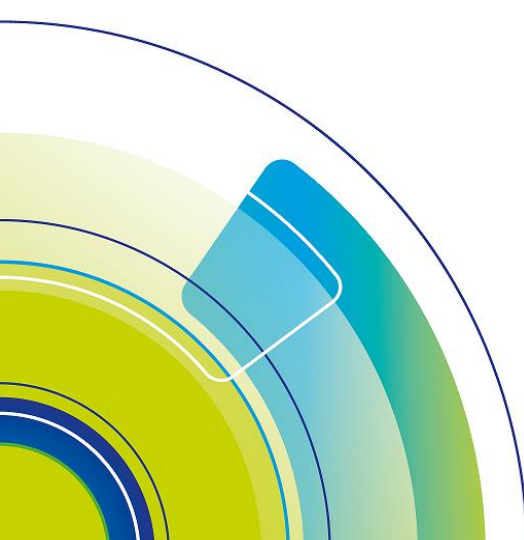




# Initiation QTP - BUY

**Tuesday, March 14, 2023**

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## Company Initiation

### Recommendation

**BUY**

HOSE: QTP

Utility

Current price (VND)	14,900
Target price (VND)	18,315
Expected share price return	22.9%
Expected dividend yield	12.1%
Expected total return	35.0%

### Stock performance (%)

	YTD	1M	3M	12M
Absolute	15.4	6.4	32.7	-15.8
Relative	10.9	7.4	17.4	12.9

Source: Bloomberg



### Ownership

EVNGENCO1	42.01%
PPC JSC	16.35%
SCIC	11.42%
DTK JTC	10.62%

### Stock Statistics Mar-13-23

Bloomberg code	QTP VN
52-week range (VND)	17,870 – 10,600
Shares (mil)	450
Mkt cap (VND bn)	6,660
Mkt cap (USD mil)	280
Foreign room left (mil)	216
Est. free float (mil)	88
3m avg daily vol (shrs)	311,082
USD/VND	23,813
Index: VNIndex / HNX	1036.9/204.9

## Quang Ninh Thermal Power JSC (UpCOM: QTP)

QTP is one of several important thermal energy-generating facilities in North of Vietnam. The company's location in one of four key economic zones including Ha Noi – Bac Giang – Quang Ninh – Hai Phong, in tandem with rising energy demand and lack of alternative supply-energy plants in the region, provides a solid foundation for the company production prospects. We issue a BUY recommendation on QTP with a target price of 18,315 VND, representing a 35.0% total expected return.

Vietnam is still a developing country; thereby, its energy demand is soaring in line with the economic development. Hence, the electricity industry must progress at a rate that is both parallel to and slightly ahead of the economy such as infrastructures and especially capacities. However, the Northern region's expansion of energy supply sources appeared to be falling behind. This was more clearly demonstrated by the number of new renewable energy (RE) projects have been developed in other regions such as Central and South. Therefore, it creates a disequilibrium as a consequence driven by the law of supply and demand, which strengthens the thermal power circumstances amid Northern region energy mix at the expense of alternative supply sources.

According to ENSO, the La Nina effect, which resulted in above precipitation than many years' average and favored hydropower over thermal group, has passed. In contrast, El Nino cycle, which has the opposite impact will intensify in 2023-2024 period. As a result, it further bodes well for the thermal power as resonance effect, specifically QTP, to post a robust result in 2023.

Annually, the financial situation of QTP has improved. We anticipate the company will pay off its remaining debt 1,092 bn VND by 2023; resulting in an increase in net earnings, cash flows and cash dividend payment to shareholders. Otherwise, the company can re-invest its surplus in other enterprises, similar to how PPC has done. This would even build up cash flows and dividend payment in the long-term.

Unit: bn VND	2021	2022	2023F	2024F	2025F
Net Sales	8,571	10,417	9,974	10,227	9,609
Growth	-7%	22%	-4%	3%	-6%
EBITDA	1,702	1,934	1,858	2,372	2,660
Growth	-41%	14%	-4%	28%	12%
Net Profit	578	770	852	1,394	1,699
Growth	-56%	33%	11%	63%	22%
EPS: VND	1,284	1,711	1,894	3,097	3,777
Growth	-54%	33%	11%	63%	22%
ROE	9%	12%	13%	19%	20%
ROA	6%	10%	12%	17%	18%
Net debt / EBITDA (x)	1.3	0.6	-	-	-
EV / EBITDA (x)	3.3	3.3	4.2	3.9	4.3
PER (x)	11.6	8.7	7.8	4.8	3.9
PBR (x)	1.6	1.4	1.0	0.9	0.8
DPS: VND	1,600	1,500	1,800	1,800	1,800
Dividend Yield	11%	10%	12%	12%	12%

## CORPORATION INFORMATION

QTP was founded in Feb 2002, initially focusing on electrical production and sales, with two (2) primary plants: QN-1 and QN-2. In 2010, QN-1's two (2) generator units were connected to the national grid system, followed by QN-2's two (2) generator units three (3) years later.

