May, 2020

PV DRILLING & WELL SERVICES CORP (HSX: PVD)

Core business to post profit but low oil price hurt prospects

Particulars (VND B)	1Q-FY20	4Q-FY19	*+/-qoq*	1Q-FY19	*+/-yoy*
Net revenue	1,675	1,390	21%	910	84%
PAT	24	140	-83%	-87	-128%
EBIT	63	24	161%	-70	-191%
EBIT margin	3.8%	1.7%	204bps	-7,7%	1,148bps

Source: PVD, Rong Viet Securities

1Q2020 results: Core business to post profit as less provisions coming from PVEP

- Revenue increased significantly by 84% YoY to VND1,676bn due to the 2.6x sales growth in the drilling segment (VND1,020bn) and 30% in well services (VND562bn). The drilling segment recorded 100% in rig utilization and an average day rate of USD60,200. In 1Q2020 there was a huge contribution from the hired drilling rig.
- The overall gross margin reached 9.4% from 5.6%.
- SG&A decreased by 16% YoY to VND94bn as PVD booked only VND3bn for provisions in 1Q2020, compared to VND48bn in 1Q2019.
- NPATMI was VND24bn in 1Q2020, compared to a loss of VND87 in 1Q2019.

2020 prospects: COVID-19 impact but still post profit

With the influence of COVID-19, the drilling plan was adjusted to reduce the number of operating days in some rigs compared to the initial plan. The average rig day rate is expected to reach USD 63,000 up 6.7% YoY but still lower than our previous forecast - USD65,000. Revenue from well services will also be affected but is expected to increase by 18% YoY. In addition, we can expect a reversal of provision from PVEP this year.

In the long term, the higher oil price (above 40USD/barrel) and the implementation of Oil & Gas projects in the region will support PVD's business.

In 2020, we project revenue and NPATMI to be VND5,792bn (+32.6% YoY) and VND 213 bn (+15.7% YoY), respectively. We assume that PVD will revert VND100bn from PVEP's provision.

Valuation and recommendation

PVD is improving its business performance after a long time of difficulties because of falling oil prices. However, oil prices once again became "obstacles" for the company. Therefore, we believe that long-term investors need to look at factors that are likely to directly affect PVD's long-term prospects such as oil prices and regional project implementation plans.

Meanwhile, short-term investors can take advantage of supportive factors such as profit from core activities, reversal from PVEP and positive trend of oil prices. Using the P/B method, we think that the price of PVD can range from VND 16,500 to VND 19,800, assuming that the price of oil will fluctuate between 30USD - 40 USD, equivalent to the historical P/B of 0.5x - 0.6x.

FOLLOW

CMP (VND)	10,800
Target price (VND)	
Cash dividend (VND)*	

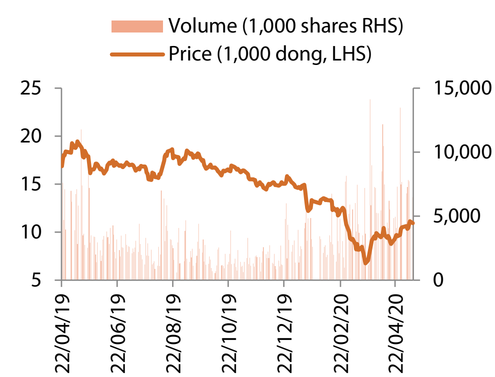
** Expected in the next 12 months*

Stock info

Sector	Oil Gas
Market Cap (VND bn)	5,589
Current Shares O/S	421,135,000
Avg. Daily Volume (in 20 sessions)	6,234,354
Free float (%)	49.4
52 weeks High	18,650
52 weeks Low	6,750
Beta	1.35

	FY2019	Current
EPS	304	713
EPS growth (%)	-6.3	-12.3
Adjusted EPS	304	713
P/E	49.5	15.1
P/B	0.5	0.3
EV/EBITDA	11.4	8.7
Cash dividend	0.0	0.0
ROE (%)	1.3	2.1

