

Petro Drilling (PVD)

Stepping into a new cycle from 2023F

The worst has been over

For the nearly past decade, the distressed and oversupplied jack-up market had little prospect of seeing marketed utilization above 90%. But this started to change in 2022, it would be the period to witness a significant number of E&P projects being started up across the globe, it is like a stage for the new cycle. In 2022, when oil prices stayed above USD80/barrel, it led to more drilling activities over the world, especially in Middle East. Marketed utilization is expected to remain high, which would lead day rates to increase strongly in 2023-24F.

Splendid earnings turnaround in 2023-25F

We see a tight supply market in Southeast Region (SE) in the next three years, along with the expectation of the Block B project. We forecast the 2023/24/25F average JU day rate and utilization rate for PVD to increase to USD78,000/108,000/117,000 and 90/93/96%, respectively. Thus, revenue could grow by 26/29/21% in 2023/24/25F with gross margins of 17.5/19.4/19.1% (vs GM of 10.7% in 2022), respectively while the earnings could revive to VND434bn in 2023F and grow by 89%/25% yoy in 2024-25F. Besides, core BPS CAGR is pegged at 4.6% in 2023-25F.

Initiate coverage with a BUY recommendation

We initiate our coverage on PVD with a BUY rating and target price of VND28,850 implying a 37.8% upside by using a DCF (70%) and PB (30%) methodology. In DCF method, we calculate the fair value of VND29,400/share with implied long-term growth of 3.0%, and WACC of 12.3%. Our target price is based on an average 2023-25F PB of 1.0x arose from PVD's firm position to benefit from rising demand for drilling in Southeast markets. The most significant risk of PVD is a drop of oil prices weighing on day rates and outlook.

	2021A	2022F	2023F	2024F	2025F
Sales (VND bn)	3,995	5,432	6,844	8,792	10,600
OP (VND bn)	(27)	68	731	1,194	1,412
EBT (VND bn)	62	(135)	548	1,036	1,289
NP (VND bn)	20	(99)	434	820	1,021
EBITDA (VND bn)	507	850	1,523	1,998	2,228
Net debt (VND bn)	1,279	1,449	744	12	(808)
OP margin (%)	(0.7)	1.3	10.7	13.6	13.3
ROE (%)	0.3	(1.1)	3.1	5.6	6.6
Dividend yield (%)	0.0	0.0	0.2	0.6	1.0
EPS (VND, adj.)	685	(845)	718	1,357	1,689
chg. (% YoY)	(116.5)	(223.4)	(185.0)	88.9	24.5
BPS (VND, adj.)	32,812	25,315	26,041	27,368	28,966
DPS (VND, adj.)	7	6	39	118	202
PE (x)	29.5	(23.9)	28.1	14.9	12.0
PB (x)	0.6	0.8	0.8	0.7	0.7
EV/EBITDA (x)	18.6	14.4	7.6	5.4	4.5

Note: Net profit, EPS and ROE attributed to controlling interest

12M rating **BUY**

12M TP **28,800**

Up/Downside **+37.8%**

Stock data

VNIndex (14 Apr, pt)	1,061
Stock price (14 Apr, VND)	20,750
Market cap (USD mn)	492
Shares outstanding (mn)	556
52-Week high/low (VND)	23,300/12,750
6M avg. daily turnover (USD mn)	4.50
Free float / Foreign ownership (%)	47.0/22.0
Major shareholders (%)	
Vietnam Oil and Gas Group	50.41

Performance

	1M	6M	12M
Absolute (%)	0.7	3.2	(9.6)
Relative to VNIndex (%p)	(1.4)	2.7	17.1

Stock price



Source: Bloomberg

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Company Overview

What is the report about?

- Rig market has passed over the worst
- The company step into the new business cycle
- BUY on a rosy earnings growth prospect

