QTP: Q4-2022 Earning Release: Being Colored By High Input Prices

QTP's Q4-2022 revenue was 2,262 bn VND, **-3%** YoY, while the cost of goods sold (COGS) rised **+14%** YoY to 2,173 bn VND, leaving the gross profit of only 89 bn VND, **-79%** YoY, and the gross profit margin of only 4%, down from 18% YoY. The primary reasons are:

1. The output volume decreased due to the considerate impact of an unusual La Nina in three (3) consecutive years, resulting in higher precipitation than the many year average, which gave preference to hydroelectricity over thermal power. In addition, environmental concerns favor hydropower generation over coal-fired generation.
2. The price of imported coal, which is the chief input, faced a reversal of descent in the last couple of months of 2022, and continued to stay at a high level compatible with the last year's base average. To be more specific, the input cost in the COGS structure is up **+18%** YoY.

Q4-2022 interest expense was reduced by 11 bn VND, **-25%** YoY; at the same time, administrative costs were also downed by 157 bn VND, **-79%** YoY, on the ground of not having provisions for account receivables as in Q4-2021. Despite attempts to cut down many expenses, net earning only reached a modest 26 bn VND, **-86%** YoY, resulting in a net margin of just 1%.

Moreover, there was only 1,092 bn VND net debt left. The company has paid 1,063 bn VND in 2022, and if this circumstance keeps going, QTP will be able to pay off its debt by 2023. Besides, receivables from customers increased by 466 bn VND, **+23%** YoY, accounting for 69% of current asset.

Unit: bn VND	Q4-2021	Q4-2022	*YoY*	2021	2022	*YoY*
Revenue	2,332	2,262	*-3%*	8,571	10,417	*22%*
Gross profit	**430**	**89**	***-79%***	**990**	**1,086**	***10%***
Gross profit margin	*18%*	*4%*		*12%*	*10%*	
Interest Expenses	44	33	*-25%*	195	133	
EAT	**182**	**26**	***-86%***	**578**	**770**	***33%***
Net profit margin	*8%*	*1%*		*7%*	*7%*	
Net debt				2,155	1,092	*-49%*
Receivables from customers				2,037	2,503	*23%*

Sources: QTP, ACBS

Comments:

As in line with our previous expectation, the La Nina effect was forecasted not to end until the beginning of 2023 instead of mid-2022 (compared to earlier forecasts at the beginning of 2022), which allowed higher mobilization output volume from hydro, led to a bleak result among thermal groups. However, according to the most recent weather update, El Nino is expected to return shortly in 2023, which will turn the tide of the advantageous competition to thermal generators, particularly for QTP, which is located in one of four Northern key economic regions, alongside many industrial zones.

Nonetheless, we are concerned that the overall economic slowdown will have an impact on energy demand, particularly from industrial zones, in the context of the PMI index falling to 46.4 in December 2022. Furthermore, the input coal price has not demonstrated an obvious downward trend and still remains high. This would have a long-term negative impact on thermal power's gross profit margin. In addition, EVN, which is almost the proprietary customer of QTP, indicated that they would lose over 30,000 bn VND in 2022. This would significantly jeopardize the EVN's adequate liquidity, resulting in a pressured increase in QTP's account receivables and provisions, which has already partially been reflected in Q4-2022.

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