

# REE Corporation (REE)

## Robust growth driven by renewable energy

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**The M&E segment recovers from a low base and should continue its growth in the long run on boosted public spending**

The overloaded airports in the Southern region may lead to the need to expand airports. As a leading M&E contractor, Refrigeration Electrical Engineering (REE) will likely win the bids for giant airport projects: Terminal T3 at Tan Son Nhat airport and Long Thanh airport. Moreover, thanks to the real estate market recovery, we expect the M&E segment's CAGR to reach 21.5%/year.

**The real estate & office leasing segment witnessed steady growth with the momentum from E.Town 6**

We believe that REE's office leasing segment will maintain stable revenue growth with a CAGR of 10.8%/year in 2022–2026 as: (1) Occupancy rate will continue to remain high at 98–100%; (2) Office rental costs tend to increase in the medium and long term; and (3) E.Town 6 launched in 2023 will help to increase REE's leasable area at higher prices of about USD27/m<sup>2</sup>/month.

**Hydropower and renewable energy projects would further drive the REE's growth**

The fadeaway of the La Nina in 3Q22 may worsen the hydropower segment. However, Vinh Son–Song Hinh Hydropower (VSH) and the Thuong Kon Tum hydropower plant will be the key drivers of this segment, with higher PPA prices of about VND1,310/kWh. Besides, we expect the operation of three wind power projects to offset the shortfall of coal-fired and hydroelectric power plants. We are also upbeat about REE's solar power projects under Power Development Plan VIII.

**We recommend BUYING REE shares with a target price of VND111,600**

Based on SOTP valuation method, business outlook, and possible risks, we recommend BUYING REE shares. The target price is VND111,600 apiece, 37.8% higher than the closing price on May 15, 2022.

# Buy

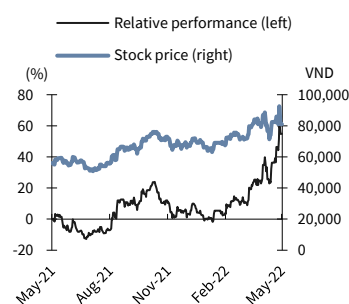
<b>Target price</b>	<b>VND111,600</b>
Upside/Downside	37.8%
Current price (May 5, 2022)	VND81,000
Consensus target price	VND87,200
Market cap	25,118

<b>Trading data</b>	
Free float	42.7%
3M avg trading value (VNDbn)	70.54
Foreign ownership	49.0%
Major shareholder	Platinum Victory PTE LTD (31.16%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-6.9	18.6	12.3	44.6
<b>Relative</b>	14.8	49.7	40.3	54.9

### Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Revenue (VNDbn)	5,640	5,810	8,607	10,333
EBIT (VNDbn)	1,239	1,855	2,951	3,222
NPATMI (VNDbn)	1,628	1,855	2,716	2,973
EPS (VND)	5,251	6,003	8,760	9,588
EPS growth (%)	-0.7	14.3	46.0	9.0
P/E (x)	8.1	12.1	11.7	10.7
EV/EBITDA (x)	12.1	13.0	10.5	9.5
P/B (x)	1.1	1.4	1.7	1.5
ROE (%)	14.0	13.1	15.9	15.3
Dividend yield (%)	4.6	0.4	1.0	1.5



Source: Bloomberg, KB Securities Vietnam

## Updated business performance

### Revenue and NPAT in 1Q22 increased by 72.9% YoY and 102.5% YoY

In 1Q22, REE recorded impressive business results with NPAT of VND955 billion (+102.5% YoY) on revenue of VND2,045 billion (+72.9% YoY). The gains were mainly thanks to the electricity sales of VND1,439 billion (+288.6% YoY), accounting for 70.3% of REE's total revenue in 1Q22. The favorable hydrological situation and new renewable energy projects (wind power, solar power) contributed the most to the explosion.

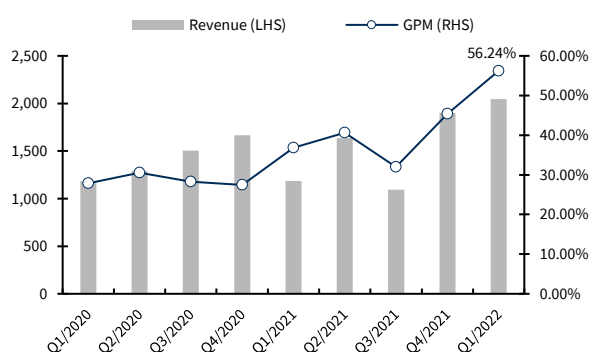
### REE achieved the highest profit margin over the last two years thanks to the main contribution from the power segment

The proportion of the power segment to REE's revenue breakdown is getting higher and higher, mainly thanks to three new wind power projects: Tra Vinh, Phu Lac 2, and Loi Hai 2. REE built and started the commercial generation of these three plants in October 2021 and would expand its rooftop solar capacity. In 2021, REE put an additional 6.5 MWp of rooftop solar power into operation, bringing the total solar energy capacity to 92.5 MWp. We note that the gross profit margin of renewable energy projects is often at a high level of 50–60%, leading to an increase in the proportion of the power segment. Notably, the stable operation of new renewable energy projects will significantly improve REE's gross profit margin. REE's gross profit margin increased sharply from 36.8% in 1Q21 to 56.2% in 1Q22 (Figure 1, 2), thanks to the high contribution of the power segment with high profitability.

