

PetroVietnam Tech Services (PVS VN)

Potential Block B beneficiary

BUY

[Prior:HOLD]

Share Price	VND 22,500
12m Price Target	VND 26,500 (+18%)
Previous Price Target	VND 30,000

Long-term catalysts emerge; U/G to BUY

Renewable energy (RE) is shaping up to be a key strategic business for PVS after it clinched its first large EPC contract for a Taiwan offshore windfarm. This should also help its ESG credentials. PVS also stands to benefit from the reform of Vietnam's O&G regulations and the block B Omon project catalyst in the long term. We U/G the stock to BUY with a TP of VND26,500 based on 1.1x P/B (2021-22 average). While a substantial earnings recovery is unlikely in 2023, the sector (and PVS's) long-term prospects are set to radically improve in coming years.

Hai Long wind power project: PVS's gateway to RE

The EPCI contract for two offshore substations for Hai Long's windfarm project granted to the Semco Maritime and PTSC M&C (a subsidiary of PVS) consortium last year should enter fabrication phase at PVS's yard within the next two weeks. Total contract value is USD180m over 4 years (2023-2026). Although the contribution to PVS's earnings should be small (less than 5% of annual earnings), this should enhance PVS's reputation in the RE industry, potentially paving the way for more jobs in a world rapidly transitioning to green energy.

Two catalysts: new Petroleum Laws and Block B

The new Petroleum Laws, adopted by the National Assembly in Nov'22 should help clear bottlenecks for PetroVietnam and encourage more investment in E&P. This and the block B Omon project which will kick off soon should benefit offshore service providers like PVS. But this will only impact PVS's earnings from 2024 onwards.

Strong re-rating took place early

PVS' share price started to re-rate from early 2021 to factor in a possible up-cycle in the sector due to the above mentioned catalysts, with its average P/E 2021-22E jumping to 20x-21x vs 7x-11x in 2014-2020. But earnings and profitability remained sluggish in the past 2 years. Upside risk for the stock is stronger sentiment on progress in Block B, which could drive up its valuation near its 2-year peak of 29x 2023E P/E, in our view.

FYE Dec (VND b)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	20,180	14,198	14,708	16,032	17,524
EBITDA	401	474	454	706	774
Core net profit	624	601	601	679	877
Core EPS (VND)	1,306	1,258	1,258	1,422	1,835
Core EPS growth (%)	(43.2)	(3.7)	0.0	13.0	29.1
Net DPS (VND)	700	700	700	700	700
Core P/E (x)	13.6	21.7	17.9	15.8	12.3
P/BV (x)	0.7	1.1	0.9	0.9	0.9
Net dividend yield (%)	3.9	2.6	3.1	3.1	3.1
ROAE (%)	5.2	5.0	5.1	5.7	7.3
ROAA (%)	2.4	2.4	2.4	2.7	3.3
EV/EBITDA (x)	4.8	13.9	10.4	6.9	6.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	675	933	1,224
MKE vs. Consensus (%)	-	-	(10.9)	(27.2)	(28.3)

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Company Description

PVS co-owns 5 FSO/FPSO's, provides a wide range of O&G services, including seismic surveys, marine services, fabrication, O&M, and port base supply

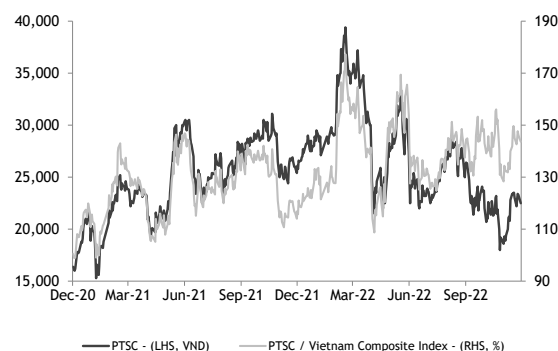
Statistics

52w high/low (VND)	39,400/18,000
3m avg turnover (USDm)	7.1
Free float (%)	48.4
Issued shares (m)	478
Market capitalisation	VND10.8T USD455M

