

5 Aug 2022

# Gia Lai Power (GEG)

## GEG will benefit from PDP VIII

### Wind power pushed revenue growth in 2Q22

Thanks to the 3 new wind power projects which officially operated at the end of 2021 and have been entitled to FiT pricing scheme, GEG's output volume was considerably up 47% yoy to 217mn kWh. In particular, 83mn kWh stemmed from the stellar performance of wind power. Thus, additional VND122bn was included in GEG's revenue, which helped the total revenue to have an impressive growth of 58% yoy, to VND506bn.

### Rising interest expense damaged the net profit

The 2Q22's NPAT-post MI plunged 53% yoy to VND30bn due to the surging expenses. GEG's gross margin plummeted to 44% (-16%p yoy) but still remained at a high level. Net margin was down 15%p yoy to 7.7% due to the burden from depreciation and interest expense (+63% yoy) when its 3 new wind farms have been operated since Nov, 2021.

### GEG is expecting regulation for "transitional" RE projects

GEG currently has 3 "transitional" renewable energy (RE) projects with total capacity of 180 MW which didn't meet the COD deadline to be entitled to favorable FiT scheme. As a result, these projects are not allowed to sell electricity since their bidding prices haven't been finalized. GEG is eagerly waiting for the new regulations in order to settle the selling price with EVN and relieve the company out of the debt burden.

### PDP VIII paves way for renewable energy

As Power Development Plan VIII (PDP VIII) prioritizes RE as an alternative for coal thermal power to fulfill net zero commitment by 2050, GEG is expected to be a beneficiary with its long experience in the RE sector. Vietnam plans to forego building any new coal-fired power plants since 2030, which means coal thermal power capacity would remain at 37,500 MW. RE energy capacity is expected to surpass 200,000 MW in 2045, accounting for 50% share of total capacity and would be an important benchmark to gain the net zero target.

### Stock Data

VNIndex (05 Aug, pt)	1,253
Stock price (05 Aug, VND)	22,400
Market cap (USD mn)	308
Shares outstanding (mn)	322
52-Week high/low (VND)	26,793/14,267
6M avg. daily turnover (USD mn)	1.84
Free float / Foreign ownership (%)	17.5/35.3
Major shareholders (%)	
Thanh Thanh Cong	33
AVH Pte Ltd	20.76
IFC	13.74

### Performance

	1M	6M	12M
Absolute (%)	4.2	0.4	59.9
Relative to VNIndex (%p)	(2.1)	15.0	65.4

### Stock price trend



Source: Bloomberg

Yr to	Sales	OP	NP	EPS	BPS	PE	PB	ROE	ROA	DY	EV/EBITDA
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(%)	(%)	(x)
2017A	539	246	209	1,726	12,115	13.9	1.8	12.5	9.6	4.6	6.6
2018A	559	229	187	1,078	11,210	29.5	2.0	7.8	4.8	3.2	15.9
2019A	1,159	538	291	1,146	11,384	17.8	1.9	10.1	4.5	0.0	10.1
2020A	1,493	645	295	1,029	11,274	23.1	2.0	8.5	3.5	1.8	9.6
2021A	1,381	653	325	937	11,121	23.6	2.0	7.9	2.8	0.0	12.6

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The 2Q22's revenue recorded a favorable result in many aspects when it was VND506bn (+58% yoy, -11% qoq). However, NPAT-post MI plunged to VND30bn (-53% yoy, -79% qoq) due to the surging expenses. Overall, the revenue and NPAT-post MI in 1H22 were VND1,076bn (+72% yoy) and VND172bn (+34% yoy), which means GEG already fulfilled 52%/57% its full year guidance.

### Wind power was key growth driver in 2Q22

Vietnam's electricity consumption in 2Q22 was slightly up to 70bn kWh (+1.8% yoy, +11.2% qoq), in which 13% of total consumption is attributable to renewable energy (RE).

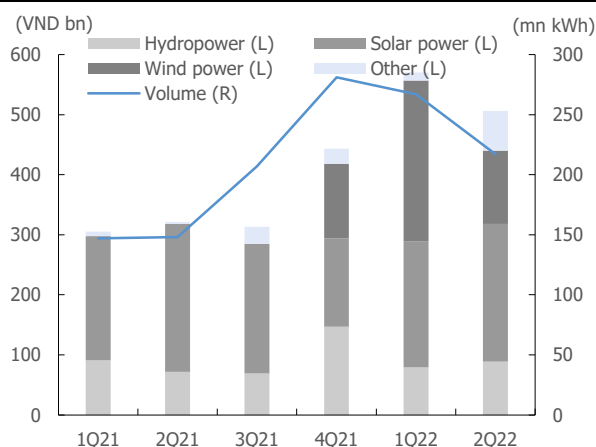
GEG's output volume was considerably up 47% yoy, to 217mn kWh thanks to the contribution from new wind power plants. In 2Q22, 83mn kWh was generated by 3 wind power projects which officially operated at the end of 2021. In particular, Ia Bang 1 (50 MW) has been entitled to feed-in tariff (FiT) price of 8.5 UScent/kWh while the 2 offshore wind power projects, Tan Phu Dong 2 (50MW) and VPL Ben Tre (30 MW) has enjoyed the FiT rate of 9.8 UScent/kWh. Overall, VND122bn of revenue was attributable to these brand new wind farms, equivalent to 24% of GEG's total revenue in 2Q22.

