

PETROVIETNAM DRILLING & WELL SERVICES JSC (PVD) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND21,200	VND22,900	0%	Hold	OIL & GAS

9 February 2021

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Neutral**

Consensus*: Add:5 Hold:4 Reduce:0

Target price / Consensus: 38.6%

Key changes in the report

➤ FY21-23F EPS increased by 2.6%-7.7%

Price performance



SOURCE: VND RESEARCH

Key statistics

52w high (VND)	23,150
52w low (VND)	6,750
3m Avg daily value (VNDmn)	160,209
Market cap (VND bn)	8,928
Free float (%)	50
TTM P/E (x)	74.8
Current P/B (x)	0.7

Ownership

PetroVietnam Group	50.5%
Others	49.5%

Source: VND RESEARCH

Analyst(s):



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FY20 results beat expectation

- PVD reported VND184bn in FY20 net profit, flat yoy, mainly driven by bad debt provision reversal and strong performance of affiliates.
- We reiterate Hold and increase TP slightly to VND22,900.

4Q20 performance hurt by sluggish regional drilling market

PVD's 4Q20 net revenue declined 40.7% yoy and net profit fell 57.6% yoy due to the lingering effects of the regional capex cut in the oil and gas sector in 2020. Although rig utilization rate improved from 55% in 3Q20 to 71% in 4Q20, this was still lower than the 95% rate seen in 4Q19. In addition, average day rate fell 4.3% yoy and there was lower workload in the well services segment (revenue -31.2% yoy).

Affiliate income and provision reversal supported FY20 results

The company reported a 4.0-pts contraction in FY20 GPM, despite the 19.9% yoy growth in full-year revenue, due to the contribution of 3 leased rigs which commanded quite low GPM (2-3%) and additional expenses incurred relating to Covid-19. However, the company managed to keep full-year net profit flat yoy at VND184bn, thanks to (1) VND105bn provision reversal on bad debt collection (vs. VND0.6bn in FY19), and (2) a two-fold increase in income from affiliate (especially Baker Hughes) to VND216bn. Net profit exceeded our FY20 forecast by 12.6% as we assumed a higher effective tax rate and higher loss from minority shareholders.

Another contract award solidifying FY21F outlook

On 22 Jan, PVD announced to sign a contract with JVPC for a drilling program at Block 15-2 off Southern Vietnam comprising of 3 firm wells and 1 option well, which would be served by PVD III rig after its current contract with Kris Energy. So far, two out of four of PVD's owned jack-up rigs have confirmed jobs for 1H21F. We expect drilling demand to improve from a trough in 4Q20, supported by a resilient oil price which has stayed over US\$50/bbl since Dec 2020.

Reiterate Hold at slightly higher TP of VND22,900

We raise our FY21-23F EPS forecasts by 2.6%-7.7% as we tweak our forecasts and lower the income tax rate assumption in line with FY20 numbers. Thus, our multiple-based TP is raised slightly by 1.8% to VND22,900, based on target FY21-23F P/BV of 0.7x. Upside risks to our forecasts are a higher-than-expected oil price and improved liquidity of the market which could boost stock price. Downside risks are slow bad debt collection and lower-than-expected jack-up utilisation rate.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	4,368	5,228	4,708	5,670
Revenue growth	(20.6%)	19.7%	(9.9%)	20.4%
Gross margin	10.3%	6.3%	11.0%	16.6%
EBITDA margin	21.5%	15.4%	17.6%	22.1%
Net profit (bn)	184	184	257	522
Net profit growth	(6.7%)	(0.1%)	39.4%	103.3%
Recurring profit growth	70.9%	(51.6%)	(100.0%)	
Basic EPS	458	437	610	1,239
Adjusted EPS	319	277	386	785
BVPS	32,551	32,718	32,661	32,645
ROAE	1.4%	1.3%	1.9%	3.8%

