

Sector : Oil and Gas (Latest report: [Link](#))

Petrovietnam Drilling Investment Corporation (HSX: PVD) Overcoming the challenging 2022

RECOMMENDATION **NEUTRAL**

Current price:	17,400	Report writing date:	28/06/2022	Shareholder structure	
Target price:	19,800	Outstanding shares (Million)	421,129	VIETNAM OIL & GAS GROUP	50.46%
Dividend yield:	- %	Capitalization (Billion Dong)	9.749	EATON VANCE CORPORATION	0.1%
Upside:	13.9%	Average liquidity in 6 months:	12,837,910	LEMANIK ASSET MANAGEMENT	0.1%
		Foreign ownership:	16.16%	PHAM TIEN DUNG	0.04%

Research Analyst

Duong Quang Minh
(Oil and Gas)
minhdq@bsc.com.vn

Valuation

- BSC recommends NEUTRAL for PVD at a target price of VND **19,800 per share** for 2022, (+13.9% vs June 27, 2022) based on P/B and EV/EBITDA method with the proportion of 50% - 50%.

Technical Analyst

Le Quoc Trung
trunglq@bsc.com.vn

Recommended price: 24,000
Cut-loss price: 18,000

Business results forecast

- BSC forecasts PVD net revenue and NPAT in 2022 to reach **VND 9,484 billion (+25% YoY)** and **VND 48 billion (+30% YoY)** respectively, EPS FW = **61 VND/share** with the assumption: (1) Operating performance of the jack-up rigs reach the average of 77% in 2022, (2) The average drilling rig rental price reaches USD 60 thousand/ day in 2022 (+15% YoY), and (3) Provision for an additional VND 54 billion for receivables from KrisEnergy.

Stock and VN-Index price comparison table



Investment perspective

- Jack-up rigs are guaranteed to operate because of high oil prices.
- Daily rental price of Jack-up rigs is considered low in the area.
- The project series Block B – O Mon will provide a significant source of work for PVD in the period of 2023 to 2024 if they are implemented.

Investment risk

- Volatile oil price has influences on PVD's rig rental price and profit.
- Average operation effect of jack-up rigs does not come up to expectation.

PE and VN-Index price comparison table



Business update

- In Q1.2022, PVD recorded net value reaching VND 1,146 billion (108% YoY), and after tax loss reaching VND 75 billion (VND 110 billion in the same period). Q1 revenue increases YoY due to the fact that the TAD rig is placed in operation in January and there is one more outsourced rig. However, PVD still witnessed a lost due to (1) the rigs operating performance only reached 60%, the II rig and VI rig have 2.5 and 3 months of inactivity respectively, (2) jack-up rigs rental price remains low, and (3) joint ventures suffered loss in the first quarter.

	2020	2021	2022F	VN-Index
PE (x)	75.5	-583.3	342.8	12.7
PB (x)	0.5	0.8	0.7	2.0
PS (x)	1.8	2.3	2.1	3.5
ROE (%)	1.3	0.3	0.4	14.7
ROA (%)	0.9	0.2	0.2	6.6
EV/ EBITDA (x)	12.5	13.6	14.4	N/A

	2018	2019	2020	2021F
Revenue	5,500	4,368	5,228	4,678
Gross profit	397	450	328	263
NPAT	197	184	184	40
EPS	396	304	278	61
EPS Growth rate	435%	-23%	-9%	-78%
Net debt/ Equity	28%	27%	28%	26%

