



POW Update - OUTPERFORM

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Update

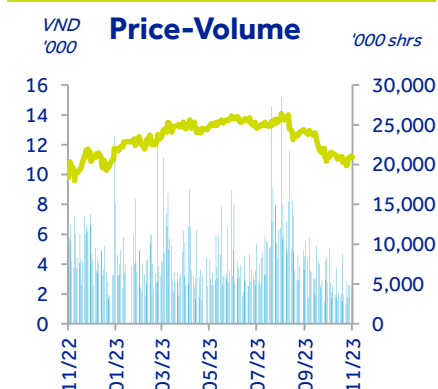
Recommendation **UNDERPERFORM**
HOSE: POW

	Utility
Target price (VND)	13,535
Market price (VND)	11,400
Expected share price return	18.7%
Expected dividend yield	7.7%
Expected total return	18.7%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	4.7	-0.9	-17.4	10.4
Relative	-2.3	2.1	-5.5	2.1

Source: Bloomberg



Ownership

PVN	79.9%
Norges Bank	1.3%

Stock Statistics 30-Nov-23

Bloomberg code	POW
52-week range (VND)	8,910 – 20,800
Shares O/S (mil)	2,342
Mkt cap (VND bn)	26,698
Mkt cap (USD mil)	1,107.7
Est. Foreign room left (%)	44.4
Est. free float (%)	18.8
3m avg daily vol (shrs)	7.3
VND/USD	23,913
Index: VNIIndex / HNX	1,095.6/226.1

Petrovietnam Power Corporation (HOSE: POW)

POW released its Q3/2023 result with the parent company's NPAT reaching VND83 bn, +23.6% YoY. Accumulated 9M2023, NPAT amounted to VND743 bn VND, completing 66.5% of the plan, but only 27.8% of our projection. Our NPAT forecast is revised down by 48.5% in comparison to the last updated report, to VND1,377 bn. Accordingly, the target price is revised down to VND13,535 per share, representing a total expected return of 18.7%. Rating OUTPERFORM.

These following variables most significantly impact our earnings forecast for POW in 2023.

- 1) The NT1 factory failed to meet anticipated output despite the appearance of the El Nino cycle in 2023.
- 2) The FMP has declined compared to the average level of the previous period.
- 3) NT2 booked a large amount of repair expenses, leading to negative NPAT of more than VND 120 bn.
- 4) Vung Ang extended its repair duration from Q3/2021 to Q3/2023, instead of the initial completion plan of February 2023.
- 5) Fossil fuel input prices have not decreased much but have even increased like coal.
- 6) And finally, El Nino curtailed hydropower output.

Q3/2023's revenue decreased by 6.0% YoY, reaching VND 5,679 bn, primarily due to the fact that POW underwent many factories overhaul in order to exploit advantage of the rainy season, which result in prior to hydropower over thermal power.

Regarding the capital increase by VND 5,000 bn, during the investor meeting in Oct 2023, POW disclosed that it had submitted a capital increase plan to the parent company - Vietnam Oil and Gas Group (PVN). Although the method has not been mentioned, we believe that the capital will come from retained earnings and research funds because the company has not distributed any dividends since the beginning of 2022, reserving all profits for reinvestment.

The progress of the NT3 and NT4 plants was reported on schedule, more than 60% of the total volume has been constructed and commercial power generation of the NT3 plant is expected in November 2024 and NT4 in May 2025.

	2021	2022	2023F	2024F	2025F
Net Sales (VND bn)	24,561	28,224	28,409	37,662	50,310
Growth	15%	15%	1%	33%	34%
EBITDA (VND bn)	5,218	5,668	4,871	6,201	8,344
Growth	21%	20%	17%	16%	17%
PAT (VNDbn)	1,799	2,061	1,377	2,495	1,257
Growth	-24%	15%	-33%	81%	-50%
EPS (bonus-adjusted, VND)	687	802	509	987	458
Growth	-32%	17%	-37%	94%	-54%
ROE	6%	6%	4%	7%	3%
ROA	3%	4%	2%	3%	1%
Net debt/EBITDA (times)	(0.1)	(0.2)	2.8	4.0	2.4
EV/EBITDA (times)	4.9	4.5	8.2	8.3	5.6
PER (times)	15.8	17.8	19.0	10.5	20.8
PBR (times)	0.9	0.9	0.8	0.7	0.7
DPS (VND)	200	-	-	-	-
Dividend yield	2%	-	-	-	-

Significant increases in input cost impacted POW's performance.

