

REE Corp (REE)

Maintaining stable operation

June 9, 2023

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REE's 1Q23 revenue and profit grew positively

Refrigeration Electrical Engineering Corporation's (REE) 1Q23 NPAT reached VND1,054 billion (+10% YoY) on revenue of VND2,371 billion (+16% YoY), underpinned by the power segment. REE's hydropower plants all posted better-than-expected results, and renewable energy remained stable.

REE aims to expand its power generation portfolio

The recently approved Power Master Plan 8 (PMP8) focuses on developing onshore and offshore wind power. Taking advantage of stable cash flow from operating activities, REE aims to expand its renewable energy portfolio in the coming years. At the 2022 AGM, the company plans to add 100 MW to its power generation portfolio by 2023 (excluding solar power).

The real estate and office leasing segment is expecting growth from E-town 6

Regarding the office leasing segment, REE is completing the construction and furniture for the E-town 6 project, which should be available for lease from the end of 2023 with an occupancy rate of about 30% the average rent of USD27/m². Regarding the real estate segment, REE plans to sell 45 low-rise products in Bo Xuyen project, Thai Binh from 3Q for VND200 billion in PBT.

BUY recommendation with a target price of VND72,700/share

Based on SOTP, business outlook and possible risks, we recommend BUY for REE stock. The target price is VND72,700/share, 17.6% higher than the price on June 9, 2023.

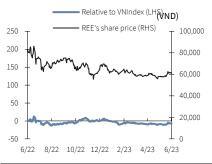
Buy maintain

Target price	VND72,700
Upside	17.6%
Current price (Jun 9, 2023)	63,100
Consensus target price	68,000
Market cap (VNDbn)	25,053

Trading data	
Free float	42.7%
3M avg trading value (VNDbn)	31.7
Foreign ownership	49.0%
Major shareholder	Platinum Victory
	PTE LTD (31.05%)

Share price performance					
1M	3M	6M	12N		
9	3	1	-24		
6	-3	-13	-7		
	1M 9	1M 3M 9 3	1M 3M 6M 9 3 1		

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	5,810	9,372	9,387	10,271
EBIT (VNDbn)	1,855	3,663	3,344	3,534
NPAT of the parent (VNDbn)	1,855	2,693	2,323	2,988
EPS (VND)	6,003	7,576	6,507	8,370
EPS growth (%)	14.3	26.2	-14.0	29.0
P/E (x)	12.1	10.6	11,2	8.7
EV/EBITDA (x)	13.0	8.7	8.8	8.2
P/B (x)	1.4	1.5	1.2	1.0
ROE (%)	13.1	18.3	13.7	13.1
Dividend yield (%)	0.4	2.0	2.1	2.3



Source: Bloomberg, KB Securities Vietnam

Business performance updates

REE's 1Q23 revenue and profit grew positively

1Q2023 revenue reached 2,371.56 billion (+16% YoY) and profit after tax reached 1,054.78 billion VND (+10% YoY), mainly thanks to the contribution of energy segment. REE's hydropower plants in 1Q20223 showed positive results that exceeded the plan, making up for the thermal power segment because the Pha Lai plant has not yet completed its troubleshooting. Renewable energy remains stable.

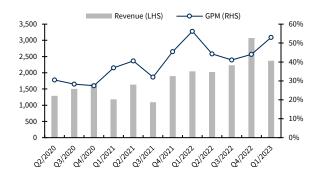
Table 1. REE - 1Q23 results

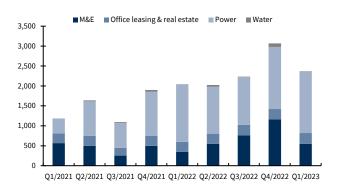
	1Q22	1Q23	+/-%YoY	KBSV's notes
Revenue (VNDbn)	2,045	2,371	16%	
M&E	349	549	57%	Realized projects record positive growth of revenue and profit vs th low bases in 2022.
Real Estate & Office for lease	251	269	7%	
Electricity and water	1445	1552	7%	Revenue from the energy segment grew from the highs in 1Q22 thanks to the better-than-expected results of hydropower plants, compensating for the subdued thermal power and renewable energy segments. REE's coal-fired power was lower than the same period last year due to the incident at Pha Lai 1 plant. Renewable energy maintained the overall growth rate.
				The business segment maintained stable output, distribution and business activities.
Cost of goods sold (VNDbn)	-895	-1,114	24.5%	
Gross profit (VNDbn)	1,150	1,254	9%	
Gross profit margin (%)	56%	53%		
SG&A (VNDbn)	-83	-102	22%	
SG&A to revenue ratio (%)	5%	5%		
Operating profit (VNDbn)	1,045	1,145	10%	
Financial income (VNDbn)	38	59	54%	
Financial expenses (VNDbn)	-218	-256	18%	
Profit from joint ventures (VNDbn)	178	209	18%	
Other incomes (net) (VNDbn)	1.64	7.58		
Profit before taxes (VNDbn)	1,047	1,152	10%	
Profit after taxes (VNDbn)	955	1,055	10%	