Price performance



Major Shareholders (%)

PVN	51.0
Foreign ownership room (%)	36.5

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Exhibit 1: 1Q2020 results

Particulars (VND Bn)	1Q-FY20	4Q-FY19	+/-(QoQ)	1Q-FY19	+/-(YoY)	YTD-FY20	+/-(YoY)
Net revenue	1,675	1,390	20.5%	910	84.2%	1.675	84.2%
Gross profit	157	145	8.7%	51	207.8%	157	207.8%
SG&A	94	120	-22.1%	121	-22.5%	94	-22.5%
Operating income	63	24	161.4%	-70	N/A	63	N/A
EBITDA	225	173	30.2%	76	194.3%	225	194.3%
EBIT	63	24	161.4%	-70	N/A	63	N/A
Financial expenses	80	57	40.4%	51	58.0%	80	58.0%
- Interest Expenses	33	36	-8.3%	42	-21.3%	33	-21.3%
Dep. and amortization	162	149	8.8%	146	10.4%	162	10.4%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	26	139	-81.5%	-85	N/A	26	N/A
PAT	24	140	-82.7%	-87	N/A	24	N/A
(*) Adjusted PAT	24	140	-82.7%	-87	-127.9%	24	

Source: PVD, Rong Viet Securities

Exhibit 2: 1Q2020 performance analysis

Particulars	1Q-FY20	4Q-FY19	+/-(QoQ)	1Q-FY19	+/-(YoY)
Profitability ratios (%)					
Gross margin	9.4%	10.4%	-102bps	5.6%	377bps
EBITDA margin	13.4%	12.4%	100bps	8.4%	502bps
EBIT margin	3.8%	1.7%	204bps	N/A	N/A
Net margin	1.4%	10.1%	-865bps	N/A	N/A
Adjusted net margin	1.4%	10.1%	-865bps	N/A	N/A
Turnover *(x)					
-Inventories	7.7	6.5	1.2	4.7	3.0
-Receivables	3.0	3.0	0.0	2.4	0.5
-Payables	3.3	3.1	0.2	2.0	1.3
Leverage (%)					
Total debt/ equity	21.8%	19.6%	214bps	17.7%	407bps

Source: PVD, (*) Annualized turnover

Exhibit 3: 2Q2020 performance forecast

Particulars (VND Bn)	2Q-FY20	+/-(QoQ)	+/-(YoY)
Revenue	1,483	-11.5%	-47.7%
Gross profit	124	-21.0%	-18.4%
EBIT	32	-49.0%	-20.0%
NPAT	17	-29.1%	-84.4%

Source: PVD, Rong Viet Securities

2Q2020 forecast comment:

- Utilization rate of 83% and rig day rate of USD56,500
- Revenue of drilling activities and well service is forecasted to be VND903bn and VND500bn.
- Gross margin of 8.3% in 2Q2020.

Update:

Despite changes in drilling plan, rigs 'operations are likely to rise through 2020

Thanks to the huge contribution from hired rigs, drilling activities posted 2.6x growth in revenue to VND1,020bn, compared to the number in 1Q2019. Revenues of hired rigs achieved VND506bn while owned rigs recorded VND513bn, up 31% YoY due to the improvement of rig utilization (83% to 99.8%) and a 9% increase in the rig day rate.

The gross margin of the drilling segment rose from -8.4% to 6.3% as costs were well-controlled, higher rig day rate and the most important is that PVD has not booked the contractor tax in COGS like it did last year.

For 2020, operations of drilling rigs is expected to be full for the whole year but less than the initial plan due to COVID-19 and low oil prices. We estimate that the utilization rate and the rig day rate will be 92% and USD63,000 respectively. Following that, the owned rig's revenue is forecasted to increase by 8% to VND2,186bn. Hired rigs will contribute VND833bn of total sales. **Overall, the drilling activities can post VND3,000bn in revenue, up 40% YoY. The gross profit is projected to increase by 70% to VND184bn**.

