

REE Corp (REE)

Facing short-term challenges

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Analyst Nguyen Dinh Thuan
thuannd@kbsec.com.vn

3Q23 revenue and profit decreased YoY

Refrigeration Electrical Engineering Corporation (REE) recorded VND465 billion in 3Q NPAT (-44.2% YoY) on revenue of VND1,962 billion (-12.2% YoY). The energy segment, accounting for a large proportion of the total revenue (55%), only reached VND895 billion (-25.1% YoY). This hit hard on 3Q overall performance of the corporation, while other business segments maintained stable operations.

Renewable energy offset the decline in hydroelectricity output

Hydropower output reached 4,083 million kWh (-14.16% YoY) in 3Q as the water reserve was low compared to the average of many years. We believe that this segment will continue to be under pressure when El Nino continues. We maintain the view that the business results of the power segment will recover thanks to (1) Pha Lai thermal power plant improving profits when operating again; (2) REE adding more capacity after investing in renewable energy projects; and (3) current renewable energy plants operating stably.

E town 6 should boost the revenue from the real estate segment in 2024

NPAT of the office leasing segment was flat at VND411 billion as a slight increase in rents during the period offset the decrease in occupancy rates. The progress of E-town 6 is slower than expected, so we changed the forecast REE recording revenue from E-town 6 to 2024 instead of 4Q23 as in the previous report. Bo Xuyen residential area project (Thai Binh) officially started construction and is expected to complete phase 1 by December 31.

BUY recommendation with target price of VND72,600/share

Based on SOTP valuation, business prospects and possible risks, we recommend BUY for REE shares with the target price at VND72,600 apiece.

Buy maintain

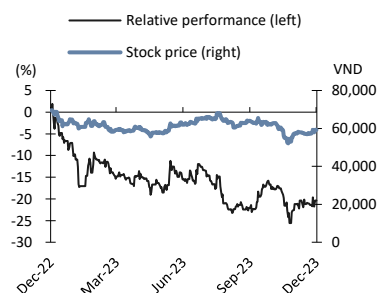
Target price	VND72,600
Upside	28%
Current price (Dec 15, 2023)	VND56,700
Consensus target price	VND70,900
Market cap (VNDbn/USDbn)	26,279/1.09

Trading data	
Free float	35.2%
3M avg trading value (VNDbn/USDmn)	61.47/2.5
Foreign ownership	49.0%
Major shareholder	Platinum Victory PTE LTD (31.05%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	3.1	-6.9	-4.4	-14.9
Relative	1.0	1.3	-5.8	-21.9

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	5,810	9,372	9,379	9,910
EBIT (VNDbn)	1,855	3,663	3,266	3,403
NPAT of the parent (VNDbn)	1,855	2,693	2,421	3,261
EPS (VND)	6,005	7,576	6,781	9,133
EPS growth (%)	14.3	26.2	-10.0	35.0
P/E (x)	12.1	10.6	10.7	8.0
EV/EBITDA (x)	13.0	8.7	8.7	8.0
P/B (x)	1.4	1.5	1.2	1.0
ROE (%)	13.1	18.3	14.2	14.0
Dividend yield (%)	0.4	2.0	2.1	2.3



Source: Bloomberg, KB Securities Vietnam

3Q23 business performance

3Q23 revenue and profit decreased YoY

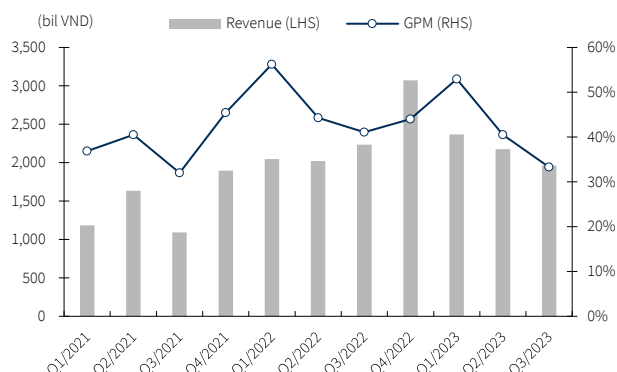
Refrigeration Electrical Engineering Corporation (REE) recorded VND465 billion in 3Q NPAT (-44.2% YoY) on revenue of VND1,962 billion (-12.2% YoY). The energy segment, accounting for a large proportion of the total revenue (55%), only reached VND895 billion (-25.1% YoY). This hit hard on 3Q overall performance of the corporation, while other business segments maintained stable operations.

