November, 2020

HAI PHONG THERMAL POWER JSC (UpCOM:HND)

2021 growth faces obstacles

(VND bn)	Q3-FY20	Q2-FY20	+/-qoq	Q3-FY19	+/-yoy
Net revenue	2,286	3,127	-27%	2,326	-2%
PAT	175	546	-68%	93	88%
EBIT	244	568	-57%	167	46%
EBIT margin	10.7%	18.2%	-751bps	7.2%	35bps

Source: HND, Rong Viet Securities

9M 2020: Continuous growth

- 9M2020's cumulative output reached 5.4 billion kWh, +1.4%, not as high as it reached in 2019. This is better compared to its peers.
- Gross profit margin remained high, at 14.8% because of high Qc. Due to its modern generators, HND needs not generate much on the CGM (Competitive Generation Market) and benefits from a higher average selling price.
- Continuously reducing costs, mainly interest expenses, helped improve NPAT. Abundant cash flows from the "profile" electricity price policy allowed HND to pay off some of the debts sooner than scheduled.
- Cash & equivalents at the end of Q3 reached VND 1,270 billion, ready to pay 2020 dividends in advance.

2020: Taking advantage of the last dry months

Capitalizing on its core advantage of being a young power plant, HND has been able to maintain a high profitability in 2020. This is what we emphasized in our initial report released in June. Unlike most thermal power plants, HND still achieves profit growth in the rainy season, particularly obvious in the 3Q results. This advantage will continue in 4Q, although output will not increase much year-on-year. We think that HND is going to reach over VND250 billion in NPAT, hence the same level compared to 2019, which was the highest in its history.

However, the hydrology in 2021 is forecasted to be unfavorable for thermal power plants in general, and some of HND's advantages in electricity prices may no longer be maintained. Accordingly, we have reduced our medium-term earnings forecast for the firm. Due to pessimistic predictions for both sales volume and selling price in 2021, HND is going to experience the most difficult fiscal year since beginning its full operations.

Valuation and recommendation

We have changed HND's 2021 earnings forecast. Our target price is revised downward due to the relatively negative medium-term earnings growth potential. After a prosperous 2019-2020, the company is preparing to face a less favorable year in 2021 in terms of selling prices in the CGM. At the same time the company itself is no longer entitled to preferential electricity prices. In return, HND will continuously improves its financial health by speeding up debt repayment. Healthy cash flow will ensure a steady annual cash dividend despite the fact that 2021 will be the toughest year since HND became fully operational. Our target price is VND ***17,800****, plus a cash dividend of VND 2,000, equivalent to a* ***NEUTRAL*** *recommendation with a total return rate of* ***11****% based on the closing price on November 9th, 2020.*

NEUTRAL +11%

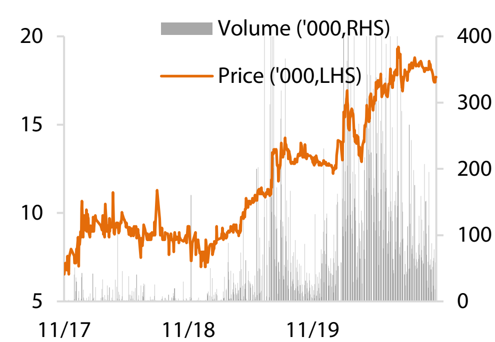
Target price (VND)	17,800
Current market price (VND)	17,900
Cash Dividend (VND)*	2,000

** Expected in the next 12 months*

Stock Info	
Sector	Utilities
Market Cap (VND billion)	8,950
Current Shares O/S	500,000,000
Avg. Daily Volume (in 20 sessions)	59,605
Free float (%)	14
52 weeks High	19,400
52 weeks Low	12,235
Beta	0.7

	FY2019	TTM
EPS	2,322	3,033
EPS Growth (%)	203.4	68.9
Diluted EPS	2,322	3,033
P/E	7.5	5.8
P/B	1.4	1.3
EV/EBITDA	3.3	3.1
Cash dividend yield (%)	8.1	9.1
ROE (%)	19.7	19.0

