February 10th, 2023

Shinhan Securities



PC1 Group JSC

[Vietnam / Utilities]

Bloomberg Code (PC1 VN) | Reuters Code (PC1.HM)

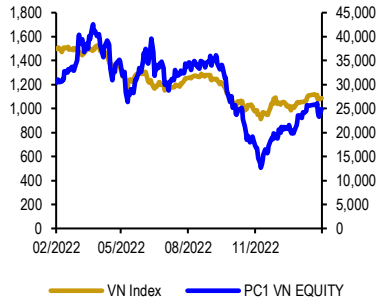
BUY

Initiation Coverage

Target price (12 months)	**VND 32,100**
Current price (02/09/23)	VND 25,250
Upside/downside	27%

VNINDEX		1,064
P/E market (22F, x)		9.9
Market Cap (bn VND)		6,734
Outstanding shares (mn)		270
Free-Floating (mn)		200
52-Wk High/Low (VND)		44,400/11,800
90-day avg. trading volume (mn)		1.9
90-day avg. turnover (bn VND)		42
Foreign ownership (%)		5
Major shareholders (%)	Trinh Van Tuan	21.4
	BEHS	17.3

Performance	3M	6M	12M
Absolute (%)	33.9	-26.7	-15.3
Relative to VN-Index (%)	25.7	-13.6	11.1



Source: Bloomberg

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Fire proves gold

Initiate coverage with BUY call and target price at VND 32,100

PC1 Group JSC (HoSE: PC1) is one of the multi-industry enterprises listed on the stock exchange. PC1 has expanded its business model to multiple sectors with huge potential growth. Based on the FCFF and SoTP methods, we recommend buying PC1 at a valuation of VND 32,100. The revenue and NPATMI of PC1 will surge in the future thank to (1) The power segment plays the main role and have a prospective plan to increase the installed capacity; (2) The power construction segment and industrial production recovery along with the green transformation of the power industry; (3) The real estate comeback with 4 projects and the enlargement to the industrial park sector; (4) Diversified with the mining sector.

The power segment plays the main role and has a prospective plan to increase the installed capacity

The total installed capacity of power plants owned by PC1 stands at 313 MW with two types of wind power and hydropower. In 2025, PC1 is expected to add 81 MW of hydropower and aims to invest and manage an additional 350 MW of wind power. In the hydropower segment, almost hydropower plants of PC1 use the avoidable cost tariff of the Ministry of Industry and Trade (MOIT) so PC1 has a unit price of electricity higher than the large hydropower (>30MW). With proven implementation & management abilities, the power segment will become the backbone of the enterprise.

The power construction segment and industrial production recovery along with the green transformation of the power industry

The power construction segment is the traditional business of PC1 and PC1 is one of the most prestigious EPC (Engineering, Procurement, and Construction) in Vietnam. When the new regulation issue, we believe PC1 will be the priority name when the project investor finds a partner to implement the power project. In addition, the capacity installed in the power industry in Vietnam will increase by around 7% per year in the period 2023-2030, which boosts the demand to upgrade and build a new transmission system and will bolster the profit of the power construction and industrial production segment.

The real estate comeback with 4 projects and the enlargement to the industrial park sector

PC1 is expected to launch 4 new real estate projects from 2023 to 2025, The company will record revenue from this segment focusing on 2023 and 2024. In addition, PC1 also actively expanded its business into the industrial park industry when acquiring 70% of Nomura Hai Phong Industrial Park Development JSC and 30% of Western Pacific Company.

Diversified in the mining sector

PC1 owns a 57% stake in Tan Phat JSC, which have Nickel – Copper mine in Ha Tri, Cao Bang. The demand for Nickel around the world jump strongly recently thanks to the demand for batteries used for electric vehicles (EV). For PC1, the mining factory will operate and contribute revenue to the parent company in 2023.

Risks: (1) Exchange rate & interest rate risks; (2) The demand for electricity consumption and M&E is lower than expected; (3) Unfavorable weather; (4) Price of Nickel & Copper lower the forecast; (5) Real estate investment projects are deployed behind schedule.

Year to Dec.	2021	2022	2023F	2024F	2025F
Revenue (bn VND)	**9,828**	**8,333**	**10,251**	**10,984**	**11,877**
OP (bn VND)	905	638	814	1,053	1,016
NP (bn VND)	**764**	**527**	**677**	**864**	**849**
EPS (VND)	2,858	1,513	2,537	3,188	3,156
BPS (VND)	19,992	18,892	18,602	18,592	18,230
OPM	9%	8%	8%	10%	9%
NPM	8%	6%	7%	8%	7%
ROE	**12%**	**7%**	**9%**	**10%**	**9%**
PER (x)	8.3	16.1	10.0	7.9	8.0
PBR (x)	1.1	2.0	1.4	1.4	1.4
EV/EBITDA (x)	6.0	12.7	10.6	8.4	8.2

Source: Company data, Shinhan Securities Vietnam

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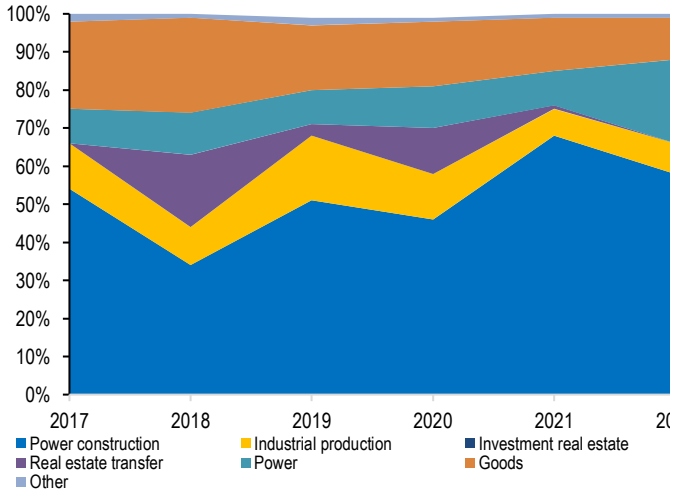
Company background

History of development

PC1 Group JSC (HoSE: PC1) was established in 1963 under the name of Line and Station Construction Company. PC1 was officially listed on the Ho Chi Minh Stock exchange in 2016. At present, PC1 is a multi-industry corporation with revenue coming from power, power construction, real estate, and industrial production. The ecosystem of PC1 has 26 subsidiary companies and 3 affiliate businesses. Furthermore, PC1 is expanding to the mining industry and industrial park. The major shareholder of PC1 is Chairman Trinh Van Tuan (21.38%) and BEHS (17.32%)

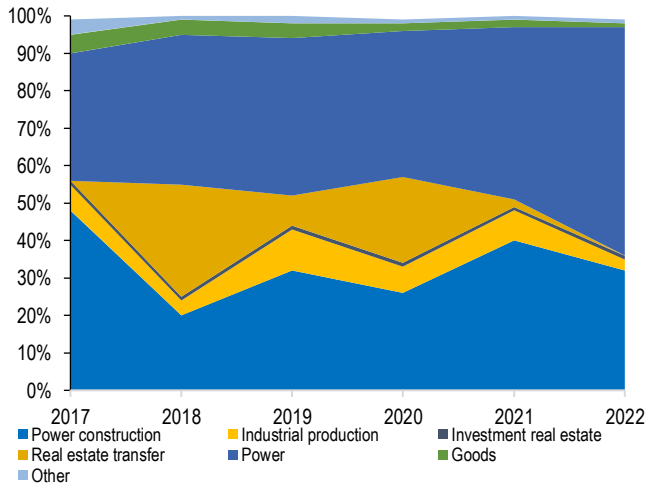
In 2016, the PC1 joint in the power sector, and the portfolio of the power segment has a total installed capacity of 313 MW. Hydropower contributed the largest part with 169MW followed by windpower with 144 NW. In the coming time, PC1 will put 4 hydropower plants with a total installed capacity of 81 MW into operation. In 2022, the power segment contributed the largest part of the revenue of the group with 61%.

