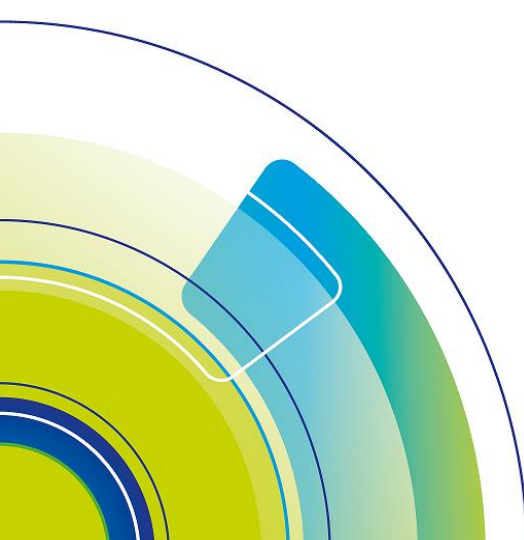




# Update POW - BUY

**Tuesday, June 06, 2023**

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## Company Initiation

### Recommendation

**BUY**

HOSE: POW

Utility

Current price (VND)

13,950

Target price (VND)

16,651

Expected share price return

19.4%

Expected dividend yield

0.0%

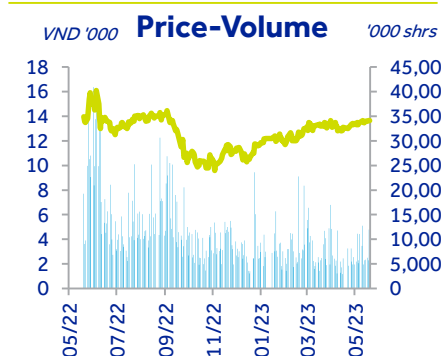
Expected total return

19.4%

### Stock performance (%)

	YTD	1M	3M	12M
Absolute	30.5	6.9	13.0	3.3
Relative	20.8	1.1	5.4	16.7

Source: Bloomberg



## Ownership

PVN	79.94%
Norges Bank	1.27%

## Stock Statistics

Jun-06-23

### Bloomberg code

POW VN

52-week range (VND)	16,400 – 8,910
Shares (mil)	2,342
Mkt cap (VND bn)	32,671
Mkt cap (USD bn)	1.39
Foreign room left (mil)	959
Est. free float (mil)	345
3m avg daily vol (mil shrs)	7.7
USD/VND	23,550
Index: VNIndex / HNX	1,090.8 / 226.0

## Petrovietnam Power Corporation (Hose: POW)

POW is currently the largest publicly traded company in generating and selling electricity from natural gas. Owning seven (7) power facilities with 4,200 MW including: hydro, coal-fired and especially gas turbines, in which Nhon Trach 2 Thermal Power JSC (HOSE: NT2) as a primary representative. In addition, POW is projecting other substantial generators such as Nhon Trach 3 & 4 (NT3 & 4), which offer an attractive growth outlook. We issue a BUY recommendation on POW with a target price of 16,651 VND, representing a 19.4% total expected return.

Complying with the objectives outlined in National Power Plan VIII (PP8), which was officially authorized by the Prime Minister in mid-May 2023 for the 2021 – 2030 period, which stipulated that the electricity industry must advance one-step ahead in order to pave the way for sustainable economy development, energy demand and national energy security. Furthermore, in accordance with commitments made at COP 26 & 27, the Government has set the target of seek and utilizing greener and friendlier environmental energy, with less carbon emission that contributes to global warming and the greenhouse effect. As a result, gas turbines becomes the most promising contender to supplant coal-fired power facilities, which serves as foundation sources and enhance renewable energy simultaneously.

According to NOAA, the first year of El Nino cycle's two-year period will occur in 2023, resulting in lower precipitation than many years' average, longer sunlight hours and higher average temperature. This would increase the power mobilization output from thermal group in the expense of hydropower. Therefore, it is expected to bode well for thermal groups to post a strong result during 2023 – 2024 period.

