November 10th, 2023

Shinhan Securities



PetroVietnam Technical Services Corporation

[Vietnam / OIL & GAS]

Bloomberg Ticker (PVS VN) | Reuters Ticker (PVS.HM)

BUY

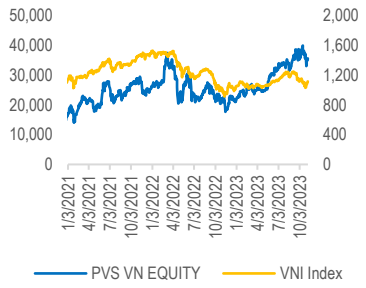
Update Coverage

Target price (12 months)	**42,500 VND**
Current price (09/11/23)	36,800 VND
Upside/downside (%)	15.4%

VNINDEX	1,113
HNXINDEX	228
Market Cap (bn VND)	17,780
Outstanding shares (mn)	478
Free-Floating (mn)	232
52-Wk High/Low (VND)	41,400/16,200
90-day avg. trading volume (mn)	6.7
90-day avg. turnover (bn VND)	258
Major shareholders (%) Vietnam Oil and Gas Group	51.38
Major shareholders (%) Dragon Capital	6.73

Performance	3T	6T	12T
Absolute (%)	3.1	42.1	58.6
Relative to VN-Index (%)	12.8	36.4	45.6

Source: Bloomberg



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Growth driver from M&C segment

Update recommendation with BUY rating and target price of VND 42,500

PetroVietnam Technical Services Corporation (PVS) is a leading full-package solution provider in energy sector with focus on offshore oil and gas industry. After 9 months of 2023, PVS has completed 95% of its revenue target and exceeded its annual profit target by more than 8%. In 2024, we estimate PVS's NPAT to grow nearly 26% YoY, thanks to (1) oil prices are expected to remain at a high level (about 80 USD/barrel), which will encourage M&C activities and (2) the contribution of the new wind power projects such as Fengmiao (Taiwan), Baltica 2 (Poland),... Based on DCF methods, we update PVS's target price at VND 42,500 and maintain BUY rating with an increase of 15.4%.

Business results in Q3/2023:

In Q3/2023, PVS recorded revenue of VND 4,176 bn (+19% YoY) and NPAT-Mi reached VND 140 bn (-27% YoY). Financial revenue in the Q3 increased by 55% YoY thanks to high deposit interest rates. However, profits decreased sharply due to an increase in expenses such as (1) financial costs increased by 138%, (2) selling expenses increased by 18% and (3) G&A expenses increased by 55%.

Accumulated in the first 9 months of 2023, PVS reached VND 12,591 bn (+13.6% YoY), parent company's profit after tax reached VND 579 bn (+37.8% YoY). In which, M&C service revenue reached VND 7,085 bn (+30% YoY) and O&M service revenue reached VND 1,222 bn (+16% YoY). Gross profit margin of M&C segment in 9M/2023 reached 1.2% compared to 0.5% in 2022. Thus, PVS has completed 95% of revenue target and exceeded 8% of yearly profit target.

In 2023, we forecast PVS revenue to reach VND 16,070 bn (-1.8% YoY) and NPAT to reach VND 894 bn (-5.2% YoY). With the above results, PVS's NPAT reached 68% of our forecast after the first 9 months of the year. We expect some of the wind power projects such as Gallaf 3, Shwe, Hai Long,... to contribute profits to PVS in Q4/2023.

In 2024, we expect some of the new oil and gas exploitation projects in Vietnam (Block B O Mon, Yellow Camel A&B, White Lion 2B) will also be implemented soon, helping business results to improve strongly. Recently, PVS's joint venture won the bid for the design, construction, and installation of a central technology truss cluster and housing truss (EPCI#1) with a value of about 1.08 billion USD in the Block B - O Mon project chain. However, we have not included these large projects in our forecast. In 2024, we estimate PVS's NPAT to grow by nearly 26%, reaching VND 1,137 bn, thanks to the contribution of new wind power projects such as Fengmiao (Taiwan), Baltica 2 (Poland),...

Risks: (1) Later-than-expected progress of oil and gas projects and (2) A low in oil price causes a slow in M&C activities.

