

Hydropower Industry Review - Optimistic 2017 Outlook

In 1H2017, the electricity market witnessed consumption growth overwhelming system capacity growth. Meanwhile, the hydrological condition seems to favor hydropower plants with amount of rainfall being notably higher than multiyear average level. Compared to the situation in 1H2016, which was heavily influenced by El Nino, the above movements in 1H2017 would promise to deliver strong bounce in business result of hydropower companies.

When it comes to the second half, the most recent forecasts has dramatically reduced the risk of El Nino's return in 2017, brightening the outlook of hydropower industry in 2H2017. However, 2H2017 business result would not have further surprise like in the first half.

Based on plan of EVN and the government's intention to boost GDP growth in the 2H 2017, we expect that electricity consumption growth would continue to surpass system capacity growth in 2H2017. In this case, unless the hydrological conditions change badly, hydropower companies would reap positive overall 2017 business results.

Electricity demand grows faster than system capacity does, supporting supply side. The electricity consumption in 1H2017 grew by 8.5% and expect to grow even stronger in 2H2017 since the government has shown their determination to boost GDP growth more aggressively in the second half, which implies higher electricity demand from the economy. Meanwhile, the total system capacity only increases by 3.9% in 2017, according to EVN's plan. Therefore, we regard these movements as supporting factor for electricity supply side.

Weather condition in 2017 favors hydropower companies in the Central and the Central Highland. While electricity consumption showed stable growth in 1H2017, the amount of rainfall in the Central, Central Highland, and the South was 25 – 100% and 10 – 30% above multi-year average level in Q1 2017 and Q2 2017 respectively. Therefore, hydropower companies in these areas was able to boost their production output. Besides, based on the recent weather forecasts, we expect that output of hydropower plants in these regions in 2H2017 would approximate output of 2H2016.

FY2017 performance of hydropower companies in the Central and the Central Highland would witness positive improvement. Thanks to the favorable hydrological condition and high consumption growth, most of the hydropower companies witnessed revenue growth ranging from 100 – 250% in Q1 2017 and expect to maintain this momentum in Q2 2017. Besides, with positive view about output and market demand, we expect that business result of hydropower companies in 2H2017 would be similar to that of 2H2016. Therefore, their overall business performance in 2017 would still deliver remarkable growth.

Hydropower stocks rating and valuation

Ticker	Rating	Mkt. Cap (VND bn)	Avg. Daily Volume (20 sessions)	Target Price (VND)	Upside potential (%)	PER 2017F (x)	EV/EBITDA 2017F (x)	ROE (%)	ROA (%)	Div. Yield (%)
CHP	ACCUMULATE	3,452	80,541	31,300	12.2	10.3	7.4	15.6	8.1	5.8
SHP	NEUTRAL	2,155	7,792	24,300	3.6	12.2	7.4	8.1	3.5	7.0
VSH	NON-RATING	3,527	58,763	n/a	n/a	n/a	n/a	11.0	5.6	5.8
SJD	NON-RATING	1,711	20,070	n/a	n/a	n/a	n/a	13.7	10.3	6.7
Average		2,711						12.3	6.7	6.2

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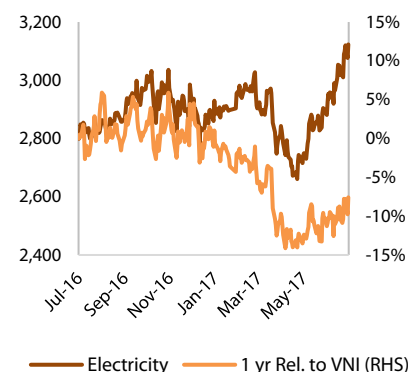
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Positive

Sector	Electricity
Sub-sector	Hydropower
Mkt. Cap (VND bn)	18,096
% of Total Mkt. Cap	1.2

Share Price Performance

%	1M	3M	12M
CHP	22.1	28.6	50.6
SHP	7.6	14.7	32.0
Electricity	8.4	9.8	11.6
VNIndex	3.9	8.4	23.7



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Electricity demand grows faster than system capacity does, supporting supply side

The electricity consumption grew faster than system capacity growth in 1H2017. According to EVN, the electricity consumption in 1H2017 reached 84.1 billion kWh, grew by 8.5% YoY. Meanwhile, the system was added 560 MW capacity from projects coming online in the first half of this year, increased by 1.3% from the system capacity in the end of 2016. With consumption grew faster than system capacity, electricity market in 1H2017 seemed to favor supply side.

