Petrovietnam Drilling and Well Service Corporation (HSX:PVD)

Domestic market can provide some stability

(VND bn)	Q4-FY20	Q3-FY20	+/- qoq	Q4-FY19	+/- yoy
Net revenue	824	1,271	-35%	1,390	-41%
PAT	60	39	54%	140	-58%
EBIT	(68)	12	-671%	24	-379%
EBIT margin	-8.2%	0.9%	-913bps	1.7%	-995bps

Source: PVD, Rong Viet Securities

2020: Considerable efforts to improvise amid COVID outbreak

- 4Q2020 revenue was unexpectedly low due to PVD's retreating from three of its rigs in Malaysia to warm stack in Vietnam.
- PVD's 2020 bottom-line was the same as in 2019 since incremental revenue was brought by the drilling segment, which still lost money.
- Well service segment remained the pillar of PVD's profit by stabilizing revenue and improving gross margin steadily.
- Financial income during the year helped maintain the bottom line compared to 2019.

2021: Rig utilization can be higher, but profit will still depend on well service's performance

Regarding revenue, we believe PVD is going to benefit from a higher rig utilization in 2021 as most rigs have got contracts. As a result, well service revenue will increase along with growth in drilling service revenue.

In terms of gross profit, we believe that the current market price for drilling services has yet to bring about higher margins. The segment will start to see positive gross margin, mostly because of PVD V TAD. In contrast, PVD's well services will be able to keep its substantial gross margin because of its market power and will contribute the most to the firm's profit.

We believe PVD is going to maintain its rich cash hoard. As long as its core business stay self-sufficient in order to commit to its debt payment, PVD will continue to enjoy a healthy source of interest income. Without any large reversal of provisions or outperforming JV's profit, the 2021 bottom-line will be about 10% lower YoY.

Valuation and recommendation

*Considering the outbreak in Malaysia, PVD has decided to retreat to Vietnam and find domestic jobs for its three rigs in late-2020 and 2021. PVD's improved rig utilization in 2021 will pave the way for its revenue growth and cash flow management, though not strong enough profit-wise. On the other hand, we believe the well service segment will remain stable throughout 2021 benefiting from higher rig operating days. Overall, PVD is able to maintain its financial health whereas NPAT can end up lower YoY due to a lack of one-off financial income. Taking into account the currently elevated valuation for the whole Vietnamese stock market, we raised PVD's P/B to 0.6x (previously 0.5x) and EV/EBITDA to 11.5x (previously 9x) and have target price of VND **20,500**, equivalent to a total return of **3%** based on the closing price on February 5th, 2021. Our recommendation has changed to **NEUTRAL**, as we think the mentioned good news for 2021 has been factored in the share price.*

NEUTRAL +3%

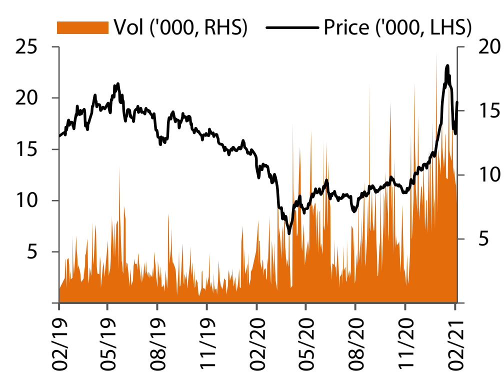
Target price (VND)	20,500
Current market price (VND)	19,950
Cash Dividend (VND)*	0

** Expected in the next 12 months*

Stock Info	
Sector	Oil & Gas
Market Cap (VND billion)	7,875
Current Shares O/S	421,544,970
Avg. Daily Volume (in 20 sessions)	11,006,210
Free float (%)	14
52 weeks High	23,150
52 weeks Low	7,050
Beta	1.5

	FY2019	TTM
EPS	304	278
EPS Growth (%)	0	0
Diluted EPS	304	278
P/E	49.5	58.3
P/B	0.5	0.5
EV/EBITDA	11.4	17.4
Cash dividend yield (%)	0	0
ROE (%)	1.3	1.3