### The Board of Directors sets an optimistic plan for 2022

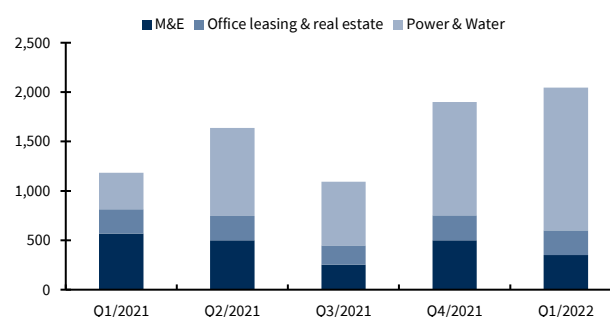
At the FY21 AGM, REE's management targeted VND2,061 (+9% YoY) in NPAT and VND9,247 billion (+59% YoY) in revenue. REE explained that the revenue growth was higher than earnings growth primarily due to the sharp increase in revenues of the M&E segment with a net profit margin of only 5–6%, given fierce competition and surging raw material costs. We believe REE can fulfill its 2022F business plan given the 2021 low when the M&E segment was severely affected by construction delays due to the COVID-19 pandemic last year. Meanwhile, REE had to lower rental prices by 20% compared to the annual rental rate to support customers during the pandemic.

Fig 1. REE – 1Q20–1Q22 business results (VNDbn)



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

Fig 2. REE – Revenue breakdown (VNDbn)



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

**Table 1. REE – 1Q22 business results**

VNDbn	Q1/2021	Q1/2022	YoY %	Note
Revenue (VNDbn)	1,185	2,045	72.5%	Revenue increased sharply thanks to stable operation of wind power projects
M&E	568	349	-38.5%	
Office leasing & real estate	245	251	2.4%	Office tenants have returned to work after the epidemic
Power & Water	371	1,445	289.4%	Wind power projects operate stably
Gross profit	436	1,150	163.6%	
GPM (%)	36.81%	56.24%		
SG&A	(82)	(103)		
% SG&A / Revenue	-6.89%	-5.06%		
Profit from operating activities	355	1,047		
Financial income	112	38		In Q1/2021, REE divested from QTP, leading to a sharp increase in financial income
Financial expenses	(95)	(218)		
Profit/loss from JVs	165	178		Mainly due to favorable hydrological situation in 1Q2022 leading to higher profits from hydropower companies
Other net income	0	0		
Profit before tax	538	1,047	94.4%	
Profit after tax	472	955	102.5%	
NPM (%)	39.80%	46.71%		
Power output (million MWh)	1,669	2,347	40.6%	Contribution from 3 wind power plants and consolidation of VSH

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

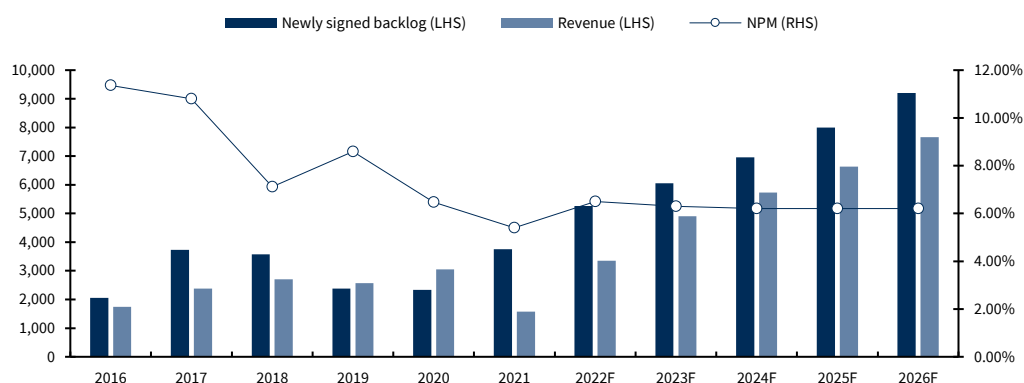
### **The M&E segment should recover in the medium and long term thanks to large bidding packages**

Currently, REE acts as an M&E contractor, air conditioner manufacturer and distributor, and an EPC contractor for solar power projects. Before 2017, REE was one of the largest M&E contractors in Vietnam for: (1) Infrastructure projects (airports, hospitals); (2) commercial projects (shopping malls, hotels, offices); and (3) real estate projects. REE still maintains its leading position in the M&E segment. However, the negative impact of soaring raw material costs, fierce competition, and the COVID-19 pandemic has hurt both revenue and profit margin of REE in 2017-2021.

However, given the Vietnamese Government focusing on connectivity and transport infrastructure and overwhelmed airports in the Southern region, it is essential to invest in the expansion of airports. REE, as a leading M&E contractor, will likely win the bids for large airport projects such as Terminal T3 at Tan Son Nhat international airport and Long Thanh airport. In our view, REE's revenue in 2022-2026 will be as high as in the construction phase of the Tan Son Nhat airport expansion project during 2016-2017.

In addition, the real estate market recovery may benefit the M&E segment. CBRE estimated that the real estate market would provide 25,000-30,000 new products/year against 15,000-20,000 in 2020-2021. Thus, we forecast newly signed backlog of the M&E segment to reach over VND5,200 billion (+40% YoY) & record revenue of VND3,705 billion (+104% YoY) in 2022 from the 2021 low. In 2022-2026, we estimate the CAGR of this segment to hit 21.5%/year.

