

Gia Lai Electricity (GEG)

Reaping the rewards of a risk-taking strategy

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Analyst Nguyen Viet Anh
emailaddress@kbsec.com.vn

In 1H2024, GEG delivered 47% of its full-year target

Gia Lai Electricity (GEG) posted 1H2024 PBT of VND127.5 billion (+14.8% YoY), driven by an estimated 19% growth in electricity production. Wind power sales volume increased YoY, given 1H 2023's low base, supported by: (i) the commercial operation of Tan Phu Dong 1 in May 2023 and (ii) higher wind speeds in 1Q2024 compared to the same period, thereby boosting electricity generation.

GEG's diversified portfolio of power plants ensures a stable cash flow

With a focus on green energy development, GEG is actively advancing projects across three key sectors: hydropower, solar power, and wind power, addressing regional electricity consumption needs. This strategic approach has enabled GEG to secure projects in prime locations with superior performance, sustaining a competitive edge throughout the project lifecycle and ensuring a stable cash flow.

Resolving legal issues for key projects, particularly Tan Phu Dong 1, could unlock significant future growth

Given the largest operational capacity among GEG's projects, Tan Phu Dong 1 is poised to be a key growth driver for the company. Having met all negotiation, acceptance, and stable operation requirements, the plant's official sale price is expected at 90% of the transitional ceiling price in November 2024, significantly enhancing GEG's business performance. As GEG's costs primarily stem from plant depreciation and interest expenses, the stable operation of Tan Phu Dong 1 coupled with a higher selling price is anticipated to improve profit margins and bring the leverage ratio to a healthier level.

We recommend BUY for GEG with a target price of VND16,200/share

Based on the SOTP method, we recommend BUY for GEG with a target price of VND16,200/share, representing a 40.3% upside and a P/B ratio of 1.02x.

Buy Initiate

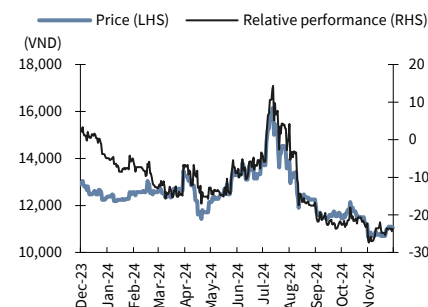
Target price	VND16,200
Upside	40.3%
Current price (Sep 23, 2024)	VND 11,550
Consensus target price	VND 15,400
Market cap (VNDtn/USDbn)	4.3/0.2

Trading data	
Free float	8%
3M avg trading value (VNDbn/USDmn)	788/33
Foreign ownership	46.01%
Major shareholder	AVH Pte.Ltd (29.76%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-8.1	-3.7	-7.4	-11.9
Relative	-15.7	-8.2	-5.4	-15.7

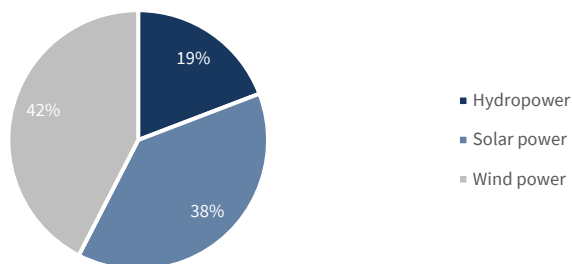
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	2,093	2,163	2,809	2,702
Operating income/loss (VNDbn)	851	962	1,504	1,384
NPAT-MI (VNDbn)	316	137	644	596
EPS (VND)	880	214	1,678	1,332
EPS growth (%)	0.0	-75.7	684.0	-21.0
P/E (x)	18.6	76.6	9.8	12.3
P/B (x)	1.3	1.2	1.1	1.1
ROE (%)	6.6	2.5	10.7	8.8
Dividend yield (%)	-1.1	-1.5	-1.5	-1.4



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Gia Lai Electricity, KB Securities Vietnam

Business operation

Gia Lai Electricity JSC (GEG) is a prominent player in the renewable energy sector, ranking third in installed capacity among listed companies. Initially focused on hydropower projects in Gia Lai, Hue, and Lam Dong, the company has since expanded into solar and wind power, with total capacities of 291 MW and 230 MW, respectively.

Investment Catalysts

GEG's efficient hydropower plants provide a steady cash flow. With a capacity of over 80 MW, these hydropower plants are strategically situated to optimize power generation and meet regional needs. This stable cash flow is anticipated to see a further boost during the La Nina cycle expected in 2025.

GEG's proactive approach in the green energy transition has enabled it to secure promising renewable energy projects. Within just three years, GEG has made significant investments in wind and solar initiatives, fueling impressive revenue growth in these segments. Tan Phu Dong 1, the latest addition to its portfolio, is set to be a major revenue driver for GEG.

Resolving legal issues will expedite the official pricing process for Tan Phu Dong 1, strengthening GEG's financial position. KBSV projects that GEG's flagship wind project, Tan Phu Dong 1, will secure an official selling price at 90% of the transitional ceiling price, significantly enhancing GEG's profitability.

Notes

Please find more details below

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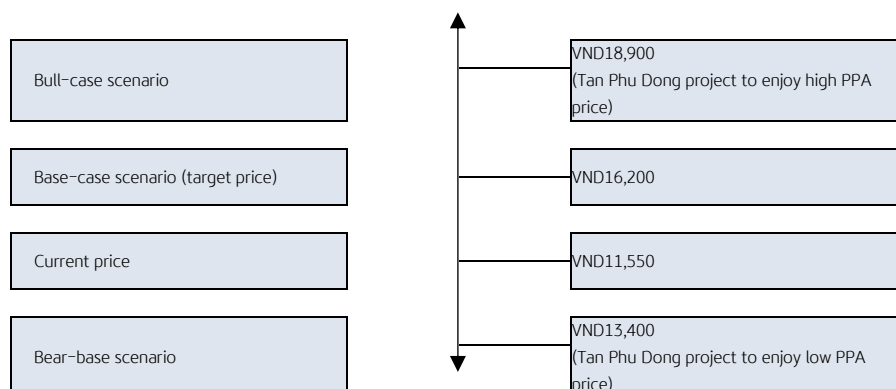
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	2,809	2,702	n.a	n.a	2,527	2,731	11%	-1%
EBIT	1,504	1,384	n.a	n.a	1,053	1,138	43%	22%
NP after MI	644	596	n.a	n.a	156	267	313%	123%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) PPA price*: VND1,634/kWh
- 2) Qc ratio: 38%

Bull-case scenario: upside risk

- 1) PPA price: VND1,724/kWh
- 2) Qc ratio: 41%

Bear-case scenario: downside risk

- 1) PPA price: VND1,542/kWh
- 2) Qc ratio: 35%

PPA price* (power purchase agreement price) refers to the price agreed upon between Vietnam Electricity (EVN) and power producers.

