PETROVIETNAM POWER NHON TRACH 2 (HSX:NT2)

Bottom line to surge

BUY	24%
Target price (VND)	29,200
Current market price (VND)	23,750

(VND bn)	Q4-FY21	Q3-FY21	+/- qoq	Q4-FY20	+/- yoy
Net revenue	1,635	1,250	31%	1,331	23%
PAT	121	273	-56%	203	-40%
EBIT	128	287	-55%	263	-51%
EBIT margin	7.9%	23.0%	-1511bps	19.8%	-1195bps

Source: NT2, Rong Viet Securities

2021 - Numerous obstacles dent earnings

- Despite revenue grew by 23% YoY to VND 1.635 bn (or USD 71 mn), NPAT experienced a decline of 40% YoY to VND 121 bn (or USD 5.3 mn) in 4Q2021.
- Earnings hit an 8-year trough as the company encountered numerous obstacles including a low contracted volume and a decrease of selling prices. Revenue and NPAT posted VND 6.150 bn (or USD 267 mn) and VND 534 bn (or USD 23 mn), +1% and -15% YoY, respectively.

2022F Outlook – A tremendous earnings bounce back after a tough year

For 1H2022, we forecast that NPAT will grow by 142% YoY to VND 337 bn (or USD 15 mn), as contracted volume to jump by 23% YoY while coal (input material to coal-burning power) shortage will temporarily benefit for gas-turbine group in foreseeable future in the CGM. Coupled with an extremely low base of NPAT in 2Q2021 (VND 24 bn; or USD 1.04 mn), we believe that 2Q2022 NPAT will witness a surge by many fold.

For 2022, we expect NPAT to grow 22% YoY from the low base in 2021. Particularly, we project that contracted volume will increase by 8% YoY, and NT2 will record an additional revenue from FX reversal compensation. As a result, projected 2022F revenue/ NPAT/ EPS are VND 7,959 (or USD 346 mn, +29% YoY)/ VND 649 bn (or USD 28 mn, +22% YoY)/ VND 2,200, respectively.

Valuation and recommendation

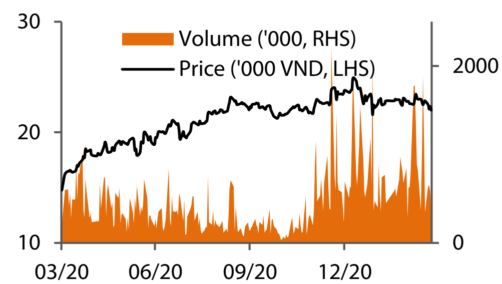
We believe that NT2 stock price is off to surge as we expect to see a robust earnings growth in 2Q2022 given (1) favorable condition for gas-turbine plants due to coal shortage, and seasonal factor, and (2) an extremely low base of earnings in 2Q2021. In addition, we expect the company will receive additional revenue from FX reversal and solid cash flows (company had paid all borrowings back in June 2021) to provide a meaningful buffer for NT2's earnings in 2022F-23F against future headwinds.

*Applying DDM, FCFF and PER valuation approach, we arrive at the target price for this stock of **VND 29,200 per share**. Alongside cash dividends of VND 500 in the next twelve months, total expected return is **24%** as of the closing price on 2022, 15th Apr. Hence, we recommend **BUYING** this stock.*

Stock Info	
Sector	Utilities
Market Cap (VND billion)	6,635.5
Current Shares O/S	287.9
Avg. Daily Volume (in 20 sessions)	760.9
FNT2 float (%)	7
52 weeks High	25,939
52 weeks Low	16,758
Beta	0.1

	FY2021	FY2022
EPS	1,807	2,200
EPS Growth (%)	-14.6%	21.7%
Diluted EPS	1,807	2,200
P/E	2.7	11.1
P/B	1.7	1.6
EV/EBITDA	6.1	4.6
Cash dividend yield (%)	7.6	6.1
ROE (%)	12.6	14.7

Price performance



Major Shareholders (%)	
POW	59.4
CFTD	8.3
Samarang UCITS	5.0
Foreign ownership room (%)	49

