Central Hydropower JSC (CHP – HSX)

Beyond the Expectation

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- qoq	Q1-FY16	+/- yoy
Net revenue	244.5	359.0	-32%	94.8	158%
PAT	139.1	233.0	-40%	8.8	1,485%
EBIT	166.7	260.4	-36%	31.8	425%
EBIT margin	68.2%	72.5%	-435bps	33.5%	3467bps

Sources: CHP, RongViet Research

Business Result Grew Strongly. In the first quarter of this year, thanks to favorable hydrological condition, CHP achieved strong electricity output growth at 203% YoY while average selling price declined moderately by 15%. As a result, the revenue in Q1 2017 increased by 158% YoY and GPM spread from 40% in Q1 2016 to 71% in Q1 2017. The NPAT in the first quarter also increased by 15x, corresponding to 63% of 2017 guidance.

Given the positive hydrological and market movements in Q2 2017, we estimate that the output and revenue of CHP in the quarter would continue the momentum and reach 148 million kWh and VND162 billion respectively, corresponding to a growth of 117% YoY and 85% YoY. Though the growth is lower than that of Q1 2017, we believe that it is still enough to drive the performance boom in 1H2017 with NPAT being at VND191 billion (increased by 107x compared to 1H2016).

1H2017 Business Result Enhances FY2017 Outlook. We estimate that in the first half of this year, the company may have achieved 60% of its targeted electricity output and revenue in 2017 while its business results in the second half (the rainy season) are usually much higher than that of the first half. Therefore, we forecast the total output and revenue of CHP this year to grow at 24% YoY and 29% YoY respectively (23% and 28% higher than CHP's planned output and revenue). The NPAT, as a result, would reach approximately VND397 billion (+54% YoY), corresponding to EPS of VND3,008.

The Cu Jut Solar Project Would Drive Long-term Growth Prospect. With total capacity of 50 MW, the company expects this project to bring additional production output of about 78 million kWh each year when it comes into operation in 2019. As the selling price of solar power is double CHP's hydropower selling price, the revenue from the project would play an important role in the long-term growth prospect of CHP.

***Valuation and Recommendation**: We highly appreciate the business of CHP for its (1) ability to maintain stable result even in adverse hydrological condition thanks to the special location A Luoi plant and (2) strong growth prospect in the long-term with production capacity expansion.*

*Compared to our most recent recommendation on CHP in the **Strategic Report** published on **March 15, 2017**, CHP's business result in the first half of this year is beyond our expectation. Moreover, the newly announced solar power project also helps to enhance the long-term prospect of the company. Therefore, we revise up our target price for CHP to **VND31,900/share**, which is 12**%** higher than the closing price on July 10, 2017 and recommend **ACCUMULATE** on the stock in the **INTERMEDIATE-TERM.***

ACCUMULATE

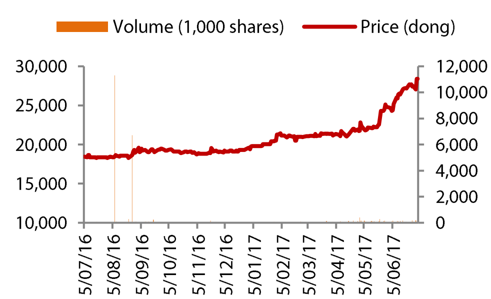
CMP (VND)	28,700
Target Price (VND)	31,900
Investment Period	**Intermediate-term**

Stock Info

Sector	Electricity
Market Cap (VND B)	2,608
Current Shares O/S	126
Beta	0.38
Free float (%)	25
52 week High	27,800
52 week Low	18,277
Avg. Daily Volume (20 sessions)	77,564

	FY2016	Current
EPS	1,950	2,984
EPS Growth	-22%	53%
Diluted EPS	1,950	2,984
P/E	10.6	9.1
P/B	1.6	1.9
EV/EBITDA	5.7	7.2
Cash dividend	7.7%	5.9%
ROE	15%	21%

Price performance



Major Shareholders (%)

EVN SPC	23.0
EVN CPC	23.0
REE Corporation	19.0
EVN Finance	4.9
Foreign ownership room (%)	49.0

