

Sector: Oil&Gas (Latest Report: [Link](#))

**Recommendation BUY** Petrovietnam Drilling and Well Service Corporation (HSX: PVD)  
**Seize the opportunity**

Current price:	<b>25,250</b>	Date	05/03/2021	<b>Shareholder structure</b>	
Previous target price	<b>13,500</b>	Outstanding Shares (Million)	421,129	VIETNAM OIL & GAS GROUP	50.46%
New target price:	<b>29,550</b>	Market Cap (VND billion)	8.927	EATON VANCE CORPORATION	0.1%
Dividend yield	- %	Avg. 6M Trading vol	8,679,128	LEMNIK ASSET MANAGEMENT	0.1%
<b>Upside</b>	<b>17%</b>	% Foreign float	16.16%	PHAM TIEN DUNG	0.04%

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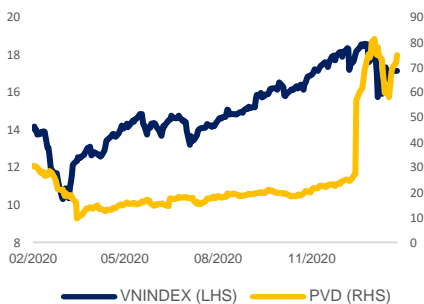
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Target price: 28,000  
Stop-loss price: 19,980

**Price comparison between PVD and VN index**



**P/E comparison between PVD and VN index**



**Valuation**

- We recommend **BUY** for PVD with a 2021 target price of **VND29,550/share, +17%** from the March 5, 2021 price based on the EV/EBITDA method with a forward coefficient of **13.5x**.

**Forecast of business results**

- BSC forecasts that revenue and net profit in 2021 will be **VND 5,034 billion (-4% yoy)** and **VND 212 billion (+17% YoY)**, 2021 FW EPS= **325 VND/share** assuming (1) operating efficiency The operating price of the jack-up rig improved from 77% (2020) to 87%, and (2) The day rates of the jack-up rig remained at USD 61 thousand/day.

**Investment Thesis**

- **Jack-up rigs have many job opportunities in 2021** thanks to many new domestic drilling programs expected to be implemented, thereby improving the operational efficiency.
- **TAD drilling rig signed a long-term contract, bringing secure jobs for PVD in the period of 2021 - 2026** and helping to improve PVD's revenue, profit and cash flow.

**Risks**

- Operators terminate drilling contracts earlier than expected.
- PVD unsuccessfully bid for PVD II rig in 2021, making the average performance of jack-up rigs lower than expected.

**Company Update**

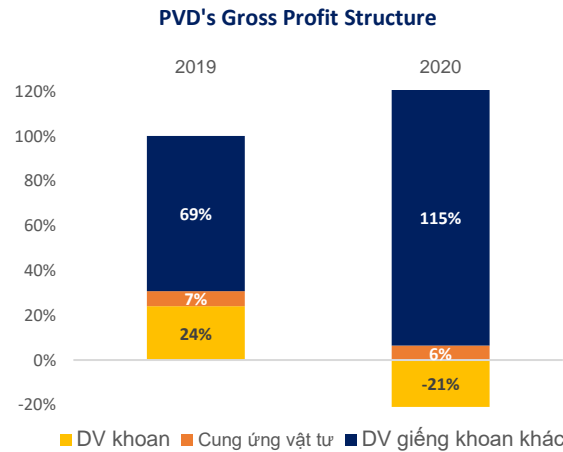
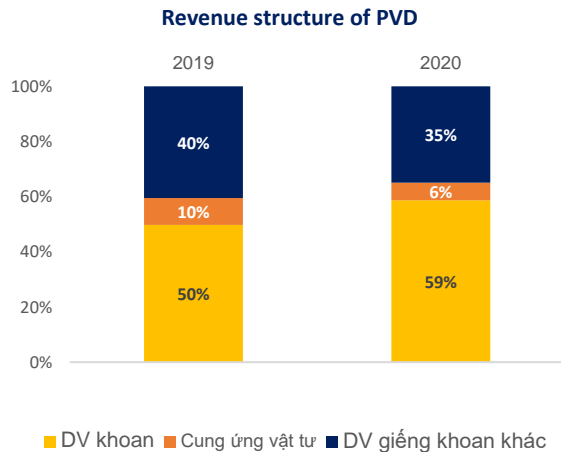
- PVD's revenue and net profit in 2020 will reach **VND 5,227 billion (+20% yoy)** and **VND 181 billion (+5% yoy)**, respectively, due to (1) the number of leased rigs reached 1.7 rigs (compared to 0.3 rigs in 2019), (2) Estimated day rates of the jack-up rig +4.4% yoy, (3) Profit from joint ventures and associates is VND 217 billion (+96% yoy), and (4) a reversal of 107 billion provision for bad debts during the year.
- Up to now, **5/6 rigs owned by PVD** have secured jobs in 2021.
- PVD plans to postpone the 2019 dividend payment time (share dividend, rate 10%) to early 2021.

