March 2021

# Power Construction JSC No.1 (HSX: PC1)

## Electricity will offset the real estate segment in 2021

| (VND bn) | Q4-FY20 | Q3-FY20 | *+/- qoq* | Q4-FY19 | *+/- yoy* |
|---|---|---|---|---|---|
| Net revenue | 2,472 | 1,644 | 50% | 1,568 | 58% |
| PAT | 132 | 159 | -17% | 54 | 145% |
| EBIT | 203 | 242 | -16% | 112 | 82% |
| EBIT margin | 8.2% | 14.7% | -650bps | 7.1% | 110bps |

*Source: PC1, Rong Viet Securities*

**4Q2020– A record high revenue because of contribution from construction**

- Revenue in 4Q2020 surged by 50% QoQ and 58% YoY because of a surge in power construction.
- Gross profit was VND319 billion, -5% QoQ and +85% YoY due the to dry season in the North, leading to a fall in electricity generation gross profit.
- Real estate recorded VND 156 billion in revenue, almost the entire PCC1 Thanh Xuan project in 4Q2020.
- NPAT-MI was VND132 billion, -17% QoQ and +145% YoY.

**2021 outlook – Contribution from the electricity and construction segments will compensate for weak real estate earnings**

- Construction segment's revenue is going to recover due to the wind power market. Backlog and revenue are estimated to reach VND 3,700 billion and VND 4,125 billion, +22% YoY and +37% YoY, respectively.
- Electricity generation becoming the major contributor. (1) hydropower is going to benefit from La Nina and the plant full year operation. (2) wind power will start contributing revenue from 3Q and large capacity promises long-term growth. High gross margin ensures profit and cash flows.
- Expect low revenue from real estate. Company plans to handover shophouses in early 2022 but it is wait and see.

***Valuation and Recommendation***:

*PC1 is transforming itself into an electricity generation company with expanding capacity in recent years. Being able to construct the power plants itself, the company can have speedy construction progress and CAPEX efficiency. This year, the company is going to begin the 144 MW wind power capacity, which is PC1's growth engine for the long-term. Furthermore, PC1 will also benefit from the wind power market this year as a contractor. While 2021 is an off-peak year for the real estate segment, the recovery in its hydropower business can compensate for that. We expect that the real estate segment will start contributing in mid 2022 with two projects under development.*

*Using P/E and sum of the parts methods, we determine the fair value of PC1 at VND 32,200 per share, offering a 16% upside from the closing price on March 26th, 2021. This price is adjusted upward from the most recent update because we fine-tuned our earnings forecast and raised valuation multiples. We recommend to* ***ACCUMULATE*** *this stock.*

## ACCUMULATE +16%

| | |
|---|---|
| CMP (VND) | 27,650 |
| Target Price (VND) | 32,200 |
| Cash dividend (VND)* | 0 |

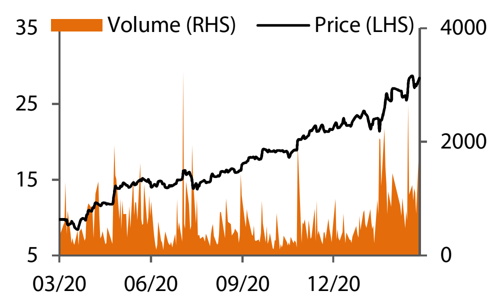
**Expected in the next 12 months*

**Stock Info**

| | |
|---|---|
| Sector | Utilities |
| Market Cap (VND billion) | 5,449 |
| Current Shares O/S | 191 |
| Avg. Daily Volume (in 20 sessions) | 740,531 |
| Free float (%) | 61.2 |
| 52 weeks High | 28,700 |
| 52 weeks Low | 8,417 |
| Beta | 0.91 |

| | FY2019 | Current |
|---|---|---|
| EPS | 1,745 | 2,526 |
| EPS Growth (%) | -24 | 45 |
| Diluted EPS | 1,863 | 2,526 |
| P/E | 9.5 | 11.3 |
| P/B | 0.9 | 0.9 |
| EV/EBITDA | 7.5 | 7.9 |
| Cash dividend yield (%) | 0% | 0% |
| ROE (%) | 10.1 | 12.7 |

