

**PC1 (HSX) Fruitful year ahead**

**Rating BUY**

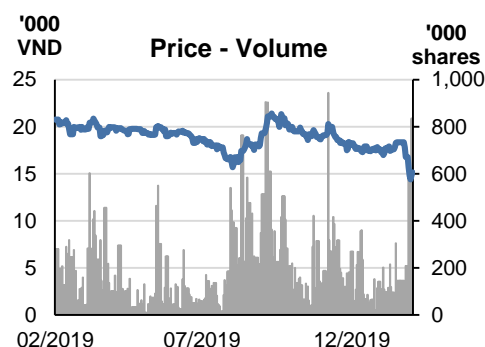
**Construction/Electricity**

Market price (VND)	<b>15,000</b>
1-Y target price (VND)	<b>23,100</b>
1-Y price return (%)	<b>54.0%</b>
1-Y dividend yield (%)	0%
1-Y total return (%)	<b>54.0%</b>

**Lower construction contribution**

We expect construction segment revenue decreased by 2.4% YoY to VND4,958bn in 2020.

Specifically, we estimate a slight decline of 2% YoY in grid construction revenue. Total newly-signed contract in 2019 was VND3,000bn, down 9.1% YoY, so backlog transferred to 2020 was VND3,500bn. Although the company has recently signed a transmission line and substation contract of VND200-300bn of Hiep Thanh wind project, we do not expect wind contracts to drive PCC1's performance in 2020. Therefore, we forecast gross margin to drop to 8.6% in 2020 due to the lower contract value of renewable projects of non-State customers.



After a 97% YoY surge of industrial manufacturing revenue in 2019, we expect a stable revenue of VND981bn and a flat gross margin of 9.2% in 2020. The company estimates that around 40% of the 3<sup>rd</sup> 500KV grid was recorded in 2019 and the remaining will be booked in 2020. Currently, 59% of the project land has been approved for clearing process. EVN has rescheduled this project to complete by June 2020. We see one positive signal that EVN National Power Transmission Corporation (NPT) has announced its investment plan of VND13,703bn in 2020, +10.1% YoY. In 2019, NPT disbursed VND12,394bn, +25.3% YoY and achieving 98% of target plan.

**Power generation to become a strong pillar of growth**

We estimate that revenue will grow by 22.8% YoY and 19.8% to VND660bn and VND810bn in 2020 and 2021 as we expect the operation of 3 new hydropower plants will cover a ASP decrease of the existing plants after the Decision 4036/QD-BCT comes into effect. Accordingly, while CAN price decreased by 16% YoY, FIT price increased by 9-13% YoY. Because of the high contribution of CAN price in ASP of PCC1, we estimate that ASP of each PCC1's plant will slightly decrease by 1-2% YoY.

**Stock performance (%)**

	YTD	1M	3M	12M
Absolute	-13%	-13%	-20%	-27%
Relative	-11%	-11%	-12%	-33%

Source: Bloomberg, compare to VNIndex

**Stock Statistics 07-Feb-20**

52-week range (VND)	14.4k-21.4k
Shares o/s (m)	159
Mkt cap (VND bn.)	2,414
Mkt cap (\$m)	104
% Foreign owned	39.0%
Est. free float (ml. shares)	100.0
3m avg. daily vol. (shares)	209,760
VND/USD	23,232
Index: VN-Index/HNX	941/105

Source: Bloomberg, KIS

In addition, the success of Lien Lap wind project can ensure the power generation growth in 2022. Currently, Lien Lap wind project is in land clearance process and the company expects to complete by Jun 2020. The equipment contract is in bidding stage. We see the biggest problem for this project is the rush to go online before deadline Nov 2021. Therefore, we do not reflect this project to our current forecast.

**Real estate revenue to blossom in 2020**

We forecast real estate revenue to book VND885bn in 2020 thanks to the handover of Thanh Xuan project from 2Q2020. The company sold 300/480 units of this project in 2019.

