

Vietnam: Energy
1 March 2023
POW VN
BUY
TP Upside +39.5%
Close 28 February 2023

Price VND 12,100
 12M Target VND 16,724
 Previous target price VND 12,157

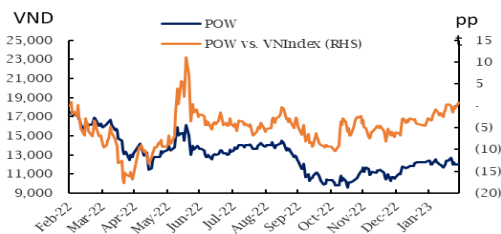
What's new?

- ▶ Short-term catalyst: Vung Ang plant to resume normal operations in March.
- ▶ Thermal power to gain market share from hydropower due to unfavorable weather.
- ▶ Longer-term growth from gas-fired thermal power NT3 and NT4 plants.
- ▶ We upgrade our rating to BUY from SELL and increase our target price by 37.6%.

Our view

- ▶ We expect 2023E output to reach 18.4 GWh (up +29.5% YoY) driven by Vung Ang thermal
- ▶ We expect 2023E PATMI to increase by +34.2% YoY to reach VND 2,622bn .
- ▶ Upside risk: Potential VND 300bn machinery breakdown insurance payment in 2023.
- ▶ Our target price of VND 16,724 per share is equivalent to 6.5x 2024F EV/EBITDA, which is 8% below the regional peer median.

Company profile: POW is Vietnam's second largest independent electricity supplier with installed capacity of 4,208 MW, accounting for 6% of Vietnam's total installed power capacity. The firm's production comprises gas fired thermal power (65% of POW's power production mix), coal fired thermal power (23%), and hydropower (11%).

Share price performance relative to VNI


Market cap	US\$1.2bn
6M avg. daily turnover	US\$5.1mn
Outstanding shares	2,342mn
Free float	20%
FINI ownership	6.0%
Major shareholders	80%
2023 Asset/equity	1.5x
2023E PE	11.3x
2023E P/B	0.8x
Trading platform	HOSE
FOL Room	43.0%

Financial outlook (VND bn)

Year to Dec	2022A	2023E	2024E	2025E
Sales	28,235	29,830	29,950	38,659
Op. profit	2,643	3,368	3,472	4,668
Net profit	1,954	2,622	2,882	3,258
EPS (VND)	765	1,071	1,178	1,332
EPS chg (%)	6	40	10	13
P/E (x)	15.8	11.3	10.3	9.1
ROE (%)	7.6	7.8	8.2	7.2
Div. yield (%)	-	-	-	-
DPS (VND)	0	0	0	0

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Bloomberg code: YUTA

PV POWER (POW VN)
Vung Ang to drive earnings growth

2023: Thermal power turns up the heat. We expect thermal power to play a more important role in 2023 as hydropower is constrained by unfavorable weather. The high probability of El Nino occurring in the Northern Hemisphere by May has led to expectations of less rain in 2023 than occurred in 2022. We therefore expect thermal power to accrue market share from hydropower, which should benefit POW. We now forecast the firm's 2023E output to reach 18.4 Gwh, up by +29.5% YoY

Short-term catalyst: Vung Ang plant is back. POW states that the Vung Ang plant's malfunctioning turbines have been fixed and transported back to the plant. The company expects to put the turbines back into operation by Mar 15. We forecast the Vung Ang plant to produce 5.64 GWh of electricity this year (+70% YoY).

Longer-term growth driver from 1500MW gas-fired thermal power plants, NT3 and NT4. POW is constructing two 750MW designed capacity LNG gas fired thermal power plants (i.e., NT3 and NT4) with total capacity of 1500 and investment of USD 1.4bn. We expect POW to launch NT3 in 2025 and NT4 in 2026, which should expand its capacity by 35%.

Model revisit. We now forecast 2023E PATMI to increase by +34.2% YoY to reach VND2.6tn. We expect 2023E revenue to increase by +6% YoY to VND291tn, and we forecast gross margin to increase by +90 bps YoY based on the assumption of firm ASPs and reduced coal prices in 2023.