Price performance



Major Shareholders (%)	
PVN	51.0
Foreign ownership room (%)	39.5

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Exhibit 1: 4Q/2020 Results

(VND Bn)	Q4-FY20	Q3-FY20	+/- (qoq)	Q4-FY19	+/- (yoy)	4Q-FY20	+/-(yoy)
Net revenue	824	1,271	-35.2%	1,390	-40.7%	5,239	19.8%
Gross profit	36	79	-54.3%	145	-75.1%	329	-26.8%
SG&A	104	67	54.8%	120	-13.9%	332	-19.8%
Operating income	-68	12	-671.2%	24	-378.5%	-3	123.2%
EBITDA	54	111	-51.1%	173	-68.6%	485	-22.3%
EBIT	(68)	12	-671.2%	24	-378.5%	(3)	-108.5%
Financial expenses	48	43	12.0%	57	-16.5%	202	-16.3%
- Interest Expenses	28	29	-2.3%	36	-21.8%	119	-25.3%
Dep. and amortization	122	99	22.8%	149	-18.0%	488	-17.2%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	52	54	-3.2%	139	-62.5%	200	-2.5%
PAT	60	39	53.5%	140	-57.6%	185	2.6%
(*) Adjusted PAT	60	39	53.5%	140	-57.6%	185	

Source: PVD, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particulars	Q4-FY20	Q3-FY20	*+/- (qoq)*	Q4-FY19	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	4.4%	6.2%	-183bps	10.4%	-603bps
EBITDA Margin	6.6%	8.7%	-215bps	12.4%	-585bps
EBIT Margin	-8.2%	0.9%	-913bps	1.7%	-995bps
Net Margin	7.2%	3.1%	418bps	10.1%	-287bps
Adjusted Net Margin	7.2%	3.1%	418bps	10.1%	-287bps
Turnover *(x)					
-Inventories	3.8	6.6	-2.9	6.5	-2.8
-Receivables	1.7	2.2	-0.6	3.0	-1.3
-Payables	1.9	2.6	-0.7	3.1	-1.2
Leverage (%)					
Total Debt/ Equity	20.0%	21.0%	-106bps	19.6%	34bps

Source: Rong Viet Securities

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND Bn)	Q1-FY21	+/-qoq	+/-yoy
Revenue	1,118	36%	-33%
Gross profit	107	197%	-32%
EBIT	17	-125%	-74%
NPAT	33	-45%	36%

