



Company Note

Vietnam

ADD (previously HOLD)

Consensus ratings*: Buy 1 Hold 1 Sell 0

Current price: VND15,400
 Target price: VND17,781
 Previous target: VND16,806
 Up/downside: 15.5%
 CIMB / Consensus: -4.9%

Reuters: VSH.HM
 Bloomberg: VSH VN
 Market cap: US\$140.8m
 VND3,176,115m
 Average daily turnover: US\$0.05m
 VND1,184m

Current shares o/s: 206.2m
 Free float: 45.5%
 *Source: Bloomberg

Key changes in this note

- FY16F EPS reduced by 2.3%.
- FY17F EPS reduced by 0.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.3	-2.5	-2.5
Relative (%)	-5.4	-4.5	-34.9

Major shareholders	% held
EVN Genco 3	30.5
REE	21.0
Perfetto	14.2

Analyst(s)



NGUYEN Xuan Huy
 T (84) 90 912 3880
 E nguyenv.xuanhuy@cimb.com

Vinh Son-Song Hinh Hydropower

Gas and coal price increases boost competitiveness

- Higher gas and coal prices increased VSH's competitive advantage in the local electricity generation market but its share price fell 2.5% over the past year.
- VSH is currently permitted to sell 20% of its production on the competitive generation market (CGM) but we expect this to increase to 40% within two years.
- We raise our rating from Hold to Add and lift our target price by 6%.

Divergence between VSH's share price and commodity prices

The global prices of natural gas and coal rose by about 40% and 50%, respectively, over the past year but VSH's share price fell by about 2% over that time. Higher gas and coal prices increased the company's competitiveness in Vietnam's new, competitive generation market (CGM) for local IPPs, which should have benefited VSH's share price, but the government's unsuccessful attempt to sell its stake in VSH at a premium over market prices in Sep 2016 depressed sentiment on the name.

VSH's production costs are much lower than thermal IPPs' costs

At the current prices thermal-based independent power producers (IPPs) pay for the gas and coal they use to generate electricity, we estimate that the marginal production cost (i.e. the cash cost of producing 1 kWh, excluding depreciation, etc.) for coal-based IPPs is US\$0.4/kWh and that for gas-based IPPs is about US\$0.3/kWh. In contrast, VSH's marginal production cost is only about US\$0.005/kWh.

Benefits of new competitive generation market will multiply

VSH's production costs are much lower than local thermal-based IPPs' so the company can undercut those producers in Vietnam's new CGM. Currently, VSH is permitted to sell 20% of its production volume on the CGM and the rest is sold at a power purchase agreement (PPA) price of about US\$0.02/kWh. However, we expect the proportion of VSH's production it is allowed to sell on the CGM to rise to 40% over the next two years as electricity deregulation in Vietnam progresses.

Achieving 100% price premium in the CGM

VSH sold 20% of its electricity production in the CGM last year at an average price that we estimate was 100% above its PPA price, at which 80% of its production was sold. The government determines the PPA prices of local IPPs to enable them to generate a reasonable ROE but, since the cost of producing hydroelectricity is quite low, the PPA prices of these IPPs in Vietnam are generally much lower than that of the country's thermal-based IPPs.

Weak share price despite improved conditions; upgrade to Add

VSH's competitiveness in the CGM has increased and a drought that impeded hydropower companies has completely abated so its weak share price prompts us to upgrade our rating to Add. We tweak our EPS forecasts and raise our target price by 6% to reflect the company's improved conditions. Our target price is based on 13x FY17 P/E, in line with local peers. Catalysts include progress on a new dam, scheduled to go into service in 2018, and risks include the possibility of a resumed drought.