	2020	2021	Peer	VN-Index
PE (x)	27.3	59.0	23.14	16.9
PB (x)	0.5	0.9	1.24	2.2
PS (x)	1.8	2.0	1.9	1.7
ROE (%)	1.3	1.2	3.8	12.9
ROA (%)	0.9	0.8	2.1	2.2
EV/ EBITDA (x)	12.5	12.5	14.4	15.6

	2018	2019	2020	2021F
Net Revenue	5,500	4,368	5,228	5,034
Gross Profit	397	450	328	426
NPAT	197	184	184	212
EPS	396	304	278	325
EPS Growth	435%	-23%	-9%	17%
Net Debt/ Equity	28%	27%	28%	26%

## COMPANY UPDATE

In 2020, PVD's revenue will reach **VND5,228 billion (+20% yoy)** thanks to (1) the increase in the number of leased rigs (average 1.7 rigs compared to 0.3 rigs in 2019), and (2) The day rates of the rig slightly increased estimate +4.4% yoy, reaching an average of USD 61 thousand/day.

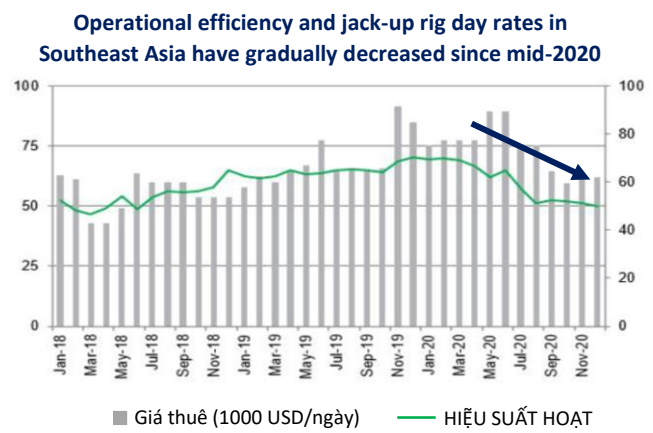
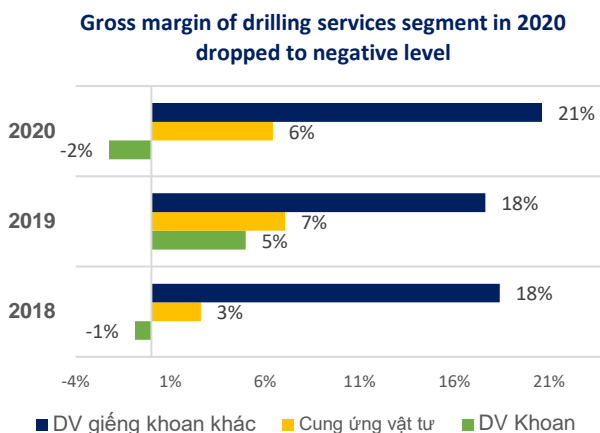


Source: PVD, BSC Research

Although net revenue improved year-on-year, **PVD's gross profit was only 328 billion VND (-27% yoy), gross profit margin decreased to 6.3% (compared to 10.3% in 2019)** due to the gross profit margin of the Drilling services segment (which contributes nearly 60% of revenue in 2020) plummeted to -2% (same period in 2019: 5%).

