

8 Feb 2023

Nhon Trach 2 (NT2)

With flying colours

Decent business results in 2022

NT2 posted adverse results in 4Q22 when its net profit slid to VND6bn (-95% yoy). Thanks to rising output of 4,065mn kWh (+27% yoy) and higher average selling price of VND2,078/kWh (+8% yoy), 2022's total revenue was flourishing with VND8,786bn (+43% yoy). These factors outweighed the impact of the VND240bn bad debt provisions related to receivables from EPTC. Overall, the 2022's PAT escalated to VND729bn (+37% yoy).

NT2 will benefit from declining hydropower in 2023F-2024F

Although NT2 will suspend its operation for 40-45 days in 2023F for the major maintenance, we still estimate its output will increase to 4,311mn kWh (+6.1% yoy) due to shrinking hydropower output as ENSO is forecast to enter neutral phase since early 2023. Though global coal prices are predicted to slow down in 2023F, domestic coal-fired power plants will likely suffer from the problems of tight coal supply. We forecast the Brent oil price will stay relatively flat in 2023, averaging US83/barrel and then decline through 2024F to US78/barrel thus partially release pressure on the price competitiveness of gas-fired power.

Sustainable earnings growth prospects in 2023F-2024F

We estimate NT2's revenue in 2023F will slightly go up to VND8,796bn (+0.1% yoy), reflecting the higher volume (+6.1% yoy). Meanwhile, we expect NT2 will report VND155bn revenue from compensation of exchange loss and VND107bn bad debt provisions. Thus, we peg the net profit at VND774bn (+6.1% yoy) in 2023F. We also introduce a favorable 2024F forecast with revenue and profit of VND9,008bn (+2.4% yoy) and VND838bn (+8.3% yoy). Since PV Power, NT2's parent company needs huge cash to finance Nhon Trach 3 & 4 plants, we expect NT2 could maintain or enlarge its annual 2023F-24F cash dividend, equal to 7.1-8.9% dividend yield.

Ratings and Recommendation: Reinstate BUY

We combine DCF and EV/EBITDA multiple methods (70:30) to derive a target price **VND34,300/share** based on a series of assumptions: a 13.83% WACC, a 15.31% Cost of equity and a 5.5x EV/EBITDA target, (equivalent to median EV/EBITDA over 2019-2022 periods). We like NT2 the most among thermal power plants thanks to its healthy balance sheet, prosperous 2023F-24F earnings outlook. NT2's risks comprise of (1) declining sales volume due to harsh competition and (2) higher-than-expected gas price.

Yr to	Sales	OP	NP	EPS	BPS	PE	PB	ROE	EV/EBITDA	DY	EBITDA
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(VND)	(x)	(x)	(%)	(x)	(%)	(VND bn)
2020A	6,082	810	625	2,095	14,928	13.4	1.9	14.5	5.5	7.6	1,502
2021A	6,150	593	534	1,756	14,706	16.0	1.9	12.6	6.1	11.2	1,283
2022P	8,786	772	729	2,202	15,492	12.8	1.8	16.4	5.7	5.9	1,460
2023F	8,796	822	774	2,529	16,179	11.1	1.7	16.6	5.5	7.1	1,510
2024F	9,008	937	838	2,912	16,591	9.7	1.7	17.5	5.1	8.9	1,625

12M rating **BUY (reinstate)**

12M TP **34,300**

Upside **29.2%** (including 7.1% div yield)

Stock Data

VNIndex (08 Feb, pt)	1,072
Stock price (08 Feb, VND)	28,100
Market cap (USD mn)	343
Shares outstanding (mn)	288
52-Week high/low (VND)	31,069/19,607
6M avg. daily turnover (USD mn)	1.36
Free float / Foreign ownership (%)	32.3/15.8
Major shareholders (%)	
PV Power	59.37
CFTD	8.27

Performance

	1M	6M	12M
Absolute (%)	(2.3)	6.9	27.3
Relative to VNIndex (%p)	(4.3)	21.0	54.8

Stock price trend



Source: Bloomberg

Research Dept

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**Lower Qc volume
coupled with bad debt
provisions drained
4Q22's net profit**

2022 Recap: Profiting from the rising output and selling price

In 4Q22, NT2 recorded VND1,923bn revenue (+17.6% yoy, -11.3% qoq), mainly assisted by the impressive growth of volume 991mn Kwh (+20.1% yoy, +10.5% qoq). However, 4Q22's net profit lessened to VND6bn (-95% yoy, -97% qoq), attributable to lower contribution of pricey contracted volume (Qc) in total output as well as the incurring of VND52bn bad debt provision related to receivables from EPTC (Electricity Power Trading Company). Gross margin and net margin dwindled to 4.4% and 0.3%, respectively as Qc percentage in total volume slid to 76.2% (-23.8%p yoy, -13.6%p qoq).

