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Better environmental conditions for the power generation assets in 2H

Operating efficiency to improve for all of REE's power generation assets in 2H, with better results expected from the Vinh Son-Song Hinh (VSH), Central Hydro Power (CHP) and Pha Lai Thermal Power (PPC) plants, as well as the two newly-acquired plants (Muong Hum Hydro Power and Thuan Binh Wind Power plants). For 2020E, management expects 11% earnings growth for utilities infrastructure and the earnings contribution from the Song Da Water subsidiary to more than double.

Full-year contribution of the Etown 5 project to support the property management segment

With average occupancy increasing to 98% by the end of 2019, the full-year contribution in 2020E vs only one quarter in 2019 should support results in the property management segment. Management remains confident that legal approvals for Etown 6 will be completed as scheduled this year to allow the project to launch in 2023E and add another 33,000 sqm of office space to the portfolio.

Mechanical & electrical (M&E) services more exposed to COVID-19 pandemic

One area of weakness will likely be M&E services given the slowdown in construction activity due to the COVID-19 pandemic and remaining legal delays for several projects. Management is aiming for VND267 billion in earnings (+9% YoY) but this may prove overly ambitious.

Stock only trading at trailing P/E of 5.7x vs five-year daily average of 7.0x

REE currently trades at a trailing P/E of 5.7x. This compares to the daily average of 7.0x or VND37,000 per share based on five years of trading history and implies the shares are undervalued at this time. The Bloomberg consensus target price is VND42,116 per share.

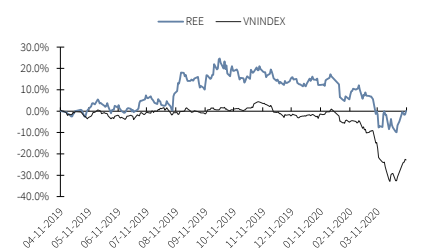
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Target Price	NA
Upside/downside (%)	na
Current price (Apr 10 2020)	VND 30,350
Consensus target price	VND 42,116
Market cap (VNDtrn/USDbn)	9.4/0.4

Trading data	
Number of outstanding share	310,058,841
3-mth avg daily trading volume	725,165
Foreign available shares (%)	49%

Share price performance				
(%)	1M	3M	6M	12M
REE	0.2%	-10.8%	-15.8%	0.1%
VNINDEX	-9.5%	-21.7%	-23.2%	-22.8%

FY-end	2016A	2017A	2018A	2019A
Net sales (VNDbn)	3,663	4,999	5,105	4,897
Operating profit/(loss) (VNDbn)	1,369	1,712	2,106	1,910
Attributable net profit (VNDbn)	1,093	1,377	1,784	1,639
EPS (VND)	3,526	4,441	5,754	5,286
EPS growth (%)	28.2%	26.0%	29.5%	-8.1%
P/E (x)	8.61	6.83	5.27	5.74
P/B (x)	1.22	1.08	0.95	0.85
ROE (%)	17.6%	22.8%	28.2%	25.7%
Dividend yield, common (%)	3.1%	6.3%	6.4%	6.6%



Source: KBSsource

Well insulated against COVID-19

Recovery in hydro plants and new plant acquisitions to boost power segment in 2020

Management expects earnings in the power segment to grow by 11% in 2020E as the hydro plants recover in 2H and the two new plants acquired in 2019 to make a larger contribution. REE acquired the Muong Hum Hydro and Thuan Binh Wind Power plants at the end of 2019. Weak 1H results were largely due to unfavorable environmental conditions for the hydro plants arising from the *El Nino* phenomenon that began in 2019. This should reverse from 2H and the company expects better conditions to improve operations across all of its power generation assets, including the Vinh Son-Song Hinh (VSH), Central Hydro Power (CHP), Pha Lai Thermal Power (PPC) and the two newly-acquired assets.

Strong growth expected from REE's Song Da Water subsidiary

REE expects earnings from its water subsidiary – Song Da Water Investment JSC (VWC) – to more than double in 2020E. Operations have already begun in 1H for the urban water system covering the Son Tay-Hoa Lac-Xuan Mai-Mieu Mon-Hanoi-Ha Dong regions. Moreover, earnings this year should not be negatively impacted by costs related to customer support for technical problems as seen in 2019. Song Da Water Investment contributed VND74.1 billion and VND51.5 billion to REE's net profits in 2018 and 2019, respectively.

Full year of operations at the Etown 5 project should also support the property management unit

Average occupancy rose to 98% for the Etown 5 project by the end of 2019 but only one quarter of revenue was booked in 2019 results. Full-year operations at Etown 5 should support the property management business. Moreover, management expects the Etown 6 project to complete all legal procedures by the end of this year to complete the project by 2023 as scheduled. Completion of this project will add another 33,000 sqm of office space to the property management portfolio.

