SOUTHERN HYDROPOWER JSC (SHP – HSX)

Positive over long-term

Indicator (bn VND)	Q2-FY15	Q1-FY15	+/- qoq	Q2-FY14	+/-yoy
Net revenue	112.4	69.9	61%	139.3	-19%
EAT	15.0	(22.7)	-166%	53.3	-72%
EBIT	49.0	10.1	384%	86.5	-43%
EBIT margin	43.6%	14.5%	2.911bps	62.1%	-1,856bps

Source: SHP, RongViet Securities

Production has increased 1.6x since 2014 thanks to Da M'bri

In power industry, SHP is an SME and currently operating 3 plants in Lam Dong Province. Lam Dong Province in located in Dong Nai river system, which has a dense stream network comprising of 73 reservoirs and 92 spillways. Moreover, the area is in tropical monsoon climate; hence, rainy season in Lam Dong lasts 6 months (from May to November) and the rainfall is relatively stable.

Table. Power plants of SHP

Plant	Location	Reservoir	Designed capacity (MW)
Da Mbri	Main current of Da M'bri stream	Annual regulated	75
Da Dang 2	T-junction where Da Dang estuary flowing into the Dong Nai River	Daily regulated	34
Dasiat	Main current of Da Siat stream, left bank of Dong Nai River	Daily regulated	13,5

Source: SHP, RongViet Research

Da M'Bri: Contribute more than 60% to SHP's total production. Da Mbri is the biggest plant of SHP and has been put into operation since 2014. Thanks to flavored hydrological conditions, the plant exceeded its designed capacity right in the initial year and contribute more than 63% (~376.4 mn kWh) of generating volumes in 2014.

From 2015, Da M'bri will participate CGM with sale proportion of 20%. Low sales volume portion in CGM will not affect selling prices in dry and rainy season causing fluctuations in business results (if any).

Da Dang 2: High efficiency. Da Dang 2 has 34MW of installed capacity but its reservoir is daily regulated. As a result, price of 10% of its output equals to competitive generation market's (CGM) average price while the remaining weight of output is settled under 25 year term PPA contract.

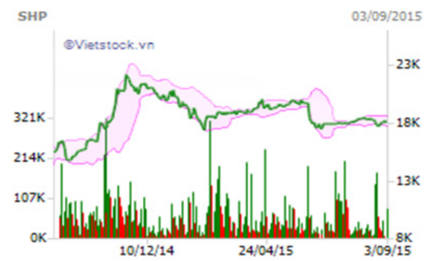
In the other hand, in 2014, Da Dang 2's average selling price is 28% and 26% respectively lowered than those of Da Siat and Da M'bri. Meanwhile, Da Dang 2's investment cost per unit is 49% and 50% respectively lowered than the two remaining plants'. Thus, if we allow for low selling prices, the investment per cost of Da Dang 2 is much lower, suggesting that Da Dang 2 is having a better GPM and operating more efficiently than two others.

ACCUMULATE

Market price (VND)	18,100
Target price (VND)	22,000
Investment term	**INTERMEDIATE**

Stock Info

Sector	Hydro Power
Market Cap (VND bn)	1,696
Current Shares O/S	93,710.200
Beta	0.18
Free Float (%)	30.9%
52 weeks High	20,500
52 weeks Low	13,500
Avg. Daily Volume (in 20 sessions)	38,660



Source : Vietstock

Performance (%)

	3T	1N	3N
SHP	-2.16	0.34	3.21
Utilities	-23.45	-26.22	N/A
VN30 Index	0.59	-10.64	31.65
HSX Index	-0.37	-9.67	47.98

Major shareholders (%)