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**16,373**	**16,070**	**20,496**	**25,667**	**20,779**
OP (bn VND)	7	192	194	175	150
NP (bn VND)	**944**	**894**	**1,137**	**1,130**	**1,134**
EPS (VND)	1,849	1,759	2,236	2,222	2,230
BPS (VND)	25,564	27,435	29,814	32,178	34,550
OPM (%)	0.0%	1.2%	0.9%	0.7%	0.7%
NPM (%)	5.8%	5.6%	5.5%	4.4%	5.5%
ROE (%)	**7.3%**	**6.4%**	**7.5%**	**6.9%**	**6.5%**
PER (x)	16.7	23.8	18.7	18.9	18.8
PBR (x)	1.2	1.5	1.4	1.3	1.2
EV/EBITDA (x)	12.4	13.3	11.1	10.9	10.8

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

Maintain BUY rating and target price of VND 42,500

We apply a Discounted Cash Flow (DCF) valuation method to value PVS. We update our BUY recommendation with a target price of VND 42,500, equivalent to a return of 15.4%.

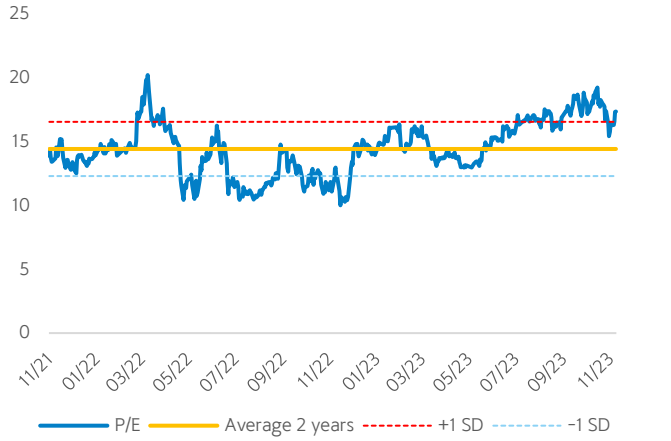
Valuation

DCF valuation (not include the contribution of Block B – O Mon project and Ca Voi Xanh project)					
Unit: billion VND	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**
NPAT-Mi	1,069	1,062	1,066	1,109	1,097
Plus: After-tax interest expense	56	68	71	65	63
Plus: Depreciation & Amortization	506	527	549	573	597
Minus: Change in working capital	-598	-712	663	851	-158
Minus: CapEx	354	369	439	458	448
Free Cash Flow (FCF)	**1,875**	**2,000**	**584**	**438**	**1,468**
PV of FCF	6,364				
Growth rate	0%				
Present value of long-term value	4,700				
Enterprise value	**11,064**				
Debt	1,093				
Cash and cash equivalents	10,063				
Equity value	**20,034**				
Number of shares outstanding (mn units)	478				
Target price (VND)	**42,500**				

WACC	**11.9%**
Risk-free rate	3.5%
Equity risk premium	9.57%
Beta	1.3
Debt cost	8%
The cost of equity	12.3%
Debt-to-equity ratio	9.6%
Total debt (VND bn)	1,093

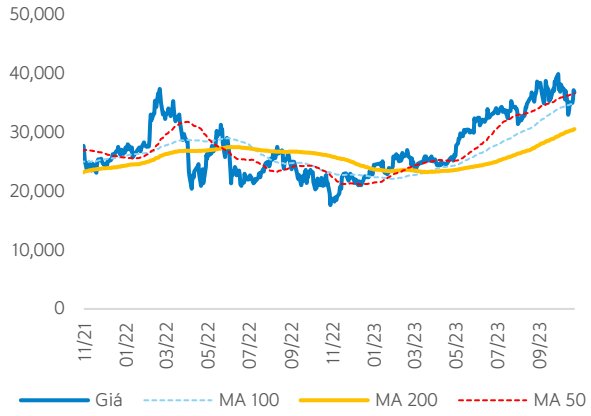
Source: Company data, Shinhan Securities Company

PVS's PER



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation between stock price and MA 1 year



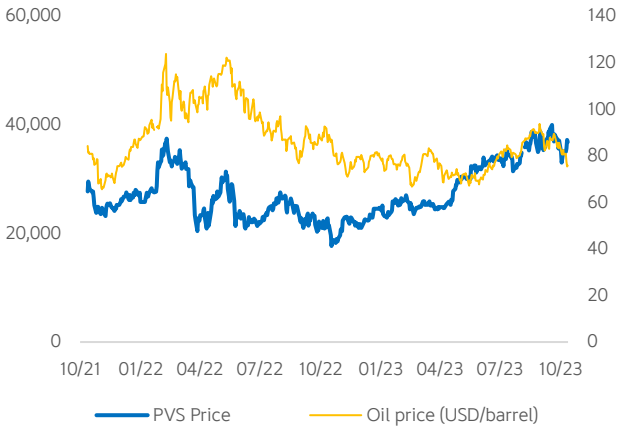
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's PBR



