October 27, 2008

VinaSecurities
VIETNAM RESEARCH & ADVISORY

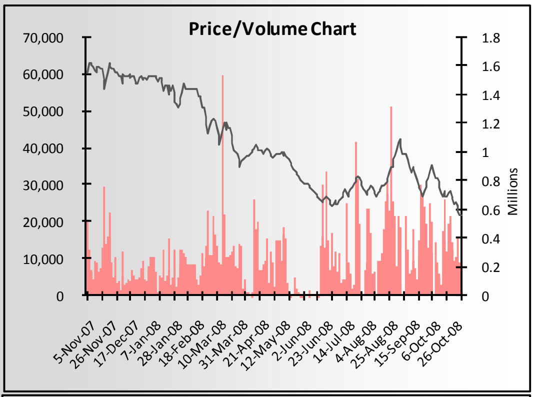
Pha Lai Thermal Power — MarketPerform

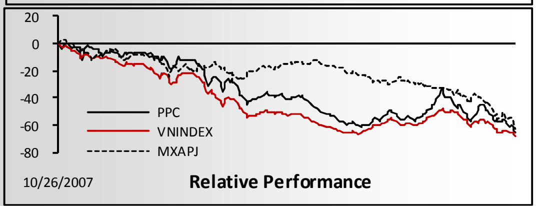
Utilities / Electricity — PPC — VND 21,700

Summary Figures

Target Price VND28,600
Market Capitalisation USD418.79mn / VND7,055.86bn
Upside to target 31.8%

INITIATION OF COVERAGE





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Price Performance	1 Mth	3 Mth	YTD
Rel. to VNINDEX	(8.0%)	(2.8%)	(1.1%)
Rel. to MSCI Far East	(4.4%)	15.3%	(18.3%)
Rel. MSCI Asia	(3.7%)	16.0%	(16.9%)

Liquidity	30Days	60Days	90Days
Vol. (mn)	310,279	369,861	289,913
Value (Reg. bn)	8,478	11,528	8,934
% of Market	1.5%	1.4%	1.5%

Shares Outstanding	FY07A	Current
Listed Shares (mn)	326.2	326.2
VinaSec Adj. Shares (mn)	326.1	325.2

Ownweship	Owned	%	Limit
Foreign Shareholders	57.6mn	17.7%	of 49.0%

Major Shareholders	Shares	Percent
Electricity Vietnam (EVN)	218.6mn	67%
Vietnam Infrastructure Ltd	10.6mn	4.5%
Vinh Son - Son Hinh Hydro	3.0mn	1.0%

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Too cheap to ignore, despite substantial concerns

Pha Lai Thermal Power (PPC) now trades at break-up valuations, despite healthy fundamentals. While FY08E profits will be sacrificed to VNDJPY unrealised forex-translation losses from an un-hedged balance sheet, the Japanese Yen, currently below JPY/USD100 appears to have had its re-rating and PPC's profits should recover from FY09E onwards. Gearing is manageable at 141% and interest expense coverage stands at 6.3x. PPC also trades at a 24% free cash yield and on an asset weighted basis, at an EV of US$0.80mn per MW. However, the stock is not with-out significant risks for minorities, as the company is limited by regulation in its ability to disburse excess cash or repurchase shares. Furthermore, any asset acquisition/expansion will be led by PPC's parent (EVN) and not management. In our view, at current low valuations, investors get a completely free-option on any acquisition strategy that may be offered in the future. In the current environment, where debt financing is nearly impossible to secure, cash-flow rich stocks such as PPC may well attract attention. Finally, our DCF fair-value which only values PPC's existing generating assets, implies close to 32% upside. PPC's WACC is 16.3%, kept down by a 67%/33% equity/debt capital structure which gives the shares positive leverage to an improving domestic macro-outlook and makes the stock a good bottom-fishing candidate for broad-based market upside, in our view.

Strong Balance sheet, even stronger cash flow, but forex translation risks exist

PPC generates over VND2.0tn in annual free cash flow, the company benefits from a rock bottom K(d) of 2.4% p.a. from a 20-year official development assistance (ODA) loan. However, the company bears VNDJPY currency risk, as getting approval for hedging forex remains difficult for state-owned corporates in Vietnam. PPC has net debt/equity of 92%, underpinned by JPY36.2bn in bank debt.

PPC's share price has de-rated to deep value territory.

PPC's share price has fallen by 69% thus far this year, in-line with the VNINDEX. Based on our forecasts the shares trade at 4.4x EBITDA, 6.1x FY09E EPS and 1.6x book value, which is low for a firm with ROA's over 10% and ROIC's of 16%. On an EV/MW basis PPC trades at approximately US$0.80/MW 20% below replacement or break-up value.

But outperformance potential is substantially mitigated by stated risks

Despite trading at a 20% discount to replacement value and 32% below our DCF estimate, we doubt that PPC will outperform on any rally in Vietnamese equity markets. Year to date, PPC has performed in-line with the VNINDEX. The high correlation with the local indexes and the company's inability to pursue a significant growth strategy, or barriers to the disbursement excess funds to shareholders, will limit upside to that of the broader market, when local markets eventually recover.

What would make us really positive on PPC? Growth and governance improvements..

There are initiatives that we would like to see PPC pursue, if addressed, would go a long-way towards convincing us to increase our investment rating on the stock to a straight Outperform. They would be 1) a complete redemption of outstanding 3rd party investment fund mandates and repayment of PPC capital advances to EVN back to PPC. 2) A clear proposal by PPC/EVN for PPC to acquire at least associate (>20%) or preferably controlling (>50%) economic interests in upcoming Greenfield or near-completion power generation projects, with minorities being given the opportunity to approve any proposed transaction at an EGM.

Year End	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
EPS	3,002	2,537	1,583	3,551	3,887	3,870
EPS Growth		-15.5%	-37.6%	124.3%	9.5%	-0.5%
Adjusted Book Value per Share	11,374	11,725	11,816	13,867	16,254	18,624
CFPS	3,045	12,875	5,397	7,739	8,236	7,267
DPS	1,143	1,952	1,500	1,500	1,500	1,500
EV/EBITDA (x)	6.4	5.5	4.8	4.4	3.4	2.8
PER (x)	7.2	8.6	13.7	6.1	5.7	6.2
P/ABV (x)	1.9	1.9	1.8	1.6	1.3	1.2
P/CFPS (x)	7.1	1.7	4.0	2.8	3.0	3.3
Dividend Yield (%)	5.3%	9.0%	6.9%	6.9%	6.9%	6.9%
Return on Average Equity	28.7%	22.0%	13.5%	27.7%	25.8%	22.2%
Return on Average Assets	9.2%	8.2%	5.1%	10.7%	11.2%	10.6%
Net Debt to Equity	163.3%	106.5%	92.2%	53.6%	18.1%	-6.2%
Dividend Payout Ratio	38.1%	76.9%	94.6%	42.2%	38.6%	38.8%

Key Near Term Items to Watch

Investors need to watch three key operating areas as it related to near term earnings and impacts on our DCF valuations. These in conjunction with the need for a clearer expansion strategy, will determine PPC's outlook.

Foreign Exchange Translation risks amplifying losses for FY08E.

Unrealised forex translation losses could wipe out FY08 Profits. If the JPY remains much below 95 to the USD, losses would mount.

The bear case for PPC is the JPY moving towards highs of 90 and staying there indefinitely. This would put PPC in a net loss position.

Investors need to keep a close eye on potential extraordinary foreign exchange losses. Based on PPC's formal debt repayment schedule FY08E earnings begin to substantially evaporate at a forex rate weaker than VND/JPY168.5. This equates to a VNDUSD16,850 and JPYUSD100 cross rate. A 5% incremental strengthening in the JPYUSD cross rate or a 5% weakening in the VNDUSD cross rate would nearly completely wipe out reported profits at PPC, following which losses quickly begin to mount if the VND were to weaken further or if the Yen were to strengthen. However we note that these losses are translational in nature and are unlikely to materially weaken PPC's fundamentals, which remain strong.

Fx Losses / FY08E Net Income	JPY/USD 90	JPY/USD 95	JPY/USD 100	JPY/USD 105	JPY/USD 110
VND/USD 16,050	(1,087.3) / 136.1	(731.7) / 498.4	(411.5) / 824.5	(121.9) / 1,119.6	141.4 / 1,387.8
VND/USD 16,450	(1,255.7) / (35.5)	(891.2) / 335.9	(563.1) / 670.1	(266.3) / 972.5	3.6 / 1,247.4
VND/USD 16,850	(1,424.2) / (207)	(1,050.8) / 173.3	**(7,14.7) / 515.7**	(410.6) / 825.4	(134.2) / 1,107
VND/USD 17,250	(1,592.6) / (378.6)	(1,210.3) / 10.8	(8,66.3) / 361.3	(555) / 678.4	(272) / 966.6
VND/USD 17,650	(1,761) / (550.2)	(1,369.9) / (151.7)	(1,017.9) / 206.9	(699.4) / 531.3	(409.8) / 826.3
VND/USD 18,050	(1,929.4) / (721.7)	(1,529.4) / (314.3)	(1,169.4) / 52.5	(843.7) / 384.3	(547.6) / 685.9

State Controlled Power Prices due to Increase?

Look for a road map on retail electricity prices from the Gov't going forward. EVN can only build new capacity if electricity prices increase over time.

Power prices in Vietnam are state controlled, and in the inflation fight this year, retail electricity prices were frozen for the balance of 2008. Recently, the government has indicated that it will allow an average increase of 20% in electricity prices for 2009. EVN has also submitted a multi-year pricing plan to the Ministry of Finance. Under its proposal, EVN has asked to be able hike the average retail power price from estimated VND925.24 (5.6 U.S. cents) per KWh in 2008 to VND1,017 (6.16 U.S. cents) per KWh in 2009 with further increases in subsequent years. Hikes in retail power prices are critical as it gives EVN capacity to pay higher off-take prices from power generators and funds to develop new projects.

