RONGVIET SECURITIES

April 2017

PetroVietnam Technical Services Corporation (PVS – HNX)

Positive Prospects from Energy Projects

Particulars (VND bn)	Q4-FY16	Q3-FY16	+/- QoQ	Q4-FY15	+/-YoY
Net revenue	4,802	4,772	1%	4,039	19%
PAT	171	125	38%	241	-29%
EBIT	(158)	(7)	2182%	121	-231%
EBIT margin	-3.3%	-0.1%	-3%	3.0%	-6%

Sources: PVS, RongViet Research

2016 Gloomy Picture: The company's revenue and profit after tax was VND18,682 billion (-20% YoY) and VND1,039 billion (-32% YoY) respectively. The negative growth rates came from the decline in its contract values for the technical construction segment. This resulted in the company's gross profit margin reaching 4.2%, down from 9.3% in 2015. The margin from its M&C segment was -3%. while other segments also experienced a decline in growth, especially the marine segment (-53% YoY) and Seaports (-33% YoY). The survey segment recorded a significant loss of VND249 billion due to its low contract value and high depreciation and maintenance costs.

Searching for Hope in its Energy Projects

During 2017, the company will heavily depend on on-shore projects for its M&C segment. Some of the major projects in this segment include Long Son and Long Phu 1. RongViet Research projects that the contribution from these projects will be around VND600 billion/project, and that these projects will be initiated in early H2 2017. The main projects this year are NH3/NPK, GPP Ca Mau and Su Tu Trang. We also expect for the company's gross profit margin to improve, as its contract value will increase due to oil prices remaining above USD50/barrel over the last few quarters.

Other Segments: Seaports will start to recover this year, but this will occur at a slow pace. General ports will experience quicker recovery, and will account for 75% of the revenue of this segment. FSO/FPSO will continue to bring stable revenue of VND3,000 billion/year due to fixed contracts. Meanwhile, the survey segment will record a loss. However, this issue will not be as serious as last year, with approximately VND -151 billion in gross profit. In 2017, PVS plans to achieve VND13,000 billion (-30% YoY) in revenue and VND410 billion (-67% YoY) in profit before tax. The base case for this is that oil prices will average at USD50/barrel. The major risks at this moment for PVS are (1) the unexpected drop in oil prices and (2) provision for the receivables, especially from Cuu Long JOC (increased by ~VND 600 billion in 2016) or Lam Son and Bien Dong POC (VND 800 billion).

Recommendation and Valuation: We project that PVS's revenue and profit after tax will reach VND18,534 billion (-0.8% YoY) and VND856 billion (-17.6% YoY) respectively. We forecast that its 2017 EPS will be VND1,900/share, equivalent to a forward P/E of 9.3x. RongViet Research believes that 2017 will not be very positive, although it could be a turning point for a long term recovery. Therefore, this is the appropriate time for investors to follow and accumulate the stock in order to be prepositioned for positive events occurring during H2 2017. As a result, RongViet Research recommends investors to **ACCUMULATE** PVS's stock in the **LONG-TERM** with a target price of **VND 21,900/share**.

ACCUMULATE

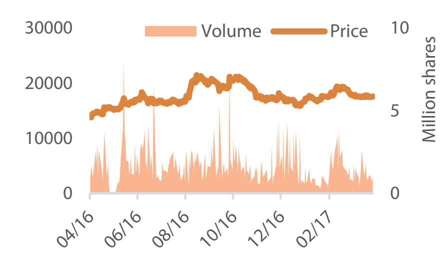
CMP (VND)	17,700
Target Price (VND)	21,900
Investment Period	Long-term

Stock Info

Sector	Oil & Gas
Market Cap (VND bn)	7,862
Current Shares O/S	446.7
Beta	1.8
Free float (%)	18
52 week High	21,500
52 week Low	13,800
Avg. Daily Volume (20 sessions)	1,167,932

	FY15	FY16
EPS	3,397	2,122
EPS Growth	-23.1%	-27.2%
Diluted EPS	3,397	2,122
P/E	4.5	7.7
P/B	0.6	0.6
EV/EBITDA	2.1	2.1
Cash dividend (on par)	7.9%	7.3%
ROE	13.3%	8.8%

