

REE Corporation (REE)

All business lines posting improvement

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2Q revenue was flat while profit went down 34.6% YoY

In 2Q24, REE Corporation (REE) posted VND402.9 billion (-34.6% YoY) in NPAT on revenue of VND2,182 billion (+0.3% YoY), mainly driven by the energy segment. Profit and revenue of this segment recorded negative results, reaching VND1,006 billion and VND117 billion (-10.09% YoY and -45.6% YoY) due to a sharp decline in hydropower output. Profit from affiliates also recorded a decrease of 37% YoY due to a decrease in the hydropower and water portfolio.

Thermal power and renewable energy offset the decline in hydropower revenue

In 1H24, REE's electricity output grew 14% YoY thanks to higher contribution from the coal-fired power and renewable power. Thermal power output surged 82.3% YoY, increasing its contribution to 54% (vs 34% in 1H23). Meanwhile, the contribution of hydropower decreased to 39% of total output, and renewable power maintained a stable output of 353 million kWh, inching up 1.1% YoY.

Real estate and office leasing is Expected to record revenue from the 1st phase of Light Square project in 2024

In 2Q, the real estate segment started to bring in VND68 billion in revenue thanks to the sale of apartments at The Light Square project after promoting the sales strategy via discounts. The project's profit was about VND 15 billion, equivalent to a net profit margin of 22%. The leasing segment recorded a slight decrease in occupancy rate due to the operation of the new E.Town 6 project.

Valuation: BUY rating – Price target VND77,600

Based on SOTP, business prospects and potential risks, we gave a BUY rating to REE shares with a price target of VND77,600/share, 19.6% higher than the price on September 17, 2024.

Buy maintain

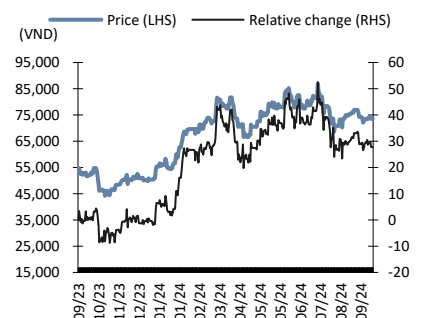
Target price	VND77,600
Upside	19.6%
Current price (Sep 17, 2024)	VND64,900
Consensus target price	VND72,100
Market cap (VNDtn/USDbn)	30.9/1.3

Trading data	
Free float	25.7%
3M avg trading value (VNDbn/USDmn)	68.8/2.7
Foreign ownership	49.0%
Major shareholder	Platinum Victory (34.93%)

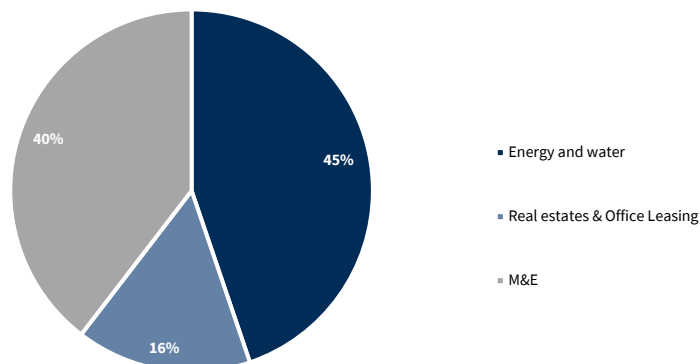
Share price performance				
(%)	1M	3M	6M	12M
Absolute	-6.0	6.8	18.1	19.9
Relative	-6.0	9.0	19.0	17.9

Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	9,372	8,570	9,272	8,982
Operating income/loss (VNDbn)	3,663	2,954	3,030	3,145
NPAT-MI (VNDbn)	2,693	2,188	2,398	2,465
EPS (VND)	7,576	5,354	5,852	6,016
EPS growth (%)	26.2	-29.3	9.0	3.0
P/E (x)	10.2	14.5	13.3	12.9
P/B (x)	1.5	1.5	1.4	1.2
ROE (%)	18.3	13.4	13.0	12.0
Dividend yield (%)	2.1	2.8	3.1	3.8



Revenue composition (2023)



Source: REE Corporation, KB Securities Vietnam

Business operation

REE Refrigeration Electrical Engineering Corporation (REE) has three main business segments: power (1,050 MW and accounting for nearly 50% of revenue), mechanical and electrical engineering (M&E), and office leasing. REE also has subsidiaries in the water and real estate business. It currently owns 182,000 m² of office area for lease.

