

Industry: Oil and gas (Latest update report: [Link](#))

Recommendation

BUY

**PetroVietnam Technical Services Corporation (HSX: PVS)
2021 – April showers bring May flowers**

Current price:	15,600	Date:	17/11/2020	Shareholder structure	
Previous target price	N/A	Shares outstanding (Millions)	477	PVN	51.4%
Target price:	18,300	Market capitalization (billion VND)	7,073	Norges Bank	1.3%
Dividend yield	11.3%	Avg. 10 sessions trading vol	7,049,230	Tokio Marine Holding	1.0%
Upside	17.3%	(shares):			
		% Foreign float	9.91%		

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Target price: 21,000 VND
Cut-loss price: 13,300 VND

Valuation

- We recommend BUY for PVS stock with a target price of VND 18,300, +17.3% from the November 17, price of VND 15,600 based on P/E 2021 = 10.5

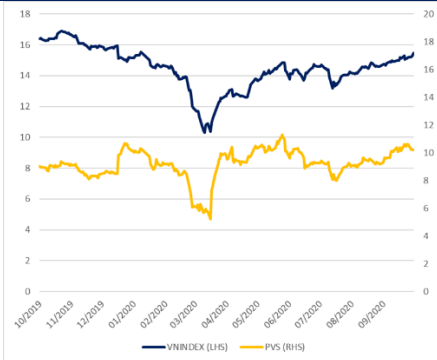
Forecast of business performance

- 2020, BSC forecasts that PVS's revenue and net profit will be **VND 17,881 billion (+5.4% YoY)** and **VND 778 billion (-3.7% YoY)**, respectively, FW 2020 EPS = **VND 1,498/share (-15.7% YoY)**. Assumptions (1) 2020 average oil price = 41 USD/barrel (-36% YoY) and (2) Construction & Engineering segment improves gross margin = 5%.
- In 2021, BSC forecasts PVS revenue and NPAT will reach **VND 18,619 billion (+4.1% YoY)** and **VND 903 billion (+16% YoY)**, respectively, FW EPS 2021 = **VND 1,738/share (+16.0% YoY)**. Assumptions (1) Average oil price 2021 = 45 USD/barrel (+9.8% YoY) and (2) PVS executes big projects.

Share price & VN index movement



PVS's PE & VN index movement



Investment thesis

- Investment to large oil and gas projects are heavily focused, which is expected to bring growth to VPS

Catalyst

- The market will receive new cash flows from investment funds according to the MSCI FM Index and MSCI FM 100 Index from November 2020 when Kuwait is upgraded. Accordingly, the proportion of PVS shares in iShare fund is expected to increase from 0.09% to 0.22% (equivalent to a purchase value of 0.49 million USD). (For details refer to [Link](#))

Investment risks

- Falling oil prices affect the progress of projects
- Projects are behind schedule because of upstream-downstream synchronization

Financial result & business update

- In 9M2020, PVS recorded revenue = 14,725 billion VND (+8.5% YoY) NPAT = 635 billion VND (-0.5% YoY), completing 98% of revenue plan and 99% of 2020 profit plan, mainly thanks to accounting for account receivables.
- Large gas field projects such as Ca Voi Xanh and Block B – O Mon continue to be behind schedule because of difficulties in negotiation and finance.

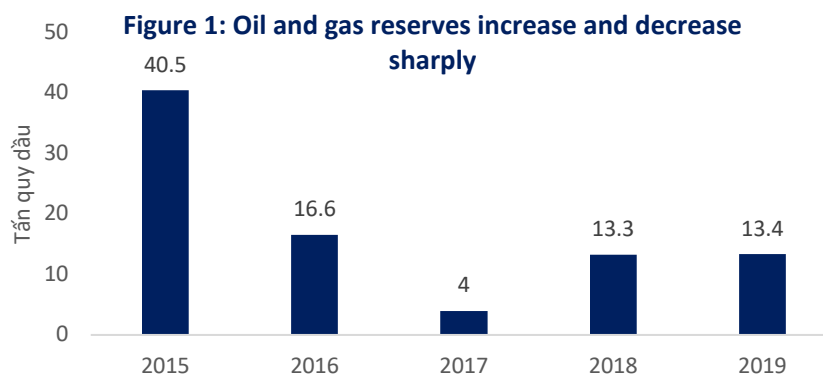
	2019	2020F	Peer	VN-Index		2018	2019	2020F	2021F
PE (x)	6.9	8.2	15.4	14.7	Revenue	14,638	16,968	17,881	18,619
PB (x)	1.3	1.1	0.5	2.0	Gross profit	1,119	898	1,182	1,332
PS (x)	2.1	2.3	0.4	1.5	NPAT	573	808	778	831
ROE (%)	19.0	14.5	1.5	13.3	EPS	2,191	1,777	1,498	1,738
ROA (%)	8.9	7.5	0.6	2.4	EPS growth	30.9%	-18.9%	-15.7	16.0%