Business overview

Initially focused on hydropower, GEG has expanded into solar and wind power, raising its total capacity fivefold between 2018 and 2023

Gia Lai Electricity Joint Stock Company (GEG) was established in 1989 as a state-owned enterprise responsible for managing small hydropower plants in central Vietnam. Initially, the company focused on managing small-scale hydropower projects of under 30 MW. By 2010, GEG expanded to 14 hydropower plants with a total capacity of 84 MW and completed an initial public offering (IPO) before becoming a subsidiary of Thanh Thanh Cong Group (TTC Group) in 2013.

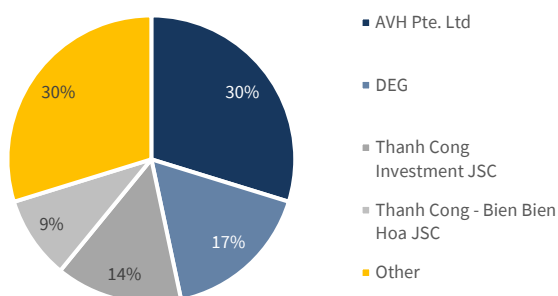
During the 2013–2018 period, GEG shifted further into renewable energy while maintaining its hydropower assets. This period marked GEG's entry into solar and wind energy, supported by strategic investments. In 2016, two new strategic investors including IFC (a World Bank Group member) and Armstrong Asset Management, a Singapore-based clean energy fund joined, leading to the successful commercial operation of two solar projects, Phong Dien and Krong Pa, with a combined capacity of 117 MW.

Between 2018 and 2023, GEG aggressively expanded its renewable energy portfolio across promising provinces such as Long An, Gia Lai, Tien Giang, and Ben Tre, boosting capacity nearly fivefold to 603 MW. By the end of 2023, wind and solar power accounted for 39% and 48% of its total generation capacity, respectively.

Wind and solar power made significant contributions to GEG's overall revenue

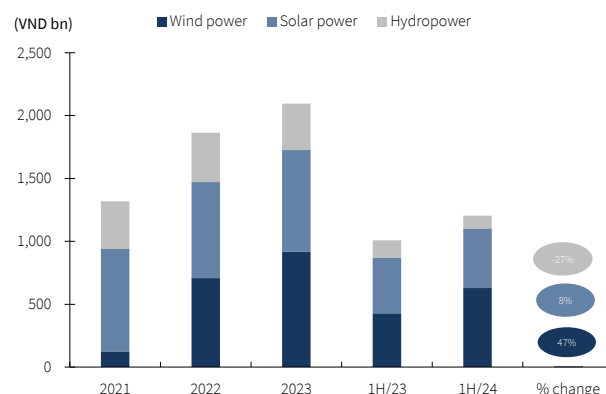
In 2023, GEG's revenue totaled VND2,163 billion, up 3% YoY. Wind power led revenue growth with VND917 billion (+30% YoY). GEG's latest project, Tan Phu Dong 1 (100 MW), began operations in May 2023 at an interim tariff equal to 50% of the transitional ceiling price. GEG's solar division, which has a capacity of 292 MWp, generated 368 million kWh in 2023, yielding VND809 billion in revenue. These projects have been benefiting from a favorable 20-year feed-in tariff (FIT) of 9.35 cents/kWh for solar farms and 8.38 cents for rooftop solar power. The hydropower segment, with over 80 MW of capacity, generated stable revenue at VND370 billion (–5% YoY) in 2023.

Fig 1. GEG – Ownership composition (%)



Source: Gia Lai Electricity, KB Securities Vietnam

Fig 2. GEG – Revenue composition (VNDbn, %)



Source: Gia Lai Electricity, KB Securities Vietnam

Business performance

Business performance demonstrated considerable growth following 2023's subdued levels

In the first half of 2024, GEG's cumulative consolidated net revenue hit VND1,227 billion, up 19% YoY. However, revenue from the Tan Phu Dong 1 plant (100 MW) is currently recorded at an interim rate. Cumulative gross profit stood at VND630 billion (+10% YoY), while PBT achieved VND158 billion (+29% YoY), fulfilling 47% of the company's 2024 target.

Table 3. GEG – 1H 2024 business performance

(VNDbn)	2Q2023	2Q2024	+/-%YoY	1H2023	1H2024	+/-%YoY	Notes
Revenue	480	488	2%	1,029	1,227	19%	
Hydropower	62	47	-24%	142	104	-27%	The average selling price rose 13% YoY due to an increased share of peak-hour electricity generation.
Solar power	238	249	5%	440	473	8%	The electricity price slightly increased, supported by a higher USD/VND exchange rate compared to the previous year.
Wind power	207	180	-13%	427	628	47%	
Sales volume	244	252	3%	490	652	33%	
Hydropower	39	27	-31%	86	54	-37%	Prolonged drought conditions led large reservoirs to conserve water, reducing downstream water flow.
Solar power	107	111	4%	200	212	6%	
Wind power	98	114	16%	204	386	89%	In 1Q 2024, wind speeds improved over the previous year, ensuring wind consistency. The Tan Phu Dong plant, operational since May 2023, contributed strongly to GEG's growth.
Gross profit	262	212	-19%	575	630	10%	
Gross profit margin	55%	43%	-12 ppts	56%	51%	-5 ppts	The gross profit margin declined as the new Tan Phu Dong plant has been operating at an interim rate set at 50% of the transitional ceiling price.
Financial income	14	9	-36%	25	19	-24%	
Financial expenses	-203	-169	-17%	-393	-414	5%	1H2024 financial expenses increased YoY, primarily due to Tan Phu Dong beginning to incur borrowing costs starting May 2023.
Profits from affiliates	-3	-2	n/a	3	-3	-200%	
SG&A	-33	-29	-12%	-83	-73	-12%	
Operating income/loss	213	183	-14%	493	557	13%	
Other income	-4	-1	n/a	-5	-3	n/a	
Profit before taxes (PBT)	20	22	10%	120	159	33%	
Profit after taxes (NPAT)	7	1	-86%	111	128	15%	
NP after MI	9	21	133%	73	111	52%	
NPAT margin	1%	0%	-1 ppts	11%	10%	-1 ppts	

