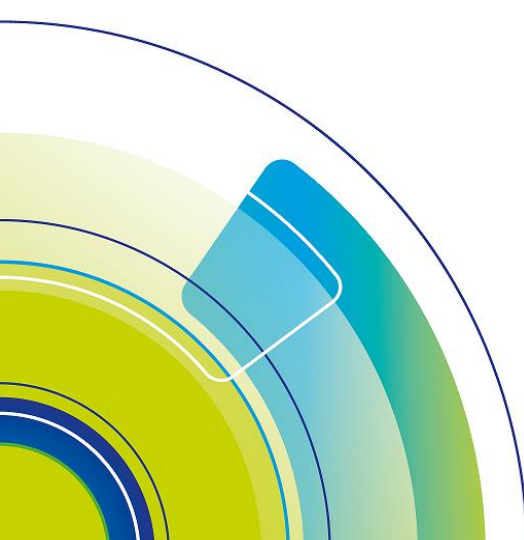




Initiation NT2 - HOLD

Wednesday, April 12, 2023



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Company Initiation

Recommendation

HOLD

HOSE: NT2

Utility

Current price (VND)

29,800

Target price (VND)

24,374

Expected share price return

-18.2%

Expected dividend yield

10.1%

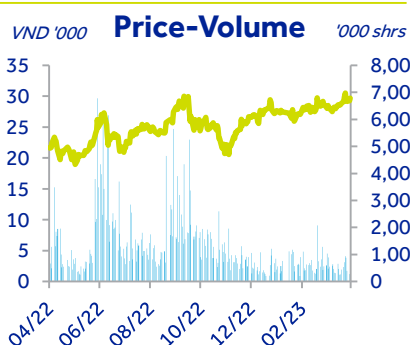
Expected total return

-8.1%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	6.6	2.3	7.4	31.0
Relative	0.1	1.0	6.0	57.9

Source: Bloomberg



Ownership

POW	59.37%
CFTD	8.27%
Samarang Ucits	5.00%

Stock Statistics

Apr-11-23

Bloomberg code

NT2 VN

52-week range (VND) 30,900 – 18,840

Shares (mil) 288

Mkt cap (VND bn) 8,579

Mkt cap (USD mil) 366

Foreign room left (mil) 95

Est. free float (mil) 64

3m avg daily vol (shrs) 626,036

USD/VND 23,449

Index: VNIndex / HNX 1.057.4 / 209.5

Nhon Trach 2 Thermal Power JSC (HOSE: NT2)

NT2 is a significant generator among Vietnam's energy portfolio, located in a large industrial zone in the South: Nhon Trach – Dong Nai. In addition, NT2 could be viewed as a promising long-term investment due to the rising energy demand given the expansion of the general economy development, as well as the green energy transition to less carbon emission sources, particularly the replacement of coal thermals with gas turbines to serve as foundation source for the entire energy system. However, based on valuation, we issue a HOLD recommendation for NT2, with price target of 24,374 VND per share, representing an expected return of -8.1%.

Vietnam is still a developing; thus, the demand for energy, especially for industrialization, will increase consistently, which is correlated to the economy as a whole. As a result, the electricity industry must advance in order to pave the way for economy growth as well as to ensure the national energy security. Moreover, the government intends to seek for environmentally friendly energy to satisfy the commitments at COP 26 & 27, bringing carbon emission to net Zero by 2050. Therefore, electricity generators which use gas as input fuel such as NT2, together with modern technology: Combined Cycle Gas Turbine – CCGT is an efficient substitute for coal-fired power generation.

According to Enso, the La Nina cycle which produces higher precipitation than many years' average and favors the hydropower has ended. In its place, El Nino with reversed impacts is forecast to emerge strongly in the 2023-2024 period, beginning since mid-2023. As a result, it would build up the resonance effect, which bodes well for thermal group's performance during the same period.

A solid advantage is a company's financial health and transparency, as well as its history of steady dividend payments over a long period of time. Besides, NT2 has paid off its long-term debt, and will run out of its primary plant's depreciation by 2026, 15 years after its initial operation.

