

Recommendations **MUA** **POWER CONSTRUCTION JSC 1 (HOSE: PC1)**
BREAKTHROUGH ENERGY

Current price:	26,800	Date of writing the report:	06/06 /2021	SHAREHOLDER STRUCTURE	
Target price:	32,800	Outstanding Shares (million)	191.2	Trinh Van Tuan	18.1%
Dividend yield	0%	Market Cap (billion)	5,124	BEHS JSC	17.8%
Upside	22.4%	Avg. liquidity 6M:	506,690	Nguyen Nhat Tan	3.2%
		%Foreign ownership	10.95%	Le Thi Thoi	1.9%

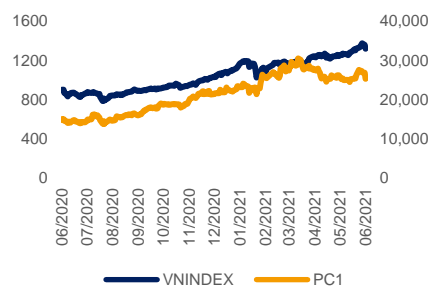
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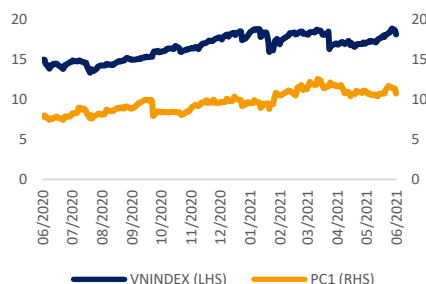
Technical analyst:

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Target price: 35,500 VND
Stop loss price: 22,250 VND

Comparison table of PC1 and VN- Index prices



P/E and VN index comparison table



Valuation

- BSC offers a **BUY** recommendation for PC1 stocks with a target price of **VND32,800 per share** for 2021 (equivalent to 22.4% upside compared to the price on June 7, 2021) based on a partial valuation method (SOTP).

Forecasting business results

- BSC forecasts Gross profit and After-tax profit 2021 to reach **VND 7,928 billion (+19% yoy)** and **VND 590 billion (+9% yoy)**, EPS FW 2021 = **2,934 VND/CP** with the assumption: (1) New EPC wind contract value signed in 2021 +40% yoy; (2) The hydroelectric sector continues to benefit from the favorable hydrological situation and (3) Wind power projects start operation from November 2021, bringing PC1 revenue = VND 142 billion.

Investment perspective

- The power construction and installation segment benefited from the wave of wind power investment and the need to invest in power transmission systems.
- Hydropower segment grew strongly in 2021 thanks to favorable hydroelectric situation and increased capacity from new plants.

Catalyst

- Three PC1 wind power plants (144 MW) are expected to be operational in Q3/2021.

Investment risk

- Weather risks affect hydroelectric array output and the construction of wind power projects.

Business update

- In Q1/2021, PC1 recorded **Gross profit reaching VND1,548 billion (+13% yoy)** and **After-tax profit reaching VND 80 billion (-10% yoy)**. Revenue increased due to (1) recording of EPC wind power projects and (2) Revenue of commercial segment +157% yoy thanks to the sale of steel billet.
- After tax profit in the period decreased by 10% compared to Q1/2020**, mainly due to financial costs +17% yoy due to increased borrowing on wind power projects and stopped the interest rate capitalization for hydropower projects in 2020.
- ADB has signed a \$116 million loan to finance three PC1 wind power projects at a **fixed rate of 5.4 percent per year for 15 years**.

	2020	2021F	VN-Index
PE (x)	9.9	9.2	18.6
PB (x)	1.2	1.1	2.7
PS (x)	0.7	0.7	2.3
ROE (%)	12.1%	11.7%	14.9%
ROA (%)	5.4%	4.5%	2.4%
EV/ EBITDA (x)	6.5	9.3	17.5

	2018	2019	2020	2021F
Turnover	5,084	5,845	6,679	7,928
Gross profit	866	819	1,162	1,406
Profit after tax	491	376	544	590
EPS	3,514	2,246	2,682	2,934
EPS growth	50%	-36%	19%	9%
Debt/Equity	60%	82%	79%	143%

UPDATE BUSINESS RESULTS Q1/2021

In Q1/2021, PC1 recorded **Gross profit reaching VND1,548 billion (+13% yoy) and After-tax profit reaching VND 80 billion (-10% yoy)**. Revenue growth came from (1) Revenue of power construction +139% yoy thanks to the recognition of EPC wind power projects and (2) Revenue of commercial segment +157% yoy, mainly from the sale of steel billet.

