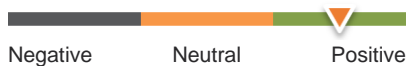


POWER CONSTRUCTION JSC NO.1 (PC1) – UPDATE

Market Price VND24,900	Target Price VND31,300	Dividend Yield 0.0%	Rating ADD	Sector INDUSTRIALS
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Outlook – Short term



Outlook – Long term



Valuation



24 August 2018

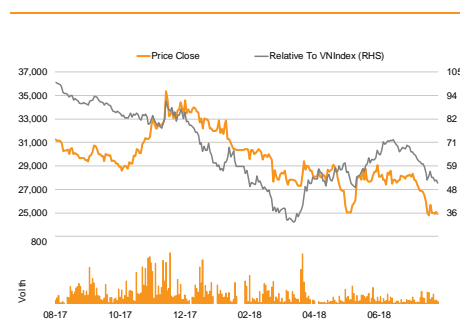
My Tran Ha

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Key changes in the report

- FY18F EPS cut by 13.0%, adjusting for share dividend payment in Jul 2018.

Price performance



Key statistics

52w high (VND)	35,348
52w low (VND)	24,800
3m Avg daily volume (shares)	65,538
3m Avg daily value (VNDmn)	1,747
Market cap (VNDbn)	3,333
Outstanding shares (m)	134
Free float (%)	71
TTM P/E (x)	8.4
Current P/B (x)	1.2

Ownership

Trinh Van Tuan	17.7%
Vietnam Enterprise Investments Ltd.	11.1%
Vietnam Holding Limited	4.1%
Others	67.1%

Source: VNDIRECT

PC1's net profit surged in 1H18, as expected, on the back of revenue recognition from the My Dinh Plaza 2 project and production ramp-ups at its new hydropower plants as we had anticipated. The grid erection and installation segment missed our expectations, however, due to slow progress on big projects but should recover from late 2018 onwards thanks to a sizeable order backlog of VND 2,300bn. A key catalyst for the stock is the initiation of the third national 500kV transmission line project, expected to open bidding in late 2018.

Real estate and hydropower segment led a strong set of 1H18 results. PC1 delivered a strong set of results in 1H18. Net profit rose 127.6% yoy to VND278bn, driven by 77.1% growth in revenue and 1.6% pts gross margin expansion. Strong revenue growth and margin expansion were driven mainly by 1) the recognition of revenue from My Dinh Plaza 2 project (revenue of VND600bn with high GPM of 31.5%) and 2) the ramp up in output from new plants within the hydropower segment.

We expect the grid erection and steel pole production segment to recover from late 2018 onwards. New contracts signed over the first 8 months of the year reached VND1,650bn, bringing the accumulated backlog to VND2,300bn. We project the grid segment could generate VND925bn in the second half of this year (+22.9% vs. 1H18). In addition, the third national transmission line project will contribute significantly in 2019, assuming the project will break ground in late 2018. We also expect the steel pole production segment to recover in 2H2018, given the sizeable current order backlog of ~VND405bn.

Investment in hydropower to pay-off. Hydropower revenue rose 143.4% yoy in 1H18, thanks to two new hydropower plants (Bao Lam A and 3A). Gross margin of this segment expanded by 4.4% pts to 63.3% in 1H18, driven by higher volume and lower-than-expected depreciation costs. PC1 targeted to double its hydropower capacity with another four hydropower plants with additional capacity of 124MW in the next 3 years. We see this segment as a cash cow and buffer against volatility in the contracting arm.

We maintain our Add call but revise our target price to VND31,300, reflecting 1) a 15% stock dividend in Jul 2018; 2) slower-than-expected progress on the company's grid erection & installation projects and 3) unclear outlook of steel pole exports. The old target price is reduced by 11.6% if we exclude the impact of stock dividends. Downside risks to our call are 1) a further delay of the third national transmission line; 2) slower-than-expected progress of the Thanh Xuan real estate project.