Source: Gia Lai Electricity, KB Securities Vietnam

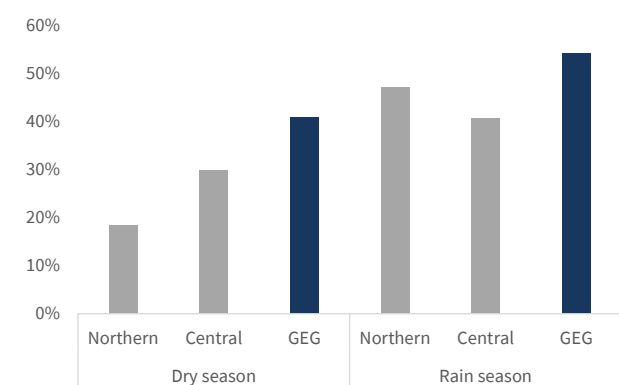
Investment catalysts

1. GEG's hydropower portfolio ensures a stable cash flow

Being strategically located on large river branches brings high efficiency to hydropower plants

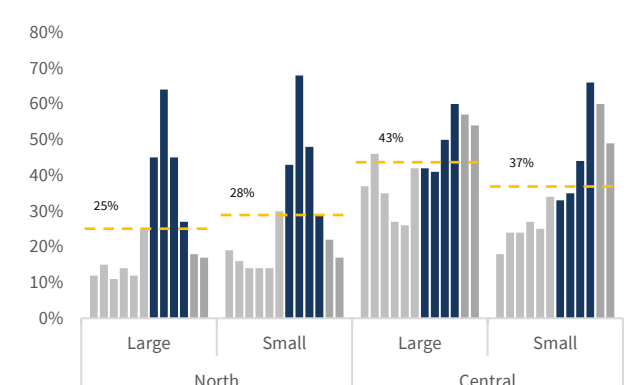
GEG owns an efficient portfolio of hydropower plants, strategically located on major rivers and steep terrains, which supports high operational efficiency. Of its 81 MW hydropower capacity, 67 MW are in Gia Lai, benefiting from abundant water resources from three major river tributaries: the Se San, Srepok, and Dong Nai rivers, along with the Ba River system, an area with some of the highest annual rainfall in the country, reaching 1,750–1,960 mm. This ample rainfall, combined with the sloping terrain, allows GEG's hydropower plants to operate year-round at an efficiency of approximately 41–54%, which surpasses the average efficiency of plants in the northern and central regions (18–47% and 30–41%, respectively). The remaining 14.1 MW of hydropower capacity benefits from the Da Nhim and Ba Ran tributaries in Thua Thien Hue and Lam Dong, maintaining an average annual capacity utilization of around 34–52%. This hydropower segment is expected to benefit from the potential La Nina cycle, bringing abundant water resources to boost electricity production, with production growth in 2024/2025 projected to reach 385/461 million kWh, reflecting increases of 7.9% YoY and 19.9% YoY, respectively.

Fig 4. GEG – Hydropower plant capacity utilization (%)



Source: MOIT, KB Securities Vietnam

Fig 5. Vietnam – Hydropower plant capacity utilization (%)



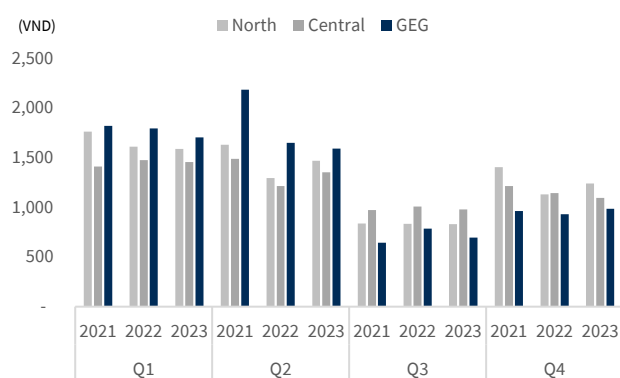
Source: MOIT, KB Securities Vietnam

Small hydropower plants offer flexible power generation, strategically focusing on periods with preferential pricing

Unlike large hydropower plants that have a two-part electricity pricing structure (with a fixed price component in their power purchase agreements and a variable component that fluctuates with the wholesale market), small hydropower plants are priced based on an annual "avoided cost tariff." This annual pricing framework allows small hydropower plants in each region to receive fixed rates based on their generation timing. This incentive-based pricing enables small hydropower plants to strategically manage water storage throughout the seasons, accumulating water during off-peak hours and increasing output during peak hours to maximize favorable pricing. On average, small hydropower plants can achieve electricity prices 2–12% higher than larger plants by focusing on peak-hour generation, with additional incentives for plants located in the Central and Southern regions.

For GEG's hydropower plants, their position along major downstream river branches with substantial water flow allows them to optimize pricing through strategic reservoir management. During the dry season, when water inflow is lower, GEG can store upstream water during off-peak hours and concentrate power generation during peak hours, thus securing a higher average electricity sale price than typical plants. However, during the rainy season, high inflows often push reservoir levels beyond maximum capacity, requiring continuous turbine operation even in off-peak times. When GEG plants operate above 80% of rated capacity in this manner, they may face a lower selling price, around 40% below standard rates, for excess electricity output.

Fig 6. GEG – Hydropower electricity prices (VND/kWh)



Source: KB Securities Vietnam

Note: GEG enjoys higher hydropower electricity prices than those in the northern and central regions.