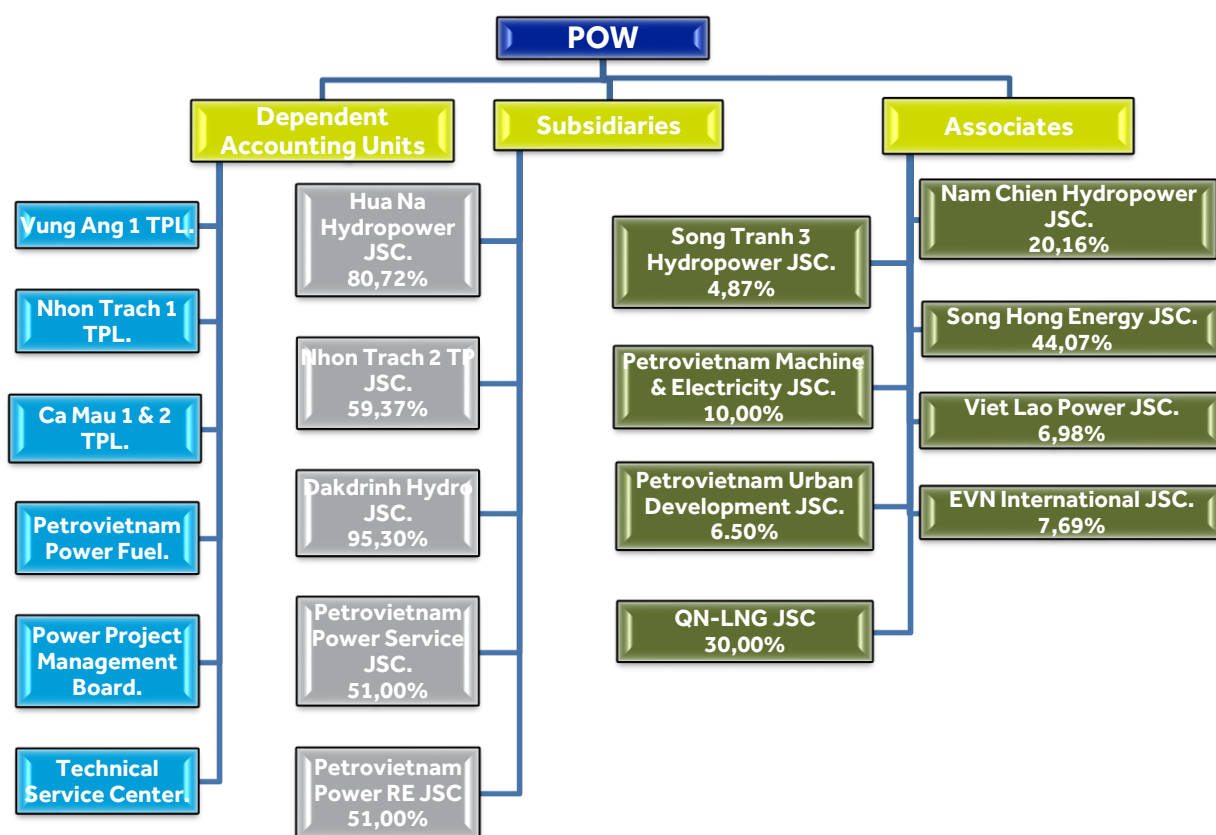
POW has a solid financial situation, together with strong operating cash flow from its energy-mixed portfolio, which is capable of generating up to 23 bn kWh annually (almost 10% of national energy demand). Moreover, NT3 & 4 project – 1,624 MW, which will be the first gas turbines using imported LNG, would serve as a catalyst for the corporation's growth after 2024.

Unit: bn VND	2021	2022	2023F	2024F	2025F
Net Sales	24,561	28,224	35,827	39,883	45,708
Growth	-17%	15%	27%	11%	15%
EBITDA	5,218	5,668	6,750	8,058	8,485
EBITDA margin	21%	20%	19%	20%	19%
Net Profit	1,799	2,061	3,182	4,245	3,275
Growth	-24%	15%	54%	33%	-23%
EPS: VND	687	802	1,279	1,734	1,319
Growth	-32%	17%	59%	36%	-24%
ROE	6%	6%	9%	11%	8%
ROA	3%	4%	5%	5%	4%
Net debt / EBITDA (x)	(0.1)	(0.2)	1.4	2.4	1.6
EV / EBITDA (x)	6.2	5.8	6.3	6.4	5.4
EV / Sales (x)	1.3	1.2	1.2	1.3	1.0
P/E (x)	15.8	17.8	10.0	7.5	9.8
P/B (x)	0.9	0.9	0.9	0.8	0.7
DPS: VND	200	-	-	-	-
Dividend Yield	1%	-	-	-	-

### CORPORATION INFORMATION

POW was founded in 2007, operating chiefly in the field of power generation. PV Power has invested and operated power plants across various fields of thermal power (both coal and gas), hydropower and other renewables. PV Power also develops services such as operations, maintenance and repair, electrical engineering services, fuel supply for power plants, etc. and has become the leading enterprise in the Gas-Electricity market in Vietnam. The Company officially transformed its operation model into a joint stock company from Jul 2018 and listed on HOSE from 2019.