After-tax profit in the period decreased by 10% compared to Q1/2020, mainly coming from financial costs of +17% yoy due to increased borrowing on wind power projects and stopped the interest rate capitalization for hydropower projects in 2020.

Figure 1: PC1's net revenue and After-tax profit

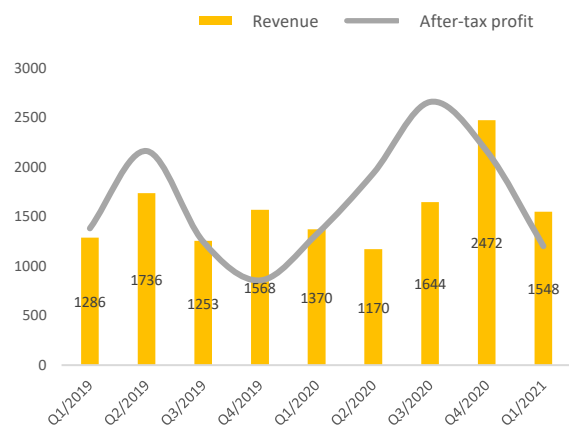
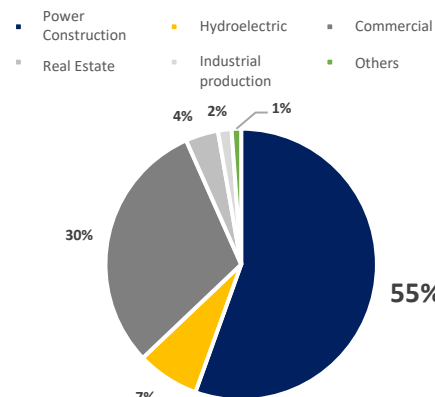


Figure 2: Electrical construction accounts for the largest proportion of PC1's revenue structure



Source: PC1, BSC Research

Wind power projects are being implemented on schedule. For three wind power projects in Quang Tri (total capacity of 144 MW), PC1 has completed construction infrastructure, including the construction of foundation piles in April and is underway to install turbines. In May, all imported equipment will arrive at the port. It is expected that PC1 will **complete the projects in August-September this year** to promptly operate before the FIT price deadline ends (November 1, 2021). In addition, **ADB has signed a \$116 million loan to finance three PC1 wind power projects at a fixed rate of 5.4% per year for 15 years.**

INVESTMENT THESIS

Power construction and installation segments benefit from the wave of wind power investment and the need to invest in power transmission systems in the future

PC1 received many EPC wind power projects thanks to its good capacity profile and experience in the construction of wind power projects of the enterprise. In the last 2 quarters, PC1 has won many high-value wind power EPC contracts (such as Ia Bang 1 project, Ia Pét Dak Đoa No. 1, etc.) with a total value of more than VND 3,000 billion. PC1 is also one of the few enterprises to implement their own wind power projects.

Table 1: Information on EPC wind power projects of PC1

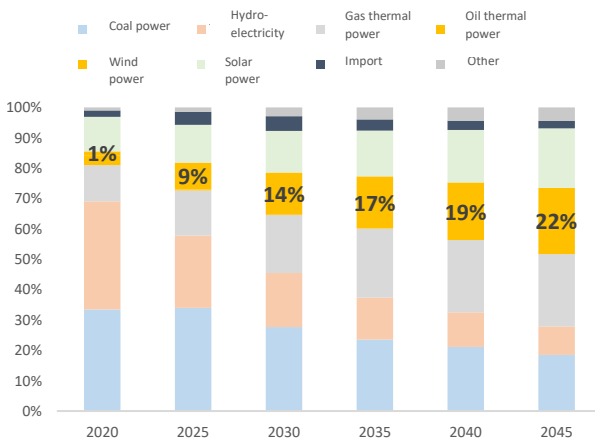
Project	Ia Bang 1	Ia Pê Dak Doa No. 1	Tan Phu Dong 2
Total investment capital (VND billion)	2,200	3,910	2,242
Capacity (MW)	50	100	50
Business	EPC Factory	EPC line, substation	EPC Factory
Bid package value (VND billion)	829	743	1676