We upgrade our recommendation to BUY from the previous SELL, and we increase our target price by +37.6% to VND 16,724 per share. Our target price implies 2024F EV/EBITDA of 6.5x, which is 8% below the regional peer median. The main risk to our model is potential delays in the technical solutions at Vung Ang. Upside risk: potential recognition of ~VND 300bn machine breakdown insurance to be recorded in 2023.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Vung Ang to drive earnings growth in 2023

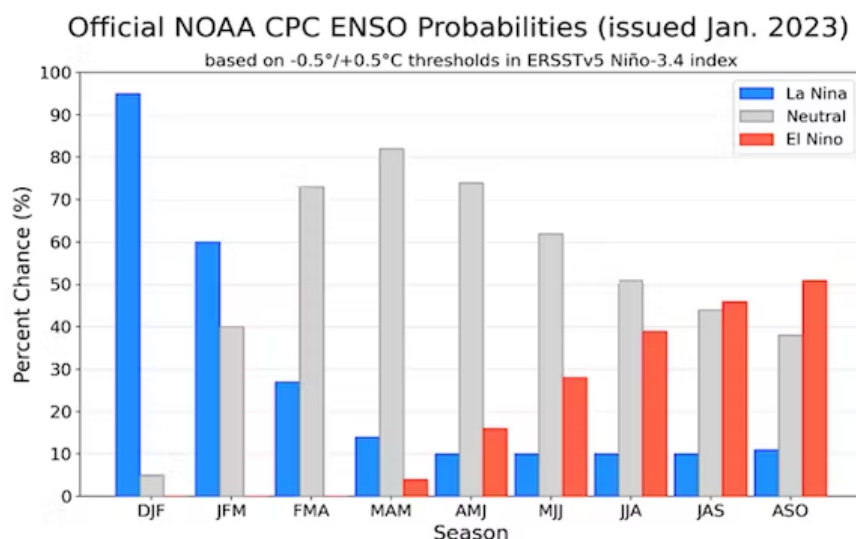
Vung Ang technical issues resolved. POW states that the technical issues with the turbines at the Vung Ang coal-fired plant have been resolved. The turbines are planned to be operational by Mar 15. We forecast that Vung Ang will produce 5.64 GWh in 2023, up by +70% YoY and accounting for 30.8% of the company total production. Thus, the 2Q23 financial performance is likely to show substantial improvement.

Weather favors thermal power in 2023. According to the US National Oceanic and Atmospheric Administration (NOAA), the equatorial Pacific Ocean is expected to revert to a neutral state between March and May of 2023. NOAA anticipates that El Niño conditions might manifest during the northern hemisphere autumn and winter.

Scientists have also cautioned that this El Niño may cause unparalleled heatwaves and produce temperatures that are "off the charts." This outlook implies a higher risk of drought, floods, and extreme heatwaves, potentially resulting in food and water insecurity.

Thermal power will keep the fire burning. The higher chance of El Niño occurring by May implies that hydropower utilization may decelerate. This would be a major shift from 2022, when hydropower accounted for 36% of Vietnam's 2022 total electricity production. If this occurs, then increased thermal power production would be required to make up the gap. Thermal power represented 48% of Vietnam's total electricity production in 2022, broken down by coal (38%) and gas (10%).

High chance of El Niño by in the Northern Hemisphere's summer this year



Source: NOAA, cited in [theconversation.com](https://www.theconversation.com)

The recent drop in coal prices should allow coal-fired power to gain market share in the electricity generation market. Coal prices have declined sharply YTD on slowing demand. Specifically, Newcastle coal futures have dropped by -28.2% YoY to USD200 per MT.

The decline is primarily due to weak demand outweighing concerns over supply disruptions from Australia, a significant exporter. Warm weather in the US and Europe has reduced the need for coal to generate power. In addition, falling natural gas prices have contributed to the decline.

In our view, the softened coal price will coal-fired thermal power gain a competitive advantage and thus market share in electricity generation.

