

Industry : Oil and Gas (Last report: [Link](#))

Recommendation **BUY**

Petro Vietnam Drilling and Drilling Services (HSX: PVD) Transformed by the recovery of the drilling market

Current price:	20,500	Date of writing	09/09/2022	Shareholder structure	
Previous target price:	19,800	Outstanding shares (mil)	421,129	VIETNAM OIL & GAS GROUP	50.46%
New target price:	27,100	Capitalization (VND bil)	11.174	EATON VANCE CORPORATION	0.1%
Dividend yield:	- %	Average liquidity 6 months	12,837,910	LEMANIK ASSET MANAGEMENT	0.1%
Bullish potential:	32.2%	Foreign ownership	16.16%	Pham Tien Dung	0.04%

Industry analyst:

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Technical Analyst:

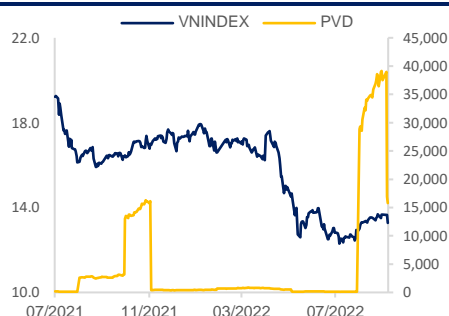
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Recommended price: 24,000
Stop loss: 19,500

Comparison between PVD and VNI



Comparison between P/E and VNI



Valuation

■BSC changed its recommendation for PVD from track to **BUY**, with a target price for 2023 of **27,100 VND/CP** (equivalent to **an upside of 32%** compared to the closing price on 09/09/2022 of 20,500 VND/CP) based on the P/B and EV/EBITDA methods with a weighting of 50% - 50%.

Forecast business results

■BSC forecasts PVD's DTT and LNST in 2022 to reach VND 5,698 billion (+43% YoY) and VND 47 billion (+28% YoY), EPS FW = VND 60/CP assuming (1) The performance of self-lifting rigs will reach an average of 81%, (2) The average rig rental price in **2022 will reach 67,000 USD/day** (+30% YoY), respectively, and (3) Set aside an additional VND 54 billion receivable from KrisEnergy partners.

■In 2023, BSC forecasts PVD's DTT and LNST to reach **VND 6,681 billion (+17% YoY)** and **VND 218 billion (+364% YoY)** respectively, EPS FW = VND 281/CP assuming (1) The average oil price in 2023 will reach USD 90/barrel (-10% YoY), (2) The performance of self-lifting rigs will reach an average of 88% for the whole year, and (3) The average rig rental price in 2022 increased to \$78,000/day (+15% YoY).

Investment perspectives

- Self-lifting rig performance rebounded thanks to improved demand, while supply was difficult to add in the short term.
- Self-lifting rig day rents are expected to increase to over \$70,000 from the end of 2022
- The Block B – O Mon project chain, if implemented, can bring a great source of work for PVD in the period of 2023 – 2024.

Risk

- The sharp fluctuations in oil prices affect PVD's rig rents and profits.
- On average, self-lifting rigs were lower than expected.

Business update

- In Q2/2022, PVD recorded a DTT of VND 1,505 billion (+35% YoY), and a **loss after tax of VND 74 billion** (same period profit of VND 43 billion) due to (1) a sharp decrease in gross profit, even the drilling services segment had a gross loss of nearly VND 40 billion, (2) profit from LDLK decreased by 61% YoY due to reduced workload, and (3) financing costs increased by VND 36 billion (+84% YoY) due to exchange rate losses.
- Accumulated in 6M2022, PVD's DTT reached VND 2,651 billion (+60% YoY), completed 56% of customers in terms of revenue, and recorded a net loss of VND 149 billion (same period loss

of VND 67 billion). In particular, PVD has set aside VND 44 billion of non-performing loans for KrisEnergy (about VND 94 billion by the end of Q3).

