

Horizon Securities

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NEUTRAL/Medium	2M
<i>Initiation of Coverage</i>	
Price (VND)	29,100
Target price (VND)	32,000
Expected share price return	9.97%
Expected dividend yield	3.44%
Expected total return	13.40%

Stock Profile/Statistics	10-Aug-09		
Ticker	PPC		
Sector	Electricity		
Beta	1.0		
Shares Outstanding	325,154,614		
Market Capitalisation (VND'mln)	9,461,999		
Market Capitalisation (USD)	533,070,381		
Forex (VND/USD)	17,750		
Foreign Room (USD)	30.2%		
52 week High/ Low (VND)	43,300	/	15,200
3M Avg. Daily Trading (VND'mln)	26,446		
Estimated Free Float (Shares)	39,018,554		

Stock Performance (%)	1M	3M	6M
Absolute (%)	7.4	-16.4	61.7
Relative (%)	-4.1	-37.7	-7.2

Overship Structure	%
State (EVN)	67.1%
Foreign	18.8%
Others	14.0%



Initiation of Coverage

PPC – Pha Lai Thermal Power JSC: was first incorporated in 1982 as a state-owned enterprise. The company was later converted to a public company and its shares were listed on the Ho Chi Minh Stock Exchange (HOSE) in 2006. PPC is engaged primarily in the operation of the Pha Lai Coal-fired Power Plant, located in the North of Vietnam. The plant has a total of 6 operating units with total installed capacity of 1,040 Mega Watts, making it the third largest thermal power plant in the country. Its annual power generation accounts for approximately 9% of the national electricity output. The company also has substantial investments in other power companies and trading securities.

Investment highlights:

- We are initiating coverage on Vietnam’s third largest power generator, Pha Lai Thermal Power (PPC) with a **NEUTRAL** rating. Our DCF valuation model gives us a price objective for PPC of VND32,000 (US\$1.80) per share which represents a 9.97% premium to the current market price.
- As a result of a slowing economy, utilization rates are expected to fall by ~6.6% in 2009 from 6,661 hours to 6,221 hours (equivalent to 6.4 million Kwh pa). We assume electricity generation will stay flat at around 6.4 million Kwh pa for the whole period under consideration.
- According to the Vietnam Coal & Mining Industry Group (TKV), the monopoly supplier in Vietnam, as of 2Q09 coal prices for power companies have increased by 27% to a market level of around VND423,000/t (US\$24/t). We forecast coal prices to rise 20% in 2010, as the government will lift price subsidies in 4Q09.
- As the company has JPY34mIn (VND6,353bln) in foreign debt, PPC’s earnings are highly sensitive to JPY/VND currency fluctuations. Last year, a 30% rise in JPY against VND from 142 to 185 resulted in a substantial foreign exchange losses, of about VND1,543bln (US\$87mln), as the company had to make provisions to revalue its debt. According to management, if the JPY/VND exchange rate drops to 156, PPC will repay 30-40% of their total JPY debt.
- As of 1H9, the company held VND4,124bln (US\$232mln) of cash & equivalents on its balance sheet or VND12,700 (US\$0.72) of cash and equivalents per share. However, the company is going to deploy the cash to invest in several other power companies over the next two years. PPC plans to invest a total of approximately VND1,600bln (US\$92bln) during 2009-2010 by buying about 15% of Hai Phong Thermal JSC and Quang Ninh Thermal JSC. Each of these companies will have a capacity of 1,200MW and will begin production in 2010.

Please refer to the important disclosures at the end of this document.

Initiation of Coverage – Pha Lai Thermal Power JSC

Valuation

We are initiating coverage on Vietnam's third largest power generator, Pha Lai Thermal Power (PPC) with a **NEUTRAL** rating. Our DCF valuation model gives us a price objective for PPC of VND32,000 (US\$1.80) per share which represents a 9.97% premium to the current market price.

Based on our DCF valuation approach, our price objective of PPC is VND32,000 (US\$1.80) per share, which represents a 17.3% premium to the current market price.

We believe a DCF model is a more appropriate method to determine PPC's value than relative valuation metrics as it allows us to eliminate the effect of foreign exchange translations on PPC's earnings. We ran our financial model through 2014 to derive our DCF-based valuation. We used Cost of Equity (K_e) of 15.1% as the discount rate for the Free Cash Flow to Equity (FCFE).

