

PetroVietnam Power Nhon Trach 2 JSC (NT2: HOSE)



BUY – 1Y Price Target: VND 36,000

Current price: VND 30,400

Kien Trung Nguyen, CFA

kiennt@ssi.com.vn

+84 4 3936 6321 ext. 510

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UTILITIES - VIETNAM

Key figures

Market cap (USD mn)	373
Market cap (VND bn)	8,327
Outstanding shares (mn)	274
52W high/low (VND 1,000)	30.9/19.6
Average 3M volume (share)	581,680
Average 3M value (USD mn)	0.72
Average 3M value (VND bn)	16.05
Foreign ownership (%)	19.65
State ownership (%)	N.a
Management ownership (%)	N.a

Stock performance



Source: Bloomberg

Company Snapshot

NT2 was founded by PetroVietnam- PVN (then transferred to PV Power) and other institutional investors including Vietnam Posts and Telecommunications Group (VNPT), Vinacomin and J- Power, in 2007. Electric Power Development Co. Ltd, or J-Power(9513:JP) is a Japanese Corporation specializing in Generating, Transmitting, Distributing and selling electric power using hydroelectric, wind power, nuclear, coal fired and other power stations throughout Japan.

An upbeat year filled with sparks

1Q16 review

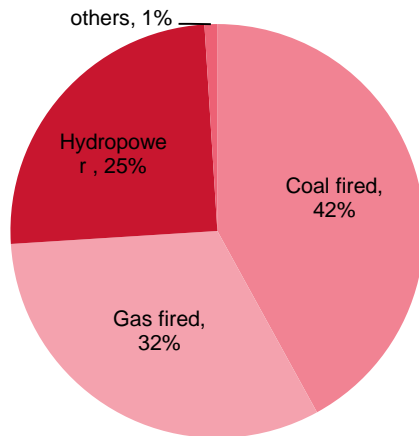
In 2M16, NT2 generated 841.44bn KWH, increasing by 6.8% YoY. Revenue declined by 17.5% YoY to VND 884bn as the Power Purchase Agreement (PPA) price was adjusted following lower gas price (47.4% declined YoY). In 2M16, the company closed a Generation Unit for maintenance, preparing for the dry season in 2Q16. In March 2016, we expect that NT2 might generate 450bn KWH, resulting in output of 1.3bn KWH for 1Q16, similar to that of 1Q15.

As the gas price in 1Q16 remained low, we expect that gross profit margin will remain high at 31% in 1Q16, compared to that of 20.1% in 1Q15. We estimate that NT2 might achieve VND 400bn in core profit (before FX loss of VND 29bn until now). In 1Q15, NT2 recorded net FX gain of VND 248bn, therefore, core profit is likely to amplify by 42% YoY in 1Q16. It proved that the new gas price scheme help NT2 expand the gross profit margin significantly. As the scheme started to be applied since 4Q15, NT2 will continue to enjoy high profit growth and higher margin in 2Q16 and 3Q16 compared to same periods last year.

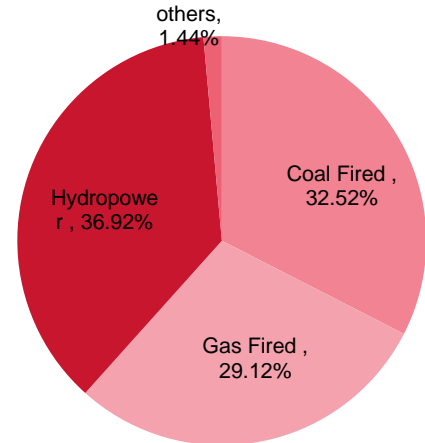
2Q is the high season

In 1Q16, it is estimated that total power consumption of Vietnam increased by 14% YoY, which is higher than 2015 growth of 11.55%. While demand is on the rise, El Nino has limited the water level of the entire country reservoirs. In 1Q16, 32% of output derived from gas fired thermal power sources, compared with 29% in 2015.

1Q16 Power source



2015 power source



Source: EVN

As demand usually peaks in the 2Q due to the hot weather and the dry season for hydropower power plants, we expect that NT2 will generate higher output in 2Q.

