

PVPOWER CORP (POW) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND13,800	VND20,400	0.37%	Add	UTILITIES

8 June 2022

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Positive**

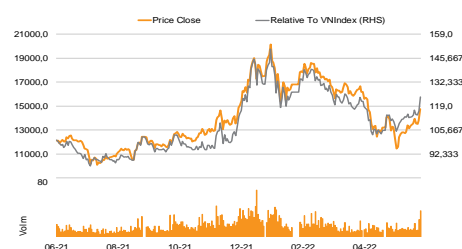
Consensus*: Add:5 Hold:1 Reduce:1

Target price / Consensus: 28.4%

Key changes in the report

➤ 2022/23/24F EPS up 32.2%/8.1%/9.9% from the previous forecast

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	20,150
52w low (VND)	10,100
3m Avg daily value (VNDmn)	178,313
Market cap (VND bn)	32,318
Free float (%)	65
TTM P/E (x)	17.1
Current P/B (x)	1.2

Ownership

PVN	79.9%
Others	20.1%

Source: VNDIRECT RESEARCH

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Firing up gas-fired power

- 1Q22 NP rose 41.9% yoy to VND721bn, back by impressive surge in production output, fulfilling 38% of our full year forecast.
- We raise 2022/23/24F EPS by 32.2%/8.1%/9.9% regarding the brighter outlook for gas-fired power output recovery.
- Upgrade to Add rating with higher target price of VND20,400.

1Q22 recap: Gas-fired power to drive the bottom lines growth

In 1Q22, POW gas-fired power recorded a positive output result, hydropower output also recorded an impressive growth thanks to ideal weather condition, offsetting output loss from Vung Ang 1 technical problems. Although 1Q22 revenue dropped 7.8% yoy to VND7,061bn, GPM increased 3.1% pts to 14.5% due to the elimination of low GPM segment after PVMachino divestment, helped gross profit rose 17.3% yoy to VND1,027bn. Financial expenses also drop 31.9% yoy to VND107bn thanks to 32% yoy drop in short-term debt. Overall, POW 1Q22 NP recorded a sharp rise of 41.9% yoy to VND721bn.

Gas-fired power surge to offset the drop of coal-fired power in 2022F

Thanks to demand rise in 2022, and Vietnam might step in power shortage phase in hot weather. We believe gas-fired power will contain several spaces to be mobilized at higher rate, after 2021 modest output. POW's gas-fired power output will increase 28.9% yoy to 10,578m kWh and ASP will linger at high level of around VND2,015/kWh. Hydropower output will maintain its high mobilization of 1,154m kWh as La Nina phase stay longer-than-expected. Coal-fired power output will suffer from sharp drop of 24.5% yoy due to coal-fired power shortage situation and unit 1 Vung Ang 1 technical issue (until Sep 2022). Overall, the surge in gas-fired power will offset output loss of Vung Ang 1, helping revenue to increase 13.4% yoy to VND30,592bn in 2022F after rebound 13.3% yoy to VND34,662bn in 2023F when all the plants return to work in full capacity. NP will surge 31.1% yoy and 17.8% yoy in 2022-23F to VND2,332bn and VND2,749bn, respectively.

Potential one-off gain from divestments during 2022 – 23F

POW is divesting Viet Lao Power JSC with a potential one-off of VND308bn, expected to finish the procedure in 2Q22. The company also has a roadmap to divest EVN International JSC, along with the potential one-off profit from incident insurance and business interruption insurance for Vung Ang 1.

Reiterate Add with higher target price of VND20,400

We revise up our TP for POW by 6.2% following 32.2%/8.1%/9.9% EPS upgrade over FY22-24F. Re-rating catalyst is higher oil price and faster-than-expected Vung Ang 1 repair. Downside risks are longer-than-expected Nhon Trach 3&4 completion time and lower gas-fired power output.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	29,732	24,565	30,591	34,478
Revenue growth	(16.1%)	(17.4%)	24.5%	12.7%
Gross margin	15.4%	10.4%	12.0%	12.7%
EBITDA margin	21.9%	23.0%	23.0%	21.6%
Net profit (bn)	2,365	1,779	2,333	2,630
Net profit growth	(5.0%)	(24.8%)	31.1%	12.7%
Recurring profit growth				
Basic EPS	1,010	760	996	1,123
Adjusted EPS	1,010	760	996	1,123
BVPS	12,186	12,659	13,662	14,711
ROAE	8.5%	6.1%	7.6%	7.9%

