization before recovery can be realized. This was seen during the previous two oil recessions, when lackluster day rates from plunging oil prices led to weak earnings at PVS and PVD and prevented both from keeping pace with the recovery in Brent prices.

Falling FPSO day rates and weak pricing on EPC contracts for new oil projects could see PVS underperform oil prices again

Specifically, day rates for FPSO (Floating Production Storage & Offloading) services are the most relevant for PVS. This means the current weakness in FPSO day rates could see PVS repeat the disappointing performance of past. PVS already took provisions in 1Q against the growing likelihood of lower day rates on its FPSOs after operations were hit with lower production output from production cutbacks; the sharp drop off in demand; and storage facilities at full capacity. Moreover, prices for EPC (Engineering, Procurement & Construction) contracts on new oil development projects also play an important role for earnings, exposing share prices to event risk in the case of project delays or cancellations. With EPC contracts already in a downturn for the past five years, extended periods of oil prices trading below breakeven threatens additional project delays or cancellations.

Fig 8. Vietnam oil & gas – PVS vs Brent, 2007–2020 (VND, USD/bbl)

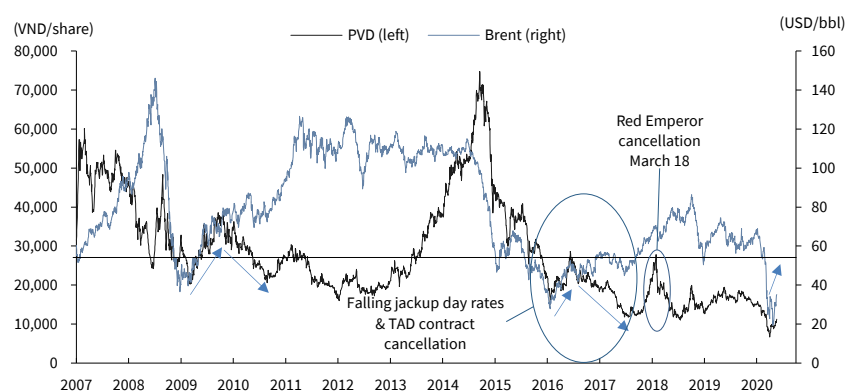


FPSO: Floating Production, Storage & Offloading, EPC: Engineering, Procurement & Construction
 Source: Bloomberg, KB Securities Vietnam

Lackluster day rates on jackup rigs are the biggest risk to share price performance and has often plagued PVD in the past

Day rates for jackup rigs usually play the largest role in determining earnings and share prices for PVD. At present, day rates for jack-up rigs have not only been negatively impacted by the crash in oil prices but the coronavirus has also led to another round of production cuts from the OPEC+ countries. This should not only limit the ability of day rates to rebound alongside recovering oil prices but also make it harder for PVD to match the gains in oil prices. Similar occurrences happened during the previous downturns as Brent prices below breakeven led to production cutbacks and new project cancellations. Moreover, the bulk of PVD's drilling contracts end in 2020E and the company will need to sign new job contracts in the coming months.

Fig 9. Vietnam oil & gas– PVD vs Brent, 2007–2020 (VND, USD/bbl)

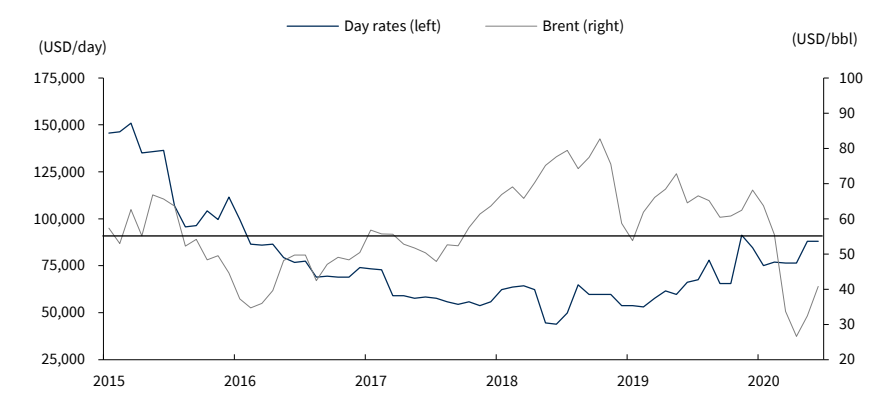


TAD: Tender-Assisted Drilling for deepwater projects.
 Source: Bloomberg, KB Securities Vietnam

