

PV Power (POW)

Benefits from high power consumption demand

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1Q revenue and profit were mixed

PV Power Corporation's (POW) 1Q23 revenue reached VND7,424 billion (+5% YoY) as the output of coal and gas power plants was large thanks to increased demand and reduced competition from hydropower plants. However, POW's gross profit was lower than the same period last year because (1) the corporation recorded VND276 billion in exchange rate differences in 1Q22; and (2) the input fuel prices were higher than the prices in PPAs, and heat loss rate is higher than in 1Q22.

Vung Ang 1 should resume operating from 3Q

At the AGM in April, POW said it detected a fault at the high and medium voltage turbines of unit 1 of Vung Ang 1 thermal power plant, which means the trial and acceptance testing may take longer than expected (about five months, lasting until the end of August instead of April as expected). Furthermore, this could affect POW's electricity output for the whole year. Therefore, we lower our forecast for thermal power output from Vung Ang 1 plant to 4,234 kWh (+25% YoY).

The demand for electricity is forecasted to increase, especially during the hot summer

The demand for electrical loads tends to increase, especially in the coming hot season. Water reserves at hydropower plants are not as large as in 2022, which we have already predicted in our previous reports on POW. Therefore, thermal power plants should be mobilized at a higher rate to meet the consumption demand.

HOLD recommendation with a target price of VND14,800/share

Based on SOTP results, business outlook, and possible risks, we recommend HOLD for POW stock. The target price is VND14,800/share, 10% higher than the price on May 26, 2023.

Hold update

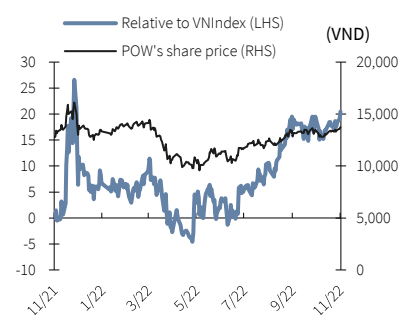
Target price	VND14,800
Upside (%)	10
Current price (May 26, 2023)	VND13,600
Consensus target price	VND15,400
Market cap (VNDbn)	31,615

Trading data	
Free float	20.0%
3M avg trading value (VNDbn)	105
Foreign ownership	6.49%
Major shareholder	PetroVietnam (PVN, 79.94%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	2	11	30	7
Relative	1	11	18	21

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	24,561	28,224	31,719	38,962
EBIT (VNDbn)	2,400	2,858	2,315	3,142
NPATMI (VNDbn)	1,799	2,061	1,818	2,298
EPS (VND)	757	871	776	981
EPS growth (%)	-24.2	15.1	-11.0	26.0
P/E (x)	23.1	13.4	22.8	18.0
EV/EBITDA (x)	8.4	9.4	9.8	9.6
P/B (x)	1.3	0.8	1.1	1.0
ROE (%)	6.6	7.7	5.7	6.5
Dividend yield (%)	1.7	0.7	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

Business performance updates

1Q revenue and profit saw mixed movements

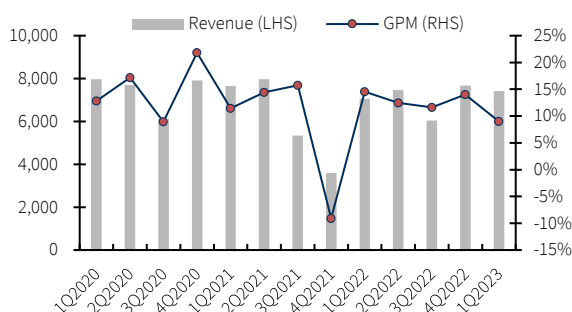
POW's 1Q revenue reached VND7,424 billion (+5% YoY) thanks to the positive output from coal and gas power plants. Coal and gas power output reached 2,739.3 million kWh (+10% YoY) and 933.5 million kWh (+13% YoY) respectively thanks to increased demand and reduced competition from hydropower plants. However, POW's gross profit was lower than the same period last year because (1) the corporation recorded VND276 billion in exchange rate differences in 1Q22; and (2) the input fuel prices were higher than the prices in PPAs, and heat loss rate is higher than in 1Q22. During the period, POW also recognized PVI's insurance compensation for the incident at Vung Ang 1 power plant.

