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**Power construction will enjoy an increasing number of average annual projects during 2021–2025, doubling that during 2016–2020**

Along with the ever-growing electricity demand, the Government has promoted investment in electrical substation and transmission line projects for the past few years. Based on the Draft National Power Development Plan VIII, we estimate the average annual number of the above projects will achieve a triple-digit growth and bring a CAGR of 25%/year for PC1 Group (PC1) over the next five years.

**Wind power will bring in higher profits in 2022 and hydropower will enjoy positive growth in the long term**

We expect PC1's three new wind power plants to go into stable operation with high consumption since wind power is more cost-competitive than thermal power and hydropower amid rising fuel costs and unfavorable hydrological situations. The fadeaway of La Nina in 3Q22 may hurt hydropower. However, we believe this segment will explode when PC1 puts four new hydroelectric power stations into operation, raising the total capacity by 50%.

**Real estate and mineral exploitation will be new growth engines in the coming period**

We expect PC1 to earn VND3.2 trillion in revenue and VND1.2 trillion in gross profit in the 2022–2025 period after delivering residential real estate projects as planned. In addition, launching three industrial parks (IPs) will add VND600–1 trillion to joint ventures' profits between 2023 and 2026. Furthermore, PC1 invested in a new nickel mine and will start exploiting it in 2023, promising to generate huge revenue for PC1 in light of a sharp increase in nickel demand and price in the coming years.

**We recommend BUY for PC1 stocks with target price of VND58,300/share**

Based on valuation results, business outlook, and possible risks, we recommend BUY for PC1 stocks with a target price of VND58,300/share, 25.9% higher than the closing price on April 6, 2022.

## Buy

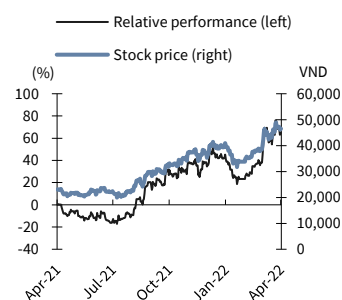
<b>Target price</b>	<b>VND58,300</b>
Upside/Downside	25.9%
Current price (Apr 6, 2022)	VND 42,300
Consensus target price	VND 51,800
Market cap (VNDbn)	10,890

<b>Trading data</b>	
Free float	74.2%
3M avg trading value (VNDbn)	96.83
Foreign ownership	44.9%
Major shareholder	BEHS JSC (24.04%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	20.3	12.9	45.4	101.3
<b>Relative</b>	19.1	13.1	29.6	64.2

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	6,679	9,813	9,387	13,063
EBIT (VNDbn)	823	850	1,547	2,524
NPATMI (VNDbn)	513	691	978	2,045
EPS (VND)	2,682	3,003	4,158	8,695
EPS growth (%)	19.4	12.0	38.0	109.0
P/E (x)	6.9	13.1	14.0	6.7
EV/EBITDA (x)	6.0	14.5	9.9	6.6
P/B (x)	0.7	1.7	1.9	1.3
ROE (%)	11.4	12.2	13.0	18.6
Dividend yield (%)	0.4	0.3	0.0	0.0



Source: Bloomberg, KB Securities Vietnam

## Business performance

### Overview

PC1 was established in 1963, initially known as Power Construction JSC No 1 (PCC1) under the Electricity Department. After nearly 60 years of operation, the company has ascended to the leading position in construction of power plants & electrical transmission. Also, PC1 has expanded into industrial production (steel structure and electric poles), renewable energy, and commercial real estate development. Besides, the company will run two new segments, mineral exploitation and commercial building leasing, in 2023.

