

Nhon Trach 2 (NT2)

Expecting recovery in 2024

December 6, 2023

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3Q23 revenue and earnings both decreased sharply YoY

In the third quarter of 2023, PV Power Nhon Trach 2 (NT2) recorded a loss of VND123.77 billion in NPAT on revenue of VND816 billion (-62.3% YoY). 3Q23 business results dropped sharply YoY since NT2 carried out a major overhaul from September 7 to October 31, leading to the suspension of operation and thus adversely affecting the electricity output in the period.

NT2 will benefit from the ongoing El Nino event in 2024

The International Research Institute for Climate and Society (IRI) forecasts that El Nino will very likely persist in 2024 before transitioning into the neutral phase, meaning higher temperatures and rising electricity demand. Besides, the ongoing El Nino event will also affect precipitation and hydroelectric reservoirs' water level, so hydropower generation mobilization will decrease, benefiting other sources.

NT2 is expected to recover in 2024 after having overcome the difficult period in 3Q23

We expect NT2 to recover in 2024 after overcoming a tough 3Q23 when: (1) the plant has completed its overhaul and is ready for mobilization from EVN; (2) imported LNG should be available in Vietnam next year through the Thi Vai LNG terminal Phase 1, downplaying the risk of gas shortages in the context that domestic gas reserves have dried up; and (3) the ongoing El Nino will boost electricity consumption, pushing thermal power generation mobilization.

We recommend HOLD for NT2 with a target price of VND27,700/share

Based on valuation results, business prospects, and possible risks, we recommend HOLD for NT2. The target price is VND27,700/share, 11% higher than the closing price as of December 6, 2023.

Hold maintain

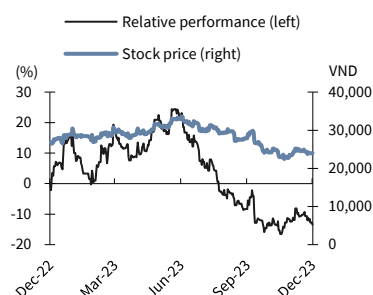
| | |
|-----------------------------|------------------|
| Target price | VND27,700 |
| Upside | 11% |
| Current price (Dec 6, 2023) | VND 24,900 |
| Consensus target price | VND 28,400 |
| Market cap (VNDbn) | 6,880 |

| | |
|------------------------------|------------------------|
| Trading data | |
| Free float | 30% |
| 3M avg trading value (VNDbn) | 15.7 |
| Foreign ownership | 15% |
| Major shareholder | PV Power (POW) (59.4%) |

| | | | | |
|--------------------------------|------|-------|-------|-------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 2.6 | -13.8 | -26.9 | -9.6 |
| Relative | -0.7 | -5.1 | -28.3 | -11.1 |

Forecast earnings & valuation

| FY-end | 2021A | 2022A | 2023F | 2024F |
|--------------------|-------|-------|-------|-------|
| Revenue (VNDbn) | 6,150 | 8,788 | 6,836 | 8,580 |
| EBIT (VNDbn) | 559 | 957 | 413 | 714 |
| NPAT-MI (VNDbn) | 534 | 883 | 474 | 771 |
| EPS (VND) | 1,756 | 2,992 | 1,648 | 2,679 |
| EPS growth (%) | -16.2 | 70.4 | -44.9 | 62.6 |
| P/E (x) | 14.4 | 9.7 | 17.1 | 10.5 |
| P/B (x) | 1.2 | 1.8 | 1.7 | 1.6 |
| ROE (%) | 13% | 19% | 10% | 15% |
| Dividend yield (%) | 12% | 6% | 4% | 7% |



Source: Bloomberg, KB Securities Vietnam

Business performance

Revenue and profit in 3Q2023 decreased sharply over the same period

In the third quarter of 2023, PV Power Nhon Trach 2 (NT2) recorded a loss of VND123.77 billion in NPAT on revenue of VND816 billion (-62.3% YoY). 3Q23 business results dropped sharply YoY since NT2 carried out a major overhaul from September 7 to October 31, leading to the suspension of operation and thus adversely affecting the electricity output in the period.

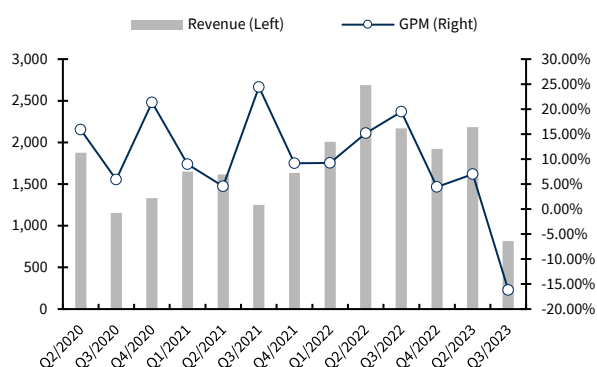
For 9M23, NT2's sales volume reached 2,494 million kWh (-19% YoY). Gross profit margin (GPM) only reached 5%, lower than the same period last year (15%).

