April 24th, 2022

Shinhan Securities



PetroVietnam Power Corporation

[Vietnam / Utilities]

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

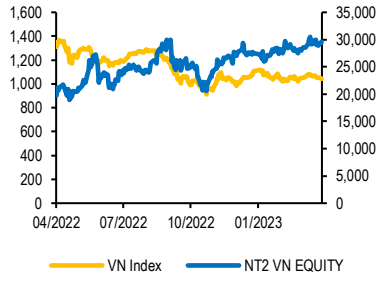
HOLD

Update Report

Target price (12 months)	**VND 13,100**
Current price (27/02/22)	VND 12,000
Upside/downside (%)	9%

VNINDEX		1,021
P/E market (23F,x)		9.6
Market Cap (bn VND)		28,571
Outstanding shares (mn)		2,342
Free-Floating (mn)		470
52-Wk High/Low (VND)		18,600/8,910
90-day avg. trading volume (mn)		8.4
90-day avg. turnover (bn VND)		98
Foreign ownership (%)		4.24
Major shareholders (%)	PVN	79.94
	Others	20.06

Performance	3M	6M	12M
Absolute (%)	16.7	-12.2	-32.8
Relative to VN-Index (%)	5.4	4.9	-2.5



Source: Bloomberg

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Thermal power is expected to come back

Update recommendation HOLD, target price VND 13,100

PetroVietnam Power Corporation (HoSE: POW) is the leader in gas-fired thermal power in Vietnam. Based on the FCFF and PB methods, we update the target price of POW at VND 13,100 equivalent to an expected return of 9%. In 2023, we believe the revenue and net profit of POW will continue to increase because: (1) The Vung Ang 1 coal-fired power plant will come back to full capacity; (2) The unfavorable weather is forecasted to pass away. In addition, POW has a prominent expansion plan with NT3 & NT4 power plants and LNG Quang Ninh.

Business results in 2022

In 2022, PetroVietnam Power Corporation recorded revenue of VND 28,235 billion (+15% YoY) and VND 729 billion in NPAT (+13% YoY). The main growth driver comes from an average selling price jump of 19% YoY, which offset the decrease by 3% YoY in volume. The power output of NT1 & NT2 power plants exceeded the target by 189% YoY and 126% YoY, respectively, thanks to the recovery in power consumption in the South. Besides, the output of Hua Na and Dakdrinh hydropower plants soar strongly by 144% YoY and 150% YoY, respectively, owing to the favorable power. On the other hand, the volume of the Ca Mau 1&2 power plant reached 85% of the target for a year due to the overhaul power plant and the shortage of natural gas. Similarly, the Vung Ang 1 power plant is repairing the 1 engine and facing a lower supply of coal so the volume just completes 76% of the plan.

Regarding the divestment professes of EVN International JSC (EIC): POW has completed the procedures for divestment of EIC and transferred 57,800 shares in a total of 2,880,000 shares. Nevertheless, the appraisal certificate of POW's stake at EIC has expired since POW must stop the divestment of EIC.

Outlook for 2023

In 2023, we expect the revenue and net profit of POW will reach VND 33,995 billion (+20% YoY) and VND 2,522 billion (+9% YoY). The main catalyst comes from the comeback of the Vung Ang 1 power plant since the end of Q1/2023 and the unfavorable weather is forecasted to pass away. We forecast the average selling price of POW will decrease slightly due to the price of material input (coal, natural gas) cooling down.

Update the process of the new power plant

At the end of 2022, NT3 & NT4 had 17/18 bidding packages registered with a value of over VND 22,000 billion. Meanwhile, 9 packages have been completed and 8 packages are in process. In January 2023, EPC contractors are continuing to implement the background and finalize the design for the next steps. The Quang Ninh LNG power plant was granted an investment registration certificate for the joint venture in July 2022. In November 2022, Quang Ninh LNG Power JSC was established, and PECC1 is setting up the base, reporting on the project feasibility study.