Figure 1. Cost of equity derivation

Tax rate	25.0%
Unlevered beta	0.56
Target gearing ratio	50.0%
Levered beta	0.78
Risk free rate (R_f)	9.7%
Equity risk premium	7.0%
Cost of equity (K_e)	15.1%

Source: Horizon Securities, Bloomberg

Figure 2. Unlevered betas for peer group

Vinh Son - Song Chinh Hydropower	VSH	0.90
Ry Ninh Li Hydroelectric JSC	RHC	0.39
Can Don Hydro Power JSC	SJD	0.24
Thac Ba HydroPower JSC	TBC	0.72
Average		0.56

Source: Horizon Securities, Bloomberg

Figure 3. DCF Valuation

FY ended, 31 December	2009E	2010E	2011E	2012E	2013E	2014E
DCF Valuation						
EBIT	199,655	763,539	775,011	786,698	798,601	810,724
- Tax Paid	-	-	(40,609)	(45,762)	(27,011)	(82,317)
+ Depreciation	491,969	953,650	963,650	973,650	983,650	993,650
+/- Change in WC	(105,896)	(93,038)	(9,424)	(9,497)	(9,570)	(9,644)
Free Cashflow from Operating	585,728	1,624,150	1,688,628	1,705,089	1,745,671	1,712,413
- Capex	(194,933)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Free Cashflow to Firm (FCFF)	390,795	1,424,150	1,488,628	1,505,089	1,545,671	1,512,413
- Interest Expense*(1 - Tax rate)	(92,600)	(172,150)	(140,862)	(137,659)	(133,873)	(133,413)
+ New Debt Issued	-	-	-	-	-	-
- Debt repayments	(172,111)	(416,027)	(428,646)	(428,052)	(449,815)	(471,159)
Free Cashflow to Equity (FCFE)	126,084	835,973	919,120	939,379	961,983	907,841
Terminal value	-	-	-	-	-	6,864,950
CF to discount	126,084	835,973	919,120	939,379	961,983	7,772,791
Discount factor	0.9309	0.8068	0.6992	0.6059	0.5251	0.4551
Present value of FCFE	117,375	674,435	642,616	569,183	505,138	3,537,138
Net Present Value (NPV)	6,045,886					
Firm Value	6,045,886					
+ Cash	1,168,159					
+ ST Investment	2,955,648					
+ LT Investment	239,200					
Equity Value	10,408,893					
Outstanding shares	325,154,614					
Value per share (VND)	32,000	As of Aug-09				

Source: Horizon Securities

Our price objective is equivalent to a PER of 12.75x on 2010 adjusted EPS of VND2,510, PBR of 2.3x on our BVPS forecast of VND13,988 and EV/EBITDA multiple of 6.1x.

Initiation of Coverage – Pha Lai Thermal Power JSC

At its current price of VND29,100 (US\$1.63), the company is trading at a 24% discount to its regional peers on 2010 average PER.

Figure 4. Peer comparison

Company	Country	PER (x)			EV/EBITDA (x)			PBR (x)	RoA (%)	RoE (%)
		2008A	2009E	2010E	2008A	2009E	2010E			
HUADIAN POWER INTL CORP-H	CHINA	NM	13.1	11.1	11.1	N/A	11.2	1.4	(3%)	(16%)
CHINA RESOURCES POWER HLDG	HONG KONG	54.8	21.2	16.8	20.7	N/A	10.1	3.2	2%	6%
HUANENG POWER INTL INC-H	CHINA	NM	20.8	17.1	34.4	31.0	12.2	1.9	(2%)	(9%)
DATANG INTL POWER GEN CO-H	CHINA	23.3	20.6	16.0	28.1	N/A	14.2	2.1	0%	2%
TATA POWER CO LTD	INDIA	27.2	17.2	16.2	20.1	97.8	9.3	3.3	5%	12%
VINH SON - SONG HINH HYDRO	VIETNAM	13.0	14.6	14.4	11.9	N/A	N/A	2.1	15%	17%
RY NINH II HYDROELECTRIC JSC	VIETNAM	6.0	N/A	N/A	N/A	N/A	N/A	1.1	10%	17%
CAN DON HYDRO POWER JSC	VIETNAM	13.6	N/A	N/A	5.7	N/A	N/A	1.2	3%	10%
THAC BA HYDROPOWER JSC	VIETNAM	10.8	9.9	N/A	N/A	N/A	N/A	2.2	19%	20%
Average		21.2	16.8	15.3	18.8	64.4	11.4	2.1	5.4%	6.6%
Median		13.6	17.2	16.1	20.1	64.4	11.2	2.1	3.1%	9.5%

Source: Horizon Securities, Bloomberg, Reuters

Outlook and Assumptions

Power generation to remain stable

PPC's coal fired plant has a total capacity of 1,040MW. Management has made no expansion plans therefore capacity should remain unchanged over the foreseeable future. According to management, as a result of a slowing economy utilization rates are expected to fall by ~6.6% in 2009 from 6,661 hours to 6,221 hours (equivalent to 6.4 million Kwh pa). We assume electricity generation will stay flat at around 6.4 million Kwh pa for the whole period under consideration. A sudden pick up in demand could prove to be an upside catalyst to our valuation and could provide some room for future revaluation.