Price performance



Major Shareholders (%)

PVN	51.38
Dragon Capital	8.03
Vietnam Investment Property Holdings Ltd	3.88
Market Vectors Vietnam ETF	3.87
Foreign Investor Room (%)	21.26

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Exhibit 1: Q4 FY2016 and YTD Results

Particulars (VND bn)	**Q4 FY16**	**Q3 FY16**	***% chg (QoQ)***	**Q4 FY15**	***% chg (YoY)***	**FY2016**	***% chg (YoY)***
Net Revenue	4,802	4,772	0.6%	4,039	18.9%	18,682	-20.0%
Gross profit	17	195	-91.5%	459	-96.4%	783	-64.0%
SG&AC	(90)	(164)	-45.0%	(273)	-67.0%	(632)	-36.5%
Operating Income	106	359	-70.3%	731	-85.4%	964	-50.1%
EBITDA	42	206	-79.7%	318	-86.8%	1,021	-51.0%
EBIT	(158)	(7)	2182.4%	121	-230.5%	151	-87.2%
Financial expenses	50	24	105.5%	114	-56.2%	160	-57.7%
- Interest Expenses	12	13	-4.7%	17	-26.9%	56	-21.29%
Dep. and amortization	200	213	-6.2%	197	1.5%	871	-3.68%
Non-recurring Items (*)							
Extraordinary Items (*)							
PBT	239	148	60.9%	299	-20.2%	1,256	-37.7%
PAT	171	125	37.5%	241	-28.8%	910	-39.1%
(*) Adjusted PAT	171	125	37.5%	241	-28.8%	910	-39.1%

Sources: PVS, RongViet Research

Exhibit 2: Q4 FY2016 Performance Analysis

Particulars	Q4 FY16	Q3 FY16	*% Chg. (QoQ)*	4QFY15	*% Chg.(YoY)*
Profitability Ratios (%)					
Gross Margin	0.3%	4.1%	-3.7%	11.4%	-11.0%
EBITDA Margin	0.9%	4.3%	-3.4%	7.9%	-7.0%
EBIT Margin	-3.3%	-0.1%	-3.1%	3.0%	-6.3%
Net Margin	3.6%	2.6%	1.0%	6.0%	-2.4%
Adjusted Net Margin	3.6%	2.6%	1.0%	6.0%	-2.4%
Turnover *(x)					
-Inventories	13	15	-2.0	14	-1.1
-Receivables	3.1	3.1	0.0	2.5	0.7
-Payables	2	2	0.1	2	0.6
Leverage (%)					
Total Debt/ Equity	82.9%	82.0%	0.9%	84.9%	-2.0%

Sources: (*) Annualized turnover

Exhibit 3: 1QFY2016 Forecast

Particulars (VND bn)	Q1 FY17	%chg (qoq)	%chg (yoy)
Net Revenue	3,500	-27%	-54%
Gross profit	180	986%	-77%
EBIT	50	-132%	-91%
PAT	150	-12%	-73%

Sources: PVS, RongViet Research

Updated Information

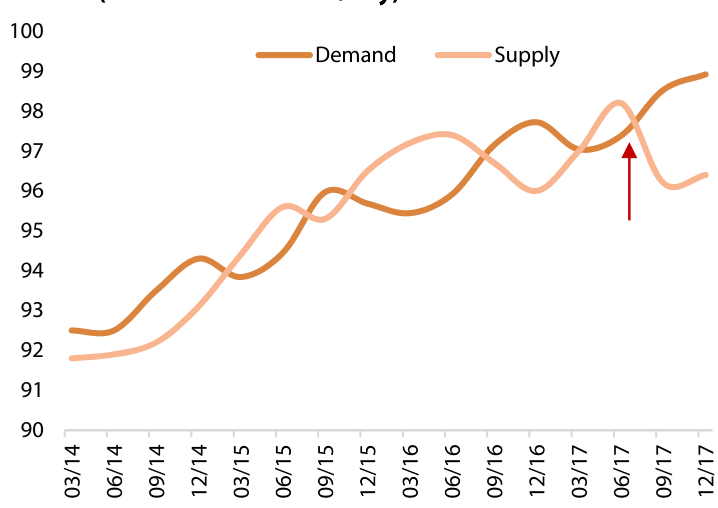
Oil Price Prospects in 2017: Rong Viet Research forecasts that the price of oil will average at USD 57/barrel, increasing by 27% compared to 2016. This projection came from the assumption that oil demand will exceed supply during H2 2017 and that the crude market will take its first steps in becoming balanced.

