

Pha Lai Thermal Power (PPC – HSX)

Stay firm

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- qoq	Q4-FY12	+/- yoy
Net Revenues	1,736.9	1,200.5	45%	1,236.9	40%
PAT	232.1	99.4	133%	543.0	-57%
EBIT	414.9	202.8	105%	737.8	-44%
EBIT margin (%)	23.9%	16.9%	699bps	59.7%	-3,577bps

Sources: Rongviet Securities database

- ❑ **Strongly growth in 2013 thanks to power capacity enhancement and foreign exchange differentiated benefit.**
- ❑ **Increase investment in Haiphong Thermal Power Plant: Solution of growth.**
- ❑ **JPY is expected to recover 5% compared to VND, 2014 profit can significantly slump.**
- ❑ **Participation in competitive electric market has not brought a highlight profit to PPC.**

Outlook and Valuation:

PPC's operation is stable with 6 generators to be fully depreciated by mid-2016. In the absence of a replacement plan, the Company has recently increased its stake in Hai Phong Thermal Power Plant and shown desire to continue to raise ownership higher, which is considered as an alternative solution for the growth issue. We are interested in this plan rather than PPC's participation in competitive electric market due to competitive price is not much higher than contract price. With modern technology factory and starting to run at full capacity this year, Hai Phong Thermal is expected to contribute positively to PPC's profitability starting 2015 (after fully distributed currency translation loss from construction phase).

In short-term, with a foreign currency loan amounting up to 26.92 billion yen by Dec 31, 2013, fluctuations in the exchange rate JPY/USD is still the key risk in PPC's business. In FY2014, we expect the JPY to bounce back approximately 5% against the VND so that PPC may record currency translation loss of about VND267 billion. 2014 EPS after adjusted for the effect of exchange rate change is VND2,365. Due to uncertainty of long-term prospect, we recommend NEUTRAL for PPC.

Key financials

Y/E Dec (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net Revenues	4,130.6	6,582.6	6,390.6	6,204.6
% chg	10.5	59.4	-2.9	-2.9
PAT	504.8	1,631.5	611.8	912.1
% chg	12850.7	223.2	-62.5	49.1
EBIT margin (%)	12.2	24.8	9.6	14.7
ROA (%)	4.2	13.6	5.2	7.6
ROE (%)	14.2	34.2	11.0	14.8
EPS (VND)	1,587	5,128	1,923	2,867
Adjusted EPS (VND)	1,729	2,505	2,365	2,658
Book value (VND)	12,740	16,540	17,515	20,289
Cash dividend (VND)				
P/E (x)	7.2	4.9	9.3	9.3
P/BV (x)	0.9	1.5	1.4	1.4

Sources: PPC financial statements, Stock price as of 03/04/2014

Please refer to important disclosures at the end of this report

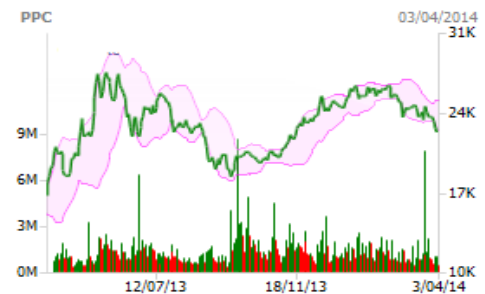
NEUTRAL

CMP (VND)	22,900
Target Price (VND)	25,200

Investment Period Long-term

Stock Info

Sector	Utilities
Market Cap (VND bn)	7,285.8
Current Shares O/S	318,157,348
Beta	0.9
Free float (%)	20.3
52 weeks High	27,700
52 weeks Low	15,900
Avg. Daily Volume (in 20 sessions)	1,322,395



Performance (%)

	3M	1Y	3Y
PPC	-10.6	31.2	141.5
Utilities	9.4	49.4	
VN30 Index	19.3	18.2	
HSX Index	15.7	15.4	27.1

Major Shareholders (%)

