GIA LAI ELECTRICITY JSC (HSX: GEG)

Slight increase in profit creating a low base for 2021's growth

(VND bn)	Q4-FY20	Q3-FY20	+/- qoq	Q4-FY19	+/- yoy
Net revenue	534	353	51%	353	51%
PAT-MI	80	53	49%	68	17%
EBIT	175	163	7%	163	7%
EBIT margin (%)	32.7	46.2	7072 bps	46.1	-1347 bps

Source: GEG, Rong Viet Securities

4Q2020 performance – Significant growth in revenue

- Revenue reached VND534 billion, +51% YoY because of rooftop solar power capacity expansion to 30 MW.
- GPM shrank because of low GPM manufacture segment thus gross profit slightly grew by 4% despite of strong growth in revenue.
- NPAT-MI reached VND80 billion, +49% QoQ and 17% YoY because of lower financial expenses of 15% QoQ.

FY2021 outlook – La Nina will enhance the hydropower segment performance

The company's hydropower segment is forecasted to grow by 34% because of La Nina with a 30% output growth. A high margin from this segment will bring about high gross profit to the company.

GEG will COD the three-wind power in 4Q2021, adding 130 MW to 316 MW, a growth of 41% in capacity. *The wind power segment* is estimated to contribute around VND 196 billion to total revenue in 2021.

The solar power segment is expected to be sustainable in volume and revenue, forecasting to grow 1% and 2%, respectively. La Nina may have a little impact on volume yet the rooftop solar power full-year utilization will compensate for it. This segment will continue to be the main pillar for GEG's profit and cash flow.

Valuation and recommendation

We consider GEG as a renewable energy company with a strongly expanding portfolio diversified over all three segments, which are hydropower, solar power and wind power. As one of the largest beneficiaries of the renewable energy trend, GEG will operate three-wind power plants in 2020, a total capacity of 130 MW, increasing by 40% in capacity. Its 2021 electricity output is going to increase by 10%. Wind power will contribute 30% to GEG's total revenue as its main growth driver in the medium term. Furthermore, hydropower's prosperous phase will play in 2021, bringing high revenue and profit. Ultimately, solar power is expected to be fairly stable regardless of La Nina's impact.

Now that information on GEG's wind power farms have become more available, we adjusted our assumptions on the segment's contribution to the forecasted business result. Accordingly, we raise our target price to VND 21,700 with an upside of 16% compared to the close price as of 10 March 2020. We recommend to ***ACCUMULATE*** *this stock.*

ACCUMULATE +16%

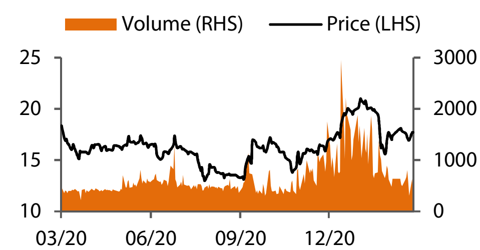
Target price (VND)	21,700
Current market price (VND)	18,700
Cash divedend	*0*

Stock Info

Sector	RE & Materials
Market Cap (VND billion)	4,441
Current Shares O/S	271,175,188
Avg. Daily Volume (in 20 sessions)	1,077,739
Free float (%)	58
52 weeks High	21,000
52 weeks Low	12,992
Beta	0.798

	FY2019	Current
EPS	886	938
EPS Growth (%)	70	6
Diluted EPS	886	938
P/E	23.6	21.1
P/B	2.1	1.5
EV/EBITDA	11.3	19.8
Cash dividend yield (%)	7	-
ROE (%)	11	8

Price performance



Major Shareholders (%)	
Amstrong	21.1
TTCI	18.1
IFC	14.0
Betrimex	10.8
TTC Sugar	7.2
Others	28.7
Foreign ownership room (%)	37.5

