

May, 2019

PETROVIETNAM TECHNICAL SERVICES CORP (HNX: PVS)
Brighter Outlook From 2019

Particulars (VND B)	1Q-FY19	4Q-FY18	+/-qoq	1Q-FY18	+/-yoy
Net revenue	4,095	3,299	24.1%	3,328	23.0%
PAT	369	334	10.5%	253	45.6%
EBIT	266	144	85.3%	179	48.4%
EBIT margin	6.5%	4.4%	215bps	5.4%	111bps

Source: PVS, Rong Viet Securities

1Q 2019 results: M&C* drives revenue, ROV* improves gross margins

In 1Q 2019, PVS posted VND4,905 bn in revenue, up 23% YoY and driven by the M&C segment that had net sales worth VND 2,663 bn, up +31.3% YoY thanks to the Sao Van Dai Nguyet project.

Although the gross profit margin of M&C decreased 710 basis points to 9%, the ROV segment only recorded a loss of VND13 bn, much lower than the negative VND145 bn in 1Q 2018. This helped improve the gross profit margin to 10.3% from 9.6%. The company made VND 424 bn in gross profit, up 31.9% YoY.

Besides, the profit from JVs nearly tripled to VND179 bn, doubling PAT of the company to VND385 bn. However, the parent company's profit increased just 45.5% to VND 369 bn while the minority's profit slightly increased compared to the same period last year.

2019 prospects: Profit (excluding JVs) to improve

We anticipate that the business is likely to be stable in 2019, except for the M&C and ROV segment. For M&C, PVS continues to recognize the rest of Sao Vang Dai Nguyet project and a part of the Gallaf project. For ROV, the 2018 provision, related to the dissolution process, may help to improve the overall gross margin to 8.9% from 7.6% and operating profit to VND 667 bn from VND 373 bn.

In addition, profit from joint ventures in 2019 is forecasted to decrease by 24% to VND 552 bn as there are no one-off items (FSO Orkid) like last year (total VND 189 bn).

For 2019, we project revenue and net profit for parent company will come in at VND 17,258 bn (+17.9% YoY) and VND 1,152 bn (10.0% YoY), respectively.

Valuation and recommendation

A favorable oil price ensures the construction of major oil & gas projects. We expect to see new projects come online from 2019. PVS with its leading position in upstream, is set to benefit.

We rate **ACCUMULATE** for PVS with a target price of **VND28,000** per share, based on the FCFF and P/E method. Including the VND500 cash dividend, we arrive at a total return of **16%**, based to the closing price on **May 23rd, 2019**.

*M&C: Mechanics and Construction

*ROV: Remotely Operated Vehicle

ACCUMULATE +16%

CMP (VND)	24,600
Target price (VND)	28,000

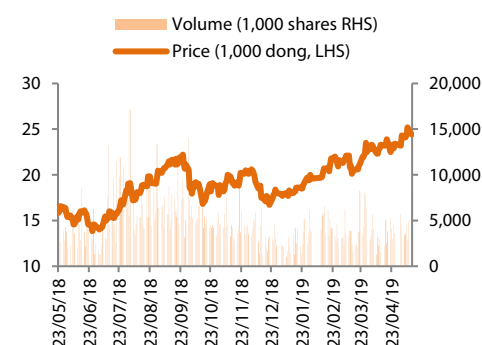
Cash dividend (VND)* 500

* Expected in the next 12 months

Stock info

Sector	Oil & Gas
Market Cap (VND billion)	8,412
Current Shares O/S	477,966,290
Avg. Daily Volume (in 20 sessions)	3,628,400
Free float (%)	17.6
52 weeks High	25,200
52 weeks Low	13,833
Beta	1.82

	FY2018	Current
EPS	2,028	2,427
EPS growth (%)	34.9	1.2
Adjusted EPS	2,028	1,551
P/E	8.7	10.5
P/B	0.7	0.9
EV/EBITDA	2.3	8.7
Cash dividend	500	500
ROE (%)	8.8	9.4

Price performance

Major Shareholders (%)

PVN	51.4
Dragon Capital	7.9

Foreign ownership room (%)	23.03
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Exhibit 1: 1Q 2019 results