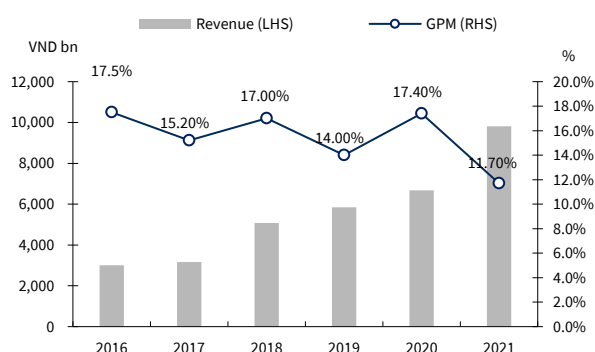
### PC1's business activities

PC1's revenue primarily comes from power construction, industrial manufacturing, real estate, and renewable energy. Power construction and industrial manufacturing are two traditional businesses with leading market share, in which Vietnam Electricity (EVN) and its subsidiaries are the main customers contributing 70–80% of PC1's total revenue. Besides, PC1 is a reputable investor in the real estate segment, focusing on mid-end products with five projects handed over to customers and three more new projects expected to be launched in the next five years. PC1 is boosting the energy segment, focusing on small-scale hydropower projects below 30MW, given the simple and stable operation of this sector and many incentives from the government. The company operated three wind power projects in Quang Tri with the commercial operation date (COD) before November 1, 2021, eligible for feed-in-tariffs (FIT) of 8.5 cents/kWh for the next 20 years.

### In 2021, PC1 enjoyed positive growth on power construction

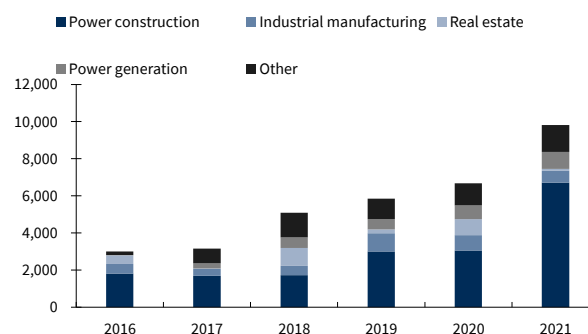
In 2021, PC1's revenue and NPAT reached VND9,813 billion (+47 YoY) and VND764 billion (+40% YoY). Revenue growth mainly came from engineering, procurement and construction (EPC) contracts for wind power projects, given the Government's policy on renewable energy development. Electricity sales rose by 24% YoY thanks to favorable hydrological conditions while industrial production and real estate shrank on falling steel prices and no new launches after PCC1 Thanh Xuan. Notably, PC1 posted a financial income of VND262 billion after revaluing the investment in Tan Phat Minerals JSC.

Fig 1. PC1 – Revenue & gross profit margin (VNDbn, %)



Source: PC1 Group, KB Securities Vietnam

Fig 2. PC1 – Revenue breakdown (VNDbn)



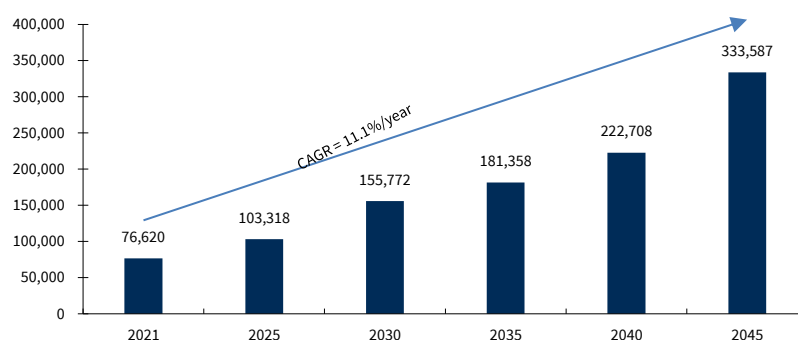
Source: PC1 Group, KB Securities Vietnam

## Investment catalysts

**The need to upgrade the overloaded power grid along with policies to encourage renewable energy will increase the number of power construction contracts in the medium and long term**

Power grid investment is of national energy security. Along with the ever-growing electricity demand, the Government has promoted investment in substation and transmission line projects over the past few years. Per Draft National Power Development Plan VIII, the growth rate of installed power capacity will reach 11.1%/year, so the need to build a transmission network remains pressing, opening up opportunities for electrical construction enterprises. The total estimated investment for 2021–2045 under draft plan VIII is VND8,459,359 billion (~USD369.8 billion), 26.5% of which or VND2,264.816 billion is for the power grid development. Additionally, EVN will keep promoting the progress of large-scale power transmission construction projects, especially on the Central – South route, to provide enough electricity for solar and wind power projects in this area when the clean energy market is gradually expanding. This will be an advantage for power construction enterprises, especially PC1 given its leading position in construction of power plants & electrical transmission.

