POWER CONSTRUCTION JSC NO.1 (HSX: PC1)

Robust power construction activities

BUY +39%

Target price (VND)	32,100
Current market price (VND)	23,100

(VND bn)	1Q-FY19	4Q-FY18	*+/-qoq*	1Q-FY18	*+/-yoy*
Net revenue	1,286	1,507	-15%	856	50%
PAT	88	51	72%	63	39%
EBIT	131	95	38%	87	50%
EBIT margin	10.2%	6.3%	389bps	10.2%	0bps

Source: PC1, Rong Viet Securities

3M 2019 – Accelerating from the beginning of the year

- 1Q 2019 revenue and NPAT came at +50% and +38% YoY with recovering gross margin of 14% compared to 4Q 2018's 10%.
- Key growth factor came from strong power construction revenue (+137% YoY).
- Mong An and Bao Lac B HPPs are committed to schedules, ready to commence in late-2019.
- PCC1 Thanh Xuan, the new residential project, is going on sale in 2Q 2019.
- PC1 is planning to issue VND 1,280 Bn value of 10-year bond to fund its first solar power project.

FY2019 outlook – Power construction-related activities will provide rigorous growth, given dab contribution from real estate segment

We forecast that EVN's Capex disbursement into grid projects will allow PC1 to enjoy hefty backlog and revenue. Accordingly, we expect that PC1's construction and manufacturing revenue will collectively increase by 105% YoY in 2019, accompanied by an improved gross margin. Regarding PC1's investment portfolio, the four operating HPPs are going to contribute a solid VND 590 billion into PC1's revenue with outstanding gross margin of over 50%. Growth might be obtained in 2020 with two new HPPs in the pipe line. In addition, real estates might not contribute to 2019's revenue as PC1's two new projects will handover in 2020 and 2021. 2019's NPAT is forecasted at VND 407 billion, 13% lower YoY mostly due to rising interest expense.

Valuation and recommendation

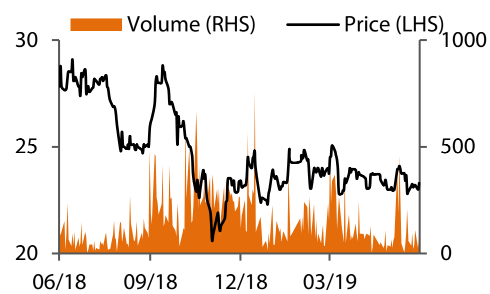
We appreciate PC1's efforts to operate three distinctive business while maintaining the overall efficiency. Its power construction business still has ample room to grow owing to EVN's demand on new electricity infrastructure. This also provides opportunities to its steel structure manufacturing business. Regarding PC1's hydropower business, we think its stability will stand out as a major contributor of earnings to PC1. In fact, PC1's electricity portfolio, including two HPPs under construction and five other initiated projects, contributes the largest proportion in our PC1's sum-of-the-parts valuation. Last but not least, we appreciate PC1's ability to obtain prime-location land banks and its residential projects' profitability, which can act as a surprise factor to the company's earnings. Our SOTP valuation determines PC1's fair price at ***VND 32,100*** *per share, higher than that in our 2019 Strategy Report mostly due to newly added HPP projects. It implies a* ***39%*** *upside as of the closing price on June 12th, 2019 as we recommend to* ***BUY*** *the stock.*

Stock Info

Sector	Construction & Materials
Market Cap (VND billion)	3,067
Current Shares O/S	132,770,000
Avg. Daily Volume (in 20 sessions)	114,963
Free float (%)	100
52 weeks High	29,087
52 weeks Low	20,600
Beta	0.6

	FY2018	Current
EPS	3,514	3,699
EPS Growth (%)	73	39
Diluted EPS	3,514	3,699
P/E	7.1	6.2
P/B	1.1	0.9
EV/EBITDA	5.8	5.9
Cash div. yield (%)	-	-
ROE (%)	16.1	16.5

Price performance



Major Shareholders (%)	
Trinh Van Tuan (Chairman)	17.7
VEIL	11.1
Foreign ownership room (%)	10.2

