

Vietnam: Energy
11 June 2024
PC1 VN
BUY
Upside +19.0%
Close 11 June 2024

Price	VND 28,800
12M Target	VND 34,268
Previous Target	VND 29,672
Change	+15.5%

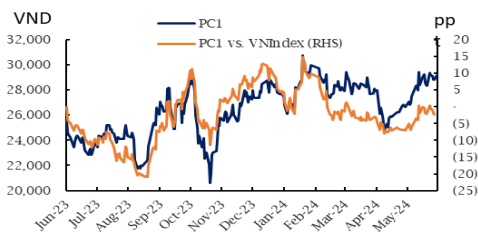
What's new?

- ▶ Energy remains PC1's long-term cash generator.
- ▶ But nickel price is increasing on global supply disruption...
- ▶ ... and we expect the industrial parks to further contribute VND100bn to 2024 earnings.

Our view

- ▶ We reiterate BUY and increase our target price by +15.5% to VND34,268.
- ▶ We project 2024E PATMI to reach VND 434bn, up by +210% YoY .
- ▶ Risk: High leverage makes PC1 vulnerable to increased interest rates.

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. PC1 also engages in nickel mining / refining and industrial park operations.

Share price performance relative to VNI


Market cap	US\$355 mn
6M avg. daily turnover	US\$5.6mn
Outstanding shares	311 mn
Free float	73.6%
FINI ownership	7.9%
Major shareholders	15.0%
Net debt/Equity	108%
2025E EV/EBITDA	7.1x
2025E P/E	14.5x
Trading platform	HOSE
FOL Room	41.1%

Financial outlook (VND bn)

Year to Dec	2023A	2024E	2025E	2026E
Sales	7,775	10,341	12,320	13,265
Op. profit	1,190	1,491	1,919	2,169
Net profit	140	434	773	1,117
EPS (VND)	428	1,327	2,361	3,413
EPS chg (%)	(73.5)	210.3	78.0	44.5
P/E (x)	80.0	25.8	14.5	10.0
ROE (%)	2.0	5.8	9.8	13.5
Div. yield (%)	-	-	3.6	5.3
DPS (VND)	-	-	1,180	1,706

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PC1 Corporation (PC1 VN)

New businesses bring new hopes

Mining segment is benefiting from surging nickel prices. PC1's 57.3% ownership of Tan Phat Mining exposes it to nickel & copper ore operations in Cao Bang. Annual mining capacity of 600k MT has been operational since 3Q23. We expect mining revenue to increase by +84% YoY to reach VND 1,299bn in 2024E, accounting for 13% of PC1's full-year revenue. This forecast is slightly higher than PC1's guidance of VND 1,200 bn. Nickel recently reached \$18,343 per MT, up +15% YTD (but down -2.9% YoY) on the back of global supply disruption issues.

Industrial park (IP) segment is another growth driver. In addition, PC1 owns 30% of Western Pacific JSC, which is investing in a 159ha IP in Bac Ninh province. We assume PC1 to drive VND100bn in 2024 profit from associates for PC1, far higher than the VND2bn figure in 2023.

PC1 is investing in two hydropower plants: Bao Lac A (30MW) and Thuong Ha hydropower (13MW). We assume these plants will commercially launch in 2026, which should increase PC1's hydropower design capacity by +15% to 202MW. Thus, we expect energy revenue to increase by +13.6% YoY in 2026. Energy typically generates the second highest gross profit margin (above 50%) of PC1's business lines.

Earnings to triple YoY in 2024. We expect 2024E revenue to reach VND 10,341bn, up by a solid +33.0% YoY. We forecast 2024E PATMI to reach VND 434bn, up by +210% YoY vs. the low 2023 base of VND140bn. After adding mining and industrial park operations into our consolidated forecasts, we now project revenue CAGR of +9.2% and PATMI growth forecast of +38% CAGR in 2024E-28E.

