

PHA LAI THERMAL POWER JSC (PPC)

Current Price VND20,300	Target Price 21,400	Dividend Yield n/a	Recommendation Hold	Sector UTILITIES
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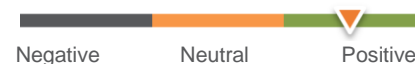
Outlook – Short term



Outlook – Long term



Valuation



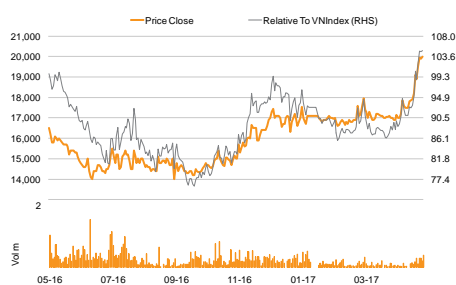
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During Q1, PPC had shown much better business results with improved gross margin compared to the same time last year thanks to favorable electricity average selling price (ASP). PPC has also become attractive again as prepayment of JPY debt reduces the company's exposure to exchange rate risk.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	20,000
52w low (VND)	14,000
Average daily turnover (3m)	81,076
Market cap (bn VND)	6,363.09
Outstanding shares	318,154,614
Free float (%)	8.69
Beta	1.06

Much improved 1Q2017 performance: 1Q2017 revenue stood at VND1,475bn (-13% YoY) but EBT was much higher at VND142.2bn (vs negative figure of VND157bn in 2016) due to much higher ASP at VND1,350/kWh (+26.2% YoY). We attributed this increase in selling price to (i) renewed PPA with EVN and (ii) higher electricity price during dry season.

Prepayment of debt reduces exposure to exchange rate risk: During 1Q2017, EVN had allowed PPC to speed up their payment of Yen debt and PPC had prepaid approximately JPY8bn (VND1,600bn) during the quarter. The company plans to prepay another JPY8bn during 2Q, equivalent to 37.5% the current debt principal.

Upgrading of Pha Lai 1 plant (PL1) in discussion: The plan to upgrade PL1 has been approved by major shareholders to be VND3,600bn with installment of exhaust air filter systems and SO₂, NO_x filter systems at four years intend time needed for renovation. However, the detailed renovation plan and timeline is not yet approved by the management. Production activity will not be affected by the renovation plan as the engines will be renovated alternately.

Raise target price by 15% and maintain HOLD recommendation. We upgrade our evaluation for PPC to target price of VND21,400/share (previous target price was VND18,600/share) at EV/EBITDA FY2017 of 7.73x taking into account better prospect for 2017 and lower loss from exchange rate difference.

Ownership Structure

Major Shareholder	% owned
Genco 2	52.3
Ree Corp.	23.5
Halley Sicav	9.1
Market Vectors ETF	3.9

Financial summary (VND)	12-15A	12-16A	12-17E	12-18E
Revenue (bn)	7,665	5,977	6,652	7,043
Revenue growth	2.4%	(22.0%)	11.3%	5.9%
Gross margin	12.6%	8.4%	9.8%	9.9%
Operating EBITDA (bn)	402	324	486	526
Net profit (bn)	561	549	706	647
Net profit growth	(46.3%)	(2.2%)	28.7%	(8.4%)
EPS	1,762	1,724	2,220	2,032
BVPS	17,915	16,204	17,224	17,757
ROAE	9.9%	10.1%	13.3%	11.6%

Source: VNDIRECT

1Q2017 improved performance

Higher ASP: Electricity output during 1Q reached 1,186 million kWh (-18.2% YoY and 94.1% quarterly target). 1Q ASP at VND1,350/kWh (+26.2% YoY) had boosted gross profit margin to much higher 16.8% (vs 2.82% in 2016). The combined effect from (i) renewed contract with EVN allowing PPC to put up electricity for sale at higher price compared to same period last year, and (ii) the grid's overall higher buying price in dry season, contributed to higher selling price seen.