Table 1: Drilling plan in 2020

	Drilling plan	Operation day
PVD I	+ Petronas (Malaysia): 1/1/2020 to 16/5/2020. + Hibiscus (Malaysia): 27/5/2020 to 27/11/2020. + Hibiscus (Malaysia) tentative: 28/11/2020 to 31/12/2020.	356 days
PVD II	+ Petronas (Malaysia): 1/1/2020 to 31/10/2020. + Other customer (Malaysia): 12/11/2020 to 31/12/2020.	355 days
PVD III	+ Repsol (Malaysia): 1/1/2020 to 31/5/2020. + Kris Energy (Malaysia): 16/6/2020 to 13/9/2020. + Repsol (Malaysia): 4/10/2020 to 31/12/2020.	341 days
PVD VI	+ Sapura (Malaysia): 1/1/2020 to 10/4/2020. + Rosneft (Vietnam): 16/5/2020 to 31/12/2020.	331 days
PVD 11	+ GBRS: 9/6/2020 to 31/12/2020.	186 days
Hired rigs	+ Idenmitsu (Viet Nam) hire Hakuryu 11: 1/1/2020 to 25/7/2020. + Hoang Long JOC hire IDUN: 1/1/2020 to 8/4/2020 and 8/6/2020 to 5/10/2020. + Eni (Viet Nam) hire SAGA: 29/2/2020 to 2/7/2020.	207 days 239 days 125 days

Source: PVD

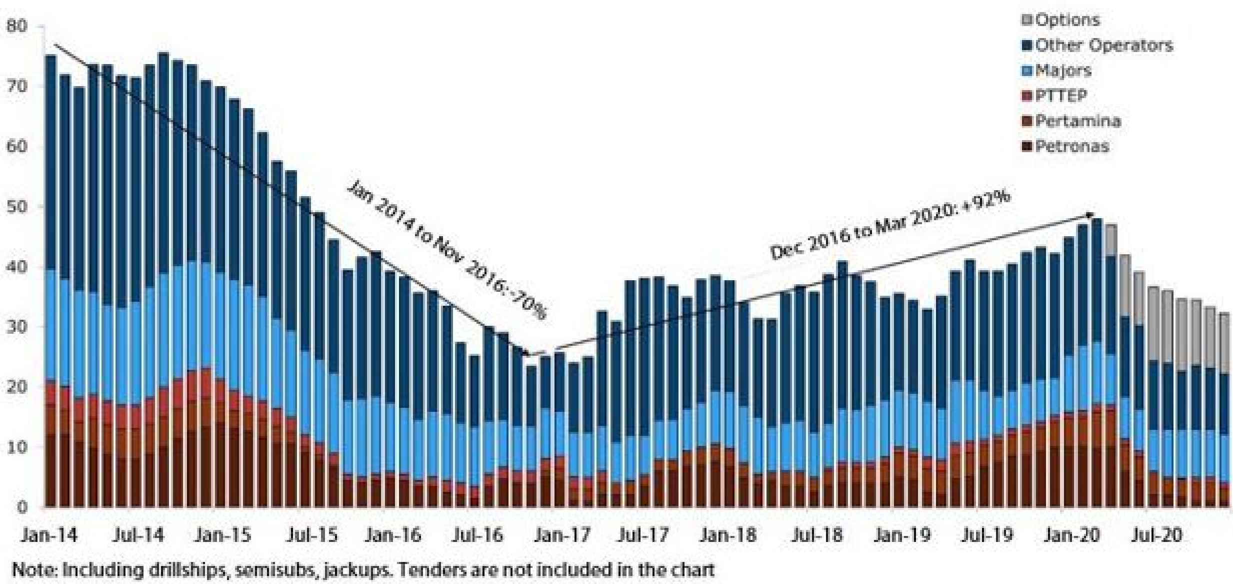
In terms of well service, the shorter operation day of rigs will impact this segment's revenue **but still grow 18% in our forecast to VND2,112bn. The gross profit is expected to climb 15% to VND359bn.**

COVID-19 impact

3/4 of PVD's jack up rigs are now operating in Malaysia, one of the most vulnerable countries to COVID-19 so there should be a possibility to stop its business here. However, the pandemic is cooling down so the risk is getting lower. We are more concerned about the low oil price. In the long term, the oil price may stay at this low level if the pandemic is not well controlled to support the oil demand. Then PVD will be impacted. The company is facing the influence of COVID-19 as the 2021 bidding processes have been delayed.

