OIL & GAS

OIL PRICES AMIDST THE STORM OF INFLATION

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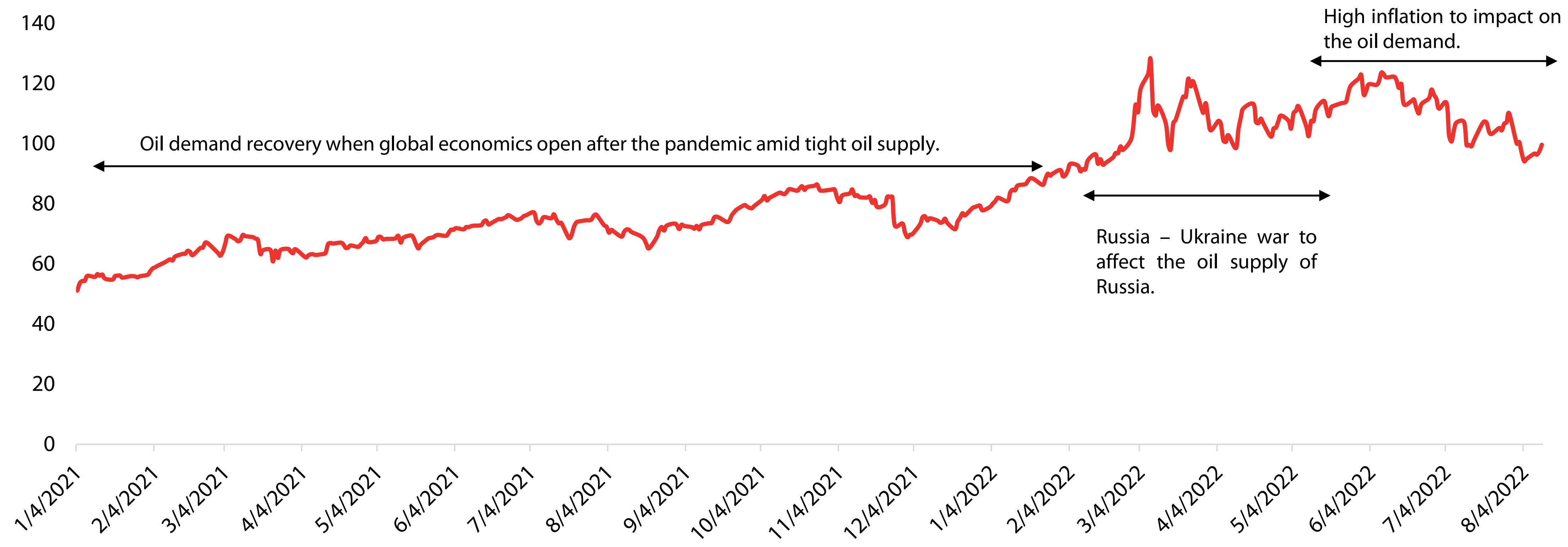
Figure 1: Oil price movement and events

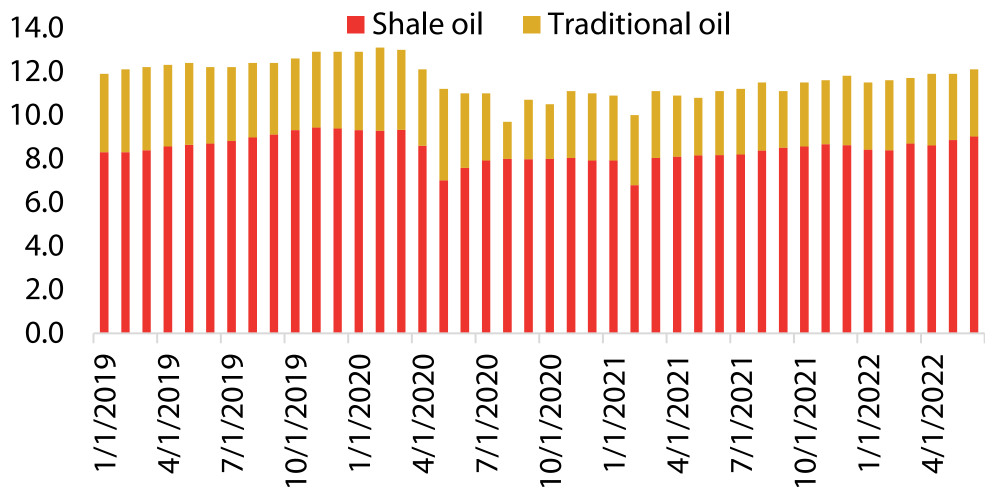


Source: Bloomberg

Oil price has been fluctuating when the Russia-Ukraine war has happened and tend to decrease when inflation is climbing.

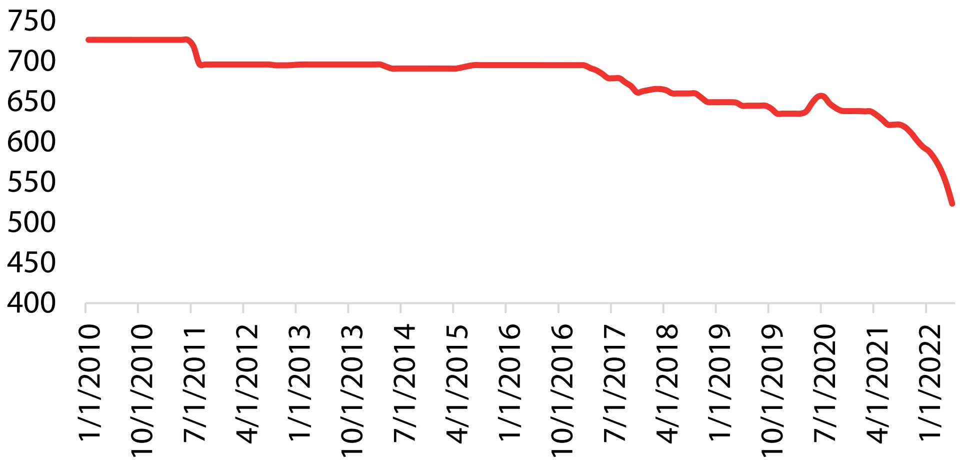
- After the pandemic, the demand for crude oil has grown strongly in the context of tight supply, boosting the oil price from the end of 2021. Besides, the sanctions on Russia - one of the three major crude oil producers in the world, has pushed crude oil prices up sharply due to concerns about supply disruption. In May, Brent crude oil reached peak at more than 120 USD/barrel.
- However, high inflation and tight global monetary policy have affected crude oil demand. From June, oil prices tends to correct.

Figure 2: US oil production (mbpd)



Source: Bloomberg, Rong Viet Securities

Figure 3: US strategic oil reserves (mbpd)



Source: Bloomberg

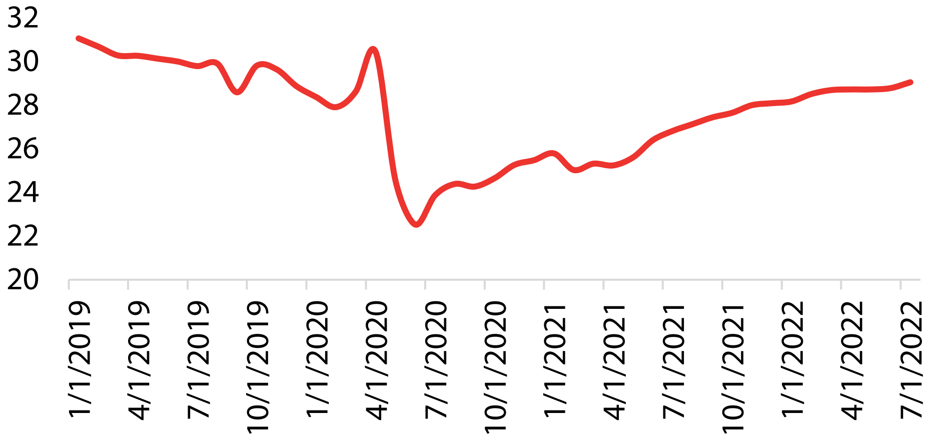
The U.S has put pressure on oil prices to control the inflation.

- In terms of supply, US shale oil production hiked along with the depletion in strategic petroleum reserve. The US government aims to reduce oil prices to curb the domestic inflation. In addition, OPEC is also in the process of boosting production despite a weak motivation from this group.

High inflation and China zero-Covid policy hit the oil demand.