Table 1. REE – 9M23 business performance

	9M22	9M23	+/-%YoY	KBSV's notes
Revenue (VNDbn)	6,301	6,505	3.2%	
<i>M&E</i>	1,657	2,081	26%	Revenue grew over the same period thanks to the company recording revenue from mechanical and electrical projects and solar power construction.
<i>Real estate & office leasing</i>	773	801	4%	Revenue from office leasing increased thanks to a modest gain in rents.
<i>Electricity and water</i>	3,871	3,623	-6%	Revenue from the power segment went down because hydropower output fell. However, revenue growth of solar power (+12% YoY) and wind power (+17% YoY) compensated for the decline in hydropower. CGM price decreased by 12% YoY in 3Q.
Gross profit (VNDbn)	2,963	2,788	-6%	
Gross profit margin (%)	47%	43%		
SG&A costs (VNDbn)	-338	-411	22%	
% SG&A/revenue (%)	5%	6%		
Operating income (VNDbn)	2,838	2,362	-17%	
Financial income (VNDbn)	142	165	16%	
Financial expenses (VNDbn)	-696	-788	13%	
Profit/loss from joint ventures (VNDbn)	765	607	-21%	
Other income (net, VNDbn)	-22	14	-164%	
Profit before taxes (VNDbn)	2,816	2,375	-16%	
Profit after taxes (VNDbn)	2,545	2,143	-16%	

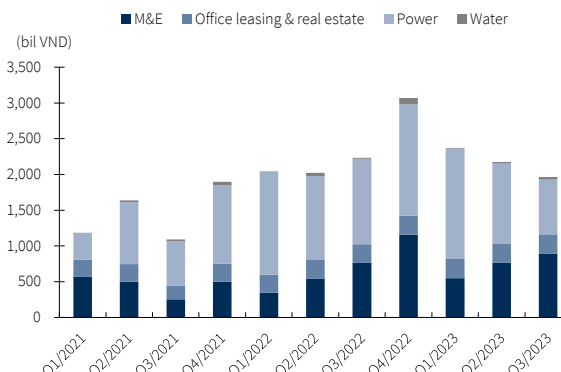
Source: REE Corp, KB Securities Vietnam

Fig 2. REE – Revenue & GPM in 2021–2023 (VNDbn, %)



Source: REE Corp, KB Securities Vietnam

Fig 3. REE – Revenue structure in 2021–2023



Source: REE Corp, KB Securities Vietnam

Renewable energy offset the decline in hydroelectricity

Hydropower output reached 4,083 million kWh (-14.16% YoY) in 3Q as the water reserve was much lower than the average of many years, leading to a decline in electricity output, especially plants in the Northern region. We believe that this segment will continue to be under pressure when El Nino continues in 2024.

Regarding the thermal power segment, output improved to 862 million kWh (+11.2% YoY) in 3Q thanks to unit S6 of Pha Lai thermal power plant operating again since the beginning of September. In addition, input material prices were stable compared to 3Q22.

Renewable energy during the period maintained stable operation. Wind power output in 9M23 reached 273 million kWh (+14.1% YoY) thanks to improved wind speed. Solar power recorded 227 million kWh (+9% YoY) as rooftop solar power (REE SE) and Thac Mo solar power recorded output increases of 13% and 15% YoY, respectively.

We maintain the view that the business results of the power segment will recover thanks to (1) Pha Lai thermal power plant improving profits when operating again; (2) REE adding more capacity after investing in renewable energy projects; and (3) current renewable energy plants operating stably.

E town 6 should boost the revenue from the real estate segment in 2024

NPAT of the office leasing segment was flat at VND411 billion as a slight increase in rents during the period offset the decrease in occupancy rates. The occupancy rate of the office leasing reached an average of 96% in 9M23, which is lower than 98% recorded in 9M22.

We believe that there is still room for the office leasing segment to grow as businesses tend to move from the high-end offices to the lower segment. However, the progress of E-town 6 is slower than expected. The construction of the 15th floor has been completed, and floors B5 to 12 are under construction. It is expected that the topping out would be held at the end of October 2023, and the project can reach the maximum occupancy rate in January 2024. Therefore, we changed the forecast REE recording revenue from E-town 6 to 2024 instead of 4Q23 as in the previous report.

Regarding real estate segment, Bo Xuyen residential area project (Thai Binh) – phase 1 officially started construction (shared parking garage, infrastructure and 45 low-rise houses) in early July 2023. It is expected that by December 31, the construction of phase 1 will be finished. However, we still maintain a cautious view about the current real estate market, so we have not included this project in the pricing model until further information.