Renewed and deeper OPEC+ production cuts may reverse the shallow recovery in jackup day rates

Vietnam's oil & gas markets could be facing a similar situation to past oil price downturns where weak upstream day rates put PVS and PVD at risk of weakening the correlation with oil price recovery. Early signs of recovery in day rates for jackup rigs ahead of expectations for the original March expiry of OPEC+ production cuts have been cut short by the sharp drop off in production demand and the new round of production cuts announced in April due to the coronavirus. Moreover, major global oil companies have already reduced capex budgets for E&P projects this year which should negatively impact the outlook for production output.

Fig 10. Vietnam oil & gas – Day rates for jackup rigs, 2015– 2019 (USD/day, USD/bbl)



Source: IHS Markit, KB Securities Vietnam

PV Technical Services (PVS) – Three-stage dividend discount model

3-STAGE DDM																																																																			
PV OF DIVIDENDS																																																																			
		Sustainable growth																																																																	
Cost of Equity		-0.1%	0.4%	0.9%	1.4%	1.9%	2.4%	2.9%																																																											
15.1%	8,344	8,498	8,662	8,839	9,029	9,234	9,456																																																												
15.6%	8,000	8,139	8,287	8,446	8,616	8,799	8,997																																																												
16.1%	7,681	7,807	7,940	8,083	8,236	8,401	8,577																																																												
16.6%	7,385	7,499	7,620	7,749	7,886	8,034	8,192																																																												
17.1%	7,109	7,213	7,322	7,439	7,563	7,696	7,838																																																												
17.6%	6,853	6,947	7,046	7,152	7,264	7,384	7,512																																																												
18.1%	6,613	6,699	6,789	6,885	6,987	7,095	7,210																																																												
PV OF EQUITY PER SHARE																																																																			
		Sustainable growth																																																																	
Cost of Equity		-0.1%	0.4%	0.9%	1.4%	1.9%	2.4%	2.9%																																																											
15.1%	17,500	17,800	18,100	18,500	18,900	19,300	19,800			Ex-growth	0.2x																																																								
15.6%	16,700	17,000	17,300	17,700	18,000	18,400	18,800				5,900																																																								
16.1%	16,100	16,300	16,600	16,900	17,200	17,600	17,900				-45.4%																																																								
16.6%	15,500	15,700	15,900	16,200	16,500	16,800	17,100			Mid-cycle																																																									
17.1%	14,900	15,100	15,300	15,600	15,800	16,100	16,400				0.4x																																																								
17.6%	14,300	14,500	14,700	15,000	15,200	15,400	15,700				11,000																																																								
18.1%	13,800	14,000	14,200	14,400	14,600	14,800	15,100				1.9%																																																								
Projected Distributions (VNDbn)																																																																			
	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E																																																								
Net income	1,517	1,039	1,007	1,047	849	902	1,195	1,427	1,691	1,749	1,986																																																								
Preferred dividend paid – cash	0	0	0	0	0	0	0	0	0	0	0																																																								
Preferred dividend per share	0	0	0	0	0	0	0	0	0	0	0																																																								
% of par value	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%																																																								
