February 13th, 2022

Shinhan Securities



# PetroVietnam Power Nhon Trach 2 JSC

[ Vietnam / Utilities ]

Bloomberg Code (NT2 VN) | Reuters Code (NT2.HM)

## HOLD

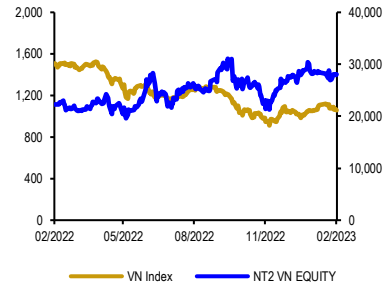
Update Report

| | |
|---|---|
| **Target price** (12 months) | **VND 30,900** |
| Current price (10/02/22) | VND 28,100 |
| Upside/downside (%) | 10% |

| | |
|---|---|
| VNINDEX | 1,055 |
| P/E market (23F,x) | 9.8 |
| Market Cap (bn VND) | 8,089 |
| Outstanding shares (mn) | 288 |
| Free-Floating (mn) | 93 |
| 52-Wk High/Low (VND) | 32,600/20,000 |
| 90-day avg. trading volume (mn) | 0.95 |
| 90-day avg. turnover (bn VND) | 18 |
| Foreign ownership (%) | 26.43 |

| | | |
|---|---|---|
| Major shareholders (%) | POW | 59.37 |
| | Others | 40.63 |

| Performance | 3M | 6M | 12M |
|---|---|---|---|
| Absolute (%) | 31.0 | 5.6 | 17.8 |
| Relative to VN-Index (%) | 19.6 | 21.7 | 47.8 |




Source: Bloomberg


Open account [ Analyst ]

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# Power output is expected to continue recover

**Update recommendation HOLD, target price 30,900 VND**

Nhon Trach 2 Petroleum Power JSC (HoSE: NT2) is one of the largest capacity gas-fired thermal power companies listed on the stock exchange. Based on the FCFF and PE methods, we update the target price of NT2 at VND 30,900 equivalent to an expected return of 10%. In 2023, we evaluate NT2 as an investment that can continue to be held in the portfolio because: (1) Output could continue to improve as the mobilization rate from hydropower declines; (2) Healthy finances, low amount of debt, and high potential cash dividends.

**Business results in 2022 beat expectations**

In 2022, Nhon Trach 2 Petroleum Power JSC recorded a revenue of VND 8,786 billion (+43% YoY) and VND 729 billion in NPAT (+37% YoY). The main growth driver comes from a strong recovery in volume with 4,040 million kWh (+26% YoY). Besides, the average selling price also increased by 13% YoY, helping the gross profit margin to expand from 11% in 2021 to 13% in 2022.

Notably, the net profit of NT2 plummeted by 95% YoY to VND 6 billion (-95% YoY) in Q4/2022 due to low Qc output in the circumstance of high input costs. In addition, general & admin expenses in 2022 soared by 297% YoY to VND 330 billion, because NT2 had to make provision for bad debts of VND 240 billion related to power bill receivables of Electricity Power Trading Company under contract 07/2012/HD-NMD-NT2 signed in 2012 and supplemental contracts.

**Outlook for 2023**

We forecast the volume of NT2 to increase by 7% YoY with the catalyst coming from the expected growth of power demand at 6% and the mobilization rate from the hydropower group will decrease when the favorable weather (La Nina) of this group passes away. In addition, NT2 is expected to overhaul the power plant during the low season (September, October), we believe that the annual output will not be strongly affected.

In terms of the selling price, we expect the average selling price of NT2 to decrease slightly by -6% YoY since the natural gas input price has dropped 17% from the peak set in April as global commodity prices have cooled down. Based on the above assumptions, we forecast the revenue and net profit of NT2 to reach VND 8,801 (+0.2% YoY) and VND 844 (+15.8% YoY), respectively.

