# Pha Lai Thermal Power JSC. (PPC – HSX)

## Unfavorable 2016

| Particulars (VND bn) | Q2-FY16 | Q1-FY16 | *+/- qoq* | Q2-FY15 | *+/- yoy* |
|---|---|---|---|---|---|
| Net revenue | 1,516 | 1,707 | -11% | 2,262 | -33% |
| PAT | (192) | (157) | 22% | 317 | -161% |
| EBIT | 200 | 127 | 57% | 247 | -19% |
| EBIT margin | 13.2% | 7.5% | 574bps | 10.9% | 225bps |

*Source: Rongviet Securities database*

- **2Q16: Disappointed results due to absence of PL1's PPA**
- **3Q16: Electricity production activities is forecasted to experience off-seasonal period**
- **Expect a mutation in 4Q16**
- **FY17 outlook: Expect greater generating capacity after new PPA for PL1**

### Outlook and Valuation

*The absence of PL1's PPA affected PPC 1H16's business results stronger than our forecast. PPC's business activities might experience off-season period in 3rd quarter due to rainstorm peaks in northern region. However, PL1 got PPA as well as the yen has cooled down, we expect PPC will record profits in 3Q16 after substantial losses in the first 2 quarters.*

*PL1's Qc volume allocated for 2H16 is 595 million kWh. For 1H16, PPC is negotiating with EVN to retroact profit for PL1 (caused by difference between official PPA price and temporary price). In case of successful negotiation, we expect that over VND260 billion will be retroacted for 1H16. Empirically, we believe that the negotiation will take time and the ability to reach an agreement in 4Q is unclear. Excluding this retroactive amount and the exchange rate loss, PPC FY16's EPS can reach VND1,863.*

*Due to most of its debt denominated in Yen, sharply increase of JPY/VND in 2016 negatively affected on accounting profit of Pha Lai Thermal Power Plant as well as PPC's market price. After PL1 got its new PPA, however, Q42016's business result of PPC is expected to recover. Besides, despite disappointed profit caused by FX variation, we believe that PPC can maintain minimum cash dividend at VND1,700 per share based on its strong cash flow and high retained earnings. Hence, we revise our PPC's target price to VND19,400 per share and recommend **BUY** for **long-term** investment.*

### Key financials

| Y/E Dec ( VND bn) | 2014 | 2015 | FY2016E | FY2017F |
|---|---|---|---|---|
| Net Revenues | 7,482 | 7,665 | 6,705 | 7,370 |
| *% chg* | 13.6% | 2.4% | -12.5% | 9.9% |
| PAT | 1,045 | 561 | 125 | 1,071 |
| *% chg* | -46.9% | 130.2% | -41.6% | 77.6% |
| EBIT margin (%) | 14.0% | 7.3% | 1.9% | 14.5% |
| ROA (%) | 4.2% | 10.1% | 6.2% | 11.4% |
| ROE (%) | 8.9% | 19.8% | 12.2% | 21.9% |
| EPS (VND) | 3,284 | 1,762 | 209 | 3,367 |
| EPS (excluded FX) | 1,346 | 3,344 | 1,863 | 3,452 |
| Book value (VND) | 17,835 | 18,038 | 16,092 | 17,608 |
| Cash dividend (VND) | 1,500 | 2,500 | 1,700 | 1,700 |
| P/E (x) | 18.6 | 5.7 | 7.0 | 4.0 |
| P/BV (x) | 1.4 | 1.0 | 0.9 | 0.8 |

*Sources: PPC, RongViet Research estimated*

## BUY

| | |
|---|---|
| CMP (VND) | 14,600 |
| Target Price (VND) | 19,400 |
| Investment Period | **Long-term** |

