

# Turbulent times

## Our most prudent choices

We focus on leading blue chips with good corporate governance, ample trading liquidity, strong financials and investment catalysts able to weather the turbulent times. We identify three key investment themes for 2H20:

### Defensibility

Many uncertainties remain and it may be premature to say we have witnessed the full impact of the COVID-19 pandemic to the economy and corporate earnings. We look to stocks that have defensible characteristics, such as annuity-like revenue streams, strong competitive advantages and the financial buffer to power through any potential downturn.

### Beneficiaries of government stimulus

Vietnam's government has already announced a large fiscal stimulus package to restart the economy and put it back on a growth trajectory. Infrastructure projects should play a large role in this package and should create meaningful demand for the construction and construction material sectors over the next few quarters. We highlight companies that are best positioned to benefit from this stimulus.

### One-off earnings in 2H2020

Downward revisions are likely as the full extent of the COVID-19 pandemic begin to be reflected in corporate earnings. One-off earnings should be welcomed in this environment and we search out companies that could book additional earnings in 2H20 to protect companies against any deep cuts to consensus or target prices.

Power & Steel Analyst

Le Thanh Cong

conglt@kbsec.com.vn

Consumer & Retailing Analyst

Dao Phuoc Phuong Dung

dungdpp@kbsec.com.vn

Financials Analyst

Nguyen Thi Thu Huyen

huyenntt@kbsec.com.vn

Oil & Gas/Chemicals Analyst

Nguyen Vinh

vinhn@kbsec.com.vn

April 15, 2020

| Recommendations                       | April 14, 2020   |
|---------------------------------------|------------------|
| <b>Hoa Phat Group (HPG)</b>           | <b>Buy</b>       |
| Current price                         | VND20,150        |
| Target price                          | VND24,900        |
| <b>Mobile World Investments (MWG)</b> | <b>Buy</b>       |
| Current price                         | VND77,300        |
| Target price                          | VND109,000       |
| <b>Asia Commercial Bank (ACB)</b>     | <b>Buy</b>       |
| Current price                         | VND20,300        |
| Target price                          | VND27,000        |
| <b>PV Technical Services (PVS)</b>    | <b>No Rating</b> |
| Current price                         | VND11,900        |
| Target price                          | NA               |
| <b>REE (REE)</b>                      | <b>No Rating</b> |
| Current price                         | VND30,950        |
| Target price                          | NA               |



## Executive Summary

Stocks that best fit our criteria during these turbulent times include:

### **Hoa Phat Group (HPG)**

New capacity fully operational by Q2 just in time capture the pickup in demand for construction steel when the government launches its stimulus package aimed at infrastructure projects.

### **Mobile World Investments (MWG)**

MWG's *Bach Hoa Xanh* grocery chain excelled as Vietnam's premier provider of fresh foods/produce during the nationwide lockdown. Ample cash and operating cash flows should allow the company to quickly capture more market share in the recovery phase.

### **Asia Commercial Bank (ACB)**

Sturdy balance sheet to withstand any potential downturn in the credit cycle and protect book value. Potential *bancassurance* exclusive with international insurer in 2H20 may allow the bank to narrow the gap vs peers in fee income.

### **PV Technical Services (PVS)**

Strong M&C back-log and one-off gain from permanent FTSO operating contract to protect 2020E earnings.

### **Refrigeration Electrical Engineering (REE)**

Utilities business continues to grow in 2020E and represents a much larger proportion of the overall business to insulate the company against the COVID-19 pandemic.



## Companies

Hoa Phat Group  
(HPG)

Mobile World Investments  
(MWG)

Asia Commercial Bank  
(ACB)

PV Technical Services  
(PVS)

Refrigeration Electrical  
Engineering  
(REE)

April 14, 2020

Power & Steel Analyst  
Le Thanh Cong  
congl@kbsec.com.vn

### Government preparing to use state coffers to push ahead with projects

Concerns that Private–Public Partnerships (PPP) projects may be delayed due to difficulties with financing, the government is preparing to use the State Budget to push ahead with key infrastructure projects, including the 1) North–South Expressway (which includes eight PPPs); 2) My Thuan–Can Tho Expressway; 3) Noi Bai Airport runway; and 4) Tan Son Nhat International Airport runway. This should lead to a boon for construction steel and benefit HPG.

### Safeguard duties extended and Phase 1 of the Dung Quat facilities fully operational by 2Q

Safeguard tariffs have been extended to March 2023 and should protect local market participants from cheap steel imports (especially from China). Moreover, Phase 1 of the Dung Quat facilities is back on track and should be fully operational by 2Q. This should allow HPG to double construction steel output to four million tons per year and utilize the blast furnace to secure an absolute cost advantage.

### We lower our target price to VND24,900 and cut 20E earnings by 27%

We lower our target price to VND24,900 per share from VND29,800 after revising down 20E earnings by 27% to reflect the COVID–19 lockdown, weaker steel pricing and delayed capacity. Our assumptions for finished steel pricing go down by VND500,000 (–4%) and steel volumes fall by 400,000 tons (–10%).

## BUY maintain

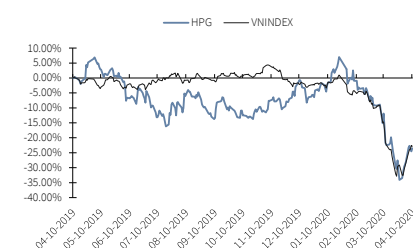
|                             |                   |
|-----------------------------|-------------------|
| <b>Target Price</b>         | <b>VND 24,900</b> |
| Upside/downside (%)         | 24.8 %            |
| Current price (Apr 14 2020) | VND 19,950        |
| Consensus target price      | VND 30,640        |
| Market cap (VNDtn/USDbn)    | 51.9/2.2          |

|                                |               |
|--------------------------------|---------------|
| <b>Trading data</b>            |               |
| Number of outstanding share    | 2,761,074,115 |
| 3–mth avg daily trading volume | 7,896,542     |
| Foreign available shares (%)   | 36.55%        |

|                                |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|
| <b>Share price performance</b> |        |        |        |        |
| (%)                            | 1M     | 3M     | 6M     | 12M    |
| HPG                            | –13.2% | –22.3% | –12.6% | –23.5% |
| VNINDEX                        | –9.5%  | –21.7% | –23.2% | –22.8% |

### Earnings and valuation

| FY-end  | 2016A  | 2017A  | 2018A  | 2019A  |
|---|--------|--------|--------|--------|
| Net sales (VNDbn)                               | 33,885 | 46,855 | 56,580 | 64,678 |
| Operating profit/(loss) (VNDbn)                 | 7,685  | 9,252  | 10,072 | 9,031  |
| Net profit attributable to shareholders (VNDbn) | 6,602  | 8,007  | 8,573  | 7,527  |
| EPS (VND)                                       | 2,393  | 2,903  | 3,115  | 2,745  |
| EPS growth (%)                                  | 88.5%  | 21.3%  | 7.3%   | –11.9% |
| P/E (x)   | 7.86   | 6.48   | 6.04   | 6.85   |
| P/B (x)   | 2.61   | 1.60   | 1.28   | 1.09   |
| ROE (%)   | 45.7%  | 40.4%  | 26.5%  | 18.7%  |
| Dividend yield, common (%)                      | 2.1%   | 0.0%   | 0.0%   | 0.0%   |



Source: KBSV Research

## Stimulus a boon for construction steel

### Government public investment projects to boost demand for construction materials in 2H

The Government Office proposed to the National Assembly to convert several Public-Private Partnerships (PPP) into public investment projects to expedite construction. These include the: 1) North-South Expressway (which includes eight PPPs); 2) My Thuan-Can Tho Expressway; 3) Noi Bai Airport runway; and 4) Tan Son Nhat International Airport runway. The government plans to use remaining resources from 2019's State Budget to push ahead with projects amid concerns the private companies involved in these projects may encounter delays in financing. Should these plans be approved, we expect construction to begin as early as 3Q and not only benefit HPG but also lead to a meaningful boost in demand for all construction materials.

### Extension of safeguard duties on imported long steel and steel billets to March 2023

The Ministry of Industry & Trade finalized the extension of safeguard duties to March 2023 for long steel and billet imports. Vietnam will apply a 9.4% tariff for long steel imports and a 15.3% tariff on billets between March 2020 and March 2021. Tariffs for long steel will drop by 1.5%-points and 2.0%-points for billets per year until March 2023. We expect the extension of these tariffs to continue insulating the local market against the flood of cheap steel (especially from China) that could hurt domestic steel makers.

### Phase 1 of the Dung Quat facilities fully operational by 2

Phase 1 of HPG's Dung Quat facilities should be fully operational by 2Q and double construction steel output to four million tons per year. HPG's blast furnaces will also be utilized for construction-grade steel and give the company an absolute cost advantage. This and access to deep-water ports should allow HPG to gradually gain market share from other local steel makers and imports. Moreover, the COVID 19 pandemic will likely have a disproportionate impact on the smaller arc furnace steel makers with more limited financial resources and allow HPG to secure more market share.

### Lower target price to VND24,900 from VND29,800 and cut 20E earnings by 27% to reflect COVID-19, weaker steel pricing and delayed capacity

We lower our target price to VND24,900 from VND29,800 to reflect slower volumes due to the COVID-19 lockdown, lower prices for finished steel amid still high raw material costs and delayed capacity at the Dung Quat facilities. Our 20E earnings fall by 27% after lowering our assumptions for finished steel pricing by VND500,000 per ton (-4%) and steel consumption by 400,000 tons (-10%).

