May, 2018

PetroVietnam Technical Services Corporation (HNX: PVS)

Catalyst from key Oil & Gas projects

Unit: VND Bn	*Q1-FY18*	*Q4-FY17*	*+/- QoQ*	*Q1-FY17*	*+/- YoY*
Net revenue	3,328	5,856	-43.2%	3,375	-1.4%
PAT	253	125	103.2%	256	-0.9%
EBIT	179	(204)	-187.9%	142	26.3%
EBIT margin	5.4%	-3.5%	8.9%	4.2%	1.2%

Source: PVS, Rong Viet Securities

Q1 2018 performance: Stable revenues but lower net profit

After announcing poor results in 2017: 10.4% and 22.9% drop in revenues and net profits respectively, PVS has just released negative numbers in Q1/2018. Revenue was unchanged at VND3,328 Bn but the net profit felt 13.6% YoY to VND297 Bn due to the decreasing from Joint Venture's profit. In our opinion, the profit from FPSO Lam Son has not provided positive results as PVS only signed one new contract in the beginning of April. It will possibly be added to the Q2/2018 result.

2018 Outlook: Not so "bright" but some positive sights

The 2018 outlook was previously expected to be bright thanks to 2 main offshore projects: Sao Vang – Dai Nguyet and Ca Rong Do. However, the unexpected progress from Ca Rong Do has changed the prospect of PVS because this project is likely to be delayed for a long time. At Sao Vang – Dai Nguyet, the phase 1, which may contribute USD160 Mn revenue to the M&C segment, has been kicked off in early 2018. The M&C segment will see falling revenues as there are not many new projects to be recorded. However, the gross margin will improve thanks to the contribution of Sao Vang - Dai Nguyet – an offshore project.

For 2018, some PVS businesses will incur losses such as Seismic, GEO Survey while other ones are suffering from low service prices due to the fierce competition. As a result, Rong Viet Securities believes that 2018 will not be a "bright" year for the company. Overall, we forecast the revenue to decrease by 11.7% to VND14,764 Bn. However, the net profit attributable to the parent company will slightly increase to VND 804 Bn because of a higher profit from the M&C segment.

Valuation and Recommendation

In the long term, oil prices are expected to continue to rise, creating favorable conditions for the key oil & gas projects. Therefore, the company's business is anticipated to benefit from that trend thanks to its leading position in the upstream. The maritime dispute in the South China sea, however, is a risk for the activities of the company.

We have a ***BUY*** *on PVS, based on a valuation of* ***VND22,500*** *per share and VND700 of cash dividend,* ***41%*** *higher than the closing price in 30/5/2018. This target price also includes the discount from the risk that might impact on the company's business. In our opinion the drop in the stock market provides an opportunity for investors to buy this ticker.*

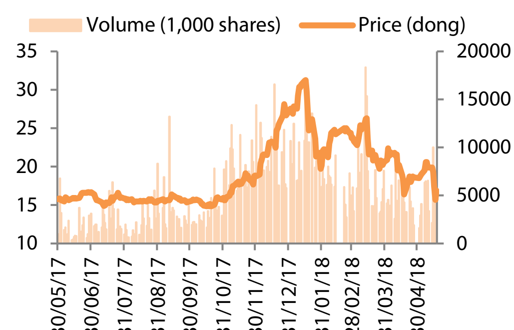
BUY	41%
CMP (VND)	16,500
Target Price (VND)	22,500
Cash Dividend (VND)*	700

** Expected in the next 12 months*

Stock Info	
Sector	Oil & Gas
Market Cap (VND Bn)	7,370
Current Shares O/S	446,700,421
Beta	1.12
Free Float (%)	31.3
52-week High	34,190
52-week Low	14,790
Avg. Daily Volume (20 sessions)	5,387,796