Table 7. Vietnam – Hydropower electricity prices (VND/kWh)

	Pricing	Weighting	Final price
Large hydropower projects			
PPA price	0 – 1100	90% – 95%	900 – 950
Spot electricity price	1400 – 1600	5% – 10%	75 – 150
Total		100%	975 – 1100
Small hydropower projects			
Dry season – Peak hours	(726 – 749) + 1932	20%	531.6 – 536.2
Dry season – Off-peak hours	725 – 749	30%	217.5 – 224.7
Rainy season – Peak hours	703 – 727	10%	70.3 – 72.7
Rainy season – Off-peak hours	702 – 727	40%	280.8 – 290.8
Total		100%	1100 – 1124

Source: MOIT, KB Securities Vietnam

Note: Small hydropower plants enjoy higher electricity prices compared to large hydropower plants.

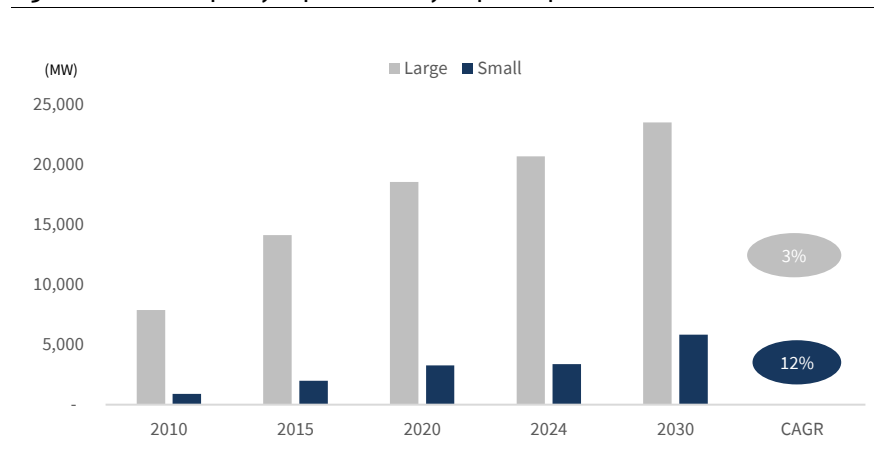
The addition of the Ea Tih hydropower project (8.6 MW) will help GEG enhance its generation capacity

In August 2023, GEG completed an M&A transaction for the Ea Tih small hydropower project, raising its total generation capacity to nearly 90 MW. The plant, located on the Ba River basin, features a day-and-night regulation reservoir, making it well-suited to leverage the region's consistent water flow. Currently, the project is undergoing environmental resource licensing procedures and is expected to begin operations in 2025, with an estimated annual output of 32 million kWh, thus boosting GEG's capacity by 8.4%. This increase will support GEG's cash flow, especially given delays in the integration of new renewable projects due to pending capacity planning approvals in Vietnam's National Power Development Plan VIII (NPDP8).

In the future, construction delays and slow capacity additions from larger power plants may pressure supply to meet rising electricity demand. As a result, investments in small hydropower plants are likely to be encouraged due to their advantages: (i) shorter construction times; (ii) significantly lower capital requirements than large-scale hydropower projects, allowing private sector involvement; and (iii) substantial potential for capacity expansion. By 2030, small hydropower capacity is projected to reach 5,825 MW (11.53% CAGR), offering growth opportunities for companies like GEG with the expertise to invest in and operate these plants.

The expansion in capacity of small hydropower is outperforming that of large hydropower.

Fig 8. Vietnam – Capacity expansion of hydropower plants (MW)



Source: National Power Development Plan VIII, KB Securities Vietnam

2. Early focus on renewable energy and strategic approach helps GEG achieve superior generation capacity

GEG invests in wind and solar power to stay ahead in the green energy transition

Since its establishment, GEG has focused on investing in green energy with a long-term commitment to sustainability, addressing the growing electricity demand in Vietnam. The year 2019 marked a significant shift for GEG, as the company began investing in and operating new energy types, including solar power and later wind power in 2021. This shift significantly altered the company's revenue and electricity generation mix, with the share of revenue from solar and wind energy increasing from 65% in early 2021 to 90% by 2Q2024. This transition aligns with Vietnam's green energy movement, where export and FDI enterprises seek clean energy sources to meet emission reduction targets set by developed nations. Given the small capacity of renewable energy sources in Vietnam's National Power Development Plan (NPDP7) through 2020, the government introduced policies to incentivize renewable energy investment to meet actual demand, which benefited GEG's rapidly deployed projects.

GEG gains a competitive edge through projects in prime locations for power generation and its strong operational expertise, which helps optimize capacity

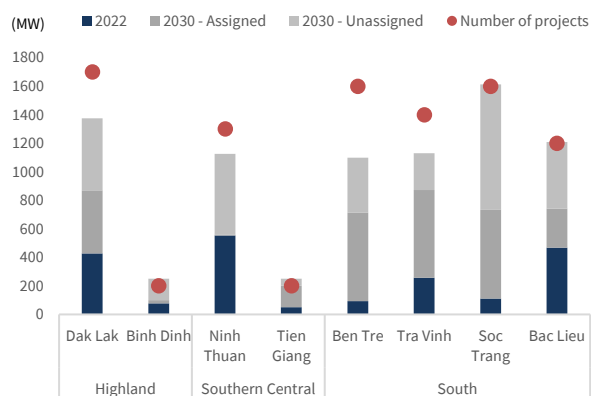
With renewable energy as its core focus, GEG gained an advantage by identifying and investing in promising projects early, applying technical expertise to ensure high performance. Specifically, GEG succeeded in surveying and developing plants in optimal locations to maximize efficiency. For solar energy, five of GEG's plants benefit from average solar radiation levels ranging from 4.6 to 5.3 kWh/m²/day, compared to Vietnam's national average of 3 to 5.6 kWh/m²/day. Notably, the Duc Hue 1 plant is located in the highest radiation area, with a daily average of 5.3 kWh/m². The company has also established an integrated value chain encompassing EPC (Engineering, Procurement, and Construction) and O&M (Operations and Maintenance) to reduce costs and increase margins. In wind energy, GEG's wind farms are strategically located in areas with high wind speeds, averaging 6.7 to 6.8 m/s, which falls within 39% of the country's areas with wind speeds above 6 m/s.

