

PV Nhon Trach 2 (NT2)

Benefits from high consumption demand

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NT2's NPAT & revenue gained in 1Q23

PV Nhon Trach 2's (NT2) 1Q23 net sales and NPAT reached VND2,182 billion (+8.8% YoY) and VND234 billion (equal to 49.4% of the full-year target). In 1Q23, commercial power output reached 1,075 million kWh (+8% YoY). Contract output (Qc output) reached 1,040 million kWh, accounting for about 97% of NT2's commercial power output. Good business performance was attributable to high electricity demand and less competition from hydropower.

In 4Q22, NT2 reversed the provision for EPTC bad debt, causing a sharp increase in NPAT

NT2 recorded a provision of VND198 billion for Electricity Power Trading Company (EPTC) in 2H22. However, this was later recorded in the 4Q22 financial statement, resulting in NT2's 2022 NPAT of VND883 billion (+65% YoY) instead of VND729 billion (+37%) before the reversal. Accordingly, our forecast will also change as this provision has been completed in 2022.

The demand for electricity loads is forecasted to increase, especially in the hot season

According to Vietnam Electricity (EVN), the electricity demand of the national power system reached a new record high on May 6, 2023, equivalent to 895 million kWh (+12.34% YoY). Peak power consumption reached 43,0300 MW (+9.12% YoY), the highest since the beginning of the year. The demand for electric loads tends to increase, especially in the hot season.

HOLD recommendation with a target price of VND35,100/share

Based on FCFF and EV/EBITDA models, business outlook and possible risks, we recommend HOLD for NT2. The target price is VND35,100/share, 8.6% higher than the price on June 12, 2023.

Hold maintain

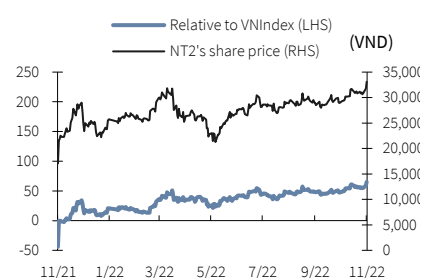
Target price	VND35,100
Upside	8.6%
Current price (Jun 12, 2023)	VND32,400
Consensus target price	VND32,000
Market cap (VNDbn)	9,140.1

Trading data	
Free float	30%
3M avg trading value (VNDbn)	18.6
Foreign ownership	16.04%
Major shareholder	PV Power (POW, 59.4%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	14	14	54	53
Relative	13	12	41	65

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	6,150	8,788	8,556	8,872
Operating profit (VNDbn)	559	957	705	797
NPAT of the parent (VNDbn)	534	883	720	768
EPS (VND)	1,756	2,992	3,732	3,982
EPS growth (%)	-16.2	70.4	24.7	6.7
P/E (x)	14.4	9.7	9.4	8.8
P/B (x)	1.2	1.2	1.4	1.3
ROE (%)	12.6	19.1	14.9	15.2
Dividend yield (%)	11.8	8.5	8.0	8.5



Source: Bloomberg, KB Securities Vietnam

1Q23 business performance updates

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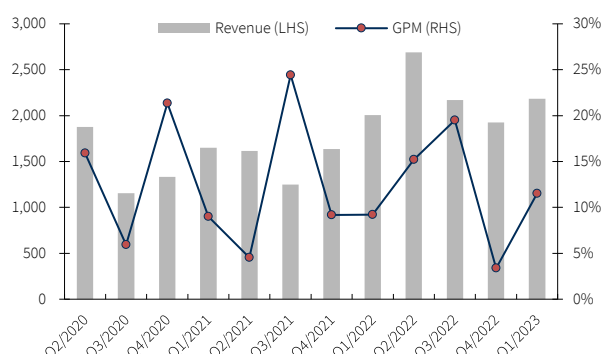
PV Nhon Trach 2's (NT2) 1Q23 net sales and NPAT reached VND2,182 billion (+8.8% YoY) and VND234 billion (equal to 49.4% of the full-year target). In 1Q23, commercial power output reached 1,075 million kWh (+8% YoY). Qc output reached 1,040 million kWh, accounting for about 97% of NT2's commercial power output. Good business performance was attributable to high electricity demand and less competition from hydropower.

