PHA LAI THERMAL POWER JSC (PPC) – RE-INITIATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND24,600	VND27,879	10.2%	ADD	UTILITIES

Outlook – Short term

Negative Neutral Positive

Outlook – Long term

Negative Neutral Positive

Valuation

Negative Neutral Positive

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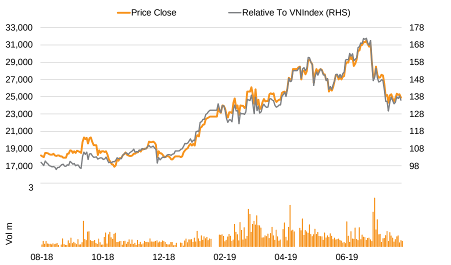
Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	31,500
52w low (VND)	16,900
3m Avg daily volume (shares)	625,950
3m Avg daily value (VNDmn)	16,918
Market cap (VNDbn)	8,112
Outstanding shares (m)	326
Free float (%)	15.0
TTM P/E (x)	8.0
Current P/B (x)	1.4

Ownership

GENCO2	51.9%
REE	24.1%
Samarang UCITS	9.1%
Others	14.9%

Source: VNDIRECT RESEARCH

We like PPC for its healthy balance sheet and high dividend yield

Stable operation despite its aged power plants. PPC's power plants are located near many industrial parks in the North, which ensures high utilisation rate. In 2016-18, PPC's utilisation rate averaged at 58.0%. Due to its old age (34-36 years), Pha Lai 1 plant's utilisation rate is as low as 46.9%, while Pha Lai 2 has the highest utilisation rate among coal-fired power plants of 66.2%.

Reduced exposure to coal shortage risk. PPC has signed an agreement with Vinacomin, the country's biggest coal miner, which ensures the supply of 3.3m tonnes of coal for 2019, sufficient for a stable operation. The company's inventory hit a record low of 14 days at the end of 2018. But we've seen some improvements in 1H19 as inventory of raw materials soared 66.5% ytd, raising the inventory level to 21 days as of 30 Jun, 2019.

We expect higher dividend receipt from its associates. We expect the profitability of Hai Phong Thermal Power (HND) and Quang Ninh Thermal Power (QTP), PPC's associates, to gradually improve in coming years, given 1) no more booking of a FX loss in the construction process, and 2) a gradual debt repayment will help lower interest expenses and FX loss. We expect HND to pay a cash dividend of 7.5%/par value in FY19-21F while QTP would start paying a cash dividend of 5.0%/par value in FY21F.

Decent dividend story. In 2016-18, PPC paid 100% of its net profit as dividends. Thanks to PPC's stable operation, a healthy balance sheet (nearly zero debt), ample cash and short-term investment balance (c.VND1,098bn as of Jun 2019), we expect its dividend policy to remain generous (20-25% in FY19-21F, equivalent to a dividend yield of c.8-10%).

Re-initiate with Add rating and TP of VND27,879. Our target price is based on an equal weighting of 1) a forward EV/EBITDA of 7.5x on FY19F EBITDA; 2) a DCF valuation over 5-year projection period. With total returns of 23.5% (+13.3% share price upside; 10.2% dividend yield), we rate this stock as ADD. The upside risks are stronger-than-expected earnings from associates and higher electricity sales volume. Key downside risks to our call are lower-than-expected sales volume and weaker contribution from associates.

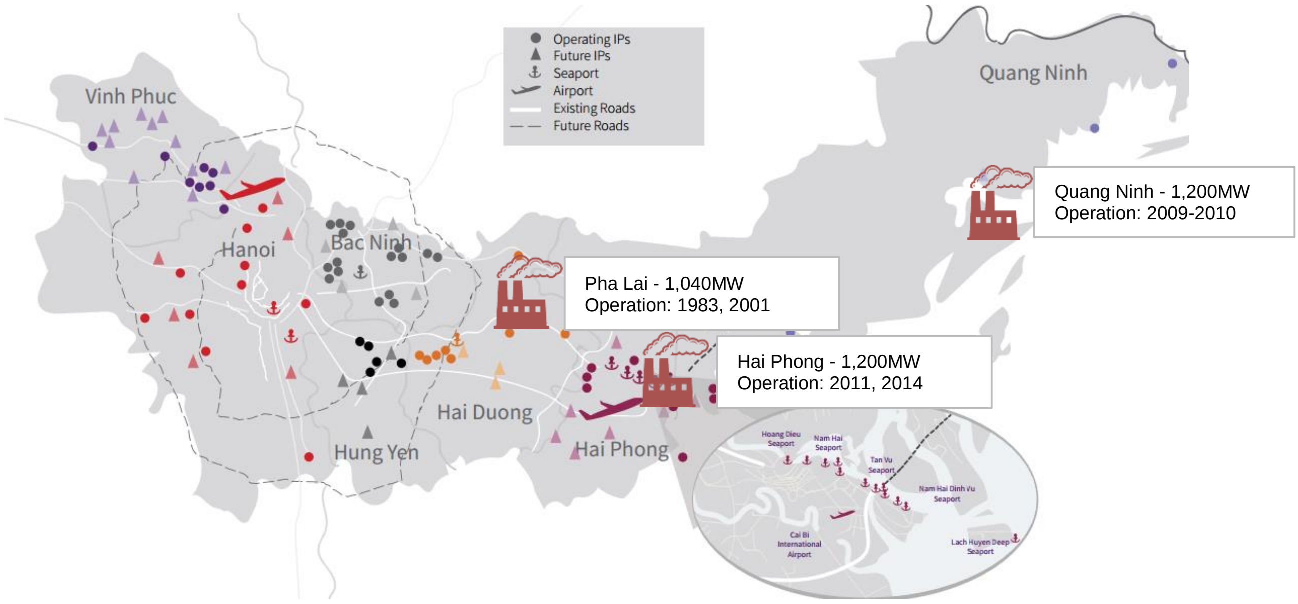
Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	6,236	7,117	7,503	7,448
Revenue growth	4.3%	14.1%	5.4%	(0.7%)
Gross margin	12.7%	16.1%	13.6%	11.7%
EBITDA margin	17.5%	19.7%	15.6%	12.4%
Net profit (bn)	854	1,122	947	760
Net profit growth	55.7%	31.4%	(15.6%)	(19.7%)
Recurring profit growth	28.6%	13.5%	(19.5%)	(3.9%)
Basic EPS	2,618	3,441	2,902	2,330
Adjusted EPS	2,459	3,271	2,757	2,214
BVPS	16,788	17,319	17,858	18,169
ROAE	16.1%	20.2%	16.5%	12.9%

