

# PetroVietnam Power Nhon Trach 2 JSC (NT2: HOSE)



**OUTPERFORM – 1Y Price Target: VND 29,200**

**Current price: VND 25,000**

**Giang Hoang Nguyen, CFA**

[giangnh@ssi.com.vn](mailto:giangnh@ssi.com.vn)

+84 24 3936 6321 ext. 676

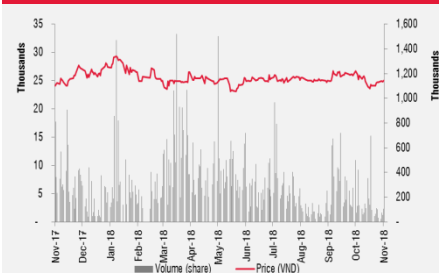
**09 November 2018**

**UTILITIES - VIETNAM**

## Key figures

Market cap (USD mn)	309
Market cap (VND bn)	7,197
Outstanding shares (mn)	288
52W high/low (VND 1,000)	36.7/23
Average 3M volume (share)	182,374
Average 3M value (USD mn)	0.20
Average 3M value (VND bn)	4.76
Foreign ownership (%)	21.64
State ownership (%)	61.85
Management ownership (%)	N.a

## NT2 Price & Trading Volume



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.

## EARNINGS UPDATE

## Lower earnings from higher input price

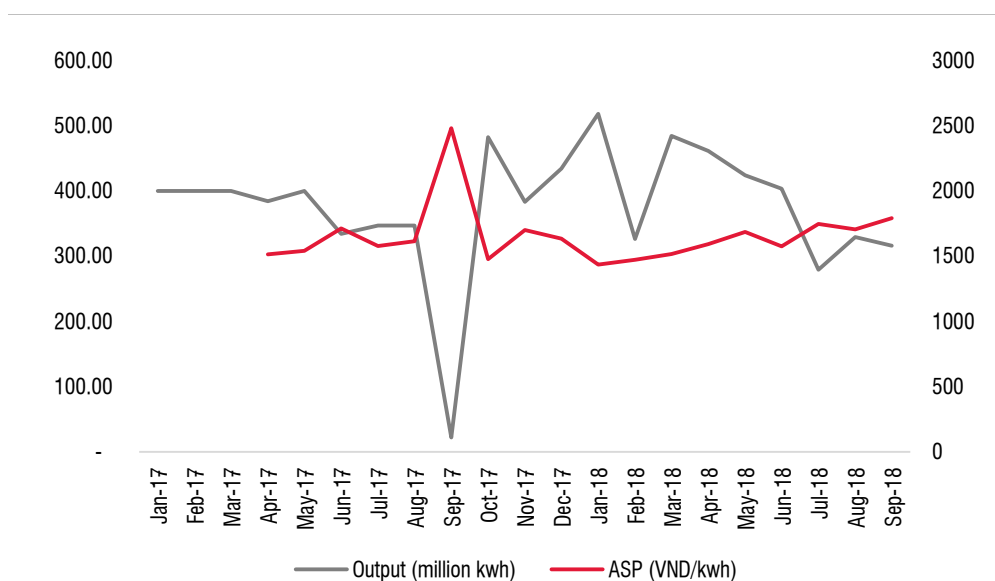
### 9M2018 results

(bn VND)	9M2018	9M2017	YoY	% annual target completed	Margin		
					9M2018	9M2017	2017
Net sales	5,650.8	4,687.3	20.6%	81.1%			
Gross profit	756.7	951.7	-20.5%		13.4%	20.3%	20.6%
Operating profit	593.3	561.5	5.7%		10.5%	12.0%	13.5%
EBIT	633.5	609.5	3.9%		11.2%	13.0%	14.4%
EBITDA	1,151.5	1,127.5	2.1%		20.4%	24.1%	24.6%
Pretax profit	556.8	516.7	7.8%		9.9%	11.0%	12.6%
Net income	528.6	490.7	7.7%	70.6%	9.4%	10.5%	12.0%
NI attributable to shareholders	528.6	490.7	7.7%		9.4%	10.5%	12.0%