PC1's revenue breakdown



Source: Company data, Shinhan Securities Vietnam

PC1's gross profit breakdown



Source: Company data, Shinhan Securities Vietnam

Besides, the power construction segment is the traditional business of PC1 which usually contributes about 50% of PC1's revenue. In the field of power construction, PC1 is one of the leading EPC contractors in Vietnam, the total installed capacity of wind power plants that PC1 has completed COD services is nearly 600MW, equivalent to about 20% of the total capacity COD. However, power construction has a low gross profit margin (around 10%), so the contribution of this segment to the gross profit in 2022 is 32% of the enterprise.

In industrial production, PC1 is the only company that has the largest size in specializing in designing and manufacturing single-body 110KV, 220KV, 1,2,4 circuits, and interlocking steel poles. The capacity of PC1 is 50,000 products/year with modern technology integrated with a CNC control system.

Since 2010, PC1 participated in the real estate industry with many projects such as PCC1 Nang Huong, My Dinh Plaza, PCC1 Ha Dong Complex, PCC1 Thanh Xuan, etc. According to PC1's plan, the company will return to the real estate segment with 4 projects planned for the period 2023-2025.

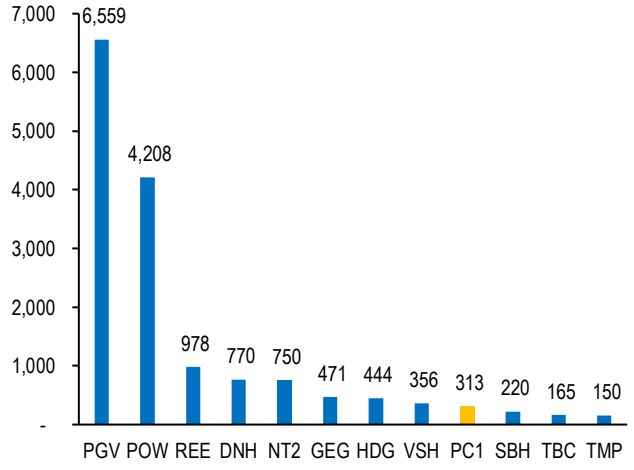
In 2021, PC1 acquired successfully 57.27% stake in Tan Phat JSC. This company owns the mine Nike – Copper in Ha Tri, Cao Bang with reserves of up to 20,841 tons of Nickel in reserve form and 60,288 tons in resource form. In 2023, we expected that this segment will contribute revenue to PC1.

In 2022, PC1 continues to diversify through the acquisition of the Industrial park (IP) Nomura Hai Phong. This company owns Nomura Hai Phong industrial park with 153 ha and researching phase 2 with a scale of 200 ha. Previously, PC1 buy 30% of Western Pacific JSC, which own Yen Phong II-A industrial park with a scale of 159 ha.

The power segment of PC1

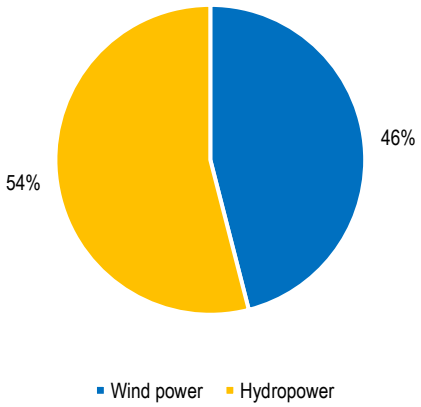
In the power sector, PC1's strategy focuses on developing small hydropower plants <30MW with great potential for development and using an avoidable cost tariff that makes the selling price higher than other large hydropower enterprises. In addition, in 2021, PC1 deployed and stably operated three wind power projects Lien Lap, Phong Huy, and Phong Nguyen in Quang Tri province. This is an important premise to realize the effective ownership and management plan of 350 MW of renewable energy by 2025.

The total installed capacity of company listed (MW)



Source: EVN, Shinhan Securities Vietnam

The structre of PC1's capacity



Source: Company data, Shinhan Securities Vietnam

Investment theses & Catalyts

1. The power segment plays the main role and has a planned increase in installed capacity

In the power segment, the total capacity installed for PC1 is 313 MW, and hydropower contributed 169 MW. In 2022, with 7 power plants and 3 wind power plants, the revenue of the power segment soared by 93% to VND 1,794 billion, and gross profit increased by 84% to VND 976 billion.

Year	Power plant	Power source	Province	Capacity (MW)	Volume (mn kWh)	CapEx (VND bn)	CapEx/MW (VND bn/MW)
2016	Trung Thu	Hydropower	Dien Bien	30	113	910	30
2017	Bao Lam 1	Hydropower	Cao Bang	30	104	767	26
2017	Bao Lam 3	Hydropower	Cao Bang	46	173	890	19
2017	Bao Lam 3A	Hydropower	Cao Bang	8	30	330	41
2020	Mong An	Hydropower	Cao Bang	30	104	916	31
2020	Bao Lac B	Hydropower	Cao Bang	18	72	559	31
2020	Song Nhiem 4	Hydropower	Ha Giang	7	24	228	33
2023	Bao Lac A	Hydropower	Cao Bang	30	104	1080	36
2025	Thuong Ha	Hydropower	Cao Bang	13	40	481	37
2025	Nam Po 5A	Hydropower	Dien Bien	20	57	760	38
2025	Nam Po 5B	Hydropower	Dien Bien	18	52	684	38
2021	Lien Lap	Wind power	Quang Tri	48	145	1,921	40
2021	Phong Huy	Wind power	Quang Tri	48	177	1,921	40
2021	Phong Nguyen	Wind power	Quang Tri	48	173	1,921	40

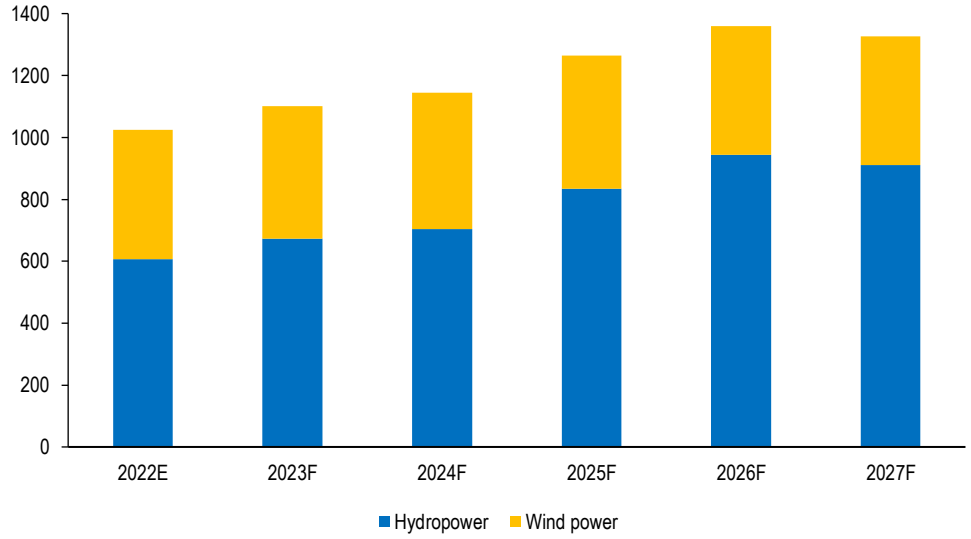
Source: Shinhan Securities Vietnam

At present, PC1 is implementing a Bao Lac A hydropower power plant with a capacity of 30 MW, this power plant will complete in 2023. Moreover, PC1 is preparing to conduct 3 hydropower plants Thuong Ha (13MW), Nam Po A (20 MW), and Nam Po B (18MW). PC1 announce that the company will begin construction in 2023 and complete it in 2025. To sum up, when the 4 power plants above are completed will boost the total installed capacity of PC1 to 394 MW (+26%).

Most of PC1's power plants have a capacity of <30MW, so they are entitled to the avoidable cost tariff of the Ministry of Industry and Trade (MoIT). This avoidance cost tariff has a compound growth rate (CAGR) from 2009 to 2022 of 4%. Besides, the selling price of power from PC1's power plants is usually 20-30% higher than that of large power plants.

