May 31st, 2023

Shinhan Securities



PetroVietnam Technical Services Corporation

[Vietnam / OIL & GAS]

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

HOLD

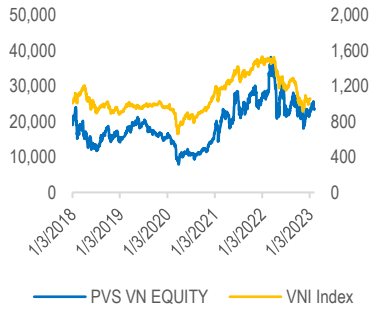
Update Coverage

Target price (12 months)	**30,800 VND**
Current price (30/05/23)	30,600 VND
Upside/downside (%)	1%

VNINDEX		1,078
HNXINDEX		220
Market Cap (bn VND)		14,626
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
	Dragon Capital	6.14

Performance	3T	6T	12T
Absolute (%)	17.3	43.9	-0.7
Relative to VN-Index (%)	12.2	41.1	16

Source: Bloomberg



Enter a new era

Update recommendation with HOLD rating and target price of VND 30,800

PetroVietnam Technical Services Corporation (PVS) is a leading full-package solution provider in energy sector with focus on offshore oil and gas industry. Based on DCF methods, we update PVS's target price at 30,800 VND. In 2023, PVS's growth drivers come from providing the service of offshore wind power and the final investment decision (FID) of Block B project. We joined the AGM of PetroVietnam Technical Services Corporation and pointed out some of the key notes, plan of the company.

1. Business results in 2022:

- In 2022, PVS recorded NPAT-Mi of VND 883 bn (+46% y.o.y), achieving 195.3% of the 2022 plan, thanks to the contribution of offshore wind projects: Shwe Phase 3 and Gallaf Batch 3.
- PVS paid cash dividend for 2022 of 8% par value.

2. Business plan in 2023:

- Plan for 2023: PVS's revenue is expected to drop 19% y.o.y to VND 13,200 bn, while its NPAT-Mi would plunge by half compared to 2022 actuals, to be VND 560 bn. PVS's target plan has not taken into account the contribution of Block B project.
- Q1/2023 results: Revenue and NPAT-Mi reached VND 13,200 bn and VND 227 bn, corresponding (-1% y.o.y and -9.2% y.o.y).
- PVS aims to become an international-standard contractor in renewable energy. On May 19, PVS signed a contract with Orsted (Taiwan) to construct 33 suction bucket jacket (SBJ) worthing USD 300 million in value. In addition, PVS is also bidding on more offshore wind M&C projects.
- Block B O Mon could be approved its FID in 2023. PVS has participated in this package bid and is waiting for the announcement of bidding results. We have not included the contribution of this project in our forecast yet.
- PVS plans 7% cash dividend payment in 2023.

We believe that PVS's profit plan 2023 is conservative. We note that NPAT-Mi target of PVS is 16% higher than its 2022 NPAT-Mi guidance, reflecting optimistic view for 2023. We forecast revenue to reach VND 20,527 bn (+26.4% y.o.y) and net profit to reach VND 956 bn (+2% y.o.y).

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**	**20,527**	**24,243**	**19,181**	**13,076**
OP (bn VND)	7	253	154	155	138
NP (bn VND)	**944**	**956**	**884**	**880**	**848**
EPS (VND)	1,849	1,881	1,738	1,730	1,669
BPS (VND)	25,564	27,564	29,414	31,254	33,029
OPM (%)	0.0%	1.2%	0.6%	0.8%	1.1%
NPM (%)	5.8%	4.7%	3.6%	4.6%	6.5%
ROE (%)	**7.3%**	**6.8%**	**5.9%**	**5.6%**	**5.1%**
PER (x)	16.7	16.4	17.8	17.9	18.5
PBR (x)	1.2	1.1	1.1	1.0	0.9
EV/EBITDA (x)	12.4	12.7	13.1	13.0	13.2

Source: Company data, Shinhan Securities Vietnam

Open account

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Valuation and Recommendation

Maintain HOLD rating and target price of VND 30,800

We apply a Discounted Cash Flow (DCF) valuation method to value PVS. We update our HOLD recommendation with a target price of VND 30,800, equivalent to a return of 1%.