According to EIA's estimates, the global crude inventory will increase by 0.1 million barrel/day in 2017 and it will take 2 years for the market to reach an equilibrium level. Recent actions from OPEC also improve the prospects for the oil & gas sector, when the output cut agreement could be prolonged after Q2 2017. At this moment, participants of the agreements reached 86% of the target to cut 1.8 million barrels/day (OPEC agreed to cut 1.2 million barrels/day, the rest will be from non-OPEC countries). Specifically, countries in OPEC demonstrated the highest commitment, at 90% of the plan. However, this also illustrates the inconsistency and difficulty in terms of seeking common ground among oil exporting countries, such as Russia. Accordingly, Russia and 10 other countries (excluding US) only achieved 60 – 66% of the plan. To be more specific, Russia only cut production by 100,000 barrels/day, while agreeing to slash its output by 300,000 barrels/day. In addition to this, statistics about US production and inventory have put pressure on the prospects of the entire industry. US total crude output was 9.1 million barrels/day in early March of 2017, equivalent to the same period last year, after the continuous decline to 8.4 million barrels/day in August of 2016. Moreover, oil rigs have been put into operation since Q1 2017, and have increased from 400 rigs in June 2016 to over 760 rigs at present.

Even though there is existing risk from US crude oil, RongViet Research believes that it will only bring limited impacts on the fundamental aspects of the industry in the short and intermediate run. Accordingly, US crude oil is light sweet crude oil, while products from Middle Eastern (countries in OPEC) are relatively heavier. Moreover, US still requires a large amount of heavy oil. Therefore, it will take time for the market to shift to consume US crude oil. Moreover, after a long time of export bans, US producers need to develop the customer base, which partially reduces the immediate impacts on the supply side. Furthermore, OPEC is also demonstrating its willingness to be the leader in the market again after aggressively cutting the supply.

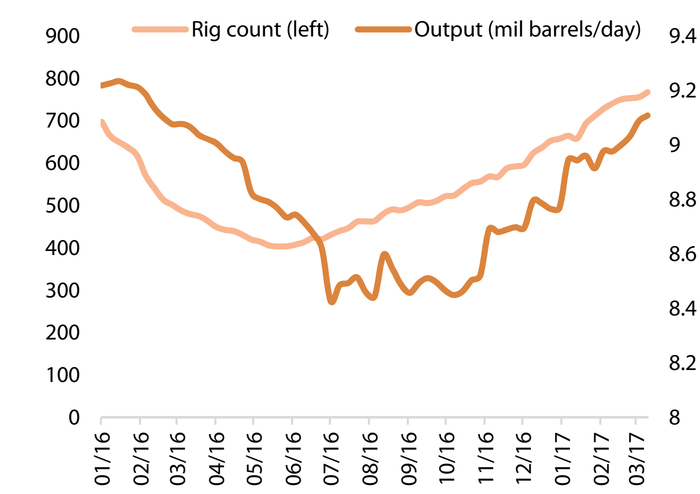
We expect that Q3 2017 will be a period of recovery for oil prices under the situation that OPEC and non-OPEC countries will maintain the output agreement. Accordingly, until the end of 2017, the supply will reach 96 million barrels/day, while demand will rise to 98.9 million barrels/day. The excess demand will compensate for the strong recovery of OPEC and US. Therefore, it will take 2 years as mentioned above for the market to reach an equilibrium point. Meanwhile, RongViet Research believes that oil prices will continue to recover in the long term.

