



# PVS Update – Neutral

December 25, 2023

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## Company Update

Recommendation

**Outperform**
**HNX: PVS**

Support Activities for O&amp;G Operations

**Target price (VND)** 40,500

**Market price (VND)** 38,200

Expected share price return 6.0%

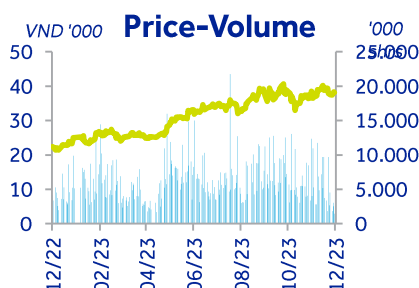
Expected dividend yield 1.8%

**Expected total return** 7.8%

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	82.0	-0.8	1.4	78.7
Relative	70.8	-0.2	10.2	68.6

Source: Bloomberg



## Ownership

PVN 51,38%

## Stock Statistics

21-Dec-2023

**Bloomberg code** PVS VN

52-week range (VND) 20,300 - 41,400

Shares O/S (m) 478

Mkt cap (VND bn) 18,258

Mkt cap (USD m) 754

Est. Foreign room left (%) 27.6

Est. free float (%) 48.5

3m avg daily vol (shrs) 6,425,861

VND/USD 24,200

Index: VNIndex / HNX 1102.43/228.48

## PetroVietnam Technical Services Corporation (HNX: PVS)

**PVS announced business results for Q3/2023, with a NPAT-MI of VND141 billion (-26.5% YoY and -37% QoQ), lower than our expectations. However, the accumulated 9M2023 NPAT-MI increased by 39.6% YoY, reaching VND579 billion (+37.8% YoY), fulfilling 108% PVS's annual plan and 66% of our full-year forecast.** PVS recorded a Q3/2023 revenue of VND4,175 billion (+26.5% YoY) and a NPAT-MI of VND141 billion (-26.5% YoY and -37% QoQ). The primary driver of the revenue increase was a 26% YoY growth in revenue from the Mechanical and Construction segment (M&C) and a 152% YoY growth in the Operations and Maintenance segment (O&M). However, the decrease in profit was due to several factors:

(1) Gross profit margin for the FPSO segment dropped to 0% in Q3/2023 and 3.9% in 9M2023.

(2) Gross profit margin for the Offshore support vessels (OSV) segment decreased to 9.9% from 12% in the same period last year.

(3) G&A expenses increased by 54.7% YoY to VND262 billion.

(4) Additionally, in Q3/2023, the Other Profit category recorded a loss of VND21 billion due to the contract termination of the FPSO Lam Son (6/2017), compared to a profit of VND8.1 billion in the same period last year.

(5) Financial expense increased by 138% YoY to VND46.7 billion.

These factors overshadowed the positive impact of a 55.8% YoY increase in financial revenue to VND211 billion. Cumulatively for 9M2023, PVS achieved a revenue of VND12,591 billion (+13.6% YoY) and a NPAT-MI of VND579 billion (+37.8% YoY), completing 73% and 66% of our adjusted full-year forecast, respectively.

Regarding the Block B O Mon project, PVS has been granted 2 contracts: EPCI#1 and EPCI#2 via Limited letter of Agreement (LLOA), although the project has not yet received the Final Investment Decision (FID). Construction for these contracts is expected to commence in 2024.

**Quick comment:** Looking towards 2024, with significant potential from oil and wind power projects, we forecast PVS to achieve revenue of VND23,846 billion (+38% YoY) and NPAT-MI of VND1,132 billion (+21% YoY). Despite the positive business outlook, the stock price has risen by 85% since the beginning of the year, reflecting most of the profit prospects for 2024. Using the DCF method, **we value PVS at the end of 2024 at 40,500 VND/share, equivalent to a total return rate of 7.8%. Rating Neutral**