### Stock Info

| | |
|---|---|
| Sector | Power |
| Market Cap ( VND bn) | 4,645 |
| Current Shares O/S | 318,154,614 |
| Beta | 0.9 |
| Free float (%) | 18.3 |
| 52 weeks High | 17,500 |
| 52 weeks Low | 14,000 |
| Avg. Daily Volume (in 20 sessions) | 110,156 |

| | 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 | 9.45 |
| Cash dividend (on par) | 25% | 17% |
| ROE (*) | 20% | 13% |


*Source: Vietstock*

### Major Shareholders (%)

| | |
|---|---|
| Genco2 | 52.3 |
| REE | 23.5 |
| Halley Sicav - Halley Asian Prosperity | 5.9 |
| *Foreign Investor Room (%)* | 43.2 |

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**Exhibit 1: 1QFY2016 Results**

| Particulars (VND bn) | Q1-FY16 | Q4-FY15 | +/- (qoq) | Q1-FY15 | +/- (yoy) |
|---|---|---|---|---|---|
| Net Revenues | 1,516 | 1,707 | -11.2% | 2,262 | -33.0% |
| Gross profits | 82 | 52 | 56.1% | 188 | -56.4% |
| SG&AC | 24 | 22 | 7.7% | 22 | 9.9% |
| Operating Income | 58 | 30 | 92.4% | 240 | -75.9% |
| EBITDA | 219 | 147 | 48.5% | 422 | -48.2% |
| EBIT | 200 | 127 | 57.2% | 247 | -19.2% |
| Financial expenses | 388 | 285 | 36.1% | -1 | -29535.1% |
| *- Interest Expenses* | 38 | 27 | 36.9% | 30 | 25.5% |
| Dep. and amortization | 19 | 20 | -6.5% | 175 | -89.2% |
| PBT | -191 | -157 | 22.3% | 338 | -156.7% |
| PAT | -192 | -157 | 22.3% | 317 | -160.7% |

*Source: PPC, Rongviet Securities database*

**Exhibit 2: 1QFY2016 performance analysis**

| Particulars | Q1-FY16 | Q4-FY15 | +/- (qoq) | Q1-FY15 | +/- (yoy) |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| Gross Margin | 5.4% | 3.1% | 233bps | 8.3% | -291bps |
| EBITDA Margin | 14.4% | 8.6% | 580bps | 18.7% | -424bps |
| EBIT Margin | 13.2% | 7.5% | 574bps | 10.9% | 225bps |
| Net Margin | -12.7% | -9.2% | -347bps | 14.0% | -2670bps |
| Adjusted Net Margin | 6.2% | -4.7% | 1088bps | 7.0% | -80bps |
| **Turnover *(x)** | | | | | |
| -Inventories | 7.4 | 9.1 | -1.7 | 11.0 | -3.6 |
| -Receivables | 3.0 | 2.9 | 0.1 | 3.1 | -0.1 |
| -Payables | 0.0 | 0.0 | 0.0 | 25.9 | -25.9 |
| **Leverage (x)** | | | | | |
| Total Debt/ Equity | 1.3 | 1.0 | 0.3 | 1.0 | 0.3 |

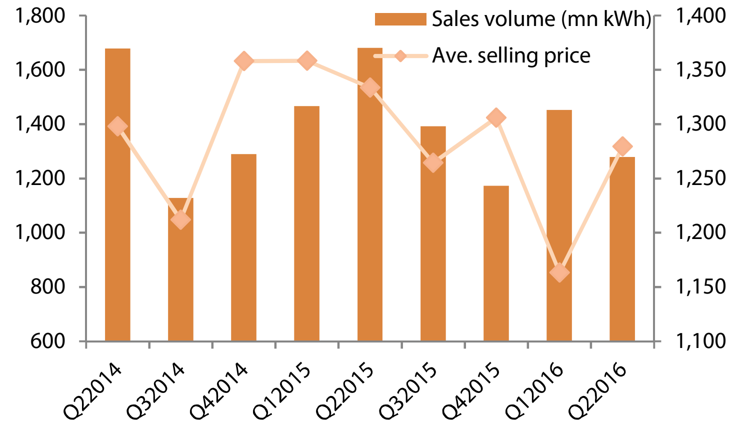
*Sources: RongViet Research database; (*) Annualized turnover*

