

PV Nhon Trach 2 (NT2)

Facing challenges in 2H23

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2Q23 NPAT and revenue decreased over the same period last year

In 2Q23, PV Power Nhon Trach 2 (NT2) posted NPAT of VND144.2 billion (-60.5% YoY) on net revenue of VND2,182 billion (-18.2% YoY). In 1H23, commercial power volume reached 2,128 million kWh (-2% YoY). GPM just surpassed 7%. NT2's NPAT plunged YoY due to (1) falling average electricity price in line with cooling input costs, (2) shrinking commercial power volume, (3) higher expenses as NT2 had to use diesel for electricity generation, and (4) high base levels in 2Q22.

NT2 may face short-term challenges in 2H23

Current slowing electricity demand growth may continue in 2H23. Power consumption is primarily driven by energy-intensive sectors such as industrial production - construction. In addition, NT2 will carry out an overhaul, thus dampening its power output in 2H23. We assess NT2's mobilized power output in 2H23 will be lower than that in 1H23, so we keep 2023F output of 4,032 million kWh (-0.8% YoY) for NT2.

NT2 should be back to growth trajectory from 2024 vs. 2023's low bases

NT2 should seize opportunities in 2024. Natural gas prices have much declined compared to the median in 2022, which aligns with our projection in the previous report. NT2 can therefore enhance its competitiveness. Besides, we expect industrial production and construction activities to recover well next year to boost electricity demand.

We recommend HOLD for NT2 with a target price of VND32,200/share

Based on valuation results, business outlook, and possible risks, we recommend HOLD for NT2. The target price is VND32,200/share, 9.2% higher than the closing price on August 16, 2023.

Hold maintain

Target price VND 32,200

Upside	9.2%
Current price (Aug 16, 2023)	VND 29,500
Consensus target price	VND 32,900
Market cap (VNDbn)	8,521

Trading data

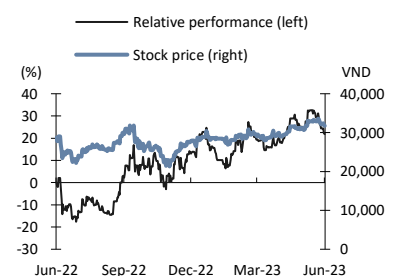
Free float	32.3%
3M avg trading value	23.68
Foreign ownership	33.1%
Major shareholder	PV Power (POW, 59.4%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	1.9	9.5	14.6	14.2
Relative	-2.7	1.9	7.7	24.1

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	6,150	8,788	8,571	9,403
EBIT (VNDbn)	559	957	702	988
NPAT of parent company (VNDbn)	534	883	735	998
EPS (VND)	1,756	2,992	2,552	3,468
EPS growth (%)	-16.2	70.4	-14.7	35.9
P/E (x)	14.4	9.7	12.6	9.3
P/B (x)	1.2	1.8	1.9	1.8
ROE (%)	13%	19%	15%	19%
Dividend yield (%)	12%	6%	6%	8%



2Q23 performance updates

2Q revenue and NPAT decreased over the same period

NT2's 2Q2023 net revenue reached VND 2,182 billion (-18.2% YoY) and profit after tax recorded VND144.2 billion (-60.5% YoY). In the first half of 2023, commercial power output reached 2.128 million kWh (-2% YoY). Output decreased slightly over the same period in the context of low electricity demand in the South.

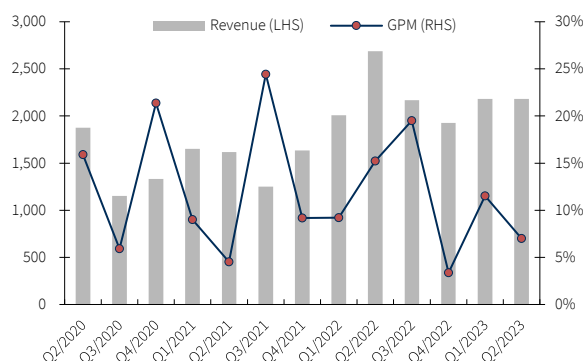
Gross profit margin in 2Q23 was just over 7%. NT2's NPAT fell sharply over the same period due to (1) falling average electricity price in line with cooling input costs, (2) shrinking commercial power volume, (3) higher expenses as NT2 had to use diesel for electricity generation for a period, and (4) high base levels in 2Q22.