Major shareholders:

PETRO VIETNAM	51.4%
TRUONG NGOC PHUONG	8.0%
VINACAPITAL INVESTME	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	18	(10)	(13)
Relative to index (%)	11	4	23

Source: FactSet

Abbreviations

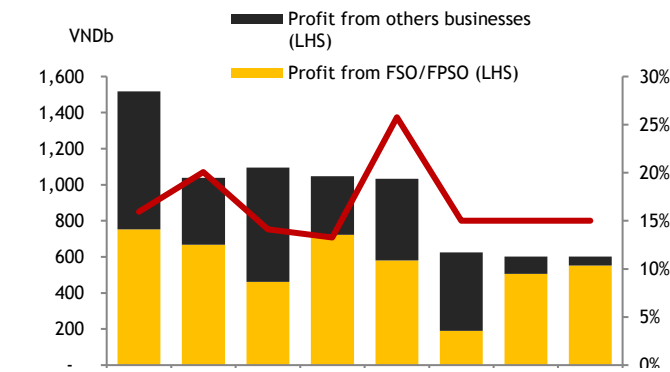
EPCIC: Engineering, Procurement, Construction, Installation & Commissioning
FSPO: Floating production storage and offloading
FSO: Floating storage and offloading

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Tear Sheet Insert

Value Proposition

- Vietnam’s largest provider of full-chain O&G services (except for drilling). State-owned PetroVietnam (PVN) owns 51% of PVS and is incentivised to support PVS.
- Vietnam’s only O&G service provider that owns a port & base system to facilitate its wide range of businesses.
- PVS is sizable and able to act as an engineering, procurement and construction (EPC) contractor for large onshore and offshore projects in O&G, fertilizer production and power plants.
- 70% of net profit comes from FSO/FPSO.

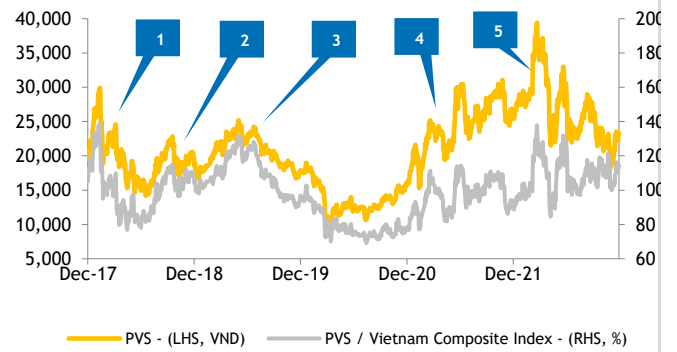
FSO/FPSO is key earnings driver; high bonus to management



Source: Company

Price Drivers

Historical share price trend



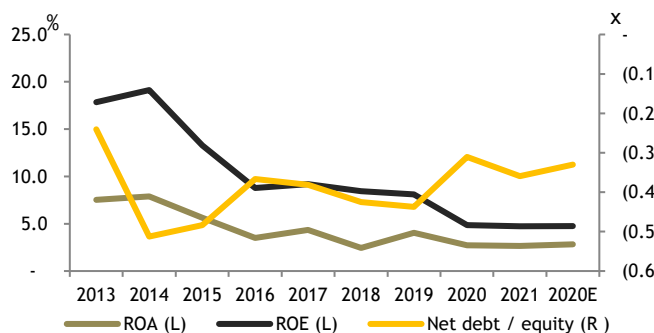
Source: Company, Maybank IBG Research

1. Repsol cancelled Ca Rong Do FPSO project.
2. Announced it would liquidate PTSC CGGV, followed by asset write-down starting from 4Q18.
3. Share price recovered as market was hoping for OPEC+’s historical cut of 10m bpd to stabilise oil market.
4. FSO Golden Star started drilling in the Sao Vang Dai Nguyet field.
5. New progress on Block B approval.

