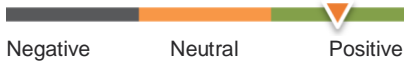


POWER CONSTRUCTION JSC NO.1 (PC1)

Market Price VND11,700	Target Price VND17,200	Dividend Yield 0.0%	Rating ADD	Sector INDUSTRIALS
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Outlook – Short term



Outlook – Long term



Valuation



16 March 2020

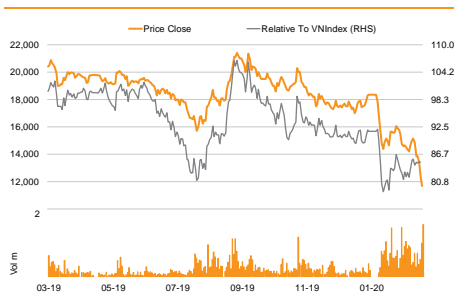
Trung Phan Thanh

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Key changes in the report

- Reduce FY20-21F EPS by 0.9-9.4%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	21,400
52w low (VND)	11,700
3m Avg daily volume (shares)	309,183
3m Avg daily value (VNDm)	4,989
Market cap (VNDbn)	1,992
Outstanding shares (m)	170
Free float (%)	65
TTM P/E (x)	5.3
Current P/B (x)	0.5

Ownership

Trinh Van Tuan	18.0%
Vietnam Enterprise Investments Limited	11.0%
Amersham Industries Limited	3.4%
Others	67.6%

Source: VND RESEARCH

2020F net profit boosted by real estate booking

Decent revenue but compressing gross profit margin in 2019. PC1 posted a 14.9% yoy increase in FY19 revenue to VND5,842bn, driven by robust grid installation revenue growth (+73.4% yoy, VND3,000bn). Meanwhile, sales from property plunged 78.0% yoy due to lack of property transfer as no project has been completed in 2019. FY19 gross margin shrunk by 3.1% pts as a result of lower contribution of high-margin property segment. Consequently, FY19 net profit dropped 23.6% yoy to VND356bn, coming at in 82.3% of our forecast.

Higher contribution from power sector going forward. We expect that PC1's power capacity could grow at FY20-22F CAGR of 42.5% on the back of: (1) three hydropower plants, including Mong An (30MW) - already operational from Jan 2020, Bao Lac B (18MW) and Song Nhiem (8MW) - to come onstream in 3Q20F, and (2) three wind power plants, including Lien Lap (48MW), Phong Nguyen (48MW) and Phong Huy (48MW) - to go online before Nov 2021. We estimate that the power segment revenue will grow strongly at FY20-22F CAGR of 49.4%, widening its contribution from 9.4% in 2019 to 20.7% in 2022F.

We revise down FY20-21F net profit forecasts by 0.9%-9.4% as we incorporate the newly-acquired wind power projects into our model, resulting in higher capex and financial expenses in FY20-21F. In our new forecast, FY20F net profit is expected to grow 54.6% yoy thanks to (1) a 15.5% yoy increase in M&E segment revenue, backed by VND3,033bn backlog at end-FY19, (2) the booking of VND854bn revenue from Thanh Xuan apartment (equivalent to 93.8% handover value of the project), (3) a 33.7% yoy increase in power segment revenue due to three new hydropower plants and (4) a 16.1% increase in industrials revenue as the company ramps up its gridline contracts.

Reiterate Add with a lower target price of VND17,200. We reduce our SOTP-based TP on the back of (1) lower FY20-21F EPS forecast, and (2) lower EV/EBITDA multiple of the M/E & Industrial segment at 5.0x (previously 6.0x). Downside risks are: 1) wind power project being completed behind schedule, and 2) unfavorable weather conditions that affect hydropower output.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net revenue (bn)	5,084	5,842	7,477	7,580
Revenue growth	60.9%	14.9%	28.0%	1.4%
Gross margin	17.0%	14.0%	15.7%	17.4%
EBITDA margin	17.3%	13.1%	15.7%	18.9%
Net profit (bn)	467	356	551	557
Net profit growth	97.1%	(23.6%)	54.6%	1.1%
Recurring profit growth				
Basic EPS	2,928	2,236	3,458	3,494
Adjusted EPS	2,928	2,236	3,458	3,494
BVPS	19,578	21,577	24,627	26,834
ROAE	16.1%	10.9%	15.0%	13.6%

