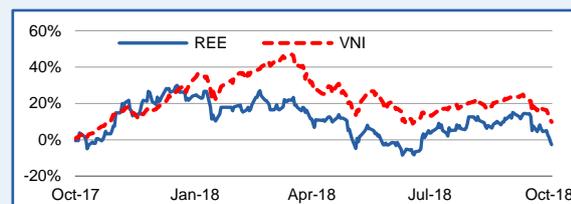


Industry:	Utility		2017	9M 18	2018F
Report Date:	October 29, 2018	Rev Growth	36.5%	4.1%	12.6%
Current Price:	VND31,450	EPS Growth	25.5%	18.6%	22.7%
Last Target Price:	VND47,200	GPM	28.6%	24.3%	25.1%
Upside:	50.1%	NPM	27.6%	35.6%	30.0%
Dividend yield:	5.1%	P/E	7.1x	N/A	5.8x
TSR	55.2%	P/B	1.2x	N/A	1.1x
Rating	BUY				



			REE	Peers	VNI
Market Cap:	\$429.6mn	P/E (ttm)	6.2x	9.6x	15.6x
Foreign Room:	\$0mn	P/B (curr)	1.1x	1.8x	2.4x
ADTV30D:	\$0.6mn	Net D/E	0.2	0.2	N/A
State Ownership:	0%	ROE	17.4%	14.5%	15.3%
Outstanding Shares:	310 mn	ROA	10.7%	7.7%	2.4%
Fully Diluted Shares:	310 mn				

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 a half of its total earnings.

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9M result in line with expectation

REE released 9M results in which revenue and NPAT increased by 4.1% YoY and 18.6% YoY, respectively, and completed 61.6% and 73.0% of our 2018 revenue and net profit forecasts. NPAT growth was driven by the power segment (+87.4% YoY) and a VND121bn (USD5.2mn) one-off gain from the disposal of a real estate project, which more than offset weak results in the Mechanical & Engineering (M&E) segment. We expect to revise down our 2018 earnings forecast for the M&E segment by 5% while we see upside risk to our forecast for REE's hydropower portfolio earnings. Therefore, we could maintain our 2018 earnings forecast for REE.

Bright performance of power segment with 9M earnings growth of 87.4%. In particular, PPC's 9M 2018 NPAT (REE holds 23% stake) grew 17.9% YoY to VND878bn (USD37.7mn) (for details, see our [PPC Earnings Flash](#) from October 16, 2018) while 9M 2018 profit of the hydropower portfolio reached VND370bn (USD15.9mn, +1.4% YoY), achieving 95.1% of our previous 2018 earnings forecast. In addition, REE recorded a provision write-back of VND54bn (USD2.3mn) in 9M 2018 for the Quang Ninh coal-fired power plant, compared to a provision booking of VND80bn (USD3.4mn) in 9M 2017, which was in line with our forecast.

Robust growth from the water segment. 9M 2018 water earnings jumped by 69.3% YoY, mainly thanks to the contribution from a 40% stake in newly-acquired associate company VCW.

Weak M&E results due to an advanced booking while a strong backlog secures a promising outlook. 9M 2018 M&E revenue grew 4.9% YoY, but 9M 2018 NPAT declined by 31.8% YoY as REE continued to record in advance part of the expense for the Vietinbank tower project (total contract value of VND1tn/USD43mn) given the slow progress of this project. However, REE also announced newly-signed contracts of VND1.7tn (USD73mn, 73.4% of our previous 2018 forecast), implying an accumulated backlog of VND5.3tn (USD227.5mn) at the end of September 2018 (equivalent to two years of revenue).

REE looks forward to booking more revenue and profit from the property segment. This segment (including office leasing and real estate) delivered 9M earnings growth of 17.0% YoY, mainly from a disposal gain of VND121bn (USD5.2mn) in Q2 2018 as REE Land divested from a project. 9M 2018 earnings only reached 58.8% of our previous 2018 forecast, however, Vietnam Infrastructure Investment & Development JSc (VIID, REE holds 51% stake) and Saigon Real Estate JSC (28.9% stake) plan to book several projects in Q4 2018.

No significant spending for M&A and capex yet. REE only spent VND475bn (USD20.4mn) on capex and M&A over the first nine months of 2018, compared to its guidance of VND3.0tn (USD130mn) for 2018.

Figure 1: 9M 2018 results

VND bn	9M 2017	9M 2018	YoY growth	% of VCSC previous FY forecast
Revenue	3,328	3,465	4.1%	61.6%
Power	531	611	15.0%	88.3%
M&E	1,717	1,801	4.9%	66.7%
Air conditioning	655	542	-17.2%	57.3%
Properties	424	512	20.9%	39.9%
Gross profit	887	843	-5.0%	59.8%
SG&A	-192	-193	0.2%	51.0%
Operating profit	694	650	-6.4%	63.0%
- Financial income	128	257	100.2%	75.4%
- Financial expenses	-174	-114	-34.4%	74.6%
Interest expense	-58	-162	181.5%	74.3%
- Share profit/loss fr associates	570	664	16.4%	79.5%
- Net other income/loss	6	10	63.0%	100.8%
EBT	1,224	1,466	19.7%	71.0%
- Income tax exp	-125	-165	32.6%	67.2%
Profit after tax	1,100	1,301	18.3%	71.5%
- Minority interests	-60	-68	13.4%	52.9%
Net income to shareholders	1,040	1,233	18.6%	73.0%
Power	480	640	33.3%	87.4%
M&E	226	154	-31.8%	56.9%
Air conditioning	31	17	-46.0%	58.9%
Properties	257	300	17.0%	58.8%
Water	65	110	69.3%	63.5%
Others	-20	6	n/m	n/m

Source: REE & VCSC

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

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