

VPower (1608 HK)

Myanmar JV on track to commercial operation

We had a recent update with VPower on its Myanmar projects' status. According to news report and management, we think the Company is on track to deliver several key projects through its JV partnership with CNTIC as Company guidance by 1H20. Apart from that, based on a fixed PPA expectation between the JV and Myanmar government (Ministry of Electricity and Energy, MoEE), we expect VPower will be able to enjoy considerable payoff from recent low LNG price environment. Based on Myanmar's electricity development in the coming few years, we believe VPower's IBO business is sustainable and has potential to have more project opportunities in Myanmar. **Our DCF TP is lifted to HK\$4.80, reflecting FY20/21E PER of 18.4x/10.6x, respectively. Maintain BUY.**

- Myanmar projects are largely on track as guidance.** Recent news report indicated several LNG fueled projects were subject to some delay due to precautions measures for COVID-19. According to The Irrawaddy, a Myanmar news agency, Mr. U Khin Maung Win, deputy minister of MoEE commented on 19 May that, 1) 400MW in Thaketa will launch full operation by 30 May; 2) 350MW in Thanlyin will start operation in Jun; 3) 150MW in Kyauphyu will be completed by Sep; and 4) the 20.54MW in Kyun Chaung fully owned by VPower had already commenced operation during the week of 18-24 May. On top of those comments, mgmt. from VPower also expected PPA for those projects will be signed within coming weeks, which can be viewed as key milestone before commercial operation for those IBO projects by 1H20.
- Entered JV agreement with CNTIC.** VPower entered shareholder agreement with CNTIC for Myanmar JV controlling those 900MW contract capacities. Capital commitment of the JV is US\$180mn, of which VPower will commit US\$90mn (~HK\$702mn). The Company had invested HK\$225.3mn in advanced by Mar, and planned to fund the remaining through internal cash and borrowings with no short-term equity financing needs for the JV investment. As we expect the JV will have a significant portion of capacity to commence operation from Jun, we expect the JV will contribute some earnings in 1H20.
- Exploring future opportunities in Myanmar.** We noticed that shareholder agreement of the JV sets several clause to unify both VPower and CNTIC's interests, including transfer restrictions and non-competition undertakings. Based on our study on Myanmar's electricity development plan (mid-teens electricity consumption growth), we believe the JV will have opportunities to explore more potential LNG fueled power project in the country.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	2,421	2,794	3,301	4,041	4,595
Net income (HK\$ mn)	213	284	669	1,162	1,279
EPS (HK\$)	0.08	0.11	0.26	0.45	0.50
YoY growth (%)	(35.6)	31.2	138.4	73.6	10.1
Consensus EPS (HK\$)	N/A	N/A	0.21	0.38	0.46
P/E (x)	38.3	28.9	12.3	7.1	6.4
P/B (x)	3.2	2.9	2.4	1.9	1.5
Yield (%)	0.6	0.7	1.6	2.8	3.1
ROE (%)	0.1	0.1	0.2	0.3	0.2
Net gearing (%)	123.2	112.7	100.6	73.5	55.3

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$4.80**
(Previous TP **HK\$3.25**)
Up/Downside **+50.0%**
Current Price **HK\$3.20**

Distributed Power

Robin Xiao
(852) 3900 0849
robinxiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	7,971
Avg 3 mths t/o (HK\$ mn)	3.82
52w High/Low (HK\$)	3.48/2.0
Total Issued Shares (mn)	2,563

Source: Bloomberg

Shareholding Structure

Energy Garden	70.5%
CITIC Pacific	8.0%
Free float	21.40%

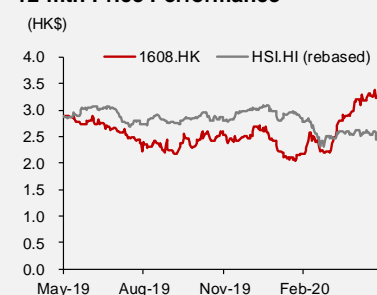
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-1.3%	4.1%
3-mth	42.7%	60.0%
6-mth	20.1%	38.6%
12-mth	11.5%	31.1%

