April 03rd, 2023

Shinhan Securities



PetroVietnam Technical Services Corporation

[Vietnam / OIL & GAS]

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

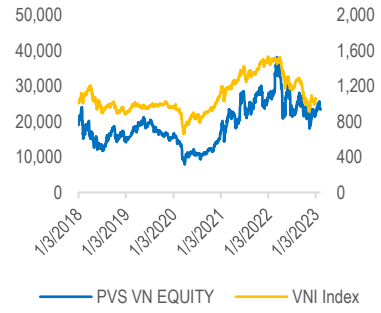
BUY

Initiate Coverage

Target price (12 months)	**29,300 VND**
Current price (31/03/23)	25,400 VND
Upside/downside (%)	15.3%

VNINDEX			1,059
HNXINDEX			205
Market Cap (bn VND)			12,093
Outstanding shares (mn)			478
Free-Floating (mn)			232
52-Wk High/Low (VND)			37,200/16,200
90-day avg. trading volume (mn)			6.19
90-day avg. turnover (bn VND)			142
Major shareholders (%)	Vietnam Oil and Gas Group		51.38
	DC		6.14
Performance	3T	6T	12T
Absolute (%)	18.2	9.1	-29.1
Relative to VN-Index (%)	12.8	15.3	-0.4

Source: Bloomberg



Open account

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Seize the opportunity

Initiate coverage with BUY rating and target price of VND 29,300

PetroVietnam Technical Services Corporation (PVS) is a leading full-package solution provider in energy sector with focus on offshore oil and gas industry. A stable dividend policy and financially healthy are bright spots in the short term. In the long term, its growth engine comes from many key oil and gas projects in Vietnam such as Block B - O Mon, Su Tu Trang 2b and provide the service of offshore wind power. We value PVS for the first time at 29,300 VND, equivalent to a 15.3% return.

A financially healthy and a stable dividend policy

PVS maintained a very healthy balance sheet with abundant cash (40% of total assets) and lower debt (debt/equity ratio was about 10%). In addition, PVS provides a stable cash dividend policy, 10% par value each year. We expect PVS to pay a 10% cash dividend in 2023.

The amended Petroleum Law is expected to create many opportunities for upstream companies like PVS

The amended Petroleum Law will take effect from July 1, 2023. The contents of the new Petroleum Law are assessed to have some progressive points: (1) Tax incentives of oil and gas project investment, (2) Adjusting and supplementing regulations on the petroleum contract in the direction that the contract term is more flexible and (3) Changes in the party having the authority to approve documents. The amended Petroleum Law is expected to promote oil and gas exploration, which means more opportunities for upstream companies like PVS.

Many key oil and gas projects create many job opportunities for the company in the upcoming time

Some important projects of the E&P sector in 2023 will be accelerated to keep up with the schedule such as Block B - O Mon (an estimated contract value USD 1,200 mn), Su Tu Trang 2b (an estimated contract value USD 250 mn), Ca Voi Xanh (an estimated contract value USD 800 mn),... We believe that numerous key oil and gas projects will create jobs for the company in 2024 – 2027. We haven't included the contribution of these projects (Block B – O Mon and Ca Voi Xanh) in our forecast yet.

Providing the service of offshore wind power achieves the sustainable development

We thus deem the shift to be right long-term goal due to: (1) PVS is a beneficiary of the draft Power Master Plan (PDP) VIII: the proportion of wind power accounts for nearly 30% of the total power source by 2050 and (2) PTSC is the only member of PetroVietnam which has full capacity and legal basis to invest, develop and operate offshore wind power projects in Vietnam.

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

Year to Dec.	2022	2023F	2024F	2025F	2026F
Revenue (bn VND)	**16,413**	**17,670**	**20,677**	**18,392**	**12,825**
OP (bn VND)	-84	142	220	217	166
NP (bn VND)	**834**	**882**	**935**	**938**	**892**
EPS (VND)	1,617	1,791	1,897	1,904	1,811
BPS (VND)	25,331	27,178	29,133	31,096	32,963
OPM (%)	-0.5%	0.8%	1.1%	1.2%	1.3%
NPM (%)	5.1%	5.0%	4.5%	5.1%	7.0%
ROE (%)	**6.5%**	**6.4%**	**6.4%**	**6.0%**	**5.4%**
PER (x)	18.2	16.4	15.5	15.4	16.2
PBR (x)	1.2	1.1	1.0	0.9	0.9
EV/EBITDA (x)	13.1	13.1	12.4	12.2	12.5

