September, 2019

PV DRILLING & WELL SERVICES CORP (HSX: PVD)

Keep improving

(VND bn)	*2Q-FY19*	*1Q-FY19*	*+/- qoq*	*2Q-FY18*	*+/- yoy*
Net revenue	1,004	910	10.3%	1,620	-38.0%
PAT	109	-87	N/A	-68	N/A
EBIT	40	-70	N/A	-72	N/A
EBIT margin	4.0%	N/A	N/A	N/A	N/A

Source: PVD, Rong Viet Securities

2Q 2019 results – Positive gross profit from drilling services

- In 1Q2019, the drilling activities was affected due to the two month "warm stacked" mode from PVD II. However, the working days improvement of PVD II helped revenue rise to VND494 bn (+5.9% QoQ and +26.7% YoY) while the gross profit of the drilling segment turned positive to VND54 bn from a loss VND33bn in the first quarter and a loss of VND96 bn in 2Q2018.
- In 2Q2019, PVD recorded VND29 bn from JVs and VND60 bn from other associates while the company continued to book provision of VND25bn from PVEP.
- Overall, revenue decreased by 38% to VND1,004 bn. The gross margin strongly improved from 3.1% to 15.2% which helped triple the gross profit to VND152 bn. As a result, the attributable net profit came at VND109 bn, compared to a loss of VND68 bn in the same period last year.

FY2019 outlook – Jack Up (JU) day rate on the way up

The JU rig day rate is up, especially since June. 2019 average day rate for PVD is likely to increase by 10% YoY. Because of the extension of depreciation time in PVD II, III, VI that began in 2018 and full year jobs, we believe that the drilling segment will be better than last year and may reach the break even point from 2020.

In the well services segment, there will be a fall in revenue due to a longer than expected time for operations in foreign market. However, profits will be posted but should be lower than 2018 number.

For 2019, we project that revenue and net profit for the parent company will come in at VND 4,321 bn (-21.5% YoY) and a loss of VND 24 bn, respectively. But we are quite sure that PVD will use the Science and Technology Development Fund - around VND238bn, to keep the 2019 bottom line positive.

Valuation and recommendation

Long term contracts, including potential ones in Brunei for PVD V in 2020, will secure jobs for the drilling rigs. Profitability may not be as expected especially for PVD V while the Jack Up rigs are expected to reach the break even point next year. In our opinion, we think that PVD is getting over the most difficult time and improving its results.

*Based on the P/B method, we come up with a **ACUMMULATE** recommendation on PVD with the target price of **VND21,060** per share, equivalent to a total return of **16%**, as of the closing price in **September 23rd, 2019**.*

ACUMMULATE +16%

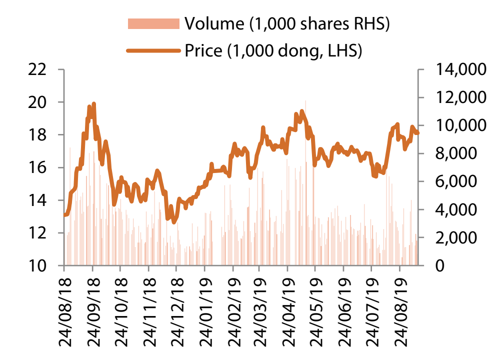
Target price (VND)	21,060
Current market price (VND)	18,100
Cash dividend (VND)*	0

** Expected in the next 12 months*

Stock Info	
Sector	Oil&Gas
Market Cap (VND billion)	5,589
Current Shares O/S	421.1
Avg. Daily Volume (in 20 sessions)	2,726,890
Free float (%)	49.4
52 weeks High	19,909
52 weeks Low	12,636
Beta	1.77

	FY2018	Current
EPS	396	1,233
EPS Growth (%)	435.1	N/A
Diluted EPS	396	1,233
P/E	36.9	14.7
P/B	0.4	0.6
EV/EBITDA	8.9	11.8
Cash dividend yield (%)	0	0
ROE (%)	0.9	3.8

