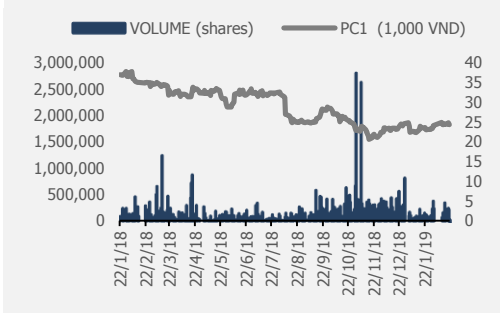


**BUY** (maintain)**Power Construction JSC No.1 (HSX: PC1)**

Report date	Feb. 25, 2019
Current price	VND 24,400
Target price	VND 32,400
Upside	33%
Bloomberg	PC1 VN
Market cap	VND 3,233bn USD 139mn
52 weeks movement	VND 20,600– VND 30,500
Average daily value	VND 5bn USD 0.2mn
FOL	49%
Current FO	37.7%

**Better prospects from newly announced projects****Our takeaways**

- 41% and 37% increase in earnings forecast in FY19 and FY20 respectively, thanks to (i) higher revenue from power infrastructure construction and steel tower production, (ii) booking of 21% (instead of full recognition in FY18) revenue from the My Dinh Plaza 2 project in 1Q2019 and (iii) full operation of the Bao Lac B hydropower project in FY20 (9 months earlier than previously forecasted).
- The Mong An (30MW) and the Bao Lac B (18MW) hydropower plants could add VND 88bn annually to gross profit from FY20 (10% of total). Besides, the Thanh Xuan project could contribute an additional VND 156bn gross profit in 1H2020 (17% of total FY20).

**Price movement**

Stock performance	1M	3M	12M
PC1 (%)	+4%	+15%	-20%
VNIndex (%)	+7%	+5%	-11%

Source: Bloomberg

**Major Shareholder**

Trinh Van Tuan	17.66%
Vietnam Enterprise Investments Ltd	11.01%

**What's new**

**95% yoy net profit growth in FY18.** The My Dinh Plaza 2 project (handed over in May 2018) enable PC1 to record VND 249bn in gross profit. In addition, 2.2 times higher gross profit of hydropower segment from operating the Bao Lam 3 & 3A plants (46 MW & 8MW) in Nov 2017 lent a helping hand to boost FY18 results.

**Increasing our net profit forecast in FY19 and FY20 by 41% and 37%, respectively,** supported by (i) 29% and 88% higher revenue forecast of power infrastructure construction and steel tower production respectively based on soaring backlog value of both segments and expected VND1,200bn from the Third 500kv Transmission Lines construction; (ii) the contribution of My Dinh Plaza 2 in 1Q2019 and (iii) 4% increase in gross profit from the new Bao Lac B hydropower plant (18 MW, about 11% of total capacity) in FY20.

**Real estate segment is expected to contribute 16% of gross profit in FY21.** We believe the newly announced mid-end apartment PCC1 Vinh Hung project will contribute revenue and gross profit of VND 740bn and VND 140bn in FY21 respectively. Moreover, from 4Q2021, the new Bao Lac A hydropower project (39MW, about 19% of total capacity) will contribute VND 83bn to gross profit annually (about 10% of total gross profit).

**Valuation**

We maintain PC1 12-month target price of VND 32,400 (diluted for 15% share dividend). Despite of the higher earnings forecasts, we increase PC1 beta from 0.22 to 0.37 based on latest market movement, leading to 120 basic point higher WACC. PC1 is currently trading at 2019F P/E of 11x and 2020F P/E of 9x, lower than hydropower peers' P/E of 12.5x. This segment accounts for about 55% of gross profit (excluding real estate).