In 2020, the Drilling Services segment is affected by the Covid-19 epidemic, causing:

- (1) The operating efficiency of the owned jack-up rig decreased to 77% (compared to 90% in 2019) due to the early termination of abroad contracts for drilling PVD II and PVD III rigs (Refer to [Latest Report](#)),
- (2) Increased operating costs of offshore rigs (labor costs, shift replacement costs, etc).



Source: PVD, IHS Markit, BSC Research

Even so, **PVD's NPAT in 2020 still recorded a slight growth, reaching VND 181 billion (+5% yoy)** thanks to:

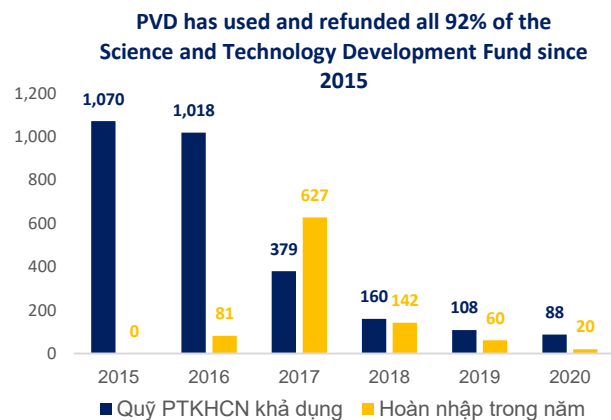
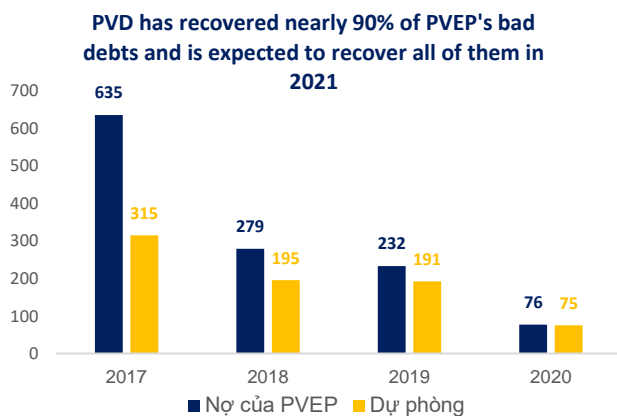
- (1) Recognition of a profit of VND 216 billion (+96% yoy) from a joint venture company, with the main contribution from a joint venture PVD Baker Hughes.
- (2) Recognition of extraordinary income includes:

- Reversing VND 107 billion provision for bad debts (compared to VND 4 billion in 2019)
- Reversing about VND 20 billion of science and technology development fund (compared to VND 60 billion in 2019)

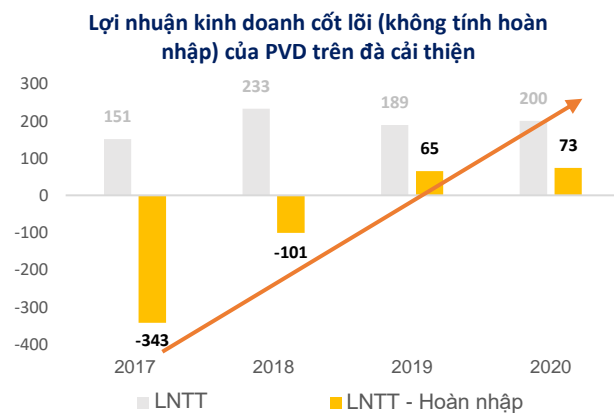
### PVD's Extraordinary Profits

**PVEP's bad debt provision – Fully reversed in 2021.** In 3 years from 2017, PVD has recovered nearly 90% of PVEP's bad debts and reversed 76% of the corresponding provision. Based on the MOUs, PVD expects to recover the remaining VND76 billion debt in 2021 and reverse the VND75 billion provision respectively.

**Science and Technology Development Fund – There are not many available funds.** By the end of 2020, the available science and technology development fund is only 88 billion VND, down 92% compared to 2015. In the coming period, PVD is not expected to make a large reversal (over 10% of PBT) from this fund.



