

Vietnam: Energy

6 April 2021

PC1 VN

BUY

TP upside +24.5%
Close 5 April 2021

Price	VND 28,000
12M Target	VND 34,864
Previous Target	VND 24,092
Change	+44.7%

What's new?

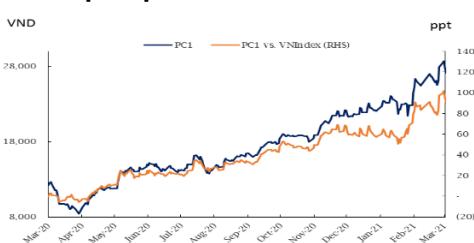
- ▶ PC1 targets 2021 sales to grow +20.2% YoY driven by a 46% surge in energy revenue.
- ▶ PC1 is developing three 48MW wind power projects with total investment of VND 5.4tn.
- ▶ We revise up our FY2021E revenue forecast by 20% compared to the previous one but trim PATMI forecast by 15% as high margin property project delayed.

Our view

- ▶ We reiterate our BUY recommendation and revise up our target price by 45% to VND 34,864.
- ▶ Our reduced 2021 PAT forecast is 29% higher than the Street due to our expectation for PC1 to launch its three wind farms by November this year.
- ▶ The main risk is the heavy workload and tight schedule, which is sensitive to potential disruptions in equipment delivery.

Company profile: PC1 is the market leader in power plant, transmission line, & electrical substation construction and pole manufacturing. The company's core business is the main source of revenue but profitability is constrained by regulation. PC1's value proposition lies in its higher-margin secondary operating segments—power generation and property development.

Share price performance relative to VNI



Market cap	US\$ 231mn
6M avg. daily turnover	US\$ 0.69mn
Outstanding shares	191mn
Free float	63%
FINI ownership	11.8%
Major shareholders	29.8%
Asset/equity	2.3x
2022E EV/EBITDA	5.4x
2022E P/B	0.8x
Trading platform	HOSE
FOL Room	37.2%

Financial outlook (VND bn)

Year to Dec	2020A	2021E	2022E	2023E
Sales	5,842	6,657	8,018	8,168
Op. profit	591	818	891	1,232
Net profit	356	506	448	563
EPS (VND)	2,236	3,012	2,671	3,354
EPS chg (%)	(32.1)	34.7	(11.3)	25.6
P/E (x)	9.3	10.5	8.3	6.5
ROE (%)	10.2	11.9	9.0	10.3
Div. yield (%)	-	-	-	-
DPS (VND)	-	-	-	-

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PCC1 (PC1 VN)

Cash in the Wind

Energy to lead 2021 revenue growth. PC1 targets 2021 revenue to reach VND 8trn, up by 20.2% YoY. PC1 expects 2021E energy revenue to jump by 46% YoY to VND1.1tn as it launches three substantial windpower projects this year. In addition, construction revenue is set to increase by 48.3% to VND 4.5tn due to projects rolled over from 2020. However, PC1 guides for 2021E PAT of just VND 516bn, a slight reduction of 3.9% YoY as high margin property revenue declines by 86% YoY to VND117bn due to new projects being delayed until 2022E.

Substantial VND 5.4tn wind energy projects are in the pipeline. PC1 is investing in the 48MW Lien Lap windpower plant, which we expect to be launched by August. This should be followed by two other 48MW (each) windpower plants at Phong Huy and Phong Nguyen.

Model revisit. We revise up our FY2021E revenue forecast by 20% to VND8.0tn (+20% YoY) after modelling in the new wind power farms and construction, which offsets the YoY decline in property revenue. However, we trim our 2021E PATMI forecast by 15% to VND 448bn (+4% YoY), which is 4% higher than the company's target. This is mainly because we expect 2021E gross margin to fall to 15.5% in 2021 (down 1.8ppt YoY) as the high margin Vinh Hung property project has been delayed until next year.

Yuanta vs the Street. Our 2021E PAT forecast is now 29% higher than the Bloomberg consensus. Our 2022–23E PAT forecasts are 70% higher than the street, which is probably because we have factored in the three wind farms and Vinh Hung complex into our earnings model.

