Pha Lai Thermal Power (PPC – HSX)

Positive core business

Particulars (VND bn)	Q3-FY15	Q2-FY15	*+/- qoq*	Q3-FY14	*+/- yoy*
Net Revenues	1,781.6	2,261.8	-21%	1,365.7	30%
PAT	73.3	316.9	-77%	338.4	-78%
EBIT	108.6	367.4	-70%	448.3	-76%
EBIT margin (%)	6.1%	16.2%	-1,015bps	32.8%	-2,673bps

Sources: Rongviet Securities database

- **Upbeat Q3 performance underlined by gross margin improvement**
- **Depreciation finished for Pha Lai 2's main machineries**
- **Potential financial losses seen in 4Q2015**
- **Favorable conditions promise positive core business growth in 2016**

Outlook and Valuation:

PPC is among the oldest and largest thermal power plants by capacity in the North of Vietnam. After nearly 30 years in operation, major equipment in PL1 and PL2 will soon be fully depreciated. With contracted price fixed for the 18 years between 2014 and 2032, we expect PL2's gross profit margin will improve from 3Q2015 forward. Forecasts are that the El Nino will last into 2016, which means thermal power plants will have another good year.

In Q42015, PPC's business result would be negative due to making provision for some long-term investment. However, excluding these one-off losses as well as FX loss, 2015's EPS can reach VND2,504 and 2016's is VND2,644.

With a large amount of foreign current debt, JPY/VND volatility has always been a risk to PPC's business result. As of 3Q2015, PPC's outstanding debt was about JPY23.2 bn. In 2015, the JPY has strengthened, though only slightly, against the VND and we are concerned that the trend will last into the upcoming years, having a negative impact on PPC's bottom-line earnings. Besides, owned 51% by the state (Genco2), PPC lacks neither the independence and dynamism in its business decisions, which downplay the firm's potential as an investment.

Combining the DCF and relative valuation method, with adjustments for the effects of extraordinary items, PPC's target price is defined at VND21,100 per share, which supports a NEUTRAL rating for the LONG-TERM investment horizon.

Key financials

Y/E Dec (VND bn)	2013	2014	9M2015	FY2015E	FY2016F
Net Revenues	6,588.5	7,481.9	6,045.6	8,037.4	7,532.3
% chg	59.5	13.6	7.1	7.4	-6.3
PAT	1,629.5	1,044.7	441.5	414.2	628.5
% chg	222.8	-35.9	-11.0	-60.4	51.7
PAT margin (%)	24.7	14.0	7.3	5.2	8.3
ROA (%)	13.6	9.0		3.8	5.9
ROE (%)	34.1	18.9		7.4	11.1
EPS (VND)	5,122	3,284		1,302	1,975
Adjusted EPS (VND)	1,580	1,471		2,504	2,605
Book value (VND)	16,964	17,835		17,148	18,327
Cash dividend (VND)	1,500	2,000		793	1,203
P/E (x)	13.6	17.0		7.5	7.3
P/BV (x)	1.3	1.4		1.1	1.0

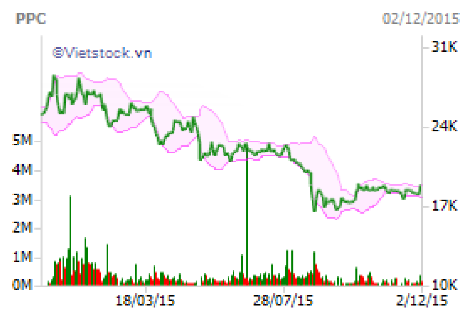
Sources: PPC financial statements

NEUTRAL

CMP (VND)	18,900
Target Price (VND)	21,600
Investment Period	Long-term

Stock Info

Sector	Utilities
Market Cap (VND bn)	6,013.1
Current Shares O/S	318,154,614
Beta	0.9
Free float (%)	21,2
52 weeks High	26,900
52 weeks Low	16,600
Avg. Daily Volume (in 20 sessions)	120,633



Performance (%)

	3M	1Y	3Y
PPC	10.5	-18.5	142.3
Utilities	-0.04	0.6	N/A
VN30 Index	1.4	-4.8	31.0
HSX Index	3.6	0.9	51.4

Major Shareholders (%)

Genco2	51.0
REE	21.8
Halley Sicav - Halley Asian Prosperity	6.0
Foreigner Investor Room (%)	33.6

