

PHA LAI THERMAL POWER JSC (PPC) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND24,500	VND27,400	8.2%	ADD	UTILITIES

5 June 2020

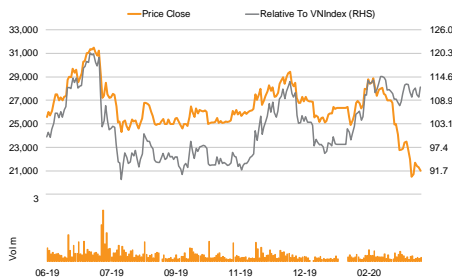
Outlook – Short term: Neutral
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add: 5 Hold: 4 Reduce: 0
Target price / Consensus: 2.0%

Key changes in the report

- FY20F EPS increase by 6.6%
- Lower TP by 1.7%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	31,500
52w low (VND)	20,500
3m Avg daily value (VNDm)	5,090
Market cap (VNDbn)	7,895
Free float (%)	16
TTM P/E (x)	6.73
Current P/B (x)	1.13

Ownership

GENCO2	51.0%
REE	24.1%
Samarang UCITS	9.1%
Others	15.8%

Source: VND RESEARCH

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Sales volume: strong in 1Q20, solid in FY20F

- 1Q20 revenue reached VND2,233bn (+30.7% yoy) thanks to strong sales volume but net profit fell 44% yoy to VND135.2bn on higher input material costs.
- We raise FY20F EPS forecast by 6.6% on the back of a 15% increase in sales volume forecasts and higher dividend received from its affiliate (HND).
- Reiterate ADD with DCF-based target price of VND27,400/share.

1Q20 revenue rose on higher sales output. PPC's 1Q20 revenue reached VND2,233bn (+30.7% yoy) thanks to a 42% yoy increase in electricity sales volume to 1,588m kWh, given that coal-based plants were highly utilized to compensate for the supply shortage from hydropower and gas-fired power. However, 1Q20 GM narrowed by 11.8% pts due to a 45% yoy surge in input material cost, which we believe mainly due to the two upward adjustments in domestic coal price in Jan and Mar 19. Accordingly, NP fell 44% yoy to VND135.2bn.

PPC would benefit from high thermal utilisation in FY20F as Vietnam Electricity (EVN) raises the coal-fired mobilisation rate because of a supply shortfall from hydropower and gas-fired plants in 1H20. Therefore, we revise upward our FY20F sales volume forecast by 15% to 5,728m kWh (+4.0% yoy), which already takes into account the expected overhaul at PL1 and PL2 plants in 3Q20F. This would more than offset the 2.5% decline in ASP, which mainly results from weaker CGM price caused by covid-19 disruptions. Accordingly, net revenue is expected to increase 1.1% yoy to VND8,276bn.

Maintenance expenses to rise in FY20F before declining in FY21F. PPC plans FY20F maintenance expenses of VND567bn (+76% yoy) which is due to longer-than-expected maintenance workload in 2019 which has lingered in 2020. However, we observed that PPC's actual maintenance expenses were usually lower than that planned in the past five years. Thus we estimate FY20F maintenance expense to jump 39% yoy to VND450bn (up 21% from previous forecast) before normalizing to VND400bn in FY21F.

We raise FY20F net profit forecast by 6.6% to VND810bn on the back of (1) a 15% increase in sales volume forecast and (2) higher cash dividend received from its affiliate Hai Phong Thermal Power Company (HND) from VND750 to VND1,500/share, assuming its strong performance in 2019 to sustain onwards. We estimate FY20F net profit to slump 35.8% yoy due to higher coal costs, the surge in maintenance expenses and lack of provision reversal like in 2019.

Reiterate ADD with lower DCF-based TP of VND27,400. We think PPC remains a solid play in the power sector amid the current supply shortage from other power sources, with low debts, plants almost fully depreciated and high dividend yield of 8.2% in FY20F. Downside risks are: 1) technical issues in operation, and 2) lower-than-expected CGM price.