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Exhibit 1: 4Q/2020 Results

(VND Bn)	Q4-FY20	Q3-FY20	+/- (qoq)	Q4-FY19	+/- (yoy)
Net revenue	534	353	51.2	353	51.3
Gross profit	209	193	8.3	202	3.5
SG&A	34	29	15.8	39	-11.7
Operating income	175	163	7.0	163	7.1
EBITDA	88	73	20.7	81	8.4
EBIT	175	163	7.0	163	7.1
Financial expenses	87	102	-14.9	88	-1.3
- Interest Expenses	86	88	-2.7	93	-7.9
Dep. and amortization	87	90	-4.1	82	5.9
Non-recurring items (*)					
Extraordinary items (*)					
PBT	98	68	43.3	74	33.0
PAT	80	53	49.0	68	17.3
(*) Adjusted PAT	80	53	49.0	68	17.3

Source: GEG, Rong Viet Securities

Exhibit 2: 4Q/2020 Performance Analysis

Particular	Q4-FY20	Q3-FY20	+/- (qoq)	Q4-FY19	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	39.0	54.5	-1,548 bps	57.1	-1,802 bps
EBITDA Margin	16.5	20.6	-417 bps	23.0	-653 bps
EBIT Margin	32.7	46.2	-1,352 bps	46.1	-1,347 bps
Net Margin	14.9	15.1	-22 bps	19.2	-432 bps
Adjusted Net Margin	14.9	15.1	-22 bps	19.2	-432 bps
Turnover *(x)					
-Inventories	7.1	2.7	4.4	2.6	4.5
-Receivables	1.8	1.6	0.2	3.1	(1.3)
-Payables	3.9	3.3	0.5	1.7	2.2
Leverage (%)					
Total Debt/ Equity	31.5	41.7	104 bps	32.4	1 bps

Source: Rong Viet Securities

Exhibit 3: 1Q/2021 Performance Forecast

Particulars (VND Bn)	Q1-FY21	+/- qoq	+/- yoy
Revenue	335	-37%	10%
Gross profit	196	-6%	9%
EBIT	169	3%	8%
NPAT	79	-14%	2%

Source: Rong Viet Securities

- In 1Q2021, we estimate that GEG will produce roughly 180 mil kWh, +35% YoY and -25% QoQ mainly due to the seasonality of hydropower segment. Meanwhile, solar power volume is expected to increase slightly YoY because of rooftop solar power.
- Revenue is estimated to reach VND 335 bil, +10% YoY and -37% QoQ because of dry season.
- Financial expenses and other expenses are estimated to remain unchanged, resulting NPAT +2% YoY.

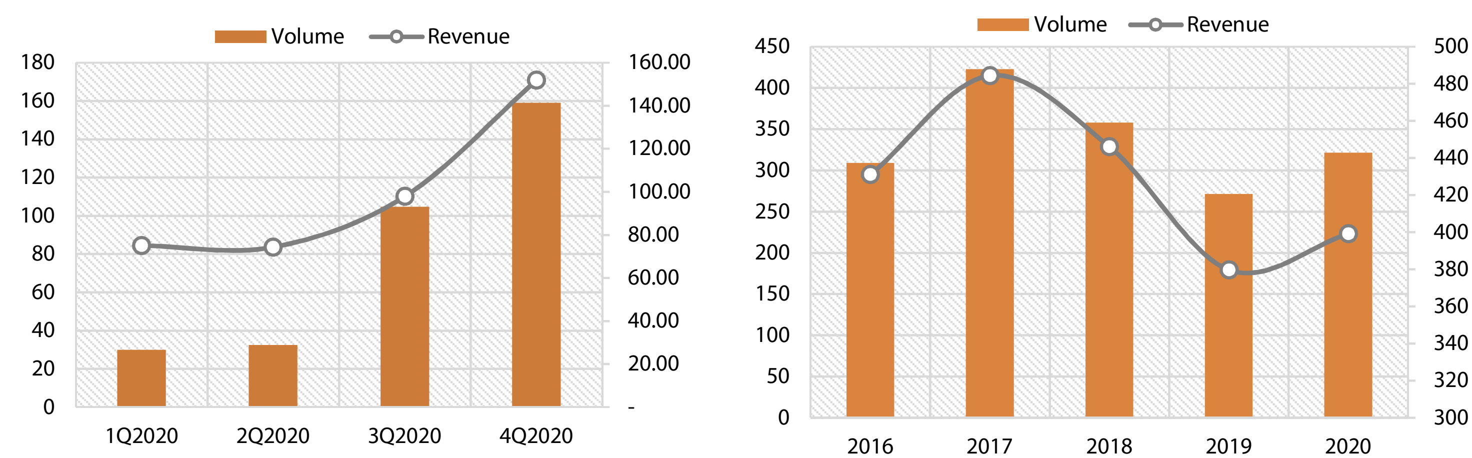
Update

La Nina boosted hydropower performance yet dampened solar power segment in 4Q2020 particularly in October and November