Coal prices are decelerating (USD/MT)



Source: Trading economics

Longer-term growth driver from gas-fired thermal power plants NT3 and NT4

POW is constructing 1500 MW in designed capacity LNG gas fired thermal power plants: NT3 and NT4. Total investment for these projects is USD 1.4bn. POW expects to launch NT3 in 2024 and NT4 in 2025, thus expanding its capacity by +35%.

Total planned production capacity of NT3 & NT4 is 10.5bn kWh. In our model, we cautiously assume that POW will launch NT3 in 2025 and NT4 in 2026, a year later than the company's guidance. We have also penciled in conservative utilization assumptions at NT3 & NT4 of 51% in 2025 and 57% in 2026.

COP26 and all that: Green is still good, but gas can help. In our view, the use of gas-fired thermal power capacity alongside renewable energy can help to Vietnam to reduce its overall carbon emissions and move toward achieving the government's COP26 commitment to achieve net zero carbon by 2050.

LNG thermal power is cleaner than coal-fired power plants. While renewable energy sources like solar and wind power are both clean and renewable, their operation is also intermittent because they only generate electricity when the sun is shining or the wind is blowing.

Gas-fired thermal power plants can be used to supplement renewable energy, thus providing a reliable source of electricity amid the transition toward a greater focus on renewable power production in the years ahead.

Significant improvement in 4Q22 financial performance. POW reported 4Q22 profit of VND683bn vs. the 4Q21 net loss of VND 63bn. This rebound is attributable to the +113% YoY increase in revenue to VND 7,669bn, including a one-off FX loss reversal of VND 584bn. Gross profit margin reached 14.4% in 4Q22, much improved from 4Q21's

gross loss. In 4Q22, POW recorded net financial gains of VND115.3bn vs net financial expenses of VND 59bn in 4Q21.

2022 PATMI rose by +5.3% YoY to VND 1,893bn. Revenue rose by +15% YoY to reach VND 28,235bn, which included a one-off FX loss reversal of VND 584bn. Sales volume slipped by -3.4% YoY to 14.1 bn kWh, mainly attributable to the -40% drop in output volume at the Vung Ang plant. Full-year gross margin expanded by +3ppt to reach 13.3%. Net financial expenses were VND 201.5bn vs net financial gains of VND 37.1 YoY in 2021.

Financial performance is improving

Key matrix	4Q21	4Q22	FY21	FY22
Revenue (VND bn)	3,598	7,669	24,561	28,235
Revenue growth (% YoY)		113.1%		15.0%
Gross margin	-9.1%	14.4%	10.3%	13.3%
Gain/Loss from JVs	0.00	37.43	22.49	62.65
PATMI	-63	684	1799	1894
Profit growth (% YoY)		n.m		5.3%

Source: Fiinpro

Model revisit: Coal-fired power to drive earnings growth

We expect revenue to increase by +6% YoY to VND 29,830bn in 2023E and to tick up by +0.4% YoY to VND 29,950bn in 2024.

This assumption is mainly attributable to the resumption of operations at the Vung Ang coal-fired power plant, where we expect revenue to soar by +47.6% YoY reach VND 9,247 bn in 2023E and to rise slightly by +2.5% YoY to reach VND 9,483 in 2024E.

By contrast, we expect hydropower revenue to fall by -15.4% YoY to VND 1,754bn in 2023E due to the expected unfavorable weather. We have penciled in a +6.1% YoY increase in hydropower revenue in 2024 to reach VND 1,860bn.

We expect gross margin to expand by +90 bps in 2023E to 14.2%, largely based on the assumption of stable ASPs but reduced coal input costs. In 2024, gross margin should expand by +30bps YoY to 13% as hydropower revenue, which is higher margin than that of coals, recovers again under the assumption of normalized weather.

Net-net, we forecast PATMI to increase by +34.2% YoY to reach VND 2,622bn in 2023E and to increase by +9.9% YoY to reach VND 2,882bn in 2024.

