November 01st, 2023



Vinh Son – Song Hinh Hydropower JSC

[Việt Nam / Utilities]

Bloomberg Code (VSH VN) | Reuters Code (VSH.HM)

HOLD

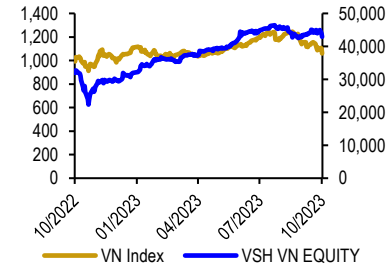
Update Report

Target price (12 months)	**VND 47,650**
Current price (01/11/23)	VND 43,000
Upside/downside (%)	+10.8%

VNINDEX	1,040
P/E market (23F,x)	10.6
Market Cap (bn VND)	10,158
Outstanding shares (mn)	236
Free-Floating (mn)	49
52-Wk High/Low (VND)	47,000/22,900
90-day avg. trading volume (mn)	0.03
90-day avg. turnover (bn VND)	1.0
Foreign ownership (%)	11.6

Major shareholders (%)	REE	52.58
	PGV	30.6

Performance	3M	6M	12M
Absolute (%)	-5.1	3.6	25.7
Relative to VN-Index (%)	9.5	4.5	25.2



Source: Bloomberg

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Output will improve in 2024

Update recommendation HOLD, target price 47,650 VND

Vinh Son - Song Hinh Hydropower JSC (HoSE: VSH) is one of the enterprises owning hydropower plants with the largest capacity listed on the stock exchange. Based on FCFF and PE methods, we update VSH's target price at VND 47,400 corresponding to a hold recommendation. In 2024, we forecast that VSH's revenue and profit will increase slightly because the weather will gradually change to the neutral phase.

Business results in the Q3/2023 decreased due to unfavorable hydrological conditions.

Vinh Son - Song Hinh Hydropower JSC has released its financial report for the third quarter, showing a net revenue of VND 382 billion (-44% YoY), and a net profit of VND 26 billion (-88% YoY). During this third quarter, the electricity production amounted to 372.2 million kWh (-38.84% YoY).

The significant drop in revenue primarily comes from unfavorable hydrological conditions in the Central region in 2023, which contrasted with the conditions in the previous year. Specifically, based on rainfall data from the monitoring stations in Binh Dinh province at Vinh Son and Quy Nhon, the third quarter of 2023 experienced a 27% and 14% reduction in rainfall, respectively, compared to the same period last year. Additionally, the water levels in Vinh Son and Thuong Kon Tum reservoirs remained relatively low, ranging from 13-62% of the average over the years. Furthermore, the average electricity selling price decreased by 4% year-on-year, contributing to the sharp decline in revenue.

As a result, the cumulative results for 9M/2023 indicate that VSH achieved a net revenue of VND 1,931 billion (-9% YoY), and a net profit of VND 765 billion (-13%YoY). These results completed 78% and 89% of the 2023 annual plan, respectively.

Outlook for 2024

The parent company of VSH, Refrigeration Electrical Engineering Corporation (REE), listed on the Ho Chi Minh Stock Exchange (HoSE), has reported that the company is actively working to expedite negotiations for an increase in the Power Purchase Agreement (PPA) prices for the Thuong Kon Tum hydroelectric plant, and there is currently no official outcome from these discussions. The El Niño phenomenon is expected to peak in September 2023 and gradually transition to a neutral phase by mid-2024. As a result, it is anticipated that VSH's electricity production will improve from the fourth quarter of 2023. In our pricing model, we have projected electricity production in 2023/2024 to be 2.19 billion kWh (-15% YoY), and 2.3 billion kWh (+5% YoY). Revenue for 2023/2024 is projected to be VND 2,676 billion and VND 2,753 billion, respectively, corresponding to -13% YoY and +3% YoY.

