

PV Power (POW)

Overcome difficulties

December 12, 2023

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3Q23 results are lower than the same period in 2022

PV Power Corporation (POW) recorded VND52 billion (-74% YoY) in 3Q NPAT on revenue of VND5,679 billion (-6% YoY). 9M23 commercial electricity output reached 11,144 million kWh (+11% YoY) thanks to the active mobilization of Ca Mau 1&2 and Vung Ang plants compensating for the sharp decline in hydroelectric plants and Nhon Trach 1&2.

Gas power output is expected to recover in 2024

We expect gas-generated power output to recover well in 2024 to reach 10,487 million kWh (+12% YoY), based on (1) Nhon Trach 2 and Ca Mau 2 plants have completed repairs and been ready for mobilization; (2) the inauguration of Thi Vai LNG terminal (phase 1) will benefit gas sources for power plants in the Southeast region; (3) POW should negotiate with Jadestone partner to buy additional gas from Nam Du - U Minh fields for Ca Mau 1 & 2 power plants after 2028; and (4) The mobilization for thermal power would increase when hydropower declines.

Coal thermal power plant Vung Ang should return to stable operation

Vung Ang thermal power plant has completed repairs and test run in 3Q23 and been ready for mobilization. We expect that the output of Vung Ang power plant can reach 5,763 million kWh (+36.1% YoY) in 2024 given benefits from El Nino and the completion of repairs in 3Q.

BUY recommendation with target price of VND13,700/share

Based on SOTP valuation, business prospects and possible risks of POW, we recommend BUY for POW stock. The target price is VND13,700/share, 18% higher than the price on December 11, 2023.

Buy maintain

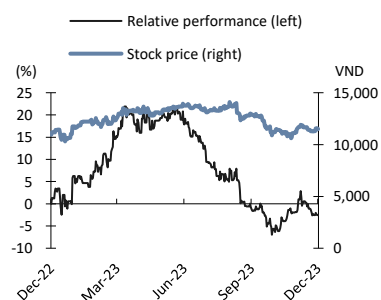
| | |
|------------------------------|------------------|
| Target price | VND13,700 |
| Upside (%) | 18% |
| Current price (Dec 11, 2023) | VND11,600 |
| Consensus target price | VND14,800 |
| Market cap (VNDtn/USDbn) | 26/1.09 |

| | |
|------------------------------------|----------------------------|
| Trading data | |
| Free float | 20.0% |
| 3M avg trading value (VNDbn/USDmn) | 64.73/2.7 |
| Foreign ownership | 6.18% |
| Major shareholder | PetroVietnam (PVN, 79.94%) |

| | | | | |
|--------------------------------|------|-------|-------|------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 3.1 | -10.9 | -16.4 | 2.7 |
| Relative | -0.6 | -1.2 | -17.3 | -3.8 |

Forecast earnings & valuation

| FY-end | 2021A | 2022A | 2023F | 2024F |
|----------------------------|--------|--------|--------|--------|
| Net revenue (VNDbn) | 24,561 | 28,224 | 28,906 | 33,969 |
| EBIT (VNDbn) | 2,400 | 2,858 | 1,728 | 2,673 |
| NPAT of the parent (VNDbn) | 1,799 | 2,061 | 1,316 | 1,949 |
| EPS (VND) | 757 | 871 | 562 | 832 |
| EPS growth (%) | -24.2 | 15.1 | -35.0 | 48.0 |
| P/E (x) | 23.1 | 13.4 | 31.5 | 21.3 |
| EV/EBITDA (x) | 8.4 | 5.5 | 11.0 | 9.6 |
| P/B (x) | 1.3 | 0.8 | 1.2 | 1.0 |
| ROE (%) | 6.6 | 7.7 | 4.3 | 5.7 |
| Dividend yield (%) | 1.7 | 0.7 | 0.0 | 0.0 |



