

Stable revenue growth from drilling operations' full capacity

Overweight

Target price **VND 57,700**
Current price **VND 49,500**

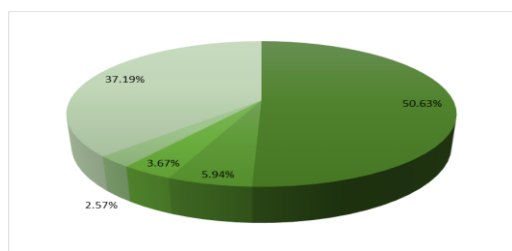
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Co. Profile

| | |
|---------------------------|-----------------|
| Ticker | PVD |
| Charter Capital (VND bil) | 2,105 |
| Outstanding shares (mil) | 210,5 |
| Market Capital (VND bil) | 8,839.62 |
| 52W range* (VND) | 30,900 – 47,000 |
| Ave. trading volume 3M | 176,600 |
| Beta | 0.92 |
| Foreign Ownership | 37% |
| First listing date | 5 Dec 2006 |

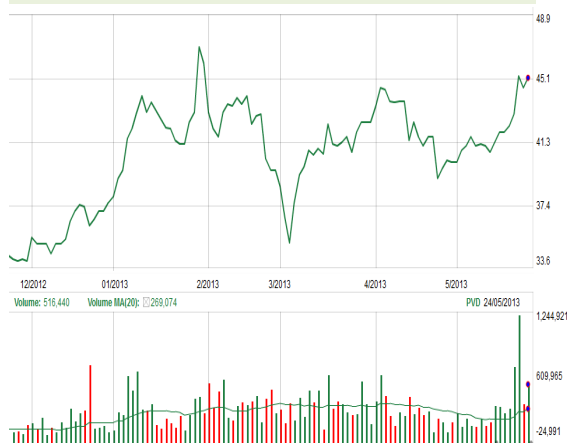
Major shareholders

| | |
|-------------------------|--------|
| PVN | 50.63% |
| Deutsche Bank AG London | 5.94% |
| PVF | 3.67% |
| VCB | 2.57% |



Price movement

| | 3M | 6M | 12M |
|----------------|------|-------|-------|
| Absolute | +2,7 | +8,2 | +10,4 |
| Percentage (%) | +6.8 | +24.1 | +32.3 |



- **The company's revenue is on the upward trend:** PVD has released the consolidated financial statement for Q1/2013, in which net sales and gross profit reached VND 3,179 bil (+34.7% YoY) and VND 787 bil (+23.68% YoY) respectively. The reason behind is the high efficiency in operation of drilling rigs and a 10% rise of drilling's day rate compared to Q1/2012 to USD150,000- USD165,000/day. Although net revenue rose pretty high, net profit didn't walk at the same pace which shows (i) *the falling of the profit margin caused by the low margin of 2 new leasing rigs - Naga 2 & West Tucana - and (ii) the increasing of management costs which came mainly from the R&D fund.* Consequently, earnings after tax (EAT) witnessed a slightly gain of 19% YoY to VND 453 bil. According to Co.'s manager, EAT in 1H2013 is estimated above VND 800 bil, up 20% YoY and completed 59% of the target for the year 2013. Besides, ROE and ROA (TTM) increased respectively 2ppt from a 4-year average of 18% to 20% and 1ppt from a 4-year average of 6% to 7.4%. These showed that the percentage of profit growth was bigger than that of capital growth and the company used its available resources very efficiently.

- **Industry Overview:** Asia-Pacific is in a strong position to become a new hub for global gas development over the next five years. Indeed, going forwards to 2017, 30 deep water gas fields are expected to come on-stream compared to just 9 deep water oil field developments. Besides, the current number of rigs is not sufficient for the demand of the development and investment of many producers. Therefore, the expected demand of drilling rig will strongly increase in the period 2013 – 2017 that lead to the possibility of day rate increasing to USD 150.000 – USD 170.000 for jack-up rigs. For 2013, the drilling market is expected to be more exciting than last year. The day rate is now increasing by 10 -15% from USD 125.000-USD 135.000 FY2012 to USD 135.000 – USD 150.000. About our country, Vietnam is ranked 3rd among South-East Asian countries in term of oil & gas exploitation with an output of 350,000 barrels a day. At present, Vietnam has 7 oil mines being exploited and manufacturing 7 kinds of crude oil with different specifications. In general, these 7 kinds of crude oil have high quality, attaining a higher crude oil price than the Brent standard crude oil price in world market. Hence, the demand for drilling services in Vietnam will continue increasing strongly. Equipment rent price is on the upward trend also. This is because of the high weight of old drilling equipment that is 20-30%, so there will be higher demand for modern equipment.