EV/ EBITDA (x) 3.0 4.6 8.4 14 Debt/ Equity 7.2% 10.6% 9.7% 8.1%

INVESTMENT THESIS

Investment to large gas and oil projects are heavily focused, which is expected to bring growth to PVS

(1) Because of many difficulties and obstacles in politics, capital, negotiations...so the search and exploration for oil and gas in Vietnam has not been very positive, **oil and gas reserves have increased (oil reserves) new successfully explored gas per year) continuously decreased over the years:**



Source: PVN

(2) Investment to potential oil and gas projects are expected be focused on (gas field, LNG port...) to meet the increasing demand, specifically:

- With the goal of meeting 175-190 million TOE (Ton oil equivalent) by 2030 and 320-350 million TOE by 2045, large gas field project investments are being focused on including:

Table 1: Large gas field projects

Project	Total investment (billion VND)	Implementation time	Progress
White lion phase 2	2.0	2021-2023	The first gas line of phase 2B is expected to be exploited in the fourth quarter of 2023.
Pipe line Block B – O Mon	1.2	2021-2023	Bidding for Design & Supply & Construction Contract (EPC) and site clearance compensation are underway. The goal of awarding EPC tenders by the end of 2020.
Mine Lot B – O Mon	6.8	2020-2040	Completed the Private investment Contract for the overall design (FEED), in the process of completing the Final Investment Decision (FID)
Blue Whale Mine	10	N/A	Related parties are in the process of negotiating gas purchase and sale contracts.

- At the same time, LNG projects are also promoted:

(1) According to the revised Power Plan VII, Vietnam needs to build new LNG-using power plants with a total capacity of 15,000 - 19,000 MW to meet the increasing electricity demand.

(2) According to the Gas Industry Development Plan, it is forecasted that in the period of 2021-2025, Vietnam will have to import 1 - 4 billion m3 of LNG per year and increase to 6 - 10 billion m3 per year thereafter. Expected to import 8 billion m3 in 2030 and about 15 billion m3 in 2045.

⇒ The Ministry of Industry and Trade expects that Vietnam will build 3-4 LNG import depots with a total capacity of 3 million tons/year each in the period 2021 - 2025, and build about 5-6 LNG import warehouses with the same capacity in the period 2026-2035. The **estimated total investment is more than 3 billion USD**.

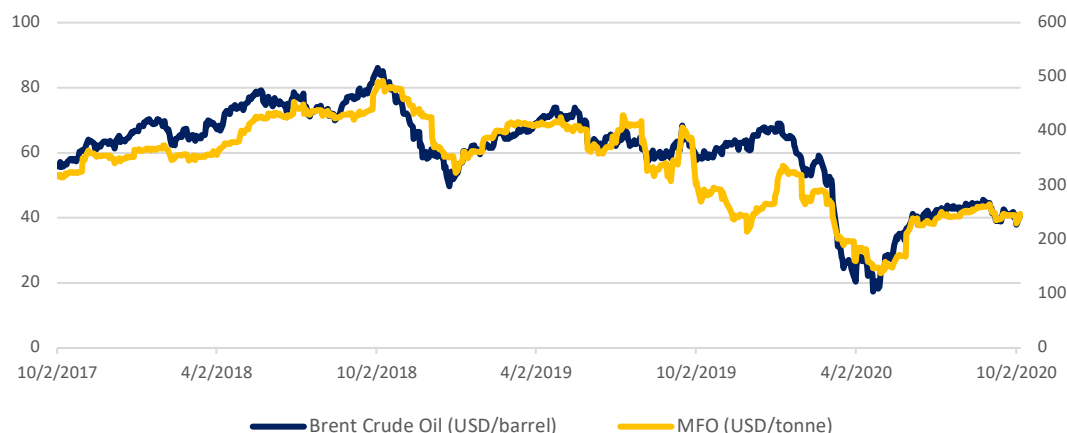
With the advantage, experience has been confirmed in many big projects such as Sao Vang Dai Nguyet, LNG Thi Vai Warehouse...BSC expects PVS to win the bids for the projects – Bringing growth to most business segments of enterprises, especially in the **field of Construction & Mechanical Engineering**.

