PETROVIETNAM POWER NHON TRACH 2 JSC. (NT2 – HSX)

Growth in stability

We appreciate NT2 due to its favorable location where electric demand is always higher than that of supply, and new, modern machine bringing a high productivity. Besides, thanks to a considerable enhancement of cash flow, we totally believe that NT2 can assure to pay dividend annually (starting from 2014) with a minimum dividend payout of 15% of share capital.

Along with that, advances of competitive generation market forced generation factories to be more active, including NT2. Previous electric purchasing mechanism among EVN and generation factories only allows generators to receive fixed ROE (i.e. 10%). As a result of that, electricity stocks are allocated into defensive group due to they are ensured not to be loss but difficult to improve operating efficiency. Pressure on raising fund for electricity development has been requiring industry officers to transform that mechanism into liberalized mechanism aiming to enhancing attractiveness of electricity industry. The progress; however, has just been in the final stage - 1st phase of a long path. Therefore, investment strategy in electricity stocks should be a long-term view.

*Combining valuation methods of FCFE, DDM and comparative, along with adding benefit of FX gain into company value, we define NT2's target price at VND30,200 per share and recommend **BUY** in **INTERMEDIATE-TERM**.*

Investment thesis

- Electricity industry becoming more attractive thanks to competitive market movements
- Favorable location making NT2's competitive advantages
- High productivity basing on new and modern technology
- Lower material supply and price risks thanks to long-term purchasing contract on natural gas
- NT2's product volume would be 5.5% higher than that of designed capacity in 2015.
- Cash flow assuring for stable dividend policy

Risks

- Risk of forex rate variation
- Risk of liquidity
- Risk of maintenance cost controlling

Key financials

Y/E Dec (VND bn)	FY2013	FY2014	FY2015E	FY2016F
Net revenue	5,881.0	7,064.9	7,045.9	6,944.9
% chg	7.9%	8.9%	10.0%	-1.4%
Net profit after tax	8.2	1,591.0	1,085.7	853.6
% chg	7.0%	19256.6%	-31.8%	-21.4%
Net margin (%)	0.1%	22.5%	15.4%	12.3%
ROA (%)	0.1%	12.9%	8.8%	7.2%
ROE (%)	0.3%	45.2%	23.2%	16.0%
EPS (VND)	32	4,638	3,964	3,132
Adjusted EPS (VND)	30	4,334	3,111	3,132
Book value (VND)	10,889	16,589	18,622	20,238
Cash dividend (VND)	N/A	1,800	1,500	1,500
P/E (x)	178.1	4.3	7.4	11.0
P/BV (x)	0.5	1.2	1.2	1.2

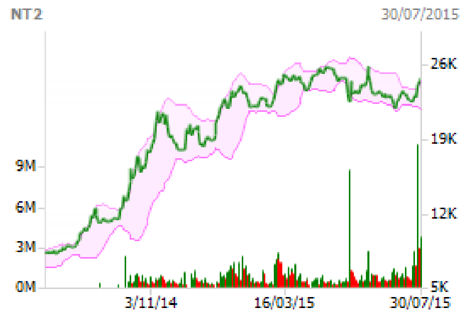
Source: NT2, RongViet Securities

BUY

Market price (VND)	24,800
Target price (VND)	30,200
Investment period	Intermediate-term

Stock Info

Sector	Power
Market Cap (VND bn)	6,348.8
Current Shares O/S	256,000,000
Free float (%)	26.6%
52 weeks High	25,800
52 weeks Low	4,400
Avg. Daily Volume (in 20 sessions)	1,618,533



Performance (%)

	3M	1Y	3Y
NT2	3.8	249.3	451.1
Utilities	1.1	20.4	153.5
VN30 Index	8.7	2.3	32.1
VN Index	9.9	5.8	49.6

Major Shareholders (%)

PV Power	60.0%
CFTD	8.4%
Vinacomin	5.0%
Foreigner investor ownership (%)	*47.2%*

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INVESTMENT THESIS

Electricity industry is becoming more attractive. Industrialized-economy orientation, specially prioritized heavy industries, makes Vietnam's electricity demand growth double its GDP growth. We estimate in period 2015 – 2020, Vietnam will need around 6,000 MW per year adding to generation system to meet output of 330 bn kWh (c. 75,000 MW) in 2020, using basic scenario of Power Development Master Plan VII. To meet capital requirement, electricity industry is oriented to competitive model, hoping to attract private investment. Consequently, electricity price has been floated to market price. Besides, in case of large gap between demand and supply as currently, there is huge potential growth for Vietnam's electricity industry.

Favorable location makes NT2's competitive advantages. NT2 factory is built in central province of the most important economic zone in Southern of Vietnam (including four provinces as HCMc – Dong Nai – Vung Tau – Binh Duong). Thanks to that, NT2 has been always generating with high capacity. In three years of generation (2012 – 2014), its average generated volume was 4.69 bn kWh per year, accounting for 7% of Southern electricity demand.

New and modern technology is bringing high operating efficiency. NT2's machine is quite new after 4-year operation, equaling to around 1/5 project life. Therefore its fuel consumption is still low and meets technology requirement. After its first medial repair in 2014, generating productivity of each assembly is estimated to increase 5-8MW. Its loading coefficient reached 78.1% in 2014, much higher than that of other generation plants.

NT2 incurs lower material supply and price risks thanks to long-term purchasing contract on natural gas. Purchasing contract on natural gas between PV Power NT2 and PVN has 25-year term, equaling to NT2 plant life. Great volume consumption and major proportion of fuel cost in total cost require PV Power NT2 to pay the most attention to assure fuel supply as well as control input cost. Therefore, we think that a long-term purchasing contract with a defined-price-increasing progress is another advantage which helps NT2 to reduce risks of supply and input price as well.

NT2's product volume would be 5.5% higher than that of designed capacity in 2015. Dried weather in 2015 has been favoring thermal power plants to hydro power plants. We expect that NT2's trading volume will reach 5.14 bn kWh, up by 7.9% yoy.

Cash flow assures for stable dividend policy. Efficiency operation and early-than-expected profit as it performed, PV Power NT2 decided to pay dividend sooner, from 2014 instead of 2018. Basing on our forecast that interest cost will reduce around VND30 bn each year, and a receivable of VND600 bn (retroactive of electricity price differentiation) that EVN will pay off in 4 years (2015 – 2019), we expect PV Power NT2 cash flow will be strengthened by more than VND180 bn each year in next four years. With more cash and in case of no investment in any new plants, NT2 probably has ability to offer higher payout ratio.

RISK

Risk of forex variation. With a structure of more than 95% foreign currency debt, 1% change of foreign exchange rate can cause a VND50 bn profit/loss change of NT2. Therefore, we think forex variation is the riskiest factor of NT2.

Risk of liquidity. Due to fast debt payoff policy, PV Power NT2 is suffered heavy cash out press to pay its annually principals and interest expenses. Consequently, in case of significant slump on output and revenue destroying operating cash flow, NT2's net cash flow will be negative in that year.

Difficulty in maintenance cost control due to modern and specific technology. Although PV Power NT2 signed a long-term maintenance contract with PetroVietnam Power Services JSC (PVPS), PVPS just takes responsibility on spare parts. Repairing key parts such as gas and steam turbines, heat recovery steam boiler still depends on supplier. Such dependence may cause difficulty for NT2 to optimize its operating and maintenance costs. However, we currently do not consider this as a key risk due to the machine is quite new and maintenance cost just accounts for a small part in total cost (less than 9%).

Outlook and valuation

We appreciate NT2 due to its favorable location where electric demand is always higher than that of supply, and new, modern machine bringing a high productivity. Besides, thanks to a considerable enhancement of cash flow, we totally believe that NT2 can assure to pay dividend annually (starting from 2014) with a minimum payout ratio of 15% par value.

Due to high ratio of foreign currency debt, forex variation (USD/VND and EUR/VND) will significantly affect PV Power NT2's business result. Positively, if these two currencies (USD and EUR) are devaluated against VND, PV Power NT2 will record FX gains. However, we would like to notice that most of the profit is unrealized and the company is not allowed to pay dividend from FX gains but must pay for its income tax expense. In the other hand, a reduction would be followed by a recovery, when these two currencies appreciate, the company might suffer FX losses. Therefore, investors interested in NT2 should pay more attention on NT2's core business than any other factors.

2015's EPS is estimated at VND3,111. Combining valuation methods of discount cash flow (FCFE), dividend discount (DDM) and comparative (EV/EBITDA), we define NT2's fair price at VND29,282 per share. Besides, adding benefit of forex variation (VND is expected to depreciate 2% against USD and appreciate 10% against EUR in 2015), each NT2 stock will be added VND897 to VND30,200 per share.