**Fig 3. Vietnam – Total installed power capacity (MW)**



Source: Draft National Power Development Plan VIII, KB Securities Vietnam

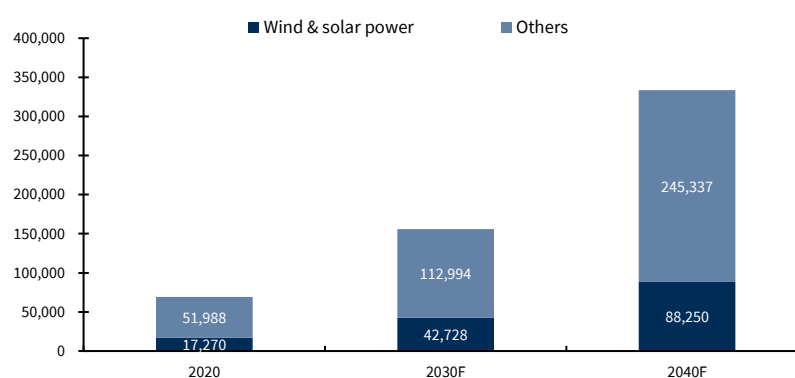
Based on draft plan VIII, the average annual transmission line and substation projects would achieve a triple-digit growth, backed by: (1) Renewable electricity capacity has risen rapidly, given global investment in green energy, and (2) the transmission lines are overloaded as the local installed power capacity of some areas where renewable energy projects are concentrated (Central and Southern region) exceeds the supply of the power grid system. Especially, we believe the annual disbursement of National Power Transmission Corporation (EVNNPT) (a major customer of PC1) will be a growth driver for the power construction segment. In particular, the disbursement for power transmission projects in the 2021–2045 period will jump by 111% to around VND90,600 billion/year vs. ~VND43,000 billion/year in the 2016–2020 period. In our estimates, it will contribute to a compound annual growth rate (CAGR) of 25%/year for PC1 over the next five years.

**Table 1. Vietnam – Investment planning for national power grid in the period of 2021–2045**

Construction item	Unit	2016–2020		2021–2045	
		Total volume	Average per year	Total volume	Average per year
220 kV substation	Mega Volt–Ampere (MVA)	28,743	5,749	203,311	8,132
500 kV substation	Mega Volt–Ampere (MVA)	17,850	3,570	196,500	7,860
220 kV & 110 kV transmission lines	km	10,048	2,010	27,253	1,090
500 kV transmission lines	km	2,221	444	20,304	812
<b>Total investment amount</b>	<b>VND bn</b>	<b>214,665</b>	<b>42,933</b>	<b>2,264,816</b>	<b>90,593</b>

Source: Draft National Power Development Plan VIII, KB Securities Vietnam

In addition to the strong demand for upgrading the overloaded power transmission system, the fact that installed power capacity among green energy projects surged from 34.5 GW in late 2020 to 277 GW by the 2040–end given the new pricing mechanism by EVN for wind and solar power presents a golden opportunity for PC1. As a prestigious EPC contractor with long experience in wind and solar power projects, typically La Bang and Tan Phu Dong 2 in 2021, it will help PC1 win future construction projects. We also note that the gross profit margin of renewable power construction is 11–15%, higher than that of traditional energy project construction, thereby expanding the gross profit margin of the electrical construction segment of PC1.

