

Industry : Electricity

Petro Vietnam Power Corporation (HSX: POW) Overcome difficulties

Recommendation BUY

Current price: 10,000
Target price: 12,000
Dividend yield: 3%
Upside 20%

Date: 16/11/2020
Outstanding shares (Million): 2,342
Capitalization (Billion VND): 22,669
Avg. 30d trading vol (thousand): 3,828,215
% foreign float: 9.86%

Shareholder structure
PVN: 79.94%
Norges Bank: 1.27%
Amersham Industries Ltd: 0.71%
Hanoi Investments Holdings Ltd: 0.52%

Industry analyst:

Duong Quang Minh
(Electricity, water)
minhdq@bsc.com.vn

Technical analyst:

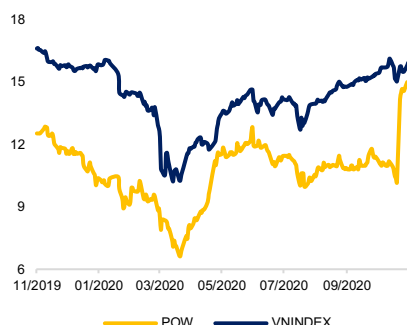
Nguyen Tien Duc
ducnt@bsc.com.vn

Target price: N/A
Cut-loss price: N/A

Share price & VN index movement



POW's PE & VN index movement



Valuation

- BSC issues a **BUY recommendation for POW stocks with a target price of VND 12,000/share**, 20% upside compared to the price on 11/15/2020. Valuation is based on EV/EBITDA method with the expectation that: (1) Sao Vang - Dai Nguyet field will start operating from the end of 2020 to help offset the shortage of gas for NT1 & NT2 power plants; (2) Vung Ang Plant continues to maintain stable operating performance and (3) favorable hydrological situation helps to boost the output of hydropower plants.

Forecast of business performance

- BSC forecasts that in 2020 POW's net revenue and profit after tax will reach VND 29,740 billion (-15.9% YoY) and VND 2,263 billion (-20.7% YoY). EPS FW 2020 = 799 VND.
- In 2021, BSC forecasts that POW's revenue and NPAT will reach VND 32,785 billion (+10.0% YoY) and VND 3,149 billion (+39.0% YoY) respectively, assuming (1) NT1 factory recovers in volume, (2) Rainfall will increase again next year, helping to boost business results from POW's 2 hydropower plants and (3) No provision for bad debts at Ca Mau plan.

Catalyst

- The market will receive new cash flows from investment funds according to the MSCI FM Index and MSCI FM 100 Index from November 2020 when Kuwait is upgraded. Accordingly, the proportion of POW shares in the iShare fund is expected to increase from 0.13% to 0.33% ([Link](#)).

Investment risks

- (1) the increase in exchange rate affects the profit after tax of enterprises.
- (2) gas and coal price increase due to the limited domestic supply.
- (3) being competed by renewable energy power plants.

Financial result & business update

- POW's revenue and NPAT in 9M/2020 reached VND 21,795 billion (-14% YoY) and VND 1,487 billion (-31% YoY), respectively. This decrease comes from the fact that NT2 factory had to stop for periodic maintenance, mobilized output from Ca Mau and NT1 plants was low due to gas shortage.
- BSC believes that (1) the increase in rainfall at the end of the year will help the hydropower sector recover slightly, and (2) the NT2 plant will return to normal operation, ensuring the annual plan.