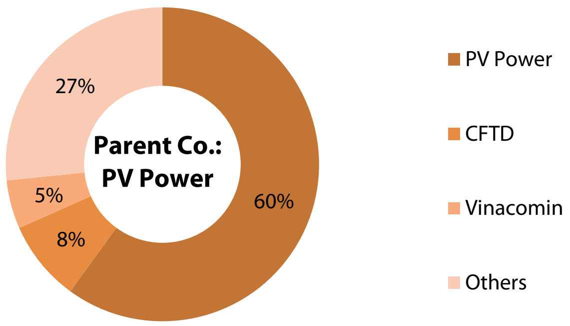
Previous electric purchasing mechanism among EVN and generation factories only allows generators to receive fixed ROE (i.e. 10%). As a result of that, electricity stocks are allocated into defensive group due to they are ensured not to be loss but difficult to improve operating efficiency. Pressure on raising fund for electricity development has been requiring industry officers to transform that mechanism into liberalized mechanism aiming to enhancing attractiveness of electricity industry. The progress; however, has just been in the final stage - 1st phase of a long path. Therefore, investment strategy in electricity stocks should be a long-term view.

Combining valuation methods of FCFE, DDM and comparative, along with adding benefit of FX gain into company value, we define NT2's target price at VND30,200 per share and recommend **BUY** in **INTERMEDIATE-TERM**.

COMPANY OVERVIEW

- Company name: PetroVietnam Power Nhon Trach 2 Joint Stock Company (PV Power NT2)
- Head quarter: Hamlet 3, Phuoc Khanh commune, Nhon Trach district, Dong Nai province
- Charter Capital: VND2,560,000,000,000

Graph 1. Shareholder structure on May 22nd 2015



Source: NT2's prospectus

PV Power NT2 is established in 2007 to be investor and explorer NT2 gas turbine and combined cycle power plant (NT2) with a capacity of 750MW.

NT2 power plant

NT2 is an independent power plant (IPP) compliance with clean development mechanism (CDM) of the United Nation. The plant is connected to national electric system through 220kV extension distribution yard of NT1 plant.

Average designed volume is 4.5 bn kWh per year, accounting for 3.5% of the country electric demand in 2014.

Having F - class gas turbine and combined cycle technology, with 2-2-1 configure, i.e. 2 gasoline turbines, 2 heat recovery steam boilers, and 1 steam turbine, produced by Siemens (Germany).

Main consumption fuel is natural gas collected in Nam Con Son basin, Hai Thach Moc Tinh oil field through Phu My – HCMc pipeline.

Average gas volume consumed annually is 800 mn Sm^3. The gas purchased contract has 25-year term and fuel price is appreciated 2% each year.

Reserved fuel: DO oil.

Oct 16th, 2011: All combined cycle plant officially generated for trade

July 2012: Joined to Vietnam competitive generation market (CGM).

May 28th, 2014: Successfully negotiated with EVN for official electric price. The purchasing power agreement (PPA) has 10-year term and the electric price is accounted as USD/kWh.

Unbalance between electric supply and demand and NT2 advantages

Due to specific terrain, more than 70% of Vietnam electric output produced in the North and Middle while more than 50% consumption is in the South. Hence, the South is always in short of electricity and must be compensated from the Middle and the North via 500kV network.

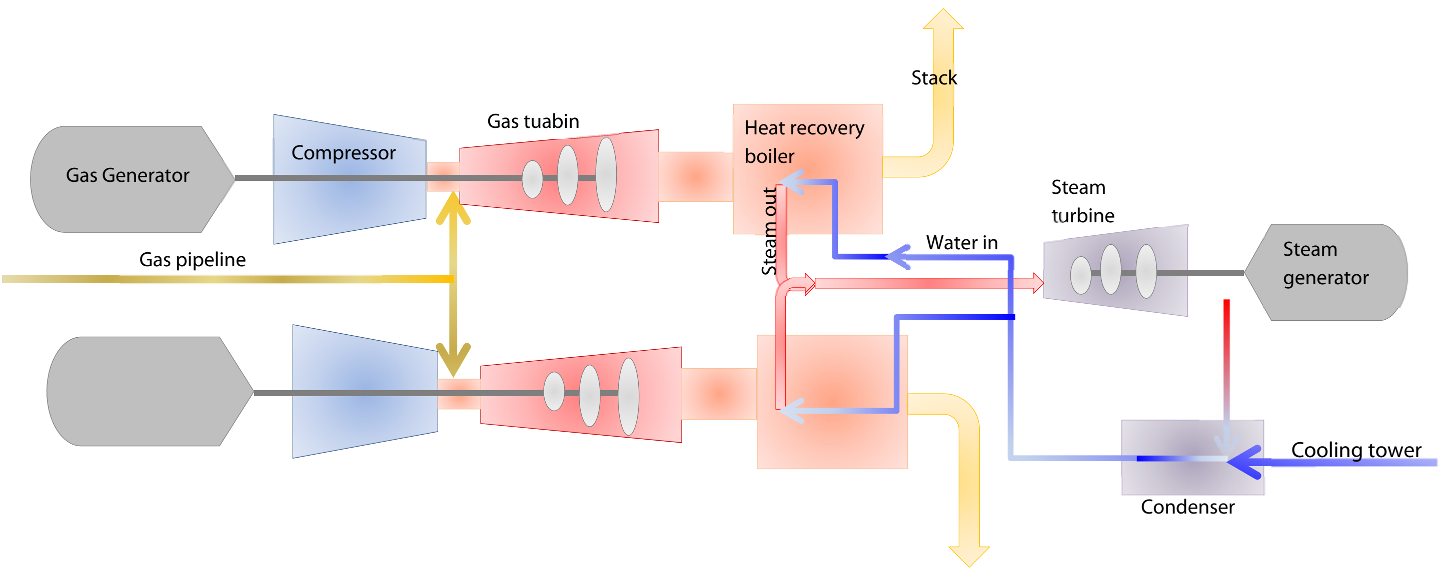
In such situation, location is the most important advantage of NT2 as settled in central province of the most important economic zone in Southern of Vietnam (including four provinces as HCMc – Dong Nai – Vung Tau – Binh Duong). Thanks to that, NT2 has been always generating with high capacity. In three years of generation (2012 – 2014), its average generated volume was 4.69 bn kWh per year, accounting for 7% of Southern electricity demand.

Graph 2. NT2 located in central province of the most important economic zone in the South

Source: Google maps

New and modern technology bringing high operating efficiency

Graph 3. Layout of CCGT power plant



Source: RongViet Research collects

NT2 is equipped using F-class gas turbine and combined cycle technology produced by Siemens (Germany), one of peer leaders in this technology. NT2's machine is quite new after 4-year operation, equaling to around 1/5 project life. Therefore its fuel consumption is still low and meets technology requirement.

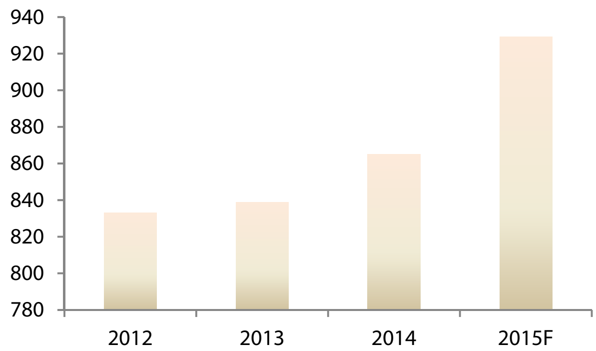
After its first medial repair in 2014, generating productivity of each assembly is estimated to increase 5-8MW. Its loading coefficient reached 78.1% in 2014, much higher than that of other generation plants.

Lower material supply and price risks thanks to long-term purchasing contract on natural gas

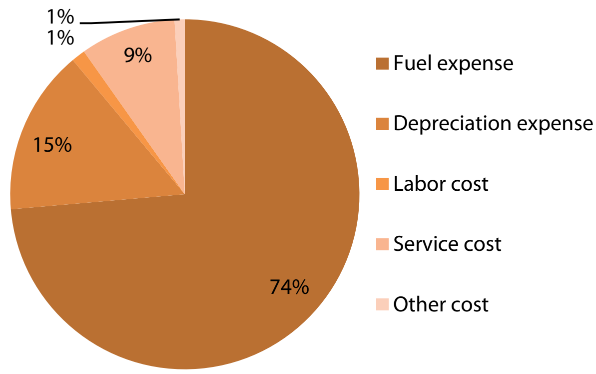
Purchasing contract on natural gas between PV Power NT2 and PVN has 25-year term, equaling to NT2 plant life. Based on contract clause, gas price (USD/mmBTU) will be appreciated 2% each year and paid by EVN via electric price.

