

Nhon Trach 2 (NT2)

Defensive stock with attractive dividend yield

June 2, 2022

Analyst Tieu Phan Thanh Quang
quangtp@kbsec.com.vn

In 1Q22, revenue and NPAT grew by 21.6% YoY and 38.8% YoY

In 1Q22, PV Power Nhon Trach 2 (NT2) recorded NPAT of VND160 billion (+38.8% YoY) on revenue of VND2,007 billion (+21.6% YoY). The commercial power output was 994.7 million kWh (+4.3% YoY). However, the surging average electricity price contributed to the recovery in revenue over the first three months of this year.

The outlook for NT2 is bright in 2022, given the lack of coal supply for coal-fired power plants

We forecast NT2's power output in 2Q22 and 1H22 to grow well for the National Load Dispatch Centre (A0) will mobilize other power sources given the shortage of raw materials for coal power plants and the rising electricity consumption for economic growth. We estimate NPAT to reach VND247 billion (+8.88x YoY from the 2Q21 low) on revenue of VND2,827 billion (+41% YoY) in 2Q22, equivalent to the output of 1,310.6 million kWh (+40% YoY) in 2Q22.

NT2 is 'the hen that laid the golden eggs' with an attractive dividend yield

We believe NT2 would increase the dividend yield to VND2,500/share for 2022 and VND3,000/share for 2023, given high operating cash flow thanks to the recovery of business results and that NT2 repaid all of its long-term debts. On the other hand, PV Power (POW), NT2's parent company, has been carrying out two LNG power projects: Nhon Trach 3 and Nhon Trach 4, with a total investment of over VND30,000 billion in 2022-2024. Therefore, a high dividend yield during this time will help POW finance these megaprojects.

We recommend BUY for NT2 shares with a target price of VND29,200

Based on FCFF valuation and P/E, business outlook, and possible risks, we recommend BUY for NT2. The target price is VND29,200 per share, 39.1% higher than the closing price on May 30, 2022.

Buy

Target price VND29,200

Upside/Downside	39.1%
Current price (May 30, 2022)	VND22,800
Consensus target price	VND28,000
Market cap (VNDbn)	6,564

Trading data

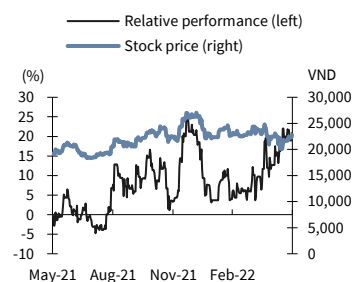
Free float	32.3%
3M avg trading value (VNDbn)	19.63
Foreign ownership	35.0%
Major shareholder	PV Power (POW) (59.4%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-0.7	-3.0	-0.2	15.8
Relative	5.6	12.4	15.3	19.0

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	6,082	6,150	8,848	7,563
EBIT (VNDbn)	810	593	726	562
NPATMI (VNDbn)	625	534	772	626
EPS (VND)	2,095	1,778	2,681	2,174
EPS growth (%)	-17.5	-15.1	51.0	-19.0
P/E (x)	10.3	14.2	8.5	10.5
EV/EBITDA (x)	4.6	5.8	4.4	4.5
P/B (x)	1.5	1.7	1.9	2.0
ROE (%)	14.6	12.6	17.8	15.0
Dividend yield (%)	11.6	7.9	11.0	13.2



Source: Bloomberg, KB Securities Vietnam

Business performance

In 1Q22, revenue and NPAT grew by 21.6% YoY and 38.8% YoY

In the first quarter of 2022, NT2 recorded a recovery in business results with NPAT of VND160 billion (+38.8% YoY) on revenue of VND2,007 billion (+21.6% YoY). The commercial power output was 994.7 million kWh (+4.3% YoY). However, the surging average electricity price contributed to the recovery in revenue over the first three months of this year.

Gross profit margin narrowed down due to the reduction in PPA price

After ten years of signing the first Power Purchase Agreement (PPA) with Vietnam Electricity (EVN), NT2 has announced the electricity price to decline by VND37.59/kWh under a new PPA. Besides, recent increases in gas prices have contributed to narrowing the gross profit margin, given the close correlation between the variable price and world oil prices. We also note that in some quarters, NT2 recorded compensation costs (Figure 1) as NT2 did not receive enough power output mobilized by EVN to use all the offtake gas from PV Gas (GAS), leading to an extraordinarily high gross profit margin.