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Exhibit 1: 3QFY2015

Particulars (VND bn)	Q3-FY15	Q2-FY15	*+/- (qoq) - %*	Q3-FY14	*+/- (yoy) - %*
Net Revenues	1,781.6	2,261.8	-21.2	1,365.7	30.4
Gross profits	257.1	187.9	36.8	-122.0	-310.8
SG&AC	23.1	22.0	5.2	25.5	-9.2
Operating Income	234.0	166.0	41.0	414.2	-43.5
EBITDA	192.8	542.2	-64.4	623.2	-69.1
EBIT	108.6	367.4	-70.4	448.3	-75.8
Financial expenses	244.5	-1.3	-18641.5	-220.3	-211.0
- Interest Expenses	30.8	29.9	3.1	34.7	-11.3
Dep. and amortization	-84.2	-174.8	-51.8	-174.9	-51.9
Non-recurring Items (*)	-285.2	-77.2	269.3	167.2	-270.6
Extraordinary Items (*)	-0.6	2.6	-123.4	-0.7	-9.8
PBT	77.8	337.5	-76.9	413.5	-81.2
PAT	73.3	316.9	-76.9	338.4	-78.3
(*) Adjusted PAT	346.2	387.1	-10.6	201.6	71.7

Sources: PPC, RongViet Securities database

Exhibit 2: 3QFY2015 performance analysis

Particulars	Q3-FY15	Q2-FY15	*+/- (qoq)*	Q3-FY14	*+/- (yoy)*
Profitability Ratios (%)					
Gross Margin	14.4	8.3	612bps	-8.9	2336bps
EBITDA Margin	10.8	24.0	-1315bps	45.6	-3481bps
EBIT Margin	6.1	16.2	-1015bps	32.8	-2673bps
Net Margin	4.1	14.0	-990bps	24.8	-2066bps
Adjusted Net Margin	19.4	17.1	232bps	14.8	467bps
Turnover *(x)					
-Inventories	7.8	11.0	-3.2	8.1	-0.3
-Receivables	1.8	3.1	-1.3	2.8	-1.0
-Payables	26.3	25.8	0.4	0.0	26.3
Leverage (%)					
Total Debt/ Equity	0.9	1.0	0.0	1.0	-0.1

Sources: Rongviet Securities database(*) Annualized turnover

Q3 performance update

PPC's revenue and gross profit reached VND1,781 bn (+30.4% yoy) and VND257.1 bn (Q3/2014 VND-122 bn) respectively in 3Q2015. However, Q3 NPAT was down to VND77.8 bn, from of VND413.5 bn a year earlier. For the nine months ended September, total revenue was VND6,045 bn (+7.1% yoy) and the gross profit VND578.6 bn (+88% yoy). The JPY/VND exchange rate's unfavorable movements resulted in a financial loss that drove 9M2015 pre-tax profit to VND472.3 bn (-20.6% yoy) and NPAT to VND441.5 bn (-11% yoy).

An improvement in gross margin

An abnormal weather change has resulted in a longer dry season this year, which has boosted thermal power plants' performance in term of output volume and prices to a great extent. In 3Q2015, PPC's sale volume was estimated at 1,392 million kWh with an average price of VND1,264 per kWh, underlying a 23-percent increase in volume and 4-percent increase in price from the previous year. In addition, Pha Lai 2 plant (PL2)'s depreciation expense suddenly dropped last quarter thanks to that the plant's main equipment reaching its useable life.

As the result, gross margin rose sharply from an average of 7.5% in 6M2015 to 14.4% in 3Q2015. The trend went against the seasonality of thermal power plant plants' profit, which normally calls for a drop in profits Q3. 9M2015 average gross profit reached 9.6%, 2.7 times higher than that of 9M2014.

Financial loss caused by exchange rate fluctuations

During Q3, the JPY appreciated 5.1% against VND, causing PPC to realize an fx loss of over VND213.6 bn and a loss in financial activities of VND155.6 bn. A year earlier, PPC reported VND561.6 bn of profit for financial activities.

A decrease in working capital turnover

We observed that the item of receivables from Electricity Power Trading Company on PPC's balance has been trending upward since 2014 with a total increase to September 2015 of VND900 bn. As a result, the receivable turnover went down in 2014 and is expected to keep declining for the whole year of 2015. The average collection period climbed from 77 days in 2013 to 86.6 days in 2014 and is predicted to be over 100 in 2015.

