

18 May 2020

## Power Construction No.1 (PC1)

### Savior, namely real estate

- Power segment is dampened by El Nino
- Large real estate contribution from Thanh Xuan project
- Wind power kicks off

#### Facts: Real estate to offset power drop

PCC1 released 1Q20 revenue of VND1,370bn, up 6.5% YoY and of which (1) construction was VND1,109bn, down 11.4% YoY, (2) power generation was VND94bn, down 29.3% YoY, and (3) real estate was VND261bn, up 661.2% YoY.

Gross profit was VND199bn, up 9.0% YoY despite of the 39.7% YoY plunge of power generation. As Mong An hydropower plant has officially run since 1Q20, PCC1 recorded additional interest expense of VND20bn, making NPAT only grow by 5.9% YoY to VND93bn.

#### Pros and cons: Wind power kicks off

We believe the poor performance of power segment with 1Q20 selling volume of only 36mn kWh, down 36.9% YoY was due to El Nino impact. For real estate segment, amazing results came from the handover of Thanh Xuan project. Looking forward, we also expect the same mixed situation of power segment and real estate in 2Q20.

On 08 May 2020, Renova Inc (TYO: 9519) announced the partnership with PCC1 by buying 40% stake of Lien Lap, Phong Huy and Phong Nguyen onshore wind projects with total capacity of 144MW. This action is in line with our expectation that PCC1 needs investors to finance their wind projects. These 3 power plants play integral role for sustainable growth of PCC1 as 1) they provide VND5,100bn backlog for construction segment in 2020 and 2021 and a historical tracking record for future EPC bidding 2) they improves earnings quality from 2022. Meanwhile, we expect a lower business risk as MoIT is proposing a plan to extend the deadline for the feed-in tariff.

#### Action: BUY recommendation

For 2020, we estimate PCC1 to record revenue of VND6,227bn, up 6.5% YoY, and net profit of VND493bn, up 22.6% YoY. We believe PCC1 has a long-term prospect based on the growth of power generation part to improve earnings quality. Using sum of the parts method, we evaluate PCC1 share at VND23,300 by the end of 2020 so that total expected return is 33.4% at the current price of VND17,500. Recommend **BUY**.

12M rating **BUY (Maintain)**

24M TP **23,300** from 23,100

Up/Downside **+33.4%** (incl 0% cash dividend)

#### Stock data

VNIndex (May 18, pt)	837
Stock price (May 18, VND)	17,500
Market cap (USD mn)	119
Shares outstanding (mn)	159
52-Week high/low (VND)	21,400/10,100
6M avg. daily turnover (USD mn)	0.25
Free float / Foreign ownership (%)	62.6/20.
Major shareholders (%)	
Chairman	18.1
BEHS	17.8

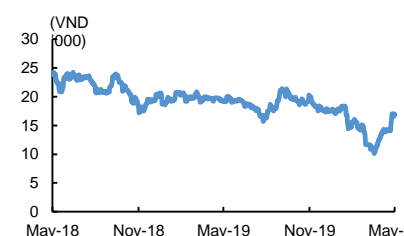
#### Valuation

	2019A	2020F	2021F
PE (x)	9.1	7.4	6.6
PB (x)	0.7	0.6	0.7
ROE (%)	10.5	10.7	10.5
DY (%)	5.8	5.8	5.8
EV/EBITDA (x)	6.3	8.4	7.9
EPS (VND)	1,863	2,283	2,592
BPS (VND)	21,578	24,331	27,457

#### Performance

	1M	6M	12M
Absolute (%)	0.3	(0.1)	(0.1)
Relative to VNIndex (%p)	0.2	0.1	0.0

#### Stock price



Source: Bloomberg

**Vinh Chu**

vinh.cd@kisvn.vn

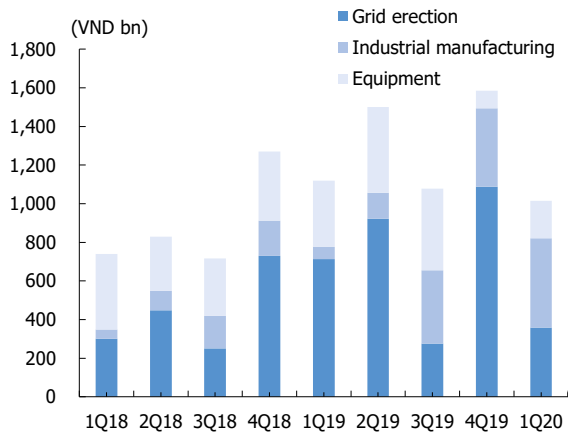
**Table 1. Earnings and outlook**

(VND bn, %, %p)

