February 09th, 2022

Shinhan Securities



Vinh Son – Song Hinh Hydropower JSC

[Vietnam / Utilities]

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

HOLD

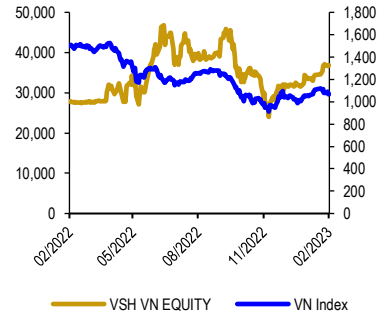
Update Report

Target price (12 months)	**VND 39,500**
Current price (09/02/22)	VND 37,200
Upside/downside (%)	6.2%

VNINDEX	1,064
P/E market (23F,x)	9.9
Market Cap (bn VND)	8,705
Outstanding shares (mn)	236
Free-Floating (mn)	50
52-Wk High/Low (VND)	48,000/22,900
90-day avg. trading volume (mn)	0.14
90-day avg. turnover (bn VND)	3
Foreign ownership (%)	11.6

Major shareholders (%)	REE	50.5
	PGV	30.6

Performance	3M	6M	12M
Absolute (%)	28.8	-7.4	28.0
Relative to VN-Index (%)	19.6	7.3	56.6



Source: Bloomberg

Open account

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Challenges ahead

Update recommendation HOLD, target price 39,500 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 39,500 with our hold recommendation. In 2023, we forecast that VSH's revenue and profit will slow down because: (1) Favorable weather is expected to pass; (2) Revenue and profit of 2022 reached peak levels.

Business results in 2022 beat expectations

In 2022, Vinh Son - Song Hinh Hydropower JSC recorded revenue of VND 3,084 billion (+91% YoY) and NPAT of VND 1,263 billion (+226% YoY). The main growth driver comes from the output of 2,597 million kWh (+47% YoY) when the Thuong Kon Tum Power Plant runs in a whole year with the La Nina phenomenon bringing about abundant water. Besides, the average selling price in 2022 also increased by 31% YoY, helping gross profit margin widened from 51% in 2021 to 66%.

Besides, the financial expenses of VSH increased by 26% YoY to VND 408 billion, however, since Q4/2022, interest expenses have started to decrease compared to Q4/2021 due to the decreasing amount of debts. In addition, VSH's other expenses in 2022 also skyrocketed by 2,115% to VND 142 billion owing to VSH's reclassified uncollectible outstanding debts and related expenses construction in progress.

Outlook for 2023

The parent company of VSH - Refrigeration Electrical Engineering JSC (HoSE: REE), announced that the company is actively promoting negotiations to increase the PPA selling price of Thuong Kon Tum Power Plant. If the negotiations are successful, the PPA selling price of the Upper Kon Tum Power Plant will increase by nearly 20% compared to the old price. This power plant has the largest installed capacity of VSH with 220 MW (62% of total capacity). With a conservative view, we forecast the selling price to move sideways compared to the previous year.

On the contrary, the La Nina phenomenon is expected to pass in 2023 after 3 consecutive years of influence. The neutral status/El Nino will develop to replace the La Nina phenomenon, reducing the amount of water to the meter, causing the output of hydropower enterprises to be affected. In our financial model, we forecast that electricity output in 2023 will decrease by 15% YoY.

Risks: (1) Earthquake near Thuong Kon Tum Power Plant; (2) Interest rate risk; (3) Adverse weather affects power output; (4) Negotiation to raise PPA price of Thuong Kon Tum Power Plant did not meet expectations.