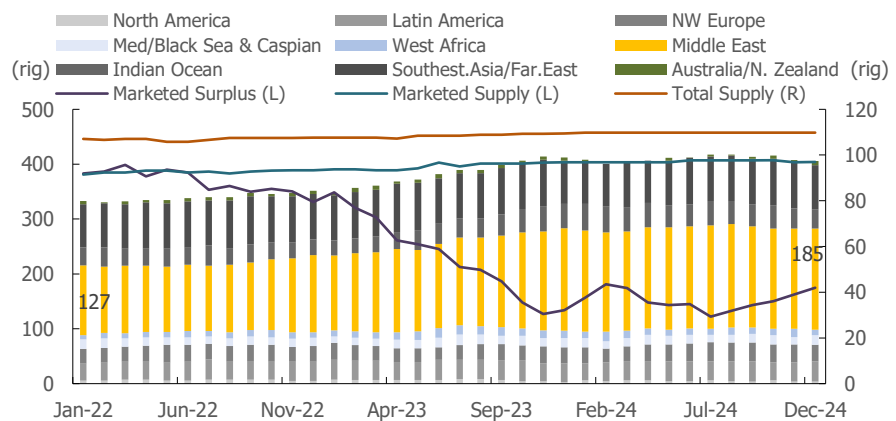
I. The worst has been over

1. Middle East is heating up the global drilling market

Middle East is heating up the global drilling market

For the nearly past decade, the distressed and oversupplied jack-up market had little prospect of seeing marketed utilization above 90%. But this started to change in 2022, it would be the period to witness a significant number of E&P projects being started up across the globe, it is like a stage for the new cycle. In 2022, when oil prices stayed above USD80/barrel, it led to more drilling activities over the world, especially in the Middle East.

Figure 1. Number of global jack up forecast 2022-2024F

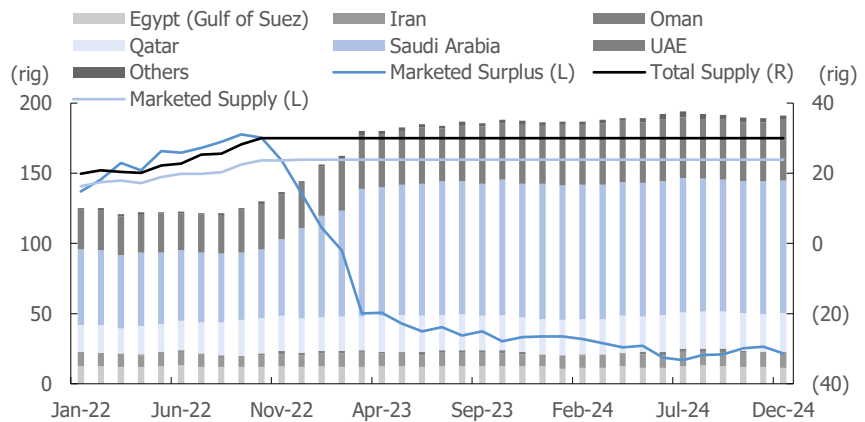


Source: IHS Markit, KISVN

Saudi Aramco announced plans to almost double its fleet, from 45 to 92 contracted jack-ups by the end of 2023E. UAE has purchased 13 units and is in the process of purchasing additional units. These two national oil companies alone will hold about 70% of the Middle Eastern demand absorbing about 55 jack-ups which are 12% of the jack-up fleet, and accounting for 80% of new jack-up fixtures of the global. The contracting spree has resulted in at least 25 jack-ups scheduled to move into the Middle East from other regions, 14 from Southeast Asia. Middle East jack-up demand is expected to increase from 125 this year to 169 units on average in 2023F and 183 in 2024F.

The solid global jack-up rate in the period 2023-2024F

Figure 2. Number of Middle East jack up forecast 2022-2024F

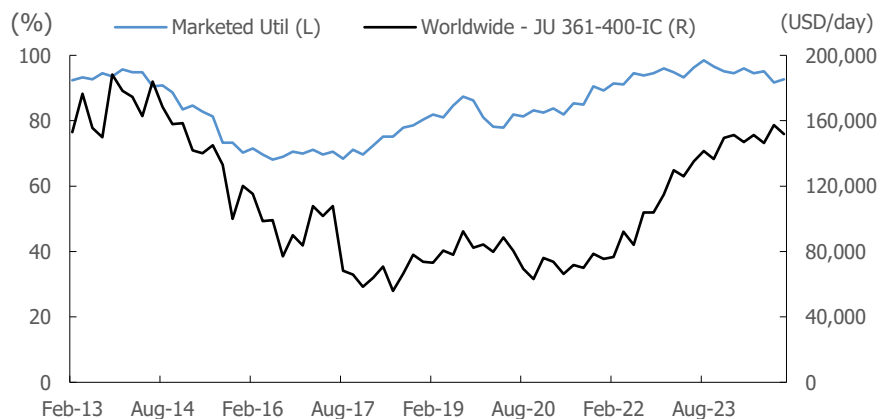


Source: IHS Markit, KISVN

2. Solid global jack-up rate in 2023-2024F

Furthermore, according to IHS and Westwood Energy, the global demand for jack-up rigs will increase by 27% to nearly 410 units in the next two years. Areas busy with E&P activities Middle East will continue to account for a large proportion of the global demand for jack-ups. Meanwhile, rig supply will increase just 16 units over the next two years. Additionally, according to Westwood Energy, there will be at least 87 jack-ups turning over 30 years of service and decommissioned during the period of 2023-25F. Marketed utilization is expected to remain above 90%, which would lead average date rates to increase to USD130,000 in 2023F and USD150,000 in 2024F.