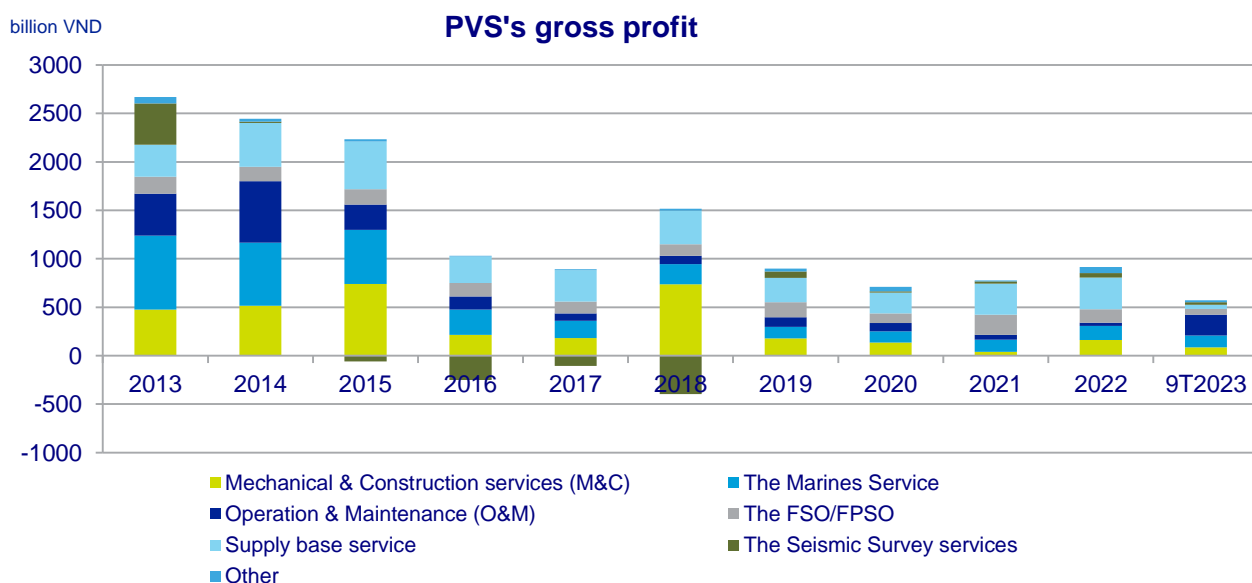
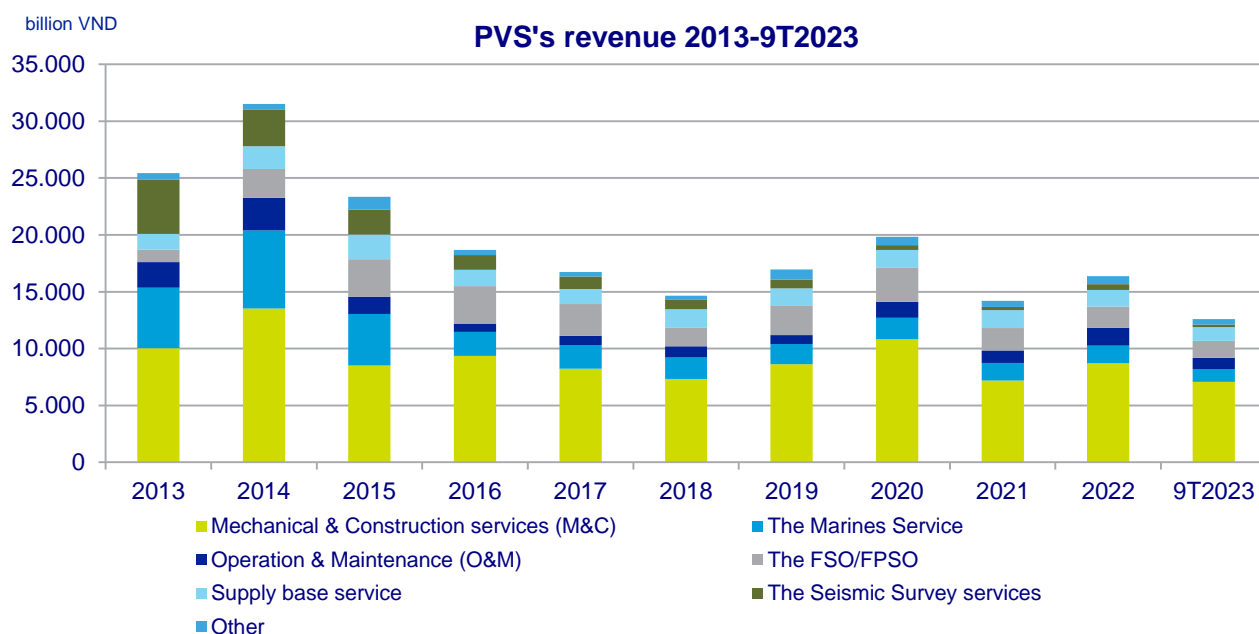
	2021	2022	2023F	2024F	2025F
Net Sales (VNDbn)	14,198	16,373	17,319	23,846	30,267
Growth (%)	-28%	15%	6%	38%	27%
EBITDA (VNDbn)	396	292	360	791	1,262
EBITDA margin	3%	2%	2%	3%	4%
Net income (VNDbn)	601	884	939	1,132	1,532
Growth (%)	-7%	47%	6%	21%	35%
EPS (bonus-adjusted, VND)	1,162	1,708	1,816	2,189	2,961
Growth (%)	-7%	47%	6%	21%	35%
ROE (%)	5%	7%	8%	9%	12%
ROIC (%)	2%	3%	3%	4%	5%
Net debt/EBITDA (x)	-18.1	-29.7	-22.6	-11.0	-8.1
PER (times)	32.9	22.4	21.0	17.5	12.9
EV/EBITDA (x)	30.2	40.9	33.2	15.1	9.5
PBR (times)	1.5	1.4	1.4	1.4	1.3
DPS (VND)	1,000	800	700	700	700
Dividend yield (%)	3%	2%	2%	2%	2%

