

Industry: Electricity

Recommendations

NEUTRAL

VIETNAM OIL AND GAS POWER JOINT STOCK COMPANY (HSX: POW)
STAYING STEADY IN DIFFICULT TIMES

Current price: 12,000
Target price: 13,800
Dividend yield: 2%
Upside **15%**

Date of writing the report: 18/05/2020
Outstanding Shares (million): 2,342
Market Cap (billion): 28,102
Avg. liquidity 6M: 13,680,040
%Foreign ownership: 3.4%

Shareholder structure
Vietnam Oil and Gas Group: 79.9%
Norges Bank: 1.3%

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Recommended price: 15,000 VND

Cut loss price: 10,000 VND

Valuation

- BSC recommends NEUTRAL for POW stock with a target price of VND13,800/CP for 2021, equivalent to 15% upside compared to the price on May 08, 2021 based on SOTP method, in which the average EV/EBITDA of the gas and electricity segments, coal and hydroelectricity are respectively 5.8x, 5.1x and 9.0x.

Forecasting business results

- BSC forecasts POW's Gross profit and Profit after tax in 2021 to reach **VND29.018 billion (-2.4% yoy)** and **VND3.085 billion (+15.9% yoy)** respectively with the assumption (1) The price of NT2's new contract electricity with EVN decreased by VND 35/kWh; (2) Returning the provision of bad debts of VND370 billion of EPTC in 2020 and (3) Hydroelectric output +16% yoy thanks to the favorable hydrological cycle; (4) POW completed PVM divestment in Q1/2021, bringing financial revenue of VND354 billion (equivalent to 13% of Profit after tax in 2020).

Investment perspective

- POW's mobilized electricity output remains stable in the long term thanks to future growth in electricity demand.
- Stable cash flow helps POW repay debts, thereby reducing financial costs for POW.

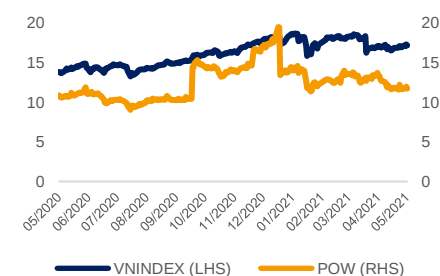
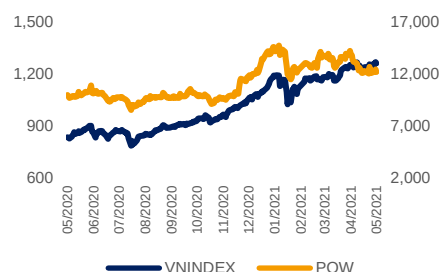
Risk

- Production of gas and coal thermal power segments may continue to decline in the future due to the competition of renewable energy power.

Business update

- POW's net airstrike in Q1/2021 reached **VND7,661 billion (-4% yoy)** respectively due to a sharp decrease in electricity volume of the gas power segment **(-26% yoy)**, making the total output mobilized in the period only reach 4.6 billion kWh (-12% yoy).
- Profit after tax in the period reached VND 566 billion (+12% yoy)** due to the absence of large Exchange rate difference losses and interest expense in the period decreased to VND109 billion (-47% yoy).
- POW completed the divestment of 51.58% of PVM shares in March 2021 with an average selling price of VND 27,260 per share.

Comparison table of POW and VN- Index prices



P/E and VN index comparison table

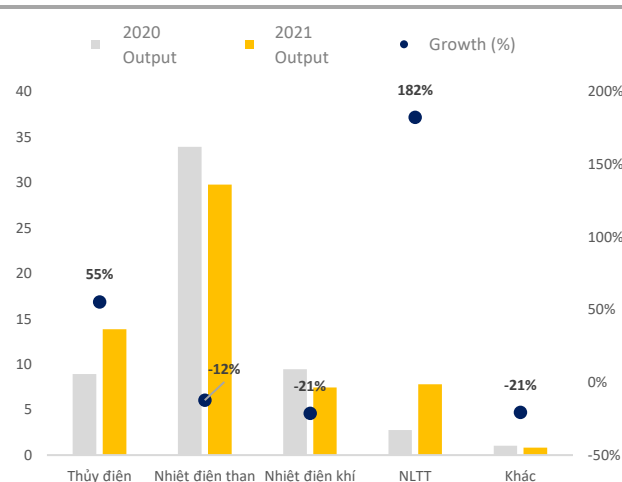
	2020	2021F	VN-Index
PE (x)	12.2	10.3	18.3
PB (x)	1.0	0.9	2.5
PS (x)	1.0	1.0	2.0
ROE (%)	9%	10%	14%
ROA (%)	5%	6%	2%
EV/ EBITDA (x)	5.5	4.5	17.3