We assume electricity generation will stay flat but a sudden pick up in demand could prove to be an upside catalyst to our valuation and could provide some room for future upgrades.

Pressure from rising coal prices

Coal accounts for 40% of PPC's total costs. Historically, power companies in Vietnam have benefited from generous government subsidies on coal prices, typically around 20-30% lower than market prices. However, in 2009 the government announced its plan to gradually remove subsidies on coal leaving power companies having to purchase fuel at market rates. According to the Vietnam Coal & Mining Industry Group (TKV), the monopoly supplier in Vietnam, coal prices for power companies have already increased by 27% to a market level of around VND423,000/t (US\$24/t) as of 2Q09. We assume coal prices will rise 20% in 2010, as the government will lift price subsidies in 4Q09.

Tariff adjustment to offset coal hike

In order to offset recent coal price increases, EVN has adjusted PPC's electricity tariff up by ~7% as of 2Q09. However, PPC's gross margin will be under pressure as the tariff adjustments do not fully offset the fuel cost increase. From 2010, the government will allow power companies to set their prices through auctions, which we believe will be beneficial to power companies in the long term as they should be able to pass on (at least in part) their rising costs to end users.

In 2010, thanks to the government's plan to deregulate the market, power companies should be able, in the long term, to pass on part of their rising costs to end users.

Initiation of Coverage – Pha Lai Thermal Power JSC

Earnings are highly sensitive to translation risk

As the company has JPY34m (VND6,353b) in foreign debt, PPC's earnings are highly sensitive to JPY/VND currency fluctuations. Last year, a 30% rise in JPY against VND from 142 to 185 resulted in a substantial foreign exchange loss, about VND1,543b (US\$87m), and the company was forced to make provisions to revalue its debt. According to management, if the JPY/VND exchange rate drops to 156, PPC will repay 30-40% of the total JPY debt. Currently, the company does not use any hedging instruments for its forex exposure.

PPC's earnings are tremendously sensitive to exchange rate fluctuations. Our base case scenario considers a 3.0% depreciation of the Vietnam Dong against the JPY, but the company will report a loss this year should the dong depreciate by more than 15% against the yen. However, our DCF valuation is minimally impacted by the translation risk as it's a non-cash transaction. It would only be in the case where the company was to repay its debt at the depreciated exchange rate that this would create a cash flow impact and the translation risk would become transaction risk.

Our base case scenario considers a 7.2% depreciation of the VND against the JPY. Although earning power is highly sensitive to fluctuations in the exchange rate, the DCF provides a more stable value than one based on future earnings.

Figure 5. Exchange rate sensitivity

Change YoY	2009 JPY/VND	2009 EPS	EPS Change	NPV of FCFE	NPV Change
30.0%	240.4	(2,818)	(193%)	31,700	(1%)
20.0%	222.0	(864)	(128%)	31,800	(1%)
15.0%	212.7	113	(96%)	31,900	(1%)
10.0%	203.5	1,090	(64%)	31,900	(1%)
5.0%	194.2	2,067	(32%)	32,000	(0%)
3.0%	190.6	2,451	(19%)	32,000	(0%)
--	185.0	3,044	--	32,100	--
(5.0%)	175.7	4,021	32%	32,100	--
(10.0%)	166.5	4,998	64%	32,200	0%
(15.0%)	157.2	5,975	96%	32,300	1%
(20.0%)	148.0	6,952	128%	32,300	1%
(30.0%)	129.5	8,906	193%	32,500	1%

Source: Horizon Securities

At the moment, forecasts of JPY/VND movements in the coming years are mixed and volatility is high. The cross NDF rates indicate that the JPY will continue to rise against the VND while industry estimates from conflict with this view. In our projections we used the average rates as an indication of FX rates in the coming years. However, we will continue to monitor for forex movements in the coming months.

Figure 6. Non-deliverable forward rates

Date	VND/USD	USD/JPY	JPY/VND	YoY Change
31/12/2013	23,272	84	277	8.13%
31/12/2012	22,290	87	256	8.71%
31/12/2011	21,211	90	236	10.16%
31/12/2010	19,683	92	214	7.86%
31/12/2009	18,447	93	198	7.24%

Source: Bloomberg

Figure 7. Bloomberg median forecasts

Date	VND/USD	USD/JPY	JPY/VND	YoY Change
31/12/2013	20,000	114	175	7.81%
31/12/2012	17,250	106	163	(0.94%)
31/12/2011	17,250	105	164	(1.43%)
31/12/2010	17,000	102	167	(8.82%)
31/12/2009	17,913	98	183	(1.18%)

Source: Bloomberg

Fixed dividend policy and special tax scheme

Last year, PPC did not make any dividend payouts as the company recorded a VND213b (US\$12m) net loss, due to onerous financial provisions. According to management the company will return a minimum dividend of VND500 per share in 2009 and VND1,000 per share thereafter.