Hydropower volume and revenue in 1H2020 were heavily dampened because of El Nino, recovered in 3Q2020 and surged in 4Q2020. In this quarter, the company provided 159 million kWh, increasing by 51% QoQ, leading a 55% increase in revenue because of heavy rain in 4Q2020, particularly in October. As represented in Figure 2, La Nina trough was relatively deep compared to 2017 – the latest La Nina year, rainfall was more intense, bringing significant volume and revenue.

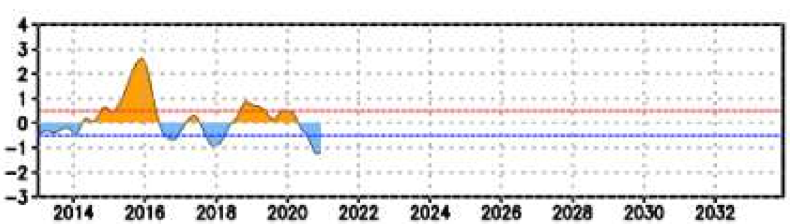
During 2020, the company provided 321 million kWh of hydropower, growing by 18% YoY. The volume and revenue moved in line with ENSO magnitude simulation in Figure 2 as the hydropower business is entirely based on weather. Hydropower's revenue grew by 5% YoY and already bounced back due to the ENSO cycle.

Figure 1: Hydropower volume (LHS, million kWh) and revenue (RHS, VND billion)



Source: Rong Viet Securities

Figure 2: ENSO magnitude historical simulation (Orange: El Nino; Blue: La Nina)

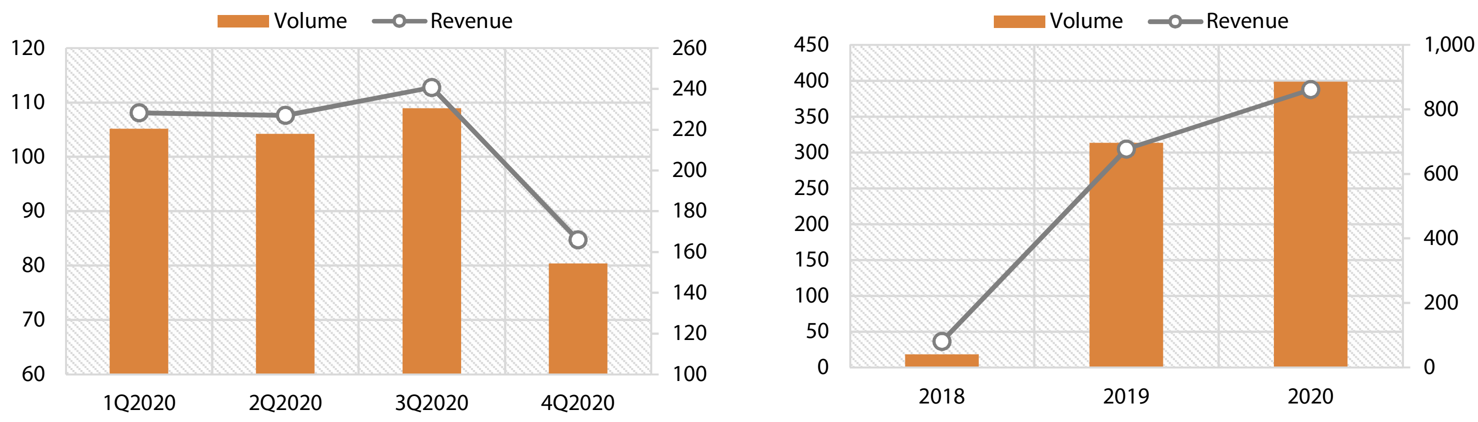


Source: GEG, Rong Viet Securities

In the solar power segment, La Nina and the rainy season dampened volume and revenue in 4Q2020. Specifically, solar power volume and revenue were 80 million kWh and VND 166 billion, respectively in 4Q2020, resulting in a fall of 26% and 31% QoQ, respectively (Figure 3). Phong Dien (Hue city) was the most heavily impacted plant by the flood in late October, thus revenue in 4Q2020 decreased by 65% QoQ. Besides, the company added 18 MW rooftop solar power to 30 MW in total. Hence, rooftop solar power created 10 million kWh and contributed VND 20 billion to the company revenue in 4Q2020.

