

**Vietnam: Energy**
**7 October 2019**
**NT2 VN**
**Hold-Outperform**
**TP upside +22.9%**
**Close 4 Oct 2018**

Price	VND 23,750
12M Target	VND 29,195
Previous Target	N/A
Change	N/A

**What's new?**

- ▶ **Renegotiation of the purchasing agreement with EVN** is likely to reduce NT2's contracted selling price.
- ▶ **Contract volume to fall** from 80% of total volume in 2019 to 60% in 2024.
- ▶ **Input gas supply shortages** will only be fully resolved in 2021.
- ▶ **NT2 will be net cash** positioned by 2021.

**Our view**

- ▶ **Two short-term downside risks:** a cut to the contract selling price and a volume shift to the lower-margin "competitive" market.
- ▶ **The dividend could thus face pressure.** See Fig 7 for earnings sensitivities and Fig 20 for fair value sensitivities to contract pricing.
- ▶ **We think the market has largely discounted the negatives,** but the stock may remain pressured until PPA renegotiations are done.

**Company profile:** NT2 is a 59%-owned subsidiary of [POW VN \(BUY\)](#) that operates a 750MW modern gas-fired thermal power plant in energy-hungry southern Vietnam. NLG signed a 25-year gas supply contract with PV GAS in 2010 and a 10-year power purchase agreement (PPA) with EVN in 2012. The main attraction for investors is the high dividend yield, but PPA renegotiations could put this at downside risk.

**Share price performance relative to VNI**


Market cap	US\$295mn
6M avg. daily turnover	US\$0.2mn
Outstanding shares	288mn
Free float	32.3%
FINI ownership	19.9%
Major shareholders	67.6%
Net Debt/equity	78.3%
2019E EV/EBITDA	5.3
2019E P/B (x)	1.8
Trading platform	HOSE
FOL Room	29.1%

**Financial outlook (VND bn)**

Year to Dec	2018A	2019E	2020E	2021E
Sales	7,670	7,892	8,369	8,607
Op. profit	914	892	893	880
Net profit	782	735	763	820
EPS (VND)	2,638	2,501	2,598	2,792
EPS chg (%)	(2.9)	(5.2)	3.9	7.5
P/E (x)	9.0	9.5	9.1	8.5
ROE (%)	18.0	19.6	19.9	21
Div. yield (%)	30.3	8.4	10.5	10.5
DPS (VND)	7,192	2,000	2,500	2,500

**Research Analysts:**
**Binh Truong**

+84 28 3622 6868 ext 3845

[Binh.truong@yuanta.com.vn](mailto:Binh.truong@yuanta.com.vn)
<http://yuanta.com.vn>

Bloomberg code: YUTA

## PetroVietnam Nhon Trach 2 (NT2 VN)

### A murky short-term outlook

**Going debt-free in 2020E = lower financial expenses.** Long-term debt should be VND 497 bn by 2019E, down from VND 1,558 bn at 2018A, and we expect NT2 to become debt free by 2020E. Thus, interest payments should fall by 25.8% YoY in 2019E and 45.3% YoY in 2020E.

**PPA renegotiation with EVN,** especially in terms of pricing, is the key risk. The renegotiation is not yet concluded, but we reckon the new PPA will almost inevitably be less favorable for NT2 than the original deal. In addition, the National Load Dispatch Centre (A0) has mandated a reduction in contract-based electricity purchases (Qc). We thus assume that NT2's Qc will fall from 85% of total volume in 2018A to 80% in 2019E, and Qc is likely to be reduced to 60% of total volume longer term.

**Forward cash dividend values are thus uncertain.** NT2's generous dividend policy has resulted in a dividend yield of greater than 10% since 2016. While we believe that NT2 should maintain a 90% payout ratio, the absolute dividend could be affected by the reduced of Qc and PPA selling price, both of which would reduce profitability.

**Gas supply issues should be resolved by 2021.** Gas supply instability may not be fully resolved until 2021E. NT2's demand was 3 mn cubic meters (cbm) per day in 1H19 while supply was only 2.7 mn cbm per day. However, the Sao Vang Dai Nguyet fields should add 5 mn cbm of gas supply from 2H20, which should fully resolve the gas supply issue.

**Yuanta vs consensus.** Our forecast is relatively conservative vs the Street. Our 2020E EBITDA of VND 1,585 bn is 3.2% below the consensus. This is likely due to our conservative assumption on contract volume (Qc), with our FY20E gross margin at 12.2% vs. the consensus' 14%.

**We initiate coverage with a HOLD-O/P rating.** Our target price of VND 29,195 is based on a three-part fair valuation approach with weightings of 40% for DDM, 40% for EV/EBITDA, and 10% for the FCF methodology.

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

Yuanta does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

---

## NT2: A murky short-term outlook

Petro Vietnam Nhon Trach 2 Power JSC (NT2) is a modern gas fired thermal power company with installed capacity of 750MW. The plant is located in Dong Nai Province, adjacent to Ho Chi Minh city which is Vietnam's largest electricity market and where a persistent shortage of electricity is likely to continue escalating in the years ahead.

Long-term debt repayment by 2021. We forecast remaining long-term debt should be VND 497 bn at 2019E, down 68% YoY from VND 1,558 bn at 2018A. We believe that NT2 will repay all of its long-term debt by 2021E. As a result, we forecast interest payments to decline by 25.8% YoY in 2019E and 45.3% YoY in 2020E.

The government's laudable electricity market liberalization efforts should benefit the entire power sector in the long term. In the short term, however, we are concerned about the risks to earnings from 1) the gradual shift away from contract volume (Qc) purchases by the electricity buyers (i.e., EVN and its subsidiaries) in favor of market price-based purchases, and 2) renegotiation of the contract selling price (PPA price) with EVN, which we think can only go one way (i.e., down). These potential factors raise the risk of falling profit margins and earnings, thus reducing confidence in the forward dividend yield.

The government is supporting competitive electricity markets, which could create pressure on Qc. Decision 109/QĐ-ĐTĐL of the National Load Dispatch Centre (A0) guided for FY2019 thermal power Qc to be reduced to 80%, adding that this may be further reduced to 60% in the future. Thus, we expect NT2's 2019E Qc to decline by ~6% YoY to 3.8 bn kWh, accounting for 80% of the total volume. In the longer term, we assume that Qc will be reduced to 60% of total sales volume by 2024E. The gradual reduction in Qc is to be matched by a shift toward the competitive market, where pricing is currently lower than contract prices. Thus, we are modelling NT2's gross margin to shrink from 12.8% in 2019E to a trough level of 11.4% in 2024E.

In addition, NT2 has to renegotiate the contract price with Vietnam Electricity (EVN). As stated previously, NT2 should post increased profitability as its long-term debt is reduced to zero within the next two years. The results of the renegotiation are thus not likely to be favorable for NT2.

The situation could improve from 2024E, when Qc reaches the mandated level of 60% of total output, and the market price could also be supported by the Competitive Retail Electricity Market (to be officially launched in 2023E) given the increasingly undersupplied power market.