We reiterate our BUY recommendation and raise our target price by 45% to VND 34,864, implying 6.0x 2022E EV/EBITDA. We view the three wind power projects as key catalysts that have been overlooked by the Street.

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Substantial wind farm capacity to come online starting in August

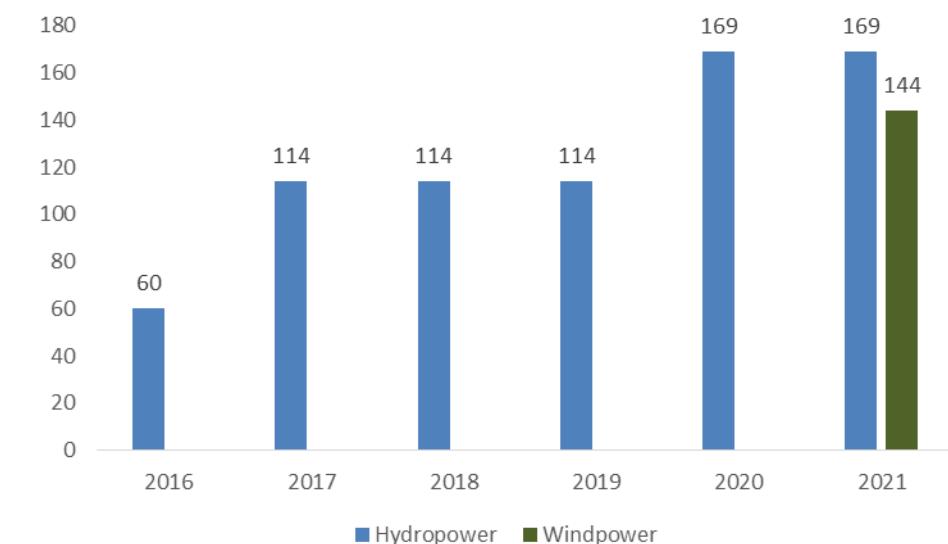
PC1 has invested heavily in small hydropower plants. In 2020, PC1 completed three hydropower projects including Bao Lac B (1Q20), Mong An (30MW, July) and Song Nghiem 4 (6MW, July).

PC1 currently owns seven small hydropower plants with total capacity of 169MW, up from 60MW in 2016, equivalent to 2016–2020 CAGR of 30%. Most of the hydropower plants are located in geographically favorable areas with stable rainfall. In the medium term, PC1 will invest in the Bao Lac A and Thuong Ha hydropower plants.

However, in the short-term, PC1 has shifted its focus toward developing wind farms to capture the Feed-In-Tariff (FIT) scheme that expires in November this year.

Specifically, PC1 is investing in the 48MW Lien Lap windpower plant (PC1 owns a 54.73% stake), which should launch by Aug 2021. We expect this to be followed by two other windpower 48MW (each) plants at Phong Huy (PC1 owns 54.7%) and Phong Nguyen (of which PC1 also owns 54.7%) with total investment of VND 4.0tn, with both set to be operating before November 2021. As such, these wind farms should be eligible for the favorable feed-in-tariff (FIT) of US 8.5 cents/kWh, in line with Decision 39/2018/QĐ-TTg.

Fig. 1: Installed capacity



Source: Company

We believe that PC1 will be able to launch the wind farms on time and that the wind farms should contribute to the company's financial performance in 2H21 and beyond. As the company has committed to launch these wind farms by November this year, we think it is reasonable to put these projects into our model, which we believe is the key differentiating factor of our forecasts from those of the street. We have thus boosted our 2021E electricity sales forecast by 31% to reach VND 988bn (+32% YoY).

In addition, PC1 expects its construction business to surge this year after last year's newly signed contract value rose by 20% YoY to reach VND3.5tn. This business was moderately disrupted by Covid-19 as the total backlog by the end of 4Q20 reached VND 3.2tn, up 7.0% YoY. We forecast construction to record 49% YoY growth in revenue to reach VND 4,528bn this year.

