November, 2021

# HAI PHONG THERMAL POWER JSC (UpCOM: HND)

## Back in the race

| (VND bn) | Q3-FY21 | Q2-FY21 | +/- qoq | Q3-FY20 | +/- yoy |
|---|---|---|---|---|---|
| Net revenue | 2,195 | 2,624 | -16% | 2,286 | -4% |
| PAT-MI | 6 | 188 | -97% | 175 | -96% |
| EBIT | 13 | 227 | -94% | 244 | -95% |
| EBIT margin (%) | 0.6% | 8.6% | -804 bps | 10.7% | -101 bps |

*Source: HND, Rong Viet Securities*

### 3Q2021 performance – High mobilization rate

- Volume in 3Q2021 was roughly 1.7 bn kWh, +23% YoY thanks to lower La Nina magnitude compared to 3Q2020 and -8% QoQ because the quarter was the rainy season.
- Revenue in 3Q2021 was VND 2,195 billion (or USD 95 million), -4%YoY and -16% QoQ. Lower contract volume (Qc) than that in 2020 created a steeper decline in revenue.
- NPAT in 3Q2021 was VND 6 billion (or USD 0.26 million), -96% YoY and 97% QoQ. Year to date, the company has fulfilled 92% its target PBT for 2021.

### 4Q2021 – Continue achieving high mobilization rate

We think that the high mobilization rate from thermal plants trend will continue in the last quarter of the year and in 2022 because of lower water levels than expectations in the North. Volume in 4Q2021 is forecasted to be 1.8 bn kWh, +8% QoQ and +49% YoY. Higher average selling price in 4Q2021 than that in 3Q thanks to a high contract volume proportion will cover fixed expenses and ensure the company's profit. NPAT in 4Q2021 is forecasted to be VND 147 bn (or USD 6.4 mn), -72% YoY, yet better than that in 3Q2021 (VND 6 bn or USD 0.3 mn).

### Rehabilitation in 2022

The turnaround story in 2022 will take place because of a higher probability of El Nino. The extremely low base in 2021 will lift the company's performance in 2022. NPAT is forecasted to bounce to VND 832 bn (or USD 36 mn, +152% YoY), thanks to the thermal industry recovery and high contract volume.

### Valuation and recommendation

*The company's performance during 9M2021 was relatively poor because of the boom in renewable energy and hydropower plants outperformance. However, this is considered to be a short-term difficulty. HND likely starts warming up in 4Q2021 and will be back in the race in 2022 thanks to the recovery of the thermal industry. Earnings in 2022 and 2023 are forecasted to be VND 832 bn (or USD 36 mn, +152% YoY) and VND 1,147 bn (USD 50 mn, +38% YoY), respectively. Furthermore, the company is going to become a cash cow as soon as it finishes paying its debt in 2024. We expect that the company will use its cash flow to pay dividends.*

*Using the EV/EBITDA, FCFF and P/E valuation methods, we determine the fair value of HND at* ***VND 23,300*** *per share. Aside with an expected cash dividend of VND 400 per share in the next twelve months, the total expected return for investors is* ***30%*** *compared to the closing price on Nov 22th, 2021. Hence, we recommend to* ***BUY*** *this stock.*

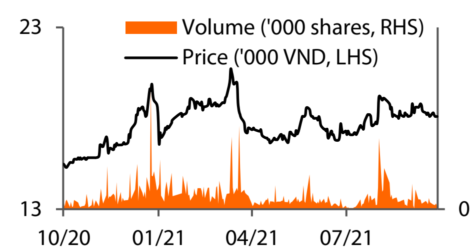
## BUY +30%

| | |
|---|---|
| Target price (VND) | 23,300 |
| Current market price (VND) | 18,300 |
| *Cash dividend* | *400* |

| Stock Info | |
|---|---|
| Sector | RE & Materials |
| Market Cap (VND billion) | 9,050.0 |
| Current Shares O/S | 500.0 |
| Avg. Daily Volume (in 20 sessions) | 63.5 |
| Free float (%) | 100 |
| 52 weeks High | 20,707 |
| 52 weeks Low | 15,304 |
| Beta | 0.4 |

| | FY2020 | TTM |
|---|---|---|
| EPS | 1,429 | 1,429 |
| EPS Growth (%) | 22.27 | -19.09 |
| Diluted EPS | 2,940 | 1,429 |
| P/E | 6.70 | 12.94 |
| P/B | 1.33 | 1.55 |
| EV/EBITDA | 3.17 | 4.89 |
| Cash dividend yield (%) | 7 | 12 |
| ROE (%) | 22.36 | 11.26 |