Financial summary (USD)	12-15A	12-16A	12-17A	12-18E
Net revenue (bn)	3,101	3,008	3,161	4,987
Revenue growth	0.0%	(3.0%)	5.1%	57.8%
Gross margin	13.8%	17.5%	15.2%	18.2%
EBITDA margin	11.4%	15.2%	16.3%	17.8%
Net profit (bn)	245	305	237	507
Net profit growth		24.1%	(22.3%)	114.2%
Recurring profit growth		24.1%	(22.3%)	114.2%
Basic EPS	1,848	2,294	1,782	3,816
Adjusted EPS	1,848	2,124	1,643	3,549
BVPS	38,012	26,003	23,238	23,222
ROAE		18.7%	10.2%	17.6%

Source: VNDIRECT

1H18 earnings surged thanks to real estate and hydropower segment

Figure 1: Earnings revision

FYE (VNDbn)	2017A	2018F		Comments
		Old	New	
Net revenue	3,161	5,117	4,987	-2.5% Lower due to slower-than-expected progress of grid erection projects
<i>Net revenue growth</i>	5.1%	61.9%	57.8%	
Gross profit	481	1,057	907	-14.2%
<i>Gross profit margin</i>	15.2%	20.7%	18.2%	-2.5% pts Lower due to lower gross margin of grid erection & installation segment and steel pole production segment.
EBIT	355	683	693	1.5% Slightly higher due to lower SG&A expenses
EBT	303	603	623	3.3%
Net profit	237	471	507	7.6% Driven by lower minority interest (Trung Thu hydropower plant)
EPS (VND)	1,890	4,080	3,549	-13.0% Adjusted for 15% share dividend payment in Jul 2018

Source: VNDIRECT

Figure 2: Comparison of financial results

FYE (VNDbn)	2QFY18	yoy	1HFY18	yoy	vs. old forecast	vs. revised forecast	Comments
Net revenue	1,589.9	95.2%	2,445.9	77.1%	47.8%	49.0%	
<i>Industrial manufacturing</i>	363.9	47.3%	790.8	98.2%			Surge in trading activities for its JV with Cao Bang Steel JSC Co.
<i>Grid erection & installation</i>	451.6	-7.9%	752.8	-10.4%			Slow progress of PC1's main projects
<i>Real estate</i>	603.3	12727.7%	606.2	7254.4%			The recognition of revenue from My Dinh Plaza 2 project (VND600bn)
<i>Hydropower</i>	156.8	33183.6%	269.5	143.4%			The contribution of two new hydropower plants
<i>Other</i>	14.3	149.1%	26.6	13.8%			
Gross profit	356.4	162.9%	475.2	92.9%	45.0%	52.4%	
<i>Gross profit margin</i>	22.4%	5.8% pts	19.4%	1.6% pts			GPM decreased due to lower margin from grid segment and steel pole production segment
Selling expenses	28.1	na	30.8	na	237.2%	56.2%	Higher than our previous forecast due to distribution expenses for My Dinh Plaza 2 project
G&A expenses	42.0	11.7%	71.1	4.1%	30.8%	58.2%	Lower than our previous forecast thanks to cost controls
Operating profit	256.8	222.8%	321.7	125.3%	47.1%	46.4%	
Pre-tax profit	265.5	213.2%	338.9	115.5%	56.2%	54.4%	
Net profit	215.1	233.5%	278.2	127.6%	59.1%	54.9%	
EPS (sem)(VND/share)	1,619.8	233.4%	2,095.3	127.7%	51.4%	59.0%	Based on current NoS (132.8m shares)

Source: PC1, VNDIRECT

Note: EPS growth excludes impact of stock dividend issuance since it is non-dilutive

We expect a recovery in the grid erection and installation segment from late 2018 onwards

There was stagnant revenue growth in grid erection and installation segment in 1H18. This segment continued to post negative revenue growth (-10.4% yoy), with the key culprit behind the decline being the slowdown in the progress of the grid erection and installation segment, revenue of this segment fell by 2.8% yoy in 1H2018. The cooperation with its Japanese partner AG Ajikawa also did not deliver growth as there were long delays in commencing exports product into Indonesia owing to regulations.

A transmission line construction usually lasts 6-12 months and the company books revenue progressively during the project execution period. Based on the company's order backlog and the progress of PC1's main projects, we expect the company to deliver better growth in both grid segment and steel pole production segment in 2H18.

In addition, we expect no more delays in the finalization process of the third national 500kV transmission line as investment in the third

national 500kV transmission line has become a top priority of EVN. In Apr 2018, a project management board was established, forcing the pace on opening the bidding process for this national transmission line. According to the company, EVN plans to open bidding for this transmission line in Sep 2018, implying that the project could break ground at the end of this year. With the leading position in building transmission lines and substations in Vietnam, we expect PC1 to win new orders worth up to VND2,000bn from this project and the order awards could be a significant price catalyst for PC1.