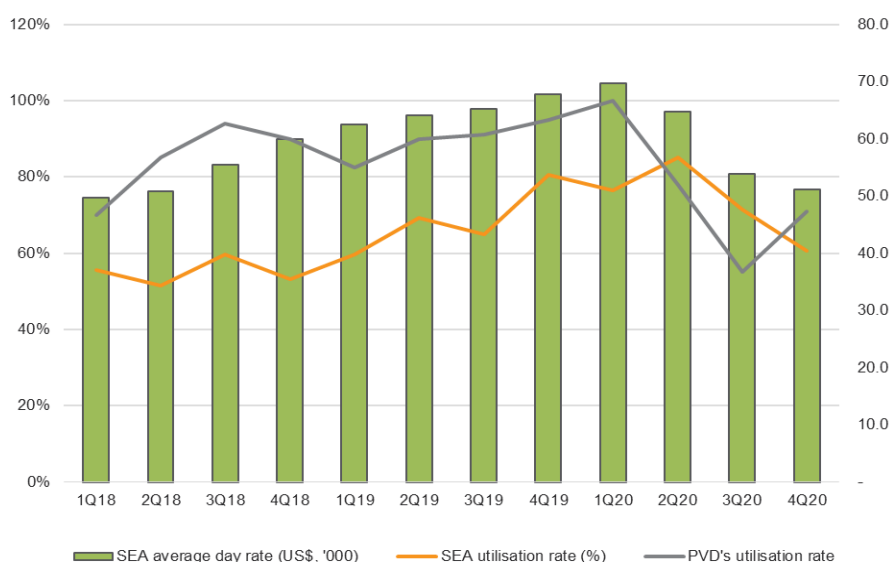
Source: VND RESEARCH

FY20 RESULTS BEAT EXPECTATION
4Q20 net profit was hurt by a weak regional drilling market
Figure 1: 4Q20 and FY20 results recap

FYE Dec (VNDbn)	4Q19	4Q20	% yoy	FY19	FY20	% yoy	vs. FY20 forecasts	Comment
Net revenue	1,389.9	824.0	-40.7%	4,368.1	5,239.4	19.9%	99.0%	
Drilling	790.9	434.5	-45.1%	2,175.8	3,083.2	41.7%	112.1%	Average utilisation improved from 55% in 3Q20 to 71% in 4Q20, but still lower than 4Q19's number of 95%. Average day rate in 4Q20 also declined 4.3% yoy. No leased rig in 4Q20 vs. average 1.1 leased rigs in 4Q19. FY20 net revenue was higher than our forecast as full-year average utilisation rate was 3-pt higher than our forecast (76% vs. 73%).
Well services	513.6	353.5	-31.2%	1,767.7	1,827.9	3.4%	89.4%	Due to lower-than-expected workload
Trading	85.4	36.0	-57.8%	424.6	328.3	-22.7%	66.2%	
Gross profit	144.6	36.0	-75.1%	450.2	329.0	-26.9%	82.7%	
Drilling	76.0	(18.4)	NA	108.4	(66.3)	NA	109.7%	
Well services	60.2	52.1	-13.4%	311.8	375.3	20.4%	88.3%	
Trading	8.4	2.3	-73.1%	30.0	20.1	-32.9%	60.3%	
Gross profit margin	10.4%	4.4%	-6.0 pts	10.3%	6.3%	-4.0 pts		
Drilling	9.6%	-4.2%	-13.8 pts	NA	-2.2%	NA		
Well services	11.7%	14.8%	3.0 pts	17.6%	20.5%	2.9 pts		
Trading	9.8%	6.3%	-3.6 pts	7.1%	6.1%	-0.9 pts		
Selling expenses	(10.3)	(10.4)	0.7%	(16.9)	(16.4)	-3.3%	135.8%	
G&A expenses	(110.0)	(93.2)	-15.3%	(396.6)	(315.0)	-20.6%	106.1%	PVD recorded VND32bn of bad debt provision reversal 4Q20, boosting total provision reversal of the year to VND105bn, in line with our forecast of VND100bn.
Operating profit	24.3	(2.9)	-112.0%	(1.9)	(0.9)	-52.1%	-1.0%	
Financial income	45.6	49.9	9.4%	165.1	158.9	-3.8%	98.8%	
Financial expenses	(57.0)	(47.6)	-16.5%	(241.4)	(201.9)	-16.3%	84.3%	
Gain (loss) from affiliates	66.9	86.5	29.3%	110.6	216.4	95.6%	136.3%	Income from affiliates was ahead of expectation
Net other income (expenses)	59.2	31.0	-47.7%	118.0	29.7	-74.8%	133.6%	
Pre-tax profit	138.9	52.1	-62.5%	189.0	199.9	5.8%	104.5%	
Net profit	140.4	59.6	-57.6%	184.5	184.3	-0.1%	112.6%	Net profit was higher than expected as we assumed higher effective tax rate and loss from minority shareholders

Source: VND RESEARCH, Company reports

PVD's utilisation rate plunged in 2Q20 and 3Q20 in line with the regional market performance as oil and gas producers cancelled or delayed new projects. However, PVD managed to secure new jobs such as Vietsovpetro's drilling program and production wells at Cambodia's Aspara field from 3Q20. This helped the company to maintain a rather positive average utilisation rate of 71% in 4Q20, above that of the Southeast Asia market at c.61%.

