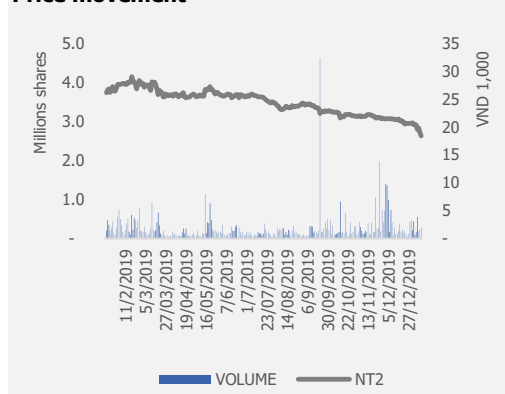


**HOLD** (maintain)

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 risk-averse investors given its low downside risk and expected annual dividend yield of 10% on average.

**Price movement**

Stock performance	1M	3M	12M
NT2 (%)	-5%	-10%	-29%
VNIndex (%)	-1%	-4%	+5%

Source: Bloomberg

**Major Shareholder**

POW	59.4%
Technology Development Co., Ltd	8.3%
Samarang UCITS	5.0%

**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.

**Nguyen Hoang Bich Ngoc**

(+84) 77 470 1272

ngoc.nguyenhoangbich@mbs.com.vn

Unit: VND billion	FY19	FY20F	FY21F	FY22F
<b>Revenue</b>	<b>7,654</b>	<b>7,115</b>	<b>7,028</b>	<b>7,101</b>
EBIT	888	763	810	707
<b>Net profit</b>	<b>759</b>	<b>676</b>	<b>749</b>	<b>661</b>
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)	<b>8</b>	<b>9</b>	<b>8</b>	<b>9</b>
EV/EBITDA (x)	<b>5</b>	<b>6</b>	<b>5</b>	<b>5</b>
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
<b>ROE (%)</b>	<b>19%</b>	<b>16%</b>	<b>18%</b>	<b>16%</b>
Net debt/equity (%)	72%	60%	41%	24%

Source: MBS Research

**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.



**CONTACT: Equity Research****MBS Equity Research**

**Nguyễn Thị Huyền Dương** – ([Duong.NguyenThiHuyen@mbs.com.vn](mailto:Duong.NguyenThiHuyen@mbs.com.vn) – Tel: 0982268088) – Southern Area Team Leader

**Industrial, Energy****Chu Thế Huynh**

([Huynh.ChuThe@mbs.com.vn](mailto:Huynh.ChuThe@mbs.com.vn) – Tel: 0919336595)

**Construction Materials****Nguyễn Bảo Trung**

([Trung.NguyenBao@mbs.com.vn](mailto:Trung.NguyenBao@mbs.com.vn) – Tel: 0988739505)

**Aviation****Nguyễn Nam Khoa**

([Khoa.NguyenNam@mbs.com.vn](mailto:Khoa.NguyenNam@mbs.com.vn) – Tel: 0912323051)

**Logistics****Lê Khánh Tùng**

([Tung.LeKhanh@mbs.com.vn](mailto:Tung.LeKhanh@mbs.com.vn) – Tel: 0335699989)

**Consumer Goods, Retail****Phạm Việt Duy**

([Duy.PhamViet@mbs.com.vn](mailto:Duy.PhamViet@mbs.com.vn) – Tel: 0986696617)

**Oil, Gas & Power****Nguyễn Hoàng Bích Ngọc**

([Ngoc.NguyenHoangBich@mbs.com.vn](mailto:Ngoc.NguyenHoangBich@mbs.com.vn) – Tel: 0774701272)

**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%

**MB SECURITIES (MBS)**

Established since May 2000, MBS was one of the first 5 securities firms operating in Vietnam. After years of continuous development, MBS has become one of the leading securities company in Vietnam, providing a full range of services including: brokerage, research and investment advisory, investment banking and capital markets underwriting. MBS's network of branches and transaction offices has been expanded and operated effectively in many major cities such as Hanoi, Ho Chi Minh City, Hai Phong and other strategic areas. MBS's clients include individual investors and institutions, financial institutions and enterprises, As a member of the MB Group, including MB Land, AMC, MB Capital, VIET R.E.M Joint Stock Company, and MB Finance. MBS is able to leverage substantial human, financial and technological resources to provide its clients with tailored products and services that few securities firms in Vietnam can match.

**MBS is proud to be recognized as:**

- A leading brokerage firm – ranked No.1 in terms of brokerage market share since 2009.
- A renowned research firm with a team of experienced analysts that provides market-leading research products and commentaries on equity markets and the economy.
- A trusted provider of investment banking services for corporate clients.

**MBS HEAD OFFICE**

MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi  
 Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600  
 Website: [www.mbs.com.vn](http://www.mbs.com.vn)

**DISCLAIMER:** Copyrights. MBS 2014, ALL RIGHTS RESERVED. Authors have based this document on information from sources they believe to be reliable but which they have not independently verified. The views expressed in this report are those of the authors and not necessarily related, by any sense, to those of MBS. Neither any information nor comments were written for advertising purposes or recommendation to buy / sell any securities. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying recording, or otherwise, without the prior written permission of MBS.