As one of the few operators in Ben Tre and Tien Giang, GEG's wind projects face minimal competition for grid access, ensuring their full electricity output is consumed during peak hours. The rapid construction of projects in these high-potential areas will give GEG a significant competitive advantage as barriers to entry in renewable energy investments increase due to stricter regulations and legal requirements for new projects. Additionally, transmission infrastructure constraints in various regions will hinder the growth of renewable electricity sources, preventing an overexpansion of projects as seen in the past.

Tan Phu Dong 1 (100 MW) coming into operation will increase GEG's operational capacity

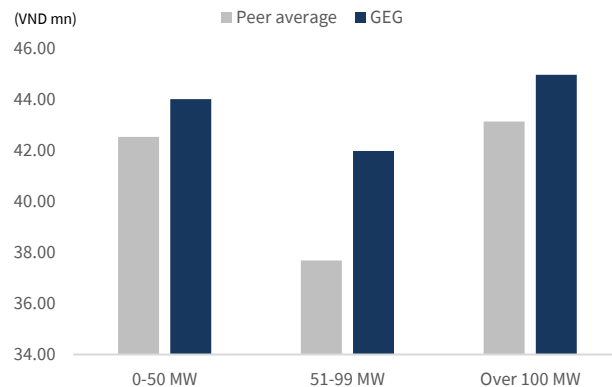
In 2024, green energy will remain the main driver of GEG's growth, with solar and wind energy revenues expected to reach VND745 billion (+2.4% YoY) and VND1,511 billion (+64.7% YoY), respectively. Solar and wind production is projected to total 336 million kWh (flat YoY) and 707.87 million kWh (+31.33% YoY), with the increase in wind energy driven by the stable operation of Tan Phu Dong 1 (100 MW). While some projects may face issues with aging turbines, GEG's projects will be less impacted due to consistent high wind speeds and high Qc ratios. From 2025, GEG's revenue is anticipated to stabilize as no new investments are planned pending the announcement of pricing mechanisms for new renewable energy projects.

Fig 9. Vietnam – Current and projected operational wind power capacity in the South (MW)



Source: National Power Development Plan VIII, KB Securities Vietnam

Fig 10. GEG – Investment cost of wind power (VNDmn)



Source: National Power Development Plan VIII, KB Securities Vietnam

Note: The investment cost per MW of GEG is 3.5% to 11.4% higher than the average of comparable power plants.

3. Resolving legal challenges will support new projects, strengthening GEG's growth and financial stability

The Tan Phu Dong 1 wind power project is expected to negotiate a price equivalent to 90% of the transitional ceiling price

Among the wind power plants currently operating, Tan Phu Dong 1 has the largest capacity (100 MW). Although it began official commercial operations in May 2023 and did not qualify for FIT, the project applied for a license and negotiated a temporary price with EVN, set at 50% of the transitional price cap—21% lower than the previous FIT. After completing all steps for transitional price negotiations, Tan Phu Dong 1 is expected to secure a price of 1,534 VND/kWh (90% of the transitional price cap) due to: (i) GEG's higher-than-average investment cost of VND44 billion/MW, (ii) higher financing costs compared to MOIT's assumptions, and (iii) the plant's ability to generate power around the clock, which EVN is willing to purchase at an average price of VND1,500/kWh, reflecting the full-market price for 2023. KBSV forecasts the plant to generate 311 million kWh in 2024 (~35% Qc ratio), contributing expected revenue of VND1,634 billion (+80% YoY).

Legal adjustments to allow the official sale price of the Tan Phu Dong 1 project are expected to be announced in 11/2024

In addition to GEG's advantages in price negotiations, we believe that the regulations in Circulars 07/2024-BCT and 19/2023-BCT have resolved many issues related to signing PPAs with EVN for renewable energy projects, particularly clarifying official prices for transitional projects. As investment costs for renewable energy projects decrease, we expect electricity prices to also lower, with official prices for transitional projects likely to be equal to or higher than the price cap announced in November 2024. By that time, official prices for transitional renewable energy projects that have completed trial operations will be set, speeding up contract finalization after nearly two years of delays. For Tan Phu Dong, the new official price will generate additional revenue of around VND231 billion from retroactive billing of electricity sold at the temporary price in 2023. For GEG's upcoming projects, the new pricing framework and finalized PPAs will drive project financing, investment, and timely launches.

Table 11. GEG – Impacts of new and amended circulars on renewable energy projects

Circular	Details	Impact on transitional renewable energy projects	Impact on new renewable energy projects
Circular 07/2024 – BCT to replace Circular 57/2020 – BCT	<ul style="list-style-type: none"> – Determine the price for transitional renewable energy projects – Determine the price for energy projects that have expired contracts but still have economic life – Determine the price for energy projects that have expired economic life but still have contract duration 	– The official legal basis for signing PPAs with transitional projects	– The official legal basis for signing PPAs with new renewable energy projects
Amended Circular 11/2023 – BCT	<ul style="list-style-type: none"> – Method for determining the electricity price framework for new renewable energy projects – Regulation on the announcement of the renewable energy electricity price framework by November 2024 	– Determine the official minimum selling price for transitional renewable energy projects	– Investors balance economic benefits through the electricity price cap for future renewable energy projects

Source: Gia Lai Electricity, KB Securities Vietnam

Higher electricity prices will improve profitability

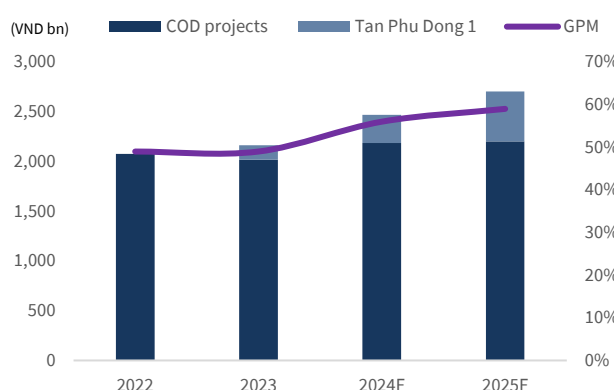
With the Tan Phu Dong 1 plant securing a higher PPA price, GEG's profit margins are set to improve as operating costs constitute only a small portion of the company's total cost of goods sold (COGS), which primarily comprises depreciation expenses. Revenue is expected to rise significantly in 2024, with the official electricity price for Tan Phu Dong 1 to be 40% higher than the current temporary rate. This will boost wind power revenue and contribute an additional VND230 billion in retroactive income from the price adjustment.