For Vinh Hung project of which total investment is at around VND450bn, the company has completed land clearance process and is drilling piles into soil. The company estimates that they can record VND553bn of revenue from this project in 2021.

**Ownership 07-Feb-20**

Chairman and affiliates	18.0%
Dragon Capital	15.0%

Source: Bloomberg

**BUY recommendation**

In overall, in 2020, we estimate that revenue and profit of PCC1 will reach VND6,525bn and VND455bn, up 11.7% YoY and 25.1% YoY. EPS will be VND2,190, up 18.1% YoY

We believe that the current market plunge is overreaction due to the bad 4Q19 performance. In addition, the long-term prospective of PCC1 is attractive based on the growth of power generation part which is to improve earnings quality. Thanks to the operation of the 3 new power plants and Thanh Xuan project, PCC1 will enjoy a fruitful FY2020. Using Sum of the Parts method, we evaluate the PC1 share at **VND23,100** by the end of 2020 so that total expected return is **54.0%**. Recommend **BUY**.

**Mr. Vinh Chu**

Real Estate - Associate

(+84 28) 3914 8585 - Ext: 1462

vinh.cd@kisvn.vn

## Earnings projection

	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	2019	2020E	2021E
<b>Sales</b>	<b>856</b>	<b>1,590</b>	<b>1,132</b>	<b>1,507</b>	<b>1,286</b>	<b>1,736</b>	<b>1,253</b>	<b>1,568</b>	<b>5,842</b>	<b>6,525</b>	<b>5,968</b>
<i>Grid construction</i>	301	449	250	730	713	923	276	885	2,796	2,740	2,603
<i>Industrial Manufacture</i>	48	100	169	182	63	133	379	406	981	981	883
<i>Power generation</i>	113	157	160	130	133	162	150	106	551	659	793
<i>Real estate</i>	3	603	256	107	34	73	25	80	213	908	575
<i>Others</i>	391	280	297	358	342	445	423	91	1,301	1,236	1,113
<b>Sales YoY Growth %</b>	<b>50.9%</b>	<b>95.2%</b>	<b>23.1%</b>	<b>75.4%</b>	<b>50.2%</b>	<b>9.2%</b>	<b>10.6%</b>	<b>4.0%</b>	<b>14.9%</b>	<b>11.7%</b>	<b>-8.5%</b>
<i>Grid construction</i>	-13.8%	-8.5%	-40.5%	65.9%	136.8%	105.6%	10.2%	21.1%	61.6%	-2.0%	-5.0%
<i>Industrial Manufacture</i>	-7.2%	-0.5%	99.7%	31.1%	33.2%	32.1%	124.2%	123.5%	96.7%	0.0%	-10.0%
<i>Power generation</i>	135.9%	149.1%	93.4%	51.2%	17.7%	3.5%	-6.2%	-18.8%	-1.6%	19.7%	20.4%
<i>Real estate</i>	-17.9%	12729%	6978%	2948%	1080%	-87.9%	-90.4%	-24.8%	-78.0%	326.3%	-36.6%
<i>Others</i>	240.8%	80.7%	-9.6%	87.3%	-12.6%	58.7%	42.4%	-74.5%	-1.9%	-5.0%	-10.0%
<b>Gross profit</b>	<b>119</b>	<b>358</b>	<b>227</b>	<b>156</b>	<b>183</b>	<b>279</b>	<b>165</b>	<b>238</b>	<b>814</b>	<b>991</b>	<b>939</b>
<i>Grid construction</i>	29	51	25	66	66	104	31	53	254	235	223
<i>Industrial Manufacture</i>	5	1	16	9	10	11	32	37	90	90	81
<i>Power generation</i>	71	101	95	82	85	113	89	57	344	400	475
<i>Real estate</i>	2	191	79	(11)	10	31	12	21	72	223	121
<i>Others</i>	12	14	11	9	12	20	18	7	53	43	39
<b>Gross margin (%)</b>	<b>13.9%</b>	<b>22.5%</b>	<b>20.0%</b>	<b>10.3%</b>	<b>14.2%</b>	<b>16.1%</b>	<b>13.2%</b>	<b>15.2%</b>	<b>13.9%</b>	<b>15.2%</b>	<b>15.2%</b>
<i>Grid construction</i>	9.7%	11.3%	10.1%	9.1%	9.2%	11.3%	11.2%	6.0%	9.1%	8.6%	8.6%
<i>Industrial Manufacture</i>	10.4%	1.3%	9.5%	5.1%	15.0%	8.5%	8.5%	9.2%	9.2%	9.2%	9.2%
<i>Power generation</i>	63.1%	64.7%	59.2%	63.2%	64.3%	69.4%	59.3%	54.3%	62.5%	60.7%	59.9%
<i>Real estate</i>	62.8%	31.6%	30.9%	-10.3%	30.3%	41.8%	50.3%	25.5%	34.0%	24.5%	21.0%
<i>Others</i>	3.0%	4.9%	3.8%	2.6%	3.4%	4.6%	4.2%	7.8%	4.1%	3.5%	3.5%
<b>Operating profit</b>	<b>87</b>	<b>288</b>	<b>176</b>	<b>95</b>	<b>131</b>	<b>215</b>	<b>252</b>	<b>444</b>	<b>591</b>	<b>722</b>	<b>686</b>
<i>Growth (%)</i>	11.4%	169.3%	109.8%	8.5%	50.2%	-25.4%	43.5%	369.0%	-10.1%	22.1%	-4.9%
<i>Margin (%)</i>	10.2%	18.1%	15.5%	6.3%	10.2%	12.4%	18.4%	23.4%	10.1%	11.1%	11.5%
<b>NPAT</b>	<b>67</b>	<b>225</b>	<b>138</b>	<b>62</b>	<b>92</b>	<b>144</b>	<b>83</b>	<b>57</b>	<b>375</b>	<b>455</b>	<b>431</b>
<i>Growth (%)</i>	16.6%	43.9%	10.6%	226.9%	115.0%	-2.6%	37.7%	-36.0%	-23.7%	21.3%	-5.3%
<i>Margin (%)</i>	7.0%	7.4%	7.8%	14.1%	12.2%	4.1%	7.1%	8.3%	6.4%	7.0%	7.2%