Source: Rong Viet Securities

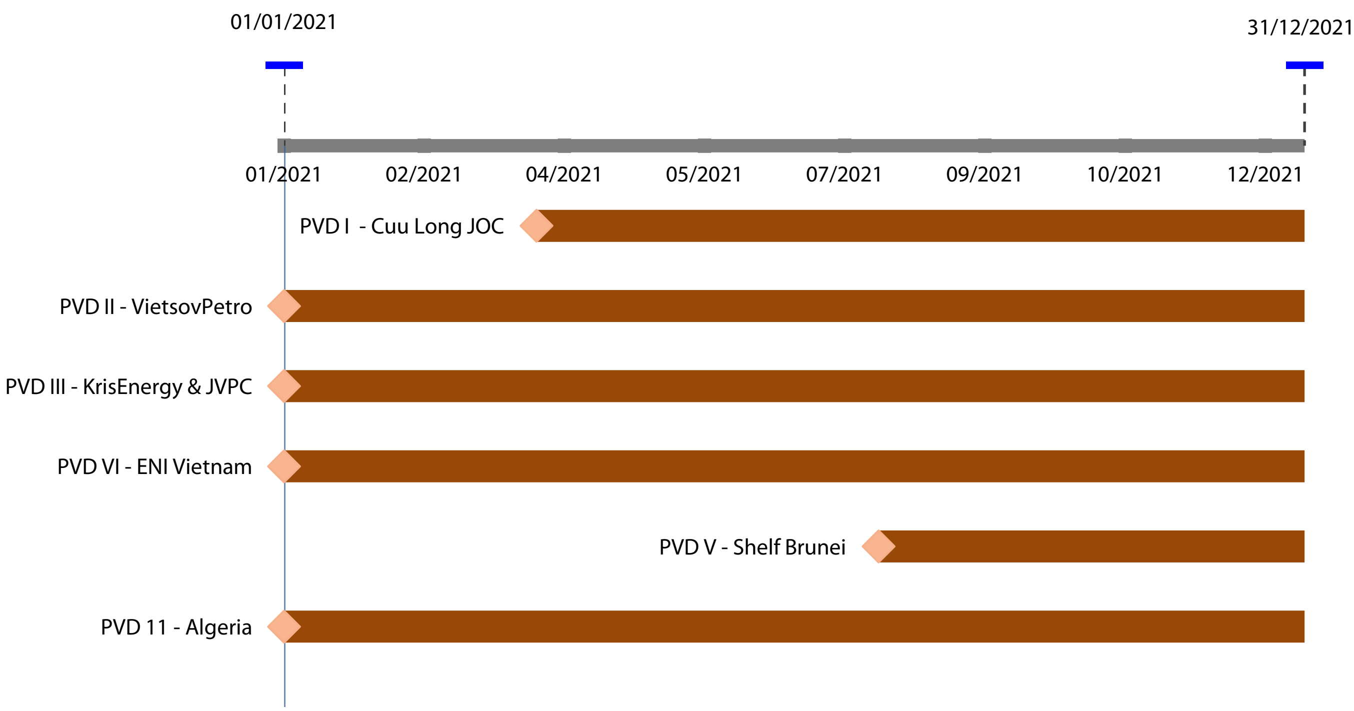
- Drilling segment's revenue is forecasted to be low in 1Q because of weak utilization. PVD I is scheduled to start in April, PVD V later in 2021. However, lower proportion of revenue from this segment means an improved gross margin.
- Well service's stable contribution will help profit growth.
- Interest income and profit from JVs & associates will also help improving the bottom line.
- Overall, PVD's 1Q2021 revenue might see a drop YoY because of the drilling revenue decrease, while NPAT is expected to grow YoY, mostly because 1Q2020 was a low period.

Update

Drilling services: Busy schedule in 2021 only pays operating costs, profit will be derived from PVD V (TAD) at the end of the year.

According to PVD, the newly updated rig capacity can be improved from 3.04 units in 2020 to 3.60 units in 2021. It is equivalent to a 72% utilization rate, fairly strong compared to recent years. Apart from PVD V TAD, who has been scheduled to operate in 2H2021, and PVD I's warm stack during 1Q, all other rigs have contracts for the whole year, which we think is a promising signal, but only meaningful to PVD's revenue. We believe this segment will start to make a gross profit in 2021, equivalent to a GPM of 1.6%.