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Exhibit 1: 1Q 2019 Results

(VND Bn)	1Q-FY19	4Q-FY18	+/- (qoq)	1Q-FY18	+/- (YoY)
Net revenue	1,286	1,507	-14.7%	856	50.2%
Gross profit	183	156	17.1%	119	53.7%
SG&A	52	61	-15.3%	32	63.1%
Operating income	131	95	38.1%	87	50.2%
EBITDA	170	135	26.4%	126	35.5%
EBIT	131	95	38.1%	87	50.2%
Financial expenses	33	40	-17.8%	30	11.0%
- Interest Expenses	33	40	-17.7%	30	11.0%
Dep. and amortization	40	40	-1.2%	39	2.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	102	76	34.4%	73	38.8%
PAT	88	51	72.1%	63	38.7%
(*) Adjusted PAT	88	51	72.1%	63	38.7%

Source: PC1, Rong Viet Securities

Exhibit 2: 1Q 2019 Performance Analysis

Particulars	1Q-FY19	4Q-FY18	*+/-(qoq)*	1Q-FY18	*+/-(YoY)*
Profitability Ratios (%)					
Gross Margin	14.2	10.3	386bps	13.9	32bps
EBITDA Margin	13.3	8.9	431bps	14.7	-144bps
EBIT Margin	10.2	6.3	389bps	10.2	0bps
Net Margin	6.8	3.4	343bps	7.4	-56bps
Adjusted Net Margin	6.8	3.4	343bps	7.4	-56bps
Turnover *(x)					
-Inventories	5	7	-2.0	2	2.2
-Receivables	3.0	3.8	-0.8	2.6	0.4
-Payables	3	5	-1.2	2	1.3
Leverage (%)					
Total Debt/ Equity	60.0	55.1	24bps	70.9	-1091bps

Source: Rong Viet Securities

Exhibit 3: 2Q 2019 Performance Forecast

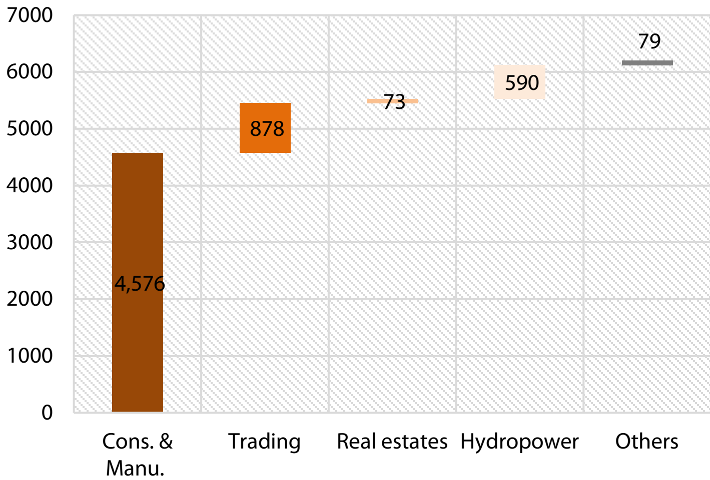
Particulars (VND Bn)	2Q-FY19	+/-qoq	+/-YoY
Revenue	1,363	6%	59%
Gross profit	198	8%	66%
EBIT	143	9%	64%
NPAT	89	2%	42%

Source: Rong Viet Securities

Updates

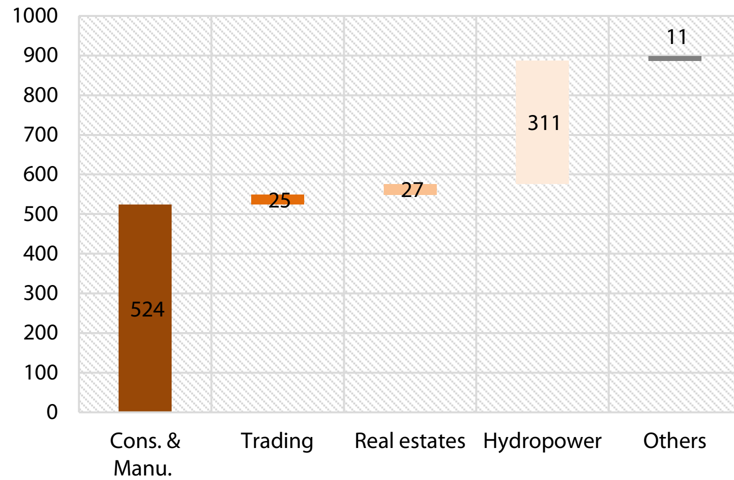
PC1 is paying 20% stock dividends, the ex-right date is June 21st, 2019.