Source: REE Corp, KB Securities Vietnam

Fig 1. REE - 2022-2023 business results (VNDbn)

Fig 2. REE - Revenue structure (VNDbn)





Source: REE Corp, KB Securities Vietnam

Source: REE Corp, KB Securities Vietnam

Power segment: REE aims to expand its power generation portfolio

The recently approved PMP8 focuses on developing onshore and offshore wind power. Taking advantage of stable cash flow from operating activities, REE aims to expand its renewable energy portfolio in the coming years. At the 2022 AGM, the company plans to add 100 MW to its power generation portfolio by 2023 (focusing on hydropower) in line with the PMP8. With many years of experience in investment and the favorable Government policies, REE has many opportunities to develop and conduct M&As. The investment in energy will require a large capital, but in the long term, once the projects are operational, they will bring stable cash flow, thereby strengthening REE's inherent advantages and creating a premise for the company to continue to expand its operations in the future.

For solar power, REE will suspend investment in rooftop solar power due to its own policies. Besides, the corporation is applying for investment approval of projects obtaining solar power at hydropower plants, which helps to increase capacity and save land area. For wind power, the price mechanism from transitional projects is not attractive, so REE should need a more favorable mechanism to invest in new projects.

The real estate and office leasing segment: REE is expecting growth from E-town 6

Regarding the office leasing segment, REE is completing the construction and furniture for the E-town 6 project, which should be available for lease from the end of 2023 with an occupancy rate of about 30%. With the average rent of USD27/m², E-town 6 should be profitable from 4Q23. Assuming a stable occupancy rate of about 90% in the following years, E-town 6 can contribute VND300–320 billion in annual revenue of REE.

Regarding the real estate segment, REE plans to sell 45 low-rise products in Bo Xuyen project, Thai Binh from 3Q, which should bring in VND800-900 billion in revenue and VND200 billion in PBT. However, we still maintain a cautious view on the current real estate market context, so we will not include this project in our valuation model until more information is available.

Forecast & valuation

Table 2. REE - 2023F results

	2022	2023	+/-%YoY	KBSV's notes
Revenue (VNDbn)	9,372	9,387	0%	
M&E	2,816	3,297	17%	Realized revenue in 2023 will mainly come from new contracts signed in 2022. Many projects will be recognized as revenue in 2023.
Real Estate & Office for lease	1,037	1,076	4%	Office rent should gain 3%, Etown-6 is forecasted to contribute to REE's revenue from 4Q23,
Electricity and water	5,519	5,013	-9%	Hydropower output may decrease due to the end of La Nina. Electricity generation price for hydropower is assumed to grow steadily at 2% per year due to price slippage from 2024. Wind power and rooftop solar power may grow stably. However, the growth rate of rooftop solar power capacity has been slowed down due to the influence on the electricity price calculation mechanism. PPC's S6 unit is expected to return to operation from September 2023.
Gross profit (VNDbn)	4,330	4,012	-7%	
Gross profit margin (%)	46%	43%	-7%	Gross profit margin may be affected as hydropower plants, the main contributor to REE's business results, no longer have favorable conditions as in 2022.
SG&A (VNDbn)	-667	-668		
SG&A to revenue ratio (%)	7.12%	7.12%		
Operating profit (VNDbn)	3,682	3,456	-6%	
Financial income (VNDbn)	187	218	17%	
Financial expenses (VNDbn)	-942	-790	-16%	
Profit from joint ventures (VNDbn)	774	684	-12%	
Other incomes (net) (VNDbn)	-107	-107		
Profit before taxes (VNDbn)	3,575	3,349	-6%	
Profit after taxes (VNDbn)	3,515	3,033	-14%	

Source: REE Corp, KB Securities Vietnam

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Valuation: BUY recommendation with the target price of VND72,700

We used SOTP to price REE shares and recommend BUY with a target price of VND72,700/share, equivalent to and upside 17.6% compared to the closing price on June 9,2023. We apply a 10% discount rate to reflect the typical risks of REE as a multi-industry group operating in many different segments. The discounted stock price partly reflects the market's prospects and expectations about the difficulties REE will face in the near future. Each stock price correction will be a suitable opportunity for investing and holding REE for long-term optimistic outlook with new projects in the future.

