

PV Power (POW)

Bouncing back from 2021 low

June 20, 2022

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NPAT increased sharply by 42% YoY, contrary to the 8% decrease in revenue in 1Q22

In 1Q22, PV Power (POW) posted NPAT of VND803 billion (+42% YoY) and revenue of VND7,061 billion (-8% YoY). The gross profit margin of 14.6% (vs. 11.4% in 1Q21) and the fall in interest expense to VND54 billion (-60% YoY) and G&A expenses to VND116 billion (-19% YoY) were the key drivers of NPAT growth.

Gas-fired thermal power would recover with divergence among plants

We expect the output of gas-fired thermal power to grow by 22.8% in 2022, with the momentum growth coming from: (1) the growing electricity demand nationwide with estimated output growth of 10.5%, the highest over the past five years; (2) the recovery of gas-fired thermal power plants in 2Q and 3Q22 thanks to the relaxation of Covid lockdowns. However, the prospect will vary among plants as PV Power Nhon Trach 2 (NT2) has the most positive outlook, but meanwhile, Ca Mau 1&2 gas thermal power plants will continue to suffer from gas shortages until 2023.

Hydropower continues to benefit from favorable hydrological conditions

The lack of coal supply for coal power plants and high gas prices for gas power plants pushed the electricity prices in the competitive electricity generation market (CGM). It benefits hydropower given its low input costs, leading to higher earnings growth than coal and gas-fired power plants. Therefore, we believe POW's hydropower segment will continue to grow strongly in 2022.

We recommend BUY for POW shares with a target price of VND19,800 apiece

Based on valuation results, business outlook, and possible risks, we recommend BUY for POW shares. The target price is VND19,800/share, 36.6% higher than the closing price on June 15, 2022.

Buy maintain

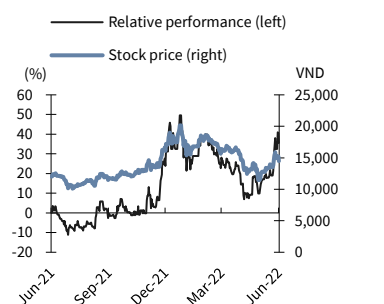
Target price	VND19,800
Upside/Downside	36.6%
Current price (Jun 15, 2022)	VND14,500
Consensus target price	VND16,900
Market cap (VNDbn)	33,958

Trading data	
Free float	20.0%
3M avg trading value (VNDbn)	198.14
Foreign ownership	46.8%
Major shareholder	PetroVietnam (79.94%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	33.2	-2.6	-8.1	26.6
Relative	28.0	14.5	10.2	40.7

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	29,732	24,565	30,118	31,875
EBIT (VNDbn)	3,371	2,405	3,164	3,471
NPATMI (VNDbn)	2,365	1,779	2,678	2,359
EPS (VND)	999	760	1,144	1,007
EPS growth (%)	-2.8	-23.9	51.0	-12.0
P/E (x)	42.5	95.4	17.8	20.2
EV/EBITDA (x)	17.3	33.0	9.4	9.6
P/B (x)	3.2	5.3	1.3	1.1
ROE (%)	8.5	6.3	8.2	6.4
Dividend yield (%)	1.0	0.4	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Business performance

NPAT increased sharply by 42% YoY, contrary to the 8% decrease in revenue in 1Q22

In 1Q22, POW recorded NPAT of VND803 billion (+42% YoY) and revenue of VND7,061 billion (-8% YoY). The gross profit margin of 14.6% (vs. 11.4% in 1Q21) and the fall in interest expense to VND54 billion (-60% YoY) and G&A expenses to VND116 billion (-19% YoY) were the key drivers of NPAT growth.