Year to Dec.	2020	2021	2022	2023F	2024F
Revenue (bn VND)	**29,732**	**24,561**	**28,235**	**33,995**	**38,230**
OP (bn VND)	2,855	2,459	2,504	2,831	2,812
NP (bn VND)	**2,663**	**2,052**	**2,323**	**2,522**	**2,558**
EPS (VND)	999	757	809	915	907
BPS (VND)	12,186	12,228	12,983	13,884	14,791
OPM	10%	10%	9%	8%	7%
NPM	9%	8%	8%	7%	7%
ROE	**11%**	**9%**	**10%**	**11%**	**11%**
PER (x)	11.7	14.8	14.8	13.1	13.2
PBR (x)	1.7	1.8	0.9	0.9	0.8
EV/EBITDA (x)	5.2	6.0	9.8	10.3	11.9

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use P/B and Discounted Cash Flow (DCF) valuation methods to value POW with 50%-50% weighted. We update our HOLD recommendation with a target price of VND 13,100 equivalent to a return of 9%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**15.3**
Risk-free rate (%)	4.5
Equity risk premium (%)	11.1
Beta	1.17
Debt cost (%)	9.00
The cost of equity(%)	17.5
Debt-to-equity ratio	0.3
Total debt (VND billion)	9,016

Source: Company data, Shinhan Securities Vietnam

FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	2,522	2,558	2,287	2,674	2,960
Plus: After-tax interest expense	684	1,047	1,876	1,630	1,467
Plus: Depreciation & Amortization	2,885	3,408	5,240	6,639	6,735
Minus: Change in working capital	-1,432	467	1,947	1,019	166
Minus: CapEx	1,160	18,730	18,760	1,300	1,350
Free Cash Flow (FCF)	6,363	-12,184	-11,304	8,624	9,646
Discount rate	0.87	0.75	0.65	0.56	0.49
PV of FCF	5,536	-9,138	-7,348	4,829	4,727
Growth rate	0%				
Present value of long-term value	30,936				
Enterprise value	29,542				
Debt	9,016				
Minority interest	2,702				
Cash & cash equivalents	8.276				
Number of shares outstanding (billion)	2.34				
Target price (VND)	**11,154**				

Source: Company data, Shinhan Securities Vietnam

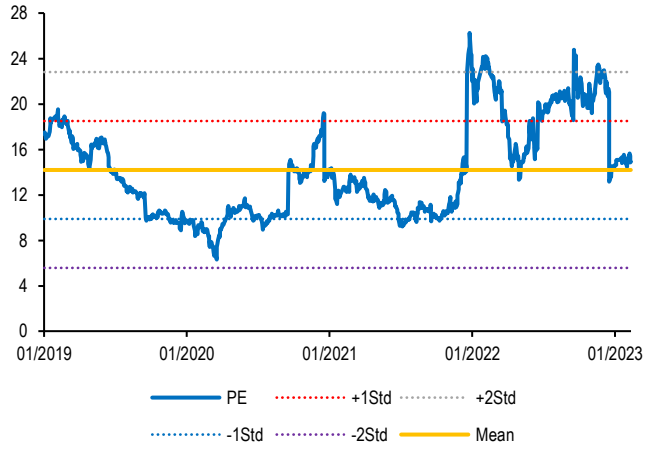
Based on the P/B method, we collect data from businesses in the power industry in Asia. The mean P/B of companies in the power sectors in the statistics (excluding POW) is 1.08x. Combining POW's BVPS forward forecast at VND 13,884, we expect a 12-month price target of POW at VND 15,000.

Compare companies in the industry

Tickers	PB	Market cap (million USD)	Grwoth EPS (%)	ROA (%)	ROE (%)
600780 CH Equity	1.45	1,364.73	(37.96)	9.89	14.80
POWR IJ Equity	0.99	715.24	21.28	6.09	11.80
MFCB MK Equity	1.25	775.94	38.27	12.78	20.84
MLK MK Equity	0.52	749.38	(9.04)	1.17	4.32
FGEN PM Equity	0.52	1,150.24	(4.11)	4.36	10.01
TPIPP TB Equity	0.89	816.76	(32.87)	5.68	9.01
PGV VN Equity	1.22	877.05	(25.72)	3.49	13.68
NT2 VN EQUITY	1.82	340.12	38.19	10.49	16.27
Mean (Exclude POW)	1.08				
EPS forward	13,884				
Target price (VND)	15,000				