Investment Catalysts

Hydropower has positively contributed to the business results since 2H24. We forecast that the hydropower segment's output in 2H24 will reach 3,408 million kWh (+ 0% YoY/+73.61% vs 1H24). In addition, 2025 output and revenue will surge compared to 2024, reaching 6,537 million kWh and VND3,097 billion (+21.70% YoY/+20.83% YoY), respectively.

E.Town 6 will soon overcome the gloomy trading market and improve its occupancy rate. KBSV believes that the launching is a quarter behind schedule, affecting the expected occupancy rate of the project (only 20%). In the coming years, the competitive rent advantage in the segment will help it rapidly increase its occupancy rate to 60% and 85% for 2025 and 2026.

The M&E segment records a positive revenue from the key project. REE's newly signed backlog in 2024 for the M&E segment is estimated at VND1,104 billion and bring in VND2,306 billion in revenue. M&E growth is expected to recover at 21% in 2025–2028.

Notes

Please find more details [here](#)

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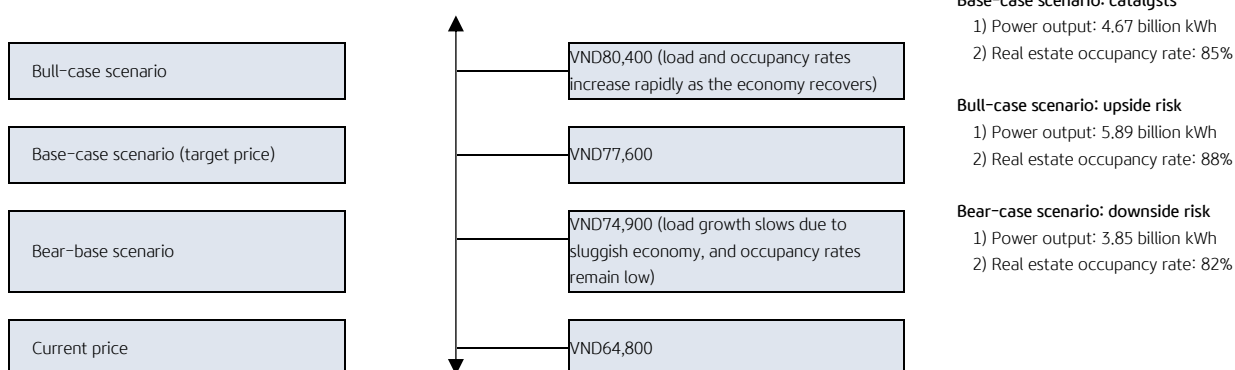
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Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	9,272	8,982	5%	9%	8,414	8,954	10%	0%
EBIT	3,030	3,145	1%	7%	3,058	3,579	-1%	-12%
NP after MI	2,398	2,465	1%	5%	3,246	3,767	-26%	-35%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q revenue was flat while profit went down 34.6% YoY

In 2Q24, REE posted VND402.9 billion (-34.6% YoY) in NPAT on revenue of VND2,182 billion (+0.3% YoY). Of that, the power segment with the hydropower accounting for the highest proportion in the total power generation capacity faced general difficulties of the industry, recording VND521 billion in revenue (-30% YoY), equal to 73.27% of the total 2Q revenue of the corporation.

Power segment: Total power production grew thanks to increased mobilization of thermal power

Total commercial electricity output in 2Q of REE reached 2,586 million kWh (+19.06% YoY/5.51% QoQ). In 1H24, although hydropower recorded a slight recovery QoQ thanks to improved output from northern reservoirs, it was still lower than 1H23 due to low water reserves in the Central and Central highlands regions. Thermal power posted a 72% YoY increase in output, increasing its contribution to 54%, higher than the 34% in the same period last year.

