

Sector: Electricity

**Recommendation BUY REFRIGERATION ELECTRICAL ENGINEERING CORPORATION JSC (HOSE: REE) LUMINOUS ENERGY**

Current price:	56,200	Date	19/03/2021	<b>Shareholder Structure</b>	
Target price	68,500	Outstanding Shares (Million)	309	Platinum Victory Pte. Ptd	29.9%
Dividend yield	0%	Market Cap (VND billion)	17,368	Nguyen Thi Mai Thanh	12.2%
<b>Upside</b>	<b>21.9%</b>	Avg. 30D Trading vol	921,373	Apollo Asia Fund	5.9%
		% Foreign float	49.0%	VIETFUND Management	5.5%

**Industry analyst:**

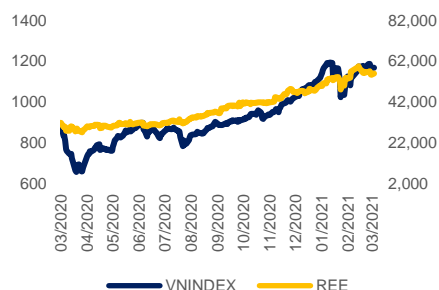
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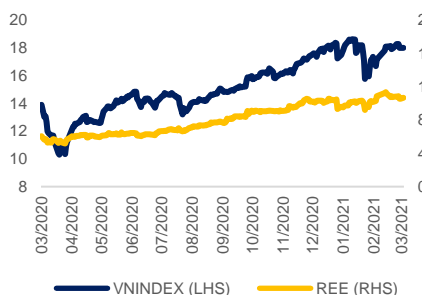
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Target price: 63,500 VND  
Stop-loss price: 49,500 VND

**Price comparison between REE and VN index**



**P/E comparison between REE and VN index**



**Valuation**

- BSC recommends **BUY** for REE with a **target price of VND68,500/share** for 2021 (+21.9% compared to March 19, 2020) based on the partial valuation method (SOTP).

**Forecasting business results**

- BSC forecasts net revenue and net profit of 2021 will reach **VND 6,591 billion (+16.9% yoy)** and NPAT = **VND 2,045 billion (+19.4% yoy)**, 2021 FW EPS = **VND 6,289/share** assuming: (1) Projects new M&E project +20% yoy; (2) Office rent in rental buildings +5% compared to 2020 and (3) Hydropower output reached 4.8 billion kWh (+34% yoy) thanks to La Nina phenomenon.

**Investment Thesis**

- M&E and office leasing activities with stable profit margins are "money printing machines" bringing stable cash flow for REE.
- Power generation segment grows strongly in 2021 thanks to La Nina phenomenon and additional capacity from newly operating factories.

**Risks**

- Weather risks affect the output of the Hydropower segment and the construction process of renewable energy power plants.
- The Thuong Kon Tum project is behind schedule, reducing the amount of electricity mobilized in the year.

**Company Update**

- In 2020, REE recorded a revenue of **VND 5,640 billion (+15.3% yoy)** thanks to (1) electricity revenue **+49.2% yoy** due to La Nina's return and (2) M&E revenue **+9.5%** thanks to rooftop solar power EPC project.
- REE's NPAT reached **VND 1,714 billion (-0.3% yoy)** due to (1) financial income of VND 221 billion (-49% yoy) and (2) **financial expense of VND 475 billion (+23% yoy)** due to increased exchange rate loss during the year.
- REE **does not pay dividends for 2020** to use for investment capital for power, water and real estate projects in 2021.

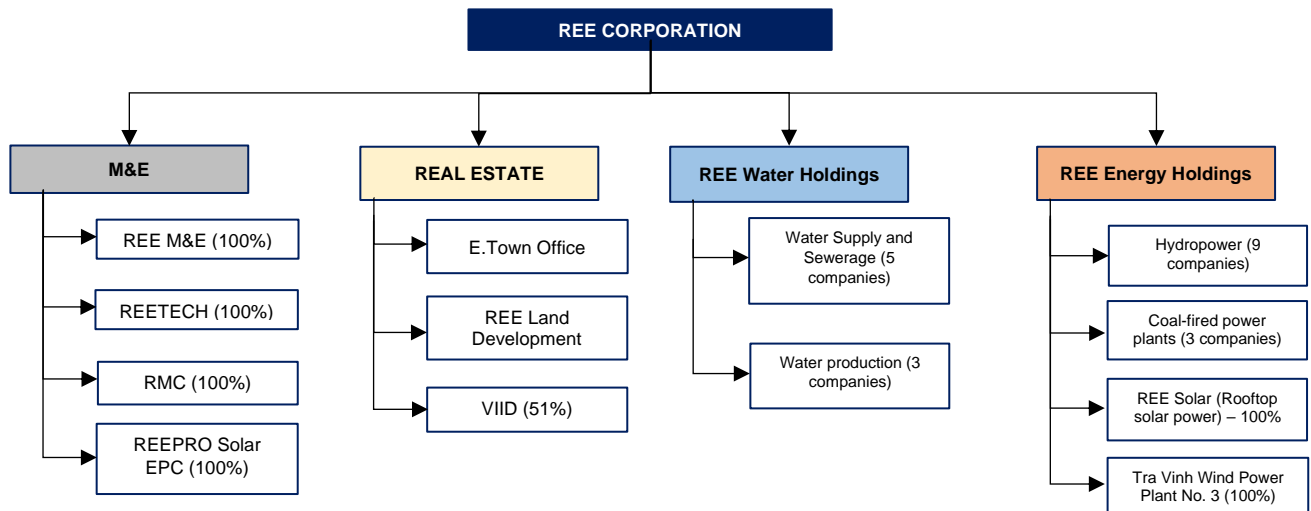
	2020	2021F	VN-Index
PE (x)	10.5	8.8	18.3
PB (x)	1.5	1.4	2.5
PS (x)	3.0	2.6	2.0
ROE (%)	15%	17%	13.7%
ROA (%)	9%	10%	2.2%
EV/ EBITDA (x)	7.5	7.7	17.3

	2018	2019	2020	2021F
Net Sales	5,101	4,890	5,640	6,591
Gross Profit	1,228	1,246	1,606	2,066
NPAT	1,885	1,720	1,714	2,045
EPS	5,754	5,286	5,251	6,289
EPS Growth	30%	-8%	-1%	20%
Net Debt/ Equity	32%	51%	46%	41%