Table 1. Hoa Phat Corporation: Revised earnings estimates

| (VNDbn)              | Previous |        |         | Revised |        |        | Change (%) |       |       |
|----------------------|----------|--------|---------|---------|--------|--------|------------|-------|-------|
|                      | 2020E    | 2021E  | 2022E   | 2020E   | 2021E  | 2022E  | 2020E      | 2021E | 2022E |
| Sales                | 79,243   | 92,443 | 102,043 | 69,693  | 87,693 | 98,043 | -12.1      | -5.1  | -3.9  |
| OP                   | 10,410   | 12,289 | 14,966  | 7,594   | 9,480  | 11,452 | -27.1      | -22.9 | -23.5 |
| EBT                  | 10,447   | 12,325 | 15,002  | 7,630   | 9,516  | 11,488 | -27.0      | -22.8 | -23.4 |
| NP (controlling)     | 8,880    | 10,477 | 12,752  | 6,486   | 8,089  | 9,765  | -27.0      | -22.8 | -23.4 |
| EPS (VND)            | 3,216    | 3,794  | 4,618   | 2,349   | 2,930  | 3,537  | -27.0      | -22.8 | -23.4 |
| YoY (%)              |          |        |         |         |        |        |            |       |       |
| Sales                | 24.4     | 16.7   | 10.4    | 9.4     | 25.8   | 11.8   |            |       |       |
| OP                   | 15.3     | 18.0   | 21.8    | -15.9   | 24.8   | 20.8   |            |       |       |
| EBT                  | 14.8     | 18.0   | 21.7    | -16.1   | 24.7   | 20.7   |            |       |       |
| NP (controlling)     | 17.2     | 18.0   | 21.7    | -14.4   | 24.7   | 20.7   |            |       |       |
| OPM (%)              | 13.1     | 13.3   | 14.7    | 10.9    | 10.8   | 11.7   |            |       |       |
| EBT margin (%)       | 13.2     | 13.3   | 14.7    | 10.9    | 10.9   | 11.7   |            |       |       |
| NPM (controlling, %) | 11.2     | 11.3   | 12.5    | 9.3     | 9.2    | 10.0   |            |       |       |

Source: KBSV Research

**Income Statement  
(VND billion)**

|   | 2016       | 2017       | 2018       | 2019       |
|---|------------|------------|------------|------------|
| Net sales                                   | 33,283.21  | 46,161.69  | 55,836.46  | 63,658.19  |
| Cost of sales                               | -24,532.65 | -35,536.12 | -44,165.63 | -52,472.82 |
| Gross Profit                                | 8,750.56   | 10,625.57  | 11,670.83  | 11,185.37  |
| Financial income                            | 197.18     | 186.22     | 294.41     | 471.05     |
| Financial expenses                          | -367.99    | -555.76    | -772.32    | -1,181.68  |
| of which: interest expenses                 | -279.95    | -479.71    | -539.86    | -936.71    |
| Gain/(loss) from joint ventures (from 2015) | -0.53      | -0.16      | 0.00       | -1.43      |
| Selling expenses                            | -489.95    | -594.71    | -676.81    | -873.33    |
| General and admin expenses                  | -404.59    | -409.04    | -444.02    | -569.01    |
| Operating profit/(loss)                     | 7,684.68   | 9,252.12   | 10,072.09  | 9,030.98   |
| Other incomes                               | 434.47     | 432.79     | 488.86     | 657.68     |
| Other expenses                              | -417.32    | -396.55    | -489.87    | -592.00    |
| Net other income/(expenses)                 | 17.15      | 36.25      | -1.02      | 65.68      |
| Income from investments in other entities   | 0.00       | 0.00       | 0.00       | 0.00       |
| Net accounting profit/(loss) before tax     | 7,701.82   | 9,288.37   | 10,071.07  | 9,096.66   |
| Corporate income tax expenses               | -1,095.62  | -1,273.61  | -1,470.52  | -1,518.41  |
| Net profit/(loss) after tax                 | 6,606.20   | 8,014.76   | 8,600.55   | 7,578.25   |
| Minority interests                          | 4.10       | 8.08       | 27.54      | 50.81      |
| Attributable to parent company              | 6,602.10   | 8,006.67   | 8,573.01   | 7,527.44   |

**Operating statistics & Ratios**

|                         | 2016  | 2017   | 2018   | 2019   |
|-------------------------|-------|--------|--------|--------|
| Gross profit margin     | 0.00% | 20.38% | 26.29% | 23.02% |
| EBITDA margin           | 0.00% | 20.73% | 28.63% | 25.19% |
| EBIT margin             | 0.00% | 16.06% | 23.60% | 20.84% |
| Pre-tax profit margin   | 0.00% | 14.53% | 23.14% | 20.12% |
| Operating profit margin | 0.00% | 14.90% | 23.09% | 20.04% |
| Net profit margin       | 0.00% | 12.77% | 19.85% | 17.36% |

**Cash Flow Statement  
(VND billion)**

|  | 2016       | 2017       | 2018       | 2019       |
|--|------------|------------|------------|------------|
| Net profit/(loss) before tax                                 | 7,701.82   | 9,288.37   | 10,071.07  | 9,096.66   |
| Depreciation and amortisation                                | 1,674.33   | 2,004.66   | 2,259.59   | 2,593.23   |
| Profit/loss from investing activities                        | -142.79    | -100.14    | -112.99    | -286.19    |
| Interest expense   | 279.95     | 479.71     | 539.86     | 936.71     |
| Operating profit/(loss) before changes in Working Capital    | 9,421.55   | 11,657.00  | 12,740.51  | 12,358.83  |
| (Increase)/decrease in receivables                           | -486.37    | -462.71    | -1,423.16  | -288.52    |
| (Increase)/decrease in inventories                           | -3,334.84  | -2,201.68  | -2,301.59  | -5,132.24  |
| Increase/(decrease) in payables                              | 2,294.02   | -427.14    | 1,459.71   | 3,557.80   |
| (Increase)/decrease in prepaid expenses                      | 121.80     | -57.14     | -500.92    | -8.48      |
| Net cash inflows/(outflows) from operating activities        | 6,818.72   | 6,058.32   | 7,642.34   | 7,715.17   |
| Purchases of fixed assets and other long term assets         | -3,416.97  | -8,875.04  | -27,594.12 | -20,825.37 |
| Proceeds from disposal of fixed assets                       | 27.79      | 6.99       | 64.82      | 26.94      |
| Loans granted, purchases of debt instruments                 | -10.56     | -13,644.06 | -11,295.50 | -4,467.55  |
| Collection of loans, proceeds from sales of debts instrument | 271.60     | 4,461.99   | 17,443.01  | 6,832.22   |
| Investments in other entities                                | 0.00       | -40.83     | -115.95    | 0.00       |
| Proceeds from divestment in other entities                   | 0.00       | 0.65       | 17.60      | 0.00       |
| Dividends and interest received                              | 0.00       | 164.53     | 947.00     | 369.55     |
| Net cash inflows/(outflows) from investing activities        | -3,128.13  | -17,925.77 | -20,533.13 | -18,064.22 |
| Proceeds from issue of shares                                | 0.01       | 5,057.29   | 11.42      | 0.09       |
| Payments for share returns and repurchases                   | 0.00       | 0.00       | 0.00       | 0.00       |
| Proceeds from borrowings                                     | 28,158.08  | 37,194.70  | 53,472.01  | 69,584.17  |
| Repayment of borrowings                                      | -28,560.49 | -30,674.53 | -42,335.01 | -57,193.67 |
| Finance lease principal payments                             | 0.00       | 0.00       | 0.00       | 0.00       |
| Dividends paid   | -1,102.41  | -3.75      | -5.92      | -12.65     |
| Interests, dividends, profits received                       | 0.00       | 0.00       | 0.00       | 0.00       |
| Net cash inflows/(outflows) from financing activities        | -1,504.81  | 11,573.69  | 11,142.51  | 12,377.94  |
| Net increase in cash and cash equivalents                    | 2,185.78   | -293.75    | -1,748.28  | 2,028.89   |
| Cash and cash equivalents at the beginning of period         | 2,372.76   | 4,558.66   | 4,264.64   | 2,515.62   |
| Cash and cash equivalents at the end of period               | 4,558.66   | 4,264.64   | 2,515.62   | 4,544.90   |

**Balance Sheet  
(VND billion)**

|                                   | 2016      | 2017      | 2018      | 2019       |
|-----------------------------------|-----------|-----------|-----------|------------|
| CURRENT ASSETS                    | 18,182.79 | 33,068.06 | 25,308.73 | 30,436.94  |
| Cash and cash equivalents         | 4,558.66  | 4,264.64  | 2,515.62  | 4,544.90   |
| Short-term investments            | 693.50    | 9,936.71  | 3,724.56  | 1,374.34   |
| Accounts receivable               | 2,394.83  | 6,555.42  | 3,210.28  | 3,561.40   |
| Inventories                       | 10,247.18 | 11,748.87 | 14,115.14 | 19,411.92  |
| LONG-TERM ASSETS                  | 15,043.77 | 19,954.12 | 52,914.28 | 71,339.09  |
| Long-term trade receivables       | 18.17     | 21.81     | 22.30     | 27.72      |
| Fixed assets                      | 12,670.46 | 13,197.80 | 12,782.56 | 31,249.49  |
| Investment properties             | 202.76    | 191.19    | 179.74    | 576.62     |
| Long-term incomplete assets       | 1,154.98  | 5,468.75  | 38,107.32 | 37,435.32  |
| Long-term investments             | 78.86     | 16.95     | 66.58     | 45.79      |
| TOTAL ASSETS                      | 33,226.55 | 53,022.18 | 78,223.01 | 101,776.03 |
| LIABILITIES                       | 13,376.29 | 20,624.60 | 37,600.06 | 53,989.39  |
| Current liabilities               | 11,985.02 | 18,519.72 | 22,636.15 | 26,984.20  |
| Trade accounts payable            | 3,733.63  | 4,226.44  | 8,706.91  | 7,507.20   |
| Advances from customers           | 1,036.12  | 824.28    | 361.44    | 408.69     |
| Short-term unrealized revenue     | 5.43      | 2.86      | 9.93      | 27.41      |
| Short-term borrowings             | 5,488.17  | 11,328.52 | 11,494.72 | 16,837.65  |
| Long-term liabilities             | 1,391.27  | 2,104.88  | 14,963.91 | 27,005.20  |
| Long-term trade payables          | 0.00      | 0.00      | 1,647.09  | 6,652.49   |
| Long-term advances from customers | 0.00      | 0.00      | 0.00      | 0.00       |
| Unrealized revenue                | 0.00      | 0.00      | 0.00      | 3.37       |
| Long-term borrowings              | 972.20    | 1,651.49  | 12,811.00 | 19,842.10  |
| OWNER'S EQUITY                    | 19,850.26 | 32,397.58 | 40,622.95 | 47,786.64  |
| Paid-in capital                   | 8,428.75  | 15,170.79 | 21,239.07 | 27,610.74  |
| Share premium                     | 674.15    | 3,202.20  | 3,211.56  | 3,211.56   |
| Undistributed earnings            | 9,486.35  | 13,397.03 | 15,126.44 | 15,876.91  |
| Minority interests                | 105.69    | 110.61    | 126.96    | 163.21     |