Figure 3. Global jack-up rate in period 2013-2024F



Source: IHS Markit, KISVN

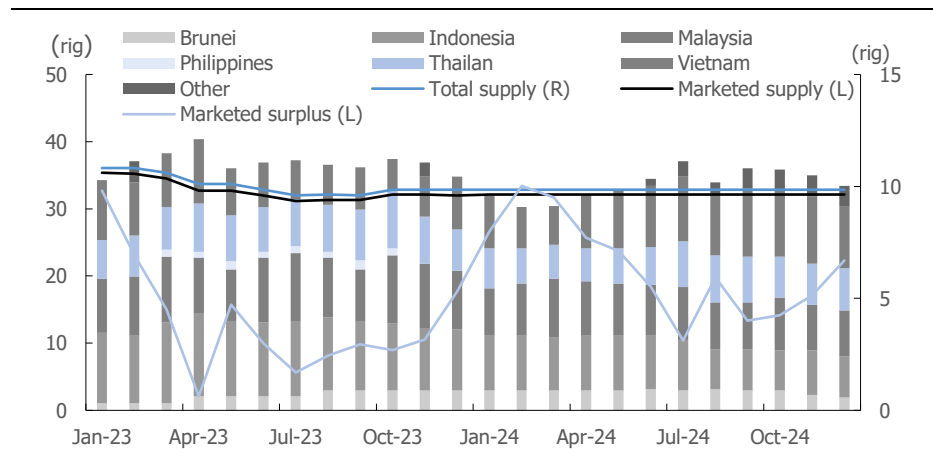
II. 2023-25F secular earnings growth

1. JU day rate in SE could revive in 2023-25F

JU day rate in SE increased sharply from late 2022

In the Southeast Asia market, rig utilization efficiency was improved in 2021-2022 due to the moving of some rigs of the region to fill the high demand of the Middle East in 2021-22 and partially improved demand in the SE region. Average jack-up demand in SE is forecasted by S&P Global to increase from 32 in 2022 to nearly 37 units in 2023F. While demand for 2024F currently is 33.6 rigs, this is expected to improve in the next months. Specifically, in 2023-25F, Vietnam is forecasted to need 7 - 9 offshore drilling rigs. While, in the Southeast Asian markets, the number of rigs is forecasted to increase gradually, such as 11-22 rigs in Malaysia, 8-12 rigs in Thailand, 8-16 rigs in Indonesia.

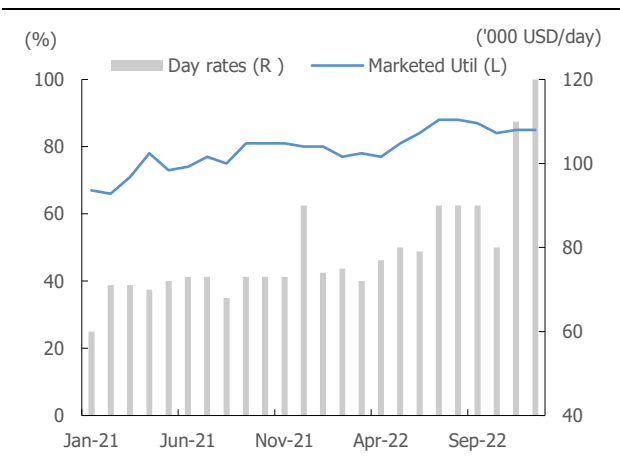
Figure 4. Southeast Asia jack-up forecast 2022-2024F