	2019				2020F				2019	2020F	1Q20P		
	1Q	2Q	3Q	4Q	1QP	2QF	3QF	4QF			QoQ	YoY	Consensus
<b>Net sales</b>	<b>1,286</b>	<b>1,736</b>	<b>1,253</b>	<b>1,571</b>	<b>1,370</b>	<b>1,518</b>	<b>1,543</b>	<b>1,755</b>	<b>5,845</b>	<b>6,227</b>	<b>(12.8)</b>	<b>6.5</b>	N.A
Construction	1,251	1,663	1,228	1,490	1,109	1,249	1,464	1,501	5,632	5,323	(25.6)	(11.4)	
Power generation	133	162	150	107	94	142	214	189	552	639	(12.4)	(29.3)	
Real estate	34	73	25	80	261	269	80	254	213	904	224.4	661.2	
<b>Gross profit</b>	<b>183</b>	<b>279</b>	<b>183</b>	<b>175</b>	<b>199</b>	<b>258</b>	<b>243</b>	<b>269</b>	<b>826</b>	<b>970</b>	<b>13.8</b>	<b>9.0</b>	
Construction	87	136	81	105	86	108	101	114	408	409	(18.1)	(1.4)	
Power generation	85	113	89	59	51	87	122	96	346	357	(12.5)	(39.7)	
Real estate	10	31	13	19	62	64	20	59	72	204	233.8	496.3	
<b>Gross margin</b>	<b>14.2</b>	<b>16.1</b>	<b>14.6</b>	<b>11.1</b>	<b>15</b>	<b>17</b>	<b>16</b>	<b>15</b>	<b>14</b>	<b>16</b>	<b>3.4</b>	<b>0.3</b>	
Construction	6.9	8.2	6.6	7.0	8	9	7	8	7	8	0.7	0.8	
Power generation	64.3	69.4	59.3	54.9	55	61	57	51	63	56	(0.1)	(9.5)	
Real estate	30.3	41.8	51.1	23.0	24	24	25	23	34	23	0.7	(6.6)	
<b>Operating profit</b>	<b>131</b>	<b>215</b>	<b>134</b>	<b>115</b>	<b>153</b>	<b>188</b>	<b>179</b>	<b>196</b>	<b>594</b>	<b>716</b>	<b>32.8</b>	<b>17.0</b>	<b>N.A</b>
EBT	102	166	92	73	112	145	126	144	466	540	52.7	9.9	
Net profit	92	125	80	47	90	100	125	134	410	493	91.2	(2.0)	
<b>Controlling-int. NP</b>	<b>88</b>	<b>118</b>	<b>74</b>	<b>44</b>	<b>93</b>	<b>96</b>	<b>115</b>	<b>129</b>	<b>358</b>	<b>439</b>	<b>110.6</b>	<b>5.9</b>	<b>N.A</b>
EBITDA	170	255	174	159	198	236	238	254	759	911	24.0	16.0	
EBITDA margin	13.3	14.7	13.9	10.2	14	16	15	14	13	15	4.3	1.2	
OP margin	10.2	12.4	10.7	7.3	11	12	12	11	10	11	3.8	1.0	