Financial summary (VND)	12-19A	12-20E	12-21E	12-22E
Net revenue (bn)	8,183	8,276	8,084	8,707
Revenue growth	15.0%	1.1%	(2.3%)	7.7%
Gross margin	15.6%	10.1%	11.1%	11.5%
EBITDA margin	19.3%	12.9%	14.7%	14.1%
Net profit (bn)	1,261	810	884	894
Net profit growth	12.3%	(35.8%)	9.1%	1.1%
Recurring profit growth				
Basic EPS	3,933	2,527	2,756	2,787
Adjusted EPS	3,933	2,527	2,756	2,787
BVPS	18,604	19,706	20,673	21,692
ROAE	21.7%	13.2%	13.7%	13.2%

Source: VND RESEARCH

1Q20 RESULTS: NET PROFIT FELL DESPITE HIGHER SALES VOLUME
Figure 1: 1Q20 results comparison

FYE December	1Q19	1Q20	yoy%	Comments
			%	
Output, m kWh	1,121	1,588	41.7%	Higher coal-mobilization rate from EVN due to a electricity output shortage from hydropower plants and gas-fired.
PL1, m kWh	354	558	57.6%	
PL2, m kWh	767	1,030	34.3%	
ASP (dong/kWh)	1,431	1,406	-1.7%	Due to a decline in CGM price as COVID-19 restrictions affected industrial demand in 1Q20
Net revenue (VNDbn)	1,709.2	2,233.1	30.7%	A 42% increase in sale outputs drove up the net revenue
Gross profit (VNDbn)	330.3	168.3	-49.0%	
GPM (%)	19.3%	7.5%	11.8% pts	Driven by a 53% increment in material cost as coal price rose 8-11% in 1H19 vs. end-2018 and remained at this level until now.
SG&A expenses (VNDbn)	(21.3)	(18.8)	-11.6%	
Operating profit (VNDbn)	309.0	149.5	-51.6%	
Financial income (VNDbn)	103.3	20.7	-80.0%	1Q19 result included HND dividend payment (VND65bn) + FX gain (VND4.5bn)
Financial expenses (VNDbn)	(126.1)	(1.3)	-99.0%	A VND124bn of provision for investment in QTP recorded in 1Q19.
Pre-tax profit (VNDbn)	287.3	169.3	-41.1%	
Net profit (VNDbn)	242.6	135.2	-44.3%	GPM dropped due to higher material cost.
Net profit margin (%)	14.2%	6.1%	-8.1% pts	

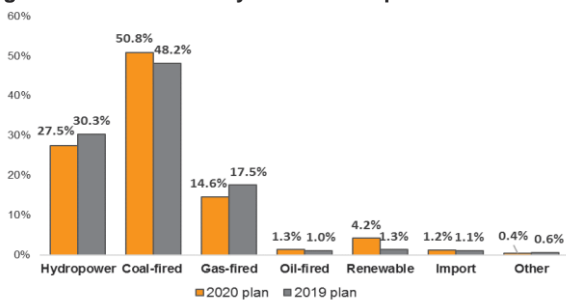
Source: VNDIRECT RESEARCH, COMPANY REPORT

The main reason for the yoy decline in 1Q20 net profit was a level-up of coal price from suppliers Vinacomin and Dong Bac Group, effective from 1Q19. In FY19 Vinacomin and Dong Bac Group increased their coal price sold to power plants twice, one in Jan and one in Mar 2019, by a total of est. 8-11%. Since the company usually retains 15-30 days of material inventory, the effect of the coal price hike had not been fully manifested in 1Q19 results.