Fig 3. REE – 2016A–2026E business results of the M&amp;E segment



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

Table 2. REE – Airport projects

Project	Construction time	Bidding Package
Noi Bai International Airport	Jun 2000 – Dec 2001	M&E contractor
Lien Khuong Airport	Dec 2007 – Dec 2009	M&E contractor
Tan Son Nhat International Airport	Nov 2004 – Sep 2007	M&E contractor
T2 Terminal Noi Bai International Airport	08/2012 – 12/2014	M&E contractor, ventilation system & BMS installation
T2 Terminal Tan Son Nhat International Airport	Phase 1: May 2015 – Oct 2016 Phase 2: July 2017–August 2018	M&E contractor & station equipment installation
Phase 2: Jul 2017 – Aug 2018	M&E installation and station equipment	
Da Nang International Airport	Apr 2016 – Sep 2017	M&E contractor
Cam Ranh International Airport	Feb 2017 – May 2018	M&E contractor
Van Don International Airport	Nov 2017 – Mar 2019	M&E contractor

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

### The real estate & office leasing witnessed steady growth with the momentum from E.Town 6

REE owns seven Grade B office buildings for lease in Ho Chi Minh City, located in the area with numerous office buildings for lease with high occupancy rates (averaging 98%/year despite being affected by COVID-19 during 2020–2021).

We expect REE's office leasing segment to maintain stable revenue growth with a CAGR of 10.8%/year in 2022–2026, supported by the following reasons:

- **The occupancy rate should average 98–100%:** Currently, REE leases out a total of more than 160,000 m<sup>2</sup> of Grade B office space. With a favorable location and reasonable rental prices compared to the average, we believe that REE's occupancy rate will reach 98–100%/year in the coming period.
- **Rental prices of offices tend to rise in the medium and long term:** In our estimates, the average rental price of office buildings of REE in 2021 was USD20.3/m<sup>2</sup>/month to support tenants during lockdowns, which is 20% lower than the average for Grade B office buildings in HCMC. However, given the limited supply in the coming time, we expect the average price of REE's office buildings to increase by an average of 3% per year thanks to its favorable location and the trend of shifting from Grade A to Grade B of domestic enterprises to optimize operating costs.

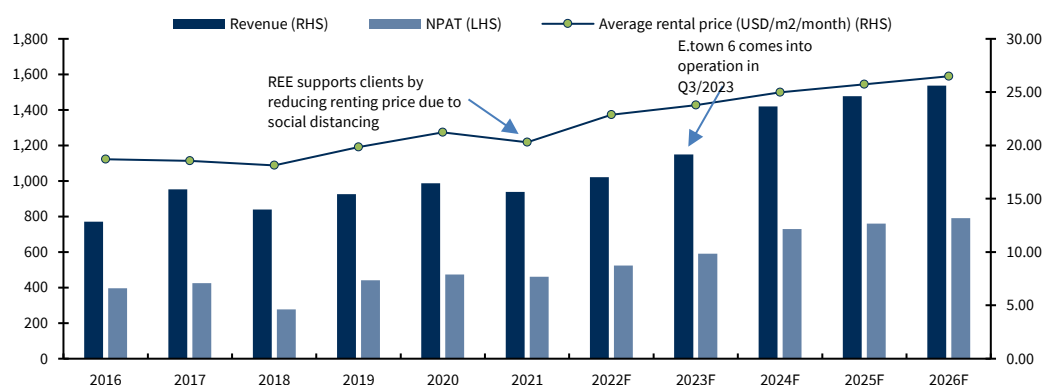
— **The launch of E.Town 6 in 2023 will contribute to REE's increase in leasable area with a higher average rental price:** E.Town 6 is a new office building for lease that REE started construction in 2020 and may launch in mid-3Q23. E.Town 6 will be a new Grade B office building, with a total leasable area of 40,000 m<sup>2</sup>, including 16 floors and seven basements equipped with modern facilities. We estimate that when REE leases out E.Town 6, REE's total office space will be 201,000 m<sup>2</sup>, with the expected rental price higher than the old buildings, at ~USD27/m<sup>2</sup>/month and the average price increase of about 3%/year. We estimate E.Town 6 would contribute VND300–320 billion in annual revenue to REE from 2024.

**Table 3. REE – Office buildings for lease**

Project	Area (m <sup>2</sup> )	Average rental price in 2021 (USD/m <sup>2</sup> /month)
E.Town Cong Hoa	83,670	20-22
E.Town 5	17,000	22
E.Town Central	34,000	27
IDC Building	1,200	20
Maison Building	1,353	20
Reecorp Building	3,370	20
Ree Ba Hom	1,574	20
Ree Tower	18,842	23
E.Town 6 (3Q23)	40,000	
<b>Total</b>	<b>201,009</b>	

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

**Fig 4. REE – 2016A–2026E business results of the real estate and office leasing segment (VNDbn)**



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

### Hydropower and renewable energy projects would further drive REE's growth

REE owns a power portfolio with a total capacity of about 2,600 MW. After the restructuring, REE Energy's power portfolio covers six subsidiaries and eight associated companies, including nine hydropower companies, two renewable energy companies, and two coal power companies.