### Price performance




| Major Shareholders (%) | |
|---|---|
| GENCO2 | 51.0 |
| PPC | 25.9 |
| SCIC | 9.0 |
| TKV | 7.2 |
| Others | 6.8 |
| *Foreign ownership room (%)* | 49 |

**Thao Nguyen**
(084) 028- 6299 2006 – Ext 1524
thao.nn@vdsc.com.vn
**Vu Tran**
(084) 028- 6299 2006 – Ext 1512
vu.thx@vdsc.com.vn

**Exhibit 1: 3Q/2021 Results**

| (VND Bn) | 3Q-FY21 | 2Q-FY21 | +/- (qoq) | 3Q-FY20 | +/- (yoy) | YTD-FY21 | +/-(yoy) |
|---|---|---|---|---|---|---|---|
| Net revenue | 2,195 | 2,624 | -16.3% | 2,286 | -4.0% | 6,809 | -19% |
| Gross profit | 36 | 262 | -86.4% | 266 | -86.6% | 322 | -74% |
| SG&A | 22 | 35 | -36.3% | 23 | -1.3% | 77 | 13% |
| Operating income | 13 | 227 | -94.2% | 244 | -94.6% | 244 | -83% |
| EBITDA | 326 | 539 | -39.6% | 688 | -52.7% | 1,231 | -51% |
| EBIT | 13 | 227 | -94.2% | 244 | -94.6% | 244 | -79% |
| Financial expenses | 36 | 39 | -6.0% | 68 | -46.8% | 121 | -50% |
| *- Interest Expenses* | 36 | 39 | -6.0% | 64 | -43.4% | 121 | -43% |
| Dep. and amortization | 312 | 312 | 0.0% | 445 | -29.7% | 987 | -26% |
| Non-recurring items (*) | | | | | | | |
| Extraordinary items (*) | | | | | | | |
| PBT | 6 | 198 | -96.7% | 184 | -96.5% | 193 | -80% |
| PAT | 6 | 188 | -96.7% | 175 | -96.5% | 183 | -80% |
| (*) Adjusted PAT | 6 | 188 | -96.7% | 175 | -96.5% | 183 | -80% |

*Source: HND, Rong Viet Securities*

**Exhibit 2: 3Q/2021 Performance Analysis**

| Particular | 3Q-FY21 | 2Q-FY21 | *+/- (qoq)* | 3Q-FY20 | *+/- (yoy)* |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| Gross Margin | 1.6 | 10.0 | -84 bps | 11.6 | -100 bps |
| EBITDA Margin | 14.8 | 20.5 | -57 bps | 30.1 | -153 bps |
| EBIT Margin | 0.6 | 8.6 | -80 bps | 10.7 | -101 bps |
| Net Margin | 0.3 | 7.2 | -69 bps | 7.6 | -74 bps |
| Adjusted Net Margin | 0.3 | 7.2 | -69 bps | 7.6 | -74 bps |
| **Turnover *(x)** | | | | | |
| -Inventories | 14 | 15 | -0.4 | 13 | 1.9 |
| -Receivables | 3.9 | 4.9 | -1.0 | 4.5 | -0.6 |
| -Payables | 9 | 8 | 0.7 | 8 | 1.0 |
| **Leverage (%)** | | | | | |
| Total Debt/ Equity | 25.9 | 39.2 | -132 bps | 34.7 | -88 bps |

*Source: Rong Viet Securities*

**Exhibit 3: 4Q2021 Performance Forecast**

| Particulars (VND Bn) | Q4-FY21 | +/- qoq | +/- yoy |
|---|---|---|---|
| Revenue | 2,588 | 18% | 7% |
| Gross profit | 211 | 493% | -68% |
| EBIT | 185 | 1303% | -69% |
| NPAT | 147 | 2293% | -72% |