Table 1. Volume trends upward in 4Q22 (mn Kwh, VND bn, %, % p)

	4Q21	1Q22	2Q22	3Q22	4Q22	qoq	yoy
Volume	825	995	1,181	897	991	10.5	20.1
Revenue	1,635	2,007	2,688	2,168	1,923	(11.3)	17.6
Gross profit	150	185	409	423	85	(79.9)	(43.3)
NPAT	121	160	365	199	6	(97.0)	(95.0)
Gross margin	9.17	9.22	15.22	19.51	4.42	(77.3)	(51.8)
Net margin	7.40	7.97	13.58	9.18	0.31	(96.6)	(95.8)

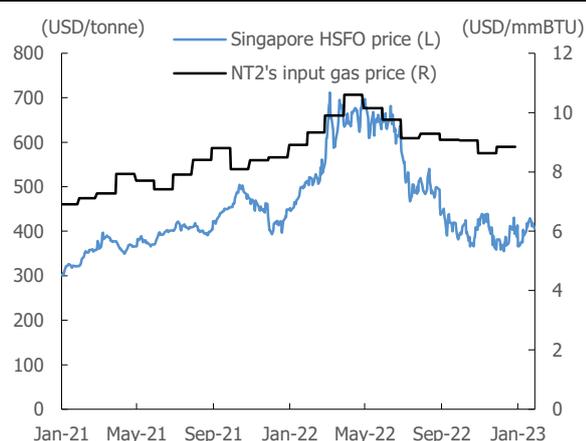
Source: NT2, KIS Research, Fiiipro

Table 2. Splendid 2022's results (mn Kwh, USD/mmBTU, VND bn, %, % p)

	2021	2022	yoy
Volume	3,195	4,065	27.2
Qc	3,195	3,470	8.6
Qm	0	595	
Average gas price	7.88	9.39	19.2
Revenue	6,151	8,786	42.8
Gross profit	676	1,102	63.0
SG&A expense	83	330	297.6
Financial expense	52	18	(65.4)
NPAT	534	729	36.5
Gross margin	10.99	12.54	14.1
Net margin	8.68	8.30	(4.4)