EVN SPC	48.9%
Sabeco	20.2%
FOL(%)	46.2%

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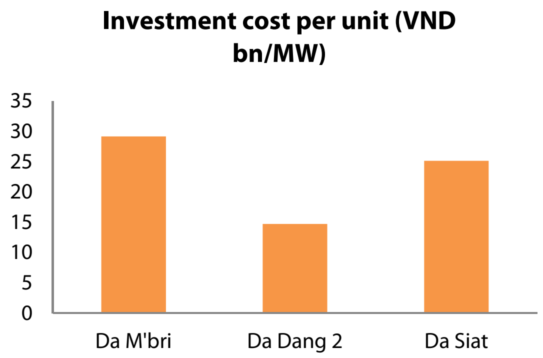
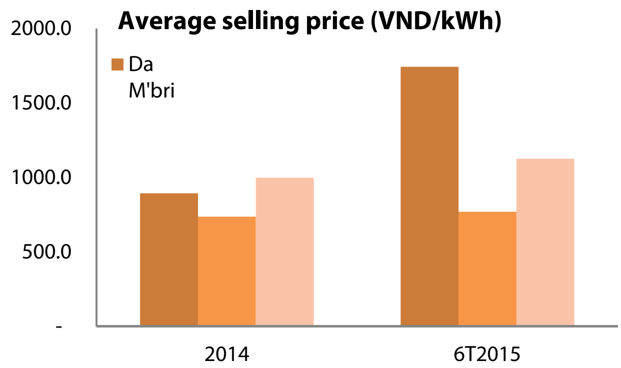
Graph: Investment cost per unit and average selling prices of three power plants





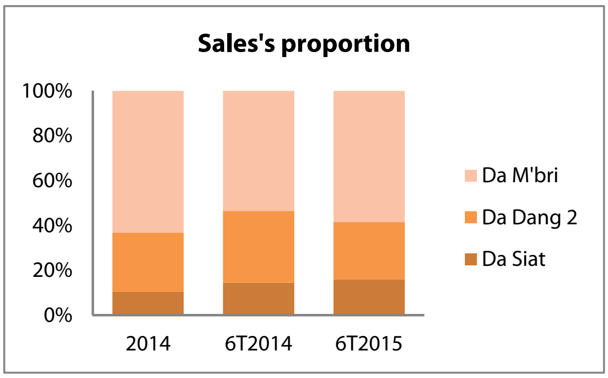
Source: Rongviet Research

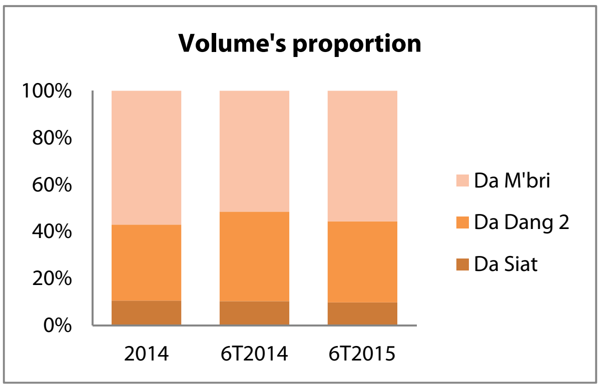
Da Siat hydropower plant: Large gap between selling price in dry and rainy season. Average selling price in 1H2015 usually doubles the second one for 2 reasons:

(1) General movement in power market. In contrast to supply-demand in rainy season, power industry has to face lower output but higher demand in dry season.

(2) Selling price of hydropower plants with small capacity (less than 30MW) is paid based on avoidable cost tariff issued by Ministry of Industry and Trade. Particularly, in daily peak hours in dry season, the price would include capacity add-on price (CAN) and electric price. Thanks to adding capacity add-on price in peak hours of day, especially when CAN is 3x higher than electric price, the average selling price in dry season is much higher than that in rainy time. In 2015, the CAN is up by 19.6% (yoy) to VND2,158 per kWh.

Graph: Da Siat contributes only 10.3% of total volumes but 14.5% of total revenue thanks two higher selling price





Source: Rongviet Research

1H2015 overview

Output deteriorated due to unflavored weather

Late rainy season in June (in 2014, it began in May) negatively affected productivity of power plants. Total volumes reached 169 bn kWh in 6M2015, dropped 28% yoy and only completed 28% year plan.