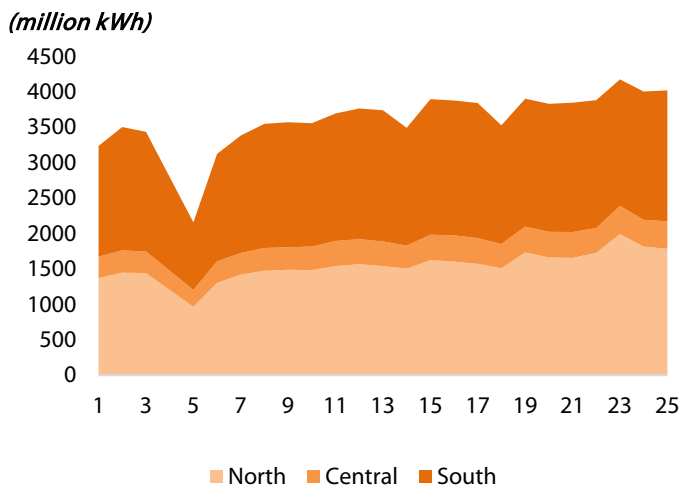
The large-scale heat waves in the first-half made electricity demand surge rapidly in a short time. There were six heat waves on a large scale from April to mid-June 2017 in the North and the Central regions and even reached the all-time temperature record on 4th June. Therefore, the electricity demand in the North in the heat-wave weeks rose quickly with the load capacity increased by 13% and consumption increased by 17%. On those days, the national consumption capacity increased by 1,000 – 2,600 MW as a result. Since the system capacity only increased by 560 MW in 1H2017, these heat waves has placed huge strain on the nation power system.

Supply and demand movements in 2H2017 would lead to higher Competitive Generation Market (CGM) prices than that of 2H2016.

With the determination of the government to achieve GDP growth at 6.7% this year while actual GDP growth in 1H2017 was only 5.3%, we believe that they would boost GDP even more in 2H2017, especially the construction and industrial production segment. Moreover, historical data has shown that electricity consumption growth is often twice as high as the GDP growth to meet the demand of the growing economy. Therefore, we keep optimistic view that electricity consumption growth in 2H2017 would be even higher than 8.5% growth in 1H2017.

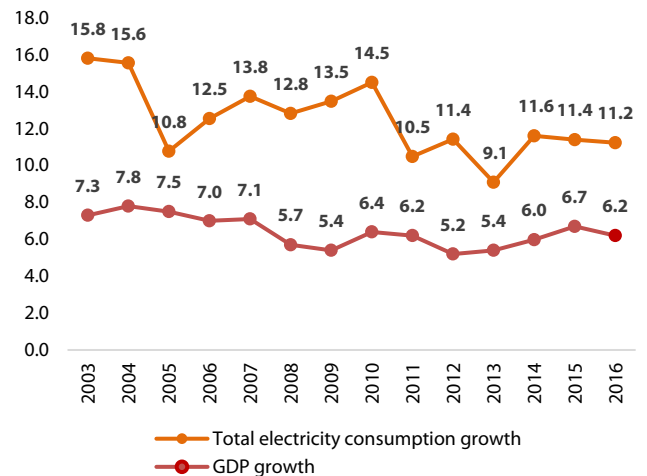
Besides, according to the plan of EVN, the system would be added 1,075 MW capacity from projects coming online in 2H2017, corresponding to 2.5% of total system capacity. We still regard it as small increase compared to the growth of the demand. Moreover, hydrological condition in 2H2017 without effect from La Nina would significantly eliminate the over-supply from hydropower that happened in 2H2016, help CGM prices in 2H 2017 improve compared to 2H2016.