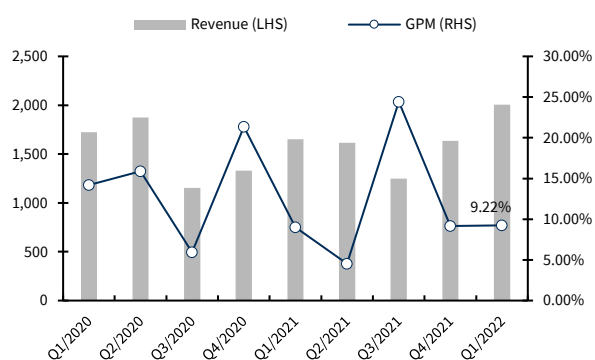
Gas and electricity prices in the CGM increased sharply in the first quarter of 2022

In 1Q22, the input gas price of NT2 rose sharply, averaging USD10.06/MMBTU (+40% YoY), mainly due to spiraling Brent crude oil prices of about USD97.9/barrel (+59.7% YoY). On the other hand, electricity prices in the competitive electricity generation market (CGM) rose to about VND1,522/kWh (+38% YoY) in 1Q22 in the context that A0 increased mobilization from gas-fired power plants to offset the shortfall in output from coal-fired power plants resulting from the lack of input materials.

The BOD sets a conservative business plan for 2022

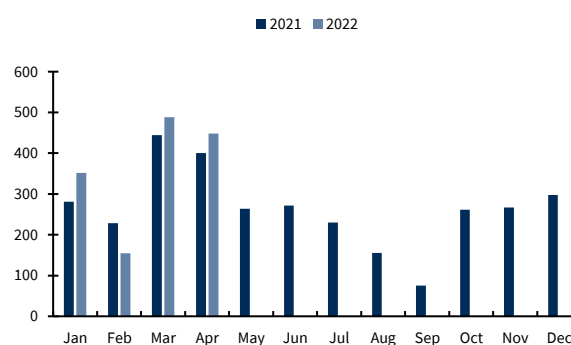
NT2's management targets NPAT of VND468 billion (-12% YoY) on revenue of VND8,129 billion (+32% YoY) in 2022. It is a conservative plan given the low base in 2021 as A0 focused on mobilizing electricity from hydroelectric and renewable energy sources. However, the lack of coal for coal power plants will prompt A0 to promote the mobilization of other power plants to make up for the shortfall in the output of coal-fired power plants.

Fig 1. NT2 - Revenue, gross profit margin (VNDbn, %YoY)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 2. NT2 - Commercial power output (mn kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Table 1. NT2 – 1Q22 business results

VND bn	1Q21	1Q22	%YoY	Notes
Output (mil. kWh)	954	995	4.3%	
Contractual output (Qc)	954	741	-22.3%	In 2021, NT2 will only operate according to the assigned contractual output, did not generate electricity in the competitive generation market (CGM).
Output sold on the CGM market (Qm)	0	254	N/A	
Average gas price (USD/MMBTU)	7.19	10.06	39.9%	Gas prices increase due to sharp increase in Brent oil price in 1Q2022.
Average selling price of electricity (VND/kWh)	1,624	2,004	23.4%	Average selling price increased thanks to favorable price movements in the competitive generation market (CGM).
Revenue (billion VND)	1,650	2,007	21.6%	Revenue increased thanks to an increase in average selling price while volume was flat YoY.
Gross profit	148	185	24.8%	
GPM (%)	8.99%	9.22%		Gross profit margin improved thanks to higher selling price on CGM market.
SG&A	(23.0)	(16.7)		
% SG&A / Revenue	-1.39%	-0.83%		
Profit from operating activities	125	168		
Financial income	17	1.7		
Financial expenses	(20)	(2)	-89.4%	Financial expenses were significantly reduced thanks to NT2 completing long-term debt repayment in Q2/2021.
Other net income	0	0		
Profit before tax	122	168	37.9%	
Profit after tax	115	160	38.8%	
NPM (%)	6.97%	7.95%		

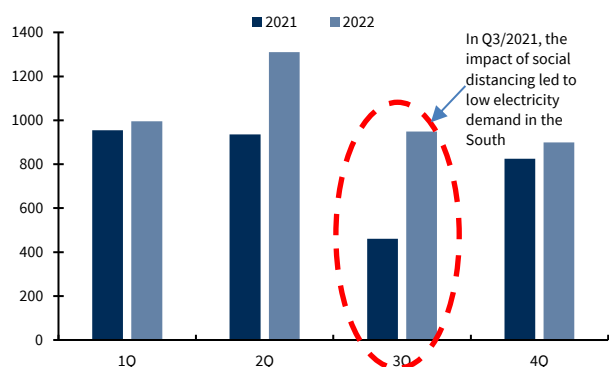
Source: PV Power Nhon Trach 2, KB Securities Vietnam