Dividend policy

NT2 is going to propose 22% cash dividend on par, equivalent to a yield of 7.2%, and 4% stock dividend in the AGM held today. The company will also propose to issue 3mn ESOP (equivalent to 1.1% of total outstanding shares, locking period: 1 year).

NT2 expansion plant

NT2 is likely to receive a license to build the NT2 expansion plant this year. The capacity is similar to the existing NT2 at a low investment ratio of only USD 1mn/MW, half of coal fired thermal power plant. The capacity is 750MW at the cost of USD 700mn. If everything goes smoothly, the new plant will start commercializing mid-2018. The capital funding is not yet disclosed but there is several foreign institutional investors are ready to provide capital for the new project. The expansion plant is likely to add significant value to NT2 thanks to low investment cost, efficient cost management and experienced operation team. Although the company will need capital for the new plant, we believe that 15-20% cash dividend on par is still achievable.

Realized FX loss might be counted in selling price

According to a requirement from the Ministry of Finance (MoF) and the Ministry of Industry and Trade (MoIT), power plants will count their FX losses in 2015 so that they will consider offsetting the losses by increasing the selling price. However, the process has been slow to gain any traction as EVN is still reluctant to adhere to the requirement. However, since 2016, we believe that it is hard for historical losses to be paid but the policy might be applied in 2016. Because NT2 is applying a faster debt payment policy, each year NT2 can save FX loss on the principal of VND 1,000bn/year.

2016 Outlook

At the AGM, NT2 is going to propose output, revenue and net profit target of 4.45bn KWH, VND 6,000bn and VND 728bn, respectively. However, NT2 has always been conservative in setting their targets. The company will also proposes 20% cash dividend in 2016. It should be noted that net profit and dividend targets are both 15% higher than 2015 targets, signaling that management is more bullish on their business than last year.

As demand remains on a vertical growth path in 2016, and limited sources from hydropower plants, we believe NT2 will continue to pump high output of 5.5bn KWH in 2016 (similar to 2015). We maintain our conservative estimates although management expects 10% output growth in 2016. Accordingly, we expect that revenue and net profit might reach VND 6,108bn (-9% YoY) and VND 1,277bn (+12% YoY), resulting in EPS of VND 4,611 (+10.6%) due to 3mn ESOP issued.

Investment View

NT2 is now trading at PE of 6.6x, which is still very low. Based on NT2 outlook and our estimates, we have revised up our 1 year target price for NT2 to VND 36,000/share (+18.4% upside) from our last TP of VND 32,000/share and maintain our BUY conviction for the stock. The reason behind TP revision is not the short term upside from impact of El Nino but from good cost management (proven by high gross margin of 30% and low admin expense at 1.5% of sales) of NT2 and long term upside from the expansion plant. We believe that NT2 will be a good choice for long term investors who prefer stable dividend (+7%), long term growth potential from the expansion plant, and good corporate governance.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2013	2014	2015F	2016F
Balance Sheet				
+ Cash	57	186	1,109	1,688
+ Short-term investments	246	540	0	0
+ Account receivables	1,450	2,260	1,576	1,709
+ Inventories	221	275	288	221
+ Other current assets	9	0	8	0
Total Current Assets	1,983	3,261	2,981	3,617
+ LT Receivables	39	39	368	37
+ Net Fixed Assets	9,137	8,306	7,624	6,926
+ Investment properties	0	0	0	0
+ LT Investments	0	0	0	0
+ Goodwill	0	0	0	0
+ Other LT Assets	1,027	877	673	703
Total Long-Term Assets	10,203	9,222	8,664	7,666
Total Assets	12,186	12,484	11,645	11,283
+ Current Liabilities	2,079	2,374	2,023	1,875
<i>In which: ST debt</i>	<i>1,138</i>	<i>1,052</i>	<i>1,054</i>	<i>868</i>
+ Non-current Liabilities	7,311	5,856	4,853	3,973
<i>In which: LT debt</i>	<i>7,311</i>	<i>5,856</i>	<i>4,812</i>	<i>3,973</i>
Total Liabilities	9,390	8,230	6,876	5,847
+ Contributed capital	2,560	2,560	2,739	2,879
+ Share premium	0	0	0	0
+ Retained earnings	38	1,497	1,950	2,413
+ Other capital/fund	198	197	80	144
Owners' Equity	2,796	4,254	4,768	5,436
NCI	0	0	0	0
Total Liabilities & Equity	12,186	12,484	11,645	11,283
Cash Flow				
CFO	902	1,528	2,091	2,145
CFI	293	-276	33	5
CFF	-1,189	-1,124	-1,742	-1,571
Net increase in cash	6	129	382	579
Beginning cash	52	57	726	1,109
Ending cash	57	186	1,109	1,688
Liquidity Ratios				
Current ratio	0.95	1.37	1.47	1.93
Acid-test ratio	0.84	1.26	1.33	1.81
Cash ratio	0.15	0.31	0.55	0.90
Net debt / EBITDA	7.03	2.85	2.76	1.81
Interest coverage	1.03	8.25	7.56	9.81
Days of receivables	0.00	0.00	38.55	49.77
Days of payables	13.75	2.05	23.12	26.83
Days of inventory	14.61	16.74	20.21	21.40
Capital Structure				
Equity/Total asset	0.23	0.34	0.41	0.48
Liabilities/Total Assets	0.77	0.66	0.59	0.52
Liabilities/Equity	3.36	1.93	1.44	1.08
Debt/Equity	3.02	1.62	1.23	0.89
ST Debt/Equity	0.41	0.25	0.22	0.16

