

## PETROVIETNAM DRILLING & WELL SERVICES JSC (PVD) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND18,400	VND26,100	0.0%	Add	OIL & GAS

9 August 2021

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

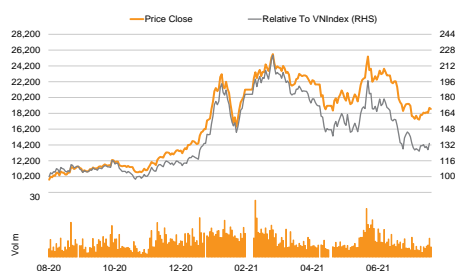
Consensus\*: Add:4 Hold:4 Reduce:1

Target price / Consensus: 0.7%

### Key changes in the report

➤ Decrease FY21-23F EPS forecasts by 47.9%/8.5%/0.1%

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	25,700
52w low (VND)	10,100
3m Avg daily value (VNDmn)	163,608
Market cap (VND bn)	7,959
Free float (%)	50
TTM P/E (x)	42.4
Current P/B (x)	0.57

### Ownership

PetroVietnam Group	50.5%
Others	49.5%

Source: VND RESEARCH

### Analyst(s):



**Hai Nguyen Ngoc**

hai.nguyenngoc2@vndirect.com.vn

## Stay tuned for a bounce-back in 2H

- 2Q21 net profit drop 86.5% yoy to VND8.6bn, marking a hard 1H21 with net loss of VND95.4bn.
- PVD has signed leasing contracts of its four jack-up (JU) rigs in 1H21 which will secure the drilling schedule till end-2021 and beyond.
- Reiterate Add with a slightly lower target price of VND26,100.

### Positive gross profit of the drilling segment is the bright spot in 2Q21

2Q21 net revenue decreased 24% yoy to VND1,112bn due to the 21% yoy decline in 2Q21 JU day rate and no leased rigs compared to the average of 2.44 leased rigs in 2Q20, which blurred to the JU utilisation rate recovery (from 78% in 2Q20 to 92% in 2Q21). In 2Q21, drilling segment recorded a gross profit of VND15,9bn after four consecutive quarters of losses, leading to 6.2% pts amelioration in 2Q21 blended gross profit margin (GPM). However, 2Q21 bottom line still slumped 86.5% yoy to VND8.6bn on the back of: (1) a double in G&A expenses as PVD booked a provision expense of VND28.5bn for bad debt of KrisEnergy, and (2) a 50% yoy drop in affiliate income to only VND34.5bn.

For 1H21, PVD posted a 47.2% yoy decline in net revenue to VND1,662bn and a net loss of VND95.4bn due to the bleak drilling market in the first half.

### Jack-up utilisation rate is on the way to recovery from 2H21F

According to the 2021 AGM, all four JU rigs have been contracted for the drilling programs in 2H21, in which PVD III is expected to operate in Malaysia from this October with the long-term contract for Repsol Malaysia. Besides, PVD is also actively participating in bidding for FY22 drilling projects in Malaysia and Thailand. Meanwhile, PVD V (TAD rigs) is delayed its reactivation from 3Q21 to 4Q21 due to the complicated situation of Covid-19. Despite higher-than-expected difficulties in 2021, we see that the company outlook is still positive, particularly from 2022 onwards on the expected JU utilization rate/day rate recovery as well as the reactivation of TAD rig.

### Reiterate Add with a slightly lower target price (TP) of VND26,100

We revise down FY21F EPS by 47.9% to reflect the lower-than-expected JU day rate, the delay in TAD rig reactivation and the bad debt provision. However, we believe that the difficulties in 1H21 have been largely priced in and the share price would reflect (1) the market sensitivity on strong oil price rally, and (2) the company strengthen outlook on TAD reactivation and the JU utilisation rate improvement in coming times. Hence, we reiterate Add for PVD with a slightly lower TP of VND26,100 (-2% from the previous report), still based on the target FY21-23F P/BV of 0.8x. A potential re-rating catalyst is strong oil price. Downside risks come from lower-than-expected oil price and the delay in TAD rig operation.