BUSINESS UPDATE

Table 1: Business update Q1.2021

Billions	Q1/22	Q1/21	%YoY	Comment
Net sales	1,146	550	108%	PVD recorded net value reaching VND 1,146 billion (108% YoY), and after tax loss reaching VND 75 billion (VND 110 billion in the same period). Q1 revenue increases yoy due to the fact that the TAD rig came into operation in January and there is one more outsourced rig. However, PVD still witnessed a lost due to (1) the rigs operation efficiency only reached 60%, the II rig and VI rig have 2.5 and 3 months of inactivity respectively, (2) jack-up rigs rental price remains low, and (3) joint ventures suffered loss in the first quarter. As the fixed cost erode gross revenue, the drilling segment recorded a gross loss of VND 75 billion (-215% YoY), resulting in a total gross loss of VND 27.8 billion in Q1/21. Financial costs decreased significantly (-46.1% YoY) as a result of a stable exchange rate in Q1/21. PVD only experienced VND 2.3 billion of exchange rate difference losses in Q1/21 compared to VND 36.6 billion of exchange rate difference losses in Q1/20.
- Drilling services	748	237	216%	
- Commercial	9	102	-91%	
- Other	389	212	84%	
Gross profit	70	-28		
GPM	6%	-5%		
Profit/ Loss from joint ventures/ associations	-5	10		
Selling expense	1	1	-3%	
General & administration expenses	86	84	3%	
SG&A/Rev	8%	15%		
EBIT	-18	-113		
Financial income	27	42	-35%	
Financial expense	-56	-43	29%	
Other profit	-14	-2	678%	
Profit before tax	-65	-107		
Profit after tax	-75	-110		

Source: PVD, BSC Research

PVD has nearly VND 180 billion of non-performing loan, of which VND 89 billion is owned by KrisEnergy's subsidiary. The management claimed that PVD is expected to lose about VND 49 billion in the second quarter because of 20% provision (VND 17 billion) for Kris Energy and deducting some repair costs in advance.

Management set a cautious plan for 2022 with the revenue of VND 4,700 billion (+9% YoY), and consolidated profit not recording losses. Profit after tax of the holding company is expected to reach 45 billion. The total investment cost in 2022 is expected to reach VND 315 billion, mainly investment items related to the repair and procurement of equipment on the rig. Regarding the profit distribution plan, PVD adopted a dividend rate of 2021 of 10% in shares.

BUSINESS OUTLOOK 2022

In 2022, the rigs were restarted in overseas markets. Currently, 3 out of 6 rigs owned by PV Drilling are providing services in overseas markets. In it:

- PV DRILLING III sea jack-up rig works for Repsol Malaysia from Q4 2021, extending to 2022.
- PV Drilling V (TAD) began operations at the end of January through a drilling contract with BSP in Brunei.
- PV DRILLING 11 – onshore drilling rig - is put into operation of the drilling project for GBRS in Algeria, ensuring jobs until the end of the third quarter of 2022.

In addition, the rigs operating in the country continue to ensure a stable source of employment. PVD I and PVD II are serving Vietsovpetro's (VSP) drilling operations, while PVD VI rigs will work for ENI, Premier Oil Vietnam or Kowloon JOC each quarter. Besides, PV Drilling also rented a jack-up rig to supply in the Vietnamese market from the end of 2021, which is expected to last until early July 2022.

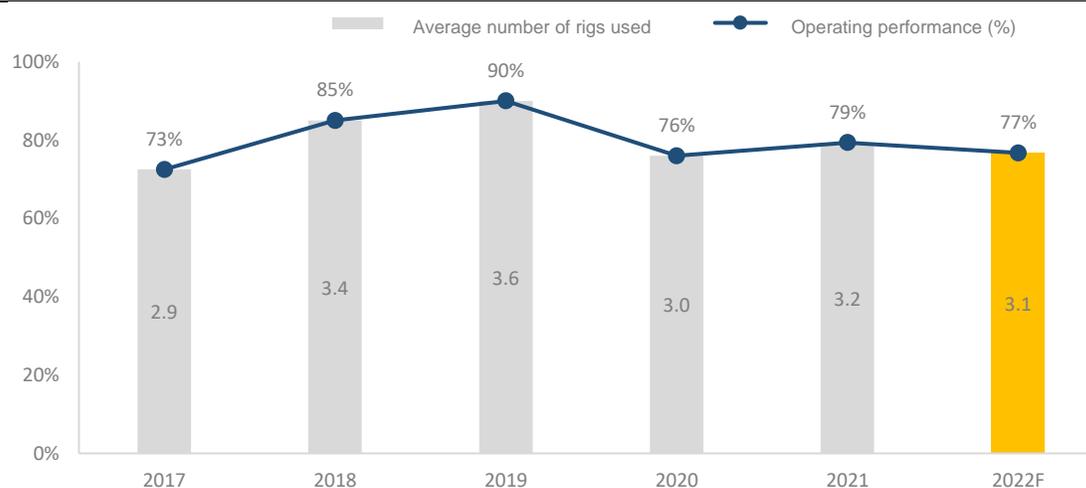
Table 1: Update of PVD's expected 2022 drilling schedule