Figure 1: Electricity consumption in 1H2017 on weekly basis



Source: ERAV

Figure 2: Comparison Between the Growth Rate (%) of Electricity Consumption and GDP



Source: RongViet Research

Weather condition in 2017 favors hydropower companies in the Central and the Central Highland

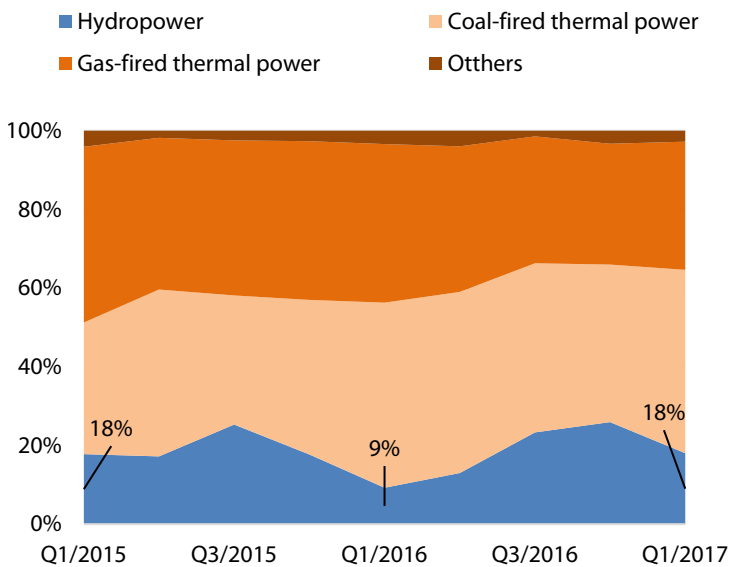
La Nina ended in Q1 2017 but the rainfall level was still high. According to the National Ocean and Atmosphere Administration (NOAA), La Nina conditions were no longer present from February 2017, with 0.3° C below-average sea surface temperatures (SSTs) observed across the central equatorial Pacific and above-average SSTs increasing in the eastern Pacific (La Nina is recognized when SSTs are 0.5° C below-average or less). However, the rainfall level in the Central and the Highland Central was still 25-100% above multi-year average in Q1 2017 and 10 – 30% above multi-year average in Q2 2017.

Thanks to that, the water flow to hydropower plants in these regions were quite high, enabling them to boost their electricity output. This movement of hydropower companies can be seen through the increase in the proportion of electricity output from hydropower on Competitive Generation Market (CGM) in Q1 2017. Compared to the same period last year, the output contribution of hydropower in Q1 2017 has doubled to 18%.

Weather condition in 2H2017 would be still favorable for hydropower companies in the Central and Central Highland. The most recent forecast consensus has substantially reduced possibility of the return of El Nino from over 50% to 32 – 35%. Instead, the ENSO neutral will be the mainstream trend of the weather during this period. Moreover, Vietnam National Centre for Hydrometeorological Forecasting (NCHMF) also forecasts the amount of rainfall in the Central to be the same as multi-year average level in Q3 and 15 – 30% below multi-year average level in Q4. Meanwhile, NCHMF’s forecast even shows brighter outlook for the Central Highland with rainfall level being 30% above multi-year average in Q3 and 30% below multi-year average Q4.

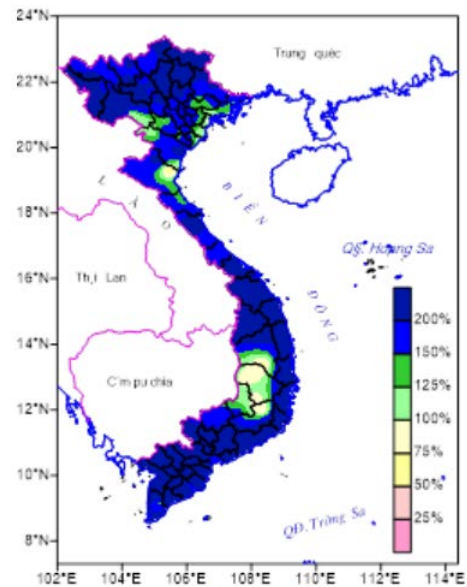
From the above analyses, we believe that the overall outlook of weather condition in 2017 would be much more favorable than 2016 and even the multi-year average level.