Source: Bloomberg, KB Securities Vietnam

3Q23 performance updates

3Q23 revenue and profit decreased compared to the same period

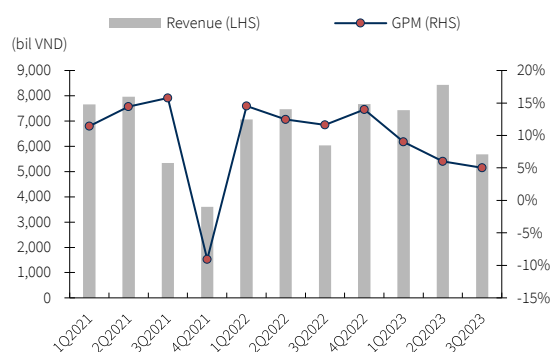
POW recorded VND52 billion (-74% YoY) in 3Q NPAT on revenue of VND5,679 billion (-6% YoY). 9M23 commercial electricity output reached 11,144 million kWh (+11% YoY) thanks to the active mobilization of Ca Mau 1&2 and Vung Ang plants compensating for the sharp decline in hydroelectric plants and Nhon Trach 1&2. Gross profit margin (GPM) decreased to only 6.75% due to (1) high raw material costs in the period that led to a sharp increase in cost of capital compared to revenue; (2) POW no longer recording revenue from exchange rate differences of the PPA of Vung Ang power plant as in 2Q22; and (3) ongoing repairs and maintenance of some power plants in 3Q23.

Table 1. POW – 9M23 business results

| | 9M22 | 9M23 | +/-%YoY | KBSV's notes |
|---------------------------------------|---------------|---------------|-------------|--|
| Output (million kWh) | 10,063 | 11,145 | 11% | |
| <i>Gas thermal power</i> | 6,473 | 7,170 | 11% | - Hydropower: Hydropower output decreased due to the impact of El Nino, causing low water reserves. |
| <i>Coal thermal power</i> | 2,475 | 3,137 | 27% | - Thermal power: Vung Ang 1 coal power plant completed repairs and is strongly mobilized in the context of hydropower decline. |
| <i>Hydroelectricity</i> | 1,115 | 838 | -25% | - Gas power: Positive output of Ca Mau 1&2 plant compensates for the decrease from Nhon Trach 2 due to machine overhaul shutdown. |
| Average output price (VND/kWh) | | | | |
| <i>Gas thermal power</i> | 2,069 | 2,041 | -1% | - The average prices of gas power and coal power were mixed due to the influence of input material costs (coal and gas). |
| <i>Coal thermal power</i> | 1,855 | 2,005 | 8% | - In addition, lower consumption demand in 3Q due to reduced temperature and competition from renewable energy sources also reduced electricity generation prices. |
| <i>Hydroelectricity</i> | 1,224 | 1,108 | -9% | - Positive revenue was attributable to growth in commercial electricity output, offsetting the decrease in average electricity price. |
| Revenue (VNDbn) | 20,566 | 21,533 | 5% | |
| <i>Gas thermal power</i> | 13,396 | 14,634 | 9% | |
| <i>Coal thermal power</i> | 4,591 | 6,288 | 37% | |
| <i>Hydroelectricity</i> | 1,365 | 929 | -32% | |
| Gross profit (VNDbn) | 2,659 | 1,454 | -45% | |
| Gross profit margin (%) | 13% | 6.7% | | |
| SG&A costs (VNDbn) | 705 | 483 | -32% | |
| SG&A to revenue ratio (%) | 3.43% | 2.24% | | |
| Operating income (VNDbn) | 1,954 | 971 | -50% | |
| Financial income (VNDbn) | 22.5 | 385 | 71% | - Financial revenue increased thanks to (1) higher interest on bank deposits and (2) increased dividend income. |
| Financial expenses (VNDbn) | 542 | 489 | -10% | |
| Other incomes (net, VNDbn) | 30 | 129 | 330% | - Other incomes increased mainly from asset liquidation at the parent company. |
| Profit before taxes (VNDbn) | 1,693 | 1,011 | -40% | |
| Profit after taxes (VNDbn) | 1,590 | 883 | -45% | |

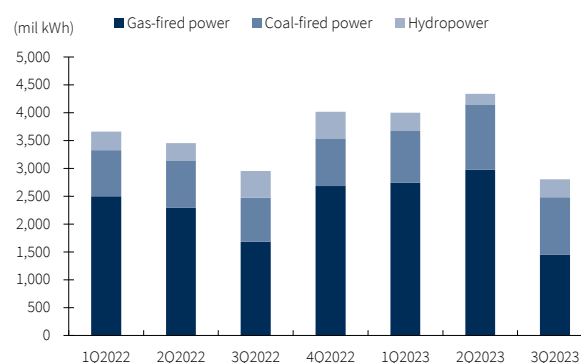
Source: PV Power Corporation, KB Securities Vietnam

Fig 1. POW – Revenue & GPM in 2021–2023 (VNDbn, %)



Source: PV Power Corporation, KB Securities Vietnam

Fig 2. POW – Power output in 2022–2023 (million kWh)



Source: PV Power Corporation, KB Securities Vietnam

Gas power output is expected to recover in 2024

We expect gas-generated power output to recover well in 2024 to reach 10,487 million kWh (+12% YoY), based on (1) Nhon Trach 2 and Ca Mau 2 plants have completed repairs and been ready for mobilization; (2) the inauguration of Thi Vai LNG terminal (phase 1) will benefit gas sources for power plants in the Southeast region; (3) POW should negotiate with Jadestone partner to buy additional gas from Nam Du – U Minh fields for Ca Mau 1 & 2 power plants after 2028; and (4) The mobilization for thermal power would increase when hydropower declines.