Forecast & valuation

Table 4. REE – 2023–2024F results

	2022	2023	+/--%YoY	2024	+/--%YoY	KBSV's notes
Revenue (VNDbn)	9,372	9,379	0%	9,910	6%	
<i>M&E</i>	2,816	3,297	17%	3,578	9%	<ul style="list-style-type: none"> - Revenue growth in 2023 will mainly be recorded from newly signed projects in 2022. - We expect the recovery of the construction sector will help the M&E grow slightly in 2024.
<i>Real estate & office leasing</i>	1,037	1,139	10%	1,453	28%	<ul style="list-style-type: none"> - E-town 6 is expected to strongly boost the revenue of the office leasing segment. It is assumed that the average rent of E-town is USD29/m2/month. - The revenue from the real estate project in Thai Binh should be recorded in 2024.
<i>Electricity and water</i>	5,519	4,942	-10%	4,879	-1%	<ul style="list-style-type: none"> - Hydropower may continue to face difficulties as El Nino continues in 2024 and hits the production of this group. - We expect the thermal power segment to rebound in 2024 thanks to the completed repairs of Pha Lai Thermal Power Plant and stable input costs. - We assume REE will add capacity from wind power and rooftop solar power in 2024. Current renewable energy plants operate stably.
Gross profit (VNDbn)	4,330	3,982	-8%	4,160	4%	
Gross profit margin (%)	46%	42%		42%		
SG&A costs (VNDbn)	667	716	7%	757	6%	
% SG&A/revenue (%)	7%	8%		8%		
Operating income (VNDbn)	3,985	3,489	-12%	3,999	15%	
Financial income (VNDbn)	466	187	-60%	218	17%	
Financial expenses (VNDbn)	-942	-953	1%	-757	-21%	
Profit/loss from joint ventures (VNDbn)	1,077	958	-11%	933	-3%	
Other income (net, VNDbn)	44	0		0		
Profit before taxes (VNDbn)	3,878	3,489	-10%	3,999	15%	
Profit after taxes (VNDbn)	3,515	3,161	-10%	3,623	15%	

Source: REE Corp, KB Securities Vietnam

**Valuation: BUY recommendation
with target price of
VND72,600/share**

We use the SOTP to give a BUY recommendation for REE stock with a target price of VND72,600/share, equivalent to an upside of 28% compared to the closing price on December 15, 2023.

- Power segment: We use DCF method because we think it is suitable for the ability of power projects to generate cash flow. However, the electricity distribution segment accounts for a small proportion, so we evaluate it with book value. Our model does not include new expansion projects of subsidiaries and member companies and new wind power projects of REE due to the lack of detailed information.
- Office leasing segment: For current projects, we use the 8.5% return rate method and assume an occupancy rate of about 98%. For the E-town 6 project, we use DCF method.
- M&E and water: We apply the P/E valuation to these two segments, based on the four-year average P/E of similar companies in each industry.

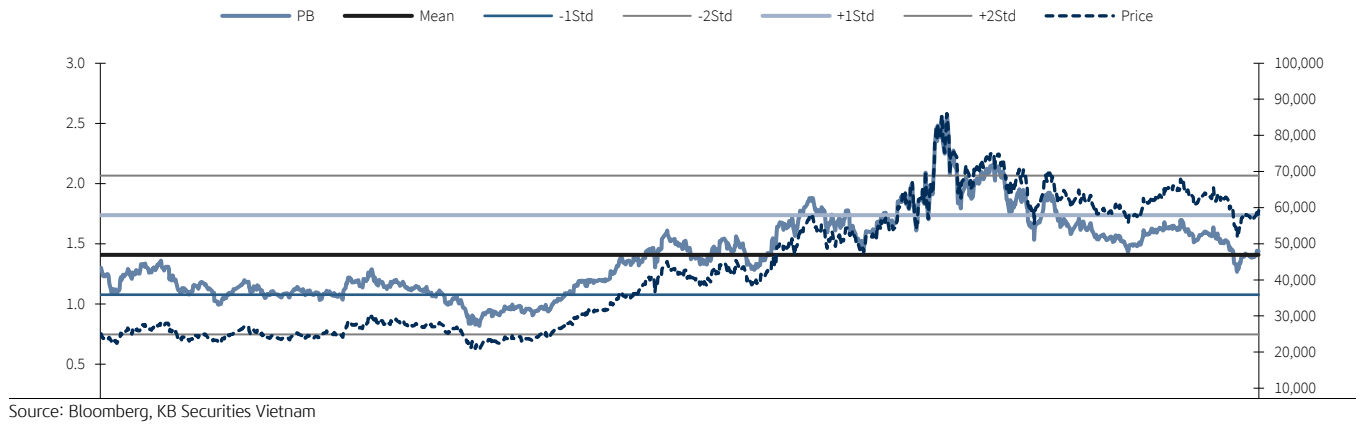
In addition, we apply a 10% discount to reflect the specific risks of REE being a multi-industry corporation.

Table 5. REE – Final valuation

Pricing	Method	Project NPV	Ownership	Value of REE
Power				23,322
Hydropower	DCF	36,660	23-50%	15,399
Thermal	DCF	5,141	24-30%	1,301
Solar power	DCF	1,714	99,99%	1,714
Wind electricity	DCF	5,270	50-100%	4,784
Power distribution (DTV)	BV	124	66,29%	124
Office leasing				8,642
Current projects	Return	7,908	100%	7,908
Etown 6	DCF	734	100%	734
M&E	P/E	979	100%	979
Water	P/E	3,390	20-44%	3,390
Total value				36,647
Owner equity				32,998
Multi-industry group discount				10%
Reasonable value				29,698
Number of outstanding shares (million shares)				409
Stock value				72,600
Current price (December 15, 2023)				56,700
Upside				28%

Source: KB Securities Vietnam

Fig 6. REE - P/B in 2018-2023 (x)



Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

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	Underperform the market

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