According to the Draft Power Plan VIII, the total hydropower source has been exploited by 20.4GW, of which small hydropower contributes 3.4GW. The total small hydropower potential of Vietnam is still 10,000 MW, but there are 4,000 MW of hydropower potential that have an impact on the environment and forests, so only about 6,000 MW can be exploited. Between 2023 and 2030, about 2,700 MW of small hydropower can continue to grow.

Forecast volume of hydropower and wind power of PC1 (million kWh)



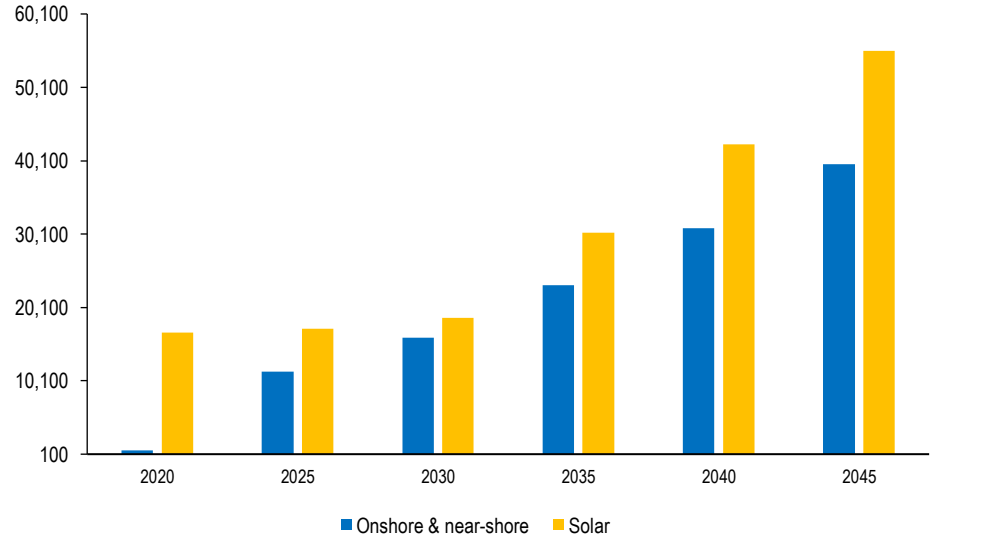
Source: Company data, Shinhan Securities Vietnam

2. The power construction segment and industrial production recovery along with the green transformation of the power industry

In the circumstance of the growing economy, the electricity demand is also increasing, leading to an urgent requirement to increase the installed capacity of power sources and transmission systems throughout the country. According to the Draft Power Plan VIII, the country's total installed capacity will have a compound growth rate (CAGR) of 7.11% in the period 2020-2030.

Notably, power from onshore and near-shore wind power will increase from 630 MW in 2020 to 16,010 MW in 2030. With its position as one of the leading enterprises in the power construction and installation industry, PC1 is expected to continue to be the name of implementing large projects in the power industry. Previously, PC1 worked as an EPC contractor for wind power plants Ia Bang 2, Tan Phu Dong 2, Tra Vinh, Iapet Dakdoa 1, 2, and Phuoc Thai solar power plants.

Wind power capacity onshore and near shore according to Draft Power Plan VIII to 2045 (MW)



Source: Draft Power Plan VIII , Shinhan Securities Vietnam

In addition, PC1 is one of the leading steel column manufacturers in Vietnam with a capacity of 50,000 tons/per year. The electrical construction and industrial production of PC1 are expected to grow strongly in the coming time when the demand for power transmission network construction. The government estimates net investment in the grid for the period 2021-2045 at USD 83.05 billion. Total investment in the power sector in the period 2021-2045 is estimated at USD 320.65 billion.

Power grid development plan for the period 2021-2045

Type of construction	2021-2025	2026-2030	2031-2035	2036-2045
500 kV substation (MVA)	57,300	39,000	38,700	61,500
220kV substation (MVA)	57,748	39,688	41,125	64,750
Line 500kV (km)	7,505	6,709	4,365	1,726
Line 220kV (km)	17,136	5,554	2,454	2,108
Net investment capital (billion VND)	424,689	324,643	458,671	726,342

Source: Draft Power Plan VIII,Shinhan Securities Vietnam

Based on Draft Power Plan VIII, inter-regional power transmission continues to play an important role in the national power system. In 2030, the South will receive about 66 billion kWh net from the Central Highlands and Central Vietnam. Meanwhile, the North will receive 25.6 billion kWh of electricity from the North Central region. With that demand, the transmission system is expected to be invested significantly in the near future.

3. The real estate segment returns with new projects and expansion of the industrial park segment

Revenue forecast of PC1's real estate projects (VND billion)

Project	2022	2023F	2024F	2025F
PC1 Gia Lam		116	0	0
PC1 Dinh Cong		631	0	0
PC1 Vinh Hung		501	344	0
PC1 Thang Long		0	853	296
Total		1,248	1,197	296

Source: Company data, Shinhan Securities Vietnam

Meanwhile, PC1 also returned to the real estate segment by launching 4 projects PC1 Gia Lam, PC1 Dinh Cong, PC1 Vinh Hung, and PC1 Thang Long. Because the implementation of projects is slower than planned, we expect the PC1 will record major revenue from the above real estate projects in 2023 and 2024.

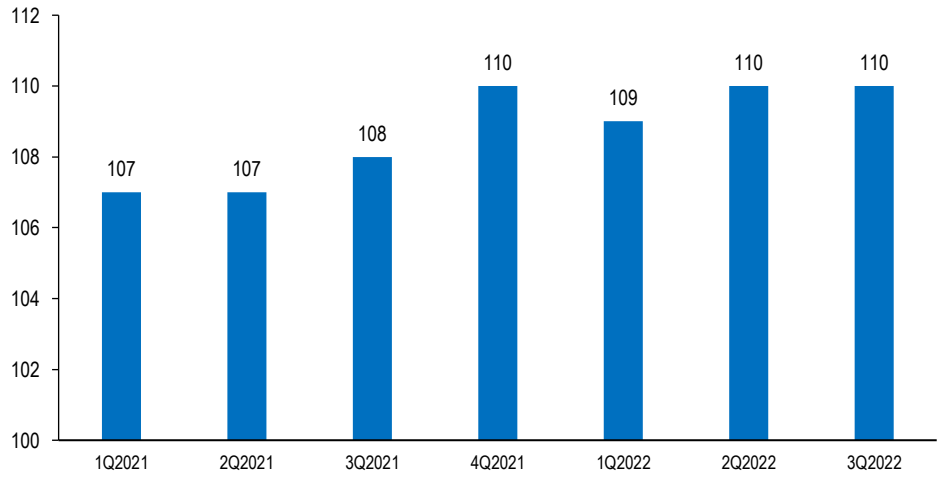
Project	Location	Size
PC1 Gia Lam	Yen Khe, Gia Lam, Hanoi	- Total land area: 7,152 m2 - Construction area: 3,129 m2 - Scale: 54 low-rise apartments
PC1 Dinh Cong	No. 1, Alley 120 Dinh Cong, Thanh Xuan, Hanoi	- Total land area: 15,100 m2 - Construction area: 6,000 m2 - Scale: 83 low-rise apartments, kindergartens, offices
PC1 Vinh Hung	No. 1, Lane 321, Hoang Mai, Hanoi	- Project land area: 5,160 m2. - High-rise mixed-use building including 27 floors, 3 basements.

		- Low-rise commercial service works include: 05 commercial floors, 01 attic floor.
PC1 Thang Long	Bac Tu Liem, Hanoi	- Project land area: 22,000 m2. - High-rise mixed-use building includes: 27 floors, 3 basements. - Low-rise housing includes: 04 floors, 01 tum floor.

Source: Company data, Shinhan Securities Vietnam

In 2022, PC1 acquired Nomura Asia Vietnam – the company owns 70% of Nomura Hai Phong Industrial Park Development JSC. This is an industrial park with a scale of 153 hectares in the An Duong district. The next phase of the industrial park with a scale of 200 hectares is also being invested. Previously, PC1 also completed the acquisition of 30% of shares of Western Pacific Company - the company owns 62% of Yen Phong II-A Industrial Park. The total capital expenditure of the project is VND 1,830 billion, to which, Western Pacific contributed VND 275 billion. The recent M&A activities in the industrial park sector are solid steps for PC1 in expanding this business.

