

PETROVIETNAM DRILLING & WELL SERVICES JSC (PVD) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND21,900	VND30,500	0.0%	ADD	OIL & GAS

26 May 2022

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

Consensus*: Add:5 Hold:4 Reduce:1

Target price / Consensus: -3.9%

Key changes in the report

- Lower FY22-24F EPS by 32.6%/9.3%/1.7%
- Lower TP by 2.9%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	33,290
52w low (VND)	14,333
3m Avg daily value (VNDmn)	186,772
Market cap (VND bn)	10,410
Free float (%)	50
TTM P/E (x)	474
Current P/B (x)	0.68

Ownership

PetroVietnam Group	50.5%
Others	49.5%

Source: VND RESEARCH

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Outlook intact despite bleak 1Q results

- Jack-up utilisation rate and day rates are improving but have yet fully covered for drilling fixed costs, which led to net loss of VND56.2bn in 1Q22.
- We believe in stronger recovery in quarters ahead as current strong oil price environment is likely to heat up regional drilling market in medium-term.
- Reiterate ADD with a lower target price (TP) of VND30,500.

Lackluster 1Q22 results as jack-up (JU) utilisation rate remained low

1Q22 net revenue surged by 108.4% yoy to VND1,145.9bn on the back of: (1) the contribution of TAD rig, (2) revenue recognition from an outsourced rig, and (3) the recovery of well service segment (+83.6% yoy). However, the slow recovery in JU utilisation rate (just 60%) and JU day rate (+4% yoy) did not fully cover warm-stacked costs of JU rig fleet, leading to a gross loss of VND13.2bn in drilling segment. Besides, PVD recorded lower affiliates income, but higher non-core business expenses coming from financial activities and other activities in 1Q22. As a result, PVD posted a 1Q22 net loss of VND56.2bn (compared to a 1Q21 net loss of VND103.8bn).

Stronger recovery in quarters ahead due to drilling market strengthening

Though regional drilling market is on track to recovery, PVD posted a modest recovery in JU day rate in 1Q22 (+4% yoy). This is likely as some drilling contracts has been awarded when the drilling market stayed in low base in term of JU day rate (PVD I, PVD III). Thus, we lower our average JU day rate assumption by 10.0%/2.9% for FY22-23F, leading to the downward adjustments in FY22-23F NP by 32.6%/9.3%, respectively. Fundamentally, we are still believe in PVD's performance recovery in quarters ahead as: (1) all PVD's rigs have secured drilling contracts for the rest of this year and beyond, (2) drilling market is expected to strongly rebound thanks to oil prices spike, which could translate to higher JU day rate for PVD's fleet, and (3) TAD rig officially reactivated from Jan 2022. We estimate PVD to record a significant growth in FY22F NP from 2021 low base (+17.4 times yoy), then attaining a NP CAGR of 45.1% in FY23-24F. Besides, PVD plans to pay share dividend of 10% for 2021.

Reiterate ADD with a slightly lower TP of VND30,500

Despite 1Q22 lackluster results, we believe in PVD's business rebound in coming period as the current extremely high oil price environment will heat up E&P activities globally, dragging to drilling demand rebound. Hence, we maintain our ADD rating for PVD with a lower TP of VND30,500 on the adjustments in EPS forecasts. Our TP is still based on the target FY22F P/BV of 1.15x. Re-rating catalysts are higher oil price and stronger-than-expected regional drilling market recovery. Downside risks come from the decline in oil price and lower-than-expected JU utilisation rate/day rate.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	5,229	3,995	5,763	5,823
Revenue growth	19.7%	(23.6%)	44.2%	1.0%
Gross margin	6.3%	9.3%	13.3%	17.7%
EBITDA margin	15.5%	17.7%	20.2%	25.4%
Net profit (bn)	186	20	340	593
Net profit growth	1.1%	(89.5%)	1636.3%	74.7%
Recurring profit growth	(51.5%)	(82.3%)	(100.0%)	
Basic EPS	442	46	732	1,173
Adjusted EPS	282	30	467	748
BVPS	32,723	32,243	26,669	27,222
ROAE	1.4%	0.1%	2.5%	4.4%

