Recommendation	BUY	VINH SON - SONG HINH HYDRAULIC JSC (HOSE: VSH) GROWTH MOTIVATION FROM THUONG KON TUM			
Current price:	27,700	Date	30/09/2021	**Shareholder Structure**	
Target price	35,000	Outstanding Shares (Million)	236.2	REE . Energy CO., LTD	50.5%
Dividend yield	0%	Market Cap (VND billion)	6,543	PGV	26.7%
Upside	**26.6%**	Avg. 10D Trading vol	53,870	Samarang UCITS	8.6%
		% Foreign float	11.7%	Other	14.2%

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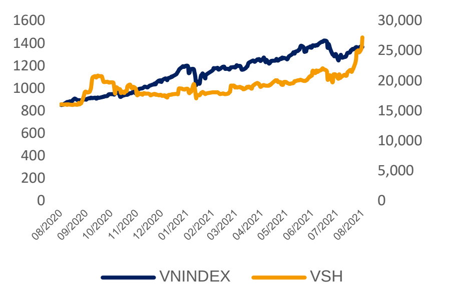
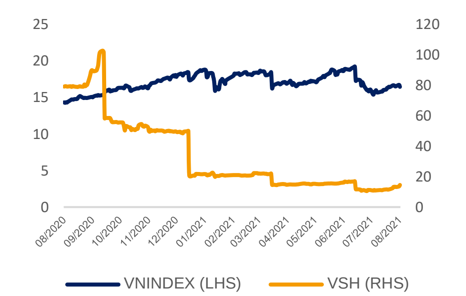
Target price:	VND
Stop-loss price:	VND

Price comparision between VSH and VN index



P/E comparision between VSH and VN index



Valuation

- BSC recommends **BUY** for **VSH** with a target price of **VND 35,000/share** for 2022 (equivalent to **26.6% upside** compared to September 30, 2021) based on valuation method EV/EBITDA = 9.0x (equivalent to EV/EBITDA = 9.0x). average rate of enterprises in the same industry).

Forecasting business results

- n 2021: BSC forecasts revenue and net profit of **VND 1,563 billion (+359% yoy)** and **VND 379 billion (+101% yoy)**, respectively, EPS FW 2021 = **VND 1,603/share** base on assumptions: (1) **Output Electricity produced in 2021 can reach 1.75 billion kWh (+213% yoy)**, of which Thuong Kon Tum contributes 870 million kWh and (2) The PPA electricity price in 2021 of Thuong Kon Tum factory can reach **VND 914 /kWh**.
- In 2022: BSC forecasts revenue and profit after tax of **VND 1,813 billion (+16% yoy)** and **VND 420 billion (+11% yoy)** respectively, equivalent to EPS = **VND 1,777/share** based on assumptions: (1) **Electricity production in 2022 can reach 1.85 billion kWh (+6% yoy),** of which Thuong Kon contributes about 1.04 billion kWh (+20% yoy) and (2) Negotiate electricity price of Thuong Kon Tum successfully, **the PPA electricity selling price from 2022 can reach VND 1,097/kWh (+20% yoy).**

Investment Thesis

- VSH's business results have favorable prospects thanks to the stable hydrological situation until mid-2022.
- Thuong Kon Tum Hydropower Plant is a very important contributor to VSH's business results.

Risks

- Risk of weather disrupting production activities of VSH.

Company Update

- Net revenue and NPAT in 1H2021 reached **VND 689 billion (+656% yoy)** and **VND 237 billion (75 times yoy%)** respectively, thanks to (i) favorable hydrological situation which helps in production +323% yoy and (ii) hydrological situation. Thuong Kon Tum power (220 MW) has been operating since the beginning of Q2, increasing the amount of operating capacity for VSH.
- **Financial expenses in 1H2021 reached VND 110 billion (39 times yoy%)** due to the interest expense of Thuong Kon Tum project when it comes into operation in Q2/2021.

	2020	2021E	2022F	VN-Index
PE (x)	22.2	12.8	11.5	18.3
PB (x)	1.2	1.2	1.2	2.5
PS (x)	11.9	3.2	2.7	2.0
ROE (%)	6%	10%	10%	13.7
ROA (%)	2%	4%	4%	2.2
EV/ EBITDA (x)	51.3	8.4	6.8	17.3

	2019	2020	2021E	2022F
Net Sales	400	341	1,563	1,813
Gross Profit	197	137	820	905
NPAT	159	188	379	420
EPS	673	797	1,603	1,777
EPS Growth	-48%	18%	101%	11%
Net Debt/ Equity	200%	214%	171%	153%

COMPANY OVERVIEW

Vinh Son - Song Hinh Hydropower Joint Stock Company (HSX: VSH) was established in 1994 with the predecessor Vinh Son Hydropower Plant, belonging to Power Company III. The enterprise was equitized in 2005 and has been listed on HOSE since 2006. Currently, VSH's main source of income comes from 3 hydropower plants (total capacity of 356 MW) owned and operated by VSH. , including: Vinh Son (66 MW), Song Hinh (70 MW) and Thuong Kon Tum (220 MW).

