

## Margin expansion is expected in 2013

### Overweight

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

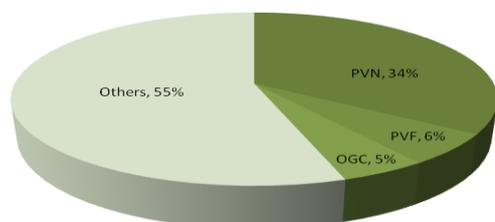
**Phạm Nhật Bích**  
(+84-8) 5413-5479  
[bichpham@phs.vn](mailto:bichpham@phs.vn)

#### 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 surges 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

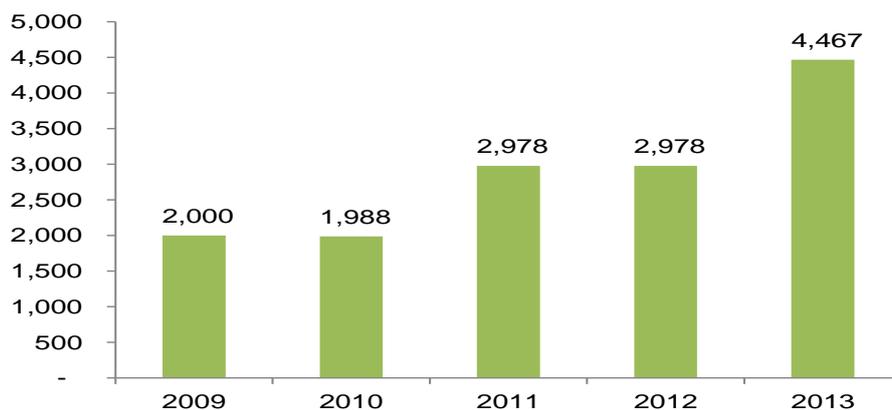
Founded in 1993, PVS is a member of Petrovietnam group. The company operates in petroleum technical services section such as supplying specialized vessel for exploring petroleum, assembling offshore oil-rig, manufacturing machines equipment in petroleum field, transportation & trading petroleum products, 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.



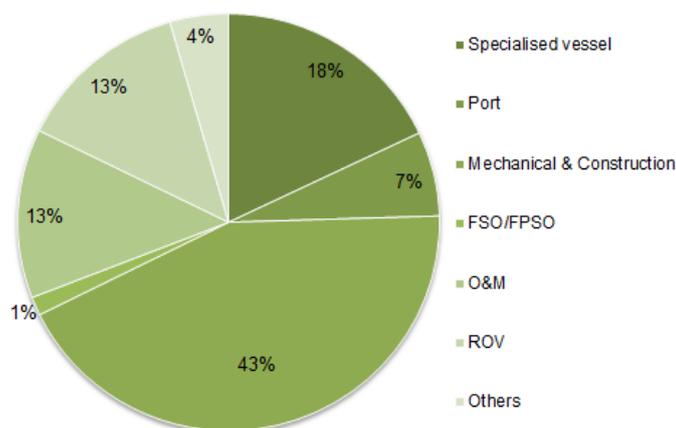
## Company history

- 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

## Analyst Certification

---

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

## Ratings Definition

---

**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.

Performance is defined as 12-month total return (including dividends).

## Disclaimer

---

This information has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. Phu Hung Securities and its affiliates and their officers and employees may or may not have a position in or with respect to the securities mentioned herein. Phu Hung Securities (or one of its affiliates) may from time to time perform investment banking or other services or solicit investment banking or other business for any company mentioned in this report. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

© Phu Hung Securities Corporation.

5th Fl., Lawrence S. Ting Bldg.,  
801 Nguyen Van Linh St, Tan Phu Ward, Dist 7, HCMC  
Tel: (+84-8) 5413-5479 – Fax: +84 8 54135472  
Web: www.phs.vn