

Company Visit Note

PVS - Petrovietnam Technical Services Joint Stock Company

28/3/2018

BSC

Recommendation: **HOLD**

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Target price	N/A
Current price	21,600
Upside	

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Target price	
Cut loss	
Support level	18,600

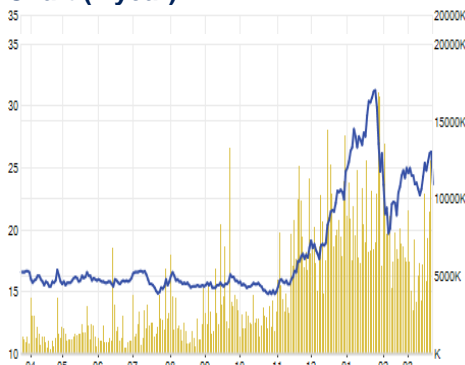
Market Data

Outstanding share	446.7
Mkt Cap	9,649
High of 52w	32,900
Avg Vol 10 days (share)	9.25
Foreign ownership	18.06%

Major shareholder

PVN	51.38%
Dragon Capital	7.98%
Franklin Resources	5.47%
Vinacapital	5.29%

Chart (1 year)



Overview

Main activities in 6 areas are Ship Services, FSO/FPSO, Survey Services, Port Services, Mechanical/Construction Services, O&M Services. In 2017, Port services were the largest contributor, accounting for 40% of PVS's gross profit

Waves at the bottom of the river

Valuation

We recommend Holding PVS. On 27/03/2018, PVS was traded at VND 21,600/share, equivalent to PE 2018 = 11.94x. If temporarily removing the revenue from Red Dragon Fish (Ca Rong Do) project in 2018 (estimated at VND 3,000 billion), PE 2018 = 13.56x (equal the average of the peers in same sector in the region)

Forecast business results

We estimated revenue in 2018 of PVS is at VND 17,039 billion (+1.35% yoy), EAT of PVS's parent company reaches VND 889 billion (+12.2% yoy), EPS 2018 = VND 1,809 (assuming 10% of the bonus and welfare fund with the current number of shares). 27/03/2018, PVS were traded at 21,600, equivalent to PE 2018 = 11.94x. If excluding revenue from the project in 2018, EAT of PVS shareholders in 2018 = VND 791 billion (-1.2% yoy), PE 2018 = 13.56x.

Catalyst

Deploying the Golden Star Project (Sao Vang Dai Nguyet), worth over USD 500 million, implemented from 2019 to 2021

Investment risk

- Unfavorable price of oil
- Large projects are stopped or delayed
- Problem of receivables from Long Phu 1 thermal power plant

Company Updates

The business results have not improved significantly. Most of the segments have no revenue spike in 2018. The construction engineering sector is dependent on three big projects: Red Dragon Fish (about VND 3,000 billion), Golden Star (about VND 2-3,000 billion), and Long Phu 1 thermal power plant (VND 700 billion)

Port Services, 2017 revenue was VND 1,339 billion (-7.87% yoy), gross profit of 2017 was VND 325 billion (+18% yoy, accounting for 40.15% of total gross profit of PVS)

Ship Services, 2017 revenue was VND 2,048 billion (-2.67% yoy), gross profit of 2017 was VND 185 billion (-28.61% yoy, accounting for 22.83% of total gross profit of PVS)

Mechanical and construction services, 2017 revenue reached VND 8,272 billion (-11.64% yoy), gross profit margin was only 1.92% which was lower compared to 2016, gross profit of 2017 was VND 158 billion (-26.63% yoy, accounting for 19.6% of total gross profit).

About FSO/FPSO segment, 2017 revenue reached VND 2,957 billion (-9.64% yoy), gross profit of 2017 was VND 133 billion (-4% yoy, accounting for 16.47% of total gross profit).

The issuance of additional shares. The company has completed the procedure and submitted to the ministry for approval, currently waiting for the comments from PVN.