Healthy financial status and abundant cash flow with low debt are two of the biggest advantage of NT2 expected to continue to be maintained in 2023. Besides, as a subsidiaries company of PetroVietnam Power Vietnam(HoSE: POW), we believe that NT2 will pay a significant cash dividend to support the parent company to implement NT3 & NT4.

| **Year to Dec.** | **2021** | **2022** | **2023F** | **2024F** | **2025F** |
|---|---|---|---|---|---|
| **Revenue (bn VND)** | **6,150** | **8,786** | **8,801** | **9,065** | **9,198** |
| OP (bn VND) | 559 | 779 | 889 | 814 | 916 |
| **NP (bn VND)** | **534** | **729** | **844** | **768** | **864** |
| EPS (VND) | 1,778 | 2,457 | 2,932 | 2,668 | 3,003 |
| BPS (VND) | 14,707 | 14,631 | 15,417 | 15,770 | 15,437 |
| OPM | 9% | 9% | 10% | 9% | 10% |
| NPM | 9% | 8% | 10% | 8% | 9% |
| **ROE** | **15%** | **13%** | **16%** | **19%** | **17%** |
| PER (x) | 11.4 | 9.6 | 8.2 | 10.5 | 9.4 |
| PBR (x) | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 |
| EV/EBITDA (x) | 5.1 | 5.2 | 6.0 | 6.7 | 7.1 |

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 NT2 with 50%-50% weighted. We update our HOLD recommendation with a target price of VND 30,900 equivalent to a return of 10%.

| **Weighted Average Cost of Capital (WACC)** | |
|---|---|
| **WACC (%)** | **12.0** |
| Risk-free rate (%) | 5.0 |
| Equity risk premium (%) | 7.8 |
| Beta | 0.94 |
| Debt cost (%) | 7.0 |
| The cost of equity(%) | 12.3 |
| Debt-to-equity ratio | 0.07 |
| Total debt (VND billion) | 631 |

Source: Company data, Shinhan Securities Vietnam

| **FCF valuation** | | | | | |
|---|---|---|---|---|---|
| Unit: billion VND | **2023F** | **2024F** | **2025F** | **2026F** | **2027F** |
| Net profit | 844 | 768 | 864 | 920 | 829 |
| Plus: After-tax interest expense | 15 | 15 | 15 | 15 | 15 |
| Plus: Depreciation & Amortization | 717 | 746 | 646 | 274 | 306 |
| Minus: Change in working capital | -272 | 261 | 11 | -24 | -23 |
| Minus: CapEx | 150 | 175 | 175 | 175 | 175 |
| Free Cash Flow (FCF) | **1,697** | **1,092** | **1,339** | **1,057** | **998** |
| Discount rate | 0.89 | 0.80 | 0.71 | 0.64 | 0.57 |
| PV of FCF | 1,516 | 871 | 954 | 673 | 567 |
| Growth rate | 0% | | | | |
| Present value of long-term value | 4,740 | | | | |
| Enterprise value | 9,321 | | | | |
| Debt | 631 | | | | |
| Cash and cash equivalents | 384 | | | | |
| Number of shares outstanding (billion) | 0.29 | | | | |
| **Target price (VND)** | **31,524** | | | | |

Source: Company data, Shinhan Securities Vietnam

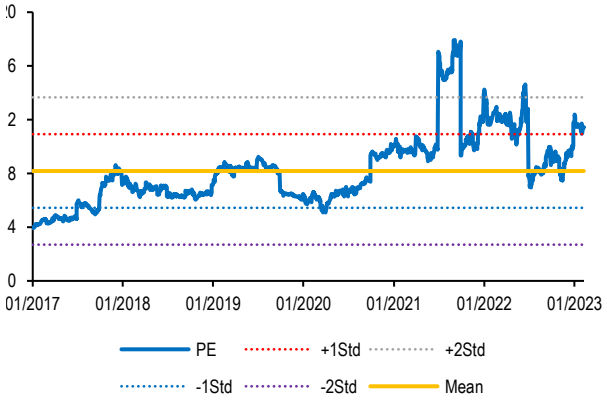
Based on the P/E method, we collect data from businesses in the power industry in Asia. The mean P/E of companies in the power sectors in the statistics (excluding NT2) is 10.3x. Combining NT2's forward EPS growth forecast at VND 2,932 we expect a 12-month price target of NT2 at VND30,200.