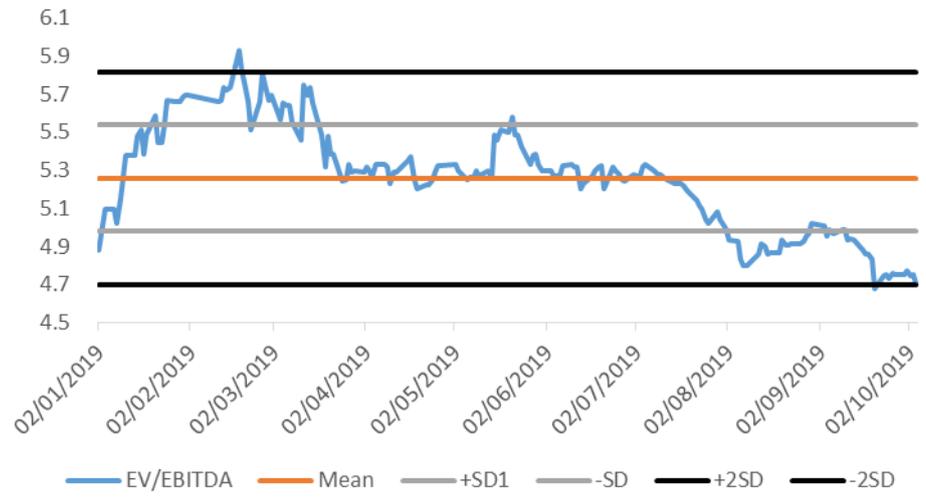
The above changes may affect NT2's dividend policy in the near term. This is a key risk in our view, given that the optically dividend yield is a key attraction for investors in the stock. The company has historically maintained a generous dividend policy with no major capex, and we believe that NT2 can maintain a high payout ratio of ~90% in the long term. However, the absolute dividend may not be as high as expected in the short term given the two earnings risks discussed above.

### **Stock view – The dividend risks have been at least partially discounted by the market**

NT2 has decreased by 3.8% YTD, underperforming the VNI by 14.6ppt. We believe that the weak share price performance in part reflects concerns over the reduction in Qc and the PPA renegotiation. In addition, instability of input supply due to upstream maintenance and reserve depletion is also a concern.

Nonetheless, the valuation is attractive. NT2 is currently trading at 4.7x FY20EV/EBITDA, which is a steep discount to its (much larger) regional peers' average EV/EBITDA of 7.6x (see Fig 22 below for details). The outlook will perhaps be clearer after the announcement of the new PPA price, which could be a catalyst for a relief rally if the reduction is not overly dramatic.

**Fig 1: FY 2020 EV/EBITDA**



Source: Bloomberg

## Modern gas fired thermal power plant in a strategic location

An eco-friendly 750-megawatt gas-fired thermal power plant.

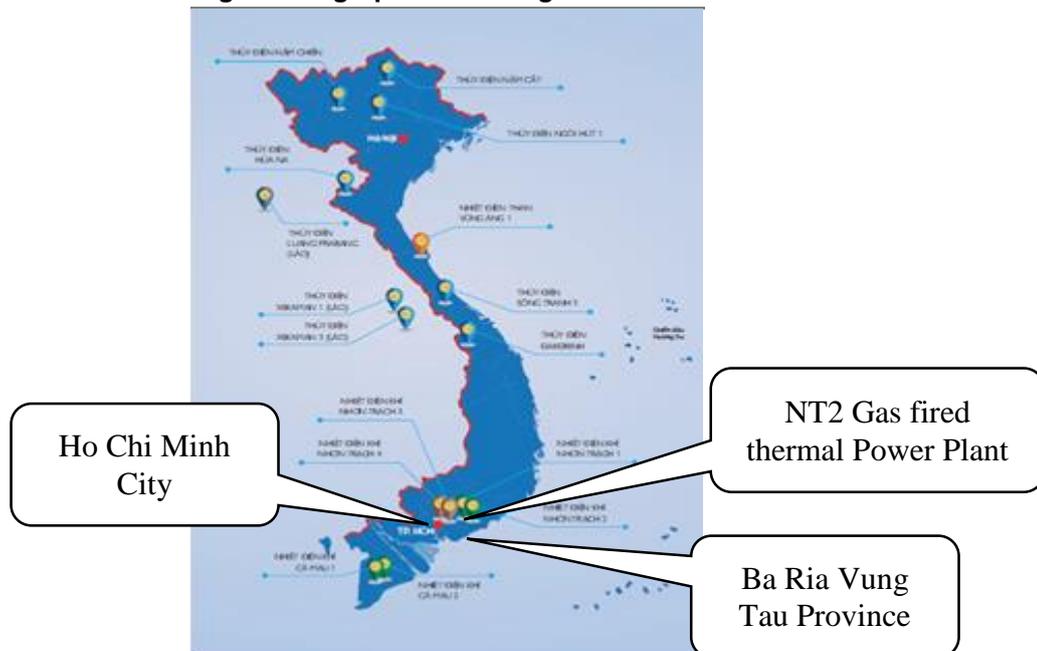
The NT2 power plant was built in 2011 using advanced technology from Siemens; it is a Combined Cycle Power Plant (CCPP). With an installed capacity of approximately 750 megawatts (MW), the Nhon Trach 2 Power Plant is an eco-friendly contributor toward alleviating Vietnam's power shortage. NT2's plant net efficiency is over 57%, well ahead of typical conventional thermal power plant efficiency levels of around 45%.

According to Siemens, the technology used by NT2 results in it being among the most environmentally friendly fossil fuel-based power plants in the world, with CO2 emissions of around 330 grams/kWh, well below the worldwide average of roughly 578 grams/kWh. Siemens states that this technology reduces CO2 emissions by 40,000 metric tons per year - which is equivalent to the emissions of 10,000 mid-class cars that are each driven 20,000 kilometers.

The NT2 plant is located in Nhon Trach, Dong Nai Province, right next to the undersupplied energy market of Ho Chi Minh City.

The NT2 plant is located in Nhon Trach, Dong Nai Province, right next to the major undersupplied energy market of Ho Chi Minh City. Additionally, its gas input supply comes from Ba Ria Vung Tau Province, which is also nearby. This location thus eases both input supply as well as power transmission.

Fig. 2: Geographic advantage



Source: POW

## Significant deleveraging: net cash by 2021

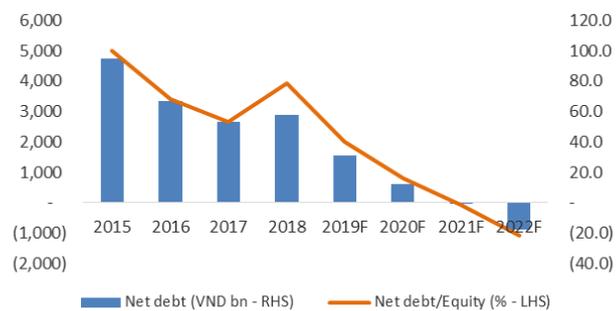
We forecast end-2019E long-term debt of VND 497 bn, down from VND 1,558 bn as at end-2018. Most of NT2's long-term debt is USD- and EUR-denominated. The cost of debt is based on 6-month LIBOR and EURIBOR plus a spread (~2%).

Correspondingly, we forecast NT2's net debt to equity to fall to 40.2% as at 2019E (down from 78.3% at end-2018). We expect the company to be in a net cash position by 2021E.

