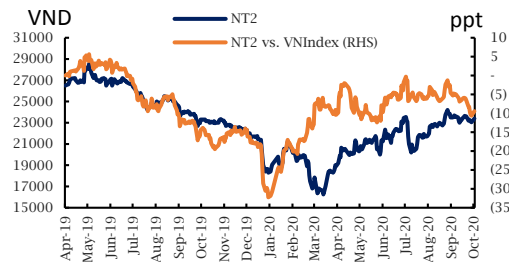


Vietnam : Energy
20 October 2020
BUY
TP upside +7.6%
Close 20 Oct 2020
Price 23,400
12M Target 25,181
Previous target 25,181
Share price performance relative to VNINDEX


Market cap (USD mn)	291
6M ADT (USD mn)	0.31
Outstanding shares (mn)	288
Free float (%)	32
FINI ownership (%)	19.2
FOL Room (%)	29.7
Major shareholders (%)	72.6
2020E Net debt/equity (%)	15.8
2020E BVPS (VND)	13,262
2020E P/B (x)	1.8
2020E P/E (x)	9.7
2020E EV/EBITDA (x)	4.8

Financial outlook

Year to Dec	2019E	2020E	2021E	2022E
Sales (VND bn)	8,295	7,208	7,790	8,534
EPS (VND)	2,567	2,399	2,572	3,737
ROE (%)	19.3	17.7	19.7	27.3
Div. yield (%)	10.7	8.6	10.7	10.7

Note: Fully diluted weighted average EPS is based on weighted average number of shares.

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Bloomberg code: YUTA
PV Nhon Trach 2 (NT2 VN)
Output fell due to medium maintenance
Event

NT2 posted a -27.6% YoY 3Q20 decline in revenue and a net loss of VND 5.9bn.

Key highlights

3Q20 revenue decreased by -34.0% YoY to VND 1,152 bn, higher than our [forecast](#) (-25% YoY). This was attributable to a -31.5% YoY decline in volume to 772 mn kWh. As we have stated previously, NT2 carried out medium maintenance of 75,000 equivalent operating hours (EOH) during Sep 15 to Oct 22.

3Q20 gross margin shrank too. 3Q20 gross margin reached 5.9%, down from 10.3% in 3Q19. NT2 states that the operational plant shutdowns starting from Sep 15 adversely affected revenue while the company must cover its fixed costs regardless. In addition, 3Q20 Net financial expenses reached VND 45.6bn vs financial income of VND 16.1bn YoY. This was mainly attributable to FX losses from foreign currency-denominated debt of VND20.4bn vs FX gains of VND49.6bn in 3Q19. **Thus, NT2 recorded a net loss of VND 5.9bn.**

Significant degearing. Net debt/equity fell to 23% at end-3Q20 from 44% at end-3Q19. NT2 completed repayment of its long-term debt in 2Q20. Thus, 3Q20 interest expenses fell by -67% YoY to VND7.1bn.

No update in the PPA negotiation update from NT2's results. But management had previously said they do not expect an adjustment in the contract price this year and think that the negative adjustment next year will be no more than VND 40 per kWh. The latter number was slightly more than our worst case scenario of VND 35 per kWh as outlined in our initiation report. Thus, we have already applied a VND 40 per kWh negative adjustment from 2021 onward to fully reflect the renegotiation risk. These changes are outlined in our [previous note](#). As a result, we make no earnings or target price revisions in this note.

Our view

We think NT2 should recover in 2021 due to the low base and stabilized gas supply input. The company's cash dividend should also increase from 20% of par value (VND2000, equivalent to an 8.7% yield) this year to 25% of par value (VND 2500, 10.7% yield) next year. We maintain a **BUY** rating with target price of VND 25,181. However, maintenance has been extended to 22 October, implying a short-term risk that output volume may remain subdued in 4Q20, which might adversely affect the 4Q20 bottom line.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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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.

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