May, 2017

POWER CONSTRUCTION JSC NO.1 (PC1 – HSX)

Accumulating for a breakthrough

Power Construction JSC No.1 (PC1 – HSX) is the leading domestic player in power construction and steel structure manufacturing. PC1 has also actively expanded its business to hydropower and real estate segments to utilize its resources and diversify its business, as well as adding more growth drivers in the next few years. In short and medium term, PC1's growth would be driven by the increasingly large investment capital in power infrastructure and the contribution from new projects in hydropower and real estate.

*In the long-term, hydropower expects to play a greater role in PC1's overall performance with stable cash flows and continuous improvement in operating efficiency. Meanwhile, further growth can come from the expansion to the new segment as the company raise additional capital. Considering all above analysis, PC1 shall be fairly priced at **VND48,100/share** and therefore we come up with **"Accumulate"** recommendation for the stock in the **"Intermediate-term"**.*

Investment thesis

- PC1 is the leading player in the growing power transmission grids construction sector
- FY2018 would witness robust growth of PC1 with foreseeable catalysts since FY2017
- New hydropower plants coming online also brings more stable cash flow, increasing after-tax profit and enhancing the valuation of PC1

Risks

- Risk of delay in EVN's projects
- Risk of slowdown in sale of its real estate project
- Risk of EPS dilution

Key financials

Y/E Dec (VND bn)	FY2015	FY2016	FY2017F	FY2018F
Net Revenues	3,101.0	3,006.0	3,417.0	4,993.6
% change	*0*	*-3.1*	*13.7*	*46.1*
PAT	245.0	306.0	322.3	568.0
% change	*-42.1*	*24.9*	*5.3*	*76.2*
EBIT margin (%)	9.6	13.2	13.9	16.7
ROA (%)	9.5	8.2	7.4	10.4
ROE (%)	22.0	17.7	15.2	22.3
EPS (VND)	6,884	3,747	2,965	4,354
Book value (VND)	38,056	26,033	23,210	24,038
Cash dividend (VND)	0	0	0	0
P/E (x)	n/a	8.9	11.0	6.2
P/BV (x)	n/a	1.4	1.8	2.0

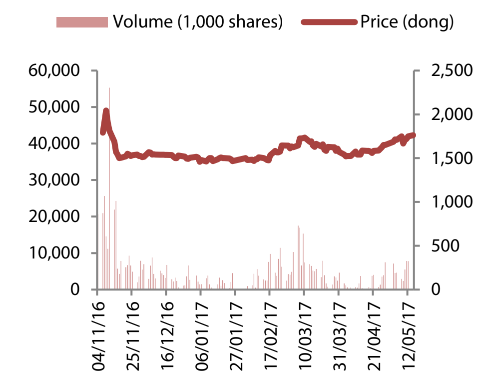
Sources: PC1, RongViet Research estimated.

ACCUMULATE

Market price (VND)	42,300
Target price (VND)	48,100
Investment period	Intermediate-term

Stock Info

Sector	Construction and Materials
Market Cap (VND bn)	2,709
Current Shares O/S	75
Beta	0.5
Free float (%)	61.26
52 weeks High	49,050
52 weeks Low	35,000
Avg. Daily Volume (in 20 sessions)	152



Source: Bloomberg

Performance (%)

	1M	3M	1Y
PC1	9.2	14.5	n/a
Construction and Materials	-4.5	-1.4	88.5
VN30 Index	7.6	7.7	16.8
VN Index	0.0	3.3	22.4

Major Shareholders (%)

Trinh Van Tuan	20.8
VEIL	15.3
Foreigner Investor Room (%)	*33.7%*

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INVESTMENT THESIS

PC1 is the leading player in the growing power transmission grids construction sector

Power transmission grids infrastructure in Vietnam is receiving an increasingly large investment capital. The average annual capex on the sector expects to rise by 66% from VND26 trillion during 2011 – 2015 period to VND43 trillion during 2016 – 2020 period, according to the National Power Development Plan No.7 (PDP VII). Moreover, thanks to the acceleration of items of the third national transmission line project and the trend of underground cable in major cities, the outlook of this sector in 2017 – 2020 period would be very positive.

Meanwhile, PC1 claims the leading position with 30 – 40% of market share in transmission lines and substation construction and 40% of market share in steel structure (specialized for high and supper high voltage transmission lines) manufacturing. With strong competitive advantages coming from modern synchronized equipment, professional labor force, and prestige of construction capacity, this segment of PC1 expects to deliver strong growth at 20% in 2017.

FY2018 would witness robust growth of PC1 with foreseeable catalysts since FY2017

In 2018, with revenue recognition from My Dinh Plaza 2 project, we forecast PC1's revenue and PAT to grow at 46% and 76% respectively, resulting in EPS of VND4,354 before accounting for the dilution from its private placement. Nevertheless, we believe that most of the catalysts for such growth are foreseeable in 2017 including:

(1) Notable contribution from hydropower segment thanks to new plants**.** With the two new plants expected to finish by Q4 2017, our projected revenue from this segment would increase from over VND317 billion in 2017 to over VND500 billion in 2018 (+58% YoY).

(2) Favorable sales opening of My Dinh Plaza 2 given that PC1 has sold 20% of the project until the end of Q1 2017**.** Thanks to the prestige of fast project execution and competitive prices in the mid-range segment, PC1's project usually sold well in the past. Regarding My Dinh Plaza 2 project, the company has successfully sold 20% of the total number of apartments in the first quarter of the year. Although the project handover and revenue recognition will not happen until Q2 2018, the strong presale may ease investors' concern about the sale progress and hence result in a good impact on stock price.

(3) Regarding power construction segment, we can observe its catalyst through the backlog in 2017. Meanwhile, the newly signed export contract worth over VND1,000 billion delivering in 2018 would be the key to drive revenue of steel structure manufacturing segment in 2018.

New hydropower plants coming online also brings more stable cash flow, increasing after-tax profit and enhancing the valuation of PC1

In 2016, PC1 has finished its first two plants with total capacity of 60 MW. The company expects to bring online other two plants with total capacity of 54 MW by Q4 2017. Enjoying favorable policies from the government and the World Bank, these plants have IRR ranging from 11% to 13%.

Regarding hydropower plants, we expect that their contribution to the after-tax profit of PC1 would be relatively small in 2017 – 2018 and has significant improvement in the next years. Such improvement is due to the gradual decrease in the amount of debt outstanding, which helps the company reduce over VND10billion of interest expense each year. With zero income tax expense in the first four years, this amount will go directly to the after-tax profit of PC1.

Moreover, the first four-hydropower plants when fully come into operation can bring PC1 about VND290 billion free cash flow each year, which is relatively more stable and predictable than its traditional businesses in power construction and real estate development.

For the above reasons, we highly appreciate the contribution of the hydropower segment in the overall business of PC1. We estimate that the contribution of this segment to the equity value of PC1 is around VND1,112 billion (VND14,770 per share), corresponding to 31% of our valuation for PC1.

RISK

Risk of delay in EVN's projects. With over 80% of its power construction revenue coming from contracts with EVN, the decline of this segment in 2016 is a good example of its vulnerability to the disbursement of EVN's investment capital. Though investment in power infrastructure remains a top priority for the government, the pressure from rising public debt and the lack of a clear signal that EVN can increase electricity retail prices this year will increase the risk of another delay in capital disbursement of EVN.

