Yuanta Research

Initiation of Coverage

Vietnam: Energy

20 February 2020

PC1 VN

BUY

TP upside +52.5%

Close 20 FEB 2018

Price	VND 15,800
12M Target	VND 24,092

What's new?

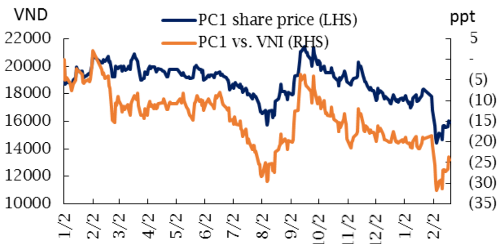
- **Market leader in power construction.**
- **Expanding in renewable energy** – hydropower and wind capacity.
- **Residential property sales to recover in 2020**: a short-term catalyst for gross margin and ROE.

Our view

- **PC1 is a proxy on the energy value chain**: pole making, power construction, and generation.
- **High margin renewable energy** is a medium term earnings catalyst.
- **Concentration risk.** Sales to EVN are decreasing, but EVN still accounts for ~50% of PC1's total revenue.

Company profile: PC1 is the market leader in power plant, transmission line, & electrical substation construction and pole manufacturing. This core business is the main source of revenue but its profitability is constrained by regulation. PC1's value proposition lies its higher-margin secondary operational segments—power generation and property development.

Share price performance relative to VNI



Market cap	US$109mn
6M avg. daily turnover	US$0.2mn
Outstanding shares	159mn
Free float	65%
FINI ownership	38%
Major shareholders	26%
2020E Net Debt/equity	51.0%
2020E EV/EBITDA	4.6
2020E P/B (x)	0.6
Trading platform	HOSE
FOL Room	18%

Financial outlook (VND bn)

Year to Dec	2019A	2020E	2021E	2022E
Sales	5,842	6,778	6,660	7,404
Op. profit	591	837	833	1,028
Net profit	356	572	528	690
EPS (VND)	2,236	3,408	3,146	4,113
EPS chg (%)	(32.1)	52.4	(7.7)	30.7
P/E (x)	7.1	4.6	5.0	3.8
ROE (%)	10.2	14.4	11.8	13.7
Div. yield (%)	-	-	-	-
DPS (VND)	-	-	-	-

POWER CONSTRUCTION NO.1 (PC1 VN)

Excellent exposure to energy value chain

PC1 is the market leader in power construction and steel tubular pole manufacturing, where barriers to entry are substantial and competition is moderate, but profitability is constrained by regulation. Electricity generation accounts for a lower share of revenue but a larger proportion of profits. We see PC1 as an excellent proxy on the government's plans for substantial investment in energy in the years ahead.

Renewable energy is a medium-term driver. PC1's four profitable hydropower plants have installed capacity of 114 MW, and it expects to add 47% extra capacity with three more hydropower plants in 2020. In addition, PC1 plans to invest US$77m into a 48MW wind farm which should be entitled to favorable feed-in tariffs of UScents 8.5/kWh if launched before November 1 2021. Energy is the company's most profitable business with gross margin of 65%, and we expect this segment to deliver 16% revenue CAGR in 2019-2023E.

Short-term catalyst from property development revenue bounce in 2020 due to initial sales at its Thanh Xuan project. We forecast VND 887 bn in revenue from sales at Thanh Xuan, up 4.7x from 2019 when PC1 only sold a few units that were left over from My Dinh project in 2019.

Yuanta vs consensus. Our target price is 8.6% below the consensus mean, whereas our EPS forecasts are higher by 1.8% for FY20E and 11.5% for FY21E. The FY21E discrepancy is likely due to our more optimistic assumptions that all the hydropower running at near full capacity. Our relatively cautious target price is due to the discount rate, as we are conservative on market risk. Still, we see 51.5% upside to our TP.

We initiate coverage with a BUY rating. Our target price of VND 24,092 is based on a weighted approach comprising FCFF (50%) and EV/EBITDA multiple (50%) methodologies. At the current price, PC1 is trading at an attractive 4.6x FY20E EV/EBITDA.

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PC1: 2020 will be brighter

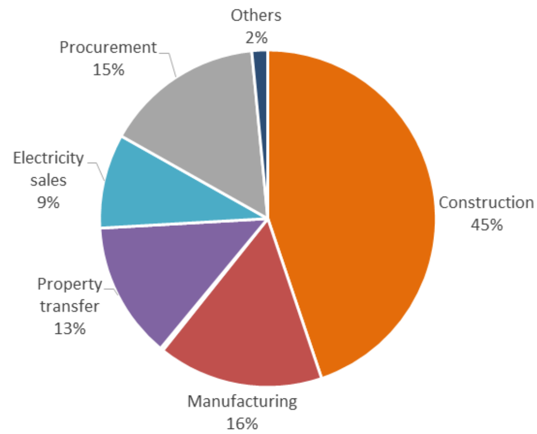
In our view, PC1 provides excellent exposure to almost the entire energy value chain including steel tubular pole manufacturing, power construction, and power generation. This should enable PC1 to capture energy demand growth and undersupply through increased public investment in energy.

PC1 is the market leader in power construction as well as steel tubular pole manufacturing. The sector has high entry barriers due to project complexity and the need for strong relationships with local authorities, as well as relatively low margins. This combination should result in persistently moderate competition among domestic players. With 55 years of experience, PC1 is in an optimal position to capture the huge investment in energy sector planned by the government in the years ahead.

Energy generation is PC1's most profitable business with FY2019 gross margin of 65%, and we expect this segment to deliver 17.3% revenue CAGR in 2019 -2023. PC1 will add 47% extra capacity with three new hydropower plants in 2020. In the medium term, PC1 plans to invest VND1.8tn (US$77m) into 50MW of wind farm capacity which should be entitled to the FIT price of UScents 8.5/kWh if launched before November 1 2021. This beneficial pricing is in line with government policy, specifically Decision 38/2018/QĐ TTg.

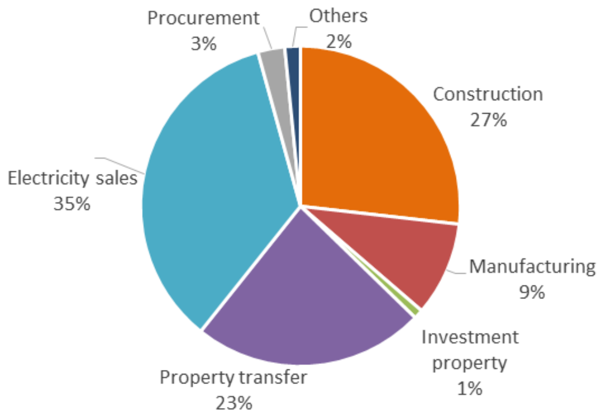
We expect strong 2020 financial performance due to contribution of property project on the top of three new hydropower plants. PC1 is developing three mid-end apartment projects: PCC1 Thanh Xuan (of which 70% has been sold), Vinh Hung (launch 2021) and Thang Long (launch 2022-2023).