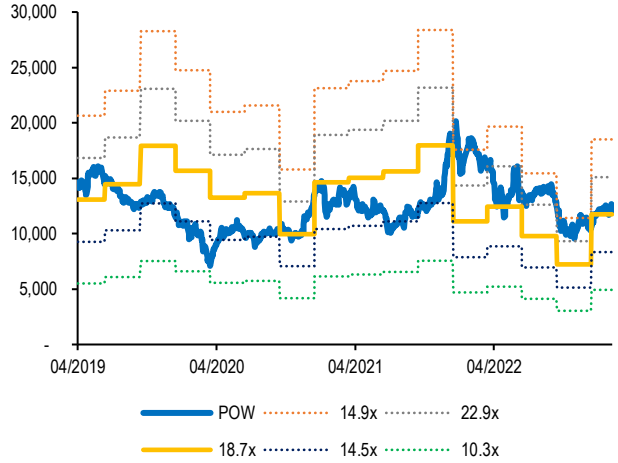
Source: Company data, Shinhan Securities Vietnam

PER of POW



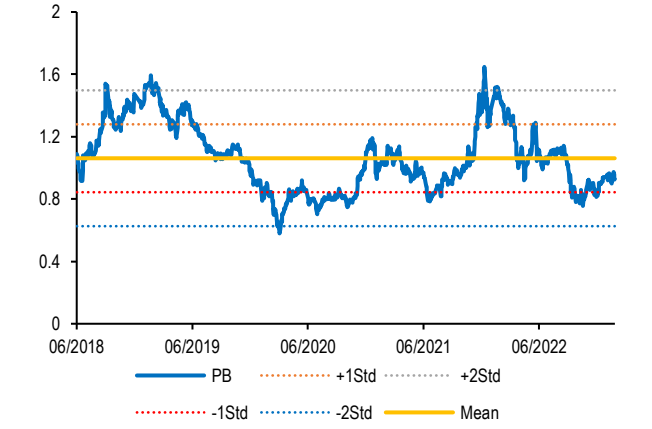
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of POW



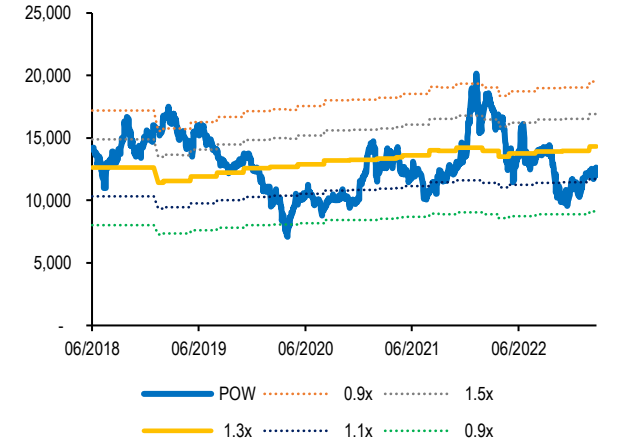
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of POW



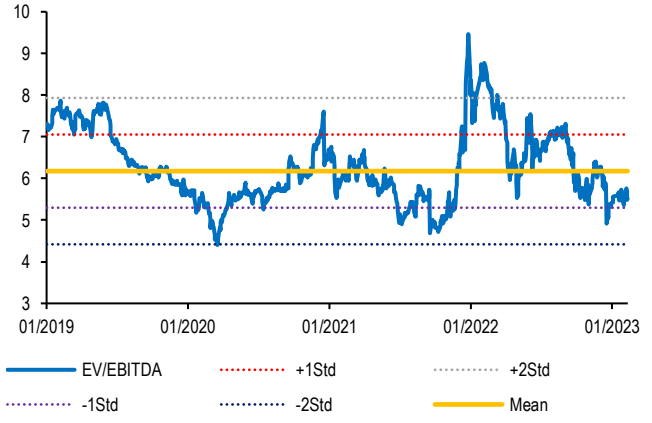
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of POW