**Table 1. 2Q22 earnings**

	2Q21	3Q21	4Q21	1Q22	2Q22	% qoq	% yoy
Sales	321	313	443	570	506	-11.2	57.6
Hydropower	72	69	147	79	89	12.7	23.6
Solar power	246	216	147	210	229	9.0	-6.9
Wind power	0	0	124	268	122	-54.5	N/A
Others	3	28	25	13	66	407.7	2,100.0
Gross profit	193	181	218	347.2	225	-35.2	16.6
NPAT-post MI	64	53	102	142	30	-78.9	-53.1
Gross margin	60%	58%	49%	61%	44%		
Net margin	23%	19%	26%	30%	8%		

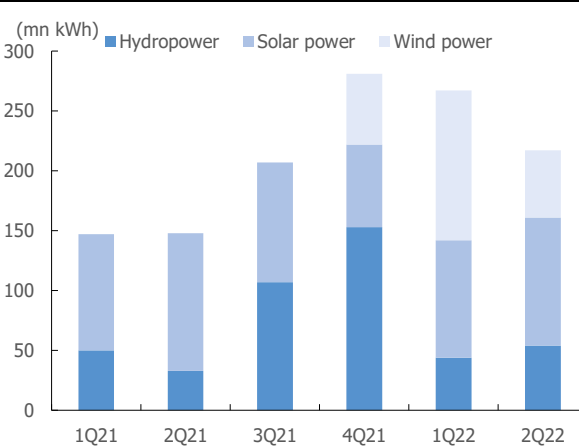
Source: Company data, KIS Research

**Figure 1. GEG's volume and revenue recovered from tepid results in 2Q21**



Source: Company data, KIS Research

**Figure 2. Wind power was key growth driver of output in 2Q22**

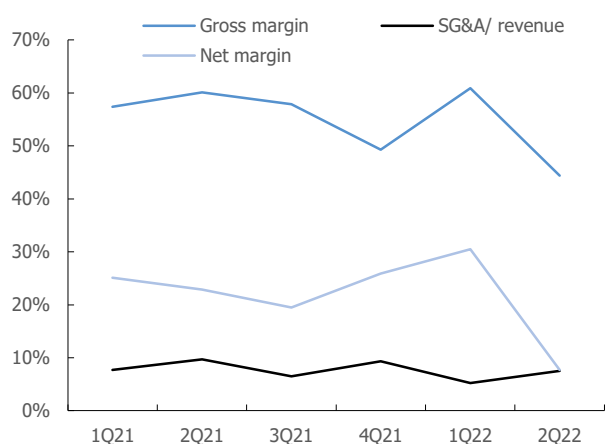


Source: Company data, KIS Research

### Net margin plunged due to rising interest expense

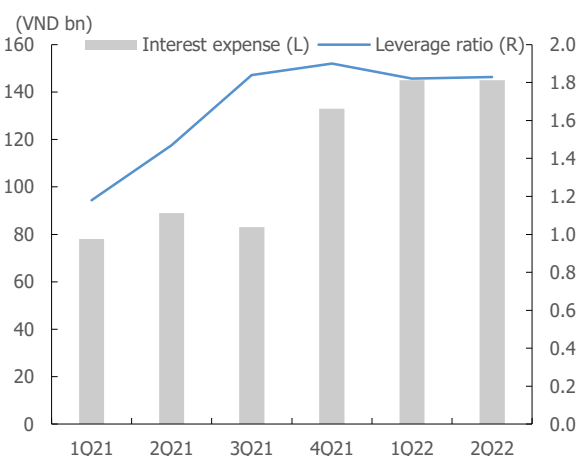
GEG's gross margin plummeted to 44% (-16%p yoy) but still remained at a high level. Its net margin was down 15%p yoy to 7.7% due to the burden from depreciation and interest expense (+63% yoy) when it the 3 new wind farms has been operated since Nov, 2021. 2Q22's leverage ratio has recovered since the end of 2021 when debt-to-equity (D/E) ratio dropped to 1.83.