Figure 2: Southeast Asia jack-up average day rate and total contracted utilisation


Source: VND Research, IHS Markit Jan 2021, Company reports

FY21F outlook: Deepwater rig reactivation to support the bottom line
Figure 3: PVD's drilling schedule

Rig fleet	1Q20	2Q20	3Q20	4Q20	1Q21F	2Q21F	3Q21F	4Q21F
PVD I	Petronas		Hibiscus				Rosneft	
PVD II	Petronas			VSP	VSP/Other Vietnam operators			
PVD III	Repsol Malaysia			KE	JVPC			
PVD VI	Sapura		Rosneft			ENI		
TAD	Reactivating for Shell Brunei campaign						Shell Brunei	
PVD XI							GBRS	
Hakuryu-11*	Idemitsu						N/A	
Idun*	Hoang Long		JVPC					
Saga*		ENI						

Firm contract
 Potential contract/option

*Leased rigs

Source: VND RESEARCH, Company reports

We expect the company to achieve an average jack-up utilisation rate of 80% in 2021F (slightly above 2020's level of 76%), mostly driven by domestic projects as the Malaysia market remains hit by Covid-19 in 1H21F. According to the 2021-23 activity outlook of Malaysia's state oil and gas group Petronas, this country is forecasted to demand an average of 10 jack-up rigs in 2021F, slightly higher than 2H20 average of 9 rigs; therefore we expect PVD would only send one rig to Malaysia in 2021F. We forecast the drilling segment to no longer incur losses in FY21F, with a gross profit of VND124bn (vs. loss of VND66bn in FY20), thanks to the reactivation of the PVD V deepwater rig and the PVD XI land rig from Jun 2021.

Forecast revision

We make the following adjustments to our FY21-23F EPS forecasts:

- We reduce the revenue forecasts of the well services and trading segments, which generated lower-than-expected revenue in FY20. We expect these two segments to post sales growth of 10% and 15%, respectively, in FY21F from low-base 2020, given a gradual recovery of the drilling market. Expected growth for these segments from FY22F onwards remain unchanged at 5% p.a. These lead to a 3.6%-6.3% downward revision in FY21-23F segment gross profit forecasts.
- We lower the effective tax rate assumptions for FY21-23F from 25.0% (similar to 2018 level) to 9.7% (similar to 2020 level), as we learn that the high tax rate in 2018 was a result of high tax rate applied to the reversal of technology development fund (remaining balance at VND154bn by end-2020). We do not expect PVD to reverse any fund in FY21-23F, hence we now assume a lower effective tax rate of 9.7%.

At the bottom line, FY21F net profit is revised upward by 2.6%, equivalent to a 39.4% yoy growth, mainly driven by lower losses from the drilling sector as the PVD V rig resumes operation.

Figure 4: FY21F-23F forecasts revision

Unit: VNDbn (otherwise noted)	2021F			2022F			2023F			Note
	Old	New	%Δ	Old	New	%Δ	Old	New	%Δ	
Brent oil price (US\$/bbl)	53	53	-	55	55	-	58	58	-	
Average jack-up day rate (US\$)	65,000	65,000	-	67,000	67,000	-	70,000	70,000	-	
Average TAD day rate (US\$)	95,000	95,000	-	95,000	95,000	-	95,000	95,000	-	
Jack-up utilisation rate (%)	80%	80%	-	90%	90%	-	90%	90%	-	
TAD utilisation rate (%)	50%	50%	-	95%	95%	-	95%	95%	-	
Net revenue	4,988.4	4,708.3	-5.6%	5,963.9	5,669.8	-4.9%	6,263.6	5,954.8	-4.9%	We cut the forecasts for trading and well services activities due to lower-than-expected FY20 numbers. The trading segment commands quite low GPM hence the effect of the cut on GPM is limited.
Trading	520.8	377.5	-27.5%	546.8	396.4	-27.5%	574.2	416.2	-27.5%	
Drilling	2,320.0	2,320.0	-	3,162.1	3,162.1	-	3,321.7	3,321.7	-	
Well services	2,147.5	2,010.7	-6.4%	2,254.9	2,111.3	-6.4%	2,367.7	2,216.8	-6.4%	
Gross profit	554.3	519.5	-6.3%	980.0	943.5	-3.7%	1,066.3	1,028.0	-3.6%	
Gross profit margin	11.1%	11.0%	-0.1% pts	16.4%	16.6%	0.2% pts	17.0%	17.3%	0.2% pts	
SG&A expenses	(364.7)	(341.4)	-6.4%	(495.8)	(471.3)	-4.9%	(520.7)	(495.0)	-4.9%	
Operating profit	189.6	178.1	-6.1%	484.3	472.2	-2.5%	545.6	532.9	-2.3%	
Financial income	154.5	158.5	2.6%	135.2	145.6	7.7%	126.4	144.1	14.1%	
Financial expenses	(179.2)	(178.7)	-0.2%	(169.1)	(168.2)	-0.5%	(152.2)	(151.4)	-0.5%	
Gain/loss from affiliates	99.8	94.2	-5.6%	89.5	85.0	-4.9%	94.0	89.3	-4.9%	
Pre-tax profit	292.9	278.8	-4.8%	573.7	566.8	-1.2%	649.3	648.8	-0.1%	We lower the assumption for effective tax rate to 10%, in line with FY20 numbers.
Net profit	250.5	256.9	2.6%	490.5	522.4	6.5%	555.2	598.0	7.7%	
EPS	594	610	2.6%	1,164	1,239	6.5%	1,317	1,419	7.7%	

