

Quang Ninh Thermal (QTP)

Benefiting from tight supply in the North

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3Q 2023 revenue and profit decreased sharply over the same period

Quang Ninh Thermal Power (QTP) announced 3Q 2023 results with NPAT of VND12 billion (down 92% YoY) on revenue of VND2,507 billion (down 20% YoY). A sharp decline in business performance was due to QTP's scheduled maintenance, resulting in low electricity production and, consequently, a drop in revenue. For 9M 2023, QTP's revenue reached VND9,211 billion (up 13% YoY), and the gross profit margin (GPM) was only 6% (down 12% YoY).

QTP will benefit from tight supply in the North and the ongoing El Nino phenomenon

El Nino is highly likely to persist into 2024 before transitioning into a neutral phase, implying higher temperatures, leading to a significant increase in electricity demand for cooling devices, especially during scorching sunny days. Concerning the supply, the Northern region is currently confronting a shortage of new supply due to delayed projects. Thus, we anticipate that thermal power will be mobilized at a higher rate to ensure energy security for the Northern region.

Paying off all debts is a driving force for QTP to offer higher dividend yields

QTP's debt has significantly decreased over the years following its efforts to repay debts. Per 3Q 2023 financial statements, QTP only has ~VND716.2 billion in loans. Based on the repayment schedule and actual situation, it is predicted that QTP may fulfill its debt obligations by 2024–2025, strengthening its net cash flow. With the absence of outstanding debts, we believe that QTP will maintain its current attractive dividend yield, given no major expansion plans in the near term.

We recommend BUY for QTP with a target price of VND16,800/share

Based on valuation results, business prospects, and potential risks, we recommend BUY for QTP. The target price is VND16,800 apiece, representing a 17% return.

Buy maintain

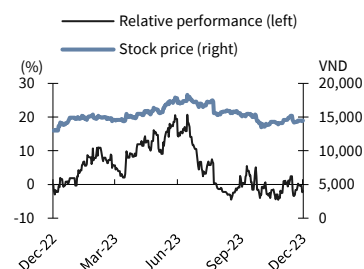
Target price	VND16,800
Upside	17%
Current price (Dec 22, 2023)	VND14,400
Consensus target price	VND16,000
Market cap (VNDbn)	6,480

Trading data	
Free float	20%
3M avg trading value (VNDbn)	4,297
Foreign ownership	1.44%
Major shareholder	GENCO 1 (42%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2.8	-5.2	-15.2	11.5
Relative	0.6	-3.7	-14.3	0.0

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	8,571	10,417	12,024	11,768
Operating income/loss (VNDbn)	734	968	694	827
NPAT-MI (VNDbn)	578	764	620	834
EPS (VND)	1,168	1,698	1,378	1,853
EPS growth (%)	-59.7	45.4	-19.0	35.0
P/E (x)	14.8	7.7	12.2	9.1
P/B (x)	1.3	1.0	1.1	1.0
ROE (%)	9.4	12.4	9.1	11.4
Dividend yield (%)	6%	12%	10%	11%



Business performance

3Q23 revenue and profit decreased sharply over the same period

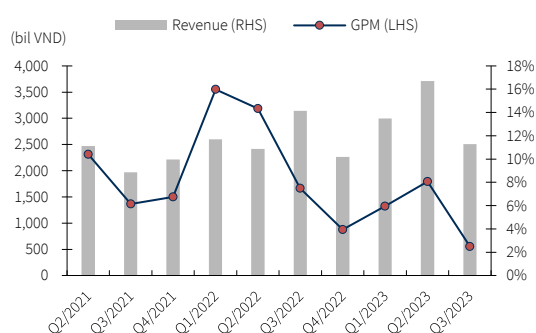
Quang Ninh Thermal Power (QTP) announced 3Q 2023 results with NPAT of VND12 billion (down 92% YoY) on revenue of VND2,507 billion (down 20% YoY). A sharp decline in business performance was due to QTP's scheduled maintenance, resulting in low electricity production and, consequently, a drop in revenue. For 9M 2023, QTP's revenue reached VND9,211 billion (up 13% YoY), and the gross profit margin (GPM) was only 6% (down 12% YoY).