Source: VNDIRECT RESEARCH

FIRING UP GAS-FIRED POWER

Upgrade to Add with higher target price of VND20,400

We revise up our TP for POW by 6.2% versus previous report as we raise our forecasted EPS by 32.2%/8.1%/9.9% for 2022/23/24F with brighter outlook from gas-fired power output recovery. The recent discount has brought larger upside for POW and put the stock to a reasonable price level to accumulate. Our 1-year target price is based on equal combination of DCF and EV/EBITDA multiple:

- 10-year DCF valuation (WACC: 12.1%; COE: 15.1%; LTG: 1.0%) to reflect our conservative view on POW's growth. We believe DCF valuation is a fundamentally sound way to evaluate as POW's cash flow is more predictable.
- Targeted EV/EBITDA multiple of 9.0x to reflect the average 2022 EV/EBITDA of thermal power sector.

Downside risk

- Fuel (coal, gas...) supply shortage and price surge might dent the output volume.
- Longer-than-expected Nhon Trach 3&4 completion time.

Potential upside risk

- Higher-than-expected power consumption, leading to higher output mobilization.

Figure 2: DCF valuation – Summary of free cash flow (FCF)

VNDbn	2021A	2022F	2023F	2024F	//	2031F
EBITDA	5,222	6,221	7,002	9,321		12,057
(-) Depreciation and Amortisation	(3,371)	(3,371)	(3,371)	(4,043)		(3,373)
EBIT	1,852	2,850	3,632	5,278		8,684
(-) Tax	(132)	(447)	(555)	(793)		(1,737)
Tax rate (%)	7.2%	15.7%	15.3%	15%		20.0%
EBIAT	1,719	2,403	3,077	4,485		6,947
(+) Depreciation and Amortisation	3,371	3,371	3,371	4,043		3,373
(+) (Increase)/decrease in net working capital	(1,778)	2,479	(284)	38		(148)
(-) Capital Expenditure	(274)	(5,799)	(10,527)	(12,204)		(10)
Unleveraged Free cash flow (FCFF)	3,038	2,453	(4,365)	(3,638)		10,162
Terminal value						84,826

Source: VNDIRECT RESEARCH

Figure 3: Cost of equity

Cost of equity	
Risk free rate	3.0%
Beta	1.1
Risk premium	11.0%
Cost of equity- ke	15.1%

Source: VNDIRECT RESEARCH

Figure 4: WACC & terminal growth

WACC & terminal growth	
Enterprise value	55,149
Debt	(11,212)
Cost of debt	5.1%
Tax rate	15.0%
WACC	12.1%
Perpetual growth rate	1.0%

Source: VNDIRECT RESEARCH

Figure 5: Blended valuation

Methods	Target multiple	Implied share price	Weight	Weighted Value
		VND per share	%	VND per share
Average FY22-23F EV/EBITDA	9.0x	21,305	50%	10,653
DCF, 10y		19,446	50%	9,723
Implied share price				20,376
Rounded share price				20,400

Source: VNDIRECT RESEARCH

Figure 6: Peer comparison

Company name	Ticker	Price	Target price	Recom.	Mkt Cap	P/E(x)		P/BV(x)		EV/EBITDA (x)		ROE (%)	
	Bloomberg	LC\$	LC\$		US\$m	TTM	FY22F	Current	FY22F	TTM	FY22F	TTM	FY22F
International peer													
JSW Energy Ltd	JSW IN Equity	NA	NA	NR	5,405.2	24.3	31.8	2.4	2.4	13.8	16.7	10.8	8.1
An Hui Wenergy Co Ltd	000543 CH Equity	4.2	NA	NR	1,434.6	NA	16.2	0.8	0.7	NA	NA	-9.8	3.7
Malakoff Corp Bhd	MLK MK Equity	0.6	NA	NR	699.8	12.3	10.7	0.5	0.5	4.7	4.1	4.0	4.8
Domestic peer													
GENCO3	PGV VN Equity	29,800	NA	NR	1,443.1	10.5	12.5	1.9	1.9	8.2	NA	19.3	NA
HAI Phong Thermal Power JSC	HND VN Equity	NA	NA	NR	362.1	18.4	NA	1.3	1.5	5.2	5.9	6.9	NA
Gia Lai Electricity JSC	GEG VN Equity	25,900	NA	NR	339.1	22.4	20.9	2.2	2.0	11.6	11.6	10.3	11.0
Nhon Trach 2	NT2 VN Equity	25,300	29,200	ADD	321.4	13.4	13.0	1.7	1.7	6.0	5.0	13.1	14.9
Average						16.9	17.5	1.5	1.5	8.2	8.9	7.8	8.5
PVPower	POW VN Equity	13,800	20,400	ADD	1,478.8	17.1	19.9	1.2	1.1	6.9	6.2	6.9	5.8