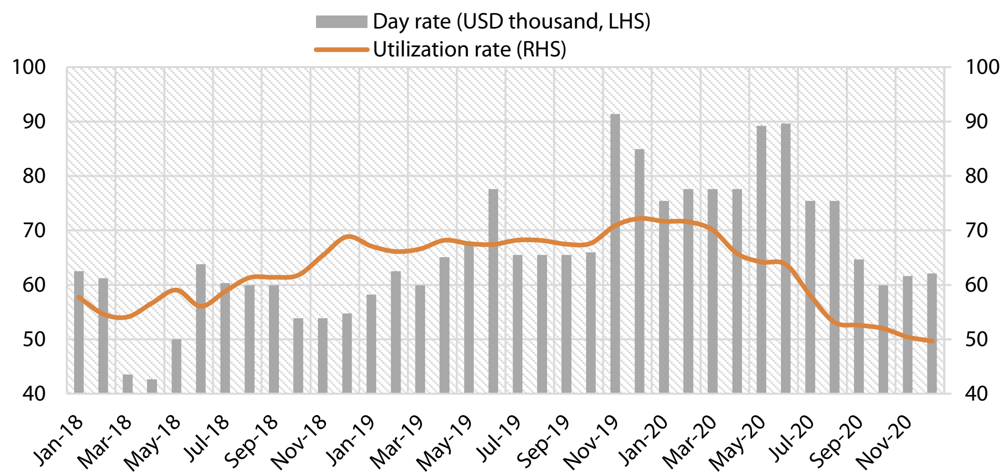
Figure 1: Rig operation schedule



Sources: PVD, RongViet Securities

In terms of rig day rate, we forecast that prices will drop by 5-10% YoY in 2021 for PVD. Firstly, we noticed that rig day rates have been on a downward trend due to the pandemic outbreak (Figure 2). Additionally, SEA's rig utilization has been fairly low, roughly 60%, meaning a lot of rigs are out of contract and might accept lower prices. Secondly, PVD used to operate in Malaysia with three rigs, now that they are all in Vietnam. PVD's reliance on the domestic market can put pressure on its rig day rate since clients are reported to have higher negotiating power. Lastly, oil price, even though currently remarkably higher than it was one year ago, is still within a price range that cannot encourage higher drilling activities, hence the low rig day rate forecast. Again, we reiterate our view on the drilling segment that revenue will be just enough to cover operating expenses. According to PVD's management, the target is to occupy the crew, to increase depreciation and to make debt payments.

Figure 2: South East Asia's rig day rate and utilization

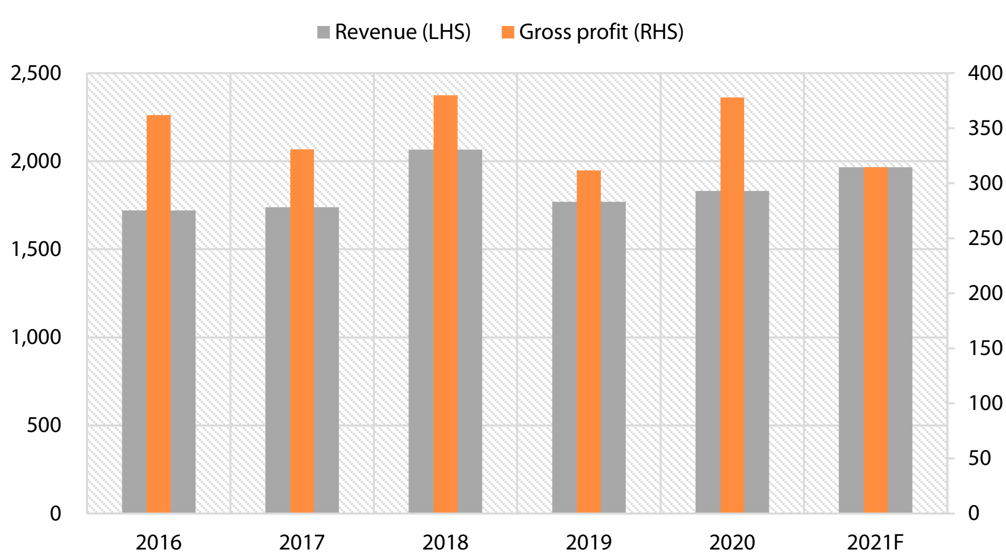


Sources: IHS Markit, RongViet Securities

Earnings will continue to depend solely on the well service segment. This business has proved profitable.

Well service is going to continue contributing the most profit to PVD's performance. We forecast that its revenue can increase in 2021 because PVD's rig fleet will have higher operating days. Service prices can stabilize due to PVD's market power as the only provider, especially the subsidiary PVD Baker Hughes. This segment's gross margin is going to remain at around 16%, sufficient to compensate for other segments' loss.

Figure 3: Well service segment's 2021 forecast (VND billion)



Sources: RongViet Securities

Valuation is highly reliant on the stock market movement.

PVD is a highly sensitive stock, considering that its current beta is 1.46. Therefore, regardless of the fluctuations in the company's fundamental aspects, the investment decision on PVD should take into account the stock market movement. For now, we raise the multiples, in particular, P/B from 0.5x to 0.6x and EV/EBITDA from 9x to 11.5x, mainly to keep up with the recent stock price rally. Hence, our new target price is revised up from VND 14,800 (in our 2021 Strategy Report) to VND 20,500 while our recommendation for this stock stays neutral.