Son Phan
(084) 028- 6299 2006 – Ext 1519
son.pnt@vdsc.com.vn

Exhibit 1: Q1FY2017 Results

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- (qoq)	Q1-FY16	+/- (yoy)
Net Revenues	244.5	359.0	-32%	94.8	158%
Gross profits	173.0	274.1	-37%	38.3	352%
SG&AC	-6.3	-13.6	-54%	-18.9	-67%
Operating Income	146.5	233.0	-37%	8.8	1572%
EBITDA	204.9	298.2	-31%	70.0	193%
EBIT	166.7	260.4	-36%	31.8	425%
Financial expenses	-22.6	-29.2	-23%	-26.0	-13%
- Interest Expenses	*-22.6*	*-29.2*	*-23%*	*-26.0*	*-13%*
Dep. and amortization	-38.2	-37.8	1%	-38.2	0%
PBT	146.5	260.4	-44%	8.8	1568%
PAT	139.1	260.4	-47%	8.8	1485%

Sources: CHP, RongViet Research

Exhibit 2: 1QFY2017 Performance Analysis

Particulars	Q1-FY17	Q4-FY16	+/- (qoq)	Q1-FY16	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	70.8%	76.3%	-557bps	40.4%	3033bps
EBITDA Margin	83.8%	83.1%	73bps	73.8%	996bps
EBIT Margin	68.2%	72.5%	-435bps	33.5%	3467bps
Net Margin	56.9%	72.5%	-1564bps	9.3%	4763bps
Turnover *(x)					
-Inventories	37.3	45.1	-7.8	4.8	32.5
-Receivables	4.6	7.9	-3.3	2.9	1.7
-Payables	5.6	6.6	-1.0	2.9	2.8
Leverage (%)					
Total Debt/ Equity	74%	85%	-1076bps	121%	-4700bps

Sources: CHP, (*) Annualized turnover

Exhibit 3: Q2FY2017 Performance Forecast

Particulars (VND bn)	Q2-FY17	+/- qoq	+/- yoy
Revenue	148.9	-39%	85%
Gross profit	87.4	-50%	201%
EBIT	78.2	-53%	146%
NPAT	52.1	-63%	493%

Sources: CHP, RongViet Research

Brief Updates:

FY2017 is the first year A Luoi plant bears corporate income tax (CIT)

After the first four years enjoying zero CIT expense (from 2013 to 2016), A Luoi plant has started to pay corporate income tax from Q1 2017. The statutory tax rate applied for the plant is 5% in 2017 – 2025, 10% in 2025 – 2026, and 20% from 2027 onwards. This year, we estimate the CIT expense of CHP at about VND20 billion.

The Clean Development Mechanism (CDM) project

Since CHP developed A Luoi plant under Clean Development Mechanism of Kyoto Protocol and had it registered successfully in 2012, the International Executive Board of CDM (EB) will issue the Certified Emission Reduction (CER) credits for CHP according to the amount of electricity that A Luoi plant produces. The company can then trade their CER credits on the international market to earn money.

CHP currently has 757,600 CER for the amount of electricity produced between 01/10/2014 and 31/12/2016. However, from the beginning of 2016, the CER price keeps declining and remains at only 20 – 30 EUR Cent/CER. Therefore, the company still waits until the CER price recovers to sell them.

Figure 1: Certification of Emission Reduction price chart (USD per CER)

Sources: ICE Data

Cu Jut solar power project

The AGM on April 20, 2017 has approve CHP's plan to pursuit Cu Jut solar project in Dak Nong province. Currently, the company is finishing their detail plan to earn the official license for the project. Even though the progress is still on track, CHP only expect to start implementation and finish Cu Jut project by the end of 2018. According to the company, Cu Jut plant when coming into operation can contribute 78 million kWh to total electricity output each year, corresponding to about VND162 billion in revenue.

With expected total investment capital of VND1,250 billion, 70 – 80% of capital is financed by debt, we estimate that ROE of this project in the first years would be quite low at about 3 – 5% and would improve in the next years as the amount of debt decreases, leading to the reduction of interest expense. Despite the lack of specific data to evaluate this project, we still believe that it could be a new story that drive the long-term growth of CHP stock.

Besides, from data provided by CHP, we estimate that the average investment capital for Cu Jut project is VND25 billion per MW, which is by far higher than that of the solar project that Southern Hydropower JSC (HSX – SHP) is proceeding (only VND14 – 20 billion per MW). Since the purchase price of solar electricity is almost fixed at 9.35 US Cent/kWh, we believe that the company would have further measures to control its investment cost and enhance profitability of the project. Moreover, as efficiency of photovoltaic cells on a solar panel usually decrease year after year, how long they can maintain high-efficiency mode still depends on the technology being deployed. Therefore, there is possibility that the higher average investment capital is due to higher standards in selecting technology and contractors. In such case, it would imply higher efficiency of the project in the long term as well.