The business results have not improved significantly. According to consolidated financial statement of 2017, revenue of PVS was VND 16,812 billion (-10% yoy), gross profit margin was 4.81%, slightly improved compared to 4.19% of 2016 mainly due to better gross profit margin (24.25% compared to 18.95% in 2016). EAT 2017 reached VND 781.54 billion (-14% yoy), after tax profit of PVS's parent company was VND 800.46 billion (-23% yoy as PTSC CGGV made a smaller loss compared to 2016), EPS 2017 = VND 1,608 (bonus and welfare were about 10%).

We estimate PVS's 2018 revenue can reach VND 17.039 billion (+1.35% yoy), EAT is VND 898 billion (+12.2% yoy), EPS of VND 1,880 (assuming 10% bonus and welfare fund with the current number of stocks). On 27/03/2018, PVS was traded at 21,600 VND/share, equivalent to PE 2018 = 11.94x. If excluding the revenue from the Ca Rong Do project in 2018, EAT which belongs to PVS's shareholders is equaling to VND 791 billion (-1.2% yoy), PE 2018 = 13.56x.

Port Services, 2017 revenue was VND 1,339 billion (-7.87% yoy), gross profit in 2017 was VND 325 billion (+18% yoy, accounting for 40.15% of total PVS's gross profit), gross profit margin in 2017 was 24.25%, increasing compared to 2015 (22.52%) and 2016 (18.95%). In 2018, revenue from port services is forecast to remain stable.

Ship Services, 2017 revenue was VND 2,048 billion (-2.67% yoy), gross profit in 2017 was VND 185 billion (-28.61% yoy, accounting for 22.83% of total PVS's gross profit). Continuing to be difficult, gross profit margin in 2017 was 9.01% which decreased comparing to that number of 2015 and 2016. In 2018, the ship service sector is forecasted to have no sudden changes.

Mechanical and construction services, 2017 revenue was VND 8,272 billion (-11.64% yoy), gross profit margin reached 1.92%, decreasing compared to 2016, gross profit in 2017 was VND 158 billion (-26.63% yoy, accounting for 19.6% of total PVS's billion). We noted that on 31/12/2017, receivables from Long Phu 1 petroleum power project are accounting for the largest proportion, about 12% of total receivables, of which receivables having invoices is VND 292 billion and receivable from accrued revenue according to the progress of completion is VND 334 billion. In 2017, PVS has to make provision of VND 100 billion for this project. We expected that capital flow for Long Phu 1 will continue to be difficult, in 2018, the value of the work of Long Phu 1 is expected to be VND 700 billion.

In 2018, the Ca Rong Do and Sao Vang Dai Nguyet projects will make a major contribution. If the Ca Rong Do project is not delayed, it is estimated that revenue from this project is about VND 3,000 billion (the total value of the package is USD 380 million, implemented from 2018 to 2021). Revenue from Sao Vang Dai Nguyet is more than VND 2,000 billion (The value of the package is USD 720 million, the part of PVS is over USD 500 million, implemented from 2019 to 2021).

FSO/FPSO, 2017 revenue reached VND 2,957 billion (-9.64% yoy), gross profit in 2017 was VND 133 billion (-4% yoy, accounting for 16.47% of total gross profit). Based on the contract between PTSC AP and PVS, the contract between PVS and Lam Son JOC, on 30/06/2017, Lam Son JOC requested to terminate the lease and PVS asked PTSC AP to terminate the lease before the deadline for FPSO Lam Son ship. Therefore, in 12/2017, PVS received VND 4,916 billion of payment of termination fee from Lam Son JOC, while PVS made payment to PTSC AP of VND 4,844 billion as stipulated in the termination agreement. From 1/7/2017 - 31/12/2018 Lam Son FPSO rent is set at the provisional price for the new contract. The FSO/FPSO segment is stable in 2018.

Survey Services, O & M and others. Survey services are expected to continue to have loss in 2018, the O & M segment will be active from 2021 when the current deployment projects are operational.