Figure 1: 2019 forecasted revenue (VND billion)



Source: Rong Viet Securities

Figure 2: 2019 forecasted gross profit (VND billion)



Source: Rong Viet Securities

Power construction and steel structure manufacturing: surging revenue recognition and ample room for growth

1Q 2019 result was favorable for PC1's core business in terms of both progress and new signings. Despite the Tet quarter, PC1 managed to double its construction revenue from VND 301 billion in 1Q 2018 to VND 713 billion in 1Q 2019. PC1 has been taking advantage of its technical strength compared to industry peers in terms of equipment and construction technology related to overhead power line and underground cable system. PC1's major project, No.3 500kV transmission line has been boosting progress since the beginning of 2019, making ways for the following quarters' revenue recognition. Moreover, EVN's capital disbursements in 2019 will focus on grid projects totaling VND 48.6 trillion, which is going to give the leading company an important source of backlog. PC1's new contracts came at VND 600 billion in 1Q, signaling a robust new backlog for the whole years.

Accordingly, we forecast PC1's 2019 revenue for power construction and steel structure manufacturing at VND 3,539 and VND 1,037 billion respectively, being the strongest growing segments in PC1's operation. We expect construction and manufacturing's gross margins to reach 11% and 13% respectively in 2019, which is an improvement from 2018 yet lower than the historical average.

We also think that 2019 might be the peak year for PC1's construction and manufacturing activities as EVN is pushing electricity infrastructure construction. Afterwards, new contracts might come at a lower rate and PC1's construction revenue might decrease by over 20% in 2020. It can also be followed by a lower manufacturing output and revenue.

Electricity generation portfolio: solid contribution with promising future growth

PC1 is currently operating four hydropower plants, which are capable of nearly VND 600 billion to the consolidated revenue annually. Moreover, HPPs' gross margin was stabilized at a remarkable 46% in 2018, only second to that of the leasing property. The current hydropower portfolio is responsible for an estimated 17% of PC1's revenue and 35% of its gross profit in 2019.

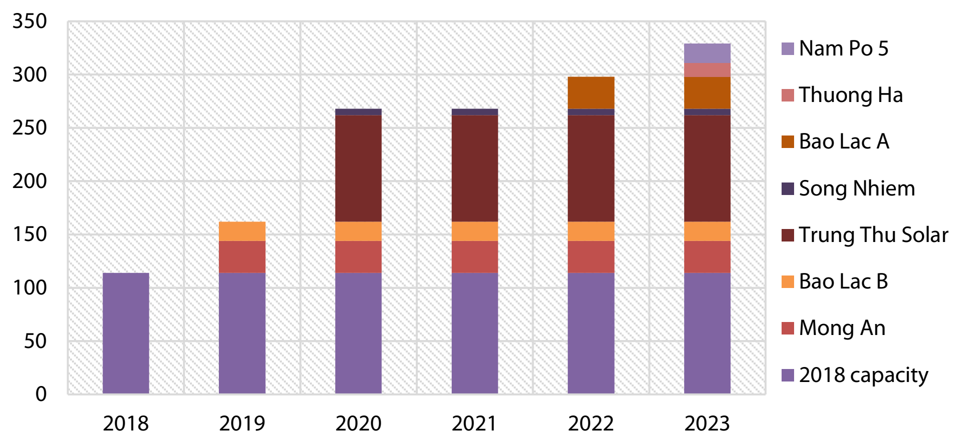
Two new HPPs are scheduled to commence in late-2019, which are Mong An and Bao Lac B. The two HPPs are VND 1,500 billion in investment value, have a total of 48MW in capacity and will add up to VND 196 billion in annual revenue to PC1's.

There are four more HPPs in the pipe line, which are Bao Lac A, Thuong Ha, Song Nhiem 4 and Nam Po 5. This means that PC1 will start new power plants in 2020, 2022 and 2023. The four HPPs when operating at full capacity will add 67 MW of electricity generation and bring about VND 289 billion in revenue for PC1 annually. It also means that another VND 1,948 billion of Capex to be disbursed in the next three years.

PC1 is going to build its first solar power plant, which is named Trung Thu Solar, for which the company will issue 10-year bonds. It should be noticed that PC1 plans the investment value at VND 1,495 billion for 100MW capacity, which is remarkably lower than a normal solar power plant, which costs more than VND 20 billion per MW to install. It is because PC1 makes use of the available space at its Trung Thu HPP thus saves land costs. PC1 plans to commence the solar power plant in 3Q 2020. At the estimated annual output of 150 million kWh and 8.13 cent per kWh in selling price, Trung Thu Solar is expected to add VND 279 billion to PC1's revenue per year.