2020F OUTLOOK: HIGHER INPUT COAL AND MAINTANANCE COSTS HIT THE BOTTOM LINE
PPC to further benefit from hydro- and gas-fired power shortage

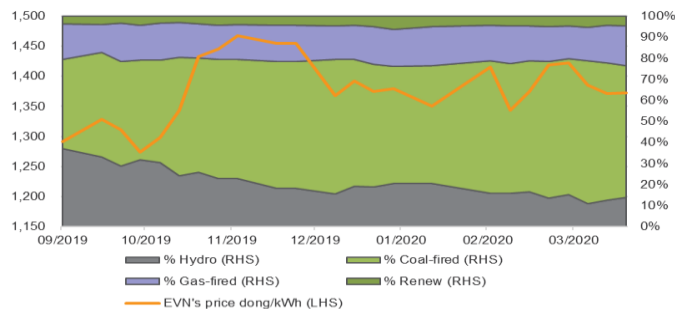
We expect EVN's high coal-fired mobilisation rate will extend at least through 2Q20F as: 1) a serious hydropower supply shortfall has emerged after a heatwave and low rainfall have lowered water levels at several key reservoirs in the northern regions (Hoa Binh, Son La, Lai Chau) in 1Q20, 2) gas supply for some gas-based plants are affected by technical issues at Block 11.2 from Mar 20 until end 2Q20F, and 3) no new power plants are expected to become operational until at least 2H20F, according to Decision 3733/QĐ-BCT by Ministry of Industry and Trade. As a result, PPC's plants could remain highly utilized in 2Q20F and compensate for the potential decline in output due to the scheduled overhaul of 30-45 days in 2H20F. According to PPC, EVN's mobilisation plan for May and Jun 20 is 10.1% higher than original plan set at the beginning of the year, in terms of electricity sales volume.

Figure 2: EVN – electricity mobilization plan in 2020 vs 2019



Source: VNDIRECT RESEARCH, COMPANY REPORT

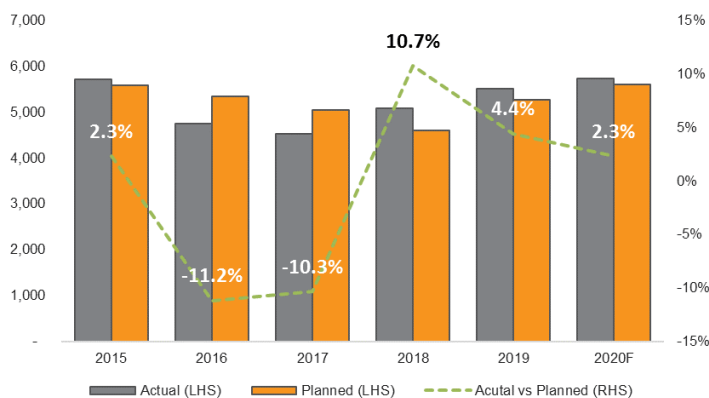
Figure 3: EVN's power plant mobilisation rate (From Sep 19 to Apr 20)



Source: VNDIRECT RESEARCH, COMPANY REPORT

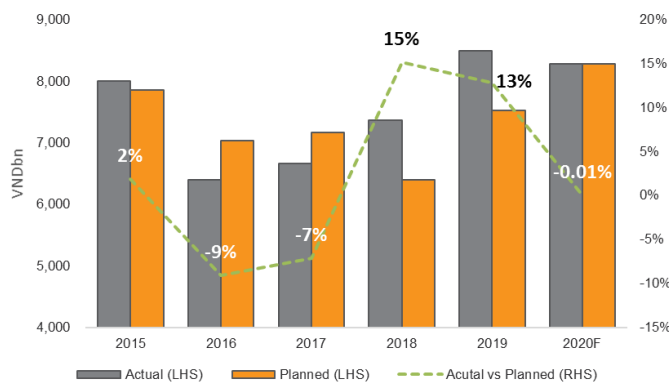
In the AGM 2020, management aimed for FY20F sales volume at 5,598m kWh (+ 1.6% yoy). We expect PPC's sales volume in FY20F could increase 4.0% yoy to 5,728m kWh as the company has a track record of beating targets in the past three years.