Source: Company data, Shinhan Securities Vietnam

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Company background

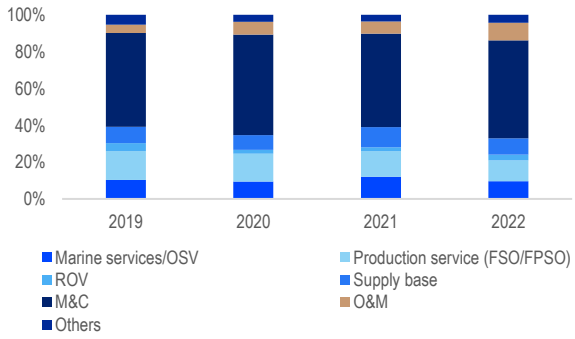
History

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:

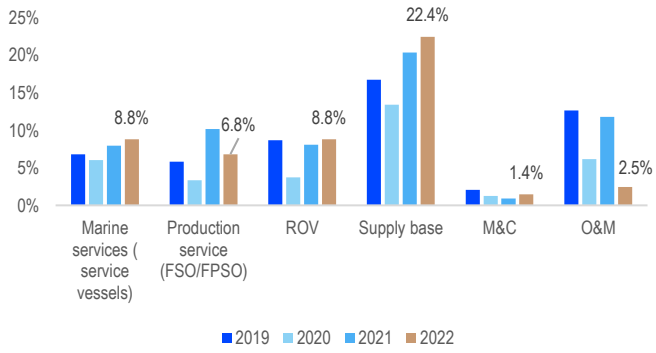
- M&C segment: providing engineering, procurement, fabrication, construction, transportation, installation, hook-up and commissioning (EPC/EPCIC) services . This is still mainstay service accounting for over 50% of total revenue, but gross margin is quite low (about 2%).
- FSO/FPSO (Floating Storage 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.

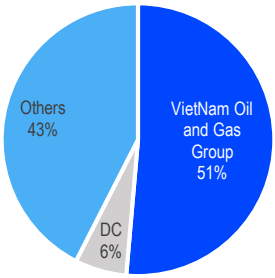
PVS's revenue breakdown by segment (%)



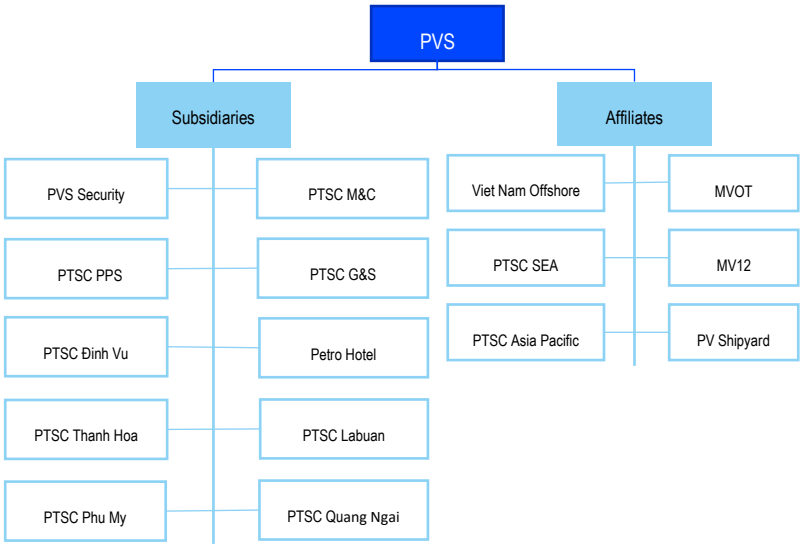
PVS's gross margin breakdown by segment (%)



Shareholder Structure 31/03/2023



Model of Governance



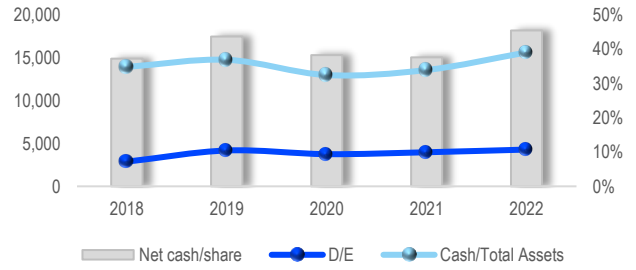
Source: Data Company, Shinhan Securities Company

Investment Catalyst & Theses

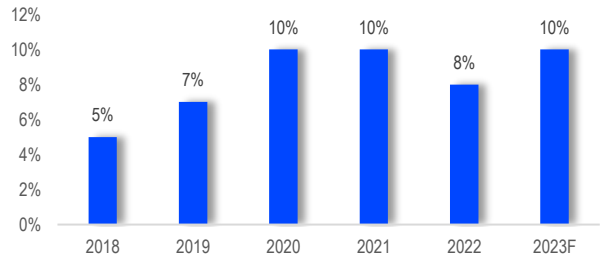
A financially healthy and a stable dividend policy

PVS maintained a very healthy balance sheet with abundant cash (40% of total assets) and lower debt (debt/equity ratio was about 10%). In addition, PVS provides a stable cash dividend policy, 10% par value each year. We expect PVS to pay a 10% cash dividend in 2023.