Source: VNDIRECT RESEARCH

AN OLD MAN WITH PROVEN EXPERIENCE IN VIETNAM'S POWER INDUSTRY

Established in 1982, PPC is one of the oldest coal-fired power producers in Vietnam. The company has two power plants with a combined capacity of 1,040MW, including Pha Lai 1 (PL1, COD in 1984-86, 4x110MW) and Pha Lai 2 (PL2, COD in 2001-02, 2x300MW). In 2018, PPC produced 5,607m kWh of electricity (~2.7% of the national power supply).

Figure 1: Location of PPC and its associates' power plants



Source: VNDIRECT RESEARCH, JLL VIETNAM

PPC's power plants location helps ensure stable operation

PPC's power plants are located near many industrial parks in Vietnam's northern region, which ensure high utilisation rate. In 2016-18, PPC's utilisation rate of its two power plants averaged 58.0%. Due to its old age (34-36 years), PL1 has low utilisation rate of ~46.9%, while PL2 has the highest utilisation rate among coal-fired power plants, standing at 66.2% in 2016-18 period.

Figure 2: PPC's utilisation rate vs. other coal-fired power plants

Plant	Location	Capacity	Age	Avg. utilization
		MW		%, 2016-18
Hai Phong	North	1,200	6-9	64.6%
Quang Ninh	North	1,200	7-9	63.0%
Vung Ang 1	Central	1,200	5	39.5%
Mong Duong 1	North	1,080	5	54.2%
Vinh Tan 2	South	1,244	5	62.5%
Pha Lai	North	1,040		58.0%
PL 1		440	34-36	46.9%
PL 2		600	18-19	66.2%

Source: VNDIRECT RESEARCH

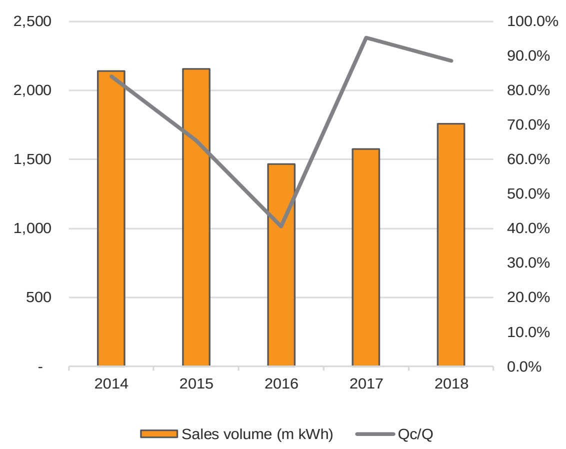
Normally, PPC needs approximately 3.0-3.5m tonnes of coal for its power production, sourced mainly from Vietnam's largest coal reserve near its power plants (Vang Danh, Hon Gai, Cam Pha). This could help the company not only ensure stable coal supply for its operation, but also enjoy lower transportation cost than other thermal power plants in the central and the southern regions.

PL2 efficiency offsets PL1 weakness

Due to PL1's old age and its high fuel consumption rate, the plant relies heavily on the contracted volume under a Power Purchase Agreement (PPA) with EVN. PL2 is in better position because the plant has a relatively competitive production cost, with an average coal consumption of 530g/kWh, or around 25% below PL1.