Risks: (1) Earthquakes near the Thuong Kon Tum hydroelectric plant; (2) Interest rate risks; (3) Unfavorable weather conditions affecting electricity production; (4) Failure to achieve the expected increase in PPA prices for the Thuong Kon Tum hydroelectric plant.

Year to Dec.	2021	2022	2023F	2024F	2025F
Revenue (bn VND)	**1,611**	**3,085**	**2,676**	**2,753**	**2,325**
OP (bn VND)	815	2,022	1,589	1,631	1,257
NP (bn VND)	**387**	**1,264**	**1,052**	**1,109**	**871**
EPS (VND)	1,660	5,349	4,453	4,694	3,687
BPS (VND)	14,084	14,520	22,663	26,302	28,933
OPM	51%	66%	59%	59%	54%
NPM	24%	41%	39%	40%	37%
ROE	**10%**	**25%**	**20%**	**18%**	**13%**
PER (x)	17.3	5.9	9.6	9.1	11.6
PBR (x)	1.5	1.5	1.9	1.6	1.5
EV/EBITDA (x)	9.4	4.8	6.3	5.8	6.3

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use P/E and Discounted Cash Flow (DCF) valuation methods to value VSH with 50%-50% weighted. We update our HOLD recommendation with a target price of 47,650 VND equivalent to a return of 10.8%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**9.05**
Risk-free rate (%)	3.0
Equity risk premium (%)	7.8
Beta	0.8
Debt cost (%)	10.0
The cost of equity(%)	9.0
Debt-to-equity ratio	0.37
Total debt (VND billion)	3,914

Source: Company data, Shinhan Securities Vietnam

FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	1,052	1,109	871	887	901
After-tax interest expense	339	294	249	195	153
Depreciation & Amortization	595	619	644	669	696
Change in working capital	179	-9	49	49	46
CapEx	-450	-480	-490	-510	-530
Free Cash Flow (FCF)	**1,715**	**1,533**	**1,322**	**1,290**	**1,265**
Discount rate	1.00	0.92	0.84	0.77	0.71
PV of FCF	1,715	1,406	1,112	995	894
Growth rate	0%				
Present value of long-term value	9,877				
Enterprise value	14,284				
Debt	3,914				
Cash and cash equivalents	685				
Number of shares outstanding (billion)	0.24				
Target price (VND)	**46,800**				

Source: Company data, Shinhan Securities Vietnam

Based on the P/E method, we collect data from companies in the power sector in Vietnam and the Asia-Pacific region. The average P/E ratio of the power companies in the statistics (excluding VSH) is 12.16x. We discount this P/E ratio by 15% to 10.3x as our target P/E due to our assessment of VSH's unique risk of a potential earthquake at the Thuong Kon Tum hydroelectric plant. Combining VSH's EPS forward forecast at

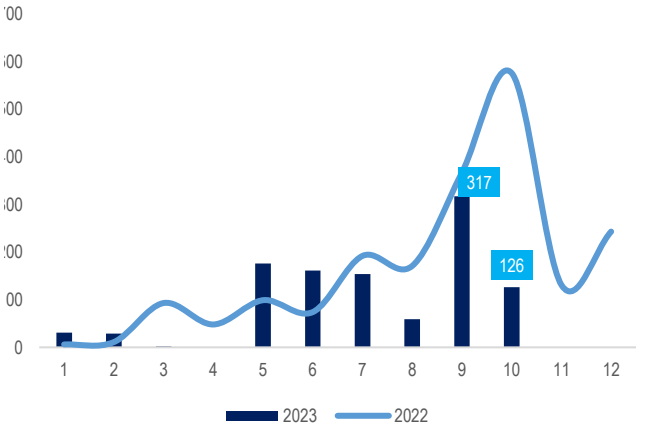
VND 4,694 we expect a 12-month price target of VSH at VND 48,500.

