Company Update

NT2 - PV Power Nhon Trach 2 - JSC

12/03/2018

BSC

Recommendation:	**HOLD**
Chu Tuan Phong-FA	
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Target price	30,217
Current price	29,300
Upside	3.1%
Tran Thanh Hung -TA	
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Target price	
Cut loss	

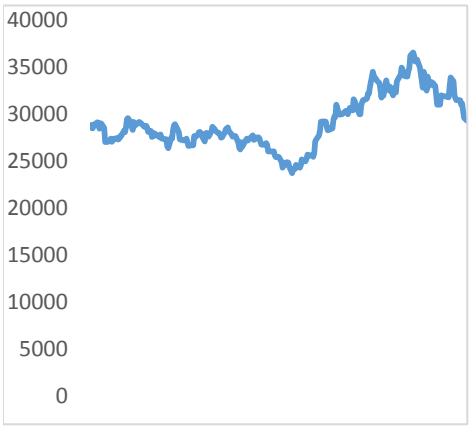
Market Data

Outstanding shares	287
Mkt cap (VND bil)	8,434
Hihgest of 52w	36,700
Avg Vol 10 session	353,456
Foreign Ownership	22.18%

Major shareholder

CFTD	8.27%
Electric power Develop	4.83%
ETF	3.97%
Norges Bank	1.60%

Chart (1 year)



Overview

NT2 has capacity of 750 MW. After restoration in 2017, the capacity reached 774 MW. NT2's factory is located in Dong Nai province, where high loads come from the industrial parks in the locality, and at the same time convenient for gas transmission to serve the factory.

Valuation

In 2018, BSC forecast NT2 will reach EPS of 2,949 VND/share, EBITDA of VND 1,685 billion, and trading value of 29,300 VND/share, equivalent to PE of 10x. This is a higher valuation than the current average.

Therefore, over the next year, we are recommending HOLD with NT2 shares with a target price of 30,217 VND/share, corresponds to 6.5x EV/EBITDA in 2018 of VND 6.5x (the highest level in 3 years).

NT2 is one of the enterprises operating in the most efficient power sector, have high defense properties (beta 3 years at 0.69). At the current price, the percentage of cash dividend by 25%, the profit margin of dividend reached 8.5%.

Earning forecast

In 2018, we expect NT2 will record VND 8.071 billion of revenue (+ 19% yoy), VND 849 billion of EBT (+4.8% yoy). Assumption:

(1) In 2018, with the planned capacity increase of 24 MW, commercial electricity output is forecasted to reach 5.35 million kWh, corresponding to 80% utilization. QCs of NT2 in 2018 will reduce by about 10% compared to 2017. In 2018, BSC forecasts that NT2 will not be able to record extraordinary revenue from the difference of QC delivered in the year and the amount of deposits from EVN as 2017.

(2) The average selling price of electricity is 1,508 VND/kWh, slightly lower than the average price in 2017 due to the increase in the proportion of electricity sold on the CGM. In addition, we expected that gas prices wil increase about 10% from 2017 at $ 6.61/mil BTU.

(3) The EURVND exchange rate is expected to increase by 2% in 2018 while the USD/VND will remain stable

Catalyst

(1) EURVND estimated to increase by 2% in 2018 to help foreign exchange losses decrease sharply

(2) Complete restoration to increase capacity from 750MW to 774MW.

Investment highlights

(1) The business results are expected to improve in 2018 thanks to the EUR/VND exchange rate will not increase sharply as in 2017. In addition, due to complete restoration unit, NT2 is expected to operate stable in the next 3 years

(2) NT2 located in an area with high electrical load (Dong Nai), which keeps the demand of the plant is guaranteed.

Investment risks: (1) QC in 2018 of most of the thermal power plants decreased by 10% compared to 2017, so NT2 may be accelerated sale of electricity on the competitive electricity market.

(2) The EUR/USD exchange rate increased stronger than forecasted.

(3) From 2022, input prices of NT2 could increase sharply due to the import of gas at mines with high operating costs.