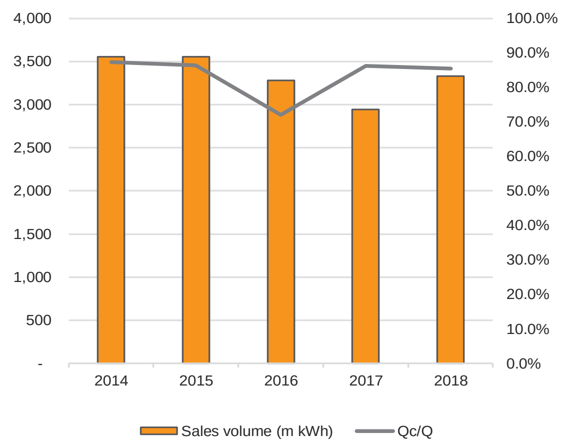
According to the company, the PPA contract for PL1 will expire at the end of 2019. Currently, PPC is under negotiation with EVN to extend the current contract, with anticipated slight decrease in the fixed component of the contracted price for PL1. Meanwhile, the PPA contract for PL2 is valid until 2031, which could ensure stable operation for the plant over the next decade.

Figure 3: PL1 sales volume and contracted volume/total sales volume (Qc/Q)



Source: VNDIRECT RESEARCH, PPC

Figure 4: PL2 sales volume and Qc/Q



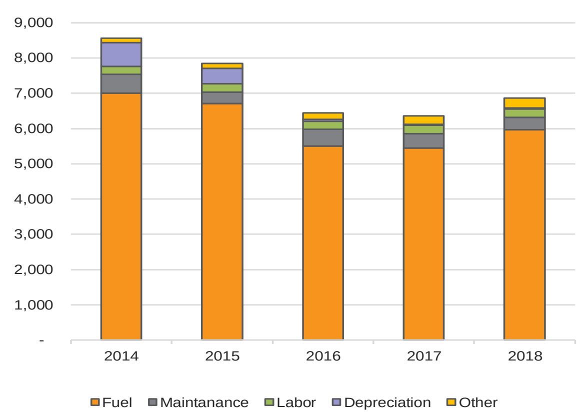
Source: VNDIRECT RESEARCH, PPC

MANAGEABLE COAL SUPPLY AND MAINTENANCE ISSUES

Production cost is mainly driven by fuel and maintenance cost

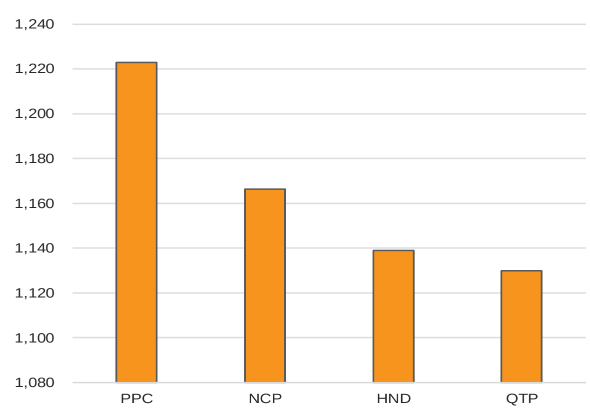
PPC's power plants neared the full depreciation in 2015 and the remaining depreciation is insignificant. Therefore, the firm's production cost is mainly driven by fuel (coal, oil) and the maintenance cost, which accounted for 85.1% and 5.8% of COGS in 2018, respectively.

Figure 5: PPC's cost breakdown (VND bn)



Source: VNDIRECT RESEARCH, PPC

Figure 6: Cost per kWh of PPC vs. other coal-fired power plants (dong/kWh)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Coal shortage has emerged as a key challenge for most thermal power plants in Vietnam, and PPC is not an exception. Since Mar 2019, it has started using mixed coal (a mixture of imported and domestic coal), which accounts for 20-30% of its total coal consumption. According to PPC, the mixed coal price is ~10% higher than domestic coal price. PPC's gross margin was thus hit in 2Q19 due to higher coal price, coupling with lower contracted sales volume.

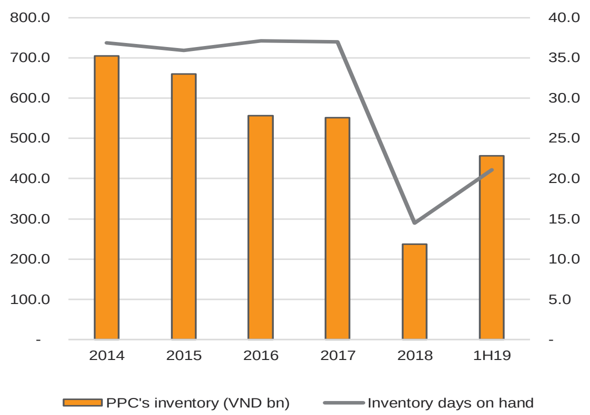
Since both PL1 and PL2 are old plants with obsolete technology, PPC's maintenance cost is much higher than that of other thermal power plants. During 2014-18, its maintenance cost fluctuated at around 4.9-8.7% of PPC's COGS (~VND326-525bn), in line with medium/major maintenance schedule each year. PPC planned to upgrade its plants to cut PL1's coal consumption rate and cope with environmental standards as per the regulation on emission levels of thermal power plants built before 2005. However, this plan has been cancelled recently following a government's decision to postpone environmental upgrade projects for all coal-fired power plants, pending new environmental regulations. Therefore, PPC expects to maintain its maintenance cost at around VND400bn per annum in order to keep its power plants operational.

