

REFRIGERATION ELECTRICAL ENGINEERING JSC (HSX: REE)

Attractive story from the Thuong Kon Tum Plant

(VND bn)	Q1-FY22	Q4-FY21	+/- qoq	Q1-FY21	+/- yoy
Net revenue	2,045	1,898	8%	1,183	73%
NPATMI	693	792	-12%	416	67%
EBIT	1,254	1,053	19%	518	142%
EBIT margin	61.3%	55.5%	580bps	43.8%	1750bps

Source: REE, Rong Viet Securities

1Q2022 – Significant growth in NPATMI thanks to VSH’s contribution

- In 1Q2022, revenue reached VND 2,045 bn (or USD 89 mn), +73% YoY and +8% QoQ. Notably, the power segment was nearly fourfold compared to that in 2021. Meanwhile, that of the office leasing segment was flat and M&E service and trading declined.
- NPATMI experienced a bounce of 67% YoY to VND 693 bn (or USD 30 mn), and -12% QoQ as the power segment earnings doubled. More than a half of hydropower’s earnings were attributed by VSH, roughly VND 204 bn (or USD 8.9 mn). This is also the main driver of the power segment.
- The office leasing and water segments was stable. It accounted for 20% and 12% of total earnings, respectively. Adversely, the M&E segment continued to be hit by the slowdown in the construction industry and gained only VND 10 bn, -60% YoY in 1Q2022.

FY2022 outlook – Solid growth

NPATMI is forecasted to grow by 23% YoY on the back of (1) Strong growth from the power segment (43% YoY); (2) Stable operations from office leasing (+8% YoY) and the water segment (+12% YoY).

In 2022, we forecast that revenue/NPAT will grow by 34% YoY/23% YoY to VND 7.795 bn (or USD 339 mn)/ VND 2.276 bn (or USD 99 mn). 2022’s EPS will be VND 6.401.

Valuation and recommendation

REE possesses (1) a diversified power portfolio comprising of traditional and renewable energy, (2) stable and high margin office leasing business, (3) solid experience in M&E operations. We appreciate the stable and healthy nature of the company’s earnings and cash flows. This allows REE a good leverage to keep expanding its portfolio in the utilities sector. Additionally, earnings from Etown6, which will come into operation in 2023F, will further fuel the company’s growth in the medium term.

We apply a sum-of-the-parts valuation methodology to evaluate the company’s fair value. Our target price comes at **VND 90,700** per share, equivalent to current market price as of 14 June 2022. In the long run, REE is still solid-growth firm riding on the potential from green trend in Vietnam, hence, investors can accumulate this stock when market encounters a deep correction.

NEUTRAL +1%

Target price (VND)	90,700
Current market price (VND)	90,500

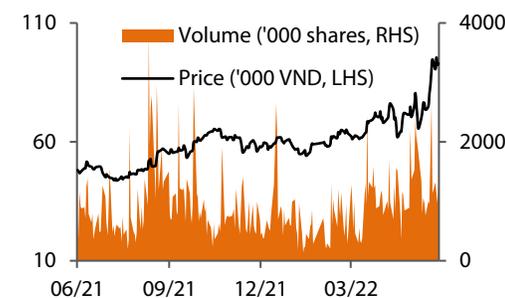
Cash dividend	VND 1,000
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Stock Info

Sector	Utilities
Market Cap (VND billion)	32,626.0
Current Shares O/S	355.4
Avg. Daily Volume (in 20 sessions)	1,421.9
Free float (%)	75
52 weeks High	95,500
52 weeks Low	43,675
Beta	1.1

	FY2021	TTM
EPS	6,003	6,000
EPS Growth (%)	14%	29%
Diluted EPS	6,003	6,000
P/E	12.0	12.7
P/B	1.0	1.98
EV/EBITDA	10.3	11.07
Cash dividend yield (%)	-	-
ROE (%)	15.2	13.3

Price performance



Major Shareholders (%)