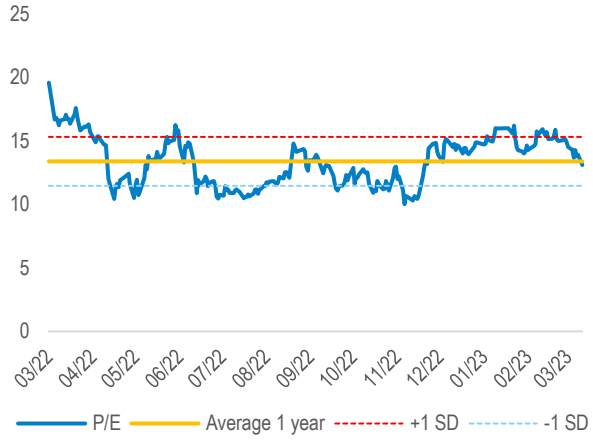
Valuation

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**
NPAT-Mi	852	848	845	816	781
Plus: After-tax interest expense	51	63	65	58	56
Plus: Depreciation & Amortization	486	506	527	549	573
Minus: Change in working capital	-442	-463	677	786	54
Minus: CapEx	341	354	369	439	458
Free Cash Flow (FCF)	**1,491**	**1,526**	**392**	**198**	**898**
PV of FCF	3,317				
Growth rate	0%				
Present value of long-term value	2,852				
Enterprise value	**6,169**				
Debt	1,376				
Cash and cash equivalents	10,058				
Equity value	**14,850**				
Number of shares outstanding (mn units)	478				
Target price (VND)	**30,800**				

WACC	**14.2%**
Risk-free rate	3.5%
Equity risk premium	11.1%
Beta	1.3
Debt cost	8%
The cost of equity	14.9%
Debt-to-equity ratio	10.7%
Total debt (VND bn)	1,376

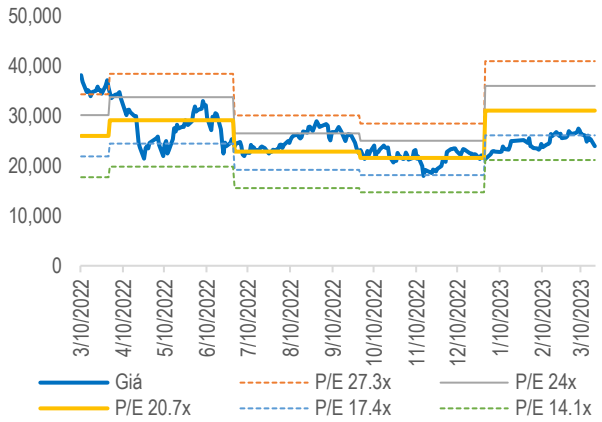
Source: Company data, Shinhan Securities Company

PVS's PER 1 year



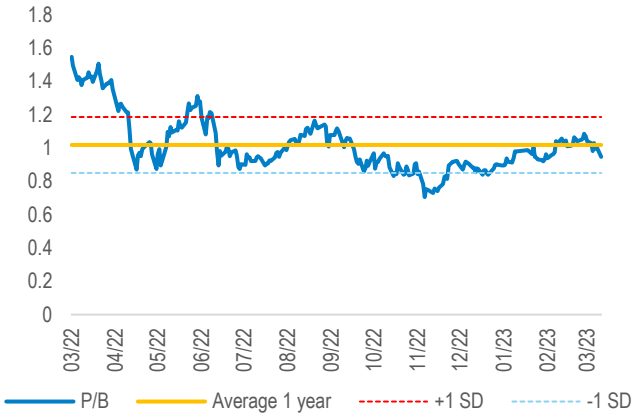
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of PVS



