

**Vietnam: Energy**
**14 December 2022**
**PC1 VN**
**BUY**
**TP upside +62.5%**
**Close 14 December 2022**

Price	VND 21,000
12M Target	VND 34,123
Previous Target	VND 44,111
Change	+62.5%

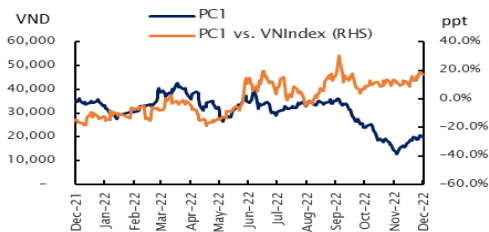
**What's new?**

- ▶ PC1 guides for 2023 nickel business revenue of VND 1 tn, with a gross profit margin of ~40%.
- ▶ The company targets total wind farm capacity of 350MW by 2025, implying an additional 206MW (+143%) in 2023–25E.
- ▶ We cut our target price by 23% to VND 34,123, implying 5.9x FY2023E EV/EBITDA.

**Our view**

- ▶ Our 2023E assumptions for the nickel segment are more conservative than PC1's guidance: VND 592bn in revenue and 30% gross margin.
- ▶ PC1 offers investors excellent exposure to Vietnam's shift to green energy.
- ▶ Upside risk for earnings from FX provision reversal if the VND continues to appreciate in 4Q22. Either way, this is a non-cash item.

**Company profile:** PC1 is the market leader in power plant, transmission line, & electrical substation construction and pole manufacturing. PC1 has increasingly shifted its business model toward green energy construction and power generation. Thus, PC1 offers excellent exposure to Vietnam's long-term shift toward green energy. Additionally, PC1 is moving into nickel mining and refining in 2023E.

**Share price performance relative to VNI**


Market cap	USUSD 227mn
6M avg. daily turnover	USUSD 2.6mn
Outstanding shares	270mn
Free float	55%
FINI ownership	4.2%
Major shareholders	39.6%
Asset/equity	2.8x
2023E EV/EBITDA	4.5x
2023E P/B	0.8x
Trading platform	HOSE
FOL Room	44.8%

**Financial outlook (VND bn)**

Year to Dec	2021A	2022E	2023E	2024E
Sales	9,828	8,957	12,321	13,415
Op. profit	859	1,141	1,736	1,993
Net profit	695	365	776	1,052
EPS (VND)	2,808	1,281	2,728	3,694
EPS chg (%)	(6.8)	(54.4)	112.9	35.4
P/E (x)	7.5	16.4	7.7	5.7
ROE (%)	12.6	5.7	11.1	13.4
Div. yield (%)	–	–	–	–
DPS (VND)	–	–	–	–

**Research Analysts:**
**Binh Truong**

-84 28 3622 6868 ext 3845

[Binh.truong@yuanta.com.vn](mailto:Binh.truong@yuanta.com.vn)
<http://yuanta.com.vn>

Bloomberg code: YUTA

## Power Construction No. 1 (PC1 VN)

### New business expansion to fuel further growth

**Renewable energy remains a long-term growth driver.** PC1 targets total wind farm capacity of 350MW by 2025, up by 206MW (+143%) vs current capacity of 144MW. As such, PC1 offers excellent exposure to Vietnam's long-term shift to green energy in line with the government's COP26 commitment to achieve net-zero carbon emissions by 2050.

**Expanding into the nickel business.** PC1's 57%-owned nickel mining and refining business should start contributing in 2023. We forecast 2023E nickel revenue of VND592bn and gross margin of 30%. This is considerably lower than the company's guidance for revenue of VND1tn and GM of ~40% next year, implying upside risk to our forecasts.

**9M22 PATMI tumbled by -52.5% YoY, but operating profit grew by 66.4% YoY** to reach VND 877bn. The contrasting growth results were due to 1) a -21.8% YoY fall in 9M22 revenue; and 2) a +762% spike in net financial expenses, largely due to interest expenses but also a non-cash FX loss.