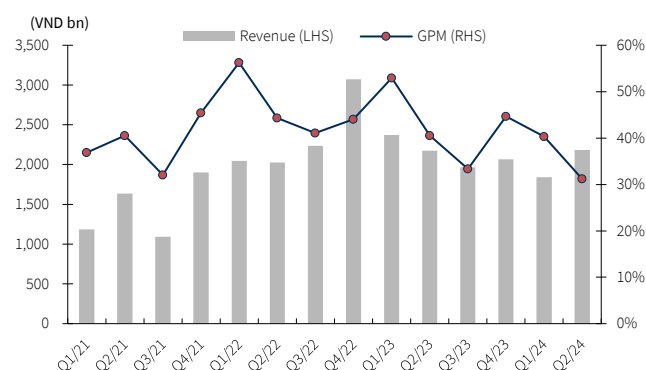
Table 1. REE – 2Q24 updated results

(VNDbn, %)	2Q23	2Q24	+/-%YoY	Notes
Revenue	2,176	2,183	0.32%	Consolidated revenue of the energy segment fell 25% YoY to VND711 billion mainly due to lower hydropower output compared to the same period last year while this is the group with the highest proportion in the revenue structure of the energy segment.
Energy	946	711	-25%	
Hydropower	746	521	-30%	
Solar power	130	112	-14%	
Wind power	70	78	11%	
M&E	767	933	22%	REE implemented a large contract package at the Long Thanh International Airport construction project. The backlog at the end of 2Q was valued at VND3,214 billion. Air conditioner sales recorded a 53.9% increase in revenue as the company boosted sales during the hot season.
Office leasing	269	263	-2%	
Real estate	0	68	n.a	The Light Square project was opened for sale in May and began handover in 2Q.
Water	20	7	-65%	The water segment recorded a 60.7% YoY decrease in revenue due to the recording time and fluctuations in projects at REE's subsidiary TK Cong.
Gross profit	880	680	-23%	The decrease was mainly due to lower revenue from the electricity segment, causing a decrease in gross profit after deducting depreciation expenses.
Gross profit margin	40%	31%	-9 ppts	
Financial income	58	89	53%	
Financial expenses	-255	-201	-21%	
Profit from affiliates	180	113	-37%	Profits mainly came from affiliated companies operating in the hydropower sector and being affected by unfavorable weather.
SG&A	-171	-210	23%	
Operating profit/loss	692	470	-32%	
Other income	-2	-1		
Profit before taxes	697	474	-32%	
Profit after taxes (NPAT)	623	403	-35%	
NP after MI	489	354	-28%	
NPAT margin	29%	18%	-11 ppts	
Output				
Power segment	2,172	2,586	19%	
Thermal power	838	1,446	73%	Thermal power output from the two coal-fired power plants PPC and NBP increased sharply after EVN raised coal power mobilization in 5M24.
Hydropower	1,191	1,009	-15%	Lower water levels in reservoirs in all three regions caused a decrease in water

				output through turbines. 2Q output recorded a recovery compared to 1Q thanks to improved water conditions in the North.
Solar power	82	80	-2%	
Wind power	61	51	-16%	Wind speeds in Tra Vinh and Binh Thuan areas both recorded improvements compared to the same period in 2023.
Office leasing				
Rental area	198,218	198,218	0%	
Occupancy rate	95%	92%	-3.4 ppts	

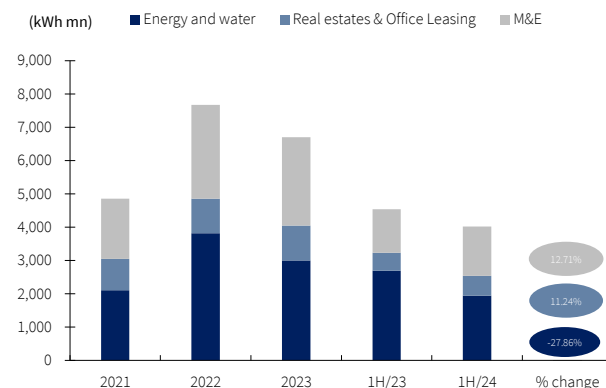
Source: REE Corporation, KB Securities Vietnam