Platinum Victory Private	31.0
Nguyen Thi Mai Thanh	12.2
Apollo Asia Fund	5.9
Foreign ownership room (%)	49

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Exhibit 1: 1Q/2022 Results

(VND Bn)	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Net revenue	2,045	1,898	7.8%	1,183	72.9%
Gross profit	1,150	863	33.4%	436	163.6%
SG&A	103	191	-45.8%	82	26.6%
Operating income	1,047	672	55.8%	355	195.2%
EBITDA	1,557	1,338	16.4%	606	156.9%
EBIT	1,254	1,053	19.0%	518	142.0%
Financial expenses	218	201	8.5%	95	129.9%
- Interest expenses	214	195	9.7%	93	130.8%
Dep. and amortization	303	285	6.5%	88	244.5%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	1,047	1,033	1.4%	538	94.4%
PAT	693	792	-12.4%	416	66.7%
(*) Adjusted PAT	693	792	-12.4%	416	66.7%

Source: REE, Rong Viet Securities

Exhibit 2: 1Q/2022 Performance Analysis

	Q1-FY22	Q4-FY21	+/- (qoq)	Q1-FY21	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	56.2%	45.5%	1079 bps	36.9%	1935 bps
EBITDA Margin	76.1%	70.5%	562 bps	51.2%	2489 bps
EBIT Margin	61.3%	55.5%	580 bps	43.8%	1750 bps
Net Margin	33.9%	41.7%	-782 bps	35.2%	-126 bps
Adjusted Net Margin	33.9%	41.7%	-782 bps	35.2%	-126 bps
Turnover (x)					
-Inventories	4	5	-0.8	4	0.6
-Receivables	2.6	2.6	0.0	1.6	1.0
-Payables	1	1	-0.2	1	-0.3
Leverage (%)					
Total Debt/ Equity	24.1%	26.6%	-251 bps	24.8%	-64 bps

Source: Rong Viet Securities

Exhibit 3: 2Q/2022 Performance Forecast

Particulars (VND Bn)	2Q-FY22	+/- qoq	+/- yoy
Revenue	2,137	13%	81%
Gross profit	1,005	17%	130%
EBIT	1,109	5%	114%
NPAT	539	-32%	30%

Source: Rong Viet Securities

Earnings in 2Q2022 are forecasted to grow by 30% YoY on the back of (1) Solid contribution from the office leasing and water segments, (2) Additional contribution from new wind power plants and favorable factors for hydropower to perform well as in 1Q2022.

However, earnings are forecasted to slow down in 2Q2022 compared to 1Q2022 due to (1) the slow-down in selling price in CGM, and (2) an off-peak season for wind power.

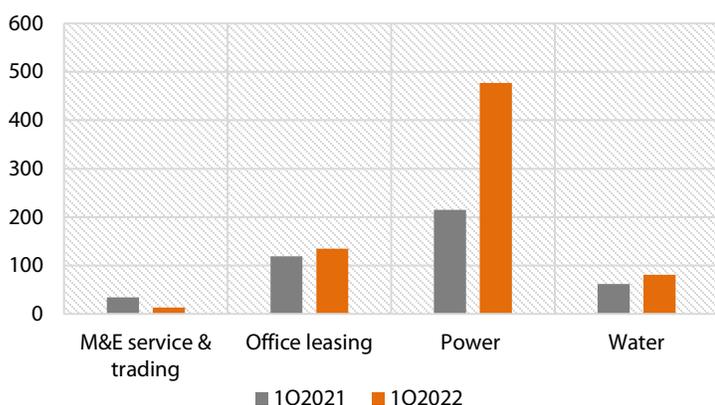
Update

Q1-2022: Tremendous growth in NPATMI

In 1Q 2022, revenue reached VND 2,045 bn (or USD 89 mn), +73% YoY and +8% QoQ. Notably, the power segment’s revenue was nearly fourfold compared to that in Q1-2021 thanks to the increase of six times and five times in hydropower and wind power, respectively. Meanwhile, the office leasing was flat and M&E service and trading declined.