On interest expenses, we expect cost pressures to ease gradually due to: (i) stable revenue supporting loan principal repayments and (ii) reduced interest expenses as the loan principal declines over time. These factors are projected to help GEG achieve margins of 24.6% in 2024 and 20.92% in 2025. Consequently, GEG's return on equity (ROE) is forecasted to recover strongly, rising from the low of 2.5% in 2023 to 10.57% in 2024 and 7.87% in 2025.

Strong cash flows will ensure GEG's ability to meet its debt obligations

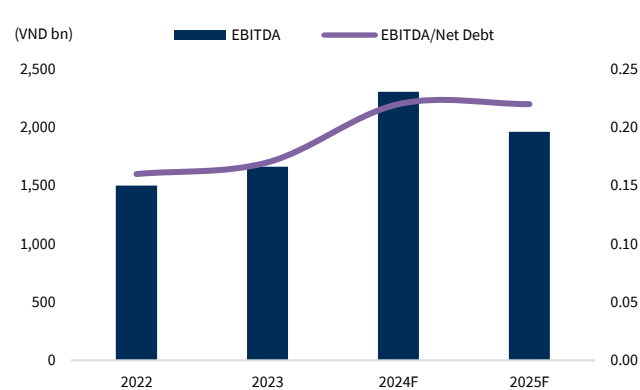
Between 2021 and 2024, GEG increased long-term debt through bond issuance and bank loans to expand its power generation capacity, leading to a rapid rise in its debt-to-equity ratio from 1.06x in 2020 to 1.83x in 2021, and maintaining 1.70x in 2022 and 2023. This strategy enabled GEG to quickly develop projects, capitalize on preferential pricing, and achieve profit margins above the industry average. Moving forward, GEG is expected to strengthen its financial health by restructuring loans and leveraging strong operating cash flows. In 2024/2025, the company's debt coverage ratio (EBITDA/Net Debt) is forecasted to improve to 0.22 and 0.21, respectively, supported by stable EBITDA around VND2,000 billion.

Fig 12. GEG – Revenue, gross profit margin (VNDbn, %)



Source: Gia Lai Electricity, KB Securities Vietnam

Fig 13. GEG – EBITDA, EBITDA/net debt (VNDbn)



Source: Gia Lai Electricity, KB Securities Vietnam

Forecast

Table 14. GEG – 2023A–2025F business performance

(VNDbn)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	2,163	2,809	30%	2,702	-4%	
Hydropower	420	450	7%	538	20%	
Solar power	826	848	3%	823	-3%	
Wind power	918	1,512	65%	1,341	-11%	2024: Revenue contribution from the Tan Phu Dong project should increase significantly thanks to securing a higher selling price.
Sales volume	1,029	1,155	12%	1,214	5%	
Hydropower	306	334	9%	401	20%	Hydropower sales volume in 2024/2025 is expected to improve due to the strong La Nina cycle.
Solar power	358	356	-1%	356	0%	
Wind power	365	465	27%	457	-2%	2025: Wind power sales volume is expected to decrease by 1.5% YoY due to underperformance of wind turbines.
Gross profit	1,121	1,723	54%	1,595	-7%	
<i>Gross profit margin</i>	52%	61%	9 ppts	59%	-2 ppts	Gross profit margin is forecasted to increase significantly as the Tan Phu Dong project may enjoy higher selling prices, improving margins as most costs are depreciation.
Financial income	101	25	-75%	127	408%	
Financial expenses	-871	-1,008	16%	-816	-19%	
Profits from affiliates	13	13	0%	13	0%	
SG&A	-159	-219	38%	-211	-4%	
Operating income/loss	962	1,504	56%	1,384	-8%	
Other income	-7	225	n/a	0	-100%	Retroactive income from the period when Tan Phu Dong 1 sold electricity at temporary prices.
Profit before taxes (PBT)	195	769	294%	711	-8%	
Profit after taxes (NPAT)	143	692	384%	640	-8%	
NP after MI	137	644	370%	596	-7%	
NPAT margin	7%	25%	18 ppts	24%	-1 ppts	

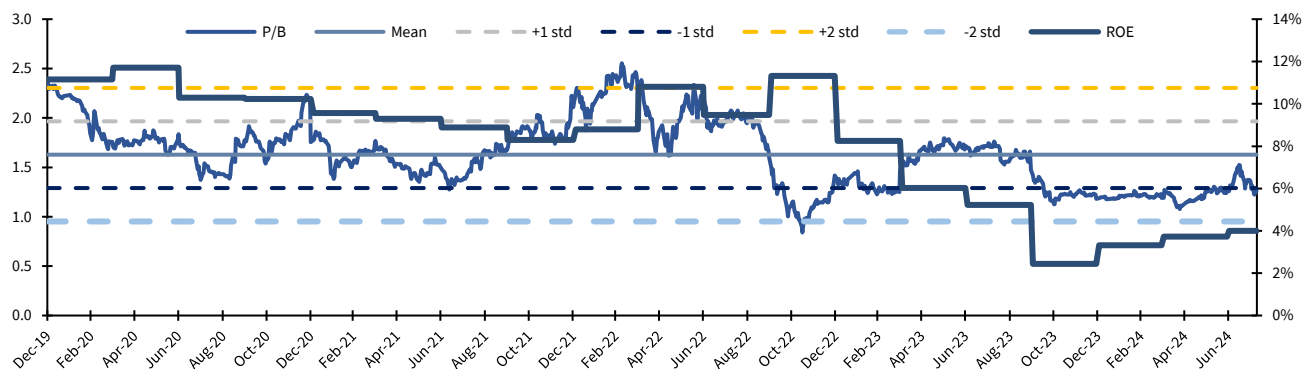
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Valuation