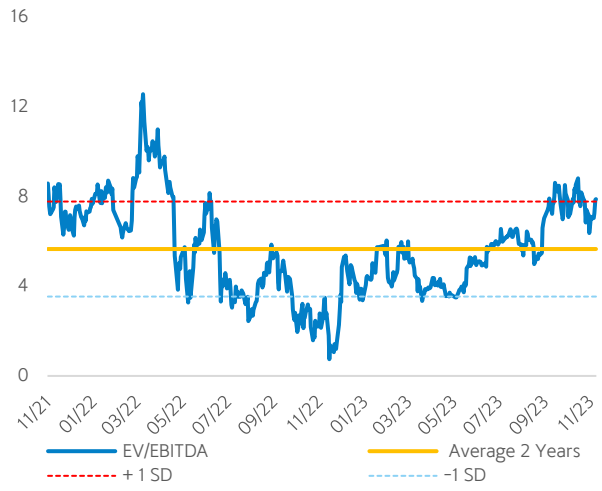
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of stock price and oil price



Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's EV/EBITDA



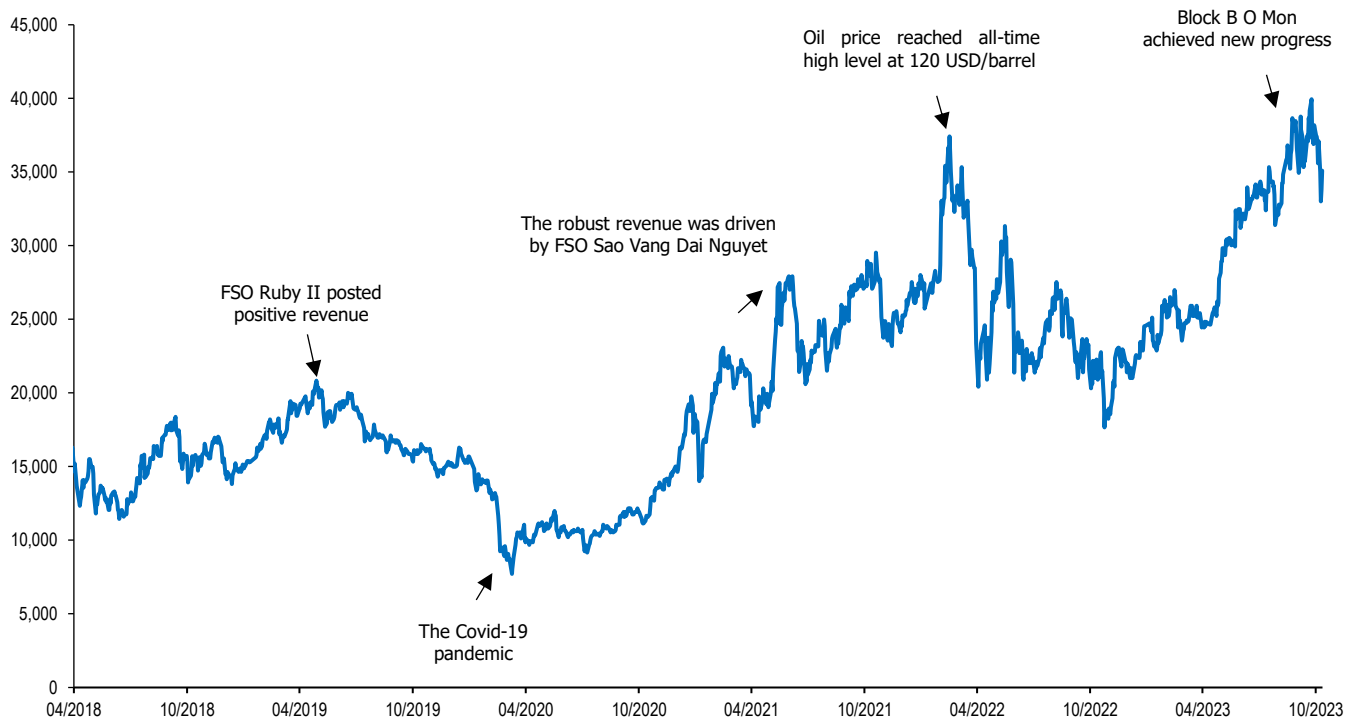
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of stock price and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key event chart of PVS