Q42015 outlook

A significant decline in depreciation expense

Pha Lai 2 plant's major equipment reached its usable life in 2Q2015. Therefore, beside the benefits of the dry weather, which drove up both volume and prices, PPC is expected to see a decline of 68% in depreciation expense for the first year-half in 2H2015. From 2016 on, the depreciation expense is predicted at roughly VND80 bn each year, or 12% of the average yearly depreciation expense in the 2011-2014 period. Since PL2's contracted electricity price has been fixed for 18 years (2014-2032), a decrease in depreciation expense can help improve the plant's gross margin starting Q3/2015.

In regard of Pha Lai 1 plant (PL1), the current PPA contract is signed for 2 years only (2014-2015) and PPC is in the progress of negotiating 2016 electricity price. PL1's main machinery has finished its depreciation since 2014, we expect the new contracted price to decline around 13% comparing to the current contracted price. However, as the contracted price is agreed upon the principle that guarantee a certain ROE level (10% for the state's capital and the treasury bond rate plus 3% for the private sector's capital), hence a decrease in PL1's electricity price is likely to lower PL1's revenue but not to affect its profit margin.

Potential financial losses for 4Q2015

Circular 200/2014-TT-BTC requires FX gain/loss during construction time to be recognized at incurrence against an amortization over a 1 to 5 years allowed by previous regulations. Out of all PPC's investments, Quang Ninh Thermal Power Plant (16.35%) and Hai Phong Thermal Power Plant (associate company at 25.97%) have not fully booked the fx losses incurred during their construction. Therefore, both companies will have to book the rest of the losses in 2015, thereby reducing their bottom-line profits and PPC's as well.

Quang Ninh thermal power plant

The exchange rate loss incurred during the plant's construction and the fx loss due to the revaluation of long-term foreign currency debts as of December 31st 2011 altogether was VND1,260 bn, which amount was not booked between 2012 and 2014. We suppose Quang Ninh thermal power plant may recognize the entire loss in 4Q2015, trimming its 2015 profit by a equal amount. In Q4/2015, Pha Lai thermal power plant may have a provision of over VND290 bn for its investment in Quang Ninh thermal power plant.

Hai Phong thermal power plant

The fx loss incurred during the company's construction phase was VND293 bn as of 2014 year-end, which amount will be recognized in 4Q2015. Yet we are more concerned about the fx loss incurred in 2015 from the USD and JPY debts of Hai Phong Thermal Power. At the end of 3Q2015, the firm's total long-term debt was around VND11,198 bn, around 80% of which was in USD and 11% was in JPY. In 2015, under the assumption of that the USD will appreciate 5.2% and the JPY about 0.6% against the VND, the unrealized fx loss is estimated at VND660 bn. Netting with business performance, Hai Phong Thermal Power Plant will likely report a VND272 bn loss in 2015, which means a possible loss of VND70.5 bn for PPC.

Q42015 business result forecast

Electricity demand is usually higher in the last quarter of the year than in Q3. Besides, due to relatively lower rain levels, thermal power plants' volume in 4Q2015 should be higher than that a year earlier. Cautiously, we estimate that PPC's output volume will see a 10-percent increase year-over-year in 4Q2015 to approximately 1,605 mn kWh with a sales volume of 1,412 mn kWh. Consequently, Q4 and whole-year revenue are expected at VND1,952 bn (+6.1%, yoy) and VND8,059 bn (+7.7%, yoy).

Regarding the fx losses, we see a high chance that PPC will make a provision of VND292 bn for its long-term investment in Quang Ninh Thermal Power and record VND70.5 bn loss from associate investment (Hai Phong Thermal Power) in 4Q2015. As the bottom-line, PPC may book a pretax loss VND125 bn in 4Q2015.

Exhibit 3: Q42015 business result forecast

Particulars (VND bn)	Q4-FY15	+/- qoq	+/- yoy
Net Revenues	1,952	10%	6%
Gross profits	281	9%	-5%
EBIT	(94)	-187%	-113%
PAT	(124)	-270%	-123%

Sources: RongViet Securities

For whole year 2015, sales volume is expected at 5,951 mn kWh, up by 5% yoy. Gross profit margin will experience a boost to 11.2% from 6.7% in 2014 and gross profit should be around VND899 bn. 2015's PBT and net income are forecasted at VND514.9 bn and VND414 bn respectively; 2015 forward EPS is estimated at VND1,302.

