

28 Oct 2022

# Nhon Trach 2 (NT2)

## Rise to the challenge

### Decent business results in 3Q22

NT2 posted decent results in 3Q22 when its revenue swelled (+73% yoy) to VND2,168bn driven by the increasing output of 897mn kWh (+85% yoy). NT2 also recorded VND310bn compensation in total revenue for previous foreign exchange losses. Excluding the revenue from exchange loss compensation, the total revenue grew 49% yoy. However, net profit dropped 27% yoy to VND199bn mostly due to a VND187bn provision from bad debt related to receivables from EPTC. Overall, the revenue and PAT in 9M22 were VND6,863bn (+52% yoy) and VND724bn (+75% yoy).

### Healthy balance sheet sustains

NT2 already completed the payment obligation of long-term debt in Jun 2021, thus NT2 has been relieved of the burden from interest expense and exchange loss. In addition, the company has no intention to invest in new plants. Thus, we expect it would maintain a favorable rate of annual cash dividend at 15% - 20% in the following years, especially when its parent company, PV Power is deeply in need of cash to finance the new Nhon Trach 3 & 4 plants.

### NT2 will benefit from declining hydropower in 2023F

We expect the input gas prices in 2H22F and 2023F would be lower than 1H22 which will lower the price gap between coal thermal and gas thermal power. Coupled with the weaning La Nina effect since early 2023F, we believe NT2 will benefit from declining hydropower output in 2023F. Although NT2 will suspend its operation for 40-45 days in 2023F to prepare for the major maintenance, it is expected to have a favorable result in 2023F thanks to strong power demand and its close proximity to the industrious Southern region.

### Valuation

Currently, NT2 is trading at 9.0x PE TTM and 1.7x PB TTM respectively, lower than the 2-year PE average of 11.5x but slightly higher than PB average of 1.6x. We think this valuation is fair when compared with industry peers, which is trading at 9.7x PE and 1.4x PB.

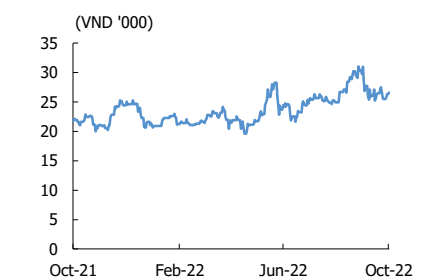
### Stock Data

VNIndex (27 Oct, pt)	1,028
Stock price (27 Oct, VND)	26,600
Market cap (USD mn)	308
Shares outstanding (mn)	288
52-Week high/low (VND)	31,069/19,607
6M avg. daily turnover (USD mn)	1.92
Free float / Foreign ownership (%)	32.3/14.3
Major shareholders (%)	
PV Power	59.37
CFTD	8.27

### Performance

	1M	6M	12M
Absolute (%)	(14.3)	21.7	22.1
Relative to VNIndex (%p)	(2.5)	45.0	48.8

### 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	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

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Despite the decent growth of revenue to VND2,168bn (+73% yoy) in 3Q22, the company's net profit dropped 27% yoy to VND199bn mostly due to the incurring of VND187bn from bad debt provision related to receivables from EPTC (Electricity Power Trading Company). Overall, the revenue and PAT in 9M22 were VND6,863bn (+52% yoy) and VND724bn (+75% yoy). The decent business results help NT2 fulfill 84%/155% its full year guidance.

### Benefiting from the rising output

NT2's output has an impressive growth of 95% yoy in 3Q22 to 897mn Kwh. 3Q21 was unfavorable when its business suffered from a nationwide lockdown coupled with a major maintenance which halted its operation for several days. The accommodative power selling price is also yielding fruits. In particular, the average competitive market (CGM) price remained at a high level, VND1,541/kWh (+61% yoy, +12% qoq).

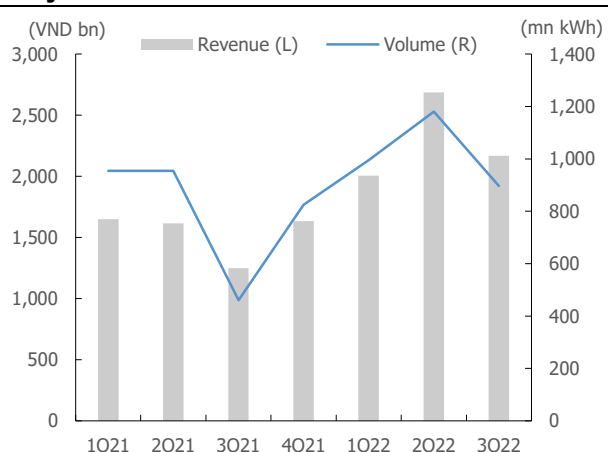
NT2 recorded higher-than-expected compensation for previous foreign exchange losses from the period of 2016-2020. According to NT2, it booked ~VND310bn compensation revenue in 3Q22, much higher than our forecast of VND200bn. Excluding the revenue from exchange loss compensation, revenue from power sales in 3Q22 grew 49%.