Financial summary (VND)	12-19A	12-20A	12-21E	12-22E
Net revenue (bn)	4,368	5,229	4,219	5,583
Revenue growth	(20.6%)	19.7%	(19.3%)	32.3%
Gross margin	10.3%	6.3%	8.7%	16.3%
EBITDA margin	21.5%	15.5%	15.5%	21.8%
Net profit (bn)	184	186	119	489
Net profit growth	(6.7%)	1.1%	(36.2%)	311.0%
Recurring profit growth	70.9%	(50.4%)	(100.0%)	
Basic EPS	458	442	282	1,159
Adjusted EPS	319	282	180	739
BVPS	32,551	32,723	32,446	32,579
ROAE	1.4%	1.4%	0.9%	3.6%

## STAY TUNED FOR A BOUNCE-BACK IN 2H

### Reiterate Add with a slightly lower TP of VND26,100

We lower FY21F EPS by 47.9% to reflect the lower-than-expected JU day rate, the delay in TAD rig reactivation and the bad debt provision for KrisEnergy. However, we believe that the difficulties in FY21F have been largely priced in as PVD' share price has dropped ~30% from the peak set in Jun-21. In our view, PVD's positive prospect in long-term is still maintained, in which:

- Oil price is expected to be resilient on the new base (around US\$70/bbl) in FY21-23F as the supplies are unlikely to increase strongly enough to keep pace with the expected demand recovery.
- The TAD rig is expected to be activated from 4Q21F and the JU utilisation rate would be improved to 90% in FY22-23F, assuming that the pandemic should be under control thanks to vaccination.

Besides, PVD has a share dividend plan of 20% this year (including 10% share dividend of 2019), which is also a strong support factor for the share price. Hence, we reiterate Add for PVD with a slightly lower TP of VND26,100 (-2% from previous report), still based on the target FY21-23F P/BV of 0.8x. With potential upside of 40%, we believe the risk-reward of this stock is quite attractive to accumulate.

A potential re-rating catalyst is strong oil price.

Downside risks come from lower-than-expected oil price and the delay in TAD rig operation.

**Figure 1: Target price**

	2011-13	2021-23F (*)
Average Brent oil price (US\$/bbl)	108	70
P/BV average (x)	1.24	0.80
FY21-23F BVPS (VND)		32,667
<b>Target price (VND)</b>		<b>26,100</b>

Source: VNDIRECT RESEARCH

**Figure 2: 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 (%)	
						FY21F	FY22F		FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
PV Drilling	PVD VN	ADD	18,400	26,100	336	65.2	15.9	48.6%	0.6	0.6	0.9%	3.6%	0.6%	2.4%
Borr Drilling Ltd	BORR NO	NR	6.18	NA	191	NA	NA		0.2	0.3	-19.0%	-16.4%	NA	NA
Velesto Energy Bhd	VEB MK	NR	0.14	NA	263	NA	NA		0.5	0.5	0.8%	2.3%	1.8%	2.4%
Sapura Energy Bhd	SAPE MK	NR	0.12	NA	435	NA	NA		0.2	0.2	0.6%	1.2%	0.4%	0.4%
Transocean	RIG US	NR	3.46	NA	2,253	NA	NA		0.2	0.2	-4.2%	-3.2%	NA	NA
<b>Average (excluding PVD)</b>						<b>NA</b>	<b>NA</b>		<b>0.3</b>	<b>0.3</b>	<b>-5.5%</b>	<b>-4.0%</b>	<b>1.1%</b>	<b>-1.0%</b>

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 09 AUG)

