# Nhon Trach 2 (NT2) 

Expecting recovery in 2024
VIETNAM

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3Q23 revenue and earnings both decreased sharply YoY

NT2 will benefit from the ongoing El Nino event in 2024

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

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.

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.

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.

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.

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


| Share price performance <br> (\%) <br> Absolute <br> Relative$\quad 2.6$ | -13.8 | -26.9 | -9.6 |
| :--- | ---: | ---: | ---: | ---: |



## 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 $3 Q 23$, 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

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

## NT2 will no longer bear high

 depreciation charges from 2026The 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.

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.

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 6. Global - Possibility of weather patterns in 2024 (\%)


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

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


Source: PV Power Nhon Trach 2, 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 |
| Contracted volume (Qc) | 3,473 | 3,010 | -13\% | 3,530 | 17\% | should reach 2,168 million $\mathrm{kWh}(-22 \%$ YoY) since NT2 carried out a scheduled overhaul after 100,000 equivalent operating hours (EOH). <br> - Sales volume in 2024 is expected to recover because: |
| CGM sales volume (Qm) | 592 | 158 | -73\% | 623 |  | (1) NT2 has completed its major overhaul and (2) the ongoing El Nino phenomenon will benefit thermal power plants. |
| 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 | 943 | 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 Vina |  |  |  |

