Central HydroPower JSC. (CHP – HSX)

Back to normal routine

Particulars (VND bn)	Q2-FY16	Q1-FY16	*+/- qoq*	Q2-FY15	*+/- yoy*
Net revenue	80.3	94.8	-15%	145.2	-45%
PAT	(7.0)	8.8	-180%	54.7	-113%
EBIT	23.8	34.8	-32%	90.1	-74%
EBIT margin	29.6%	36.7%	-710bps	62.0%	-3,243bps

Sources: CHP, RongViet Research

2Q2016: Slightly affected by El Nino

Sales volume in 1Q2016 reached 70.4 mn kWh versus the rolling three-year first-quarter average volume of 99 mn kWh. Q2 volume was also reported at 68.5 mn kWh, lower than the rolling average volume of 84 mn kWh. Total sales volume fell by 48% yoy in 1H2016. It should be noted, however, that sale volume of 1H2015 was abnormally high. As compared to the average first-half volume of 2013 and 2014, the volume of electricity sold in 1H2016 was only 14.6% lower.

Average selling price in 1H2016 was VND1,258 per kWh, slightly higher than that of 1H2015. Hence, total revenue was down 45% yoy to VND175 bn. With lower sales, gross margin declined to 38% (vs 65% in 1H2015) and gross profit in dolar term dropped 67.5% yoy to VND67 bn. Financial expense was down by c. 18% yoy thanks to a decline in interest expense but SG&A was up by 39% yoy due wage increases. CHP has been operating under a zero income tax rate, so PAT equaled PBT at VND1.8 bn (-99% yoy).

More profitable in 3Q2016

We have had a short call with CHP's representative for a view on the impact of El Nino and La Nina on the Company's operations. We learn that water level in A Sap river in Q3 has been in line with expectations and still matches the multiple-year average level for this period, allowing CHP to follows its operating plan closely. Q3 sales volume is expected at 124 mn kWh, up by 11% yoy and equivalent to 90% of total volume in the first half.

Q3 revenue is estimated at VND106.3 bn. Thanks to high output in the third quater, gross profit margin is estimated at c. 54% and gross profit ar at c. VND57.6 bn, up by 14% yoy and significantly higher than in the first half. PBT (and PAT) can reach approximately VND26 bn (+70% yoy) in 3Q2016.

Outlook and valuation

A Luoi hydropower plant is located in the A Sap river basin of Thua Thien-Hue province. According to the climate pattern of the region, the rainy season only comes in the last quarter, with 55-70% of the annual rainfall occuring in the last 3-4 months of the year. Like we have mentioned above, the impact of El Nino on CHP has been negligible as compared to other hydropower plants in the South-Central and Highland. 2016 net income is forecast at VND246.3 bn or VND1,886 per share.

CHP is proved as a highly efficient hydropower plant with stable business results over the years. After the Company prolonged payment term and lower interest rates on its long-term debts in 2015, the Company found itself in ample for dividends payment. In fact, dividend payout increased from VND900 a share in 2014 to VND1,600 a share in 2015 and has been planned at VND1400-VND1600 a share in 2016. Given its solid cash dividend policy, CHP is a worthy consideration for long-term investors.

*Using P/E and EV/EBITDA methods, CHP's reasonable price is estimated at VND23,400 per share, 13.7% higher than the closing price on Sep 22nd. We recommend **ACCUMULATE** in the **INTERMEDIATE-TERM** for CHP.*

ACCUMULATE

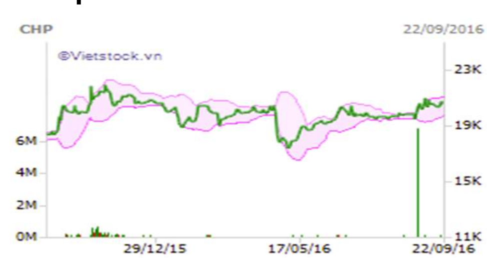
CMP (VND)	20,600
Target Price (VND)	23,400
Investment Period	Intermediate-term

Stock Info

Sector	Power
Market Cap (VND bn)	2,596
Current Shares O/S	125,999,511
Beta	0
Free float (%)	34.9
52 weeks High	21,000
52 weeks Low	16,900
Avg. Daily Volume (in 20 sessions)	408,654

	FY15	Current
EPS	2,484	1,440
EPS Growth	40%	-42%
Adjusted EPS	2,484	1,440
P/E (*)	7.7	14.3
P/B	1.5	1.8
EV/EBITDA (*)	7.0	8.0
Cash dividend (on par)	8.4%	7.8%
ROE (*)	20%	N/A

Price performance



Major Shareholders (%)