In general, the solar power segment grew by 27% YoY because of full-year utilization of the three solar power plant COD in mid-2019 and rooftop solar power addition (Figure 3). In terms of volume, GEG's power plants produced roughly 400 million kWh, accounting for 55% of the total company's volume and contributed more than VND 860 billion to total revenue. This segment operated relatively sustainably in the first three quarters until the rainy season came. We estimate that volume in 4Q2021 will be heavily impact by La Nina, yet its magnitude may be lower than or equal to 4Q2020.

Figure 3: Solar power volume (LHS, million kWh) and revenue (RHS, VND billion)



Source: GEG, Rong Viet Securities

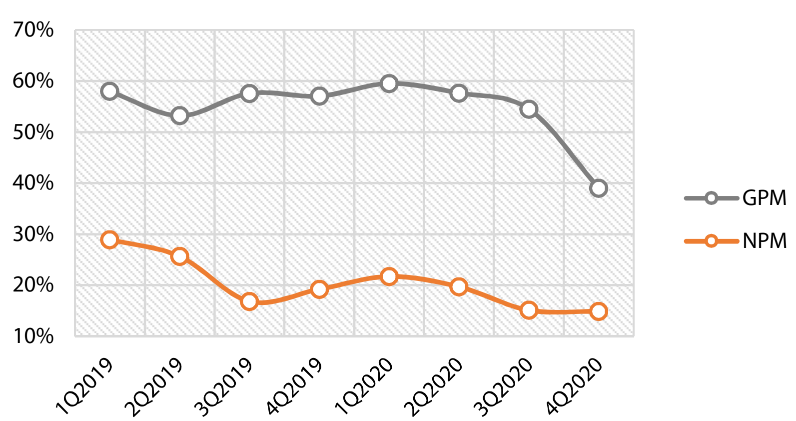
Refinance effectiveness reflected immediately in 4Q2020

Financial expenses decreased by 15% QoQ to VND 87 billion because in 3Q2020 the company paid a penalty for early repayment of Truc Son project loans. In 4Q2020, interest expenses fell by 3% reflecting refinance effectiveness for Truc Son solar power plant in 3Q2020. This is also a potential for GEG to keep looking for international banks – which prioritizes green energy with stable cashflow to refinance, resulting in financial expenses potentially falling.

Merchandise goods segment expansion lowered the company gross profit margin in 4Q2020, resulting in GPM at 51% for the year

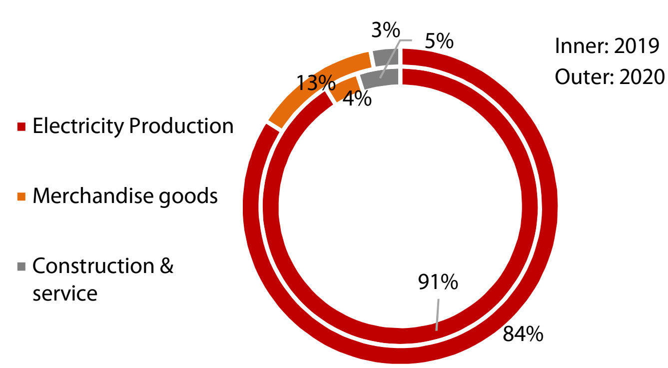
The company expanded its merchandise goods segment, concentrating on market share rather than profit, thus reducing the company's gross profit margin to 39% in 4Q2020 from 55% in 3Q2020 (Figure 4). Besides, the company attempted to sell solar cells in 4Q2020 to push inventory out as inventory had a downward trend since 2Q2020. The segment contributed 40% of total revenue in 4Q2020. From that, the company's GPM dropped to 51%, relatively lower than 2019. As 30 December 2020 is the deadline FiT2, thus the company is capable of pushing selling solar cell, thus we expect that this segment will slow down in 1Q2021.

