

## PHA LAI THERMAL POWER JSC.

|                 |                |                                |
|-----------------|----------------|--------------------------------|
| <b>Ticker</b>   | <b>PPC</b>     | <b>Recommendation: BUY</b>     |
| <b>Exchange</b> | <b>HOSE</b>    | <b>Target Price: VND32,600</b> |
| <b>Industry</b> | <b>Utility</b> |                                |

### FINANCIAL HIGHLIGHTS

| Items                              | 2007   | 2008   | 2009F  |
|------------------------------------|--------|--------|--------|
| Net sales (VND Billion)            | 3,807  | 3,882  | 3,871  |
| Gross profit margin (%)            | 29.3%  | 27.9%  | 20.0%  |
| Net profit after tax (VND Billion) | 824    | -213   | 833*   |
| EPS (VND)                          | 2,576  | -666   | 2,606  |
| BVPS (VND)                         | 11,715 | 10,520 | 13,340 |
| ROE (%)                            | 21.9%  | -5.9%  | 21.4%  |
| P/E                                | 22.5   | -      | 10.7   |
| P/B                                | 4.9    | 1.8    | 2.1    |

Source: HBBS

\*2009F results excludes reversal of provision

### TRADING STATISTICS

| Items                              |               |
|------------------------------------|---------------|
| 52 Week High Low (VND)             | 15,200-43,300 |
| 30-day volume average (shares)     | 864,450       |
| 90-day volume average (shares)     | 833,132       |
| Share outstanding (million shares) | 320           |
| Market Capitalization (VND Bil.)   | 8,952         |

Source: Reuters, HBBS, 04/08/2009

### BACKGROUND INFORMATION

- ✓ **EPS:**
  - + 2008 : VND -666
  - + 2009F : VND 2,606
- ✓ **Products and services:**
  - + Electricity production
- ✓ **Ownership:**
  - + Electricity of Vietnam: 67.99%
  - + Other investors: 32.01%
- ✓ **Main market: Vietnam**
- ✓ **Main competitors:**

Competition among electricity producers is relatively low due to the supply monopoly and demand excess.
- ✓ **2009 plan:**
  - + Revenue: VND 3,619 billion
  - + Profit: VND 297 billion

(As of 04/08/2009)

We raise our forecasts of PPC revenue and profit after tax (provision reversal excluded) in 2009 to VND 3,871 billion and VND 833 billion as the company changed its repairment plan on plant No.2.

PPC shares are traded at PE forward 10.7x, around the power industry's average of Vietnam and much lower than that of emerging countries of 18x. Given such factors as large size, strong cashflow, potential investments in new thermo power projects as well as the current favorable movements of JPYVND exchange rate, we believe PPC worth a higher price and investors can consider to buy.

**2Q09 performance**

*Good business performance in 2Q09*

In 2Q09, PPC generated a revenue of VND 1,161.8 billion and a gross profit of 341 billion, up by 6.2% and 11.3% over 1Q09, respectively thanks to stable operation of machinery and higher selling price to EVN since Mar'09 following the rising coal price. In 1H09, the selling price to EVN averaged at VND 643/1 Kwh, up by 3% over the average price of 2008. Currently, Pha Lai buys coal at around VND 455,000/ton on average

*Financial income surged*

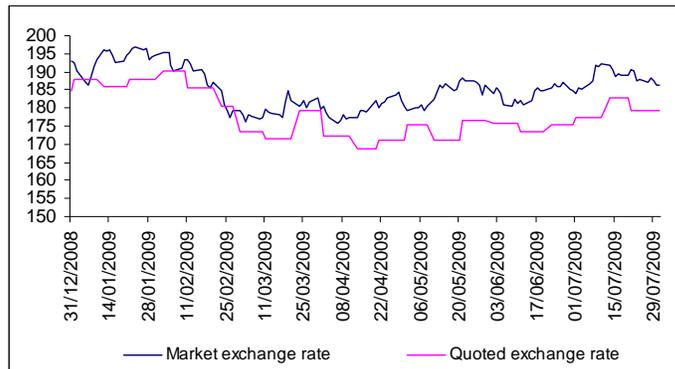
It should be noted that the financial income jumped up in 2Q09 to VND 141.5 billion as the company owns a saving contract at high deposit rate in 2008, which is due in 2Q09. Total financial income of 1H09 reached VND 176.9 billion, up by 97.4% over the same period last year.

