

Recommendations

BUY

Power Construction JSC. No.1(HOSE: PC1)
Hydropower remains positive

Current price: 39,200

Previous target price: 45,900

Upside **17.0%**

Report writing date: 23/06/2022

Outstanding Shares (Million) 235.2

Market capitalization (billion VND) 9,689

Average volume of 20 sessions 74,658

Remaining foreign ownership 4.9%

Shareholder structure

Trinh Van Tuan 21.0%

BEHS JSC 18.2%

BEH JSC 3.6%

BES JSC 2.8%

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Recommended price: 50,000 VND/share

Stop loss price : 35,000 VND/share

Valuation

- BSC offers a **BUY** recommendation for PC1 stock with a **target price of VND 45,900/share** for 2022 (equivalent to an upside of 17.0% compared to June 23, 2022) based on the partial valuation method (SOTP).

Forecasting business results

- BSC forecasts that revenue and net profit of 2022 will reach **VND 10,233 billion (+4% yoy)** and **VND 919 billion (+20% yoy)**, respectively, EPS FW 2022 = **VND 3,714/share** with the assumption: (1) value of newly signed EPC contract in 2022 +30% yoy, (2) hydroelectricity's electricity production increased by 14.3% thanks to the still positive hydrological situation, and (3) the amount of electricity produced by the wind power segment increased sharply by +242.9% thanks to the operation throughout 2022.

Stock price comparison table and VN-Index



Investment Thesis

- Hydropower segment continues to benefit from favorable hydrological conditions.
- Wind power segment is positive thanks to additional capacity by full-time operation in 2022.

Catalyst

- Real estate project PC1 Gia Lam and PC1 Dinh Cong are likely to be completed in the fourth quarter of 2022. Copper-Nickel mining project is expected to operate from the fourth quarter of 2022.

Risks

- Construction segment dropped more than estimated when renewable projects lacked strong growth momentum like 2021.
- Wind power production is lower than estimated.

Updated business results

- In 1Q2022, PC1 recorded **net revenue = 1,478 billion VND** (-5% yoy) and **net profit = 179 billion VND** (+125% yoy), thanks to: (1) Revenue from electricity segment increased strongly (+299% yoy), (2) Revenue from industrial segment increased strongly (+932%), although (3) Net revenue and Gross profit from construction activities fell sharply (-57% yoy and -69% yoy), and (4) financial expenses increased sharply (+102% yoy).

P/E and VN index comparison table



	2021	2022F	VN-Index
PE (x)	13.8	10.3	12.5
PB (x)	1.5	1.5	2.0
PS (x)	0.9	0.9	3.5
ROE (%)	13.8%	14.6%	18.3%
ROA (%)	5.2%	4.7%	6.9%
EV/ EBITDA (x)	10.1	7.7	

	2019	2020	2021	2022F
Revenue	5,845	6,679	9,828	10,233
Gross profit	819	1,162	1,156	1,727
Profit after tax	376	544	764	919
EPS	2,246	2,682	2,858	3,714
EPS growth.	-36%	19%	7%	30%
Debt/Equity	82%	79%	144%	136%

UPDATE Q1.2022 BUSINESS RESULTS

In 1Q2022, PC1 recorded net revenue = 1,478 billion VND (-5% yoy) and net profit = 179 billion VND (+125% yoy), thanks to: (1) Revenue from electricity segment increased strongly (+299% yoy), (2) Revenue from industrial segment increased strongly (+932%), although (3) Net revenue and Gross profit from construction activities fell sharply (-57% yoy and -69% yoy), and (4) financial expenses increased sharply (+102% yoy), because interest expense increased sharply (+91% yoy) from wind power projects and industrial park projects.