We recommend BUY for GEG with a target price of VND16,200/share

GEG's stock price has increased by 34% since the beginning of the year, peaking in July. However, it has since corrected by 27%, reflecting market concerns following news that four of GEG's wind power projects, totaling 230 MW, are among the 32 wind and solar projects under investigation by the Ministry of Public Security. This announcement, made in May, has not been followed by any official updates on the investigation's outcome. As a result, the primary impact of this news is expected to delay the negotiations for the official pricing of these transitional projects. However, given that the Tan Phu Dong project has already met all criteria for official pricing negotiations, we believe the prolonged impact will not significantly affect the announcement of the official wind power project price, which is expected by November 2024. Using the Sum of the Parts (SOTP) valuation method, KBSV maintains a BUY recommendation on GEG with a target price of VND16,200 per share, representing a potential upside of 40.3% compared to the closing price on September 20, 2024. This target price corresponds to a projected P/B ratio for 2024/2025 of 1.02x/0.93x, below the 5-year average of 1.62x. In the bull case scenario, we expect GEG's P/B ratio to either match or exceed the 5-year average, supported by the company's forecasted ROE remaining above 8%, higher than the historical low of approximately 6.6%.

Fig 15. GEG – P/B & ROE in 2019–2024



Source: Bloomberg, KB Securities Vietnam

Table 16. GEG – Valuation results

	Project	Capacity	Valuation method	Net PV
Gia Lai Hydropower JSC (GHC)	H'Chan hydropower	10.0	DCF	1,945
	H'Mun hydropower	16.2	DCF	
	Ham Phu solar power	49.0	DCF	
	Rooftop solar power (2.9 MWp)	2.9	DCF	
Ayun Thuong 1A project	Ayun Thuong 1A hydropower	12.0	DCF	305
Hydropower complex		40.9	DCF	1,040
Chu Prong	IA Drang 1-3, Ia Muer 3, Ia Puch 3	11.8	DCF	
Dak Pi Hao	Dak Pi Hao 1-2	15.0	DCF	
Hue	Thuong Lo	6.0	DCF	
Lam Dong	Da Khai	8.1	DCF	
TTC Duc Hue – Long An Electricity JSC	Duc Hue 1 solar power	49.0	DCF	1,448
	Rooftop solar power (10 MWp)	10.0	DCF	
Solar power complex		117.0	DCF	1,712
Phong Dien	Phong Dien solar power	48.0	DCF	
Krong Pa	Krong Pa solar power	69.0	DCF	
Truc Son	Truc Son solar power	45.0	DCF	901
	Rooftop solar power (13 MWp)	13.0	DCF	
In association with VIJA	Rooftop solar power (6 MWp)	6.0	DCF	310
IA Bang Wind Power JSC (IBE)	IA Bang 1 wind power	50.0	DCF	1,688
Tien Giang Wind Power JSC (TGE)	Tan Phu Dong 1-2 wind power	150.0	DCF	5,397
VPL Energy JSC (VPL)	VPL 1 wind power	30.0	DCF	1,169
Truong Phu Hydropower JSC			Book value	166
Total				16,081
(-) Net debt				-9,123
(-) Minority interest				-1,433
(-) Preferred stock				-642
Equity value				5,525
Number of shares outstanding (million shares)				341.25
Target price				16,200
Current price (Sep 23, 2024)				11,550
Upside				40.3%

Source: KB Securities Vietnam

Table 17. GEG – Correlation between Qc ratio & PPA price

		PPA price (Base case: VND1,634/kWh)				
		80%	85%	90%	95%	100%
Qc ratio of wind power plants (Base case: 38%)	32%	-5.60%	-0.40%	5.60%	10.80%	16.90%
	35%	10.80%	16.90%	22.90%	29.00%	35.10%
	38%	27.30%	34.20%	40.30%	47.20%	54.10%
	41%	43.70%	50.60%	58.40%	65.40%	72.30%
	44%	60.20%	68.00%	75.80%	83.50%	90.50%

Source: KB Securities Vietnam

Risks

The delay in finalizing a PPA to secure a higher official price could put pressure GEG's financial situation

The Tan Phu Dong 1 project has experienced a nearly two-year delay in securing a power purchase agreement (PPA) to lock in a higher official price than the current rate. We believe there are two key external factors contributing to the prolonged negotiations between EVN and GEG: (i) the higher selling price of wind power compared to thermal and hydropower, which creates significant financial pressure on EVN and (ii) the uncertainty in electricity generation due to weather conditions, making it challenging to accurately determine the contracted volume. The delay in finalizing the official price has increased financial strain on the company, as cash flow from the projects is lower than anticipated, thereby affecting the company's ability to meet its debt obligations.

On a positive note, recent directives from the government on granting power purchase agreements for renewable energy projects have shown promising signs of resolving bottlenecks in pricing negotiations for transitional projects. This will, in the long term, make the shift towards renewable energy more feasible. In the short term, KBSV is anticipating the Ministry of Industry and Trade's announcement in November 2024 of a renewable energy pricing framework, which will have a positive impact on negotiations for official pricing of fully completed transitional projects, such as Tan Phu Dong 1.