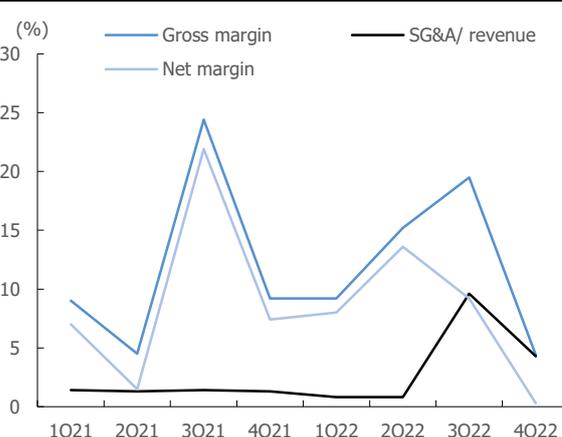
Source: NT2, KIS Research, Fiiipro

Figure 3. HSFO price and input gas price gradually cooled down since 3Q22



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

Figure 4. NT2's net margin plunged in 4Q22



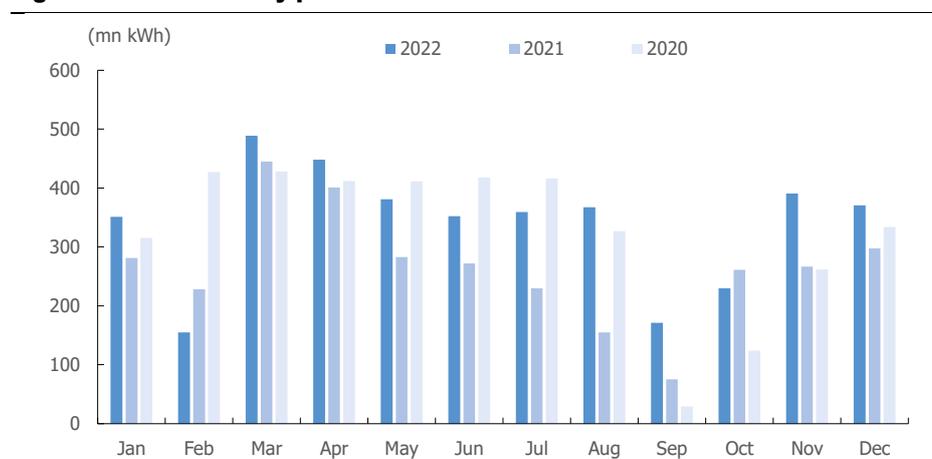
Source: NT2, KIS Research, Fiiipro

**2022's net profit was
flourishing thanks to
rising output and selling
price**

In 2022, NT2 recorded VND340bn compensation revenue from EPTC for previous foreign exchange losses from the period of 2016-2021, much higher than the company expectation of VND200bn. Coupled with a rising output of 4,065mn kWh (+27% yoy) and higher average selling price of VND2,078 (+8% yoy), 2022's total revenue was flourishing with VND8,786bn (+43% yoy). These factors outweighed the impact of the VND240bn bad debt provision related to receivables from EPTC. Overall, the 2022's NPAT escalated to VND729bn (+37%

yoy), which helped NT2 fulfill 156% its full-year guidance.

Figure 3. NT2's monthly power volume from 2020 - 2022



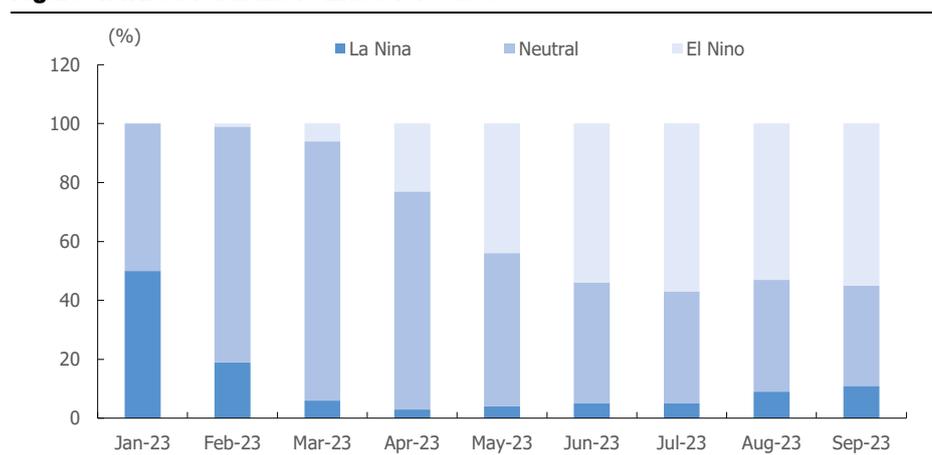
Source: NT2, KIS Research

NT2 is a perfect substitute to compensate the shrinking hydropower output in 2023F-24F

Hydropower plants could grow modestly in 2023F owing to waning La Nina

Columbia Climate School Research Institute for Climate and Society (IRI) forecasts La Nina effect will start to wane in early 2023 and enter the neutral phase with a probability of 52-88%. Moreover, early forecasts suggest El Nino will return later in 2023. As a result, we believe that EVN will look for thermal power as the alternative for shrinking hydropower. Thus, thermal power's output could reap the reward in 2023F. NT2 and other thermal power generators will benefit from EVN's switch in terms of output mobilization.

Figure 4. IRI's Probabilistic ENSO forecasts



Source: IRI, KIS Research

Domestic coal-fired power plants will suffer from tight coal supply

Asia's seaborne thermal coal markets are losing heat, with both prices and volumes declining as winter demand passes and Europe's energy crisis eases. In particular, the 6,000 kcal/kg Newcastle coal price also slipped to USD307/tonne in the week to January 27, the lowest since April and 31% below the record high of USD443/tonne reached in early September. China and India are likely to boost domestic production in 2023 which could have a bearish impact on Asia seaborne coal demand and prices. Though the global coal prices

are predicted to slow down in 2023, domestic coal-fired power plants are projected to face tight coal supply challenges in 2023F due to decreasing domestic production capacity and low inventory level.