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue (VNDb)	554	467	474	513	1,062
Operating EBITDA (VNDb)	454.5	360.0	362.7	388.9	911.2
Net Profit (VNDb)	376.3	251.4	280.7	307.0	352.3
Core EPS (VND)	1,833	1,225	1,368	1,496	1,716
Core EPS Growth	89.2%	(33.2%)	11.7%	9.4%	14.7%
FD Core P/E (x)	8.40	12.57	11.26	10.30	8.97
DPS (VND)	219	2,007	500	500	500
Dividend Yield	1.4%	13.0%	3.2%	3.2%	3.2%
EV/EBITDA (x)	7.29	11.07	13.47	14.85	7.20
P/FCFE (x)	NA	2.37	4.00	NA	NA
Net Gearing	5.6%	30.0%	58.5%	82.9%	99.9%
P/BV (x)	1.06	1.13	1.06	1.00	0.92
ROE	13.5%	8.7%	9.7%	10.0%	10.7%
% Change In Core EPS Estimates			(2.34%)	(0.52%)	
CIMB/consensus EPS (x)			1.02	1.01	1.24

SOURCE: COMPANY DATA, CIMB FORECASTS

Gas and coal price increases boost competitiveness

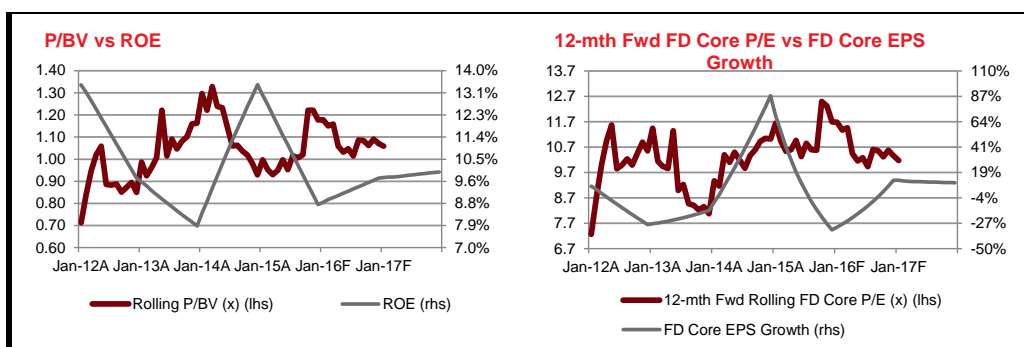
Local peer group

Figure 1: Local peers

	Trailing P/E	Trailing P/B	Trailing ROA	Trailing ROE
SHP VN Equity	23.6	1.6	3.5	6.6
TMP VN Equity	14.1	2.1	9.4	13.9
CHP VN Equity	13.2	1.9	6.8	14.0
TBC VN Equity	13.4	1.6	15.1	15.4
HJS VN Equity	12.3	1.2	5.1	9.9
SJD VN Equity	7.8	1.1	10.3	13.7

SOURCES: CIMB, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Net Revenues	554.2	467.0	473.8	512.6	1,061.6
Gross Profit	472.7	381.0	384.0	412.0	959.0
Operating EBITDA	454.5	360.0	362.7	388.9	911.2
Depreciation And Amortisation	(76.4)	(78.9)	(75.4)	(75.4)	(352.0)
Operating EBIT	378.1	281.1	287.2	313.5	559.2
Financial Income/(Expense)	25.2	20.3	19.8	23.2	(171.3)
Pretax Income/(Loss) from Assoc.	1.2	1.4	1.5	1.7	1.8
Non-Operating Income/(Expense)	(3.8)	(20.0)	10.0	10.0	10.0
Profit Before Tax (pre-EI)	400.8	282.8	318.6	348.4	399.8
Exceptional Items					
Pre-tax Profit	400.8	282.8	318.6	348.4	399.8
Taxation	(24.5)	(31.4)	(37.8)	(41.4)	(47.5)
Exceptional Income - post-tax					
Profit After Tax	376.3	251.4	280.7	307.0	352.3
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	376.3	251.4	280.7	307.0	352.3
Recurring Net Profit	376.3	251.4	280.7	307.0	352.3
Fully Diluted Recurring Net Profit	376.3	251.4	280.7	307.0	352.3

