



# PVD Update – OUTPERFORM

November 6, 2024

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## Company Update

Recommendation **OUTPERFORM**
**HSX: PVD**

Drilling service

Target price (VND) **30,200**

Market price (VND) **25,350**

Expected share price return 19.8%

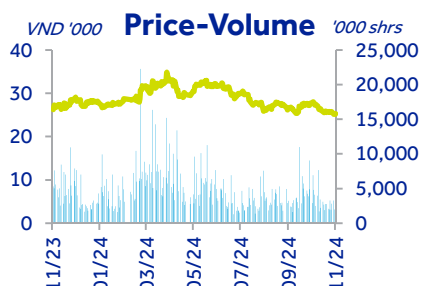
Expected dividend yield 0%

Expected total return **19.1%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-10.6	-9.2	-3.1	-2.3
Relative	-24.1	-7.3	-8.6	-20.4

Source: Bloomberg



## Ownership

PVN 50,46%

Dragon Capital 10,96%

## Stock Statistics

6-Nov- 2024

Bloomberg code **PVD VN**

52-week range (VND) 25,050 - 34,900

Shares O/S (m) 556

Mkt cap (VND bn) 14,064

Mkt cap (USD m) 552

Est. Foreign room left (%) 36.5

Est. free float (%) 46.3

3m avg daily vol (shrs) 3,703,402

VND/USD 25,473

Index: VNIndex / HNX 1261.33/227.76

## PetroVietnam Drilling and Well Service Corp. (PVD VN)

PVD recorded Q3/2024 business results with NPAT of VND180 bn (+35.2% YoY and +38.5% QoQ), lower than our expectations. Cumulatively, 9M2024 NPAT increased by 34% to VND461 bn, completing 121% of its annual plan and 52% of our initial forecast. We revised our 2024 NPAT forecast down by 19% compared to the previous update, primarily due to a lower gross profit margin in the service segment and a drop in profits from joint ventures. As a high rig day rate persists, we forecast 2025 NPAT may reach VND805 bn (+13.2% YoY). Recommendation **OUTPERFORM** with a target price of VND30,200/shr by the end of 2025.

PVD reported revenue of VND2,438 bn (+76.5% YoY) and NPAT of VND180 bn (+35.2% YoY) in Q3/2024. This growth was driven by the following factors:

- Revenue from drilling services increased by 71% YoY due to: (1) additional contribution from two leased rigs Hakuryu-11 and BORR-THOR while there was none in the same period last year, (2) the average jack-up rig day rate is estimated to increase by 16% YoY.
- Revenue from well technical services rose by 41% YoY thanks to the recovery of exploration and exploitation activities in the region.
- NPAT growth would have been even higher if excluding the extraordinary profit of VND70 bn in Q3/2023.

With these results, PVD recorded revenue of VND6,480 bn (+60.6% YoY) and NPAT of VND461 bn (+34% YoY) in 9M2024, driven by an increase in rig rental prices (+16% YoY) and the additional contribution from the two leased rigs. These factors helped offset the decline in profits from joint ventures (-53% YoY) along with absence of extraordinary profits (versus VND140 bn recognized in the same period last year).

We revise our 2024 NPAT forecast down by 19% YoY to VND710bn (+31.5% YoY) due to a lower gross profit margin in the service segment and a drop in profit from joint ventures. Looking forward to 2025, as a high rig day rate persists, we forecast NPAT may achieve VND805bn (+13.2% YoY). Using the DCF method, we value PVD at a target price of VND30,200/share by the end of 2025.

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	5,432	5,812	8,395	7,946	7,757
Growth (%)	36%	7%	44%	-5%	-2%
EBITDA (VNDbn)	802	1,565	2,373	2,369	2,296
EBITDA margin	15%	27%	28%	30%	30%
Net income (VNDbn)	(103)	579	701	795	803
Growth (%)	-626%	-663%	21%	13%	1%
EPS (bonus-adjusted, VND)	(185)	1,041	1,259	1,428	1,444
Growth (%)	-626%	-663%	21%	13%	1%
ROE (%)	-1%	4%	5%	5%	5%
ROIC (%)	0%	3%	4%	4%	3%
Net debt/EBITDA (x)	1.7	-0.1	-0.6	-1.5	-2.4
PER (times)	-173.2	30.8	25.4	22.4	22.2
EV/EBITDA (x)	24.7	12.7	8.4	8.4	8.6
PBR (times)	1.3	1.2	1.1	1.1	1.1
DPS (VND)	-	-	-	-	-
Dividend yield (%)	0%	0%	0%	0%	0%

