

HOLD (maintain)

Report date	Feb 6, 2020
Current price	VND 20,100
Target price	VND 22,300
Upside	11%
Bloomberg	NT2 VN
Market cap	VND 5,642bn
	USD 242mn
52 weeks movement	VND 18,300 -
	VND 29,000
Average daily value	VND 6.6bn
	USD 0.3mn
FOL	49%
Current FO	18.57%

PetroVietnam Power Nhon Trach 2 JSC (HSX: NT2)

Lower earnings prospect offset by high dividend yield

Our takeaway

- We lower our target price by 16% to VND 22,300 (11% upside) due to changing our valuation method. We use DDM method only to value NT2 stock instead of a combination of DDM and P/E methods in the previous report.
- We also decrease our net profit in the period of FY22 FY25 by 24% on average.
- However, we maintain HOLD recommendation for NT2. We believe NT2 is ideal for riskaverse investors given its low downside risk and expected annual dividend yield of 10% on average.

What's new

A change in our valuation method. The sole selling point of NT2 is its ability to maintain high dividend yield of 10% annually in the poor profit outlook. Thus, we adjust our method to reflect the value of the share simply by the expected dividend streams.

Retaining 10% dividend yield each year. Our forecasts nearly reflect all negative factors, which affects the company's earnings including renegotiating PPA and the decline of gas input volume. Starting from FY21, the gas supply will be more stable thanks to the new contribution of the Sao Vang Dai Nguyet gas field. Besides that, we assume the parent company - PetroVietnam Power Corporation will maintain payout ratio of NT2 of about 95% on average to fund a part of the Nhon Trach 3&4 projects.

We decrease our net profit in the period of FY20 – FY21 by 2% on average and FY22 – FY25 by 24% on average. FC is expected to decrease by VND 50/kWh in total, particularly VND 20/kWh in FY20 and VND 30/kWh in FY22, after renegotiating PPA with EVN (Vietnam Electricity Group). Thus, we reduce our forecasted gross profit per kWh sold under PPA by 11% in the period of FY20 – FY21 and 27% in the period of FY22 – FY25.

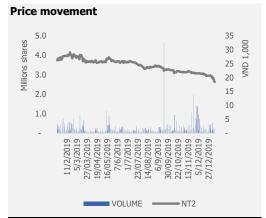
FY20 net profit is forecasted to decrease by 11% yoy to VND 676bn, rebound to VND 749bn (+11% yoy) in FY21. In FY20, our forecasts do not take into account a reversal from Science and Technology Development Fund (VND 37bn in FY19). We forecast 8% yoy lower gross profit based on a 4% yoy decrease in electricity output and a 4% yoy reduction in gross profit per kWh. We expect FY21 net earnings will be VND 749bn (+11% yoy) given a 3% yoy increase in selling volume thanks to low base from FY20 maintenance and a 59% yoy fall in interest expenses and guarantee fees.

Valuation

We lower target price by 16% to VND 22,300 (11% upside) from VND 26,700. NT2 is currently trading at FY20F of 9x and FY21F P/E of 8x, 18% lower than its peers. Risk from our target price comes from lower or higher official FC. If FC increases by VND 10/kWh, annual net profit will grow by 6% compared to our base case.

Unit: VND billion	FY19	FY20F	FY21F	FY22F
Revenue	7,654	7,115	7,028	7,101
EBIT	888	763	810	707
Net profit	759	676	749	661
Net profit (basic)	715	679	748	660
EPS (VND)	2,618	2,276	2,524	2,226
EPS growth rate (%)	0%	-13%	11%	-12%
P/E (x)	8	9	8	9
EV/EBITDA (x)	5	6	5	5
DPS (VND)	2,500	2,100	2,400	2,100
Dividend yield (%)	13%	10%	12%	11%
P/B (x)	1.4	1.4	1.4	1.3
ROE (%)	19%	16%	18%	16%
Net debt/equity (%)	72%	60%	41%	24%

Source: MBS Research



	Stock performance	1M	3M	12M			
	NT2 (%)	-5%	-10%	-29%			
	VNIndex (%)	-1%	-4%	+5%			
	Source: Bloomberg						
	Major Shareholder						
	POW			59.4%			
	Technology Development Co		8.3%				
Samarang UCITS				5.0%			



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FY19 unaudited results are in line with our forecast

The company reported revenue and net profit of VND 7,654bn (equivalent to that of FY18) and net profit of VND 759bn (-3% yoy), which are equivalent to 101% and 97% of our revenue and net earnings forecast respectively and 102% of the company's FY19 revenue and net profit targets. Lower interest expenses of VND 88bn (-16% yoy) and lower general and administrative expenses of VND 87bn (-14% yoy) offsetted a 4% yoy fall in gross profit. Despite a 4% yoy growth in selling volume, the reduction of PPA proportion (Qc) over total output to 77% in FY19 from 85% in FY18 led to a 7% drop in gross profit per kWh and an 4% decrease in total gross profit.