**Potential provision reversal.** PC1's USD-denominated debt and 9M22 VND depreciation caused the VND179bn non-cash FX loss. The VND's appreciation so far in 4Q22 implies a potential reversal, which would boost earnings. Crucially, USD-denominated debt should not be such a concern, in our view, because energy sales are priced in USD.

**Model revisit.** We incorporate the nickel business into our model. In addition, we now expect VND1tn in property sales revenue to happen in 2023 instead of 2022. We also increase our WACC to 12.4% after raising our risk-free rate to 7.4% (from 5.5%) and Beta to 1.07x (from 0.7x).

**We maintain our BUY recommendation** but cut our target price by -23% to VND 34,123. Our new target price implies 5.9x FY2023E EV/EBITDA, which is -18.8% below the regional peer median valuation.

**ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.**

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## Renewable energy to play a key role in Vietnam's future development

PC1 offers investors excellent exposure to Vietnam's shift to renewable energy to commit with COP26 on net zero carbon emissions by 2050.

PC1 currently has 144MW of wind power capacity and 169MW of hydropower capacity. The company targets total wind power capacity of 350MW by 2025, up by 206MW or +143% from now. In addition, PC1 plans to develop 1GW of offshore wind capacity.

9M22 electricity sales rose by +145% YoY to VND 1,243bn, with the growth attributable to its three wind power farms that came online in October 2021 and that account for 100% of PC1's wind power generation. Gross profit margin for electricity sales reached 54.4% in 9M22, up +1.3 ppt YoY.

As discussed in our [previous report](#), we estimate that electricity demand should grow by ~10% annually in 2021–2030 to support 6.5%–7% GDP growth based on electricity/GDP elasticity of 1.5x, which is Vietnam's 5-year average for this ratio.

The latest Power Development Plan 8 (PDP 8) once again failed to be approved in November due to pricing issues, but the spirit of the plan that is eventually adopted should remain the same as that envisioned in the draft PDP8. Specifically, the government has committed to focus more on renewable energy development rather than relying on carbon-based coal-fired thermal power.

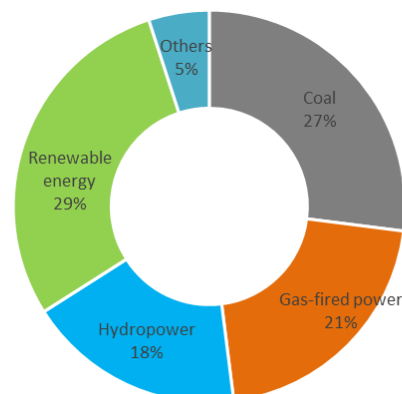
According to draft PDP8, by 2030 Vietnam will need 137.2MW of electricity capacity, up by +79% from the end of 2021 (or 76,620MW). More specifically, the draft PDP 8 targets 28,480 MW of wind power capacity by 2030 (7x that of 2021) and 153,550MW of wind power by 2050 (37.5x that of 2021).

The total investment needed to develop the electricity system is projected at USD128.3bn, of which USD95.4bn is for power production and USD32.9bn is for the transmission system. As the market leader in the power construction business, PC1 is particularly well positioned to benefit from this wave.

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**Fig. 1: Renewable energy become the second largest source in 2030**

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*Source: Latest Draft PDP8*

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## Expanding into nickel mining & refining

**Exposure to nickel business.** PC1 has a 57% stake in Tan Phat Mining, owner of Vietnam's third largest nickel mine with estimated reserves of 52,000 MT of nickel. The total investment of this nickel project is VND 1.5 trillion including mine development and the establishment of a nickel refining plant. The refinery's annual processing capacity will be 600,000 MT of raw input. The company plans to launch operations at the plant in 2023.

**Conservatively factoring the nickel business into our model.** As at the end of November 2022, PC1 has invested VND 1.3 trillion into this project, equivalent to 87% of the planned investment. We are conservative on this new business given its early stage and are forecasting 2023E nickel revenue of VND592bn and gross margin of 30%. This is considerably lower than the company's guidance for revenue of VND1tn and GM of ~40% next year, implying potential upside risk to our forecasts if they are able to reach their targets.