Particulars (VND B)	1Q-FY19	4Q-FY18	+/- (QoQ)	1Q-FY18	+/- (YoY)	YTD-FY19	+/- (YoY)
Net revenue	4,095	3,299	24.1%	3,328	23.0%	4,095	23.0%
Gross profit	424	430	-1.4%	320	32.2%	424	32.2%
SG&A	-115	-221	-47.7%	-104	10.8%	-115	11.6%
Operating income	539	650	-17.1%	425	26.9%	539	62.3%
EBITDA	380	287	32.6%	320	18.7%	380	18.7%
EBIT	266	144	85.3%	179	48.4%	266	48.4%
Financial expenses	11	11	-1.2%	14	-24.9%	11	-24.9%
- Interest Expenses	7	6	14.9%	7	-8.3%	7	-8.3%
Dep. and amortization	114	143	-20.4%	141	-19.2%	114	-19.2%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	481	168	187.0%	297	61.9%	481	45.6%
PAT	369	334	10.5%	253	45.6%	369	61.9%
(*) Adjusted PAT	369	334	10.5%	253	45.6%	369	

Source: PVS, Rong Viet Securities

Exhibit 2: 1Q 2019 performance analysis

Particulars	4Q-FY18	3Q-FY18	+/- (QoQ)	4Q-FY17	+/- (YoY)
Profitability ratios (%)					
Gross margin	10.3	13.0	-268bps	9.6	72bps
EBITDA margin	9.3	8.7	59bps	9.6	-34bps
EBIT margin	6.5	4.4	215bps	5.4	111bps
Net margin	9.0	10.1	-111bps	7.6	139bps
Adjusted net margin	9.0	10.1	-111bps	7.6	139bps
Turnover *(x)					
-Inventories	33.1	25.9	7.2	31.6	1.5
-Receivables	2.8	2.7	0.1	2.7	0.1
-Payables	2.5	1.8	0.7	1.9	0.6
Leverage (%)					
Total debt/ equity	55.5	56.3	-82bps	28.2	2.731bps

Source: PVS, (*) Annualized turnover

Exhibit 3: 2Q 2019 performance forecast

Particulars (VND B)	2Q-FY19	+/- (QoQ)	+/- (YoY)
Revenue	4,534	10.7%	4.6%
Gross profit	341	-19.5%	298.7%
EBIT	67	-74.7%	N/A
NPAT	240	-34.9%	2.1%

Source: PVS, Rong Viet Securities.

Update:
New projects in the M&C segment

In 2019, we forecast strong M&C revenue growth of 42.5% YoY to VND 10,465 bn driven by Sao Vang Nguyet and Gallaf. PVS has begun purchasing for the Gallaf project and will be able to record most of the revenue within this year. M&C gross profit will decline as Gallaf's margin is lower.

From 2019 onwards, PVS is expected to win more contracts such as Block B, Su Tu Trang GD2, Nam Con Son 2 or Nam Du - U Minh. Besides offshore projects, PVS may be selected for onshore projects such as Long Son or LNG Thi Vai. Those are not included in our 2020 forecast given uncertainty around the contract value.

Table 1: Potential jobs

Projects	Scope of work	Expected time
Block B	CPP	2022-2023
Nam Con Son 2	Installation and Operation	2021
Sao Vang – Dai Nguyet GD2	WHP	2022
Nam Du – U Minh	WHP	Q1/2022
LNG Thi Vai	Tanker	2022
Long Son	N/A	2021

Source: Rong Viet Securities

ROV segment made all provisions in 2018

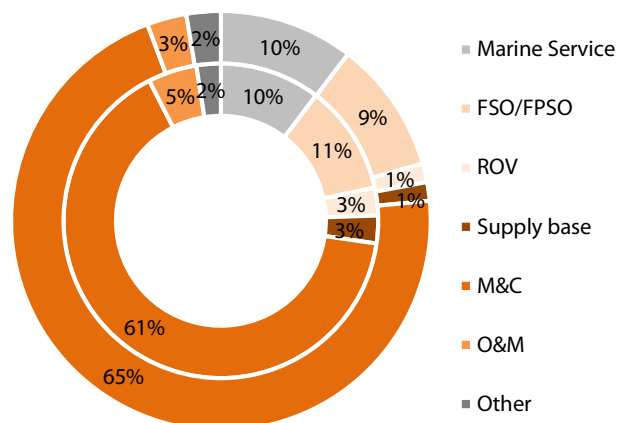
In 2018, PVS made all provisions, related to receivables as well as bad debts, in the JV with CGGV. Therefore, PVS will not be under much pressure this year even though the dissolution of this JV has not been completed. The only remaining issue comes from the liquidation of assets - mainly Amedus and Binh Minh 2 vessels. The liquidation of the ROV helped PVS to improve its gross margin and operating profit to VND 667 bn from VND 373 bn. In addition, we see some upside from future JV debt collection.