Debt/Equity Ratio



Dividend history



Source: Data company, Shinhan Securities Vietnam

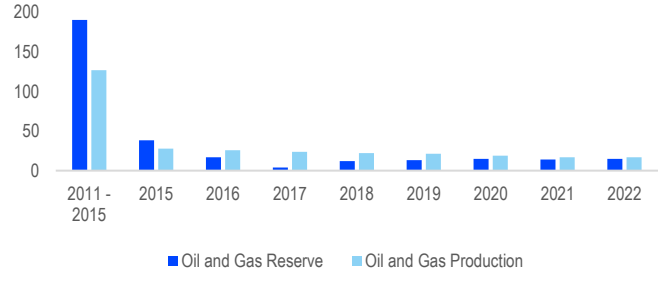
The amended Petroleum Law is expected to create many opportunities for upstream companies like PVS

The amended Petroleum Law will take effect from July 1, 2023. The amended Petroleum Law is expected to promote oil and gas exploration, which means more job opportunities for upstream companies like PVS. The contents of the new Petroleum Law are assessed to have some progressive points.

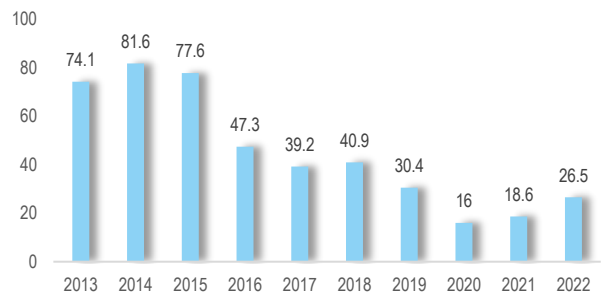
- **Tax incentives of oil and gas project investment.** The amended law added more criteria to determine petroleum blocks that are entitled to investment incentives with the aim of attracting investors in complicated areas.
- **Adjusting and supplementing regulations on the petroleum contract in the direction that the contract term is more flexible.** The maximum prospecting period under the amended law is also increased up to 10 years for any petroleum block that is entitled to investment incentives or special investment incentives, instead of seven years under the Petroleum Law 1993.
- **Changes in the party having the authority to approve documents.** For example, under Decree 95, the Prime Minister has the authority to approve reports on petroleum resources and reserves and petroleum field development plans; however, such authority under the amended law has been assigned to the MoIT.

Many key oil and gas projects create many job opportunities for the company in the upcoming time

Oil and Gas production (million tons)



PVN's search and exploration expense (trilion VND)



Source: PVN, Shinhan Securities Vietnam

The production of oil and gas are increasingly difficult, we expect the PVN has identified operations of new oil fields. In the upcoming time, we believe that PVN boost to search and exploration, as the key solution to maintain and increase production.

The strong domestic gas demand in 2021 – 2025 will be a factor, which promote the rapid implementation of LNG and gas projects. This creates many job opportunities for the EPC[1] company like PVS in the upcoming time.

With the current high oil price, it is an ideal condition for Vietnam and foreign investors to develop E&P (exploration & production) activities in Vietnam, especially some large projects such as block B - O Mon, Su Tu Trang 2b (2024 - 2026), Ca Voi Xanh, Nam Du - U Minh...

We believe that the project Block B – O Mon and Su Tu Trang 2b will be the great contributions to PVS's profit in short-term. The Su Tu Trang 2B project is expected to be implemented EPCI[2] by the end of 2023. Meanwhile, the Block B project is being accelerated to reach final investment decision (FID) in mid-2023 as the project progress has been delayed for many years.

Block B – O Mon plan

	Est.capex (USD million)	Investors	PVS's activities
Upstream: Block B field development project	6,700	PVN (42.9%) PVEP (26.8%) MOECO (22.6%) PTTEP (7.7%)	EPC facilities FSO
Midstream: Block B – O Mon pipeline	1,300	PVGAS (51%) PVN (28.7%) MOECO & PTTEP (20.3%)	EPC facilities
Downstream: Gas-fired power plants	n/a	Marubeni EVN	n/a

Source: Data company, Shinhan Securities Vietnam

Providing the service of offshore wind power achieves the sustainable development

In 2021 – 2022, PVS actively participated in providing services such as the provisions of transportation, installation of wind towers & turbines and underground cable laying works for most of the nearshore wind power projects: Thang Long, La Gan, Hai Long,...Meanwhile, PVS has signed MOU with many partners to cooperate in developing offshore wind power projects in domestic and international market such as Orsted, Semcorp, Renova.