- **Overweight:** We reiterate an Overweight rating on PVD in our coverage with a target price of VND 57,700, implying a PE multiple of 7.5(x) 2013E EPS.

| (bil VND) | 2010 | 2011 | 2012 | 1Q2013 | Co's plan | 2013E |
|----------------|--------|--------|--------|--------|-----------|--------|
| Net Revenue | 7,572 | 9,287 | 11,859 | 3,178 | 11,275 | 13,581 |
| % gross margin | 23% | 23% | 21% | 25% | | |
| % OP margin | 17% | 16% | 15% | 19% | | |
| EBT | 1,019 | 1,204 | 1,684 | 516 | | |
| Net profit | 882 | 1,050 | 1,325 | 451 | 1,360 | 1,621 |
| % growth YoY | 8% | 19% | 26% | 19% | | |
| % growth QoQ | | | | 97% | | |
| EPS (TTM) | 4,190 | 4,989 | 6,295 | 6,705 | | 7,704 |
| BVPS | 24,830 | 29,374 | 33,180 | 35,002 | | |
| P/E | 10.76 | 9.04 | 7.16 | 7.3 | | |
| P/B | 1.82 | 1.54 | 1.36 | 1.4 | | |

Source: PVD & PHS's forecast

Company description

PV Drilling is a professional provider of drilling rigs and drilling-related services as well as manpower supply for onshore and offshore drilling operation. PVD has accounted for large market share in technical services. It has 50% market share of drilling equipment technical services, 90% market share for oil spill control services, 70% market share for drilling equipment repair and maintenance services



Company history

- In 2001, PV Drilling is established, which originates from the formation of PTSC Offshore - a division of PTSC.
- In October 2005, transformed into a joint stock company
- On 05/12/2006, listed PVD stock on the Ho Chi Minh City Stock Exchange.

Historical P/E



Financial ratio (bil VND)