Unit: bn VND	2021	2022	2023F	2024F	2025F
Net Sales	6,150	8,788	7,731	8,514	7,858
Growth	1%	43%	-12%	10%	-8%
EBITDA	1,283	1,640	1,430	1,647	1,381
EBITDA margin	21%	19%	18%	19%	18%
Net Profit	533	883	699	961	714
Growth	-15%	66%	-21%	37%	-26%
EPS: VND	1,775	2,991	2,354	3,229	2,401
Growth	-15%	68%	-21%	37%	-26%
ROE	13%	19%	16%	24%	22%
ROA	8%	12%	11%	16%	15%
Net debt / EBITDA (x)	0.2	(0.4)	(0.7)	(1.3)	(1.7)
EV / EBITDA (x)	6.5	5.1	6.6	5.9	7.0
EV / Sales (x)	1.4	0.9	1.2	1.1	1.2
P/E (x)	16.3	9.3	12.3	8.9	12.0
P/B (x)	1.9	1.8	1.7	1.8	2.2
DPS: VND	1,650	2,500	3,000	5,000	5,000
Dividend Yield	6%	8%	10%	17%	17%

CORPORATION INFORMATION

NT2 was established in June 2007 with primary objective of producing and selling electricity. In 2010, the generator was officially completed and placed into commercial operation. The company owns only one facility with 750 MW capacity, using CCGT technology – F model 2-2-1 including two gas turbines, two heat recovery boilers and one steam turbine. Since its inception, the business has contributed 51.8 bn kWh to national grid by 2022.

Recent Company Performance: Q4 2022 & 2022

NT2's Q4 2022 revenue was 1,925 bn VND, **+18%** YoY, whereas the COGS outpaced revenue with an increase of **+25%** YoY, reaching 1,860 bn VND, leading gross profit decline of **-57%** YoY to 65 bn VND. The underlying reason was mostly the rise of fossil fuels inputs. Specifically, material costs surged by **+52%** YoY in the formation of operating expenses, resulting in a descent of gross margin from 10% in Q4 2021 to 4% in Q4 2022.

However, the Q4 2022 operating income was up to 189 bn VND, thanks to the reduction of provisions from 240 bn VND to 41 bn VND. This provision related to the output volume on the contract number 07/2012/HD-NMD-NT2 between the company and an EVN subsidiary, Electricity Power Trading Company (EPTC). According to NT2, both parties have reached to several agreements; and NT2 has been received 199 bn VND payment. Therefore, Q4 2022 net income attained 160 bn VND, resulting in 2022 net earning was 883 bn VND, **+65%** YoY.

In addition, the 2022 financial expense decreased by 34 bn VND, **-65%** YoY, on the grounds of reduction in interest expense by 25% YoY and an absence of loan insurance in 2022 compared to 27 bn VND of the previous year.

The 2022 customers' receivables was up by 704 bn VND, **+32%** YoY, equivalent to 63% of current asset. Moreover, the 2022 total debt climbed up by +200% YoY to 631 bn VND from 210 bn VND in 2021. Nonetheless, this is just short-term debt to maintain daily operations.

Unit: bn đồng	Q4 2021	Q4 2022	YoY	2021	2022	YoY
Revenue	1,635	1,925	18%	6,150	8,788	43%
Gross income	150	65	-57%	676	1,082	60%
Gross margin	10%	4%		11%	12%	
Financial expense	4	10	150%	52	18	-65%
Interest expense	4	8	100%	20	15	-25%
EAT	121	160	32%	534	883	65%
Net profit margin	7%	8%		9%	10%	
Total debt				210	631	200%
Account receivables				2,187	2,891	32%