Risk of slowdown in sale of PCC1 Thanh Xuan real estate project. Regarding real estate development segment, as PCC1 Thanh Xuan project starts while My Dinh Plaza 2 is still under construction; it seems that PC1 is expanding aggressively in real estate development segment with good sales capacity.
According to data from Savills, in Q1 2017, the apartment sales in Hanoi still had high growth with approximately 6,520 units (+16% YoY). This movement supports our view that the market would be still vibrant in 2017 and the sales progress this year of My Dinh Plaza 2 project is not a big concern.
However, the data in Q1 2017 also shows that the total primary stock of apartment in Hanoi had a strong growth with 24,160 units, increased 12% compared to Q4 2016 and 49% YoY. Meanwhile, the absorption rate was down by 8% YoY to 27% due to strong growth in supply. In addition, Savills estimate that about 40,800 units will come to Hanoi market in this year; much will be in Grade B from Ha Dong, Hoang Mai, Tu Liem, and Thanh Xuan, which is very similar to both the segment and location of PCC1 Thanh Xuan project. Therefore, we believe that the sales of the project in 2018 would face a lot of pressure from the high supply in Hanoi market, implying a risk of potential slowdown in sale.

Risk of EPS dilution. With current business and project portfolio, we estimate that revenue of PC1 can reach about VND5,000 billion (~USD217 million) in 2020. However, that number is still by far lower than the company's ambition of USD400 million in revenue in 2020. Therefore, we also expect that PC1 would have to raise further capital to finance new investments and acquiring other companies. Since the earning does not immediately reflect the effectiveness of new investment, the increase in capital can cause EPS to decline quickly in this period. Regarding FY2017, we expect that EPS after accounting for the private placement this year would be about VND2,837.

Investment Outlook

We appreciate PC1 for its strong core businesses in power construction, steel structure manufacturing, and its high quality project portfolio in hydropower and real estate development segments. With the inherent competitive advantage of the company, the favorable market condition in 2017 – 2020 period, and the strong prospect in export activity, we believe that power construction and steel structure manufacturing segment would experience high growth at 15 – 20% in 2017 – 2018. Meanwhile, the hydropower and real estate projects coming into operation can also add further catalysts to PC1 robust growth in FY2018.

In the long-term, hydropower expects to play a greater role in PC1's overall performance with stable cash flows and continuous improvement in operating efficiency. Meanwhile, further growth can be achieved from the expansion to the new segment as the company acquires another company in its construction value chain.

Considering all above analysis, PC1 shall be fairly priced at **VND48,100/share** and therefore we come up with **"Accumulate"** recommendation for the stock in the **"Intermediate-term"**.

COMPANY OVERVIEW

A long-standing company in power construction industry

Power Construction JSC No.1 (PC1 – HSX) was established since 1963 as Transmission Lines and Substation Construction Company under the Department of Electricity (now is EVN). After over 50 years of development, the company has risen to the leading position in power construction and steel structure manufacturing segment and expanded its main business to hydropower and real estate segment.

Chart 1: PC1's revenue breakdown in 2016

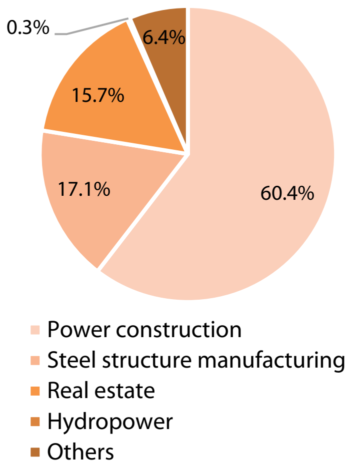
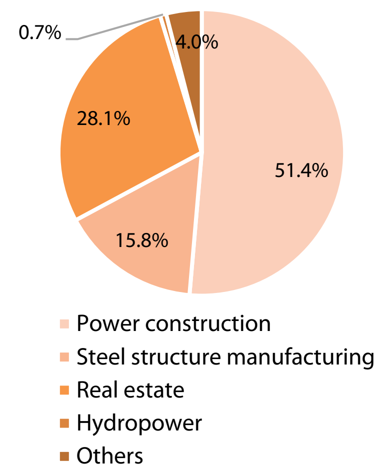


Chart 2: PC1's gross profit breakdown in 2016



Source: PC1

Ownership structure of PC1 is quite diversified with only two major shareholders: Mr. Trinh Van Tuan (Chairman cum CEO) holding 20.8% of stake and Vietnam Enterprise Investment Limited (VEIL) holding 15.3% of stake.

Until 03/31/2017, PC1 has in total 15 subsidiaries and two associated companies as below:

Table 1: List of PC1's subsidiaries and associated companies

	Subsidiaries	Charter capital (VND bn)	Ownership (%)
1	Power construction company No.1 – Hanoi Ltd	5	100
2	Power construction company No.1 – Dai Mo Ltd	5	100
3	Power construction company No.1 – Mlen Nam Ltd	15	100
4	Power construction company No.1 – My Dinh Ltd	5	100
5	Power construction company No.1 – Hoang Mai Ltd	5	100
6	Power construction company No.1 – Nang Huong Ltd	0.7	100
7	Power construction company No.1 – Mien Bac Ltd	5	100
8	Power construction company No.1 – Tu Liem Ltd	5	100
9	Power construction company No.1 – Ha Dong Ltd	5.9	100
10	Dong Anh Steel Column Fabrication Ltd	51.3	100
11	Vietnam Industrial Erection JSC	5	51
12	Trung Thu Hydropower JSC	252	60
13	Bao Lam Hydropower JSC	2.7	100
14	My Dinh Real Estate JSC	163.5	99
15	Hoa Binh Auto JSC	26.8	98
	Associate companies	**Charter capital (VND mn)**	**Ownership (%)**
1	Cao Bang Cast Iron & Steel JSC	430.1	25
2	Tan Phat Mineral JSC	80	29

Source: PC1

Development strategy 2016 – 2020, vision to 2030

The direction and vision of PC1 proves the company's serious attitude in developing its current business including power construction, steel structure manufacturing, hydropower, and real estate, in which power construction and steel structure manufacturing will still be the key focus. Especially, the vision of PC1 is being in top five companies in ASEAN region on EPC of electrical works and industrial projects. The company also set long-term target to achieve USD400 million of revenue in 2020 (grow at 22%/year in 2016 – 2020) and USD1 billion of revenue in 2025 (grow at 25%/year in 2021 – 2025).

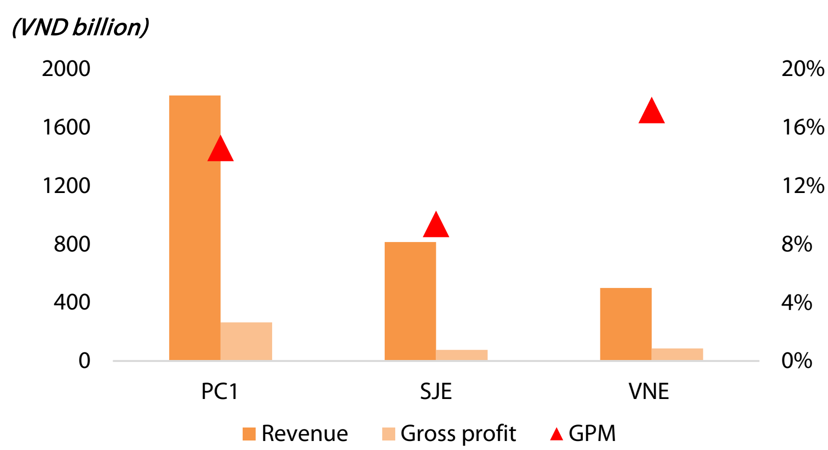
Regarding its investment in energy segment (start with hydropower), PC1's view is to expand the current portfolio with targeted total capacity of 300 MW. Meanwhile, the company will consider carefully on different opportunities to select the most efficient ones that create sustainable value for shareholder. Therefore, we believe that hydropower segment is an important component in total valuation of PC1. Regarding real estate development segment, the development perspective of PC1 is still to utilize its existing strengths and resources to support long-term development of the company.