	2019	2020F	VN-Index		2019	2020F	2021F	2022F
PE (x)	10.7	12.4	14.7	Revenue	35,374	29,740	32,785	32,635
PB (x)	0.9	0.8	2.0	Gross profit	5,138	3,509	4,246	4,148
PS (x)	0.8	0.8	1.5	NPAT	2,855	2,263	3,149	3,280
ROE (%)	8.9%	7.5%	13.3%	EPS	964	799	1,106	1,184
ROA (%)	4.4%	4.1%	2.4%	EPS growth	176%	8%	-22%	-2%

EV/ EBITDA (x)	5.2	5.9	14.0	Debt/ Equity	104%	77%	47%	38%
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FINANCIAL RESULTS & BUSINESS UPDATE

In 9M2020, POW's revenue and NPAT are VND 21,795 billion (-14% YoY) and VND 1,487 billion (-31% YoY), respectively, completing 60% of the revenue plan and 72% of the whole profit plan. year. In which, **the gas power segment accounted for the largest proportion with 61%**, followed by coal-fired power (36%) and hydroelectricity (3%).

Figure 1: Q3/2020 POW net sales (billion VND)

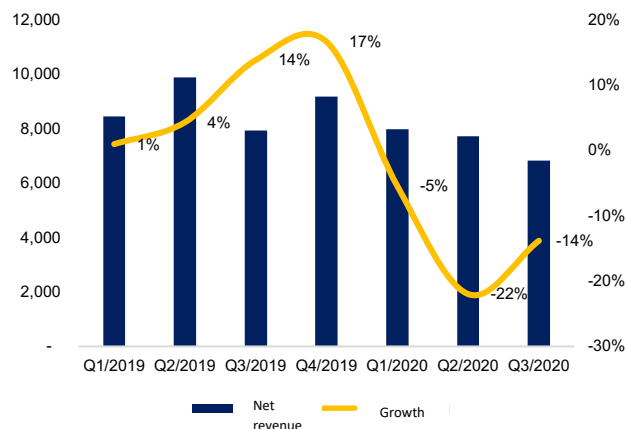
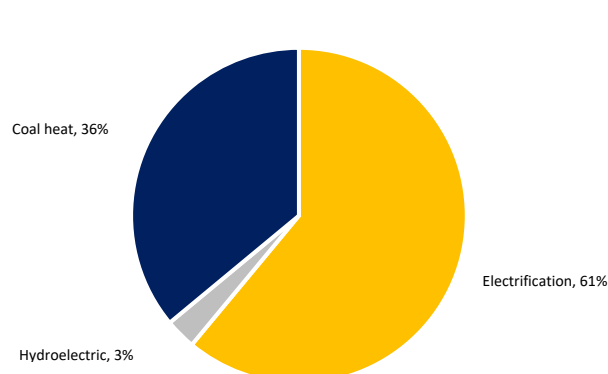