Price performance



Major Shareholders (%)	
PVN	51.4
Foreign ownership room (%)	26.36

Vu Tran

(084) 028 - 6299 2006 – Ext 1518

vu.thx@vdsc.com.vn

Exhibit 1: 2Q2019 Results

Particulars (VND B)	2Q-FY19	1Q-FY18	+/-(QoQ)	2Q-FY19	+/-(YoY)	YTD-FY19	+/-(YoY)
Net revenue	1,004	910	10.4%	1,620	-38.0%	1,914	-29.8%
Gross profit	152	51	198.2%	50	205.5%	203	3.751.2%
SG&A	112	121	-7.2%	122	-7.9%	233	-20.6%
Operating income	40	-70	N/A	-72	N/A	-30	N/A
EBITDA	187	76	145.2%	146	28.0%	264	116.5%
EBIT	40	-70	N/A	-72	N/A	-30	N/A
Financial expenses	75	51	48.5%	64	18.0%	126	-1.5%
- Interest Expenses	41	42	-3.3%	42	-4.0%	83	-3.9%
Dep. and amortization	147	146	0.7%	218	-32.5%	294	-28.4%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	111	-85	N/A	-78	N/A	26	N/A
PAT	109	-87	N/A	-68	N/A	22	N/A
(*) Adjusted PAT	109	-87	N/A	-68	N/A	22	

Source: PVD, Rong Viet Securities

Exhibit 2: 2Q2019 Performance Analysis

Particulars	2Q-FY19	1Q-FY19	*+/-(qoq)*	2Q-FY18	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	15.2	5.6	955bps	3.1	1,209bps
EBITDA Margin	18.7	8.4	1,026bps	9.0	963bps
EBIT Margin	4.0	N/A	N/A	N/A	N/A
Net Margin	10.8	N/A	N/A	N/A	N/A
Adjusted Net Margin	10.8	N/A	N/A	N/A	N/A
Turnover *(x)					
-Inventories	4.7	4.7	0.0	8.4	-3.7
-Receivables	2.8	2.4	0.4	3.5	-0.7
-Payables	2.3	2.0	0.3	3.1	-0.7
Leverage (%)					
Total Debt/ Equity	17.8	17.7	7bps	24.0	-625bps

Source: Rong Viet Securities

Exhibit 3: 2H2019 Performance Forecast

Particulars (VND Bn)	3Q-FY19	+/- qoq	+/- yoy
Revenue	1,090	8.6%	-18.2%
Gross profit	134	-11.9%	77.5%
EBIT	-9	N/A	N/A
NPAT	-17	N/A	N/A

Source: PVD, Rong Viet Securities

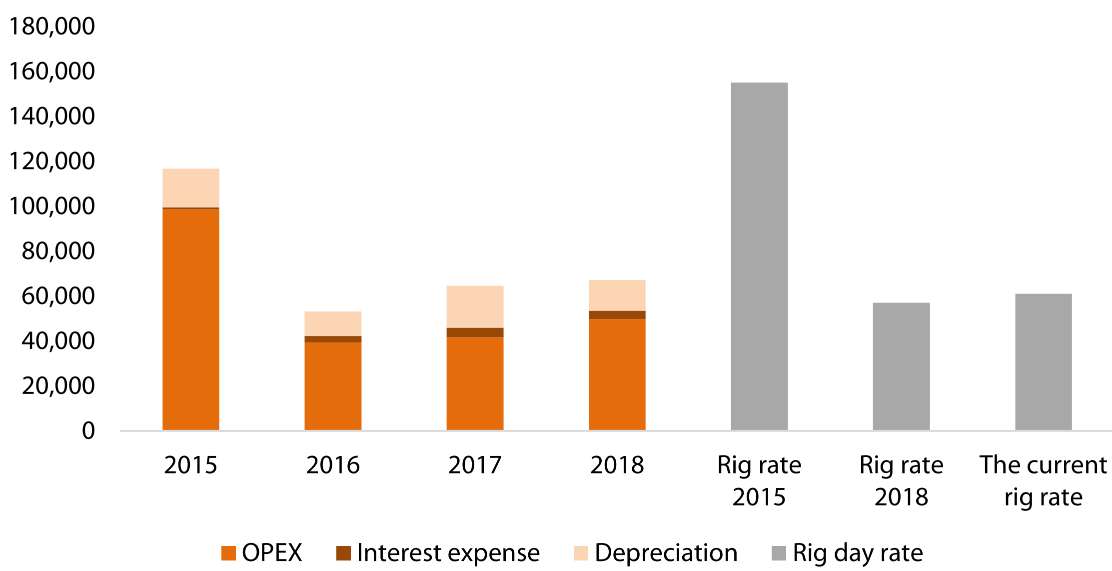
Update

Jack Up rig day rates rose in July.

