


## Company Note

### I Vietnam

## REDUCE *(no change)*

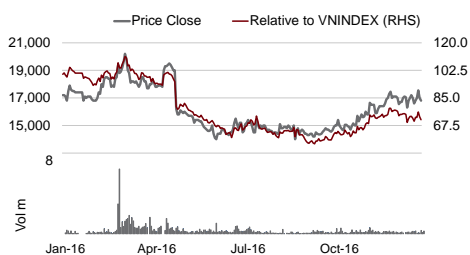
Consensus ratings\*: Buy 3 Hold 2 Sell 1

Current price: VND16,800  
 Target price:  VND10,936  
 Previous target: VND10,936  
 Up/downside: -34.9%  
 CIMB / Consensus: -39.9%

Reuters: PPC.HM  
 Bloomberg: PPC VN  
 Market cap: US\$236.8m  
 VND5,344,998m  
 Average daily turnover: US\$0.15m  
 VND3,311m  
 Current shares o/s: 326.2m  
 Free float: 47.7%  
 \*Source: Bloomberg

### Key changes in this note

- FY16F EPS increased by 201%
- FY17F EPS reduced by 5%.
- FY18F EPS increased by 8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.9	15.1	0
Relative (%)	-6.5	15.1	-29.6

Major shareholders	% held
Genco 2	52.3
REE	23.5
Halley Sicav	7.0

### Analyst(s)



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## Pha Lai Thermal Power

### PPC and Electricity Vietnam sign a new PPA

- In Jan-Jun 2016, PPC was operating without a PPA, so the company sold a high proportion of its output on the nascent Competitive Generation Market (CGM).
- PPC is at a disadvantage to other Vietnam power producers on the CGM because of its higher generation cost, so its earnings plunged last year.
- PPC signed a new power purchase agreement (PPA) with Electricity Vietnam (EVN) that will limit the proportion of its output that it sells on the CGM to about 25%.
- We maintain our Reduce rating on PPC, as we believe the stock's high dividend yield (its main attraction) is not sustainable moving forward.

### New PPA to boost PPC's earnings in 2017

PPC operated without a PPA for most of 2016, compelling it to sell most of the electricity generated on Vietnam's nascent CGM, where it was at a disadvantage to other local hydro power and gas-based power generators (see below). However, under its new PPA, EVN has committed to buying more electricity directly from PPC (4.6b kWh or c.75% of PPC's output, vs. from 3b kWh previously). We estimate the price that PPC gets for selling electricity on the CGM is about 15% lower than the price EVN is paying.

### PPC is at a competitive disadvantage to its local peers on the CGM

The cost of generating electricity is higher for PPC than those of its local hydro-based and natural gas-based competitors, partly because of the higher efficiency of both technologies. Gas is a cheaper and cleaner source of electricity and the marginal cost of production for hydroelectricity is nearly zero. PPC is also disadvantaged in other ways- its production facilities are outdated and the deregulation of the natural gas market in Vietnam has outpaced that of the coal industry.

### PPC's production facilities need a US\$200m overhaul

Last year, PPC's earnings plunged because it was compelled to compete directly with its local independent power producer (IPP) peers in Vietnam's new CGM. Apart from the issues mentioned above (gas and hydro power are more efficient), PPC's biggest issue is that must spend about US\$200m to upgrade its 34-year old power plant. We estimate that its outdated plant costs PPC about 15% more to generate electricity than a modern coal-fired power plant.

### Unsustainable dividend yield

The biggest appeal of PPC to investors is the stock's ~12% dividend yield in FY15-16F, partly due to encouragement from its SOE parent company, EVN. However, we believe that PPC will not be able to sustain its high dividend payout in FY17F onwards. PPC currently has US\$136m of cash (over 50% of its market cap), but it must start refurbishing its power plant in the next two years. Even without this imminent sizeable capex, we do not think the company's 270% dividend payout ratio is sustainable.