In the region, some contracts from other contractors, with the option to extend operations, may not be exercised according to Rystad Energy. Rystad also says that if no new contracts are signed and no options are exercised for the remainder of 2020, the utilization will drop by 54% in the South East Asia from March to December. The demand for drilling rig in South East Asia could drop in 2020 instead of posting a 20% growth in their early forecast.

Figure 1: Contracted rigs with options in South East Asia



Source: Rystad Energy

Receivable from PVEP

Till the end of 2019, PVD completed all the provision for PVEP's receivable. In 1Q2020, PVEP is still owned PVD VND200bn. In case of getting full this amount in the rest of this year, PVD can revert VND200bn in other income or PVD's bottom line can be VND200bn higher than it is actually. However, we only assume that PVD can collect half of it.

Forecast and valuation

In 2Q2020, revenue and NPATMI are forecasted at VND1,483bn (+47% YoY) and VND17bn)-84% YoY), respectively. Here are the main assumptions:

- Drilling services is expected to post VND903bn in revenue of which owned rigs will maintain the same revenue as in 1Q2020 while hired rigs can contribute VND400bn. The decline in 2Q2020 drilling services comes from the more rig move of PVD III and PVD VI.
- Well service is forecasted to post VND500bn.
- The overall gross margin is 8.3%.

In case of getting money from PVEP, the bottom line of PVD could be higher than our forecast in 2Q2020.

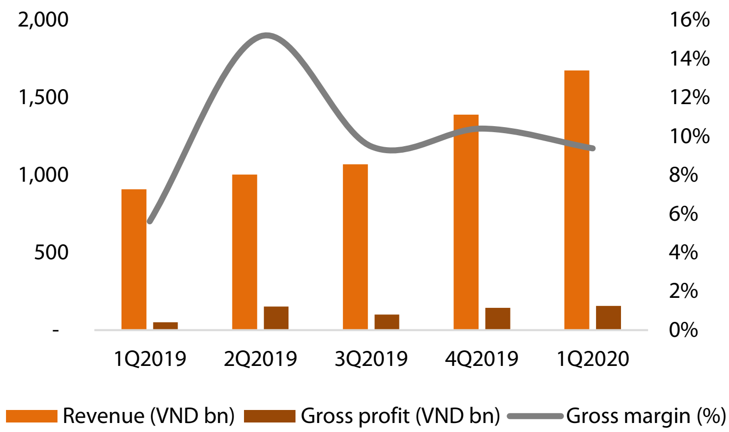
For 2020, we project revenue and net profit for the parent company at VND5,792bn (+32.6% YoY) and VND213bn (+15.7% YoY), respectively. We assume that PVD will revert VND100bn from PVEP's provision.

In the context of low oil prices, the prospect of 2021 onwards for PVD is not clear. With the "lockdown" easing and OPEC + production cuts, we expect that oil prices will recover from mid 2Q2020 but only fluctuate between USD 35 - USD 40 as the world oil demand is forecasted to drop 10% in 2020. At this oil price level, **we believe that long-term investors should follow PVD at the moment** until any specific signals supporting the company's business from 2021 onwards appear. In our opinion, those factors should be (1) the oil price outlook from 2021 must be positive - possibly from USD 40 or more and (2) the implementation plan of oil and gas projects in the region will be maintained as before the epidemic occurred.

Even so, PVD's share price in 2020 will still have supportive factors such as (1) Profit from its core business, (2) Reversal from PVEP, and (3) The oil price is bottoming up. **Accordingly, short-term investors can take advantage of these factors to have a reasonable strategy with PVD for this year**. Our share price assumption is based on the P / B method.