As a result, we forecast net financial expenses to fall by 38.3% YoY to VND 164bn in 2019E and by another 32.9% YoY to VND 110bn in 2020E.

**The company will have net cash position by 2021.**

**Fig. 3: Rapid deleveraging is under way**



Source: NT2, Yuanta Vietnam

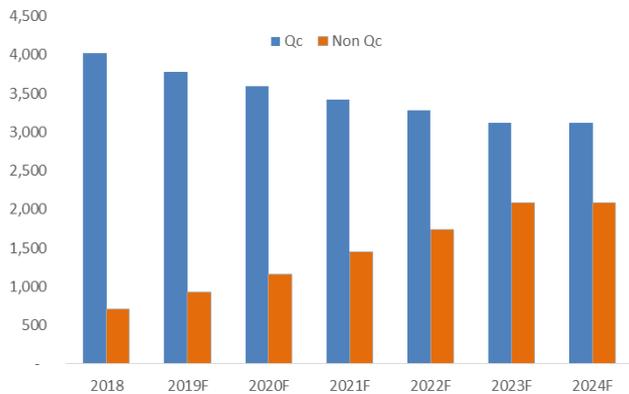
# Headwinds: A shift toward market pricing for power and PPA renegotiation with EVN

## Qc to fall to 80% in FY2019E and 60% in FY2024E

### Liberalization of the electricity market could put pressure on margins

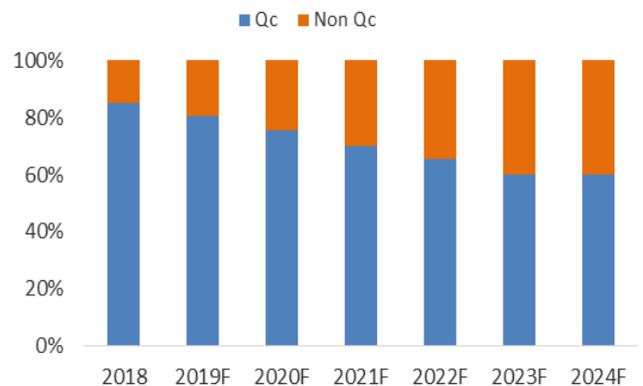
The government's support of competitive markets creates risks for margins because of the mandated shift away from Qc in favor of market-based pricing purchases across the energy sector. Decision 109/QD-DTDL of the National Load Dispatch Centre (A0) announced that 2019E Qc of thermal power will be reduced to 80% of total output. Thus, we expect 2019E Qc to fall by 6% YoY to 3.8 bn kWh. In the longer term, we assume that Qc will be reduced to 60% of total sales output by 2024E, down from 80% in 2019E.

**Fig. 4: Qc is likely to slide until 2024E, replaced by volumes on the competitive market (mn kWh)**



Source: NT2, Yuanta Vietnam

**Fig. 5: Qc should account for 80% of total output in 2020E and 60% in 2024E (mn kWh)**

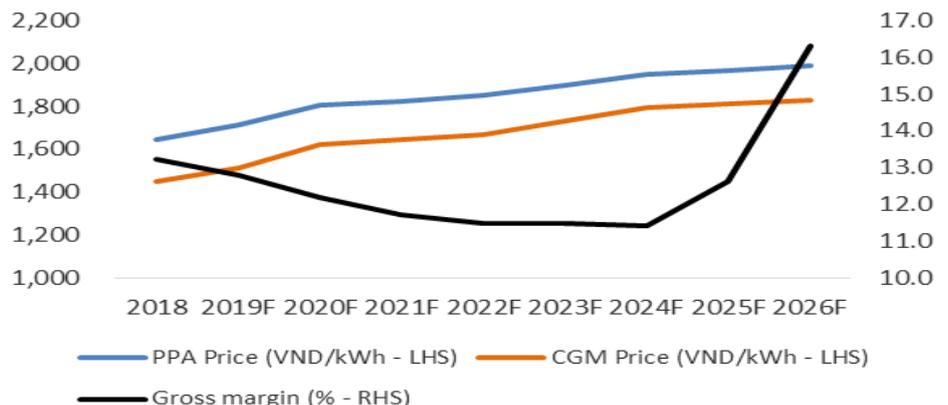


Source: NT2, Yuanta Vietnam

### As contract volumes slide, margin will also face pressure

Because the contract selling price is typically higher than the Competitive Generation Market (CGM) price. Thus, as contract volumes slide and are replaced by CGM volumes, blended margin is likely to come under pressure. In combination with reduced Qc, we are modelling NT2's gross margin to shrink from 12.8% in 2019E to a trough level of 11.4% in 2024E before subsequent improvement due to the end of machinery depreciation (i.e., the machinery will be fully depreciated after 15 years of operation).

**Fig. 6: Gross margin to slide until 2024E before improving**



Source: NT2, Yuanta Vietnam

## PPA negotiation may further put pressure on profit margin

Renegotiation has not been finalized yet, but it seems obvious that the new pricing is likely to be less favorable than the original PPA.

NT2 states that they are renegotiating the PPA with EVN, especially in terms of pricing. According to management, the result is not yet concluded. However, in our view the new pricing regime is extremely likely to be less favorable for NT2 than the original PPA. However, the potential downside risk appears to be limited.

This is because the renegotiation is focused on re-computation of fixed costs, which largely take into account the original investment and funding costs. We have not factored any adjustment into our model, which obviously leaves downside risk to the company's gross profit margin and thus EPS forecasts.

Currently we have no transparency on the amount of the likely PPA price reduction. However, we think it should be less than VND 30 per kWh. We estimate gross profit of non-Qc volumes was about VND 29–30 per kWh in 2018A. We think this is a reasonable benchmark for the PPA renegotiations. We do not believe that NT2 would accept any reduction of more than VND 30 per kWh, and that would be in the worst case. We think the reduction will not likely exceed VND 25 per kWh, and if so this would represent a 14% reduction to our 2020E EPS forecasts and a 7.6% reduction to our fair value.

Fig. 7a & 7b exhibit the EPS sensitivities ranging from no change to a reduction of VND 35 per kWh (a loss-making level for NT2). Fig. 20 presents the sensitivities to our fair value estimate.

**Fig. 7a: EPS sensitivity analysis according to negotiation outcomes**

Reduction in contract price per kWh (VND)	2020	2021	2022	2023	2024
0	2,598	2,792	2,983	3,305	3,330
10	2,450	2,642	2,829	3,145	3,178
15	2,377	2,567	2,752	3,065	3,102
20	2,303	2,492	2,675	2,985	3,027
25	2,229	2,417	2,598	2,906	2,951
30	2,155	2,342	2,521	2,826	2,875
35	2,081	2,266	2,443	2,746	2,799

**Fig. 7b: % change in EPS as compared to no change in PPA price**

Reduction in contract price per kWh (VND)	2020	2021	2022	2023	2024
0	0	0	0	0	0
10	(5.7)	(5.4)	(5.2)	(4.8)	(4.6)
15	(8.5)	(8.1)	(7.8)	(7.2)	(6.8)
20	(11.4)	(10.8)	(10.3)	(9.7)	(9.1)
25	(14.2)	(13.5)	(12.9)	(12.1)	(11.4)
30	(17.1)	(16.1)	(15.5)	(14.5)	(13.7)
35	(19.9)	(18.8)	(18.1)	(16.9)	(16.0)