Source: IHS Markit, KISVN

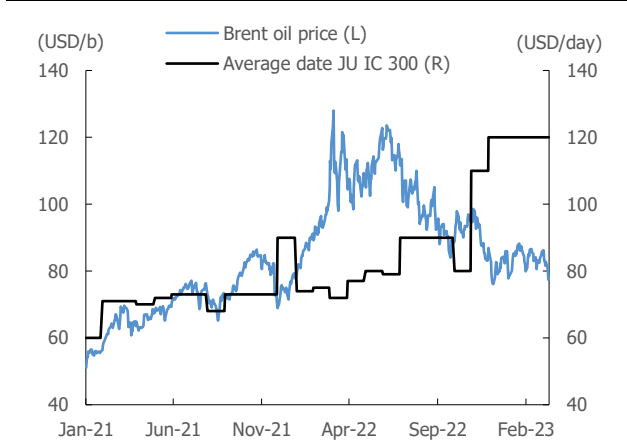
SE rig utilization efficiency is forecasted to stand at a high rate in 2023-24F when the drilling programs will be put into operation. Accordingly, the expected rental price of jack-up 361-400 rigs in the area will also be significant improvements, the day rate in Jan and Feb-23 increased sharply to USD125,000 (+66% yoy, +40% vs 2022 average) and is expected to maintain at high levels in 2024F, per S&P Global.

Figure 5. Warming Southeast Asia drilling activities



Source: IHS Markit, KISVN

Figure 6. Correction of oil prices vs Southeast Asia day rates of IC 300 in



Source: Bloomberg, KISVN

PVD 's JU day rate will improve strongly in 2023-25F

In 2022, the utilization rate and average JU day of PVD improved slightly and were 84.6% (vs 78.9% in 2021) and USD60,800 (+17% yoy) but significantly lower than USD89,000 in Southeast Asia market since PVD signed main contracts in 2021 with low prices and have not yet renewed with better prices. We expect PVD to renew their contracts at higher day rates of above USD90,000 in 2023F. We forecast the 2023/24/25F average JU day rate for PVD to increase to USD77,000/106,000/115,000.

2. PVD's rigs ran at full capacity

Busy working schedule in 2023F:

- PVD I has had a long-term drilling contract with Vietsovpetro from 2022 to 1Q23, next, PVD I will drill for Japan Vietnam Petroleum Company (JVPC) for 3 months, and after that, PVD I will move to Thailand to work for Valeura.
- PVD II is having a long-term drilling program for Pertamina - Indonesia from 2H22 and will last until early 2024F.
- PVD III continues the 2-year contract with Repsol in Malaysia.
- PVD VI will work for Premier Oil Vietnam and Vietsovpetro in 1H23F, and SK Vietnam and a Malaysia potential client in 2H23F, respectively.
- PVD V (TAD) was put into operation in early 2022 with an expected 6-year drilling program for Shell in Brunei.

Full job for own rigs from 2Q22

2022 schedule													
RIG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
PVD I	Vietsovpetro							Vietsovpetro					
PVD II				Vietsovpetro			Premier Oil Indonesia			Pertamina Indonesia			
PVD III	Repsol - Malaysia												
PVD VI				ENI Vietnam			Vietsovpetro			Premier Oil VN			
TAD	Shell Brunei												
Landrig XI	GBRS (Algeria)												
HAKURYU-11	Idemitsu (Japan)												

2023F schedule													
RIG	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
PVD I	Vietsovpetro			VJPC - Vietnam			Valeura Thailand						
PVD II	Pertamina - Indonesia												
PVD III	Hibiscus - Malaysia												
PVD VI	POVO		PVEP POC - Vietnam			SK - Vietnam			Potential client - Malaysia				
TAD	Shell Brunei												
Landrig XI	GBRS (Algeria)												
HAKURYU-11													

3. 2023-25F earnings growth forecast

Earnings are forecasted to surge robustly in 2023-25F

2023F: Revenue grows to VND6,844bn (26% yoy) but NPATMI turns positive to VND473bn

2024F: Revenue and NPATMI peak VND8,792bn (+28.5% yoy) and VND888bn (+88.9% yoy)

2025F: Revenue and NPATMI growths slow to VND10,600bn (+24.5% yoy) and VND1,046bn (+19% yoy)

We see a tight supply market in SE in the next three years, along with the expectation that the company could supply 2 rigs for the Block B project in late 2024F. We forecast the 2023/24/25F average JU day rate and utilization rate for PVD to increase to USD78,000/108,000/117,000 and 90/93/96%, respectively.