Solid outlook for hydropower segment driven by a series of new plants

Currently, PC1 targets to build another four hydropower plants, including: 1) Mong An (30MW, capex of VND916bn); 2) Bao Lac B (18MW, capex of VND592bn); 3) Song Nhiem 4 (6MW, capex of VND196bn) and 4) Dien Bien (70MW, under consideration) which could double its current installed capacity by 2021. In our view, the development of hydropower business will not only help the company to mitigate the volatility in contract-dependent operating segments, but also to improve its blended gross margins.

Figure 3: PC1's hydropower plants

Plant	Location	PC1's ownership	Initiation	Operation	Capacity (MW)	Volume (m kWh)	Total investment (VND bn)
Trung Thu	Dien Bien	60%	Aug-14	Nov-16	30.0	121.0	900.0
Bao Lam 1	Cao Bang	100%	Nov-14	Jan-17	30.0	124.0	915.4
Bao Lam 3	Cao Bang	100%	Jun-15	Nov-17	46.0	191.0	1393.6
Bao Lam 3A	Cao Bang	100%	Feb-16	Nov-17	8.0	33.0	253.0
Mong An	Cao Bang	90%	Q3/2017	Q3/2019	30.0	120.0	915.3
Bao Lac B	Cao Bang	100%	Jun-18	Sep-20	18.0	60.0	592.0
Song Nhiem	Ha Giang	100%	Q4/2018	Q3/2020	6.0	21.0	196.0

Source: PC1, VNDIRECT

Note: This table does not include Dien Bien project as it is currently under consideration

PC1 plans to acquire Tien Bo Commercial and Investment JSC to develop its land bank

PC1 was successful debutant in real estate development in the mid-range segment with the My Dinh Plaza 2 project. The company will launch the fifth project (Thanh Xuan) by the end of 2019. In order to maintain stable revenue from the real estate segment beyond 2019, the company plans to acquire a textile company to get access to its land bank (5,000 m²), located in Hoang Mai district, Ha Noi. The company expects to complete legal documentation and announce the acquisition price in the end of Sep 2018 which should be around VND100-200bn per our estimates. Because of this, we have not factored this acquisition in our valuation yet.

Valuation

We consider PC1 as a defensive play with strong earnings growth. Despite a strong earnings rebound, PC1's share price has remained weak during the first 8 months of the year. We think its current share price weakness may persist pending more clarity on the progress of the third national transmission line. We remain positive on PC1's earnings growth outlook as we project improving operational performance from its new hydro plants and several upcoming grid erection and installation projects. The initiation of the third national 500kV transmission line will reduce uncertainty and boost investor sentiment.

We keep our Add rating but revise our SOTP-based target price to VND31,300 from VND40,700, reflecting 1) a 15% share dividend payment in Jul 2018 and 2) slower than expected progress of PC1's main grid erection projects. The old target price is reduced by 11.6%

if we exclude the impact of stock dividends. This target price is composed of: VND5,600/share for grid erection & steel pole production segment (6.2x CY18F P/E), VND22,600/share for hydropower (DCF with WACC of 8.2%), VND2,400/share for real estate development (NAV with discount rate of 15.1%) and book value of its subsidiaries (VND700/share). We believe PC1's current valuation is attractive given: 1) its leading position in power construction in Vietnam; 2) strong backlog in FY19F thanks to the debut of the third national transmission line project; and 3) rising stable cash flows from the expanding hydropower asset base.

Figure 4: Hydropower segment DCF assumptions

Cost of equity assumptions (%)		Cost of debt assumptions (%)	
Risk free rate	5.0	Pretax cost of debt	5.6
Market risk premium	15.1	Marginal tax rate	3.0
Beta	1.03		
DCF assumptions			
Cost of equity, Ke	15.4	Net cost of debt, Kd	5.4
Weighting applied	27.9	Weighting applied	72.1
WACC (%)	8.2		

Source: VNDIRECT

Figure 5: SOP valuation estimate

Segment	Value (VND bn)	% of total	Valuation methodology
M&E & Industrial manufacturing	742.1	17.9%	Target P/E of 6.2x
Real estate development	286.5	6.9%	NPV, discount rate of 15.1%
Real estate investment	37.1	0.9%	DCF, discount rate of 15.1%, terminal growth rate: 0%
Hydropower	3,004.1	72.3%	DCF, discount rate of 8.2%, terminal growth rate: 1%
Other	86.0	2.1%	Book value
Total	4,155.8		
No of shares outstanding (shares)	132,769,862		
Target price (VND/share)	31,300		