Table 1. POW – 1Q23 performance updates

	1Q22	1Q23	+/-%YoY	KBSV's notes
Output (million kWh)				
Gas thermal power	2,497	2,739	10%	The output at Ca Mau 1&2 and DrakDrinh power plants was large, but the output at Vung Ang 1 and Hua Na plants is less positive. Hydroelectricity output declined due to El Nino.
Coal thermal power	828	933	13%	
Hydroelectricity	333	328	-2%	
Average output price				
Gas thermal power	1,945	1,953	0%	Coal electricity prices increased on higher input and electricity demand.
Coal thermal power	1,705	2,218	30%	
Hydroelectricity	1,232	1,223	-1%	
Revenue	7,061	7,424	21%	
Gas thermal power	4,857.81	5,348.50	10%	
Coal thermal power	1,413.42	2,070.30	46%	
Hydroelectricity	410.48	401.60	-2%	
Cost of goods sold	6,034	6,745	12%	Revenue and COGS both rose on higher mobilization volume
Gross profit	1027	679	-34%	Gross profit decreased over the same period because (1) the corporation recorded VND276 billion in exchange rate differences in 1Q22; and (2) the input fuel prices were higher than the prices in PPAs, and heat loss rate is higher than in 1Q22.
Gross profit margin (%)	14.5%	9.1%		
SG&A costs	115	126	10%	
SG&A to sales ratio (%)	1.6%	1.7%		
Profit from operating activities	912	552	-39%	
Financial income	66	125		Higher income was attributable to income from deposit interest and exchange rate differences.
Financial expenses	107	149		Interest expense increased.
Other incomes (net)	10.3	154.3		The company recorded PVI's insurance compensation for the breakdown of unit 1 of Vung Ang 1 thermal power plant.
Profit before taxes	881	690	-22%	
Profit after taxes	803.5	650	-19%	

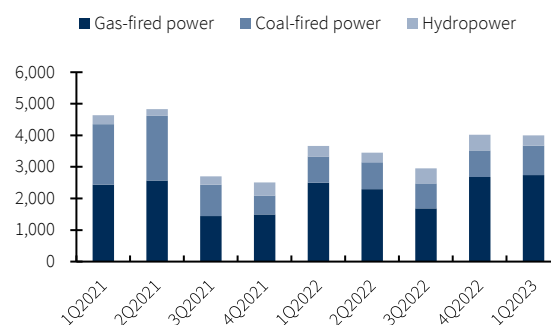
Source: PV Power Corporation, KB Securities Vietnam

Fig 2. POW – Revenue & GPM in 2020–2022 (VNDbn, %)



Source: PV Power Corporation, KB Securities Vietnam

Fig 3. POW – Power output in 2021–2022 (million kWh)



Source: PV Power Corporation, KB Securities Vietnam

Vung Ang 1 should resume operating from 3Q

At the AGM in April, POW said it detected a fault at the high and medium voltage turbines of unit 1 of Vung Ang 1 thermal power plant, which means the trial and acceptance testing may take longer than expected (about five months, lasting until the end of August instead of April as expected). Furthermore, this could affect POW's electricity output for the whole year. Therefore, we lower our forecast for thermal power output from Vung Ang 1 plant to 4,234 kWh (+25% YoY). We expect the average price of electricity from POW thermal plants in 2023 to reach VND2,127/kWh (+12.7% YoY).

