

# VPower (1608 HK)

## A closer look at Myanmar JV

VPower had a share placement of 83mn shares at HK\$3.75 completed on 23 Jul. Share price turned weak since the placement. We see overall impacts very limited, as the share placement only brought 3.2% EPS dilution, which would be negligible comparing with 150.6%/64.5% earnings growth in FY20/21E. We take a closer look at the Company's Myanmar JV. Under current LNG spot price, we think our earnings estimates remain intact, and we see potential upside from better-than-expected fuel costs realized. **We maintain high conviction BUY rating with TP slightly trimmed to HK\$ 5.47 to reflect EPS dilution.**

- **Negligible impacts from share placement.** VPower had a top-up share placement of 83mn shares completed on 23 Jul. Placement price was HK\$3.75, which was at 13.0% discount to pre-placement closing price. The transaction helped VPower raise HK\$299mn net of fees, which we estimate will reduce VPower's net gearing from 112.7% in 2019 to 81.8% in 2020E. Share price exhibited quite deep decline after the placement, reflecting market concerns on VPower and its placement. We think the market has overreacted, as the share placement scale was mild with only 3.2% EPS dilution impact, and we also think the placement had clear out short term dilution risk in 2H20.
- **A closer look at Myanmar JV.** We continue to place our key focus on VPower's iconic Myanmar JV. We expect the JV has invested more than HK\$5.5bn for a total installed capacity of 1.06GW. According to Myanmar Times, tariff of the JV would be ~US\$0.12/KWh. In our base case estimates, we think the JV will generate more than 20% IRR, with superior profitability comparing with VPower's normal IBO projects. Key exposures of the JV would be 1) LNG cost, 2) utilization rate, and 3) energy efficiency of the JV's gen-sets. We think the JV would have room to improve profitability through proper management of those exposures.
- **Favorable LNG market environment.** VPower caught a good timing to expand its LNG-fueled distributed power projects, in our view. Asia LNG spot market is currently at a range of 3-yr low, while Bloomberg data shows JKM future is priced at only ~US\$2.6/MMBtu. We think plentiful supply of LNG will help VPower easier to manage fuel costs exposure, and a considerable LNG consumption volume will also enable VPower to leverage its purchasing power.
- **Reiterate high conviction BUY.** We are confident that VPower will deliver high earnings growth in FY20/21E. Our FY20-22E EPS forecasts are trimmed 2.0-2.6% to reflect share dilution. Our DCF TP is slightly trimmed to HK\$5.47.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (HK\$ mn)	2,421	2,794	3,244	4,041	4,595
YoY growth (%)	38.6%	15.4%	16.1%	24.5%	13.7%
Net income (HK\$ mn)	213	284	711	1,169	1,286
EPS (HK\$)	0.08	0.11	0.27	0.44	0.49
YoY growth (%)	(35.6)	32.4	146.9	61.6	10.0
Consensus EPS (HK\$)	N/A	N/A	0.19	0.3	0.3
P/E (x)	35.7	27.0	10.9	6.8	6.1
P/B (x)	3.0	2.7	2.1	1.7	1.4
Yield (%)	0.7	0.7	1.8	2.9	3.2
ROE (%)	0.1	0.1	0.2	0.2	0.2
Net gearing (%)	123.2	112.7	81.8	61.0	46.0

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$5.47
(Previous TP	HK\$5.50)
Up/Downside	+82.9%
Current Price	HK\$2.99

### Distributed Power

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### Stock Data

Mkt Cap (HK\$ mn)	7,912
Avg 3 mths t/o (HK\$ mn)	18.5
52w High/Low (HK\$)	4.54/1.99
Total Issued Shares (mn)	2,646

Source: Bloomberg

### Shareholding Structure

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

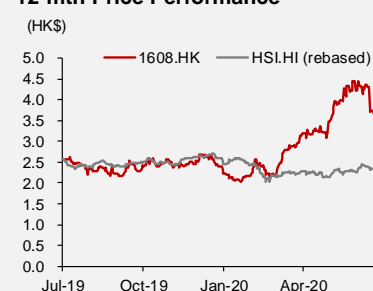
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-29.3%	-30.6%
3-mth	-6.4%	-6.9%
6-mth	29.0%	41.4%
12-mth	14.1%	29.5%

Source: Bloomberg

### 12-mth Price Performance



Source: Wind

**Auditor: Ernst & Young**

### Related Report

VPower (1608 HK) – "Myanmar JV on track to commercial operation" – 29 May 2020

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**Figure 1: Our estimates for the JV's contribution in 2020**

