

Setor: Electricity

Recommendations

BUY

REFRIGERATION MECHANICAL JOINT STOCK COMPANY (HOSE: REE)
HYDROELECTRICITY SHINES

Current price: 98,300
Target price: 112,700
Dividend yield: 1%
Upside: 14.6%

Date of writing of the report: 08/06/2021
Outstanding shares (Million): 355
Capitalization (billion dong): 34,119
Average liquidity of 30 sessions: 124,573
Foreign ownership: 49.0%

Shareholder structure

Platinum Victory Pte. Ptd	32.4%
Nguyen Thi Mai Thanh	12.2%
Nguyen Ngoc Hai	5.5%
HFIC	5.3%

Analyst:

To Quang Vinh
(Utility)vinhtq1@bsc.com.vn

Technical analyst:

Pham Thanh Thao

thaopt1@bsc.com.vn

Recommended price: 113,600 VND

Cut-loss price: 80,600 VND

Valuation

- BSC recommends **BUY** for REE at a **target price of VND 112,700 per share** for 2022 (+14.6% vs. June 8, 2022) based on the discount cashflow (DCF) method.

Business results forecast

- BSC forecasts net revenue and NPAT 2022 to reach **VND 9,484 billion (+63.2% yoy)** and **NPAT = VND 3,446 billion (+61, respectively)**, EPS FW 2022 = **8,423 VND/share** with the assumption: (1) New signed electromechanical projects (M&E) +30% yoy; (2) Office leasing prices in rental buildings +2% compared to 2021 and (3) Hydropower segment output reached 5.6 billion kWh (+5.9% yoy) thanks to la Nina phenomenon.

Investment perspective

- M&E operations and leasing offices with stable profit margins bring regular cash flow to REE.
- The Power Generation segment grew strongly in 2022 thanks to the La Nina phenomenon and the increased capacity from newly operational plants.

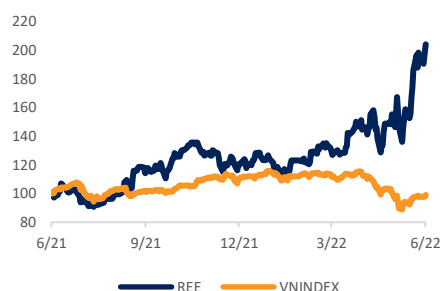
Investment risk

- The risk comes from the ability to extend the repair time of Pha Lai 2 factory
- M&E sector likely to be partially affected if real estate slows down

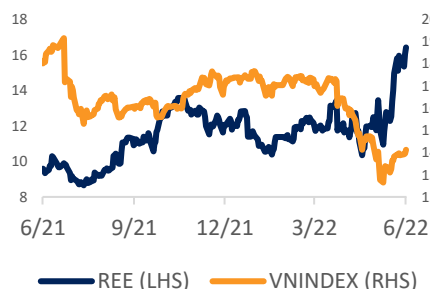
Business updates

- In Q1.2022, REE recorded net revenue reaching **VND 2,045 billion (+73% yoy)**, and **NPAT = VND 955 billion (+102% yoy)**, thanks to (1) strong increase in power sector net revenue (+287% yoy), with the commercial electricity output of hydropower plants increasing sharply (+94% yoy) thanks to relatively favorable hydrology in the first months of 2022 and (2) net revenue and NPAT of office leasing increased slightly (+3% yoy), with a high occupancy rate (98%), although (3) M&E net revenue decreased sharply (-55% yoy), because many projects were not completed in Q1.2022.
- REE **pays dividends for 2021** at a rate of 25% (including 10% in money, 15% in shares).

CP and VN-Index price comparison table



P/E and VN index comparison table



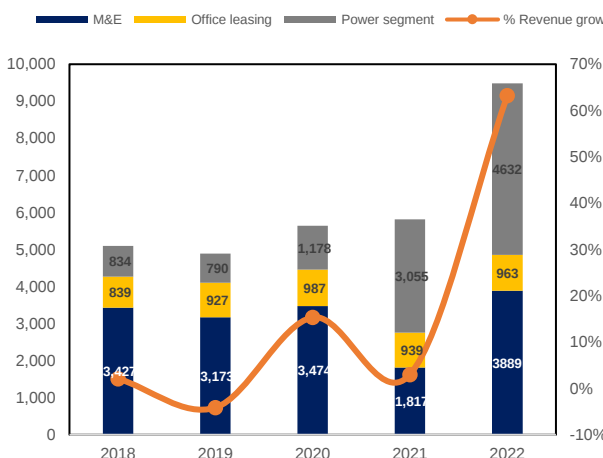
	2021	2022F	VN-Index
PE (x)	15.3	13.4	13.8
PB (x)	2.1	2.1	2.2
PS (x)	4.9	4.2	3.7
ROE (%)	13%	19%	18.4%
ROA (%)	7%	10%	6.8%
EV/ EBITDA (x)	14.1	4.7	-26.5