	Q1	Q2	Q3	Q4
PVD I	VSP			VSP
PVD II		VSP	Premier Oil Indo	
PVD III	Repsol – BOC			
PVD VI	ENI	POVO		CLJOC
TAD		BSP		
Landrig 11	GBRS			
Hakuryu-11	Idenmitsu			

Source: PVD, BSC Research

Rising oil prices increasing the demand for jack-up rigs in the region, thereby ensuring a stable source of work for PVD. According to IHS Markit, 47 out of 58 rigs having contracts to work in Southeast Asia as of May, increasing the rigs' operating performance to 81% (compared to 71% in the same period). In the context of oil prices remaining at the high level, the demand for rig mobilization is likely to continue to increase, thereby bringing more sources of jobs for drilling service providers such as PVD. As jack-up rigs is expected to be fully employed for the rest of the year, **BSC forecasts that performance of PVD's jack-up rigs in the near future will increase again and reach an average of 77% for the whole of 2022.**

Figure 1: Gross profit margin of Drilling service decreased sharply in Q1.2021



Source: PVD, BSC Research

However, the daily rental price of the jack-up rigs remains at a low level in the region. Rig rents in the region in the first quarter of 2022 ranged from \$70,000 to 80,000 per day. Meanwhile, PVD's management claimed that daily rental price of PVD's jack-up rig in the first quarter only averaged about \$ 57,000 per day, and the price adjustment is expected to be made until August. For drilling service companies, the impact will have a certain lag as partners need time to restart exploration & production (E&P). Therefore, BSC expects PVD's daily rents to recover in the third quarter of 2022, and reach the 2022 average of US \$60,000 per day (+15% YoY).

Figure 2: Daily rental price of PVD's jack-up rig (thousands of USD/day)

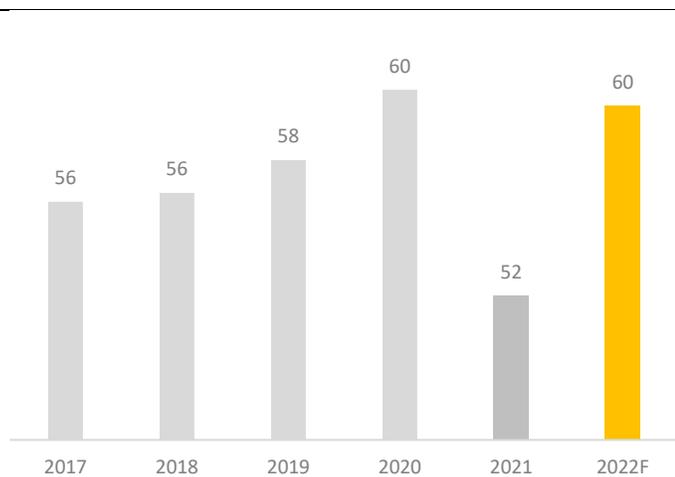
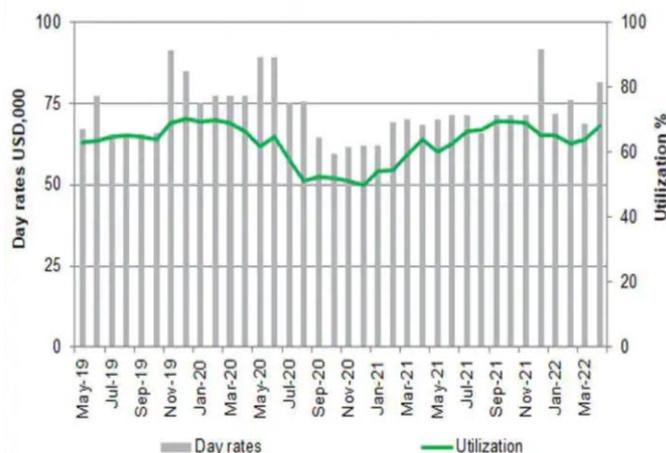