### Maintain Reduce rating

We maintain our target price of VND10,936, based on 7.5x FY17 P/E (a 15% discount to the average valuation of its local peers, given the issues discussed above). We also maintain our Reduce rating on PPC because we believe its high dividend yield is not sustainable. Upside risks include steep JPY depreciation against the VND (PPC has JPY-denominated debt) and improvement in PPC's relative competitiveness on the CGM from natural gas price spike or drought impeding operations of hydro-based IPPs.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (VNDb)	7,482	7,665	5,540	6,605	6,605
Operating EBITDA (VNDb)	1,127	1,318	280	345	345
Net Profit (VNDb)	1,045	561	200	463	475
Core EPS (VND)	3,555	2,067	882	1,733	1,773
Core EPS Growth	(33.8%)	(41.9%)	(57.3%)	96.5%	2.3%
FD Core P/E (x)	4.73	8.13	19.05	9.69	9.48
DPS (VND)	1,511	2,011	2,563	1,743	1,743
Dividend Yield	9.0%	12.0%	15.3%	10.4%	10.4%
EV/EBITDA (x)	3.12	3.84	13.77	11.06	10.23
P/FCFE (x)	11.09	32.08	5.33	27.41	6.29
Net Gearing	(3.9%)	23.2%	18.7%	18.7%	13.0%
P/BV (x)	0.94	0.94	1.05	1.07	1.09
ROE	20.4%	11.6%	5.2%	10.9%	11.4%
% Change In Core EPS Estimates			201%	(5%)	8%
CIMB/consensus EPS (x)			0.42	0.63	0.71

SOURCE: COMPANY DATA, CIMB FORECASTS

# PPC and Electricity Vietnam sign a new PPA

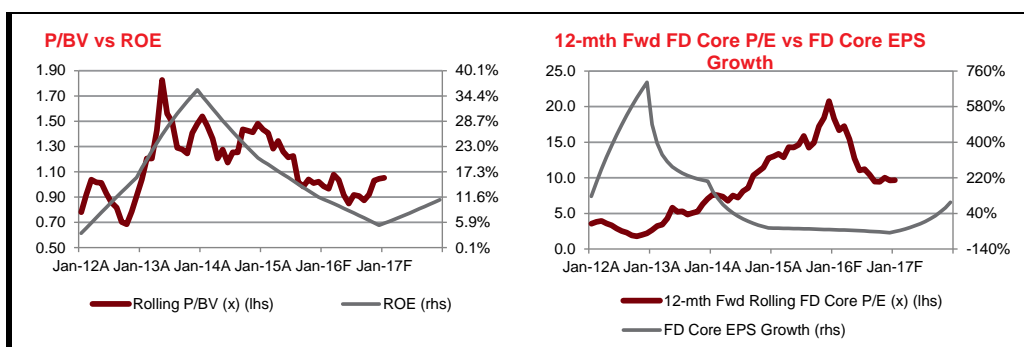
Revised forecasts 

**Figure 1:**

VNDbn	2016			2017			2018		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	6,352	5,540	-13%	6,304	6,605	5%	6,280	6,605	5%
Operating EBIT	507	175	-66%	413	295	-28%	346	295	-15%
Net profit	-3	202	N/A	497	463	-7%	445	475	7%
EPS	-8	630	N/A	1,531	1,454	-5%	1,385	1,494	8%

SOURCES: CIMB, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
<b>Total Net Revenues</b>	<b>7,482</b>	<b>7,665</b>	<b>5,540</b>	<b>6,605</b>	<b>6,605</b>
<b>Gross Profit</b>	<b>1,234</b>	<b>1,422</b>	<b>365</b>	<b>447</b>	<b>447</b>
<b>Operating EBITDA</b>	<b>1,127</b>	<b>1,318</b>	<b>280</b>	<b>345</b>	<b>345</b>
Depreciation And Amortisation	(701)	(458)	(105)	(50)	(50)
<b>Operating EBIT</b>	<b>427</b>	<b>860</b>	<b>175</b>	<b>295</b>	<b>295</b>
Financial Income/(Expense)	189	215	226	236	241
Pretax Income/(Loss) from Assoc.	(10)	115	64	72	80
Non-Operating Income/(Expense)	696	(585)	(250)	(70)	(70)
<b>Profit Before Tax (pre-EI)</b>	<b>1,408</b>	<b>708</b>	<b>299</b>	<b>634</b>	<b>648</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,302</b>	<b>604</b>	<b>215</b>	<b>533</b>	<b>547</b>
Taxation	(247)	(39)	(12)	(66)	(67)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,054</b>	<b>566</b>	<b>202</b>	<b>467</b>	<b>480</b>
Minority Interests	(9)	(5)	(2)	(4)	(4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,045</b>	<b>561</b>	<b>200</b>	<b>463</b>	<b>475</b>
Recurring Net Profit	1,131	658	281	551	564
<b>Fully Diluted Recurring Net Profit</b>	<b>1,131</b>	<b>658</b>	<b>281</b>	<b>551</b>	<b>564</b>