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**Fig. 2: Nickel refinery plant should be ready for commercial operations in early 2023**



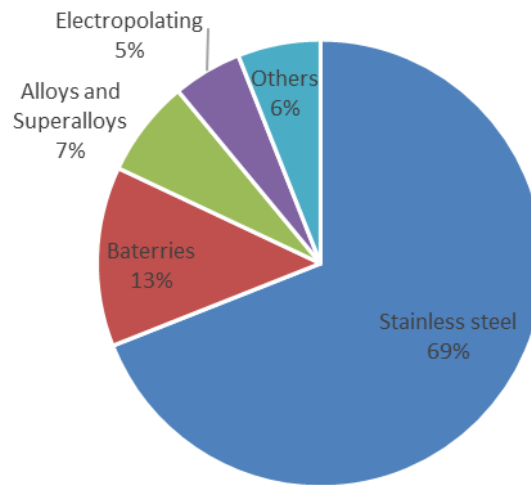
Source: PC1

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**Nickel demand outlook is strong.** According to Fitch solutions, the rapid adoption of electric vehicles across the globe will trigger the use of nickel for batteries in the years ahead. Currently, stainless steel accounts for nearly two thirds of nickel consumption, while batteries account for about 13%.

**According to Statista.com,** global demand for batteries is expected to increase from 185 GWh in 2020 to over 2,000 GWh by 2030. According to the International Energy Agency (IEA), global nickel consumption is projected to reached 3,583MT in 2030, up from 2,349 MT in 2020 and equivalent to +4.3% CAGR in the decade.

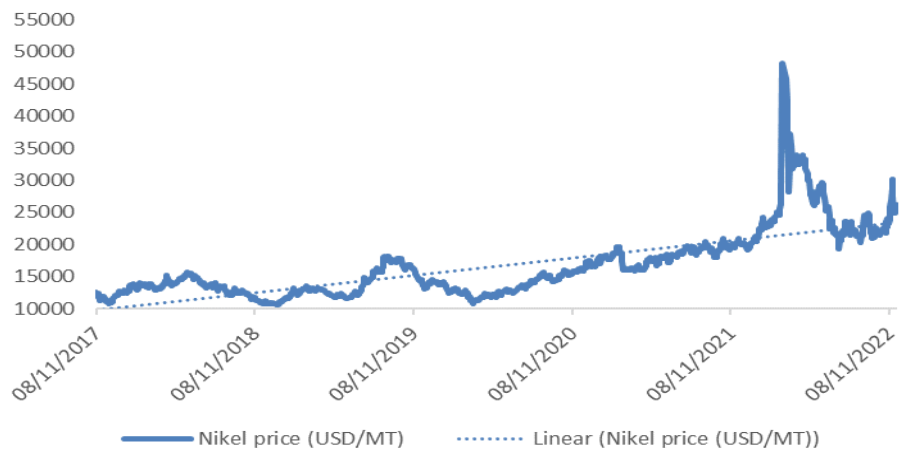
**Fig. 3: Stainless steel, special steel, and batteries are the main products that require nickel.**



Source: *statista.com*

Nickel pricing has boomed in 2020–22. Nickel prices remain high vs. recent history due to strong demand for batteries. Currently, nickel is trading at USD 31,000 per MT, twice its five-year average.

**Fig. 4: Nickel price has been high due to strong demand**



Source: *Bloomberg*

However, Fitch Solutions projects softer commodities prices in 2023 due to the global macroeconomic slowdown. Specifically, Fitch solutions forecasts nickel prices of USD 25,000/MT for 2022E and USD 20,000/MT for 2023E (-17.5% YoY) and USD 17,000/MT (-15% YoY) for 2024, before reverting to the long-term price of USD 15,000/MT.