JVs profit to decrease 24% YoY due to the lack of one-off items

1Q 2019 JVs profit reached VND 179 bn from VND 68 bn in the same period last year driven by profit recognition from FPSO Ruby. The current contract of FPSO Lam Son was extended to the end of 2019 and PVS is trying to renew the contract to improve this FPSO's profit.

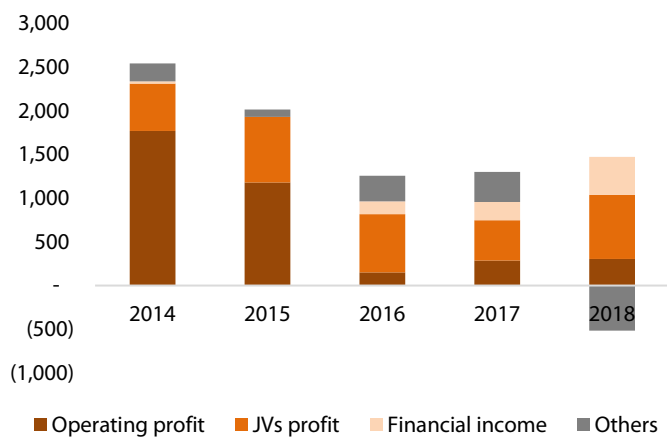
Profit from joint ventures in 2019 is forecasted to decrease by 24% YoY to VND 552 bn as there are no one-off items (FSO Orkid) like last year (total VND 189 bn).

Figure 1: Revenue proportion in 1Q 2018 (inside) and 1Q 2019 (outside)



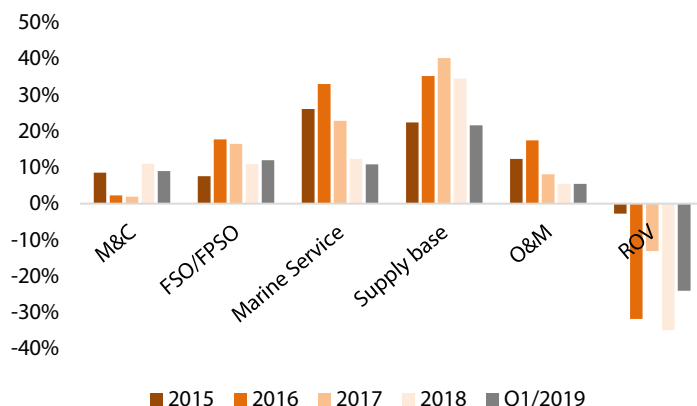
Source: PVS

Figure 3: Profit before tax breakdown (VND bn)



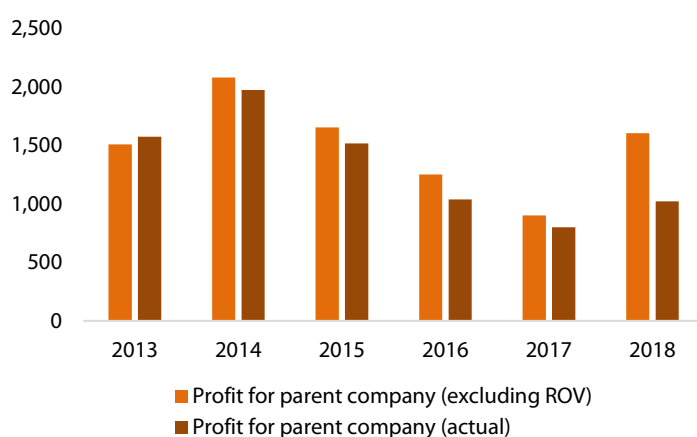
Source: Rong Viet Securities

Figure 2: Gross margin by segment (%)