**Compare companies in the industry**

| Tickers | PE | Market cap (million USD) | Grwoth EPS (%) | ROA (%) | ROE (%) |
|---|---|---|---|---|---|
| NT2 VN Equity | 11.4 | 343.2 | 38.2 | 10.5 | 16.3 |
| POW VN Equity | 14.8 | 1,192.3 | 6.9 | 3.5 | 6.4 |
| PGV VM Equity | 9.2 | 908.0 | (25.7) | 3.5 | 13.7 |
| SPCG TB Equity | 6.9 | 455.4 | (8.4) | 9.4 | 13.3 |
| SUPER TB Equity | 17.0 | 504.4 | 84.5 | 1.2 | 5.1 |
| SSP TB Equity | 8.1 | 362.2 | 28.3 | 6.0 | 20.9 |
| 579 HK Equity | 5.6 | 2,195.1 | 2.8 | 3.5 | 10.0 |
| Mean (Exclude NT2) | 10.3 | | | | |
| EPS forward | 2,932 | | | | |
| Target price | 30,200 | | | | |

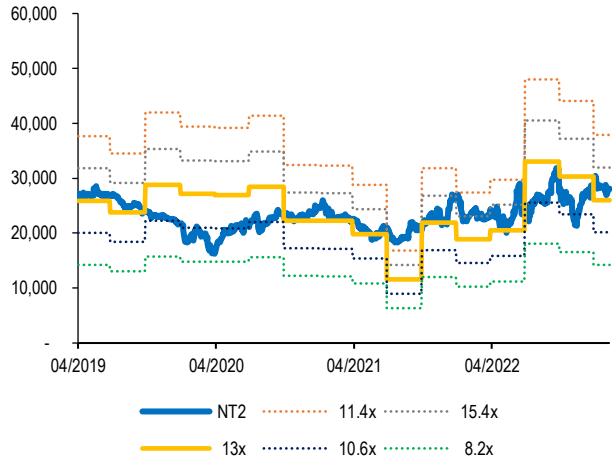
Source: Company data, Shinhan Securities Vietnam