**Positive gross profit of the drilling segment is the bright spot in 2Q21**

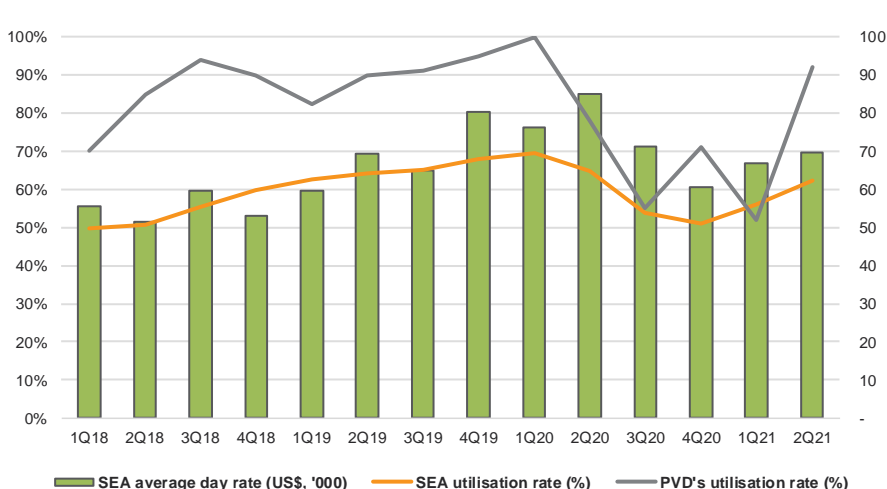
**Figure 3: 2Q21 and 1H21 results overview**

FYE Dec (VNDbn)	2Q20	2Q21	% yoy	1H20	1H21	% yoy	% vs. FY21 forecasts	Comments
<b>Net revenue</b>	<b>1,469.3</b>	<b>1,112.0</b>	<b>-24.3%</b>	<b>3,144.7</b>	<b>1,661.8</b>	<b>-47.2%</b>	<b>36.4%</b>	
Drilling	895.0	436.2	-51.3%	1,915.0	672.7	-64.9%		Average JU utilisation rate improved to 92% in 2Q21 from 78% in 2Q20 (and 52% in 1Q21). However, the average JU day rate in 2Q21 declined 21% yoy to est. US\$50,000/day along with no leased rig in 2Q21 compared to the average 2.44 leased rigs in 2Q20, leading to a 24.3% decrease in 2Q21 net revenue
Well services	502.0	396.7	-21.0%	1,064.1	608.3	-42.8%		Segment revenue decreased due to the lower workload in 2Q21
Trading	72.3	279.1	285.9%	165.5	380.8	130.1%		
<b>Gross profit</b>	<b>57.1</b>	<b>111.7</b>	<b>95.5%</b>	<b>214.3</b>	<b>83.9</b>	<b>-60.9%</b>	<b>17.5%</b>	
Drilling	(61.9)	15.9	-125.7%	3.3	(59.1)	NA		Drilling segment recorded a gross profit of VND15.9bn in 2Q21 after four consecutive quarters of losses, mainly thanks to the JU utilisation recovery
Well services	113.4	84.4	-25.6%	196.8	118.7	-39.7%		
Trading	5.6	11.5	105.7%	14.2	24.3	71.9%		
<b>Gross profit margin (%)</b>	<b>3.9%</b>	<b>10.0%</b>	<b>6.2% pts</b>	<b>6.8%</b>	<b>5.0%</b>	<b>-1.8% pts</b>		
Drilling	-6.9%	3.6%	10.6% pts	0.2%	-8.8%	-9.0% pts		
Well services	22.6%	21.3%	-1.3% pts	18.5%	19.5%	1.0% pts		
Trading	7.7%	4.1%	-3.6% pts	8.6%	6.4%	-2.2% pts		
Selling expenses	(1.5)	(2.3)	47.2%	(4.4)	(3.7)	-17.7%	25.6%	
G&A expenses	(66.3)	(130.7)	97.3%	(157.1)	(214.3)	36.4%	68.1%	In 2Q21, PVD booked a provision expense of VND28.5bn for bad debt of KrisEnergy (total bad debt of VND95bn), compared to a reversal of VND35.7bn in 2Q20
Operating profit	(10.7)	(21.3)	99.5%	52.8	(134.1)	-354.2%		
Financial income	41.7	39.5	-5.2%	70.4	81.1	15.2%	49.9%	
Financial expenses	(32.1)	(42.3)	31.9%	(112.1)	(85.4)	-23.8%	47.1%	
Gain (loss) from affiliates	69.0	34.5	-50.0%	82.8	44.2	-46.6%	48.5%	
Net other income (expenses)	0.6	37.1	6153.1%	0.5	35.3	7409.9%		PVD recorded c.VND39bn of tech fund reversal in 2Q21
Pre-tax profit	68.6	47.6	-30.6%	94.3	(58.9)	-162.5%		
<b>Net profit</b>	<b>62.0</b>	<b>8.4</b>	<b>-86.5%</b>	<b>86.2</b>	<b>(95.4)</b>	<b>-210.7%</b>	<b>N/A</b>	Lower than our expectations