Fig 2. REE – Revenue & GPM (VNDbn, %)



Source: REE Corporation, KB Securities Vietnam

Fig 3. REE – Revenue components (VNDbn)



Source: REE Corporation, KB Securities Vietnam

Office leasing segment: E.Town 6 with competitive selling price will overcome difficulties in the context of gloomy demand

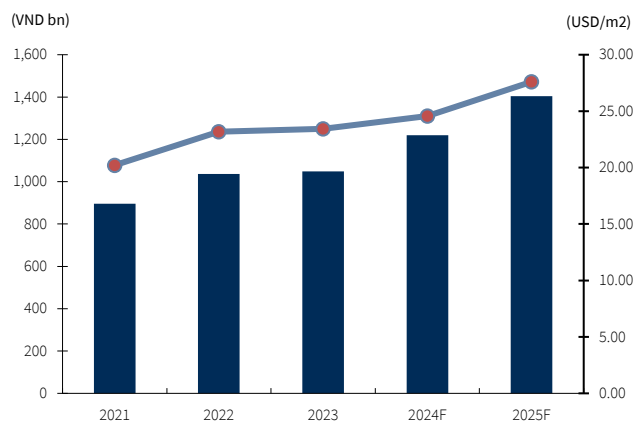
In the first six months of 2024, revenue and NPAT of the office leasing segment reached VND526 billion (-1.5% YoY) and VND271 billion (-0.2% YoY), respectively. The occupancy rates of office buildings for lease decreased slightly by 1.5% YoY after the new office building was put into operation, although the average rent recorded a modest gain compared to the market level, partly offsetting the impact on revenue. In 2024, KBSV believes that the E.Town 6 project will achieve an occupancy rate of 20% with a rental price of about USD27.54/m²/month, based on: (i) The trend of office expansion/upgrade will lead to demand for high-end and newly operated offices; (ii) the competitive advantage of E.Town 6 comes from the quality of offices that meet many green construction criteria, making it easy to attract FDI enterprises, while the average rent is only 60% thanks to its location (which is not the central area). Revenue and NPAT from office leasing in 2024 may hit VND1,219 billion (+14.24% YoY) and VND664.47 billion (+23.5% YoY). In the long term, we maintain the view that the recovery of the demand for leasing office will be vibrant again, thereby helping E.Town 6 achieve an occupancy rate of 60% and 85% in the next two years.

High-end real estate segment: The Light Square begins to record revenue

The Light Square townhouse project began selling and handing over apartments to customers in May 2024. In 2Q, the project recorded apartment handovers with a total value of VND68 billion and is expected to continue to record positive contributions to revenue in the second half of the year with: (i) Direct preferential sales policy with a 7% discount on apartment prices for buyers until September 2024, (ii) motivation from the group of customers who buy apartments to anticipate a large number of residents flocking to the area when

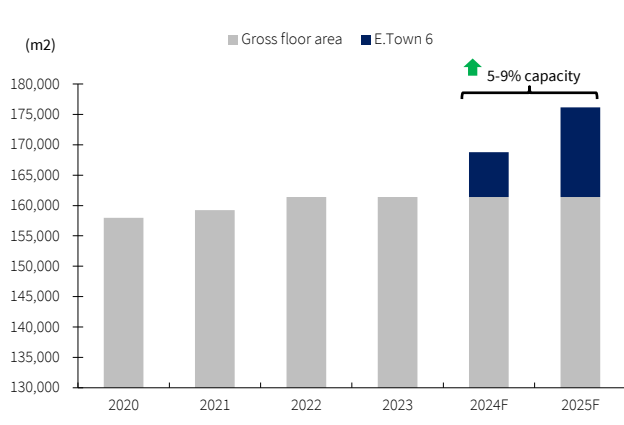
the GD2 apartment project is built. With an estimated average price of VND15 billion for townhouses with an area of 80–90m² and VND28 billion for villas with an area of 170m², we expect the total revenue of the first phase of the project to reach VND890 billion with a net profit of VND 312 billion and profit margin of 35%.