Figure 1: PC1's net sales and net profit after tax

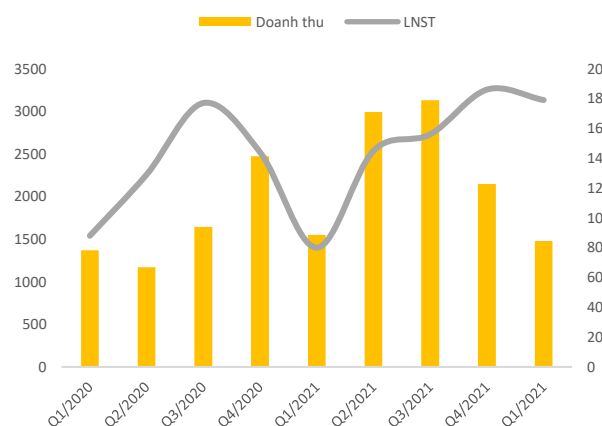
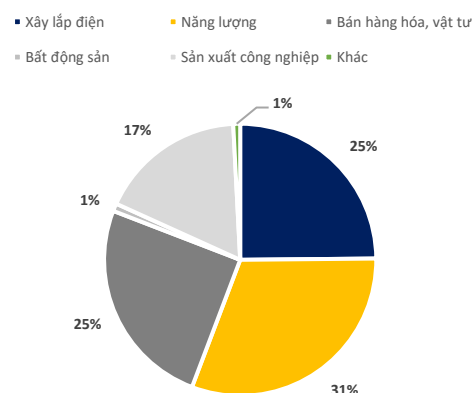


Figure 2: Energy accounted for the largest proportion of PC1's revenue structure in 1Q2022



Source: PC1, BSC Research

Investment perspective

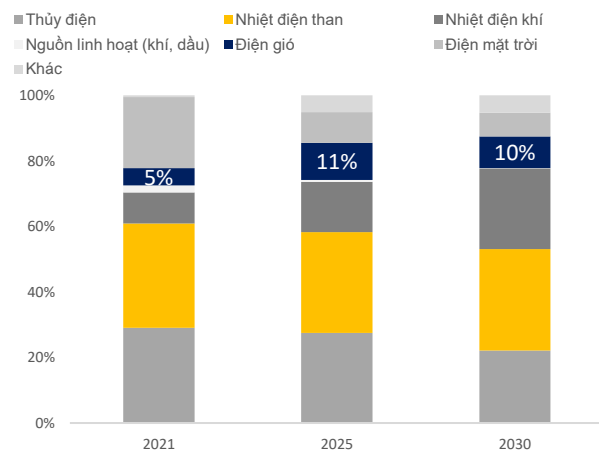
Power Construction segment – positive thanks to the need to build power sources and power grids in the medium-long term

In 1Q2022, Net revenue and profit after tax Electricity Construction segment reached VND 367 billion (-57.1% yoy) respectively, mainly because the first quarter of the year was the weakest quarter of the construction segment (newly signed and carried forward 6,000-7,000 billion VND in 1Q2022 and expected net revenue of 6,000 billion VND according to Management).

However, the power construction and installation segment is expected to remain stable with the expectation that the new contract value will remain at a high level, while the demand for renewable electricity construction is still quite large in the long term, with the orientation of developing renewable energy sources. According to the latest update of PDP8, the total wind power capacity in 2030 is expected to be 19-23 GW (~10-16% of capacity), and will increase to ~66-120 GW in 2045, equivalent to 31-43% of the whole system. Meanwhile, only about 4 GW of wind power will be put into operation by the end of 2021.

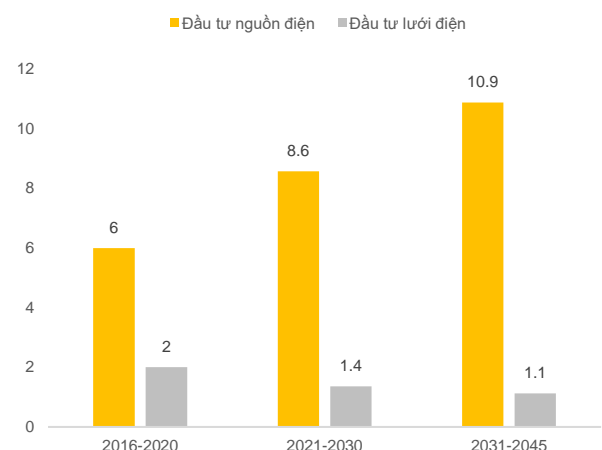
Thus, the demand for EPC implementation of wind power projects and transmission networks for projects is still quite large and is an **opportunity for leading enterprises like PC1 to dominate the market in the future**.