Reduced exposure to coal shortage risk

As mentioned above, most of coal-fired power plants are exposed to the coal shortage risk. PPC is, however, in better position than others as the company has signed an agreement with Vinacomin that ensured a coal supply of 3.3m tonnes for 2019. The company's inventory hit a record low of 14 days at the end of 2018. But we see some improvements in 1H19 as inventory of raw materials rose by 66.5% ytd, lifting the inventory level to 21 days as of Jun 2019. Currently, PPC maintains 100,000 tonnes of coal in stock, equivalent to at least 10 operation days, per management.

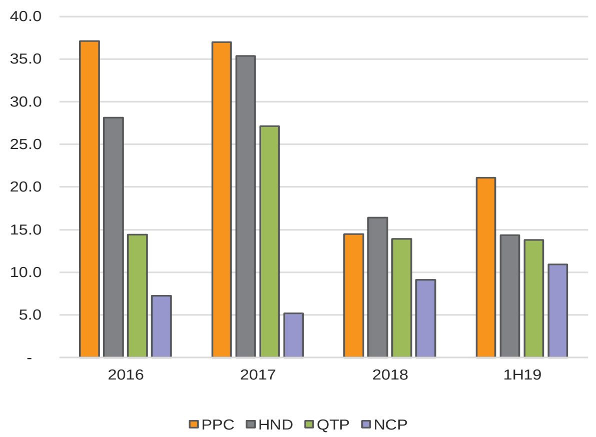
Due to the lack of domestic coal supply, PPC successfully tested the mixture of domestic coal and imported coal. This will lead to higher production cost but is necessary to ensure stable operation of its power plants. At the moment, the company does not plan to self-import coal like other coal-fired power producers. PPC's management is confident that its strong relationship with Vinacomin could help ensure a stable long-term supply of the fossil.

Figure 7: PPC's inventory during 2014-1H19



Source: VNDIRECT RESEARCH, PPC

Figure 8: PPC's inventory days on hand vs. other coal-fired power plants



Source: VNDIRECT RESEARCH, COMPANY REPORTS

DECENT DIVIDEND STORY

QTP and HND: improved profitability helps boost dividend receipt for PPC

PPC currently has 26.0% and 16.4% stakes in Hai Phong Thermal Power JSC (HND) and Quang Ninh Thermal Power JSC (QTP), respectively. Both HND and QTP are new coal-fired power plants (six to nine years old), with utilisation rate averaging at 63-65% in 2016-18 period.

In the past three years, HND's net profit was heavily affected by 1) a FX loss in the construction process, and 2) an unrealised FX loss from its USD and JPY denominated debts. However, from 2019 onwards, there will no more booking for FX loss in the construction period. In addition, gradual debt repayment also helps lower the interest expenses and FX loss at HND. Assuming HND's utilisation to improve to 68.8% in FY19F, we estimate HND's earnings to jump 58.1% yoy in FY19F. We expect HND to pay a cash dividend of 7.5% (VND750/share) in FY19F and keep consistent cash dividend payment in FY20-21F.

Figure 9: HND's performance and our estimate for FY19-21F

	2016	2017	2018	2019F	2020F	2021F
Utilisation (%)	67.2%	60.3%	66.3%	68.8%	67.6%	66.0%
Sales volume (m kWh)	6,448	5,769	6,327	6,568	6,445	6,300
Qc/Q	85.5%	70.0%	84.9%	85.6%	85.0%	85.0%
Revenue	9,157	9,095	9,527	10,225	10,071	9,677
% growth	0.5%	-0.7%	4.7%	7.3%	-1.5%	-3.9%
Gross profit	1,358	1,706	1,592	1,160	1,085	656
Gross profit margin (%)	14.8%	18.8%	16.7%	11.3%	10.8%	6.8%
FX gain/loss	(235)	(540)	(493)	(107)	(77)	(41)
Interest expenses	(736)	(611)	(504)	(376)	(266)	(173)
NPAT	287	396	425	672	597	328
% growth	-26.6%	37.7%	7.4%	58.1%	-11.2%	-45.0%
Adjusted NPAT	522	936	918	625	673	369
% growth	-21.1%	79.2%	-1.9%	-31.9%	7.7%	-45.1%
Cash dividend (%)	9.0%	6.0%	3.5%	7.5%	7.5%	7.5%

Source: VNDIRECT RESEARCH, HND

HND's profit is expected to drop in FY21F as its PPA price will be revised down after the profile period from 2021 onwards

Regarding QTP, we expect its profitability to gradually improve in coming years given 1) a smoother operation helps raise its utilisation rate; 2) a final FX loss in the construction process should be booked in FY19F, and 3) similar to HND, gradual debt repayment will help lower interest expenses and FX loss. This would improve QTP's capacity to pay dividend, and we expect the firm to pay a cash dividend of 5.0% (VND500/share) in FY21F.

