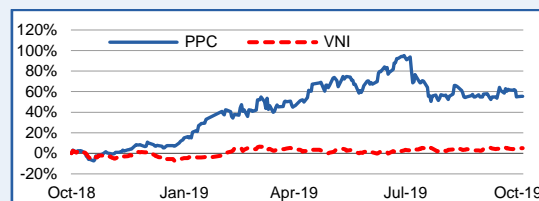




Pha Lai Thermal Power (PPC)

Earnings Flash

Industry:	Utilities		2018	9M 19	2019F
Report Date:	October 16, 2019				
Current Price:	VND25,150	Rev y/y	14.1%	12.0%	7.8%
Last Target Price:	VND27,300	EPS Y/Y**	15.2%	-8.8%	-17.6%
Upside:	8.5%	EPS Y/Y***	31.4%	-11.6%	-16.5%
Dividend yield:	10.7%	NPM	14.0%	10.6%	10.7%
TSR:	19.3%	EV/EBITDA	6.8	N/M	7.8
Rating:	BUY	P/E**	8.2	N/M	10.0
		P/E***	7.3	N/M	8.8



Market Cap:	USD355.2mn		PPC	Peers*	VNI
Foreign Room:	USD119.1mn	P/E (ttm)	8.5	12.4x	17.0x
ADTV30D:	USD300,000	P/B (curr)	1.4	1.5x	2.4x
State Ownership:	51%	Net D/E	-0.2	0.7	N/A
Outstanding Shares:	320.6 mn	ROE	16.4%	9.4%	14.6%
Fully Diluted Shares:	326.2 mn	ROA	13.5%	3.1%	2.5%

* Foreign peer multiples

** Adjusted NPAT, *** Reported NPAT

Company Overview

PPC owns two coal-fired power plants in northern Vietnam with capacity of 1,040 MW: Pha Lai 1 (34 years old) and Pha Lai 2 (17 years old). PPC also has 25% and 16% stakes in the Hai Phong (HND / 1,200 MW) and Quang Ninh (QTP / 1,200 MW) coal-fired power plants, respectively.

Strong volume relieves impact of higher coal price

- PPC released Q3 2019 results in which reported NPAT increased 18% YoY to VND193bn (USD8.3mn), implying 9M 2019 reported NPAT of VND776bn (USD33.3mn, -11.6% YoY).
- We see that Q3 2019's earnings growth was mainly driven by a provision write-back of VND37bn (USD1.6mn) for the Hai Phong coal-fired power plant (UPCoM: HND) and Quang Ninh coal-fired power plant (UPCoM: QTP).
- Excluding this provision write-back, we estimate a Q3 2019 adjusted NPAT of VND149bn (USD6.4mn, -3.4% YoY) as strong Q3 2019 sales volume growth compensated for higher coal price (due to both an increase in domestic coal price and the impact of mixed coal, which we estimate has an approximately 9% higher price than domestic coal). This implies 9M 2019 adjusted NPAT of 632bn (USD27mn, -8.8% YoY).
- 9M 2019 sales volume and adjusted NPAT completed 79.3% and 76.8% of our 2019 full-year forecast, respectively, which was slightly higher than our expectation. This implies an upside risk to our 2019 earnings forecast, pending for a fuller review.

Robust sales volume growth in Q3 2019 on the back of a hydropower water shortage. PPC's sales volume rocketed by 60% YoY in Q3 2019, driven by both Pha Lai 1 (+65.7% YoY) and Pha Lai 2 (+56.4% YoY). This result was higher than our expectation as Q3 is usually a low season for thermal power.

Rising coal price hurt PPC in Q3 2019, but the negative impact was lower than our expectation. We estimate PPC's coal cost per kWh increased 6.6% YoY; however, it declined by 2.2% QoQ, which was better than our expectation. In addition, we also see that global coal price is in a downtrend, implying some upside risk to our 2019 earnings forecast, pending for a fuller review.

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Figure 1: PPC's 9M 2019 results

VND bn	Q3 2019	YoY	9M 2019	YoY	% of 2019F
Sales volume (mn kWh)	1,391	60.0%	4,032	7.2%	79.3%
Pha Lai 1 (mn kWh)	558	65.7%	1,420	8.0%	82.7%
Pha Lai 2 (mn kWh)	834	56.4%	2,650	8.2%	78.7%
ASP (VND/kWh)	1,407	-2.9%	1,439	2.6%	95.4%
Revenue	1,958	55.4%	5,909	12.0%	77.0%
COGS	-1,783	63.5%	-3,353	-25.4%	76.9%
Gross profit	175	3.4%	773	-1.3%	77.8%
SG&A	-9	-45.9%	-49	-9.1%	53.0%
Operating profit (EBIT)	166	8.9%	724	-0.7%	80.3%
Financial income	34	-28.9%	198	6.6%	75.7%
Financial expense	41	n/a	29	-82.3%	n/m
Interest expense	-3	-48.3%	-10	-46.3%	64.8%
FX translation loss	7	-27.9%	-10	-49.7%	n/a
QTP's provision	37	n/a	49	n/a	n/a
Net other income	0		-4		
PBT	241	18.1%	948	-12.7%	83.0%
Income tax exp	-48	18.3%	-171	-17.0%	83.7%
Reported NPAT	193	18.0%	776	-11.6%	82.9%
Adjusted NPAT	149	-3.4%	632	-8.8%	76.8%

Source: PPC, VCSC

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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