Unit: VND billion	FY18	FY19F	FY20F	FY21F
<b>Revenue</b>	<b>5,085</b>	<b>5,692</b>	<b>6,417</b>	<b>5,816</b>
EBIT	716	595	782	759
<b>Net profit</b>	<b>462</b>	<b>329</b>	<b>418</b>	<b>343</b>
<b>Net profit (basic)</b>	<b>462</b>	<b>329</b>	<b>418</b>	<b>343</b>
EPS (VND)	3,480	2,276	2,897	2,375
EPS growth rate (%)	95%	-35%	27%	-18%
<b>P/E (x)</b>	<b>7</b>	<b>11</b>	<b>8</b>	<b>10</b>
EV/EBITDA (x)	6	9	7	4
DPS (VND)	0	500	500	500
Dividend yield (%)	0%	2%	2%	2%
P/B (x)	1.0	0.9	0.8	0.8
<b>ROE (%)</b>	<b>15%</b>	<b>10%</b>	<b>11%</b>	<b>9%</b>
Net debt/equity (%)	81%	121%	118%	97%

Source: MBS Research

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Table 1: FY18 - FY22 Earnings Forecast																			
VND bn	Actual			Our forecast				yoy				Company target				yoy			
	FY17	FY18	yoy	FY19F	FY20F	FY21F	FY22F	FY19F	FY20F	FY21F	FY22F	FY19P	FY20P	FY21P	FY22P	FY19P	FY20P	FY21P	FY22P
<b>Revenue</b>	<b>3,161</b>	<b>5,085</b>	<b>61%</b>	<b>5,692</b>	<b>6,417</b>	<b>5,816</b>	<b>5,204</b>	<b>12%</b>	<b>13%</b>	<b>-9%</b>	<b>-11%</b>	<b>6,229</b>	<b>7,861</b>	<b>9,529</b>	<b>10,477</b>	<b>22%</b>	<b>26%</b>	<b>21%</b>	<b>10%</b>
Electrical power infrastructure	1,700	1,730	2%	2,840	2,840	2,540	2,540	64%	0%	-11%	0%	3,488	3,852	4,479	5,029	102%	10%	16%	12%
Steel pole production	376	499	33%	910	910	610	610	82%	0%	-33%	0%	997	1,101	1,239	1,362	100%	10%	13%	10%
Leasing real estate	12	14	17%	27	38	43	44	96%	38%	14%	3%	249	1,179	1,620	1,676	-74%	373%	37%	3%
Transferring real estate	3	954	317	249	813	741	-	-74%	226%	-9%	-100%								
Hydropower	279	559	100%	476	626	692	819	-15%	32%	11%	18%	561	865	1,143	1,257	0%	54%	32%	10%
Trading	723	1,254	73%	1,120	1,120	1,120	1,120	-11%	0%	0%	0%	934	865	1,048	1,152	-30%	-7%	21%	10%
Others	67	74	10%	70	70	70	70	-5%	0%	0%	0%								
<b>Gross profit</b>	<b>481</b>	<b>859</b>	<b>79%</b>	<b>725</b>	<b>930</b>	<b>903</b>	<b>833</b>	<b>-16%</b>	<b>28%</b>	<b>-3%</b>	<b>-8%</b>								
Electrical power infrastructure	232	172	-26%	284	284	254	254	65%	0%	-11%	0%								
Steel pole production	35	32	-9%	64	73	49	49	99%	14%	-33%	0%								
Leasing real estate	8	8	0%	17	23	29	30	112%	38%	23%	3%								
Transferring real estate		249		49	156	141	-	-80%	217%	-10%	-100%								
Hydropower	162	349	115%	262	344	381	451	-25%	32%	11%	18%								
Trading	26	35	35%	34	34	34	34	-4%	0%	0%	0%								
Others	18	13	-28%	16	16	16	16	24%	0%	0%	0%								
<b>PBT</b>	<b>303</b>	<b>573</b>	<b>89%</b>	<b>402</b>	<b>531</b>	<b>442</b>	<b>352</b>	<b>-30%</b>	<b>32%</b>	<b>-17%</b>	<b>-20%</b>								
<b>PAT</b>	<b>256</b>	<b>487</b>	<b>90%</b>	<b>346</b>	<b>446</b>	<b>371</b>	<b>296</b>	<b>-29%</b>	<b>29%</b>	<b>-17%</b>	<b>-20%</b>								
<b>Net profit</b>	<b>237</b>	<b>462</b>	<b>95%</b>	<b>329</b>	<b>418</b>	<b>343</b>	<b>267</b>	<b>-29%</b>	<b>27%</b>	<b>-18%</b>	<b>-22%</b>	<b>436</b>	<b>600</b>	<b>737</b>	<b>829</b>	<b>-6%</b>	<b>38%</b>	<b>23%</b>	<b>12%</b>