Contrary to the negative decline in output, the average price in the first six month was estimated at VND1,071 per kWh, upside 12% yoy. Increasing in selling price offset for decreasing in output; therefore, total revenue only slightly slipped 9% yoy and completed 33% of the business plan (equivalent to 182.26 bn).

Depreciation and interest expenses of Unit 2 – Da M'bri plant influenced efficiency in 1H2015

Da M'bri power plant has 2 units, the first one operated in 2013 while the second one came on stream in May 2014. Cost of Unit 2 has incurred since August 2014. From 2015, by recording expenses for full 12 months (instead of 2/3 periods like 2014), SHP will undergo slowdown in operating ratios compared to 2014.

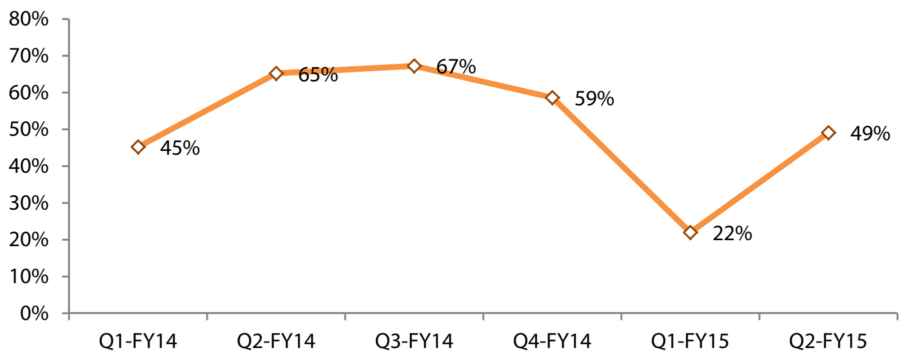
Table: 2Q2015 business results

Indicators (bn VND)	Q2-FY15	Q1-FY15	*+/- (qoq)*	Q2-FY14	*+/- (yoy)*	Accumulation	*+/-(yoy)*
Revenue	112.4	69.9	60.7%	139.3	-19.4%	182.3	*-8.9%*
Gross profit	55.2	15.4	259.0%	90.9	-39.3%	70.5	*-40.4%*
SG&A expense	6.4	5.4	17.2%	4.4	45.8%	11.8	*69.5%*
Operating profit	48.8	9.9	391.2%	54.8	-10.9%	58.7	*-6.1%*
EBITDA	137.7	54.5	152.6%	149.7	-8.0%	192.3	*10.1%*
EBIT	48.9	10.1	384.0%	86.5	-43.5%	59.0	*-47.1%*
Financial expense	32.6	32.5	0.2%	31.8	2.4%	65.0	*33.0%*
- Interest expense	32.6	32.5	0.2%	31.8	2.4%	65.0	*33.0%*
Depreciation	44.6	44.4	100.0%	63.1	40.8%	88.9	*111.1%*
Non-current items (*)							
Extraordinary items (*)	0.1	0.0	481.0%	0.0	4640.1%		
EBT	16.4	-22.4	-173.3%	54.8	-70.1%	-6.0	*-109.5%*
EAT	15.0	-22.7	-165.9%	53.3	-71.9%	-7.7	*-112.8%*
Adjusted EAT	14.9	-22.7	-165.5%	53.3	-72.1%	-7.7	

Source: SHP, RongViet Securities

EBT correspondently suffered from a loss of VND6 bn (in 1H2014, SHP post an EBT of VND63 bn).

