

POWER CONSTRUCTION JSC NO.1 (PC1) – UPDATE

Market Price VND34,200	Target Price VND42,100	Dividend Yield na	Rating ADD	Sector INDUSTRIAL
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Outlook – Short term



Outlook – Long term



Valuation



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Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VNDVND)	40,650
52w low (VNDVND)	26,900
3m Avg daily volume (shares)	161,341
3m Avg daily value (VNDmn)	5,816
Market cap (VNDbn)	3,919
Outstanding shares (m)	115.5
Free float (%)	53.7
TTM P/E	14.6
Current P/B	1.3

Ownership

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

Source: VNDIRECT

PC1 saw weak performance in 2017 due to drop in both electrical engineering and industrial construction segments as well as due to the absence of real estate revenue. However, as the reduction was caused by one-off events and should not affect this year's results, we maintain our bullish view on the company's 2018 prospects. We keep our target price unchanged but re-rate the stock to ADD because of the recent slide in the company's share price which we view as just a knee-jerk reaction to 2017 results.

Lower electrical construction revenue due to Q4's drop will not adversely affect 2018 prospects. The 6.3% YoY fall in full year electrical engineering revenue was due to revenue recognition timing and therefore not a cause for concern. We maintain our forecast on electrical construction revenue in this segment as we expect PC1 will recognize the un-booked revenue for those remaining projects (back log of VND1,800bn) and part of the newly signed projects in 2018.

Unfavorable performance in industrial production segment due to a 27.1% fall in revenue from the existing customers as some of the electrical engineering projects were delayed unexpectedly. In addition, export contracts to Indonesia worth VND500bn (half of total export contract value to Indonesia, spanning a 2-year period) were postponed to this year due to delays in getting government approval.

Total revenue grew by 5.1% in 2017 but recurring profit fell by 33.1% due to much higher interest expenses (+385%) and lack of real estate revenue. The rise in hydropower revenue (31 times higher than 2016, thanks to full year operation of Trung Thu and Bao Lam 1 plants) and sale of equipment (+451%, due to signing of new commercial contracts for equipment and steel billets) helped compensate for the revenue fall in other segments and the absence of real estate revenue. However, PC1 incurred much higher borrowings (+63.2%) required to complete construction of two new hydropower plants Bao Lam 3 & 3A which came online in November 2017.

Valuation: We expect the fall in 2017 revenue from electrical engineering and industrial production to be reversed in 2018 and therefore maintain our target price for 2018 of VND42,100/share. The company looks inexpensive at a PE of 8.4x on our FY18F NPAT.

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%

Source: VNDIRECT

2018 outlook is still optimistic with growth coming from real estate, hydropower and electrical engineering

Progress on My Dinh Plaza II construction is on schedule. PC1 is completing the last phase of the project and will start handing over apartments to customers in May 2018. More than 80% of the project has been sold and we expect 100% sale of the apartments by the time the building's construction is complete. We maintain our forecast that PC1 will recognize all the revenue and gross profit from the project at VND1,100bn and VND333bn in 2018, respectively.

Hydropower revenue is expected to grow by 85% in 2018 as 4 plants will contribute a full-year of production. With the assumed selling price of VND1,100/kWh (same level as 2017), we expect total revenue of hydropower in 2018 to be VND516bn (+84.9%) based on total electricity output of 469mn kWh. This number will include a full-year of contribution from Bao Lam 3 and 3A, taking PC1's total generation capacity to 114MW.

Electrical engineering revenue is projected to increase by at least 10% in 2018. We forecast the segment revenue to reach VND2,196bn in 2018, of which VND1,800bn is 2017's leftover backlog and the remaining VND396bn will come from partial booking of VND2,200bn worth of new order wins forecasted for the year, the same amount of new contracts signed during the year for 2017.

Opportunities from EVN's big transmission line project in 2Q2018 present upside to our forecasts. The government has approved the opening of the bidding process for the 500kV transmission line branch 3 project in 2Q2018 at a total investment value of VND10,364bn (US\$456mn), of which around 35% (equivalent to VND3,627bn) will be electrical engineering work. The project is expected to start in 3Q2018 and be completed by the end of 2019. The timeline is very tight due to the urgency of getting this new transmission capacity on stream. PC1 intends to participate in the bidding process for the electrical engineering component of the package.