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Company background

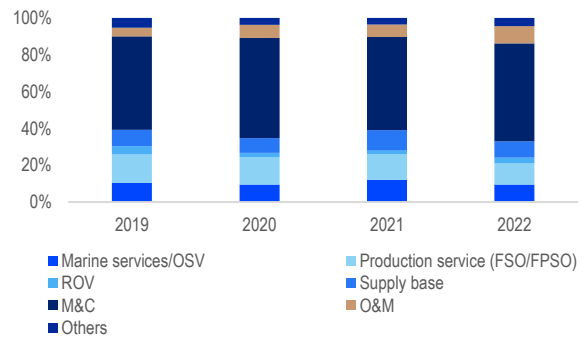
History

In 2008, PVS was officially listed on HNX with the sticker "PVS". PVS is a leading full-package solution provider in energy sector with focus on offshore oil, gas and renewable industry. Therein:

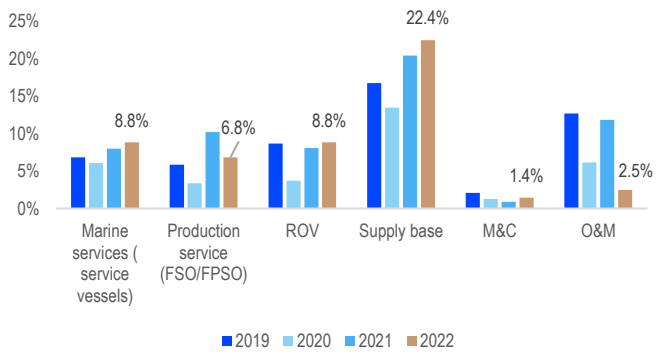
- M&C segment: providing engineering, procurement, fabrication, construction, transportation, installation, hook-up and commissioning (EPC/EPCIC) services . This is still mainstay service accounting for over 50% of total revenue, but gross margin is quite low (about 2%).
- FSO/FPSO (Floating Storage and Offloading /Floating Production Storage and Offloading): FSO/FPSO is a floating production system that receives fluids (crude oil, water,…) from a drilling rig, which then separated, stored and offloaded onto tanker or transported through a pipeline system. This segment contributes 11% to the total revenue.
- Marine serice (Offshore Support Vessels): owns and operates a dedicated fleet to support exploration and operation activities in oil & gas, including: Anchor Handling Tug Supply vessels (AHTS), Offshore Support vessels (OSV& PSV),…

Being a key subsidiary of VietNam Oil and Gas Group, PVS is the dominant player in M&C service. Futhermore, PVS enjoys majority market share in marine service (97%) and production service FSO/FPSO (60%). Besides, PVS also extends business coverage to oversea markets, accounting for nearly 50% of total revenue.

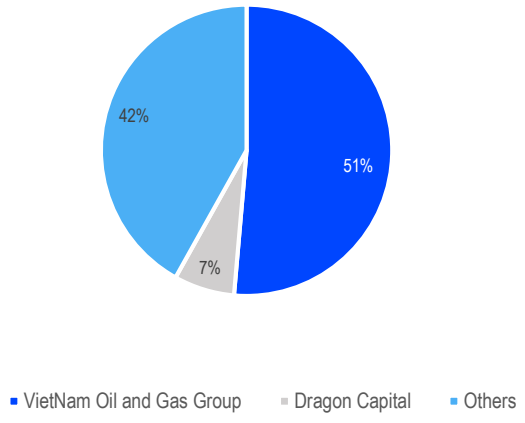
PVS's revenue breakdown by segment (%)



