June, 2020

POWER CONSTRUCTION JSC NO.1 (HSX: PC1)

Growing into an electricity company

(VND bn)	Q1-FY20	Q4-FY19	+/-qoq	Q1-FY19	+/-yoy
Net revenue	1,370	1,568	-13%	1,286	7%
PAT	91	54	69%	88	4%
EBIT	153	112	37%	131	17%
EBIT margin	11.2%	7.1%	404bps	10.2%	100bps

Source: PC1, Rong Viet Securities

1Q 2020 – COVID-19 had no impact, but drought depressed the hydropower portfolio

- Power construction activities were not halted due to social distancing, but revenue decreased -50% YoY because of last year's high base.
- Lack of water in Northwestern Vietnam caused electricity revenue to go down by 30% despite new capacity.
- Real estate was the main growth driver because of PCC1 Thanh Xuan Apartment handover.
- PC1 joint-ventured its three wind power farms with RENOVA, a Japanese energy company who will hold 40% of the projects.

2020 outlook – Real estate to be the 2020 growth driver, as hydropower plants are depressed by the prolonged drought

- We forecast that PC1's 2020 revenue is going to reach VND 6,631 billion, +14% YoY, NPAT will be VND 412 billion, +16% YoY.
- Now that the wind power market has gradually realized its potential, we have adjusted our forecast regarding the construction segment, as well as included one wind project in PC1's electricity portfolio.
- PCC1 Thanh Xuan Apartment's handover progress has been on schedule, without COVID-19's impact, thus we kept our forecast for this segment (VND 659 billion revenue (+1,181% yoy), VND 228 billion gross profit (+1,552% yoy)).
- The hydropower portfolio is heavily hit by El Nino. Even though three new plants can start operations in 2020, this segment is going to see a 13% reduction in revenue, and a 22% reduction in gross profit.
- PC1's interest expenses will increase by 30% as a result of putting the new hydropower plants into operation.

Valuation and recommendation

*We maintain our overall view on PC1, a company operating three distinctive businesses efficiently. Even though short-term difficulties might affect business results, its long-term potential stays solid. PC1 is going to benefit from the growing investment into the power industry from both the public and private sectors as a leading general contractor for electricity generation and transmission projects. Additionally, as an investor itself, PC1 will take advantage of the subsidy for wind power. We expect PC1's hydropower portfolio to bounce back from severe drought in the near future after the poor performance in 1Q2020. The "one-off" income from its real estate business is going to cushion's 2020 profit. Our SOTP valuation comes to PC1's fair price at **VND 29,900** per share, higher than that in our 2020 Strategy Report mostly due to the newly added wind power project. It implies a strong upside of **74%** as of the closing price on June 19h, 2020 and we recommend to **BUY** the stock.*

BUY +74%

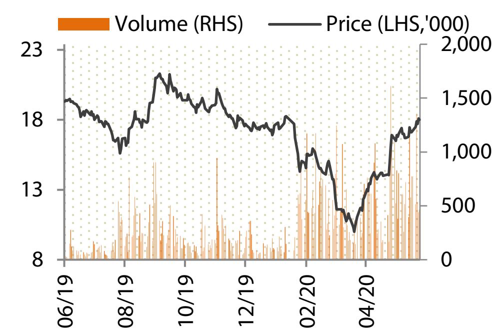
Target price (VND)	29,900
Current market price (VND)	17,150

Stock Info

Sector	Construction & Materials
Market Cap (VND billion)	2,884
Current Shares O/S	159,323,929
Avg. Daily Volume (in 20 sessions)	666,130
Free float (%)	62.6
52 weeks High	21,400
52 weeks Low	10,100
Beta	1.1

	FY2019	Current
EPS	2,094	2,268
EPS Growth (%)	-23.3	4.0
Diluted EPS	2,094	2,268
P/E	9.5	7.9
P/B	0.9	0.8
EV/EBITDA	7.1	7.7
Cash div. yield (%)	-	-
ROE (%)	10.4	10.7

Price performance



Major Shareholders (%)	
Trinh Van Tuan (Chairman)	18.1
CTCP BEHS	17.8
Foreign ownership room (%)	30.0

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Exhibit 1: 1Q 2020 Results

(VND Bn)	1Q-FY20	4Q-FY19	+/- (qoq)	1Q-FY19	+/- (yoy)
Net revenue	1,370	1,568	-12.7%	1,286	6.5%
Gross profit	199	172	15.5%	183	9.0%
SG&A	46	61	-24.0%	52	-11.3%
Operating income	153	112	36.9%	131	17.0%
EBITDA	198	156	26.4%	170	16.0%
EBIT	153	112	36.9%	131	17.0%
Financial expenses	51	46	11.8%	33	55.6%
- Interest expenses	51	47	8.2%	33	55.5%
Dep. and amortization	45	45	0.4%	40	12.7%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	112	72	54.9%	102	9.9%
PAT	91	54	68.6%	88	4.1%
(*) Adjusted PAT	91	54	68.6%	88	4.1%

