

April 28, 2022

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Gia Lai Electricity (GEG)

FY21 AGM Update

In 2021, GEG's NPAT rose by 10% YoY while revenue was down slightly

— In the whole year of 2021, Gia Lai Electricity (GEG) posted NPAT of VND325 billion (+10.3% YoY, exceeding the full-year plan by 25%) on revenue of VND1,381 billion (-7.5% YoY). The earnings growth was thanks to a five percentage points increase in gross profit margin to 56%, helped by the higher proportion of high-margin sectors such as wind power and solar power.

Positive results in 1Q22 were primarily thanks to the wind power sector

— GEG management sets a 2022 target for PBT and revenue at VND345 billion (-6.4% YoY) and VND1,930 billion (+39.8% YoY), respectively. The management explained that depreciation and interest on loans for three wind power projects are the main reasons behind the lower PBT in 2022. Still, the BOD believes GEG would achieve VND400 billion in PBT for 2022 despite uncertainties about the effectiveness of the wind power plants.

— In 1Q22, preliminary PBT was VND183 billion (+123.2% YoY, fulfilling 53% of the 2022 plan). It was thanks to the operation of three new wind power plants. Furthermore, strong wind during the first and the final quarters will be favorable for wind power plants.

Tan Phu Dong 1 wind power plant will be put into operation as planned in late 2022

— According to the BOD, the Tan Phu Dong 1 wind power plant (100 MW) with a total investment (without VAT) of VND4,500 billion will be started construction in 2Q22 and put into operation in 4Q22. It is the transition project after missing the deadline to start commercial generation before November 30, 2021, to enjoy incentive feed-in-tariffs (FIT). GEG has finished the installation of transmission lines and substations for Tan Phu Dong 1 like Tan Phu Dong 2 to put it into operation. Therefore, the BOD expects the project can join a direct auction with Vietnam Electricity (EVN) on selling prices with a term of every five years. GEG estimates that with electricity prices cut by 10-15% from the FIT price currently, the internal rate of return (IRR) will be 10-12% for Tan Phu Dong 1 and 13-14% for Tan Phu Dong projects. GEG said that VCB has agreed to finance 70-73% of the project's total value. Also, GEG informed about VPL Ben Tre 2 (30MW) wind power plant looking for financing and waiting for a new power price mechanism. However, it will take time for GEG to find a funding source for this project as GEG has no intention of using credit support for green development like other peers in the same industry like PC1 Group (PC1) and Refrigeration Electrical Engineering (REE). In addition, concerning the Duc Hue 2 solar power project in Long An Province, the authorities are currently re-examining real estate and infrastructure construction projects. Therefore, we believe that this project will not be able to be put into operation before 2023 despite being approved.



GEG is looking for new investment opportunities

- GEG bought a 25% stake in Truong Phu Hydropower JSC in 4Q21 and is planning to acquire this company in the time ahead if it offers a reasonable price. Besides, GEG also desires to expand into biomass and waste-to-energy power soon due to its high potential, in the context of a small number of plants of these types and the incentive FIT mechanism.

GEG plans to raise the charter capital through issuing bonus shares and ESOP shares

- At the AGM, the management approved the plan to issue 30.37 million shares or 10% of outstanding shares to existing shareholders with a ratio of 1000:94 at VND14,000 per share, 5% higher than the book value at FY21 audited financial statements. Thereby, the charter capital of GEG will increase to VND3,523 billion. The proceeding will be for investing in the Tan Phu Dong 1 wind power project.
- The company plans to issue 9.11 million ESOP shares at VND11,000 per share for its officials and employees. Those shares will be restricted transfer within one year from the transaction date.

Further information

- At the AGM, the BOD approved a plan to pay stock dividends in 2021 (6%), expected this year. Besides, the company also plans to pay dividends in 2022 at 8%, in cash or by shares.
- Saigon Industrial Foodstuffs (IFC) (holding 13.7% of GEG shares) and an individual shareholder (holding 0.6% of GEG shares) will transfer all stakes to the existing majority shareholder, AVH Pte. Ltd under the Armstrong South East Asia Clean Energy Fund (ASEACE). After this transaction, AVH Pte will be the largest shareholder of GEG when holding 35.1% of GEG's outstanding shares.

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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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