April 24th, 2022

Shinhan Securities



PetroVietnam Power Nhon Trach 2 JSC

[Vietnam / Utilities]

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

HOLD

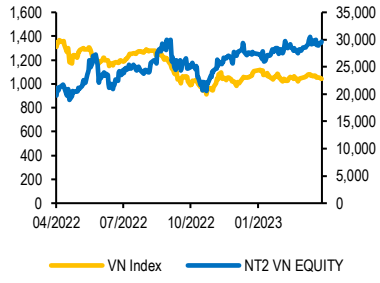
Update Report

Target price (12 months)	**VND 30,300**
Current price (21/04/22)	VND 29,600
Upside/downside (%)	2%

VNINDEX	1,043
P/E market (23F,x)	10.1
Market Cap (bn VND)	8,521
Outstanding shares (mn)	288
Free-Floating (mn)	93
52-Wk High/Low (VND)	32,600/20,000
90-day avg. trading volume (mn)	0.60
90-day avg. turnover (bn VND)	18
Foreign ownership (%)	16.04

Major shareholders (%)	POW	59.37
	Others	40.63

Performance	3M	6M	12M
Absolute (%)	4.0	14.7	31.6
Relative to VN-Index (%)	9.9	9.0	55.9



Source: Bloomberg

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Conservative plan in 2023

Update recommendation HOLD, target price VND 30,300

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 30,300. 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.

Update AGM

In 2022, NT2 recorded revenue of VND 8,788 billion (+73% YoY) and VND 883 billion (+67% YoY) in net profit. In 2023, NT2 targets revenue at 8,299 billion (-6% YoY), and a net profit at 473 billion (-46% YoY). The BoD said that the economic situation has not yet fully recovered due to political and global economic uncertainties that may reduce power demand, increase input material prices, and compete with other power sources as well as a overhaul of the power plant in 2023, are reasons for the company to plan cautiously.

Overhaul: The overhaul of a power plant is scheduled to take place in 44 days during September - October (the low season of NT2). Total cost is estimated at VND 407 billion and will be depreciated over 3 years.

Depreciation: NT2 said that the company's machinery and equipment are depreciated on a straight-line basis, spanning 14 years from 2011 and ending in 2025. When the depreciation is over, NT2's costs are expected to decrease, helping profit margins profits broaden.

Raw materials: NT2 signed a 25-year contract with PV Gas with an annual natural gas quota of 784 million m3. However, due to the ceding priority of mobilization to renewable power sources (especially solar power from 9 AM to 15 PM), the gas source of NT2 has a moment of sudden pressure drop in the pipeline.

Dividend: The cash dividend in 2022 is at 25%, of which 10% has been advanced, and the rest will be paid between July and October 2023, the dividend rate of 2023 is planned by NT2 at 15%. Besides, NT2 said that the exchange rate difference recorded in 2023 is expected to reach VND 155 billion.

Solar power plan: NT2 said that it has stopped its research and development projects for solar power because the construction process of NT3&4 is caused by dust. However, management also said that NT2 can invest in suitable solar power projects in the future when the company has a strong cash flow.

We assess that NT2's plan in 2023 is relatively conservative, we forecast NT2's revenue to reach 8,454 billion (-4% YoY) and the net profit at VND 815 billion (-8% YoY)with total power output at 4,144 million kWh (+3% YoY) when La Nina phenomenon is expected to end this year.

Risks: (1) Input material ; (2) La Nina phenomenon existed longer than expected; (3) Lack of raw material supply; (4) Competition among other power sources; (5) The growth of power demand is lower than expected.

Year to Dec.	**2020**	**2021**	**2022**	**2023F**	**2024F**
Revenue (bn VND)	**6,082**	**6,150**	**8,788**	**8,454**	**9,196**
OP (bn VND)	667	559	957	867	915
NP (bn VND)	**625**	**534**	**883**	**815**	**860**
EPS (VND)	2,095	1,778	2,992	2,831	2,987
BPS (VND)	14,928	14,707	14,630	15,950	15,669
OPM	11%	9%	11%	10%	10%
NPM	10%	9%	10%	10%	9%
ROE	**15%**	**13%**	**19%**	**18%**	**19%**
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 30,300 equivalent to a return of 2%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**13.0**
Risk-free rate (%)	3.5
Equity risk premium (%)	11.1
Beta	0.9
Debt cost (%)	5
The cost of equity(%)	13.5
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	815	860	726	1,070	1,069
Plus: After-tax interest expense	14	14	14	14	14
Plus: Depreciation & Amortization	717	746	621	212	233
Minus: Change in working capital	-218	-68	-2	-3	-3
Minus: CapEx	557	175	49	45	50
Free Cash Flow (FCF)	1,207	1,513	1,314	1,254	1,269
Discount rate	0.88	0.77	0.68	0.60	0.53
PV of FCF	1,062	1,165	894	752	673
Growth rate	0%				
Present value of long-term value	4,884				
Enterprise value	9,430				
Debt	631				
Minority interest	0				
Cash & cash equivalents	384				
Number of shares outstanding (billion)	0.29				
Target price (VND)	**31,896**				