Genco2	52.3
REE	22.4
Deutsche Bank AG London	5.0
Foreigner Investor Room (%)	36.4

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Exhibit 1: 4QFY2013

Particulars (VND bn)	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Net Revenues	1,736.9	1,200.5	44.7%	1,236.9	40.4%
Gross profits	87.3	173.7	-49.7%	35.6	145.0%
SG&AC	37.8	25.1	50.7%	29.2	29.4%
Operating Income	49.6	148.6	-66.7%	672.2	-92.6%
EBITDA	588.4	371.9	58.2%	894.3	-34.2%
EBIT	414.9	202.8	104.6%	737.8	-43.8%
Financial expenses	75.0	82.3	-8.9%	-434.2	-117.3%
- Interest Expenses	36.8	35.6	3.3%	46.7	-21.2%
Dep. and amortization	-173.5	-169.1	2.6%	-156.5	10.9%
Non-recurring Items (*)	395.5	-46.3		768.1	-48.5%
Extraordinary Items (*)	2.2	0.3	527.4%	18.9	-88.6%
PBT	378.0	167.1	126.2%	691.1	-45.3%
PAT	232.1	99.4	133.5%	543.0	-57.2%
(*) Adjusted PAT	-18.7	127.0	-114.7%	-81.5	-77.1%

Sources: PPC, RongViet Securities database

Exhibit 2: 4QFY2013 performance analysis

Particulars	Q4-FY13	Q3-FY13	+/- (qoq)	Q4-FY12	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	5.0%	14.5%	-944bps	2.9%	215bps
EBITDA Margin	33.9%	31.0%	290bps	72.3%	-3843bps
EBIT Margin	23.9%	16.9%	699bps	59.7%	-3577bps
Net Margin	13.4%	8.3%	508bps	43.9%	-3054bps
Adjusted Net Margin	-1.1%	10.6%	-1165bps	-6.6%	552bps
Turnover *(x)					
-Inventories	7.6	5.2	2.5	6.3	1.3
-Receivables	4.2	2.2	2.0	4.0	0.2
-Payables	25.1	30.2	-5.1	33.1	-8.0
Leverage (%)					
Total Debt/ Equity	1.2	1.3	-0.1	1.9	-0.7

Sources: Rongviet Securities database(*) Annualized turnover

Strongly growth in 2013 thanks to power capacity enhancement and foreign exchange differentiated benefit.

In 2013, PPC's power output reached 5,644 bn kwh, up by 15.2% y-o-y, which brought two advantages: First, PPC's per-unit electricity price was higher as EVN was required to generate much more power than planned in the first half of 2013. Second, higher output led to lower fix cost per unit of power and gross profit margin was up to 15.3% from 11.2% of 2012 as the consequence.

A highlight worth remembering about PPC performance in 2013 was that the JPY depreciated nearly 17% against the VND, bringing the power plant up to VND1,161 bn of currency translation gain, of which unrealized gain was about VND1,136 bn. For the whole year of 2014, revenue was VND6,582.6 bn, up more than 59% y-o-y and PBT was 2.9 times as high as that of 2012 at VND2,227.8 bn. If excluding foreign exchange gains, 2013 PBT is VND1,067 bn, up by 44% y-o-y.

Increase investment in Haiphong Thermal Power Joint Stock Company: Solution of growth.

In 2013, PPC bought 20 million shares Haiphong Thermal Power Corporation (HTPC) at VND11,500 per share, bringing the total value of its investment in HTPC to VND1,423 billion or 25.49% of share capital. (up from 22.49%). With four generators and total capacity of 1,200 MWh HTPC is a national prioritized project, that has an expected annual power output of 7.2 billion kWh. In early March 2014, HTPC is operated at full capacity for the first time.

PPC's electricity generators are now almost fully depreciated (Factory 1 is fully depreciated, Factory 2 will be done with depreciation in mid FY2016) but the Company has no plans to invest in new plants. Due to HTPC being equipped with modern technology and higher capacity generators, the increased ownership of PPC is considered a step that might help the Company expand its future growth. PPC has planned to increase its ownership of HTPC up to a maximum 49 percent. However, the plan needs to be approved by Genco 2. Therefore, the a specific schedule for this raise of stake has not been announced just yet.

