

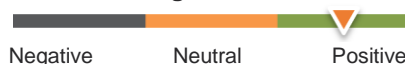
GIA LAI ELECTRICITY JSC (GEG) – COMPANY NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND14,900	N/A	N/A	N/A	Power

Outlook – Short term



Outlook – Long term



Valuation



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Gia Lai Electricity JSC was established in 1989 and is a small hydropower generation company. GEG recently switched its focus to solar energy and has two large solar power plants in the pipeline for the next two years under the guideline of major shareholder Thanh Thanh Cong Group (TTC). We expect that the solar foray might support a further valuation lift over the medium-term.

GEG is currently just a marginal player in the hydropower space. GEG possesses a total of 83.37MW of hydropower generation capacity both directly and indirectly through its subsidiaries. All of the hydropower plants under GEG are small with capacity under 20MW. The largest plant has a capacity of only 16.2MW, making it a very small player in the hydro space. However, hydropower production is currently the dominant business, contributing to around 90% of GEG's revenue, with a healthy gross margin of 56% as of the first 9 months of 2017.

GEG plans to be a major participant in its parent company TTC's aggressive renewable energy development plans. GEG is a member of TTC group, a holding company with diverse interests. TTC has stakes in various companies in the power, real estate, sugar, education, tourism and agriculture sectors. TTC has set aggressive targets for developing renewable energy (RE) assets in Vietnam with a target to reach 1,000MW of solar energy and 40MW of wind power capacity by 2020, accounting for 73% of the company's total power capacity. To put this in context, the latest national Power Development Plan 7 only aims to install 850MW of nationwide solar energy capacity by 2020. We expect that TTC will execute its RE plans through GEG, but specific project-level plans are unclear as of now.

The company's near-term focus will be on 2 large solar power projects in its pipeline. In 2017, GEG's Board of Directors approved a plan to develop two large solar power projects. This includes Phong Dien solar power plant (35MW) with an estimated capex of VND700bn and Krong Pa solar power project (49MW) with an estimated capex of VND1,428bn. The average capex per MW is around VND25bn/MW (~US\$1.1mn/MW), which we think is in line with the current cost of building a 1MW solar power plant in China, based on disclosure by Chinese listed solar players (according to The China Daily).

The company's prospects in solar energy seem to be underpinning the current valuation premium to peers. GEG currently is trading at a premium PE multiple compared to other small hydropower companies, although its valuation is still reasonable compared to its solar energy peers. We believe that this premium to other hydropower peers might expand even further as it comes closer to completing the construction of two of its large upcoming projects and starts trading more in line with solar peers. The discount to hydropower peers on a PB multiple basis results from its low ROE compared with other small hydropower plants which, in turn could be attributed to its heavy upfront investments in solar capacity.

Key statistics

52w high (VND)	16,100
52w low (VND)	10,799
3m Avg daily volume (shares)	10,411
3m Avg daily value (VNDmn)	147.1
Market cap (VNDbn)	1,417
Outstanding shares	97,091,275
Free float (%)	16.1
TTM P/E (x)	12.4
P/B	1.4

Ownership

Thanh Thanh Cong Investment JSC	22.87%
Global Mind Vietnam	22.87%
AVH Pte. Ltd	18.46%
International Finance Corporation (IFC)	14.68%
Others	21.12%

Source: VNDIRECT

Significant capital will be needed to finance the new solar projects, but the funding mix is uncertain implying indeterminate dilution risk. Phong Dien will be financed using 40% equity and 60% borrowings, equivalent to VND280bn in equity capital while Krong Pa will need VND428bn of equity (30% of total capex), at project level.

Since GEG is the main investor in the projects, it will need to stump up a total of up to VND708bn in funding to bring the above 2 projects to fruition. If all of this project level equity capital outlay is funded through borrowings at the corporate level, GEG's debt/total equity ratio could rise sharply from the current 0.3x to 0.9x, which is still far lower than industry standards. This however does not factor in the project-level debt which might not impact reported leverage as it could sit on off-balance sheet vehicles.

The 2 new solar facilities will add 45-50% to both current revenue and gross profit when they reach steady state. Phong Dien's development will be carried out in two stages with 5MW connecting to the grid by 2018 for the first stage and 30MW going into operation in 2019 for the second stage. Krong Pa, on the other hand, will begin being constructed in 1Q2018 and this project will be completed by 2Q2019. We forecast the two plants will collectively contribute VND250.3bn in revenue and VND152.3bn in gross profit (expected GM of 61%) when their operations reach steady state, based on a VND2,086/kWh average selling price (as stipulated in Decree 16/2017/TT-BCT passed in 2017).

Figure 1: Peer Comparison

Company	Country	Market Cap (mn US\$)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	TTM P/B (x)
<u>Small hydropower</u>									
Gia Lai Hydropower JSC	Vietnam	31.3	9.7	6.8	17.7	22.2	0.0	10.8	2.4
Hydro Power JSC - Power No.3	Vietnam	22.6	74.4	73.0	51.2	51.4	0.0	8.3	4.0
PC3 - Invest	Vietnam	20.0	2.3	-0.8	5.4	8.0	50.4	17.1	1.4
<i>Peer Average</i>		24.6	28.8	26.3	24.8	27.2	16.8	12.1	2.6
<i>Peer Median</i>		22.6	9.7	6.8	17.7	22.2	0.0	10.8	2.4
<u>Solar power</u>									
Huadian Fuxin Energy Corp	Hong Kong	2181.5	0.6	0.6	2.0	11.1	286.3	7.2	0.7
Superblock PCL	Thailand	1020.0	58.9	55.3	2.7	10.4	172.1	26.4	2.6
CK Power PCL	Thailand	994.1	34.9	29.4	-0.1	-0.3	93.2	n/a	1.8
Zhongmin Energy Co LTD	China	651.6	319.4	300.0	3.9	8.2	92.0	32.3	2.6
SPCG PCL	Thailand	649.0	8.2	8.3	9.8	29.1	124.2	8.6	2.3
Neo Solar Power Corporation	Taiwan	475.5	8.0	8.2	-19.8	-45.0	138.3	n/a	1.1
Motech Industries Inc	Taiwan	414.2	66.0	69.1	-9.8	-23.3	85.2	n/a	1.0
Gintech Energy Corporation	Taiwan	313.0			-8.2	-12.6	31.5	n/a	0.8
E-ton Solar Tech Co Ltd	Taiwan	224.5	66.3	66.1	-9.9	-11.5	0.9	n/a	1.2
Comtec Solar Systems Group	Hong Kong	81.8			-64.7	-140.0	94.7	n/a	1.4
<i>Average</i>		700.5	70.3	67.1	-9.4	-17.4	111.8	18.6	1.6
<i>Median</i>		562.2	46.9	42.3	-4.1	-5.9	94.0	17.5	1.3
Gia Lai Electricity JSC	Vietnam	63.7	105.8	105.8	5.5	9.4	26.9	12.4	1.4

Source: Bloomberg

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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