## PER of NT2



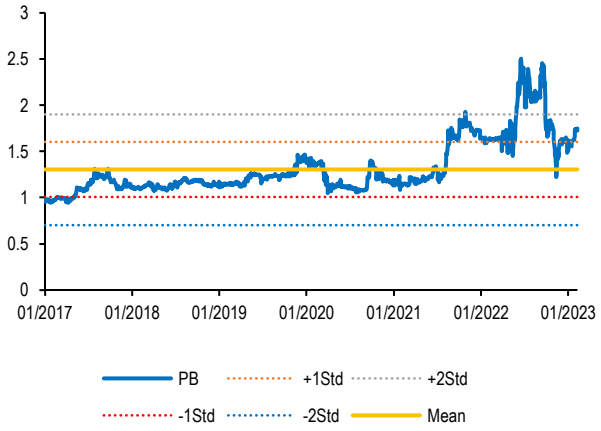

Source: Bloomberg, Company data, Shinhan Securities Vietnam

## PER band chart of NT2



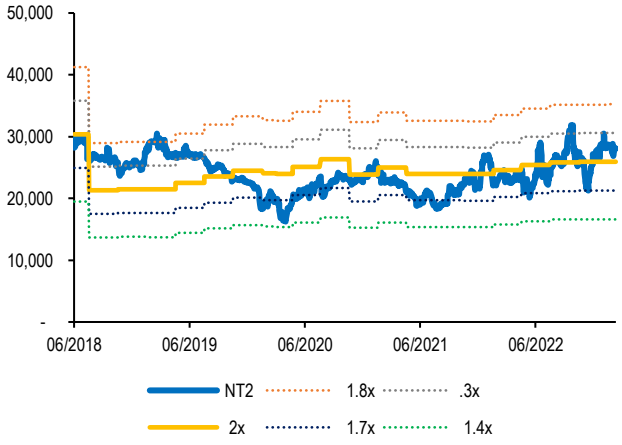

Source: Bloomberg, Company data, Shinhan Securities Vietnam

## PBR of NT2



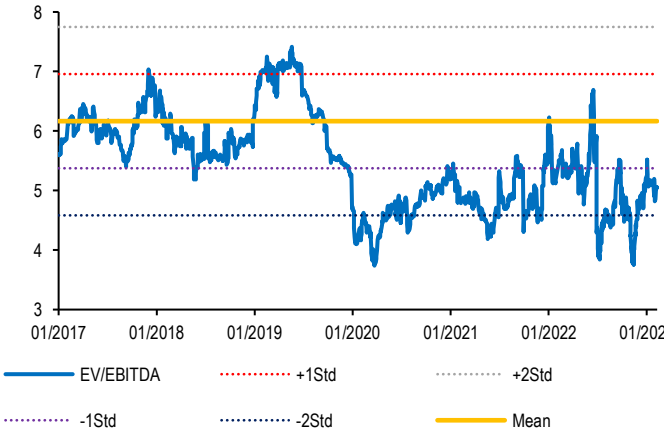

Source: Bloomberg, Company data, Shinhan Securities Vietnam

## PBR band chart of NT2



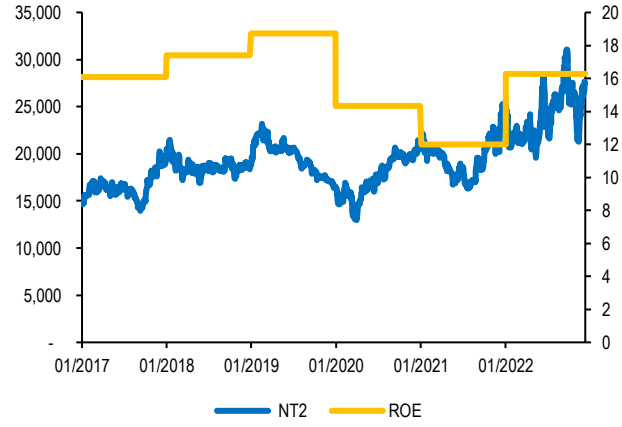

Source: Bloomberg, Company data, Shinhan Securities Vietnam

## EV/EBITDA of NT2




Source: Bloomberg, Company data, Shinhan Securities Vietnam

## Correlation of NT2 and ROE




Source: Bloomberg, Company data, Shinhan Securities Vietnam

**Key events of NT2**




Source: Bloomberg, Company data, Shinhan Securities Vietnam

# Appendix: Financial statements

## Statement of financial position

| Year to Dec. (bn VND) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| **Total assets** | **6,624** | **7,285** | **7,409** | **7,298** | **7,286** |
| Current assets | 2,581 | 4,357 | 5,068 | 5,529 | 5,988 |
| Cash & equivalents | 1 | 384 | 860 | 949 | 882 |
| Short-term financial asset | 0 | 949 | 1,320 | 1,360 | 1,840 |
| Accounts receivable | 2,269 | 2,716 | 2,485 | 2,805 | 2,845 |
| Inventories | 311 | 307 | 403 | 415 | 421 |
| Non-current assets | 4,043 | 2,929 | 2,340 | 1,770 | 1,298 |
| Net fixed assets | 3,475 | 2,787 | 2,221 | 1,650 | 1,179 |
| Investment assets | 0 | 0 | 0 | 0 | 0 |
| Other long-term assets | 546 | 120 | 120 | 120 | 120 |
| **Total liabilities** | **2,390** | **2,826** | **2,885** | **2,870** | **3,001** |
| Current liabilities | 2,390 | 2,826 | 2,885 | 2,870 | 3,001 |
| Accounts payable | 2,170 | 2,185 | 2,359 | 2,430 | 2,466 |
| Short-term borrowings | 210 | 631 | 515 | 429 | 525 |
| Others | 11 | 10 | 11 | 11 | 11 |
| Non-current liabilities | 0 | 0 | 0 | 0 | 0 |
| Long-term borrowings | 0 | 0 | 0 | 0 | 0 |
| Other financial liabilities | 0 | 0 | 0 | 0 | 0 |
| **Total shareholders' equity** | **4,234** | **4,460** | **4,561** | **4,466** | **4,322** |
| Capital stock | 2,879 | 2,879 | 2,879 | 2,879 | 2,879 |
| Capital surplus | 0 | 0 | 0 | 0 | 0 |
| Other capital | 160 | 182 | 160 | 160 | 160 |
| Retained earnings | 1,196 | 1,400 | 1,523 | 1,428 | 1,285 |
| Non-controlling interest equity | 0 | 0 | 0 | 0 | 0 |
| *Total debt | 210 | 631 | 515 | 429 | 525 |
| *Net debt (cash) | 209 | (703) | (1,665) | (1,879) | (2,197) |