In 2013, PPC recorded more than of shared loss 69.6 billion in its associates due to the reduction goodwill amortization period for the investments in HTPC from 10 years to 3 years (2012-2014); the amortization cost in 2013 was approximately -VND141 bn. Adjusting for these costs, operating profit from associate companies contributed VND71.2 bn to PPC PBT, up from VND9.2 bn in FY2012.

Gross profit margin of Haiphong Thermal quite high. However, the Company is in the period of currency translation loss allocation realized in construction phase. Its NPAT, therefore, is quite low. We also would like to note that HTPC has some large loans denominated in USD and JPY. With outstanding amount as of Dec 31, 2013 of VND12,000 bn, making exchange rate fluctuations (including USD/VND and JPY/VND) will be one of the key risks of this power plant). In addition, compared with the interest and fee rates of PPC's JPY loan, which are about 2.63%, the rates for HTPC's borrowing are much higher.

Exhibit 3: Foreign currency denominated loans of Haiphong Thermal Power Plant

	Balance	Interest and fee rate	Notes
1. USD denominated loans	278,034,200	6.1%	Get back the loans owed between EVN and China Export-Import Bank; 166-month loan term, 46-month grace period; The first principal payment on 21/01/2012.
2. USD denominated loans	327,182,260	6.4%	Get back the loans owed between EVN and China Export-Import Bank; The first principal payment on 21/10/2014.
3. JPY denominated loans	7,740,469,321	4.0%	Get back the loans owed between EVN and JBIC; 11-year and 6-month loan term; The first principal payment 20/08/2009.
4. JPY denominated loans	7,319,484,004	4.5%	Get back the loans owed between EVN and JBIC; 11-year and 6-month loan term; The first principal payment 20/12/2010.

Source: Haiphong Thermal Power Plant's 2013 financial statements

In FY 2014, PPC will continue to allocate nearly -VND83 bn of the remaining account of goodwill. With the forecasted increase of 2% in the USD/VND exchange rate and, the JPY/VND rate may increase 5% and PPC is likely to record further losses from its investment in associate companies. We expect HTPC to contribute positively to PPC's profitability starting 2015.

Less risky investment portfolio.

Cash and equivalents and short-term financial investments, most of which are conservative and highly liquid investments, account for 41% of PPC's total assets. Of the total VND3,700 bn of short-term investments, VND2,000 bn is lending to EVN whereas the remaining includes banking deposits (between 3-month and 12-month of terms) and trust investments.

Exhibit 4: PPC's financial investment portfolio

Items	Value (VNDmn)	Proportion (%)
Cash and Equivalent	1,185,659	10.0%
Short-term Investment	3,753,052	31.6%
Long-term Investment	2,720,590	22.9%
Total Assets	11,890,558	

Source: PPC's 2013 financial statement

Long-term investment makes up around 23% of total assets and are allocated mostly to the shares of on companies operating in the same industry. However, we do not appreciate the effectiveness of these investments.

Exhibit 5: PPC's long-term investment portfolio

Items	Value (VNDmn)	No. of shares
Quang Ninh Thermal Power Plant (16.35%)	817,300	73,587,291
International EVN (19.3%)	70,800	7,080,000
Buon Don Hydropower Plant (15%)	50,250	5,025,000
Vietnam Power development company (10%)	100,000	10,000,000
BaRia Thermal Power Plant	46,498	670,000

Source: PPC's 2013 financial statement

JPY is expected to recover 5% compared to VND, 2014 profit can significantly slump.

PPC has a JPY denominated long-term debt maturing in 2028 with outstanding value of JPY26.92 bn by year end 2013. The principal and interest payments are made every six months, in March and September. The principal amount for each installment is JPY927.37 mn and the underlying interest rate is 2.63%/year.