Fig.1: FY20E revenue: Electricity-related construction, procurement and pole dominate 2020E revenue



Source: Yuanta Vietnam

Fig. 2: ...But power generation and property punch above their weight in terms of 2020E gross profit.



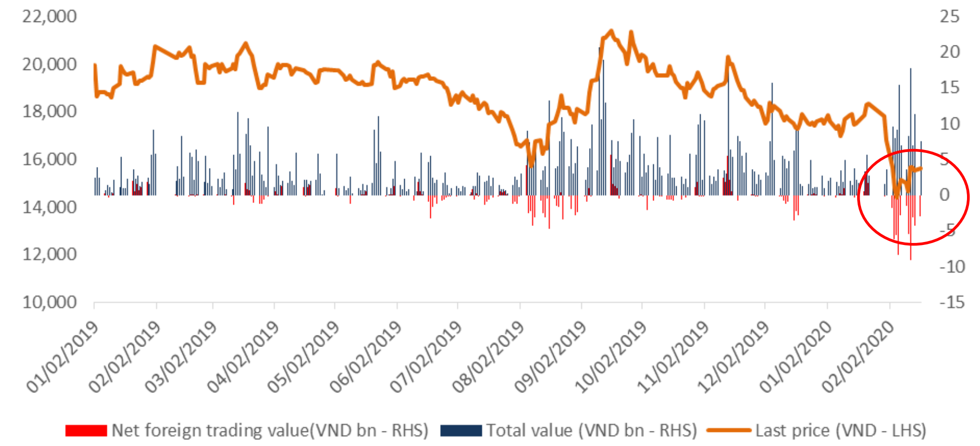
Source: Yuanta Vietnam

Stock view – 2020 will be brighter

PC1 has decreased by 25.7% from latest peak in September 2019 and 12% YTD, underperforming the VNI by 7ppt. The weak share price performance in part reflects concerns over systematic risk regarding the coronavirus outbreak, but this doesn't explain the egregious underperformance vs. the market in recent weeks.

The recent drop is not related to foreign selling. Some may believe that PC1's share price plummeted due to net foreign selling. However, the recent period of foreign net selling only occurred *after* the stock's Feb 2020 bottom, as seen in Fig.3 below. Foreign investors have net sold 3.6 million shares or USD2.3 mn worth of PC1 in the past 13 trading days. However, this does not appear to have been proactive, but rather reactive. Foreign net selling could persist in the short term, but we see this as an attractive entry opportunity for investors who can tolerate the volatility.

Fig. 3: Foreign net trading



Source: Fiinpro

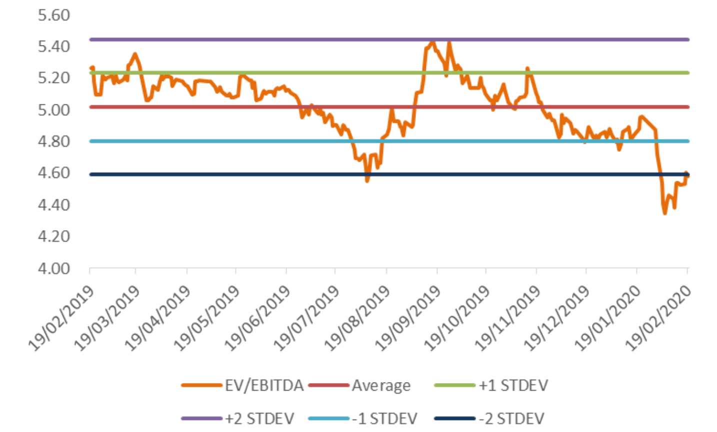
We think that investors have become overly bearish regarding the company's profit margins following a contraction last year. Preliminary FY19P gross margin was 14%, down 3 ppt YoY. However, but we believe margins should improve off this low base starting this year, and we forecast gross margin of 16.7% in 2020E (up 2.7ppt YoY) and 16.9% in 2021E (up 0.2% YoY). We see several reasons for confidence in these forecasts.

The slowdown in the property business last year dented margins for 2019. This was exacerbated by power construction margin contraction in 4Q19, which was due to an increased emphasis on low-margin procurement revenue during the quarter (the company's value-add lies in its engineering/design and construction rather than simple transactions of equipment).

Property deliveries should rebound substantially in 2020E, which should help consolidated gross margin to recover. Additionally, we expect power construction margins to recover going forward along with the company's expanded customer base (where pricing upside should be more probable than EVN). As discussed above, we also think the addition of the new hydropower plants will provide another boost to margins starting from 2020.

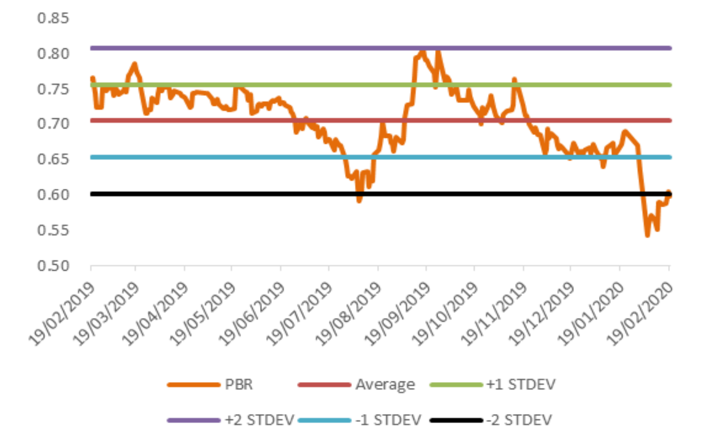
Thus, we believe the market has incorrectly extrapolated persistent weak profitability for PC1. As such, we think that the valuation is very attractive at current levels. PC1 is trading on 4.6x FY20EV/EBITDA, which is a steep discount of over two standard deviations below its 52-week mean. The FY20 EV/EBITDA is also well below regional peers' average EV/EBITDA of 8.3x (see Fig 25 below for details). We think 2020 outlook will be much brighter because of the contribution of Thanh Xuan apartment and additional 54MW hydropower capacity.

Fig. 4: FY20 EV/EBITDA



Source: Bloomberg, Yuanta Vietnam

Fig. 5: FY20 PBR



Source: Bloomberg, Yuanta Vietnam

Market leader in power construction business: a high entry barrier sector

PC1 is the market leader in construction of power projects, transmission lines, and electrical substations.