	2019	2020	2021	2022F
Turn over	4,890	5,640	5,810	9,484
Gross profit	1,246	1,606	2,310	3,473
Profit after tax	1,720	1,714	2,135	3,446
EPS	5,286	5,251	6,003	8,423
EPS Growth	-8%	-1%	14%	40.3%
Debt/Net Equity	51%	46%	73%	23%

BUSINESS UPDATE Q1.2022

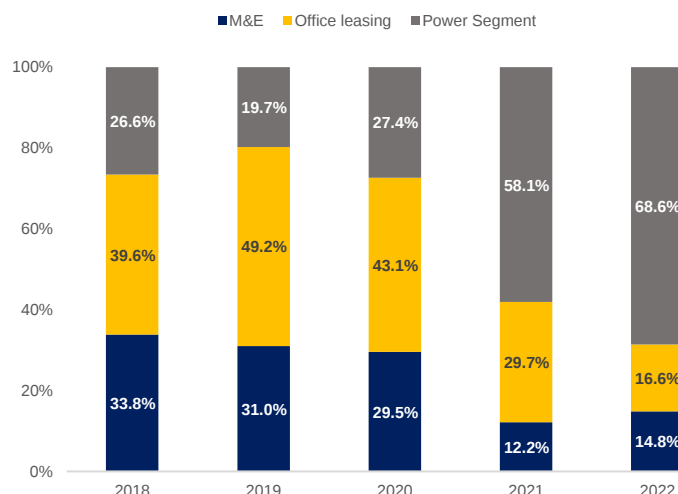
In Q1.2022, REE recorded net revenue = **2.045 billion VND (+73% yoy)** thanks to: (1) net revenue power segment increased sharply (+287% yoy), with the commercial electricity volume of hydropower plants increased sharply (+94% yoy) thanks to relatively favorable hydrology in the first months of 2022, combined with the consolidation of VSH starting in April 2021, and three wind power plants began operations in November 2021 (mobilized capacity reached 80 million kWh in Q1.2022), (2) net revenue and NPAT of office leasing increased slightly (+3% yoy), with occupancy rates maintained at a high level (98%), although (3) M&E net revenue plummeted (-55% yoy) as many projects have not been completed in Q1.2022.

Figure 1: Revenue structure of REE (VND 1 billion)



Source: REE, BSC Research

Figure 2: Ree's GROSS PROFIT structure



Source: REE, BSC Research

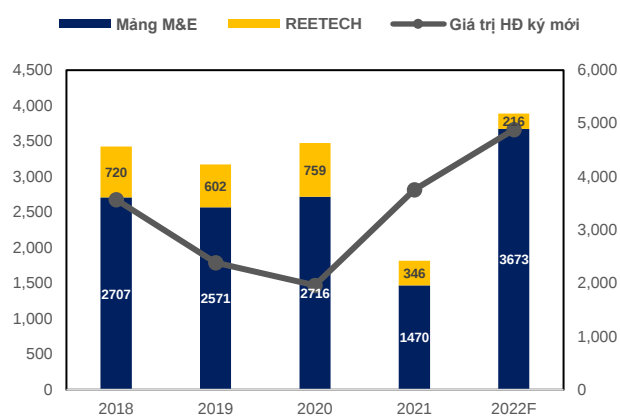
NPAT also increased sharply, reaching **VND 1,714 billion (-0.3% yoy)**. Financial revenue reached **VND 38 billion (-66% yoy)** due to the return from liquidation of investments **-96% yoy** and the exchange rate difference interest rate **-85% yoy**. Financial expenses reached **VND 218 billion (+130% yoy)** due to a sharp increase in interest expense to VND 216 billion (+129% yoy).