**Fig. 5: Fitch ratings estimates softer commodities prices due to economic slowdown**

## Metals & Mining Price Assumptions

Commodity (USD per tonne)	2021	2022		2023		2024		2025		Long-term	
	Actual	Old	New	Old	New	Old	New	Old	New	Old	New
Copper (LME spot)	9,322	8,700	8,700	8,000	8,000	7,500	7,500	7,500	7,500	7,000	7,000
Iron ore (China import iron ore fines 62%, CFR)	160	115	115	85	85	75	75	70	70	70	70
Hard coking coal (Australia premium spot, FOB)	223	370	370	200	200	140	140	140	140	140	140
Aluminium (LME spot)	2,475	2,700	2,700	2,500	2,500	2,500	2,500	2,250	2,250	2,000	2,000
Zinc (LME spot)	3,005	3,400	3,400	2,800	2,800	2,500	2,500	2,200	2,200	2,100	2,100
Gold (USD/oz)	1,799	1,800	1,800	1,600	1,600	1,400	1,400	1,300	1,300	1,300	1,300
Thermal coal (Australia Newcastle 6,000 kcal/kg, FOB)	138	360	350	240	220	90	90	83	83	63	63
Thermal coal (Qinhuangdao 5,500 kcal/kg, FOB)	159	176	188	130	139	100	100	93	93	78	78
Nickel (LME spot)	18,488	24,000	25,000	20,000	20,000	17,000	17,000	15,000	15,000	15,000	15,000

*Source: Fitch solutions*

## Model revisit: Incorporating the nickel business

We cut our FY22E and forecast by -21% but increase our FY23E revenue forecast by +3%. Our new forecasts are VND8,957 bn (+15% YoY) for FY22E revenue and VND 12,321 bn (+40% YoY) for FY23E revenue.

This change is partly due to the postponement of ~VND1tn in property sales to 2023 from 2022 in our previous model. The property revenues have been delayed due to the unfavorable market conditions this year, which is perhaps not a surprise. However, management expects considerable property sales to be generated next year, and we agree.

We have also incorporated the nickel business into our model for the first time. Specifically, we expect the company to record VND 592bn in nickel revenue in 2023E (vs. zero in 2022), which is well below the company's guidance of VND 1,000bn. We assume nickel revenue in 2024 will reach VND 1,150bn, up by 94% YoY.

In addition, we reduce our forecast for 2022E trading revenues due to the slowdown in the construction business, but we expect a resurgence in 2023E due to the heavy backlog from the delayed PDP8 approval. We thus slash our assumption for 2022E trading revenue to VND 1,725bn (a -19% forecast cut), but we expect segment revenues to increase by +18% YoY during the 2023E rebound due to the substantial construction backlog.

**Fig. 6: FY2022E forecast revisions**

FY Dec 31 (VND 'bn)	2022E	2023E	FY2022E	FY2023E	FY2022E2	FY2023E2
	Original forecast	Original forecast	New forecast	New forecast	% Change	% Change
<b>Revenue</b>	<b>11,277</b>	<b>11,917</b>	<b>8,957</b>	<b>12,321</b>	<b>-21%</b>	<b>3%</b>
<i>Construction</i>	6,040	6,394	5,060	6,242	-16%	-2%
<i>Manufacturing</i>	880	954	880	1,091	0%	14%
<i>Investment property</i>	29	30	29	30	0%	0%
<i>Property transfer</i>	1,000	1,025	31	1,000	-97%	-2%
<i>Electricity sales</i>	1,810	1,951	1,656	1,844	-9%	-5%
<i>Trading</i>	1,460	1,504	1,243	1,462	-15%	-3%
<i>Nikel</i>			-	592	n.m.	n.m.
<i>Others</i>	58	60	58	60	0%	0%
Cost of goods sold	(9,125)	(9,588)	(7,425)	(10,047)	-19%	5%
<b>Gross profits</b>	<b>2,152</b>	<b>2,329</b>	<b>1,532</b>	<b>2,274</b>	<b>-29%</b>	<b>-2%</b>
Operating expenses	(493)	(521)	(392)	(539)	-21%	3%
<b>Operating profits</b>	<b>1,659</b>	<b>1,808</b>	<b>1,141</b>	<b>1,736</b>	<b>-31%</b>	<b>-4%</b>
<b>Pretax profits</b>	<b>1,248</b>	<b>1,452</b>	<b>546</b>	<b>1,141</b>	<b>-56%</b>	<b>-21%</b>
<b>Net profits</b>	<b>913</b>	<b>1,075</b>	<b>365</b>	<b>776</b>	<b>-60%</b>	<b>-28%</b>
<b>Gross profit margin</b>	<b>19.1%</b>	<b>19.5%</b>	<b>17.1%</b>	<b>18.5%</b>	<b>n.m.</b>	<b>n.m.</b>