With over 50 years of experience, PC1 is the nation's market leader in construction of power projects, transmission lines, and electrical substations. Power construction is PC1's core business, accounting for 51% of 2019 revenue. The company commands about 37% market share in this segment, and it targets achieving 50% market share in high voltage and super high voltage projects.

PC1 has a strong track record in offering construction services to various size projects to both EVN and private clients across the country. The latest sizeable project has been VND 11,949 bn 500kV transmission line circuit 3 Vung Ang – Quang Trach – Doc Soi – Pleiku 2 of which PC1 secured VND 1.6tn contract value. According to the management, 70% of the value (~VND 1.1 trillion) should be booked in 2019 leaving the rest (VND 500 bn) for 2020.

Foreign players find it unattractive in bidding for power construction.

The power construction sector has high entry barriers. According to the company, foreign players find it unattractive in bidding for power construction projects thus keeping the competition at moderate level within the domestic players. This is due to the land clearance requirements that such projects entail, relationship with local authorities which are difficult for foreign players to achieve.

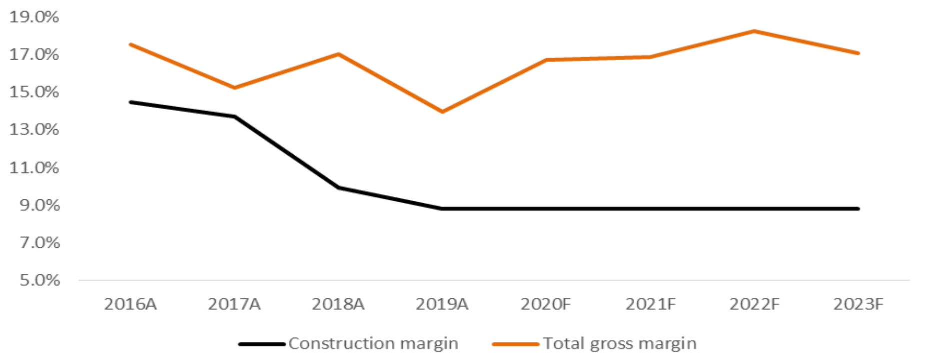
PC1 guides for 4% CAGR for its power construction segment revenues over the next five years. We believe this to be achievable given the national energy undersupply, which should result in continuous investment from both the public and private sectors going forward.

PC1 is diversifying away from its traditional focus on EVN, which has historically been PC1's largest client. This suggests concentration risk as well as policy risk. However, PC1's contract value from private clients exceeded that of EVN and its subsidiaries in 2019. In 9M2019 (the latest available figures), private clients accounted for 51% of newly signed contract value (i.e., VND 675bn out of VND 1.3 trillion in total new construction contracts was from private sector clients). PC1 increasingly involved in engineering, procurement, and construction (EPC) contracts for solar farm and wind farm construction.

Regulations have pressured power construction business margin since 2016.

It is worth noting that decision 4970/QĐ-BCT of Ministry of Industry and Trade (MOIT) in 2016 regulates estimated norms for pricing of power projects (transmission lines and substations), which has caused difficulty for new project implementation and resulted in relatively stagnant power construction. This in turn has compressed power construction business margin. The gross margin of PC1's power construction segment fell to 8.8% in FY2019 from 9.9% in FY2018 and 14.5% in FY2016. Expanding its private client base should alleviate this negative trend. However, we forecast flat gross margin from 2020 onward to maintain conservatism.

Fig. 6: Construction gross margin hit by existing regulation



Source: PC1, YSVN estimates

Largest steel tubular pole manufacturer

PC1 is the largest steel tubular pole manufacturer with annual designed capacity of 50,000 metric tons.

PC1 is the nation's largest steel tubular pole manufacturer with annual designed capacity of 50,000 metric tons (MT). The company has a long history of electricity pole production, and this segment accounted for 17% of total revenue in FY2019.

The company's products range from 110kV to 220kV steel tubular poles with up to 6 circuits as well as electrical steel structure up to 750kV. In 2018, the company received state-of-the-art design and manufacturing capability in steel pipe tower technology after a transfer from its Japanese partner, AG-AJKAWA.

Fig. 7: Steel tubular pole products

Source: PC1

Manufacturing segment revenue delivered strong 97% YoY growth in FY2019 to VND 981bn. Gross margin expanded to 9.2% from 6.3% in 2018. The company provides poles to several packages of 500kV transmission lines and substation projects in Vietnam. In addition, the company also exports to Chile and Pakistan.

As the largest pole producer, PC1 stands to directly benefit from power construction growth.

As discussed below, **Vietnam is currently in need of (and is investing in) another 500kV of transmission lines due to overloading issues**. PC1, as the largest pole producer, will directly beneficial from growth in construction of both energy generation and transmission in the years ahead.

Expanding energy business

Profitable 114MW hydropower capacity. Energy generation accounted for 9% of 2019E total revenue. This is following PC1's launch of four small hydropower plants in northern Vietnam in 2016 and 2017, with total capacity of 114 MW.

Fig. 8: Current hydropower plants

Current Plants	Type	Launch	Investment (VND bn)	Capacity (MW)
Trung Thu	Hydropower	Nov-16	900	30
Bao Lam 1	Hydropower	Jan-17	766	30
Bao Lam 3	Hydropower	Sep-17	886	46
Bao Lam 3A	Hydropower	Nov-17	292	8
Total			2,844	114

Source: PC1, Yuanta Vietnam

Three of the four hydropower projects are small and thus highly profitable due to "avoidable cost schedule" entitlement.

Most of the hydropower projects are small and highly profitable. This is because small hydropower plants (i.e., those less than 30MW, which account for three of PC1's four hydropower plants launched in 2016-17) are eligible for 20-year contracted "avoidable cost schedule", which is regulated annually by Ministry of Industry and Trade for small hydropower.

Small hydropower plants are thus able to sell all electricity generated at the annually regulated selling price. According to the regulations, these plants are also exempt from the water resource tax and forest service fees. As a result, gross margin of power generation is the highest of all PC1's business segments. Gross margin of the hydropower business was 62.5% in 2019P, slightly higher than 62.0% in 2018A.

Capacity to expand by 47% in 2020 with three new hydropower plants coming on line this year.

Expanding 47% in the energy capacity in 2020. In the short-term, PC1's capacity will be expanded by 47% in 2020. This growth should come from the Mong An (30MW - 1Q20), Bao Lac B (18MW, 3Q20), and Song Nhiem (6MW, 3Q20) Hydropower Plants. Notably, PC1 expects to launch the 30MW Mong An Hydropower Plant in late 1Q20. We expect these projects to increase the company's installed capacity by 47% to 168MW in 2020E.

Beyond 2020, PC1 plans to add 93 MW to its generation capacity.

