

PV Nhon Trach 2 (NT2)

Facing lower gas-fired power challenge

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2Q24 revenue was flat while net profit slightly declined

In 2Q24, PV Nhon Trach 2 (NT2) posted VND122 billion in NPAT (-15% YoY) on net revenue of VND2,186 billion (+ 0.2% YoY). Sales output of electricity reached 1,026 million kWh (- 3% YoY). Contract output (Qc) hit 884 million kWh, accounting for about 86% of NT2's sales output. Business results increased slightly YoY mainly thanks to higher electricity prices, helping to offset the decrease in electricity output.

2Q contract electricity output recovered from low mobilization in 1Q

2Q electricity output mobilized by EVN was higher than in 1Q, reaching 884 million kWh (+ 629% QoQ) in the context of strong increase in electricity demand in 2Q and coal-fired power forced to reduce generation capacity after a long period of operating at high capacity. NT2's generators have also just gone through an overhaul, supporting the efficiency of the plant.

NT2 will become one of the two remaining plants using cheap domestic gas sources, ensuring electricity output

Currently, NT2 and Phu My 1 are the two projects that still have domestic gas purchase contracts with PV Gas (GAS) and are given priority in allocating cheap domestic gas sources, while the remaining projects with expired gas purchase contracts are forced to use blended/full LNG gas sources. NT2's electricity output will therefore be prioritized for mobilization thanks to its lower cost compared to plants using LNG.

Valuation: NEUTRAL rating – Target price VND21,000

Based on FCFF and EV/EBITDA valuations, business prospects and potential risks, we recommend NEUTRAL for NT2 shares. The target price is VND 21,000/share, 5.3% higher than the price on September 23, 2024.

Buy maintain

Target price VND21,000

Upside	5.35%
Current price (Sep 23, 2024)	VND19,950
Consensus target price	VND22,300
Market cap (VNDtn/USDbn)	5.7/0.2

Trading data

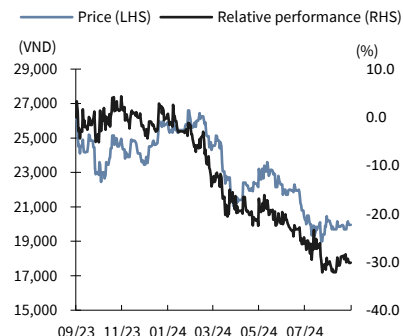
Free float	32.3%
3M avg trading value (VNDbn/USDmn)	9.6/0.4
Foreign ownership	13.2%
Major shareholder	PetroVietnam (79.94%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-1.2	-10.5	-18.7	-23.6
Relative	-0.2	-9.8	-18.0	-30.2

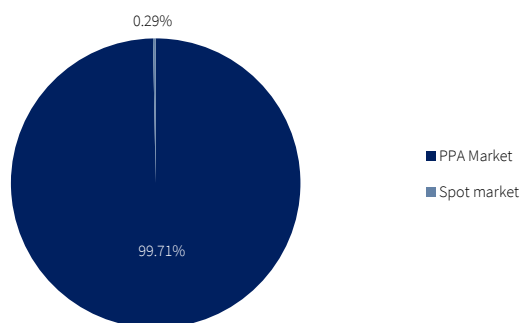
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	8,788	6,386	5,844	8,387
Operating income/loss (VNDbn)	883	473	196	463
NPAT-MI (VNDbn)	883	473	196	463
EPS (VND)	2,992	1,546	681	1,605
EPS growth (%)	70.4	-48.3	-56.0	136.0
P/E (x)	8.4	15.5	34.3	14.6
P/B (x)	1.6	1.6	1.7	1.8
ROE (%)	19.2	10.9	5.0	12.3
Dividend yield (%)	9.4	2.5	2.6	2.7



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: PV Nhon Trach 2, KB Securities Vietnam

Business operation

PV Nhon Trach 2 (NT2) is among Vietnam's most modern and efficient gas-fired power plants. It generates around 4.5 billion kWh per year, equivalent to 2% of the country's electricity. The plant is located in Dong Nai, the economic and industrial hub of the Southeastern region.