Source: PC1, Rong Viet Securities

Exhibit 2: 1Q 2020 Performance Analysis

Particulars	1Q-FY20	4Q-FY19	*+/-(qoq)*	1Q-FY19	*+/-(yoy)*
Profitability Ratios (%)					
Gross Margin	14.5%	11.0%	354bps	14.2%	33bps
EBITDA Margin	14.4%	10.0%	446bps	13.3%	118bps
EBIT Margin	11.2%	7.1%	404bps	10.2%	100bps
Net Margin	6.7%	3.4%	321bps	6.8%	-15bps
Adjusted Net Margin	6.7%	3.4%	321bps	6.8%	-15bps
Turnover *(x)					
-Inventories	4	4	0.0	5	-0.9
-Receivables	2.7	3.4	-0.6	3.0	-0.3
-Payables	3	4	-1.0	3	0.0
Leverage (%)					
Total Debt/ Equity	74.0%	70.1%	15bps	60.0%	1403bps

Source: Rong Viet Securities

Exhibit 3: 2Q 2020 Forecast

(VND Bn)	2Q-FY20	+/-qoq	+/-YoY
Revenue	1,870	37%	8%
Gross profit	295	48%	6%
EBIT	221	45%	3%
NPAT	154	68%	12%

Source: Rong Viet Securities

- Power construction activities remained strong throughout 2Q.
- Electricity segment continues to suffer from the lack of water, but will be partly eased because of the new plants' contribution.
- Strong handover progress at PCC1 Thanh Xuan Apartment makes way for revenue and profit recognition in 2Q. Real estate will be the major growth driver for the 12% yoy increase in NPAT.

Update

Power construction and steel structure manufacturing: wind power projects are expected to be the next growth driver

1Q 2020 revenue went down by 50% YoY due to last year's high base. 1Q 2019 was the peak for revenue and profit recognition because of the solar power market. PC1's power construction activities remained strong generally in 1Q 2020 in spite of the pandemic breakout, as most projects are in open space. However, final inspection and acceptance progress were delayed during late-March, hence the low revenue. We believe such revenue will be recognized in 2Q.

Bidding activities were slow in the first months of 2020 due to the social distancing order, but we expect that the situation will improve towards the end of the year. We believe the pressure to spend money from the Vietnamese government is significant as the power industry still lacks new capacity and transmission infrastructure. We maintain our view that PC1 will continue to benefit from this trend.

We expect that investments into the wind power industry will be the next growth driver. PC1 itself is carrying out three wind power farms with an investment of VND 1,700 billion each. We also predict that a lot more projects will start construction later in 2020 because the deadline to get subsidized electricity price from the government is November 2021. Accordingly, new backlogs will be earned in 2H2020. This trend can be considered similar to the solar power farm construction during the 2018-2019 period. We believe that PC1 can once again anticipate a surge in demand for wind turbine construction and become the leading contractor.

Seeing a more feasible opportunity for new backlogs, we updated our forecast for the Construction, Manufacturing and Trading segments.

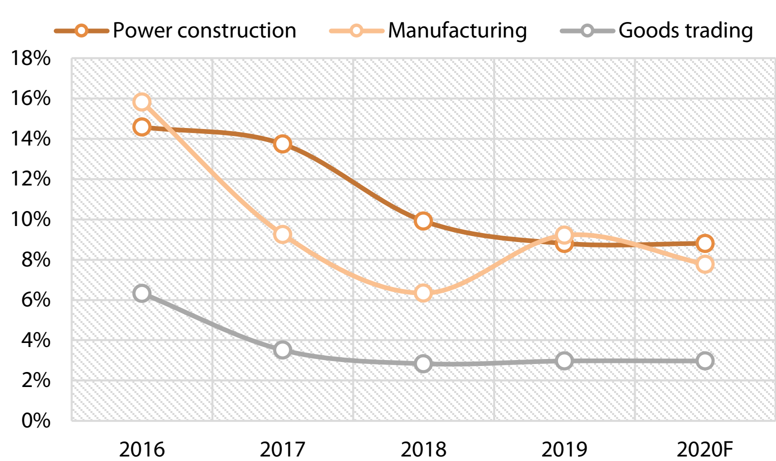
Table 1: Updated forecast for the Construction and Manufacturing segments in 2020