From October 2018, the utilization rate of JU rig in SEA region (South East Asia) has been staying above 60% and now is fluctuating around 65%, showing a stable demand for JU rigs in the region. This is seen as a positive point for drilling companies as the stable demand is supporting the rig day rate, which is at USD 65,000 per day, 18% higher than the 2018 average.

For PVD, most of its Jack Up rigs are now operating in foreign markets under long term contracts. So the day rate is fixed and competitive. As a result, the 2019 average day rate of PVD is estimated at USD 59,000, lower than the current level in the SEA region. With the belief of improvement in Jack Up rig demand, we think that PVD would enjoy a better rate in 2020 as some contracts are renewed. The core business can post profit with the Jack Up rig's break-even point of USD 62,000 per day.

Figure 1: Jack Up rig expenses (Unit: USD/day)



Source: Rong Viet Securities

In term of jobs, we expect that the Jack Up fleet will continue to receive a stable workload thanks to (1) E&P (Exploration&Production), activity is bright and (2) PVD's Jack Up rigs have seen competitiveness improve after applying new a depreciation method – see this. Since 2017, PVD has been busy with full time job for its various fleets.

However, we are concerned about the drilling rig oversupply in the region, which has held the utilization rate at around 65% despite the increase in the oil price from late 2015. Currently, there are 74 Jack Up rigs in SEA (including 14 rigs under-construction). There are 37 rigs in working mode, 16 rigs in warm stacked mode and the rest in cold stacked mode. If the E&P activities slow down, there will be more competition and would put pressure on the rig day rate. But we think that the probability is quite low thanks to the positive oil price forecast.

Table 1: Jack Up contracts in 2019

Rig	Contract	Operating day
PVD I	+ VSP: 1/1/2019 to 25/2/2019 + Murphy oil: 4/3/2019 to 30/4/2019 + Hibiscus (Malaysia): 24/5/2019 to 31/12/2019	336 days
PVD II	+ Sapura (Malaysia): 7/3/2019 to 21/7/2019 + JVPC: 4/8/2019 to 27/10/2019 + Petronas: 10/11/2019 to 31/12/2019	274 days
PVD III	+ Repsol: 1/1/2019 to 31/3/2020	350 days
PVD VI	+ VSP: 1/1/2019 to 12/4/2019 + ENI: 1/5/2019 to 24/7/2019 + Sapura (Malaysia): 7/8/2019 to 3/2020	334 days
PVD 11	+ Only operating in 3Q2019	27 days
Hired Rigs	+ Idenmitsu: Rent Hakyryu 11 from JDC in 4Q2019 for Sao Vang Dai Nguyet Project	92 days