Coal thermal power plant Vung Ang should return to stable operation

On October 12, 2023 and October 16, 2023, the generator and gas turbine of Nhon Trach 3 Power Plant were put into the foundation. As of November, the overall EPC progress of the Nhon Trach 3&4 project was estimated at 65.6%, 9.5% slower than the plan of 75.1%.

Regarding the capital mobilization for the NT3&4 project, POW signed a loan contract of VND4,000 billion with Vietcombank (VCB) at the end of August 2023. The total investment of the project is USD1.4 billion with an equity/loan capital structure of 25%/75%. POW also plans to raise capital to invest in its projects. We also note that the corporation has about VND3,600 billion in undistributed NPAT and about VND4,000 billion in the development investment fund.

The Nhon Trach 3&4 power plants project is expected to come into operation from the end of 2024–2025, positively contributing to the prospect of the gas power segment. The input of the two plants is imported LNG with a consumption volume of 1.2 million tons/year. The project has a total capacity of 1,600MW and can generate an average of 9 billion kWh/year. Once started, they will help increase POW's total power generation capacity by 36% to 5,705 MW.

Hydropower is affected by El Nino

In 3Q23, Hua Na hydropower plant proactively balanced operating efficiency and water storage goals for the upcoming dry season. Dakdrinh hydropower plant has less water flowing into the lake than expected, affecting the business operation. 9M23 hydropower output of POW only reached 838 million kWh (-25% YoY) due to the obvious impacts from El Nino on rainfall and water in reservoirs.

According to forecasts of the International Research Institute for Climate and Society, El Nino has a high probability of continuing in 2024 before switching to a neutral phase. Therefore, we make a conservative forecast for the hydroelectric segment in 2024, in which the output will reach about 1,099 million kWh (-1% YoY).

Coal thermal power plant Vung Ang should return to stable operation

Vung Ang thermal power plant has completed repairs and test run in 3Q23 and been ready for mobilization. We expect that the output of Vung Ang power plant can reach 5,763 million kWh (+36.1% YoY) in 2024 given benefits from El Nino and the completion of repairs in 3Q.

In addition, POW is working to unify the amount of investment capital used to calculate the electricity price on the PPA of the Vung Ang 1 plant. Currently, the PPA prices are based on the total investment of VND26,400 billion. However, the revaluation value is about VND29,200 billion. As we are not sure about when POW reaches an agreement, we do not change the forecast PPA price for Vung Ang 1.

Forecast & valuation

Table 2. POW – 2023–2024F results

| | 2022 | 2023F | +/-%YoY | 2024F | +/-%YoY | KBSV's notes |
|---------------------------------------|---------------|---------------|-------------|---------------|------------|---|
| Output (million kWh) | 14,078 | 14,653 | 4.1% | 17,350 | 18% | |
| Gas thermal power | 9,155 | 9,303 | 2% | 10,488 | 13% | - Strong mobilization is thanks to (1) completed repairs and (2) more room for mobilization when hydropower is at a disadvantage. |
| Coal thermal power | 3,318 | 4,234 | 27% | 5,763 | 36% | - Vung Ang 1 can return to full operation in 2024 when repairs are completed. |
| Hydroelectricity | 1,605 | 1,116 | -30% | 1,100 | -1% | - El Nino continues, lowering the amount of water at hydropower plants and affecting output. |
| Average output price (VND/kWh) | | | | | | - |
| Gas thermal power | 2,015 | 2,025 | 0.5% | 1,947 | -4% | - It is assumed that input prices will decrease, leading to a slight fall in output prices. |
| Coal thermal power | 1,888 | 2,012 | 6% | 1,961 | -3% | - The average coal power price in 2024 may decrease due to expectations of stable coal supply and prices. |
| Hydroelectricity | 1,174 | 1,112 | -5% | 1,134 | 2% | - Average hydroelectric price is upgraded due to price slippage. |
| Revenue (VNDbn) | 28,224 | 28,906 | 2% | 33,969 | 18% | |
| Gas thermal power | 18,449 | 18,839 | 2% | 20,423 | 8% | |
| Coal thermal power | 6,265 | 8,518 | 36% | 11,299 | 33% | - Coal power revenue should grow on high output prices and strong output YoY. |
| Hydroelectricity | 1,884 | 1,240 | -34% | 1,246 | 0% | |
| Gross profit (VNDbn) | 3,726 | 2,617 | -30% | 3,718 | 42% | |
| Gross profit margin (%) | 13% | 9% | | 11% | | |
| SG&A costs (VNDbn) | 868 | 889 | 3% | 1,045 | 18% | |
| SG&A to revenue ratio (%) | 3.10% | 3.10% | | 3.10% | | |
| Operating income (VNDbn) | 2,858 | 1,728 | -40% | 2,673 | 55% | |
| Financial income (VNDbn) | 445 | 637 | 43% | 910 | 43% | - Financial income increases thanks to abnormal profit recognition and higher cash ratio. |
| Financial expenses (VNDbn) | 592 | 679 | 15% | 1,085 | 60% | |
| Other incomes (net, VNDbn) | 44 | 0 | | 0 | | |
| Profit before taxes (VNDbn) | 2,809 | 1,686 | -40% | 2,498 | 48% | |
| Profit after taxes (VNDbn) | 2,553 | 1,533 | -40% | 2,271 | 48% | |