Source: YSVN

## Valuation: Target price cut by 23%

We maintain our BUY recommendation but cut our target price by -23% to VND 34,123. Our new target price implies 5.9x FY2023E EV/EBITDA, which is 18.8% below the regional peer median valuation.

As stated previously, our target price is based on an approach that applies weightings of 50% for FCFF and 50% for EV/EBITDA comps. Notably, PC1 is the largest listed power construction company in Vietnam in terms of market cap and revenue.

Fig. 7: Target price calculation

Valuation methods	New Target Price	Original Target price	% Changes
FCFF	28,514	45,090	-37%
EV/EBITDA multiple	39,731	43,132	-8%
Overall	34,123	44,111	-23%

Source: YSVN

The reduced FCFF valuation is largely attributable to the forecast revisions discussed above. In addition, we have increased our WACC assumption to 12.4% (vs. the previous 8.6%). This is primarily due to an increased risk-free rate to 7.4% (vs. our previous 5.5%). Our house view is that the *de-facto* risk-free rate for Vietnamese investors is the 12-month state-bank deposit rate, which has increased since our last update. In addition, we apply a Beta of 1.07x to calculate our 12.4% WACC.

## Risks to our call

**Inflation risk.** PC1 is an Engineering Procurement and Construction (EPC) contractor for several projects that are sensitive to cost inflation in both equipment and material prices.

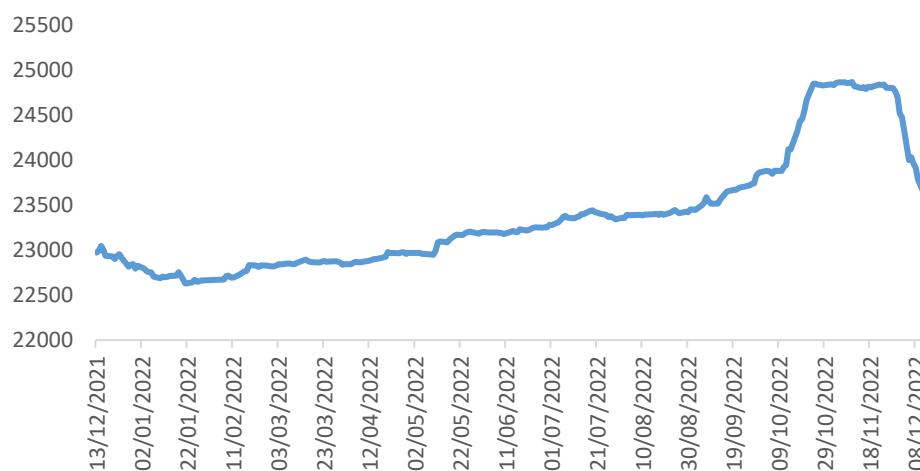
**Policy risk.** PDP8 has been long delayed due to pricing mechanism issues. As such, the tariff for renewable energy has not yet been set. This delay has caused a slowdown in pending renewable projects across the country.

**FX risk – Not a fundamental problem, but it might impact short-term share price trends.** PC1 has approximately USD 172mn USD denominated debts. The USD-based pricing of its energy sales constitutes a natural hedge against this exposure, and PC1 does not maintain a financial hedge against this exposure – nor should it, in our view.

However, this has caused some concern among stock investors who likely do not understand how the accounting works. PC1 posted VND 179bn in non-cash FX provisions in 9M22 after the USD appreciated +4.7% vs. the VND in 9M22 (+2.5% in 3Q22 alone). Since 4Q22, the USD depreciated by ~1%, suggesting a possible provision reversal in 4Q22 if the USD continues falling.