Investment Catalysts

Positive electricity consumption growth will support mobilization of gas-fired power output. We believe that electricity consumption growth will continue to be as strong as in the first half of the year thanks to the recovery of economic production activities.

NT2 will be one of the two remaining units using cheap domestic gas as input fuel. After the Phu My 2.2 BOT contract, which should expire in early 2025, NT2 and Phu My 1 plant (EVN) are currently allocated the remaining cheap domestic gas by PV Gas. This will boost the mobilization output of these two units.

Notes

Please find more details [here](#)

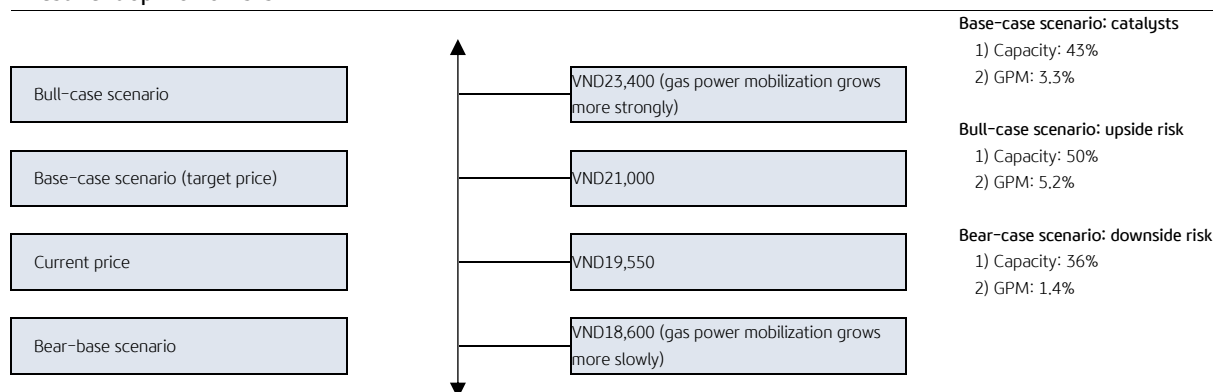
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	6,024	7,207	3%	-14%	4,354	6,381	38%	13%
EBIT	134	195	-8%	-62%	-173	231	-177%	-16%
NP after MI	191	215	-2%	-53%	-132	267	-245%	-19%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q24 revenue gained 0.2% YoY while NPAT dropped 15% YoY

In 2Q24, NT2 posted VND122 billion in NPAT (-15% YoY) on net revenue of VND2,186 billion (+ 0.2% YoY). Sales output of electricity reached 1,026 million kWh (- 3% YoY) thanks to high electricity consumption and guaranteed gas supply, allowing the company to be ready to bid in the competitive market.

Contract output was mobilized again, recovering after a sharp decline in 1Q

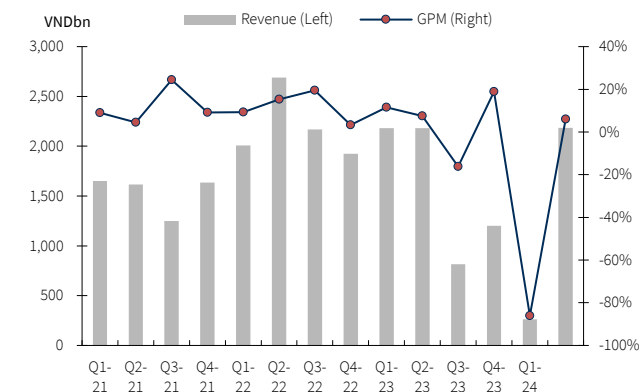
After a period of continuous operation of coal-fired power plants at high capacity, gas-fired power plants were mobilized again to supplement the base capacity in the entire power system. With NT2's generators completing the overhaul in 2023 with higher operating efficiency, EVN mobilized more electricity from NT2, reaching 884 million kWh (+ 629% QoQ), accounting for 86% of 2Q sales output.