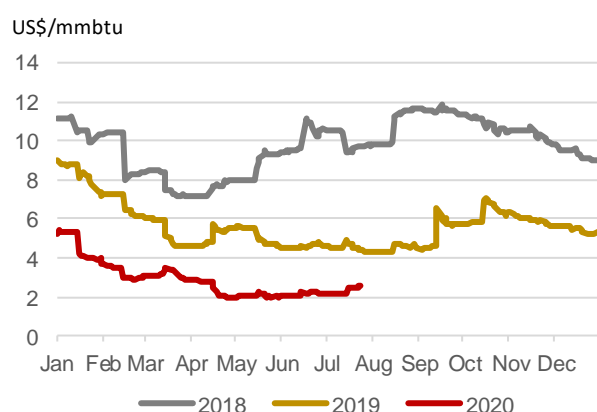
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020
<b>Revenue estimates</b>													
Utilization rate - %	0%	0%	0%	0%	2%	10%	30%	40%	50%	50%	70%	70%	27.0%
Effective capacity - MW	-	-	-	-	18	90	270	360	450	450	630	630	243
Power generation - MWh	-	-	-	-	13,392	64,800	200,880	267,840	324,000	334,800	453,600	468,720	2,128,032
Revenue - HKD mn	-	-	-	-	13	61	188	251	303	313	425	439	1,992
<b>Costs estimates</b>													
Monthly consumption - k tonnes	-	-	-	-	2	12	36	48	58	60	81	84	381
in '000 MMBTU	-	-	-	-	120	581	1,800	2,399	2,903	2,999	4,064	4,199	19,063.62
Fuel costs - HKD mn	-	-	-	-	4.2	20.4	63.2	84.2	101.9	105.3	142.6	147.4	669
Fuel costs to revenue - %	n/a	n/a	n/a	n/a	33.6%	33.6%	33.6%	33.6%	33.6%	33.6%	33.6%	33.6%	33.6%
Variable costs - HKD mn	-	-	-	-	2.6	12.6	39.2	52.2	63.2	65.3	88.5	91.4	415
Variable costs to revenue	n/a	n/a	n/a	n/a	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%
Other fixed costs	-	-	-	-	1	5	31	42	52	52	52	52	287
Other fixed costs rate	n/a	n/a	n/a	n/a	8.3%	8.6%	16.6%	16.6%	17.1%	16.6%	12.2%	11.9%	14.4%
Project profit	-	-	-	-	5	22	54	73	86	91	141	148	621
VPower's share @ 50% - HK\$ mn	-	-	-	-	2	11	27	36	43	45	71	74	310

Source: CMBIS estimates

**Figure 2: Our base case estimates for Myanmar JV's full year contribution**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
<b>Revenue estimates</b>													
Utilization rate - %	100%	100%	100%	100%	100%	50%	50%	50%	50%	50%	70%	70%	74.0%
Effective capacity - MW	900	900	900	900	900	450	450	450	450	450	630	630	666
Power generation - MWh	669,600	604,800	669,600	648,000	669,600	324,000	334,800	334,800	324,000	334,800	453,600	468,720	5,836,320
Revenue - HKD mn	627	566	627	607	627	303	313	313	303	313	425	439	5,463
<b>Costs estimates</b>													
Monthly consumption - k tonnes	126	113	126	122	126	61	63	63	61	63	85	88	1,094
in '000 MMBTU	6,278	5,670	6,278	6,075	6,278	3,038	3,139	3,139	3,038	3,139	4,253	4,394	54,715.5
Fuel costs - HKD mn	244.8	221.1	244.8	236.9	244.8	118.5	122.4	122.4	118.5	122.4	165.8	171.4	2,134
Variable costs to revenue - %	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%	39.1%
Variable costs - HKD mn	130.6	117.9	130.6	126.4	130.6	63.2	65.3	65.3	63.2	65.3	88.5	91.4	1,138
Variable costs to revenue	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%	20.8%
Other fixed costs	55	55	55	55	55	55	55	55	55	55	55	55	660
Other fixed costs rate	8.8%	9.7%	8.8%	9.1%	8.8%	18.1%	17.6%	17.6%	18.1%	17.6%	13.0%	12.5%	12.1%
Project profit	196.4	172.0	196.4	188.2	196.4	66.6	70.7	70.7	66.6	70.7	115.3	120.9	1,530.8
VPower's share @ 50% - HK\$ mn	98	86	98	94	98	33	35	35	33	35	58	60	765

