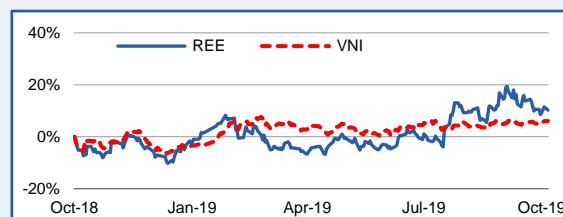


Refrigeration Electrical Engineering (REE)

Earnings Flash

Industry:	Utilities		2018	9M 19	2019F
Report Date:	October 29, 2019				
Current Price:	VND37,950	Rev Growth	2.1%	2.9%	3.4%
Last Target Price:	VND45,700	EPS Growth	29.5%	-3.5%	-8.5%
Upside:	20.4%	EPS Growth*	10.1%	-1.9%	-1.9%
Dividend yield:	4.7%	NPM	35.0%	33.4%	31.0%
TSR	25.2%	FCF yield	12.7%	N/A	9.6%
Rating	BUY	P/B	1.3x	N/A	1.1x
		P/E	7.1x	N/A	7.2x



Market Cap:	USD505mn	REE	Peers	VNI
Foreign Room:	USD0mn	P/E (ttm)	6.8x	10.5x
ADTV30D:	USD1.7mn	P/B (curr)	1.2x	1.3x
State Ownership:	0%	Net D/E	0.1	0.2
Outstanding Shares:	310 mn	ROE	17.0%	13.7%
Fully Diluted Shares:	310 mn	ROA	10.4%	7.4%
			2.5%	

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.

* Core NPAT, adjusted for Quang Ninh plant (QTP)'s provision/write-back

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Strong Q3 2019 results driven by all segments

- REE released Q3 2019 results in which NPAT-MI grew 37.2% YoY to VND403bn (USD17.3mn), implying a 9M 2019 NPAT-MI of VND1.2tn (USD51mn, -3.5% YoY).
- This strong Q3 2019 earnings growth was driven by all segments, including 1) Power & Water growth of 60.6% (due to PPC's strong consolidated earnings growth and a provision write-back for the Quang Ninh coal-fired power plant – QTP); 2) M&E growth of 20.9% (vs a low base in Q3 2018 when REE booked provisions for pending projects); and 3) office leasing & real estate growth of 31.9% (driven by the new E-town Central and E-town East West).
- Excluding the QTP provision, Q3 2019 adjusted NPAT-MI grew 5.7% YoY while 9M 2019 adjusted NPAT-MI declined 1.9% YoY.
- 9M 2019 NPAT-MI completed 72.9% of our 2019 full-year forecast, which was in line with our expectation as the M&E and real estate segments have had a nature of revenue and profit booking towards year-end.
- We see upside risk to our consolidated earnings forecast for PPC, but we also see downside risk to our hydropower earnings forecast; this implies minimal changes to our 2019 earnings forecast for REE, pending for a fuller review.

Thermal power plants (PPC, HND and QTP) surprisingly boosted power earnings in Q3 2019 despite it being the rainy season. PPC's Q3 2019 parent NPAT only grew 19% YoY (see more in our [PPC Earnings Flash dated October 16 2019](#)). However, we estimate PPC's Q3 2019 consolidated NPAT (REE uses PPC's consolidated results to book into its P&L) has rocketed 71.1% YoY, mainly thanks to strong earnings recovery of the Hai Phong coal-fired power plant (HND; Q3 2019 NPAT of VND93bn/USD4mn vs Q3 2018 loss of VND148bn/USD6.4mn). In addition, REE recorded QTP's provision write-back of VND23bn (USD1mn) in Q3 2019 vs a provision booking of VND66bn (USD2.8mn) in Q3 2018. We note that 9M 2019 NPAT of HND and QTP completed 99% and 78% of our 2019 full-year forecast, respectively.

Upper Kon Tum hydropower plant (220MW) of VSH (associate company in which REE has 21% stake) is heading to operate in Q1 2019. VSH completed the tunnel construction for Upper Kon Tum in late October 2019, which is an important milestone that guarantees no further delay for this project. Per VSH, the new hydropower plant is expected to store water from January 2020 before commercially operating in March 2020.

Figure 1: 9M 2019 results

	Q3 2019	YoY	9M 2019	YoY	% of 2019F
Revenue	1,227	2.8%	3,565	2.9%	67.6%
Power and water	179	-9.1%	606	-0.9%	77.1%
M&E and air conditioning	815	1.6%	2,288	-2.3%	67.3%
Office leasing and real estate	233	20.0%	671	31.0%	61.7%
Gross profit	298	1.0%	950	12.7%	63.6%
SG&A	-62	-11.2%	-189	-2.0%	57.2%
Operating profit	236	4.8%	761	17.1%	65.3%
- Financial income	94	115.0%	318	23.8%	90.4%
- Financial expenses	-82	-35.3%	-275	141.1%	75.1%
Interest expense	-102	77.6%	-297	83.2%	80.9%
QTP provision/write-back	23	n/m	33	n/m	n/m
- Share profit/loss from associates	205	3.8%	584	-12.0%	72.3%
- Net other income/loss	8	147.4%	10	9.5%	72.6%
EBT	461	34.4%	1,398	-4.6%	70.9%
- Income tax exp	-48	54.3%	-156	-5.5%	67.1%
Profit after tax	414	32.4%	1,242	-4.5%	71.4%
- Minority interests	-11	-42.7%	-53	-22.4%	49.3%
NPAT-MI	403	37.2%	1,189	-3.5%	72.9%
Power and Water	238	60.6%	703	-6.2%	77.5%
M&E and Air conditioning	71	20.9%	191	11.7%	62.7%
Office leasing and Real Estate*	105	31.9%	320	6.6%	70.7%
Other	-11	n/m	-24	n/m	78.3%
NPAT-MI adjusted for QTP provision	380	5.7%	1,156	-1.9%	68.5%

Source: REE, VCSC. (*) 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.

Equity rating key	Definition
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OUTPERFORM	If the projected TSR is between 10% and 20%
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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