The outlook for NT2 is bright in 2022 given the lack of coal supply for coal-fired power plants

In 2Q21, NT2 renegotiated with EVN and adjusted the PPA price in April 2021, which applied for the whole year of 2021. In particular, the fixed cost (FC) under the new PPA was adjusted down by VND37.59. As a result, NT2 posted NPAT of only VND24.5 billion on revenue of VND534 billion (-15% YoY) in 2Q21, the lowest after eight years of operation.

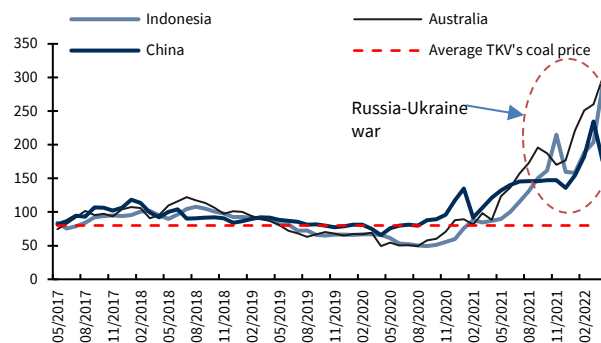
However, the input material for coal-fired power plants is falling short. The war in Ukraine since the end-February has pushed the prices of key input materials, namely crude oil and coal. Currently, world coal prices have increased significantly due to the strong demand for post-pandemic recovery, leading to the lack of coal for Vietnamese power plants amid domestic supply shortages. As imported coal is mixed with coal bran, the two major domestic coal suppliers, Vietnam National Coal and Mineral Industries Group (TKV) and Dong Bac Corporation, will hardly provide enough coal for domestic coal power plants. It will lead to lower output from coal-fired power plants and benefit gas-fired power plants like NT2. Therefore, we forecast power output in 2Q22 and 1H22 to grow well for A0 will mobilize other power sources amid the growing electricity consumption for the economic rebound. We estimate NT2's NPAT to reach VND247 billion (+8.88x YoY from the 2Q21 low) on revenue of VND2,827 billion (+41% YoY) in 2Q22, equivalent to the output of 1,310.6 million kWh (+40% YoY) in 2Q22. For 1H22, those figures should be VND407 billion (+191% YoY) and VND4,824 billion (+48% YoY), respectively.

Fig 3. NT2 – 2022F power output (mn kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 4. Global – Coal prices (USD/ton)



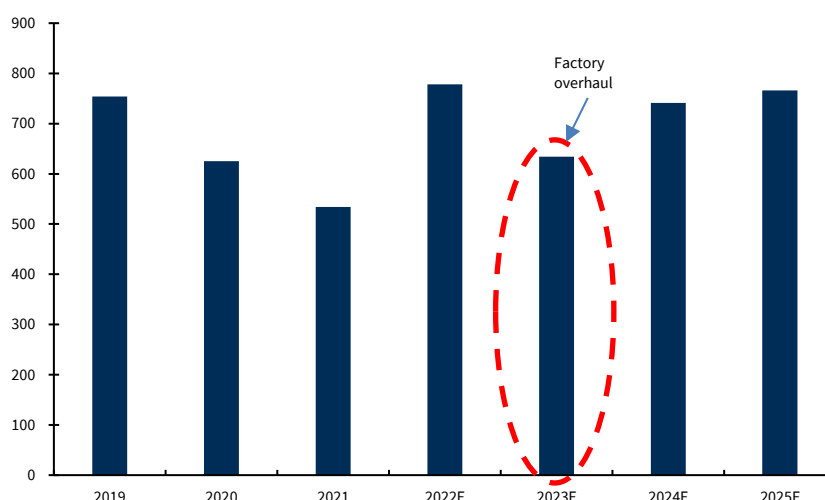
Source: Bloomberg, Vinacomin, KB Securities Vietnam

That NT2 repaid all of its long-term debts and would receive compensation for the exchange loss will boost business results in the coming time

NT2 repaid all of its long-term debts in 2Q21. We believe paying off the offshore loans will reduce the exchange rate risk as NT2 has to pay about VND60 billion/year for loan protection insurance and government guarantee. In addition, financial expenses will decline dramatically to VND20 billion (-62% YoY) in 2022. It will also help NT2's working capital remain stable in the subsequent years as it only has to bear interest on short-term debts.