Source: KIS forecasts

## Valuation

## 1. Construction part

VNDbn	2020F	Remarks
EV/EBITDA multiple (x)	5.0	Applying discount rate of 10% to EV/EBITDA of 5.5 of our previous report due to our cloudy outlook for grid construction as we expect lower contract value of non-State customers in the following years
EBITDA	320	
<b>EV of construction part</b>	<b>1,599</b>	<b>2020</b>

## 2. Power generation

VNDbn	2020F	2021F	2022F	2023F	2024	Remarks
<b>Sales</b>	<b>659</b>	<b>793</b>	<b>793</b>	<b>793</b>	<b>793</b>	Including 7 hydropower plants: Trung Thu, Bao Lam 1, Bao Lam 3, Bao Lam 3A, Mong An, Bao Lac B, Song Nhiem 4 Mong An plant completed in Dec 2019 and will go online from Feb 2020 Bao Lac B and Song Nhiem 4 will go online from Oct 2020
EBIT	342	408	408	408	408	
Tax	-	11	11	18	19	
NOPAT	342	395	404	407	416	
CAPEX	539	27	33	40	40	CAPEX from 2021 is for maintenance
<b>FCFF</b>	<b>-77</b>	<b>513</b>	<b>516</b>	<b>512</b>	<b>521</b>	
WACC (%)	11%	11%	12%	13%	13%	Same for the whole company
Discount factor (x)	1.00	1.11	1.24	1.40	1.58	
Present value of given's FCF	-77	462	416	366	329	
PV of FCF 2019-2023	1496					
Terminal growth rate	4%					Target inflation rate
PV of terminal value	3,730					
<b>EV of power generation sector</b>	<b>5,226</b>					

