PetroVietnam Technical Services Corporation (PVS – HNX)

Sufficient internal strength – Positive long-term prospects

- **Sea port and M&C segments will be the backbones of PVS**
- **Marine and FSO/FPSO segments continue to face challenges from low level of crude prices**
- **Survey – the burden of PVS's core businesses**
- **Stable and strong financial health is a plus**
- **Is it worth lower relative valuation compared to the industry average?**

Outlook:

With the global trend of crude oil prices to maintain at low level, PVS has experienced long-term impacts on business results, especially on marine, FSO/FPSO and survey segments. The effects were clearly reflected into 2015 business results and we expected it to continue in 2016.

We believe that sea port and mechanical & construction services will be the backbones of PVS to maintain profitable level of revenue and cash flow due to the prospects of off-shore projects and growths in trading activities. In 2016, we forecasted the revenue and profit of PVS at VND 19,705 billion (-15.7% yoy) and VND 1,110 billion (-25.6% yoy) respectively. In addition, an optimistic aspect of the company is the stable and strong financial health with relatively low level of debt despite of high systematic risk at this moment. These factors will be support the company to overcome the difficult time of the oil & gas industry. Furthermore, stable annual dividend payment (~12% of the par value) could also be a notable point for the investors to pay attention to PVS.

Using the comparison valuation methods (P/E and P/B), forecasted prices for PVS could be at **VND 18,000/share**, +16.9% higher than the closing price on 04/04/2016. Therefore, we recommend **ACCUMULATE** in **INTERMEDIATE**.

Key financials

EoY (VND bn)	FY2013	FY2014	FY2015E	FY2016F
Net Revenue	25,418.5	31,516.2	23,363.6	19,704.5
% chg	3.4%	24.0%	-25.9%	-15.7%
NPAT	1,575.6	1,813.4	1,491.1	1,110.0
% chg	40.9%	15.1%	-17.8%	-25.6%
NPAT margin (%)	6.2%	5.8%	6.4%	5.6%
ROA (%)	7.0%	7.2%	5.7%	4.4%
ROE (%)	21.7%	20.6%	15.2%	10.6%
EPS (VND)	3,683	4,060	3,036	2,485
Adjusted EPS (VND)	2,978	3,511	3,036	2,485
Book value (VND)	18,516	20,935	22,890	24,175
Cash dividend (VND)	1,200	1,200	1,200	1,200
P/E (x)	5.1	6.3	5.5	6.2*
P/BV (x)	1.0	1.2	0.7	0.6*

Source: PVS, RongViet Research

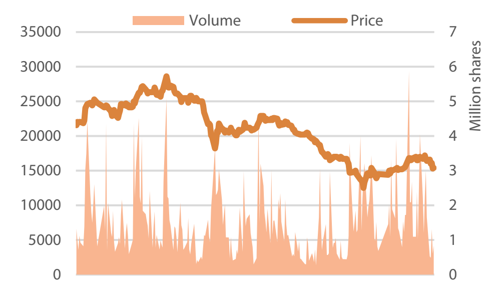
ACCUMULATE

Market price (VND)	15.400
Target price (VND)	18.000
Investment period	INTERMEDIATE

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	6,879
Current Shares O/S	447
Beta	0.88
Free float (%)	19
52 weeks High*	28,600
52 weeks Low*	14,900
Avg. Daily Volume (20 sessions)	2,123,983

**Adjusted price*



Price performance (%)

	3T	1N	3N
PVS	-7.8%	-24.9%	21.3%
Oil & Gas	13.0%	-29.1%	-11.3%
HN30 Index	-1.4%	-8.2%	17.2%
HNX Index	-1.2%	-2.5%	27.6%

Major shareholders (%)

Petrovietnam	51,38
Petrovietnam Finance Corporation	5,84
Ocean Group	4,90
Vietnam Investment Property Holdings Ltd	3,88
Market Vector Vietnam ETF	3,87
Ocean Bank	3,63
Foreign ownership (%)	25

**As of 01/04/2015*

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Prospects of global oil industry and the impacts on PVS's core business activities

It could be said that global crude oil markets in general and Vietnam oil industry in particular have been through one of the most difficult phases in the industry cycle when oil price has been maintained at ~USD 40/barrel (Figure 1). Over the last 18 months, price of the Brent future contract* has decreased by -56.6%. The main reason is the global oversupply issue, in which, the booming in US shale oil is at the back of all.

(*): all of mentioned oil prices in the report will be 1-month future price of Brent.

Figure 1: Crude oil prices from 2014 to the present

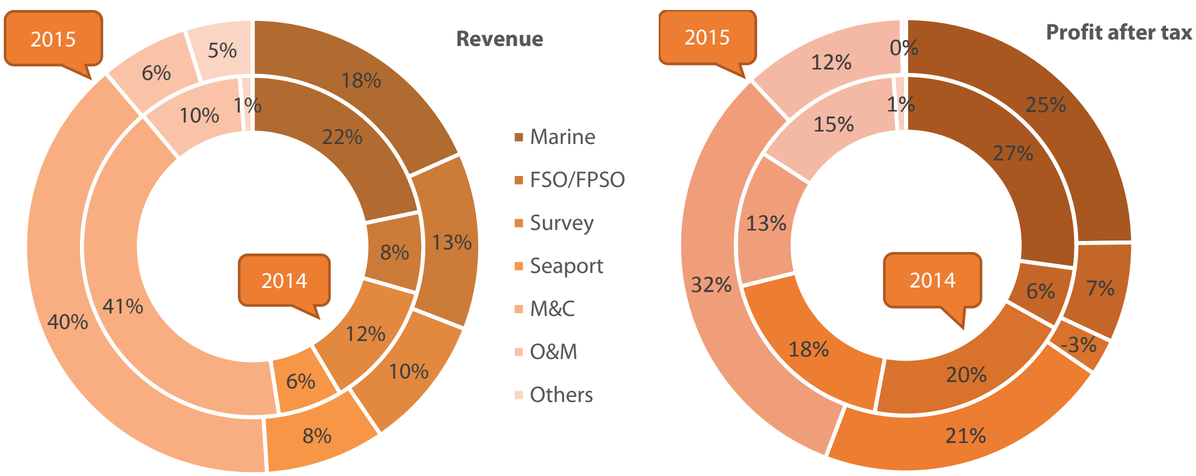
Source: Bloomberg

In 2016, we believe that Q12016 could be the period for oil prices to reach the bottom and start the recovery. This could help easing the negative prospects from oil & gas companies. However, the probability for oil price to surpass USD 50/barrel will be low due to the existing oversupply issue that have not been completely overcome. Basically, there are many shale oil companies being ready to restart the operation when oil prices reach the break-even point. Therefore, we used USD 40/barrel as a base case to assess and analyze industry and PVS prospects.