### Cash Flow

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
<b>EBITDA</b>	<b>1,127</b>	<b>1,318</b>	<b>280</b>	<b>345</b>	<b>345</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(229)	(327)	548	(274)	0
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(42)	1,390	250	430	430
Net Interest (Paid)/Received	322	281	226	236	241
Tax Paid	(397)	(185)	(12)	(66)	(67)
<b>Cashflow From Operations</b>	<b>782</b>	<b>2,477</b>	<b>1,291</b>	<b>671</b>	<b>949</b>
Capex	(200)	(294)	(100)	(100)	(100)
Disposals Of FAs/subsidiaries	0	0	0	0	0
Acq. Of Subsidiaries/investments	(28)	0	0	0	0
Other Investing Cashflow	307	(1,683)	0	0	0
<b>Cash Flow From Investing</b>	<b>80</b>	<b>(1,978)</b>	<b>(100)</b>	<b>(100)</b>	<b>(100)</b>
Debt Raised/(repaid)	(380)	(333)	(189)	(376)	0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(481)	(640)	(816)	(555)	(555)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(860)</b>	<b>(972)</b>	<b>(1,004)</b>	<b>(931)</b>	<b>(555)</b>
Total Cash Generated	1	(473)	187	(360)	295
<b>Free Cashflow To Equity</b>	<b>482</b>	<b>167</b>	<b>1,003</b>	<b>195</b>	<b>849</b>
<b>Free Cashflow To Firm</b>	<b>1,008</b>	<b>620</b>	<b>1,300</b>	<b>670</b>	<b>943</b>

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Cash And Equivalents	4,633	3,108	3,295	2,936	3,230
Total Debtors	2,142	1,467	1,060	1,264	1,264
Inventories	705	660	477	569	569
Total Other Current Assets	1	737	533	635	635
<b>Total Current Assets</b>	<b>7,480</b>	<b>5,973</b>	<b>5,366</b>	<b>5,404</b>	<b>5,698</b>
Fixed Assets	1,096	731	725	775	825
Total Investments	2,745	2,012	2,076	2,148	2,228
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	4	2,354	1,854	1,354	854
<b>Total Non-current Assets</b>	<b>3,844</b>	<b>5,097</b>	<b>4,655</b>	<b>4,276</b>	<b>3,907</b>
Short-term Debt	327	430	376	376	376
Current Portion of Long-Term Debt					
Total Creditors	326	343	248	296	296
Other Current Liabilities	873	546	395	471	471
<b>Total Current Liabilities</b>	<b>1,526</b>	<b>1,319</b>	<b>1,019</b>	<b>1,142</b>	<b>1,142</b>
Total Long-term Debt	4,083	4,011	3,876	3,500	3,500
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
<b>Total Non-current Liabilities</b>	<b>4,083</b>	<b>4,011</b>	<b>3,876</b>	<b>3,500</b>	<b>3,500</b>
Total Provisions	0	0	0	0	0
<b>Total Liabilities</b>	<b>5,608</b>	<b>5,330</b>	<b>4,895</b>	<b>4,643</b>	<b>4,643</b>
Shareholders' Equity	5,674	5,700	5,085	4,993	4,913
Minority Interests	42	39	41	45	50
<b>Total Equity</b>	<b>5,716</b>	<b>5,739</b>	<b>5,126</b>	<b>5,038</b>	<b>4,963</b>

### Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	13.7%	2.4%	(27.7%)	19.2%	0.0%
Operating EBITDA Growth	(27.5%)	15.2%	(74.4%)	22.5%	0.0%
Operating EBITDA Margin	16.5%	18.5%	6.6%	6.8%	6.8%
Net Cash Per Share (VND)	703	(4,189)	(3,008)	(2,957)	(2,031)
BVPS (VND)	17,835	17,915	15,982	15,693	15,443
Gross Interest Cover	3.84	8.01	2.39	4.01	4.22
Effective Tax Rate	19.0%	6.4%	5.7%	12.4%	12.3%
Net Dividend Payout Ratio	42%	96%	286%	98%	96%
Accounts Receivables Days	86.49	85.91	83.47	64.22	69.85
Inventory Days	48.01	39.90	40.21	31.00	33.71
Accounts Payables Days	17.61	19.57	20.92	16.12	17.54
ROIC (%)	16.9%	35.1%	5.1%	9.9%	10.4%
ROCE (%)	8.23%	9.59%	6.08%	8.00%	8.24%
Return On Average Assets	8.37%	4.06%	0.58%	3.37%	3.52%

### Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Power Despatched (GWh)	6,305.0	5,711.7	4,534.5	5,441.4	5,441.4
Capacity (MW)	1,040.0	1,040.0	1,040.0	1,040.0	1,040.0
Average Capacity Utilisation (%)	105.1%	105.0%	75.6%	90.7%	90.7%
Avg tariff/ASP per kwh (% chg)	N/A	N/A	N/A	N/A	N/A
Fuel Cost Per Kwh (% Change)	N/A	N/A	N/A	N/A	N/A
Industry Reserve Margin (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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<b>Score Range:</b>	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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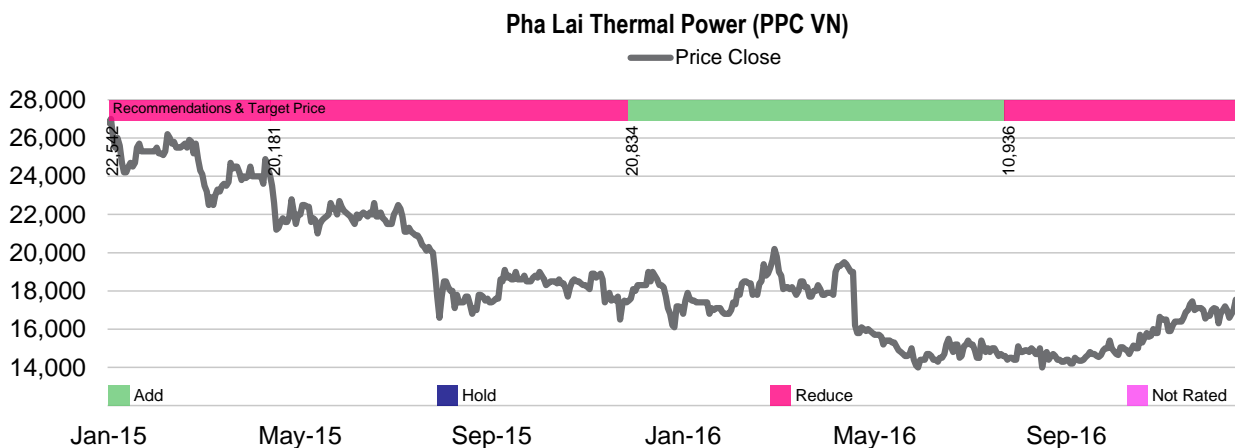
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016

1626 companies under coverage for quarter ended on 31 December 2016

	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

### Spitzer Chart for stock being researched ( 2 year data )



### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

**AAV** – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** – Excellent, Certified, **ITD** – Good, n/a, **IVL** – Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** – Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** – Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** – Excellent, n/a, **SAPPE** – Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, **SC** – Excellent, Declared, **SCB** – Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** – Excellent, Declared, **SIM** – Excellent, n/a, **SIRI** – Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** – Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

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#### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more 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.