If the reversals above are excluded, PBT of PVD's core business in 2020 will reach VND 73 billion, a marked improvement from VND -343 billion in 2017. This corresponds to an improved EBT margin, increased from -8.8% to 1.4% during the same period.



Source: PVD, BSC Research

### Other Updates

**PVD plans to postpone the time to pay the 2019 dividend to early 2021.** Previously, at the Resolution of the 2020 AGM, PVD approved the plan to pay the 2019 dividend by shares at the rate of 10%, but the procedure is not completed yet. Therefore, the Board of Directors decided to extend the dividend payment period to early 2021.

## 2021 OUTLOOK

### Jack-up Rigs – Seizing the Domestic Opportunity

In 2021, the jack-up rigs are expected to **shift from operating mainly in foreign markets to focusing on exploiting the domestic market in 2021** because (1) foreign markets such as Malaysia are still affected. Due to the severity of the epidemic, normal drilling will not be resumed, and (2) there are many new domestic drilling programs expected to be implemented in 2021 such as:

- Hoang Long JOC's Te Giac Trang field drilling program
- Cuu Long JOC's Block 15-1 drilling program
- JVPC's Block 15-2 Drilling Program
- ENI's drilling and appraisal program for the Ken Bau gas field

Up to now, 3/4 of PVD's jack-up rigs have secured jobs in 2021, specifically:

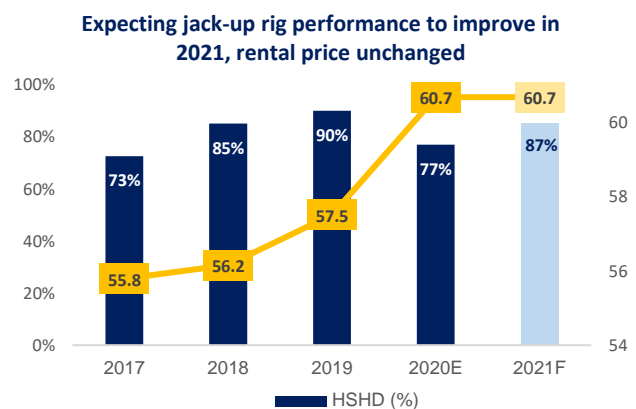
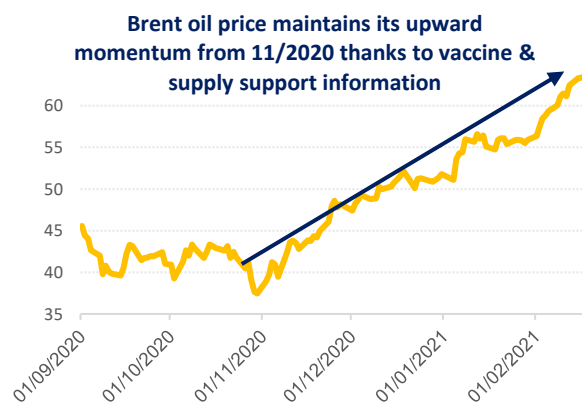
Rig	Customer	Drill campaign	Expected time
<b>PVD I</b>	Cuu Long JOC (CLJOC)	Block 15-1 (2 certain wells and 1 optional well)	End of March 2021
<b>PVD III</b>	JVPC	Block 15-2 (3 certain wells and 1 optional well)	April 2021
<b>PVD IV</b>	ENI	Ken Bau gas field	End of February 2021

BSC expects PVD to also win the bid to supply the remaining PVD II rigs for large domestic projects such as the 6-well drilling campaign at Te Giac Trang field by operator Hoang Long JOC (expected to start drilling in Q4/2021).

In addition, with PVD successfully seeking additional drilling contracts in 2020 (Refer to [Latest Report](#)), we also highly appreciate PVD's ability to win bids in domestic short-term drilling programs and region in 2021. Therefore, BSC assumes that PVD's jack-up rigs' performance will improve to 87% (compared to 77% in 2020).