Segment		Updated forecast (VND billion)	Compared to previous forecast	YoY
Power construction	Revenue	3,208	+24%	+7%
	Gross profit	282	-6%	+7%
Manufacturing	Revenue	1,066	+24%	+9%
	Gross profit	83	-20%	-8%
Goods trading	Revenue	1,097	+14%	+10%
	Gross profit	33	+8%	+10%

Source: Rong Viet Securities

In terms of profit, we think that PC1 might have to trade off profit margin for revenue growth. The power construction-related segments saw its gross margin declining during the peak of the solar power construction activities in 2018 and 2019 (Figure 1), so we think this can reoccur with the wind power construction trend just starting out. We predict that the construction segment's gross margin will stay at 8.8% throughout 2020, the same as 2019. The manufacturing's gross margin will be reduced from 9.2% in 2019 to 7.8% in 2020 and the trading segment's gross margin will remain at 3.0%.

Figure 1: Gross margin per segment



Source: PC1, Rong Viet Securities

Electricity generation portfolio: short-term business results are depressed but long-term potential remains promising

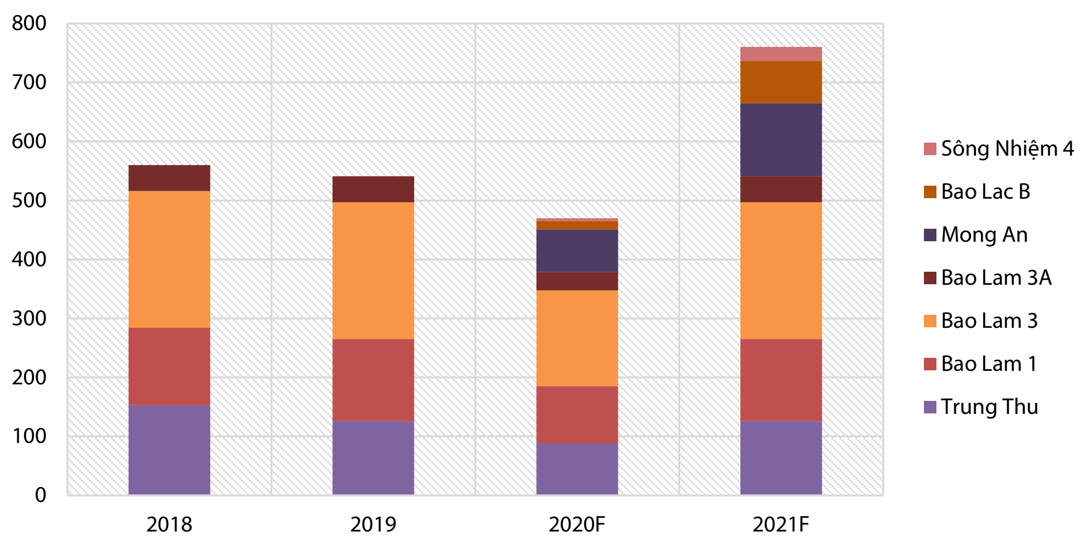
1Q 2020 saw all of PC1's existing hydropower plants (HPPs) heavily impacted by the lack of water. The four HPPs in PC1's portfolio lost 50% of their output on average and its new plant, Mong An HPP, has also been operating at only 50% capacity due to the same problem. However, PC1 managed to improve the average selling price by 5,7% because of the new avoided cost tariff. In addition, the new HPP Mong An, starting operation during 1Q 2020, partly mitigated the loss in revenue.

Table 1: Electricity output and revenue

Power plant	Capacity (MW)	1Q 2019 Output (million kWh)	1Q 2019 Revenue (VND billion)	1Q 2019 ASP (VND per kWh)	1Q 2020 Output (million kWh)	1Q 2020 Revenue (VND billion)	1Q 2020 ASP (VND per kWh)
Bao Lam 1	30	14	33	2,448	8	21	2,589
Bao Lam 3	46	23	55	2,390	12	31	2,687
Bao Lam 3A	8	6	11	1,912	3	7	2,234
Trung Thu	30	13	33	2,576	6	18	2,767
Mong An	30	-	-	-	7	16	2,149
Total	**114**	**55**	**133**	**2,396**	**36**	**92**	**2,533**

Source: PC1

Figure 2: Revenue per hydropower plant (VND billion)



Source: PC1, Rong Viet Securities

We think 2Q 2020 will probably continue to be slow for this segment. However, we believe the situation is going to improve from 3Q 2020 because of the rainy season and another two new HPPs coming online. We forecast that 2020 revenue can reach VND 470 billion, -13% YoY. This is lower from our previous forecast (VND 769 billion).