Source: VND RESEARCH

2019 RECAP: CONSTRUCTION REVENUE SURGED WHILE REAL ESTATE SALES FELL

PC1 finished the FY19 decently, with revenue rising 14.9% yoy to VND5,842bn. Specifically, revenue from the installation segment surged 73.4% yoy due to a jump in solar plant contracts in FY19. However, the segment's gross profit margin shrank 1.1% pts to 8.8% (vs. 9.9% in 2018) due to higher contribution of the equipment procurement contracts, which usually command a thinner gross margin than engineering and construction activities. Besides, the real estate segment revenue plunged 78.0% yoy due to a lack of revenue booking compared to 2018. In 2018, the company generated VND969bn from My Dinh Plaza II project while in FY19 it booked only VND213bn of revenue from the transfer of the remaining 52 apartments from that same project.

Alternatively, the power segment revenue declined slightly by 3.4% yoy to VND541bn. Notably, the hydropower sales volume decreased to 405m kWh (-7.8% yoy) due to the impact of El Nino effect. However, this is partly offset by a higher selling price of VND1,337/kWh (+4.5% yoy).

As a result, PC1 only completed 93.2% of our 2019 revenue forecast, mainly due to lower-than-expected property revenue. Net profit came in at 82.3% of our forecast due to lower earnings from affiliates than expected of VND39bn.

Figure 1: Results Comparison

FYE Dec (VND bn)	4Q19	4Q18	yoy%	3Q19	qoq%	FY19	FY18	yoy%	vs. FY19
			chg		chg				forecast
Revenue	1,568	1,507	4.0%	1,253	25.2%	5,842	5,084	14.9%	93.2%
Industrials	479	521	-8.2%	276	73.6%	1,979	1,753	12.9%	84.6%
M&E	885	730	21.1%	778	13.7%	3,000	1,731	73.4%	99.4%
Real Estate	80	106	-24.1%	25	219.9%	213	969	-78.0%	85.3%
Hydropower	106	130	-18.8%	150	-29.7%	551	559	-1.6%	94.7%
Others	19	19	0.2%	24	-19.9%	100	72	37.5%	125.0%
Gross profit	172	156	10.5%	183	-5.6%	816	866	-5.7%	94.2%
<i>Gross profit margin (%)</i>	<i>11.0%</i>	<i>10.3%</i>	<i>0.6% pts</i>	<i>14.6%</i>	<i>-3.6% pts</i>	<i>14.0%</i>	<i>17.0%</i>	<i>-3.1% pts</i>	<i>0.2% pts</i>
SG&A expenses	(61)	(61)	-1.2%	(61)	-1.2%	(225)	(208)	8.1%	105.8%
EBIT	112	95	18.1%	121	-7.8%	591	657	-10.1%	90.4%
Net financial income/expense	(33)	(34)	-1.4%	(39)	-13.4%	(131)	(122)	8.0%	108.8%
Pretax Profit	72	76	-4.7%	92	-21.4%	431	491	-12.2%	81.5%
<i>Pretax margin (%)</i>	<i>4.6%</i>	<i>5.0%</i>	<i>-0.4% pts</i>	<i>7.3%</i>	<i>-2.7% pts</i>	<i>7.4%</i>	<i>9.7%</i>	<i>-2.3% pts</i>	<i>-1.1% pts</i>
Net Profit	54	51	6.3%	77	-30.2%	356	467	-23.6%	82.3%

SOURCES: VNDIRECT RESEARCH, COMPANY REPORTS

HIGHER CONTRIBUTION FROM POWER SECTOR GOING FORWARD

Early in Jan 2020, the Mong An hydropower plant (30MW) has completed construction and started operation (two months behind schedule). According to PC1, two other plants Bao Lac B (18MW) and Song Nhiem 4 (8MW) are on track to start operating from 3Q20F. This should increase PC1's total power portfolio to 169MW (+48.2% yoy) by end-2020F and yield an additional VND166bn of revenue in 2020F, in our estimation.

Furthermore, according to PC1, there will be three new wind power plants with a designed capacity of 48MW each to be operational before Nov 2021F to capture the attractive feed-in-tariff (FIT) of 8.5 U.S. cents/kWh. Thus, by the end of 2021F, we expect that PC1's total power portfolio will reach 313MW and each wind power plant will contribute an average VND234bn to PC1's revenue each year. However, we do not expect a positive net profit from its early years of

operation due to the capital-intensive requirement of wind power projects.