## Business results improved significantly due to a sharp increase in rig day rate

PVD business result	Q3/2024	Q3/2023	YoY	9M2024	9M2023	YoY
<b>Revenue (bil VND)</b>	<b>2,438</b>	<b>1,381</b>	<b>76.5%</b>	<b>6,481</b>	<b>4,033</b>	<b>60.6%</b>
Drilling service revenue (bn VND)	1,612	944	70.7%	4,312	2,828	52.4%
Rig day rate (USD/ day)	96,000	83,000	15.6%	94,000	81,000	16.0%
Well technical service revenue (bn VND)	572	405	41.2%	1,502	1,069	40.5%
Goods sold	254	32	693%	633	123	414%
Gross margin	18.4%	21.2%		21.4%	22.2%	
GM of drilling services	18.9%	19.1%		24.2%	18.8%	
GM of well technical service	21.2%	28.0%		20.2%	32.9%	
SG&A/ Revenue	7.1%	8.5%		6.8%	9.3%	
<b>NPAT (bn VND)</b>	<b>180</b>	<b>133</b>	<b>35.2%</b>	<b>461</b>	<b>344</b>	<b>34.0%</b>

Source: PVD, ACBS

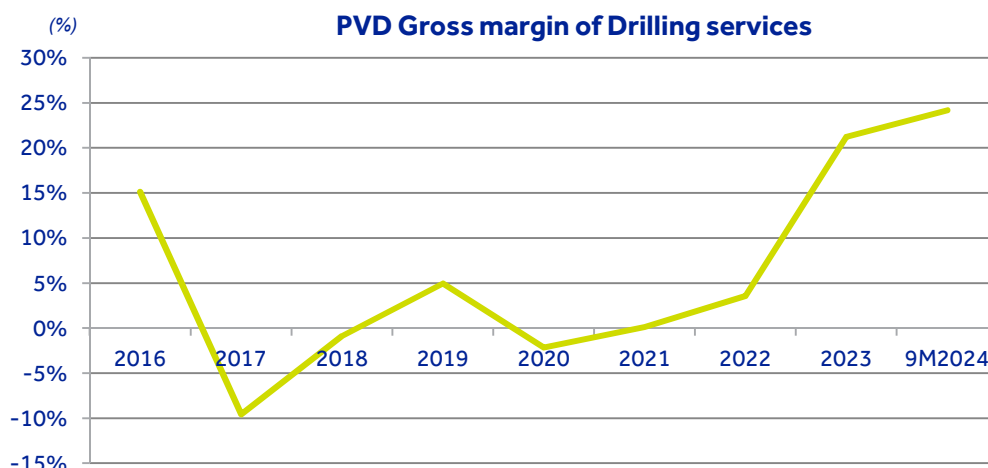
PVD recorded revenue of VND 2,438 bn (+76.5% YoY) in Q3/2024, mostly thanks to growth in the most crucial segments, drilling and well technical services (accounting for 66% and 24% of total revenue, respectively). Specifically:

- Revenue from drilling services jumped by 71% YoY due to: (1) additional contribution from two leased rigs Hakuryu-11 and BORR-THOR while there were none in the same period, and (2) the average jack-up rig rental price is estimated to increase by 16% YoY.
- Revenue from well technical services increased by 41% YoY thanks to the recovery of exploration and exploitation activities in the region.

NPAT reached VND180 bn (+35.2% YoY). Despite support from a decrease in the SG&A expenses/Revenue ratio (Q3/2024: 7% vs. Q3/2023: 8.5%, due to slower growth in SG&A expenses than revenue), the divergence between revenue and NPAT growth was attributed to the following reasons:

- Gross profit margin declined to 18.4% in Q3/2024 from 21.2% in Q3/2023. In particular, gross profit margin of the drilling services segment narrowed slightly to 18.9% from 19.1% YoY owing to additional contribution from two leased rigs which generally have low profit margins of 2-3%.
- There is no extraordinary profit of VND70 bn like Q3/2023 (which came as a result of the termination agreement of a drilling contract for PVD I rig with Valeura Thailand).

With these results, PVD recorded revenue of VND6,480 bn (+60.6% YoY) and NPAT of VND461 bn (+34% YoY) in 9M2024. The prolonged high crude oil prices boosted demand for exploration and production activities in the region. As a result, increased rig day rate combined with additional contribution from leased rigs enabled PVD to post strong performance in 9M2024, offsetting a 53% YoY decrease in profits from joint ventures. The gross profit margin for drilling services reached 24.2%, the highest in the past 10 years.