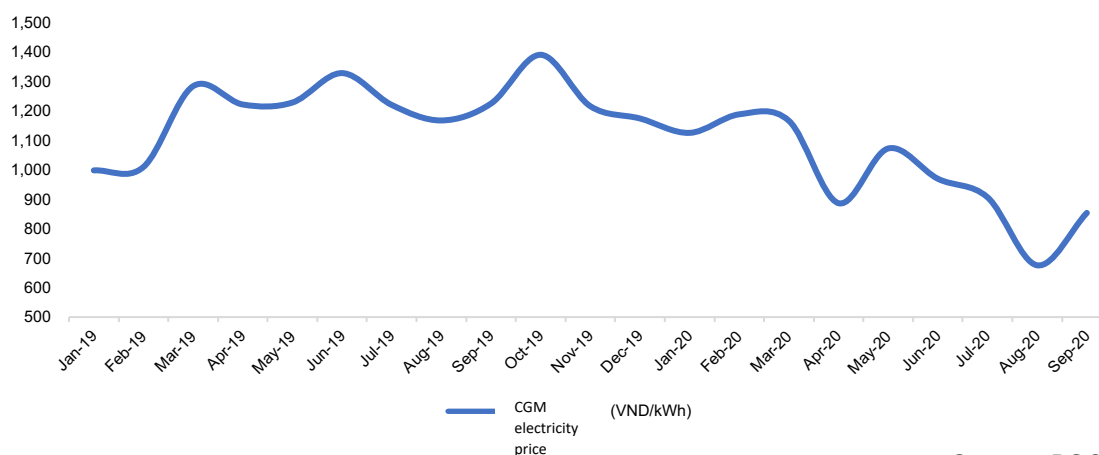
Figure 2: POW 9M2020 revenue structure



Source: POW, BSC Research

9M.2020's revenue dropped sharply mainly due to the low output of factories, low load and the influence of the Covid-19 epidemic. In addition, **the price on the competitive power generation market (CGM) dropped to a low level** due to the increase in rainfall in the third quarter of 2020 which also reduced the output in the market of thermal power plants, affecting the profits of the thermal power plants. profit of POW.

Figure 3: CGM electricity price movement



Source: BSC Research

ELECTRIFICATION – DIFFICULTY IN 2020, RECOVERY FROM 2021

The electricity-gas sector is in experiencing difficulty. In the third quarter of 2020, POW's total revenue from the electricity and gas segment was only 3,948 billion VND, a sharp decrease of 21% YoY, and gross profit decreased by 340 billion VND.

The decrease in output from Nhon Trach 2 factory. The main reason is that NT2 factory had to stop from the end of August for periodic maintenance, causing the commercial power output of this plant to plummet -32% YoY, and recorded a loss of VND6 billion in the third quarter of 202.

Gas shortage and gas price gap also caused Ca Mau and NT1 plants to often suffer from low quality control mobilization, leading to a decrease in output by -10% and -14% YoY, respectively. According to POW, the gas price difference led to a decrease of 37 VND/kWh, corresponding to a decrease of 140 billion VND in the third quarter of 2020. This difference may continue shortly until PVN and EVN complete the agreement on gas price.

Figure 4: Revenue from POW's gas-fired power segment

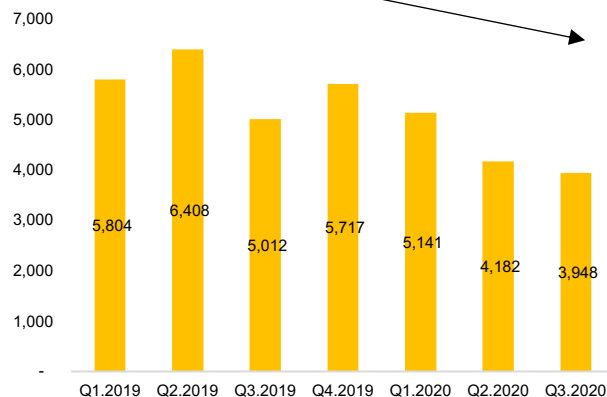
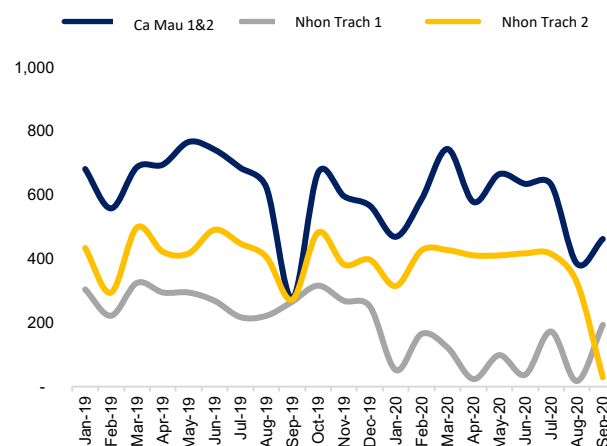


Figure 5: Gas power output by month



Source: POW, BSC Research

We expect that **gas supply in 2021 will be improved by mobilizing more from Sao Vang - Dai Nguyet field**, which has just been put into operation, thereby helping POW's gas power plant output increase by about 10% again. In addition, the fact that **Ca Mau 1 & 2 factories will be depreciated** from 2021 will help POW's net profit improve by 15-20% in the coming years.