Data as of 06 June 2022

Source: Bloomberg, VNDIRECT RESEARCH

1Q22 recap: Gas-fired power surge to offset coal-fired power drop in 2022F

Figure 7: 1Q22 POW business result

Unit: VNDbn	1Q22	1Q21	% yoy	Vs previous forecast	Comment
Total volume (million kWh)	3,661.0	4,640.3	-21.1%	25.5%	1Q22 power output drop 21% yoy to 3,661m kWh due to strong decline in coal-fired output (Vung Ang 1 incident).
Gas-fired power	2,496.0	2,440.0	2.3%	25.7%	Gas-fired power output recorded strong recovery after modest mobilization in 2H21, edging up 2% yoy to 2,496m kWh, thanks to; 1) Solid power consumption recovery of 7.8% yoy in 1Q22, 2) Full market price (FMP) reached VND1,760/kWh due to more vibrant mobilized activities from gas-fired power in CGM; 3) Coal shortage in 1Q22 benefited on additional mobilization of gas-fired power
Coal-fired power	833.6	1,910.0	-56.4%	22.7%	Vung Ang 1 recorded sharp drop in output of 56% yoy to 833m kWh due to Unit 1 incident from 4Q21.
Hydropower	333.0	290.0	14.8%	33.4%	Longer-than-expected La Nina phase and coal-fired shortage were the resonance reasons for continued high mobilization from POW hydropower plants. Total output of Dakdrink and Hua Na hydropower plants reached 333m kWh in 1Q22 (+17% yoy).
ASP (VND/kWh)	1,928.8	1,651.0	16.8%		ASP rose 17% yoy to VND1,928/kWh with all power segment's ASP increase.
Gas-fired power ASP	2,018.8	1,666.4	21.2%		Higher gas price, anchoring on the uptrend of Brent oil price under the Ukraine - Russia conflict has passed through the ASP surge of 21% yoy to VND2,018/kWh in 1Q22.
Coal-fired power ASP	1,695.0	1,539.8	10.1%		Coal-fired power ASP recorded a 10% yoy gap up to VND1,695/kWh due to higher SMP in the CGM and coal imported price surge.
Hydropower ASP	1,228.2	1,154.1	6.4%		Hydropower ASP recorded a slight increase 6% yoy to VND1,228.2/kWh in 1Q22.
Net revenue	7,061.4	7,661.0	-7.8%	27.6%	1Q22 revenue recorded a 8% yoy drop due to 21% yoy decline in output but offsetting by 17% improvement in ASP.
Gross profit	1,027.2	875.8	17.3%	33.0%	
Gross margin	14.5%	11.4%	3.1% pts		GPM improved 3.1%pts as the company no longer recorded revenue from low GPM segment after the PVMachino divestment in 2Q21.
SG&A	115.72	141.9	-18.5%	17.3%	SG&A reduced 18% yoy to VND115.7bn as the company no longer record selling expense after divesting PVMachino.
Financial Income	65.7	97.0	-32.3%	12.8%	Financial income dropped 32% yoy to VND65bn as the company recorded VND22bn fx profit in 1Q21.
Financial expenses	107.7	158.2	-31.9%	19.1%	Financial expense declined 31.9% yoy thanks to 24% drop in short-term debt.
Net profit	721.3	508.3	41.9%	38.0%	Overall, net profit reached VND721bn, fulfilling 38% our forecast.