Table 4. REE – Power portfolio

Company	Ticker	Charter capital (VNDbn)	Ownership rate	Power plants	Power plant type	Operating year	Capacity (MW)
<b>SUBSIDIARIES</b>							
Thac Ba Hydropower JSC	TBC	635	60.42%	Thac Ba	Hydropower plant	1971	120
Muong Hum Hydropower JSC	MHP	508	79.80%	Muong Hum	Hydropower plant	2011	34.8
Thuan Binh Wind Power JSC	TBW	500	50%	Phu Lac	Wind power plant	2016	78.9
Tra Vinh Rural Electricity JSC	DTV	53	66.30%		Power distribution		
CTCP Điện NLMT REE	REE SE	500	99.99%	Ap Mai	Rooftop solar power	2020	92.5 MWp
Vinh Son – Song Hinh Hydropower JSC				Vinh Son	Hydropower plant	1994	66
	VSH	2,362	50.50%	Song Hinh		2001	70
				Thuong Kon Tum	2021	220	
<b>ASSOCIATED COMPANY</b>							
Central Hydropower JSC				A Luoi	Hydropower plant	2012	170
	CHP	1,469	23.80%	Cu Jut	Solar power plant	2019	50 MWp
Southern Hydropower JSC				Da Siat	Hydropower plant	2009	13.5
				Da Dang 2		2010	34
		SHP	937	12.00%	Da Mbri	2014	75
Thac Mo Hydropower JSC				Thac Mo	Hydropower plant	1995	150
	TMP	700	42.60%	Thac Mo	Solar power plant	2021	50 MWp
Srok Phu Mieng Hydropower JSC – IDICO	ISH	450	34.30%	Srok Phu Mieng	Hydropower plant	2006	51
Song Ba Ha Hydropower JSC	SBH	1,242	25.80%	Song Ba Ha	Hydropower plant	2009	220
Binh Dien Hydropower JSC	BDH	155	25.50%	Binh Dien	Hydropower plant	2009	44
Pha Lai Thermal Power JSC				Pha Lai 1	Coal thermal power plant	1983	440
	PPC	3,262	24.10%	Pha Lai 2		2001	600
Ninh Binh Thermal Power JSC	NBP	129	29.50%	Ninh Binh	Coal thermal power plant	1974	100

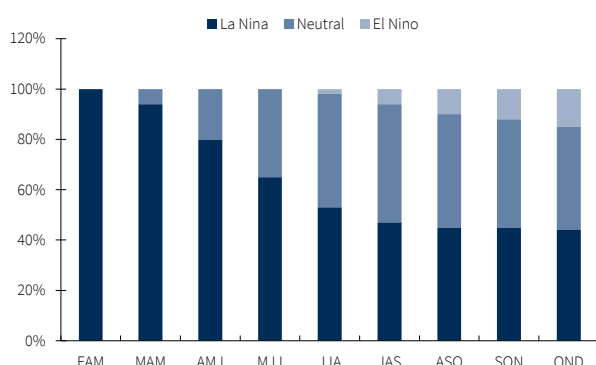
Source: Refrigeration Electrical Engineering, KB Securities Vietnam

### Hydropower will be affected in the short term but backed by Thuong Kon Tum in the medium and long term

REE's hydropower portfolio features nine hydropower companies with a total design capacity of 1,268 MW, located across the country and centered in the South with four companies. Thanks to favorable geographical locations, hydropower plants in the Southern region will benefit from the fadeaway of La Nina that will make the rain focus in the Central and Southern regions. According to forecasts of major meteorological organizations worldwide, La Nina may end in the third quarter of 2022, which means less and later rainfall for hydroelectric plants. In the period of 2022–2023F, the increased chance of El Nino will negatively affect hydropower plants. Therefore, we believe the hydropower segment of REE will be impacted the most in 2H22 and 2023 before bouncing back beyond 2024 thanks to neutral weather pattern.

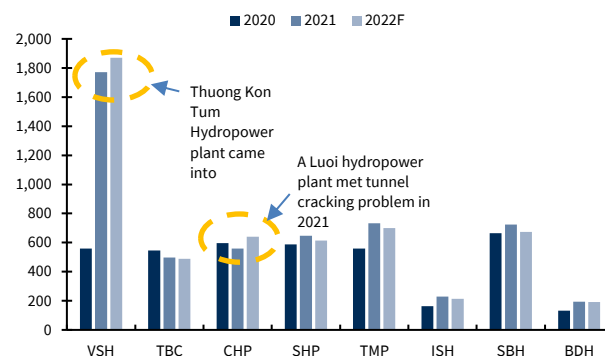
Except for unfavorable hydrology in 2H22 and 2023, we believe VSH, a subsidiary of REE, will be the key growth driver for REE's hydropower segment. VSH put the Thuong Kon Tum hydropower plant into operation in March 2021, with the commercial power output in 2021 tripling that in 2020. REE's management also added that VSH is renegotiating with Vietnam Electricity (EVN) to raise the electricity price under the power purchase agreement (PPA) from VND1,096/kWh to about VND1,310/kWh (+20%) in the first ten years of the project to offset the construction and operating costs. After ten years, the PPA price will be adjusted below the original PPA price by a defined multiplier of about 0.7–0.8x. We expect that VSH will successfully negotiate the electricity price with EVN in 2Q22, thereby helping to improve the business results. We believe it will be the key driving force for VSH and REE as Thuong Kon Tum is a relatively large-sized hydroelectric plant (220MW) compared to neighboring thermal power plants. Besides, it can run flexibly according to the moderation of the National Load Dispatch Centre, raising or reducing the capacity depending on the intraday electricity output from renewable energy.