Source: PC1, MSB Research

**Table 2: Revision In Financial Model of PC1**

VND bn	New		Previous		New/previous (%)	
	FY19F	FY20F	FY19F	FY20F	FY19F	FY20F
<b>Revenue</b>	<b>5,692</b>	<b>6,417</b>	<b>3,966</b>	<b>4,851</b>	<b>144%</b>	<b>132%</b>
Electrical power infrastructure	2,840	2,840	2,200	2,200	129%	129%
Steel pole production	910	910	484	484	188%	188%
Leasing real estate	27	38	26	33	107%	113%
Transferring real estate	249	813	-	782		104%
Hydropower	476	626	492	586	97%	107%
Trading	1,120	1,120	700	700	160%	160%
Others	70	70	65	65	108%	108%
<b>Gross profit</b>	<b>725</b>	<b>930</b>	<b>605</b>	<b>761</b>	<b>120%</b>	<b>122%</b>
Electrical power infrastructure	284	284	264	242	108%	117%
Steel pole production	64	73	44	48	146%	150%
Leasing real estate	17	23	17	20	99%	115%
Transferring real estate	49	156	-	125		125%
Hydropower	262	344	236	281	111%	122%
Trading	34	34	28	28	120%	120%
Others	16	16	16	16	99%	99%
<b>PBT</b>	<b>402</b>	<b>531</b>	<b>292</b>	<b>382</b>	<b>138%</b>	<b>139%</b>
<b>PAT</b>	<b>346</b>	<b>446</b>	<b>248</b>	<b>321</b>	<b>139%</b>	<b>139%</b>
<b>Net profit</b>	<b>329</b>	<b>418</b>	<b>233</b>	<b>304</b>	<b>141%</b>	<b>137%</b>

Source: PC1, MSB Research

**Table 3: Cost-avoidable price tariff**

VND/kWh	2013	2014	2015	2016	2017	2018	2019
<b>Dry season (Nov - Jun)</b>							
North	624	624	634	609	610	620	666
Central	611	611	624	607	608	618	666
South	657	657	662	638	639	644	686
<b>Rainy season (Jul - Oct)</b>							
North	585	585	613	615	615	625	621
Central	566	566	602	612	612	622	620
South	602	602	636	644	644	648	640
<b>Capacity-Add-On price (applied to output in peak-hour (9h30 - 11h30, 17h - 20h) in dry season)</b>	<b>1,805</b>	<b>1,805</b>	<b>2,158</b>	<b>2,242</b>	<b>2,242</b>	<b>2,306</b>	<b>2,306</b>

Source: MOIT, MBS Research

## Financials and Valuation Summary

Income statement (VND bn)	2018	2019F	2020F	2021F
Net revenue	5,085	5,692	6,417	5,816
Cost of goods sold	4,226	4,967	5,487	4,913
<b>Gross profit</b>	<b>859</b>	<b>725</b>	<b>930</b>	<b>903</b>
Financial income	26	27	27	27
Financial expenses	143	193	251	317
Profit of associates	5	0	0	0
Selling expenses	54	27	37	23
G&A expenses	160	168	176	185
<b>Operating profit</b>	<b>533</b>	<b>364</b>	<b>493</b>	<b>404</b>
Other profit	40	38	38	38
<b>EBT</b>	<b>573</b>	<b>402</b>	<b>531</b>	<b>442</b>
<b>EAT</b>	<b>487</b>	<b>346</b>	<b>446</b>	<b>371</b>
<b>Net profit</b>	<b>462</b>	<b>329</b>	<b>418</b>	<b>343</b>
<b>Minority interests</b>	<b>25</b>	<b>17</b>	<b>28</b>	<b>28</b>