Look to VSH's 2008 PPA renegotiation for guidance on EVN's appetite for PPA price adjustments

The percentage increase in VSH's renegotiated PPA will be an indicator of EVN's willingness to raise PPA prices in difficult times.

PPC will renegotiate their existing power purchase agreement with parent EVN a few months before the current agreement expires in Dec-09. On the other hand, listed Hydropower Vinh-Song-Son-Hinh's (VSH) PPA lapses in Dec-08 and they must renegotiate tariffs this year. This means that any increase that VSH receives will be seen as a bell weather indicator on EVN's appetite for PPA price increases in general. We do note that Hydro off-take prices are lower than Thermal, mainly due the substantially longer economic life of Hydro vs. Thermal generating facilities.

Summary of Financial Forecasts

We foresee a recovery in FY09E profits on a more stable exchange rate outlook and lower forex losses.

Income Statement	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	**3,607.1**	**3,807.1**	**4,285.0**	**4,364.0**	**4,574.7**	**4,934.0**	**5,107.1**
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,123.2	2,179.4	2,144.3
Operating profit	**1,141.0**	**1,056.3**	**1,234.8**	**1,147.4**	**1,149.0**	**1,195.3**	**1,150.5**
Forex and Related Gains	(19.7)	(232.6)	(714.7)	(150.2)	(144.2)	(110.3)	0.0
Taxation	13.9	46.5	0.0	0.0	0.0	(92.1)	(91.2)
Net Income to Common	**979.3**	**827.8**	**515.7**	**1,155.0**	**1,246.5**	**1,135.5**	**1,125.2**

We do not anticipate substantial growth in Revenues, EBITDA and operating profits over time.

Growth Rates	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net revenue growth	147.2%	5.5%	12.6%	1.8%	4.8%	7.9%	3.5%
Operating EBITDA Growth	87.8%	-1.1%	8.8%	-3.7%	0.5%	2.6%	-1.6%
Operating profit growth	783.6%	-7.4%	16.9%	-7.1%	0.1%	4.0%	-3.8%
Adjusted Net Profit Growth	4748.7%	-15.5%	-37.7%	124.0%	7.9%	-8.9%	-0.9%

Margins will decline as coal price rises due to a low base effect.

Margins & Spreads	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
EBITDA margin	56.5%	53.0%	51.2%	48.4%	46.4%	44.2%	42.0%
Operating margin	31.6%	27.7%	28.8%	26.3%	25.1%	24.2%	22.5%
Net profit margin	27.2%	21.7%	12.0%	26.5%	27.2%	23.0%	22.0%

PPC's value lies in its ability to generate VND2.0tn in FCF per annum. This allows PPC the potential to become a lead investor in the power sector.

Cashflow statement	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Cash flow from Operations	993.4	4,200.3	1,758.0	2,516.9	2,322.7	2,159.1	2,083.1
Cash flow from Investing	273.3	(2,299.5)	(15.2)	276.3	(584.2)	(2,844.7)	(131.2)
Cash flow from Financing	(757.4)	(2,116.7)	(529.7)	(874.1)	(883.7)	(892.1)	(894.1)
Cash Generated in Year	**509.4**	**(215.8)**	**1,213.2**	**1,919.2**	**854.8**	**(1,577.8)**	**1,057.8**

Discussion

Investors should value the existing generating assets first. Then take a view on the probability of value creation through expansion or acquisition.

We believe investors should focus on a two key themes with PPC. First, having a clear understanding of the existing generation business (i.e. a base case valuation) and second, taking a view on whether or not the company or management can realise value creation for share holders given the EVN dependant nature of the company's expansion strategy and investment program.

Key Positives:

PPC's PPA provides energy price protection until 2010.

PPC's electricity off-take price paid by EVN has substantial but not 100% pass through protection on coal and fuel-oil energy prices increases through end of 2009. This is achieved through a Power Purchase Agreement that has been negotiated with EVN. The PPA provides PPC with stable and predictable EBITDA and cash flow of its key generating assets and returns are robust enough that the company has potential to become an investment vehicle for EVN led Greenfield power projects.

Concerns over old turbines are overstated. PPC's management are all from engineering back-grounds with solid operating track records.

The company's senior management all come from engineering background and they have a solid operating track record in plant development, management, and operating efficiency. By example, approximately 40% of PPC's 1044MW generating capacity is from (USSR) Soviet Era technology, PPC through internally developed maintenance capabilities, and has kept operating all four of these turbines running both efficiently and profitably. Management believes that these Soviet-era turbines still have a remaining economic life of 15 years. The balance of PPC's generating capacity (600MW) comes from a modern world class generating facility.

PPC has the option to de-leverage (as they did in FY07) if EVN receivables get to high.

PPC's working capital is generally not impaired by late payments from EVN. As was the case in FY07, the company has the option to de-leverage by exchanging debt principal for receivables due from EVN. While this does impact the company's cost of capital given a very low K(d), such moves, if again necessary, would give equity values a nominal boost through deleveraging. PPC could de-lever its balance sheet completely with only 3-4 years of its current free cash flow, if it so chooses. However, we note that management has indicated that EVN has been paying on-time in recent months and that accelerated repayment of a low interest rate, JPY denominated ODA loan, forces PPC to bear realised translation losses.

Key Investment Concerns

PPC's expansion is EVN dependant and not led by management.

Several big projects have been handed back to the state by EVN, leaving PPC with negligible participation of 540MW.

Our principal concern with PPC is the lack of a clear investment/expansion strategy, the company appears betrothed to expansion projects that parent EVN wishes to undertake directly. Previously, PPC articulated an investment strategy that would have seen the company participate in several new coal thermal power projects, with the proposed 3000MW Hai Phong facility featuring prominently on the list. PPC's economic participation in these projects was expected to range from 1,088MW to 1700MW in effective capacity. Our recent discussions with management indicate that EVN has declined to pursue the Hai Phong III projects and have handed back the investment licenses to the state. PPC's current list of potential and unconfirmed investments suggests a low economic exposure of 540MW in effective capacity.

We continue to dislike the placement of surplus cash into market mandates and loans to EVN.

The company has hampered value creation for shareholders in a couple of other ways. Excess cash of VND1.0tn has been placed into 3rd party fund management mandates, which have returned less than cash time deposits in the current bearish market and tight liquidity environment. In addition, PPC has advanced to its parent Electricity Vietnam (EVN) VND500bn in working capital this year, booking the de-facto loan as a short-term investment. PPC's management indicates that this is an effective a pre-payment of capital contribution in a trio of future planned thermal power investment projects. However, PPC's ultimate economic interest in these projects remains uncertain at this time.

PPC is restricted by a low retained earnings base from repurchasing stock or paying special dividends.

PPC's ability to pay special dividends is hampered under local listing regulations; listed company's may only pay dividends and repurchase shares from retained earnings or excess paid-in capital. PPC had only VND964.1tn of retained earnings at 1H08 and no surplus capital, as there has been no need to raise equity since the 2006 equitization of the company. Our forecasts, given the substantial forex losses (to be only booked in 4Q08) and existing dividend payments (15% of share capital) imply that PPC will have only have VND590bn in FY08E retained earnings. Based on our calculations, this limit's PPC's ability to disburse special dividends to no higher than VND1800 per share, or repurchase no more than 6.5% of shares outstanding for FY08 even in calendar 2009.

PPC will incur foreign exchange losses this year, the vast majority being translation and unrealised in nature. The magnitude of the losses will depend on the official State Bank JPYVND cross rate at Dec-09. For FY08E, we are anticipating a substantial foreign exchange loss of VND714.7bn to be booked in 4Q08 which assumes a cross rate of VND168.5/JPY at year-end. The magnitude of the forex translation loss stems largely from an anticipated 12.6% strengthening of the Yen versus the Vietnamese Dong this year. However, PPC does realise some benefit from the JPY financing, the companies cost of debt is only 2.43% p.a. Longer-run, if the Dong was to strengthen against the Yen, PPC would realise translation gains instead of losses. Based on PPC's formal debt repayment schedule we believe that over 95% of the expected forex losses are unrealised translation losses instead of expensed realised losses.

Operations, Revenues and Costs

PPC operates six generators across two coal fired thermal power plants in a 4x110MW and 2x300MW configuration. The design capacity of Plant I is 440MW and the design capacity of Plant II is 600MW. Combined, PPC has a total of 1,040MW of rated generating capacity.

Plant I is a legacy asset. But judicious maintenance has kept operating.

Plant I:

Power plant I is equipped with four generating units rated at 110MW each and began commercial operations in two stages in 1986 and 1993 respectively. The plant design and control systems are based on Soviet (USSR) era technology, but have been judiciously maintained by the company. PPC has developed an internal maintenance capability that they believe will keep Plant I commercially and economically viable for several more (15+) years. Plant I has an availability factor of approximately 91% p.a.

Plant II is a modern efficient facility.

Plant II:

Power plant II is an energy efficient modern world class generating facility. The plant is equipped with two generating turbines of 300MW each and began commercial operations in 2001, under normal operating conditions the plant has an availability factor of 94%. Once every 3 years each generator undergoes a major maintenance cycle and the plants availability factor reduces to 88%. The next major maintenance cycles are in 2009 and 2010.

PPC should be able to achieve availability and capacity factors greater than 90% given sustained demand.