Fig 5. World – Chance of La Nina, El Nino



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

Fig 6. REE – Forecast output of hydropower plants (mn kWh)



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

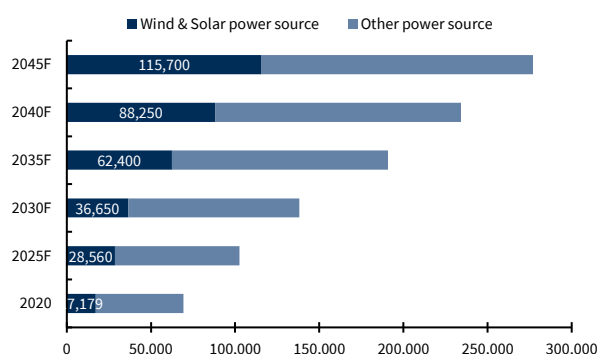
### Renewable energy is the driver for REE's long-term growth

REE has focused on renewable energy projects since 2020, starting with rooftop solar power projects to enjoy the preferential FIT pricing mechanism for renewable power. By the end of 2021, REE has operated 92.5 MWp of the rooftop solar power in the southern provinces, of which 86 MWp enjoys a FIT price of 8.38 cents/kWh. After the FIT mechanism expired in late 2020, REE only developed 13.6 MWp with 6.5 MWp put into operation, given the negative impact of the pandemic and that REE was waiting for a new pricing mechanism. However, according to REE management, the company will develop 100 MWp of rooftop solar power per year through self-development and M&A projects. REE plans to sell 70%–80% of electricity generated from solar power plants to factories and the rest to EVN. It is, in our view, a stabilizing mechanism for REE, helping to make the most of solar panels in the context of excess solar power capacity in the Central and Southern regions.

Besides, we take a positive stance towards renewable energy projects of REE, especially solar power, which is the orientation of REE in the long term, given decreasing investment costs over the years thanks to the popularity of renewable energy worldwide. REE expects the investment cost of upcoming solar power projects to be VND12 billion/MW, which is lower than average in our estimates, contributing to a higher profit margin. We forecast REE's total design solar capacity to reach 492.5 MWp by the end-2026 vs. 92.5 MWp by the end-2021.

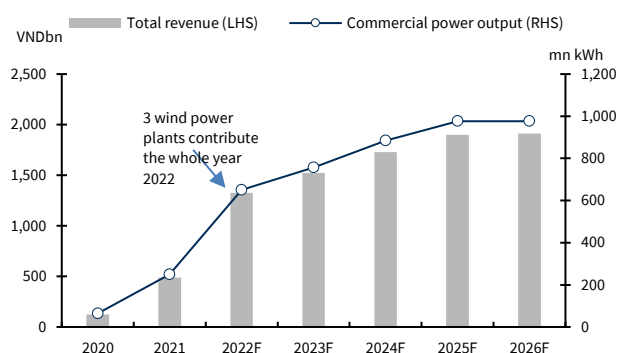
Regarding the wind power segment, we expect REE's three wind power plants to operate stably with high consumption volume in 2022, given the competitiveness of selling prices between wind power and thermal power in the context of surging fuel prices and unfavorable hydrology facing hydroelectric power plants in 2022. Besides, we expect REE's wind power plants to be mobilized at about 40–50% of the design capacity in the coming years, given the Government's drastic measures in developing renewable energy projects to achieve the net zero emission target by 2050 as per National Power Development Plan VIII and the rising demand for electric energy consumption for socio-economic development.

Fig 7. REE – Sources of renewable energy



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

Fig 8. REE – Forecast business results of renewable energy



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

### The outlook for coal power is subdued

REE currently owns two coal-fired power plants, Pha Lai Thermal Power Plant (PPC) and Ninh Binh Thermal Power Plant (NBP), with a design capacity of 1,140 MW. During the 2016–2020 period, REE held QTP shares of Quang Ninh Thermal Power JSC. However, it divested from this thermal power from 8.04% to 0.98% in the first half of 2021 and will divest the rest in 2022, aiming towards the net zero emission target that Vietnam has committed under COP26.



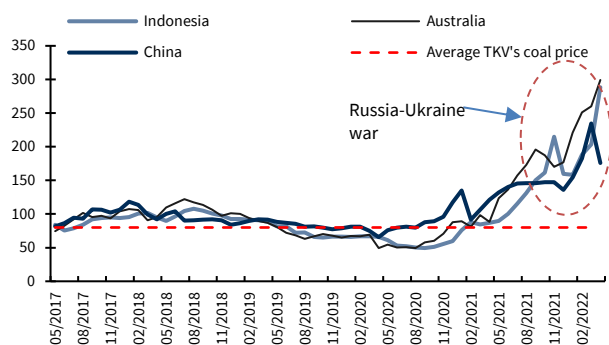
After divesting from QTP, Pha Lai is the largest coal-fired power plant in which REE holds stakes, with two units and a total capacity of 1,040 MW. The favorable location of the Pha Lai power plant has facilitated the transmission of electricity in the North. Nevertheless, the operation during a long period (unit 1 started in 1983, and unit 2 started in 2001) led to the deterioration in the power generation systems despite plenty of maintenance overhauls, especially turbines, boilers, and dust filter systems. It resulted in decreased operating efficiency and increased raw material consumption. Furthermore, PPC has had to stop the operation of the S2 unit for remedial works since April 2021, given machine failure. PPC may not complete the repair works until early 3Q22, leading to the continued decrease in PPC's 2022 output. On the other hand, PPC may also need to upgrade the exhaust gas purification system to meet emission standards, leading to rising investment and maintenance costs, affecting profits in the coming period.

In addition, the geopolitical tensions between Russia and Ukraine since the end of February 2022 have affected the primary input material prices for the energy industry, namely crude oil and coal prices. Currently, the world coal prices have increased substantially for the post-pandemic recovery of the economy worldwide, leading to the coal shortage in Vietnamese power plants amid domestic coal supply shortages. As imported coal is mixed with coal bran, the two major domestic coal suppliers, Vietnam National Coal and Mineral Industries Group (TKV) and Dong Bac Corporation, may raise coal prices according to high world coal prices. As a result, it will negatively impact coal power plants in the competitive electricity generation market (CGM).

