

PV Nhon Trach 2 (NT2)

Maintain the growth in 2H22

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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.

Buy maintain

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

Forecast earnings & valuation

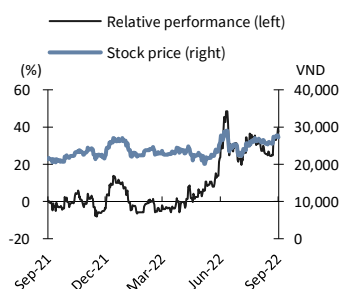
FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	6,082	6,150	8,854	8,870
EBIT (VNDbn)	810	593	765	805
NPAT-MI (VNDbn)	625	534	911	862
EPS (VND)	2,095	1,778	3,164	2,994
EPS growth (%)	-17.5	-15.1	78.0	-5.0
P/E (x)	10.3	14.2	11.1	11.7
EV/EBITDA (x)	4.6	5.8	6.6	6.0
P/B (x)	1.5	1.7	2.8	2.8
ROE (%)	14.6	12.6	20.3	18.9
Dividend yield (%)	11.6	7.9	7.1	8.6

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%)

Share price performance

(%)	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 14.6x YoY and 66.3% YoY

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.

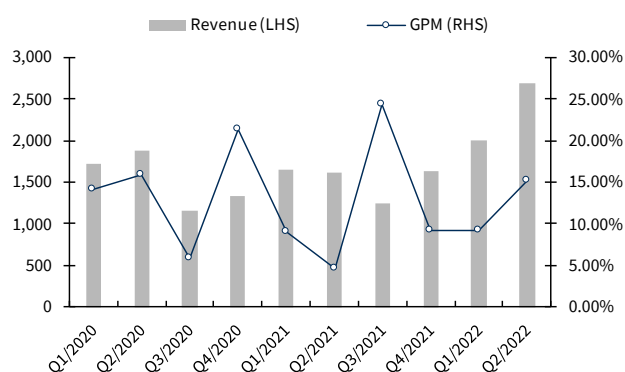
2Q GPM was improved on higher Qc proportion and bid price on the CGM

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 will carry out a small overhaul in 3Q22

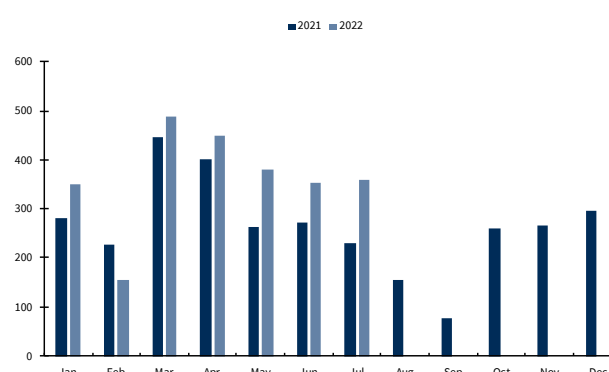
NT2 would take engines for a small overhaul from September 2022 to prepare for the next dry season. We believe that the short-term overhaul would not have much impact on NT2's business results because the business usually does it at the peak of the rainy season – when thermal power plants give way to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

Fig 1. NT2 – Business performance (VNDbn)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

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



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

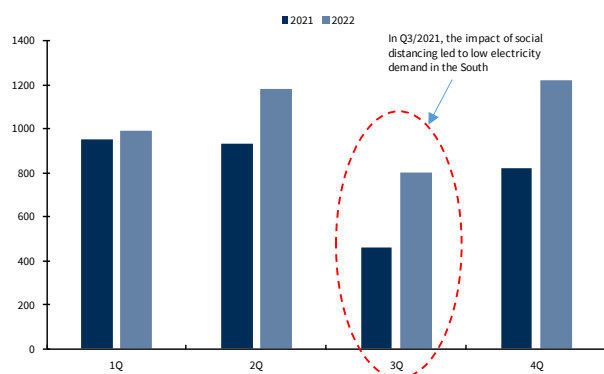
NT2 renegotiated with EVN and adjusted the contract price in April 2021 and applied the price for the whole year of 2021. Specifically, the fixed price in the power purchase contract e with EVN reduced by VND37.59 compared to the former price. Therefore, 2Q21 NPAT recorded only VND24.5 billion, leading 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.