We reiterate our BUY recommendation and raise our target price by +15.5% to VND 34,268 per share, implying 12-month TSR of +19.0%, based on a 50-50 split of our FCF model and comparable EV/EBITDA multiples. Risk: High leverage makes PC1 vulnerable to interest rates.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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New businesses bring new hopes

Mining segment -- Riding the nickel price rally

We expect 2024E mining revenue to increase by +84% YoY to reach VND 1,299bn to account for 13% of consolidated revenue in FY2024E. Our estimate is +8.3% higher than the company's full-year guidance of VND 1,200bn (+66.2% YoY).

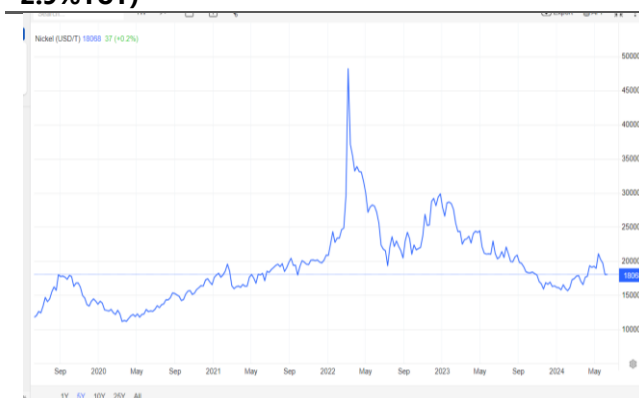
Notably, both our projections and guidance may be too conservative. In its recent interim report, PC1 reported 1Q24 mining revenue of VND 478bn, up by +285% QoQ. This fulfilled 37% of our annual mining revenue forecast and 40% of management's full-year guidance.

Background: PC1 holds a 57.3% stake in Tan Phat Mining JSC, which owns nickel and copper ore resources in Cao Bang, a city in Vietnam's far north. This business has been operational since 3Q23 and annual mining capacity totals 600,000 MT of raw ore.

Nickel prices have risen to reach US\$ 18,343 per ton, up +15% YTD (albeit down -2.9% YoY) on the back of global supply disruption. Geopolitics may be the key driver here, as the US and EU have officially banned imports of nickel and copper from [Russia](#), which in recent years has been the world's fourth largest nickel producer.

In addition, copper prices have risen by +19.5% YTD (+26.0% YoY).

Fig.1: Nickel prices recovered +15% YTD (or -2.9%YoY)



Source: Tradingeconomics.com

Fig.2: Copper has been soaring YTD



Source: Tradingeconomics.com

Industrial Park segment to generate increased profit.

PC1 holds a 70% share of NHIZ, owner of the 153ha Nomura Hai Phong Industrial Park, which generated VND 614bn in revenue in 2023 (7.8% total revenue).

In addition, PC1 owns 30% of Western Pacific, an industrial property company that is developing the 159ha Yen Phong IP, located in Bac Ninh province.

In 2024, we expect the industrial parks business to contribute VND100bn in additional profit from associates to PC1's consolidated P&L, representing 13% of total full-year PBT this year (vs. nonmaterial contributions of VND1-2bn in prior years).

Expanding the profitable energy business

PC1 is investing in two hydropower plants, Bao Lac A (30MW) and Thuong Ha hydropower (13MW), which we expect to be launched commercially in 2026. These additional projects should thus increase PC1's hydropower design capacity by 15% to reach 202MW. The company's capex for these projects is roughly VND2,300bn.

We expect energy revenue to increase by +13.6% YoY in 2026. Energy is typically the second-highest gross profit margin business (historically above 50%) among PC1's various operational segments.

Model revisit: Short-term boost from mining and industrial parks

We now project 2024E revenue to reach VND 10,341bn, up by +33% YoY. Thus, our 2024E PATMI forecast is VND 418bn, implying a +199% YoY increase from last year's low base.

After adding mining and industrial park revenue to our model, our new forecasts imply 2024E–28E revenue CAGR of +9.2%, while our 2024E–28E PATMI forecasts imply +38% CAGR over the next five years.