Average rental price of industrial land in the North (USD/m2/cycle)



Source: JLL, Shinhan Securities Vietnam

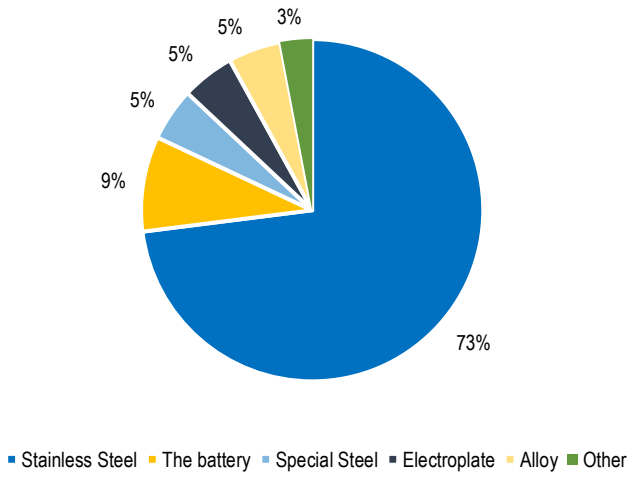
According to the Ministry of Construction, the occupancy rate in Bac Ninh remained at 91% - among the top in the Northern region. Industrial parks in Bac Ninh have a high occupancy rate thanks to their favorable location, well-invested infrastructure and production. For Yen Phong II Industrial Park, we expect the rent to be 20% to 30% higher due to the integration of logistic infrastructure.

4. Continue to diversify with potential mining segment

In 2021, PC1 acquired a 57% stake in Tan Phat JSC - the company that owns the license for Nickel-Copper Mining in Ha Tri - Cao Bang province. According to the National Institute of Mining - Metallurgy Science and Technology, the mine in Ha Tri owns 20,841 tons of nickel ore in reserve form and 60,288 nickel ore in the form of resources. In 2022, PC1 started conducting a Nickel-Copper mining plant with a capacity of 600,000 tons of ore/year with a total investment of VND 1,500 billion. The plant is expected to sell commercial ore in the first quarter of 2023.

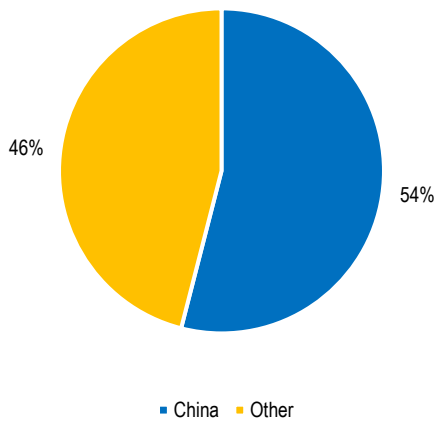
For the Nickel market, Nickel is classified as Type 1 Nickel (purity above 99%) which can be marketed in the LME, and Nickel Type 2 (purity less than 99%) which is sold directly to manufacturers. Nickel type 1 is widely used in the field of electric vehicles, and energy batteries, and Nickel type 2 is widely used in the production of stainless steel.

Applications of Nickel in industries in 2020 (%)



Source: Norniken, Shinhan Securities Vietnam

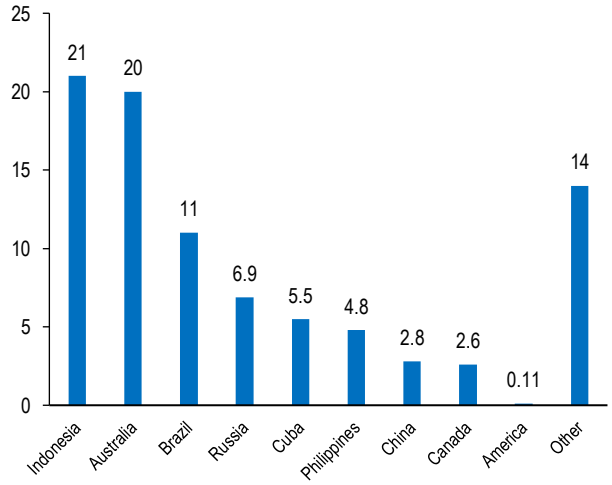
Nickel consumption by country in 2021 (%)



Source: Goldman Sachs, Shinhan Securities Vietnam

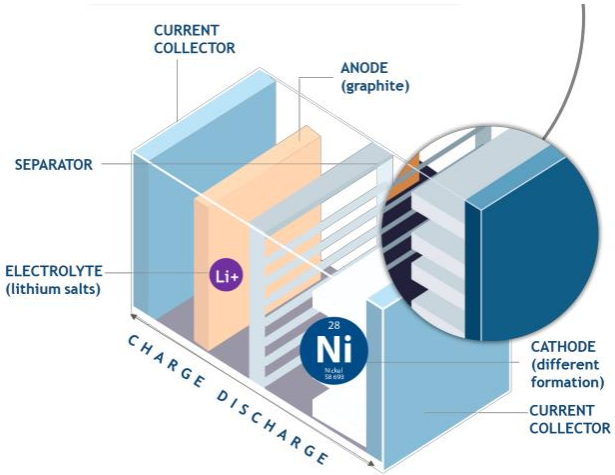
For the Nickel industry, China is the largest consumer in the world when accounting for more than 50% of the demand. Meanwhile, Indonesia is the largest nickel supplier in the world when contributing up to 33% followed by China with 28%.

Nickel reserves of countries in the world (million tons)



Source: International Nickel Study Group, Shinhan Securities Vietnam

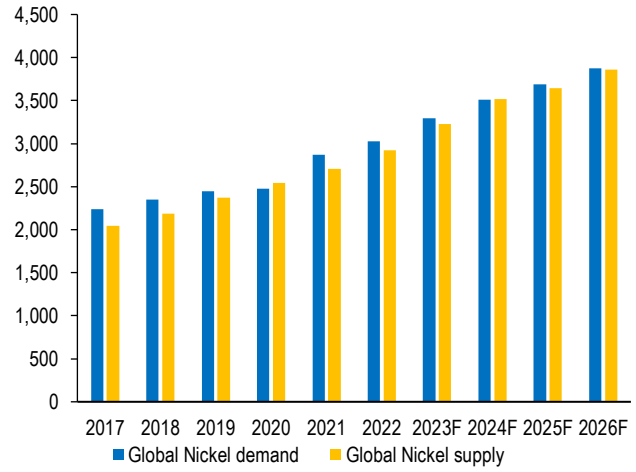
Lithium iron phosphate battery construction



Source: World Bank, Goldman Sachs,, Shinhan Securities Vietnam

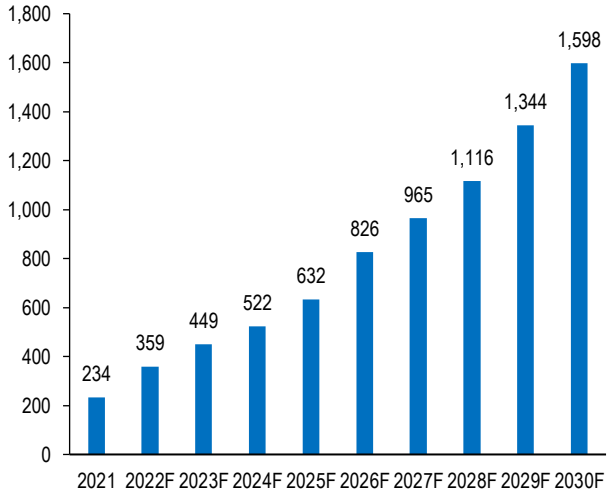
High-purity grade 1 nickel is widely used as the cathode of Lithium iron phosphate batteries. For batteries for electric vehicles, depending on the battery types and design, the amount of Nickel needed ranges from 40kg-66kg for the battery of an EV, and on average 55kg of Nickel is needed for EV according to research from Goldman Sachs.