**Price performance**




**Major Shareholders (%)**

| | |
|---|---|
| Trinh Van Tuan | 18.1 |
| BEHS | 17.8 |
| Nguyen Nhat Tan | 3.2 |
| Vietnam Holding | 4.1 |
| *Foreign ownership room (%)* | 36.9 |

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**Exhibit 1: 4Q/2020 Results**

| (VND bn) | Q4-FY20 | Q3-FY20 | +/- (qoq) | Q4-FY19 | +/- (yoy) | 4Q-FY20 | +/-(yoy) |
|---|---|---|---|---|---|---|---|
| Net revenue | 2,472 | 1,644 | 50.4% | 1,568 | 57.7% | 6,656 | 14% |
| Gross profit | 319 | 335 | -4.8% | 172 | 85.3% | 1,152 | 41% |
| SG&A | 116 | 93 | 24.5% | 61 | 91.5% | 335 | 49% |
| Operating income | 203 | 242 | -16.0% | 112 | 81.9% | 816 | 47% |
| EBITDA | 297 | 325 | -8.5% | 156 | 90.0% | 1,095 | 45% |
| EBIT | 203 | 242 | -16.0% | 112 | 81.9% | 816 | 38% |
| Financial expenses | 66 | 62 | 7.3% | 46 | 44.7% | 247 | 45% |
| *- Interest Expenses* | *63* | *62* | *1.6%* | *47* | *32.6%* | *243* | *43%* |
| Dep. and amortization | 94 | 83 | 13.6% | 45 | 110.4% | 279 | 69% |
| Non-recurring items (*) | | | | | | | |
| Extraordinary items (*) | | | | | | | |
| PBT | 175 | 191 | -8.2% | 72 | 142.3% | 642 | 42% |
| PAT | 132 | 159 | -16.9% | 54 | 144.7% | 506 | 49% |
| (*) Adjusted PAT | 132 | 159 | -16.9% | 54 | 144.7% | 506 | 49% |

*Source: PC1, Rong Viet Securities*

**Exhibit 2: 4Q/2020 Performance Analysis**

| Particulars | Q4-FY20 | Q3-FY20 | *+/- (qoq)* | Q4-FY19 | *+/- (yoy)* |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| Gross Margin | 12.9% | 20.4% | -748bps | 11.0% | 192bps |
| EBITDA Margin | 12.0% | 19.8% | -773bps | 10.0% | 205bps |
| EBIT Margin | 8.2% | 14.7% | -650bps | 7.1% | 110bps |
| Net Margin | 5.4% | 9.7% | -434bps | 3.4% | 190bps |
| Adjusted Net Margin | 5.4% | 9.7% | -434bps | 3.4% | 190bps |
| **Turnover *(x)** | | | | | |
| -Inventories | 9 | 5 | 4.7 | 4 | 5.8 |
| -Receivables | 3.0 | 2.4 | 0.6 | 3.4 | -0.4 |
| -Payables | 5 | 4 | 1.0 | 4 | 0.3 |
| **Leverage (%)** | | | | | |
| Total Debt/ Equity | 78.6% | 71.0% | 57bps | 70.1% | 846bps |

*Source: PC1, (*) Annualized turnover*

**Exhibit 3: 1Q/2021 Performance Forecast**

| Particulars (VND bn) | Q1-FY21 | +/- qoq | +/- yoy |
|---|---|---|---|
| Revenue | 1,626 | -34% | 19% |
| Gross profit | 247 | -23% | 24% |
| EBIT | 177 | -13% | 16% |
| NPAT | 97 | -27% | 7% |