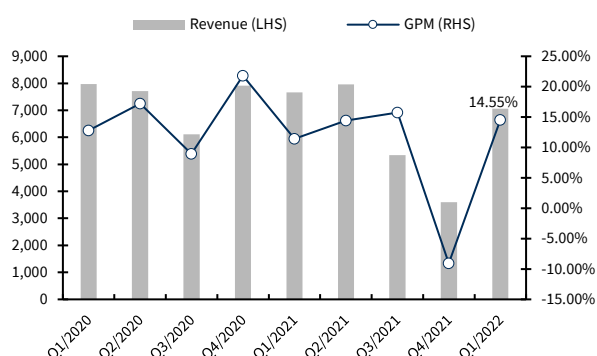
Power output dropped sharply due to the overhaul of the Vung Ang thermal power plant

Commercial power output in the first quarter of 2022 was 3,660 million kWh (-21% YoY), with 2,498 million kWh (+2% YoY) from gas-fired power, 333 million kWh (+15% YoY) from hydropower, and 829 million kWh (-57% YoY) from coal-fired power. The sharp fall in coal power output was due to the overhaul of unit 1 of the Vung Ang thermal power plant from September 2021 until 3Q22, given some problems, adversely impacting the total output of POW. In addition, gas-fired power output witnessed recovery compared to 3Q and 4Q21 thanks to the resumption of production activities and higher mobilization of gas-fired power to make up for the shortfall of thermal power plants resulting from the coal supply shortage.

The BOD set a conservative business plan for 2022

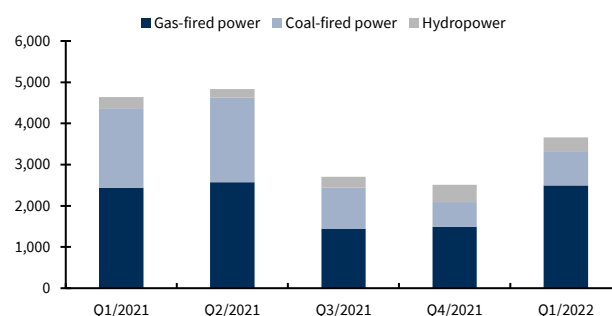
At the FY21 AGM, POW's management aimed toward NPAT of VND743 (-63% YoY) and revenue of VND24,242 billion (-1% YoY) in 2022. We believe this is a conservative plan in the context of rising electricity prices in the CGM and that POW often exceeded the target plan by 20%-50% in the past. Furthermore, POW's business plan does not include insurance proceeds for the overhaul of the Vung Ang thermal power plant, compensation for currency exchange rate losses by EVN, and proceeds from the divestment from Viet Lao Power JSC.

Fig 1. POW – Revenue, gross profit margin (VNDbn, %YoY)



Source: PV Power, KB Securities Vietnam

Fig 2. POW – Electricity output (million kWh)



Source: PV Power, KB Securities Vietnam

Table 1. POW – 1Q21–2Q22 business results

VND bn	1Q2021	1Q2022	%YoY	Notes
Output (million kWh)	4,641	3,660	-21.1%	Output dropped sharply due to the impact of the incident at Vung Ang thermal power plant.
Gas-fired power				Output recovered compared to Q3 and Q4/2021 and increased slightly YoY as A0 increased mobilized output from hydropower and renewable energy sources and offset the shortfall from coal power.
	2,440	2,498	2.3%	
Coal-fired power	1,910	829	-56.6%	Impact from the incident at Vung Ang thermal power plant.
Hydropower	290	333	14.8%	Favorable hydrological situation helps hydroelectricity to be mobilized.
Average selling price (VND/kWh)				
Gas-fired power				Gas prices increased sharply due to the impact of the increase in the price of Brent oil leading to higher average selling prices of gas power plants.
	1,666	1,945	16.8%	
Coal-fired power	1,537	1,705	10.9%	The selling price of coal power is higher due to the higher cost of input materials due to the scarcity of coal supply.
Hydropower	1,076	1,232	14.4%	The average selling price is higher thanks to the higher price of CGM market in Q1/2022.
Revenue (billion VND)	7,661	7,061	-7.8%	
Gas-fired power	4,065	4,858	19.5%	
Coal-fired power	2,936	1,413	-51.9%	
Hydropower	312	411	31.4%	
Gross profit	876	1,027	17.3%	
GPM (%)	11.43%	14.55%		Higher gross profit margin thanks to positive price movements in the competitive generation market (CGM).
SG&A expenses	(141)	(116)	-17.9%	
% SG&A / Revenue	-1.84%	-1.64%		
Operating profit	97	66		
Financial Income	112	38		In the first quarter of 2021, REE divested from Quang Ninh Thermal Power (QTP), leading to a sharp increase in financial income.
Financial expenses	(158)	(108)		
Net other income	5	10		
Profit before tax	679	880	29.6%	
Profit after tax	566	803	42.0%	
NPM (%)	7.39%	11.38%		

