

28 Jul 2022

Nhon Trach 2 (NT2)

Stay resilient in 2H22F

Stellar results in 2Q22

NT2 posted stellar results in 2Q22 when its revenue (+66% yoy) and net profit (+13.9x yoy) were pegged high due to 1) increasing output when it reached 1,181mn kWh (+23.7% yoy, +18.7% qoq) and 2) soaring power price in the context of material prices (gas, coal) and tight coal supplies. NT2's input gas price in 2Q22 increased by 32.3% yoy and 8.4% qoq, owing to the Russia – Ukraine political tensions.

Impressive expansion of gross margin

NT2' gross margin expanded 10.7%p yoy and 6%p qoq to 15.2% in 2Q22 thanks to stellar selling price when rising ASP (+34.5% yoy) totally offset the effects of rising input gas price. In addition, its net margin growth (+13.9x yoy) was fueled by the decrease of financial expense (-85.8% yoy) when NT2 has been relieved out of the burden of foreign debt since Jun 2021. We expect NT2 could maintain a favorable cash dividend of 15%-20% in following years.

2H22F: Resilient despite harsh competition

The probability of La Nina effect will wane in Jul but will rebound during Aug – Oct 2022 with moderate probability (68%), continuing into boreal fall and early winter with ~60% likelihood. NT2 also faces the rivalry from renewable energy makers but NT2 would remain its strength as a stable power generator. Despite the harsh competition, we believe NT2's output still makes a strong year-on-year revival from the tepid base in 2H21 thanks to its close proximity to industrious southern region and recovering power demand.

Valuation

Currently, NT2 is trading at 7.9x PE TTM and 1.6x PB TTM respectively, much lower than the 2-year PE average of 11.4x but slightly higher than PB average of 1.5x. We think this valuation is fair when comparing with industry peers, which is trading at 12.7x PE and 1.6x PB. In 2Q22, profitability ratios ROE and ROA were improved to 21.4% and 13.0% and were considerably higher than the sector average of 15.6% and 9.1%.

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	6,761	1,279	810	2,762	17,317	7.3	1.2	16.1	7.1	12.9	6.2
2018A	7,670	914	782	2,618	12,795	7.3	1.5	17.4	8.3	37.6	6.2
2019A	7,654	888	754	2,560	14,336	6.6	1.2	19.0	9.2	5.3	4.7
2020A	6,082	810	625	2,095	14,928	10.3	1.4	14.3	9.0	11.6	5.2
2021A	6,150	593	534	1,778	14,706	14.2	1.7	12.0	8.2	7.9	6.1

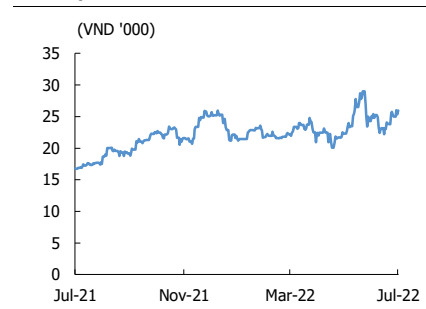
Stock Data

VNIndex (27 Jul, pt)	1,191
Stock price (27 Jul, VND)	25,950
Market cap (USD mn)	325
Shares outstanding (mn)	288
52-Week high/low (VND)	29,000/16,759
6M avg. daily turnover (USD mn)	1.40
Free float / Foreign ownership (%)	32.3/14.3
Major shareholders (%)	
PV Power	59.37
CFTD	8.27

Performance

	1M	6M	12M
Absolute (%)	3.4	23.2	57.3
Relative to VNIndex (%p)	4.0	41.1	61.5

Stock price trend



Source: Bloomberg

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The 2Q22 business results of the company recorded an impressive growth in many aspects and beyond our expectation. Total revenue was VND2,688bn (+66% yoy, +34% qoq) and PAT was VND365bn (+13.9x yoy, +129% qoq). Overall, the revenue and PAT in 1H22 were VND4,694bn (+44% yoy) and VND525bn (+276% yoy). The stellar business results help NT2 fulfill 58%/112% its full year guidance.

