Pha Lai Thermal Power JSC. (PPC – HSX)

Stability

Particulars (VND bn)	Q1-FY16	Q4-FY15	*+/- qoq*	Q1-FY15	*+/- yoy*
Net revenue	1,706.7	1,619.4	5%	2,002.2	-15%
PAT	(157.3)	28.1	-660%	51.4	-406%
EBIT	127.2	390.4	-67%	204.6	-38%
EBIT margin	7.5%	24.1%	-1,666bps	10.2%	-277bps

Sources: PPC, RongViet Research

1Q2016: Negative effect from Product Line 1 (PL1). Sales volume in the 1st quarter was c. 1.45 bn kWh (-1% yoy). PPC temporally reported PL1's selling price based on its competitive market price (Pm), which is 14% lower than the 2015 contracted price (Pc). Consequently, total revenue from electric generation reached c. VND1,707 bn (-14.8% yoy). 1Q2016's gross profit margin slumped to a mere 3.1% from 6.7% of 1Q2015. JPY appreciated 7.2% against VND in the first quarter, causing unrealized FX loss of VND261 bn. Included unrealized FX variation, PPC was loss VND157 bn in 1Q2016.

2Q2016: Unknown result of JPYVND variation as well as ability to finish new PPA (Power Purchasing Agreement) for PL1. Electric demand in 2Q is expected to reach 1.79 bn kWh, up by 23% qoq due to (1) Peak of dry season and (2) 2Q's production activities is stronger than 1Q's (as seasonal factor).

After a short conservation with PPC's representative, it is expected that PPC could finish the new PPA for PL1 in 2Q2016, which could leverage the average selling price slightly leading to an expected growth of 39% qoq on revenue, equivalent to VND2,2367 bn. For 6M2016, total estimated revenue is VND4,074 bn (-4.5% yoy) and correspondent PBT (excluding unrealized FX variation) is VND510 bn.

JPYVND variation is considered as a key risk which would negatively impact on PPC's 2Q2016 business result. In the first five months, JPY has been appreciating 11% against VND. If the exchange rate is unchanged till the end of 2Q, PPC would record more than VND520 bn in unrealized FX loss. Hence, accounting for FX variation, it is expected that PPC will incur a loss of VND37.5 bn in 6M2016.

Outlook and Valuation

It is likely that Northern provinces were not strongly affected by El Nino as Southern provinces during early months of 2016. Hence, PPC is not expected to benefit from unfavorable weather like thermal power plants in the South. As a result, estimated volume and average selling price would be slightly down from 2015's result.

In 2015, PPC cautiously made provision on FX loss in associated company (Hai Phong thermal power plant) as well as the other long-term financial investment (QuangNinh thermal power plant). Therefore, JPYVND variation is considered as a key risk factor for PPC's 2016 business result. Total estimated revenue shrinks 2.4% yoy to VND7,480 bn and equivalent PAT (included unrealized FX loss) is VND541 bn. 2016's forecasted EPS consequently reach VND1,519, while excluded-FX-variation-EPS is VND3,028.

*PPC's 2016 Qc is significant cut from that of 2016, and expected to offset all added benefit from PL2 (the line was fully depreciated). Hence, we decrease PPC's target price to VND19,100 per share from VND21,600 per share and recommend **NEUTRAL** for **LONGTERM** investment. We would like to note that PPC often pays high cash dividend. Cash dividend is approved at 25% for 2015 and 17% for 2016.*

NEUTRAL

CMP (VND)	19,000
Target Price (VND)	19,100
Investment Period	Long-term

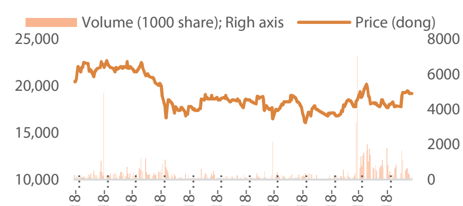
Stock Info

Sector	Power
Market Cap (VND bn)	6,044.9
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

	FY15	Current
EPS	1,762	827
EPS Growth	-46%	-53%
Adjusted EPS	3,344	n/a
P/E (*)	5.7	n/a
P/B	1.05	1.08
EV/EBITDA (*)	5.84	7.81
Cash dividend (on par)	25%	17%
ROE (*)	20%	19%

(*) Excluded unrealized FX variation

Price performance



Major Shareholders (%)

Genco2	51.0
REE	21.8
Halley Sicav - Halley Asian Prosperity	6.0
Foreign Investor Room (%)	36.1

