



POW Update - NEUTRAL

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Flash News

Recommendation

NEUTRAL

HOSE: POW

Electricity

Target price (VND) **13,700**

Current price (VND) **12,500**

Expected share price return **9.6%**

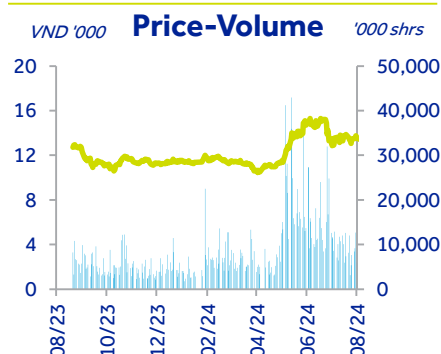
Expected dividend yield **0.0%**

Expected total return **9.6%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	16.0	-4.7	-3.3	0.8
Relative	2.6	-10.1	-3.0	-3.2

Source: Bloomberg



Ownership

PVN 79,94%

Norges Bank 1,27%

Stock Statistics

23-Sep-24

Bloomberg code

POW VN

52-week range (VND) 10,400 – 15,900

Shares O/S (m) 2,342

Mkt cap (VND bn) 29,274

Mkt cap (USD bn) 1.22

Foreign room left (%) 44.9

Est. free float (%) 20.0

3m avg daily vol (shrs) 12,281,750

VND/USD 25,030

Index: VNIIndex / HNX 1,268.48/233.38

PetroVietnam Power Corporation (HoSE: POW)

For 6M2024, POW reported VND666 bn in NPAT, - 18.6% YoY, completing 80.8% of the 2024 plan. Due to the end of the El Nino meteorological cycle and the shift to neutral/La Nina conditions - which are unfavorable for thermal power, and the operation of Nhon Trach 3&4 (NT3&4) will create lower gross margin due to high input costs, we adjust the forecast of POW's NPAT to VND963 bn for 2024, -25.0% YoY and VND831 bn for 2025, -15.5% YoY. Using the FCFF valuation method, we achieve the fair value of POW for the next 12 months to be VND13,700/share, representing a total expected return of +9.6%, rating Neutral.

In Q2/2024, POW's business showed the YoY improvement with revenue reaching VND9,407 bn, +11.6% YoY, gross profit reaching VND724 bn, +54.3% YoY, and NPAT reaching VND450 bn, +167.9% YoY. Key drivers of these results are: (1) The impact of the 2023-2024 El Nino cycle which led to lower precipitation and created favorable conditions for thermal power in expense of reducing hydropower generation. Specifically, Q2/2024 output reached over 4.8 bn kWh, +11.2% YoY; and (2) the recovery of the overall economy and electricity demand, causing the entire industry's electricity output in the 1H2024 to increase by 12.4% YoY.

Vietnam's first LNG thermal power project: NT3&4 is being implemented on schedule and is expected to commence commercial operation in Q4/2024 for NT3 and Q2/2025 for NT4.

According to the latest forecast from NOAA, the El Niño cycle ended in Apr 2024 and has transitioned to a neutral phase, with ENSO indices recording 0.4, 0.2, and 0.1 in Jun, Jul, and Aug, respectively. Additionally, NOAA forecasts that Oct and Nov will have the highest probability of experiencing La Niña conditions in 2024, at 50%. This is expected to bring positive effects for hydropower, while negative impacts for thermal power as the La Niña cycle typically leads to above-average rainfall.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	24,561	28,224	28,329	26,563	37,639
Growth	-17.4%	14.9%	0.4%	-6.2%	41.7%
EBITDA (VNDbn)	5,218	5,668	4,245	3,943	6,048
Growth	-15.8%	8.6%	-25.1%	-7.1%	53.4%
NPAT (VNDbn)	2,053	2,552	1,283	963	813
Growth	-22.9%	24.3%	-49.7%	-25.0%	-15.5%
EPS (bonus-adjusted, VND)	687	802	378	333	264
Growth	-31.3%	16.8%	-52.9%	-12.0%	-20.6%
ROE	6.6%	7.7%	3.8%	2.8%	2.3%
ROA	3.9%	4.5%	1.8%	1.1%	1.0%
Net debt/EBITDA (x)	0.0	0.1	1.0	4.3	3.2
EV/EBITDA (x)	5.7	5.3	7.9	11.7	8.0
P/E (x)	15.8	17.8	22.8	30.4	36.0
P/B (x)	0.9	0.9	0.9	0.8	0.8
Dividend (VND)	-	-	-	-	-
Dividend yield	-	-	-	-	-

Business result in Q2 & 6M2024

Q2/2024 revenue increased by 11.6% YoY to VND9,407 bn, and gross profit surged by 54.3% YoY to VND724 bn, primarily driven by higher output from the Vung Ang 1 coal-fired power plant (VA1), Hua Na hydropower plant (HNA), and Dakdrinh hydropower plant (DHC) compared to the same period last year, along with higher gross profit margin compared to gas-fired power plants. Particularly, DHC's output in Q2/2024 is estimated at 120.1 mil kWh, +11.6% YoY, VA1 is estimated at 1.85 bn kWh, +58.0% YoY, and HNA is estimated at 82.2 mil kWh, +2.0% YoY. As a result, the gross margin increased to 7.7% compared to 5.6% in the same period last year. Additionally, other expenses and taxes paid during the quarter also decreased significantly, contributing to a NPAT of VND450 bn, +167.9% YoY, and VND401 bn in NPATMI, +256.1% YoY.

Conversely, the cumulative performance for 6M2024 was less favorable compared to the second quarter due to the El Niño phenomenon of 2023-2024, which resulted in below-average rainfall and consequently limited the generation capacity of two hydropower plants. Moreover, given the ongoing losses, EVN proactively minimized the dispatch of electricity from gas-fired power plants, which have the highest operating costs among existing energy sources, ranging from 1,800 to 2,200 VND/kWh depending on the gas price at a given time. As a result, all power plants experienced reduced generation, except for Ca Mau 1&2 (CM1&2) and VA1. Specifically, CM1&2 achieved 3,109.7 mil kWh, +0.4% YoY; NT1 reached 105.6 mil kWh, -78.4% YoY; NT2 reached 1,178.0 mil kWh, -44.7% YoY; and VA1 reached 3,562.8 mil kWh, +69.1% YoY.

6M2024's revenue was VND15,650 bn, -1.3% YoY, and VND1,101 bn in gross profit, -4.1% YoY.

Unit: bn VND	Q2/2023	Q2/2024	YoY	6M2023	6M2024	YoY
Price: VND/kWh	1,942	1,949	+0.4%	1,900	1,869	-1.6%
Output: mil kWh	4,339.9	4,825.7	11.2%	8,342.4	8,371.0	0.3%
CM1&2	1,659.9	1,639	-3.4%	3,098.7	3,109.7	0.4%
NT1	227.0	102.3	-54.9%	489.1	105.6	-78.4%
NT2	1,054.31	1,026.3	-2.6%	2,128.5	1,178.0	-44.7%
HNA	803.6	82.2	2.0%	206.4	157.4	-23.7%
DHC	107.6	120.1	11.6%	310.1	254.7	-17.9%
VA1	1,173.4	1,854.4	58.0%	2,106.9	3,562.8	69.1%
RE	1.3	1.4	7.7%	2.7	2.8	4.9%
Revenue:	8,429	9,407	11.6%	15,854	15,650	-1.3%
Gross profit:	469	724	54.3%	1,148	1,101	-4.1%
Gross margin	5.6%	7.7%		7.2%	7.0%	
Financial Expense	136	229	68.9%	276	383	38.9%
Interest Expense	125	88	-29.9%	258	169	-34.4%
Administrative Expense	207	181	-12.7%	334	297	-11.1%
NPAT:	168	450	167.9%	818	666	-18.6%
NPAT's margin	2.0%	4.8%		5.2%	4.3%	
NPATMI:	113	401	256.1%	647	678	4.9%

Sources: POW, ACBS

Despite a decrease in most expense categories compared to the same period last year, financial expenses surged by 38.9% YoY, reaching VND383 bn, primarily driven by foreign exchange losses of VND209 bn, nearly 166 times the previous year's level. As of Jun-end 2024, POW had VND4,984 bn in USD-denominated foreign currency

debt. Consequently, NPAT declined by 18.6% YoY to VND666 bn, while NPATMI increased by 4.9% YoY to VND678 bn.

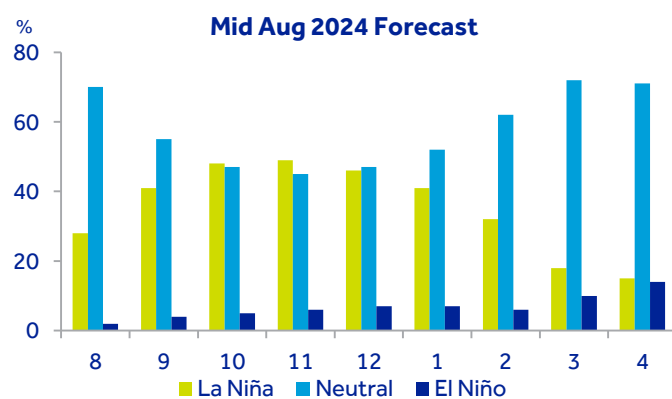
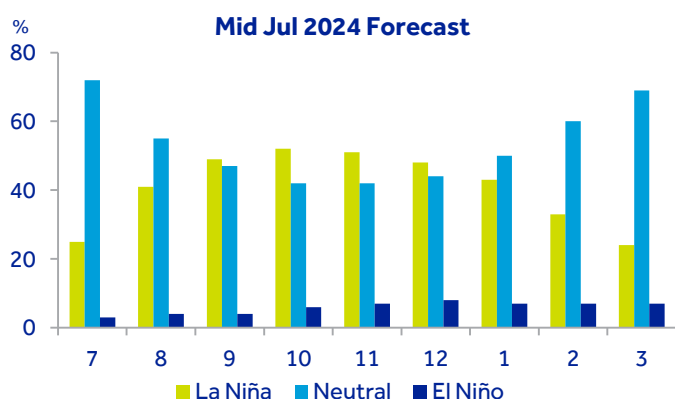
Transition from El Niño to La Niña: Potential Negative Impact on the Gas Thermal

The NOAA has confirmed the termination of the 2023-2024 El Niño event in Apr 2024, with the current phase being characterized as neutral, as indicated by an ENSO index of 0.1 in Aug 2024. Forecasts suggest an impending La Niña event in Oct-Nov 2024, with a probability of around 50%. However, the Vietnam National Center for Hydro-Meteorological Forecasting (NCHMF) anticipates an earlier onset of La Niña, possibly starting in Sep with a probability of 60-70%. Nevertheless, recent updates from the NOAA indicate a declining probability of La Niña across various forecast models, suggesting a continuation of neutral conditions. Specifically, the probability of La Niña in Sep, Oct, and Nov has decreased from 55%, 61%, and 62% respectively in mid-May 2024 to 41%, 49%, and 46% in the latest forecast. This reduction somewhat mitigates the potential impacts of La Niña and dampens expectations of a positive financial performance for hydropower companies in 2024.

Output Weighting: %	2021	2022	2023	6M2024
CM1&2	29.4%	26.8%	36.5%	37.1%
NT1	3.0%	9.9%	4.9%	1.3%
NT2	21.8%	28.6%	20.1%	14.1%
HNA	3.9%	5.8%	4.1%	1.9%
DHC	4.2%	5.5%	4.3%	3.0%
VA1	37.6%	23.4%	30.0%	42.6%

Sources: POW, ACBS

However, as the El Niño phenomenon subsides, the performance of thermal power companies, particularly those operating gas-fired power plants, is expected to deteriorate due to an increased purchase of electricity from hydropower companies by EVN. The generation output of NT1 and NT2 has decreased by 78.4% and 44.7% YoY in the 1H2024, contributing only 15.3% to POW's total output.



Sources: NOAA, ACBS

NT3&4 Update

The project is now halfway completed and is on schedule according to the planned timeline. As of the end of Q2/2024, POW has disbursed nearly VND16,000 bn out of

the estimated total initial investment of over VND32,400 bn for the NT3&4 project, and is expected to continue investing approximately VND4,000 bn per quarter in the near future. Based on the current progress, NT3&4 is anticipated to commence operations in Q4/2024 and Q2/2025, respectively. In our forecast model for 2025, we estimate that NT3&4 will contribute 4.8 bn kWh to POW's total electricity generation, accounting for 26.5% of the total. However, due to the significant upfront investment costs of this project, the gross margin of NT3&4 is projected to be only 4.7%, leading to a decline in POW's overall gross margin.

NT3&4 Unit: bn VND	2025F	2026F
Output: bn kWh	4.8	4.3
Revenue	11,277	10,361
Total Expenses	12,119	11,328
Depreciation	1,624	1,624
Interest Expense	1,279	1,206
EBT	-842	-966

2025F Outlook: Increasing revenue, yet Decreasing Profit due to NT3&4 Costs

For 2024, we anticipate POW to produce approximately 13.8 bn kWh of electricity, representing a drop of 4.5% YoY. Revenue is projected to reach VND26,563 bn, -6.2% YoY, while NPAT is expected to decline by 25% YoY to VND963 bn. These projections are based on the expectation of a potential La Niña event this year, coupled with the annual rainy season, which typically adversely affects gas-fired power plants.

In 2025, we forecast POW's electricity generation to reach nearly 18.3 bn kWh, driven by the commencement of operations at NT3&4, representing a +32.6% YoY. Consequently, revenue is expected to exceed VND37,600 bn, +41.7% YoY. However, NPAT is projected to decrease by 15.5% YoY to VND813 bn due to increased costs, particularly interest expenses and depreciation costs associated with the project. The NT3&4 project, as previously mentioned, is a significant contributor to these cost pressures.