Figure 10: QTP's performance and our estimate for FY19-21F

	2016	2017	2018	2019F	2020F	2021F
Utilisation (%)	67.5%	55.1%	66.4%	68.5%	67.4%	68.0%
Sales volume (m kWh)	6,458	5,282	6,322	6,515	6,457	6,498
Qc/Q	75.0%	92.4%	87.5%	85.8%	85.0%	85.0%
Revenue	8,738	8,210	9,018	9,478	9,254	9,465
% growth	13.4%	-6.0%	9.8%	5.1%	-2.4%	2.3%
Gross profit	1,451	1,479	1,203	1,026	776	777
Gross profit margin (%)	16.6%	18.0%	13.3%	10.8%	8.4%	8.2%
FX gain/loss	(227)	(109)	(288)	(181)	(38)	(24)
Interest expenses	(775)	(669)	(569)	(402)	(264)	(147)
NPAT	367	709	275	373	404	513
% growth	na	93.4%	-61.2%	35.6%	8.3%	26.7%
Adjusted NPAT	594	817	563	555	443	536
% growth	na	37.7%	-31.1%	-1.5%	-20.2%	21.2%
Cash dividend (%)	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%

Source: VNDIRECT RESEARCH, QTP

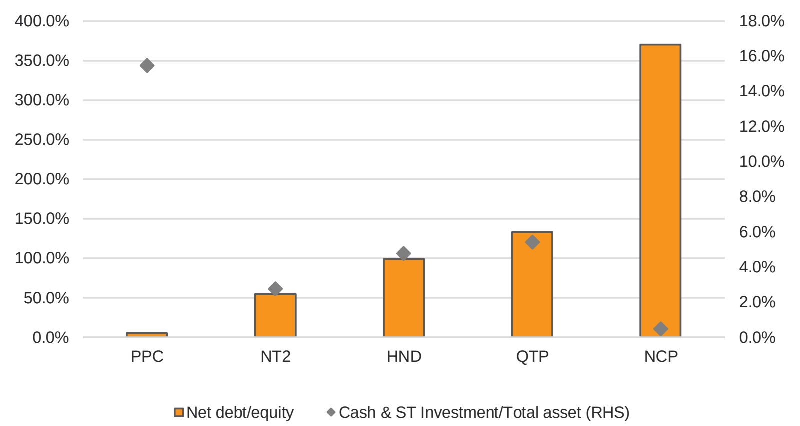
Based on the above expectations, we envisage PPC's dividend receipt to rise to VND97.7-134.2bn in FY19-21F from VND66.6bn in 2018, contributing to PPC's bottom-line and solidifying its cash flow.

Strong cash position ensures high, sustainable dividend yield

PPC has the healthiest balance sheet among thermal power producers in Vietnam. Unlike other thermal power producers in the country, PPC has no risk exposure to interest rates and FX as the company repaid all of its JPY denominated debt in 2018. In addition, thanks to advanced debt repayment, PPC has lower interest expenses compared to other thermal power plants.

As of 30 Jun 2019, cash and short-term investment stood at VND1,098bn, equivalent to 15.5% of PPC's total asset. The company also has another VND916bn of loans receivables with EVN and GENCO2 (its major shareholder). Therefore, there is no doubt about PPC's strong cash position. A huge cash on hand has ensured high dividend payout in the past five years, with an average payout ratio of 100%. Going forward, ample cash balance, stable cash flow from its electricity production and improved dividend receipt from associates suggest a generous dividend payout of 20-25% in FY19-21F, equivalent to dividend yield of c.8-10%.

Figure 11: PPC's net debt/equity and % of cash & short-term investment in total asset vs. other thermal power plants



Source: VNDIRECT RESEARCH, COMPANY REPORTS

NET PROFIT TO DECLINE IN FY19-20F BEFORE RECOVERING IN FY21F

Weak earnings in 1H19 due to lower sales volume and higher input prices

In 1H19, PPC recorded a revenue of VND3,950bn (-1.7% yoy) as sales volume fell 8.7% yoy due to technical issues at PL1. In 1Q19, PPC booked a deferred receipt for 2016's realised FX loss of VND105.9bn, therefore, if excluding abnormal revenue, PPC's revenue dipped 4.3% yoy.

While revenue dropped slightly, PPC's net profit fell as much as 18.4% yoy, mainly due to lower provision write-back from the investment in QTP in 1H19 (VND12.1bn vs. VND204.9bn in 1H18). If we exclude abnormal revenue and provision write-back, adjusted net profit was VND482bn in 1H19 (-10.5% yoy), driven by lower sales volume and higher coal prices that has eroded PPC's profitability in the electricity competitive market.

Figure 12: Result comparison

FYE Dec (VND bn)	2Q19	2Q18	yoy%	1Q19	qoq %	1H19	1H18	yoy%	vs. FY19F
			chg		chg			chg	forecast
Revenue	2,241	2,215	1.2%	1,709	31.1%	3,950	4,017	-1.7%	52.6%
Abnormal revenue*	-	-		106		106			
Gross profit	267	347	-23.1%	330	-19.2%	597	613	-2.6%	58.3%
Gross profit margin (%)	11.9%	15.7%	*-3.7% pts*	19.3%	*-7.4% pts*	15.1%	15.3%	*-0.1% pts*	
SG&A expenses	(18)	(18)	-1.2%	(21)	-14.7%	(39)	(36)	8.3%	42.1%
EBIT	249	328	-24.3%	309	-19.5%	558	576	-3.3%	59.9%
Interest expenses	(5)	(7)	-29.6%	(2)	144.7%	(7)	(14)	-45.4%	46.6%
EBT	420	644	-34.8%	287	46.1%	707	881	-19.8%	60.9%
NPAT	341	525	-35.0%	243	40.6%	584	715	-18.4%	62.9%
Adjusted NPAT**	226	287	-21.4%	256	-11.9%	482	539	-10.5%	62.4%

Source: VNDIRECT RESEARCH, PPC

* Deferred receipt for 2016's realised FX loss; ** Adjusted NPAT: excluding abnormal revenue, provision write-back and FX gain/loss

We expect a decline in FY19-20F net profit, while envisaging a recovery from FY21F thanks to higher dividend receipt from HND & QTP

In our base case scenario, we expect PPC to maintain its utilisation at c.60.5% in FY19-21F, reflecting the company's track record on stable operation despite its aged power plants. However, we estimate PPC's gross margin to decline to an average of 12.4% in FY19-21F from 16.1% in FY18 due to the confluence of higher coal prices and lower contracted sales volume.