Figure 3: Wind power has plenty of room for capacity growth in the future (base case scenario)



Source: Draft Power Plan 8, BSC Research

Figure 4: Demand for power construction and installation is likely to continue to increase strongly (base scenario)



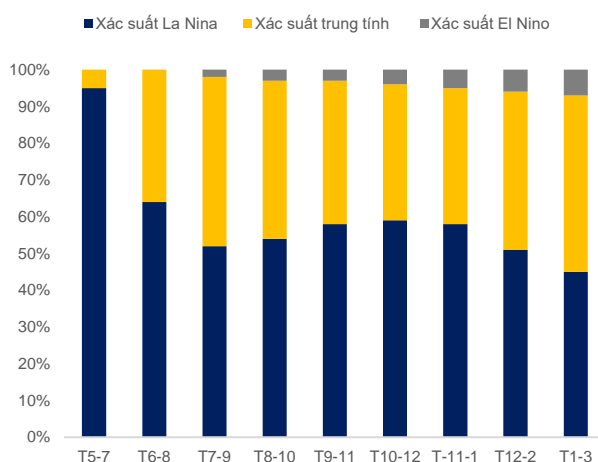
Source: Draft Power Plan 8, BSC Research

In addition, the power transmission system will be invested in the future to increase the transmission capacity of the system, especially when renewable energy sources will account for a larger proportion of capacity in the future. According to the latest update, the electricity industry needs an average investment of ~10.7-14.7 billion USD/year in the period of 2021-2030, ~15.0-23.11 billion USD/year in the period 2031-2045. **Construction activities will account for 20%, equivalent to about \$2.2 billion per year in the period 2021-2030, and about \$2.7 billion per year in the period 2031-2045.** BSC believes that this will help PC1 maintain the growth of the power construction and installation segment in the long-term, estimated at 20-25%/year for the period 2021-2025.

Hydropower - hydrology is likely to continue to be positive in 2H2022

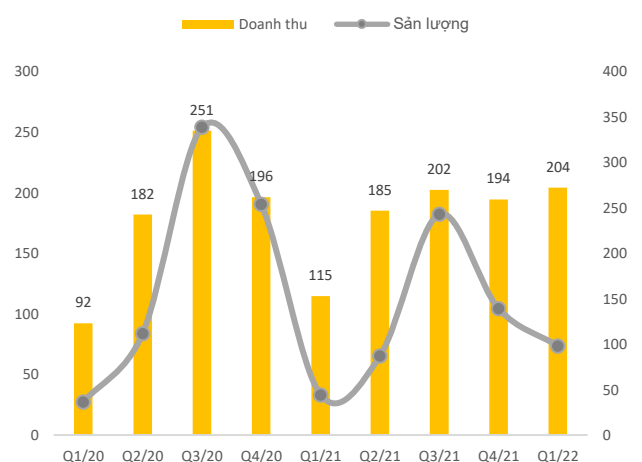
Favorable hydrological conditions in the first months led to a sharp increase in business results of the hydroelectricity segment in 1Q2022. **In 1Q2022, PC1's total hydroelectricity revenue was VND204 billion (+78.2% yoy).** Power output in 1Q2022 reached 98 million kWh (+121.7% yoy) because the hydrological situation is only favorable when La Nina continues in the first months of 2022.

Figure 5: La Nina is forecast to last until the end of 2022



Source: IRI, BSC Research

Figure 6: Revenue structure and output of the hydropower segment of PC1



Source: PC1, BSC Research

According to VMHA, La Nina is likely to continue until the end of 2022, with a probability of ~60%. Therefore, the large amount of water will help the hydropower sector, including PC1's plants, continue to be prioritized for mobilization by EVN over other power sources during this period. Total rainfall is 5-25% higher than average in the North in July-October. Overall, we expect PC1's hydropower output in 2022 to reach 589 million kWh (+14.3% yoy), and revenue to reach VND 811 billion (+16.6% yoy).