Gas-fired power sharpens competitiveness thanks to its easing domestic gas price

The Singapore fuel oil (HSFO) price, the benchmark of Vietnam's domestic gas price has dropped 47% from its peak to USD352.3/tonne in December, the lowest point since 2022. Accordingly, NT2 and Phu My' gas price declined 19.8% and 23.8% from the April peak to USD8.85/mmBTU and USD8.1/mmBTU in December. We forecast the Brent oil price will stay relatively flat in 2023, averaging US83/barrel (-17% yoy) and then decline through 2024F to US78/barrel (-6% yoy) thus partially release pressure on the price competitiveness of gas-fired power.

NT2 is riding on the buoyant power consumption demand growth

In addition, NT2 is one of the most efficient gas-fired power plants in Southern Vietnam. Though NT2 will suspend its operation for 40-45 days to prepare for the major maintenance and the input gas price is expected to stay high in 2023F, we expect NT2 will enjoy a higher utilization rate and output. We attribute the resilient utilization rate in 2023F to a combination of (1) the escalating power consumption demand, especially in the industrious Southern region as the GDP growth rate is generally expected to hit ~6.5% yoy in 2023F, (2) the tight coal supply which hinders the proliferation of coal thermal power plants.

Sustainable earnings growth prospect in 2023F-24F

NT2's input gas pricing scheme differs by gas fields in a mix of fixed and floating cost structure. Fixed cost is set according to wellhead price adjusted up by 2% per annum while floating cost is pegged to Singapore High Sulphur Fuel Oil (HSFO) prices. The gas price for each gas field is set on the following formula:

Input gas price = Max (46% HSFO price, wellhead price) + transportation + tariff

2023F: revenue and profit slightly increase to VND8,796bn (+0.1% yoy) and VND774bn (+6.1% yoy)

We estimate NT2's revenue and net profit in 2023F will slightly increase to VND8,796bn (+0.1% yoy) and VND774bn (+6.1% yoy) based on following consumptions:

- Despite the temporary halt of 40-45 days, utilization rate and total output are expected to reach 65.6% and 4,311mn kWh (+6.1% yoy) respectively in the context of declining hydropower output.
- Though FO prices are expected to remarkably decrease in 2023F, NT2's blended input gas price only slightly decline to USD9.01/mmBTU (-3.5% yoy) due to higher contribution from the expensive Sao Vang Dai Nguyet (SVDN) gas field. Thus, we estimate the average contracted price (Pc) to shrink 3.5% yoy in 2023F. Currently, NT2's input material comes from 5 gas fields with different wellhead prices. In which, SVDN's wellhead price is higher than 46% * HSFO and will increase 2% annually.
- NT2 will receive the remaining VND155bn compensation of exchange loss (from the period 2016-2021), much lower than the VND340bn compensation received in 2022.
- NT2 will record additional VND107bn bad debt provision related to receivables from EPTC.
- NT2 is still entitled to preferential corporate income tax (CIT) of 5% in

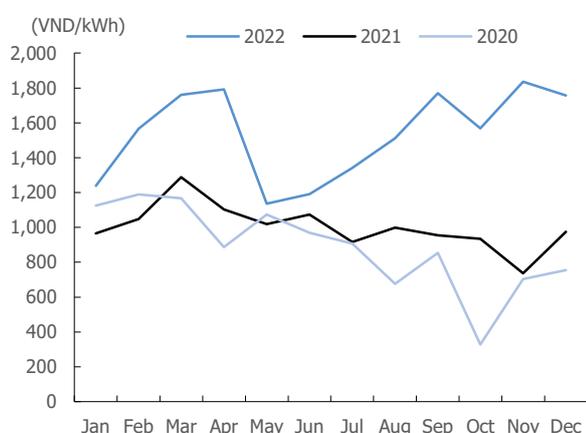
2023F.