Project	Ia Bang 1	Ia Pê Dak Doa No. 1	Tan Phu Dong 2
Commencement	Dec, 2020	Jan, 2021	T3-4/2021
Completion (expected)	Oct, 2021	T10/2021	T12/2021

Source: PC1, BSC Research

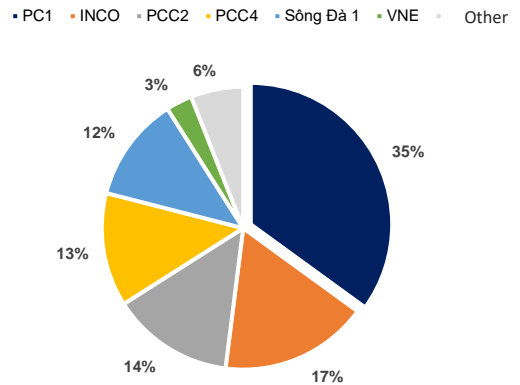
The Draft Power Plan No. 8 aims at renewable energy sources. According to Draft power plan No. 8, the total wind power capacity in 2025 is expected to be 9.2 GW (9% of power capacity) and will increase to 60 GW by 2045, equivalent to 22% of the whole system. Meanwhile, only about 1 GW of wind power will be put into operation by the end of 2020. Thus, the demand for implementing EPC wind power projects and transmission networks for projects is still quite large and is **an opportunity for leading enterprises such as PC1 to dominate the market in the future.**

Figure 3: Wind power has a lot of room for growth in capacity in the future



Source: Draft Power plan No. 8, BSC Research

Figure 4: Industry leader gives PC1 more chances to win big contracts in the future



Source: PC1, 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 draft POWER PLAN NO. 8, the electricity sector needs to invest an average of about US\$9.5 billion per year in the period of 2021-2045, 1.5x compared to the 2016-2020 general election. **Construction and installation will account for 20%, equivalent to about 1.9 billion USD per year in the period 2021-2045.** BSC expect that this will help PC1 maintain the growth of the power construction and installation segment in the long term, estimated at 15-20% per year for the upcoming period of 2021-2025.

Figure 5: Wind power has a lot of room for growth in capacity in the future

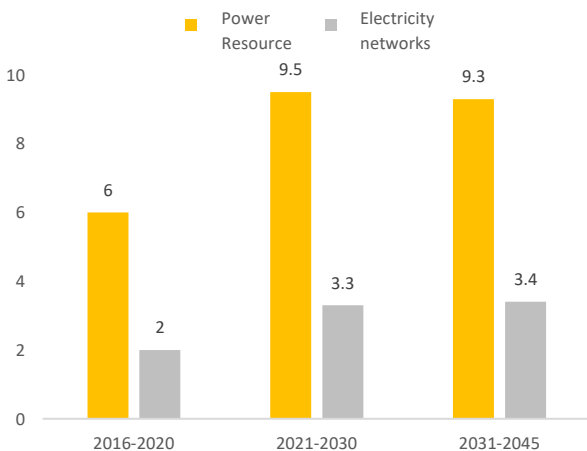
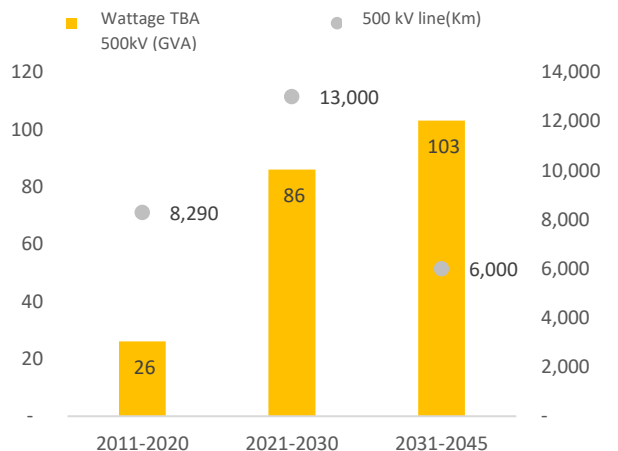