Generation and Output:

Combined, PPC's availability factors range from 89% to 93% each year. Gross generation ranges from 6,800 to 7,400MWh per annum indicating that capacity factors range around 81% to 88%. Approximately 10% of gross generation is consumed by internal needs and in transformer losses. Net power generation ranges from 6,200 to 6,830 MWh p.a. respectively. Table I below details our assessment of PPC's availability factors and net electricity generating output through 2012.

EVN has been buying aggressively from facilities with lower PPA prices such as PPC as opposed to IPP's.

Generating Capacity & Output	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Plant 1, Coal 4x110 (MW)	440	440	440	440	440	440	440
Plant 2, Coal 2x300 (MW)	600	600	600	600	600	600	600
Installed Capacity (MW)	**1,040**	**1,040**	**1,040**	**1,040**	**1,040**	**1,040**	**1,040**
Installed Cap (Plant I MWh)	3,854	3,854	3,854	3,854	3,854	3,854	3,854
Installed Cap (Plant II MWh)	5,256	5,256	5,256	5,256	5,256	5,256	5,256
Installed Capacity 100% (MWh)	**9,110**	**9,110**	**9,110**	**9,110**	**9,110**	**9,110**	**9,110**
Availability Factor - Plant I (%)	91%	91%	91%	91%	91%	91%	91%
Availability Factor - Plant II (%)	94%	94%	94%	88%	88%	94%	94%
Wgt Avg Avail. Factor (%)	**93%**	**93%**	**93%**	**89%**	**89%**	**93%**	**93%**
Available Capacity Total (MWh)	8,430	8,430	8,430	8,106	8,106	8,430	8,430
Gross Generation (MWh)	**6,841**	**7,093**	**7,418**	**7,214**	**7,295**	**7,587**	**7,587**
Capacity Factor	81%	84%	88%	89%	90%	90%	90%
Internal Power needs (MWh)	683	708	741	720	728	757	757
% of Gross Generation	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Net Generation (MWh)	**6,158**	**6,385**	**6,678**	**6,494**	**6,567**	**6,830**	**6,830**

PPC achieved 80% of our FY08E generation forecast by 9M08A.

This implies a capacity factor of over 88%.

Thus far this year, PPC has been running at very high capacity factors of close to 90%, we suspect that EVN is maximising off-take from its own group plants instead of IPP's where-ever possible. According to PPC's website, the company achieved generation sales of 5,370MWh in the first nine months of this year. The generation suggests that PPC is seeing acceleration in demand for power form EVN in off peak hours. This is not a surprise to us as PPC off-take prices are very much in-line with the national average, and likely cheaper than power imports from China. EVN makes use of power imports, particularly in the North of Vietnam to fill peak demand gaps on the national grid.

Overall we expect PPC to achieve close to 6,678MWh of power sales for FY08. However these numbers will drop slightly as the company heads into major maintenance cycles for each of the two 300MW turbines for plant II in 2009 and 2010, as a consequence availability factors will drop to 89% in both of these years.

The PPA protects EBITDA from significant swings in coal prices.

Power Purchase Agreement (PPA) and Electricity off take

Under the current PPA with EVN, PPC receives substantial pass through protection from energy price increases in Coal and Fuel Oil. The PPA is designed in effect to protect PPC's EBITDA from substantial swings in energy prices through an uplift feature where the variable price component has 100% pass through protection to rises (or declines) in underlying coal and fuel oil energy feedstock prices.

VND/kWh = FRP+ VRP x [(CW x (CP/CRP) + (FW x (FP/FRP))]	
FRP Fixed Reference Price	VND368.6
VRP Variable Reference Price	VND231.21
CW = Coal Weight	93.72%
CP = Coal Price (VND/Tonne)	Negotiated – Long Term Supply Contract
CRP = Coal Reference Price	VND332.633/Tonne
FW = Fuel Oil Weight	6.28%
FP = Fuel Oil Price (VND/Tonne)	Market Price
FRP = Fuel Oil Reference Price	VND4,777,300/Tonne

Cost structure

Coal represents over 80% of operating costs.

Coal represents the single largest element of PPC's cost structure. Coal accounts for 50% to 63% of COGS and over 80% of operating costs with Fuel Oil being the major other feedstock expenditure. Depreciation is the second % of largest annual charge to COGS, while maintenance, staff and other expenses account for 6-7% of COGS.

PPC sources coal from a state-owned supplier. It's purchase price is substantially lower than international norms.

PPC sources coal from Vinacommin a state-owned coal mining concern. The price at which PPC acquires coal is subject to negotiation between PPC and the state coal company's; however, as is common in Vietnam, these prices are currently subject to formal government approval. Coal prices charged to PPC from state-owned suppliers are currently substantially lower than those seen on international spot markets. PPC's average coal price for FY08 is estimated at USD25/Tonne. Historically it has been even lower at approximately US$22/tonne.

Coal prices borne by EVN and PPC are subject to approval by the Prime Minister's office.

Another factor supporting PPC is that under current regulations, coal prices supplied by the state firms to the power industry are subject to final approval by the Prime Minister's Office. In the current environment, with inflation remaining a significant concern, adjustments to coal and retail electricity prices could well be much lower than is broadly expected in the market place. Vietnam has abundant coal supplies for existing power plants, sold largely domestically; as such, the current coal subsidies do not cause a dramatic drain on public finances.

Year Ended	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Coal Consumption (Mn Tonnes)	3.668	3.803	3.978	3.868	3.912	4.068	4.079
Fuel Oil Consumption (Tonnes)	10,753	10,641	11,129	10,823	10,944	11,382	11,413
Coal Price/Ton (VND)	327,229	346,098	419,381	461,256	501,155	543,160	581,450
Coal Price/Ton (US$)	20.5	21.6	25.5	27.0	28.7	30.4	32.2
Fuel Oil Price/Ton (VND bn)	4,607,577	4,777,301	7,513,333	9,354,940	9,588,813	9,804,265	9,901,337
Fuel Oil Price/Ton (US$)	288	297	457	548	548	548	548

We expect coal prices to rise by an average of 6% per annum trough

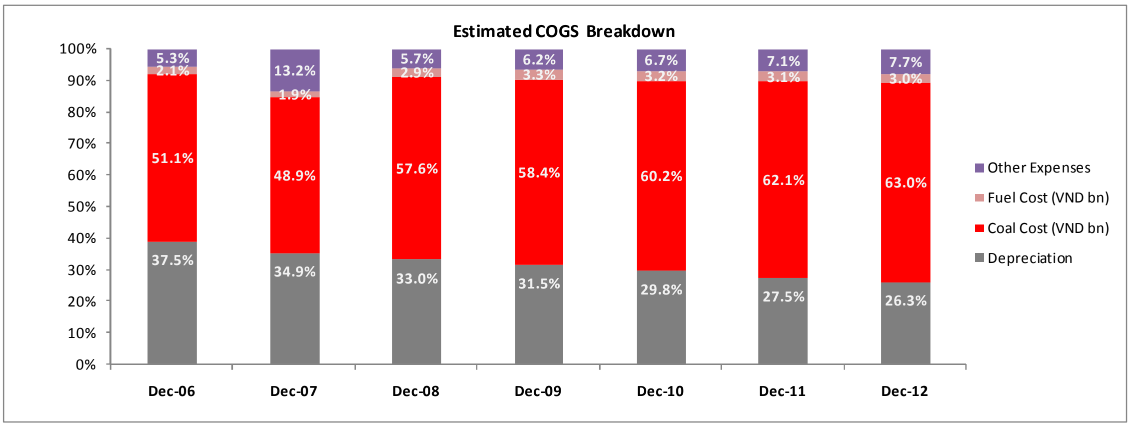
Our base case assumption is that coal prices borne by PPC will rise by an average 6% per annum for FY09E and throughout the subsequent forecast period. While the probability of a substantial coal price increase beyond 2010 cannot be discounted, without a clear indication of PPA pricing policies from EVN or the Gov't. It is virtually impossible to gauge the earnings impact beyond the expiry of the current PPA. Thus, for our forecasts we have assumed that PPC's coal, which is wholly sourced domestically, doesn't substantially rise through-out our forecast period. We have dealt with sensitivities to coal feedstock and off-take prices post 2010 in the earninsg sensitivity section of this report.

Coal represents almost 94% of feed stock requirements.

We derived our production cost estimates using the PPA feedstock ratios as a cost guideline and discussions with management on average costs and energy consumption rates/KWh for Fuel-Oil and Coal in recent years. Coal costs represent 93.7% of feedstock energy requirements, while Fuel-Oil accounts for the balance (6.3%). Maintenance expenses are typically capitalised to fixed assets and have a limited impact on the P&L.

COGS varies primarily with coal prices.

Year Ended	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
COGS (VND bn)	**2,347.5**	**2,692.8**	**2,893.8**	**3,055.1**	**3,256.4**	**3,556.2**	**3,767.7**
Depreciation	881.1	941.1	956.3	961.3	969.4	979.2	989.1
Coal Cost(VND bn)	1,200.3	1,316.2	1,668.1	1,784.2	1,960.3	2,209.5	2,371.9
Fuel Cost(VND bn)	49.5	50.8	83.6	101.2	104.9	111.6	113.0
Maintenance	91.5	30.0	20.0	20.0	5.0	5.0	5.0
Other Expenses*	125.0	353.9	165.8	188.3	216.7	250.8	288.8



It is important to emphasise that until 2010, EBITDA will not be impacted by changes in coal feedstock prices.

We would also re-emphasize that until 2010, revenue growth and realised coal costs are unavoidably linked, to the point that variability in reported EBITDA is overwhelmingly determined by operating factors, and other minor costs (such as labour), as opposed to feedstock energy prices.

PPC should see stable Operating profits going forward.

Earnings each year will be impacted by the year end VNDJPY exchange rate.