We estimate PVD's revenue will increase to VND6,844bn (+26% yoy) but the NPATMI turn green to VND434bn based on following consumptions:

- We project the 2023 average JU day rate and utilization rate for PVD to increase to USD78,000 and 90%, respectively.
- Gross margin widens robustly to 17.5%, +6.8%p yoy in 2023F
- SGA to sales subsidies to 6.8%, -2.6%p yoy in 2023F
- Financial income picks up to VND200bn, driven by a healthy interest income of VND118bn, +69% yoy.

PVD's revenue and NPATMI could swell to VND8,792bn (+28.5% yoy) and VND820bn (+88.9% yoy) backed by the below expectation

- 2024F average JU day rate and utilization rate could surge to USD108,000 and 93% respectively
- Gross margin expansion stays modest by +1.9%p yoy to 19.4% in 2024F
- SGA to sales slows to 5.8%, -1%p yoy in 2024F
- Financial income remains flattish at VND216bn.

PVD's revenue and NPATMI growth take a breath in 2025F pegged at VND10,600bn (+20.6% yoy) and VND1,021bn (+24.5% yoy),

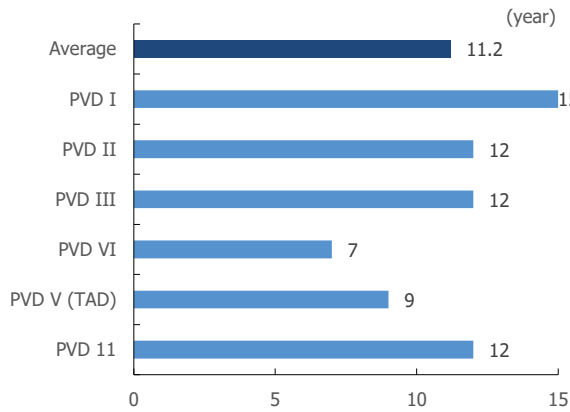
- 2025F average JU day rate and utilization rate could surge to USD117,000 and 96% respectively
- Gross margin expansion could be resilient at 19.1% in 2025F
- SGA to sales stays unchanged at 5.5%
- Financial income remains flattish at VND202bn.

Table 1. PVD's business results from 2022-27F

	2022	2023F	2024F	2025F	2026F	2027F
Revenue (VND bn)	5,350	6,844	8,792	10,600	10,891	11,277
<i>Rigs</i>	3,481	4,611	6,366	7,961	8,019	8,147
<i>Trade</i>	113	302	302	302	302	302
<i>Other</i>	1,756	1,932	2,125	2,337	2,571	2,828
COGS	(4,778)	(5,647)	(7,088)	(8,574)	(8,629)	(8,927)
Gross Profit	578	1,197	1,704	2,026	2,263	2,349
SG&A expense	(510)	(465)	(510)	(615)	(632)	(654)
Financial income	118	200	216	202	218	234
Financial expense	(322)	(383)	(375)	(324)	(322)	(322)
<i>Interest expenses</i>	(177)	(277)	(290)	(256)	(267)	(278)
Profit before tax	(142)	548	1,036	1,289	1,527	1,608
Profit after tax	(114)	439	829	1,031	1,222	1,286
NPAT-MI	(113)	434	820	1,021	1,209	1,274

