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2Q NPAT increased, while revenue decreased slightly

In 2Q22, Quang Ninh Thermal Power's (QTP) revenue was flat YoY at VND2,415 billion (-2.3% YoY). However, with a high gross profit margin (GPM) of 14.4% (vs 10.4% in 1Q21), 2Q22 NPAT reached VND267.5 billion (+31.8% YoY). In 1H22, QTP's NPAT and revenue are VND600 billion (+93.5% YoY) and VND5,014 billion (+18% YoY) respectively. 1H22 GPM surged to 15.2% (vs 10.3% in 1H2021).

Coal-fired power plants will have a brighter prospect in 2023 when the weather conditions are no longer favorable for hydropower

The La Nina is forecast to last until the end of this year, which will guarantee the amount of water in hydroelectric plants. However, the probability of the weather pattern entering the neutral phase may surpass the threshold of 50% in 2023, so the water reserves in hydro plants will be lower than that in 2021-2022 period. In addition, the proportion hydropower in the North's power supply structure is high. Therefore, we believe that thermal power plants like QTP will benefit.

Paying off debt is the driving force to improve dividend yield

As QTP has paid off all debts, we believe that QTP will keep its current attractive dividend yield (unless there are expansion plans). QTP has paid dividends since 2020 at the rate of 2% which has gradually got higher over the years. We expect that QTP will maintain its cash dividend at VND1,600/share for the next two years and raised it to VND1,800/share from 2024 thanks to its abundant cash flows.

We recommend BUY for QTP stock with a target price of VND23,000

Based on FCFE and EV/EBITDA valuation methods, business outlook and possible risks, we recommend BUY for QTP stocks with a target price of VND23,000/share, 42.9% higher than the closing price on July 29, 2022.

Buy

Target price	VND23,000
Upside/downside	42.9%
Current price (July 29, 2022)	VND16,100
Consensus target price	VND20,200
Market cap (VNDtn/USDmn)	7,245

Forecast earnings & valuation

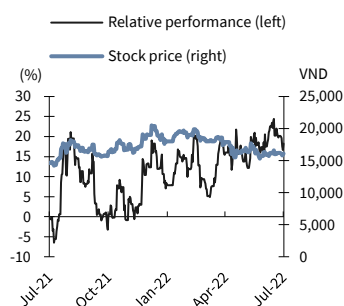
FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	9,182	8,571	9,329	9,703
EBIT (VNDbn)	1,729	734	1,000	1,190
NPATMI (VNDbn)	1,306	578	907	1,172
EPS (VND)	2,901	1,284	2,016	2,605
EPS growth (%)	100.5	-55.7	57.0	29.0
P/E (x)	3.5	13.5	11.4	8.8
EV/EBITDA (x)	2.6	5.7	5.9	5.0
P/B (x)	0.8	1.3	1.5	1.3
ROE (%)	21.4	9.4	13.3	14.8
Dividend yield (%)	2.0	5.8	7.0	7.0

Trading data

Free float	88.4%
3M avg trading value (VNDbn/USDmn)	7.86
Foreign ownership	47.7%
Major shareholder	GENCO 1 (42.00%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-2.5	-9.7	-11.7	8.9
Relative	-1.6	1.0	8.1	16.6



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q NPAT increased, while revenue decreased slightly

In 2Q22, Quang Ninh Thermal Power's (QTP) revenue was flat YoY at VND2,415 billion (-2.3% YoY). However, with a high gross profit margin (GPM) at 14.4% (vs 10.4% in 1Q21), 2Q22 NPAT reached VND267.5 billion (+31.8% YoY). In 1H22, QTP's NPAT and revenue are VND600 billion (+93.5% YoY) and VND5,014 billion (+18% YoY) respectively. GPM in 1H22 surged to 15.2% from 10.3% in 1H2021.