Summary of valuation

Method	Weight	Target price
FCFF	50%	46,800
P/E	50%	48,500
Total	100%	47,650

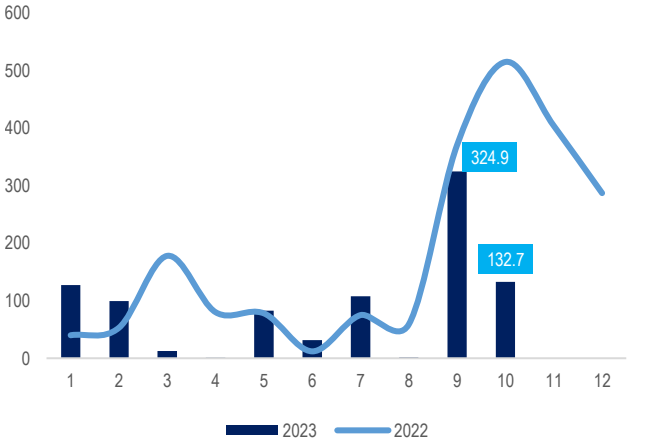
Source: Shinhan Securities Vietnam

Rainfall in months of 2023 and 2022 measured at Vinh Son station (mm)



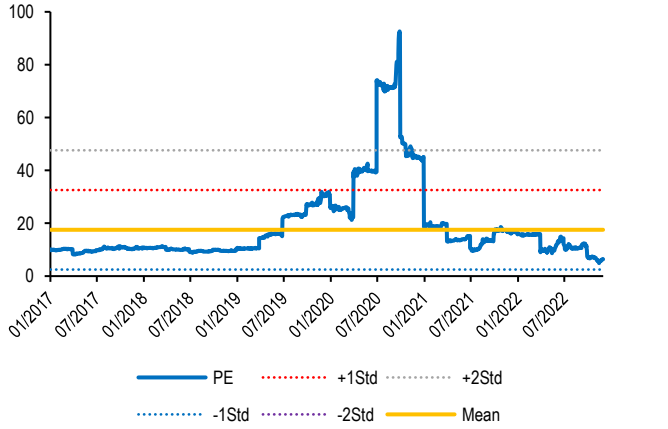
Source: Binh Dinh Province, Shinhan Securities Vietnam

Rainfall in months in 2023 and 2022 measured at Quy Nhon station (mm)



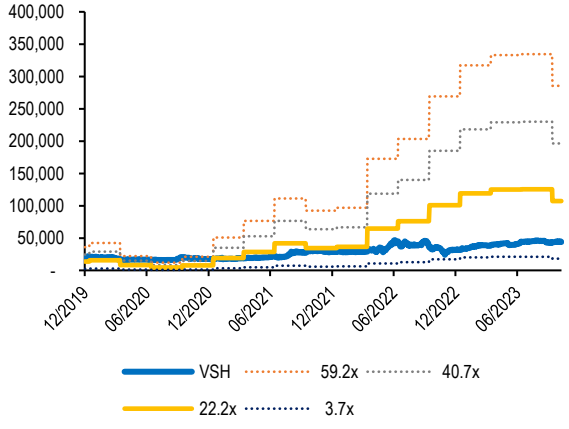
Source: Binh Dinh Province, Shinhan Securities Vietnam

PER of VSH



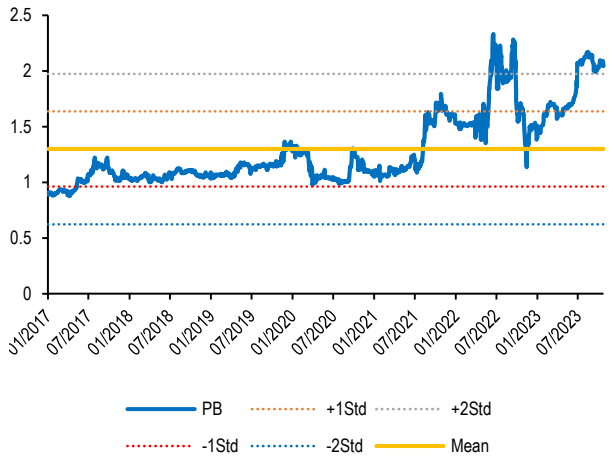
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of VSH