Figure 6: Forecast of POW, as power output

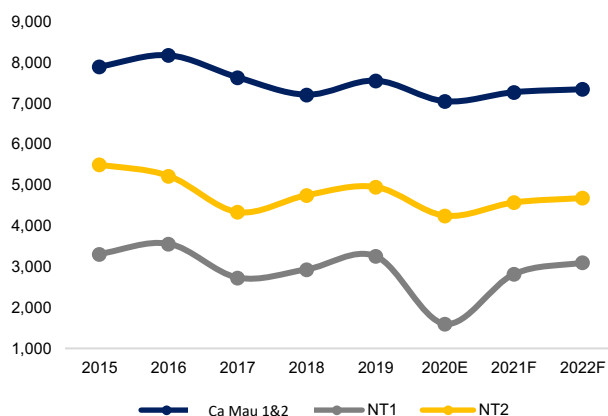
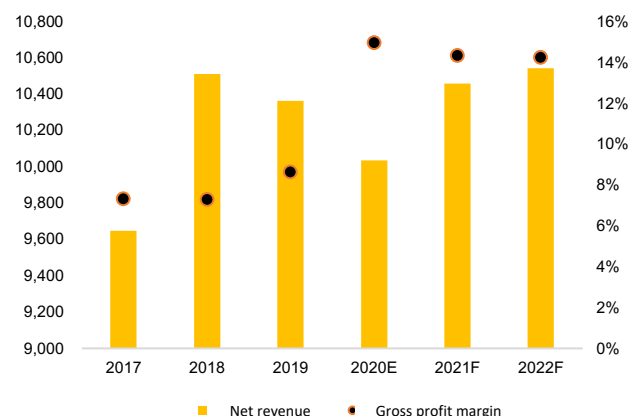


Figure 7: Ca Mau's profit margin improved



Source: BSC Research

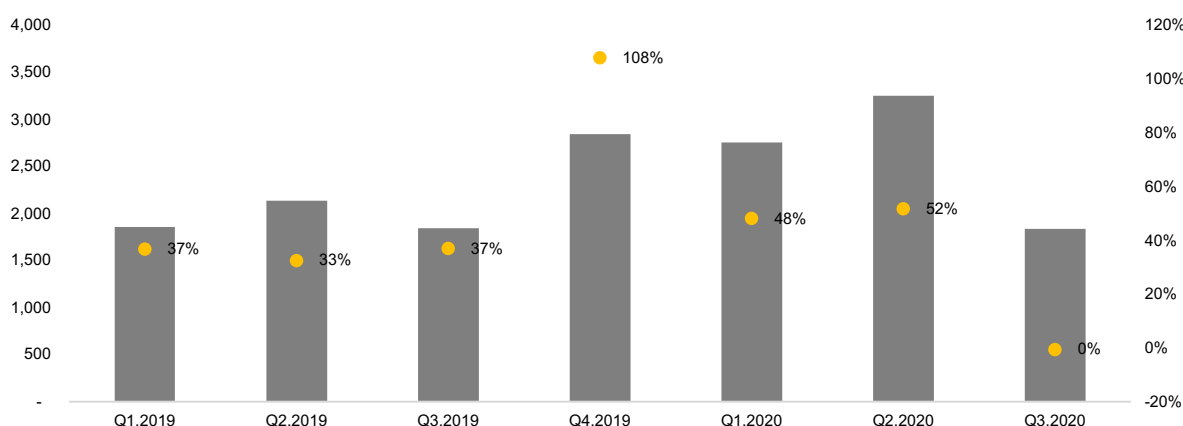
COAL THERMAL POWER – COMING INTO STABLE OPERATION

Vung Ang Power Plant continued to operate stably, with revenue of 9M.2020 reaching VND 7,832 billion, up 34% YoY. Because it signed a coal import contract with TKV in 2020 (volume ~3 million tons of coal), accumulated in the first 9 months of 2020, Vung Ang Power Plant produced 5.3 billion kWh and completed 84.6% of the year plan.