*Source: PC1, Rong Viet Securities*

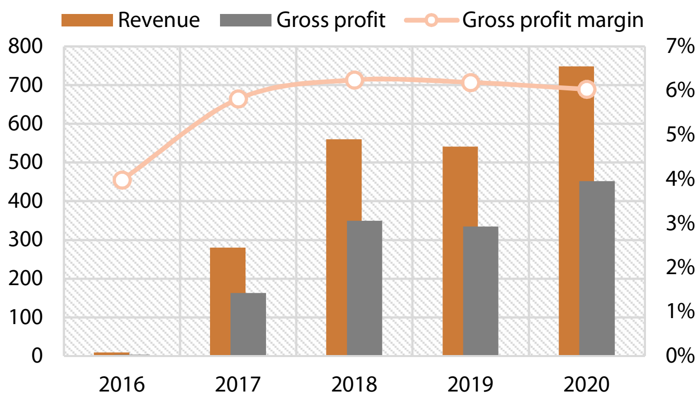
- We forecast that revenue in 1Q2021 increases 19% YoY due to large contribution from power construction and La Nina supports hydropower. Besides, -34% QoQ because of real estate shortage and dry season.
- Gross profit margin is estimated to be 15%, which is lower than 2020 due to a real estate shortage.
- Other income and expenses will remain unchanged except for selling expenses decreasing, resulting in NPAT of VND 97 billion, -27% QoQ.

**Update:**

**The electricity generation segment will be the main pillar of PC1 profit**

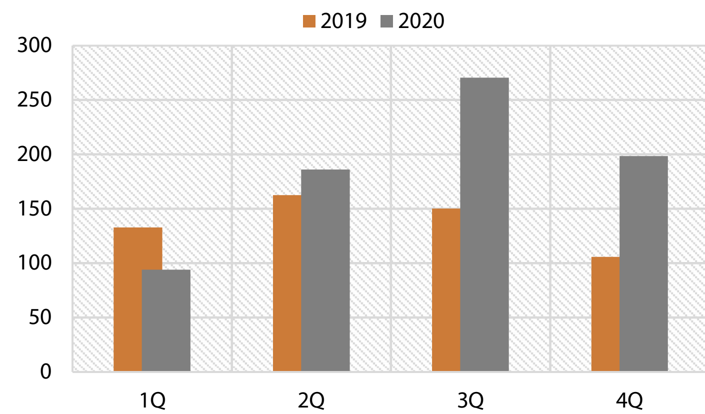
Hydropower revenue in 4Q2020 fell by 27% QoQ due to the fact that 3Q2020 was the rainy season supported by La Nina with plentiful water and 4Q2020 was the dry season. Revenue grew by 88% YoY because 2019 was an El Nino year. Capacity expansion of the three hydropower plants also helped (Figure 2). Revenue and gross profit were VND198 billion and VND 11 billion, contributing 8% to total revenue and 35% to total gross profit, respectively.

**Figure 1: Hydropower performance (LHS, VND billion) and gross profit margin (RHS)**




*Source: PC1, Rong Viet Securities*

**Figure 2: Hydropower revenue by quarter (VND billion)**




*Source: PC1, Rong Viet Securities*

During 2020, hydropower's revenue and gross profit experienced a growth of 38% and 35% YoY, respectively because of La Nina and the full-year utilization of hydropower plant and the addition of the three hydropower plants. PC1 maintained a high gross profit margin within the range of 55%-60%. This segment has become the main pillar in the company's gross profit since 2018.

In 2021, in terms of wind power plants, PC1 is expected to bring online three of them in 3Q2021 which will contribute 62 million kWh and VND 125 billion in volume and revenue, respectively. The gross profit margin from such segment is expected to be higher compared to the hydropower one, roughly at 67%. Per the company, it is on negotiation with foreign banks to finance the three wind power plants with low interest roughly at 6%-7%, which is relatively lower than the local banks offer. At an early stage of the wind power project, due to the financial expenses burden, net profit from the segment is estimated to be around 20% with assumed interest rates as mentioned above. However, in the longer term, the wind power segment will contribute increasingly to profit and cash flow.

Furthermore, the hydropower segment is expected to surge because of a full-year of La Nina and the hydropower plant's full-year utilization. In 2021, La Nina is forecasted to be highly probable (>60%) and its impact stronger than 2017. Therefore, we forecast that volume and revenue from the hydropower segment will grow by 34% and 22%, respectively.