Fig 4. REE – 2024–2025F revenue & average rent of offices for lease (VNDbn)



Source: REE Corporation, KB Securities Vietnam

Fig 5. REE – Gross floor area after E.Town 6 going into operation (m²)



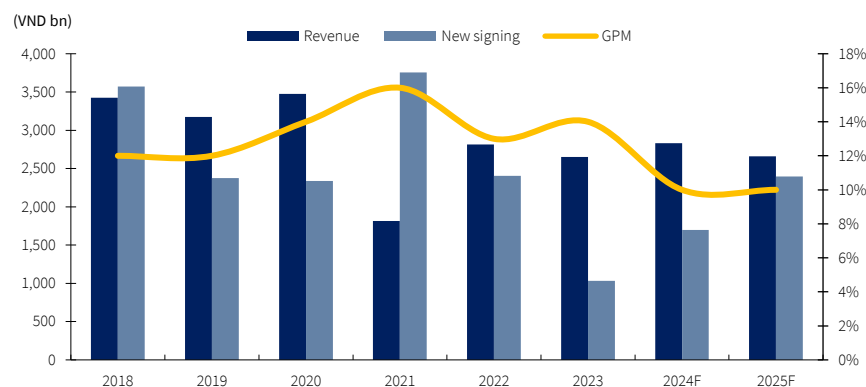
Source: REE Corporation, KB Securities Vietnam

M&E segment: Continued to record revenue from Long Thanh international airport project

2Q revenue from the M&E segment gained 21.64% YoY to VND933 billion thanks to the accelerated construction progress of Long Thanh airport, helping the cumulative backlog volume reach roughly VND3,127 billion (+19.66% YoY) and ensuring a source of work for the business. However, NPAT saw a small contraction to VND10 billion (-9.09% YoY), mainly due to the company having to make provisions for projects recording bad debts.

We forecast REE's new M&E backlog in 2024 to reach VND1,104 billion, which will help revenue reach VND2,306 billion vs the low base in 2023. For the 2025–2028 period, we believe the company will maintain a revenue CAGR of 21.5% in this segment thanks to the search for new projects in the real estate, hotel and public investment sectors.

Fig 6. REE – 2024–2025F revenue & newly signed backlog



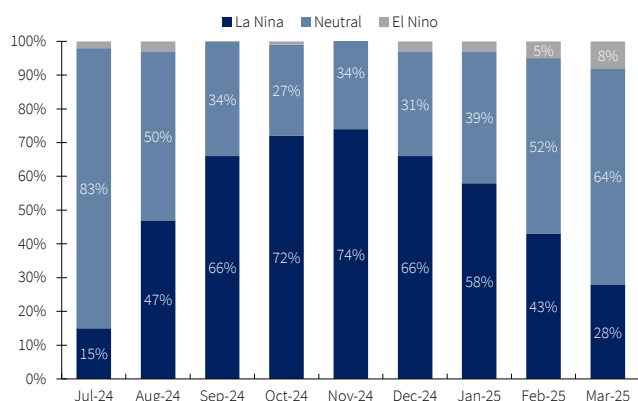
Source: WeatherSpark, KB Securities Vietnam

Hydropower enters recovery phase from 2Q thanks to favorable weather conditions

Observing the recovery in hydropower business results compared to the previous quarter in 2Q, we believe that the rainy season starting in the second half of the year, enhanced by La Nina, will facilitate the power generation output of hydropower plants, bringing about a big growth in business results compared to the first half of the year and equivalent to the same period in 2023. The National Centre for Hydro – Meteorological Forecasting of Vietnam forecasts that the shortage of water flowing into rivers in the Central and Central Highlands regions in 1H24 will end, and rainfall will concentrate at the end of the year with high intensity. In the three-month season from September to November 2024, the total rainfall is likely to be equal to or higher than the average in the North, Central Highlands, and South and higher than the average in the Central region. We forecast hydropower output in 2H24 may reach 3,408 million kWh (+0% YoY/+73.61% vs 1H24). The average electricity price in the end of the year is estimated to be lower than in the first half of the year and the same period in 2023 mainly due to the larger contribution of contracted output and the lower trend of market electricity prices compared to the same period. The output and adjusted revenue for the whole year of 2024 may drop to 2,995 million kWh and VND2,563 billion (-14.82% YoY and -14.62% YoY), respectively.