**Fig 4. Vietnam – Installed power capacity among different sources of energy (MW)**

Source: Draft National Power Development Plan VIII, KB Securities Vietnam

**Year-round operation of wind power projects would support profit growth while the prospect of hydropower is bright in the long run thanks to new projects**

In 2019, the unspecified new price policy for solar power prompted the company's management to suspend the solar power project and prioritize wind power plants in Quang Tri Province like Lien Lap with a capacity of 48 MW, Phong Nguyen, and Phong Huy, raising the total capacity to 144 MW. Those plants were eligible for 8.5 cents/kWh within the next 20 years when put into commercial operation before November 1, 2021. We expect PC1's those plants to run stably with high consumption in 2022 as wind power is more cost-competitive than thermal power and hydropower amid rising fuel prices and unfavorable hydrological situation. With high gross profit margins above 60%, wind power together with hydropower will constantly contribute to the earnings growth of PC1 in the medium and long term.

However, 2022 will be a tough year for hydropower as major meteorological organizations around the world forecast La Nina may end in the third quarter of 2022, meaning that the water in the dams would be low to power hydroelectric power stations. During the 2022–2023 period, the increasing probability of El Nino will negatively impact hydropower plants. Nevertheless, we believe hydropower output production will explode when PC1 puts four new plants in operation. Besides, the electricity price will maintain a stable CAGR of 2%/year in the long term. The avoided cost tariff (AVCT) applicable to hydropower with capacity below 30 MW has increased by an average of 3.6%/year since promulgated in 2009. Hence, PC1 will directly benefit from this in the long term when investing in this type of plant.

**Table 2. PC1 – 2022–26F business results of wind power**

VND bn	2022F	2023F	2024F	2025F	2026F
Commercial output (MWh)	504,576	504,576	504,576	504,576	504,576
<b>Revenue</b>	<b>990.7</b>	<b>990.7</b>	<b>990.7</b>	<b>990.7</b>	<b>990.7</b>
<b>Gross profit</b>	<b>614.3</b>	<b>614.3</b>	<b>614.3</b>	<b>614.3</b>	<b>614.3</b>
Depreciation	298.4	298.4	298.4	298.4	298.4
EBITDA	900.4	900.4	900.4	900.4	900.4
Interest expenses	-219.6	-204.3	-188.9	-173.6	-158.3
Profit before tax	382.4	397.7	413.0	428.4	443.7
<b>Profit after tax</b>	<b>382.4</b>	<b>397.7</b>	<b>413.0</b>	<b>406.9</b>	<b>421.5</b>

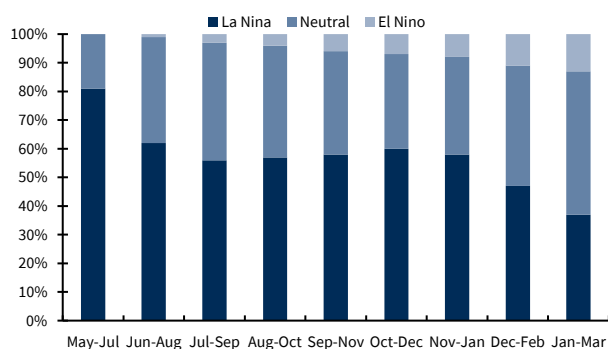
Source: KB Securities Vietnam

**Table 3. PC1 – New hydropower projects**

Project	Design capacity (MW)	Construction	COD	Total investment (VND bn)
Bao Lac A	30	2021–2023	2024	1,080
Shang Ha	13	2023–2025	2026	480
Nam Po 5A	20	2023–2026	2026	760
Nam Po 5B	18	2023–2027	2026	648

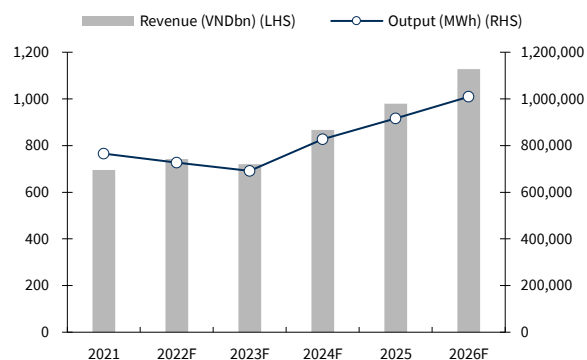
Source: PC1 Group, KB Securities Vietnam

