

# PV Drilling & Well (PVD)

## Expecting strong growth in 2024

June 11, 2024

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### 1Q24 results recorded a big YoY improvement

1Q24 revenue of PetroVietnam Drilling & Well Services (PVD) surged 43.1% YoY. The drilling services segment recorded a 27% YoY increase in revenue thanks to a 34% YoY increase in rig day rates and additional revenue from outsourced rigs. GPM improved from 19.4% to 25.7% mainly thanks to a spike in day rates and a 11.0% YoY decline in depreciation expense component in COGS.

### Utilization rates of global jack-up rigs tend to sharply increase

We still believe that rig utilization rates will remain high for at least the next two years as the number of jack-up rigs over 30 years old accounts for 32% of the fleet, while the orderbook/fleet ratio is only 3.9% (vs 31.1% in 2014). Jack-up rig day rates are also expected to stay high during this period.

### PVD changed the plan to buy new drilling rigs but expected to put a new one into operation from 1Q25

PVD plans to invest USD90 million in a 10-year-old jack-up rig which is expected to be put into operation in early 2025. Currently, the business has had to change its target to another rig due to the restart time of the initial one is too long, making it difficult to ensure progress for customers. We still expect PVD to be able to put the new rig into operation in 1Q25.

### Valuation: BUY rating – Target price VND38,100/share

We used FCFE method to give a BUY rating to PVD stock with a target price of VND38,100, equivalent to an upside of 18.7% compared to the closing price of VND32,100 on June 11, 2024.

**Buy** maintain

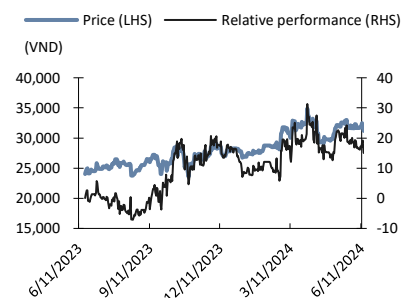
<b>Target price</b>	<b>VND38,100</b>
Upside	18.7%
Current price (Jun 11, 2024)	VND32,100
Consensus target price	VND36,100
Market cap (VNDtn/USDbn)	17.7/0.7

<b>Trading data</b>	
Free float	46.1%
3M avg trading value (VNDbn/USDmn)	200.3/8.0
Foreign ownership	16.9%
Major shareholder	PVN (50.5%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-1.4	2.9	11.2	34.3
<b>Relative</b>	-4.8	-0.3	-3.3	18.1

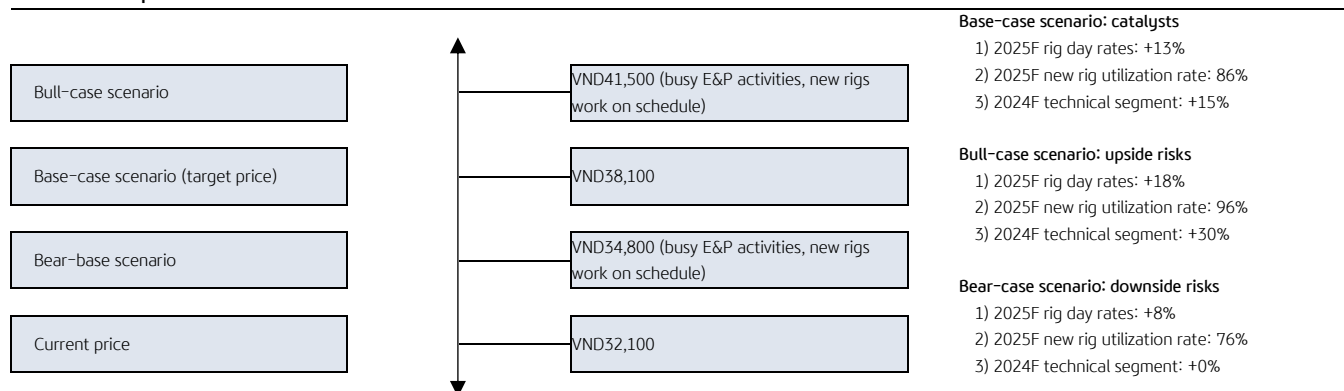
### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	5,432	5,812	7,069	8,402
Operating income/loss (VNDbn)	30	907	1,421	2,089
NPAT-MI (VNDbn)	-103	579	908	1,454
EPS (VND)	-250	803	1,632	2,614
EPS growth (%)	594	-421	103	60
P/E (x)	-127.20	39.60	19.49	12.17
P/B (x)	1.27	1.20	1.15	1.08
ROE (%)	-1.1	3.6	5.8	8.8
Dividend yield (%)	0.0	0.0	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## Investment opinion & risks



## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	6,895	8,280	7,069	8,402	2.5	1.5
EBIT	1,345	2,018	1,406	2,067	4.5	2.4
NP after MI	928	1,426	908	1,454	(2.2)	1.9

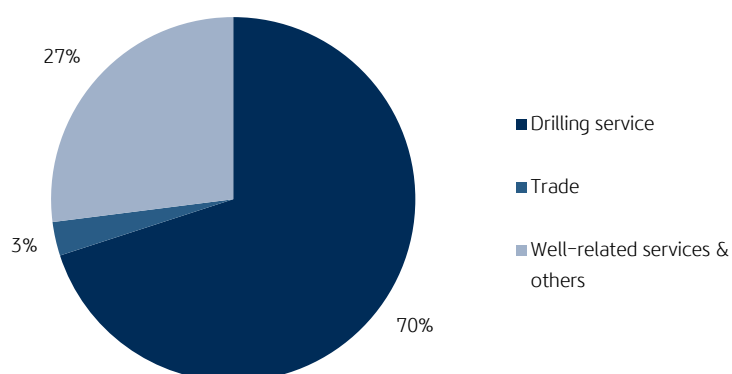
Source: KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	7,069	8,402	7,605	8,863	(7.0)	(5.2)
EBIT	1,406	2,067	1,258	2,137	11.8	(3.2)
NP after MI	908	1,454	907	1,564	0.1	(7.0)

Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2023)



Source: PV Drilling & Well Services, KB Securities Vietnam

## Business operation

PetroVietnam Drilling and Well Services (PVD) was established in 2001. The corporation provides drilling rigs and drilling technical services to serve oil exploration and production (E&P) activities for domestic and foreign markets. Owning five offshore drilling rigs, a tender-assisted drilling rig (TAD), and a land drilling rig, PVD currently holds about 70% of the drilling market share in Vietnam.

## 1Q24 performance updates

### Business results in 1Q24 sharply increased over the same period in 2023

1Q revenue of PVD surged 43.1% YoY. The drilling services segment recorded a 27% YoY increase in revenue thanks to a 34% YoY increase in rig day rates and additional revenue from outsourced rigs. GPM improved from 19.4% to 25.7% mainly thanks to a spike in day rates and a 11.0% YoY decline in depreciation expense component in COGS. However, the negative impact from exchange rates on PVD's 1Q performance is stronger than expected.

Table 1. PVD – 1Q24 updated business results (VNDbn)