Gross profit from Vung Ang decreased by VND 272 billion mainly due to higher maintenance costs, especially in Q3/2020, maintenance and repair costs increased by VND 120 billion.

It is expected that for the whole year of 2020, Vung Ang's total electricity output will reach about 6.8 billion kWh, equivalent to completing 109% of the year plan. We expect **Vung Ang's performance to continue to be positive in 2021, with performance remaining at 70.**

Figure 8: Revenue from POW's coal-fired power segment



Source: POW, BSC Research

HYDROPOWER – GROWTH FROM LA NINA

Total revenue in 9M2020 of Hua Na and Dak Drinh factories reached VND 645 billion (-28% YoY).

Due to unfavorable hydrological conditions in 1H2020, POW's total 9M2020 hydropower output is only 586 million kWh (-27% YoY). Even so, the peak of El Nino has passed, and rainfall is expected to improve significantly between the end of 2020 and 2022. Therefore, we expect that **the output of hydropower plants will increase again soon.**

Figure 9: Revenue of POW's hydropower plants

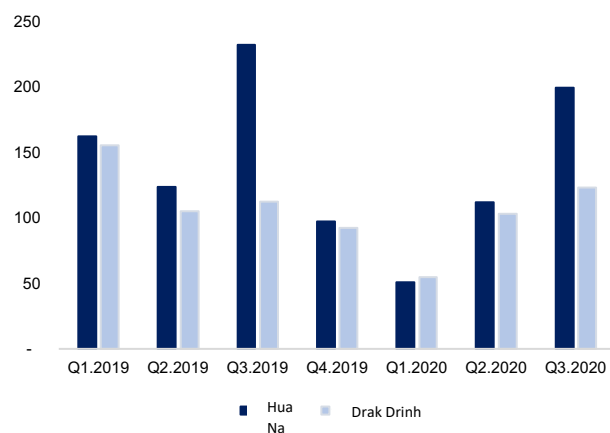
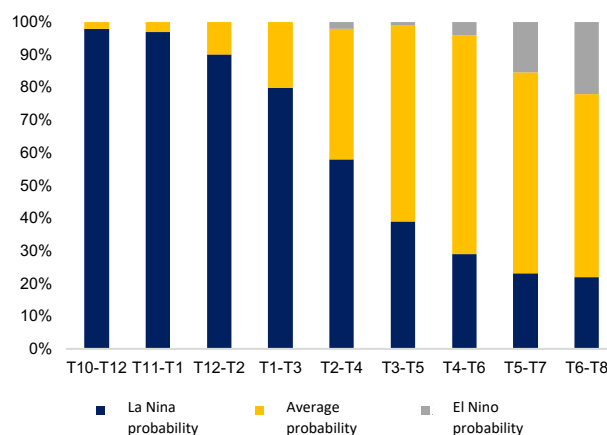


Figure 10: Forecast of La Nina



Source: POW, BSC Research

FORECAST OF BUSINESS PERFORMANCE

Power shortages are becoming more serious. According to the Ministry of Industry and Trade, 2020 may record an electricity shortage of about 2 billion kWh. The shortfall is likely to reach 7 billion kWh in 2021 and 14.5 billion kWh in 2022. Therefore, we expect **POW's power plants to operate at higher efficiency** in the coming years

Nhon Trach 3 & 4 power plants are expected to be constructed in the second quarter of 2021 and start operating from 2024. This is the future growth engine for POW, and is also in line with the trend of switching from coal to gas power. liquefied natural gas (LNG). In addition, the Thi Vai LNG import port was started in October 2019 and is expected to come into operation in 2023.

BSC forecasts that in 2020, POW's net revenue and profit after tax will reach VND 10,422 billion (-7.8% YoY) and VND 2,653 billion (-8.6% YoY) respectively due to:

- NT2 factory resumes normal operation, ensuring the annual plan,
- Vung Ang factory continues to maintain stable output,
- Rainfall increased again at the end of the year, helping the hydropower sector to recover slightly,
- The process of renegotiating the PPA price will be completed in the fourth quarter of 2020,
- POW makes provision for bad debts 400 billion.

