

## Margin expansion is expected in 2013

### Overweight

Target price **VND 18,600**  
Current price **VND 17,300**

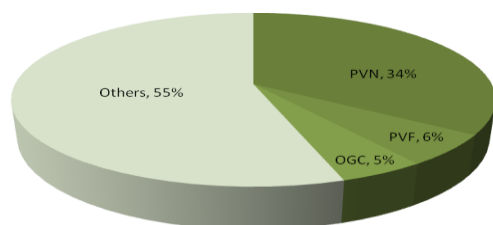
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#### Co. Profile

Ticker	PVS
Charter Capital (VND bil)	4,467
Outstanding shares (mil)	446,7
Market Capital (VND bil)	5,330
52W range (VND)	17,800 – 12,000
Ave. trading volume 3M	1,269,000
Beta	0.06
Foreign Ownership	20.8%
First listing date	20 Sept 2007

#### Major shareholders

PVN	34.2%
PVF	5.8%
OGC	4.9%



#### Price movement

	3M	6M	12M
Absolute	+3.4	+5.4	+2.2
Percentage (%)	+23.1	+42.5	+13.8



- **Margin rate improving:** We observed the overall margin trend of PVS by analysing the margin performance of each business. In which, we pay more attention on two major business-propelling departments - Specialized Vessel and Mechanical & Construction (M&C) which account 29% and 45% total gross profit respectively. Based on the quarterly breakdown, we found that on 1Q13:

- Specialized Vessel business* saw VND927 bil in revenue, down by 14.2% YoY, while gross profit reached VND 111 bil or up by 10.3% YoY. The gross profit margin of this business in first quarter was 12%, much higher than the average level 7% (2005 - 2012). This significant rise in margin is credited to the improvement of cost control and brought positive effect to PVS's total margin.
- M&C business* recorded a profit of VND 174 bil which mainly came from HaiSu trang-HaiSuden contract, resulting in a higher margin of 7% than the average level (2005-2012) of 1% and thus brought positive effect to PVS margin. Last year, this business reported a loss of VND 492 bil due to the significant growth of input cost of DungQuat Ethanol project.
- The other business activities* such as Port, FSO/FPSO, O&M and ROV also showed an improvement in margin comparing to the average level (2005 – 2012). The gross margins of these four sectors were 19.1%, 19.4%, 5.2% and 20.8%, increasing 0.7ppt, 4.1ppt, 1.8ppt and 9.3ppt respectively versus historical numbers.

The consolidated profit after tax, as a result, reached VND 301bil or rose by 27.7% YoY while total revenue of 1Q13 presented at VND 4,794 bil, down by 10.3% YoY. Gross margin increased by 3ppt to 11%. Revenue and profit in 1Q13 reached 18% and 38.1% of 2013's target respectively.

- **Forecast changed:** We adjusted PVS's 2013 forecast due to the higher than expected gross margin in 1Q13. Forward margin rate assumption was raised to 11% from 8%. In addition, oil price increased by 9% from 88 USD/barrel on Oct12 to 96 USD/barrel on Jun13. Considering the high correlation between COGS and oil price as we mentioned in previous report, the higher oil price will bring positive effect to PVS's profitability and strongly justified our adjustment in earning forecast. As a result, our expected that 2013 EPS will surge 39% to VND 5,213. The estimations did not include the dilution effect of new share issuance completed in 1Q13.

- **Revised valuation:** We upgraded PVS's target price to VND 18,600, up by 18% comparing to current market price. The premium is primarily attributed to the adjustment of our forecast in company's margin. From Mar to May, PVS share price has dropped by over 15% due to the selling pressure originating from the position adjustment of Market Vectors ETF Trust, which sold 3.6 mil shares or 5.4% of total shares outstanding. After 1Q earning result was released, the stock rose by 30%. Given our revised outlook on company's long-term margin prospect, we believe that current share price is still undervalued and decided to rate PVS an overweight rating.