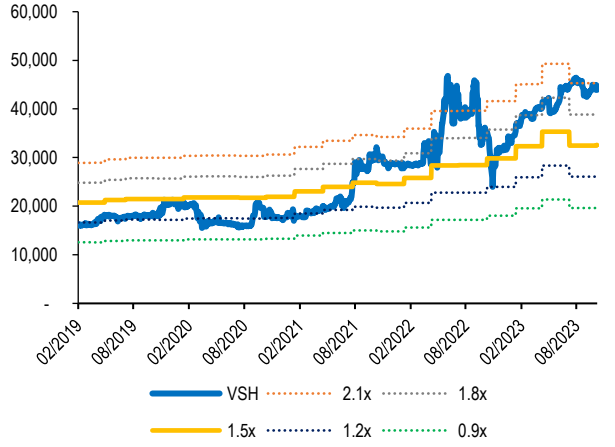
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VSH



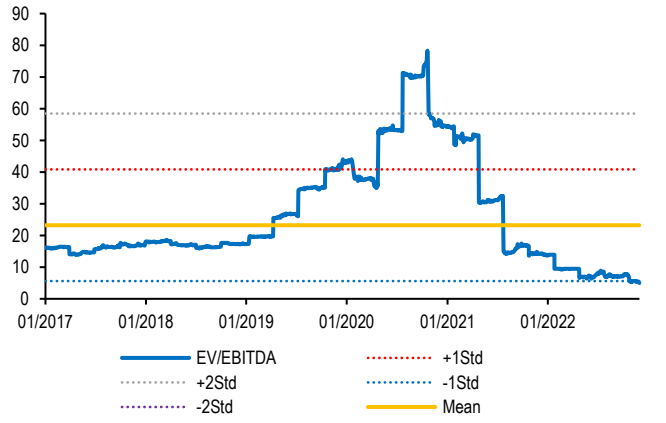
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of VSH



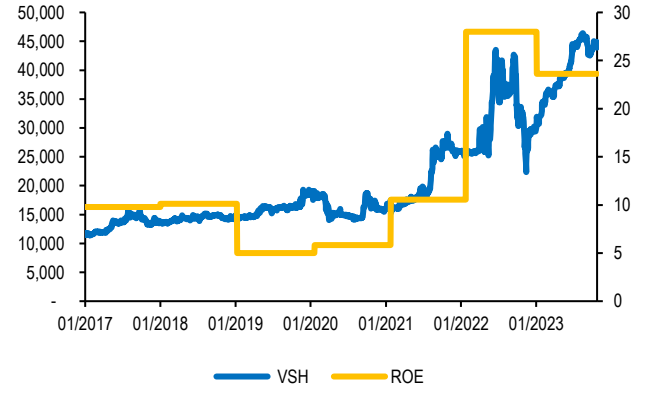
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of VSH