Our valuation model does not include new expansion projects of REE subsidiaries, affiliates, and new wind power projects as detailed information is not available.

Table 3, REE - Final valuation for 2023

Valuation	Method	Projected NPV	Ownership rate	REE's value
Power				21,806
Hydropower	DCF	33,906	23-50%	13,911
Thermal power	DCF	5,162	24-30%	1,380
Solar power	DCF	1,610	99.99%	1,610
Wind power	DCF	5,303	50-100%	4,849
Power Distribution (DTV)	BV	56	66.29%	56
Office leasing & real estate				8,316
Existing projects	Return on Investment	7,596	100%	7,596
Etown 6	DCF	720	100%	720
M&E	P/E	1,649	100%	1,649
Water	P/E	3,390	20-44%	3,390
Other investment	BV	1,264		1,264
Total enterprise value				36,425
(-) Parent company's net debt				-3,369
Total Equity value				33,056
Conglomerate discount				10%
Fair value				29,750
No. of outstanding shares (million shares)				409
Target price				72,700
Current price (June 09, 2023)				61,900
Upside				17.6%

Source: REE Corp, KB Securities Vietnam

REE - 2020A-2023F financials

Income Statement (VND billion)	2021	2022	2023F	2024F	Balance Sheet (VND billion)	2021	2022	2023F	20
Net sales	5,810	9,372	9,387	10,271	CURRENT ASSETS	31,827	33,914	35,470	37
Cost of sales	-3,500	-5,042	-5,375	-6,006	Cash and cash equivalents	6,806	8,573	10,016	11
Gross Profit	2,310	4,330	4,012	4,265	Short-term investments	1,831	1,151	1,855	2
Financial income	466	187	218	280	Accounts receivable	914	1,749	1,836	1
Financial expenses	-707	-942	-790	-706	Inventories	2,987	4,013	3,446	3
of which: interest expenses	-663	-883	-790	-706	LONG-TERM ASSETS	800	1,409	1,178	1
Gain/(loss) from joint ventures (from 2015)	915	774	684	664	Long-term trade receivables	25,021	25,341	25,454	26
Selling expenses	-85	-89	-89	-97	Fixed assets	37	33	33	
General and admin expenses	-370	-578	-579	-634	Investment properties	16,058	15,842	15,397	15
Operating profit/(loss)	2,529	3,682	3,456	3,772	Long-term incomplete assets	406	549	549	
Other incomes	25	44	44	44	Long-term investments	1,570	1,457	1,546	1
Other expenses	12	151	151	151	TOTAL ASSETS	308	583	0	
Net other income/(expenses)	13	-107	-107	-107	LIABILITIES	15,469	14,711	13,342	12
ncome from investments in other entities	0	0	0	1	Current liabilities	4,062	4,086	4,129	4
Net accounting profit/(loss) before tax	2,542	3,575	3,349	3,665	Trade accounts payable	660	650	905	1
Corporate income tax expenses	-264	-363	-315	-345	Advances from customers	822	810	948	
Net profit/(loss) after tax	2,135	3,515	3,033	3,320	Short-term unrealized revenue	1,234	1,455	1,104	1
Minority interests	280	823	710	332	Short-term borrowings	11,407	10,625	9,213	8
Attributable to parent company	1,855	2,693	2,323	2,988	Long-term liabilities	0	0	0	
					Long-term trade payables	0	0	0	
Margin ratio					Long-term advances from customers	216	216	216	
	2021	2022	2023F	2024F	Unrealized revenue	10,740	9,946	8,534	
Gross profit margin	39.8%	46.2%	42.7%	41.5%	Long-term borrowings	16,358	19,204	22,128	2
EBITDA margin	47.3%	52.2%	46.2%	43.9%	OWNER'S EQUITY	3,101	3,564	3,566	
EBIT margin	31.9%	39.1%	35.6%	34.4%	Paid-in capital	1,050	1,050	1,050	
Pre-tax profit margin	41.3%	41.4%	35.7%	35.7%	Share premium	8,964	10,705	12,918	1
Operating profit margin	43.5%	39.3%	36.8%	36.7%	Undistributed earnings	187	187	187	