Financial Metrics

- Dividend yield of 4-6% is sustainable even through difficult market conditions, i.e. low oil prices.
- Bonus & welfare as a percentage of PATMI is high (avg. at 15% over the past six years).
- Capex can be rigid regardless of the oil price outlook, as is often seen with other capital-intensive O&G players. Some asset purchases are planned several years in advance.
- Healthy balance sheet and a cash-rich position provide a cushion for declining profitability and flexibility to carry out large projects.

Chart Header



Source: Company

Swing Factors

Upside

- Reversal of reserve for M&C projects warranty will lift up FY22E earnings.
- More jobs secure in renewable energy (wind power and solar).
- Contribution of Sao Vang Dai Nguyet FSO will improve cash flow.
- Progress on the Block B project will boost up sentiment

Downside

- Slower-than-expected earnings recovery in 2023.
- Lack of job vision for FPSO Lam Son



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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- PVS is Vietnam’s top O&G player that is gradually transiting into the green energy path. It is expanding its M&C (mechanical & construction) business, (the largest revenue contributor), with focus on wind power projects (capacity: 8 GW). It serves as the EPC contractor, subcontractor for these projects.
- That said, disclosures of its natural capitals data need further fine-tuning. Basic ‘E’ indicators, such carbon emissions, water usage and energy saving, to name a few are still lacking.
- Its ‘G’ score comparatively lags behind its regional peers. The State ownership is understandably high.
- Overall, its ESG performance is a work-in-progress, clearly behind its global peers but should improve, with better disclosures as it shifts towards renewable energy pathway.

Material E issues

- Its currently adopted ‘E’ approach is energy management and water conservation.
- Engages in the RE sector as an EPC contractor/ subcontractor for wind power projects, with total capacity of 8 GW (secured projects and MOU).
- Its offshore support vessels (OSVs) use diesel oil. Fuel efficiency of the fleet is monitored and verified by a 3rd party to comply with IMO’s standards.
- Has (i) water reclamation facilities and (ii) installed solar panels. However, no reported data available on the: (i) amount of water reused and (ii) how much power saved.
- It has waste treatment system, performing 2-4 inspections of environment indicators per year.
- No environment incidence/ penalty in FY20

Material S issues

- It has a labour force of 7,514 in FY20. Income per employee in FY20 was VND26.5m/month (+12% YoY).
- 5%/ 35%/ 40%/ 16%/ 4% of its workforce is in the range of <25/ 25-35/ 35-45/ 45-55/ >55 age-group category respectively. 12% of employees are female.
- 47% of employees have college degrees and above. The remaining 40%/13% is technical & unskilled workers.
- Spent VND25b/year (0.1% of revenue) on staff training.
- No safety incidence in FY20. Achieved 100% safe working hour for all of its projects.
- Spent VND11b in social security in FY20, including building school, giving scholarship, supporting Covid-19 treatment.

Key G metrics and issues

- Awarded Top 100 sustainable development enterprise by Vietnam Chamber of Commerce and Industry in 2019.
 - PVS’s board comprised of 5 directors - 1 independent non-executive directors (INEDs), 3 non-independent non-executive director (NINED) and 1 NIEDs (CEO).
 - A very experienced board, with good mix of tenure service.
 - Board is male-dominated - no female representation.
 - Board of management comprised of 6 experienced members. All are male with average age of 51 years old.
 - PetroVietnam (state, NOC) is the largest shareholder of PVS, with a 51.4% stake.
 - PVS is audited by PwC, one of the Big Four accounting firms in the world.
 - Related party transactions (RPTs), mainly on purchasing and selling of products & services, accounted for 38%-41% of its revenue in FY19-20 respectively.
 - The Board’s total remuneration package of VND20b for FY20 accounted for 3.4% of the Group’s EBITDA.
 - Bonus & welfare reserves on average accounted for 15% of PATMI during the past 6 years.
- Adopts the following practices/ policies: (i) equality and anti-discrimination against gender, ethnicities, religion and marital status (in terms of compensation & benefits), among others.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

PVS's improving reputation and competency in the Mechanical & Construction business has helped the company win overseas jobs, including the Gallaf field development from 2018. The company recently expanded to renewable energy and in 2021 clinched a USD180m contract for its consortium with Semco Marine to construct two offshore substations for a Taiwan offshore wind farm.