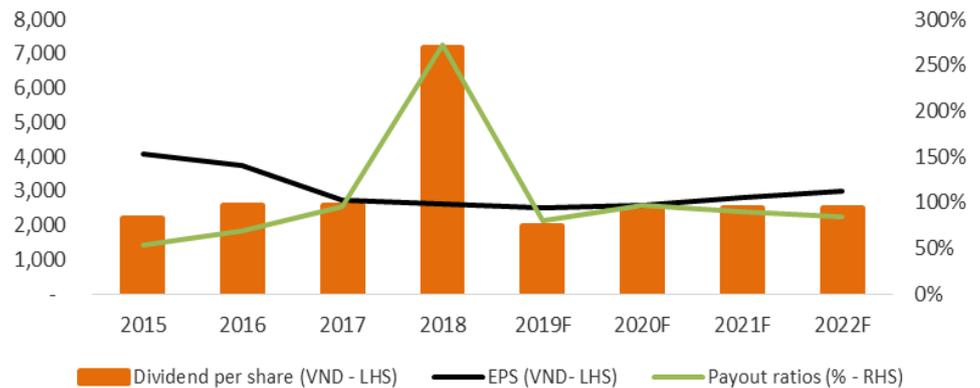
Source: Yuanta Vietnam

## Short-term cash dividend is therefore uncertain

We believe that NT2 should be able to maintain a 90% payout ratio, the absolute dividend may be reduced by the two main earnings headwinds.

Historically, NT2 has maintained a generous dividend policy, and its dividend yield has been higher than 10% since 2016. We believe that NT2 should be able to maintain a 90% payout ratio going forward. However, the absolute dividend may be reduced due to the negative earnings impact of the shift away from Qc purchasing and reduced PPA pricing.

**Fig. 8: Dividend could come under pressure**



Source: NT2, Yuanta Vietnam

For 2019E earnings, NT2 plans to pay a cash dividend of 25% of par value (VND 2,500 per share), equivalent to a dividend yield of 10.4%. However, this cash dividend guidance could create financial pressure given that the payout ratio would exceed 100% (due to the slightly lower profit this year). Thus, we believe a more feasible dividend policy would be for NT2 to pay 20% of par value (2,000 per share) on 2019E earnings.

For 2020–22E, we forecast NT2 to pay 25% of par value (VND 2,500 per share) each year, equivalent to a payout ratio of 96% in FY2020E, 90% in 2021E and 84% in 2022E. Starting from 2023E and continuing until the power plant's expected closure in 2036E, we assume that the company will maintain a 90% payout ratio. This assumes that no major investment is required in that period, which seems reasonable.

As previously mentioned, the renegotiation results may further pressure the company's profit margin starting from 2020E, which might in turn affect the dividend payout. We have not factored in any contract price adjustments into our model.

---

## Gas input issues will be fully resolved by 2021E

NT2 has signed a 25-year gas supply agreement with PV GAS (HOSE: GAS VN, not rated) for a guaranteed supply of nearly 800 mn Sm<sup>3</sup> per year under an agreed pricing mechanism. The gas is mainly supplied from the Nam Con Son and Cuu Long Basins.

---

Although we believe that NT2 may be able to maintain 90% payout ratio, our earnings and dividend forecasts face downside risk due to the contract price renegotiations.

---

PV GAS has stated that gas supply from Cuu Long Basin fell short in 2018 and only met 72% of annual guidance. In addition, gas supply from Nam Con Son also fell short in 2018 because of a gas compressor failure in Mar-May 2018 and normal depletion. As a result, NT2's electricity production fell during this period despite a high seasonal undersupply (because of weather patterns, Mar-May is typically low season for hydropower production).

In 1H19, NT2 again suffered from supply instability, this time due to upstream maintenance. According to the company, NT2's average 1H19 demand was 3 mn cbm per day but supply was only 2.7 mn cbm per day. Unfortunately, this happened again during high season for thermal power (i.e., low season for hydropower) which is typically when the market price is relatively high compared to the rest of the year.

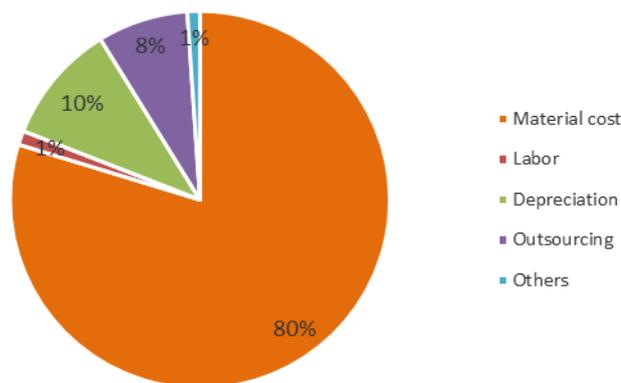
We think that the input issue will be completely resolved in 2021E, when PV GAS adds more supply. Specifically, Sao Vang Dai Nguyet will be online and receive its first gas shipments starting in 2H20E. The field has annual output of 1.6bn cbm which translates to an additional 5 mn cbm in 2H20E to the system (including electricity generations and fertilizer production), thus resolving the gas supply issues.

In addition, GAS is building an LNG station with first phrase annual capacity of 1 mn MT, and this should be operational in 2022E. The facility's capacity will subsequently be expanded threefold in 2023E to reach 3mn MT, further alleviating gas input pressures for NT2.

---

**Fig. 9: COGS mix**

---



---

Source: NT2

---

## Looking forward to an electricity market with more diversified buyers

We appreciate the government's effort in establishing the VWEM, which represents a step toward electricity buyer diversity and therefore a truly market-based system. However, we are not there yet. In our view, EVN is still the sole effective buyer of electricity given that the five buyer participants on VWEM are all 100%-owned subsidiaries of EVN.

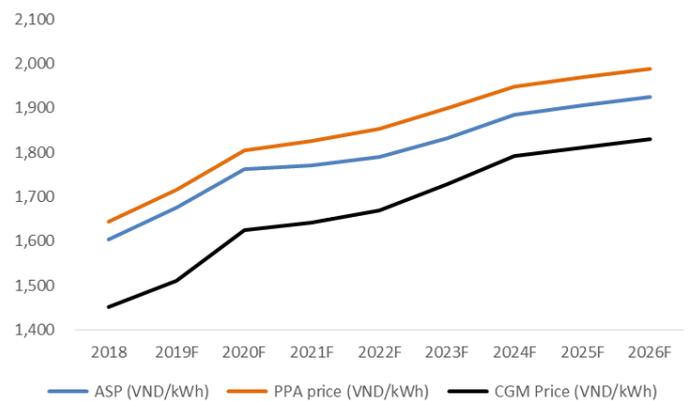
The 2021E pilot launch of a retail electricity market (REM) and official launched in 2023E should therefore be of considerable interest to investors in the energy sector. The REM will allow large buyers to directly purchase electricity from the market. As part of the program, NT2 expects to sell energy to major users such as Samsung and Hyusung starting in 2020E. We think this is a positive change as the company (and the industry) should become less dependent on EVN; it also opens up the possibility for higher pricing in the years ahead.