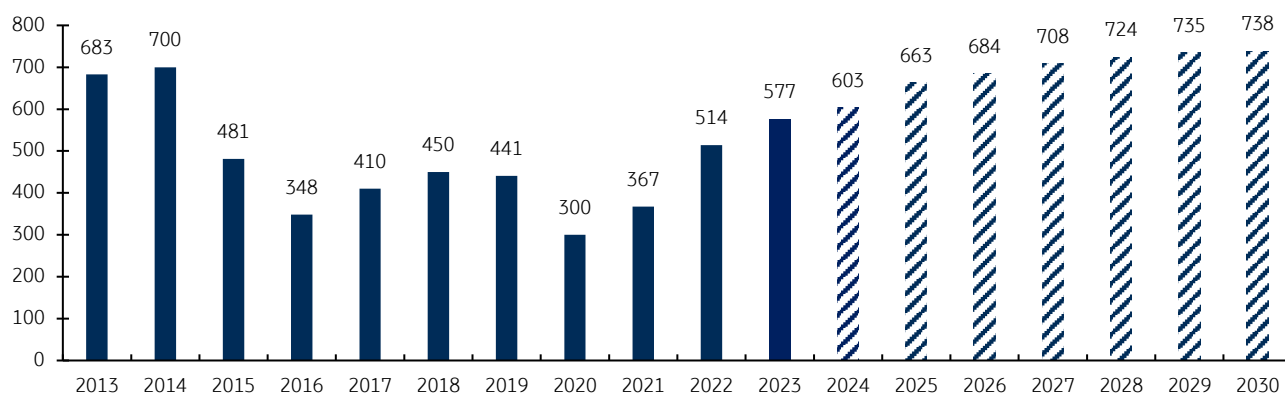
(VNDbn, %)	1Q23	1Q24	+/-%YoY	3M23	3M24	+/-%YoY	Notes
<b>Revenue</b>	<b>1,227</b>	<b>1,756</b>	<b>43.1%</b>	<b>1,227</b>	<b>1,756</b>	<b>43.1%</b>	
<i>Drilling services</i>	915	1,162	27.0%	915	1,162	27.0%	Jack-up rig day rates increased about 34% YoY, the rigs operated at maximum capacity, and outsourced rigs brought in revenue.
<i>Trade</i>	37	219	491.9%	37	219	491.9%	
<i>Well &amp; other services</i>	275	375	36.4%	275	375	36.4%	
<b>Gross profit</b>	<b>238</b>	<b>450</b>	<b>89.2%</b>	<b>238</b>	<b>450</b>	<b>89.2%</b>	
Gross profit margin	19.4%	25.7%		19.4%	25.7%		
<i>Drilling services</i>	14.0%	32.0%		14.0%	32.0%		GPM surged tanks to a sharp increase in day rates while depreciation costs decreased by 11% YoY and operating costs did not change too much.
<i>Trade</i>	5.0%	6.0%		5.0%	6.0%		
<i>Well &amp; other services</i>	39.0%	17.0%		39.0%	17.0%		
Financial income	48	27	-42.6%	48	27	-42.6%	Exchange gain decreased by 29.6% YoY.
Financial expenses	99	123	24.6%	99	123	24.6%	Exchange loss increased 80.2% YoY.
Profit from affiliates	3.9	-9.9	-353.8%	3.9	-9.9	-353.8%	The volume of joint venture backlog decreased over the same period.
SG&A	113	118	4.3%	112.8	117.6	4.3%	
<b>Operating profit/loss</b>	<b>78</b>	<b>227</b>	<b>190.7%</b>	<b>78</b>	<b>227</b>	<b>190.7%</b>	
Other income	-15	-13	-18.8%	-15	-13	-18.8%	
Profit before taxes (PBT)	63	215	242.0%	63	215	242.0%	
<b>Profit after taxes (NPAT)</b>	<b>52</b>	<b>149</b>	<b>183.9%</b>	<b>52</b>	<b>149</b>	<b>183.9%</b>	
<b>NP after MI</b>	<b>66</b>	<b>158</b>	<b>139.6%</b>	<b>66</b>	<b>158</b>	<b>139.6%</b>	

Source: PV Drilling & Well Services, KB Securities Vietnam

**The demand for jack-up drilling rigs is expected to remain high in the long term**

Oil prices fluctuating around USD83/barrel as in the first five months of 2024 will support upstream exploitation activities and the demand for drilling rigs. International Energy Forum and S&P Global forecast that total global oil and gas upstream investment capital could reach a CARG of 4.6% in 2023–2028F. In 1Q24, we realized there was a risk when Saudi Aramco decided to postpone the plan to increase capacity by 1 million barrels of oil/day and the suspend the contract for 18 jack-up rigs in the next 12 months to shift to the gas exploitation segment. We believe that the impact of this on PVD is not large because (1) most of the jack-up rigs mentioned above can switch between oil and gas exploitation to comply with Saudi Aramco's plan adjustment; and (2) rig contracts are only suspended for 12 months and can be continued when OPEC+ raises capacity again after the output cuts expire.