Year to Dec.	2021	2022	2023F	2024F	2025F
Revenue (bn VND)	**1,611**	**3,085**	**2,676**	**2,492**	**2,315**
OP (bn VND)	815	2,022	1,588	1,416	1,248
NP (bn VND)	**387**	**1,264**	**1,051**	**930**	**863**
EPS (VND)	1,660	5,349	4,450	3,937	3,653
BPS (VND)	14,084	14,520	15,269	16,147	16,976
OPM	51%	66%	59%	57%	54%
NPM	24%	41%	39%	37%	37%
ROE	**10%**	**25%**	**18%**	**14%**	**12%**
PER (x)	11.7	7.0	8.9	10.0	10.8
PBR (x)	1.4	2.6	2.6	2.4	2.3
EV/EBITDA (x)	9.48	6.6	7.5	8.0	8.3

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 39,500 VND equivalent to a return of 7%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**10.4**
Risk-free rate (%)	5.0
Equity risk premium (%)	7.8
Beta	0.8
Debt cost (%)	10.0
The cost of equity(%)	11.0
Debt-to-equity ratio	0.4
Total debt (VND billion)	4,049

Source: Company data, Shinhan Securities Vietnam

FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	1,051	930	863	887	901
Plus: After-tax interest expense	339	294	249	195	153
Plus: Depreciation & Amortization	595	619	644	669	696
Minus: Change in working capital	-179	-21	-20	-48	-46
Minus: CapEx	450	480	490	510	530
Free Cash Flow (FCF)	**1,714**	**1,384**	**1,286**	**1,289**	**1,265**
Discount rate	0.91	0.82	0.74	0.67	0.61
PV of FCF	1,552	1,135	954	866	770
Growth rate	0%				
Present value of long-term value	7,368				
Enterprise value	12,645				
Debt	4,049				
Cash and cash equivalents	168				
Number of shares outstanding (billion)	0.24				
Target price (VND)	**37,096**				

Source: Company data, Shinhan Securities Vietnam

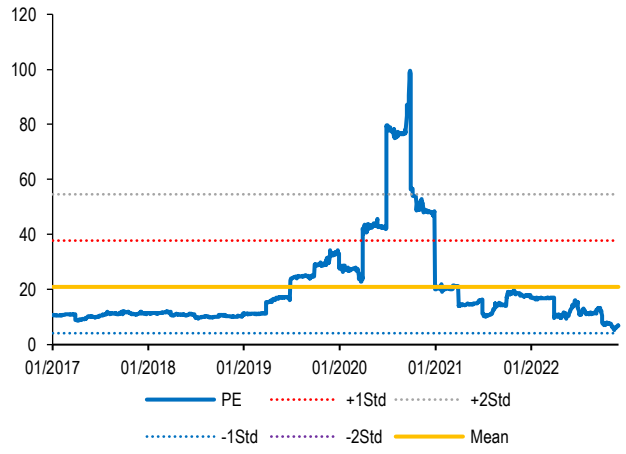
Based on the P/E method, we collect data from businesses in the power industry in Asia. The average P/E of companies in the utilities sectors in the statistics (excluding VSH) is 11.06x. We discount the mean P/E by 15% to 9.4x as our target P/E because we evaluate the hydropower group will face adverse weather in 2023. Combining VSH's EPS forward forecast at VND 4,450 we expect a 12-month price target of VSH at VND 41,800.