	2020	2021	2022E	VN-Index		2019	2020	2021	2022E
PE (x)	75.5	-583.3	355	13.6	Revenue	5,500	4,368	5,228	5,698
PB (x)	0.5	0.8	0.8	2.1	PB (x)	397	450	328	485
PS (x)	1.8	2.3	1.9	1.7	PS (x)	197	184	184	43
ROE (%)	1.3	0.3	0.3	14.7	ROE (%)	396	304	278	60
ROA (%)	0.9	0.2	0.2	2.4	ROA (%)	435%	-23%	-9%	-268%
EV/ EBITDA (x)	12.5	13.6	13.7	N/A	EV/EBITDA (x)	28%	27%	28%	29%

BUSINESS UPDATE

Table 1: Update on business situation Q2.2022

VND Bil	Q2/2022	Q2/2021	% yoy	6M2022	6M2021	% yoy
Net sales	1,505	1,112	35%	2,651	1,662	60%
- Drilling Services	988	436	127%	1,736	673	158%
-Trade	13	279	-95%	23	381	-94%
-Different	504	397	27%	892	608	47%
Gross profit	123	112	10%	193	84	130%
Gpm	8.2%	10.0%		7.3%	5.0%	
Profit/loss from joint venture	13	35	-61%	9	44	-80%
Cost of sales	3	2	19%	4	4	10%
SG&A	130	131	-1%	216	214	1%
SG&A/Rev	8.8%	12.0%		8.3%	13.1%	
EBIT	-9	-21	-57%	-27	-134	-80%
Financial income	29	40	-28%	55	81	-32%
Financial cost	-78	-42	84%	-133	-85	56%
Other income	-15	37	-139%	-28	35	-180%
Earning before tax	-59	48	-225%	-124	-59	111%
NI	-74	43	-270%	-149	-67	123%

Source: PVD, BSC Research

In Q2/2022, PVD's net revenue reached VND 1,505 billion (+35% YoY). PVD's revenue growth in Q2 came from (1) a 14% increase in self-lifting rig rental unit price, and (2) a contribution from PV Drilling V rig, and an additional lease rig incurred during the period. However, **PVD still recorded** a loss of VND 74 billion (same profit period of VND 43 billion) due to (1) a sharp increase in capital price of 43% YoY, causing gross profit to shrink, even the drilling services segment had a gross loss of nearly **VND 40 billion**, (2) profit from LDLK decreased by 61% YoY due to reduced workload, and (3) financing costs increased by VND 36 billion (+84% YoY) due to exchange rate losses.

Accumulated in 6M2022, PVD's DTT reached VND 2,651 billion (+60% YoY), completed 56% of customers in terms of revenue, and recorded a **net , loss. 149 billion VND (same period loss 67 billion VND)** In particular, PVD has set aside VND 44 billion of non-performing loans for KrisEnergy (about VND 94 billion by the end of Q3).

PVD has conducted a 2021 dividend in shares at the rate of 10%. Recently, the company issued an additional 50.5 million shares to pay dividends to shareholders. This is PVD's second dividend payment this year, when earlier in April, the company issued an additional 84.2 million shares to pay dividends for 2019 and 2020 (total ratio of 20%).

BUSINESS OUTLOOK 2022

PVD's rigs are guaranteed jobs in the near future. The self-lifting drilling schedule will be more positive thanks to an increase in capital spending on exploration and production (E&P) activities in Southeast Asia. Therefore, BSC believes that PVD's drilling activities will continue to recover once the drilling schedule has been filled at least until the end of this year. Inside:

- PVD I and PVD III rigs have signed long-term contracts since mid-2021, and will continue to carry out drilling until 2023 (refer to [the latest report](#))
- PVD II and PVD VI rigs will be renewed and signed for drilling campaigns at Premier Oil Indo, Hoang Long – Hoan Vu JOC (HLHV), and Premier Oil Vietnam Offshore (POVO) from the second half of 2022.

In addition, the TAD rig after a long period of no jobs has been restarted, with an average rig rental price of 90,000 USD /day, which will also contribute to the operating cash flow for PVD in the near future.