NT2 consumes around 800 mn Sm3 gas each year and fuel cost accounts for more than 70% NT's COGS. With high demand on gas and large proportion of fuel cost, PV Power NT2 must pay the most attention to assure fuel supply as well as control input cost. Therefore, we think that a long-term purchasing contract with a defined-price-increasing progress is another advantage which helps NT2 reduce risks of supply and input price as well.

Graph 4. Average volume of gas consumed per annum (mn Sm3/annum)



Graph 5. Fuel cost accounted for 73% of COGS in 2014



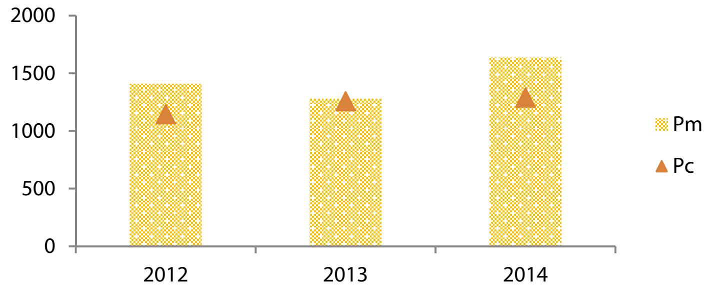
Source: Rongviet Research

Higher gas purchasing price not to destroy NT2's competitive advantages in CGM

Current gas purchasing price of NT2 (USD5.7/mmBTU) is higher than that of some older thermal power plants. In CGM, thermal power plants must offer electric price based on their variation cost. Therefore, although buyer suffers material cost in PPA, higher gas price will be lower advantage of NT2 to offer favor price in CGM.

However, based on our calculation, PV Power NT2's average electric price is stedily growing year by year and higher than contracted price (P_c). It means that market price (P_m) NT2 received is higher than its P_c and CGM has been enhancing NT2's operating effectiveness. Again, this result proves that favorable location, modern machine and high productivity make NT2's advantageous in CGM, overlay the disadvantage of high input cost.

Graph 6. P_m higher than P_c over period of CGM (2012 -2014) *(VND/kwh)*



Source: RongViet Research

** Contracted price (P_c) in 2012 & 2013 is temporary. Using estimated P_c of 2014 and retroactive for 2012 & 2013, we saw that in 2013, $P_c \sim P_m$.*

New investment project: Nhon Trach 2 expansion with capacity of 750MW

NT2 expansion project is planed to settle in 2017 and finish in 2020 with total capital investment of USD662 mn. , which is 70% debt and 30% equity funded.

We think that the construction progress will save much time and cost compared to the existed plant thanks to inherited available achivements of NT2 construction like (1) Site clearance, resettlement and infrastructure built, (2) Experienced BOM and labors who have particiapated in NT2 plant construction, and (3) With good credit rating of current loan, it would be easier to find borrowing resources for new project.

CEO of PV Power NT2 is Mr. Hoang Xuan Quoc, who joins the Company from the beginning. Besides extensive specialist expertise, Mr. Quoc also has experienced in constructing and operating the CCGT plant. He used to participate as:

- Deputy Director of Project Management Unit of CaMau Gas – Power – Fertilizer complex, directly undertook CaMau CCGT power plant.
- Deputy Director of Investment preparation for Block B – O Mon gas pipeline.
- Deputy Director of Gas – Power department, PVN.

"PV Power NT2's prospectus"

Thanks to experienced personnel in construction, operation and maintenance power plan, NT2's works usually finished before deadline:

- ✓ Construction progress and officially operation of whole NT2 is 45 days sooner than its deadline.
- ✓ Output is higher than annual plan, average 14% higher in period 2011 – 2014.
- ✓ First medial repair in 2014 and 7 to 9 days sooner than plan.
- ✓ Making profit and paying dividend 4-year sooner than plan.

After established NT2 expansion, PV Power NT2's capacity will be double, total annual volume loading to network is expected at 8,060 bn kWh. The project is in research and making investment plan period. It will take long time and require finishing many legal procedures to be authorized of investment. Hence, until having official news on commencing, we will not take this project into current forecast model.

FINANCIAL ANALYSIS

Positive sales growth

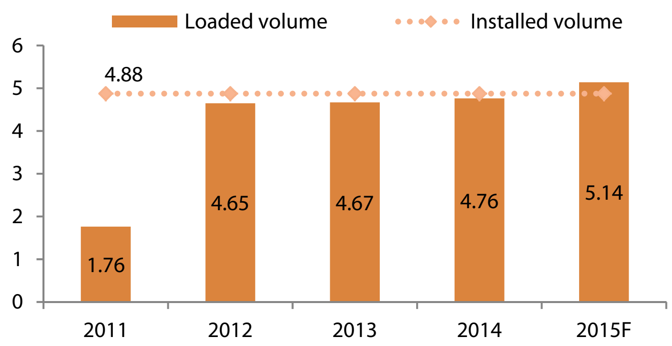
If excluding extraordinary growth in 2012 (a 4.7x growth yoy) due to NT2 demo program most of time in 2011, NT2's 2013 and 2014 sales growths are still positive with CARG at 8.4%. As observed, sales growth was based on steady growth of volume and price.

Electric output: remaining room for growth

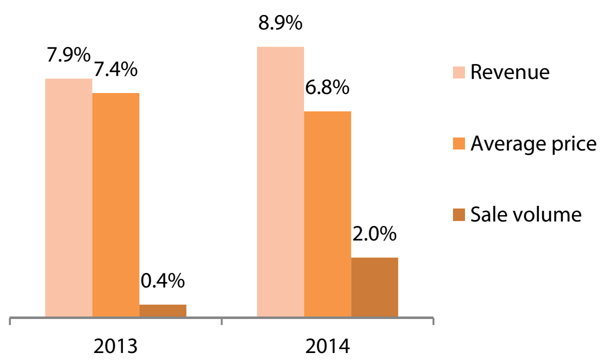
From intiation of trading generation in Oct 2011, NT2's output maintains a slight growth. If excluding 2011 (due to most time of 2011 is for testing), NT2 generated an average volume of 4.69 bn per annum over period 2012 – 2014, which equaled to an average growth of1.2%/year. In 2014, although temporary stop for more than 20 days for 1st medial maintenance, NT2 was still capable of generating a trading output higher by 2% yoy and reached 4.76 bn kWh. Thefigure, somehow, was 2% - 4% lower than that of designed output. In long-term, when the machine system runs in stable, we believed that NT2 can operate higher than its designed capacity thanks to:

- ✓ Expected strong increase in electric demand, along with recovery of industry and construction sector.
- ✓ Unfavorable weather with longer dried season and higher temperature base will negatively affect hydro power plants' productivity.
- ✓ After maintenance in 2014, generators' capacity is up by an average of 2.6% compared to previous one

Graph 7. Sale volume in (2011 – 2014) and forecasted for 2015 *(bil kWh)*



Graph 8. Growths of volume, average sale price and revenue



Source: Rongviet Research

We estimate that NT2's productivity can reach the highest level at 5.14 bn kWh in its life. In 2017, NT2 will do major maintenance for the first time and its output is expected to experience a significant slump in that year.

Gross profit improvement outlook

Being a key supplier for the South's loading, NT2 has joined in CGM from the very first day (July 2012). Hence, NT2's sales are coming from 2 sources including PPA and CGM's volume. Referred to above analysis, besides affection of volume, revenue growth is also heavily influenced by price factor. Therefore, NT2's gross profit margin outlook would subject to:

(1) Lower fixed cost per kWh, thanks to (a) Higher expected output and (b) Depreciation period is extended from 10 years to 14 year from July 2014. Depreciation expense accounts for 19% in

COGS (period 2011 – 2014). So, with 4 additional depreciation years, we expect fixed cost per unit will be 5% lower.

(2) In long-term, gross profit margin from volume offered in CGM will be improved. The reason is P_m calculated for thermal power plant including capacity add-on price (CAN) and system marginal price (SMP), in which CAN is price added to ensure newest thermal power plant can compensate all of its generated costs in one year and SMP is price that thermal power plants offered in CGM based on its variable cost. Normally, latest plants will have higher investment rate ; hence, to ensure these plants to recover its fixed cost, CAN should be increased. So, the added value will be the profit of older factories.

