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GEG Q3-2022 Earnings Release

GEG posted Q3 revenues of 522bn VND (+67% YoY) and net profits of 126 bn VND (+138% YoY). For the cumulative 9M2022, revenues reached 1,597bn VND (+70% YoY) with a net profit of 297bn VND (+64% YoY). The elevated revenues are mainly thanks to the three news wind projects, which have been commercially operational since Oct 2021: Ia Bang (50 MW), Tan Phu Dong 2 (50 MW) and VPL 1 (30 MW). These powered plants are anticipated to bring about 434 bn VND in revenue in 2022.

	Q3-2021	Q3-2022	YoY	9M2021	9M2022	YoY
Revenue	313	522	67%	938	1,597	70%
COGS	132	303	130%	390	807	107%
Of which: Depreciation	*91*	*161*	*77%*	*273*	*486*	*78%*
Gross Profit	181	219	21%	548	790	44%
Gross margin	*58%*	*42%*		*58%*	*49%*	
Financial Income	17	175	929%	30	190	533%
Financial Expenses	86	178	107%	258	479	86%
Net Profit	53	126	138%	181	297	64%
Net margin	*17%*	*24%*		*19%*	*19%*	

Sources: ACBS, GEG

The gross margin in both Q3 and 9M 2022 has decreased somewhat, however, this is primarily due to the increase in depreciation expenses from the new projects rather than increasing costs. To illustrate, in 9M2022 depreciation was 486 bn VND, surging by 213 bn VND (**+78%** YoY), and accounted for more than 51% of the 9M2022 rise in COGS .

The company has been taking on significant amounts of debt to process many renewables projects. Currently, GEG net debts are 7,781 bn VND, with most of the debts having floating interest rates, which in the rising rates environment could have negative effects on the financing costs of the company. According to our estimations, if interest rates of GEG's debts increase by 1%, GEG will face an additional nearly 80 bn VND in interest expenses on an annual basis.

During Q3, GEG recorded a large jump in financial income to 175 bn VND (**+929%** YoY), which was mostly attributable to an income of 165 bn VND related to the stock transfer of 99.93% of the shares Number 1 Renewable Energy JSC (NRE) to a third-party. Excluding this one-off, net earnings would be -39 bn VND and only 132 bn VND, Q3-2022 and 9M2022 correspondingly.

Moreover, in Oct 2022, GEG announced the approval of a private issuance of 64.2 mil preferred shares with 6% interest rate, equivalent to additional 642 bn VND in equity, for Deutsche Investitutions Bank (DEG) with the proceeds to be allocated to more renewable energy projects: VPL 2 (Wind power - 30 MW) and Duc Hue (Solar – 49 MW). These projects are expected to be commercial operational in 2023. In 2022, the company targets to finalize Tan Phu Dong 1 (Wind power – 100 MW).

Comments: The three new renewable projects have not settled a price for the power purchasing agreement due to the expiration of FIT policies on Nov 1st 2021, which brings about some uncertainties on the revenue side for these projects in the future. The company's management board states they are waiting for official approval of Power Plan 8 as well as new renewable price scheme for more clarity on the FIT for these projects. However, we forecast that there is a high likelihood that the prices will be below 8 cent per kWh[1] for those projects because the retail electricity price is currently c. 8 cents/kWh. Therefore, to create reasonably profitable space for EVN, the wholesales prices are expected to be lower than 8 cents/kWh.

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[1] According to the previous FIT policies (which expired on Nov 2021), wind and solar generator suppliers are supported with incentive prices: Solar: 9.35 cent/kWh, onshore wind power: 8.5 cent/kWh, and offshore: 9.8 cent/kWh

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