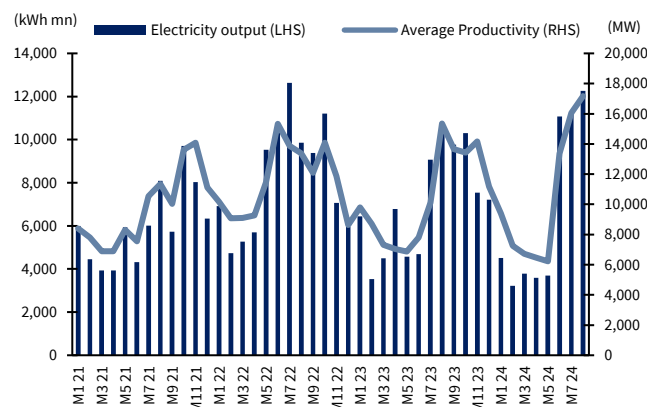
By 2025, hydropower will become REE's growth driver. We estimate that 2025 adjusted output and revenue may surge compared to 2024, reaching 3,897 million kWh and VND3,097 billion (+30.11% YoY/+20.83% YoY) respectively thanks to: (i) Improved rainfall from the beginning of the year amid La Nina, helping hydropower to be mobilized more, (ii) stable and sideways fuel prices for coal and gas power, (iii) electricity consumption growing at 9%-10% YoY. In the long term, REE's power generation capacity in the hydropower segment will be continuously consolidated. Tra Khuc 2 hydropower project is expected to add 30MW of capacity and be put into operation in 2028.

Fig 7. Global – Weather phase probability in 2024 (%)



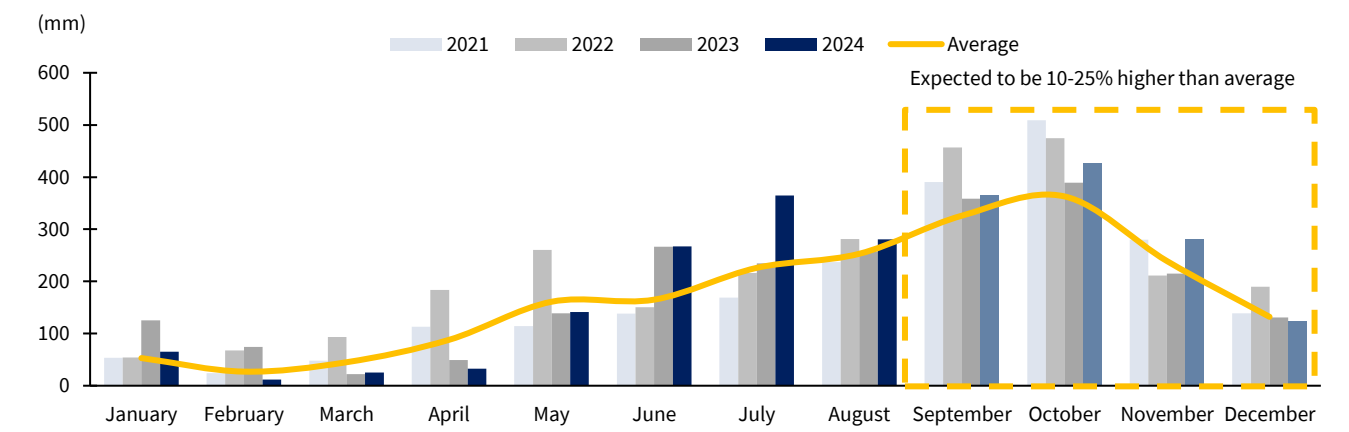
Source: IRI, KB Securities Vietnam

Fig 8. Vietnam – Total output and average capacity of hydropower as of August 24



Source: NLDC, KB Securities Vietnam

Fig 9. Vietnam – 2024F rainfall (mm)