Fig.3: 2024–2028 forecasts

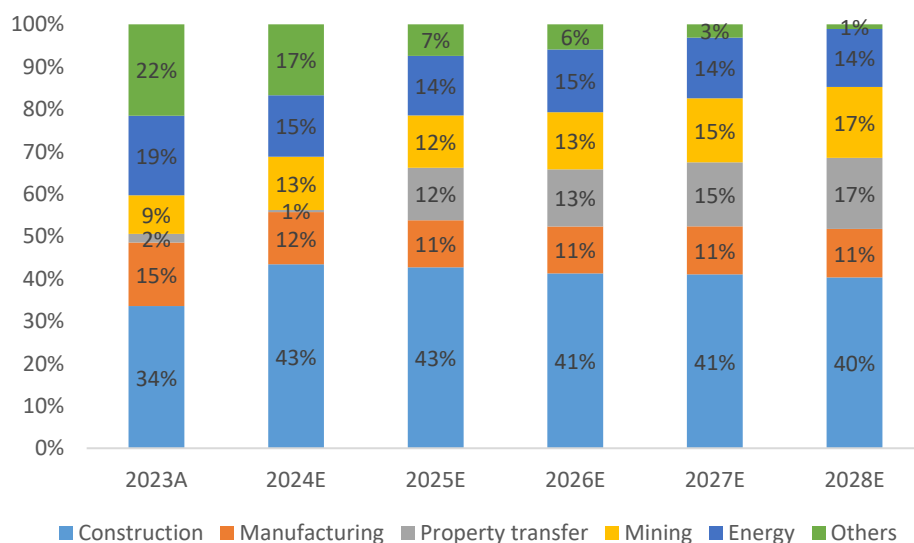
FY Dec 31 (VND'bn)	2023A	2024E	YoY Change	2024E-2028E CAGR	Notes
Revenue	7,775	10,341	33%	9%	
Construction	2,607	4,487	72%	7%	PC1 has secured 500kV Circuit 3 project, total value mounted to VND 2100bn upto 2024E
Manufacturing	1,166	1,274	9%	7%	Manufacturing business has secured contracts to supply poles for Circuit 3 projects
Investment property	27	31	15%	3%	
Property transfer	160	52	-68%	85%	We expect recovery in 2025E going forward from low base
Mining	705	1,299	84%	17%	We forecast 2024E mining revenue to reach VND 1,299bn (above company target of VND 1262bn) on increase Nickel prices.
Energy	1,461	1,500	3%	8%	
Trading	995	1,024	3%	4%	
Industrial property	614	633	3%	4%	
Others	39	41	4%	4%	
Net investments income/(loss) from JV	2	100	6240%	0%	Western Pacific is expected add VND 100bn to profit from JV
PATMI	140	418	199%	38%	

Source: Yuanta Vietnam

Our increased growth projections are mainly due to the additional contributions from PC1's new mining and industrial parks businesses.

In the longer-term, PC1 plans to add two additional hydropower plants: Bao Lac A (30MW) and Thuong Ha hydropower (13MW). Management expects these plants to launch commercially in 2026, which should increase PC1's hydropower design capacity by +15% to reach 202MW.

Fig.3: 2024–2028 Revenue mix



Source: Yuanta Vietnam

Valuations: Target price raised by 15.5%

We reiterate our BUY recommendation and raise our target price by +15.5% to VND 34,268 per share, implying 12-month TSR of 19.0%. Our new target price is based on a 50-50 split of our FCFE model and comparable EV/EBITDA multiples.

Our new target price represents a +9.1% premium to the consensus target price as indicated by Bloomberg.

Fig. 4: Valuation summary

Valuation methods	Target Price	Weight	Upside
FCFF	34,200	50%	18.8%
EV/EBITDA multiple	34,336	50%	19.2%
Overall	34,268	100%	19.0%

Source: YSVN

FCFF valuation. We apply a WACC of 10.1% (slightly up from the original 8.6%, which was based on a 5.5% risk free rate), beta of 1.3, and terminal growth of 2.5%.