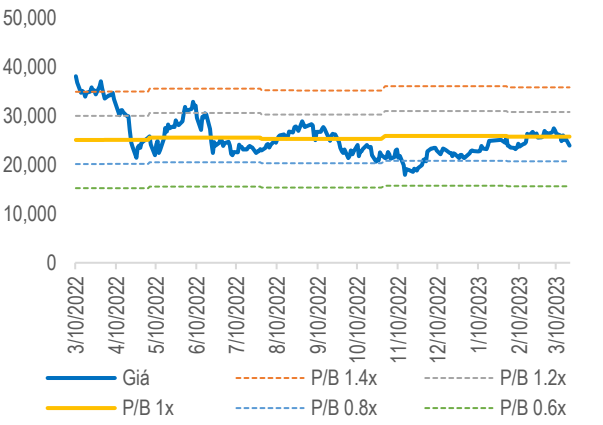
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's PBR 1 year



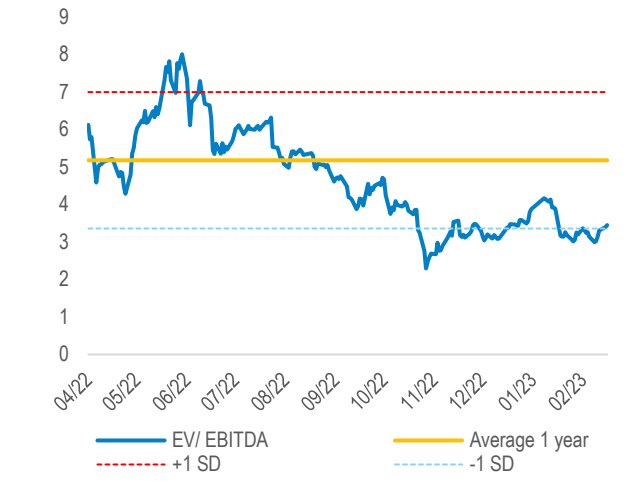
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of PVS



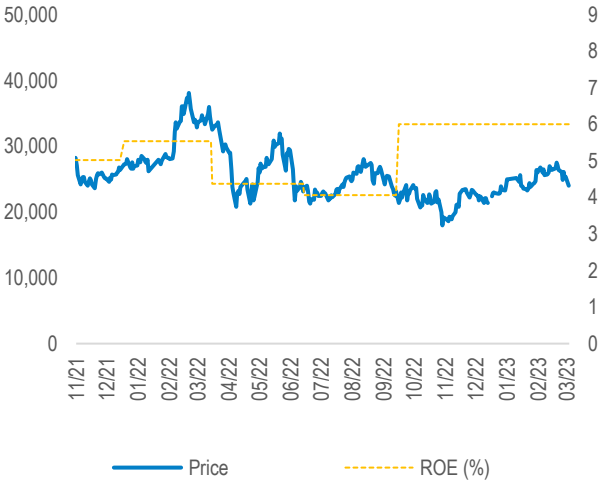
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PVS's EV/EBITDA 1 year