Sources: NT2, ACBS

CONSIDERABLE THESIS

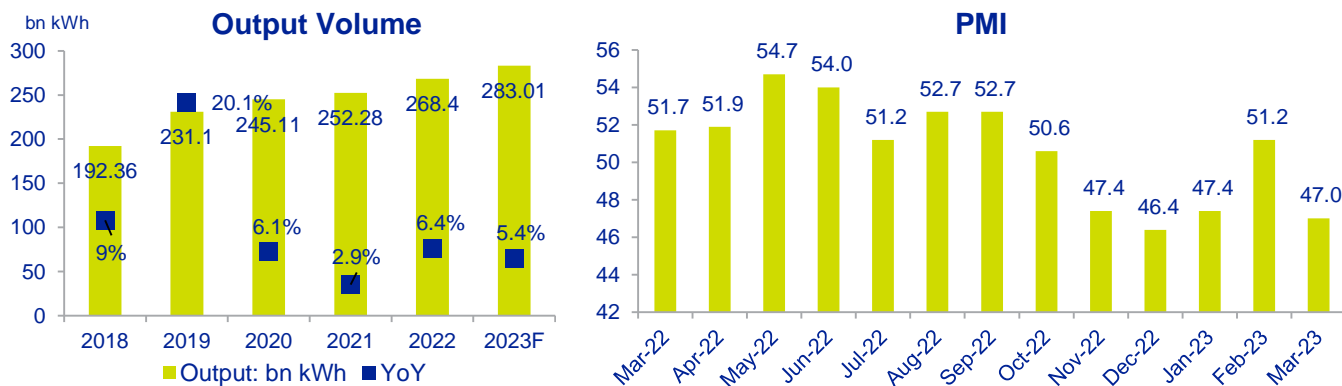
Energy demand

Vietnam is still a developing nation engaged in the industrialization and modernization; hence, the scale for energy require will remain substantial in the future. In the past five years, the average annual increase in energy consumption has ranged between 8 and 9 percent, or roughly one-half of GDP growth.

2022, was the first time, witnessed the GDP growth (8.02%) exceeded energy production (5.4%). At first, this could be appeared positive when the coefficient of elasticity dropped below one, as well as when one of the goals in national power plan VIII (PP8) was achieved. Nevertheless, we believe it more reflected the negation due to the decline in production activities, especially energy-intensive industries such as steel and cement, in regard to bond market issues and real estate.

Về tình hình nhu cầu sản lượng điện nói chung, chúng tôi cũng có những lo ngại nhất định khi chỉ số quản lý thu mua PMI lại rơi xuống dưới mức trung bình 50 – đạt 47.7 trong tháng 3-2023 và là tháng thứ tư dưới mốc 50 bắt đầu từ tháng 11 năm sau ngoài sau đại dịch COVID-19, phần nào cho thấy sự ảm đạm của tương lai nền kinh tế phía trước thông qua sự giảm sút các đơn hàng mới và hoạt động sản xuất. Điều này sẽ ảnh hưởng đến tiêu cực đến tình hình sản xuất điện nói chung của các nhà máy khi sản lượng điện hợp đồng được giao (Qc) sẽ giảm sút.

We raise concerns about the current consumed energy circumstances when the PMI index fell below the average level of 50 again, reaching 47.7 in Mar 2023, for the fourth times since last Nov 2022 following the COVID-19 pandemic. This somewhat indicated a gloomy economy prospects on the grounds of the decline in new orders and production activities, resulting in the overall curtailment of energy production.