Power construction business of PC1

PC1's main work in this segment revolves around construction of transmission lines, substation, and underground cable. About 80% of its construction revenue is from EVN-related clients, including National Power Transmission Corporation (NPT) and local subsidiaries such as EVN Hanoi, EVN HCMC, etc. With its proven ability to deliver fast execution at high quality, PC1 is enjoying large advantage from good relationship with this client. In addition, the company also diversifies its client base to industrial park and other real estate developers. Beside domestic market, PC1 is preparing for the expansion to other countries in Southeast Asia, taking one-step closer to their ambition of being in top five EPC contractors in ASEAN region.

Regarding its position in power construction industry, PC1 claims the majority of market share (about 30 – 40% of share) with CAGR of 23.6% in revenue in 2013 – 2016. In addition, with gross profit margin ranging from 14 – 19%, PC1 has relatively high profitability in the industry, much higher than SJE (9%) and similar to VNE (17%).

Chart 3: Key power construction result of top 3 companies in the sector in 2016



Source: RongViet Research

By type of contract in power construction, EPC contracts account for about 20% of total revenue while having 3 – 4% lower gross margin than EC contracts. This is due to large proportion of procurement expenses in total project value (about 80%). However, for each project, EPC contract usually brings PC1 higher absolute profit than EC contract as the company earns the whole value from engineering, purchasing equipment, to works installation.

Regarding revenue breakdown by work, substation construction contracts contribute up to 40 – 60% of construction revenue. The remaining revenue are from transmission lines construction and underground cable construction.

Synthetic competitiveness of PC1 in power construction

Developing human resources has always been a key pillar in PC1’s development strategies. Currently, the company has a team of experienced engineers in the electrical construction, who can learn and apply modern technology into their works and as a result, optimize the execution plans. In some typical projects, they even able to cut down half of execution time compared to committed time in the contracts. Especially in R&D activities, PC1's engineers have researched and successfully built Navi-Fly, a remote-controlled flying device that can pull cables and film, and support survey work in complex terrain. It can be said that human resources and modern equipment are mutually supportive competitive advantages that help PC1 well manage cost; deduce prices while still ensure high profit margin.

Moreover, with high capacity in terms of human and equipment, PC1 also successfully constructed tens of thousands of kilometers of high and supper high voltage transmission lines, and thousands of substations all over Vietnam. This historical performance allows PC1 to participate in large and specialized power construction projects, a segment that small-scale companies cannot join. Therefore, the prestige of construction capacity is an important element in PC1’s competitiveness.

Figure 1: Airship

Figure 2: Mini Crawler Crane

Figure 3: Supper high voltage substation

Source: PC1

Steel structure manufacturing: Benefited from construction activities and seeking growth through export markets

PC1 is the largest scale company in Vietnam in terms of design and fabrication of galvanized steel structure, equipped with modern technology with total capacity of over 50,000 ton per annum. The company owns 100% stake in two member units including Dong Anh Steel Column Fabrication Ltd (capacity: 35,000 tons per annum) and Yen Thuong Steel structure factory (capacity: 15,000 tons per annum).

Being a dominant player in power construction, PC1 has 20% of its steel structure manufacturing revenue comes from construction projects in which the company is EPC contractor. This special advantage helps the company both ensure project quality control in power construction segment and enhance sales for steel structure manufacturing segment.

With 40% of domestic market share, the company still operates at only 75% of its production capacity in 2016 and expects to increase to 80 – 90% in 2017. Moreover, thanks to the flexibility in their production plan, we expect that the company can ensure high production growth in 2017 – 2018 without additional capex for expansion.

Besides domestic market, PC1 also export its products to over 10 countries including Japan, Korea, Chile, Pakistan, etc. To promote export activities, PC1 cooperates with Japanese partner-AG Ajikawa. AG Ajikawa is a long-standing Japanese company with its main business revolving design, production, and sales of steel structure products, primarily for power transmission lines. With large supply places in different countries in North America, Central America, South America, Southeast Asia, Middle East, Oceania and Africa, this company has a strong supply record with hundreds of thousands of tons of steel tower product.

The partnership with Hyundai Dong Anh Steel Tower Manufacturing Ltd was established since 1998 before PC1 acquired this factory from Hyundai Heavy Industries Co. Ltd in 2009. Therefore, we believe that AG Ajikawa chose Dong Anh factory for its proven quality of product. In Q3 2017, they will sign an official contract worth VND1,000 billion with PC1 for their order of 40,000 tons to Indonesia.

Hydropower segment: Massive expansion with financially efficient projects

Aiming at total capacity of 300 MW in the long term, PC1 currently owns a portfolio with total capacity of 174 MW. In 2016, PC1 came up with a very ambitious plan targeting revenue at $400 million in FY2020 and $1 billion in FY2025, trasnlating to a CAGR of over 25% from FY2017 to FY2025. One of its rationales for this target is the expansion in hydropower segment with long-term target capacity of 300 MW. Up to now, the company has obtained investment license of six hydropower plants with total capacity of 174 MW. With the first two plants coming to operation in 2016, PC1 will bring two more plants online this year, and expects to complete the last two plants by 2020.

Table 2: PC1's Hydropower Portfolio

Project	Location	Capacity (MW)	Investment Capital (bn VND)	Debt Financing ratio	Creditor	Timeline	Selling price	Designed production (mn kWh)
Trung Thu	Dien Bien	30	827.9	70%	World Bank - BIDV	2014 Aug - 2016 Nov	Based on avoidable cost tariff issued by Ministry of Industry and Trade	124
Bao Lam 1	Cao Bang	30	745.5	75%	World Bank - VietinBank	2014 Nov - 2017 Jan		124
Bao Lam 3	Cao Bang	46	1,393.0	70%	Viecombank	2015 Jun - 2017 Sep		184
Bao Lam 3A	Cao Bang	8	253.0	75%	World Bank - VietinBank	2016 Mar - 2017 Nov		32
Bao Lac A	Cao Bang	18	n/a	n/a	World Bank	Q4 2017 – Q4 2019		72
Bao Lam 4	Cao Bang	30	922.0	n/a	World Bank	2018 – 2020		120

Source: PC1, RongViet Research

These projects enjoy many favorable conditions from the government and World Bank. Since PC1 only includes small hydropower plants (less than 30 MW in capacity) and terraced hydropower plant (less than 60 MW in capacity), it enjoys very favorable policies from the government and a lot of support from ADB to encourage renewable energy. Specifically, the plants will enjoy a preferential tax rate in the first 15 years (0% in the first 4 years,5% in the next 9 years, and 10% in the last 2 years), and are subjects to Avoidable Cost Tariff (with an average selling price at VND 1,050 – 1,100 per kWh). Moreover, PC1 is also able to access the loans provided by World Bank and some large state-owned banks with competitive rates between 6.3% and 6.5%. All these conditions really make PC1's projects financially efficient with IRR from 11 – 13%.