Summary of valuation

Method	Weight	Target price
FCFF	50%	37,100
P/E	50%	41,800
Total	100%	39,500

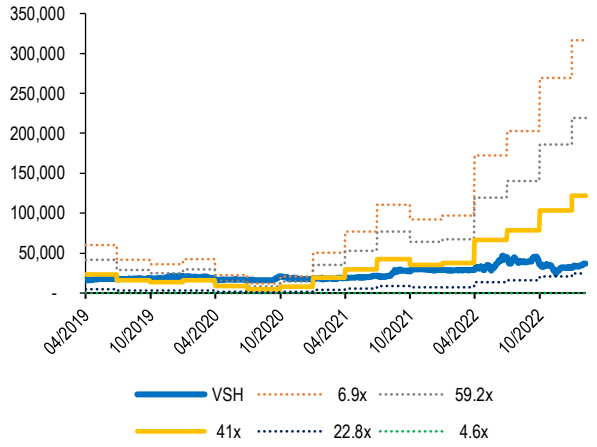
Source: Shinhan Securities Vietnam

PER of VSH



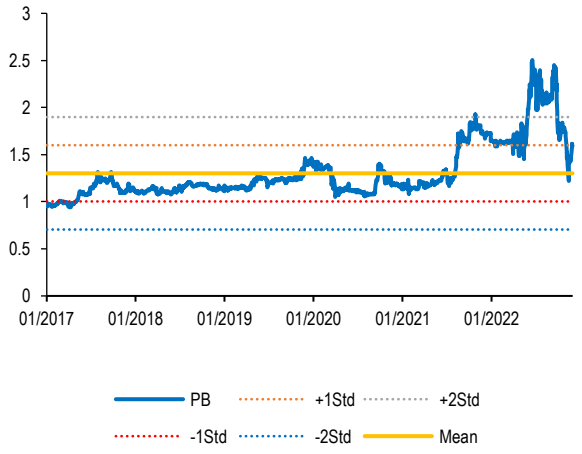
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of VSH



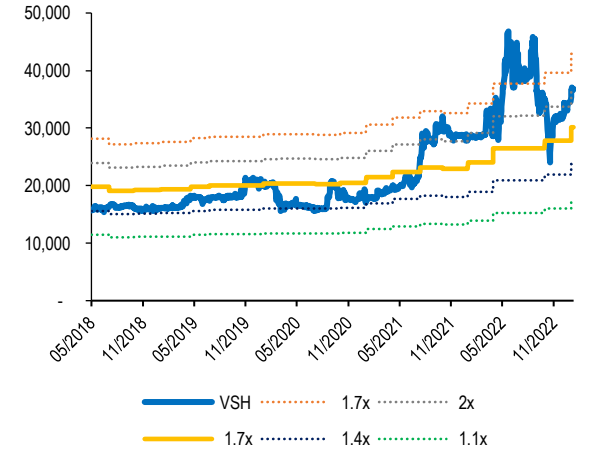
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of VSH



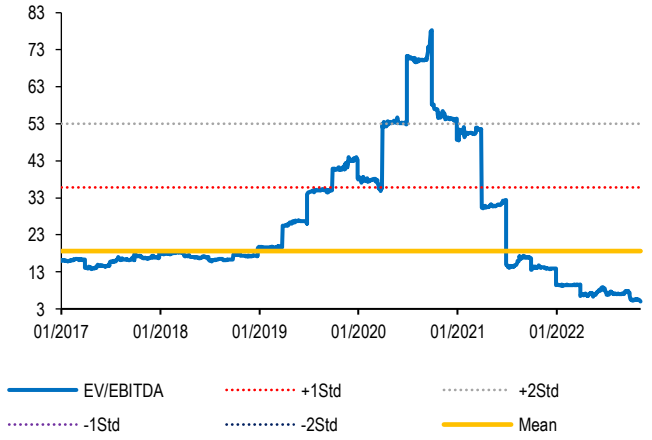
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of VSH



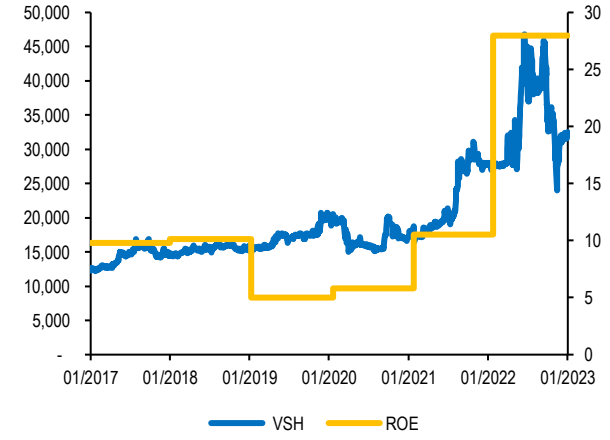
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of VSH