Table 1. NT2 – 1Q23 business results

	1Q22	1Q23	+/-%YoY	KBSV's notes
Output (million kWh)				
Quantity contract output (Qc)	994.70	1074.80	8%	Positive Qc output was attributable to high demand for electricity
Sold output on CGM (Qm)	253.90	35.00	-86%	Qm output decreased due to more Qc mobilization
Average gas price (USD/MMBTU)	9.94	8.88	-11%	Average gas price fell in line with Brent oil price
Average electricity price (VND/kWh)	2,004	2,064	3%	CGM electricity prices and high gas prices kept average electricity price higher than that of the same period last year
Revenue (VNDbn)	2,006.52	2,182.88	8.8%	Revenue growth was attributable to high consumption volume and electricity generation prices
Cost of goods sold (VNDbn)	-1,821.43	-1,931.23	6%	
Gross profit (VNDbn)	185.09	251.64		Gross profit improved as revenue grew stronger than COGS
Gross profit margin (%)	9.2%	12%		
SG&A costs (VNDbn)	-16.68	-20.10	21%	
SG&A to sales ratio (%)	0.8%	0.9%	13%	
Operating profit	167.99	246.49	47%	
Financial income	1.70	22.06	1198%	Bank deposit interest increased
Financial expenses	-2.12	-7.11	235%	
Other incomes (net)	0.20	-0.32	-260%	
Profit before taxes	168.19	246.17	46.4%	
Profit after taxes	159.58	233.82	46.5%	

Source: PV Nhon Trach 2, KB Securities Vietnam

Fig 1. NT2 – Business results in 2020–2023 (VNDbn)



Source: PV Nhon Trach 2, KB Securities Vietnam

In 4Q2022, NT2 dropped provision for bad debts with EPTC, causing a sharp increase in NPAT

In 4Q22, NT2 announced to correct the financial statements with adjusted 2Q22 NPAT rising 27 times (from VND5.7 billion to nearly VND160 billion). The reason for this came from NT2's cancellation of provision for bad receivables. The company recorded a provision of VND198 billion for EPTC in the second half of 2022. However, this was later reversed in the 4Q22 financial statement updates, resulting in NT2's NPAT reaching VND883 billion (+65% YoY), instead of VND729 billion (+37%) before the reversal. Accordingly, our forecast will also change as this provision has been reversed in 2022.

The demand for electricity is forecasted to increase, especially in the hot season

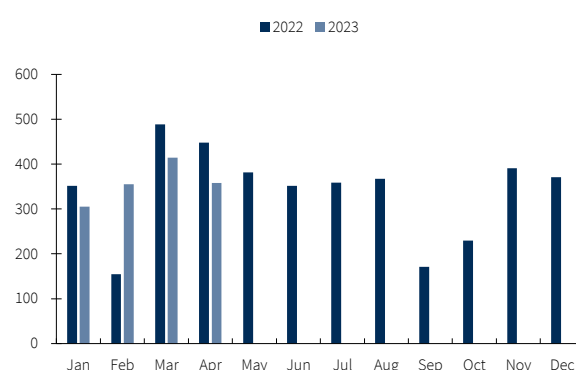
According to EVN, the electricity demand of the national power system increased to a new record on May 6, 2023, equivalent to 895 million kWh (+12.34% YoY). Peak power consumption reached 43,300 MW (+9.12% YoY), the highest since the beginning of the year. The demand for electric loads tends to increase, especially in the coming hot season. Water levels at hydropower plants are not as plentiful as in 2022, which is in line with our expectations in our previous reports. Therefore, thermal power plants will be mobilized at a higher rate to ensure sufficient electricity consumption demand.

Electricity prices on the CGM are high

In the first quarter of 2023, the average wholesale electricity price reached VND1,689/kWh (+11% YoY) due to high input materials (gas & coal) of thermal power plants, leading to high prices. The wholesale electricity price in April 2023 reached VND1,964 billion/kWh (+10% YoY), reaching 10-year high due to high consumption when the weather enters the hot season. Besides, input gas prices tend to go down since April 2022. This means that NT2 will have an advantage when participating in power generation thanks to the decrease in input gas prices, but the prices of wholesale electricity are still high. In 2022, Qm output was about 15% of the factory's total output.

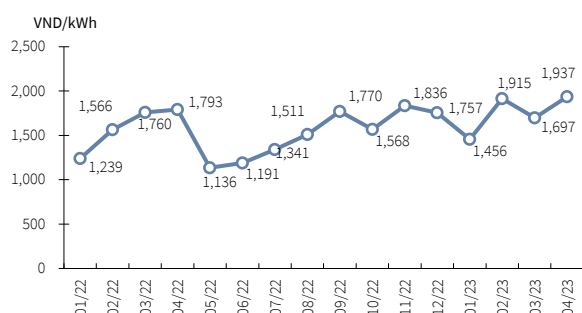
We maintain our forecast that electricity generation prices on the CGM will average 1,569.8 kWh (+2% YoY) in 2023 and may increase further in the following years as power demand would continue to grow.