In the longer term, PC1 plans to add another 93 MW to its generation capacity with one wind power plant (Lien Lap Wind Farm) and two additional hydropower plants (Bao Lac A and Thuong Ha). The company plans to invest in 48MW of wind power with total investment of VND 1.8 tn. Moreover, PC1 will be entitled to a favorable purchase price (UScents 8.5/kWh) if this project is launched before November 1, 2018, in line with Decision 38/2018/QĐ TTg.

PC1 announced on Feb 12, 2020 that they are acquiring a 96% stake in two wind power companies. However, no further information regarding these projects has been unveiled, so we have not factored them into our model.

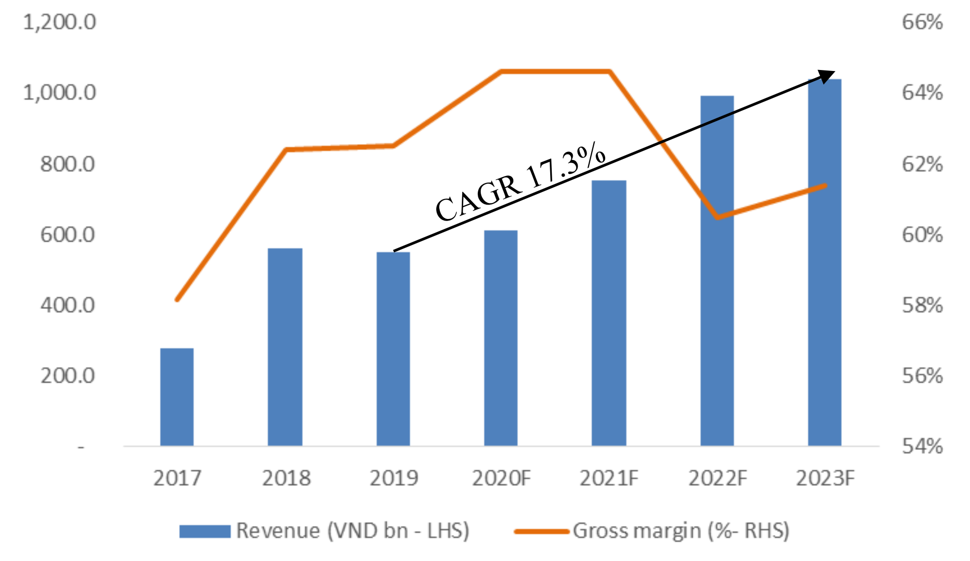
Fig. 9: Capacity expansion

Current Plants	Type	Launch	Investment (VND bn)	Capacity (MW)	Company capacity
Mong An	Hydropower	1Q20	915	30	144
Bao Lac B	Hydropower	3Q20	568	18	162
Song Nhiem	Hydropower	3Q20	228	6	168
Lien Lap	Windpower	4Q21	1,800	48	216
Bao Lac A	Hydropower	3Q22	915	30	246
Thuong Ha	Hydropower	4Q22	349	13	259
			4,775	145	

Source: PC1, Yuanta Vietnam

We expect revenue from the energy segment to deliver 17.3% CAGR in 2019-23E due to its rapid capacity expansion in this period. We also expect PC1 to maintain high profitability in the energy segment with profit margin of +60%. Thus, unlike the property business (which we view as more of a *short-term* contributor to earnings growth), we expect the energy business to play an important role in PC1's earnings growth over the medium term.

Fig. 10: Growing energy business



Source: PC1, Yuanta Vietnam

PC1 to benefits from huge investments

PC1 provides excellent exposure to almost entire energy value chain from steel tubular poles, to power construction, to power generation.

In our view, PC1 provides excellent exposure to almost the entire energy value chain: steel tubular pole manufacturing, power construction, and power generation. This should enable PC1 to capture the growth of Vietnam's undersupplied energy demand and increased investment in the years ahead.

We expect electricity generation to grow at 11% CAGR in 2020-2025E, which is faster than the government's expectation. Total volume of electricity in 2019 reached 231.1 bn kWh, +8.9% YoY, 2.8 times that of 2010. Assuming that electricity-GDP elasticity remains at its five-year average of 1.6x, electricity consumption will grow at 11% annually (not 8.6% as indicated in Rev PDP7) to support annual GDP growth of 7% in 2020-2025E. On this basis, we estimate that Vietnam must be able to produce a total of 400 bn kWh by 2025E, ahead of the government's forecast of 352 bn kWh as in Rev PDP7. Given the undersupply to meet power demand in the years ahead, more investment is needed which in turn should benefit the power sector players.

The current transmission system is already under pressure. By the end of 2018, Vietnam had 8,000 km of 500kv lines, 17,500km of 220kV lines. There are two existing North-South 500kv lines which were launched in 1994 (the first 500kV transmission line) and 2005 (the second 500kV transmission line). These lines are transmitting MW2200-2500, well above their designed capacity of 1,600 MW. The Deputy Prime Minister has stated that a new 500kv line is in urgent need given the growing energy demand in the future. This should directly benefit tubular pole manufacturing and construction players.

Fig.11: Current transmission system

Source: Vietnam Energy
Red line: 550 kv transmission line
Green line: 220kv transmission line
Red dot: 550kv substations
Blue dot: 220kv substations

Short-term earnings catalyst from property project

PC1 property business focuses on mid-end housing in Hanoi, the segment with the most real residential demand.

In its property development operations, PC1 focuses on mid-end housing in Hanoi, which is the most in-demand segment in the property market. We take CBRE's definition of mid-end housing as that which has a price per square meter of US$ 1,000-2,000. This segment is the only segment that recorded sales growth in 2019, accounting for 70.7% of total units sold in Hanoi in 2019 with 20,505 units. We believe that by aiming at the mid-end, PC1 should be able to sustain its real estate business and utilize its construction capabilities.

Fig. 12: Mid-end apartments saw growth in unit sales in 2019

	Luxury	High-end	Mid-end	Affordable
New launch	1 project 12 units	8 projects 1706 units -36% YoY	35 projects 29,094 units +17%	13 projects 5,574 units +14% YoY
Selling price	US$3500 psm	US$ 2,378 psm +7% YoY	US$ 1,304 psm +5% YoY	US$782 psm +2% YoY
Sold units	47 units -63% YoY	2,249 units -42% YoY	20,505 units +18% YoY	6,219 units -14% YoY

Source: CBRE

PC1's land bank is moderately small but enough for the company to develop until 2023

PC1's land bank is moderate but enough for the company to develop until 2023. There are three projects in its pipeline: Thanh Xuan, Vinh Hung, and Thang Long. These should be available for sale until 2023. However, our forecast for property sales at the Vinh Hung and Thang Long projects is about 5% lower than the company's guidance, as we prefer to adopt a conservative view.