Also, NT2 has been actively negotiating with EVN to receive compensation for the exchange loss in the 2016-2021 period, equivalent to VND400 billion. We expect the company to record VND100 billion per year between 2022 and 2025. From our observations, enterprises often receive compensation by the end of the year, contributing approximately VND93 billion to NT2's NPAT in 2022-2025.

Fig 5. NT2 – 2019A-2025E business results (VNDbn)

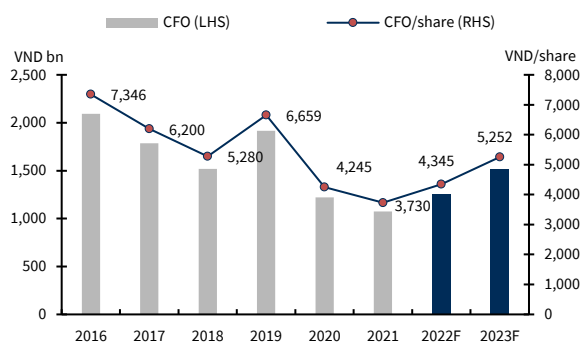


Source: PV Power Nhon Trach 2, KB Securities Vietnam

NT2 is “the hen that laid the golden eggs” with attractive dividend yield

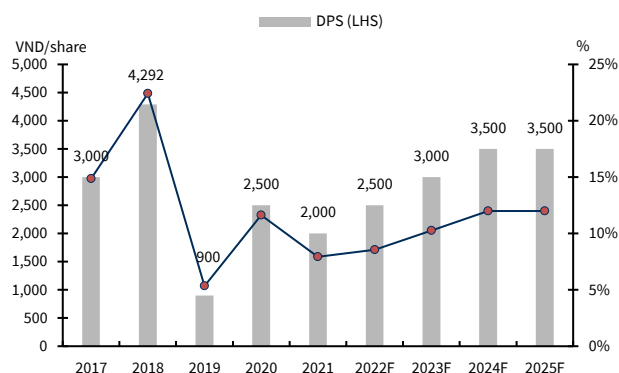
We believe NT2 would increase the dividend yield to VND2,500/share for 2022 and VND3,000/share for 2023, given high operating cash flow thanks to the recovery of business results and that NT2 repaid all of its long-term debts. On the other hand, PV Power (POW), NT2's parent company, has been carrying out two LNG power projects: Nhon Trach 3 and Nhon Trach 4, with a total investment of over VND30,000 billion in 2022–2024. Therefore, a high dividend yield during this time will help POW finance these megaprojects. Additionally, NT2's share price has dropped by more than 17% since the start of the year, making the dividend yield reach 11% of the closing price on May 30, 2022 (VND22,800) and 8.6% of our target price (VND29,200/share). In our view, this is an attractive dividend yield for a stable stock like NT2. Investors preferring defensive stocks against unpredictable fluctuations in the stock market should consider investing in NT2.

Fig 6. NT2 – Cash flow (VNDbn)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 7. NT2 – Dividend yield (VND/share)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Forecast & Valuation

2022F business results

We estimate NT2's NPAT to reach VND772 billion (+45% YoY) on revenue of VND8,848 billion (+44% YoY), assuming that:

- Commercial power output should reach 4,154 million kWh (+30% YoY) given the growing electricity demand for economic growth and low base in 2021.
- The input gas price averages USD10.0/MMBTU (+27% YoY) due to a sharp rise in world oil prices and a new price mechanism.
- The selling price of electricity in the CGM is VND1,400/kWh, thanks to increased mobilization from other sources with high input costs like gas-fired power.
- It is expected that NT2 will successfully negotiate the compensation for exchange loss with EVN and record VND100 billion in 4Q22.