PVS's offshore wind projects

	Value of the contract (USD million)	Revenue recognition
Shwe project (Myanmar)	200	2022 - 2023
Gallaf Batch project (Qatar)	50	2023 - 2024
Hai Long project	50	2023 - 2024

Source: Data company, Shinhan Securities Vietnam

We thus deem the shift to be right long-term goal due to: (1) PVS is a beneficiary of the draft Power Master Plan (PDP) VIII: The high-proportion of offshore wind energy power of the draft and (2) PTSC is the only member of PetroVietnam which has full capacity and legal basis to invest, develop and operate offshore

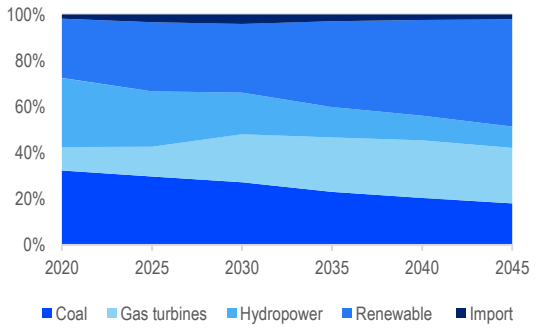
1 EPC: Engineering, Procurement and Construction
2 EPCI: Engineering, Procurement, Construction and Installation

wind power projects in Vietnam.

1. PVS is a beneficiary of the draft Power Master Plan (PDP) VIII: The high-proportion of offshore wind energy power of the draft

   The draft Power Master Plan (PDP) VIII: the proportion of wind power accounts for nearly 30% of the total power source by 2050. Therefore, government will gradually decrease fossil energy forms and prioritize renewable energy, for meeting the energy demand of Vietnam in the coming years.

The draft Power Master Plan (PDP) VIII



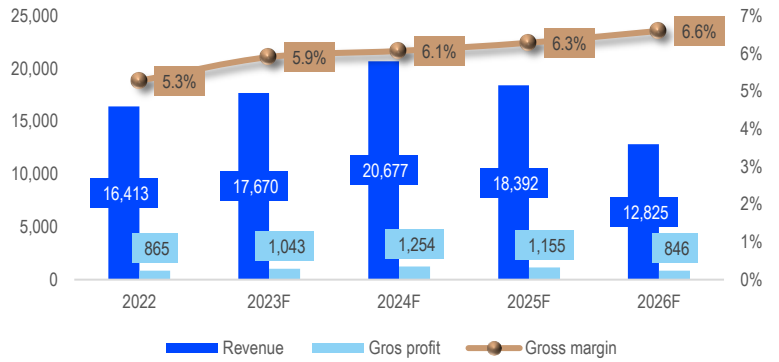
Source: EVN, Shinhan Securities Vietnam

2. With the registration of offshore wind power to its business license, PTSC is the only member of PetroVietnam which has full capacity and legal basis to invest, develop and operate offshore wind power projects in Vietnam.

Earnings estimates

In 2023, we forecast PVS's revenue and profit to be VND 17,670 bn (+7.7% YoY) and VND 896 bn (+7.4% YoY), respectively. We project the M&C segment revenue will reach VND 9,567 billion (+18.9 % YoY) in 2023, which mainly driven by Gallaf Batch 3 in Qatar, Shwe phase 3 in Myanmar and Hai Long wind power project in Taiwan.

Forecast of PVS' s revenue, profit and gross profit margin



Source: Company data, Shinhan Securities Company

PVS's revenue breakdown	2022	2023F	YoY	2024F	YoY
Revenue (VND bn)	**16,413**	**17,670**	7.7%	**20,677**	17%
Marine services	1,573	1,651	5%	1,684	2%
Product service (FSO/FPSO)	1,874	1,968	5%	2,007	2%
ROV (Remote Operated Vehicle)	510	536	5%	563	5%
Supply base	1,458	1,531	5%	1,546	1%
M&C	8,722	9,567	18.9%	12,307	28.6%
O&M	1,560	1,638	5%	1,720	5%

Estimated M&C order book details (USD mn)	2022	2023F	2024F	2025F
Gallaf Batch 3 (Qatar)	204	167	-	-
Shwe (Myanmar)	110	90	-	-
Hai Long	15	27	18	-
Su Tu Trang 2b project	-	25	100	125
LNG Thi Vai phase 2	-	75	195	30
LNG Thi Vai phase 3	-	-	90	150
LNG Son My	-	-	75	75
Others	17	20	31	15
Total	**346**	**404**	**509**	**395**