**Key ratios**

|                                | 2016  | 2017  | 2018  | 2019  |
|--------------------------------|-------|-------|-------|-------|
| Multiple                       |       |       |       |       |
| P/E                            | 2.40  | 3.56  | 4.81  | 6.90  |
| P/E diluted                    | 2.40  | 3.56  | 4.66  | 6.90  |
| P/B                            | 0.80  | 0.88  | 0.99  | 1.09  |
| P/S                            | 0.48  | 0.62  | 0.72  | 0.82  |
| P/Tangible Book                | 0.81  | 0.89  | 0.99  | 1.09  |
| P/Cash Flow                    | 2.32  | 4.71  | 5.22  | 6.73  |
| EV/EBITDA                      | 1.86  | 3.20  | 4.82  | 6.81  |
| EV/EBIT                        | 2.26  | 3.87  | 5.85  | 8.63  |
| Operating performance          |       |       |       |       |
| ROE%                           | 0.38  | 0.31  | 0.23  | 0.17  |
| ROA%                           | 0.22  | 0.19  | 0.13  | 0.08  |
| ROIC%                          | 0.30  | 0.21  | 0.16  | 0.12  |
| Financial structure            |       |       |       |       |
| Cash Ratio                     | 0.38  | 0.23  | 0.11  | 0.17  |
| Quick Ratio                    | 0.58  | 0.58  | 0.25  | 0.30  |
| Current Ratio                  | 1.52  | 1.79  | 1.12  | 1.13  |
| LT Debt/Equity                 | 0.05  | 0.05  | 0.32  | 0.42  |
| LT Debt/Total Assets           | 0.03  | 0.03  | 0.16  | 0.19  |
| Debt/Equity                    | 0.33  | 0.40  | 0.60  | 0.77  |
| Debt/Total Assets              | 0.19  | 0.24  | 0.31  | 0.36  |
| ST Liabilities/Equity          | 0.60  | 0.57  | 0.56  | 0.56  |
| ST Liabilities/Total Assets    | 0.36  | 0.35  | 0.29  | 0.27  |
| Total Liabilities/Equity       | 0.67  | 0.64  | 0.93  | 1.13  |
| Total Liabilities/Total Assets | 0.40  | 0.39  | 0.48  | 0.53  |
| Activity ratios                |       |       |       |       |
| Account Receivable Turnover    | 24.14 | 26.03 | 26.08 | 25.56 |
| Inventory Turnover             | 2.79  | 3.19  | 3.39  | 3.12  |
| Account Payable Turnover       | 7.70  | 8.93  | 5.44  | 4.28  |

# Mobile World (MWG)

## Top pick for demand snap back

April 13, 2020

Consumer & Retailing Analyst  
 Dao Phuc Phuong Dung  
 dungdpp@kbsec.com.vn

### March revenue holding up despite nationwide lockdown

March revenue at VND8,500 billion and still seeing double-digit growth at about 10% YoY growth. MWG's unique ability to integrate its large store network and online platform enables the company to sustain sales as consumers opt to make online purchases during the nationwide lockdown. MWG has ample cash on hand and operating cash flow to weather the COVID-19 pandemic and is negotiating with landlords to lower rentals for most of its stores. Temporary closures only at 10% of *thegioididong* (smart phones) and *Dien may XANH* (electronics) locations and stores are still being used to fill online orders.

### More consumers embracing modern trade during the COVID-19 crisis

The closure of traditional retailing channels is pressuring the market share of competitors as more consumers embrace modern trade during the pandemic. MWG is taking full advantage of this change in purchasing patterns to use its online platform to meet this shift in demand. Brick-and-mortar stores are being used to process online orders and shorten delivery times for smart phone and electronics, while the *Bach hoa XANH* and *Bach hoa XANH Online* grocery store brands clearly demonstrate their ability to become Vietnam's premier provider of fresh foods/produce.

### Recommend BUY and current valuation not seen since 2016

Shares have not traded at a P/E multiple of 8x since 2016 and we recommend BUY at a target price of VND109,000 per share. MWG is our top pick among retailers and we expect the company to benefit the most when consumption normalizes after the COVID-19 pandemic stabilizes. Moreover, our expectations for market share gains add another driver for share prices during the recovery.

## BUY maintain

**Target price** VND109,000

|                              |            |
|------------------------------|------------|
| Upside                       | 51.8%      |
| Current price (Apr 10, 2020) | VND 71,800 |
| Market cap (VNDtn/USDbn)     | 32.5/1.4   |

#### Trading data

|                              |                                      |
|------------------------------|--------------------------------------|
| Free float (%)               | 89.8%                                |
| Trading value (VNDbn/USDmn)  | 103.3/4.4                            |
| Foreign available shares (%) | 0.0%                                 |
| Major shareholders (%)       | Retail World Company Limited (11.6%) |

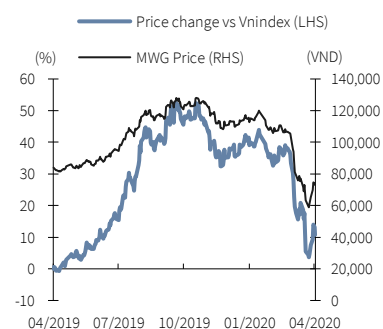
#### Share price performance

| (%)             | 1M     | 3M     | 6M     | 12M    |
|-----------------|--------|--------|--------|--------|
| <b>Absolute</b> | -23.9% | -36.4% | -40.9% | -12.8% |
| <b>Relative</b> | 13.7%  | 12.8%  | 14.6%  | -8.4%  |

#### Forecast earnings & valuation

| FY-End                          | 2016A  | 2017A  | 2018A  | 2019A   |
|---------------------------------|--------|--------|--------|---------|
| Net sales (VNDbn)               | 44,613 | 66,340 | 86,516 | 102,174 |
| Operating profit/(loss) (VNDbn) | 2,007  | 2,795  | 3,774  | 5,035   |
| Attributable Net profit (VNDbn) | 1,577  | 2,206  | 2,879  | 3,834   |
| EPS (VND)                       | 3,842  | 5,372  | 6,689  | 8,661   |
| EPS growth (%)                  | 40.3%  | 39.8%  | 24.5%  | 29.5%   |
| P/E (x)                         | 19.0   | 13.6   | 10.9   | 8.4     |
| P/B (x)                         | 7.8    | 5.2    | 3.6    | 2.7     |
| ROE (%)                         | 49.9%  | 45.3%  | 38.7%  | 36.3%   |
| Dividend yield, common (%)      | 0.8%   | 1.5%   | 2.1%   | na      |

Source: Bloomberg, KBSV



Source: Fiiipro



## Top pick for demand snap back

### March revenue still records double-digit growth at about 10%

March revenue resilient at VND8,500 billion and still managed double-digit YoY growth at around 10%. The nationwide lock down has forced closure of only about 10% of *thegioididong* (TGDD/mobile phones) and *Dien may XANH* (DMX/electronics) locations (mainly in Hanoi) and even these stores are still being used to service online orders. Operating cash flow is ample at present and MWG is using its large presence in the retailing space to negotiate with landlords to cut rentals by up to 50% during closures or moving stores to locations with more reasonable rental fees.

### Armed with Vietnam's most modern retailing distribution network to expand market share

Purchasing patterns have shifted to basic necessities and health products amid the sharp drop in disposable income and consumption demand. We believe this provides MWG – and its modern retailing distribution network – with an unprecedented opportunity to expand market share. Management indicates the disruption to traditional retailing channels has made it challenging for competitors to maintain market share. MWG has set its 2020 market share targets for mobile phones at 50% and consumer electronics at 45% but we believe MWG's expansive brick-and-mortar and online distribution platforms could actually see the company exceed these targets when demand bounces back after the COVID-19 pandemic. Moreover, the *Bach hoa XANH* (BHX) and *Bach hoa XANH Online* (BHX Online) grocery brands have excelled during that nationwide lockdown and bodes well to become the top retailer of basic necessities for Vietnam's consumers.

### Online channel begins to shine as they roll out "shopping on behalf of customers" model

MWG's modern retailing network has proven to be the best in Vietnam during this crisis by providing customers with time-saving and safe alternatives to traditional shops and wet markets. For example, MWG has improved productivity and shortened delivery times of groceries by using internal applications enabling thousands of TGDD/DMX staff to take orders from BHX stores for delivery to the door step of the customer. Efficient operations have already yielded tangible results, with management indicating that in-store foot traffic has increased at 100% of its BHX stores during the COVID-19 pandemic. Number of bills in March have reached 17 million or up 40% from February's 12 million. Taken together, preliminary March sales for BHX stores are estimated at VND1,800 billion or a 145% YoY boost and we attribute this success to MWG's large store-count and full utilization of the online distribution platform.

**Stock has not traded at current valuation since 2016 following this year's near 50% drop in share price**

MWG's share prices has fallen nearly 50% this year, with the P/E valuation now down to 8x and at a level not seen since 2016. We recommend BUY and a target price of VND109,000 per share as our top pick among retailers to stage a strong recovery when consumption normalizes after the coronavirus pandemic stabilizes. Moreover, we expect market share gains to become an additional share price driver as the current cost savings in rents provide room to launch more promotions to spur demand into the recovery. Risks include slower-than-expected recovery in consumption after the COVID-19 pandemic due to the pull-forward of demand following stock piling ahead of the nationwide lockdown. However, we believe MWG should be more immune to this risk given its 50% exposure to fresh food/produce vs consumer companies focusing on consumer staples (eg, instant noodles/beverages/rice/hygiene products).

## Income statement

| (VNDmn)<br>(Reporting standard)   | 2016A      | 2017A      | 2018A      | 2019A       |
|-----------------------------------|------------|------------|------------|-------------|
|                                   | VN GAAP    | VN GAAP    | VN GAAP    | VN GAAP     |
| Net sales                         | 44,613,333 | 66,339,804 | 86,516,287 | 102,174,244 |
| Cost of sales                     | 37,399,226 | 55,198,025 | 71,224,159 | 82,686,445  |
| Gross profit                      | 7,214,106  | 11,141,779 | 15,292,128 | 19,487,799  |
| Financial income                  | 135,328    | 250,510    | 342,084    | 631,178     |
| Financial expenses                | 120,086    | 234,287    | 436,573    | 569,755     |
| of which: interest expenses       | 119,646    | 233,202    | 436,417    | 568,137     |
| Gain/(loss) from joint ventures   | 0          | 0          | (2,101)    | (5,473)     |
| Selling expenses                  | 4,287,696  | 7,017,061  | 9,659,741  | 12,437,283  |
| General & admin expenses          | 934,777    | 1,345,497  | 1,761,614  | 2,073,783   |
| Operating profit/(loss)           | 2,006,875  | 2,795,444  | 3,774,182  | 5,034,683   |
| Other incomes                     | 51,130     | 17,685     | 53,233     | 41,557      |
| Other expenses                    | 32,091     | 3,816      | 21,097     | 22,793      |
| Net other income/(expenses)       | (961)      | 13,868     | 12,136     | 18,764      |
| Pretax profit/(loss)              | 2,005,914  | 2,809,312  | 3,786,319  | 5,053,447   |
| Income tax                        | 427,663    | 602,415    | 906,010    | 1,217,207   |
| Net profit/(loss)                 | 1,578,251  | 2,206,897  | 2,880,309  | 3,836,240   |
| Minority interest                 | 878        | 1,217      | 1,585      | 1,971       |
| Net profit attributable to shrhds | 1,577,372  | 2,205,680  | 2,878,724  | 3,834,270   |

## Operating statistics

| (%)                     | 2016A | 2017A | 2018A | 2019A |
|-------------------------|-------|-------|-------|-------|
| Gross profit margin     | 16.2% | 16.8% | 17.7% | 19.1% |
| EBITDA margin           | 5.5%  | 5.4%  | 6.0%  | 6.4%  |
| EBIT margin             | 4.5%  | 4.2%  | 4.5%  | 4.9%  |
| Pre-tax profit margin   | 4.5%  | 4.2%  | 4.4%  | 4.9%  |
| Operating profit margin | 4.5%  | 4.2%  | 4.4%  | 4.9%  |
| Net profit margin       | 3.5%  | 3.3%  | 3.3%  | 3.8%  |

## Cash flow statement

| (VNDmn)                              | 2016A        | 2017A        | 2018A        | 2019A        |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Net profit/(loss) before tax         | 2,005,914    | 2,809,312    | 3,786,319    | 5,053,447    |
| Depreciation & amortization          | 465,066      | 815,683      | 1,348,952    | 1,533,323    |
| Profit/(loss) from investing         | (89)         | (34,425)     | (84,964)     | (341,222)    |
| Interest expense                     | 119,646      | 233,202      | 436,417      | 568,137      |
| Oper profit/(loss) before WC changes | 2,590,537    | 3,823,772    | 5,486,723    | 6,813,685    |
| (Inc)/dec in receivables             | (989,518)    | (1,322,949)  | 1,246,647    | (675,980)    |
| (Inc)/dec in inventories             | (4,503,949)  | (2,796,298)  | (4,672,944)  | (8,374,797)  |
| Inc/(dec) in payables                | 3,124,565    | 3,970,337    | 1,331,043    | 2,823,942    |
| (Inc)/dec in prepaid expenses        | (164,867)    | (96,806)     | 126,753      | (227,805)    |
| Trading sec, int exp & taxes         | (643,249)    | (914,392)    | (1,257,087)  | (1,645,126)  |
| Net oper cash inflows/(outflows)     | (586,482)    | 2,663,664    | 2,261,135    | (1,286,081)  |
| Fixed & other LT assets              | (1,278,789)  | (2,065,070)  | (1,495,932)  | (3,066,921)  |
| Disposal of fixed assets             | 952          | 180          | 1,340        | 1,291        |
| Loans granted & debt bought          | 0            | (210,280)    | (85,922)     | (8,997,470)  |
| Loan collection & debt sales         | 0            | 125,580      | 0            | 5,911,392    |
| Investments in other entities        | 0            | 0            | (828,166)    | 0            |
| Divestment in other entities         | 0            | 0            | 0            | 0            |
| Dividends & interest received        | 1,799        | 29,375       | 64,287       | 278,946      |
| Net invest cash inflows/(outflows)   | (1,276,038)  | (2,120,215)  | (2,344,394)  | (5,872,762)  |
| Proceeds from issue of shares        | 0            | 92,226       | 703,840      | 90,455       |
| Payments for shrs/repurchases        | (315)        | 0            | (730)        | (4,850)      |
| Proceeds from borrowings             | 19,961,551   | 29,465,789   | 31,893,805   | 45,905,952   |
| Repayment of borrowings              | (17,225,505) | (27,456,000) | (31,690,849) | (38,801,962) |
| Finance lease principal payments     | 0            | 0            | 0            | 0            |
| Dividends paid                       | (220,130)    | (231,719)    | (485,862)    | (665,093)    |
| Interest, dividends & profits        | 0            | 0            | 0            | 0            |
| Net finance cash inflows/(outflows)  | 2,515,600    | 1,870,537    | 421,719      | 6,524,502    |
| Net inc in cash & equiv              | 653,081      | 2,413,986    | 338,460      | (634,341)    |
| Cash & equiv (beginning)             | 343,873      | 996,983      | 3,410,983    | 3,749,550    |
| Cash & equiv (ending-net FX)         | 996,983      | 3,410,983    | 3,749,550    | 3,115,237    |

Source: MWG, KB Securities Vietnam

## Balance sheet

| (VNDmn)<br>(Reporting standard) | 2016A      | 2017A      | 2018A      | 2019A      |
|---------------------------------|------------|------------|------------|------------|
|                                 | VN GAAP    | VN GAAP    | VN GAAP    | VN GAAP    |
| Total assets                    | 14,854,263 | 22,822,664 | 28,122,531 | 41,708,096 |
| Current assets                  | 12,288,142 | 18,862,861 | 23,371,995 | 35,011,897 |
| Cash & equivalents              | 996,983    | 3,410,983  | 3,749,550  | 3,115,237  |
| ST investments                  | 0          | 0          | 50,922     | 3,137,000  |
| Receivables & others            | 1,676,963  | 1,969,938  | 1,755,943  | 2,751,963  |
| Inventories                     | 9,370,732  | 12,050,163 | 17,446,005 | 25,745,428 |
| Long-term assets                | 2,566,121  | 3,959,803  | 4,750,537  | 6,696,199  |
| LT trade receivables & others   | 386,772    | 460,688    | 548,092    | 657,392    |
| Fixed assets & inv properties   | 2,096,423  | 3,463,658  | 3,333,148  | 5,403,777  |
| LT incomplete assets            | 80,421     | 35,457     | 256,832    | 87,430     |
| LT investments                  | 0          | 0          | 59,938     | 56,464     |
| Goodwill                        | 2,505      | 0          | 552,527    | 491,135    |
| Total liabilities               | 11,012,906 | 16,913,748 | 19,139,496 | 29,564,503 |
| Current liabilities             | 11,012,906 | 15,713,815 | 17,929,433 | 28,442,367 |
| Trade payables & others         | 6,162,197  | 10,037,059 | 11,993,368 | 15,258,103 |
| Advances & unrealized sales     | 20,044     | 22,475     | 38,062     | 81,528     |
| Short-term borrowings           | 4,788,992  | 5,603,506  | 5,836,455  | 13,031,016 |
| Long-term liabilities           | 0          | 1,199,933  | 1,210,063  | 1,122,137  |
| LT trade payables               | 0          | 0          | 0          | 0          |
| LT customer advances            | 0          | 0          | 1,896      | 0          |
| Unrealized revenue              | 0          | 0          | 0          | 0          |
| Long-term borrowings            | 0          | 1,199,933  | 1,208,167  | 1,122,137  |
| Owners' equity                  | 3,841,358  | 5,908,916  | 8,983,035  | 12,143,592 |
| Paid-in capital                 | 1,539,509  | 3,169,884  | 4,434,962  | 4,435,462  |
| Share premium                   | 36,718     | 36,718     | 551,452    | 555,207    |
| Undistributed earnings          | 2,261,763  | 2,698,573  | 3,989,604  | 7,149,694  |
| Reserves & other adj            | 1,130      | 1,130      | 1,130      | 1,130      |
| Minority interests              | 2,316      | 2,776      | 6,249      | 7,786      |