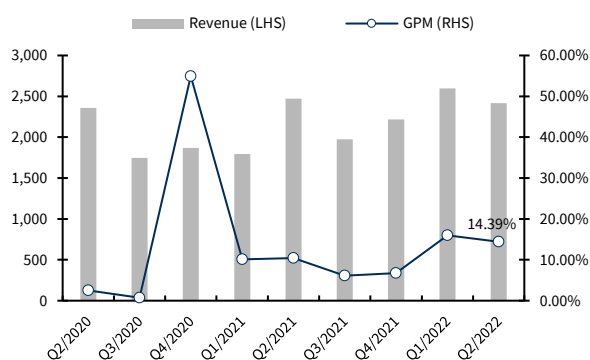
1H22 business results were outstanding thanks to positive developments on the CGM

In 1H2022, the prices of electricity in the competitive generation market (CGM) increased sharply to VND1,447/kWh (+34% YoY) on average as the National Load Dispatch Center (A0) had to mobilize electricity more from gas-fired thermal plants to compensate for the shortfall in the output of coal-fired power ones. QTP's average electricity price reached VND1,472/kWh (+15% YoY).

The plan to overhaul unit 1 will be implemented in 2H22

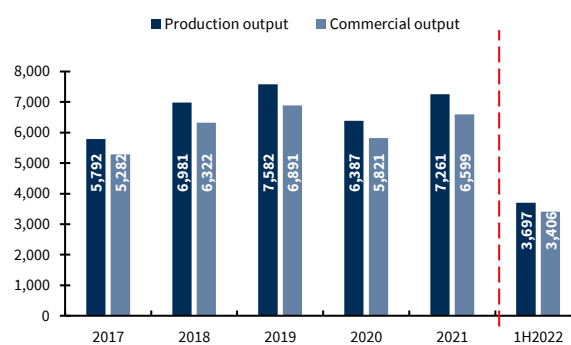
According to the plan for 2021 fiscal year published in the shareholders' annual general meeting, QTP will overhaul unit 1 in September and October 2022. We believe this will not affect the plant much as QTP usually implement the overhaul in 3Q every year. This is the rainy season so A0 asked for more hydroelectricity. Annual overhauls help QTP's machinery system to operate stably in the coming time, especially in the dry season of 2023.

Fig 1. QTP – Business performance (VNDbn)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Fig 2. QTP – Electricity output (million kWh)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Table 1. QTP – Overhaul schedule in 2018–2022

	2018	2019	2020	2021	2022
Generator 1	Minor maintenance	Minor maintenance	Minor maintenance	Minor maintenance	Major maintenance
Generator 2	Major maintenance	Minor maintenance	Minor maintenance	Minor maintenance	Minor maintenance
Generator 3	Minor maintenance	Major maintenance	Major maintenance	Minor maintenance	Minor maintenance
Generator 4	Minor maintenance	Minor maintenance	Minor maintenance	Major maintenance	Minor maintenance

Source: Quang Ninh Thermal Power, KB Securities Vietnam

Table 2. QTP – 1H22 business performance

VND bn	1H2021	1H2022	%YoY	Notes
Output (million kWh)	3,333	3,406	2.2%	
Average selling price (VND/kWh)	1,280	1,472	15.0%	The average selling price is higher thanks to the higher price of CGM market
Revenue (billion VND)	4,265	5,014	17.6%	
Gross profit	438	763	74.1%	
GPM (%)	10.27%	15.21%		Higher gross profit margin thanks to positive price movements in the competitive generation market (CGM)
SG&A expenses	(40)	(47)	18.2%	
% SG&A / Revenue	-0.94%	-0.94%		
Operating profit	398	716		
Financial Income	35	16	-54.7%	Financial income dropped due to no recorded profit from FX as in 1H2021
Financial expenses	(105)	(98)		
Net other income	-2	-2		
Profit before tax	326	632	93.8%	
Profit after tax	310	600	93.5%	
NPM (%)	7.27%	11.97%		