	2018	2019	2020	2021F
Turnover	32,662	35,374	29,732	29,018
Gross profit	4,477	5,138	4,580	3,854
Profit after tax	2,287	2,855	2,663	3,085
EPS	184	1,028	999	1,170
EPS growth	N/A	459%	-3%	17%
Net debt/ Equity	74%	59%	40%	36%

BUSINESS RESULTS UPDATE

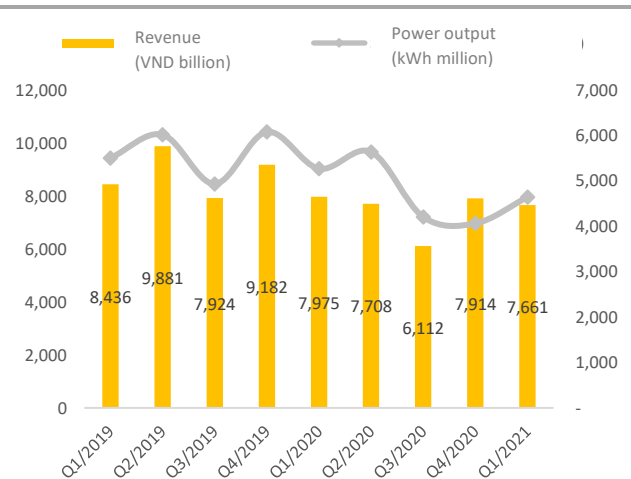
Consolidated revenue in Q1/2021 decreased by -4% yoy due to reduced output from gas and coal power. In Q1/2021, POW recorded net revenue of VND7,661 billion (-2.4% yoy). Electricity production in the period reached 4.6 billion kWh (-11.9% yoy), a decline mainly due to the gas (-26% yoy) segment. This due to the decrease in gas industry generation of -21% yoy due to the impact of hydropower and solar power compared to Q1/2020 (Figure 1), making it the revenue of gas plants (including POW) is significantly affected.

Figure 1: EVN power output mobilized Q1/2021 (billion kWh)



Source: EVN, BSC Research

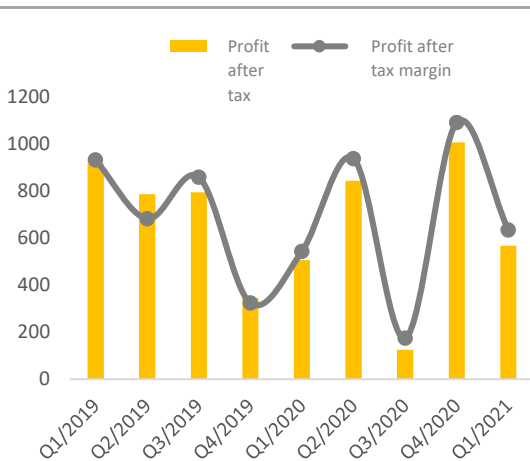
Figure 2: Revenue and power output of POW Q1/2021