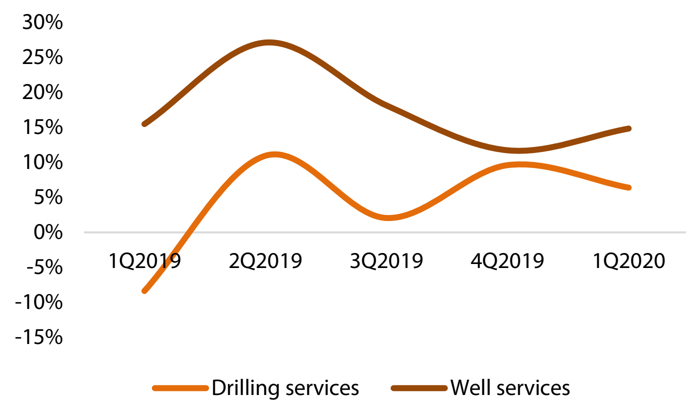
With the average oil price fluctuating around 35USD - 40USD in 2020, PVD's historical P / B should stay between 0.5x and 0.6x. Combined with the 2020 book value of VND 33,055 / share, then the stock price should be from VND16,500 to VND19,800. We also reiterate that this price only includes supportive factors for this year and does not include any uncertainty regarding prospects from 2021 onward.

Figure 1: Business result by quarter



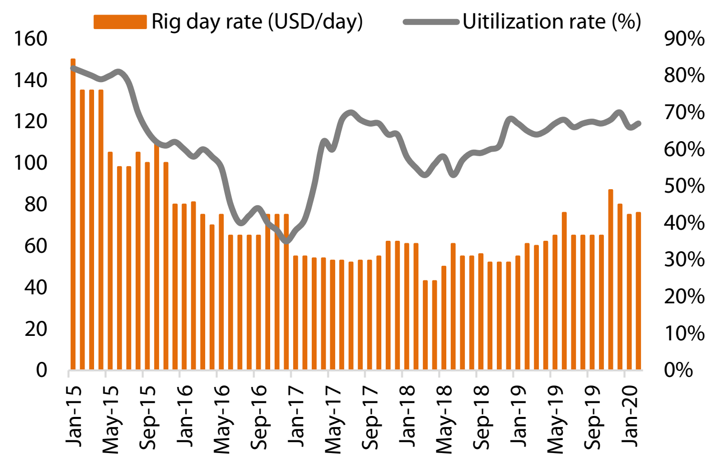
Source: PVD

Figure 2: Gross margin of drilling and well services (%)



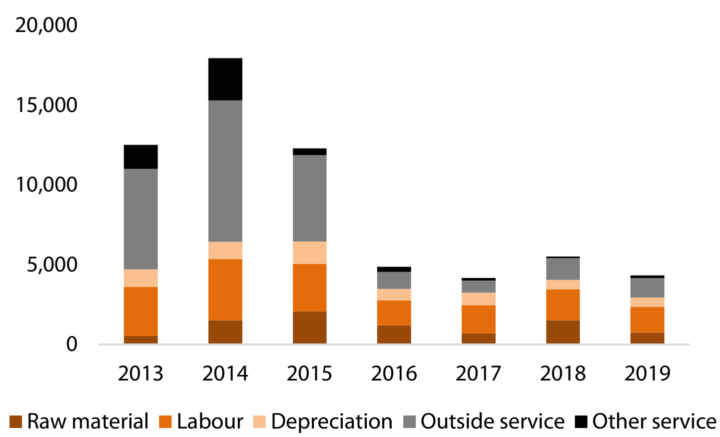
Source: PVD

Figure 3: Rig day rate (LHS) and utilization rate (RHS)



Source: Rong Viet Securities

Figure 4: Expense in details (Unit: VNDbn)