EVN SPC	23.0
EVN CPC	23.0
EVN Finance	5.0
Other major shareholders	14.2
Remaining Foreign Investor Room (%)	45.8

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Exhibit 1: 2QFY2016 Results

Particulars (VND bn)	Q2-FY16	Q1-FY16	+/- (qoq)	Q2-FY15	+/- (yoy)
Net Revenues	80.3	94.8	-15.3%	145.2	-44.7%
Gross profits	29.0	38.3	-24.2%	91.2	-68.2%
SG&AC	8.7	6.6	33.4%	5.5	57.8%
Operating Income	20.3	31.8	-36.1%	53.6	-62.1%
EBITDA	62.4	73.1	-14.6%	128.3	-51.3%
EBIT	23.8	34.8	-31.7%	90.1	-73.6%
Financial expenses	30.8	26.0	18.3%	35.4	-13.1%
- Interest Expenses	*30.8*	*26.0*	*18.3%*	*35.4*	*-13.1%*
Dep. and amortization	38.7	38.3	1.0%	38.2	1.3%
PBT	-7.0	8.8	-179.9%	54.7	-112.8%
PAT	-7.0	8.8	-179.9%	54.7	-112.8%

Sources: CHP, RongViet

Exhibit 2: 2QFY2016 performance analysis

Particulars	Q2-FY16	Q1-FY16	+/- (qoq)	Q2-FY15	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	36.2%	40.4%	-427bps	62.8%	-2663bps
EBITDA Margin	77.8%	77.1%	65bps	88.3%	-1057bps
EBIT Margin	29.6%	36.7%	-710bps	62.0%	-3243bps
Net Margin	-8.7%	9.3%	-1800bps	37.7%	-4639bps
Adjusted Net Margin	-8.7%	9.3%	-1800bps	37.7%	-4639bps
Turnover *(x)					
-Inventories	7.8	4.8	3.0	4.6	3.3
-Receivables	5.3	2.8	2.5	6.0	-0.7
-Payables	0.0	0.0	0.0	0.0	0.0
Leverage (x)					
Total Debt/ Equity	1.1	1.2	-0.1	1.2	-0.1

Sources: RongViet Research database; (*) Annualized turnover

Exhibit 3: 3QFY2016 Forecast

Particulars (VND bn)	Q3-FY16	+/- qoq	+/- yoy
Net Revenues	114	42%	0%
Gross profits	65	125%	29%
EBIT	61	158%	29%
PAT	34	-587%	121%

Sources: RongViet Research

Updated information

Selling prices to go throught the off-peak season in3Q

For CHP, selling prices are often at their lowest in Q3 due to (1) a decline in contracted price (Pc) to VND795 per kWh (the rest of the time is VND962 per kWh) and (2) low electricity prices in competitive market as a result of heavy rainfalls and thus ample supply from hydro power plants. We estimate that average selling price of CHP in Q3 can be as low as VND859 per kWh, a significant decrease from that of the first half.

Sharply decrease of interest expenses

By the end of 2Q2016, total long-term debt was more than VND1,363 bn, 80% of which are owed to VDB Thua Thien Hue. The interest rates on 50% of outstanding loan was reported 10% in the beginning of 2015 but declined to 8.55% by the end of Aug 2015. The loans with the highest rates will be paid off before the others.

After CHP's debt restructuring manuever, the average interest rate is estimated at 8.1%, down from 8.6% in 2015. Hence, 2016 interest expenses could be VND20 bn lower than that of 2015.

Extraordinary expectation in 4Q2016

For the last quarter, sales volume is targeted at 316 mn kWh. As compared to what CHP achieved in 4Q2015, this plan looks quite challenging. However, looking at power production data during of the 2013 – 2015 period, we have learnt that except the abnormal decline in 4Q2015, over 300mn kWh in Q4 output is well within reach for CHP. Given the output guidance, we estimate revenue and NPAT in 4Q2016 at VND331.6bn (+11.6% yoy) and VND217.4 bn (+21% yoy) respectively.

For the whole year of 2016, the volume of electricity sold is estimated at 578.5mn kWh and revenue at VND612 bn. NPAT and EPS are expected at VND246.3 bn (-25%) and VND1,886 respectively.