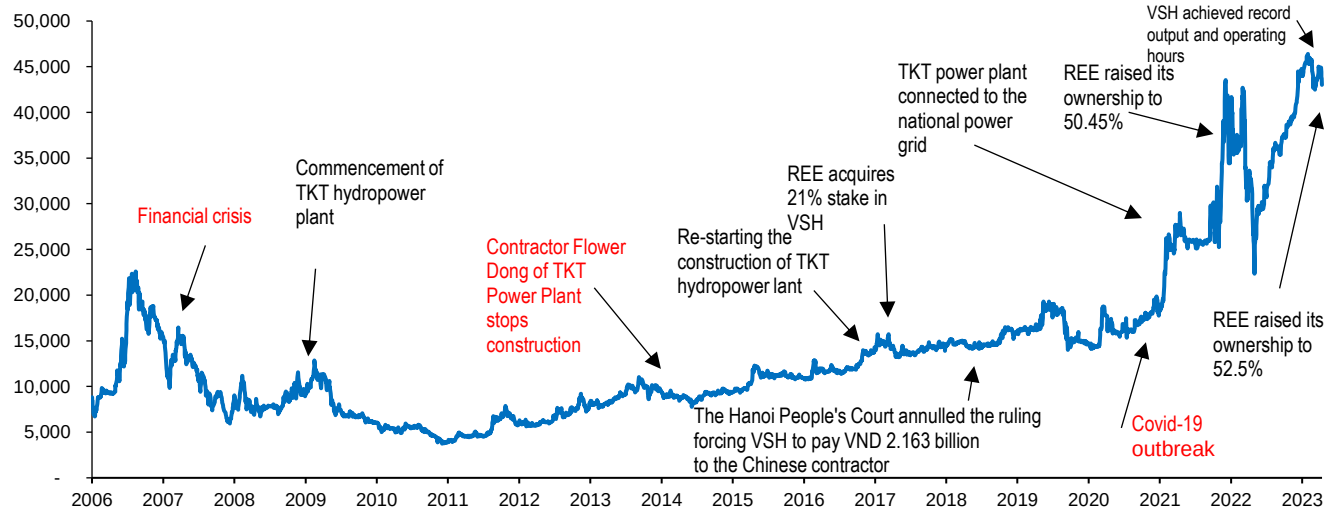
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of VSH and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of VSH



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Company background

History of development

Vinh Son – Song Hinh Hydropower JSC (HoSE: VSH), formerly known as Vinh Son Hydropower Plant, was established in 1994. In 2004, Vinh Son Song Hinh Hydropower Plant was transformed into Vinh Son – Song Hinh Joint Stock Company. In 2006, Vinh Son – Song Hinh JSC was officially listed on the Ho Chi Minh City Stock Exchange under the ticker "VSH".

VSH's shareholder structure is quite concentrated when 90.88% of the outstanding shares are in the hands of three major shareholders. In May 2021, Refrigeration Engineering Corporation (HoSE: REE) became the parent company of VSH when REE Energy Co., Ltd (a subsidiary of REE) increased its ownership to 50.5%. As of March 2023, REE Energy Joint Stock Company has increased its ownership to 52.5%.

VSH's hydropower plants

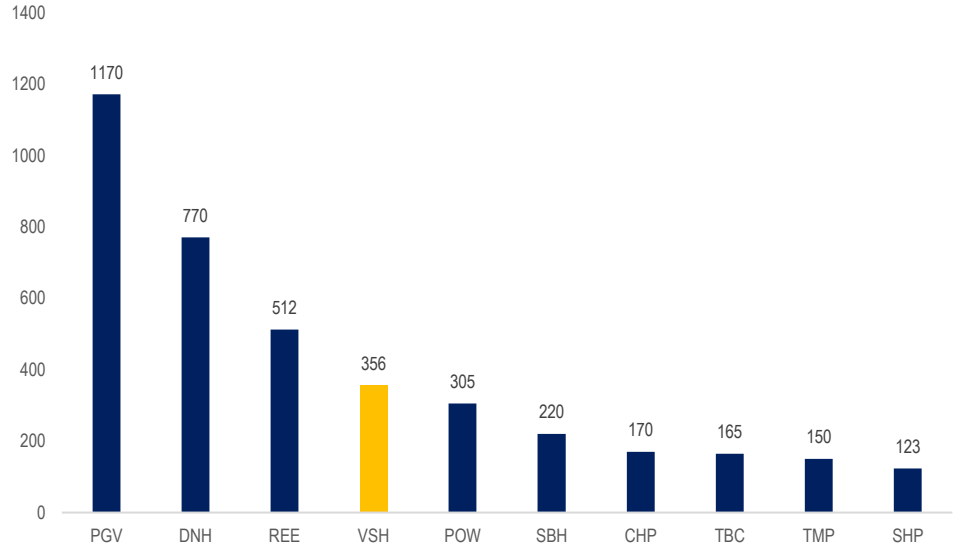


Vinh Son - Song Hinh Hydropower JSC owns and operates three hydropower plants with a total capacity of 356 MW, contributing 100% of revenue to the company. VSH's three factories include:

- Vinh Son Hydropower Plant with a capacity of 66 MW located in Binh Dinh province.
- Song Hinh Hydropower Plant with a capacity of 70 MW located in Phu Yen province.
- Thuong Kon Tum Hydropower Plant with a capacity of 220 MW located in Kon Tum province.