Price performance



Major Shareholders (%)	
GENCO2	47
PPC	20
SCIC	15
Foreign ownership room (%)	49

Trinh Nguyen

(084) 028- 6299 2006 – Ext 1551

trinh.nh@vdsc.com.vn

Exhibit 1: 3Q/2020 Results

(VND Bn)	Q3-FY20	Q2-FY20	+/-(qoq)	Q3-FY19	+/-(yoy)	Q3-FY20	+/-(yoy)
Net revenue	2,286	3,127	-26.9%	2,326	-1.7%	8,437	4%
Gross profit	266	589	-54.8%	210	26.8%	1,249	17%
SG&A	23	21	6.4%	43	-47.5%	69	-44%
Operating income	244	568	-57.1%	167	46.1%	1,180	53%
EBITDA	688	1,012	-32.0%	612	12.4%	2,514	10%
EBIT	244	568	-57.1%	167	46.1%	1,180	25%
Financial expenses	68	4	1,818.2%	75	-8.4%	240	-26%
- Interest Expenses	64	69	-6.5%	93	-31.4%	213	-29%
Dep. and amortization	445	444	0.0%	445	-0.2%	1,333	-1%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	184	574	-68.0%	100	84.4%	969	52%
PAT	175	546	-68.0%	93	88.4%	921	52%
(*) Adjusted PAT	175	546	-68.0%	93	88.4%	921	

Source: HND, Rong Viet Securities

Exhibit 2: 3Q/2020 Performance Analysis

Particulars	3Q-FY18	2Q-FY18	*+/-(qoq)*	3Q-FY17	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	11.6%	18.8%	-72bps	9.0%	26bps
EBITDA Margin	30.1%	32.4%	-23bps	26.3%	38bps
EBIT Margin	10.7%	18.2%	-75bps	7.2%	35bps
Net Margin	7.6%	17.5%	-98bps	4.0%	37bps
Adjusted Net Margin	7.6%	17.5%	-98bps	4.0%	37bps
Turnover *(x)					
-Inventories	13	14	-1.8	16	-3.4
-Receivables	4.5	5.0	-0.5	4.2	0.3
-Payables	8	7	0.7	9	-1.3
Leverage (%)					
Total Debt/ Equity	34.7%	51.3%	-166bps	45.6%	-109bps

Source: Rong Viet Securities

Exhibit 3: 4Q/2020 Performance Forecast

Particulars (VND Bn)	Q4-FY20	+/-qoq	+/-yoy
Revenue	2,369	4%	-26%
Gross profit	386	45%	-46%
EBIT	336	38%	-51%
NPAT	273	56%	-54%

Source: Rong Viet Securities

- 4Q output is forecasted at 1.6 billion kWh, -25% YoY due to unfavorable weather conditions.
- Gross margin can be lower YoY mostly due to high base, as 4Q2019 had profitable market price and FX fluctuation revenue.
- Net profit margin is expected to reach 11.1%, which is remarkably strong and shows improvement because HND continuously reduced financial costs and other one-time expenses.

Update

Output decreased because A0 prioritized hydropower in the rainy season, but still high compared to the industry level