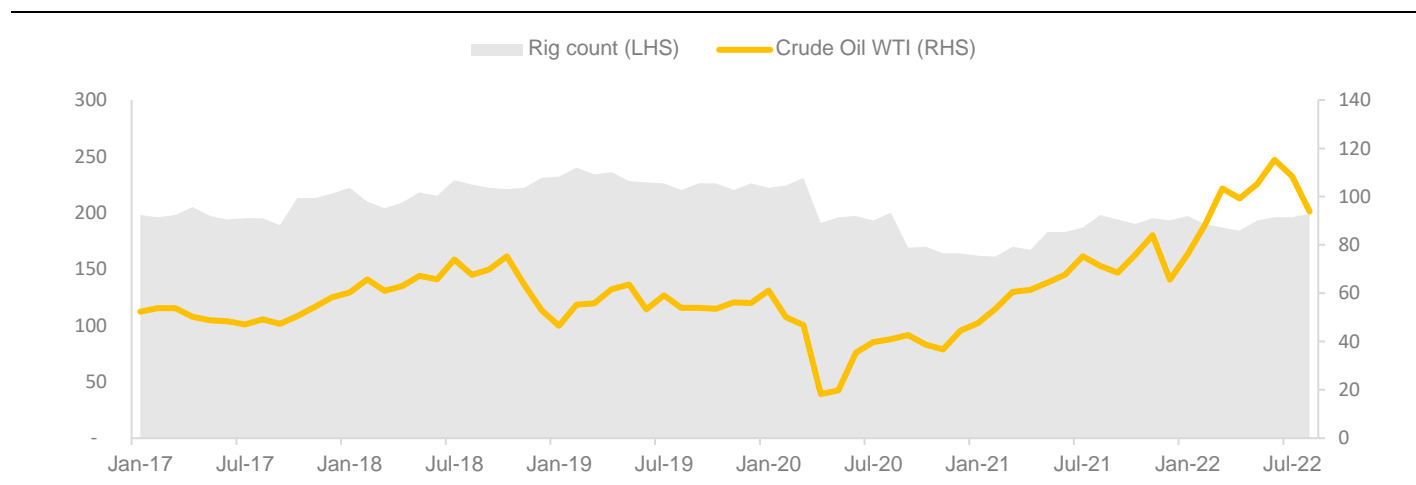
Table 2: PVD's 2022 drilling schedule update

	Q1	Q2	Q3	Q4
PVD I	VSP			
PVD II		VSP	Premier Oil Indo	HLHV
PVD III	Repsol Malaysia – BOC			
PVD VI		ENI	POVO	
Giàn TAD		Brunei Shell Petroleum		
Landrig 11	GBRS			
Hakuryu-11	Idemitsu			

Source: PVD, BSC Research

Supply from crude oil extraction activities has not improved. According to Baker Hughes statistics, over the past 5 years, the number of rigs in the Asia-Pacific region has not increased, even decreased slightly. The main reason is that the cost of capital investment (CAPEX) for crude oil rigs is relatively large, while the price of crude oil tends to fluctuate sharply. Therefore, BSC believes that the supply of drilling rigs in the near future will be difficult to increase in the short term, despite the recovery in oil prices and the return of demand for crude oil after the pandemic.

Table 1: Asia-Pacific rig count and 5-year oil price fluctuations



Source: Baker Hughes, Bloomberg, BSC Research

Therefore, BSC forecasts that the performance of using self-lifting rigs will tend to increase again. According to IHS Markit, as of early August 2022, 49 rigs had contracts out of a total of 56 rigs that could work in Southeast Asia, bringing the performance of drilling rigs to 87.5% (compared to 75% in the same period). With oil prices still above production breakeven (around \$55 per barrel), demand for upstream operations is expected to continue to soar, resulting in improved daily prices and more workloads for PVD. With the rigs expected to be fully employed until the end of the year, BSC forecasts that PVD's self-lifting rig performance will average 81% for the whole of 2022, and 88% for 2023.

Figure 3: Break-even costs of crude oil extraction in some countries

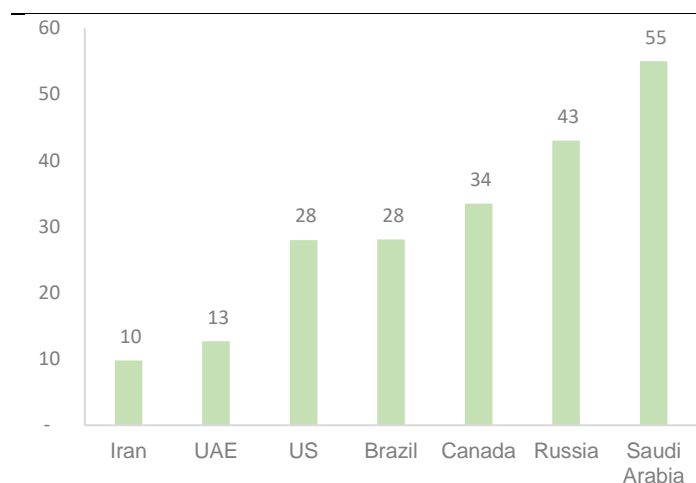
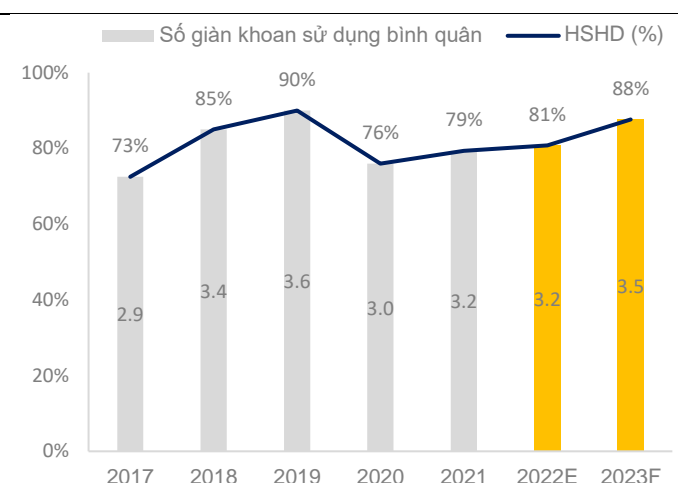


