

PV Nhon Trach 2 (NT2)

Maintain the growth in 2H22

| September 13, 2022 | Analyst Tieu Phan Thanh Quang quangtpt@kbsec.com.vn |
|--|--|
| 2Q NPAT & revenue spiked 14.6x YoY and 66.3% YoY | In 2Q22, PV Power Nhon Trach 2 (NT2) recorded impressive results with NPAT reaching VND365 billion (+14.6x YoY) on revenue of VND2,688 billion (+66.2% YoY). Commercial power output grew 26.3% YoY to VND1,184 million kWh thanks to the recovery in electricity demand and increased mobilization to compensate for the lack of gas in Ca Mau 1 & 2 thermal power plants. |
| 2H22 business prospect is positive given the rebounding demand on electricity | We believe that the rebound of national demand for power, especially in the South, will continue to lead the growth of power plants in this region and for NT2, so the output of 2H22 and the whole year of 2022 should reach 2,031 million kWh (+45% YoY) and 4,205 million kWh (+31.6% YoY) respectively thanks to higher demand and the low base level of 2H21 due to social distancing. Accordingly, 2022F NPAT & revenue should be VND911 billion (+71% YoY) and VND8,854 billion (+44% YoY). |
| The large compensation for exchange loss in 2022 will be a short-term motivation for NT2 | NT2 expects to receive VND236 billion from EVN in compensation for exchange loss this year. Therefore, we believe that the company will record VND200 billion for 2022 and VND100 billion annually in 2023 and 2024 and cannot fully recoup the exchange rate loss due to EVN's difficulties in business operations. KBSV estimates NT2 will book an additional VND188 billion from this, accounting for about 21% of our FY22 forecast NPAT. |
| BUY recommendation with a target price of VND35,000/share | Using FCFF and EV/EBITDA valuation and considering NT2's business outlook and possible risks, we recommend BUY for NT2 stocks. The target price is VND35,000/share, 28.4% higher than the price on September 8, 2022. |



Forecast earnings & valuation

FY-end

Net sales (VNDbn)

NPAT-MI (VNDbn)

EPS growth (%)

EV/EBITDA (x)

Dividend yield (%)

EBIT (VNDbn)

EPS (VND)

P/E (x)

P/B (x)

ROE (%)

| Target price | VND35,000 | |
|-----------------------------|-----------|--|
| Upside (%) | 28.4 | |
| Current price (Sep 8, 2022) | VND27,250 | |
| Consensus target price | VND29,900 | |
| Market cap (VNDbn) | 7,845 | |

2020A

6,082

810

625

2,095

-17.5

10.3

4.6

1.5

14.6

11.6

2021A

6,150

593

534

1,778

-15.1

14.2

5.8

1.7

12.6

7.9

Trading data Free float (%) 32.3% 3M avg trading value (VNDbn/USDmn) 48.78 Foreign ownership (%) 34.7% Major shareholder PV Power - POW (59.4%)

2022F

8,854

765

911

3,164

78.0

11.1

6.6

2.8

20.3

7.1

2023F

8,870

805

862

2,994

-5.0

11.7

6.0

2.8

18.9

8.6

| (%) | 1M | 3M | 6M | 12M |
|----------|-----|------|------|------|
| Absolute | 5.5 | 8.8 | 17.6 | 29.7 |
| Relative | 6.3 | 13.0 | 41.8 | 39.1 |



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q NPAT & revenue spiked 14.6xIn 2Q22, NT2 recorded impressive rYoY and 66.3% YoY(+14.6x YoY) on revenue of VND2,6output grew 26.3% YoY to VND1,18electricity demand and the National

2Q GPM was improved on higher Qc proportion and bid price on the CGM

NT2 will carry out a small overhaul

in 3Q22

In 2Q22, NT2 recorded impressive results with NPAT reaching VND365 billion (+14.6x YoY) on revenue of VND2,688 billion (+66.2% YoY). Commercial power output grew 26.3% YoY to VND1,184 million kWh thanks to the recovery in electricity demand and the National Load Dispatch Center (A0) decision to prioritize NT2's power as Ca Mau 1 & 2 thermal power plants are lacking gas.

