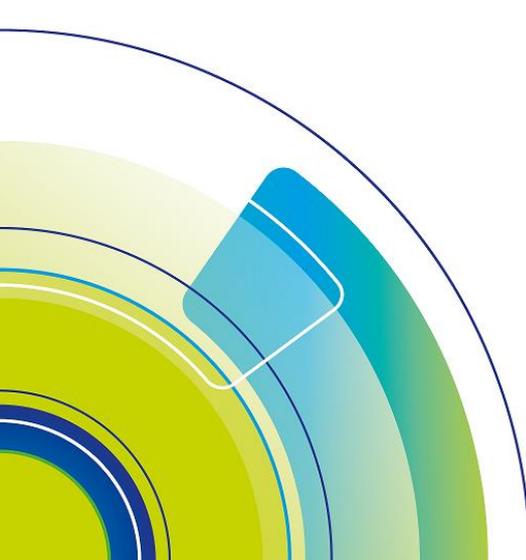




NT2 Update - UNDERPERFORM

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Company Update

Recommendation **UNDERPERFORM**

HOSE: NT2

Thermal – Gas Turbine

Target price (VND) **17,900**

Current price (VND) **21,9500**

Expected share price return -18.5%

Expected dividend yield 0.0%

Expected total return **-18.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-7.9	-4.4	-3.3	-20.4
Relative	-22.6	-3.1	-4.4	-33.6

Source: Bloomberg



Ownership

POW	59,4%
PTCN JSC	8,3%
Samarang UCITS	5,0%

Stock Statistics

12-Jul-24

Bloomberg code	NT2 VN
52-week range (VND)	20,850 - 31,400
Shares O/S (m)	288
Mkt cap (VND bn)	6,319
Mkt cap (USD m)	248
Foreign room left (%)	36.1
Est. free float (m)	32.3
3m avg daily vol (shrs)	751,121
VND/USD	25,482
Index: VNIindex / HNX	1283.03/245.4

Nhon Trach 2 Thermal Power JSC (HOSE: NT2)

Following the disappointed results in 2023 (Revenue: -27.3% YoY, NPAT: -46.4% YoY), we project NT2 will continue to experience a decline in revenue and NPAT in 2024 (Revenue: -43.4% YoY, NPAT: -61.2% YoY). The underlying reason is that the contract output Qc in 2024 continues to decrease (2024: 1.8 bn kWh compared to 3.5 bn kWh in 2023). The valuation for NT2 for the next 12 month is equivalent to VND 17,900 per share, rating UNDERPERFORM.

At the end of Q1/2024, NT2 reported results with revenue of VND 262 bn, -88.0% YoY, completing 4.1% of the 2024 plan; and NPAT was VND -159 bn.

For the period of 2024F-2026F, we expect NT2's business situation to no longer be as good as in previous periods due to the following factors:

- (1) The end of the El Nino cycle: Increased precipitation is expected, leading to hydropower plants would post positive production results again and scale down the production volume of thermal power plants.
- (2) The situation of local power outage in the South is not as serious as in the North.
- (3) The thermal power plants NT3 & NT4, with modern technology, lower CO2 emissions, and better efficiency, will be put into operation in late 2024, mid-2025, and will compete directly with NT2 in the Nhon Trach Industrial Zone (IZ) - Dong Nai in particular and the South in general.
- (4) Full-cost electricity prices and retail electricity prices are still not attractive enough for EVN to prioritize mobilizing electricity, despite the advantages of stability and environmental friendliness over coal-fired electricity.

	2022	2023	2024F	2025F	2026F
Net Sales (VNDbn)	6,150	8,788	6,386	3,614	5,245
Growth	1.1%	42.9%	-27.3%	-43.4%	45.1%
EBITDA (VNDbn)	1,283	1,640	1,128	692	834
EBITDA margin	20.9%	18.7%	17.7%	19.1%	15.9%
NPAT (VNDbn)	533	883	473	183	195
Growth	-14.9%	65.7%	-46.4%	-61.2%	6.5%
EPS (bonus-adjusted, VND)	1,775	2,970	1,535	614	653
Growth	-15.3%	67.3%	-48.3%	-60.0%	6.5%
ROE	12.6%	19.1%	10.9%	4.5%	4.6%
ROA	8.0%	11.9%	5.6%	2.5%	2.8%
Net debt/EBITDA (x)	0.2	0.2	1.1	0.4	(0.8)
EV/EBITDA (x)	5.1	4.0	6.7	9.5	6.8
P/E (x)	11.9	7.2	13.4	34.4	32.3
P/B (x)	1.9	1.8	1.3	1.4	1.5
Dividend (VND)	1,650	2,500	1,500	-	500
Dividend yield	7.5%	11.4%	6.8%	-	2.3%

NT2's Q1/2024 Business Results: Non-stop declining

NT2 reported lackluster business results for Q1/2024, with revenue down 88.0% YoY to only VND 262 bn and NPAT of VND -159 bn compared to VND 246 bn in the same period last year. The main reason for this is that EVN assigned low (Qc) from the beginning of the year, only about 1.8 - 2.0 bn kWh for 2024.