Good news come together in 2017. According to our estimation, total investment capital of Trung Thu plant is 8% lower than its capital budgeting and that of Bao Lam 1 plant is about 18% lower than its budgeting, implying a saving of ~VND240 billion. As a result, the average investment capital per MW of Trung Thu and Bao Lam 1 plants are VND27.6 and VND24.9 respectively. This is reasonable compared to other small hydropower plants such as Song Chay 5 (VND24.9 billion per MW), Da Siat (VND25.1 billion per MW), or Dak Lo (VND35.6 billion per MW). In addition, the construction of Bao Lam 3 plant can be finished earlier than its planned progress. Hence, PC1 expects Bao Lam 3 plant can come online in Sep-2017, sooner than their previous plan (Q4 2017).

Real estate development segment: PC1 is a small yet efficient projects developer

Having been a state-owned company, PC1 owns large potential land resources (about 20,000 sqm as in 2016) in the form of state leased land, which is important to develop their first projects. For three projects that PC1 has completed, the company only developed one project at a time at mid-end segment with reasonable price and focused resources to ensure the timeliness of the progress as well as work quality. Therefore, their projects sold well and were very financially efficient.

Currently, PC1 is developing My Dinh Plaza 2 project, which they expect to handover and record revenue in Q2 2018. However, since the company planned to launch most of its sales in this year, the outlook of this project is foreseeable from 2017. By the end of Q1 2017, about 100 apartments have been sold as in their plan.

While My Dinh Plaza 2 project is still under construction, PC1 has another plan to start PCC1 Thanh Xuan project in Q3 2017 and record revenue from this project in 2019. The 5,700 sqm of PCC1 Thanh Xuan project does not belong to PC1's land bank but PC1's M&A deal with Hoa Binh Auto JSC in 2016, who owns the license of the project.

Table 3: PC1's current real estate project

Project	My Dinh Plaza 2	PCC1 Thanh Xuan
Location	Tran Binh, My Dinh 2 ward, Nam Tu Liem district, Hanoi	44 Trieu Khuc, Nam Thanh Xuan ward, Thanh Xuan district, Hanoi
Land bank (sqm)	6,028	5,700
GFA for condos (sqm)	41,562	35,206
Condo selling price include VAT (mn VND/m2)	28-30	28
Break ground	Q2 2016	Q2 2017
Handover date	Q2 2018	Q1 2019
Projected revenue (bn VND)	1,168	988
Projected profit (bn VND)	270	140

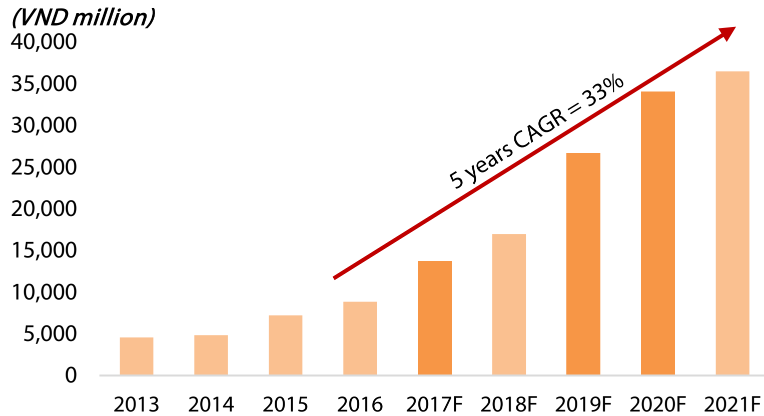
Source: PC1, RongViet Research

Beside My Dinh Plaza 2 and PCC1 Thanh Xuan projects, PC1 also has a small amount of villas (over 500 sqm) from My Dinh Plaza 1 project that they expect to sell and record revenue in 2017. Total revenue & gross profit from this part is VND50 billion and VND15 billion respectively.

Investment properties segment: Well utilization of resources to bring sustainable revenue

Besides project development, PC1 usually retains several floors in its completed projects for commercial and office lease. The contribution of this segment in total revenue is still small but the profitability is high (GPM at 42 – 52%), and the revenue usually grows strongly whenever PC1 has a new real estate project coming to operation. Currently, PC1 owns about 12,500 sqm of office and trade center in their first three projects. My Dinh Plaza 2 and PCC1 Thanh Xuan projects coming into operation will add 9,200 sqm and 4,000 sqm respectively to its current portfolio.

Chart 4: Revenue from investment property segment (VND billion)



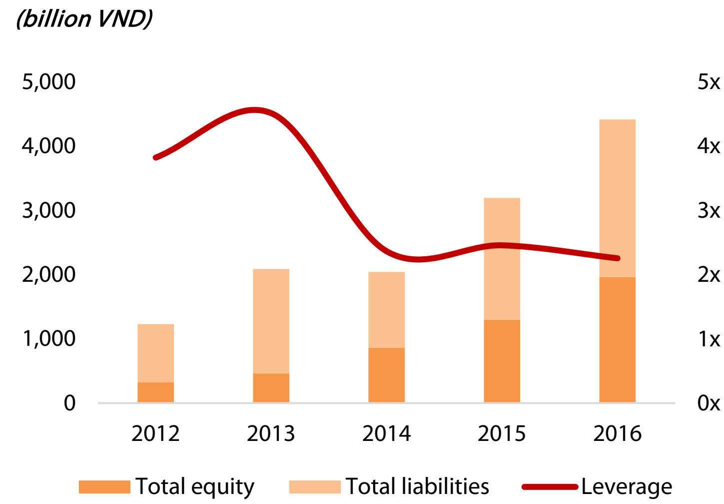
Source: PC1, RongViet Research

Moreover, considering new projects finish in 2016, 2018, and 2019, we expect that revenue from this segment would increase substantially in the following years, given that it often takes investors one year to find enough tenants for their new commercial areas.

FINANCIAL ANALYSIS

A massive scale expansion with decreasing leverage is observable from the balance sheet. Over the past five years, PC1's total assets has a CAGR of 38% and was financed primarily by a CAGR of 61% in equity. As a result, financial leverage decrease significantly from 3.8x to 2.3x during 2012 – 2016.

Chart 5: Capital structure of PC1 in 2012 – 2016



Source: PC1, RongViet Research

PC1's leverage is relatively lower than the average of its peers in construction industry. The majority of its debt is to finance hydropower projects, and the leverage of PC1 excluding this segment is only 2.1x, the lowest in the construction industry.

Table 4: Leverage of comparable companies

Ticker	Leverage
CTD	2.1x
HBC	7.0x
SJE	4.1x
VGC	3.6x
Average	**4.5x**
PC1	2.4x
PC1 without hydropower	**2.1x**

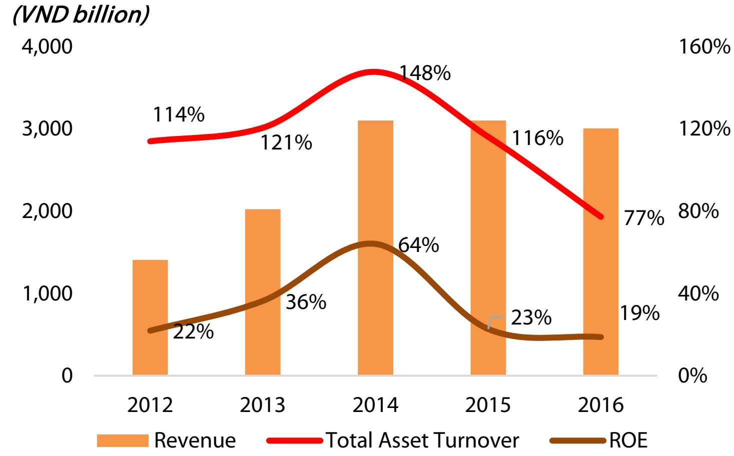
Source: RongViet Research, data as of 03/31/2017.