Commercial power output reached 1,184.4 million kWh (+26.3% YoY) in 2Q, of which output under quantity contracts (Qc) accounted for about 94%. We believe that the higher proportion of Qc in the power generation structure of NT2 is the main reason for the sharp increase in gross profit margin (GPM) as the profit margin of Qcs will be more stable compared to wholesaling on the competitive generation market (CGM). However, NT2's strategy and experience in giving bid prices on the CGM helped to improve 2Q performance, reflected in the bid price of VND2,120/kWh, higher than the market average at VND1,373/kWh.

NT2 would take engines for a small overhaul from September 2022 to prepare for the next dry season. We believe that the short-term overhaul would not have much impact on NT2's business results because the business usually does it at the peak of the rainy season – when thermal power plants give way to hydropower plants, thus optimizing plant operations.

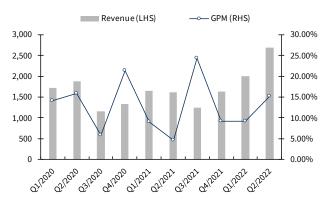
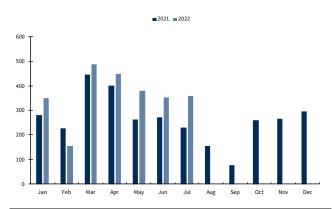


Fig 1. NT2 – Business performance (VNDbn)

Fig 2. NT2 - Commercial power output (million kWh)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Source: PV Power Nhon Trach 2, KB Securities Vietnam

Table 1. NT2 - Business results in 2Q22

| VND bn | 1Q21 | 1Q22 | %YoY | Notes |
|--|--------|--------|--------|--|
| Output (mil. kWh) | 1,890 | 2,176 | 15.2% | |
| Contractual output (Qc) | 1,890 | 2107 | 11.5% | In 2021, NT2 will only operate according to the assigned contractual output, did not generate electricity on the CGM |
| Output sold on the CGM (Qm) | 0 | 69 | N/A | |
| Average gas price (USD/MMBTU) | 7.45 | 10.13 | 36.0% | Gas prices increase due to sharp increase in Brent oil price in 1H2022 |
| Average selling price of electricity (VND/kWh) | 1,728 | 2,157 | 24.8% | Average selling price increased thanks to favorable price movements on the CGM |
| Revenue (billion VND) | 3,266 | 4,695 | 43.7% | Revenue increased thanks to high gas prices, leading to high electricity prices in PPAs and on CGM |
| Gross profit | 222 | 594 | 168.2% | |
| GPM (%) | 6.78% | 12.66% | | GPM improved thanks to high Qc output proportion and effective bidding strategy, NT2 also did retrospective application for business results under new PPA in 2Q21 |
| SG&A | (44.0) | (38.2) | | |
| % SG&A / Revenue | -1.35% | -0.81% | | |
| Profit from operating activities | 178 | 556 | | |
| Financial income | 6 | 3.2 | | |
| Financial expenses | 41 | 7 | -82.7% | Financial expenses were significantly reduced thanks to NT2 completing long-term debt repayment in 2Q21 |
| Other net income | 5 | 0 | | |
| Profit before taxes | 147 | 552 | 275.8% | |
| Profit after taxes | 140 | 525 | 274.7% | |
| NPM (%) | 4,29% | 11,17% | | |

Source: PV Power Nhon Trach 2, KB Securities Vietnam

NT2's business outlook for 2H22 remains positive thanks to rebounding consumption demand and lower water reserves for hydro plants NT2 renegotiated with EVN and adjusted the contract price in April 2021 and applied the price for the whole year of 2021. Specifically, the fixed price in the power purchase contract e with EVN reduced by VND37.59 compared to the former price. Therefore, 2Q21 NPAT recorded only VND24.5 billion, leading to low full-year NPAT of VND534 billion (-15% YoY), which hit eight-year lows.

We believe that the rebound of national demand for power, especially in the South, will continue to lead the growth of power plants in this region and for NT2, so the output of 2H22 and the whole year of 2022 should reach 2,031 million kWh (+45% YoY) and 4,205 million kWh (+31.6% YoY) respectively thanks to higher demand and the low base level of 2H21 due to social distancing. Accordingly, 2022F NPAT & revenue should be VND911 billion (+71% YoY) and VND8,854 billion (+44% YoY).

Besides, according to forecasts of major meteorological organizations in the world, the La Nina may not end until the end of 2022, which ensures the water reserves for hydroelectric plants. However, the forecast also shows that from 2023, the probability of weather entering the neutral phase will increase above the threshold of 50%, which means that the amount of water for hydro power plants will decrease vs 2021–2022 period.