Table 1. NT2 – 2Q24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	Notes
Revenue	2,183	2,186	0%	
Electricity output	1,105	1,107	0%	
Qc output	1,105	965	-13%	The output is lower than the peak output set in 2Q23. Less stable gas supply caused EVN to deliver less mobilized output.
Qm output (output sold on the CGM)	0	142	n.a	It was mainly due to lower contracted output, helping NT2 offer electricity prices in the competitive electricity generation market (CGM).
Average electricity price	1,970	1,959	-1%	
Gross profit	162	130	-20%	Lower mobilized contracted output increased Qm output proportion.
Gross profit margin	7%	6%	-1 ppts	
Financial income	17	19	12%	
Financial expenses	-5	-9	80%	
Profits from affiliates	0	0	0%	
SG&A	-18	-18	0%	
Operating profit/loss	157	122	-22%	
Other income	0	0	0%	
Profit before taxes (PBT)	157	122	-22%	
Profit after taxes (NPAT)	144	122	-15%	As of 2Q24, NT2 had accumulated losses of VND35 billion, thus not having to pay income tax in the first half of the year.
NP after MI	144	122	-15%	
NPAT margin	7%	6%	-1 ppts	

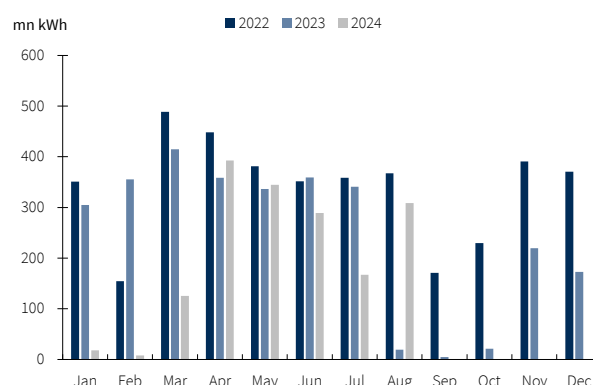
Source: PV Nhon Trach 2, KB Securities Vietnam

Fig 2. NT2 – Revenue & GPM (VNDbn, %)



Source: PV Nhon Trach 2, KB Securities Vietnam

Fig 3. NT2 – Power sales output (million kWh)

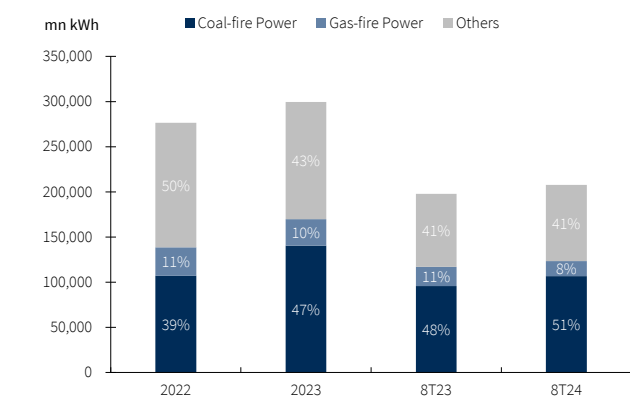


Source: PV Nhon Trach 2, KB Securities Vietnam

Power consumption reached double-digit growth in 1H24, supporting the output mobilized from gas-fired power