### POW Organizational Chart (including ownership percentage of subsidiaries and associates)



## PRIMARY ENERGY PORTFOLIO

	Plants	Location	Ownership	Type	Capacity: MW	COD	Capital: bn VND	Technology
1	CM1	Ca Mau	100%	Gas - Oil	750	2008	6,571	CCGT <sup>1</sup>
2	CM2	Ca Mau	100%	Gas - Oil	750	2008	6,153	CCGT
3	NT1	Dong Nai	100%	Gas - Oil	450	2009	6,344	CCGT
4	NT2	Dong Nai	59%	Gas - Oil	750	2011	11,355	CCGT
5	VA1	Ha Tinh	100%	Coal -Fired	1,200	2015	33,651	Critical
6	Hua Na	Nghe An	81%	Hydro	180	2013	7,092	Francis Turbine
7	Dakdrinh	Quang Ngai	95%	Hydro	125	2014	5,921	Francis Turbine
	<b>Total</b>				<b>4,205</b>			

Sources: POW, ACBS.

Four (4) chief gas-fired plants, including NT1 & 2 and CM1 & 2, together with the coal thermal plants – VA1 have historically contributed over 90% of POW's total output and account for a significant portion in POW's revenue and profit.

Output: mil kWh	2018	2019	2020	2021	2022
CM 1 & 2	7,211	7,556	6,498	4,300	3,800
NT2	4,737	4,952	3,903	3,195	4,065
VA1	4,877	5,771	6,544	5,500	3,318
NT1	2,935	3,255	1,148	445	1,404
Hua Na	806	560	566	563	829
Dakdrinh	423	433	505	620	776
Nam Cat	18	17	-	-	-
<b>POW</b>	<b>21,007</b>	<b>22,543</b>	<b>19,164</b>	<b>14,623</b>	<b>14,192</b>

Sources: POW, ACBS.

### On Process Project: NT3 & 4

The initial inclusion of the NT3 & 4 project in PP7, followed by its transfer to PP8, as the first gas turbines using imported LNG, is anticipated to serve as a model for subsequent LNG gas turbines projects.

Recently, POW has successfully signed up to 17 out of 18 construction contracts of the project.

On Mar 3rd, 2023 POW and Electricity Power Trading Company (EPTC) signed the Minutes of the meeting to negotiate the price and the Power Purchase Agreement (PPA) for NT3 & 4, agreeing to and initialing the preliminary.

Gas Sale Agreement (GSA): The Corporation is contemplating Heads of Agreement (HOA) with PV Gas to be signed by both parties as a basis for PV Gas to prepare and arrange LNG supply.

<sup>1</sup> CCGT: Combined Cycle Combustion Turbine

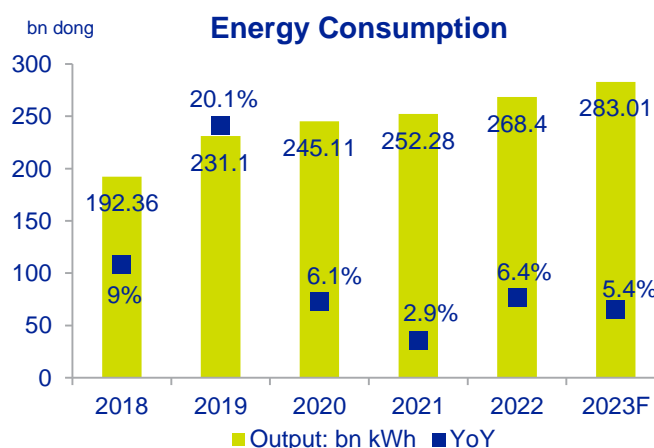
NT3 & 4		Details
Equipment supplier	GE	General Electric (America)
Technology	H class gas turbine	
Model	9HA	Most GE's currently efficient technology
Life expectancy	20 years	
Constructor	Samsung C & T Corporation & Lilama	
Construction Agreement	EPC	Engineering, Procurement & Construction
Fuel	Imported LNG	<ul style="list-style-type: none"> <li>First imported LNG usage power plant</li> <li>Expected 1.5 bn m<sup>3</sup>/year</li> </ul>
Efficiency	>60%	
Expected yearly output	9 bn kWh	
Equity	25%	7,000 bn VND financed by POW
Credit	75%	<ul style="list-style-type: none"> <li>Nearly 15,000 bn VND arranged by Export Credit Arrangement (ECA) with support from ING Bank (Netherlands) and Citi Bank (USA).</li> <li>Over 7,000 bn VND from foreign funds</li> </ul>
Maintenance	GE	POW and GE had signed Heads of Agreement (HOA) overhaul and maintenance contracts.