Being the leading companies in term of petroleum engineering services, PVS has 6 main operating segments including (1) sea port services; (2) mechanical & construction (M&C); (3) marine; (4) floating production storage and offloading (FSO/FPSO); (5) operation and maintain (O&M); (6) survey and repair. In 2015, the impacts of oil price "swept" through several core business activities, especially marine, survey and M&C.

In 2015, PVS's revenue significantly declined by -25.9% yoy, equivalent to VND 23,364 billion. That also lead to the negative growth rate of -17.8% yoy for profit after tax, at VND 1,491 billion. The decrease rate of profit after tax was relatively more optimistic than revenue thanks to the improvement in gross profit margin from 7.8% in 2014 to 9.2% in 2015. In term of revenue and profit structure, marine and M&C segments still accounted for the highest proportions over the last years. In addition, RongViet Research also highly appreciates the efficiency of sea port sector while it contributed 21% of gross profit though accounting for only 9% of 2015 revenue. Regarding of weak prospect for oil & gas industry, the only segment burdening PVS with negative profit was survey. Other core activities such as FSP/FPSO or O&M still maintained a stable level over the last 2 years.

Figure 2: Changes in PVS's revenue and profit structure



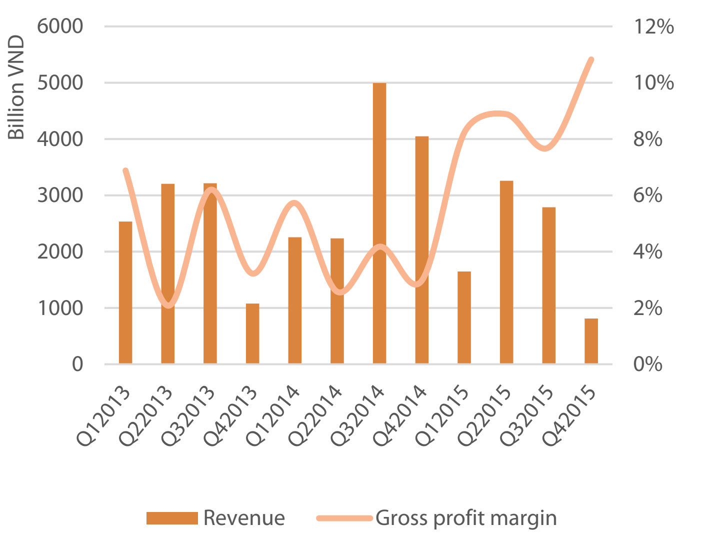
Source: PVS

In 2016, we expected that sea port and M&C segments will be the backbones of PVS while others will continue to face the negative repercussion from low oil prices. FSO/FPSO segment could start to bear increasing risks because of the financial pressure on from oil & gas contractors.

Sea port and M&C segments will be the backbones of PVS

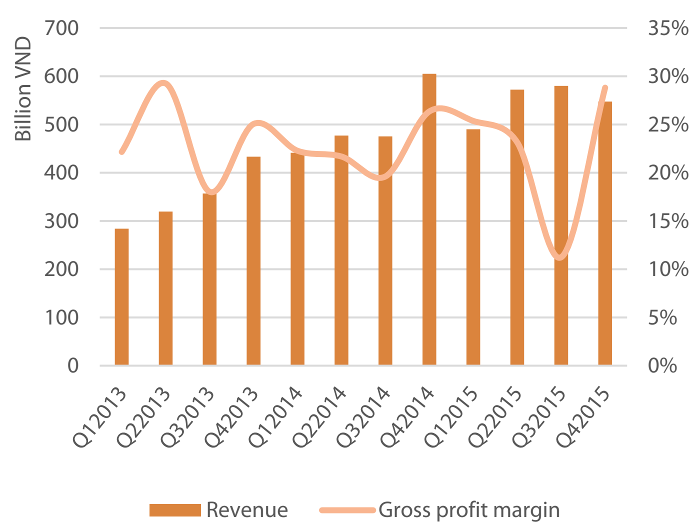
In 2015, both of those segments contribute the most for PVS in term of profit. Revenue achieved VND 2,190 billion (+9.6% yoy) and VND 8,506 billion (-37.2% yoy) respectively with equivalent gross profit margins of 21.9% and 8.6%. Specifically, even though M&C's revenue sharply dropped, growth in gross profit still reached approximately 41,1% yoy. According to PVS, the improvement in profit margin mainly came from the significant reduction in outsourcing activities. Meanwhile, profit margin from sea port segment slightly decreased. The reason is that PVS completed share transferring in Son Tra port and started to record its contribution in 2015.

Figure 3: Revenue and gross profit margin of M&C segment



Source: PVS

Figure 4: Revenue and gross profit margin of sea port segment



Source: PVS

Unique advantage in term of infrastructure thanks to sea port segment

At this moment, PVS controls 8 synthetic oil & gas sea ports throughout the Vietnam territory. It could be seen as a rare advantage of the company. Furthermore, we also highly appreciate the stability in revenue and profit from this segment along with huge growth potential and efficiency improvement over the intermediate and long-term (additional information in Box 1: Future prospects of PVS's sea ports). However, in short-run, because majority of the ports have the main mission to support mechanical and construction activities, the growth rate for 2016 is expected to achieve a cautious level of 5.8%, equivalent to VND ~2,318 billion with gross profit margin to maintain a high level of ~23%. The intermediate upside catalyst could come from 4/8 sea ports (Phu My, Hon La, Dinh Vu and Son Tra).