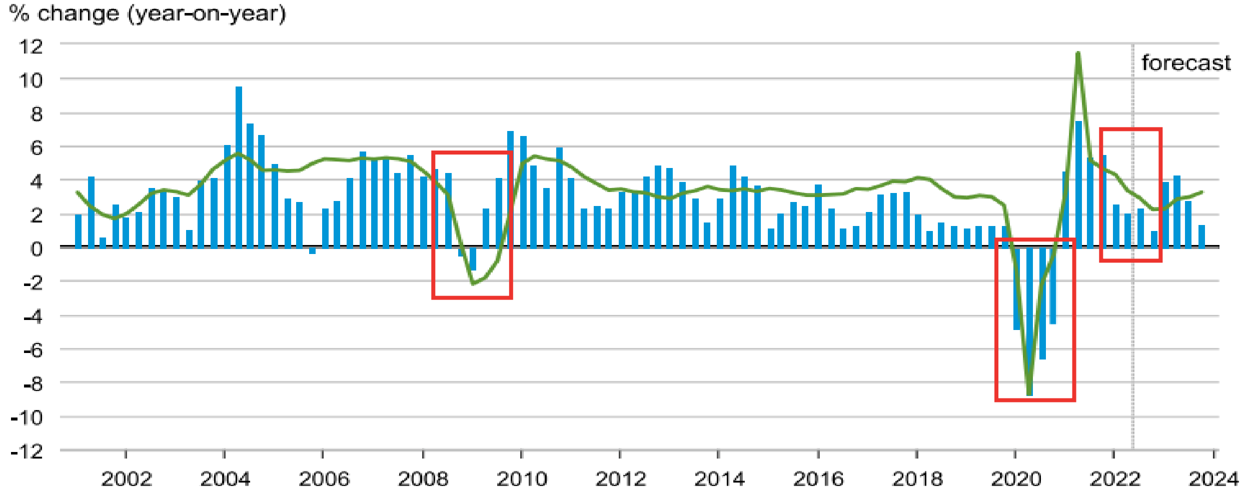
- World oil demand is being hit since China (the biggest oil consumers) maintains the zero-Covid policy and the world's economy is under inflation pressure.

Figure 4: OPEC oil production (mbpd)



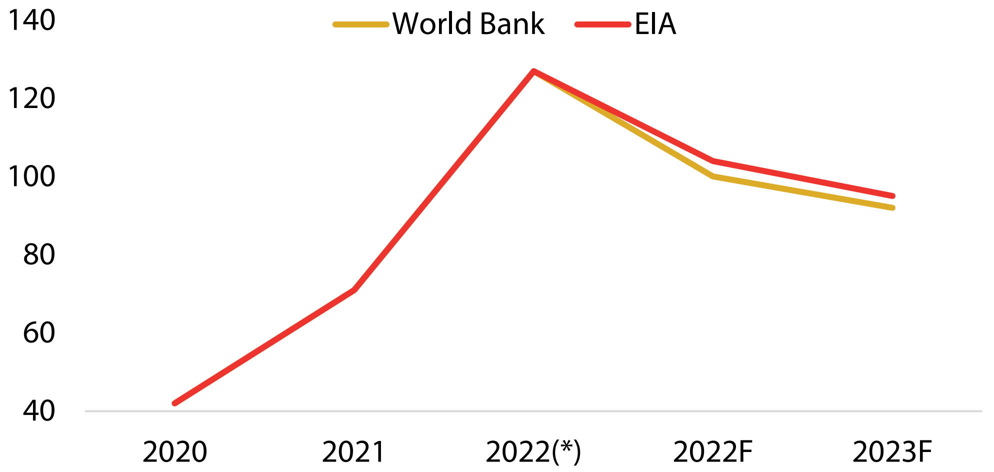
Source: Bloomberg

Figure 2: % change in world GDP and non-OECD oil product demand



Source: EIA, world GDP (green line), non-OECD group demand (blue column)

Figure 3: Brent oil price forecast (USD/barrel)



Source: Rong Viet Securities, 2022 (*) is the peak of Brent oil price as of August 2022

Gloomy economic outlook affects oil demand

- IMF and World Bank have all lowered their world GDP growth forecasts in their recent reports in response to global inflation. Specifically, world GDP growth is only at 2.9% - 3.2% compared to previous forecasts - 3.6% and 4.1%.
- With a shadow economic outlook, the world oil demand is forecasted to rise below the overall production level, leading to an oversupply.

A drop in oil price during 2H2022

- After many optimistic forecast in 1H2022, most organizations have revised down their oil price forecasts for 2H2022.

Table 1: Crude oil supply and demand forecast 2022

Unit: mbpd	IEA	EIA	OPEC
Demand	99.2	99.4	100.0
Produce	101.3	100.1	100.3*
Supply - Demand	**2.1**	**0.7**	**0.3**

*Source: Rong Viet Securities, * based on OPEC production in July*

Table 2: 1H2022 business update

		Revenue			NPATMI			Comment
	Ticker	1H2021	1H2022	+/- YoY	1H2021	1H2022	+/- YoY	
Upstream	PVS	5,670	7,580	34%	296	228	-23%	Higher revenue but lower gross margin. Besides, G&A expense increased in2Q2022.
	PVD	1,654	2,659	61%	-97	-116	N/A	Drilling segment's revenue increased thanks to PVD V and hired rig. But gross profit of this segment still posted loss due to accrued expense and PVD V.
Midstream	PVT	3,610	4,287	18%	377	365	-3%	Revenue of transportation segment kept increasing in 1H2022 thanks to new vessels.
	GAS	40,272	54,342	35%	4.291	8.515	98%	Selling price of dry gas to follow the higher oil price in 1H2022.
Downstream	BSR	48,908	87,174	78%	3.544	12.250	245%	Cracking spread to skyrocket in 2Q2022.
	OIL	25,188	53,655	113%	361	633	75%	Both sales volume and ASP increased in 1H2022. ASP got benefit from the rising petroleum price.
	PLX	85,115	151,387	78%	2.159	206	-90%	Aggressively booking inventories provision.

Source: Rong Viet Securities

Despite the high oil price, not all businesses enjoyed advantages

- In In terms of upstream (PVS, PVD), lack of new projects affected on the 1H2022 business results.
- In terms of midstream (PVT, GAS), rising selling price of gas output supported the earnings of GAS while PVT has improved the day rate for its fleets since 2Q2022.
- In terms of downstream (BSR, OIL, PXL), favorable petroleum price and high cracking spread pushed up downstream profit. Except for PLX, booking inventories provision aggressively has affected the 1H2022 bottom line.

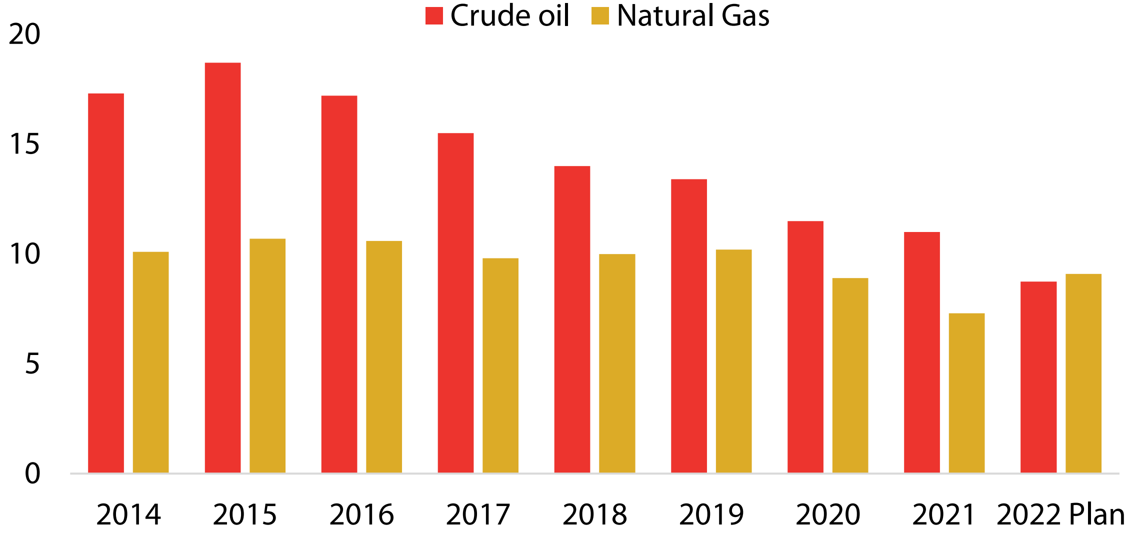
Crude oil production witnessed a deep dive

- Currently, Vietnam's large oil and gas fields are reducing their natural output by 5-8%/year because most of the fields have been exploited for long time while the plan to increase oil and gas reserves is low. From 2015 onwards, crude oil production decreased sharply while gas output also tended to plummet. From 2020 till now, the Sao Vang - Dai Nguyet project has come to operation.

There is a pressure to accelerate the potential project's progress

- With pressure to increase oil and gas production output, we believe that PVN will try to push key projects into operation soon. In addition, the draft Oil and Gas Law is another motivation to bolster PVN and ease some burdens in investment, thereby ramping up the project implementation. Besides, this draft is expected to attract more foreign investment to develop potential projects.
- Block B is a promising project to be implemented soon. However, there are still issues to be solved related to capital funding, input gas price policy and electricity selling price for EVN. Before that, the market expected the project to be able to make a final investment decision in July 2022.