FY08E profits will fall almost 38% on forex translation losses, but should rebound strongly in FY09E, as the VNDJPY cross rate stabilises.

Growth in revenue and COGS are highly correlated with underlying coal prices.

PPC's ROIC range of 16%-17% (in VND terms) is healthy and not excessive for an emerging market utility with foreign denominated debt.

The structure of the new PPA for 21010 – 2014 remains a major risk factor.

Profit growth beyond 2010 depends on the outcome of PPC negotiations.

PPC's reported margins will fall as coal prices rise, due to a low base effect.

Earnings, Growth & Margins Outlook

Pha Lai Thermal Power (PPC) is a stable utility that should see nominal EBITDA and earnings growth over the coming years, underpinned by progressive improvements in operating efficiency and rising power consumption rates in off-peak hours. However, for this year (FY08E) and to a lesson degree beyond, PPC's reported earnings will be hampered by forex translation losses on the company's Yen denominated debt obligations

We are forecasting Revenue and EBITDA growth 12.6% and 8.8% for FY08E. However, due to heavy forex translation losses from a strengthening Yen, we expect only VND515.7tn in net profit, a 37.7% contraction YoY for FY08E. As PPC also made a nominal repurchase of treasury shares (1.0mn) earlier this year, EPS contracts by slightly less than earnings at 37.6%, also for FY08E.

Looking forward to FY09E, we see a substantial rebound in reported profits, as we have forecasted a stable USD exchange rate relative to the Yen. However, EBITDA and Operating profits for FY09E will decline slightly as one of the 300MW Plant II turbines undergoes a major (90 Day) maintenance cycle.

Income Statement	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	**3,607.1**	**3,807.1**	**4,285.0**	**4,364.0**	**4,574.7**	**4,934.0**	**5,107.1**
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,123.2	2,179.4	2,144.3
Operating Profit	**1,141.0**	**1,056.3**	**1,234.8**	**1,147.4**	**1,149.0**	**1,195.3**	**1,150.5**
Forex and Related Losses	(19.7)	(232.6)	(714.7)	(150.2)	(144.2)	(110.3)	0.0
Net Interest & Others	(157.7)	(48.0)	(14.7)	157.7	259.4	275.6	249.8
Taxation	13.9	46.5	0.0	0.0	0.0	(102.0)	(105.0)
Net Income to Common	**979.3**	**827.8**	**515.7**	**1,155.0**	**1,264.3**	**1,258.6**	**1,295.2**
EPS	**3,002**	**2,537**	**1,583**	**3,551**	**3,887**	**3,870**	**3,982**
EPS Growth		-15.5%	-37.6%	124.3%	9.5%	-0.5%	2.9%
Return on Average Equity	28.7%	22.0%	13.5%	27.7%	25.8%	22.2%	20.0%
ROIC – (NOPAT/Average Invested Capital)	n.m.	12.0%	16.2%	16.0%	17.0%	14.6%	13.1%

Revenue and COGS growth will be primarily driven by potential increases in the coal and fuel oil feedstock costs going forward. Through 2009, PPC has effective cash flow and operating profit protection from changes in these key input costs. Starting in 2010, a new (as yet un-negotiated) PPA with EVN will take affect for a term of four-years through 2014. The structure of this new PPA, and whether the agreement allows PPC maintain the comfortable 16%+ ROIC it currently enjoys, remains the key determinate of shareholder value relative to the existing business.

In that regard, it is difficult to determine with any degree of certainty what FY10E profits may turn out to be. We have assumed that in late 2009 the current PPA with EVN is renewed under similar-terms that exist in the current agreement. Under such a scenario, PPC should see stable operating profits ranging from VND1.1tn to VND1.2tn per annum throughout our forecast period as the effect of the current PPA is to provide PPC with EBITDA and cash flow protection from rising fuel feedstock costs.

PPC also has explicit tax-holidays and tax-exemptions from its equitization process and stock exchange listing. Management believes that PPC will remain tax-exempt through FY13E. However, it is unclear if the tax holidays associated with equitizations and stock-listings are subject to carry forward allowances, if unused in any year. For conservatism, we have assumed they are not eligible for carry-forward credit, and as such, PPC begins paying a low marginal tax-rate of 7.5% in FY11E.

Growth Rates	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net revenue growth	n.m.	5.5%	12.6%	1.8%	4.8%	7.9%	3.5%
Operating EBITDA Growth	n.m.	-1.1%	8.8%	-3.7%	0.5%	2.6%	-1.6%
Operating profit growth	n.m.	-7.4%	16.9%	-7.1%	0.1%	4.0%	-3.8%
Adjusted Net Profit Growth	n.m.	-15.5%	-37.7%	124.0%	9.5%	-0.5%	2.9%

PPC's margins are very healthy for an electrical utility, but the perceived profitability (from a margin perspective) of the business is amplified by a low-base effect. This is due to the low coal price PPC currently pays, as coal prices increase progressively over time, observed margins will simultaneously contract. In our base case forecast we have assumed that coal prices increase by 6% per annum going forward, which should reduce EBITDA margins to 42% by FY12E.

Margins & Spreads	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Gross profit margin	34.9%	29.3%	32.5%	30.0%	28.8%	27.9%	26.2%
EBITDA margin	56.5%	53.0%	51.2%	48.4%	46.4%	44.2%	42.0%
Operating margin	31.6%	27.7%	28.8%	26.3%	25.1%	24.2%	22.5%
Net profit margin	27.2%	21.7%	12.0%	26.5%	27.6%	25.5%	25.4%

Our earnings sensitivity assumed variations in coal and off-take prices form FY10 and beyond.

We also ran sensitivities under the existing PPA

Even at two to three times current coal prices the PPA effectively delivers comparable EBITDA and earnings YoY.

Earnings risk becomes visible if Coal prices approach US$40/Tonne at current off-take prices of USD0.04/KWh

Even nominal increases in coal prices without pass through protection in off-take could easily generate losses for PPC.

The biggest pricing risk scenario would be a fixed $50 coal price with fixed off take at USD0.5/KWh (+25% .in our view.

Any attempt to fix off-take prices with free market coal prices would lead to substantial earnings volatility.

These sensitivities assume no significant forex losses.

Earnings Sensitivity

We ran earnings sensitivities for FY10 and beyond as the PPA that is currently in place, substantially protects EBITDA and hence earnings through FY09E. As the sensitivities below show, significant earnings volatility becomes likely if the next PPA significantly de-links energy and off-take pass through protection that currently exists.

Coal $50/Tonne – Existing PPA	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	6,047.0	6,373.4	6,429.4
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,067.5	2,124.9	2,094.3
Net Income to Common	979.3	827.8	404.7	982.0	**1,016.4**	**1,076.4**	**1,214.9**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	3,125.3	3,309.6	3,735.4
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**3.5%**	**5.9%**	**12.9%**

Coal $70/Tonne – Existing PPA	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	7,426.7	7,840.5	7,915.2
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,015.3	2,069.3	2,038.0
Net Income to Common	979.3	827.8	404.7	982.0	**957.2**	**1,010.3**	**1,144.4**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	2,943.0	3,106.3	3,518.7
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-2.5%**	**5.6%**	**13.3%**

Coal $30/Tonne - Offtake $0.04/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	4,481.5	4,660.6	4,673.6
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	1,942.6	1,946.1	1,892.9
Net Income to Common	979.3	827.8	404.7	982.0	**893.7**	**910.4**	**1,018.0**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	2,747.8	2,799.1	3,130.0
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-9.0%**	**1.9%**	**11.8%**

Coal $40/Tonne - Offtake $0.04/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	4,481.5	4,660.6	4,673.6
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	1,258.6	1,218.8	1,156.3
Net Income to Common	979.3	827.8	404.7	982.0	**187.9**	**177.0**	**233.9**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	577.8	544.2	719.2
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-80.9%**	**-5.8%**	**32.2%**

Coal $50/Tonne - Offtake $0.04/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	4,481.5	4,660.6	4,673.6
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	574.5	491.4	419.8
Net Income to Common	979.3	827.8	404.7	982.0	**(517.8)**	**(556.4)**	**(550.1)**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	(1,592.2)	(1,710.7)	(1,691.5)
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-152.7%**	**7.4%**	**-1.1%**

Coal $50/Tonne - Offtake $0.05/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	5,601.9	5,825.8	5,842.0
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	1,643.0	1,602.6	1,534.0
Net Income to Common	979.3	827.8	404.7	982.0	**580.2**	**557.3**	**630.3**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	1,783.9	1,713.5	1,937.9
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-40.9%**	**-3.9%**	13.1%

Coal $50/Tonne - Offtake $0.06/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	6,722.3	6,991.0	7,010.4
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,711.5	2,713.8	2,648.3
Net Income to Common	979.3	827.8	404.7	982.0	**1,678.2**	**1,671.0**	**1,810.7**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	5,160.1	5,137.7	5,567.3
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**70.9%**	**-0.4%**	**8.4%**

Coal $70/Tonne - Offtake $0.06/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	6,722.3	6,991.0	7,010.4
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	1,343.4	1,259.1	1,175.1
Net Income to Common	979.3	827.8	404.7	982.0	**266.7**	**204.2**	**242.5**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	820.1	627.9	745.7
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**-72.8%**	**-23.4%**	**18.8%**

Coal $70/Tonne - Offtake $0.07/KWh	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	3,607.1	3,807.1	4,285.0	4,364.0	7,842.6	8,156.1	8,178.8
Operating EBITDA	2,039.6	2,017.9	2,195.9	2,113.5	2,411.9	2,370.3	2,289.4
Net Income to Common	979.3	827.8	404.7	982.0	**1,364.8**	**1,317.9**	**1,422.9**
EPS (Adj. Net Profit)	3,001.9	2,537.4	1,242.5	3,019.4	4,196.3	4,052.1	4,375.1
EPS Growth (Adj. Net Profit)	0.0%	-15.5%	-51.0%	143.0%	**39.0%**	**-3.4%**	**8.0%**

Expansion Plans & Capex

PPC needs explicit parent (EVN) approval for significant n w investments.