Balance sheet	2018	2019F	2020F	2021F
<b>Current assets</b>	<b>3,229</b>	<b>4,385</b>	<b>4,627</b>	<b>4,432</b>
I. Cash & cash equivalents	741	1,059	1,392	1,798
II. Short-term investments	50	50	50	50
III. Current accounts receivable	1,633	1,944	2,075	1,952
IV. Inventories	759	1,157	907	441
V. Other current assets	46	175	202	191
<b>Non-current assets</b>	<b>3,428</b>	<b>4,626</b>	<b>5,215</b>	<b>5,434</b>
I. Long-term receivables	0	0	0	0
II. Fixed assets	2,522	3,301	3,909	4,936
1. Tangible fixed assets	2,521	3,299	3,908	4,935
2. Intangible fixed assets	2	2	1	1
III. Investment properties	160	153	222	211
IV. Long-term assets in progress	447	883	804	17
V. Long-term investments	99	99	99	99
VI. Other long-term assets	101	191	181	171
<b>Total assets</b>	<b>6,657</b>	<b>9,011</b>	<b>9,841</b>	<b>9,866</b>
<b>Liabilities</b>	<b>3,383</b>	<b>5,414</b>	<b>5,963</b>	<b>5,777</b>
<b>I. Current liabilities</b>	<b>1,805</b>	<b>2,478</b>	<b>2,566</b>	<b>2,339</b>
1. Short-term payables	1,389	1,718	1,710	1,487
2. Short-term loans	416	760	856	852
<b>II. Non-current liabilities</b>	<b>1,578</b>	<b>2,937</b>	<b>3,397</b>	<b>3,437</b>
1. Long-term payables	24	24	24	24
2. Long-term loans	1,554	2,912	3,373	3,413
<b>Equity</b>	<b>3,273</b>	<b>3,597</b>	<b>3,878</b>	<b>4,089</b>
1. Charter capital	1,328	1,593	1,593	1,593
2. Surplus	711	711	711	711
3. Retained earnings	1,075	1,021	1,302	1,513
4. Foreign exchange differences	0	0	0	0
5. Minorities interests	159	272	272	272
<b>Total liabilities &amp; equity</b>	<b>6,657</b>	<b>9,011</b>	<b>9,841</b>	<b>9,866</b>

Key ratios	2018	2019F	2020F	2021F
<b>Profitability</b>				
Gross profit margin	17%	13%	14%	16%
EBITDA margin	17%	14%	16%	18%
Net profit margin	9%	6%	7%	6%
ROE	15%	10%	11%	9%
ROA	7.2%	4.2%	4.4%	3.5%
<b>Growth</b>				
Revenue growth	61%	12%	13%	-9%
Gross profit growth	79%	-16%	28%	-3%
EBT growth	89%	-30%	32%	-17%
Net profit growth	95%	-29%	27%	-18%
EPS	95%	-35%	27%	-18%
<b>Liquidity</b>				
Current ratio	1.79	1.77	1.80	1.89
Quick ratio	1.37	1.30	1.45	1.71
Liabilities/Total assets	51%	60%	61%	59%
Liabilities/Equity	1.03	1.51	1.54	1.41
Interest coverage ratio	4.95	2.74	2.68	2.31
<b>Valuation</b>				
Dividend yield	0%	2%	2%	2%
EPS (VND)	3,480	2,276	2,897	2,375
BVPS (VND)	24,655	27,090	29,206	30,800

Source: MBS Research

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**STOCK RATING:** The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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