Industry: Electronic engineering



Recommendations	BUY	NHON TRACH 2 PETROLEUM JOINT STOCK COMPANY (HOSE: NT2) POSITIVE PROSPECTS ARE MAINTAINED						
Current price:	24,800	Report writing date:	28/06/2022	Shareholder structure				
Target price:	28,000	Outstanding Shares (Million)	287.9	POW	59.4%			
Dividend yield	7%	Market capitalization (billion VND)	7,226	CFTD	8.3%			
<u>Upside</u>	<u>13.0%</u>	Average summary of 30 sessions	79.2	Samarang UCITS	5.0%			
		(billion VND)		Apollo Asia Fund	3.3%			
			13.5%					
		Foreign ownership						

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Target price: 29,000 VNĐ Stop loss price: 23,500 VNĐ

# Comparison table of stock prices and VN-Index



#### P/E and VN-Index comparison



## **Valuation**

 BSC recommends BUY shares of NT2 with a target price of 28,000 dong/share for 2022 (equivalent to 13.0% upside from June 28, 2022) based on the method of EV/EBITDA target = 6.0x.

## Forecasting business results

BSC forecasts NT2 net revenue and NPAT in 2022 will reach 8,630 billion VND (+40% yoy) and 594 billion VND (+11% yoy), EPS FW 2022 = 2,064 VND/share, assuming: (1) Electricity production in 2022 will reach 4.60 billion kWh (+44% yoy) thanks to the recovery of gas power from the low level in 2021; (2) Fuel gas import price in 2022 will reach 8.2 USD/MMBTU and (3) Financial expense is 17 billion VND (-66% yoy), in which mainly interest expense for working capital loans.

## Investment perspective

- Expectations of recovery in NT2's business results when power output recovers in 2022 compared to the low of 2021.
- CGM electricity price is expected to continue to remain at a high level (+38.1% yoy 5M/2022)

### **Investment risk**

Gas-fired thermal power output may continue to face competition from renewables

## **Business Update**

Net revenue and net profit of NT2 in 1Q2022 reached 2,007 billion VND (+22% yoy) and VND 159 billion (+39% yoy) respectively, thanks to: (1) relatively positive commercial electricity volume of 994.8 million kWh (+4% yoy), along with (2) increase in electricity price, the average is 2,004 VND/kWh (+20% yoy).

	2020	2021	2022F	VN-Index
PE (x)	15.1	10.4	7.3	12.9
PB (x)	1.0	1.3	1.2	2.1
PS (x)	1.2	0.9	0.7	3.5
ROE (%)	15%	13%	17%	18.2
ROA (%)	9%	8%	10%	6.8
EV/ EBITDA (x)	3.4	4.3	3.4	

	2019	2020	2021	2022F
Revenue	7,654	6,082	6,150	7,495
Gross profit	974	895	676	875
Profit after tax	754	625	534	731
EPS	2,540	2,095	1,778	2,539
EPS growth	-3%	-18%	-15%	43%
Debt/Equity	45%	18%	5%	12%



# **UPDATE Q1.2022 BUSINESS RESULTS**

Target (Billion VND)	Q1.2021	Q1.2022	% YoY	2021	2022F	% YoY	Updated Q1.2022 business results
Net Revenue	1,650	2,006	22%	6,150	8,630	40%	NT2 recorded net revenue and NPAT of 2,007 billion VND
Cost of goods sold	(1,502)	(1,821)	21%	(5,474)	(7,866)	44%	(+22% yoy) and 860 billion VND (-15% yoy). Power output reached 995
Gross profit	148	185	-25%	676	764	13%	million kWh (+39% yoy).  Average selling price of electricity reached 2,004 VND/kWh (+20%
Gross margin	9%	9%	3%	11%	9%	-19%	yoy) Q1.2022 gross margin reached
Financial revenue	16	2	-90%	18			<b>9%</b> , higher than Q1.2021 due to: (i) The selling price of electricity on CGM increased sharply (+38%)
Financial expenses	(20)	(2)	-90%	(52)	(17)	-66%	yoy on average in 1Q2022), contributing to the higher average
- Interest expenses	(4)	(2)	-47%	(20)	(17)	-14%	selling price of NT2 (ii) The average price of imported gas increased sharply, estimated
Profit/(Loss) from joint venture							at 9.6 USD/MMBTU (+34% yoy), on average in February-March
SG&A costs	(23)	(17)	-27%	(116)	(104)	-10%	2022, due to the sharp increase in world oil prices, in the context of the Russia-Ukraine conflict.
Net profit from operating activities	121	168	38%	559	630	-13%	Interest expense -47% yoy as NT2 has completed paying off long-term foreign currency loans in 2021.
Other Profit/(Loss)	0	0	-20%	7			
ЕВТ	122	168	38%	566	630	11%	
CIT expenses	(7)	(9)	29%	(32)	(36)	11%	
NPAT	115	160	39%	534	594	11%	
Benefits of investors							
FCFTM	115	160	39%	534	594	11%	
EPS				1,778	2,064	-16%	

Source: NT2, BSC Research



## **BUSINESS PROSPECTS IN 2022**

## **ELECTRICITY PRICE INCREASE HELP POSITIVE BUSINESS PROSPECTS**

The amount of electricity mobilized in 2022 will decrease as renewable electricity increases competitiveness. By the end of May 2022, gas power accounted for only 11.9% of output (vs. 14.8% of solar power and wind power), lower than 12.7% of 5M.2021 (vs. 11.8%). The amount of electricity produced by gas power by the end of May 2022 reached 13.0 billion kWh (-2.3% yoy).