**The day rates of jack-up rigs is maintaining stable.** BSC assumes that the rental price of jack-up rigs in 2021 will remain at the average level of 2020 (USD 61 thousand/day) due to:

- (1) The negative impact of the Covid-19 epidemic on the demand and capacity of exploration and exploitation in the region.
- (2) On the other hand, oil price is expected to recover to 55 USD/barrel (Refer to [Industry Outlook Report 2021](#)) supporting domestic and regional demand for oil and gas exploration and production, improving business prospects and the operator's paying ability.



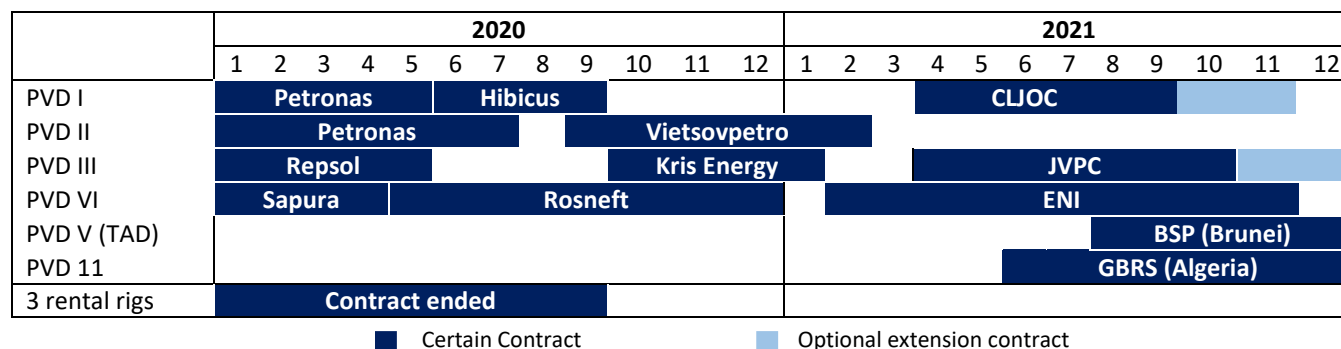
Source: PVD, Bloomberg, BSC Research

## TAD Drilling Rig and Land Drilling Rig – Restarting After Waiting Time

PVD has **restarted the TAD and onshore drilling rigs, preparing to serve long-term drilling campaigns abroad starting from 2021**, specifically:

- Onshore drilling rig PVD 11 serves the drilling campaign for GBSR customers in Algeria, which is expected to start from June 2021.
- PVD V (TAD) rig serves BSP customers in Brunei for a term of 6 years and an optional extension of 4 years, expected to start from August 2021.

### Update expected drilling schedule of PVD



Source: PVD, BSC Research

BSC assesses that **the restart of the TAD rig after 4 years of waiting for work is a bright spot for PVD in the period of 2021 - 2026** thanks to:

- Ensuring long-term jobs for PVD, which is expected to start bringing profit from 2022 when performance reaches the maximum level as planned. TAD rig is not expected to be profitable in 2021 due to high interest expense while full year performance is low (estimated 42%). With a day rates of USD 90,000/day, we estimate that this rig will contribute about VND 330 billion in revenue in 2021 and VND 740 billion in revenue/year from 2022.
- Contributing to the improvement of revenue – profit of other related drilling services. For each leased rig, the Other Well Services segment is estimated to earn about VND 380 - 480 billion in revenue and about VND 70 - 80 billion in LNG. We expect that when the TAD rig goes into stable operation, revenue and profit from other wells services will also increase accordingly.

## FORECAST OF BUSINESS RESULTS

BSC forecasts PVD's business results in 2021 to reach revenue and net profit of **VND 5,034 billion (-4% yoy)** and **VND 212 billion (+17% yoy)**, FW EPS = **325 VND/share**, assuming:

- Performance of jack-up rig improved to 87% (compared to 77% in 2020)
- The rig day rates remains around USD 61,000/day
- Gross profit margin improved to 8.5% (compared to 6.3% in 2020) thanks to improved rig performance and under control of the epidemic situation, which helped reduce costs related to the Covid-19 epidemic
- The average number of leased rigs decreased from 1.7 rigs in 2020 to 0.4 rigs due to the prolonged impact of the Covid-19 epidemic on drilling activities in the region
- PVD recovered the remaining 76 billion VND of bad debt of PVEP and reversed the provision of 75 billion VND (-30% yoy)

We forecast PBT from core activities in 2021 of PVD to reach VND 160 billion, up 2 times compared to 2020.