*Pha Lai Thermal Power Joint Stock Company (HSX: PPC) announced its 2Q16 financial statements in which earnings results fell short of our expectations. PL1's power purchase agreement (PPA) could not be finalized until end of May 2016, which results disappointed earning and causes a big error in forecasting contracted quantity (Qc) and PPC's revenue. Moreover, the JPY appreciated more than 16% against VND while our forecast was about 11%, contributing to the big gap between projection and PPC's actual results.*

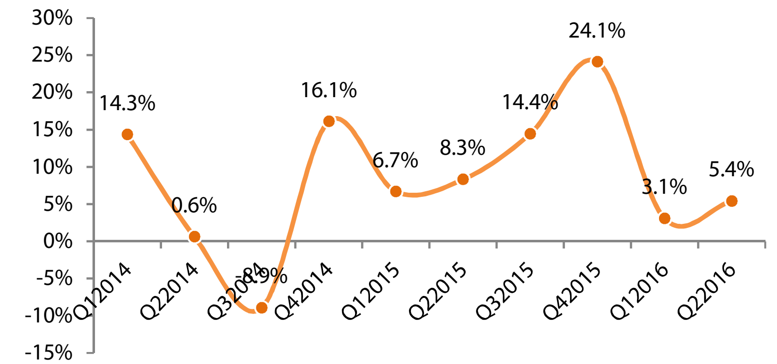
**2Q16: Disappointed results due to absence of PL1's PPA**

At the end of Q216, PPC's total sale volume was only 1.28 billion kWh, declined by 12% and 24% compared with 1Q16 and 2Q15 respectively. There are two main reasons affecting PPC 2Q16's earnings: (1) most of the time in 1H16, northern weather condition was quite favorable for hydropower plants, and (2) PPA contract negotiation has yet finished, so PL1 operated with low capacity during this period. PL1's production decreased by nearly 50% compared with 2Q15.

**Graph: Volume and average selling price**




**Graph: Profit margin**




*Source: RongViet Research*

PPC 1H16's total sale volume reached more than 2.73 billion kWh, dropped 13.2% compared to 1H15's.

2Q16 net sales attained approximately VND1,516 billion, decreased by 11% and 33% compared to 1Q16 and 2Q15 respectively. 2Q16 gross margin is slightly higher than 1Q16 but still remain low (5.4%) and gross profit reached nearly VND82 billion. Moreover, the yen appreciated 9.4% against VND in 2Q16, hence PPC continued suffering loss due to unrealized foreign exchange loss, whereby 2Q16 PAT recorded the loss of VND192 billion.

*1H16 total net sales and gross profit approximated VND3,223 billion (-24.4% YoY) and VND134.3 billion (-58.2% YoY) respectively. The yen has appreciated over 16% against VND in 1H16 and PPC recorded unrealized foreign exchange loss of nearly VND350 billion which was a huge gap compared with 1H15's gains of VND368 billion.*

**3Q16: Electricity production activities is forecasted to experience off-seasonal period**

3rd quarter is the rainy season of the northern region. Hence, supply from hydro power plants is relatively abundant, not only resulting low demand from thermal power plants but also causing low market price. As a result, 3Q is a disadvantageous period for most of the thermal power plants as both electricity production and price will decline. For PPC, we estimate 3Q16 sale volume of two plants will reach more than 1.15 billion kWh, continue to fall compared to first two quarters of 2016 and declined by 17% compared to 3Q15. However, it would be noticed that in 3Q15 PPC attained a dominant sale volume thanks to the rainstorm in July 2015 which disrupted coal supplies for thermal power plants, except PPC.

