

# VPower (1608 HK)

## Taking a big step ahead in Myanmar

VPower made a voluntary announcement on 9 Oct, stating that a consortium formed by VPower and a strategic partner had won 3 LNG power projects with total capacity of 900MW, and VPower itself won 20MW gas power project in Myanmar. We believe it was a significant move for VPower's business in Myanmar, as those 920MW power plants represent 18.5% of installed capacity of the country by 2018. New projects will likely commence operation by 1H20E contributing as associate companies, and we expect those projects will contribute HK\$85.3/171.3mn share profit in FY20/21E.

- Won four out of the five tenders.** According to Myanmar Ministry of Electricity and Energy (MOEE), the country's Electric Power Generation Enterprise (EPGE) had invited bid for 1,040MW gas engine power plant project in Jul, 2019. VPower and a strategic partner formed consortium won 3 LNG to power projects with total capacity of 900MW for 5 yrs, and VPower itself won one piped gas project with capacity of 20MW for 5 yrs. Together with VPower's existing operating generators, the Company will have 1,284MW distributed gas power generation assets in Myanmar, accounting for 77.8% of the Company's confirmed IBO projects. We believe VPower and its consortium's successful winning bids demonstrate its competitiveness in providing power generation services to developing markets in Southeast Asia.
- Contribution will mostly come from associates profit from 2H20E.** According to the Company, the strategic partner of the consortium would be a SOE from China, and the partner will not only provide financial support, but also participate in operations, implying VPower will likely take minority stakes for those 900MW projects. Taking minority stake will free VPower from heavy financial burdens, given that new projects' scale in Myanmar would be quite significant. We estimate new projects will contribute attributable effective capacity of 231MW/462MW in 2020E/21E, respectively, representing 31.6%/63.3% capacity growth based on installed capacity by 1H19.
- Earnings growth to accelerate from 2020E.** Based on VPower's new project update in Myanmar, we estimate the Company will receive additional share profit contribution of HK\$85.7/171.3mn. We raise FY20/21E EPS forecast by 22.1%/29.3% to HK16/26 cents. Our DCF valuation is largely unchanged, and we add an estimate of HK\$0.34 per share at 80% share profit distribution from those 900MW project associates. We raise our TP by 12.4% to HK\$3.25. representing FY20/21E PER of 20.3/12.7x. **Reiterate BUY.**

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (HK\$ mn)	1,746	2,421	2,636	3,406	4,197
YoY growth (%)	14.0%	38.6%	8.9%	29.2%	23.2%
Net income (HK\$ mn)	332	213	249	412	659
EPS (HK\$ cent)	12.99	8.36	9.71	16.11	25.74
YoY growth (%)	20.4	(35.6)	16.1	65.8	59.8
P/E (x)	17.7	27.5	23.7	14.3	8.9
P/B (x)	2.4	2.3	2.1	1.9	1.6
Yield (%)	1.4	0.8	1.0	1.7	2.7
ROE (%)	13.5	8.3	8.9	13.2	18.1
Net gearing (%)	7.7	123.2	125.3	104.9	97.0

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$3.25
(Previous TP)	HK\$2.90
Up/Downside	+41.3%
Current Price	HK\$2.30

### Distributed Power

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### Stock Data

Mkt Cap (HK\$ mn)	5,893
Avg 3 mths t/o (HK\$ mn)	1.92
52w High/Low (HK\$)	3.61/2.15
Total Issued Shares (mn)	2,562

Source: Bloomberg

### Shareholding Structure

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

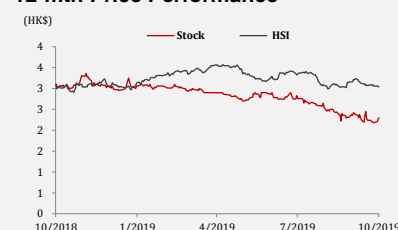
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-4.6%	-0.9%
3-mth	-19.8%	-12.2%
6-mth	-21.7%	-8.1%
12-mth	-26.3%	-24.9%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: Ernst & Young**

### Related Reports

- VPower (1608 HK) – "Resume growth track from 2H19" – 5 Sep 2019
- VPower (1608 HK) – "Earnings growth to release with IBO capacity" – 1 Apr 2019