### The business operations have not shown many positive changes.

PVS recorded a Q3/2023 revenue of VND4,175 billion (+26.5% YoY) and a NPAT-MI of VND141 billion (-26.5% YoY and -37% QoQ). The gross profit margin reached 4.3%, a decrease compared to 5.7% in the same period last year but an increase from 4.0% in Q2/2023. Revenue increase is mainly attributed to a 26% YoY increase in the Mechanical Construction (M&C) segment and a 152% YoY increase in the Operation & Maintenance (O&M) segment. Revenue growth in the M&C segment is partly due to low-base as PVS recognized M&C revenue mainly in Q4/2022. Moreover, additional wind power projects such as Greater Changhua 2a & 4 (Taiwan) and Baltica (Poland), that are awarded to PVS, also supported this results.

On the other hand, the decrease in profit is attributed to:

- (1) Gross profit margin for the FPSO and OSV segment. Reduced workload and service prices domestically, leading to a decline in gross profit margin of the OSV segment.
- (2) G&A expenses increased by 54.7% YoY to VND262 billion.



PVS business results	Q3/2023	Q3/2022	+/- YoY	9M2023	9M2022	+/- YoY
<b>Revenue (billion VND)</b>	<b>4,175</b>	<b>3,502</b>	<b>26.5%</b>	<b>12,591</b>	<b>11,082</b>	<b>13.6%</b>
Mechanical & Construction services (M&C)	2,120	1,684	25.9%	7085	5,470	29.5%
FSO/FPSO	527	480	9.6%	1497	1,379	8.5%
Supply base service	313	316	-0.8%	975	1,012	-3.6%
Offshore support vessels (OSV)	398	478	-16.8%	1124	1,203	-6.6%
Operations and Maintenance (O&M)	478	189	152.3%	1222	1,054	15.9%
Seismic Survey services (ROV)	152	186	-18.4%	219	434	-49.5%
Others	188	169	11.6%	467	529	-11.7%
<b>Gross profit margin (%)</b>	<b>4.3%</b>	<b>5.7%</b>		<b>4.5%</b>	<b>4.9%</b>	
Mechanical & Construction services (M&C)	-0.5%	-1.2%		1.2%	0.5%	
FSO/FPSO	0.0%	11.2%		3.9%	8.2%	
Supply base service	30.2%	24.7%		21.9%	23.5%	
Offshore support vessels (OSV)	9.9%	12.0%		10.9%	8.5%	
Operations and Maintenance (O&M)	3.1%	-2.3%		3.7%	0.7%	
Seismic Survey services (ROV)	20.2%	16.6%		12.1%	6.6%	
Others	6.8%	3.1%		3.9%	4.2%	

Source: PVS, ACBS

Furthermore, in Q3/2023, PVS also recorded a loss of VND21 billion in other profits due to the contract termination of FPSO Lam Son, compared to a profit of VND8.1 billion in the same period last year. Despite the fact that this contract between PVS and Lam Son JOC was terminated on June 30, 2017, the remaining compensation amount was only finalized in Q3/2023.

Financial expense increased by 138% YoY to VND46.7 billion, with interest expenses rising by 36% YoY while exchange rate losses played a primary role in increasing by 467% YoY to VND29.4 billion due to a 3.6% increase in USD relative to VND in Q3/2023. These factors overshadowed the positive impact of a 55.8% YoY increase in financial revenue to VND211 billion. In 9M2023, financial revenue increased by 40.6% YoY, primarily driven by interest income from bank deposits.

The M&C segment's revenue in 9M2023 continued to grow by 29.5% YoY and remained a significant contributor to PVS's revenue growth. Meanwhile, the increased profit was attributed to (1) the gross profit margin of the M&C segment increasing from 0.5% in the same period last year to 1.2%, and (2) a 40.7% YoY increase in financial revenue => With these results, in 9M2023, PVS reported revenue of VND12,591 billion (+13.6% YoY) and NPAT-MI of VND579 billion (+37.8% YoY), achieving 73% and 66% of our full-year projection, respectively.