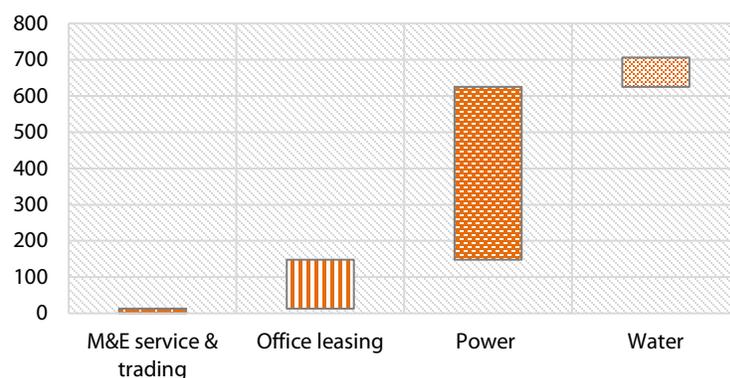
NPATMI experienced a bounce of 67% YoY to VND 693 bn (or USD 30 mn), -12% QoQ thanks to a doubling in earnings of the power segment. The power segment contributed the majority of the total company’s earnings, 69%, an all-time-high. The office leasing and water segments were stable and accounted for 20% and 12% of total earnings, respectively. Adversely, the M&E segment continued being hit by the sluggish construction industry and gained only VND 10 bn in 1Q 2022.

Figure 1: NPAT by segment (VND bn)



Source: REE, Rong Viet Securities

Figure 2: NPAT by segment in 1Q2022 (VND bn)



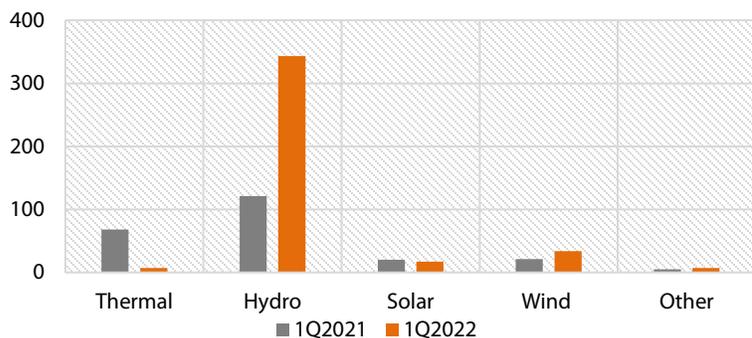
Source: REE, Rong Viet Securities

Attractive story from the Thuong Kon Tum hydropower plant

VSH was also the main earnings driver in the power segment, contributing more than a half of hydropower’s earnings with a NPAT of roughly of VND 204 bn (or USD 8.9 mn). VSH’s earnings substantially grew on the back of (1) The new contribution from the Thuong Kon Tum plant. The 10-year- construction project, started to operate in Apr 2021, (2) Favorable hydrological conditions benefited those plants: more water to produce electricity, (3) High selling price in CGM (Competitive Generated Market), helping the company achieve high a profit margin in 1Q2022.

We forecast VSH to continue enjoying those favorable factors as mentioned above in 2Q2022, yet the selling price in CGM might slow down a little. Furthermore, the **Thuong Kon Tum plant is expected to achieve a new selling price in 2Q2022, +40% compared to the old one. That will boost earnings in 2022F.**

Figure 3: NPAT by group in power segment (VND bn)



Source: REE, Rong Viet Securities

New contribution from wind power plants

The company operated three wind power plants with a total capacity of 103 MW in October 2021 including 48 MW offshore and 55 MW onshore type. Currently, REE holds 87 MW of wind power on an effective ownership basis.

Generated volume and profit from this segment in 4Q2021 and 1Q2022 were high owing to higher wind speed and seasonal factors. In 1Q2022, this group's NPAT grew by 62% YoY to VND 34 bn while that in 4Q2021 was VND 83 bn. Core earnings in 1Q2022 was high, yet the FX loss affected its NPAT.

