

## PETROVIETNAM TECHNICAL SERVICES CORP (PVS) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND22,000	VND35,500	4.54%	ADD	OIL & GAS

10 May 2022

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

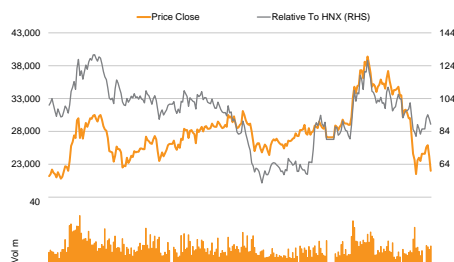
Consensus\*: Add:3 Hold:6 Reduce:1

Target price / Consensus: -6.3%

### Key changes in the report

➤ N/A

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	39,400
52w low (VND)	20,800
3m Avg daily value (VNDmn)	337,984
Market cap (VND bn)	11,567
Free float (%)	49
TTM P/E (x)	17.5
Current P/B (x)	0.89

### Ownership

PetroVietnam Group	51.4%
Others	48.6%

Source: VND RESEARCH

### Analyst(s):



Hai Nguyen Ngoc

hai.nguyenngoc2@vndirect.com.vn

## Strong recovery from core businesses

- 1Q22 net profit (NP) grew 49.5% yoy to VND216bn, higher than that of 30% yoy of 1Q21, coming in at 23% of our full-year forecast.
- We expect current high oil price environment to set the stage for PVS in negotiating FSO/FPSO contract renewal.
- Upgrade to ADD on the recent price weakness.

### Strong 1Q22 earnings, marking the recovery in PVS's core businesses

1Q22 net revenue strongly recover by 44.2% yoy to VND3,769bn thanks to contribution from newly awarded EPC contracts in 2H21. However, 1Q22 gross profit just increased by 7.8% yoy as these projects has been in the early stages. In the period, G&A expenses dropped 21.2% yoy thanks to lower labor costs and lower provision expenses, and affiliate income kept playing a main role in PVS's business with a growth rate of 13.8% to VND162bn. These led to a 49.5% yoy growth in 1Q22 NP to VND216bn, fulfilling 23% of our full-year forecast.

### High oil price environment is ideal for FSO/FPSO contract renewal

In 4Q21, PVS recorded the negative affiliate income mainly as the company booked provision expenses for FPSO Lam Son as it has not finalized the extension contract after 30 June 2022. In our view, the current high oil price base will set an ideal condition for PVS to negotiate the contract renewal for FPSO Lam Son as well as FPSO Ruby, solidifying the main driver of the company with a CAGR of 24.1% in FY22-23F. Notably, the company will also participate in FSO bidding for Block B project once the project is kicked off. We consider this will be a potential upside catalyst for PVS in coming times.

### We forecast FY22-24F NP to achieve a CAGR of 26.7%

At 2022 AGM, despite no mention of implementation time, PVS expect Block B project to create many job opportunities for the company in coming years. The company also targets offshore wind power business to become the long-term growth driver, in which PVS will participate in this segment as an investor as well as an EPC contractor. For 2022, PVS targets a conservative plan with revenue of VND10,000bn (-29.7% yoy) and profit after tax of VND488bn (-28% yoy). In our view, PVS will easily exceed this guidance and expectedly record a NP CAGR of 26.7% in FY22-24F, driven by: (1) the solid contribution of FSO/FPSO joint ventures, and (2) the improved prospect of M&C business from 2022. In addition, PVS will pay a cash dividend of 8% and 7% on par value for FY21-22F.

### Upgrade to ADD on the price weakness with unchanged TP of VND35,500

Following oil price spike, PVS starts to show the recovery in its core businesses with positive 1Q22 performance and the M&C segment rebound. We consider the recent market correction has brought PVS share back to buy territory. Thus, we upgrade our rating to Add with unchanged TP of VND35,500. Downside risks come from the decline in oil price and further delays in major projects award.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	20,180	14,221	19,654	23,276
Revenue growth	20.2%	(29.5%)	38.2%	18.4%
Gross margin	3.9%	6.2%	6.2%	6.4%
EBITDA margin	8.0%	9.6%	9.8%	9.4%
Net profit (bn)	624	602	938	1,137
Net profit growth	(39.6%)	(3.5%)	55.9%	21.2%
Recurring profit growth	(39.6%)	(3.5%)	55.9%	21.2%
Basic EPS	1,306	1,260	1,963	2,379
Adjusted EPS	1,149	1,108	1,728	2,093
BVPS	25,411	24,674	25,771	25,507
ROAE	5.1%	5.0%	7.8%	9.3%