Sources: POW, ACBS.

## INVESTMENT 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.



Sources: EVN, ACBS.

### Orientation Regarding National Sources of Energy.

According to PDP8, gas power is used to gradually supplant coal-fired to achieve the commitments on carbon emissions neutralized after 2050, serve as a foundation for sustainable economic development and national energy security, as well as support

for the energy transition to renewable sources such as hydroelectricity, solar power or wind power which contain the primary disadvantage of being unstable and highly reliant on weather conditions depending on each type.

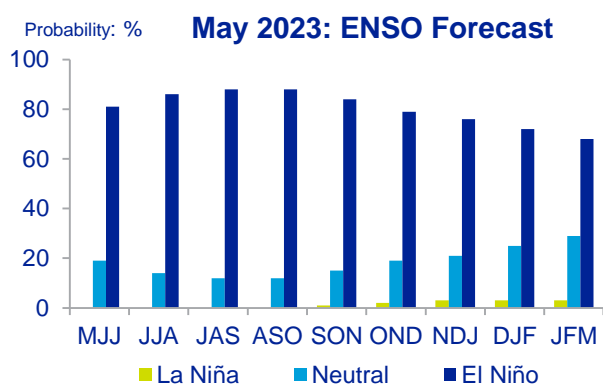
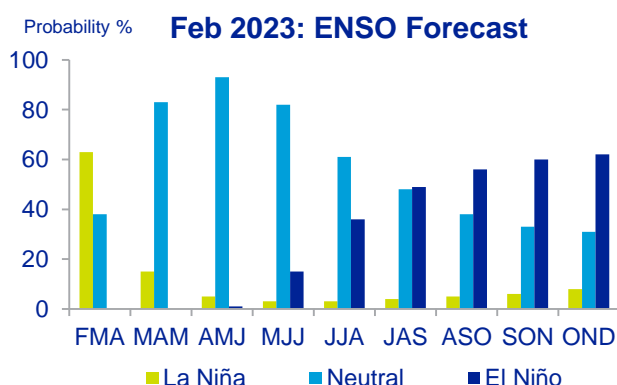
In the most positive scenario for gas power, coal-fired would only develop additionally about 4,300 MW by the end of 2030 as numerous projects have been cancelled due to problems in capital-arrangement issues. Instead, the Government aims for gas-fired power projects to reach over 37,000 MW by 2030. This means 28,000 MW of gas turbines capacity will be added to the nation's energy portfolio, including gas-fired power using domestic gas fields and imported LNG.

Capacity: MW	2022	2030F
Coal-fired	25,820	30,127
Domestic Gas Power	8,977	14,930
LNG Gas Turbines	-	22,400
Hydro	22,349	29,346
Onshore Wind Power	4,126	21,880
Offshore	-	6,000
Solar	16,544	20,591
Biomass	-	2,270
Pumped-Hydro	-	2,400
Battery	-	300
Import	-	5,000
Other	1,835	
<b>Total</b>	<b>79,651</b>	<b>158,244</b>

Sources: MoIT, ACBS.

### Weather Advantages

According to the NOAA's most recent ENSO forecast model in May, 2023 compared to Feb, 2023, indicated the significant increase of El Niño's probability since mid 2023, from 15% to 81% in May and from 36% to 86% in June. As a result, we expect period from 2023 to 2024 will be more favorable for thermal groups generally over hydropower.



Sources: NOAA, ACBS.

### Strong Financial Affaires.

By the end of 2022, POW had 9,018 bn dong total debt, accounting only 16% of total assets. The operating cash flow (OCF) for five-year period from 2018 to 2022 averages over 5,300 bn dong, while net profit achieved 2,100 bn dong in average.

Unit: bn dong	2018	2019	2020	2021	2022
Total debt	19,858	17,552	12,410	8,458	9,018
Equity	26,815	29,507	31,267	31,128	33,283
Asset	58,111	55,694	54,051	52,980	56,843
OCF	4,995	5,322	7,957	5,147	3,156
Net profit	1,920	2,509	2,365	1,799	2,061

Sources: POW, ACBS.