Figure 4: Electricity sale output: Actual vs Planned



Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 5: Revenue: Actual vs Planned

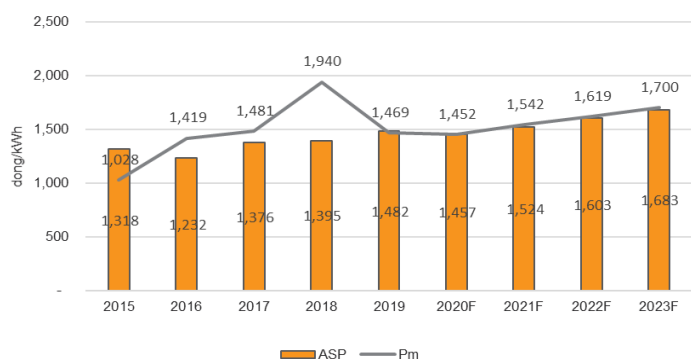


Source: VNDIRECT RESEARCH, COMPANY REPORT

Lower CGM price due to Covid-19 could slightly affect full-year ASP

We revise down the average selling price for FY20F by 3.5% vs our previous forecast as we expect lower price in the competitive generation market (CGM) than in the previous forecasts. The covid-19 restrictions affected industrial activities in March and April 2020, which has not been taken into account in our previous report. FY20F ASP is now projected to decline 2.5% yoy, which would be fully offset by the improvement in sales volume, leading to a rather flat FY20F revenue (+1.1% yoy).

Figure 6: PPC's ASP and Pm for FY20-23F



Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 7: The CGM price sharply dropped in Mar and Apr 2020



Source: VNDIRECT RESEARCH, GENCO3

We expect the CGM price (Pm) to rise from 2021F thanks to: 1) Vietnam's electricity shortage will be more intensive from FY21F, and 2) the entry of new gas-fired and coal-fired power plants will level up the overall market price.

Dividend payment from affiliate to support PPC's FY20F earnings

HND decided to pay a cash dividend of VND1,600/share for FY19, 6.7% above our expectation, on the back of a 176% increase in net profit, driven by strong sales volume (+15.8% yoy) and lower interest expense (-25% yoy) on faster than expected debt payment. The company targets a cash dividend of VND1,500 in FY20F, which we think achievable given high coal-fired mobilization rate in FY20F and lower interest pressure. We thus revise up HND's FY20F dividend payment to VND1,500 dong/share from VND750 dong/share.

We maintain our assumption that Quang Ninh Thermal Power Company (QTP, 16.4% of which is owned by PPC) will start to pay a VND500/share cash dividend in FY21F after its full settlement of accumulated losses related to the revalued USD-based debt in 2020, which was originally VND800bn (2015).

Earnings revision

Figure 8: Earnings revision for FY20F

		2020F		2021F		Note
		Old	New	Change		
		%				
Sale outputs	m kWh	4,976	5,728	15.1%	5,348	We revise sales volume up 15% vs our previous forecast due to higher mobilization rate from EVN than our expectation in 1Q20.
PL1	m kWh	1,584	1,804	13.9%	1,577	
PL2	m kWh	3,392	3,923	15.7%	3,771	
ASP	dong/kWh	1,497	1,445	-3.5%	1,512	
Net revenue	VNDbn	7,447.5	8,276.0	11.1%	8,084.3	
PL1	VNDbn	2,653.0	2,921.8	10.1%	2,681.1	
PL2	VNDbn	4,794.6	5,354.1	11.7%	5,403.1	
Gross profit	VNDbn	870.9	837.7	-3.8%	897.8	
GPM	%	12.4%	10.1%	-2.3% pts		We increase the average coal price in FY20F to fully reflect the 8-11% increase in coal price in 1Q19. Additionally, higher maintenance cost in 2020F than FY19.
SG&A	VNDbn	(92.9)	(95.5)	2.7%		
Operating EBIT	VNDbn	778.0	742.2	-4.6%		
Financial income	VNDbn	220.6	292.6	32.6%	320.4	We revise up for HND's dividend payment from 7.5% to 15% for 2020
Financial expenses	VNDbn	(56.0)	(18.1)	-67.7%	(18.3)	PPC's debt payment in FY19 faster than our expectation.
Pre-tax profit	VNDbn	949.6	1,012.5	6.6%	1,104.5	
Net profit	VNDbn	759.7	810.0	6.6%	883.6	
Net profit margin	%	12.4%	9.8%	-3% pts	10.9%	

