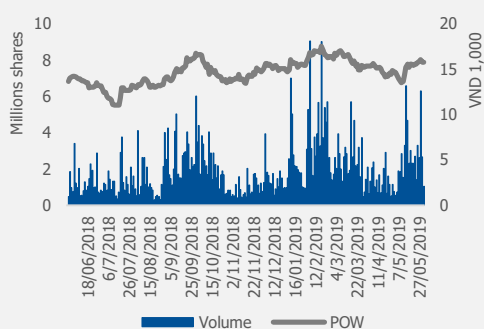


HOLD (maintain)**PetroVietnam Power Corporation (HSX: POW)**

Report date	June 04, 2019
Current price	VND 15,200
Target price	VND 15,900
Upside	5%
Bloomberg	POW VN
Market cap	VND 36,884bn
	USD 1,573mn
52 weeks movement	VND 11,000 –
	VND 17,500
Average daily value	VND 30bn
	USD 1.3mn
FOL	49%
Current FO	14.79%

New pricing mechanism to decrease net profit in FY20**Our takeaway**

- We expect FY19 net profit of VND 2,670bn (+39% yoy and 32% higher than planned). Over the next 9M of 2019, we anticipate a 44% yoy increase in net profit of VND 1,791bn.
- From 2020 onwards, we assume Petroliaam Nasional Berhad (PETRONAS) will supply 40% gas input volume of the Ca Mau 1&2 thermal power plants with much higher price than that of current gas source. At the same time, it is likely that Ca Mau 1&2 will participate in the Competitive Generation Market (CGM), which causes a decrease in average selling price. Assuming Qc/Qm ratio of 80%/20% (i.e., electricity volume sold under Power Purchase Agreement (PPA) versus CGM), we estimate that annual gross profit of Ca Mau 1&2 could contract by VND 520bn.

Price movement**What's new**

FY19 net profit forecast of VND 2,670bn (+39% yoy and 32% higher than planned). Over the next 9M of 2019, we anticipate a 44% yoy increase in net profit of VND 1,791bn based on (i) 5% increase in selling volume, (ii) full depreciation of Ca Mau 1&2 and (iii) decreasing interest expenses.

New pricing mechanism for Ca Mau 1&2 could cause pain in net profit in FY20.

From 2020 onwards, we assume Petronas will supply 40% gas input volume of Ca Mau 1&2. According to POW, new gas source has pricing mechanism of 90%-of-MFO, much higher than 46%-of-MFO of current gas source from PM3 basin. At the same time, it is likely that Ca Mau 1&2 will join the CGM. Assuming Qc/Qm ratio of 80%/20%, we estimate that annual gross profit of Ca Mau 1&2 could contract by VND 520bn. However, we expect that full depreciation of the Nhon Trach 1 thermal power plant (NT1) from 2H20 and lower interest expenses could mitigate the negative impact of the decline in profit of Ca Mau 1&2. Hence, we forecast FY20 net profit of VND 2,548bn (-5% yoy).

Risk of selling prices (Pc) decrease after (i) renegotiating PPA with EVN (Vietnam Electricity Group) at the Nhon Trach 2 gas-fired thermal power plant and the Dakdrinh hydropower plant and (ii) re-signing PPA at NT1 as the first PPA expired in 2019. If Pc decreases by 10% at these plants, net profit will reduce by 6%.

Valuation

We adjust our 12-month target price downward by 2% from VND 16,200 to VND 15,900 (5% upside), based on adverse effects of new pricing mechanism for Ca Mau 1&2 and full depreciation of NT1. The stock is currently trading at FY19F P/E of 14x.

Stock performance	1M	3M	12M
POW (%)	+7%	-6%	+15%
VNIndex (%)	-1%	-1%	+2%

Source: Bloomberg

Major Shareholder

PVN	79.9%
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Unit: VND billion	FY18	FY19F	FY20F	FY21F
Revenue	32,662	34,128	35,496	37,491
EBIT	3,799	4,297	3,981	4,349
Net profit	1,921	2,670	2,548	3,083
Net profit (basic)	1,981	2,668	2,596	3,100
EPS (VND)	814 (*)	1,104	1,053	1,275
EPS growth rate (%)	-14%	36%	-5%	21%
P/E (x)	17	14	15	12
EV/EBITDA (x)	8.6	8.8	9.6	9.5
DPS (VND)	-	600	500	500
Dividend yield (%)	0%	4%	3%	3%
P/B (x)	1.4	1.3	1.2	1.2
ROE (%)	7%	10%	9%	10%
Net debt/equity (%)	105%	85%	93%	99%

Source: MBS Research

(*) 2H18 EPS of VND 184 (since IPO)

1Q19 net profit increased by 30% yoy to VND 879bn

It was mainly due to absence of unrealized loss from foreign exchange rates. In 1Q18, POW had an unrealized loss of VND 124bn on foreign exchange. Regarding core business, a 6% yoy increase in selling price was sufficient to offset a 7% yoy decrease in production volume due to unfavorable hydrologic conditions during 1Q19 and technical issues of Vung Ang 1 coal-fired thermal power plant. Actual 1Q19 revenue and net profit met 25% and 33% of our full-year forecast respectively.