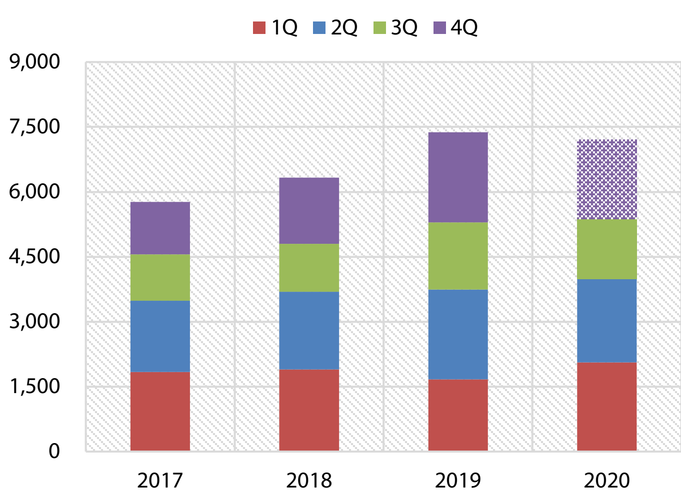
HND produced and consumed nearly 1.4 billion kWh in Q3, down 10% year-on-year, the lowest in the past two years. Output for Q2 and Q3 was slightly lower than the same period due to the early rainy season. However, over the first none months of the year, HND's output still increased slightly by 1.4% YoY. This is high compared to many thermal power plants whose cumulative output decreased over the same period. Slow growth is largely due to 2019 being the peak year of the drought, with nearly all thermal power plants fully mobilized. In addition, HND has new generators with stable and efficient operations.

Selling price in the competitive electricity market dropped sharply, making it difficult for thermal power groups, but HND still has certain advantages

HND stated that the selling price on the competitive generation market (CGM) in the rainy season dropped significantly, possibly reaching 200-400 VND / kWh. This means that thermal power plants, including HND, are not motivated to participate in the CGM. We also see this analyzing HND's Q3 financial statements, in which output decreased 162 million kWh over the same period, while revenue decreased by less than 40 billion VND over the same period, corresponding to the average selling price that is less than 250 VND / kWh, lower than variable costs.

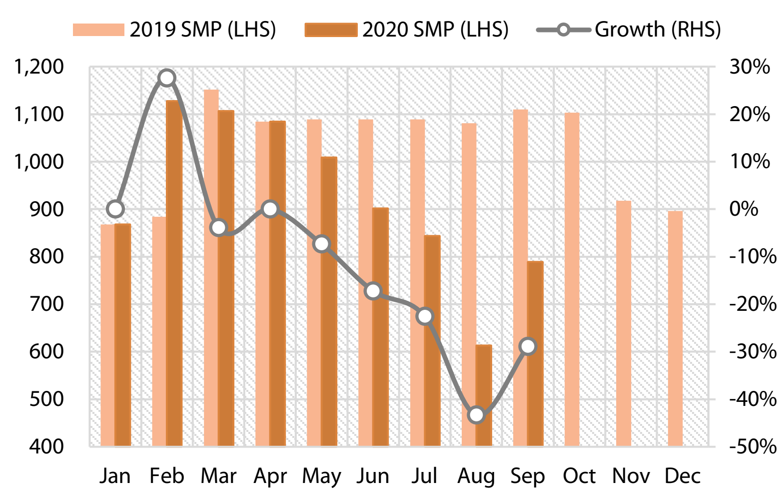
This current market situation is mainly beneficial for power plants with high Qc allocation like HND. We believe that power generation companies that match Qc output will be guaranteed a certain level of profit, while power generation on CGM will inevitably loose. HND said in recent months it is generating electricty under Qc. With the current mechanism for calculating electricity revenue, power generating under Qc will make costs lower than revenue, creating a driving force to increase profit. Perhaps this is a wise strategy for HND in the current tough competitive power generation market.

Figure 1: Output by quarter (million kWh)



Source: HND, output in Q4 / 2020 is estimated output

Figure 2: CGM price (VND/kWh)