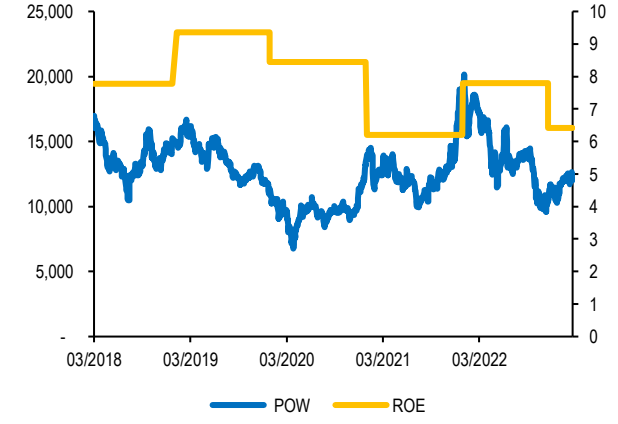
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of POW



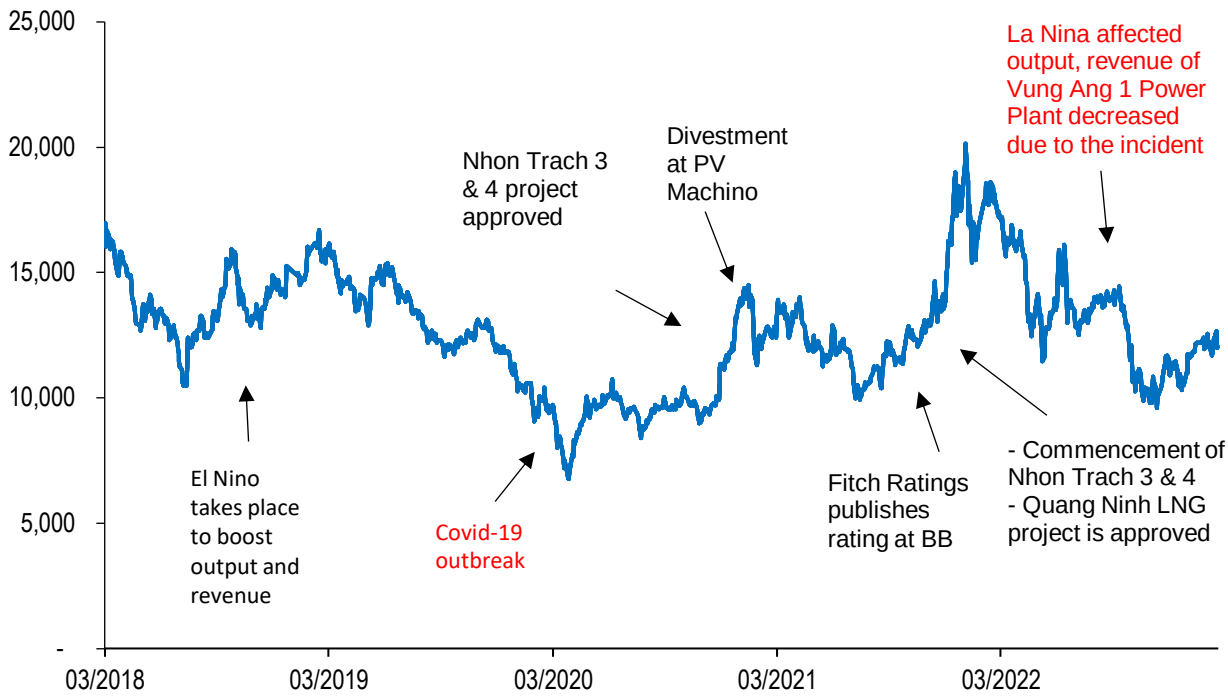
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of POW and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of POW