Output and selling price to surge in 2Q22

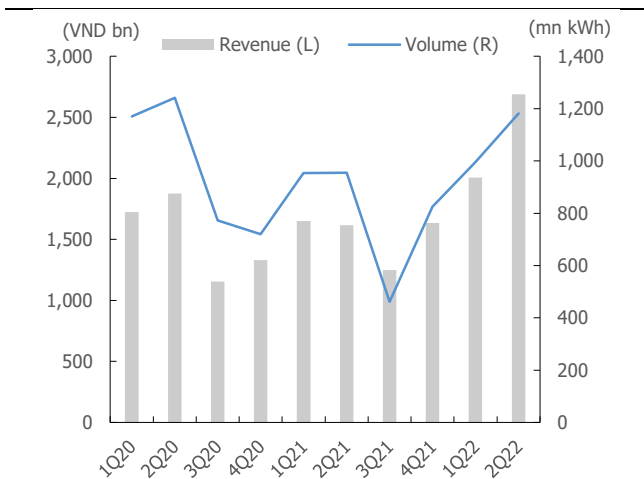
Vietnam's electricity consumption in 2Q22 was slightly up to 70bn kWh (+1.8% yoy, +11.2% qoq), in which 11% of total consumption is attributable to gas thermal power plants. Despite rising gas price, EVN had to increase the mobilization of gas thermal power in light of uncertainty of renewable energy and plummeting coal-fired power due to tight coal supplies. Therefore, NT2's power output in 1Q22 and 1H22 was 1,181mn kWh (+23.7% yoy, +18.7% qoq) and 2,176mn kWh (+14% yoy). In which, the average competitive market (CGM) price established its all-time high in Apr to VND1,792/kWh (+62% yoy) before going in the reverse direction in the following months.

Table 1. 2Q22 earnings

	2Q21	3Q21	4Q21	1Q22	2Q22	% qoq	% yoy
Sales	1,616	1,250	1,635	2,007	2,688	33.9	66.3
Gross profit	73	305	150	185	409	121.1	460.3
PAT	25	273	121	160	365	128.1	1,360.0
Gross margin	5%	24%	9%	9%	15%		
Net margin	2%	22%	7%	8%	14%		

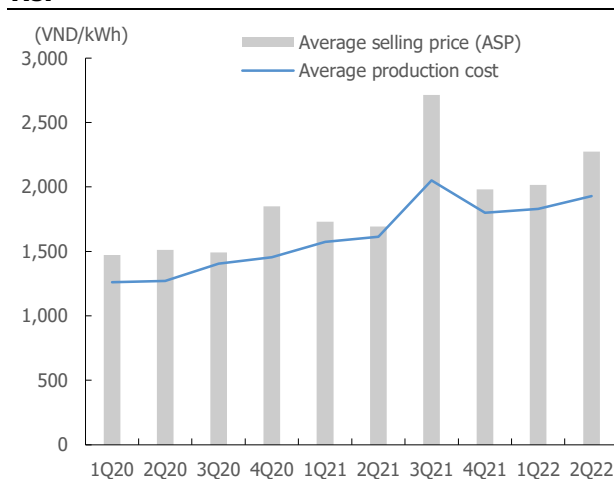
Source: Company data, KIS Research

Figure 1. NT2's volume and revenue increased in 2Q22



Source: Company data, KIS Research

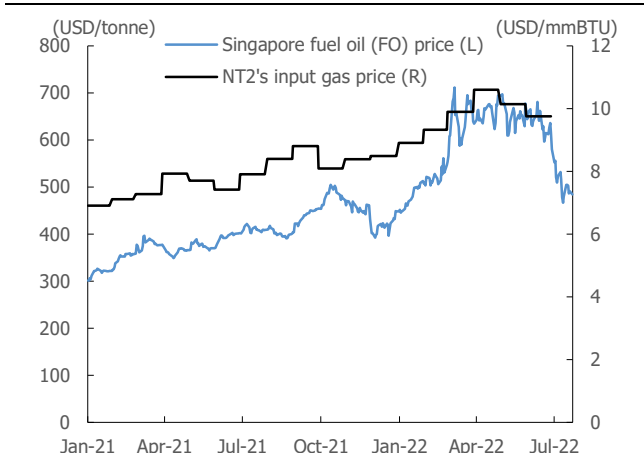
Figure 2. NT2's average production cost and average ASP