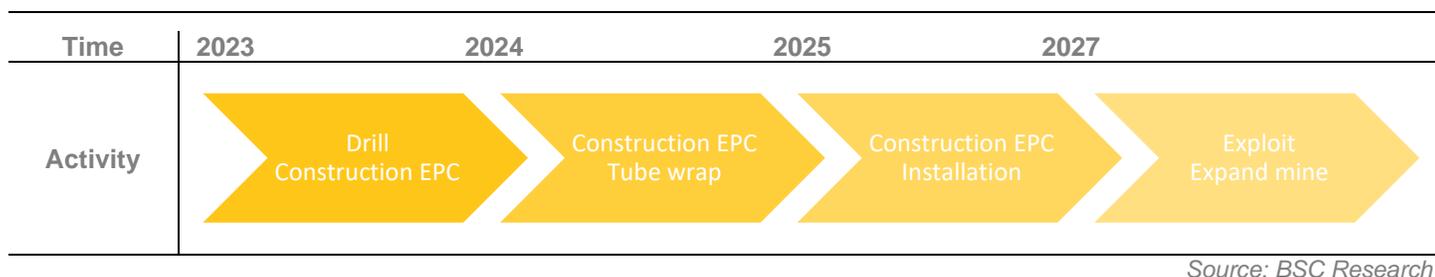
Figure 3: Operating performance and the rental price of jack-up rigs in the Southeast Asian region are on recovery trend



Source: Bloomberg, IHS Markit, BSC Research

The series of Projects Block B - O Mon, if approved for implementation, can provide a great source of work for PVD in the period of 2023 to 2024. Block B - O Mon is one of the largest gas extraction projects in Vietnam, with a total investment of up to 10 billion USD with many component projects from upstream to downstream. After many years of delays, it is expected that the gas - electricity projects Block B - O Mon will have a final investment decision (FID) in the third quarter of 2022 (refer to the [oil and gas industry report](#)). With the scale of more than 700 wells, BSC expects the project to bring many job opportunities for PVD during the implementation phase of EPC and well construction (expected 2023 - 2024).

Figure 4: Expected progress of Block B – O Mon project (if approved)



Source: BSC Research

BUSINESS RESULTS FORECAST

BSC projected PVD's business result in 2022 with net revenue and profit after tax to reach VND **4,976 billion (+25% YoY)** and **VND 48 billion (+30% YoY)** respectively, EPS FW = **VND 61/ share** with the assumption:

- The operating performance of jack-up rigs reaches the average of 77%
- The average rig rental price in 2022 reached USD 60 thousand /day (+15% YoY)
- The average number of outsourced rigs increased from 0.3 rigs in 2021 to 0.8 rig as demand for drilling in the region increased again.
- Setup a provision of an additional VND 54 billion receivable from KrisEnergy.

Table 3: Projection of PVD's business results

Fan: Billion VND	2019	2020	2021	2022F
Net revenue	4,368	5,228	3,995	4,976
- Drilling services	2,176	3,074	1,848	2,593
- Commerce	425	329	490	540
- Others	1,768	1,831	1,668	1,844
COGS	(3,918)	(4,900)	(3,624)	(4,606)
Gross profit	450	328	371	371
<i>Gross profit Margin</i>	<i>10.3%</i>	<i>6.3%</i>	<i>9.3%</i>	<i>7.4%</i>
Selling expense	(17)	(16)	(13)	(16)
General & administration expenses	(397)	(315)	(386)	(399)
<i>SG&A/net revenue</i>	<i>9.5%</i>	<i>6.3%</i>	<i>10.0%</i>	<i>8.3%</i>
Financial income	165	159	164	129
Financial expense	(241)	(202)	(171)	(163)
Other profit	118	30	(7)	15
Profit before tax	189	200	62	61
Profit after tax	172	181	37	48
EPS	304	278	(36)	61