## 3. Real estate

VNDbn	2020F	2021F	Remarks
<b>Existing projects</b>			Residential projects: Thanh Xuan project Retail space: Nang Huong, My Dinh 1, PCC1 Complex, My Dinh 2
<b>Sales</b>	908	23	In 2020, PCC1 will book rev of Thanh Xuan project From 2021, the company will only book revenue of VND28bn from leasing retail space
Thanh Xuan	885		
Retail space leasing	23	23	From 2020, the company will record additional revenue of VND6.2bn from Thanh Xuan project
<b>EAT</b>	<b>98</b>	<b>8</b>	

<b>FCFF</b>	<b>477</b>	<b>8</b>	
WACC	11%	11%	<i>Same for the whole company</i>
Discount factor	1.11	1.24	
Present value of given's FCF	430	6	
PV of FCF 2020-2021	436		
Terminal growth rate	4%		<i>Target inflation rate</i>
PV of terminal value	94		
<b>EV of real estate projects</b>	<b>530</b>		

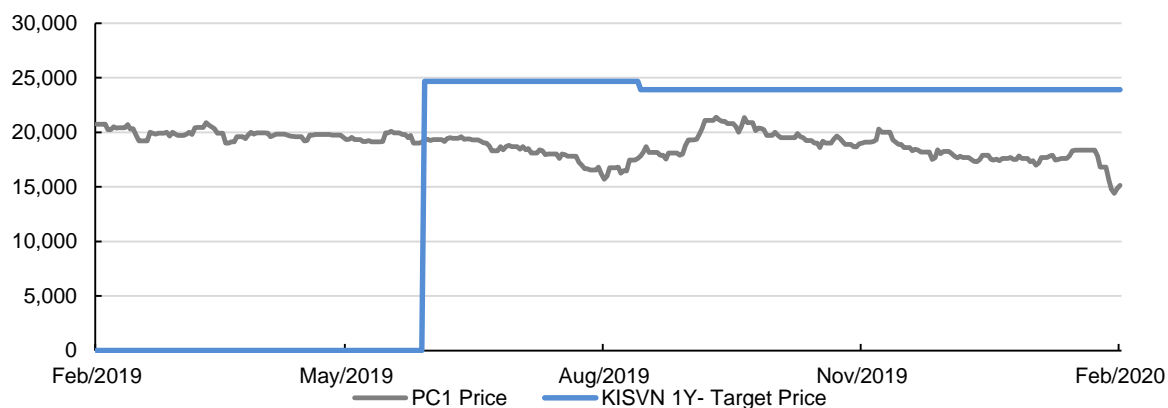
#### 4. Sum of the part

VNDbn	2020F	Remarks
EV of construction	1,599	
FCFF of electricity generation	5,226	
FCFF of real estate	530	
<b>Enterprise value of PCC1 (A)</b>	<b>7,355</b>	
Minorities Interests (B)	1,009	<i>Intrinsic value of minorities interests</i>
Net debt (C)	2,668	
<b>Equity value D = A – B – C</b>	<b>3,678</b>	
Common outstanding shares (mn.shares)	159	
<b>Target Price (VND)</b>	<b>23,100</b>	
Expected price return	54.0%	
Expected dividend yield	0%	
<b>Expected total return</b>	<b>54.0%</b>	<b>2020</b>

Changes to recommendation and price target

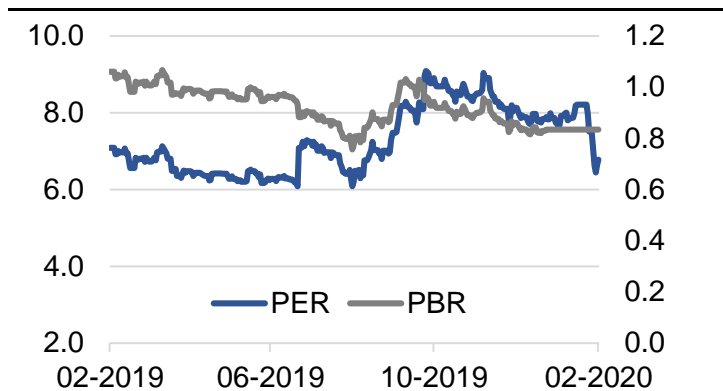
Company	Date	Recommendation	Price target (VND)	Consensus
PC1	10 Feb 2020	Overweight	23,100	26,350
	20 Aug 2019	Overweight	23,900	23,667
	04 Jun 2019	Overweight	24,667	23,933