Table 1: Wind power projects' information

Plant	Tra Vinh	Phu Lac	Loi Hai
Capacity (MW)	48	1 st phase: 24 2 nd phase: 25.5	28.8
Type	Offshore	Onshore	Onshore
Price (US cent)	9.8	8.5	8.5
REE's ownership (%)	99.99	50	50
2021 Volume (mn kWh)	37.6	1 st phase: 64.8 2 nd phase: 7.7	24.1
2021 Revenue (VND bn)	94	1 st phase: 126 2 nd phase: 15	49

Source: REE, Rong Viet Securities

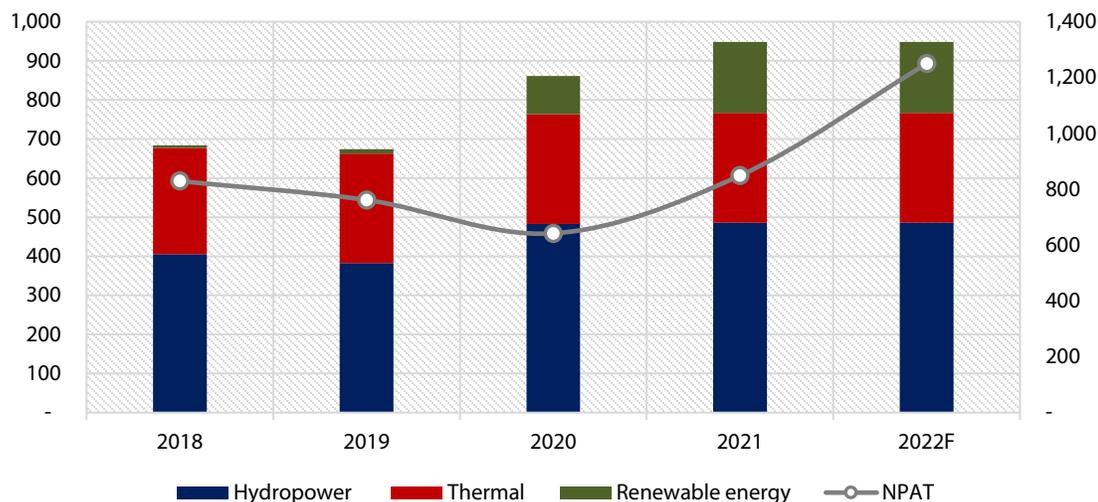
FY2022 outlook - Solid growth

Favorable conditions in the renewable energy market to acquire more projects

We forecast PAT from electricity to be VND 1,250 bn (or USD 54 mn), +43% YoY and account for 55% of total NPAT. In which, we forecast that the traditional energy group will earn VND 979 (or USD 43 mn; +26% YoY), accounting for 78% of the power segment's earnings, while the renewable energy group will contribute the remaining of roughly VND 271 bn (or USD 11.8 mn; +49% YoY).

- (1) Hydrology conditions continue to be supportive for the hydropower group. Since most of REE's hydropower plants are located in the Central and the South, which experienced heavy rain at the end of 2021, these plants have reserved a decent amount of water. Besides, Thuong Kon Tum plant is expected to achieve a new selling price, +40% compared to the old one, that will boost earnings in 2022F.
- (2) The renewable energy group to benefit from stable operation of rooftop solar power and full-year utilization from the three wind power plants rolled out in Q4-2021.