Source: VNDIRECT RESEARCH, COMPANY REPORTS

*Regional drilling market recovered at the slower pace compared to the oil price rally in 1H21. This is partially due to the complicated pandemic, which hamper the E&P activities.*

**Figure 4: Southern Asia average Jack-up day rate and utilisation rate**



Source: IHS MARKIT, VNDIRECT RESEARCH, COMPANY REPORTS

**FY21-23F outlook: business results to recover from 2H21F**

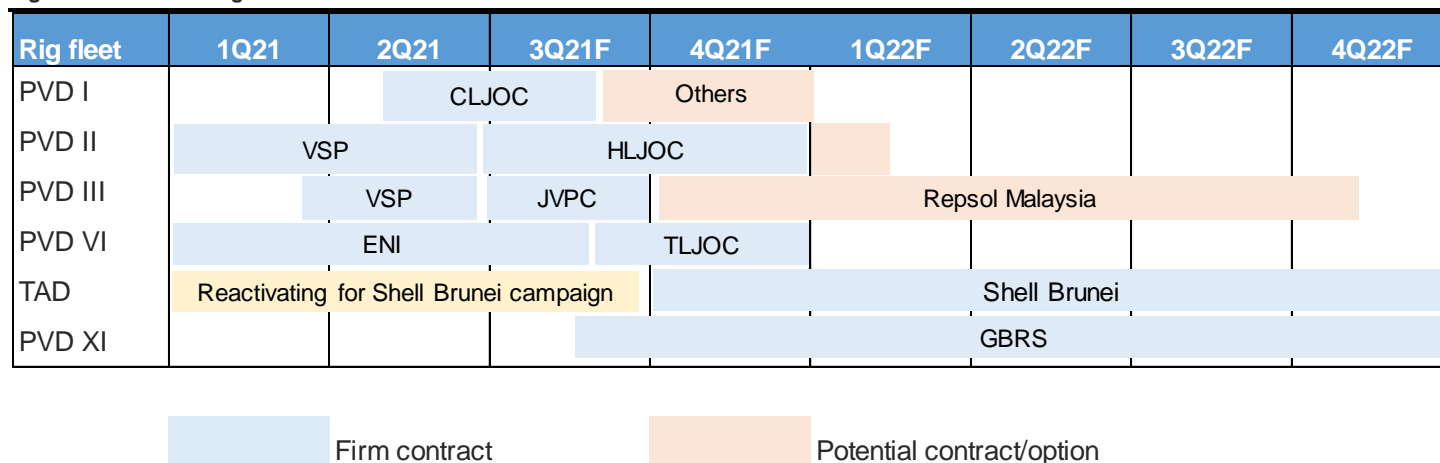
**JU utilisation rate is on the way to recovery from 2H21F**

In 2021 AGM, the management revealed that all four JU rigs have been contracted for the drilling programs in 2H21 and beyond as following:

- PVD I has serviced for drilling program of Cuu Long Joint Operating Company (CLJOC) in 3Q21F. After that, this rig is expected to be awarded a contract with another domestic customer, starting new drilling project from this September.
- PVD II was responsible for drilling program of Hoang Long JOC (HLJOC) from 15 July with four firm wells at Te Giac Trang field.
- PVD III started a contract for drilling project of JVPC on 19 July. Then this drilling rig is expected to operate in Malaysia from this October with the long-term contract for Repsol Malaysia (over 1-year contract).
- PVD VI would drill for Thang Long JOC (TLJOC) from September after completion drilling program for ENI.
- On the other hand, PVD 5 (TAD rig) is delayed to 4Q21F due to the complicated situation of Covid-19.