Applying this discount rate to our cashflow assumptions results in an FCFE-based fair value estimate of VND34,200 (implying +15.9% upside).

Fig. 5: FCFE valuation

FCFE	2024	2025	2026	2027	2028	2029
EBIT	1,591	2,021	2,273	2,365	2,517	2,589
Less: Tax	(156)	(241)	(328)	(390)	(440)	(475)
add: Depreciation	655	853	870	888	905	924
less: FCInvestment (Capex)	(390)	(2,500)	(4,900)	(200)	(202)	(204)
less: WCInvestment	719	(125)	2	(80)	(78)	(52)
Free cash flow	2,418	8	(2,083)	2,583	2,703	2,781
PV of free cash flow	2,418	7	(1,707)	1,916	1,815	1,691
Total PV of free cash flow	6,140					
Terminal value	21,743.93					
PV of terminal value	13,217					
PV of free cash flow	19,357					
less: debt	(10,750)					
Add: cash	2,029					
Equity value	10,636					
Outstanding shares (000)	310.995558					
Intrinsic value/share	34,200					

Source: YSVN

Our FCFE-based valuation implies a 2024E EV/EBITDA multiple of 8.6x, which would suggest a -21% discount to the regional peer median.

Fig. 6: Sensitivity analysis

Terminal growth rate	WACC					
	34,200	9.5%	10.0%	10.5%	11.0%	11.5%
1.5%	38,005	33,121	29,093	25,075	21,735	
2.00%	41,298	35,909	31,496	27,119	23,502	
2.5%	45,061	39,070	34,200	29,404	25,465	
3.0%	49,403	42,682	37,266	31,975	27,659	
3.5%	54,469	46,849	40,773	34,888	30,128	

Source: Yuanta Vietnam

EV/EBITDA multiple valuation. We apply target EV/EBITDA of 8.6x, which is a -20% discount to the regional peer median of 10.8x. A discount is reasonable given PC1's relatively smaller size in terms of market cap and trading liquidity.

Fig. 7: PC1 is trading at discount to regional peers

Company Name	COUNTRY	Market cap (USD mn)	2025E PER (x)	5 Yrs Average PER	5 Yrs Average PB (x)	Current P/B (x)	2024E EV/EBITDA (x)
Power Construction Corp of Chi	CN	12,693	5.5	10.0	0.8	0.7	11.7
JSTI Group	CN	1,204	16.9	14.5	1.1	1.0	13.0
KNR Constructions Ltd	IN	1,337	N/a	14.1	2.6	3.1	N/a
Refrigeration Electrical Engin	VN	1,146	8.3	9.5	1.4	1.7	8.7
Coteccons Construction JSC	VN	284	21.4	N/a	N/a	0.8	25.5
Yutong Heavy Industries Co Ltd	CN	633	13.7	18.2	2.5	1.8	9.9
Vinh Son - Song Hinh Hydropowe	VN	456	N/a	16.8	1.6	2.5	N/a
Power Engineering Consulting J	VN	128	N/a	21.7	1.8	2.4	N/a
Can Don Hydro Power JSC	VN	43	N/a	8.7	1.2	1.1	N/a
FECON Corp	VN	93	N/a	N/a	0.9	1.0	N/a
Vietnam Electricity Constructi	VN	18	N/a	N/a	0.7	0.5	N/a
PC1 Group JSC	VN	353	15.5	23.5	1.3	1.7	8.0
Median		404.5	14.6	14.5	1.3	1.4	10.8

Source: Bloomberg, Yuanta Vietnam

Risks to our view:

High leverage. PC1's balance sheet is highly leveraged, with net debt to equity of 108.3% (end-2023). This implies a higher fundamental Beta and vulnerability to potential interest rate hikes.