Graph: GPM in 1Q and 2Q/2015



Source: RongViet Research

2H2015: Expect positive earning

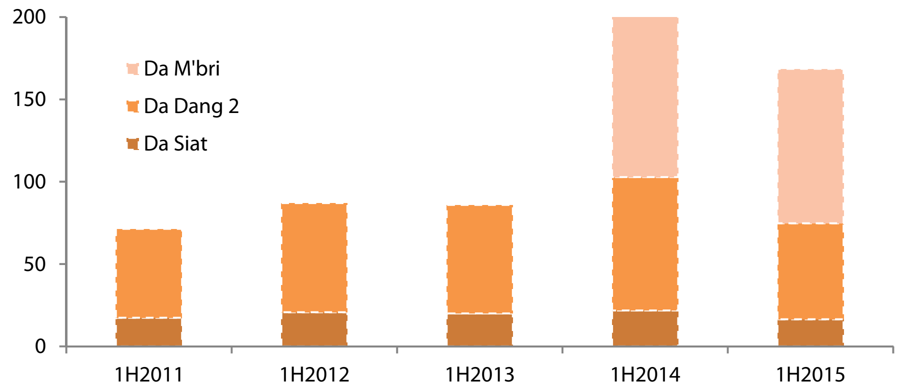
Output is forecast to increase sharply

Da Siat and Da Dang are two small type plants of SHP which have daily regulated reservoirs. Studying historical data (2011 – 2014), we notice that:

✓ 2H2015 saw less volatility in output than 1H2015.

- ✓ Monthly average in 2H2015 was higher than monthly average in 1H2015. The highest gap estimated at 2.2x, was witnessed in 2011 as to longer dry season leading to low rainfall.
- ✓ Weather changes are starting a new cycle with the drought occur in 2015 and hydrological conditions are said to be better in the next three years.

Graph. Electricity output of Da Siat and Da Dang in the first year half from 2011 – 2015



Source: RongViet Research

Using these data with expectation of growing electricity demand due to recovery of manufacturing, we estimate total output of Dasiat and Da Dang in 2H2015 will escalate 2.2x, equivalent to 167.3 mn kWh. Total volumes produced in FY2015 will be around 242 mn kWh, down 15% yoy and lower 4% compared to the plan.

Da M'bri factory. It is lack of history data to evaluate changes in the output of this factory because Da M'bri has just put into operation since 2014. Although, as far as we concern, current water flow of Da M'bri Most stream area is quite good compared with others. However, with no positive changes in 1H2015, we have a conservative forecast for electricity output in 2H2015 of Da M'bri which just gets nearly 97% output in 2014 and reaches 261 million kWh. The total power production of Da M'bri in 2015 is projected at 353.8 mnkWh, down 6.5% yoy and 0,33% lower than the plan.

Projected gross margin increases sharply in 2H2015

We estimate the average electricity price in 2H2015 of Da Siat is approximately ~ 633 dong/kWh. For Da Dang 2 and Da M'bri, the volatility of price level will be lower, down about 9% - 12% compared with the average price of 1H2015. In details, the estimated price for Da Dang 2 and Da M'bri is 702 dong/kwh and 996 dong/kwh, respectively. Meanwhile, production at these factories is expected to rise about 2.2 times compared with 1H2015 output despite decline in prices. Therefore, we expect 2H2015 gross margin will rocket to 68% from 39%of 1H20115. For the whole year of 2015, the forecasted gross margin will be 58.6%, down 6.6% yoy and 0.33% higher than the plan.

Total output in 2H2015 projected to reach 428.4 mn kWh and revenue correspondently achieve VND374.5 bn, slightly slips off 6% yoy but equals to 106% 1H2015. For the whole year, we forecast SHP can produce 597 mn kWh, 10% lower than 2014 output and 1.6% lower than FY2015 plan. Total revenue is estimated at VND556.8 bn (-6.6% yoy), which completes 100.3% FY2015 plan.