*The JPY continues to move in PPC's benefit*

PPC paid phase 1-2009 principal of JPY 928.3 million and is paying the phase 2-2009 principal on 20 Sep 2009.

PPC uses the cross rate of the State Bank of Vietnam to calculate book value of its debts. On 30/06/2009, JPYVND exchange rate stood at 175.5, down by 5.11% against 184.96 of 31/12/2008 on which PPC recorded the provision. Though still on the rise, JPY is moving around 177.96, lower than the exchange rate that PPC based on for making the provision. If the JPYVND exchange rate remains at this level, PPC is eligible to a provision reversal of around VND 240 billion.

*JPY exchange rate Dec'08-Jul'09*



*Source: Bloomberg, SBV*

*Pace up of investment in new thermo power projects*

On 13/05/2009, PPC has signed an official contract on capital contribution to Quang Ninh thermal power JSC. Accordingly, PPC will hold 67.5 million shares, or 15% of its chartered capital. PPC will contribute the capital in two phases,. In the 1<sup>st</sup> phase, PPC will contribute VND 477.9 billion and in the 2<sup>nd</sup> phase, it will purchase 27 million shares at the price offered to existing shareholders of Quang Ninh Thermal Power JSC in its 2<sup>nd</sup> share issuance. In Jun'09, PPC also signed a contract to contribute VND 775 billion to Hai Phong Thermal Power JSC, equivalent to 15.5% of the Hai Phong-based company's chartered capital. According to PPC, on 4 Aug 2009, it has disbursed nearly VND 1,000 billion for these contracts.

**2H09 outlook**

*Lower revenue and profit due to major repairs of machinery*

In 2H09, PPC's power volume is expected to be much lower than that in 1H09 as it will conduct major repairs of production line No. 4 and 5. Besides, the production cost will increase to include the major repair expenditure incurring in 2H09. Therefore, we expect PPC's 2H09 revenue and profit from power production will have significant reduction against 1H09.

*Lower Income from saving  
interest against 1H09*

Saving interest will continue to make considerable contribution to total financial income. On 30/06/2009, the book value of over 3-month deposits was VND 2,975 billion. However, 2H09 financial income will be lower than 1H09 as the average deposit rate has notably decreased against that in 2008 and PPC's cash balance will decline in 2H09 for the disbursements on projects, loan repayment and major repairs of machinery.

*Changes in revenue of profit  
forecasts*

Pha Lai decided to postpone the plan to repair the production line No2 to the end of Dec'09 instead of Aug'09 as previously announced. Therefore, we estimate its 2009's power production volume at 6.6 billion kwh, higher than the year target of 5.97 billion kwh. We forecast revenue of VND 3,871 billion and profit of VND 833 billion. The profit figure does not include the possible reversal of provision on foreign exchange rate difference.

Peer comparison

| Industry player                      | Market cap (VND mil) | 4-quarter rolling net profit (VND mil) | PE           | P/B |
|--------------------------------------|----------------------|--|--------------|-----|
| HJS                                  | 105,000              | 11,833                                 | 8.9          | 1.3 |
| KHP                                  | 292,473              | 48,491                                 | 6.4          | 1.3 |
| NLC                                  | 127,500              | 24,485                                 | 5.6          | 1.6 |
| PPC                                  | 8,952,568            | 833,188*                               | 10.7         | 2.1 |
| RHC                                  | 71,360               | 11,547                                 | 6.7          | 1.3 |
| SEB                                  | 176,250              | 16,052                                 | 11.0         | 1.1 |
| SJD                                  | 490,354              | 47,963                                 | 10.7         | 1.3 |
| TBC                                  | 1,771,650            | 198,038                                | 9.1          | 2.3 |
| TMP                                  | 1,274,000            | 85,192                                 | 15.0         | 1.6 |
| VSH                                  | 4,716,053            | 391,817                                | 12.7         | 2.2 |
| Vietnam's industry average           |                      |  | <b>10.7x</b> |     |
| Emerging countries' industry average |                      |  | <b>18.0x</b> |     |