VND Billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	**4,368**	**5,228**	**5,597**	**6,194**
COGS	3,918	4,900	5,194	5,741
Gross profit	**450**	**328**	**403**	**454**
Selling expenses	17	16	23	25
G&A expenses	397	315	304	307
Financial income	165	159	136	122
Financial expenses	241	202	205	252
Other income/loss	118	30	30	30
Gain/(loss) from JVs	111	216	170	100
PBT	**189**	**200**	**207**	**121**
Tax expense	17	19	62	24
Minority interests	-12	-4	-20	-20
PAT	**184**	**184**	**165**	**117**
EBIT	37	-3	76	121

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	-20.6	19.7	7.1	10.7
Operating Income	-11.4	-22.7	100.4	24.4
EBITDA	-63.2	-108.6	-2506.8	59.3
PAT	-6.3	-0.1	-10.4	-29.3
Total Assets	-0.5	-0.2	1.5	-2.1
Equity	0.9	0.5	1.2	0.8
Profitability (%)				
Gross margin	10.3	6.3	7.2	7.3
EBITDA margin	14.4	9.3	17.4	19.5
EBIT margin	0.8	-0.1	1.4	2.0
Net margin	4.2	3.5	2.9	1.9
ROA	0.9	0.9	0.8	0.6
ROE	0.2	0.0	0.4	0.7
Efficiency				(times)
Receivable Turnover	2.3	2.9	2.4	3.0
Inventory Turnover	4.7	5.1	5.2	7.3
Payable Turnover	1.7	2.4	2.0	2.5
Liquidity				(times)
Current	2.1	1.9	1.6	1.9
Quick	1.8	1.5	1.3	1.6
Finance Structure (%)				
Total Debt/Equity	27.3	28.0	27.1	25.1
Current Debt/Equity	3.8	4.6	5.0	4.2
Long-term Debt/Equity	23.5	23.4	22.1	20.9

VND Billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	1,890	1,075	552	1,343
Short-term investments	1,033	1,197	1,197	1,197
Accounts receivable	1,907	1,806	2,300	2,037
Inventories	835	959	996	786
Other current assets	39	78	156	163
Property, plant & equipment	13,795	13,527	13,523	12,539
Acquired intangible assets	169	175	170	166
Long-term investments	1,051	1,790	2,006	2,222
Other non-current assets	173	247	259	259
Total assets	**20,892**	**20,853**	**21,159**	**20,713**
Accounts payable	2,246	2,046	2,597	2,296
Short-term borrowings	521	635	699	584
Long-term borrowings	3,230	3,231	3,090	2,948
Other non-current liabilities	647	625	313	328
Bonus and Welfare fund	96	123	123	123
Technology-science, dev. fund	184	154	154	154
Total liabilities	**6,923**	**6,814**	**6,975**	**6,433**
Common stock and APIC	6,650	6,650	6,650	6,650
Treasury stock (enter as -)	-21	-21	-21	-21
Retained earnings	3,805	1,936	2,101	2,214
Other comprehensive income	1,684	1,638	1,638	1,638
Inv. and Dev. Fund	1,604	3,589	3,589	3,592
Total equity	**13,722**	**13,792**	**13,957**	**14,073**
Minority Interest	**247**	**247**	**227**	**207**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	304	278	391	274
P/E (x)	49.5	58.3	48.0	68.6
BV (dong)	32,551	32,718	33,109	33,383
P/B (x)	0.5	0.5	0.6	0.6
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	-	-	-	-

VALUATION MODEL	Price	Weight	Average
PB	19,866	50%	9,933
EV/EBITDA	21,151	50%	10,575
Target price			**20,500**

VALUATION HISTORY	Price	Recommendation	Period
06/10/2017	13,720	Accumulate	Long term
24/09/2019	21,060	Accumulate	Medium-term
28/12/2020	14,800	Neutral	Medium-term

RESULT 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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