Initiation of Coverage – Pha Lai Thermal Power JSC

The government will continue to offer PPC a special tax scheme; fully exempted of tax until 2010, and 12.5% tax rate for the 6 years following.

Figure 8. PPC key assumptions

	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Operating Parameters							
Total installed capacity (MW)	1,040	1,040	1,040	1,040	1,040	1,040	1,040
Average utilization hours (hr)	6,661	6,221	6,221	6,221	6,221	6,221	6,221
Average tariff (VND/kWh)	622	666	716	723	730	737	745
Unit fuel cost (VND/kWh)	(205)	(247)	(296)	(299)	(302)	(305)	(308)
JPY/VND exchange rate	185	191	190	200	209	226	226
Maintenance capex (VND'mln)	(228,385)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
Financial parameters							
Dividend (VND)	--	500	1,000	1,000	1,000	1,000	1,000
Effective tax rate (%)	--	--	--	12.5%	12.5%	12.5%	12.5%

Source: Horizon Securities

Strong cash position

As of 1H9, the company had a total of VND4,124bln (US\$232mln) or VND12,700 per share of cash & equivalents on its balance sheet. However, the company is going to deploy the cash to invest in several other power companies. PPC plans to invest a total of approximately VND1,600bln (US\$92bln) during 2009-2010 to buy about 15% of Hai Phong Thermal JSC and Quang Ninh Thermal JSC. Each of these companies will have a capacity of 1,200MW and should commence production in 2010. According to management these investments will only begin to bear fruit after 2012. In addition, the company currently holds 1.1% stake in Ba Ria Thermal Power JSC, which is worth VND46.5bln (US\$2.6mln). We expect PPC will not have to raise further capital for these investments as it has sufficient cash in hand.

As of 1H9, the company had a total of VND4,124bln (US\$232mln) or VND12,700 per share of cash & equivalents on its balance sheet, and the company will not need to raise capital for its investments plan.

Key Investment Risks

We rate PPC's shares **MEDIUM** Risk. Key risks to our projections include; JPY/VND exchange rate volatility, rising coal prices, over-builds of new capacity and delays in the deregulation process of the sector. All of the above factors can affect PPC operating performance going forward hence our valuation.

Exchange rate volatility

We believe the JPY/VND exchange rate will continue to be the biggest risk to PPC's earning performance going forward as the company does not have any concrete plan to repay its debt early or employ hedging instruments. A continual rise in JPY against the VND will damage PPC's bottom line. However, the forex fluctuation is a non-cash item and has small effect on PPC's cash-flows.

Rising coal prices

As coal is the main source of PPC's raw material, it remains the driver to our cost estimations. A sharp rise in coal prices could put pressure on PPC's profit margins. Even though there is limited information on TKV's pricing policy in the coming years, we believe the government will allow power companies to pass on part of their rising costs to consumers to ease pressure on power companies and keep the electricity supply stable.

Initiation of Coverage – Pha Lai Thermal Power JSC

Delays in the deregulating process

Since 2005 the Vietnamese government has been working on a roadmap to deregulate the power sector and reduce governmental control. From 2010, power companies will be allowed to set their tariffs through an auction scheme. We believe this will benefit PPC as pricing will be more flexible and costs can be somewhat passed on to consumers. Any delay in the process could have detrimental results on PPC's earnings and margins.

Company Background

Pha Lai Thermal Power was first incorporated in 1982 as a state-owned enterprise. The company was later equitized and it listed on the Hochiminh Stock Exchange (HOSE) in 2006. PPC is engaged primarily in the operation of the Pha Lai Coal-fired Power Plant, located in the North of Vietnam. PPC is the third largest thermal power plant in the country with six operating units and total installed capacity of 1,040 Mega Watts. Pha Lai generates approximately 9% of the national electricity output. The company has also made substantial investments in other power companies.

PPC's major stakeholder is the Electricity of Vietnam (EVN), which owns almost 67% of the company. EVN is the state-run holding conglomerate which owns over 22 power companies and holds a monopoly in the sales and distribution of electricity in Vietnam. Other major shareholders include Deutsche Bank AG (5%), PetroVietnam Finance (2.3%), Bao Viet Life Insurance (0.62%), Vietnam International Bank (0.63%) and Ngan Ha Investment & Construction (0.61%).