The mobilized capacity of electrification is also partly affected when hydroelectricity is likely to be mobilized a lot in 2H.2022. According to NCHMF, La Nina will continue until the end of 2022, with a probability of ~60%. Total rainfall is 5-25% higher than average in the North, and 15-60% in the Central and South Central regions. A large amount of water is a condition for hydropower to be prioritized for mobilization in the near future, thanks to its cheaper price compared to other power sources, including gas thermal power.

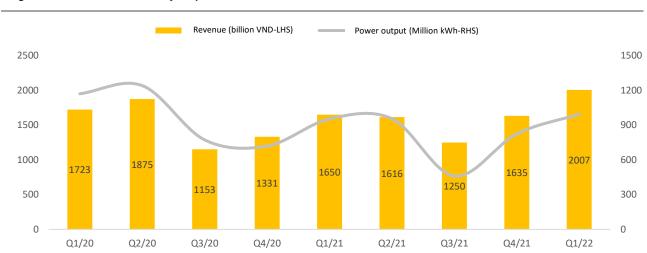


Figure 1: Revenue and electricity output of Nhon Trach 2

Source: NT2, BSC Research

However, the CGM price maintained at a high level is a premise for commercial electricity to increase compared to the same allocation plan. On average 5M.2022, CGM price reached 1,499 VND/kWh (+38.1% yoy). The high CGM price helped the competitive selling volume to continue to be positive, despite the sharp increase in input material prices (input gas price reached USD 10.0/MMBTU, +33.1% yoy in February-May 2022).

With the completion of the negotiation of the power purchase agreement with EVN, the impact of the price reduction in 2021, which will not continue in 2022, also helps NT2's business prospects to be improved. At the same time, the exchange rate gain for the period 2016-2020, not yet recorded in 2021, is 400 billion VND (possibility to recognize 200 billion VND), which is the basis for more positive business results in 2022.

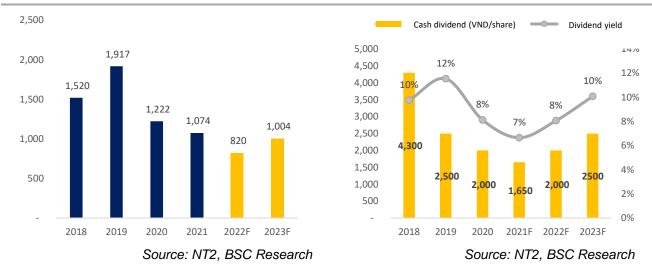
### STABLE CASH FLOW FROM 2022 HELP NT2 PAY HIGH DIVIDENDS ANNUAL

The completion of loan repayment in 2021 brings stable cash flow for NT2. The enterprise has completed paying off all long-term loans. As a result, BSC believes that financial expenses of NT2 in 2022 will drop to 17 billion VND (-66.4% yoy). This will help NT2's operating cash flow to maintain around 1,000 billion VND in the next period.



Figure 2: NT2's cash flow from operating activities (CFO) remained stable (billion VND)

Figure 3: NT2's ability to pay dividends 2021-2023



NT2 pays a dividend of 1,650 VND/share for 2021. Along with that, NT2 has the ability to pay a dividend of 1,500 VND/share for 2022, and higher (1,800-2,000 VND/share), if the business is active. In addition, the largest shareholder of NT2 is PVPower, which is currently in need of capital to finance Nhon Trach 3 and Nhon Trach 4 projects in the years 2022-2023. Therefore, BSC believes that the motivation for NT2 to maintain a large dividend level for the coming years is very high.

## FORECAST OF BUSINESS RESULTS

In 2022, BSC forecasts NT2 will achieve **net income = 8,630 billion VND (+22% yoy)** and **NPAT = 594 billion VND (+11% yoy)**, equivalent to **EPS = 2,064 VND/share** based on the following assumptions:

- Electricity production in 2022 will reach 4.60 billion kWh (+44% yoy) thanks to the recovery of gas power from the low level in 2021.
- Fuel gas import price in 2021 = 8.2 USD/MMBTU.
- Financial expenses = 17 billion VND (-66% yoy), in which mainly interest expenses for working capital loans.