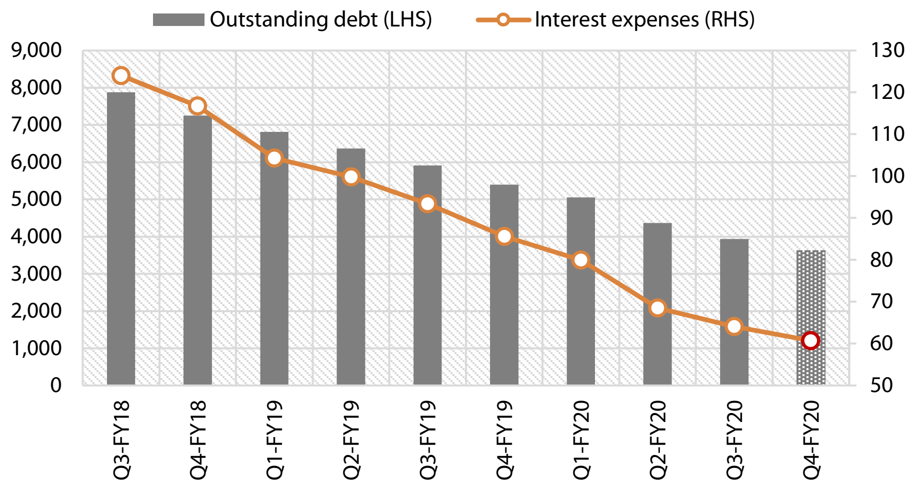


Source : PPC, Rong Viet Securities

HND takes advantage of the hydrological cycle to continuously improve its financial health

2019-2020 is a period when the company is mobilized at maximum capacity and applies a fast depreciation policy. At the same time, it also has a "profile" electricity price. Abundant cash flow will help the company reduce its debt. Accordingly, interest expenses also fell sharply quarter by quarter (Figure 3). According to HND, it is possible to settle all loans in VND in 2020, about two years earlier than the plan. We believe that this is a good signal for the results in the medium and long term, as interest expenses continued to decline significantly every quarter.

Figure 3: Outstanding debt and interest expenses (VND billion)



Source: HND, Rong Viet Securities

Change in projections and valuation

FY2020 results do not change significantly from our recent report. In general, HND can take advantage of the market situation to develop its own strengths to maintain profitability that is almost the highest since the start of the operation. The estimated output for 2020 is 6.9 billion kWh, lower than the previous forecast (7.8 billion kWh), down 7% compared to 2019. Due to the earlier rainy season and heavier rain than expected, 2Q and 3Q output were not as high as planned. Regarding 4Q, HND's plan at the beginning of the year was 1.7 billion kWh, and we estimate that the firm can reach 1.6 billion kWh of output. Selling price is expected to remain the same due to the high proportion output sold under contract. Additionally, the firm is flexible in power generation activities depending on market conditions. Interest expenses will continue to decrease in 4Q, along with foreign exchange fluctuation revenue which also contributed to maintaining profitability. According to our estimates, HND's retained profit at the end of 2020 will reach nearly VND 2,500 billion. This means that HND is capable of paying cash dividends equivalent to 2019 (VND 1,600 / share), and we expect the cash dividend for 2020 to be about 2,000 VND per share. This is equivalent to a dividend yield of 11.4%.

Our 2021 forecast includes some significant changes compared to the last report due to HND's re-estimation of selling price and depreciation expenses. In particular:

- Output is approximately that of the same period last year. This is the equivalent to about 6,300 hours of operation for the year. This figure is 7% lower than the mobilization in 2019 (6,800 hours), reflecting the more favorable hydrological situation for the hydropower group. Accordingly, we project HND's Qc will account for about 80% of its total output, equivalent to 5.4 billion kWh, which is a high Qc since HND is a young power plant that is younger than others.
- The average electricity selling price will drop by 7.6% as both plants will stop "profile" treatment. Accordingly, the Hai Phong 1 factory has applied this policy for ten years and the Hai Phong 2 factory for six years. After adjusting the selling price for the rest of the unit's life cycle, we roughly estimate that the fixed component of the Pc (contract price) of Hai Phong 1 will decrease by 40% and Hai Phong 2 will decrease by 20%. With the assumption that low world coal prices will keep domestic coal prices from increasing in 2021, the average electricity selling price for HND in 2021 is calculated at VND 1,428 per kWh, a relatively strong decrease.
- Regarding production costs, we have updated information from the company and changed our forecasts. The depreciation in 2021 will be equivalent to 2020, higher than the previous forecast. Thus, HND's 2021 gross margin is going to decrease sharply year on year.
- Interest expenses will drop more compared to our previous forecast, preventing profit from falling too sharply.
- We expect that HND can record about VND 200 billion of foreign exchange fluctuation revenue accrued in 2018. With this revenue, the firm can expect to record a NPAT of over VND 500 billion for the whole year. Although this is not a low profit during La Nina phase of the hydrological cycle, we still want to emphasize HND management's view that 2021 will be the most difficult year in terms of profitability for the company since its full operation start in 2014.