The Vietnam Power Sector

Historically, the power sector in Vietnam has been highly monopolistic with Electricity of Vietnam (EVN) controlling the whole power chain; from generation to transmission and distribution. Since 2005, the Vietnamese government has opened up the sector by privatizing some state-owned companies and allowing participation of independent power producers (IPPs). The government's reform program will gradually open the market for wholesale and retail electricity sales in 2014 and 2020 respectively. However, through EVN the government will continue to influence the market as it will be the largest stakeholder in this sector.

Figure 9. Road Map for the Electricity Sector



Source: Horizon Securities

According to the Government road map, from 2010 IPPs and BOT power plants will participate in a competitive power market, where distribution companies will purchase power via a "power pool" scheme and may select customers through Power Purchase Agreements (PPAs). However, the Government will still manage transmission companies. We believe the deregulating process will be beneficial to

Initiation of Coverage – Pha Lai Thermal Power JSC

power producers in the long-term, as power companies and distributors can negotiate directly instead of going through EVN. It will be easier for power producers to pass on (at least part of) their costs to end users.

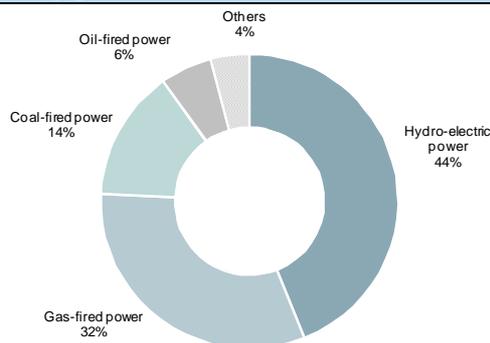
Electricity consumption

Electricity demand has increased steadily in Vietnam during the last decade, with average consumption growth of 13% CAGR, yet consumption per capita remains one of the lowest in Asia. Despite the economic slowdown in 2008, total electricity consumption reached 74 billion KWh, representing 11% YoY increase, almost double the country's GDP growth of 6.5% that year.

The rapid industrial growth and high urbanization growth rate in Vietnam have been the key drivers for strong growth in power consumption in recent years. Of the total electricity consumption, the industrial sector accounted for over 50% (2007: 47%) while residential & commercial sectors accounted for 40% (2007: 43%).

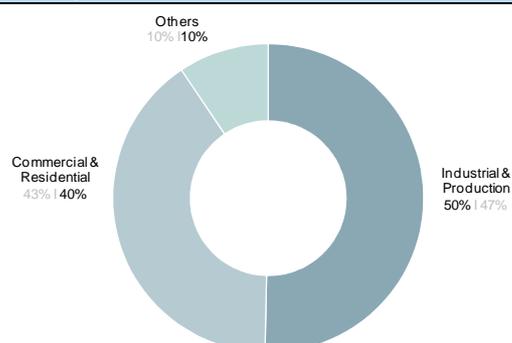
Hydropower plants are the dominant energy source, accounting for 44% of the total installed capacity, followed by gas-fired power plants (32%). As a result of its high dependency on hydropower, Vietnam frequently experiences power shortages in the dry season. The rest are coal-fired plants (14%), oil-fired plants (14%) and imports from China (4%). By the end of 2008, total installed capacity reached approximately 13,581 MW, up 32% YoY.

Figure 10. Hydro-power is the main source of electricity generation



Source: Horizon Securities, EVN

Figure 11. Industrial sector is the key driver for electricity demand



Source: Horizon Securities, EVN

Demand supply imbalance

Despite strong capacity expansion in the past few years, electricity demand still exceeded supply capability and Vietnam still has to import around 4-5% of its total electricity consumption from China. At the moment, power plants in Vietnam are running at an overall utilization rate of more than 5,450 hours which is higher than the utilization rate in China of ~5,000 hours. The Government has had to coordinate rolling blackouts in major cities to cope with power shortages.

Pricing has been strictly regulated

The Government strictly regulates electricity retail prices, which are proposed by the Ministry of Industry (MoI) and require the approval of the Prime Minister. In the wholesale electricity market, EVN is the sole buyer and selling price is decided through PPAs between EVN and power companies. The average wholesale price was ~US\$3.57 cent per Kwh but different tariffs are applied depending on the type of plants and the season.