Besides the decline in sale volume, 3Q16 electricity market price is forecasted to strongly drop due to abundant supplies from hydro power plants. With these reasons, we expect that PPC could achieve more than VND1,468 billion in revenue. Gross margin will slightly improve whereby gross profit is estimated at c. VND70 billion. Revenue and gross profit are forecasted to decrease 18% (yoy) and 73% (yoy) respectively.

The JPY/VND tends to recover from end of June level. If current rate (JPY/VND218) remains till end of Sept, we estimate PPC can record an unrealized foreign exchange gain of approximately VND69 billion. Hence, PPC's PBT is expected to reach more than VND183 billion, whereby PAT will attain VND171 billion instead of the loss as first two quarters.

**Exhibit 3: 2QFY2016 Forecast vs Actual**

| Particulars (VND bn) | Q2-FY16 | +/- qoq | +/- yoy |
|---|---|---|---|
| Net Revenues | 1,516 | 2,367 | -36% |
| Gross profits | 82 | 193 | -58% |
| EBIT | 82 | 193 | -58% |
| PAT | -192.3 | -322.6 | -40% |

*Source: PPC, RongViet Research*

**Exhibit 4: 3QFY2016 Forecast**

| Particulars (VND bn) | Q3-FY16 | +/- qoq | +/- yoy |
|---|---|---|---|
| Net Revenues | 1,468 | -3% | -18% |
| Gross profits | 70 | -15% | -73% |
| EBIT | 157 | -22% | -39% |
| PAT | 171 | -189% | 133% |

*Source: RongViet Research*

### Expect a mutation in 4Q16

***Unit 1 and 5 major maintenances, capacity per unit would be up by 6%.*** As planned, PPC will overhaul Unit 1 (of PL1) in August and Unit 5 (of PL2) in September, whereby these 2 units will suspend for 40 days. However, as the maintenance takes place in rainy season of the North, we believe the repairs will not affect PPC's electricity production activities. Instead, available capacity per Unit will increase more than 6% after overhaul.

***Low supplies from hydro power plant.*** The rainy season of the North will gradually end in 4$^{th}$ quarter. Moreover, in second half of the year, large hydro power plants have to break off to store water for dry season next year. Therefore, the electricity market price is expected to rebound along with higher demand from thermal power.

With these reasons, we estimate total sale volume of PL1 and PL2 at 1.53 billion kWh in 4Q16, up 33% and 30% compared with 3Q16 and 4Q15 respectively. FY16 total sale volume is expected to reach 5.4 billion kWh, higher than PPC FY16's target, but declined by 5% compared with FY15.

*FY16 total revenue is expected to attain VND6,705 billion (-12.5% YoY) and gross margin is 6.8% (FY15: 12.6%). We maintain JYP forecast of 15% appreciation against VND, whereby FY16's PBT and PAT will reach nearly VND135 billion and VND125 billion, respectively, down 78% compared with FY15. FY16 EPS is forecasted to be VND209 only, while excluding extraordinary factor of exchange rate raise FY16 EPS to VND1,863.*

### FY17 outlook: Expect greater generating capacity after new PPA for PL1

PL1 is one of the oldest coal-burning plants and was fully depreciated. Consequently, poor performance caused PL1's variable costs usually higher than other new thermal power plants. This drags its competitiveness down when PPC participating in competitive generating market since offered price is based on variable costs. PPA contract is a guarantee that the majority of cost is transferred into price to ensure a certain profitability. PL1 had not finalized its PPA contracts yet in 1H16, hence it operated at only 63% capacity during that time.

According to PPC's announcement, the contract with a term of 4 years (2016-2019) was signed at the end of May 2016. New price per kWh is only 10 dong lower than the old one, a good price for PL1 since its main and equipment fully depreciated. We expect PL1 can operate at 82-85% of design capacity since 2017, in which the revenue contributed from contracted quantity (Qc) will rise strongly compared to FY16.

