

Recommendations

BUY

NHON TRACH 2 PETROLEUM JOINT STOCK COMPANY (HOSE: NT2)
POSITIVE PROSPECTS ARE MAINTAINED

Current price: 24,800
 Target price: 28,000
 Dividend yield: 7%
Upside **13.0%**

Report writing date: 28/06/2022
 Outstanding Shares (Million): 287.9
 Market capitalization (billion VND): 7,226
 Average summary of 30 sessions (billion VND): 79.2
 Foreign ownership: 13.5%

Shareholder structure
 POW: 59.4%
 CFTD: 8.3%
 Samarang UCITS: 5.0%
 Apollo Asia Fund: 3.3%

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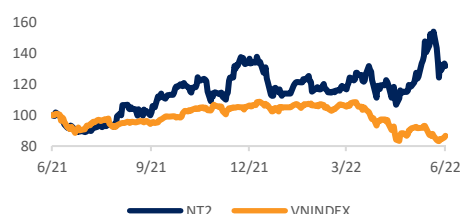
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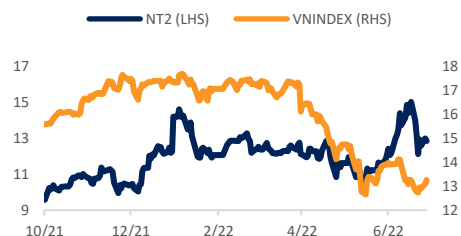
Target price: 29,000 VND

Stop loss price: 23,500 VND

Comparison table of stock prices and VN-Index



P/E and VN-Index comparison



table

	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	

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).

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

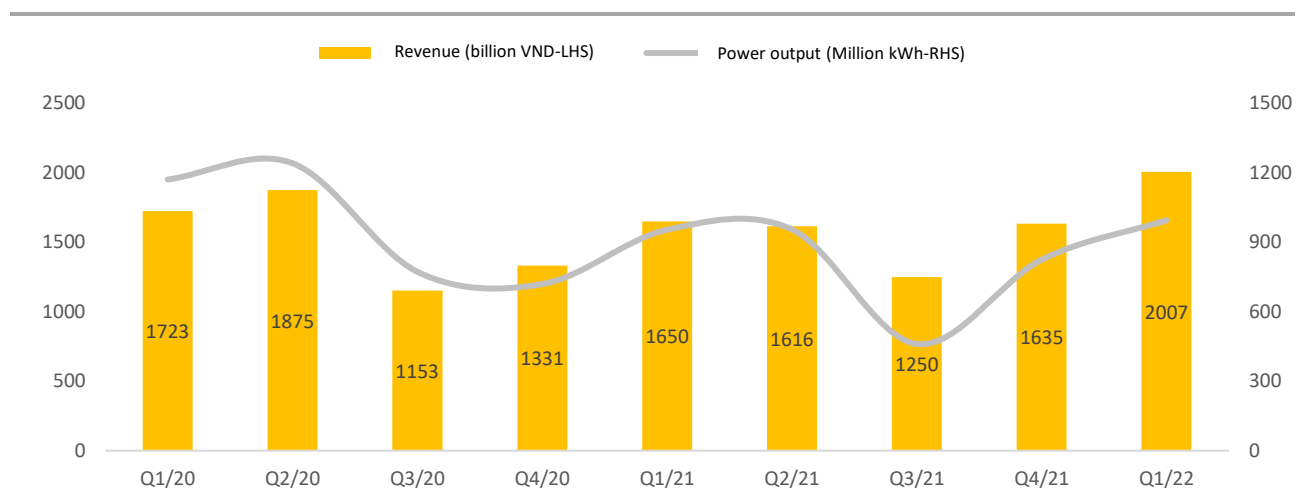
BUSINESS PROSPECTS IN 2022

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

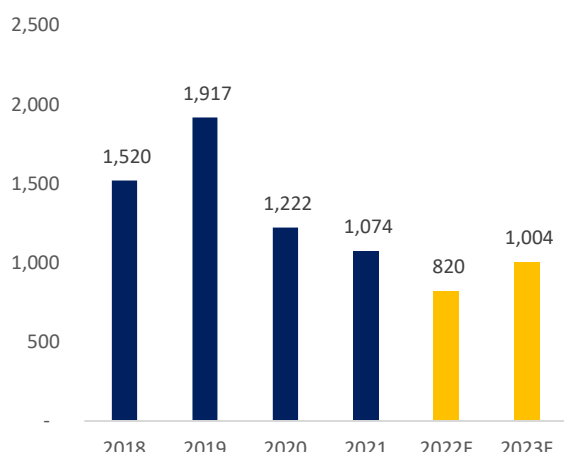
However, the CGM price maintained at a high level is a premise for commercial electricity to increase compared to the same allocation plan. On average 5M.2022, CGM price reached 1,499 VND/kWh (+38.1% yoy). The high CGM price helped the competitive selling volume to continue to be positive, despite the 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