Source: Company data, KIS Research

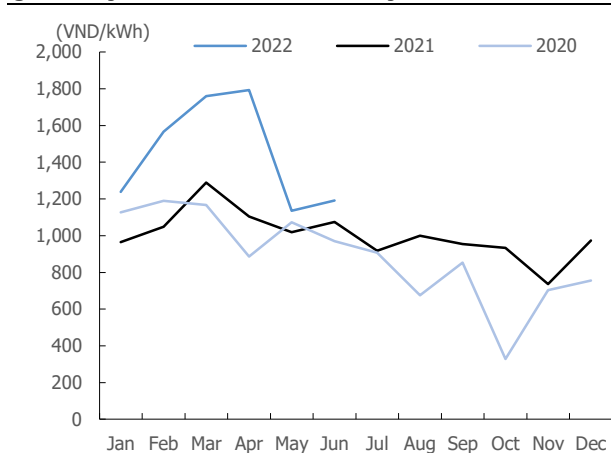
Singapore fuel oil (FO) prices (*the reference for gas supplied to domestic gas-fired power plants*) in 2Q22 spiked 65% yoy amid long lasting Russia – Ukraine geopolitical tensions. As a result, NT2's input gas price in 2Q22 increased by 32.3% yoy and 8.4% qoq, respectively to reach USD10.2/mmBTU, its all-time high level.

Figure 3. FO price and input gas price hiked sharply in 1H22



Source: Bloomberg, KIS Research
 Note: NT2's input gas price was updated as of Jun, 2022.

Figure 4. CGM price sharply rose in early 2022 but gradually cooled down since May



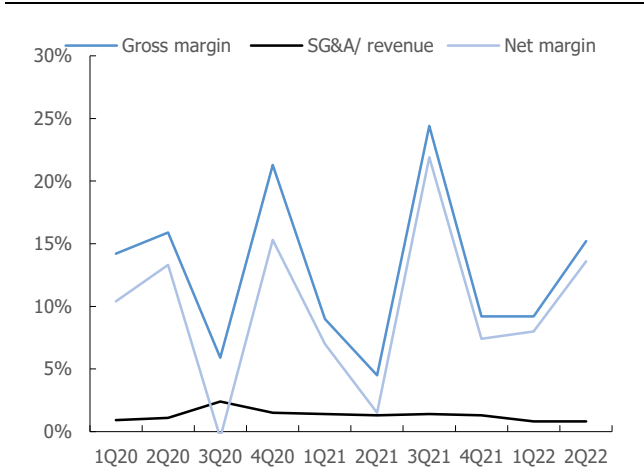
Source: EVNGENCO3, KIS Research

Margin expanded on robust selling price

NT2' gross margin expanded 10.7%p yoy and 6%p qoq to 15.2% in 2Q22. The effect from rising gas input price (+32.3% yoy) was wholly reflected in selling price when its ASP surged to VND2,275/kWh (+34.5% yoy). In addition, its net margin growth (+13.9x yoy) was fueled by the decrease of financial expense (-85.8% yoy) to VND4.9bn.

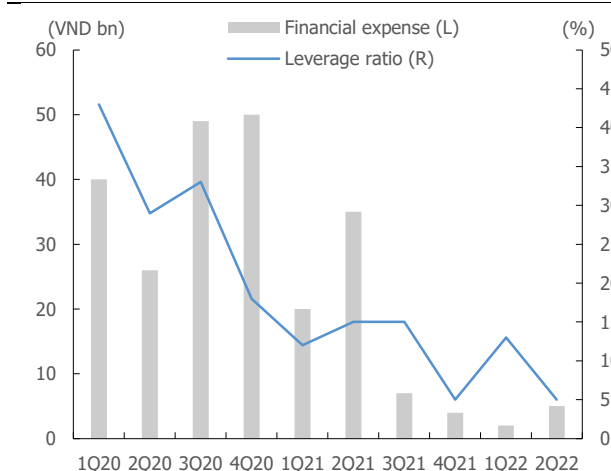
NT2 completed the payment obligation of long-term foreign debt in Jun 2021, that may help NT2's leverage ratio to stay at low level and NT2 has been relieved of the burden from interest expense and exchange loss. We expect its 2022 financial expense would be ~VND15-20bn. In addition, NT2 is expected to boost its financial performance in 2H22F thanks to the reporting of VND200bn exchange gain from the period of 2016-2020. Thus, we expect it would maintain a favorable rate of annual cash dividend at 15% - 20% in the following years.