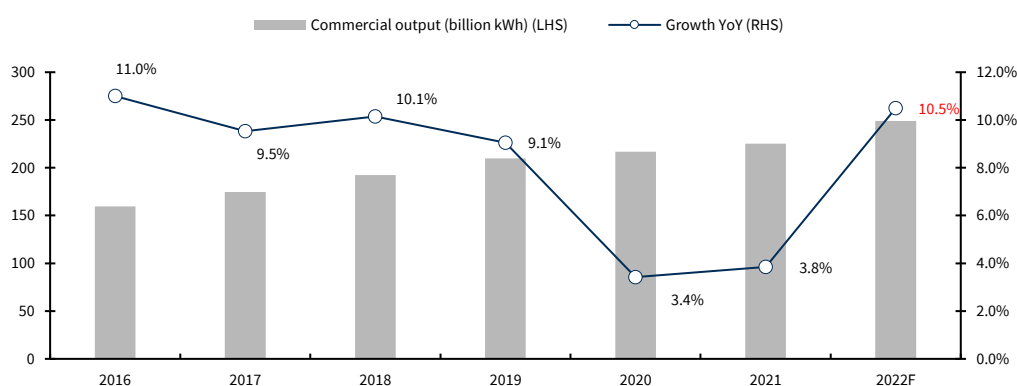
Source: Quang Ninh Thermal Power, KB Securities Vietnam

Coal thermal power plants, including QTP, are still the main power suppliers in the North

As the economy is opening and turning back to normal, the demand on electricity of the country should recover, and electricity output should grow 10.5% in 2022, five-year highs. However, we noted that the supply is not enough to meet the demand, especially in the North while the demand in this region accounts for nearly 50% of the national demand and may even grow higher than the national average. An electricity shortage in the North is likely to occur because of: (1) the low growth of installed capacity (7.1%/year in the period 2021 – 2030) vs high growth of load demand (9.4%/year), (2) high proportion of hydroelectricity (more than 45% of the total source capacity) which is easily affected by the unpredictable weather conditions, and (3) the concentration of new renewable energy projects such as wind power and solar power in the Central and Southern regions thanks to favorable natural conditions. The transmission capacity of electricity supply from the Central and the South to the North is limited as the North-South 500kV transmission line may cause a large transmission loss. Indeed, the load on July 18, 2022 in the North has set a new peak of 22,800 MW, while the installed capacity is 28,000 MW. With the power structure set to only about 20–25% higher than the peak load and no new projects coming in the near future, we believe that coal-fired power will still be an important source of electricity, especially in the North in the coming years.

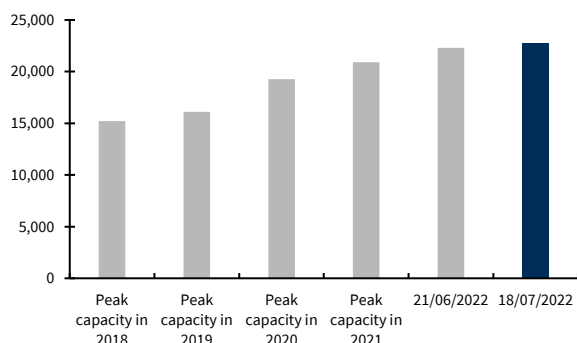
In addition, coal prices continuously set new highs due to the prolonged war between Russia and Ukraine, adversely affecting the production of coal-fired power plants in 1H2022. However, QTP mainly uses domestic supplies and signed a long-term contract for coal supply with Vinacomin (TKV) and Dong Bac Corporation at VND1.6–1.8 million/ton, lower than that of other coal-fired power plants. Besides, the increase in main raw materials cost, if any, will be made up by the rise in selling prices under the contract. Raw material price surges will primarily affect the electricity prices in the CGM. In our estimates, coal prices may increase by 10–15% in 2022 as the inventory of low-priced mixed coal is running out and will be replaced with imported supplies at higher prices. Nevertheless, coal price rallies are less affected by the electricity prices in the CGM, which may increase by the same amount next year given the reduced capacity of hydropower plants and higher mobilization of electricity output generated from gas and coal.