Source: VNDIRECT

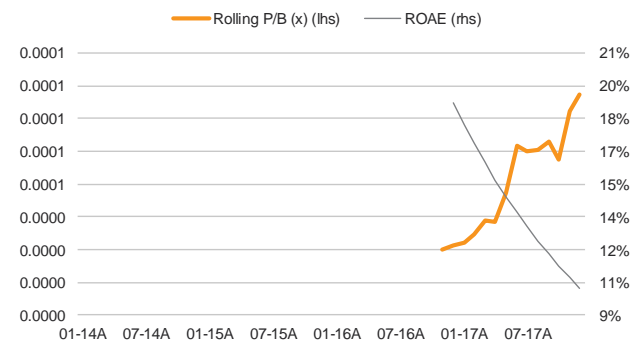
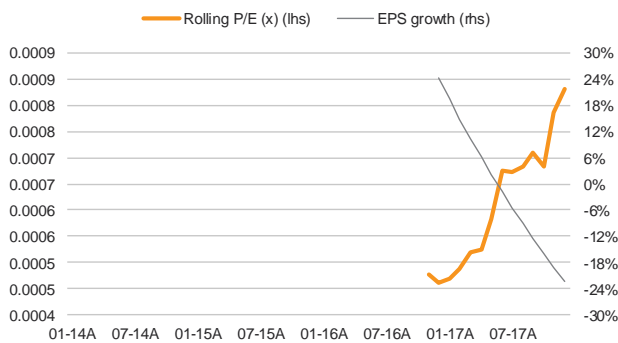
Figure 6: Peer comparison

Ticker	Market cap	TTM NPAT growth	TTM EPS growth	ROA	ROE	Net D/E	P/E	P/B	EV/EBITDA
	(mn US\$)	(%)	(%)	(%)	(%)	(%)	(x)	(x)	(x)
Specialty Construction									
TV2 VN Equity	52.5	179.0	187.8	17.6	63.8	(97.8)	3.9	2.3	2.2
VNE VN Equity	23.0	3.0	11.5	3.9	6.9	7.1	5.2	0.6	6.0
SC5 VN Equity	21.2	40.6	40.6	2.5	18.0	29.5	8.7	1.5	6.4
TV3 VN Equity	13.5	(35.3)	(46.1)	5.4	11.2	(68.7)	40.7	3.3	12.8
SJE VN Equity	13.0	209.8	176.4	5.5	20.5	104.7	3.6	0.8	5.5
TV4 VN Equity	11.2	(17.2)	(18.1)	9.6	13.8	(22.2)	11.3	1.5	13.9
<i>Average</i>	<i>22.4</i>	<i>63.3</i>	<i>58.7</i>	<i>7.4</i>	<i>22.3</i>	<i>(7.9)</i>	<i>12.2</i>	<i>1.7</i>	<i>7.8</i>
<i>Median</i>	<i>17.4</i>	<i>21.8</i>	<i>26.1</i>	<i>5.4</i>	<i>15.9</i>	<i>(7.6)</i>	<i>6.9</i>	<i>1.5</i>	<i>6.2</i>
Hydropower									
SHP VN Equity	88.5	6.4	4.6	7.5	16.4	88.7	11.9	1.9	6.8
SJD VN Equity	75.1	15.2	15.1	14.0	18.2	7.7	8.8	1.6	5.1
VPD VN Equity	69.3	189.7	210.5	6.1	14.0	-	10.0	1.3	5.6
SEB VN Equity	49.5	9.2	8.9	16.8	36.1	68.4	8.0	2.8	6.6
ISH VN Equity	34.8	274.1	321.3	8.4	13.6	41.7	11.6	1.5	5.1
GHC VN Equity	27.7	66.0	66.0	29.5	34.3	(37.7)	5.9	1.9	4.3
DRL VN Equity	22.4	(1.1)	(3.0)	42.9	42.9	(64.2)	9.5	4.3	7.4
HJS VN Equity	20.3	62.2	62.1	10.4	18.7	3.0	9.3	1.7	5.7
PIC VN Equity	18.4	59.2	53.2	7.4	12.2	52.0	10.5	1.2	11.1
HPD VN Equity	6.2	148.2	148.2	8.1	16.4	87.5	8.0	1.3	4.9
<i>Average</i>	<i>41.2</i>	<i>82.9</i>	<i>88.7</i>	<i>15.1</i>	<i>22.3</i>	<i>24.7</i>	<i>9.3</i>	<i>1.9</i>	<i>6.3</i>
<i>Median</i>	<i>31.3</i>	<i>60.7</i>	<i>57.7</i>	<i>9.4</i>	<i>17.3</i>	<i>24.7</i>	<i>9.4</i>	<i>1.6</i>	<i>5.7</i>
PC1 VN Equity	145.9	78.9	77.5	6.5	15.8	46.6	8.4	1.2	7.4