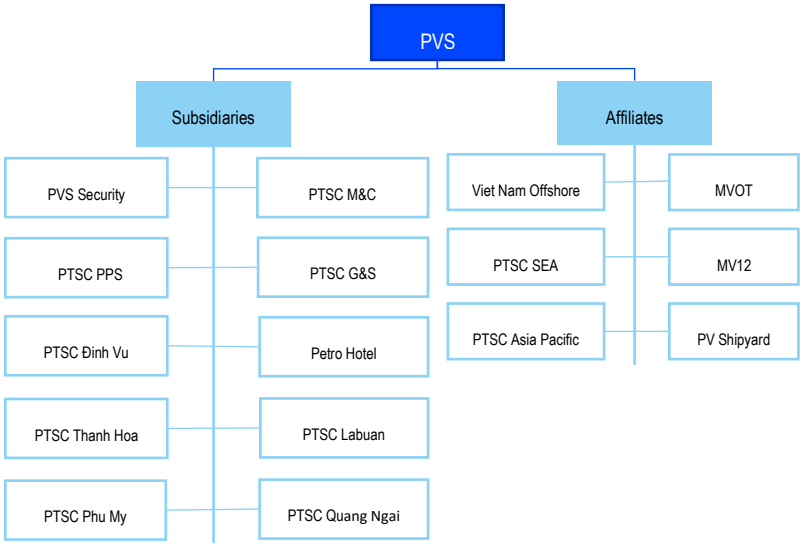
PVS's gross margin breakdown by segment (%)



Shareholder Structure 10/11/2023



Model of Governance



Source: Data Company, Shinhan Securities Company

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	24,871	25,828	26,857	30,673	35,048
Current assets	15,395	16,388	17,031	20,454	24,441
Cash & equivalents	5,747	5,219	5,909	7,672	9,635
Short-term financial asset	2,677	4,837	4,837	4,837	4,837
Accounts receivable	4,642	5,043	5,022	6,405	8,090
Inventories	2,103	1,012	987	1,264	1,603
Non-current assets	9,476	9,439	9,466	9,486	9,499
Net fixed assets	3,165	3,209	3,235	3,255	3,269
Investment assets	184	172	172	172	172
Other long-term assets	6,127	6,058	6,058	6,058	6,058
Total liabilities	12,263	12,879	12,960	15,572	18,750
Current liabilities	8,692	9,199	9,180	11,691	14,770
Accounts payable	4,282	5,301	5,209	6,668	8,457
Short-term borrowings	711	752	906	1,160	1,472
Others	3,699	3,146	3,064	3,862	4,841
Non-current liabilities	3,571	3,680	3,780	3,880	3,980
Long-term borrowings	534	624	724	824	924
Other financial liabilities	3,037	3,057	3,057	3,057	3,057
Total shareholders' equity	12,608	12,949	13,896	15,102	16,299
Capital stock	4,780	4,780	4,780	4,780	4,780
Capital surplus	40	40	40	40	40
Other capital	3,366	3,608	3,608	3,608	3,608
Retained earnings	3,694	3,791	4,685	5,822	6,951
Non-controlling interest equity	728	730	784	852	920
*Total debt	1,245	1,376	1,630	1,984	2,395
*Net debt (cash)	-7,179	-8,681	-9,116	-10,525	-12,077

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	14,260	16,373	16,070	20,496	25,889
Growth		14.8%	-1.8%	27.5%	26.3%
COGS	13,393	15,458	15,107	19,339	24,525
Gross profit	867	915	963	1,157	1,364
GPM	6.1%	5.6%	6.0%	5.6%	5.3%
SG&A	802	907	771	963	1,191
Operating profit	66	7	192	194	173
Growth		-88.8%	2504.7%	1.0%	-10.7%
OPM	0.5%	0.0%	1.2%	0.9%	0.7%
Non-operating profit	183	326	329	400	451
Financial income	278	489	499	581	648
Financial expense	94	163	170	182	197
In which: interest expenses	46	51	58	70	85
Net other non-operating profit	214	183	238	183	183
Pre-tax profit	969	1,174	1,111	1,413	1,403
Income tax	219	229	217	276	274
Net profit	751	944	894	1,137	1,129
Growth		25.8%	-5.3%	27.2%	-0.7%
NPM	5.3%	5.8%	5.6%	5.5%	4.4%
Controlling interest	675	884	841	1,069	1,061
Non-controlling interest	76	61	54	68	68
EBIT	1,015	1,224	1,169	1,483	1,487
Growth		20.6%	-4.5%	26.8%	0.3%
EBIT Margin	7.1%	7.5%	7.3%	7.2%	5.7%
EBITDA	1,554	1,695	1,656	1,989	2,014
Growth		9.1%	-2.3%	20.1%	1.3%
EBITDA margin	10.9%	10.4%	10.3%	9.7%	7.8%

