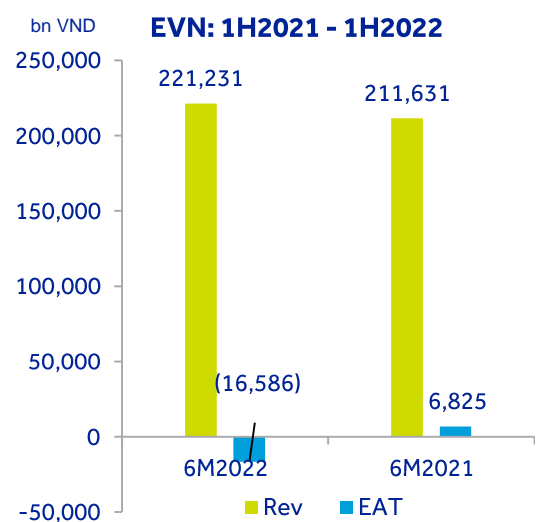
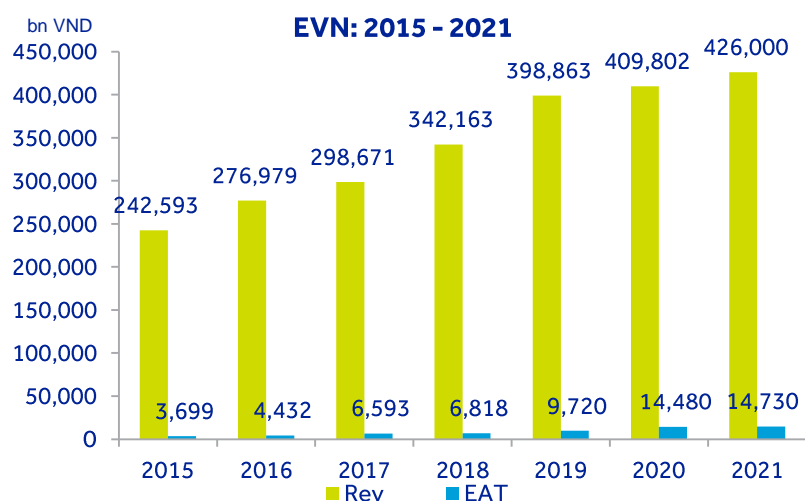


Vietnam Electricity (EVN) reported substantial loss in 10M2022

EVN recently announced its 10M2022 results which showed a significant loss of 15,700 bn VND and indicated that the figure could reach as high as a loss of 31,400 by the end of 2022 (EVN did not elaborate specifically on why the loss is expected to double in the final two months of the year, however we surmise that it could be due to the decreasing proportion of hydropower, which has the lowest generation cost). To put the loss in context, EVN has been profitable during the 2015 to 2021 period, with recent results in 2020 and 2021 showing particularly strong profits of 14,400 and 14,730 bn VND respectively. EVN states that the reason for the loss so far in 2022 was mostly due to rising fossil fuel costs (coal, oil, gas) that are used as inputs for thermal plants; as per PPAs with energy producers, increasing costs in inputs are borne by EVN for guaranteed generation quantities (which are a minimum of 60% of designed capacity), which has been the main contributing factor for EVN's loss.



EVN noted that the YTD losses could have reached up to 64,900 bn VND. However, the company undertook a series of austerity policies such as:

1. Squeezing repairing expenses by 20 – 30% compared to previous years,
2. Temporarily paying just 80% of employment salaries and reducing cost of transmission, distribution and
3. Decreased G&A expenses in 2022 by 7.3% YoY.

According to EVN, in spite of some achievements in the short term related to cost controls, if this current situation persists, there are several risks that face the sector in the coming years, including:

1. It would establish an imbalance of the energy cash flow payments for generator units under threat to powered plants' ability to operate continuously and national security energy as well.
2. Continued cutting of major repair costs could considerably impact the operational safety of the system in upcoming years.
3. It would decrease the likelihood of EVN having available funds to mobilizing capital for energy and related projects.

However, besides the gloomy financial results, there are some positives on the operational side:

1. In 10M2022 the cumulative electricity consumption increased 8.6% YoY.
2. EVN has well performed its assigned tasks to ensure continuous, safe and stable power supply for productions, businesses, and daily life.
3. The retail price has not increased in three (3) successive years since 2019.

Comments:

EVN has submitted proposals to the MoIT to address their financial issues. On the revenue side, they have proposed to increase the retail price from 1,864 dong / kWh to at least 1,916 dong / kWh. At the same time, EVN has also published its 1st draft estimates for buying prices of electricity from solar and wind projects after receiving more than half of the projects' technical design/feasibility study report nationwide (99/147 solar and 109/146 wind plants). Based on the sampling, EVN is proposing a range between 1,945 dong / kWh and 1,188 dong / kWh with highest for offshore wind and lowest for terrestrial solar, respectively. Meanwhile, given the recent USD/VND exchange rate: 24,500; it would be between 7.9 and 4.8 cent for a kWh.

The retail price is facing pressure of escalation due to:

1. While global energy prices have been rising, domestic retail prices have remained stagnant at around 1,864 dong / kWh for three years since 2019 despite increasing input costs, particularly thermal powers.
2. High FIT policies to encourage development of renewable energies have caused further losses for EVN.
3. Fossil fuels prices are expected to remain at elevated levels in 2023 resulting in more financial burdens for EVN if retail prices aren't adjusted.
4. Hydropower generation, the least expensive energy source, is expected to decrease its proportion of the national power generation pool in 2023 as the La Nina effect is expected to end by the first quarter of 2023, which had brought about favourable hydrological conditions. As a result, the proportion of other power generation methods is expected to increase, putting further strains on EVN under the current economics in the energy market.

If there are substantial increases to the retail prices of electricity in Vietnam, we could expect further upward pressure on the CPI as electricity prices have been stable for several years.

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