Source: BLOOMBERG, VNDIRECT

Note: Data as of 23 Aug 2018

Valuation



Income statement

(USDbn)	12-16A	12-17A	12-18E
Net revenue	3,008	3,161	4,987
Cost of sales	(2,482)	(2,679)	(4,080)
Gen & admin expenses	(129)	(126)	(160)
Selling expenses	(0)	0	(55)
Operating profit	397	355	693
Operating EBITDA	433	470	832
Depreciation and amortisation	(36)	(115)	(139)
Operating EBIT	397	355	693
Interest income	14	11	12
Financial expense	(22)	(103)	(122)
Net other income	72	40	40
Income from associates & JVs	(61)	1	1
Pre-tax profit	401	303	623
Tax expense	(96)	(47)	(94)
Minority interest	0	(20)	(23)
Net profit	305	237	507
Adj. net profit to ordinary	305	237	507
Ordinary dividends			
Retained earnings	305	237	507

Balance sheet

(USDbn)	12-16A	12-17A	12-18E
Cash and equivalents	419	567	982
Short term investments	20	100	0
Accounts receivables	1,046	1,302	1,627
Inventories	532	1,085	671
Other current assets	29	38	40
Total current assets	2,046	3,092	3,320
Fixed assets	2,111	2,816	3,077
Total investments	85	91	291
Other long-term assets	287	213	213
Total assets	4,529	6,212	6,901
Short-term debt	135	294	737
Accounts payable	815	794	838
Other current liabilities	427	745	567
Total current liabilities	1,377	1,833	2,141
Total long-term debt	981	1,527	1,507
Other liabilities	109	40	40
Share capital	753	1,155	1,328
Retained earnings reserve	765	716	938
Shareholders' equity	1,958	2,684	3,084
Minority interest	104	128	128
Total liabilities & equity	4,529	6,212	6,901

Cash flow statement

(USDbn)	12-16A	12-17A	12-18E
Pretax profit	401	303	623
Depreciation & amortisation	36	115	139
Tax paid	(80)	(63)	(94)
Other adjustments	(35)	(74)	(77)
Change in working capital	(666)	(240)	(26)
Cash flow from operations	(344)	41	566
Capex	(993)	(821)	(400)
Proceeds from assets sales	0	2	0
Others	(96)	(77)	(200)
Other non-current assets changes	0	0	0
Cash flow from investing activities	(1,088)	(896)	(600)
New share issuance	414	519	0
Shares buyback	0	(0)	0
Net borrowings	592	705	334
Other financing cash flow	(7)	0	(64)
Dividends paid	(0)	0	0
Cash flow from financing activities	999	1,224	270
Cash and equivalents at beginning of period	571	419	567
Total cash generated	(434)	369	235
Cash and equivalents at the end of period	137	788	802

Key ratios

	12-16A	12-17A	12-18E
Dupont			
Net profit margin	10.1%	7.5%	10.2%
Asset turnover	0.77	0.59	0.76
ROAA	7.8%	4.4%	7.7%
Avg assets/avg equity	2.39	2.31	2.27
ROAE	18.7%	10.2%	17.6%
Efficiency			
Days account receivable	97	101	86
Days inventory	78	148	60
Days creditor	120	108	75
Fixed asset turnover	2.07	1.28	1.69
ROIC	9.6%	5.1%	9.3%
Liquidity			
Current ratio	1.49	1.69	1.55
Quick ratio	1.10	1.09	1.24
Cash ratio	0.32	0.36	0.46
Cash cycle	55	141	71
Growth rate (yoy)			
Revenue growth	(3.0%)	5.1%	57.8%
Operating profit growth	34.1%	(10.6%)	95.1%
Net profit growth	24.1%	(22.3%)	114.2%
EPS growth	24.1%	(22.3%)	114.2%
Share value			
Basic EPS (USD)	2,294	1,782	3,816
BVPS (USD)	26,003	23,238	23,222

Source: VNDIRECT

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- 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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