Fig 3. Vietnam – Nationwide commercial electricity output (billion kWh, %YoY)



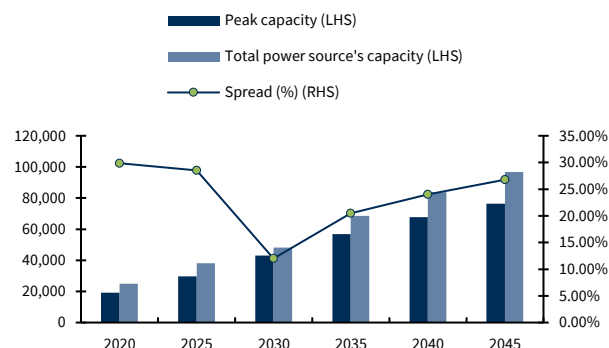
Source: Vietnam Electricity, KB Securities Vietnam

Fig 4. Vietnam – Records in electricity consumption in the North (MW)



Source: Vietnam Electricity, KB Securities Vietnam

Fig 5. Vietnam – Electricity supply-demand in the North (MW)

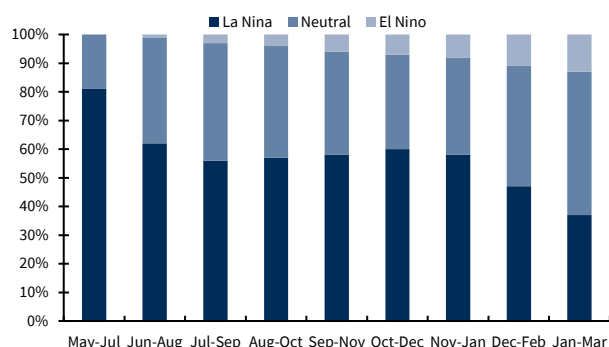


Source: National Power Development Plan VIII, KB Securities Vietnam

The prospect of coal-fired power plants will be brighter in 2023 as hydropower plants no longer benefit from favorable weather conditions

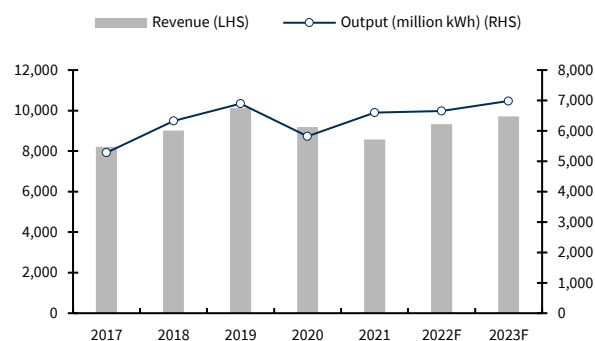
Major meteorological organizations in the world predicted that the La Nina phenomenon would continue until the end-2022, ensuring a large amount of water for hydropower plants. However, the forecast also implies the probability of the neutral weather pattern will be above the 50% threshold from 2023, meaning less water to reservoirs for hydropower plants compared to the 2021-2022 period. Given a large proportion of hydropower in the North's mobilized electricity output, we believe thermal power plants, including QTP, will benefit from this. As a result, QTP's NPAT and revenue in 2023 should be VND1,128 billion (+30.8% YoY) and VND9,702 billion (+4% YoY). It is attributable to a 5% YoY increase in sales volume as well as a 5-7% YoY rise in the average selling price in the CGM due to modest contribution from low-priced power like hydroelectric power.

Fig 6. Global – Chance of La Nina, El Nino



Source: IRI, KB Securities Vietnam

Fig 7. QTP – Revenue, electricity output (VNDbn, mn kWh)