Table 1. NT2 – 9M22–9M23 business results

| (VNDbn) | 9M2022 | 9M2023 | +/-%YoY | Comments |
|-----------------------------------|--------|--------|---------|---|
| Sales volume (million kWh) | 3,073 | 2,494 | -19% | 9M23 sales volume decreased sharply because (1) NT2 had to use diesel (DO) due to gas shortages in 2Q23 and (2) NT2 carried out a major overhaul from September 7 to October 31, adversely affecting production output. |
| Contracted volume (Qc) | 2,615 | 2,550 | -2% | |
| Gas input price (USD/MMBTU) | 9.86 | 9.03 | -8% | Gas input prices fell in line with oil prices but at a slower pace than our expectation. It is because oil prices bounced back in 3Q23, resulting in gas prices up 1% YoY to an average of USD9.2571/mmBTU. |
| Average selling price (VND/kWh) | 2,125 | 2,109 | -1% | The average electricity selling price decreased slightly due to (1) input prices have cooled since the beginning of the year (2) the CGM (competitive electricity generation market) price declined YoY, especially in the third quarter of 2023. |
| Revenue | 6,863 | 5,182 | -24% | Revenue was affected by falling average selling price and commercial electricity output. |
| Cost of goods sold | -5,846 | -4,900 | -16% | |
| Gross profit | 1,017 | 282 | -72% | |
| Gross profit margin (%) | 15% | 5% | | |
| SG&A | -247 | -54 | -78% | |
| % SG&A/revenue | 4% | 1% | -71% | |
| EBIT | 768 | 280 | -64% | |
| Financial income | 6 | 75 | 1219% | Financial income increased thanks to interest from bank deposits. |
| Financial expenses | -7.55 | -22.59 | 199% | |
| Net other income | 0.32 | 0.00 | -100% | |
| PBT | 768 | 280 | -64% | |
| NPAT | 724 | 254 | -65% | |

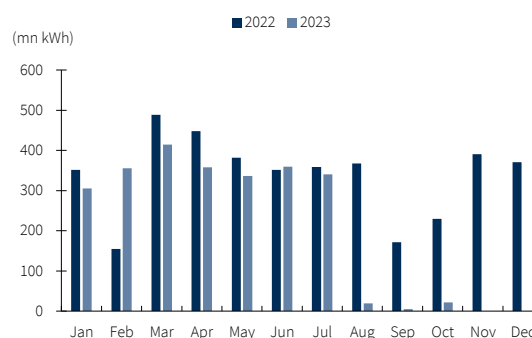
Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 2. NT2 – Revenue & GPM (VNDbn, %)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 3. NT2 – Commercial electricity output in 2022–2023 (million kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

NT2 will benefit from the ongoing El Nino event in 2024

The International Research Institute for Climate and Society (IRI) forecasts that El Nino will very likely persist in 2024 before transitioning into the neutral phase, meaning higher temperatures and rising electricity demand. Besides, the ongoing El Nino event will also affect precipitation and hydroelectric reservoirs' water level, so hydropower generation mobilization will decrease, benefiting other sources. In 10M23, the mobilization rate of hydropower reached 28.5%, down 8% compared to 36.5% over the same period in 2022. We expect this to continue until the end of 2024. However, we give a conservative forecast for NT2's 2024 sales volume due to possible gas shortages since domestic gas reserves have dried up and NT2 having to compete with renewable energy.

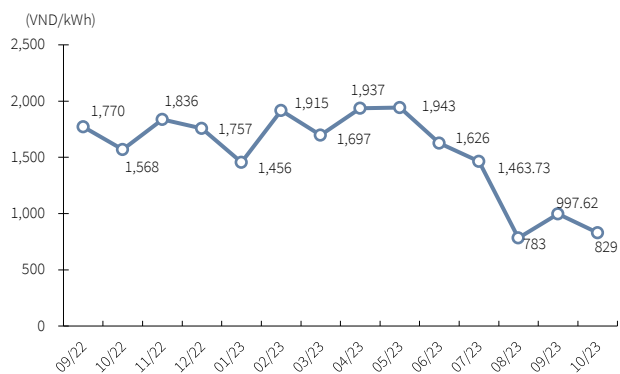
NT2 is expected to recover in 2024 after having overcome the difficult period in 3Q23

We expect NT2 to recover in 2024 after overcoming a tough 3Q23 when: (1) the plant has completed its overhaul and is ready for mobilization from EVN; (2) imported LNG should be available in Vietnam next year through the Thi Vai LNG terminal Phase 1, downplaying the risk of gas shortages in the context that domestic gas fields are becoming depleted; and (3) the ongoing El Nino will boost electricity consumption, pushing thermal power generation mobilization.