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

(VNDbn)	9M2022	9M2023	+/-%YoY	Comments
Revenue	8,155	9,211	13%	Revenue grew 13% YoY thanks to a high mobilization rate and higher average electricity price in 9M 2023.
Cost of goods sold	7,158	8,671	21%	
Gross profit	997	540	-46%	
Gross profit margin (%)	12%	6%		GPM shrank in 9M 2023 due to QTP's scheduled maintenance in 3Q 2023 and surging input costs compared to the same period a year ago.
SG&A	71	67	-6%	
% SG&A/revenue	0.9%	0.7%		
Operating income/loss	926	473	-49%	
Financial income	22	20	-9%	
Financial expenses	160	64	-60%	
Net other income	-3	-3	0%	
PBT	785	426	-46%	
NPAT	745	404	-46%	

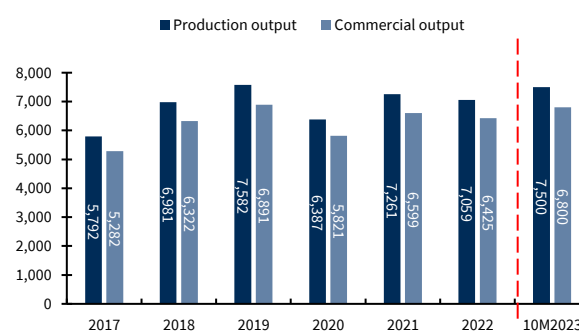
Source: Quang Ninh Thermal Power, KB Securities Vietnam

Fig 2. QTP – Revenue, GPM in 2021–2023 (VNDbn, %)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Fig 3. QTP – Production & commercial output in 2017–2023 (million kWh)



Source: Quang Ninh Thermal Power, KB Securities Vietnam

Electricity demand is forecast to maintain positive growth over the next five years

According to Vietnam Electricity (EVN), the projected growth in electricity consumption is expected to be 8.5% per year over the next five years. We assess that this demand will stem from (1) domestic production and business activities back to normal, (2) foreign direct investment (FDI) flowing into Vietnam, especially into energy-intensive industries like processing and manufacturing, boosting the power demand among industrial customers, and (3) rapid population growth and urbanization, pushing the demand for residential electricity. Vietnam is among the countries with the highest urbanization rates in the region, reaching over 42% nationwide by early 2023. The long-term increase in demand is a stimulus to power plants in general, especially in the absence of many new projects being put into operation.

QTP will benefit from tight supply in the North and the ongoing El Nino phenomenon

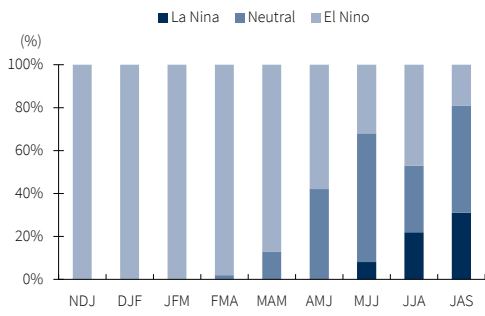
The forecast from the International Research Institute for Climate and Society (IRI) also indicates a high probability of El Nino continuing into 2024 before transitioning to a neutral phase. The persistence of El Nino implies elevated temperatures, leading to a significant increase in electricity demand for cooling devices, especially during scorching sunny days. Concerning the supply, the Northern region is currently confronting a shortage of new supply due to delayed projects. Additionally, the power system here heavily relies on hydropower (accounting for 46% of the power generation structure). The ongoing El Nino event affects rainfall and water levels in reservoirs, significantly reducing the capacity for hydropower plants and intensifying pressure on the supply. Consequently, we anticipate that the alternative source of thermal power (constituting 51% of the power generation structure) will be mobilized at a higher rate to ensure energy security for the Northern region. Power plants in this group, including QTP, are expected to benefit from this scenario.