Major shareholders diviestment

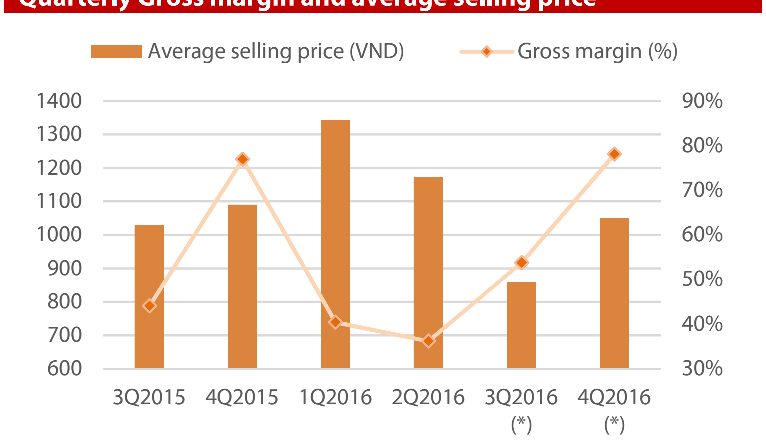
In late August and early September, two state-owned shareholders of CHP, i.e. EVN Ha Noi (11.25 mn shares or 8.93%) and Genco 1 (6.6 mn shares or 5.22%), sold shares of the Company at an average price VND19,900 per unit. Such divestment was implemented in accordance with the government plan to withdraw the influence of State Corporations from local companies.

The identity of the buyers remains unknown. However, from what we have uncovered, they are professional investors specializing in the power industry. If this is true, their investment in CHP could be either for strategic purposes or as a long-term holding. Therefore, we suppose this transfer will have negligible impact on the daily trading of CHP.

Transfer to list on HSX

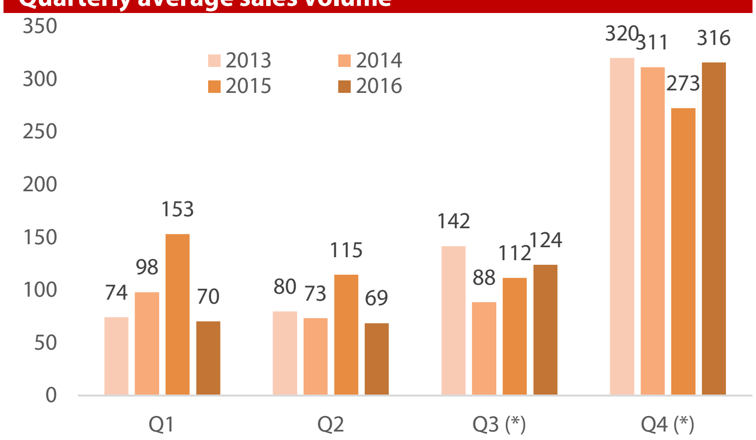
The stock of CHP was delisted on HNX in Sep 23rd and can be traded on HSX starting Sep 29th. CHP is the largest listed hydropower company in terms of capacity and the second largest by chartered capital as well as total assets. Therefore, we expect the migration to the HSX will help improve the stock's liquidity.