KIS 1Y-Target Price History



Source: Bloomberg, KIS

Fig 01. 1Y Historical PER & PBR



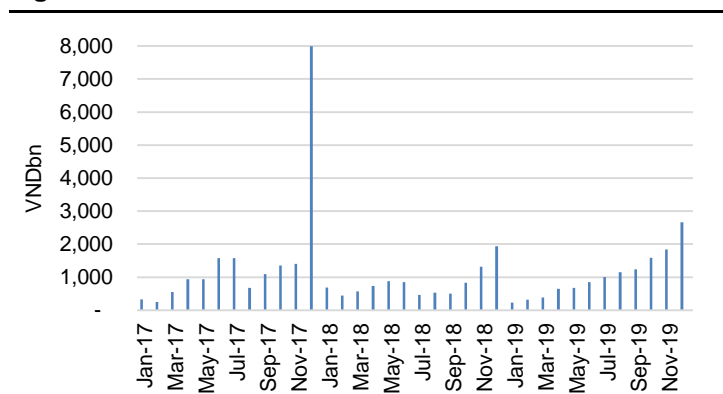
Source: Bloomberg, KIS

Fig 02. ROE of PCC1 by segment

	2017	2018	2019
Construction	12.1%	7.8%	9.8%
Hydropower	6.2%	13.5%	10.3%
Real estate	1.4%	36.0%	6.5%
The whole company	8.1%	13.1%	9.0%