Figure 4: Capacity (LHS, MW) and earnings (RHS, VND bn)

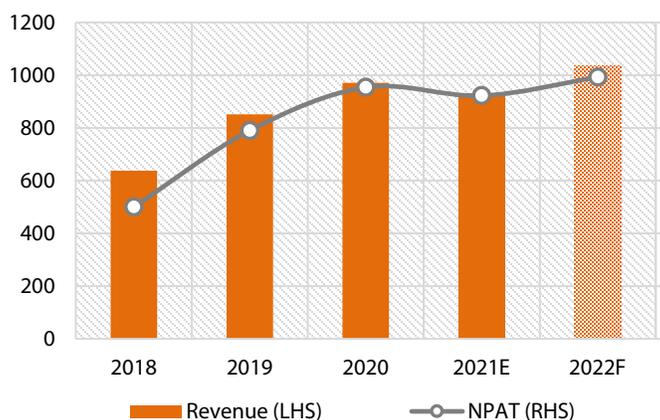


Source: REE, Rong Viet Securities

Sustainable earnings and cash flows from the office leasing and water segments

Earnings from the office leasing and water segments will steadily grow regardless of external instability, due to their stable nature. We forecast that 2022F earnings of these segments will come at VND 496 bn (or USD 21.6 mn; +8% YoY) and VND 307 bn (or USD 13.3 mn, +12% YoY), respectively. Cash flows from these businesses will be utilized to expand the group's power portfolio.

Figure 5: Office leasing segment's result (VND bn)



Source: REE, Rong Viet Securities

Figure 6: Earnings by segment in 2022F (VND bn)



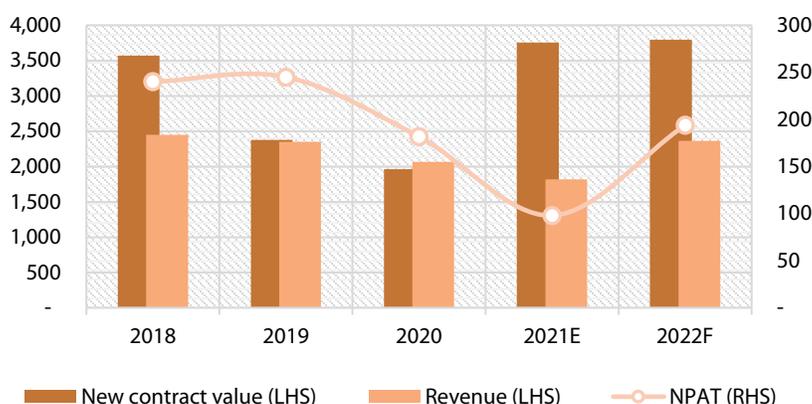
Source: REE, Rong Viet Securities

M&E segment to recover at the end of 2022 with substantial backlog

We forecast revenue and NPAT to be VND 2.363 bn (or USD 103 mn) and VND 194 bn (or USD 8.4 mn), nearly double compared to 2021 thanks to the substantial backlog and the recovery of the construction industry. However, we foresee those earnings will be higher from 2H2022 due to the current real estate tightening.

All in all, we forecast that 2022F revenue/NPAT will amount to VND 7.794 bn (or USD 339 mn; +34% YoY) / VND 2.276 bn (or USD 99 mn; +23% YoY).

Figure 7: Business results of the M&E segment (VND bn)



Source: REE, Rong Viet Securities

In the longer term, we believe that office leasing and utilities will continue to be the main earnings growth drivers.

- (1) Etown 6 will fuel medium-term earnings growth in the leasing segment. This project is expected to come into operation in 3Q2023 and will raise the total leasable area by 27% to 190,000 m2. We estimate that Etown6 will contribute roughly VND 100 bn (or USD 4.4 mn) in PBT when it is fully occupied, accounting for roughly 20% of current earnings from this segment.
- (2) We expect that REE will continue to add new renewable projects to its power portfolio going forward to enjoy good referential conditions in this huge potential market given government's continuing promotion for green energy investments. We believe REE's

target to add more 100 MW to its portfolio in 2022F (10% of total current owner capacity) will be a solid foundation for long term growth.