Figure 6: Total TBA capacity and power lines will be implemented for construction of 2021-2045

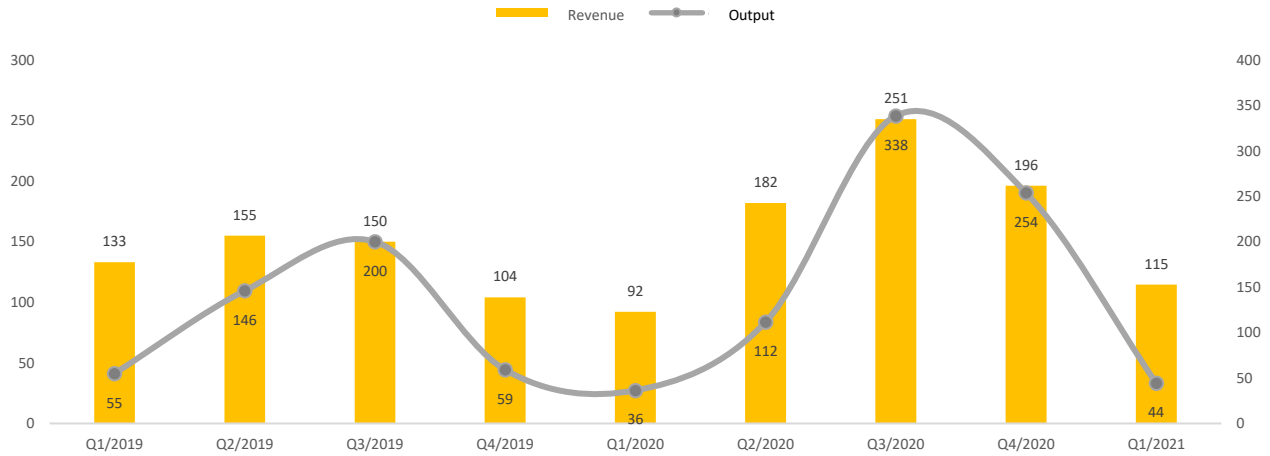


Source: Draft Power Plan No.8, BSC Research

Hydroelectric segment grows strongly in 2021 thanks to favorable hydroelectric situation and increased capacity from new plants

PC1's hydroelectric output benefits from the favorable situation of the La Nina phenomenon. According to Columbia University, La Nina is likely to continue through 2021. Therefore, the large amount of water will help the hydroelectric sector, including PC1's factories, continue to be prioritized by EVN compared to other power sources.

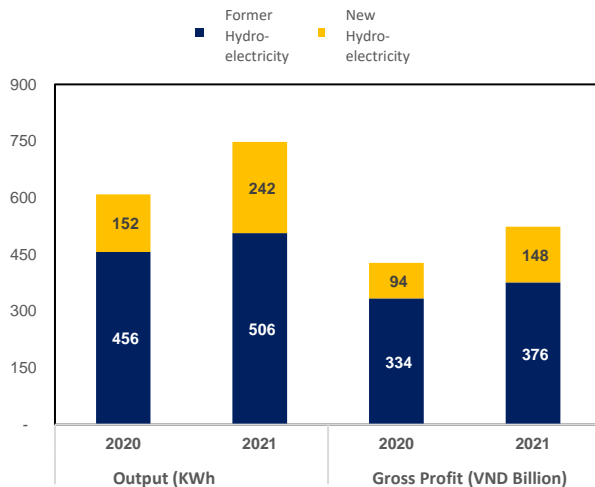
Figure 7: Revenue structure & hydroelectric output of PC1