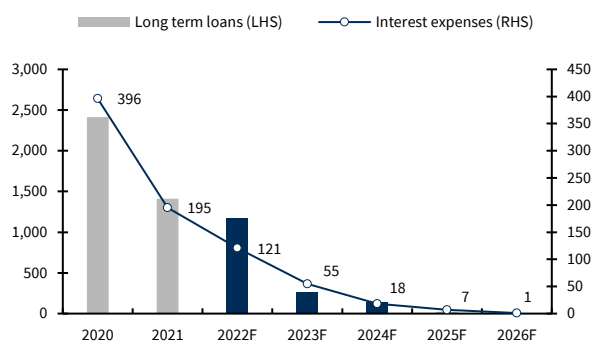


Source: Quang Ninh Thermal Power, KB Securities Vietnam

QTP is expected to raise dividend payout ratio after paying off debts

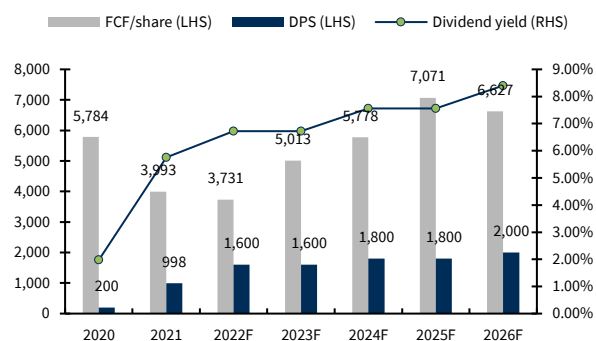
QTP released its 2Q22 financial statements with only VND1,803 billion of debts, 40% of which is in USD, which will be less affected by interest expenses and the risk of exchange rate changes. Based on the debt repayment schedule and actual situation, we forecast that QTP will pay off debts in 2026, thus improving the company's net cash flow. QTP's interest expense is expected at VND121 billion (-37.8% YoY) in 2022 (vs. VND195 billion in 2021) and would continue to drop to VND55 billion in 2023 and VND18 billion in 2024 in our estimates. With no debts and no large-scale expansion plan in the coming period, we believe QTP will keep its current attractive dividend yield and even raise the dividend yield in the coming years. QTP started paying dividends in 2020 at 2% and has gradually increased dividend yield over the years. At the FY22 AGM, QTP approved a resolution to pay cash dividends at 16% for 2021 and 10% for 2022-2023. It seems to be a conservative plan as NPAT is forecasted to grow strongly from 2022. Therefore, we expect that QTP will maintain a 16% cash dividend equivalent to VND1,600/share for the next two years and increase to VND1,800/share from 2024 onwards thanks to its healthy cash flow. In addition, if its major state shareholder EVN GENCO1 successfully makes an IPO in 2023, it will be a driving force for QTP to increase dividend payout ratio above our expectations.

Fig 8. QTP – Long-term debts, interest expenses (VNDbn)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Fig 9. QTP – Free cash flow/share, dividend (VND/share, %)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Forecast & Valuation

In 2022, revenue and NPAT should grow by 9% YoY and 57% YoY

In 2022, we estimate QTP's NPAT at VND907 billion (+ 57% YoY) on revenue of VND9,329 billion (+9% YoY) on the assumptions that:

- Commercial power output in 2022 will reach 6.648 million kWh (+0.8% YoY) due to maintenance of unit 1.
- Fixed cost (FC) under PPA contracts is VND357/kWh (-11% YoY) since QTP no longer enjoys profile price (including premiums and depreciation cost) and machinery of Quang Ninh 1 thermal power plant fully depreciated.
- Coal prices increase by 13% YoY due to the shortage of imported coal to mix with domestic supply for power generation.
- The average electricity price in the CGM is VND1,450/kWh (+24% YoY).

In 2023, revenue and NPAT should increase by 4% YoY and 29% YoY

In 2023, QTP's NPAT should reach VND1,251 billion (+29% YoY) on revenue of VND9,702 billion (+4% YoY), assuming that:

- Commercial electricity output in 2023 will reach 6.983 million kWh (+5% YoY) due to the unfavorable hydrological conditions for hydropower plants.
- Coal prices are down 2% YoY.
- The average electricity price in the CGM is VND1,522/kWh (+5% YoY) because EVN needs to increase mobilization from thermal power plants.