The electricity generation segment will transform PC1 from a power construction to a power generation company with huge potential. This segment contributes to PC1's gross profit 39% and 50% in 2020 and 2021, respectively. For the medium and long-term prospects, we forecast electricity generation to be the main contributor to PC1's profit because of continuous expansion in capacity including hydropower and wind power plants. PC1 expects to COD the three-wind power plants with 144 MW addition in 2021 and each hydropower plant in 2022 (30 MW) and in 2023 (13 MW).

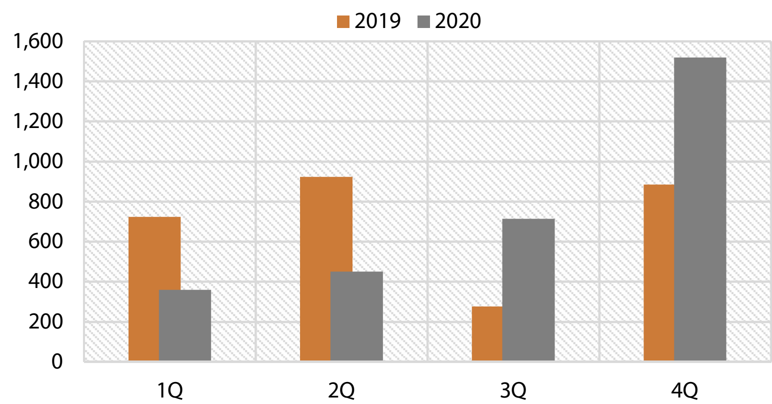
**Power construction has benefited from wind power since 4Q2020 and is going to maintain this trend in 2021**

Revenue from power construction in 4Q2020 was VND 1,519 billion, doubling QoQ and +72% YoY because of wind power construction contracts. It recorded roughly VND 1,100 billion for wind power plants construction in 4Q2020 and accounted for 30% of signed wind power contracts. Besides, based on the proposal of 8th electricity master plan, the transmission construction was completed at the end of

2020. From that, revenue significantly grew in 4Q2020. The gross profit margin from this segment in 4Q2020 was relatively low at 8,3% due to the budget finalization period. Thus, gross profit in 4Q2020 is estimated at VND 126 billion, +60% QoQ and +136%YoY.

For the year 2020, it signed roughly VND 3,523 billion of new contracts and booked VND 3,040 billion in revenue, +1% YoY due to low performance in 1Q and 2Q2020. Thus, we estimate that the transfer backlog to 2021 will be around VND 3,231 billion. Per the company, it plans to sign around VND 3,800 billion in new contracts, and record VND 4,125 billion in 2021 due to the tight deadline for wind power in October 2021. Power construction is also the main contributor to PC1's gross profit, ranking 2nd below electricity generation, with the contribution of 27% and 35% in 2020 and 2021, respectively.