Figure 5. NT2's margin spiked expanded on robust selling price



Source: Company data, KIS Research

Figure 6. NT2's decreasing financial expense and leverage ratio



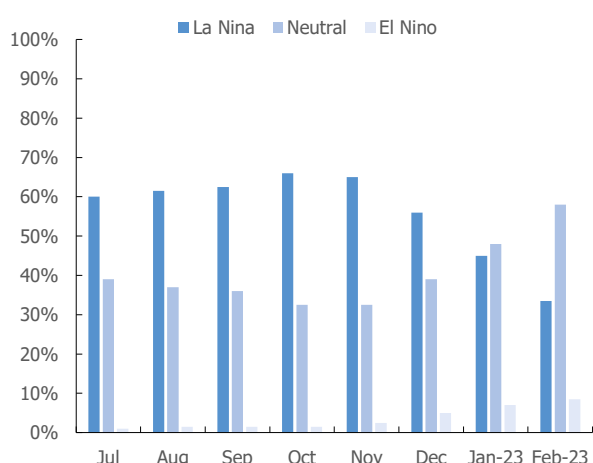
Source: Company data, KIS Research

Fierce competition from hydropower in 2H22F

According to IRI, the probability of La Nina effect will wane in Jul and will rebound during Aug – Oct 2022 with moderate probability (68%), continuing into boreal fall and early winter with ~60% likelihood. The usual La Nina lasts 2 years yet this time it has existed for 3 years. In addition, the National Centre for Hydro – Meteorological Forecasting (NCHMF) also predicted that there will be 10-12 typhoons and tropical depressions in this year, some of which may have complicated and rapid movements. Thus, the mobilization of cheap hydropower will be bolstered in 2H22, owing to the abundant rainfall.

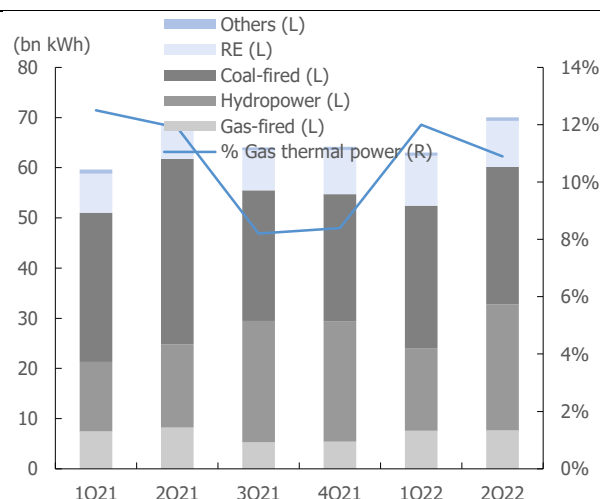
Renewable energy (RE) makers are also considered rivals of NT2, especially after 4,000MW wind power capacity was added up to the power system. However, wind power’s daily output in Apr and May was usually less than 2,000MW while solar power is only effective for 4-5 hours/ day. Amid the recovering power demand, we believe that NT2 would remains its strength as a stable power supplier.

Figure 7. IRI Probabilistic ENSO forecasts



Source: IRI, KIS Research

Figure 8. NT2 faces fierce competition in 2H22



Source: EVN, KIS Research

NT2 still benefits from recovering power demand in 2H22F

We expect that the global oil prices will cool down in 2H22 which makes NT2’s input gas price to plunge and boosts the competitive advantage of NT2. The GDP and IIP (Index of Industrial Production) growth rate are generally expected to hit ~8% yoy in 2H22, which strongly bolster the power consumption demand, especially in the industrious Southern region. Although the Qc assigned to NT2 will be low in Sep and Oct, we believe NT2’s output still makes a strong year-on-year revival from the tepid base in 2H21 thanks to its close proximity to Ho Chi Minh city, the power consumption hub.