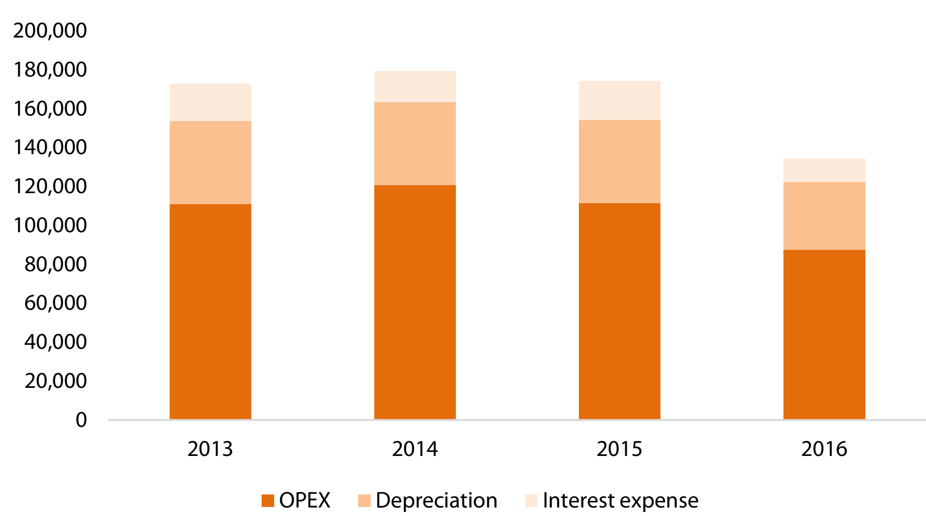
Source: PVD

PVD V is likely to win a long-term contract in Brunei next year.

The company is expecting to deliver PVD V to Brunei, basing on a 6 year - contract and a 4-year expansion (option). PVD can operate for 10 years, starting from 2020. In terms of profit, whether PVD V can post profit or not, will depend on the management as the preliminary day rate is around USD 80,000 – USD 90,000, lower than the break-even point of the rigs in 2013-2016.

Regarding to cash flow, the long-term contract for PVD V will generate the cash flow to pay its debt and maintenance costs. Hence cash flow improvement is the main positive if PVD V secures the job.

Figure 2: The break-even point of PVD V in 2013-2016 (Unit: USD/day)



Source: Rong Viet Securities

PVEP receivables

Until now, PVD has booked provision 94% of PVEP's receivables. In the worst-case scenario, the remainder will be booked in the last 6 months, equivalent to VND15 bn. However, the BOD expects that the company could eventually collect VND100 bn. PVD can revert VND85 bn in 2H2019 or VND 12 bn for all 2019.

Forecast and valuation

In 2019, PVD is forecast to post loss from the core business. However, the provision reversal, a better profit from JVs as well as other profit helps PBT post only a loss of VND74 bn in 2019, lower than the loss of VND101 bn last year (excluding the provision reversal from PVEP's receivables and Science and Technology Development Fund).

In term of valuation, we apply the P/B method with the book value of VND32,401 in 2Q2019 and P/B ratio of 0.65x, we arrive at a target price of VND21,060 per share.

Comparison between PVD's fleets with other peers

Table 2: PVD I comparison

Rig	Rig manager	Depth (m)	Operation year	Mode	Value (USD mn)
Al – Khor	Gulf Drilling International	300	2006	Drilling	54-63
Al – Zubarah	Gulf Drilling International	300	2008	Drilling	62-73
ArabDrill 30	Arabian Drilling	300	2006	Warm Stacked	52-61
PV Drilling I	PV Drilling	300	2007	Drilling	58-68
Average					*56-66*

Table 3: PVD II and III comparison

Rig	Rig manager	Depth (m)	Operation year	Mode	Value (USD mn)
COSLBoss	COSL	400	2008	Drilling	67-77
COSLStrike	COSL	400	2009	Drilling	74-85
Petro Godovanates	Chernomorneftegaz	400	2010	Warm Stacked	73-84
PV Drilling II	PV Drilling	400	2009	Drilling	70-80
PV Drilling III	PV Drilling	400	2009	Drilling	74-85
West Ariel	Seadrill	400	2008	Warm Stacked	67-77
West Callisto	Seadrill	400	2010	Drilling	76-87
Average					*71-82*

Table 4: PVD VI comparison

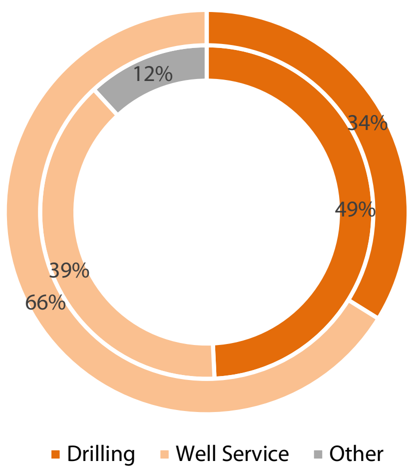
Rig	Rig manager	Depth (m)	Operation year	Mode	Value (USD mn)
ArabDrill 70	Arabian Drilling	400	2015	Drilling	98-109
Cantarell I	Grupo R	400	2016	Drilling	102-113
Cantarell II	Grupo R	400	2016	Drilling	102-113
Kukulkan	PEMEX	400	2015	Drilling	98-109
Naga 5	Velesto Energy	400	2014	Drilling	97-107
Naga 8	Velesto Energy	400	2015	Drilling	101-112
PV Drilling VI	PV Drilling	400	2015	Drilling	98-108
Uxpanapa	Marinsa	400	2016	Drilling	99-110
Average					*99-110*