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**54,050**	**52,977**	**56,642**	**60,775**	**74,435**
Current assets	16,897	18,420	24,685	15,862	16,694
Cash & equivalents	7,070	8,224	8,277	3,283	4,078
Short-term financial asset	789	531	1,624	680	765
Accounts receivable	7,196	5,799	12,284	8,499	9,557
Inventories	1,728	1,838	2,086	2,380	2,294
Non-current assets	37,153	34,557	31,957	44,913	57,741
Net fixed assets	34,548	31,835	29,123	27,398	42,720
Investment assets	251	405	937	15,609	12,297
Other long-term assets	2,354	2,317	1,897	1,906	2,724
Total liabilities	**22,784**	**21,852**	**23,535**	**25,180**	**36,282**
Current liabilities	16,480	16,811	18,307	15,022	15,526
Accounts payable	9,462	12,043	12,672	11,219	11,469
Short-term borrowings	7,019	4,769	5,635	3,803	4,057
Others	4,813	4,803	5,322	5,440	4,970
Non-current liabilities	6,304	5,040	5,229	10,158	20,756
Long-term borrowings	5,391	3,689	3,382	8,312	18,910
Other financial liabilities	913	1,351	1,847	1,846	1,846
Total shareholders' equity	**31,267**	**31,125**	**33,106**	**35,595**	**38,153**
Capital stock	23,419	23,419	23,419	23,419	23,419
Capital surplus	0	0	0	0	0
Other capital	5,119	5,218	6,985	9,096	11,219
Retained earnings	4,302	3,010	3,308	5,418	7,541
Non-controlling interest equity	2,729	2,488	2,702	3,080	3,515
*Total debt	12,410	8,458	9,017	12,115	22,967
*Net debt (cash)	4,551	(297)	(884)	8,152	18,124

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**29,732**	**24,561**	**28,235**	**33,995**	**38,230**
Growth (%)	*-15.9*	*-17.4*	*15.0*	*20.4*	*12.5*
COGS	(25,152)	(22,021)	(24,468)	(29,589)	(33,432)
Gross profit	**4,580**	**2,540**	**3,767**	**4,406**	**4,798**
GPM (%)	*15.4*	*10.3*	*13.3*	*13.0*	*12.6*
SG&A	(1,209)	(140)	(1,124)	(1,025)	(1,150)
Operating profit	**3,371**	**2,400**	**2,643**	**3,381**	**3,648**
Growth (%)	*(8.4)*	*(13.9)*	*1.8*	*13.1*	*(0.7)*
OPM (%)	*11.3*	*9.8*	*9.4*	*9.9*	*9.5*
Non-operating profit	(539)	(83)	(140)	(623)	(874)
Financial income	440	690	435	204	288
Financial expense	(999)	(653)	(636)	(797)	(1,177)
In which: interest expenses	(809)	(510)	(437)	(752)	(1,151)
Net other non-operating profit	20	(120)	61	(30)	15
Pre-tax profit	**2,875**	**2,339**	**2,564**	**2,771**	**2,842**
Income tax	(212)	(287)	(241)	(249)	(284)
Net profit	**2,663**	**2,052**	**2,323**	**2,522**	**2,558**
Growth (%)	*(6.7)*	*(22.9)*	*13.2*	*8.6*	*1.4*
NPM (%)	*9.0*	*8.4*	*8.2*	*7.4*	*6.7*
Controlling interest	2,365	1,799	1,894	2,144	2,123
Non-controlling interest	298	253	429	378	435
EBIT	**3,684**	**2,849**	**3,001**	**3,523**	**3,993**
Growth (%)	*(14.7)*	*(22.7)*	*5.3*	*17.4*	*13.3*
EBIT Margin (%)	*12.4*	*11.6*	*10.6*	*10.4*	*10.4*
EBITDA	**6,481**	**5,633**	**5,802**	**6,408**	**7,401**
Growth (%)	*(12.3)*	*(13.1)*	*3.0*	*10.4*	*15.5*
EBITDA margin (%)	*21.8*	*22.9*	*20.5*	*18.8*	*19.4*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**7,908**	**5,147**	**3,178**	**6,617**	**5,192**
Net profit	2,663	2,052	2,323	2,522	2,558
D&A expense	2,797	2,784	2,801	2,885	3,408
(Gain) from investing activities	(441)	(619)	(397)	(222)	(307)
Change in working capital	3,009	2,155	(4,968)	1,432	(467)
Others	(120)	(1,225)	3,419	-	-
Cash flow from investments	**149**	**563**	**(3,367)**	**(14,709)**	**(15,249)**
Change in fixed assets	204	247	199	(981)	(18,476)
Change in investment assets	(128)	67	(1,096)	944	(85)
Others	73	249	(2,470)	(14,672)	3,312
Cash flow from financing	**(6,072)**	**(4,555)**	**241**	**3,098**	**10,852**
Change in equity	125	-	-	-	-
Net borrowing	(5,172)	(3,845)	440	3,098	10,852
Dividends	(1,025)	(710)	(199)	-	-
Change in total cash	**1,985**	**1,155**	**52**	**(4,994)**	**795**
Beginning cash	5,083	7,070	8,224	8,277	3,283
Change in FX rates	-	-	-	-	-
Ending cash	7,070	8,224	8,277	3,283	4,078