- **Myanmar market will bring long term value.** Myanmar is currently having relatively low electrification rate at only 37.2%, according to MOEE. Myanmar government is committed to increase electricity penetration rate to 47%/76%/100% by 2020/25/30E. Based on government's plan, MOEE also forecasted that Myanmar will have electricity consumption growth of 15-17% in the coming years. Rapid power demand growth will enforce the government to deploy significant scale of power generating units in short period of time. Based on Myanmar's installed power generating capacity of 4,976MW, we estimate the country will have capacity addition room above 750MW per year in the coming few years. Supported by VPower gen-sets' 1) high flexibility, 2) short project response time, 3) high efficiency, and 4) low operating costs, we believe VPower's IBO business is quite fit in Myanmar's current development stage, and provides time buffer for the country to better plan, design, fund and construct its long-term power generating assets.
- **Providing a rapid growing alternative for power sector in Asia.** Investors have been long placing focus on China power utility sector for growth stock pick, while the sector is facing increasing uncertainties from 1) policy shift, 2) slowing economy, and 3) unsettled renewable subsidy shortfall. We believe VPower's distributed power rental services would be a good alternative for growth stock pick, especially in a market with substantial power consumption growth in Southeast Asia where bears the benefit from industry spillover effect from China. We see VPower a unique utility stock specializing in Belt & Road areas, and Myanmar's successful project bids demonstrate VPower's competitiveness in the business. Trading at 14.3x/8.9x FY20/21E PER with high growth potential, we believe VPower's valuation is attractive.
- **Key risks:** 1) Project delay; 2) Unstable market and political environment in developing markets.

**Figure 1: VPower's project list update**

Project	Capacity (MW)	Remark
IBO project in operation		
Indonesia		
Teluk Lembu I	20.3	In process of contract renewal
Teluk Lembu II	65.8	
Jambi	56.4	
Medan	54	
Rengat	20.3	
Subtotal	216.8	
Myanmar		
Kyauk Phyu I	49.9	COD: Feb, 2019 COD: Mar, 2019 COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, minority shareholder COD: 1H20, 5-yr, fully consolidate
Kyauk Phyu II	49.9	
Myingyan I	149.8	
Myingyan II	109.7	
Yangon	4.7	
Thaketa	400	
Thanlyin	350	
Kyauk Phyu	150	
Kyun Chaung	20	
Subtotal	1284	
Peru		
Iquitos	79.8	
China		
Shandong - Biogas I	8.2	Trail running phase, exp COD end-2018
Shandong - Biogass II	6.2	
Subtotal	14.4	
Sri Lanka		
Hambantota	28.1	COD: late Jun, 2019
Horana	26.8	COD: early Jul, 2019
Subtotal	54.9	
Total	1649.9	

Source: Company data, CMBIS estimates

**Figure 2: Earnings revision**

	Old			New			Change(%)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
IBO capacity addition (MW)	226	190	190	226	190	190	0.0%	0.0%	0.0%
Revenue (HKD mn)	2,636	3,406	4,197	2,636	3,406	4,197	0.0%	0.0%	0.0%
Net Income (HKD mn)	249	338	509	249	412	659	0.0%	22.1%	29.3%
EPS (HKD cent)	9.7	13.2	19.9	9.7	16.1	25.7	0.0%	22.1%	29.3%