Table 5: PVD V comparison

Rig	Rig manager	Depth (m)	Operation year	Mode	Value (USD mn)
Lone Star	Constellation	7.880	2010	Warm Stacked	89-100
Norbe VI	Ocyan	7.874	2010	Warm Stacked	90-102
ODN Delba III	Ocyan	7.874	2011	Warm Stacked	91-103
SS Amazonia	ICBC	7.874	2011	Cold Stacked	98-108
SS Pantanal	ICBC	7.874	2010	Cold Stacked	97-107
West Eclipse	Seadrill	7.500	2011	Cold Stacked	98-108
Average					*94-104*

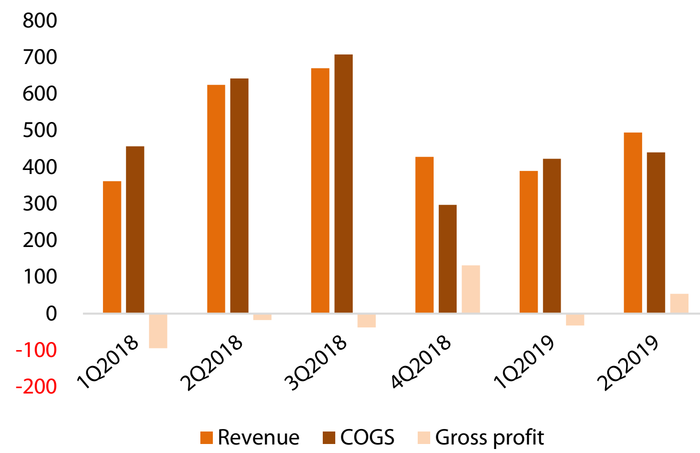
Source: Rong Viet securities

Figure 1: Revenue (inner) and gross profit (outer) proportion in 2Q2019



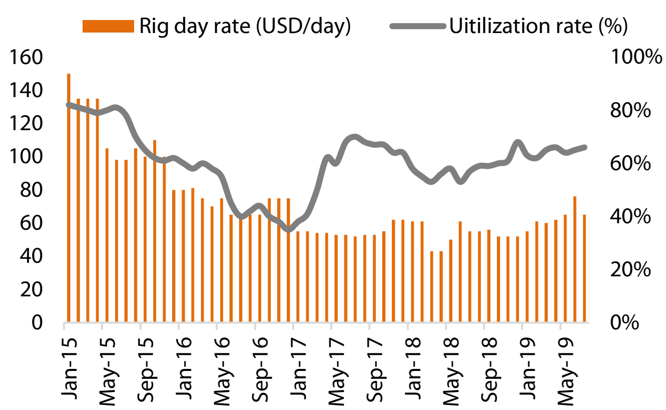
Source: PVD

Figure 2: Drilling Segment Results (Unit: VND bn)



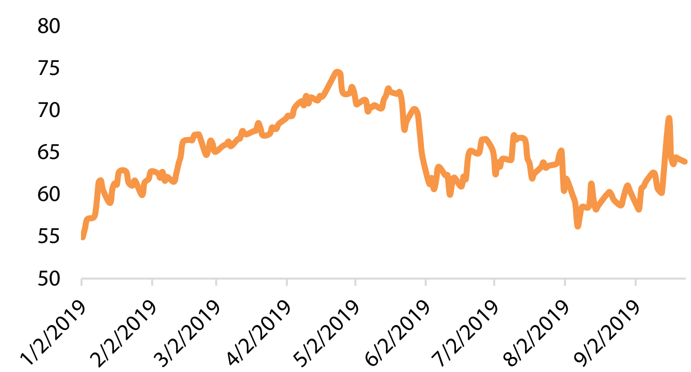
Source: PVD

Figure 3: Jack Up day rate (LHS) and utilization rate (RHS)



