

# PV Power (POW)

## Vung Ang 1 returned as a growth driver

September 11, 2023

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### 2Q NPAT & revenue were mixed

PetroVietnam Power Corporation's (POW) 2Q23 NPAT hit VND181 billion (-69% YoY) on revenue of VND8,429 billion (+13% YoY). Revenue and COGS during the period both increased, but GPM decreased to 6% due to (1) high raw material costs and (2) higher base levels in 2Q22 thanks to the exchange rate difference revenue from the Vung Ang Power Plant's power purchase agreement (PPA).

### El Nino continues to increase the mobilization of thermal power plants

According to the National Center for Hydro-Meteorological Forecasting, the El Nino may continue from June to 2024 with a probability of about 80-90%. This means that hydropower output will continue to be affected, and thermal power plants could be mobilized more instead. We believe that thermal power will be highly mobilized, especially during hot season like the 2Q every year.

### POW's plants have completed repairs and overhauls since 2023

POW said unit 1 of Vung Ang 1 Thermal Power Plant, after a period of maintenance and repair, has returned to commercial operations, stably run, and exceeded design capacity. We expect this to help raise POW's power output. In addition, Dakdrinh hydropower plant also completed the overhaul of the H2 generator set in August after 23 days of implementation. Entering 2024, POW will be ready for mobilization while the demand is expected to rise from the industrial group, and the El Nino may last until 2024.

### BUY recommendation with target price of VND15,400/share

Based on SOTP, business prospects and potential risks, we recommend BUY for POW stock. The target price is VND15,400/share, 20% higher than the price on September 11, 2023.

**Buy** change

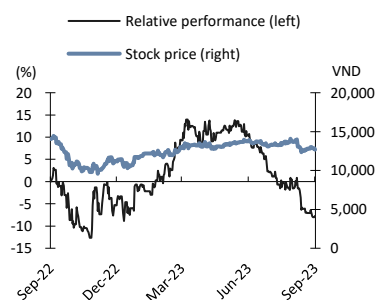
<b>Target price</b>	<b>VND15,400</b>
Upside (%)	20%
Current price (Sep 11, 2023)	VND12,800
Consensus target price	VND16,600
Market cap (VNDbn/USDmn)	4,729/178

<b>Trading data</b>	
Free float	20.0%
3M avg trading value (VNDbn/USDmn)	124.61/5.2
Foreign ownership	6.49%
Major shareholder	PetroVietnam (PVN, 79.94%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	2.6	7.0	20.6	-5.2
<b>Relative</b>	-2.0	-0.4	13.4	3.0

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	24,561	28,224	32,189	37,217
EBIT (VNDbn)	2,400	2,858	2,305	3,739
NPAT of the parent (VNDbn)	1,799	2,061	1,798	2,818
EPS (VND)	757	871	768	1,203
EPS growth (%)	-24.2	15.1	-12.0	57.0
P/E (x)	23.1	13.4	23.1	14.7
EV/EBITDA (x)	8.4	9.4	9.9	8.4
P/B (x)	1.3	0.8	1.1	1.0
ROE (%)	6.6	7.7	5.6	7.6
Dividend yield (%)	1.7	0.7	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## 2Q23 performance updates

### 2Q NPAT & revenue were mixed

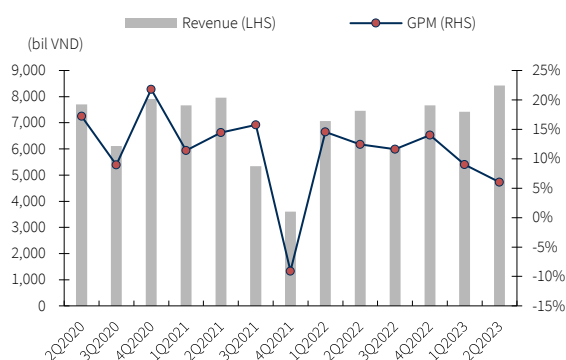
POW's 2Q23 NPAT hit VND181 billion (-69% YoY) on revenue of VND8,429 billion (+13% YoY). Revenue and COGS during the period both increased, but GPM decreased to 6% due to (1) high raw material costs, making capital costs grow stronger than revenue, and (2) higher base levels in 2Q22 thanks to the exchange rate difference revenue from the Vung Ang Power Plant's PPA. Electricity output in the first half of 2023 reached 8,340 million kWh (+17% YoY) thanks to the active mobilization of gas and coal thermal power plants in the context of El Nino affecting hydroelectric plants.