Source: PVS

Figure 4: NPAT for parent company excluding ROV (VND bn)



Source: Rong Viet Securities

VND in billions

Income statement	FY2017	FY2018	FY2019F	FY2020F
Revenue	16,812	14,638	17,258	12,815
COGS	16,004	13,519	15,729	11,619
Gross profit	809	1,119	1,530	1,196
Selling expense	85	102	104	103
G&A expense	718	645	742	698
Financial income	295	506	286	293
Financial expense	84	66	57	57
Other income/loss	328	-559	100	100
Gain/(loss) from JV	461	723	552	552
PBT	1,005	976	1,565	1,282
Tax expense	223	403	313	256
Minority interests	-19	-474	100	100
PAT	800	1,047	1,152	926
EBIT	6	373	684	395
EBITDA	691	940	1,263	1,000

%

Financial ratio	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	-10.0	-12.9	17.9	-25.7
Operating income	-32.3	36.0	34.3	-20.8
EBITDA	-96.2	6369.2	83.6	-42.3
PAT	-22.9	30.8	10.0	-19.6
Total assets	-5.4	-3.3	4.6	3.5
Equity	4.1	10.5	7.6	5.3

Profitability (%)

Gross margin	4.8	7.6	8.9	9.3
EBITDA margin	4.1	6.4	7.3	7.8
EBIT margin	0.0	2.5	4.0	3.1
Net margin	4.8	7.2	6.7	7.2
ROA	3.4	4.5	4.8	3.7
ROE	7.4	8.8	9.0	6.9

Efficiency (x)

Receivable turnover	3.1	2.9	3.3	2.2
Inventory turnover	36.5	27.4	25.0	20.5
Payable turnover	2.3	2.3	2.6	2.0

Liquidity (x)

Current	1.9	2.1	2.1	2.2
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Solvency (%)

Total debt/equity	10.8	7.7	6.6	6.7
Current debt/equity	2.4	6.1	5.6	6.4
Long-term Debt/equity	8.4	1.6	0.9	0.3

VND in billions

Balance sheet	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	5,761	6,311	6,676	6,554
Short term investment	1,525	1,726	1,726	1,726
Accounts receivable	5,402	5,006	5,178	5,767
Inventories	438	494	629	566
Other current assets	438	591	591	621
Tangible fixed assets	4,011	2,911	2,746	2,554
Intangible fixed assets	24	28	25	22
Long term investment	4,930	4,905	5,458	6,010
Other non-current assets	1,274	1,045	1,045	1,098
Total asset	23,803	23,019	24,074	24,916
Account payable	6,835	5,920	5,977	5,810
Short term borrowings	255	721	721	865
Long term borrowings	901	193	119	42
Other non-current liabilities	3,467	3,305	3,305	3,470
Bonus and welfare fund	271	184	184	184
Technology -science dev fund	63	61	61	61
Total liabilities	11,791	10,384	10,367	10,432
Common stock and APIC	4,507	4,819	4,819	4,819
Treasury stock	0	0	0	0
Retained earnings	3,509	3,826	4,667	5,294
Other comprehensive income / (loss)	0	460	460	460
Investment and development fund	2,729	2,767	2,828	2,878
Total equity	10,745	11,872	12,774	13,451
Minority interest	1,336	833	933	1,033
Total resources	23,803	23,019	24,074	24,916

Valuation ratio	FY2017	FY2018	FY2019F	FY2020F
EPS (VND)	1,503	2,028	2,391	1,920
P/E (x)	14.7	8.7	10.3	12.8
BV (VND)	24,054	24,839	26,726	28,142
P/B (x)	0.9	0.7	0.9	0.9
DPS (VND/cp)	500	500	500	500
Dividend yield (%)	2.1	2.8	2.0	2.0

Valuation model	Price	Weight	Average
FCFF	27,500	50	13,750
P/E	28,686	50	14,343
Target price (VND)			28,093

Valuation history	Price	Recommendation
03/04/2017	19,532*	BUY
31/05/2018	20,500*	BUY

* Adjusted price

RESULTS UPDATE

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RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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