Table 1: List of sea port controlled by PVS

No.	Name	Location	Area (ha)	Jetty (m)	Payload (DWT)	Classify
1	**Vung Tau downstream port**	Vung Tau	82.2	750	15,000	Construction
2	**Phu My general oil & gas port**	Vung Tau	26.5	385 x 27	70,000	General
3	**Hon La port**	Quang Binh	8.8	215	20,000	General
4	**Dung Quat port no. 1**	Quang Ngai	4.2	215	50,000	Construction
5	**Nghi Son port**	Thanh Hoa	9.8	168 x 225	30,000	Construction
6	**Dinh Vu port**	Hai Phong	13.9	250	20,000	General
7	**Son Tra port**	Da Nang	10.0	400	20,000	General
8	**Sao Mai - Ben Dinh port**	Vung Tau	163.0	-	-	General

Source: PVS, Rongviet Research compiled

Box 1: Future prospects of PVS's sea ports

Among 8 ports controlled by PVS, sea ports in Vung Tau (Phu My and Vung Tau downstream ports) and Nghi Son port are the best contributors with over 75% of revenue in this segment. At this moment, the statistics of cargo throughput in those ports have reached the saturation level. Therefore, we could only expect the improvement and growth in trading activities through new investments in infrastructure. The potential projects are LNG exporting from GAS and Dung Quat refinery upgrade. According to the schedule, the potential for growth of those ports is relatively far away (2018 – 2020). Similarly, among 3 construction ports of PVS, **Nghi Son port** is serving the construction activities of Nghi Son refinery. Nghi Son oil refinery and petrochemical is expected to complete in 2017, after that, creating the growth for PVS because this port will also provide services for regional petrochemical and cement industry.

Table 2: Phu My port cargo throughput

Year	Cargo throughput (x1,000 tons)			
	Vessels	Imports	Exports	Domestic
2014	419	4.156	223	1.191
2013	458	3.589	117	1.079
2012	417	3.256	143	1.285
2011	461	3.295	77	1.204
2010	487	3.780	49	1.384

Source: VPA

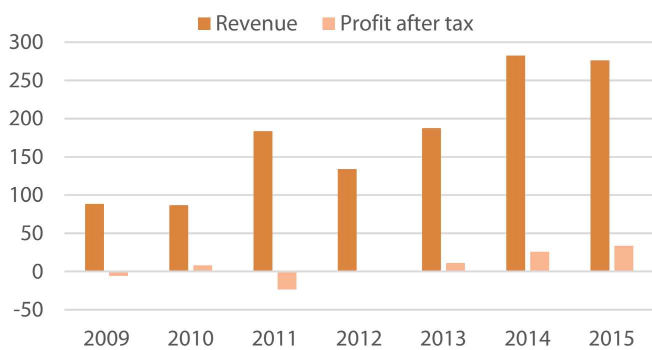
Regarding of other ports, in Q3/2015, PVS completed share transferring and totally controlling Son Tra port and Dinh Vu port (PSP – Upcom). In that, we highly appreciate the growth prospects of Dinh Vu port while set a low expectation for Son Tra port. Specifically, Dinh Vu port is located on several important transporting routes such as Ha Noi – Hai Phong railway, highway to Cat Bi airport or quadrilateral industrial zone in Northern area (Ha Noi – Hai Phong – Quang Ninh – Lang Son). As a result, Dinh Vu port has a competitive advantage in term of logistics and port service along with growth prospect from Ding Vu industry zone expansion (expected to complete in 2017). According to statistics of PTSC Dinh Vu, vessel and cargo activities have gradually improved year by year. In addition, the investments and infrastructure improvement were made for a long time (since 2008 and officially operating in 7/2009), Dinh Vu port entered the mature period with stable core business activities. It could be seen in 2015 business result of PSP that there was a breakthrough with VND 33.8 billion in profit after tax (+29.8% yoy). Furthermore, Dinh Vu expansion project has been considered since 2014 (total investment value reachs at VND 60 – 80 billion at this moment) with the prospect to improve port capacity in the near future.

Table 3: PTSC Dinh Vu cargo put through

Year	Cargo throughput (x1.000 tons)				
	Vessels	Imports	Exports	Domestic	TEUs
2014	293	1,200	600	900	265,357
2013	233	1,050	560	690	241,491
2012	178	680	280	640	155,205
2011	102	319	331	119	76,475

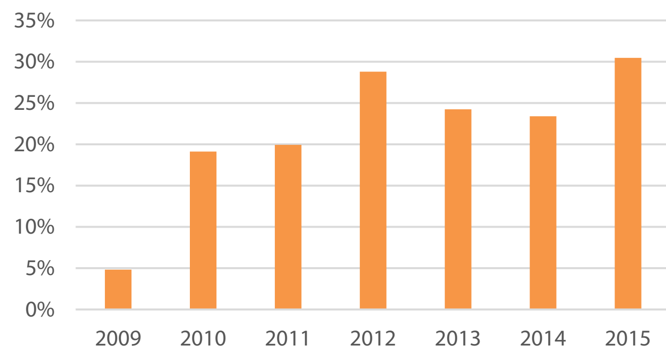
Source: VSA

Figure 5: PSP's revenue and profit after tax



Source: PSP

Figure 6: PSP's gross profit margin



Source: PSP

Even though PVS raised the ownership of **Son Tra port** at the same period with PSP, Son Tra port just completed the phase 1 investment at the end of 2014 and started to operate on 13/07/2015. Typically, with new port, the rates of efficiency and utilization are at low levels due to unstable cargo throughput level and suffering annual depreciation. As a result, prospects need to be observed for a longer period. In addition, ownership increase in Son Tra port could be seen as a long-term strategy in order to develop this port to be a focal point of Da Nang. According to the plan, Government intended to invest in Da Nang as an international gateway in future. However, the weakness of Son Tra is low capacity in term of cargo and vessels.

Regarding of **Hon La port**, core business activates have been relatively stable but experienced congestion issue due to high demand and low capacity. With the completion of dike connection between Hon La and Hon Co, growth prospect of this port still exists while being a part of regional development plan. On the other hand, the island and sea area in Hon La economic zone will be expanded to over 1,110 ha. Remarkably, this will open an opportunity to develop a deep water port system here. Therefore, Hon La port could provide service for larger vessels (50,000 – 70,000 tons) instead of 10,000 tons. However, because PVS has not announced any further plan to improve Hon La capacity, the prospects could only be assessed in the long-term.

Along with existing sea ports, PVS will expand sea port segment and the most notable project at this moment is **Phu Quoc port** (116.5 ha – 60 ha usable water area). Investment is expected to start in 2016 with over VND 1,900 billion in total capital (50% equity and 50% debt) for the first phase. Construction time will be 15 months and the project will be completed in 2017. Phu Quoc port could support two major projects from PVN which are (1) bonded warehouses and national petroleum reserve with PVOil as procuring agency and (2) development and exploitation project in Block B – O Mon. Furthermore, being general port, the prospects from "pearly island" with tourism advantage and blooming infrastructure development could be a remarkable opportunity for PVS.