PPC will consider co-investing with EVN on any projects that its parent proposes. As the company's charter requires 65% shareholder approval for any significant capital investment, with EVN holding 67% of the shares-outstanding, the state utility holds a virtual veto on PPC's expansion capability. In addition, management recently indicated to us that as young private company, they wish to go slowly on expansion, in part, we believe due to the company-charter restrictions on significant new capital investment.

PPC's corporate charter betroths it to EVN Decisions.

By example, PPC previously articulated a strategy where it would have planned to invest in between 1,088MW and 1,800MW of effective new generating capacity. With material stakes of 30% to 51% in the proposed 3,000MW Hai Phong III project has identified as investment targets. Investors had greeted the willingness for PPC to consolidate new plants with cautious optimism. A consolidation of new investments would have improved the company's capital structure and laid the groundwork for a multi-year EPS growth story.

The old strategy of associate or consolidation in future projects like Hai Phong III has been shelved.

Scenario I MW	PPC's Stake	Project	Debt	USDmn /MW	PPC Equity (VNDbn)	Project Capital
560	5%	Huoi Quang Hydro (560 MW)	70%	1.82	244	16,287
600	10%	Nhgi Son Coal Thermal (600MW)	70%	1.00	288	9,600
1,000	10%	Mong Duong Coal Thermal (1000MW)	70%	1.00	480	16,000
1,200	30%	Hai Phong III, # 1 & 2 (2x600MW)	70%	1.00	1,728	19,200
1,200	30%	Hai Phong III, # 3 & 4 (2x600MW)	70%	1.00	1,728	19,200
600	30%	Hai Phong III, #5 (600MW)	70%	1.00	864	9,600
5160MW	**1088MW**				**5,332**	**89,887**

Scenario II MW	PPC's Stake	Project	Assumed Debt	USD mn /MW	PPC Equity (VNDbn)	Project Capital
560	0%	Huoi Quang Hydro (560 MW)	70%	1.82	-	16,287
600	0%	Nhgi Son Coal Thermal (600MW)	70%	1.00	-	9,600
1,000	20%	Mong Duong Coal Thermal (1000MW)	70%	1.00	960	16,000
1,200	51%	Hai Phong III, # 1 & 2 (2x600MW)	70%	1.00	2,938	19,200
1,200	51%	Hai Phong III, # 3 & 4 (2x600MW)	70%	1.00	2,938	19,200
600	51%	Hai Phong III, #5 (600MW)	70%	1.00	1,469	9,600
4000MW	**1730MW**				**8,304**	**89,887**

EVN has returned thirteen power investment licences to the state.

Regrettably, our recent discussions with management suggest that the scale of PPC's equity participation in the above EVN power projects has dramatically fallen. Specifically, PPC does not plan on pursuing any hydro-projects and has dropped plans to participate in the Nghi Son Thermal Project. In addition, PPC will no longer participate in the 3,000MW Hai Phong III project as the proposed facility was amongst the list of thermal power licenses that EVN has recently handed back to state.

For the moment, PPC is only considering nominal 10% and one associate stake of 30% in three projects.

PPC now is looking at nominal or associate level stakes in four EVN projects. The total economic exposure as it stands has been reduced by between 50% and 70% to only 540MW. In fact at the participation rates being discussed PPC would only see associate earnings flowing from a potential 30% investment in the Mong Duong Thermal project with the balance of the proposed investments being carried at cost, and thus, only future dividends received being recognised in the P&L.

The economic exposure is only 540MW. 50% - 70% lower than previously indicated.

Latest Scenario MW	PPC's Stake	Project	Assumed Debt	USD mn /MW	PPC Equity (VND bn)	Project Capital
1,000	30%	Mong Duong Coal Thermal (2x500MW)	70%	1.00	1,508	16,750
1,200	10%	Quang Ninh Coal (1x600 & 2x300MW)	70%	1.00	603	20,100
600	10%	Hai Phong I (2 x 300 MW)	70%	1.00	302	10,050
2800MW	**540MW**				**2,413**	**46,900**

This level of investment is inadequate given PPC's USD120mn annual FCF.

While management hopes to increase its participation rates in several of these projects, our discussions with the company suggest that the internal risk appetite is low, as management opinionated that as a young public company they wish to proceed with expansion slowly and only in tandem with EVN, in-part due to their charter restrictions.

PPC could fund 300MW-400MW in annual capacity growth using it's own cash flow and leverage.

As we noted on page 1, PPC has approximately VND2.0tn (US$120mn) in annual free cash flow. Which if the company was prepared to make us of incremental leverage, could have capacity to acquire or invest in 300-400MW of annual capacity. Such an entrepreneurial move, in our view, will not come from inside PPC. But rather would likely come from parent EVN or external entrepreneurs who align themselves with EVN.

We are uncomfortable with the recent VND500bn loan to EVN.

Finally, we also note that PPC has begun pre-paying via extending loans (VND500bn thus far) for as yet unconfirmed and unknown equity stakes in future EVN projects. PPC shareholders are in effect being asked to take equity risk with no means of gauging the potential returns on the investment of the funds. This funding approach is a significant corporate governance breach that should be unwound quickly, in our view.

PPC indicates that it will acquire 10% stakes on two upcoming projects.

EVN has 1200MW of thermal power capacity due for commercial operations in FY09.

Theoretically, PPC's stake could rise in these projects.

EVN's current projects

The following projects are thermal plants that are currently on EVN's books. There is 1200MW of incremental capacity under current construction and due for commercial operations over 2009. The most interesting projects are the Hai Phong I Thermal Coal project and the Quang Ninh Thermal Coal project. Hai Phong I is a 2x300MW Thermal facility with commercial operations slated to start from 2Q09, and the plant should be running at full capacity by 2010. Similarly Quang Ninh Thermal is a 1200MW project being constructed in two phases. The first phase (600MW) will come on stream in 1Q09 (Unit I - 300MW) and 4Q09 (Unit II - 300MW) respectively.

Project	Capacity	EVN Stake	Status	Expected Commercial Operations
Hai Phong I (Unit I)	1x300MW	n.a.	Under Construction	2Q09
Hai Phong I (Unit II)	1x300MW	n.a.	Under Construction	4Q09
Quang Ninh I (Unit I)	1x300MW	80%	Under Construction	1Q09
Quang Ninh I (Unit II)	1x300MW	80%	Under Construction	4Q09
Quang Ninh II (Unit I)	600MW	80%	Under Construction	2010-2011
Nghi Son I	600MW	n.a.	Construction to start late 2009	2011-2012
Mong Duong Coal Thermal	2 x 500MW	n.a.	Construction to start 2010	2012

Valuation: Forecast Multiples & Comparables

PPC's valuation reflects deep value territory. The stock trades at 1.6x P/B with a FCF yield of 24%.

Forecast Multiples

In our view, PPC's shares have been de-rated into deep value territory. While the FY08E PER at 13.7x is higher than the market PER of 10x. This is due to pending forex translation losses that will likely be booked at year-end. Looking forward to FY09E, even with an 2.0% expected depreciation of the Dong vs US Dollar and Yen. PPC's earnings will rebound strongly. Our forecasts suggest a PER of 6.1x and a P/B value of 1.6x for FY09E. On a cash flow basis PPC trades at approximately 3.0x operating cash flow and at current prices, the FCF yield is over 24.0%.

Year Ending	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
EV/EBITDA (x)	6.4	5.5	4.8	4.4	4.2	3.4	2.8
PER	7.2	8.6	13.7	6.1	5.7	6.2	6.3
P/ABV	1.9	1.9	1.8	1.6	1.3	1.2	1.1
P/CFPS	7.1	1.7	4.0	2.8	3.0	3.3	3.4
Free Cash Flow Yield (%)	13.2%	57.7%	24.4%	31.8%	27.6%	26.7%	26.8%
Dividend Yield (%)	5.3%	9.0%	6.9%	6.9%	6.9%	6.9%	6.9%

PPC's assets trade at a range of USD1.1mn to USD0.63mn in EV per MW.

But... Old assets have zero book value.

On a risked basis we believe EV/MW of USD0.80 is reasonable.

Assessing Value for Vietnamese Power Assets

Any assessment of replacement/relative value (EV per MW) in Vietnam will be influenced by PPC's market valuation as the company represents over 74% of electrical capacity listed in Vietnam stock markets. In addition, PPC has over 440MW (Plant I) of Soviet-era capacity with no residual book value. While the company maintains that Plant I will have an economic life for another 15 years, we find it to difficult to ascribe full value to that asset when calculating EV/MW. Our approach was to assign a 50% weighting factor to Plant I, which gave us an effective EV/MW of US$0.80mn, approximately 20% below the replacement cost of newer thermal plants in general.

Plant	Ticker	Capacity (MW)	Enterprise Value	EV/MW (VND bn)	EV/MW (USD mn)
Pha Lai Coal Thermal (II)	PPC	600	10,927,340	18,212	1.10
Pha Lai Coal Thermal (I&II)	PPC	440 + 600	10,927,340	10,467	0.63
Pha Lai Coal Thermal (Weighted)	**PPC**	**820**	**10,927,340**	**13,326**	**0.80**

Replacement value below cost of US$1.0mn per MW supports the distressed valuation scenario.