Figure 4: Crude oil (mn tons) and gas (bn m3) production in Vietnam



Source: PVN

Table 3: Update of major oil and gas projects

	Updates	CAPEX
Block B	+ Waiting for Final Investment Decision.	USD 8 bn
Blue Whale	+ Exxon Mobil to finish the Final Development Plan.	USD 10 bn*
White Lion Phase 2	+ Phase 2A is operating. Phase 2B is on process.	USD 2 bn
Ken Bau	+ Keep drilling for exploration.	USD 5 bn*
Lac Da Vang	+ Update the Final Development Plan.	USD 0.7 bn
LNG Thi Vai Phase 2	+ Waiting for Phase 1 to be done in 2022.	USD 0.2 bn

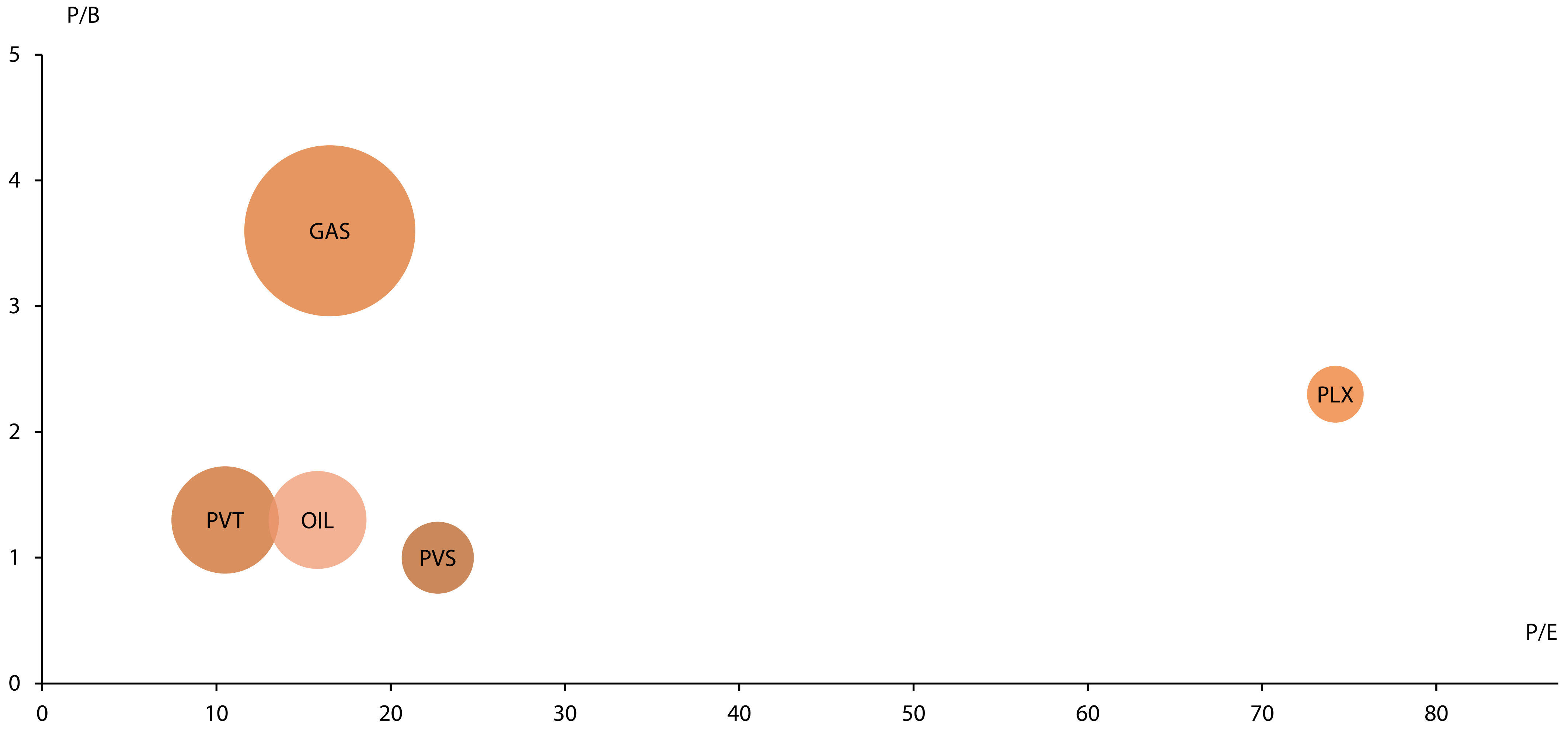
Source: Rong Viet Securities, including CAPEX for power plants

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
PVD	10,451	16,000	35.1	109.4	14.0	0.9	16.2	0.0	0.0	0.0	0.0	n/a	0.8
PVS	12,093	21,500	-5.8	89.4	2.0	-1.0	-1.8	3.3	2.1	4.4	4.0	22.7	1.0
PVT	6,861	23,800	7.1	16.9	26.3	12.7	-20.3	8.0	5.0	12.5	4.7	10.6	1.2
GAS	212,257	n/a	29.8	50.6	19.9	16.7	60.4	13.9	15.5	24.3	2.7	16.5	3.6
PLX	53,301	50,600	63.6	-61.0	1.1	0.1	-81.7	0.3	1.0	3.1	0.0	81.6	2.3
OIL	13,859	n/a	80.1	n/a	n/a	-102.4	95.4	-89.5	-1.9	-3.2	2.6	26.4	1.4

Source: Fiinpro, Rong Viet Securities. Share price as of August 10 2022.

PE, PB & ROE (TTM)

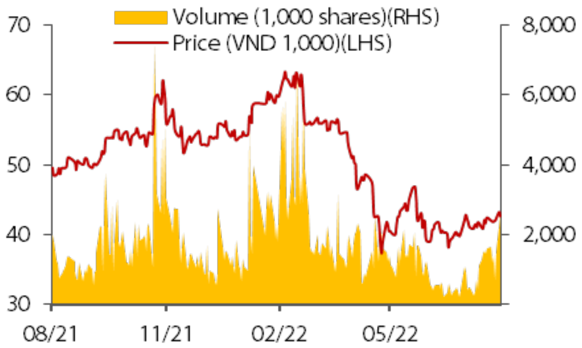


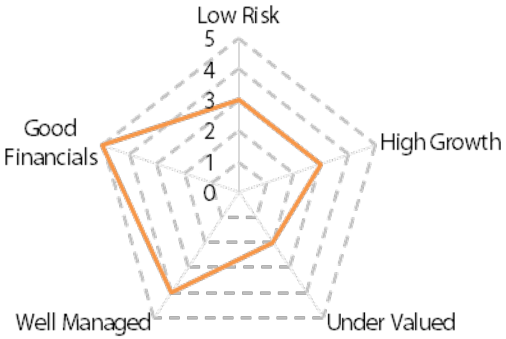
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

EARNINGS TO BOTTOM OUT IN 2H2022

HSX: PLX

BUY: +23% <MP 42,000> <TP: 50,600>





STOCK INFO

Sector	Oil & Gas
Market Cap (VND Bn)	53,238
Current Shares O/S (mn Shares)	1,271
3M Avg.Volume (K)	986
3M Avg.Trading Value (VND Bn)	41
Remaining foreign room (%)	2.8
52-Week range ('000 VND)	37.3-63.4

FINANCIALS

FINANCIALS	2021A	2022F	2023F
Revenue (VND Bn)	169,009	229,297	223,863
NPATMI (VND Bn)	2,839	2,789	4,372
ROA (%)	4.5	4.1	6.2
ROE (%)	9.7	5.2	7.3
EPS (VND)	1,788	2,144	3,361
Book Value (VND)	19,417	19,679	21,158
Cash Dividend (VND)	1,200	1,200	1,200
P/E (x)	30.1	22.9	14.6
P/B (x)	2.7	2.5	2.3

INVESTMENT RATIONALES

Profits growth was hit in the 1H2022 by the supply disruption at Nghi Son Refinery (NSR), but it's expected to recover from 2H2022

- The incident from Nghi Son Refinery forced PLX to import petroleum products with higher price to compensate for the domestic shortage in 1H2022. However, the global petroleum prices fluctuated, resulting in an aggressive inventory provision. As a result, PLX's net profit fell sharply 90.4% YoY in 1H2022. According to PLX, the domestic petroleum supply will return to a stable level as before with the proportion of 70% in the second half, which will support PLX's earnings boom in the last 2 quarters of this year.
- In addition, the reopening of the international tourism market from March 15, 2022, will push up air traffic demand. Thereby, profit of jet fuel segment is forecasted to grow strongly in 2H2022.

Potential to record significant profits from the divestment of PG Bank

- PLX has planned to a divest 40.57% stake in PG Bank via a public auction in 4Q2022. Currently, we assume that divestment price will be around VND20,000/share (P/B of 1.37x) ~ average 1-month market price. Then PLX is able to record one-off profit of VND720 bn (USD30.9mn) from the PGB's divestment.

