



# **GEG Update – OUTPERFORM**

**November 14, 2024**

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## Update Report

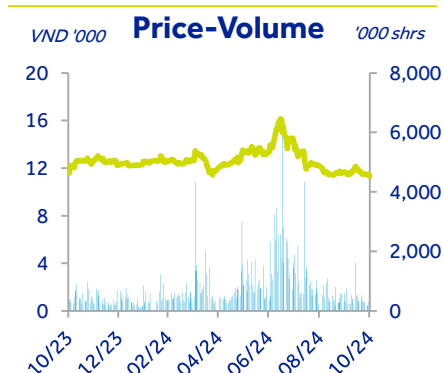
Recommendation **OUTPERFORM**
**HoSE: GEG**
**Electricity**

Target price (VND)	12,400
Current price (VND)	10,900
Expected share price return	13.5%
Expected dividend yield	0.0%
Expected total return	13.5%

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-7.7	-1.3	-20.6	0.6
Relative	-21.4	0.9	-22.2	-22.5

Source: Bloomberg



## Ownership

AVH Pte. Ltd	29.8%
DEG	16.9%
Thanh Thanh Cong JSC	14.2%
SBT	9.3%

## Stock Statistics

13-Nov-24

Bloomberg code **GEG VN**

52-week range (VND)	11,150 – 16,381
Shares O/S (m)	358
Mkt cap (VND bn)	3,905
Mkt cap (USD bn)	156
Foreign room left (%)	5.2
Est. free float (%)	40.8
3m avg daily vol (shrs)	712,321
VND/USD	25,030
Index: VNIIndex / HNX	1,246.1/226.2

## GIA LAI ELECTRICITY JSC (HoSE: GEG)

GEG reported a decline in its Q3/2024 financial performance, with revenue reaching VND543 bn, -4.1% YoY. The company incurred a loss of VND48 bn in NPAT compared to a profit of VND315 mil in Q3/2023. For 9M2024, NPAT reached VND80bn, -27.8% YoY, completing 29.6% of the company's annual plan and 30.4% of ACBS' forecast. The weaker-than-expected performance, both compared to the previous year and our forecasts, is primarily attributable to the temporary pricing of the Tan Phu Dong 1 project at 50% of the ceiling price, despite its commercial operation commencing in May 2023. This pricing mechanism has been insufficient to offset increased operational costs. Consequently, we decided to lower our target price for GEG to VND12,400 per share, representing an expected total return of 13.5%, rating OUTPERFORM.

Q3/2024 financial performance was below our expectations with a loss of VND48 bn in NPAT, bringing 9M2024 NPAT to a mere VND80 bn, -27.8% YoY and -37.5% QoQ. This underperformance was primarily due to a 4.1% YoY decrease in Q3/2024 output, particularly in wind power, which recorded a 13.8% YoY decline in output to 131 mil kWh. Additionally, GEG is currently facing the risk of regulatory audits related to its wind power projects, with all four of its owned projects undergoing inspections, although no official conclusions have been reached.

The revision in our forecast is primarily attributed to the adjustment of the selling price for the Tan Phu Dong 1 project throughout 2024. The price has been revised downward from the transitional ceiling price for renewable energy (RE) sources (VND 1,587/kWh) to the temporary price currently being paid by EVN (50% of the transitional ceiling price). We have postponed our expectation for the company to finalize the official selling price negotiations with EVN for this project to 2025. Although it is unlikely that the company can negotiate the ceiling price, we forecast that the final selling price could reach VND1,500/kWh.

	2021	2022	2023	2024F	2025F
Net Sales (VNDbn)	1,381	2,093	2,163	2,213	2,515
Growth	-7.5%	51.6%	3.3%	2.3%	13.7%
EBITDA (VNDbn)	1,067	1,503	1,658	1,681	1,949
Growth	6.9%	40.9%	10.3%	1.4%	16.0%
NPAT (VNDbn)	326	371	143	30	219
Growth	10.1%	13.8%	-61.5%	-78.8%	620.8%
EPS (bonus-adjusted, VND)	731	793	313	72	518
Growth	10.5%	8.4%	-60.6%	-77.0%	620.8%
ROE	8.7%	6.6%	2.5%	0.5%	3.7%
ROA	2.6%	2.2%	0.9%	0.2%	1.5%
Net debt/EBITDA (x)	6.4	6.4	5.9	6.1	4.3
EV/EBITDA (x)	10.1	9.0	8.3	8.4	6.3
P/E (x)	18.1	20.7	27.3	128.6	17.8
P/B (x)	1.5	1.5	0.7	0.7	0.7
Dividend (VND)	-	-	-	-	-
Dividend yield	-	-	-	-	-

## Update Q3/2024 Performance

Q3/2024 revenue decreased by 4.1% YoY, primarily driven by a 4.8% decline in output to 1,012 mil kWh, which was mostly from a 13.8% YoY fall in wind power to 131 mil kWh, despite a 0.7% increase in the average selling price to VND1,508/kWh.