*Source: Rong Viet Securities*

A0: the National Load Dispatch Center (NLDC)

## Update

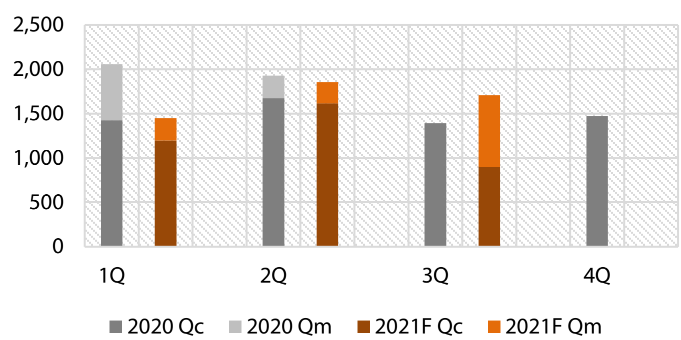
In Q3 2021, the company reported revenue of VND 2,195 billion (or USD 96 million, -16% QoQ and -4% YoY) and NPAT of VND 6 bn (or USD 0.26 mn, -97% QoQ and -96% YoY). Cumulatively, the company's revenue and NPAT for 9M2021 were VND 6,808 bn (or USD 296 mn) and VND 193 bn (or USD 8.4 mn), -19% YoY and -80% YoY, respectively.

**Lower contract volume (Qc) than in the previous year negatively impact the company's profit**

Although generated volume increased compared to that in Q3 2020, a 14% YoY decline in average selling price (ASP) pushed revenue down by 4% YoY to VND 2,195 billion (or USD 96 million, -16% QoQ), Figure 2. Such a decline in ASP compared to last year is because the low Qc in 3Q2021 (Figure 1). Particularly, the company's revenue is contributed by contract volume and market volume, with the former's price higher than the latter by roughly 16% on an average basis.

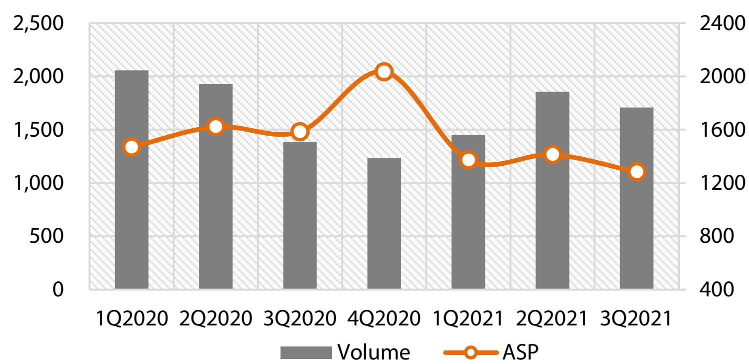
As represented in Figure 1, contract volume (Qc) in 3Q2021 was lower than that in 3Q2020. In 3Q2020, the company provided roughly 1.4 bn kWh, nearly its Qc in 3Q2020. Meanwhile, its Qc in 3Q2021 was 0.9 bn kWh, -35% YoY and accounted for only 52% of total volume. Hence, GPM declined to 2% in 3Q2021 while that in 2020 was 12%.