Table 1: Hydroelectricity system owned by VSH

Hydroelectricity Year	Operation year	River system	Capacity	Investment (VND billion)	Investment unit cost (VND billion/MW)
Vinh Son	1994	Be River	66 MW	N/A	N/A
Song Hinh	2001	Hinh River	70 MW	N/A	N/A
Thuong Kon Tum	2021	Dak Lo – Ngok Tem	220 MW	9,429	42.9

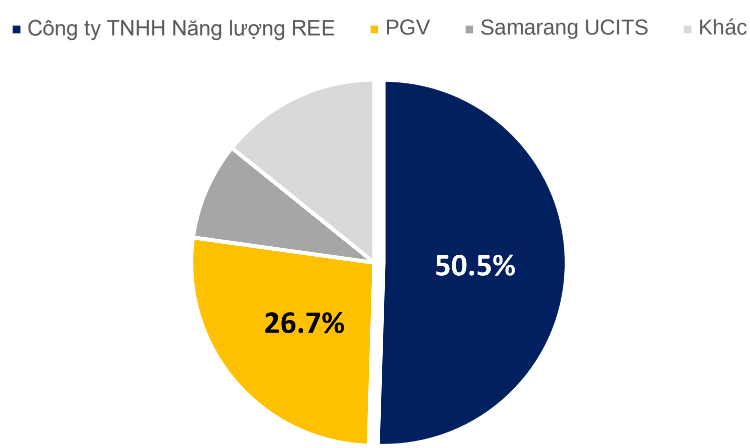
Source: VSH, BSC Research

Shareholder structure

VSH's shareholder structure is quite concentrated with 85.8% of the company's shares owned by 3 major shareholders, of which REE Energy Company Limited, owned by Refrigeration Electrical Engineering JSC (HSX: REE) with a ratio owns 50.5%, EVNGENCO 3 (PGV) owns 26.7% and the foreign fund Samarang UCITS owns 8.6%.

In May 2021, **REE Energy Co., Ltd. bought an additional 2.2 million shares of VSH**, thereby increasing its ownership ratio from 49.5% to 50.5%, thereby **officially consolidating VSH as a subsidiary since Q2/ 2021**.

Figure 1: VSH's shareholder structure



UPDATE 1H2021 BUSINESS RESULTS

Table 1: 1H2021 business results of VSH

Criteria (Billion VND)	Q2/2020	Q2/2021	% YoY	1H2020	1H2021	% YoY
Net Revenue	**55**	**498**	***809%***	**91**	**689**	***656%***
COGS	(50)	(233)	*367%*	(84)	(291)	*247%*
Gross profit	**5**	**265**	***5,283%***	**7**	**398**	***5,352%***
Gross profit margin	9%	53%		8%	58%	
Financial revenue	1	3	*126%*	1	3	*128%*
Financial expenses	(2)	(110)	*5,316%*	(3)	(110)	*3,912%*
- Interest expenses	(0)	(110)	*35,314%*	(1)	(110)	*17,318%*
Gain/(Loss) from affiliates	1	-	*-100%*	1	-	*-100%*
SG&A expenses	(7)	(9)	*24%*	(10)	(14)	*38%*
Net profit from operating activities	**(2)**	**150**	*7,582%*	**(4)**	**277**	*7,760%*
Other Profit/(Loss)	(0.1)	(0.0)	*-97%*	0.4	(0.0)	*-101%*
PBT	**(2)**	**150**	*7,158%*	**(3)**	**277**	*8,786%*
Corporate tax	-	(15)	*N/A*	-	(40.1)	*N/A*
NPAT	**(2)**	**135**	*6,467%*	**(3)**	**237**	*7,528%*
Minority interests	-	-	*N/A*	-	-	*N/A*
NPATMI	**(2)**	**135**	*6,467%*	**(3)**	**237**	*7,528%*
EPS		**542**			**972**	

Update 1H2021 business results

1H2021 revenue reached VND 689 billion (+656% yoy) thanks to (i) favorable hydrological situation and (ii) Thuong Kon Tum hydropower plant (220 MW) operate since the beginning of Q2, contributing 330 million kWh to 1H2021 output of VSH.