Figure 3: Source of electricity output on CGM



Source: EVN, RongViet Research

Figure 4: The amount of rainfall in Q1 2017 compared to multi-year average level



Source: Vietnam National Centre for Hydrometeorological Forecasting

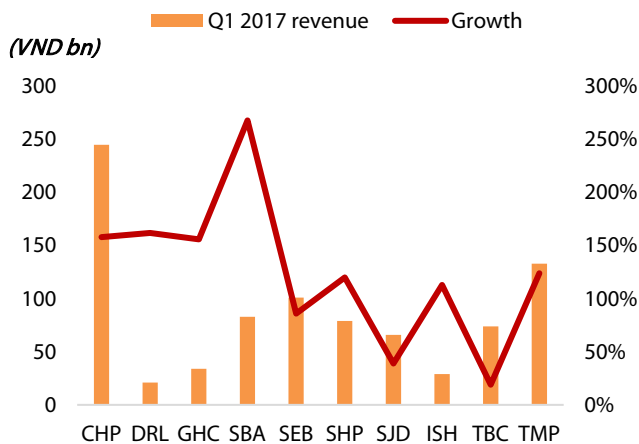
FY2017 performance of hydropower companies in the Central and the Central Highland would witness positive improvement

Hydropower companies seems to be the key beneficiaries of the above-mentioned movements in market and weather condition in 1H2017. Thanks to the favorable movements in both hydrological condition and market demand, most of the listed hydropower companies had a remarkable business result enhancement in Q1 2017, especially hydropower companies in the Central and the South with revenue growth generally ranging from 100 - 250%. Since these supporting factors still maintain in Q2 2017, we expect this momentum to remain and bring hydropower companies a robust growth in the first half of the year.

The business result of hydropower companies in the Central and Central Highland would be around multi-year average level, making FY2017 a successful year. From the above forecasts, we expect that production output in the 2H2017 would be slightly lower than average level for hydropower companies in the Central and slightly higher than average level for hydropower companies in the Central Highland. Moreover, we also believe that the oversupply situation, which pulled down CGM prices in 2H2016, would not repeat in 2H2017, and CGM prices this year would be much better as a result. Therefore, we expect business results of hydropower plants in the regions in 2H2017 to approximate that of 2H2016, bringing the overall performance in 2017 a remarkable improvement.

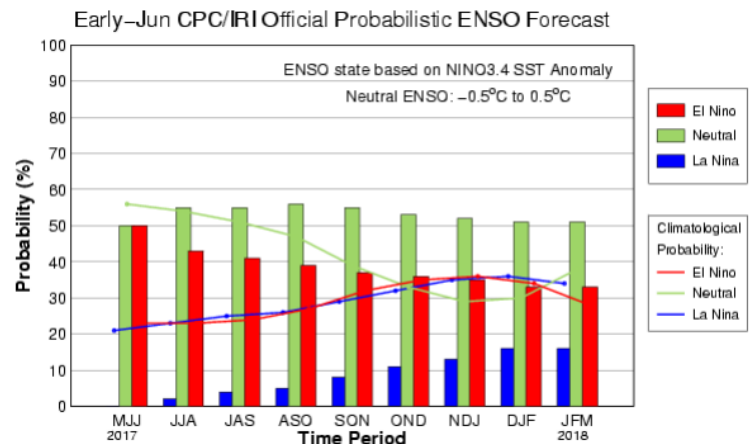
Given our positive view on business result of hydropower companies this year, CHP (located in the Central) and SHP (located in the Central Highland) are among out top preferable candidates with their favorable regional weather condition and potential capacity expansion through new solar projects. Besides, we also appreciate the management teams of these companies for their proactive approach in looking for new investment opportunities.

