30 September 2015

CENTRAL HYDROPOWER JSC (CHP – HNX)

Off-season advantages

Indicator (bn VND)	Q2-FY15	Q1-FY15	+/- qoq	Q2-FY14	+/-yoy
Net revenue	145.2	172.1	-16%	85.0	71%
EAT	54.7	78.8	-31%	(14.4)	N/A
EBIT	90.1	112.6	-20%	32.4	178%
EBIT margin	62.0%	65.5%	-341bps	38.1%	2,393bps

Source: CHP, RongViet Securities

Hydropower plant with largest capacity in stock exchange

Central Hydropower Joint Stock Company (HNX: CHP) was established in 2004 to develop and operate A Luoi Hydropower Plant with design capacity of 170 MW and average annual volume of 649 million kWh. Since the construction of A Luoi was initiated later (2008) than the plants of other listed hydropower companies like TBC, TMP, SJD, etc., its average capex per megawatt of design capacty was relatively higher.

Table: Key information of CHP and other listed hydropower companies

	CHP	SBA	SHP	SJD	TBC	TMP	VSH
Total design capacity (MW)	170.0	73.0	122.5	95.0	120.0	150.0	136.0
Design annual volume (million kWh)	649.0	292.4	549.7	391.7	400.0	610.0	598.5
2014 sale volume (million kWh)	571.2	161.6	662.9	420.7	384.9	858.0	680.5
Share capital (VND billion)	1,421	686	1,222	995	923	1,031	2,963
Total Assets (VND billionn)	3,322	1,448	3,206	1,296	980	1,593	3,640

Source: CHP, RongViet Research

Quantity under PPA (Qc) is defined on a weekly basis. A Luoi hydro power plant was built on A Sap river in A Luoi district, Thua Thien Hue, one of the provinces with the highest annual rainfall in the country, around 2,500mm. However, the rainy season only comes in September, extending until February and reaching its highest peak in November, the month that accounts for 30% of the whole year's rainfall. Due to climate conditions specific only to the province, A Luoi lake can keep enough water for only one week of continous production (in the dry season without water inflows). Therefore, unlike other hydropower plants whose yearly reservoirs result in the Qc being defined each year, A Luoi plant's quantity is defined weekly.

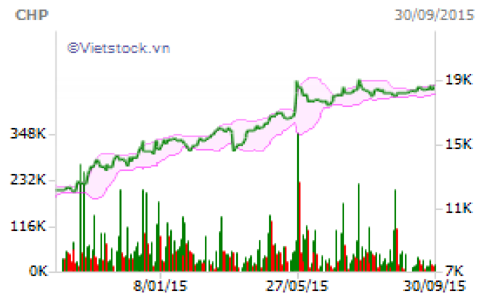
Advantages of off season. More than 60% of A Luoi's plant is generated in the last quarter and the other 10% is generated in January and February. It would be noted that: (1) Large reservoirs (yearly regulation) will reduce their generation activities to reserve water for dry season from Nov; (2) Jan and Feb are dry months in most areas across the country; and (3) Due to seasonal factors, electricity demand is quite high during this period, causing high market price (Pm). Consequently, with most of its volume generated during peak period of demand, we suppose that A Luoi plant will be the most effective one in this period.

Weekly-defined Qc and high capex would put a cap on CHP's increment profits when joining competitive market. Although most of CHP's electricity sales are generated in high-Pm period, weekly defined quantity would be an obstacle for A Luoi plant in increasing its Qm and maximize its operating efficiency.

BUY

Market price (VND)	18,700
Target price (VND)	23,600
Investment term	**INTERMEDIATE**

Stock Info	
Sector	Hydro Power
Market Cap (VND bn)	2,244
Current Shares O/S	120,000,000
Beta	0
Free Float (%)	34.9
52 weeks High	19,100
52 weeks Low	10,800
Avg. Daily Volume (in 20 sessions)	16,907



Source : Vietstock

Performance (%)

	3T	1N	3N
CHP	3.9	70.0	240.0
Utilities	-3.0	-1.3	N/A
VN30 Index	-6.4	-9.9	27.1
HSX Index	-5.1	-6.0	43.3