Commercial power output in 1H2021 will reach **745 million kWh (+323% yoy).**

Gross profit margin in the period reached 58% thanks to a sharp increase in 1H2021 output of 323% yoy, resulting in a decrease in depreciation expense/per unit of electricity output compared to 1H2020.

Financial expenses in 1H2021 reached VND 110 billion (39 times higher yoy) due to the interest expense of the Thuong Kon Tum project when it comes into operation in Q2/2021.

Source: VSH, BSC Research

2021-2022 BUSINESS OUTLOOK

VSH's business outlook is favorable thanks to a stable hydrological situation until mid-2022.

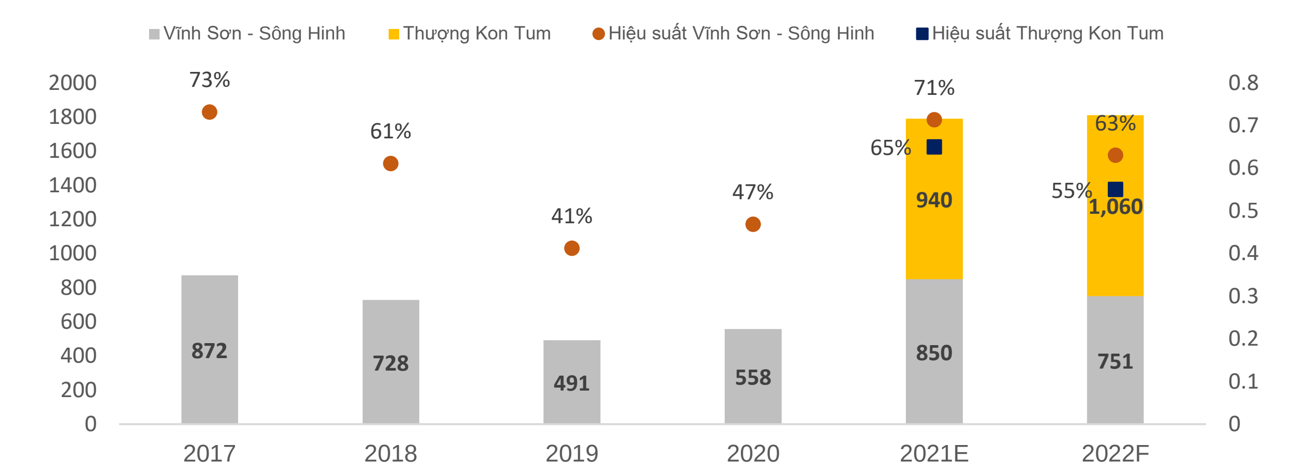
The La Nina phenomenon maintains its influence on 1H2022, helping VSH's power output be mobilized at a high capacity. According to Columbia University's forecast, the La Nina phenomenon will last until the first half of 2022. BSC believes that this will help improve the hydrological situation, through which hydropower plants (including VSH) will be supported by EVN. increase mobilizing more in the coming time (for details see Sector Outlook).

The selling price of electricity in the competitive generation market (CGM) continues to be low, giving VSH a competitive advantage over other power sources. The average CGM electricity price in Q1/2021 was at VND 1,100/kWh, about 38% higher than at the end of Q4/2020. In La Nina years, CGM prices tend to peak in the first quarter because this is the dry season and gradually decrease in the remaining quarters when the rainy season takes place. Therefore, BSC believes that the **hydropower group (including VSH) will benefit from the low CGM electricity price in 2021 thanks to the advantage of a cheaper price** compared to other power groups.

Thuong Kon Tum Hydropower Plant is a very important contributor to VSH's business results.

VSH's electricity output in 2021 can achieve a growth of 208% yoy thanks to the power of Thuong Kon Tum factory starting in Q2/2021. The Thuong Kon Tum project is a hydroelectric power plant with a reservoir located on the Dak Sngh river with 2 units with a capacity of 220 MW and an average annual output of about 1 billion kWh. In Q2/2021, Thuong Kon Tum contributed about 330 million kWh. In 2H2021, we think that Thuong Kon Tum will continue to be mobilized with high capacity due to having enough water since the end of 2020 and favorable hydrological situation. Therefore, BSC believes that Thuong Kon Tum's output in 2H2021 can reach 537 million kWh, **helping Thuong Kon Tum's electricity output in 2021 (9 months) reach 870 million kWh.** As a result, the total output of VSH in 2021 can reach 1.75 billion kWh (+213% yoy).