## Statement of comprehensive income

| Year to Dec. (bn VND) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| **Revenue** | **6,150** | **8,786** | **8,801** | **9,065** | **9,198** |
| Growth (%) | *1.1* | *42.9* | *0.2* | *3.0* | *1.5* |
| **COGS** | (5,474) | (7,685) | (7,839) | (8,134) | (8,182) |
| **Gross profit** | **676** | **1,101** | **962** | **930** | **1,016** |
| GPM (%) | *11.0* | *12.5* | *10.9* | *10.3* | *11.0* |
| **SG&A** | (83) | (330) | (108) | (153) | (155) |
| **Operating profit** | **593** | **772** | **853** | **777** | **861** |
| Growth (%) | *(16.3)* | *39.4* | *14.1* | *(8.4)* | *12.6* |
| OPM (%) | *9.6* | *8.8* | *9.7* | *8.6* | *9.4* |
| **Non-operating profit** | (27) | 7 | 35 | 37 | 56 |
| Financial income | 18 | 24 | 53 | 54 | 74 |
| Financial expense | (52) | (18) | (18) | (18) | (18) |
| In which: interest expenses | (20) | (15) | (15) | (15) | (15) |
| Net other non-operating profit | 7 | 0 | 0 | 0 | 0 |
| **Pre-tax profit** | **566** | **779** | **889** | **814** | **916** |
| Income tax | (32) | (50) | (44) | (46) | (52) |
| **Net profit** | **534** | **729** | **844** | **768** | **864** |
| Growth (%) | *(14.6)* | *36.6* | *15.7* | *(9.0)* | *12.6* |
| NPM (%) | *8.7* | *8.3* | *9.6* | *8.5* | *9.4* |
| Controlling interest | 534 | 729 | 844 | 768 | 864 |
| Non-controlling interest | 0 | 0 | 0 | 0 | 0 |
| **EBIT** | **586** | **794** | **904** | **829** | **932** |
| Growth (%) | *(16.4)* | *35.5* | *13.8* | *(8.2)* | *12.3* |
| EBIT Margin (%) | *9.5* | *9.0* | *10.3* | *9.2* | *10.1* |
| **EBITDA** | **1,276** | **1,482** | **1,621** | **1,575** | **1,578** |
| Growth (%) | *(8.4)* | *16.2* | *9.3* | *(2.8)* | *0.2* |
| EBITDA margin (%) | *20.7* | *16.9* | *18.4* | *17.4* | *17.2* |

## Statement of cash flow

| Year to Dec. (bn VND) | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| **Cash flow from operations** | **1,074** | **1,383** | **1,780** | **1,198** | **1,426** |
| Net profit | 534 | 729 | 844 | 768 | 864 |
| D&A expense | 690 | 688 | 717 | 746 | 646 |
| (Gain) from investing activities | (11) | (21) | (53) | (54) | (74) |
| Change in working capital | 350 | (855) | 272 | (261) | (11) |
| Others | (489) | 842 | - | - | (0) |
| **Cash flow from investments** | **9** | **(946)** | **(468)** | **(160)** | **(581)** |
| Change in fixed assets | (2) | (1) | (97) | (121) | (101) |
| Change in investment assets | - | (949) | (371) | (40) | (480) |
| Others | 11 | 4 | - | - | - |
| **Cash flow from financing** | **(1,143)** | **(54)** | **(836)** | **(949)** | **(912)** |
| Change in equity | - | - | - | - | - |
| Net borrowing | (523) | 472 | (116) | (86) | 96 |
| Dividends | (620) | (525) | (720) | (864) | (1,008) |
| **Change in total cash** | **(61)** | **383** | **476** | **89** | **(67)** |
| Beginning cash | 62 | 1 | 384 | 860 | 949 |
| Change in FX rates | - | - | - | - | - |
| Ending cash | 1 | 384 | 860 | 949 | 882 |