FY19F net profit is projected at VND928.3bn (-17.3% yoy), driven by lower gross margin and lower provision write-back from the investment in QTP. FY20F net profit is expected to decline 18.3% yoy because we expect a further drop in gross margin while no abnormal revenue would be booked like in FY19F. Meanwhile, we expect FY21F to recover slightly (+6.6% yoy) thanks to higher dividend receipt from HND and QTP.

Figure 13: PPC's performance and our estimate for FY19-21F

	2016	2017	2018	2019F	2020F	2021F
Utilisation (%)	58.3%	55.5%	61.6%	61.6%	60.4%	59.5%
Sales volume (m kWh)	4,745	4,520	5,090	5,078	4,976	4,905
Qc/Q	62.3%	89.3%	86.5%	84.1%	83.9%	82.3%
Revenue	5,977	6,236	7,117	7,503	7,448	7,579
% growth	-22.0%	4.3%	14.1%	5.4%	-0.7%	1.8%
Gross profit	504	791	1,147	1,024	871	898
Gross profit margin (%)	8.4%	12.7%	16.1%	13.6%	11.7%	11.8%
Reversal of provision	87	92	179	50	-	-
FX gain/loss	(207)	(105)	(40)	-	-	-
Financial income	411	412	249	245	221	257
Interest expenses	(125)	(72)	(24)	(16)	-	-
NPAT	549	854	1,122	928	760	810
% growth	-2.2%	55.7%	31.4%	-17.3%	-18.2%	6.6%
Adjusted NPAT	674	867	983	773	760	810
% growth	-42.6%	28.6%	13.5%	-21.4%	-1.7%	6.6%
Cash dividend (%)	20%	25%	27%	25%	20%	20%

Source: VNDIRECT RESEARCH, PPC

Adjusted NPAT: excluding abnormal revenue, provision write-back and FX gain/loss

Pha Lai 3 (PL3) project is a long-term catalyst but the process will take time

As the company cancelled its upgrading projects for PL1 & PL2, PPC is working on pre-feasibility study for a new coal-fired power plant

(PL3, 600MW) in order to improve its efficiency and competitiveness in line with the ongoing liberalisation of Vietnam's power market.

In our view, new investment is necessary to ensure positive long-term outlook for PPC due to the old age of its current power plants. However, with the new Planning Law in effect from Jan 2019, it will take time for PPC to get approval for PL3 being added in the upcoming Power Master Plan VIII. Besides, as PPC has not disclosed details on schedule and investment capex, we decide to wait for more information before incorporating PL3 into our model.

VALUATION

We use an equal weighting of DCF method and EV/EBITDA method to derive a blended valuation for PPC. For DCF valuation, we apply WACC of 12.5% and a long-term growth rate of 0% over a five-year projection period to derive a target price of VND28,319/share as we expect PPC's performance to be stable over the next five years, while we exclude the investment of PL3.

Figure 14: DCF model - key assumptions & input, based on our estimates

General assumptions	
Risk free rate (5-year VGB yield)	3.6%
Equity risk premium	8.6%
Beta (source: BB, 6m adj. beta)	1.04
Cost of equity	12.5%
Long-term growth rate	0.0%
(in VND bn, otherwise noted)	
PV of DCF (5 years)	2,786
PV of Terminal value	4,745
Enteprise value	7,531
Less: Total Debt	-
Plus: Cash and Cash equiv.	1,708
Implied EV	9,239
No. of o/s shares (mn shares)	326
Implied value per share (VND)	28,319

Source: VNDIRECT RESEARCH

We use historical EV/EBITDA (1-year, 7.5x) to derive a target price for EV/EBITDA method as we see both domestic and regional power producers are not exactly similar to PPC given their differences in power type, capacity and electricity pricing mechanisms. Our combined DCF and EV/EBITDA multiple valuation is VND27,879 per share. Therefore, we rate the stock as Add given that total stock return is ~23.5% above the current share price (i.e 13.3% upside to target price and 10.2% dividend yield).

