

1 Nov 2022

Vinh Son Song Hinh (VSH)

Lived up to our expectations

Rising output and selling prices are beneficial to VSH

VSH posted decent results in 3Q22 when its revenue swelled +126% yoy to VND652bn driven by the increasing output of 609mn kWh (+85% yoy) and increasing average selling price (+22% yoy). Overall, the revenue and PAT in 9M22 were VND2,122bn (+117% yoy) and VND882bn (+353% yoy), respectively. The decent business results helped VSH fulfill 105%/168% its full year guidance. Despite the revenue growth of 85% yoy, COGS only increased 12% yoy, mostly attributable to rising resource tax and environment service fee. As a result, gross profit spiked to VND402bn (+518% yoy) and gross margin expanded 39.1%p yoy, to 61.7% in 3Q22. Net profit was up to VND221bn from the loss of -VND42bn in 3Q21 and net margin spiked to 33.8% in 3Q22.

VSH still reap rewards from costlier thermal price

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. The rainfall level in South Central and Central highland regions is predicted to be 20-40% higher than previous years. However, La Nina is predicted to wane since early 2023. The lower production cost remains a competitive advantage of hydropower companies such as VSH when they can offer a selling price of ~VND1,000/kWh, much lower than the selling price of ~VND2,000/kWh of thermal power peers. We expect the total output of VSH in 2022F will reach over 2,330mn kWh (+32% yoy) thanks to favorable weather conditions.

Valuation

Currently, VSH is trading at 7.6x PE TTM, much lower than the 2-year PE average of 23.8x but it's trading at 1.8x PB TTM, slightly higher than PB average of 1.6x. We think the company is undervalued when compared with industry peers, which is trading at 10.4x TTM PE and 1.5x PB. We note that 2023F La Nina event could not sustain and hence, VSH could deliver a decelerating earnings yoy growth in 2023F.

12M rating **Non-rated**

12M TP **N.A**

Up/Downside **N/a**

Stock Data

VNIndex (01 Nov, pt)	1,034
Stock price (01 Nov, VND)	34,200
Market cap (USD mn)	325
Shares outstanding (mn)	236
52-Week high/low (VND)	46,800/26,976
6M avg. daily turnover (USD mn)	0.46
Free float / Foreign ownership (%)	21.2/11.5
Major shareholders (%)	
REE	52.15
EVNGENCO 3	30.55
Samarang	9.88

Performance

	1M	6M	12M
Absolute (%)	(6.6)	7.6	14.2
Relative to VNIndex (%p)	2.0	31.2	41.3

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	527	287	284	1,278	13,247	11.6	1.1	9.9	4.4	2.9	18.1
2018A	564	324	306	1,394	13,657	11.0	1.1	10.4	4.2	0.0	19.4
2019A	400	174	159	714	14,362	28.1	1.4	5.2	1.9	0.0	38.2
2020A	341	114	188	858	15,188	20.0	1.1	5.8	2.0	0.0	48.7
2021A	1,611	770	387	1,637	16,976	17.0	1.6	10.6	3.9	2.9	9.5

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Benefiting from the rising output and selling price

VSH posted its 3Q22 decent business results with revenue of VND652bn (+126% yoy) and PAT of VND221bn (up from the loss of -VND42bn in 3Q21), mainly bolstered by the increase of average selling price (+22% yoy) and output (+85% yoy) when it hiked to 609mn kWh thanks to La Nina effect. The accommodative power selling price is also yielding fruits when the average selling price (ASP) soared up to VND1,071/kWh (+22% yoy).

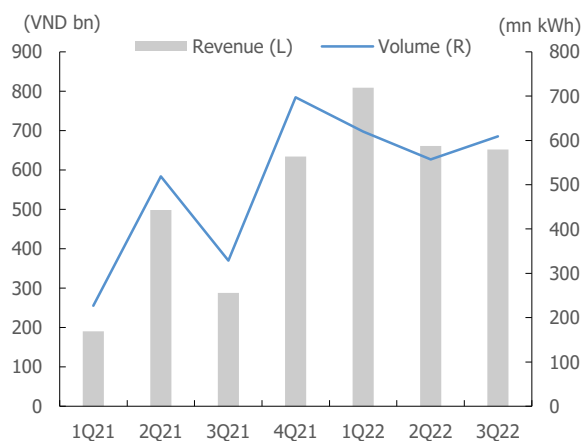
Overall, the revenue and PAT in 9M22 were VND2,122bn (+117% yoy) and VND882bn (+353% yoy), respectively. The decent business results helped VSH fulfill 105%/168% its full year guidance.