#### Outlook for Mechanical & Construction services segment

This is a strategic business segment, contributing 50-55% of PVS's annual revenue. However, the gross profit margin of this segment has consistently remained low, at 1.5-2.3% in recent years, due to increasing raw material costs and competitive pricing in project bidding. Furthermore, the recent proportion of M&C projects has mainly consisted of onshore and overseas projects, whereas offshore projects in the domestic market tend to show higher gross profit margins (averaging 4-5%).

Winning the EPCI#1 and EPCI#2 contracts for the recent Block B O Mon project will positively support the M&C segment for the 2024-2028 period. Additionally, this project series will also increase the demand for O&M services, supply base, and offshore vessels provided by PVS throughout the lifecycle of this project.

According to the Power Development Plan VIII, the total offshore wind power capacity in Vietnam is expected to reach 6,000 MW by 2030. Additionally, the demand for wind power in other countries within the region is also increasing. With extensive experience in constructing offshore oil and gas projects and large-scale port and workshop systems, PVS has a competitive advantage in bidding for these projects in the near future.

Current and potential M&C projects for PVS	Timeline	Contract value (million USD)
<b>Wind power projects</b>		
Shwe phase 3 (Myanmar)	2022-2023	200
Hai Long 2&3 (Taiwan)	2022-2026	70
Greater Changhua 2a & 4 (Taiwan)	2023-2025	300
Baltica (Poland)	2023-2026	180
Fengmiao CIP (Taiwan)	2024-2026	100
Other overseas projects	2024-2030	1,000
Other domestic projects	2024-2030	1,000
<b>Oil &amp; gas projects</b>		
Galaff phase 3 (Qatar)	2022-2024	380
Block B O Mon	2024-2028	1,600
LNG Thị Vai phase 2	2024-2025	100
LNG Son My phase 1	2025-2027	300
Golden Camel	2024-2028	280
White lion phase 2	2024-2026	250
Blue whale	2026-2030	850

Source: PVD, ACBS

With the above prospect, the expected revenue growth of the M&C segment in 2024-2025 is quite impressive. In there:

	2024	2025
<b>Forecasted M&amp;C revenue (million USD)</b>	<b>660</b>	<b>912</b>
<i>In which: some potential projects</i>		
Block B O Mon	100	200
LNG Thị Vai phase 2	50	50
White lion phase 2	70	80
LNG Son My phase 1	-	100
Golden Camel	50	50
Greater Changhua 2a & 4 (Taiwan)	135	90

Source: PVS, ACBS

## Projections for 2023 & 2024

For the whole year 2023, we forecast revenue of VND17,319 billion (+6% YoY) and NPAT-MI of VND939 billion (+6.3% YoY). Q4 profit is expected to increase compared to Q3/2023 thanks to the recognition of more revenue due to the Gallaf phase 3 and Shwe projects coming to the final stage by the end of 2023.

Looking forward to 2024, we forecast PVS business results with revenue increasing by 34% and net profit increasing by 26.2% with the following assumptions:

- The total contract value of potential projects for the M&C segment is quite large in the period 2024-2030. M&C segment revenue is expected to increase by 65% YoY thanks to contributions from new projects such as: Block B O Mon, Golden Camel, White Lion phase 2 and Fengmiao (Taiwan). Furthermore, the proportion of domestic offshore projects is high, so it is expected to bring a profit margin of around 4%, higher than the average of 2% in recent years.
- Brent oil prices are expected to remain high in 2024, which will actively support the implementation of oil & gas projects, exploitation activities, thereby increasing demand for PVS's other service segments such as supply bases and OSV.
- The FPSO segment is expected to operate stably in the time coming. In particular, FPSO Lam Son and FPSO Ruby II have their contracts extended until the end of 2024 while FSO Orkid, FPSO Ruby II, FSO Bien Dong 01, FSO Golden Star will operate stably until 2027.

