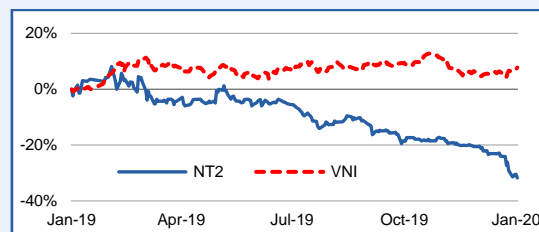




PetroVietnam Power Nhon Trach 2 (NT2)

Earnings Flash

Industry:	Utilities		2018	2019
Report Date:	January 20, 2020			
Current Price:	VND18,300	Rev y/y	13.4%	-0.2%
Last Target Price:	VND27,200	EPS Y/Y**	-29.7%	-3.9%
Upside:	48.6%	EPS Y/Y***	-3.5%	-2.9%
Dividend yield:	12.6%	NPM	28.4%	12.0%
TSR:	61.2%	EV/EBITDA	5.1x	4.4x
Rating:	BUY	P/E**	7.1x	7.6x
		P/E***	6.7x	6.9x



Market Cap:	USD227.1mn	NT2	Peers*	VNI
Foreign Room:	USD66.7mn	P/E (ttm)	7.6x	12.3x
ADTV30D:	USD200,000	P/B (curr)	1.3x	1.4x
State Ownership:	60%	Net D/E	0.3	0.4
Outstanding Shares:	287.9 mn	ROE	17.2%	9.4%
Fully Diluted Shares:	287.9 mn	ROA	9.4%	3.1%
				2.4%

* Foreign peer multiples

** Adjusted NPAT, *** Reported NPAT

Company Overview

NT2 is the most modern and efficient gas thermal power plant in Vietnam, providing approximately 4.5 billion kWh of electricity annually (~4% of the national power supply).

Q4 2019 broadly in line with expectations

- NT2 released results with Q4 2019 adjusted NPAT growing 13.9% YoY to VND232bn (USD10mn), which was mainly driven by Q4 2019 sales volume growing 2.8% and lower gas prices (-16.1% YoY).
- 2019 adjusted NPAT declined by 3.9% YoY to VND711bn (USD30.6mn) as strong NPAT in Q2-Q4 2019 failed to compensate for weak NPAT in Q1 2019.
- 2019 reported NPAT completed 100.8% of our full-year forecast and 2019 adjusted NPAT achieved 94.1% of our full-year forecast. 2019 actual sales volume trailed our full-year forecast by 1.3% due to an unstable gas supply in Q4 2019, per NT2 and POW.
- We see ~5% downside risk to our 2020 adjusted NPAT forecast due to possibly lower competitive generation market (CGM) prices in 2020, pending for a fuller review. Meanwhile, we are applying the worst-case scenario (per our understanding) for NT2 regarding the PPA review risk in our forecast (see further detail in our October 25, 2019 [NT2 Update Report](#)).
- We maintain our bullish view for NT2 for the long term given the company's sustainable double-digit dividend yield. According to management, the company is targeting a 2019 cash dividend of VND2,500/share (13.7% yield), which is higher than our current forecast of VND2,200/share (12.0% yield). We forecast a cash dividend of VND2,300/share for 2020 (12.6% yield). Over the long term, we expect NT2 to pay a cash dividend of VND2,500-3,000/share (13.7%-16.4% yield) after completing its debt repayment in 2021.

We assume that CGM prices will be 2% lower in 2020 after a ~15% YoY increase in 2019 as ~55% lower CAN prices should outweigh ~5% higher SMP prices (due to an increasing undersupply). It is noted that CGM = SMP + CAN. SMP is the highest auction price needed to be employed in order to balance system load/demand; CAN is the extra price paid for the best new entrant power plant to break even.

We expect the risk of a gas shortage could drop starting in 2021. The new Sao Vang - Dai Nguet gas field is on track to operate beginning in October 2020. The construction of three tanks at the Hai Linh LNG project has been completed, which promises their operation to begin in H2 2020. The Thi Vai LNG project broke ground in October 2019 and should operate in 2023; we note this project may fast-track gas delivery from 2021.

We believe it is positive that SG&A expenses declined by 14.4% YoY (better than our expectation), which was in line with NT2's cost cutting guidance from its latest AGM.

Thanh Nguyen
 Senior Analyst
thanh.nguyen@vcsc.com.vn
 +848 3914 3588 ext. 173

Duong Dinh
 Senior Manager
duong.dinh@vcsc.com.vn
 +848 3914 3588 ext. 140

Figure: NT2's Q4 and 2019 results

(VND bn)	Q4 2019	YoY	2019	YoY	% of VCSC's 2019F
Sales volume (bn kWh)	1,264	2.8%	4,952	4.2%	98.7%
Qc (bn kWh)	1,033	1.7%	3,788	-5.9%	100.0%
ASP (VND/kWh)	1,498	-8.7%	1,546	-4.3%	97.9%
Gas price (USD/MMBTU)	-6.0	-16.1%	-6.8	-3.2%	101.3%
Revenue	1,893	-6.2%	7,654	-0.2%	96.7%
COGS	-1,599	-9.2%	-6,679	0.4%	97.1%
Gross profit	294	13.8%	974	-4.0%	93.8%
SG&A	-21	-21.1%	-87	-14.4%	84.4%
Operating profit	273	17.9%	888	-2.9%	94.8%
Financial income	16	-31.6%	48	-34.9%	431.3%
in which: unrealized forex gain	-28	n/m	16	n/m	n/m
Financial expense	-66	304.2%	-165	-14.1%	86.4%
in which: interest expense	-19	-30.9%	-88	-16.2%	100.6%
In which: unrealized forex loss	0	n/m	0	n/m	0.0%
Other income	-1	n/m	30	3.7%	81.5%
Profit before tax	222	-16.8%	800	-2.9%	100.9%
NPAT-MI, reported	211	-16.9%	759	-2.9%	100.8%
NPAT-MI, adjusted	232	13.9%	711	-3.9%	94.1%

Source: NT2, VCSC

VCSC Rating System

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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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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Ha Dao, Analyst, ext 194
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Senior Analyst, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Nghia Le, Analyst, ext 181
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Senior Analyst, ext 173
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Hanoi

Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn