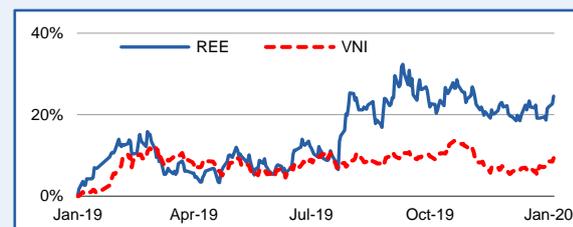


Industry:	Utilities	2018	2019
Report Date:	January 22, 2020		
Current Price:	VND37,300	Rev Growth	2.1%
Last Target Price:	VND46,800	EPS Growth	29.5%
Upside:	25.5%	EPS Growth*	10.1%
Dividend yield:	4.8%	NPM	35.0%
TSR	30.3%	FCF yield	9.2%
Rating	BUY	P/B	1.2x
		P/E	7.0x



		REE	Peers	VNI
Market Cap:	USD496.4mn	P/E (ttm)	7.2x	10.5x
Foreign Room:	USD0.0mn	P/B (curr)	1.1x	1.3x
ADTV30D:	USD1.0mn	Net D/E	0.3	0.2
State Ownership:	0%	ROE	16.6%	13.7%
Outstanding Shares:	310 mn	ROA	9.9%	7.4%
Fully Diluted Shares:	310 mn			

Company Overview

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

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

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2019 results in line with our forecast; successful M&As

- REE released 2019 results in which Q4 2019 NPAT-MI reached VND417bn (USD18mn, -24.4% YoY). We attribute Q4 2019's weak earnings to (1) weakness in the mechanical & engineering (M&E) segment; and (2) a lower contribution from the power segment that was due to lower sales volume from hydropower plants and lack of a provision write-back for the Quang Ninh coal-fired power plant (UPCoM: QTP).
- 2019 NPAT-MI declined by 8.1% YoY to VND1.6tn (USD70.6mn) as strong office leasing growth (driven by two new buildings) failed to offset lower power earnings (given lower sales volume from hydropower plants and a lower provision write-back for QTP).
- Excluding the provision write-back, 2019 adjusted NPAT-MI declined nominally by 3.7% YoY.
- In 2019, REE successfully completed M&As with four power/water companies and have significant/controlling stakes. Accordingly, REE's total assets increased by 26.6% to VND19.6tn (USD846mn).
- 2019 NPAT-MI was 100% in line with our forecast as higher-than-expected profit from the power and office leasing segments offset lower-than-expected profit from the M&E segment.
- We see downside risk to our 2020 NPAT-MI forecast due to REE's increasing stake in VSH; however, we see upside risk from PPC (an associated company in which REE has 25% stake) whose 2019 NPAT surpasses our forecast by 33%, pending a fuller review. We also see upside risk to our NPAT-MI forecast from 2021 onward given REE's increasing stake in the Vinh Son – Song Hinh hydropower plants (HSX: VSH).

REE successfully completed its M&A guidance in 2019 with total disbursement of VND2.2tn (USD95mn). In 2019, REE completed several M&A deals, including: (1) another 21% stake at VSH (356MW) to bring REE's total stake to 49.5%; (2) a 24% stake at the Thuan Binh wind power plant (24 MW) to bring REE's controlling stake to 57%, including an 8% indirect stake via REE's subsidiary TBC; (3) REE controlling the Muong Hum hydropower plant (35 MW) with a 49% direct stake (the remaining stake belongs to TBC); and (4) a 44% stake in the Khanh Hoa Water Supply Company.

M&E segment did not meet our forecast, but high receivables suggest strong revenue for 2020. M&E and air conditioning revenue and NPAT-MI trailed our forecast by 7.6% and 19.3%, respectively. However, we see that the "receivables under schedule of construction contract" account (which mainly comes from the M&E and air conditioning segments) increased by 47% to VND620bn (USD27mn), implying potential earnings growth for the M&E and air conditioning

segments in 2020, pending for a fuller review. In addition, we note that we currently forecast 2020 M&E NPAT growth of 27.5% given REE's strong accumulated backlog of ~VND5tn (USD216mn).

REE's increasing stake at VSH from 24% to 49.5% implies downside risk to our NPAT-MI forecast in 2020; however, it implies upside risk to our NPAT-MI forecast for 2021 onward, pending for a fuller review. VSH is on track to bring the new Upper Kon Tum hydropower plant (220MW) online in Q1 2020. We currently forecast VSH to have a loss of VND178bn (USD7.7mn) in 2020 as we expect the temporary power purchasing agreement (PPA) price for the new hydropower plant will fail to offset high depreciation and interest expenses. However, we project VSH to have 2021 NPAT of VND205bn (USD8.9mn), driven by the full-year operation of Upper Kon Tum and a higher PPA price after renegotiation.

Figure: 2019 results

VND bn	Q4 2019	YoY	2019	YoY	% of 2019F	Explanation for failing/surpass our forecast
Revenue	1,325	-19.0%	4,890	-4.1%	94.0%	Due to lower-than-expected revenue from M&E segment
Power and water	184	-17.6%	790	-5.4%	110.7%	
M&E and air conditioning	256	-21.7%	3,143	-8.3%	92.4%	
Office leasing and real estate	855	-21.2%	927	10.5%	85.2%	
Gross profit	297	-23.1%	1,246	1.5%	87.0%	We attribute lower-than-expected gross profit to weak performance of the M&E segment, pending a fuller review.
SG&A	-112	-8.8%	-301	-4.7%	92.5%	
Operating profit	185	-29.8%	946	3.6%	85.4%	
- Financial income	124	165.1%	442	45.6%	125.7%	
- Financial expenses	-110	n/m	-386	246%	-107%	
Interest expense	-107	70.3%	-404	79.6%	110.2%	
QTP provision/write-back	3	-96.1%	36	-70.2%	n/m	
- Share profit/loss from associates	323	-3.7%	907	-9.2%	109.7%	
- Net other income/loss	1	-86.7%	11	-22.9%	77.1%	
EBT	522	-20.0%	1,920	-9.3%	98.8%	
- Income tax exp	-76	12.4%	-201	-14.0%	86.2%	
Profit after tax	445	-23.8%	1,720	-8.8%	100.0%	
- Minority interests	-28	-13.8%	-81	-19.6%	100.1%	
NPAT-MI	417	-24.4%	1,639	-8.1%	100.0%	
Power and water	276	-20.5%	979	-10.7%	109.3%	Due to PPC's NPAT (an associate company in which REE has 25% stake) surpassed our forecast by 33% and a disposal gain from selling an investment license at Vung Ang 2 coal-fired plant.
M&E and air conditioning	55	-24.8%	245	0.8%	80.7%	
Office leasing and real estate	166	36.3%	486	15.2%	107.4%	This result could be due to a higher-than-expected margin from the office leasing segment and higher profit from SaigonRes (an associate company in which REE has 28.9% stake).
Others	-11	n/m	-24	n/m	178.6%	
NPAT-MI adjusted for QTP provision	415	-14.6%	1,603	-3.7%	97.8%	

Source: REE, VCSC

VCSC Rating System

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
BUY	If the projected TSR is 20% or higher
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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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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