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

According to EVN, the electricity demand of the national power system hit a new record on May 6, 2023, equivalent to 895 million kWh (+12.34% YoY). The maximum power consumption reached 43,300 MW (+9.12% YoY), the highest since the beginning of the year. The demand for electrical loads tends to increase, especially in the coming hot season. Water reserves at hydropower plants are not as large as in 2022, which we have already predicted in our previous reports on POW. Therefore, thermal power plants should be mobilized at a higher rate to meet the consumption demand.

Stably high electricity prices on the CGM would benefit power plants

1Q average full market price of electricity was at VND1,689.3/kWh (+11% YoY) due to high prices of input materials like gas and coal. The full market price in April hit VND1,964 billion/kWh (+10% YoY), reaching 10-year highs due to high consumption demand in the summer. Power plants will continue to benefit from participating in the competitive electricity generation market thanks to the high full market price. Contract output reached 671.8 million kWh in 1Q, equivalent to about 16.5% of POW's total output in the period. We maintain our forecast that electricity prices on the competitive generation market (CGM) will average 1,569.8/kWh (+2% YoY).

The progress of Nhon Trach 3&4 LNG gas thermal power project

EPC contractors are handling the foundation and completing the design to deploy the next steps in the investment project of Nhon Trach 3&4 power plants. POW and EPTC signed the minutes of the meeting to negotiate prices and the PPA for Nhon Trach 3 & 4 Power Plants. Accordingly, the parties agreed on the content and initialed the draft PPA for the project. POW will continue to arrange capital, negotiate gas purchase and sale contracts and power purchase agreements for the project on schedule.

Nhon Trach 3 & 4 plant project is expected to come into operation from 2024–2025 and make a positive contribution to POW's electricity and gas prospects. With a total investment of USD1.4 billion, the project with a total capacity of 1,600MW can generate an average of 9 billion kWh/year. The input of the two plants is imported LNG with a consumption rate of 1.2 million tons/year. Nhon Trach 3 & 4 should help increase the total power generation capacity of POW by 36% to 5,705 MW.

Table 4. #KBChart&TableTitle

	2022A	2023F	+/-%YoY	KBSV's notes
Output (million kWh)	14,078	15,601	10.8%	
Gas thermal power	9,155	10,103	10.4%	Output increases thanks to higher electricity demand and benefits when hydroelectricity is not favorable.
Coal thermal power	3,318	4,234	27.6%	Unit 1 of Vung Ang thermal power plant is expected to operate from the end of 1Q23.
Hydroelectricity	1,605	1,264	-21.2%	Unfavorable water conditions and high El Nino occurrence rate from May onwards make the water volume in hydroelectric plants not as abundant as in 2022, affecting hydropower output.
Average output price				
Gas thermal power	2,015	1,969	-2%	
Coal thermal power	1,888	2,127	12.7%	
Hydroelectricity	1,174	1,193	2%	The input prices are assumed to go down, leading to a slight decrease in the output electricity prices.
Revenue	28,224	30,715	8.8%	
Gas thermal power	18,449	19,895	7.8%	
Coal thermal power	6,265	9,005	43.7%	Coal power revenue may grow on high selling prices and positive power output over 2022.
Hydroelectricity	1,884	1,507	-20.0%	
Gross profit	3,726	3,370	-9.6%	
Gross profit margin (%)	13.20%	11.00%		
SG&A costs	868	945	8.9%	
SG&A to sales ratio (%)	3.10%	3.10%		
Profit from operating activities	2,858	2,425		
Financial income	445	1,042		Financial income should gain thanks to extra profit recognition and higher cash ratio.
Financial expenses	592	1,087		
Other incomes (net)	44	20		
Profit before taxes	2,809	2,447	-12.9%	
Profit after taxes	2,553	2,224	-12.9%	

Source: PV Power Corporation, KB Securities Vietnam

Valuation

HOLD recommendation with a target price of VND14,800/share

We use a SOTP model to give a HOLD recommendation for POW stock with a target price of VND14,800/share, equivalent to a 10% upside from the closing price of VND13,500/share on May 25, 2023. The valuation changes compared to the previous report due to the adjustment of electricity selling prices and commercial power output. Lower power output forecast is attributable to the incident at Vung Ang power plant. Our valuation does not include the large LNG Nhon Trach 3 & 4 gas thermal power project because there is no detailed information about the project's PPA and the method of calculating the selling price of LNG in Vietnam.