However, this alone will not be sufficient to bring PVS's earnings back to its 2013-2015 levels when it generated decent profit on the back of vibrant domestic offshore projects. Earnings recovery to 2013-15 levels hinges on Block B and the renaissance of domestic E&P activities. The current progress of Block B and the new Petroleum Law suggests a substantial earnings turnaround may only be realised beyond 2023.

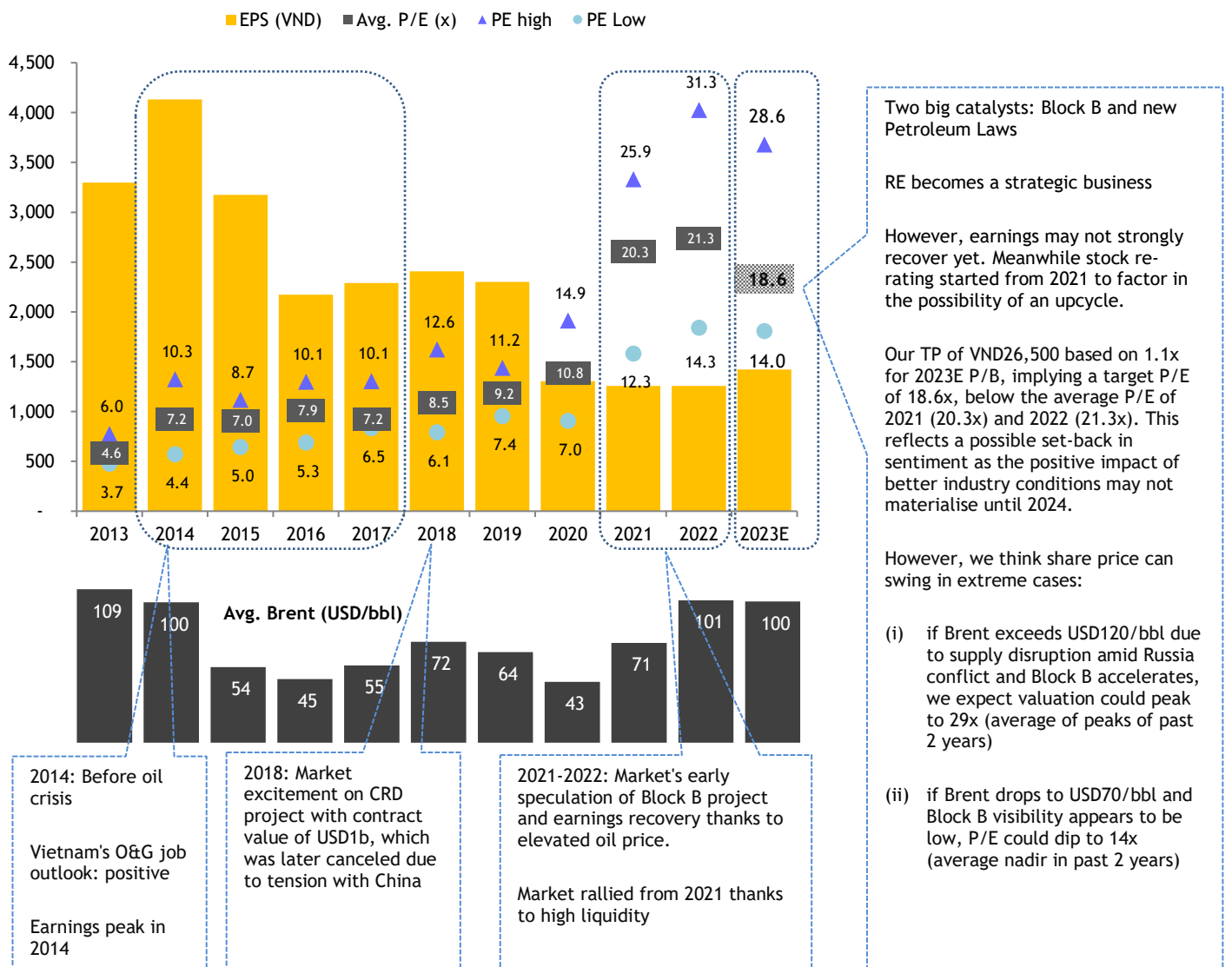
Given that (i) share price re-rating started in early 2021 to speculate on this upcycle, and (ii) meaningful earnings improvement may come later than 2023, we only see moderate upside for the stock at its current price.