Source: POW, BSC Research

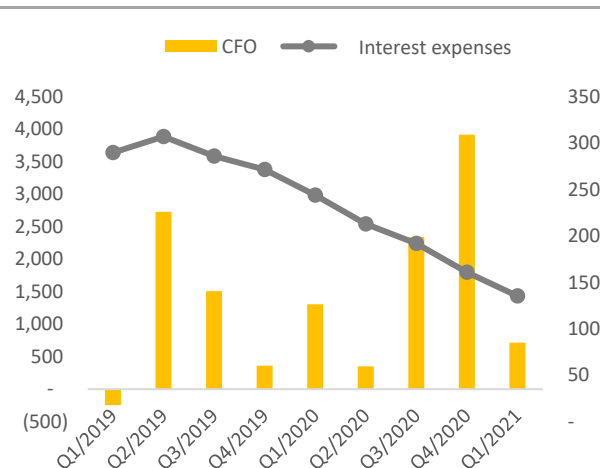
Profit after tax results is supported by diminishing interest costs. POW's consolidated Profit after tax in Q1/2021 recorded at VND566 billion (+12.1%yoy). Profit increased compared to Q1/2020 mainly since it did not have to record a large exchange rate difference (VND 0.8 billion compared to VND139 billion in Q1/2020) and interest expense in the period decreased to VND135 billion (-45%yoy). Thanks to the stable deposit of money from the fixed assets, BSC believes that the current and non-current debt of POW will continue to decrease, helping to reduce interest charges in the future.

Figure 3: POW's after-tax profit in Q1/2021



Source: POW, BSC Research

Figure 4: Cash flow from fixed assets helps reduce interest expense



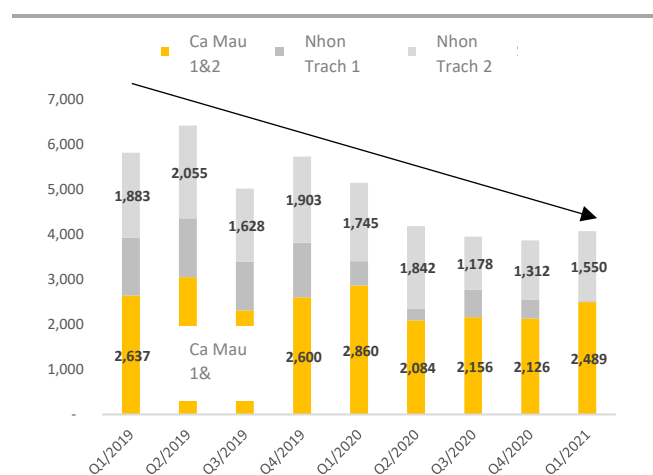
Source: POW, BSC Research

Completed divestment at PV Machino (PVM) in Q1 2021. POW divested all 19.93 million shares, or 51.58% of PVM's shares. Based on PVM's market price on March 17, 2021, of VND 27,260 per share and the average capital price of POW when buying back PVM shares is VND 9,500 per share, **POW's profit is about VND354 billion.** However, POW's first quarter consolidated financial statements still merge PVM as a subsidiary, so the profit is likely to be recorded in the company's second quarter consolidated financial statements.

THERMAL POWER - DIFFICULTIES ARE STILL AHEAD

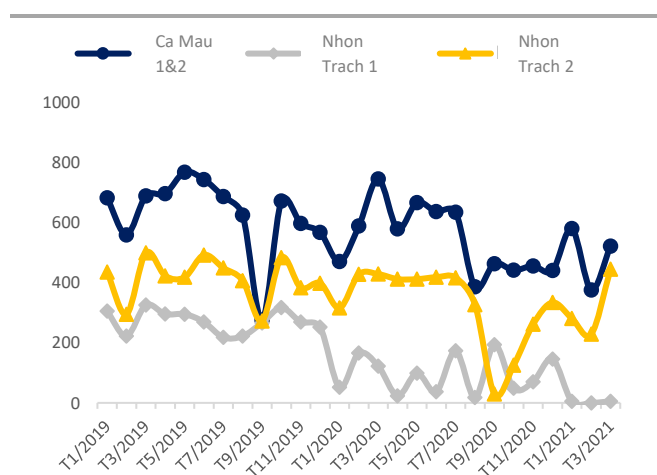
The gas power sector continues to face difficulties due to the decrease in mobilized electricity production. In the first quarter of 2021, the output of gas power plants mobilized by EVN reached 2.4 billion kWh (-26.3% yoy), due to old thermal power plants, including Nhon Trach 1, which has been significantly reduced in capacity since the beginning of 2021 (such as Phat Lai 1 thermal power is allocated 816 million kWh, -56% yoy, Ninh Binh thermal power is allocated 360 million kWh, -34% yoy). Therefore, Nhon Trach 1 factory was only mobilized 10 million kWh in the whole quarter (-97% yoy). **This reduces the total revenue of POW's electricity and gas segment to only VND4,065 billion (-21% yoy).**