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

NT2 - 2021A-2024F financials

| Income Statement (VND billion) | 2021 | 2022 | 2023F | 2024 F | Balance Sheet (VND billion) | 2021 | 2022 | 2023F | 2024F |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net sales | 6,150 | 8,788 | 6,836 | 8,580 | CURRENT ASSETS | 6,624 | 7,445 | 7,240 | 7,228 |
| Cost of sales | 5,474 | 7,706 | 6,332 | 7,618 | Cash and cash equivalents | 2,581 | 4,557 | 4,724 | 5,303 |
| Gross Profit | 676 | 1,082 | 505 | 963 | Short-term investments | 1 | 384 | 1,130 | 1,365 |
| Financial income | 18 | 24 | 85 | 110 | Accounts receivable | 0 | 949 | 949 | 949 |
| Financial expenses | -52 | -18 | -33 | -11 | Inventories | 2,230 | 2,911 | 2,809 | 3,291 |
| of which: interest expenses | -20 | -15 | -33 | -11 | LONG-TERM ASSETS | 311 | 307 | 311 | 393 |
| Gain/(loss) from joint ventures (from 2015) | 0 | 0 | 0 | 0 | Long-term trade receivables | 4,043 | 2,888 | 2,516 | 1,925 |
| Selling expenses | 0 | 0 | 0 | 0 | Fixed assets | 0 | 0 | 0 | 0 |
| General and admin expenses | -83 | -131 | -92 | -116 | Investment properties | 3,496 | 2,809 | 2,437 | 1,846 |
| Operating profit/(loss) | 559 | 957 | 413 | 714 | Long-term incomplete assets | 1 | 0 | 0 | 0 |
| Other incomes | 8 | 1 | 1 | 1 | Long-term investments | 0 | 0 | 0 | 0 |
| Other expenses | 1 | 15 | 0 | 0 | TOTAL ASSETS | 0.0 | 0.0 | 0.0 | 0.0 |
| Net other income/(expenses) | 7 | -14 | 0 | 0 | LIABILITIES | 2,390 | 2,831 | 2,491 | 2,275 |
| Income from investments in other entities | 0 | 0 | 0 | 0 | Current liabilities | 2,390 | 2,831 | 2,491 | 2,275 |
| Net accounting profit/(loss) before tax | 566 | 943 | 466 | 814 | Trade accounts payable | 1,034 | 770 | 745 | 844 |
| Corporate income tax expenses | -32 | -60 | -28 | -98 | Advances from customers | 0 | 0 | 0 | 0 |
| Net profit/(loss) after tax | 534 | 883 | 438 | 716 | Short-term unrealized revenue | 210 | 631 | 315 | 0 |
| Minority interests | 0 | 0 | 0 | 0 | Short-term borrowings | 0 | 0 | 0 | 0 |
| Attributable to parent company | 534 | 883 | 438 | 716 | Long-term liabilities | 0 | 0 | 0 | 0 |
| Margin ratio |  |  |  |  | Long-term trade payables Long-term advances from customers | 0 0 | 0 | 0 0 | 0 |
|  | 2021 | 2022 | 2023F | 2024 F | Unrealized revenue | 0 | 0 | 0 | 0 |
| Gross profit margin | 11.0\% | 12.3\% | 7.4\% | 11.2\% | Long-term borrowings | 4,234 | 4,614 | 4,749 | 4,953 |
| EBITDA margin | 20.3\% | 18.7\% | 17.4\% | 16.8\% | OWNER'S EQUITY | 2,879 | 2,879 | 2,879 | 2,879 |
| EBIT margin | 9.1\% | 10.9\% | 6.0\% | 8.3\% | Paid-in capital | 0 | 0 | 0 | 0 |
| Pre-tax profit margin | 9.2\% | 10.7\% | 6.8\% | 9.5\% | Share premium | 1,196 | 1,554 | 1,688 | 1,893 |
| Operating profit margin | 9.1\% | 10.9\% | 6.0\% | 8.3\% | Undistributed earnings | 160 | 182 | 182 | 182 |
| Net profit margin | 8.7\% | 10.1\% | 6.4\% | 8.3\% | Minority interests | 0 | 0 | 0 | 0 |
| Cash Flow Statement (VND billion) | 2021 | 2022 | 2023F | 2024F | Key ratios |  |  |  |  |
| Net profit/(loss) before tax | 566 | 943 | 466 | 814 | Multiple |  |  |  |  |
| Depreciation and amortisation | 690 | 689 | 775 | 728 | P/E | 14.4 | 9.7 | 18.2 | 11.1 |
| Profit/loss from investing activities | -11 | 21 | 21 | 21 | $\mathrm{P} / \mathrm{E}$ diluted | 14.4 | 9.7 | 18.2 | 11.1 |
| Interest expense | 20 | 15 | 15 | 15 | P/B | 1.2 | 1.8 | 1.7 | 1.6 |
| Operating profit/(loss) before changes in Working Capital | 1,266 | 1,668 | 1,277 | 1,578 | P/S | 0.8 | 0.9 | 1.2 | 0.9 |
| (Increase)/decrease in receivables | -775 | -672 | 102 | -482 | $\mathrm{P} /$ Tangible Book | 1.2 | 1.8 | 1.7 | 1.6 |
| (Increase)/decrease in inventories | 4 | 3 | -4 | -82 | P/Cash Flow | 6.8 | 6.0 | 5.7 | 7.3 |
| Increase/(decrease) in payables | 871 | 22 | -24 | 99 | EV/EBITDA | 6.0 | 5.2 | 6.0 | 4.6 |
| (Increase)/decrease in prepaid expenses | -209 | 452 | 97 | 83 | EV/EBIT | 13.4 | 9.0 | 17.4 | 9.3 |
| Net cash inflows/(outflows) from operating activities | 1,074 | 1,383 | 1,388 | 1,086 | Operating performance |  |  |  |  |
| Purchases of fixed assets and other long-term assets | -3 | -1 | -2 | -3 | ROE | 12.6\% | 19.1\% | 9.2\% | 14.5\% |
| Proceeds from disposal of fixed assets | 0 | 0 | 0 | 0 | ROA | 8.1\% | 11.9\% | 6.0\% | 9.9\% |
| Loans granted, purchases of debt instruments | 0 | -949 | 0 | 0 | ROIC | 12.6\% | 19.7\% | 10.5\% | 19.9\% |
| Collection of loans, proceeds from sales of debts instruments | 0 | 0 | 0 | 0 | Financial structure |  |  |  |  |
| Investments in other entities | 0 | 0 | 0 | 0 | Cash Ratio | 0.0 | 0.5 | 0.5 | 0.9 |
| Proceeds from divestment in other entities | 0 | 0 | 0 | 0 | Quick Ratio | 0.7 | 0.9 | 1.4 | 1.8 |
| Dividends and interest received | 11 | 4 | 4 | 4 | Current Ratio | 0.9 | 1.1 | 1.5 | 1.1 |
| Net cash inflows/(outflows) from investing activities | 9 | -946 | 2 | 1 | LT Debt/Equity | 0\% | 0\% | 0\% | 0\% |
| Proceeds from issue of shares | 0 | 0 | 0 | 0 | LT Debt/Total Assets | 0\% | 0\% | 0\% | 0\% |
| Payments for share returns and repurchases | 0 | 0 | 0 | 0 | Debt/Equity | 5\% | 14\% | 7\% | 0\% |
| Proceeds from borrowings | 1,364 | 831 | 0 | 0 | Debt/Total Assets | 3\% | 8\% | 4\% | 0\% |
| Repayment of borrowings | -1,932 | -410 | -315 | -315 | ST Liabilities/Equity | 0.6 | 0.6 | 0.5 | 0.5 |
| Finance lease principal payments | 0 | 0 | 0 | 0 | ST Liabilities/Total Assets | 0.4 | 0.4 | 0.3 | 0.3 |
| Dividends paid | -575 | -474 | -328 | -537 | Total Liabilities/Equity | 0.6 | 0.6 | 0.5 | 0.5 |
| Interests, dividends, profits received | 0 | 0 | 0 | 0 | Total Liabilities/Total Assets | 0.4 | 0.4 | 0.3 | 0.3 |
| Net cash inflows/(outflows) from financing activities | -1,143 | -54 | -644 | -852 | Activity ratios |  |  |  |  |
| Net increase in cash and cash equivalents | -61 | 383 | 746 | 235 | Account Receivable Turnover | 3.3 | 3.4 | 2.4 | 2.8 |
| Cash and cash equivalents at the beginning of period | 62 | 1 | 384 | 1,130 | Inventory Turnover | 17.6 | 25.1 | 20.4 | 19.4 |
| Cash and cash equivalents at the end of period | 1 | 384 | 1,130 | 1,365 | Account Payable Turnover | 8.6 | 9.7 | 9.0 | 10.8 |

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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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[^0]:    Source: PV Power Nhon Trach 2, KB Securities Vietnam