Quarterly Gross margin and average selling price



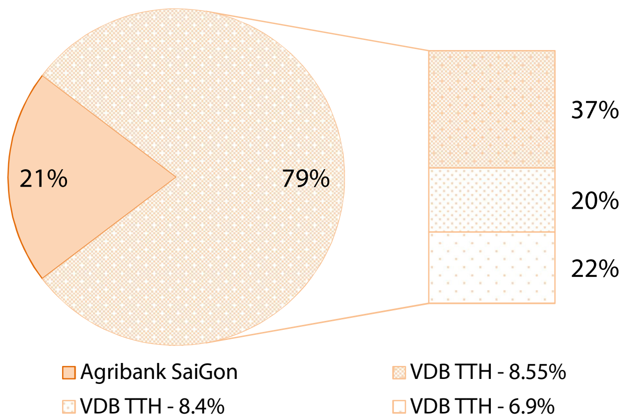
Source: RongViet Research

Quarterly average sales volume



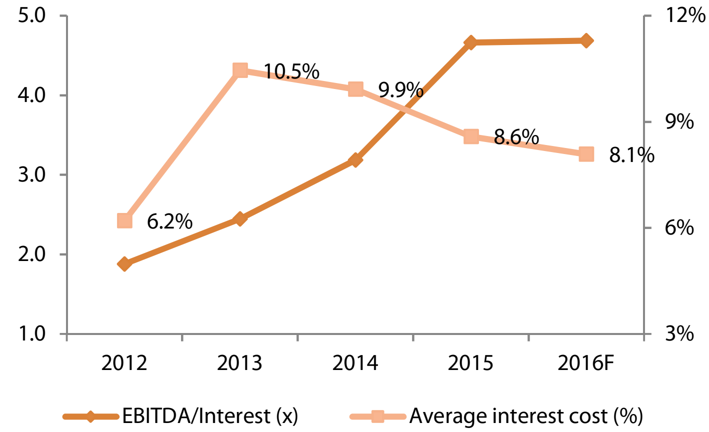
Source: RongViet Research

Total long-term debt @ June 30th 2016



Source: RongViet Research

Average interest rate and EBITDA/interest expense ratio



Source: RongViet Research

VND billion

INCOME STATEMENT	**FY2014**	**FY2015**	**FY2016E**	**FY2017F**
Revenue	626.5	729.3	612.9	643.3
COGS	225.7	242.5	227.4	231.6
Gross profit	**400.8**	**486.8**	**385.5**	**411.7**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	35.5	39.0	42.6	44.7
Finance Income	8.1	9.5	12.6	19.0
Finance Expense	167.2	131.5	110.1	96.4
Other profits	7.0	2.6	1.0	1.0
PBT	**213.1**	**328.3**	**246.3**	**290.6**
Prov. of Tax	0.0	0.0	0.0	14.5
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**213.1**	**328.3**	**246.3**	**276.1**
EBIT	380.3	459.7	356.5	387.0
EBITDA	532.9	612.4	508.3	539.2

FINANCIAL RATIO	**2014A**	**2015A**	**2016E**	**2017F**
Growth (%)				
Revenue	18.6%	16.4%	-16.0%	5.0%
Operating Income	18.7%	22.6%	-23.4%	7.0%
EBITDA	14.2%	14.9%	-17.0%	6.1%
EBIT	20.1%	20.9%	-22.5%	8.6%
PAT	69.2%	54.1%	-25.0%	12.1%
Total Assets	-2.6%	-2.0%	-5.5%	-2.8%
Equity	13.3%	14.4%	3.3%	4.3%
Internal growth rate	7.9%	8.3%	2.7%	4.3%
Profitability (%)				
Gross profit/Revenue	64.0%	66.7%	62.9%	64.0%
Operating profit/ Revenue	58.3%	61.4%	56.0%	57.1%
EBITDA/ Revenue	85.1%	84.0%	82.9%	83.8%
Net margin	34.0%	45.0%	40.2%	42.9%
ROAA	6.3%	10.0%	7.8%	9.1%
ROAE	15.9%	21.5%	14.9%	16.1%
Efficiency (x)				
Receivable Turnover	2.8	3.0	2.9	2.9
Inventory Turnover	4.5	4.9	8.2	31.9
Payable Turnover	0.7	1.0	1.5	2.0
Liquidity (x)				
Current	0.9	1.5	1.9	1.4
Quick	0.8	1.3	1.9	1.4
Solvency (%)				
Total Debt/Equity	133.7%	100.2%	83.2%	70.7%
Current Debt/Equity	12.0%	10.1%	9.8%	9.4%
Long-term Debt/ Equity	101.7%	78.8%	66.6%	54.5%

VND billion

BALANCE SHEET	**2014A**	**2015A**	**2016E**	**2017F**
Cash and short-term investment	115	251	309	170
Receivables	264	215	215	225
Inventories	52	48	7	7
Other current assets	1	0	0	0
Total Current Asset	**432**	**514**	**530**	**402**
Fixed Assets	2,874	2,723	2,529	2,570
Construction in Progress	5	4	5	4
Real-Estate investment	0	0	0	0
Long-term Investment	0	0	0	0
Other long-term assets	11	15	12	12
Long-term Asset	**2,890**	**2,742**	**2,546**	**2,586**
Total Asset	**3,322**	**3,255**	**3,076**	**2,988**
Payables	132	83	43	43
Current Debt	170	164	164	164
Long-term Debt	1,445	1,281	1,118	954
Other long-term liabilities	0	0	0	0
Total Liability	**1,901**	**1,629**	**1,397**	**1,238**
Owner's Equity	**1,421**	**1,626**	**1,679**	**1,750**
Capital	1,200	1,260	1,260	1,260
Retained Earnings	172	267	287	334
Funds & Reverses	50	99	132	157
Others	**0**	**0**	**0**	**0**
Total Equity	**1,421**	**1,626**	**1,679**	**1,750**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**3,322**	**3,255**	**3,076**	**2,988**

VALUATION RATIO	**FY2014**	**FY2015**	**FY2016**	**FY2017**
EPS (dong)	1,776	2,484	1,886	2,191
P/E (x)	6.7	7.7	8.6	9.3
BV (dong)	11,842	12,906	13,325	13,893
P/B (x)	1.0	1.5	1.5	1.5
DPS (dong/cp)	900	1,600	1,600	1,600
Dividend yield (%)	7.6%	8.4%	7.8%	7.8%

VALUATION MODEL	***Price***	***Weight***	***Average***
P/E	21,990	50%	10,995
EV/EBITDA	24,736	50%	12,368
Target price (dong/share)		**100%**	**23,363**

VALUATION HISTORY	***Price***	***Recommendation***	***Period***
30/09/2015	23.600	Buy	Intermediate-term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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