Figure 5: Electricity and gas revenue is low compared to 2019



Source: POW, BSC Research

Figure 6: Power output of gas power plants



Source: POW, BSC Research

In addition, the revenue of the gas power segment is also affected by the reduction in the price of **contract electricity (PPA) of NT2**. NT2 has completed negotiations with EVN on the price of new contract electricity, according to which the selling price will decrease by **about 35 VND/Wh** from 2021. According to BSC's estimates, this will directly affect the profitability of NT2 as well as that of POW, **estimating that the profit of NT2 and POW will be reduced by about VND120 billion (equivalent to 19% and 5% of the 2020 Profit after tax of NT2 and POW, respectively).**

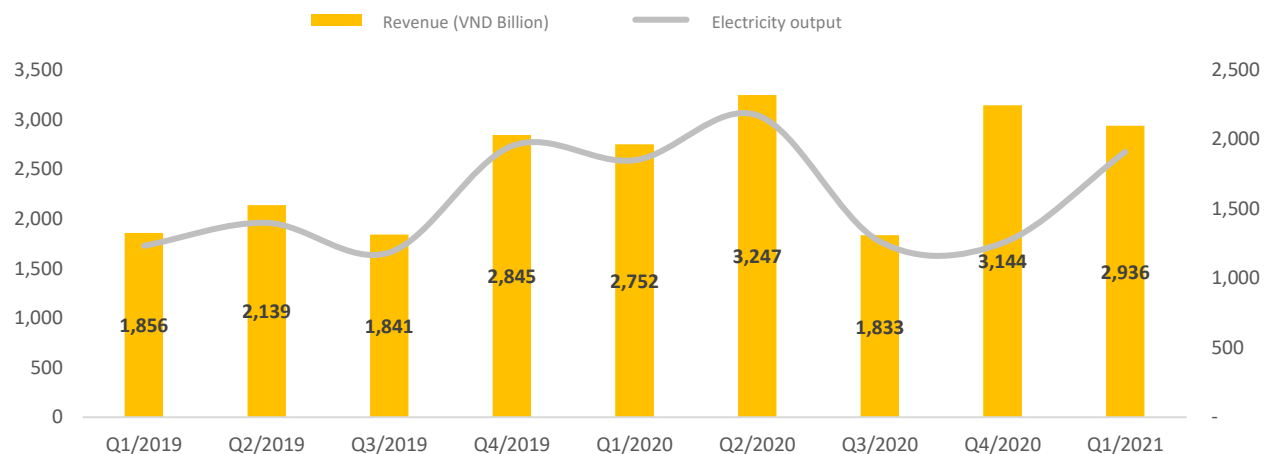
The difference in gas prices imported from the Gold Star - Dai Nguet field compared to other gas fields makes POW's gas power plants less competitive in the competitive power generation (CGM) market. The price of gas imports from the Gold Star - Dai Nguet field reached USD7.0/MMBTU, which is about 20% higher than the average gas field, increases the price of contract electricity (Pc) with EVN of gas power plants by 10-15% compared to previous years. In addition, the hydrological conditions continue to be favorable this year, helping the price of CGM electricity in the coming quarters to remain below VND 1,000/kWh. This reduces the competitiveness of POW's gas power plants in the CGM market in 2021.

POW's gas power plants continue to carry out maintenance in 2021. According to the plan, POW will carry out repairs to the factories, including the overhaul of Ca Mau 1 factory, the two units of Nhon Trach 1 factory and minor repair for Ca Mau 2 and Nhon Trach 2 factories.

COAL-FIRED POWER PLANT TO UNDERGO OVERHAUL IN 2021

Business results in the period increased slightly by 7% compared to Q1/2020 thanks to stable contract electricity output. Revenue in Q1/2021 reached 2.936 billion VND (+7% yoy). The amount of electricity in the period of Vung Ang 1 plant was assigned QC contract electricity output at a high level, reaching 1.9 billion kWh (+3.3% yoy) thanks to (1) stable coal supply from TKV and Northeast TCT and (2) when the first quarter is the dry season in the North and Central regions.

