

PHA LAI THERMAL POWER JSC (PPC) – UPDATE

Market Price VND19,000	Target Price VND22,300	Dividend Yield 7.9%	Rating ADD	Sector UTILITIES
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Outlook – Short term



Outlook – Long term



Valuation



08 May 2018

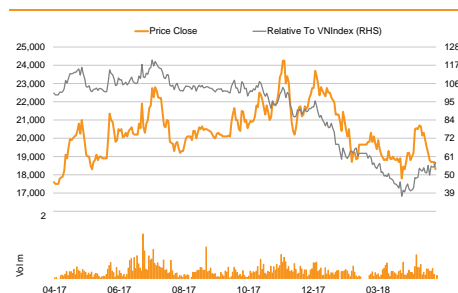
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Key changes in the report

- N/A
-

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	23,322
52w low (VND)	14,546
3m Avg daily volume (shares)	256,218
3m Avg daily value (VNDmn)	5,404
Market cap (VNDbn)	6,091
Outstanding shares (m)	320.6
Free float (%)	9.3
TTM P/E (x)	6.9
Current P/B (x)	1.1

Ownership

Genco 2	51.9%
REE	23.4%
Samarang Ucits	9.1%
Others	15.6%

Source: VNDIRECT

PPC reported good Q1 numbers due to lower loss from revaluation of foreign debt. Prepayment of borrowings in JPY has proved to be beneficial to the company as PPC's performance has become more stable compared to the past. We maintain our target price but re-rate the stock to ADD because of the recent slide in the company's share price in line with the overall market even as fundamentals look stronger due to less forex risk.

Revenue surged (+22.1% YoY) on higher electricity output (+19.2%) during the quarter but margins slid due to coal prices. Total electricity output sold during 1Q reached 1.3bn kWh at a slightly higher average selling price (+2.4% YoY), helping PPC recorded VND1,801bn in net revenue. However, coal price during 1Q2018 nudged up 3.5% from the same period last year, leading to a 200 bps YoY contraction in gross margin.

Spare cash was used to prepay JPY borrowings last year. In 2017, PPC paid back JPY16bn (equivalent to VND3,239bn), lowering interest income by 94.1% YoY during the quarter. However, prepayment of debt also reduced interest expenses by 3.5 times compared to 1Q2017. As a result, net interest expense was lowered by 4.1 times YoY, supporting a 41.8% YoY surge in pre-tax profits.

Prepayment of JPY also reduced historical earnings volatility fluctuation from revaluation of foreign debt. During 1Q2018, the JPY appreciated 6.3% versus the Dong, higher than in the same period last year (+5.6%). Despite this, foreign debt revaluation losses were lower by 178.2% YoY due to the reduction in foreign currency borrowings by 75% YoY. Moreover, earnings will be more stable going forward now that PPC is less susceptible to fluctuations in JPY/VND forex movements. At current levels of yen-denominated debt, we estimate that for every 1% appreciation in the JPY/VND exchange rate, PPC will incur VND10.5bn in debt revaluation losses, compared with VND40.1bn in 2016 (before prepayment).

We maintain our target price at VND22,300/share based on a target EV/EBITDA multiple of 9.5x, (in line with peer average) and our latest forecast for 2018 results unchanged. At the current price of VND19,000, the stock is trading at a TTM P/E of 6.9x and forward P/E of 7.1x based on our FY18F NPAT, a significant discount to the peer average P/E of 13.9x. Given that financial expenses are more stable now on lower debt revaluation losses, we think that PPC's P/E does not warrant such a deep discount to its peers.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	7,665	5,977	6,236	6,948
Revenue growth	2.4%	(22.0%)	4.3%	11.4%
Gross margin	12.6%	8.4%	12.7%	12.5%
EBITDA margin	17.2%	7.8%	12.0%	11.8%
Net profit (bn)	561	549	854	858
Net profit growth	(46.3%)	(2.2%)	55.7%	0.4%
Recurring profit growth	(26.9%)	(1.2%)	17.1%	(2.4%)
Basic EPS	1,762	1,724	2,680	2,675
Adjusted EPS	1,762	1,495	2,538	2,534
BVPS	17,915	16,204	17,185	18,258
ROAE	9.8%	10.1%	16.1%	15.1%

Figure 1: Valuation

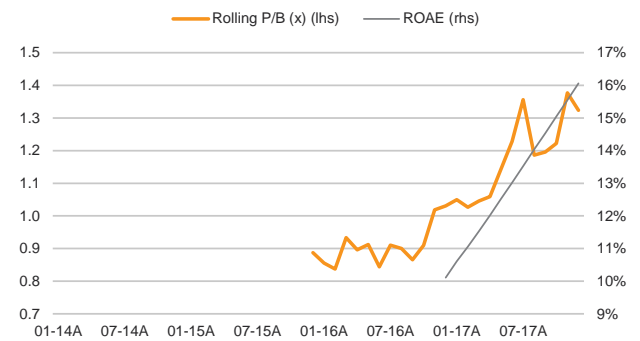
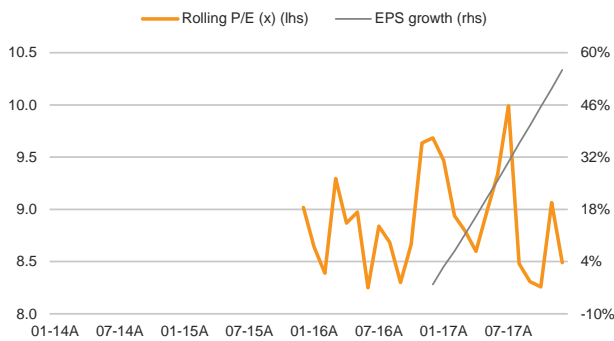
Valuation method		
FY18F EBITDA	817	VND bn
Target EV/EBITDA multiple	9.5x	
Enterprise value	7,747	VND bn
Net debt	616	VND bn
Market value of equity	7,131	VND bn
No of shares outstanding	320,613,054	shares
Target price	22,243	VND/share