Wind Power segment – Big contribution to profit in 2022

Table 1: Information on investment in wind power projects of PC1 in Quang Tri

Factory	Lien Lap	Phong Huy	Phong Nguyen
Capacity (MW)	48	48	48
Output (million kWh)	140	133	133
Electricity selling price (VND/kWh)	1,928	1,928	1,928
Total investment (billion VND)	2,034	1,715	1,714
Equity (billion VND)	407	343	343
Loan capital (billion VND)	1,627	1,372	1,372
Ownership rate	55.5%	53.5%	53.6%
Completion time	10/2021	10/2021	10/2021
Location	Huong Hoa district, Quang Tri province		

Source: PC1, BSC Research

Larger amount of electricity produced by wind power plants in 2022, with a FIT price of 8.5 US cents for Lien Lap, Phong Huy, Phong Nguyen plants (total capacity of 144MW), helping the electricity segment become the main contributor to Gross Profit in 2022. With the commissioning of wind power plants, PC1 increased the installed capacity by 144 MW, to 312 MW. These wind power plants benefit in terms of price and cost, helping to increase the gross profit margin of the power segment above 54%. According to BSC's estimates, new wind power plants will increase electricity output in 2022 by about 378 million kWh, equivalent to an additional VND 432 billion for PC1's LNG in 2022.

Another update

PC1 Gia Lam and PC1 Dinh Cong projects are expected to start construction in Q2-Q3/2022 and be completed in Q4/2022. With the handover of projects in 2022, PC1 is likely to record about VND 976 billion as planned. BSC estimates that the real estate segment contributes an additional VND 293 billion to PC1's gross profit in 2022.

Dong-Nickel mining project in Cao Bang province, put into operation in Q4/2022 according to the Board of Directors. Total investment is 1,502 billion VND, with estimated reserves of about 9,000 tons of copper and 21,000 tons of nickel. Geopolitical tensions in the short term, positively contribute to the prospect of this business segment in the future. PC1 will book revenue from 2023, with IRR = 25-30%, and EAT/Net revenue = 30-40% according to management.

Yen Phong II-A industrial real estate project, through the investment in Western Pacific, has also completed legal procedures according to the Board of Directors..

FORECAST OF BUSINESS RESULTS

2022 – Positive thanks to hydroelectricity and wind power

In 2022, BSC forecasts **PC1's revenue = 10,233 billion VND (+4% yoy)** and **EAT = 919 billion VND (+20% yoy)**, equivalent to **EPS = 3,714 VND/share** based on the following assumptions:

- **Electricity construction and installation revenue is expected to reach VND 5,585 billion (-17% yoy).** The outlook is still positive in the coming time with new contract signing value remaining at a high level, while the demand for renewable electricity construction and installation is still quite large in the long term.
- **Revenue from hydropower segment is expected to reach VND 811 billion (+17% yoy)** due to an increase in hydropower output of about 589 million kWh, equivalent to +15% yoy thanks to the favorable hydrological situation in H2/2022.
- 03 wind power plants (144 MW) come into operation from October 2021, bringing the total capacity to 313MW. BSC forecasts that the wind power segment will contribute an additional 378 million kWh to PC1's total power output, **equivalent to a contribution of VND 747 billion to Electricity revenue.**
- Participating from the Copper - Nickel mining project, **the possibility of starting operation in the fourth quarter of 2022.**

VALUATION

Based on the partial valuation method, BSC recommends **BUY** for PC1 stock with a fair value in 2022 of VND 45,900/share, equivalent to **upside 17.0% (according to the closing price on June 23, 2022 is 39,200 VND/share)**. Specifically, BSC uses the discounted cash flow method to evaluate the NPV of 3 wind power projects and copper-nickel mining projects, EV/EBITDA method for hydropower, P/E method for construction & industrial production and NAV method for Real estate.

Table 2: Partial valuation results of PC1 stock

Business segment	Method	Value	Number of shares (million)	Fair Value/Shares
Construction & Industrial Production	P/E	3,854,821	235.2	16,392
Real estate	NAV	1,158,020	235.2	4,924
Wind electricity	FCFF	2,642,275	235.2	11,236
Hydroelectric	EV/EBITDA	2,475,845	235.2	10,573
Extractive	FCFF	656,084	235.2	2,790
Stock price				45,871