(bil VND)	2010	2011	2012	1Q13	Co's plan	2013E
Net Revenue	16,880	24,313	24,591	4,794	26,500	25,877
% gross margin	6.9%	8.1%	7.0%	10.9%		
% OP margin	4.6%	5.1%	4.3%	7.7%		
EBT	1,133	1,833	1,752	407	1,000	2,057
Net profit	921	1,419	1,118	262	790	1,522
% growth YoY	61%	54%	-21%	12%		
% growth QoQ				289%		
EPS (TTM)	4,603	7,137	3,756	3,849		5,112
EPS (diluted)	4,631	4,764	3,756	3,556		3,408
BVPS	17,733	19,324	20,974	16,334		18,224
P/E	3.8	3.7	4.7			3.4
P/B	1.0	0.9	0.8			1.0

Source: PVS and PHS's expectation

## Company description

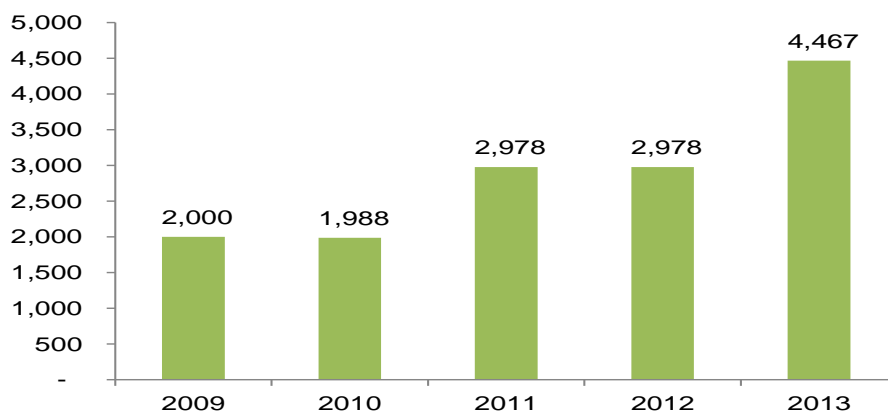
Founded in 1993, PVS is a member of Petrovietnam group. The company operates in petroleum technical services section such as supplying specialized vessel for exploring petroleum, assembling offshore oil-rig, manufacturing machines equipment in petroleum field, transportation & trading petroleum products, and logistics. Up to now, PVS has become the leading petroleum technical services supplier in Vietnam. PVS is always chosen by most of foreign companies such as BP, CLOJOC, JVPC, Petronas Carigali, Hoang Long/Hoan Vu, KNOC, VSP, and Truongson JOC, as the best partner in exploring and exploiting oil & gas in Vietnam.



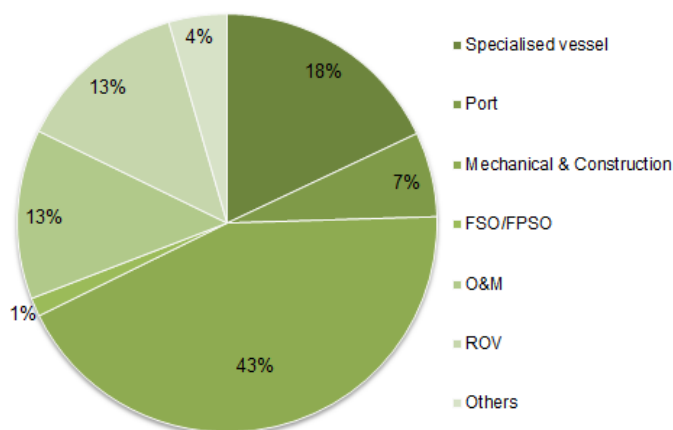
## Company history

- 1976: Foundation of Geophysical Company
- 1986: Foundation of Petroleum Services Company (PSC)
- 1989: Foundation of Geophysical and Petroleum Services Company
- 1993: Foundation of Petroleum Technical Services Company (PTSC)
- 1994: Oil and Gas company No.1 merged with PTSC
- 12-2006: PTSC was equitised to become a Joint Stock Corporation
- 2007: PTSC's Head Quarter was moved to Ho Chi Minh City and PTSC was operated under Mother- Daughter corporate mechanism
- 09-2007: PTSC's stock was listed on Hanoi Stock Trading Center (HaSTC) under stock symbol –PVS