## Key ratios

| (x, %, VND)                    | 2016A  | 2017A  | 2018A  | 2019A  |
|--------------------------------|--------|--------|--------|--------|
| <b>Multiples</b>               |        |        |        |        |
| P/E                            | 19.0   | 14.0   | 10.9   | 8.4    |
| P/E diluted                    | 19.0   | 14.0   | 10.9   | 8.4    |
| P/B                            | 7.8    | 5.2    | 3.6    | 2.7    |
| P/S                            | 0.7    | 0.5    | 0.4    | 0.3    |
| P/tangible book                | 7.8    | 5.2    | 3.8    | 2.8    |
| P/cash flow                    | (51.1) | 11.6   | 13.9   | (25.1) |
| EV/EBITDA                      | 14.8   | 10.0   | 6.9    | 6.7    |
| EV/EBIT                        | 18.2   | 12.9   | 9.2    | 8.7    |
| <b>Operating performance</b>   |        |        |        |        |
| ROE                            | 49.9%  | 45.3%  | 38.7%  | 36.3%  |
| ROA                            | 14.3%  | 11.7%  | 11.3%  | 11.0%  |
| ROIC                           | 26.5%  | 25.8%  | 27.3%  | 21.3%  |
| <b>Financial structure</b>     |        |        |        |        |
| Cash ratio                     | 9.1%   | 21.7%  | 20.9%  | 11.0%  |
| Quick ratio                    | 9.1%   | 21.7%  | 21.2%  | 22.0%  |
| Current ratio                  | 111.6% | 120.0% | 130.4% | 123.1% |
| LT debt/equity                 | 0.0%   | 20.3%  | 13.5%  | 9.2%   |
| LT debt/total assets           | 0.0%   | 5.3%   | 4.3%   | 2.7%   |
| Debt/equity                    | 124.7% | 115.2% | 78.5%  | 116.6% |
| Debt/total assets              | 32.2%  | 29.8%  | 25.0%  | 33.9%  |
| ST liabilities/equity          | 286.9% | 266.1% | 199.7% | 234.4% |
| ST liabilities/total assets    | 74.1%  | 68.9%  | 63.8%  | 68.2%  |
| Total liabilities/equity       | 286.9% | 286.4% | 213.2% | 243.6% |
| Total liabilities/total assets | 74.1%  | 74.1%  | 68.1%  | 70.9%  |
| <b>Activity ratios</b>         |        |        |        |        |
| Asset turnover                 | 4.0    | 3.5    | 3.4    | 2.9    |
| Inventory turnover             | 5.2    | 5.2    | 4.8    | 3.8    |
| Account payables turnover      | 11.2   | 9.2    | 9.1    | 8.1    |

April 14, 2020

Financials Analyst  
 Nguyen Thi Thu Huyen  
 huyenttt@kbsec.com.vn

### Durable balance sheet to weather COVID-19 slowdown

ACB has one of Vietnam's most sturdy balance sheets with: 1) the industry's lowest non-performing loan ratio at 0.54% in 2019; 2) strong liquidity as seen in 2019's loan-to-deposit ratio at 77% vs the regulatory 85% cap; and 3) a capital adequacy ratio of 10.9% that meets Basel II requirements.

### Able to build off its strong presence in the retail banking segment

The bank's strong presence in retail banking also makes it one of the best positioned to deliver on 2020E earnings. ACB boasts a strong retail customer base and the bank seeks to build on this by adding additional clients to grow credit and pre-tax profit by 15% in 2020E. Addition of a *bancassurance* product in 2H20 should also benefit ACB's product portfolio to increase cross-selling opportunities into its customers.

### COVID-19 not likely to trigger any serious downturn in credit quality, making the stock attractive at 1.2x 2019 book value

We do not expect the COVID-19 pandemic to trigger a serious downturn in the credit cycle given the safety net being put in place by the government and central bank. With little risk of an erosion to book value at this time, we believe ACB is attractive at 1.2x 2019 book value and recommend a Buy and target price of VND27,000.

**Buy** maintain

|                          |                  |
|--------------------------|------------------|
| <b>Target price</b>      | <b>VND27,000</b> |
| Upside/downside          | 35%              |
| Current price (Apr 13)   | VND20,000        |
| Consensus target price   | VND31,100        |
| Market cap (VNDtn/USDbn) | 33.3/1.41        |

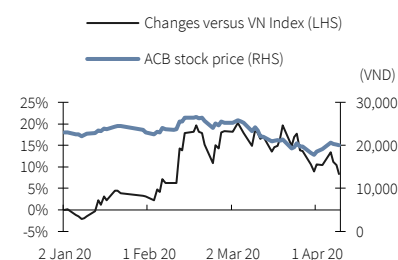
|                               |                          |
|-------------------------------|--------------------------|
| <b>Trading Data</b>           |                          |
| Free float                    | 77.1%                    |
| Avg T/O Val (3M, VNDbn/USDmn) | 113.7/4.9                |
| Foreign ownership             | 30%                      |
| Major shareholders:           | Dragon Financial (6.92%) |

|                                |           |           |           |            |
|--------------------------------|-----------|-----------|-----------|------------|
| <b>Share price performance</b> |           |           |           |            |
| <b>(%)</b>                     | <b>1M</b> | <b>3M</b> | <b>6M</b> | <b>12M</b> |
| <b>ACB</b>                     | -14.2%    | -10.7%    | -15.6%    | -14.8%     |
| <b>VN Index</b>                | -9.8%     | -20.8%    | -23.0%    | -23.1%     |

### Forecast earnings & valuation

| FY-end                       | 2017A  | 2018A  | 2019A  | 2020F  |
|------------------------------|--------|--------|--------|--------|
| Net interest income (VND bn) | 8,458  | 10,363 | 12,112 | 13,785 |
| Pre-provisioning OP (VND bn) | 5,222  | 7,321  | 7,790  | 9,164  |
| NP to parent (VND bn)        | 2,089  | 5,124  | 5,918  | 7,064  |
| EPS (VND)                    | 2,013  | 3,987  | 3,554  | 4,091  |
| EPS growth (%)               | 42%    | 98%    | -11%   | 15%    |
| PER (x)                      | 9.9    | 5.0    | 5.6    | 6.6    |
| BVPS (VND)                   | 15,604 | 16,311 | 16,699 | 17,294 |
| PBR (x)                      | 1.3    | 1.2    | 1.2    | 1.6    |
| ROE (%)                      | 14%    | 28%    | 25%    | 25%    |
| Div Yield (%)                | --     | --     | --     | --     |

Source: Bloomberg, KB Securities Vietnam



Source: Bloomberg, KB Securities Vietnam

## Unique resilience

**Asset quality supported by low non-performing loans, good balance sheet liquidity and capital adequacy at Basel II standards**

ACB goes into any deterioration of the credit cycle with asset quality supported by: 1) the industry's lowest non-performing loan ratio at 0.54% in 2019 and full resolution of all Vietnam Asset Management Corp bonds; 2) ample liquidity, with a loan-to-deposit ratio of 77% vs the 85% regulatory maximum (under the new standards effective in 2020) and 99% of bonds held in government securities; and 3) capital adequacy meeting Basel II standards at 10.91% (one of 18 banks have met the Basel II requirements).

**Most likely to deliver on 2020E targets as ACB builds on its strengths in retail banking**

The bank continues to focus on its traditional strength in retail banking to expand market share by building out its digital banking platform and maintaining a diverse loan portfolio rather than jumping into riskier assets to boost growth. Management's 2020E targets are 15% growth for both credit and pre-tax earnings, as well as maintaining cash and stock dividends at VND2,500-VND3,000 per share (cash and stock dividends totaled VND3,000 per share for 2019 earnings). It hopes to achieve this by expanding its client base by one million customers (95% individuals and 5% businesses), all while maintaining its customer retention ratio at 70%-80%. Given the strength of ACB's asset quality, we believe the bank is best positioned to deliver on its 2020E targets (barring any regulatory guidance to reduce dividend payouts due to the COVID-19 pandemic).

**New bancassurance exclusive and credit cards should allow ACB to narrow the gap in fee income versus peers**

ACB's main weakness has been its comparatively smaller fee income due to the lack of an exclusive partner for life insurance and weak credit card franchise. That said, we expect this gap to narrow this gap in the coming years:

- 1) *bancassurance*: ACB became the first bank to launch online life insurance sales but currently only sells products for FWD Insurance in a non-exclusive agreement made at the end of 2019. Management has indicated they will finally sign an exclusive distribution agreement with an international insurer in 2H20, which should introduce upfront fees and boost overall non-interest income. The bank estimates that bancassurance will generate VND900 billion in fees or an increase of 50% YoY.
- 2) *card services*: ACB's card market share was only 4.5% at the end of 2019 but the bank will re-focus on this business line in the coming years. The bank plans to increase cross-selling into its customer base of individuals and SME companies.