At the end of Q1FY2014, the JPY/VND rate increased 2.29% from the previous quarter. Therefore, PPC may record VND119 bn of unrealized and VND6 bn realized loss from currency translation in the first half of 2014.

After a enormous economic stimulation program by the Japanese Government, the JPY witnessed a record drop against other major currencies, such as the USD and EUR in FY2013. Thanks to the program, the economy Japan has been back on track, putting one leg out of deflation. With such optimistic outcomes, we suggest a scenario in which JPY will increase by 5% against the VND in FY2014 under which, PPC may recognize about VND267 bn translation loss in FY2014.

Participation in competitive electric market has not brought a highlight profit to PPC.

The sales price of PPC is the price negotiated with EVN, which included two parts, a fixed part and a varied one. The fixed part is the sum of depreciation, labor and maintenance costs; the varied part is a function of inputs such as coal, oil and other admixture materials. The varied part of price changes in line with the material costs fluctuations. In other word, the more power is generated, the lower unit cost per kwh and the higher the gross profit margin is.

Besides, PPC has entered the competitive power generating market. If the amount of power generated is higher than planed output, the difference will be offered at the competitive price. According to PPC's BOM, however, the competitive price is not higher than contracted price. In 2013, PPC's entrance of the competitive market added just more than VND13 bn to the Company's revenue .

According to PPC's representative, contracted price in FY2014 may decline slightly. Also, sales volume in Q1FY2014 was recorded lower than that of Q1FY2013. For those reasons Q1FY2014 revenue may suffer. Finally, an estimated VND125 bn of translation loss may cause a significant slump in NPAT

compared the same period of last year.

Exhibit 6: 4QFY2013 Forecast

Particulars (VND bn)	1QFY14	%chg (qoq)	%chg (yoy)
Net Revenues	1.743	0%	-2%
Gross profits	261	199%	-31%
EBIT	213	-49%	-80%
PAT	142	-39%	-85%

Sources: RongViet Securities

As a result of that, revenue is expected at VND1,743 bn and NPAT is at VND142 bn, down by 2% and 85% y-o-y respectively.

For the whole FY2014, the generated electric power may reach 5,588 bn kwh and revenue VND6,390,6 bn. Given the above-mentioned factors that may affect profits and the expectation that the JPY will pick up about 5%, FY2014 PBT is forecasted at VND742.4 bn, down 66.7% y-o-y. Adjusted for the effect of currency translation, FY2014 PBT may reach VND1.009 bn, down 5.4% y-o-y.

Outlook and valuation

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Exhibit 7: Key Assumption

Particular	FY2014E	FY2015E
Revenue growth (%)	-2,9	-2,9
Volume growth (%)	-1,0	-3,3
Gross margin (%)	13,5	13,5
EBIT margin (%)	14,0	20,5

Sources: Rongviet Securities

	VND Billion			
INCOME STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Revenue	4,130.6	6,582.6	6,390.6	6,204.6
COGS	3,666.4	5,574.6	5,527.8	5,367.0
Gross profit	464.2	1,007.9	862.7	837.6
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	97.2	106.1	102.2	93.1
Finance Income	658.2	1,628.1	489.1	512.2
Finance Expense	269.4	235.1	470.0	184.5
Other profits	40.2	2.5	0.0	0.0
PBT	780.2	2,227.8	742.4	1,134.0
Prov. of Tax	267.0	586.7	126.2	215.5
Minority's Interest	8.4	9.6	4.3	6.4
PAT to Equity Shareholder	504.8	1,631.5	611.8	912.1
EBIT	986.5	2,382.9	893.0	1,270.6
EBITDA	1,679.6	3,077.3	1,584.4	1,957.9