By contrast, PC1's property business (which is the segment that generates the highest margin) is very likely to experience delays given that the Vinh Hung project is still only in the contractor selection stage. We expect PC1 to generate VND 525bn in revenue from the Vinh Hung complex next year instead of this year, which was our original expectation.

Model revisit: Adding wind energy for 2021

We revise up our FY21E revenue forecast by 20% to VND8,018 bn (+20% YoY), which is 0.2% higher than PC1's revenue target.

We take into account the three new 48MW wind power projects at Lien Lap, Phong Huy, and Phong Nguyen. We expect all three wind farms to be operational by November. As such we have revised up our electricity sales forecast by 31% YoY for this year, which we consider to be conservative given that the Lien Lap wind farm is scheduled for operations starting in August.

In addition, we expect the construction segment to experience a strong surge as the contracts signed last year expanded by 20%. We thus increase our 2021E forecast by 47% to reach VND 4,528bn.

By contrast, we slash our 2021E revenue forecast for the property segment by 77%. We no longer expect PC1 to be able to complete the Vinh Hung project this year, but this revenue should be recognized in 2022E instead.

We expect gross profit margin to fall to 15.5% (vs our previous 16.9% assumption). This is due to the delayed property project, which is PC1's highest-margin business segment. The revenue impact is offset by the surge in construction revenue, but this business line is relatively low margin.

Fig. 2: FY2021E forecast revisions

FY Dec 31 (VND'bn)	2020A	2021F Old forecast	2021F New	New/Old forecast	YoY growth (%)
Revenue	6,657	6,660	8,018	20%	20%
<i>Construction</i>	3,041	3,077	4,528	47%	49%
<i>Manufacturing</i>	824	1,096	677	-38%	-18%
<i>Investment property</i>	21	20	-		
<i>Property transfer</i>	835	525	120	-77%	-86%
<i>Electricity sales</i>	748	754	988	31%	32%
<i>Trading</i>	1,122	1,080	1,635	51%	46%
<i>Others</i>	66	108	69	-36%	4%
Cost of goods sold	(5,504)	(5,536)	(6,777)	22%	23%
Gross profits	1,153	1,124	1,241	10%	8%
Operating expenses	(335)	(291)	(351)	20%	5%
Operating profits	818	833	891	7%	9%
Pretax profits	643	632	602	-5%	-6%
Minority interests	32	19	87	363%	172%
Net profits	506	528	448	-15%	-11%
EBITDA	1,003	1,062	1,167	10%	16%
Gross profit margin (%)	17.3	16.9	15.5	-8%	-11%

Source: YSVN

As a result, we slash our 2021E PATMI forecast by 15% compared to the previous forecast to VND 448bn (+4% YoY), which is 4% higher than the company's target.

Valuation: Target price raised by 45%

We maintain our BUY recommendation PC1 and revise up our target price by 45% to VND 34,864. We have modelled in the three wind power projects given that PC1 has committed to constructing all three of them by November.

Our new target price implies 6.0x FY2022E EV/EBITDA, which is 11.8% below the regional peers' median multiple. As stated previously, our target price is based on an approach that applies weightings of 50% for FCFF and 50% for EV/EBITDA. Notably, PC1 is the largest power construction company among listed firms in Vietnam in terms of market cap and revenue.

Fig. 3 : Target price calculation

Valuation methods	Target Price	Weight
FCFF	33,693	50%
EV/EBITDA multiple	36,036	50%
Overall	34,864	100%

Source: YSVN

Fig. 4 : Valuation sensitivity analysis

Terminal growth rate	34,864	WACC				
		7.5%	8.0%	8.3%	8.5%	9.0%
2.0%	36,499	32,303	29,831	28,780	25,785	
2.5%	39,825	34,961	32,132	30,938	27,559	
3.0%	43,890	38,151	34,864	33,488	29,630	
3.5%	48,971	42,050	38,161	36,548	32,076	
4.0%	55,505	46,923	42,217	40,288	35,012	

Source: YSVN

Risks to our call

The main risk to our recommendation is the tight deadline. PC1 only has 7 months left to complete the three windpower projects and it must do so at nearly the same time. This is due to the disruption in equipment supply caused by Covid-19. As such, we would not rule out the possibility of an extension to the November deadline to qualify for the FIT incentive; however, we would not assume that an extension will be granted either.