## 2020 COMPANY UPDATE

### CHANGING COMPANY GOVERNANCE STRUCTURE

In 2020, REE restructured its governance model, whereby REE restructured the business by dividing it into 4 holdings 100% owned by REE, and separately managing 4 segments of the company as follows:



Source: REE, BSC Research

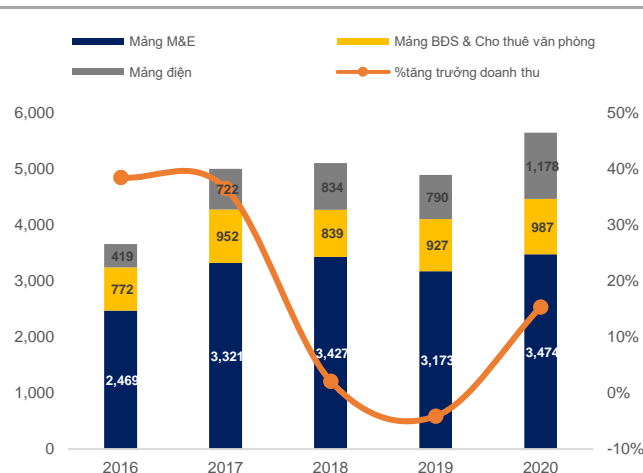
Compared with the old model, BSC expects that **the new governance model will support REE's business segments better** because (1) REE can manage its member companies more easily and transparently, (2) Subsidiaries can easily raise capital for each separate segment and (3) Subsidiaries can conduct IPOs, bringing back the source of profits to reinvest in the Parent Company in the future.

### 2020 BUSINESS RESULTS UPDATE

In 2020, REE recorded a revenue of **VND 5,640 billion (+15.3% yoy)**, equivalent to **94% of the year plan** thanks to (1) Electricity revenue **+49.2% yoy** hydroelectricity is prioritized for mobilization and (2) revenue M&E segment **+9.5% yoy** because REE implements EPC contract for renewable solar power projects.

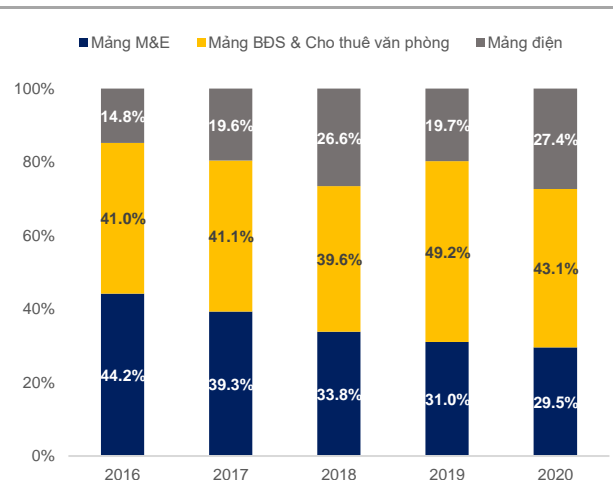
In terms of gross profit structure, the Real Estate & Office leasing segment contributed the largest proportion in 2020 thanks to the **improved gross profit margin to 70%, compared to 66% in 2019**.

Figure 1: REE's revenue breakdown (VND billion)



Source: REE, BSC Research

Figure 2: REE's gross profit breakdown



Source: REE, BSC Research

While revenue grew year-on-year, the company's NPAT decreased slightly to only **VND 1,714 billion (-0.3% yoy)** due to:

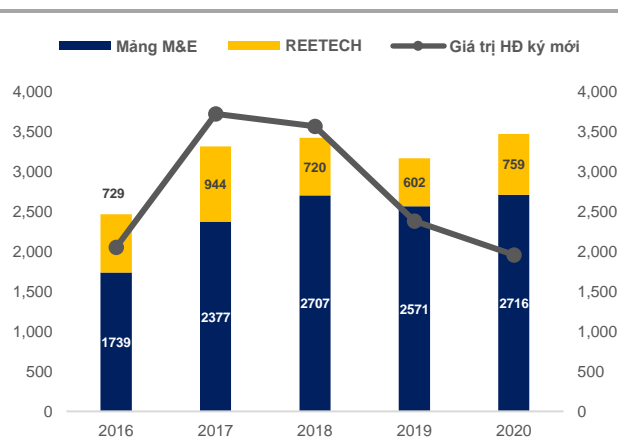
- Financial revenue reached **VND 221 billion (-49.8% yoy)** due to income from deposit interest -33% yoy and profit from liquidation of investments **-89% yoy** (in 2019 incurred **VND 87 billion of extraordinary income** from the transfer of Vung Ang factory).
- Financial expenses reached **VND 475 billion (+23% yoy)** due to the exchange rate difference in the year recording a **loss of VND 53 billion** (the exchange rate loss in 2019 was recorded at a low level of VND 385 million).

## M&E SEGMENT – SEIZE THE OPPORTUNITY

**M&E revenue grew by 10% despite the impact of the Covid-19 epidemic.** M&E revenue in 2020 reached VND 3,475 billion (+9.5% yoy), of which revenue from M&E segment reached VND 2,716 billion (+5.6% yoy) and revenue from REE TECH segment reached VND 759 billion (+26). % yoy) due to:

- REE continues to sign projects to supply & install M&E systems in Ho Chi Minh City (such as The Metropole Thu Thiem project, Urban railway project No. 1, etc.). The value of newly signed M&E contracts in 2020 reached **VND 2,981 billion**.
- Revenue from REE TECH segment recorded revenue from EPC projects for rooftop solar power about **VND 366 billion (+66% yoy)** thanks to the booming trend of rooftop solar installation in 2020. As noted by BSC, REE have implemented more than **35 projects (total capacity 62 MWp)** in the past year.