FINANCIAL RESULT & BUSINESS UPDATE

9M2020 – Business activities are negative because of COVID-19

In 9M2020, PVS recorded revenue = **VND 14.725 billion (+8.5% YoY)** NPAT = VND 635 billion (-0.5% YoY), completing 98% of revenue plan and 99% of 2020 profit plan. In fact, PVS' business segments **were negatively affected** when oil prices dropped because of the impact of COVID-19:

Figure 2: Oil price dropped and remained low at 41 USD/barrel



Source: Bloomberg, BSC Research

Table 2: Negative results of business activities

Business segment	Revenue			Gross profit			Gross profit margin	
	9M2019	9M2020	Change	9M2019	9M2020	Change	9M2019	9M2020
Construction & Engineering	7,747	7,997	3.20%	422	403	-4.50%	5.45%	5.04%
Boat rental service	1,410	1,493	5.90%	131	99	-24.40%	9.29%	6.63%
Supply of vessels for storage, handling and crude oil export (FSO/FPSO)	1,227	2,467	101.10%	125	86	-31.20%	10.19%	3.49%
Port base	1,157	1,181	2.10%	202	190	-5.90%	17.46%	16.09%
Operation & Maintenance	1,044	870	-16.70%	70	61	-12.90%	6.70%	7.01%
Seismic, geological survey and underground repair by ROV	549	306	-44.30%	52	11	-78.80%	9.47%	3.59%
Other	435	411	-5.50%	21	20	-4.80%	4.83%	4.87%
Total	13,569	14,725	8.5%	1,023	870	-15.0%	7.54%	5.91%

Each specific segment of business activities:

- Lease of service ships: The number of operating days reached **1,890 days (-8.78% YoY)**.
- Supply of crude oil storage, processing and exporting vessels (FSO/FPSO): Big revenue from FSO Ca Rong Do and reversal of FPSO Lam Son.
- Construction & Engineering: The Golden Star – Dai Nguyet, GALLAF projects... entered the final stage.
- Port base: Average number of contractors performing drilling plan = **3 contractors/month. (+25% YoY)**
- Operation & Maintenance: Projects are generally still on schedule with the exception of Nam Con Son Sea Pipeline Project 2 – Phase 2.
- Seismic, geological survey and repair of underground works by ROV:
 - Ship PTSC Researcher takes **104 working days (-42% YoY)**.
 - Ship PTSC Surveyor takes **4 working days (-97% YoY)**.
 - ROV equipment made **311 working days (-19% YoY)**.

Despite being negatively affected, 9M2020 PVS NPAT only decreased slightly by 0.5% YoY because:

- Reversing provision for bad debts of **VND 57 billion**, helping to reduce corporate expenses to **VND 385 billion (-31.7% YoY)**.
- Reversing the warranty of projects of **VND 177 billion**, helping to increase other profits, reaching **VND 178 billion** (the same period of losing 126 billion VND).

Big projects Blue Whale and Lot B - O Mon continue to be behind schedule because of many obstacles, affecting PVS' short-term business activities

Block B – O Mon: Many negotiations have not been completed both upstream and downstream (especially the approval of investment in O Mon III power plant) which slows down the progress of the whole project. The expected time to go into commercial operation as early as September 2024, provided that the final investment decision is not later than March 2021.