Source: Bloomberg

12-mth Price Performance



Source: Wind

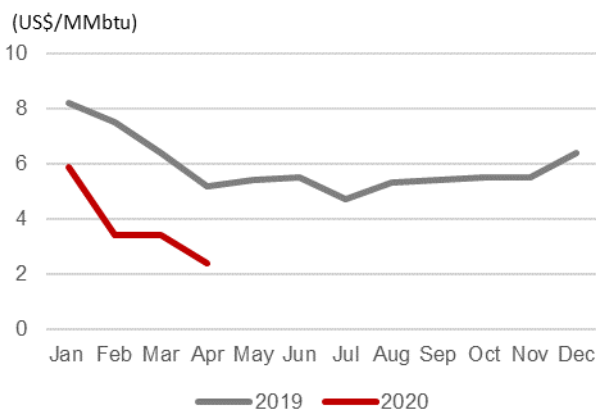
Auditor: Ernst & Young

Related Reports

- VPower (1608 HK) – "Earnings beat; looking forward to a fruitful 2020" – 1 Apr 2020
- VPower (1608 HK) – "Myanmar project on track, high growth in sight" – 27 Feb 2020
- VPower (1608 HK) – "Taking a big step ahead in Myanmar" – 11 Oct 2019

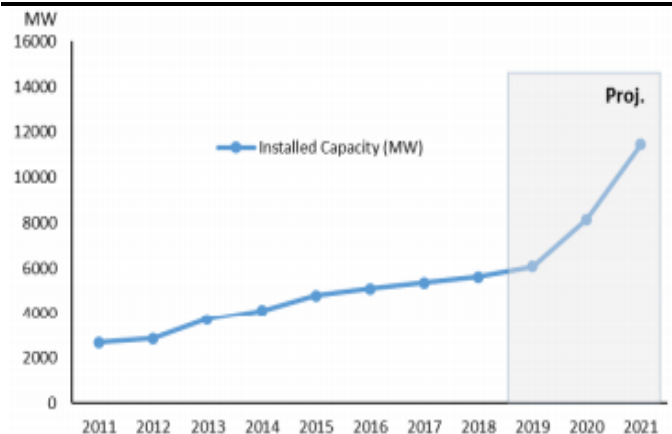
- Low spot price will help secure LNG supply.** COVID-19's economy impact and city lockdown measures had led to excessive LNG supply to the Asia market. According to METI Japan's data, monthly spot LNG price was 28.0%-54.7% YoY lower in Jan-Apr 2020. We think low spot price environment will favor the JV for securing LNG supply and mitigating fuel price risks. Given the 3 projects in the JV has 1) large operating scale, 2) tight construction time and 3) low LNG price, we expect the JV will have higher profitability than VPower's existing IBO projects.
- Earnings growth to accelerate in 2H20.** Other than Myanmar new projects and JV, mgmt. also updated other IBO projects development pace. Overall, we think VPower's IBO projects are on track with our previous estimates, and our earnings forecasts remain unchanged. Based on our assumptions, we expect the Company to earn HK\$178mn in 1H20, representing 24.8% growth YoY. In 2H20, as we expect those newly added Myanmar projects and JV's contribution to kick in, we expect earnings growth to accelerate substantially.
- Lifting DCF TP by 47.7% to HK\$4.80.** VPower's share price had surged more than 40% since our previous update with increasing trading volume (3-month average turnover increased from HK\$2.27mn on 1 Apr to HK\$3.82mn on 28 May). We think the Company's value of its IBO business in the Southeast Asia areas is gaining market recognition. Based on our revised model which incorporates contributions from Myanmar JV, our **DCF TP is lifted by 47.7% to HK\$4.80 per share, reflecting FY20/21E PER of 18.4x/10.6x respectively. Maintain BUY.**