Figure 5: Revenue growth of some hydropower companies in Q1 2017



Source: Bloomberg, RongViet Research

Figure 6: Probabilistic ENSO forecast on monthly basis



Source: NOAA



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

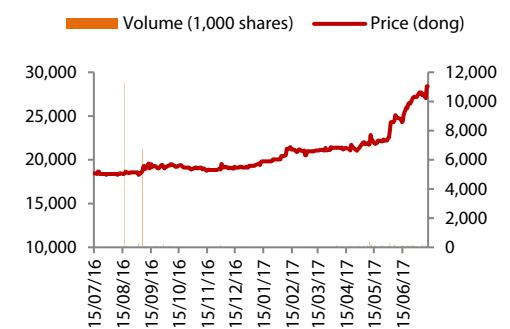
Investment Period **Intermediate-term**

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

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Exhibit 1: Q1 FY2017 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: 1Q FY2017 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: Q2 FY2017 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 7: Certification of Emission Reduction price chart (USD per CER)



Sources: ICE Data

Cu Jut solar power project

The AGM on April 20, 2017 has approved CHP's plan to pursue 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 expects 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 drives 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 8: 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

SOUTHERN HYDROPOWER JSC (SHP – HSX)

A Long-term Growth Story

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- qoq	Q1-FY16	+/- yoy
Net revenue	76.5	171.7	-55%	36.1	112%
PAT	-12.1	53.3	n/a	-54.3	n/a
EBIT	10.8	83.8	-87%	-23.1	n/a
EBIT margin	14%	49%	-3469bps	n/a	n/a

Sources: SHP, RongViet Research

The Strong Recovery in Q1 2017. La Nina effect with unseasonal rain in the first quarter was the key for SHP’s performance recovery. The total output increased by 130% YoY while the average selling price was almost the same as Q1 2016, resulted in net revenue of VND76.5 billion (+122% YoY). Although this revenue is still not enough to cover production costs and interest expense, SHP has eliminated its loss in Q1 2017 to VND12 billion (reduced from 54 billion loss in Q1 2016).

For hydropower companies in the Central Highland like SHP, Q1 is in the middle of the dry season so the production output is often lowest in the year. Therefore, we still regard the lower loss in Q1 2017 as a positive recovery of SHP.

This Year May Have the Best First-Half Since Da M’Bri Plant Came Online, Making 2017 Outlook More Interesting

We estimate that production output in 1H2017 is 237 million kWh, corresponding to the expected revenue and PNAT of VND226 billion and VND23 billion respectively. This is also the highest revenue that SHP ever achieved in the first 6 months. Compared to the loss of VND53 billion in 1H2016, this NPAT is a significant improvement in business result of SHP.

Moreover, with our optimistic view on hydrological and market conditions in 2H2017, we forecast total production output this year at over 675 million kWh (+251% YoY) and revenue of VND643 billion (+25% YoY). Therefore, the NPAT in 2017 could reach VND196 billion (+100% YoY), corresponding to EPS of VND2,081.

Valuation and Recommendation: At the closing price on 10/07/2017, SHP is trading at trailing 12M P/E of 15.6x, which is not attractive for a hydropower company being in a year of favorable weather. However, due to its potential capacity expansion in the intermediate-term and extraordinary growth of profit in 2017, we expect P/E of SHP to stay at 12x in 2017.

Compared to our most recent recommendation on SHP in the **Strategic Report** published on **March 15, 2017**, the business result of the company in the first half was better than our expectation and the outlook of hydrological condition in the second half is better as well. Moreover, the long-term prospect of the company is much brighter thanks to the new solar project. Therefore, we revise up our target price for SHP to **VND25,400/share**, which is 6% higher than the closing price on July 10, 2017 and recommend **NEUTRAL** on the stock in the **INTERMEDIATE-TERM**.

In the longer term, we still maintain our positive view on the company and believe that SHP stock would have considerable profitability at low risk. Therefore, investor can consider holding SHP in the long term.