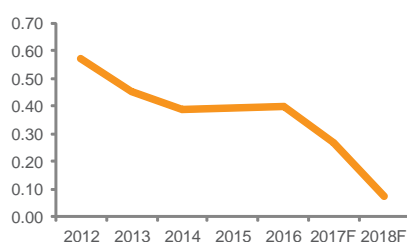
PPC also incurred less loss from exchange rate difference (VND168.2bn) during 1Q2017 compared to 1Q2016 (VND261.5bn).

2017 better outlook: 2Q2017 and the whole year outlook is predicted to be better with weak El Nino coming back, predicting a much hotter summer and less rain. This will be favorable for thermal power plants to become main source of electricity as power demand heightens and hydropower production activity decreases.

For 2017, we forecast total electricity output to be at 5,591 million kWh (+6.6% YoY) with ASP approx. VND1,293/kWh (+5% YoY). Total forecasted revenue will be VND6,652bn (+11.2% YoY) and EBT of VND793bn (+28.7% YoY) with scenario of 1% appreciation in JPY.

Stable dividend payment plan: The company will pay out 2016 second cash dividend payment of VND1,200/share within 2Q (est. 2016 dividend yield of 10% at market price of VND20,000/share). May 29 and May 30 will be the ex-date and record date for receiving the dividend payment respectively. In 2018, PPC plans to pay out 2017 cash dividend at VND1,500/share.

Leverage (debt/assets)



Source: VNDIRECT

The borrowing in JPY the company is currently prepaying incurs 2.7% interest rate per annum.

Lower exposure to JPY fluctuation

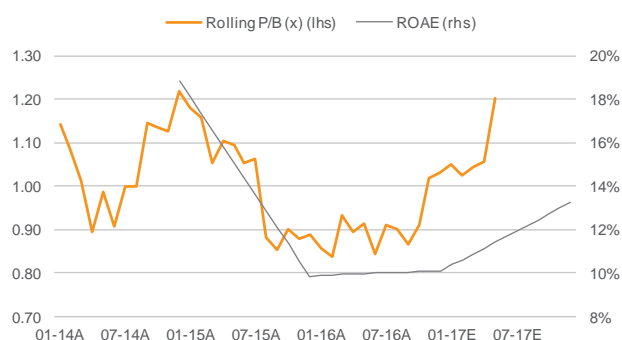
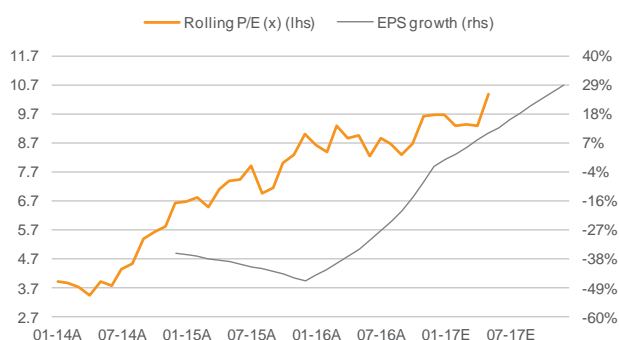
According to our calculation, total principal of Yen debt remaining at the end of 2017 will be JPY5.35bn (-74.9% YoY). PPC's exposure to fluctuation in JPY exchange rate is significantly reduced: with 1% appreciation/depreciation in JPY, PPC is forecasted to lose/gain an amount equal to VND10.5bn (vs VND40.1bn in 2016 with 1% appreciation scenario).

The company's leverage (debt/assets) decreases with the prepayment of debt.

Effect on interest expense and interest income: JPY8bn during 1Q was paid using short-term savings (VND1,010bn) and lending receivables to EVN (VND590bn). PPC plans to prepay another JPY8bn during Q2 using additional short-term borrowings in VND (VND1,300bn) at 5% interest rate. This amount will be paid back in 2018 when long-term lending to EVN matures. The company plans to pay another JPY2.5bn in 2018 and the rest in 2019 (approx JPY2.8bn) to complete its payment of Yen debt by end-2019.