Q3/2023 revenue decreased by 6.0% YoY, reaching VND 6,042 bn, whereas gross profit plummeted by 56.3% YoY, reaching VND 307 bn, resulting in gross profit margin decreased to 5.4% compared to 11.6% in Q3/2022. The main reasons are as below:

- (1) The Increase of the input costs. More precisely, the COGS in Q3/2023 increased by 0.6% YoY.
- (2) Production continues to be halted for maintenance: POW repaired many facilities in Q3 to exploit advantage of the hydropower's highly seasonal operation. In particular, unit S1 of the Vung Ang 1 (VA1) plant has just resumed operation in mid-August, while the Ca Mau 2 (CM2) and Nhon Trach 2 (NT2) plants underwent overhaul, respectively in Sep and from Sep 7th to Oct 2023.
- (3) There was a significant decline in the selling price of electricity in the competitive market. In particular, the average FMP price decreased by 46.2% YoY to 870 VND/kWh in Q3/2023. Therefore, the portion of output sold under POW's competitive mechanism (< 20% of total output) was also affected.

Unit: bn VND	Q3/2022	Q3/2023	YoY	9M2022	9M2023	YoY
Output: mil kWh	2,995	2,804	-6.4%	10,141	10,975	8.2%
Revenue	6,042	5,679	-6.0%	20,566	21,533	4.7%
COGS	5,339	5,373	0.6%	17,907	20,078	12.1%
Gross Profit	703	307	-56.3%	2,659	1,455	-45.3%
Net Earning	67	83	23.9%	1,210	734	-39.3%
Gross margin	11.6%	5.4%		12.9%	6.8%	

Sources: POW, ACBS

Accumulated 9M2023, although output and revenue increased, which was 8.2% YoY and 4.7% YoY respectively, the gross profit and NPAT of the parent company decreased by 45.3% YoY and 39.3% YoY respectively. The Q3/2023 gross profit margin was only 6.8%.

NT1's output mobilization did not meet expectations, notwithstanding the El Nino cycle. In addition, NT2's output dropped sharply in Q3/2023 due to the overhaul of 100,000 operating hours and the unit S1 of VA1's was just reactivated in Q3/2023.

Output: mil kWh	Q1/2022	Q2/2022	Q3/2022	Q4/2022	Q1/2023	Q2/2023	Q3/2023
Nhon Trach 1	565	256	166	413	92	227	73
Nhon Trach 2	995	118	898	992	1,075	1,054	365
Ca Mau 1&2	936	927	622	1,315	1,403	1,696	1,015
Vung Ang 1	821	825	832	840	934	1,173	1,030
Hua Na	142	148	306	233	126	81	192
Dakdrinh	191	158	171	257	203	108	130
Total	3,653	3,493	2,995	4,050	3,832	4,338	2,804

Sources: POW, ACBS

The average electricity selling price (AESP) in Q3/2023 was 2,025 VND/kWh, a slight increase of 0.4% YoY. However, 9M2023 AESP was 1,962 VND/kWh, down 3.3% YoY, whereas production prices increased by 7.5% YoY in Q3/2023, and cumulatively in 9M2023, it increased by 3.5% YoY. In other words, while selling prices are decreasing, production costs are increasing.

Cumulatively in 9M2023, although output and revenue increased better, COSG increased by 12.1% YoY, leading to 9M2023 gross profit decreasing by 45.3% YoY.