**Fig 2. Global – Forecast capex in upstream oil & gas exploration (USDbn)**

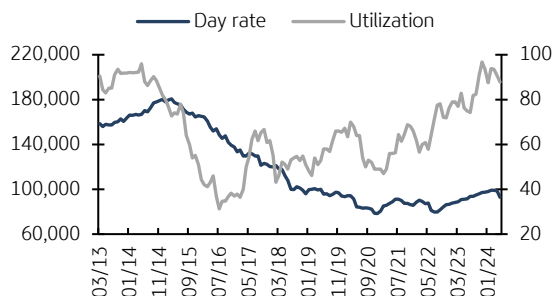


Source: IEF, S&P Global, KB Securities Vietnam

**Utilization rates of global jack-up rigs tend to sharply increase**

According to Bloomberg data, we estimate the utilization rates of IC 350+ jack-up rigs in the first five months of 2024 will average 90.7%, a sharp increase compared to 78.8% in the same period in 2023 and is approaching the peak level of 92.9% in 2014. We still believe that rig utilization rates will remain high for at least the next two years as the number of jack-up rigs over 30 years old accounts for 32% of the fleet, while the orderbook/fleet ratio is only 3.9% (vs 31.1% in 2014). Jack-up rig day rates are also expected to stay high during this period.

**Fig 3. Global – IC 350+ jack-up rig utilization and day rates (% , USD/day)**



Source: Bloomberg, KB Securities Vietnam

**Fig 4. PVD – Orderbook/fleet of jack-up rigs in 2014 vs 2024**

	Apr 2014	May 2015	Change
Total market supply	453	433	-20
Orderbook	141	17	-124
%Orderbook/Total market supply	31.1%	3.9%	-27.2%

Source: S&P Global Petrodata, KB Securities Vietnam

**PVD changed the plan to buy new drilling rigs but expected to put a new one into operation from 1Q25**

PVD plans to invest USD90 million in a 10-year-old jack-up rig which is expected to be put into operation in early 2025. Currently, the business has had to change its target to another rig due to the restart time of the initial one is too long, making it difficult to ensure progress for customers. We still expect PVD to be able to put the new rig into operation in 1Q25. In addition, PVD also plans to buy another drilling rig in the form of a joint venture to serve the Block B O Mon project, but detailed information has not yet been disclosed by the company.

**Domestic E&P activities should record robust growth from 2024, promoting PVD’s well technical services segment**

We expect 2024 will be an important year marking the recovery of domestic upstream E&P activities after 10 years of being subdued. As we mentioned in the 4Q23 update report of PVD, there are currently at least 10 domestic projects reaching the drilling or well drilling stage in 2024. In the 2025-2027 period, the Block B O Mon, White Lion 2B and Golden Camel projects with a total capex of about USD7 billion will be the long-term growth driver for PVD's well technical services.

## Forecast & valuation

Table 6. PVD – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
<b>Revenue</b>	<b>5,812</b>	<b>7,069</b>	<b>21.6%</b>	<b>8,402</b>	<b>18.9%</b>	
<i>Drilling services</i>	4,038	4,921	21.9%	6,123	24.4%	The average day rate should rise 17% YoY, and there would be more outsourced rigs.
<i>Trade</i>	154	336	118.0%	285	-15.0%	
<i>Well &amp; other services</i>	1,576	1,812	15.0%	1,994	10.0%	Domestic E&P activities are expected to recover from 2024.
<b>Gross profit</b>	<b>1,301</b>	<b>1,935</b>	<b>48.8%</b>	<b>2,606</b>	<b>34.7%</b>	
Gross profit margin	22.4%	27.4%		31.0%		
<i>Drilling services</i>	21.2%	28.5%		34.2%		The increase in operating costs does not make significant changes.
<i>Trade</i>	5.2%	6.0%		5.0%		
<i>Well &amp; other services</i>	28.3%	28.3%		25.0%		
Financial income	134	121	-9.7%	123	1.7%	The forecast is adjusted down 9.7% in accordance with 1Q24 business results and concerns about exchange rate issues.
Financial expenses	392	459	17.1%	445	-3.1%	The forecast is upgraded by 17.1% according to 1Q24 business results and concerns about exchange rate issues.
Profit from affiliates	66	59	-10.7%	59	0.0%	It is downgraded by 10.7% according to 1Q24 business results. It is expected that joint venture activities will rebound from 3Q24.
SG&A	544	529	-2.8%	539	1.9%	It is adjusted to decrease by 8.4% compared to the last report according to 1Q24 business results.
<b>Operating profit/loss</b>	<b>565</b>	<b>1,127</b>	<b>99.6%</b>	<b>1,804</b>	<b>60.1%</b>	
Other income	-64	0	-100.0%	0	N/A	
PBT	656	1,127	71.8%	1,806	60.2%	
<b>NPAT</b>	<b>541</b>	<b>902</b>	<b>66.9%</b>	<b>1,445</b>	<b>60.2%</b>	The forecast was 2.1% lower than the old projection mainly due to the impact of exchange rate and joint venture losses in 1Q24.
<b>NP after MI</b>	<b>579</b>	<b>908</b>	<b>56.7%</b>	<b>1,454</b>	<b>60.1%</b>	
<i>NPAT margin</i>	10.0%	12.8%		17.3%		