**2020E earnings likely a moving target due to COVID-19 but stock still trades at attractive 1.2x 2019 book value**

Earnings for 2020E for all banks likely a moving target given uncertainty on the exact timing of stabilization for COVID-19 and the central role banks will play in any government stimulus action. Importantly, we do not expect the COVID-19 pandemic to trigger any serious downturn in the credit cycle given the safety net being put in place by the government and central bank. With little threat of erosion to book value at present, ACB trades at an attractive 1.2x 2019 book value and we recommend a Buy. Our VND27,000 target price implies a P/B multiple of 1.6x 2019 book value.

| Income Statement<br>(VNDbn) |         |          |          |          |          | Balance Sheet<br>(VNDbn)      |         |         |         |         |         |
|-----------------------------|---------|----------|----------|----------|----------|-------------------------------|---------|---------|---------|---------|---------|
|                             | 2016    | 2017     | 2018     | 2019     | 2020F    |                               | 2016    | 2017    | 2018    | 2019    | 2020F   |
| Net interest income         | 6,892   | 8,458    | 10,363   | 12,112   | 13,785   | Loans                         | 163,401 | 198,513 | 230,527 | 268,701 | 309,006 |
| Interest income             | 16,448  | 20,320   | 24,015   | 28,318   | 31,728   | Marketable securities         | 46,998  | 54,399  | 55,176  | 59,569  | 67,437  |
| Interest expense            | (9,556) | (11,862) | (13,652) | (16,205) | (17,943) | Cash (ex. Reserves)           | 3,541   | 4,852   | 6,129   | 6,438   | 7,393   |
| Fees & commissions          | 944     | 1,188    | 1,498    | 1,896    | 2,136    | Interest earning assets       | 213,941 | 257,764 | 291,852 | 334,707 | 383,855 |
| Other non-interest income   | (274)   | 1,793    | 2,173    | 2,089    | 2,487    | Fixed assets & other assets   | 10,981  | 10,580  | 10,124  | 13,128  | 13,597  |
| Total operating income      | 7,563   | 11,439   | 14,033   | 16,097   | 18,408   | Total assets                  | 233,681 | 284,316 | 329,333 | 383,514 | 415,507 |
| SG&A expenses               | (4,678) | (6,217)  | (6,712)  | (8,308)  | (9,244)  | Customer deposits             | 207,051 | 241,393 | 269,999 | 308,129 | 339,153 |
| Pre-provisioning OP         | 2,885   | 5,222    | 7,321    | 7,790    | 9,164    | Borrowings & call money/repos | 8,850   | 22,225  | 29,047  | 40,079  | 37,684  |
| Provision for credit losses | (1,218) | (2,565)  | (932)    | (274)    | (235)    | Interest bearing liabilities  | 215,901 | 263,618 | 299,046 | 348,209 | 376,836 |
| Operating income            | 1,667   | 2,656    | 6,389    | 7,516    | 8,929    | Other liabilities             | 3,594   | 4,531   | 6,035   | 7,384   | 8,298   |
| Other non-operating income  | -       | -        | -        | -        | -        | Total liabilities             | 219,618 | 268,285 | 308,315 | 355,749 | 385,314 |
| Pre-tax income              | 1,667   | 2,656    | 6,389    | 7,516    | 8,929    | Charter capital               | 9,377   | 10,273  | 12,886  | 16,627  | 17,459  |
| Income tax expense          | (342)   | (538)    | (1,252)  | (1,506)  | (1,786)  | Capital surplus               | -       | -       | -       | 272     | 272     |
| NP                          | 1,325   | 2,118    | 5,137    | 6,010    | 7,143    | Retained earnings             | 2,761   | 3,510   | 5,105   | 6,370   | 7,757   |
| Minority interest profit    | -       | -        | -        | -        | -        | Capital adjustments           | -       | -       | -       | -       | -       |
| Parent NP                   | 1,308   | 2,089    | 5,124    | 5,918    | 7,064    | Total shareholders' equity    | 14,063  | 16,031  | 21,018  | 27,765  | 30,193  |

| Financial Indicators<br>(%)     |       |       |        |        |       | Valuation<br>(VND, X, %)       |        |        |        |        |        |
|---------------------------------|-------|-------|--------|--------|-------|--------------------------------|--------|--------|--------|--------|--------|
|                                 | 2016  | 2017  | 2018   | 2019   | 2020F |                                | 2016   | 2017   | 2018   | 2019   | 2020F  |
| <b>Profitability</b>            |       |       |        |        |       | <b>Share Price Indicators</b>  |        |        |        |        |        |
| ROE                             | 9.9%  | 14.1% | 27.7%  | 24.6%  | 24.6% | EPS                            | 1,413  | 2,013  | 3,987  | 3,554  | 4,091  |
| ROA                             | 0.6%  | 0.8%  | 1.7%   | 1.7%   | 1.8%  | BVPS                           | 14,997 | 15,604 | 16,311 | 16,699 | 17,294 |
| RORWA                           | N/A   | N/A   | N/A    | 2.1%   | 2.3%  | Tangible BVPS                  | 14,451 | 15,086 | 15,851 | 16,068 | 16,637 |
| Pre-provision ROE               | 21.5% | 34.7% | 39.5%  | 31.9%  | 31.6% | Common stock DPS               | -      | -      | -      | -      | -      |
| Pre-provision ROA               | 1.3%  | 2.0%  | 2.4%   | 2.2%   | 2.3%  | <b>Valuations</b>              |        |        |        |        |        |
| Pre-provision RORWA             | N/A   | N/A   | N/A    | 2.7%   | 3.0%  | PER                            | 14.2   | 9.9    | 5.0    | 5.6    | 6.6    |
| Net interest margin (NIM)       | 3.2%  | 3.3%  | 3.6%   | 3.6%   | 3.6%  | PBR                            | 1.3    | 1.3    | 1.2    | 1.2    | 1.6    |
| <b>Efficiency</b>               |       |       |        |        |       | <b>Capital Adequacy</b>        |        |        |        |        |        |
| Loan to deposit ratio (Cir. 22) | 75.7% | 75.3% | 77.1%  | 77.2%  | 82.0% | Tangible PBR                   | -      | -      | -      | -      | -      |
| Cost-income ratio               | 61.9% | 54.4% | 47.8%  | 51.6%  | 50.2% | Dividend yield                 | 0.0%   | 0.0%   | 0.0%   | 0.0%   | 0.0%   |
| <b>Growth</b>                   |       |       |        |        |       | <b>Asset Quality</b>           |        |        |        |        |        |
| Asset growth                    | 16.0% | 21.7% | 15.8%  | 16.5%  | 8.3%  | ROE                            | 9.9%   | 14.1%  | 27.7%  | 24.6%  | 24.6%  |
| Loan growth                     | 20.7% | 21.5% | 16.1%  | 16.6%  | 15.0% | <b>Capital Adequacy</b>        |        |        |        |        |        |
| PPOP growth                     | 31.2% | 81.0% | 40.2%  | 6.4%   | 17.6% | BIS ratio                      | N/A    | N/A    | N/A    | N/A    | N/A    |
| Parent NP growth                | 29.2% | 59.7% | 145.3% | 15.5%  | 19.4% | <b>Asset Quality</b>           |        |        |        |        |        |
| EPS growth                      | 35.5% | 42.5% | 98.1%  | -10.9% | 15.1% | NPL ratio (substandard)        | 0.9%   | 0.7%   | 0.7%   | 0.5%   | 0.6%   |
| BVPS growth                     | 9.7%  | 4.0%  | 4.5%   | 2.4%   | 3.6%  | Coverage ratio (substandard)   | 85.7%  | 184.6% | 55.7%  | 18.9%  | 13.1%  |
|                                 |       |       |        |        |       | NPL ratio (precautionary)      | 2.1%   | 0.9%   | 0.9%   | 0.8%   | 0.9%   |
|                                 |       |       |        |        |       | Coverage ratio (precautionary) | 35.4%  | 139.5% | 45.3%  | 13.2%  | 8.3%   |

Source: Company reports, KB Securities Vietnam

# PV Tech Services (PVS VN)

M&C division & one-off gains the main drivers

April 10, 2020

Oil & Gas/Chemicals Analyst  
 Nguyen Vinh  
 vinhn@kbsec.com.vn

## Mechanical & construction (M&C) division the main driver for core earnings

M&C backlogs have grown to USD3 billion and include mega projects like Blue Whale (USD800 million) and Block B (US1.07 billion), making this division the main earnings driver for PVS. Management guides revenue recognition will reach about USD400 million in 2020E as they book completed work for the Nam Du U Minh (USD260 million) and LNG Terminal (USD100 million) projects. That said, competition remains intense and lower Brent oil price may only see the GPM hit 4.7% in the current year. Healthy offshore backlogs should also help the Offshore Service Vessel (OSV), Port Base and Operating & Maintenance (O&M) businesses.

## One-off reversal for FPSO Lam Son helps protect earnings from lower oil prices

PVS has signed an official long-term contract with Petro Vietnam for FPSO Lam Son that should allow the company to book one-off gains in 2020E. PVS has been forced to use lower temporary day rates for FPSO Lam Son on the Thang Long-Dong Do project after Lam Son JOC exited the project and cancelled its original contract in June 2017. The official contract should now allow PVS to retroactively book higher day rates (an increase of 20%) from July 2017.

## Only trading at 6.2x consensus 2020E earnings vs five-year weekly average of 7.8x

PVS currently trades at a P/E of only 6.2x consensus earnings for 2020E. This compares to the weekly average P/E multiple of 7.8x for the past five years of trading history or VND15,500 per share, implying that PVS is undervalued. The Bloomberg consensus target price sits at VND18,700. Risks: Southeast Asia breakeven oil prices at USD45-55/bbl and weak oil prices could lead to delay or cancellation of drilling contracts.