Figure 4: GEG's gross profit and net profit margin



Source: GEG, Rong Viet Securities

Figure 5: Revenue contribution by segment



Source: GEG, Rong Viet Securities

Currently, electricity production accounts the majority with 84% while merchandise goods contribute 13% pa. Merchandise goods increased its contribution from 4% in 2019 to 13% in 2020 and is expected to grow to 17% in 2021. The electricity segment has a high gross profit margin of roughly more than 55%, in which wind power ranks first with roughly 70%. Hence, gross profit margin in 2021 is forecasted at 52% because of merchandise goods expansion.

2020 – Considerable growth in revenue yet flat NPAT because of financial burden

The company's revenue in 2020 increased by 29% YoY because of full-year utilization of the three solar power plants COD in mid-2019 and 30 MW rooftop solar power capacity added in late 2020. Alongside with capacity expansion, the company incurred a large amount for capital financing, thus financial expenses surge by 42% YoY. Hence, NPAT-MI slightly increased by 3%, creating a low base for 2021.

FY2021 outlook

The three-wind power will COD in 4Q2021 and will boost the company's capacity

GEG expects that it will COD the three-wind power this October, an increase of 41% in capacity to 446 MW in total. We estimate that the company will produce roughly 89 million kWh with an assumption 2.6~2.9 million kWh/MW p.a, contributing roughly VND 196 billion in revenue and 26 VND billion in net profit. We discount 10% compared to the company's estimated volume to be conservative. However, with a wind speed of more than 8 m/s, the turbines can produce more than 3 million kWh p.a with the assumption in Table 1. The company will COD the three wind plants in last quarter of 2021, thus this segment's contribution in terms of volume and revenue in 2021 is not remarkable, but it will account for a large portion in 2022 at 30%.

Table 1: Volume, revenue and net profit for the three-wind power plants in 2021

	VDSC's assumption	GEG's estimation	International average
Volume per MWp p.a (million kWh)	2.6~2.9	2.9~3.2	3.2 ~3.4
Total revenue (VND billion)	196	220	240
Net profit (VND billion)	26	50	68

Source: GEG, Rong Viet Securities

In terms of progression, Ia Bang and Tan Phu Dong will be constructed by PC1. With the top and experienced construction company, we expect that GEG is capable of finishing the three-wind project before FiT1 deadline as shown in Table 2.

Table 2: Volume, revenue and net profit for the three-wind power plants

Projects	Capacity (MW)	Place	Total Capex (VND billion)	Estimated FiT (US cents)	Capex/MW (VND billion)	Starting Time	Expected COD
Ia Bang	50	Gia Lai	1,955	8.5	39	Nov-20	Oct-21
Tan Phu Dong 2	50	Tien Giang	2,242	9.8	45	Jan-21	Oct-21
VPL	30	Ben Tre	1,320	9.8	44	May-20	Aug-21

Source: GEG, Rong Viet Securities

Hydropower's prosperous phase will turn around because of La Nina

We forecast that volume and revenue in 2021 will increase by 30% and 24%, respectively. As mentioned in our GEG's initial report, the La Nina probability in 2021 will account for roughly 60% and is stronger than 2017 – the latest one. As a result, hydropower volume in 2021 is forecasted to increase by 30% to 416 million kWh. Revenue is forecasted to reach roughly VND 490 billion, contributing 24% in total revenue. In 2021, hydropower will contribute 25% to total revenue and more than 50% NPAT due to low depreciation and interest expenses. Thus, cash flow from this segment will be prosperous, creating advantages for GEG – constant expansion-capacity company.

Solar power may be impacted by La Nina yet it is the major contributor to the company's revenue

The company just added an extra 30 MW rooftop solar panel in late 2020 yet the solar power volume in 2021 is forecasted to be flat due to La Nina impact. We forecast solar power to contribute roughly VND 890 billion in 2021, equivalent to 45% of total revenue, and be the major contributor. This is because La Nina will reduce radiation, resulting in a fall in the number of sunny hours.

In general, revenue is forecasted to grow by 29% YoY because of hydropower performance bouncing back and the three-wind power contribution. The intensive debt financing for the wind and solar power segments resulting in an increase in financial expenses. As a result, NPAT is forecasted to grow by 36% YoY in 2021.