Figure 4: PVD's rig performance is expected to increase in the period of 2022-2023



Source: Rystad Energy, PVD, BSC Research

PVD's self-lifting rig day rent will recover strongly from the end of 2022 onwards. According to IHS Markit data, the average rent of JU rigs in Southeast Asia is recovering strongly to over 90,000 USD / day, much higher than the average rent of PVD in 6M2022 (about 57,000 USD / day). The main reason is that most of PVD's contracts in the previous period were signed in 2020, when the demand for E&P was not high. Besides, PVD's management said that the company has been renewing contracts since August, with a new price of no less than \$70,000 per day. As a result, BSC raised PVD's self-lifting rig day rental forecast to \$67,000 per day (+30% YoY) for the full year 2022.

Figure 5: PVD's self-lifting rig day rental price (thousand USD/day)

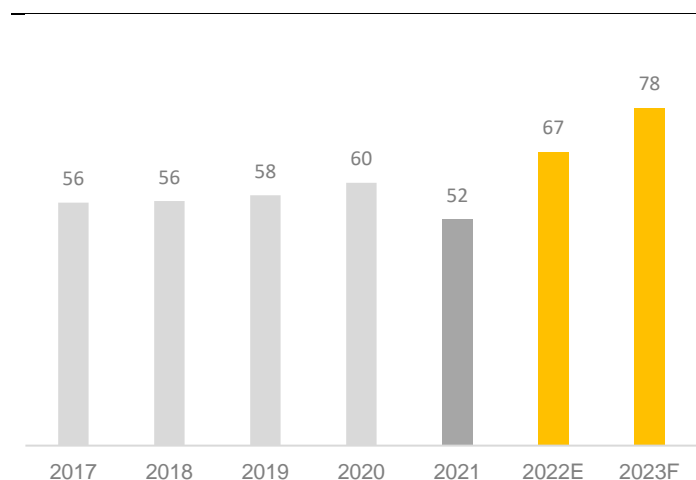
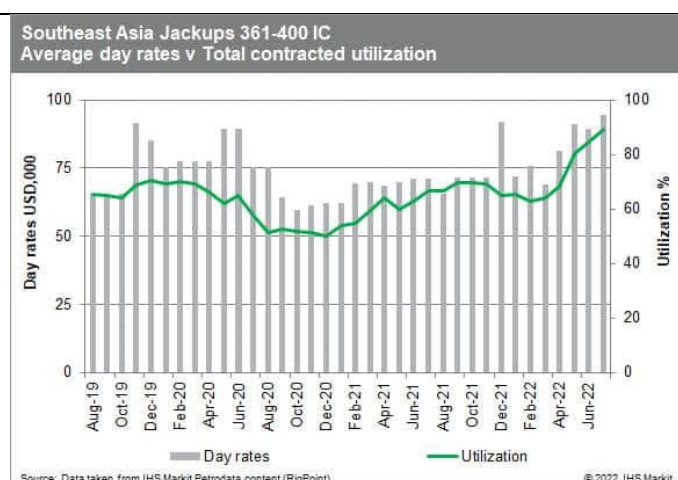


Figure 6: HSHD and self-lifting rig rents in Southeast Asia are tending to recover



Source: Bloomberg, IHS Markit, BSC Research

PVD's projected KQKD in 2022 will reach DTT and LNST of VND **5,698** billion (+43% YoY) and VND **47 billion** (+28% YoY), respectively, EPS FW = **60 VND/CP** with the assumption:

- Average oil price in 2022 will reach 100 USD/barrel (+37% YoY)
- Self-lifting rig performance averages 81%
- The average rig rental price in 2022 will reach 67,000 USD/day (+30% YoY)
- The average number of outsourced rigs increased from 0.3 rigs in 2021 to 0.7 rigs as drilling demand in the region increased again.
- Additional provision of VND 54 billion receivable from partner KrisEnergy.