Source: Company data, Shinhan Securities Vietnam

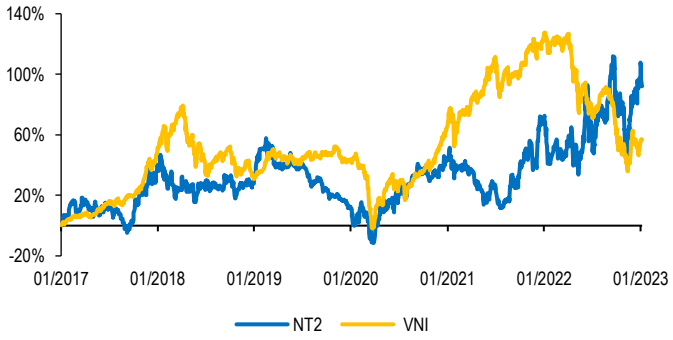
## Key ratios

| Year to Dec. | 2021 | 2022 | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|
| EPS (VND) | 1,778 | 2,457 | 2,932 | 2,668 | 3,003 |
| BPS (VND) | 14,706 | 15,492 | 15,845 | 15,512 | 15,015 |
| PER (x) | 14.8 | 11.4 | 9.6 | 8.2 | 7.7 |
| PBR (x) | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| EV/EBITDA (x) | 5.1 | 4.9 | 4.7 | 4.2 | 4.0 |
| Dividend payout ratio (%) | 20.0 | 16.5 | 20.0 | 25.0 | 30.0 |
| Dividend yield (%) | 8.1 | 5.9 | 7.1 | 8.9 | 10.7 |
| **Profitability** | | | | | |
| EBITDA margin (%) | 20.7 | 16.9 | 17.1 | 17.4 | 17.2 |
| OPM (%) | 9.6 | 8.8 | 8.4 | 8.6 | 9.4 |
| NPM (%) | 8.7 | 8.3 | 8.3 | 8.5 | 9.4 |
| ROA (%) | 8.1 | 10.0 | 10.0 | 10.7 | 12.1 |
| ROE (%) | 12.6 | 16.4 | 16.5 | 17.6 | 20.5 |
| **Stability** | | | | | |
| Debt to equity ratio (%) | 5.0 | 14.1 | 11.6 | 9.9 | 12.5 |
| Net debt ratio (%) | 16.3 | (47.4) | (103.0) | (112.2) | (132.2) |
| Cash ratio (%) | 0.1 | 47.2 | 71.7 | 76.6 | 87.0 |
| Interest coverage ratio (x) | 28.8 | 51.7 | 51.5 | 54.0 | 60.6 |
| **Activity (%)** | | | | | |
| Working capital turnover (times) | 8.6 | 9.7 | 10.3 | 9.5 | 9.4 |
| Inventory turnover (days) | 17.5 | 24.9 | 22.1 | 19.9 | 19.6 |
| Receivable turnover (days) | 3.3 | 3.6 | 3.4 | 3.4 | 3.3 |

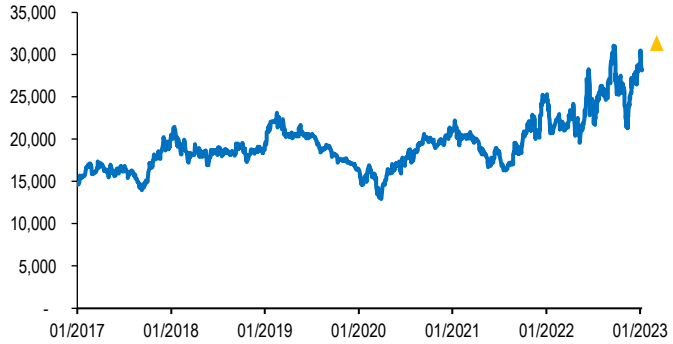
Source: Company data, Shinhan Securities Vietnam

# PetroVietnam Power Nhon Trach 2 JSC (NT2 VN)

## Share price




## Target price




| Date | Rating | TP (VND) | TP gap (%) TB | TP gap (%) Max/Min |
|---|---|---|---|---|
| 11/11/2022 (Initiation) | BUY | 32,950 | 38.4 | 6.1/68.1 |
| 13/02/2023 (Updated report) | HOLD | 30,900 | 19.4 | 0.5/36.5 |

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

## Shinhan Securities Vietnam

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

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