**Figure 1: Contract and market volume by quarter (mn kWh)**




*Source: HND, Rong Viet Securities*

**Figure 2: Total volume (LHS, mn kWh) and ASP (RHS, VND)**

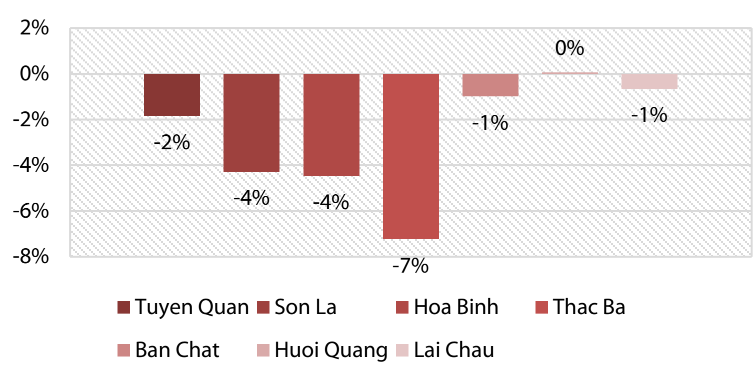



*Source: HND, Rong Viet Securities*

**Higher volume than expectations in 3Q2021 indicated that HND was mobilized more than A0's plan**

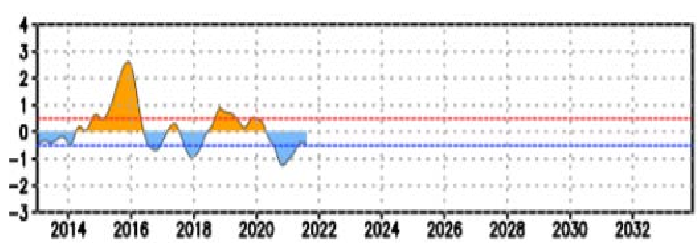
The company provided roughly 1,7 bn kWh in 3Q2021, +23% YoY thanks to the lower magnitude La Nina compared to last year (Figure 4). Specifically, Figure 3 shows that the water level in the North declined compared to that in the previous year by roughly 4m on an average basis. Hence, the hydropower group was mobilized less than its initial plan. Total volume was roughly doubled the contract volume (Figure 1), which indicates that volume was mobilized from thermal group at a significantly higher level than A0's plan (*).

**Figure 3: Change in water level in Oct YoY**




*Source: HND, Rong Viet Securities*

**Figure 4: ENSO magnitude historical simulation (Orange: El Nino; Blue: La Nina)**




*Source: NOAA, Rong Viet Securities*

A0: the National Load Dispatch Center (NLDC)

### Continue achieving high mobilization rate in 4Q2021

The company is forecasted to have a better performance in 4Q2021 compared to 3Q2021.

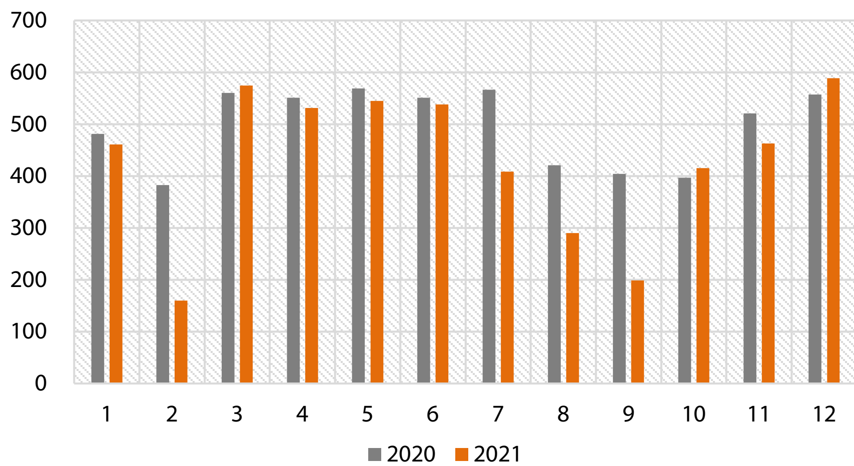
(1) 4Q2021 is the dry season in the North and hydrological conditions are going to support thermal plants as usual. Besides, according to document 6135/BTNMT-TNN, hydropower plants were required to adjust down their provision of water in early 2022 because of a lower water stream than expectations.

Therefore, thermal plants are going to have a mobilization rate higher than expectations that quarter. Regarding HND, we forecast that the company will provide roughly 1.8 bn kWh, +49% YoY and +8% QoQ.

(2) High Qc ensures the company profit in 4Q2021 as its high price will cover fixed expenses (Figure 5). We forecast that the company will provide 1.5 bn kWh of Qc in 4Q2021, accounting for roughly 80% of total volume and being flat compared to that in 2020.