Source: Company data, Shinhan Securities Vietnam

Design capacity of hydropower plants of some listed companies (MW)



Nguồn: Dữ liệu công ty, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Total assets	**10,017**	**9,710**	**9,755**	**10,103**	**10,161**
Current assets	691	1,074	1,264	1,752	1,963
Cash & equivalents	52	131	417	742	995
Short-term financial asset	39	37	268	413	465
Accounts receivable	497	806	514	529	446
Inventories	102	100	65	67	57
Non-current assets	9,326	8,636	8,491	8,352	8,199
Net fixed assets	9,136	8,565	8,420	8,281	8,128
Investment assets	0	0	0	0	0
Other long-term assets	14	15	15	15	15
Total liabilities	**6,006**	**4,685**	**4,402**	**3,891**	**3,327**
Current liabilities	877	569	805	813	873
Accounts payable	733	432	284	292	248
Short-term borrowings	142	135	519	519	623
Others	2	2	2	2	2
Non-current liabilities	5,129	4,116	3,597	3,078	2,455
Long-term borrowings	4,927	3,915	3,395	2,876	2,253
Other financial liabilities	202	202	202	202	202
Total shareholders' equity	**4,010**	**5,025**	**5,353**	**6,212**	**6,834**
Capital stock	2,362	2,362	2,362	2,362	2,362
Capital surplus	6	6	6	6	6
Other capital	384	384	384	384	384
Retained earnings	1,258	2,272	2,601	3,460	4,082
Non-controlling interest equity	0	0	0	0	0
*Total debt	5,069	4,050	3,914	3,395	2,876
*Net debt (cash)	4,978	3,882	3,229	2,239	1,416

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Revenue	**1,611**	**3,085**	**2,676**	**2,753**	**2,325**
Growth (%)	373.1	91.4	-13.3	2.9	-15.5
COGS	(796)	(1,062)	(1,086)	(1,122)	(1,068)
Gross profit	**815**	**2,022**	**1,589**	**1,631**	**1,257**
GPM (%)	50.6	65.6	59.4	59.2	54.1
SG&A	(45)	(77)	(80)	(111)	(94)
Operating profit	**770**	**1,945**	**1,509**	**1,520**	**1,164**
Growth (%)	93.2	233.3	(20.8)	5.4	(22.7)
OPM (%)	47.8	63.1	56.4	55.2	50.0
Non-operating profit	(319)	(565)	(305)	(251)	(183)
Financial income	11	7	65	70	89
Financial expense	(324)	(432)	(370)	(321)	(272)
In which: interest expenses	(323)	(408)	(370)	(321)	(272)
Net other non-operating profit	(5)	(139)	0	0	0
Pre-tax profit	**451**	**1,380**	**1,204**	**1,269**	**981**
Income tax	(64)	(116)	(151)	(160)	(110)
Net profit	**387**	**1,264**	**1,052**	**1,109**	**871**
Growth (%)	105.7	226.3	(16.7)	5.4	(21.4)
NPM (%)	24.0	41.0	39.3	40.3	37.5
Controlling interest	387	1,264	1,052	1,109	871
Non-controlling interest	0	0	0	0	0
EBIT	**774**	**1,788**	**1,574**	**1,590**	**1,253**
Growth (%)	226.8	130.9	(12.0)	1.0	(21.2)
EBIT Margin (%)	48.1	58.0	58.8	57.7	53.9
EBITDA	**1,245**	**2,380**	**2,169**	**2,209**	**1,896**
Growth (%)	288.4	91.2	(8.9)	1.8	(14.1)
EBITDA margin (%)	77.2	77.1	81.0	80.2	81.6