**Table 1. 3Q22 earnings**

	3Q21	4Q21	1Q22	2Q22	3Q22	% qoq	% yoy
Sales	1,250	1,635	2,007	2,688	2,168	-19.3	73.4
Gross profit	305	150	185	409	423	3.4	38.7
PAT	273	121	160	365	199	-45.5	-27.1
Gross margin	24%	9%	9%	15%	20%		
Net margin	22%	7%	8%	14%	9%		

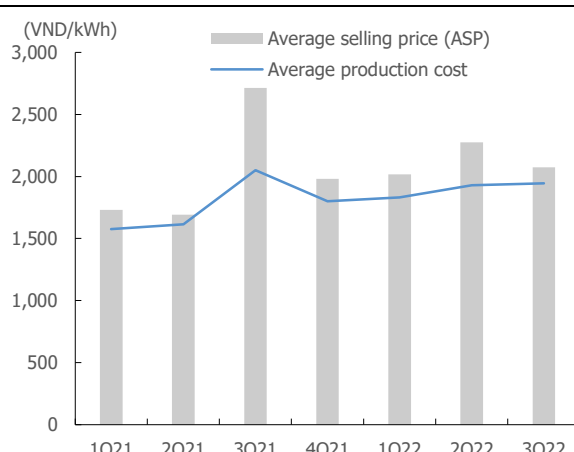
Source: Company data, KIS Research

**Figure 1. NT2's volume and revenue increased on a yearly basis**



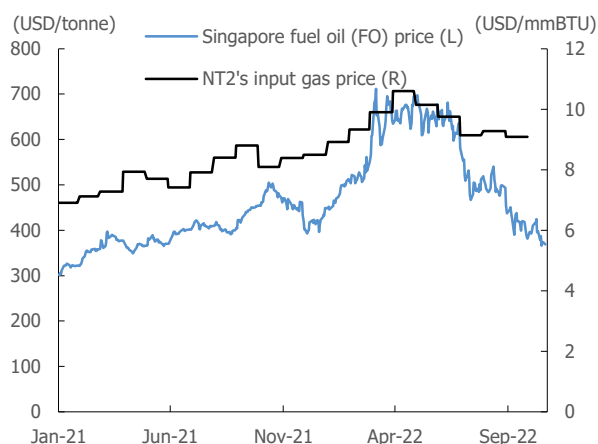
Source: Company data, KIS Research

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



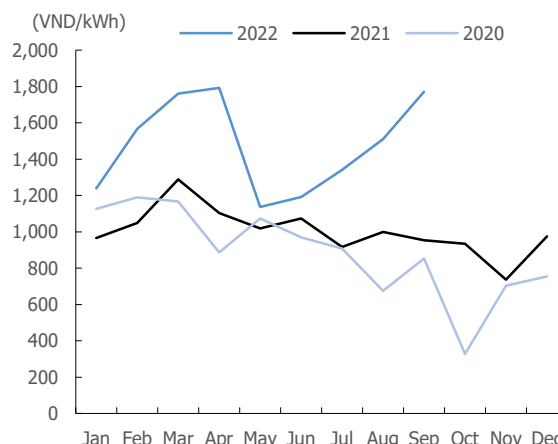
Source: Company data, KIS Research

**Figure 3. FO price and input gas price gradually cooled down in 3Q22**



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

**Figure 4. Average CGM price reversed to its rising trend in 3Q22**

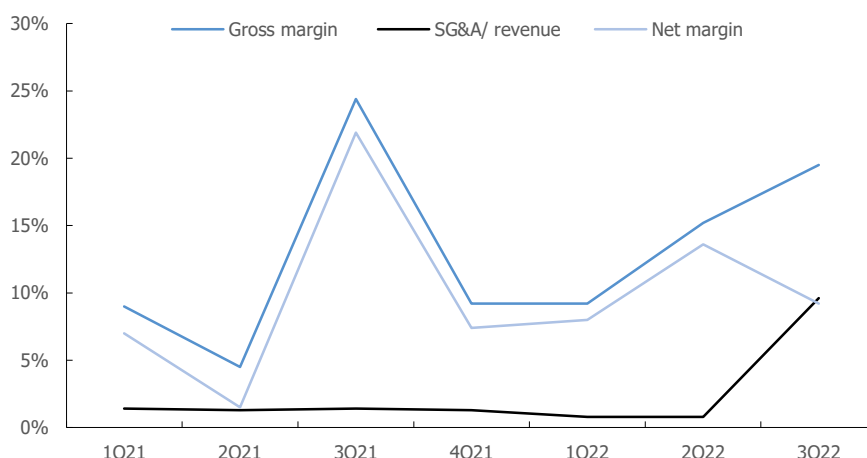


Source: EVNGENCO3, KIS Research

**Net profit was squeezed due to provision for bad debt**

Excluding the compensation from exchange loss, NT2's gross margin slightly dropped to 22.8% (-1.6%p yoy) due to the effect from rising input gas price as it went up 8% yoy to USD9.2/mmBTU in 3Q22. Although Singapore fuel oil (FO) prices (*the reference for gas supplied to domestic gas-fired power plants*) gradually cooled down in 3Q22 after a sharp hike in 1H22 (+60% yoy), the average FO prices in 3Q22 were still up 14% yoy. SG&A expense spiked to VND209bn (+1,056% yoy) and SG&A to sales increased to 9.6% (+8.2%p yoy) due to the VND187bn provision for bad debt related to contract NO.07/2012/HĐ-NMĐ-NT2 between NT2 and EPTC. As a result, net profit plunged to VND199bn (-27% yoy) and net margin fell 12.7%p yoy, to 9.2% in 3Q22. The company is waiting for the instruction from the competent authorities on the reconciliation of late payment interest and interest for EPTC.

**Figure 5. NT2's net margin plunged**



Source: Company data, KIS Research  
 Note: The compensation for previous exchange losses was included in the revenue of 3Q22

**Healthy balance sheet sustains**

NT2's cash and cash equivalent spiked to VND400bn (+95% qoq, +2,324% yoy)

