

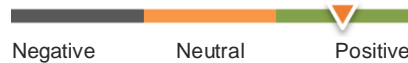
POWER CONSTRUCTION JSC NO.1 (PC1) – UPDATE

Market Price VND29,500	Target Price VND40,700	Dividend Yield na	Rating ADD	Sector INDUSTRIAL
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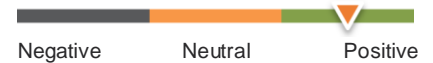
Outlook – Short term



Outlook – Long term



Valuation

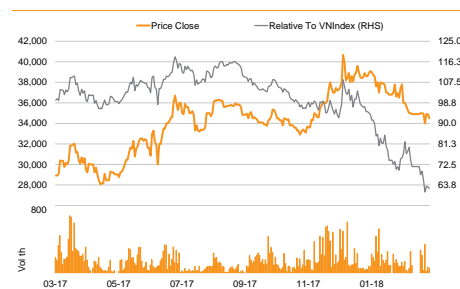


29 May 2018

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Price performance



Source: VNDIRECT

Key statistics

52w high (VNDVND)	40,650
52w low (VNDVND)	26,900
3m Avg daily volume (shares)	144,568
3m Avg daily value (VNDmn)	5,107
Market cap (VNDbn)	3,567
Outstanding shares (m)	115.5
Free float (%)	53.7
TTM P/E	12.8
Current P/B	1.2

Ownership

Trịnh Văn Tuấn	17.7%
VEIL	12.4%
Nguyễn Nhật Tân	5.1%
Others	64.8%

Source: VNDIRECT

PC1 reported an improvement in its performance during 1Q2018, driven primarily by the contributions from its hydropower segment and from equipment trading. The company only completed 14.5% of its annual profit after tax target, but we project that PC1 will see its earning surge in Q2 due to the recognition of revenue from My Dinh Plaza II.

PC1's revenue grew by 50.9% YoY driven mainly by hydropower (+135.9% YoY) and equipment trading (+277% YoY) revenue. Its two hydropower plants Bao Lam 3 and 3A have been operating stably since 4Q2017. PC1 currently operates four hydropower plants, compared to only two during 1Q2017. The rising equipment trading revenue was attributed to the rise in supply contracts signed in 1Q.

Gross margin fell from 19.5% during 1Q2017 to 13.9% during 1Q2018; margins declined in all segments except for hydropower. The decline in margins was a bit idiosyncratic as it was driven by the revenue recognition mix of contracts bagged during 1Q. PC1's gross margin for contract-dependent operating segments often fluctuates from quarter to quarter as gross margins vary by contract. Meanwhile, its hydropower segment continued to enjoy higher margins due to the increased output from its two new hydropower plants.

PC1's net income rose by only 10.6% due to much higher interest expenses. PC1 incurred higher interest expenses (+76.3%) during the quarter due to (1) higher borrowings (+12.6% YoY) compared to the same period last year, and (2) operation of 2 hydropower plants led to a ceasing of interest rate capitalization on borrowings incurred to fund construction of these 2 plants. Even though PC1's interest income was much higher at VND4.9bn (vs VND1.6bn in 1Q2017), its net financial expenses still increased by 65.2% YoY.

We expect better performance during Q2. PC1 has started handing over apartments to customers during May 2018 for My Dinh Plaza II project and will recognize the expected VND1,200bn in revenue during Q2 and Q3. The export contract to Bangladesh will also be delivered in 2Q, helping PC1 to recognize another VND90bn during this period.

Valuation: We reduce our target price to VND40,700/share (-3.4%) due to a change in the risk-free rate and equity risk premium applied. Despite this, the company looks inexpensive at a 2018 forward PE of just 7.2x and so we reiterate our ADD rating on the stock.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	3,101	3,008	3,161	5,117
Revenue growth	0.0%	(3.0%)	5.1%	61.9%
Gross margin	13.8%	17.5%	15.2%	18.1%
EBITDA margin	11.8%	15.2%	16.3%	16.7%
Net profit (bn)	245	305	237	471
Net profit growth	(42.0%)	24.1%	(22.1%)	98.5%
Recurring profit growth	(42.0%)	24.1%	(22.1%)	98.5%
Basic EPS	4,568	3,528	2,342	4,080
Adjusted EPS	4,413	3,432	2,144	3,906
BVPS	25,504	23,073	26,746	27,553
ROAE	22.0%	17.8%	10.1%	16.0%