Table 1. Formula for thermal power plants' revenue calculation

$R = R_c + R_m$	$R_c = Q_c * P_c$	Q_c: Contracted volume, annual defined.	
		P_c: Contracted price $= P_f + P_v$	P_f: Fixed price including depreciation cost, operation fixed cost… to ensure a fixed ROE (10% for state owner and 5-year government bond yield plus 3% for private investment).
			P_v: Variation price including fuel cost, operating variation cost; annually adjust following gas price change.
	$R_m = Q_m * P_m$	Q_m: volume offered in CGM	
		P_m: market price $= CAN + SMP$	CAN: Capacity add-on price, is price added to ensure newest thermal power plant can compensate all of its generated costs in one year; CAN is not applied in off-peak (22h of previous night to 4h of next morning).
			System marginal price, less than cap price defined at the beginning of year.

Source: NT2's prospectus, nldc.evn.vn, Circular 41/2010/TT-BCT, Circular 30/2014/TT-BCT,Rongviet Research

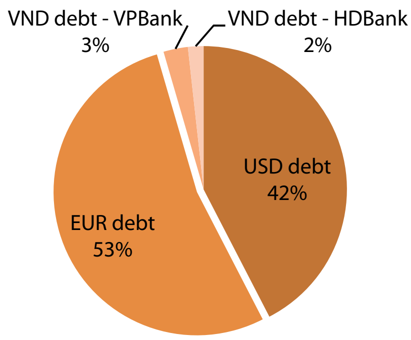
Rapidly reducing debt in capital structure

NT2 power plant was invested with initial capital structure consisting of 70% of foreign currency debt and 30% of equity. This loan will be paid in 19 periods (6 months/period) equivalent to 9.5 years starting from June 01th, 2012, about 1/3 of the project life cycle.

With this policy, the debt outstanding balance of NT2 fell 30% at the end of 2014. As our estimation, NT2 loan balance will decrease by VND1,000 - 1,100 bn/annum in the next 5 years.

From 2012 – 2014, interest expense of NT2 was relatively low in the range of 2.86% - 3.58%. With a high proportion of foreign currency debt, PV Power NT2 has been benefited from (1) the stability of the exchange rate USD/VND of the State Bank, ensuring VND variation in amplitude of 2% and (2) debt crisis in EU area has depreciated the EUR against USD and VND. However, under the pressure of VND depreciation, the amplitude fluctuations of USD/VND can be wider than the current level of the State Bank. Meanwhile, once the debt problems of the Eurozone are solved, the EUR can be quickly recovered. When these situations occur, the interest expenses of PV Power NT2 may be higher than current levels.

Graph 9. More than 95% debt based on foreign currency, in which USD denominated accounting for 42.4% and EUR denominated accounting for 53% (@12/31/2014) *(VND bn)*



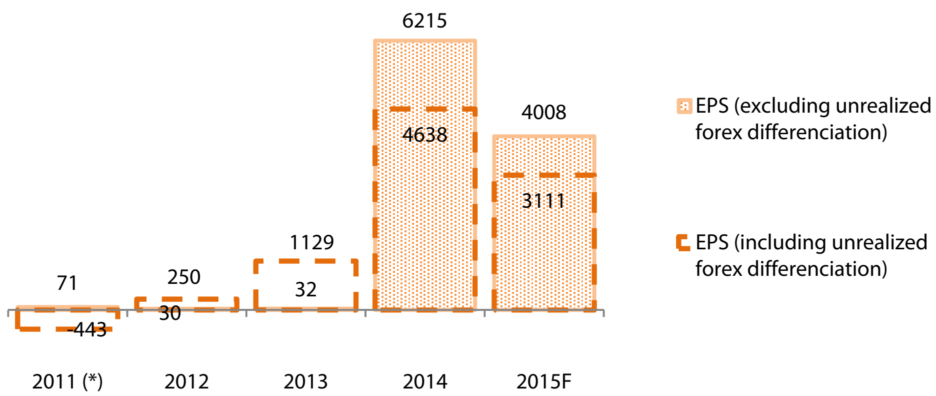
Source: NT2's 2014 Financial statement, RongViet Research calculated

Accelerating the payment of debt will bring two advantages for NT2:

(1) *Descending interest expenses burden.* As our expectation, the average interest expenses will remain at 3% in the next 5 years, and with above rate of repayment, the interest expenses can be reduced by an average of VND30 bn/annual.

(2) *Reducing the FX risk.* With the structure in which the debt funded capital remains more than 60% with almost foreign currency loans, the FX risk can have significant impact on the Profit and EPS. Therefore, the shorter the payment period is, the less risk the Company is burdened.

Graph 10. Strong variation of EPS as forex change *(VND)*

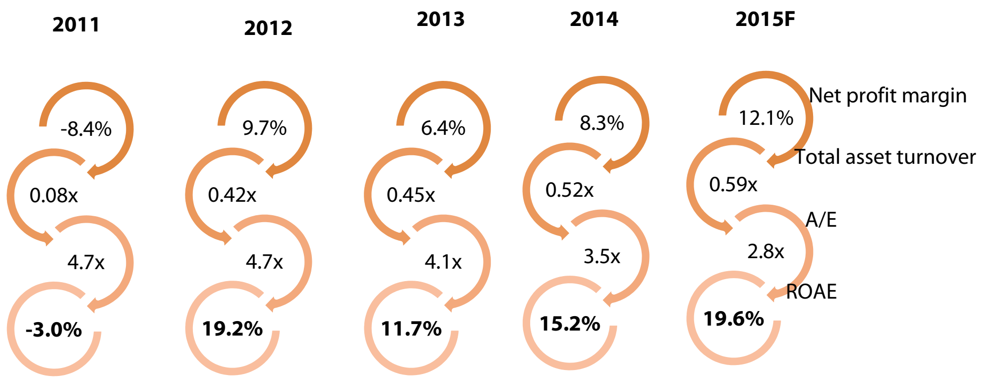


Source: NT2's 2014 Financial statement, RongViet Research calculated

Operating efficiency

For more accurate perspective on ROE volatility of Company, we have excludes unrealized profits/losses foreign exchange, which do not affect the cash flow but the PAT of NT2. At the same time, the revenue (2011-2013) is also adjusted according to the official selling price which now is signed with EVN in 2014 (according to the forecast of RongViet Research). Adjusted results showed that, excluding the negative ROE of 2011 (ROAE), the ROAE during the period of 2013 – 2014 and 2015F are improved. Overall, net profit margin and leverage are two factors that have the strongest impact on ROAE of NT2.

Graph 11. ROAE's Dupont analysis (*) (2011 – 2015F)



Source: RongVietResearch
(*)ROAE after adjusted extraordinary incomes

The increase of gross profit margin and the decrease of interest expenses helped improve operating efficiency of NT2 from 2012 to 2014.. However, leverage decreased rapidly as of rate of repayment debt may affect undesirably capital efficiency if the company does not have solution to effectively take advantage of accumulating idle capital. According to the 5-year projection (2015 - 2019), the ROAE can reach the highest level in 2015 (19.6%) and the lowest in 2017 (11.5%).

Table 2. Operating profit margin, interested defensive ratio and net profit margin

	2012	2013	2014	2015F
EBIT/Sales	15.7%	10.8%	11.7%	15.6%
EBT/EBIT	62.1%	58.8%	70.8%	83.1%
Net profit margin	9.7%	6.4%	8.3%	12.1%

Source: Rongviet Research

Expected stable dividend policy thanks to strengthened cash flow

Positive net cash flows (~ VND129 bn) and the VND186 bn cash balance of NT2 in 2014 were driven by positive results. Efficiency operation and early-than-expected profit as it performed, PV Power NT2 decided to pay dividend sooner, from 2014 instead of 2018. According to our forecast, the interest expense of NT2 will decrease about VND30 bn/annum, and the Account Receivables will decrease about VND600 bn which will be paid by EVN in 4 years (2015 – 2019). Hence, the cash flow of PV Power NT2 will increase by VND180 bn in the next 4 years. Notably, this portion does not include the additional cash flow generated by annually operating activities.

After paid cash dividend 18% of share capital in 2014, PV Power NT2 plans to pay a cash dividend of 15% in 2015. We believe that this is the minimum level that the company will pay from 2015.