Source: VNDIRECT RESEARCH, Company report

FY22-24F earnings revision

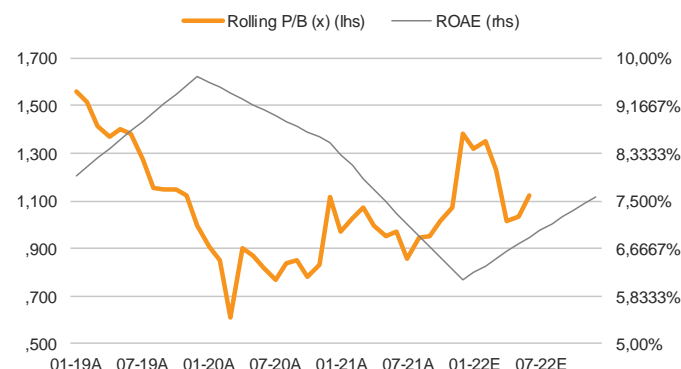
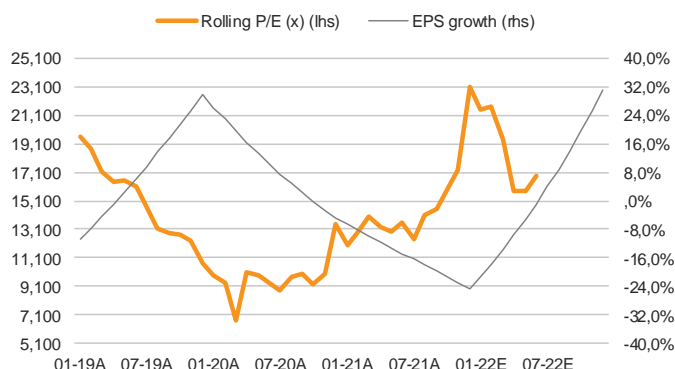
We are looking for a strong rebound in gas-fired power output of 28.9%/11.2% yoy in 2022/23F, respectively, after its low-base in 2021, as we believe in the strong recovery in the country power consumption post-Covid. From 2024, we estimate a solid growth of 37.5% yoy thanks to the appearance of the first LNG power plant Nhon Trach 3. For hydropower, we stay on another vibrant year for hydropower under the longer-than-expected La Nina phase to last to end-22F. Particularly, we expect POW hydropower output to stay at high level similar to 2021 output then will adjust -14.2% yoy/+2.2% yoy in 2023/24F after come out of its high base in 2021-22. Vung Ang 1 incident will be the major cause, hindering 2022F coal-fired power output (-24.5% yoy), we looking for a strong output rebound of the plant from 2023F when the trouble overcome from 4Q22. Hence, coal-fired power output expected to rise 37.5% yoy and 3.6% yoy in 2023/24F, respectively. Considering brighter outlook for POW after vibrant business results in 1Q22, following the strong power consumption recovery post-Covid, we adjust up our forecasted 2022/23/24F EPS by 32.2%/8.1%/9.9% as:

- We expect gas price to linger at high level in 2022F, anchoring on forecasted Brent oil price at US\$95/barrel and US\$85/barrel in 2022F and 2023F. We are looking for a solid power consumption recovery after two modest growth years to be the underpin for gas-fired power rebound from its low-base of 2021. Hence, we revise up 2022/23/24F gas-fired revenue by 25.6%/14.9%/0.7%, respectively. We stay on a bright outlook of hydropower under longer-than-expected La Nina phase with 2022/23/24F revenue adjustment of 3.1%/-8.4%/-6.4%. We estimate a similar output forecast, but higher revenue due to higher imported coal price assumption and higher selling price in the CGM. Hence, 2022/23/24F coal-fired revenue are shifted 15.6%/1.2%/4.9%. Overall, 2022/23/24F total revenue adjusted 19.7%/7.6%/-0.6% to VND30,592/34,662/ 44,098bn in 2022/23/24F, respectively.
- Gross profit, thus, adjusted by 17.7%/4.8% in 2022/23F according to the revenue revision, with modest lower GPM of 12.0% and 13.1%, respectively. However, GPM will improve in 2024 with the appearance of Nhon Trach 3 LNG gas-fired power.
- We adjust SG&A and financial expense following 2022 business result update.
- We raise financial income by 66% to reflect the one-off profit of VND308bn from Viet Lao JSC divestment. For 2023/24F, we adjusted up financial income by 13.2%/40.2% to reflect higher deposit income.
- Hence, our 2022/23/24F forecasted EPS increase 32.2%/8.1%/9.9% from the previous forecast, following the above adjustments.

Figure 8: 2022-24F earnings revision

VNDbn	2021	2022F			2023F			2024F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	24,565	25,551	30,592	19.7%	32,218	34,662	7.6%	44,380	44,098	-0.6%
Gas-fired power	14,941	17,770	22,318	25.6%	20,524	23,588	14.9%	32,220	32,441	0.7%
Hydropower	1,297	1,167	1,203	3.1%	1,355	1,241	-8.4%	1,269	1,188	-6.4%
Coal-fired power	8,396	5,849	6,764	15.6%	9,375	9,486	1.2%	9,562	10,028	4.9%
COGS	22,023	22,442	26,931	20.0%	27,879	30,114	8.0%	38,196	37,662	-1.4%
Gross profit	2,543	3,109	3,660	17.7%	4,339	4,548	4.8%	6,184	6,436	4.1%
Gross profit margin (%)	10%	12.2%	12.0%		13.5%	13.1%		13.9%	14.6%	
SG&A	138	677	810	19.7%	851	916	7.6%	1,165	1,158	-0.6%
EBIT	2,404	2,432	2,850	17.2%	3,488	3,632	4.1%	5,019	5,278	5.2%
Financial income	697	512	850	66.0%	532	602	13.2%	532	746	40.2%
Financial expense	671	565	548	-3.1%	596	531	-11.0%	782	582	-25.5%
Net profit	1,779	1,764	2,333	32.2%	2,543	2,749	8.1%	3,676	4,039	9.9%
EPS (VND/share)	760	753	996	32.2%	1,086	1,174	8.1%	1,570	1,725	9.9%