	FY2017	Current
EPS	1,635	1,787
EPS Growth (%)	-23	13.9
Adjusted EPS	1,635	1,787
P/E	9.7	9.2
P/B	0.7	0.6
EV/EBITDA	6.2	4.5
Cash Dividend	700	700
ROE (%)	7.5	6.6

Price performance



Major Shareholders (%)	
PVN	51.4
Vinacapital	6.1
Remaining foreign room (%)	29.9

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Exhibit 1: Q1 2018 Results

(VND bn)	Q1-FY18	Q4-FY17	+/- (QoQ)	Q1-FY17	+/- (YoY)	1Q-FY18	+/-(YoY)
Net revenue	3,328	5,856	-43.2%	3,375	-1.4%	3,328	-1.4%
Gross profit	320	17	1812.1%	287	11.6%	320	11.6%
SG&A	(104)	(165)	-36.9%	(109)	-4.1%	(104)	-2.7%
Operating income	425	182	133.5%	396	7.3%	425	-14.1%
EBITDA	320	(59)	-641.6%	334	-4.1%	320	-4.1%
EBIT	179	(204)	-187.9%	142	26.3%	179	26.3%
Financial expenses	14	23	-37.8%	28	-49.1%	14	-49.1%
- Interest Expenses	7	9	-14.2%	11	-29.3%	7	-29.3%
Dep. and amortization	141	145	-2.8%	192	-26.6%	141	-26.6%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	297	96	209.3%	344	-13.6%	297	-0.9%
PAT	253	125	103.2%	256	-0.9%	253	-13.6%
(*) Adjusted PAT	253	125	103.2%	256	-0.9%	253	

Source: PVS. RongViet Securities

Exhibit 2: Q1 2018 Analysis

Particulars	Q1-FY18	Q4-FY17	+/- (QoQ)	Q1-FY17	+/- (YoY)
Profitability Ratios (%)					
Gross Margin	9.6%	0.3%	9.3%	8.5%	1.1%
EBITDA Margin	9.6%	-1.0%	10.6%	9.9%	-0.3%
EBIT Margin	5.4%	-3.5%	8.9%	4.2%	1.2%
Net Margin	7.6%	2.1%	5.5%	7.6%	0.0%
Adjusted Net Margin	7.6%	2.1%	5.5%	7.6%	0.0%
Turnover *(x)					
-Inventories	31.6	28.7	2.9	8.7	22.9
-Receivables	2.7	4.9	-2.2	2.4	0.3
-Payables	1.9	3.2	-1.3	1.5	0.4
Leverage (%)					
Total Debt/ Equity	53.3%	62.8%	-9.5%	67.8%	-14.4%

Source: PVS

Exhibit 3: H1 2018 Forecast

Particulars (VND Bn)	H1-2018	+/- H2 -2017	+/- H1-2017
Revenue	7,300	-19.3%	5.0%
Gross profit	427	40.4%	37.9%
EBIT	188	58.0%	44.1%
NPAT	379	-61.1%	33.0%

Source: PVS. RongViet Securities

Updates:

Ground breaking Sao Vang Dai Nguyet

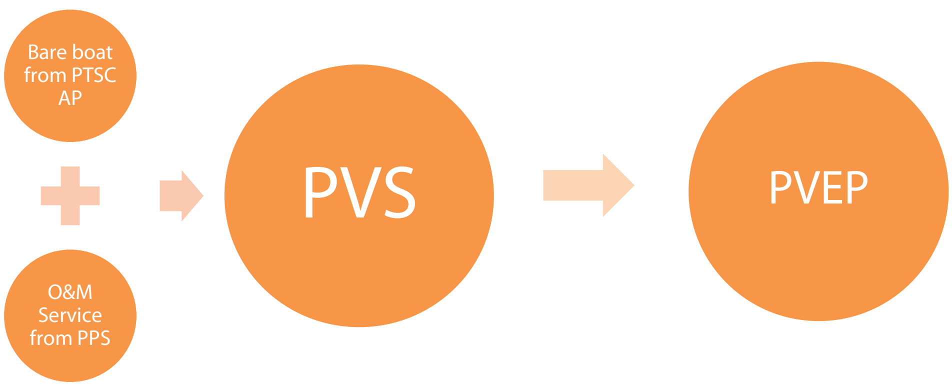
In March 2018, Idenmitsu started the construction of Sao Vang Dai Nguyet - phase 1 with the target of first gas in Q3/2020. The second phase is expected to be finished in 2020. Following that, PVS will be the main contractor for this project with a total EPCIC value of USD700 Mn. As a result, the total backlog for the M&C segment is VND20,000 Bn. This offshore project could improve the gross profit margin for PVS, rather than onshore projects. We project that Sao Vang Dai Nguyet can contribute VND3,500 Bn over VND6,100 Bn of M&C revenues in 2018.