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



Source: REE, BSC Research

Table 1: Ongoing M&E projects of REE

PROJECT	PACKAGE	DEPLOYMENT	COMPLETE
Headquarters Delivery Center - TKV		May 2020	July 2021
The Metropole Thu Thiem - The Galleria Residences		April 2020	March 2021
Urban Railway Line No. 1 Ho Chi Minh City	Supply and installation of electromechanical systems	April 2020	November 2021
Asiana Capella Complex		October 2019	March 2021
Hoang Gia Marina Center		October 2019	September 2021

Source: REE, BSC Research

We forecast that the M&E segment in the period 2021-2025 will grow at **CAGR = 15.7%/year** due to:

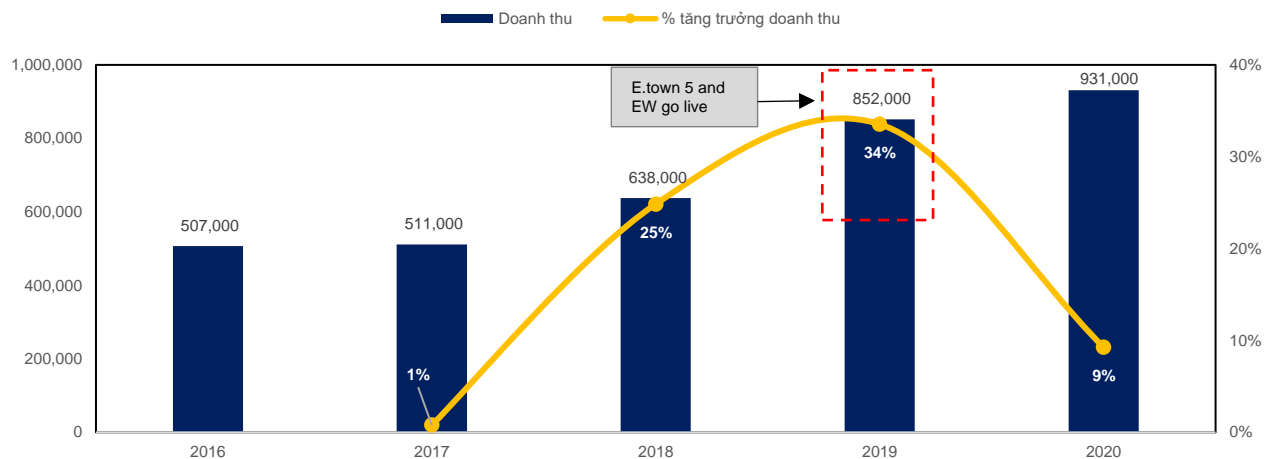
- The real estate market recovered, helping the total value of new contracts to grow by 20%/year.** The M&E segment accounts for about 20-50% of the contract value, so this segment depends on the real estate market. In the past period, policies to support the real estate market (for example, the revised Construction Law 2020, Decree 25/2020/ND-CP, etc.) have been issued, showing signs of a recovery in the real estate market. strong in 2021 (Industry report: [Link](#)). Therefore, BSC forecasts that the total value of new contracts signed in 2021 will increase by 20% over the same period, estimated at VND 3,577 billion.
- Increase the proportion of EPC projects for rooftop solar power with higher margin than traditional M&E segment.** According to BSC's estimate, the NPAT margin of rooftop solar EPC projects is in the 15-20% range, significantly larger than the NPAT margin of the traditional M&E segment (6-7%). Having implemented more than 35 EPC projects in 2020 as well as having invested in its own Solar projects, we believe that REE has the potential to increase the profit margin of EPC projects.

In 2021, BSC forecasts revenue and NPAT of M&E segment to reach **VND 3,980 billion (+14.5% yoy)** and **VND 299 billion (+33.0% yoy)** respectively, based on the following assumptions: (1) contract value new signing in 2021 **+20% yoy** and (2) backlog implementation progress in the year **+5% yoy** due to the impact of the Covid-19 epidemic in 2020.

### OFFICE FOR LEASE – HIGH PROFIT & STABLE CASH FLOW

**NPAT of Office for lease in 2020 +11% yoy thanks to stable occupancy rate ~ 98%.** Revenue and NPAT in 2020 reached VND 931 billion (+9.3% yoy) and VND 112 billion (+11.1 percent yoy) respectively thanks to the occupancy rate of the office building for lease remaining ~ 98% - higher than office space of the same grade (92-94%), at the same time with the full year contribution of E.town 5 building (comes into operation in 2019).

Figure 4: Revenue from office leasing segment (VND billion)



Source: REE, BSC Research

BSC believes that REE's office leasing will continue to **grow at CAGR = 9.1%/year in the period 2021-2025** due to:

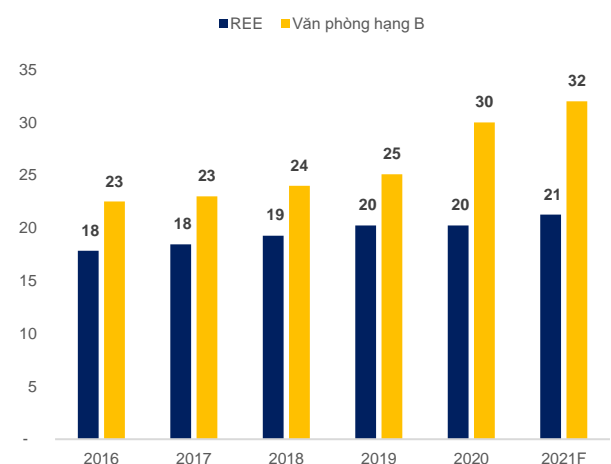
- **The occupancy rate remains at 98-100%.** Currently, REE is operating 150,000 m2 of Grade B office space in the inner districts of Ho Chi Minh City (Districts 1-3-4-5 and Tan Binh) with rental rates at 20-25 USD/m2/month, 25-30% lower than the average office of the same grade. With a convenient location and lower rental rates than the average, BSC believes that REE's occupancy rate will always be **maintained at 98-100%** in the following years.

Table 2: Current rental buildings of REE

Building	Office Grade	Area (m <sup>2</sup> )	Rental price 2021 (estimated) (USD/m <sup>2</sup> /month)
Cụm E.town Cong Hoa	B	100,010	20-22
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 Ba Hom	B	1,574	21

Source: REE, BSC Research

Figure 6: REE's office rental price is lower than the average (unit: USD/m<sup>2</sup>/month)



Source: Colliers International, BSC Research

- **Office rental rates continue to grow in the long term.** According to Colliers International's [Q4/2020 Report](#), Grade B office rental prices in Ho Chi Minh City in the coming years will continue to increase by 5-10% per year due to the limited supply of new office projects for lease. Therefore, BSC assumes that REE's office rental price will also **increase at 5-6%/year** following the general trend of the industry.
- In addition, REE's leasable area is expected to **increase by 25% in 2023** when there is an additional **40,000 m2 of leasable area of E.town 6 building** (16 floors above ground and 7 basements). The project is expected to start construction in 2021 and complete in 2023. Assuming the rental price of E.town 6 is at **22 USD/m<sup>2</sup>/month**, we expect the project to bring about a profit of about **VND 120 billion** from 2024, equivalent to 15% of the current NPAT of the office leasing segment.