Table 1. NT2 – 1H22–1H23 business results

	1H22	1H23	+/-%YoY	KBSV's notes
Output (million kWh)				
Contract output (Qc)	2,176	2,129	-2%	Commercial power output decreased over the same period due to the exhausting of gas fields.
Average gas price (USD/MMBTU)	10.1	8.9	-12%	Input gas prices fell in the same direction as oil prices, which aligns with our forecasts.
Average selling price of electricity (VND/kWh)	2,147	2,065	-3.8%	The average price of electricity decreased slightly because of lower input prices but remained at a high level.
Revenue (VNDbn)	4,695	4,366	-7%	Revenue is affected by the decline in power prices and commercial output.
Cost of goods sold (VNDbn)	-4,101	-3,952	-4%	
Gross profit (VNDbn)	594	414	-30%	
Gross profit margin (%)	13%	9%		
SG&A costs (VNDbn)	-38	-38	-1%	
% SG&A/sales (%)	2%	2%		
Operating income (VNDbn)	552	404	-27%	
Financial income (VNDbn)	3.2	40	1,125%	Financial income gained thanks to earnings from bank deposits
Financial expenses (VNDbn)	-7	-12		
Other incomes (net)	0.2	-0.2		
Profit before taxes (VNDbn)	553	404	-27%	
Profit after taxes (VNDbn)	525	378	-28%	

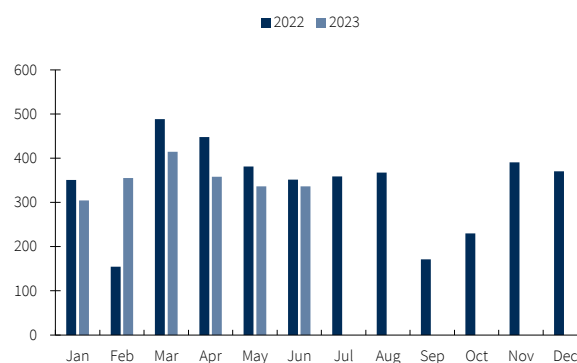
Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 2. NT2 – Revenue & GPM (VNDbn, %)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 3. NT2 – Commercial power output (million kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

NT2 may face short-term challenges in 2H23

Electricity demand is growing slower than we expected, which may continue for the rest of the year. 7M23 electricity output of the whole power system only reached 160.58 billion kWh (+1.95% YoY). The demand is affected by the low consumption of energy-intensive customers from the industrial and construction sectors. Moreover, July is the beginning of the rainy season in the South. The decrease in temperature is also a factor affecting load demand, electricity prices and mobilizing capacity of power plants on the market.

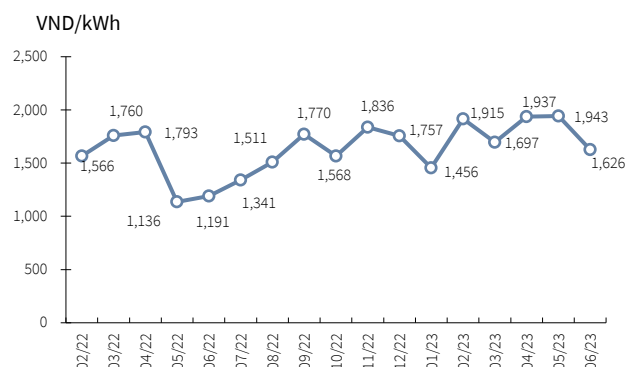
In addition, as planned, NT2 will overhaul the units within about 44 days, starting from early September 2023. This directly affects the power output of NT2 in 2H23. However, this information has been reflected in the 2023 production and business plan as the management set prudent targets. To be more specific, the power plant expects mobilized output to reach 4.1 billion kWh with revenue and profit objectives reaching VND8,299 billion and VND473 billion, respectively. Actual 1H23 business results completed 52% of the output and revenue targets for 2023. We believe that mobilized electricity volume in 2H23 will decline compared to 1H23 and keep our forecast for 2023 volume at 4.032 million kWh (-0.8% YoY), sticking to expectations as above.

NT2 should be back to growth trajectory from 2024 vs. 2023's low bases

The input gas costs of NT2 have significantly decreased compared to the average in 2022, which is in line with the corrections of Brent oil prices and our forecasts given in the 1Q23 updated report on NT2. This should help NT2 increase its competitiveness in mobilizing. However, input gas prices are unlikely to continue to decline sharply and return to pre-pandemic levels due to (1) unpredictable fluctuations in world oil prices and (2) rising production costs as domestic gas fields are gradually exhausted.

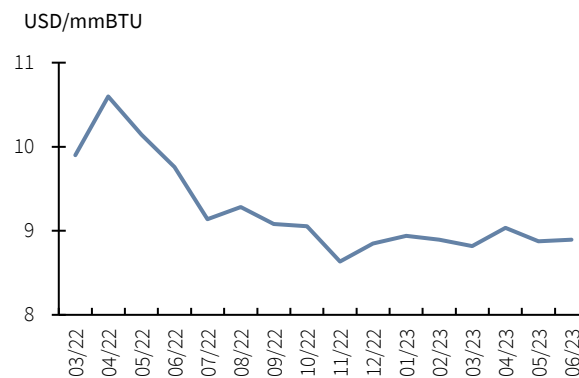
In 1H23, domestic energy-intensive users, industrial and construction companies, met many difficulties, which partly affects electricity demand. We expect this sector to rebound in 2024 and spur a sharp increase in power demand. Therefore, NT2 has many advantages in 2024, including (1) the completion of overhaul, making NT2 ready for power mobilization, (2) lower input costs, leading to lower power prices and higher competition, and (3) the probability of El Nino.