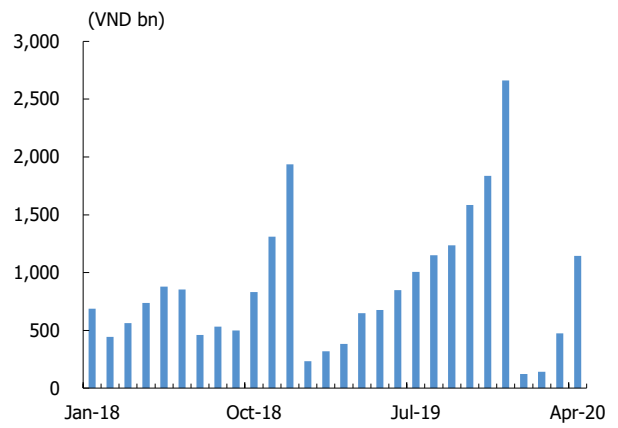
Source: Company data, KIS

**Figure 1. Construction revenue breakdown of PCC1**



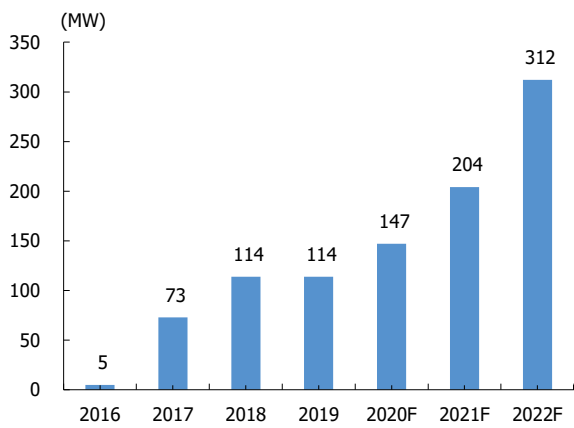
Source: PC1, KIS

**Figure 2. Construction value of EVN NPT**



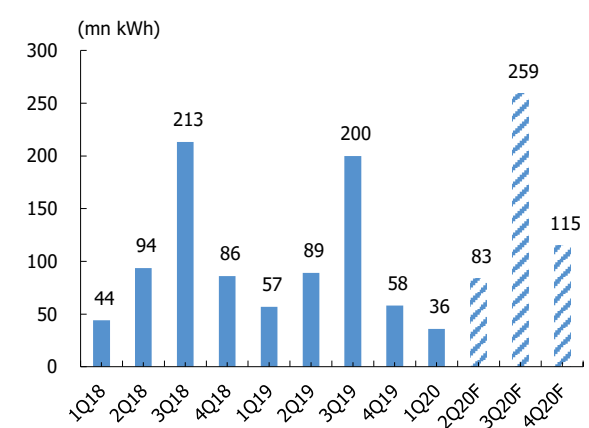
Source: EVN NPT, KIS

**Figure 3. Power generation capacity of PCC1**



Source: PC1, KIS

**Figure 4. Selling volume of PCC1**



Source: PC1, KIS

**Table 2. Fair value calculation**

(VND bn, VND, %)

	2020F	Notes
<b>1) Construction part</b>		<b>PE multiple</b>
Net profit	189	
PE multiple	8.0	4-Y average PE of Coteccons
<b>Construction equity value (A)</b>	<b>1,514</b>	
<b>2) Power generation part</b>		
<b>Hydropower part</b>		<b>Multiple for hydropower</b>
Net profit of hydropower plants	131	
PE multiple	9.0	1-Y average PE of hydropower generation companies in Vietnam
Hydropower generation equity value (B)	1,175	PE Multiples
<b>Wind power part</b>		<b>FCFF for wind power</b>
WACC	11.1%	COE = 15%, D/E = 2.3
Debt	1,400	
Wind equity value (C)	496	3 wind power plants will come online from 4Q21 Ownership of PCC1 at each plant is 51% Discount 50% to reflect business risk
<b>Power generation equity value (D) = (B) + (C)</b>	<b>1,671</b>	
<b>3) Real estate part</b>		<b>Book value</b>
Book value at the beginning of the year	452	
Net profit	82	
Book value at the end of year (E)	534	
<b>Equity value (F) = (A) + (D) + (E)</b>	<b>3,718</b>	
Number of shares (mn shares)	159	
<b>Target price</b>	<b>23,300</b>	
Annualized price return	33.4	
Expected dividend yield	0.0	
<b>Annualized expected return</b>	<b>33.4</b>	<b>2020</b>

Source: Company data, KIS

### ■ Company overview

Power Construction No.1 is the grid construction leader with 50 years of experience in installing transmission lines, substations and steel pole manufacturing. From 2016, the company expanded its operation by massive investment into hydropower plants in the North. From 2019, the company announced its ambition in wind power.

**Balance sheet**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	3,055	3,103	4,033	3,766	3,568
Cash & cash equivalents	667	791	748	1,039	897
Accounts & other receivables	1,302	1,552	1,851	1,642	1,585
Inventory	1,085	759	1,434	1,085	1,085
Non-current assets	3,010	3,240	3,824	6,428	10,284
Fixed assets	2,919	3,143	3,761	6,365	10,221
Investment assets	91	97	64	64	64
Others	149	254	458	458	458
Total assets	6,214	6,597	8,315	10,652	14,310
Advances from customers	295	155	307	155	155
Unearned revenue	2	0	1	1	1
Trade payables	1,143	1,101	1,152	1,152	1,152
Others	139	91	114	114	114
ST debt & due bonds	294	416	951	936	865
LT debt & bonds	1,527	1,554	2,096	3,845	6,445
Total liabilities	3,400	3,318	4,620	6,203	8,732
Controlling interest	2,684	3,119	3,438	3,877	4,375
Capital stock	1,155	1,328	1,593	1,593	1,593
Capital surplus	711	711	711	711	711
Other reserves	102	155	200	200	200
Retained earnings	716	925	933	1,372	1,870
Minority interest	130	160	257	572	1,203
Shareholders' equity	2,814	3,279	3,695	4,448	5,577