Plant	Ticker	Capacity (MW)	Enterprise Value	EV/MW (VND bn)	EV/MW (USD mn)
Pha Lai Coal Thermal (Weighted)	PPC	440/2 + 600	10,927,340	13,326	0.80
Ry Ninh Hydropower	RHC	8	108,342	15,114	0.91
Can Don Hydropower	SJD	78	1,152,543	16,164	0.97
Vinh Son Song Hinh Hydropower	VSH	136	3,553,049	26,125	1.57
Nam Mu Hydropower	HJS	12	267,780	22,315	1.34
Na Loi Hydropower	NLC	9	164,248	17,661	1.06
Thac Ba Hydropower	TBC	120	844,550	7,038	0.42
Total / Average		**2,007**	**17,017,852**	**14,385**	**0.87**

Overall comparable replacement values in Vietnam suggest that investors are ascribing an approximate value of VND15.57bn per MW of capacity. In USD terms that averages around US$0.87mn per MW. This is 10-15% below EPC contracts for many of the newer power plants being built in Vietnam currently. However, that fact that these power assets are being valued by the market at or below to replacement indicates that the market is applying trough or almost distressed valuations to these companies.

Peer valuation does not offer much valuation insight given PPC's multiples

PPC trades in line on a P/B basis, but below peers on PER and EV//EBITDA basis.

Comparable Peer Valuation

Company Name	P/BV (x)	PER FY08E	PER FY09E	EV/EBITDA	ROE (%)
First Philippine Holdings Corporation	0.2	3.6	2.9	8.0	-7.6
GCL-Poly Energy Holdings Limited.	0.2	10.1	3.6	19.4	1.8
First Gen Corp.	0.4	3.4	3.2	6.5	-1.1
Electricity Generating Public Company	0.8	4.4	4.9	6.0	13.1
Manila Electric Company	1.0	13.4	11.9	6.3	15.2
Glow Energy Public Company Limited	1.1	7.6	8.0	5.6	10.0
Ratchaburi Electricity Generating Hldg.	1.1	6.4	6.7	8.5	13.0
Jiangxi Ganneng Co., Ltd	1.2	32.6	12.7	13.0	0.1
Guangzhou Development Industry	1.2	17.6	12.2	6.8	3.7
Tanjong Public Limited Company	1.2	7.1	6.3	6.6	15.9
Jointo Energy Investment Co.,Ltd. Hebei	1.2	28.0	16.8	5.5	3.6
Sarawak Energy Berhad	1.2	12.0	10.5	5.3	12.4
Huaneng Power International, Inc.	1.2	53.9	13.8	11.7	-2.4
Shenergy Company Limited	1.4	14.6	13.8	6.6	2.9
Shenyang Jinshan Energy Co., Ltd	1.4	12.1	7.4	8.2	-5.7
PNOC Energy Development Corporation	1.5	7.9	6.9	6.6	15.5
Xinjiang Tianfu Thermoelectric Co., Ltd	1.5	12.7	7.8	10.0	3.0
Datang International Power Generation Co	1.5	27.4	13.9	11.6	2.9
Shenzhen Energy Group Co., Ltd.	1.6	14.1	12.1	6.3	8.2
Pha Lai Thermal Power	**1.6**	**13.7**	**6.1**	**4.8**	**13.5**
Beijing Jingneng Thermal Power Co., Ltd	1.7	17.7	14.6	8.5	1.9
Top Energy Company Ltd Shanxi	1.8	34.2	14.4	5.4	1.0
Guangxi Guiguan Electric Power Co., Ltd.	1.8	61.5	20.3	12.2	4.3
Hongkong Electric Holdings Limited	2.0	11.5	14.9	9.0	13.1
CLP Holdings Limited	2.0	13.0	15.4	10.5	17.0
Huaneng Power International Inc	2.0	50.4	29.0	8.3	-6.6
GD Power Development Company	2.1	32.8	18.3	10.4	4.7
SDIC Huajing Power Holdings Company Ltd	2.2	27.0	20.4	7.5	4.9
Guangdong Baolihua New Energy Stock Co.,	2.5	11.7	10.6	11.1	26.8
China Resources Power Holdings Co. Ltd.	2.5	22.9	15.2	14.9	7.8
Datang International Power Generation Co	2.8	56.0	29.4	11.4	-0.3
China Yangtze Power Co., Ltd.	3.7	27.3	22.3	16.3	12.8
Sichuan Chuantou Energy Co., Ltd.	4.1	11.2	8.4	70.3	29.0
Yunnan Wenshan Electric Power Co.,Ltd.	4.6	19.5	14.5	16.1	15.5
Average	**1.7**	**20.8**	**12.8**	**11.2**	**7.2**

Source: Thomson Reuter's Estimates, VinaSecurities Research

We do not feel that comparable multiples offer much insight for a fair value for PPC. Relative to average multiples, PPC trades in-line, but at a discount on a forward PER basis. PPC's ROE's are also relatively higher but the EV/EBITDA multiple of 4.8x on the other hand is substantially lower than regional averages.

A DCF is the best way to value a stable utility.

Valuation: Discounted Cash Flow

We believe a DCF is the most viable means to assess a stable utility without visible earnings growth. This approach allows us to explicitly value PPC's existing business and add a framework to overlay incremental value from an asset acquisition strategy, if such a strategy is ever offered by the company.

PPC has a solid capital structure today, and this benefits it's WACC.

We derived a 16.3% WACC for PPC derived from market values of equity and book values of debt. The key inputs into the WACC calculation was an assumed Beta of 0.8, as in our view, electrical utilities should have Beta's well below the market. We used a terminal growth rate of 5.5%, since electrical utilities should grow in line with the broader economy over several years. Finally we used a 14% risk free rate, in-line with where we think long-term sovereign bonds will trade in the coming months.

We derived at 16.3% WACC for PPC.

Year	Dec-08E	Dec-09E	Dec-010E	Dec-11E	Dec-12E	DCF Assumptions	
Equity (Mkt)	7,058	7,058	7,058	7,058	7,058	Terminal Growth	5.5%
Net Debt (Book)	3,545	2,259	1,929	443	-	Assumed Beta	0.80
Equity (Mkt) (%)	67%	76%	79%	94%	100%	Equity Risk Premium	8.0%
Debt (Book) (%)	33%	24%	21%	6%	0%	Risk Free Rate	14.0%
Country Risk (%)	2%	2%	2%	2%	2%	Debt Cost	2.4%
WACC	**16.3%**	**18.0%**	**18.4%**	**21.3%**	**22.4%**	Tax	0%-15%

But over time that WACC will rise if PPC becomes net cash.

PPC's rising WACC could negate any drop in risk free rates or sovereign risk

PPC's weighted average cost of capital is poised to rise over the coming years as the company accumulates cash, the WACC could increase by 500bp over the next four years unless management finds a means of deploying the close to VND2.0tn the company generates in annual free cash flow. While PPC's WACC has strong leverage to declines in the sovereign bond yields and risk-free rates, the rapidly falling net-debt position and conversely rising cash position could over time negate much of the benefit received from an improving macro-outlook. Based only the existing the assets, and our cash flow projections, PPC becomes an all equity funded business effectively by early FY12E.

PPC generates close to VND2.2tn in annual FCF.

Free Cash Flow Forecasts

We are forecasting annual free cash flow (FCF) for PPC in the range of VND1.7tn to VND2.2tn per annum. The major determinate of FCF will be EVN's timeliness in payments for their electricity off-take. This is visible in the FCF volatility seen in 2006 and 2007 where PPC exchanged debt payables to accounts receivable from EVN.

We forecast 5 years of FCF, and then used average cash flow for an intermediate 10-Year period, before assessing terminal cash flow.

Year-ending	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	2013-23	Terminal
EBIT x (1-Tax rate)	1,124.6	1,056.3	1,234.8	1,147.4	1,149.0	1,105.7	1,064.2		
Depreciation & Amortization	898.6	961.5	961.1	966.1	974.2	984.0	993.8		
Change in working capital	(1,084.4)	2,173.8	(426.7)	245.7	(42.2)	(70.7)	(35.9)		
Capital expenditure	(5.6)	(105.4)	(45.2)	(116.2)	(131.2)	(131.2)	(131.2)		
Free Cash Flow to the Firm	**933.2**	**4,086.3**	**1,724.0**	**2,243.0**	**1,949.9**	**1,887.8**	**1,891.0**	**19,391**	**1,891**

DCF Fair Value Estimates

Our core DCF valuation for PPC is VND28,600 per share a 31.8% premium to the current share price. Rolling our DCF forward by twelve months derives a fair value of VND33,100/share which implies 16% upside on the stock.

Our DCF derives a fair value of VND28,600 for the existing business only at Dec 2008.

The fair value rises by 16% to VND33,100 by Dec 2009.

DCF Calculations as at:	Dec-08E	Dec-09E	Dec-10E
Sum of Future PV	11,786	11,463	11,036
YE net Debt	(3,545)	(2,259)	(1,929)
Associates & JV's – Net Assets	-	1,357	2,714
Net Investments	1,074	204	54
Existing Business	**9,316**	**10,765**	**11,874**
Existing business/share	**28,599**	**33,099**	**36,510**

DCF Sensitivity

As is the case with most cash generative company's in Vietnam, PPC has strong leverage to falling discount rates. If PPC's WACC were to fall to 14%, our fair-value estimate would rise by 26.4%. However, we believe that actual upside sensitivity would be limited by the uncertain PPA and electricity pricing outlook as well as ambiguous strategic direction of the firm.

PPC's fair value has strong leverage to falling risk free rates.

DCF Senstivity	Dec-08E	Dec-09E	Dec-10E
PV at 20%	21,092	25,422	29,041
PV at 18%	24,644	29,045	32,564
PV at 16.3%	**28,599**	33,099	36,510
PV at 14%	36,106	40,840	44,059
PV at 12%	46,553	51,684	54,676

Quantifying Potential Acquisition Upside.