Global nickel demand and supply (thousand tons)



Source: Goldman Sachs, Shinhan Securities Vietnam

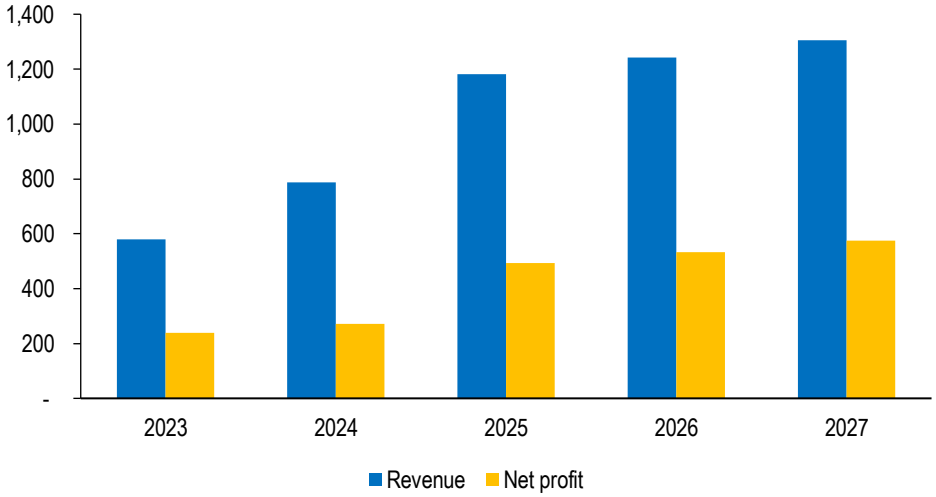
Nickel demand for green economic activities[1]



Source: BNEF, ANL, Goldman Sachs,, Shinhan Securities Vietnam

Over the years, the demand for Nickel has always been higher than the supply. Especially in 2022 when Russia is embargoed by countries around the world. The lack of supply from this country has pushed the price of Nickel to jump sharply. However, with EV and green economy activities increasing in popularity, Nickel demand is expected to continue to own a CAGR of 6%.

Forecast of revenue, net profit of PC1's Nickel - Copper mine project



Source: Company data, Shinhan Securities Vietnam

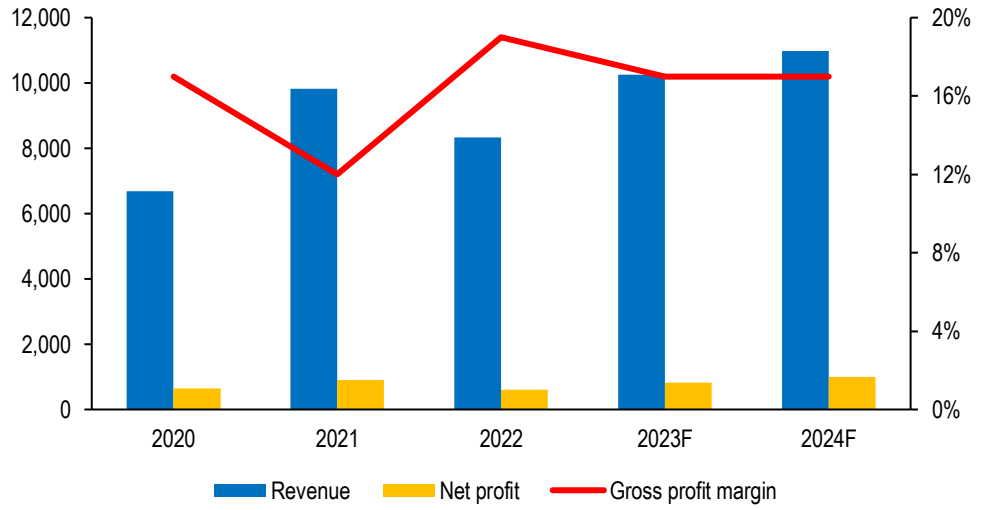
Based on the analysis results of the main element composition of the Ha Tri block from the Institute of Mining Science & Technology - Metallurgy, we assume the ore extraction coefficient of Nickel at 0.4%. We forecast that the annual revenue of the Nickel-Copper mine when reaching the designed capacity of 600,000 tons/year, will bring PC1 about VND 1,200 billion in annual revenue.

[1] Including electric vehicle production, energy storage, wind power

Earning estimates

In 2022, PC1's revenue decreased by 15% YoY to VND 8,333 billion, the net profit reached VND 527 billion (-31% YoY) due to the slowdown in construction, goods, and materials. In 2023, we forecast PC1's revenue to grow by 23% YoY to VND 10,251 billion. The above result comes from the assumption that the mobilization rate of the hydropower segment will decrease due to the passing of La Nina status & the stable operation of wind power, the return of the real estate segment, and the new cash flow from the Nickel-Copper mine.

Forecast of PC1's revenue, profit and gross profit margin



Source: Company data, Shinhan Securities Vietnam

PC1's revenue and profit outlook (2021-2025F)

(Unit: billion VND)	2021	2022	2023F	2024F	2025F
Net revenue	9,828	8,333	10,251	10,984	11,877
Power construction	*8,793*	*6,484*	*6,597*	*7,061*	*8,264*
Power	*928*	*1,794*	*1,799*	*1,902*	*2,096*
Real estate	*106*	*53*	*1,275*	*1,233*	*334*
Mining	*0*	*0*	*580*	*787*	*1,182*
Gross profit	1,156	1,599	1,743	1,867	1,900
Operating profit	905	638	814	1,053	1,016
Net profit	764	527	677	864	849
Profit margin (%)					
Gross profit margin	12%	19%	17%	17%	16%
Operating profit margin	9%	8%	8%	10%	9%
Net profit margin	8%	6%	7%	8%	7%
Growth (%YoY)					
Net Revenue	47%	-15%	23%	7%	8%
Power construction	73%	-26%	2%	7%	17%
Power	24%	93%	0%	6%	10%
Real estate	-88%	-50%	2306%	-3%	-73%
Mining	N/A	N/A	N/A	36%	50%
Operating profit	43%	-29%	28%	29%	-3%
Net profit	40%	-31%	28%	28%	-2%

Source: Company data, Shinhan Securities Vietnam

Recommendation and Valuation

Recommended Hold with target price VND 32,100

We offer an initial valuation for PC1 Group JSC with a buy recommendation and a target price of VND 31.100, equivalent to an increase of 29% compared to the current market price. From a long-term perspective, PC1 is an investment that can be considered for the following reasons:

1. The energy sector plays a key role in the capacity expansion plan;
2. Power construction and industrial production recovered along with the trend of green energy;
3. The real estate segment returned with the expansion into the industrial zone real estate segment;
4. Diversifying with Nickel - Copper mining.

Valuation method

We apply Discounted Cash Flow (DCF) and SoTP valuation methods with weights of 50% and 50% respectively to value PC1.

FCF valuation

Unit: billion VND	2023F	2024F	2025F	2026F	2027F
Net profit	677	864	849	957	1,143
Plus: After-tax interest expense	637	660	658	571	484
Plus: Depreciation & Amortization	712	729	829	846	864
Minus: Change in working capital	4	-570	-49	212	89
Minus: CapEx	2,156	962	972	340	360
Free Cash Flow (FCF)	**-135**	**1,861**	**1,413**	**1,822**	**2,042**
Discount rate	0.91	0.82	0.75	0.68	0.61
PV of FCF	-123	1,531	1,054	1,232	1,253
Growth rate	0%				
Present value of long-term value	12,192				
Enterprise value	17,139				
Debt	11,960				
Cash and cash equivalents	2,937				
Number of shares outstanding (billion)	0.27				
Target price (VND)	**30,011**				

Source: Company data, Shinhan Securities Vietnam

Weighted Average Cost of Capital (WACC)

WACC (%)	**10.3%**
Risk-free rate (%)	5.0%
Equity risk premium (%)	7.8%
Beta	1.00
Debt cost (%)	10.0%
The cost of equity(%)	12.8%
Debt-to-equity ratio	1.75
Total debt (VND billion)	11,960

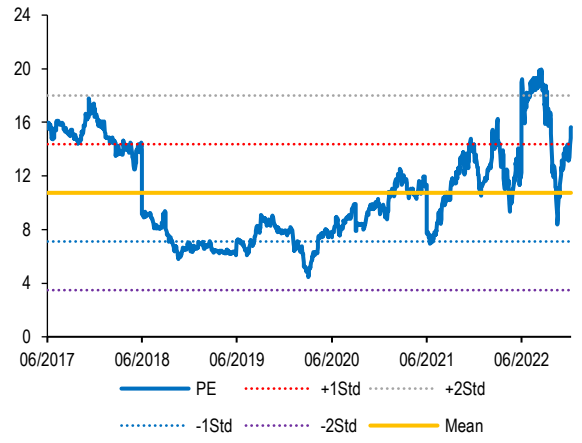
Source: Company data, Shinhan Securities Vietnam

For the SoTP method, we value 10-year DCF for energy, mining and 5 years for real estate leasing. We use PE method with target PE at 7x. The real estate segment is estimated based on the NAV method and the Joint Venture is estimated on BV.