Source: VNDIRECT RESEARCH

We expect PPC's revenue to remain rather flat at VND8,276bn (+1.1% yoy), driven by 1) a 4.0% yoy increase in sales volume which outweighs (2) a 2.5% yoy decline in FY20F ASP. However, net profit is forecasted to drop to VND810bn (-35.7% yoy) on top of a 39% increase in maintenance cost, and the lack of VND32bn provision reversal reported in 2019. Net profit in 2021F could recover to VND884bn (+9.1% yoy) as maintenance expenses tapers down.

REITERATE ADD WITH LOWER TARGET PRICE OF VND27,400

Although FY20F EPS is revised upward by 6.6%, our new target price is slightly lower than previous TP of VND27,879 as we raise risk premium to 11% vs. 8.6% earlier amid the growing uncertainties of the market post-pandemic.

Figure 9: Valuation assumption

Valuation date	02/06/2020
Period end date	31/12
Risk-free Rate, Bloomberg, 10y	4.0%
Beta, Bloomberg, 5y	0.90
Equity risk premium (ERP)	11.00%
Cost of Equity - ke	13.9%
Cost of Debt - kd	9.0%
Tax rate	20.0%
Cost of Debt - Kd (after tax)	7.2%
Debt to Capital (forecast period)	
Target debt to capital ratio	10%
WACC	13.23%

Source: VNDIRECT RESEARCH, COMPANY REPORT

Figure 10: DCF valuation

DCF Valuation	
Enterprise value	8,836
(-) Debt	(507)
(+) Cash	470
Equity value including Minority Interest	8,799
(-) Minority Interest	-
(-) Preferred share	-
Implied equity value	8,799
Outstanding share (mn shares)	321
Equity value per share	27,445

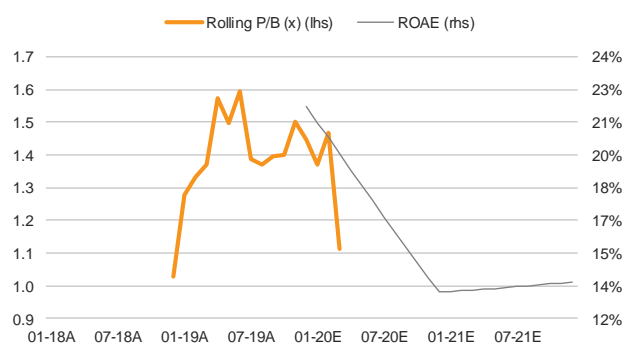
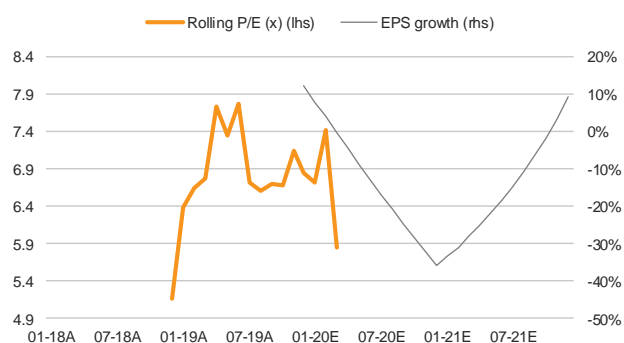
Source: VNDIRECT RESEARCH, GENCO3

We think PPC remains a solid play in the power sector amid the current supply shortage from other power sources, with low debts, plants almost fully depreciated and high dividend payout. The company plans FY20F cash dividend of VND2,000/share, translating to a dividend yield of 8.2% which is quite attractive.