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	-680	2,460	1,200	2,173	2,331
Net profit	675	884	841	1,069	1,061
Depreciation expense	539	471	486	506	527
(Gain) from investing activities					
Change in working capital	-940	1,105	-127	598	743
Others	-953	0	0	0	0
Cash flow from investments	-398	-548	-341	-354	-369
Change in fixed assets	-494	-498	-341	-354	-369
Change in investment assets	96	-69	0	0	0
Others	0	20	0	0	0
Cash flow from financing	-673	-250	-170	-56	1
Change in equity	0	2	54	68	68
Net borrowing	-147	131	254	354	411
Dividends	-526	-382	-478	-478	-478
Change in total cash	-1,750	1,663	689	1,763	1,963
Beginning cash	5,212	5,747	5,219	5,909	7,672
Change in FX rates					
Ending cash	3,462	7,410	5,909	7,672	9,635

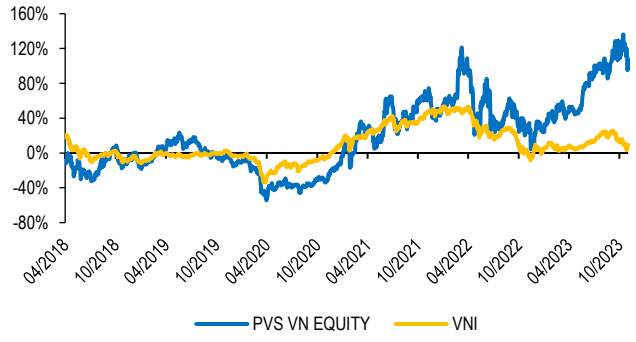
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	1,411	1,849	1,759	2,236	2,220
BPS (VND)	24,855	25,564	27,435	29,814	32,176
DPS (VND)	1,000	800	1,000	1,000	1,000
PER (x)	22.0	16.8	24.1	18.9	19.1
PBR (x)	1.3	1.2	1.5	1.4	1.3
EV/EBITDA (x)	14.7	12.4	13.3	11.1	10.9
Dividend payout ratio (%)	71%	43%	57%	45%	45%
Dividend yield (%)	2.2%	1.8%	2.2%	2.2%	2.2%
Profitability					
EBITDA margin	10.4%	10.8%	10.2%	9.6%	7.7%
OPM	0.5%	0.0%	1.2%	0.9%	0.7%
NPM	5.3%	5.8%	5.6%	5.5%	4.4%
ROA	3.0%	3.7%	3.3%	3.7%	3.2%
ROE	6.0%	7.3%	6.4%	7.5%	6.9%
Stability					
Debt to equity ratio	9.9%	10.6%	11.7%	13.1%	14.7%
Net debt ratio	482.9%	492.4%	555.7%	534.4%	605.7%
Cash ratio	66.1%	56.7%	64.4%	65.6%	65.2%
Interest coverage ratio (x)	22.2	24.2	20.1	21.2	17.6
Activity					
Working capital turnover (days)	59	11	12	12	12
Inventory turnover (days)	57	24	24	24	24
Receivable turnover (days)	119	112	114	114	114

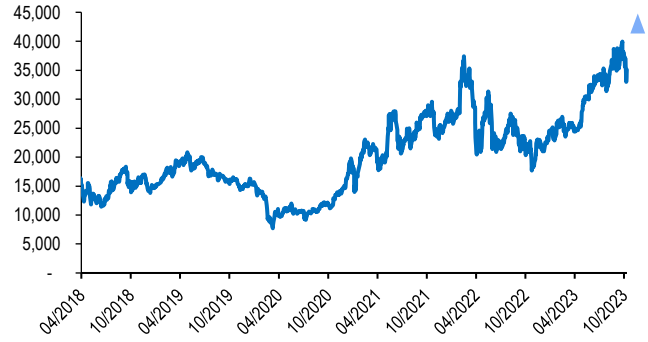
Source: Company data, Shinhan Securities Vietnam

PetroVietnam Technical Services Corporation (PVS VN)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
03/04/2023 (Initiation)	BUY	29,300	9.7	-21.1/80.8
31/05/2023(Update)	HOLD	30,800	15.3	-17.2/90.1
10/11/2023 (Update)	BUY	42,500	47.5	2.6/162.3

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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