Source: VNDIRECT RESEARCH, Company report

Valuation

Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	24,565	30,591	34,478
Cost of sales	(22,023)	(26,931)	(30,091)
Gen & admin expenses	(129)	(789)	(887)
Selling expenses	(9)	(21)	(24)
Operating profit	2,404	2,850	3,476
Operating EBITDA	5,222	6,221	6,846
Depreciation and amortisation	(2,818)	(3,371)	(3,371)
Operating EBIT	2,404	2,850	3,476
Interest income	334	494	549
Financial expense	(308)	(191)	(482)
Net other income	(120)	(14)	(18)
Income from associates & JVs	9	9	9
Pre-tax profit	2,319	3,147	3,533
Tax expense	(287)	(482)	(528)
Minority interest	(254)	(332)	(375)
Net profit	1,779	2,333	2,630
Adj. net profit to ordinary	1,779	2,333	2,630
Ordinary dividends			
Retained earnings	1,779	2,333	2,630

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	8,224	4,422	7,459
Short term investments	531	3,544	3,544
Accounts receivables	5,802	7,760	9,028
Inventories	1,838	2,181	2,436
Other current assets	502	303	387
Total current assets	16,897	18,209	22,856
Fixed assets	32,264	34,693	41,848
Total investments	809	818	827
Other long-term assets	2,980	3,712	4,192
Total assets	52,950	57,432	69,722
Short-term debt	5,702	6,655	8,720
Accounts payable	7,228	6,307	7,314
Other current liabilities	3,783	4,325	5,253
Total current liabilities	16,712	17,288	21,286
Total long-term debt	2,756	4,556	9,795
Other liabilities	1,349	772	995
Share capital	23,419	23,419	23,419
Retained earnings reserve	4,018	5,826	7,932
Shareholders' equity	29,645	31,996	34,451
Minority interest	2,487	2,820	3,195
Total liabilities & equity	52,950	57,432	69,722

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	2,319	3,147	3,533
Depreciation & amortisation	2,818	3,371	3,371
Tax paid	(340)	(482)	(528)
Other adjustments	(1,186)	(1,841)	(871)
Change in working capital	1,391	(2,279)	240
Cash flow from operations	5,002	1,916	5,745
Capex	(274)	(5,799)	(10,526)
Proceeds from assets sales	339	0	0
Others	692	294	633
Other non-current assets changes	(49)	(3,013)	0
Cash flow from investing activities	707	(8,518)	(9,892)
New share issuance	0	0	0
Shares buyback			
Net borrowings	(3,845)	2,726	7,303
Other financing cash flow	0	542	349
Dividends paid	(710)	(468)	(468)
Cash flow from financing activities	(4,555)	2,800	7,185
Cash and equivalents at beginning of period	7,070	8,224	4,422
Total cash generated	1,154	(3,802)	3,038
Cash and equivalents at the end of period	8,224	4,422	7,459

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	7.2%	7.6%	7.6%
Asset turnover	0.46	0.55	0.54
ROAA	3.3%	4.2%	4.1%
Avg assets/avg equity	1.84	1.79	1.91
ROAE	6.1%	7.6%	7.9%
Efficiency			
Days account receivable	86.2	92.6	95.6
Days inventory	30.5	29.6	29.6
Days creditor	119.8	85.5	88.7
Fixed asset turnover	0.73	0.91	0.90
ROIC	4.4%	5.1%	4.7%
Liquidity			
Current ratio	1.0	1.1	1.1
Quick ratio	0.9	0.9	1.0
Cash ratio	0.5	0.5	0.5
Cash cycle	(3.1)	36.7	36.4
Growth rate (yoy)			
Revenue growth	(17.4%)	24.5%	12.7%
Operating profit growth	(28.7%)	18.5%	22.0%
Net profit growth	(24.8%)	31.1%	12.7%
EPS growth	(24.8%)	31.1%	12.7%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% 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.

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