Table 1. 3Q22 earnings

	3Q21	4Q21	1Q22	2Q22	3Q22	% qoq	% yoy
Output (mn kWh)	329	697	620	557	609	9.3	85.1
Sales (VND bn)	288	634	809	661	652	-1.4	126.4
Gross profit (VND bn)	65	352	561	409	402	-1.7	518.5
PAT (VND bn)	-42	193	404	257	221	-14.0	
Gross margin	23%	56%	69%	62%	62%		
Net margin	-15%	30%	50%	39%	34%		

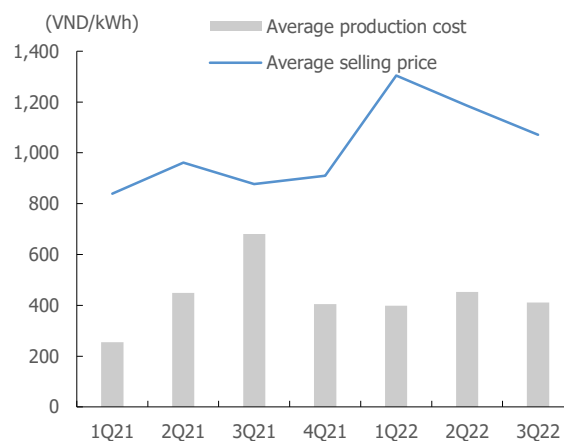
Source: Company data, KIS Research

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



Source: Company data, KIS Research

Figure 2. VSH's average production cost and average selling price

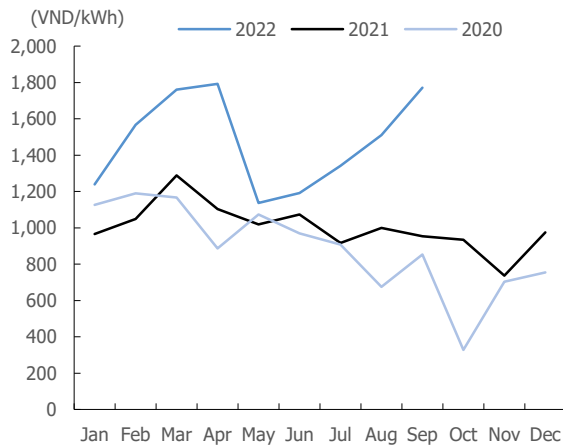


Source: Company data, KIS Research

Net profit and margin spiked in 3Q22 on yearly basis

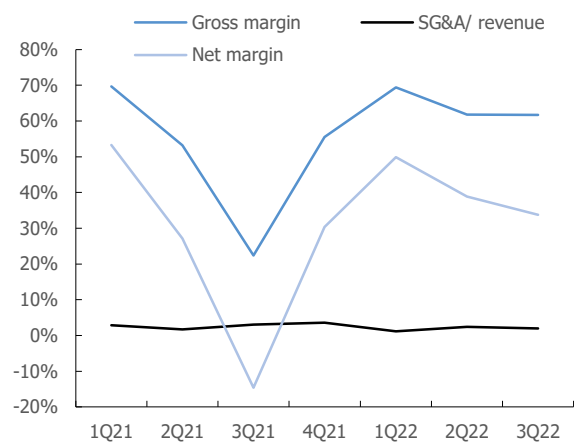
Despite the revenue growth of 85% yoy, COGS only increased 12% yoy, mostly attributable to rising resource tax and environment service fee. As a result, gross profit spiked to VND402bn (+518% yoy) and gross margin expanded 39.1%p yoy, to 61.7% in 3Q22. The rising USD/VND exchange rate made financial expenses increase to VND11bn in 3Q22 (+10% yoy). Net profit was up to VND221bn from the loss of -VND42bn in 3Q21 and net margin spiked to 33.8% in 3Q22.

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



Source: EVNGENCO3, KIS Research

Figure 4. VSH's net margin spiked in 3Q22

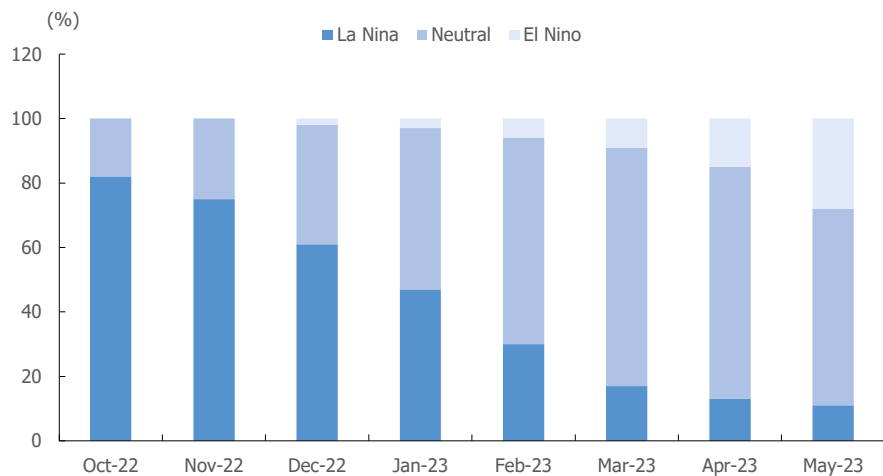


Source: Company data, KIS Research

VSH still benefits from La Nina in 4Q22F

According to IRI, 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. According to National Centre for Hydro-Meteorological Forecasting (NCHMF), in 4Q22, the rainfall level in South Central and Central highland regions is predicted to be 20-40% higher than previous years. However, La Nina is predicted to wane since early 2023.