The headline “loss” in 3Q22 helped to drive share price weakness, so the potential headline “gain” in 4Q22 (which would also be a non-cash item, if it occurs) might generate some positive short-term excitement for the stock. Long-term shareholders should ignore this issue.

**Fig. 8: USD:VND appreciation means a possible provision reversal in 4Q22**



Source: Bloomberg, YSVN

**Upside risk: Additional 206 MW wind power capacity by 2025.** PC1 targets 350MW of designed wind farm capacity by 2025, up from the current 144MW. We have not factored this into our model, suggesting a potential source of upside for our longer-term revenue and earnings forecasts.

**Nickel business is a wild card** given its early stage and the complexity of this business, which is non-core to PC1. Our 2023E revenue forecast for this segment (VND592bn) is intentionally conservative and represents a 40% haircut to PC1’s target revenue for next year, while our 30% gross margin assumption is 10ppt below PC1’s estimate. As such, the nickel business presents upside risk to our forecasts if they are able to reach their targets. However, nickel pricing risks (which are beyond management’s



control) and the company's as-yet unproven ability to execute on this business also present downside risk. For this reason, we have penciled in conservative estimates for this segment in 2023E; but this does not eliminate the potential for downside risk to our lowball numbers.

**Potential from industrial property.** PC1 owns and provides energy and logistics services to tenants at Nomura Industrial Park, a 153ha facility in Haiphong. Based on PC1's monthly disclosures, this business generates VND600bn in annual revenue. However, we lack transparency on the profitability of these revenues. As such, we have not factored this business into our model. However, this could be another source of revenue / earnings upside to our forecasts.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Revenue</b>	<b>6,657</b>	<b>9,828</b>	<b>8,957</b>	<b>12,321</b>	<b>13,415</b>
Construction	3,041	6,714	5,060	6,242	6,495
Manufacturing	824	650	880	1,091	1,169
Investment property	21	27	29	30	31
Property transfer	835	79	31	1,000	1,025
Electricity sales	748	928	1,656	1,844	1,980
Trading	1,122	1,377	1,243	1,462	1,503
Nickel				592	1,150
Others	66	54	58	60	63
Cost of goods sold	(5,504)	(8,673)	(7,425)	(10,047)	(10,836)
<b>Gross profits</b>	<b>1,153</b>	<b>1,156</b>	<b>1,532</b>	<b>2,274</b>	<b>2,579</b>
Operating expenses	(335)	(297)	(392)	(539)	(586)
<b>Operating profits</b>	<b>818</b>	<b>859</b>	<b>1,141</b>	<b>1,736</b>	<b>1,993</b>
Net interest expenses	(210)	(40)	(656)	(634)	(542)
Net investments Income	18	86	50	24	47
Net other incomes	17	(8)	11	15	16
<b>Pretax profits</b>	<b>643</b>	<b>896</b>	<b>546</b>	<b>1,141</b>	<b>1,513</b>
Income taxes	(105)	(132)	(20)	(129)	(196)
Minority interests	32	69	161	236	266
<b>Net profits</b>	<b>506</b>	<b>695</b>	<b>365</b>	<b>776</b>	<b>1,052</b>
Core earnings	506	695	365	776	1,052
EBITDA	1,097	1,223	1,654	2,510	2,767
EPS (VND)	3,012	2,808	1,281	2,728	3,694