PVS's revenue and profit outlook	2022	2023F	YoY	2024F	YoY
Net revenue (bn VND)	**16,413**	**17,670**	**7.7%**	**20,677**	**17%**
Operating Profit (bn VND)	-84	142	169%	220	55.0%
Net Profit	**834**	**882**	5.8%	**935**	5.9%
EPS (VND)	1,617	1,791	10.8%	1,897	5.9%
BPS (VND)	25,331	27,178	7.3%	29,133	7.2%
OPM	-0.5%	0.8%		1.1%	
NPM	5.1%	5.0%		4.5%	
ROE (%)	**6.5%**	**6.4%**		**6.4%**	
PER (x)	18.2	16.4		15.5	
PBR (x)	1.2	1.1		1.0	
EV/EBITDA (x)	13.1	13.1		12.4	

Valuation and Recommendation

Initiate coverage with BUY rating and target price of VND 29,300

We initiate coverage PetroVietnam Technical Services Corporation (PVS) with a buy recommendation and a target price of VND 29,300, corresponding to an increase of 15.3% from the current price. For a long-term view, PVS is an investment that can be considered with following advantages:

1) A financially healthy and a stable dividend policy.

2) Many key oil and gas projects create many job opportunities for the company in the upcoming time.

3) Providing the service of offshore wind power achieves the sustainable development.

Valuation

We apply a Discounted Cash Flow (DCF) valuation method to value PVS.

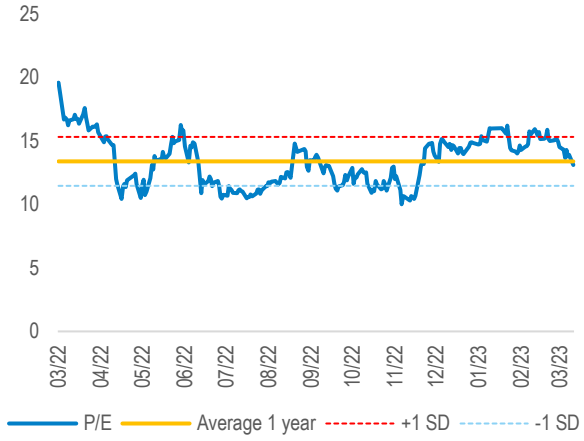
DCF valuation (not include the contribution of Block B – O Mon project and Ca Voi Xanh project)

Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	870	907	925	865	806
Plus: After-tax interest expense	40	48	51	48	46
Plus: Depreciation & Amortization	481	501	521	545	572
Minus: Change in working capital	430	-306	261	604	105
Minus: CapEx	337	350	365	545	572
Free Cash Flow (FCF)	623	1,411	871	309	747
PV of FCF	2,797				
Growth rate	0%				
Present value of long-term value	2,567				
Enterprise value	**5,364**				
Debt	1,376				
Cash and cash equivalents	10,058				
Equity value	**14,046**				
Number of shares outstanding (mn units)	478				
Target price (VND)	**29,300**				

WACC	**13.6%**
Risk-free rate	4.2%
Equity risk premium	11.1%
Beta	1.3
Debt cost	8%
The cost of equity	14.2%
Debt-to-equity ratio	10.7%
Total debt (VND bn)	1,376

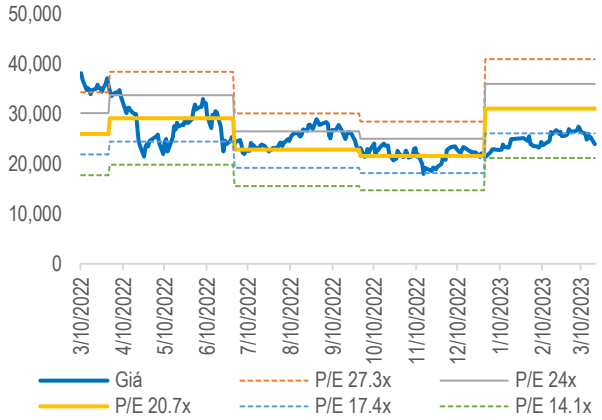
Source: Company data, Shinhan Securities Company

