

## Petrovietnam Drilling and Well Services Joint Stock Company

## PV DRILLING • PVD

Target Price: VND115,000 • US\$7.19 (+37.7%)

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## Ownership

State	48,267,635	36.5%
Domestic	48,583,861	36.8%
Foreign	35,316,180	26.7%
Outstanding shares	132,167,676	100.0%

## PVD • Trading history (adj.)



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## Impressive Growth!!!

BUY

## Company's Statistics

Exchange	Ho Chi Minh City Stock Exchange	Last price	VND 83,500 • US\$ 5.22
Sector	Oil & Gas	BPS (adj.)	VND 12,290 • US\$ 0.77
Index weight	5.34%	EPS	VND 4,327 • US\$ 0.27
Market cap.	VND 11,036bn • US\$ 0.68bn	EPS trailing	VND 5,834 • US\$ 0.36
52-week range	VND 150,000 – VND 82,500	Hist DPS	VND 1,851 • US\$ 0.12
30-day average daily turnover	US\$0.9mn	Dividend yield	2.2%
Beta	1.2	PER trailing	14.4x
ROCE	26.3%	P/BV	6.8x

## Result s Highlights

- **Impressive performance on a y-o-y basis.** Petrovietnam Drilling and Well Joint Stock Company (PVD) reported revenue of US\$47.9mn and net profit of US\$14.6mn for the 1QFY08, representing 218.4% and 541.6% growth compared with the corresponding period last year. The surge in revenue and earnings was mainly due to the contribution from the jack-up (PV Drilling 1) and the land rig (PV Drilling 11), which commenced operations in April 2007 and September 2007 respectively. Other division also record strong y-o-y growth, most notably labor services (revenue growth of 267%), well services (82%) and equipment supply (55%).
- **Margin expansion to boost earnings growth....** On a q-o-q comparison, revenue decreased by 14.8% but net profit grew by 37.4%. The decline in revenue in 1QFY08 compared to 4QFY07 is mainly due to seasonality with the Group registering higher revenue in the final quarter of the year for its non drilling activities. Nonetheless, net earnings rose by 37.4% with net margin expanded from 18.9% to 30.4% mainly due to: 1) Better sales mix with its rigs commanded higher margin compared to other non rigs business activities, 2) lower interest expenses as the loan for the jack-up was repaid earlier and restructured from SIBOR 6-month +1.9% to SIBOR 6-month +1.4%, and 3) lower administration and operating expenses with the tighter cost control policies.

Quarterly Results (US\$mn)	1Q FY07	4Q FY07	1Q FY08	Change QoQ %	Change YoY %
Revenue	15.0	56.2	47.9	-14.8%	218.4%
Drilling services	0.0	n.a.	23.8	n.a.	n.a.
Well services	6.3	n.a.	11.4	n.a.	81.7%
Oil spill control services	0.5	n.a.	0.6	n.a.	11.7%
Mechanical repair services	0.4	n.a.	0.7	n.a.	63.3%
Labour supply services	1.1	n.a.	4.0	n.a.	267.2%
Equipment supply services	4.3	n.a.	6.7	n.a.	55.0%
Others	2.4	n.a.	0.7	n.a.	-72.0%
Gross Profit	3.2	13.7	17.5	27.0%	440.4%
Operating Profit	2.3	10.2	14.4	41.6%	533.7%
Pre-Tax Profit	2.3	11.0	14.7	34.0%	548.7%
Net Profit	2.3	10.6	14.6	37.4%	541.6%
Gross Profit Margin (%)	21.5%	24.5%	36.4%	49.0%	69.7%
Operating Margin (%)	15.1%	18.1%	30.1%	66.2%	99.0%
Pre-tax Margin (%)	15.1%	19.6%	30.8%	57.3%	103.7%
Net Margin (%)	15.1%	18.9%	30.4%	61.3%	101.5%

- **3<sup>rd</sup> jack-up on the way!!** PVD Invest, the rig leasing arm of PVD, has recently announced that they plan to purchase the third jack-up rig which will be delivered in December 2009 and is expected to commence operation in early first quarter of 2010. The rig costs around US\$206mn and PVD Invest is in the process of sourcing for funds to finance the jack-up

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III (named PVD III). Nonetheless, we have not incorporated the potential earnings contribution of the jack-up III to our earnings model for the time being.

- **Capitalizing on the upcycle in the crude oil price.** Oil price has surpassed US\$120 per barrel in May 2008 and a recent research report released by Goldman Sachs has even predicted the oil prices to reach US\$150 to US\$200 per barrel within the next two years. This persistently high crude oil price is expected to intensify the exploration and production effort which will benefit the upstream oil and gas players. According to the statistics published by Rig Zone, overall rig utilization rate has increased from 84.7% a year ago to 87.8% in May 2008. Rig supply is expected to remain tight in the near term so we believe that there is potential upside for rig rental rates in the near term.
- **Maintain BUY with target value of VND115,000.** We are maintaining our BUY recommendation with a lower target price of VND115,000 per share (US\$7.19) after adjusting for the 20% stock dividend issued by the Group. Our target price offers a potential upside of 37.7% over PVD's current traded price of VND83,500 (US\$5.22). We continue to like the Group for 1) the bright prospects in the oil and gas sector, 2) strong expansion plan 3) dominant position in the domestic oil and gas sector.