Paying off all debts is a driving force for QTP to offer higher dividend yields

QTP's debt has significantly decreased over the years following its efforts to repay debts. Per 3Q 2023 financial statements, QTP only has ~VND716.2 billion in loans. Based on the repayment schedule and actual situation, it is predicted that QTP may fulfill its debt obligations by 2024-2025, strengthening its net cash flow. 9M 2023 interest expense of QTP was only VND48.2 billion (a sharp decrease compared to the VND100 billion in 9M 2022), which we anticipate to further decrease to VND25 billion in 2024.

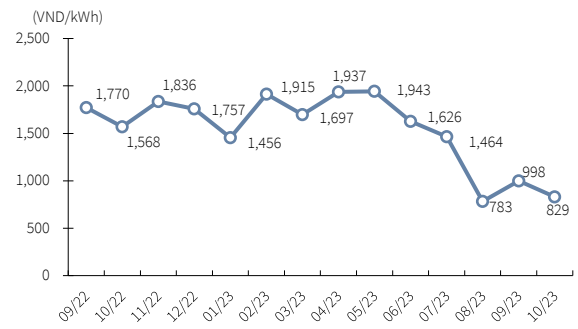
Since 2019, after clearing accumulated losses, QTP has resumed paying dividends, and the dividend ratio has gradually increased over the years. With the absence of outstanding debts, we believe that QTP will maintain its current attractive dividend yield, given no major expansion plans in the foreseeable future.

Fig 4. Global – Weather pattern forecast in 2024



Source: IRI, KB Securities Vietnam

Fig 5. Vietnam – Full market price in 2022-2023 (VND/kWh)



Source: GENCO3, KB Securities Vietnam

Forecast & Valuation

Table 6. QTP – 2022A–2024F business results

(VNDbn)	2022A	2023F	+/- %YoY	2024F	+/- %YoY	Comments
Sales volume (million kWh)	7,059	7,884	12%	7,989	1%	Thermal power mobilization rate maintained high due to the ongoing El Nino event and tight supply in the Northern region. We assume that sales volume will reach 7,884 million kWh (+1% YoY) in 2024.
Average electricity price	1,620	1,676	3%	1,618	-3%	We assume that the average electricity price will decrease slightly 3% YoY in 2024 due to cooling input material prices.
Revenue	10,417	12,024	15%	11,768	-2%	
Cost of goods sold	9,336	11,201	20%	10,815	-3%	
Gross profit	1,081	824	-24%	954	16%	
Gross profit margin (%)	10%	7%		8%		Profit margin should improve due to the assumption that input prices will decrease but may not return to the average level of the previous period.
SG&A	113	130	15%	127	-2%	
% SG&A/revenue	1%	1%		1%		
Operating income/loss	968	694	-28%	827	19%	
Financial income	34	37	9%	77	108%	We assume that deposits will increase following a sharp fall in outstanding debts.
Financial expenses	193	78	-60%	25	-68%	
Net other income	-4	0		0		
PBT	805	653	-19%	879	35%	
NPAT	764	620	-19%	834	35%	

Source: Quang Ninh Thermal Power

We recommend BUY for QTP with a target price of VND16,800/share

We utilize the free cash flow to the firm (FCFF) and EV/EBITDA methods, assigning a 50% weight to each approach, to assess QTP's value. Accordingly, we recommend BUY for QTP with a target price of VND16,800 per share, corresponding to a 17% upside compared to the closing price of VND14,400 per share on December 22, 2023.

Table 7. QTP – FCFF valuation

Cost of equity	13.2%	Total present value	10,747
Risk-free rate	5%	Equity value	9,933
Market risk premium	8.2%	Outstanding shares (million)	450
Beta	1	Value per share (VND)	22,073

Source: KB Securities Vietnam

Table 8. QTP – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	22,073	50%	11,037
EV/EBITDA (3.8x)	11,431	50%	5,716
Target price (rounded)			16,800
Current price (Dec 22, 2023)			14,400
Upside			16.7%

Source: KB Securities Vietnam

Fig 9. QTP – Historical P/B, share price performance in 2018–2023 (x, VND/share)



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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