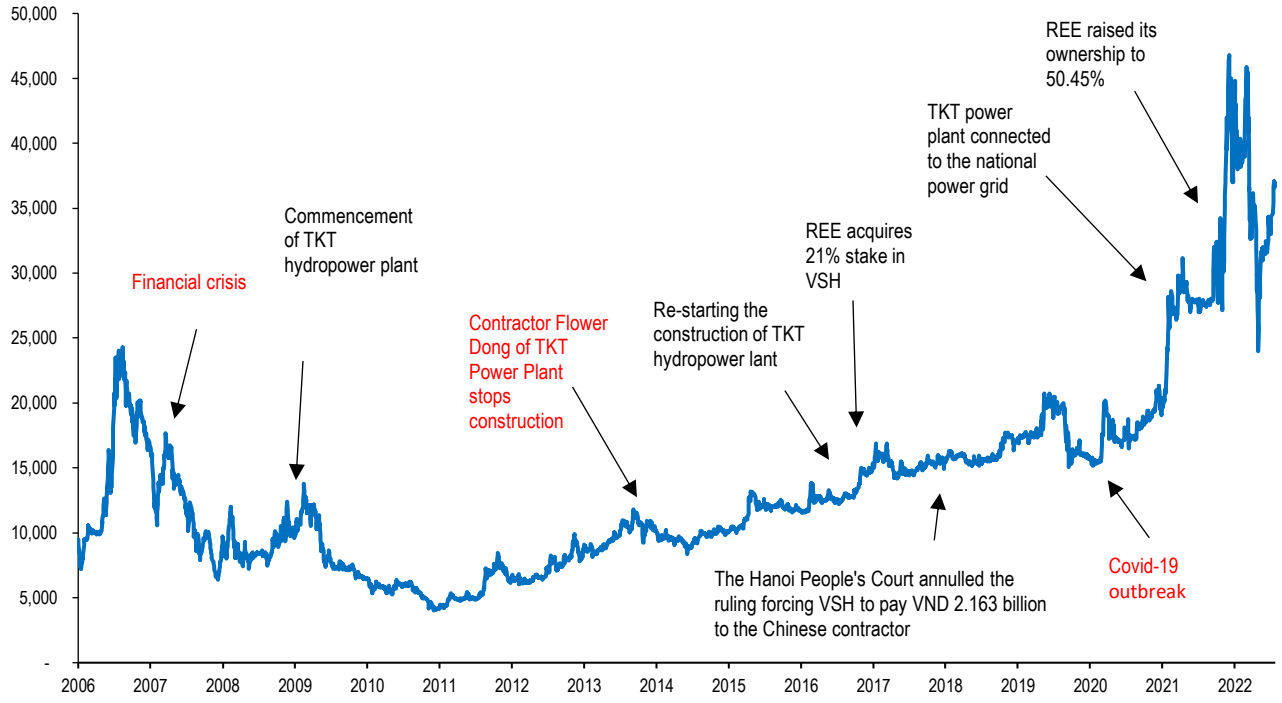
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of VSH and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of VSH