Figure 1: Valuation methods

Segment	Segment value (bn VND)	Valuation method
Electrical Engineering	1,935	Target PE of 8.2
Industrial Production	614	Target PE of 7.8
Real Estate	199	NPV
Hydropower	1,867	FCFE
Others	86	Target PB of 1
Total	4,701	
Target Price (VND/share)	40,719	

Source: VNDIRECT

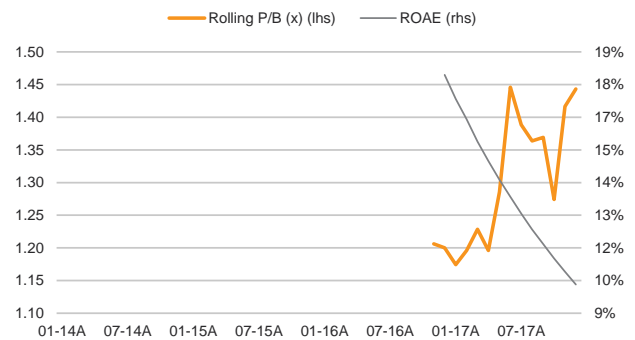
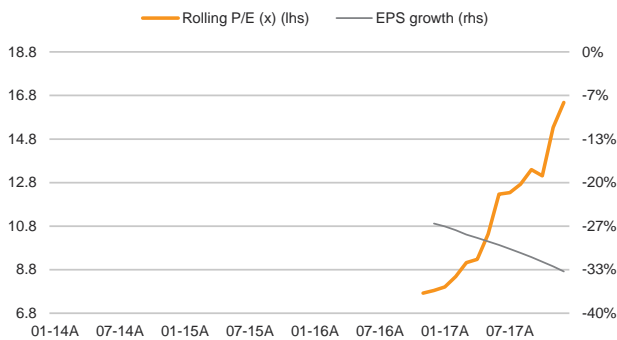
Valuation: We believe that this stock deserves to trade at a premium to its peers on a TTM basis due to PC1's strong fundamentals, which include the following: (1) it is the market leader in Vietnam's electrical engineering sector, which still has ample room for growth, (2) it has a good track record and relationship with EVN, as well as proprietary technology, and (3) earnings should soar by 98.5% in FY18. We use a sum-of-parts method due to the hybrid nature of PC1's business, and arrive at a target price of VND40,700/share, equivalent to a 1Y forward P/E of 10.0x.

Figure 2: Peer comparison

Company	Country	Market cap (mn US\$)	TTM NPAT growth (%)	TTM EPS growth (%)	ROA (%)	ROE (%)	D/E (x)	TTM P/E (x)	P/B (x)
<u>Electrical Engineering</u>									
CTD	Vietnam	602.4	0.3	0.8	11.9	23.2	0.0	8.6	1.8
HBC	Vietnam	244.6	-1.8	-3.4	6.8	44.5	2.1	6.4	2.5
VNE	Vietnam	24.5	-38.3	-38.3	4.1	6.8	0.2	9.7	0.6
<i>Average</i>		<i>290.5</i>	<i>-13.3</i>	<i>-13.6</i>	<i>7.6</i>	<i>24.8</i>	<i>0.8</i>	<i>8.2</i>	<i>1.6</i>
<i>Median</i>		<i>244.6</i>	<i>-1.8</i>	<i>-3.4</i>	<i>6.8</i>	<i>23.2</i>	<i>0.2</i>	<i>8.6</i>	<i>1.8</i>
<u>Hydropower</u>									
GHC	Vietnam	33.7	9.7	6.8	17.7	22.2	0.0	11.7	2.6
DRL	Vietnam	22.7	-11.3	-16.5	51.2	51.4	0.0	8.7	4.0
PIC	Vietnam	21.6	59.2	57.3	7.4	12.2	0.6	11.7	1.4
<i>Average</i>		<i>26.0</i>	<i>19.2</i>	<i>15.9</i>	<i>25.5</i>	<i>28.6</i>	<i>0.2</i>	<i>10.7</i>	<i>2.7</i>
<i>Median</i>		<i>22.7</i>	<i>9.7</i>	<i>6.8</i>	<i>17.7</i>	<i>22.2</i>	<i>0.0</i>	<i>11.7</i>	<i>2.6</i>
<u>Industrial Production</u>									
SHI	Vietnam	18.4	-20.7	-21.1	3.9	11.7	1.8	3.8	0.5
SHA	Vietnam	8.8	23.5	16.7	6.1	11.8	0.8	4.6	0.6
HMG	Vietnam	2.9	49.3	49.2	2.9	10.1	1.6	8.4	0.8
MHL	Vietnam	1.4	-92.4	-92.4	5.7	17.0	1.3	13.7	0.5
APL	Vietnam	0.9	-1.4	-0.9	2.2	14.5	1.7	8.4	1.5
<i>Average</i>		<i>6.5</i>	<i>-8.3</i>	<i>-9.7</i>	<i>4.2</i>	<i>13.0</i>	<i>1.4</i>	<i>7.8</i>	<i>0.8</i>
<i>Median</i>		<i>2.9</i>	<i>-1.4</i>	<i>-0.9</i>	<i>3.9</i>	<i>11.8</i>	<i>1.6</i>	<i>8.4</i>	<i>0.6</i>
PC1	Vietnam	173.6	-22.1	-33.6	4.4	10.1	0.6	12.8	1.2