Fig 2. NT2 – Commercial power output in 2022–2023 (million kWh)



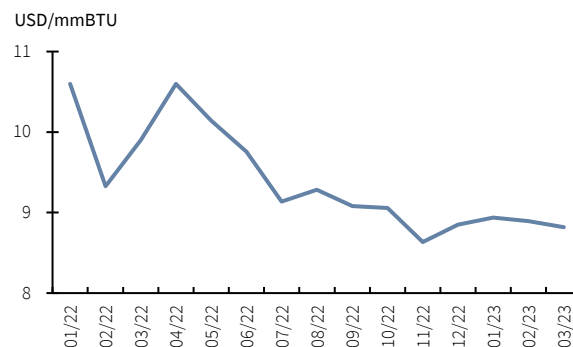
Source: PV Nhon Trach 2, KB Securities Vietnam

Fig 3. Vietnam – Average wholesale electricity prices in 2022–2023 (VND/kWh)



Source: GENCO3, KB Securities Vietnam

Fig 4. NT2 – Input gas prices in 2022–2023 (USD/mmBTU)



Source: PV Nhon Trach 2, KB Securities Vietnam

Table 2. NT2 – 2023F business results

	2022	2023F	+/-%YoY	KBSV's notes
Output (million kWh)	4,065	4,032	-0.81%	
QC	3,473	3,427	-1.32%	Commercial electricity output in 2023 may reach 4,032 million kWh (-0.8% YoY). In 2023, NT2 will carry out a periodic factory overhaul after 100,000 EOHs of units, systems, and ancillary equipment. However, as the demand will increase, we adjust our forecast of electricity consumption to only decrease slightly compared to 2022 due to the possibility that the plant will be mobilized with high capacity to ensure domestic electricity supply. We think Qc will be higher than in 2022.
Qm	592	605	2.16%	
Average gas price (USD/MMBTU)	9.33	9.14	-2.00%	The average input gas price should be at USD9.09/MMBTU (-2% YoY) due to the assumption that Brent oil price will decrease slightly to USD85/barrel.
Average electricity price (VND/kWh)	2,161	2,122	-1.82%	The average electricity price is assumed to be mild due to the cooling of the input oil
Revenue (VNDbn)	8,788	8,556	-2.64%	
COGS (VNDbn)	7,706	7,589	-1.52%	COGS is expected to go down along with Brent oil prices
Gross profit (VNDbn)	1,081	966	-10.63%	
Gross profit margin (%)	12.3%	11.3%		
SG&A costs (VNDbn)	-131	-128	-2.64%	
% SG&A/sales	1.50%	1.50%		
Operating profit	957	705	-26.28%	
Financial income (VNDbn)	24	78	218.47%	Costs increase due to assumption of increased deposit interest
Financial expenses (VNDbn)	-18	-33	86.43%	
Other incomes (net)	-14	-14		
Profit before taxes	943	766	-18.78%	
Profit after taxes	883	720	-18.50%	

Source: PV Nhon Trach 2, KB Securities Vietnam

Valuation

Valuation method

We use the FCFF and EV/EBITDA, weighting 50–50, to give NT2 a HOLD recommendation with a target price of VND35,100/share, equivalent to an upside of 8.6% compared to the closing price on June 12, 2023.

Table 3. NT2 – Final valuation

Methods	Forecast price	Weight	Price per weight
FCFF	36,546	50%	18,273
EV/EBITDA (6x)	33,603	50%	16,801
Target price (rounded)			35,100
Current price (June 12, 2023)			32,400
Upside			8.6%