M&E – MEDIUM-TERM OUTLOOK

M&E revenue decreased sharply by -38% yoy due to many projects implemented in Q1.2022. Revenue of M&E Q1.2022 reached VND 349 billion (-38% yoy), of which the revenue of electromechanical works (M&E) reached VND 208 billion (-54% yoy), and REETECH revenue reached VND 141 billion (+31% yoy), due to:

- REE is in the process of implementing projects to supply & install electromechanical systems (such as A La La Carte Ha Long project, T2 Passenger Terminal project - Phu Bai International Airport, etc.). The value of the new electromechanical contract signed in Q1.2022 reached **VND 4,732 billion**.
- REETECH's revenue recorded a 41.8% increase in air conditioner sales.

Figure 3: M&E revenue structure (VND billion)



Source: REE, BSC Research

Table 1: Ree's M&E projects underway

PROJECT	BIDDING PACKAGE	DEPLOY	COMPLETE
T2 Passenger Terminal – Phu Bai International Airport		October7/2021	November 2022
A La Carte Ha Long		October2/2021	October05/2022
Headquarters of Delivery Center - TKV	Supply and installation of electromechanical systems	May 2020	July 2021
The Metropole Thu Thiem - The Galleria Residences		April 2020	March 2021
Ho Chi Minh City Urban Railway No. 1		April 2020	November 2021

Source: REE, BSC Research

We forecast that M&E in GD 202 2-20 26 will grow with **CAGR = 31.7% per year** thanks to:

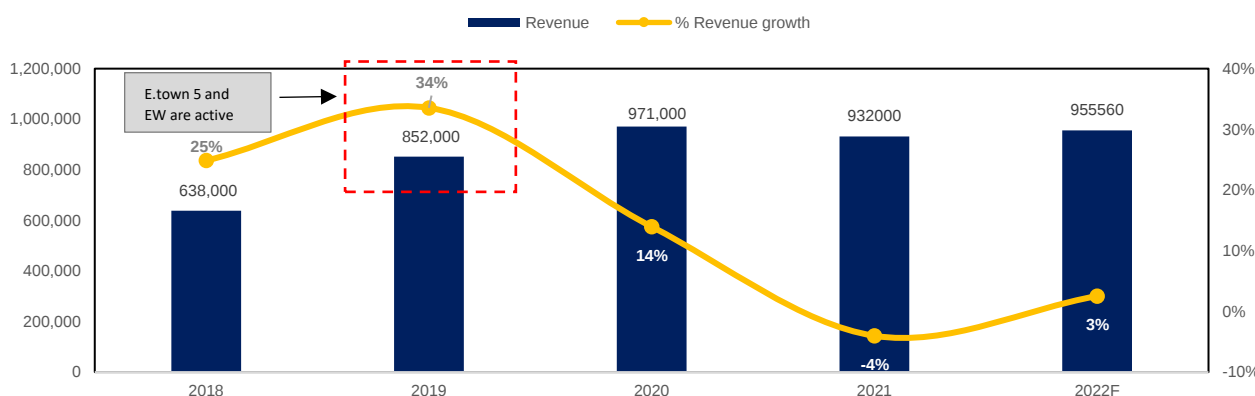
- The outlook for the real estate industry is positive in the short to medium term, contributing to the value of signing new contracts increased by 30%. The value of new launches is likely to increase sharply, reaching the highest level in the five-year period, which is a signal for the recovery of the real estate industry in 2022 (refer to the Q2.2022 industry outlook report). Therefore, BSC forecasts that the total value of new contracts signed in 2022 will increase by 30% over the same period, estimated at VND 4,883 billion.
- However, the move to strengthen control of capital inflows into the real estate industry through the bond channel, could negatively impact growth expectations.

In 2022, BSC projected net revenue and gross profit of M&E segment to reach **VND 3,672 billion (+149.8% yoy)** and **VND 257 billion (+152.0% yoy)** respectively based on assumptions: (1) the value of new contracts signed in 2021 **+30% yoy** and (2) the implementation progress reached 30% yoy by no longer accepting Affecting the epidemic.

OFFICE FOR RENT – STABLE EXPECTATIONS

NPAT of Office for Lease in Q1.2022 +12% yoy thanks to a stable occupancy rate ~98%. Revenue and NPAT in Q1.2022 reached VND 251 billion (+3% yoy) and VND138 billion (+12% yoy) respectively, with the occupancy rate of office buildings for rent maintained at ~98%, thanks to the number of visitors returning from the Covid-19 epidemic.