We included the above projects' FCFEs in PC1's power portfolio and the total NPV came at VND 2,802 billion, which is the most valuable part of PC1's sum-of-parts valuation. The 11 power plants if operating at full respective capacity will altogether generating VND 1,333 billion in revenue and VND 700 billion in gross profit to the consolidated results. Indeed, we believe that this business is going to provide stability to PC1 due to the one-off feature of the construction, manufacturing and real estate segments. We predict that until PC1 has sufficient land bank to overlap its real estate projects, its hydropower portfolio will be the pillar of the company's earnings.

Figure 3: Forecasted electricity generation capacity (MWs)



Source: PC1, Rong Viet Securities

Real estates: Handovers of PCC1 Thanh Xuan and PCC1 Vinh Hung scheduled in 2020 and 2021

Procedures at PCC1 Thanh Xuan was delayed for six months, thus the plan to handover in 4Q 2019 has been changed to 1Q 2020. We forecast that PCC1 Thanh Xuan will bring about a total revenue of VND 942 billion, recognized in 2020 and 2021. Accordingly, condo sales will only have around VND 51 billion revenue from My Dinh Plaza 2 in 2019.

PC1 has two other projects in the pipe line, both in the suburban area of Hanoi. PCC1 Vinh Hung is scheduled to start construction in Q3 2019 while PCC1 Thang Long is going to be submitted for approval in Q2 2019. We expect the selling price to range from VND 25 to 30 million per sqm. We estimated that the two projects can bring about nearly VND 2,500 billion in revenue for PC1, recognizable in 2021, 2022 and 2023. It also means that PC1 will have continuous revenue and earnings from this segment during 2020-2023.

We use NPV method to evaluate each of the three projects and determine this segment's contribution into the company valuation at VND 376 billion. This valuation includes the leasing activities in the commercial areas of PC1's current and future projects.

Financials: Rising debts putting pressures on PC1's interest expense

In order to fund its power plants' construction as well as real estate projects, PC1 needs to take on long-term debts. We estimate that PC1 will increase a total of VND 2,649 billion of 15-year debts mostly for the power plants in 2019 and 2020, which use 70-80% debt ratio. At the current average long-term interest rate of 7.8%, PC1 will incur VND 220 billion in interest expense for 2019, 46% higher YoY, which is a considerable burden on its profit. It needs noticing that the current borrowing rate offered to PC1's hydropower plant is around 9.5% and each one percent increase in the long-term interest rate will likely cost PC1 5.2% of its PBT.

PC1 is planning to issue VND 1,280 billion 10-year bond for Trung Thu Solar Power Plant. We think that issuing bonds is one of the feasible financing decisions provided that many commercial banks have reached their credit limits to the solar energy sector. In return for a heavy disbursement in a short period of time, PC1 might have to bear higher interest rate (than 9.5% per annum) on the loan.

Valuation

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

We apply 9.4 times P/E to 2019's earnings of the construction and manufacturing segments. The P/E is estimated using the market-cap weighted average of similar listed companies which are CTD, HBC, TV2, SJE and VGC, discounted 10%.

We use FCFE method to valuate PC1's hydropower and solar power plants at 14.2% cost of equity. Compared to the last update, we added five new projects.

We use NPV method to valuate PC1's real estate projects and its leasing assets at WACC 15%.

The SOTP value arrives at **VND 32,100 per share**, implying a **FY2019 P/E of 11.6x** and **a total stock return of 41%** as of closing price on May 31st, 2019. The new target price is revised up from that in our 2019 Strategy Report (VND 28,200) because of the expanded electricity generation portfolio. Investors should bear in mind that most of the new power plants can only increase PC1's future cash flows without any material improvements in the short-term performance. This is why we raised our target price on the stock even though the forecasted 2019 performance seems modest.