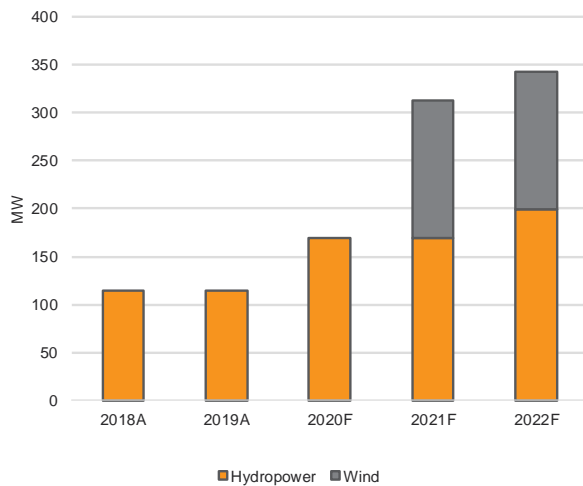
Figure 2: Wind power projects pipeline

Project name	Capacity (MW)	Estimated completion time	Annual volume (m kWh)	Investment cost (VND bn)
Lien Lap	48	Q3/2021	158	1,700
Phong Nguyen	48	Q4/2021	158	1,700
Phong Huy	48	Q4/2021	158	1,700

Source: VNDIRECT RESEARCH, COMPANY REPORTS

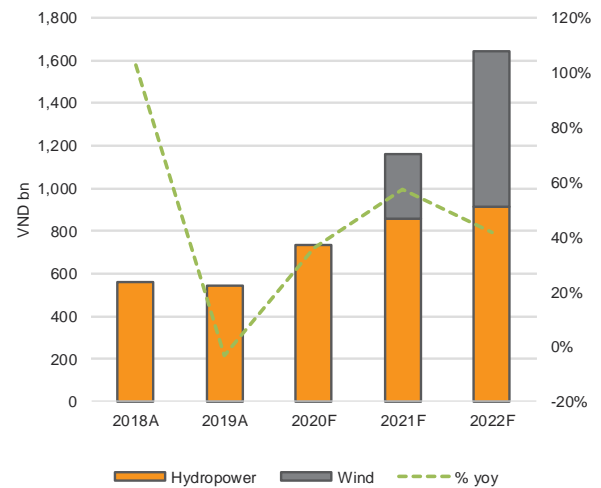
PC1 also disclosed that the company will be investing another 200MW of wind power in FY23-24F. However, due to a lack of information, we have not included this in our model as the FIT after Nov 2021 remains uncertain. Also, the company has delayed the Trung Thu solar project to wait for a finalised FIT for solar plants for the period after 30 Jun 2019.

Figure 3: Installed capacity by type



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 4: Our forecast on PC1 power revenue



Source: VNDIRECT RESEARCH ESTIMATES

For FY20F, we expect the power segment to generate a revenue of VND736bn (+36.0% yoy) thanks to the operation of three new hydropower plants, while further revenue growth in FY21-22F is expected to get support from three wind projects coming online from Nov 2021F.

STRONG REVENUE BOOKING FROM THREE REAL ESTATE PROJECTS

The 2020-22F pipeline includes three new projects that could contribute approximately VND2,519bn of revenue to PC1. The first project in the pipeline is PCC1 Thanh Xuan. Thanh Xuan project is located at 44 Trieu Khuc, a location where its residents can easily circulate to the administrative centers of Hanoi and the surrounding areas using major roads such as Nguyen Trai, Ring Road 3. At an attractive starting price of VND1.8bn per unit, PCC1 Thanh Xuan has a competitive edge against local peers as it is relatively cheaper while located in a prime location. As a result, Thanh Xuan has successfully sold 335 out of 480 of its apartments and we maintain the assumption that PC1 will only book 400 apartments by the end of this year. We estimate that each apartment will generate on average VND1.9bn of revenue (estimated selling price of VND26m/sqm).

Hence, PC1 is expected to book VND854bn of revenue from this project in 2020F and the remaining VND57bn in 2021F.