Funding and balance sheet leverage. The energy industry is profitable, but also highly capital-intensive as we emphasized in [our initiation](#). Thus, while we appreciate growth in the energy business, PC1 should be cautious in its use of leverage. Carrying out three wind farms at the same time requires total capex of VND 5.4tn, which could be a drag on the company's financial health. We estimate PC1's net debt to equity ratio could reach 120.1% at Dec 2021 (up from 46.6% at Dec 2020), but we expect it to decline to 85.4% in 2022 and 60.1% in 2023, with no dividend.

Oversupply of electricity in the very short term. In 2020, Vietnam's total installed electricity generation capacity increased by 19% YoY in 2020 to reach 66,000MW, according to the Ministry of Industry and Trade (MoIT). A substantial component of the new capacity is solar power, which saw a 92% YoY surge in capacity to reach 16,500 MW, most of which became operational toward yearend. This appears to have created pressure on sales from other sources (e.g., [NT2 \(SELL\)](#)) and might create short term issues for PC1's additional power generation capacity.

Buyer concentration/under-purchasing risk. PC1 faces the same issue that confronts other power suppliers that must sell electricity to what is essentially a single buyer—EVN. So far, PC1's small hydropower segment has experienced few issues, likely because the selling price of hydro is typically lower than that of most other energy sources. Windpower plants in operation by November will be able to sell electricity at a beneficial FIT; in other words, it will be more expensive for EVN than hydropower. The risk is that this situation results in under purchasing, just like what solar power plants have experienced.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2019A	2020A	2021E	2022E	2023E
Revenue	5,842	6,657	8,018	8,168	9,138
Construction	3,000	3,041	4,528	3,832	4,257
Manufacturing	981	824	677	774	829
Investment property	19	21	-	-	-
Property transfer	194	835	120	100	525
Electricity sales	551	748	988	1,710	1,727
Trading	998	1,122	1,635	1,680	1,725
Others	100	66	69	71	74
Cost of goods sold	(5,026)	(5,504)	(6,777)	(6,579)	(7,361)
Gross profits	816	1,153	1,241	1,589	1,777
Operating expenses	(225)	(335)	(351)	(357)	(399)
Operating profits	591	818	891	1,232	1,378
Net interest expenses	(131)	(210)	(298)	(424)	(371)
Net investments Income	(34)	18	-	-	-
Net other incomes	6	17	10	10	11
Pretax profits	431	643	602	817	1,018
Income taxes	(56)	(105)	(67)	(71)	(110)
Minority interests	19	32	87	183	185
Net profits	356	506	448	563	723
Core earnings	356	506	448	563	723
EBITDA	756	1,003	1,167	1,745	1,891
EPS (VND)	2,236	3,012	2,671	3,354	4,310