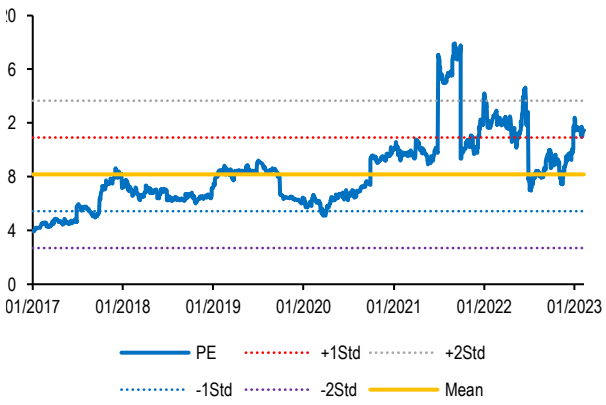
Source: Company data, Shinhan Securities Vietnam

Compare companies in the industry

Tickers	PE	Market cap (million USD)	Grwoth EPS (%)	ROA (%)	ROE (%)
NT2 VN EQUITY	9.8	360.8	68.3	12.6	19.5
POW VN EQUITY	14.9	1,310.50	15.1	3.8	7
PGV VM EQUITY	8.4	903.6	-19.6	3.8	14.7
QTP VN Equity	8.8	287.2	32.2	9	12.4
HND VN Equity	13	302.1	20.1	6.5	8.7
SPCG TB Equity	6.1	411.4	-7.2	9.7	13.2
SSP TB Equity	9.3	346.9	23.7	5.7	19.1
Mean (Exclude NT2)	10.1				
EPS forward	2,831				
Target price	**28,593**				

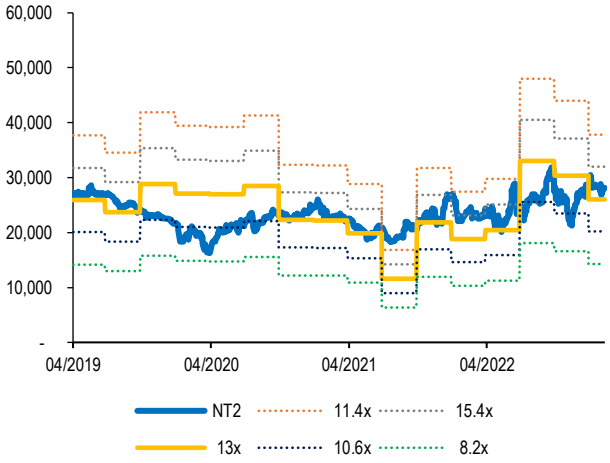
Source: Company data, Shinhan Securities Vietnam

PER of NT2



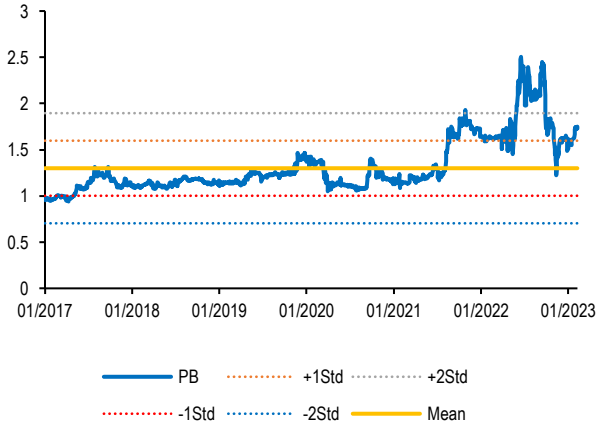
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of NT2