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Exhibit 1: 4Q/2021 Results

(VND Bn)	Q4-FY21	Q3-FY21	+/- (qoq)	Q4-FY20	+/- (yoy)
Net revenue	1,898	1,093	73.7%	1,666	13.9%
Gross profit	863	349	146.8%	457	88.6%
SG&A	191	89	115.3%	156	22.3%
Operating income	672	261	157.5%	301	122.9%
EBITDA	1,338	698	91.7%	694	92.9%
EBIT	1,053	438	140.4%	613	71.8%
Financial expenses	201	191	5.2%	117	71.8%
- Interest Expenses	195	184	6.1%	99	97.7%
Dep. and amortization	285	260	9.6%	81	253.2%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	1,033	299	245.5%	724	42.7%
PAT	792	264	200.3%	651	21.6%
(*) Adjusted PAT	792	264	200.3%	651	21.6%

Source: NT2, Rong Viet Securities

Exhibit 2: 4Q/2021 Performance Analysis

Particulars	Q4-FY21	Q3-FY21	+/- *(qoq)*	Q4-FY20	+/- *(yoy)*
Profitability Ratios (%)					
Gross Margin	45.5%	32.0%	1347 bps	27.5%	1800 bps
EBITDA Margin	70.5%	63.9%	662 bps	41.7%	2886 bps
EBIT Margin	55.5%	40.1%	1541 bps	36.8%	1869 bps
Net Margin	41.7%	24.1%	1759 bps	39.1%	263 bps
Adjusted Net Margin	41.7%	24.1%	1759 bps	39.1%	263 bps
Turnover*(x)					
-Inventories	5	3	1.6	5	-0.5
-Receivables	2.6	1.6	1.1	2.2	0.4
-Payables	1	1	0.4	2	-0.9
Leverage (%)					
Total Debt/ Equity	26.6%	24.5%	209 bps	28.1%	-150 bps

Source: Rong Viet Securities

Exhibit 3: 1Q/2022 Performance Forecast

Particulars (VND Bn)	1Q-FY22	+/- qoq	+/- yoy
Revenue	1,871	14%	13%
Gross profit	176	18%	19%
EBIT	151	18%	21%
NPAT	146	20%	27%

Source: Rong Viet Securities

- Forecasted volume to be 909 mn kWh, nearly flat compared to last year.
- Higher average selling price boost net income in 1Q2021 to VND 146 bn (or USD 6.3 mn).

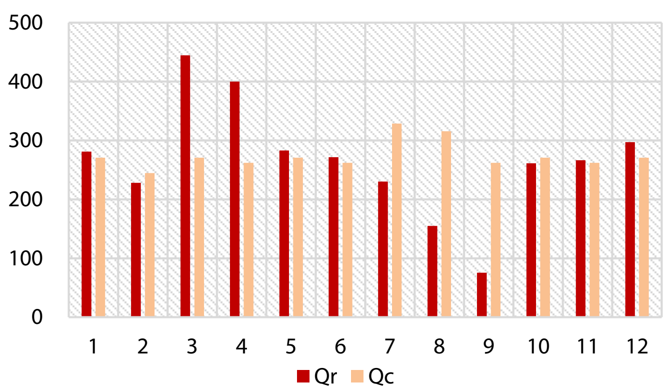
Update

Modest earnings in 2021

Earnings in 4Q2021 were in line with our expectation

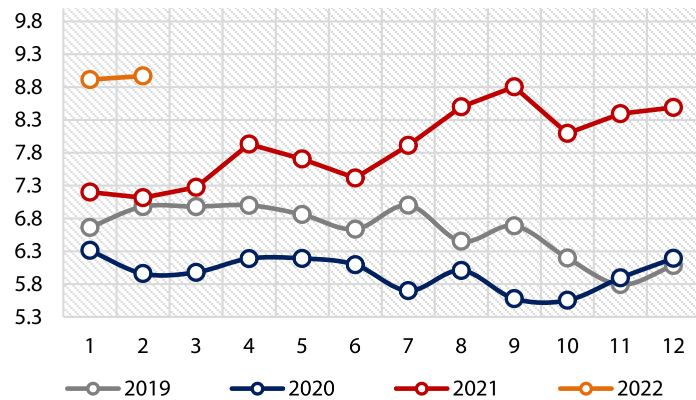
Provided volume in 4Q2021 was around its contracted volume since the surge of natural-gas prices and hydropower outperformance hindered NT2 to enter CGM (Figure 2). Provided volume was 825 mn kWh, +15% YoY, versus contracted volume (Qc) was 804 mn kWh, -21% YoY, and accounted for 97% of the total volume (Figure 1). While revenue grew by 23% YoY to VND 1.635 bn (or USD 71 mn), mostly due to the pass-through scheme in power market in which material (natural gas) prices are included in selling prices - Pc (*), NPAT declined by 40% YoY to VND 121 bn (or USD 5.3 mn) as NT2 recorded FX and unprovided volume compensation in 4Q2020.