## No Rating

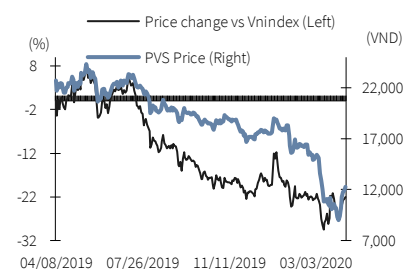
|                          |            |
|--------------------------|------------|
| Target price             | NA         |
| Upside/downside (%)      | na         |
| Current price (Apr 09)   | VND 12,300 |
| Consensus target price   | VND 18,700 |
| Market cap (VNDtn/USDbn) | 5.7/0.2    |

|                              |                                  |
|------------------------------|----------------------------------|
| Trading data                 |                                  |
| Free float (%)               | 48.5%                            |
| Trading value (VNDbn/USDmn)  | 45.1/1.9                         |
| Foreign available shares (%) | 33.7%                            |
| Major shareholders (%)       | Vietnam Oil & Gas Group (51.38%) |

|                         |      |       |       |      |
|-------------------------|------|-------|-------|------|
| Share price performance |      |       |       |      |
| (%)                     | 1M   | 3M    | 6M    | 12M  |
| Absolute Return         | -7   | -18.9 | -20.7 | -5.7 |
| Relative Return         | -5.2 | -10.4 | -15.6 | -5.8 |

### Forecast earnings & valuation

| FY-end                           | 2016A  | 2017A  | 2018A  | 2019A  |
|----------------------------------|--------|--------|--------|--------|
| Net sales (VND bn)               | 18,682 | 16,921 | 14,638 | 17,233 |
| Oper profit/(loss) (VND bn)      | 964    | 958    | 1,535  | 842    |
| Attributable net profit (VND bn) | 1,039  | 1,007  | 1,047  | 731    |
| EPS (VND)                        | 1,983  | 1,792  | 2,028  | 1,356  |
| EPS growth (%)                   | -27.2% | -9.7%  | 13.2%  | -33.1% |
| P/E (x)                          | 6.2    | 6.9    | 6.1    | 9.1    |
| P/B (x)                          | 0.6    | 0.5    | 0.5    | 0.5    |
| ROE (%)                          | 9.2%   | 8.3%   | 8.2%   | 6.2%   |
| Dividend yield, common (%)       | 7.6%   | 3.8%   | 6.5%   | na     |



Source: Bloomberg.



## M&C division & one-off gains the main drivers

**Mechanical & construction division should see good growth in 2020 and be the main earnings driver**

Mechanical & construction (M&C) revenue reached VND8.62 trillion (+57.2% YoY) with two main projects: Sao Vang-Dai Nguyet and Gallaf (Al Shaheen). But competition from international bidders and weak upstream demand in Southeast Asia kept the GPM thin at 2.06%. Management indicates it will recognize about USD400 million (+21.6% YoY) in revenue from the Nam Du U Minh (USD260 million) and LNG Terminal (USD100 million) projects in 2020 but Brent oil prices averaging USD56/bbl will likely keep the GPM low at 4.7%. M&C backlogs total USD3 billion, including the Blue Whale (USD800 million) and Block B (USD1.07 billion) projects (Vietnam is focusing on natural gas fields to meet growing electricity demand). Other PVS segments – Offshore Service Vessel (OSV), Port Base, Operating & Maintenance (O&M) should also benefit from offshore projects.

**Attractive one-off gains from FPSO Lam Son to protect earnings from lower oil prices**

Management also expects to recognize one-off earnings related to June 2017's cancellation of its FPSO (floating production storage & offloading) operating contract with Lam Son JOC for the Thang Long-Dong Do (TL-DD) project. After low oil prices and higher-than-expected operating expenses forced Lam Son JOC to give up on the Thang Long-Dong Do oil field, the parent holding company Vietnam Oil & Gas Group (Petro Vietnam) assumed the project and temporarily hired the FPSO Lam Son at a day rate of only USD50,600 per day (much lower than its initial day rate with Lam Son JOC). On March 17, 2020 PVS replaced the temporary hire for its FPSO Lam Son with an official four-year contract effective from July 2017. With the new contract in place, the company expects retroactively replace the temporary day rates with the new official rates – that boosted the day rate by 20% – and book VND221 billion or VND464 per share in one-off gains.

**Undervalued and only trading at a P/E of 6.1x consensus earnings for 2020E vs an average weekly P/E multiple of 7.8x**

Currently, PVS trades at 6.2x consensus earnings for 2020E. Given consensus earnings for 2020E at VND1.055 trillion or and EPS of VND1,986, the outlook for this year should reflect the one-off earnings as well as downward revisions from lower average oil prices. Weekly P/E multiples for PVS have averaged 7.8x over the last five years, implying a share price of VND15,500 off the 2020E consensus EPS should the stock return to historical trading levels. This compares to the Bloomberg consensus target price of VND18,700. Main risks include: breakeven oil prices for oil fields in Southeast Asia range from USD45–55/bbl and low oil prices could lead to the postponement or termination of oil drilling contracts.

## Income statement

| (VNDmn)<br>(Reporting standard)    | 2016A<br>VN GAAP | 2017A<br>VN GAAP | 2018A<br>VN GAAP | 2019A<br>VN GAAP |
|------------------------------------|------------------|------------------|------------------|------------------|
| Net sales                          | 18,682,081       | 16,920,712       | 14,638,124       | 17,232,812       |
| Cost of sales                      | 17,899,328       | 15,840,839       | 13,519,382       | 16,239,300       |
| Gross profit                       | 782,753          | 1,079,873        | 1,118,742        | 993,512          |
| Financial income                   | 0                | 294,746          | 505,848          | 323,252          |
| Financial expenses                 | 0                | 84,487           | 66,171           | 67,399           |
| of which: interest expenses        | 0                | 37,946           | 26,802           | 33,778           |
| Gain/(loss) from joint ventures    | 0                | 461,167          | 722,592          | 435,681          |
| Selling expenses                   | 91,960           | 85,233           | 101,506          | 107,511          |
| General & admin expenses           | 540,231          | 708,004          | 644,551          | 735,191          |
| Operating profit/(loss)            | 964,394          | 958,064          | 1,534,954        | 842,344          |
| Other incomes                      | 304,152          | 5,274,476        | 88,610           | 396,472          |
| Other expenses                     | 12,410           | 4,932,827        | 647,231          | 290,516          |
| Net other income/(expenses)        | 291,742          | 341,648          | -558,620         | 105,956          |
| Pretax profit/(loss)               | 1,256,136        | 1,299,713        | 976,334          | 948,300          |
| Income tax                         | 346,392          | 265,877          | 403,217          | 267,568          |
| Net profit/(loss)                  | 909,744          | 1,033,836        | 573,117          | 680,731          |
| Minority interest                  | -128,999         | 26,938           | -474,170         | -49,936          |
| Net profit attributable to shrhdrs | 1,038,743        | 1,006,897        | 1,047,286        | 730,667          |

## Operating statistics

| (%)                     | 2016A | 2017A | 2018A | 2019A |
|-------------------------|-------|-------|-------|-------|
| Gross profit margin     | 4.2%  | 6.4%  | 7.6%  | 5.8%  |
| EBITDA margin           | 9.8%  | 9.5%  | 11.9% | 7.4%  |
| EBIT margin             | 5.2%  | 4.4%  | 7.5%  | 3.4%  |
| Pre-tax profit margin   | 6.7%  | 7.7%  | 6.7%  | 5.5%  |
| Operating profit margin | 5.2%  | 5.7%  | 10.5% | 4.9%  |
| Net profit margin       | 5.6%  | 6.0%  | 7.2%  | 4.2%  |

## Cash flow statement

| (VNDmn)                              | 2016A      | 2017A      | 2018A     | 2019A      |
|--------------------------------------|------------|------------|-----------|------------|
| Net profit/(loss) before tax         | 1,256,136  | 1,299,713  | 976,334   | 948,300    |
| Depreciation & amortization          | 858,373    | 855,436    | 652,766   | 680,367    |
| Profit/(loss) from investing         | -858,135   | -725,172   | -998,438  | -693,627   |
| Interest expense                     | 74,450     | 43,939     | 651,590   | 33,778     |
| Oper profit/(loss) before WC change: | 1,330,823  | 473,915    | 1,282,252 | 974,596    |
| (Inc)/dec in receivables             | -609,824   | 290,533    | -951,711  | 593,272    |
| (Inc)/dec in inventories             | -455,860   | 1,497,617  | -30,055   | -560,223   |
| Inc/(dec) in payables                | 56,367     | -1,393,495 | 227,953   | 1,350,284  |
| (Inc)/dec in prepaid expenses        | 47,561     | -225       | 43,384    | 2,583      |
| Trading sec, int exp & taxes         | -445,354   | -883,478   | -380,238  | -554,843   |
| Net oper cash inflows/(outflows)     | -76,287    | 984,867    | 191,585   | 1,805,668  |
| Fixed & other LT assets              | -447,571   | -435,787   | -354,534  | -870,967   |
| Disposal of fixed assets             | 1,037      | 8,964      | 2,235     | 4,995      |
| Loans granted & debt bought          | -1,245,394 | -1,782,128 | -690,838  | -1,925,557 |
| Loan collection & debt sales         | 918,029    | 1,191,388  | 1,348,310 | 1,099,591  |
| Investments in other entities        | 0          | 0          | 0         | 0          |
| Divestment in other entities         | 5,000      | 0          | 855,133   | 0          |
| Dividends & interest received        | 217,921    | 559,596    | 770,079   | 462,833    |
| Net invest cash inflows/(outflows)   | -550,977   | -457,966   | 1,075,253 | -1,229,104 |
| Proceeds from issue of shares        | 0          | 0          | 0         | 0          |
| Payments for shrs/repurchases        | 0          | 0          | 0         | 0          |
| Proceeds from borrowings             | 59,165     | 62,710     | 33,818    | 553,762    |
| Repayment of borrowings              | -735,068   | -429,712   | -289,859  | -109,940   |
| Finance lease principal payments     | 0          | 0          | 0         | 0          |
| Dividends paid                       | -808,800   | -284,048   | -508,775  | -371,384   |
| Interest, dividends & profits        | 0          | 0          | 0         | 0          |
| Net finance cash inflows/(outflows)  | -1,484,703 | -651,050   | -764,815  | 72,439     |
| Net inc in cash & equiv              | -2,111,967 | -124,149   | 502,023   | 649,003    |
| Cash & equiv (beginning)             | 7,991,387  | 5,883,670  | 5,761,373 | 6,310,817  |
| Cash & equiv (ending-net FX)         | 5,883,670  | 5,761,373  | 6,310,817 | 6,949,115  |