**Cash flow**

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	(148)	515	(249)	1,040	769
Net profit	237	467	358	439	498
Dep'n & Amort'n	115	154	165	195	215
Net incr. in W/C	(500)	(106)	(771)	407	56
C/F from investing	(826)	(538)	(670)	(2,799)	(4,071)
Capex	(821)	(531)	(703)	(2,799)	(4,071)
Incr. in investment	(5)	(6)	33	-	-
C/F from financing	1,224	165	1,168	1,734	2,529
Incr. in equity	519	17	91	-	-
Incr. in debt	705	149	1,077	1,734	2,529
Dividends	-	-	-	-	-
C/F from others	-	-	-	-	-
Increase in cash	250	142	249	(24)	(773)

**Income statement**

(VND bn)

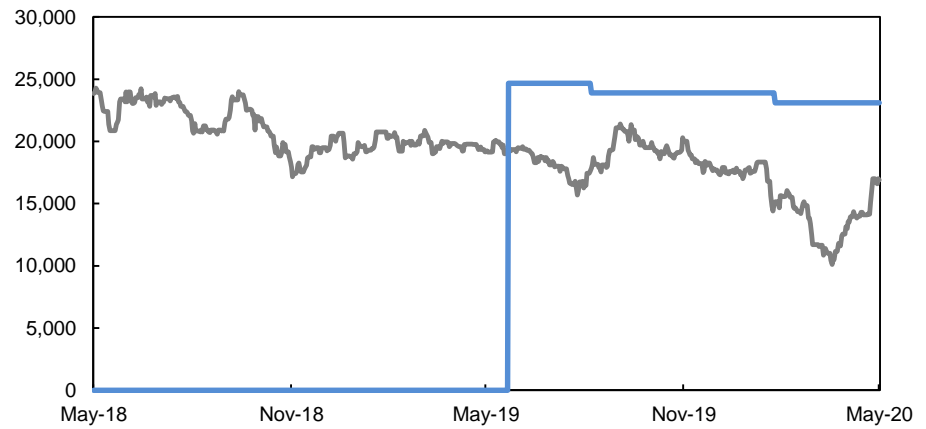
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	3,161	5,084	5,845	6,227	6,088
COGS	2,679	4,219	5,026	5,257	4,842
Gross profit	481	866	819	970	1,246
SG&A expenses	126	208	224	254	223
Operating profit	355	657	594	716	1,023
Financial income	11	28	38	36	77
Interest income	9	26	36	36	77
Financial expenses	103	150	172	219	452
Interest expenses	96	148	171	219	452
Other non-operating profit	40	39	6	7	7
Gains (Losses) in associates, subsidiaries and JV	1	5	(33)	(33)	-
Earnings before tax	303	579	433	507	655
Income taxes	47	88	56	47	113
Net profit	256	491	376	459	541
Net profit of controlling interest	237	467	358	439	498
EBITDA	470	812	759	911	1,238

**Key financial data**

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	1,197	2,429	1,863	2,283	2,592
BPS	16,847	19,578	21,578	24,331	27,457
DPS	-	-	-	-	-
Growth (%)					
Sales growth	5.1	60.9	15.0	6.5	(2.2)
OP growth	(10.6)	85.1	(9.6)	20.5	42.9
NP growth	(30.1)	90.3	(15.8)	20.2	9.8
EPS growth	(52.9)	102.9	(23.3)	22.6	13.5
EBITDA growth	8.6	72.5	(6.5)	20.0	35.9
Profitability (%)					
OP margin	11.2	12.9	10.2	11.5	16.8
NP margin	8.1	9.6	7.0	7.9	8.9
EBITDA margin	14.9	16.0	13.0	14.6	20.3
ROA	4.1	7.4	4.9	4.7	3.8
ROE	10.2	16.1	10.9	12.0	12.1
Dividend yield	-	-	-	-	-
Dividend payout ratio	-	-	-	-	-
Stability					
Net debt (VND bn)	1,154	1,178	2,299	4,003	7,261
Net debt/equity (%)	41.0	35.9	62.2	90.0	130.2
Valuation (x)					
PE	14.2	7.0	9.1	7.4	6.6
PB	1.0	0.9	0.8	0.7	0.6
EV/EBITDA	7.5	4.4	6.3	7.5	8.7

**Changes to recommendation and target price**

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
PC1	15 May 2020	BUY	23,300		
	07 Feb 2019	BUY	23,100		
	20 Aug 2019	BUY	23,900		
	04 Jun 2019	BUY	24,667		



■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 18 May 2020.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

KIS Vietnam Securities Corp. has not issued CW with underlying stocks of Power Construction No.1 (PC1) and is not the liquidity provider.

Prepared by: Vinh Chu

## Global Disclaimer

### ■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

### ■ Country-specific disclaimer

**United States:** This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

**United Kingdom:** This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

**Hong Kong:** This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

**Singapore:** This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2020 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..