NT2 will no longer bear high depreciation charges from 2026

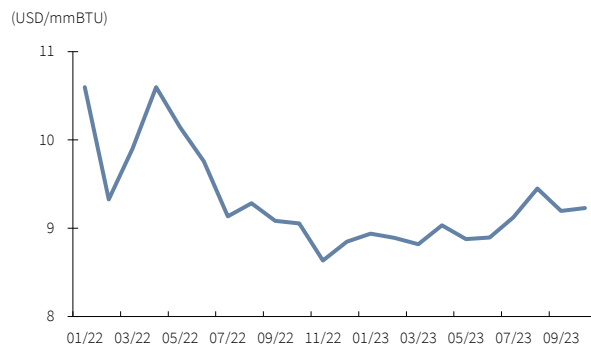
We believe NT2's earnings will improve thanks to the absence of machinery depreciation charges from 2026. In 2022, depreciated costs accounted for about 9% of production costs, with plant and machinery depreciation costs of VND149 billion and VND538 billion, respectively. The depreciation of fixed assets is calculated based on the straight-line model throughout the estimated useful life. In particular, the machinery will be depreciated from 5–14 years since the commercial operation date (in 2011). It is expected that NT2 will no longer bear depreciation charges from 2026, thus substantially improving earnings. As a result, there will be more room for dividend payments.

Fig 4. Vietnam – Average full market price in 2022–2023 (VND/kWh)



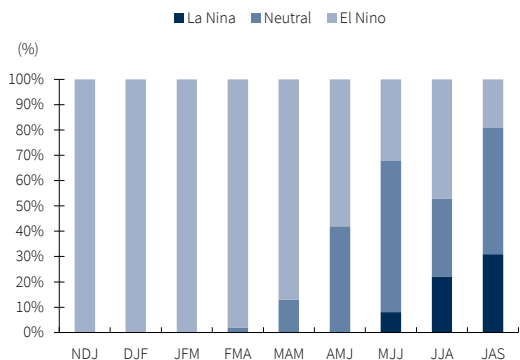
Source: GENCO3, KB Securities Vietnam

Fig 5. NT2 – Gas input price in 2022–2023 (USD/mmBTU)



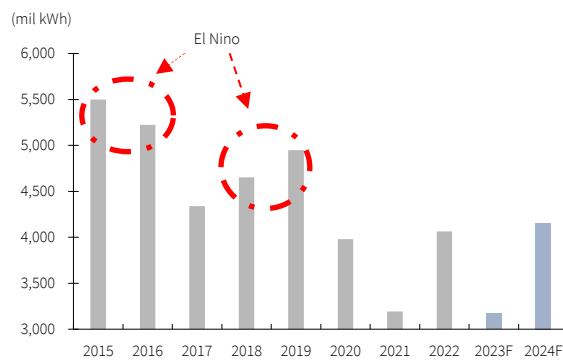
Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 6. Global – Possibility of weather patterns in 2024 (%)



Source: International Research Institute for Climate and Society, KB Securities Vietnam

Fig 7. NT2 – Commercial electricity output in 2015–2024F (million kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Forecast & Valuation

Table 8. NT2 – 2022A–2023F business results

| (VNDbn) | 2022A | 2023F | +/- %YoY | 2024F | +/- %YoY | Comments |
|--|--------------|--------------|-------------|--------------|------------|---|
| Sales volume (million kWh) | 4,065 | 3,168 | -22% | 4,154 | 31% | - Commercial electricity output for the whole year 2023 should reach 2,168 million kWh (-22% YoY) since NT2 carried out a scheduled overhaul after 100,000 equivalent operating hours (EOH). - Sales volume in 2024 is expected to recover because: (1) NT2 has completed its major overhaul and (2) the ongoing El Nino phenomenon will benefit thermal power plants. |
| Contracted volume (Qc) | 3,473 | 3,010 | -13% | 3,530 | 17% | |
| CGM sales volume (Qm) | 592 | 158 | -73% | 623 | | |
| Gas input price (USD/mmBTU) | 9.18 | 8.72 | -5% | 8.72 | 0% | - We forecast the average gas input price to reach USD8.72/MMBTU (-7% YoY), assuming that Brent crude oil prices will decrease YoY and gas prices will move sideways in 2024. |
| Average electricity selling price (VND/kWh) | 2,081 | 2,158 | 4% | 2,066 | -4% | - The average electricity price in 2023 should increase slightly due to contracted volume (Qc) making up a larger proportion. |
| Revenue | 8,788 | 6,836 | -22% | 8,580 | 26% | |
| Cost of goods sold | 7,706 | 6,332 | -18% | 7,618 | 20% | |
| Gross profit | 1,082 | 505 | -53% | 963 | 91% | |
| Gross profit margin (%) | 12.3% | 7.4% | | 11.2% | | |
| SG&A | -131 | -92 | -30% | -116 | 26% | |
| % SG&A/revenue | 1.50% | 1.35% | | 1.35% | | |
| EBIT | 957 | 413 | -57% | 714 | 73% | |
| Financial income | 24 | 109 | 348% | 158 | 45% | - Financial income should increase on the assumption of rising interest from bank deposits. |
| Financial expenses | -18 | -33 | 86% | -11 | -67% | |
| Net other income | -14 | 0 | | 0 | | |
| PBT | 945 | 505 | -46% | 877 | 74% | - 2023F PBT is forecast to decline due to (1) upward revision for operating expenses as NT2 had to use DO for electricity generation due gas shortages in some months and (2) major overhaul. |
| NPAT | 883 | 474 | -46% | 771 | 63% | |