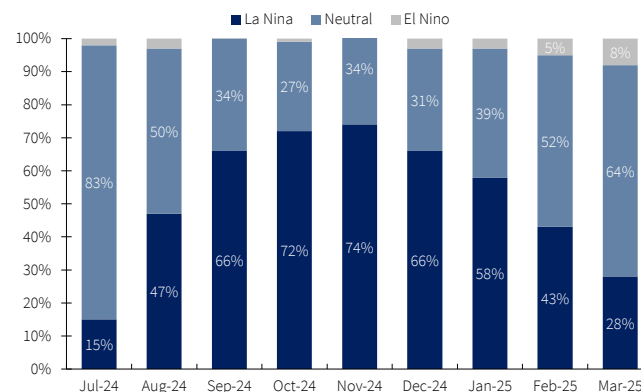
Although El Nino has reached its lowest probability since January 2024, the neutral phase lasted longer than expected, so rainfall could only start to improve from May 2024. The late rainy season, combined with the peak capacity of coal-fired power, has put pressure on the mobilization of the power system in the context of power consumption growth reaching 12.4% in 1H24. Therefore, gas-fired power began to be mobilized again in 2Q, reaching 7.6 billion kWh (~23% YoY/+25% QoQ). With the improved efficiency of the plant after the overhaul, the output contribution of NT2 to the total electricity output of the country reached 12% (+ 1ppt YoY).

Fig 4. Vietnam – Power output by generating source (million kWh)



Source: National Load Dispatch Center, KB Securities Vietnam

Fig 5. Global – Probability of weather phases in 2024 (%)



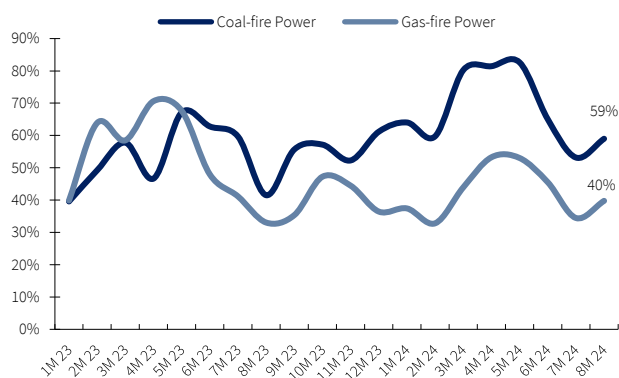
Source: IRI, KB Securities Vietnam

The low-cost domestic gas source is maintained, helping NT2 to be less affected by the decline in mobilization of gas-fired power plants

Gas-fired power output mobilized in July and August 2024 touched the lowest monthly output since 2022, at 1.50 billion kWh and 1.44 billion kWh, respectively (-47% YoY and -12% YoY). In 2H24, we believe that the mobilized output of gas-fired power was severely affected, reaching a modest output of about 11–11.5 billion kWh (8–12% lower YoY). The La Nina entering the operating cycle with a high probability of occurring and lasting until the end of 2025 will help hydropower plants increase power generation, directly competing with other power sources such as coal, gas and renewable energy. In terms of cost, gas-fired power will be under pressure to compete with coal-fired power as it is also a baseload power source that stably meets electricity consumption needs and has cheaper coal as input fuel. In addition, in the context of scarce domestic gas supply, switching to LNG with a higher cost as input fuel will reduce the competitiveness of gas-fired power plants, while cheaper power sources will be prioritized.

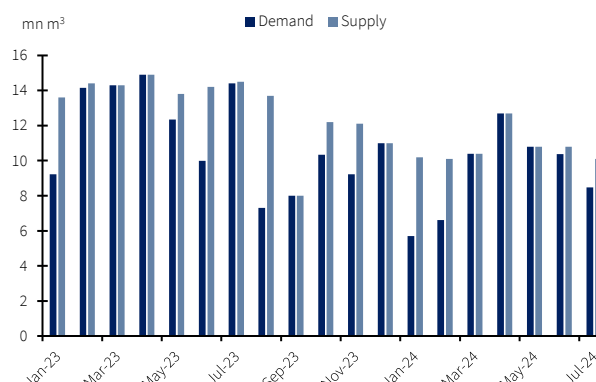
Compared to other gas plants, NT2's input fuel is still entirely from domestic sources, which lowers the cost for electricity generation and helps NT2 avoid a decline in output across the industry. After the overhaul in 2023, the power plant's generators have all improved performance and operational capacity, so EVN will increase mobilization, promising a positive short-term outlook for the enterprise. KBSV forecasts NT2's revenue and output in 2024 to reach VND6,024 billion and 2,762 million kWh. By 2025, with GAS's ability to supply domestic gas to power plants in the Southeast region decreasing to 2.6 billion m³ (-15% YoY), we believe that NT2 will have to share its remaining domestic gas resources with Phu My 1 and BOT Phu My 2.2 in 1Q25, directly causing the company to decrease its output. From 2Q25, as the Phu My 2.2 power plant is expected to expire its 20-year term in the BOT contract and the domestic gas supply contract will expire, NT2 and Phu My 1 will be the two remaining plants operating on domestic gas sources, so they will have a cost advantage over plants using blended/entirely LNG gas sources.