Source: CMBIS estimates

**Figure 3: JKM future at range of 3-yr low**

Source: Bloomberg, CMBIS

Figure 4: Earnings revision

	Old			New			Change(%)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
IBO capacity addition (MW)	150	190	190	150	190	190	0.0%	0.0%	0.0%
Revenue (HKD mn)	3,244	4,041	4,595	3,244	4,041	4,595	0.0%	0.0%	0.0%
Net Income (HKD mn)	714	1,160	1,278	711	1,169	1,286	-0.5%	0.8%	0.7%
EPS (HKD cent)	27.9	45.3	49.9	27.3	44.2	48.6	-2.0%	-2.5%	-2.6%
Consensus estimates						Our est. vs. consensus			
Net Income (HKD mn)				361	505	649	96.8%	131.5%	98.2%
EPS (HKD cent)				14	19.5	25	95.3%	126.7%	94.5%

Source: Bloomberg, CMBIS estimates

Figure 5: Our DCF valuation

DCF Valuation (HK\$ mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	4,041	4,595	5,062	5,581	6,021	6,426	6,858	7,319	7,810	8,334
Turnover growth (%)	24.5%	13.7%	10.2%	10.3%	7.9%	6.7%	6.7%	6.7%	6.7%	6.7%
EBIT	810	940	1,050	1,141	1,213	1,276	1,341	1,409	1,480	1,554
EBIT margin (%)	20.0%	20.4%	20.7%	20.4%	20.1%	19.8%	19.5%	19.2%	18.9%	18.6%
Tax rate (%)	13.0%	13.0%	13.0%	13%	13%	13%	13%	13%	13%	13%
Income tax	(105)	(122)	(137)	(148)	(158)	(166)	(174)	(183)	(192)	(202)
Depreciation & amortisation	416	500	583	678	590	648	713	785	863	949
Invest in working capital	(304)	(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	(106)	14	475	582	701	877	911	945	980	1,014
Share profit from Myanmar JV*	765	765	765	765	765	765	765	765	765	765
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	609	665	978	982	988	1,022	964	909	857	807
Terminal value**										16,621
Terminal perpetual growth										2.0%
Terminal EV/EBITDA										6.6

WACC Calculations		Valuations (HK\$ mn)	
Cost of debt	6.5%	Terminal value	16,621
Tax rate	13.0%	Terminal perpetual growth	2.0%
After tax cost of debt	5.7%	Terminal EV/EBITDA	6.64
Cost of equity	10.3%	Total discount FCF & share profit	8,782
Adjusted beta	0.80	Discount terminal value	8,835
Market risk premium	11.9%	Enterprise value	17,616
Risk free rate	0.8%	Discount FCF(% of total)	49.9%
% of debt financing	45.0%	Terminal value (% of total)	50.1%
WACC	8.2%	Add: Cash & cash equivalent	987
		Less: Debt	4,105
		Non-controlling interest	40
		Equity Value - (HK\$,mn)	14,458
		Share fair value (HK\$/share)	5.47

Source: CMBIS estimates

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
<b>Revenue</b>	<b>2,421</b>	<b>2,794</b>	<b>3,244</b>	<b>4,041</b>	<b>4,595</b>
SI	1,579	1,757	1,791	1,881	2,031
IBO	508	1,038	1,453	2,160	2,564
Cost of sales	(1,714)	(2,057)	(2,286)	(2,821)	(3,187)
<b>Gross profit</b>	<b>707</b>	<b>737</b>	<b>958</b>	<b>1,220</b>	<b>1,407</b>
Selling expense	(26)	(31)	(30)	(33)	(35)
Admin expense	(273)	(339)	(324)	(404)	(459)
Other income and gains	40	144	154	35	36
Other operating expenses	(32)	(5)	(6)	(8)	(9)
<b>EBIT</b>	<b>416</b>	<b>506</b>	<b>751</b>	<b>810</b>	<b>940</b>
Share profit	6	67	318	779	779
Finance costs	(191)	(249)	(252)	(245)	(240)
<b>Pre-tax profit</b>	<b>231</b>	<b>323</b>	<b>817</b>	<b>1,344</b>	<b>1,479</b>
Profit tax	(30)	(41)	(106)	(175)	(192)
Minority interests	(12)	(1)	1	1	1
<b>Net profit</b>	<b>213</b>	<b>284</b>	<b>711</b>	<b>1,169</b>	<b>1,286</b>