NEUTRAL

CMP (VND)	24,100
Target Price (VND)	25,400

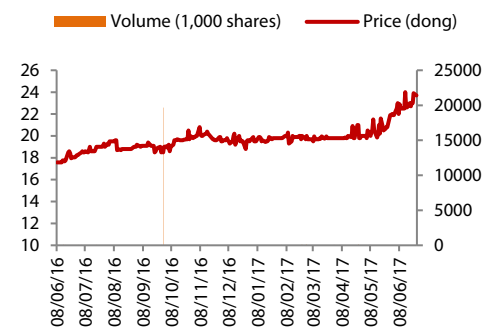
Investment Period **Intermediate-term**

Stock Info

Sector	Electricity
Market Cap (VND B)	1,865
Current Shares O/S	94
Beta	0.44
Free float (%)	40
52 week High	24,000
52 week Low	18,224
Avg. Daily Volume (20 sessions)	8,714

	FY2016	Current
EPS	1,043	1,444
EPS Growth	-40%	38%
Diluted EPS	1,043	1,444
P/E	19.1	16.5
P/B	1.6	2.3
EV/EBITDA	8.0	4.7
Cash dividend	8%	6%
ROE	8%	12%

Price performance



Major Shareholders (%)

EVN SPC	48.9
REE Corporation	10.7
Foreign ownership room (%)	49.0

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Bloomberg: VDSC <GO>

Exhibit 1: Q1 FY2017 Results

Particulars (VND bn)	Q1-FY17	Q4-FY16	+/- (qoq)	Q1-FY16	+/- (yoy)
Net Revenues	76	172	-55%	36	112%
Gross profits	16	91	-83%	-18	n/a
SG&AC	5	8	-37%	5	0%
Operating Income	-12	55	n/a	-54	n/a
EBITDA	57	130	-57%	22	163%
EBIT	11	84	-87%	-23	n/a
Financial expenses	23	29	-21%	31	-27%
- Interest Expenses	23	29	-21%	31	-27%
Dep. and amortization	46	47	-2%	45	3%
PBT	-12	55	n/a	-54	n/a
PAT	-12	53	n/a	-54	n/a

Sources: SHP, RongViet Research

Exhibit 2: 1Q FY2017 Performance Analysis

Particulars	Q1-FY17	Q4-FY16	+/- (qoq)	Q1-FY16	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	20.4%	53.2%	-3283bps	-50.6%	7106bps
EBITDA Margin	74.0%	76.0%	-194bps	59.6%	1439bps
EBIT Margin	14.1%	48.8%	-3469bps	-64.0%	7815bps
Net Margin	-15.9%	31.1%	-4695bps	-150.3%	13447bps
Turnover *(x)					
-Inventories	31.8	30.3	1.5	100.3	-68.5
-Receivables	3.2	4.5	-1.3	1.9	1.3
-Payables	5.6	6.6	-1.0	2.9	2.7
Leverage (%)					
Total Debt/ Equity	120%	125%	-4bps	135%	-15bps

Sources: SHP, RongViet Research

Exhibit 3: Q2 FY2017 Performance Forecast

Particulars (VND bn)	Q2-FY17	+/- qoq	+/- yoy
Revenue	142.4	91%	305%
Gross profit	67.3	328%	n/a
EBIT	61.4	462%	n/a
NPAT	35.8	n/a	n/a

Sources: SHP, RongViet Research

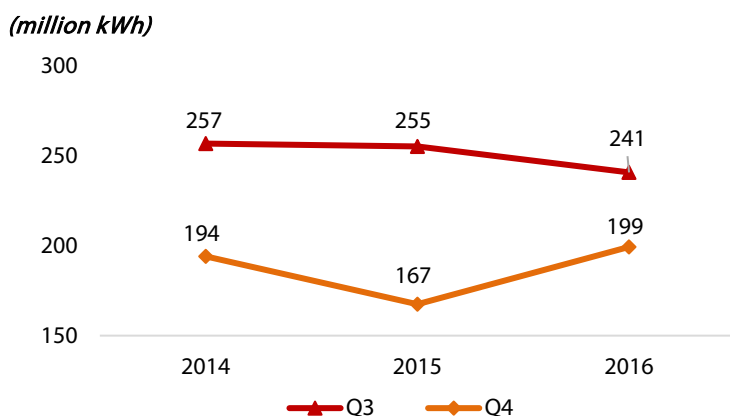
Brief Updates:

The rainy season in the Central Highland this year started early but may end early as well

The most recent weather forecast article of Vietnam National Centre for Hydrometeorological Forecasting (NCHMF) shows that the rainy season in Central Highland has already started in early May. However, NCHMF also predicted that rainy season there would end early in this October. Therefore, they forecast the rainfall level in the Central Highland to be 30% above multi-year average in Q3 2017 and 30% below multi-year average Q4 2017.