The advantages of sea ports are the basic premise for O&M segment

For mechanical and construction companies, the capacity and project execution heavily depend on the infrastructure. After completing the EPCI value chain (engineering, procurement, construction and installation) in 2012, PVS has the ability to be become a general contractor for heavy industrial projects especially on rig base, oil & gas equipment, on-shore construction (thermal power and petrochemical/refinery) … We believe that the construction sites with 23.6 hectares in term of area and long/deep water jetty has been the basic premise for the development of PVS's M&C segment. Moreover, with current infrastructure, PVS has significant reduced the warehousing costs as well as rentals, transportation costs, construction site fees, installation costs of equipment and machinery serving the general contractors (EPC/EPCI).

In 2015, profit margin of this segment was stable at 7 – 8%, a leap from last year of 3.8% and 4.7% in 2013. This implied the improvement in efficiency despite of huge decline in revenue. In the future, PVS will concentrate on on-shore instead of off-shore projects due to the gloom prospects of oil & gas industry. Until now, PVS has been general contractor for Long Phu 1 thermal power plant. In addition, other projects such as (1) bidding package from Petrovietnam Fertilizer & Chemicals Corporation with approximately VND 5,000 billion in value and (2) Su Tu Trang projects will provide sustainable work load in 2016.

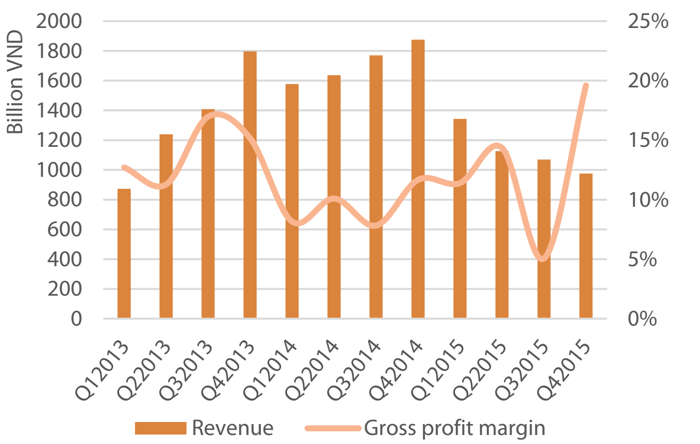
It should be noted that thermal power and petrochemical projects participated by PVS could have unstable profit margins (which largely depend on revenue recognition period and the characteristics of project segments). According to PVS, the Company has aggressively strived for an additional job of installing an electricity generator for Long Phu 1 thermal power plant. However, it is highly possible that PVS still needs the supports from foreign experts. If PVS could win this bid, the profit margin will not be high. The basic construction for the No. 1 electricity generator started at the end of 2015. Therefore, we believe that PVS won the bid of installing. Moreover, with the adjustment orientation of Power Planning VII from the Prime Minister and capital withdrawn from major foreign investors in several key thermal power projects, we still concern about the ability to complete the on-shore projects by the deadline that PVS is participating such as Long Phu 1 and Song Hau 1.

Overall, with the current project list, we forecast the revenue from M&C segment to achieve negative growth rate of -3.0% yoy, equivalent to VND 8,251 billion. With approximately 40% contributed to revenue and profit, sea port and M&C segments are expected to stabilize PVS's profit under the negative impacts from global crude market.

Marine and FSO/FPSO segments continue to face challenges from low level of crude prices

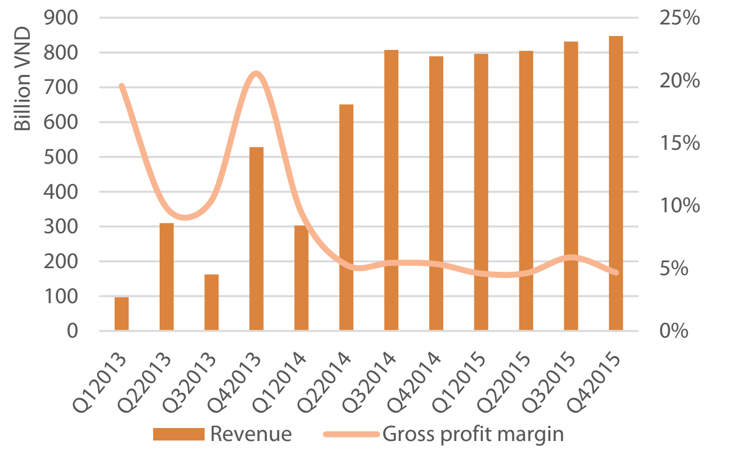
In 2015, marine and FSO/FPSO segments' revenue were VND 4,515 billion (-34.2%) and VND 3,280 billion (+28.2 % yoy) respectively. Gross profit margin experienced a negative growth of -14.02% yoy, resulting in VND 560 billion in gross profit while FSO/FPSO maintained the positive growth of 8.64%, reached VND 162 billion in gross profit. The reason for such decline in marine segments was the deterioration in demand under the pressure of low crude prices. Base on RongViet Research's assessment, the significant decrease in oil prices lead to the financial distress for oil field operators. As a result, oil contractors have to maximize cost cutting by (1) reducing the service time, (2) offering lower service costs and (3) instead of using large vessel, smaller ones will be used.

Figure 7: Revenue and gross profit margin of marine segment



Source: PVS

Figure 8: Revenue and gross profit margin of FSO/FPSO segment



Source: PVS

Marine segment continues to face negative impacts from low oil prices

At this moment, PVS owns and operates 18 fleets with the main missions of tugging, anchoring, transporting, dynamic positioning, rescuing/fire protection… The marine team mainly supports oil & gas sector and specific oil fields. However, we do not highly appreciate the efficiency of this segment due to the high average age of the fleets (over 20 years). On the other hand, with the base case of low oil prices, the possibility of efficiency improvement and growth has been relatively low. However, the advantage comes mainly from the low operating costs, especially when several fleets in PVS's marine team have been fully depreciated. Therefore, PVS fees could be more competitive than peers', even lower than outsourced fleets.

In revenue structure, marine revenue was mainly contributed by outsourced fleets with over 70%. Under the impacts from low oil prices, PVS has been under the pressure to continue cutting day rates, particularly with outsourced fleets because the prices have been higher than owned fleets. In addition, the decline of service fee also causes the delay of new investment for 2016. Accordingly, we forecasted revenue of marine segment to be at VND 2,682 billion (-32.2% yoy) and profit margin at 11.7%, slightly decline compared to the previous period.