Therefore, we forecast that the company's revenue and NPAT will reach VND 2,588 bn (or USD 112 mn) and VND 147 bn (or USD 6mn), respectively in 4Q2021. Higher revenue in 4Q2021 compared to 4Q2020 yet profit will be lower because in 4Q2020, the company provided lower Qc. Please note that thermal plants providing less than their Qc will obtain revenue compensation.

**Figure 5: Contract volume (Qc) by month in 2020 and 2021 (mn kWh)**




*Source: HND, Rong Viet Securities*

For the year 2021, we forecast that the company will provide roughly 6.9 bn kWh, -5% YoY. Revenue and NPAT are forecasted to be VND 9,397 bn (or USD 409 mn, -14% YoY) and VND 330 bn (or USD 14 mn, -77% YoY), respectively.

**Table 1: 9M2021 and 2021 result**

| | 9M2021 | +/- YoY | 4Q2021 | +/- YoY | 2021 | +/- YoY |
|---|---|---|---|---|---|---|
| Volume (bn kWh) | 5.1 | -5% | 1.8 | 49% | 6.9 | 5% |
| Revenue (VND bn) | 6,809 | -19% | 2,588 | 7% | 9,397 | -14% |
| Gross profit (VND bn) | 322 | -74% | 211 | -68% | 533 | -72% |
| NPAT (VND bn) | 183 | -80% | 147 | -72% | 330 | -77% |

*Source: HND, Rong Viet Securities*

### A low base in 2021 will lift the company's profit growth in 2022

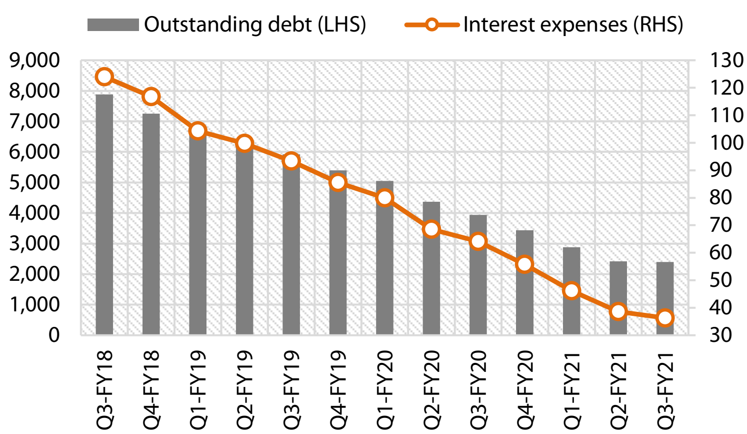
2021 is the hardest year for thermal plants as we have mentioned in our power industry report. This is because the renewable energy boom and hydrological conditions have favored hydropower plants. Hence, the company targets its revenue and PBT to be VND 8,978 (or USD 390 mn, -17% YoY) and VND 210 bn (or USD 9 mn, -85% YoY), respectively, for 2021. Year to date, the company fulfilled 92% of its 2021 PBT guidance.

In line with the thermal plant recovery theme in our power industry report, we expect that HND will recover in 2022. We forecast that the company will provide roughly 7.3 bn kWh, +5% YoY, contract volume (Qc) is forecasted to grow 10% YoY. Revenue and NPAT are forecasted to be VND 10,173 bn (or USD 442 mn, +8% YoY) and VND 832 bn (or USD 36 mn, +152% YoY), respectively. A low base in 2021 is going to lift the company's performance in 2022.