Table 1. POW – 1H23 results

	1H22	1H23	+/-%YoY	KBSV's notes
<b>Output (million kWh)</b>	<b>7,111</b>	<b>8,340</b>	<b>17.3%</b>	
Gas thermal power	4,789	5,716	19.4%	Hydroelectricity output declined due to El Nino. Thermal power plants were mobilized more to make up for the shortfall of hydropower.
Coal thermal power	1,682	2,107	25.3%	
Hydroelectricity	640	517	-19.2%	
<b>Average output price (VND/kWh)</b>				
Gas thermal power	2,079	1,987	-4%	The average prices of gas power and coal power are mixed under the influence of input material costs.
Coal thermal power	1,762	2,050	16.3%	
Hydroelectricity	1,247	1,161	-7%	
<b>Revenue (VNDbn)</b>	<b>14,524</b>	<b>15,853</b>	<b>9.2%</b>	Revenue grew positively thanks to output growth of 17% YoY.
Gas thermal power	9,959	11,360	14.1%	
Coal thermal power	2,964	4,320	45.7%	
Hydroelectricity	798	600	-24.8%	
<b>Gross profit (VNDbn)</b>	<b>1,956</b>	<b>1,148</b>	<b>-41.3%</b>	
<b>Gross profit margin (%)</b>	<b>13.47%</b>	<b>7.24%</b>		Gross profit margin decreased mainly due to input material costs, causing cost of goods to increase higher than revenue. Gas plants face difficulties when raw material prices increase, and at the same time the mobilization of oil fuel operations leads to having to turn on and off the machine many times, affecting the cost price.
<b>SG&amp;A costs (VNDbn)</b>	<b>503</b>	<b>333</b>	<b>-33.8%</b>	
SG&A to sales ratio (%)	3.46%	2.10%		
<b>Operating income (VNDbn)</b>	<b>1,638</b>	<b>814</b>	<b>-50%</b>	
Financial income (VNDbn)	129	247	91%	Financial income increased thanks to (1) increased interest on bank deposits, (2) increased dividend yields, and (3) decreased interest on exchange rate differences in payments.
Financial expenses (VNDbn)	335	276	-18%	Financial costs decreased thanks to (1) reduction in exchange rate differences from end-of-term revaluation and (2) reduction in financial restructuring consulting costs.
Other incomes (net, VNDbn)	11	131	1091%	Other income increased mainly from proceeds from asset liquidation at the parent company.
<b>Profit before taxes (VNDbn)</b>	<b>1,444</b>	<b>916</b>	<b>-36.6%</b>	
<b>Profit after taxes (VNDbn)</b>	<b>1,389</b>	<b>831</b>	<b>-40.2%</b>	

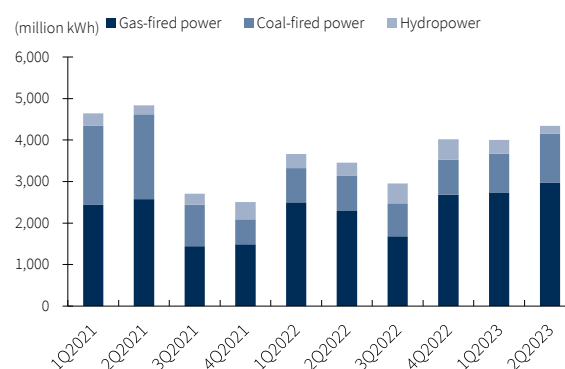
Source: PV Power, KB Securities Vietnam

Fig 2. POW – 2020–2023 business results (VNDbn)



Source: PV Power, KB Securities Vietnam

Fig 3. POW – 2021–2023 power output (million kWh)



Source: PV Power, KB Securities Vietnam

### El Nino continues to help raise the mobilization volume for thermal power plants

According to the National Center for Hydro-Meteorological Forecasting, the El Nino may continue from June to 2024 with a probability of about 80–90%. This means that hydropower output will continue to be affected, and thermal power plants could be mobilized more instead. We believe that thermal power will be highly mobilized, especially during hot season like the 2Q every year. By owning mainly thermal power (more than 90% of total capacity), including four gas thermal power plants and one coal power plant, POW will benefit when thermal power plants continue to be mobilized more in 2024.