Table 2. NT2 – 2022F business results

VND bn	2021A	2022E	%YoY	Notes
Output (mil. kWh)	3,195	4,154	30.0%	
Contractual output (Qc)	3,195	3,489	9.2%	Qc output recovers on A0's allocation to cover the shortfall from coal-fired power and recover from the low base of 2021.
Output sold on the CGM market (Qm)	0	665	N/A	Gas prices increase due to the strong increase of Brent oil price and the establishment of a new high.
Average gas price (USD/MMBTU)	7.89	10.00	26.7%	Gas prices increase due to the strong increase of Brent oil price and the establishment of a new high.
Average selling price of electricity (VND/kWh)	1,925	2,130	10.7%	The average selling price increased due to the increase in gas price, which increased the average selling price of PPA and average CGM price.
Revenue (VND bn)	6,150	8,848	43.9%	
Gross profit	676	827	22.4%	
GPM (%)	10.99%	9.35%		Profit margin decreased due to increase in gas price and decrease in PPA price from Q2/2021.
SG&A	(83.0)	(101.0)		
% SG&A / Revenue	-1.35%	-1.14%		
Profit from operating activities	593	726		
Financial income	18	121.0	572.2%	We expect that NT2 can successfully negotiate the FX loss with EVN and partially book it in 2022.
Financial expenses	(52)	(20)	-61.5%	Financial expenses were significantly reduced thanks to NT2 completing long-term debt repayment in Q2/2021.
Other net income	7	7		
Profit before tax	566	819	44.8%	
Profit after tax	534	772	44.6%	
NPM (%)	8.68%	8.73%		

Source: PV Power Nhon Trach 2, KB Securities Vietnam

We recommend BUY for NT2 shares with a target price of VND29,200

Based on two valuation methods, FCFF (Free Cash Flow to the Firm) and P/E, with a weight of 50–50, we recommend BUY for NT2 shares with a target price of VND29,200/share, 39.1% higher than the closing price of VND22,800/share on May 30, 2022.

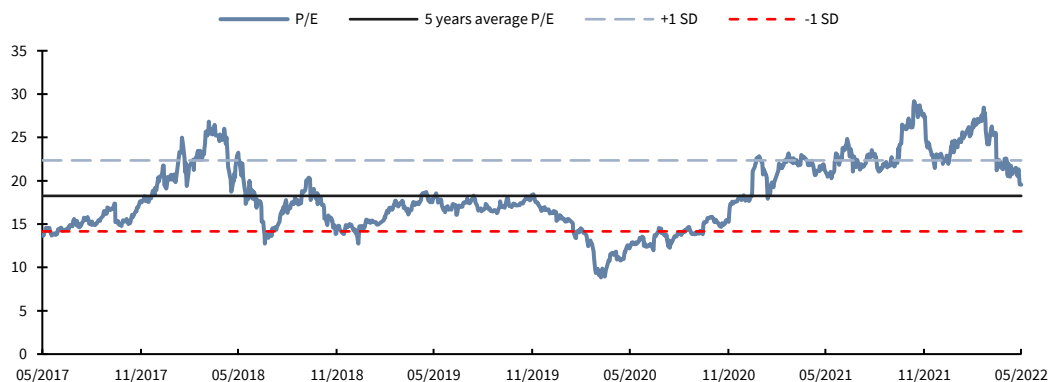
Table 3. Share price according to DCF valuation method (VND/share)

KE	13.00%	PV of Terminal Value	4,089
Risk-free rate	3.00%	PV of Free Cash Flows	4,130
Equity risk premium	10.00%	Total value of FCF and TV	8,219
Beta	1.0	Plus: Cash & ST investments	532
Cost of debt	9.50%	Less: Debt	-196
Corporate tax rate %	20.00%	Less: Minority Interest	0
WACC	13.00%	Equity Value	8,555
Terminal growth rate	0.00%	Outstanding shares (mn shares)	287.9
		Value per share (VND)	29,715

Source: KB Securities Vietnam

Based on the P/E method, we give NT2 a target price of VND28,687/share, equivalent to a target P/E of 10.7x and the five-year average P/E of NT2. We believe this is a reasonable P/E for NT2, supported by: (1) Stable business operation and attractive dividend yield; and (2) growing electricity demand for economic growth.

Fig 8. NT2 – P/E (x)



Source: Bloomberg, KB Securities Vietnam

Table 4. NT2 – Valuation methods

Valuation method	Forecast price	Weight	Weighted forecast price
FCFF	29,715	50%	14,858
P/E (22.3x)	28,687	50%	14,344
Target price (rounded)			29,200
Current price (18/05/2022)			22,800
Upside			28.1%
Div. yield			11.00%
TSR			39.1%