Source: Rong Viet Securities complied

Figure 4: YTD Brent price (Unit: USD/barrel)



Source: Bloomberg

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	**3,902**	**5,503**	**4,321**	**6,565**
COGS	3,720	5,108	3,979	6,065
Gross profit	**182**	**395**	**342**	**500**
Selling expense	19	13	16	24
G&A expense	567	295	403	398
Financial income	187	190	114	154
Financial expense	268	257	239	249
Other income/loss	623	140	60	10
Gain/(loss) from JV	7	0	80	40
PBT	**146**	**161**	**-62**	**33**
Tax expense	134	61	0	7
Minority interests	-14	-24	-24	-10
PAT	**26**	**124**	**-38**	**36**
EBIT	-403	87	-76	77
EBITDA	385	696	582	1,142

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	-27.2	41.0	-21.5	51.9
Operating Income	-56.6	80.6	N/A	N/A
EBITDA	-350.1	-121.6	N/A	N/A
PAT	-79.8	374.9	N/A	N/A
Total Assets	-5.8	-3.6	3.1	-0.2
Equity	-0.1	3.0	2.3	0.3
Profitability (%)				
Gross margin	4.7	7.2	7.9	7.6
EBITDA margin	9.9	12.6	13.5	17.4
EBIT margin	N/A	1.6	N/A	1.2
Net margin	0.7	2.3	N/A	0.6
ROA	0.1	0.6	N/A	0.2
ROE	0.2	0.9	N/A	0.3
Efficiency (x)				
Receivable Turnover	2.5	3.4	2.8	3.7
Inventory Turnover	5.0	6.8	5.2	7.3
Payable Turnover	1.5	2.2	1.4	2.2
Liquidity (x)				
Current	1.7	2.1	2.2	2.5
Quick	1.5	1.9	2.0	2.2
Finance Structure (%)				
Total Debt/Equity	35.4	28.3	26.4	26.0
Current Debt/Equity	10.2	2.7	2.0	2.6
Long-term Debt/Equity	25.2	25.6	24.4	23.3

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	1,803	2,267	3,477	3,955
Short term investment	2,148	1,010	1,010	1,010
Accounts receivable	1,555	1,613	1,539	1,799
Inventories	747	755	763	831
Other current assets	35	26	28	29
Tangible fixed assets	14,685	14,355	13,855	12,998
Intangible fixed assets	173	171	164	157
Long term investment	560	681	681	681
Other non-current assets	89	124	130	136
Total asset	**21,796**	**21,002**	**21,647**	**21,595**
Account payable	2,431	2,288	2,786	2,729
Short term borrowings	1,343	362	284	364
Long term borrowings	3,330	3,477	3,386	3,250
Other non-current liabilities	664	664	697	732
Bonus and welfare fund	120	127	127	127
Technology -science dev fund	459	244	244	244
Total liabilities	**8,346**	**7,162**	**7,523**	**7,445**
Common stock and APIC	6,267	6,267	6,650	6,650
Treasury stock	-21	-21	-21	-21
Retained earnings	3,926	4,066	3,990	4,025
Other comprehensive income / (loss)	1,449	1,683	1,683	1,683
Investment and development fund	1,569	1,589	1,589	1,589
Total equity	**13,189**	**13,583**	**13,890**	**13,926**
Minority interest	261	258	234	224
Total resources	**21,796**	**21,002**	**21,647**	**21,595**

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	74	396	N/A	85
P/E (x)	315.5	36.9	N/A	213.3
BV (dong)	34,413	35,440	32,947	33,032
P/B (x)	0.7	0.4	0.5	0.5
DPS (dong/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	21,060	100%	21,060
Target price (VND)			**21,060**

VALUATION HISTORY	Price	Recommendation*
06/10/2017	13,980*	ACUMMULATE

Adjusted price

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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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Deputy Manager
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Market Strategy

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Steel
- Construction

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Vy Nguyen
Analyst
vy.ntk@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Automobile & Parts

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)
- Market Strategy

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1283)
- Natural Rubber
- Agriculture

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

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