Figure 1: Contracted, provided volume in 2021 (mn kWh)



Source: NT2, Rong Viet Securities

Figure 2: NT2's gas price (after tariff)

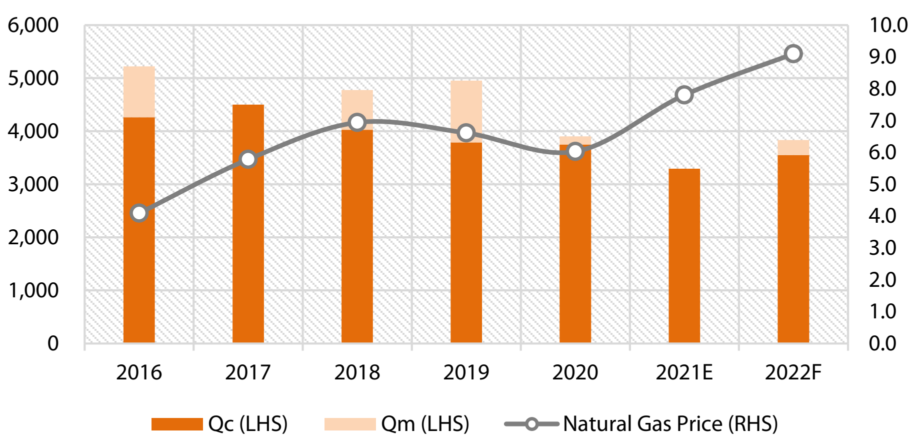


Source: NT2, Rong Viet Securities

Earnings hit a 8-year low as the company encountered numerous obstacles

In 2021, the company encountered numerous external difficulties including unfavorable hydrology condition and gas price surge. As La Nina phenomenon had been forecasted to prevail in 2021, aside with a boom of solar power in the South of Vietnam in late 2020, NT2 was assigned a relatively low contracted volume in 2021 (Figure 3).

Figure 3: Volume (mn kWh) and natural gas prices (USD/mmBTU)



Source: NT2, Rong Viet Securities

Furthermore, NT2 also revised its PPA in Apr 2021, in which the selling prices were applicable for the whole year 2021. Specifically, the fixed price in Pc (*) decreased by VND 37.6 compared to the old one. Consequently, business results in 2Q2021 were extremely low due to the retrospective in 1Q2022.

As a result, 2021 NPAT went down to VND 534 bn (or USD 23 mn), -15% YoY, hitting the 8-year trough. In fact, these earnings were saved by the one-off earnings in 3Q2021 as the company recorded compensation revenue for unprovided contracted volume as we mentioned in our previous report.

*(*Pc=Fixed price + Variable prices account for material prices and are passed through to EVN)*

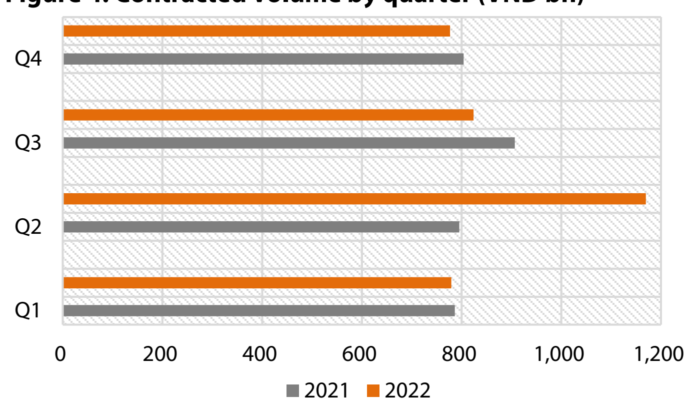
2022 Outlook: A bounce back

The low base in 2021 and the coal-shortage problem will drive NT2's 1H-2022 core earnings