Source: PV Nhon Trach 2, KB Securities Vietnam

NT2 – 2021A–2023F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2021	2022	2023F	2024F		2021	2022	2023F	2024F
Net sales	6,150	8,788	8,556	8,872	CURRENT ASSETS	6,624	7,445	7,514	7,795
Cost of sales	5,474	7,706	7,589	7,809	Cash and cash equivalents	2,581	4,557	4,998	5,870
Gross Profit	676	1,082	967	1,063	Short-term investments	1	384	827	700
Financial income	18	24	78	86	Accounts receivable	0	949	949	949
Financial expenses	-52	-18	-33	-26	Inventories	2,230	2,911	2,359	2,569
of which: interest expenses	-20	-15	-33	-26	LONG-TERM ASSETS	311	307	373	403
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	-128	-133	Investment properties	3,496	2,809	2,437	1,846
Operating profit/(loss)	559	957	705	797	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	15	15	TOTAL ASSETS	0.0	0.0	0.0	0.0
Net other income/(expenses)	7	-14	-14	-14	LIABILITIES	2,390	2,831	2,679	2,726
Income from investments in other entities	0	0	0	0	Current liabilities	2,390	2,831	2,679	2,726
Net accounting profit/(loss) before tax	566	943	766	873	Trade accounts payable	1,034	770	933	873
Corporate income tax expenses	-32	-60	-46	-105	Advances from customers	0	0	0	0
Net profit/(loss) after tax	534	883	720	768	Short-term unrealized revenue	210	631	315	422
Minority interests	0	0	0	0	Short-term borrowings	0	0	0	0
Attributable to parent company	534	883	720	768	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	0	0	0	0
					Long-term borrowings	4,234	4,614	4,835	5,069
					OWNER'S EQUITY	2,879	2,879	2,879	2,879
					Paid-in capital	0	0	0	0
					Share premium	1,196	1,554	1,775	2,009
					Undistributed earnings	160	182	182	182
					Minority interests	0	0	0	0
Margin ratio					Key ratios				
	2021	2022	2023F	2024F	Multiple				
Gross profit margin	11.0%	12.3%	11.3%	12.0%	P/E	14.4	9.7	9.4	8.8
EBITDA margin	20.3%	18.7%	17.3%	17.2%	P/E diluted	14.4	9.7	9.4	8.8
EBIT margin	9.1%	10.9%	8.2%	9.0%	P/B	1.2	1.2	1.4	1.3
Pre-tax profit margin	9.2%	10.7%	9.0%	9.8%	P/S	0.8	0.6	0.8	0.8
Operating profit margin	9.1%	10.9%	8.2%	9.0%	P/Tangible Book	1.2	1.2	1.4	1.3
Net profit margin	8.7%	10.1%	8.4%	8.7%	P/Cash Flow	6.8	6.0	4.5	7.9
					EV/EBITDA	6.0	5.2	6.5	6.5
					EV/EBIT	13.4	9.0	13.6	12.4
Cash Flow Statement (VND billion)					Operating performance				
	2021	2022	2023F	2024F	ROE	12.6%	19.1%	14.9%	15.2%
Net profit/(loss) before tax	566	943	766	873	ROA	8.1%	11.9%	9.6%	9.9%
Depreciation and amortisation	690	689	775	728	ROIC	12.6%	19.7%	16.3%	16.6%
Profit/loss from investing activities	-11	21	21	21	Financial structure				
Interest expense	20	15	15	15	Cash Ratio	0.0	0.5	0.5	0.9
Operating profit/(loss) before changes in Working Capital	1,266	1,668	1,577	1,638	Quick Ratio	0.7	0.9	1.4	1.8
(Increase)/decrease in receivables	-775	-672	552	-210	Current Ratio	0.9	1.1	1.5	1.1
(Increase)/decrease in inventories	4	3	-65	-30	LT Debt/Equity	0.0	0.0	0.0	0.0
Increase/(decrease) in payables	871	22	163	-60	LT Debt/Total Assets	0.0	0.0	0.0	0.0
(Increase)/decrease in prepaid expenses	-209	452	97	83	Debt/Equity	0.0	0.1	0.1	0.1
Net cash inflows/(outflows) from operating activities	1,074	1,383	2,245	1,290	Debt/Total Assets	0.0	0.1	0.0	0.1
Purchases of fixed assets and other long term assets	-3	-1	-3	-3	ST Liabilities/Equity	0.6	0.6	0.6	0.5
Proceeds from disposal of fixed assets	0	0	0	0	ST Liabilities/Total Assets	0.4	0.4	0.4	0.3
Loans granted, purchases of debt instruments	0	0	0	0	Total Liabilities/Equity	0.6	0.6	0.6	0.5
Collection of loans, proceeds from sales of debts instruments	0	0	0	0	Total Liabilities/Total Assets	0.4	0.4	0.4	0.3
Investments in other entities	0	-949	-949	-949	Activity ratios				
Proceeds from divestment in other entities	0	0	0	0	Account Receivable Turnover	3.3	3.4	3.2	3.6
Dividends and interest received	11	4	4	4	Inventory Turnover	17.6	25.1	20.4	19.4
Net cash inflows/(outflows) from investing activities	9	-946	-947	-948	Account Payable Turnover	8.6	9.7	10.1	9.8
Proceeds from issue of shares	0	0	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	1,364	831	0	0					
Repayment of borrowings	-1,932	-410	0	0					
Finance lease principal payments	0	0	0	0					
Dividends paid	-575	-474	-540	-576					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-1,143	-54	-855	-469					
Net increase in cash and cash equivalents	-61	383	442	-127					
Cash and cash equivalents at the beginning of period	62	1	384	827					
Cash and cash equivalents at the end of period	1	384	827	700					

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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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