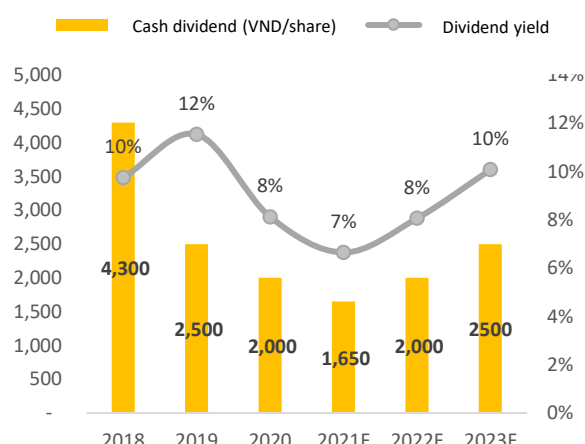
The completion of loan repayment in 2021 brings stable cash flow for NT2. The enterprise has completed paying off all long-term loans. As a result, BSC believes that financial expenses of NT2 in 2022 will drop to 17 billion VND (-66.4% yoy). This will help **NT2's operating cash flow to maintain around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

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



Source: NT2, BSC Research

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



Source: NT2, BSC Research

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

Business results(Billion VND)	2019	2020	2021	2022F
Net Revenue	7,654	6,082	6,150	8,630
Cost of goods sold	(6,679)	(5,187)	(5,474)	(7,866)
Gross profit	974	895	676	764
Selling expenses	48	18	18	0
Management costs	(168)	(160)	(52)	(17)
Operating profit/loss	(88)	(38)	(20)	(17)
Financial revenue	-	-	-	-
Financial expenses	(85)	(83)	(116)	(104)
Interest expenses	-	-	-	-
Profit from Joint Venture	767	667	559	630
Other profit	30	(4)	7	-
Profit before tax	797	663	566	630
Corporate income tax	(43)	(38)	(32)	(36)
Profit after tax	754	625	534	594
Minority Shareholders	-	-	-	-
NPAT - Minority Shareholders	754	625	534	594
EBITDA	1,575	1,395	1,277	1,340
EPS	2,540	2,095	1,778	2,064

Balance Sheet (Billion VND)	2019	2020	2021	2022F
Cash and cash equivalents	451	62	1	651
Short term investment	200	0	0	0
Short-term receivables	1,459	1,489	2,230	3,175
Inventory	302	315	311	377
Other current assets	4	20	38	7
Short-term assets	2,416	1,886	2,581	4,211
	11,324	11,325	11,327	11,350
Tangible assets	(6,471)	(7,162)	(7,853)	(8,544)
Long-term unfinished assets	1	-	1	1
Long-term investment	-	-	-	-
Other long-term assets	270	311	546	745
Long-term assets	5,148	4,496	4,043	3,575
Total assets	7,564	6,381	6,624	7,785
Liabilities must pay	1,250	1,248	2,122	2,837
Short-term loans	1,350	775	210	616
Other short-term debt	344	60	59	81
Total current liabilities	2,944	2,083	2,390	3,533
Long-term loans	492	-	-	-
Other long-term debt	1	1	-	-
Total Long-term Debt	493	1	-	-
Total liabilities	3,437	2,084	2,390	3,533
Capital	2,879	2,879	2,879	2,879
Surplus equity	(0)	(0)	(0)	(0)
Undistributed profit	1,111	1,282	1,196	1,214
Other equity	137	137	160	160
The contents of a presentation	-	-	-	-
Total Equity	4,127	4,298	4,234	4,252
Total capital	7,564	6,381	6,624	7,785
Number of shares outstanding (millions)	288	288	288	288

Cash flow (Billion VND)	2019	2020	2021	2022F
(Loss)/EBT	754	625	534	594
Depreciation and amortization	690	693	690	691
Change in working capital	410	(176)	(191)	(518)
	63	81	41	53
Cash flow from operating activities	1,917	1,222	1,074	820
Money spent to buy fixed assets	(5)	(1)	(3)	(3)
	(183)	219	11	0
Cash flow from investment activities	(188)	218	8	(2)
Dividend payment	(259)	(719)	(575)	(576)
Cash from net borrowing	-	-	-	-
Other revenue	(1,085)	(1,111)	(568)	406
Cash flows from finance activities	(1,344)	(1,830)	(1,143)	(170)
Cash flow at the beginning of the period	65	451	62	1
Money in the period	386	(389)	(61)	650
Cash flow at the end of the period	451	62	1	651

Chỉ số (%)	2019	2020	2021	2022F
Solvency				
Short-term payment ratio	0.8	0.9	1.1	1.2
Quick payout ratio	0.7	0.8	0.9	1.1
Capital structure				
Debt/Total Assets Ratio	24%	12%	3%	8%
Debt/Equity Ratio	45%	18%	5%	14%
Operational capacity				
Average Age of Inventory	15	22	21	16
Number of days receivable	95	88	110	114
Number of days to pay	85	88	112	115
CCC	25	22	19	15
Profit rate				
Gross profit	13%	15%	11%	9%
Profit after tax	10%	10%	9%	7%
ROE	19%	15%	13%	14%
ROA	9%	9%	8%	8%
Valuation				
PE	6.2	15.1	10.4	9.0
PB	0.9	1.0	1.3	1.3
Growth				
Net Revenue Growth	0%	-21%	1%	40%
EBIT Growth	-5%	-21%	-16%	10%
EBT Growth	-3%	-17%	-15%	11%
EPS Growth	-3%	-18%	-15%	16%

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