Source: PV Power, KB Securities Vietnam

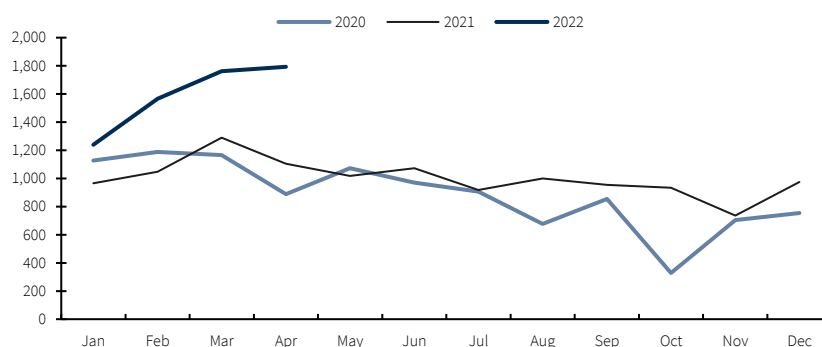
Gas-fired thermal power would recover with divergence among plants

In 2021, POW's gas-fired power output was only 7,946 million kWh (-31% YoY) due to weak demand during lockdowns and National Load Dispatch Centre's priority in mobilizing renewable energy sources. Although the output in the first five months of 2022 was flat YoY, we expect the output of the gas-fired power segment to grow by 22.8% in 2022 with the main drivers: (1) the growing electricity demand nationwide with estimated output growth of 10.5%, the highest over the past five years; (2) the recovery of gas-fired thermal power plants in 2Q and 3Q22 thanks to the relaxation of Covid lockdowns.

We also note that the peak of the dry season falls between May and August. It leads to a sudden increase in electricity demand and the need for stable operation of coal-fired power plants to offset the lack of hydropower. As the coal shortage may continue in the coming period, we believe that EVN will need to look to other stable power supplies to ensure electricity demand during the hot season. Gas power can offset coal-fired power thanks to domestic supplies. As a result, we believe the annual average electricity price in the CGM will be around VND1,400/kWh (+40% YoY) due to higher mobilization from gas-fired thermal power plants. It will boost the gross profit margin of the gas-fired thermal power segment.

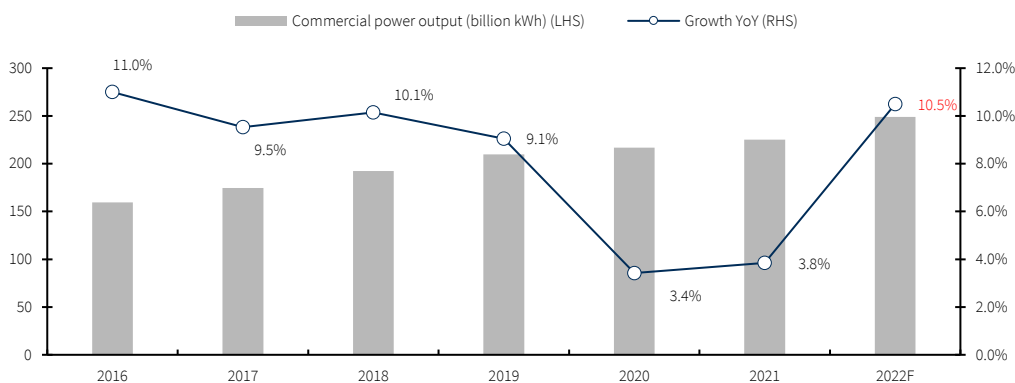
Despite taking a positive stance on POW's gas-fired power segment, we find the divergence among its plants as NT2 will have the most positive outlook in 2Q, 3Q, and 4Q22 (Please refer to [NT2's Q1 2022 Update Report](#) for further information). Besides, as shared by POW, Ca Mau 1&2 thermal power plants are suffering from the lack of gas for electricity generation, with POW's gas supply in May only enough to run 2/3 of the units, leading to lower contractual power output (Qc) than the factory's operating capacity. As far as we know, the gas supply for Ca Mau thermal power plants is from the PM3-CAA oil and gas field run by PV GAS in cooperation with Petronas (Malaysian petroleum company). Given the complicated trading process and prolonged negotiation, we estimate POW will complete the negotiation to buy more gas from Petronas to supplement Ca Mau 1&2 thermal power plants in late 2023 and have enough gas supply from 2024 onwards.