Figure 5: Real Estate Project Pipelines

Project name	Location	No. of units	Estimated Completion time	Current Progress
Thanh Xuan	44 Trieu Khuc	480	Q2/2020	Under the completion progress
Vinh Hung	321 Vinh Hung	296	Q2/2021	Expect foundation & basement construction to commence in May 2020
Thang Long	Thang Long district	628	Q2/2022	Completed land clearing and expect to commence construction in Q2/2022

Source: VNDIRECT RESEARCH, COMPANY REPORT

The next project in the pipeline is Vinh Hung with 296 units, which is expected to complete in FY21F. The project could start booking revenue from 2Q21F, with VND510bn in FY21F and VND29bn in FY22F.

The third project in line is Thang Long which is estimated to break ground in 2Q20F. PC1 estimates that this project will complete in 2Q22F and we forecast this project will generate VND960bn in revenue for PC1 in 2022F.

We are confident that PC1 will achieve its pipeline, giving a solid track record of developing real estate projects (My Dinh Plaza 2, Ha Dong...). We estimate that these three projects will generate on average VND130bn of net profit annually to PC1 over the course of FY20-22F.

Figure 6: Estimated property booking revenue in FY20-23F

VND bn	2020F	2021F	2022F	2023F	Progress
Thanh Xuan	854	57	-	-	Sold 335/448 units Handover in 2Q20
Vinh Hung	-	510	29	-	Foundation & basement construction in May 2020
Thang Long	-	-	960	45	Completed basic land clearing, expect construction in 2Q20F

Source: VNDIRECT RESEARCH ESTIMATE

EARNINGS REVISION

We increase our revenue forecast by 12.4%-19.7% in FY20-21F, to factor in: (1) the contribution of three new wind power plants from Nov 2021F, (2) higher real estate revenue booking in 2020F and lower booking for 2021F, following an update of price and unit area for the apartment projects, and (3) higher-than-expected M&E backlog transferred to 2020F of VND3,033bn vs. our expectation of VND2,330bn. We also expect the M&E segment to maintain a high backlog in 2021F as Vietnam ramps up the construction of gridlines and wind power (prior to the tariff cut-off time of Nov 2021).

However, we lower our net profit forecast by 0.9-9.4% over FY20-21F to reflect higher financial expenses incurred from the investments in wind power, as well as projected losses in the first few years of operation for the wind power plants. Specifically, in FY21F, we expect PC1 to spend VND4,200bn of expansionary capex for these wind power projects, which is 70% financed by borrowings.

Figure 7: Forecast revision

	2020F			2021F			2022F
	Old	New	% change	Old	New	% change	
Net revenue	6,652	7,477	12.4%	6,334	7,580	19.7%	7,949
Industrials	2,461	2,297	-6.7%	2,464	2,354	-4.5%	1,826
M&E	2,630	3,465	31.8%	2,030	3,366	65.8%	3,350
Real Estate	738	875	18.5%	916	590	-35.6%	1,014
Hydropower	741	736	-0.6%	836	1,160	38.7%	1,644
Others	82	105	27.4%	87	110	25.6%	115
Gross profit	1,110	1,171	5.6%	1,154	1,322	14.6%	1,551
EBIT	878	865	-1.6%	921	1,014	10.1%	1,231
PBT	689	664	-3.5%	760	655	-13.8%	721
Net profit	556	551	-0.9%	615	557	-9.4%	609
EPS (VND)	3,489	3,458	-0.9%	3,858	3,494	-9.4%	3,824

Source: VNDIRECT RESEARCH ESTIMATES, BLOOMBERG

REITERATE ADD AT A LOWER TARGET PRICE OF VND17,200/SHARE

We reiterate Add for PC1, with a lower target price of VND17,200/share (previously, VND26,100). The SOTP valuation method is based on separate value assessments of each business segment to get the company's total equity value. We reduce our SOTP-based TP on the back of (1) lower FY20-21F EPS forecast, and (2) lower EV/EBITDA multiple of the M/E & Industrial segment at 5.0x (previously 6.0x).

Amid the corona-virus outbreak, we believe PC1's core business stays relatively solid on top of (1) large power construction backlog for 2020F, and (2) sustainable cashflow from the hydropower segment, given its fixed PPA contracts and special tariff scheme applied to small plants (capacity <30MW).