Figure 2: Summary information about Cu Jut solar project

Location: Cu Jut district, Dak Nong province			
Capacity (MW)	50	Investment capital (VND bn)	1,250
Annual output (million kWh)	78	Average investment capital (VND bn/MW)	25
Debt financing ratio	70 - 80%	Project life cycle (year)	25
Expected interest rate	8%	Expected payback period (year)	10

Sources: CHP, RongViet Research

VND billion

INCOME STATEMENT	FY2015	FY2016	FY2017E	FY2018F
Revenue	729.3	649.7	835.5	712.2
COGS	242.5	252.6	290.3	268.5
Gross profit	**486.8**	**397.1**	**545.2**	**443.7**
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	39.0	37.7	43.4	40.1
Finance Income	9.5	9.8	10.1	9.3
Finance Expense	131.5	111.4	93.6	76.2
Other profits	2.6	0.0	0.0	0.0
PBT	**328.3**	**257.8**	**418.3**	**336.8**
Prov. of Tax	0.0	0.0	20.9	16.8
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	**328.3**	**257.8**	**397.4**	**319.9**
EBIT	**447.8**	**359.3**	**501.8**	**403.6**
EBITDA	600.5	512.7	652.2	553.6

%

FINANCIAL RATIO	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	16	-11	29	-15
Operating Income	23	-20	40	-20
EBITDA	16	-15	27	-15
PAT	54	-21	54	-19
Total Assets	-2	-5	0	-4
Equity	14	3	10	7
Internal growth rate	14	3	10	6
Profitability (%)				
Gross profit/Revenue	67	61	65	62
Operating profit/ Revenue	61	55	60	57
EBITDA/ Revenue	82	79	78	78
Net margin	45	40	48	45
ROAA	10	8	13	11
ROAE	22	16	23	17
Efficiency (x)				
Receivable Turnover	3.0	2.6	2.8	2.4
Inventory Turnover	4.9	9.1	36.7	32.3
Payable Turnover	1.0	1.6	2.2	2.1
Liquidity (x)				
Current	1.5	1.6	2.2	1.9
Solvency (%)				
Total Debt/Equity	100	85	68	51
Current Debt/Equity	10	10	13	12
Long-term Debt/ Equity	79	67	48	33

VND billion

BALANCE SHEET	FY2015	FY2016	FY2017E	FY2018F
Cash and short-term investment	251	194	434	472
Receivables	215	276	318	271
Inventories	48	8	8	9
Other current assets	0	0	0	0
Total Current Asset	**514**	**478**	**760**	**752**
Fixed Assets	2,723	2,547	2,317	2,199
Construction in Progress	4	6	5	5
Long-term Investment	0	0	0	0
Other long-term assets	15	52	12	13
Long-term Asset	**2,742**	**2,606**	**2,335**	**2,217**
Total Asset	**3,255**	**3,084**	**3,095**	**2,969**
Payables	83	51	59	54
Current Debt	164	164	234	234
Long-term Debt	1,281	1,118	884	651
Other long-term liabilities	0	0	0	0
Total Liability	**1,629**	**1,414**	**1,255**	**1,001**
Owner's Equity	***1,626***	***1,670***	**1,839**	**1,969**
Capital	1,260	1,260	1,260	1,260
Retained Earnings	267	298	422	496
Funds & Reverses	99	112	158	213
Others	***0***	***0***	***0***	***0***
Total Equity	**1,626**	**1,670**	**1,839**	**1,969**
Minority's Interest	0	0	0	0
TOTAL RESOURCES	**3,255**	**3,084**	**3,095**	**2,969**

VALUATION RATIO	FY2015	FY2016	FY2017E	FY2018F
EPS (dong)	2,484	1,950	3,008	2,421
P/E (x)	7.9	7.7	10.6	9.3
BV (dong)	12,906	13,255	14,598	15,626
P/B (x)	1.5	1.6	2.1	2.0
DPS (dong/cp)	900	1,600	1,700	1,700
Dividend yield (%)	4.7	7.7	5.4	5.4

VALUATION MODEL	Price	Weight	Average
EV/EBITDA	31,774	70%	22,242
FCFE	32,470	30%	9,741
Target price (dong/share)			**31,900**

VALUATION HISTORY	Price	Recommendation	Period
15/03/2017	25,000	Accumulate	Intermediate -term

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.
The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.
The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. ("VDSC"), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York, NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein. No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

DISCLAIMERS

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%

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

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
Floor 08, 95-97-99 Vo Van Tan, Ninh Kieu – Can Tho

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.