When trying to determine what upside to ascribe to potential future projects we decided to try and figure out what capacity could be acquired in light of current EV/MW valuations. This would give investors a benchmark for potential value accretion should assets be acquired by PPC in the coming months or years. We note that PPC has cash flow capabilities to acquire as much as 1800MW of capacity under conservative 70/30 debt equity structures over the next four years. To achieve such a objective PPC would simply need to deploy it's free cash flow to purchase equity in the acquired asset as most of EVN current generating projects under construction are underpinned by project finance agreements.

PPC has sufficient cash flow to acquire 1800MW of capacity if it is willing to use leverage.

Effective Capacity	Enterprise Value	Debt/Equity (%)	Equity Capital	FCF cover (Years)	Cost Per PPC Share
100MW	1,556,900	70%/30.0%	467	0.24	1,432
300MW	4,670,700	70%/30.0%	1,401	0.72	4,295
600MW	9,341,400	70%/30.0%	2,802	1.45	8,590
1,200MW	18,682,800	70%/30.0%	5,605	2.89	17,180
1,800MW	28,024,200	70%/30.0%	8,407	4.34	25,771
2,400MW	37,365,600	70%/30.0%	11,210	5.78	34,361

Value accretion will depend on acquisition cost and market valuations.

Of PPC acquires capacity at cost, as much as VND1432 per share/100MW in value could be created.

If PPC where to acquire assets at broadly at cost (US$0.95mn/MW), then as market valuations subsequently rise we could potentially see accretion in PPC's underlying equity valuation. Overall, EV/MW replacement costs in Vietnam are approximately VND15.57bn (USD0.95mn) per MW. We looked at the impact of an incremental 100MW of effective capacity at a range valuations, the analysis suggests that at EV/MW ranges of US$1.25mn to US$2.0mn, we could see value creation ranging from VND358 to VND1,432 per share for each 100MW that theoretically could be acquired. In our view, an asset acquisition strategy could cause PPC's current valuations to rise substantially.

Incremental Capacity	EV/MW (US$ mn)	Enterprise Value	Equity (%)	Equity Capital	Incremental Value/Share
100MW	$0.95	1,556,900	30.0%	467	0
100MW	$1.25	1,946,125	30.0%	584	358
100MW	$1.50	2,335,350	30.0%	701	716
100MW	$1.75	2,724,575	30.0%	817	1,074
100MW	$2.00	3,113,800	30.0%	934	1,432

5 Year Financial Forecasts: - Income Statement

As we noted earlier, PPC is a stable utility that should continue to generate predictable if flat EBITDA around VND2.0tn and and Operating profits of VND 1.1tn over the next 5 years. Reported margins will contract slowly as Coal costs steadily rise by approximately 6% p.a. over the same period. We note that our forecasts beyond 2009 assume that PPC's current PPA is renewed under substantially the same terms as currently in place.

Foreign exchange losses pose the greatest to threat to earnings in the medium term. PPC holds a multi-year Yen denominated ODA loan with approximately 16 years remaining. Exchange rate movements on the outstanding principal are fully charged to the income statement annually. For FY08 we are anticipating losses of VND714.7bn. For future years, we expect a gradual weakening of the VNDJPY by 2% per annum. Equally, if the Vietnamese Dong were to strengthen vs the Yen in any given year, PPC would subsequently realise foreign exchange gains.

Beyond FY08E, interest income begins to contribute significantly to earnings. PPC's current payout ratio's fixed at 15% of share-capital are less 50% of earnings, despite cash flow of close to VND2.0tn.

PPC's ROE appears high forecast at 28% for FY09E, but this reflects a low base effect, given the expected forex translation losses this years and at that no retained earnings previously existed before 2006 equitization. In due course, as future earnings accrue to shareholders equity, ROE's should decline over time.

Income Statement	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net Revenue	**3,607.1**	**3,807.1**	**4,285.0**	**4,364.0**	**4,574.7**	**4,934.0**	**5,107.1**
Cost of goods sold	(2,347.5)	(2,692.8)	(2,893.8)	(3,055.1)	(3,256.4)	(3,556.2)	(3,767.7)
Gen & Admin expenses	(118.6)	(58.0)	(156.4)	(161.5)	(169.3)	(182.6)	(189.0)
Operating Profit	**1,141.0**	**1,056.3**	**1,234.8**	**1,147.4**	**1,149.0**	**1,195.3**	**1,150.5**
Depreciation & Amortization	(898.5)	(961.5)	(961.1)	(966.1)	(974.2)	(984.0)	(993.8)
Operating EBITDA	**2,039.6**	**2,017.9**	**2,195.9**	**2,113.5**	**2,123.2**	**2,179.4**	**2,144.3**
Forex and Related Gains	(19.7)	(232.6)	(714.7)	(150.2)	(144.2)	(110.3)	0.0
Interest Income	9.6	5.4	128.7	307.9	364.5	342.4	328.0
Interest Expense	(167.3)	(176.5)	(172.2)	(157.4)	(151.0)	(143.8)	(134.5)
Non-core investment gain/(loss)	0.0	123.1	28.7	16.9	5.4	5.4	5.4
Pre-Tax Profit	**965.4**	**781.3**	**515.7**	**1,164.6**	**1,223.7**	**1,289.1**	**1,349.3**
Taxation	13.9	46.5	0.0	0.0	0.0	(96.7)	(101.2)
Net Income to Common	**979.3**	**827.8**	**515.7**	**1,164.6**	**1,223.7**	**1,192.4**	**1,248.1**
Dividends	(372.8)	(636.8)	(487.9)	(487.9)	(487.9)	(487.9)	(487.9)
Retained Earnings	**606.5**	**191.0**	**27.8**	**676.7**	**735.9**	**704.5**	**760.3**

Growth Rates	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Net revenue growth		5.5%	12.6%	1.8%	4.8%	7.9%	3.5%
Operating EBITDA Growth		-1.1%	8.8%	-3.7%	0.5%	2.6%	-1.6%
Operating profit growth		-7.4%	16.9%	-7.1%	0.1%	4.0%	-3.8%
Net profit growth		-15.5%	-37.7%	125.8%	5.1%	-2.6%	4.7%
Total asset growth		5.5%	12.6%	1.8%	4.8%	7.9%	3.5%

Margins & Spreads	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Gross profit margin	34.9%	29.3%	32.5%	30.0%	28.8%	27.9%	26.2%
EBITDA margin	56.5%	53.0%	51.2%	48.4%	46.4%	44.2%	42.0%
Operating margin	31.6%	27.7%	28.8%	26.3%	25.1%	24.2%	22.5%
Net profit margin	27.2%	21.7%	12.0%	26.7%	26.7%	24.2%	24.4%

Dupont Analysis	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Ebit / Sales	31.7%	30.9%	29.7%	26.7%	25.2%	24.3%	22.6%
Sales / Avg Assets	33.8%	37.5%	42.3%	40.3%	40.4%	41.8%	41.8%
less Net Interest / Avg Assets	-1.7%	-3.9%	-7.5%	0.0%	0.6%	0.7%	1.6%
Pre Tax Return on Avg. Assets	**9.1%**	**7.7%**	**5.1%**	**10.8%**	**10.8%**	**10.9%**	**11.0%**
Avg assets/Avg Equity	3.1	2.7	2.6	2.6	2.3	2.1	1.9
1 - Tax rate	1.0	1.1	1.0	1.0	1.0	0.9	0.9
Return on Average Equity	**28.7%**	**22.0%**	**13.5%**	**27.9%**	**25.0%**	**21.3%**	**19.7%**

5 Year Financial Forecasts: - Balance Sheet

PPC is a highly cash generative stock, by FY08E, we forecast that PPC will realise close to VND3.5tn in cash balances and equivalents. This is despite our assumption of days sales outstanding rising to 90 days for FY08. If there is one significant balance sheet risk, it arises from PPC's non-core investments. Included in this amount is VND500bn in loans PPC extended in 1H08 to the company's parent EVN. PPC's management claims it has been pre-paying for as yet undisclosed stakes in future power investment projects via loans to EVN. There is potential for this practice to accelerate in the 2H08E.

PPC is a financially healthy company, despite the JPY36.6bn debt exposure. Net debt/equity stands at 92% and is expected to fall rapidly as cash accrues to the balance sheet, equally the substantial cash balances already on the balance sheet and poised to grow provide shorter-term liquidity protection. Our forecasts suggest that solvency ratios will remain very high.