Figure 1: Spot LNG price declined significantly in Jan-Apr 2020

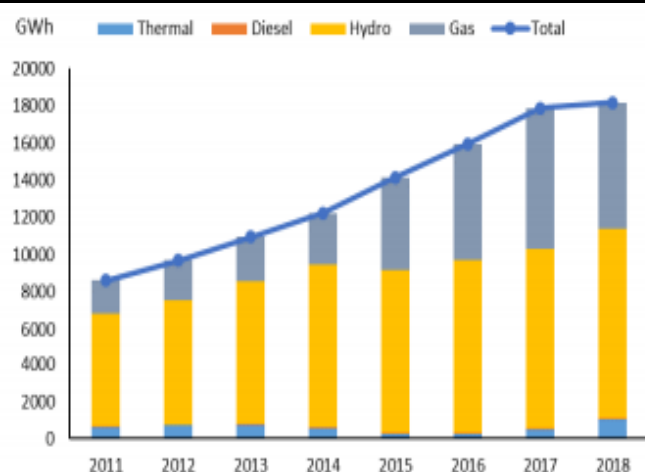


Source: METI Japan, CMBIS

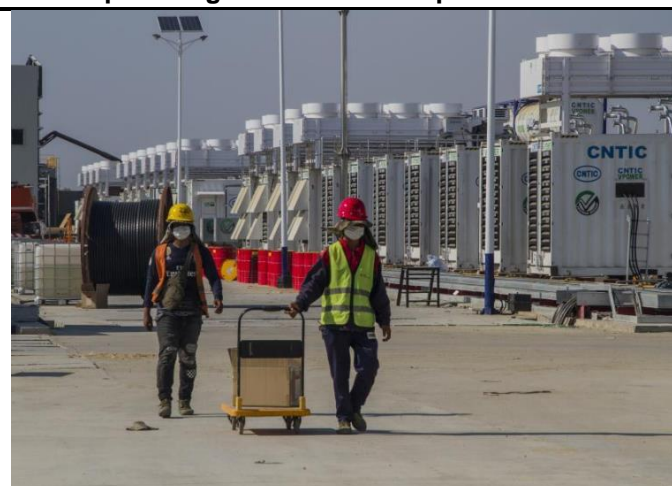
Figure 2: Installed capacity is expected to increase rapidly in 2020-21E



Source: MoEE, AMRO

Figure 3: Gas power is playing increasingly important role in Myanmar


Source: MoEE, ARMO

Figure 4: VPower JV's 400MW power plant in Thaketa township has high readiness for operation


Source: Myanmar Times

Figure 5: Our earnings projection for 1H/2H20E

YE Dec 31 (HK\$ mn)	1H19	2H19	FY19A	1H19/ FY19%	1H20E	2H20E	FY20E
Revenue	1,203	1,591	2,794	43.1%	1,320	1,981	3,301
System integration - SI	689	1,068	1,757	39.2%	716	1,075	1,791
Invest, build, and operate - IBO	515	523	1,038	49.6%	649	861	1,510
Cost of sales	(806)	(1,250)	(2,057)	39.2%	(930)	(1,394)	(2,324)
Gross profit	397	340	737	53.9%	401	576	977
Gross profit margin	33.0%	21.4%	26.4%	NA	30.3%	29.1%	29.6%
Selling expense	(11)	(20)	(31)	34.6%	(12)	(18)	(30)
Admin expense	(118)	(221)	(339)	34.7%	(132)	(198)	(330)
Other income and gains	8	135	144	5.9%	40	49	88
Other operating expenses	-	(5)	(5)	0.0%	(3)	(4)	(7)
EBIT	277	228	506	54.8%	293	405	698
EBIT margin	23.0%	14.4%	18.1%	NA	22.2%	20.4%	21.2%
Share profit	(3)	69	67	-3.9%	26	297	323
Finance costs	(118)	(132)	(249)	47.2%	(113)	(138)	(252)
Pre-tax profit	159	164	323	49.3%	180	589	769
Profit tax	(14)	(27)	(41)	34.5%	(28)	(72)	(100)
Effective tax rate	8.9%	16.3%	12.7%	NA	15.5%	12.2%	13.0%
Less: Minority interests	(0)	(1)	(1)	0.4%	(0)	1	1
Net profit	145	138	284	51.2%	152	517	669