Lam Nguyen

(084) 08- 6299 2006 – Ext 1313

lam.ntp@vdsc.com.vn

Exhibit 1: 1QFY2016 Results

Particulars (VND bn)	Q1-FY16	Q4-FY15	+/- (qoq)	Q1-FY15	+/- (yoy)
Net Revenues	1,706.7	1,619.4	5.4%	2,002.2	-14.8%
Gross profits	52.4	390.4	-86.6%	133.6	-60.7%
SG&AC	22.4	32.5	-31.0%	24.8	-9.7%
Operating Income	30.0	357.9	-91.6%	51.9	-42.2%
EBITDA	106.9	366.5	-70.8%	29.3	265.1%
EBIT	127.2	390.4	-67.4%	204.6	-37.8%
Financial expenses	285.2	351.3	-18.8%	138.5	105.9%
- Interest Expenses	27.4	30.1	-8.8%	29.4	-6.9%
Dep. and amortization	20.2	23.9	-15.4%	175.3	-88.5%
PBT	-156.6	41.7	-475.4%	57.0	-374.9%
PAT	-157.3	28.1	-660.0%	51.4	-406.2%

Sources: PPC, RongViet Research

Exhibit 2: 1QFY2016 performance analysis

Particulars	Q1-FY16	Q4-FY15	+/- (qoq)	Q1-FY15	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	3.1	24.1	-2104bps	6.7%	-360bps
EBITDA Margin	6.3	22.6	-1637bps	1.5%	480bps
EBIT Margin	7.5	24.1	-1666bps	10.2%	-277bps
Net Margin	-9.2	1.7	-1095bps	2.6%	-1178bps
Adjusted Net Margin	7.5	4.7	277bps	-5.3%	1271bps
Turnover *(x)					
-Inventories	9.1	6.6	2.4	10.1	-1.1
-Receivables	2.9	1.9	1.0	3.3	-0.5
-Payables	0.0	29.7	-29.7	25.0	-25.0
Leverage (x)					
Total Debt/ Equity	1.0	0.9	0.0	0.9	0.0

Sources: RongViet Research database; (*) Annualized turnover

Exhibit 3: 2QFY2016 Forecast

Particulars (VND bn)	Q2-FY16	+/- qoq	+/- yoy
Net Revenues	2,367	39%	5%
Gross profits	193	267%	3%
EBIT	193	52%	3%
PAT	(313)	99%	-199%

Sources: PPC, RongViet Research

Updated information

2016's outlook: Not a really favorable year

Uneasy output's growth. PPC's equipment was old (fully depreciated). Historical data also shown that the plant's output has just variated around its average installed capacity (6,000 h/year) in years. Besides, it is planned to carry out major repair for the 1st and 5th boiler-turbine-generators in 2016. The maintenance is often processed in rainy season (off-seasonal production), which lessens impact on operating business of the plant. Therefore, 2016 estimated volume is 5.68 bn kWh (-1% yoy).

Gross profit could not be hit hard by strong decline in Qc of PL1. Indeed, PPC's 2016 gross profit margin is forecasted to lower by only 0.5 percentage point under following arguments:

(1) PL2's equipment was fully depreciated. 2016 depreciation expense is c. VND85 bn for both lines (PL1 and PL2), a notable drop from more than VND400 bn of 2015's. As mentioned in Dec 02nd 2015 updated report, PL2's main equipment was fully depreciated since 3Q2015 while PL2's Pc is fixed in 18 years (2014 – 2032). Hence, PL2's GPM is estimated to up by 1.3 percentage point (for Qc only).

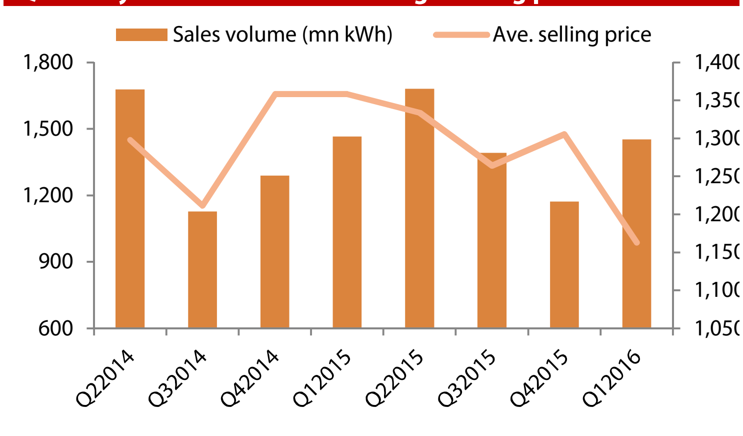
(2) PL1's Pc which is in negotiation is expected to slightly decrease. The contract term is a mere 4-year period (2016 – 2019) due to PL1 is under consideration to be upgraded. Speaking with PPC's representative, we learned that PL1's Pc is negotiated and would modestly decrease, down around VND10 – VND18 per kWh from old PPA price.

