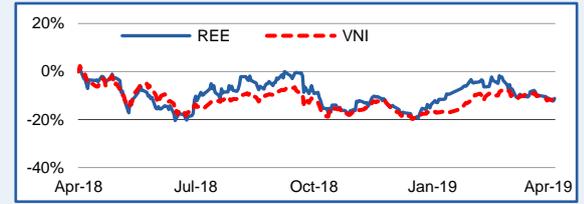


Industry:	Utilities		2018	Q1/19	2019F
<b>Report Date:</b>	<b>April 25, 2019</b>	Rev Growth	2.1%	2.8%	20.9%
Current Price:	VND31,500	EPS Growth	29.5%	-7.7%	6.4%
Last Target Price:	VND44,400	GPM	10.1%	28.5%	14.0%
Upside:	41.0%	NPM	35.0%	32.6%	30.8%
Dividend yield:	5.7%	EV/EBITDA	10.9x		7.3x
TSR	46.7%	P/B	1.0x		0.9x
Rating	BUY	P/E	5.9x		5.2x



			REE	Peers	VNI
Market Cap:	USD423mn	P/E (ttm)	5.6x	11.1x	16.4x
Foreign Room:	USD0mn	P/B (curr)	1.1x	1.4x	2.5x
ADTV30D:	USD400,000	Net D/E	0.1	0.2	N/A
State Ownership:	0%	ROE	17.9%	10.9%	15.4%
Outstanding Shares:	310 mn	ROA	10.5%	7.5%	2.5%
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 half of its total earnings.

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## Office leasing growth to partly offset weak hydropower

REE released its Q1 2019 results in which revenue increased by 2.8% YoY but NPAT-MI declined by 7.7% YoY, as office leasing growth (given full operation of E-town Central) failed to offset for: 1) weak power & water segments (-24.7% YoY, due to lower earnings from hydropower plants), and 2) and the mechanical & engineering and REETECH segments (-15.3% YoY). Q1 2019 revenue and NPAT-MI completed 17.5% and 18.6%, respectively, of our 2019 full-year forecast. We also see some downside risk to our 2019 earnings forecast, pending a fuller review. However, we see that hydropower's earnings have previously peaked in H2 compared to H1. In addition, the M&E segment has a nature of revenue and profit booking towards the year end.

### E-town Central to boost office leasing and real estate earnings, in line with our forecast.

Given an insignificant contribution by the real estate segment, we estimate that Q1 2019 office leasing and real estate earnings of VND109bn (USD4.7mn) were mainly contributed by the office leasing segment, implying an earnings growth of ~58% while completing ~30% of our 2019 full-year forecast.

**El Niño dragged down hydropower results.** REE recognized a one-off gain of VND87bn (USD3.8mn) thanks to asset gain disposal (we are seeking for further information from the company), which compensated for a provision booking of VND62bn (USD2.7mn) for the Quang Ninh coal-fired power plant (QTP). Given El Niño's impact, REE's management shared that its hydropower sales volume declined 20%-30%, leading to power & water segment declining by 24.7% despite the 27.2% reported NPAT growth of PPC (for details, see our [PPC Earnings Flash](#) from April 17, 2019). We will have further analysis in our coming update report when all of REE's hydropower companies release their financial statements.

**Huge cash balance to prepare for coming M&A and new office leasing projects.** REE completed an issuance for a 10-year straight bond of VND2.3tn (USD100mn) in Q1, resulting in strong cash and short-term investment of VND4.4tn (USD189mn). In its recent AGM, REE confidently guided ambitious M&A plans and new office leasing projects, which could boost earnings growth to surpass our current forecast in coming years.

Figure 1: Q1 2019 results

	Q1 2018	Q1 2019	YoY	% of VCSC's 2019 forecast
<b>Revenue</b>	<b>1,050</b>	<b>1,079</b>	<b>2.8%</b>	<b>17.5%</b>
Power and Water	235	194	-17.2%	28.9%
M&E and REETECH	664	677	1.9%	17.8%
Office Leasing and Real Estate	152	208	36.6%	12.2%
<b>Gross profit</b>	<b>322</b>	<b>307</b>	<b>-4.7%</b>	<b>17.6%</b>
SG&A	-64	-57	-10.6%	14.7%
<b>Operating profit</b>	<b>259</b>	<b>250</b>	<b>-3.3%</b>	<b>18.4%</b>
- Financial income	42	158	280.8%	54.3%
- Financial expenses	20	-160	n/m	46.7%
Interest expense	-45	-92	102.8%	26.7%
- Share profit/loss from associates	162	167	3.1%	17.1%
- Net other income/loss	1	1	48.2%	6.2%
<b>EBT</b>	<b>483</b>	<b>416</b>	<b>-13.9%</b>	<b>18.1%</b>
- Income tax exp	-67	-46	-31.0%	17.4%
<b>Profit after tax</b>	<b>416</b>	<b>370</b>	<b>-11.1%</b>	<b>18.1%</b>
- Minority interests	-35	-18	-48.2%	12.7%
<b>Net income to shareholders</b>	<b>381</b>	<b>352</b>	<b>-7.7%</b>	<b>18.6%</b>
Power and Water	243	183	-24.7%	19.1%
M&E and REETECH	65	55	-15.3%	14.6%
Office leasing and Real Estate	70	109	54.8%	20.1%
Other	3	6	68.7%	23.1%

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
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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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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