We take a conservative stance on the prospect of coal power as Vietnam has committed to the net zero emission target by 2050 under COP26. Meanwhile, the National Power Development Plan VIII has proposed a total coal power capacity of only about 36 GW by 2030, about 21 GW lower than the level under the National Power Development Plan VII, to protect the environment. Also, thermal power plants must comply with more stringent environmental regulations, which may be a challenge for plants operating for a long duration and with outdated equipment such as PPC.

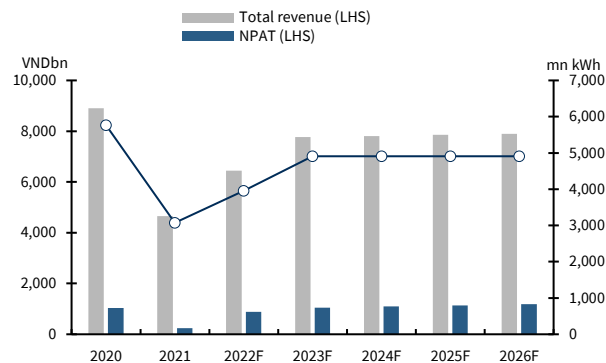
As a result, we estimate earnings of PPC and NBP in 2022 to reach VND888.7 billion (+266% YoY) on total revenue of VND6,514 billion (+38.3% YoY) after rebounding from the 2021 low since PPC had to carry out maintenance overhauls. However, it remains low compared to 2020, considering the stable operation of PPC. We believe it will take time for PPC's revenue and profit to recover in 2023 following the repairs.

Fig 9. World – Coal prices (USD/ton)



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

Fig 10. REE – Forecast business results of thermal power



Source: Refrigeration Electrical Engineering, KB Securities Vietnam

### The water segment has made steady contribution to REE's business results

REE currently owns a portfolio of nine companies with one subsidiary and eight associated companies, mainly water treatment companies in Ho Chi Minh City. In the second quarter of 2021, REE acquired and consolidated TK Plus Co., Ltd, a company operating in consulting and construction of works related to water supply and drainage systems.

Table 5. REE – Water portfolio

Company	Ticker	Charter capital (VNDbn)	Ownership rate	Operating segment	Operating area	Capacity (m3)
<b>SUBSIDIARIES</b>						
TK Plus Co., Ltd		12.00	65.00%	Consulting, researching, investing in water supply and water treatment industry	Nationwide	
<b>ASSOCIATED COMPANY</b>						
B.O.O Thu Duc Water JSC		558.00	42.10%	Water production	HCMC	300,000
Saigon Clean Water Business Investment JSC	SWIC	150.00	40.00%	Water production	HCMC	300,000
Tan Hiep Water Investment JSC	THW	240.00	32.00%	Water production	HCMC	300,000
Song Da Clean Water Investment JSC	VCW	750.00	36.00%	Water production	Hanoi	300,000
Thu Duc Water Supply JSC	TDW	85.00	44.20%	Management and construction of water supply works	HCMC	
Khanh Hoa Water Supply and Sewerage JSC	KHW	260.00	44.00%	Water production	Khanh Hoa	120,000
Nha Be Water Supply JSC	NBW	109.00	44.20%	Management and construction of water supply works	HCMC	
Gia Dinh Water Supply JSC	GDW	95.00	20.10%	Management and construction of water supply works	HCMC	

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

The water segment has contributed steadily to REE's earnings thanks to the growing demand for clean water in major cities and provinces and rising water prices. According to Ho Chi Minh City's authority, the price of clean water may continue to advance by 4-5% from 2022 after partially exempting tap water costs for those in need and affected by the pandemic. We believe that, with the staggering rate of urbanization and the new foreign capital flow into Ho Chi Minh City, the water demand will increase for the production and daily needs of citizens and businesses, leading to rising prices of clean water. We assume the average water price will grow by 3%/year in big cities. As a result, REE can reinvest in the energy segment, the mainstay of future growth.

**Table 6. REE – Business results of the water segment**

	2021A	2022F	2023F	2024F	2025F	2026F
Output (mn m <sup>3</sup> )	676.6	682.2	689.2	696.4	703.8	711.3
Water supply	258.3	263.5	270.1	276.8	283.7	290.8
Water treatment	418.3	418.7	419.2	419.6	420.0	420.5
Revenue	4,602.0	4,799.0	5,019.3	5,250.3	5,492.7	5,746.9
Net profit contributing to REE	274.0	291.3	304.7	318.7	333.4	348.9

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

**REE shares represent up to 8.1% in ETF VFMVN Diamond's portfolio, which is a driving force for the upside of REE**

VFMVN Diamond ETF is under Dragon Capital with a pretty impressive rate of return, including stocks that have reached the foreign limit and received considerable attention from foreign investors. With the reclassification of the Vietnamese market from a frontier market to an emerging market in the coming time, new international capital will likely flow into potential markets like Vietnam, especially ETFs holding top stocks such as VFMVN Diamond. Therefore, we believe stocks with high proportions in the portfolio like REE will benefit from new capital flows into ETFs as those funds will buy more stocks while keeping the portfolio weight unchanged.