Source: BSC Research

VALUATION AND RECOMMENDATIONS

BSC recommends **NEUTRAL** for PVD with a target price of **VND 19,800 per share** (upside **13.9%** compared to the closing price on 27/06/2022 of 17.4 00 VND per share) based on the P/B and EV/EBITDA methods with a ratio of 50% - 50%.

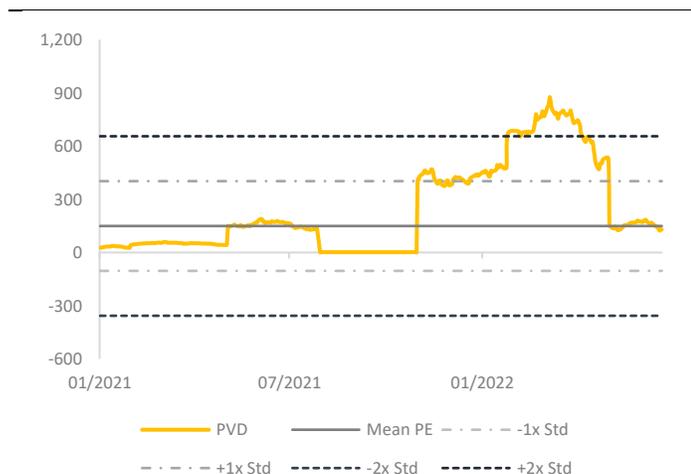
Method	Valuation (VND/share)	Proportion (%)	Average price
P/B with target P/B 0.8x	21,494	50%	10,747
EV/EBITDA	18,149	50%	9,075
Target price (VND/ CP)			19,822
Closing price on 27/06/2022			17,400
Upside			13.9%

EV/EBITDA method	
EBITDA 2022F (billion VND)	879
EV/EBITDA (x)	11.0
Business value	9,669
(+) Money and cash equivalents	3,014
(-) Short-term and long-term debt	3,511
Equity value	9,172
Number of outstanding shares (million)	505
Target price	18,149

Source: Bloomberg, BSC Research

Stock PE

Stock PB



Source: Bloomberg, BSC Research

APPENDIX

P&L (Billion VND)	2019	2020	2021	2022F	Cashflow Statement (Billion VND)	2019	2020	2021	2022F
Net revenue	4,368	5,228	3,995	4,976	NPAT	189	200	62	61
COGS	-3,918	-4,900	-3,624	-4,606	Depreciation	591	503	534	688
Gross profit	450	328	371	371	Change in working capital	-640	-98	-745	205
Selling expenses	-17	-16	-13	-16	Other adjustments	-217	-292	-229	-278
SG&A expenses	-397	-315	-386	-399	CF from operating activities	-77	313	-376	676
Operating profit/loss	37	-3	-27	-45	Cash for purchasing fixed assets	-53	-552	-608	-88
Financial income	165	159	164	129	Other investments	-170	-700	1,065	194
Financial expenses	-241	-202	-171	-163	CF from investment activities	-223	-1,252	457	106
Interest expense	-158	-119	-109	-130	Dividend payments	-3	-3	-3	0
Profit from joint ventures/associations	111	216	104	124	Cash from net borrowing	-85	114	89	-443
Other profit/loss	118	30	-7	15	Other receipts	0	0	0	0
EBT	189	200	62	61	CF from financing activities	-87	127	151	-443
Tax	-17	-19	-26	-13	Beginning of the year CF	2,265	1,890	925	1,131
NPAT	172	181	37	48	CF in the year	-388	-812	232	339
Minority Interest	-12	-4	17	4	Ending of year CF	1,890	1,078	1,131	1,469
NPATMI	184	184	20	44					
EBITDA	938	822	708	879					
EPS	304	278	-36	61					