Net profit margin	36.8%	37.5%	32.3%	32.3%	Minority interests	3,056	3,697	4,407	
Cash Flow Statement (VND billion)	2021	2022	2023F	2024F	Key ratios (x, %, VND)				
Net profit/(loss) before tax	2,400	3,879	3,348	3,665	Multiple	12.1	10.6	11.2	
Depreciation and amortisation	893	1,225	992	975	P/E	12.1	10.6	11.2	
Profit/loss from investing activities	-989	-989	-989	-989	P/E diluted	1.4	1.5	1.2	
Interest expense	673	888	794	710	P/B	3.9	3.1	2.8	
Operating profit/(loss) before changes in Working Capital	2,767	5,003	4,145	4,361	P/S	1.4	1.5	1.2	
(Increase)/decrease in receivables	30	-771	567	-269	P/Tangible Book	14.7	18.2	6.1	
(Increase)/decrease in inventories	78	-623	231	-73	P/Cash Flow	13.0	8.7	8.8	
Increase/(decrease) in payables	-854	126	255	97	EV/EBITDA	19.2	11.6	11.4	
(Increase)/decrease in prepaid expenses	-99	0	0	0	EV/EBIT	12.1	10.6	11.2	
Net cash inflows/(outflows) from operating activities	1,525	1,569	4,274	3,397	Operating performance				
Purchases of fixed assets and other long term	-3,912	-738	-939	-822	c.Ferenia Ferrenia	13.1%	18.3%	13.7%	1
ssets					ROE				
Proceeds from disposal of fixed assets	1	27	0	0	ROA	6.7%	10.4%	8.6%	
Loans granted, purchases of debt nstruments	-904	-2,155	-2,155	-2,155	ROIC	6.8%	12.2%	10.9%	1
Collection of loans, proceeds from sales of debts instruments	1,489	2,114	2,114	2,114	Financial structure				
	-224	-738	-738	-738		0.7	0.7	0.9	
Investments in other entities Proceeds from divestment in other entities	-224 247	-138	-138	-136	Cash Ratio Quick Ratio	1.4	1.7	1.7	
Dividends and interest received	1,291	722	433	260	Quick Ratio Current Ratio	1.4	2.1	2.4	
Net cash inflows/(outflows) from investing					Current Natio				
activities	-2,013	-768	-1,272	-1,328	LT Debt/Equity	0.7	0.5	0.4	
Proceeds from issue of shares	121	1	0	0	LT Debt/Total Assets	0.3	0.3	0.2	
Payments for share returns and repurchases	0	0	0	0	Debt/Equity	0.1	0.1	0.0	
Proceeds from borrowings	3,972	1,827	-1,763	-1,015	Debt/Total Assets	0.0	0.0	0.0	
Repayment of borrowings	-2,340	-2,734	0	0	ST Liabilities/Equity	0.2	0.2	0.2	
Finance lease principal payments	0	0	0	0	ST Liabilities/Total Assets	0.1	0.1	0.1	
Dividende neid	-86	-574	-535	-589	Total Liabilities/Equity	0.9	0.8	0.6	
Dividends paid	0	0	0	0	Total Liabilities/Total Assets	0.5	0.4	0.4	
Interests, dividends, profits received	-								
Interests, dividends, profits received Net cash inflows/(outflows) from financing	1,667	-1,481	-2,298	-1,604	Activity ratios				
Interests, dividends, profits received Net cash inflows/(outflows) from financing activities		-1,481 -680	-2,298 704	-1,604 465	Activity ratios Account Receivable Turnover	1.9	2.7	2.5	
Interests, dividends, profits received Net cash inflows/(outflows) from financing activities Net increase in cash and cash equivalents Cash and cash equivalents at the beginning of	1,667				Account Receivable Turnover	1.9 4.4	2.7 4.6	2.5 4.6	
·	1,667 1,179	-680	704	465	•				

Source: REE Corp, KB Securities Vietnam

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Investment ratings & definitions

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	Undernerform the market

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