Table 3. QTP – 2022E–2023E business results

VND bn	2021A	2022E	2023E	Notes
Output (million kWh)	6,599	6,648	6,983	
Average selling price (VND/kWh)	1,299	1,403	1,389	
Revenue (billion VND)	8,571	9,329	9,703	
Gross profit	990	1,107	1,297	
GPM (%)	11.55%	11.86%	13.37%	Higher gross profit margin thanks to positive price movements in the competitive generation market (CGM)
SG&A expenses	(256)	(107)	(107)	
% SG&A / Revenue	-2.99%	-1.15%	-1.10%	
Operating profit	734	1,000	1,190	
Financial Income	82	95	122	Higher cash balance leads to higher financial income
Financial expenses	(195)	(121)	(55)	Debts are due for payment in 2021 and 2022, leading to a sharp decrease in interest expenses after repayment is completed
Net other income	-4	-7	-7	
Profit before tax	617	968	1,251	
Profit after tax	578	907	1,172	
NPM (%)	6.74%	9.73%	12.08%	

Source: Quang Ninh Thermal Power, KB Securities Vietnam

We recommend BUY for QTP stock with a target price of VND23,000/share

Based on two valuation methods FCFF (discounted cash flow to the firm) and EV/EBITDA with a ratio of 50:50, we recommend BUY for QTP stock. The target price is VND23,000/share, 42.9% higher than the closing price on July 29, 2022. Our valuation does not include the upgrade and expansion plan worth VND2.3 trillion for two existing plants due to the lack of details.

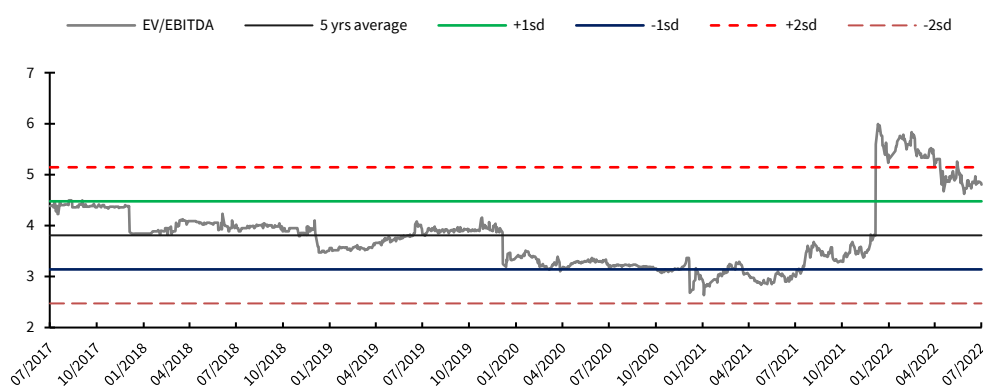
Table 4. QTP – Share price according to DCF valuation method

Risk-free rate	3.43%	Terminal growth rate	0%
Equity risk premium	7.8%	PV of Terminal Value	0
Beta	1.00	PV of Free Cash Flows	13,381
KE	11.2%	Total value of FCF and TV	13,381
Cost of debt	7.0%	Plus: Cash & ST investments (*)	281
Corporate tax rate %	5-20%	Less: Debt	-1,804
Cost of debt after tax	5.6-6.65%	Less: Minority Interest	0
Equity weighted	95-100%	Equity Value	11,858
WACC	11-11.23%	No. of outstanding shares (mn shares)	450.0
		Value per share (VND)	26,351

Source: Bloomberg, KB Securities Vietnam

We give QTP a target EV/EBITDA of 5.5x, doubling the five-year average standard deviation of QTP. We find that QTP's EV/EBITDA should be higher after deferring depreciation and paying off debts. With a positive outlook in the coming period when the mobilized power output in the North is still heavily dependent on coal-fired power, we believe a target EV/EBITDA of 5.5x is reasonable.

Fig 10. QTP – EV/EBITDA



Source: Bloomberg, KB Securities Vietnam

Table 5. QTP – Share price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted price
FCFF	26,351	50%	13,576
EV/EBITDA (5x)	19,680	50%	10,240
Target price (rounded)			23,000
Current price (July 29, 2022)			16,100
Upside			42.9%

Source: 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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