### Outlook and Valuation

*The absence of PL1's PPA affected PPC 1H16's business results stronger than our forecast. PPC's business activities might experience off-season period in 3$^{rd}$ quarter due to rainstorm peaks in northern region. However, PL1 got PPA as well as the yen has cooled down, we expect PPC will record profits in 3Q16 after substantial losses in the first 2 quarters.*

*PL1's Qc volume allocated for 2H16 is 595 million kWh. For 1H16, PPC is negotiating with EVN to retroact profit for PL1 (caused by difference between official PPA price and temporary price). In case of successful negotiation, we expect that over VND260 billion will be retroacted for 1H16. Empirically, we believe that the negotiation will take time and the ability to reach an agreement in 4Q is unclear. Excluding this retroactive amount and the exchange rate loss, PPC FY16's EPS can reach VND1,863.*

*Due to most of its debt denominated in Yen, sharply increase of JPY/VND in 2016 negatively affected on accounting profit of Pha Lai Thermal Power Plant as well as PPC's market price. After PL1 got its new PPA, however, Q42016's business result of PPC is expected to recover. Besides, despite disappointed profit caused by FX variation, we believe that PPC can maintain minimum cash dividend at VND1,700 per share based on its strong cash flow and high retained earnings. Hence, we revise our PPC's target price to VND19,400 per share and recommend **BUY** for **long-term** investment.*

| Valuation model | Price | Weight | Average |
|---|---|---|---|
| FCFF | 30,917 | 40% | 12,367 |
| P/E | 14,905 | 60% | 8,943 |
| **Giá bình quân** | | **100%** | **21,310** |
| *Giá trị điều chỉnh do ảnh hưởng hoạt động tài chính* | | | -1,943 |
| **Giá trị hợp lý** | | | **19,367** |

VND Billion

| INCOME STATEMENT | FY2014 | FY2015 | FY2016E | FY2017F |
|---|---|---|---|---|
| Revenue | 7,482 | 7,665 | 6,705 | 7,370 |
| COGS | 6,985 | 6,701 | 6,249 | 6,340 |
| **Gross profit** | **497** | **964** | **456** | **1,030** |
| Selling Expense | 0 | 0 | 0 | 0 |
| G&A Expense | 107 | 104 | 104 | 104 |
| Finance Income | 1,055 | 343 | 375 | 377 |
| Finance Expense | 143 | 733 | 692 | 234 |
| Other profits | 8 | 19 | 14 | 17 |
| **PBT** | **1,302** | **604** | **135** | **1,175** |
| Prov. of Tax | 247 | 39 | 9 | 88 |
| Minority's Interest | 9 | 5 | 2 | 16 |
| **PAT to Equity Shareholder** | **1,045** | **561** | **125** | **1,071** |
| EBIT | 719 | 1,195 | 718 | 1,259 |
| EBITDA | 1,419 | 1,653 | 797 | 1,339 |

| FINANCIAL RATIO | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|
| **Growth** | | | | |
| Revenue | 13.6% | 2.4% | -12.5% | 9.9% |
| Operating Income | -57.9% | 120.1% | -59.1% | 163.4% |
| EBITDA | -29.2% | 16.5% | -51.8% | 68.0% |
| PAT | -46.9% | 130.2% | -41.6% | 77.6% |
| Total Assets | -4.8% | -2.3% | -8.2% | 1.6% |
| Equity | 5.1% | 1.1% | -10.8% | 9.4% |
| Internal growth rate | 4.8% | -8.3% | -40.6% | 10.8% |
| **Profitability** | | | | |
| Gross profit/Revenue | 6.6% | 12.6% | 6.8% | 14.0% |
| Operating profit/ Revenue | 5.2% | 11.2% | 5.2% | 12.6% |
| EBITDA/ Revenue | 19.0% | 21.6% | 11.9% | 18.2% |
| Net margin | 14.0% | 7.3% | 1.9% | 14.5% |
| ROAA | 4.2% | 10.1% | 6.2% | 11.4% |
| ROAE | 8.9% | 19.8% | 12.2% | 21.9% |
| **Efficiency** | | | | |
| Receivable Turnover | 4.2 | 3.5 | 3.1 | 3.3 |
| Inventory Turnover | 8.5 | 9.8 | 9.7 | 10.1 |
| Payable Turnover | 6.1 | 6.2 | 6.2 | 6.1 |
| **Liquidity** | | | | |
| Current | 4.9 | 4.5 | 4.0 | 4.5 |
| Quick | 4.4 | 4.0 | 3.6 | 4.1 |
| **Solvency** | | | | |
| Total Debt/Equity | 98.8% | 92.9% | 98.5% | 84.3% |
| Current Debt/Equity | 5.8% | 6.1% | 6.8% | 7.2% |
| Long-term Debt/ Equity | 71.9% | 69.9% | 71.5% | 58.2% |