Figure 7: Revenue and power output of Vung Ang 1 factory



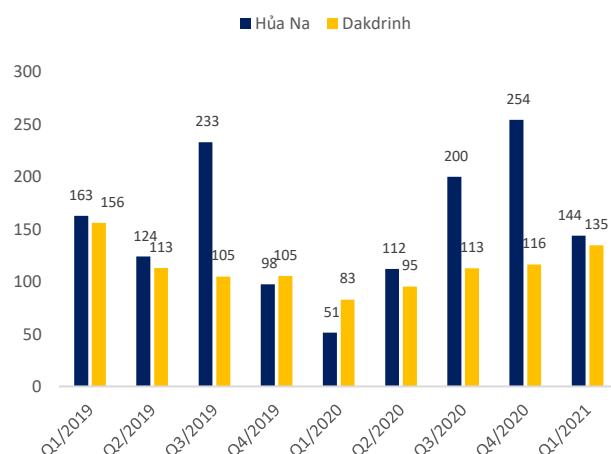
Source: POW, BSC Research

Coal power output decreased by 2.6% yoy due to the Vung Ang 1 plant undergoing an overhaul in the third quarter of this year. According to POW's repair plan, Vung Ang 1 will carry out an overhaul of unit No.2 between August and September this year. This reduces the mobilized power output of Vung Ang 1 plant in 2021. According to BSC's estimates, Vung Ang 1's electricity output this year **reached 6.4 billion kWh (-2.6% yoy), thereby helping coal-fired power revenue reach VND8.9 billion (-3% yoy).**

HYDROELECTRICITY – FAVORABLE THANKS TO HYDROELECTRIC CONDITIONS

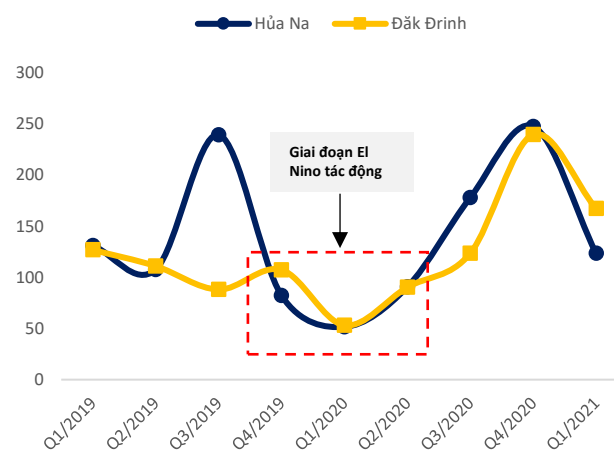
Favorable hydrographic conditions helped hydroelectric plate results in the period increase sharply compared to Q1/2020. In Q1/2021, POW's total hydropower revenue reached VND279 billion (+108% yoy). Electricity in the period reached 290 million kWh (+176% yoy) due to the favorable hydrological situation, while Q1/2020 recorded drought caused by El Nino, leading to hydroelectric array output in the country significant decline (104 million kWh).

Figure 8: Revenue of hydropower of POW (VND billion)



Source: POW, BSC Research

Figure 9: The power output of POW's hydroelectric power plant increased sharply at the time of annual Q3-Q4 (million kWh)



Source: POW, BSC Research

Conducting an overhaul of the Hua Na hydroelectric power plant. In April, POW overhauled the H1 unit of the Hua Na hydroelectric power plant. Therefore, the electricity output in April of Hua Na plant reached only 21.5 million kWh (equivalent to 62% of the monthly plan). According to BSC estimates, the overhaul of the H1 unit will only reduce the electricity output of Hua Na hydroelectric power by about 5% in 2021 due to April. The dry season period so the allocated output of the plant is not high.