Currently, there is an input shortage for coal thermal plants. This controversial problem started in March given (1) the lack of coal mining labor force according to TKV and Dong Bac's representatives, (2) a surge in global coal prices driven by global energy crunch that made coal import be more difficult for coal burning group. We foresee that this problem rarely resolves quickly because of state-owned companies' lengthy procedures. This will lead to lower volume from coal burning power plants group, and higher mobilization rates on CGM for gas-fired thermal plants like NT2. Not to mention considerable potential from CGM's volume, we foresee robust growth in volume as the company was already assigned a contracted volume of around 1.9 bn kWh (+23% YoY) in 1H-2022 (contracted volume in 2Q2022 alone will surge of 47% YoY)..

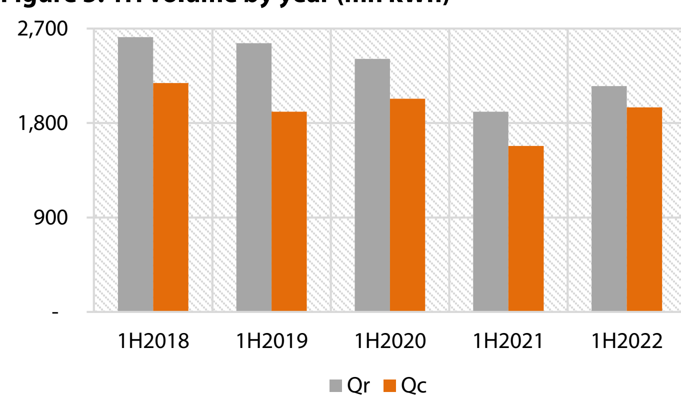
Furthermore, since the company finished its long-term debt obligations in June 2021, we forecast that financial expenses will decline from VND 51bn (or USD 2.2 mn) to VND 11 bn (or USD 0.5 mn). Hence, we expect the core earnings in 1H2022 to reach roughly VND337 bn (or USD 15mn), double that in 1H2021, while in 2Q2021 alone, NPAT will be many folds higher compared to last year, standing at VND 190bn (or USD 8.3 mn)

Figure 4: Contracted volume by quarter (VND bn)



Source: NT2, Rong Viet Securities

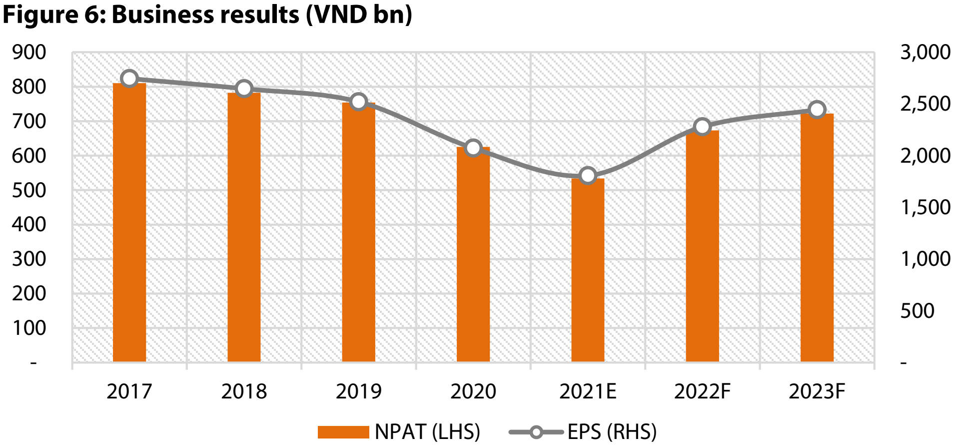
Figure 5: 1H volume by year (mn kWh)



Source: NT2, Rong Viet Securities

A one-off profit from FX revenue and lesser financial expenses will cushion the business results in 2022F-23F

Figure 6: Business results (VND bn)