Figure 4: Office leasing revenue (VND billion)



Source: REE, BSC Research

BSC believes that REE's office leasing activities will continue to **grow with CAGR = 7.1% per year in stage 2022-2026** due to:

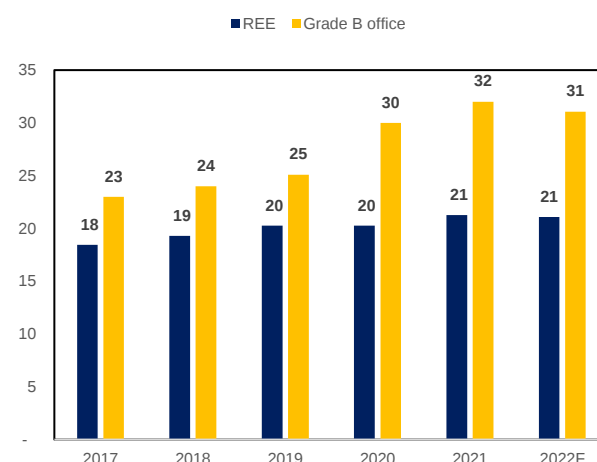
- **The occupancy rate remains at the 98-100% threshold.** Currently, REE is operating 145,000 m² of Grade B office area in inner-city districts of Ho Chi Minh City. Ho Chi Minh City (District 1-3-4-5 and Tan Binh) with rental prices at 20-25 USD/m²/month, 20-25% lower than the average office of the same class. With a favorable location and lower rental prices than the general premises, BSC argues that REE's occupancy rate will **always be maintained at 98-100%** in the following years.

Table 2: Ree's Current Rental Buildings

Building	Office class	Area (m ²)	Rental price 2022 (estimated) (USD/m ² /month)
E.town Republic Cluster	B	100,010	21
E.town Central	B	34,000	27
IDC Building	B	2,000	20
Maison Building	B	1,353	21
Reecorp Building	B	3,370	20
REE Tower	B	18,482	23
Ree Mrs. Ark	B	1,574	21

Source: REE, BSC Research

Figure 6: REE's office rental price is lower than the general premises (fans: USD/m²/month)



Source: Colliers International, BSC Research

- **Office rental prices continue to grow in the long term.** According to Colliers International's [Q1/2022](#) Report, grade B office rental prices in Ho Chi Minh City continues to increase by 15-20% per year by the end of 2023, with occupancy rates maintained at a high level of over 90%, ... Therefore, BSC assumes that REE's office rental prices will also **increase at 5% per year** in line with the general trend of the industry.
- In addition, REE's rental area is expected to **increase by 25% by 2023** when there is an additional **40,000 m² of rental area of E. town 6 building** (16 floors and 7 basements). The project is expected to be completed in Q3.2023. Assuming the rental price of E. town 6 is at 22 USD/m²/ month, we expect the project to bring a profit of **about VND 120 billion** from 2024, equivalent to 25% of the current NPAT of the office leasing segment.

In 2022, BSC forecasts that net revenue and NPAT office leasing segments **will reach VND 956 billion (+7.6% yoy)** and **VND 473 billion (+2.5% yoy)** with the assumption: (1) occupancy rate in office buildings reached 98-100% and (2) rental prices increased by 2% compared to 2021.

POWER GENERATION – EXPECTED GROWTH FROM HYDROPOWER & RENEWABLE ENERGY

REE owns a large-capacity power portfolio. After the wind power plants Phu Lac 2, Loi Hai 2, and Tra Vinh V1-3 were put into operation at the end of 2021, REE has stakes in power companies with a total capacity of 2,723 MW.

Table 4: REE's Electricity Portfolio

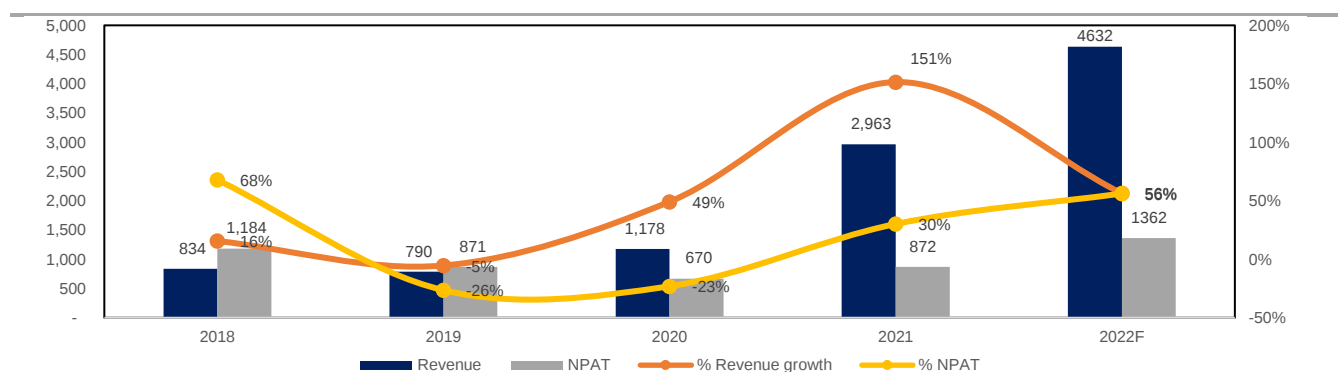
Company	CP Code	Ownership rate	Factory	Type type	Year of operation	Power (MW)
SUBSIDIARY						
Waterfall Ba Hydropower Jsc	TBC	60%	Ba Falls	Hydroelectricity	1971	120
Muong Hum Hydropower Jsc	MHP	49%	Muong Hum	Hydroelectricity	2011	32
Thuan Binh Wind Power Jsc	TBW	61%	Phu Lac Wind Power	Wind power	2016	24