In the first quarter of 2023, POW produced 4 bn kWh, **+9%** YoY, resulting in 7,424 bn dong in revenue, **+5%** YoY and 535 bn dong net profit, **-26%** YoY. The underlying reason of decline in net profit is as combination of the remaining high of input fossil fuel materials, and the El Nino effect, which caused EVN to mobilize more energy volume from thermal groups. Besides, interest expenses rose **+144%** YoY, reaching 132 bn dong.

Unit: bn dong	Q1 2022	Q1 2023	YoY
Output: tr kWh	3,666	4,003	9%
<b>Revenue</b>	<b>7,061</b>	<b>7,424</b>	<b>5%</b>
Gross profit	1,027	679	-34%
Interest expenses	54	132	144%
<b>Net profit</b>	<b>721</b>	<b>535</b>	<b>-26%</b>

Sources: POW, ACBS.

## VALUATION

### 2023F

POW is scheduled to carry out major overhauls for CM2 and NT2 in 2023, estimated about 45 days for each, in conjunction with replacing several necessary equipment for VA1, with completion anticipated in Q3 2023. However, we project the total output would be able to reach 19.6 bn kWh thanks to the significant El Nino effect forcing EVN to maximize the mobilization of thermal power, resulting in 35,827 bn dong in revenue, **+27%** YoY, and 4,775 bn in gross profit, **+28%** YoY given assumption of a slight decrease in oil, coal and gas prices. In 2023, we forecast POW's net profit would be 3,182 bn dong, **+54%** YoY.

### 2024F

Given the two-year El Nino cycle from 2023 to 2024 and the expectation that oil prices will fall to 75 \$ / brrl, resulting in approximately 8.14 USD per MMBtu, we forecast POW will achieve a remarkable result. 2024 production output could reach 23.1 bn kWh, generating 39,883 bn dong in revenue, 6,083 bn in gross profit, and 4,245 bn in net profit.

### 2025F

We expect 2025 will witness the return of La Nino cycle, which will shift the weather preference towards hydroelectricity groups, and likely lead to a decline in POW's production volume. With the addition of NT3 & 4 facilities; nevertheless; we forecast the corporation's output to reach 26.5 bn kWh, generating 45,708 bn dong revenue in 2025, bringing in 5,130 bn dong in gross profit and net profit of 3,275 bn dong.



	2023F	2024F	2025F
Average oil price: \$ / brrl	85	75	75
Average gas price: \$ / MMBtu	8.68	8.14	8.14
<b>Output: bn kWh</b>	<b>19.6</b>	<b>23.1</b>	<b>26.5</b>
<i>CM1 &amp; 2</i>	<i>7,020</i>	<i>7,884</i>	<i>6,264</i>
<i>NT1</i>	<i>2,916</i>	<i>3,110</i>	<i>1,814</i>
<i>NT2</i>	<i>3,888</i>	<i>4,590</i>	<i>4,320</i>
<i>Hua Na</i>	<i>618</i>	<i>572</i>	<i>653</i>
<i>Dakdrinh</i>	<i>551</i>	<i>437</i>	<i>502</i>
<i>VA1</i>	<i>4,608</i>	<i>6,552</i>	<i>5,544</i>
<i>NT3 &amp; 4</i>	<i>-</i>	<i>-</i>	<i>7,454</i>
Average electricity selling price: VND / kWh	1,828	1,723	1,721
<b>Revenue: bn đồng</b>	<b>35,827</b>	<b>39,883</b>	<b>45,708</b>
<b>COST: bn đồng</b>	<b>31,052</b>	<b>33,800</b>	<b>40,578</b>
<b>Net profit: bn đồng</b>	<b>3,182</b>	<b>4,245</b>	<b>3,275</b>

Applying the combination of FCFF and P/E metric in equal weights, we derive the target price of **16,651 dong per share** and issue a **BUY** recommendation with total expected return of **19.4%**, equivalent to 2023 P/E forward: 10 times.