The issuance of additional shares is awaiting comments from PVN. It is expected that PVS will issue 142,944,134 new shares in 2018, which includes simultaneously 7% share dividend which is 31,269,029 shares and issue 111,675,105 shares of VND 10,000/share for investment of VND 1,116.75 billion for FPSO. The company has completed the procedure and submitted to the ministry for approval, currently waiting for comments from PVN. The act of changing exchange is postponed to complete the issuance of shares.

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Phân tích tài chính

28/3/2018

Unit: billions	2013	2014	2015	2016	2017
Net sales	25,419	31,704	23,357	18,682	16,812
Gross profit	2,669	2,594	2,175	783	809
Financial income	270	218	378	306	295
Financial exps	(288)	(193)	(378)	(160)	(84)
interest exps	(148)	(95)	(71)	(56)	(38)
Sell exps	(108)	(116)	(99)	(92)	(85)
G&A exps	(640)	(709)	(896)	(540)	(718)
Operating profit	1,903	2,338	1,933	964	677
Net other income	46	206	82	292	328
EBT	2,269	2,544	2,015	1,256	1,005
Net income	1,700	1,991	1,494	910	782
Minority interests	124	16	(24)	(129)	(19)
Parents	1,576	1,975	1,517	1,039	800
EPS	3,527	4,421	3,397	2,159	1,608

Net sales -10% yoy, mainly due to a decline in Survey services, Construction services (impact of low oil prices, projects stagnating). Low gross profit margin due to the construction of mechanical engineering in many projects on the land, the offshore projects will be accelerated from 2018

Other net income mainly came from reversal of provision for guarantee of projects of VND 244.9 billion and income from compensation for losses of VND 71.99 billion

Current asset	14,274	16,930	16,001	15,151	13,564
Cash and CE	5,857	8,194	7,991	5,884	5,761
Accounts receivable	7,533	7,871	5,725	6,125	5,402
Inventories	715	588	1,190	1,651	438
Other current assets	169	273	524	581	438
Non-current asset	9,542	9,754	10,436	10,390	10,308
LT receivables	-	62	82	67	35
Fixed assets (fa)	5,313	4,628	4,728	4,150	3,679
Tangible fa	5,280	4,601	4,702	4,134	3,656
Finance lease fa	-	-	-	-	-
Intangible fa	7	27	26	17	24
LT incomplete assets	-	430	424	499	232
Other LT assets	598	653	796	742	1,239
Total asset	23,817	26,684	26,437	25,541	23,872
Total liabilities	14,120	15,729	14,562	13,789	11,791
Current liabilities	10,496	11,506	9,872	9,743	7,360
ST borrowings	1,052	752	684	432	255
Non-current liabilities	3,624	4,222	4,690	4,045	4,431
LT borrowings	2,472	1,828	1,563	1,144	901
Owner's equity	8,271	10,955	11,875	11,752	12,081
Paid-in cap	4,467	4,467	4,467	4,467	4,467
Retained earnings	2,422	3,159	3,326	3,189	3,509
Total resources	23,817	26,684	26,437	25,541	23,872

Remarkably, the receivables from Long Phu 1 thermal power plant, accounting for the largest proportion, about 12% total accounts receivables. The amount of provision which is VND 100 billion was allocated in 2017, the project is facing capital

In 2018, PVS plans to issue 142,944,134 new shares in 2018, including 7% share dividend (31,269,029 shares) and issuing 111,675,105 shares at the price of 10,000 VND/share to invest VND 1,116.75 billion for FPSO.

2017 gross profit margin improved slightly due to gross profit margin of Port services was 24.25% (19.6% in 2016), while gross profit margin of Construction engineering was only 1.92%, BSC expects Offshore project implementation will help improve gross profit margin in 2018, but may not be as good as 2015 to previous.