Source: PV Drilling & Well Services, KB Securities Vietnam

**Valuation: BUY rating – Target price VND38,100/share**

We used FCFF method to give a BUY rating to PVD stock with a target price of VND38,100, equivalent to an upside of 18.7% compared to the closing price of VND32,100 on June 11, 2024.

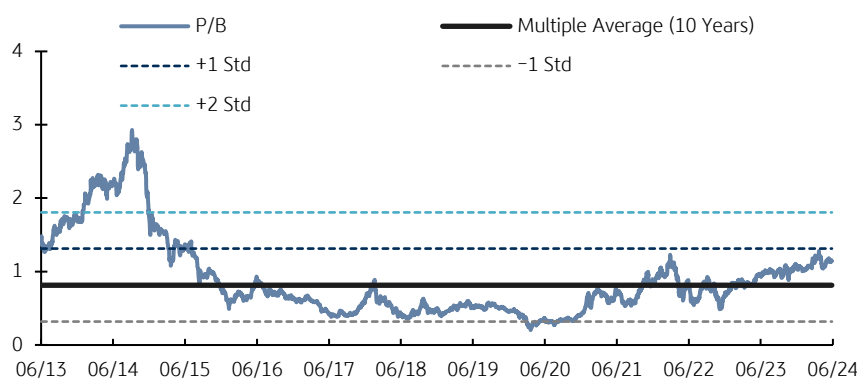
**Table 6. PVD – FCFF valuation**

Risk-free rate	4.7%	PV of terminal value (VND)	14,355
Market risk premium	7.6%	PV of the 2024–2028 period	7,326
Beta	0.69	<b>PV</b>	<b>21,681</b>
Average interest rate	7.5%	Plus: Cash & short-term investments	3,648
Corporate tax rate	20.0%	Less: Total debt	-3,919
<b>WACC</b>	<b>9.1%</b>	Less: Minority interest	-231
Terminal growth	1.5%	<b>Equity value</b>	<b>21,179</b>
		Outstanding shares (million shares)	556.30
		<b>Equity value/share (VND)</b>	<b>38,100</b>
		Current price (Mar 19, 2023)	32,100
		Upside	18.7%

Source: Bloomberg, KB Securities Vietnam

PVD's average P/B was negatively affected by the global oil and gas industry crisis in the period 2015–2022. We expect a reasonable P/B level for PVD to be re-evaluated when the oil and gas industry is returning to a growth cycle like the 2013–2014 period.