Bottom line surges to offset VND7.7 bn loss in 1H2015

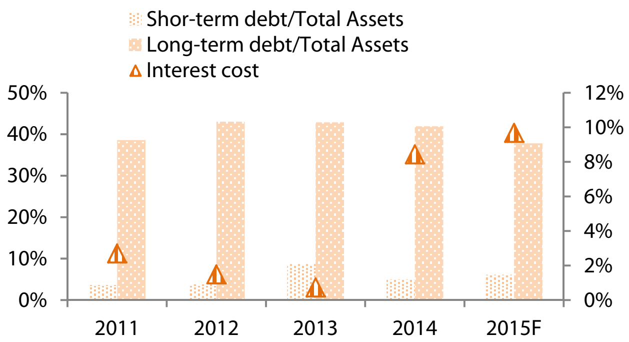
For the second half of this year, we project an EBT of VND172 bn, far positive than a loss of VND6 bn in 1H2015. Da M'bri is still benefit from preferred tax rate of 0% (2014 – 2017) while Da Siat and Da Dang have a little higher tax rate of 5% (2014 – 2023). Hence, we estimated SHP to post an EAT of VND166 bn in 2H2015 (same period last year, SHP suffered a loss of VND7.7 bn). For this year, we project a net profit of VND160 bn on profit before tax of VND166 bn (-27% yoy). RongViet Research forecasts FY2015 will be around VND1,706/share.

Debt and interest expenses will reduce from 2016

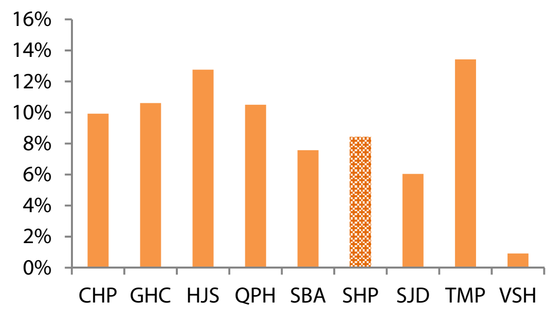
Long-term debt and long-term debt to maturity by the end of 2014 were VND1,500 bn, which mainly came from Da Dang and Da M'bri's capital investment. Annual principal and interest (9.2% per annum) is VND300 bn. Thus, operating cash flow of the company is mainly used for debt payment.

However, SHP completed its three power plants and yet has investment plan, so we do not expect any addition debts from 2015. Beside, with present payment schedule, interest expense will shrink VND14 bn annually since 2016. For FY2015, RongViet Research projects such expense at about VND130 bn, a minor increase compared to 2014.

Graph. Debts and Interest expenses



Graph. Interest expenses of power companies



Source: RongViet Research

Stable dividend policy

Despite a large amount of operating cash flow is for debt payment purpose, SHP still paid dividend at step-up rate over past years (3% cash dividend in 2009, 15% cash dividend in 2014). SHP also planned to pay 15% cash dividend for FY2015. Concerning the downtrend of interest expense since 2016, we believe SHP will maintain its cash dividend at a minimum rate of 15%.

Investment outlook

SHP is only an SME in power industry but is a considerably large company among listed power enterprises. All 3 plants of SHP are located in lam Dong Province which has ample water resources and stable rainfall; therefore, hydrological risks are relatively lower than other companies might face. As a matter of fact, SHP has been surging its designed capacity since established.

In 2015, longer drought season has significant impact on operation of hydro power plants, included SHP (SHP is only slightly affected). Besides, counting in increasing depreciations and interest expenses, we evaluate 2015 shall be the bottom of SHP's business cycle. Evidence could support our view point is that after a drought year will come a flush rainy season and water flows in upcoming year. In addition, we have a positive outlook on SHP's business status from 2H2015. Operating efficiency will increase clearly from 2016 when interest expenses go down.

We used comparison evaluation method EV/EBITDA in order to determine the appropriate price for SHP. Average EV/EBITDA ratio of listed companies is 5.6x. However, SHP is considered as a large listed company and EV/EBITDA is 6.2x. Accordingly, suitable price for SHP's stock was determined at approximately VND 20,800/share, 15% higher than the closing price on 03/09. Therefore, we recommend **ACCUMULATE** in **INTERMEDIATE** with SHP.

BRIEF 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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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

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