% yoy Revenue		25%	-26%	-20%	-10%
Gross margin	10.5%	8.2%	9.3%	4.2%	4.8%
Ir.exps / sale	0.6%	0.3%	0.3%	0.3%	0.2%
Sell exps / sale	0.4%	0.4%	0.4%	0.5%	0.5%
Admin exps / sale	2.5%	2.2%	3.8%	2.9%	4.3%
Net profit margin	6.7%	6.3%	6.4%	4.9%	4.6%

MỘT SỐ CHỈ TIÊU TÀI CHÍNH CƠ BẢN

2013 2014 2015 2016 2017

1. Liquidity ratio

Current ratio	1.36	1.47	1.62	1.56	1.76
Quick ratio	1.28	1.40	1.45	1.33	1.64

Good financial liquidity: PVS's payment ratio is at a safe level with an upward trend in recent years

2. Capital structure ratio

Ca/TA	0.60	0.63	0.61	0.59	0.58
NCA/TA	0.40	0.37	0.39	0.41	0.42
Liabilities/TA	0.59	0.59	0.55	0.54	0.48
Liabilities/TE	1.71	1.44	1.23	1.17	0.92
CL/TA	0.44	0.43	0.37	0.38	0.33
NCL/TA	0.15	0.16	0.18	0.16	0.15

3. Operating efficiency ratio

Inventory turnover	33.6	44.7	23.8	12.6	15.3
Receivable turnover	5.5	5.5	4.6	4.2	4.1
Payable turnover	6.9	6.7	4.6	4.4	4.2
Days of inventory	10.9	8	15	29	24
Days of receivables	66.3	66	79	88	89
Days of payables	52.6	55	79	84	87
CCC	24.6	20	15	33	27

Operational capacity: The performance of indicators reflect the difficult situation of the business in recent years, the money cycle to 33 days in 2016, but has improved to 27 days in 2017.

4. Profitability ratio

Net income/NSale	6.7%	6.3%	6.4%	4.9%	4.7%
ROE	20.5%	18.2%	12.6%	7.7%	6.5%
ROA	7.1%	7.5%	5.6%	3.6%	3.4%
Oper profit/NSale	7.5%	7.4%	8.3%	5.2%	4.4%

5. Dupont analysis

TA/TE	2.88	2.44	2.23	2.17	1.92
NSale/TA	1.07	1.19	0.88	0.73	0.72
EBIT/NSale	0.10	0.08	0.09	0.07	0.06
EBT/EBIT	0.94	0.96	0.97	0.96	0.96
Net income/EBT	0.75	0.78	0.74	0.72	0.78

6. Valuation multiples

PE	6.5	5.2	6.7	10.6	12.7
PB	1.2	1.1	1.0	1.0	0.9
EPS	3,527	4,421	3,397	2,159	1,793
BVPS	18,516	21,296	22,949	23,107	24,008

Currently PVS is trading with PE 2018 = 11.94x (with CRD) and 13.56x (exclude Ca Rong Do projects), which is reasonable compared to the average of peers in the region

7. Growth (%yoy)

TA		12%	-1%	-3%	-9%
Liabilities		11%	-7%	-5%	-20%
Sale		25%	-26%	-20%	-10%
GP		-3%	-16%	-64%	3%
NI		17%	-25%	-39%	-14%
EPS		25%	-23%	-36%	-17%

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Phân tích kỹ thuật

28/3/2018

Điểm nhấn kỹ thuật

- Current Trends: Downtrend
- MACD trend indicator: Below 0 level and cut the line, the signal of short-term correction
- The RSI indicator is strongly decreasing, heading to the oversold area
- Liquidity: Increasing in recent sessions, average liquidity of 15 days is staying 7.655 million shares per session.

Outlook

PVS is recovering well after reaching its bottom in mid February thanks to the support of oil price. However, the news of Ca Rong Do project is likely to postponed, causing PVS to drop sharply through the MA100 days and the liquidity in the last two sessions has been decreasing, forming a short-term downtrend. Rebounding support is the old bottom at around 18.

Recommendation

Investors should pay attention to follow up the PVS when checking the support around the area 18, investors should limit the knife catch and wait for official information from the project Dragon fish.

Technical chart



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