Figure 15: EV/EBITDA valuation

EV/EBITDA valuation	
EBITDA (VND bn)	966
Target EV/EBITDA (x)	7.5
Implied EV (VND bn)	7,244
add: cash & ST investments (VND bn)	1,708
less: short and long-term debt (VND bn)	-
less: FV of Minority Interest (VND bn)	-
Equity value (VND bn)	8,952
Outstanding shares (million)	326
Price per share (VND)	27,440

Source: VNDIRECT RESEARCH

Figure 16: Blended target price, based on our estimates

Method	Implied value per share (VND)	Weight (%)	Weighted price (VND)
DCF	28,319	50%	14,159
EV/EBITDA	27,440	50%	13,720
Target price (VND)			27,879

Source: VNDIRECT RESEARCH

Figure 17: Peer Comparison

Company	Ticker	Recom.	Price	TP	Mkt cap	P/E (x)		3-year EPS	P/BV (x)		ROE (%)	
			LC$	LC$	US$ m	CY19F	CY20F	CAGR (%)	CY19F	CY20F	CY19F	CY20F
Regional listed power producers												
Ningxia Jiaze Renewables C-A	601619 CH	na	3.9	na	1072.5	na	na	107.0	na	na	na	na
Shenzhen Nanshan Power Co-B	200037 CH	na	4.9	na	774.7	na	na	na	na	na	na	na
Xinjiang Tianfu Energy Co-A	600509 CH	na	4.5	na	743.7	na	na	-15.6	na	na	na	na
Edl-Generation Pcl	EDL LS	Add	3,720	6,018	717.6	24.4	7.4	-42.7	0.7	0.7	2.9	9.3
Jiangxi Ganneng Co-A	000899 CH	na	4.8	na	666.3	19.2	14.1	-32.4	1.0	0.9	5.1	6.7
Guizhou Qianyuan Power Co-A	002039 CH	na	14.1	na	610.4	11.7	10.7	33.8	1.5	1.3	12.7	12.6
Top Energy Co Ltd Shanxi-A	600780 CH	na	3.3	na	536.6	na	na	21.9	na	na	na	na
Hub Power Company	HUBC PA	Add	62.8	113.4	513.8	5.9	3.6	0.3	1.5	1.2	29.4	39.2
Summit Power Ltd	SUMITPOW BD	na	40.3	na	509.4	na	na	na	na	na	na	na
Phinma Energy Corp	PHEN PM	Hold	2.9	3.2	420.5	na	22.6	na	2.1	2.0	-3.0	9.0
Vivant Corp	VVT PM	na	16.1	na	313.3	na	na	23.3	na	na	na	na
Khulna Power Co Ltd	KPCL BD	na	58.4	na	274.7	na	na	na	na	na	na	na
Shandong Jiangquan Ind-A	600212 CH	na	3.6	na	265.0	na	na	na	na	na	na	na
Average					*570.7*	*15.3*	*11.7*	*11.9*	*1.4*	*1.2*	*9.4*	*15.3*
Vietnam listed thermal power producers												
Hai Phong Thermal Power Jsc	HND VN	Hold	14,700	14,700	316.7	10.8	10.2	6.2	1.2	1.2	13.0	13.0
Petrovietnam Nhon Trach 2 Po	NT2 VN	Add	24,600	29,200	305.1	8.4	9.4	-12.1	na	na	19.2	18.5
Quang Ninh Thermal Jsc	QTP VN	na	11,300	na	219.1	na	na	na	na	na	na	na
Cam Pha Thermal Power JSC	NCP VN	na	8,600	na	73.0	na	na	na	na	na	na	na
Ba Ria Thermal Power Jsc	BTP VN	na	12,400	na	32.3	na	na	16.9	na	na	na	na
Ninh Binh Thermal Power Jsc	NBP VN	na	14,200	na	7.9	na	na	-3.6	na	na	na	na
Average					*159.0*	*9.6*	*9.8*	*1.8*	*1.2*	*1.2*	*16.1*	*15.7*
Pha Lai Thermal Power	**PPC VN**	**Add**	**24,600**	**27,879**	**339.8**	**11.1**	**11.1**	**25.9**	**1.4**	**1.4**	**16.2**	**13.0**

Source: VNDIRECT RESEARCH, BLOOMBERG, DATA AS OF 15 AUG 2019

RISK

Coal input price and coal shortage issue

Given the old age of PPC's power plants, PL1 and PL2 have higher coal consumption rate than other new thermal power plants. As PPC has started buying mixed coal at a price higher than that of domestic coal since Mar 2019, we think a sharp increase in imported coal price could dampen PPC's competitiveness in the wholesale electricity competitive market. PPC has now managed well to ensure sufficient coal supply for its power plants. However, the company still faces a risk of short supply as the coal shortage could linger in the upcoming years, driven by the commissioning of new coal-fired power plants.