Source: PC1, BSC Research

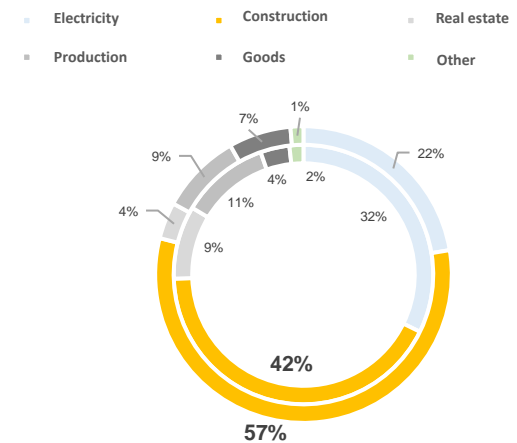
The increased capacity from the new hydropower plants helps the Electricity segment become the main gross profit contributor in 2021. In 2020, PC1 put into operation 03 plants with a total capacity of 54 MW, raising the installed capacity to 168 MW, of which Bao Lac B plant (18 MW) and Song Cuong 4 (6 MW) will operate from July, 2020. These hydroelectric plants benefited in terms of cost, helping the Gross profit margin of the Electricity segment to be above 60%. BSC expect that the new power plants will increase hydroelectric output by about 240 billion kWh in 2021, corresponding to 148 billion VND more for PC1's Gross profit in the following year.

Figure 8: CS increases to help electricity segment grow in Gross profit



Source: PC1, BSC Research

Figure 9: The electrical array becomes the largest contributor to Gross profit (outer ring: 2019, inner circle: 2021)



Source: PC1, BSC Research

Wind power – Focusing construction resources to enjoy preferential prices

Table 2: Investment information on 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 (VND billion)	2,034	1,715	1,714
EQUITY (VND billion)	407	343	343
Loans (VND billion)	1,627	1,372	1,372
Ownership rate	55.5%	53.5%	53.6%
Completion time	9/2021	9/2021	9/2021
Location	Huong Hoa District, Quang Tri Province		

Source: PC1, BSC Research

Preferential electricity selling prices are the driving force for PC1 to focus on wind power. According to the Government's QD 39/2018/QD-TTG, land-based wind power projects operating before November, 2021 will enjoy preferential rates of US8.5 cents/kWh (equivalent to VND 1,928/kWh) for 20 years of life cycle. According to our records, PC1 is currently implementing the phase of installing turbines for 03 factories and will complete all 03 projects in Q3/2021 to enjoy the above preferential FIT price.

FORECASTING BUSINESS RESULTS

2021 - Rapid growth from electricity construction and installation with EPC wind power projects

In 2021, BSC forecasts PC1 **Gross profit** to reach **7.928 billion VND (+19% yoy)** and **After-tax profit** is about **590 billion VND (+9% yoy)**, equivalent to **EPS = 2,934 VND /share** based on the following assumptions:

- **Revenue in the power construction and installation segment is expected to reach VND 4,914 billion (+47% yoy)** thanks to growth from new wind power EPC projects in 2021.
- **Hydropower revenue is expected to reach VND933 billion (+30% yoy)** due to an increase in hydroelectric output of about 164 million kWh, equivalent to +21% yoy thanks to the favorable hydrology situation.
- Three wind power plants (144 MW) will be operational from October 2021, bringing the total power capacity to 313MW. BSC forecasts that the wind power sector will contribute an additional 74 million kWh to PC1's total electricity output, corresponding to a contribution of **VND142 billion to electricity revenue**.

VALUATION

Based on the partial valuation method, BSC recommends **BUY** for PC1 stock with a reasonable value in 2021 of VND 32,800 per share, equivalent to **upside 22.4% (according to the closing price of 07/06/2021 of VND 26,800 /share)**. Specifically, BSC uses cash flow discounting to evaluate the NPV of 3 wind power projects, EV/EBITDA method for hydropower, P/E method for construction and installation and NAV method for real estate.