Company overview

Founded in 2007, Nhon Trach 2 Thermal Power (HSX: NT2) is a leading firm in power generation. NT2 owns the Nhon Trach 2 gas thermal power with total capacity of 750MW, which has used the advanced F-generation gas turbine combined cycle. On Jun 12, 2015, NT2 officially traded on Ho Chi Minh City Stock Exchange (HOSE).

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	3,138	2,884	2,412	1,866	2,543
Cash & cash equivalent	1,046	66	651	62	1
Accounts & other receivables	1,833	2,558	1,459	1,489	2,230
Inventory	259	261	302	315	311
Non-current assets (Adj.)	6,251	5,565	4,878	4,184	3,497
Fixed Asset	6,251	5,565	4,878	4,184	3,497
Investment assets	0	0	0	0	0
Others	575	403	274	331	584
Total assets	9,964	8,852	7,564	6,381	6,624
Advances from customers	0	0	0	0	0
Unearned revenue	0	0	0	0	0
Trade payables	922	1,569	195	397	1,034
Others	359	651	1,400	912	1,147
ST debt & bond	1,066	1,391	1,350	775	210
LT debt & bond	2,632	1,558	492	0	0
Total liabilities	4,979	5,169	3,437	2,084	2,390
Controlling interest	4,985	3,683	4,127	4,298	4,234
Capital stock	2,879	2,879	2,879	2,879	2,879
Capital surplus	0	0	0	0	0
Other Reserves	137	137	137	137	160
Retained earnings	1,970	668	1,111	1,282	1,196
Minority interest	0	0	0	0	0
Shareholders' equity	4,985	3,683	4,127	4,298	4,234
Current assets (Adj.)	3,138	2,884	2,412	1,866	2,543
Cash & cash equivalent	1,046	66	651	62	1

Cash flow

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	1,413	1,689	1,876	989	1,358
Net profit	810	782	754	625	534
Dep'n & Amort'n	692	695	688	693	690
Net incr. in W/C	-90	212	433	-329	134
C/F from investing	-7	-9	-1	-200	200
Capex	-7	-9	-1	-100	100
Incr. in investment	0	0	0	-100	100
C/F from financing	-1,044	-774	-1,107	-1,067	-565
Incr. in equity	0	0	0	0	0
Incr. in debt	-1,044	-749	-1,107	-1,067	-565
Dividends	0	-25	0	0	0
C/F from others	-714	-1,887	-182	-311	-1,054
Increase in cash	-352	-980	586	-589	-61
C/F from operations	1,413	1,689	1,876	989	1,358

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	6,761	7,670	7,654	6,082	6,150
COGS	5,368	6,654	6,679	5,187	5,474
Gross profit	1,393	1,015	974	895	676
SG&A expenses	114	101	87	85	83
Operating profit	1,279	914	888	810	593
Financial income	63	73	48	18	18
Interest income	0	0	0	1	2
Financial expenses	490	192	168	160	52
Interest expenses	120	105	88	38	20
Other non-operating profit	-305	15	-3	-109	-9
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	853	824	797	663	566
Income taxes	43	42	43	38	32
Net profit	810	782	754	625	534
Net profit of controlling interest	810	782	754	625	534
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	6,375	1,608	1,576	1,503	1,283

Key financial ratio

	2017A	2018A	2019A	2020A	2021A
Per-share (VND)					
EPS	2,762	2,618	2,560	2,095	1,778
BPS	17,317	12,795	14,336	14,928	14,706
Profitability (%)					
OP margin	18.9	11.9	11.6	13.3	9.6
NP margin	12.0	10.2	9.9	10.3	8.7
EBITDA margin	29.2	21.0	20.6	24.7	20.9
ROA	7.1	8.3	9.2	9.0	8.2
ROE (excl MI)	16.1	17.4	19.0	14.3	12.0
Dividend yield	12.9	37.6	5.3	11.6	7.9
Valuation (x)					
PE	7.3	7.3	6.6	10.3	14.2
PB	1.2	1.5	1.2	1.4	1.7
EV/EBITDA	6.2	6.2	4.7	5.2	6.1

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