Source: PV Power Corporation, KB Securities Vietnam

**Valuation: BUY recommendation
with target price of VND13,700**

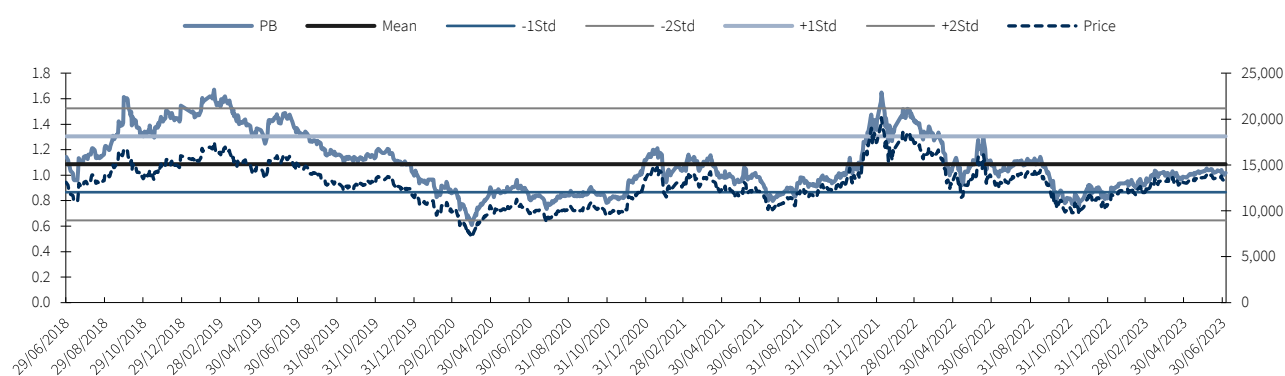
We use the SOTP method for each power plant to give a BUY recommendation for POW with a target price of VND13,700/share, equivalent to an upside of 18% compared to the closing price of VND11,600 on December 11, 2023. We change our valuation mainly based on electricity output prices and commercial electricity output. Our valuation does not include the large LNG thermal power project Nhon Trach 3 & 4 because there is no detailed information about the PPA and the method to calculate LNG price in Vietnam.

Table 3. POW – SOTP valuation

| Valuation | Method | Value of POW |
|---|--------|--------------|
| Ca Mau 1&2 | DCF | 5,923 |
| Nhon Trach 1 | DCF | 3,016 |
| Nhon Trach 2 | DCF | 4,324 |
| Hua Na | DCF | 3,988 |
| Dakdrinh | DCF | 3,265 |
| Vung Ang 1 | DCF | 13,429 |
| Total enterprise value | | 33,945 |
| (+) Cash & short-term investments | | 9,902 |
| (-) Net debt | | -9,017 |
| (-) Minority interests | | -2,765 |
| Total equity value | | 32,065 |
| Number of outstanding shares (million shares) | | 2,341.90 |
| Target price | | 13,700 |
| Current price (December 11, 2023) | | 11,600 |
| Upside | | 18% |

Source: KB Securities Vietnam

Fig 3. POW – P/B in 2018-2023 (x)



Source: PV Power Corporation, 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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