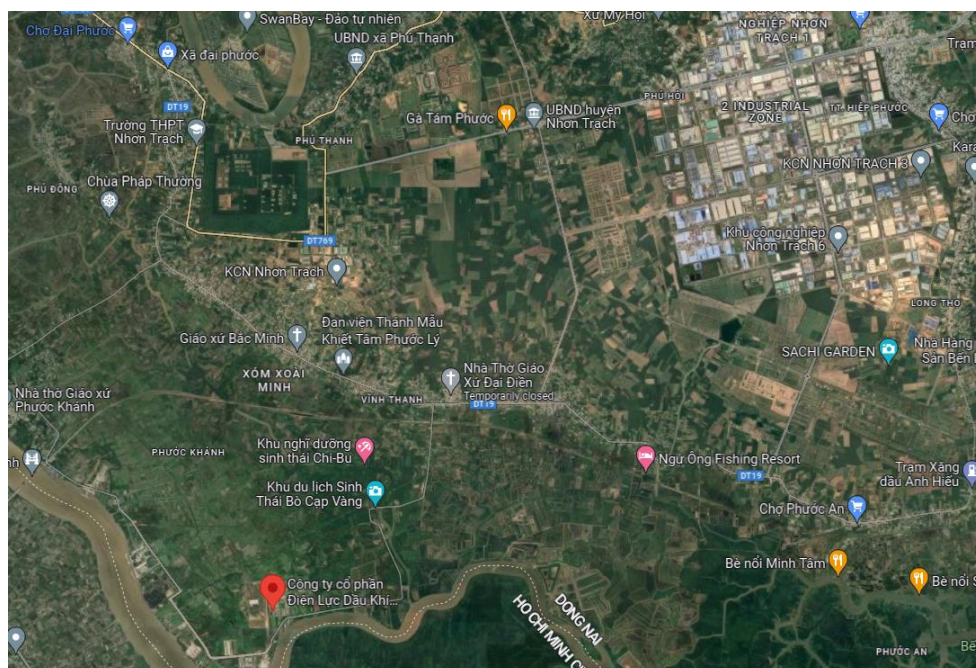
Sources: EVN, MoIT, ACBS

Geographic advantage & policy

NT2 possesses a "gold" location in the industrial zone in the Southern region of Vietnam: Nhon Trach – Dong Nai, resulting in a huge advantage, an assurance for the company's output given the distance to minimize the energy loss in the transmission.

Furthermore, once the Vietnam Competitive Retail Market (VCRM) is officially inaugurated and the Direct Power Purchase Agreement (DPPA) scheme is finalized, EVN and their subsidiaries will no longer be the sole customers. In addition to its advantageous position, NT2 would negotiate directly to significant customers; for

example; High Technology Industrial Zone, HYOSUNG, Long Thanh Airport or other firms in Nhon Trach Industrial Park 1-6.



Sources: Google map, ACBS

Energy transition process

To attain net zero commitments by 2050, combustion turbines are used to supplant coal power as a stable electricity sources, paving the way for the renewable energy (RE) development by compensating for RE's primary weather-dependent vulnerability.

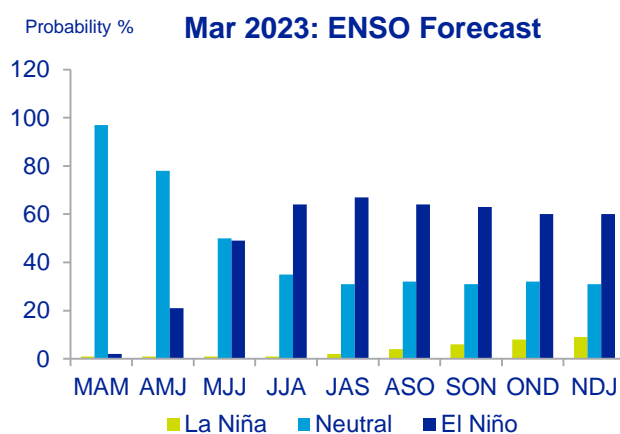
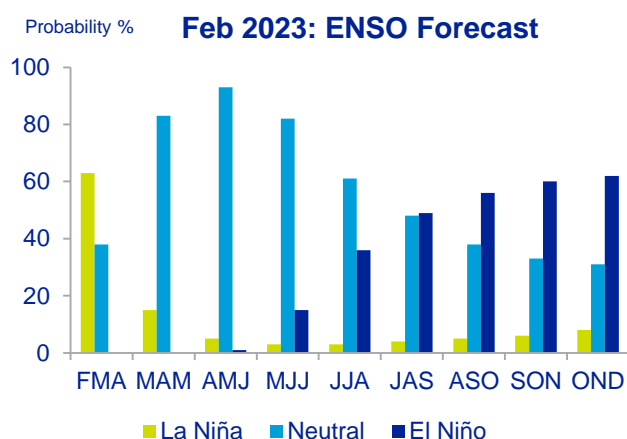
According to the latest PP8, most likely scenario of gas turbines development, only 4,300 MW of coal-fired capacity will be added by 2030 in the context of the prohibition of numerous projects. In its stead, the Government aims to enhance gas turbines capacity up to 39,000 MW by 2030, which will result in the addition of more than 30,000 MW gas turbines nation's energy mix, whether using imported LNG or domestic natural gas.