Expected 44% yoy higher net profit of VND 1,791bn for the last 9M of 2019

We expect that selling volume will increase by 5% yoy thanks to greater purchasing proportion of thermal energy in place of hydropower decline. Besides, full depreciation of Ca Mau 1&2 and a 30% yoy decrease in interest expenses thanks to lower outstanding long-term loans could lend a helping hand to enlarge the bottom line. For FY19, we forecast POW's top and bottom line of VND 34,128bn (+4% yoy) and VND 2,670bn (+39% yoy and 32% higher than FY19 plan).

New pricing mechanism for Ca Mau 1&2 lowering net profit in FY20

From 2020 onwards, we assume 40% gas input volume of Ca Mau 1&2 will be supplied by Petronas based on the Head of Agreement (HOA) signed in Mar 2019 for the sale and purchase of gas to Ca Mau province. According to POW, the new gas source has pricing mechanism of 90%-of-MFO, which is much higher than 46%-of-MFO of current gas source from PM3 basin. At the same time, it is likely that Ca Mau 1&2 will join the CGM. Subsequently, assuming Qc/Qm ratio of 80/20% as current regulatory ratio for thermal power plants, we estimate that annual gross profit of Ca Mau 1&2 could contract by VND 520bn. Nevertheless, the full depreciation of NT1 from 2H20, which will lower depreciation cost of VND 584bn annually, and a 34% yoy lower interest expenses could mitigate the negative impact of Ca Mau 1&2. For FY20, we forecast revenue of VND 35,496bn (+4% yoy) and net profit of VND 2,548bn (-5% yoy).

Financials and Valuation Summary

Income statement (VND bn)	FY18	FY19F	FY20F	FY21F
Net revenue	32,662	34,128	35,496	37,491
Cost of goods sold	28,186	29,159	30,706	32,325
Gross profit	4,476	4,969	4,790	5,166
Financial income	515	312	312	312
Financial expenses	1,779	1,187	904	600
SG&A expenses	793	829	870	914
EBT	2,492	3,304	3,328	3,965
EAT	2,287	3,010	2,918	3,478
Net profit	1,921	2,670	2,548	3,083
Minority interests	366	340	370	395

Balance sheet (VND bn)	FY18	FY19F	FY20F	FY21F
Current assets	15,251	15,295	13,785	14,383
I. Cash & cash equivalents	3,185	3,325	1,171	995
II. Short-term investments	176	176	176	176
III. Current accounts receivable	7,531	7,524	7,979	8,594
IV. Inventories	4,187	4,050	4,265	4,490
V. Other current assets	172	220	195	128
Non-current assets	42,860	39,720	43,889	48,383
I. Long-term receivables	41	39	39	39
II. Fixed assets	40,177	37,176	34,292	31,700
1. Tangible fixed assets	40,113	37,118	34,240	31,654
2. Intangible fixed assets	64	58	52	46
III. Investment properties	0	0	0	0
IV. Long-term assets in progress	378	467	7,708	14,949
V. Long-term investments	937	936	936	936
VI. Other long-term assets	1,327	1,101	914	759
Total assets	58,111	55,015	57,675	62,765
Liabilities	31,296	27,019	28,383	31,659
I. Current liabilities	17,571	18,814	18,642	18,530
1. Short-term payables	11,017	13,023	14,671	16,389
2. Short-term loans	6,554	5,791	3,972	2,141
II. Non-current liabilities	13,725	8,205	9,741	13,129
1. Long-term payables	421	422	422	422
2. Long-term loans	13,304	7,783	9,319	12,707
Equity	26,815	27,996	29,292	31,106
1. Charter capital	23,419	23,419	23,419	23,419
2. Surplus	0	0	0	0
3. Retained earnings	1,087	2,269	3,564	5,379
4. Minorities interests	2,309	2,309	2,309	2,309
Total liabilities & equity	58,111	55,015	57,675	62,765

Key ratios	FY18	FY19F	FY20F	FY21F
Valuation				
EPS (VND)	814	1,104	1,053	1,275
BVPS (VND)	11,450	11,955	12,508	13,282
P/E	19	14	15	12
P/B	1.4	1.3	1.2	1.2
Profitability				
Gross profit margin	14%	15%	13%	14%
EBITDA margin	24%	22%	20%	19%
Net profit margin	6%	8%	7%	8%
ROE	7%	10%	9%	10%
ROA	3%	5%	5%	5%
Growth				
Revenue growth	10%	4%	4%	6%
EBT growth	-9%	33%	1%	19%
Profit after tax growth	-12%	32%	-3%	19%
EPS	-14%	36%	-5%	21%
Total assets	-4%	-5%	5%	9%
Equity	-3%	4%	5%	6%
Liquidity				
Current ratio	0.87	0.81	0.74	0.78
Quick ratio	0.63	0.60	0.51	0.53
Liabilities/Total assets	54%	49%	49%	50%
Liabilities/Equity	117%	97%	97%	102%
Interest coverage ratio	2.89	4.33	6.10	11.32
Operating efficiency				
Receivables turnover	5	5	5	5
Days sales outstanding	77	78	79	81
Inventory turnover	7	7	7	7
Days sales of Inventory	50	51	51	51
Payables turnover	3	2	2	2
Days payables outstanding	122	152	152	152

Cashflow Statement (VND bn)	FY18	FY19F	FY20F	FY21F
CFO	4,996	7,947	6,394	6,532
CFI	1,554	(117)	(7,095)	(7,095)
CFF	(5,633)	(7,689)	(1,454)	387
Net cash flows during the period	918	140	(2,155)	(176)

Source: MBS Research

CONTACT: Equity Research**MBS 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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