However, **the increase of equity also led to the quick dilution of EPS** from VND17,554 in 2014 to VND3,747 in 2016. With 40 million shares issuance in 2017 for stock dividend and private placement, we expect that this trend would continue in 2017 (EPS: VND2,837) and EPS will only rise back in 2018 (EPS: VND3,690).

Meanwhile, ROAE decline accordingly as the effectiveness of expansion projects requires more time to realize

Despite of the rapid growth in total asset and total equity, PC1's top line was almost flat over the last 3 years. This slowdown in sales has led to a sharp decline in asset turnover. Together with the deleverage in capital structure, they are attributed to the sharp decrease in ROAE over the past three years.

Chart 6: PC1's historical revenue, asset turnover and ROE in 2012 – 2016



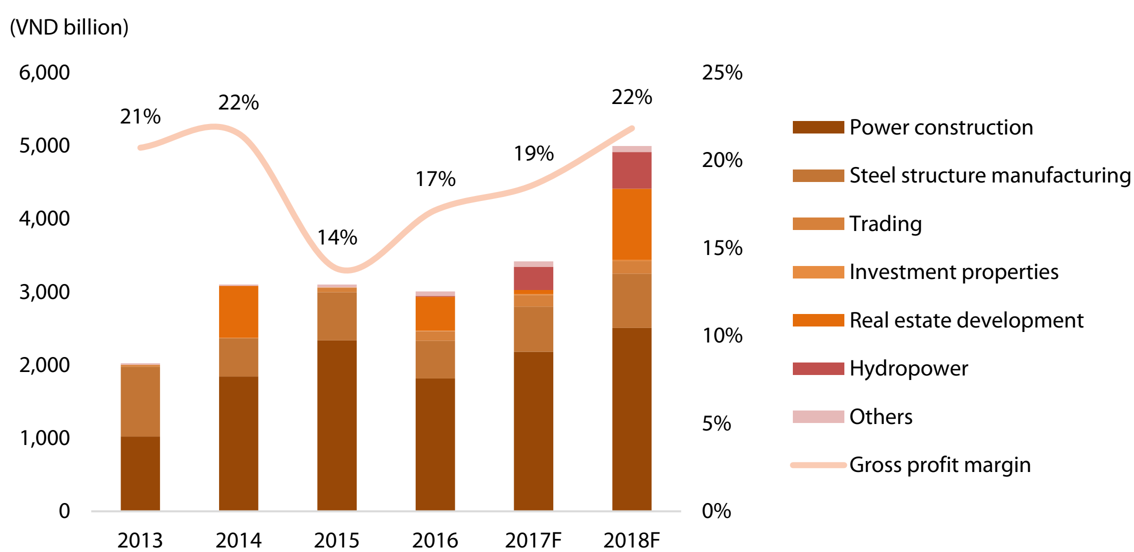
Source: PC1, RongViet Research

However, looking further into PC1's project portfolio, we can see that the majority of the increase in total asset came from its four new hydropower plants (over VND2,000 billion), which often takes over two years to complete and generate revenue. Therefore, we believe that when these four plants fully come into operation in 2018, asset turnover ratio will improve significantly compared to FY2016 – FY2017. Regarding ROAE, we expect that it will also recover in FY2018 – FY2019 when the investment in real estate projects bring substantial revenue at higher net margin (about 16 - 19%).

Gross margins and net margins have historically been volatile but expanded strongly in the years that have large real estate revenue

Since PC1 used to implement one project at a time and their projects often lasts for about 18 – 24 months, the company usually recognized a substantial real estate revenue once every two years. In such years, real estate segment accounted for 16 – 23% of total revenue at relatively high gross margin (over 30%) and consequently helped PC1 enhance its company-wide gross margins.

Chart 7: PC1's revenue breakdown and margins in 2013 – 2018



Source: PC1, RongViet Research

Gross profit margin analysis

During 2015 – 2016 period, the GPM of steel structure manufacturing showed strong upward trend thanks to low ingot steel price and the investment in production technology that helped reduce cost. Meanwhile, the GPM of power construction segment fluctuated due to the changes in proportion of low gross margin contracts (such as EPC and substations construction contracts) versus other types of contract. Higher contribution of EPC or substation construction contracts in total revenue would lead to lower overall gross margin of the segment, and vice versa.

Besides, hydropower and investment properties segment with high GPM and more significant contribution also supported the expansion of PC1's overall GPM. Therefore, we expect that with new projects coming into operation in 2017 – 2018, these segments would play a bigger role in revenue stream of PC1 and consequently ride the GPM expansion of the company.

Table 5: Gross profit margin by segments

(%)	2014	2015	2016	2017F
Power construction	17.5	14.0	14.6	14.6
Steel structure manufacturing	10.7	14.3	15.8	15.8
Trading	4.5	0.9	6.3	3.3
Investment properties	26.6	42.2	52.1	52.1
Real estate development	39.8	n/a	30.3	26.6
Hydropower	n/a	n/a	39.8	54.1

Source: PC1, RongViet Research

EARNINGS FORECAST

PC1's earnings are projected based on four key segments including: (1) power construction, (2) steel structure manufacturing, (3) hydropower, and (4) real estate.

Table 6: Key forecast assumptions				
Revenue (VND bn)	**FY2015**	**FY2016**	**FY2017F**	**FY2018F**
Power construction	2,337	1,817	2,180	2,507
Steel structure manufacturing	659	514	617	741
Trading	61	131	157	173
Investment properties	7	9	14	17
Real estate development	0	464	56	973
Hydropower	0	9	317	500
Others	37	62	75	82
Revenue growth (%)	**FY2015**	**FY2016**	**FY2017F**	**FY2018F**
Power construction	27	-22	20	15
Steel structure manufacturing	25	-22	20	20
Trading	n/a	113	20	10
Investment properties	49	23	55	24
Real estate development	n/a	n/a	-88	1,628
Hydropower	n/a	n/a	3,436	58
Others	94	69	20	10
Gross profit margin (%)	**FY2015**	**FY2016**	**FY2017F**	**FY2018F**
Power construction	14	15	15	15
Steel structure manufacturing	14	16	16	16
Trading	1	6	3	3
Investment properties	42	52	52	52
Real estate development	n/a	30	27	32
Hydropower	n/a	40	54	52
Others	27	29	28	28

Source: RongViet Research's projection

Power construction – High backlog and strong prospect in 2017 thanks to the acceleration of the third national transmission line project

In 2016, revenue from this segment decreased significantly compared to 2015, due to EVN's delay in capital disbursement of some projects. However, this segment remains the key pillar, accounting for 60% of PC1's total revenue.

In 2017, we expect revenue from this segment to increase 20% thanks to PC1's current high backlog. Until the end of April 2017, the company signs new construction contracts with total value of VND1,100 million, increase its current backlog to VND2,100 billion (~96% of our projected revenue for this segment in 2017).

