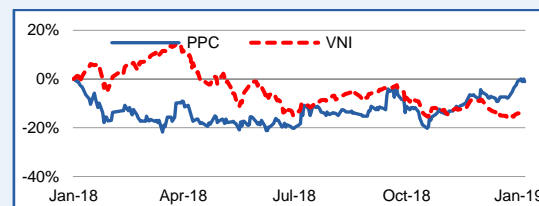




# Pha Lai coal-fired power plant (PPC)

# Earnings Flash

<b>Industry:</b>	<b>Utilities</b>		<u>2017</u>	<u>2018</u>
<b>Report Date:</b>	<b>January 18, 2019</b>			
Current Price:	VND20,300	Rev y/y	6.3%	14.1%
Last Target Price:	VND26,100	EPS Y/Y**	20.3%	19.0%
Upside:	28.6%	EPS Y/Y***	42.7%	35.3%
Dividend yield:	12.3%	NPM	13.9%	14.5%
TSR:	40.9%	EV/EBITDA	8.3x	4.5x
Rating:	BUY	P/B	1.1x	1.0x
		P/E**	7.0x	5.7x



Market Cap:	\$291.7mn		<u>PPC</u>	<u>Peers*</u>	<u>VNI</u>
Foreign Room:	\$100.5mn	P/E (ttm)	5.7x	13.8x	15.8x
ADTV30D:	\$0.2mn	P/B (curr)	1.0x	1.1x	2.4x
State Ownership:	51%	Net D/E	-0.1	0.7	N/A
Outstanding Shares:	320.6 mn	ROE	18.5%	8.7%	14.8%
Fully Diluted Shares:	326.2 mn	ROA	14.2%	2.6%	2.4%

\* Foreign peer multiples adj relative to their market avg.

\*\* Recurring 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 Hai Phong (HND/1,200 MW) and Quang Ninh (QTP/1,200 MW) coal-fired power plants, respectively.

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## Robust 2018 results beat our forecast

PPC released 2018 results with reported NPAT of VND1.2tn (USD50mn, +35.3% YoY) and recurring NPAT of VND1tn (USD44mn, +19.0% YoY). Recurring NPAT beat our forecast by 20% mainly as actual maintenance expense was 11% lower than our estimates while PPC also had no more provision booking for old materials/equipment in 2018 vs our assumption of VND100bn (USD4.3mn). We foresee upside risk to our 2019 earnings forecast and reiterate a BUY rating.

**Revenue jumped 14.1% YoY and recurring soared by 19% YoY** thanks to strong sales volume growth of 12.6% and an average selling price increase of 1.3%. Sales volume of Pha Lai 1 and Pha Lai 2 grew 11.6% YoY to 1.8 billion kWh and 13.1% YoY to 3.3 billion kWh, respectively, in line with our forecast. Meanwhile, we suppose that the higher average selling price was due to strong CGM price recovery given robust national electricity demand growth and a lower rainfall level in 2018.

**PPC did not book a retroactive payment for a realized forex loss, but the QTP provision write-back was higher than our expectation.** The booking of a one-off retroactive payment of VND125bn (USD5.4mn) was delayed from 2018 to 2019, resulting in lower than expected financial income. Meanwhile, based on QTP's closing price at year-end 2018, PPC recorded a provision write-back of VND179bn (USD7.7mn) for 2018, higher than our assumption of VND100bn (USD4.3mn).

**Figure 1: PPC's 2018 results**

VND bn	2017	2018	YoY	% of VCSC's full-year 2018F
Sales volume (mn kWh)	4,520	5,090	12.6%	101.1%
ASP (VND/kWh)	1,380	1,398	1.3%	99.9%
<b>Revenue (VND bn)</b>	<b>6,236</b>	<b>7,117</b>	<b>14.1%</b>	<b>101.1%</b>
- Cost of goods sold	-5,445	-5,936	9.0%	97.8%
<b>Gross profit</b>	<b>791</b>	<b>1,181</b>	<b>49.3%</b>	<b>121.8%</b>
- SG&A	-81	-81	0.9%	96.4%
<b>Operating profit (EBIT)</b>	<b>710</b>	<b>1,099</b>	<b>54.8%</b>	<b>124.2%</b>
- Financial income	412	249	-39.5%	66.8%
- Financial expense	-120	115	n/m	190.5%
In which, interest expense	-72	-24	-66.0%	98.1%
- Net other income/loss	1	-14	n/m	n/m
<b>PBT</b>	<b>1,003</b>	<b>1,449</b>	<b>44.4%</b>	<b>109.9%</b>
- Income tax exp	-149	-293	96.7%	116.8%
<b>NPAT, reported</b>	<b>854</b>	<b>1,155</b>	<b>35.3%</b>	<b>108.2%</b>
<b>Recurring NPAT</b>	<b>866</b>	<b>1,031</b>	<b>19.0%</b>	<b>120.2%</b>

Source: PPC and VCSC

## VCSC Rating and Valuation Methodology

**Absolute, long term (fundamental) rating:** The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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