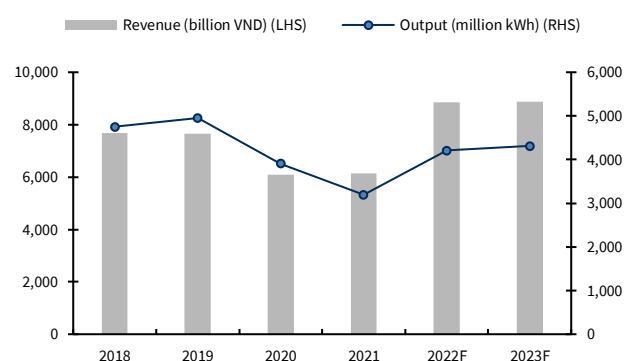
In addition, Brent oil prices are expected to cool down in 2023, averaging USD90/barrel. This would also help NT2 increase its competitiveness and mobilized power volume. Although there is a plan for big overhaul equal to 100,000 operating hours in 2023 and NT2 has to suspend the factory for about 45–50 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)



Source: PV Power Nhon Trach 2, KB Securities Vietnam

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



Source: PV Power Nhon Trach 2, KB Securities Vietnam

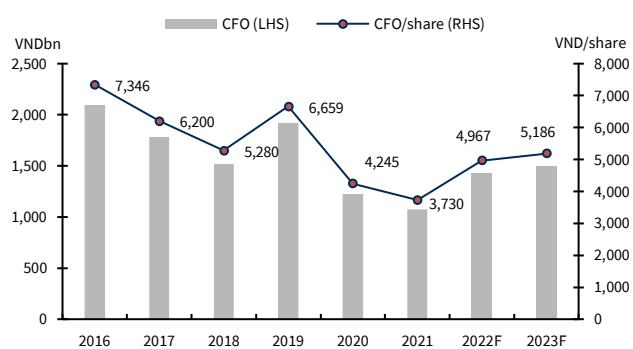
The large compensation for exchange loss will be a short-term motivation for NT2 in 2022

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.

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

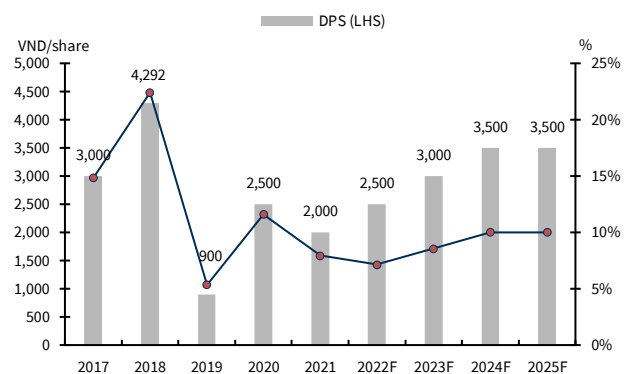
We suppose that strong operating cash flow from the recovery of business results and the completion of long-term debt obligations would help NT2 raise dividend payout to VND2,500/share for 2022 and VND3,000/share for 2023. On the other hand, NT2's parent company, PV Power (POW), is implementing Nhon 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.

Table 2. NT2 – 2022F business performance

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 A0'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
SG&A	(83.0)	(101.0)		
% SG&A / Revenue	-1.35%	-1.14%		
Profit from operating activities	593	765		
Financial income	18	229.0	1172.2%	We expect that NT2 can successfully negotiate the FX loss with EVN and partially book it in 2022.
Financial 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%		