**Fig. 10: EVN's average purchasing price (VND/kWh)**



Source: MOIT, EVN

**Fig. 11: NT2 Average selling price (VND/kWh)**



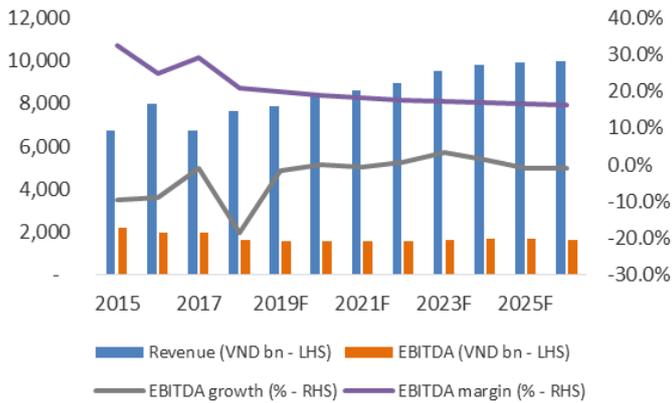
Source: NT2, Yuanta Vietnam

## Financial analysis

NT2's business performance has been relatively volatile since 2015, mainly driven by the sales volume volatility. ASP, however, has been on an uptrend since 2015.

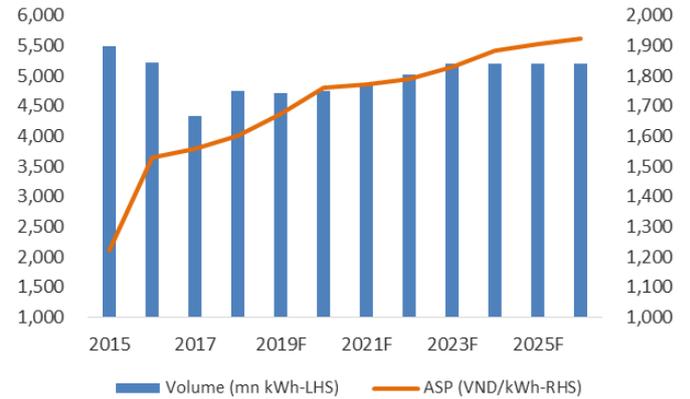
We expect FY2019 revenue to grow at 2.5% YoY to reach VND 7,861 bn driven by a 4% increase in ASP to VND 1,668 thanks to the gas price increase and unfavorable weather conditions that hit hydropower earlier this year. We expect power volumes to slide by 0.8% YoY in 2019E due to the input shortage.

**Fig. 12: Expected financial performance**



Source: MOIT, EVN

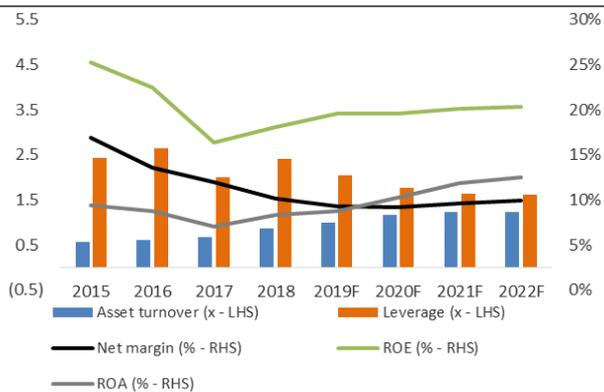
**Fig. 13: Volume vs. ASP (VND/kWh)**



Source: NT2, Yuanta Vietnam

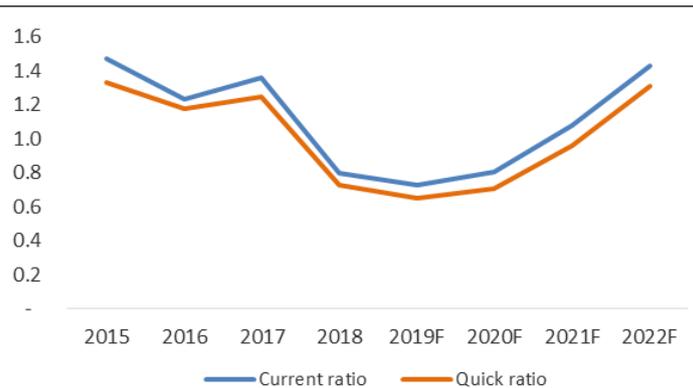
NT2 has a relatively healthy financial position. Leverage has been declining given the lack of major investments. As mentioned previously, we forecast that NT2 will settle all long-term debts by the end of 2020E, after which the company should be in a net cash position.

**Fig. 14: Dupont Analysis**



Source: NT2, Yuanta Vietnam

**Fig. 15: Liquidity should remain strong**

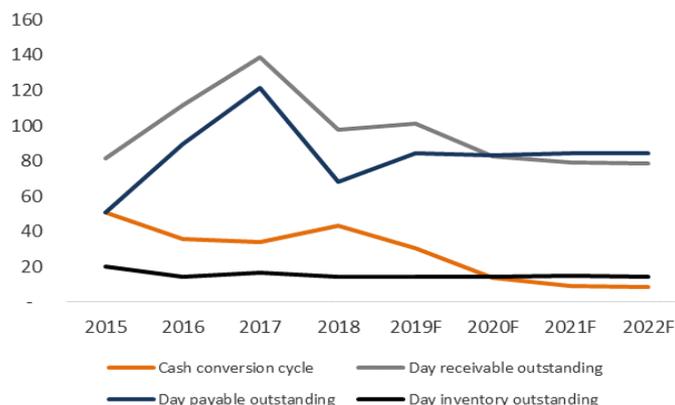


Source: NT2, Yuanta Vietnam

NT2's cash conversion cycle has been relatively stable since 2015. Going forward, we do not expect significant change - if anything there may be some slight improvement in the cash conversion cycle given improved receivables and payables turnover.

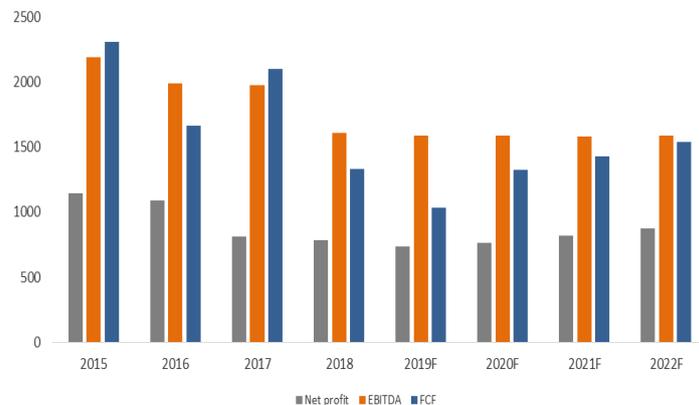
Given the lack of information on the PPA renegotiation between NT2 and EVN, we have not factored in any PPA price adjustment yet. In the absence of any contract price reduction, we forecast free cash flow to improve from 2020E due to reduced financial expenses.