**Fig 5. Global – Chances of weather patterns**



Source: IRI, KB Securities Vietnam

**Fig 6. PC1 – Revenue & output of the power segment (VNDbn, MWh)**



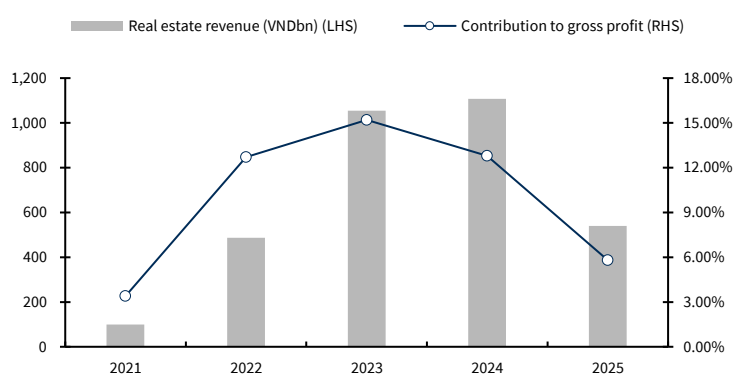
Source: PC1 Group, KB Securities Vietnam

## Real estate projects would support PC1's revenue boom in the period of 2023–2026

PC1 is also engaged in residential real estate with notable achievements through projects like My Dinh Plaza I and II, Nang Huong, etc though it is not the core business. It was thanks to the company understanding the market needs in the mid-range segment with construction progress and quality ensured. For the time being, the company owns three projects available for sale, including PC1 Dinh Cong, PCC1 Vinh Hung, and PCC1 Thang Long (Bac Tu Liem). In 2021, the COVID-19 pandemic and bottlenecks in legal procedures interrupted the construction and handover of the above projects. Therefore, we expect PC1 to accelerate the construction and delivery in 2022–2023 on the well-controlled pandemic and unblocked legal issues. With three projects handed over, we estimate PC1 will earn a total of VND3.2 trillion in revenue and VND1.2 trillion in gross profit, contributing consistently to PC1's revenue during 2022–2025.

As for industrial real estate, PC1 plans to acquire a 30% stake in Western Pacific JSC (WP). WP owns a 62% stake in Yen Phong II-A IP in Bac Ninh province, and the Smart Logistics Center is in this IP. Moreover, WP plans to invest in two new IPs in Ha Nam (691 ha) and Bac Giang (263 ha). The People's Committee of Bac Ninh province has just approved the investment plan for Yen Phong II-A Industrial Park (158 ha), and PC1 is completing legal procedures for the remainder. The total investment for three IPs is about VND10,346 billion. We assume PC1 will lease out Yen Phong and Ha Nam IPs in 2H22 and 2023 and Bac Giang IP in 2024 at USD120, USD85, and USD120/m<sup>2</sup>/lease term, respectively. This segment is expected to contribute VND600–1,000 billion to joint ventures' profit for PC1 in the 2023–2026 period.

Fig 7. PC1 – Contribution of real estate to total revenue (VNDbn, %)



Source: PC1 Group, KB Securities Vietnam

Table 4. PC1 – Contribution of real estate to total revenue

VND bn	2022F	2023F	2024F	2025F	2026F	2027F
Revenue	832	3,147	4,576	4,575	5,166	306
Gross profit	606	2,347	3,366	3,433	3,969	228
Profit after tax	523	2,033	2,909	2,976	3,523	197
Contribution to total revenue	157	612	875	895	1,000	59

Source: KB Securities Vietnam

Table 5. PC1 – Expected revenue from residential and industrial real estate

Project	Ownership	Expected revenue (VND bn)	2022F	2023F	2024F	2025F	2026F	2027F
PC1 Dinh Cong	99.75%	975						
PCC1 Vinh Hung	99.95%	594						
PCC1 Thang Long	100%	1,620						
Yen Phong II-A IP	18.65%	4,822						
Ha Nam IP	30.02%	10,344						
Bac Giang IP	30.02%	5,642						