It is possible that the M&C business will continue to face difficulties as the progress of the Ca Rong Do project or Long Phu 1 thermal power plants is not as expected and there are not many new projects in the pipeline.

Renew contract for FPSO Lam Son

PVS announced a new contract for FPSO Lam Son after PTSC AP (JV between PVEP and Petronas) has terminated the leasing contract last year. The completion of the debt payment resulted in the fact that the new leasing rate for this FPSO fell by 64% to USD85,000/day. The total value for this new contract, including bare boat chartered and O&M operations, costs USD46 Mn, valid from July 1/2017 to the end of 2018. Accordingly, PVS will lease the bare boat from PTSC AP and use the O&M service from PPS before delivering FPSO Lam Son to PVEP. We notice that this FPSO has been operating continuously since Lam Son JOC was dissolved, but the profit from the FPSO has not been recorded in H2 2017 and Q1/2018. Therefore. PVS will record profits from this new contract from Q2/2018.

Figure 1: FPSO Lam Son new contract



Source: PVS

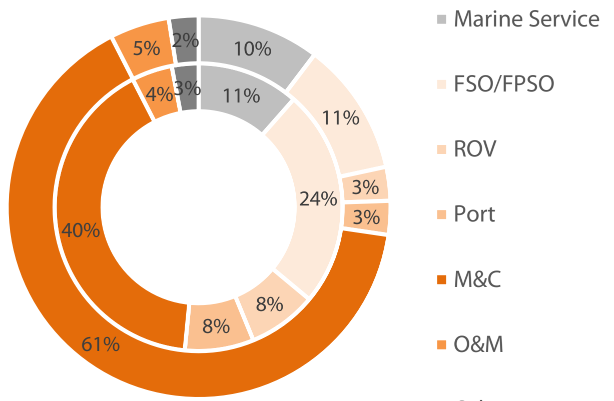
Issue share and move to HOSE

According to the 2018 AGM, PVS continues to plan a share issuance to finance the FPSO Ca Rong Do project. However, the slow progress from this project will affect this plan. We believe that this is unlikely to be implemented this year. Therefore, the company will not face the risk of dilution in 2018. In addition, the movement to HOSE, which was approved in the 2017 AGM, will be delayed till the matter of receivables are solved.