### POW plants complete repairs and overhauls in 2023

POW said unit 1 of Vung Ang 1 Thermal Power Plant, after a period of maintenance and repair, has returned to commercial operations, stably run, and exceeded design capacity. We expect this to help raise POW's power output. In addition, Dakdrinh hydropower plant also completed the overhaul of the H2 generator set in August after 23 days of implementation. Entering 2024, POW will be ready for mobilization while the demand is expected to rise from the industrial group, and the El Nino may last until 2024.

However, in the short term, we believe that POW's 2H23 output will be affected by (1) falling temperatures that indirectly reduce load demand and the mobilization capacity of machines and (2) maintenance schedule of power plants. We note that NT2 thermal power plant has an overhaul planned to last about 44 days in 3Q23, which may affect POW's gas power output for 2H23.

### Updates on the progress of Nhon Trach 3 & 4 Power Plant projects

The projects have completed site leveling and 71% of the pile pressing. They would continue to dig foundations, erect formwork, and pour concrete for items like chimneys, turbine houses, turbo sets, transformer stations, and station control houses.

The project management board approved the technical design documents for NT3 and NT4 power plants. Besides, PV Power had a meeting with EPTC about the project's PPA. POW is reviewing and waiting for instructions from the Ministry of Industry and Trade regarding the mechanism for PPAs.

## Forecast & valuation

Table 3. POW – 2023F results

	2022A	2023F	+/-%YoY	KBSV's notes
<b>Output (million kWh)</b>	<b>14,078</b>	<b>16,393</b>	<b>16.4%</b>	
Gas thermal power	9,155	10,895	19.0%	Thermal power is prioritized when hydropower is not favorable.
Coal thermal power	3,318	4,234	27.6%	Unit 1 of Vung Ang thermal power plant is back in operation, helping to increase output.
Hydroelectricity	1,605	1,264	-21.2%	El Nino continues, lowering the water reserves at hydro plants compared to 2022 and affecting their power output.
<b>Average output price (VND/kWh)</b>				
Gas thermal power	2,015	1,961	-3%	Input costs are assumed to go down, leading to a slight decrease in output power prices.
Coal thermal power	1,888	2,127	12.7%	Average coal power prices should rise due to high input costs.
Hydroelectricity	1,174	1,193	2%	The average hydroelectric price is upgraded due to price slippage.
<b>Revenue (VNDbn)</b>	<b>28,224</b>	<b>32,189</b>	<b>14.0%</b>	
Gas thermal power	18,449	21,368	15.8%	
Coal thermal power	6,265	9,006	43.8%	Coal power revenue grows due to high power prices and positive electricity output over the same period in 2022.
Hydroelectricity	1,884	1,507	-20.0%	
Gross profit (VNDbn)	<b>3,726</b>	<b>3,295</b>	<b>-11.6%</b>	
<b>Gross profit margin (%)</b>	<b>13.2%</b>	<b>10.2%</b>		
<b>SG&amp;A costs (VNDbn)</b>	868	990	14.1%	
SG&A to sales ratio (%)	3.10%	3.10%		
Operating income (VNDbn)	2,858	2,305		
Financial income (VNDbn)	445	1,029		Financial income may get higher thanks to the assumption of extra profit recognition and increased cash ratio.
Financial expenses (VNDbn)	592	1,124		
Other incomes (net, VNDbn)	44	20		
<b>Profit before taxes (VNDbn)</b>	<b>2,809</b>	<b>2,277</b>	<b>-18.9%</b>	
<b>Profit after taxes (VNDbn)</b>	<b>2,553</b>	<b>2,070</b>	<b>-18.9%</b>	

Source: PV Power, KB Securities Vietnam

## Valuation

We use the SOTP method to give a BUY recommendation for POW with a target price of VND15,400/share, equivalent to an upside of 20% compared to the closing price of VND12,800/share on September 11, 2023. Pricing changes are mainly based on adjusted electricity prices and commercial electricity output. Our valuation does not include the large LNG gas thermal power project Nhon Trach 3 & 4 because there is no detailed information about the project's PPAs as well as the method to calculate LNG gas prices in Vietnam.