Besides, PVD is also actively participating in bidding for FY22 drilling projects in Malaysia and Thailand. Overall, we are still optimistic about PVD recovery prospect in 2H21F, especially from 2022F onwards on the back of: (1) the TAD rig activation from 4Q21F as expected and (2) the JU utilisation rate improvement to 90% in FY22-23F assuming that the pandemic should be under control thanks to vaccination and the oil price is expected to be resilient on a new base (around US\$70/bbl in FY21-23F).

Figure 5: PVD's drilling schedule



Source: VNDIRECT RESEARCH, COMPANY REPORTS

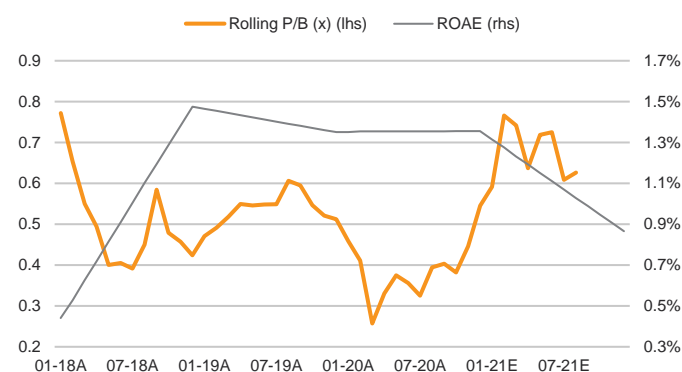
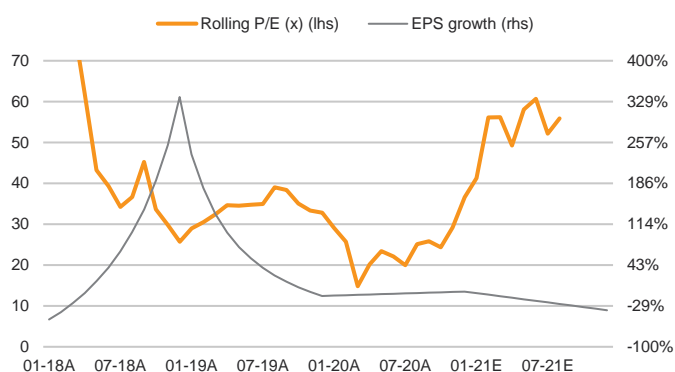
**We lower FY21-23F EPS by 47.9%/8.5%/0.1% to reflect the lower-than-expected JU day rate and the delay in TAD rig reactivation in FY21**

**Figure 6: Forecast revision**

Unit: VNDbn (otherwise noted)	2021F			2022F			2023F			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Average jack-up day rate (US\$)	65,000	58,000	-10.8%	67,000	65,000	-3.0%	70,000	70,000	0.0%	We revise down JU day rate assumption in FY21-22F to reflect the slow recovery of JU day rate in 1H21 due to the oversupply situation in Southeast Asia
Average TAD day rate (US\$)	95,000	90,000	-5.3%	95,000	90,000	-5.3%	95,000	90,000	-5.3%	We update TAD day rate following the latest information from 2021 AGM
Jack-up utilisation rate (%)	76%	84%	8.0% pts	90%	90%	-	90%	90%	-	We raise jack-up utilisation rate to reflect the awarded as well as potential contracts in 2H21
TAD utilisation rate (%)	50%	25%	-25.0% pts	95%	95%	-	95%	95%	-	We lower FY21F TAD utilisation rate due to the delay in TAD reactivation from 3Q21 to 4Q21.
Net revenue	4,560.2	4,218.7	-7.5%	5,669.4	5,583.5	-1.5%	5,954.4	5,939.0	-0.3%	
Trading	376.8	524.2	39.1%	395.6	445.6	12.6%	415.4	454.5	9.4%	
Drilling	2,230.8	1,960.9	-12.1%	3,162.1	3,057.6	-3.3%	3,321.7	3,279.3	-1.3%	
Well services	1,952.6	1,733.6	-11.2%	2,111.7	2,080.3	-1.5%	2,217.3	2,205.2	-0.5%	We also reduce FY21F well service segment revenue due to the lower-than-expected workload in 1H21
Gross profit	479.9	367.5	-23.4%	959.1	912.8	-4.8%	1,044.4	1,051.7	0.7%	
Gross profit margin	10.5%	8.7%	-1.8% pts	16.9%	16.3%	-0.6% pts	17.5%	17.7%	0.2% pts	
SG&A expenses	(329.1)	(354.9)	7.8%	(471.3)	(464.2)	-1.5%	(495.0)	(493.7)	-0.3%	We raise FY21F SG&A expenses to reflect the bad debt provision for KrisEnergy incurring this year
Operating profit	150.8	12.6	-91.6%	487.8	448.6	-8.0%	549.4	558.0	1.6%	
Financial income	162.4	166.3	2.3%	148.1	138.8	-6.3%	149.0	139.2	-6.5%	
Financial expenses	(181.4)	(180.8)	-0.3%	(170.5)	(169.4)	-0.6%	(153.4)	(152.5)	-0.6%	
Gain/loss from affiliates	91.2	88.6	-2.9%	85.0	83.8	-1.5%	89.3	89.1	-0.3%	
Pre-tax profit	249.1	129.8	-47.9%	582.9	533.6	-8.5%	668.2	667.7	-0.1%	
Net profit	228.1	118.9	-47.9%	533.8	488.6	-8.5%	612.0	611.5	-0.1%	
EPS	541	282	-47.9%	1,266	1,159	-8.5%	1,452	1,451	-0.1%	