BSC said that the results of POW's hydropower segment in the next quarters will be favorable due to stable and favorable hydroelectric conditions until the end of 2021. Therefore, we expect **POW's hydropower output in 2021 to reach level 1.2 billion kWh (+16%yoy), helping the total revenue of these two factories reach 1.208 billion VND (+10%yoy).**

UPDATE TO THE GENERAL MEETING OF SHAREHOLDERS

Refund of bad debt provisions from the Power Purchase Company (EVN/EPTC), reducing the cost of corporate management (QLDN) for POW. By the end of 2020, POW has set aside VND770 billion out of a total bad debt balance of VND 826 billion. This information shared by the POW Board of Directors in the 2021 Annual General Meeting, the company received VND 1,300 billion from EVN in 2020 for this bad debt and will refund the provisions set up in 2020 this year, estimated at VND 370 billion.

Nhon Trach 3&4 power plant (total capacity of 1,500 MW) is expected to start construction in 2021 and start operation in 2024. This is the future growth engine for POW and is also in line with the trend of switching from coal power to liquefied natural gas (LNG). According to the Board of Directors, POW is negotiating in parallel with the contract for electricity purchase and gas purchase. About the clearance work, POW will complete the compensation work and have the full ground in June.

OTHER UPDATES

POW will divest all capital in 8 member units in the period 2021-2025. POW's Board of Directors has approved a restructuring plan over the next five years, under which POW will divest all capital in eight member units and reduce its ownership in subsidiaries to 51 percent. The revenue from divestment will be an additional source of finance to help POW have enough resources to implement future projects, including 2 Nhon Trach 3&4 factories.

FORECASTING BUSINESS RESULTS

For 2021, BSC forecasts POW's net revenue and after-tax profit of **29.018 billion (-2.4% yoy)** and **3.085 billion (+15.9% yoy)** respectively, assuming:

- The price of electricity contract of NT2 with EVN decreased by 35 VND/kWh.
- The import of the non-performing debt provision of VND 370 billion recorded by EPTC in 2020, thereby reducing the SG&A expenses of POW.
- Hydroelectric output +16% yoy thanks to the hydrological cycle continues to progress smoothly.
- POW completed PVM divestment in Q1/2021, bringing financial revenue of VND 354 billion.

Table 1: Forecast of POW business results in 2021

	2019	2020E	2021F
Turnover	35,374	29,732	29,018
Ca Mau 1&2	10,340	9,410	10,688
Nhon Trach 1	4,727	1,787	1,328
Nhon Trach 2	7,654	6,082	6,817
Hua Na	682	591	616
Dak Drinh	466	537	591
Vung Ang 1	8,255	9,240	8,978
Gross profit	5,138	4,580	3,854
Gross profit margin	15%	15%	13%
Selling + SG&A expenses	(1,203)	(1,209)	(467)
Financial revenue	453	440	705
Financial expenses	(1,324)	(999)	(810)
Other gains/losses	49	20	-
Profit from affiliates	52	44	49
Profit before tax	3,165	2,875	3,331
Profit after tax	2,855	2,663	3,085
EPS	1,028	999	1,170

Source: POW, BSC Research

VALUATION

We recommend **NEUTRAL** for POW stock at a target price of **VND13,800/share, upside 15%** compared to the closing price of 1 May8,2021. The reasonable value of POW is determined based on SOTP method as follows:

Table 2: POW Stock Valuation

Factory	EBITDA	EV/EBITDA industry average	% Owned by POW	EV contribution
Ca Mau 1&2	1,360,841	5.8	100%	7,892,876
Nhon Trach 1	84,444	5.8	100%	489,777
Nhon Trach 2	1,104,118	5.8	59%	3,801,986
Hua Na	453,025	9.0	84%	3,430,575
Dak Drinh	434,780	9.0	95%	3,727,930
Vung Ang 1	3,091,853	5.1	100%	15,768,450
Total				35,111,596
(+) Cash and cash equivalents				8,320,659
(-) Current and non-current liabilities				11,168,929
Number of shares outstanding (million CP)				2,342
Target price (VND)				13,777