### Cash flow summary

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profit before tax</b>	<b>231</b>	<b>323</b>	<b>817</b>	<b>1,344</b>	<b>1,479</b>
Depreciation and amortization	200	269	347	416	500
Change in working capital	(1,602)	957	(573)	(304)	(152)
Income tax paid	(26)	(42)	(106)	(175)	(192)
Others	994	(8)	(11)	3	3
<b>Operating cash flow</b>	<b>(203)</b>	<b>1,500</b>	<b>474</b>	<b>1,284</b>	<b>1,638</b>
Capex	(1,735)	(1,628)	(1,222)	(938)	(1,167)
Others	141	0	(122)	-	-
<b>Investment cash flow</b>	<b>(1,593)</b>	<b>(1,628)</b>	<b>(1,343)</b>	<b>(938)</b>	<b>(1,167)</b>
Equity raised	(9)	-	299	-	-
Change of debts	2,361	247	873	92	173
Dividend paid	(83)	(35)	(91)	(179)	(242)
Others	(983)	153	-	-	-
<b>Financing cash flow</b>	<b>1,332</b>	<b>359</b>	<b>1,084</b>	<b>(85)</b>	<b>(67)</b>
<b>Net change in cash</b>	<b>(465)</b>	<b>231</b>	<b>215</b>	<b>262</b>	<b>405</b>
Cash at the beginning	1,034	541	772	987	1,249
FX change	(27)	-	-	-	-
<b>Cash at the end</b>	<b>541</b>	<b>772</b>	<b>987</b>	<b>1,249</b>	<b>1,654</b>
<b>Cash at balance sheet</b>	<b>541</b>	<b>772</b>	<b>987</b>	<b>1,249</b>	<b>1,654</b>

### Balance sheet

YE 31 Dec (HK\$ mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Non-current assets</b>	<b>2,947</b>	<b>4,995</b>	<b>6,142</b>	<b>6,669</b>	<b>7,345</b>
Fixed assets	1,812	3,761	4,326	4,833	5,486
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
<b>Current assets</b>	<b>4,447</b>	<b>3,956</b>	<b>4,274</b>	<b>5,074</b>	<b>5,823</b>
Cash and cash equivalents	541	772	987	1,249	1,654
Pledged deposits	48	62	60	62	63
Restricted cash	81	82	82	82	82
Inventories	1,249	886	973	1,212	1,378
Trade and bills receivables	1,071	1,226	1,390	1,693	1,879
Others	1,455	928	781	777	768
<b>Current liabilities</b>	<b>3,288</b>	<b>3,501</b>	<b>3,244</b>	<b>3,322</b>	<b>3,389</b>
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	621	751	841
Tax payable	6	18	22	26	30
Other current liabilities	3	127	5	6	6
<b>Non-current liabilities</b>	<b>1,490</b>	<b>2,592</b>	<b>3,393</b>	<b>3,649</b>	<b>3,960</b>
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	346	417	468
<b>Minority Interest</b>	<b>46</b>	<b>37</b>	<b>40</b>	<b>42</b>	<b>44</b>
<b>Shareholders' equity</b>	<b>2,570</b>	<b>2,822</b>	<b>3,740</b>	<b>4,730</b>	<b>5,775</b>
<b>Total Equity</b>	<b>2,616</b>	<b>2,859</b>	<b>3,780</b>	<b>4,772</b>	<b>5,819</b>

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
SI	65.2	62.9	55.2	46.5	44.2
IBO	21.0	37.1	44.8	53.5	55.8
<b>Total</b>	<b>86.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth (%)</b>					
Revenue	38.6	15.4	16.1	24.5	13.7
Gross profit	22.5	4.3	30.0	27.3	15.3
EBIT	(4.2)	21.5	48.5	7.9	16.0
Net profit	(35.7)	32.9	150.6	64.5	10.0
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	29.2	26.4	29.5	30.2	30.6
Pre-tax margin	9.5	11.6	25.2	33.3	32.2
Net margin	8.8	10.1	21.9	28.9	28.0
Effective tax rate	13.0	12.7	13.0	13.0	13.0
<b>Balance sheet ratios</b>					
Current ratio (x)	1.4	1.1	1.3	1.5	1.7
Debtors turnover days	139.6	150.0	147.2	139.3	141.9
Creditors turnover days	64.0	159.3	110.2	89.7	88.4
Inventory turnover days	208.9	189.5	148.4	141.4	148.3
Net debt / total equity ratio (%)	123.2	112.7	81.8	61.0	46.0
<b>Returns (%)</b>					
ROE	8.3	10.0	19.0	24.7	22.3
ROA	2.9	3.2	6.8	10.0	9.8
<b>Per share</b>					
EPS (HK\$, cent)	8.3	11.1	26.9	44.2	48.6
DPS (HK\$, cent)	2.0	2.2	5.4	8.8	9.7
BVPS (HK\$)	1.00	1.10	1.41	1.79	2.18

Source: Company data, CMBIS estimates

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