Other report: Link

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Financial Analysis

BSC

Unit: VND billions	2014	2015	2016	2017	2018E
Net Sales	**7,065**	**6,729**	**7,983**	**6,761**	**8,071**
Gross profit	**1,652**	**1,642**	**1,351**	**1,393**	**1,223**
Financial Income	450	65	103	63	75
Financial Expense	(437)	(359)	(249)	(490)	(268)
Interest expense	(219)	(183)	(156)	(120)	(95)
Selling expense	(0)	(0)	-	-	-
G&A expense	(75)	(146)	(57)	(114)	(136)
Operating profit	**1,590**	**1,201**	**1,149**	**852**	**894**
Other income	1	1	(1)	1	1
Net profit before tax	**1,591**	**1,202**	**1,148**	**853**	**895**
Net profit after tax	**1,591**	**1,142**	**1,086**	**810**	**849**
Minority Interest	-	-	-	-	-
Parents	1,591	1,142	1,086	810	849
EPS	6,215	4,168	3,810	2,815	2,949
Current Asset	**2,768**	**2,981**	**5,316**	**3,101**	**4,817**
Cash and CE	726	1,109	1,398	146	1,442
ST investment	-	-	-	900	900
Account receivables	1,767	1,576	3,610	1,795	2,143
Inventories	275	288	239	259	331
Other current asset	0	8	69	0	0
Non-current Asset	**9,716**	**8,664**	**7,664**	**6,863**	**6,158**
LT receivables	532	368	202	38	45
Fixed assets	8,306	7,618	6,935	6,247	5,538
Tangible fixed FA					
Finance lease FA	-	-	-	-	-
Intangible FA	180	164	183	186	396
LT incomplete assets		-	-	-	-
LT investment	-	-	-	-	-
Other LT asset	877	673	526	575	575
Total asset	**12,484**	**11,645**	**12,980**	**9,964**	**10,975**
Total Liabilities	**8,237**	**6,876**	**8,071**	**4,979**	**5,232**
Current liabilities	2,374	2,002	4,287	2,269	2,557
ST borrowings	1,052	1,054	1,045	1,066	653
LT liabilities	5,856	4,812	3,721	2,655	2,675
LT borrowings	5,856	4,812	3,697	2,632	2,647
Owner's Equity	**4,247**	**4,768**	**4,908**	**4,985**	**5,743**
Paid-in cap	2,560	2,739	2,849	2,879	2,879
Retained earning	1,497	1,950	1,923	1,970	2,721
Total equity and liabil	**12,484**	**11,645**	**12,980**	**9,964**	**10,975**
% yoy Rev		-5%	19%	-15%	19%
Gross profit margin	23.4%	24.4%	16.9%	20.6%	15.1%
Ir exp/Sale	3.1%	2.7%	2.0%	1.8%	1.2%
Selling Exp/Sale	0.0%	0.0%	0.0%	0.0%	0.0%
GA Exp/Sale	1.1%	2.2%	0.7%	1.7%	1.7%
Net profit margin	22.5%	17.0%	13.6%	12.0%	10.5%

Sales decreased due to: (1) Restoration of units in 32 days in October 2017. Electricity production reached 4,337 million kWh (-17% yoy). (2) Good hydrologic conditions reduced the average price on CGM.

Financial expenses increased due to exchange rate EURVND rose sharply 17% in 2017 causing NT2 to record a loss of VND 290 billion (2016 loss of VND 12 billion). At 31/12/2017, NT2 has outstanding loans of USD 78 million and EUR 70 million

Short-term assets dropped sharply due to the decreasing in receivables from EPTC. We recognize that this is a typical feature of the power companies when businesses buy electricity occupy short-term capital. Receivables was at average of previous years.

Long-term assets did not fluctuate significantly, mainly due to the deduction of depreciation during the period

In 2017, NT2 finalized 2 contracts of 281 billion loans, paid foreign currency loans of 25.12 million USD and 22.69 million EUR.