Blue Whale: PVN, EVN and ExxonMobil are still in the process of negotiating gas and electricity purchase and sale contracts. It is expected to exploit the first gas stream in Q4/2023.

⇒ Delayed projects will affect PVS's short-term business activities, however, as stated in the Investment thesis section, **BSC expects these projects to be focused on early investment** to address the rising demand for fuel while reserves of oil and gas decreased.

FORECAST OF BUSINESS PERFORMANCE

Crude oil prices in 2020, 2021 average at 41 USD/barrel and 45 USD/barrel

Large global organizations and institutions all forecast the average Brent oil price in 2020 at about \$42/barrel and the average price in 2021 at about \$48/barrel. BSC assesses that the oil price of 41 USD/barrel is reasonable to use as the base scenario for the 2020 forecast. However, due to many uncertain factors affecting the oil price recovery next year, we are cautious in using the price of 45 USD/barrel as the base scenario for the 2021 forecast.

Table 3: Brent oil price prediction (USD/ barrel) of major organizations and insitutions in the world

Organizations	Forecasting date	2020	2021	2022	2023	2024
Citigroup Inc	02/11/2020	44.0	57.0			
Rabobank International	22/10/2020	42.0	46.5	49.0	50.0	51.0
Intesa Sanpaolo SpA	20/10/2020	42.7	50.0	55.0	58.5	60.8
Westpac Banking Corp	16/10/2020	39.2	32.0	37.4	44.5	
Commerzbank AG	15/10/2020	42.0	45.0			
Bank of Nova Scotia/The	13/10/2020	42.7	50.0	55.0	60.0	65.0
Fitch Solutions	12/10/2020	44.0	51.0	53.0	55.0	
Capital Economics Ltd	09/10/2020	42.1	50.0	58.0		
Market Risk Advisory Co Ltd	05/10/2020	42.3	44.9	52.0	54.0	60.0
BNP Paribas SA	29/09/2020	43.0	56.0			
Banco Santander SA	24/09/2020	41.2	44.0	48.0	50.0	52.0
Emirates NBD PJSC	23/09/2020	42.6	50.0			
Deutsche Bank AG	14/09/2020	42.4	47.5	55.0	60.0	63.0
MUFG Bank	02/09/2020	46.2	56.6	65.0		
ABN AMRO Bank NV	26/08/2020	41.0	47.0	55.0		
Landesbank Baden-Wuerttemberg	20/08/2020	43.5	48.0	50.0		
MPS Capital Services Banca per le Imprese SpA	15/07/2020	43.0				
Natixis SA	06/07/2020	41.2	45.0			
Median value	02/11/2020	42.3	48.9	53.0	55.0	60.8
Average value	02/11/2020	42.2	48.3	52.1	54.8	59.2
Highest value	02/11/2020	46.2	57.0	60.0	61.2	65.0
Lowest value	02/11/2020	39.0	32.0	37.4	44.5	51.0

Source: BSC Research

2020 – Business results drop slightly due to plunging in oil prices

BSC forecasts that in 2020 PVS will achieve revenue = VND 17,881 billion (+5.4% YoY) and NPAT = VND 778 billion (-3.7% YoY), equivalent to EPS = VND 1,498/share (-15.7% YoY) based on assumptions:

- Average crude oil price is 41 USD/barrel.
- Construction & Mechanical projects improved profit margin (5%) because of the late recording.
- The remaining segments are positive when the projects are restarted.

2021 – Business results improve with the expectation of oil price recovery

BSC forecasts that in 2021 PVS will achieve revenue = VND 18,619 billion (+4.1% YoY) and NPAT = VND 903 billion (+16% YoY), equivalent EPS = VND 1,738/share (+16.0% YoY) based on assumptions:

- Crude oil price recovered slowly, reaching 45 USD/barrel.
- PVS executes Su Tu Trang Phase 2 projects, Block B - O Mon, Nam Du - U Minh pipelines.

- FPSO Golden Star Dai Nguyet went into operation at the end of 2020, bringing in about VND 500 billion in revenue per year.