BUSINESS OPERATION FORECAST

Table 3. Forecasted assumptions

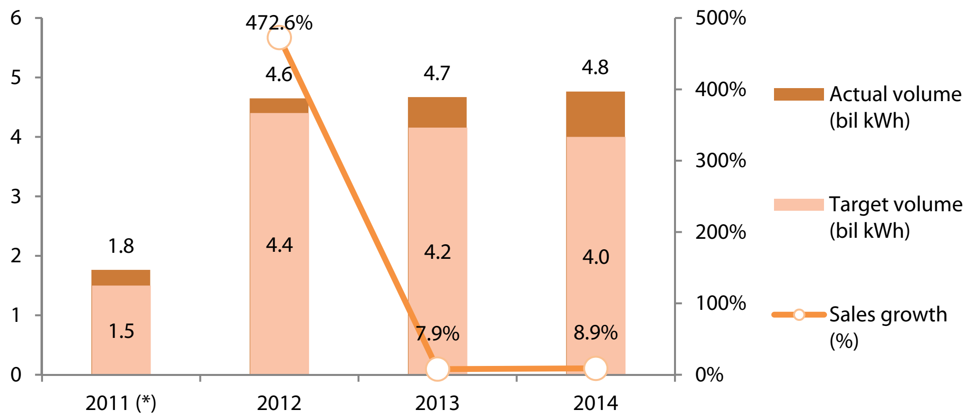
	2015E	2016F
Total operating hours	6,855	6,687
Sale output growth	7.9%	-2.5%
Average electric price (VND/kWh)	1,367	1,378
Sales growth	10%	-1.9%
Gross profit margin	17.5%	16.4%
USD/VND change *(*)*	2.0%	3.0%
EUR/VND change *(**)*	-10.4%	-2.9%
Income tax rate	5.0%	5.0%

Source: Rongviet Research

(*)Rongviet Research's macro team forecast; (**) Analyst expectation based on RV's and Scotia bank's forecast.

2014 is considered the most successful year of operation of NT2 since beginning commercial operation (Oct 2011). Revenue in this year grew by 20.1% yoy, 2.6 times higher than the growth rate of 2013. Gross profit margin increased as well from 13.7% to 23.4% in 2014. This was contributed by two main reasons (1) Change in the accounting treatment of the remaining retrospective payment from EVN during 2011 – 2013, which is VND658 bn due to differences between temporary recorded price and official price with EVN, (2) Depreciation expenses decreased by VND145.8 bn as NT2's extended asset depreciation life by 4 more years (from 10 to 14 years). If we exclude the retroactive revenue, revenue in 2014 increased by 8.9% (higher than the 7.9% growth of 2013) and the gross profit margin was 15.5%.

Graph 12. Sale volume higher than yearly target



Source: RongVietResearch

2015 is considered to have dry weather with drought season in Southern area extending by one month and the temperature has been usually at high level. According to National centre for hydro – meteorological forecasting, water level on the river in Central Highlands has gradually decreased along with shortfall in flow compared previous year averages. Consequently, 2015 could be the successful year for thermoelectric companies rather than hydropower. In addition, electricity demand would grow faster as the economy recover.

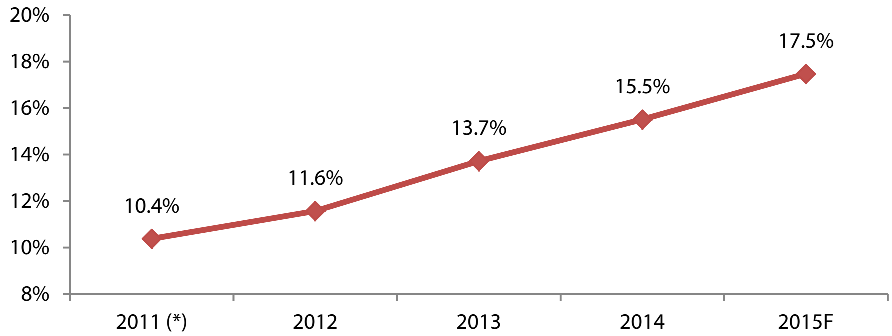
Expected uptrend in electric price due to supply over demand

In 2014, NT2 had stoped running for maintenance for more than 20 days. In 2015 and 2016, we expect NT2 will operate with higher working hours, before doing major maintenance in 2017 and medial maintenance in 2018. Therefore, in our 5-year forecast model, we believe that NT2's output can reach the highest level in 2015 at 5.14 billion kWh, up by 7.9% y.o.y and 5.5% higher than its capacity. Ending the 1H2015, sale volume achieved 2.74 bn kWh and correspondence revenue is VND3,733 bn, filled 60% of 2015 plan.

Furthermore, as above assessment, we also expect CGM output and P_m to increase in 2015. According to our forecast, average retail price of electricity in 2015 is 1,371 VND/kWh, up by 1.9% y.o.y. 2015 revenue is estimated about VND7,046 bn, up by 10% y.o.y (after excluding retroactive revenue in 2014).

Gross profit margin may slightly increase from 15.5% in 2014 to 17.5% due to (1) depreciation expense in 2015 is VND94 bn less than that of 2014 because depreciation life is extended since late 2014 and (2) offered higher output in CGM with higher price.

Graph 13. Gross profit margin estimated to reach 17.5% in 2015



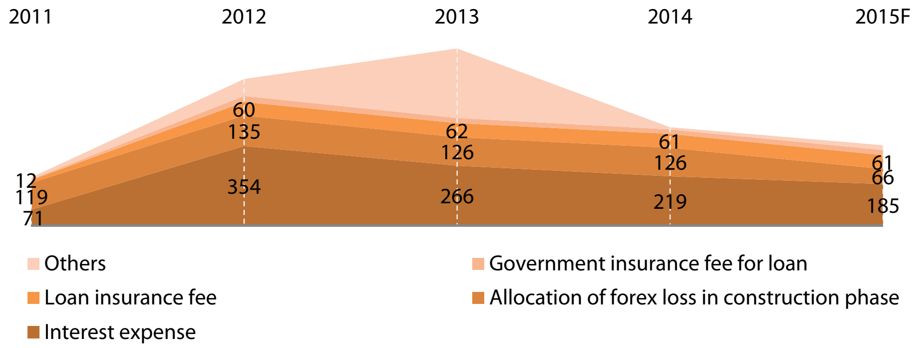
Source: RongVietResearch

Financial activities

NT2's financial costs include (1) allocation of foreign exchange losses during construction phase, (2) interest expense, (3) insurance, loan guarantees and (4) others (FX loss, provision…). If excluding unexpected gain/loss from FX, interest expense and allocation of FX loss in construction phase expense made up the highest parts during 2012 – 2014. Accordingly, NT2 had to record more than VND100 bn of FX loss in construction phase. However, outstanding amount of this item by the end of 2014 was at VND66.4 bn and was recorded in Q1/2015. Moreover, interest expense in 2015 is expected to decline by more than VND34 bn thanks to lower outstanding loan. Total financial expense in 2015 is estimated to be VND337.5 bn.

In term of income, under the scenario of 2% depreciated of VND against USD and 10% depreciation of EUR against VND, we estimate that NT2 can record a profit of VND245.8 bn from unrealized FX differenciation in 2015. Total financial income is VND334 bn, down by 25.8% y.o.y. Consequently, NT2 can report a VND6.7 bn profit from financial activities, down by 50% y.o.y.

Graph 14. 2015's financial cost slightly down compared to 2014



Source: RongVietResearch

Under such forecast, profit before tax from core business activities is estimated at VND897 bn, increased by 69.5% y.o.y (*). Furthermore, from 2015, PV Power NT2 starts to pay income tax with incentive rate of 5% (in 9 years, 2015 – 2023). Profit after tax is approximately VND852.2 bn, up by 61% y.o.y.. Corresponding diluted EPS would be VND 3,111.

(*) 2014's PBT is excluded retroactive revenue

Continued to record unrealized forex differenciation profit

During 2012 – 2014, USD/VND variation was control so that VND had not depreciated more than 2% against the USD. In 2014, Rongviet Research's macro analyst team think the State Bank can successfully control this target. Accordingly, the scenario of VND depreciates 2% against USD has been used in our model for NT2's 2015 business result.

In contrast, while USD has been becoming stronger following the US economic recovery, EUR depreciation tends to be more significant caused by the Eurozone's crisis. Vietnamese enterprises who have loan in EUR also have taken the advantages, especially during late 2014. According to Scotia bank, EUR/USD could fluctuate around 1.05 at the end of 2015. Under the forecast USD/VND to be about 21,808, we believe that EUR/VND could decline by 10.4% to 22,898 at the end of this year. With this scenario, value of each NT2 stock could increase by VND897 per shares thanks to gain from unrealized exchange rate in 2015.