SoTP	EV (VND billion)	Method
Power	10,180	DCF 10 years
Power construction	2,688	PE forward 7x
Industrial production	1,561	PE forward 7x
Investment real estate	232	DCF 5 years
Real estate transfer	590	NAV
Mining	1,508	DCF 10 years
Joint venture companies	1,500	BV
Debt (VND billion)	11,960	
Cash (VND billion)	2,937	
Enterprise value	9,236	
Number of shares outstanding (billion)	0.27	
Target price (VND)	34,207	

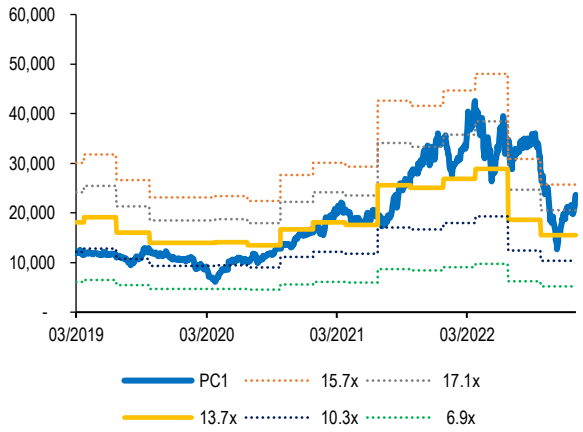
Source: Company data, Shinhan Securities Vietnam

PER of PC1 2017-2022 (x)



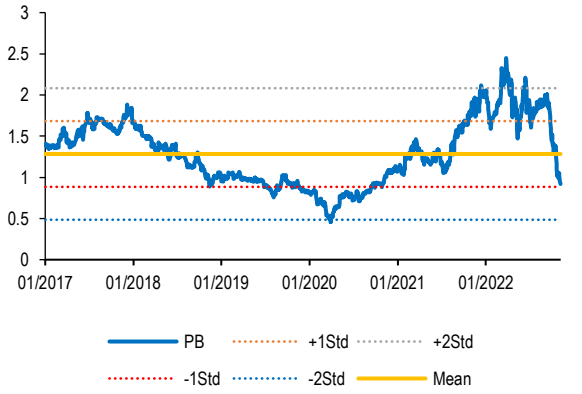
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of PC1 (x)



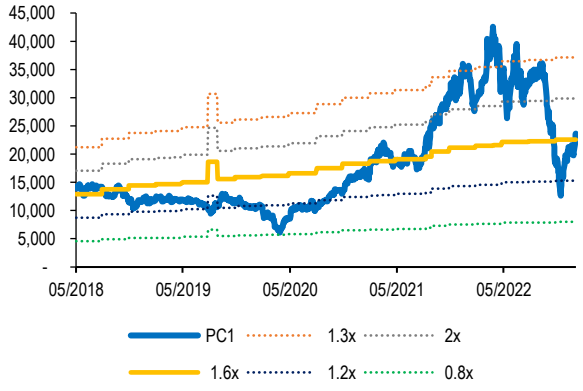
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of PC1 2017-2022 (x)



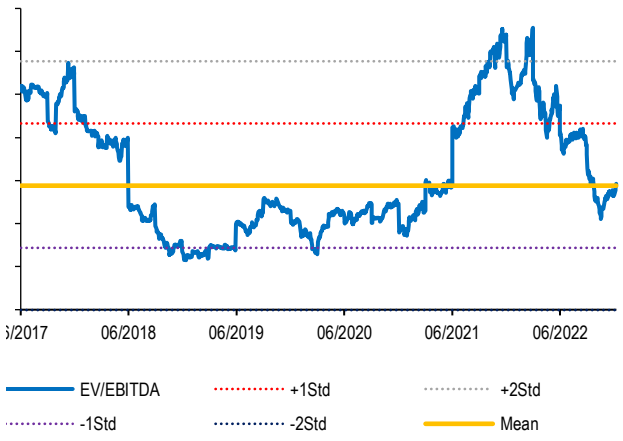
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of PC1 (x)



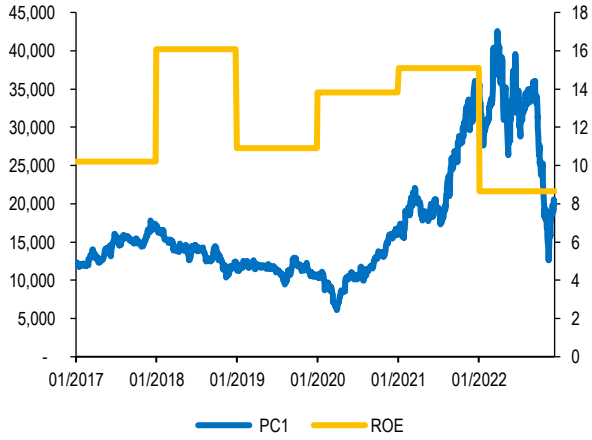
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of PC1 2017-2022 (x)



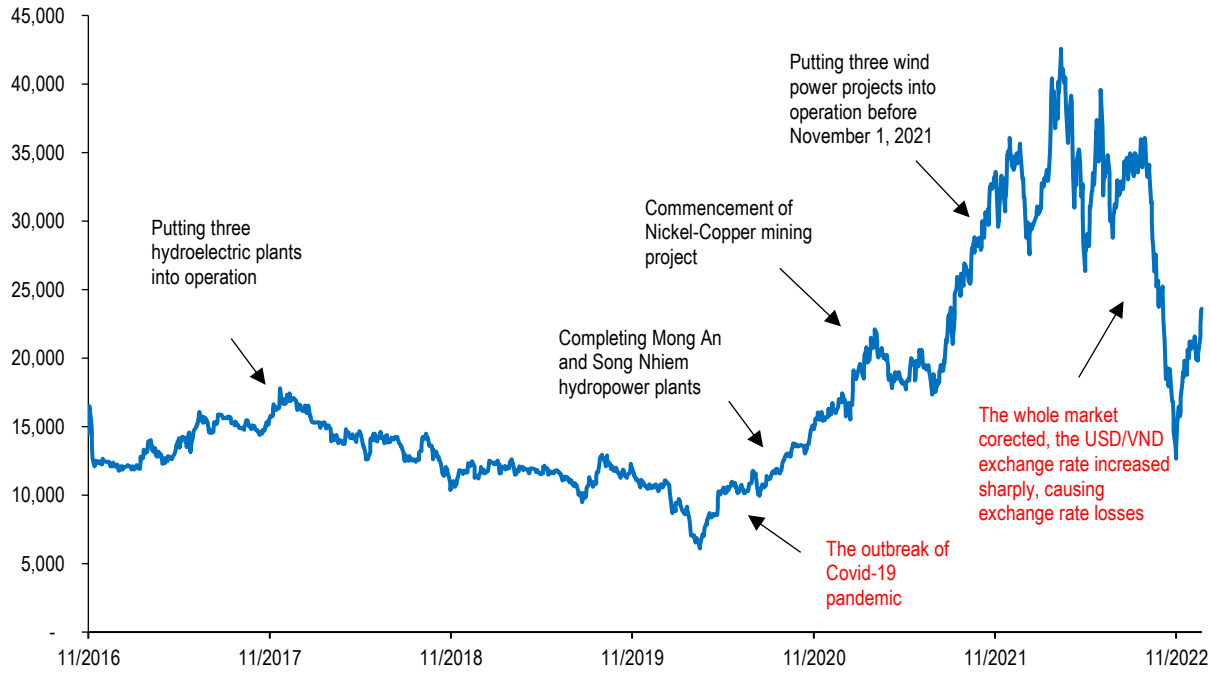
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of price of PC1 and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Event chart of PC1