Gross profit margin increased sharply thanks to the extraordinary revenue from the difference between the Qc assigned in the year and the real output of EVN mobilized. We estimate NT2 will record about 90 billion in 2017

FINANCIAL RATIO

	2013	2014	2015	2016	2017
1. Liquiditiy ratio					
Curent ratio	0.95	1.17	1.49	1.24	1.37
Qick ratio	0.85	1.05	1.34	1.18	1.25
2. Capital structure ratio					
Ca/TA	0.16	0.22	0.26	0.41	0.31
NCA/TA	0.84	0.78	0.74	0.59	0.69
Liabilities/TA	0.77	0.66	0.59	0.62	0.50
Liabilities/TE	3.37	1.94	1.44	1.64	1.00
CL/TA	0.75	0.56	0.42	0.87	0.46
NCL/TA	2.62	1.38	1.01	0.76	0.53
3. Operating efficiency ratio					
Inventory turnover	22.6	21.5	17.8	24.8	21.2
Receivable turnover	4.0	4.3	4.0	3.0	2.5
Payable turnover	6.2	5.3	7.0	2.4	5.5
Days of inventory	15.9	16.7	20.2	14.5	16.9
Days of receivables	90.0	83.1	90.7	118.5	145.9
Days of payables	58.4	68.3	51.5	148.2	64.9
CCC	(15.3)	(6.1)	(23.0)	(21.4)	(31.4)
4. Profitability ratio					
Net income/Nsale (%)	0.1%	22.5%	17.0%	13.6%	12.0%
ROE	0.3%	37.5%	23.9%	22.1%	16.3%
ROA	0.1%	12.7%	9.8%	8.4%	8.1%
Oper profit/Nsale	0.1%	22.5%	17.8%	14.4%	12.6%
5. Dupont analysis					
TA/TE	1.0	1.0	0.9	0.9	0.9
Nsale/TA	0.0	0.9	0.9	0.9	0.9
EBIT/Nsale	0.0	0.3	0.2	0.2	0.1
EBT/EBIT	0.5	0.6	0.6	0.6	0.7
Net income/EBT	4.4	2.9	2.4	2.6	2.0
6. Valuation multiples					
EPS	32	6,215	4,168	3,810	2,815
BVPS	10,889	16,589	17,408	17,230	17,317
7. Growth (%yoy)					
TA		2%	-7%	11%	-23%
Liabilities		-12%	-17%	17%	-38%
Sale		20%	-5%	19%	-15%
Gross profit		23%	24%	17%	21%
NI		19255%	-28%	-5%	-25%
EPS		0%	-33%	-9%	-26%

Liquidity ratio at the safe level, NT2 can ensure payment of due debts

Asset structure: The proportion of long-term assets is declining, which is similar to the characteristics of electricity enterprises: the initial investment costs are large and little investment is made in new fixed assets. As loans are gradually repaid, the ratio of debt / total assets tends to decrease.

In the last 4 years, 2017 was the year NT2 noted the lowest profitability ratio, mainly due to EURVND exchange rate fluctuations. Meanwhile the main business activity remained stable. We believe that investors can watch the exchange rate of EURVND to make a reasonable investment decision with NT2.

With the restoration of the factory to increase its operating capacity, EURVND exchange rate will not fluctuate sharply in 2018, EPS 2018 may slightly improve compared to 2017.

Technical highlights:
- Current trend: Short term accumulation
- The MACD is sticking to the signal line, and the RSI indicator has not broken above the resistance line, indicating the cumulative trend of the stock.
- Liquidity: Average liquidity of 10 sessions was about 12.7 billion dong, not lower than the general market. Liquidity of shares fell sharply in March 13th session.

Comment: After a correction, NT2 shares broke the support of the medium term uptrend line. The stock rebounded sharply to form the "Belt-hold lines" when it hit support for Fibonacci 29.3, but with much lower liquidity than previous sessions. Current prices are fluctuating between 29.3 - 32.

Recommendation: Investors continue to track price movements until the trend formation is clearer and may increase in proportion if shares move down to the support level of 29.3. Target price 32. Cut loss: lost support 29.3

Technical chart



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