Table 3. POW – SOTP results

Valuation	Method	Value of POW
Ca Mau 1&2	DCF	5,930
Nhon Trach 1	DCF	4,014
Nhon Trach 2	DCF	5,827
Hua Na	DCF	4,116
Dakdrinh	DCF	3,332
Vung Ang 1	DCF	13,423
Total enterprise value		36,642
(+) Cash & Short-term investments		9,902
(-) Net debt		-9,017
(-) Minority interests		-2,765
Total Equity value		34,762
No of outstanding shares (million shares)		2,341.90
Target price		14,800
Current price (26/5/2023)		13,600
Upside		10%

Source: PV Power Corporation, KB Securities Vietnam

POW – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND billion)	2021	2022	2023F	2024F	(VND billion)	2021	2022	2023F	2024F
Net sales	24,561	28,224	30,715	38,933	CURRENT ASSETS	52,977	56,843	70,149	79,228
Cost of sales	-22,021	-24,498	-27,345	-34,623	Cash and cash equivalents	18,420	24,925	38,245	40,936
Gross Profit	2,540	3,726	3,370	4,310	Short-term investments	8,224	8,277	14,409	8,080
Financial income	690	445	1,042	1,042	Accounts receivable	531	1,650	1,733	1,820
Financial expenses	-653	-592	-1,087	-1,294	Inventories	5,799	12,538	9,846	11,733
of which: interest expenses	-510	-438	-1,087	-1,294	LONG-TERM ASSETS	1,838	2,086	2,098	2,561
Gain/(loss) from joint ventures (from 2015)	44	23	23	23	Long-term trade receivables	34,557	31,918	31,904	38,292
Selling expenses	-9	0	0	0	Fixed assets	0	0	0	0
General and admin expenses	-131	-868	-945	-1,198	Investment properties	31,869	29,155	29,141	35,529
Operating profit/(loss)	2,481	2,734	2,403	2,883	Long-term incomplete assets	405	936	936	936
Other incomes	20	67	67	67	Long-term investments	0	0	0	0
Other expenses	140	23	23	23	TOTAL ASSETS	0	0	0	0
Net other income/(expenses)	-120	44	44	44	LIABILITIES	21,852	23,562	32,894	38,154
Income from investments in other entities	0	0	0	1	Current liabilities	16,811	18,326	18,754	20,269
Net accounting profit/(loss) before tax	2,361	2,778	2,447	2,927	Trade accounts payable	7,240	7,346	7,910	10,027
Corporate income tax expenses	-287	-256	-223	-266	Advances from customers	6	4	13	14
Net profit/(loss) after tax	2,052	2,553	2,224	2,661	Short-term unrealized revenue	4,769	5,635	5,320	4,155
Minority interests	254	492	293	350	Short-term borrowings	5,040	5,236	14,140	17,885
Attributable to parent company	1,799	2,061	1,931	2,311	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	3,689	3,382	12,286	16,031
					Long-term borrowings	31,125	33,281	37,255	41,074
					OWNER'S EQUITY	23,419	23,419	23,419	23,419
					Paid-in capital	0	0	0	0
					Share premium	3,010	3,420	2,224	2,661
					Undistributed earnings	2,208	3,677	3,869	3,867
					Minority interests	2,488	2,765	3,058	3,408
Margin ratio					Key ratios				
	2021	2022	2023F	2024F	(x, %, VND)				
Gross profit margin	10.3%	13.2%	11.0%	11.1%	Multiple				
EBITDA margin	21.3%	20.1%	16.4%	15.3%	P/E	23.1	13.4	21.5	17.9
EBIT margin	9.8%	10.1%	7.9%	8.0%	P/E diluted	23.1	13.4	21.5	17.9
Pre-tax profit margin	9.5%	10.0%	8.0%	7.5%	P/B	1.3	0.8	1.1	1.0