Source: VND RESEARCH

Reiterate Hold at higher TP of VND22,900

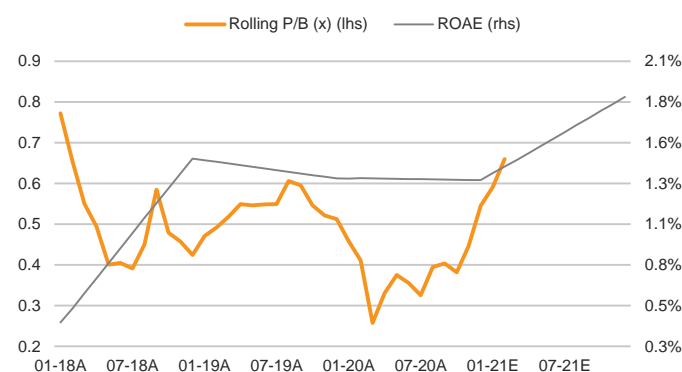
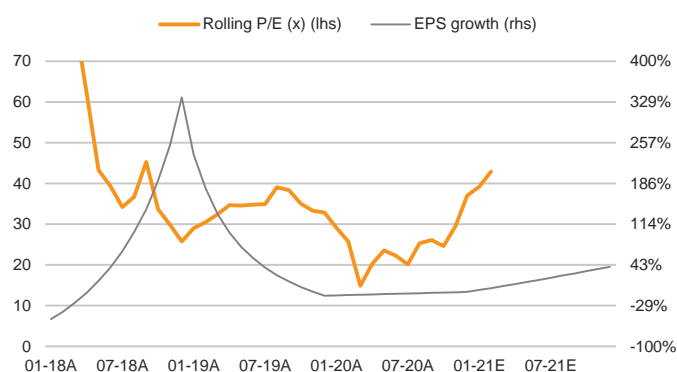
We raise our FY21-23F EPS forecasts by 2.6%-7.7% as we tweak our forecasts in line with FY20 numbers. Thus, our multiple-based TP is raised slightly by 1.8% to VND22,900, based on target FY21-23F P/BV of 0.7x.

A notable upside risk to our forecast is higher-than-expected oil price, which could help improve sentiment on stock price. Oil price has surpassed the US\$60/bbl level, the highest since Feb 2020, thanks to the extension of OPEC+ production cut at existing level, positive news regarding the Covid-19 aid plan proposed by the new US president, and an aggressive roll-out of vaccines globally. An unexpected surge in market liquidity is another upside risk, given PVD's high beta of 1.7x. Downside risks are slow bad debt collection and lower-than-expected jack-up utilisation rate.