Fig. 13: Revenue recognition from property business

Projects	Location	Investment (VND bn)	Complete date	Units
My Dinh	Tu Liem, Hanoi	868	2018	472
Thanh Xuan	Thanh Xuan, Hanoi	735	2019	480
Vinh Hung	Hoang Mai, Hanoi	N/A	2021	300*
Thang Long - Bac Co Nhue	Bac Tu Liem, Hanoi	1000-2000	2021	600*

Source: PC1
(*) Yuanta Vietnam Estimate

Short-term catalyst: expecting strong 2020 financial performance due to contribution of Thanh Xuan project.

Short-term catalyst: We expect strong 2020 financial performance for this segment due to the contribution of the Thanh Xuan project. We expect PC1 to generate VND 887 bn in sales at the Thanh Xuan apartments, up from VND 190bn in 2019 (which was left over from the My Dinh project). As of September 2019, PC1 had sold 335 units (or 70%) of the 480 units launched.

Fig. 14: Revenue recognition from property business (VND bn)

	2019	2020	2021	2022	2023
Real estate revenue (VND bn)	200	887	525	855	214
My Dinh	200				
Thanh Xuan		887			
Vinh Hung			525		
Thang Long - Bac Co Nhue				855	214
Others					

Source: PC1, Yuanta Vietnam Estimate

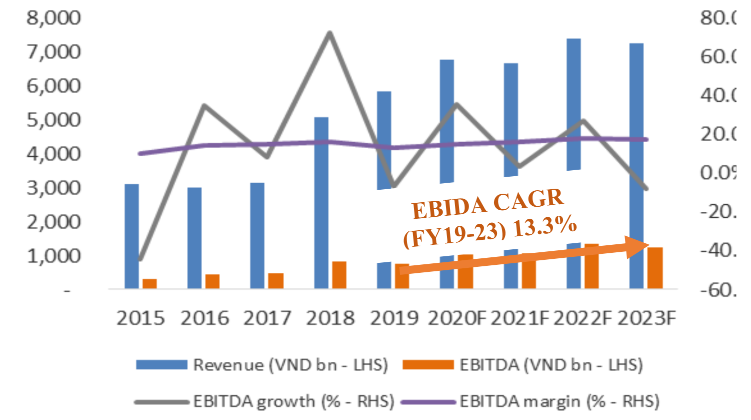
We adopt a conservative view on the property business due to the cyclical nature of this industry.

Property is a highly profitable segment relative to PC1's other businesses, with gross margin of 27% in 2018 and 32% in 2019. However, we have adopted a conservative view on the property business due to its cyclical nature. Thus, our forecast only takes into account the projects that are currently under development. By contrast, PC1 (rather optimistically, in our view) expects another VND 175 bn in 2022 revenues and another VND 1,577 bn in 2023, from additional housing projects. Again, we did not factor this into our earnings and valuation model.

Financial analysis

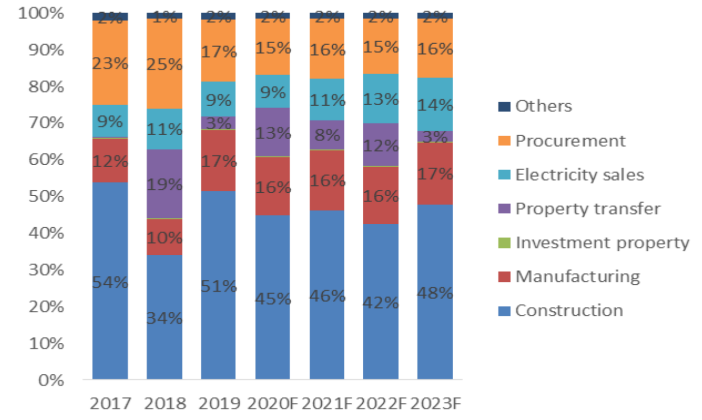
High-margin but lumpy property sales can result in rocky consolidated EBITDA despite smooth consolidated revenue. In particular, PC1 only recorded VND 194bn in property sales in 2019 (this was left over from My Dinh Plaza), down from VND 954bn the previous year. As a result, consolidated FY2019 EBITDA fell by 6.8% YoY despite 14.9% YoY revenue growth. We expect FY2020 profit to expand due to property revenue from Thanh Xuan and the three hydropower plants, but overall we think our forecasts are conservative. We estimate EBITDA CAGR in 2019-2023 should be 13.3%.

Fig. 15: EBITDA should deliver CAGR of 15.2% in FY19-23



Source: Yuanta Vietnam

Fig. 16: Revenue mix

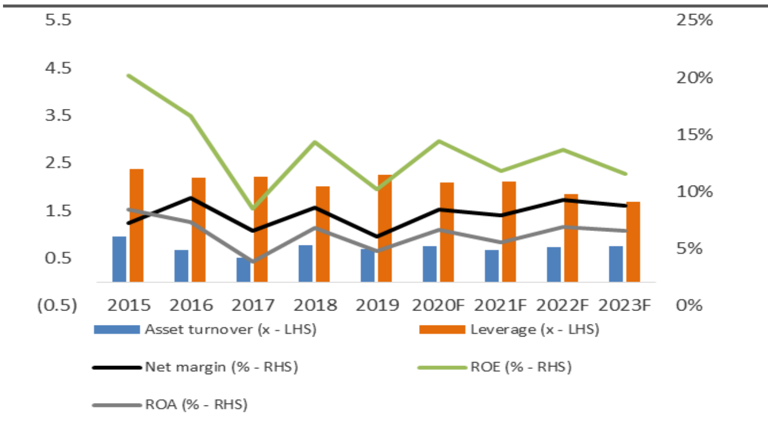


Source: PC1, Yuanta Vietnam

Profitability largely underpinned by property business. Based on our observation of prior years, ROE appears to fluctuate in line with net margin, and net margin is affected by property sales. For example, in 2018, PC1 recorded gross margin of 27% in its sales of My Dinh Plaza, substantially higher than construction (9.9%) and manufacturing (6.3 %) in the same year. We expect ROE to pick up again in 2020 as PC1 launches its Thanh Xuan project. Property sales should continue to boost profitability over the next few years, but in the longer term PC1's operations should improve as a result of its intensive investment in renewable energy.