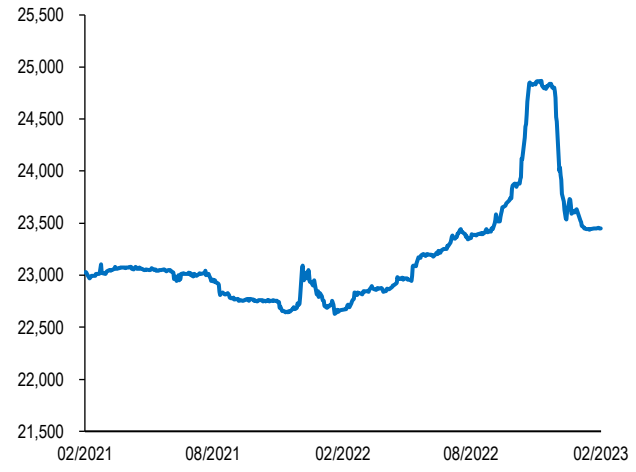


Source: Bloomberg, Company data, Shinhan Securities Vietnam

Risks

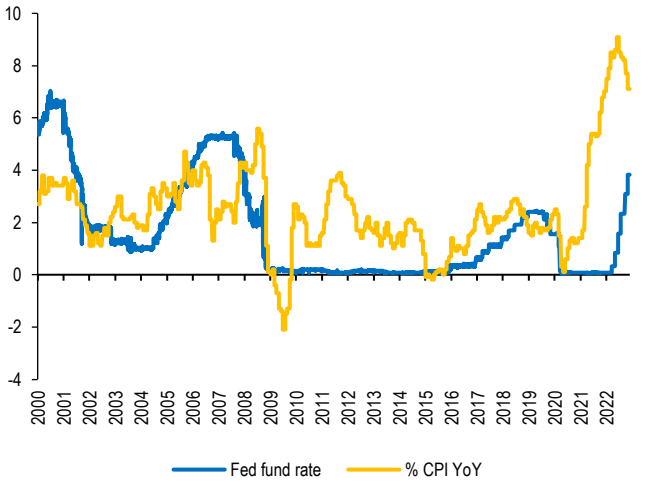
Exchange rate and interest rate risk

Exchange rate USD/ VND



Source: Bloomberg, Shinhan Securities Vietnam

Fed fund rate and US inflation (%)



Source: Bloomberg, Shinhan Securities Vietnam

In 2022, PC1 recorded an exchange rate loss of VND 130 billion, partly from loans denominated in USD with a debt of VND 3,941 billion in USD. In addition, with total debt of VND 11,960 billion, the D/E ratio is maintained at 1.69x, the interest rate is one of the biggest risks that PC1 is facing.

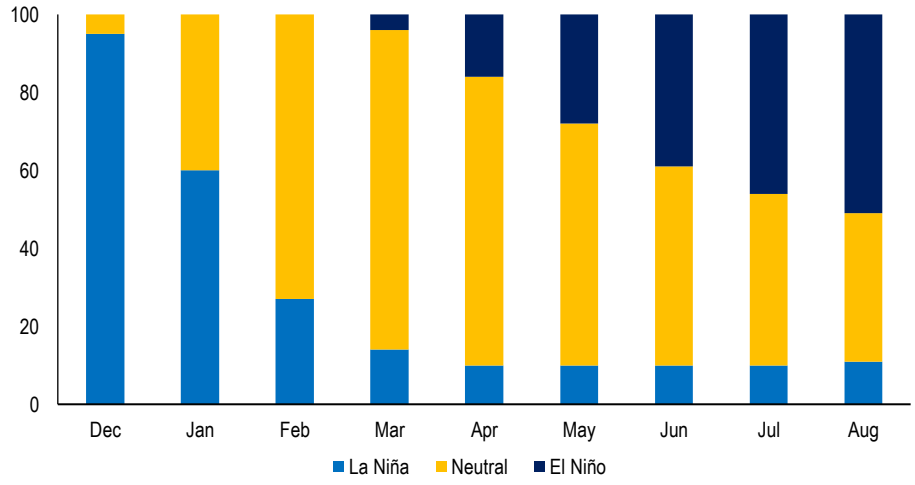
Demand for electricity and electricity construction grew lower than expected

In recent years, the Covid-19 pandemic, the outbreak of war, and supply chain disruptions have caused the global economy to plunge. In 2023, the risk of a global recession is growing, the demand for electricity will be affected. Besides, the Draft Power Plan VIII may not be approved as expected, making the implementation of new power projects difficult. This will cause the backlog in the build array to be lower than expected.

Risk of adverse weather

Hydropower plants will be prioritized for mobilization when the amount of water in the reservoir is abundant. For La Nina-affected years, these businesses will have better yields than in neutral/El Nino years. In the past three years, the La Nina phenomenon has had a strong impact, bringing a lot of water. However, IRI forecasts that in 2023 La Nina will pass and neutrality will take over. At that time, the output of hydropower enterprises will decrease.

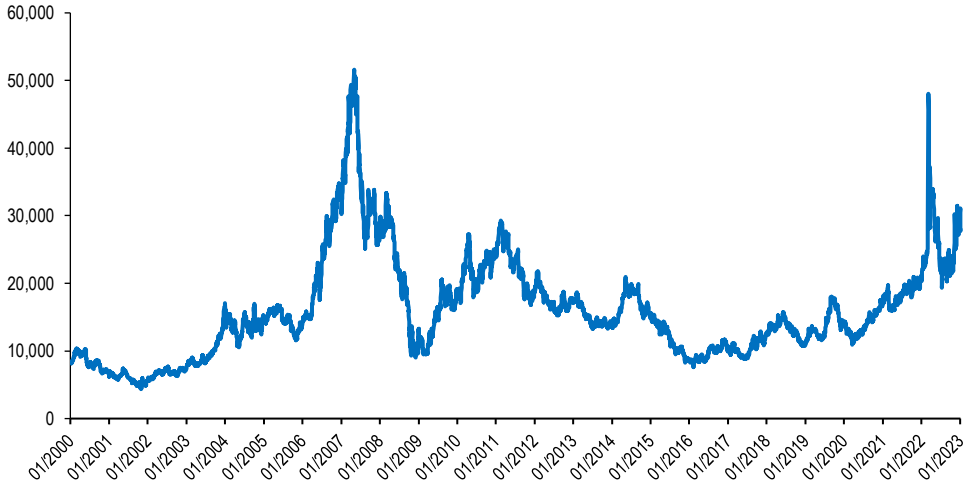
Probability of La Nina, El Nino and neutral phenomena from Dec 2022 to Aug 2023 (%)



Source: IRI, Shinhan Securities Vietnam

Nickel and copper metal price risk

Nickel and Copper 3 month futures on LME (USD)



Source: Bloomberg, Shinhan Securities Vietnam

For the Nickel market, the price of this metal has a large fluctuation range, when the price of Nickel skyrockets, the stainless use uses the most Nickel will tend to decrease demand. According to Goldman Sachs, when the nickel price increased by 10%, the demand for stainless steel would decrease by about 15,000 tons based on historical data. Because Nickel is a non-essential material and can be replaced by some other metals and consumers can choose other items instead of stainless steel. Therefore, the price of this metal may fall lower than our forecast.

Risk of delay in real estate projects

The real estate market has faced many difficulties, making it a challenge for investors to implement new projects. Over the past year, legal procedures have slowed down the progress of projects implemented by PC1. In the future, this risk may affect PC1's real estate revenue.