If PC1 wins the bid for the complete electrical engineering package worth VND3,627bn, which starts in 3Q2018, we assume that PC1 will be able to recognize revenue of VND604.5bn within 2018. Thus, total electrical engineering and industrial revenue may increase by 27.5% from our current forecast for 2018 (VND2,196bn).

Valuation: We believe the stock deserves to trade at a premium to peers on a TTM basis due to PC1's strong fundamentals including 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 and has proprietary technology, and (3) EBT should skyrocket by 98.5% in FY18. Using a sum-of-parts method due to the hybrid nature of PC1's business, we arrive at a target price of VND42,100/share for PC1, equivalent to a 1Y forward P/E of 10.3x.

Figure 1: Forecasted 2018 business results (in VNDbn) (*)

	2016	2017	2018F
Electrical Engineering	1,815	1,701	2,196
Industrial production	517	377	520
Office lease	9	12	13
Apartment for sale	464	3	1,100
Hydropower	9	279	516
Sales of equipment	131	723	700
Others	63	66	72
Total revenue	3,008	3,161	5,117
Revenue growth	-3.0%	5.1%	64.9%
EBT	401	304	603
EBT growth	25.7%	-24.2%	98.5%

Source: VNDIRECT

(*) Total revenue in 2018 does not include additional revenue from 500kV transmission line

Figure 2: Evaluation 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	204	NPV
Hydropower	2,032	FCFE
Others	86	Target PB of 1
Total	4,871	
Target Price (VND/share)	42,191	

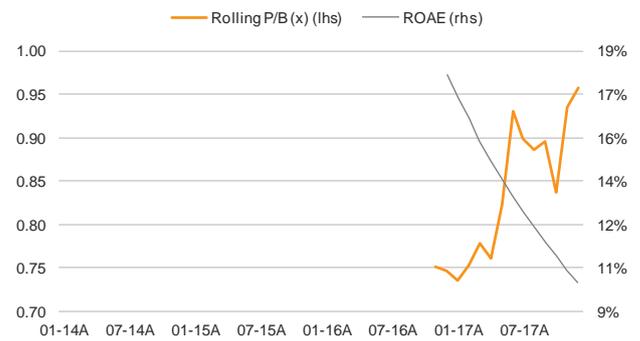
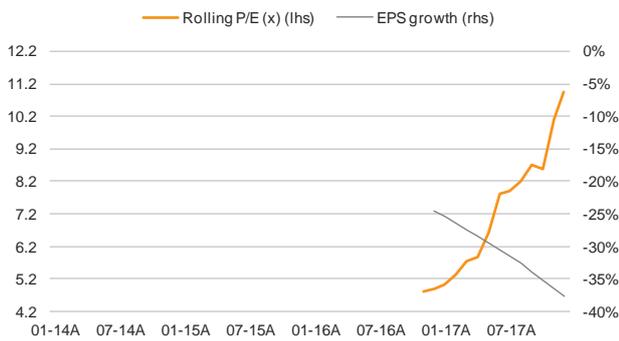
Source: VNDIRECT

Figure 3: 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>		290.5	-13.3	-13.6	7.6	24.8	0.8	8.2	1.6
<i>Median</i>		244.6	-1.8	-3.4	6.8	23.2	0.2	8.6	1.8
<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>		26.0	19.2	15.9	25.5	28.6	0.2	10.7	2.7
<i>Median</i>		22.7	9.7	6.8	17.7	22.2	0.0	11.7	2.6
<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>		6.5	-8.3	-9.7	4.2	13.0	1.4	7.8	0.8
<i>Median</i>		2.9	-1.4	-0.9	3.9	11.8	1.6	8.4	0.6
PC1	Vietnam	173.6	-22.1	-33.6	4.4	10.1	0.6	14.6	1.3

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
Taxation	(96)	(47)	(93)
Minority interests	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 interests	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	(24.6%)	(37.8%)	15.6%
Share value			
Basic EPS (VND)	3,528	2,342	4,080
BVPS (VND)	23,073	26,746	27,553

Source: VNDIRECT

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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.

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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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