**Fig 7. PVD – P/B in 2013–2024 (x)**



Source: Bloomberg, KB Securities Vietnam

## PVD – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND billion)	2022	2023	2024F	2025F	(VND billion)	2022	2023	2024F	2025F
Net sales	5,432	5,812	7,069	8,402	CURRENT ASSETS	20,704	21,650	23,394	23,183
Cost of sales	-4,854	-4,511	-5,134	-5,796	Cash and cash equivalents	5,646	6,954	7,488	8,194
Gross Profit	577	1,301	1,935	2,606	Short-term investments	2,079	2,256	2,370	2,445
Financial income	118	134	121	123	Accounts receivable	424	1,278	1,278	1,278
Financial expenses	-313	-392	-459	-443	Inventories	2,163	2,340	2,731	3,246
of which: interest expenses	-168	-251	-294	-283	LONG-TERM ASSETS	909	1,000	1,041	1,175
Gain/(loss) from joint ventures (from 2015)	45	66	59	59	Long-term trade receivables	15,058	14,696	15,906	14,989
Selling expenses	-18	-24	-29	-34	Fixed assets	19	104	104	104
General and admin expenses	-493	-520	-500	-505	Investment properties	13,567	13,115	14,325	13,408
Operating profit/(loss)	-84	565	1,127	1,806	Long-term incomplete assets	8	7	7	7
Other incomes	5	91	0	0	Long-term investments	0	0	0	0
Other expenses	60	-155	0	0	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	-55	246	0	0	LIABILITIES	6,626	6,756	7,881	6,677
Income from investments in other entities	0	0	0	0	Current liabilities	2,868	3,176	3,173	2,948
Net accounting profit/(loss) before tax	-139	811	1,127	1,806	Trade accounts payable	568	567	1,026	1,220
Corporate income tax expenses	-16	16	-225	-361	Advances from customers	86	263	73	80
Net profit/(loss) after tax	-155	541	902	1,445	Short-term unrealized revenue	835	553	580	125
Minority interests	-52	-39	-6	-9	Short-term borrowings	3,757	3,580	4,708	3,729
Attributable to parent company	-103	579	908	1,454	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	3,000	2,788	3,916	2,937
					Long-term borrowings	14,079	14,894	15,513	16,506
					OWNER'S EQUITY	5,563	5,563	5,563	5,563
					Paid-in capital	2,434	2,434	2,434	2,434
					Share premium	436	691	1,316	2,318
					Undistributed earnings	5,438	5,990	5,990	5,990
					Minority interests	229	237	231	222
Margin ratio	2022	2023	2024F	2025F	Key ratios				
-					-				
Gross profit margin	10.6%	22.4%	27.4%	31.0%	Multiple				
EBITDA margin	15.0%	30.4%	37.1%	39.3%	P/E	-127.2	39.6	19.5	12.2
EBIT margin	0.6%	15.6%	20.1%	24.9%	P/E diluted	-127.2	39.6	19.5	12.2
Pre-tax profit margin	-2.6%	11.3%	15.9%	21.5%	P/B	1.3	1.2	1.2	1.1
Operating profit margin	-1.5%	9.7%	15.9%	21.5%	P/S	3.3	3.0	2.5	2.1
Net profit margin	-2.9%	9.3%	12.8%	17.2%	P/Tangible Book	1.3	1.2	1.2	1.1
					P/Cash Flow	-210.6	11.3	10.8	7.9
					EV/EBITDA	24.2	10.8	7.7	5.6
					EV/EBIT	655.1	20.9	14.1	8.9
					Operating performance				
					ROE				
					ROA	-1.1%	3.6%	5.8%	8.8%
					ROIC	-0.8%	2.5%	3.9%	6.2%
					Financial structure	0.2%	5.4%	7.7%	11.7%
					Cash Ratio				
					Quick Ratio	0.9	1.1	1.2	1.3
					Current Ratio	1.6	1.9	2.0	2.4
					LT Debt/Equity	2.0	2.2	2.4	2.8
					LT Debt/Total Assets	0.2	0.2	0.3	0.2
					Debt/Equity	0.1	0.1	0.2	0.1
					Debt/Total Assets	0.1	0.0	0.0	0.0
					ST Liabilities/Equity	0.0	0.0	0.0	0.0
					ST Liabilities/Total Assets	0.2	0.2	0.2	0.2
					Total Liabilities/Equity	0.1	0.1	0.1	0.1
					Total Liabilities/Total Assets	0.5	0.5	0.5	0.4
					Activity ratios	0.3	0.3	0.3	0.3
					Account Receivable Turnover				
					Inventory Turnover	2.7	2.6	2.8	2.8
					Account Payable Turnover	5.8	4.7	4.9	4.9

Source: PV Drilling &amp; Well Services, KB Securities Vietnam



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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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