Source: SSI Research

In 9M 2018, NT2 recorded 20% YoY growth in its top line and 7.7% YoY growth in its bottom line. Strong top line growth is thanks to:

### NT2 monthly volume and ASP



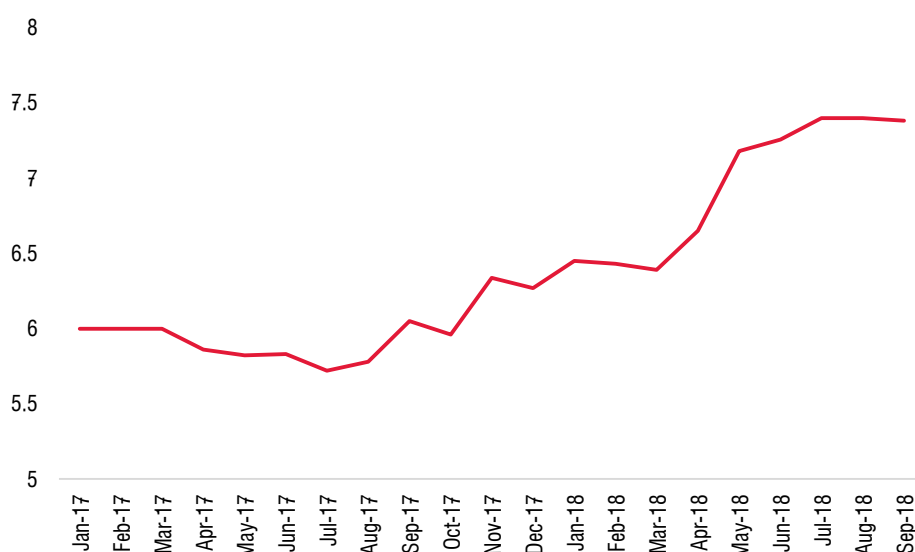
Source: SSI Research, NT2

- Higher electricity sale volume: its sale volume reached 3.5 bn kWh, +17% YoY. The reason for the growth is because in September 2017, NT2 stopped operation for major maintenance, while running normally this year.
- Higher ASP: its average selling price increased by 2.8% YoY to VND 1,597/kWh. This results from: (1) higher oil price pushing up gas input price, leading to higher Pc (PPA price) thanks to pass-through mechanism, and (2) lower rainfall YoY leading to higher CGM (competitive generation market) price by 20% YoY. 9M2018 Pc averaged at VND 1,650/kWh, while CGM price averaged only at VND 1,022/kWh.

However, gross profit strongly declined by 20.5% YoY, due to several reasons:

- Fuel cost: weighted average gas cost of 9M 2018 was USD 6.9/mmBTU, +17% higher YoY, due to higher oil price YoY.

**NT2 monthly gas price (USD/mmBTU)**



Source: SSI Research, NT2

- Lower Qc: in 2017, NT2's Qc was 4.5 bn kWh, while in 2018, Qc is only 4 bn kWh, -11% YoY. The reduction in Qc leads to a riskier situation than last year, as NT2 now needs to sell more to the competitive market at lower CGM price. Average CGM price in 9M2018 was just VND 1,022/kWh, much lower than Pc of VND 1,650/kWh. As less volume was sold at higher price and more volume was sold at lower price, its gross margin was heavily affected.

Foreign loss was not a problem this year, as NT2 only incurred net FX loss of VND 31 bn, compared to VND 258 bn last year. At the end of 9M2018, NT2 has USD-denominated debt of USD 67 mn (reduced from USD 78 mn at beginning of 2018) and EUR-denominated debt of EUR 60 mn (reduced from EUR 70 mn at beginning of 2018). This year, VND depreciated by 1% against the EUR and 3% against the USD, while that of 2017 was 11% and 0% respectively.

Lower forex loss saved the pretax profit from declining YoY. If we excluded forex loss in both years, core pretax earnings should have declined sharply and reached VND 587 bn, -24% YoY.

Ending 9M 2018, NT2's net income was VND 528 bn, +7.7% YoY. This is equivalent to 71% of NT2's business plan.