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**10,722**	**18,687**	**21,604**	**20,172**	**21,206**
Current assets	5,715	6,589	7,917	6,970	7,770
Cash & equivalents	1,476	2,292	2,937	1,699	2,612
Short-term financial asset	63	144	655	308	330
Accounts receivable	3,390	3,124	3,172	3,552	3,804
Inventories	730	904	891	1,411	1,025
Non-current assets	5,006	12,098	13,688	13,202	13,435
Net fixed assets	3,802	9,205	8,597	10,786	10,377
Investment assets	81	639	1,527	1,527	1,527
Other long-term assets	434	689	983	905	950
Total liabilities	**8,160**	**19,014**	**23,132**	**23,028**	**22,790**
Current liabilities	5,952	12,406	14,543	14,765	14,793
Accounts payable	2,157	2,999	2,277	3,312	3,607
Short-term borrowings	1,586	2,800	3,676	3,189	3,189
Others	1,057	1,243	984	1,418	1,505
Non-current liabilities	2,208	6,607	8,589	8,263	7,997
Long-term borrowings	2,171	6,238	8,284	7,958	7,692
Other financial liabilities	37	370	305	305	305
Total shareholders' equity	**4,770**	**6,281**	**7,062**	**7,818**	**8,797**
Capital stock	1,912	2,352	2,704	3,110	3,576
Capital surplus	711	711	711	711	711
Other capital	1,364	1,639	1,693	1,964	2,362
Retained earnings	1,109	1,305	1,337	1,608	2,006
Non-controlling interest equity	782	1,580	1,953	2,033	2,147
*Total debt	3,758	9,037	11,961	11,147	10,881
*Net debt (cash)	2,219	6,601	8,368	9,140	7,939

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**6,679**	**9,828**	**8,333**	**10,251**	**10,984**
Growth (%)	*14.3*	*47.2*	*-15.2*	*23.0*	*7.1*
COGS	(5,517)	(8,673)	(6,735)	(8,509)	(9,117)
Gross profit	**1,162**	**1,156**	**1,599**	**1,743**	**1,867**
GPM (%)	*17.4*	*11.8*	*19.2*	*17.0*	*17.0*
SG&A	(338)	(297)	(281)	(363)	(345)
Operating profit	**823**	**859**	**1,318**	**1,379**	**1,522**
Growth (%)	*0.5*	*0.4*	*(0.3)*	*0.3*	*0.3*
OPM (%)	*12.3*	*8.7*	*15.8*	*13.5*	*13.9*
Non-operating profit	(190)	(48)	(710)	(614)	(586)
Financial income	37	319	95	152	189
Financial expense	(244)	(359)	(765)	(755)	(749)
In which: interest expenses	(242)	(315)	(614)	(722)	(749)
Net other non-operating profit	17	(8)	(40)	(12)	(26)
Pre-tax profit	**652**	**896**	**598**	**790**	**1,001**
Income tax	(108)	(132)	(71)	(114)	(137)
Net profit	**544**	**764**	**527**	**677**	**864**
Growth (%)	*44.5*	*40.5*	*(31.0)*	*28.4*	*27.7*
NPM (%)	*8.1*	*7.8*	*6.3*	*6.6*	*7.9*
Controlling interest	513	695	450	597	750
Non-controlling interest	31	69	77	80	114
EBIT	**894**	**1,212**	**1,212**	**1,512**	**1,749**
Growth (%)	*48.0*	*35.5*	*0.0*	*24.8*	*15.7*
EBIT Margin (%)	*13.4*	*12.3*	*14.5*	*14.8*	*15.9*
EBITDA	**1,070**	**1,495**	**2,459**	**2,224**	**2,478**
Growth (%)	*44.7*	*39.7*	*64.5*	*(9.6)*	*11.4*
EBITDA margin (%)	*16.0*	*15.2*	*29.5*	*21.7*	*22.6*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**633**	**93**	**1,020**	**1,232**	**1,974**
Net profit	544	764	527	677	864
D&A expense	176	283	1,247	712	729
(Gain) from investing activities	(55)	(386)	(82)	(152)	(189)
Change in working capital	(132)	1,199	(584)	(4)	570
Others	100	(1,768)	(88)	-	-
Cash flow from investments	**(856)**	**(4,949)**	**(3,246)**	**(1,657)**	**(795)**
Change in fixed assets	(1,566)	(5,687)	(639)	(2,748)	(131)
Change in investment assets	-	-	-	348	(22)
Others	710	737	(2,607)	744	(642)
Cash flow from financing	**1,133**	**5,682**	**2,874**	**(814)**	**(267)**
Change in equity	-	-	-	406	466
Net borrowing	1,133	5,682	2,874	(813)	(267)
Dividends	-	-	-	(406)	(466)
Change in total cash	**909**	**826**	**648**	**(1,238)**	**912**
Beginning cash	568	1,476	2,292	2,937	1,699
Change in FX rates	-	-	-	-	-
Ending cash	1,476	2,292	2,937	1,699	2,612

Source: Company data, Shinhan Securities Vietnam

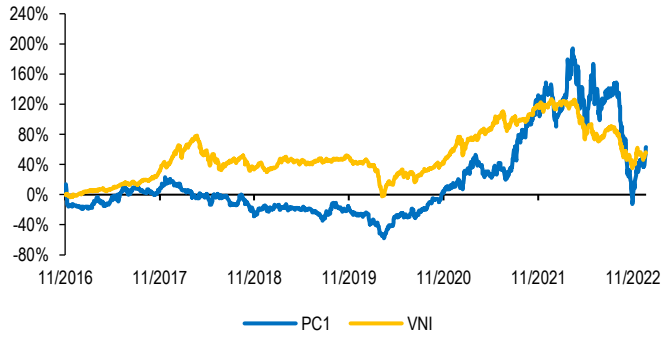
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	2,682	2,858	1,513	2,537	3,188
BPS (VND)	20,856	19,992	18,892	18,602	18,592
PER (x)	11.7	14.8	16.7	10.0	7.9
PBR (x)	1.7	1.8	1.3	1.4	1.4
EV/EBITDA (x)	5.2	6.0	12.7	10.6	8.4
Dividend payout ratio (%)	2.0	3.0	0.0	0.0	0.0
Dividend yield (%)	1.5	1.7	0.0	0.0	0.0
Profitability					
EBITDA margin (%)	16.0	15.2	29.5	21.7	22.6
OPM (%)	12.3	8.7	15.8	13.5	13.9
NPM (%)	8.1	7.8	6.3	6.6	7.9
ROA (%)	5.1	4.1	2.4	3.4	4.1
ROE (%)	11.4	12.2	7.46	8.7	9.8
Stability					
Debt to equity ratio (%)	78.8	143.9	169.4	142.6	123.7
Net debt ratio (%)	207.3	441.5	340.2	424.4	331.0
Cash ratio (%)	25.9	19.6	24.7	11.6	18.1
Interest coverage ratio (x)	3.7	3.8	2.0	2.1	2.3
Activity (%)					
Working capital turnover (times)	6.9	6.9	5.5	6.4	5.5
Inventory turnover (days)	5.1	10.6	7.5	7.4	7.5
Receivable turnover (days)	2.5	3.0	2.6	2.9	2.8

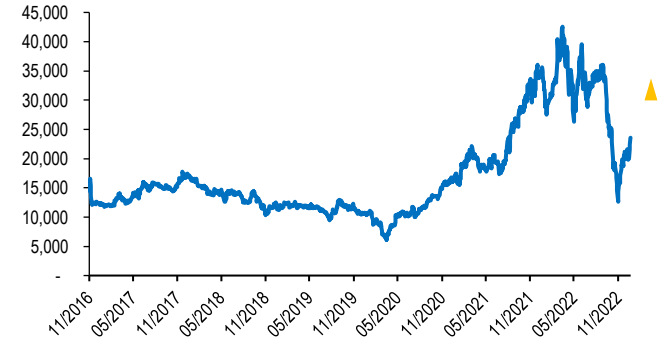
Source: Company data, Shinhan Securities Vietnam

PC1 Group JSC (PC1 VN)

Share price



Target price



Date	Rating	TP (VND)	TP gap (%)	
			TB	Max/Min
10/02/2023 (Initiation)	BUY	32,100	5.6	-26.5/147.4

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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