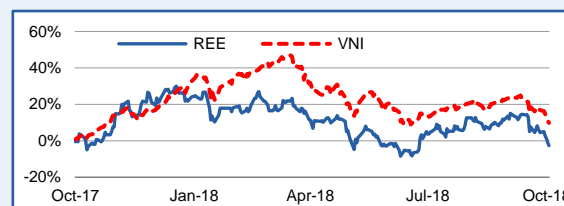


# Refrigeration Electrical Engineering (REE)

# Earnings Flash

<b>Industry:</b>	<b>Utility</b>		<b>2017</b>	<b>9M 18</b>	<b>2018F</b>
<b>Report Date:</b>	<b>October 29, 2018</b>	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				



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

## 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
<b>Revenue</b>	<b>3,328</b>	<b>3,465</b>	<b>4.1%</b>	<b>61.6%</b>
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%
<b>Gross profit</b>	<b>887</b>	<b>843</b>	<b>-5.0%</b>	<b>59.8%</b>
SG&A	-192	-193	0.2%	51.0%
<b>Operating profit</b>	<b>694</b>	<b>650</b>	<b>-6.4%</b>	<b>63.0%</b>
- 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%
<b>EBT</b>	<b>1,224</b>	<b>1,466</b>	<b>19.7%</b>	<b>71.0%</b>
- Income tax exp	-125	-165	32.6%	67.2%
<b>Profit after tax</b>	<b>1,100</b>	<b>1,301</b>	<b>18.3%</b>	<b>71.5%</b>
- Minority interests	-60	-68	13.4%	52.9%
<b>Net income to shareholders</b>	<b>1,040</b>	<b>1,233</b>	<b>18.6%</b>	<b>73.0%</b>
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.
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