Major shareholders (%)

SPC	23.0
CPC	23.0
HaNoi Power Corporation	8.9
Genco 1	5.2
EVN Finance	5.0
FOL(%)	0.79%

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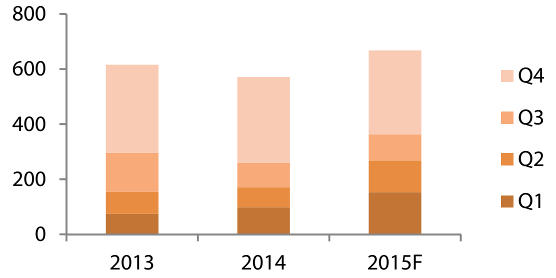
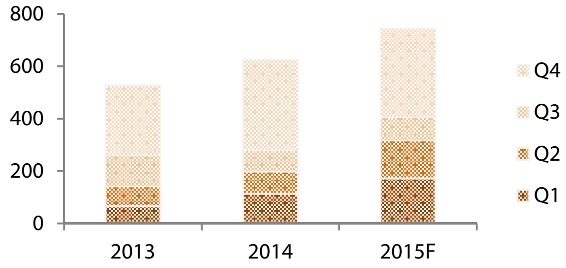
Also, higher capex would result in higher Pc. To be more specific, electricity volumes often increase in rainy season, causing the Pm to become lower (even to zero) than in the dry season. In this situation, if the Pm drops below the Pc, the marginal profit for A Luoi plant will be much less than for plants with lower Pc.

Graph 1: Last quarter's volume accounts for more than 60% of the total (2013 – 2015F)



Graph 2: More than 50% of revenue is generated in last quarter (2013 – 2015F)



Nguồn: Rongviet Research

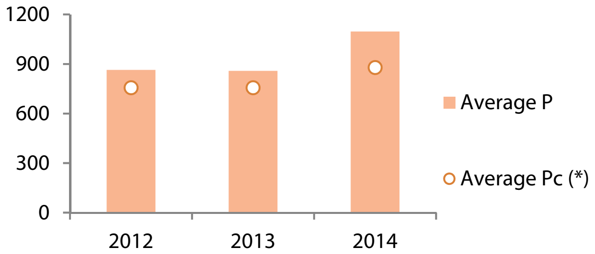
Financial performance

FY2014's sales growth reached 19% thanks to the new and higher purchasing price (Pc)

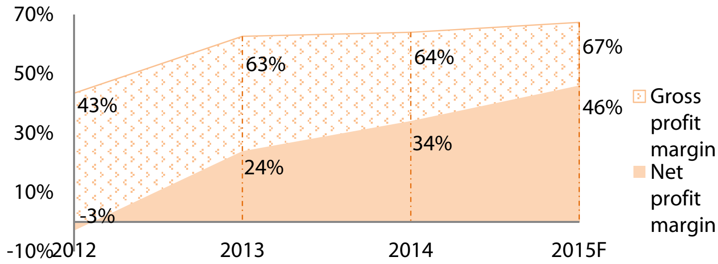
A Luoi plant has only been running since mid 2012, so there is insufficient historical data to evaluate the past volatility of plant's volume and sales growth. Due to unfavorable hydrologic condition in 2014, sale volume reached a mere 571.2 million kWh, down by 7.2% yoy and fulfilled only 95% of the year's target.

Despite the declining volume, the Pc for the 2014 - 2021 period was adjusted up VND122.33 per kWh, causing 2014 dollar sales to grow18.6% yoy and exceed 22% of the year's sales target.