PVS's PER 1 year



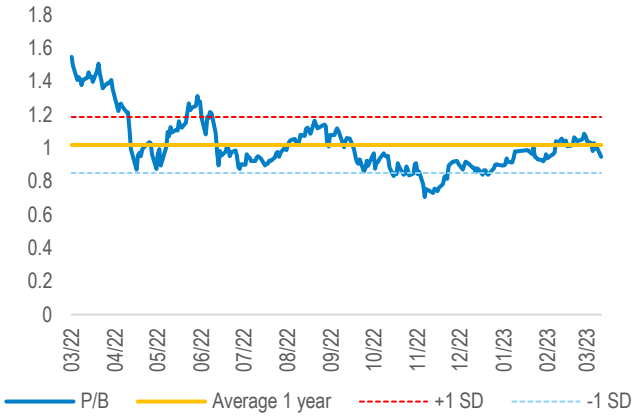
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of PVS



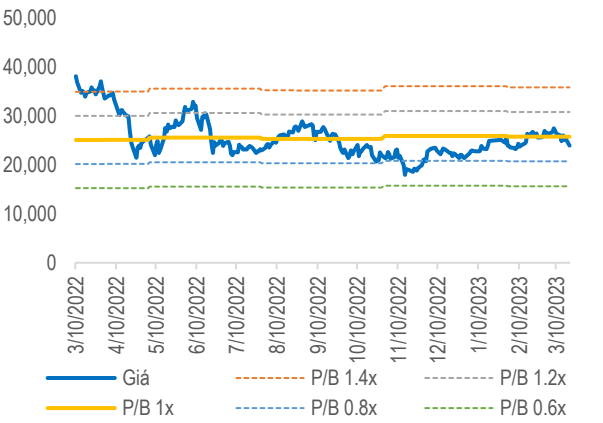
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's PBR 1 year



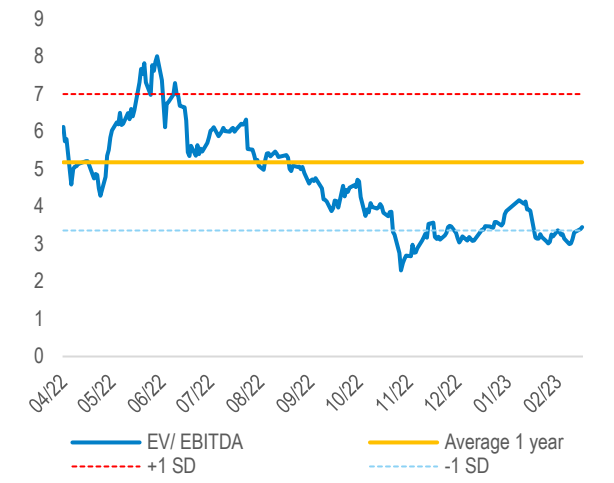
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of PVS



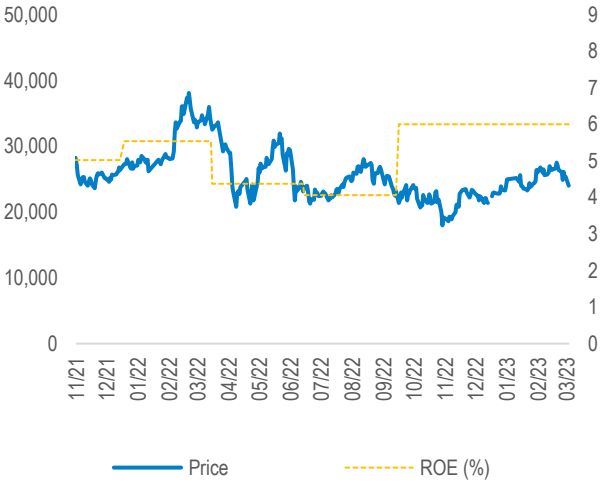
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's EV/EBITDA 1 year