Regarding SHP, as Q3 usually contributes the highest share in total production output of the year, we believe that the overall the electricity output of the company in 2H 2017 would be no less than the average level (about 238 million kWh). This is also an important reason for us to expect the total output of SHP in 2017 at 640 million kWh (+15% YoY).

Figure 9: The electricity output of SHP in Q3 and Q4



Sources: SHP, RongViet Research

Dividend for FY2016 decreases slightly due to poor business result in 2016

Although its NPAT declined by 40% in 2016 and only reached 61% of 2016 plan, the AGM 2017 of SHP still approved dividend payment for FY2016 at VND1,500/share, which is slightly lower than in AGM 2016 plan (VND1,600/share). This is a clear evidence showing the stability in dividend policy of SHP even in the year with unfavorable weather condition. Therefore, we can expect higher dividend level in the next years when the interest expense decline, enhancing profit of SHP.

Major repair work: Get ready for the rainy season

In the first quarter of this year, SHP has completed all the major repair work for the entire 2017, including three turbines of Da Siat and Da Dang 2 plants. Thanks to their skilled engineering team and determination of the management team to ensure the continuous operation, the company finished its major repair work in each turbine within only 20 – 25 days to, much earlier than the standardized time required by EVN (40 – 45 days). This fast progress was the reason why the electricity output of Da Siat and Da Dang 2 plants remained high even in the months that had major repair.

Besides, during this major repair, the company has replaced the turbine blades in two turbines of Da Dang 2 plant with the new ones using technology that enhanced total capacity of this plant by 1.5 MW to 35.5 MW. Therefore, the total capacity of SHP now increases to 124 MW. The expense for this replacement was VND13 billion, which would be capitalized and amortized in three years.

Solar power project in Da Dang 2 plant area

The recent 2017 AGM of SHP has approved the BOD's plan to invest in a new solar project in the area of Da Dang 2 plant. According to the company, Da Dang 2 plant already has clean available land bank to install solar panel and available connection to the national power transmission grid, which would help them save some related expenses. Moreover, according to data from National Aeronautics and Space Administration (NASA), the potential solar radiation in Vietnam's territory ranges from 3.0 – 5.6 kWh/m².day while in Da Dang 2 plant area

is around 5.09 kWh/m².day. Therefore, Da Dang 2 plant area has strong potential to develop solar power. The company is also making a detailed project plan to ask for approval to add this project to Lam Dong's Power Development Plan and set the license. SHP expects to start implementation of this project in mid-2018.

From data provided by SHP, we estimate that the investment cost per MW of this project is around VND14 billion to VND20 billion. Comparing to Cu Jut solar project that Central Hydropower JSC (HSX - CHP) is about to implement with average investment cost of VND25 billion/MW, Da Dang 2 project has relatively cheaper investment cost. Since the purchase price of solar electricity is almost fixed at 9.35 US Cent/kWh, the saving in investment expense would result in positive impact on profitability of the project. Besides, as solar power is still new to investors in Vietnam, SHP also shows conservative attitude toward selecting technology for the project to ensure long-term efficiency.

Regarding short-term prospect of Da Dang 2 project, since SHP expects to finance it largely by debt (with 70 – 80% of its total investment capital), they only expect low profitability in the first years due to high interest expense. The improvement in profitability would mainly come from the decline in amount of debt after each year, leading to lower interest expense. Therefore, we expect that Da Dang 2 solar project would drive the prospect of SHP in the long-term.