Coal fired thermal power resumes normal operation

<i>FY Dec 31 (VND'bn)</i>	2023E	Y/Y Growth	2024E	Y/Y Growth
Revenue	29,830	5.7%	29,950	0.4%
<i>Gas fired</i>	18,612	-5.4%	18,389	-1.2%
<i>Coal fired</i>	9,247	47.6%	9,483	2.5%
<i>Hydropower</i>	1,754	-15.4%	1,860	6.1%
Gross profits	4,247	13%	4,354	2.5%
Operating profits	3,368	27.5%	3,472	3.1%
PATMI	2,622	34.2%	2,882	9.9%
Gross margin	14.2		14.5	

Source: YSVN

Valuation: Upgrade to BUY

We upgrade our recommendation to BUY from the previous SELL rating. Our prior call was based on the expected operational slowdown in the company's carbon-based capacity in 2022. That largely played out as we had anticipated, but we now see changed fundamentals that drive this recommendation upgrade.

We increase our target price by +37.6% to VND 16,724. Our new target price implies 6.5x FY2024E EV/EBITDA, which is -8% below the regional peers' median valuation.

Our target price is based on an approach that applies weightings of 50% for FCFF and 50% for EV/EBITDA comps.

Target price calculation

Methods	Target price (VND)	Weight (%)	Weighted target price (VND)
EV/EBITDA multiple	16,240	50%	8,120
FCFF	17,207	50%	8,604
Overall target price			16,724
Upside			39.4%

Source: YSVN

EV/EBITDA Multiple

We apply a peer comparable-based 2024E EV/EBITDA multiple of 6.4x, which is -10% below the regional peer median. A discount to the regional median is justified by POW's relatively small size compared to its regional peers.

However, POW is the largest listed power construction company in Vietnam in terms of market cap and revenue, and this multiple is -6.6% below POW's 5-year average EV/EBITDA multiple of 6.9x. These factors suggest that we are using a conservative approach to value POW.

Target price calculation

Ticker	Name	Mkt Cap (USD mn)	2024E EV/EBITDA (x)	2023E P/B (x)	ROE (%)
MER PM EQUITY	BANPU POWER PCL	6,377	N/A	3.1	12.9
JSW IN Equity	FIRST GEN CORPORATIC	4,403	N/A	1.9	10.0
RATCH TB EQUITY	SHANGHAI NENGHUI TEC	2,698	16.2	0.8	4.7
579 HK Equity	GEPIC ENERGY DEVELOP	2,123	8.2	0.4	4.5
POW VN Equity	PETROVIETNAM POWER	1,196	7.1	0.8	6.4
FGEN PM Equity	SJVN LTD	1,171	3.4	0.4	7.6
CKP TB Equity	NINGXIA JIAZE RENEWA	1,025	N/A	1.1	15.8
MLK MK Equity	CK POWER PCL	767	N/A	0.5	9.5
816 HK Equity	ZHEJIANG XINNENG SOL	533	4.3	2.2	10.5
NT2 VN EQUITY	POWER GENERATION CC	348	N/A	1.8	13.7
PPC VN EQUITY	DA NHIM-HAM THUAN-D	201	N/A	N/A	22.4
Median		1,171	7.06	1.0	10.0

Source: Bloomberg

FCFF

Our FCFF-based valuation of 17,207 is based on the assumptions that NT3 and NT4 will be launched in 2025E and 2026E, which is a year later than POW's guidance. We assume a WACC of 12%, based on 15% cost of equity and 8% cost of debt.