Graph 3: Average selling price always higher than average Pc (*)



Graph 4: Significant improvement of profitability ratios



Source: Rongviet Research

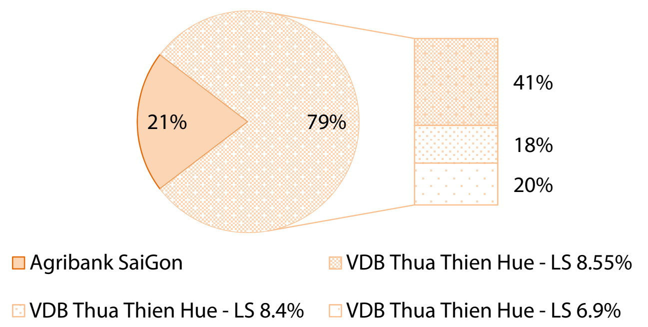
(*): CHP's Pc calculated with 2 different prices, dry season and rainy season price. Under 2014's appendix contract, price in dryseason is VND962.33 per kWh and in rainy is VND79.,33 per kWh

Easing pressure on cashflow and financial expenses thanks to long-term debts restructuring

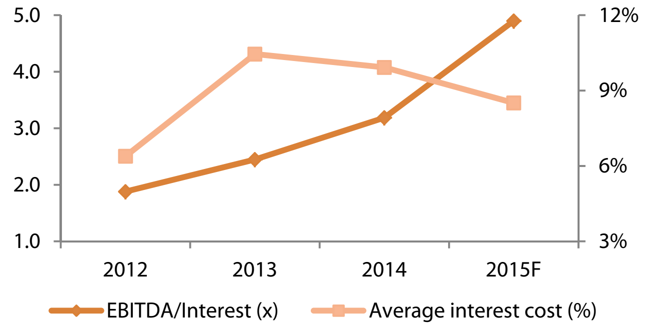
At the end of 2014, CHP's outstanding loan was VND1,615.2 bn, or 57% of its total capital. 80% of the firm's debts were borrowed from Vietnam Development Bank (VDB), Thua Thien Hue branch at three fixed interest rates (initially ranging from 6.9% to 11.4%). In 2014, CHP successfully restructured its current borrowing contracts with VDB. Accordingly, the highest interest rate was adjusted down to 10% and the contract term extended by two more years where the higher-rate loans will be at higher repayment priority.

Given the newly negotiated interest rates, CHP was able to lower its average effective borrowing cost from 10.5% in 2013 to around 9.9% in 2014. In the first half of 2015, rate negotiations were again put on the table so that a lower rate of 8.55% has been applied on a10-percent loan starting August 2015. We estimate the average borrowing rate in 2015 of CHP at about 8.5%.

Graph 5: Debt's structure in June 30th, 2015



Graph 6: EBITDA/interest cost improving consecutively



Source: Rongviet Research

2015 Earnings Outlook

Table 2: Q2-FY15's operating result and cumulative

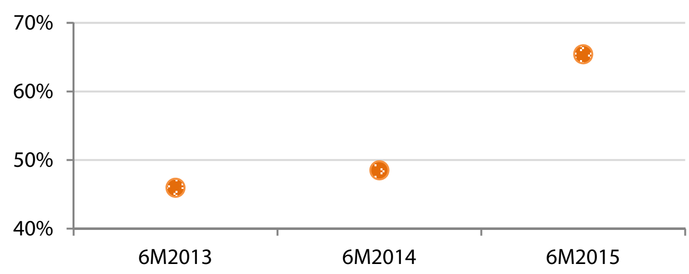
Particulars (VND bn)	Q2-FY15	Q1-FY15	*+/- (qoq)*	Q2-FY14	*+/- (yoy)*	YTD	*+/-(yoy)*
Net Revenues	145.2	172.1	-15.6%	85.0	70.9%	317.3	60.0%
Gross profits	91.2	116.4	-21.6%	29.1	213.5%	207.5	115.8%
SG&AC	5.5	5.5	0.9%	6.6	-16.2%	11.0	-5.0%
Operating Income	85.6	110.9	-22.7%	-20.9	-510.0%	196.5	4377.6%
EBITDA	128.3	150.8	-14.9%	73.9	73.6%	279.1	61.5%
EBIT	90.1	112.6	-20.0%	32.4	178.1%	202.7	110.0%
Financial expenses	35.4	33.8	4.8%	46.8	-24.3%	69.2	-19.2%
- Interest Expenses	*35.4*	*33.8*	*4.8%*	*46.8*	*-24.3%*	*69.2*	*-19.2%*
Dep. and amortization	38.2	38.2	0.0%	41.5	-8.0%	76.4	0.1%
PBT	54.7	78.8	-30.6%	-14.4	-480.4%	133.5	1124.2%
PAT	54.7	78.8	-30.6%	-14.4	-480.4%	133.5	1124.2%