Company	CP Code	Ownership rate	Factory	Type type	Year of operation	Power (MW)
Tra Vinh Power Joint Stock Company	REVENUEV	66%		Power distribution		
REE SOLAR POWER JSC	REE SE	100%	Rooftop solar power	Solar power	2020	71
			Vinh Son District		1994	66
Vinh Son Hydropower Joint Stock Company – Song Chinh	VSH	50%	Song Chinh District	Hydroelectricity	2001	70
			Upper Kon Tum		2021	220
Tra Vinh Wind Power Plant		100%	Wind power plant	Wind Power	2021	48
			Vinh V1-3 Tea			
AFFILIATE COMPANY						
Central Hydropower Jsc	CHP	24%	Grid AD	Hydroelectricity	2012	170
			Jut Residential EIA	EIA	2019	50
			Multi-Siat General Assembly		2009	13.5
Southern Hydropower Jsc	SHP	11%	Multi-Ofier 2	Hydroelectricity	2010	34
			TĐ Da Mbri		2010	75
Waterfall Dream Hydropower Jsc	TMP	43%	Dream Falls	Hydroelectricity	1995	220
Srok Phu Hieng Hydropower Joint Stock Company - IDICO	ISH	34%	Srok Phu Hieng	Hydroelectricity	2006	51
Ba Ha River Hydropower Jsc	SBH	26%	Ba Ha River	Hydroelectricity	2009	220
Binh Dien Hydropower Jsc	BDH	25%	Binh Dien District	Hydroelectricity	2009	44
Phat Re Thermal Power Jsc	PPC	24%	ND Phat Re 1	NREVENUE	1983	440
			Reheading 2		2001	600
Ninh Binh Thermal Power Jsc	NBP	30%	Ningping District	NREVENUE	1974	100
				Hydroelectricity		1,336
Total				NREVENUE		1,140
				NLTT		247

(Source: REE, BSC Research)

In Q1 2021, electricity revenue **reached VND 1,439 billion (+287% yoy)**, thanks to hydropower and wind power, respectively reaching VND 976 billion (+534%) and VND 263 billion (+472%).

Figure 7: Revenue and NPAT of electricity segment (VND billion)



Source: REE, BSC Research

HYDROPOWER – POSITIVE OUTLOOK THANKS TO LA NINA

Revenue and NPAT of hydropower plants in Q1.2022 stood at **VND 976 billion (+534% yoy)** and **VND 343 billion (+183% yoy)** respectively. REE Q1.2022's mobilized hydropower output reached **1.4 billion kWh (+94% yoy)** thanks to favorable hydrology in the first months of 2022, along with the recognition of the output of Thuong Kontum.

Figure 9: Output of REE e-commerce (million kWh)