Figure 1: Thuong Kon Tum put into operation helps VSH's electricity output increase by about 2.5 times compared to before 2021



Source: VSH, BSC Research

In 2022, BSC believes that **Thuong Kon Tum's power output will increase by about 20% yoy** due to (i) the hydrological situation will continue to be stable in the first half of 2022 and (ii) the Thuong Kon Tum plant will operate for the whole year compared to 9 months of 2021. Therefore, **the electricity output of Thuong Kon Tum is forecasted to reach 1.04 billion kWh (+20% yoy), bringing VSH's total output to 1.85 billion kWh (+6% yoy)**.

If the PPA electricity price negotiation is successful, this will become a big boost to VSH's business results. Currently, Thuong Kon Tum hydropower plant is operating with a temporary PPA electricity price of VND 914/kWh. REE - VSH's parent company - is negotiating the PPA price of Thuong Kon Tum with EVN for the following years with the desire to use profile 1.2, equivalent to VND 1,097/kWh (+20% compared to the PPA price). current) to take advantage of the time when hydroelectricity is prioritized for mobilization. This also has important implications for REE's business results as VSH's financial statements are consolidated into REE's financial statements, so BSC believes that REE will use all resources to achieve the best results for Thuong Kon Tum as soon as possible.

Table 2: Revenue and NPAT in 2022 of Thuong Kon Tum project with electricity price negotiation assumptions PPA

Unit: billion VND	Successful negotiation case	Unsuccessful negotiation case
PPA electricity selling price (VND/kWh)	1316	1097
Output of Thuong Kon Tum (billion kWh)	1.04	1.04
Revenue in 2022 - TKT Project	1,369	1,141
NPAT in 2022 - TKT Project	90	(63)

Source: VSH, BSC Research

In case of successful negotiation, we estimate that the revenue and NPAT in 2022 of the Thuong Kon Tum project could reach VND 1,091 billion (+37% yoy) and VND 49 billion (+199% yoy) with expected volume at 1.04 billion kWh. VSH's revenue and NPAT in 2022 also **increased to VND 1,813 billion (+16% yoy)** and **VND 420 billion (+11% yoy)**.

FORECAST OF BUSINESS RESULTS

2021

In 2021, BSC forecasts VSH's revenue = **VND 1,563 billion (+359% yoy)** and NPAT = **VND 379 billion (+101% yoy)**, equivalent to EPS = **VND 1,603/share** based on assumptions:

- **Electricity production in 2021 can reach 1.75 billion kWh (+213% yoy),** of which Thuong Kon Tum contributes 870 million kWh (accounting for 51% of total output).
- The contract price of electricity in 2021 of Thuong Kon Tum factory is estimated at **VND 914/kWh**.

2022

In 2022, BSC forecasts VSH's revenue = **VND 1,813 billion (+17% yoy)** and NPAT = **VND 420 billion (+11% yoy)**, equivalent to EPS = **VND 1,777/share** based on the following assumptions:

- **Electricity production in 2022 can reach 1.85 billion kWh (+6% yoy),** of which Thuong Kon Tum plant contributes about 1.04 billion kWh (+20% yoy) thanks to the favorable hydrological situation in 1H2022.
- PPA electricity selling price in 2022 of Upper Kon Tum **can reach VND 1,097/kWh (+20% yoy)** thanks to successful negotiation of electricity price with EVN.

Table 3: Forecast of VSH's business results in 2021-2022

	2020	2021F	2022F
Revenue	**341**	**1,563**	**1,813**
Vinh Son - Song Hinh	341	769	722
Thuong Kon Tum	-	794	1,091
Gross profit	**137**	**820**	**905**
GPM	40%	52%	50%
SG&A expenses	(23)	(34)	(41)
Financial revenue	127	27	31
Financial expenses	(1)	(340)	(369)
Other profit/loss	-	-	-
Profit before tax	**236**	**474**	**525**
Profit after tax	**188**	**379**	**420**
EPS	797	1,603	1,777

Source: VSH, BSC Research

VALUATION

BSC recommends **BUY** for VSH with a fair value of **VND 35,000/share** in 2022, equivalent to an **upside of 26.6%** compared to the closing price on September 30, 2021 of VND 27,700/share). We use the EV/EBITDA valuation method with an industry average of 9.0x.