For 2021, BSC forecasts POW's net revenue and profit after tax to reach 32,785 billion (10.2% YoY) and 3,149 billion (39.1% YoY) respectively, assuming:

- NT1 factory recovered strongly due to higher commercial power output and stable gas supply in 2021 compared to 2020,
- Gas and coal prices continued to remain stable at low levels,
- Rainfall will increase again next year, helping to boost business results from 2 hydropower plants of POW, Hua Na and Dak Drinh,
- No provision for bad debts at Ca Mau factory, thereby reducing POW's financial costs.

Table 1: Forecast of POW business results 2021-2022

Unit: Billion VND	2019	2020E	2021F	2022F
Net Revenue	35,374	29,740	32,785	32,635
YoY (%)	8.3%	-15.9%	10.2%	2.6%
Ca Mau 1&2	10,363	10,034	10,457	10,543
Nhon Trach 1	4,759	2,344	4,154	4,636
Nhon Trach 2	7,610	6,544	7,048	7,230
Hua Na	669	647	808	808
Dak Drinh	466	462	526	579
Vung Ang 1	8,317	9,709	9,791	9,838
Gross profit	5,138	3,509	4,246	4,148
Ca Mau 1&2	897	1,503	1,503	1,503
Nhon Trach 1	385	(214)	175	257
Nhon Trach 2	729	697	857	807
Hua Na	276	248	409	409
Dak Drinh	205	178	242	250
Vung Ang 1	885	1,097	1,118	1,104
Gross profit margin	15%	12%	13%	13%
NPAT	2,855	2,263	3,149	3,280
YoY (%)	24.8%	-20.7%	39.1%	4.2%
EPS	964	799	1,106	1,184

VALUATION – LONG-TERM INVESTMENT ATTRACTIVE

We recommend BUY for POW stock with a target price of VND 12,000, upside 20%. The fair value of POW is determined using the partial valuation method (SOTP):

Factory	EBITDA	EV/EBITDA Industrial average	% ownership of POW	EV contribution
Ca Mau 1&2	1,332,427	5.7	100%	7,574,439
Nhon Trach 1	283,277	5.7	100%	1,610,341
Nhon Trach 2	1,328,771	5.7	59%	4,484,603
Hua Na	619,254	8.6	84%	4,487,365
Dak Drinh	421,305	8.6	95%	3,456,790
Vung Ang 1	2,568,637	4.9	100%	12,645,255
Total				34,258,793
(+) Cash and cash equivalents				7,902,641
(-) Short term and long-term debt				13,928,334
Number of shares outstanding (millions)				2,341
Target price (VND)				12,056

APPENDIX

IS (billion VND)	2018	2019	2020F	2021F
Net revenue	32,662	35,374	29,740	32,785
Cost of Goods sold	-28,186	-30,237	-26,231	-28,480
Gross profit	4,477	5,138	3,509	4,305
Selling expense	-20	-27	-23	-25
Administrative expense	-773	-1,176	-964	-1,063
Operating income	2,469	3,116	2,324	3,325
Financial income	516	453	652	692
Financial expense	-1,779	-1,324	-849	-583
Interest expense	-712	-1,154	-740	-508
Profit/ loss from affiliates	50	52	44	48
Other profits/ losses	22	49	41	45
Profit before tax	2,492	3,165	2,450	3,464
Tax payment	-205	-310	-187	-315
Profit after tax	2,287	2,855	2,263	3,149
Minority interest	366	345	392	559
NPAT – minority interest	1,921	2,510	1,871	2,590
EBITDA	7,734	8,578	6,533	7,316
EPS	738	964	799	1,106