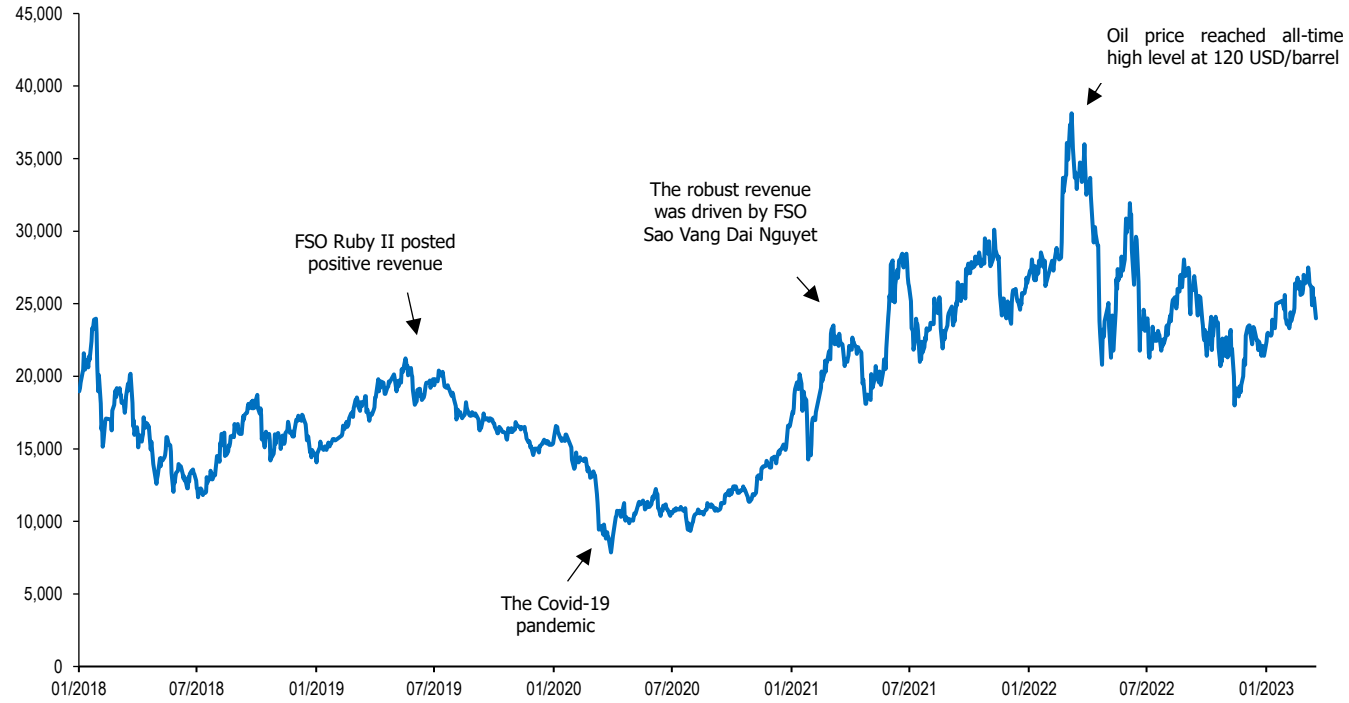
Source: Bloomberg, Company data, Shinhan Securities Vietnam

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

Appendix: Company background

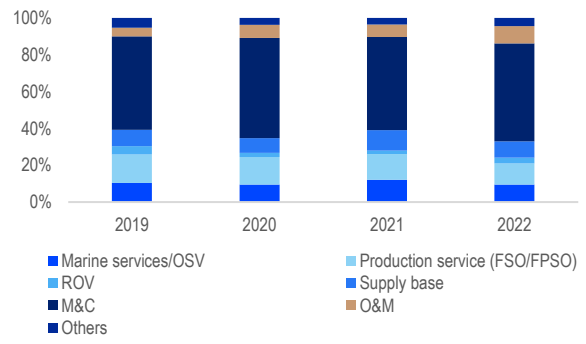
History

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:

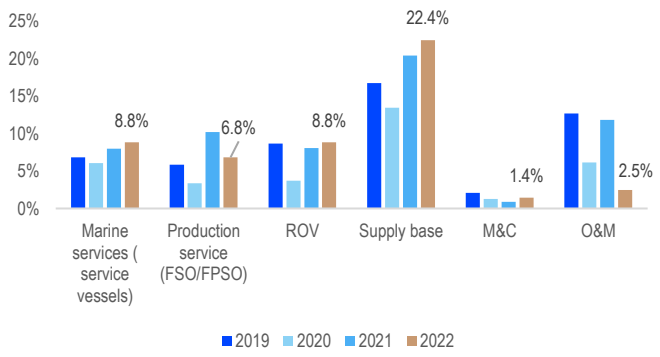
- M&C segment: providing engineering, procurement, fabrication, construction, transportation, installation, hook-up and commissioning (EPC/EPCIC) services . This is still mainstay service accounting for over 50% of total revenue, but gross margin is quite low (about 2%).
- FSO/FPSO (Floating Storage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