Table 3: Results of partial valuation of PC1 stocks

Business	Method	Value	SLCP (million)	Reasonable value/CP
Construction & Installation & Industrial production	P/E	2,598,302	191.2	13,590
Real Estate	NAV	643,480	191.2	3,366
Wind power	FCFF	1,424,249	191.2	7,449
Hydroelectricity	EV/EBITDA	1,591,951	191.2	8,372
Share price				32,777

Source: BSC Research

APPENDIX

IS (VND Billion)	2018	2019	2020	2021F	Cash flow (VND Billion)	2018	2019	2020	2021F
Net revenue	5,084	5,845	6,679	7,928	(Loss)/NPAT	491	376	544	590
COGS	(4,219)	(5,026)	(5,517)	(6,522)	Depreciation	143	141	190	345
Gross profit	866	819	1,162	1,406	Change in NWC	(276)	(1,093)	(497)	(196)
Selling expenses	28	38	37	34	Other adjustments	(92)	(10)	(45)	(3)
SG&A expenses	(150)	(172)	(244)	(290)	CF from operating activities	513	(334)	633	739
Operating income	(148)	(171)	(242)	(290)	Fixed assets investment	(531)	(703)	(933)	(5,550)
Financial income	-	-	-	-	Other investment	(4)	(253)	76	(277)
Financial expenses	(208)	(224)	(338)	(432)	CF from investing activities	(535)	(956)	(856)	(5,827)
Interest expenses	540	427	635	718	Dividend paid	(10)	(12)	(15)	-
Gain/loss from affiliates	39	6	17	-	Cash from net borrowing	165	1,168	1,148	3,876
Other gain/loss	579	433	652	718	CF from financing activities	156	1,156	1,133	3,876
Profit before tax	(88)	(56)	(108)	(128)	Beginning cash balance	567	701	568	1,476
Corporate tax payment	491	376	544	590	Cash in year	134	(134)	909	(1,212)
Profit after tax	25	19	31	30	Ending cash balance	701	568	1,476	245
Minority interest	467	358	513	561					
Profit after tax - Minority interest	881	779	1,070	1,353					
EBITDA	3,514	2,246	2,682	2,934					
EPS	5,084	5,845	6,679	7,928					

BS (VND Billion)	2018	2019	2020	2021F	Ratio (%)	2018	2019	2020	2021F
Cash & cash equivalent	701	568	1,476	245	Liquidity ratios				
Short term investment	90	180	63	63	Current ratio	1.8	1.7	1.5	1.1
Account receivables	1,552	1,851	3,390	3,767	Quick ratio	1.4	1.1	1.3	0.9
Inventory	759	1,434	730	736	Capital structure				
Other current assets	47	120	57	68	Debt/ Total assets	30%	37%	35%	50%
Total current assets	3,150	4,153	5,715	4,879	Debt/ Equity	60%	82%	79%	143%
Tangible assets	8	8	87	104	Efficiency ratios				
Depreciation	2,529	2,412	3,802	9,006	Days of inventories	80	80	72	41
Long term incomplete assets	2	2	2	2	Days of receivables	102	106	143	165
Long term investment	442	1,179	379	656	Days of payables	124	104	123	127
Other non-current assets	97	64	81	81	CCC	58	82	92	79
Total non-current assets	198	330	434	448	Profit margin				
Total Assets	3,447	4,162	5,006	10,507	Gross profit	17%	14%	17%	18%
Account payables	6,597	8,315	10,722	15,386	NPAT profit	10%	6%	8%	7%
Short-term debt	1,325	1,546	2,157	2,382	ROE	16%	11%	12%	12%
Other short-term debt	416	951	1,586	1,982	ROA	8%	5%	5%	5%
Current liabilities	1,741	2,497	3,744	4,364	Valuation				
Long-term debt	1,554	2,096	2,171	5,652	PE	6.5	7.2	9.9	9.2
Other long-term debt	23	27	37	41	PB	1.0	0.8	1.2	1.0
Non-current liabilities	1,577	2,123	2,208	5,693	Growth				
Total Liabilities	3,318	4,620	5,952	10,057	Gross revenue growth	61%	15%	14%	19%
Paid-in capital	1,328	1,593	1,912	1,912	EBIT growth	82%	-17%	48%	13%
Capital surplus	711	711	711	711	EBT growth	91%	-25%	51%	10%
Retained earnings	925	933	1,109	1,628	EPS growth	50%	-36%	19%	9%
Other equity	23	23	23	23					
Minority shareholders	160	257	782	782					
Total Equity	3,279	3,695	4,770	5,330					
Total capital	6,597	8,315	10,722	15,386					
Number of shares outstanding	133	159	191	191					

Source: BSC Research.

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