Unit: VND/kWh	Q3/2022	Q3/2023	YoY	9M2022	9M2023	YoY
Selling price	2,017	2,025	+0.4%	2,028	1,962	-3.3%
Production cost	1,783	1,916	+7.5%	1,768	1,829	+3.5%

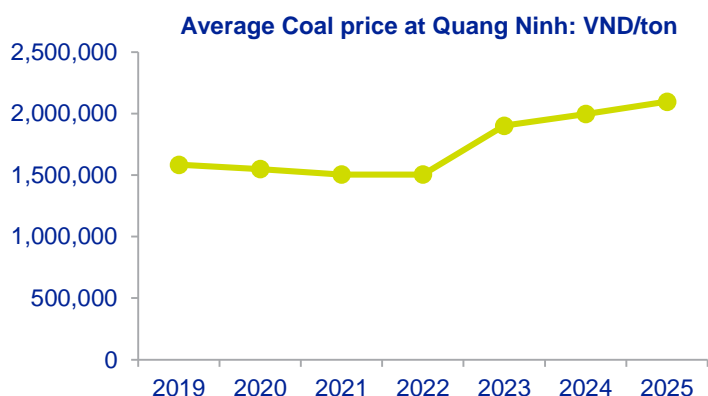
Sources: POW, ACBS

In POW's production cost structure, input normally accounted for over 70%, of which contained mainly natural gas (NT1, NT2, CM 1&2) and coal (VA1). Therefore, with output and revenue in 9M2023 only increasing slightly, it demonstrated that the average gas and coal price had increased moderately.

Expenses Structure: bn VND	Q3/2022	Q3/2023	YoY	9M2022	9M2023	YoY
Materials	3,937	3,750	-4.7%	13,904	15,715	13.0%
Employment	177	143	-19.2%	481	521	8.3%
Depreciation	706	706	0.0%	2,106	2,103	-0.1%
Others	919	928	1.0%	2,136	2,275	6.5%
Total	5,739	5,527	-3.7%	18,627	20,614	10.7%

Sources: POW, ACBS

The supply of domestic coal to thermal power plants has not been covariant with global coal prices. The underlying reason is because the Government would place a higher value on ensuring national energy security over coal price market mechanism. Therefore, the input coal price of thermal power plants is regulated corresponding to the price of imported coal and blended with domestic coal, rather than being aligned with the global coal price trend.



Sources: PGV, ACBS

2023-2024 Earnings Forecast

POW further revealed that they are waiting for the promulgation of imported LNG's price mechanism to negotiate a Power Purchasing Agreement (PPA) with the Electricity Power Trading Company (EPTC - EVN). Experts from Vietnam energy publications estimated that the initial price of imported LNG gas at the Cai Mep - Thi Vai port in July 2023 was approximately 12 USD/MMBtu (transportation fees included), with an anticipated range of 12 to 15 USD/MMBtu. Accordingly, we revised our gas input price assumption for the NT 3&4 projects to approximately 12 USD/MMBtu.

We also revised POW's earnings projection for 2023F and 2024F, with output volume being the key factor. We have therefore accounted for a production reduction for 2023 in our forecast, due to the longer-than-expected overhaul process and poor mobilization from NT1 because El Nino cycle has just newly started. In contrast, we adjusted the AESP to 1,945 VND/kWh compared to the previous of 1,735 VND/kWh. The late-than-expected

impact of El Nino and the high cost of materials were two key drivers of our assumption for higher AESP.

For 2024F, we forecast output will improve as a result of the lack of major facility overhauls such as CM1&2 and NT2. POW may only perform periodic annual overhauls on coal-fired alternating power units, and the impact of El Nino will become more pronounced in the 2nd year. As of the time of updating this report, the new El Nino cycle was officially confirmed. The index recorded 1.5 in Oct, the 5th consecutive month above or equal to 0.5 (Jun: 0.5, Jul: 0.8, Aug: 1.1, and Sep: 1.3), in accordance with NOAA's measurement and convention.