2024F: revenue and profit will go up to VND9,008bn (+2.4% yoy) and VND838bn (+8.3% yoy)

We estimate NT2's revenue and net profit in 2024F will go up to VND9,008bn (+2.4% yoy) and VND838bn (+8.3% yoy) based on following consumptions:

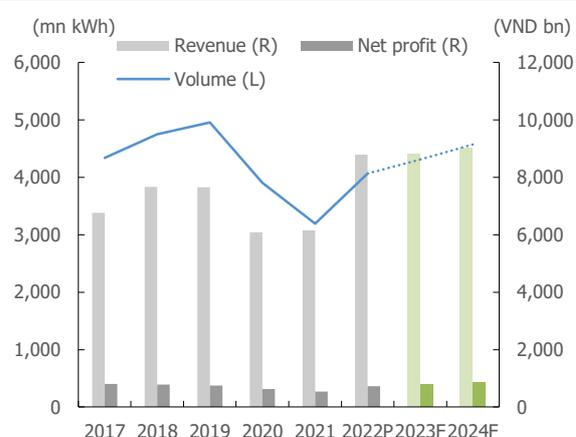
- Total output is expected to soar up to 4,569mn kWh (+6% yoy) as El Nino effect will last till the end of 2024F and NT2 will only have minor maintenance in 2024F.
- NT2's average input gas price will slightly decline USD8.72/mmBTU (-3.2% yoy).
- The CIT will be 10% in 2024F-2025F. From 2026F onwards, NT2's CIT will be 20%.

Figure 5. Average competitive market price (CGM) was back to its rising trend in the latter half of 2022



Source: EVNGENCO3
Note: The average CGM price was updated as of Dec, 2022.

Figure 6. NT2's power output and revenue in 2017-2024F



Source: NT2, KIS Research, Fiiipro

Table 3. 2022F-2024F earnings outlook

(mn Kwh, USD/mmBTU, VND bn, %, % p)

(VNDbn,%,%p)

	2022P	2023F	2024F	Note
Volume	4,065	4,311	4,569	We assume utilization rate and volume will increase in 2023F and 2024F thanks to waning La Nina effect.
Average input gas price	9.34	9.01	8.72	Though FO prices are expected to remarkably decrease in 2023F, NT2's blended input gas price only slightly decline to USD9.01/mmBTU (-3.5% yoy) due to higher contribution from the expensive Sao Vang Dai Nguyet (SVDN) gas field.
Revenue	8,786	8,796	9,008	Average power selling price would slightly decrease in 2023F and 2024F due to dwindling input gas price. Excluding the revenue from compensation of exchange loss, the ASP is expected to average VND2,005/kWh and VND1,971/kWh in 2023F and 2024F.
Gross profit	1,101	1,019	1,039	
Gross profit margin	12.5	11.6	11.5	GPM slightly decline in 2023 as NT2 will receive VND155bn compensation of exchange loss, much lower than the VND340bn compensation received in 2022. In addition, NT2 will record additional VND107bn provisions for receivables from EPTC. In 2024F, NT2 no longer record revenue from compensation of exchange loss.
SG&A expenses	(330)	(197)	(102)	SG&A sharply hiked in 2022 owing to the VND240bn bad debt provision related to receivables from EPTC. In 2023F, NT2 plans to record additional VND107bn bad debt provision.
Operating profit	772	822	937	
Operating profit margin	8.8	9.3	10.4	
Financial income	24	21	20	
Financial expenses	(18)	(26)	(26)	

Others income	0	0	0	
EBT	779	817	931	
Tax	(50)	(43)	(93)	NT2 will be entitled to preferential corporate income tax (CIT) of 5% in 2023F and 10% in 2024F-2025F.
NPAT	729	774	838	
<i>Net margin</i>	8.3	8.8	9.3	

Source: NT2, KIS Research

Abundant cash flow facilitates the rich payout ratio

Recently, NT2 has yet to expand its capacity in the near term and we expect there will be no significant investing cash outlay. Furthermore, NT2 only maintains short-term debt to finance its working capital and the company already completed the long-term payment obligation in Jun 2021 which partially alleviated it out of burden from interest expense. We project the net debt/equity will decrease from -15.8% in 2022F to -20.8% in 2023F.

As its parent company, PV Power (POW VN Equity, Non-rated) needs huge cash to finance the new Nhon Trach 3 & 4 plants and could force NT2 to lift up the payout ratio in 2023F-24F. Hence, we expect it would maintain or even enlarge its annual cash dividend of 20% - 30% per share at par in the following years.

