

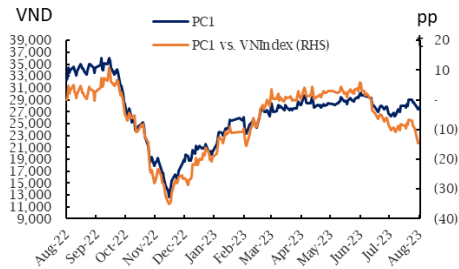
BUY

TP upside **+22.3%**

Close 1 Aug 2023

Price VND 27,900
12M Target VND 34,123

Share price performance relative to VNINDEX



Market cap (USD mn)	319
6M ADT (USD mn)	2.4
Outstanding shares (mn)	270
Free float (%)	60.8
FINI ownership (%)	6.0
FOL Room (%)	43.0
Major shareholders (%)	39.2
2023 Net debt/equity (%)	23.6%
2023 BVPS (VND)	26.077
2023 P/B (x)	0.9
2023 P/E (x)	7.4
2023 EV/EBITDA (x)	4.6

Financial outlook

Year to Dec	2020E	2023A	2024E	2025E
Sales (VND bn)	8,357	11,917	12,092	12,567
EPS (VND)	1,913	3,778	3,985	4,269
ROE (%)	6.8	14.2	13.1	12.8
Div. yield (%)	-	-	-	-

Sources: Bloomberg, Company data, Yuanta Vietnam

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Bloomberg code: YUTA

Power Construction # 1 (PC1 VN) Hydropower to flow again in 3Q23

Event

PC1 reported a net loss of VND26bn in 2Q23, as electricity sales dried up along with hydropower output.

Details

2Q23 revenue declined by -2.6% YoY to VND 1,472 bn. Notably, electricity sales dropped by -40.5% YoY to just VND 276bn (18.7% of total revenue), as hydropower operations were hit by El Nino-driven dry weather in 2Q23. In addition, construction revenue (36.2% of total revenue) fell by -17.2% YoY to VND 536.6 bn.

PC1 reported a net loss of VND 26bn in 2023 vs VND 63.7bn in net profit in 2Q22. In addition to the soft revenue, gross profit margin contracted by -3.9 ppt YoY to 18.9%. The decline in blended gross margin is related to the drop in electricity sales, which typically has the highest gross margin among PC1's revenue streams, at 35.5%.

PC1 reported 1H23 net loss of VND 11.3bn vs net profit of VND197bn in 1H22, with 1H23 gross margin contracting by -3.5 ppt YoY to reach 19.7%. In addition, net financial expenses rose by +13% YoY to reach VND 346bn in the first half of 2023.

Stable but high gearing. Net debt rose by +7.7% YoY to VND8.5tn, but net debt-to-equity ratio was nearly unchanged at ~121% as at 2Q23. 1H23 interest coverage (operating profit / interest expense) came in at 1.0x, down from 2.3x in 1H22.

On a positive note, industrial parks have started to contribute to PC1's P&L. PC1 booked VND291bn of revenue from industrial parks in 1H23 (vs. zero in 1H22). These sales generated gross margin of 23%, helping to offset the overall drop in blended gross margin.

Our view

Bad news reflected? Maybe. PC1's share price has mostly been trading sideways at around VND 28,000 since 2Q23, following a 36% rally from our [BUY reiteration](#) in Dec 2022.

We expect a recovery in profit in 3Q23 due to: 1) hydropower is back in normal operations following several weeks of rain since July; 2) the one-off FX loss of VND101bn in 3Q22 should not recur, and 3) industrial park revenues, which were not a factor in 3Q22, should support consolidated sales growth in 3Q23.

PC1 is our long-term top pick for the green energy theme. We see the company as a key beneficiary of Power Development Plan 8's focus on renewable energy development.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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