Source: VND RESEARCH

OUTLOOK INTACT DESPITE BLEAK 1Q RESULTS

Lackluster 1Q22 results as JU utilisation rate remained low

Figure 1: 1Q22 results overview

FYE Dec (VNDbn)	1Q21	1Q22	% yoy	% vs. FY22 forecasts	Comments
Net revenue	549.9	1,145.9	108.4%	19.2%	1Q22 net revenue surged by 108.4% yoy due to: (1) the improvement in JU utilisation rate to 60% (compared to 52% in 1Q21), (2) incurring 1 outsourced rig, (3) the contribution of TAD rig, and (4) higher well services revenue
Drilling	236.5	748.0	216.2%		
Well services	211.7	388.5	83.6%		
Trading	101.6	9.4	-90.8%		
Gross profit	(27.8)	69.9	NA	7.1%	
Drilling	(75.0)	(13.2)	-82.4%		
Well services	34.3	78.1	127.4%		
Trading	12.9	5.1	-60.5%		
Gross profit margin (%)	-5.1%	6.1%	11.2% pts		1Q22 blended GPM improved thanks to the recovery in drilling market
<i>Drilling</i>	<i>-31.7%</i>	<i>-1.8%</i>	<i>30.0% pts</i>		
<i>Well services</i>	<i>16.2%</i>	<i>20.1%</i>	<i>3.9% pts</i>		
<i>Trading</i>	<i>12.7%</i>	<i>54.4%</i>	<i>41.7% pts</i>		
Selling expenses	(1.4)	(1.4)	-3.4%	7.0%	
G&A expenses	(83.6)	(86.2)	3.1%	17.3%	
Operating profit	(112.8)	(17.6)	-84.4%		
Financial income	41.5	26.8	-35.4%		1Q22 net financial expenses surged ~18 times yoy to VND28.9bn due to lower deposit income and higher FX loss
Financial expenses	(43.1)	(55.7)	29.2%		
Gain (loss) from affiliates	9.7	(4.7)	-148.5%		
Net other income (expenses)	(1.8)	(13.8)	678.0%		
Pre-tax profit	(106.5)	(65.1)	-38.9%		
Net profit	(103.8)	(56.2)	-45.9%	NA	Lower than our expectations

Source : VNDIRECT RESEARCH, COMPANY REPORTS

FY22-24F outlook: Stronger recovery in the next quarters thanks to drilling market rebound

SEA drilling demand is expected to increase in medium-term

According to IHS Markit, there are 30 contracted rigs out of total of 42 rigs being in drilling mode in early this year in Southeast Asia (SEA). And IHS forecasts JU utilisation rate to further increase from 2Q22 when many drilling campaigns come operation. Amid the very high oil price environment, drilling demand could increase in SEA in the period of 2022-25F with the expected rig demand of 6 – 8 rigs for Vietnam, 11 – 22 rigs for Malaysia, 8 – 12 rigs for Indonesia and 8 – 16 rigs for Thailand. Accordingly, JU day rate is forecasted to raise to the level of US\$75,000 per day this year, benefiting for a drilling service provider like PVD.

Figure 2: Southern Asia average Jack-up day rate and utilisation rate



PVD’s drilling schedule is filled up from 2Q22 onwards

So far, all PVD’s rigs has secured contracts for 2022 drilling campaigns and beyond, as details below:

- PVD I is responsible for drilling campaign of Vietsovetro (VSP) until 1Q23F.
- PVD II has started drilling for VSP from March 2022 with a short-term contract at Block 09-1, then moving to Indonesia to serve for 3-month drilling program. After that, it is expected to back to Vietnam for another drilling program.
- PVD III has continued the long-term contract for Repsol Malaysia with an optional extension in 2023.
- PVD VI has drilled for ENI and Premier Oil Vietnam in 2Q22F and 3Q22F, respectively. Then it is expected to serve for another domestic customer in the rest of this year and beyond.
- PVD 5 (TAD rig) has started 10-year contract for Shell Brunei since Jan 2022.