On the other hand, 2021 growth will be significant as 2020 is expected to act as a low base. The La Nina phenomenon is forecasted dominate in 2021, thus will make ways for HPPs to enjoy higher output. We predict that PC1 will achieve a 72% growth in power revenue as the three new HPPs will operate a full year in 2021 as well as PC1's first wind power project will contribute to its business result.

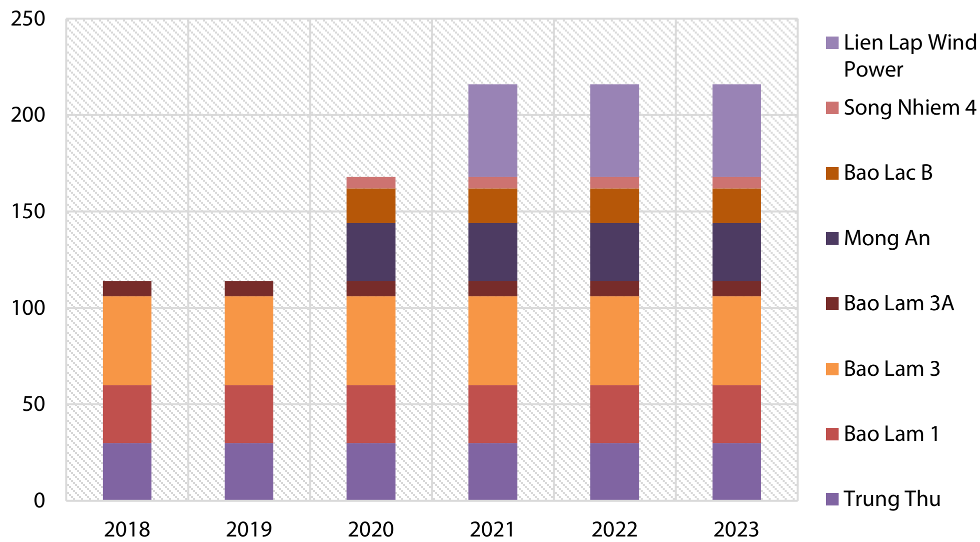
New wind power project- Lien Lap

In this update, we have taken out the solar power farm Trung Thu and included the new wind power project Lien Lap into valuation because of the latter's feasibility. The Lien Lap Wind Power is located in Quang Tri, has 48 MW in designed capacity, VND 1,678 in investment outlays with a 70% debt ratio. PC1 owns 60% of this project while the remaining is held by RENOVA, a Japanese renewable energy developer. The Lien Lap Wind Power is going to start construction in 4Q 2020 and schedule to operate in October 2021. Its electricity sale price will be 8.5 cent per kWh, subsidized by the government. Our estimates include an NPV of VND 705 billion, an IRR of 17%, assuming a 9.5% cost of debt and a 10.1% discount rate for FCFE. Once running at full capacity, the wind power plant can bring about VND 284 billion in turnover for PC1's consolidated performance.

There are two other wind power projects with similar structure and with the same timeline as Lien Lap's. But we have only included one in our valuation as we will assess the other two when more information is available.

With the above changes in PC1's power portfolio, the segment's total NPV comes at VND 3,378 billion, which is the most valuable part of its sum-of-the-parts valuation.

Figure 3: Forecasted electricity generation capacity (MWs)



Source: PC1, Rong Viet Securities

Real estate: Handover of PCC1 Thanh Xuan went as scheduled

PCC1 Thanh Xuan finished construction and started the hand over in 1Q 2020 as expected, unimpacted by the COVID-19. As PC1 sold 70% of the units, we believe they can recognize at least VND 600 billion in revenue in 2020, similar to our forecast. The remaining 30%, which was supposed to be sold in 1Q2020, will have to wait until the end of the year.

PCC1 Vinh Hung is currently constructing foundations and is expected to open for sale later this year.

Valuation

We use sum-of-the-parts method to value the stock.

We apply a 7.6 times P/E to 2020's earnings to the construction and manufacturing segments. The P/E is estimated using the market-cap weighted average of similar listed companies such as CTD, HBC, TV2, SJE and VGC.

We use the FCFE method to value PC1's power plants at a 10.1% cost of equity. Compared to the last update, we added one new project (Lien Lap Wind Power) and removed one (Trung Thu Solar Power).

We use the NPV method for PC1's real estate projects and its leasing assets at a WACC of 10.8%.

