

NT2: Earnings Flash

Unexpected provision and adversely high input price in Q3-2022

NT2's Q3-2022 revenue reached 2,168 bn VND, **+73% YoY**; earning 422 bn VND gross profit, **+38% YoY**, and 197 bn VND profit after tax, **-28% YoY**. NT2 faced a lower gross profit growth compared to revenue due in part to increasing of input gas price, which is indexed to 30 days average oil price. The average gas price in Q3-2022 was 9.17 USD/MMBtu, whereas in Q3-2021 it was only 8.51 USD/MMBtu. Moreover, the EAT suffered a descent of -28% because of the unexpected provision 187 bn VND for bad debts related to purchasing power agreement 07/2012HĐ – NMD-NT2 between NT2 and Electricity Power Trading Company (EPTC). Excluding the provision, NT2's EAT would be 384 bn VND, **+41% YoY**.

The accumulated 9M2022 revenue achieved 6,863 bn VND (completing 84% 2022 BOM's plan), **+52% YoY**, achieving 1,017 bn VND gross profit, **+93% YoY**, and 723 bn VND net earnings (completing 154% 2022 BOM's plan), **+88% YoY**. Last year, NT2 underwent an overhaul resulting in less energy production (2,088 mil kWh 9M2021 compared to 2,722 mil kWh 9M2022), and gross profit which caused an impressive growth in 2022 on a low base from 2021. In addition, NT2 does not have to pay 27 bn VND for credit insurance this year which also helps reduce financial expenses. Notably, the account receivables from NT2's customer - EPTC was 3,252 bn VND, **+90% YoY**, accounting for 77% current assets.

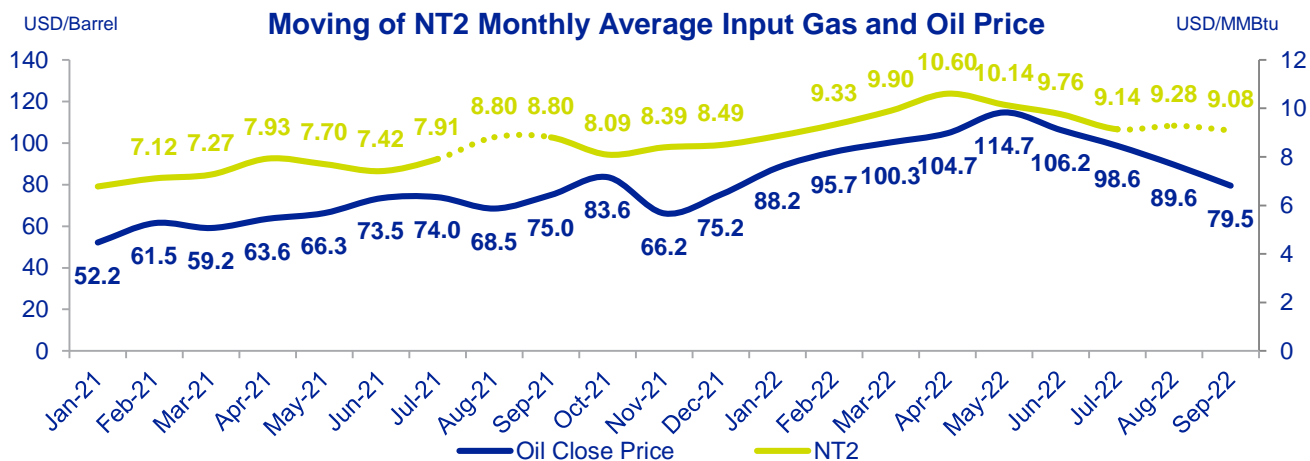
Unit: bn VND	Q3-2021	Q3-2022	YoY	9M2021	9M2022	YoY
Revenue	1,250	2,168	73%	4,515	6,863	52%
COGS	945	1,746	85%	3,989	5,846	47%
Gross profit	305	422	38%	526	1,017	93%
Gross profit margin	24%	19%		12%	15%	
Financial Expenses	7	1		48	8	
EAT	272	197	-28%	437	723	65%
Net profit margin	22%	9%		10%	11%	
Account Receivables	1,716	3,252	90%			

Sources: ACBS, NT2

Comments: The NT2's account receivables have increased significantly over the same period last year. At Q3-2021, there was only 1,716 bn VND in accounts receivable, accounting for 61% current assets. It increased more than 1,500 bn VND in a one year period, primarily due to the receivables from EPTC, which is a subsidiary of EVN and mainly operates negotiating PPAs, buying electricity from producers and reselling on to consumers. NT2's BOM states that they are still waiting for instructions from competent authorities for the reconciliation of late payment and interests with EPTC.

From the beginning of 2022, oil prices have surged due in part to Russian's invasion to Ukraine, supply chain disruption and continuous lock down policies in China. These hikes have also negatively influenced other fossil fuels such as coal and oil resulting in increasing costs to thermal plants, such as NT2. However, the FED's hawkish stance on interest rates had seemingly helped cool oil prices since May 2022. Unfortunately, the announced decrease in production of up to two million barrels per day by OPEC+ in Oct 2022 can potentially cause oil prices to trend upwards. We expect the average 2H2022 oil price downtrend will reverse but the average price base would be lower than 1H2022 in generally, which would lead to lower costs of goods sold for NT2. As a result, NT2 could benefit in last few months of 2022 in terms of gas input prices.

In addition, the Q4-2022 and 2023 energy output is expected to be well mobilized thanks to the "busy period" at the last few months of year, normalization of production post COVID-19 and forecast of El Nino coming back in 2023-2024 period given advantages for thermal groups.



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