VND Billion	2013	2014	2015F	2016F
Income Statement				
Net Sales	5,881	7,065	6,729	6,109
COGS	-5,074	-5,413	-5,088	-4,339
Gross Profit	807	1,652	1,642	1,770
Financial Income	53	450	65	67
Financial Expense	-787	-437	-359	-401
Selling Expense	0	0	0	0
Admin Expense	-66	-75	-146	-92
Income from business operation	7	1,590	1,201	1,344
Net Other Income	1	1	1	0
Income from associates	0	0	0	0
Profit Before Tax	8	1,591	1,202	1,344
Net Income	8	1,591	1,142	1,277
Minority interest	0	0	0	0
NI attributable to shareholders	8	1,591	1,142	1,277
Growth				
Sales	7.9%	20.1%	-4.7%	-9.2%
EBITDA	-6.1%	110.7%	-21.6%	5.4%
EBIT	-24.0%	559.2%	-23.5%	8.0%
NI	7.0%	19256.7%	-28.2%	11.8%
Equity	0.2%	52.2%	12.1%	14.0%
Chartered Capital	0.0%	0.0%	7.0%	5.1%
Total assets	-9.6%	2.4%	-6.7%	-3.1%
Valuation				
PER	193.8	4.4	7.3	6.6
PBR	0.6	1.2	1.7	1.5
P/Sales	0.3	0.7	1.2	1.4
Dividend yield	0.0%	8.7%	7.2%	6.6%
EV/EBITDA	7.7	4.3	3.9	3.7
EV/Sales	1.7	1.6	1.2	1.3
Profitability Ratios				
Gross Margin	13.7%	23.4%	24.4%	29.0%
Operating Margin	3.7%	25.3%	20.0%	23.4%
Net Margin	0.1%	22.5%	17.0%	20.9%
Selling exp./Net sales	0.0%	0.0%	0.0%	0.0%
Admin exp./Net sales	1.1%	1.1%	2.2%	1.5%
ROE	0.3%	45.1%	25.3%	25.0%
ROA	0.1%	12.9%	9.5%	11.1%
ROIC	2.4%	16.2%	12.1%	13.6%

Source: NT2, SSI Research

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- ❖ **Overweight:** The analyst expects the performance of the industry over the next 6-12 months to be attractive vs. the relevant broad market
- ❖ **Neutral:** The analyst expects the performance of the industry over the next 6-12 months to be in line with the relevant broad market
- ❖ **Underweight:** The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

**The market required rate of return is calculated based on 5-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

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4. CONTACT INFORMATION

Institutional Research & Investment Advisory

 **Kien Trung Nguyen, CFA**

Research Manager

 Tel: (844) 3936 6321 ext. 510

 kiennt@ssi.com.vn

 **Phuong Hoang**

Deputy Managing Director,

Head of Institutional Research & Investment Advisory

 phuonghv@ssi.com.vn

 **Hung Pham**

Associate Director

 hungpl@ssi.com.vn

 **Giang Nguyen**

Associate Director

 giangntt@ssi.com.vn