### Recent Company Performance: Q4 2022 & 2022

QTP's Q4-2022 revenue was 2,262 bn VND, **-3% YoY**, while the cost of goods sold (COGS) rose **+14% YoY** to 2,173 bn VND, leaving the gross profit of only 89 bn VND, **-79% YoY**, and the gross profit margin of only 4%, down from 18% YoY. The primary reasons are:

1. The output volume decreased due to the considerate impact of an unusual La Nina in three (3) consecutive years, resulting in higher precipitation than the many years' average, which gave preference to hydroelectricity over thermal power. In addition, environmental concerns favor hydropower generation over coal-fired generation.
2. The price of imported coal, which is the chief input, faced a reversal of descent in the last couple of months of 2022, and continued to stay at a high level comparable with the last year's base average. To be more specific, the input cost in the COGS structure is up **+18% YoY**.

Q4-2022 interest expense was reduced by 11 bn VND, **-25% YoY**; at the same time, administrative costs were also downed by 157 bn VND, **-79% YoY**, on the ground of not having provisions for account receivables as in Q4-2021. Despite attempts to cut down many expenses, net earning only reached a modest 26 bn VND, **-86% YoY**, resulting in a net margin of just 1%.

Unit: bn VND	Q4 2021	Q4 2022	YoY	2021	2022	YoY
<b>Revenue</b>	2,332	2,262	-3%	8,571	10,417	22%
<b>Gross profit</b>	<b>430</b>	<b>89</b>	<b>-79%</b>	<b>990</b>	<b>1,086</b>	<b>10%</b>
<i>Gross profit margin</i>	18%	4%		12%	10%	
<b>Interest Expenses</b>	44	33	-25%	195	133	
<b>EAT</b>	<b>182</b>	<b>26</b>	<b>-86%</b>	<b>578</b>	<b>770</b>	<b>33%</b>
<i>Net profit margin</i>	8%	1%		7%	7%	

Sources: QTP, ACBS

## INVESTMENT THESIS

### Energy demand & Source supply

According to EVN, the installed capacity in the Northern region is 28,000 MW (2021), in which: hydro and coal-fired groups accounting for over 97%; and there has been no significant increase in the past year; while the maximum capacity mobilization, Pmax, reached new record-high of 22,800 MW in 2022. It was thought to be sufficient at first because installed capacity exceeds Pmax, but it is not. The underlying reasons are:

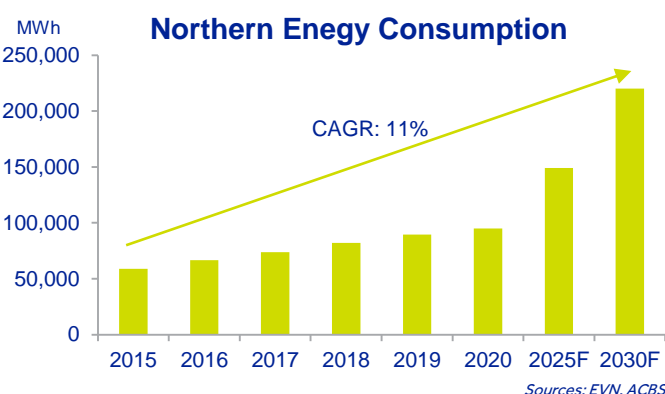
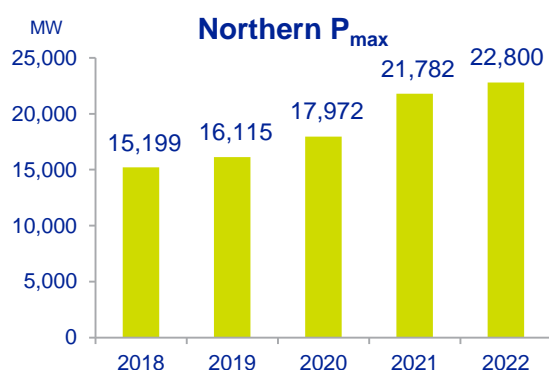
- a) When the temperature rises, so does the temperature of water used for cooling. Therefore, coal-fired power plants are unable to operate at full capacity as designed, and
- b) In contrast, hydroelectricity cannot run as intended during the dry season due to water shortage.