In 2021, BSC forecasts that office leasing revenue and NPAT will reach **VND 999 billion (+7.4% yoy)** and **VND 513 billion (+7.4% yoy)** respectively, assuming: (1) occupancy rate. The occupancy rate in office buildings reached 98-100% and (2) the rental price increased by 5% compared to 2020.

**Table 3: Business results for office leasing segment 2020-2025**

(ĐV: tỷ VNĐ)	2020	2021E	2022F	2023F	2024F	2025F
Doanh thu	931	999	1,059	1,247	1,431	1,545
% tăng trưởng	9.3%	7.3%	6.0%	17.8%	14.8%	8.0%
LNST	478	520	551	686	816	881
% tăng trưởng	21.0%	8.8%	6.0%	24.5%	19.0%	8.1%

(Source: BSC Research)

## POWER PRODUCTION SECTOR – GROWTH PROSPECTS FROM HYDROPOWER & RENEWAL ENERGY

**REE owns a large capacity power portfolio.** After the restructuring, REE Energy will directly own the power investment portfolio including 5 subsidiaries and 10 associated companies (including 7 hydropower companies and 3 coal-fired power companies). . In total, REE has joint venture stakes in power companies with a total capacity of about 2,600 MW.

**Table 4: REE's Power Portfolio:**

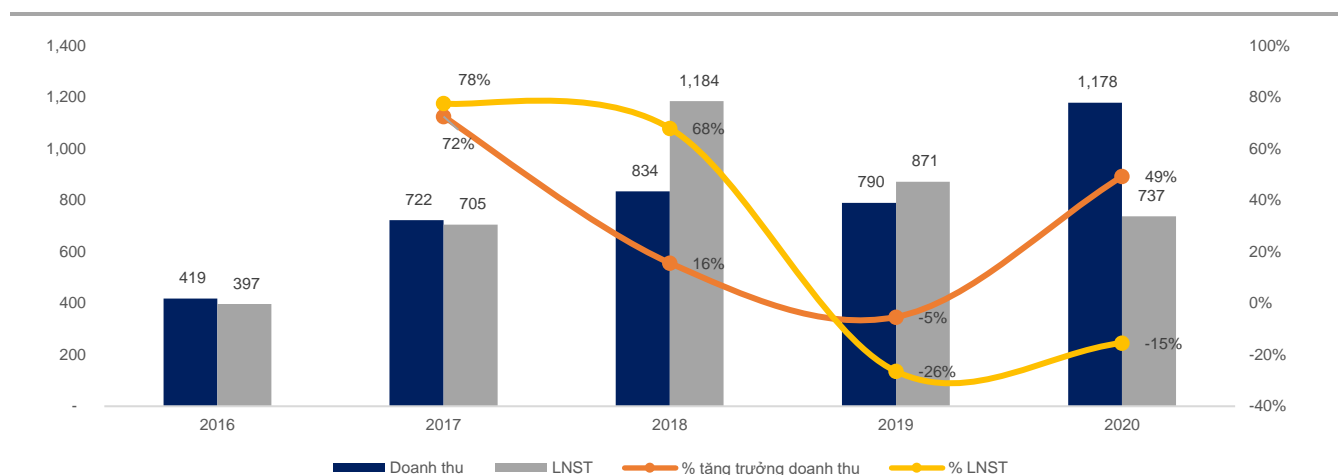
Company	Stock code	Ownership rate	Factory	Type	Year of operation	Capacity (MW)
<b>SUBSIDIARIES</b>						
Thac Ba Hydropower JSC	TBC	60.4%	Thac Ba Hydropower Plant	Hydropower	1971	120
Muong Hum Hydropower JSC	MHP	49.1%	Muong Hum Hydropower Plant	Hydropower	2011	32
Thuan Binh Wind Power JSC	TBW	50%	Phu Lac Wind Power	Wind Power	2016	24
Tra Vinh Rural Electricity JSC	DTV	66.3%		Power distribution		
REE Solar Power JSC	REE SE	99.9%	Rooftop solar power	Solar power	2020	71
<b>ASSOCIATED COMPANY</b>						
Central Hydropower JSC	CHP	22.7%	A Luoi Hydropower Plant	Thủy điện	2012	170
			ĐMT Cư Jut	Solar power	2019	50

Company	Stock code	Ownership rate	Factory	Type	Year of operation	Capacity (MW)
			Da Siat Hydropower Plant		2009	13.5
Southern Hydropower JSC	SHP	11.1%	Da Dang 2 Hydropower Plant	Hydropower	2010	34
			Da Mbri Hydropower Plant		2010	75
Thac Mo Hydropower JSC	TMP	42.6%	Thac Mo Hydropower Plant	Hydropower	1995	220
			Vinh Son Hydropower Plant		1994	66
Vinh Son - Song Hinh Hydropower JSC	VSH	49.5%	Song Hinh Hydropower Plant	Hydropower	2001	70
			Thuong Kon Tum Hydropower Plant		2021	220
Srok Phu Mieng Hydropower JSC - IDICO	ISH	34.3%	Srok Phu Mieng Hydropower Plant	Hydropower	2006	51
Song Ba Ha Hydropower JSC	SBH	25.8%	Song Ba Ha Hydropower Plant	Hydropower	2009	220
Binh Dien Hydropower JSC	BDH	25.5%	Binh Dien Hydropower Plant	Hydropower	2009	44
			Pha Lai 1 Thermal Power		1983	440
Pha Lai Thermal Power JSC	PPC	24.1%	Pha Lai 2 Thermal Power	Coal thermal power	2001	600
Ninh Binh Thermal Power JSC	NBP	29.5%	Nhiệt điện Ninh Bình	Coal thermal power	1974	100
				<b>Hydropower</b>		<b>1,336</b>
<b>Total</b>				<b>Coal thermal power</b>		<b>1,140</b>
				<b>Renewal energy</b>		<b>145</b>

(Source: REE, BSC Research)

In 2020, electricity revenue will reach **VND 1,178 billion (+49.2% yoy)**, equivalent to 103.8% of the plan due to the consolidation of subsidiaries, including: Thuan Binh Wind Power JSC, Muong Hum Hydropower JSC and REE Sun Energy JSC into the company's business results.