	%			
FINANCIAL RATIO	FY2012	FY2013	FY2014E	FY2015F
Growth				
Revenue	10.5	59.4	-2.9	-2.9
Operating Income	-6.5	145.8	-15.7	-2.1
EBITDA	79.3	83.2	-48.5	23.6
EBIT	307.1	141.5	-62.5	42.3
PAT	12850.7	223.2	-62.5	49.1
Total Assets	2.4	-1.5	-0.6	2.3
Equity	40.8	29.8	5.9	15.8
Internal growth rate	5.0	34.2	5.1	9.5
Profitability				
Gross profit/Revenue	11.2	15.3	13.5	13.5
Operating profit/ Revenue	8.9	13.7	11.9	12.0
EBITDA/ Revenue	40.7	46.7	24.8	31.6
EBITDA/ Revenue	23.9	36.2	14.0	20.5
Net margin	12.2	24.8	9.6	14.7
ROAA	4.2	13.6	5.2	7.6
ROIC or RONA	9.2	22.6	8.6	12.0
ROAE	14.2	34.2	11.0	14.8
Efficiency				
Receivable Turnover	3.6	4.7	4.6	4.7
Inventory Turnover	5.0	6.5	5.9	5.9
Payable Turnover	4.6	5.5	5.2	5.2
Liquidity				
Current	4.8	5.0	5.2	5.9
Quick	4.2	4.4	4.6	5.2
Solvency				
Total Debt/Equity	189.6	119.6	106.2	82.1
Current Debt/Equity	10.8	6.9	6.5	5.3
Long-term Debt/ Equity	156.0	92.7	81.2	61.3

	VND Billion			
BALANCE SHEET	FY2012	FY2013	FY2014E	FY2015F
Cash and equivalents	1,007	1,186	1,463	2,161
Short-term investment	3,466	3,753	3,753	3,753
Receivables	1,365	1,408	1,342	1,303
Inventories	785	939	931	904
Other current assets	17	7	7	7
Total Current Asset	6,641	7,292	7,496	8,128
Tangible Fixed Assets	2,105	1,522	870	161
Intangible Fixed Assets	21	15	9	3
Construction in Progress	433	334	403	443
Investment Property	0	0	0	0
Long-term Investment	2,691	2,721	3,041	3,361
Other long-term assets	181	6	6	6
Long-term Asset	5,432	4,598	4,329	3,974
Total Asset	12,073	11,891	11,825	12,102
Payables	205	277	276	268
Other current liabilities	744	804	780	758
Current Debt	447	371	371	353
Long-term Debt	6,485	5,004	4,642	4,057
Other long-term liabilities	0	0	0	0
Total Liability	7,881	6,456	6,070	5,436
Owner's Equity	4,156	5,396	5,714	6,619
Capital	3,262	3,262	3,262	3,262
Retained Earnings	517	1,716	1,995	2,885
Funds & Reverses	502	543	582	597
Others	0	0	0	0
Total Equity	4,156	5,396	5,714	6,619
Minority's Interest	35	39	41	48
Total Resources	12,073	11,891	11,825	12,102
CASH FLOW STATEMENT	FY2012	FY2013	FY2014E	FY2015F
Profit before tax	780.2	2,227.8	742.4	1,134.0
-Depreciation	693.1	694.4	691.4	687.3
-Adjustments	-435.0	-1,356.2	354.3	334.4
+/- Working capital	-326.1	-148.7	-143.6	-214.0
Net Operating CFs	712.3	1,417.3	1,644.5	1,941.7
+/- Fixed Asset	-382.9	-514.7	-102.6	-12.2
+/- Deposit, equity investment	-674.2	-501.8	-523.7	-517.8
Interest, dividend, cash profit received	579.1	517.0	0.0	0.0
Net Investing CFs	-477.9	-499.5	-626.3	-529.9
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-407.4	-421.0	-361.7	-603.4
Dividend paid	-2.8	-317.9	-379.6	-109.9
Net Financing CFs	-410.1	-738.9	-741.3	-713.3
+/- cash & equivalents	-175.7	178.9	277.0	698.4
Beginning cash & equivalents	1,182.5	1,006.8	1,185.7	1,462.6
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	1,006.8	1,185.7	1,462.6	2,161.1

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 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% to 10%	-15% to -5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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