| Income statement | 2009 | 2010 | 2011 | 2012 | Yearly ratio | 2009 | 2010 | 2011 | 2012 |
|--------------------------------|----------------|----------------|----------------|----------------|-----------------------------|--------|--------|--------|--------|
| Net sales | 4,097 | 7,572 | 9,287 | 11,859 | Growth rate | | | | |
| Cost of goods sold | 2,857 | 5,814 | 7,197 | 9,331 | Revenue growth rate | 10% | 85% | 23% | 28% |
| Gross profit | 1,240 | 1,758 | 2,090 | 2,527 | Gross profit growth rate | 3% | 42% | 19% | 21% |
| Operating costs | 274 | 453 | 646 | 741 | Net profit growth rate | -9% | 8% | 19% | 26% |
| Financial income | 203 | 176 | 152 | 60 | Total asset growth rate | 43% | 18% | 26% | 3% |
| Financial expense | 322 | 481 | 447 | 421 | Equity growth rate | 104.0% | 23.7% | 18.3% | 13.0% |
| Interest expense | 72 | 313 | 447 | 301 | Profitability ratios | | | | |
| Other incomes | 25 | (33) | (17) | 110 | Gross profit margin | 30.3% | 23.2% | 22.5% | 21.3% |
| Profit before tax | 926 | 1,019 | 1,204 | 1,684 | EBT margin | 22.6% | 13.5% | 13.0% | 14.2% |
| CIT | 102 | 137 | 143 | 240 | Net profit margin | 19.9% | 11.6% | 11.3% | 11.2% |
| Profit after tax | 815 | 882 | 1,050 | 1,325 | ROE | 19.3% | 16.9% | 17.0% | 19.0% |
| Balance sheet | 2009 | 2010 | 2011 | 2012 | ROA | 6.6% | 6.0% | 5.7% | 7.0% |
| Total assets | 12,368 | 14,640 | 18,413 | 19,004 | DuPont Analysis | | | | |
| Current assets | 2,565 | 3,211 | 3,791 | 4,986 | Net profit margin(1) | 19.9% | 11.6% | 11.3% | 11.2% |
| Cash and equivalent cash | 874 | 855 | 668 | 1,067 | Asset turnover (2) | 0.33 | 0.52 | 0.50 | 0.62 |
| Receivables | 1,268 | 1,948 | 2,056 | 3,025 | Equity multiplier (3) | 2.93 | 2.80 | 2.98 | 2.72 |
| Inventories | 321 | 342 | 1,002 | 787 | ROE = (1)x(2)x(3) | 19.3% | 16.9% | 17.0% | 19.0% |
| Long-term assets | 9,803 | 11,429 | 14,622 | 14,017 | Management ratios | | | | |
| Fixed assets | 9,420 | 10,982 | 14,095 | 13,321 | Receivable outstanding days | 113 | 94 | 81 | 93 |
| Long-term investments | 132 | 150 | 318 | 528 | Inventory outstanding days | 41 | 21 | 51 | 31 |
| Resources | 12,368 | 14,640 | 18,413 | 19,004 | Payable outstanding days | 123 | 101 | 90 | 87 |
| Liabilities | 8,129 | 9,397 | 12,210 | 11,994 | Asset turnover | 0.33 | 0.52 | 0.50 | 1 |
| Short-term loans | 807 | 1,427 | 1,979 | 1,940 | Long-term asset turnover | 0.43 | 0.69 | 0.66 | 0.89 |
| Long-term loans | 5,542 | 5,292 | 5,921 | 4,868 | Fix asset turnover | 2.30 | 1.45 | 1.52 | 1.12 |
| Equities | 4,225 | 5,227 | 6,183 | 6,984 | Liquidity ratios | | | | |
| Chartered capital | 2,105 | 2,105 | 2,105 | 2,105 | Current ratio | 1.03 | 0.80 | 0.79 | 0.89 |
| Retained profit | 397 | 1,052 | 1,360 | 2,042 | Quick ratio | 0.90 | 0.72 | 0.58 | 0.75 |
| Cash flow | 2009 | 2010 | 2011 | 2012 | Cash ratio | 0.35 | 0.21 | 0.14 | 0.19 |
| Net operating cash flow | 1,226 | 1,233 | 2,515 | 2,218 | Capital Structure | | | | |
| Profit after tax | 815 | 882 | 1,050 | 1,325 | Total debt/Total Equity | 1.50 | 1.29 | 1.28 | 0.97 |
| Depreciation | 257 | 610 | 711 | 1,031 | Total debt/Total Asset | 0.51 | 0.46 | 0.43 | 0.36 |
| Net investing cash flow | (3,367) | (1,253) | (2,857) | (412) | Total asset/Total Equity | 2.93 | 2.80 | 2.98 | 2.72 |
| Net financing cash flow | 2,328 | (45) | 72 | (1,406) | Index per share | | | | |
| Net cash flows | 187 | (64) | (270) | 399 | PE | 11.65 | 10.76 | 9.04 | 7.16 |
| Cash at the beginning | 688 | 874 | 855 | 668 | PBV | 2.25 | 1.82 | 1.54 | 1.36 |
| | | | | | PS | 2.32 | 1.25 | 1.02 | 0.80 |
| | | | | | EPS (VND per share) | 3,870 | 4,190 | 4,989 | 6,295 |
| | | | | | Cash earning/share | 5,090 | 7,088 | 8,366 | 11,194 |
| | | | | | Book value | 20,072 | 24,830 | 29,374 | 33,180 |

Source: PVD and PHS's expectation

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Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%

Neutral (N) = Expected to in line with the local market by +10%~ -10%

Underweight (UW) = Expected to underperform the local market by >10%.

Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.

Performance is defined as 12-month total return (including dividends).

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