Fig 3. Vietnam – Average electricity price in the CGM (VND/kWh)



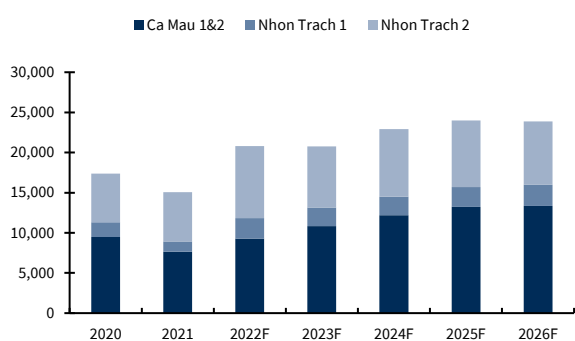
Source: EVN GENCO3, KB Securities Vietnam

Fig 4. Vietnam – Commercial power output (billion kWh, %YoY)



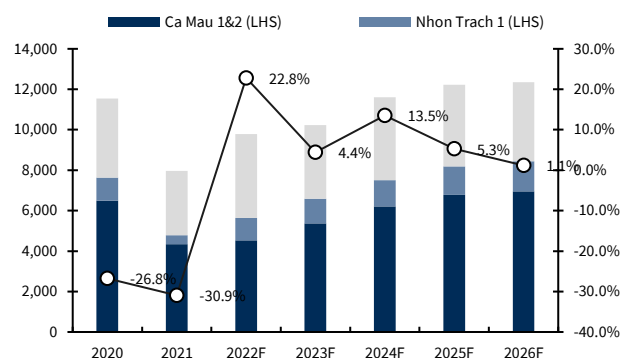
Source: Vietnam Electricity, KB Securities Vietnam

Fig 5. POW – Revenue from gas-fired power plants (VNDbn)



Source: PV Power, KB Securities Vietnam

Fig 6. POW – Gas-fired power output (mn kWh)

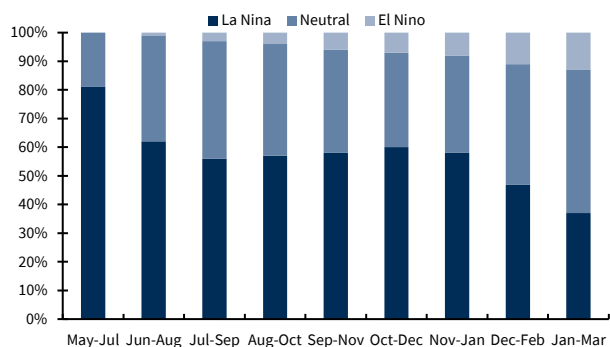


Source: PV Power, KB Securities Vietnam

Hydropower continues to benefit from favorable hydrological conditions

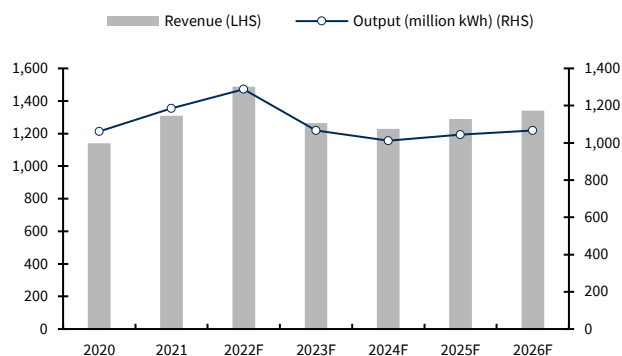
Major meteorological organizations worldwide predict that the La Nina phenomenon will last until the end of 2022, ensuring enough water for hydropower plants. Therefore, the diversified hydropower portfolio will help PC1 Group (PC1) benefit from favorable hydrology throughout the year. In addition, the lack of coal supply for power plants and high gas prices for gas-fired power plants pushed electricity prices in the CGM. It would drive hydropower revenue as its sold output usually accounts for 20% of the total commercial power output, and the cost of electricity generated by hydropower is generally low. Therefore, we believe that POW's hydropower segment will continue to grow strongly in 2022 before facing challenges in 2023, given the high chance of a neutral weather pattern.