Ratings and recommendation

We use Discounted cash flow (DCF) and EV/EBITDA valuation methods at the ratio of 70:30 for each method. Our blended target price comes in at VND34,300/share, equivalent to an upside of 22.1% compared to the closing price of 28,100 VND/share on February 8, 2023. We suggest BUY rating underpinned by stellar earnings growth in 2023F-24F, its lucrative dividend yield (7.1-8.9% in 2023F-24F), and its firm footprint in the gas-fired power generation.

Table 4. NT2's valuation

Metrics	Implied price	Weight	Weight value
EV/EBITDA (5.5x)	34,449	30%	10,335
DCF	34,204	70%	23,943
Consensus NT2's target share price			34,300

Source: KIS Research

In the DCF-based method, we use a risk-free rate of 5.5%, a risk premium of 11.1%, and a perpetual growth rate of 1%. We calculate the target price of VND34,200/share amid the implied WACC of 13.83%. NT2 is expected to generate a lofty amount of cash flow in the next 5 years thanks to favorable business performance.

Table 5. NT2's forecast of FCFF from 2023F – 2027F

VND bn	2023F	2024F	2025F	2026F	2027F
EBIT * (1-t) or NOPAT	779	859	907	1,022	848
Plus: Depreciation	688	688	655	151	151
Less: Capex	(51)	(51)	(51)	(51)	(51)
Less: Change in working capital	(570)	(101)	(4)	(172)	(1)
Free cash flow	846	1,395	1,507	950	947

Source: KIS Research

Table 6. Discounted cash flow valuation

Beta (x)	0.88	PV of FCF	4,442
Risk free rate (%)	5.50%	PV of Terminal Value	4,437
Equity risk premium (%)	11.13%	Enterprise value	8,879
Cost of equity (%)	15.31%	Plus: Cash	1,598
Cost of debt (%)	3.66%	Less: Debt	(631)
Tax rate (%)	20.00%	Less: Minority Interest	0
Target debt to capital (%)	11.92%	Equity Value	9,846
WACC (%)	13.83%	Shares Outstanding, Million	287.876
Perpetual growth rate	1.00%	Target price (VND/share)	34,200

Source: KIS Research, Bloomberg

Table 7. Sensitivity analysis

		Long term growth rate (g):				
		0.5%	1.0%	1.5%	2.0%	2.5%
WACC	11%	40,729	41,917	43,233	44,697	46,338
	12%	37,921	38,878	39,928	41,085	42,365
	13%	35,562	36,346	37,200	38,132	39,154
	14%	33,552	34,204	34,908	35,672	36,503
	15%	31,818	32,366	32,954	33,589	34,275
	16%	30,306	30,771	31,269	31,802	32,376

Source: KIS Research

Our forward EV/EBITDA-based target price is VND34,450 based on a target multiple of 5.5x (equivalent to median EV/EBITDA over 2019-2022 periods,) applied to average EBITDA over the period 2023F-24F. This fair value calculated using the EV/EBITDA method is 0.7% higher than the result of the DCF method.

Table 8. EV/EBITDA valuation method

Metrics	2023F	2024F	Average 23F-24F
EBITDA	1,510	1,625	1,568
Regional median multiple (x)	6.2	6.2	6.2
Premium (%)			(11.3)
Target multiple (x)			5.5
Enterprise value			8,622
Debt	631	631	631
Cash	1,598	2,253	1,926
Market capitalization			9,917
Shares Outstanding, Million			287.9
Implied value per share (VND)			34,450

Source: KIS Research, Fiinpro

Risks

NT2's sales volume will face harsh competition from cheaper power plants which make NT2's utilization rate low. In addition, the risks of lower economic growth will also reduce the output of the entire power sector. Fortunately, NT2's

machines and equipment will reach its full depreciation in 2025F which lead to the escalation of NT2's net profit.

Despite our forecast of the cooling gas price, we have to take into consideration the risks of rising gas price as a result of China's full reopening since 1Q23 and geopolitical tensions.