Figure 5: Sector comparison

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS CAGR (%)	P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY21F	FY22F		TTM	FY21F	FY22F	TTM	FY21F	FY22F	TTM	FY21F	FY22F
PV Drilling	PVD VN	HOLD	21,200	22,900	389	74.8	54.9	27.0	48.1%	0.7	0.6	0.6	1.3%	1.9%	3.8%	0.9%	1.2%	2.5%
Borr Drilling Ltd	BDRILL NO	NR	10.58	NA	342	NA	NA	NA	-62.9%	0.2	0.3	0.4	-27.1%	-21.5%	-23.4%	-10.2%	NA	NA
Velesto Energy Bhd	VEB MK	NR	0.14	NA	273	93.8	NA	NA	NA	0.4	0.4	0.4	0.4%	-1.8%	0.1%	0.3%	-0.8%	0.9%
Sapura Energy Bhd	SAPE MK	NR	0.13	NA	512	NA	NA	NA	-15.2%	0.2	0.3	0.2	-39.7%	-1.7%	-0.4%	-16.6%	-0.1%	0.4%
Transocean	RIG US	NR	3.64	NA	2,239	NA	NA	NA	-71.2%	0.2	0.2	0.2	-5.0%	-5.0%	-5.8%	-2.5%	-2.3%	-2.8%
Average - Offshore drilling peers					842	94	NA	NA	-49.8%	0.3	0.3	0.3	-17.9%	-7.5%	-7.4%	-7.3%	-1.1%	-1.0%

Source: BLOOMBERG, VND RESEARCH (DATA AS AT 09 FEB)

Valuation

Income statement

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	5,228	4,708	5,670
Cost of sales	(4,900)	(4,189)	(4,726)
Gen & admin expenses	(315)	(327)	(454)
Selling expenses	(16)	(15)	(18)
Operating profit	(3)	178	472
Operating EBITDA	485	612	1,045
Depreciation and amortisation	(488)	(434)	(573)
Operating EBIT	(3)	178	472
Interest income	159	159	146
Financial expense	(202)	(179)	(168)
Net other income	30	27	32
Income from associates & JVs	216	94	85
Pre-tax profit	200	279	567
Tax expense	(19)	(27)	(55)
Minority interest	4	5	11
Net profit	184	257	522
Adj. net profit to ordinary	184	257	522
Ordinary dividends	(3)	(4)	(8)
Retained earnings	181	253	515

Balance sheet

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	1,075	1,371	1,223
Short term investments	1,197	1,137	1,080
Accounts receivables	1,806	1,627	1,959
Inventories	959	800	902
Other current assets	78	70	84
Total current assets	5,114	5,004	5,248
Fixed assets	13,496	13,439	13,149
Total investments	1,807	1,807	1,807
Other long-term assets	435	435	435
Total assets	20,853	20,685	20,640
Short-term debt	635	793	714
Accounts payable	695	594	670
Other current liabilities	1,474	1,328	1,599
Total current liabilities	2,804	2,714	2,982
Total long-term debt	3,231	3,171	2,854
Other liabilities	779	779	779
Share capital	4,215	4,215	4,215
Retained earnings reserve	1,936	(73)	(2,065)
Shareholders' equity	13,792	13,768	13,762
Minority interest	247	252	263
Total liabilities & equity	20,853	20,685	20,640

Cash flow statement

(VNDbn)	12-20A	12-21E	12-22E
Pretax profit	200	279	567
Depreciation & amortisation	488	434	573
Tax paid	(38)	(27)	(55)
Other adjustments	(383)	(365)	(364)
Change in working capital	45	257	(181)
Cash flow from operations	313	578	540
Capex	(552)	(377)	(283)
Proceeds from assets sales	0	0	0
Others	(700)	0	0
Other non-current assets changes			
Cash flow from investing activities	(1,252)	(377)	(283)
New share issuance			
Shares buyback			
Net borrowings	130	99	(396)
Other financing cash flow	(3)		
Dividends paid	(3)	(4)	(8)
Cash flow from financing activities	124	95	(404)
Cash and equivalents at beginning of period	1,890	1,075	1,371
Total cash generated	(815)	296	(148)
Cash and equivalents at the end of period	1,075	1,371	1,223

Key ratios

	12-20A	12-21E	12-22E
Dupont			
Net profit margin	3.5%	5.5%	9.2%
Asset turnover	0.25	0.23	0.27
ROAA	0.9%	1.2%	2.5%
Avg assets/avg equity	1.52	1.51	1.50
ROAE	1.3%	1.9%	3.8%
Efficiency			
Days account receivable	126.4	126.1	126.1
Days inventory	71.6	69.7	69.7
Days creditor	51.9	51.8	51.8
Fixed asset turnover	0.38	0.35	0.43
ROIC	1.0%	1.4%	3.0%
Liquidity			
Current ratio	1.8	1.8	1.8
Quick ratio	1.5	1.5	1.5
Cash ratio	0.8	0.9	0.8
Cash cycle	146.2	144.0	144.0
Growth rate (yoy)			
Revenue growth	19.7%	(9.9%)	20.4%
Operating profit growth	(108.6%)		165.2%
Net profit growth	(0.1%)	39.4%	103.3%
EPS growth	(4.6%)	39.4%	103.3%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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