

Vietnam: Energy

12 July 2022



What's new?

- ▶ Electricity production rose by 4.1% YoY to 109bn kwh in 5M2022.
- ▶ EVN states that it prioritizes hydropower over thermal power.
- ▶ PC1 (BUY) is a key beneficiary of the hydropower recovery.
- ▶ POW (SELL)'s preliminary 1H22 PATMI reached VND 1,159 billion (-20% YoY).

Our view

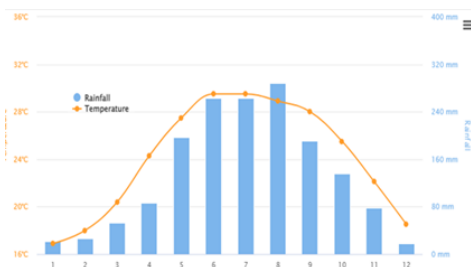
- ▶ Industrial production growth in 2H22 should underpin electricity demand.
- ▶ Hydropower should continue to surge as rainfall in 2022 has been higher than the multi-year average.
- ▶ PC1 provides excellent exposure to renewable power demand.
- ▶ POW's technical struggles continue at its core coal-fired plant.

Yuanta energy sector coverage

Tickers	Recommendation	Current price	Target price	2022 Dividend	12-m TSR
POW VN	SELL	12,500	12,157	2.30%	0%
NTZ VN	SELL	22,200	19,318	8.60%	-4%
PC1	BUY	33,100	50,728	0%	53%

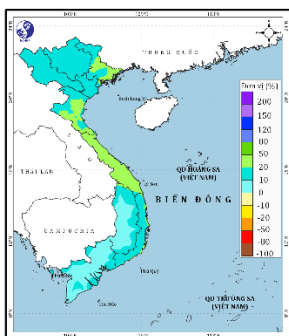
Source: Bloomberg, YSVN

Average temperature and rainfall in 2022



Source: nchmf.gov.vn

Rainfall will be 10% (blue)–20% (green) higher than multi-year average in July 2022



Source: nchmf.gov.vn

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Bloomberg code: YUTA

2Q21 preview: Hydropower surges?

Electricity production rose by +4.1% YoY in 5M22, according to EVN. Electricity production reached 109 bn kwh in 5M22 as economic activity recovers post the pandemic. The GSO estimated that the Index of Industrial Production (IIP) in June increased by +11.5% YoY, with manufacturing soaring by +13.1% YoY. We believe that strong IIP is very likely to extend into 2H22 given last year's low base, which in turn might lead to further strength in electricity demand.

Hydropower is the priority. EVN is emphasizing the use of low-cost hydropower, while gas- and coal-based thermal power is to be utilized as a balancing source. This prioritization of hydropower can be attributed to: 1) Rainfall this year has been higher than the multi-year average, especially in the Northern and central regions; and 2) Coal is being de-emphasized because of carbon emission concerns and the high coal price of USD 412 per MT (+188% YoY). As such, EVN plans to offset the reduced dependency on coal by emphasizing hydropower and gas-fired thermal power.

PC1 (BUY) is a key beneficiary of the hydropower recovery. We have identified three short-term catalysts for PC1: 1) Earnings growth, driven by 166MW in new wind farms; 2) A recovery in hydropower as coal fired power is undermined by the high coal price; and 3) Potential revenue from two new property projects in 3Q22 and 4Q22. We expect 2Q22 PATMI to increase by +25.9%YoY to VND 165bn. We reiterate our **BUY** recommendation and target price of VND 50,728, implying 6.4x 2022E EV/EBITDA. PC1 offers exposure to strong demand for hydropower and long-term general demand in renewable electricity.

POW (SELL) has announced preliminary 1H22 PATMI of VND 1,159 billion (-20% YoY), fulfilling 42% of our full-year guidance. 1H22 output fell by -25% YoY to only 7.1 billion kWh. This is partly due to the long-term technical problems at the coal-fired Vung Ang plant. In addition, high coal prices are putting pressure on coal power across the industry. The market appears to have come to agreement with our negative view on the stock, which is fast approaching our VND12,157 target price. However, we see few catalysts for an immediate turnaround, and we reiterate our SELL call on POW.

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