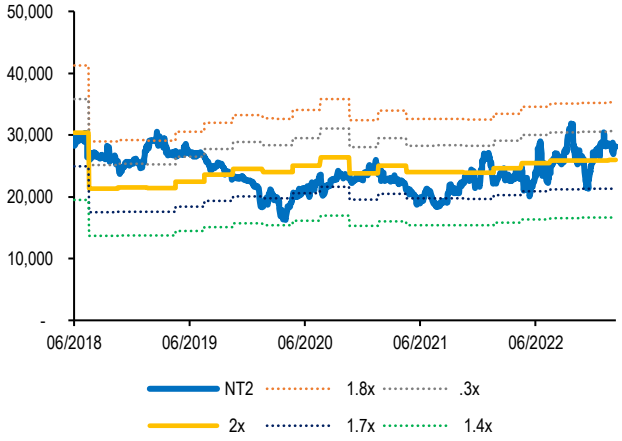
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of NT2



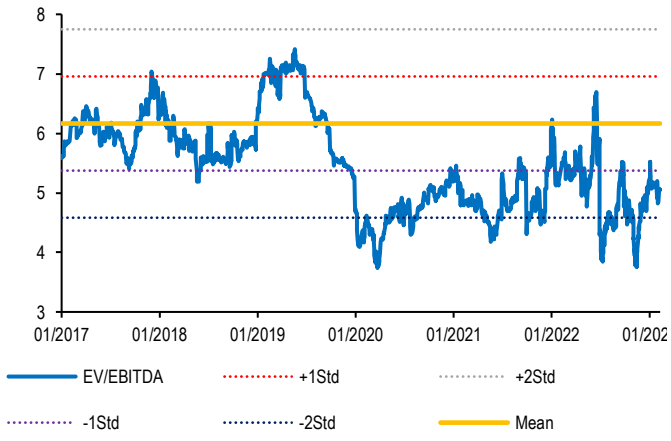
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of NT2



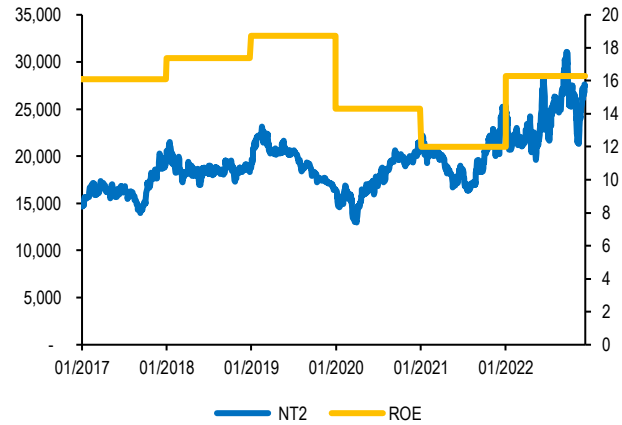
Source: Bloomberg, Company data, Shinhan Securities Vietnam

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

Company background

History of development

Nhon Trach 2 Petroleum Power JSC (HoSE: NT2) was established in 2007. Curently, the company owns the Nhon Trach 2 gas-fired thermal plant with a capacity of 750 MW. This power plant was started in 2009 and completed in 2011. Over 10 years, NT2 has shown stable performance, providing an average of 4.5 billion kWh/year directly to the national grid. In 2015, NT2 was officially listed on the Ho Chi Minh Stock Exchange. The largest shareholder of NT2 is PetroVietnam Power Corporation (HoSE: POW) with 59.37% ownership.