Balance Sheet: Assets	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Total cash and equivalents	528.6	1,342.8	2,556.0	3,605.5	3,683.8	4,876.4	6,057.2
Accounts receivable	2,632.4	468.8	1,055.3	806.0	845.0	911.3	943.3
Prepayments	9.0	24.2	27.2	27.7	29.1	31.3	32.4
Due From Affiliates	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	353.0	469.4	504.5	532.6	567.7	620.0	656.8
Other Current Assets	11.4	1.8	11.2	11.2	11.2	11.2	11.2
Total current assets	**3,534.5**	**2,307.0**	**4,154.1**	**4,983.1**	**5,136.7**	**6,450.2**	**7,701.0**
Associates	0.0	0.0	0.0	1,356.8	2,713.5	2,713.5	2,713.5
Non-Core Investments	0.0	1,098.4	1,074.0	204.0	54.0	54.0	54.0
Fixed Assets (at cost)	**13,264.9**	**13,259.1**	**13,328.7**	**13,440.8**	**13,576.9**	**13,713.1**	**13,849.3**
Accumulated depreciation	(6,277.6)	(7,218.7)	(8,175.0)	(9,136.3)	(10,105.8)	(11,085.0)	(12,074.1)
Construction in Progress	27.8	139.0	114.5	118.7	113.7	108.7	103.7
Total Net Fixed Assets	**7,015.1**	**6,179.4**	**5,268.3**	**4,423.1**	**3,584.8**	**2,736.8**	**1,878.9**
Other Assets	14.2	61.4	60.4	60.4	60.4	60.4	60.4
Total Assets	**10,604.7**	**9,682.3**	**10,588.2**	**11,053.9**	**11,571.3**	**12,032.0**	**12,420.0**

Balance sheet: Liabilities	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Total Short Term Debt	306.4	264.3	379.1	388.6	398.3	406.3	406.3
Accounts Payable	77.9	104.9	140.9	148.7	158.5	173.1	183.4
Tax payable	81.3	25.2	28.4	28.9	30.3	32.7	33.8
Accrued Expenses	128.6	215.6	328.9	345.6	367.6	400.8	423.5
Other current liabilities	17.4	91.8	146.4	146.4	146.4	146.4	146.4
Total current liabilities	**611.6**	**701.8**	**1,023.7**	**1,058.3**	**1,101.2**	**1,159.3**	**1,193.4**
Total long-term debt	6,281.6	5,153.6	5,721.7	5,476.1	5,214.7	4,912.7	4,506.4
Total Liabilities	**6,894.2**	**5,857.3**	**6,745.4**	**6,534.4**	**6,315.9**	**6,072.0**	**5,699.8**

Balance sheet: Equity							
Paid-up share capital	3,107.0	3,262.4	3,252.4	3,252.4	3,252.4	3,252.4	3,252.4
Retained earnings reserve	545.5	557.6	585.4	1,262.2	1,998.0	2,702.6	3,462.8
Other Reserves	58.1	5.0	5.0	5.0	5.0	5.0	5.0
Shareholders' Funds	**3,710.6**	**3,825.0**	**3,842.8**	**4,519.6**	**5,255.4**	**5,960.0**	**6,720.2**
Total equity	**3,710.6**	**3,825.0**	**3,842.8**	**4,519.6**	**5,255.4**	**5,960.0**	**6,720.2**
Total Liab. & Shareholders' Equity	**10,604.8**	**9,682.3**	**10,588.2**	**11,053.9**	**11,571.3**	**12,032.0**	**12,420.0**

Balance sheet analysis	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Days receivable	266.4	44.9	90.1	67.4	67.4	67.4	67.6
Days inventory	54.9	63.6	63.8	63.6	63.6	63.6	63.8
Days payable	12.1	14.2	17.8	17.8	17.8	17.8	17.8
Cash operating cycle	309.1	94.4	136.1	113.3	113.3	113.3	113.6

Solvency & Leverage	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Quick ratio	5.2	2.6	3.6	4.2	4.1	5.0	5.9
Current Ratio	5.8	3.3	4.1	4.7	4.7	5.6	6.5
Cash ratio	0.9	0.4	1.5	3.4	3.3	4.2	5.1
Net Debt to Equity	163.3%	106.5%	92.2%	50.0%	36.7%	7.4%	-17.0%
Net Debt to Assets	57.1%	42.1%	33.5%	20.4%	16.7%	3.7%	-9.2%
Total Liabilities to Assets	65.0%	60.5%	63.7%	59.1%	54.6%	50.5%	45.9%

Profitability Ratio's	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Return on Average Equity	28.7%	22.0%	13.5%	27.7%	25.8%	22.2%	20.0%
Return on Average Assets	9.2%	8.2%	5.1%	10.7%	11.2%	10.6%	10.5%
NOPAT/Average Invested Capital	n.m.	12.0%	16.2%	16.0%	17.0%	14.6%	13.1%

5 Year Financial Forecasts: Cash Flow Statements

PPC has a free cash flow yield of 24.4% for FY08E, and that number looks to remain fairly steady in the coming years. The largest risk to FCF and working capital stems from increasing accounts receivables due from PPC's parent EVN. In FY06, PPC's day sales outstanding peaked at 266 days. The following year PPC exchanged approximately VND1.3tn in long term debt for accounts receivable and the ratio subsequently dropped to 45 days. If EVN fails to pay its bills promptly, working capital and FCF may well be impaired. If PPC's working capital cycle stays constant at 113 days, teh company should generate close to VND2.0tn in annual FCF of the existing generating assets.

PPC's current dividend policy is to pay 15% of share capital as dividends, given the strong likelihood of a substantial foreign exchange translation losses this year, there is limited scope for payout ratio's to increase as dividends must be distributed against retained earnings. However, going forward there is scope for increased distributions to shareholders particularly beyond FY09E.

We have treated PPC's current expansion plans (540MW comprising VND2.7tn) as associate investments and not part of capex. Management has only indicated that at this juncture PPC is considering nominal cost and associate stakes in three EVN Greenfield assets. This lack of investment and the slow repayment nature of PPC's ODA loan are the principal reasons that PPC accrues so much cash.

As PPC's debt is Yen denominated, in FY08E, debt will actually increase in VND terms, our forecasts suggest that PPC's total debt will climb by VND682.8bn to VND6.1tn under our year-end cross rate assumption of VNDJPY168.5.

Cashflow statement	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Operating profit	1,141.0	1,056.3	1,234.8	1,147.4	1,149.0	1,195.3	1,150.5
Depreciation & Amortization	898.6	961.5	961.1	966.1	974.2	984.0	993.8
Decrease in inventory	3.4	(116.4)	(35.1)	(28.1)	(35.1)	(52.3)	(36.9)
Decrease in receivables	(724.1)	2,173.6	(596.4)	249.2	(38.9)	(66.4)	(32.0)
Decrease in Prepayments & Others	21.0	(71.6)	0.7	0.0	0.1	0.1	0.0
Increase in payables	(105.8)	26.9	36.0	7.9	9.8	14.6	10.3
Increase in accrued expenses	(309.7)	104.2	108.4	15.9	19.9	29.6	20.9
Increase in advances & others	30.7	57.2	59.6	0.8	2.1	3.6	1.7
Total change in working capital	**(1,084.4)**	**2,173.8**	**(426.7)**	**245.7**	**(42.2)**	**(70.7)**	**(35.9)**
Provisions & Capitalised Exp's	39.2	1.0	3.6	0.0	0.0	0.0	0.0
Operating Cash flow	**994.3**	**4,192.7**	**1,772.8**	**2,359.2**	**2,081.1**	**2,108.6**	**2,108.4**
Net Interest Received (Paid)	(0.9)	(161.9)	(43.5)	150.5	213.5	198.6	193.5
Net Investment Income (Exp)	0.0	123.1	28.7	16.9	5.4	5.4	5.4
Taxes Paid	0.0	46.5	0.0	0.0	0.0	(96.7)	(101.2)
Cash flow from Operations	**993.4**	**4,200.3**	**1,758.0**	**2,526.6**	**2,299.9**	**2,216.0**	**2,206.1**
Capital expenditure	(5.6)	(105.4)	(45.2)	(116.2)	(131.2)	(131.2)	(131.2)
Invest. in Associates	0.0	0.0	0.0	(1,356.8)	(1,356.8)	0.0	0.0
Non-Core Investments (Net)	0.0	(2,134.0)	30.0	1,900.0	150.0	0.0	0.0
Others	278.8	(60.1)	0.0	0.0	0.0	0.0	0.0
Cash flow from Investing	**273.3**	**(2,299.5)**	**(15.2)**	**427.1**	**(1,337.9)**	**(131.2)**	**(131.2)**
Pref. & Reg. Dividends Paid	(372.8)	(636.8)	(487.9)	(487.9)	(487.9)	(487.9)	(487.9)
Equity Issuance - Pref. & Common	0.0	155.4	(10.0)	0.0	0.0	0.0	0.0
Increase in Minorities & Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in ST Debt	213.7	(42.1)	114.8	9.5	9.7	8.0	0.0
Increase in LT Debt	(609.8)	(1,360.5)	568.0	(245.6)	(261.4)	(302.0)	(406.3)
Forex Effects	11.6	(232.6)	(714.7)	(150.2)	(144.2)	(110.3)	0.0
Cash flow from Financing	**(757.4)**	**(2,116.7)**	**(529.7)**	**(874.1)**	**(883.7)**	**(892.1)**	**(894.1)**
Cash at Beginning of Year	19.3	528.6	312.8	1,526.0	3,605.5	3,683.8	4,876.4
Cash generated in Year	509.4	(215.8)	1,213.2	2,079.6	78.3	1,192.6	1,180.8
Cash at End of Year	**528.6**	**312.8**	**1,526.0**	**3,605.5**	**3,683.8**	**4,876.4**	**6,057.2**

Free Cash Flow	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
EBIT x (1-Tax rate)	1,124.6	1,056.3	1,234.8	1,147.4	1,149.0	1,105.7	1,064.2
Depreciation & Amortization	898.6	961.5	961.1	966.1	974.2	984.0	993.8
Change in working capital	(1,084.4)	2,173.8	(426.7)	245.7	(42.2)	(70.7)	(35.9)
Capital expenditure	(5.6)	(105.4)	(45.2)	(116.2)	(131.2)	(131.2)	(131.2)
Free Cash Flow to the Firm	**933.2**	**4,086.3**	**1,724.0**	**2,243.0**	**1,949.9**	**1,887.8**	**1,891.0**

FCF & Dividend Yields	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12
Free Cash Flow Yield (%)	13.2%	57.7%	24.4%	31.8%	27.6%	26.7%	26.8%
Dividend Yield (%)	5.3%	9.0%	6.9%	6.9%	6.9%	6.9%	6.9%

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The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: **Adrian F. Cundy, Nguyen Duc Hung**

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