VALUATION

PVS stock is currently trading around a trailing P/E of 9.84, higher than the 5-year average of 8. BSC believes that the current situation is quite similar to 2017:

- Currently: Oil price is stable at 41 USD/barrel after recovering strongly from the bottom in April 2016.
- 2017: Oil price levelled off, averaging at 55 USD/barrel after rising sharply from the bottom in early 2016. After that, oil price increased sharply, reaching 65 USD/barrel (+19% average), P/E PVS then revalued at 8 times.

With the assumption that oil price will recover in 2021, reaching the threshold of 45 USD/barrel (+10% YoY), similar to the 2017 scenario, BSC expects **PVS P/E to be revalued at 10.5**. With **EPS forward 2021 = VND 1,738**, the **reasonable price for PVS shares in 2021 is VND 18,300**, equivalent to an upside of 17.3% compared to the closing price on November 17 2020, of VND 15,600.

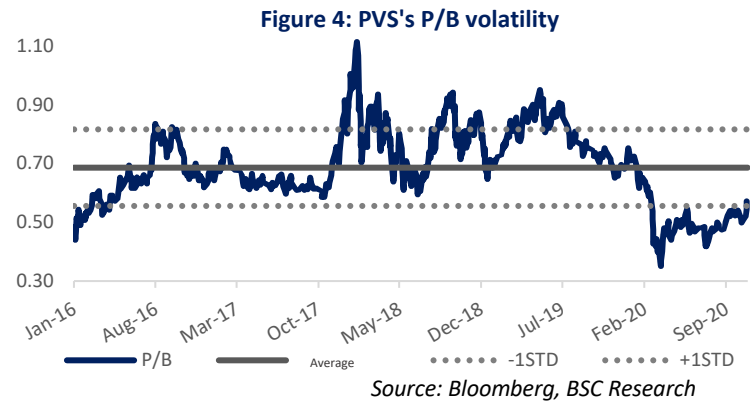
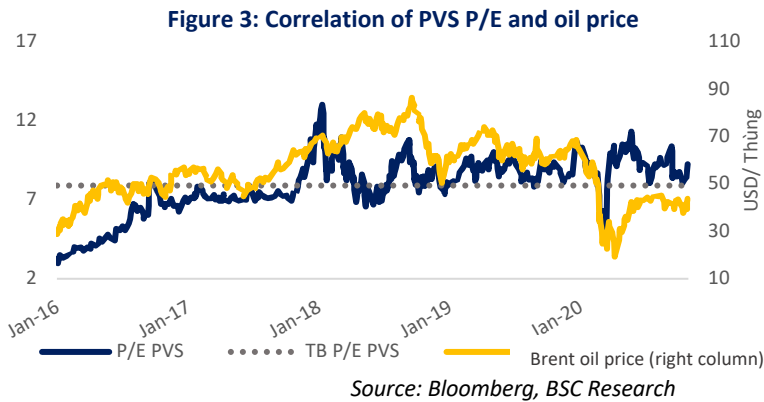


Table 4: Comparison of PVS and other companies in the same industry (Billion VND TTM)

Company	Revenue	NPAT	ROA (%)	ROE (%)	Market capitalization	P/E	P/B
MALAYSIA MARINE AND HEAVY EN	6,322	(2,106)	(11.9)	(17.4)	3,231	N/A	0.3
YINSON HOLDINGS BHD	18,934	1,579	2.5	7.3	29,396	20.3	1.5
SEMBCORP MARINE LTD	37,762	(5,408)	(3.6)	(15.0)	26,310	N/A	0.2
HYUNDAI ENGINEERING & CONST	336,403	4,766	1.8	5.0	75,101	15.8	0.5
KEPPEL CORP LTD	125,159	(1,420)	(0.6)	(1.7)	151,717	N/A	0.9
Average	104,916	(518)	(2.3)	(4.4)	57,151	18.1	0.7
PVS	18,124	545	2.9	6.3	7,169	9.3	0.6