Source: Company data, CMBIS estimates

Figure 6: Our DCF valuation

DCF Valuation (HK\$ mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	4,041	4,595	5,062	5,550	5,952	6,313	6,692	7,090	7,508	7,945
Turnover growth (%)	22.4%	13.7%	10.2%	9.6%	7.2%	6.1%	6.0%	6.0%	5.9%	5.8%
EBIT	810	940	1,051	1,124	1,175	1,214	1,252	1,290	1,327	1,364
EBIT margin (%)	20.1%	20.5%	20.8%	20.3%	19.7%	19.2%	18.7%	18.2%	17.7%	17.2%
Tax rate (%)	13.0%	13.0%	13.0%	13%	13%	13%	13%	13%	13%	13%
Income tax	(105)	(122)	(137)	(146)	(153)	(158)	(163)	(168)	(173)	(177)
Depreciation & amortisation	415	498	581	676	590	648	713	785	863	949
Invest in working capital	(277)	(152)	(98)	(217)	(184)	(172)	(189)	(208)	(229)	(252)
CAPEX	(923)	(1,152)	(924)	(872)	(759)	(709)	(779)	(857)	(942)	(1,036)
Free cash flow	(80)	13	474	565	668	823	834	842	847	848
Share profit from Myanmar JV*	756	756	756	756	756	756	756	756	756	756
Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.92	0.85	0.79	0.73	0.67	0.62	0.58	0.53	0.49	0.45
Discounted free cash flow & share profit	624	656	970	963	959	983	914	849	787	728
Terminal value**										13,905
Terminal perpetual growth										2.0%
Terminal EV/EBITDA										6.0

WACC Calculations	
Cost of debt	6.5%
Tax rate	13.0%
After tax cost of debt	5.7%
Cost of equity	10.3%
Adjusted beta	0.80
Market risk premium	11.9%
Risk free rate	0.8%
% of debt financing	45.0%
WACC	8.2%

Valuations (HK\$ mn)	
Terminal value	13,905
Terminal perpetual growth	2.0%
Terminal EV/EBITDA	6.01
Total discount FCF & share profit	8,435
Discount terminal value	7,391
Enterprise value	15,826
Discount FCF(% of total)	53.3%
Terminal value (% of total)	46.7%
Add: Cash & cash equivalent	623
Less: Debt	4,105
Non-controlling interest	40
Equity Value - (HK\$,mn)	12,303
Share fair value (HK\$/share)	4.80

Source: Company data, CMBIS estimate

Note: *We incorporated share profit from the JV in our DCF valuation for discount cash flow in 2021-30.

**We consider no further extension of the JV's contract for terminal value estimates.

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	2,421	2,794	3,301	4,041	4,595
SI	1,579	1,757	1,791	1,881	2,031
IBO	508	1,038	1,510	2,160	2,564
Cost of sales	(1,714)	(2,057)	(2,324)	(2,819)	(3,186)
Gross profit	707	737	977	1,221	1,409
Selling expense	(26)	(31)	(30)	(33)	(35)
Admin expense	(273)	(339)	(330)	(404)	(459)
Other income and gains	40	144	88	34	35
Other operating expenses	(32)	(5)	(7)	(8)	(9)
EBIT	416	506	698	810	940
Share profit	6	67	323	770	770
Finance costs	(191)	(249)	(252)	(245)	(240)
Pre-tax profit	231	323	769	1,336	1,471
Profit tax	(30)	(41)	(100)	(174)	(191)
Minority interests	(12)	(1)	1	1	1
Net profit	213	284	669	1,162	1,279

Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	231	323	769	1,336	1,471
Depreciation and amortization	200	269	346	415	498
Change in working capital	(1,602)	957	(600)	(277)	(152)
Income tax paid	(26)	(42)	(99)	(174)	(191)
Others	994	(8)	(11)	3	3
Operating cash flow	(203)	1,500	404	1,302	1,629
Capex	(1,735)	(1,628)	(1,222)	(938)	(1,167)
Others	141	0	(122)	-	-
Investment cash flow	(1,593)	(1,628)	(1,343)	(938)	(1,167)
Equity raised	(9)	-	(0)	-	-
Change of debts	2,361	247	873	92	173
Dividend paid	(83)	(35)	(87)	(172)	(240)
Others	(983)	153	-	-	-
Financing cash flow	1,332	359	789	(78)	(65)
Net change in cash	(465)	231	(150)	286	397
Cash at the beginning	1,034	541	772	623	909
FX change	(27)	-	-	-	-
Cash at the end	541	772	623	909	1,306
Cash at balance sheet	541	772	623	909	1,306

Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	2,947	4,995	6,143	6,672	7,350
Fixed assets	1,812	3,761	4,327	4,836	5,491
Investment property	25	25	24	24	23
Deposits & receivables	164	147	150	155	164
Deferred tax assets	15	15	15	15	15
Others	931	1,029	1,608	1,622	1,637
Current assets	4,447	3,956	3,951	4,734	5,475
Cash and cash equivalents	541	772	623	909	1,306
Pledged deposits	48	62	60	62	63
Restricted cash	81	82	82	82	82
Inventories	1,249	886	990	1,212	1,378
Trade and bills receivables	1,071	1,226	1,415	1,693	1,879
Others	1,455	928	781	777	768
Current liabilities	3,288	3,501	3,253	3,322	3,389
Short-term borrowings	2,384	1,783	1,850	1,758	1,670
Trade payables	395	739	716	752	812
Other payables and accruals	493	805	631	751	841
Tax payable	6	18	22	26	30
Other current liabilities	3	127	5	6	6
Non-current liabilities	1,490	2,592	3,398	3,649	3,960
Long-term borrowings	585	1,450	2,255	2,440	2,701
Deferred tax liabilities	20	19	19	19	19
Other long term liabilities	105	352	351	417	468
Minority Interest	46	37	40	42	44
Shareholders' equity	2,570	2,822	3,404	4,393	5,432
Total Equity	2,616	2,859	3,444	4,435	5,475

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
SI	65.2	62.9	54.3	46.5	44.2
IBO	21.0	37.1	45.7	53.5	55.8
Total	86.2	100.0	100.0	100.0	100.0
Growth (%)					
Revenue	38.6	15.4	18.1	22.4	13.7
Gross profit	22.5	4.3	32.5	25.0	15.4
EBIT	(2.8)	35.5	78.3	54.8	8.2
Net profit	(35.7)	31.7	138.4	73.6	10.1
Profit & loss ratios (%)					
Gross margin	29.2	26.4	29.6	30.2	30.7
Pre-tax margin	9.5	11.6	23.3	33.1	32.0
Net margin	8.8	10.1	20.3	28.7	27.8
Effective tax rate	13.0	12.7	13.0	13.0	13.0
Balance sheet ratios					
Current ratio (x)	1.4	1.1	1.2	1.4	1.6
Debtors turnover days	139.6	150.0	146.0	140.4	141.9
Creditors turnover days	64.0	159.3	107.7	90.3	88.5
Inventory turnover days	208.9	189.5	147.3	142.6	148.4
Net debt / total equity ratio (%)	123.2	112.7	100.6	73.5	55.3
Returns (%)					
ROE	8.3	10.0	19.6	26.4	23.5
ROA	2.9	3.2	6.6	10.2	10.0
Per share					
EPS (HK\$, cent)	8.3	11.1	26.1	45.3	49.9
DPS (HK\$, cent)	2.0	2.2	5.2	9.0	9.9
BVPS (HK\$)	1.00	1.10	1.33	1.71	2.12

Source: Company data, CMBIS estimates

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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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