**Fig. 16: Cash conversion cycle has been improving due to a reduction in days of receivables outstanding**



Source: NT2, Yuanta Vietnam

**Fig. 17: Cash flow should improve on the back of stronger FY2020 NPAT\***



Source: NT2, Yuanta Vietnam

(\* ) We did not factor the change in contract price due to renegotiation due to the lack of information

## 1H19 in review: PATMI fell by 23.2% YoY to VND 387bn

### Gas input constraints impacted volume but ASPs were higher in 1H19.

NT2's 1H19 revenue declined by 0.4% YoY to reach VND 4,015bn. Production volume fell by 1.3% YoY to 2.560 bn kWh, mostly because of the input constraints. However, this was offset by a +0.9% increase in ASP to VND 1,568 per kWh.

SG&A declined by 27% YoY, which reduced the SG&A-to-revenue ratio to 1% (vs 1.4% in 1H18). However, 1H19 PATMI fell 23.2% YoY to reach VND 387bn, mainly due to gross margin contraction to 12.5%, down from 15.5% in 1H18. Expenses for raw materials and consumables increased by 4.1% YoY to VND 2,885.7 bn mainly because the average gas input price increased by 2.5% YoY to USD 6.9/mmBTU.

**Fig. 18: 1H19 business performance**

	1H2018	1H2019
Revenue (VND bn)	4,030	4,015
<i>Growth (%)</i>		-0.4
Gross margin (%)	15.5	12.5
<i>SG&amp;A/Revenue (%)</i>	1.4	1.0
PATMI (VND bn)	504	387
<i>Growth (%)</i>		-23

Source: NT2

# OUR VIEW, VALUATION, AND RISKS

## Our view

An investment in NT2 offers exposure to an efficient, modern gas-fired thermal power company with a strong financial position. The high dividend yield in previous years is likely to be a key attraction of the stock for most investors.

In the short term, however, we see some short-term risks including a shift away from contract volumes (Qc) toward lower-margin market-priced volumes, as well as a likely reduction in the PPA price. These factors could squeeze the company's profit margin, earnings, and dividend payout. The situation should be improved by 2024E given that 1) the Qc ratio will reach the mandated level of 60% of total output by 2024E and 2) the market price could be supported by competitive buyers in the Competitive Retail Electricity Market (to be officially launched in 2023) amidst the chronically undersupplied electricity market.

We have no specific information on the outcome of the renegotiations between NT2 and EVN, and thus we have not factored any PPA price reduction into our model yet. Accordingly, our forecasts are subject to downside risk and we will revisit our model after the new PPA deal is announced. In the meantime, please refer to figure 7a and 7b above for forward EPS sensitivity analysis and figure 20 below for fair valuation sensitivities.

## Valuation

Our target price of VND 29,195 is based on a weighted approach comprising DDM (50%), EV/EBITDA multiple (40%), and FCFF (10%) valuation methods.

Fig. 19: Valuation

	Target Price	Weight
Dividend discount	26,990	50%
EV/EBITDA multip	31,262	40%
FCFF	31,955	10%
<b>Overall</b>	<b>29,195</b>	

Source: Yuanta Vietnam

Fig. 20: Valuation sensitivity analysis

	29,195	WACC				
		8.00%	8.5%	9.1%	9.5%	10.00%
PPA price reduction (VND/kWh)	0	29,485	29,347	29,195	29,091	28,972
	10	28,572	28,438	28,291	28,190	28,074
	15	28,115	27,984	27,839	27,739	27,626
	20	27,658	27,529	27,387	27,289	27,177
	25	27,202	27,075	26,935	26,839	26,729
	30	26,745	26,620	26,483	26,388	26,280
	35	26,288	26,165	26,030	25,938	25,832
% Change in target price as compared with no change in PPA						
		WACC				
		8.00%	8.5%	9.1%	9.5%	10.00%
PPA price reduction (VND/kWh)	0	0	0	0	0	0
	10	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
	15	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)
	20	(6.2)	(6.2)	(6.2)	(6.2)	(6.2)
	25	(7.7)	(7.7)	(7.7)	(7.7)	(7.7)
	30	(9.3)	(9.3)	(9.3)	(9.3)	(9.3)
	35	(10.8)	(10.8)	(10.8)	(10.8)	(10.8)

Source: Yuanta Vietnam

NT2 is a solid investment, but we see some short-term risks for the dividend yield.

Our target price of VND 29,195 is based on a weighted approach

## Dividend discount model

Our DDM valuation assumptions are as follows. We apply a 12.5% cost of equity throughout NT2's remaining life (25 years). For 2019E earnings, NT2 plans to pay a cash dividend of 25% par value (VND 2,500 per share), equivalent to dividend yield of 10%. However, the cash dividend guidance could result in pressure given that the payout ratio would exceed 100% of 2019E earnings. We believe it is more feasible for NT2 to pay 20% par value (2,000 per share) in 2019E and have factored this into our forecasts. In the longer term (i.e., 2023–2036), we assume a dividend payout ratio of 90%.

**Fig. 21: Dividend discount model**

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Dividend	2,000	2,500	2,500	2,500	2,974	2,997	3,458	4,570	4,567	4,568	4,568	4,568	4,141	4,402	4,378	4,353	4,328	4,311	8,357
PV	2,000	2,222	1,975	1,756	1,857	1,663	1,706	2,004	1,780	1,583	1,407	1,250	1,008	952	842	744	657	582	1,003
Total present value	26,990																		
Cost of Equity	12.5%																		

Source: Yuanta Vietnam

In computing cost of equity, we apply a Beta of 1, which higher than the actual two-year adjusted Beta of 0.74. We think this is appropriate given the risk of an excessively negative PPA renegotiation outcome. The renegotiation results may pressure the company's profit margin in 2020E, which in turn would affect the dividend policy. As stated, we have not factored any change in contract pricing into our model because we don't know what the change will be. However, we can't ignore the obvious, so we think it appropriate to encapsulate this risk by applying higher Beta and cost of equity assumptions instead.

## EV/EBITDA

Our EV/EBITDA multiple-based target price of VND 31,262 is pegged at 6.07x, which is 20% below the median of regional sector peers. We think such a discount is reasonable given NT2's smaller market cap.

**Fig. 22: Regional energy sector comparable**

#	Company	Country	Market Cap (VND)	PER (x)	FY2020			ROA (%)	TTM Dividend Yield (%)	Gross margin (%)	Debt/Equity (%)	
					PBR (x)	EV/EBIT (x)	ROE (%)					
1	Manila Electric Co	Phillipine	185,771,183	18.0	5.0	11.2	29.2	7.0	4.4	7.6	53.0	
2	Ratch Group PCL	Thailand	78,166,588	16.3	1.7	17.6	10.6	6.2	3.4	14.1	55.3	
3	Tata Power Co Ltd/The	India	52,795,248	7.3	0.9	9.2	5.7	2.6	2.2	7.4	266.2	
4	First Gen Corp	Phillipine	40,090,996	6.0	0.9	4.5	17.2	5.8	2.2	11.2	124.5	
5	CK Power PCL	Thailand	34,346,863	56.7	1.9	16.1	3.8	1.2	0.5	6.6	161.9	
6	JSW Energy Ltd	India	33,924,920	14.9	0.9	5.8	5.9	2.6	1.6	7.6	78.2	
7	Beijing Jingneng Clean Energy	China	31,714,402	4.7	0.4	4.7	9.5	3.8	5.8	12.5	134.2	
8	PetroVietnam Power Corp	Vietnam	30,093,050	15.7	1.2	6.4	7.6	3.2	-	5.9	81.0	
9	Malakoff Corp Bhd	Malaysia	23,112,677	14.5	0.7	6.2	4.5	1.0	6.9	3.7	235.9	
10	Pha Lai Thermal Power JSC	Vietnam	8,432,123	8.5	1.5	8.8	17.2	13.2	10.3	15.8	9.4	
<b>Median</b>			-	<b>14.5</b>	<b>1.0</b>	<b>7.6</b>	<b>7.0</b>	<b>3.5</b>	<b>3.9</b>	<b>7.6</b>	<b>102.8</b>	
PetroVietnam Nhon Trach 2			Vietnam	6,937,812	10.8	1.7	5.6	16.9	7.4	3.7	10.2	80.1

Source: Bloomberg, Yuanta Vietnam

## FCFF

Our FCFF valuation assumptions include WACC of 9.1% throughout NT2's remaining life (25 years). This conservative assumption is based on cost of debt of 5.1% and cost of equity of 12.5%.