Source: Company data, Shinhan Securities Vietnam

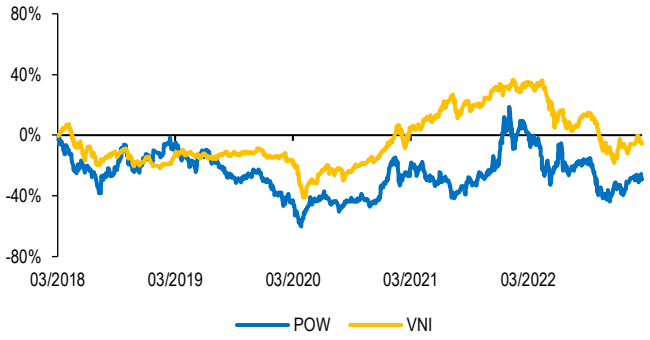
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	999	757	809	915	907
BPS (VND)	12,186	12,228	12,983	13,884	14,791
PER (x)	11.7	14.8	14.8	13.1	13.2
PBR (x)	1.7	1.8	0.9	0.9	0.8
EV/EBITDA (x)	5.2	6.0	9.8	10.3	11.9
Dividend payout ratio (%)	20.0	39.0	0.0	0.0	0.0
Dividend yield (%)	3.5	4.0	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	21.8	22.9	20.5	18.8	19.4
OPM (%)	11.3	9.8	9.4	9.9	9.5
NPM (%)	9.0	8.4	8.2	7.4	6.7
ROA (%)	4.9	3.9	4.1	4.1	3.4
ROE (%)	8.5	6.6	7.02	7.1	6.7
Stability					
Debt to equity ratio (%)	39.7	27.2	27.2	34.0	60.2
Net debt ratio (%)	70.2	(5.3)	(15.2)	127.2	244.9
Cash ratio (%)	47.7	52.1	54.1	26.4	31.2
Interest coverage ratio (x)	4.6	5.6	6.9	4.7	3.5
Activity (%)					
Working capital turnover (times)	6.7	4.1	3.9	5.2	6.2
Inventory turnover (days)	15.9	12.4	12.5	13.3	14.3
Receivable turnover (days)	3.7	3.8	3.1	3.3	4.2

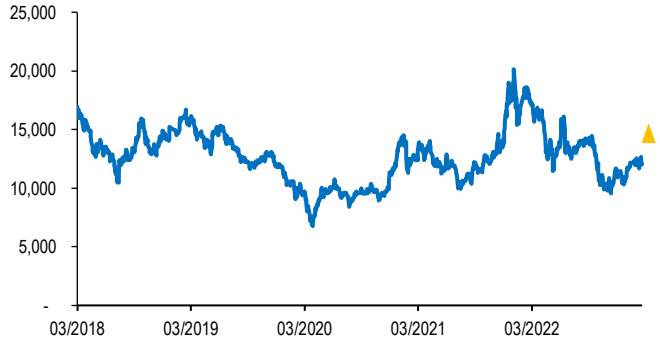
Source: Company data, Shinhan Securities Vietnam

PetroVietnam Power Corporation (POW VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%) TB	Max/Min
01/12/2022 (Initiation)	BUY	14,500	10.2	-26.5/55.0
27/02/2023 (Updated report)	HOLD	13,100	7.9	-27.8/32.5

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 ◆ **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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