Balance sheet (Billion VND)	2019	2020	2021	2022F	Ratio (%)	2019	2020	2021	2022F
Money & cash equivalent	1,890	1,075	1,131	1,469	Solvency				
Short-term investment	1,033	1,197	1,544	1,544	Current ratio	0.82	0.75	0.78	0.88
Short-term receivables	1,907	1,806	1,936	1,266	Quick ration	0.70	0.61	0.67	0.77
Inventory	835	959	758	684	Capital structure				
Other short-term asset	39	78	60	670	Debt/Total asset	33%	33%	33%	32%
Short-term asset	5,705	5,114	5,429	5,633	Debt/Equity	50%	49%	50%	47%
Tangible asset	23,378	23,361	23,187	23,336	Operational capacity				
Depreciation	-9,611	-10,039	-10,402	-11,116	Days Sales of Inventory	74.31	66.84	74.26	57.13
Long-term unfinished asset	28	206	921	967	Days Sales Outstanding	134.40	85.89	78.08	82.19
Long-term investment	1,051	1,790	602	632	Days Payable Outstanding	82.26	55.64	61.82	53.76
Other long-term asset	157	229	797	325	CCC	126.45	97.09	90.52	85.56
Long-term asset	15,187	15,739	15,332	14,347	Profit margin				
Total asset	20,892	20,853	20,761	19,981	Gross profit margin	10%	6%	9%	7%
Short-term payable	836	695	780	555	NPAT margin	4%	3%	1%	1%
Liabilities	521	635	748	498	ROE	1%	1%	0.3%	0.4%
Other short-term debt	1,505	1,474	1,502	1,636	ROA	1%	1%	0.2%	0.2%
Total short-term debt	2,862	2,804	3,030	2,689	Valuation				
Long-term loans	3,230	3,231	3,206	3,013	PE	18.6	27.3	59	59
Other long-term debt	831	779	693	701	PB	0.5	0.5	0.8	0.7
Total long-term debt	4,061	4,010	3,899	3,714	Growth				
Total Debt	6,923	6,814	6,930	6,403	Net revenue growth	-21%	20%	-24%	25%
Capital contributions	4,215	4,215	4,215	5,051	EBIT growth	-14%	-8%	-46%	11%
Equity surplus	2,434	2,434	2,434	2,434	EBT growth	-19%	6%	-69%	-3%
Undistributed profit	3,805	1,936	1,923	1,072	EPS Growth	-23%	-9%	-	-270%
Other equity	3,267	5,206	5,020	4,778					
Minority shareholders	247	247	240	242					
Total Equity	13,968	14,039	13,832	13,577					
Total capital	20,892	20,853	20,761	19,981					
No. outstanding shares (million shares)	421	421	421	505					

Source: BSC Research

TECHNICAL ANALYSIS

Target price: 24,000

Cut-loss price: 18,000

Technical highlights:

- Current trend: Recovery
- MACD trend indicator: Positive divergence, MACD is below the signal line and is showing signs of reversal
- RSI indicator: neutral zone, recovery from oversold zone

Comment: PVD is in the process of forming a recovery trend. Stock liquidity is below the 20-session average, and bullish sessions have weak liquidity levels. This phenomenon means purchasing power is not enough to overwhelm the selling force and the uptrend has not yet been formed. The MACD and RSI are showing a gradual shift to a positive trend. The stock price line is still retesting the MA20, which if it goes ahead can form a short-term uptrend. PVD is in the process of identifying the uptrend. If the stock successfully exceeds 19.0 with a large level of liquidity, the investor can have good position at this price threshold and take profits at the threshold of 24.0. Cut losses if the price go bellow 18.0.



Source: BSC Research

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BSC Head Office

8th & 9th Floor Thai Holdings Building
210 Tran Quang Khai,
Hoan Kiem, Hanoi
Tel:+84439352722
Fax:+84422200669

BSC Ho Chi Minh Branch

9th Floor Building 146 Nguyen Cong Truc
District 1, Ho Chi Minh City
Tel:+84838218885
Fax:+84838218510

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