Source: VNDIRECT RESEARCH



**Valuation**

**Income statement**

(VNDbn)	12-20A	12-21E	12-22E
Net revenue	5,229	4,219	5,583
Cost of sales	(4,900)	(3,851)	(4,671)
Gen & admin expenses	(311)	(342)	(447)
Selling expenses	(16)	(13)	(17)
<b>Operating profit</b>	<b>1</b>	<b>13</b>	<b>449</b>
Operating EBITDA	489	417	1,022
<b>Depreciation and amortisation</b>	<b>(488)</b>	<b>(405)</b>	<b>(573)</b>
<b>Operating EBIT</b>	<b>1</b>	<b>13</b>	<b>449</b>
Interest income	157	166	139
Financial expense	(201)	(181)	(169)
Net other income	30	43	32
Income from associates & JVs	216	89	84
<b>Pre-tax profit</b>	<b>204</b>	<b>130</b>	<b>534</b>
Tax expense	(20)	(13)	(52)
Minority interest	3	2	7
<b>Net profit</b>	<b>186</b>	<b>119</b>	<b>489</b>
Adj. net profit to ordinary	186	119	489
Ordinary dividends	(3)	(2)	(7)
<b>Retained earnings</b>	<b>184</b>	<b>117</b>	<b>481</b>

**Balance sheet**

(VNDbn)	12-20A	12-21E	12-22E
Cash and equivalents	925	1,409	1,045
Short term investments	1,196	1,136	1,079
Accounts receivables	1,949	1,573	2,082
Inventories	959	735	892
Other current assets	78	63	83
<b>Total current assets</b>	<b>5,107</b>	<b>4,916</b>	<b>5,181</b>
Fixed assets	13,496	13,429	13,135
Total investments	1,803	1,857	1,912
Other long-term assets	449	404	404
<b>Total assets</b>	<b>20,856</b>	<b>20,607</b>	<b>20,633</b>
Short-term debt	635	786	707
Accounts payable	696	685	830
Other current liabilities	1,467	1,319	1,567
<b>Total current liabilities</b>	<b>2,799</b>	<b>2,790</b>	<b>3,105</b>
Total long-term debt	3,231	3,144	2,829
Other liabilities	785	746	709
Share capital	4,215	4,215	4,215
Retained earnings reserve	1,938	1,821	1,877
<b>Shareholders' equity</b>	<b>13,794</b>	<b>13,678</b>	<b>13,733</b>
Minority interest	248	250	256
<b>Total liabilities &amp; equity</b>	<b>20,856</b>	<b>20,607</b>	<b>20,633</b>