#### KEY RATIOS

	2020A	2021A	2022E	2023E	2024E
<b>Growth (%YoY)</b>					
Sales	13.9	47.6	(8.9)	37.6	8.9
Construction	1.3	120.8	(24.6)	23.4	4.0
Manufacturing	(16.0)	(21.1)	35.5	23.9	7.1
Investment property	13.4	n/a	n/a	n/a	n/a
Property transfer	330.1	(90.6)	(61.0)	3,160.9	2.5
Electricity sales	35.9	24.1	78.4	11.4	7.4
Trading	12.4	22.7	(9.7)	17.6	2.8
Nickel	-	-	-	N/A	94
Others	(33.7)	(18.3)	7.1	4.0	4.0
Operating profit					
EBITDA	38.4	5.0	0	1	0
Net profit	45.1	11.5	35.3	51.7	10.2
EPS (VND)	42.0	37.4	(48)	113	35
<b>Profitability ratio (%)</b>	<b>34.7</b>	<b>(6.8)</b>	<b>(54)</b>	<b>113</b>	<b>35</b>
Gross margin					
Operating margin	17.3	11.8	17.1	18.5	19.2
EBITDA margin	12.3	8.7	12.7	14.1	14.9
Net margin	16.5	12.4	18.5	20.4	20.6
ROA	7.6	7.1	4.1	6.3	7.8
ROE	5.3	4.7	1.8	3.7	5.0
<b>Stability</b>	<b>11.9</b>	<b>12.6</b>	<b>5.7</b>	<b>11.1</b>	<b>13.4</b>
Net debt/equity (x)					
Int. coverage (x)	46.6	105.1	119.4	75.0	75.0
Int.&ST debt coverage(x)	3.4	2.7	1.7	2.1	2.8
Cash conversion days	0.8	0.5	0.5	1.1	2.3
Current ratio (X)	86.4	47.6	56.9	36.0	25.8
Quick ratio (X)	1.5	1.1	1.3	1.6	1.4
Net cash (VND bn)	1.3	1.0	1.2	1.4	1.1
<b>Efficiency</b>					
Days receivable outstanding	78	73	96	61	48
Days inventory outstanding	72	35	47	43	48
Days payable outstanding	64	60	85	68	70

Source: Company data, Yuanta Vietnam

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Total assets</b>	<b>10,724</b>	<b>18,687</b>	<b>21,277</b>	<b>20,776</b>	<b>21,198</b>
Cash & cash equivalents	1,476	2,292	3,349	3,988	2,682
ST Investment	63	144	177	177	177
Accounts receivable	3,421	3,124	3,542	2,464	2,613
Inventories	750	904	999	1,376	1,484
Other current assets	57	126	162	161	161
Net fixed assets	3,804	10,160	9,639	10,278	9,811
Others	1,154	1,937	3,410	2,333	4,269
<b>Total liabilities</b>	<b>5,961</b>	<b>12,406</b>	<b>14,726</b>	<b>13,421</b>	<b>12,854</b>
Current liabilities	3,744	5,799	6,180	5,010	5,012
Accounts payable	1,099	1,756	1,722	2,009	2,167
ST debts	1,586	2,800	3,190	1,569	1,569
Long-term liabilities	2,218	6,607	8,546	8,411	7,842
Long-term debts	2,171	6,238	8,248	8,114	7,544
Others	46	370	297	297	297
<b>Shareholder's equity</b>	<b>4,763</b>	<b>6,281</b>	<b>6,625</b>	<b>7,355</b>	<b>8,344</b>
Share capital	1,912	2,352	2,704	2,704	2,704
Treasury stocks	-	-	-	-	-
Others	256	333	333	333	333
Retained earnings	1,102	1,305	1,298	2,028	3,016
<b>Minority interest</b>	<b>782</b>	<b>1,580</b>	<b>1,580</b>	<b>1,580</b>	<b>1,580</b>