Source: RongViet Research

2Q2015 result update

Abundant water reserve and strong expected volume growth. Electricity sale volume reached 267.7 million kWh in 1H2015, up by 56.4% yoy. Accordingly, net dollar sales were about VND317.3 bn, up by 60% yoy. Gross profit margin also rose sharply. In correspondence with the output volume, average H1 electricity sale price was VND1,185 per kWh, a slight increase from an average of VND1,158 kWh in 1H2014. As the result, gross profit margin expanded to 65.4% from 48.5% in 1H2014.

Graph 7: Strong improving of gross profit



Source: RongViet Research

Narrowing financial cost. Given the Company's successful debt restructuring at the end of 2014, CHP's interest expense is expected to fall substantially in in 2015. We have estimated the average effective interest rate over 1H2015 at about 9.1% (*), down from 10.3% (*) a year earlier.

Thanks to such improvements, CHP's profit-before-tax (PBT) reached VND133.5 billion or 12 times higher over the same period of 2014 in 1H2015 or 74% the PBTguidance of the entire fiscal year. Since CHP is still subject to zero corporate income tax , its PBT is also net-profit-after-tax (NPAT).

(*) Average interest rate is annualized

H2 earnings outlook

Historical data shows that 70 –74% of annual electricity output is produced in the second half of the year. Besides, hydrologic conditions in 2015 are flavorable, resulting strong volume growth. Therefore, at conservative assumptions, we expect CHP will generate this year the same amount of output as in 2014 at about 412.3 million kWh. Second-half revenue, as the result, is estimated at about VND427 billion, up by 34.6% from H1 but still 0.3% lower than a year earlier.

Gross margin is projected at about 68.8% for 2H2015. The later six months of the calendar year usually see the rainy season in many provinces. Hence electricity selling price in the second half is likely lower than in first half of the year, which we expect about 10%. However, thanks to strong volume growth, CHP's gross margin in the second-half should be higher than in the first two quarters.

Interest expenses may fall slightly. We understand that CHP has successfully negotiated with VDB Thua Thien Hue to lower the interest rate on its highest-rate loand to 8.55% from 10%, which has been effective from August. Therefore, we project the annual average interest rate at about 9%.

For FY2015, selling volume is estimated at about 680 million kWh and the corresponding revenue at VND757.9 billion, 16.5% and 21% higher than the yearly guidances, respectively. 2015's NPAT is forecasted around VND347.8 billion, up by 63% yoy and translating into and EPS of VND2,717.

Table 3: Key assumptions

	2014A	2015E
Working hours (h)	3,383	4,040
Selling volume growth (%)	-7.2	19.0
Average selling price (VND/kWh)	1,097	1,115
Sales growth (%)	18.6	21.0
Gross profit margin (%)	64.0	68.0

Source: RongViet Research

Table 4: 2015's forecast

INCOME STATEMENT	FY2013	FY2014	FY2015E
Revenue	528.4	626.5	744.2
COGS	197.4	225.7	243.0
Gross profit	**331.0**	**400.8**	**501.3**
Selling Expense	0.0	0.0	0.0
G&A Expense	23.3	35.5	42.4
Finance Income	9.2	8.1	11.5
Finance Expense	190.9	167.2	130.2
Other profits	0.0	7.0	2.2
PBT	**126.0**	**213.1**	**342.4**
Tax	0.0	0.0	0.0
Minority's Interest	0.0	0.0	0.0
PAT to Equity Shareholder	**126.0**	**213.1**	**342.4**
EBIT	**316.6**	**380.3**	**472.6**
EBITDA	466.5	532.9	637.8