FCFF

FCFF	2023E	2024E	2025E	2026E	2027E
EBIT	3,413	3,518	4,668	5,000	5,363
Less: Tax	(385)	(418)	(472)	(448)	(472)
add: Depreciation	2,721	2,721	3,485	3,636	3,636
less: FCInvestment (Capex)	(2,213)	(9,000)	(20,493)	(300)	(301)
less: WCInvestment	1,114	56	3,197	618	469
Free cash flow	4,651	(3,122)	(9,614)	8,506	8,695
PV of free cash flow	4,651	(2,787)	(7,661)	6,051	5,521
Total PV of free cash flow	5,775				
Terminal value	56,181				
PV of terminal value	31,844				
PV of free cash flow	37,619				
less: debt	6,799				
Add: cash	9,478				
Equity value	40,297				
Outstanding shares	2,342				
Intrinsic value/share	17,207				

Source: YSVN

Risks

The ongoing slowdown in industrial production may affect electricity consumption. The slowdown became apparent in 4Q22, and we expect the manufacturing sector to face challenging business conditions in 1H23. The S&P Global Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) came in 47.4 in January, up marginally from the previous month (46.4), but still pointing toward contraction. It was the third sequential monthly result in negative territory (i.e., below 50).

We anticipate a rebound in 2H23 as global finished goods inventories are worked through, but a more prolonged period of weakness could constrain electricity demand growth.

Potential delays in the turbine installation / operation at Vung Ang. POW has announced that the turbine maintenance has been completed and the machinery should be ready for a trial run on Mar 3. The turbines are expected to be launched officially by Mar 15. However, any delay in the re-launch of the Vung Ang plant would likely impact our forecast on output volume in 2023.

As a reminder, part of the Vung Ang thermal plant has been shut down due to technical issues since 4Q21, and the company has sent the problematic turbines overseas to be fixed. This has resulted in a -37% reduction in revenue attributable to Vung Ang's in 2022, to just VND 9,247bn.

Upside risk: We think there could be a potential recognition of ~VND 300bn in machinery breakdown insurance claims, which might be recorded in 2023E. This potential is related to the Vung Ang breakdown in 2021.

Of course, we have not built this into our model given our desire to remain conservative and the low visibility on such a payout. However, a VND300bn insurance payment would boost our 2023E PATMI forecast to VND2.9 trillion (+50% YoY and +12% higher than our base case forecast).

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023E	2024E	2025E	2026A
Revenue	28,235	29,830	29,950	38,659	40,384
Gas fired	19,680	18,612	18,389	18,811	19,245
Coal fired	6,265	9,247	9,483	9,725	9,973
Hydropower	2,072	1,754	1,860	1,972	2,092
Others					
Cost of goods sold	(24,468)	(25,583)	(25,595)	(32,851)	(34,194)
Gross profits	3,767	4,247	4,354	5,808	6,190
Operating expenses	(1,124)	(879)	(883)	(1,140)	(1,190)
Operating profits	2,643	3,368	3,472	4,668	5,000
Net interest expenses	(201)	142	341	(428)	(983)
Net investments income/(loss)	63	25	25	26	27
Net other incomes	61	20	21	27	28
Pretax profits	2,564	3,555	3,859	4,293	4,072
Income taxes	(241)	(385)	(418)	(472)	(448)
Minority interests	370	549	559	563	566
Net profits	1,954	2,622	2,882	3,258	3,058
Core earnings	1,954	2,622	2,882	3,258	3,058
EBITDA	5,452	6,089	6,193	8,153	8,636
EPS (VND)	765	1,071	1,178	1,332	1,250

KEY RATIOS

	2022A	2023E	2024E	2025E	2026A
Growth (% YoY)					
Sales	15%	6%	0%	29%	4%
Gas fired	-7%	-5%	-1%	2%	2%
Coal fired	-37%	48%	3%	3%	3%
Hydropower	52%	-15%	6%	6%	6%
Others					
Operating profit	10.1	27.5	3.1	34.5	7.1
EBITDA	0.0	12%	2%	32%	6%
Net profit	16.0	34.2	9.9	13	(6)
EPS (VND)	5.6	40	10	13	(6)
Profitability ratio (%)					
Gross margin	13.3	14.2	14.5	15.0	15.3
Operating margin	9.4	11.3	11.6	12.1	12.4
EBITDA margin	19.3	20.4	20.7	21.1	21.4
Net margin	6.7	8.8	9.6	8.4	7.6
ROA	3.5	4.7	4.8	4.6	3.8
ROE	5.9	7.6	7.8	8.2	7.2
Stability					
Net debt/equity (x)	-2.7	-11.7	-0.4	40.4	27.5
Int. coverage (x)	6.0	17.4	88.8	7.4	4.3
Int. &ST debt coverage (x)	0.6	0.9	1.3	2.3	3.3
Cash conversion days	18.2	74.1	103.7	96.6	110.8
Current ratio (X)	1.3	1.6	1.7	1.4	2.1
Quick ratio (X)	1.2	1.3	1.5	1.1	1.8
Net cash/(debt) (VND mn)	884	4,171	173	(16,758)	(12,011)
Efficiency					
Days receivable outstanding	98	105	90	80	88
Days inventory outstanding	29	41	52	46	51
Days payable outstanding	109	71	38	29	28