Table 4. Sensitive analysis of unrealized forex differenciation income as forex rate change

	USD	EUR	
Outstanding loan @31/12/2014	146,099,081	133,480,136	
Outstanding loan @31/12/2015	123,622,299	112,944,730	
Exchange rate @31/12/2014	21,085	28,890	
	-1%	**0%**	**+1%**
USD/VND rate	20,876	21,085	21,296
EUR/VND rate	28,604	28,890	29,179
Unrealized Gain (+)/Loss (-)	58.1	0.0	-58.7

Source: Rongviet Research

Table 5. NT2's value appreciated thanks to unrealized forex differenciation income

	2015F	
	% change	**Exchange rate**
USD/VND	2.0%	21,808
EUR/VND	-10.4%	22,898
Unrealized Gain (+)/Loss (-) CLTGCTH *(VND bn)*		246
Added value *(VND/share)*		**897**

Source: Rongviet Research

Observing the statistics from electricity companies over the last few years, we recognized that weather condition could make a significant impact on their electricity output and prices. Under unfavorable hydrological conditions, thermal power plants could have more advantages in term of output and profit margin than hydropower plants, and vice versa. In addition, companies with high level of foreign loan, exchange rate fluctuation could be the significant issue relating to business results. Consequently, aside from above forecast, we provide the average scenario during 2015 – 2019 to demonstrate the appropriate average results that NT2 could achieve during that period. Several used assumptions:

- ✓ Factors related to core business activities (output, input, COGS and administration expense): average result from 5-years forecast, from 2015 – 2019.
- ✓ Financial revenue: include interest income in 5-year average
- ✓ Financial expense: include cost of borrowing and impact from USD/VND or EUR/VNd fluctuations

To sum up, average revenue during 2015 – 2019 is estimated at VND6,869.2 bn/year with gross profit margin at 16.2%. Averaged after-tax profit is VND813.4 bn and average EPS equal to VND2,969.

Table 6. Operating business forecast *(VND bn)*

	FY2013	FY2014 (*)	FY2015E	FY2016F	Average scenario (**) (2015-2019)
Net revenue	5,881.0	7,064.9	7,045.9	6,944.9	6,869.2
Cost of goods sold	5,074.2	5,413.3	5,814.8	5,782.4	5,756.0
Gross profit	**806.8**	**1,651.7**	**1,231.1**	**1,162.4**	**1,113.1**
Selling expense	0.3	0.2	0.3	0.3	0.3
Administrative expense	65.8	74.7	74.4	74.8	73.2
Financial revenue	53.0	450.5	344.2	59.8	74.2
Financial expense	786.6	437.2	358.8	249.7	257.6
Other profit	1.1	0.9	1.0	1.0	0.0
Profit before tax	**8.2**	**1,591.0**	**1,142.8**	**898.5**	**856.2**
Tax	0.0	0.0	57.1	44.9	42.8
Minority shareholder's profit	0.0	0.0	0.0	0.0	0.0
Profit after tax	**8.2**	**1,591.0**	**1,085.7**	**853.6**	**813.4**
EBIT	**740.7**	**1,576.7**	**1,156.4**	**1,087.3**	**1,039.6**
EBITDA	1,723.1	2,415.4	1,902.5	1,832.0	1,784.6

Source: PV Power NT2, RongViet Research

(*) Included VND658 bn retroactive revenue period 2011 – 2013.

VALUATION

Table 7. Valuation result

	Price	Weighted	Average
FCFE	36,843	30%	11.053
DDM	22,906	30%	6.872
EV/EBITDA	28,393	40%	11.357
Average price		**100%**	**29,282**
Added valued due to unrealized forex gain (VND/share)			897
Fair price (VND/share)			**30,179**

Nguồn: RongVietResearch

We combine three valuation methods including discounted cash flow (FCFE), dividend discount (DDM) and EV/EBITDA to determine the fair value for NT2 with ratio of 30:30:40. In FCFE and DDM methods, discounted rate during 2015 – 2019 is 10.1% and after 2019 is 12.5%. Long-term growth rate for FCFE and dividend are estimated to be about 6.5% and 8.1% respectively.

In term of EV/EBITDA, we refer from peers in emerging Asia – Pacific countries. The industry's reference EV/EBITDA is 7.6x. After adjusted for risk of country and industry growth, EV/EBITDA ratio used for NT2 is 6.9x.

Combined three valuation methods, fair price for NT2 is VND29,282 per share. Besides, adding benefit of forex variation, each NT2 stock will be added VND897 to VND30,200 per share.

Table 8. Ratio of peers in emerging APAC countries

Name	Market Cap (VND bn)	EBITDA Margin	PE	EV/EBITDA
PHA LAI THERMAL POWER JSC	6,999	14.6	9.9	6.8
KOT ADDU POWER COMPANY LTD	16,295	12.2	7.7	5.8
HUB POWER COMPANY	24,567	10.4	11.6	9.6
JSW ENERGY LTD	52,038	38.9	10.6	6.2
TOP ENERGY CO LTD-A	40,609	25.2	18.9	7.1
SHANXI ZHANGZE ELEC POWER-A	56,466	29.4	N/A	8.9
Average				**7.6**

Source: Bloomberg, RongViet Research

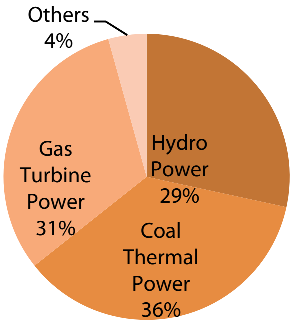
INDUSTRY OUTLOOK

Imbalanced power supply and demand due to geographic dissimilarities

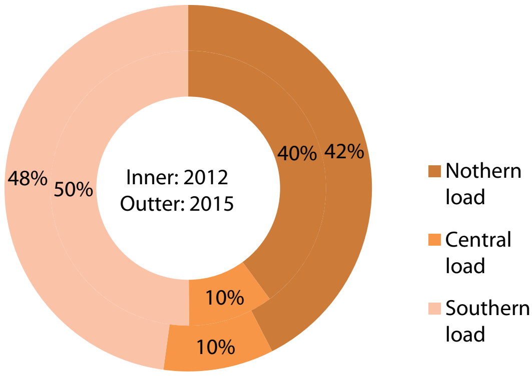
The most common inputs for electricity production in Vietnam have been coal, natural gas, hydro and oil. Coal-fired and on gas power plants running and generated 31% and 36% of the country's total electricity output last year; the remaining 29% came from hydropower. However, due to the topography differences among regions, the distribution of fuel and power sources are even across the country where natural water reserves and coal deposits lie mostly in the Central and Northern areas and natural gas in the South. Naturally, for the purpose of achieving operating efficiency, power plants need to be built near their input reserves. Therefore, it is not surprising that 70% of Vietnam's total electricity output is generated in Central and Northern area.

However, it is the South where most economic activities happen. During 2011 – 2014, electricity consumption in Southern areas accounted for 51% of total national demand on average, much higher than what power plants in the region could provide. This mismatch has led to the power shortages what called for transmission from plants in the Central and Northern areas.

Graph 15. Coal thermal took highest proportion of power supply



Graph 16. The South's load is the highest



Source: Rongviet Research

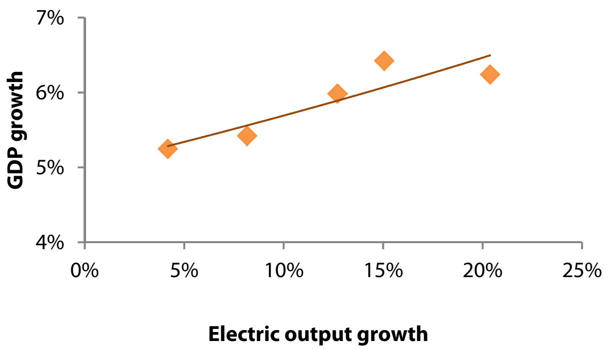
The country's thirst of power is growing as the economy recovers

Vietnam's transformation into an industrialized economy has created so much demand for electricity that the country has found constantly itself in power shortages. Between 2010 and 2014, electricity production grew at an average annual rate more than twice that of GDP. That, however, was not enough to put power shortages to an end. In this aspect, the industrial – construction sector and the civil sector are the two largest power consumers, accounting for 54% and 35% of total consumption respectively.

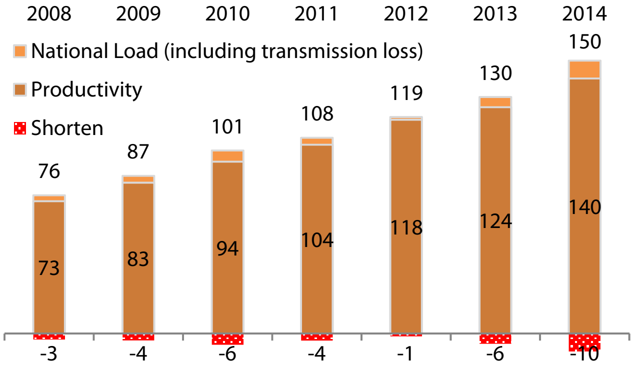
Following four years (2011 - 2014) of restructuring, economic stability has been finally established and economy has begun to pick up again. With the support of macro policies, the industrial sector - construction is expected to continue accelerating in 2015. In that context, excess power demand should remain the case.