Fig 6. Vietnam – Maximum capacity/maximum capacity of coal and gas-fired power (%)



Source: National Load Dispatch Center, KB Securities Vietnam

Fig 7. Vietnam – Domestic demand-supply serving Southeastern power plants (million m³/day)



Source: National Load Dispatch Center, KB Securities Vietnam

Forecast & valuation

Table 8. NT2 – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Assumptions
Revenue	6,386	6,024	-6%	7,207	20%	
Electricity output	2,908	2,762	-5%	3,291	19%	2024: The recovery momentum of 2Q24 is forecast to last until the end of the year thanks to double-digit growth in electricity consumption, boosting electricity mobilization and 2H23 low base level.
Qc output	2,861	2,432	-15%	2,796	15%	2025: Competition from domestic gas sources is less fierce, helping NT2 gain an advantage in cheaper electricity generation prices compared to LNG plants.
Qm output (output sold on the CGM)	47	330	602%	495	50%	
Average electricity price	2,196	2,182	-1%	2,190	0.4%	2025: Electricity selling price is forecast to increase slightly due to higher input gas prices, offsetting the increased proportion of Qm.
Gross profit	510	199	-61%	273	37%	2025: Gross profit increases due to NT2's electricity mobilization recovery
Gross profit margin	8%	3%	-5 ppts	4%	1ppt	
Financial income	107	104	-3%	118	13%	2025: Short-term investments increase.
Financial expenses	-34	-70	106%	-42	-40%	2025: Short-term debts decrease.
Profits from affiliates	0	0	0%	0	0%	
SG&A	-69	-65	-6%	-78	20%	
Operating profit/loss	514	134	-74%	195	46%	
Other income	-2	70	-3600%	-2	-103%	2024: The inventory provision reversal was carried out in 1Q24.
Profit before taxes (PBT)	514	239	-54%	268	12%	
Profit after taxes (NPAT)	473	191	-60%	215	13%	
NP after MI	473	191	-60%	215	13%	
NPAT margin	7%	3%	-4 ppts	3%	0 ppts	

Source: PV Nhon Trach 2, KB Securities Vietnam

Valuation: NEUTRAL rating –
Target price VND21,000

We used FCFF and EV/EBITDA with a ratio of 50/50 for each method to give a NEUTRAL rating for NT2 with a target price of VND23,100/share, equivalent to an upside of 0.9% compared to the closing price of VND22,900/share on September 20, 2024. The EV/EBITDA level chosen for the valuation model is +1std higher than NT2's five-year average, reflecting positive changes in the LNG electricity sales mechanism that helps determine the output selling price for the plants.

Table 9. NT2 – Final valuation

Method	Target Price	Weight	Weighted average price
FCFF	18,924	50%	9,462
EV/EBITDA (6.22x)	23,096	50%	11,548
Target price			21,000
Current price (06/06/2024)			19,950
Upside			5.3%