Earnings growth target at 9% for mechanical & electrical (M&E) services

REE hopes to achieve VND 267 billion in earnings for M&E services or an increase of 9% on revenue of VND3,820 billion (up 20.4% YoY). That said, this plan may prove overly ambitious given the slowdown in real estate construction activities due to the COVID-19 pandemic and legal delays for several projects. Backlogs are also down, with only VND2,375 billion in new orders (down 33% YoY) for a backlog of VND4,389 billion (down 24% YoY) in 2019.

Stock only trading at a trailing P/E of 5.7x vs the five-year daily average of 7.0x

With 84% of 2019 earnings now coming from power generation, water works and office leasing, REE's larger exposure to utilities makes the stock one of the most defensive against the COVID-19 pandemic. The stock currently trades a trailing P/E of 5.7x vs a daily average of 7.0x or VND37,000 per share seen in the past five years of trading history.

Income Statement

(VND billion)	2016	2017	2018	2019
Net sales	3,659.36	4,995.17	5,100.65	4,889.83
Cost of sales	-2,477.73	-3,565.77	-3,872.58	-3,643.62
Gross Profit	1,181.63	1,429.40	1,228.07	1,246.21
Financial income	176.06	174.54	303.53	441.97
Financial expenses	-67.67	-274.78	-111.47	-385.66
of which: interest expenses	-60.16	-104.64	-224.93	-409.02
Gain/(loss) from joint ventures (from 2015)	387.85	718.93	998.82	907.11
Selling expenses	-89.02	-94.59	-98.58	-78.37
General and admin expenses	-220.29	-241.82	-214.71	-221.58
Operating profit/(loss)	1,368.55	1,711.67	2,105.66	1,909.68
Other incomes	15.28	18.61	21.94	25.84
Other expenses	-8.07	-9.13	-9.59	-15.31
Net other income/(expenses)	7.21	9.48	12.36	10.53
Income from investments in other entities	0.00	0.00	0.00	0.00
Net accounting profit/(loss) before tax	1,375.75	1,721.15	2,118.01	1,920.21
Corporate income tax expenses	-202.09	-198.32	-233.25	-200.29
Net profit/(loss) after tax	1,173.66	1,522.83	1,884.76	1,719.92
Minority interests	80.42	145.74	100.79	81.03
Attributable to parent company	1,093.24	1,377.09	1,783.97	1,638.89

Operating statistics & Ratios

	2016	2017	2018	2019
Gross profit margin	0.00%	33.72%	32.29%	28.62%
EBITDA margin	0.00%	29.80%	27.65%	24.49%
EBIT margin	0.00%	24.78%	23.84%	21.88%
Pre-tax profit margin	0.00%	39.56%	37.60%	34.46%
Operating profit margin	0.00%	39.30%	37.40%	34.27%
Net profit margin	0.00%	33.60%	32.07%	30.49%

Cash Flow Statement

(VND billion)	2016	2017	2018	2019
Net profit/(loss) before tax	1,375.75	1,721.15	2,118.01	1,920.21
Depreciation and amortisation	139.56	130.12	161.30	182.62
Profit/loss from investing activities	-560.02	-888.64	-1,298.33	-1,347.44
Interest expense	60.16	105.04	226.51	414.43
Operating profit/(loss) before changes in Working Capital	1,008.02	1,131.17	1,025.86	1,132.95
(Increase)/decrease in receivables	363.33	-98.13	-729.47	175.70
(Increase)/decrease in inventories	-503.44	-324.11	596.22	-14.17
Increase/(decrease) in payables	93.70	446.40	-283.28	-400.45
(Increase)/decrease in prepaid expenses	-37.46	-8.41	-27.64	-20.56
Net cash inflows/(outflows) from operating activities	680.52	992.25	90.24	319.18
Purchases of fixed assets and other long term assets	-308.56	-584.27	-340.01	-294.61
Proceeds from disposal of fixed assets	1.94	6.14	1.24	1.75
Loans granted, purchases of debt instruments	-872.53	-496.99	-1,419.23	-4,381.79
Collection of loans, proceeds from sales of debts instrument	522.21	665.00	794.65	3,796.30
Investments in other entities	-1,310.08	-911.29	-388.38	-1,730.51
Proceeds from divestment in other entities	214.41	110.59	430.67	195.30
Dividends and interest received	548.28	729.30	700.80	783.82
Net cash inflows/(outflows) from investing activities	-1,204.33	-481.52	-220.26	-1,629.72
Proceeds from issue of shares	0.00	36.50	0.02	0.00
Payments for share returns and repurchases	-11.73	0.00	0.00	0.00
Proceeds from borrowings	2,167.68	3,907.01	1,921.24	3,926.79
Repayment of borrowings	-1,797.11	-2,420.37	-1,722.16	-2,321.74
Finance lease principal payments	0.00	0.00	0.00	0.00
Dividends paid	-293.36	-597.10	-601.66	-619.97
Interests, dividends, profits received	0.00	0.00	0.00	0.00
Net cash inflows/(outflows) from financing activities	65.48	926.03	-402.57	985.08
Net increase in cash and cash equivalents	-458.33	1,436.76	-532.59	-325.47
Cash and cash equivalents at the beginning of period	1,419.72	960.03	2,397.19	1,865.10
Cash and cash equivalents at the end of period	960.03	2,397.19	1,865.10	1,539.58