Source: Company data, CMBIS estimates

**Figure 3: Our DCF valuation**

DCF Valuation (HK\$ mn)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Turnover	3,406	4,197	4,463	4,893	4,850	5,506	5,497	5,999	6,546	7,145
Turnover growth (%)	29.2%	23.2%	6.3%	9.6%	-0.9%	13.5%	-0.2%	9.1%	9.1%	9.1%
EBIT	746	1,026	1,104	1,210	1,310	1,486	1,484	1,620	1,768	1,929
EBIT margin (%)	21.9%	24.4%	24.7%	24.7%	27%	27%	27%	27%	27%	27%
Tax rate (%)	13.0%	13.0%	13.0%	13.0%	13%	13%	13%	13%	13%	13%
Income tax	97	133	144	157	170	193	193	211	230	251
Depreciation & amortisation	343	416	490	563	633	744	703	773	851	936
Invest in working capital	(444)	(404)	(123)	(216)	(355)	(284)	108	(179)	(197)	(217)
CAPEX	(1,037)	(832)	(1,038)	(833)	(946)	(824)	(769)	(846)	(1,182)	(1,577)
Free cash flow	(489)	73	290	567	471	929	1,334	1,158	1,010	821
Years	1	2	3	4	5	6	7	8	9	10
Discount factor	0.93	0.86	0.80	0.74	0.68	0.63	0.59	0.54	0.51	0.47
Discounted free cash flow	(453)	62	231	419	322	589	784	631	510	384
Terminal value										17,317
Terminal perpetual growth										3.0%
Terminal EV/EBITDA										6.0

**WACC Calculations**

Cost of debt	6.5%
Tax rate	15.0%
After tax cost of debt	5.5%
Cost of equity	10.2%
Adjusted beta	0.60
Market risk premium	14.1%
Risk free rate	1.8%
% of debt financing	50.0%
WACC	7.9%

**Valuations (HK\$ mn)**

Terminal value	17,317
Terminal perpetual growth	3.0%
Terminal EV/EBITDA	6.04
Total discount FCF	3,480
Discount terminal value	8,748
Enterprise value	12,228
Discount FCF(% of total)	28.5%
Terminal value (% of total)	71.5%
Add: Cash & cash equivalent	487
Less: Debt	4,348
Non-controlling interest	38
Equity Value - (HK\$,mn)	8,329
Share fair value (HK\$/share)	3.25

Source: Company data, CMBIS estimates

Note: We added share profit from those 900MW Myanmar projects, applying 80% share profit distribution rate and the same discount rate as our DCF model. Our estimates indicate those 900MW Myanmar associates worth HK\$0.336 per share.

## Financial Summary

### Income statement

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>1,746</b>	<b>2,421</b>	<b>2,636</b>	<b>3,406</b>	<b>4,197</b>
SI	1,183	1,579	1,407	1,520	1,641
IBO	563	842	1,229	1,886	2,556
Cost of sales	(1,169)	(1,714)	(1,774)	(2,392)	(2,928)
<b>Gross profit</b>	<b>577</b>	<b>707</b>	<b>862</b>	<b>1,014</b>	<b>1,269</b>
Selling expense	(29)	(26)	(31)	(33)	(36)
Admin expense	(205)	(273)	(285)	(307)	(357)
Other income and gains	190	40	13	15	17
Other operating expenses	(99)	(32)	(34)	(44)	(55)
Share profit	-	6	11	101	187
<b>EBIT</b>	<b>434</b>	<b>422</b>	<b>536</b>	<b>746</b>	<b>1,026</b>
Finance costs	(77)	(191)	(251)	(273)	(269)
<b>Pre-tax profit</b>	<b>357</b>	<b>231</b>	<b>285</b>	<b>473</b>	<b>757</b>
Profit tax	(26)	(30)	(37)	(62)	(98)
Minority interests	(1)	(12)	1	1	1
<b>Net profit</b>	<b>332</b>	<b>213</b>	<b>249</b>	<b>412</b>	<b>659</b>