Figure 10: Summary information about Da Dang 2 solar project

Location: Duc Trong district, Lam Dong province			
Capacity (MW)	20 – 30	Investment capital (VND bn)	400
Expected debt financing ratio	70 - 80%	Average investment capital (VND bn/MW)	14 - 20

Sources: SHP, RongViet Research

VND billion

<i>INCOME STATEMENT</i>	FY2015	FY2016	FY2017E	FY2018F
Revenue	594.7	513.0	643.2	605.2
COGS	257.5	274.3	294.5	285.4
Gross profit	337.2	238.7	348.7	319.8
Selling Expense	0.0	0.0	0.0	0.0
G&A Expense	32.4	22.3	47.3	45.8
Finance Income	0.9	0.9	0.5	0.9
Finance Expense	131.8	115.7	98.1	93.7
Other profits	-4.4	0.5	0.0	0.0
PBT	169.5	102.2	203.8	181.1
Prov. of Tax	4.9	4.1	8.2	9.1
Minority's Interest	0.0	0.0	0.0	0.0
PAT to Equity Shareholder	164.6	98.1	195.7	172.1
EBIT	304.8	216.4	301.4	273.9
EBITDA	483.1	396.9	485.6	458.2

<i>FINANCIAL RATIO</i>	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	0	-14	25	-6
Operating Income	-12	-29	39	-9
EBITDA	-3	-18	22	-6
PAT	-25	-40	100	-12
Total Assets	-9	-9	-3	-6
Equity	1	-5	5	2
Profitability (%)				
Gross profit/Revenue	57	47	54	53
Operating profit/Revenue	51	42	47	45
EBITDA/ Revenue	81	77	75	76
Net margin	28	19	30	28
ROAA	6	4	8	7
ROAE	13	8	16	14
Efficiency (x)				
Receivable Turnover	0.3	0.2	0.2	0.3
Inventory Turnover	0.0	0.0	0.0	0.0
Payable Turnover	1.2	0.4	0.4	0.4
Liquidity (x)				
Current	1.0	0.7	1.0	1.1
Quick	0.9	0.7	1.0	1.1
Solvency (%)				
Total Debt/Equity	1.2	1.2	1.0	0.8
Current Debt/Equity	0.1	0.1	0.1	0.1
Long-term Debt/ Equity	1.1	1.0	0.8	0.7

VND billion

<i>BALANCE SHEET</i>	FY2015	FY2016	FY2017E	FY2018F
Cash and short-term investment	162	52	115	166
Receivables	119	127	160	150
Inventories	3	14	2	2
Other current assets	20	6	6	6
Total Current Asset	304	199	283	325
Fixed Assets	2604	2443	2273	2090
Construction in Progress	3	3	3	3
Long-term Investment	0	0	0	0
Other long-term assets	2	1	1	1
Long-term Asset	2,609	2,447	2,278	2,095
Total Asset	2,913	2,646	2,561	2,419
Payables	131	107	128	124
Current Debt	184	160	160	167
Long-term Debt	1,360	1,200	1,040	872
Other long-term liabilities	1	1	2	3
Total Liability	1,676	1,468	1,330	1,166
Owner's Equity	1,237	1,177	1,232	1,253
Capital	937	937	937	937
Retained Earnings	300	240	295	316
Funds & Reverses	0	0	0	0
Others	0	0	0	0
Total Equity	1,237	1,177	1,232	1,253
Minority's Interest	0	0	0	0
TOTAL RESOURCES	2,913	2,646	2,561	2,419

<i>VALUATION RATIO</i>	FY2015	FY2016	FY2017E	FY2018F
EPS (dong)	1,752	1,043	2,081	1,830
P/E (x)	10.0	19.1	11.4	12.9
BV (dong)	13,200	12,563	13,144	13,374
P/B (x)	1.3	1.6	1.9	1.8
DPS (dong/cp)	1,600	1,500	1,600	1,800
Dividend yield (%)	8.6	7.5	6.6	7.4

<i>VALUATION MODEL</i>	Price	Weight	Average
EV/EBITDA	24,531	70%	17,172
FCFE	27,715	30%	8,314
Target price (dong/share)			25,400

<i>VALUATION HISTORY</i>	Price	Recommendation	Period
15/03/2017	22,800	Accumulate	Intermediate-term

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to 10%	-15% to - 5%	<-15%
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