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2021	2022F	2023F	2024F	2025F
Total assets	**9,676**	**10,017**	**9,710**	**10,226**	**10,369**
Current assets	363	691	1,074	1,736	2,017
Cash & equivalents	15	52	131	889	1,104
Short-term financial asset	35	39	37	268	374
Accounts receivable	212	497	806	514	478
Inventories	101	102	100	65	61
Non-current assets	9,314	9,326	8,636	8,491	8,352
Net fixed assets	510	9,136	8,565	8,420	8,281
Investment assets	0	0	0	0	0
Other long-term assets	12	14	15	15	15
Total liabilities	**6,346**	**6,006**	**4,685**	**4,402**	**3,863**
Current liabilities	1,350	877	569	805	786
Accounts payable	572	733	432	284	265
Short-term borrowings	772	142	135	519	519
Others	7	2	2	2	2
Non-current liabilities	4,996	5,129	4,116	3,597	3,078
Long-term borrowings	4,996	4,927	3,915	3,395	2,876
Other financial liabilities	0	202	202	202	202
Total shareholders' equity	**3,330**	**4,010**	**5,025**	**5,825**	**6,505**
Capital stock	2,062	2,362	2,362	2,362	2,362
Capital surplus	6	6	6	6	6
Other capital	384	384	384	384	384
Retained earnings	877	1,258	2,272	3,073	3,753
Non-controlling interest equity	0	0	0	0	0
*Total debt	5,768	5,069	4,050	3,914	3,395
*Net debt (cash)	5,718	4,978	3,882	2,758	1,917

Statement of comprehensive income

Year to Dec. (bn VND)	2021	2022F	2023F	2024F	2025F
Revenue	**341**	**1,611**	**3,085**	**2,676**	**2,492**
Growth (%)	*-14.9*	*373.1*	*91.4*	*-13.2*	*-6.9*
COGS	(204)	(796)	(1,062)	(1,088)	(1,076)
Gross profit	**137**	**815**	**2,022**	**1,588**	**1,416**
GPM (%)	*40.2*	*50.6*	*65.6*	*59.3*	*56.8*
SG&A	(23)	(45)	(77)	(80)	(101)
Operating profit	**114**	**770**	**1,945**	**1,508**	**1,315**
Growth (%)	*32.8*	*93.2*	*233.3*	*(20.8)*	*(11.5)*
OPM (%)	*33.4*	*47.8*	*63.1*	*56.3*	*52.8*
Non-operating profit	121	(319)	(565)	(305)	(251)
Financial income	123	11	7	65	70
Financial expense	(1)	(324)	(432)	(370)	(321)
In which: interest expenses	(1)	(323)	(408)	(370)	(321)
Net other non-operating profit	(0)	(5)	(139)	0	0
Pre-tax profit	**236**	**451**	**1,380**	**1,203**	**1,064**
Income tax	(47)	(64)	(116)	(151)	(134)
Net profit	**188**	**387**	**1,264**	**1,051**	**930**
Growth (%)	*18.4*	*105.7*	*226.3*	*(16.8)*	*(11.5)*
NPM (%)	*55.3*	*24.0*	*41.0*	*39.3*	*37.3*
Controlling interest	188	387	1,264	1,051	930
Non-controlling interest	0	0	0	0	0
EBIT	**237**	**774**	**1,788**	**1,573**	**1,385**
Growth (%)	*17.9*	*(58.5)*	*(11.0)*	*19.7*	*34.5*
EBIT Margin (%)	*69.6*	*48.1*	*58.0*	*58.8*	*55.6*
EBITDA	**320**	**1,245**	**2,380**	**2,168**	**2,004**
Growth (%)	*87.8*	*(29.7)*	*(40.4)*	*49.5*	*0.0*
EBITDA margin (%)	*94.1*	*77.2*	*77.1*	*81.0*	*80.4*

Statement of cash flow

Year to Dec. (bn VND)	2021	2022	2023F	2024F	2025F
Cash flow from operations	**235**	**754**	**1,395**	**1,768**	**1,501**
Net profit	188	387	1,264	1,051	930
D&A expense	83	470	592	595	619
(Gain) from investing activities	(122)	(3)	(6)	(58)	(70)
Change in working capital	-	-	-	179	21
Others	85	(100)	(455)	-	-
Cash flow from investments	**(688)**	**(325)**	**(38)**	**(624)**	**(517)**
Change in fixed assets	(822)	(328)	(47)	(392)	(410)
Change in investment assets	131	-	3	(231)	(106)
Others	3	3	6	-	(0)
Cash flow from financing	**397**	**(392)**	**(1,277)**	**(387)**	**(769)**
Change in equity	-	-	-	-	-
Net borrowing	397	(392)	(1,277)	(136)	(519)
Dividends	-	-	-	(251)	(250)
Change in total cash	**(56)**	**37**	**79**	**757**	**215**
Beginning cash	71	15	52	131	889
Change in FX rates	-	-	-	-	-
Ending cash	15	52	131	889	1,104