Unit: bn VND	2024F	YoY	2025F	YoY
Output: mil kWh	13,788	-4.5%	18,278	32.6%
Revenue	26,536	-6.2%	37,639	41.7%
Gross profit	2,036	-24.7%	2,551	25.3%
Gross margin	7.7%		6.8%	
Financial Expense	645	-11.6%	1,601	148.2%
Interest Expense	634	12.2%	1,590	150.8%
Administrative Expense	902	-28.9%	935	3.6%
NPAT	963	-25.0%	813	-15.5%
NPAT's margin	3.6%		2.2%	

Valuation

Based on the FCFF method, we achieve a target price of VND13.700/share for the next 12 months, representing total expected return of 9.6%, rating Neutral.

APPENDIX

FINANCIAL MODEL	Price: VND	12,500	Target: VND	13,700	Mkt cap VND bn	29,274
(VND bn except where stated)	2021	2022	2023	2024F	2025F	
Total Net Sales	24,561	28,224	28,329	26,563	37,639	
<i>Growth</i>	<i>-17.4%</i>	<i>14.9%</i>	<i>0.4%</i>	<i>-6.2%</i>	<i>41.7%</i>	
CoGS	22,021	24,498	25,625	24,526	35,089	
EBITDA	5,218	5,668	4,245	3,943	6,048	
<i>EBITDA margin</i>	<i>21.2%</i>	<i>20.1%</i>	<i>15.0%</i>	<i>14.8%</i>	<i>16.1%</i>	
Depreciation	2,818	2,809	2,809	2,809	4,433	
Operating profit	2,460	2,765	1,290	1,028	835	
<i>Operating profit margin</i>	<i>10.0%</i>	<i>9.8%</i>	<i>4.6%</i>	<i>3.9%</i>	<i>2.2%</i>	
Net interest expense	191	119	112	201	884	
<i>as % of avg net debt</i>	<i>81.6%</i>	<i>15.6%</i>	<i>2.6%</i>	<i>1.2%</i>	<i>4.6%</i>	
<i>Interest cover (x)</i>	<i>12.6</i>	<i>24.0</i>	<i>12.8</i>	<i>5.7</i>	<i>1.8</i>	
Tax	164	241	235	95	52	
<i>Tax rate</i>	<i>7.0%</i>	<i>8.6%</i>	<i>16.3%</i>	<i>9.0%</i>	<i>6.0%</i>	
NPATMI	1,799	2,060	1,038	866	687	
<i>NPATMI's margin</i>	<i>7.3%</i>	<i>7.3%</i>	<i>3.7%</i>	<i>3.3%</i>	<i>1.8%</i>	
Cash earning	4,617	4,869	3,847	3,675	5,120	
Number of shares: mil	2,342	2,342	2,342	2,342	2,342	
EPS: VND	687	802	378	333	264	
<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	687	802	378	333	264	
<i>EPS growth</i>	<i>-31.3%</i>	<i>16.8%</i>	<i>-52.9%</i>	<i>-12.0%</i>	<i>-20.6%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023	2024F	2025F
Increase in working capital	(661)	2,300	2,137	379	1,566
Capex	-	-	6,187	16,385	8,000
Change in investment in affiliates	(472)	17	30	-	-
Other cashflow items	67	(2,883)	1,397	333	2,162
Free cash flow	5,817	(331)	(3,110)	(12,756)	(2,283)
Share issues	-	-	-	-	-
Dividends paid	710	199	365	-	-
Increase in net debt	(5,107)	530	3,475	12,756	2,283
Net debt, end of year	234	764	4,239	16,995	19,279
Shareholders' equity	31,128	33,283	34,120	34,873	35,491
BVPS (VND)	13,292	14,212	14,569	14,891	15,155
<i>Net debt / equity (%)</i>	<i>0.8%</i>	<i>2.3%</i>	<i>12.4%</i>	<i>48.7%</i>	<i>54.3%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.0</i>	<i>0.1</i>	<i>1.0</i>	<i>4.3</i>	<i>3.2</i>
Total assets	52,980	56,843	70,360	88,094	84,405

KEY RETURN AND VALUATION RATIOS	2021	2022	2023	2024F	2025F
ROE	6.6%	7.7%	3.8%	2.8%	2.3%
ROA	3.9%	4.5%	1.8%	1.1%	1.0%
ROIC	6.1%	6.8%	3.1%	1.7%	2.6%
WACC	-	10.3%	10.3%	10.3%	10.3%
EVA	6.1%	-3.5%	-7.2%	-8.5%	-7.7%
PER (x)	15.8	17.8	22.8	30.4	36.0
EV/EBITDA (x)	5.7	5.3	7.9	11.7	8.0
EV/FCF (x)	5.1	(90.7)	(10.8)	(3.6)	(21.3)
PBR (x)	0.9	0.9	0.9	0.8	0.8
PSR (x)	1.2	1.0	1.0	1.1	0.8
EV/sales (x)	1.2	1.1	1.2	1.7	1.3
Dividend yield	-	-	-	-	-

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DISCLAIMER

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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