Figure 8: SOTP Valuation

Valuation Table			
Methods	Metrics	Exit target multiples	Weight Value
	VND bn		VND per share
SOTP:			
M/E & Industrial production, EV/EBITDA	1,456	5.00x	
Real Estate, NPV	82		
Hydropower, DCF 10yrs	3,571		
Investment in affiliates, book value	63		
(+ cash & ST Investment	961		
(-) debt	(3,101)		
(-) minority interest, book value	(286)		
Equity value	2,745		
No of share (mn)	159		
Implied share price			17,230
Rounded share price			17,200

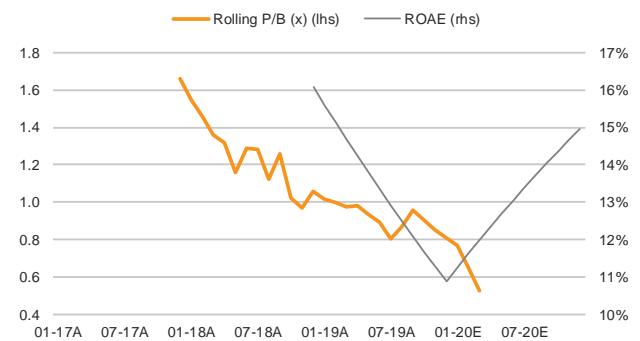
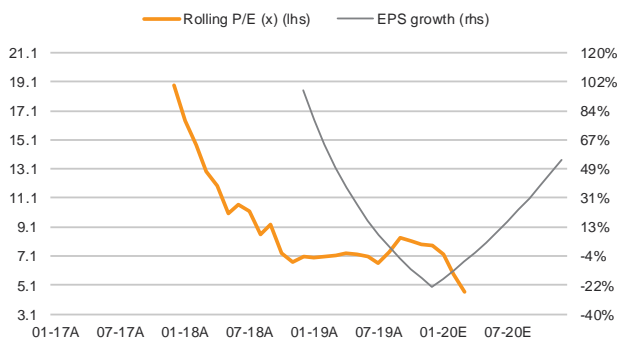
Source: VNDIRECT RESEARCH ESTIMATES

Figure 9: Peer comparison (Data as at 16/03)

Company	Ticker	Recom.	Price	TP	Mkt cap		P/E (x)	3-year		EV/EBITDA				D/E	
					LC\$	US\$ m		EPS	P/BV (x)	(x)		ROE (%)			
							CAGR								
					LC\$	US\$ m	TTM	20F	(%)	TTM	20F	TTM	20F	TTM	20F (x)
Power Construction peers															
Power Engineering Consulting JSC No 2	TV2 VN	NR	54,000	na	55.8	5.1	na	51.3	1.4	na	4.3	na	31.4	na	na
Song Da No 11 JSC	SJE VN	NR	18,500	na	14.6	5.8	na	53.4	0.6	na	7.1	na	12.4	na	1.9
Construction JSC No 5/Ho Chi Minh City	SC5 VN	NR	19,600	na	12.6	8.7	na	-1.9	0.8	na	6.1	na	9.7	na	0.4
Average					27.7	6.5	na	34.3	0.9	na	5.8	na	17.8	na	1.1
Real Estate peers															
Ha Do Group JSC	HDG VN	NR	19,800	na	101.2	2.8	na	91.7	1.0	na	5.9	na	40.0	na	0.0
Sao Mai Construction Corp	ASM VN	NR	5,210	na	58.1	2.1	na	152.5	0.3	na	8.9	na	16.5	na	0.0
LDG Investment JSC	LDG VN	NR	6,300	na	65.1	2.6	na	38.6	0.5	na	7.4	na	20.2	na	0.0
Sai Gon Thuong Tin Real Estate JSC	SCR VN	NR	3,790	na	59.8	4.9	na	17.2	0.3	na	18.3	na	6.5	na	0.0
Duc Long Gia Lai Group JSC	DLG VN	NR	1,700	na	21.9	4.8	na	366.8	0.2	na	8.6	na	3.3	na	0.0
Average					61.2	3.4	na	133.3	0.5	na	9.8	na	17.3	na	0.0
Power peers															
Can Don Hydro Power JSC	SJD VN	NR	16,000	na	47.6	7.2	na	5.8	1.2	na	4.7	na	16.2	na	0.4
Mien Trung Power Investment and Development JSC	SEB VN	NR	27,000	na	37.2	8.2	na	24.3	2.2	na	9.0	na	26.6	na	0.1
Southern Hydropower JSC	SHP VN	NR	23,000	na	92.8	10.7	na	33.7	1.7	na	5.5	na	16.2	na	1.9
IDICO Srok Phu Mieng Hydropower JSC	ISH VN	NR	13,000	na	25.2	6.5	na	117.0	1.1	na	6.1	na	17.4	na	0.0
Hydro Power JSC - Power No. 3	DRL VN	NR	52,500	na	21.5	9.6	na	24.6	4.6	na	7.2	na	44.4	na	0.0
Average					38.4	8.7	na	41.7	2.0	na	6.3	na	23.6	na	0.4
Power Construction JSC No.1	PC1 VN	ADD	11,700	17,200	81.0	5.3	5.0	5.4	0.5	0.8	7.2	4.8	10.9	10.8	0.6