Table 7: Typical contracts in 2017 of PC1

#	Project name	Value (VND bn)	Product/Service
1	110 kV underground cable connecting Long Bien 220kV substation and Dong Anh-GIa Lam-Sai Dong 110 kV transmission lines	108.6	EPC general contractor
2	110 kV transmission line connecting Quoc Oai 500/220kV substation to Chem-Phuc Tho 110kV transmission lines	64.5	Transmission lines construction
3	The Dong Ha – Hue 220kV transmission line	84.0	Transmission lines construction
4	Xa Lo - Da Kao 110kV underground cable	38.2	Underground cable construction
5	Que Vo 4 - 110kV transmission lines and substation	36.4	EPC general contractor

Source: PC1

Besides that, with the acceleration of the 500 kV - third national transmission line project mentioned above, the result from bidding for packages of this project would have a significant contribution to the company's growth prospects for 2018.

Steel structure manufacturing - Positive 2017 – 2018 prospect thanks to new export contracts

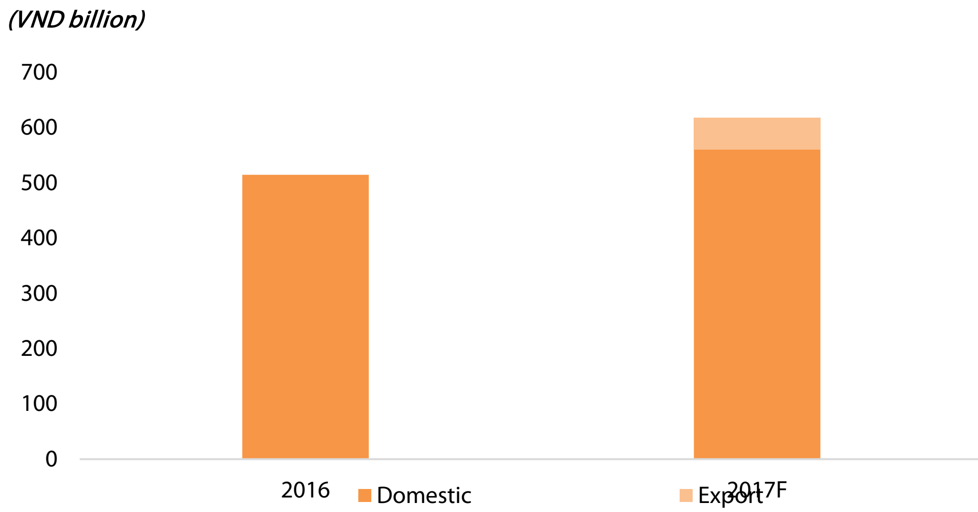
Despite having agreement to supply steel structure products for AG Ajikawa's projects aboard in 2016, PC1 actually did not sign any export contract and hence, recorded no export revenue in this segment. When it comes to 2017, we project this segment to grow 20% in terms of revenue based on new movements in the export markets like Bangladesh and Indonesia:

(1) In Bangladesh market, the newly signed contract allows PC1 to export 5,000 tons of product at total value of USD2.5 million (~VND57 billion). The company expect to deliver this contract and recognize revenue in 2017.

(2) In Indonesia market, the company already signed a contract with AG Ajikawa to supply steel structure products to their project there. This time, PC1 will export 40,000 tons of product in 2017-2018 period and start manufacturing for this contract from Q3 2017. The company estimates total value of this contract to be about VND1,000 billion.

Since the amount of steel structure to be delivered in 2017 still depends on the progress of AG Ajikawa's projects (i.e. space clearance), PC1's targeted export revenue only accounts for 10-15% (~VND60 billion) of targeted revenue of steel structure production segment. We believe that this target is achievable, which mean PC1 can achieve its targeted revenue of the segment this year.

Chart 8: PC1's revenue of steel tower and steel tubular manufacturing segment



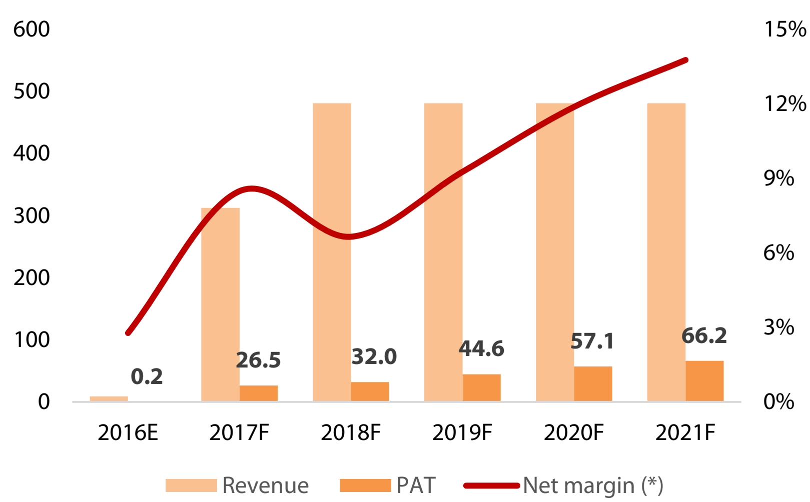
Source: PC1, RongViet Research

Hydropower – New plants will boost the growth in 2017 - 2018

The company already had it first two plants coming online in late 2016. Regarding the next two plants, they expected to finish in late 2017. With their current progress, we expect that Bao Lam 3 and Bao Lam 3A projects would finish in this September and October respectively, and therefore contribute over VND56 billion revenue in FY2017.

Even though we expect hydropower segment to start to contribute significantly to total company's revenue this year (approximately 9% of total revenue), we also expect that net profit from this segment would be quite low in the first years due to high interest and depreciation expenses. In the longer term, we highly appreciate the profitability of the hydropower projects that PC1 is implementing and expect this segment to deliver stable cash flows as well as higher profit over the years.

Chart 9: Projected revenue and PAT from hydropower segment (VND billion)



(*) Net margin here include minority interest in Trung Thu plant.

Source: PC1, RongViet Research

Real estate development

In 2017, the company would record no revenue from new projects such as My Dinh Plaza 2 and PCC1 Thanh Xuan and therefore only has about 2% of total revenue from this segment. However, we expect that the sales opening of My Dinh Plaza 2 this year will be favorable and hence bring out optimistic outlook for the company.

Table 8: Sales progress and revenue recognition of real estate projects (VND bn)

Project	FY2017F	FY2018F	FY2019F	FY2020F
Sales under contracts	**861**	**932**	**182**	
My Dinh Plaza 2	861	220		
PCC1 Thanh Xuan		712	182	
Revenue recognition		**973**	**912**	**89**
My Dinh Plaza 2		973	108	
PCC1 Thanh Xuan			804	89
Cash collection	**603**	**911**	**406**	**54**
My Dinh Plaza 2	603	413	65	
PCC1 Thanh Xuan		498	341	54

Source: RongViet Research's projection

We project revenue and net income to shareholder of PC1 at VND3,417 billion (+14% YoY) and VND322 billion (+5% YoY) in 2017. Simultaneously, based on assumptions of fast sales progress of My Dinh Plaza 2 project and strong performance in power construction and steel structure manufacturing segment, we also expect a robust growth in revenue and net income at 46% and 76% respectively in 2018.