## 2018 outlook

In the 4Q2018, we see that rainfall has significantly dropped, as ENSO-cycle (El Nino Southern Oscillation) is switching to a higher likelihood of El Nino phase, according to NOAA. Our recent observation of the competitive market price also shows that price is increasing strongly and reached ceiling price of VND 1,280/kWh most of the time in the Southern Vietnam (where NT2 is located). This level is about 20% higher than 9M2018' average market price. This might enhance 4Q2018 volume and ASP.

We assume that in 4Q2018, volume might reach 1.3 bn kWh, equivalent to that of 4Q 2017. This brings estimated volume for full year 2018 to reach 4.8 bn kWh, +11% YoY. We also assume that ASP might increase by 2% YoY in 2018, reaching VND 1,606/kWh. Gas price is expected to increase by 15% YoY to reach USD 7.05/mmBTU. Forex loss is estimated to reach VND 65 bn for the year.

This leads us to our estimates for 2018 revenue of VND 7,632 bn, +13% YoY. 2018 NPAT is estimated to reach VND 799 bn, -1.4% YoY. This translates to an estimated 2018 EPS of VND 2,679, -3% YoY. ROE of the plant is 16% in 2018.

## 2019 outlook

Even though a lot might change, we expect a warmer weather in 2019 resulting from El Nino effect in the region, with less rainfall. Thus, less power might be generated from hydro-powered plants, leaving more market share to thermal power plants like NT2. Warmer weather also leads to higher demand for energy consumption. Competitive market price might also go up due to less cheap energy from hydro source available. In 2019, Phong Lan Dai gas field is going into operation, leading to more gas provided to NT2.

Thus we expect NT2's output to reach 5.3 bn kWh, +10% YoY. ASP is expected to increase by 1% YoY to VND 1,622/kWh, assuming oil price range of USD 70-75/barrel. 2019 revenue is thus estimated at VND 8,511 bn, +11.5% YoY.

We also assume that in 2019, NT2 is going to pay down their long-term debt by the same amount they paid in the last few years (about VND 1 trillion/year). This reduced NT2's interest expenses in 2019 to just VND 62 bn (from VND 105 bn in 2018). Forex loss is expected to also go down accordingly to VND 35 bn (from VND 65 bn in 2018), assuming same VND depreciation in 2019 against the EUR (VND depreciates 2.5% against USD and 1% against the EUR). CIT rate is still at a preferential level of 5% p.a. (ending at 2022 when it will increase to 10% p.a.)

2019 NPAT is thus estimated at VND 1,087 bn, +36% YoY. The resume in NPAT is the result of higher volume, higher ASP and lower financial expenses. 2019 EPS is estimated to reach VND 3,646, +36% YoY, which is quite comparable with 2016 level. ROE might go back to 21% level, which was presented in 2015 and 2016.

## Our view and recommendation

At the current market price, NT2 is trading at 2018 PE and EV/EBITDA of 9x and 5.5x respectively, and 2019 P/E and EV/EBITDA of 6.6x and 4.3x respectively. This level of valuation in 2019 is quite low compared to its historical PE 3-year average of 8.8x and EV/EBITDA 3-year average of 6.2x.

Our view is that NT2 is deleveraging quite fast, and will full pay its debt from 2020. This will lower its forex risk in the coming time, which is quite a big risk for many power plants with high foreign currency debts at the moment. At the same time, potentially warmer weather might leader to higher volume and higher ASP for NT2. Assuming that gas price does not change too drastically, we see higher profit quite possible in 2019.

Thus we put an OUTPERFORM rating for NT2, with the 1Y target price of VND 29,200/share (+16.8% upside), based on a target 2019 PE of 8x, which is the 3-year average PE. Dividend yield at this price is attractive, at 10% p.a. most likely in cash payment.

The risk to our estimates lies in the gas price and the weather, both of which must be watched closely. Lower Qc is another risk for 2019, which relies on EVN's decision. In the longer term, reduction of gas volume from current gas fields leading to the need to switch to higher-cost source is a big risk, which we are unable to determine the exact timing.

## APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018F	2019F
<b>Balance Sheet</b>				
+ Cash	1,398	146	-449	-693
+ Short-term investments	0	900	900	900
+ Account receivables	3,610	1,795	2,027	2,260
+ Inventories	239	259	315	345
+ Other current assets	69	0	0	0
<b>Total Current Assets</b>	<b>5,316</b>	<b>3,101</b>	<b>2,794</b>	<b>2,812</b>
+ LT Receivables	202	38	43	47
+ Net Fixed Assets	6,935	6,247	5,554	4,861
+ Investment properties	0	0	0	0
+ LT Assets in progress	1	4	4	4
+ LT Investments	0	0	0	0
+ Other LT Assets	526	575	699	764
<b>Total Long-Term Assets</b>	<b>7,664</b>	<b>6,863</b>	<b>6,299</b>	<b>5,677</b>
<b>Total Assets</b>	<b>12,980</b>	<b>9,964</b>	<b>9,093</b>	<b>8,489</b>
+ Current Liabilities	4,310	2,284	2,547	2,685
<i>In which: ST debt</i>	<i>1,045</i>	<i>1,066</i>	<i>1,066</i>	<i>1,066</i>
+ Non-current Liabilities	3,762	2,695	1,509	437
<i>In which: LT debt</i>	<i>3,697</i>	<i>2,632</i>	<i>1,566</i>	<i>500</i>
<b>Total Liabilities</b>	<b>8,071</b>	<b>4,979</b>	<b>4,056</b>	<b>3,122</b>
+ Contributed capital	2,849	2,879	2,879	2,879
+ Share premium	0	0	0	0
+ Retained earnings	1,923	1,970	2,021	2,351
+ Other capital/fund	137	137	137	137
<b>Shareholders' Equity</b>	<b>4,908</b>	<b>4,985</b>	<b>5,037</b>	<b>5,367</b>
<b>Total Liabilities &amp; Equity</b>	<b>12,980</b>	<b>9,964</b>	<b>9,093</b>	<b>8,489</b>

<b>Cash Flow</b>				
CF from operating activities	2,093	1,785	1,191	1,541
CF from investing activities	47	-848	0	0
CF from financing activities	-1,849	-2,190	-1,785	-1,785
<b>Net increase in cash</b>	<b>290</b>	<b>-1,252</b>	<b>-595</b>	<b>-245</b>
Beginning cash	1,109	1,398	146	-449
<b>Ending cash</b>	<b>1,398</b>	<b>146</b>	<b>-449</b>	<b>-693</b>

<b>Liquidity Ratios</b>				
Current ratio	1.23	1.36	1.10	1.05
Acid-test ratio	1.16	1.24	0.97	0.92
Cash ratio	0.32	0.46	0.18	0.08
Net debt / EBITDA	2.03	2.07	2.02	1.41
Interest coverage	8.36	8.09	8.99	19.27
Days of receivables	111.3	138.5	85.6	86.1
Days of payables	89.8	121.5	57.1	60.0
Days of inventory	14.5	16.9	16.1	16.9

<b>Capital Structure</b>				
Equity/Total asset	0.38	0.50	0.55	0.63
Liabilities/Total Assets	0.62	0.50	0.45	0.37
Liabilities/Equity	1.64	1.00	0.81	0.58
Debt/Equity	0.97	0.74	0.52	0.29
ST Debt/Equity	0.21	0.21	0.21	0.20

VND Billion	2016	2017	2018F	2019F
<b>Income Statement</b>				
<b>Net Sales</b>	<b>7,983</b>	<b>6,761</b>	<b>7,633</b>	<b>8,512</b>
COGS	-6,632	-5,368	-6,529	-7,138
<b>Gross Profit</b>	<b>1,351</b>	<b>1,393</b>	<b>1,103</b>	<b>1,374</b>
Financial Income	103	63	15	-14
Financial Expense	-249	-490	-171	-98
Income from associates	0	0	0	0
Selling Expense	0	0	0	0
Admin Expense	-57	-114	-107	-117
<b>Income from business operation</b>	<b>1,149</b>	<b>852</b>	<b>841</b>	<b>1,145</b>
Net Other Income	-1	1	0	0
Profit Before Tax	1,148	853	841	1,145
<b>Net Income</b>	<b>1,086</b>	<b>810</b>	<b>799</b>	<b>1,088</b>
<b>NI attributable to shareholders</b>	<b>1,086</b>	<b>810</b>	<b>799</b>	<b>1,088</b>
Minority interest	0	0	0	0
<b>Growth</b>				
Sales	18.6%	-15.3%	12.9%	11.5%
EBITDA	-3.8%	-16.6%	-1.6%	15.9%
EBIT	-5.8%	-25.3%	-2.8%	27.6%
NI	-4.9%	-25.3%	-1.4%	36.1%
Equity	2.9%	1.6%	1.0%	6.5%
Chartered Capital	4.0%	1.1%	0.0%	0.0%
Total assets	11.5%	-23.2%	-8.7%	-6.6%