**On the way to become a cash cow**

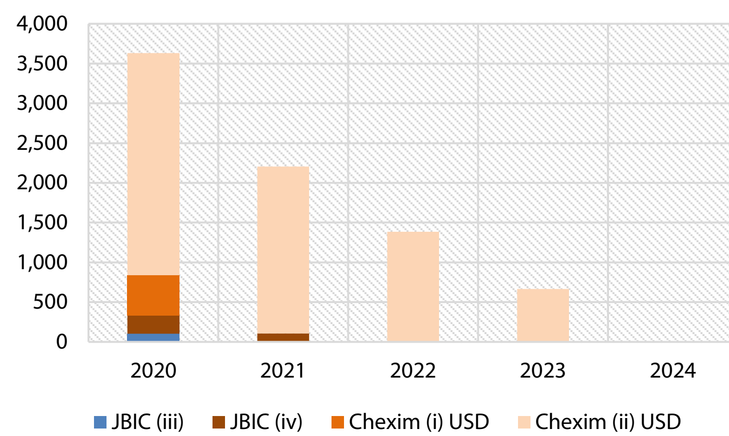
According to forecasts of hydrological conditions, we estimate that the company's earnings are going to grow thanks to the recovery of the thermal industry and financial expenses saving in 2022 and 2023 (Figure 7). Furthermore, with constant and speedy debt repayments, the company will be debt-free in 2024. Hence, cash flows are going to be prosperous to pay dividends, which may attract dividend-oriented investors. We forecast that the FCFE per share from 2023 to 2025 is roughly at VND 2,500 on an average basis.

**Figure 6: Outstanding debt and interest expenses (VND bn)**




*Source: HND, Rong Viet Securities*

**Figure 7: Outstanding debt at year end (VND bn)**




*Source: HND, Rong Viet Securities*

## Valuation

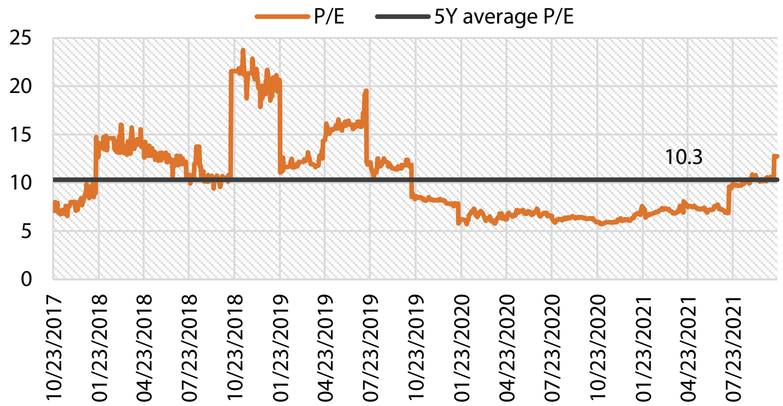
We use FCFF, P/E and EV/EBITDA with a proportion of 40%, 30% and 30%, respectively to evaluate the fair value of HND (Table 2). We use a WACC rate of 12% for FCFF, P/E multiple of 10x and EV/EBITDA multiple of 5.0x. Hence, we evaluate HND at **VND 23,300** with VND 400 of dividends in the next 12 months, this stock offers an upside of **30%** compared to the closing price on Nov 22$^{th}$, 2021. Thus, we recommend to **BUY** this stock.

**Table 2: HND valuation**

| Method | Valuation | Weight | Weighted average |
|---|---|---|---|
| EV/EBITDA | 30,167 | 30% | 9,050 |
| FCFF | 23,898 | 40% | 9,559 |
| P/E | 15,698 | 30% | 4,709 |
| **Total** | | **100%** | **23,300** |