Source: VND RESEARCH

## STRONG RECOVERY FROM CORE BUSINESSES

Strong 1Q22 earnings, marking the recovery in PVS's core businesses

Figure 1: 1Q22 results overview

FYE Dec (VNDbn)	1Q21	1Q22	% yoy	% vs. FY22 forecasts	Comments
<b>Net revenue</b>	<b>2,614</b>	<b>3,769</b>	<b>44.2%</b>	<b>19.2%</b>	1Q22 net revenue surged 44.2% yoy due to higher workload for O&M and M&C segment, which came from newly awarded EPC contracts in 2021 like Gallaf Batch 3, Shwe Phase 3 or Hai Long windfarm
Offshore support vessel	358	321	-10.2%		
FSO/FPSO	458	433	-5.6%		
Seismic survey	59	75	26.8%		
Port base	369	314	-15.1%		
Mechanics & construction (M&C)	1,228	2,048	66.8%		
Operation & maintenance (O&M)	32	425	1209.9%		
Other services	110	154	40.9%		
<b>Gross profit</b>	<b>179</b>	<b>193</b>	<b>7.8%</b>	<b>15.9%</b>	1Q22 gross profit just increased by 7.8% yoy as major EPC projects has been in the early stages
Offshore support vessel	30	28	-7.1%		
FSO/FPSO	36	52	42.7%		
Seismic survey	(10)	(12)	30.1%		
Port base	56	70	25.1%		
Mechanics & construction (M&C)	44	36	-17.6%		
Operation & maintenance (O&M)	18	5	-74.7%		
Other services	3	14	319.2%		
<b>Gross profit margin</b>	<b>6.8%</b>	<b>5.1%</b>	<b>-1.7% pts</b>		
Offshore support vessel	8.3%	8.6%	0.3% pts		
FSO/FPSO	7.9%	12.0%	4.1% pts		
Seismic survey	NA	NA	NA		
Port base	15.2%	22.5%	7.2% pts		
Mechanics & construction (M&C)	3.6%	1.8%	-1.8% pts		
Operation & maintenance (O&M)	56.3%	1.1%	-55.2% pts		
Other services	3.1%	9.2%	6.1% pts		
Selling expenses	22	15	-31.8%		
G&A expenses	191	150	-21.2%		1Q22 G&A expenses dropped 21.2% yoy thanks to lower labor costs and lower provision expenses
Operating profit	(35)	27	NA		
Net financial income (expenses)	56	64	13.9%		
Gain/loss from investment in JVs	157	162	13.8%	26.5%	Affiliate income kept playing a main role in PVS's business with a growth rate of 13.8% to VND162bn. We expect PVS to get the contract renewal soon for FPSO Lam Son and FPSO Ruby, solidifying this business prospect
Net other income	42	58	36.2%		PVS recognised the asset liquidation income of VND62.4bn. In this quarter, PVS announced to successfully hand over 2 seismic vessels of PTSC CGGV
<b>Pre-tax profit</b>	<b>221</b>	<b>311</b>	<b>41.0%</b>	<b>22.4%</b>	
Profit after tax	164	250	52.9%		
<b>Net profit</b>	<b>145</b>	<b>216</b>	<b>49.5%</b>	<b>23.0%</b>	In line with our expectations

Source: VNDIRECT RESEARCH, COMPANY REPORTS

### Upgrade to ADD on the price weakness with unchanged TP of VND35,500

Thanks to the oil price hike, PVS's core businesses have shown the recovery in 1Q22, especially FSO/FPSO affiliates and M&C segment. Amidst oil price remaining on the high base and the company outlook gradually recovering, we consider that the recent market correction has brought PVS share back to buy territory. Therefore, we upgrade our rating to Add with unchanged TP of VND35,500, still based on an equal weighting of DCF valuation and the target FY22F P/E of 17.9x.

Re-rating catalysts and downside risks:

- Re-rating catalyst is higher oil price.
- Downside risks come from the decline in oil price and further delays in major projects award.

**Figure 2: Target price**

Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
DCF	35,826	50%	17,913
FY22F target P/E of 17.9x	35,106	50%	17,553
Blended value			35,466
<b>Target price</b>			<b>35,500</b>

Source: VNDIRECT RESEARCH

**Figure 3: DCF Valuation – Summary of free cash flow (FCF)**

VNDbn	Dec-22F	Dec-23F	Dec-24F	Dec-25F	Dec-30F	Dec-35F	CAGR 21-35F
Total revenue	19,654	23,276	20,449	21,471	26,499	30,498	5.6%
% yoy	38.2%	18.4%	-12.1%	5.0%	3.9%	2.3%	
COGS & OPEX	(19,300)	(22,729)	(19,916)	(20,911)	(25,808)	(29,703)	
Unlevered profit / EBIT	354	547	533	560	691	796	
Operating margin	1.8%	2.4%	2.6%	2.6%	2.6%	2.6%	
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
EBIT * (1-Tax) or NOPAT	283	438	427	448	553	636	
+ Depreciation and amortisation	500	474	462	580	715	823	
% of revenue	2.5%	2.0%	2.3%	2.7%	2.7%	2.7%	
- Capex	(343)	(406)	(356)	(374)	(462)	(532)	
% of revenue	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	-1.7%	
+ Change in working capital	706	(273)	257	(429)	(530)	(610)	
% of revenue	3.6%	-1.2%	1.3%	-2.0%	-2.0%	-2.0%	
Interest and other financial activities, net	1,033	1,134	1,275	1,074	1,325	1,525	
% of revenue	5.3%	4.9%	6.2%	5.0%	5.0%	5.0%	
Unlevered free cash flow (UFCF)	2,180	1,366	2,065	1,298	1,602	1,843	6.9%