**Figure 7: Electricity revenue and NPAT (VND billion)**

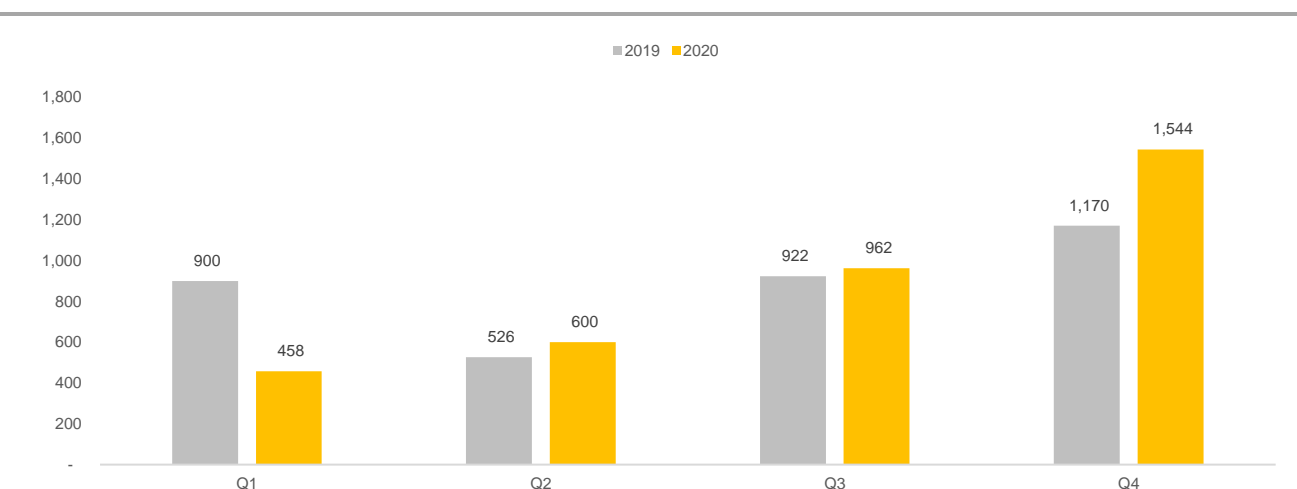


Source: REE, BSC Research

## HYDROPOWER – POSITIVE PROSPECTS FROM LA NINA

Revenue and NPAT of hydropower plants in 2020 are **VND 697 billion (+8.7% yoy)** and **VND 570 billion (+8.8% yoy)** respectively. REE's mobilized hydropower output in 2020 will reach **3.6 billion kWh (+1% yoy)** because REE's hydropower plants were affected by a prolonged drought at the beginning of the year..

**Figure 8: REE's hydropower output by quarter (million kWh)**



Source: REE, BSC Research

Hydropower output is restored in the second half of 2020 due to increased rainfall, in which, in Q4/2020 alone, hydropower output is recorded at **1.5 billion kWh (+32% yoy)**. The amount of water entering the lake in 2021 is forecasted to be at a high level as La Nina continues.



Figure 9: Output of REE hydropower plants (million kWh)

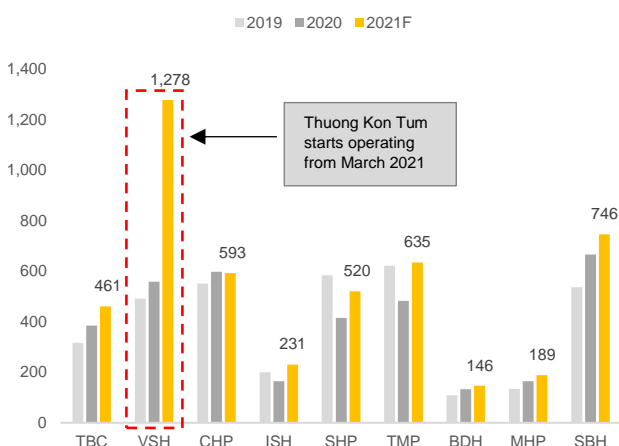
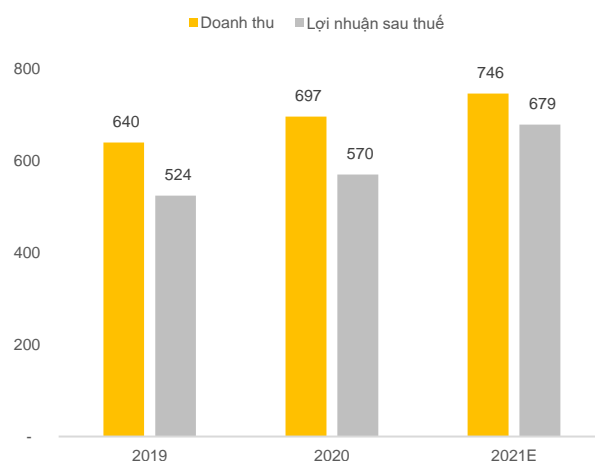


Figure 10: Revenue and NPAT of hydropower plants (VND billion)



Source: REE, BSC Research

In 2021, BSC forecasts that revenue and NPAT of the hydropower segment will reach **VND 746 billion (+18.7% yoy)** and **VND 679 billion (+19% yoy)** equivalent to hydropower output in 2021 will reach **4.9 billion kWh (+38% yoy)** based on the following assumptions:

- Hydropower plants have enough water to generate electricity for the whole year of 2021 due to high levels of water entering the lake. Accordingly, hydropower output in 2021 (excluding Thuong Kon Tum) is estimated at **4.3 billion kWh (+20.3% yoy)**.
- Thuong Kon Tum Hydropower Plant (220MW) is expected to start operation at the end of March 2021. The expected commercial power output in 2021 of Thuong Kon Tum plant is about **640 million kWh**, equivalent to **18%** contributing to the increased output in 2021.

Table 5: Forecast of business results of REE hydropower companies (Unit: VND Billion)

Company	Stock code	2021				
		Net revenue	Gross profit	GPM	NPAT	NPAT margin
Thac Mo Hydropower JSC	TMP	485	263	54%	201	41%
Song Ba Ha Hydropower JSC	SBH	766	410	54%	429	56%
Vinh Son - Song Hinh Hydropower JSC	VSH	1,054	620	59%	97	9% (*)
Srok Phu Mieng Hydropower JSC	ISH	244	119	49%	74	30%
Central Hydropower JSC	CHP	868	507	58%	345	40%
Southern Hydropower JSC	SHP	449	157	35%	101	22%
Thac Ba Hydropower JSC	TBC	640	378	59%	243	38%

(\*) VSH's NPAT margin decreased as the Company started to record interest expenses on the Thuong Kon Tum project for 2021 (VND 447 billion).