Operating profit margin	10.1%	9.7%	7.8%	7.4%	P/S	1.7	1.0	1.4	1.1
Net profit margin	8.4%	9.1%	7.2%	6.8%	P/Tangible Book	1.3	0.8	1.1	1.0
					P/Cash Flow	7.6	8.6	5.5	6.7
					EV/EBITDA	8.4	9.4	9.5	9.6
					EV/EBIT	18.2	18.6	19.7	18.3
Cash Flow Statement					Operating performance				
(VND billion)	2021	2022	2023F	2024F	ROE%	6.6%	7.7%	6.0%	6.5%
Net profit/(loss) before tax	2,319	2,564	2,447	2,927	ROA%	3.9%	4.5%	3.2%	3.4%
Depreciation and amortisation	2,818	2,809	2,606	2,851	ROIC%	7.3%	8.0%	5.7%	5.7%
Profit/loss from investing activities	-286	-286	-286	-286	Financial structure				
Interest expense	510	437	1,085	1,292	Cash Ratio	0.5	0.5	0.9	0.5
Operating profit/(loss) before changes in Working Capital	4,482	5,524	5,852	6,784	Quick Ratio	0.9	1.2	1.4	1.1
(Increase)/decrease in receivables	1,848	-4,788	2,692	-1,887	Current Ratio	1.1	1.4	2.0	2.0
(Increase)/decrease in inventories	-390	-146	-12	-463	LT Debt/Equity	12%	10%	33%	39%
Increase/(decrease) in payables	2,194	1,390	564	2,117	LT Debt/Total Assets	7%	6%	18%	20%
(Increase)/decrease in prepaid expenses	-1,693	1,887	1,887	1,887	Debt/Equity	15%	17%	14%	10%
Net profit/(loss) before tax	-1,041	-681	-3,433	-2,225	Debt/Total Assets	9%	10%	8%	5%
Net cash inflows/(outflows) from operating activities	5,389	3,178	7,550	6,213	ST Liabilities/Equity	54%	55%	50%	49%
Purchases of fixed assets and other long term assets	-274	-2,562	-9,215	-13,627	ST Liabilities/Total Assets	32%	32%	27%	26%
Proceeds from disposal of fixed assets	2	2	0	0	Total Liabilities/Equity	70%	71%	88%	93%
Loans granted, purchases of debt instruments	-299	-1,438	-1,438	-1,438	Total Liabilities/Total Assets	41%	41%	47%	48%
Collection of loans, proceeds from sales of debts instruments	250	286	286	286	Activity ratios				
Investments in other entities	0	-22	-22	-22	Account Receivable Turnover	3.8	3.1	2.7	3.6
Proceeds from divestment in other entities	338	3	3	3	Inventory Turnover	12.4	12.5	13.0	13.5
Dividends and interest received	305	365	365	365	Account Payable Turnover	4.1	3.9	4.0	4.3
Net cash inflows/(outflows) from investing activities	320	-3,367	-10,007	-14,419					
Proceeds from issue of shares	0	0	0	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	13,617	8,027	8,589	2,580					
Repayment of borrowings	-17,462	-7,587	0	0					
Finance lease principal payments	0	0	0	0					
Dividends paid	-710	-199	0	-703					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	-4,555	241	8,589	1,877					
Net increase in cash and cash equivalents	1,154	53	6,132	-6,329					
Cash and cash equivalents at the beginning of period	7,070	8,224	8,277	14,409					
Cash and cash equivalents at the end of period	8,224	8,277	14,409	8,080					

Source: PV Power Corporation, 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:	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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