#### CASH FLOW (VND bn)

FY (VND'bn)	2020A	2021A	2022E	2023E	2024E
<b>Operating cash flow</b>	<b>(107)</b>	<b>1,943</b>	<b>420</b>	<b>2,598</b>	<b>1,408</b>
Net income	505	695	365	776	1,052
Dep. & amortization	186	299	426	808	808
Change in working capital	(203)	917	(558)	1,152	(255)
Others	(596)	32	187	(138)	(196)
<b>Investment cash flow</b>	<b>(14)</b>	<b>(6,846)</b>	<b>(2,116)</b>	<b>(204)</b>	<b>(2,145)</b>
Net capex	(1,576)	(5,677)	(1,302)	(50)	(100)
Change in LT investment	586	(784)	(618)	223	(1,937)
Change in other assets	976	(385)	(197)	(377)	(108)
Cash flow after invt.	(121)	(4,903)	(1,696)	2,394	(737)
<b>Financing cash flow</b>	<b>1,030</b>	<b>5,719</b>	<b>2,754</b>	<b>(1,755)</b>	<b>(569)</b>
Change in share capital	319	440	353	-	-
Net change in debt	711	5,279	2,401	(1,755)	(569)
Change in other LT liab.	-	-	-	-	-
<b>Net change in cash flow</b>	<b>908</b>	<b>816</b>	<b>1,057</b>	<b>639</b>	<b>(1,306)</b>
Beginning cash flow	568	1,476	2,292	3,349	3,988
<b>Ending Cash Balance</b>	<b>1,476</b>	<b>2,292</b>	<b>3,349</b>	<b>3,988</b>	<b>2,682</b>

#### KEY METRICS

	2020E	2021E	2022E	2023E	2024E
PE (x)	7.0	7.5	16.4	7.7	5.7
Diluted PE (x)	7.0	7.5	16.4	7.7	5.7
PB (x)	0.7	0.8	0.9	0.8	0.7
EBITDA/share	6,884	5,201	6,117	9,280	10,231
DPS (VND)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
EV/EBITDA (x)	5.1	9.4	8.2	4.5	4.3
EV/EBIT (x)	6.8	13.4	11.9	6.5	6.0

# Appendix A: Important Disclosures

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Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities Investment Consulting  
4F, 225,  
Section 3 Nanking East Road, Taipei 104  
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities (Hong Kong) Co. Ltd  
23F, Tower 1, Admiralty Centre  
18 Harcourt Road,  
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office  
Yuanta Securities Building  
Euljiro 76 Jung-gu  
Seoul, Korea 100-845  
Tel.:+822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
PT YUANTA SECURITIES INDONESIA  
(A member of the Yuanta Group)  
Equity Tower, 10th Floor Unit EFGH  
SCBD Lot 9  
Jl.Jend.Sudirman Kav.52-53  
Tel:(6221)- 5153608 (General)

Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Thailand)  
127 Gaysorn Tower, 16th floor  
Ratchadamri Road, Pathumwan  
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Vietnam)  
4th Floor, Saigon Centre  
Tower 1, 65 Le Loi Boulevard,  
Ben Nghe Ward, District 1,  
HCMC, Vietnam

# YUANTA SECURITIES NETWORK



## YUANTA SECURITIES VIETNAM OFFICE

**Head office:** 4<sup>th</sup> Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

### Institutional Research

**Matthew Smith, CFA**

Head of Research

Tel: +84 28 3622 6868 (ext. 3815)

[matthew.smith@yuanta.com.vn](mailto:matthew.smith@yuanta.com.vn)

**Binh Truong**

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

[binh.truong@yuanta.com.vn](mailto:binh.truong@yuanta.com.vn)

**Tam Nguyen**

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

[tam.nguyen@yuanta.com.vn](mailto:tam.nguyen@yuanta.com.vn)

**Tanh Tran**

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)

**Di Luu**

Assistant Analyst

Tel: +84 28 3622 6868 (ext. 3845)

[di.luu@yuanta.com.vn](mailto:di.luu@yuanta.com.vn)

### Institutional Sales

**Tuan-Anh Nguyen**

Sales Trader

Tel: +84 28 3622 6868 (ext. 3909)

[anh.nguyen2@yuanta.com.vn](mailto:anh.nguyen2@yuanta.com.vn)

**Trung Nguyen**

Sales Trader

Tel: +84 28 3622 6868 (3890)

[trung.nguyen2@yuanta.com.vn](mailto:trung.nguyen2@yuanta.com.vn)

**Dat Bui**

Sales Trader

Tel: +84 28 3622 6868 (3941)

[dat.bui@yuanta.com.vn](mailto:dat.bui@yuanta.com.vn)

**Vi Truong**

Sales Trader

Tel: +84 28 3622 6868 (3940)

[vi.truong@yuanta.com.vn](mailto:vi.truong@yuanta.com.vn)