Table 2: 2022F forecasts summary

Unit: VND bn	2020	2021	YoY %	2022F	YoY %
Total NPAT	1,669	1,855	11%	2,276	23%
1. Power segment	694	872	26%	1,250	43%
2. Office leasing & Real estate	513	630	23%	526	-17%
3. M&E	203	103	-49%	194	89%
4. Water segment	259	274	6%	307	12%

Source: REE, Rong Viet Securities

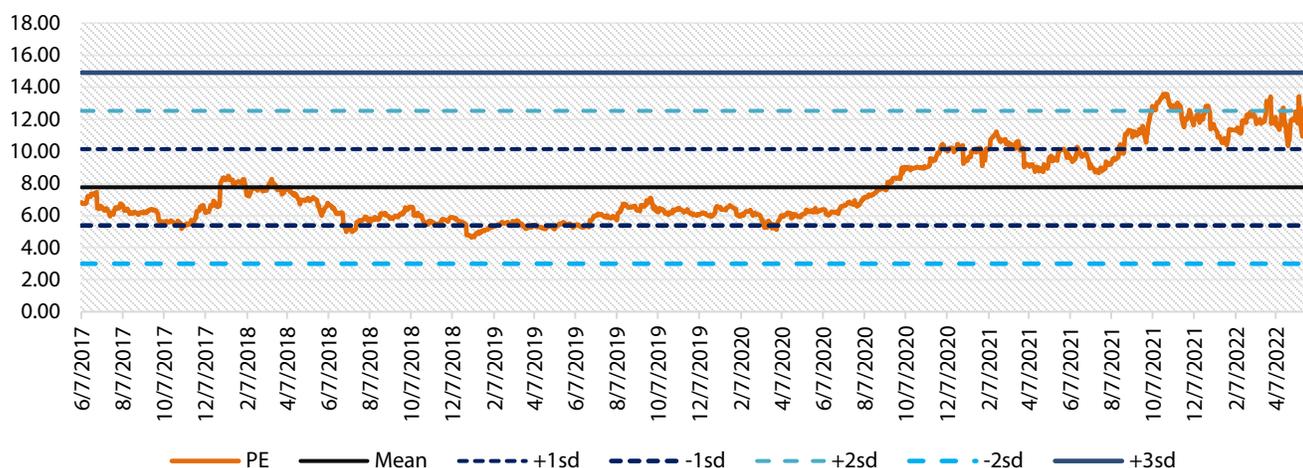
Valuation

We use sum-of-the-parts valuation approach to evaluate this stock's fair value as shown in the Table 3 below. In terms of power segment, we use FCFE and P/E methodology to reflect its long-term potential and short-term valuation of this diversified portfolio. We also use FCFE method to evaluation office leasing segment due to its the stable nature of free cash flow in the long run. For the remainders including M&E, and water segments, we use P/E multiple methodology. We come up with the fair value for REE of **VND 90,700 value per share**, equivalent to the closing price on 14Jun2022. In the long run, REE is still solid-growth firm riding on the potential from green trend in Vietnam, hence, investors can accumulate this stock when market encounters a deep correction.

Table 3: SoTP valuation summary

Unit: VND bn	Valuation approach	Value (VND bn)
1. Power Segment		18,673
Hydropower	FCFE (Cost of equity:10%, g: 0%)	12,166
Thermal power	PE (10.x @2022F EPS)	2,365
Renewable power		4,141
2. Office leasing	FCFF (WACC: 11%, terminal growth: 1%)	6,984
3. M&E	P/E (8.x @2022F EPS)	1,679
4. Water	P/E (10.x @2022F EPS)	2,764
5. Net cash		1,831
6. Financial investments	P/B (1.x @2021 BV)	329
Total		32,267
Total no of outstanding share ('000)		355,401
Implied target price (VND per share)		90,800
Implied 2022F P/E		14.2