At 2022 AGM, the management mention that in case of sustained high oil prices, many domestic oil and gas fields could be deployed, providing more potential jobs for PVD in the next couple of years.

Generally, we estimate PVD to record a significant growth in FY22F NP from 2021 low base (+17.4 times yoy), then attaining a NP CAGR of 45.1% in FY23-24F on the back of: (1) regional drilling market strengthening, and (2) the contribution of deepwater rig (TAD rig).

Figure 3: PVD's drilling schedule in 2022

Rig fleet	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22F	3Q22F	4Q22F
PVD I		CLJOC		VSP			VSP	
PVD II	VSP		HLJOC			VSP	Indonesia	
PVD III		VSP	JVPC				Repsol Malaysia	
PVD VI		ENI		TLJOC			ENI VN	Premier Oil VN
TAD		Reactivating for Shell Brunei campaign					Shell Brunei	
PVD XI						GBRS		
Hakuryu-11 *					Idemitsu			

 Firm contract

 Potential contract/In the bidding

* outsourced rig

Source: VNDIRECT RESEARCH, COMPANY REPORTS

FY22-24F earnings forecast revision: We trim FY22-24F EPS forecasts by 32.6%/9.3%/1.7% due to applying lower JU day rate assumptions

Figure 4: FY22-24F earnings forecast revision

Unit: VNDbn (otherwise noted)	2022F			2023F			2024F			Comments
	Old	New	%Δ	Old	New	%Δ	Old	New	%Δ	
Average jack-up day rate (US\$)	70,000	63,000	-10.0%	72,100	70,000	-2.9%	74,263	74,200	-0.1%	We revise down our average JU day rate assumption by 10.0%/2.9% for FY22-23F to reflect lower-than-expected average JU day rate in 1Q22
Average TAD day rate (US\$)	90,000	90,000	-	90,000	90,000	-	90,000	90,000	-	
Jack-up utilisation rate (%)	90%	90%	-	90%	90%	-	90%	90%	-	
TAD utilisation rate (%)	95%	95%	-	95%	95%	-	95%	95%	-	
Net revenue	5,972.0	5,763.4	-3.5%	5,883.7	5,822.7	-1.0%	6,125.5	6,127.2	0.0%	
Trading	441.1	445.8	1.1%	454.3	459.1	1.1%	463.4	468.3	1.1%	
Drilling	3,451.7	3,239.6	-6.1%	3,204.7	3,140.1	-2.0%	3,303.9	3,301.9	-0.1%	
Well services	2,079.2	2,078.1	-0.1%	2,224.7	2,223.5	-0.1%	2,358.2	2,356.9	-0.1%	
Gross profit	981.6	769.4	-21.6%	1,095.6	1,030.9	-5.9%	1,193.2	1,191.1	-0.2%	
<i>Gross profit margin</i>	16.4%	13.3%	-3.1% pts	18.6%	17.7%	-0.9% pts	19.5%	19.4%	0.0% pts	
SG&A expenses	517.3	500.9	-3.2%	460.3	455.5	-1.0%	473.1	473.2	0.0%	
Operating profit	464.4	268.5	-42.2%	635.2	575.4	-9.4%	720.0	717.9	-0.3%	
Financial income	153.7	145.0	-5.6%	163.2	145.1	-11.1%	181.0	165.1	-8.8%	Adjust in line with 1Q22 numbers
Financial expenses	170.4	169.3	-0.6%	164.3	162.2	-1.3%	160.1	158.1	-1.2%	
Gain/loss from affiliates	119.4	115.3	-3.5%	123.6	122.3	-1.0%	128.6	128.7	0.0%	
Pre-tax profit	587.4	378.9	-35.5%	777.7	700.3	-10.0%	890.4	874.2	-1.8%	
Net profit	503.8	339.5	-32.6%	654.1	593.1	-9.3%	727.4	715.0	-1.7%	
EPS	995.9	671.2	-32.6%	1,293.0	1,172.5	-9.3%	1,437.9	1,413.4	-1.7%	