**Table 4. POW – SOTP results**

Valuation	Method	Value of POW
Ca Mau 1&2	DCF	8,765
Nhon Trach 1	DCF	2,653
Nhon Trach 2	DCF	4,999
Hua Na	DCF	4,267
Dakdrinh	DCF	3,460
Vung Ang 1	DCF	13,883
Total enterprise value		38,027
(+) Cash & Short-term investments		9,902
(-) Net debt		-9,017
(-) Minority interests		-2,765
Total Equity value		36,147
No of outstanding shares (million shares)		2,341.90
Target price		15,400
Current price (26/5/2023)		12,800
Upside		20%

Source: KB Securities Vietnam

## POW – 2021A–2024F financials

<b>Income Statement (VND billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
Net sales	24,561	28,224	32,189	37,217
Cost of sales	-22,021	-24,498	-28,894	-32,334
Gross Profit	2,540	3,726	3,295	4,883
Financial income	690	445	1,029	1,131
Financial expenses	-653	-592	-1,124	-1,396
of which: interest expenses	-510	-438	-1,124	-1,396
Gain/(loss) from joint ventures (from 2015)	44	23	23	23
Selling expenses	-9	0	0	0
General and admin expenses	-131	-868	-990	-1,144
Operating profit/(loss)	2,481	2,734	2,233	3,497
Other incomes	20	67	67	67
Other expenses	140	23	23	23
Net other income/(expenses)	-120	44	44	44
Income from investments in other entities	0	0	0	1
Net accounting profit/(loss) before tax	2,361	2,778	2,277	3,541
Corporate income tax expenses	-287	-256	-207	-322
Net profit/(loss) after tax	2,052	2,553	2,070	3,219
Minority interests	254	492	272	423
Attributable to parent company	1,799	2,061	1,798	2,796

<b>Margin ratio</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
-				
Gross profit margin	10.3%	13.2%	10.2%	13.1%
EBITDA margin	21.3%	20.1%	15.3%	17.7%
EBIT margin	9.8%	10.1%	7.2%	10.1%
Pre-tax profit margin	9.5%	10.0%	7.1%	9.5%
Operating profit margin	10.1%	9.7%	6.9%	9.4%
Net profit margin	8.4%	9.1%	6.4%	8.7%

<b>Cash Flow Statement (VND billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
Net profit/(loss) before tax	2,319	2,564	2,277	3,570
Depreciation and amortisation	2,818	2,809	2,606	2,865
Profit/loss from investing activities	-286	-286	-286	-286
Interest expense	510	437	1,121	1,392
Operating profit/(loss) before changes in Working Capital	4,482	5,524	5,718	7,541
(Increase)/decrease in receivables	1,848	-4,788	2,220	-898
(Increase)/decrease in inventories	-390	-146	-131	-175
Increase/(decrease) in payables	2,194	1,390	944	1,295
(Increase)/decrease in prepaid expenses	-1,693	1,887	1,887	1,887
<b>Net cash inflows/(outflows) from operating activities</b>	<b>5,389</b>	<b>3,178</b>	<b>7,062</b>	<b>7,528</b>
Purchases of fixed assets and other long term assets	-274	-2,562	-9,657	-13,026
Proceeds from disposal of fixed assets	2	2	0	0
Loans granted, purchases of debt instruments	-299	-1,438	-1,438	-1,438
Collection of loans, proceeds from sales of debts instruments	250	286	286	286
Investments in other entities	0	-22	-22	-22
Proceeds from divestment in other entities	338	3	3	3
Dividends and interest received	305	365	365	365
<b>Net cash inflows/(outflows) from investing activities</b>	<b>320</b>	<b>-3,367</b>	<b>-10,449</b>	<b>-13,818</b>
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	9,200	3,559
Repayment of borrowings	-17,462	-7,587	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	-710	-199	0	0
Interests, dividends, profits received	0	0	0	0
<b>Net cash inflows/(outflows) from financing activities</b>	<b>-4,555</b>	<b>241</b>	<b>9,200</b>	<b>3,559</b>
Net increase in cash and cash equivalents	1,154	53	5,813	-2,731
Cash and cash equivalents at the beginning of period	7,070	8,224	8,277	14,090
Cash and cash equivalents at the end of period	8,224	8,277	14,090	11,359