Figure 1: PVS's key offshore M&C jobs oversea

Project	Contract value	Workscope	Details	Period
Gallaf 1	USD320m - firmed	EPCIC	3 WHPs, each 3000 tonne 3 bridge, each 1000 tonne	2018-2021
Gallaf 3	USD300m - estimated	EPCIC	2 WHPs, total 19000 tonne	2021-2023
Hai Long wind farm	USD180m for consortium between PVS and Semco Marine	EPCI	2 offshore substations	2023-2026
Gallaf package 6	USD630m for Deawoo, the main contractor	Subcontractor for Deawoo	PVS to fabricate jackets and bridges	2021 - 2024

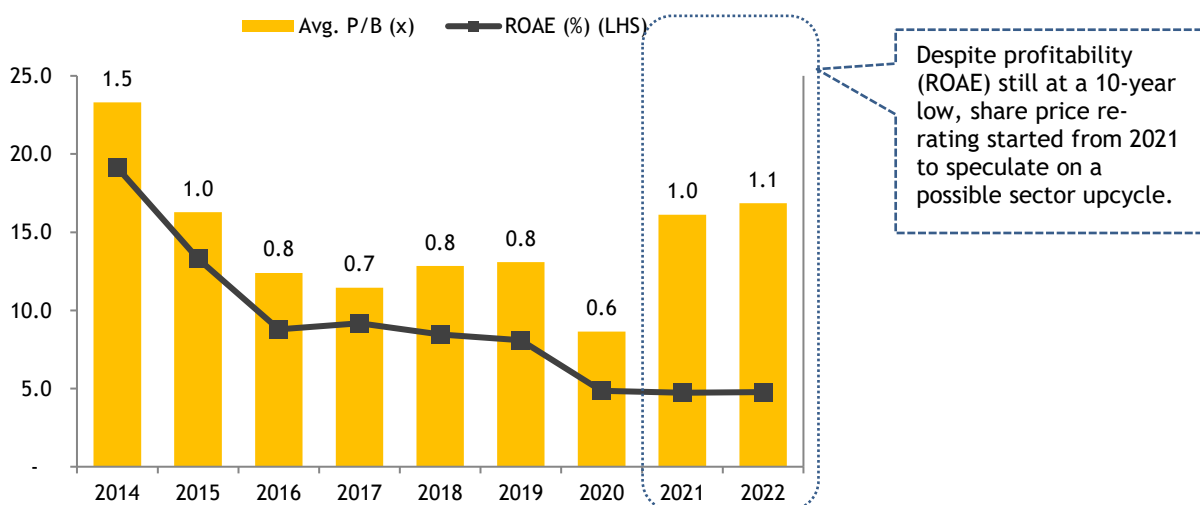
Source: Maybank IBG Research

Figure 2: PVS's share price valuation over the past 10 years



Source: Maybank IBG Research

Figure 3: PVS's average P/B (x) and ROAE



Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	10.4	19.8	17.9	15.8	12.3
Core P/E (x)	13.6	21.7	17.9	15.8	12.3
P/BV (x)	0.7	1.1	0.9	0.9	0.9
P/NTA (x)	661.4	nm	848.7	833.8	816.1
Net dividend yield (%)	3.9	2.6	3.1	3.1	3.1
FCF yield (%)	nm	nm	nm	1.0	1.4
EV/EBITDA (x)	4.8	13.9	10.4	6.9	6.7
EV/EBIT (x)	nm	nm	nm	45.2	32.9
INCOME STATEMENT (VND b)					
Revenue	20,179.9	14,198.4	14,707.6	16,032.0	17,523.8
EBITDA	400.7	474.1	453.5	706.5	774.4
Depreciation	(538.7)	(500.4)	(578.2)	(598.0)	(617.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(138.0)	(26.3)	(124.7)	108.5	156.6
Net interest income / (exp)	205.5	155.7	405.7	273.3	267.2
Associates & JV	190.6	506.8	552.3	463.8	652.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	767.2	241.4	56.4	79.6	52.1
Pretax profit	1,025.4	877.6	889.7	925.2	1,128.8
Income tax	(140.6)	(311.1)	(182.3)	(138.4)	(142.8)
Minorities	(86.8)	(76.1)	(106.1)	(107.3)	(108.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	624.0	601.2	601.3	679.4	877.2
Core net profit	624.0	601.2	601.3	679.4	877.2
BALANCE SHEET (VND b)					
Cash & Short Term Investments	8,522.9	8,424.0	8,096.6	7,959.8	7,771.4
Accounts receivable	5,662.4	4,642.5	4,808.9	5,242.0	5,729.7
Inventory	2,111.3	2,086.1	2,160.9	2,355.5	2,574.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3,113.7	2,968.4	2,981.0	2,817.5	2,634.2
Intangible assets	21.5	13.3	21.5	21.5	21.5
Investment in Associates & JVs	4,941.9	4,824.3	5,376.6	5,840.4	6,493.1
Other assets	1,905.6	1,886.4	1,736.5	1,757.6	1,781.3
Total assets	26,279.3	24,845.0	25,182.1	25,994.2	27,006.0
ST interest bearing debt	734.6	711.1	744.9	706.8	683.9
Accounts payable	6,178.0	4,281.7	4,435.2	4,834.6	5,284.5
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	473.7	534.0	480.3	455.8	441.0
