POWER CONSTRUCTION NO.1 JSC (PC1 VN EQUITY): COMPANY VISIT TAKEAWAYS

Powering up the growth

Not rated

Current price: VND 18,000

Target price: N/A

Upside: N/A

We visited PC1 in Hanoi on 19 July. Management announced preliminary 1H19 revenue of VND 3.1 trn (+26.7% YoY) and PAT of VND 213 bn (-26.8% YoY). Going forward, the company is expanding its renewable power and property segments. Also, management plans to invest in five additional hydropower plants (which would boost total installed capacity by +85.1%) and three mid-end apartment projects in Hanoi.

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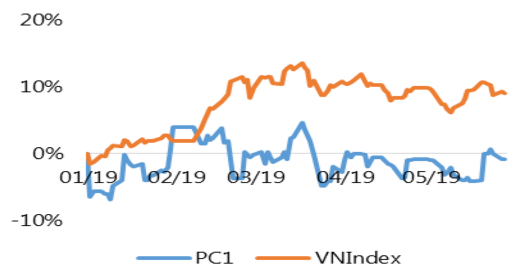
52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
17,167-24,292	**USD 123mn**	**0%**	**21.3%**	**57%**	**USD 82,000**

Price performance



Key Takeaways

- PC1 has added VND 1,658bn to its order backlog, YTD.
- Guidance for another VND2.5 trillion to the backlog in 2H2019.
- Hydropower business expansion is a key focus for management.

Business Risks

- Intensified competition in power construction.
- Concentration risk: Most clients are EVN and its subsidiaries.
- Property is a cyclical business.

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Company profile: With over 50 years of experience, PC1 is Vietnam's market leader in the construction of power projects, transmission lines, and electrical substations (34% of FY2018 revenue). The company's other segments include property (19% of FY2018 revenue), hydropower (11%), and power grid equipment manufacturing (10%).

Key metrics	2018A	2019 Guidance	YoY Growth (%)
Revenue (VND bn)	5,084	6,043	18.9
PBT (VND bn)	579		
PATMI (VND bn)	467	424	(9.2)
GPM (%)	17.0		
Net Debt/Equity (%)	36%		
ROAE (%)	15.3%		
ROAA (%)	7.3%		
EPS (VND/share)	3,514		
EPS growth (%)	71.4%		
PE (x)	5.2		
PB (x)	0.8		

Source: Fiinpro

1H2019 preliminary revenue of VND 3.1 trillion increased +26.7%YoY and reached 51% of FY19E guidance. 1H19 PAT of VND 213bn declined -26.9% YoY but reached 50.4% of FY19E guidance. Notably, 2018 results were boosted by high gross margin (31%) sales of My Dinh 2 Plaza, which will not repeat in 2019.

Expanding backlog. Year to date, the company has signed new contracts worth VND1,658bn, on top of last year's backlog of VND 4,650bn. PC1 expressed confidence in its ability to add VND 2,500bn to its backlog in 2H2019. Management sees plenty of room for growth given that EVN expects electricity demand to grow at 8.0-8.5% annually in 2020-2030.

Renewable power and property business expansion. The company plans to invest in five additional hydropower projects, adding 97 MW (+85.1%) to its current installed capacity of 114 MW, most of which should be operational in 2020-2022. Additionally, PC1 is developing three mid-end apartment projects: PCC1 Thanh Xuan (of which 32% has been sold), Vinh Hung (expected revenue: VND 800bn), and Thang Long (expected revenue: VND 1,200 bn).

Valuations. PC1 is trading at 6x TTM earnings (1 STDEV below its 1-yr mean of 6.6x). The stock's underperformance could be due to investor concerns over the residential property business and resulting lumpiness of earnings.

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Ratings	Total expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
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