RISKS TO OUR CALL

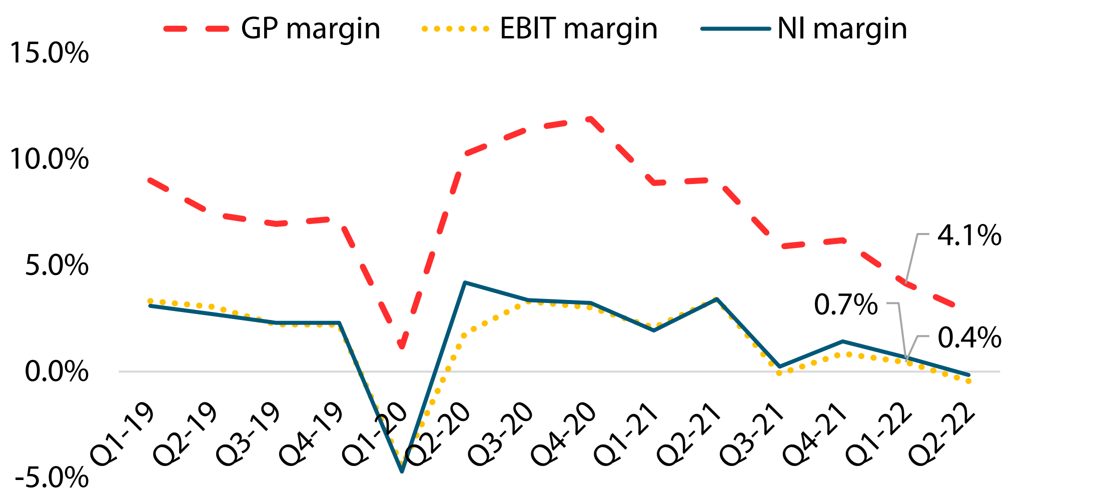
- Oil prices fell sharply, causing PLX to book inventory provision. The unexpected shortage of supply from Nghi Son refinery will likely directly affect PLX's profit.
- The PGB's divestment is not successful.

Table 1: 1H2022 result of PLX (VND bn)

	1H2022	1H2021	%YoY
PBT	**292.6**	**2,840.5**	**-90%**
Petroleum	*-594.8*	*1,772.1*	n/a
Jet fuel	*90.9*	*86*	*6%*
Petrochemical	*369.4*	*378.3*	*-2%*
Gas	*79.4*	*112.1*	*-29%*
Transportation	*43.4*	*73.3*	*-41%*
Others	*304.2*	*418.7*	*-27%*
NPAT	**206.4**	**2,158.9**	**-90%**

Source: PLX, Rong Viet securities

Figure 1: Profit margin of PLX (%)



Source: PLX, Rong Viet securities

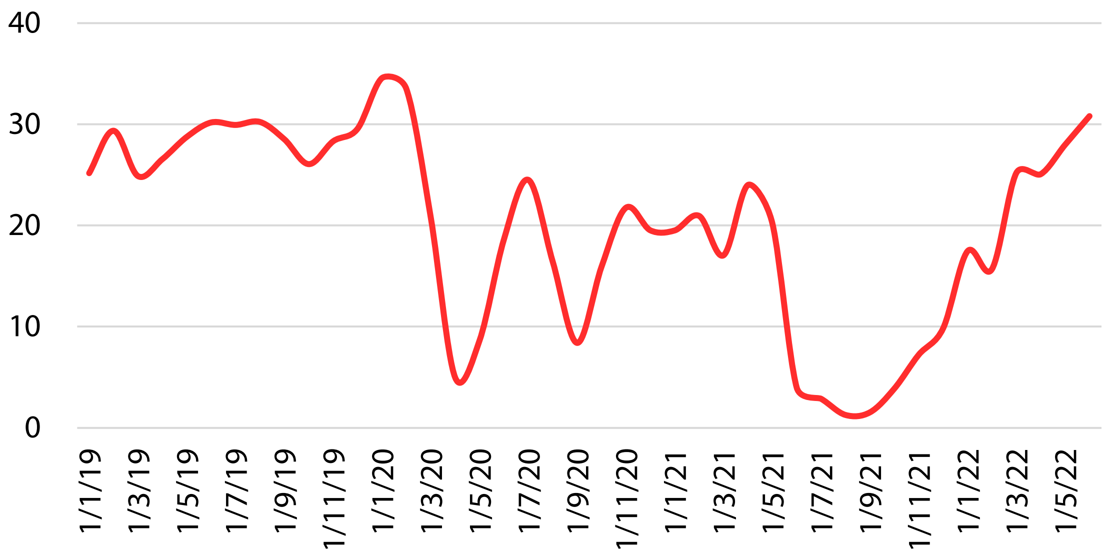
1H2022 profits was hit due to temporary domestic product shortages and aggressive inventory provision booking

- The supply disruption from Nghi Son Refinery (NSR) caused PLX to import petroleum products with higher price along with a large inventory provision at the end of 2Q2022 ~ VND1,330bn (USD57.1mn). As a result, the gross margin in 1H2022 was only 3.4% compared to 8.9% in the same period last year and NPAT posted VND206bn (USD8.8mn), down 90.4% YoY.
- As our observations, the world petroleum price had no unusual changes in 2Q2022. While PLX increased provision for its petroleum inventory from VND523bn (USD23.4mn) in 1Q2022 to VND1,330bn (USD57.1mn) in 2Q2022. And the main reason was from the drop in the domestic petroleum retail price in July 2022. Without the inventory provision, PLX's gross profit margin is equivalent to 1Q2022. We think that PLX has been so conservative in this case.

The supply disruption in petroleum supply is likely to be over along with the recovery and strong growth in demand, helping PLX's earnings boom in 2H2022

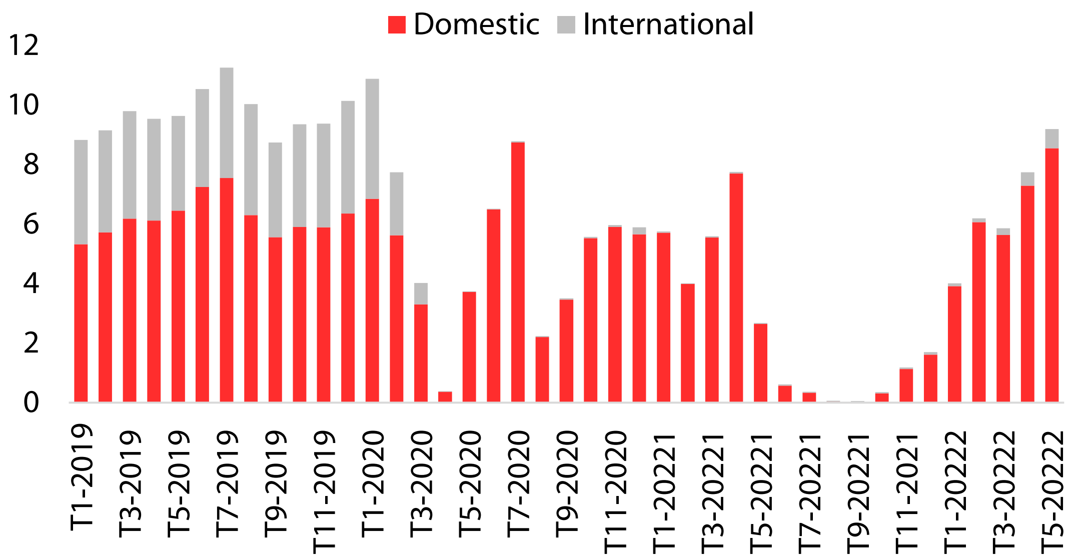
- According to PLX, petroleum supply will return to normal with imported share of 30% in 2H2022, compared to 50% in 1Q2022 and 39% in 2Q2022. Besides, petroleum consumption is forecasted to grow strongly. In 1H2022, PLX's domestic petroleum consumption volume grew 9% YoY to 5.09 mn m3. As a low base due to Covid in 2H2021, we expect PLX's consumption volume to increase strongly in 2H2022. In addition, given that the company has been cautious when booking inventory provision aggressively in 1H2022, PLX's second-half profit is expected to improve significantly unless petroleum prices fluctuates in the rest of 2022.

Figure 2: Number of flights in Vietnam ('000)



Source: ACV

Figure 3: Number of passengers (mn)



Source: ACV

Potential to record huge profits from divestment of PG Bank

- PLX owns lot of subsidiaries, and associates/affiliates with potential for future divestment including bank (PGB), insurance (PGI), Gas distribution business (PGC) and petrochemicals (PLC). The most prominent in the group of enterprises mentioned above is PGB with an ownership of 40.57%. Currently, the SBV has approved for PLX to sell all shares via a public auction in 4Q2022. With an estimated divestment price of about VND20,000/share (P/B of 1.37x) ~ average 1-month market price. Then PLX is able to record one-off profit of VND720 bn (USD30.9mn) from the PGB's divestment.

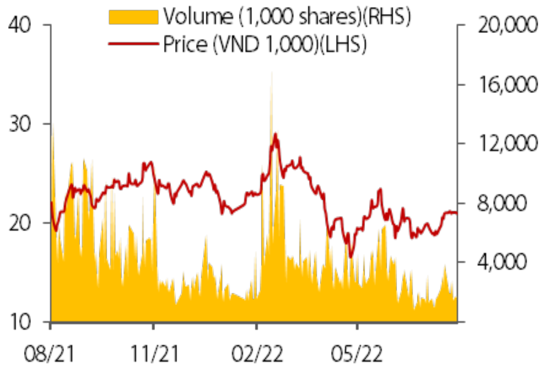
The jet fuel segment to improve

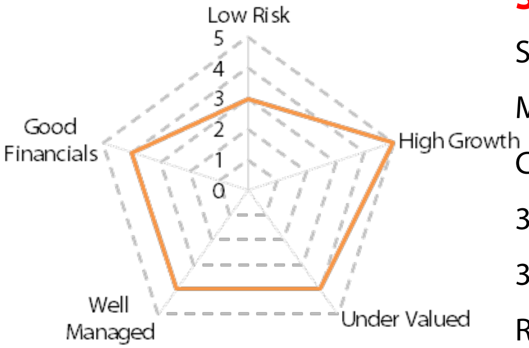
- We expect a strong recovery in air traffic passenger volume at both domestic and international markets, which will help PLX's jet fuel segment go back to the pre-pandemic level. In 2019, the jet fuel segment contributed VND 846bn (USD36.3mn) in PBT. In 2022, PLX has set a cautious plan for the jet fuel segment with VND150bn (USD6.4mn) in PBT, up 1.35% YoY. Thanks to the return in international passengers and the 2022 summer vacation, we expect this segment to see a strong growth in 2H2022.