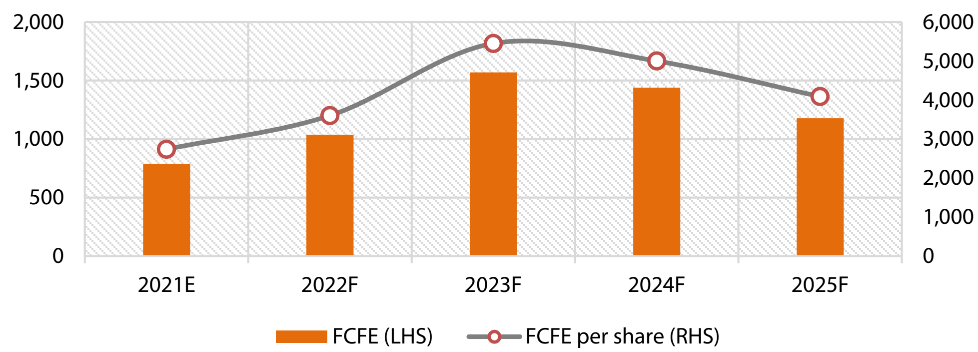
Source: NT2, Rong Viet Securities

NT2 is subject to a potential financial revenue from FX reversal of roughly VND 400 bn (or USD 17.4 mn), which is a FX compensation for the period of 2016 to 2020 based on Circular 56. We expect that the company will record half of it this year and the remaining in 2023. For 2022, revenue and NPAT are forecasted to be VND 7,947 (or USD 346 mn) and VND 650 bn (or USD 28 mn), +29% YoY and 22% YoY, respectively.

Valuation

As the company finished its long-term debt obligations in 2Q2021. Cash flow will be prosperous in the coming years as there is no investing activities, the company will utilize these cash flows to either pay dividends or create financial income by saving amount. We estimate that FCFE will range from VND 1.000 bn (or USD 43 mn) to VND 1.600 bn (or USD 70 mn), equivalent to VND 3.000 to VND 5.000 per share.

Figure 7: FCFE (VND bn) and FCFE per share (VND)



Source: NT2, Rong Viet Securities

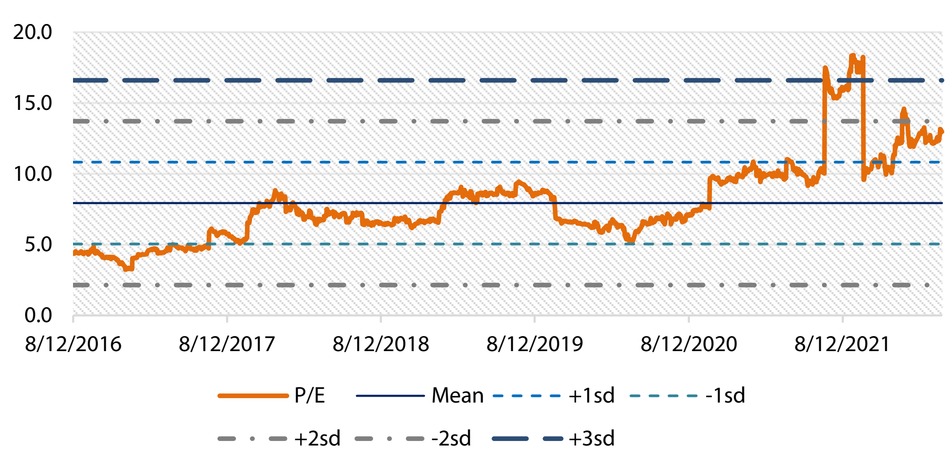
We use three methods consisting of DDM, FCFE and P/E with respective proportions of 30%, 30% and 40% to evaluate this stock's fair value as shown in Table 3. Our fair value arrives at **VND 29,200 value per share**, with 5% cash dividend per share, implying a **total stock return of 24%** as of closing price on Apr 15th, 2022. Hence, we recommend **BUYING** this stock.