Internally-generated capital	1,517	1,039	1,007	1,047	849	902	1,195	1,427	1,691	1,749	1,986																																																								
Less: capital @ 10% D/E	-33	-67	-42	-24	44	49	76	0	0	0	0																																																								
Cash for dividends/buybacks	1,551	1,106	1,049	1,071	805	853	1,119	1,427	1,691	1,749	1,986																																																								
Common dividend paid – cash	579	809	284	509	397	335	382	478	574	765	956																																																								
Common dividend per share	1,297	1,811	636	1,064	830	700	800	1,000	1,200	1,600	2,000																																																								
% of par value	13.0%	18.1%	6.4%	10.6%	8.3%	7.0%	8.0%	10.0%	12.0%	16.0%	20.0%																																																								
Payout ratio	38.2%	77.9%	28.2%	48.6%	46.7%	37.1%	32.0%	33.5%	33.9%	43.7%	48.1%																																																								
Net share buybacks	0	0	0	0	0	0	0	0	0	0	0																																																								
Total distributions	579	809	284	509	397	335	382	478	574	765	956																																																								
Net distribution ratio (%)	38.2%	77.9%	28.2%	48.6%	46.7%	37.1%	32.0%	33.5%	33.9%	43.7%	48.1%																																																								
Discount factor	0.00	0.00	0.00	0.00	0.00	1.08	1.26	1.47	1.72	2.00	2.34																																																								
Present value	0	0	0	0	0	309	303	325	334	382	409																																																								
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">Cost of equity</th> <th colspan="3">Terminal Assumptions</th> <th colspan="3">Share Information</th> </tr> </thead> <tbody> <tr> <td>Risk free rate</td> <td>3.0%</td> <td>Sustainable ROE</td> <td></td> <td>3.5%</td> <td>PV of future dividend flows (VNDbn)</td> <td></td> <td>2,061</td> </tr> <tr> <td>Equity risk premium</td> <td>8.9%</td> <td>Dividend payout ratio</td> <td></td> <td>60.0%</td> <td>PV of terminal value (VNDbn)</td> <td></td> <td>5,687</td> </tr> <tr> <td>Unlevered beta</td> <td>1.414</td> <td>Sustainable growth</td> <td></td> <td>1.4%</td> <td>Terminal value as % of firm value</td> <td></td> <td>73.4%</td> </tr> <tr> <td>Re-levered beta</td> <td>1.527</td> <td>Forecast period growth</td> <td></td> <td>23.4%</td> <td>Current shares outstanding (mn)</td> <td></td> <td>478.0</td> </tr> <tr> <td>Cost of equity</td> <td>16.6%</td> <td>Target gearing</td> <td></td> <td>10.0%</td> <td>Statutory corporate tax rate</td> <td></td> <td>20.0%</td> </tr> <tr> <td>Forecast period</td> <td>5 Yrs</td> <td>Transition period</td> <td></td> <td>10 Yrs</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>												Cost of equity		Terminal Assumptions			Share Information			Risk free rate	3.0%	Sustainable ROE		3.5%	PV of future dividend flows (VNDbn)		2,061	Equity risk premium	8.9%	Dividend payout ratio		60.0%	PV of terminal value (VNDbn)		5,687	Unlevered beta	1.414	Sustainable growth		1.4%	Terminal value as % of firm value		73.4%	Re-levered beta	1.527	Forecast period growth		23.4%	Current shares outstanding (mn)		478.0	Cost of equity	16.6%	Target gearing		10.0%	Statutory corporate tax rate		20.0%	Forecast period	5 Yrs	Transition period		10 Yrs			
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	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E																																																								
Reported common equity	11,875	11,752	13,112	12,705	12,784	13,275	14,137	15,146	16,334	17,391	18,504																																																								
Debt/equity ratio	18.9%	13.4%	8.8%	7.2%	10.6%	13.9%	18.4%	17.2%	15.9%	15.0%	14.1%																																																								
Debt	2,248	1,576	1,155	914	1,356	1,846	2,602	2,602	2,602	2,602	2,602																																																								
YoY % Change	-12.9%	-29.9%	-26.7%	-20.9%	48.3%	36.1%	41.0%	0.0%	0.0%	0.0%	0.0%																																																								