Source: PVD

VND in billions

Income statement	FY2017	FY2018	FY2019	FY2020F
Revenue	**3,902**	**5,500**	**4,368**	**5,792**
COGS	3,720	5,103	3,918	5,212
Gross profit	**182**	397	450	581
Selling expense	19	13	17	22
G&A expense	567	285	397	325
Financial income	187	190	165	154
Financial expense	268	258	241	240
Other income/loss	623	140	118	80
Gain/(loss) from JV	7	61	111	64
PBT	**146**	**233**	**189**	**291**
Tax expense	134	60	17	58
Minority interests	-14	-24	-12	20
PAT	**26**	**197**	**184**	**213**
EBIT	-403	100	37	233
EBITDA	385	708	627	928

%

Financial ratio	FY2017	FY2018	FY2019	FY2020F
Growth (%)				
Revenue	-27.2	40.9	-20.6	32.6
Operating income	-56.6	83.8	-11.4	48.0
EBITDA	-350.1	-124.7	-63.2	537.0
PAT	-79.8	652.0	-6.3	15.3
Total assets	-5.8	-3.6	-0.5	2.0
Equity	-0.1	3.1	0.9	1.6
Profitability (%)				
Gross margin	4.7	7.2	10.3	10.0
EBITDA margin	9.9	12.9	14.4	16.0
EBIT margin	N/A	1.8	0.8	4.0
Net margin	0.7	3.6	4.2	3.7
ROA	0.1	0.9	0.9	1.0
ROE	0.2	1.4	1.3	1.5
Efficiency (x)				
Receivable turnover	2.5	3.4	2.3	2.4
Inventory turnover	5.0	6.7	4.7	5.2
Payable turnover	1.5	2.2	1.7	2.0
Liquidity (x)				
Current	1.7	2.1	2.1	1.9
Quick	1.5	1.8	1.8	1.6
Solvency (%)				
Total debt/equity	35.4	28.2	27.3	28.1
Current debt/equity	10.2	2.7	3.8	5.6
Long-term Debt/equity	25.2	25.6	23.5	22.5

VND in billions

Balance sheet	FY2017	FY2018	FY2019	FY2020F
Cash and cash equivalents	1,803	2,265	1,890	2,017
Short term investment	2,148	1,012	1,033	1,033
Accounts receivable	1,555	1,613	1,907	2,380
Inventories	747	760	835	1,000
Other current assets	35	25	39	79
Tangible fixed assets	14,685	14,355	13,795	13,304
Intangible fixed assets	173	171	169	165
Long term investment	560	678	1,051	1,161
Other non-current assets	89	126	173	181
Total asset	**21,796**	**21,004**	**20,892**	**21,320**
Account payable	2,431	2,310	2,246	2,606
Short term borrowings	1,343	362	521	774
Long term borrowings	3,330	3,477	3,230	3,135
Other non-current liabilities	664	633	647	323
Bonus and welfare fund	120	127	96	96
Technology -science dev fund	459	244	184	184
Total liabilities	**8,346**	**7,154**	**6,923**	**7,119**
Common stock and APIC	6,267	6,267	6,650	6,650
Treasury stock	-21	-21	-21	-21
Retained earnings	3,926	4,076	3,805	4,018
Other comprehensive income / (loss)	1,449	1,683	1,684	1,684
Investment and development fund	1,569	1,589	1,604	1,604
Total equity	**13,189**	**13,593**	**13,722**	**13,934**
Minority interest	261	257	247	267
Total resources	**21,796**	**21,004**	**20,892**	**21,320**

Valuation ratio	FY2017	FY2018	FY2019	FY2020F
EPS (VND)	74	396	304	505
P/E (x)	315.5	36.9	49.5	21.4
BV (VND)	34,413	35,440	32,551	33,055
P/B (x)	0.7	0.4	0.5	0.3
DPS (VND/cp)	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0

Valuation model	*Price*	*Weight*	*Average*
P/B	16,500-19,800	100%	16,500-19,800

Target price (VND) **16,500-19,800**

Valuation history	*Price*	*Recommendation*
06/10/2017	13,720*	ACCUMULATE
24/09/2019	21,060*	ACCUMULATE

Adjusted price

RESULTS UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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