In addition, Brent oil prices are expected to cool down in 2023, averaging USD90/barrel. This would also help NT2 increase its competitiveness and mobilized power volume. Although there is a plan for big overhaul equal to 100,000 operating hours in 2023 and NT2 has to suspend the factory for about 45–50 days, we believe that NT2's 2023 output will still grow slightly 2.5% YoY to 4,309 million kWh thanks to high demand. To sum up, NT2's estimated NPAT and revenue for 2023 are VND856 billion (-6% YoY) and VND8,870 billion (flat YoY), given 2022 high base levels thanks to the compensation for exchange rate difference. Excluding this one-time income, we estimate NT2's NPAT from core business will still grow to VND753 billion (+5% YoY).

Fig 3. NT2 - 2022E electricity output (million kWh)

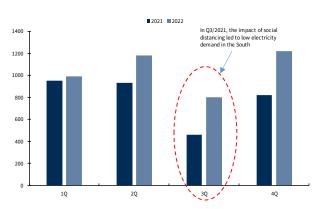
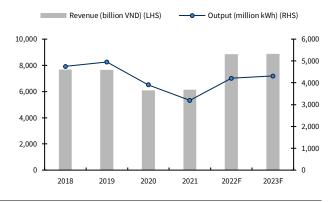


Fig 4. NT2 – 2023F commercial power output and revenue (million kWh, VNDbn)



Source: PV Power Nhon Trach 2 KB Securities Vietnam

The large compensation for exchange loss will be a short-term motivation for NT2 in 2022

NT2 is "a hen that lays golden eggs" with attractive dividend yield

Source: PV Power Nhon Trach 2, KB Securities Vietnam

Currently, NT2 still has an exchange loss in the 2016–2021 period of VND400 billion which is in the negotiation progress for compensation from EVN. According to our observations, the compensation for exchange loss was usually recognized at the end of the year. As the management said at the annual general meeting, NT2 expects to record a compensation of about VND236 billion this year. Therefore, we believe that the company will record VND200 billion for 2022 and VND100 billion annually in 2023 and 2024 and cannot fully recoup the exchange rate loss due to EVN's difficulties in business operations. KBSV estimates NT2 will book an additional VND188 billion from this, accounting for about 21% of our FY22 forecast NPAT.

We suppose that strong operating cash flow from the recovery of business results and the completion of long-term debt obligations would help NT2 raise dividend payout to VND2,500/share for 2022 and VND3,000/share for 2023. On the other hand, NT2's parent company, PV Power (POW), is implementing Nhon Trach 3 and Nhon Trach 4 LNG projects with a total investment of over VND30,000 billion (2022–2024). This should be a supportive factor for NT2 to increase its dividend payout ratio during this period. At our target price, the 2022 dividend yield is 7.14%, which is quite attractive for a business that will maintain its momentum for the rest of 2022 and is relatively safe on the current volatile market.

Fig 5. NT2 - Cash flows from business activities (VNDbn)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Fig 6. NT2 – Dividend payout ratio (%)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

Forecast

In 2022: revenue and profit after tax grow strongly by 44% YoY and 71% YoY

We estimate NT2's revenue and profit after tax will reach VND8,854 billion (+44% YoY) and VND911 billion (+71% YoY) respectively, based on the following assumptions:

- Commercial power output would hit 4.205 million kWh (+32% YoY) thanks to the economic development of electricity demand and the low base level of 2021.

- The average input gas price is USD9.82/MMBTU (+24.5% YoY) due to the sharp increase in the world oil prices.

- The price of electricity on the CGM averaged VND1,450 /kWh thanks to higher mobilization demand from high-cost power sources such as gas-fired power.

- It is expected that NT2 will successfully negotiate with the EVN to receive a compensation for exchange loss valued at VND200 billion in 4Q22.