Figure 1: Supply & Demand Balance for the Global Oil Market in 2017 (unit: million barrels/day)



Source: Bloomberg, RongViet Research

Figure 2: Continuously Increasing the Number of Crude Output and Drilling Rigs from US



Source: Bloomberg, RongViet Research

Table 4: The Consensus of Oil Prices from Major Institutions for 2017

	Q1 17	Q2 17	Q3 17	Q4 17	2017
Citigroup Inc	55	56	60	65	57
Deutsche Bank AG	55.75	55	57	57	56.19
Itau Unibanco Holding SA	56.26	55.94	55.11	54.28	55.4
Intesa Sanpaolo SpA	54.5	54	54	55	54.4
Capital Economics Ltd	54.5	54	56.5	59	56
Danske Bank A/S	55	55	57	59	-
Brent	**54.90**	**55.38**	**56.76**	**57.90**	**56.02**

Source: Bloomberg, RongViet Research

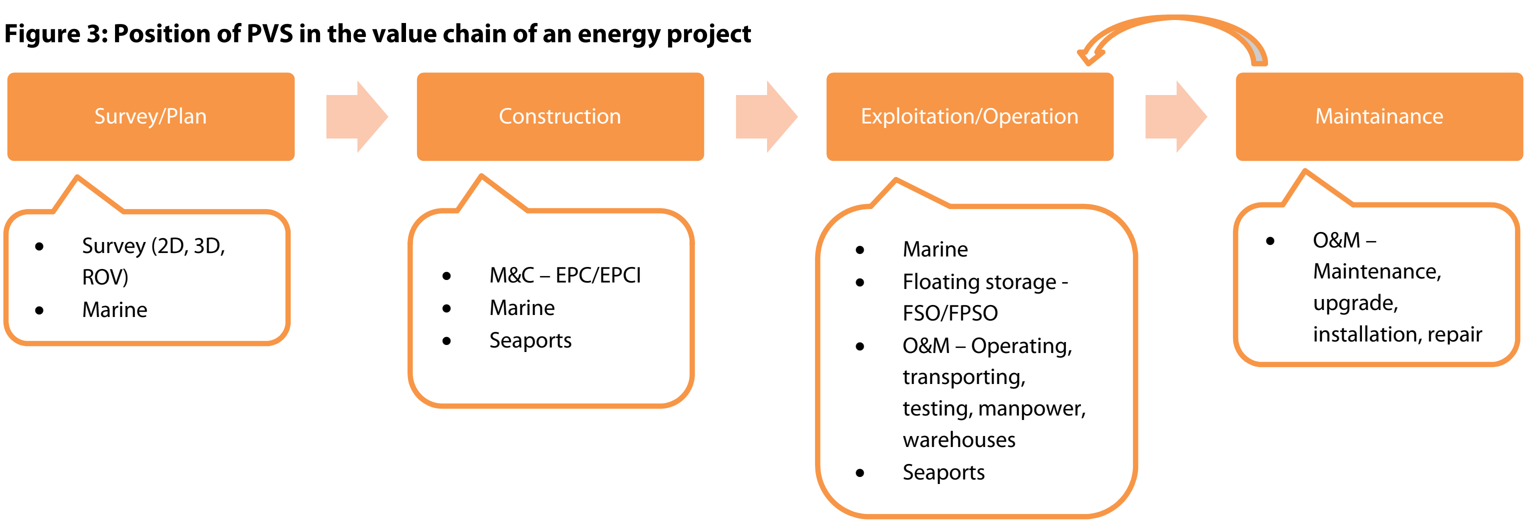
Table 5: Basic information about the current and potential projects from PVS

This table provides basic information such as the timeline and contract value of PVS in terms of the construction segment. Revenue recognition has been estimated by RongViet Research based on the schedule and initiation time. Exchange rate: 22,500VND/USD.