In addition, according to National Power Plan VIII (PP8), the Northern energy demand compound annual growth rate (CAGR) was 11% from 2011 to 2020 and is expected to maintain the same rate during 2021-2030 period, which is 2% higher than installed capacity. As a result, the government's analysts anticipate Northern region will undergo power outages by 2024.

The company's location in Quang Ninh, one of four key economic industrial zones at Northern region, is additional advantage as well.

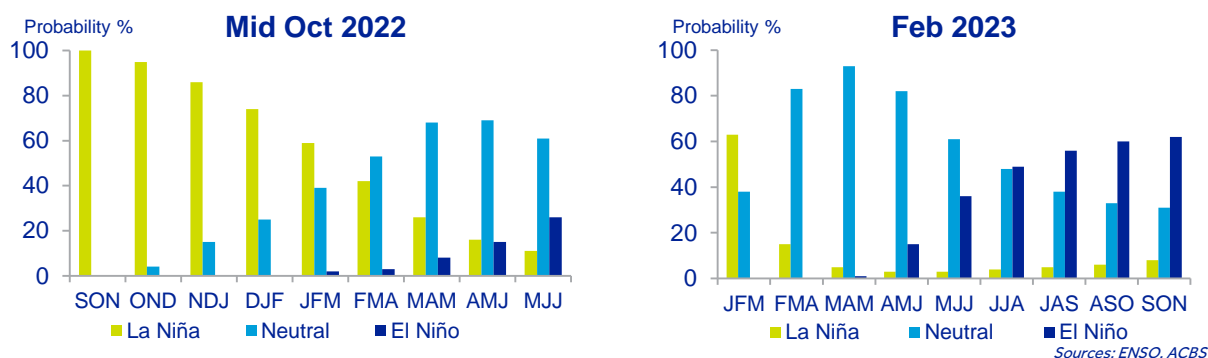
Furthermore, the lack of alternative sources at North is a result of the emphasis placed on developing renewable energy in Central and Southern regions to the extent of previously incentive renewables FIT policies. This issue further deteriorates the energy supply-demand gap in the Northern region.

To sum up, we forecast the sharply increasing energy-need is largely attributable to economic growth in general and shortage from other sources, will outpace source supply, which bodes well for the production of numerous generators in the North.



### Resonance effect: Weather advantage

According to the ENSO, the probability of El Niño occurrence rose from 25% to 36% during the period MJJ (May-June-July) in the most recent forecast model in Feb 2023 compared to Mid Oct 2022. As a result, we project coal thermal outlook, especially QTP, will be brighter in 2023 – 2024 period at the expense of hydro as La Niña has passed and El Niño is forecast to return shortly and begin to impact strongly by mid 2023, resulting in less rainfall than many years' average.



### Healthy Financial Affair

Thanks to the substantial energy demand, we project the company will be able to produce 6.7 bn kWh and 7.4 bn kWh in 2023 and 2024, respectively. In addition, we forecast a declining fossil fuel prices, particularly coal, will assist in bolstering QTP's gross profit margin from 10% in 2023 to about 15% in 2024.

Furthermore, we expect the company will pay off all its remaining debt of 1,092 bn VND by 2023. As a result of its surplus earnings and cash flows, we project there will be more cash dividend payout, up to 1,800 VND per share beginning from 2023.

Unit: bn VND	2023F	2024F	2025F
Efficacy	78%	86%	80%
Produced output: mil kWh	6,739	7,430	6,912
<b>Commercial output: mil kWh</b>	<b>6,132</b>	<b>6,761</b>	<b>6,289</b>
Price: VND	1,626	1,513	1,528
<b>Revenue</b>	<b>9,974</b>	<b>10,227</b>	<b>9,609</b>
COGS	8,966	8,705	7,798
<b>Gross profit</b>	<b>1,008</b>	<b>1,522</b>	<b>1,810</b>
<i>Gross margin</i>	<i>10%</i>	<i>15%</i>	<i>19%</i>
<b>Operating expense</b>	<b>9,076</b>	<b>8,815</b>	<b>7,908</b>
<b>EAT</b>	<b>852</b>	<b>1,394</b>	<b>1,699</b>
<b>EPS: VND</b>	<b>1,894</b>	<b>3,097</b>	<b>3,777</b>

### Risk

Before proceeding with the valuation, we would like to determine number of considerable upside risks.

**High input price:** Even though, QTP has exceptional preference in input material thanks to the vast coal volume supplied from domestic mines, Hon Gai, operating by Vietnam National Coal and Mineral Industries Group – Vinacomin (TKV) with the price fluctuating between 1.6 – 1.8 mil VND / ton, which is lower than others in comparable; together with the guarantee output quantity (Qc) and price from EVN; QTP still could not compete with hydropower on the grounds of lower costs and friendly environmental issues. As a result, QTP and other coal-fired plants are viewed more as base-load capacity.