(Source: BSC Research)

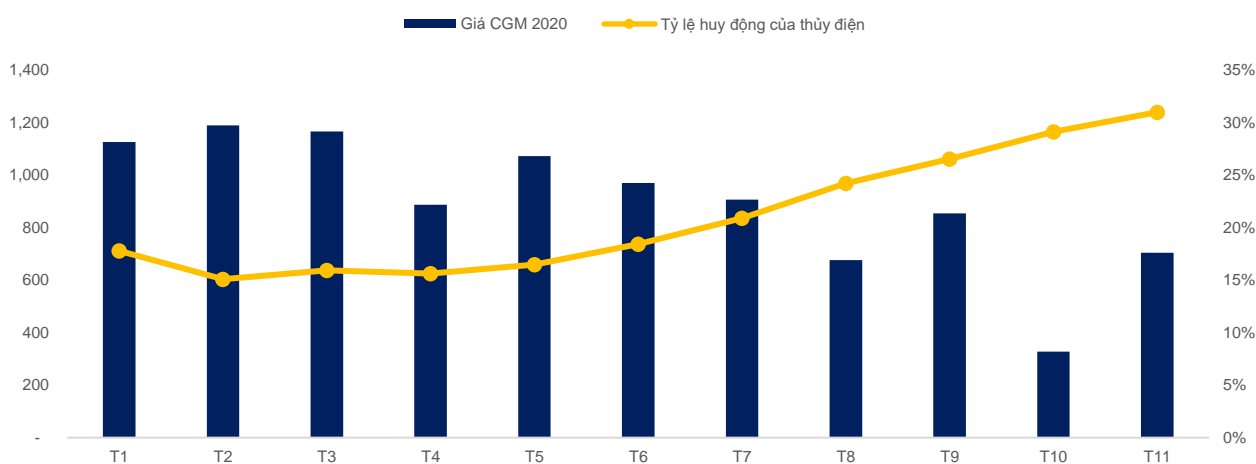


## COAL POWER POWER – POOR OUTLOOK

In 2020, REE's after-tax profit from coal-fired power segment was recorded at **VND 244 billion (-21% yoy)**, due to:

- Power output from two thermal power plants Pha Lai (PPC) and Ninh Binh thermal power plant (NBP) decreased to **5.7 billion kWh (-5.4% yoy)**.
- The selling price of electricity in the CGM market remained below VND 1,000/kWh because hydroelectricity was prioritized for mobilization, leading to a significant decrease in electricity sales in the CGM market. Because La Nina will continue to happen, BSC believes that the electricity selling price in the CGM market will be below VND 1,000/kWh in 2021.

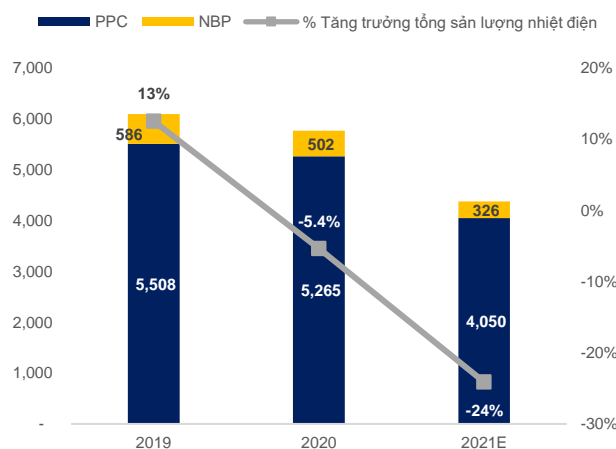
**Figure 11: Electricity selling price in the CGM market in 2020 (VND/kWh)**



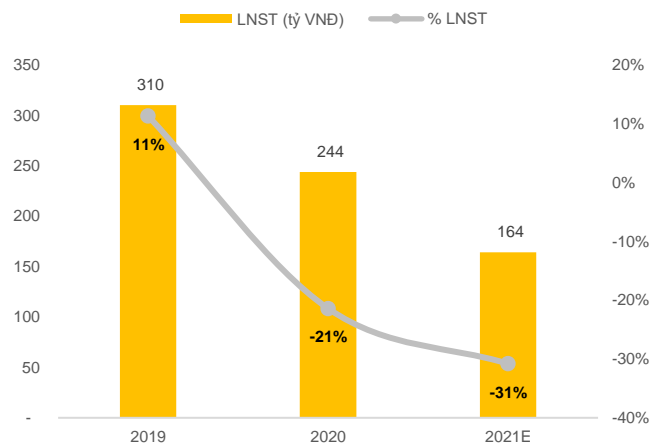
Source: EVN, BSC Research

According to EVN's orientation, more hydropower and renewable energy will be mobilized in 2021, so coal-fired power output will be mobilized less. In which, the power output of REE's plants (PPC and NBP) is estimated at **4.3 billion kWh (-24% yoy)**. BSC estimates that REE's NPAT received from coal-fired power segment in 2021 could reach **VND 164 billion (-31% yoy)**, with the main decrease coming from PPC (-32.9% yoy).

**Figure 12: Power output of thermal power plants (million kWh)**



**Figure 13: NPAT from thermal power plants (VND billion)**



Source: REE, BSC Research

**Table 6: Forecast of business results of thermal power companies of REE**

Company	Stock code	Net revenue			NPAT		
		2020	2021E	%	2020	2021E	%
Pha Lai Thermal Power JSC	PPC	7,929	5,420	-32%	1,008	676	-33%
Ninh Binh Thermal Power JSC	NBP	1,038	787	-24%	34	22	-35%

Source: REE, BSC Research

## RENEWAL ENERGY – ACTIVE IMPLEMENTATION OF PROJECTS

- Tra Vinh offshore wind power project No. 3 (total capacity of 48 MW), with a total investment of about **VND 2,120 billion** is under construction to operate ahead of schedule. FIT price = 9.8 US cents/kWh for projects offshore wind power. BSC forecasts that the electricity output of Tra Vinh No. 3 project in 2021 is estimated at 42 million kWh/year (40% efficiency), corresponding to revenue and net profit in 2021 of about **VND 100 billion and VND 15 billion, respectively**.
- REE is continuing to deploy rooftop solar power projects with the goal of completing **150 MWp of capacity by the end of 2021** and reaching the target of **500 MWp by 2024**. Based on the assumption that REE will complete 150 MWp on schedule. MWp mentioned above, BSC estimates that revenue and NPAT of rooftop solar power projects in 2021 will reach **VND 175 billion and VND 26 billion, respectively**.