### Cash flow summary

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit before tax</b>	<b>357</b>	<b>231</b>	<b>285</b>	<b>473</b>	<b>757</b>
Depreciation and amortization	168	200	271	343	416
Change in working capital	(590)	(1,521)	(130)	(444)	(404)
Income tax paid	(23)	(26)	(33)	(62)	(98)
Others	3	(46)	(4)	15	17
<b>Operating cash flow</b>	<b>(85)</b>	<b>(1,162)</b>	<b>390</b>	<b>325</b>	<b>687</b>
Capex	(407)	(1,735)	(999)	(96)	(849)
Others	(84)	90	-	-	-
<b>Investment cash flow</b>	<b>(491)</b>	<b>(1,645)</b>	<b>(999)</b>	<b>(96)</b>	<b>(849)</b>
Equity raised	(29)	(9)	-	-	-
Change of Debts	350	2,361	598	883	208
Dividend paid	(103)	(83)	(36)	(75)	(123)
Others	(0)	-	-	-	-
<b>Financing cash flow</b>	<b>217</b>	<b>2,315</b>	<b>554</b>	<b>810</b>	<b>87</b>
<b>Net change in cash</b>	<b>(359)</b>	<b>(492)</b>	<b>(55)</b>	<b>1,039</b>	<b>(74)</b>
Cash at the beginning	1,392	1,033	541	487	1,526
FX change	-	-	-	-	-
<b>Cash at the end</b>	<b>1,033</b>	<b>541</b>	<b>487</b>	<b>1,526</b>	<b>1,451</b>
<b>Cash at balance sheet</b>	<b>1,034</b>	<b>541</b>	<b>487</b>	<b>1,526</b>	<b>1,451</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	<b>2,803</b>	<b>2,947</b>	<b>4,094</b>	<b>4,804</b>	<b>5,236</b>
Fixed assets	2,189	1,812	2,528	3,223	3,639
Investment property	-	25	25	25	25
Deposits & receivables	609	164	593	593	593
Deferred tax assets	5	15	6	6	6
Others	-	931	942	958	973
<b>Current assets</b>	<b>3,123</b>	<b>4,447</b>	<b>4,378</b>	<b>5,135</b>	<b>5,703</b>
Cash and cash equivalents	1,034	541	487	1,526	1,451
Pledged deposits	166	48	376	435	445
Restricted cash	-	81	81	81	81
Inventories	712	1,249	923	1,192	1,469
Trade and bills receivables	781	1,071	1,183	1,529	1,884
Others	431	1,455	1,329	372	372
<b>Current liabilities</b>	<b>2,290</b>	<b>3,288</b>	<b>2,226</b>	<b>2,453</b>	<b>2,637</b>
Short-term borrowings	532	2,384	1,200	1,250	1,250
Trade payables	904	395	422	456	492
Other payables and accruals	832	493	563	698	836
Tax payable	18	6	26	30	34
Other current liabilities	4	3	9	14	19
<b>Non-current liabilities</b>	<b>1,176</b>	<b>1,490</b>	<b>3,426</b>	<b>4,327</b>	<b>4,606</b>
Long-term borrowings	857	585	3,148	3,981	4,189
Deferred tax liabilities	6	20	15	15	15
Other long term liabilities	313	105	263	331	402
<b>Minority Interest</b>	<b>(1)</b>	<b>46</b>	<b>38</b>	<b>40</b>	<b>42</b>
<b>Shareholders' equity</b>	<b>2,461</b>	<b>2,570</b>	<b>2,782</b>	<b>3,118</b>	<b>3,653</b>
<b>Total Equity</b>	<b>2,461</b>	<b>2,616</b>	<b>2,820</b>	<b>3,158</b>	<b>3,695</b>

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
SI	67.7	65.2	53.4	44.6	39.1
IBO	32.3	34.8	46.6	55.4	60.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth (%)</b>					
Revenue	14.0	38.6	8.9	29.2	23.2
Gross profit	15.9	22.5	22.0	17.7	25.1
EBIT	34.9	(2.8)	27.0	39.1	37.4
Net profit	49.5	(35.7)	16.6	65.8	59.8
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	33.0	29.2	32.7	29.8	30.2
Pre-tax margin	20.5	9.5	10.8	13.9	18.0
Net margin	19.0	8.8	9.4	12.1	15.7
Effective tax rate	7.3	13.0	13.0	13.0	13.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.4	2.0	2.1	2.2
Debtors turnover days	155.6	139.6	156.1	145.3	148.4
Creditors turnover days	247.1	64.0	106.5	62.5	56.1
Inventory turnover days	196.4	208.9	223.4	161.4	165.9
Net debt / total equity ratio (%)	7.7	123.2	125.3	104.9	97.0
<b>Returns (%)</b>					
ROE	13.5	8.3	8.9	13.2	18.0
ROA	5.6	2.9	2.9	4.1	6.0
<b>Per share</b>					
EPS (HK\$, cent)	13.0	8.3	9.7	16.1	25.7
DPS (HK\$, cent)	3.2	2.0	2.3	3.9	6.2
BVPS (HK\$)	0.96	1.00	1.09	1.22	1.43

Source: Company data, CMBIS estimates

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