FSO/FPSO is under the pressure of day rate adjustments

Base on the understanding of RongViet Research, at this moment, there are 10 floating storage units owned by foreign joint ventures and domestic enterprises in Vietnam territory. Specifically, PVS accounts for the highest market share with 5 units and plans to invest in FPSO Ca Rong Do in the future. Overall, the competition in the sector have been relatively low. Competitiveness arises mainly from new investments or bidding new projects.

Table 4: PVS's FSO/FPSO list

Name	Company	Joint Venture	Ownership	Day rate (USD)	Time
FPSO Ruby Princess II	Vietnam Offshore Floating Terminal Limited	MISC	33%	165,000	2010 – 2020
FSO Orkid	Malaysia Vietnam Offshore Terminal Limited	MISC	49%	84,100	2009 – 2019
FSO MV 12	Rong Doi Joint Venture Company	Modec & Mitsui	60%	42,000	2006 – 2013
FSO Bien Dong 1	PTSC SEA	Yinson	51%	106,000	2013 – 2023
FPSO Lam Son	PTSC Asian Pacific Joint-venture Company	Yinson	51%	209,000	2014 – 2024

Source: PVS, RongViet Research compiled

Basically, FSO/FPSO activities bring steady revenue due to the fixed day rate over the life of exploiting projects. However, the concerns about FSO/FPSO's prospects started to appear at the end of 2015 due to the pessimistic conditions of global crude oil market. According to PVS, the most worrying problem is the suspension of exploiting activities in several oil fields, leading to the stagnation of FSO/FPSO segment when there is no flow of oil. The first and foremost solution from PVS is to negotiate a lower fee to balance the benefits from both parties in the contracts. At this moment, day rate of FPSO Lam Son is USD ~234,000/day (including O&M service fee) and relatively high comparing to other units. Moreover, FPSO Lam Son serves new oil field which is Thang Long – Dong Do, started the operation in 2014. Therefore, we believe FPSO Lam Son could be the first unit to reduce the date rate with current oil price of USD 40/barrel, while the appropriate price level to maintain oil field operation in short-term and intermediate-term is approximately USD 45/barrel. In the worst case scenario, PVS could manually operate the floating storage in order to ensure the revenue. With the base case that oil price will recover from Q1/2016, we believe that the negotiation case will have a higher possibility and we use it as a base case for FSO/FPSO's business result forecast in 2016.

In addition, even though the day rate has been fixed during contract term, the cutting cost from oil operators could lead to the significant drop in O&M revenue (Operation and Maintenance). According to RongViet Research's estimates, the gross profit margin of floating segment (~1 – 2%) has been largely lower than O&M activities (~15%). Therefore, we believe that FSO/FPSO is under the pressure of negative growth rate in 2016 (-13.8% yoy), equivalent to the revenue of VND 2,829 billion. The gross profit margin of this segment will be fairly low at ~3.5% because most of the profit has been recorded in the profit from joint ventures and affiliates account.

Survey – the burden of PVS's core businesses

Based on the preliminary estimation of 2015, the workload of Binh Minh 02 2D ship, Amadeus 3D ship and PTSC Surveyor ship decreased by ~33% due to the significant drop in demand. According to our understanding, notable drop in revenue of survey segment mainly resulted from ROV segment (Remotely operated underwater vehicle) and outsourced ships. With the ship day rate is estimated to be down by 5.6% for owned ROV and 8.1% for outsourced ROV, ROV's contribution to revenue has declined by over 60% yoy. It should be noted that such decrease resulted from dual impacts of (1) decline in service fee and (2) decline in the work load under the gloom situation of oil & gas industry. Therefore, business results of survey demonstrated pessimistic figures with revenue and profit after tax at VND 2,174 billion (-32.7% yoy) and VND -58 billion respectively.

With the current situation of crude prices, we believe that last year scenario will persist in the future when oil & gas investments have significantly decreased with the withdrawn from foreign investors and inactive exploratory drilling activities. As a consequence, based on the costs that PVS has to bear when exploratory ships are inactive, we forecast the revenue to continue facing negative growth rate of -32.9% yoy and achieve VND 1,458 billion. Profit after tax could continue to record a loss of VND -175 billion, worse than last year.

Stable and strong financial health is a plus

In 2015, facing the crisis of both global crude oil market and Vietnam oil & gas industry, PVS still maintained a huge pile of cash and cash equivalents at VND 8,118 billion, decreased by only -1% yoy. However, the main issue that we raise the concern about is the surges in days of sales outstanding and number of days of payables. We estimated days of sales outstanding for 2015 at 102.9 days (+17.9% yoy) and number of days of payables at 180 days (+37.2 yoy). It should be noted that the decreases in revenue and cost of goods sold also lead to the sharp decline in account receivable and payable turnover rates. Therefore, with the stability in payable/receivable averages over the last 3 years, we think such decline should distort the financial indicators of PVS. As mentioned, the increase/decrease of payable and receivable accounts of PVS has been relatively normal and shown no impacts from oil prices. Moreover, liquidity ratios also improved largely comparing to 2014 and 3-year average. In addition, a notable highlight from PVS is low debt ratio and debt (both long and short term) accounts for only 7.6% of total assets at the end of 2015. Therefore, we are quite confident about the financial health of the company.

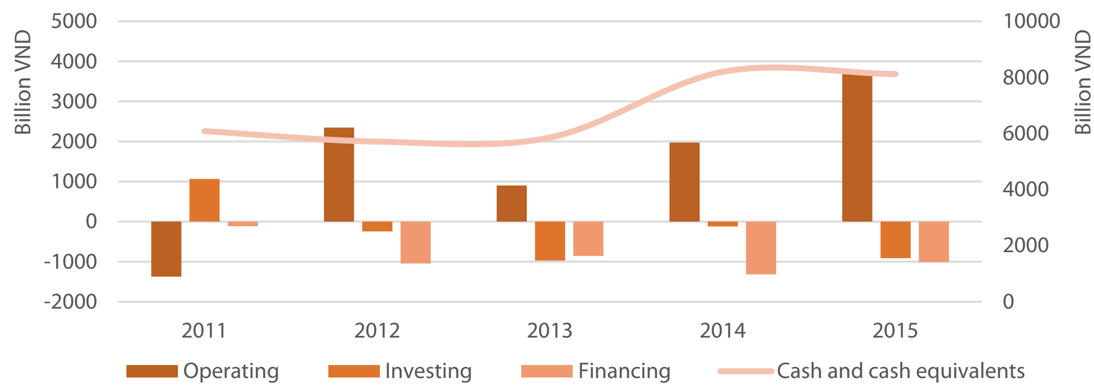
Table 5: Stable financial indicators over the period 2011 – 2015