Excluding extraordinary loss from financial activities, NPAT is estimated at c. VND797 bn or VND2,504 per share.

Expectation of favor condition for core business operation in 2016

Forecasts are that the El Nino phenomenon can last into 2016, resulting in a shortage of water and low volume from hydro power plants. Meanwhile, thermal power plants will enjoy twice the benefits, i.e.

higher price and higher volume. However, electricity supply will increase as Vung Ang 1, Nghi Son 1, Mong Duong 1&2 thermal power plants go in operation. Therefore, we cautiously project a 2.3-percent decrease in PPC's output volume for 2016.

Output and sales volume may reach 6,458 mn kWh and 5,812 mn kWh respectively in 2015. Due to a 13-percent decrease in the PPA price for PL1, 2016's revenue is estimated at above VND7,532 bn, down by 6.3% from 2015. The gross profit margin next year is projected at 11.5%, a slight increase caused by PL2's enhanced profitability.

Besides, following Quang Ninh and Hai Phong Thermal Power's recognition all of their entire fx loss in 2015, PPC's financial profits will be less affected in 2016. Assuming that USD and JPY will appreciate 4% and 5% against VND respectively, PPC may lose more than VND23.6 bn from associate companies next year. NPAT (excluding extraordinary items) will be VND829 bn (+4%, yoy) or VND2,605 per share.

Exhibit 4: Key assumptions

Particular	FY2015E	FY2016F
Revenue growth (%)	7	-6
Volume growth (%)	5	-2
Gross margin (%)	11	12
EBIT margin (%)	10	14
JPYVND change (%)	0.6	5

Nguồn: Rongviet Securities database

Long-term outlook

PPC has planned to upgrade PL1 with budget of VND2,600 bn. We estimate PPC's cash and equivalents at the end of 2015 at around VND2,000 bn, making this a feasible plan. After the upgrade, PL1's operating efficiency can be increased up to 10%. However, since the plan has neither finished nor approved by EVN so we have not included it in our model.

Outlook and valuation

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Combining the DCF and relative valuation method, with adjustments for the effects of extraordinary items, PPC's target price is defined at VND21,600 per share, which supports a NEUTRAL rating for the

LONG-TERM investment horizon.

Valuation model	Price	Weighted	Average
FCFE	21,938	35%	7,678
EV/EBITDA	15,142	15%	2,271
P/E	26,191	50%	13,095
Average price		**100%**	**23,045**
Adjustment due to financing activity			-1,473
Fair price (VND/share)			**21,572**

Exhibit 5: Ratio of peers in emerging APAC countries

Name	Market Cap (VND bn)	PE	EV/EBITDA
PETROVIETNAM NHON TRACH 2 PO	7,314	5.3	4.6
KOT ADDU POWER COMPANY LTD	15,521	7.7	5.1
HUB POWER COMPANY	25,347	10.5	7.7
JSW ENERGY LTD	47,824	10.5	7.7
TOP ENERGY CO LTD-A	29,043	19.7	7.1
SHANXI ZHANGZE ELEC POWER-A	48,461	16.6	8.9
Average		**10.0**	**7.6**

Source: Bloomberg

VND Billion

INCOME STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Revenue	6,588.5	7,481.9	8,037.4	7,532.3
COGS	5,558.2	6,984.7	7,138.4	6,665.3
Gross profit	**1,030.4**	**497.3**	**898.9**	**867.0**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	103.1	106.5	114.4	113.0
Finance Income	1,625.1	1,055.2	394.6	370.2
Finance Expense	235.1	142.9	602.1	327.6
Other profits	2.5	8.4	8.4	8.4
PBT	**2,250.3**	**1,301.5**	**514.9**	**781.4**
Prov. of Tax	611.2	247.4	97.8	148.5
Minority's Interest	9.6	9.4	2.9	4.4
PAT to Equity Shareholder	**1,629.5**	**1,044.7**	**414.2**	**628.5**
EBIT	1,269.1	854.4	805.1	1,082.7
EBITDA	1,963.5	1,555.0	1,267.4	1,163.0