Source: Company data, Shinhan Securities Vietnam

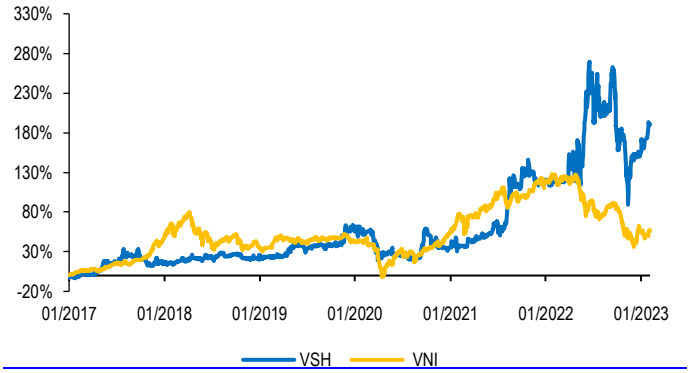
Key ratios

Year to Dec.	2021	2022	2023F	2024F	2025F
EPS (VND)	913	1,660	5,349	4,450	3,937
BPS (VND)	16,147	16,976	21,271	24,660	27,540
PER (x)	11.7	7.0	8.9	10.0	10.8
PBR (x)	1.4	2.6	2.6	2.4	2.3
EV/EBITDA (x)	9.5	6.6	7.5	8.0	8.3
Dividend payout ratio (%)	3.0	10.0	10.0	10.0	10.0
Dividend yield (%)	1.7	2.5	2.5	2.5	2.5
Profitability					
EBITDA margin (%)	94.1	77.2	77.1	81.0	80.4
OPM (%)	33.4	47.8	63.1	56.3	52.8
NPM (%)	55.3	24.0	41.0	39.3	37.3
ROA (%)	1.9	3.9	13.0	10.3	9.0
ROE (%)	5.7	9.7	25.15	18.0	14.3
Stability					
Debt to equity ratio (%)	173.2	126.4	80.6	67.2	52.2
Net debt ratio (%)	1,784.6	400.0	163.1	127.2	95.7
Cash ratio (%)	3.7	10.4	29.5	143.7	188.1
Interest coverage ratio (x)	189.3	2.4	4.4	4.2	4.3
Activity (%)					
Working capital turnover (times)	0.9	4.8	12.8	19.4	23.7
Inventory turnover (days)	2.0	7.9	10.5	13.1	17.1
Receivable turnover (days)	1.6	4.6	4.7	4.1	5.0

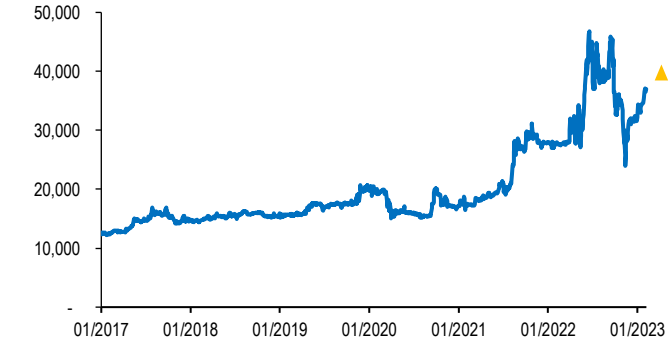
Source: Company data, Shinhan Securities Vietnam

Vinh Son – Song Hinh Hydropower JSC (VSH VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%)	
			TB	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

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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