Source: IMHEN, KB Securities Vietnam

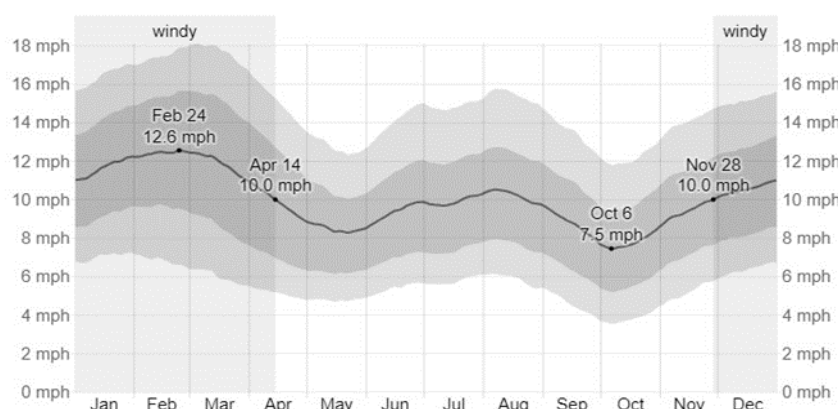
Renewable energy: Recorded positive improvements in business results

1H24 NPAT and revenue of the renewable energy segment surged 62.16% YoY and 5.13% YoY to VND181 billion and VND574 billion respectively, driven by 1Q output when wind speed and sunshine hours in the power plant area were higher than the same period in 2023. In 2Q, the ongoing low wind season from April to October affected the business results of this segment.

We believe that 2H24 will continue to be a favorable business period for REE's renewable energy segment thanks to: (i) stable projects with guaranteed wind speed in the area of REE's two wind power plants and (ii) low interest rates reducing borrowing costs for power plants. However, due to delays in implementing the National Power Development Plan 8 (NPDP8) and EVN's difficult financial situation, which hinders its ability to purchase new power sources at higher prices, the feasibility of building new renewable power plants after the transitional plants remains a question mark. This strongly affects the renewable energy capacity expansion plan until 2028 that REE has set out, so the renewable energy segment will maintain stable cash flow from operating projects and postpone the power generation capacity expansion plan to wait for more favorable changes in selling prices and additional planning. REE's additional capacity will mainly come from project acquisitions.

The windiest part of the year lasts for 4.6 months, from November 28 to April 14, with average wind speeds of over 16.1 km/h. The windiest month of the year in Tra Vinh is February, with average wind a speed of 20.0 km/h. The calmest part of the year lasts for 7.4 months, from April 14 to November 28. The calmest month of the year in Tra Vinh is October, with average wind speed of 12.6 km/h.

Fig 9. Vietnam – Wind speed in Tra Vinh



Source: WeatherSpark, KB Securities Vietnam

Coal-fired power: Power generation output improved positively in the short term

Currently, REE is contributing capital to own two coal-fired thermal power plants, Pha Lai Thermal Power Plant (PPC) and Ninh Binh Thermal Power Plant (NBP) with a total designed capacity of 1,140 MW. In 1H24, coal-fired power was mobilized, helping REE's thermal power output reach 2,700 million kWh (81.08% YoY). From 3Q, coal-fired power will compete directly with hydropower, which is entering a more favorable weather phase. The Pmax/total power generation capacity ratio of coal-fired thermal power dropped to 50%. KBSV forecasts that the output and net profit for the whole year would be 4,180 million kWh (+8.3% YoY) and VND96 billion (+11.62%).