FY20 net profit is forecasted to decrease by 11% yoy to VND 676bn

This is due to the effect of one-off profit in FY19 and an 8% decrease in gross profit. In FY20, our forecasts do not take into account a reversal from Science and Technology Development Fund (VND 37bn in FY19). We forecast 4% yoy lower electricity output based on (i) a medium inspection in 15 days and (ii) decreased gas source from Block 06.1 and 11.2, the Nam Con Son basin (accounting for about 46% of total company's gas input). We expect gas volume supplied for Southeast Vietnam in FY20 will reduce by 4% yoy after GAS fulfilling its obligations under BOT contracts.

FY20 gross profit per kWh is expected to decrease by 4% yoy to VND 190/kWh from VND 198/kWh. We forecast lower gross profit per kWh sold under PPA (Power Purchase Agreement) due to a VND 20/kWh drop in FC (fixed price) and higher fixed costs per unit. However, Qc proportion is anticipated to increase to 86% in FY20, according to Decision No. 122/QĐ-ĐTĐL, could lend a helping hand to lessen the negative effect of these factors.



Financials and Valuation Summary

Income statement (VND bn)	FY19	FY20F	FY21F	FY22F	Key ratios	FY19	FY20F	FY21F	FY22F
Net revenue	7,654	7,115	7,028	7,101	Valuation				
Cost of goods sold	6,679	6,218	6,122	6,326	EPS (VND)	2,618	2,276	2,524	2,226
Gross profit	975	897	906	775	BVPS (VND)	14,350	14,552	14,652	14,752
Financial income	48	39	39	39	P/E	8	9	8	9
Financial expenses	165	134	61	18	P/B	1.4	1.4	1.4	1.3
Profit of associates	0	0	0	0	Profitability				
Selling expenses	0	0	0	0	Gross profit margin	13%	13%	13%	11%
G&A expenses	87	91	96	101	EBITDA margin	21%	20%	21%	20%
Operating profit	770	710	788	695	Net profit margin	10%	9%	11%	9%
Other profit	30	1	1	1	ROE	19%	16%	18%	16%
EBT	800	711	789	696	ROA	9.2%	9.5%	11.7%	10.7%
EAT	759	676	749	661	Growth				
Net profit	759	676	749	661	Revenue growth	0%	-7%	-1%	1%
Minority interests	0	0	0	0	EBT growth	-3%	-11%	11%	-12%
					Net profit growth	-3%	-11%	11%	-12%
Balance sheet (VND bn)	FY19	FY20F	FY21F	FY22F	EPS	0%	-13%	11%	-12%
Current assets	2,420	2,380	2,576	3,327	Total assets	-15%	-11%	-8%	1%
I. Cash & cash equivalents	451	11	219	918	Equity	12%	1%	1%	1%
II. Short-term investments	200	200	200	200	Liquidity				
III. Current accounts receivable	1,463	1,824	1,802	1,821	Current ratio	0.82	0.95	1.33	1.71
IV. Inventories	302	270	266	275	Quick ratio	0.72	0.84	1.19	1.57
V. Other current assets	4	74	89	113	Liabilities/Total assets	45%	37%	31%	31%
Non-current assets	5,144	4,315	3,579	2,870	Liabilities/Equity	0.83	0.60	0.46	0.46
I. Long-term receivables	0	0	0	0	Interest coverage ratio	9.70	14.66	38.41	62.22
II. Fixed assets	4,876	4,198	3,521	2,843	Operating efficiency				
1. Tangible fixed assets	4,853	4,177	3,502	2,826	Receivables turnover	3.8	3.9	3.9	3.9
2. Intangible fixed assets	23	21	19	17	Days sales outstanding	95	94	94	94
III. Investment properties	0	0	0	0	Inventory turnover	24	23	23	23
IV. Long-term assets in progress	1	1	1	1	Days sales of Inventory	15	16	16	16
V. Long-term investments	0	0	0	0	Payables turnover	3.5	3.6	3.7	3.8
VI. Other long-term assets	266	116	58	27	Days payables outstanding	103	101	99	96
Total assets	7,564	6,694	6,155	6,197					
Liabilities	3,432	2,505	1,937	1,950	Cashflow Statement (VND bn)				
I. Current liabilities	2,939	2,504	1,936	1,949	CFO	1,917	1,209	1,386	1,293
1. Short-term payables	1,589	1,727	1,655	1,665	CFI	(187)	15	15	15
2. Short-term loans	1,350	777	281	284	CFF	(1,344)	(1,663)	(1,193)	(609)
II. Non-current liabilities	493	1	1	1	Net cash flows during the period	386	(439)	207	699
1. Long-term payables	1	1	1	1					
2. Long-term loans	492	0	0	0					
Equity	4,132	4,190	4,218	4,247					
1. Charter capital	2,879	2,879	2,879	2,879					
2. Surplus	-1	0	0	0					
3. Retained earnings	1,254	1,311	1,339	1,368					
4. Foreign exchange differences	0	0	0	0					
5. Minorities interests	0	0	0	0					
Total liabilities & equity	7 564	6 604	6 155	6 107					

Source: MBS Research

7,564

6,694

6,155

6,197

Total liabilities & equity

EQUITY RESEARCH



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STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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