The catalyst from key Oil & Gas projects

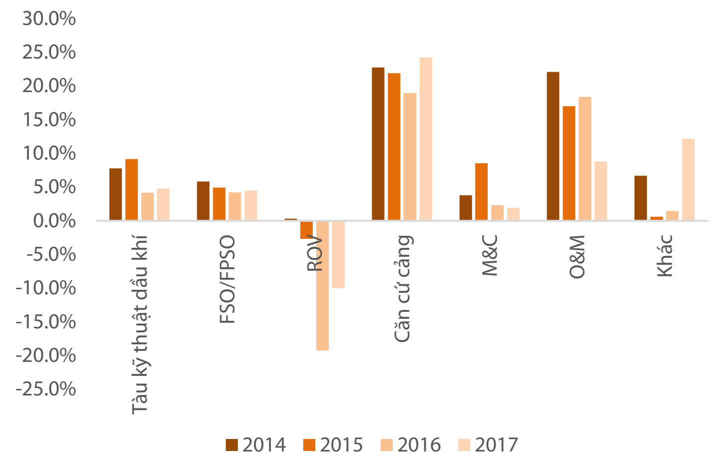
Currently, the Oil & Gas sector is facing a supply issue because the existing oil/gas fields are at the end of their life cycle. As a result, the implementation of new projects will be quite essential to provide a stable gas input for the fertilizer and electricity producers as well as the crude oil exploitation by the government. On the back of a positive oil price forecast for 2018, all the big projects are in place. That will benefit PVS - the leading player in the sector. We expect that the Block B. White Lion Phase 2 or Blue Whale will be the catalysts for PVS in the coming years. However, the recent dispute in the South China Sea is the significant risk to the development of projects and this will impact on PVS.

Figure 1: % Revenue breakdown Q1 2017 (inside) and Q1 2018 (outside)



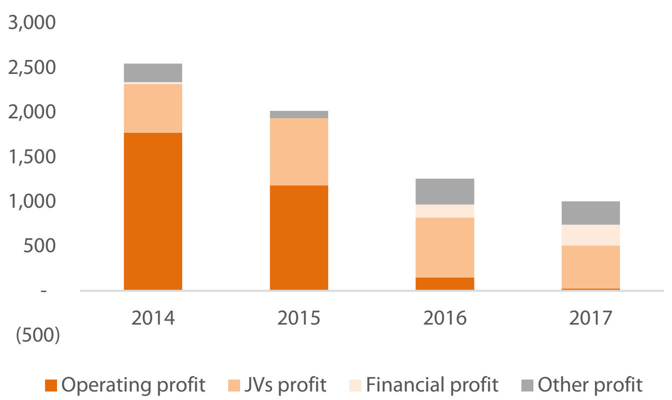
Source: PVS

Figure 2: Gross margin by segment (%)



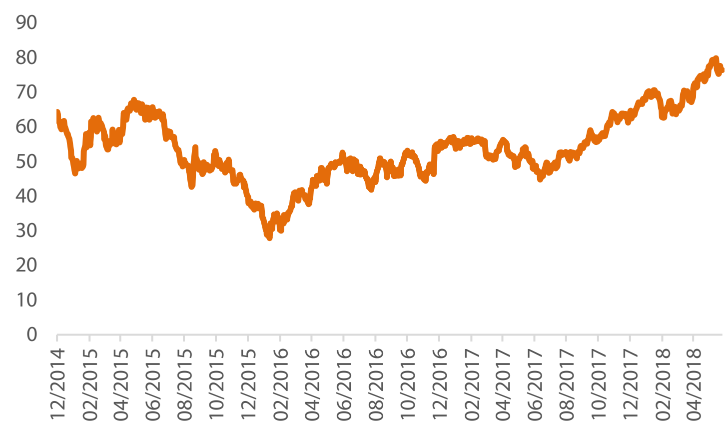
Source: PVS

Figure 3: Profit before tax breakdown (VND Bn)



Source: PVS, Rong Viet Securities

Figure 4: Brent Crude Oil price from 2015 (USD/barrel)



Source: Bloomberg

Unit: VND Bn

INCOME STATEMENT	FY2016	FY2017	FY2018E	FY2019F
Revenue	18,682	16,812	14,764	14,648
COGS	17,899	16,004	13,913	13,603
Gross profit	**783**	**809**	**851**	**1,045**
Selling expense	92	85	89	88
G&A expense	540	718	694	688
Financial income	306	295	287	306
Financial expense	160	84	84	79
Other income/loss	292	328	279	119
Gain/(loss) from JV	667	461	425	425
PBT	**1,256**	**1,005**	**974**	**1,039**
Tax expense	346	223	195	208
Minority interests	-129	-19	-25	-5
PAT	**1,039**	**800**	**804**	**836**
EBIT	151	6	68	268
EBITDA	1,021	691	764	991