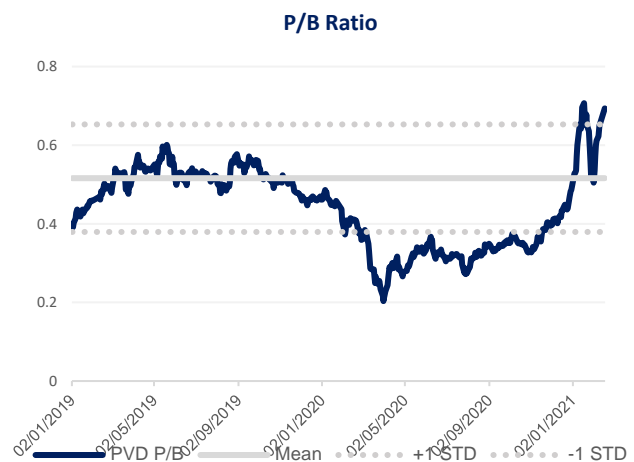
## RECOMMENDATION

BSC recommends **BUY** PVD with the recommended price of **VND 29,550/share (equivalent to 17% upside)** compared to the closing price on March 5, 2021 of 25,250 VND/share) based on the EV/EBITDA method with the coefficient of **13.5x**, which is **8% higher** than the 2020 average of **12.5x** due to:

- Average oil price in 2021 is expected to improve to 55 USD/barrel (+31% yoy), helping to improve the valuation of oil and gas enterprises.
- Many domestic drilling projects were promoted during the year, creating many job opportunities for PVD-owned jack-up rigs.
- TAD rigs and land rigs restarting after waiting for work are the bright spots in the period 2021 - 2026, helping to improve PVD's revenue, profit, and cash flow.

### Compilation of EV/EBITDA valuation

EBITDA 2021F (VND Billion)	1,080
EV/EBITDA (x)	13.5
Enterprise value	14,579
(+) Cash and cash equivalents	2,747
(-) Short-term and long-term debt	3,644
Equity value	13,682
Number of outstanding shares (million)	463
<b>Target price</b>	<b>29,550</b>





Source: Bloomberg, BSC Research

## APPENDIX

	2018	2019	2020	2021F
<b>Net revenue</b>	<b>5,500</b>	<b>4,368</b>	<b>5,228</b>	<b>5,034</b>
COGS	-5,103	-3,918	-4,900	-4,608
<b>Gross profit</b>	<b>397</b>	<b>450</b>	<b>328</b>	<b>426</b>
Selling expenses	-13	-17	-16	-16
G&A	-285	-397	-315	-332
<b>Operating income</b>	<b>100</b>	<b>37</b>	<b>-3</b>	<b>78</b>
Financial income	190	165	159	163
Financial expenses	-258	-241	-202	-196
Interest expenses	-170	-158	-119	-170
Gain/loss from affiliates	61	111	216	200
Other gain/loss	140	118	30	21
Profit before tax	<b>233</b>	<b>189</b>	<b>200</b>	<b>265</b>
Corporate tax payment	-60	-17	-19	-53
<b>Profit after tax</b>	<b>173</b>	<b>172</b>	<b>181</b>	<b>212</b>
Minority interest	-24	-12	-4	-4
NPATMI	197	184	184	216
EBITDA	1,011	938	822	1,080
EPS	396	304	278	325