Source: PV Power Nhon Trach 2, KB Securities Vietnam

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

Income Statement (VND billion)					Balance Sheet (VND billion)				
	2020	2021	2022F	2023F		2020	2021	2022F	2023F
Net sales	6,082	6,150	8,854	8,870	CURRENT ASSETS	6,382	6,624	7,323	7,394
Cost of sales	-5,187	-5,474	-7,988	-7,964	Cash and cash equivalents	1,886	2,581	-5,074	-6,405
Gross Profit	895	676	866	906	Short-term investments	62	1	721	1,370
Financial income	18	18	229	137	Accounts receivable	0	0	0	0
Financial expenses	-160	-52	-20	-20	Inventories	1,489	2,230	2,304	2,333
of which: interest expenses	-38	-20	-20	-20	LONG-TERM ASSETS	315	311	394	371
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	Long-term trade receivables	4,496	4,043	12,397	13,799
Selling expenses	0	0	0	0	Fixed assets	0	0	0	0
General and admin expenses	-85	-83	-101	-101	Investment properties	4,184	3,496	11,624	13,021
Operating profit/(loss)	668	559	974	922	Long-term incomplete assets	0	1	1	1
Other incomes	1	8	1	1	Long-term investments	0	0	226	231
Other expenses	5	1	9	9	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	-4	7	-8	-8	LIABILITIES	2,084	2,390	2,824	2,828
Income from investments in other entities	0	0	0	0	Current liabilities	2,083	2,390	2,824	2,828
Net accounting profit/(loss) before tax	664	566	966	914	Trade accounts payable	397	1,034	1,092	1,094
Corporate income tax expenses	-38	-32	-55	-52	Advances from customers	0	0	0	0
Net profit/(loss) after tax	625	534	911	862	Short-term unrealized revenue	775	210	200	200
Minority interests	0	0	0	0	Short-term borrowings	1	0	0	0
Attributable to parent company	625	534	911	862	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	4,298	4,234	4,499	4,566
					OWNER'S EQUITY	2,879	2,879	2,879	2,879
					Paid-in capital	0	0	0	0
					Share premium	1,282	1,196	1,460	1,527
					Undistributed earnings	137	159	160	160
					Minority interests	0	0	0	0
Margin ratio					Key ratios				
	2020	2021	2022F	2023F	Multiple				
Gross profit margin	14.7%	11.0%	9.8%	10.2%	P/E	10.3	14.2	11.1	11.7
EBITDA margin	24.7%	20.9%	16.4%	16.9%	P/E diluted	10.3	14.2	11.1	11.7
EBIT margin	13.3%	9.6%	8.6%	9.1%	P/B	15	1.7	2.8	2.8
Pre-tax profit margin	10.9%	9.2%	10.9%	10.3%	P/S	10	12	11	11
Operating profit margin	11.0%	9.1%	11.0%	10.4%	P/Tangible Book	15	1.7	2.8	2.8
Net profit margin	10.3%	8.7%	10.3%	9.7%	P/Cash Flow	5.1	6.8	7.1	6.8
					EV/EBITDA	4.6	5.8	6.6	6.0
					EV/EBIT	8.5	12.6	12.5	11.1
					Operating performance				
					ROE	14.6%	12.6%	20.3%	19.9%
					ROA	9.8%	8.1%	12.4%	11.7%
					ROIC	16.2%	13.4%	19.2%	23.7%
					Financial structure				
					Cash Ratio	0.0	0.0	0.3	0.5
					Quick Ratio	0.7	0.9	1.1	1.3
					Current Ratio	0.9	1.1	-1.8	-2.3
					LT Debt/Equity	0.0	0.0	0.0	0.0
					LT Debt/Total Assets	0.0	0.0	0.0	0.0
					Debt/Equity	0.2	0.0	0.0	0.0
					Debt/Total Assets	0.1	0.0	0.0	0.0
					ST Liabilities/Equity	0.5	0.6	0.6	0.6
					ST Liabilities/Total Assets	0.3	0.4	0.4	0.4
					Total Liabilities/Equity	0.5	0.6	0.6	0.6
					Total Liabilities/Total Assets	0.3	0.4	0.4	0.4
					Activity ratios				
					Account Receivable Turnover	4.1	3.3	3.9	3.8
					Inventory Turnover	16.8	17.5	20.3	21.5
					Account Payable Turnover	20.6	8.6	8.3	8.1

Source: PV Power Nhon Trach 2, KB Securities Vietnam

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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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