VND Billion

| BALANCE SHEET | 2014 | 2015 | 2016F | 2017F |
|---|---|---|---|---|
| Cash and equivalents | 4,633 | 3,108 | 2,866 | 3,604 |
| Receivables | 2,139 | 2,200 | 2,077 | 2,400 |
| Inventories | 705 | 660 | 623 | 628 |
| Other current assets | 3 | 5 | 5 | 5 |
| **Total Current Asset** | **7,480** | **5,973** | **5,571** | **6,637** |
| Tangible Fixed Assets | 854 | 425 | 79 | 144 |
| Construction in Progress | 242 | 305 | 294 | 294 |
| Long-term Investment | 2,745 | 2,012 | 1,970 | 1,968 |
| Other long-term assets | 4 | 2,354 | 2,247 | 1,284 |
| **Long-term Asset** | **3,844** | **5,097** | **4,589** | **3,689** |
| **Total Asset** | **11,324** | **11,069** | **10,161** | **10,327** |
| Payables | 326 | 430 | 375 | 380 |
| Current Debt | 327 | 349 | 349 | 403 |
| Long-term Debt | 4,083 | 4,011 | 3,662 | 3,260 |
| Other long-term liabilities | 873 | 540 | 655 | 681 |
| **Total Liability** | **5,608** | **5,330** | **5,041** | **4,724** |
| ***Owner's Equity*** | **5,674** | **5,739** | **5,120** | **5,602** |
| Capital | 3,262 | 3,262 | 3,262 | 3,262 |
| Retained Earnings | 1,899 | 2,116 | 1,433 | 1,856 |
| Funds & Reverses | 638 | 689 | 706 | 719 |
| ***Others*** | **0** | **0** | **0** | **0** |
| **Total Equity** | **5,674** | **5,739** | **5,120** | **5,602** |
| Minority's Interest | 42 | 0 | 0 | 0 |
| **TOTAL RESOURCES** | **11,324** | **11,069** | **10,161** | **10,327** |

| VALUATION RATIO | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|
| EPS (dong) | 1,346 | 3,344 | 1,863 | 3,452 |
| P/E (x) | 19 | 6 | 7 | 4 |
| BV (dong) | 17,835 | 18,038 | 16,092 | 17,608 |
| P/B (x) | 1.4 | 1.0 | 0.9 | 0.8 |
| DPS (dong/cp) | 1,500 | 2,500 | 1,700 | 1,700 |

| VALUATION MODEL | Price | Weight | Average |
|---|---|---|---|
| FCFF | 30,917 | 40% | 12,367 |
| P/E | 14,905 | 60% | 8,943 |
| **Target price (dong/share)** | | | **19,367 (*)** |

*(*) After FX variation*

| VALUATION HISTORY | Price | Recomme | Period |
|---|---|---|---|
| 05/2016 | 19,100 | Neutral | Long-term |
| 02/12/2015 | 21,600 | Neutral | Long-term |

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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% |

**ABOUT US**

**RongViet Securities Corporation (RongViet**) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

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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