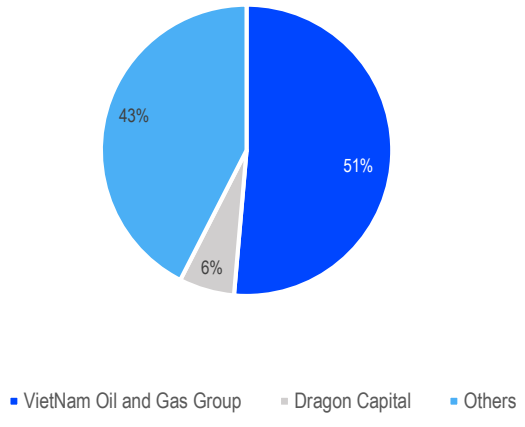
PVS's revenue breakdown by segment (%)



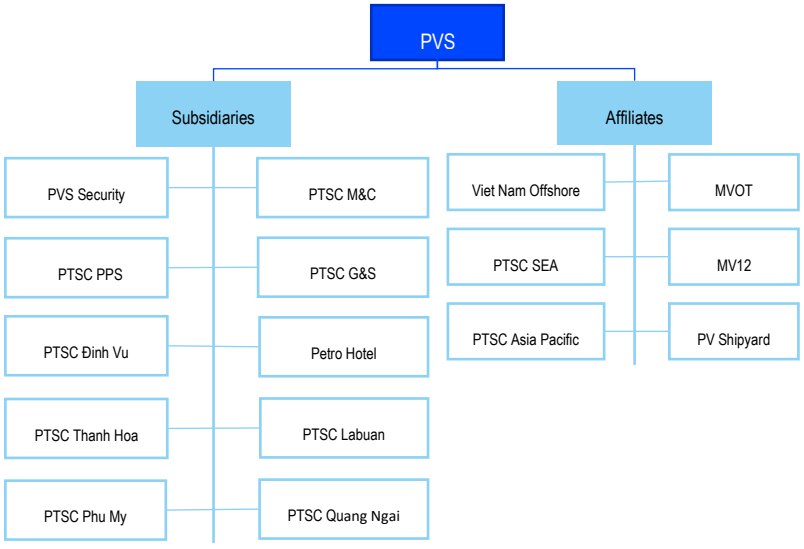
PVS's gross margin breakdown by segment (%)



Shareholder Structure 31/03/2023



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	29,388	32,510	30,691
Current assets	15,395	16,388	19,562	22,304	20,111
Cash & equivalents	5,747	5,219	6,745	8,092	7,805
Short-term financial asset	2,677	4,837	4,837	4,837	4,837
Accounts receivable	4,642	5,043	6,415	7,576	5,994
Inventories	2,103	1,012	1,290	1,522	1,199
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	15,478	17,643	14,871
Current liabilities	8,692	9,199	11,698	13,763	10,891
Accounts payable	4,282	5,301	6,672	7,872	6,204
Short-term borrowings	711	752	1,161	1,370	1,079
Others	3,699	3,146	3,865	4,521	3,608
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	13,910	14,867	15,820
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	4,698	5,600	6,500
Non-controlling interest equity	728	730	784	839	893
*Total debt	1,245	1,376	1,885	2,194	2,003
*Net debt (cash)	-7,179	-8,681	-9,697	-10,736	-10,639

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	14,260	16,373	20,527	24,243	19,181
Growth		14.8%	25.4%	18.1%	-20.9%
COGS	13,393	15,458	19,350	22,829	17,990
Gross profit	867	915	1,177	1,414	1,191
GPM	6.1%	5.6%	5.7%	5.8%	6.2%
SG&A	802	907	1,006	1,261	1,036
Operating profit	66	7	171	154	155
Growth		-88.8%	2218.6%	-10.0%	0.9%
OPM	0.5%	0.0%	0.8%	0.6%	0.8%
Non-operating profit	183	326	366	422	446
Financial income	278	489	541	613	639
Financial expense	94	163	175	191	193
In which: interest expenses	46	51	63	79	81
Net other non-operating profit	214	183	238	183	183
Pre-tax profit	969	1,174	1,127	1,122	1,118
Income tax	219	229	220	219	218
Net profit	751	944	907	903	899
Growth		25.8%	-4.0%	-0.5%	-0.4%
NPM	5.3%	5.8%	4.4%	3.7%	4.7%
Controlling interest	675	884	852	848	845
Non-controlling interest	76	61	54	54	54
EBIT	1,015	1,224	1,190	1,200	1,199
Growth		20.6%	-2.8%	0.9%	-0.1%
EBIT Margin	7.1%	7.5%	5.8%	5.0%	6.2%
EBITDA	1,554	1,695	1,676	1,707	1,726
Growth		9.1%	-1.1%	1.8%	1.1%
EBITDA margin	10.9%	10.4%	8.2%	7.0%	9.0%