Source: REE, Rong Viet Securities

Figure 8: P/E and 5Y average P/E


Source: Bloomberg, Rong Viet Securities

VND Billion				
INCOME STATEMENT	FY2020	FY2021	FY2022E	FY2023E
Revenue	5,640	5,810	7,795	8,649
COGS	4,034	3,500	4,520	5,426
Gross profit	1,606	2,310	3,275	3,223
Selling Expense	83	85	82	91
G&A Expense	284	370	335	372
Finance Income	222	466	243	258
Finance Expense	475	707	817	767
Gain from j.t ventures	915	774	778	859
PBT	1,924	2,400	3,078	3,125
Prov. of Tax	210	264	276	272
Minority's Interest	85	280	526	463
PAT to Equity S/H	1,628	1,855	2,276	2,390
EBIT	1,239	1,854	2,858	2,760
EBITDA	1,561	2,747	3,829	3,731

%				
FINANCIAL RATIO	FY2020	FY2021	FY2022E	FY2023E
Growth (%)				
Revenue	15.3	3.0	41.7	4.5
Operating Income	38.3	76.0	40.4	-3.4
EBITDA	31.0	49.6	55.7	-4.5
PAT	-0.7	13.9	22.8	3.8
Total Assets	11.2	55.0	18.5	3.7
Equity	10.0	33.9	16.7	12.4
Profitability (%)				
Gross margin	28.5	39.8	40.4	37.4
EBITDA margin	27.7	47.3	46.9	43.3
EBIT margin	22.0	31.9	35.1	32.0
Net margin	28.9	31.9	27.7	27.5
ROA	7.9	5.8	6.0	6.0
ROE	7.3	6.7	8.7	8.0
Efficiency				(times)
Receivable Turnover	1.8	1.9	3.1	3.1
Inventory Turnover	5.0	4.4	6.7	6.7
Payable Turnover	1.9	1.2	1.6	1.6
Liquidity				(times)
Current	1.7	1.7	2.6	3.0
Quick	1.5	1.5	2.5	2.8
Finance Structure (%)				
Total Debt/Equity	0.5	0.7	0.6	0.5
Current Debt/Equity	0.1	0.1	0.1	0.1
Long-term Debt/Equity	0.4	0.7	0.5	0.4

VND Billion				
BALANCE SHEET	FY2020	FY2021	FY2022E	FY2023E
Cash and cash equivalents	652	1,831	1,264	2,776
Short-term investments	1,329	914	914	932
Accounts receivable	3,082	2,987	2,623	2,753
Inventories	808	800	735	808
Other current assets	139	275	289	303
Property, plant & equipment	4,568	17,968	17,860	16,908
Acquired intangible assets	309	374	321	303
Long-term investments	9,287	6,261	6,761	7,341
Other non-current assets	337	393	412	433
Total assets	20,530	31,827	31,205	32,584
Accounts payable	1,928	2,367	3,058	3,360
Short-term borrowings	1,126	897	1,262	962
Long-term borrowings	2,070	4,739	3,776	2,391
Other non-current liabilities	446	513	539	566
Bonus and Welfare fund	2	4	6	7
Technology-science, dev. fund	0	0	0	0
Total liabilities	5,571	8,521	8,640	7,286
Common stock and APIC	7,067	8,916	11,193	13,557
Treasury stock (enter as -)	-48	-48	-48	-48
Retained earnings	7,115	8,964	11,241	13,604
Other comprehensive income	760	3,056	3,056	3,056
Inv. and Dev. Fund	235	235	235	235
Total equity	12,213	16,358	19,088	21,452
Minority Interest	760	3,056	3,476	3,847

VALUATION RATIO	FY2020	FY2021	FY2022E	FY2023E
EPS (dong)	5,251	6,003	6,401	6,721
P/E (x)	9.2	15.3	14.3	13.7
BV (dong)	39,389	18,675	21,966	26,777
P/B (x)	1.2	1.0	1.7	1.5
DPS (dong/cp)	1,600	0	1,000	1000
Dividend yield (%)	3.3	-	1.4	1.4

VALUATION MODEL	Price	Weight	Average
SoP	90,700	100%	90,700
Target price (VND)			90,700

VALUATION HISTORY	Price	Recommendation	Period
Jul 2020	41,700	BUY	Long term
Dec 2020	54,000	BUY	Long term
Jul 2021	65,300	BUY	Long term

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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