Source: VNDIRECT RESEARCH

**Figure 4: Cost of equity**

<b>Cost of equity</b>	
Risk Free Rate	3.0%
Beta	1.3
Risk Premium	11.0%
<b>Cost of Equity</b>	<b>17.3%</b>

Source: VNDIRECT RESEARCH

**Figure 5: WACC and Long-term growth rate**

<b>VNDbn</b>	
Equity Value	11,793
Debt	1,245
Cost of Debt	5.0%
Tax Rate	20.0%
<b>WACC</b>	<b>16.0%</b>
<b>Perpetual Growth Rate</b>	<b>1.5%</b>

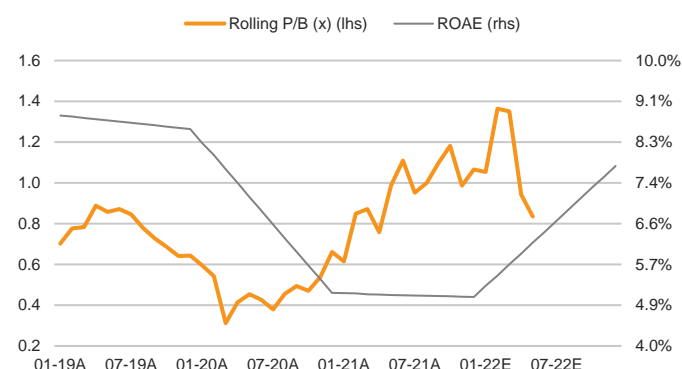
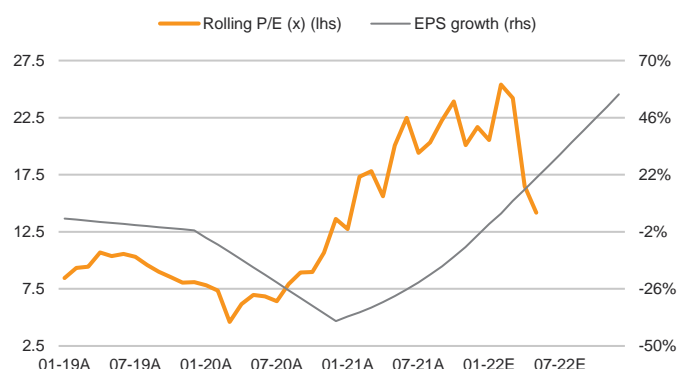
Source: VNDIRECT RESEARCH

**Figure 6: Sector comparison**

Company	Ticker	Recom.	Price	Target Price	Mkt Cap	P/E (x)		3-yr EPS CAGR (%)	P/BV (x)		ROE (%)		ROA (%)	
			LC\$	LC\$		FY22F	FY23F		FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Malaysia Marine Eng	MMHE MK	NR	0.41	NA	144	NA	39.5		0.4	0.4	0.2%	2.1%	0.9%	1.0%
Yinson Holdings	YNS MK	NR	2.37	NA	1,117	12.0	8.3		1.4	1.0	12.3%	14.8%	4.0%	5.7%
Sembcorp Marine	SMM SP	NR	0.10	NA	2,170	NA	NA		0.8	0.8	-5.4%	-1.4%	-2.7%	-0.4%
Hyundai Engineering	000720 KS	NR	43,400	NA	3,698	11.4	8.6		0.7	0.6	6.7%	7.1%	3.1%	3.5%
Keppel Corp	KEP SP	NR	6.69	NA	8,495	13.6	12.7		0.9	0.9	7.3%	7.8%	2.9%	3.0%
<i>Average</i>						12.3	17.3		0.8	0.7	4.2%	6.1%	1.6%	2.5%
<b>PV Technical Services</b>	<b>PVS VN</b>	<b>ADD</b>	<b>22,000</b>	<b>35,500</b>	<b>479</b>	<b>11.2</b>	<b>9.2</b>	<b>26.7%</b>	<b>0.9</b>	<b>0.9</b>	<b>7.8%</b>	<b>9.3%</b>	<b>3.8%</b>	<b>4.6%</b>