Table 1: NT2 valuation

Method	Valuation	Weight	Target price
DDM (Cost of equity: 8.4%)	29,778	30%	8,933
PE (10x @ 2022 EPS of 2,200)	23,262	40%	9,305
FCFE (Cost of equity: 8.4%, exit EV/EBITDA: 6.0x)	36,399	30%	10,920
Target price (VND)			**29,200**

Source: Rong Viet Securities

Figure 12: P/E and 5Y average P/E



Source: Bloomberg, Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2020	FY2021	FY2022E	FY2023E
Revenue	6,082	6,150	7,947	8,958
COGS	5,187	5,474	7,185	8,128
Gross profit	**895**	**676**	**761**	**830**
Selling Expense	0	0	0	0
G&A Expense	85	83	87	114
Finance Income	18	18	21	36
Finance Expense	151	52	11	0
Gain from j.t ventures	0	0	0	0
PBT	**673**	**566**	**687**	**752**
Prov. of Tax	38	32	37	28
Minority's Interest	0	0	0	0
PAT to Equity S/H	**635**	**534**	**650**	**724**
EBIT	810	593	674	715
EBITDA	1,502	1,283	1,367	1,408

%

FINANCIAL RATIO	FY2020	FY2021	FY2022E	FY2023E
Growth (%)				
Revenue	-20.5	1.1	29.2	12.7
Operating Income	-4.8	-14.6	6.5	3.0
EBITDA	-8.8	-26.8	13.7	6.1
PAT	-15.8	-15.9	21.7	11.5
Total Assets	-10.3	3.8	0.4	6.7
Equity	4.1	-1.5	4.8	6.2
Profitability (%)				
Gross margin	14.7	11.0	9.6	9.3
EBITDA margin	24.7	20.9	17.2	15.7
EBIT margin	13.3	9.6	8.5	8.0
Net margin	10.4	8.7	8.2	8.1
ROA	9.9	8.1	9.8	10.2
ROE	18.8	14.0	15.2	15.1
Efficiency				(times)
Receivable Turnover	4.1	2.8	3.0	3.3
Inventory Turnover	16.5	17.6	17.5	20.0
Payable Turnover	4.0	2.5	3.4	3.4
Liquidity				(times)
Current	0.9	1.1	1.7	2.0
Quick	0.8	1.0	1.5	1.9
Finance Structure (%)				
Total Debt/Equity	18.0	5.0	2.4	0.0
Current Debt/Equity	18.0	5.0	2.4	0.0
Long-term Debt/Equity	0.0	0.0	0.0	0.0

VND Billion

BALANCE SHEET	FY2020	FY2021	FY2022E	FY2023E
Cash and cash equivalents	62	1	641	1,370
Short-term investments	0	0	20	300
Accounts receivable	1,489	2,230	2,622	2,687
Inventories	315	311	411	406
Other current assets	20	38	40	42
Property, plant & equipment	4,162	3,476	2,792	2,105
Acquired intangible assets	22	22	21	21
Long-term investments	0	0	0	0
Other non-current assets	311	546	103	165
Total assets	**6,381**	**6,624**	**6,650**	**7,096**
Accounts payable	1,297	2,170	2,097	2,373
Short-term borrowings	775	210	105	0
Long-term borrowings	1	0	0	0
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	11	11	12	14
Technology-science, dev. fund	1	0	0	0
Total liabilities	**2,084**	**2,390**	**2,215**	**2,387**
Common stock and APIC	2,879	2,879	2,879	2,879
Treasury stock (enter as -)	0	0	0	0
Retained earnings	1,282	1,196	1,397	1,671
Other comprehensive income	0	0	0	0
Inv. and Dev. Fund	137	160	160	160
Total equity	**4,298**	**4,234**	**4,435**	**4,709**
Minority Interest	**0**	**0**	**0**	**0**

VALUATION RATIO (*)	FY2020	FY2021	FY2022E	FY2023E
EPS (dong)	2,073	1,807	2,280	2,445
P/E (x)	10.9	12.7	10.7	10.0
BV (dong)	14,928	14,706	15,486	16,431
P/B (x)	1.6	1.7	1.6	1.5
DPS (dong/cp)	2,500	2,000	1,500	2,000
Dividend yield (%)	10.2	-	6.12	8.16

VALUATION MODEL	Price	Weight	Average
DDM	29,953	30%	8,986
PE	22,001	40%	8,800
FCFF	37,238	30%	11,171
Target price (VND)			**29,000**

VALUATION HISTORY	Price	Recommendation	Period
Dec 2020	24,800	ACCUMULATE	Long term
Jul 2021	22,900	BUY	Long term
August 2021	24,300	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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