Figure 2: Peer comparison

Company	Country	Market cap (US\$mn)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)	TTM EV/EBITDA (x)
Tata Power Co Ltd	India	3,438.0	232.2	302.6	3.0	16.5	2.5	9.1	1.4	9.9
Huadian Fuxin Energy Corp	Hong Kong	2,335.1	6.4	6.4	2.0	11.3	3.6	7.2	0.8	9.4
Reliance Power Ltd	India	1,584.7	-6.3	-6.3	1.6	4.7	1.2	10.3	0.5	8.0
PetroVietnam Power Corp	Vietnam	1,481.4	-50.5	0.0	1.5	4.5	1.3	n/a	1.3	n/a
United Power Generation	Bangladesh	965.4	-25.5	-26.1	29.7	30.5	0.0	19.4	5.4	14.7
PetroVietnam Nhon Trach 2	Vietnam	387.5	-11.7	-12.8	6.8	14.6	0.7	11.6	1.7	5.7
Khulna Power Co Ltd	Bangladesh	235.4	-6.2	-6.1	13.0	19.9	0.3	10.8	2.1	9.1
<i>Average</i>			19.8	42.9	8.2	14.6	1.4	13.9	1.9	9.5
<i>Median</i>			-6.3	-6.2	3.0	14.6	1.2	10.8	1.4	9.3
Pha Lai Thermal Power JSC	Vietnam	268.9	34.2	33.2	10.8	16.1	0.2	6.9	1.1	8.4

Source: Bloomberg, VNDIRECT

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	5,977	6,236	6,948
Cost of sales	(5,474)	(5,445)	(6,077)
Gen & admin expenses	(108)	(81)	(90)
Selling expenses	0	0	0
Operating profit	396	710	780
Operating EBITDA	468	747	817
Depreciation and amortisation	(72)	(37)	(37)
Operating EBIT	396	710	780
Interest income	411	412	244
Financial expense	(254)	(120)	(50)
Net other income	(2)	1	1
Income from associates & JVs	64	0	32
Pre-tax profit	616	1,003	1,007
Taxation	(62)	(149)	(150)
Minority interests	(6)	0	0
Net profit	549	854	858
Adj. net profit to ordinary	549	854	858
Ordinary dividends	(799)	(1,020)	(481)
Retained earnings	(250)	(166)	377

Balance sheet

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	786	209	273
Short term investments	2,110	550	0
Accounts receivables	2,727	2,260	2,625
Inventories	557	552	724
Other current assets	5	16	19
Total current assets	6,184	3,586	3,641
Fixed assets	742	687	755
Total investments	1,950	2,269	2,269
Other long-term assets	1,711	1,006	1,121
Total assets	10,588	7,548	7,786
Short-term debt	382	444	889
Accounts payable	247	579	383
Other current liabilities	940	542	661
Total current liabilities	1,568	1,565	1,932
Total long-term debt	3,825	507	0
Other liabilities	0	0	0
Share capital	3,262	3,262	3,262
Retained earnings reserve	2,019	2,290	2,667
Shareholders' equity	5,155	5,477	5,854
Minority interests	38	0	0
Total liabilities & equity	10,588	7,548	7,786

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18E
Pretax profit	616	1,003	1,007
Depreciation & amortisation	72	37	37
Tax paid	(12)	(187)	(150)
Other adjustments	(1,038)	(1,527)	(272)
Change in working capital	109	290	(619)
Cash flow from operations	(253)	(384)	4
Capex	(83)	(18)	(104)
Proceeds from assets sales	0	0	0
Others	486	525	827
Other non-current assets changes	703	2,431	(115)
Cash flow from investing activities	1,106	2,938	608
New share issuance	0	50	0
Shares buyback	0	0	0
Net borrowings	18	(2,159)	(67)
Other financing cash flow			0
Dividends paid	(799)	(1,020)	(481)
Cash flow from financing activities	(781)	(3,130)	(548)
Cash and equivalents at beginning of period	714	786	209
Total cash generated	72	(577)	64
Cash and equivalents at the end of period	786	209	273

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	9.2%	13.7%	12.3%
Asset turnover	0.55	0.69	0.91
ROAA	5.1%	9.4%	11.2%
Avg assets/avg equity	2.00	1.71	1.35
ROAE	10.1%	16.1%	15.1%
Efficiency			
Days account receivable	103	77	88
Days inventory	37.2	37.0	43.5
Days creditor	16.5	38.8	23.0
Fixed asset turnover	8.12	8.73	9.63
ROIC	5.8%	13.3%	12.7%
Liquidity			
Current ratio	3.94	2.29	1.88
Quick ratio	3.59	1.94	1.51
Cash ratio	1.85	0.48	0.14
Cash cycle	124	76	108
Growth rate (yoy)			
Revenue growth	(22.0%)	4.3%	11.4%
Operating profit growth	(54.0%)	79.5%	9.9%
Net profit growth	(2.2%)	55.7%	0.4%
EPS growth	(2.2%)	55.4%	(1.9%)
Share value			
Basic EPS (VND)	1,724	2,680	2,629
BVPS (VND)	16,204	17,185	18,258

Source: VNDIRECT

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

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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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