## Valuation

For the whole year 2024, with significant potential from oil and wind power projects, we forecast PVS to achieve revenue of VND23,846 billion (+38% YoY) and NPAT-MI of VND1,132 billion (+21% YoY). Despite the positive business outlook, the stock price has risen by 85% since the beginning of the year, reflecting most of the profit prospects for 2024. Using the DCF method, we value PVS at the end of 2024 at 40,500 VND/share, equivalent to a total return rate of 7.8%. **Rating Neutral**

### PVD FINANCIALS MODEL

(VND bn except where stated)	2019	2020	2021	2022	2023F	2024F	2025F
<b>Total Net Sales</b>	<b>16,789</b>	<b>19,832</b>	<b>14,198</b>	<b>16,373</b>	<b>17,319</b>	<b>23,846</b>	<b>30,267</b>
Sales growth (%)	15%	18%	-28%	15%	6%	38%	27%
CoGS ex-dep'n	15,184	18,702	13,001	15,173	16,010	22,029	27,946
SG&A	759	837	802	907	949	1,025	1,059
SG&A as % of sales	5%	4%	6%	6%	5%	4%	4%
<b>EBITDA</b>	<b>846</b>	<b>293</b>	<b>396</b>	<b>292</b>	<b>360</b>	<b>791</b>	<b>1,262</b>
EBITDA margin (%)	5%	1%	3%	2%	2%	3%	4%
Depreciation	471	418	422	285	455	468	505
<b>Operating profit</b>	<b>375</b>	<b>(125)</b>	<b>(26)</b>	<b>7</b>	<b>(95)</b>	<b>324</b>	<b>756</b>
Operating profit margin (%)	2%	-1%	0%	0%	-1%	1%	2%
Net interest expense	-236	-206	-156	-207	-432	-232	-250
as % of avg, net debt	3%	3%	2%	3%	5%	3%	3%
Tax	340	307	200	229	255	308	416
Effective tax rate (%)	25%	29%	23%	20%	20%	20%	20%
Minorities	-37	86	76	61	82	98	133
<b>Net profit</b>	<b>996</b>	<b>735</b>	<b>677</b>	<b>944</b>	<b>1,021</b>	<b>1,231</b>	<b>1,665</b>
Net profit margin (%)	6%	4%	5%	6%	6%	5%	6%
Cash earnings	1,467	1,153	1,099	1,229	1,476	1,698	2,170
Number of shares (m)	478	478	478	478	478	478	478
<b>EPS (VND)</b>	<b>1,997</b>	<b>1,254</b>	<b>1,162</b>	<b>1,708</b>	<b>1,816</b>	<b>2,189</b>	<b>2,961</b>
Share split factor (x)	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Adjusted EPS (VND)</b>	<b>1,997</b>	<b>1,254</b>	<b>1,162</b>	<b>1,708</b>	<b>1,816</b>	<b>2,189</b>	<b>2,961</b>
EPS growth (%)	-1%	-37%	-7%	47%	6%	21%	35%



KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	(185)	(1,095)	317	(552)	(1,128)
Capex	266	561	348	1,000	1,000
Other cash flow items	767	905	300	300	300
<b>Free cash flow</b>	<b>1,786</b>	<b>2,668</b>	<b>1,111</b>	<b>1,550</b>	<b>2,598</b>
Share issues (m)	0	0	0	0	0
Dividends paid	554	430	335	335	335
Increase in net debt	(1232)	(2239)	(776)	(1215)	(2263)
<b>Net debt, end of year</b>	<b>(7,179)</b>	<b>(8,681)</b>	<b>(8,129)</b>	<b>(8,677)</b>	<b>(10,217)</b>
Enterprise value	11,079	9,578	10,129	9,581	8,042
<b>Shareholders' equity</b>	<b>12,534</b>	<b>12,949</b>	<b>12,939</b>	<b>13,482</b>	<b>14,408</b>
BVPS (VND)	26,224	27,091	27,072	28,207	30,144
Net debt / equity (%)	-57%	-67%	-63%	-64%	-71%
Net debt / EBITDA (x)	-18.1	-29.7	-22.6	-11.0	-8.1
<b>Total assets</b>	<b>24,845</b>	<b>25,828</b>	<b>25,477</b>	<b>28,783</b>	<b>32,089</b>

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE (%)	5.3%	7.4%	7.9%	9.3%	11.9%
ROA (%)	-0.1%	0.0%	-0.4%	1.2%	2.5%
ROIC (%)	2.2%	3.1%	2.7%	3.9%	4.9%
WACC (%)	15%	15%	15%	15%	15%
EVA (%)	-13%	-12%	-12%	-11%	-10%
PER (x)	32.9	22.4	21.0	17.5	12.9
EV/EBITDA (x)	30.2	40.9	33.2	15.1	9.5
EV/FCF (x)	6.7	4.5	10.7	7.7	4.6
PBR (x)	1.5	1.4	1.4	1.4	1.3
PSR (x)	0.0	0.0	0.0	0.0	0.0
EV/sales (x)	0.8	0.7	0.7	0.5	0.4
Dividend yield (%)	3.0%	2.4%	1.8%	1.8%	1.8%



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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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