For 2023, BSC forecasts PVD's revenue and LNST to reach VND 6,681 billion (+17% YoY) and VND 218 billion (+364% YoY), respectively, EPS FW = 281 VND/CP with the assumption:

- The average oil price in 2023 will reach 90 USD/barrel (-10% YoY)
- Self-lifting rig performance averaged 88% for the full year
- Average rig rental price in 2022 increases to 78,000 USD/day (+15% YoY)
- The average number of outsourced rigs reached 0.8.

Table 3: PVD's business result projections

Unit: VND bil	2020	2021	2022E	2023F
Net sales	5,228	3,995	5,698	6,681
- Drilling Services	3,074	1,848	3,060	3,823
- Trade	329	490	597	647
- Different	1,831	1,668	2,041	2,211
Cost of goods sold	(4,900)	(3,624)	(5,213)	(6,059)
Gross profit	328	371	485	621
<i>Gross profit margin</i>	6.3%	9.3%	8.5%	9.3%
Cost of sales	(16)	(13)	(18)	(22)
SG&A	(315)	(386)	(403)	(422)
<i>SG&A/net revenue</i>	6.3%	10.0%	7.4%	6.6%
Financial income	159	164	128	136
Financial cost	(202)	(171)	(258)	(228)
Other income	30	(7)	(12)	32
Income before tax	200	62	60	273
NI	181	37	47	218
EPS	278	(36)	60	281

Nguồn: BSC Research

VALUATION AND RECOMMENDATION

BSC changed its recommendation for PVD from track to **BUY**, with a target price for 2023 of **27,100 VND/CP** (equivalent to **an upside of 32%** compared to the closing price on 09/09/2022 of 20,500 VND/CP) based on the P/B and EV/EBITDA methods with a weighting of 50% - 50%. We believe that PVD's business outlook will become more positive in the near future thanks to the high rental unit price and rig utilization performance due to the recovery of the regional drilling market. Downside risks include lower-than-expected rig performance, and lower-than-expected drilling profits due to oil price fluctuations.

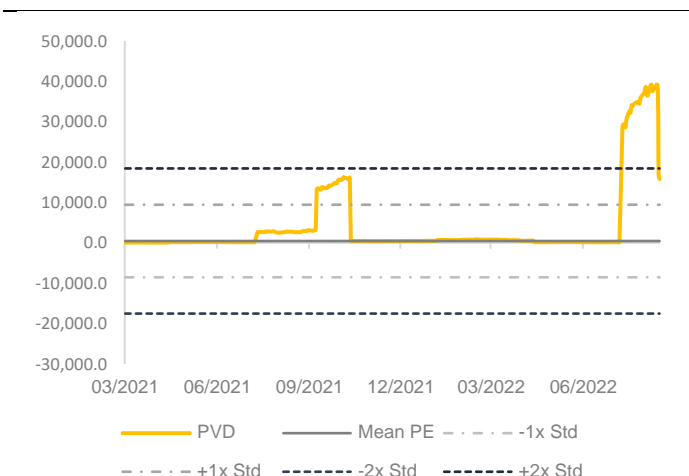
Method	Valuation (VND/CP)	Proportion(%)	Giá bình quân
P/B with a target P/B of 1.0x	27,200	50%	13,600
EV/EBITDA	26,940	50%	13,470
Target price (VND/ CP)			27,100
The closing price is 09/09/2022			20,500
Upside			32.2%

EV/EBITDA method

EBITDA 2022F (VND billion)	1,211
EV/EBITDA (x)	12.00
Enterprise value	14,533
(+) Cash and cash equivalents	3,132
(-) Short-term and long-term debt	4,053
Equity value	13,613
Number of shares outstanding (million)	505
Target price	26,940

Source: Bloomberg, BSC Research

Stock PE



Stock PB



Source: Bloomberg, BSC Research

APPENDIX

	2019	2020	2021	2022F
Net sales	4,368	5,228	3,995	5,698
Cost of goods sold	-3,918	-4,900	-3,624	-5,213
Gross profit	450	328	371	485
Cost of sales	-17	-16	-13	-18
SG&A	-397	-315	-386	-403
Profit/loss of contract contracts	37	-3	-27	63
Financial revenue	165	159	164	128
Financial costs	-241	-202	-171	-258
Interest expense	-158	-119	-109	-191
Profit from joint venture	111	216	104	138
Other profits/losses	118	30	-7	-12
Profit before tax	189	200	62	60
Corporate Income Tax	-17	-19	-26	-13
Profit after tax	172	181	37	47
Non-controlling interest	-12	-4	17	4
NPATMI	184	184	20	43
EBITDA	938	822	708	955
EPS	304	278	-36	60