Source: KB Securities Vietnam

NT2 – 2020A–2023E financials

Income Statement					Balance Sheet				
(VND bn)	2020A	2021A	2022F	2023F	(VND bn)	2020A	2021A	2022F	2023F
Net sales	6,082	6,150	6,848	7,563	CURRENT ASSETS	6,382	6,624	7,288	6,741
Cost of sales	-5,197	-5,474	-6,021	-6,915	Cash and cash equivalents	1,886	2,581	-5,109	-7,058
Gross Profit	895	676	827	648	Short-term investments	62	1	532	1,92
Financial income	18	18	121	130	Accounts receivable	0	0	0	0
Financial expenses	-150	-52	-20	-20	Inventories	1,489	2,230	2,424	2,093
of which: interest expenses	-38	-20	-20	-20	LONG-TERM ASSETS	315	311	440	360
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	Long-term trade receivables	4,496	4,043	12,397	13,799
Selling expenses	0	0	0	0	Fixed assets	0	0	0	0
General and admin expenses	-85	-83	-101	-86	Investment properties	4,184	3,496	11,624	13,021
Operating profit/(loss)	668	559	827	672	Long-term incomplete assets	0	1	1	1
Other incomes	1	8	1	1	Long-term investments	0	0	226	231
Other expenses	5	1	9	9	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	-4	7	-8	-8	LIABILITIES	2,084	2,390	2,939	2,580
Income from investments in other entities	0	0	0	0	Current liabilities	2,083	2,390	2,939	2,580
Net accounting profit/(loss) before tax	664	566	819	664	Trade accounts payable	397	1,034	1212	1,036
Corporate income tax expenses	-38	-32	-47	-38	Advances from customers	0	0	0	0
Net profit/(loss) after tax	625	534	772	626	Short-term unrealized revenue	775	210	196	196
Minority interests	0	0	0	0	Short-term borrowings	1	0	0	0
Attributable to parent company	625	534	772	626	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	0	0	0	0
					Long-term borrowings	4,298	4,234	4,349	4,161
					OWNER'S EQUITY	2,879	2,879	2,879	2,879
					Paid-in capital	0	0	0	0
					Share premium	1,282	1,196	1,310	1,122
					Undistributed earnings	137	159	150	150
					Minority interests	0	0	0	0
Margin ratio					Key ratios				
	2020A	2021A	2022F	2023F	Multiple				
Gross profit margin	14.7%	11.0%	9.4%	8.6%	P/E	10.3	14.2	8.5	10.5
EBITDA margin	24.7%	20.9%	16.0%	16.6%	P/E diluted	10.3	14.2	8.5	10.5
EBIT margin	13.3%	9.6%	8.2%	7.4%	P/B	1.5	1.7	1.9	2.0
Pre-tax profit margin	10.9%	9.2%	9.3%	8.8%	P/S	1.0	1.2	0.7	0.9
Operating profit margin	11.0%	9.1%	9.3%	8.9%	P/Tangible Book	1.5	1.7	1.9	2.0
Net profit margin	10.3%	8.7%	8.7%	8.3%	P/Cash Flow	5.1	6.8	5.3	4.4
					EV/EBITDA	4.6	5.8	4.4	4.5
					EV/EBIT	8.5	12.6	8.6	9.9
					Operating performance				
					ROE	14.6%	12.6%	17.8%	15.0%
					ROA	9.8%	8.1%	10.6%	9.3%
					ROIC	16.2%	13.4%	18.1%	17.8%
					Financial structure				
					Cash Ratio	0.0	0.0	0.2	0.5
					Quick Ratio	0.7	0.9	1.0	1.3
					Current Ratio	0.9	1.1	-1.7	-2.7
					LT Debt/Equity	0.0	0.0	0.0	0.0
					LT Debt/Total Assets	0.0	0.0	0.0	0.0
					Debt/Equity	0.2	0.0	0.0	0.0
					Debt/Total Assets	0.1	0.0	0.0	0.0
					ST Liabilities/Equity	0.5	0.6	0.7	0.6
					ST Liabilities/Total Assets	0.3	0.4	0.4	0.4
					Total Liabilities/Equity	0.5	0.6	0.7	0.6
					Total Liabilities/Total Assets	0.3	0.4	0.4	0.4
					Activity ratios				
					Account Receivable Turnover	4.1	3.3	3.8	3.4
					Inventory Turnover	16.8	17.5	18.2	19.2
					Account Payable Turnover	20.6	8.6	7.9	6.7

Source: PV Power Nhon Trach 2, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information Technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Real Estate, Construction & Materials
ngaphb@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Retails & Consumers
dunglnt@kbsec.com.vn

Tieu Phan Thanh Quang
Analyst – Oil & Gas, Utilities
quangtpt@kbsec.com.vn

Nguyen Duc Huy
Analyst – Banks, Insurance & Securities
huynd1@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy, Chemicals
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy, Fishery & Textiles
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

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

Buy:	Hold:	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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.