Unit: bn VND	2023F			2024F		
	Previous	Update	Change	Previous	Update	Change
Output: mil kWh	20,231	14,609	-27.8%	21,218	17,530	-17.4%
AESP: VND/kWh	1,735	1,945	12.1%	1,726	2,148	24.4%
Revenue	35,107	28,409	-19.1%	36,622	37,662	2.8%
COST	30,507	25,463	-16.5%	31,129	33,066	6.2%
NPAT	2,676	1,377	-48.5%	3,486	2,495	-28.4%

In addition, we forecast that 2025F NPAT will decline again, reaching only VND 1,300 bn due to the commencement of operation at the NT 3&4. Consequently, the ability to capitalize interest expenses will cease. Furthermore, La Nina's return would affect the mobilization from thermal power in conjunction with major overhauls such as CM1 and NT1.

Valuation

Based on the FCFF method, we achieve the target price of VND 13,535 per share for POW, representing a total expected return of 18.7%. Rating Outperform.

APPENDIX

POW FINANCIALS MODEL	Price: VND	11,400	Target:	13,535	Mkt Cap: bn VND	26,698
(VND bn except where stated)		2021	2022	2023F	2024F	2025F
Total Net Sales		24,561	28,224	28,409	37,662	50,310
<i>Growth</i>		15%	15%	1%	33%	34%
CoGS		22,021	24,498	25,463	33,066	45,363
EBITDA		5,218	5,668	4,871	6,201	8,344
<i>EBITDA margin</i>		21%	20%	17%	16%	17%
Depreciation		2,818	2,809	2,810	2,810	4,477
Operating profit		2,460	2,765	1,900	3,192	1,797
<i>Operating profit margin</i>		10%	10%	7%	8%	4%
Net interest expense		191	119	160	228	2,092
<i>as % of avg net debt</i>		-65%	-13%	1%	1%	10%
Interest cover (x)		12.6	24.0	12.9	14.9	1.8
Tax		164	240	176	299	167
<i>Tax rate</i>		7%	9%	9%	9%	9%
Net profit		1,799	2,061	1,377	2,495	1,257
<i>Net profit margin</i>		7%	7%	5%	7%	2%
Cash earning		4,617	4,870	4,187	5,305	5,734
Number of shares: mil		2,342	2,342	2,342	2,342	2,342
EPS: VND		687	802	509	987	458
Share split factor (x)		1.0	1.0	1.0	1.0	1.0
Adjusted EPS: VND		687	802	509	987	458
EPS growth		-32%	17%	-37%	94%	-54%

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	(661)	2,300	(115)	1,318	3,278
Capex	284	2,599	16,084	16,084	229
Change in investment in affiliates	(472)	17	3,561	-	-
Other cashflow items	92	832	995	1,282	3,015
Free cash flow	5,558	786	(14,347)	(10,815)	5,243
Share issues	-	-	-	-	-
Dividends paid	710	199	409	409	409
Increase in net debt	(4,848)	(587)	14,757	11,224	(4,833)
Net debt, end of year	(296)	(883)	13,874	25,098	20,265
Shareholders' equity	31,128	33,283	34,474	36,785	37,857
BVPS: VND	13,291	14,211	14,721	15,707	16,165
Net debt / equity	-1.0%	-2.7%	40.2%	68.2%	53.5%
Net debt / EBITDA (x)	(0.1)	(0.2)	2.8	4.0	2.4
Total assets	52,980	56,843	73,878	86,258	84,254

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	6%	6%	4%	7%	3%
ROA	3%	4%	2%	3%	1%
ROIC	6%	7%	4%	5%	6%
WACC	-	11%	11%	11%	11%
EVA	6%	-5%	-8%	-6%	-5%
P/E (x)	15.8	17.8	19.0	10.5	20.8
EV/EBITDA (x)	4.9	4.5	8.2	8.3	5.6
EV/FCF (x)	4.6	32.1	(2.8)	(4.7)	8.8
P/B (x)	0.9	0.9	0.8	0.7	0.7
P/S (x)	1.2	0.9	0.9	0.7	0.5
EV / Sales (x)	1.1	0.9	1.4	1.4	0.9
Dividend Yield (%)	2%	-	-	-	-

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BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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