Fig 7. Global – Chance of La Nina, El Ninos



Source: IRI, KB Securities Vietnam

Fig 8. POW – Revenue and output of hydropower (VNDbn, mn kWh)

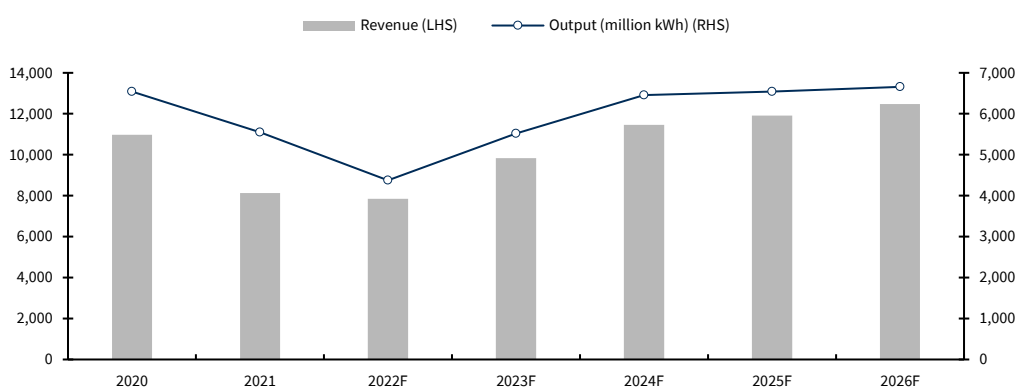


Source: PV Power, KB Securities Vietnam

The outlook for coal-fired power is subdued

In September 2021, POW had to stop unit 1 of the Vung Ang thermal power plant for overhaul, which should complete in 3Q22. The operation of half of the unit negatively affected the output of Vung Ang. In addition, given the lack of coal supply for coal-fired power plants in the context that Vinacomin and Dong Bac Corporation haven't found alternative suppliers, the prospect of Vung Ang in 2022 is subdued. However, the output will bounce back again in 2023 with the maintenance completed and the coal supply resolved. Therefore, we forecast that Vung Ang's commercial power output this year at 4,375 million kWh (-21% YoY), equivalent to VND7,840 billion (-4% YoY) in revenue thanks to the higher electricity price to offset the output decrease.

Fig 9. POW – Revenue and output of Vung Ang 1 thermal power (VNDbn, million kWh)



Source: PV Power, KB Securities Vietnam

Forecast & Valuation

In 2022, revenue and NPAT should grow by 22.6% YoY and 51.9% YoY, respectively

We estimate POW's NPAT to reach VND3,084 billion (+ 52% YoY) on revenue of VND30.118 billion (+23% YoY) in 2022, assuming that:

- The average Brent crude oil price is USD105/barrel, and the average gas price is USD10.2/MMBTU (+28.7% YoY).
- The average electricity price is VND1,400/kWh (+40% YoY).
- POW will complete the overhaul at Vung Ang 1 in the third quarter of 2022.
- Ca Mau 1&2 Thermal Power Plants continue to face gas shortages.
- POW would receive VND300 billion in compensation for Vung Ang 1 and VND587 billion of currency exchange rate losses by EVN at the end of 2022.