Source: VNDIRECT

Valuation



Income statement

(VNDbn)	12-16A	12-17A	12-18E
Net revenue	3,008	3,161	5,117
Cost of sales	(2,482)	(2,679)	(4,189)
Gen & admin expenses	(129)	(109)	(231)
Selling expenses	(0)	(17)	(13)
Operating profit	397	356	683
Operating EBITDA	433	471	814
Depreciation and amortisation	(36)	(115)	(131)
Operating EBIT	397	356	683
Interest income	14	11	10
Financial expense	(22)	(103)	(126)
Net other income	72	40	56
Income from associates & JVs	(61)	1	(20)
Pre-tax profit	401	304	603
Tax expense	(96)	(47)	(93)
Minority interest	0	(20)	(39)
Net profit	305	237	471
Adj. net profit to ordinary	305	237	471
Ordinary dividends	(0)	0	0
Retained earnings	305	237	471

Balance sheet

(VNDbn)	12-16A	12-17A	12-18E
Cash and equivalents	419	567	179
Short term investments	20	100	100
Accounts receivables	1,046	1,300	1,602
Inventories	532	1,085	1,211
Other current assets	29	42	59
Total current assets	2,046	3,095	3,151
Fixed assets	2,111	2,817	3,693
Total investments	85	91	91
Other long-term assets	288	210	275
Total assets	4,530	6,213	7,210
Short-term debt	135	226	25
Accounts payable	815	793	908
Other current liabilities	427	742	987
Total current liabilities	1,377	1,762	1,920
Total long-term debt	981	1,595	1,802
Other liabilities	109	41	163
Share capital	753	1,155	1,155
Retained earnings reserve	870	844	1,315
Shareholders' equity	1,993	2,710	3,181
Minority interest	70	105	144
Total liabilities & equity	4,530	6,213	7,210

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18E
Pretax profit	401	304	603
Depreciation & amortisation	36	115	131
Tax paid	(80)	(63)	(93)
Other adjustments	(375)	(89)	(46)
Change in working capital	(14)	(447)	(86)
Cash flow from operations	(32)	(180)	509
Capex	(993)	(820)	(995)
Proceeds from assets sales	0	1	0
Others	(75)	5	46
Other non-current assets changes	(21)	(80)	(77)
Cash flow from investing activities	(1,089)	(895)	(1,026)
New share issuance	414	519	0
Shares buyback	0	(0)	0
Net borrowings	585	705	6
Other financing cash flow			122
Dividends paid	(0)	0	0
Cash flow from financing activities	999	1,224	128
Cash and equivalents at beginning of period	571	419	567
Total cash generated	(122)	149	(389)
Cash and equivalents at the end of period	449	567	179

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	10.1%	7.5%	9.2%
Asset turnover	0.77	0.59	0.76
ROAA	7.8%	4.4%	7.0%
Avg assets/avg equity	2.32	2.28	2.28
ROAE	18.1%	10.1%	16.0%
Efficiency			
Days account receivable	97	101	84
Days inventory	79	148	106
Days creditor	120	108	79
Fixed asset turnover	2.07	1.28	1.57
ROIC	9.6%	5.1%	9.1%
Liquidity			
Current ratio	1.49	1.76	1.64
Quick ratio	1.10	1.14	1.01
Cash ratio	0.32	0.38	0.15
Cash cycle	55	141	110
Growth rate (yoy)			
Revenue growth	(3.0%)	5.1%	61.9%
Operating profit growth	34.1%	(10.4%)	91.9%
Net profit growth	18.5%	(22.1%)	98.5%
EPS growth	(26.3%)	(33.6%)	74.2%
Share value			
Basic EPS (VND)	3,528	2,342	4,080
BVPS (VND)	23,074	26,747	27,553

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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