Shinhan Securities

Before you invest, ask us!

Power Construction No. 1 JSC.

07/05/2021

Ticker	PC1
RATING	BUY
Current price (VND)	26,900
Target price (VND)	36,500
Upside	35.7%

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COMPANY INFORMATION

Industry	Construction & Materials
Stock Exchange	HOSE

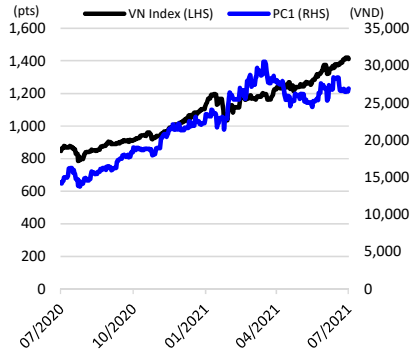
STOCK TRADING DATA

VN INDEX	1,411
Market Cap. (bn VND)	5,143
Outstanding Shares (1mn)	191
Free Floating Shares (1mn)	138
52-week High (VND)	30,800
52-week Low (VND)	13,500
Avg. Trading Volume (mn)	0.7
Avg. Reading T/O (bn VND)	16

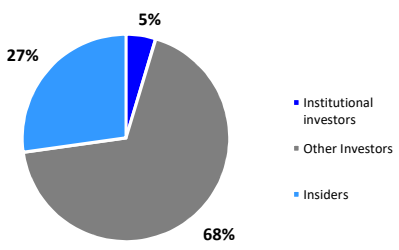
PC1's PERFORMANCE VS VN INDEX

(%)	3M	6M	12M
Absoulute	(3.9)	14.7	88.8
Relative	(18.1)	(9.9)	22.3

STOCK PRICE PERFORMANCE



SHAREHOLDER STRUCTURE



INVESTMENT THESIS

1. Core Businesses

- 3 main businesses: 1) Power construction, 2) Energy investment (Operating valuable power plants 169MW hydropower and upcoming 150MW windpower), and 3) Real estate
- 21 subsidiaries & 2 affiliates

2. Business position: No.1 power gird constructor and Top player in EPC contractor in wind generation plants; Largest small scale hydropower portporlio plants.

- Customers: Vietnam Electricity (EVN VN), and SOEs & private businesses in power generation and construction
- Competitors: 1) Construction: Vneco, Song Da Corp.... etc.; 2) Utility generation: EVN (with Genco 1, 2, and 3), POW, REE and TKV

3. Investment catalysts

- PCC1 is leading the country in the field of power construction and installation with experience in implementing many national power transmission projects, especially EPC and PC general contractor projects up to a voltage of 500 KV and projects with high specificity (Gis station, power supply to the island...), underground cable project... PC1 holds an outstanding construction technology in grid and wind power (such as UAV flying device and crawler crane for electric turbines).
- PCC1 has successfully operated 7 hydropower plants with a total capacity of 169 MW, which are very valuable assets. Their plants are located nationwide, avoiding the negative effects from clime changes. Earning stable revenue VND800bn per year with margin ~60%.
- First penetration into wind power segment with upcoming 150MW capacity COD in Q4.2021. In addition, PC1 was also licensed to survey more than 2,000 MW of onshore and offshore wind power, securing an stable growth for the company over the next 5 years. Currently, PC1 is the only player can build & operate their owned wind projects.
- Thank to PC1's EPC construction advantage, their power generation's performances are always higher than other competitors: 1) All of PC1's hydropower plants are small scale (<30MW) applies avoided cost tariff, which allow their performance is always higher than large-scale hydropower; 2) Wind power was build by themself and could take the favorable feed-in-tariff in 2021 8.5cent/kWh
- We forecast PC1 net profit could earn VND532bn in 2021 (-2% YoY) and VND686 bn in 2022 (+29% YoY). We believe that P/E of 12x is reasonable for investment into such a leading business with strong growth prospect in the near future, PC1's target price is VND36,500/share in 2022 (upside +29%)

4. Risks

- With the strong investment into power generator plants, we forecast that PC1 could require VND12tn of capital fund to its future capacity expansion, in which VND3.6 tn of equity that is required. The heavy capital requirement could hint the further equity increasing, diluting existing shareholders' interests.
- Grid construction segment has been facing many challenges including 1) prolonged government investment to improve EVN's grid network and 2) higher competition in construction segment. Both of which have led to decrease PC1's margin

FINANCIAL INFORMATION

	2017	2018	2019	2020	2021F
Sales (bn VND)	**3,161**	**5,084**	**5,845**	**6,679**	**7,680**
OP (bn VND)	355	657	594	823	840
Operating profit margin	11.2	12.9	10.2	12.3	10.9
NP(1bn VND)	**236**	**469**	**358**	**512**	**532**
Net profit margin	7.5	9.2	6.1	7.7	6.9
BPS(VND)	14,039	16,315	17,982	20,856	21,242
PER(x)	16.5	7.1	7.8	8.3	10.7
PBR(x)	1.7	1.1	0.8	1.1	1.3
ROE(%)	10.2	16.2	10.9	13.8	10.0
EPS (VND)	1,410	2,455	1,873	2,677	2,504