Source: PVS, KB Securities Vietnam

## Balance sheet

| (VNDmn)<br>(Reporting standard) | 2016A<br>VN GAAP | 2017A<br>VN GAAP | 2018A<br>VN GAAP | 2019A<br>VN GAAP |
|---------------------------------|------------------|------------------|------------------|------------------|
| Total assets                    | 25,541,110       | 24,849,784       | 23,089,469       | 25,075,058       |
| Current assets                  | 15,151,148       | 13,752,725       | 14,128,722       | 15,329,912       |
| Cash & equivalents              | 5,883,670        | 5,761,373        | 6,310,817        | 6,949,115        |
| ST investments                  | 911,017          | 1,524,757        | 1,726,317        | 2,742,983        |
| Receivables & others            | 5,920,849        | 5,638,574        | 5,339,240        | 4,196,902        |
| Inventories                     | 1,650,745        | 465,759          | 493,936          | 1,061,408        |
| Long-term assets                | 10,389,961       | 11,097,059       | 8,960,746        | 9,745,146        |
| LT trade receivables & others   | 415,418          | 1,343,288        | 1,116,147        | 1,311,321        |
| Fixed assets & inv properties   | 4,150,439        | 3,687,545        | 2,633,626        | 3,180,502        |
| LT incomplete assets            | 128,187          | 163,811          | 117,432          | 131,976          |
| LT investments                  | 4,733,713        | 5,709,610        | 4,905,470        | 4,938,011        |
| Goodwill                        | 0                | 0                | 0                | 0                |
| Total liabilities               | 13,788,658       | 11,737,934       | 10,384,222       | 12,544,128       |
| Current liabilities             | 9,743,163        | 7,315,550        | 6,825,236        | 8,286,384        |
| Trade payables & others         | 7,254,156        | 6,397,628        | 5,602,119        | 6,715,394        |
| Advances & unrealized sales     | 1,452,225        | 356,732          | 162,312          | 385,905          |
| Short-term borrowings           | 432,147          | 254,716          | 721,241          | 771,273          |
| Long-term liabilities           | 4,045,495        | 4,422,384        | 3,558,986        | 4,257,744        |
| LT trade payables               | 0                | 0                | 0                | 200              |
| LT customer advances            | 1,827,199        | 2,100,922        | 2,159,056        | 2,380,634        |
| Unrealized revenue              | 1,012,903        | 1,357,619        | 1,146,148        | 1,232,706        |
| Long-term borrowings            | 1,143,509        | 900,701          | 192,809          | 584,274          |
| Owners' equity                  | 11,752,452       | 13,111,850       | 12,705,247       | 12,530,930       |
| Paid-in capital                 | 4,467,004        | 4,467,004        | 4,779,663        | 4,779,663        |
| Share premium                   | 39,617           | 39,617           | 39,617           | 39,617           |
| Undistributed earnings          | 3,188,956        | 3,715,435        | 3,825,925        | 3,745,518        |
| Reserves & other adj            | 0                | 0                | 0                | 0                |
| Minority interests              | 1,430,755        | 1,381,469        | 852,970          | 705,342          |

## Key ratios

| (x, %, VND)                    | 2016A  | 2017A  | 2018A  | 2019A  |
|--------------------------------|--------|--------|--------|--------|
| <b>Multiples</b>               |        |        |        |        |
| P/E                            | 5.7    | 5.8    | 5.6    | 8.0    |
| P/E diluted                    | 5.7    | 5.8    | 5.6    | 8.0    |
| P/B                            | 0.6    | 0.5    | 0.5    | 0.5    |
| P/S                            | 0.3    | 0.3    | 0.4    | 0.3    |
| P/tangible book                | 0.6    | 0.5    | 0.5    | 0.5    |
| P/cash flow                    | (77.1) | 6.0    | 30.7   | 3.3    |
| EV/EBITDA                      | 0.8    | 0.7    | 0.2    | 0.1    |
| EV/EBIT                        | 1.5    | 1.5    | 0.3    | 0.2    |
| <b>Operating performance</b>   |        |        |        |        |
| ROE                            | 10.1%  | 9.1%   | 8.9%   | 6.2%   |
| ROA                            | 4.0%   | 4.0%   | 4.4%   | 3.0%   |
| ROIC                           | 13.3%  | 9.1%   | 9.5%   | 6.6%   |
| <b>Financial structure</b>     |        |        |        |        |
| Cash ratio                     | 60.4%  | 78.8%  | 92.5%  | 83.9%  |
| Quick ratio                    | 118.7% | 146.2% | 161.9% | 151.5% |
| Current ratio                  | 155.5% | 188.0% | 207.0% | 185.0% |
| LT debt/equity                 | 11.1%  | 7.7%   | 1.6%   | 4.9%   |
| LT debt/total assets           | 4.5%   | 3.6%   | 0.8%   | 2.3%   |
| Debt/equity                    | 15.3%  | 9.8%   | 7.7%   | 11.5%  |
| Debt/total assets              | 6.2%   | 4.6%   | 4.0%   | 5.4%   |
| ST liabilities/equity          | 94.4%  | 62.4%  | 57.5%  | 70.1%  |
| ST liabilities/total assets    | 38.1%  | 29.4%  | 29.6%  | 33.0%  |
| Total liabilities/equity       | 133.6% | 100.1% | 87.5%  | 106.1% |
| Total liabilities/total assets | 54.0%  | 47.2%  | 45.0%  | 50.0%  |
| <b>Activity ratios</b>         |        |        |        |        |
| Asset turnover                 | 0.7    | 0.7    | 0.6    | 0.7    |
| Inventory turnover             | 12.6   | 15.0   | 28.2   | 20.9   |
| Account payables turnover      | 4.3    | 4.4    | 4.3    | 4.5    |

# REE CORPORATION (REE)

## Well insulated against COVID-19

April 14, 2020

Power & Steel Analyst  
Le Thanh Cong  
congt@kbsec.com.vn

### 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.

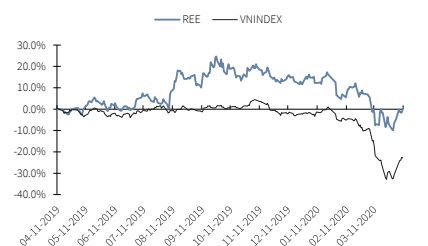
## No Rating

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

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

|                                |           |           |           |            |
|--------------------------------|-----------|-----------|-----------|------------|
| <b>Share price performance</b> |           |           |           |            |
| (%)                            | <b>1M</b> | <b>3M</b> | <b>6M</b> | <b>12M</b> |
| 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: KBSOURCE

## 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  | 4,889.85  |
| 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    | 195.50    |
| 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         |
| <b>TOTAL ASSETS</b>               | <b>11,396.64</b> | <b>14,294.67</b> | <b>15,499.66</b> | <b>19,622.76</b> |
| <b>LIABILITIES</b>                | <b>3,675.49</b>  | <b>5,601.39</b>  | <b>5,571.29</b>  | <b>8,521.10</b>  |
| 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         |
| <b>OWNER'S EQUITY</b>             | <b>7,721.14</b>  | <b>8,693.28</b>  | <b>9,928.37</b>  | <b>11,101.67</b> |
| 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  |
|--------------------------------|-------|------|--------|-------|
| <b>Multiple</b>                |       |      |        |       |
| 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 |
| <b>Operating performance</b>   |       |      |        |       |
| 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  |
| <b>Financial structure</b>     |       |      |        |       |
| 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  |
| <b>Activity ratios</b>         |       |      |        |       |
| 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  |

## KB SECURITIES VIETNAM RESEARCH

---

**Head of Research – Nguyen Xuan Binh**

binhnx@kbsec.com.vn

### **Macro/Strategy**

**Head of Macro & Strategy – Tran Duc Anh**

anhtd@kbsec.com.vn

**Macro Analyst – Thai Thi Viet Trinh**

trinhhtt@kbsec.com.vn

**Market Strategist – Le Anh Tung**

tungla@kbsec.com.vn

### **Equity (Hanoi)**

**Head of Equity Research (Hanoi) – Duong Duc Hieu**

hieudd@kbsec.com.vn

**Information Technology & Logistics Analyst – Nguyen Anh Tung**

tungna@kbsec.com.vn

**Property Analyst – Pham Hoang Bao Nga**

ngaphb@kbsec.com.vn

**Power & Construction Material Analyst – Le Thanh Cong**

conglt@kbsec.com.vn

**Financials Analyst – Nguyen Thi Thu Huyen**

huyenntt@kbsec.com.vn

### **Equity (Ho Chi Minh)**

**Head of Equity Research (Ho Chi Minh) – Harrison Kim**

harrison.kim@kbf.com

**Consumer & Retailing Analyst – Dao Phuc Phuong Dung**

dungdpp@kbsec.com.vn

**Fisheries & Pharmaceuticals Analyst – Nguyen Thanh Danh**

danhnt@kbsec.com.vn

**Oil & Gas & Chemicals Analyst – Nguyen Vinh**

vinhn@kbsec.com.vn

### **Research Marketing**

**Korea Marketing Analyst – Seon Yeong Shin**

shin.sy@kbsec.com.vn

## KB SECURITIES VIETNAM (KBSV)

---

### Head Office:

Levels G, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da 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](mailto:ccc@kbsec.com.vn)  
Website: [www.kbsec.com.vn](http://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 |

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.