Electricity with high mobilization costs is not being prioritized by EVN in the context of not being too short of electricity, stemming from EVN's current financial situation. Therefore, in Q1/2024, NT2's commercial output was only 152 mil kWh, -85.9% YoY.

Financial revenue decreased by 13.6% YoY to VND 19 bn. Administrative expenses decreased by 25.0% YoY to VND 15 bn.

Unit: bn VND	Q1/2023	Q1/2024	YoY	2023	2024P	% 2024 Completing
Output: mil kWh	1,075	152	-85.9%	2,890	3,200	4.8%
Revenue	2,183	262	43.9%	6,386	6,340	4.1%
Gross profit	252	-226		510		
<i>Gross margin</i>	<i>11.5%</i>			<i>8.0%</i>		
Financial Income	22	19	-13.6%	107		
Administrative Expense	20	15	-25.0%	69		
NPAT	246	-159		473	68	
<i>NPAT's margin</i>	<i>10.7%</i>			<i>7.4%</i>		

Sources: NT2, ACBS

2024F-2025F Outlook: Relinquish the spotlights to NT3 & 4

For 2024, we expect NT2's revenue and NPAT to reach VND 3,614 bn, -43.4% YoY, and VND 183 bn, -61.2% YoY, respectively, due to the following factors:

- (1) The El Nino cycle ended as expected in June 2024 and will transition to a neutral phase. The El Nino index is at 0.4 compared to 0.7 in May 2024 and 2.0 in December last year, leading to an increase in average rainfall in the 2024-2025 period, which is favorable for hydropower towards thermal power plants;
- (2) Low (Qc) was assigned from the beginning of the year, estimated at 1.8 bn kWh. This is because EVN is facing financial difficulties and is limiting mobilization from electricity, which is more expensive than other sources such as coal or hydropower, and;
- (3) The full market electricity price (FMP) is forecast to be lower than in the 2022-2023 period due to the increased proportion of hydropower, averaging around VND 1,400 per kWh or less.

In addition, when NT3 and NT4 are put into commercial operation, they will pose a significant risk to NT2's business results. The new plants, with more advanced technology, less environmental pollution, and superior efficiency, will be prioritized, even though NT2 has a cost advantage. Furthermore, the situation of local power shortages in the South in general and the Nhon Trach - Dong Nai area in particular is not as serious as in the North during the hot summer months, and the shortage of mobilized gas for NT2 has been steadily decreasing recently.

In 2024, we expect NT2 to receive VND 177 bn from exchange rate differences, as shared by the company's management, which will somewhat support NT2's lackluster business results for the year.

Unit: bn VND	2023	2024F	YoY	2025F	YoY
Output: mil kWh	2.890	1.774	-38,6%	2.628	48,1%
Revenue	6.386	3.614	-43,4%	5.245	45,1%
Gross profit	510	47	-90,8%	210	346,8%
<i>Gross margin</i>	<i>8,0%</i>	<i>1,3%</i>		<i>4,0%</i>	
Financial Income	107	251	134,6%	105	-58,2%
Administrative Expense	69	42	-39,1%	62	47,6%
NPAT	473	183	-61,2%	195	6,6%
<i>NPAT's margin</i>	<i>7,4%</i>	<i>5,1%</i>		<i>3,7%</i>	

Sources: NT2, ACBS

For 2025, we forecast commercial output to reach nearly 2.7 bn kWh, revenue to reach about VND 5,245 bn, +45.1% YoY, and NPAT to reach around VND 195 bn, +6.6% YoY. We expect business results to improve slightly before NT3 and NT4 are put into official operation and hydropower reservoirs are filled of water during the late 2024 storm season and the official start of the La Nina cycle.

Valuation

Based on the FCFF method, we achieve the fair value for NT2 within the next 12 months at VND17,900/share, representing total expected return of -18,5%, rating UNDERPERFORM.