Location of Nhon Trach 2 gas-fired thermal power plant

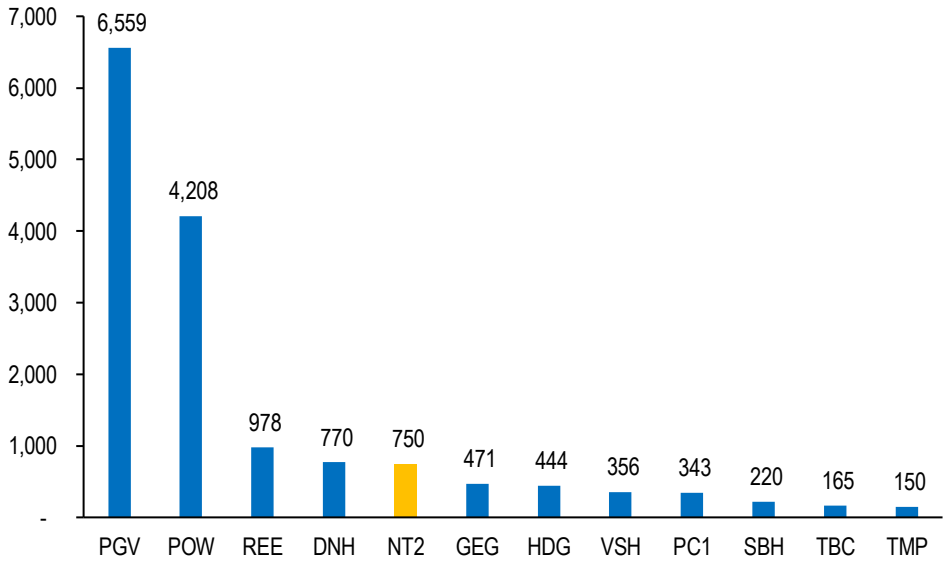


The power plant is located in Ong Keo Industrial Park, Dong Nai province in the economic triangle area of Ho Chi Minh City - Dong Nai - Ba Ria - Vung Tau. This is a primelocation because Nhon Trach is located right next to Ho Chi Minh City (about 20km) and is much closer than other power plants like Vinh Tan or Duyen Hai.

In addition, Nhon Trach is also close to the Nam Con Son gas field, helping the plant to optimize the use of raw materials. In 2020, Nhon Trach 2 signed a contract with GAS to use more gas from Sao Vang - Dai Nguyet field to help stabilize the gas flow.

Source: POW, Shinhan Securities Vietnam

The total installed capacity of some listed companies (MW)



Source: Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**6,382**	**6,624**	**7,445**	**7,247**	**7,350**
Current assets	1,886	2,581	4,557	4,541	5,215
Cash & equivalents	62	1	384	270	709
Short-term financial asset	0	0	949	1,268	1,379
Accounts receivable	1,509	2,269	2,917	2,749	2,851
Inventories	315	311	307	254	276
Non-current assets	4,496	4,043	2,888	2,706	2,135
Net fixed assets	4,162	3,475	2,787	2,627	2,056
Investment assets	0	0	0	0	0
Other long-term assets	311	546	79	79	79
Total liabilities	**2,084**	**2,390**	**2,831**	**2,714**	**2,821**
Current liabilities	2,083	2,390	2,831	2,714	2,821
Accounts payable	1,297	2,171	2,191	2,199	2,391
Short-term borrowings	775	210	631	515	430
Others	11	9	9	0	0
Non-current liabilities	1	0	0	0	0
Long-term borrowings	0	0	0	0	0
Other financial liabilities	1	0	0	0	0
Total shareholders' equity	**4,298**	**4,234**	**4,614**	**4,533**	**4,529**
Capital stock	2,879	2,879	2,879	2,879	2,879
Capital surplus	0	0	0	0	0
Other capital	137	159	181	160	160
Retained earnings	1,282	1,196	1,554	1,494	1,490
Non-controlling interest equity	0	0	0	0	0
*Total debt	775	210	631	515	430
*Net debt (cash)	713	209	(702)	(1,023)	(1,658)

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**6,082**	**6,150**	**8,788**	**8,454**	**9,196**
Growth (%)	*-20.5*	*1.1*	*42.9*	*-3.8*	*8.8*
COGS	(5,187)	(5,474)	(7,706)	(7,506)	(8,196)
Gross profit	**895**	**676**	**1,082**	**948**	**1,000**
GPM (%)	*14.7*	*11.0*	*12.3*	*11.2*	*10.9*
SG&A	(85)	(83)	(131)	(126)	(137)
Operating profit	**810**	**593**	**951**	**822**	**863**
Growth (%)	*(13.0)*	*(16.2)*	*71.2*	*(9.4)*	*5.5*
OPM (%)	*13.3*	*9.6*	*10.8*	*9.7*	*9.4*
Non-operating profit	(146)	(27)	(8)	45	52
Financial income	18	18	24	63	70
Financial expense	(160)	(52)	(18)	(18)	(18)
In which: interest expenses	(38)	(20)	(15)	(15)	(15)
Net other non-operating profit	(4)	7	(14)	0	0
Pre-tax profit	**664**	**566**	**943**	**867**	**915**
Income tax	(38)	(32)	(60)	(52)	(55)
Net profit	**625**	**534**	**883**	**815**	**860**
Growth (%)	*(17.1)*	*(14.6)*	*65.4*	*(7.7)*	*5.5*
NPM (%)	*10.3*	*8.7*	*10.0*	*9.6*	*9.4*
Controlling interest	625	534	883	815	860
Non-controlling interest	0	0	0	0	0
EBIT	**701**	**586**	**958**	**882**	**930**
Growth (%)	*(20.8)*	*(16.4)*	*63.5*	*(7.9)*	*5.4*
EBIT Margin (%)	*11.5*	*9.5*	*10.9*	*10.4*	*10.1*
EBITDA	**1,392**	**1,276**	**1,646**	**1,599**	**1,676**
Growth (%)	*(11.5)*	*(8.3)*	*29.0*	*(2.9)*	*4.8*
EBITDA margin (%)	*22.9*	*20.7*	*18.7*	*18.9*	*18.2*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**1,222**	**1,074**	**1,383**	**1,690**	**1,604**
Net profit	625	534	883	815	860
D&A expense	691	690	688	717	746
(Gain) from investing activities	(17)	(11)	(21)	(60)	(70)
Change in working capital	(303)	354	(1,092)	218	68
Others	226	(493)	925	-	-
Cash flow from investments	**218**	**9**	**(946)**	**(813)**	**(216)**
Change in fixed assets	(1)	(2)	(1)	(494)	(105)
Change in investment assets	200	-	-	(319)	(111)
Others	19	11	(945)	-	-
Cash flow from financing	**(1,830)**	**(1,143)**	**(54)**	**(991)**	**(949)**
Change in equity	-	-	-	-	-
Net borrowing	(1,376)	(523)	471	(116)	(85)
Dividends	(454)	(620)	(525)	(875)	(864)
Change in total cash	**(390)**	**(60)**	**383**	**(114)**	**439**
Beginning cash	451	62	1	384	270
Change in FX rates	-	-	-	-	-
Ending cash	62	1	384	270	709