In 2023, revenue and NPAT should be up 5.8% YoY and down 12.0% YoY, respectively

We forecast POW to achieve VND3,303 billion (+10% YoY) in NPAT and VND31,875 billion (+20% YoY) in revenue in 2023, assuming that:

- The average Brent crude oil price is USD95/barrel, and the average gas price is USD10/MMBTU (-2% YoY).
- The average electricity price is VND1,470/kWh (+5% YoY).
- Ca Mau 1&2 thermal power plants would continue to face gas supply shortages until the end of 2023.

Table 2. POW – 2021A–2023E business results

VND bn	2021A	2022F	2023F	Notes
Output (million kWh)	14,711	15,455	16,812	
Gas-fired power	7,973	9,792	10,224	Output recovers thanks to the low base level of 2021 and the need to mobilize to compensate for the coal shortage of coal power plants.
Coal-fired power	5,553	4,375	5,521	Impact from the incident of unit 1 of Vung Ang thermal power plant and the lack of coal. It is expected that by the end of the 3Q2022, Vung Ang will complete the overhaul.
Hydropower	1,185	1,288	1,067	The favorable hydrological situation with La Nina lasts until the end of 2022, helping hydroelectricity to be mobilized more before entering the neutral phase in 2023.
Average selling price (VND/kWh)				
Gas-fired power	1,888	2,123	2,032	Gas prices increased sharply due to the impact of the increase in the price of Brent oil leading to higher average selling prices of gas power plants.
Coal-fired power	1,464	1,792	1,781	The selling price of coal power is higher due to the higher cost of input materials due to the scarcity of coal supply.
Hydropower	1,105	1,156	1,184	Higher average selling price thanks to higher CGM price.
Revenue (billion VND)	24,565	30,118	31,875	
Gas-fired power	15,055	20,789	20,778	
Coal-fired power	8,131	7,840	9,834	
Hydropower	1,309	1,489	1,263	
Gross profit	2,543	3,946	4,299	
GPM (%)	10.35%	13.10%	13.49%	Higher gross profit margin thanks to positive price movements in the competitive generation market (CGM).
SG&A expenses	(138)	(782)	(828)	SG&A costs are high again as factory operations return to normal.
% SG&A / Revenue	-0.56%	-2.60%	-2.60%	
Operating profit	2,405	3,164	3,471	
Financial income	697	1,191	529	We expect that at the end of 2022, POW will record VND 584 billion of FX loss compensation from EVN.
Financial expenses	(671)	(889)	(953)	Higher interest expense due to capital mobilization to implement Nhon Trach 3 & 4 project.
Net other income	-120	300	20	300 billion VND recorded incident compensation in Vung Ang 1 in 2022.
Profit before tax	2,319	3,521	3,102	
Profit after tax	2,032	3,084	2,717	
NPM (%)	8.27%	10.24%	8.52%	

Source: PV Power, KB Securities Vietnam

We recommend BUY for POW shares with a target price of VND19,800

Based on two valuation methods, sums-of-the-parts (SOTP) and the EV/EBITDA, with the weight of 50:50, we recommend BUY for POW stock with a target price of VND19,800/share, 36.6% higher than the closing price on June 15, 2022. Our valuation will not include the large Nhon Trach 3 & 4 gas-fired power project until further detailed information about the project's power purchase agreement (PPA) and the calculation of the selling price of LNG in Vietnam.

Table 3. POW – Target price according to the SOTP valuation method (VND/share)

Valuation	Method	Value of POW
Ca Mau 1&2	DCF	9,846
Nhon Trach 1	DCF	1,424
Nhon Trach 2	DCF	5,353
Hua Na	DCF	4,637
Dakdrinh	DCF	4,614
Vung Ang 1	DCF	29,547
Total enterprise value		55,421
(+) Cash & Short term investments		5,470
(-) Net debt		-10,253
(-) Minority interests		-2,894
Total Equity value		47,744
No. of outstanding shares (million shares)		2,341.90
Target price		20,387

Source: KB Securities Vietnam

Table 4. POW – Target price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted forecast price
SOTP	20,387	50%	10,194
EV/EBITDA (9x)	19,215	50%	9,608
Target price (rounded)			19,800
Current price (15/06/2022)			14,500
Upside			36.6%
Div. yield			0.0%
TSR			36.6%

Source: PV Power, KB Securities Vietnam

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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

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