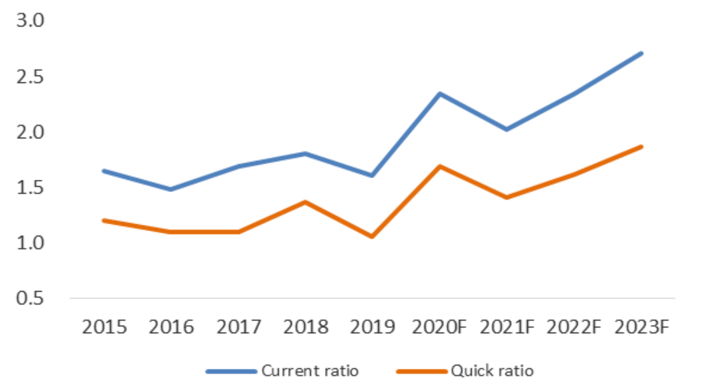
PC1 has a relatively healthy financial position. We expect leverage to decrease slightly from 2.3x in 2019 to 2.1x (see Fig 13 below) as the company as three hydropower projects (i.e., Mong An (30MW), Bao Lac B (18MW), and Song Nhiem 4 (6MW)) will be completed this year. Balance sheet liquidity (Fig 14) is not a concern. PC1's current ratio was 1.6x as of 2019 and we expect this to improve to 2.0-2.3 from 2020 onward as the three hydropower plants come on line this year.

Fig. 17: Dupont Analysis



Source: PC1, Yuanta Vietnam

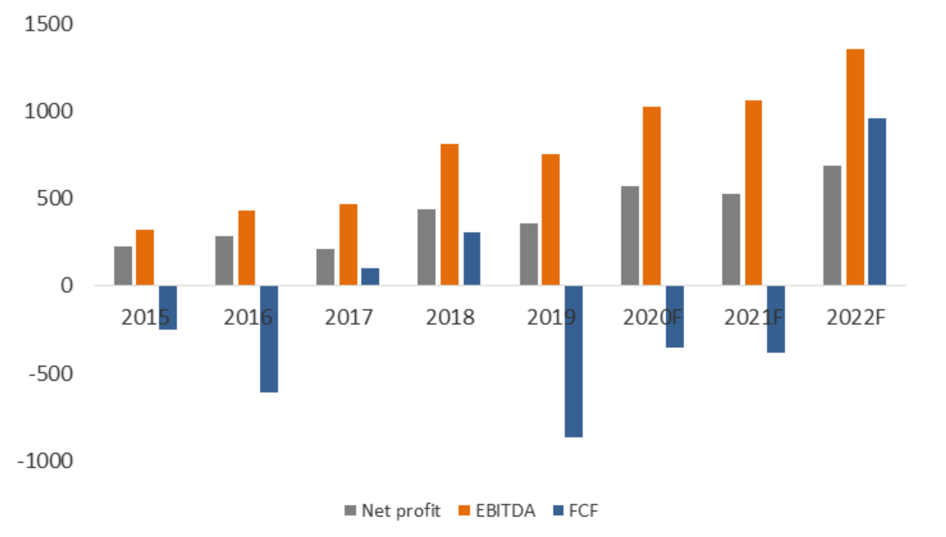
Fig. 18: Liquidity should remain safe



Source: PC1, Yuanta Vietnam

Capex should result in free cash flow volatility through 2021E, but we expect FCF to stabilize thereafter. Free cash flow has also been volatile because of frequent investments in renewable energy in the past (e.g., the three hydropower plants) and this will likely persist given the upcoming VND 1.8 trillion Lien Lap wind power project. We have modeled in positive free cash flow starting in 2022, after the Lien Lap Wind Farm has been launched. This is the last planned wind farm project that the company has announced so far; obviously, there could be some risk to this forecast for three years hence from possible additional future projects.

Figure 19: Free cash flow may fluctuate due to intensive CAPEX



Source: PC1, Yuanta Vietnam

FY2019 performance update

Gas input constraints impacted volume but ASPs were higher in 1H19.

In its FY2019 preliminary financial statements, PC1 recorded a 14.9% YoY increase in consolidated revenue to VND 5,842bn. Construction increased by 73% YoY to VND 3,000 bn, accounting for 51% of full-year revenue. Manufacturing posted 97% YoY growth to reach VNd 981bn, accounting for 17% of the revenue. By contrast, property sales saw a decline of 80% YoY as the company only booked sales of its remaining My Dinh Plaza units.

As a result of the sharp YoY decline in high-margin property sales, 2019P PATMI fell 23.6% YoY to reach VND 356bn. Consolidated gross margin fell to 14% in 2019, down 3ppt from 2018 because of the decrease in property sales but also the increased mix of construction revenue, where margin slid to 8.8% in 2019 from 9.1% in 2018. In addition, net financial expensed increased by 8% YoY to 131.4bn due to increase in debts. In addition, JVs have recorded net loss of VND 34bn down from net profit of VND 5bn last year. However, the key driver of the weak YoY profitability was clearly the decline in high margin property business.

Fig. 20: FY2019 business performance

	2018	2019
Revenue (VND bn)	5,084.42	5,842.30
Revenue growth (% Yo	60.9%	14.9%
Gross margin	17.0%	14.0%
PATMI	467	356
PATMI growth	110%	-23.6%

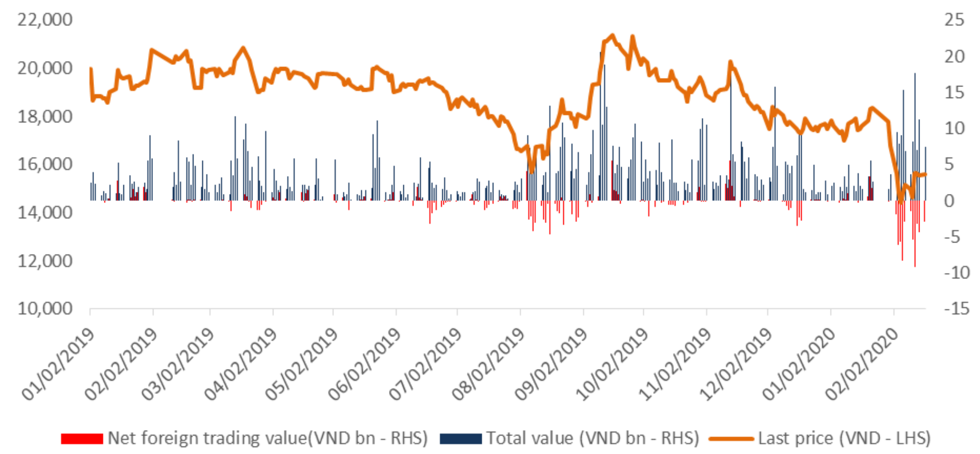
Source: PC1

OUR VIEW, VALUATION, AND RISKS

Our view

PC1's share price has decreased by 25.7% from its peak reached in September 2019 and 12% YTD, underperforming the VNI by 7ppt. We believe that the weak share price performance in part reflects the slowdown in property business in 2019, although concerns over the economic impact of the coronavirus may also be driving the heavy foreign selling of PC1's shares in recent days. Foreign investors have net sold 3.6 million shares or USD2.3 mn worth of PC1 in the past 13 trading days, which could pressure the shares in the short term, but which could also set up an attractive entry opportunity for investors who can tolerate the volatility.