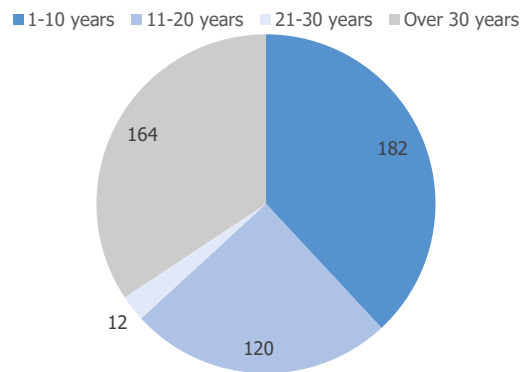
Source: PVD, KISVN

Figure 7. PVD's average age of jack-up rigs is younger than the global average



Source: PVD, KIS VN

Figure 8. Global Jack ups aging of global



Source: PVD, KIS VN

Figure 9. A young diverse fleet of 04 Jack-up rigs, 01 TAD and 01 land rig

 <p>PV DRILLING I Type: Jackup Design: KFELS MOD V B CLASS MOBILE Water Depth: 300ft Year: 2007 Special Capabilities: High-Specification Max Drilling Depth: 25.000ft</p>	 <p>PV DRILLING II Type: Jackup Design: KFELS MOD V B CLASS MOBILE Water Depth: 400ft Year: 2009 Special Capabilities: High-Specification Max Drilling Depth: 30.000ft</p>	 <p>PV DRILLING III Type: Jackup Design: KFELS MOD V B CLASS BIG FOOT MOBILE Water Depth: 400ft Year: 2009 Special Capabilities: High-Specification Max Drilling Depth: 30.000ft</p>
 <p>PV DRILLING VI Type: Jackup Design: KFELS MOD V ENHANCED B CLASS MOBILE Water Depth: 400ft Year: 2015 Special Capabilities: High-Specification Max Drilling Depth: 30.000ft</p>	 <p>PV DRILLING V Type: Semi-Submersible Design: KFELS MOD V ENHANCED B CLASS MOBILE Water Depth: 32-800ft Year: 2011 Special Capabilities: High-Specification Max Drilling Depth: 30.000ft</p>	 <p>PV DRILLING 11 Type: Land Rig Design: HONGHUA Year: 2007 Special Capabilities: High-Specification</p>

Source: PVD, Korea Investment & Securities

III. Ratings and recommendation

BUY rating with TP of VND28,800

We initiate our coverage on PV Drilling (PVD VN) with a BUY rating and target price of VND28,850, implying a 37.8% upside by using a DCF (70%) and PB (30%) methodology. Besides, the most significant risk of PVD is a drop of oil prices weighing on day rates and outlook.

In DCF method, we calculate the fair value of VND29,400/share with implied long-term growth of 3.0%, and WACC of 12.3%, in which, cost of equity of 14.8% (beta of 1.16, risk-free yield of 4.0%, and market risk premium of 8.0%).

Table 2. Cost of equity

Item	%
Beta	1.16
Risk free rate	5.5
Equity risk premium	8.0
Cost of equity	14.8

Source: KIS Research

Table 3. WACC calculation

Item	%
Cost of debt	6
Target debt to capital	24.3
Tax rate	20
WACC	12.3

Source: KIS Research

Table 4. DCF Valuation

FCFF	FY23F	FY24F	FY25F	FY26F	FY27F
EBIT(1-tax)	622	987	1,154	1,326	1,374
<i>add: depreciation</i>	792	803	817	832	850
<i>less: capex</i>	(236)	(286)	(336)	(386)	(436)
<i>(increase) / decrease in NWC</i>	(273)	(577)	(607)	228	119
Unlevered free cash flow	1,069	1,084	1,191	2,117	2,106
PV of FCF	1,069	965	943	1,493	1,322
<i>Cumulative sum PV of FCF</i>	932	1,897	2,841	4,334	5,656
<i>PV of Terminal value</i>					13,794

Source: KIS Research

Table 5. DCF Valuation

	FY23F
Total PV of Operations	13,794
Discount factor	20,701
Plus: Cash	12.3%
Less: Debt	2,386
Less: Minority Interest	(3,923)
Equity Value	(229)
Shares Outstanding, Million	16,381
Target price	29,446

Source: KIS Research

Table 6. Blended Valuation

Metrics	Implied price	Weight	Weight value
P/BVPS, 3-yr forward FY23F-25F	27,458	30%	8,238
DCF	29,446	70%	20,612
PVD's target share price			28,850

Source: KIS Research

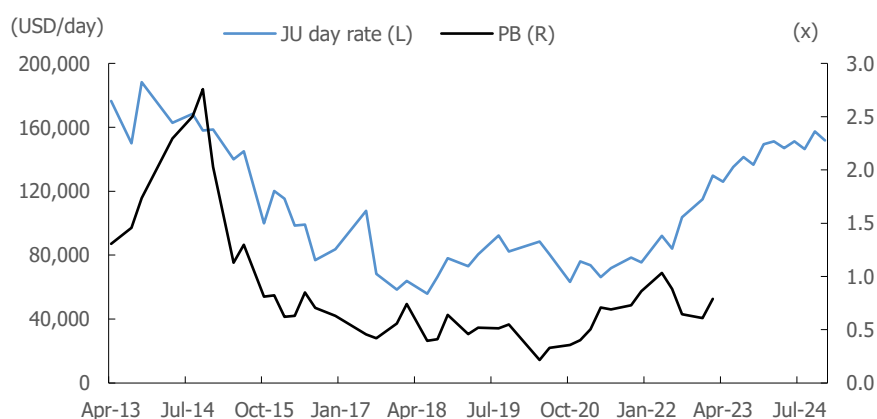
Table 7. Sensitivity analysis

		WACC				
		10.3%	11.3%	12.3%	13.3%	14.3%
Long- term growth rate	1.0%	32,372	28,471	25,266	22,588	20,318
	2.0%	35,495	30,873	27,154	24,097	21,542
	3.0%	39,469	33,852	29,446	25,899	22,983
	4.0%	44,695	37,642	32,287	28,086	24,702
	5.0%	51,878	42,627	35,903	30,797	26,789