APPENDIX

IS (billion VND)	2018	2019	2020F	2021F	CF (billion VND)	2018	2019	2020F	2021F
Net revenue	14,638	16,968	17,881	18,619	Profit after tax	573	808	778	903
Cost of Goods sold	13,519	16,071	16,935	17,527	Depreciation	567	478	500	522
Gross profit	1,119	898	1,182	1,332	Change in networking capital	(1,091)	804	694	(1)
Selling expense	102	108	105	112	CF from operating activities	192	1,906	1,910	1,352
Administrative expense	645	649	530	630	Fixed asset investment	(355)	(766)	(789)	(803)
Operating income	373	140	547	590	Other investments	(691)	(1,952)	(585)	-
Financial income	506	320	357	329	CF from investing activities	1,075	(1,306)	(1,374)	(803)
Financial expense	66	67	90	70	Dividend paid	(509)	(397)	(526)	(526)
Interest expense	27	34	55	35	Cash from net borrowing	(256)	448	419	(171)
Profits/ losses from affiliates	723	581	210	450	CF from financing activities	(765)	52	(107)	(697)
Other profits/ losses	(559)	129	207	105	Cash & cash equivalent, beginning of the year	5,761	6,311	6,949	7,378
Profit before tax	976	1,103	1,081	1,254	CF during the year	502	651	429	(148)
Tax payment	403	295	303	351	Cash & cash equivalent, end of the year	6,311	6,949	7,378	7,230
Profit after tax	573	808	778	903					
Minority interest	(474)	(41)	62	72					
NPAT – Minority interest	1,047	849	716	831					

BS (billion VND)	2018	2019	2020F	2021F	Ratios (%)	2018	2019	2020F	2021F
Cash & cash equivalent	6,311	6,949	7,378	7,230	Liquidity ratios				
Short-term investment	1,726	2,743	2,743	2,743	Current ratio	2.07	1.78	1.76	1.73
Account receivables	5,006	4,627	3,938	4,203	Quick ratio	1.26	1.12	1.20	1.16
Inventory	494	1,269	929	961	Solvency ratios				
Other non-current assets	591	396	415	433	Debt/ Total asset	0.45	0.51	0.50	0.49
Current asset	14,129	15,984	15,403	15,570	Debt/ equity	0.82	1.03	1.04	1.03
Tangible asset	2,606	3,154	3,466	3,747	Efficiency ratios				
Depreciation	(7,959)	(8,329)	(8,829)	(9,351)	Days of inventory	12.9	20.0	23.7	19.7
Long-term asset in progress	188	200	200	200	Days of receivables	130.4	104.3	86.9	79.3
Long-term investment	4,905	5,208	5,208	5,208	Days of payable	78.0	77.7	77.5	71.7
Other non-current assets	1,014	1,087	1,146	1,193	CCC	65.3	46.6	33.1	27.3
Non-current asset	8,961	10,020	10,368	10,696	Profitability ratios				
Total asset	23,089	26,004	25,771	26,266	ROE	4.5%	6.3%	6.3%	7.2%
Account payable	10,384	13,220	12,796	12,986	ROA	2.5%	3.1%	3.0%	3.4%
Short-term debt	721	771	793	679	EBIT	2.5%	0.8%	3.1%	3.2%
Non-current liabilities	6,825	8,995	8,759	9,006	Net profit margin	3.9%	4.8%	4.4%	4.8%
Long-term debt	193	584	397	340	Valuation				
Non-current liabilities	3,559	4,225	4,037	3,980	PE	7.0	8.7	10.0	8.6
Total liabilities	10,384	13,220	12,796	12,986	PB	0.6	0.6	0.6	0.6
Paid-in capital	4,780	4,780	4,780	4,780	Growth				
Capital surplus	40	40	40	40	Net revenue growth	-12.8%	16.3%	5.4%	4.1%
Retained earnings	3,826	3,857	4,047	4,352	EBIT growth	33.3%	-16.8%	15.0%	14.5%
Minority interest	833	714	777	849	NPAT growth	-29.7%	47.2%	-3.7%	16.0%
Owner's equity	12,705	12,784	12,260	12,565	EPS growth	30.9%	-18.9%	-15.7%	16.0%
Total resources	23,089	26,004	25,771	26,266					
Shares outstanding (millions)	478	478	478	478					

Source: BSC Research.

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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