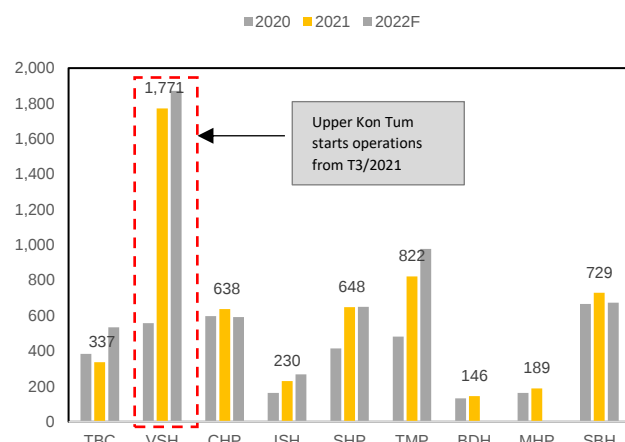
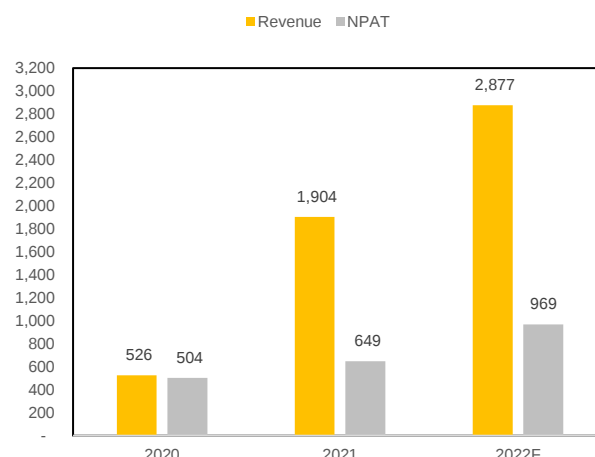


Figure 10: REVENUE and NPAT of hydroelectric power plants (VND billion)



Source: REE, BSC Research

In 2022, BSC forecasts that the net revenue and NPAT of hydropower segment will reach **VND 2,877 billion (+50.2% yoy)** and **VND 969 billion (+49.3% yoy)**, respectively, the hydroelectric output mobilized in 2022 reached **4.9 billion kWh (+38% yoy)** respectively based on the assumptions:

- **Hydroelectric power plants have enough water to generate electricity in the whole of 2022** due to the high amount of water. Accordingly, hydroelectric output in 2022 is estimated at **5.6 billion kWh (+5.5% yoy)**.
- CGM remained high (Thuong Kon Tum 1,400 VND/kWh), during a period of sharp increases in gas prices, combined with a shortage of supply for coal.

RENEWABLE ENERGY – A GREATER CONTRIBUTION OF WIND POWER

Wind power plants started operating in November 2021, with a total capacity of 102 MW (Phu Lac 2 - 25.2 MW, Loi Hai 2 - 28.8 MW, Tra Vinh V1-3 - 48 MW), contributing to positive business results in Q1.2022. In terms of operating plants throughout 2022, the amount of electricity produced by wind power is estimated at 357 million kWh/year (40% efficiency), corresponding to revenue and NPAT levels in 2021 of about VND 743 billion and VND 111 billion, respectively.

REE is continuing to implement rooftop solar power projects with the goal of **adding 100 MWp of capacity by the end of 2022**. BSC estimates that revenue and NPAT of rooftop solar power projects in 2021 will reach **VND 288 billion and VND 43 billion, respectively**.

COAL-FIRED POWER - THE OUTLOOK IS LESS POSITIVE

In Q1.2022, the profit after tax of REE received from coal-fired power was recorded at **VND 9 billion (-90% yoy)**, due to: the amount of electricity from the two thermal power plants Pha Lai (PPC) and Ninh Binh thermal power (NBP) decreased to **0.8 billion kWh (-8% yoy)**.

Figure 12: Power output of renewable investors (million kWh)

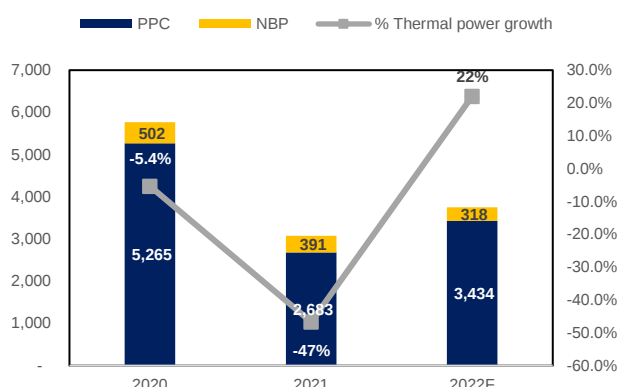
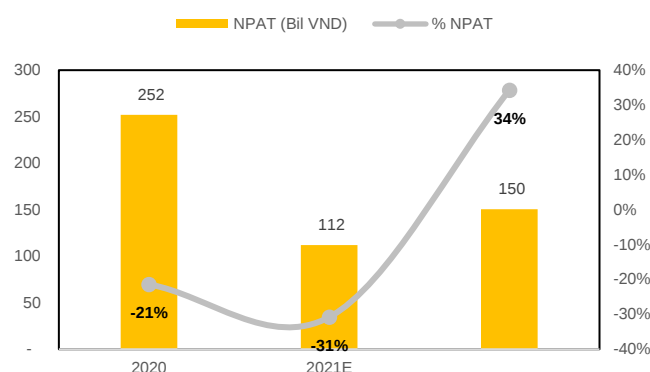