**Figure 3. GEG's net margin plunged due to depreciation and interest expenses**



Source: Company data, KIS Research

**Figure 4. GEG's financial expense and leverage ratio**



Source: Company data, KIS Research

### Awaiting regulations for “transitional” RE projects

Investors are waiting for new regulations regarding the selling price of RE projects that already signed Power Purchase Agreement (PPA) with EVN but haven't gained Commercial Operation Date (COD) on time to be entitled to FiT scheme. Currently, there are ~3,500MW wind power (62 projects) and 452MW solar power which didn't meet the COD deadline of 31 Oct, 2021 and 31 Dec, 2020 respectively to gain the FiT scheme. As a result, these projects are not allowed to sell electricity since their bidding prices haven't been finalized. Recently, MOIT proposes to the Government that each investor should negotiate the new selling price with EVN in accordance with MOIT regulations as a last resort.

GEG plans to put Tan Phu Dong 1 wind farm (100 MW) into operation in Oct, 2022. While the regulation hasn't been revised, we expect it could generate annual revenue of ~VND600bn based on the assumption that price could be 10%-15% lower than the current FiT price. IRR of Tan Phu Dong 1 could swing in range of 10%-12%, per management.

GEG is completing 60-70% the construction progress of Duc Hue solar power plant (49 MW) which is included in PDP VIII. It expects to settle the selling price with EVN and start operation in 2023. The plan to construct 2<sup>nd</sup> stage of VPL Ben Tre (30 MW) hasn't been concluded as GEG is waiting for the new regulations.

**Table 2. GEG's pending projects**

	Tan Phu Dong 1	Duc Hue 2	VPL 2
Capacity (MW)	100	49	30
Investment (VND bn)	4,400	833	1,320
Expected COD	Oct, 2022	2023	2023-2024
Location	Tien Giang	Long An	Ben Tre
Wind velocity	6.41 - 7.18	N/A	6.75

Source: Company data, KIS Research

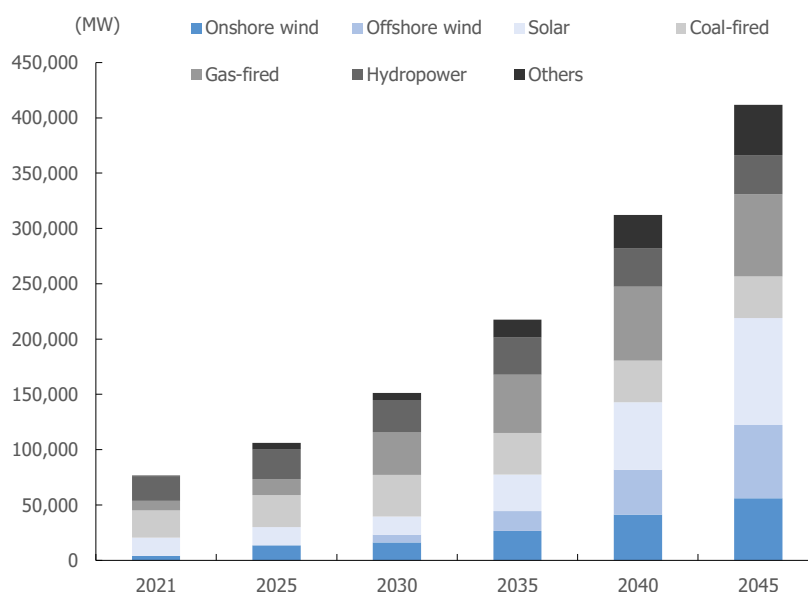
### PDP VIII paves way for renewable energy

In order to fulfill net zero commitment in 2050, The PDP VIII for the 2021-2030 period with a vision towards 2045 has take into account the replacement of coal-fired power projects. **GEG would be the beneficiary as PDP VIII prioritizes renewable energy (RE) as an alternative for coal thermal power.** As per EVN, Vietnam produced around 76,620 MW power generation capacity at the end of 2021. Out of this, wind and solar energy made up 27% of total capacity.

**As of 2030**, the latest revision proposes to increase power capacity to 146,000 MW; in which onshore wind power capacity is projected to reach ~16,000 MW, increases 4-fold compared to the current capacity and offshore wind power capacity will be 7,000 MW. Solar power capacity, would stay at ~16,000 MW until 2030. Meanwhile, Vietnam plans to forego building any new coal-fired power plants since 2030. This means coal-fired power (37,500 MW) would reduce to 26% share of the capacity.

**As of 2045**, onshore and off shore wind capacity are expected to reach 56,000 MW and ~66,500 MW, accounting for 14% and 17% of total installed capacity, respectively. Over 50% share of capacity is attributable to RE and would be an important benchmark to gain the net zero target.

**Figure 5. Power capacity as per latest PDP VIII revision**



Source: PDP VIII, KIS Research  
 Note: This latest draft was updated as of May, 2022.