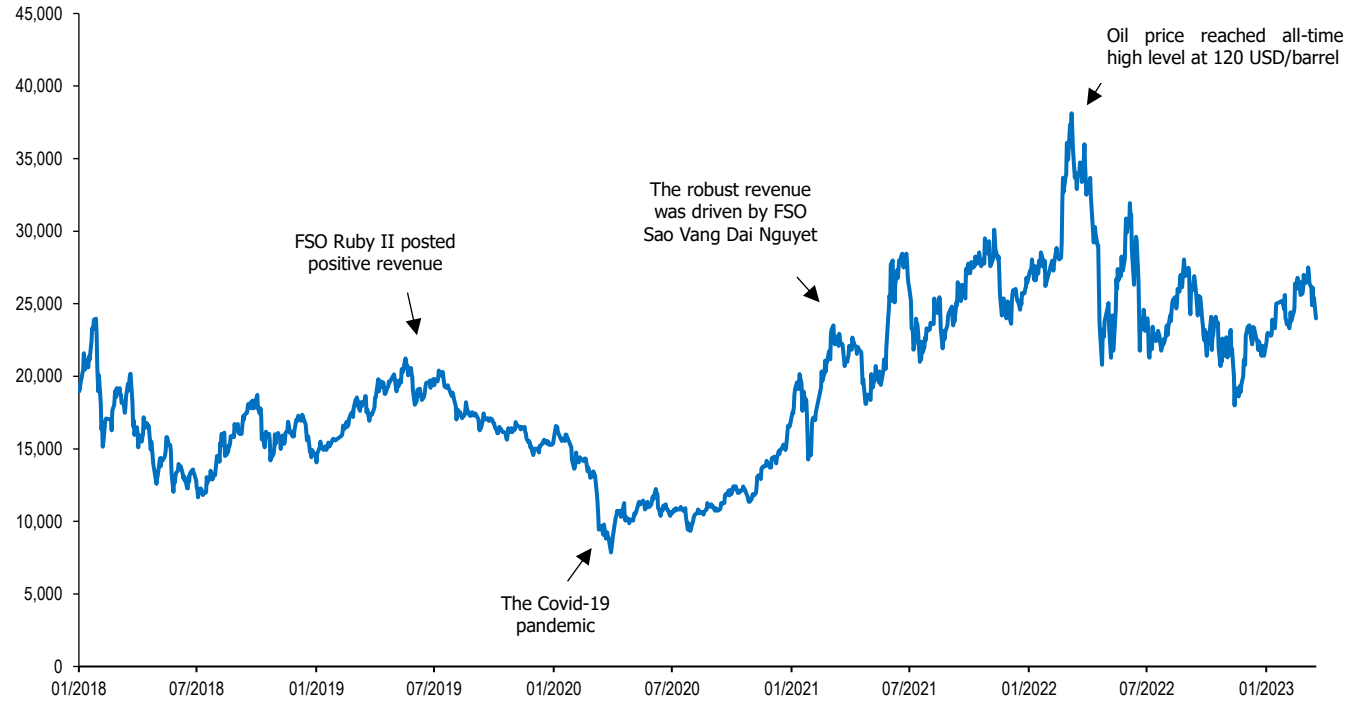
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of PVS's price and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key event chart of PVS



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

Later-than-expected progress of oil and gas projects

Numerousr projects are getting caught in an FID approval, which means PVS not having enough M&C backlog to book revenue.

Risk of low oil price

A low in oil price cause a reduction in M&C activities.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	24,845	25,777	27,578	30,300	30,069
Current assets	15,378	16,334	17,776	20,142	19,561
Cash & equivalents	5,747	5,250	5,714	6,895	7,220
Short-term financial asset	2,677	4,807	4,807	4,807	4,807
Accounts receivable	4,642	4,990	5,700	6,670	5,933
Inventories	2,086	1,011	1,279	1,494	1,326
Non-current assets	9,467	9,442	9,470	9,492	9,507
Net fixed assets	3,156	3,239	3,267	3,289	3,304
Investment assets	184	172	172	172	172
Other long-term assets	6,127	6,031	6,031	6,031	6,031
Total liabilities	12,311	12,938	13,831	15,590	14,393
Current liabilities	8,735	9,247	10,040	11,699	10,402
Accounts payable	4,282	5,296	5,542	6,474	5,746
Short-term borrowings	711	752	998	1,165	1,034
Others	3,743	3,199	3,500	4,059	3,622
Non-current liabilities	3,575	3,691	3,791	3,891	3,991
Long-term borrowings	534	624	724	824	924
Other financial liabilities	3,041	3,067	3,067	3,067	3,067
Total shareholders' equity	12,534	12,838	13,747	14,710	15,676
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	3,621	3,680	4,562	5,497	6,435
Non-controlling interest equity	728	731	757	785	814
*Total debt	1,245	1,376	1,721	1,989	1,958
*Net debt (cash)	-7,179	-8,682	-8,800	-9,714	-10,069

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	14,198	16,413	17,670	20,677	18,392
Growth		15.6%	7.7%	17.0%	-11.1%
COGS	13,423	15,547	16,627	19,423	17,237
Gross profit	776	865	1,043	1,254	1,155
GPM	5.5%	5.3%	5.9%	6.1%	6.3%
SG&A	802	950	901	1,034	938
Operating profit	-26	-84	142	220	217
Growth		220.3%	-268.6%	55.0%	-1.2%
OPM	-0.2%	-0.5%	0.8%	1.1%	1.2%
Non-operating profit	183	327	385	419	456
Financial income	278	489	556	600	641
Financial expense	94	163	171	181	185
In which: interest expenses	46	44	52	62	66
Net other non-operating profit	214	208	264	208	208
Pre-tax profit	878	1,080	1,143	1,210	1,215
Income tax	200	246	260	276	277
Net profit	677	834	882	935	938
Growth		23.2%	5.8%	5.9%	0.4%
NPM	4.8%	5.1%	5.0%	4.5%	5.1%
Controlling interest	601	773	856	907	910
Non-controlling interest	76	62	26	28	28
EBIT	923	1,124	1,194	1,272	1,281
Growth		21.7%	6.3%	6.5%	0.7%
EBIT Margin	6.5%	6.8%	6.8%	6.2%	7.0%
EBITDA	1,462	1,590	1,675	1,773	1,801
Growth		8.7%	5.4%	5.8%	1.6%
EBITDA margin	10.3%	9.7%	9.5%	8.6%	9.8%