LIQUIDATING PVT ATHENA TO BOOST 2H2022 EARNINGS

HSX: PVT

ACCUMULATE: +12% **<MP: xxx>** **<TP: 23,800>**





STOCK INFO

Sector	Transportation
Market Cap ($ mn)	293
Current Shares O/S (mn shares)	324
3M Avg. Volume (K)	2,872
3M Avg. Trading Value ($ mn)	59
Remaining foreign room (%)	35.0
52-week range ('000 VND)	16.4 - 29.5

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	7,460	8,577	8,066
NPATMI (VND bn)	660	880	747
ROA (%)	5.3	6.2	4.8
ROE (%)	12.7	14.6	11.4
EPS (VND)	1,933	2,322	1,972
Book Value (VND)	16,051	16,914	18,386
Cash dividend (VND)	1,000	0	500
P/E (x)	12.5	8.7	10.3
P/B (x)	1.5	1.2	1.1

INVESTMENT RATIONALES

Keep expanding fleets in 2H2022.

- PVT targets to buy 23 vessels in 2022 which is mostly from 2020-2021 plan. Currently, PVT and its subsidiaries are targeting 2-3 Medium Range oil product vessels (40,000 - 50,000 tons), LPG coaster and some chemical tankers. We think that PVT can only handle 6-8 vessels this year. Till now, the company has bought 3 ships, mainly in the chemical segment. In the first 6M2022, transportation's revenue increased by 27%.

We expect a strong earnings growth in 2H2022.

- With impact of FX loss and increasing VLSFO price, the bottom line of PVT saw a decline in 2Q2022 although the first line still grew. As the VLFSO price has been cooling down recently and PVT will add new fleets in 2H, we believe that the earnings will grow strongly. Besides, liquidating Athena vessel will contribute significantly to the bottom line in 2H2022.

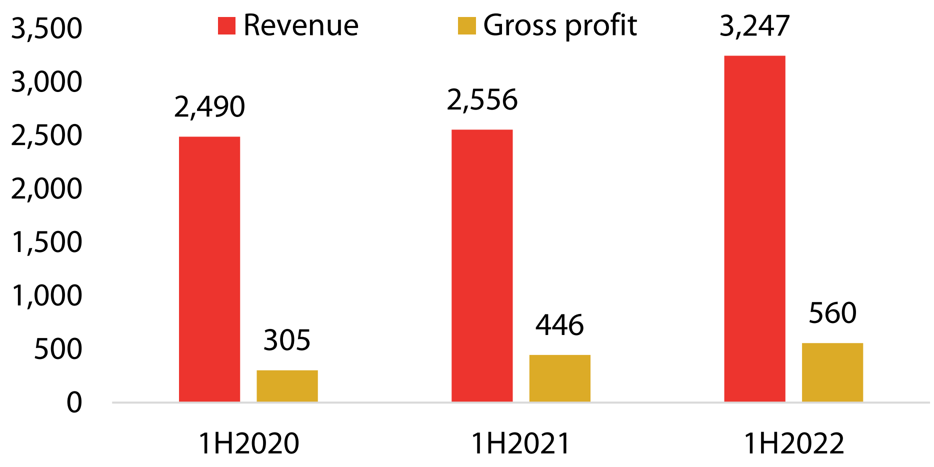
PVT share looks attractive with low P/E forward.

- For 2022, revenue and NPATMI are forecasted to post VND8,577bn (USD 368.1 mn) (+15.0% YoY) and VND880bn (USD 37.7 mn) (+33.3% YoY) respectively. On the back of our forecast, the P/E forward of PVD is 8.7x, quite attractive with the strong earnings growth.

RISKS TO OUR CALL

- PVT will book one-off profit in 2023.
- Fleets expansion is under our expectation.

Figure 1: Transportation performance (VND bn)



Source: PVT, Rong Viet Securities

Transportation segment kept doing well in 1H2022

- In1H2022, PVT recorded sales of VND3,247bn (USD139.3mn) in transportation segment, up 27% YoY while gross profit increased by 25.3% to VND560bn (USD24.1mn). We believe that LPG tankers and chemical tankers were the main contributors as PVT has added a VLGC and 5 chemical tankers to it fleets since 3Q2021.

But high financial expense and low other income hit the profit

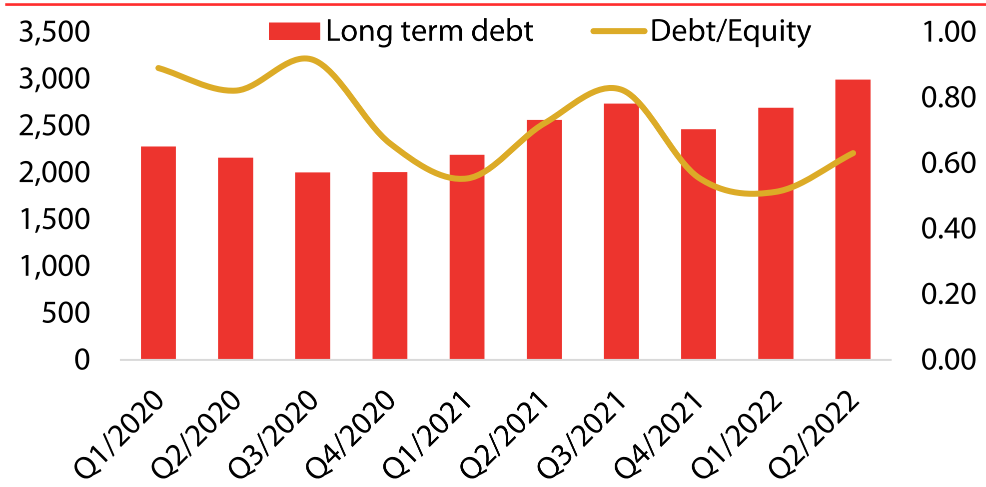
- As the fleets have been expanding, the long-term debt has also become bigger, leading to a higher interest expense, compared to the same period last year. Besides, the other profits, mainly from the vessel liquidation activities, was lower.
- 1H2022 earnings posted VND365bn (USD15.6mn), down 3.2%.

Table 1: Profit before tax breakdown

Unit: VND bn	1H2020	1H2021	1H2022
Operating profit	369	493	575
Financial profit	8	19	-44
JV profit	14	12	13
Others profit	2	43	19
Total	**393**	**568**	**563**

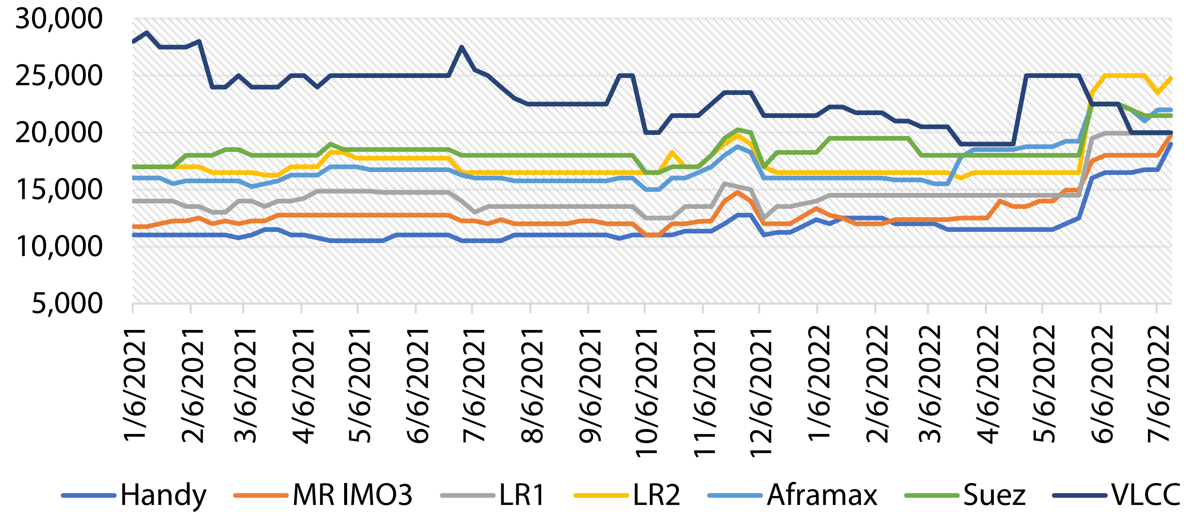
Source: PVT, Rong Viet Securities

Figure 2: Long term debt (LHS) and debt/equity (RHS)