APPENDIX

IS (VND Billion)	2018	2019	2020	2021F
Net revenue	32,662	35,374	29,732	29,018
COGS	(28,186)	(30,237)	(25,152)	(25,164)
Gross profit	4,477	5,138	4,580	3,854
Selling expenses	(20)	(27)	(35)	(35)
SG&A expenses	(773)	(1,176)	(1,174)	(432)
Operating income	2,469	3,116	2,855	3,331
Financial income	516	453	440	705
Financial expenses	(1,779)	(1,324)	(999)	(810)
Interest expenses	(712)	(1,154)	(809)	(704)
Gain/loss from affiliates	50	52	44	49
Other gain/loss	22	49	20	-
Profit before tax	2,492	3,165	2,875	3,331
Corporate tax payment	(205)	(310)	(212)	(246)
Profit after tax	2,287	2,855	2,663	3,085
Minority interest	366	345	298	345
Profit after tax - Minority interest	1,921	2,510	2,365	2,740
EBITDA	3,204	7,451	6,508	6,851
EPS	184	1,028	999	1,170

Cash flow (VND Billion)	2018	2019	2020	2021F
(Loss)/NPAT	2,287	2,855	2,663	3,085
Depreciation	3,920	3,132	2,824	2,816
Change in NWC	7,524	7,884	7,624	48
Other adjustments	1,148	1,587	1,940	(2,882)
CF from operating activities	4,996	5,323	7,908	3,068
Fixed assets investment	(219)	(187)	(147)	(142)
Other investment	1,774	(235)	297	34
CF from investing activities	1,555	(422)	149	(107)
Dividend paid	(349)	(751)	(1,025)	(468)
Cash from net borrowing	(5,284)	(2,252)	(5,047)	(1,241)
CF from financing activities	(5,633)	(3,003)	(6,072)	(1,709)
Beginning cash balance	2,266	3,185	5,083	7,070
Cash in year	919	1,898	1,986	1,251
Ending cash balance	3,185	5,083	7,070	8,321

BS (VND Billion)	2018	2019	2020	2021F
Cash & cash equivalent	3,185	5,083	7,070	8,321
Short term investment	176	658	789	723
Account receivables	7,531	8,714	7,196	6,999
Inventory	4,187	1,428	1,728	1,687
Other current assets	172	192	115	112
Total current assets	15,251	16,075	16,897	17,842
Tangible assets	69,294	69,503	69,598	69,738
Depreciation	(29,181)	(32,254)	(35,051)	(37,853)
Long term incomplete assets	378	217	251	282
Long term investment	937	983	1,028	1,028
Other non-current assets	1,327	1,098	1,256	1,224
Total non-current assets	42,860	39,621	37,153	34,480
Total Assets	58,111	55,696	54,050	52,321
Account payables	8,373	6,304	6,274	6,053
Short-term debt	6,554	9,158	7,019	6,317
Other short-term debt	2,643	1,602	3,187	3,189
Current liabilities	17,571	17,064	16,480	15,559
Long-term debt	13,304	8,394	5,391	4,852
Other long-term debt	422	729	912	910
Non-current liabilities	13,725	9,123	6,304	5,762
Total Liabilities	31,296	26,186	22,784	21,321
Paid-in capital	23,419	23,419	23,419	23,419
Capital surplus	(0)	(0)	(0)	(0)
Retained earnings	859	2,651	4,302	6,519
Other equity	228	228	226	226
Minority shareholders	2,309	2,623	2,729	2,886
Total Equity	26,815	29,509	31,267	31,001
Total capital	58,111	55,696	54,050	52,321
Number of shares outstanding	2,342	2,342	2,342	2,342

Ratio (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	0.9	0.9	1.0	1.1
Quick ratio	0.6	0.9	0.9	1.0
Capital structure				
Debt/ Total assets	34%	32%	23%	21%
Debt/ Equity	74%	59%	40%	36%
Efficiency ratios				
Days of inventories	50	34	23	25
Days of receivables	80	84	98	89
Days of payables	98	89	91	89
CCC	32	29	29	25
Profit margin				
Gross profit	14%	15%	15%	13%
NPAT profit	7%	8%	9%	11%
ROE	8%	10%	9%	10%
ROA	4%	5%	5%	6%
Valuation				
PE	15.0	12.0	12.2	10.3
PB	1.2	1.1	1.0	0.9
Growth				
Gross revenue growth	10%	8%	-16%	-2%
EBIT growth	-22%	35%	-15%	10%
EBT growth	-9%	27%	-9%	16%
EPS growth	N/A	459%	-3%	17%

Source: POW, BSC Research

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