(3) Diminished profit (caused by lower Qc) would be partly compensated from CGM revenue (Rm). Based on NLDC's new method to distribute Qc, PPC's 2016 Qc is estimated to down by more than 38% yoy, in which PL1's Qc is down by more than 60%. With lower Qc and heavy maintenance expense in 2016, profit from contracted quantity would record a negative figure.
Meanwhile, quantity sold to CGM would be double that of 2015, Rm is expected to up by 1.8x, in which a part comes from incremental revenue of CAN and Cfd (*see the Appendix*).

FX variation risk. Based on forecasts of other international financial institutions on JPYUSD variation (+6.4% yoy) and RongViet macro team's forecast on USDVND (+3.2% yoy), it is implied that JPY would appreciate 10.7% against VND. With more than JPY21 bn outstanding debt by the end of 2016, PPC's unrealized FX loss is more than VND400 bn.

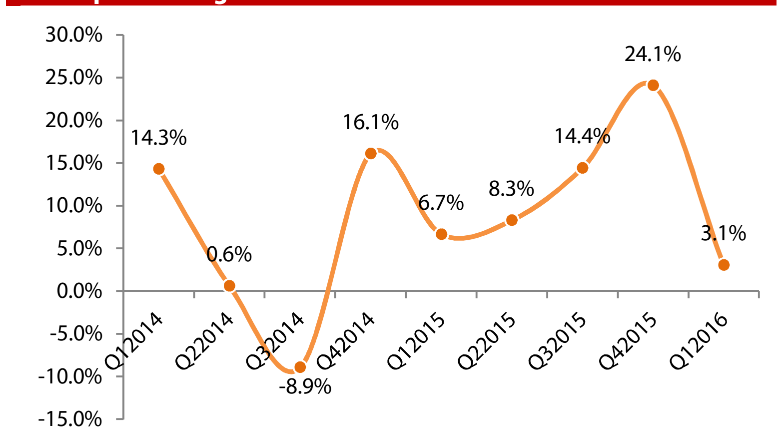
PPC's 2016 average selling price is c. VND1,301, slightly decrease from 2015's figure. Total forecasted revenue is VND7,480 bn (-2.4%). PAT from core business is c. VND1,031 bn (-9% yoy) and equivalent EPS is VND3,028. Including more than VND427 bn loss caused by FX variation, PAT is VND541 bn (-3.5%, yoy) and correspondent EPS is VND1,519.

Quarterly sales volume and average selling price



Source: RongViet Research

Gross profit margin variation



Source: RongViet Research

JPYVND exchange rate

Sources: Bloomberg, RongViet Research

Appendix: Formula for thermal power plants' revenue calculation

Total revenue of power plant includes revenue from PPA's quantity (Rc), revenue from output sold to competitive generated market 9Rm) and revenue from contract for difference (R_cfd).

<table>
<tr><td rowspan="6">$R = R_c + R_m$</td><td rowspan="3">R_c
$= Q_c * P_c$</td><td colspan="2">Q_c: Contracted volume, annual defined.</td></tr>
<tr><td rowspan="2">P_c: Contracted price
$= P_f + P_v$</td><td>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).</td></tr>
<tr><td>P_v: Variation price including fuel cost, operating variation cost; annually adjust following gas price change.</td></tr>
<tr><td rowspan="3">R_m
$= Q_m * P_m$</td><td colspan="2">Q_m: volume offered in CGM</td></tr>
<tr><td rowspan="2">P_m: market price
= CAN + SMP</td><td>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).</td></tr>
<tr><td>System marginal price, less than cap price defined at the beginning of year.</td></tr>
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Source: nldc.evn.vn, Circular 41/2010/TT-BCT, Circular 30/2014/TT-BCT,Rongviet Research