**Cash flow statement**

(VNDbn)	12-20A	12-21E	12-22E
<b>Pretax profit</b>	<b>204</b>	<b>130</b>	<b>534</b>
Depreciation & amortisation	488	405	573
Tax paid	(38)	(13)	(52)
Other adjustments	(329)	(370)	(369)
<b>Change in working capital</b>	<b>(161)</b>	<b>607</b>	<b>(371)</b>
<b>Cash flow from operations</b>	<b>164</b>	<b>759</b>	<b>315</b>
Capex	(579)	(337)	(279)
Proceeds from assets sales	0	0	0
Others	(677)	0	0
<b>Cash flow from investing activities</b>	<b>(1,255)</b>	<b>(337)</b>	<b>(279)</b>
New share issuance			
Shares buyback			
Net borrowings	130	64	(393)
Other financing cash flow	(3)		
Dividends paid	(3)	(2)	(7)
<b>Cash flow from financing activities</b>	<b>124</b>	<b>62</b>	<b>(400)</b>
Cash and equivalents at beginning of period	1,890	925	1,409
<b>Total cash generated</b>	<b>(968)</b>	<b>484</b>	<b>(364)</b>
Cash and equivalents at the end of period	922	1,409	1,045

**Key ratios**

	12-20A	12-21E	12-22E
<b>Dupont</b>			
Net profit margin	3.6%	2.8%	8.8%
Asset turnover	0.25	0.20	0.27
ROAA	0.9%	0.6%	2.4%
Avg assets/avg equity	1.52	1.51	1.50
ROAE	1.4%	0.9%	3.6%
<b>Efficiency</b>			
Days account receivable	136.5	136.1	136.1
Days inventory	71.6	69.7	69.7
Days creditor	52.0	64.9	64.9
Fixed asset turnover	0.38	0.31	0.42
ROIC	1.0%	0.7%	2.8%
<b>Liquidity</b>			
Current ratio	1.8	1.8	1.7
Quick ratio	1.5	1.5	1.4
Cash ratio	0.8	0.9	0.7
Cash cycle	156.1	140.9	140.9
<b>Growth rate (yoy)</b>			
Revenue growth	19.7%	(19.3%)	32.3%
Operating profit growth	(96.9%)	1,002.8%	3,463.1%
Net profit growth	1.1%	(36.2%)	311.0%
EPS growth	(3.5%)	(36.2%)	311.0%

Source: VND RESEARCH

**DISCLAIMER**

This report has been written and distributed by Research Department, VNDIRECT Securities Corporation. The information contained in this report is prepared from data believed to be correct and reliable at the time of issuance of this report. Unless otherwise stated, this report is based upon sources that VNDIRECT considers to be reliable. These sources may include but are not limited to data from the stock exchange or market where the subject security is listed, or, where appropriate, any other market. Information on the company(ies) are based on published statements, information disclosure and announcements of the company(ies), and information resulting from our research. VNDIRECT has no responsibility for the accuracy, adequacy or completeness of such information.

All estimates, projections, forecasts and expression of opinions contained in this report reflect the personal views and opinions of the analyst(s) responsible for the production of this report. These opinions may not represent the views and position of VNDIRECT and may change without notice.

This report has been prepared for information purposes only. The information and opinions in this report should not be considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments. VNDIRECT takes no responsibility for any consequences arising from using the content of this report in any form.

This report and all of its content belongs to VNDIRECT. No part of this report may be copied or reproduced in any form or redistributed in whole or in part, for any purpose without the prior written consent of VNDIRECT.

**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.

**Hien Tran Khanh – Head of Research**

Email: [hien.trankhanh@vndirect.com.vn](mailto:hien.trankhanh@vndirect.com.vn)

**Dzung Nguyen – Senior Analyst**

Email: [dung.nguyentien5@vndirect.com.vn](mailto:dung.nguyentien5@vndirect.com.vn)

**Hai Nguyen Ngoc – Analyst**

Email: [hai.nguyenngoc2@vndirect.com.vn](mailto:hai.nguyenngoc2@vndirect.com.vn)

**VNDIRECT Securities Corporation**

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: [research@vndirect.com.vn](mailto:research@vndirect.com.vn)

Website: <https://vndirect.com.vn>