| VND bn | 2021 | 2022 | YoY % | Notes |
|--|--------|---------|---------|--|
| Output (mil. kWh) | 3,195 | 4,205 | 31.6% | |
| Contractual output (Qc) | 3,195 | 3,490 | 9.2% | Qc output recovers on AO's allocation to cover the shortfall from coal-fired power and recover from the low base of 2021 |
| Output sold on the CGM (Qm) | 0 | 715 | N/A | The prices on CGM are more convenient for NT2's power wholesale |
| Average gas price (USD/MMBTU) | 7.89 | 9.82 | 24.5% | Gas prices increase due to the strong increase of Brent oil price and the establishment of a new high |
| Average selling price of electricity (VND/kWh) | 1,925 | 2,130 | 10.7% | The average selling price increased due to the increase in gas price, which increased the average selling price of PPA and average CGM price |
| Revenue (VND bn) | | | | |
| | 6,150 | 8,854 | 44.0% | |
| Gross profit | 676 | 866 | 28.1% | |
| GPM (%) | | | | |
| | 10.99% | 9.78% | | Profit margin decreased due to increase in gas price and decrease in PPA price from 2Q21 |
| 5G&A | (83.0) | (101.0) | | |
| % SG&A / Revenue | -1.35% | -1.14% | | |
| Profit from operating activities | 593 | 765 | | |
| inancial income | 18 | 229.0 | 1172.2% | We expect that NT2 can successfully negotiate the FX loss with EVN and partially book it in 2022. |
| -inancial expenses | (52) | (20) | -61,5% | Financial expenses were significantly reduced thanks to NT2 completing long-term debt repayment in 2Q21 |
| Other net income | 7 | 7 | | |
| Profit before taxes | 566 | 966 | 70.7% | |
| Profit after taxes | 534 | 911 | 70.7% | |
| NPM (%) | 8.68% | 10.29% | | |

Table 2. NT2 - 2022F business performance

Valuation

Valuation methods

Using FCFF and EV/EBITDA at the ratio of 50:5, we recommend BUY for NT2 stocks with a target price of VND35,000/share, upside 28.4% compared to the closing price of VND27,250/share on September 8, 2022.

Table 3. NT2 - DCF model

| K _E | 11.3% | PV of Terminal Value | 10,279 |
|----------------------|-------------|---------------------------------------|--------|
| Risk-free rate | 3.5% | PV of Free Cash Flows | 0 |
| Equity risk premium | 7.8% | Total value of FCF and TV | 10,279 |
| Beta | 1.0 | Plus: Cash & ST investments | 721 |
| Cost of debt | 7.0% | Less: Debt | -200 |
| Corporate tax rate % | 5.0-20.0% | Less: Minority Interest | 0 |
| WACC | 11.1%-11.3% | Equity Value | 10,800 |
| Terminal growth rate | 0.00% | No. of shares outstanding (mn shares) | 287.9 |
| | | Value per share (VND) | 37,513 |
| | | | |

Source: KB Securities Vietnam

Table 4. NT2 - The combination of two valuation methods

| Valuation method | Forecast price | Weight | Weighted forecast price |
|-----------------------------------|----------------|--------|-------------------------|
| FCFF | 37,513 | 50% | 18,757 |
| EV/EBITDA (5.5x) | 32,397 | 50% | 16,199 |
| Target price (rounded) | | | 35,000 |
| Current price (September 8, 2022) | | | 27,250 |
| Upside | | | 28.4% |