2023 – 2025		2026 - 2030	
<b>R<sub>f</sub></b>	3.7%	<b>R<sub>f</sub></b>	2.5%
<b>E(R)<sub>m</sub></b>	11.1%	<b>E(R)<sub>m</sub></b>	10.0%
<b>Beta</b>	1.3	<b>Beta</b>	1.3
<b>K<sub>e</sub></b>	13.3%	<b>K<sub>e</sub></b>	12.1%
<b>K<sub>d</sub></b>	5.2%	<b>K<sub>d</sub></b>	4.1%
<b>WACC</b>	11.5%	<b>WACC</b>	9.0%
<b>Growth</b>	5%	<b>Growth</b>	5%



POW FINANCIALS MODEL	Price: VND	13,950	Target: VND	16,651	Mkt cap: bn VND	32,671
Unit: bn VND except where stated	2021	2022	2023F	2024F	2025F	
<b>Total sales</b>	<b>24,561</b>	<b>28,224</b>	<b>35,827</b>	<b>39,883</b>	<b>45,708</b>	
<i>Growth</i>	-17%	15%	27%	11%	15%	
COGS	22,021	24,498	31,052	33,800	40,578	
<b>EBITDA</b>	<b>5,218</b>	<b>5,668</b>	<b>6,750</b>	<b>8,058</b>	<b>8,485</b>	
<i>EBITDA margin</i>	21%	20%	19%	20%	19%	
Depreciation	2,818	2,809	2,810	2,810	4,581	
<b>Operating profit</b>	<b>2,460</b>	<b>2,765</b>	<b>3,901</b>	<b>5,196</b>	<b>4,048</b>	
<i>Operating profit margin</i>	10%	10%	11%	13%	9%	
Net interest expense	191	119	37	82	(122)	
<i>as % of avg, net debt</i>	-65%	-13%	0%	0%	-1%	
Interest cover (x)	12.6	24.0	105.2	63.7	(32.1)	
Tax	164	240	360	486	374	
<i>Tax rate</i>	7%	9%	9%	9%	9%	
<b>Net profit</b>	<b>1,799</b>	<b>2,061</b>	<b>3,182</b>	<b>4,245</b>	<b>3,275</b>	
<i>Net profit margin</i>	7%	7%	9%	11%	7%	
<b>Cash earning</b>	<b>4,617</b>	<b>4,870</b>	<b>5,992</b>	<b>7,055</b>	<b>7,857</b>	
Number of shares (m)	2,342	2,342	2,342	2,342	2,342	
<b>EPS (VND)</b>	<b>687</b>	<b>802</b>	<b>1,279</b>	<b>1,734</b>	<b>1,319</b>	
<i>EPS growth</i>	-32%	17%	59%	36%	-24%	

KEY CASHFLOW AND BS ITEMS	2021	2022F	2023F	2024F	2025F
Increase in working capital: bn VND	(661)	2,300	1,407	1,217	2,789
Capex: bn VND	284	2,599	16,084	16,084	229
Change in investment in affiliates: bn VND	472	(17)	-	-	-
Other cashflow items	92	832	1,276	1,581	1,312
<b>Free cash flow: bn VND</b>	<b>5,558</b>	<b>786</b>	<b>(10,222)</b>	<b>(8,665)</b>	<b>6,150</b>
Share issues: bn VND	-	-	-	-	-
Dividends paid: bn VND	710	199	410	585	702
Increase in net debt: bn VND	(4,848)	(587)	10,632	9,250	(5,448)
<b>Net debt, end of year: bn VND</b>	<b>(296)</b>	<b>(883)</b>	<b>9,749</b>	<b>18,999</b>	<b>13,550</b>
<b>Shareholders' equity: bn VND</b>	<b>31,128</b>	<b>33,283</b>	<b>36,279</b>	<b>40,340</b>	<b>43,430</b>
BVPS: VND	13,291	14,211	15,491	17,225	18,545
Net debt / equity	-1.0%	-2.7%	26.9%	47.1%	31.2%
Net debt / EBITDA (x)	(0.1)	(0.2)	1.4	2.4	1.6
<b>Total assets: bn VND</b>	<b>52,979</b>	<b>56,842</b>	<b>67,342</b>	<b>84,271</b>	<b>81,967</b>

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	6%	6%	9%	11%	8%
ROA	3%	4%	5%	5%	4%
ROIC	6%	7%	8%	8%	6%
WACC	-	11%	11%	11%	11%
EVA	6%	-5%	-4%	-4%	-6%
P/E (x)	15.8	17.8	10.0	7.5	9.8
EV/EBITDA (x)	6.2	5.8	6.3	6.4	5.4
EV/FCF (x)	5.8	41.6	(4.1)	(5.9)	7.5
P/B (x)	0.9	0.9	0.9	0.8	0.7
P/S (x)	1.2	1.1	0.9	0.8	0.7
EV/sales (x)	1.3	1.2	1.2	1.3	1.0
Dividend yield	1%	-	-	-	-

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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.

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

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

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