**Figure 3: Power construction revenue (VND billion)**

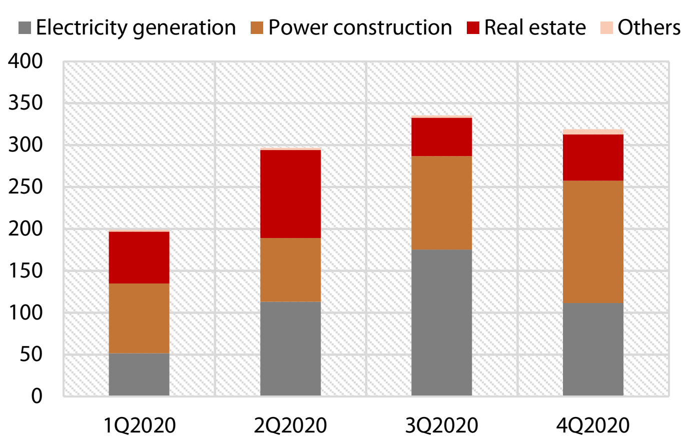



*Source: PC1, Rong Viet Securities*

**Real estate omission will result in a slight profit growth in 2021**

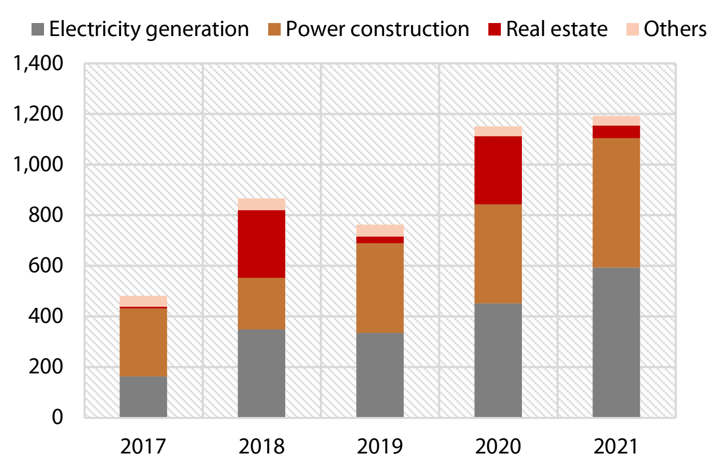
2020's PC1 was outperformed because of a one-off profit from real estate during the year, the hydropower segment's performance bounced back in 3Q2020 and power construction surged in 4Q2020 (Figure 4). Thus, revenue and NPAT grew by 14% and 42%, respectively. Real estate appearance in 2020 reduced power construction contribution in 2020, resulting in high gross profit margin due to power construction's gross profit margin is relatively low compared to others segment. Therefore, the gross profit margin in 2021 is forecasted to be lower in 2020 because of the real estate shortage.

**Figure 4: Gross profit contribution by segment (VND billion)**




*Source: PC1, Rong Viet Securities*

**Figure 5: Gross profit contribution by segment (VND billion)**



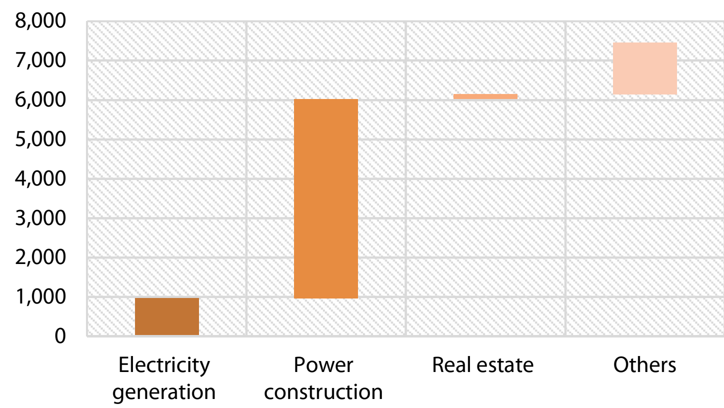

*Source: PC1, Rong Viet Securities*

The real estate segment will begin contributing in 2Q2022 thru the Vinh Hung project. In terms of progression, Vinh Hung has already finished its foundation and opended to sell. Thus, we only put the Vinh Hung project in our model as clear information and construction progression. Furthermore, the Thang Long project's shophouse is expected to handover in early 2022 per the company. However, the project has just finished the designed phase. We will include this project in our model when information and progression is clearer. In 2021, we estimate that the company will record roughly VND 74 billion in revenue – PCC1 Thanh Xuan's remaining.

In2020, revenue and COGS increased by 14% and 10%, respectively, resulting in gross profit rising by 41%. Selling expenses surged by 236% due to high real estate contribution in 2020 and interest expenses grew by 44% because of hydropower plant and real estate financing.