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

## Valuation



## Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	14,221	19,654	23,276
Cost of sales	(13,345)	(18,445)	(21,786)
Gen & admin expenses	(781)	(747)	(815)
Selling expenses	(90)	(108)	(128)
<b>Operating profit</b>	<b>5</b>	<b>354</b>	<b>547</b>
Operating EBITDA	505	855	1,021
<b>Depreciation and amortisation</b>	<b>(500)</b>	<b>(500)</b>	<b>(474)</b>
<b>Operating EBIT</b>	<b>5</b>	<b>354</b>	<b>547</b>
Interest income	278	329	327
Financial expense	(94)	(86)	(91)
Net other income	214	177	116
Income from associates & JVs	414	613	781
<b>Pre-tax profit</b>	<b>816</b>	<b>1,387</b>	<b>1,681</b>
Tax expense	(138)	(330)	(400)
Minority interest	(76)	(118)	(143)
<b>Net profit</b>	<b>602</b>	<b>938</b>	<b>1,137</b>
Adj. net profit to ordinary	602	938	1,137
Ordinary dividends	(533)	(478)	(478)
<b>Retained earnings</b>	<b>69</b>	<b>460</b>	<b>659</b>

## Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	5,754	6,051	5,685
Short term investments	2,670	2,670	2,670
Accounts receivables	4,620	4,846	5,612
Inventories	2,161	1,533	1,671
Other current assets	241	333	395
<b>Total current assets</b>	<b>15,446</b>	<b>15,433</b>	<b>16,033</b>
Fixed assets	2,982	2,824	2,756
Total investments	4,910	4,794	4,804
Other long-term assets	1,356	1,288	1,224
<b>Total assets</b>	<b>24,693</b>	<b>24,339</b>	<b>24,818</b>
Short-term debt	711	517	435
Accounts payable	4,293	4,598	5,229
Other current liabilities	3,622	2,703	2,816
<b>Total current liabilities</b>	<b>8,626</b>	<b>7,817</b>	<b>8,480</b>
Total long-term debt	534	477	455
Other liabilities	3,012	3,012	3,012
Share capital	4,780	4,780	4,780
Retained earnings reserve	3,622	3,994	3,684
<b>Shareholders' equity</b>	<b>11,793</b>	<b>12,318</b>	<b>12,192</b>
Minority interest	728	716	679
<b>Total liabilities &amp; equity</b>	<b>24,693</b>	<b>24,339</b>	<b>24,818</b>

## Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
<b>Pretax profit</b>	<b>816</b>	<b>1,387</b>	<b>1,681</b>
Depreciation & amortisation	500	500	474
Tax paid	(155)	(271)	(328)
Other adjustments	(1,062)	(1,155)	(1,135)
<b>Change in working capital</b>	<b>(340)</b>	<b>706</b>	<b>(273)</b>
<b>Cash flow from operations</b>	<b>(241)</b>	<b>1,167</b>	<b>419</b>
Capex	(248)	(343)	(406)
Proceeds from assets sales	14	14	14
Others	1,504	188	188
Other non-current assets changes			
<b>Cash flow from investing activities</b>	<b>1,270</b>	<b>(140)</b>	<b>(204)</b>
New share issuance	0	0	0
Shares buyback			
Net borrowings	45	(252)	(103)
Other financing cash flow			
Dividends paid	(533)	(478)	(478)
<b>Cash flow from financing activities</b>	<b>(488)</b>	<b>(730)</b>	<b>(581)</b>
Cash and equivalents at beginning of period	5,212	5,754	6,051
<b>Total cash generated</b>	<b>542</b>	<b>297</b>	<b>(366)</b>
Cash and equivalents at the end of period	5,754	6,051	5,685

## Key ratios

	12-21A	12-22E	12-23E
<b>Dupont</b>			
Net profit margin	4.2%	4.8%	4.9%
Asset turnover	0.56	0.80	0.95
ROAA	2.4%	3.8%	4.6%
Avg assets/avg equity	2.13	2.03	2.01
ROAE	5.0%	7.8%	9.3%
<b>Efficiency</b>			
Days account receivable	118.6	90.0	88.0
Days inventory	59.1	30.3	28.0
Days creditor	117.4	91.0	87.6
Fixed asset turnover	4.65	6.77	8.34
ROIC	4.4%	6.7%	8.3%
<b>Liquidity</b>			
Current ratio	1.8	2.0	1.9
Quick ratio	1.5	1.8	1.7
Cash ratio	1.0	1.1	1.0
Cash cycle	60.2	29.3	28.4
<b>Growth rate (yoy)</b>			
Revenue growth	(29.5%)	38.2%	18.4%
Operating profit growth		7,383.8%	54.4%
Net profit growth	(3.5%)	55.9%	21.2%
EPS growth	(3.5%)	55.9%	21.2%

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.

### Hien Tran Khanh – Research Director

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>