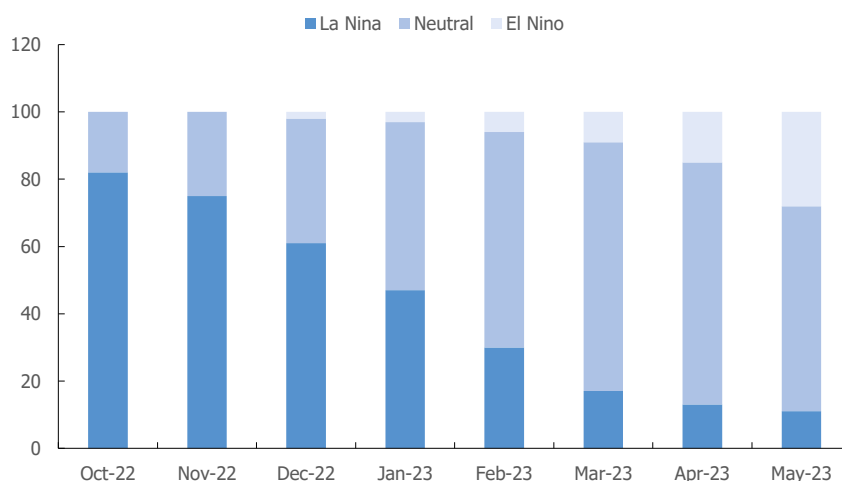
as of 3Q22. NT2 already completed the payment obligation of long-term debt in Jun 2021, thus NT2 has been relieved of the burden from interest expense and exchange loss. In addition, the company has no intention to invest in new plants. Thus, we expect it would maintain a favorable rate of annual cash dividend at 15% - 20% in the following years, especially when its parent company, PV Power is deeply in need of cash to finance the new Nhon Trach 3 & 4 plants.

### NT2 will benefit from shrinking hydropower output in 2023F

Global oil prices spiked in 1H22 as a result of long-lasting political conflicts and supply chain disruptions and gradually cooled down in 3Q22 (-27% qoq). Though OPEC+ announced the cut of 2mn barrels per day (bpd) of output – equal to 2% of global supply which may result in upward pricing pressure, we believe that the oil prices in 2H22F and 2023F would be lower than 1H22. Moreover, IRI forecasts a continuation of the La Nina event with moderate probability during Sep-Nov 2022, continuing into boreal fall and winter with 63-70% likelihood and wane since early 2023. We believe thermal power would be a substitute in the context of declining hydropower output in 2023F.

NT2 will suspend its operation for 40-45 days in 2023F to prepare for the major maintenance. However, we still expect decent business results in 2023F as the GDP growth rate is generally expected to hit ~6.5% yoy in 2023F, which strongly bolsters the power consumption demand, especially in the industrious Southern region.

**Figure 6. IRI's Probabilistic ENSO forecasts**



Source: IRI, KIS Research

### 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
<b>Per-share (VND)</b>					
EPS	2,762	2,618	2,560	2,095	1,778
BPS	17,317	12,795	14,336	14,928	14,706
<b>Profitability (%)</b>					
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
<b>Valuation (x)</b>					
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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