Source: KISVN

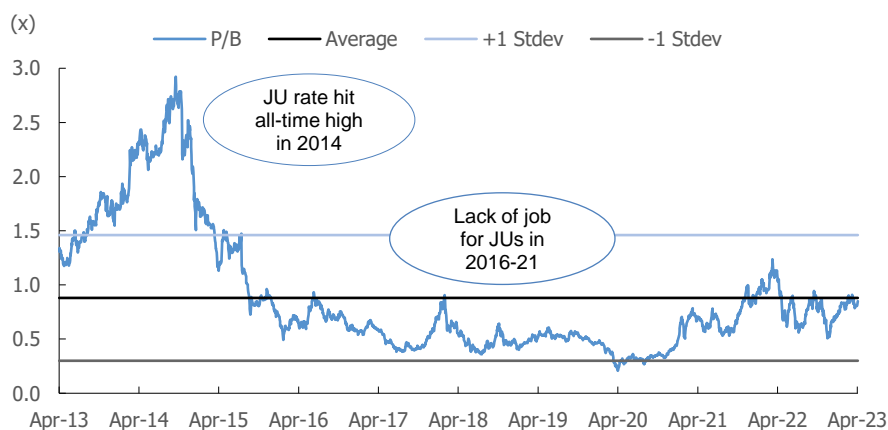
Our target price is based on an average 2023-25F PB of 1.0x, higher than the average historical PB of 0.6x over the tepid period of 2018-2022. We leverage the PB multiple target as we believe PVD could ride on the tailwinds of robust demand growth for rigs and enjoy high day rates in the next years. Besides, core BPS CAGR is pegged at 4.5% in 2023-25F. PVD is our top pick in Vietnam’s upstream oil & gas, with strong growth potential thanks to rising demand for drilling in Southeast markets.

Figure 10. Correlation between JU day rate and PB of PVD



Source: Korea Investment & Securities

Figure 11. PVD is trading at 0.8x of 2023F PB, slightly lower than the 10-year average historical multiple of 0.9x.



Source: Korea Investment & Securities

Table 7. Oversea peer valuations

	PE (x)			EV/EBITDA (x)			PB (x)			Dividend yield (%)		
	TTM	2023F	2024F	TTM	2023F	2024F	TTM	2023F	2024F	TTM	2023F	2024F
Nanjing Develo-A	71.7	57.2	28.9	-	-	-	4.6	4.0	3.4	-	-	-
China Oilfield-H	38.6	13.5	10.0	-	-	-	0.9	0.8	0.8	2.2	3.1	3.5
Velesto Energy B	-	16.2	11.7	11.3	12.1	12.1	0.7	0.7	0.7	-	-	-
Jindal Drilling	13.0	-	-	9.1	7.5	7.5	-	-	-	-	-	-
Velesto Energy B	-	16.2	11.7	11.3	12.1	12.1	0.7	0.7	0.7	-	-	-
Overseas dairy avg.	64.0	25.7	15.6	10.6	10.6	10.6	1.8	1.6	1.4	2.2	3.1	3.5

Note: As of April 1st 23 close
Source: Bloomberg, Korea Investment & Securities

■ Company overview

PetroVietnam Drilling (PVD) is a member of PetroVietnam. PVD is the leading drilling company with 50% of domestic market share and the top player in the Southeast Asia market. PVD owns four jack-up (JU) rigs, one semi-submersible tender assist drilling (TAD) rig, and one land rig.