BS (billion VND)	2018	2019	2020F	2021F
Cash & cash equivalent	3,185	5,083	7,876	9,053
Short-term investment	176	658	822	1,028
Account receivables	7,531	8,714	7,326	8,076
Inventory	4,187	1,428	1,238	1,345
Other current assets	172	192	162	178
Current asset	15,251	16,075	17,425	19,680
Tangible asset	69,393	69,616	69,840	70,065
Depreciation	-29,215	-32,296	-35,377	-38,459
Long-term asset in progress	378	217	346	303
Long-term investment	937	983	918	945
Other non-current assets	1,327	1,098	1,622	1,622
Non-current asset	42,860	39,621	37,352	34,479
Total asset	58,111	55,696	54,777	54,160
Account payable	8,613	6,578	6,869	7,308
Short-term debt	6,554	9,158	7,699	8,487
Other short-term debt	2,403	1,328	1,866	1,866
Current liabilities	17,571	17,064	16,434	17,661
Long-term debt	13,304	8,394	6,220	4,201
Other long-term debt	422	729	729	729
Non-current liabilities	13,725	9,123	6,949	4,930
Total liabilities	31,296	26,186	23,382	22,590
Paid-in capital	23,419	23,419	23,419	23,419
Capital surplus	0	0	0	0
Retained earnings	859	2,651	2,759	3,881
Other equity	229	818	818	818
Minority interest	2,309	2,623	3,015	3,574
Owner's equity	26,815	29,509	30,010	31,691
Total resources	58,111	55,696	54,777	54,160
Shares outstanding	2,342	2,342	2,342	2,342

CF (billion VND)	2018	2019	2020F	2021F
Profit after tax	2,287	2,855	2,263	3,149
Depreciation	4,530	4,259	3,343	3,343
Change in networking capital	1,830	-1,554	2,437	-435
Other adjustments	0	0	0	0
CF from operating activities	4,996	5,323	8,229	6,373
Fixed asset investments	0	-4	0	0
Other investments	124	81	81	81
CF from investing activities	1,555	-422	-7	126
Dividend paid	-349	-751	-2,342	-2,342
Cash from net borrowing	0	0	0	0
Other revenue	-1,067	-170	-109	-75
CF from financing activities	-5,633	-3,003	-5,429	-5,323
Cash & cash equivalent, beginning of the year	2,266	3,185	5,083	7,876
CF during the year	919	1,898	2,793	1,177
Cash & cash equivalent, end of the year	3,185	5,083	7,876	9,053

Ratio (%)	2018	2019	2020F	2021F
Liquidity ratios				
Current ratio	0.9	0.9	1.1	1.1
Quick ratio	0.6	0.9	1.0	1.0
Solvency ratios				
Debt/ Total asset	0.5	0.5	0.4	0.4
Debt/ Equity	1.2	0.9	0.8	0.7
Efficiency ratios				
Days of inventory	50.0	33.9	18.6	16.6
Days of receivable	79.8	83.8	98.4	85.7
Days of payable	123.1	81.6	107.2	102.1
CCC	6.6	36.1	9.8	0.2
Profitability ratios				
Gross profit margin	13.7%	14.5%	11.8%	13.1%
Net profit margin	7.0%	8.1%	7.6%	9.6%
ROE	8.5%	9.7%	7.5%	9.9%
ROA	3.9%	5.1%	4.1%	5.8%
Valuation				
PE	17.4	10.7	12.4	12.9
PB	0.3	0.9	0.8	1.0
Growth				
Net revenue growth	9.9%	8.3%	-15.9%	10.2%
EBIT growth	-21.6%	34.8%	-26.1%	24.5%
Net profit before tax growth	-12.1%	24.8%	-20.7%	39.1%
EPS growth	-20.0%	30.6%	-17.2%	38.4%

Source: POW, BSC Research

Disclosure

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Ha Noi
Tel: +84439352722
Fax: +84422200669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84838218885
Fax: +84838218510

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