Relative Comparison Table

	Country	Market Cap (US\$mn)	P/E 2007	P/E 2008E	P/E 2009E	P/B 2007	P/S 2007	ROE (%)	Y-t-d change (%)
Transocean Inc.	US	49,553	13.9	11.0	9.3	3.6	5.5	32.3	8.6
Atwood Oceanic	US	3,395	20.5	15.8	10.1	4.8	7.5	25.9	5.8
Diamond Offshore	US	18,799	19.4	13.4	10.8	6.3	6.8	32.6	(4.7)
Halliburton	US	42,162	17.3	16.9	13.9	6.0	2.7	49.1	27.5
Schlumberger	US	123,425	24.2	21.5	17.6	7.8	5.1	40.9	5.2
Major Drilling Group	Canada	1,328	20.0	17.9	14.1	5.2	2.4	31.0	(10.3)
Weatherford	US	29,256	24.4	19.9	15.2	4.1	3.6	15.8	25.5
SeaDrill	Norway	12,909	27.5	21.6	10.5	3.6	7.6	14.8	24.0
China Oilfield Services-A	China	14,220	47.9	37.8	32.2	6.8	11.9	17.3	(24.3)
Aban Offshore Limited	India	3,372	84.5	11.9	8.4	26.5	19.6	55.5	(23.0)
Average			30.0	18.8	14.2	7.5	7.3	31.5	
PV Drilling	Vietnam	683	19.3	14.3	10.6	6.8	4.0	43.1	(34.1)

Sources: Reuters, Bloomberg, Mekong estimates

## Summary of Financials

Income Statement (US\$ mn)	2005A	2006A	2007A	2008F	2009F
Net Revenue	67.0	84.3	171.2	224.8	285.4
COGS	(61.0)	(72.0)	(127.0)	(163.5)	(199.5)
Gross Profit	6.0	12.3	44.2	61.3	85.9
Financial revenue	0.4	0.8	2.0	6.2	8.8
Financial expense	(0.1)	(0.5)	(5.3)	(11.4)	(16.9)
SG&A	(1.9)	(2.5)	(6.9)	(7.4)	(9.4)
Operating Income	4.4	10.1	33.9	48.6	68.5
Net other income/(expense)	0.2	0.0	2.3	0.1	0.1
Pre-tax Income	4.6	10.1	36.2	48.7	68.6
Income Tax	(1.3)	(2.8)	(0.2)	0.0	(1.3)
Net Income	3.3	7.3	36.0	48.7	67.3
Minority Interest	0.0	0.0	(0.3)	(0.4)	(2.1)
Profit attributable to shareholders	3.3	7.3	35.7	48.3	65.1

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Balance Sheet (US\$ mn)	2005A	2006A	2007A	2008F	2009F
<b>CURRENT ASSETS</b>					
Cash & Short-term Investments	8.5	9.5	32.6	121.8	98.8
Accounts Receivable	16.1	27.0	65.7	70.7	89.8
Inventory	1.1	4.0	2.9	3.7	4.8
Others	0.5	2.0	3.2	4.2	5.3
<b>Total Current Assets</b>	<b>26.2</b>	<b>42.5</b>	<b>104.4</b>	<b>200.5</b>	<b>198.7</b>
Fixed Assets, net	3.9	93.2	158.4	223.0	336.1
Others	43.9	0.2	7.8	6.3	12.6
<b>Total Fixed Assets</b>	<b>47.8</b>	<b>93.4</b>	<b>166.2</b>	<b>229.3</b>	<b>348.7</b>
<b>TOTAL ASSETS</b>	<b>74.0</b>	<b>135.9</b>	<b>270.6</b>	<b>429.8</b>	<b>547.4</b>
<b>CURRENT LIABILITIES</b>					
Short-term Debt	0.0	0.0	6.8	0.0	0.0
Trade & Other Creditors	18.7	42.3	35.2	46.2	58.7
<b>Total Current Liabilities</b>	<b>18.7</b>	<b>42.3</b>	<b>42.0</b>	<b>46.2</b>	<b>58.7</b>
Net Current Asset/ (Liabilities)	7.5	0.3	62.4	154.3	140.1
<b>NON-CURRENT LIABILITIES</b>					
Long-term borrowings	10.9	44.2	80.9	200.2	240.1
Others	0.0	0.0	0.2	0.2	0.3
<b>Total Long-term Liabilities</b>	<b>10.9</b>	<b>44.2</b>	<b>81.0</b>	<b>200.4</b>	<b>240.4</b>
Net Asset / (Liabilities)	44.4	49.5	147.6	183.2	248.3
<b>SHAREHOLDERS' EQUITY</b>					
Paid-in capital	39.9	42.5	68.8	82.6	82.6
Retained Earnings	2.4	5.4	26.5	48.4	113.5
Other funds & reserves	2.0	1.6	21.1	21.1	21.1
Minority Interest	0.0	0.0	31.1	31.1	31.1
<b>Total Shareholders' Equity</b>	<b>44.4</b>	<b>49.5</b>	<b>147.6</b>	<b>183.2</b>	<b>248.3</b>

## Equity Rating Definitions

<b>BUY</b>	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside
<b>HOLD</b>	Neutral recommendation of stock under coverage. Expected absolute return between -15% and +15% over 12-months, with low risk of sustained downside.
<b>SELL</b>	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
<b>NOT RATED</b>	No research coverage and report is intended purely for informational purposes

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