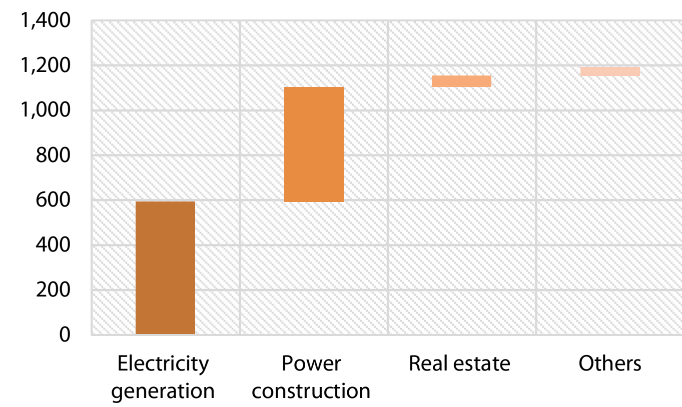
In 2021, we forecast that revenue and NPAT will grow by 12% without two wind power plants' contribution. In the circumstance that the company can finish the three-wind power before FiT1 deadline, revenue and NPAT will increase VND 82 billion and VND 22 billion, respectively. Hence, without real estate's contribution, electricity construction and generation are capable of boosting PC1's NPAT in 2021 (Figure 6, Figure 7).

**Figure 6: Revenue contribution by segment (VND billion)**




*Source: Rong Viet Securities*

**Figure 7: Gross profit contribution by segment (VND billion)**




*Source: Rong Viet Securities*

**Valuation**

We use two methods including PE and SoP with a weight of 30% and 70%, respectively, to evaluate PC1. The target price for it is VND 32,200, offering an upside of 16% compared to closing price on March 26th ,2021, thus we recommend to ACCUMULATE this stock. We use a P/E multiple at 10x to evaluate its short-term value: VND 26,720. The sum of product includes four methods, PE for power construction segment, FCFE for electricity generation segment, NAV for real estate and PB for joint venture contribution. In which, with long term prospect from electricity generation segment, it accounts for the majority of the company's value. From that SoP's price is VND 34,545.

**Table 1: PC1's valuation**

| Method | Valuation | Weight | Weighted average |
|---|---|---|---|
| PE (10x) | 26,720 | 30% | 8,016 |
| SoP | 34,545 | 70% | 24,181 |
| **Total** | | **100%** | **32,200** |

*Source: Rong Viet Securities*

*VND billion*

| *INCOME STATEMENT* | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| Revenue | 5,842 | 6,656 | 7,449 | 6,278 |
| COGS | 5,026 | 5,504 | 6,257 | 5,156 |
| **Gross profit** | **816** | **1,152** | **1,192** | **1,123** |
| Selling Expense | 22 | 75 | 53 | 42 |
| G&A Expense | 203 | 260 | 291 | 245 |
| Finance Income | 39 | 37 | 41 | 33 |
| Finance Expenses | 171 | 247 | 249 | 239 |
| Other profits | 6 | 17 | 38 | 40 |
| **PBT** | **431** | **642** | **681** | **673** |
| Prov. of Tax | 56 | 104 | 93 | 82 |
| Minority's Interest | 19 | 32 | 20 | 21 |
| **PAT to Equity S/H** | **356** | **506** | **568** | **570** |
| EBIT | 591 | 816 | 848 | 836 |
| EBITDA | 756 | 816 | 1,120 | 1,158 |

*%*

| *FINANCIAL RATIO* | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| **Growth (%)** | | | | |
| Revenue | 14.9 | 13.9 | 11.9 | -15.7 |
| Operating Income | -6.8 | 8.0 | 37.2 | 3.4 |
| EBITDA | -10.1 | 38.1 | 3.9 | -1.4 |
| PAT | -23.6 | 41.9 | 12.3 | 0.4 |
| Total Assets | 26.0 | 29.0 | 10.5 | 0.8 |
| Equity | 10.2 | 15.8 | 13.3 | 11.8 |
| **Profitability (%)** | | | | |
| Gross margin | 14.0 | 17.3 | 16.0 | 17.9 |
| EBITDA margin | 12.9 | 12.3 | 15.0 | 18.4 |
| EBIT margin | 10.1 | 12.3 | 11.4 | 13.3 |
| Net margin | 6.1 | 7.6 | 7.6 | 9.1 |
| ROA | 4.3 | 4.7 | 4.8 | 4.8 |
| ROE | 10.4 | 12.7 | 12.6 | 11.3 |
| **Efficiency** | | | | |
| Receivable Turnover | 3.1 | 1.9 | 2.9 | 2.9 |
| Inventory Turnover | 3.5 | 7.3 | 5.4 | 3.3 |
| Payable Turnover | 3.5 | 2.7 | 3.2 | 3.2 |
| **Liquidity** | | | | |
| Current | 1.7 | 1.6 | 1.3 | 1.4 |
| **Finance Structure (%)** | | | | |
| Total Debt/Equity | 88.6 | 94.4 | 96.6 | 83.5 |
| Current Debt/Equity | 30.4 | 39.9 | 42.9 | 38.4 |
| Long-term Debt/Equity | 58.2 | 54.5 | 53.6 | 45.0 |