Cash Flow

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
EBITDA	454.5	360.0	362.7	388.9	911.2
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(403.0)	(79.0)	(4.2)	(23.7)	(335.9)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	101.9		10.0	10.0	10.0
Net Interest (Paid)/Received	27.3	20.3	19.8	23.2	(171.3)
Tax Paid	(35.1)	(41.0)	(37.8)	(41.4)	(47.5)
Cashflow From Operations	145.7	260.3	350.5	357.1	366.6
Capex	(256.9)	(560.0)	(1,146.8)	(1,148.1)	(1,053.1)
Disposals Of FAs/subsidiaries		0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow		20.0			
Cash Flow From Investing	(256.9)	(540.0)	(1,146.8)	(1,148.1)	(1,053.1)
Debt Raised/(repaid)	(595.8)	1,615.0	1,586.3	600.0	350.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(45.0)	(412.0)	(102.6)	(102.6)	(102.6)
Preferred Dividends					
Other Financing Cashflow	0.4				
Cash Flow From Financing	(640.3)	1,203.0	1,483.7	497.4	247.4
Total Cash Generated	(751.6)	923.3	687.3	(293.6)	(439.2)
Free Cashflow To Equity	(707.0)	1,335.3	790.0	(191.0)	(336.5)
Free Cashflow To Firm	(110.0)	(271.0)	(786.2)	(780.4)	(488.7)

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	229	1,187	1,874	1,580	1,141
Total Debtors	643	427	429	438	572
Inventories	33	369	374	405	839
Total Other Current Assets	98	35	36	39	81
Total Current Assets	1,003	2,018	2,713	2,462	2,633
Fixed Assets	2,641	2,996	4,068	5,140	5,841
Total Investments	15	13	14	16	18
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	2	22	22	22	22
Total Non-current Assets	2,658	3,031	4,104	5,178	5,881
Short-term Debt	258	251	150	250	300
Current Portion of Long-Term Debt					
Total Creditors	194	198	200	217	449
Other Current Liabilities	89	35	36	39	80
Total Current Liabilities	541	483	386	505	829
Total Long-term Debt	137	1,775	3,462	3,962	4,262
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0	0	0	0	0
Total Non-current Liabilities	137	1,775	3,462	3,962	4,262
Total Provisions	0	0	0	0	0
Total Liabilities	679	2,258	3,848	4,467	5,091
Shareholders' Equity	2,983	2,791	2,969	3,174	3,423
Minority Interests					
Total Equity	2,983	2,791	2,969	3,174	3,423

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Revenue Growth	96%	(16%)	1%	8%	107%
Operating EBITDA Growth	114%	(21%)	1%	7%	134%
Operating EBITDA Margin	82.0%	77.1%	76.5%	75.9%	85.8%
Net Cash Per Share (VND)	(810)	(4,086)	(8,466)	(12,819)	(16,664)
BVPS (VND)	14,531	13,598	14,466	15,462	16,678
Gross Interest Cover	114.8	32.3	28.4	29.4	2.8
Effective Tax Rate	6.1%	11.1%	11.9%	11.9%	11.9%
Net Dividend Payout Ratio	12%	164%	37%	33%	29%
Accounts Receivables Days	208.3	219.1	88.8	85.8	66.1
Inventory Days	154	852	1,513	1,413	2,211
Accounts Payables Days	517	832	811	757	1,184
ROIC (%)	13.3%	9.0%	7.9%	6.7%	9.7%
ROCE (%)	11.9%	7.6%	5.6%	5.0%	7.6%
Return On Average Assets	9.58%	5.31%	4.40%	3.93%	6.48%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Power Despatched (GWh)	660.0	666.0	566.1	622.7	1,169.7
Capacity (MW)	136.0	136.0	366.0	366.0	366.0
Average Capacity Utilisation (%)	92.3%	93.1%	79.2%	87.1%	0.0%
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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Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

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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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)

Vinh Son-Song Hinh Hydropower (VSH VN)



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, **CENTEL** – 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.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:

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

CIMB Recommendation Framework

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.