Table 9: Operating business forecast

(VND bn)	FY2015	FY2016	FY2017F	FY2018F
Revenue	3,101	3,008	3,417	4,994
COGS	-2,672	-2,482	-2,781	-3,904
Gross profit	**429**	**527**	**636**	**1,090**
Selling Expense	-6	0	-29	-32
G&A Expense	-126	-129	-133	-224
Finance Income	9	14	23	40
Finance Expense	-12	-22	-97	-166
Other profits	38	72	2	2
PBT	**319**	**401**	**401**	**709**
Prov. of Tax	-74	-96	-68	-129
Minority's Interest	0	0	-11	-12
PAT to Equity Shareholder	**245**	**305**	**322**	**568**
EBIT	296	397	474	833
EBITDA	320	433	728	1,090

Source: RongViet Research's estimate

VALUATION

We use sum of the parts valuation for PC1 since the company operates in different business segments and each segment would then be valued using ranges of multiples for that particular segment.

Power construction and Steel structure manufacturing segment

Regarding this segment, we choose P/E valuation method with comparable companies in construction industry. Since EVN still has difficulty in arranging its huge investment capital, we discount the average P/E by 12% to account for the risk from any delay in EVN's projects that may consequently resulted in negative impact for PC1.

Table 10: P/E of comparable companies

Ticker	Market capital (VND billion)	Trailing P/E
CTD	15,834	11.1
HBC	4,858	8.5
SJE	329	11.4
VGC	4,482	9.2
Average		**10.3**
Discount		12%
Deployed P/E forward		**9.0**

Source: Bloomberg, price as of 03/15/2017

Hydropower segment

To value this segment, we deploy FCFE method with discount rate of 12.5% for the entire life cycle of the project is 30 years. Our current valuation accounts for the first four plants of PC1 including Trung Thu, Bao Lam 1, Bao Lam 3, and Bao Lam 3A.

Real estate segment

For real estate project development, we derive value of each project by discounting their expected cash flows at discount rate of 14%.

For investment properties segment, we also deploy FCFE method with discount rate of 13% and long-term growth of FCFE at 3% p.a. We also take into account the commercial areas from My Dinh Plaza 2 project and PCC1 Thanh Xuan project.

Table 11: PC1 stock valuation

Segment		Method	Valuation (VND billion)	Contribution (dong/share)	Note
Power construction & steel structure manufacturing		P/E	1,893	25,154	At target P/E of 9.0x
Hydropower		FCFE	1,112	14,770	Discounted cash flows from four plants: Trung Thu, Bao Lam 1, 3, and 3A
Real estate	My Dinh Plaza 2	NAV	158	2,096	
	PCC1 Thanh Xuan	NAV	87	1,155	
	Investment Properties	FCFE	295	3,918	
Mining		Book value	81	1,071	
Target price				**48,100**	

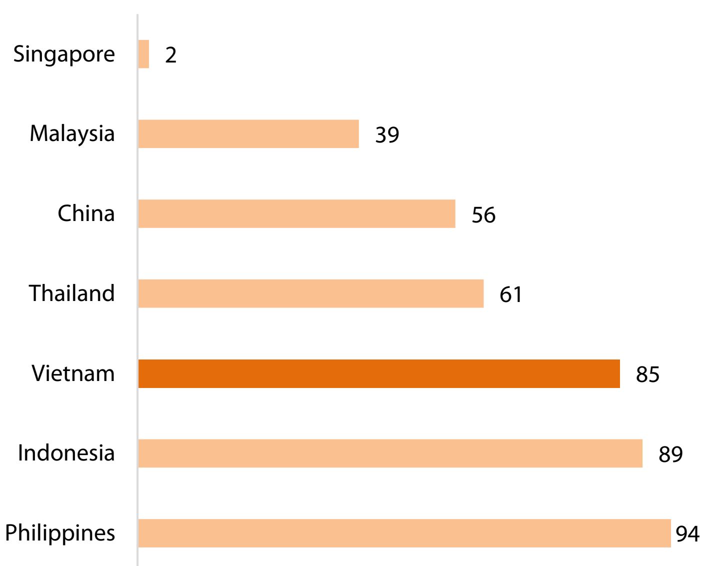
INDUSTRY OUTLOOK

Poor power infrastructure and the growing economy are placing huge strains on national power system.

Though having a significant improvement global ranking from 98 to 85 in 2011 - 2016 period, Vietnam's electricity supply infrastructure still scores poorly compared to regional peers, according to the Global Competitiveness Report 2016–2017.

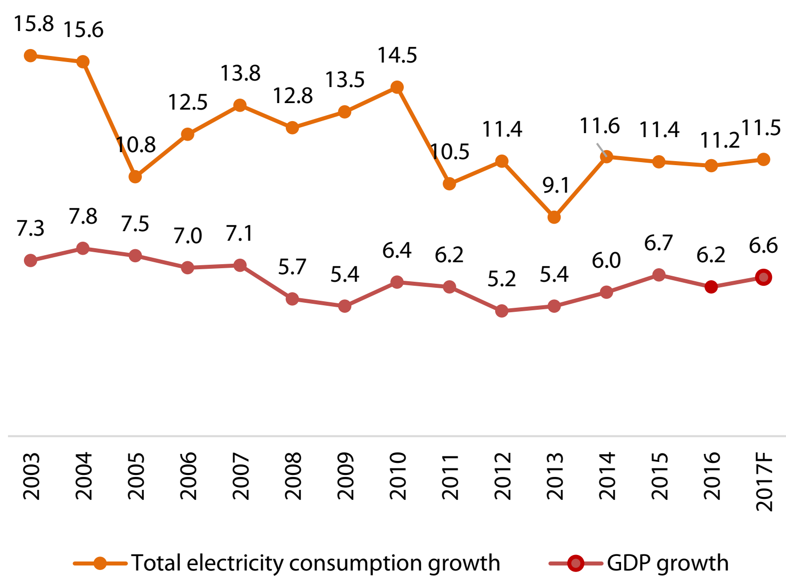
Meanwhile, rapid economic growth together with rapid growth in demand for electricity are also placing huge strains on Vietnam's national electricity system. This situation is due to Vietnam experiencing the industrialization of its economy, leading to the increasingly high electricity demand from industrial production segment as the economy is growing. Besides that, higher income is also an important factor promoting the consumption of electricity in household segment, especially in the dry season.

Chart 10: Ranking of Vietnam's electricity supply infrastructure compared to peers



Source: Global competitiveness report (WEF)

Chart 11: Comparision Between the Growth Rate (%) of Electricity Consumption and GDP

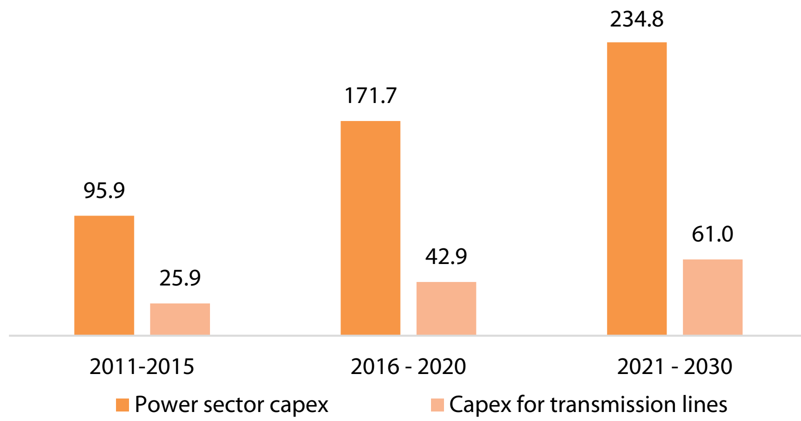


Source: EVN, RongViet Research

Urgent investment is required to meet the fast rising electricity consumption demand

During 2011 – 2015 period, Vietnam invested an average of VND95.9 trillion each year on power infrastructure, of which VND25.9 trillion was spent on transmission lines. In 2016 – 2020 period, according to the Power Development Plan No.7 (PDP VII), the targeted outlays for transmission lines infrastructure will amount to VND42.9 trillion each year on average (65.6% higher than last period).