Figure 13: NPAT received from investors (VND billion)



Source: REE, BSC Research

According to EVN's orientation, hydropower and renewable energy are mobilized more in 2022, so coal-fired power output will be mobilized less. At the same time, the repair work at Phat Lai 2 factory is likely to last until 2023. Electricity generation in REE's plants (PPC and NBP) is estimated at **3.8 billion kWh (+22.6% yoy) from the lows in 2021**. BSC estimates that NPAT REE received from coal-fired power in 2022 could reach **VND 150 billion (+33.9% yoy)**.

BUSINESS RESULTS FORECAST 2022

BSC projected REE's 2022 2nd business results with **net revenue and NPAT reaching VND 9,484 billion (+63.1% yoy) and VND 3,446 billion (+61.4% yoy)** respectively with assumptions:

- New signed M&E projects +30% yoy Long-term prospects based on infrastructure projects, such as Long Thanh Airport.
- Office rental rates in rental buildings +5% yoy.
- The output of the hydroelectric array **reached 3.8 billion kWh (+23% yoy)** thanks to favorable hydrological conditions in 1H.2022.
- Tra Vinh V1-3 wind power plant, Phu Lac 2, Loi Hai 2 operate full-time in 2022, helping the amount of wind power produced **increase by 298 million kWh**.

Table 9: Ree business results forecast for 2022

	2019	2020	2021	2022F
Turnover	4,890	5,640	5,810	9,484
M&E	3,173	3,474	1,698	3,889
real estate	927	987	939	963
Electricity generation	790	1,178	2,947	4,632
Gross profit	1,246	1,606	2,310	3,473
GROSS PROFIT Margin	25%	28%	40%	37%
Cost of Sales & QLDN	(300)	(366)	(456)	(782)
Financial revenue	442	222	466	761
Financial expenses	(386)	(475)	(707)	(414)
Other gains/losses	11	22	13	20
Profits from affiliates	907	915	774	815
LNTT	1,920	1,924	2,400	3,873
NPAT	1,720	1,714	2,135	3,446
EPS	5,286	5,251	6,003	8,423

Source: REE, BSC Research

VALUATION

Based on the discount cash flow method (DCF), BSC makes a **BUY** recommendation for REE shares, based on the fair value for REE shares of **VND 112,700 per share, upside 14.6%** compared to the reference level of 08/06/2022 of 98,300 VND/share.

APPENDIX

P&L (Billion VND)	2019	2020	2021	2022F
Net revenue	4,890	5,640	5,810	9,484
COGS	(3,644)	(4,034)	(3,500)	(6,010)
Gross profit	1,246	1,606	2,310	3,473
Selling expenses	(78)	(83)	(85)	(146)
SG&A expenses	(222)	(284)	(370)	(636)
Operating profit/loss	1,910	1,901	2,387	3,853
Finacial income	442	222	466	761
Finacial expense	(386)	(475)	(707)	(414)
Interest expense	(409)	(416)	(663)	(387)
Profit from joint ventures/associations	907	915	774	815
Other profit/loss	11	22	13	20
EBT	1,920	1,924	2,400	3,873
Tax	(200)	(210)	(264)	(427)
NPAT	1,720	1,714	2,135	3,446
Minority Interest	81	85	280	452
NPATMI	1,639	1,628	1,855	2,994
EBITDA	2,512	2,662	3,956	5,146
EPS	5,286	5,251	6,003	8,423