Source: BSC Research

APPENDIX

Business results (Billion VND)	2019	2020	2021	2022F	Cashflow (Billion VND)	2019	2020	2021	2022F
Net Revenue	5,845	6,679	9,828	10,233	(Loss)/EBT	376	544	764	919
Cost of goods sold	(5,026)	(5,517)	(8,673)	(8,506)	Depreciation and Allocation	141	190	375	577
Gross profit	819	1,162	1,156	1,727	Change in working capital	(1,093)	(497)	1,035	1,649
Financial revenue	38	37	319	52	Other adjustment	(10)	(45)	(10)	(1)
Financial expenses	(172)	(244)	(359)	(509)	Financial rotation from business activities	(334)	633	2,097	3,211
Interest expense	(171)	(242)	(315)	(509)	Money spent to buy fixed assets	(703)	(933)	(6,665)	(727)
Profit from joint ventures	-	-	-	-	Other investment	(253)	76	(480)	(292)
SG&A costs	(224)	(338)	(297)	(301)	Cash flow from Investment Activities	(956)	(856)	(7,145)	(1,019)
Net profit from operating activities	427	635	905	1,057	Dividend payment	(12)	(15)	-	-
Other profit/loss	6	17	(8)	-	Cash from net borrowing	1,168	1,148	5,719	(841)
Profit before tax	433	652	896	1,057	Rotation from Activity Finance	1,156	1,133	5,719	(841)
Corporate income tax	(56)	(108)	(132)	(138)	Cash flow at the beginning of the period	701	568	1,476	2,292
NPAT	376	544	764	919	Money in the period	(134)	909	671	1,352
Non-controlling interest	19	31	69	46	Cash flow at the end of the period	568	1,476	2,292	3,644
NPAT - Owners	358	513	695	873					
EBITDA	779	1,070	1,587	1,894					
EPS	2,246	2,682	2,858	3,714					

Balance sheet (Billion VND)	2019	2020	2021	2022F	Index (%)	2019	2020	2021	2022F
Cash & Short-term investments	568	1,476	2,292	3,243	Solven Short-term Currency Ratio cy				
Short term investment	180	63	144	144	Short-term Currency Ratio	1.7	1.5	1.1	1.0
Short-term receivables	1,851	3,390	3,124	3,252	Quick Currency Multiplier	1.1	1.3	1.0	0.9
Inventory	1,434	730	904	941					
Other current assets	120	57	126	131	Cơ cấu vốn				
Short term TS	4,153	5,715	6,589	7,712	Debt/Total Assets Ratio	37%	35%	48%	43%
Long-term receivables	8	87	8	9	Debt/Equity Ratio	82%	79%	144%	136%
Tangible assets	2,412	3,802	9,205	10,242					
Intangible assets	2	2	955	2	Operational capacity				
Long-term unfinished TS	1,179	379	380	672	Inventory days	80	72	34	40
Long-term investment	64	81	639	639	Receivable days	106	143	121	114
Other long-term assets	330	434	689	693	Payable days	104	123	109	159
Long-term assets	4,162	5,006	12,098	12,454	CCC	82	92	47	(5)
Total assets	8,315	10,722	18,687	20,166					
Short-term payables	1,546	2,157	2,999	4,400	Margin				
Short-term loans	951	1,586	2,800	3,119	Gross margin	14%	17%	12%	17%
Total Short-Term Debt	2,497	3,744	5,799	7,519	NPAT margin	6%	8%	8%	9%
Long-term loan	2,096	2,171	6,238	5,517	ROE	10.8%	12.9%	13.8%	14.6%
Other long-term debt	27	37	370	793	ROA	5.0%	5.7%	5.2%	4.7%
Total Long-term Debt	2,123	2,208	6,607	6,310					
Total Debt	4,620	5,952	12,406	13,829	Định Giá				
Capital	1,593	1,912	2,352	1,912	PE	7.2	7.0	13.8	10.3
Equity surplus	711	711	711	711	PB	0.8	0.9	1.5	1.5
Undistributed profit	933	1,109	1,305	2,559					
Other equity	23	23	23	23	Valuation				
Minority Shareholders	257	782	1,580	782	Revenue growth	15%	14%	47%	4%
Total Equity	3,695	4,770	6,281	6,337	EBIT Growth	-17%	48%	36%	29%
Total capital	8,315	10,722	18,687	20,166	EBT growth	-25%	51%	38%	18%
Number of shares outstanding (million)	159	191	235	235	EPS growth	-36%	19%	7%	30%

Source: BSC Research.

Disclosure

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