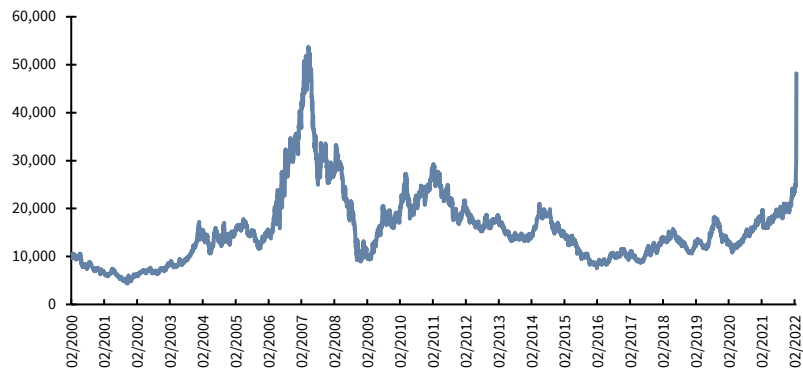
Source: PC1 Group, KB Securities Vietnam

### Nickel mine is a new growth driver for PC1

On June 16, 2021, PC1 spent VND233 billion acquiring a 23.3% stake in Tan Phat Minerals JSC, raising its ownership in this company from 33.9% to 57.2%. Tan Phat Minerals is eligible to exploit Quang Trung – Ha Tri nickel-copper mine in Hoa An district, Cao Bang province. Its total reserve is 3.46 million tons of sulfide ore, containing 20,841 tons of Ni, 9,207 tons of Cu, and 914 tons of Co. The construction started in July 2021 and should be completed in 2023. PC1 estimates the total investment for this mining project is about VND1,502 billion and expects to exploit 600,000 tons of primary ore minerals annually. Since it is typically an open-pit mine, the mining process is simple, with costs primarily coming from the depreciation of machinery and equipment and labor costs. We assume that the mine will bring in more than VND1,200 billion in revenue per year, and the company's net profit margin will be high, around 35%, comparable to nickel mining companies in the world.

Approximately 75% of world nickel consumption is for stainless steel production, of which China accounts for more than 50% of consumption. The demand for stainless steel for infrastructure construction should grow strongly over the next ten years in the context of rapid urbanization and booming population. Besides, the main component of electric vehicle batteries is nickel. Commodity Insights anticipates the use of nickel for electric vehicle batteries to rise to 26% by 2030 from 5% at present or more than 1 million tons each year. This figure may reach 3.9 million tons by 2030 vs. 2.4 million tons in 2019, lifting nickel prices in the long run. Also, the Russia-Ukraine war sent nickel prices surging since Russia is the world's third largest nickel supplier. Domestically, only the Ban Phuc nickel mine in Son La has been exploited since 2013, with the primary ore reserve fivefold that of the Quang Trung – Ha Tri nickel mine. However, this project was suspended in 2016 due to poor treatment technology that left high MgO content and caused overheating and damage to the furnace. Therefore, we expect the Quang Trung – Ha Tri nickel mine to be put into operation to accommodate heavy demand for nickel in Vietnam and around the world, contributing to diversifying revenue sources for PC1. Assuming an average selling price of USD22,000/ton and a production period of seven years, we value PC1's nickel mine at VND447 billion.

Fig 8. Global – Nickel prices (USD/ton)



Source: Bloomberg, KB Securities Vietnam



## Forecast & Valuation

**In 2022, PC1 may reach NPAT of VND1,047 billion (+37.0% YoY) on revenue of VND9,387 billion (-4.3% YoY)**

We forecast PC1 to achieve VND1,047 billion (+37.0% YoY) in NPAT and VND9,387 billion (-4.3% YoY) in revenue in 2022 based on the following assumptions:

- Revenue from power construction and industrial production is VND5,945 billion (-19% YoY) and VND659 billion (-6.6% YoY), given the high levels seen in 2021 thanks to wind power EPC contracts and that EVN has not yet announced a new price mechanism, causing investment demand to decrease.
- Hydroelectricity output should be 726.9 GWh (-5% YoY) due to the unfavorable hydrological situation.
- Wind power output may rise to 504.5 GWh (+112% YoY) thanks to year-round operation instead of running in just two months last year.
- PC1 Dinh Cong will be handed over 50% in 2022 at an average of VND130 million/m<sup>2</sup>.
- Gross profit margin is 19.5% against 11.7% in 2021 on substantial contribution from high gross profit margin segments like power and real estate.
- Financial income is down to VND123 billion (-61% YoY), given no unexpected profit from the revaluation of the subsidiary's assets as in 2021.
- Revenue from joint ventures and associates is forecast at VND157 billion (+7.7x YoY) thanks to the contribution from the Yen Phong II-A IP.

**We recommend BUY for PC1 stocks with a target price of VND58,300/share**

Based on the SOTP (sum-of-the-parts) valuation method, we recommend BUY for PC1 stocks with a target price of VND58,300/share, 25.9% higher than the closing price on April 6, 2022. In particular, we value power construction at VND3,196 billion, real estate at VND910 billion, power at VND14,308 billion, nickel mine at VND447 billion, and industrial real estate at VND2,063 billion.

**Table 6. PC1 – Target price according to valuation methods (VND/share)**

VND bn	Method	PC1's value
Power construction & industrial manufacturing	P/E	4,294
Real estate	DCF	910
Hydropower	DCF	7,175
Wind power	DCF	7,133
Nickel mining	DCF	447
IPs	DCF	2,063
<b>Total enterprise value</b>		<b>22,022</b>
(+) Cash & Short-term investments		1,913
(-) Net debt		-8,575
(-) Minority interests		-1,654
<b>Total equity value</b>		<b>13,706</b>
No. of outstanding shares (million shares)		235.20
<b>Target price</b>		<b>58,300</b>
Current price (Apr 06, 2022)		46,300
<b>Upside</b>		<b>25.9%</b>

Source: KB Securities Vietnam

## Risks

### Less mobilized wind power due to falling national electricity demand worsened by the pandemic

With a GDP growth target of 6–6.5% in 2022F, we forecast electricity demand to grow by 9–10% to accelerate economic growth. Yet, the foreign direct investment (FDI) may not return to fully resume production against the backdrop of the complicated development of the pandemic, which will slow down the electricity demand compared to 2021. It may lead to dwindling consumption among power plants, including the wind power projects of PC1. However, we believe this downside risk will less likely happen thanks to the Vietnamese Government bracing the new normal policy and shifting its focus to economic recovery, which helped the index of industrial production (IIP) to rise by 8.5% YoY in February.

### Industrial production hit by rising input costs

Steel is the main raw material in industrial production of PC1. Therefore, surging steel prices will hamper this segment's gross profit margin and profitability.

### High inflation that negatively impacts real estate

The real estate sector faces multiple risks: legal problems, delayed site clearance, soaring construction material costs, and fierce competition. However, PC1 has managed these risks quite well, thus limiting their negative impacts.

### Fluctuations in nickel price

We assume that the average nickel price is USD22,000/ton over the lifecycle of the Quang Trung – Ha Tri mine. As nickel is traded on metal exchanges, the fluctuations in its price can directly affect the mining segment. However, given the huge potential and strong demand of nickel, we believe the upside risk is more likely.

### Risks related to industrial real estate

PC1 was granted the license to develop the Yen Phong II–A IP from the People's Committee of Bac Ninh Province and will start work on this project and launch in 2023. However, the construction progress is still potentially behind schedule due to the complicated developments of the pandemic. We assume PC1 will turn a profit from this segment in 2023 by leasing the first 30 ha of industrial land. Furthermore, the leasable area of Yen Phong II–A IP in 2023 may be higher than expected, which is an upside risk for our forecast.

### USD/VND exchange rate pressures affecting accounts payable

PC1 has offshore loans of VND4.2 trillion in USD or 70% of the total investment with an interest rate of 5.5%. The current volatile macroeconomic situation may lift the USD/VND exchange rate and therefore put pressure on PC1's interest expense.

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## Investment ratings & definitions

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### Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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