Initiation of Coverage – Pha Lai Thermal Power JSC

Figure 12. EVN wholesale prices

Season	Wholesale Price (US\$/kWh)							
	Thermal Power				Hydro Power			
	Coal-fired Power		Gas-fired Power		Capacity < 30 MW		Capacity > 30 MW	
	Min	Max	Min	Max	Min	Max	Min	Max
Dry Season	2.43	4.69	3.15	4.51	2.43	4.69	2.25	4.51
Rainy Season	3.15	3.97	2.25	4.51	2.25	4.51	3.61	4.24

Source: Horizon Securities, EVN

Demand outlook

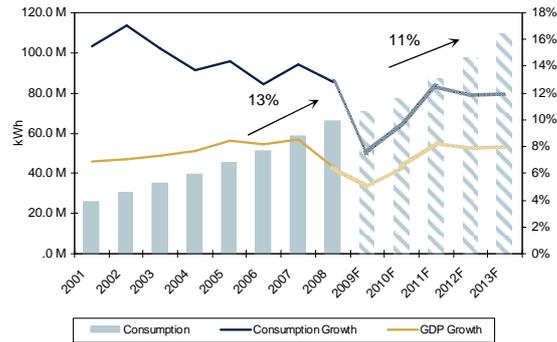
As electricity consumption is highly tied to the country's economy, we believe demand will slow in 2009, but will pick up again in 2010 before getting back to double digit growth by 2012. After reviewing electricity consumption elasticity in other emerging markets, we believe the figure to remain around 1.5x for the foreseeable future as a result of urbanization and industrialization growth, implying that electricity consumption will increase at a multiple of 1.5x the country's GDP growth. Consequently we hold the view that Vietnam's electricity consumption CAGR from 2009-2015 will be around 11%, slightly lower than the 13% over the past 5 years.

Figure 13. Elasticity of electricity consumption



Source: Horizon Securities, GSO

Figure 14. Consumption of electricity



Source: Horizon Securities, MPI, BMI

Initiation of Coverage – Pha Lai Thermal Power JSC

Financial Highlights

Income Statements								VND'mln
FY ended, 31 December	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Sales	3,807,068	3,881,915	3,847,178	4,131,393	4,172,642	4,214,304	4,256,383	4,298,883
COGS	(2,692,735)	(2,798,493)	(2,976,062)	(3,305,272)	(3,334,424)	(3,363,769)	(3,393,306)	(3,423,039)
Gross profit	1,114,333	1,083,422	871,116	826,121	838,218	850,536	863,077	875,843
S&A expense	(58,406)	(61,718)	(58,277)	(62,582)	(63,207)	(63,838)	(64,476)	(65,120)
EBIT	1,055,927	1,021,704	812,839	763,539	775,011	786,698	798,601	810,724
Financial income	125,401	293,006	338,500	227,068	269,573	401,057	470,694	546,826
Financial expense	(409,021)	(1,795,579)	(354,536)	(172,150)	(450,424)	(420,887)	(582,798)	(152,472)
Interest expense	(167,312)	(170,961)	(176,125)	(172,150)	(160,985)	(157,324)	(152,998)	(152,472)
Income from JV&A	-	-	-	-	-	-	-	-
Other Profits	5,514	12,816	283	283	283	283	283	283
EBITDA	1,995,363	1,932,104	1,756,489	1,717,189	1,738,661	1,760,348	1,782,251	1,804,374
EBIT	1,055,927	1,021,704	812,839	763,539	775,011	786,698	798,601	810,724
EBT	777,821	(468,053)	797,085	818,739	594,443	767,150	686,780	1,205,361
Enterprise Income Tax	46,532	255,269	-	-	(40,609)	(45,762)	(27,011)	(82,317)
Deferred Income Tax	-	-	-	-	-	-	-	-
Net Profit	824,353	(212,784)	797,085	818,739	553,835	721,388	659,769	1,123,044
EPS	2,528	(654)	2,451	2,510	1,698	2,211	2,022	3,442
Adj. Net Profit	1,066,062	1,411,834	975,497	818,739	843,273	984,951	1,089,569	1,123,044
Adj. EPS	3,269	4,341	3,000	2,510	2,585	3,019	3,340	3,442