Source: PVD, ACBS

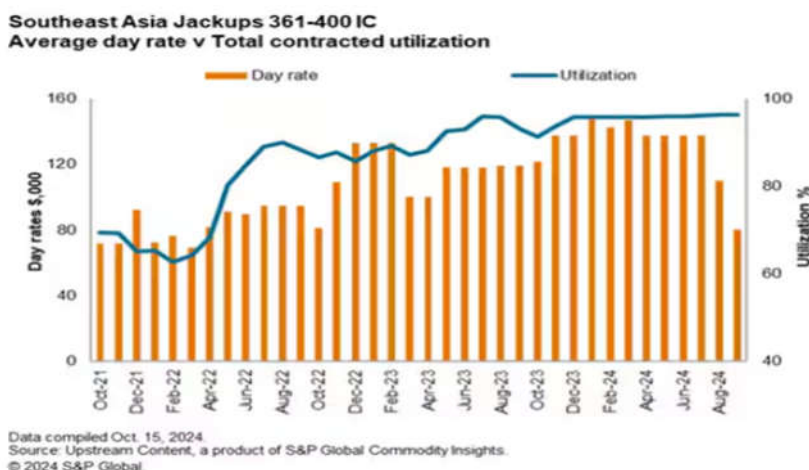
## Update on PVD's drilling rig contract 2024-2025

2024	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PVD I	Petronas Malaysia (USD100,000/ day)											
PVD II												
PVD III												
PVD V												
PVD VI												
PVD 11	GBRS Algeria (USD30,000/ day)											
Hakuryu -11	Idemitsu (Vietnam)											
Borr-thor												
	Murphy Oil (Vietnam)											
	Hoang Long JOC											
2025	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
PVD I	Petronas Malaysia (USD100,000/ day)											
PVD II												
PVD III												
PVD V												
PVD VI												
PVD 11	Petronas Malaysia (USD100,000/ day)											

Source: PVD, ACBS

The jack-up rigs (PVD I, II, VI) have all signed contracts until the end of 2025, while the PVD III rig has been employed until 2028. The semi-submersible rig PVD V has been contracted for six years from 2022. The land rig PVD XI was inactive since April 2024 and is expected to sign a new contract in 2025.

## Jack-up rig day rate in Southeast Asia region



After reaching USD140,000-150,000/day in late 2023 and early 2024 due to strong demand from Saudi Aramco, jackup rate in Southeast Asia have since dropped back to USD80,000-90,000/day. This decline is due to the Saudi government's decision to halt Saudi Aramco's oil production expansion plans, which led to the suspension of the company's jackup rig contracts, resulting in an increase in rig supply within the Southeast Asian market.

According to Westwood Global Energy, many of these rigs have already secured new contracts or are expected to find work by late 2024 or early 2025. Accordingly, we project rig rate may recover soon as rig supply remains limited with only two new rigs scheduled to be delivered in Southeast Asia during the 2024-2026 period. Additionally, demand for rigs in the region remains strong due to several upcoming drilling programs in Indonesia, Malaysia, and Thailand. However, given the uncertainty around whether rig rental prices will recover to their previous high levels, the signing of new rig rental contracts by PVD after 2025 could pose certain risks in terms of rig day rate.

## Investment in new rigs for 2025

Given the expected increase in oil and gas exploration activities from such projects as the Block B O Mon and Yellow Camel fields, PVD's management announced plans to acquire 10-15-year-old jack-up rigs with investment capital of about USD90 mn, rather than purchasing new ones. However, PVD has yet to receive approval from Petrovietnam for this investment and is also exploring other options with better investment terms.

We believe this strategy is appropriate for PVD, as Westwood Global Energy estimates that cost of acquiring a new jackup rig is around USD300 mn, with completion time of 2 to 2.5 years. Moreover, to achieve ROI of 15%, its rate should be USD200,000-230,000/day, with a utilization rate of 90-95% over 25 years.

## Projections for 2024 & 2025

For the full year 2024, we revised our 2024 NPAT forecast down 19% YoY to VND710bn (+31.5% YoY), due to a decline in gross margin in well technical service segment and lower profit from joint ventures.

Looking ahead to 2025, we forecast NPAT may reach VND805bn (+13.2% YoY). Key drivers for this outlook include:

- Jack-up rig day rate will remain high, as PVD's jack-up rigs and TADs are all already contracted.
- PVD 11 (land rig) is expected to secure a new drilling contract.
- The well technical services segment is expected to benefit from the prospect of increased domestic exploitation activities in 2025.
- Negative impacts from exchange rate are expected to diminish compared to 2024.

## Valuation

Using the DCF method, we value PVD with a target price of VND30,200/share by the end of 2025, equivalent to a total return of 19.1%.