%

FINANCIAL RATIO	FY2013	FY2014	FY2015E	FY2016F
Growth				
Revenue	59.5	13.6	7.4	-6.3
Operating Income	152.7	-57.9	100.8	-3.9
EBITDA	24.6	-20.8	-18.5	-8.2
EBIT	43.8	-32.7	-5.8	34.5
PAT	222.8	-35.9	-60.4	51.7
Total Assets	-1.5	-4.8	-5.9	0.4
Equity	29.9	5.1	-3.9	6.9
Internal growth rate	24.1	7.4	2.9	4.4
Profitability				
Gross profit/Revenue	15.6	6.6	11.2	11.5
Operating profit/ Revenue	14.1	5.2	9.8	10.0
EBITDA/ Revenue	29.8	20.8	15.8	15.4
EBITDA/ Revenue	19.3	11.4	10.0	14.4
Net margin	24.7	14.0	5.2	8.3
ROAA	13.6	9.0	3.8	5.9
ROIC or RONA	12.0	8.4	8.4	11.7
ROAE	34.1	18.9	7.4	11.1
Efficiency				
Receivable Turnover	4.7	4.2	3.6	3.3
Inventory Turnover	6.4	8.5	8.6	7.2
Payable Turnover	5.5	6.2	6.3	6.1
Liquidity				
Current	5.0	5.0	5.1	5.0
Quick	4.4	4.5	4.4	4.4
Solvency				
Total Debt/Equity	119.6	98.4	94.6	82.9
Current Debt/Equity	6.9	5.8	6.2	6.1
Long-term Debt/ Equity	92.7	71.9	68.6	58.0

VND Billion

BALANCE SHEET	FY2013	FY2014	FY2015E	FY2016F
Cash and equivalents	1,186	1,187	663	822
Short-term investment	3,753	3,446	3,314	3,312
Receivables	1,413	2,139	2,331	2,260
Inventories	939	705	963	899
Other current assets	7	3	3	3
Total Current Asset	**7,298**	**7,480**	**7,274**	**7,296**
Tangible Fixed Assets	1,522	845	681	640
Intangible Fixed Assets	15	10	4	0
Construction in Progress	334	242	242	313
Investment Property	0	0	0	0
Long-term Invest ment	2,721	2,745	2,453	2,453
Other long-term assets	6	4	4	4
Long-term Asset	**4,598**	**3,844**	**3,383**	**3,409**
Total Asset	**11,896**	**11,324**	**10,657**	**10,705**
Payables	277	326	345	322
Other current liabilities	804	851	734	768
Current Debt	371	327	341	358
Long-term Debt	5,004	4,083	3,742	3,384
Other long-term liabilities	0	0	0	0
Total Liability	**6,457**	**5,586**	**5,162**	**4,832**
Owner's Equity	**5,397**	**5,674**	**5,456**	**5,831**
Capital	3,262	3,262	3,262	3,262
Retained Earnings	1,717	1,899	1,675	2,048
Funds & Reverses	543	638	644	646
Others	**0**	**0**	**0**	**0**
Total Equity	**5,397**	**5,674**	**5,456**	**5,831**
Minority's Interest	39	42	40	43
Total Resources	**11,892**	**11,302**	**10,657**	**10,705**

CASH FLOW STATEMENT	FY2013	FY2014	FY2015E	FY2016F
Profit before tax	2,250.3	1,301.5	514.9	781.4
-Depreciation	694.4	700.6	462.4	80.3
-Adjustments	*-1,279.2*	*-895.2*	*582.3*	*301.4*
+/- Working capital	-600.8	-793.3	-760.1	-108.5
Net Operating CFs	**1,064.8**	**313.6**	**799.5**	**1,054.5**
+/- Fixed Asset	-141.0	-199.6	-293.2	-106.6
+/- Deposit, equity investment	-517.0	279.6	0.0	0.0
Interest, dividend, cash profit received	514.0	468.2	81.1	82.9
Net Investing CFs	**-144.0**	**548.1**	**-212.1**	**-23.8**
+/- Capital	0.0	0.0	0.0	0.0
+/- Debt	-421.0	-379.8	-326.6	-340.7
Dividend paid	-320.9	-480.7	-784.3	-531.8
Net Financing CFs	**-741.9**	**-860.5**	**-1,110.9**	**-872.5**
+/- cash & equivalents	178.9	1.2	-523.5	158.3
Beginning cash & equivalents	**1,006.8**	**1,185.7**	**1,186.9**	**663.4**
Impact of exchange rate	0.0	0.0	0.0	0.0
Ending cash & equivalents	**1,185.7**	**1,186.9**	**663.4**	**821.6**

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.

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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%

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