FX risks. VND depreciation is a risk given that PC1 has VND3.9 trillion of USD-denominated debt as of end-1Q24. However, these loans were specifically disbursed for the development of wind power. Thus, this exposure is mitigated by the company's USD-priced wind power revenue, which totaled VND911 billion in 2023 (12% of 2023 revenue and 23% of USD-denominated debt).

Nickel price fluctuations. Nickel prices are highly volatile due to geopolitical concerns. PC1 recorded gross profit margin of 34% in its mining business in 2023, which provides fine buffer to price fluctuation, but transparency about mining remains an issue.

Upside risk to our forecasts from wind power expansion plans: PC1 plans to expand its high-margin wind power to 350MW by 2026 (2.4x current capacity) and 1000 MW by 2035 (6.9x). We have not factored this expansion into our earnings model for PC1, which thus represents upside risk to our long-term forecasts and valuation.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Revenue	8,358	7,775	10,341	12,320	13,265
<i>Construction</i>	4,864	2,607	4,487	5,260	5,473
<i>Manufacturing</i>	645	1,166	1,274	1,365	1,468
<i>Investment property</i>	28	27	31	32	33
<i>Property transfer</i>	23	160	52	655	714
<i>Mining</i>	-	705	1,299	1,524	1,788
<i>Energy</i>	1,715	1,461	1,500	1,729	1,963
<i>Trading</i>	957	995	1,024	1,055	1,097
<i>Industrial Property</i>	80	614	633	658	685
<i>Others</i>	46	39	41	43	44
Cost of goods sold	(6,763)	(6,194)	(8,330)	(9,781)	(10,429)
Gross profits	1,595	1,581	2,011	2,539	2,837
Operating expenses	(277)	(391)	(520)	(620)	(667)
Operating profits	1,318	1,190	1,491	1,919	2,169
Net interest expenses	(671)	(785)	(821)	(829)	(647)
Net investments Income	1	2	100	102	104
Net other incomes	(41)	(18)	12	15	16
Pretax profits	605	389	782	1,207	1,642
Income taxes	(69)	(86)	(156)	(241)	(328)
Minority interests	77	163	191	193	197
Net profits	460	140	434	773	1,117
<i>Core earnings</i>	460	140	434	773	1,117
EBITDA	1,944	1,953	2,245	2,875	3,144
EPS (VND)	1,615	428	1,327	2,361	3,413

KEY RATIOS

	2022A	2023A	2024E	2025E	2026E
Growth (%YoY)					
Sales	(15.0)	(7.0)	33.0	19.1	7.7
<i>Construction</i>	(27.6)	(46.4)	72.1	17.2	4.0
<i>Manufacturing</i>	(0.7)	80.8	9.3	7.1	7.6
<i>Investment property</i>	1.4	(3.2)	14.6	3.0	3.0
<i>Property transfer</i>	(70.7)	595.5	(67.6)	1,159.6	9.0
<i>Mining</i>	<i>n.m</i>	<i>n.m</i>	84.2	17.3	17.3
<i>Energy</i>	84.8	(14.8)	2.7	15.3	13.6
<i>Trading</i>	(30.5)	4.0	3.0	2.9	4.0
<i>Industrial Property</i>	<i>n.m</i>	671.8	3.0	4.0	4.0
<i>Others</i>	(14.8)	(14.3)	4.0	4.0	4.0
Operating profit	53	(10)	25	29	13
EBITDA	59.0	0.5	15.0	28.0	9.4
Net profit	(34)	(70)	210	78	45
EPS (VND)	(42)	(74)	210	78	45
Profitability ratio (%)					
Gross margin	19.1	20.3	19.4	20.6	21.4
Operating margin	15.8	15.3	14.4	15.6	16.4
EBITDA margin	23.3	25.1	21.7	23.3	23.7
Net margin	5.5	1.8	4.2	6.3	8.4
ROA	2.4	0.7	2.1	3.6	5.2
ROE	6.9	2.0	5.8	9.8	13.5
Stability					
Net debt/equity (x)	120.7	108.3	113.6	121.2	41.9
Int. coverage (x)	2.2	1.4	1.9	2.6	3.1
Int.&ST debt coverage(x)	0.7	0.7	0.8	1.1	1.2
Cash conversion days	63.3	81.2	55.2	40.1	38.4
Current ratio (X)	1.4	1.5	1.1	0.9	1.9
Quick ratio (X)	1.2	1.3	0.9	0.6	1.6
Net cash (VND bn)	(8,512)	(7,877)	(8,721)	(9,744)	(3,583)
Efficiency					
Days receivable outstanding	85	83	69	62	60
Days inventory outstanding	52	58	46	46	49
Days payable outstanding	73	59	59	68	71