**Table 7. ETF VFMVN Diamond – Portfolio as of April 30, 2022**

Ticker	Outstanding shares	Value (VNDbn)	Portfolio weight (%)	Foreign ownership (%)
MWG	17,943,920	2,677	17.2	100.0
FPT	22,713,212	2,385	15.3	100.0
PNJ	18,866,128	2,058	13.1	100.0
<b>REE</b>	<b>15,329,430</b>	<b>1,263</b>	<b>8.1</b>	<b>100.0</b>
VPB	34,207,011	1,255	8.0	100.0
TCB	25,935,000	1,141	7.3	100.0
ACB	32,161,793	1,052	6.7	100.0
MBB	30,458,434	908	5.8	100.0
TPB	13,038,225	438	2.8	99.6
MSB	18,120,106	415	2.7	100.0

Source: Dragon Capital, KB Securities Vietnam

## Updated business performance

**In 2022, we forecast revenue and NPAT to grow strongly by 48.2% YoY and 41.3% YoY, respectively**

In 2022, we estimate REE's NPAT to reach VND3,018 billion (+41% YoY) on revenue of VND8,607 billion (+ 48% YoY), assuming that:

- The M&E segment will recover from the low base with revenue of VND3,705 billion (+104% YoY) and a net profit margin of 6.5%.
- The office leasing segment will rebound given the better control of the pandemic and that REE does not have to lower rental prices to support customers.
- VSH will successfully negotiate PPA price at about VND1,310/kWh for the Thuong Kon Tum hydropower plant in 2Q22; three wind power projects will operate all year round and 100 MWp of rooftop solar power will be put into use.

**In 2023, we forecast revenue and NPAT to increase by 20.1% YoY and 9.5% YoY, respectively**

In 2023, we estimate REE's NPAT to reach VND3,303 billion (+10% YoY) on revenue of VND10,333 billion (+20% YoY), assuming that:

- The M&E segment will record revenue to grow by 42.5% YoY with a newly signed backlog of over VND6,000 billion (+15% YoY) and a net profit margin flat YoY due to fierce competition.
- The office leasing segment may achieve revenue growth of 13% YoY thanks to the E.Town 6 office building launched in the middle of 3Q23 with the average rental price of USD27/m<sup>2</sup>/month.
- 100 MWp of solar power will be put into use.

## Valuation

**We recommend BUYING REE shares with a target price of VND111,600/share**

Based on the sum-of-the-parts (SOTP) valuation method, we recommend BUYING REE shares with a target price of VND111,600/share, equivalent to a 37.8% upside compared to the closing price on May 15, 2022. In particular, the valuation of the power segment is VND26,188 billion, the real estate segment is VND8,617 billion, the M&E segment is VND2,409 billion, and the hydropower segment is VND3,205 billion. We apply a conglomerate discount of 10% to reflect the potential risks of REE as a multi-industry group.

**REE valuation does not include expansion projects of hydropower plants and new wind power plants**

Our valuation for REE does not include new expansion projects of REE's subsidiaries and associated companies, namely Thac Ba 2 (18.9 MW), Vinh Son 2 & 3 (110 MW), and new wind power projects until further detailed information on investment plans and the new feed-in-tariff (FIT) regime for renewable energy projects.

Table 8. REE – Target price according to valuation methods

Valuation	Method	Projected NPV	Ownership rate	REE's value
Power				26,188
Hydropower	DCF	38,176	23-50%	15,769
Thermal power	DCF	8,029	24-30%	1,947
Solar power	DCF	2,828	99.99%	2,828
Wind power	DCF	6,131	50-100%	5,588
Power Distribution (DTV)	BV	56	66.29%	56
Office leasing & real estate				8,617
Existing projects	Capitalization Rate	7,865	100.00%	7,865
Etown 6	DCF	752	100.00%	752
M&E	P/E	2,409	100.00%	2,409
Water	P/E	3,205	20-44%	3,205
Other investment	BV	951		951
<b>Total enterprise value</b>				<b>41,370</b>
(-) Parent company's net debt at 31/03/2022				-2,913
<b>Total Equity value</b>				<b>38,457</b>
Conglomerate discount				10%
<b>Fair value</b>				<b>34,611</b>
Outstanding shares (million shares)				310.1
<b>Target price</b>				<b>111,600</b>
Current price (May 15, 2022)				81,000
<b>Upside</b>				<b>37.80%</b>