## WATER SECTION – STABLE GROWTH

**REE owns a large Water portfolio with many water plants in Hanoi and Ho Chi Minh.**

- Three B.O.O Thu Duc plants, Thu Duc III water plants, and Tan Hiep II water plants have a total designed capacity of 900,000 m<sup>3</sup>/day, equivalent to 41% of the designed clean water treatment capacity of the city. Ho Chi Minh.
- Song Da water plant with a capacity of 300,000 m<sup>3</sup>/day, accounting for about 20% of the city's water supply capacity. Hanoi. In addition, phase 2 of VCW (additional 300,000 m<sup>3</sup>/day) is still waiting for government approval.

**Table 7: REE's clean water portfolio**

Company	Stock code	Owned by REE	Field	Capacity
Song Da Clean Water Investment JSC	VCW	36.0%	Clean water production	300,000 m <sup>3</sup> /day
Saigon Clean Water Investment and Trading JSC	SWIC	30.0%	Clean water production	300,000 m <sup>3</sup> /day
B.O.O Thu Duc Water JSC	B.O.O Thu Duc	42.0%	Clean water production	300,000 m <sup>3</sup> /day
Tan Hiep Clean Water Investment JSC	TH2	32.0%	Clean water production	300,000 m <sup>3</sup> /day
Thu Duc Water Supply JSC	TDW	44.2%	Water supply	
Gia Dinh Water Supply JSC	GDW	20.0%	Water supply	
Nha Be Water Supply JSC	NBW	20.0%	Water supply	
Khanh Hoa Water Supply and Sewerage JSC	KHW	43.9%	Water Production & Supply	

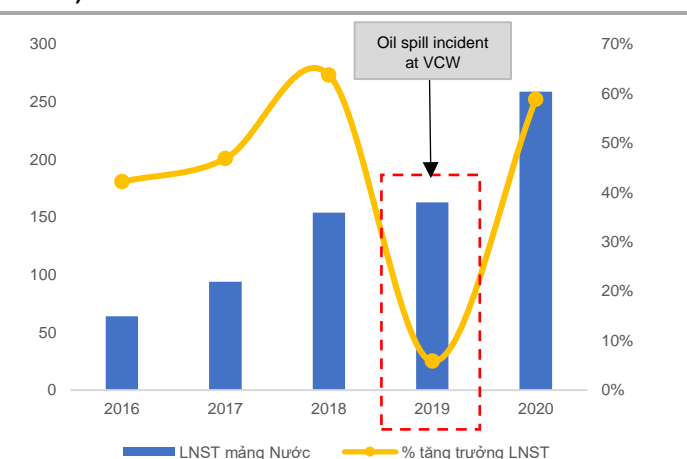
Source: REE, BSC Research

NPAT from the Water segment in 2020 **reached VND 259 billion (+58.9% yoy)**, 37% higher than the plan thanks to:

- Profit from Song Da Clean Water JSC (VCW) reached **VND 71 billion (+42% yoy)** because in 2020, VCW did not have to record the cost of oil spill remediation (VND 77 billion) as in 2019.
- Water prices in big cities and provinces **increased by 5-8% over the same period** (see Table 8).

Water segment is one of the business segments that make a steady contribution to REE's profit structure thanks to (1) high demand in major cities and provinces and (2) water price is often adjusted up annually according to the roadmap. Therefore, in 2021, BSC forecasts that 2021 REE's profit from water supply and drainage segment is **estimated at VND 304 billion (+18.7% YoY)**, directly contributing **15.8% of the Company's NPAT**, based on assumption the price of clean water continues to increase by 5-8% per year according to the roadmap in provinces and cities such as Ho Chi Minh City, Hanoi or Khanh Hoa.

**Figure 13: Annual growth in NPAT of the Water segment (VND billion)**



Source: REE, BSC Research

**Table 8: Selling price of domestic water in Hanoi, Ho Chi Minh City and Khanh Hoa**

Unit price of domestic water (VND/m <sup>3</sup> )	2020	2021	2022
TDW	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
TH2	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
B.O.O Thủ Đức	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
GDW	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
NBW	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
SWIC	6,000 - 11,900	6,300 - 12,300	6,700 - 13,000
KHW	2,580 - 5,160	2,790 - 5,580	N/A
VCW	5,973 - 15,990	5,973 - 15,990	N/A

Source: Companies website, BSC Research

## FORECAST 2021 BUSINESS RESULTS

BSC forecasts REE's business results in 2021 with **Net revenue and NPAT of VND 6,591 billion (+16.9% yoy)** and **VND 2,045 billion (+19.4% yoy)** respectively, with the following assumptions:

- Newly signed M&E projects +20% yoy thanks to the recovery of the real estate market and continued signing of EPC projects for rooftop solar power sector.
- Office rental price in rental buildings +5-6% yoy.
- Hydropower output reached **4.8 billion kWh (+34% yoy)** thanks to the large amount of water entering the lake and the Thuong Kon Tum project which has been in operation since March.
- Tra Vinh Wind Power Plant No. 3 will operate from the 3rd quarter of 2021, helping to **increase wind power output in 2021 by 42 million kWh**.

Table 9: Forecast of REE's business results in 2021

	2018	2019	2020E	2021F
<b>Revenue</b>	<b>5,101</b>	<b>4,890</b>	<b>5,640</b>	<b>6,591</b>
M&E	3,427	3,173	3,474	3,980
BDS	839	927	987	1,015
Power production	834	790	1,178	1,595
<b>Gross profit</b>	<b>1,228</b>	<b>1,246</b>	<b>1,606</b>	<b>2,066</b>
GPM	24%	25%	28%	31%
SG&A	(313)	(300)	(366)	(411)
Financial revenue	304	442	222	233
Financial expenses	(111)	(386)	(475)	(460)
Other revenue/loss	12	11	22	26
Profits from affiliates	999	907	915	842
PBT	2,118	1,920	1,924	2,296
<b>NPAT</b>	<b>1,885</b>	<b>1,720</b>	<b>1,714</b>	<b>2,045</b>
<b>EPS</b>	<b>5,754</b>	<b>5,286</b>	<b>5,251</b>	<b>6,289</b>

Source: REE, BSC Research

## VALUATION

Based on the partial valuation method (SOTP), BSC recommends **BUY** for REE, based on the fair value of REE stock of **VND68,500/share, 21.9% upside** from the reference price on 19th March 2020 is 56,200 VND/share.