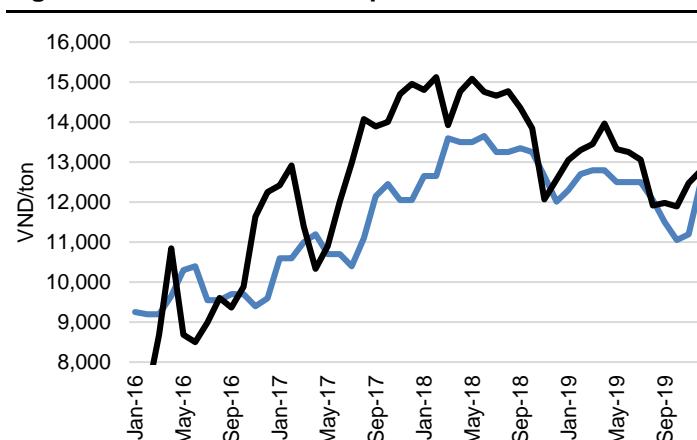
Source: PC1, KIS

Fig 03. Construction value of EVN NPT



Source: EVN, EVN NPT, KIS

Fig 04. Rebar and HRC steel price fluctuation



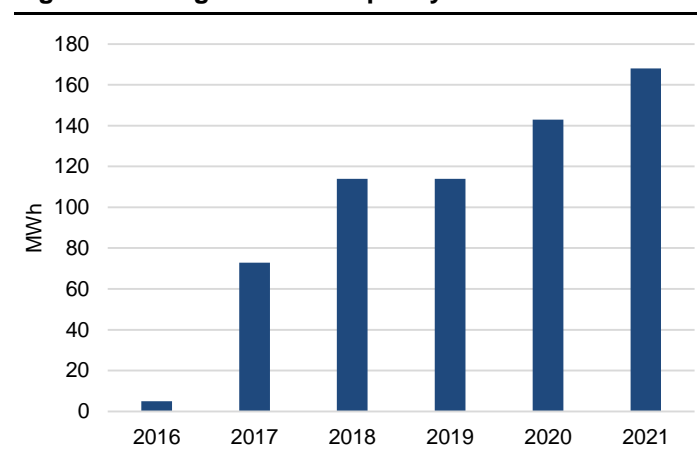
Source: VSA, Bloomberg, KIS

Fig 05. Adjusted hydropower ROA of PCC1 and peers

	2016	2017	2018	2019
TMP	7.5%	24.3%	33.8%	21.3%
TBC	13.0%	19.0%	22.0%	10.0%
SBA	9.7%	7.1%	7.6%	5.4%
HNA	-1.0%	0.2%	4.5%	1.5%
SEB	3.7%	7.1%	6.0%	6.7%
DRL	25.5%	44.2%	35.7%	40.8%
PIC	5.4%	7.4%	5.0%	3.2%
<b>Median</b>	<b>7.5%</b>	<b>7.4%</b>	<b>7.6%</b>	<b>6.7%</b>
<b>PC1</b>	<b>0.0%</b>	<b>3.8%</b>	<b>7.4%</b>	<b>7.0%</b>

Source: Finpro, Bloomberg, KIS

Fig 06. Power generation capacity of PC1



Source: PC1, KIS

FINANCIAL MODEL						BS & CF ITEMS (VNDbn)					
Unit: VNDbn	2017	2018	2019	2020E	2021E	2017	2018	2019	2020E	2021E	
<b>Net Revenue</b>	<b>3,161</b>	<b>5,084</b>	<b>5,842</b>	<b>6,525</b>	<b>5,968</b>	Increase in WC	504	172	821	215	-175
Sales growth (%)	5%	61%	15%	12%	-9%	Capex	821	531	703	1,235	817
Grid construction	1,700	1,731	2,796	2,740	2,603	Other cash flow items	42	-16	228	0	0
Industrial manufacturing	376	499	981	981	883	<b>Free cash flow</b>	<b>-995</b>	<b>-41</b>	<b>-1,212</b>	<b>-809</b>	<b>4</b>
Power generation	279	559	551	659	793	Share issues	519	17	91	0	1
Real estate	15	969	213	908	575	Dividends paid	0	0	0	0	0
Others	790	1,327	1,301	1,236	1,113	Increase in net debt	476	25	1,121	809	-5
<b>COGS</b>	<b>2,679</b>	<b>4,219</b>	<b>5,028</b>	<b>5,534</b>	<b>5,028</b>	<b>Net debt, end of year</b>	<b>1,154</b>	<b>1,178</b>	<b>2,299</b>	<b>3,108</b>	<b>3,104</b>
Gross margin (%)	15.2%	17.0%	13.9%	15.2%	15.7%	Enterprise value	3,281	3,331	4,470	5,314	5,377
SG&A	126	208	225	269	253	<b>Total equity</b>	<b>3,543</b>	<b>3,971</b>	<b>4,376</b>	<b>4,759</b>	<b>5,129</b>
<b>EBITDA</b>	<b>470</b>	<b>812</b>	<b>756</b>	<b>908</b>	<b>900</b>	Minority interests	150	174	193	227	295
EBITDA margin (%)	15%	16%	13%	14%	15%	<b>Shareholder's equity</b>	<b>3,393</b>	<b>3,797</b>	<b>4,183</b>	<b>4,532</b>	<b>4,834</b>
Depr'n & Amort'n	115	154	165	186	214	BVPS (VND, bonus-adjusted)	29,392	28,599	26,257	28,448	30,341
<b>Operating profit</b>	<b>355</b>	<b>657</b>	<b>591</b>	<b>722</b>	<b>686</b>	Net debt / equity (%)	33%	30%	53%	65%	61%
Operating margin (%)	11%	13%	10%	11%	11%	Net debt / EBITDA (x)	2.45	1.45	3.04	3.42	3.45
Net interest expenses	86	122	132	167	169	<b>Total assets</b>	<b>7,694</b>	<b>8,351</b>	<b>9,893</b>	<b>11,157</b>	<b>11,584</b>
As % of avg. net debt	9%	10%	8%	6%	5%	<i>Net debt = debts – cash &amp; equivalent</i>					
Interest cover (x)	4.1	5.4	4.5	4.3	4.0	<b>Key ratios &amp; Valuation</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020E</b>	<b>2021E</b>
Other profit/loss	34	44	-27	-27	-27	ROE (%) (excl minority interest)	7.8%	13.0%	8.9%	9.7%	7.7%
Tax	47	88	56	72	58	ROA (%)	3.3%	5.9%	3.8%	4.1%	3.7%
Effective tax rate (%)	15%	15%	13%	14%	12%	ROIC (%)	7.9%	12.0%	8.1%	8.1%	7.0%
<b>Net profit</b>	<b>256</b>	<b>491</b>	<b>375</b>	<b>455</b>	<b>431</b>	WACC (%)	13.2%	13.5%	11.9%	11.0%	11.0%
Net margin (%)	8%	10%	6%	7%	7%	PER (x)	12.4	6.1	8.0	6.8	7.9
Minorities	20	25	19	34	68	PBR (x)	0.4	0.4	0.5	0.4	0.4
Net attributable profit	237	467	356	421	362	PSR (x)	0.6	0.4	0.3	0.3	0.3
Number of shares (m)	115	133	159	159	159	EV/EBITDA (x)	7.0	4.1	5.9	5.9	6.0
<b>EPS (VND, bonus-adjusted)</b>	<b>1,197</b>	<b>2,429</b>	<b>1,855</b>	<b>2,190</b>	<b>1,887</b>	EV/Sales (x)	1.0	0.7	0.8	0.8	0.9
EPS growth (%)	-53%	103%	-24%	18%	-14%	Dividend yield (%) (bonus-adjusted)	0.0%	0.0%	0.0%	0.0%	0.0%