Fig 4. Vietnam – Average electricity price (VND/kWh)



Source: GENCO3, KB Securities Vietnam

Fig 5. NT2 – Material gas prices (USD/mmBTU)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Table 6. NT2 – 2023F results

	2022	2023F	+/-%YoY	KBSV's notes
Power output (million kWh)	4,065	4,032	-0.8%	
Contract output (Qc)s	3,473	3,427	-1.3%	Commercial electricity output in 2023 may reach 4,032 million kWh (-0.8% YoY). In 2H23, NT2 will carry out a periodic overhaul after 100,000 EOHs of generating sets, systems and auxiliary equipment.
Competitive market output (Qm)	592	605	2.2%	
Average gas price (USD/MMBTU)	9.33	8.68	-7%	Average input gas price may be USD8.58/MMBTU (-7% YoY) with the assumption that Brent oil prices will decrease compared to 2022.
Average selling price of electricity (VND/kWh)	2,161	2,139	-1%	The average electricity price is assumed to decrease slightly due to lowering input oil prices.
Revenue (VNDbn)	8,788	8,571	-3%	
Cost of goods sold (VNDbn)	7,706	7,606.56	-1.3%	
Gross profit (VNDbn)	1,081	963.99	-11%	
Gross profit margin (%)	12.3%	11.2%		
SG&A costs (VNDbn)	-131	-128	-3%	
% SG&A/sales (%)	1.50%	1.50%		
Operating income (VNDbn)	957	702	-26%	
Financial income (VNDbn)	24	96	294%	Income should increase thanks to increased deposit interests.
Financial expenses (VNDbn)	-18	-33	86%	
Other incomes (net)	-14	-14		
Profit before taxes (VNDbn)	943	782	-17%	Profit declines due to higher costs when NT2 had to use diesel to generate power in a month amid gas shortage.
Profit after taxes (VNDbn)	883	735	-17%	

Source: PV Power Nhon Trach 2, KB Securities Vietnam

Forecast & valuation

Valuation: BUY – target price
VND32,200

We used FCFF and EV/EBITDA methods, weighting 50–50 to give NT2 a HOLD recommendation with a target price of VND32,200/share, 9.2% higher the closing price on August 16, 2023.

Table 7. NT2 – Valuation according to FCFF model

Cost of equity	13%	Total present value	8,051
Risk-free rate	5%	Value of owner equity	8,753
Market risk premium	8.2%	No. of outstanding shares (million shares)	287.9
Beta	1	Equity/outstanding shares (VND)	30,404

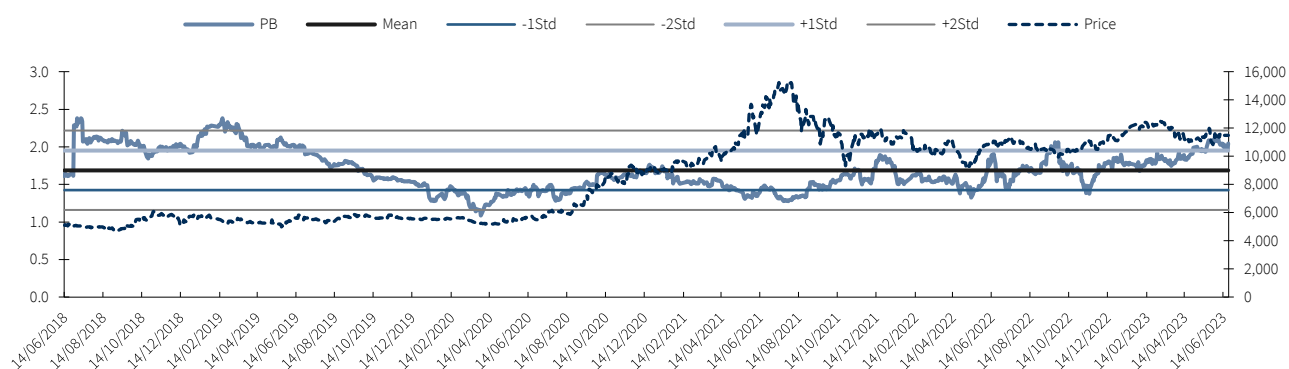
Source: KB Securities Vietnam

Table 8. NT2 – Final valuation

Valuation method	Forecast price	Weight	Weighted price
FCFF	30,404	50%	15,202
P/E	33,909	50%	16,955
Target price (rounded)			32,200
Current price			29,500
Upside to target price			9.2%

Source: KB Securities Vietnam

Fig 9. NT2 – P/B movements in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

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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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