Balance Sheets								VND'mln
FY ended, 31 December	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Current assets	2,310,027	4,738,664	4,910,593	5,357,136	6,215,715	7,226,626	8,330,451	9,456,466
Cash	262,798	512,801	1,574,037	2,302,630	3,145,248	4,140,066	5,227,665	6,337,321
Short term investment	1,080,000	2,735,648	1,774,594	1,345,990	1,345,990	1,345,990	1,345,990	1,345,990
Account receivable	497,193	931,921	713,007	765,681	773,326	781,047	788,845	796,722
Inventory	469,445	557,198	848,113	941,930	950,238	958,601	967,018	975,491
Other current assets	592	1,096	842	904	913	922	932	941
Non current assets	7,375,279	6,058,646	6,334,048	6,009,002	5,245,352	4,471,702	3,688,052	2,894,402
Long-term receivables	-	-	-	-	-	-	-	-
Fixed assets	6,215,556	5,502,036	4,758,386	4,004,736	3,241,086	2,467,436	1,683,786	890,136
Investment in property	-	-	-	-	-	-	-	-
Long-term investments	1,098,370	239,200	1,259,404	1,688,008	1,688,008	1,688,008	1,688,008	1,688,008
Other long-term assets	61,353	317,410	316,258	316,258	316,258	316,258	316,258	316,258
TOTAL ASSETS	9,685,305	10,797,310	11,244,640	11,366,137	11,461,067	11,698,327	12,018,502	12,350,867
Current liabilities	701,453	1,006,054	1,042,310	1,108,444	1,114,387	1,142,747	1,170,747	1,215,187
Short term debt	264,289	343,423	415,627	428,246	427,652	449,415	470,759	508,484
Account payable	104,860	133,258	196,463	218,195	220,120	222,057	224,007	225,969
Advances from customers	154	497	324	348	352	355	359	362
Other current liabilities	332,150	528,876	429,896	461,655	466,265	470,920	475,622	480,371
Non current liabilities	5,155,414	6,354,971	6,131,538	5,694,397	5,555,783	5,369,532	5,328,172	4,819,289
Long-term loan & debt	5,153,630	6,353,327	6,130,012	5,692,871	5,554,257	5,368,006	5,326,646	4,817,763
Other long-term liabilities	1,784	1,644	1,526	1,526	1,526	1,526	1,526	1,526
Deferred tax liabilities	-	-	-	-	-	-	-	-
Owner's Equity	3,828,439	3,436,285	4,070,793	4,563,296	4,790,896	5,186,049	5,519,583	6,316,392
Minority interest	-	-	-	-	-	-	-	-
TOTAL LIABILITIES & OWNER'S EQUITY	9,685,305	10,797,310	11,244,640	11,366,137	11,461,067	11,698,327	12,018,502	12,350,867

Initiation of Coverage – Pha Lai Thermal Power JSC

Cashflows Statements								VND'mln
FY ended, 31 December	<u>2007A</u>	<u>2008A</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>
Net profit (loss) before tax	781,273	(468,052)	797,085	818,739	594,443	767,150	686,780	1,205,361
Adjustment for:								
Depreciation and amortisation	961,524	933,650	943,650	953,650	963,650	973,650	983,650	993,650
Other adjustments	305,194	1,675,197	30,336	(63,413)	180,850	19,831	112,104	(394,354)
Income before changes in WC	2,047,991	2,140,795	1,771,071	1,708,976	1,738,944	1,760,630	1,782,534	1,804,657
Net cash flows from operations	2,679,896	1,369,378	2,448,307	1,872,391	1,527,925	1,548,048	1,592,955	1,560,224
Net cash flows from investing	(2,246,067)	(1,004,588)	(880,670)	(401,536)	69,573	201,057	270,694	346,826
Net cash flows from financing	(699,649)	(164,787)	(506,400)	(742,262)	(754,881)	(754,287)	(776,050)	(797,394)
Net increase (decrease) in cash	(265,821)	200,003	1,061,236	728,593	842,618	994,818	1,087,600	1,109,656
Cash at beginning	528,618	312,798	512,801	1,574,037	2,302,630	3,145,248	4,140,066	5,227,665
Impact of exchange rate	-	-	-	-	-	-	-	-
Cash at end of year	262,798	512,801	1,574,037	2,302,630	3,145,248	4,140,066	5,227,665	6,337,321
Financial Ratios								
FY ended, 31 December	<u>2007A</u>	<u>2008A</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>
Growth								
Sales growth (%)	5.5%	2.0%	(0.9%)	7.4%	1.0%	1.0%	1.0%	1.0%
EBITDA growth (%)	(2.2%)	(3.2%)	(9.1%)	(2.2%)	1.3%	1.2%	1.2%	1.2%
EBIT growth (%)	(7.5%)	(3.2%)	(20.4%)	(6.1%)	1.5%	1.5%	1.5%	1.5%
NI growth (%)	(15.8%)	nm	nm	2.7%	(32.4%)	30.3%	(8.5%)	70.2%
Profitability								
Gross margin (%)	29.3%	27.9%	22.6%	20.0%	20.1%	20.2%	20.3%	20.4%
EBITDA margin (%)	52.4%	49.8%	45.7%	41.6%	41.7%	41.8%	41.9%	42.0%
Operating margin (%)	27.7%	26.3%	21.1%	18.5%	18.6%	18.7%	18.8%	18.9%
Net margin (%)	21.7%	(5.5%)	20.7%	19.8%	13.3%	17.1%	15.5%	26.1%
Return on asset (%)	8.5%	nm	7.1%	7.2%	4.8%	6.2%	5.5%	9.1%
Return on invested capital (%)	8.9%	nm	7.5%	7.7%	5.1%	6.6%	5.8%	9.6%
Return on equity (%)	21.5%	nm	19.6%	17.9%	11.6%	13.9%	12.0%	17.8%
Liquidity								
Current ratio (x)	3.3	4.7	4.7	4.8	5.6	6.3	7.1	7.8
Quick ratio (x)	2.6	4.2	3.9	4.0	4.7	5.5	6.3	7.0
Cash ratio (x)	1.9	3.2	3.2	3.3	4.0	4.8	5.6	6.3
CFO to NI (x)	3.3	(6.4)	3.1	2.3	2.8	2.1	2.4	1.4
Z Score	1.4	1.3	1.4	1.6	1.7	1.9	2.0	2.3
Asset Management								
Receivable turnover (days)	151.0	67.2	78.0	65.3	67.3	67.3	67.3	67.3
Inventory turnover (days)	55.7	67.0	86.2	98.8	103.6	103.6	103.6	103.6
Payable turnover (days)	(12.4)	(15.5)	(20.2)	(22.9)	(24.0)	(24.0)	(24.0)	(24.0)
Cash conversion cycle (days)	194.3	118.6	144.0	141.3	146.9	146.9	146.9	146.9
Total asset turnover (x)	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Fixed asset turnover (x)	0.5	0.6	0.6	0.7	0.7	0.9	1.0	1.3
Equity turnover (x)	1.0	1.1	1.0	1.0	0.9	0.8	0.8	0.7
Leverage								
Gearing ratio (%)	153.0%	214.2%	176.2%	149.1%	139.2%	125.6%	117.7%	95.5%
Debt to Total Assets ratio (%)	55.9%	62.0%	58.2%	53.9%	52.2%	49.7%	48.2%	43.1%
Interest coverage (x)	6.3	6.0	4.6	4.4	4.8	5.0	5.2	5.3
Dividend								
Payout ratio (%)	59.3%	--	20.4%	39.8%	58.9%	45.2%	49.4%	29.0%
Retention ratio (%)	40.7%	100.0%	79.6%	60.2%	41.1%	54.8%	50.6%	71.0%