**Fig. 23: FCFF valuation method**

FCFF	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT	892	893	880	895	950	973	1,101	1,480	1,464	1,447	1,430	1,413	1,431	1,526	1,508	1,490	1,471	1,456
Less: Tax	(39)	(40)	(43)	(46)	(51)	(109)	(125)	(166)	(166)	(166)	(166)	(166)	(338)	(359)	(357)	(355)	(353)	(352)
add: Depreciation	692	692	697	695	694	694	550	155	155	155	155	156	120	7	6	6	6	2
less: FCInvestment (Capex)	-	-	(101)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
less: WCInvestment	(514)	(224)	(8)	(4)	2	1	25	81	(7)	(7)	(7)	(7)	4	18	(7)	(7)	(7)	(7)
Free cash flow	1,031	1,321	1,424	1,540	1,595	1,559	1,551	1,550	1,447	1,430	1,413	1,396	1,217	1,192	1,151	1,134	1,117	1,100
PV of free cash flow	1,031	1,211	1,197	1,187	1,127	1,009	921	844	722	654	593	537	429	385	341	308	278	251
Total PV of free cash flow	13,022																	
Terminal value																		
PV of terminal value	-																	
PV of free cash flow	13,022																	
less: debt	4,042																	
Add: cash	219																	
Equity value	9,199																	
Outstanding shares (000)	287,876																	
Intrinsic value/share	31,955																	

Source: Yuanta Vietnam

## Risks to our call

**PPA renegotiations.** The obvious downside risk to our earnings and dividend forecasts is the very likely reduction in PPA pricing following the renegotiation with EVN. NT2's management has stated that they must renegotiate their PPA with EVN, especially in terms of pricing. This is extremely likely to be less favorable for NT2 than the original PPA. We have not factored in PPA reduction in our forecasts and will revisit our model after the new PPA terms are announced. However, we believe that we have covered this risk in our valuation by applying a higher-than-historical Beta assumption in computing our cost of equity.

**The shift to market pricing is short-term negative.** As the government is supporting competitive markets. Decision 109/QD-DTDL of the National Load Dispatch Centre (A0) guided for FY2019 Qc of thermal power to fall to 80% of production. In the longer term, we assume that Qc will be reduce to 60% of total sales volume in 2024, down from 80% in 2019. The decline in Qc is to be matched by increases in market price-based sales, which are currently lower than Qc prices. As a result, blended margin is under pressure and the results could be worse than we have anticipated. The main issue is that there is really only one buyer (EVN and its 100%-owned subsidiaries). However, as other buyers are allowed to buy power directly from producers in the years ahead, the market price could recover and perhaps even become more attractive than the Qc rates.

**The instability of gas supply.** Input gas for NT2 is supplied by Cuu Long and Nam Con Son Basins, where reserves are getting low. In 1H19, the company experienced gas supply disruptions mainly due to upstream maintenance. As mentioned, this issue will not be fully resolved until 2021E.

<b>PROFIT AND LOSS (VND bn)</b>					
<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	<b>6,761</b>	<b>7,670</b>	<b>7,892</b>	<b>8,369</b>	<b>8,607</b>
<i>Gas fired power</i>	<i>6,761</i>	<i>7,614</i>	<i>7,892</i>	<i>8,369</i>	<i>8,607</i>
Cost of goods sold	(5,368)	(6,654)	(6,881)	(7,350)	(7,598)
<b>Gross profits</b>	<b>1,393</b>	<b>1,015</b>	<b>1,010</b>	<b>1,019</b>	<b>1,009</b>
Operating expenses	(114)	(101)	(118)	(126)	(129)
<b>Operating profits</b>	<b>1,279</b>	<b>914</b>	<b>892</b>	<b>893</b>	<b>880</b>
Net interest expenses	(427)	(119)	(119)	(90)	(16)
Net investments income	-	-	-	-	-
Net other incomes	1	29	-	-	-
<b>Pretax profits</b>	<b>853</b>	<b>824</b>	<b>773</b>	<b>803</b>	<b>863</b>
Income taxes	(43)	(42)	(39)	(40)	(43)
Minority interests	-	-	-	-	-
<b>Net profits</b>	<b>810</b>	<b>782</b>	<b>735</b>	<b>763</b>	<b>820</b>
EBITDA	1,971	1,608	1,584	1,585	1,577
EPS (VND)	2,716	2,638	2,501	2,598	2,792

<b>KEY RATIOS</b>					
	2017A	2018A	2019E	2020E	2021E
<b>Growth (%YoY)</b>					
Sales	-15%	13%	3%	6%	3%
<i>Gas fired power</i>	<i>-15%</i>	<i>13%</i>	<i>3%</i>	<i>6%</i>	<i>3%</i>

Operating profit	(1.2)	(28.5)	(2.4)	0.1	(1.5)
EBITDA	(0.9)	(18.4)	(1.5)	0.1	(0.5)
Net profit	(25.3)	(3.5)	(6.1)	3.9	7.5
EPS (VND)	(27.4)	(2.9)	(5.2)	3.9	7.5
<b>Profitability ratio (%)</b>					
Gross margin	20.6	13.2	12.8	12.2	11.7
Operating margin	18.9	11.9	11.3	10.7	10.2
EBITDA margin	29.2	21.0	20.1	18.9	18.3
Net margin	12.0	10.2	9.3	9.1	9.5
ROA	7.1	8.3	8.8	10.3	12.1
ROE	16.4	18.0	19.6	19.9	21.0

<b>Stability</b>					
Net debt/equity (x)	53.2	78.3	40.2	16.1	-1.4
Int. coverage (x)	10.6	8.7	11.6	20.9	34.1
Int.&ST debt coverage(x)	1.4	0.8	0.7	1.0	2.1
Cash conversion days	33.9	43.5	30.7	13.7	9.0
Current ratio (X)	1.4	0.8	0.7	0.8	1.0
Quick ratio (X)	1.2	0.7	0.6	0.7	0.8
Net cash (VND bn)	(2,652)	(2,883)	(1,539)	(622)	54

<b>Efficiency</b>					
Days receivable outstanding	138	98	101	82	79
Days inventory outstanding	17	14	14	15	15
Days payable outstanding	121	68	85	83	85