## PVD FINANCIALS MODEL

(VND bn except where stated)	2022	2023	2024F	2025F	2026F
<b>Total Net Sales</b>	<b>5,432</b>	<b>5,812</b>	<b>8,395</b>	<b>7,946</b>	<b>7,757</b>
<i>Sales growth (%)</i>	<i>36%</i>	<i>7%</i>	<i>44%</i>	<i>-5%</i>	<i>-2%</i>
CoGS ex-dep'n	4,119	3,702	5,274	4,869	4,771
SG&A	510	544	747	707	690
<i>SG&amp;A as % of sales</i>	<i>9%</i>	<i>9%</i>	<i>9%</i>	<i>9%</i>	<i>9%</i>
<b>EBITDA</b>	<b>802</b>	<b>1,565</b>	<b>2,373</b>	<b>2,369</b>	<b>2,296</b>
<i>EBITDA margin (%)</i>	<i>15%</i>	<i>27%</i>	<i>28%</i>	<i>30%</i>	<i>30%</i>
Depreciation	735	809	1,224	1,296	1,309
<b>Operating profit</b>	<b>67</b>	<b>756</b>	<b>1,150</b>	<b>1,073</b>	<b>987</b>
<i>Operating profit margin (%)</i>	<i>1%</i>	<i>13%</i>	<i>14%</i>	<i>14%</i>	<i>13%</i>
Net interest expense	109	183	142	70	-24
<i>as % of avg, net debt</i>	<i>8%</i>	<i>32%</i>	<i>-17%</i>	<i>-3%</i>	<i>1%</i>
Tax	16	115	237	268	271
<i>Effective tax rate (%)</i>	<i>-12%</i>	<i>18%</i>	<i>25%</i>	<i>25%</i>	<i>25%</i>
Minorities	(52)	-39	10	10	10
<b>NPAT-MI</b>	<b>(103)</b>	<b>579</b>	<b>701</b>	<b>795</b>	<b>803</b>
<i>Net profit margin (%)</i>	<i>-2%</i>	<i>10%</i>	<i>8%</i>	<i>10%</i>	<i>10%</i>
Cash earnings	580	1,350	1,934	2,101	2,122
Number of shares (m)	556	556	556	556	556
<b>EPS (VND)</b>	<b>-185</b>	<b>1,041</b>	<b>1,259</b>	<b>1,428</b>	<b>1,444</b>
Bonus factor (x)	1.0	1.0	1.0	1.0	1.0
<b>Adjusted EPS (VND)</b>	<b>(185)</b>	<b>1,041</b>	<b>1,259</b>	<b>1,428</b>	<b>1,444</b>
<i>EPS growth (%)</i>	<i>-626%</i>	<i>-663%</i>	<i>21%</i>	<i>13%</i>	<i>1%</i>

KEY CASHFLOW AND BS ITEMS	2022	2023	2024F	2025F	2026F
Increase in working capital	627	(321)	279	(151)	(64)
Capex	722	667	436	259	262
Other cash flow items	150	150	150	150	150
<b>Free cash flow</b>	<b>(619)</b>	<b>1,154</b>	<b>1,369</b>	<b>2,142</b>	<b>2,075</b>
Share issues (m)	0	0	0	0	0
Dividends paid	3	3	0	0	0
Increase in net debt	53	-1525	-1318	-2036	-1965
<b>Net debt, end of year</b>	<b>1,332</b>	<b>(193)</b>	<b>(1,511)</b>	<b>(3,547)</b>	<b>(5,512)</b>
Enterprise value	19,161	17,636	16,318	14,282	12,317
<b>Shareholders' equity</b>	<b>14,079</b>	<b>14,894</b>	<b>15,322</b>	<b>16,077</b>	<b>16,840</b>
BVPS (VND)	25,308	26,774	27,544	28,901	30,272
Net debt / equity (%)	9%	-1%	-10%	-22%	-33%
Net debt / EBITDA (x)	1.7	-0.1	-0.6	-1.5	-2.4
<b>Total assets</b>	<b>20,704</b>	<b>21,650</b>	<b>22,989</b>	<b>23,152</b>	<b>23,620</b>

KEY RETURN AND VALUATION RATIOS	2022	2023	2024F	2025F	2026F
ROE (%)	-1.1%	3.7%	4.7%	5.1%	4.9%
ROA (%)	0.3%	3.6%	5.2%	4.7%	4.2%
ROIC (%)	-0.4%	3.2%	3.7%	3.7%	3.4%
WACC (%)	14.9%	15.4%	15.4%	15.4%	15.4%
EVA (%)	-15.2%	-12.2%	-11.7%	-11.7%	-12.0%
PER (x)	-173.2	30.8	25.4	22.4	22.2
EV/EBITDA (x)	24.7	12.7	8.4	8.4	8.6
EV/FCF (x)	-32.0	17.2	14.5	9.3	9.6
PBR (x)	1.3	1.2	1.1	1.1	1.1
PSR (x)	0.0	0.0	0.0	0.0	0.0
EV/sales (x)	3.7	3.4	2.4	2.5	2.6
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%



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**BUY:** Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

**OUTPERFORM:** Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

**NEUTRAL:** Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

**UNDERPERFORM:** Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

**SELL:** Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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