Horizon Securities' Rating System

Under our rating system, each stock is given a two-part rating, which indicates the following:

Investment Ratings

- Buy (1)
- Neutral (2)
- Underperform (3)

Risk Ratings

- Low (L)
- Medium (M)
- High (H)
- Speculative (S)

Our Analyst's Methodology

Price objective and expected total return

Initially, an analyst derives an expected 12-month price objective using multiple valuation methodologies (as specified in the Valuation section of the research). The current market price is then compared with the price objective to calculate an expected gain or loss. The one-year projected dividend yield, if any, is then added to the expected gain or loss to calculate an expected total return.

Risk rating

The analyst then assesses the risk of a stock based on various quantitative and fundamental factors that relate to the stock's local market/country (as specified in the Risk section of the research). We categorize risk as Low, Medium, High or Speculative.

Ratings-Risk-Return Matrix

Finally, based on both the expected total return and risk rating, an investment rating is established using our ratings-risk-return matrix (below). We categorize investment ratings as Buy, Neutral or Underperform. All published research contains a Valuation and Risk section where analysts must discuss how they derived their price objectives and risk ratings. Investors are encouraged to read this section for a detailed description.

Expected Total Returns Ratings-Risk-Return Matrix

	LOW Risk	MEDIUM Risk	HIGH Risk	SPECULATIVE
BUY (1)	$R \geq 10$	$R \geq 15$	$R \geq 20$	$R \geq 35$
NEUTRAL (2)	$0 < R < 10$	$5 < R < 15$	$10 < R < 20$	$15 < R < 35$
UNDERPERFORM (3)	$R \leq 0$	$R \leq 5$	$R \leq 10$	$R \leq 15$

$R = \text{Expected Total Return (12 months)} = [(\text{Price Objective} - \text{Current Price}) / \text{Current Price}] + \text{Forecast 12-month Dividend Yield}$.

These benchmarks are subject to change.

Initiation of Coverage – Pha Lai Thermal Power JSC

Important Disclosures

Guide to Investment Ratings:

Horizon Securities' stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H] and Speculative [S].

Investment ratings are a function of Horizon Securities' expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Investment ratings are:

Buy [1] (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); **Neutral [2]** (0% - 10% for Low-Risk stocks, 5% - 15% for Medium-Risk stocks, 10% - 20% for High-Risk stocks, and 15% - 35% for Speculative stocks); and **Underperform [3]** (negative total return for Low-Risk stocks, 5% or less for Medium-Risk stocks, 10% or less for High-Risk stocks and 15% or less for Speculative stocks).

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