Projects (million USD)	Timeline		Value	2016	2017	2018	2019	2020	2021
Total				**9,258**	**9,052**	**10,734**	**14,339**	**14,389**	**16,169**
Off-shore				**2,898**	**3,255**	**4,935**	**8,194**	**9,480**	**11,761**
Ghana OTCP Dev - FPSO	2015	2017	2,500	529	791	-	-	-	-
White Lion Full Field Development	2017	2017	3,500	1,725	837	-	-	-	-
Daman	2016	2016	900	644	-	-	-	-	-
Ca Rong Do	2017	2020	11,250	-	1,628	2,585	2,613	2,640	2,425
Sao Vang - Dai Nguyet	2018	2021	11,250	-	-	2,350	2,969	3,000	3,031
Block B	2020	2025	22,500	-	-	-	1,188	2,400	4,850
Su Tu Trang - Phase 2	2018	2022	5,600	-	-	-	1,425	1,440	1,455
On-shore				**5,612**	**5,534**	**5,288**	**5,463**	**4,224**	**3,638**
Nghi Son - B2	2015	2017	2,400	138	-	-	-	-	-
Ca Mau gas Processing Plant	2015	2017	5,600	2,875	2,627	282	-	-	-
DPM NPK/NH3 Plant	2018	2018	5,600	2,300	2,325	870	-	-	-
Long Phu Thermal Plant	2017	2020	5,600	299	581	2,491	1,900	624	-
Song Hau Thermal Plant	2017	2020	5,600	-	-	-	-	-	-
Long Son Refinery	2019	2024	11,250	-	-	1,645	3,563	3,600	3,638
Others				748	264	511	683	685	770

Source: RongViet Research

Figure 3: Position of PVS in the value chain of an energy project

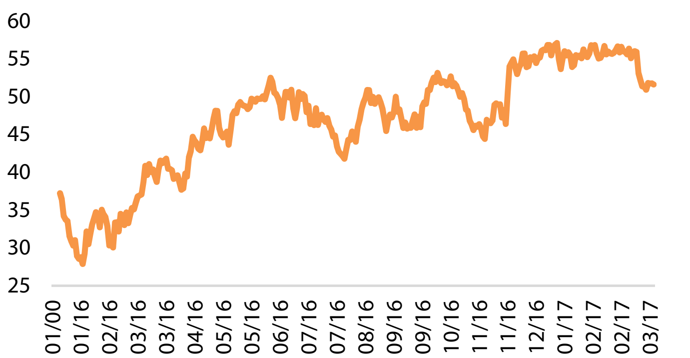


Source: RongViet Research

The survey and marine segments will be the first segments to improve when the oil & gas industry becomes more active. Given the upcoming improvements in service demand in the near future, investors should follow those segments, as they could be a signal for a future recovery. Furthermore, the increase in the number of projects for the construction segment will be the main driving force for other services of the company.

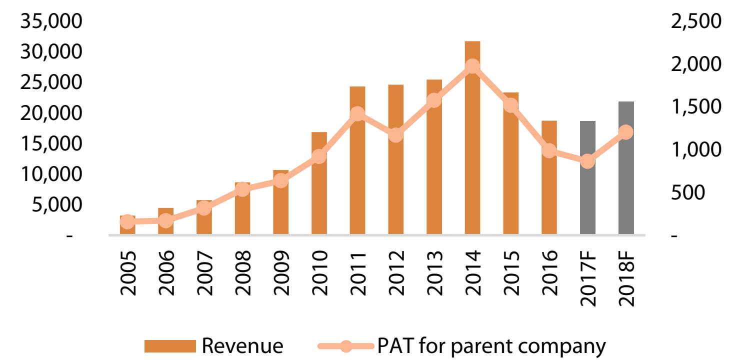
Given the long-term recovery of oil prices, on-shore projects will be gradually replaced by off-shore ones, which will be the main advantage for PVS. Major risks at this moment only comes from the schedule, while PVN and the government are facing difficulties in terms of investment capital. However, with new foreign investors investing in several projects such as Long Son or Long Phu 1, this issue could become less serious.