Indicators	2015	2014	2013	2012	2011
Gross profit margin	**9.17%**	**7.76%**	**10.50%**	**6.96%**	**8.07%**
Net profit margin	6.38%	5.75%	6.20%	4.55%	5.84%
EBITDA/Revenue	12.86%	10.81%	13.34%	13.36%	12.77%
ROE	14.99%	20.70%	23.42%	14.14%	16.30%
ROA	5.87%	7.14%	7.08%	6.00%	6.95%
Days of sales outstanding	**102.87**	**87.25**	**93.30**	**97.09**	**102.08**
Number of days of payables	**180.00**	**131.29**	**139.43**	**140.92**	**156.18**
Current liquidity ratio	1.58	1.37	1.38	1.29	1.17
Quick liquidity ratios	1.46	4.30	1.31	1.23	1.07

Source: PVS

In 2016, under the base case of oil price to maintain at low level until 2H2016, there is high possibility that cutting cost resolution from PVS cannot compensate for the decline in revenue. Therefore, RongViet Research expects cash and cash equivalence of the Company will sharply drop by over 20%. However, we believe that PVS could easily meet the criteria to pay dividend for investors if dividend rate remains the same as 2014 at 12% (VND 1,200/share) because retained earnings is expected to improve by +17.4% yoy to VND 3,874 billion. Furthermore, observing the fluctuations of cash flow over the last 5 years, it could be seen that PVS's source of cash mostly come from the core business activities (except 2011). As a result, we believe in the stability and sustainability of PVS's cash flow.

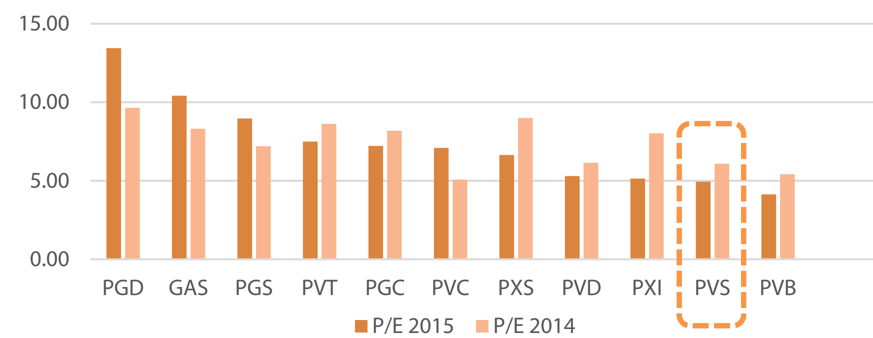
Figure 9: PVS's cash flow during 2011 – 2015



Source: PVS

Is it worth lower relative valuation compared to the industry average?

Figure 10: P/E of several oil & gas companies



Source: RongViet Research

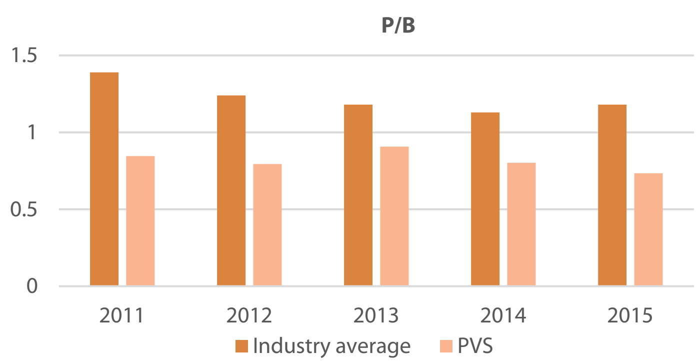
Based on observing long-term trend, we recognized that PVS share has lower P/E level than the industry average, especially during low oil price period. According to our assessment, there are two possible answers from the perspective of investors for PVS. First of all, stock prices of companies that have prospects associated with construction projects (engineering, construction, pipe coating, mechanical) usually receive lower P/E levels than distribution and manufacturing companies in the same industry (Figure 10). With negative industrial prospects from oil price, higher the possibility that off-shore projects such as housing rigs, drilling rigs and exploitation activates could be delayed further, higher the pessimistic the company has to face from investors.

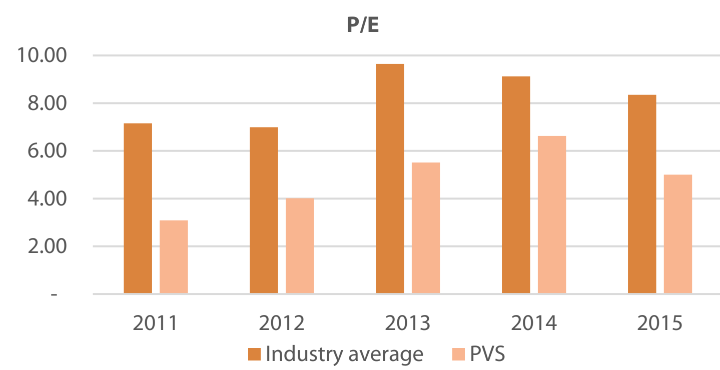
Secondly, when assessing the growth potential from PVS to come up with suitable P/E level, we recognized that several segments of the Company could not experience significant improvement in short-term and intermediate. As mentioned above about sea port and marine segments, growth rate could not surge due to old fleets and sea ports that need long-term operation to have a breakthrough. In addition, M&C segments largely depends on industrial prospects at this moment. Because oil price has been under USD 45/barrel over the last months, boosting the demand for drilling activities will be a challenging mission. Moreover, RongViet Research emphasizes that FSO/FPSO could hardly improve in long-term. The reasons are (1) FSO/FPSO projects usually have stable and fixed cash flow under the contract term and (2) growth depends largely on new investments with one-off improvement. This could explain low P/E issue PVS is facing. Based on data between 2013 – 2015, PVS had been traded at ~60% of industry P/E average. Therefore, with the assessment about future prospects of the company, we believe that PVS will maintain the same discount rate level with industry average with slight improvement. The suitable discount could vary between 25 – 30% for 2016. In addition, we believe industry P/E average could have some recovery in the future when oil price return to a higher price level.

In addition, P/B of PVS has also been under the similar situation while being traded at ~70% industry average. The reason could come from the characteristics of the assets which could only serve oil & gas activities. With old fleets and FSO/FPSO only operating for specific oil fields, investors' perspectives could be less enthusiastic when concerning about PVS's assets.