<b>BALANCE SHEET (VND bn)</b>					
<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
<b>Total assets</b>	<b>9,964</b>	<b>8,852</b>	<b>7,870</b>	<b>6,970</b>	<b>6,627</b>
Cash & cash equivalents	146	65	219	75	254
ST Investment	900	0	-	-	-
Accounts receivable	1,795	2,520	2,048	1,937	1,989
Inventories	259	261	283	302	312
Other current assets	0	0	0	0	0
Net fixed assets	6,247	5,562	4,869	4,176	3,578
Others	616	443	451	479	494
<b>Total liabilities</b>	<b>4,979</b>	<b>5,169</b>	<b>4,042</b>	<b>3,113</b>	<b>2,687</b>
Current liabilities	2,284	3,572	3,506	3,075	2,648
Accounts payable	922	1,569	1,622	1,733	1,791
ST debts	1,066	1,391	1,261	697	200
Long-term liabilities	2,695	1,597	536	38	38
Long-term debts	2,632	1,558	497	-	-
Others	63	38	38	38	38
<b>Shareholder's equity</b>	<b>4,985</b>	<b>3,683</b>	<b>3,828</b>	<b>3,856</b>	<b>3,941</b>
Share capital	2,879	2,879	2,879	2,879	2,879
Treasury stocks	-	-	-	-	-
Others	137	137	137	137	137
Retained earnings	1,970	668	812	840	924
<b>Minority interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>CASH FLOW (VND bn)</b>					
<i>FY (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
<b>Operating cash flow</b>	<b>1,446</b>	<b>1,406</b>	<b>1,927</b>	<b>1,666</b>	<b>1,511</b>
Net income	810	782	735	763	820
Dep. & amortization	692	695	693	693	699
Change in working capital	(184)	237	514	224	8
Others	128	(307)	(16)	(15)	(16)
<b>Investment cash flow</b>	<b>(794)</b>	<b>1,071</b>	<b>(7)</b>	<b>(28)</b>	<b>(116)</b>
Net capex	(7)	(2)	-	-	(101)
Change in LT investment	113	173	(8)	(28)	(15)
Change in other assets	(900)	900	0	-	-
Cash flow after invt.	652	2,478	1,920	1,638	1,395
<b>Financing cash flow</b>	<b>(1,904)</b>	<b>(2,558)</b>	<b>(1,766)</b>	<b>(1,781)</b>	<b>(1,217)</b>
Change in share capital	30	-	0	-	-
Net change in debt	(1,044)	(749)	(1,191)	(1,061)	(497)
Change in other LT liab.	(890)	(1,810)	(576)	(720)	(720)
<b>Net change in cash flow</b>	<b>(1,252)</b>	<b>(81)</b>	<b>153</b>	<b>(143)</b>	<b>178</b>
Beginning cash flow	1,398	146	65	219	75
<b>Ending Cash Balance</b>	<b>146</b>	<b>65</b>	<b>219</b>	<b>75</b>	<b>254</b>

<b>KEY METRICS</b>					
	2017A	2018A	2019E	2020E	2021E
PE (x)	8.7	9.0	9.5	9.1	8.5
Diluted PE (x)	8.7	9.0	9.5	9.1	8.5
PB (x)	1.4	1.9	1.8	1.8	1.7
EBITDA/share	6,848	5,585	5,501	5,506	5,478
DPS (VND)	2,600	7,192	2,000	2,500	2,500
Dividend yield (%)	10.9	30.3	8.4	10.5	10.5
EV/EBITDA (x)	4.8	6.0	5.3	4.7	4.3
EV/EBIT (x)	52.0	29.7	7.4	10.6	9.4

Source: Company data, Yuanta Vietnam

# Appendix A: Important Disclosures

## Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Ratings Definitions

**BUY:** We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

**HOLD-Outperform:** In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

**HOLD-Underperform:** In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

**SELL:** We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

**Under Review:** We actively follow the company, although our estimates, rating and target price are under review.

**Restricted:** The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

## Global Disclaimer

© 2019 Yuanta. All rights reserved. The information in this report has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

This report provides general information only. Neither the information nor any opinion expressed herein constitutes an offer or invitation to make an offer to buy or sell securities or other investments. This material is prepared for general circulation to clients and is not intended to provide tailored investment advice and does not take into account the individual financial situation and objectives of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, investments or investment strategies discussed or recommended in this report. The information contained in this report has been compiled from sources believed to be reliable but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This report is not (and should not be construed as) a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on such business in that jurisdiction.

Yuanta research is distributed in the United States only to Major U.S. Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended and SEC staff interpretations thereof). All transactions by a US person in the securities mentioned in this report must be effected through a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, as amended. Yuanta research is distributed in Taiwan by Yuanta Securities Investment Consulting. Yuanta research is distributed in Hong Kong by Yuanta Securities (Hong Kong) Co. Limited, which is licensed in Hong Kong by the Securities and Futures Commission for regulated activities, including Type 4 regulated activity (advising on securities). In Hong Kong, this research report may not be redistributed, retransmitted or disclosed, in whole or in part or and any form or manner, without the express written consent of Yuanta Securities (Hong Kong) Co. Limited.

Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities Investment Consulting  
4F, 225,  
Section 3 Nanking East Road, Taipei 104  
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities (Hong Kong) Co. Ltd  
23/F, Tower 1, Admiralty Centre  
18 Harcourt Road,  
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office  
Yuanta Securities Building  
Euljiro 76 Jung-gu  
Seoul, Korea 100-845  
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
PT YUANTA SECURITIES INDONESIA  
(A member of the Yuanta Group)  
Equity Tower, 10th Floor Unit EFGH  
SCBD Lot 9  
Jl. Jend. Sudirman Kav. 52-53  
Tel: (6221) - 5153608 (General)

Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Thailand)  
127 Gaysorn Tower, 16th floor  
Ratchadamri Road, Pathumwan  
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Vietnam)  
4th Floor, Saigon Centre  
Tower 1, 65 Le Loi Boulevard,  
Ben Nghe Ward, District 1,  
HCMC, Vietnam

# YUANTA SECURITIES NETWORK



## YUANTA SECURITIES VIETNAM OFFICE

**Head office:** 4<sup>th</sup> Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

### Institutional Research

#### Matthew Smith, CFA

Head of Research

Tel: +84 28 3622 6868 (ext. 3815)

[matthew.smith@yuanta.com.vn](mailto:matthew.smith@yuanta.com.vn)

#### Quang Vo

Analyst (Consumer)

Tel: +84 28 3622 6868 (ext. 3872)

[quang.vo@yuanta.com.vn](mailto:quang.vo@yuanta.com.vn)

#### Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

[tam.nguyen@yuanta.com.vn](mailto:tam.nguyen@yuanta.com.vn)

#### Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

[binh.truong@yuanta.com.vn](mailto:binh.truong@yuanta.com.vn)

#### Tanh Tran

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)

### Institutional Sales

#### Huy Nguyen

Head of Institutional sales

Tel: +84 28 3622 6868 (3808)

[Huy.nguyen@yuanta.com.vn](mailto:Huy.nguyen@yuanta.com.vn)

#### Duyen Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

[duyen.nguyen@yuanta.com.vn](mailto:duyen.nguyen@yuanta.com.vn)