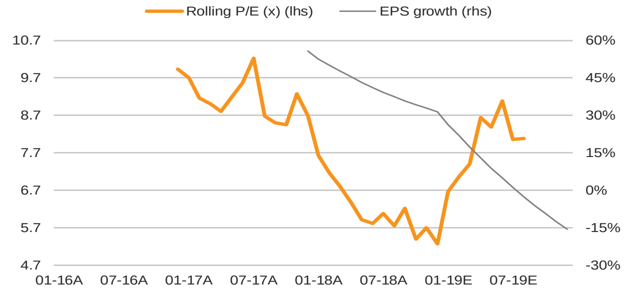
Lower-than-expected PPA price for PL1

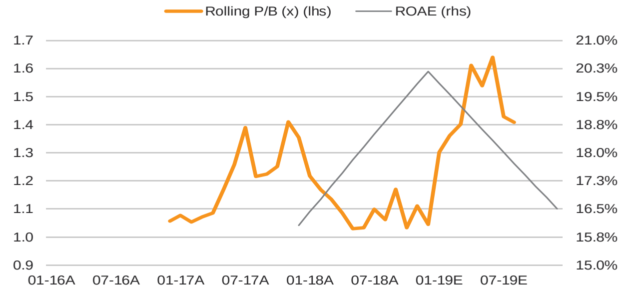
PPC is negotiating to extend PL1's current PPA contract to another four years (2020-23). The company expects to finalise the renewed PPA price for PL1 in Oct 2019, with a slight decrease in the fixed component vs. the current one (VND262/kWh). Since PL1 heavily depends on the contracted volume and its PPA price, PPC's profitability could be hit if the renewed PPA price for PL1 is much lower than expected.

Delayed investment in Pha Lai 3

As PL1 is running into its final stage of the economic life cycle, we think PPC should replace PL1's obsolete technology by a new power plant to enhance the company's operational efficiency. At the moment, PPC will only conduct major maintenance in order to keep PL1 operational for another four to five years before bringing PL3 into operation. If there is a delay in PL3 investment, more expenses would be needed to maintain PL1's operation due to unexpected technical issues.

Valuation





Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	7,117	7,503	7,448
Cost of sales	(5,970)	(6,479)	(6,577)
Gen & admin expenses	(89)	(94)	(93)
Selling expenses			
Operating profit	**1,058**	**930**	**778**
Operating EBITDA	1,028	900	748
Depreciation and amortisation	**30**	**30**	**30**
Operating EBIT	**1,058**	**930**	**778**
Interest income	249	268	221
Financial expense	96	(22)	(56)
Net other income	5	8	7
Income from associates & JVs	0	0	0
Pre-tax profit	**1,408**	**1,184**	**950**
Tax expense	(285)	(237)	(190)
Minority interest	0	0	0
Net profit	**1,122**	**947**	**760**
Adj. net profit to ordinary	1,122	947	760
Ordinary dividends	(897)	(816)	(652)
Retained earnings	**225**	**131**	**108**

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	143	546	734
Short term investments	1,180	1,180	1,180
Accounts receivables	2,363	1,762	1,700
Inventories	237	444	459
Other current assets	3	3	3
Total current assets	**3,926**	**3,935**	**4,076**
Fixed assets	340	119	89
Total investments	2,448	2,411	2,411
Other long-term assets	261	275	273
Total assets	**6,975**	**6,740**	**6,849**
Short-term debt	530	0	0
Accounts payable	525	630	639
Other current liabilities	270	284	282
Total current liabilities	**1,325**	**914**	**921**
Total long-term debt	0	0	0
Other liabilities	0	0	0
Share capital	3,262	3,262	3,262
Retained earnings reserve	1,563	1,694	1,802
Shareholders' equity	**5,650**	**5,826**	**5,927**
Minority interest	0	0	0
Total liabilities & equity	**6,975**	**6,740**	**6,849**

Cash flow statement

(VNDbn)	12-18A	12-19E	12-20E
Pretax profit	**1,408**	**1,184**	**950**
Depreciation & amortisation	34	31	30
Tax paid	(229)	(237)	(190)
Other adjustments	(477)	348	20
Change in working capital	**14**	**506**	**22**
Cash flow from operations	**750**	**1,831**	**833**
Capex	(39)	(127)	0
Proceeds from assets sales	1	8	7
Others	564	38	0
Other non-current assets changes			
Cash flow from investing activities	**525**	**(82)**	**7**
New share issuance			
Shares buyback			
Net borrowings	(444)	(530)	0
Other financing cash flow	0	0	0
Dividends paid	(897)	(816)	(652)
Cash flow from financing activities	**(1,341)**	**(1,346)**	**(652)**
Cash and equivalents at beginning of period	209	143	546
Total cash generated	**(66)**	**403**	**188**
Cash and equivalents at the end of period	143	546	734

Key ratios

	12-18A	12-19E	12-20E
Dupont			
Net profit margin	15.8%	12.6%	10.2%
Asset turnover	0.98	1.09	1.10
ROAA	15.5%	13.8%	11.2%
Avg assets/avg equity	1.31	1.20	1.16
ROAE	20.2%	16.5%	12.9%
Efficiency			
Days account receivable	121	86	84
Days inventory	14.5	25.0	25.5
Days creditor	32.1	35.5	35.6
Fixed asset turnover	13.9	32.7	71.5
ROIC	18.2%	16.3%	12.8%
Liquidity			
Current ratio	2.96	4.31	4.42
Quick ratio	2.78	3.82	3.93
Cash ratio	1.00	1.89	2.08
Cash cycle	104	75	74
Growth rate (yoy)			
Revenue growth	14.1%	5.4%	(0.7%)
Operating profit growth	49.1%	(12.1%)	(16.4%)
Net profit growth	31.4%	(15.6%)	(19.7%)
EPS growth	31.4%	(15.6%)	(19.7%)
Share value			
Basic EPS (VND)	3,441	2,902	2,330
BVPS (VND)	17,319	17,858	18,169

Source: VNDIRECT RESEARCH

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information.
The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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