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Petro Drilling (PVD)	14-04-23	BUY	VND28,800	+30.0	-16.2



Balance sheet

(VND bn)

FY-ending Dec.	2021A	2022P	2023F	2024F	2025F
Current assets	5,429	5,590	7,071	8,819	10,512
Cash & cash equivalents	2,675	2,386	3,291	4,223	5,243
Accounts & other receivables	1,936	2,224	2,641	3,184	3,588
Inventory	758	908	1,041	1,287	1,533
Non-current assets	15,332	15,091	14,635	14,216	13,843
Fixed assets	12,962	13,567	13,012	12,495	12,015
Investment assets	1,523	633	643	643	643
Others	858	906	1,016	1,134	1,258
Total assets	20,761	20,681	21,706	23,035	24,355
Advances from customers	16	86	103	132	159
Unearned revenue	0	0	0	0	0
Trade payables	780	566	892	1,157	1,251
Others	2,180	2,111	2,190	2,286	2,396
ST debt & due bonds	748	835	1,135	1,435	1,735
LT debt & bonds	3,206	3,000	2,900	2,800	2,700
Total liabilities	6,930	6,598	7,219	7,810	8,241
Controlling interest	13,592	13,854	14,253	14,983	15,862
Capital stock	4,215	5,563	5,563	5,563	5,563
Capital surplus	2,434	2,434	2,434	2,434	2,434
Other reserves	5,041	5,437	5,459	5,500	5,551
Retained earnings	1,923	441	818	1,507	2,335
Minority interest	240	229	233	241	252
Shareholders' equity	13,832	14,083	14,487	15,225	16,113

Cash flow

(VND bn)

FY-ending Dec.	2021A	2022P	2023F	2024F	2025F
C/F from operations	(376)	(188)	837	938	1,143
Net profit	37	(151)	439	829	1,031
Dep'n & Amort'n	534	783	792	803	817
Net incr. in W/C	(948)	(821)	(393)	(694)	(705)
C/F from investing	457	1,230	(110)	(140)	(211)
Capex	(608)	(136)	(246)	(286)	(336)
Incr. in investment	1,065	1,366	137	147	125
C/F from financing	151	(238)	178	134	88
Incr. in equity	0	0	0	0	0
Incr. in debt	154	(235)	200	200	200
Dividends	(3)	(3)	(22)	(66)	(112)
C/F from others	0	0	0	0	0
Increase in cash	232	804	905	932	1,020

Income statement

(VND bn)

FY-ending Dec.	2021A	2022P	2023F	2024F	2025F
Sales	3,995	5,432	6,844	8,792	10,600
COGS	3,624	4,853	5,647	7,088	8,574
Gross profit	371	578	1,197	1,704	2,026
SG&A expenses	399	510	465	510	615
Operating profit	(27)	68	731	1,194	1,412
Financial income	164	118	200	216	202
Interest income	123	58	137	147	125
Financial expenses	171	313	383	375	324
Interest expenses	109	168	277	290	256
Other non-operating profit	(7)	(56)	0	0	0
Gains (Losses) in associates, subsidiaries and JV	104	48	0	0	0
Earnings before tax	62	(135)	548	1,036	1,289
Income taxes	26	16	110	207	258
Net profit	37	(151)	439	829	1,031
Net profit of controlling interest	20	(99)	434	820	1,021
EBITDA	507	850	1,523	1,998	2,228

Key financial data

FY-ending Dec.	2021A	2022P	2023F	2024F	2025F
Per-share data (VND, adj.)					
EPS	685	(845)	718	1,357	1,689
BPS	32,812	25,315	26,041	27,368	28,966
DPS	7	6	39	118	202
Growth (%)					
Sales growth	(23.6)	35.9	26.0	28.5	20.6
OP growth	(2,490.8)	(349.3)	974.8	63.3	18.2
NP growth	(89.5)	(604.0)	(540.6)	88.9	24.5
EPS growth	(116.5)	(223.4)	(185.0)	88.9	24.5
EBITDA growth	3.6	67.9	78.9	31.1	11.6
Profitability (%)					
OP margin	(0.7)	1.3	10.7	13.6	13.3
NP margin	0.9	(2.8)	6.4	9.4	9.7
EBITDA margin	12.7	15.7	22.3	22.7	21.0
ROA	0.2	(0.7)	2.1	3.7	4.4
ROE	0.3	(1.1)	3.1	5.6	6.6
Dividend yield	0.0	0.0	0.2	0.6	1.0
Dividend payout ratio	1.0	(0.7)	5.4	8.7	12.0
Stability					
Net debt (VND bn)	1,279	1,449	744	12	(808)
Net debt/equity (%)	9.2	10.3	5.1	0.1	(5.0)
Valuation (x)					
PE	30.2	(24.5)	28.8	15.3	12.3
PB	0.6	0.8	0.8	0.8	0.7
EV/EBITDA	19.0	14.8	7.8	5.6	4.6

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