Source: VNDIRECT RESEARCH ESTIMATES, BLOOMBERG

Valuation



Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net revenue	5,842	7,477	7,580
Cost of sales	(5,026)	(6,306)	(6,258)
Gen & admin expenses	(225)	(307)	(308)
Selling expenses	0	0	0
Operating profit	591	865	1,014
Operating EBITDA	756	1,111	1,385
Depreciation and amortisation	(165)	(246)	(371)
Operating EBIT	591	865	1,014
Interest income	39	27	27
Financial expense	(171)	(260)	(404)
Net other income	6	33	18
Income from associates & JVs	(34)	0	0
Pre-tax profit	431	664	655
Tax expense	(56)	(85)	(69)
Minority interest	(19)	(29)	(29)
Net profit	356	551	557
Adj. net profit to ordinary	356	551	557
Ordinary dividends	(12)	0	0
Retained earnings	345	551	557

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Cash and equivalents	568	781	561
Short term investments	180	180	180
Accounts receivables	1,865	2,354	2,243
Inventories	1,429	1,492	1,498
Other current assets	119	103	107
Total current assets	4,161	4,911	4,589
Fixed assets	3,593	4,617	8,507
Total investments	63	63	63
Other long-term assets	498	502	527
Total assets	8,314	10,092	13,685
Short-term debt	1,046	842	1,177
Accounts payable	823	1,337	1,385
Other current liabilities	722	1,288	1,167
Total current liabilities	2,592	3,467	3,729
Total long-term debt	2,000	2,259	5,247
Other liabilities	28	156	120
Share capital	1,593	1,593	1,593
Retained earnings reserve	933	1,484	2,041
Shareholders' equity	3,438	3,924	4,275
Minority interest	257	286	315
Total liabilities & equity	8,314	10,092	13,685

Cash flow statement

(VNDbn)	12-19A	12-20E	12-21E
Pretax profit	431	664	655
Depreciation & amortisation	165	246	371
Tax paid	(77)	(85)	(69)
Other adjustments	(8)	97	(88)
Change in working capital	(834)	543	28
Cash flow from operations	(323)	1,467	896
Capex	(703)	(1,270)	(4,261)
Proceeds from assets sales	0	0	0
Others	35	27	27
Other non-current assets changes	(287)	0	0
Cash flow from investing activities	(955)	(1,243)	(4,234)
New share issuance	91	0	0
Shares buyback	0	0	0
Net borrowings	1,077	54	3,323
Other financing cash flow	(12)	(65)	(205)
Dividends paid	(12)	0	0
Cash flow from financing activities	1,145	(11)	3,118
Cash and equivalents at beginning of period	701	568	781
Total cash generated	(134)	213	(220)
Cash and equivalents at the end of period	568	781	561

Key ratios

	12-19A	12-20E	12-21E
Dupont			
Net profit margin	6.1%	7.4%	7.3%
Asset turnover	0.78	0.81	0.64
ROAA	4.8%	6.0%	4.7%
Avg assets/avg equity	2.27	2.50	2.90
ROAE	10.9%	15.0%	13.6%
Efficiency			
Days account receivable	116.5	115.2	108.0
Days inventory	103.8	86.6	87.4
Days creditor	59.8	77.6	80.8
Fixed asset turnover	1.78	1.82	1.16
ROIC	5.3%	7.5%	5.1%
Liquidity			
Current ratio	1.6	1.4	1.2
Quick ratio	1.1	1.0	0.8
Cash ratio	0.3	0.3	0.2
Cash cycle	160.5	124.3	114.6
Growth rate (yoy)			
Revenue growth	14.9%	28.0%	1.4%
Operating profit growth	(10.1%)	46.3%	17.3%
Net profit growth	(23.6%)	54.6%	1.1%
EPS growth	(23.6%)	54.6%	1.1%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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