Valuation

We use three methods including FCFF, P/E and P/B with a proportion of 20%, 40% and 40%, respectively to evaluate the fair value of GEG (Table 3). We use a WACC rate of 12% for FCFF, P/B multiple of 1.5x and P/E multiple of 14x. Hence, we evaluate GEG at VND 21,700, an upside of 16% compared to the closing price at 10 March 2021. Thus, we recommend to **ACCUMULATE** this stock.

Table 3: GEG valuation

Method	Valuation	Weight	Weighted average
FCFF	32,912	20%	6,582
PE	17,830	40%	7,132
PB	19,868	40%	7,947
Total		**100%**	**21,700**

VND billion

INCOME STATEMENT	2019	2020	2021E	2022F
Revenue	1,159	1,493	1,960	2,629
COGS	510	737	948	1,180
Gross profit	650	756	1,012	1,448
Selling Expense	1	2	2	3
G&A Expense	111	114	137	156
Finance Income	24	31	18	18
Finance Expenses	258	366	469	713
Other profits	0	5	6	8
PBT	304	309	427	603
Prov. of Tax	13	13	24	25
Minority's Interest	40	38	49	55
PAT to Equity S/H	251	258	354	523
EBIT	538	640	872	1,289
EBITDA	823	456	1,399	2,032

%

FINANCIAL RATIO	2019	2020	2021E	2022F
Growth (%)				
Revenue	107	29	31	34
Operating Income	135	19	36	48
EBITDA	152	-45	207	45
PAT	55	2	36	43
Total Assets	55	15	56	-3
Equity	7	132	117	107
Profitability (%)				
Gross margin	56	51	52	55
EBITDA margin	71	31	71	77
EBIT margin	46	43	44	49
Net margin	22	17	18	20
ROA	4	3	3	4
ROE	7	11	8	10
Efficiency				
Receivable Turnover	1.7	1.0	2.3	2.9
Inventory Turnover	1.6	4.9	3.5	3.5
Payable Turnover	2.0	1.6	1.6	1.6
Liquidity				
Current	1.5	1.7	0.6	0.7
Finance Structure (%)				
Total Debt/Equity	31	60	108	150
Current Debt/Equity	22	18	36	28
Long-term Debt/Equity	9	42	72	121

VND billion

BALANCE SHEET	2019	2020	2021E	2022F
Cash and cash equivalents	105	135	43	246
Short-term investments	11	0	0	0
Accounts receivable	688	1,443	860	920
Inventories	314	152	268	333
Other current assets	71	58	60	63
Property, plant & equipment	5,503	5,884	10,807	10,166
Acquired intangible assets	25	21	20	18
Long-term investments	3	0	0	0
Other non-current assets	42	74	78	82
Total assets	**6,763**	**7,768**	**12,136**	**11,829**
Accounts payable	251	458	611	761
Short-term borrowings	554	599	1,580	1,399
Long-term borrowings	232	1,420	3,203	5,959
Other non-current liabilities	32	36	44	57
Bonus and Welfare fund	1	0	0	0
Technology-science, dev. fund	3,936	4,044	7,713	7,148
Total liabilities	**5,005**	**6,557**	**13,152**	**15,325**
Common stock and APIC	0	0	0	0
Treasury stock (enter as -)	165	231	743	965
Retained earnings	0	0	0	0
Other comprehensive income	79	87	99	115
Inv. and Dev. Fund	2,321	3,068	3,592	3,831
Total equity	**2,565**	**3,387**	**4,433**	**4,911**
Minority Interest	**258**	**401**	**345**	**400**

VALUATION RATIO	2019	2020	2021E	2022F
EPS (dong)	886	938	1,274	1,881
P/E (x)	24	21	14	9
BV (dong)	12,652	12,793	13,245	14,126
P/B (x)	2.1	1.5	1.33	1.25
DPS (dong/cp)	700	-	-	1,000
Dividend yield (%)	2.59	-	-	5.67

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFF	32,912	20%	6,582
PE	17,830	40%	7,132
PB	19,868	40%	7,947
Target price (dong)		**100%**	**21,700**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
09/11/2020	20,800	BUY	Long 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 that 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	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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