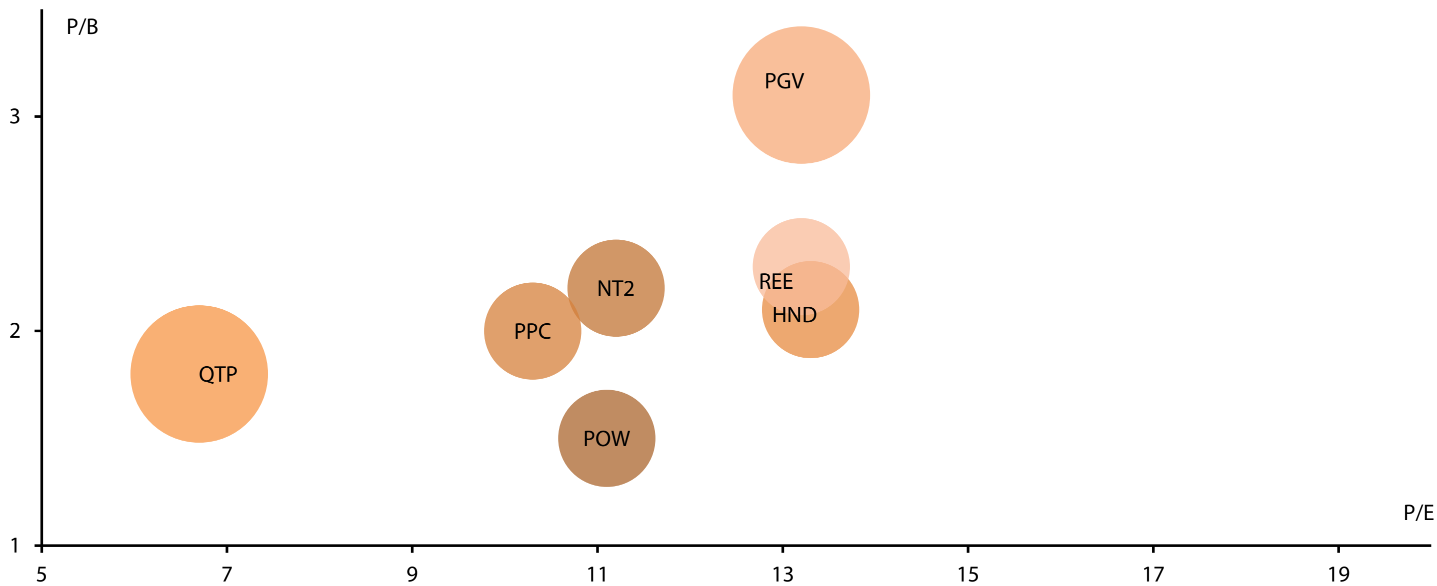
*Source: Rong Viet Securities*

**Figure 8: P/E and 5Y average PE**




*Source: HND, Rong Viet Securities*

**Figure 9: TTM's multiple valuation table in Nov 2021**




*Source: FiinPro, Rong Viet Securities*

VND billion

| INCOME STATEMENT | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| Revenue | 11,301 | 10,867 | 9,397 | 10,173 |
| COGS | 9,525 | 8,988 | 8,864 | 9,102 |
| **Gross profit** | **1,777** | **1,878** | **533** | **1,071** |
| Selling Expense | 0 | 0 | 0 | 0 |
| G&A Expense | 150 | 120 | 103 | 112 |
| Finance Income | 34 | 44 | 85 | 46 |
| Finance Expenses | 397 | 295 | 167 | 129 |
| Other profits | 2 | -2 | 0 | 0 |
| **PBT** | **1,265** | **1,504** | **348** | **876** |
| Prov. of Tax | 62 | 67 | 17 | 44 |
| Minority's Interest | 0 | 0 | 0 | 0 |
| **PAT to Equity S/H** | **1,203** | **1,438** | **330** | **832** |
| EBIT | 1,626 | 1,758 | 429 | 959 |
| EBITDA | 3,416 | 3,536 | 1,783 | 2,063 |

%

| FINANCIAL RATIO | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Revenue | 18.6 | -3.8 | -13.5 | 8.3 |
| Operating Income | 4.2 | 3.5 | -49.6 | 15.7 |
| EBITDA | 14.3 | 8.1 | -75.6 | 123.4 |
| PAT | 183.2 | 19.5 | -77.0 | 151.9 |
| Total Assets | -8.0 | -9.4 | -16.3 | -3.8 |
| Equity | 9.4 | 11.3 | -7.4 | 6.5 |
| **Profitability (%)** | | | | |
| Gross margin | 15.7 | 17.3 | 5.7 | 10.5 |
| EBITDA margin | 30.2 | 32.5 | 19.0 | 20.3 |
| EBIT margin | 14.4 | 16.2 | 4.6 | 9.4 |
| Net margin | 10.6 | 13.2 | 3.5 | 8.2 |
| ROA | 9.5 | 12.5 | 3.4 | 9.0 |
| ROE | 16.5 | 19.6 | 5.5 | 12.7 |
| **Efficiency** | | | | |
| Receivable Turnover | 5.0 | 5.6 | 5.1 | 5.1 |
| Inventory Turnover | 15.9 | 12.1 | 15.6 | 15.6 |
| Payable Turnover | 9.4 | 8.4 | 9.5 | 9.5 |
| **Liquidity** | | | | |
| Current | 1.3 | 1.7 | 2.1 | 2.6 |
| **Finance Structure (%)** | | | | |
| Total Debt/Equity | 86.6 | 49.5 | 34.3 | 20.3 |
| Current Debt/Equity | 29.1 | 20.8 | 12.7 | 10.5 |
| Long-term Debt/Equity | 57.5 | 28.7 | 21.6 | 9.7 |