In addition, the Hai Phong 1 factory will be fully depreciated in 2022, which means that profit and future cash flow of this unit is expected to surge strongly from 2023 on. The Hai Phong 2 factory will also halve its depreciation by 2024. Overall, HND's results in the next few years may not be very stable due to unfavorable factors occurring at the same time (La Nina and new electricity price policy). In addition, the fast depreciation policy made the profitability in the early years very low. However, as the speed of debt repayment accelerated and financial expenses continued to decline, HND will quickly reach the debt-free status with abundant cash holdings. From 2022, we believe that HND is capable of achieving more than VND 2,500 in EPS per year, and a cash dividend of at least VND 2,000 per share per year.

Table 1: Forecasts

	Unit	2019	2020F	2021F	5-year average (2017 – 2021F)
Output	million kWh	7.422	6.894	6.747	6.632
In which: Qc	million kWh	5.624	5.993	5.398	5.716
Average selling price	VND per kWh	1.507	1.545	1.428	1.512
Material cost	VND per kWh	964	979	979	927
Revenue	VND billion	11.301	10.806	9.833	10.112
Gross profit	VND billion	1.777	1.635	823	1.507
Financial revenue	VND billion	34	45	53	36
Financial expense	VND billion	397	305	207	613
Interest expense	VND billion	383	273	181	390
FX loss	VND billion	14	31	26	222
PBT	VND billion	1.265	1.256	562	790
NPAT	VND billion	1.203	1.193	533	750

Source: Rong Viet Securities

In conclusion, HND has substantial potential in the long term with not much "downside risk" due to its activities in specific industries. In the short and medium term, the stock price is facing obstacles, which are unfavorable external and internal factors. In our valuation matrix, we use a P/E of 7x (last updated 6.9x) and a very low EPS for 2021, resulting in a P/E valuation of about VND 7,400. We believe that HND's current market price is reflecting its rather negative medium-term profit potential. However, two methods FCFF and EV/EBITDA take into account the long-term financial capacity of the company, as well as eliminating short-term fluctuations, both result in a high valuation for HND shares (Table 2). With the same weight for these three methods compared to the most recent update, we estimate the fair price of HND at **VND 17,800**. Alongside with an expected cash dividend in the next 12 months of 2,000 VND/share, the total return for HND shareholders is estimated at **11%**, along with a **NEUTRAL** recommendation. Once again, we would like to emphasize a positive view on HND's long-term prospects and recommend investors to carefully consider their investment decisions as 2021 is likely to be the most difficult year for the company.

Table 2: Valuation

Method	Valuation	Weight	Weighted average
EV/EBITDA	21,191	20%	4,238
FCFF	26,456	40%	10,582
P/E	7,395	40%	2,958
Total		**100%**	**17,800**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	2018	2019	2020E	2021F
Revenue	9,527	11,301	10,806	9,833
COGS	7,935	9,525	9,171	9,010
Gross profit	**1,592**	**1,777**	**1,635**	**823**
Selling Expenses	0	0	0	0
G&A Expense	169	150	119	108
Finance Income	24	34	45	53
Finance Expenses	997	397	305	207
Other profits	-1	2	0	0
PBT	**449**	**1,265**	**1,256**	**562**
Prov. of Tax	24	62	63	28
Minority's Interest	0	0	0	0
PAT to Equity S/H	**425**	**1,203**	**1,193**	**533**
EBIT	1,423	1,626	1,516	715
EBITDA	3,279	3,416	3,284	2,483