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023E	2024E	2025E	2026A
Total assets	56,642	54,916	64,143	76,276	83,340
Cash & cash equivalents	8,277	7,854	10,307	2,371	11,955
ST Investment	1,624	1,624	1,640	1,657	1,657
Accounts receivable	12,284	9,861	9,891	12,038	12,464
Inventories	2,086	3,610	3,638	4,689	4,882
Other current assets	414	414	414	414	414
Net fixed assets	29,155	26,430	23,704	36,991	49,598
Others	2,801	5,123	14,549	18,116	2,370
Total liabilities	23,535	19,303	25,771	34,784	39,623
Current liabilities	18,307	14,804	14,805	14,806	14,807
Accounts payable	7,350	2,653	2,653	2,653	2,653
ST debts	5,635	2,653	2,653	2,653	2,653
Long-term liabilities	5,229	4,498	10,966	19,978	24,816
Long-term debts	3,382	2,654	9,122	18,133	22,969
Others	1,847	1,845	1,845	1,846	1,847
Shareholder's equity	33,106	35,614	38,372	41,492	43,717
Share capital	23,419	23,419	23,419	23,419	23,419
Treasury stocks	-	-	-	-	-
Others	3,678	3,678	3,678	3,678	3,678
Retained earnings	3,308	5,815	8,573	11,694	13,918
Minority interest	2,702	2,702	2,702	2,702	2,702

CASH FLOW (VND bn)

FY (VND'bn)	2022A	2023E	2024E	2025E	2026A
Operating cash flow	1,487	7,822	14,427	7,130	1,607
Net income	1,851	2,507	2,758	3,121	2,927
Dep. & amortisation	2,806	2,726	2,726	3,489	3,640
Change in working capital	(4,490)	379	(56)	(3,197)	(618)
Others	1,321	2,211	9,000	3,717	(4,342)
Investment cash flow	(1,993)	(4,535)	(18,441)	(24,076)	3,139
Net capex	(787)	(2,213)	(9,000)	(20,493)	-
Change in LT investment	(113)	(2,322)	(9,425)	(3,567)	3,139
Change in other assets	(1,093)	-	(16)	(16)	-
Cash flow after invt.	(506)	3,287	(4,014)	(16,947)	4,747
Financing cash flow	559	(3,710)	6,468	9,011	4,837
Change in share capital	-	0	-	-	-
Net change in debt	559	(3,710)	6,468	9,011	4,837
Change in other LT liab.	-	-	-	-	-
Net change in cash flow	53	(423)	2,453	(7,936)	9,584
Beginning cash flow	8,224	8,277	7,854	10,307	2,371
Ending Cash Balance	8,277	7,854	10,307	2,371	11,955

KEY METRICS

	2022A	2023E	2024E	2025E	2026A
PE (x)	15.8	11.3	10.3	9.1	9.7
Diluted PE (x)	15.8	11.3	10.3	9.1	9.7
PB (x)	0.9	0.8	0.7	0.7	0.6
EBITDA/share	2,328	2,600	2,644	3,482	3,688
DPS		0	0	0	300
Dividend yield (%)	-	-	-	-	2.5
EV/EBITDA (x)	5.0	4.0	4.5	5.5	4.7
EV/EBIT (x)	44.0	10.4	7.2	8.1	8.1

Appendix A: Important Disclosures

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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.

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