Table 2: Valuation Summary

Unit: Million VND	Value
EBITDA 2022F	**1,450,182**
Target EV/EBITDA	9.0
Enterprise value	**13,051,636**
(+) Cash & cash equivalents	204,691
(-) Debt	4,978,783
Equity value	**8,277,545**
Number of shares outstanding (million)	236
Fair Value (VND/share)	**35,045**

BSC

APPENDIX

IS (VND billion)	2019	2020	2021F	2022F
Net revenue	**400**	**341**	**1,563**	**1,813**
COGS	(203)	(204)	(743)	(908)
Gross profit	**197**	**137**	**820**	**905**
Selling expenses	-	-	-	-
G&A	(23)	(23)	(34)	(41)
Operating income	**178**	**236**	**474**	**525**
Financial income	7	127	27	31
Financial expenses	(5)	(6)	(340)	(369)
Interest expenses	(1)	(1)	(340)	(369)
Gain/loss from affiliates	1	1	-	-
Other gain/loss	0	(0)	-	-
Profit before tax	178	236	474	525
Corporate tax payment	(19)	(47)	(95)	(106)
Profit after tax	**159**	**188**	**379**	**420**
Minority interest	-	-	-	-
NPATMI	159	188	379	420
EBITDA	256	196	1,224	1,419
EPS	745	913	1,603	1,777

CF (VND billion)	2019	2020	2021F	2022F
Profit after tax	**159**	**188**	**379**	**420**
Depreciation	437	555	556	555
Change in NWC	(68)	171	(50)	(170)
Other adjustments	(340)	(545)	(107)	0
CF from operating activities	**189**	**369**	**777**	**805**
Fixed assets investment	(1,043)	(823)	(9,429)	(25)
Other investment	51	14	8,791	-
CF from investing activities	**(992)**	**(809)**	**(637)**	**(25)**
Dividend paid	-	-	-	(236)
Cash from net borrowing	717	383	(95)	(394)
CF from financing activities	**717**	**383**	**(95)**	**(630)**
Beginning cash balance	157	71	15	59
Cash in year	(86)	(56)	44	150
Ending cash balance	**71**	**15**	**59**	**209**

BS (VND billion)	2019	2020	2021F	2022F
Cash & cash equivalent	71	15	59	209
Short term investment	35	35	35	35
Account receivables	218	211	293	405
Inventory	105	101	139	193
Other current assets	10	1	-	-
Total current assets	**440**	**363**	**526**	**842**
Tangible assets	3,091	3,120	12,548	12,573
Depreciation	(2,526)	(2,610)	(3,047)	(3,603)
Long term incomplete assets	8,021	8,791	-	-
Long term investment	12	-	-	-
Other non-current assets	11	12	12	13
Total non-current assets	**8,609**	**9,314**	**9,513**	**8,984**
Total Assets	**9,049**	**9,676**	**10,039**	**9,826**
Account payables	512	566	670	664
Short-term debt	414	772	733	696
Other short-term debt	17	13	22	25
Current liabilities	**5,900**	**6,346**	**6,064**	**5,668**
Long-term debt	4,957	4,996	4,639	4,282
Other long-term debt	0	0	-	-
Non-current liabilities	**4,957**	**4,996**	**4,639**	**4,282**
Total Liabilities	**5,900**	**6,346**	**6,064**	**5,668**
Paid-in capital	2,062	2,062	2,362	2,362
Capital surplus	6	6	6	6
Retained earnings	696	877	1,256	1,440
Other equity	384	384	356	356
Minority interest	-	-	-	-
Shareholder's equity	**3,149**	**3,330**	**3,975**	**4,158**
Total Resources	**9,049**	**9,676**	**10,039**	**9,826**
Number of shares outstanding (million)	206	206	236	236

Ratios (%)	2019	2020	2021F	2022F
Liquidity ratios				
Current ratio	0.1	0.1	0.1	0.1
Quick ratio	0.1	0.0	0.1	0.1
Solvency ratios				
Debt/ Total assets	0.6	0.6	0.5	0.5
Debt/ Equity	1.7	1.7	1.4	1.2
Efficiency ratios				
Days of inventories	311	184	59	67
Days of receivables	250	230	59	70
Days of payables	365	577	144	134
CCC	196	(163)	(27)	3
Profitability ratios				
Gross profit margin	49%	40%	52%	50%
PBT margin	40%	55%	24%	23%
ROE	5%	6%	10%	10%
ROA	2%	2%	4%	4%
Valuation				
PE	26.4	22.2	12.8	11.5
PB	1.3	1.2	1.2	1.2
Growth				
Net revenue growth	-29%	-15%	359%	16%
EBIT growth	-48%	32%	243%	10%
PBT growth	-48%	32%	101%	11%
EPS growth	-48%	23%	101%	11%

Disclosure

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