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)

	2020A	2021A	2022P	2023F	2024F
Current assets (Adj.)	1,866	2,543	4,352	4,857	5,594
Cash & cash equivalent	62	1	1,333	1,598	2,253
Accounts & other receivables	1,489	2,230	2,711	2,832	2,905
Inventory	315	311	307	426	437
Non-current assets (Adj.)	4,184	3,496	2,809	2,172	1,535
Fixed Asset	4,184	3,496	2,809	2,172	1,535
Investment assets	0	0	0	0	0
Others	331	585	124	363	303
Total assets	6,381	6,624	7,285	7,392	7,433
Advances from customers	0	0	0	0	0
Unearned revenue	0	0	0	0	0
Trade payables	397	1,034	770	779	764
Others	912	1,147	1,425	1,325	1,262
ST debt & bond	775	210	631	631	631
LT debt & bond	0	0	0	0	0
Total liabilities	2,084	2,390	2,825	2,734	2,657
Controlling interest	4,298	4,234	4,460	4,657	4,776
Capital stock	2,879	2,879	2,879	2,879	2,879
Capital surplus	(0)	(0)	(0)	(0)	(0)
Other Reserves	137	160	182	204	226
Retained earnings	1,282	1,196	1,400	1,575	1,671
Minority interest	0	0	0	0	0
Shareholders' equity	4,298	4,234	4,460	4,657	4,776

Cash flow

(VND bn)

	2020A	2021A	2022P	2023F	2024F
C/F from operations	1,222	1,074	1,141	875	1,409
Net profit	625	534	729	774	838
Dep'n & Amort'n	693	690	688	688	688
Net incr. in W/C	(96)	(150)	(276)	(587)	(117)
C/F from investing	218	9	(946)	(34)	(35)
Capex	(1)	(3)	(1)	(51)	(51)
Incr. in investment	219	11	(945)	17	16
C/F from financing	(1,830)	(1,143)	(54)	(576)	(720)
Incr. in equity	0	0	0	0	0
Incr. in debt	(1,111)	(568)	421	0	0
Dividends	(719)	(575)	(474)	(576)	(720)
C/F from others	0	0	242	0	0
Increase in cash	(389)	(61)	383	265	655

Income statement

(VND bn)

	2020A	2021A	2022P	2023F	2024F
Net sales	6,082	6,150	8,786	8,796	9,008
COGS	5,187	5,474	7,685	7,777	7,969
Gross profit	895	676	1,101	1,019	1,039
SG&A expenses	85	83	330	197	102
Operating profit	810	593	772	822	937
Operating profit (Adj)	810	593	671	774	937
Financial income	18	18	24	21	20
Interest income	17	11	21	17	16
Financial expenses	160	52	18	26	26
Interest expenses	38	20	15	23	23
Other non-operating profit	(4)	7	0	0	0
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	663	566	779	817	931
Income taxes	38	32	50	43	93
Net profit	625	534	729	774	838
Net profit (Adj)	625	534	634	728	838
Net profit of controlling interest	625	534	729	774	838
Exceptional items	0	0	95	46	0
Compensation for exchange loss	0	0	323	147	0
Bad debt provision			(228)	(102)	0
EBITDA	1,502	1,283	1,460	1,510	1,625

Key financial ratio

	2020A	2021A	2022P	2023F	2024F
Per-share (VND)					
EPS	2,095	1,756	2,202	2,529	2,912
BPS	14,928	14,706	15,492	16,179	16,591
DPS	2,498	1,999	1,648	2,000	2,500
Profitability (%)					
OP margin	13.3	9.6	7.6	8.8	10.4
NP margin	10.3	8.7	7.2	8.3	9.3
EBITDA margin	24.7	20.9	16.6	17.2	18.0
ROA	9.8	8.1	10.0	10.5	11.3
ROE (excl MI)	14.5	12.6	16.4	16.6	17.5
Dividend yield	7.6	11.2	5.9	7.1	8.9
Dividend payout ratio	88.0	98.0	65.1	74.4	85.9
Stability					
Net debt (VND bn)	713	209	(703)	(968)	(1,623)
Net debt/equity (%)	16.6	4.9	(15.8)	(20.8)	(34.0)
Valuation (x)					
PE	13.4	16.0	12.8	11.1	9.7
PB	1.9	1.9	1.8	1.7	1.7
EV/EBITDA	5.5	6.1	5.7	5.5	5.1

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
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