Other liabilities	6,009.0	6,784.0	6,829.0	7,078.0	7,397.0
Total Liabilities	13,395.2	12,310.7	12,489.4	13,075.6	13,806.5
Shareholders Equity	12,145.6	11,806.2	11,858.4	11,977.1	12,149.2
Minority Interest	738.6	728.1	834.2	941.5	1,050.3
Total shareholder equity	12,884.1	12,534.3	12,692.7	12,918.7	13,199.5
Total liabilities and equity	26,279.3	24,845.0	25,182.1	25,994.2	27,006.0
CASH FLOW (VND b)					
Pretax profit	1,025.4	877.6	889.7	925.2	1,128.8
Depreciation & amortisation	538.7	500.4	578.2	598.0	617.7
Adj net interest (income)/exp	(205.5)	(155.7)	(405.7)	(273.3)	(267.2)
Change in working capital	(940.3)	(238.8)	31.8	82.6	93.0
Cash taxes paid	(221.0)	(155.1)	(182.3)	(138.4)	(142.8)
Other operating cash flow	(657.9)	(731.4)	(634.8)	(546.3)	(707.8)
Cash flow from operations	(618.9)	(92.8)	180.1	545.8	590.1
Capex	(501.9)	(252.6)	(434.4)	(434.4)	(434.4)
Free cash flow	(1,120.9)	(345.4)	(254.3)	111.4	155.7
Dividends paid	(526.2)	(554.0)	(458.8)	(458.8)	(573.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(146.8)	45.3	(19.9)	(62.6)	(37.8)
Other invest/financing cash flow	43.5	1,369.3	405.7	273.3	267.2
Effect of exch rate changes	13.3	19.9	0.0	0.0	0.0
Net cash flow	(1,737.0)	535.1	(327.4)	(136.8)	(188.4)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	20.2	(29.6)	3.6	9.0	9.3
EBITDA growth	(53.0)	18.3	(4.3)	55.8	9.6
EBIT growth	nm	nm	nm	nm	44.4
Pretax growth	(23.2)	(14.4)	1.4	4.0	22.0
Reported net profit growth	(39.6)	(3.7)	0.0	13.0	29.1
Core net profit growth	(43.2)	(3.7)	0.0	13.0	29.1
Profitability ratios (%)					
EBITDA margin	2.0	3.3	3.1	4.4	4.4
EBIT margin	nm	nm	nm	0.7	0.9
Pretax profit margin	5.1	6.2	6.0	5.8	6.4
Payout ratio	53.6	55.7	55.6	49.2	38.1
DuPont analysis					
Net profit margin (%)	3.1	4.2	4.1	4.2	5.0
Revenue/Assets (x)	0.8	0.6	0.6	0.6	0.6
Assets/Equity (x)	2.2	2.1	2.1	2.2	2.2
ROAE (%)	5.2	5.0	5.1	5.7	7.3
ROAA (%)	2.4	2.4	2.4	2.7	3.3
Liquidity & Efficiency					
Cash conversion cycle	28.4	46.7	58.1	55.8	55.7
Days receivable outstanding	91.8	130.6	115.7	112.8	112.7
Days inventory outstanding	31.4	56.3	54.7	54.2	54.2
Days payables outstanding	94.8	140.3	112.2	111.3	111.2
Dividend cover (x)	1.9	1.8	1.8	2.0	2.6
Current ratio (x)	1.7	1.8	1.7	1.6	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	2.0	2.0	2.0	2.0	2.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	0.7	0.2	0.3	na	na
Debt/EBITDA (x)	3.0	2.6	2.7	1.6	1.5
Capex/revenue (%)	2.5	1.8	3.0	2.7	2.5
Net debt/ (net cash)	(7,314.6)	(7,178.8)	(6,871.4)	(6,797.2)	(6,646.6)