GEG – 2022A–2025F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2022	2023	2024F	2025F		2022	2023	2024F	2025F
Net sales	2,093	2,163	2,809	2,702	TOTAL ASSETS	17,118	16,132	17,997	18,604
Cost of sales	-1,082	-1,043	-1,086	-1,108	CURRENT ASSETS	2,118	1,458	3,126	3,385
Gross Profit	1,011	1,121	1,723	1,595	Cash and cash equivalents	334	229	1,456	1,640
Financial income	214	101	25	127	Short-term investments	491	233	457	568
Financial expenses	-657	-871	-1,008	-816	Accounts receivable	750	829	1,024	985
of which: interest expenses	-592	-842	-1,008	-816	Inventories	155	127	149	152
Gain/(loss) from joint ventures (from 2015)	6	13	13	13	LONG-TERM ASSETS	15,000	14,674	14,871	15,219
Selling expenses	0	-1	-1	-1	Long-term trade receivables	2	41	41	41
General and admin expenses	-160	-158	-218	-210	Fixed assets	9,965	14,068	14,221	14,368
Operating profit/(loss)	414	205	534	708	Long-term incomplete assets	4,877	359	398	398
Other incomes	-14	-2	230	-2	Long-term investments	0	0	0	0
Other expenses	-1	-5	-5	-5	Goodwill	1	0	0	0
Net other income/(expenses)	-13	3	235	3	LIABILITIES	11,488	10,365	11,538	11,305
Income from investments in other entities	0	0	1	2	Current liabilities	2,071	1,679	3,010	2,969
Net accounting profit/(loss) before tax	401	208	769	711	Trade accounts payable	1,225	75	913	874
Corporate income tax expenses	5	-5	-77	-71	Advances from customers	2	2	2	2
Net profit/(loss) after tax	371	143	692	640	Short-term unrealized revenue	663	1,415	1,910	1,908
Minority interests	55	6	48	45	Short-term borrowings	9,418	8,686	8,528	8,336
Attributable to parent company	316	137	644	596	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Long-term borrowings	9,264	8,682	8,524	8,332
					OWNER'S EQUITY	5,630	5,767	6,459	7,299
					Paid-in capital	3,861	4,054	4,296	4,722
					Share premium	26	21	21	21
					Undistributed earnings	292	179	580	949
					Others fund	99	96	97	97
					Minority interests	1,352	1,417	1,465	1,510
Margin ratio					Key ratios (x, %, VND)				
	2022	2023	2024F	2025F	Multiple				
Gross profit margin	48.3%	51.8%	61.3%	59.0%	P/E	18.6	76.6	9.8	12.3
EBITDA margin	71.8%	76.7%	73.4%	71.9%	P/E diluted	18.6	76.6	9.8	12.3
EBIT margin	40.7%	44.5%	53.5%	51.2%	P/B	1.3	1.2	1.1	1.1
Pre-tax profit margin	19.4%	9.0%	27.4%	26.3%	P/S	2.5	2.6	2.5	2.8
Operating profit margin	19.8%	9.5%	19.0%	26.2%	P/Tangible Book	1.3	1.2	1.1	1.1
Net profit margin	17.7%	6.6%	24.6%	23.7%	P/Cash Flow	12.8	6.3	3.7	6.5
					EV/EBITDA	11.5	10.8	8.5	9.2
					EV/EBIT	20.3	18.6	11.6	12.9
Cash Flow Statement (VND billion)					Operating performance				
	2022	2023	2024F	2025F					
Net profit/(loss) before tax	407	195	769	711	ROE	6.6%	2.5%	10.7%	8.8%
Depreciation and amortisation	652	697	558	559	ROA	2.2%	0.9%	3.8%	3.4%
Profit/loss from investing activities	-94	0	0	0	ROIC	5.5%	6.2%	9.7%	8.7%
Interest expense	601	851	1,008	816					
Operating profit/(loss) before changes in Working Capital	1,481	1,649	2,335	2,086	Financial structure				
(Increase)/decrease in receivables	-700	325	-195	39	Cash Ratio	40.0%	28.0%	64.0%	74.0%
(Increase)/decrease in inventories	-9	25	-22	-3	Quick Ratio	76.0%	77.0%	98.0%	108.0%
Increase/(decrease) in payables	358	-41	836	-39	Current Ratio	102.0%	87.0%	104.0%	114.0%
(Increase)/decrease in prepaid expenses	15	-3	0	0	LT Debt/Equity	164.5%	150.5%	132.0%	114.2%
Trading stocks, interest expenses, taxes and others	-649	-894	-1,085	-909	LT Debt/Total Assets	54.1%	53.8%	47.4%	44.8%
Net cash inflows/(outflows) from operating activities	496	1,063	1,869	1,174	Debt/Equity	11.8%	24.5%	29.6%	26.1%
Purchases of fixed assets and other long term assets	-4,599	-1,580	-678	-705	Debt/Total Assets	3.9%	8.8%	10.6%	10.3%
Proceeds from disposal of fixed assets	67	2	0	0	ST Liabilities/Equity	36.8%	29.1%	46.6%	40.7%
Loans granted, purchases of debt instruments	-776	-250	-700	-500	ST Liabilities/Total Assets	12.1%	10.4%	16.7%	16.0%
Collection of loans, proceeds from sales of debts instruments	323	524	476	389	Total Liabilities/Equity	204.0%	179.7%	178.6%	154.9%
Investments in other entities	0	-142	0	0	Total Liabilities/Total Assets	67.1%	64.3%	64.1%	60.8%
Proceeds from divestment in other entities	566	57	0	0	Activity ratios				
Dividends and interest received	13	26	25	127	Account Receivable Turnover	2.8	2.7	3.0	2.7
Net cash inflows/(outflows) from investing activities	-4,405	-1,363	-877	-689	Inventory Turnover	7.2	7.4	7.3	7.3
Proceeds from issue of shares	1,232	114	0	0	Account Payable Turnover	2.4	2.8	2.7	2.7
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	3,728	2,366	1,600	857					
Repayment of borrowings	-906	-2,196	-1,263	-1,051					
Finance lease principal payments	-4	-4	0	0					
Dividends paid	-57	-84	-102	-107					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	3,993	195	235	-301					
Net increase in cash and cash equivalents	84	-105	1,227	184					
Cash and cash equivalents at the beginning of period	250	334	229	1,456					
Cash and cash equivalents at the end of period	334	229	1,456	1,640					

Source: Gia Lai Electricity, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Research Division

research@kbsec.com.vn

Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

Financials

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Consumer

Nguyen Duc Quan – Analyst

quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

Real Estate

Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

Industrials & Materials

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of macro & strategy

anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannd@kbsec.com.vn

Energy, Utilities & IT

Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst

anhnv3@kbsec.com.vn

Support Team

Nguyen Cam Tho – Assistant

thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant

huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	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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