Capacity: MW	2022	2025	2030
Pmax		61,357	93,343
Coal-fired	25,820	30,067	30,127
Domestic gas turbines	8,977	9,176	14,930
LNG gas turbines		3,500	24,500
Hydropower	22,349	26,795	28,946
Onshore wind power	4,126	13,616	21,480
Offshore wind power		-	7,000
Solar	16,544	8,736	8,736
Biomass		1,180	2,270
Pumped storage hydro		50	2,700
Import		4,453	5,000
Rooftop solar		7,755	7,755
Others	1,835		
Total	79,651	107,999	156,444

Sources: MoIT, ACBS

Resonance effect: Weather support

According to ENSO, the Mar 2023 weather forecast model once again confirmed the Feb 2023 forecast that the El Niño cycle would have a significant impact by the middle of 2023 with probability increasing from 15% to 49% in May and from 36% to 64% in June. In the context of given preference in meteorological conditions, we project the outlook for thermal in general and gas turbines – NT2 in particular, will blossom in the 2023-2024 period at the expense of hydro group's modest performance.



Sources: ENSO, ACBS

Healthy Financial Affair

By 2022, NT2 owed 631 bn VND of debt, but it was just short-term loan for operating activities. All of its material debts for generator construction were settled in 2020.

The dividend yield is high and steady. The company paid an average dividend per share of 2,140 VND in the period 2018 – 2021, if including 2016 and 2017, the amount reached to 2.824 VND per share.

With 833 bn VND in 2022 EAT, or 2,990 VND per share, we expect NT2 to be able to pay 720 bn VND cash dividend, equivalent to 2,500 VND per share.

	2016	2017	2018	2019	2020	2021	2022
DPS: VND	3.600	4.792	2.400	2.500	2.000	1.650	2.500 ¹
Total debt: bn VND	4.742	3.698	2.949	1.842	775	210	631

Warranty input – Guarantee output

NT2 signed a Gas Purchase Agreement (GPA) with PVN for a long-term gas input warranty of 20 years, as well as 784 mil m³ annually, or more than 2 mil m³ / day, equating to 4.5 bn kWh output volume.

Furthermore, the Quantity Contract (Qc) and selling price are assured by EVN. The annual average Qc is usually about 80-85% of the maximum output designed. Once the price reaches an appropriate level, NT2 could sell the remaining capacity on the Competitive Generation Market to optimize the company's outcomes..

However, the company still suffers number of risks:

- Rarely dose the selling price on GM exceed NT2's production costs.
- Qc could be low corresponding to the overall economy and preference for other less expensive production expenses such as hydro, wind or solar energy.

Besides, the introduction of NT3 & 4 into commercial operation after 2024 may have a negative effect to NT2's output volume.

VALUATION

2023F

NT2 will undergo a 45-day overhaul in 2023, in conjunction with favorable from El Nino effect and the supposition of 85\$ / brrl, or 8.68\$ / MMBtu gas input, we forecast the output volume will reach c.3.9 bn kWh, in which Qc accounting for 85%. Consequently, NT2's average selling price will be about 1,988 VND / kWh (-8% YoY), yielding 7,731 and 699 bn VND in revenue and net earning, respectively.

2024F

We expect NT2 will post an impressive result in the El Nino period between 2023 and 2025, assuming oil prices can drop to 75\$ / brrl, or 8.14\$ / MMBtu gas input, and the output would achieve 4.6 bn kWh at the same rate for Qc of 85%, generating 8.514 bn VND in revenue and 961 bn VND in EAT.

2025F

2025 will witness the introduction of two new gas turbine generators NT3 & 4, which will compete directly with NT2 at the same region. This, coupled with the return of La Nina cycle, which shifts the favor towards hydropower, is forecast to reduce NT2's output volume to 4.3 bn kWh, in which Qc accounting for 80%, earning 7.858 in revenue and 714 bn VND in net income.