Source: Company reports, KB Securities Vietnam

PV Technical Services (PVS) – Summary financials & forecasts, 2019–2022E

Income statement (VNDbn)					Balance sheet (VNDbn)				
	2019A	2020E	2021E	2022E		2019A	2020E	2021E	2022E
Net sales	16,968	17,039	15,358	16,126	Total assets	26,004	26,769	28,614	29,500
Cost of sales	16,071	15,910	14,396	15,105	Current assets	15,984	16,200	17,626	18,159
Gross Profit	898	1,129	962	1,020	Cash & equivalents	6,949	5,556	5,998	5,999
Financial income	320	385	423	443	ST investments	2,743	4,567	5,300	5,606
Financial expenses	67	156	169	175	Accounts receivable	4,627	5,099	5,201	5,461
of which: interest expenses	34	49	39	39	Inventory	1,269	552	693	637
Gain/(loss) from joint ventures	581	569	1,124	1,416	Other current assets	396	425	433	455
Selling expenses	108	113	123	129	Long-term assets	10,020	10,569	10,988	11,341
General & admin expenses	649	485	509	527	LT trade receivables	164	170	173	137
Operating profit/(loss)	974	1,330	1,709	2,048	Fixed assets	3,177	3,266	3,380	3,510
Other income	425	75	77	81	Investment properties	183	179	174	170
Other expense	296	26	31	32	LT incomplete assets	200	398	451	505
Net other income/(expenses)	129	49	46	48	LT investments	5,208	5,462	5,732	6,015
Pretax profit/(loss)	1,103	1,379	1,755	2,096	Goodwill	0	0	0	0
Income tax	295	421	511	610	Other LT assets	1,087	1,095	1,077	1,005
Net profit/(loss)	808	958	1,244	1,486	Liabilities	13,220	13,494	14,476	14,355
Minority interests	(41)	56	50	59	Current liabilities	8,995	8,836	8,990	9,112
Net profit after MI	849	902	1,195	1,427	Trade accounts payable	6,151	5,949	6,068	6,144
					Advances from customers	320	510	520	501
					ST borrowings	771	772	772	772
					Special reserves	316	330	330	330
					Other current liabilities	1,436	1,275	1,300	1,365
					Long-term liabilities	4,225	4,658	5,486	5,243
					LT payables	1,243	1,317	1,344	1,320
					LT borrowings	584	1,074	1,830	1,830
					Other LT liabilities	2,397	2,267	2,313	2,093
					Shareholders' equity	12,784	13,275	14,137	15,146
					Paid-in capital	4,780	4,780	4,780	4,780
					Share premium	40	40	40	40
					Treasury stock	0	0	0	0
					Undistributed earnings	3,857	4,375	5,237	6,245
					Reserve & others	3,394	3,389	3,389	3,389
					Minority interests	714	693	693	693
					Total liabilities & equity	26,004	26,769	28,614	29,500
Operating ratios (%)					Key ratios (x, %, VND)				
	2019A	2020E	2021E	2022E		2019A	2020E	2021E	2022E
Revenue growth	15.9	0.4	(9.9)	5.0	Valuations				
EBIT growth	(62.4)	278.7	(37.8)	10.1	P/E	6.1	5.7	4.3	3.6
EBITDA growth	(25.0)	45.7	(6.1)	5.7	P/E diluted	6.1	5.7	4.3	3.6
NP after MI growth	(18.9)	6.2	32.4	19.4	P/B	0.4	0.4	0.4	0.3
Gross profit margin	5.3	6.6	6.3	6.3	P/S	0.3	0.3	0.3	0.3
EBITDA margin	4.6	6.6	6.9	6.9	EV/EBITDA	6.7	4.6	4.9	4.6
EBIT margin	0.8	3.1	2.2	2.3	EV/EBIT	36.8	9.7	15.6	14.2
Pre-tax profit margin	6.5	8.1	11.4	13.0	Dividend yield, ordinary (%)	7.7	6.5	7.4	9.3
Net profit margin	5.0	5.3	7.8	8.8	EPS	1,777	1,887	2,499	2,985
					BVPS	26,747	27,774	29,578	31,688
					SPS	35,501	35,649	32,132	33,738
					DPS (annual, ordinary)	830	700	800	1,000
					Dividend payout ratio (%)	46.7	37.1	32.0	33.5
					Operating performance				
					ROE	6.7	6.9	8.7	9.7
					ROA	3.5	3.4	4.3	4.9
					ROIC	1.0	3.3	1.8	1.8
					Financial structure				
					Total liab/equity	103.4	101.6	102.4	94.8
					Net debt/equity	(43.8)	(28.0)	(24.0)	(22.4)
					Current ratio (x)	1.8	1.8	2.0	2.0
					Interest coverage (x)	4.2	10.8	8.6	9.4
					Activity ratios				
					Asset turnover	0.7	0.6	0.6	0.6
					Receivables turnover	3.5	3.5	3.0	3.0
					Inventory turnover	19.2	18.7	24.7	24.2
					Payables turnover	3.1	2.6	2.4	2.4

Source: Company reports, KB Securities Vietnam

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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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