FLASH NEWS – POW Q3 Earnings

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POW Q3-2022 Earnings Release

POW's consolidated Q3-2022 revenue reached 6,042 bn VND, **+13%** YoY; while cost of goods sold (COGS) reached 5,339 bn VND, **+19%** YoY, resulting in the gross margin condensing to 12% from 16% in Q3 2021. The operating company's[1] results were disappointing, with Q3-2022 revenue reaching only 3,297 bn VND (**-14%** YoY), while COGS were 3,450 bn VND (**+1%** YoY), resulting in gross profit posting a negative result with -153 bn VND (**-136%** YoY). Positive results from the subsidiary power plants, mainly Hua Na (hydro), Dakdrinh (hydro) and NT2 (gas powered), contributed to POW posting top line growth and a positive net result during the quarter.

The sharp reduction in gross profit from the operating assets is mainly attributable to:

1) the decline in output, at the direction of the National Load Dispatch Center (NLDC), which allocates electricity buying on behalf of EVN, as renewables were favoured over fossil fuels,
2) several maintenance projects at Vung Ang 1 (VT1), that's affecting one of the two generators, and Ca Mau 1 (CM1), which restricted capacity. VT1 is not expected to resume operations in the affected generator until after Nov, 2022; and,
3) prices of input fossil fuels including coal (c.5%) and gas (c.8%)

The above hampered POW's profit margin as both output decreased (POW's operating assets' production decreased 21% YoY) and input costs faced upwards pressure. To illustrate, Ca Mau 1&2 gas-fired outputs were only 615 mil kWh Q3-2022, whereas 745 mil kWh Q3-2021. Similarity, NT1 only produced 166 mil kWh in Q3-2022 compared to 238 mil kWh in Q3-2021.

POW's consolidated 9M2022 sales achieved 20,566 bn VND (**-2%** YoY), while the gross margin contracted by 1ppt to 13%, resulting in gross profit hitting 2,659 bn VND (**-7%** YoY). In comparison, net earnings of the operating company was far more modest, at only 422 bn VND (**-75%** YoY). The consolidated performance was greater than the operating company thanks to the Dakdrinh and Hua Na hydropower plants, which were beneficiaries of the longer than expected La Nina effect, which brought higher than average precipitation.

Unit: bn VND	Q3-2021	Q3-2022	*YoY*	9M2021	9M2022	*YoY*
Consolidated						
Revenue	5,342	6,042	*13%*	20,967	20,566	*-2%*
COGS	4,500	5,339	*19%*	18,098	17,907	*-1%*
Gross Profit	842	703	*-17%*	2,869	2,659	*-7%*
Gross profit margin	*16%*	*12%*		*14%*	*13%*	
Net consolidated profit	482	67	*-86%*	1,840	1,210	*-34%*
Net profit margin	*9%*	*1%*		*9%*	*6%*	
Operating Company						
Revenue	3,838	3,297	*-14%*	15,494	12,305	*-21%*
COGS	3,417	3,450	*1%*	13,577	11,630	*-14%*
Gross Profit	421	(153)	*-136%*	1,917	675	*-65%*
Gross profit margin	*11%*	*-5%*		*12%*	*5%*	
Net profit from Op Co	263	(289)	*-210%*	1,669	422	*-75%*
Net profit margin	*7%*	*-9%*		*11%*	*3%*	

Sources: ACBS, POW

[1] Consisting of four main plants: NT1, CM 1 & 2 (gas-fired); and VT1 (coal thermal) of which POW owns 100%, but excluding the effects of consolidation of three chief plants: Hua na, Dakdrinh (hydro); and NT2 (gas powered) where POW owns between 59-95% of the subsidiaries.

Comments: We expect POW will continue to undergo a challenging period with the high level of input fossil fuel prices until at least the beginning of 2023. Even though the thermal segment might be well mobilized thanks to the "busy period" during the last few months of year, elevated input prices will continue to be a drag.

Regarding production, we project all POW's chief power plants will completely resume operations in 2023.

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