Figure 11: Peer Comparison

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)	3 year EPS	P/BV (x)	ROE (x)	D/E			
			LC\$	LC\$	US\$ m	TTM	CF20F	CAGR (%)	TTM	CY20F	TTM	CY20F	(x)
<u>Regional listed power producers</u>													
Top Energy Co Ltd Shanxi-A	600780 CH	NA	3.3	NA	526.3	14	NA	59.62	0.68	NA	5	NA	14.7
Shenzhen Nanshan Power Co-B	200037 CH	NA	3.8	NA	716.7	48.3	NA	-20.65	1.06	NA	1.99	NA	42.7
Xinjiang Tianfu Energy Co-A	600509 CH	NA	3.4	NA	583.7	NA	NA	NA	0.67	NA	-6.75	NA	139
Shandong Jiangquan Ind-A	600212 CH	NA	3.3	NA	230.6	NA	NA	NA	6.84	NA	-77.8	NA	-
Summit Power Ltd	SUMITPOW	NA	35.1	NA	442.8	6.92	NA	NA	1.13	NA	16.45	NA	53.8
Khulna Power Co Ltd	KPCL BD	NA	45.3	NA	212.1	13	NA	-7.31	1.8	NA	14.1	NA	24.3
Guizhou Qianyan Power Co-A	002039 CH	NA	15.63	NA	673.0	14.3	13.22	46.96	1.66	1.33	12.11	10.1	195
EdI-Generation Pcl	EDL LS	ADD	2,270	6,018	428.8	20	NA	-24.62	0.42	NA	2.07	NA	149
Ningxia Jiaze Renewables C-A	601619 CH	NA	3.0	NA	882.0	20.1	NA	25.6	1.86	NA	9.76	NA	154
Jiangxi Ganneng Co-A	000899 CH	NA	4.2	NA	594.9	19.5	11.7	320.02	0.87	NA	4.53	NA	47.4
Vivant Corp	VVT PM	NA	15.0	NA	306.0	6.88	NA	23.29	1.07	NA	16.55	NA	25.1
Average					508.8	18.1	12.5	52.9	1.6	1.3	-0.2	10.1	84.7
<u>Vietnam listed thermal power producers</u>													
Hai Phong Thermal Power Jsc	HND VN	HOLD	18,400	NA	382.7	7.59	7.53	73.64	1.44	1.29	19.72	17.4	87.1
Petrovietnam Nhon Trach 2	NT2 VN	ADD	21,250	29,200	262.4	8.34	8.59	-11.46	1.42	1.41	18.07	16.93	44.6
Quang Ninh Thermal Jsc	QTP VN	NA	11,600	NA	224.5	8.02	NA	56.18	1.07	NA	14.45	NA	114
Cam Pha Thermal Power JSC	NCP VN	NA	10,000	NA	84.7	769	NA	NA	2.2	NA	0.28	NA	421
Ba Ria Thermal Power Jsc	BTP VN	NA	15,000	NA	38.8	4.27	NA	19.6	0.72	NA	18.03	NA	34.3
Ninh Binh Thermal Power Jsc	NBP VN	NA	11,800	NA	6.0	10.7	NA	-3.77	0.54	NA	5.07	NA	9.75
Average					166.5	134.7	8.1	26.8	1.2	1.4	12.6	17.2	118.5
Pha Lai Thermal Power	PPC VN	ADD	24,500	27,400	333.6	6.73	7.9	24.29	1.28	1.25	19.34	16.32	2.12