VND billion

INCOME STATEMENT	FY2014	FY2015	FY2016E	FY2017F
Revenue	7,481.9	7,664.9	7,480.2	7,497.9
COGS	6,984.7	6,701.3	6,575.0	6,337.3
Gross profit	**497.3**	**963.6**	**905.3**	**1,160.6**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	106.5	103.7	101.2	101.4
Finance Income	1,055.2	343.4	369.4	370.1
Finance Expense	142.9	733.0	639.2	107.0
Other profits	8.4	19.5	14.0	16.7
PBT	**1,301.5**	**604.5**	**583.5**	**1,446.9**
Prov. of Tax	247.4	38.7	37.4	108.5
Minority's Interest	9.4	5.1	4.9	12.1
PAT to Equity Shareholder	**1,044.7**	**560.7**	**541.2**	**1,326.3**
EBIT	718.7	1,194.9	1,165.0	1,402.2
EBITDA	1,419.3	1,653.0	1,250.6	1,488.0

FINANCIAL RATIO	2014A	2015A	2016E	2017F
Growth (%)				
Revenue	13.6	2.4	-2.4	0.2
Operating Income	-57.9	120.1	-6.5	31.7
EBITDA	-29.2	16.5	-24.3	19.0
PAT	-46.9	130.2	-8.9	27.6
Total Assets	-4.8	-2.3	-4.8	2.4
Equity	5.1	1.1	-5.1	11.2
Internal growth rate	4.8	-8.3	-3.2	11.9
Profitability (%)				
Gross profit/Revenue	6.6	12.6	12.1	15.5
Operating profit/ Revenue	5.2	11.2	10.7	14.1
EBITDA/ Revenue	19.0	21.6	16.7	19.8
Net margin	14.0	7.3	7.2	17.7
ROAA	4.2	10.1	9.5	12.3
ROAE	8.9	19.8	18.4	22.9
Efficiency (x)				
Receivable Turnover	4.2	3.5	3.4	3.4
Inventory Turnover	8.5	9.8	10.0	9.9
Payable Turnover	6.1	6.2	6.4	5.9
Liquidity (x)				
Current	4.9	4.5	3.5	3.7
Quick	4.4	4.0	3.0	3.3
Solvency (%)				
Total Debt/Equity	98.8	92.9	93.4	78.0
Current Debt/Equity	5.8	6.1	6.3	6.3
Long-term Debt/ Equity	71.9	69.9	67.3	54.2

VND billion

BALANCE SHEET	2014A	2015A	2016E	2017F
Cash and short-term investment	4,633	3,108	2,078	2,476
Receivables	2,139	2,200	2,231	2,235
Inventories	705	660	656	628
Other current assets	3	5	5	5
Total Current Asset	**7,480**	**5,973**	**4,970**	**5,343**
Fixed Assets	854	425	1,093	1,041
Construction in Progress	242	305	294	294
Long-term Investment	2,745	2,012	1,827	1,755
Other long-term assets	4	2,354	2,354	2,354
Long-term Asset	**3,844**	**5,097**	**5,567**	**5,444**
Total Asset	**11,324**	**11,069**	**10,537**	**10,787**
Payables	326	430	394	380
Current Debt	327	349	345	382
Long-term Debt	4,083	4,011	3,666	3,284
Other long-term liabilities	873	540	684	682
Total Liability	**5,608**	**5,330**	**5,089**	**4,728**
Owner's Equity	**5,674**	**5,739**	**5,448**	**6,059**
Capital	3,262	3,262	3,262	3,262
Retained Earnings	1,899	1,913	1,604	2,162
Funds & Reverses	638	689	706	760
Others	**0**	**0**	**0**	**0**
Total Equity	**5,674**	**5,739**	**5,448**	**6,059**
Minority's Interest	42	0	0	0
TOTAL RESOURCES	**11,324**	**11,069**	**10,537**	**10,787**

VALUATION RATIO	FY2014	FY2015	FY2016	FY2017
EPS (dong)	1,346.3	3,344.1	3,027.7	3,913.9
P/E (x)	18.6	5.7	6.0	4.7
BV (dong)	17,835.2	18,038.2	17,122.3	19,044.2
P/B (x)	1.4	1.0	1.1	1.0
DPS (dong/cp)	1,500.0	2,500.0	1,700	1,700
Dividend yield (%)	6.0	10.6	13.1	10.5

VALUATION MODEL	*Price*	*Weight*	*Average*
FCFE	23,810	50%	11,905
P/E	17,112	50%	8,556
Target price (dong/share)			**19,118 (*)**

(*) Adjusted for FX unrealized loss (VND-1,344/share)

VALUATION HISTORY	*Price*	*Recommendation*	*Period*
02/12/2015	21,600	Neutral	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 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%

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Network

Headquarter

Address: Floor 1-2-3-4-5, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

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

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