Unit: %

FINANCIALS	FY2016	FY2017	FY2018E	FY2019F
Growth				
Revenue	-20.0%	-10.0%	-12.2%	-0.8%
Operating Income	-51.0%	-32.3%	10.6%	29.6%
EBITDA	-87.2%	-96.2%	1083.9%	293.3%
PAT	-31.5%	-22.9%	0.4%	4.1%
Total Assets	-3.4%	-5.4%	-5.0%	-0.5%
Equity	0.7%	4.1%	5.6%	4.5%
Profitability				
Gross margin	4.2%	4.8%	5.8%	7.1%
EBITDA margin	5.5%	4.1%	5.2%	6.8%
EBIT margin	0.8%	0.0%	0.5%	1.8%
Net margin	5.6%	4.8%	5.4%	5.7%
ROA	4.1%	3.4%	3.6%	3.7%
ROE	10.1%	7.4%	7.1%	7.1%
Efficiency				
Receivable Turnover	3,1	3,1	3,3	4,0
Inventory Turnover	10,8	36,5	25,0	20,9
Payable Turnover	2,0	2,3	2,6	2,9
Liquidity				
Current	1.6	1.9	2.2	2.4
Solvency				
Total Debt/Equity	15.3%	10.8%	7.4%	4.8%
Current Debt/Equity	4.2%	2.4%	2.2%	2.6%
Long-term Debt/Equity	11.1%	8.4%	5.1%	2.2%

Unit: VND Bn

BALANCE SHEET	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	5,884	5,761	5,327	5,689
Short term investment	911	1,525	1,525	1,525
Accounts receivable	6,125	5,402	4,429	3,662
Inventories	1,651	438	557	650
Other current assets	581	438	438	460
Tangible fixed assets	4,460	4,011	3,679	3,370
Intangible fixed assets	17	24	20	16
Long term investment	4,734	4,930	5,354	5,779
Other non-current assets	810	1,274	1,274	1,338
Total asset	**25,171**	**23,803**	**22,603**	**22,489**
Account payable	9,007	6,835	5,287	4,761
Short term borrowings	432	255	255	306
Long term borrowings	1,144	901	581	261
Other non-current liabilities	2,840	3,467	3,467	3,641
Bonus and welfare fund	304	271	271	271
Technology -science dev fund	62	63	63	63
Total liabilities	**13,789**	**11,791**	**9,924**	**9,302**
Common stock and APIC	4,507	4,507	4,623	4,623
Treasury stock	0	0	0	0
Retained earnings	3,189	3,510	3,966	4,444
Other comprehensive income / (loss)	0	0	0	0
Investment and development fund	2,626	2,729	2,755	2,784
Total equity	**10,322**	**10,745**	**11,344**	**11,851**
Minority interest	1,431	1,336	1,336	1,336
Total resources	**25,171**	**23,803**	**22,603**	**22,489**

VALUATION RATIO	FY2016	FY2017	FY2018E	FY2019F
EPS (VND/share)	2,122	1,635	1,670	1,738
P/E (x)	7.7	9.7	8.5	8.3
BVPS (VND/share)	23,107	24,008	23,870	25,098
P/B (x)	0.6	0.7	0.7	0.6
DPS (VND/share)	1,700	500	700	700
Dividend yield (%)	10.4	3.0	3.1	3.1

VALUATION MODEL	*Price*	*Weight*	*Average*
Stock valuation (using P/E)	23,380	50%	11,690
Stock valuation (using FCFF)	21,800	50%	10,900
Target price (VND)			**22,590**

VALUATION HISTORY	*Price(*)*	*Recommendation*	*Period*
03/04/2017	21,900	Buy	1-year

(*) 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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