Brent Movement Since 2016



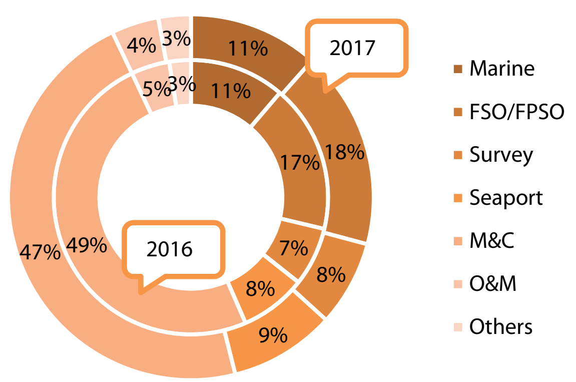
Source: RongViet Research

Forecasts of PVS's Business Results



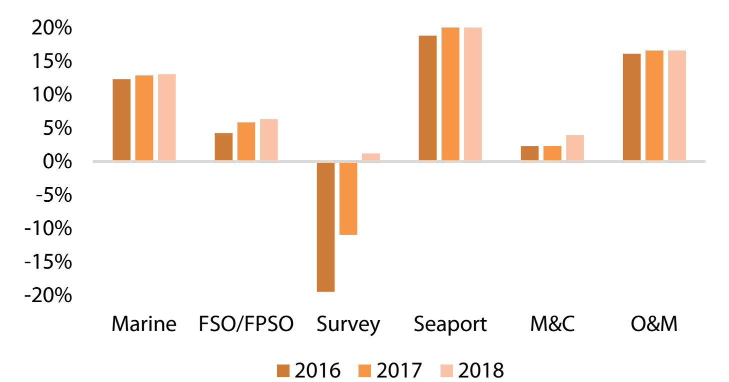
Source: RongViet Research

Revenue Structure



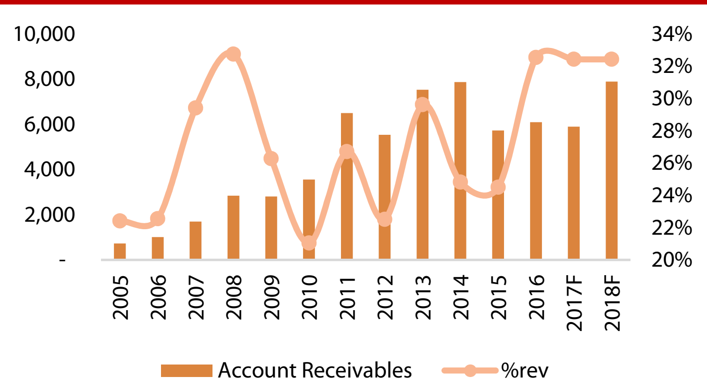
Source: PVS, RongViet Research

Gross Profit Margins for Each Segment



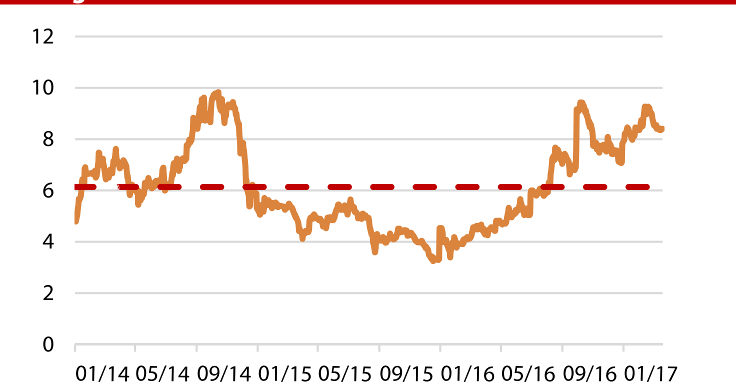
Source: PVS, RongViet Research

Account Receivables and % of Total Revenue



Source: PVS, RongViet Research

Average P/E since 2014



Source: Bloomberg, RongViet Research

VND billion

INCOME STATEMENT	2014	2015	2016F	2017F
Revenue	23,357	18,682	18,534	21,698
COGS	21,182	17,899	17,550	20,153
Gross profit	2,175	783	983	1,545
Selling expenses	99	92	93	108
G&A expenses	896	540	649	759
Financial income	378	306	200	234
Financial expense	378	160	167	179
Other income/loss	82	292	159	110
Gain/(loss) from joint ventures	753	667	508	626
PBT	2,015	1,256	941	1,468
Tax expense	522	346	188	294
Minority interests	-24	-129	-103	-21
PAT	1,517	1,039	856	1,195
EBIT	1,180	151	242	677