%

FINANCIAL RATIO	2018	2019	2020E	2021F
Growth (%)				
Revenue	4.7	18.6	-4.4	-9.0
Operating Income	-4.1	4.2	-3.8	-24.4
EBITDA	-8.0	14.3	-6.8	-52.8
PAT	7.4	183.2	-0.8	-55.3
Total Assets	-9.1	-8.0	-11.8	-15.7
Equity	9.8	9.4	8.3	-3.3
Profitability (%)				
Gross margin	16.7	15.7	15.1	8.4
EBITDA margin	34.4	30.2	30.4	25.3
EBIT margin	14.9	14.4	14.0	7.3
Net margin	4.5	10.6	11.0	5.4
ROA	3.1	9.5	10.7	5.7
ROE	12.8	16.5	16.9	9.0
Efficiency				(times)
Receivable Turnover	4.8	5.0	4.7	4.5
Inventory Turnover	22.3	15.9	14.5	12.7
Payable Turnover	10.2	9.4	11.9	13.6
Liquidity				(times)
Current	1.1	1.3	1.8	2.6
Quick	1.0	1.1	1.5	2.2
Finance Structure (%)				
Total Debt/Equity	127.4	86.6	53.8	33.8
Current Debt/Equity	32.7	29.1	21.1	12.5
Long-term Debt/Equity	94.7	57.5	32.7	21.2

VND Billion

BALANCE SHEET	2018	2019	2020E	2021F
Cash and cash equivalents	692	779	969	1,010
Short-term investments	0	0	0	0
Accounts receivable	1,967	2,278	2,286	2,179
Inventories	356	598	632	711
Other current assets	5	1	1	1
Property, plant & equipment	10,495	8,790	7,062	5,291
Acquired intangible assets	1	1	1	1
Long-term investments	1	1	1	1
Other non-current assets	252	217	224	230
Total assets	**13,769**	**12,664**	**11,175**	**9,424**
Accounts payable	777	1,008	768	664
Short-term borrowings	1,861	1,815	1,426	818
Long-term borrowings	5,391	3,582	2,204	1,386
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	48	28	29	30
Technology-science, dev. fund	0	0	0	0
Total liabilities	**8,077**	**6,434**	**4,427**	**2,898**
Common stock and APIC	5,197	5,197	5,197	5,197
Treasury stock (enter as -)	0	0	0	0
Retained earnings	432	969	1,487	1,265
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	64	63	63	63
Total equity	**5,692**	**6,230**	**6,747**	**6,525**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	2018	2019	2020E	2021F
EPS (dong)	765	2,322	2,363	1,056
P/E (x)	4.3	7.5	7.4	16.6
BV (dong)	11,385	12,459	13,494	13,051
P/B (x)	0.9	1.4	1.3	1.4
DPS (dong/cp)	650	700	2,000	1,500
Dividend yield (%)	3.5	5.6	11.4	8.6

VALUATION MODEL	*Price*	*Weight*	*Average*
EV/EBITDA	21,191	20%	4,238
FCFF	26,456	40%	10,582
P/E	7,395	40%	2,958
Target price			**17,800**

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
06/06/2020	22.900	Buy	Long term
20/08/2020	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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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Trinh Nguyen
Deputy Head of Research
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)
- Energy
- Construction

Tung Do
Deputy Head of Research
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- F&B

Tam Pham
Deputy Head of Research
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Textiles
- Fishery
- Fertilizer

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Automobile and spares
- Agriculture
- Industrial Park

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Steel
- Phamarceutical

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities

Kiet Tran
Analyst
kiet.tht@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Real Estate
- Market Strategy

Son Nguyen
Analyst
son.nlt@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Logistics
- Aviation
- Technology

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Banking

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

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