VND billion

| BALANCE SHEET | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| Cash and cash equivalents | 779 | 1,477 | 1,272 | 1,837 |
| Short-term investments | 0 | 0 | 0 | 0 |
| Accounts receivable | 2,278 | 1,951 | 1,840 | 1,992 |
| Inventories | 598 | 745 | 568 | 584 |
| Other current assets | 1 | 6 | 7 | 7 |
| Property, plant & equipment | 8,790 | 7,079 | 5,698 | 4,592 |
| Acquired intangible assets | 1 | 1 | 1 | 1 |
| Long-term investments | 1 | 1 | 1 | 1 |
| Other non-current assets | 217 | 211 | 217 | 224 |
| **Total assets** | **12,664** | **11,471** | **9,605** | **9,236** |
| Accounts payable | 1,008 | 1,072 | 937 | 962 |
| Short-term borrowings | 1,815 | 1,440 | 818 | 721 |
| Long-term borrowings | 3,582 | 1,989 | 1,386 | 665 |
| Other non-current liabilities | 0 | 0 | 0 | 0 |
| Bonus and Welfare fund | 28 | 26 | 26 | 27 |
| Technology-science, dev. fund | 0 | 14 | 17 | 25 |
| **Total liabilities** | **6,434** | **4,541** | **3,184** | **2,400** |
| Common stock and APIC | 5,197 | 5,197 | 5,197 | 5,197 |
| Treasury stock (enter as -) | 0 | 0 | 0 | 0 |
| Retained earnings | 969 | 1,601 | 1,075 | 1,452 |
| Other comprehensive income | 0 | 3 | 3 | 3 |
| Inv. and Dev. Fund | 63 | 131 | 146 | 185 |
| **Total equity** | **6,230** | **6,931** | **6,420** | **6,836** |
| **Minority Interest** | **0** | **0** | **0** | **0** |

| VALUATION RATIO | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| EPS (dong) | 2,322 | 2,791 | 623 | 1,861 |
| P/E (x) | 5.6 | 3.5 | 29.5 | 9.9 |
| BV (dong) | 12,459 | 13,862 | 12,841 | 13,975 |
| P/B (x) | 1.1 | 0.7 | 1.9 | 1.8 |
| DPS (dong/cp) | 650 | 700 | 2,425 | 800 |
| Dividend yield (%) | 5.6 | 11.0 | 13.2 | 4.3 |

| VALUATION MODEL | Price | Weight | Average |
|---|---|---|---|
| EV/EBITDA | 30,167 | 30% | 9,050 |
| FCFF | 23,898 | 40% | 9,559 |
| P/E | 15,698 | 30% | 4,709 |
| **Target price (dong)** | | **100%** | **23,300** |

| VALUATION HISTORY | Price | Recommendation | Period |
|---|---|---|---|
| Dec 2020 | 17,900 | ACCUMULATE | Long-term |
| Jun 2020 | 22,900 | 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% |

## ABOUT US

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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.

## ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

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

**Vu Tran**
*Senior Manager*
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

**Tam Pham**
*Manager*
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance

**Tung Do**
*Manager*
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- Aviation
- Logistics
- Market Strategy

**Toan Dao**
*Manager*
toan.dp@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- F&B

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

**Tu Pham**
*Analyst*
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Building Materials
- Pharmaceutical

**Thanh Nguyen**
*Analyst*
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance
- Securities

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

**Loan Nguyen**
*Analyst*
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Textile
- Fishery

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

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

**Thu Anh Tran**
*Analyst*
anh.tt@vdsc.com.vn
+ 84 28 6288 2006 (2221)
- Sea Port
- Logistics

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

**Trang Tran**
*Assistant*
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

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