*VND billion*

| *BALANCE SHEET* | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| Cash and cash equivalents | 568 | 1,476 | 1,179 | 1,055 |
| Short-term investments | 180 | 63 | 111 | 122 |
| Accounts receivable | 1,865 | 3,421 | 2,568 | 2,164 |
| Inventories | 1,429 | 750 | 1,150 | 1,550 |
| Other current assets | 119 | 57 | 63 | 69 |
| Property, plant & equipment | 3,759 | 4,407 | 6,210 | 6,414 |
| Acquired intangible assets | 230 | 286 | 286 | 286 |
| Long-term investments | 63 | 82 | 100 | 102 |
| Other non-current assets | 102 | 183 | 183 | 183 |
| **Total assets** | **8,314** | **10,724** | **11,850** | **11,946** |
| Accounts payable | 1,445 | 2,041 | 1,981 | 1,632 |
| Short-term borrowings | 1,046 | 1,586 | 1,936 | 1,936 |
| Long-term borrowings | 2,000 | 2,171 | 2,417 | 2,268 |
| Other non-current liabilities | 28 | 46 | 49 | 51 |
| Bonus and Welfare fund | 101 | 116 | 156 | 196 |
| Technology-science, dev. fund | 0 | 0 | 0 | 0 |
| **Total liabilities** | **4,619** | **5,961** | **6,539** | **6,084** |
| Common stock and APIC | 2,304 | 2,623 | 2,623 | 2,623 |
| Treasury stock (enter as -) | 0 | 0 | 0 | 0 |
| Retained earnings | 933 | 1,102 | 1,630 | 2,159 |
| Other comprehensive income | 71 | 89 | 89 | 89 |
| Inv. and Dev. Fund | 130 | 167 | 167 | 167 |
| **Total equity** | **3,438** | **3,981** | **4,508** | **5,038** |
| **Minority Interest** | **257** | **782** | **802** | **824** |

| *VALUATION RATIO* | 2019 | 2020 | 2021E | 2022F |
|---|---|---|---|---|
| EPS (dong) | 2,647 | 1,745 | 2,526 | 2,672 |
| P/E (x) | 7.1 | 9.5 | 12.1 | 11.4 |
| BV (dong) | 16,315 | 17,981 | 20,820 | 23,581 |
| P/B (x) | 1.0 | 0.9 | 0.9 | 1.3 |
| DPS (dong/cp) | 0 | 0 | 0 | 0 |
| Dividend yield (%) | - | - | - | - |

| *VALUATION MODEL* | *Price* | *Weight* | *Average* |
|---|---|---|---|
| P/E | 26,720 | 30% | 8,016 |
| SoP | 34,545 | 70% | 24,181 |
| **Target price (dong)** | | **100%** | **32,200** |

| *VALUATION HISTORY* | *Price* | *Recommendation* | *Period* |
|---|---|---|---|
| 13/06/2019 | 32,100 | BUY | Long term |
| 19/06/2020 | 29,900 | BUY | Long term |
| 28/12/2020 | 29,000 | BUY | Long term |

## RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

### RATING GUIDANCE

| Ratings | BUY | ACCUMULATE | REDUCE | SELL |
|---|---|---|---|---|
| Total Return including Dividends in 12-month horizon | >20% | 5% to 20% | -20% to -5% | <-20% |

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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