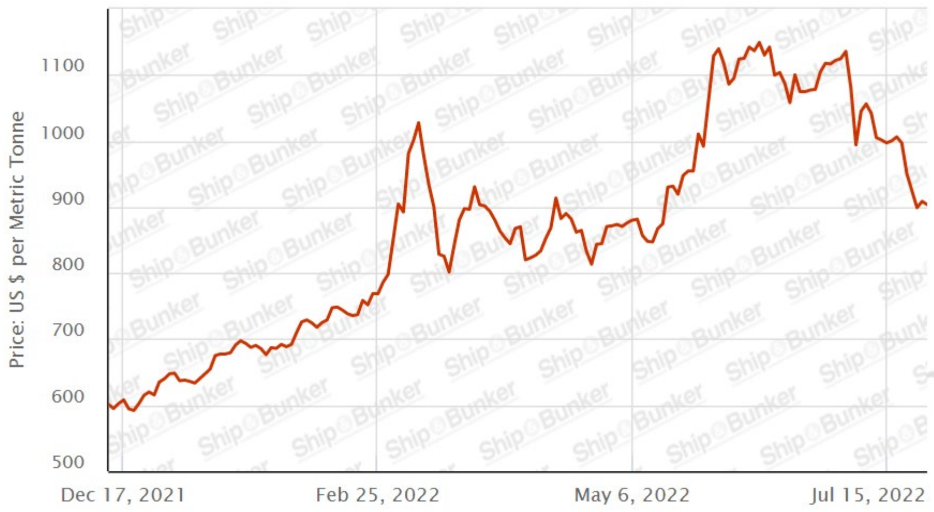
Source: PVT, Rong Viet Securities

Figure 3: 1 year T/C rate (USD/pdpr)



Source: Rong Viet Securities

Figure 4: VLSFO price (USD/ton)

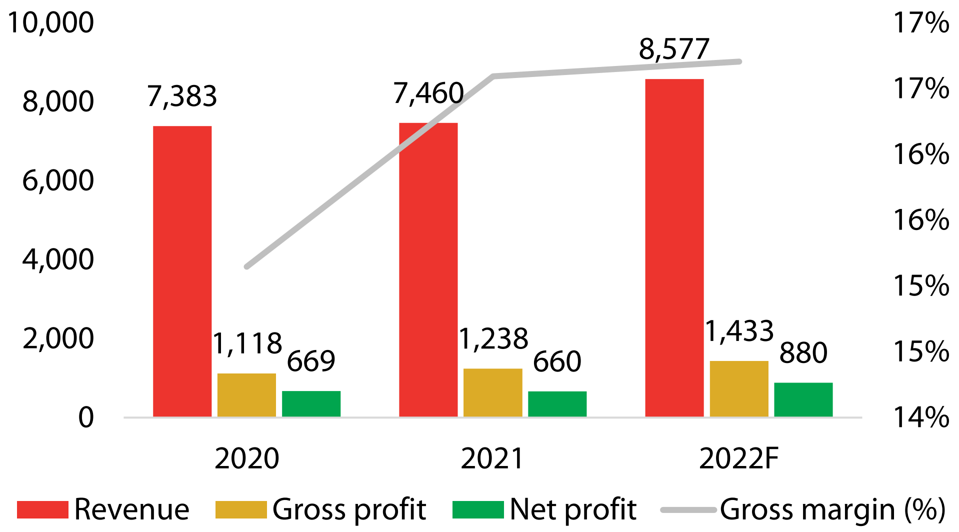


Source: Ship and bunker

Day rate has picked up while fuel price tends to decrease

- We see that the T/C rates for crude oil tanker as well as oil product tanker have increased since Russia – Ukraine war. If the rate can maintain at this level till the end of this year, we believe that PVT can be offered a better rate for some vessels, when they need to renew their contracts.
- The bunker price has been cooling down after reaching to the peak in late June. We expect the vessels running spot contract will improve the efficiency in 3Q2022 onwards.

Figure 5: 2022 forecast



Source: Rong Viet Securities

Table 2: Over 20-year-old vessels

	Type of vessel	Weight (DWT)	Estimated value (VND bn)
PVT Athena	Crude oil	105,177	100
PVT Dragon	Oil product	8,700	5
PVT Dolphin	Oil product	45,888	28
PVT Eagle	Oil product	33,425	21
Total			**160**

Source: PVT, Rong Viet Securities

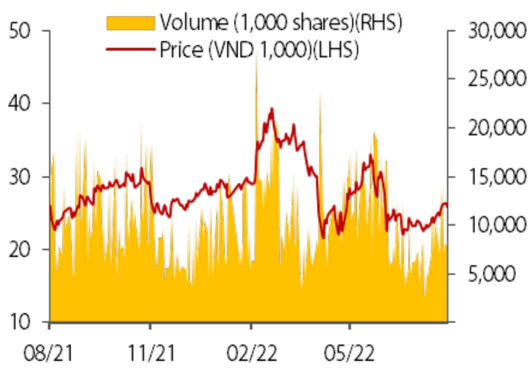
Liquidating Athena Vessel contributes significantly to 2H2022 bottom line

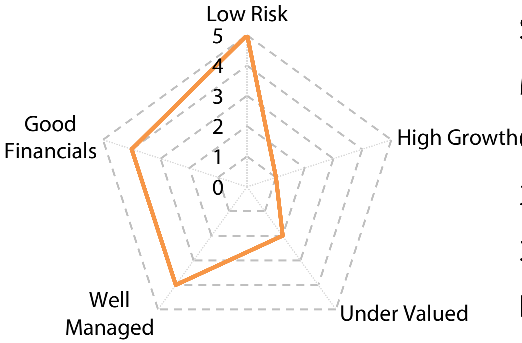
- PVT will sell 4 vessels, which are over 20 years old, including PVT Athena, PVT Eagle, PVT Dragon and PVT Dolphin in the coming times. In which, PVT Athena can add over VND100bn (USD4.3mn) to the bottom line of the company. We hope that PVT can book this one-off profit in 2H2022, when Athena ends its bareboat contract.
- Thanks to the abnormal items from liquidating vessel, 2022 profit of PVT is expected to increase by 33% to VND880bn (USD37.7mn) or 2H2022 profit will be VND515 bn (USD22.1mn) compared to VND365 bn (USD15.6mn) in 1H2022.
- With EPS of VND2,322 P/E forward for PVT share is 8,7x at the current market price, quite attractive.

WAITING FOR MAJOR OIL & GAS PROJECTS

HNX: PVS

REDUCE: -12% **<MP: 25.300>** **<TP: 21,500>**





STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	517
Current Shares O/S (mn shares)	478
3M Avg. Volume (K)	9,957
3M Avg. Trading Value ($ mn)	269
Remaining foreign room (%)	39.7
52-week range ('000 VND)	19.4 - 41.2

FINANCIALS

FINANCIALS	2020A	2021A	2022F
Revenue (VND bn)	20,180	14,198	16,584
NPATMI VND bn)	624	601	663
ROA (%)	2.4	2.4	2.4
ROE (%)	5.1	5.1	5.5
EPS (VND)	1,046	911	1,249
Book Value (VND)	25,411	24,701	25,244
Cash dividend (VND)	1,000	1,000	700
P/E (x)	17.0	28.5	20.8
P/B (x)	0.7	1.1	1.0

INVESTMENT RATIONALES

High G&A expense hurt profit in 1H but not happen in 2H

- Due to the strong increase of G&A expense in 2Q2022, the net profit experienced a fall in 2Q2022 as well as 1H2022, compared to the same period last year. However, we believe that PVS will not book such that huge amount in 2H2022, which will lift the bottom line up in the last six months.

JVs profit and reverting the warranty of construction work will be the main contribution for the bottom line

- As FPSO Lam Son has been rewarded a new contract till June 2023, JVs profit in 2022 is anticipated as good as in 2021. While PVS will keep reverting the warranty of construction work from previous M&C projects. Totally, these two items will account for 67% total PBT in 2022.

Potential oil & gas projects and offshore wind power projects contribution despite the lack of new contracts from the M&C segment in 2022

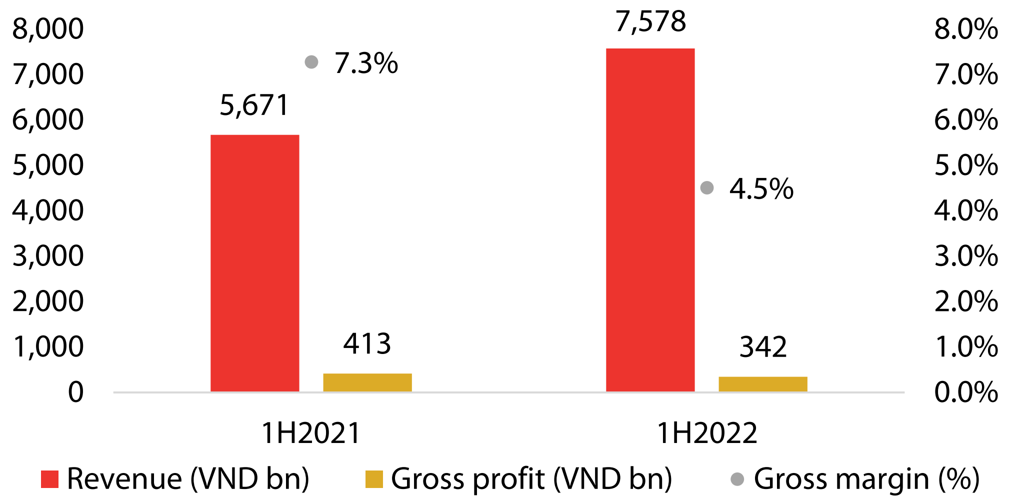
- At the moment, PVS has been adding 3 projects with a total value of USD610mn which will be recorded during 2022-2024 with a minor gross margin. However, there will be major oil gas projects such as Block B, Ca Voi Xanh, Su Tu Trang or Bau Ken and PVS can gain huge backlog thanks to its leading position in M&C segment.
- PVS is preparing to jump in the offshore wind power to enjoy the transition to green energy. PVS will be the investor as well as the contractor. Thanks to offshore wind power projects, PVS can get a stable cash flow.