Source: KB Securities Vietnam

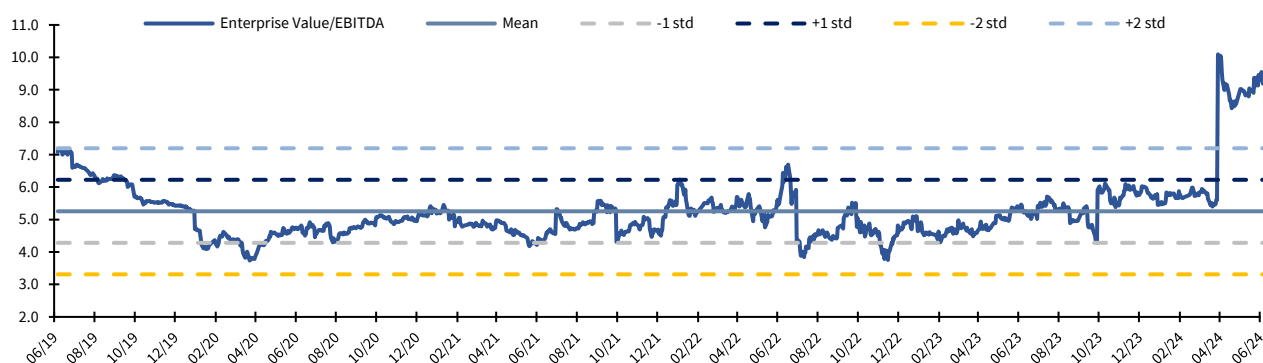
Table 10. FCFF Assumptions

WACC	12.28%	Sum of present value	4,191
Re	13.00%	Present value of CF 2024–2028	2,744
Risk free rate	5.00%	Current terminate value	1,447
Beta	1.0	Plus: Cash & cash equivalents	2,059
Risk premium	8.00%	Minus: Debt	800
Rd *Tax shield	7.04%	Minus: Minority interest	–
Rd	8.00%	Equity Value	5,450
Terminate value (VND bn)	2,876	Outstanding shares (million)	288
		Price per share (VNĐ)	18,924