Overall, we believe that appropriate P/E level could be ~7.2x and maintain the forecasted P/B at 0.75 for PVS in 2016 with the discount rate is 30%. Industry averages are 8.64x and 1.14x respectively at this moment (on 01/04/2016).

Figure 11: P/B and P/E correlation between industry average and PVS during 2011 – 2015





Source: RongViet Research

According to Rongviet Research's estimates, revenue and profit after tax of PVS are forecasted to be VND 19,705 billion (-15.7% yoy) and VND 1,110 billion (-25.6% yoy) respectively. 2016 EPS is expected to reach VND 2,485 with P/E forward at ~6.1x. This could be a relatively consistent valuation under the perspective that PVS suffers from discounted P/E compared to the industry average

Outlook:

With the global trend of crude oil prices to maintain at low level, PVS has experienced long-term impacts on business results, especially on marine, FSO/FPSO and survey segments. The effects were clearly reflected into 2015 business results and expected to continue in 2016. We believe that sea port and mechanical & construction services will be the backbones of PVS to maintain profitable level of revenue and cash flow due to the prospects of off-shore projects and growths in trading activities. In 2016, we forecasted the revenue and profit of PVS at VND 19,705 billion (-15.7% yoy) and VND 1,110 billion (-25.6% yoy) respectively.

In addition, an optimistic aspect of the company is the stable and strong financial health with relatively low level of debt despite of high systematic risk at this moment. This factors will be the firm level for the company to overcome the difficult time of the oil & gas industry. Furthermore, stable annual dividend payment could also be a notable point for the investors to pay attention to (~12% of the par value).

Using the comparison valuation methods (P/E and P/B), forecasted prices for PVS could be at **VND 18,000/share**, +16.9% higher than the closing price on 04/04/2016. Therefore, we recommend **ACCUMULATE** in **INTERMEDIATE**.

Appendix

Table 6: Key assumptions

Criteria	2016E	2015	Yoy
Revenue			
Marine	3,038	4,515	-32.7%
FSO/FPSO	2,829	3,280	-13.8%
Survey	1,458	2,174	-32.9%
Sea port	2,318	2,190	+5.8%
M&C	8,251	8,506	-3.0%
O&M	1,085	1,550	-30.0%
Others	726	1,149	-30.0%
Gross profit margin			
Marine	11.7%	12.4%	-
FSO/FPSO	3.5%	4.9%	-
Survey	-12.0%	-2.7%	-
Sea port	23.0%	21.9%	-
M&C	8.9%	8.6%	-
O&M	15.0%	17.0%	-
Others	3.7%	0.6%	-

Source: RongViet Research

Table 7: List of fleets that PVS owns

No.	Name	Capity (HP)	Type
1	**Sapay**	7,040	AHTS
2	**Hoa Mai 93**	5,200	FiFi
3	**Dau Khi 101**	1,600	Utility
4	**Dau Khi 105**	1,600	Utility
5	**An Bang**	7,040	AHTS
6	**An Phong**	7,040	AHTS
7	**Phong Lan**	5,300	AHTS
8	**Phong Nha**	5,300	AHTS, DP1
9	**Binh Minh**	5,506	AHTS, DP2
10	**Binh An**	8,000	AHTS
11	**PTSC Vung Tau**	7,200	AHTS
12	**PTSC Thai Binh**	8,000	AHTS, DP2,FiFi1
13	**PTSC Hai Phong**	5,200	AHTS, DP1
14	**PTSC Thang Long**	7,000	AHTS
15	**PTSC Bach Ho**	980	AHTS
16	**PTSC Ngan nam Thang Long HN -02**	3,500	Tug
17	**PTSC Ngan nam Thang Long HN -03**	4,750	Tug
18	**Dau Khi 104***	1,700	Utility
19	**Dau Khi 106***	2,400	Utility
20	**PTSC 04**	2,800	-

Source: PVS

** Deactive*

Table 8: List of floating storage units operating in Vietnam oil fields

No.	Name	Type	Converted from	Storage capacity	Processing capacity	Field
1	**FSO MV12**	NB	**	-/300,000 barrels	18,000 barrels/day	Rong Doi
2	**FSO MV19**	NB	**	-/360,000 barrels	30,000 barrels/day	Song Doc
3	**FSO Rang Dong MV17**	NB	**	-/350,000 barrels	60,000 barrels/day	Rang Dong
4	**FPSO Thai Binh Viet Nam**	NB	**	-/1,000,000 barrels	65,000 barrels/day 19.5 million ft3 of standard gas/day	Su Tu Den
5	**FSO Queens Way**	NB	**	159,878MT/ 1,140,015 barrels	130,000 barrels/ day	Su Tu Vang
6	**FPSO Ruby Princess II**	C	*	141,000 DWT	30,000 barrels/ day	Ruby
7	**FSO Ba Vi**	C	Bralanta oil tanker	1,000,000 barrels	*	Mo Rong
8	**FSO Chi Linh**	C	Krym oil tanker	150,500DWT/ 975,000 barrels	70,000 barrels/day	Bach Ho
9	**FSO Vietsovpetro 01**	NB	**	150,000DWT/ 1,000,000 barrels	*	Bach Ho
10	**FSO PTSC Bach Ho**	NB	**	150,000DWT	*	Bach Ho
11	**FSO Su Tu Vang**	NB	*	*	*	Su Tu Vang
12	**FSO Orkid**	C	Aframax	745,000 barrels	42,900 barrels/day	Bunga Orkid
13	**FPSO Lewek Emas**	C	*	683,000 barrels	50,000 barrels/day	Chim Sao
14	**FPSO PTSC Lam Son**	NB	**	650,000 barrels	20,000 barrels/day	Thang Long – Dong Do
15	**FSO Bien Dong 1**	NB	**	350,000 barrels	*	Hai Thach – Moc Tinh
16	**FSO Dai Hung Queen**	*	*	700,000 barrels	35,000 barrels/day	*
17	**FPSO Armada**	*	*	150,000 DWT	*	Te Giac Trang
18	**FPSO Cuu Long MV9**	NB	**	1,000,000 barrels	65,000 barrels/day/ 19.5 million ft3 of standard gas /day	Su Tu Đen
19	**FSO Vietsovpetro 2**	*	*	150,000 DWT	*	*

Note: (*): Statistics not available, (**): do not apply, NB: newly built; C: conversion