Forecast & valuation

Table 2. REE – 2024–2025F business results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Assumptions
Revenue	8,570	9,272	8%	8,982	-3%	
Energy	4,170	3,624	-13%	4,152	15%	
Hydropower	3,072	2,563	-17%	3,097	21%	Hydropower revenue in 2024 is lower mainly due to lower output in the first half of the year and the second half will have output equivalent to the previous forecast. This comes from lower water levels in the reservoir than expected.
Solar power	256	254	-1%	276	9%	Solar power output will decrease due to the adjusted number of sunshine hours in 2024 when rain occurs frequently. From 2025, output will gradually improve thanks to the addition of 6MW capacity from the end of 2023 and 20MW in 2024.
Wind power	842	807	-4%	779	-3%	
M&E	2,653	2,833	7%	2,658	-6%	
Office leasing	1,067	1,163	9%	1,404	21%	Revenue will improve thanks to the operation of E.Town 6 building with an occupancy rate of 20%/60% in 2024/2025. Revenue from GD1 of Light Square project worth VND890 billion is expected to be recorded.
Real estate	-18	890	n.a	0	-100%	Revenue from associated companies will improve thanks to better returns to minority shareholders from hydropower and thermal power in the second half of the year.
Water	67	72	7%	76	6%	
Gross profit	3,710	3,804	3%	3,938	4%	
Gross profit margin	43%	41%	-2.00 ppts	44%	3.00 ppts	
Financial income	227	273	20%	217	-21%	
Financial expenses	-1,016	-969	-5%	-979	1%	
Profit from affiliates	877	960	9%	1,004	5%	
SG&A	-756	-774	2%	-793	2%	
Operating profit/loss	2,954	3,030	3%	3,145	4%	
Other income	-8	-8	0%	-8	0%	
Profit before taxes	3,056	3,330	9%	3,423	3%	
Profit after taxes (NPAT)	2,787	2,997	8%	3,081	3%	
NP after MI	2,188	2,398	10%	2,465	3%	
NPAT margin	33%	32%	-1.00 ppts	34%	2.00 ppts	

Source: REE Corporation, KB Securities Vietnam

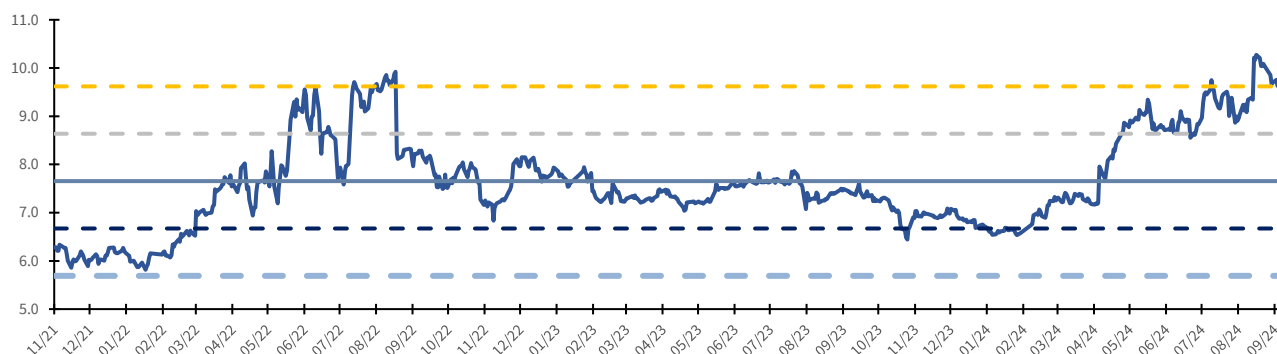
We used the SOTP to value REE shares and gave a BUY rating with a target price of VND77,600/share, equivalent to an upside of 19.6% compared to the closing price on September 17, 2024. We apply a 10% discount to reflect the risks of REE as a multi-industry corporation operating in many different sectors.

Table 3. REE – STOP results

Valuation	Method	Project NPV	Ownership	REE's value
Electricity				29,103
Hydro Power	DCF	34,360	23-50%	22,291
Thermal Power	DCF	4,225	24-30%	1,028
Solar Energy	DCF	796	99.99%	796
Wind Energy	DCF	4,932	50-100%	4,932
Electricity Distribution (DTV)	BV	56	66.29%	56
Real Estates & Office Leasing				9,646
Current project	Turnover rate	7,908	100%	7,908
E.Town 6	DCF	1,738	100%	1,738
M&E	P/E	1,757	100%	1,757
Water	P/E	3,699	20-44%	3,699
Others	BV	1,149		1,149
Enterprise Value				45,354
(-) Net debt				-6,588
(-) Minority interest				-3,452
Equity Value				35,314
Multi-industry group discount				10%
Reasonable Value				31,783
Number of outstanding shares (mn)				409.71
Stock value				77,600
Current price (September 13, 2024)				64,800
Upside				19.8%

Source: KB Securities Vietnam

Fig 10. REE – EV/EBITDA (x)



Source: Bloomberg, 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:	Neutral:	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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