Source: KB Securities Vietnam

NT2 - 2020A-2023F financials

| ND billion) | 2020 | 2021 | 2022F | 2023F | Balance Sheet (VND billion) | 2020 | 2021 | 2022F |
|--|---|---|--|---|--|---|--|--|
| t sales | 6,082 | 6,150 | 8,854 | 8,870 | CURRENT ASSETS | 6,382 | 6,624 | 7,323 |
| ost of sales | -5,187 | -5,474 | -7,988 | -7,964 | Cash and cash equivalents | 1,886 | 2,581 | -5,074 |
| oss Profit | 895 | 676 | 866 | 906 | Short-term investments | 62 | 1 | 721 |
| ancial income | 18 | 18 | 229 | 137 | Accounts receivable | 0 | 0 | 0 |
| ancial expenses | - 16 0 | -52 | -20 | -20 | Inventories | 1,489 | 2,230 | 2,304 |
| of which: interest expenses | -38 | -20 | -20 | -20 | LONG-TERM ASSETS | 315 | 311 | 394 |
| in/(loss) from joint ventures (from 2015) | 0 | 0 | 0 | 0 | Long-term trade receivables | 4,496 | 4,043 | 12,397 |
| lling expenses | 0 | 0 | 0 | 0 | Fixed assets | 0 | 0 | 0 |
| neral and admin expenses | -85 | -83 | - 10 1 | -101 | Investment properties | 4,184 | 3,496 | 11,624 |
| erating profit/(loss) | 668 | 559 | 974 | 922 | Long-term incomplete assets | 0 | 1 | 1 |
| Other incomes | 1 | 8 | 1 | 1 | Long-term investments | 0 | 0 | 226 |
| Other expenses | 5 | 1 | 9 | 9 | TOTALASSETS | 0 | 0 | 0 |
| other income/(expenses) | -4 | 7 | -8 | -8 | LIABILITIES | 2,084 | 2,390 | 2,824 |
| ome from investments in other entities | 0 | 0 | 0 | 0 | Current liabilities | 2,083 | 2,390 | 2,824 |
| accounting profit/(loss) before tax | 664 | 566 | 966 | 9 14 | Trade accounts payable | 397 | 1,034 | 1,092 |
| porate income tax expenses | -38 | -32 | -55 | -52 | Advances from customers | 0 | 0 | 0 |
| profit/(loss) after tax | 625 | 534 | 911 | 862 | Short-term unrealized revenue | 775 | 2 10 | 200 |
| brity interests | 0 | 0 | 0 | 0 | Short-term borrowings | 1 | 0 | 0 |
| butable to parent company | 625 | 534 | 911 | 862 | Long-term liabilities | 0 | 0 | 0 |
| | | | | | Long-term trade payables | 0 | 0 | 0 |
| gin ratio | | | | | Long-term advances from customers | 0 | 0 | 0 |
| | 2020 | 2021 | 2022F | 2023F | Unrealized revenue | 0 | 0 | 0 |
| Sross profit margin | 14.7% | 11.0% | 9.8% | 10.2% | Long-term borrowings | 4,298 | 4,234 | 4,499 |
| BITDA margin | 24.7% | 20.9% | 16.4% | 16.9% | OWNER'S EQUITY | 2,879 | 2,879 | 2,879 |
| BIT margin | 13.3% | 9.6% | 8.6% | 9.1% | Paid-in capital | 0 | 0 | 0 |
| Pre-tax profit margin | 10.9% | 9.2% | 10.9% | 10.3% | Share premium | 1,282 | 1,196 | 1,460 |
| perating profit margin | 11.0% | 9.1% | 11.0% | 10.4% | Undistributed earnings | 137 | 159 | 160 |
| et profit margin | 10.3% | 8.7% | 10.3% | 9.7% | M inority interests | 0 | 0 | 0 |
| at profit/(loss) before tax | 663 | 566 | 966 | 2023F 914 | Multiple | | | |
| epreciation and amortisation | 693 | 690 | 690 | 690 | P/E | 10.3 | 14.2 | 11.1 |
| rofit/loss from investing activities | - 11 | -11 | -11 | -11 | P/E diluted | 10.3 | 14.2 | 11.1 |
| terest expense | 38 | 20 | 20 | 20 | P/B | 1.5 | 1.7 | 2.8 |
| arating profit/(loss) before changes in Working Capital | 1,399 | 1,265 | 1665 | | P/S | | | 2.0 |
| ncrease)/decrease in receivables | | | 1000 | 1,6 13 | F/3 | 1.0 | 12 | 2.0 |
| | -31 | -775 | -74 | 1,6 13 -29 | P/Tangible Book | 1.0 | 12 17 | |
| Increase)/decrease in inventories | -31 -13 | -775 4 | | | P/Tangible Book P/Cash Flow | | 1.7 6.8 | 11 |
| ncrease)/decrease in inventories crease(decrease) in payables | -13 31 | | -74 -83 58 | -29 23 2 | P/Tangible Book P/Cash Flow EV/EBITDA | 1.5 | 17 6.8 5.8 | 1.1 2.8 7.1 6.6 |
| ncrease)/decrease in invertories crease/(decrease) in payables ncrease)/decrease in prepad expenses | -13 31 -57 | 4 871 -209 | -74 -83 58 -57 | -29 23 2 -57 | P/TangibleBook P/Cash Flow EV/EBITDA EV/EBIT | 1.5 | 1.7 6.8 | 11 2.8 7.1 |
| ncrease)/decrease in invertories crease/(decrease) in payables ncrease)/decrease in prepaid expenses cash inflows/(outflows) from operating activities | -13 31 -57 1,222 | 4 871 -209 1,074 | -74 -83 58 -57 1,430 | -29 23 2 -57 1493 | PTangible Book P/Cash Flow EV/EBITDA EV/EBIT Operating performance | 15 5.1 4.5 8.5 | 1.7 6.8 5.8 12.6 | 11 2.8 7.1 6.6 12.5 |
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Investment ratings & definitions

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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