Source: KB Securities Vietnam

<b>Balance Sheet (VND billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
<b>CURRENT ASSETS</b>	<b>52,977</b>	<b>56,843</b>	<b>70,978</b>	<b>81,692</b>
Cash and cash equivalents	18,420	24,925	39,074	42,972
Short-term investments	8,224	8,252	14,090	11,359
Accounts receivable	531	1,650	1,733	1,820
Inventories	5,799	12,538	10,318	11,216
<b>LONG-TERM ASSETS</b>	<b>1,838</b>	<b>2,086</b>	<b>2,217</b>	<b>2,392</b>
Long-term trade receivables	34,557	31,918	31,904	38,720
Fixed assets	0	0	0	0
Investment properties	31,869	29,155	29,141	35,957
Long-term incomplete assets	405	936	936	936
Long-term investments	0	0	0	0
<b>TOTAL ASSETS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>LIABILITIES</b>	<b>21,852</b>	<b>23,562</b>	<b>33,986</b>	<b>39,185</b>
<b>Current liabilities</b>	<b>16,811</b>	<b>18,326</b>	<b>19,256</b>	<b>22,006</b>
Trade accounts payable	7,240	7,346	8,290	9,585
Advances from customers	6	4	13	14
Short-term unrealized revenue	4,769	5,635	5,341	6,451
Short-term borrowings	5,040	5,236	14,730	17,179
<b>Long-term liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	3,689	3,382	12,876	15,325
<b>Long-term borrowings</b>	<b>31,125</b>	<b>33,281</b>	<b>36,992</b>	<b>42,507</b>
<b>OWNER'S EQUITY</b>	<b>23,419</b>	<b>23,419</b>	<b>23,419</b>	<b>23,419</b>
Paid-in capital	0	0	0	0
Share premium	3,010	3,420	2,070	3,245
Undistributed earnings	2,208	3,677	3,869	3,867
Minority interests	2,488	2,765	3,037	3,464

<b>Key ratios (x, %, VND)</b>				
Multiple	23.1	13.4	23.1	14.7
P/E	23.1	13.4	23.1	14.7
P/E diluted	1.3	0.8	1.1	1.0
P/B	1.7	1.0	1.3	1.1
P/S	1.3	0.8	1.1	1.0
P/Tangible Book	7.6	8.6	5.9	5.5
P/Cash Flow	8.4	9.4	9.9	8.4
EV/EBITDA	18.2	18.6	21.1	14.8
EV/EBIT	23.1	13.4	23.1	14.7

<b>Operating performance</b>				
ROE	6.6%	7.7%	5.6%	7.6%
ROA	3.9%	4.5%	2.9%	4.0%
ROIC	7.3%	8.0%	5.4%	6.8%
<b>Financial structure</b>				
Cash Ratio	0.5	0.5	0.8	0.6
Quick Ratio	0.9	1.2	1.4	1.1
Current Ratio	1.1	1.4	2.0	2.0
LT Debt/Equity	12%	10%	35%	36%
LT Debt/Total Assets	7%	6%	18%	19%
Debt/Equity	15%	17%	14%	15%
Debt/Total Assets	9%	10%	8%	8%
ST Liabilities/Equity	54%	55%	52%	52%
ST Liabilities/Total Assets	32%	32%	27%	27%
Total Liabilities/Equity	70%	71%	92%	92%
Total Liabilities/Total Assets	41%	41%	48%	48%
<b>Activity ratios</b>				
Account Receivable Turnover	3.8	3.1	2.8	3.5
Inventory Turnover	12.4	12.5	13.0	13.5
Account Payable Turnover	4.1	3.9	4.1	4.2

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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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