Balance Sheet

(VND billion)	2016	2017	2018	2019
CURRENT ASSETS	4,105.23	5,651.35	5,987.68	5,999.05
Cash and cash equivalents	960.03	2,397.19	1,865.10	1,539.58
Short-term investments	749.17	516.56	1,138.93	1,221.30
Accounts receivable	1,148.40	1,130.68	1,965.71	2,137.97
Inventories	1,230.32	1,555.63	969.07	987.20
LONG-TERM ASSETS	7,291.41	8,643.32	9,511.98	13,623.72
Long-term trade receivables	36.95	36.13	33.56	38.93
Fixed assets	528.64	492.27	445.42	1,859.03
Investment properties	673.43	624.01	1,602.83	1,856.45
Long-term incomplete assets	571.48	1,127.74	153.22	67.74
Long-term investments	5,377.45	6,274.30	6,992.21	9,214.04
TOTAL ASSETS	11,396.64	14,294.67	15,499.66	19,622.76
LIABILITIES	3,675.49	5,601.39	5,571.29	8,521.10
Current liabilities	2,617.61	2,926.95	3,056.52	3,268.74
Trade accounts payable	405.82	445.71	475.61	528.79
Advances from customers	1,169.24	1,329.50	968.37	966.23
Short-term unrealized revenue	0.47	6.60	11.50	10.61
Short-term borrowings	594.47	672.10	1,111.46	887.61
Long-term liabilities	1,057.88	2,674.44	2,514.78	5,252.35
Long-term trade payables	0.00	0.00	0.00	0.00
Long-term advances from customers	0.00	0.00	0.00	0.00
Unrealized revenue	0.00	215.72	209.12	236.50
Long-term borrowings	899.22	2,308.62	2,069.93	4,739.20
OWNER'S EQUITY	7,721.14	8,693.28	9,928.37	11,101.67
Paid-in capital	3,100.59	3,100.59	3,100.59	3,100.59
Share premium	1,050.49	1,050.49	1,050.49	1,050.49
Undistributed earnings	2,765.89	3,642.40	4,927.77	6,005.76
Minority interests	565.01	658.94	609.53	704.64

Key ratios

	2016	2017	2018	2019
Multiple				
P/E	8.61	6.83	5.28	5.75
P/E diluted	8.67	6.89	5.31	5.79
P/B	1.31	1.17	1.01	0.91
P/S	2.57	1.88	1.84	1.92
P/Tangible Book	1.22	1.09	0.95	0.85
P/Cash Flow	13.83	9.48	104.28	29.48
EV/EBITDA	9.83	8.17	9.97	11.96
EV/EBIT	11.40	9.14	11.73	14.26
Operating performance				
ROE%	0.15	0.17	0.19	0.16
ROA%	0.10	0.11	0.12	0.09
ROIC%	0.09	0.09	0.07	0.06
Financial structure				
Cash Ratio	0.43	0.83	0.63	0.49
Quick Ratio	0.87	1.22	1.28	1.14
Current Ratio	1.57	1.93	1.96	1.84
LT Debt/Equity	0.12	0.27	0.21	0.43
LT Debt/Total Assets	0.08	0.16	0.13	0.24
Debt/Equity	0.19	0.34	0.32	0.51
Debt/Total Assets	0.13	0.21	0.21	0.29
ST Liabilities/Equity	0.34	0.34	0.31	0.29
ST Liabilities/Total Assets	0.23	0.20	0.20	0.17
Total Liabilities/Equity	0.48	0.64	0.56	0.77
Total Liabilities/Total Assets	0.32	0.39	0.36	0.43
Activity ratios				
Account Receivable Turnover	5.27	7.02	5.43	4.90
Inventory Turnover	2.68	2.51	3.02	3.67
Account Payable Turnover	7.86	8.38	8.41	7.26

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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	Underperform the market

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