Source: VNDIRECT RESEARCH

Reiterate ADD with a lower TP of VND30,500

Despite 1Q22 lackluster results, we still believe in the stronger recovery of PVD in coming periods as: (1) all PVD's rigs have secured drilling contracts for the rest of this year and beyond, (2) TAD rig officially reactivated from Jan 2022, and (3) drilling demand is expected to strongly recover thanks to the current oil price spike, translating to stronger JU day rate. Therefore, we maintain our ADD

rating for PVD's share with a lightly lower TP of VND30,500, still based on the target FY22F P/BV of 1.15x.

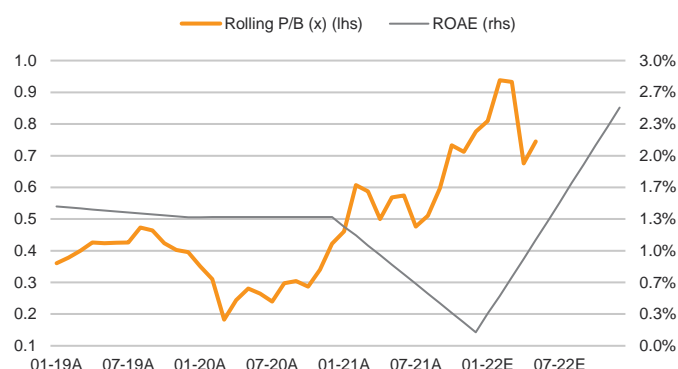
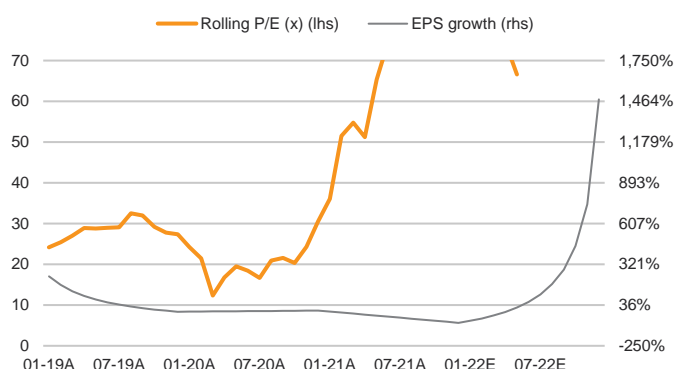
Re-rating catalysts and downside risks:

- Re-rating catalysts are higher oil price and stronger-than-expected regional drilling market recovery.
- Downside risks come from the decline in oil price and lower-than-expected JU utilisation rate/day rate.

Figure 5: Sector comparison

Company	Ticker	Recom.	Price	Target Price	Mkt Cap	P/E (x)		3-yr EPS	P/B (x)		ROE (%)		ROA (%)	
			LC\$	LC\$	US\$ m	FY22F	FY23F	CAGR (%)	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Borr Drilling Ltd	BORR NO	NR	47.50	NA	758	NA	NA		1.2	1.3	-14.0%	-0.8%	NA	NA
Velesto Energy Bhd	VEB MK	NR	0.12	NA	224	NA	20		40.0	40.0	2.3%	3.6%	0.0%	1.9%
Sapura Energy Bhd	SAPE MK	NR	0.08	NA	272	NA	NA		0.3	1.0	-81.0%	5.6%	-3.5%	-2.4%
Valaris Ltd	VAL US	NR	59.73	NA	4,480	92	16		4.1	3.1	10.4%	28.2%	NA	NA
Transocean	RIG US	NR	4.14	NA	2,820	NA	NA		0.3	0.3	-4.4%	-2.8%	-1.9%	-0.8%
<i>Average</i>									9.2	9.1	-17.3%	6.7%	-1.8%	-0.4%
PV Drilling	PVD VN	ADD	21,900	30,500	477	32.6	18.7	231.9%	0.8	0.8	2.5%	4.4%	1.6%	2.9%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 26 MAY)