Source: KB Securities Vietnam

Source: KB Securities Vietnam

Fig 11. NT2 – EV/EBITDA



Source: Bloomberg, KB Securities Vietnam

NT2 – 2022A–2025F financials

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2022	2023	2024F	2025F		2022	2023	2024F	2025F
Net sales	8,788	6,386	5,844	8,387	TOTAL ASSETS	7,445	8,451	7,907	8,014
Cost of sales	-7,706	-5,876	-5,636	-7,788	CURRENT ASSETS	4,556	4,770	4,910	6,154
Gross Profit	1,082	510	208	599	Cash and cash equivalents	384	1	88	126
Financial income	24	107	114	128	Short-term investments	949	2,100	2,361	2,545
Financial expenses	-18	-34	-84	-56	Accounts receivable	2,911	2,326	2,128	3,055
of which: interest expenses	-15	-34	-84	-56	Inventories	307	260	250	345
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	LONG-TERM ASSETS	2,889	3,681	2,997	1,860
Selling expenses	0	0	0	0	Long-term trade receivables	0	0	0	0
General and admin expenses	-131	-69	-63	-91	Fixed assets	2,787	2,104	1,442	801
Operating profit/(loss)	957	514	175	580	Investment properties	0	0	0	0
Other incomes	-14	0	0	0	Long-term incomplete assets	0	0	0	0
Other expenses	-1	-2	-2	-2	Long-term investments	0	0	0	0
Net other income/(expenses)	-13	2	2	2	LIABILITIES	2,831	4,115	3,996	4,264
Income from investments in other entities	0	1	2	3	Current liabilities	2,831	4,115	3,996	4,264
Net accounting profit/(loss) before tax	944	516	177	582	Trade accounts payable	2,200	2,915	2,796	3,864
Corporate income tax expenses	-15	-49	-116	-182	Advances from customers	0	0	0	0
Net profit/(loss) after tax	883	473	196	463	Short-term unrealized revenue	631	1,200	1,200	400
Minority interests	0	0	0	0	Short-term borrowings	0	0	0	0
Attributable to parent company	883	473	196	463	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
					OWNER'S EQUITY	4,614	4,336	3,910	3,751
					Paid-in capital	2,879	2,879	2,879	2,879
					Share premium	0	0	0	0
					Undistributed earnings	1,554	1,231	805	646
					Others fund	181	226	226	226
					Minority interests	0	0	0	0
Margin ratio					Key ratios (x, %, VND)				
	2022	2023	2024F	2025F	Multiple				
Gross profit margin	12.3%	8.0%	3.6%	7.1%	P/E	8.4	15.5	34.3	14.6
EBITDA margin	18.7%	17.7%	13.8%	13.7%	P/E diluted	8.4	15.5	34.3	14.6
EBIT margin	10.8%	6.9%	2.5%	6.1%	P/B	1.6	1.6	1.7	1.8
Pre-tax profit margin	10.7%	8.0%	3.0%	6.9%	P/S	0.8	1.1	1.2	0.8
Operating profit margin	10.9%	8.0%	3.0%	6.9%	P/Tangible Book	1.6	1.6	1.7	1.8
Net profit margin	10.1%	7.4%	3.4%	5.5%	P/Cash Flow	5.2	8.0	8.6	4.4
					EV/EBITDA	4.6	9.0	13.3	9.9
					EV/EBIT	7.9	22.9	74.2	22.3
Cash Flow Statement (VND billion)					Operating performance				
	2022	2023	2024F	2025F					
Net profit/(loss) before tax	943	514	196	463	ROE	19.2%	10.9%	5.0%	12.3%
Depreciation and amortization	689	687	662	640	ROA	11.9%	5.6%	2.5%	5.8%
Profit/loss from investing activities	0	0	-114	-128	ROIC	19.6%	8.0%	2.9%	12.6%
Interest expense	15	34	84	56					
Operating profit/(loss) before changes in Working Capital	1,667	1,119	828	1,031	Financial structure				
(Increase)/decrease in receivables	-672	559	197	-926	Cash Ratio	0.5	0.5	0.6	0.6
(Increase)/decrease in inventories	3	47	11	-95	Quick Ratio	1.5	1.1	1.2	1.3
Increase/(decrease) in payables	22	715	-119	1,068	Current Ratio	1.6	1.2	1.2	1.4
(Increase)/decrease in prepaid expenses	452	-1,477	0	608	LT Debt/Equity	0%	0%	0%	0%
Trading stocks, interest expenses, taxes and others	-76	-92	-118	-157	LT Debt/Total Assets	0%	0%	0%	0%
Net cash inflows/(outflows) from operating activities	1,383	857	784	1,514	Debt/Equity	14%	28%	31%	11%
Purchases of fixed assets and other long term assets	-1	-3	0	0	Debt/Total Assets	8%	14%	15%	5%
Proceeds from disposal of fixed assets	0	0	112	53	ST Liabilities/Equity	61%	95%	102%	114%
Loans granted, purchases of debt instruments	0	-2,730	-261	-184	ST Liabilities/Total Assets	38%	49%	51%	53%
Collection of loans, proceeds from sales of debts instruments	0	1,579	0	0	Total Liabilities/Equity	61%	95%	102%	114%
Investments in other entities	-949	0	0	0	Total Liabilities/Total Assets	38%	49%	51%	53%
Proceeds from divestment in other entities	0	0	0	0	Activity ratios				
Dividends and interest received	4	65	73	78	Account Receivable Turnover	3.4	2.7	3.3	4.0
Net cash inflows/(outflows) from investing activities	-946	-1,090	-76	-53	Inventory Turnover	24.9	22.6	22.5	22.6
Proceeds from issue of shares	0	0	0	0	Account Payable Turnover	4.0	3.4	3.8	4.7
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	831	1,551	0	-800					
Repayment of borrowings	-410	-981	0	0					
Finance lease principal payments	0	0	0	1					
Dividends paid	-474	-719	-622	-622					
Interests, dividends, profits received	0	0	0	1					
Net cash inflows/(outflows) from financing activities	-54	-150	-622	-1,422					
Net increase in cash and cash equivalents	383	-383	86	39					
Cash and cash equivalents at the beginning of period	1	384	1	87					
Cash and cash equivalents at the end of period	384	1	87	126					

Source: PV Nhon Trach 2, KB Securities Vietnam

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Investment ratings & definitions

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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