Source: RongViet Research compiled

Table 9: List of survey and exploration ships owned by PVS

Name	Characteristics
2D Binh Minh 02 seismic survey ship	Has capability to survey across all of sea area in the continental shelf of Vietnam and region
3D Amadeus seismic survey ship	Has capability to survey across all of sea area in the continental shelf of Vietnam and region
PTSC Surveyor Geophysical survey vessel	Has capability to perform geological drilling survey with the depth between 7m and 300m and geophusical drilling survey with the depth between 7m and 300m
ROV Observation survey equipment (x2)	ROV Panther Plus 911 and ROV Panther Plus 954 are remotely operated underwater vehicles with the mission to survey and repair underwater construction with the depth up to 2,000m
ROV Work Class survey equipment	ROV Quasar Compact 007 is remotely operated underwater vehicle with the mission to survey and repair underwater construction with the depth up to 2,000m

Source: PVS

Unit: billion VND

INCOME STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Revenue	25,418.5	31,516.2	23,363.6	19,704.5
COGS	22,749.8	29,070.5	21,221.7	17,964.0
Gross profit	**2,668.7**	**2,445.7**	**2,141.9**	**1,740.5**
Selling Expense	108.4	116.1	98.4	88.7
G&A Expense	640.0	710.7	865.5	827.6
Finance Income	270.4	218.2	351.3	226.5
Finance Expense	287.6	193.4	349.6	266.8
Other profits	46.0	140.2	84.2	46.1
PBT	**2,268.5**	**2,327.8**	**2,002.8**	**1,356.8**
Prov. of Tax	568.9	504.1	535.3	271.4
Minority's Interest	124.1	10.3	-23.6	-24.5
NPAT	**1,575.6**	**1,813.4**	**1,491.1**	**1,110.0**
EBIT	2,416.2	2,423.3	2,073.7	1,427.8
EBITDA	3,391.7	3,406.0	3,004.2	2,717.1

Unit:%

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	3.4%	24.0%	-25.9%	-15.7%
Operating Income	80.4%	-15.7%	-27.2%	-30.0%
EBITDA	3.3%	0.4%	-11.8%	-9.6%
EBIT	22.9%	0.3%	-14.4%	-31.1%
PAT	40.9%	15.1%	-17.8%	-25.6%
Total Assets	12.2%	11.0%	-0.6%	-8.9%
Equity	32.4%	13.1%	9.3%	5.6%
Internal growth rate	14.3%	14.5%	9.8%	5.5%
Profitability				
Gross profit/Revenue	10.5%	7.8%	9.2%	8.8%
Operating profit/ Revenue	7.6%	5.1%	5.0%	4.2%
EBITDA/ Revenue	13.3%	10.8%	12.9%	13.8%
EBITDA/ Revenue	9.5%	7.7%	8.9%	7.2%
Net margin	6.2%	5.8%	6.4%	5.6%
ROAA	7.0%	7.2%	5.7%	4.4%
ROIC or RONA	19.1%	17.6%	13.7%	8.9%
ROAE	21.7%	20.6%	15.2%	10.6%
Efficiency (x)				
Receivable Turnover	3.9	4.2	3.5	3.5
Inventory Turnover	35.2	36.0	20.3	19.7
Payable Turnover	2.6	2.8	2.0	2.1
Liquidity (x)				
Current	1.4	1.4	1.6	1.6
Quick	1.3	1.3	1.5	1.6
Solvency				
Total Debt/Equity	168.7%	167.4%	143.4%	107.5%
Current Debt/Equity	12.7%	8.0%	7.5%	3.6%
Long-term Debt/ Equity	29.9%	19.5%	12.1%	13.7%

Unit: billion VND

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	5,857	8,199	8,118	6,303
Short-term investment	0	4	450	90
Receivables	7,533	7,534	5,636	5,517
Inventories	715	899	1,196	629
Other current assets	169	384	524	454
Total Current Asset	**14,274**	**17,020**	**15,924**	**12,993**
Tangible Fixed Assets	5,280	4,601	4,698	4,751
Intangible Fixed Assets	7	26	25	29
Construction in Progress	26	91	424	637
Investment Property	0	0	0	0
Long-term Investment	3,631	4,046	4,191	4,694
Other long-term assets	598	655	1,007	831
Goodwill	0	0	0	0
Long-term Asset	**9,542**	**9,419**	**10,344**	**10,942**
Total Asset	**23,817**	**26,438**	**26,269**	**23,935**
Payables	5,418	7,208	5,400	4,042
Other current liabilities	3,860	4,427	3,896	3,488
Current Debt	1,052	752	764	394
Long-term Debt	2,472	1,828	1,235	1,482
Other long-term liabilities	1,152	1,436	3,370	2,201
Total Liability	**13,954**	**15,651**	**14,665**	**11,606**
Owner's Equity	**8,271**	**9,352**	**10,225**	**10,799**
Capital	4,467	4,467	4,467	4,467
Retained Earnings	2,422	2,998	3,300	3,874
Funds & Reverses	1,343	1,847	2,419	2,419
Others	0	0	0	0
Total Equity	**8,271**	**9,352**	**10,225**	**10,799**
Minority's Interest	1,425	1,436	1,624	1,530
TOTAL RESOURCES	**23,650**	**26,438**	**26,514**	**23,935**

CASHFLOWSTATEMENT	FY2013	FY2014	FY2015E	FY2016F
Pretax Income	2,268.5	2,327.8	2,002.8	1,356.8
-Depreciation	975.4	982.7	930.5	1,289.4
-Adjustments	1.6	-23.2	317.7	-576.8
+/- Working capital	-1,273.7	477.9	-1,491.0	-2,319.3
Net Operating CF	**1,971.9**	**3,765.2**	**1,760.0**	**-249.9**
+/- Fixed Asset	-434.9	-259.3	-728.9	-1,502.5
+/- Deposit, equity investment	-741.9	-4.5	-362.8	-508.9
Interest, cash dividend, shared profits received	205.5	140.9	177.0	519.1
Net Investing CF	**-971.3**	**-122.9**	**-914.7**	**-1,492.3**
+/- Capital	1,042.3	0.0	0.0	0.0
+/- Debt	-1,109.0	-745.9	-427.6	-72.9
Dividend paid + Other exp. from retained profits	-791.9	-573.2	-583.8	-0.2
Net Financing CF	-858.6	-1,319.1	-1,011.3	-73.1
+/- cash & equivalents	142.0	2,323.2	-166.0	-1,815.3
Beginning cash & equivalents	**5,709.9**	**5,856.5**	**8,194.2**	**8,118.5**
Impact of exchange rate	4.6	19.6	90.3	0.0
Ending cash & equivalents	**5,856.5**	**8,199.4**	**8,118.5**	**6,303.2**

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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