Chart 12: Average annual capital expenditure for power infrastructure (VND trillion)



Source: EVN, RongViet Research

The third national transmission line project becomes a strategic priority of the government

With a high annual electricity consumption growth rate of 11.3%, in addition to on-site power sources, the South would need to be supplied via the national transmission lines from the North and Central with an amount corresponding to about 14% of its regional demand (about 15 billion kWh in 2017 and will increase to 21 billion kWh in 2019). However, the capacity limit of the current national transmission lines is only 18.5 billion kWh/year. Hence, accelerating the third national transmission line project seems to be the critical solution for EVN to secure enough electricity for the Southern region.

With total length of 744 km, this project will have total investment capital of over VND12.4 trillion, last for 18 months (September 2017 – March 2018), and mainly focus on 500kV transmission lines and substations construction. The loan to finance this project is provided by Asian Development Bank as a part of its Vietnam Power Transmission Investment Program.

Since PC1 has specialized experience in supper high voltage transmission line construction, proven capacity to ensure project quality and timeliness, the third national transmission line project opens a huge opportunity for the company to maintain high growth during 2017-2019 period.

Underground cable is going to be a trend in major cities and real estate projects

Hanoi and Ho Chi Minh City are pioneers in developing the underground system of technical infrastructure (power cable and telecommunications cable). For power cable, People's Committee of Ho Chi Minh City and EVN HCMC Corporation started to implement underground cable plan since 2009 and expect to finish it by 2025. The plan aimed at constructing over 5,000km of medium and low voltage underground power cable with total investment capital of over VND14 trillion.

Table 12: Underground power cable development plan of EVNHCMC

	2011 – 2015 period	2016 – 2020 period
Investment capital (VND bn)	2,050	4,200
Total cable length	262 km medium voltage cable 428 km low voltage cable	650 km medium voltage cable 1,150 km low voltage cable

Source: EVN

Meanwhile, in its Power Development Plant for 2016 – 2025 period, People's Committee of Hanoi targeted to make power grid from the ring road 4 back to the city center 100% underground. Besides, Da Nang and Can Tho also planned to turn 100% of their power grids underground by 2030 and 2020 respectively.

In addition to that, clients of underground cable construction include both metro project in HCMC and other real estate developers. This is also an important source that adds a great deal of demand for the underground cable segment.

VND Billion

INCOME STATEMENT	2015	2016	2017F	2018F
Revenue	3,101	3,008	3,417	4,994
COGS	-2,672	-2,482	-2,781	-3,904
Gross profit	429	527	636	1,090
Selling Expense	-6	0	-29	-32
G&A Expense	-126	-129	-133	-224
Finance Income	9	14	23	40
Finance Expense	-12	-22	-97	-166
Other profits	38	72	2	2
PBT	319	401	401	709
Prov. of Tax	-74	-96	-68	-129
Minority's Interest	0	0	-11	-12
PAT to Equity Shareholder	245	305	322	568
EBIT	296	397	474	833
EBITDA	320	433	728	1,090

FINANCIAL RATIO	2015	2016	2017F	2018F
Growth				
Revenue	0%	-3%	14%	46%
Operating Income	-47%	34%	19%	76%
EBITDA	-45%	35%	68%	50%
EBIT	-47%	34%	19%	76%
PAT	-42%	24%	2%	79%
Total Assets	57%	39%	39%	13%
Equity	59%	51%	16%	24%
Profitability				
Gross profit/Revenue	14%	18%	19%	22%
Operating profit/ Revenue	10%	13%	14%	17%
EBITDA/ Revenue	10%	14%	21%	22%
EBITDA/ Revenue	10%	13%	14%	17%
Net margin	8%	10%	9%	11%
ROAA	9%	8%	7%	10%
ROIC or RONA	63%	42%	13%	18%
ROAE	22%	18%	15%	22%
Efficiency				
Receivable Turnover	4	3	3	4
Inventory Turnover	4	5	4	4
Payable Turnover	2	2	2	3
Liquidity				
Current	2	1	2	2
Quick	1	1	1	2
Solvency				
Total Debt/Equity	40%	57%	111%	80%
Current Debt/Equity	5%	7%	14%	5%
Long-term Debt/ Equity	35%	50%	96%	75%

VND Billion

BALANCE SHEET	2015	2016	2017F	2018F
Cash and equivalents	571	419	440	1,258
Short-term investment	0	20	20	20
Receivables	961	1,046	914	1,336
Inventories	568	532	1,088	904
Other current assets	21	29	30	32
Total Current Asset	**2,121**	**2,046**	**2,492**	**3,550**
Tangible Fixed Assets	95	919	3,437	3,204
Intangible Fixed Assets	1	83	66	50
Construction in Progress	706	1,191	11	11
Investment Property	88	107	102	207
Long-term Investment	155	85	85	85
Other long-term assets	97	99	99	21
Long-term Asset	**1,143**	**2,484**	**3,800**	**3,578**
Total Asset	**3,263**	**4,530**	**6,292**	**7,128**
Payables	1,224	1,242	1,280	1,795
Other current liabilities	0	0	0	0
Current Debt	63	135	329	151
Long-term Debt	461	981	2,183	2,112
Other long-term liabilities	144	109	115	120
Total Liability	**1,893**	**2,467**	**3,906**	**4,179**
Owner's Equity	**1,291**	**1,944**	**2,257**	**2,808**
Capital	447	1,122	1,348	1,544
Retained Earnings	798	765	836	1,163
Funds & Reverses	45	57	73	101
Others	**10**	**14**	**14**	**14**
Total Equity	**1,300**	**1,958**	**2,271**	**2,822**
Minority's Interest	70	105	115	127
TOTAL RESOURCES	**3,263**	**4,530**	**6,292**	**7,128**

CASH FLOW STATEMENT	2015	2016	2017F	2018F
Profit before tax	319	401	401	709
-Depreciation	14	23	254	256
-Adjustments	90	7	-10	-20
+/- Working capital	-232	-493	-465	130
Net Operating CFs	**191**	**-62**	**181**	**1,075**
+/- Fixed Asset	-26	-865	-1570	-34
+/- Deposit, equity investment	-575	-163	0	0
Interest, dividend, cash profit	-12	-61	10	20
Net Investing CFs	**-613**	**-1,089**	**-1,560**	**-14**
+/- Capital	141	411	0	0
+/- Debt	335	591	1396	-107
Dividend paid & other	102	-3	5	-136
Net Financing CFs	**578**	**999**	**1401**	**-243**
+/- cash & equivalents	156	-153	22	818
Beginning cash & equivalents	**415**	**571**	**419**	**440**
Impact of exchange rate	0	-5.19	0	0
Ending cash & equivalents	**571**	**419**	**440**	**1,258**

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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