<b>Valuation</b>				
P/E	7.3	12.1	9.0	6.6
P/B	1.6	1.9	1.4	1.3
P/Sales	#DIV/0!	#DIV/0!	0.9	0.8
Dividend yield	9.2%	9.0%	10.4%	10.4%
EV/EBITDA	1.7	1.6	5.8	5.0
EV/Sales	0.4	0.4	1.3	1.1

<b>Profitability Ratios</b>				
Gross Margin	16.9%	20.6%	14.5%	16.1%
Operating Margin	15.6%	13.5%	12.3%	14.4%
Net Margin	13.6%	12.0%	10.5%	12.8%
Selling exp./Net sales	0.0%	0.0%	0.0%	0.0%
Admin exp./Net sales	0.7%	1.7%	1.4%	1.4%
ROE	22.4%	16.4%	15.9%	20.9%
ROA	8.8%	7.1%	8.4%	12.4%
ROIC	12.2%	10.1%	11.0%	15.7%

Source: NT2, SSI Research

## 1. ANALYST CERTIFICATION

---

The research analyst(s) on this report certifies that (1) the views expressed in this research report accurately reflect his/her/our own personal views about the securities and/or the issuers and (2) no part of the research analyst(s)' compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

## 2. RATING

---

**Buy:** Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

**Outperform:** Expected to provide price gains of up to 10 percentage points greater than the market over next 12 months.

**Neutral:** Expected to provide price gains similar to the market over next 12 months.

**Underperform:** Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

**Sell:** Expected to provide price gains of at least 10 percentage points less than the market over next 12 months

## 3. DISCLAIMER

---

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time, and no unpublished price sensitive information would be included in the report. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. This report also does not recommend to U.S. recipients the use of SSI to effect trades in any security and is not supplied with any understanding that U.S. recipients will direct commission business to SSI. SSI and other companies in the SSI and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies.

This document is for private circulation only and is not for publication in the press or elsewhere. SSI accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.


## 4. CONTACT INFORMATION

---

### Institutional Research & Investment Advisory

 **Giang Hoang Nguyen, CFA**

Senior Analyst

 Tel: (84 24) 3936 6321 ext. 676

 [giangnh@ssi.com.vn](mailto:giangnh@ssi.com.vn)

 **Phuong Hoang**

Deputy Managing Director,

Head of Institutional Research & Investment Advisory

 [phuonghv@ssi.com.vn](mailto:phuonghv@ssi.com.vn)

 **Hung Pham**

Associate Director

 [hungpl@ssi.com.vn](mailto:hungpl@ssi.com.vn)

 **Giang Nguyen, ACCA**

Associate Director

 [giangntt@ssi.com.vn](mailto:giangntt@ssi.com.vn)

**WWW.SSI.COM.VN**

**SAIGON SECURITIES INC.**

Member of the Ho Chi Minh  
Stock Exchange, Regulated  
by the State Securities  
Commission

**HO CHI MINH CITY**

Floor 18th, Office Tower  
2, Saigon Centre, 67 Le  
Loi Street, Ben Nghe  
Ward, District 1, Ho Chi  
Minh City  
Tel: (84-28) 3636 3688  
Fax: (84-28) 3636 3668  
Email: [info@ssi.com.vn](mailto:info@ssi.com.vn)

**HANOI**

1C Ngo Quyen Street, Ha Noi City  
Tel: (844) 3936 6321  
Fax: (844) 3936 6311  
Email: [info@ssi.com.vn](mailto:info@ssi.com.vn)