Source: HBBS, Bloomberg  
(\* ) PPC's profit is 2009F figure

**FINANCIAL INFORMATION**

| <b>Profit and Loss ( VND Million )</b>  | <b>1Q08</b>      | <b>2Q08</b>      | <b>3Q08</b>    | <b>4Q08</b>        | <b>1Q09</b>      | <b>2Q09</b>      |
|---|------------------|------------------|----------------|--------------------|------------------|------------------|
| <b>Revenue from sales of goods</b>      | <b>1,073,731</b> | <b>1,059,078</b> | <b>870,867</b> | <b>878,239</b>     | <b>1,094,284</b> | <b>1,161,891</b> |
| Deductions                              |                  | 0                | 0              |                    |                  |                  |
| <b>Net sales</b>                        | <b>1,073,731</b> | <b>1,059,078</b> | <b>870,867</b> | <b>878,239</b>     | <b>1,094,284</b> | <b>1,161,891</b> |
| Cost of goods sold                      | 728,914          | 729,913          | 669,359        | 670,308            | 787,962          | 820,853          |
| <b>Gross profit</b>                     | <b>344,818</b>   | <b>329,166</b>   | <b>201,508</b> | <b>207,931</b>     | <b>306,322</b>   | <b>341,038</b>   |
| Revenue from financial activities       | 10,915           | 78,711           | 88,064         | 113,769            | 35,438           | 141,518          |
| Financial expense                       | 57,641           | 106,155          | 48,886         | 1,582,738          | 38,524           | 45,000           |
| <i>Interest expense</i>                 | 44,411           | 41,421           | 38,098         | 47,030             | 38,524           | 45,000           |
| <b>Profit from financial activities</b> | <b>(46,726)</b>  | <b>(27,444)</b>  | <b>39,178</b>  | <b>(1,468,969)</b> | <b>(3,087)</b>   | <b>96,518</b>    |
| Selling expenses                        | -                | -                | -              |                    |                  |                  |
| General and administration expenses     | 11,734           | 17,343           | 19,645         | 12,997             | 18,828           | 15,349           |
| <b>Profit from operating activities</b> | <b>286,358</b>   | <b>284,379</b>   | <b>221,041</b> | <b>(1,274,035)</b> | <b>284,407</b>   | <b>422,208</b>   |
| Other incomes                           | 1,828            | 1,816            | 11,834         | 1,438              | 729              | 2,291            |
| Other expenses                          | 1,448            | 1,538            | 10,929         | (9,816)            | 873              | 1,865            |
| <b>Other profit</b>                     | <b>380</b>       | <b>278</b>       | <b>904</b>     | <b>11,253</b>      | <b>(143)</b>     | <b>426</b>       |
| <b>Profit before tax</b>                | <b>286,739</b>   | <b>284,657</b>   | <b>221,946</b> | <b>(1,262,782)</b> | <b>284,264</b>   | <b>422,634</b>   |
| Current corporate income tax            |                  |                  |                | (261,713)          |                  | 23,747           |
| <b>Profit after tax</b>                 | <b>286,739</b>   | <b>284,657</b>   | <b>221,946</b> | <b>(1,001,069)</b> | <b>284,264</b>   | <b>398,887</b>   |