KEY RATIOS					
	2019A	2020A	2021E	2022E	2023E
Growth (%YoY)					
Sales	14.9	13.9	20.4	1.9	11.9
Construction	73.4	1.3	48.9	(15.4)	11.1
Manufacturing	96.7	(16.0)	(17.8)	14.4	7.1
Investment property	33.2	13.4	n/a	n/a	n/a
Property transfer	(79.7)	330.1	(85.6)	(16.7)	425.0
Electricity sales	(1.6)	35.9	32.1	73.0	1.0
Trading	(20.5)	12.4	45.8	2.7	2.7
Others	37.5	(33.7)	4.0	4.0	4.0
Operating profit	(10.1)	38.4	8.9	0	0
EBITDA	(6.8)	32.6	16.4	49.6	8.4
Net profit	(23.6)	42.0	(11.5)	26	29
EPS (VND)	(32.1)	34.7	(11.3)	26	29
Profitability ratio (%)					
Gross margin	14.0	17.3	15.5	19.5	19.4
Operating margin	10.1	12.3	11.1	15.1	15.1
EBITDA margin	12.9	15.1	14.6	21.4	20.7
Net margin	6.1	7.6	5.6	6.9	7.9
ROA	4.8	5.3	3.6	4.1	5.3
ROE	10.2	11.9	9.0	10.3	12.3
Stability					
Net debt/equity (x)	62.2	46.6	120.1	85.4	60.1
Int. coverage (x)	3.5	3.4	2.7	2.7	3.5
Int.&ST debt coverage(x)	1.1	0.8	1.0	3.5	5.8
Cash conversion days	92.0	86.4	43.8	31.0	27.8
Current ratio (X)	1.6	1.5	1.4	1.5	1.6
Quick ratio (X)	1.1	1.3	1.1	1.3	1.3
Net cash (VND bn)	(2,299)	(2,219)	(6,224)	(4,877)	(3,636)
Efficiency					
Days receivable outstanding	70	78	67	59	52
Days inventory outstanding	79	72	43	46	45
Days payable outstanding	57	64	66	74	69

Source: Company data, Yuanta Vietnam

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2019A	2020A	2021E	2022E	2023E
Total assets	8,314	10,724	13,845	13,706	14,084
Cash & cash equivalents	568	1,476	386	888	1,677
ST Investment	180	63	63	63	63
Accounts receivable	1,865	3,421	2,674	2,598	2,507
Inventories	1,429	750	835	811	1,008
Other current assets	119	57	57	57	57
Net fixed assets	2,414	3,804	3,655	8,541	8,027
Others	1,739	1,154	6,175	748	744
Total liabilities	4,619	5,961	8,662	7,994	7,693
Current liabilities	2,592	3,744	2,809	2,857	3,143
Accounts payable	823	1,099	1,355	1,316	1,472
ST debts	1,046	1,586	866	737	529
Long-term liabilities	2,028	2,218	5,853	5,137	4,550
Long-term debts	2,000	2,171	5,807	5,091	4,504
Others	28	46	46	46	46
Shareholder's equity	3,695	4,763	5,183	5,712	6,391
Share capital	1,593	1,912	1,912	1,912	1,912
Treasury stocks	-	-	-	-	-
Others	201	256	255	255	255
Retained earnings	933	1,102	1,523	2,052	2,731
Minority interest	257	782	782	782	782

CASH FLOW (VND bn)					
FY(VND'bn)	2019A	2020A	2021E	2022E	2023E
Operating cash flow	557	2,728	954	1,022	1,506
Net income	356	505	448	563	723
Dep. & amortization	136	186	277	514	514
Change in working capital	(834)	(203)	448	276	388
Others	899	2,239	(219)	(331)	(119)
Investment cash flow	(2,033)	(2,849)	(4,959)	325	79
Net capex	(405)	(3,021)	-	(241)	(241)
Change in LT investment	(707)	(804)	(4,873)	542	517
Change in other assets	(921)	976	(85)	24	(197)
Cash flow after invt.	(1,476)	(121)	(4,005)	1,347	1,585
Financing cash flow	1,343	1,030	2,915	(844)	(795)
Change in share capital	266	319	-	-	-
Net change in debt	1,077	711	2,915	(844)	(795)
Change in other LT liab.	-	-	-	-	-
Net change in cash flow	(134)	908	(1,090)	502	789
Beginning cash flow	701	568	1,476	386	888
Ending Cash Balance	568	1,476	386	888	1,677

KEY METRICS					
	2019A	2020A	2021E	2022E	2023E
PE (x)	12.5	9.3	10.5	8.3	6.5
Diluted PE (x)	12.5	9.3	10.5	8.3	6.5
PB (x)	1.2	0.9	0.9	0.8	0.7
EBITDA/share	4,745	6,293	7,324	10,954	11,871
DPS (VND)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
EV/EBITDA (x)	8.9	6.7	9.2	5.4	4.1
EV/EBIT (x)	11.4	8.2	12.0	7.6	5.6

Appendix A: Important Disclosures

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