NPAT recorded a loss of VND48 bn, (Q3/2023 NPAT: VND315 mil). This was primarily due to a 12.1% YoY increase in operating costs, which compressed gross profit margin. Additionally, administrative expenses increased, although finance costs decreased. To illustrate, gross profit fell by 19.1% YoY to VND237 bn, resulting in a gross profit margin of 43.6%, down from 51.8% YoY in Q3/2023. Finance costs stood at VND230 bn, -8.7% YoY, with interest expenses accounting for VND224 bn, -5.1% YoY, and lastly administrative expenses increased by 17.9% YoY to VND33 bn.

For 9M2024, output reached 1,012 mil kWh, +16.5% YoY, driven by the commercial operation of the Tan Phu Dong 1 project since May 2023. This contributed to the 11.1% YoY growth in revenue to VND1,770 bn. However, the average selling price decreased by 4.6% YoY to VND1,749/kWh due to the pricing of Tan Phu Dong 1 at 50% of the ceiling price as per Decision No. 21/QD-BCT, resulting in a decline in the gross profit margin to 49% from 54.4% in the same period last year.

Unit: bn VND	Q3/2023	Q3/2024	YoY	9M2023	9M2024	YoY
<b>Revenue</b>	<b>566</b>	<b>543</b>	<b>-4.1%</b>	<b>1,593</b>	<b>1,770</b>	<b>11.1%</b>
Gross profit	293	237	-19.1%	866	867	0.1%
<i>Gross margin</i>	<i>51.8%</i>	<i>43.6%</i>		<i>54.4%</i>	<i>49.0%</i>	
Financial Revenue	13	10	-23.1%	38	28	-26.3%
Financial Expenses	252	230	-8.7%	655	645	-1.5%
<i>Interest Expenses</i>	<i>236</i>	<i>224</i>	<i>-5.1%</i>	<i>620</i>	<i>629</i>	<i>1.5%</i>
Administrative Expenses	28	33	17.9%	100	105	5.0%
<b>NPAT</b>	<b>0.3</b>	<b>-48</b>		<b>111</b>	<b>80</b>	<b>-27.8%</b>
<i>NPAT's margin</i>	<i>0.2%</i>			<i>7.0%</i>	<i>4.5%</i>	

Sources : GEG, ACBS

## GEG's Output Energy Mix

GEG's energy portfolio exhibited robust growth, with total electricity generation reaching 1,012 mil kWh in 9M2024, +16.5% YoY. Wind power accounted for over half of the total generation at 517 mil kWh, +45.2% YoY, primarily driven by the commencement of operations of the new Tan Phu Dong 1 project in 05/2023. This project, with a capacity of 100 MW, is GEG's largest wind power project and nearly equals the combined capacity of its three other wind power projects (120 MW), solidifying GEG's position as the listed company with the largest wind power portfolio.

Additionally, solar power contributed over 30% of the total generation in 9M2024, reaching 308 mil kWh, +4.1% YoY, due to stable operation of the existing projects and the influence of the El Niño phenomenon this year. Conversely, hydropower contributed only about 19% of the total generation at 187 mil kWh, -13.8% YoY, as the El Niño event led to a decrease in the average rainfall. However, the 2023-2024 El Niño cycle has transitioned to a Neutral phase in the last three months, with the ENSO index gradually declining (0.0 in August, -0.1 in September, and -0.2 in October 2024). Therefore, we expect the La Niña cycle to return in the 2024-2025 period, benefiting hydropower generation.

Unit: mil kWh	Q3/2023	Q3/2024	YoY	9M2023	9M2024	YoY
<b>Output</b>	<b>378</b>	<b>360</b>	<b>-4.8%</b>	<b>869</b>	<b>1,012</b>	<b>16.5%</b>
Hydro	131	133	1.5%	217	187	-13.8%
Wind	152	131	-13.8%	356	517	45.2%
Solar	95	96	1.1%	296	308	4.1%
<b>Proportion</b>						
Hydro	34.7%	36.9%		25.0%	18.5%	
Wind	40.2%	36.4%		41.0%	51.1%	
Solar	25.1%	26.7%		34.1%	30.4%	
Sources: GEG, ACBS						

## Risk from inspection

All four wind power projects are currently under investigation as part of a case involving "abuse of power while on duty" at the Ministry of Industry and Trade (MoIT), although no official conclusions have been reached. This poses a significant risk to GEG, as these projects account for over one-third of the company's total capacity and more than 50% of its total output. If violations are found, it is highly likely that the three projects currently benefiting from the FIT (excluding Tan Phu Dong 1) will have to adjust their selling prices to the level applicable to transitional renewable energy projects, and may be required to retroactively adjust revenue and profits.

## Forecast 2024F - 2025F

For 2024, we adjusted the selling price of the Tan Phu Dong 1 project to approximately VND850/kWh, which is the current level. This directly impacts GEG's financial performance as operating costs and interest expenses have increased since the project's commercial operation, while revenue has not grown accordingly, leading to losses in Q3/2024. Therefore, we expect GEG's NPAT for 2024 to decrease to VND30 bn, -78.8% YoY and -88.6% compared to the previous forecast.

For 2025, we expect the Tan Phu Dong 1 project to be able to negotiate an official selling price of approximately VND 1,500/kWh. This is expected to result in a NPAT of VND219 bn, +620.8% YoY.

## Valuation

Based on FCFF method, we recommend the reasonable target price for GEG is VND12,400 per share, representing a total expected return of 13.5%.

FINANCIALS MODEL	Price: VND	10,900	Target:	12,400	Mkt Cap: bn VND	3,905
(VND bn except where stated)		2021	2022	2023	2024F	2025F
<b>Total Net Sales</b>		<b>1,381</b>	<b>2,093</b>	<b>2,163</b>	<b>2,213</b>	<b>2,515</b>
<i>Growth</i>		-7.5%	51.6%	3.3%	2.3%	13.7%
CoGS		614	1,082	1,043	1,261	1,286
<b>EBITDA</b>		<b>1,067</b>	<b>1,503</b>	<b>1,658</b>	<b>1,681</b>	<b>1,949</b>
<i>EBITDA margin</i>		77.3%	71.8%	76.7%	76.0%	77.5%
Depreciation		414	652	697	857	857
<b>Operating profit</b>		<b>287</b>	<b>421</b>	<b>196</b>	<b>27</b>	<b>250</b>
<i>Operating profit margin</i>		20.8%	20.1%	9.1%	1.2%	9.9%
Net interest expense		358	561	801	789	835
<i>as % of avg net debt</i>		5.2%	5.8%	8.1%	7.7%	10.0%
Interest cover (x)		1.8	1.5	1.2	1.0	1.3
Tax		45	41	47	6	40
<i>Tax rate</i>		12.2%	10.0%	24.1%	15.5%	15.5%
<b>NPAT</b>		<b>326</b>	<b>371</b>	<b>143</b>	<b>30</b>	<b>219</b>
<i>NPAT margin</i>		23.6%	17.7%	6.6%	1.4%	8.7%
Cash earning		740	1,023	840	887	1,076
Number of shares: mil		303.7	321.9	341.2	358.3	358.3
<b>EPS: VND</b>		<b>863</b>	<b>882</b>	<b>328</b>	<b>72</b>	<b>518</b>
Share split factor (x)		0.8	0.9	1.0	1.0	1.0
<b>Adjusted EPS: VND</b>		<b>731</b>	<b>793</b>	<b>313</b>	<b>72</b>	<b>518</b>
EPS growth		10.5%	8.4%	-60.6%	-77.0%	620.8%

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	(1,468)	985	917	1,011	981
Capex	5,807	4,532	1,301	648	-
Change in investment in affiliates	-	(566)	(5)		
Other cashflow items	239	13	1,087	506	1,809
<b>Free cash flow</b>	<b>(3,360)</b>	<b>(3,915)</b>	<b>(286)</b>	<b>(266)</b>	<b>1,904</b>
Share issues	313	1,232	114	-	-
Dividends paid	140	57	85	83	83
Increase in net debt	3,187	2,740	257	349	(1,821)
<b>Net debt, end of year</b>	<b>6,853</b>	<b>9,593</b>	<b>9,850</b>	<b>10,199</b>	<b>8,378</b>
<b>Shareholders' equity</b>	<b>3,737</b>	<b>5,629</b>	<b>5,767</b>	<b>5,754</b>	<b>5,901</b>
BVPS: VND	12,305	17,487	16,901	16,060	16,470
Net debt / equity	183.4%	170.4%	170.8%	177.3%	142.0%
Net debt / EBITDA (x)	6.4	6.4	5.9	6.1	4.3
<b>Total assets</b>	<b>12,472</b>	<b>17,117</b>	<b>16,132</b>	<b>16,365</b>	<b>14,482</b>

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	8.7%	6.6%	2.5%	0.5%	3.7%
ROA	2.6%	2.2%	0.9%	0.2%	1.5%
ROIC	6.0%	5.5%	6.1%	5.1%	7.7%
WACC		8.5%	8.5%	8.5%	8.5%
EVA		-3.0%	-2.4%	-3.4%	-0.8%
P/E (x)	18.1	20.7	27.3	128.6	17.8
EV/EBITDA (x)	10.1	9.0	8.3	8.4	6.3
EV/FCF (x)	(3.2)	(3.4)	(48.1)	(53.1)	6.5
P/B (x)	1.5	1.5	0.7	0.7	0.7
P/S (x)	2.8	1.9	1.8	1.8	1.6
EV / Sales (x)	7.8	6.4	6.4	6.4	4.9
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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