In our calculation, using short-term savings and lending receivables to pay back Yen debt will also reduce interest income PPC receives in 2017 by 32.8% YoY down to VND266.8bn. Interest expense will decline by 34.9% YoY with combined results of (i) decreasing Yen debt (interest at VND49.2bn), and (ii) additional short-term borrowing (interest at VND32.5bn). As the fall in interest income is higher (in absolute amount) than the reduction in interest expense, the net effect is a reduction in interest income of 31.2% YoY down to VND185.1bn, not including loss/gain from revaluation of Yen debt.

Valuation



Income statements

(VNDbn)	12-16A	12-17E	12-18E
Revenue	5,977	6,652	7,043
Cost of sales	(5,474)	(5,997)	(6,344)
Gen & admin expenses	(108)	(119)	(126)
Selling expenses	0	0	0
Operating profit	396	536	573
Operating EBITDA	324	486	526
Depreciation and amortisation	72	49	48
Operating EBIT	396	536	573
Interest income	397	267	120
Financial expense	(254)	(97)	(51)
Net other income	12	23	18
Income from associates & JVs	64	64	64
Pre-tax profit	616	793	725
Taxation	(62)	(79)	(73)
Minority interests	(6)	(7)	(6)
Net profit	549	706	647
Adj. net profit to ordinary	549	706	647
Ordinary dividends			
Retained earnings	549	706	647

Cash flow statement

(VNDbn)	12-16A	12-17E	12-18E
Pretax profit	616	793	725
Depreciation & amortisation	72	49	48
Other non cash gains/(losses)	(92)	13	6
Other non operating gains/(losses)	(135)	(248)	(148)
Tax paid	(12)	(11)	(73)
Other operating cash flow	(467)	0	0
Change in working capital	(235)	(109)	(101)
Cash flow from operations	(253)	486	456
Capex	(83)	(295)	(253)
Proceeds from assets sales	0	0	0
Others	703	1,600	1,800
Other non-current assets changes	486	354	202
Cash flow from investing activities	1,106	1,659	1,750
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	20	1,300	0
Other financing cash flow	(2)	(3,171)	(1,800)
Dividends paid	(799)	(382)	(477)
Cash flow from financing activities	(781)	(2,253)	(2,278)
Cash and equivalents at beginning of period	714	786	678
Total cash generated	72	(107)	(71)
Cash and equivalents at the end of period	786	678	607

Balance sheets

(VNDbn)	12-16A	12-17E	12-18E
Cash and equivalents	786	678	607
Short term investments	2,110	1,100	1,100
Accounts receivables	2,727	2,365	1,970
Inventories	557	610	645
Other current assets	5	4	5
Total current assets	6,184	4,758	4,327
Fixed assets	742	728	711
Total investments	1,950	2,042	1,963
Other long-term assets	1,711	1,655	494
Total assets	10,588	9,183	7,495
Short-term debt	382	1,300	0
Accounts payable	247	278	293
Other current liabilities	940	893	939
Total current liabilities	1,568	2,472	1,232
Total long-term debt	3,825	1,189	571
Other liabilities	0	0	0
Shareholders' equity	5,155	5,480	5,649
Minority interests	38	42	43
Total liabilities & equity	10,588	9,183	7,495

Key ratios

	12-16A	12-17E	12-18E
Dupont			
Net profit margin	9.2%	10.6%	9.2%
Asset turnover	1	1	1
ROAA	5.1%	7.1%	7.8%
Avg assets/avg equity	2	2	1
ROAE	10.1%	13.3%	11.6%
Efficiency			
Days account receivable	103	93	93
Days inventory	37	37	37
Days creditor	17	17	17
Fixed asset turnover	8	9	10
ROIC	5.8%	8.8%	10.3%
Liquidity			
Current ratio	4	2	4
Quick ratio	4	2	3
Cash ratio	2	1	1
Cash cycle	124	113	113
Growth rate (yoy)			
Revenue growth	(22.0%)	11.3%	5.9%
Operating profit growth	(54.0%)	35.3%	7.1%
Net profit growth	(2.2%)	28.7%	(8.4%)
EPS growth	(2.2%)	28.7%	(8.4%)
Share value			
EPS (VND)	1,724	2,220	2,032
BVPS (VND)	16,204	17,224	17,757
DPS (VND)	0	0	0

Source: VNDIRECT

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