Source: Company data, Shinhan Securities Vietnam

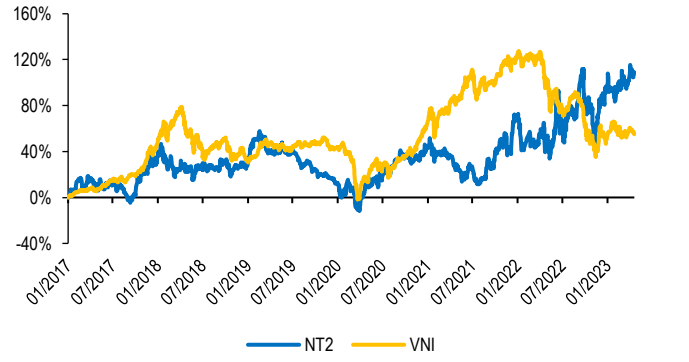
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	2,095	1,778	2,992	2,831	2,987
BPS (VND)	14,929	14,706	16,026	15,745	15,731
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
Dividend payout ratio (%)	71.6	56.2	81.5	88.3	88.3
Dividend yield (%)	12.3	8.4	5.6	8.5	8.5
Profitability					
EBITDA margin (%)	22.9	20.7	18.7	18.9	18.2
OPM (%)	13.3	9.6	10.8	9.7	9.4
NPM (%)	10.3	8.7	10.0	9.6	9.4
ROA (%)	9.8	8.1	11.9	11.2	11.7
ROE (%)	14.5	12.6	19.1	18.0	19.0
Stability					
Debt to equity ratio (%)	18.0	5.0	13.7	11.4	9.5
Net debt ratio (%)	51.2	16.4	(42.6)	(64.0)	(98.9)
Cash ratio (%)	3.0	0.0	47.1	56.7	74.0
Interest coverage ratio (x)	18.4	29.3	63.9	58.8	62.0
Activity (%)					
Working capital turnover (times)	20.5	8.6	9.7	11.0	11.6
Inventory turnover (days)	16.8	17.5	24.9	26.8	30.9
Receivable turnover (days)	4.1	3.3	3.4	3.0	3.3

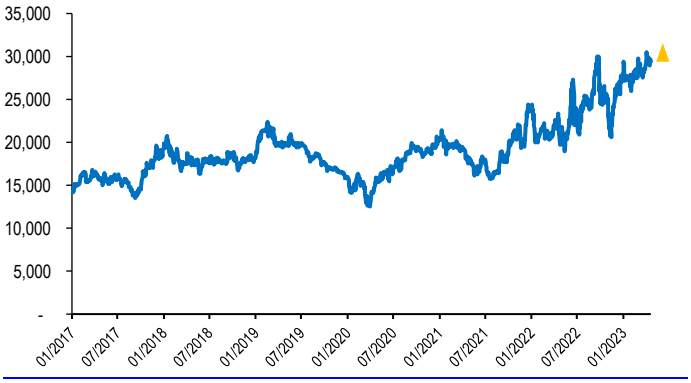
Source: Company data, Shinhan Securities Vietnam

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
24/04/2023 (Updated report)	HOLD	30,300	15.7	-0.8/37.4

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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