Source: PV Power Nhon Trach 2, KB Securities Vietnam

We recommend HOLD for NT2 with a target price of VND27,700/share

We use two valuation methods free cash flow to the firm (FCFF) and EV/EBITDA (50:50 weighting) to assess NT2's value. Accordingly, we maintain our HOLD recommendation for NT2 with a target price of VND27,700/share, equivalent to an upside of 11% compared to the closing price of VND24,900/share on December 6, 2023.

Table 9. NT2 – FCFF valuation

| | | | |
|---------------------|-------|------------------------------|--------|
| Cost of equity | 13.2% | Total present value | 7,278 |
| Risk-free rate | 5.0% | Owner's equity | 7,981 |
| Market risk premium | 8.2% | Outstanding shares (million) | 287.9 |
| Beta | 1.00 | Value per share (VND) | 27,720 |

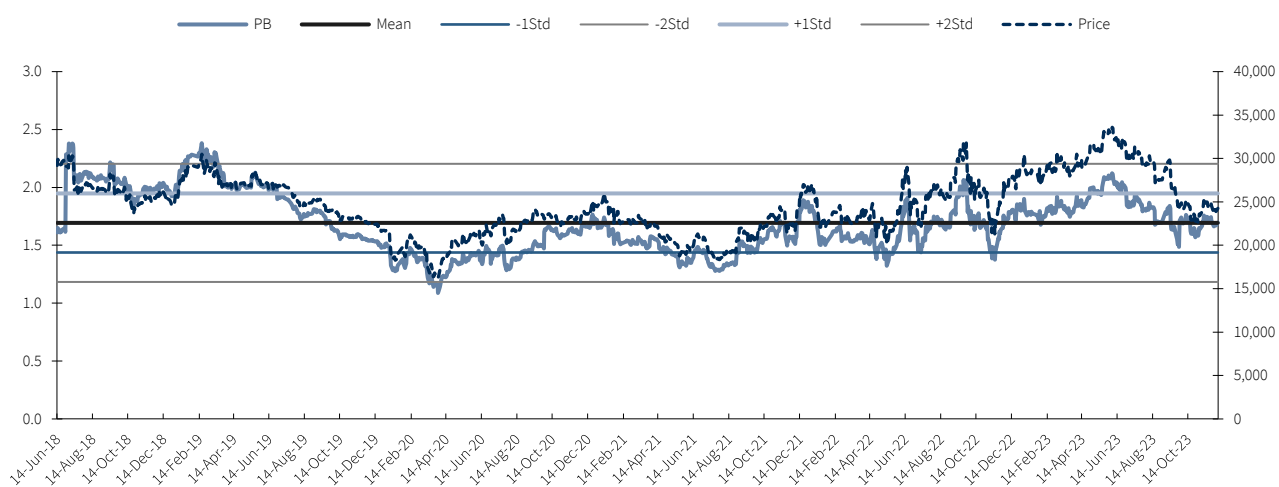
Source: KB Securities Vietnam

Table 10. NT2 – Valuation results

| Valuation method | Forecast price | Weighting | Weighted price |
|-------------------------------|----------------|-----------|----------------|
| FCFF | 27,737 | 50% | 13,868 |
| EV/EBITDA (6x) | 27,726 | 50% | 13,863 |
| Target price (rounded) | | | 27,700 |
| Current price (Dec 6, 2023) | | | 24,900 |
| Upside | | | 11% |

Source: KB Securities Vietnam

Fig 11. NT2 – Historical P/B and share price performance in 2018–2023 (x, VND/share)



Source: Bloomberg, 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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