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	-680	2,387	907	1,714	1,170
Net profit	601	773	856	907	910
Depreciation expense	539	466	481	501	521
(Gain) from investing activities					
Change in working capital	-940	1,149	-430	306	-261
Others	-879	0	0	0	0
Cash flow from investments	-398	-586	-337	-350	-365
Change in fixed assets	-494	-515	-337	-350	-365
Change in investment assets	96	-96	0	0	0
Others	0	26	0	0	0
Cash flow from financing	-673	-249	-106	-182	-481
Change in equity	0	3	26	28	28
Net borrowing	-147	131	345	268	-31
Dividends	-526	-382	-478	-478	-478
Change in total cash	-1,750	1,552	464	1,181	324
Beginning cash	5,212	5,747	5,250	5,714	6,895
Change in FX rates					
Ending cash	3,462	7,300	5,714	6,895	7,220

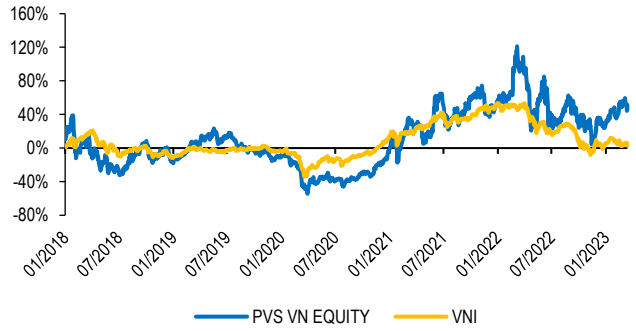
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	1,258	1,617	1,791	1,897	1,904
BPS (VND)	24,701	25,331	27,178	29,133	31,096
DPS (VND)	1,000	800	1,000	1,000	1,000
PER (x)	23.4	18.2	16.4	15.5	15.4
PBR (x)	1.2	1.2	1.1	1.0	0.9
EV/EBITDA (x)	15.6	13.1	13.1	12.4	12.2
Dividend payout ratio (%)	80%	49%	56%	53%	53%
Dividend yield (%)	2.2%	1.8%	2.2%	2.2%	2.2%
Profitability					
EBITDA margin	9.8%	10.1%	9.4%	8.5%	9.7%
OPM	-0.2%	-0.5%	0.8%	1.1%	1.2%
NPM	4.8%	5.1%	5.0%	4.5%	5.1%
ROA	2.7%	3.2%	3.2%	3.1%	3.1%
ROE	5.4%	6.5%	6.4%	6.4%	6.0%
Stability					
Debt to equity ratio	9.9%	10.7%	12.5%	13.5%	12.5%
Net debt ratio	514.7%	522.2%	530.2%	554.0%	565.3%
Cash ratio	65.8%	56.8%	56.9%	58.9%	69.4%
Interest coverage ratio (x)	20.2	25.7	23.1	20.6	19.4
Activity					
Working capital turnover (days)	60	10	24	24	24
Inventory turnover (days)	57	24	28	28	28
Receivable turnover (days)	119	111	118	118	118

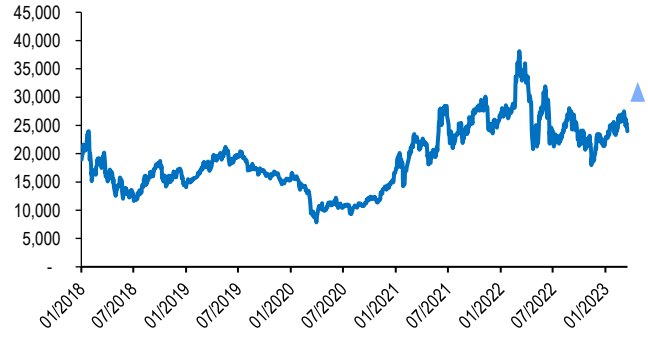
Source: Company data, Shinhan Securities Vietnam

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

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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