Balance sheet (Billion VND)	2019	2020	2021	2022F
Cash and cash equivalents	1,540	652	1,831	2,295
Short-term investment	1,221	1,329	914	914
Short-term receivables	2,138	3,082	2,987	4,935
Inventory	987	808	800	1,306
Other short-term asset	113	139	275	449
Short-term asset	5,999	6,009	6,806	9,898
Tangible asset	3,589	4,433	21,254	21,872
Depreciation	(1,762)	(1,914)	(5,262)	(6,121)
Long-term unfinished asset	68	276	406	250
Long-term investment	9,214	9,287	6,261	6,702
Other long-term asset	588	550	688	939
Long-term asset	13,624	14,522	25,021	25,253
Total Asseasset	19,623	20,530	31,827	35,152
Liabilities	2,217	2,068	2,660	3,041
Short-term loans	888	1,265	1,234	1,024
Other short-term debt	164	111	168	179
Total short-term debt	3,269	3,443	4,062	4,244
Long-term loans	4,739	4,335	10,740	3,511
Other long-term debt	513	540	667	582
Total long-term debt	5,252	4,874	11,407	11,407
Total Debt	8,521	8,318	15,469	15,651
Capital contributions	3,101	3,101	3,101	3,101
Equity surplus	1,050	1,050	1,050	1,050
Undistributed profit	6,006	7,115	8,964	11,182
Other equity	-	-	-	-
Minority shareholders	705	760	3,056	4,983
Total Equity	11,102	12,213	16,358	19,501
Total capital	19,623	20,530	31,827	35,152
No. outstanding shares (million shares)	309	309	309	355

Cashflow Statement (Billion VND)	2019	2020	2021	2022F
NPAT	1,720	1,714	2,135	3,446
Depreciation and amortization	183	322	893	886
Change in working capital	1,133	1,626	2,767	(2,576)
Other adjustments	(970)	(619)	(526)	(22)
CF from operating activities	319	613	1,525	1,734
Cash for purchase of fixed assets	(295)	(1,394)	(3,912)	(625)
Other investment	(1,335)	567	1,900	(282)
CF from investment activities	(1,630)	(827)	(2,013)	(907)
Dividend payment	(620)	(604)	(86)	1
Cash from net borrowing	1,605	(70)	1,753	(7,438)
CF from financing activities	985	(674)	1,667	(7,438)
Beginning of year CF	1,865	1,540	652	1,831
CF in the year	(325)	(888)	1,179	(6,612)
Ending of year CF	1,540	652	1,831	(4,781)

Ratio (%)	2019	2020	2021	2022F
Solvency				
Current ratio	1.8	1.7	1.7	2.3
Quick ration	1.5	1.5	1.5	2.0
Capital structure				
Debt/Total Asset	29%	27%	38%	13%
Debt/Equity	51%	46%	73%	23%
Operational capacity				
Days Sales of Inventory	98	81	84	64
Days Sales Outstanding	153	169	191	152
Days Payable Outstanding	201	194	247	173
CCC	50	56	28	43
Profit margin				
Gross profit margin	25%	28%	40%	37%
NPAT margin	35%	30%	37%	36%
ROE	16%	15%	15%	19%
ROA	10%	9%	8%	10%
Valuation				
PE	10.4	10.5	11.7	14.5
PB	1.6	1.5	1.4	2.3
Growth				
Net revenue growth	-4%	15%	3%	63%
EBIT growth	-1%	0%	31%	39%
EBT growth	-9%	0%	25%	61%
EPS Growth	-8%	-1%	14%	40%

Source: BSC Research

Disclosure

This report, of The Vietnam Investment and Development Bank Securities Joint Stock Company (BSC), provides only general information and analysis about the enterprise. This report is not formulated to be provided at the request of any individual organization or individual or decisions on the sale or holding of securities. Investors should only use the information, analysis and comments of the Report as a reference before making their own investment decisions. All information, judgments and forecasts and views in this report are based on reliable data sources. However, Vietnam Investment and Development Bank Securities Joint Stock Company (BSC) does not guarantee that these sources of information are completely accurate and do not assume any responsibility for the accuracy of the information referred to in this report, nor is it liable for damages to the use of all or part of the contents of this report. All views and statements mentioned in this report are based on the most careful, fair and reasonable consideration in the present. However, these views and perceptions can change without warning. This report is copyrighted and is the property of Vietnam Investment and Development Bank Securities Joint Stock Company (BSC). All acts of copying, modifying, and printing without the BSC's consent are against the law. Any contents of this document may not be (i) copied or reproduced in any form or method or (ii) provided without the approval of BIDV Securities Joint Stock Company.

BSC Head Office

8th & 9th Floor Thai Holdings Building
210 Tran Quang Khai,
Hoan Kiem, Hanoi
Tel:+84439352722
Fax:+84422200669

BSC Ho Chi Minh Branch

9th Floor Building 146 Nguyen Cong Truc
District 1, Ho Chi Minh City
Tel:+84838218885
Fax:+84838218510

<https://www.bsc.com.vn>
<https://www.facebook.com/BIDVSecurities>

Bloomberg: RESP BSCV <GO>