	2023F	2024F	2025F
Oil price: \$ / brrl	85	75	75
Indexed gas price: \$ / MMBtu	8,68	8,14	8,14
Output: bn kWh	3,9	4,6	4,3
Qc	3,3	3,9	3,5
Qm	0,6	0,7	0,8
Average selling price: VND / kWh	1.988	1.855	1.819
Revenue: bn VND	7.731	8.514	7.858
COGS: bn VND	6.894	7.460	7.070
EAT: bn VND	699	961	714

Applying a combination of a DCF and a P/E metric in equal weights, we derive a target price of **24,374 VND per share** and issue a **HOLD** recommendation with a **-8.1%** total expected return.

R_f	3.7%
E(R)_m	11.1%
Beta	0.88
K_e	10.2%
K_d	5.0%
WACC	9.6%
Growth	1%

Method	Valuation	Proportion	Weighted
FCFF	17,982	50%	8,991
P/E	30,766	50%	15,383
Price per share			24,374

NT2 FINANCIALS MODEL	Price: VND	29,800	Target: VND	24,374	Mkt cap: bn VND	8,579
Unit: bn VND except where stated	2021	2022	2023F	2024F	2025F	
Total sales	6,150	8,788	7,731	8,514	7,858	
<i>Growth</i>	1%	43%	-12%	10%	-8%	
COGS	5,474	7,706	6,894	7,460	7,070	
EBITDA	1,283	1,640	1,430	1,647	1,381	
<i>EBITDA margin</i>	21%	19%	18%	19%	18%	
Depreciation	690	689	690	690	690	
Operating profit	559	957	736	1,017	759	
<i>Operating profit margin</i>	9%	11%	10%	12%	10%	
Net interest expense	9	(6)	6	(58)	(66)	
<i>as % of avg, net debt</i>	4%	1%	-1%	3%	3%	
Interest cover (x)	65.9	(158.5)	115.6	(16.6)	(10.4)	
Tax	43	45	45	62	46	
<i>Tax rate</i>	8%	6%	6%	6%	6%	
Net profit	533	883	700	961	714	
<i>Net profit margin</i>	9%	10%	9%	11%	9%	
Cash earning	1,223	1,572	1,390	1,651	1,404	
Number of shares (m)	288	288	288	288	288	
EPS (VND)	1,775	2,991	2,354	3,229	2,401	
<i>EPS growth</i>	-15%	68%	-21%	37%	-26%	

KEY CASHFLOW AND BS ITEMS	2021	2022F	2023F	2024F	2025F
Increase in working capital: bn VND	(192)	(285)	(45)	22	229
Capex: bn VND	(3)	(1)	(2)	(2)	(2)
Change in investment in affiliates: bn VND	-	(11)	-	-	-
Other cashflow items	45	86	4	881	296
Free cash flow: bn VND	1,079	1,385	1,352	2,556	1,932
Share issues: bn VND					
Dividends paid: bn VND	575	474	1,008	1,440	1,727
Increase in net debt: bn VND	(504)	(911)	(344)	(1,116)	(205)
Net debt, end of year: bn VND	209	(702)	(1,046)	(2,162)	(2,367)
Shareholders' equity: bn VND	4,235	4,614	4,457	3,957	3,210
BVPS: VND	14,710	16,026	15,483	13,743	11,148
<i>Net debt / equity</i>	<i>4.9%</i>	<i>-15.2%</i>	<i>-23.5%</i>	<i>-54.6%</i>	<i>-73.8%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.2</i>	<i>(0.4)</i>	<i>(0.7)</i>	<i>(1.3)</i>	<i>(1.7)</i>
Total assets: bn VND	6,627	7,446	6,106	5,968	4,702

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	13%	19%	16%	24%	22%
ROA	8%	12%	11%	16%	15%
ROIC	13%	18%	17%	24%	22%
WACC	-	10%	10%	10%	10%
EVA	-	9%	7%	15%	12%
P/E (x)	16.3	9.3	12.3	8.9	12.0
EV/EBITDA (x)	6.5	5.1	6.6	5.9	7.0
EV/FCF (x)	7.7	6.0	6.9	5.9	6.1
P/B (x)	1.9	1.8	1.7	1.8	2.2
P/S (x)	1.4	1.0	1.1	1.0	1.1
EV/sales (x)	1.4	0.9	1.2	1.1	1.2
Dividend yield	6%	8%	10%	17%	17%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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