## VALUATION

BSC recommends **BUY** for NT2 shares with the fair value **in 2022 of 28,000 VND/share**, equivalent to an **upside of 13.0%** compared to the closing price on June 28, 2022 of 24,800 VND/share. We use the EV/EBITDA valuation method with the industry average ratio of thermal power enterprises of 6.0x:

**Table 1: Valuation Summary** 

UNIT: MILLION VND	VALUE
EBITDA 2022F	1,338,014
EV/EBITDA target	6.0
Enterprise value	8,028,086
(+) Cash and cash equivalents	651,810
(-) Debt	615,650
Equity value	8,064,246
Number of shares outstanding (millions)	288
Fair value (VND/share)	1,338,014
Target price	28,013

Source: NT2, BSC Research



# **APPENDIX**

ALLENDIX									
Business results(Billion VND)	2019	2020	2021	2022F	Cash flow (Billion VND)	2019	2020	2021	2022F
Net Revenue	7,654	6,082	6,150	8,630	(Loss)/EBT	754	625	534	594
Cost of goods sold	(6,679)	(5,187)	(5,474)	(7,866)	Depreciation and amortization	690	693	690	691
Gross profit	974	895	676	764	Change in working capital	410	(176)	(191)	(518)
Selling expenses	48	18	18	0		63	81	41	53
Management costs	(168)	(160)	(52)	(17)	Cash flow from operating activities	1,917	1,222	1,074	820
Operating profit/loss	(88)	(38)	(20)	(17)	activities				
Financial revenue	-	-	-	-	Money spent to buy fixed	(5)	(1)	(3)	(3)
Financial expenses		(83)	(116)	(104)	assets	(183)	219	11	0
Interest expenses	(85)	. ,	-	-	Cash flow from investment	, ,			
	-	-	EE0.	620	activities	(188)	218	8	(2)
Profit from Joint Venture	767	667	559	630 -	Dividend normant				
Other profit Profit before tax	30	(4)	7 <b>566</b>		Dividend payment	(259)	(719)	(575)	(576)
Corporate income tax	797	663	<b>566</b> (32)	<b>630</b> (36)	Cash from net borrowing Other revenue	-	-	-	-
Profit after tax	(43)	(38)	534	594	Cash flows from finance	(1,085)	(1,111)	(568)	406
	754	625	334	334	activities	(1,344)	(1,830)	(1,143)	(170)
Minority Shareholders	-	-	-	-					
NPAT - Minority Shareholders	754	625	534	594	Cash flow at the beginning of the period	65	451	62	1
EBITDA	1,575	1,395	1,277	1,340	Money in the period	386	(389)	(61)	650
EPS	2,540	2,095	1,778	2,064	Cash flow at the end of the period	451	62	1	651
Balance Sheet (Billion VND)					·				
Cash and cash equivalents	2019	2020	<b>2021</b> 1	<b>2022F</b> 651	Chỉ số (%) Solvency	2019	2020	2021	2022F
Short term investment	451	62	0	0	Short-term payment ratio				
Short-term receivables	200	0		3,175	• •	0.8	0.9	1.1	1.2
	1,459	1,489	2,230 311	3,175	Quick payout ratio	0.7	0.8	0.9	1.1
Inventory	302	315			Comital atmosture				
Other current assets	4	20	38	7	Capital structure				
Short-term assets	2,416	1,886	2,581	4,211	Debt/Total Assets Ratio	24%	12%	3%	8%
	11,324	11,325	11,327	11,350	Debt/Equity Ratio	45%	18%	5%	14%
Tangible assets	(6,471)	(7,162)	(7,853)	(8,544)					
Long-term unfinished assets	1	-	1	1	Operational capacity				
Long-term investment	-	-	-	-	Average Age of Inventory	15	22	21	16
Other long-term assets	270	311	546	745	Number of days receivable	95	88	110	114
Long-term assets	5,148	4,496	4,043	3,575	Number of days to pay	85	88	112	115
Total assets	7,564	6,381	6,624	7,785	CCC	25	22	19	15
Liabilities must pay	1,250	1,248	2,122	2,837					
Short-term loans	1,350	775	210	616	Profit rate				
Other short-term debt	344	60	59	81	Gross profit	13%	15%	11%	9%
Total current liabilities	2,944	2,083	2,390	3,533	Profit after tax	10%	10%	9%	7%
Long-term loans	492	-	-	-	ROE	19%	15%	13%	14%
Other long-term debt	1	1	-	-	ROA	9%	9%	8%	8%
Total Long-term Debt	493	1	-	-					
Total liabilities	3,437	2,084	2,390	3,533	Valuation				
Capital	2,879	2,879	2,879	2,879	PE	6.2	15.1	10.4	9.0
Surplus equity	(0)	(0)	(0)	(0)	PB	0.9	1.0	1.3	1.3
Undistributed profit	1,111	1,282	1,196	1,214	· <del>-</del>	0.0			1.0
Other equity	137	137	160	160	Growth				
The contents of a presentation	-	-	-	-	Net Revenue Growth	0%	-21%	1%	40%
Total Equity			4,234	4,252	EBIT Growth				
Total capital	4,127	4,298	6,624	7,785		-5% 3%	-21%	-16%	10%
Number of shares outstanding	7,564	6,381			EBT Growth	-3%	-17%	-15%	11%
(millions)	288	288	288	288	EPS Growth	-3%	-18%	-15%	16%



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