%

FINANCIAL RATIO	2014	2015	2016F	2017F
Growth				
Revenue	-26.3%	-20.0%	-0.8%	17.1%
EBITDA	-24.3%	-51.0%	51.2%	34.4%
EBIT	-33.3%	-87.2%	60.7%	179.8%
PAT	-23.2%	-31.5%	-17.6%	39.7%
Total assets	-1.1%	-3.4%	0.4%	10.1%
Total equity	7.8%	0.7%	7.8%	4.2%
Profitability				
Gross margin	9.3%	4.2%	5.3%	7.1%
EBITDA margin	8.9%	5.5%	8.3%	9.6%
EBIT margin	5.1%	0.8%	1.3%	3.1%
Net margin	6.5%	5.6%	4.6%	5.5%
ROA	5.8%	4.1%	3.4%	4.3%
ROCE	7.2%	1.0%	1.4%	3.6%
ROE	14.8%	10.1%	7.7%	10.3%
Efficiency				
Receivables turnover	4.1	3.1	3.1	3.1
Inventories turnover	17.8	10.8	23.5	23.5
Payables turnover	2.4	2.0	2.4	2.4
Liquidity				
Current	1.7	1.6	2.0	1.9
Quick	1.5	1.4	1.9	1.8
Finance Structure				
Total debt/equity	21.9%	15.3%	17.9%	24.4%
ST debt/equity	6.7%	4.2%	4.7%	5.8%
LT debt/equity	15.3%	11.1%	13.2%	18.6%

VND billion

BALANCE SHEET	2014	2015	2016F	2017F
Cash and cash equivalents	7,991	5,884	7,824	8,716
Short-term investments	570	911	273	137
Accounts receivable	5,725	6,125	6,018	7,046
Inventories	1,190	1,651	745	856
Other current assets	524	581	610	640
Property, plant & equipment	4,959	4,459	3,703	3,672
Acquired intangible assets	26	17	12	9
Long-term investments	4,204	4,734	5,241	5,868
Other non-current assets	878	810	850	893
Total assets	**26,067**	**25,171**	**25,278**	**27,836**
Accounts payable	8,895	9,007	7,378	8,473
Short-term borrowings	684	432	519	674
Long-term borrowings	1,563	1,144	1,471	2,160
Other non-current liabilities	3,078	2,840	2,982	3,131
Bonus and Welfare fund	293	304	304	304
Technology-science development fund	48	62	62	62
Total liabilities	**14,562**	**13,789**	**12,715**	**14,803**
Common stock and APIC	4,507	4,507	4,781	4,781
Treasury stock	0	0	0	0
Retained earnings	3,326	3,189	3,701	4,145
Other comprehensive income	0	0	0	0
Investment and Development Fund	2,419	2,626	2,650	2,677
Total equity	**10,251**	**10,322**	**11,132**	**11,602**
Minority Interest	**1,624**	**1,431**	**1,431**	**1,431**

VALUATION RATIO	2014	2015	2016F	2017F
EPS (dong)	3,397	2,122	1,925	2,679
P/E (x)	4.5	7.7	9.1	6.5
BV (dong)	26,584	26,309	24,823	25,897
P/B (x)	0.6	0.6	0.7	0.7
DPS (dong/cp)	1,200	1,200	700	1,200
Dividend yield (%)	7.9	7.3	4.0	6.9

VALUATION MODEL	Price	Weight	Average
P/E	22,600	50%	11,300
P/B	21,200	50%	10,600
Target price (dong/share)			**21,900**

VALUATION HISTORY	Price	Recommendation	Period
04/04/2016	18,000	Accumulate	Intermediate

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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 which 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 / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

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