APPENDIX

FINANCIALS MODEL	Price: VND	21,950	Target: VND	17,900	Mkt cap VND bn	6,319
(VND bn except where stated)	2021	2022	2023	2024F	2025F	
Total Net Sales	6,150	8,788	6,386	3,614	5,245	
<i>Growth</i>	<i>1.1%</i>	<i>42.9%</i>	<i>-27.3%</i>	<i>-43.4%</i>	<i>45.1%</i>	
CoGS	5,474	7,706	5,876	3,567	5,036	
EBITDA	1,283	1,640	1,128	692	834	
<i>EBITDA margin</i>	<i>20.9%</i>	<i>18.7%</i>	<i>17.7%</i>	<i>19.1%</i>	<i>15.9%</i>	
Depreciation	690	689	687	687	687	
Operating profit	559	957	514	195	208	
<i>Operating profit margin</i>	<i>9.1%</i>	<i>10.9%</i>	<i>8.0%</i>	<i>5.4%</i>	<i>4.0%</i>	
Net interest expense	9	(6)	(65)	(14)	(61)	
<i>as % of avg net debt</i>	<i>4.3%</i>	<i>-2.4%</i>	<i>-5.4%</i>	<i>-4.8%</i>	<i>9.5%</i>	
<i>Interest cover (x)</i>	<i>65.9</i>	<i>(158.5)</i>	<i>(6.8)</i>	<i>(0.3)</i>	<i>(2.4)</i>	
Tax	43	45	41	12	12	
<i>Tax rate</i>	<i>7.6%</i>	<i>4.8%</i>	<i>8.0%</i>	<i>6.0%</i>	<i>6.0%</i>	
NPATMI	533	883	473	183	195	
<i>Growth</i>	<i>-14.9%</i>	<i>65.7%</i>	<i>-46.4%</i>	<i>-61.2%</i>	<i>6.5%</i>	
Cash earning	1,223	1,572	1,160	870	882	
Number of shares: mil	288	288	288	288	288	
EPS: VND	1,775	2,970	1,535	614	653	
<i>Bonus factor (x)</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	<i>1.0</i>	
Adjusted EPS: VND	1,775	2,970	1,535	614	653	
EPS growth	-15%	67%	-48%	-60%	6%	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023	2024F	2025F
Increase in working capital	192	285	263	(642)	(25)
Capex	3	1	3	-	-
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	51	(850)	(1,127)	(165)	12
Free cash flow	1,079	436	(233)	1,348	919
Share issues	-	-	-	-	-
Dividends paid	575	474	719	432	-
Increase in net debt	(504)	38	952	(915)	(919)
Net debt, end of year	209	247	1,199	284	(636)
Shareholders' equity	4,235	4,614	4,336	4,072	4,249
BVPS (VND)	14,710	16,026	15,061	14,143	14,760
<i>Net debt / equity (%)</i>	<i>4.9%</i>	<i>5.4%</i>	<i>27.7%</i>	<i>7.0%</i>	<i>-15.0%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.2</i>	<i>0.2</i>	<i>1.1</i>	<i>0.4</i>	<i>(0.8)</i>
Total assets	6,627	7,446	8,452	7,358	6,939

KEY RETURN AND VALUATION RATIOS	2021	2022	2023	2024F	2025F
ROE	12.6%	19.1%	10.9%	4.5%	4.6%
ROA	8.0%	11.9%	5.6%	2.5%	2.8%
ROIC	13.3%	18.1%	8.0%	0.1%	3.0%
WACC	11.6%	11.6%	11.6%	11.6%	11.6%
EVA	1.8%	6.5%	-3.6%	-11.5%	-8.6%
PER (x)	11.9	7.2	13.4	34.4	32.3
EV/EBITDA (x)	5.1	4.0	6.7	9.5	6.8
EV/FCF (x)	6.1	4.8	8.8	4.9	6.6
PBR (x)	1.9	1.8	1.3	1.4	1.5
PSR (x)	1.0	0.7	1.0	1.7	1.2
EV/sales (x)	1.1	0.7	1.2	1.8	1.1
Dividend yield	7.5%	11.4%	6.8%	-	2.3%

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Our Recommendation System

BUY: prospective 12 month VND total return (including dividends) will be more than 20%.

OUTPERFORM: prospective 12 month VND total return (including dividends) will be 10% to 20%.

NEUTRAL: prospective 12 month VND total return (including dividends) will be -10% to 10%.

UNDERPERFORM: prospective 12 month VND total return (including dividends) will be will be -20% to -10%.

SELL: prospective 12 month VND total return (including dividends) will be lower than -20%.

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