## Capital raising progress (bil VND)



## Revenue breakdown



## Financial ratio (bil VND)

Income statement	2009	2010	2011	2012	Yearly ratio	2009	2010	2011	2012
Net sales	10,686	16,880	24,313	24,591	<b>Growth rate</b>				
Cost of goods sold	9,612	15,711	22,351	22,880	Revenue growth rate	23%	58%	44%	1%
Gross profit	1,073	1,168	1,962	1,711	Gross profit growth rate	22%	9%	67%	-13%
Operating costs	380	400	710	647	Net profit growth rate	19%	44%	16%	-21%
Financial income	336	500	615	425	Total asset growth rate	55%	41%	29%	-6%
Financial expense	327	522	1,025	384	Equity growth rate	51%	0%	63%	9%
Interest expense	101	139	1,025	384	<b>Profitability ratios</b>				
Operating profit	702	746	842	1,105	Gross profit margin	10%	7%	8%	7%
Profit before tax	810	1,133	1,833	1,752	EBT margin	8%	7%	6%	7%
CIT	175	159	433	531	Net profit margin	6%	5%	4%	5%
Net profit	638	921	1,419	1,118	ROA	5%	5%	5%	5%
<b>Balance sheet</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	ROE	18%	26%	19%	18%
<b>Total assets</b>	<b>12,401</b>	<b>17,513</b>	<b>22,630</b>	<b>21,223</b>	<b>DuPont Analysis</b>				
<b>Current assets</b>	<b>5,258</b>	<b>6,908</b>	<b>13,585</b>	<b>12,037</b>	Net profit margin(1)	6%	5%	4%	5%
Cash and equivalent cash	1,977	2,786	6,083	5,710	Asset turnover (2)	86%	96%	107%	116%
Receivables	2,750	3,555	6,088	5,461	Equity multiplier (3)	352%	497%	393%	340%
Inventories	436	446	1,046	579	ROE = (1)x(2)x(3)	18%	26%	19%	18%
<b>Long-term assets</b>	<b>7,143</b>	<b>10,605</b>	<b>9,045</b>	<b>9,186</b>	<b>Management ratios</b>				
Fixed assets	5,664	8,370	6,088	6,247	Receivable outstanding days	93.92	76.86	91.44	81.06
Long-term investments	1,448	1,700	2,241	2,384	Inventory outstanding days	16.56	10.36	17.09	9.23
<b>Resources</b>	<b>12,401</b>	<b>17,513</b>	<b>22,630</b>	<b>21,223</b>	Payable outstanding days	83.35	59.05	41.36	49.38
<b>Liabilities</b>	<b>8,775</b>	<b>13,778</b>	<b>15,920</b>	<b>13,346</b>	Asset turnover	0.86	0.96	1.07	1.16
Short-term loans	1,067	1,496	2,560	1,250	Long-term asset turnover	1.89	2.02	3.99	3.94
Long-term loans	3,598	4,232	3,325	3,347	Fix asset turnover	0.53	0.50	0.25	0.25
<b>Equities</b>	<b>3,520</b>	<b>3,525</b>	<b>5,755</b>	<b>6,246</b>	<b>Liquidity ratios</b>				
Chartered capital	2,000	1,988	2,978	2,978	Current ratio	1.02	0.84	1.21	1.27
Retained profit	582	238	1,448	1,568	Quick ratio	0.93	0.79	1.11	1.21
<b>Cash flow</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	Cash ratio	0.38	0.34	0.54	0.60
<b>Net operating cash flow</b>	<b>1,564</b>	<b>812</b>	<b>2,347</b>	<b>901</b>	<b>Capital Structure</b>				
Profit after tax	638	921	1,419	1,118	Total debt/Total Equity	1.33	1.62	1.02	0.74
Depreciation	328	657	997	1,319	Total debt/Total Asset	0.38	0.33	0.26	0.22
<b>Net investing cash flow</b>	<b>(3,051)</b>	<b>(1,198)</b>	<b>1,066</b>	<b>(246)</b>	Total asset/Total Equity	3.52	4.97	3.93	3.40
<b>Net financing cash flow</b>	<b>2,399</b>	<b>1,192</b>	<b>(116)</b>	<b>(1,045)</b>	<b>Index per share</b>				
Net cash flows	912	806	3,296	(390)	PE	6.27	3.87	3.76	4.77
Cash at the beginning	1,048	1,977	2,786	6,083	PBV	1.02	1.01	0.93	0.85
					PS	0.34	0.21	0.22	0.22
					EPS (VND per share)	2,856	4,631	4,764	3,756
					Cash earning/share	4,496	7,936	8,112	8,183
					Book value	17,601	17,733	19,324	20,974

Source: PVS and PHS's expectation

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**Overweight (OW)** = Expected to outperform the local market by >10%

**Neutral (N)** = Expected to in line with the local market by +10%~ -10%

**Underweight (UW)** = Expected to underperform the local market by >10%.

**Not Rated (NR)** = The stock is not rated in Phu Hung's coverage universe or not listed yet.

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