**Liquidity:** The average 30-day trading volume of stock is 240,871, which is only about 0.05% of the 450 mil outstanding shares.

**Negative long-term prospect:** In general, QTP and other coal-fired generators are harmful to the environment due to releasing carbon dioxin which leads to greenhouse effect and global warming. Therefore, in the long-term, these plants would be supplanted by environmentally friendly and cleaner alternatives. However, the transition process would not occur overnight regarding to national security concerns and to avoid energy crisis similar to that of South Africa. Those interests in coal-fired businesses, should bear in mind they are bucking the long-term energy transition trend.

## VALUATION

Applying a combination of a DCF and a P/E metric in equal weights, we derive a target price **18,315 dong/share** and issue a **BUY** Recommendation with a **35.0%** total expected return.

<b>R<sub>f</sub></b>	3.7%
<b>E(R)<sub>m</sub></b>	11.1%
<b>Beta</b>	1.59
<b>K<sub>e</sub></b>	15.5%
<b>K<sub>d</sub></b>	6.7%
<b>WACC</b>	14.2%
<b>Growth</b>	1%

Method	Valuation	Proportion	Weighted
<b>FCFF</b>	19,723	50%	9,861
<b>P/E</b>	16,908	50%	8,454
<b>Price per share</b>			<b>18,315</b>

QTP FINANCIALS MODEL	Price: VND	14,900	Target: VND	18,315	Mkt cap: bn VND	6,660
Unit: VND bn except where stated	2021	2022	2023F	2024F	2025F	
Total Net Sales	8,571	10,417	9,974	10,227	9,609	
<i>Sales growth</i>	-7%	22%	-4%	3%	-6%	
COGS	7,581	9,331	8,966	8,705	7,798	
EBITDA	1,702	1,934	1,858	2,372	2,660	
<i>EBITDA margin</i>	20%	19%	19%	23%	28%	
Depreciation	968	960	960	960	960	
Operating profit	621	815	880	1,440	1,755	
<i>Operating profit margin</i>	7%	8%	9%	14%	18%	
Net interest expense	195	193	73	-	-	
<i>as % of avg, net debt</i>	9%	18%	-	-	-	
Tax	39	41	28	46	56	
<i>Tax rate</i>	6%	3%	3%	3%	3%	
Minorities	-	-	-	-	-	
Net profit	578	770	852	1,394	1,699	
<i>Net profit margin</i>	7%	7%	9%	14%	18%	
Number of shares (m)	450	450	450	450	450	
EPS (VND)	1,284	1,711	1,894	3,097	3,777	
<i>EPS growth</i>	-54%	33%	11%	63%	22%	

KEY CASHFLOW AND BS ITEMS	2021	2022F	2023F	2024F	2025F
Increase in working capital: bn VND	(74)	(467)	151	(69)	127
Capex: bn VND	(5)	(4)	-	-	-
Free cash flow: bn VND	(630)	(181)	225	1,521	2,032
Share issues: bn VND	-	-	-	-	-
Dividends paid: bn VND	(449)	(715)	(675)	(810)	(810)
Increase in net debt: bn VND	(1,595)	(1,063)	(1,092)	-	-
Net debt, end of year: bn VND	2,155	1,092	-	-	-
Enterprise value: bn VND	5,663	6,364	7,719	9,302	11,430
Shareholders' equity: bn VND	6,171	6,171	6,434	7,361	8,491
BVPS: VND	13,713	13,713	14,299	16,358	18,869
Net debt / equity	0.3	0.2	-	-	-
Net debt / EBITDA	1.3	0.6	-	-	-
Total assets: bn VND	8,910	8,049	7,174	8,104	9,196

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	9%	12%	13%	19%	20%
ROA	6%	10%	12%	17%	18%
WACC	-	14%	14%	14%	14%
PER (x)	11.6	8.7	7.8	4.8	3.9
EV/EBITDA (x)	3.3	3.3	4.2	3.9	4.3
EV/FCFF (x)	3.5	4.3	3.8	4.0	4.1
PBR (x)	1.6	1.4	1.0	0.9	0.8
PSR (x)	0.8	0.6	0.7	0.7	0.7
EV/sales (x)	0.7	0.6	0.8	0.9	1.2
DPS: VND	1,600	1,500	1,800	1,800	1,800
Dividend yield	11%	10%	12%	12%	12%



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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.

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

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

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