EBITDA = Net revenue – (COGs -Depr'n&Amort'n)- SG&A expenses

EBIT = EBITDA – Depr'n&Amort'n

Net interest expenses = interest expenses – interest income

Other profit/loss consists of other financial income/expenses, profit share from JVs/associates and other income/loss

Payout ratio = Dividend paid / Net attributable profit

## Contacts

### HCM City Head Office

Level 3, Maritime Bank Tower  
180-192 Nguyen Cong Tru St., District 1, HCM City  
Tel: (+84 28) 3914 8585  
Fax: (+84 28) 3821 6898

### Pham Ngoc Thach Transaction Office

Level 3, 62A Pham Ngoc Thach, District 3, HCM City  
Tel: (+84 28) 7108 1188  
Fax: (+84 28) 3820 9229

### Hanoi Branch

Level 6, CTM Tower  
299 Cau Giay, Cau Giay District, Hanoi  
Tel: (+84 24) 3974 4448  
Fax: (+84 24) 3974 4501

### Ba Trieu Transaction Office

Level 6, 74 Ba Trieu, Hoan Kiem District, Hanoi  
Tel: (+84 24) 7106 3555  
Fax: (+84 24) 3632 0809

### Lang Ha Transaction Office

Level 5, TDL Tower, 22 Lang Ha, Dong Da District, Hanoi  
Tel (+84 24) 7108 1188  
Fax: (+84 24) 3244 4150

## Research Department

### Mr. Huy Hoang

Head of Research  
(+84 28) 3914 8585 (x1450)  
huy.hoang@kisvn.vn

## Institutional Sales

### Ms. Uyen Lam

Head of Institutional Sales  
(+84 28) 3914 8585 (x1444)  
uyen.lh@kisvn.vn



## Recommendation System

**BUY:** where we believe prospective 12 months VND total return (including dividends) will be 15% or more.

**HOLD:** where we believe it will be -5% to 15%.

**SELL:** where we believe it will be -5% or less.

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