Source: Company; Maybank IBG Research

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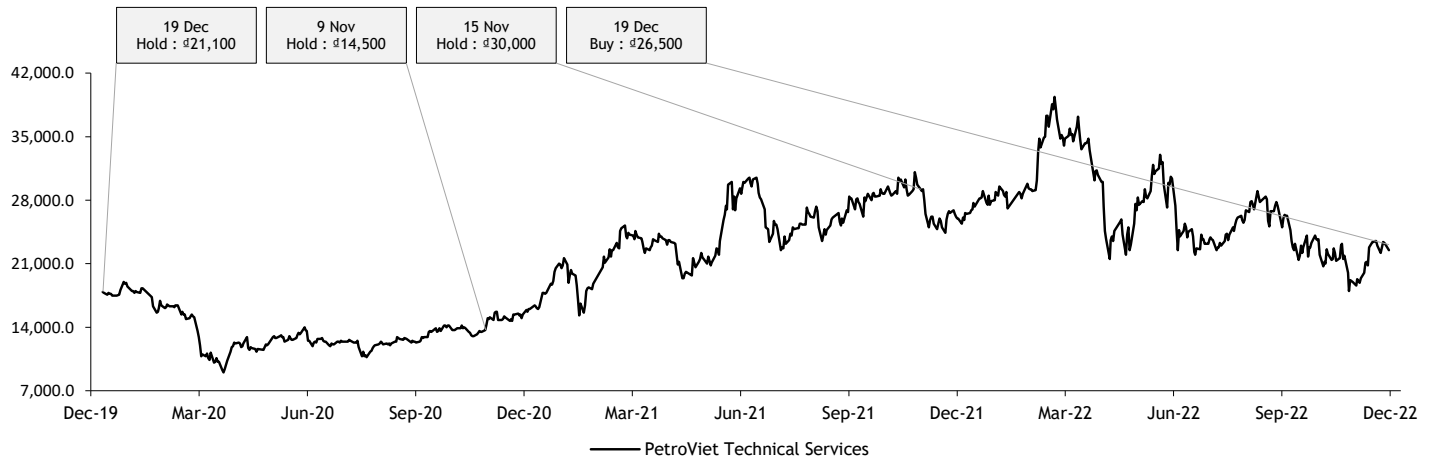
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