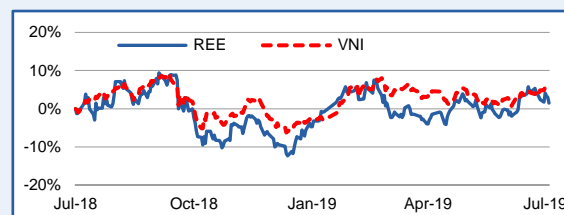


Refrigeration Electrical Engineering (REE)

Earnings Flash

Industry:	Utilities		2018	H1/19	2019F
Report Date:	July 29, 2019	Rev Growth	2.1%	2.9%	2.4%
Current Price:	VND32,600	EPS Growth	29.5%	-16.2%	-5.3%
Last Target Price:	VND43,900	GPM	24.1%	27.9%	24.2%
Upside:	34.7%	NPM	35.0%	33.6%	32.3%
Dividend yield:	5.5%	EV/EBITDA	11.2x		9.6x
TSR	40.2%	P/B	1.1x		1.0x
Rating	BUY	P/E	6.1x		6.0x



Market Cap:	USD434mn	REE	Peers	VNI
Foreign Room:	USD0mn	P/E (ttm)	6.2x	11.2x
ADTV30D:	USD1.0mn	P/B (curr)	1.1x	1.4x
State Ownership:	0%	Net D/E	0.1	0.2
Outstanding Shares:	310 mn	ROE	16.2%	11.7%
Fully Diluted Shares:	310 mn	ROA	9.8%	7.5%

Company Overview

REE is a holding company with businesses including mechanical and engineering (M&E), office leasing, real estate and power. Income from associated companies, mostly contributed by power generators, accounts for nearly half of its total earnings.

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Weak Q2 2019 results in line with our expectation

- REE released Q2 2019 results in which H1 2019 revenue grew 2.9% YoY to VND2.3tn (USD100mn), mainly thanks to the contribution of the new E-town Central office building.
- H1 2019 NPAT-MI declined 16.2% YoY as strong office leasing earnings growth and recovery from the mechanical and engineering segment (M&E) failed to compensate for power's earnings decline (due to lower rainfall for hydropower, no provision write-back for the Quang Ninh plant (UpCOM: QTP) and weak results of PPC. Please see more in our [PPC Earnings Flash dated July 16 2019](#)).
- Excluding the QTP provision, adjusted NPAT-MI in H1 2019 decreased only 5.3% YoY.
- H1 2019 revenue and NPAT-MI completed 44.8% and 46.6% of our 2019 full-year forecast, respectively, which was nearly in line with our expectation as hydropower's earnings were in the peak season in H2 vs H1 while the M&E and real estate segments have a nature of revenue and profit booking towards year end.
- We see minimal downside risk for our 2019 earnings forecast (mainly due to PPC's lower-than-expected Q2 2019 results), but we also foresee upside risk to our projection for coming new investments (following REE's recent disclosures in its latest analyst meeting).

Bright performance and outlook for office leasing segment. Excluding a land disposal gain of VND110bn (USD4.7mn) in Q2 2018, office leasing earnings grew 62.9% YoY due to the contribution of E-town Central. Meanwhile, the newest project (E-town East West in Tan Binh District) is fully occupied and will get four to five months of payment from the client in 2019 at an impressive average rate of USD25/sqm/month, which is 25% higher than our assumption. In addition, the giant office building E-town 6 is on track to break ground in 2020 and contribute 70,000 sqm starting in 2023 (+50% vs current office leasing area of 150,000sqm).

M&E's performance is still solid despite slowdown of real estate sector. M&E's newly-signed contracts reached VND2tn (USD86mn) in H1 2019, equivalent to 70% of the company's full-year target. The backlog as of June 30, 2019, was VND5.8tn (USD249mn), which is equivalent to approximately two years of revenue. REE is confident to at least meet its 2019's M&E and air conditioning profit guidance of VND275bn (USD11.8mn) vs our projection of VND304bn (USD13mn).

REE's recent disclosures imply upside risk to our projection for its coming power investment as 1) the wind power project has a tariff is USD9.8 cents/kWh vs our assumption of USD8.5 cents as this is offshore wind and not onshore wind; 2) REE claims it will M&A the 35MW (32MW + 2.8MW) hydropower project in the North of Vietnam. In addition, it is poised to get an avoidable tariff (a special rate for small hydropower) that is 10-20% higher than our assumption of

the normal hydropower price. We note that REE estimates ~VND60bn (USD2.6mn) profit p.a. from this new asset, implying a P/E of 10x.

Figure 1: H1 2019 results

	Q2 2019	YoY	H1 2019	YoY	% of 2019F
Revenue	1,259	3.1%	2,338	2.9%	44.8%
Power and water	232	29.7%	426	3.1%	57.8%
M&E and air conditioning	796	-9.2%	1,473	-4.4%	43.3%
Office leasing and real estate	230	38.7%	438	37.7%	40.4%
Gross profit	344	53.0%	651	19.0%	45.7%
SG&A	-70	18.1%	-126	3.2%	38.8%
Operating profit	275	65.4%	525	23.6%	47.7%
- Financial income	65	-62.0%	224	5.0%	63.8%
- Financial expenses	-33	324.6%	-193	n/m	52.7%
Interest expense	-103	73.5%	-194	86.2%	53.0%
QTP provision/write-back	73	36.7%	10	-91.5%	n/m
- Share profit/loss fr associates	212	-30.2%	379	-18.6%	42.5%
- Net other income/loss	2	-68.9%	3	-58.0%	18.7%
EBT	521	-18.5%	937	-16.5%	47.1%
- Income tax exp	-62	-7.5%	-109	-19.2%	49.4%
Profit after tax	458	-19.9%	828	-16.2%	46.8%
- Minority interests	-24	66.6%	-42	-14.7%	51.9%
NPAT-MI	434	-22.1%	786	-16.2%	46.6%
Power*	224	-29.7%	369	-29.9%	46.3%
M&E and Air conditioning	65	37.1%	120	6.9%	39.5%
Office leasing and Real Estate**	106	-29.4%	215	-2.6%	47.5%
Water	56	45.0%	96	27.0%	51.4%
Other	-18	n/m	-13	n/m	25.5%
NPAT-MI adjusted for QTP provision	362	-28.3%	776	-5.3%	46.0%

Source: REE, VCSC. (*) Including VND88bn/USD3.8mn add-on disposal gain from the Vung Ang 2 divestment in Q1 2019, (**) Including land disposal gain of VND110bn (USD4.7mn) in Q2 2018



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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

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MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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