Source: Company data, Yuanta Vietnam

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Total assets	19,717	20,235	21,333	21,373	21,478
Cash & cash equivalents	949	2,082	1,240	230	5,813
ST Investment	1,086	781	789	200	202
Accounts receivable	2,676	2,821	2,588	2,798	2,785
Inventories	1,010	944	1,141	1,313	1,486
Other current assets	248	240	239	239	239
Net fixed assets	11,113	10,760	11,059	12,012	13,480
Others	2,634	2,606	4,277	4,580	-
Total liabilities	12,665	12,964	13,655	13,336	12,921
Current liabilities	4,192	4,715	5,247	5,515	5,686
Accounts payable	965	1,049	1,666	1,956	2,086
ST debts	2,415	2,838	2,689	2,700	2,710
Long-term liabilities	8,473	8,250	8,408	7,821	7,235
Long-term debts	8,132	7,902	8,061	7,475	6,888
Others	340	348	347	347	347
Shareholder's equity	7,052	7,270	7,678	8,037	8,557
Share capital	2,704	3,110	3,110	3,110	3,110
Treasury stocks	-	-	-	-	-
Others	400	406	405	405	405
Retained earnings	1,218	957	1,365	1,724	2,244
Minority interest	2,018	2,087	2,101	2,110	2,121

CASH FLOW (VND bn)

FY (VND'bn)	2022A	2023A	2024E	2025E	2026E
Operating cash flow	3,399	(1,778)	1,811	1,341	2,159
Net income	460	140	434	773	1,117
Dep, & amortization	627	763	717	916	933
Change in working capital	(1,004)	28	719	(125)	2
Others	3,316	(2,710)	(60)	(222)	108
Investment cash flow	(4,973)	681	(2,662)	(1,408)	4,530
Net capex	(2,163)	(32)	(780)	(2,110)	(2,400)
Change in LT investment	(697)	28	(1,670)	(303)	7,107
Change in other assets	(2,113)	685	(212)	1,005	(177)
Cash flow after invt.	(1,574)	(1,098)	(852)	(67)	6,689
Financing cash flow	1,863	598	10	(943)	(1,107)
Change in share capital	353	406	-	-	-
Net change in debt	1,510	193	10	(576)	(576)
Change in other LT liab.	-	-	-	(367)	(531)
Net change in cash flow	289	(499)	(842)	(1,010)	5,583
Beginning cash flow	2,292	2,581	2,082	1,240	230
Ending Cash Balance	2,581	2,082	1,240	230	5,813

KEY METRICS

	2022A	2023A	2024E	2025E	2026E
PE (x)	18.1	68.3	22.0	12.4	8.6
Diluted PE (x)	18.1	68.3	22.0	12.4	8.6
PB (x)	1.1	1.2	1.2	1.1	1.1
EBITDA/share	7,189	6,281	7,220	9,244	10,108
DPS (VND)	-	-	-	1,180	1,706
Dividend yield (%)	-	-	-	4.0	5.8
EV/EBITDA (x)	8.4	8.7	7.9	6.5	4.0
EV/EBIT (x)	12.5	14.3	11.2	9.3	5.6

Appendix A: Important Disclosures

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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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