RISKS TO OUR CALL

- Major oil gas project are delayed longer than expectation.

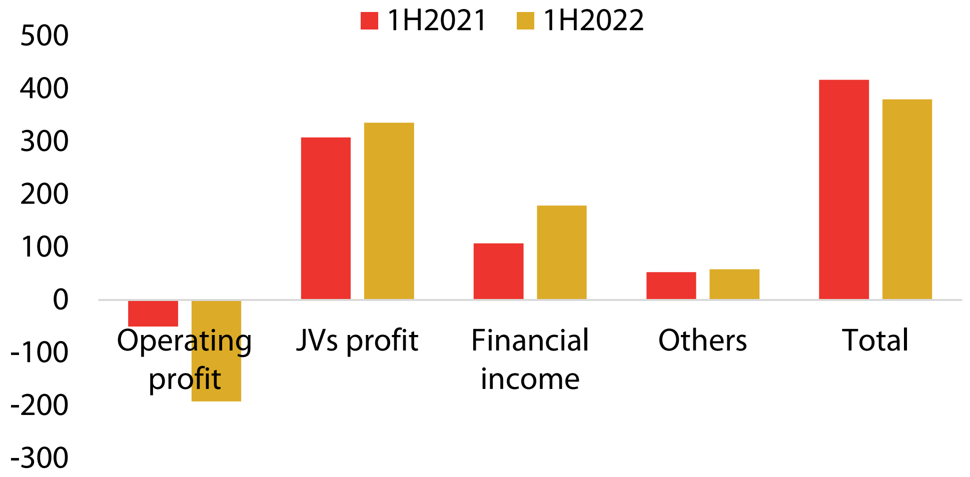
HIGH G&A EXPENSES TO HIT OPERATING PROFIT

Figure 1: Revenue, gross profit (LHS) and gross margin (RHS)



Source: PVS, Rong Viet Securities

Figure 2: Profit before tax breakdown in 1H2022 (VND bn)



Source: PVS, Rong Viet Securities, operating profit = gross profit – SG&A expense

Operating profit to book loss due to high G&A expense

- In 1H2022, PVS announced VND7,578bn (USD323.9mn) in net revenue, up 32.5% but the gross profit dropped 17.7% to VND342bn (USD14.6mn). Besides, the company posted VND502 bn (USD21.4mn) in G&A expense, up 19.8% YoY. Then the operating profit booked loss of VND192bn (USD8.2mn) in 1H2022, compared to loss of VND50bn (USD2.1mn) in the same period last year.

JVs profit and financial income to compensate the high expense

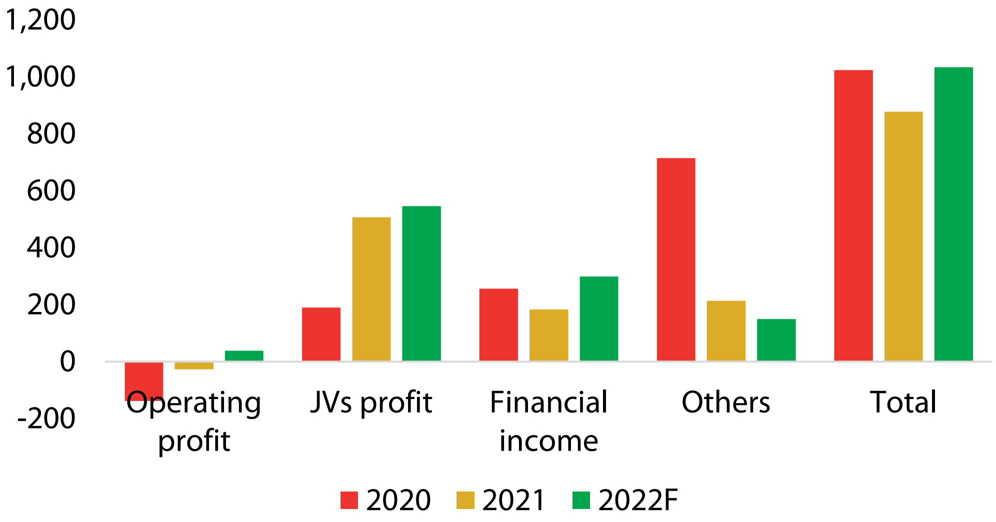
- JVs profit recorded VND335 bn (USD14.3mn) in 1H2022, compared to VND308bn (USD13.2mn) in the same period last year. Recently, FPSO Lam Son has been rewarded a new contract till June 2023. Besides, financial income also increased by 65% owning to the FX gain. As a results, the NPATMI posted VND228bn (USD9.7mn), down 22.9%.

Table 1: Potential Oil Gas project

	Update
Block B	+ Waiting for Final Investment Development
Ca Voi Xanh	+ Exxon Mobil to finalize the Final Development Plan
Su Tu Trang Phase 2	+ FEED done.
Ken Bau	+ Keep drilling for exploration.
LNG Thi Vai Phase 2	+ Waiting for Phase 1 to be done in 2022.

Source: Rong Viet Securities

Figure 3: Profit before tax breakdown in 2022 (VND bn)



Source : Rong Viet Securities

JVs profit and reverting the warranty of construction work will be the main contribution for the bottom line

- As FPSO Lam Son has been rewarded a new contract till June 2023, JVs profit in 2022 is anticipated as good as in 2021. Besides, PVS is likely to revert the warranty of construction work from previous M&C projects in 2H2022. As our estimation, these two items will account for 67% total PBT in 2022.
- For 2022, we forecast that revenue and NPATMI will reach VND 16,584 bn (USD711.7mn) (+16.8% YoY) and VND 663 bn (USD28.4mn) (+10.3% YoY) respectively.

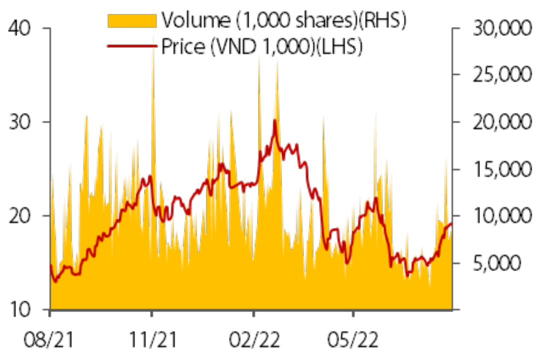
PVS will enjoy the huge backlog for M&C segment if major oil gas projects are kicked off

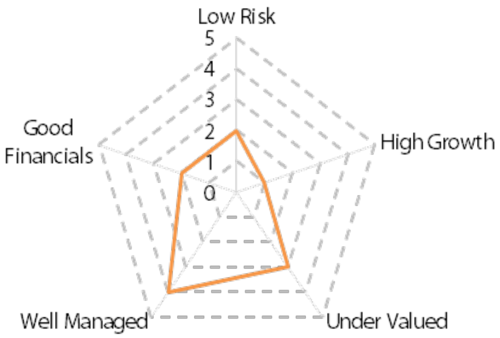
- Thanks to its leading position in M&C segment, PVS can be awarded huge backlog if these projects such as Block B, Ca Voi Xanh, Su Tu Trang or Bau Ken are kicked off. Though the progress of these projects are slow, we see some positive movements, which can solve the bottleneck.
- In the long run, PVS can enjoy the transition to green energy when becoming a contractor as well as investor of offshore wind power projects.

DRILLING SEGMENT TO IMPROVE FROM 2H2022

HSX: PVD

REDUCE: -14% <MP: 18,800> <TP: 16,000>





STOCK INFO

Sector	Oil & Gas
Market Cap ($ mn)	447
Current Shares O/S (mn shares)	556
3M Avg. Volume (K)	8,103
3M Avg. Trading Value ($ mn)	146
Remaining foreign room (%)	43.8
52-week range ('000 VND)	13.0 - 30.5

FINANCIALS

FINANCIALS	2020A	2021A	2022F
Revenue (VND bn)	5,229	3,995	5,241
NPATMI VND bn)	186	20	-90
ROA (%)	0.9	0.1	-0.4
ROE (%)	1.4	0.1	-0.7
EPS (VND)	282	-36	-214
Book Value (VND)	32,723	32,243	32,029
Cash dividend (VND)	0	0	0
P/E (x)	57.4	n/a	n/a
P/B (x)	0.5	0.5	0.5

INVESTMENT RATIONALES

Despite loss in gross profit in 1H2022, drilling services is projected to post positive one in the rest of this year.