Fig. 21: Valuation



Source: Yuanta Vietnam

Nonetheless, the valuation is attractive. PC1 is currently trading at 4.6x FY20EV/EBITDA, which is a steep discount to its (much larger) regional peers' average EV/EBITDA of 8.3x (see Fig 23 below for details). We think the 2020 outlook will be much brighter because of the contribution of 54MW hydropower capacity and Thanh Xuan apartment revenue. **We initiate coverage with a BUY rating and the target price is 24,092.**

Valuation

Our target price of VND 24,092 is based on a weighted approach

Our target price of VND 24,092 is based on a weighted approach comprising FCFF (50%), EV/EBITDA multiple (50%). The target price implies 2020 PER of 7.1x and 2021 PER of 7.7x.

Fig. 22: Valuation

	Target Price	Weight
FCFF	23,816	50%
EV/EBITDA multiple	24,369	50%
Overall	24,092	100%

Source: Yuanta Vietnam

FCFF

Our FCFF valuation assumptions include WACC of 9.5%. This conservative valuation is based on cost of debt of 8%, cost of equity of 12.4%, and terminal growth of 2%.

Fig. 23: FCFF Valuation

FCFF	2019	2020	2021	2022	2023
EBIT	591	837	833	1,028	922
Less: Tax	(53)	(98)	(86)	(110)	(95)
add: Depreciation	136	187	229	324	324
less: FCInvestment (Capex)	(703)	(1,221)	(1,450)		
less: WCInvestment	(834)	(57)	90	(281)	(17)
Free cash flow	(864)	(351)	(384)	960	1,134
PV of free cash flow	(864)	(351)	(350)	801	864
Total PV of free cash flow	1,744				
Terminal value	9,137				
PV of terminal value	5,804				
PV of free cash flow	7,548				
less: debt	4,649				
Add: cash	896				
Equity value	3,794				
Outstanding shares (000)	159,324				
Intrinsic value/share	23,816				

Source: Yuanta Vietnam

EV/EBITDA multiple

We apply a target EV/EBITDA multiple of 6.8x, which is 10% discount to the median such multiple among regional peers. We see the target multiple as an appropriate valuation to justify the size of PC1 although it provides excellent exposure to Vietnam's highly attractive energy story.

Fig. 24: EV/EBITDA Multiple

Peers' median EV/EBITDA (x)	7.5
Discount (%)	10
Target EV/EBITDA (x)	6.8
Enterprise value (VND bn)	7,166
Cash (VND bn)	552
Debts (VND bn)	3,836
Market cap (VND bn)	3,883
Target Price (VND)	**24,369**

Source: Yuanta Vietnam

PC1 is the largest power construction company among listed firms in Vietnam in terms of market cap and revenue. PC1 is trading at 5.6 FY21PER, which is a deep discount to regional peers median of 8.7x.

Fig.25: Regional peers

Ticker	Country	Mkt Cap (VND bn)	Last Px (VND)	TTM PER (x)	FY21 PER (x)	FY20 EV/EBITDA (x)	FY21 EV/EBITDA (x)	ROE (%)	Dvd 12M
601669 CH Equity	CH	202,851	13,259	8.2	6.7	13.0	11.8	8.8	2.5
WSKT IJ Equity	ID	28,316	2,086	12.0	6.8	15.9	15.2	7.8	5.9
300284 CH Equity	CH	25,566	26,320	11.2	8.7	7.2	6.4	14.7	1.5
KPP IN Equity	IN	18,680	120,741	12.2	9.4	5.5	5.0	16.2	0.8
KNRC IN Equity	IN	13,000	92,449	14.8	14.0	N/A	N/A	22.4	0.1
REE VN Equity	VN	10,898	35,150	6.6	5.5	9.4	8.5	15.3	5.1
CTD VN Equity	VN	5,340	70,000	7.9	10.4	2.2	2.4	8.2	4.3
600817 CH Equity	CH	5,032	31,271	258.3	N/A	N/A	N/A	5.7	N/A
VSH VN Equity	VN	4,414	21,400	29.2	N/A	N/A	N/A	4.5	N/A
TV2 VN Equity	VN	1,729	72,000	6.7	N/A	N/A	N/A	33.1	N/A
SJD VN Equity	VN	1,197	17,350	7.8	N/A	N/A	N/A	16.2	8.6
FCN VN Equity	VN	1,157	9,680	5.4	N/A	N/A	N/A	6.6	4.9
VNE VN Equity	VN	295	3,600	29.8	N/A	N/A	N/A	(2.3)	N/A
Median		-		**11.2**	**8.7**	**8.3**	**7.5**	**8.8**	**4.3**
PC1 VN Equity	VN	2,533	15,900	7.1	5.6	4.6	5.3	10.2	N/A

Source: Bloomberg, Yuanta Vietnam

Risks to our call

Property market slowdown. The property segment has been PC1's most profitable segment over the last two years with profit margin at 25%. However, some investors may be concerned about a potential property market slowdown, which is reasonable. However, we would argue a slowdown is most likely to occur in the high-end and luxury residential property segments. However, PC1 is focused on mid-end apartments, which are suitable for Vietnam's growing middle class and where demand is therefore likely to remain robust, in our view.

Public investment in energy sector may slow. We believe that the energy sector requires USD 148 bn in investment to 2030 if it is to provide sufficient energy to fuel Vietnam's economic growth. So from a demand perspective, this should not be a concern. However, funding bottlenecks have been a challenge for most public investment projects and we can't rule out the possibility for disappointment in terms of our projected investment over the next decade.

Customer concentration risk. EVN (Vietnam Electricity, the state power company) accounts for 50% of PC1's power projects, which clearly represents a concentration risk given the nature of this customer. Investment in power is subject to government policy, which may represent downside risk for the profitability of both construction and power generation.

Policy risk. For example, Decision 4970/QĐ-BCT of MoIT regulates the estimated norms of power projects, which has caused difficulty for investors to implement new projects and has negatively affected the profitability of construction contractors. This in turn has placed pressure on PC1's main business (i.e., power construction): gross margin of its power construction segment has fallen from 14.5% in FY2016 to only 9.9% in FY2018 and 8.8% in FY2019 following the implementation of the Decision.