Table 1: PC1 valuation

Segment	Method	Valuation (VND billion)	Contribution (VND per share)
Power construction & steel structure manufacturing	P/E	1,719	12,950
Electricity generation	FCFE	2,082	15,680
Real estates			
Project development	NAV	376	2,833
Leasing	FCFE		
Mining	Book value	85	643
Target price (VND per share)			**32,100**

Source: Rong Viet Securities

VND Billion

INCOME STATEMENT	FY2017	FY2018	FY2019F	FY2020F
Revenue	3,161	5,084	6,197	6,018
COGS	2,679	4,219	5,298	4,897
Gross profit	**481**	**866**	**899**	**1,120**
Selling expenses	-17	47	53	44
G&A expenses	143	161	197	191
Financial income	11	28	28	21
Financial expense	103	150	220	338
Other income/loss	40	39	38	40
Gain/(loss) from JVs	1	5	5	5
PBT	**303**	**579**	**500**	**613**
Tax expense	47	88	76	121
Minority interests	20	25	18	16
PAT	**237**	**467**	**407**	**476**
EBIT	355	657	649	885

%

FINANCIAL RATIO	FY2017	FY2018	FY2019F	FY2020F
Growth (%)				
Revenue	5.1	60.9	21.9	-2.9
Operating Income	8.6	72.5	8.8	9.7
EBITDA	-10.6	85.1	-1.3	36.4
PAT	-22.3	97.1	-12.8	17.0
Total Assets	37.2	6.2	37.5	18.5
Equity	37.1	16.2	10.3	10.9
Profitability (%)				
Gross margin	15.2	17.0	14.5	18.6
EBITDA margin	14.9	16.0	14.2	16.1
EBIT margin	11.2	12.9	10.5	14.7
Net margin	7.5	9.2	6.6	7.9
ROA	3.8	7.1	4.5	4.4
ROE	8.8	15.0	11.8	12.5
Efficiency (times)				
Receivable Turnover	2.4	3.3	3.1	3.1
Inventory Turnover	2.5	5.6	3.1	2.8
Payable Turnover	1.8	3.4	3.1	3.1
Liquidity (times)				
Current	1.7	1.9	1.7	1.6
Quick	1.1	1.4	1.1	0.9
Finance Structure (%)				
Total Debt/Equity	67.8	63.1	104.9	131.0
Current Debt/Equity	11.0	13.3	28.3	28.9
Long-term Debt/Equity	56.9	49.8	76.5	102.1

VND Billion

BALANCE SHEET	FY2017	FY2018	FY2019F	FY2020F
Cash and cash equivalents	567	701	734	383
Short-term investments	100	90	99	109
Accounts receivable	1,302	1,552	2,021	1,962
Inventories	1,085	759	1,719	1,775
Other current assets	38	47	52	57
Property, plant & equipment	2,918	3,142	4,135	6,145
Acquired intangible assets	74	100	102	107
Long-term investments	91	97	102	106
Other non-current assets	38	108	108	108
Total assets	**6,214**	**6,597**	**9,072**	**10,752**
Accounts payable	1,487	1,248	1,717	1,587
Short-term borrowings	294	416	975	1,103
Long-term borrowings	1,527	1,554	2,633	3,891
Other non-current liabilities	40	23	24	25
Bonus and Welfare fund	52	77	106	139
Technology-science, dev. fund	0	0	0	0
Total liabilities	**3,400**	**3,318**	**5,455**	**6,746**
Common stock and APIC	1,866	2,039	*2,270	2,270
Treasury stock (enter as -)	0	0	0	0
Retained earnings	716	925	997	1,349
Other comprehensive income	23	56	56	56
Inv. and Dev. Fund	79	99	117	138
Total equity	**2,684**	**3,119**	**3,440**	**3,813**
Minority Interest	**130**	**160**	**178**	**194**

(*) after 20% stock dividends, ex-right date June 21st, 2019

VALUATION RATIO (*)	FY2017	FY2018	FY2019F	FY2020F
EPS (dong)	1,854	3,344	2,757	3,333
P/E (x)	20.3	7.1	8.5	7.0
BV (dong)	20,216	23,494	26,342	29,675
P/B (x)	1.6	1.0	1.0	0.9
DPS (dong/cp)	0	0	0	0
Dividend yield (%)	-	-	-	-

VALUATION MODEL	Price	Weight	Average
Sum-of-the-parts	32,100	100%	32,100
Target price (VND)			**32,100**

VALUATION HISTORY	Price	Recommendation	Period
14/12/2018	28,200	Buy	Intermediate term
04/02/2018	31,174	Neutral	Intermediate term
30/05/2017	27,185	Accumulate	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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