Source: VNDIRECT RESEACH, Bloomberg (Data: 4 June 2020)

Valuation

Income statement

(VNDbn)	12-20E	12-21E	12-22E
Net revenue	8,276	8,084	8,707
Cost of sales	(7,438)	(7,186)	(7,704)
Gen & admin expenses	(95)	(89)	(92)
Selling expenses	0	0	0
Operating profit	742	808	911
Operating EBITDA	782	870	991
Depreciation and amortisation	(40)	(62)	(81)
Operating EBIT	742	808	911
Interest income	293	320	245
Financial expense	(18)	(18)	(32)
Net other income	(4)	(6)	(7)
Income from associates & JVs	0	0	0
Pre-tax profit	1,013	1,105	1,117
Tax expense	(203)	(221)	(223)
Minority interest	0	0	0
Net profit	810	884	894
Adj. net profit to ordinary	810	884	894
Ordinary dividends	(481)	(545)	(641)
Retained earnings	329	339	252

Balance sheet

(VNDbn)	12-20E	12-21E	12-22E
Cash and equivalents	470	142	1,163
Short term investments	1,060	1,160	1,160
Accounts receivables	2,510	2,366	2,595
Inventories	486	588	585
Other current assets	8	4	4
Total current assets	4,535	4,259	5,507
Fixed assets	640	860	818
Total investments	2,481	2,481	2,481
Other long-term assets	252	237	274
Total assets	7,908	7,837	9,079
Short-term debt	507	134	988
Accounts payable	683	657	706
Other current liabilities	400	417	431
Total current liabilities	1,590	1,209	2,124
Total long-term debt	0	0	0
Other liabilities	0	0	0
Share capital	3,262	3,262	3,262
Retained earnings reserve	2,110	2,449	2,701
Shareholders' equity	6,318	6,628	6,955
Minority interest			
Total liabilities & equity	7,908	7,837	9,079

Cash flow statement

(VNDbn)	12-20E	12-21E	12-22E
Pretax profit	1,013	1,105	1,117
Depreciation & amortisation	40	62	81
Tax paid	(203)	(221)	(223)
Other adjustments	(327)	(305)	(282)
Change in working capital	(179)	39	(164)
Cash flow from operations	344	679	528
Capex	(331)	(282)	(39)
Proceeds from assets sales	0	0	0
Others	293	220	245
Other non-current assets changes			
Cash flow from investing activities	(38)	(61)	207
New share issuance	0	0	0
Shares buyback	0	0	0
Net borrowings	381	(373)	853
Other financing cash flow	24	(29)	74
Dividends paid	(481)	(545)	(641)
Cash flow from financing activities	(76)	(946)	286
Cash and equivalents at beginning of period	241	470	142
Total cash generated	229	(328)	1,021
Cash and equivalents at the end of period	470	142	1,163

Key ratios

	12-20E	12-21E	12-22E
Dupont			
Net profit margin	9.8%	10.9%	10.3%
Asset turnover	1.09	1.03	1.03
ROAA	10.7%	11.2%	10.6%
Avg assets/avg equity	1.23	1.22	1.25
ROAE	13.2%	13.7%	13.2%
Efficiency			
Days account receivable	111.0	106.8	108.8
Days inventory	23.9	29.9	27.7
Days creditor	33.6	33.4	33.5
Fixed asset turnover	16.74	10.78	10.38
ROIC	11.9%	13.1%	11.3%
Liquidity			
Current ratio	2.9	3.5	2.6
Quick ratio	2.5	3.0	2.3
Cash ratio	1.0	1.1	1.1
Cash cycle	101.3	103.3	103.0
Growth rate (yoy)			
Revenue growth	1.1%	(2.3%)	7.7%
Operating profit growth	(38.3%)	8.9%	12.7%
Net profit growth	(35.8%)	9.1%	1.1%
EPS growth	(35.8%)	9.1%	1.1%

Source: VND RESEARCH

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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.

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