Funding and balance sheet leverage. The energy industry is profitable, but also highly capital-intensive. Thus, while we appreciate growth in the energy business, PC1 should be cautious on its leverage. For example, the company in February announced its intention to purchase another two wind power companies to invest in wind farms. We have no information on these two projects yet so we did not factor these into our model. However, assuming a 51% ownership stake and 70% debt funding for this investment, we estimate that PC1 would need another VND1.3 trillion in debt financing, which would effectively boost our projected 2020E net debt to equity from the current 52% to 84.2%.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2018A	2019A	2020E	2021E	2022E
Revenue	**5,084**	**5,842**	**6,778**	**6,660**	**7,404**
Construction	*1,731*	*3,000*	*3,038*	*3,077*	*3,141*
Manufacturing	*499*	*981*	*1,079*	*1,096*	*1,158*
Investment property	*14*	*19*	*19*	*20*	*21*
Property transfer	*954*	*194*	*887*	*525*	*855*
Electricity sales	*559*	*551*	*613*	*754*	*994*
Trading	*1,254*	*998*	*1,038*	*1,080*	*1,124*
Others	*72*	*100*	*104*	*108*	*112*
Cost of goods sold	(4,219)	(5,026)	(5,644)	(5,536)	(6,052)
Gross profits	**866**	**816**	**1,134**	**1,124**	**1,351**
Operating expenses	(208)	(225)	(296)	(291)	(324)
Operating profits	**657**	**591**	**837**	**833**	**1,028**
Net interest expenses	(122)	(131)	(158)	(209)	(218)
Net investments Income	5	(34)	-	-	-
Net other incomes	39	6	8	8	9
Pretax profits	**579**	**431**	**688**	**632**	**819**
Income taxes	(88)	(56)	(98)	(86)	(110)
Minority interests	25	19	18	19	19
Net profits	**467**	**356**	**572**	**528**	**690**
Core earnings	*467*	*356*	*572*	*528*	*690*
EBITDA	812	756	1,025	1,062	1,351
EPS (VND)	3,292	2,236	3,408	3,146	4,113

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2018A	2019A	2020E	2021E	2022E
Total assets	**6,597**	**8,314**	**8,880**	**10,021**	**9,966**
Cash & cash equivalents	701	568	896	552	579
ST Investment	90	180	180	180	180
Accounts receivable	1,552	1,865	1,955	1,932	2,075
Inventories	759	1,429	1,237	1,213	1,327
Other current assets	47	119	119	119	119
Net fixed assets	2,531	2,414	3,158	3,701	5,177
Others	916	1,739	1,335	2,323	510
Total liabilities	**3,318**	**4,619**	**4,649**	**5,294**	**4,590**
Current liabilities	1,741	2,592	1,868	1,979	1,825
Accounts payable	758	823	924	907	991
ST debts	416	1,046	482	549	421
Long-term liabilities	1,577	2,028	2,781	3,314	2,765
Long-term debts	1,554	2,000	2,754	3,287	2,738
Others	23	28	28	28	28
Shareholder's equity	**3,279**	**3,695**	**4,231**	**4,727**	**5,375**
Share capital	1,328	1,593	1,593	1,593	1,593
Treasury stocks	(0)	-	-	-	-
Others	155	201	200	200	200
Retained earnings	925	933	1,470	1,966	2,614
Minority interest	**160**	**257**	**257**	**257**	**257**

KEY RATIOS					
	2018A	2019A	2020E	2021E	2022E
Growth (%YoY)					
Sales	60.9	14.9	16.0	(1.7)	11.2
Construction	*1.8*	*73.4*	*1.3*	*1.3*	*2.1*
Manufacturing	*32.8*	*96.7*	*9.9*	*1.6*	*5.7*
Investment property	*18.6*	*33.2*	*3.0*	*3.0*	*3.0*
Property transfer	*27,440*	*(79.7)*	*357.0*	*(40.8)*	*62.7*
Electricity sales	*100.2*	*(1.6)*	*11.4*	*22.9*	*31.8*
Trading	*73.6*	*(20.5)*	*4.0*	*4.0*	*4.0*
Others	*7.9*	*37.5*	*4.0*	*4.0*	*4.0*
Operating profit	85.1	(10.1)	41.7	(0.5)	0
EBITDA	72.5	(6.8)	35.5	3.6	27.3
Net profit	97.1	(23.6)	60.4	(7.7)	31
EPS (VND)	120.5	(32.1)	52.4	(7.7)	31
Profitability ratio (%)					
Gross margin	17.0	14.0	16.7	16.9	18.3
Operating margin	12.9	10.1	12.4	12.5	13.9
EBITDA margin	16.0	12.9	15.1	15.9	18.3
Net margin	8.6	6.1	8.4	7.9	9.3
ROA	6.8	4.8	6.6	5.6	6.9
ROE	14.3	10.2	14.4	11.8	13.7
Stability					
Net debt/equity (x)	35.9	62.2	51.0	65.7	44.6
Int. coverage (x)	4.4	3.5	4.3	3.4	4.3
Int.&ST debt coverage(x)	3.2	1.1	1.5	3.0	4.2
Cash conversion days	81.2	92.0	97.1	91.0	85.8
Current ratio (X)	1.8	1.6	2.3	2.0	2.3
Quick ratio (X)	1.4	1.1	1.7	1.4	1.6
Net cash (VND bn)	(1,178)	(2,299)	(2,159)	(3,104)	(2,400)
Efficiency					
Days receivable outstanding	69	70	67	71	66
Days inventory outstanding	80	79	86	81	77
Days payable outstanding	67	57	57	60	57

Source: Company data, Yuanta Vietnam

CASH FLOW (VND bn)					
FY (VND'bn)	2018A	2019A	2020E	2021E	2022E
Operating cash flow	**343**	**557**	**1,508**	**2,012**	**722**
Net income	437	356	572	528	690
Dep, & amortization	123	136	188	229	324
Change in working capital	(147)	(834)	(57)	90	(281)
Others	(71)	899	806	1,165	(11)
Investment cash flow	**(521)**	**(2,033)**	**(1,369)**	**(2,956)**	**(18)**
Net capex	(531)	(405)	(1,221)	(1,450)	(241)
Change in LT investment	(326)	(707)	(340)	(1,530)	337
Change in other assets	337	(921)	192	24	(113)
Cash flow after invt.	(178)	(1,476)	140	(944)	704
Financing cash flow	**312**	**1,343**	**188**	**601**	**(678)**
Change in share capital	173	266	-	-	-
Net change in debt	149	1,077	188	601	(678)
Change in other LT liab.	(10)	-	-	-	-
Net change in cash flow	**134**	**(134)**	**328**	**(343)**	**26**
Beginning cash flow	567	701	568	896	552
Ending Cash Balance	**701**	**568**	**896**	**552**	**579**

KEY METRICS					
	2018A	2019A	2020E	2021E	2022E
PE (x)	4.8	7.1	4.6	5.0	3.8
Diluted PE (x)	4.8	7.1	4.6	5.0	3.8
PB (x)	0.8	0.7	0.6	0.5	0.5
EBITDA/share	5,094	4,745	6,431	6,664	8,483
DPS (VND)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
EV/EBITDA (x)	4.6	6.4	4.6	5.3	3.6
EV/EBIT (x)	5.6	8.2	5.6	6.7	4.8

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