- In 1H2022, revenue from the drilling segment increased by 157.9% to VND1,736 bn (USD74.5mn). The growth mainly came from the PVD V when the rig started the campaign for Shell Brunei from the end of January this year. But the gross profit posted loss of VND 52 bn (USD2.2mn). However, we expect that gross profit will turn to positive in 2H2022.

We expect positive earnings in 2H2022.

- We expect PVD's business to improve in the remainder of this year thanks to higher utilization rates and there is no longer unusual expenses as in 1H2022. For 2022, we forecast that revenue and NPATMI will reach VND 5,214 bn (USD223.7mn) (31.2% YoY) and loss VND 90 bn (loss USD3.8mn) respectively. Or NPATMI will post profit of VND 26 bn (USD1.1mn) in 2H2022.

2023-day rate can be better thanks to rising day rate in the region.

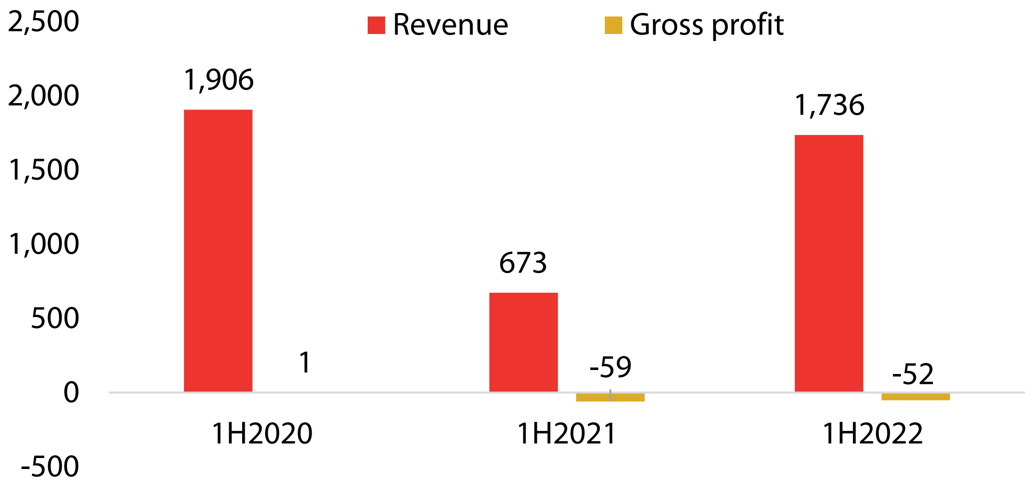
- Looking at 2023, we see that the regional rig day rate is staying at high level compared to PVD's average 2022 day rate (approximately USD60,000/day). Therefore, PVD can be expected to win new contracts at better prices than the current ones in 2023.

RISKS TO OUR CALL

- The oil price fall, leading to a drop-in day rate in 2023.

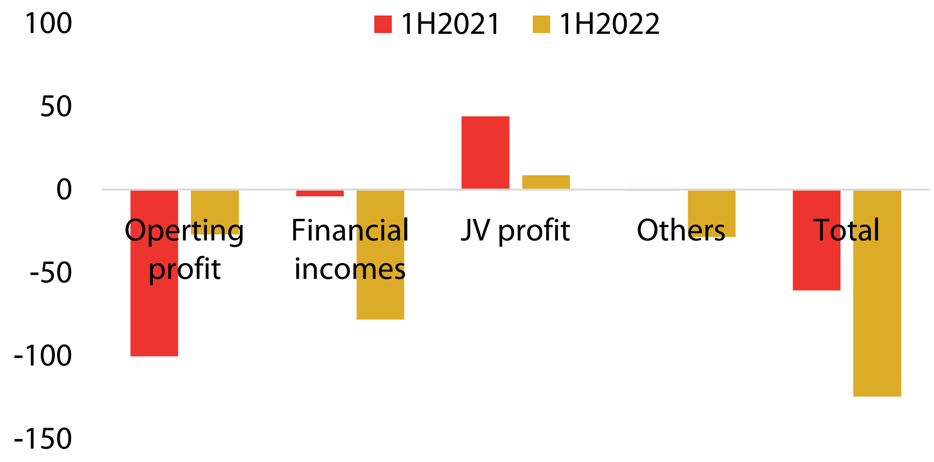
REVENUE OF DRILLING SERVICES INCREASE BUT RISING EXPENSES

Figure 1: Drilling segment performance (VND bn)



Source: PVD, Rong Viet Securities

Figure 2: Profit before tax breakdown



Source: PVD, Rong Viet Securities

Drilling services revenue to hike thanks to PVD V but still post loss

- In 1H2022, revenue from the drilling segment increased by 157.9% to VND1,736 bn (USD74.5mn). The growth mainly came from the PVD V when the rig started the campaign for Shell Brunei from the end of January this year. However, the drilling segment still recorded a loss of VND 52 bn (USD2.2mn) in gross profit compared to loss of VND 59 bn (USD2.5mn) in the same period last year.

And high financial expense as well as low JV profit hit bottom line

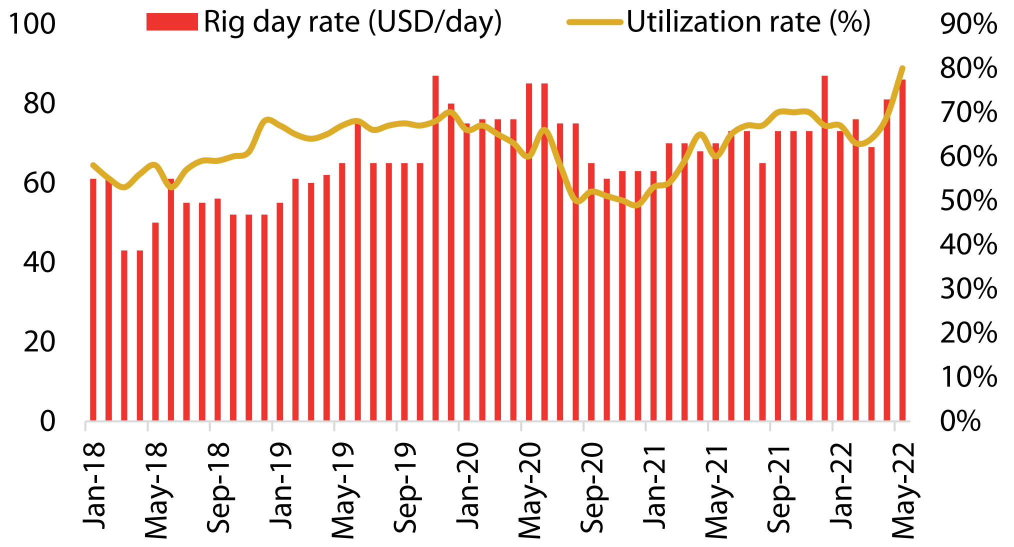
- Despite the strong increase in revenue, we also see higher expenses from G&A and financial activity in 6M2022. In details, PVD booked an additional provision for receivables of Kris Energy and other customers with a total value of VND31 bn (USD1.3mn). Besides, the company also recorded a FX loss of nearly VND67 bn (USD2.8mn).
- JVs profit only post VND9bn (USD0.4mn) compared to VND44bn (USD1.9mn).

Table 1: Drilling schedule in 2022

	Contract
PVD I	+ Vietsovpetro: 1/1/2022 to 4/7/2022. + Vietsovpetro: 20/7/2022 till the end of 2022.
PVD II	+ Vietsovpetro: 19/3/2022 till 30/6/2022. + Premier Oil (Indonesia): 10/7/2022 to 14/10/2022. + Hoang Long Hoang Vu: 22/10/2022 till the end of 2022.
PVD III	+ Repsol Malaysia: full 2022.
PVD VI	+ ENI: 1/4/2022 to 2/7/2022. + POVO: 16/07/2022 to 15/10/2022 (option to extend 1 month). + Cửu Long JOC: 26/11/2022 till the end of 2022.
PVD V (TAD)	+ BSP: 28/1/2022 till the end of 2022.
PVD 11	+ GBRS: 1/1/2022 to 5/10/2022.
Hakuryu 11 (hired rig)	+ Idenmitsu: 1/1/2022 to 25/7/2022

Source: PVD

Figure 3: Rig day rate and Utilization rate in Southeast Asia



Source: IHS

2H profit is projected to be positive

- We expect PVD's business to improve in the remainder of this year thanks to higher utilization rates and there is no longer unusual expenses as in 1H2022.
- With drilling activities, revenue is guaranteed by the full drilling schedules. In addition, PVD is likely not to record additional expenses which help the drilling segment's gross profit margin improve. With financial expenses, the exchange rate is likely to soften compared to the strong increase in 2Q2022 which will lower financial expenses in the second half of the year compared to the first half. For G&A expenses, we expect that PVD will not book any additional provisions.
- For 2022, we forecast that revenue and NPATMI will reach VND 5,214 bn (USD223.7mn) (31.2% YoY) and loss VND 90 bn (loss USD3.8mn) respectively. Or NPATMI will post profit of VND 26 bn (USD1.1mn) in 2H2022.

Day rate can be better in 2023

- Looking at 2023, we see that the regional rig day rate is staying at high level compared to PVD's average 2022 day rate (approximately USD60,000/day). Therefore, PVD can be expected to win new contracts at better prices than the current ones in 2023.

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