In 2012, the proportion of electricity consumption in the North was only 40% of aggregate consumption; in 1H2015, however, this percentage rose to 42%. With the investments of large foreign investors such as Samsung and the expansion of power-consuming industries like steel and forgings, Northern has begun to use more power.

Graph 17. Strong correlated between power output and GDP growth

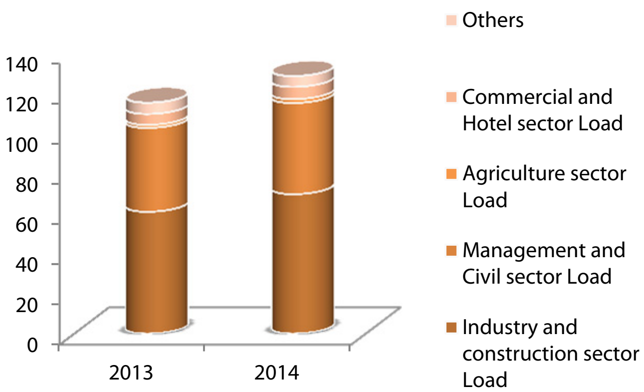


Graph 18 . Vietnam has always been under power shortages

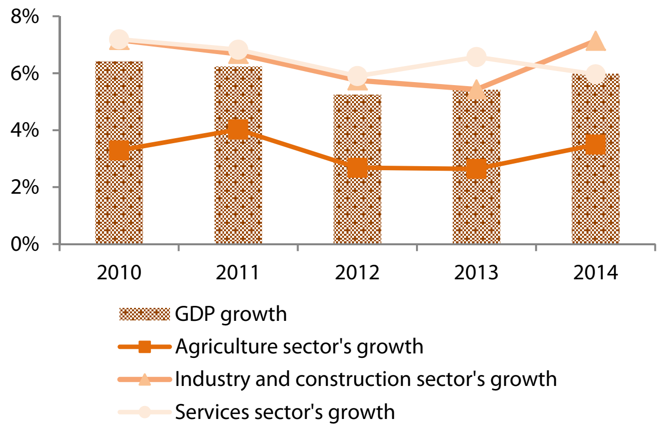


Source: GSO, EVNNLDC, Rongviet Research

Graph 19. Electricity is consumed the most by the Industry – Construction sector and the Management and Civil sector



Graph 20. The economy has been back on track since 2014



Source:GSO, EVNNLDC, Rongviet Research

Liberalization of power generation: a prerequisite for better investment capital mobilization

To meet the ever-growing demand for electricity, the Power Market Master Plan VII (Vietnam Power Development Plan for the 2011 – 2020 with vision to 2030) expect the aggregate power output to have reached 330 billion kWh, or 75,000 MW by 2020 under base-case scenario (*). To achieve such goal, the system will need each year an additional 6,000 MW of electricity between 2015 and 2020. Consequently, new investment becomes an urgency.

Over the years, the industry authorities have implemented several measures to liberalize the power industry, stripping EVN's monopolistic position and attract private-sector investment in the industry.

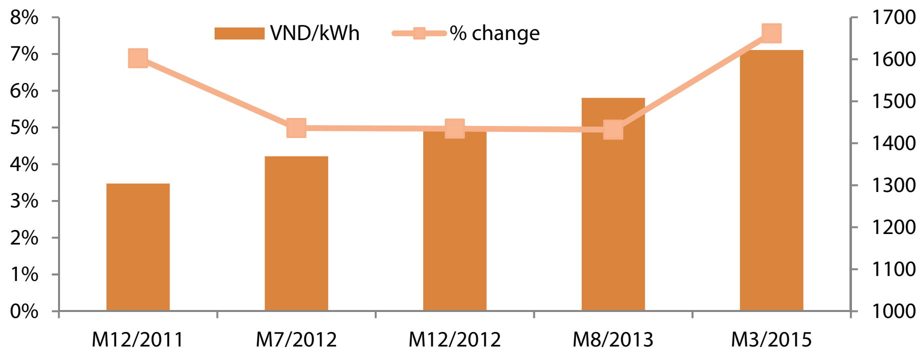
(*) Under basic scenario from Electricity plan VII, average GDP growth rates will be 7.5% in 2011 – 2015, 8% in 2016 – 2020 and 7.8% in 2021 – 2030. Annual power demand growth will be 12.7% in 2011 – 2020 and 7.8% in 2021 – 2030.

- ***Electricity price adjustment following market mechanism, decreasing subsidiaries and factoring***

Retail electricity prices were set to the market in 2012 by Decision 24/2011/QD-TTG. The objectives of the legislation were to (1) reduce the subsidies on coal and gas for power generation and (2) bringing electricity price in Vietnam closer to that in neighboring countries, about 8–9 US cents/kWh under the Power Market Master Plan VII.

Average retail electricity price has been adjusted up 5 times since the market mechanism was established. After the adjustment in March 2015 electricity price is now VND 1.622/kWh (not including VAT) or 7.54 cents/kWh.

Graph 21. After 5 times of increasing, electric retail price is 6.2 – 16.7% lower than 2020's target price

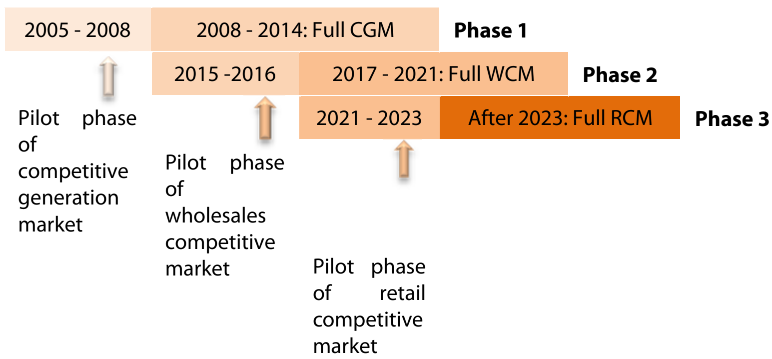


Source: RongVietResearch

❖ ***Developing electricity market: descending the monopoly from EVN and attracting foreign and private investment capital.***

The plan to construct a multi-stage, market-driven electricity industry was raised as early as 2005 – 2006, under Decision No. 26/2006/QD-TTG (26/01/2006), later replaced by Decision No. 63/2013/QD-TTG issued (08/11/2013). Under both decision, Vietnam electricity retail market will be developed through three levels and have completed by 2023.

Table 9: Development schedule of Vietnam's 3-phase competitive electricity market under Decision 26/2006/QĐ-TTg and Decision 63/2013/QĐ-TTg