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	-680	2,460	1,780	1,817	695
Net profit	675	884	852	848	845
Depreciation expense	539	471	486	506	527
(Gain) from investing activities					
Change in working capital	-940	1,105	442	463	-677
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	85	-115	-614
Change in equity	0	2	54	54	54
Net borrowing	-147	131	509	309	-190
Dividends	-526	-382	-478	-478	-478
Change in total cash	-1,750	1,663	1,525	1,348	-288
Beginning cash	5,212	5,747	5,219	6,745	8,092
Change in FX rates					
Ending cash	3,462	7,410	6,745	8,092	7,805

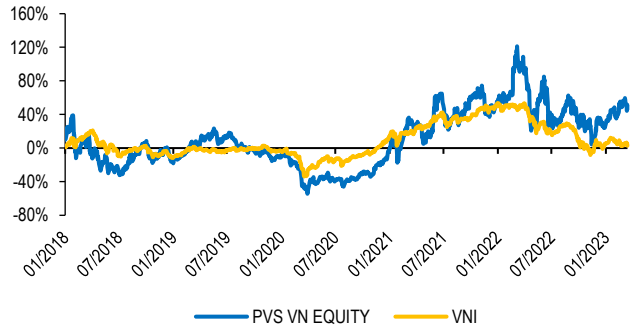
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	1,411	1,849	1,784	1,775	1,769
BPS (VND)	24,855	25,564	27,461	29,349	31,231
DPS (VND)	1,000	800	1,000	1,000	1,000
PER (x)	22.0	16.8	17.4	17.5	17.6
PBR (x)	1.3	1.2	1.1	1.1	1.0
EV/EBITDA (x)	14.7	12.4	13.1	12.9	12.8
Dividend payout ratio (%)	71%	43%	56%	56%	57%
Dividend yield (%)	2.2%	1.8%	2.2%	2.2%	2.2%
Profitability					
EBITDA margin	10.4%	10.8%	8.1%	7.0%	8.9%
OPM	0.5%	0.0%	0.8%	0.6%	0.8%
NPM	5.3%	5.8%	4.4%	3.7%	4.7%
ROA	3.0%	3.7%	3.1%	2.8%	2.9%
ROE	6.0%	7.3%	6.5%	6.1%	5.7%
Stability					
Debt to equity ratio	9.9%	10.6%	13.5%	14.8%	12.7%
Net debt ratio	482.9%	492.4%	583.8%	636.5%	623.9%
Cash ratio	66.1%	56.7%	57.7%	58.8%	71.7%
Interest coverage ratio (x)	22.2	24.2	18.9	15.2	14.8
Activity					
Working capital turnover (days)	59	11	13	13	13
Inventory turnover (days)	57	24	24	24	24
Receivable turnover (days)	119	112	114	114	114

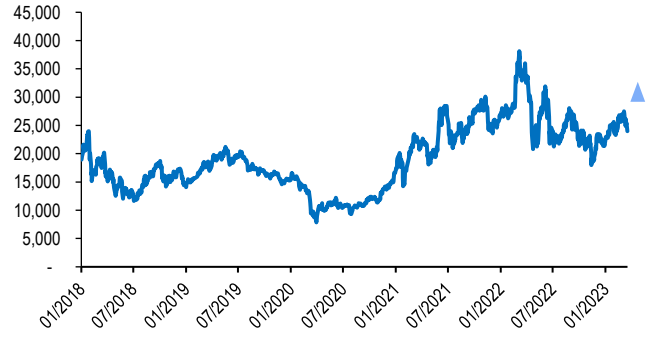
Source: Company data, Shinhan Securities Vietnam

PetroVietnam Technical Services Corporation (PVS VN)

Share price



Target price (VND)



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) 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

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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