	2019	2018	2020	2021F
Profit after tax	233	189	200	265
Depreciation	608	591	503	645
Change in NWC	-386	-640	-98	-146
Other adjustments	-291	-217	-292	-161
<b>CF from operating activities</b>	<b>163</b>	<b>-77</b>	<b>313</b>	<b>602</b>
Fixed assets investment	-79	-53	-552	-76
Other investment	1,220	-170	-700	-132
<b>CF from investing activities</b>	<b>1,141</b>	<b>-223</b>	<b>-1,252</b>	<b>-208</b>
Dividend paid	-3	-3	-3	-3
Cash from net borrowing	-929	-85	114	-222
Other revenue	0	0	0	0
<b>CF from financing activities</b>	<b>-931</b>	<b>-87</b>	<b>127</b>	<b>-224</b>
Beginning cash balance	1,803	2,265	1,890	1,078
Cash in year	373	-388	-812	170
<b>Ending cash balance</b>	<b>2,265</b>	<b>1,890</b>	<b>1,078</b>	<b>1,248</b>

	2018	2019	2020	2021F
<b>Cash &amp; cash equivalent</b>	<b>2,265</b>	<b>1,890</b>	<b>1,075</b>	<b>1,248</b>
Short term investment	1,012	1,033	1,197	1,499
Account receivables	1,613	1,907	1,806	1,899
Inventory	760	835	959	916
Other current assets	25	39	78	56
<b>Total current assets</b>	<b>5,674</b>	<b>5,705</b>	<b>5,114</b>	<b>5,618</b>
Tangible assets	23,324	23,378	23,361	23,713
Depreciation	-9,033	-9,611	-10,039	-10,710
Long term incomplete assets	64	28	206	29
Long term investment	678	1,051	1,790	1,824
Other non-current assets	110	157	229	241
<b>Total non-current assets</b>	<b>15,330</b>	<b>15,187</b>	<b>15,739</b>	<b>15,281</b>
<b>Total Assets</b>	<b>21,004</b>	<b>20,892</b>	<b>20,853</b>	<b>20,899</b>
Account payables	964	836	695	851
Short-term debt	362	521	635	604
Other short-term debt	1,474	1,505	1,474	1,450
<b>Current liabilities</b>	<b>2,800</b>	<b>2,862</b>	<b>2,804</b>	<b>2,906</b>
Long-term debt	3,477	3,230	3,231	3,040
Other long-term debt	877	831	779	758
<b>Non-current liabilities</b>	<b>4,354</b>	<b>4,061</b>	<b>4,010</b>	<b>3,798</b>
<b>Total Liabilities</b>	<b>7,154</b>	<b>6,923</b>	<b>6,814</b>	<b>6,704</b>
Paid-in capital	3,833	4,215	4,215	4,637
Capital surplus	2,434	2,434	2,434	2,434
Retained earnings	4,076	3,805	1,936	1,669
Other equity	3,251	3,267	5,206	5,206
Minority interest	257	247	247	249
<b>Shareholder's equity</b>	<b>13,850</b>	<b>13,968</b>	<b>14,039</b>	<b>14,196</b>
<b>Total Resources</b>	<b>21,004</b>	<b>20,892</b>	<b>20,853</b>	<b>20,899</b>
Number of shares outstanding (million)	383	421	421	463

	2018	2019	2020	2021F
<b>Liquidity ratios</b>				
Current ratio	0.79	0.82	0.75	0.84
Quick ratio	0.69	0.70	0.61	0.70
<b>Solvency ratios</b>				
Debt/ Total assets	34%	33%	33%	32%
Debt/ Equity	52%	50%	49%	47%
<b>Efficiency ratios</b>				
Days of inventories	54.15	74.31	66.84	74.26
Days of receivables	106.93	134.40	85.89	78.08
Days of payables	58.60	82.26	55.64	61.82
CCC	102.48	126.45	97.09	90.52
<b>Profitability ratios</b>				
Gross profit margin	7%	10%	6%	8%
PBT margin	3%	4%	3%	4%
ROE	1%	1%	1%	1%
ROA	1%	1%	1%	1%
<b>Valuation</b>				
PE	36.9	18.6	27.3	59
PB	0.4	0.5	0.5	0.9
<b>Growth</b>				
Net revenue growth	41%	-21%	20%	-4%
EBIT growth	17%	-14%	-8%	37%
PBT growth	54%	-19%	6%	33%
EPS growth	435%	-23%	-9%	17%



## Disclosure

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