Source: RongViet Research

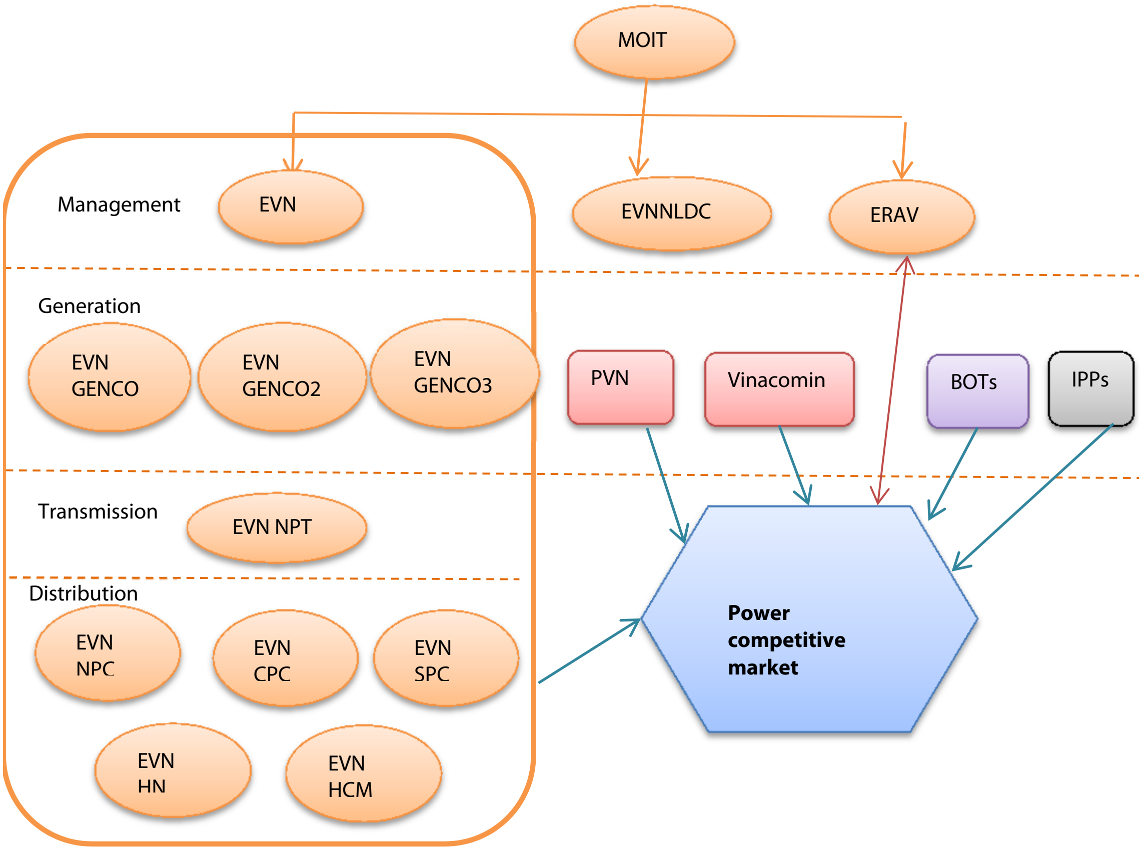
The implementation, however, has been shortly behind the schedule. In 7/2011, the pilot phase was conducted but the competitive power generation market was not officially operating until 7/2012. By 6/2015, only 59 power plants, whose capacity now accounts for 37.5% of the system's total output, are participant in this market.

For the wholesale market, the Detailed Planning for the Competitive Wholesale Electricity Market is expected to be approved in 7/2015. Key takeouts from the plan include:

- Sellers: power plants with capacity over 30 MW are forced to participate in the competitive market while power plants with capacity under 30 MW have the option to choose whether to join.
- Buyers: including 5 power corporations, large and eligible clients, new wholesale buyers and the Electricity Trading Companies
- The wholesale market will be developed in 3 phases:
  - ✓ 2016: pilot operation Phase 1
  - ✓ 2017 – 2018: pilot operation Phase 2
  - ✓ 2018 – 2019: official operation

However, the management of the entire process from generation to transmission then distribution will remain under EVN control, which will remain a huge obstacle to the development of a competitive power market. Therefore, in order for the scheme to reach completion, restructuring is the most necessary yet challenging step.

Graph 22. Layout of management and operation power grid in Vietnam



Source: RongViet Research collected

***MOIT**: Ministry of Industry and Trade; **EVN**: Vietnam Electricity; **EVNNLDC**: National Load Dispatch Center;*
***ERAV**: Electricity Regulatory Authority of Vietnam; **EVN GENCO1, EVN GENCO2, EVN GENCO3**: Power Generation Corporation 1, 2, 3*
***EVN NPT**: National Power Transmission Corporation*
***EVN NPC, EVN CPC, EVN SPC, EVN Ha Noi, EVN TP. HCM**: Northern – Central – Southern – Hanoi – HCMc Power Corporation.*
PVN**: PetroVietnam; **Vinacomin
***BOTs**: BOT power plants; **IPPs**: Independent power plants*

Unit: VND Billion

INCOME STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Revenue	5,881.0	7,064.9	7,045.9	6,944.9
COGS	5,074.2	5,413.3	5,814.8	5,782.4
Gross profit	**806.8**	**1,651.7**	**1,231.1**	**1,162.4**
Selling Expense	0.3	0.2	0.3	0.3
G&A Expense	65.8	74.7	74.4	74.8
Finance Income	53.0	450.5	344.2	59.8
Finance Expense	786.6	437.2	358.8	249.7
Other profits	1.1	0.9	1.0	1.0
PBT	**8.2**	**1,591.0**	**1,142.8**	**898.5**
Prov. of Tax	0.0	0.0	57.1	44.9
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**8.2**	**1,591.0**	**1,085.7**	**853.6**
EBIT	**740.7**	**1,576.7**	**1,156.4**	**1,087.3**
EBITDA	1,723.1	2,415.4	1,902.5	1,832.0

Unit: %

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	7.9%	8.9%	10.0%	-1.4%
Operating Income	28.5%	112.9%	-26.7%	-6.0%
EBITDA	10.9%	40.2%	-21.2%	-3.7%
EBIT	28.5%	112.9%	-26.7%	-6.0%
PAT	7.0%	19256.6%	-31.8%	-21.4%
Total Assets	-9.7%	2.5%	-2.3%	-5.1%
Equity	0.2%	52.3%	20.1%	8.7%
Internal growth rate	0.3%	32.1%	14.4%	8.3%
Profitability				
Gross profit/Revenue	13.7%	23.4%	17.5%	16.7%
Operating profit/ Revenue	12.6%	22.3%	16.4%	15.7%
EBITDA/ Revenue	29.3%	34.2%	27.0%	26.4%
EBITDA/ Revenue	12.6%	22.3%	16.4%	15.7%
Net margin	0.1%	22.5%	15.4%	12.3%
ROAA	0.1%	12.9%	8.8%	7.2%
ROIC or RONA	7.0%	15.6%	11.5%	11.2%
ROAE	0.3%	45.2%	23.2%	16.0%
Efficiency (x)				
Receivable Turnover	4.2	3.8	3.1	3.3
Inventory Turnover	25.0	21.8	20.4	19.6
Payable Turnover	4.4	4.8	4.5	4.8
Liquidity				
Current	1.0	1.4	1.8	1.9
Quick	0.8	1.3	1.6	1.8
Solvency				
Total Debt/Equity	337.0%	194.0%	139.2%	108.9%
Current Debt/Equity	40.8%	24.8%	19.7%	18.2%
Long-term Debt/ Equity	262.3%	137.9%	95.1%	69.3%

Unit: VND Billion

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	57	186	561	852
Short-term investment	246	540	890	1,040
Receivables	1,450	2,260	2,216	1,996
Inventories	221	275	296	294
Other current assets	9	0	0	0
Total Current Asset	**1,983**	**3,261**	**3,963**	**4,182**
Tangible Fixed Assets	9,114	8,276	7,532	6,789
Intangible Fixed Assets	22	30	29	29
Construction in Progress	2	0	0	0
Investment Property	0	0	0	0
Long-term Investment	-11	0	0	0
Other long-term assets	1,065	916	678	579
Goodwill	0	0	0	0
Long term assets	**10,192**	**9,222**	**8,239**	**7,397**
Total Asset	**12,175**	**12,484**	**12,202**	**11,579**
Payables	27	34	34	35
Other current liabilities	914	1,291	1,208	1,148
Current Debt	1,138	1,052	1,007	1,007
Long-term Debt	7,311	5,856	4,848	3,841
Other long-term liabilities	5	5	5	5
Total Liability	**9,395**	**8,237**	**7,102**	**6,036**
Owner's Equity	**2,788**	**4,247**	**5,101**	**5,544**
Capital	2,560	2,560	2,739	2,739
Retained Earnings	38	1,497	2,171	2,614
Funds & Reverses	190	190	190	191
Others	**0**	**0**	**0**	**0**
Total Equity	**12,183**	**12,484**	**12,202**	**11,579**
Minority's Interest	0	0	0	0

CASH FLOW STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Profit before tax	8.2	1,591.0	1,142.8	898.5
-Depreciation	982.4	838.7	746.0	744.7
-Adjustments	*508.3*	*-200.1*	*-92.6*	*97.8*
+/- Working capital	-597.2	-701.2	-157.9	-41.9
Net Operating CFs	**901.7**	**1,528.3**	**1,638.3**	**1,699.1**
+/- Fixed Asset	-11.3	-7.4	-1.3	-0.7
+/- Deposit. equity investment	248.4	-293.5	0.0	0.0
Interest. Dividend. cash profit received	55.9	25.1	51.7	59.8
Net Investing CFs	**292.9**	**-275.8**	**50.5**	**59.1**
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-1,189.1	-1,123.6	-1,051.9	-1,008.2
Dividend paid & other	0.0	0.0	-262.3	-459.0
Net Financing CFs	**-1,189.1**	**-1,123.6**	**-1,314.2**	**-1,467.2**
+/- cash & equivalents	5.5	128.9	374.6	291.0
Beginning cash & equivalents	**51.7**	**57.2**	**186.1**	**560.7**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**57.2**	**186.1**	**560.7**	**851.7**

INITIAL REPORT

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%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