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	3,995	5,763	5,823
Cost of sales	(3,624)	(4,994)	(4,792)
Gen & admin expenses	(386)	(482)	(437)
Selling expenses	(13)	(19)	(19)
Operating profit	(27)	268	575
Operating EBITDA	507	940	1,247
Depreciation and amortisation	(534)	(672)	(672)
Operating EBIT	(27)	268	575
Interest income	164	145	145
Financial expense	(171)	(169)	(162)
Net other income	(7)	19	20
Income from associates & JVs	104	115	122
Pre-tax profit	62	379	700
Tax expense	(26)	(32)	(95)
Minority interest	(17)	(7)	(12)
Net profit	20	340	593
Adj. net profit to ordinary	20	340	593
Ordinary dividends	(3)	(5)	(9)
Retained earnings	17	334	584

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	1,131	851	1,094
Short term investments	1,544	1,390	1,320
Accounts receivables	1,936	2,116	2,393
Inventories	758	958	977
Other current assets	60	87	88
Total current assets	5,429	5,401	5,872
Fixed assets	12,962	12,636	12,314
Total investments	652	773	787
Other long-term assets	1,718	1,718	1,718
Total assets	20,761	20,528	20,691
Short-term debt	748	665	651
Accounts payable	780	892	856
Other current liabilities	1,502	1,463	1,478
Total current liabilities	3,030	3,021	2,986
Total long-term debt	3,206	3,095	3,030
Other liabilities	693	680	666
Share capital	4,215	5,059	5,059
Retained earnings reserve	1,923	978	1,258
Shareholders' equity	13,592	13,491	13,770
Minority interest	240	242	239
Total liabilities & equity	20,761	20,528	20,691

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	62	379	700
Depreciation & amortisation	534	672	672
Tax paid	(47)	(32)	(95)
Other adjustments	(307)	(337)	(264)
Change in working capital	(619)	(416)	(332)
Cash flow from operations	(376)	265	681
Capex	(608)	(346)	(349)
Proceeds from assets sales	0	0	0
Others	1,065	0	0
Other non-current assets changes			
Cash flow from investing activities	457	(346)	(349)
New share issuance			
Shares buyback			
Net borrowings	154	(194)	(79)
Other financing cash flow	(26)		
Dividends paid	(3)	(5)	(9)
Cash flow from financing activities	125	(199)	(88)
Cash and equivalents at beginning of period	925	1,131	851
Total cash generated	206	(280)	243
Cash and equivalents at the end of period	1,131	851	1,094

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	0.5%	5.9%	10.2%
Asset turnover	0.19	0.28	0.28
ROAA	0.1%	1.6%	2.9%
Avg assets/avg equity	1.52	1.52	1.51
ROAE	0.1%	2.5%	4.4%
Efficiency			
Days account receivable	176.8	134.0	150.0
Days inventory	76.3	70.0	74.4
Days creditor	78.5	65.2	65.2
Fixed asset turnover	0.30	0.45	0.47
ROIC	0.1%	1.9%	3.4%
Liquidity			
Current ratio	1.8	1.8	2.0
Quick ratio	1.5	1.5	1.6
Cash ratio	0.9	0.7	0.8
Cash cycle	174.6	138.8	159.2
Growth rate (yoy)			
Revenue growth	(23.6%)	44.2%	1.0%
Operating profit growth	(2,490.8%)		114.3%
Net profit growth	(89.5%)	1,636.3%	74.7%
EPS growth	(89.5%)	1,478.4%	60.1%

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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