| <b>BALANCE SHEET (VND mil)</b>             | <b>1Q08</b>      | <b>2Q08</b>       | <b>3Q08</b>       | <b>4Q08</b>       | <b>1Q09</b>       | <b>2Q09</b>       |
|--|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Current assets</b>                      | 2,200,841        | 2,823,482         | 3,174,077         | 4,021,469         | 5,063,062         | 5,749,267         |
| Cash and cash equivalent                   | 101,674          | 244,294           | 504,755           | 512,801           | 897,102           | 1,168,159         |
| Short-term financial investment            | 870,000          | 1,170,000         | 1,615,000         | 2,020,000         | 2,930,648         | 2,955,648         |
| Account receivables                        | 789,220          | 916,271           | 489,325           | 930,374           | 688,950           | 1,055,877         |
| Inventories                                | 439,220          | 491,819           | 563,521           | 557,198           | 545,233           | 568,395           |
| Other current assets                       | 727              | 1,098             | 1,477             | 1,096             | 1,130             | 1,187             |
| <b>Non current assets</b>                  | 7,518,193        | 7,250,584         | 6,981,869         | 6,780,896         | 5,854,160         | 5,687,939         |
| Long term receivables                      |                  |                   |                   |                   |                   |                   |
| Fixed assets                               | 5,988,536        | 5,784,308         | 5,589,913         | 5,502,036         | 5,298,702         | 5,056,551         |
| <i>Tangible fixed assets</i>               | 5,806,316        | 5,573,421         | 5,332,600         | 5,114,382         | 4,889,915         | 4,670,574         |
| At cost                                    | 13,259,391       | 13,260,014        | 13,247,343        | 13,255,620        | 13,256,302        | 13,260,687        |
| Accumulated depreciation                   | (7,453,075)      | (7,686,594)       | (7,914,742)       | (8,141,237)       | (8,366,386)       | (8,590,113)       |
| <i>Intangible assets</i>                   | 34,969           | 33,775            | 32,580            | 44,047            | 42,610            | 41,173            |
| At cost                                    | 57,274           | 57,274            | 57,274            | 57,274            | 57,274            | 57,274            |
| Accumulated depreciation                   | (22,305)         | (23,500)          | (24,695)          | (13,228)          | (14,665)          | (16,101)          |
| Goodwill                                   |                  |                   |                   |                   |                   |                   |
| Construction in progress                   | 147,251          | 177,113           | 224,733           | 343,607           | 366,177           | 344,804           |
| Investment property                        |                  |                   |                   |                   |                   |                   |
| Long term financial investments            | 1,468,370        | 1,404,957         | 1,329,957         | 955,007           | 239,200           | 315,256           |
| Other non-current assets                   | 61,287           | 61,319            | 61,999            | 323,853           | 316,258           | 316,133           |
| <b>TOTAL ASSETS</b>                        | <b>9,719,034</b> | <b>10,074,065</b> | <b>10,155,946</b> | <b>10,802,365</b> | <b>10,917,222</b> | <b>11,437,206</b> |
| <b>Total liabilities</b>                   | 5,775,650        | 5,847,597         | 5,710,718         | 7,361,025         | 7,201,115         | 7,323,899         |
| <b>Current liabilities</b>                 | 620,192          | 692,227           | 555,379           | 1,006,054         | 846,263           | 1,140,804         |
| Short-term debts                           | 132,144          | 132,144           |                   | 343,423           | 171,712           | 343,423           |
| Trade payables                             | 149,360          | 91,675            | 86,565            | 133,258           | 107,404           | 105,482           |
| Payables as construction contract progress |                  |                   |                   |                   |                   |                   |
| Other payables                             | 338,688          | 468,407           | 468,814           | 529,373           | 567,147           | 691,899           |
| Provision on short-term payables           |                  |                   |                   |                   |                   |                   |
| <b>Long-term liabilities</b>               | 5,155,458        | 5,155,370         | 5,155,338         | 6,354,971         | 6,354,852         | 6,183,096         |
| Long term debts                            | 5,153,630        | 5,153,630         | 5,153,630         | 6,353,326         | 6,353,326         | 6,181,615         |
| Other account payables                     | 1,828            | 1,740             | 1,709             | 1,644             | 1,526             | 1,481             |
| Provision on long-term payables            |                  |                   |                   |                   |                   |                   |
| <b>Total Owner's equity</b>                | 3,943,384        | 4,226,469         | 4,445,229         | 3,441,340         | 3,716,107         | 4,113,307         |
| Owner's equity                             | 3,867,725        | 3,857,882         | 4,077,658         | 3,074,942         | 3,347,150         | 3,746,037         |
| Chartered capital                          | 3,262,350        | 3,262,350         | 3,262,350         | 3,262,350         | 3,262,350         | 3,262,350         |
| Share premium                              |                  |                   |                   |                   |                   |                   |
| Other equity funds                         |                  |                   |                   |                   |                   |                   |
| Treasury stocks                            | (62,834)         | (62,834)          | (65,004)          | (65,004)          | (65,004)          | (65,004)          |
| Asset revaluation difference               |                  |                   |                   |                   |                   |                   |
| Foreign exchange rate difference           |                  |                   |                   |                   |                   |                   |
| Undistributed earnings                     | 668,210          | 658,367           | 880,312           | (122,404)         | 149,804           | 548,691           |
| Funds                                      | 75,659           | 368,586           | 367,570           | 366,399           | 368,957           | 367,270           |
| <b>Minority interest</b>                   |                  |                   |                   |                   |                   |                   |
| <b>TOTAL EQUITY AND LIABILITIES</b>        | <b>9,719,034</b> | <b>10,074,065</b> | <b>10,155,946</b> | <b>10,802,365</b> | <b>10,917,222</b> | <b>11,437,206</b> |

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