	2019	2020	2021	2022F
Cash & cash equivalents	1,890	1,075	1,131	1,297
Short-term investments	1,033	1,197	1,544	1,544
Short-term receivables	1,907	1,806	1,936	2,506
Inventory	835	959	758	1,142
Other short-term TS	39	78	60	368
Short-term TS	5,705	5,114	5,429	6,857
Tangible TS	23,378	23,361	23,187	23,358
Depreciation	-9,611	10,039	10,402	11,133
Long-term unfinished TS	28	206	921	967
Long-term investment	1,051	1,790	602	632
Other long-term TS	157	229	797	325
Long-term TS	15,187	15,739	15,332	14,352
General TS	20,892	20,853	20,761	21,210
Short-term payables	836	695	780	1,317
Short-term loans	521	635	748	798
Other short-term liabilities	1,505	1,474	1,502	1,636
Total Current Debt	2,862	2,804	3,030	3,751
Long-term loans	3,230	3,231	3,206	3,181
Other long-term debt	831	779	693	701
Total Long-Term Debt	4,061	4,010	3,899	3,882
Total debt	6,923	6,814	6,930	7,633
Capital contribution	4,215	4,215	4,215	5,051
Equity surplus	2,434	2,434	2,434	2,434
Undistributed LN	3,805	1,936	1,923	1,072
Other equity	3,267	5,206	5,020	4,778
Minority shareholders	247	247	240	242
Total VCSH	13,968	14,039	13,832	13,577
Total capital	20,892	20,853	20,761	21,210
Number of circulating CPs (millions)	421	421	421	505

	2019	2020	2021	2022F
(L)P before tax	189	200	62	60
Depreciation	591	503	534	704
Working capital changes	-640	-98	-745	-456
Other adjustments	-217	-292	-229	-218
CFO	-77	313	-376	90
Money spent on buying fixed assets	-53	-552	-608	-109
Money from other investments	-170	-700	1,065	161
CFI	-223	-1,252	457	52
Dividend payouts	-3	-3	-3	0
Net borrowing	-85	114	89	25
Other receipts	0	0	0	0
CFF	-87	127	151	25
Beginning cash flow	2,265	1,890	925	1,131
Money in the period	-388	-812	232	166
Ending cash flow	1,890	1,078	1,131	1,297

	2019	2020	2021	2022F
Solvency				
Current ratio	0.82	0.75	0.78	0.90
Quick ratio	0.70	0.61	0.67	0.75
Capital structure				
Debt/total asset	33%	33%	33%	36%
Debt/Equity	50%	49%	50%	56%
Operating capacity				
Number of inventory days	74.31	66.84	74.26	66.50
Days receivable	134.40	85.89	78.08	104.42
Days payable	82.26	55.64	61.82	68.37
CCC	126.45	97.09	90.52	102.55
Profit margin				
Gross profit	10%	6%	9%	9%
Net Profit	4%	3%	1%	1%
ROE	1%	1%	0.3%	0.3%
ROA	1%	1%	0.2%	0.2%
Pricing				
PE	18.6	27.3	59	355
PB	0.5	0.5	0.9	0.8
Growth				
Net revenue growth	-21%	20%	-24%	43%
EBIT growth	-14%	-8%	-46%	46%
EBT Growth	-19%	6%	-69%	-4%
EPS growth	-23%	-9%	-113%	-268%

TECHNICAL ANALYSIS

PVD_Positive

Technical highlights:

- Current trends: Positive.
- MACD trend indicator: Negative divergence, MACD is below the signal line.
- RSI indicator: neutral zone, uptrend.

Judge:

PVD is in a recovery trend from the bottom of 14.0. Stock liquidity remained at an average of 20 sessions, in line with the trend of stock movement. The stock price line has also crossed the MA20 and MA50 levels, signaling that the bullish trend is maintaining. The MACD indicator is still showing negative signs and the RSI is trending towards recovery. It is recommended that investors can open a position at 20.5 and take profits when the stock returns to the 24.0 peak. Stop loss if the stock loses the support level of 19.5.



Source: BSC Research

Disclosure

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