Source: KB Securities Vietnam

## REE – 2020A–2023E financials

Income Statement					Balance Sheet				
(VND billion)	2020A	2021A	2022F	2023F	(VND billion)	2020A	2021A	2022F	2023F
Net sales	5,640	5,810	6,607	10,333	CURRENT ASSETS	20,531	31,827	34,586	37,409
Cost of sales	-4,034	-3,500	-5,160	-6,570	Cash and cash equivalents	6,009	6,806	9,338	11,883
Gross Profit	1,606	2,310	3,447	3,763	Short-term investments	652	1,831	3,775	5,632
Financial income	222	466	334	322	Accounts receivable	1,329	914	960	1,008
Financial expenses	-475	-707	-791	-784	Inventories	3,082	2,987	2,594	2,973
of which: interest expenses	-416	-663	-791	-784	LONG-TERM ASSETS	808	800	1,159	1,404
Gain/(loss) from joint ventures (from 2015)	907	915	884	935	Long-term trade receivables	14,522	25,021	25,248	25,526
Selling expenses	-83	-85	-89	-93	Fixed assets	51	37	37	37
General and admin expenses	-284	-370	-407	-448	Investment properties	2,585	16,058	15,998	15,947
Operating profit/(loss)	1,893	2,529	3,378	3,855	Long-term incomplete assets	276	406	406	406
Other incomes	29	25	29	29	Long-term investments	1,773	1,570	1,656	1,746
Other expenses	7	12	15	15	TOTAL ASSETS	243	308	0	0
Net other income/(expenses)	22	13	14	14	LIABILITIES	8,318	15,469	15,174	15,411
Income from investments in other entities	0	0	0	0	Current liabilities	3,443	4,062	4,836	5,350
Net accounting profit/(loss) before tax	1,915	2,542	3,392	3,709	Trade accounts payable	633	660	778	889
Corporate income tax expenses	-210	-264	-373	-408	Advances from customers	791	822	1,008	981
Net profit/(loss) after tax	1,704	2,278	3,019	3,301	Short-term unrealized revenue	1,265	1,234	1,285	1,458
Minority interests	85	280	302	330	Short-term borrowings	4,874	11,407	10,338	10,061
Attributable to parent company	1,619	2,098	2,717	2,971	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	216	216	216
					Unrealized revenue	4,335	10,740	9,671	9,394
					Long-term borrowings	12,213	16,358	19,412	21,998
					OWNER'S EQUITY	3,101	3,101	3,566	3,566
					Paid-in capital	1,050	1,050	1,050	1,050
					Share premium	7,115	8,964	11,203	13,507
					Undistributed earnings	187	187	235	187
					Minority interests	760	3,056	3,358	3,688

Margin ratio				
	2020A	2021A	2022F	2023F
Gross profit margin	28.5%	39.8%	40.1%	36.4%
EBITDA margin	27.7%	47.3%	46.9%	41.6%
EBIT margin	22.0%	31.9%	34.3%	31.2%
Pre-tax profit margin	34.1%	41.3%	39.4%	35.9%
Operating profit margin	33.6%	43.5%	39.2%	35.8%
Net profit margin	30.4%	36.8%	35.1%	31.9%

Cash Flow Statement				
(VND billion)	2020A	2021A	2022F	2023F
Net profit/(loss) before tax	1,924	2,400	3,391	3,709
Depreciation and amortisation	322	893	1,085	1,077
Profit/loss from investing activities	-1,199	-1,199	-1,199	-1,199
Interest expense	422	673	803	796
Operating profit/(loss) before changes in Working Capital	1,627	2,767	4,080	4,383
(Increase)/decrease in receivables	-507	30	393	-379
(Increase)/decrease in inventories	186	78	-359	-245
Increase/(decrease) in payables	-116	-854	116	111
(Increase)/decrease in prepaid expenses	29	-99	29	29
Net cash inflows/(outflows) from operating activities	613	1,525	3,338	2,999
Purchases of fixed assets and other long term assets	-1,394	-3,912	-861	-1,033
Proceeds from disposal of fixed assets	3	1	0	0
Loans granted, purchases of debt instruments	-2,814	-904	-904	-904
Collection of loans, proceeds from sales of debts instruments	2,717	1,489	1,489	1,489
Investments in other entities	-103	-224	-778	-778
Proceeds from divestment in other entities	81	247	247	247
Dividends and interest received	683	1,291	775	465
Net cash inflows/(outflows) from investing activities	-827	-2,013	-19	-501
Proceeds from issue of shares	62	121	0	0
Payments for share returns and repurchases	-48	0	0	0
Proceeds from borrowings	1,921	3,972	-1,018	-106
Repayment of borrowings	-2,005	-2,340	0	0
Finance lease principal payments	0	0	0	0
Dividends paid	-604	-86	-357	-535
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-674	1,667	-1,375	-641
Net increase in cash and cash equivalents	-888	1,199	1,944	1,857
Cash and cash equivalents at the beginning of period	1,540	652	1,831	3,775
Cash and cash equivalents at the end of period	652	1,851	3,775	5,632

Key ratios				
Multiple				
P/E	8.1	12.1	11.9	11.7
P/E diluted	8.1	12.1	11.9	11.7
P/B	1.1	1.4	1.8	1.8
P/S	2.3	3.9	4.0	3.4
P/Tangible Book	1.1	1.4	1.8	1.6
P/Cash Flow	2.15	14.7	10.4	11.8
EV/EBITDA	12.1	13.0	11.2	10.1
EV/EBIT	15.2	19.2	15.3	13.5
Operating performance				
ROE	14.0%	13.1%	15.6%	15.0%
ROA	8.4%	6.7%	8.7%	8.8%
ROIC	7.0%	6.8%	10.5%	11.6%
Financial structure				
Cash Ratio	0.6	0.7	1.0	1.2
Quick Ratio	1.5	1.4	1.5	1.8
Current Ratio	1.8	1.7	1.9	2.2
LT Debt/Equity	0.4	0.7	0.5	0.4
LT Debt/Total Assets	0.2	0.3	0.3	0.3
Debt/Equity	0.1	0.1	0.1	0.1
Debt/Total Assets	0.1	0.0	0.0	0.0
ST Liabilities/Equity	0.3	0.2	0.2	0.2
ST Liabilities/Total Assets	0.2	0.1	0.1	0.1
Total Liabilities/Equity	0.7	0.9	0.8	0.7
Total Liabilities/Total Assets	0.4	0.5	0.4	0.4
Activity ratios				
Account Receivable Turnover	2.2	1.9	3.1	3.7
Inventory Turnover	4.5	4.4	4.5	4.7
Account Payable Turnover	9.7	9.0	12.0	12.4

Source: Refrigeration Electrical Engineering, KB Securities Vietnam

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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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