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**754**	**1,395**	**1,769**	**1,650**	**1,474**
Net profit	387	1,264	1,052	1,109	871
D&A expense	470	592	595	619	644
(Gain) from investing activities	(3)	(6)	(58)	(70)	(89)
Change in working capital	-	-	179	(9)	49
Others	(100)	(455)	-	0	(0)
Cash flow from investments	**(325)**	**(38)**	**(623)**	**(556)**	**(453)**
Change in fixed assets	(328)	(47)	(392)	(410)	(401)
Change in investment assets	-	3	(231)	(145)	(52)
Others	3	6	-	-	-
Cash flow from financing	**(392)**	**(1,277)**	**(859)**	**(769)**	**(769)**
Change in equity	-	-	-	-	-
Net borrowing	(392)	(1,277)	(136)	(519)	(519)
Dividends	-	-	(723)	(250)	(250)
Change in total cash	**37**	**79**	**286**	**325**	**253**
Beginning cash	15	52	131	417	742
Change in FX rates	-	-	-	-	-
Ending cash	52	131	417	742	995

Source: Company data, Shinhan Securities Vietnam

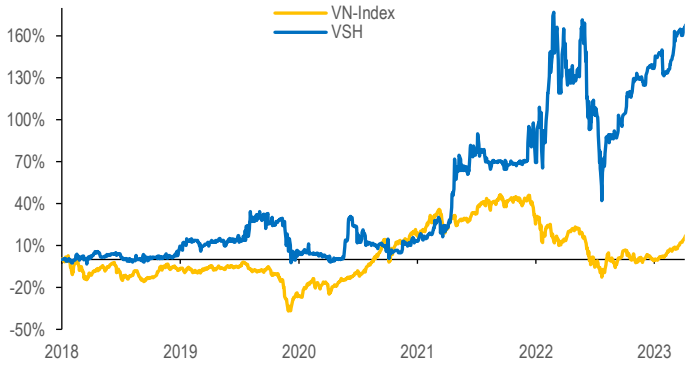
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	1,660	5,349	4,453	4,694	3,687
BPS (VND)	16,976	21,271	22,663	26,302	28,933
PER (x)	17.3	5.9	9.6	9.1	11.6
PBR (x)	1.5	1.5	1.9	1.6	1.5
EV/EBITDA (x)	9.4	4.8	6.3	5.8	6.3
Dividend payout ratio (%)	3.0	10.0	30.0	10.0	10.0
Dividend yield (%)	1.2	3.4	6.2	2.1	2.1
Profitability					
EBITDA margin (%)	77.2	77.1	81.0	80.2	81.6
OPM (%)	47.8	63.1	56.4	55.2	50.0
NPM (%)	24.0	41.0	39.3	40.3	37.5
ROA (%)	3.9	13.0	10.8	11.0	8.6
ROE (%)	9.7	25.15	19.7	17.9	12.7
Stability					
Debt to equity ratio (%)	126.4	80.6	73.1	54.6	42.1
Net debt ratio (%)	400.0	163.1	148.9	101.4	74.7
Cash ratio (%)	10.4	29.5	85.1	142.1	167.4
Interest coverage ratio (x)	2.4	4.4	4.3	5.0	4.6
Activity (%)					
Working capital turnover (times)	4.8	12.8	19.4	25.0	22.5
Inventory turnover (days)	7.9	10.5	13.1	17.0	17.2
Receivable turnover (days)	4.6	4.7	4.1	5.3	4.8

Source: Company data, Shinhan Securities Vietnam

Vinh Son – Song Hinh Hydropower JSC (VSH VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%) TB	TP gap (%) Max/Min
30/08/2022 (Initiation)	BUY	47,200	9.3	47,200
09/02/2023 (Updated report)	HOLD	39,500	12.7	39,500
26/10/2023 (Updated report)	HOLD	47,650	20.3	2.6/53.1

Note: Calculation of target price gap based on past 12 months

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Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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