(*) Database information provided by Bloomberg

[FLASHNOTE]

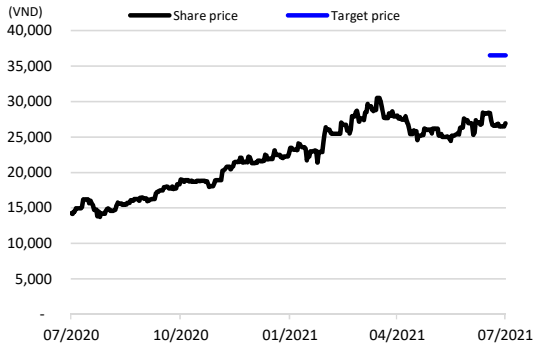
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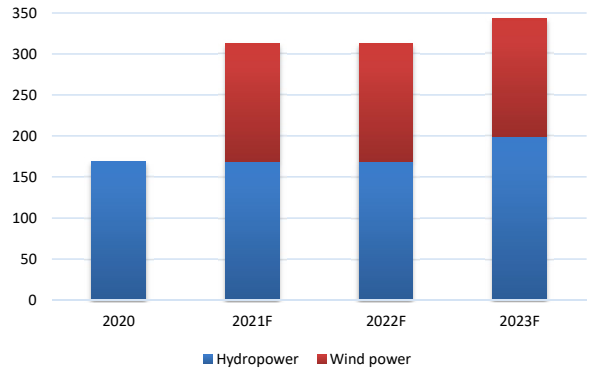
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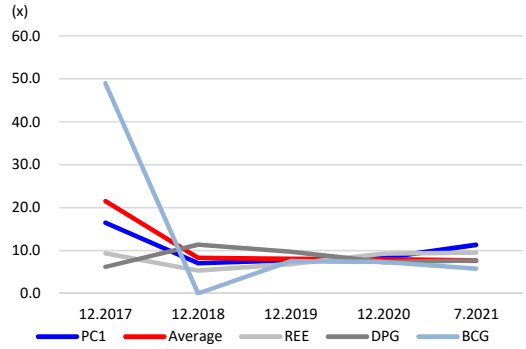
Recommendation History



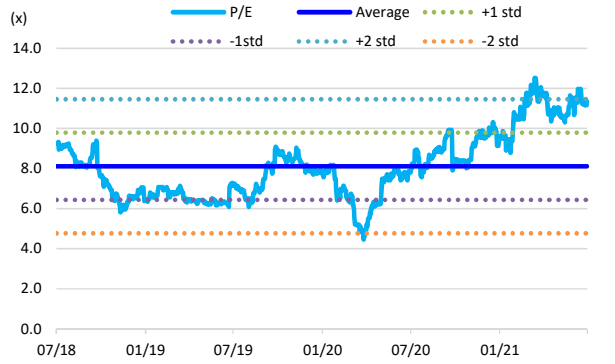
PC1's power generation capacity in coming time (MW)



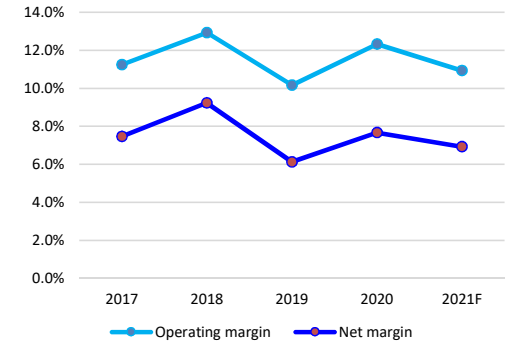
Relative valuation peers' PE



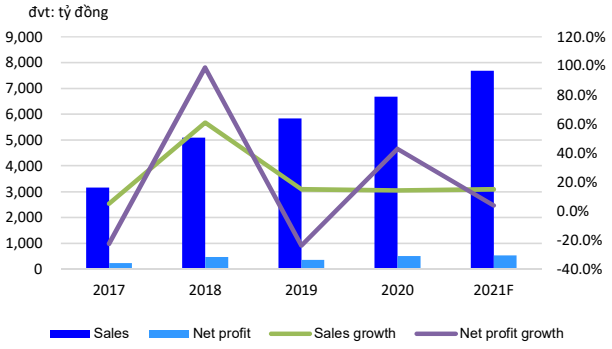
Average P/E 3 years of PC1



Operating and net margin over the years



Revenue - profit over the years



(*) Database information provided by Bloomberg



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