Source: RongViet Research

Table 5: Key financials

Y/E Dec (VND bn)	FY2013	FY2014	2Q-2015	FY2015E
Net Revenues	528.4	626.5	317.3	744.2
% chg	126.6%	18.6%	60.0%	18.8%
PAT	126.0	213.1	133.5	342.4
% chg	-1910.7%	69.2%	1124.2%	60.7%
EBIT margin (%)	23.8%	34.0%	42.1%	46.0%
ROA (%)	3.7%	6.3%		10.2%
ROE (%)	10.3%	15.9%		22.5%
EPS (VND)	1,050	1,776		2,717
Adjusted EPS (VND)	1,050	1,691		2,717
Book value (VND)	10,451	11,842		12,904
Cash dividend (VND)	800	900		1,200
P/E (x)	6.7	6.7		8.6
P/BV (x)	0.7	1.0		3.0

Source: RongViet Research

Investment project: Dak Drinh 2 hydro power plant's project

Project's information	
Location	Son Ha district, Quang Ngai province
Capacity	2 x 6.5 MW
Annually average volume	46.7 mn kWh
Planned investment capital per MW (VND bn/MW)	30.8
Planned built period	2 years (2016 – 2018)

Source: CHP annual report, RongViet Research database

Regarding the development plan for the 2015 – 2020 period, CHP will invest in one or two more hydro power plants one of which, Dak Drinh 2 project, is still under evaluation phase. Even if the project is proven effective, no sooner than the end of 2016 will it be launched. We estimate that CHP's average selling volumes will increase circa 7.2% with the output contribution of Dak Drinh 2.

Total investment for the project is planned at aroung VND400 bn. We project that CHP's retained earnings will reach over VND300 bn and its capital investment fund more than VND54 bn at the end of 2015. At such abundant capital at its disposal, we believe CHP can take a proactive stance in selecting the optimal capital structure for its investments.

Outlook and valuation

CHP is the hydro power plant ranked 1st in term of capacity and 2nd in term of total assets on the listed stock market. Since its official commercial operation in 2H2012, CHP's selling volumes, revenue and operating efficiency has witnessed positive improvments. In 2015, despite the dry weather across the country, favorable hydrologic conditions in A Sap River helped CHP not only to generated increased output but also to improve its average selling price. 2015's commercial electricity production is expected at 680 million kWh, up by 19% yoy and 4.8% above the plant's designed capacity. If Dak Drinh 2 plant goes into operation according to plan, we see that CHP's selling volume can be increased by additional 46.7 million kWh each year starting 2019.

In 2014 and 2015, CHP negotiated with VDB Thua Thien Hue to cut the rates on its loans with the banks and extend the maturity term of its loans. Thanks to this, CHP's average interest rate dropped from 10.4% in 2013 to 9.9% in 2014 and may going lower to around 9% in 2015. 2015's PBT is forecasted at VND347.8 billion, up by 63% yoy and 93% higher than the year's guidance. CHP will continue to enjoy favorable income tax rate of 0% in 2015 and 2016. Therefore, its PBT should be NPAT as well. 2015 EPS is expected around VND2,761, which at the current market price, translate in to a forward PE ratio of 6.7x.

With its stable and efficient operation, CHP's dividend payouts have increased over the years. The Company targeted cash dividend payment at 12%-14% of share capital in 2015. If CHP pays 12-percent dividend for 2015, the Company's CARG of per-share dividends for the 2013 – 2015F is around 14.5%. With a stable cash dividend policy, this stock is suitable for value investors.

We use P/E and EV/EBITDA methods to determine CHP's fair value. The reference P/E and EV/EBITDA ratios were taken from the average multiples of CHP's listed peers. Under those methods, we determine CHP's fair value at VND23,600 per share, which is higher about 26%. than the closing price on Sept 30th Therefore, we rate the stock of CHP as BUY in INTERMIDIATE TERM.

Valuation model	Price	Weighted	Average
P/E	23,109	50%	11,554
EV/EBITDA	24,036	50%	12,018
Average price		**100%**	**23,572**

Source: RongViet Research

Table 6: Average P/E and EV/EBITDA of listed hydro power plants

	Market Cap (VND bn)	P/E	EV/EBITDA
SBA	573	11.0	9.2
SHP	1,752	12.0	8.4
SJD	1,201	6.0	6.1
TBC	1,645	11.1	7.6
TMP	2,051	7.3	4.3
VSH	2,949	6.4	7.4
Average		**8.5**	**6.9**

Source: Stoxpro, RongViet Research

BRIEF 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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