The SOTP value arrives at **VND 31,300 per share**, implying a **FY2020 P/E of 8.2x** and **a total stock return of 74%** as of the closing price on June 19th, 2020. The new target price is revised up from that in our 2020 Strategy Report (VND 26,800) because of the expanded electricity generation portfolio and a lower required rate of return because of the market condition. We also want to emphasize that short-term difficulties regarding the weather condition is going to affect short-term business result; but might not have a material effect on the portfolio value, which is determined by FCFE method.

Table 2: PC1 valuation

Segment	Method	Valuation (VND billion)	Contribution (VND per share)
Power construction & steel structure manufacturing	P/E	1,145	7,187
Electricity generation	FCFE	3,190	20,023
Real estates			
Project development	NAV	604	3,791
Leasing	FCFE		
Mining	Book value	46	290
Target price (VND per share)			**31,300**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2018	FY2019	FY2020F	FY2021F
Revenue	5,084	5,842	6,631	6,700
COGS	4,219	5,026	5,719	5,587
Gross profit	**866**	**816**	**912**	**1,114**
Selling expenses	47	22	31	29
G&A expenses	161	203	230	233
Financial income	28	39	31	30
Financial expense	150	171	222	260
Other income/loss	39	6	38	40
Gain/(loss) from JVs	5	-34	3	3
PBT	**579**	**431**	**501**	**664**
Tax expense	88	56	70	91
Minority interests	25	19	19	20
PAT	**467**	**356**	**412**	**553**
EBIT	657	591	651	851

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	60.9	14.9	13.5	1.0
Operating Income	72.5	-6.8	13.2	32.3
EBITDA	85.1	-10.1	10.2	30.7
PAT	69.1	-23.6	15.6	34.3
Total Assets	6.2	26.0	14.0	15.2
Equity	16.2	10.2	11.1	13.5
Profitability (%)				
Gross margin	17.0	14.0	13.8	16.6
EBITDA margin	16.0	12.9	12.9	16.9
EBIT margin	12.9	10.1	9.8	12.7
Net margin	9.2	6.1	6.2	8.3
ROA	7.1	4.3	4.3	5.1
ROE	15.0	10.4	10.8	12.8
Efficiency (times)				
Receivable Turnover	3.3	3.1	3.5	3.5
Inventory Turnover	5.6	3.5	4.0	5.3
Payable Turnover	3.4	3.5	3.7	3.7
Liquidity (times)				
Current	1.9	1.7	1.7	1.7
Quick	1.4	1.1	1.1	1.2
Finance Structure (%)				
Total Debt/Equity	63.1	88.6	96.6	105.8
Current Debt/Equity	13.3	30.4	25.5	17.2
Long-term Debt/Equity	49.8	58.2	71.0	88.6

VND Billion

BALANCE SHEET	FY2018	FY2019	FY2020	FY2021
Cash and cash equivalents	701	568	522	477
Short-term investments	90	180	200	220
Accounts receivable	1,552	1,865	1,900	1,920
Inventories	759	1,429	1,416	1,047
Other current assets	47	119	131	144
Property, plant & equipment	3,142	3,759	4,947	6,744
Acquired intangible assets	100	230	230	230
Long-term investments	97	63	28	31
Other non-current assets	108	102	102	102
Total assets	**6,597**	**8,314**	**9,477**	**10,914**
Accounts payable	1,248	1,445	1,532	1,496
Short-term borrowings	416	1,046	976	747
Long-term borrowings	1,554	2,000	2,714	3,841
Other non-current liabilities	23	28	29	30
Bonus and Welfare fund	77	101	129	168
Technology-science, dev. fund	0	0	0	0
Total liabilities	**3,318**	**4,619**	**5,380**	**6,283**
Common stock and APIC	2,039	2,304	2,304	2,304
Treasury stock (enter as -)	0	0	0	0
Retained earnings	925	933	1,281	1,748
Other comprehensive income	56	71	71	71
Inv. and Dev. Fund	99	130	165	212
Total equity	**3,119**	**3,438**	**3,821**	**4,335**
Minority Interest	**160**	**257**	**276**	**296**

VALUATION RATIO (*)	FY2018	FY2019	FY2020	FY2021
EPS (dong)	2,787	2,094	2,326	3,124
P/E (x)	7.1	9.5	7.4	5.5
BV (dong)	19,578	21,577	23,981	27,209
P/B (x)	1.0	0.9	0.7	0.6
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	-	-	-	-

VALUATION MODEL	Price	Weight	Average
Sum-of-the-parts	29,900	100%	29,900
Target price (VND)			**29,900**

VALUATION HISTORY	Price	Recommendation	Period
26/12/2019	26,800	Buy	Intermediate term
14/12/2018	23,500	Buy	Intermediate term
05/02/2018	25,978	Neutral	Intermediate 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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