Figure 5. IRI's Probabilistic ENSO forecasts



Source: IRI, KIS Research

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. In addition, in 1H22, the mixed coal price Vinacomin supplied to domestic power plants had increased 30-35% yoy. The lower production cost remains a competitive advantage of hydropower companies such as VSH when they can offer a selling price of ~VND1,000/kWh, much lower than the selling price of ~VND2,000/kWh of thermal power peers. We expect the total output of VSH in 2022F will reach over 2,330mn kWh (+32% yoy) thanks to favorable weather conditions.

Thuong Kon Tum (TKT) hydropower plant (220 MW) has been officially operating since April 2021 and is expected to bring about 1,080mn kWh annually. Currently, VSH is negotiating with EVN to raise TKT selling price (Pc price) from VND1,100/kWh to VND1,300/kWh (+18%). If all goes well, net profit before tax of VSH is expected to increase by VND200bn annually.

Company overview

Founded in 1994, Vinh Son Song Hinh Hydropower (HSX: VSH) is a leading firm in hydropower generation. VSH owns the Vinh Son, Song Hinh and Thuong Kon Tum hydropower plants with total capacity of 356MW in south central and highland regions. On Jul 18, 2006, VSH officially traded on Ho Chi Minh City Stock Exchange (HOSE).

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	1,112	813	440	363	691
Cash & cash equivalent	488	235	106	50	92
Accounts & other receivables	456	330	218	211	497
Inventory	150	240	105	101	102
Non-current assets (Adj.)	5,641	7,148	8,609	9,314	9,326
Fixed Asset	713	646	565	510	9,136
Investment assets	4,915	6,490	8,033	8,791	176
Others	32	19	21	13	14
Total assets	6,753	7,960	9,049	9,676	10,017
Advances from customers	0	0	0	2	2
Unearned revenue	0	0	0	0	0
Trade payables	202	241	367	361	313
Others	68	72	162	215	621
ST debt & bond	8	124	414	772	142
LT debt & bond	3,570	4,529	4,957	4,996	4,927
Total liabilities	3,848	4,966	5,900	6,346	6,006
Controlling interest	2,905	2,995	3,149	3,330	4,010
Capital stock	2,062	2,062	2,062	2,062	2,362
Share premium	6	6	6	6	6
Other reserves	356	384	384	384	384
Retained earnings	480	542	696	877	1,258
Minority interest	0	0	0	0	0
Owners' equity	2,905	2,995	3,149	3,330	4,010

Cash flow

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	380	420	189	235	754
Net profit	284	306	159	188	387
Depreciation	80	81	82	83	470
Net incr. in W/C	16	33	(52)	(37)	(103)
C/F from investing	(886)	(1,271)	(992)	(688)	(325)
Capex	(1,255)	(1,559)	(1,043)	(822)	(328)
Incr. in investment	369	287	51	134	3
C/F from financing	336	858	717	397	(392)
Incr. in equity	0	0	0	0	300
Incr. in debts	542	1,064	717	397	(692)
Dividends	(206)	(206)	0	0	0
C/F from others	0	0	0	0	0
Increase in cash	(170)	7	(86)	(56)	37

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	527	564	400	341	1,611
COGS	215	214	203	204	796
Gross profit	312	349	197	137	815
SG&A	25	26	23	23	45
Operating profit	287	324	174	114	770
Financial income	35	33	7	123	11
Interest income	34	22	4	2	3
Financial expenses	2	16	5	1	324
Interest expenses	1	1	1	1	323
Other non-operating profit	(0)	(1)	0	(0)	(5)
Gains (Losses) in associates, subsidiaries and JV	2	2	1	1	0
Earnings before tax	321	342	178	236	451
Income taxes	37	36	19	47	64
Net profit	284	306	159	188	387
Net profit of controlling interest	284	306	159	188	387
Other comprehensive profit					
Total comprehensive profit					
Total comprehensive profit of controlling interest					
EBITDA	367	405	257	197	1,240

Key financial ratio

	2017A	2018A	2019A	2020A	2021A
Per-share (VND)					
EPS	1,278	1,394	714	858	1,637
BPS	13,247	13,657	14,362	15,188	16,976
DPS	1,000	1,000	0	0	0
Profitability (%)					
OP margin	54.4	57.4	43.6	33.4	47.8
NP margin	53.9	54.3	39.7	55.3	24.0
EBITDA margin	69.7	71.8	64.1	57.9	76.9
ROA	4.4	4.2	1.9	2.0	3.9
ROE (excl MI)	9.9	10.4	5.2	5.8	10.6
Dividend yield	2.9	0.0	0.0	0.0	2.9
Dividend payout ratio	0.7	0.0	0.0	0.0	0.6
Stability					
Net debt (VND bn)	3,090	4,418	5,265	5,718	4,978
Net debt/equity (%)	106.4	147.5	167.2	171.7	124.1
Valuation (x)					
PE	11.6	11.0	28.1	20.0	17.0
PB	1.1	1.1	1.4	1.1	1.6
EV/EBITDA	18.1	19.4	38.2	48.7	9.5

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