## Valuation

Currently, GEG is trading at 21.7x PE TTM and 2.0x PB TTM respectively, slightly higher than the 2-year PE and PB average of 18.8x and 1.8x, respectively.

## Company overview

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Founded in 1989, Gia Lai Power (HSX: GEG) is a leading hydropower and renewable energy producer with a total capacity of 510 MW. The Company is also engaged in the construction of power lines, power transmission infrastructure and public lighting systems; the installation of electrical equipment and machinery for power plants. Since 2013, GEG has been a subsidiary of TTC Group and was officially traded on Ho Chi Minh City Stock Exchange (HOSE) since Sep, 2019.

**Balance sheet**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	402	1,132	963	1,603	930
Cash & cash equivalent	231	861	117	135	256
Accounts & other receivables	145	246	531	1,316	528
Inventory	26	25	314	152	146
Non-current assets (Adj.)	1,132	3,093	5,524	5,916	11,094
Fixed Asset	1,132	3,093	5,522	5,916	10,994
Investment assets	0	0	3	0	100
Others	125	135	276	254	449
<b>Total assets</b>	<b>1,659</b>	<b>4,361</b>	<b>6,763</b>	<b>7,773</b>	<b>12,473</b>
Advances from customers	3	1	12	3	3
Unearned revenue	0	0	0	0	0
Trade payables	16	368	81	376	1,473
Others	83	56	194	124	156
ST debt & bond	6	106	554	601	408
LT debt & bond	232	1,420	3,343	3,201	6,695
<b>Total liabilities</b>	<b>341</b>	<b>1,953</b>	<b>4,184</b>	<b>4,305</b>	<b>8,735</b>
Controlling interest	1,176	2,177	2,321	3,057	3,378
Capital stock	971	1,942	2,039	2,712	3,037
Capital surplus	29	29	39	38	38
Other Reserves	56	61	79	87	94
Retained earnings	120	145	165	220	208
Minority interest	142	231	258	411	360
Shareholders' equity	1,318	2,408	2,580	3,468	3,738

**Cash flow**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	244	141	-333	421	694
Net profit	209	187	291	295	325
Dep'n & Amort'n	80	98	285	354	417
Interest expense	24	40	247	358	384
Others	-11	-18	-23	-25	-115
Net incr. in W/C	-80	-185	-1,146	-575	-360
C/F from investing	5	-1,946	-2,642	-937	-3,952
Capex	-47	-1,810	-2,668	-779	-3,916
Incr. in investment	51	-136	26	-158	-36
C/F from financing	-93	2,191	2,471	547	3,378
Incr. in equity	1	1,050	270	673	217
Incr. in debt	-65	1,292	2,368	-91	3,301
Dividends	-30	-151	-167	-36	-140
<b>Increase in cash</b>	<b>155</b>	<b>386</b>	<b>-504</b>	<b>30</b>	<b>120</b>

**Income statement**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	539	559	1,159	1,493	1,381
COGS	227	253	510	733	614
Gross profit	312	306	650	761	767
SG&A expenses	66	77	112	116	114
Operating profit	246	229	538	645	653
Financial income	18	19	24	31	37
Interest income	0	0	0	1	2
Financial expenses	25	41	258	371	409
Interest expenses	24	40	245	354	384
Other non-operating profit	9	18	11	17	91
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	6
Earnings before tax	230	207	304	309	369
Income taxes	21	20	13	14	43
Net profit	209	187	291	295	325
Net profit of controlling interest	154	145	251	257	283
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
<b>EBITDA</b>	<b>320</b>	<b>324</b>	<b>816</b>	<b>981</b>	<b>998</b>

**Key financial ratio**

	2017A	2018A	2019A	2020A	2021A
<b>Per-share (VND)</b>					
EPS	1,726	1,078	1,146	1,029	937
BPS	12,115	11,210	11,384	11,274	11,121
<b>Profitability (%)</b>					
OP margin	45.6	40.9	46.4	43.2	47.3
NP margin	38.8	33.5	25.1	19.8	23.6
EBITDA margin	59.3	58.0	70.4	65.7	72.3
ROA	9.6	4.8	4.5	3.5	2.8
ROE (excl MI)	12.5	7.8	10.1	8.5	7.9
Dividend yield	4.6	3.2	0.0	1.8	0.0
<b>Stability</b>					
Net debt (VND bn)	15	917	3,791	3,666	6,853
Net debt/equity (%)	1	38	147	106	183
<b>Valuation (x)</b>					
PE	13.9	29.5	17.8	23.1	23.6
PB	1.8	2.0	1.9	2.0	2.0
EV/EBITDA	6.6	15.9	10.1	9.6	12.6

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