Table 10: Valuation comparison of each activity segment

Stock code	Company	Market Cap (USD million)	ROE TTM (%)	ROA TTM (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
<b>Hydropower</b>							
AVC VN Equity	A VUONG HYDROPOWER JSC	84	14.0%	12.4%	10.7	1.5	15.1
SBA VN Equity	SONG BA HYDROPOWER JSC	42	12.9%	7.9%	9.5	1.2	7.2
S4A VN Equity	SESAN 4A HYDROPOWER JSC	50	16.4%	8.2%	13.5	2.2	10.2
DRL VN Equity	HYDROPOWER - ELECTRIC NO.3 JSC	23	48.2%	41.6%	9.2	4.0	7.6

DNH VN Equity	DA NHIM - HAM THUAN - DA MI HYDROPOWER JSC	459	16.9%	11.3%	16.1	1.9	12.9
<b>Mean</b>			<b>21.7%</b>	<b>16.3%</b>	<b>11.8</b>	<b>2.2</b>	<b>10.6</b>
<b>Median</b>			<b>16.4%</b>	<b>11.3%</b>	<b>10.7</b>	<b>1.9</b>	<b>10.2</b>
<b>Coal thermal power</b>							
NTPC IN Equity	NTPC LTD	14,619	10.1%	3.2%	9.4	0.9	9.7
TPIPP TB Equity	TPI POLENE POWER PCL	1,213	16.1%	11.0%	8.2	1.3	8.2
HUBC PA Equity	HUB POWER COMPANY	692	39.2%	11.1%	3.5	1.3	6.0
SJVN IN Equity	SJVN LTD	1,418	14.4%	10.8%	6.9	0.9	5.1
POWR IJ Equity	CIKARANG LISTRINDO TBK PT	780	17.5%	8.6%	9.2	1.2	5.2
<b>Mean</b>			<b>19.4</b>	<b>9.0</b>	<b>7.4</b>	<b>1.1</b>	<b>6.8</b>
<b>Median</b>			<b>16.1</b>	<b>10.8</b>	<b>8.2</b>	<b>1.2</b>	<b>5.9</b>
<b>Water production</b>							
BWE VN Equity	BINH DUONG WATER - ENVIRONMENT JSC	268	19.1%	7.4%	9.5	1.8	7.7
TDM VN Equity	THU DAU MOT WATER JSC	130	10.7%	7.3%	16.8	1.8	11.0
TTW TB Equity	TTW PCL	1,554	12.8%	22.1%	10.8	3.5	11.8
MWC PM Equity	MANILA WATER COMPANY	625	5.5%	2.9%	6.9	0.5	8.1
1542 HK Equity	TAIZHOU WATER GROUP CO-H	95	13.4%	3.3%	5.8	0.8	9.9
<b>Mean</b>			<b>12.3%</b>	<b>8.6%</b>	<b>10.0</b>	<b>1.7</b>	<b>9.7</b>
<b>Median</b>			<b>12.8%</b>	<b>7.3%</b>	<b>9.5</b>	<b>1.8</b>	<b>9.9</b>

Source: Bloomberg, Fiinpro, BSC Research

**Table 11: Valuation Summary**

	NPAT (VND million)	Method	Target multiple	Value
M&E segment	299,343	P/E	9.0x	2,694,084
Hydropower	699,838	P/E	12.0x	8,398,061
Coal thermal power	164,147	P/E	7.0x	1,149,026
Water production	304,347	P/E	10.0x	3,043,466
Office for lease	541,203	P/E	11.0x	5,953,238
<b>Total</b>				<b>21,237,875</b>
Number of shares (million)				310
<b>Share value (VND/share)</b>				<b>68,509</b>

Source: BSC Research

## APPENDIX

IS (VND billion)	2018	2019	2020	2021F	CF (VND billion)	2018	2019	2020	2021F
Net revenue	5,101	4,890	5,640	6,591	Profit after tax	1,885	1,720	1,714	2,045
COGS	(3,873)	(3,644)	(4,034)	(4,525)	Depreciation	161	183	322	322
Gross profit	1,228	1,246	1,606	2,066	Change in NWC	1,026	1,133	1,626	(147)
Selling expenses	(99)	(78)	(83)	(93)	Other adjustments	(1,253)	(970)	(619)	(1,498)
G&A	(215)	(222)	(284)	(318)	<b>CF from operating activities</b>	<b>90</b>	<b>319</b>	<b>613</b>	<b>722</b>
<b>Operating income</b>	<b>2,106</b>	<b>1,910</b>	<b>1,901</b>	2,270	Fixed assets investment	(340)	(295)	(1,394)	(327)
Financial income	304	442	222	233	Other investment	120	(1,335)	567	(323)
Financial expenses	(111)	(386)	(475)	(460)	<b>CF from investing activities</b>	<b>(220)</b>	<b>(1,630)</b>	<b>(827)</b>	<b>(650)</b>
Interest expenses	(225)	(409)	(416)	(430)	Dividend paid	(602)	(620)	(604)	-
Gain/loss from affiliates	999	907	915	842	Cash from net borrowing	199	1,605	(70)	(560)
Other gain/loss	12	11	22	26	<b>CF from financing activities</b>	<b>(403)</b>	<b>985</b>	<b>(674)</b>	<b>(560)</b>
Profit before tax	2,118	1,920	1,924	2,296	Beginning cash balance	2,397	1,865	1,540	652
Corporate tax payment	(233)	(200)	(210)	(251)	Cash in year	(533)	(325)	(888)	(488)
<b>Profit after tax</b>	<b>1,885</b>	<b>1,720</b>	<b>1,714</b>	<b>2,045</b>	<b>Ending cash balance</b>	<b>1,865</b>	<b>1,540</b>	<b>652</b>	<b>164</b>
Minority interest	101	81	85	102					
NPATMI	1,784	1,639	1,628	1,943					
EBITDA	2,504	2,512	2,662	3,048					
EPS	5,754	5,286	5,251	6,289					

BS (VND billion)	2018	2019	2020	2021F	Ratios (%)	2018	2019	2020	2021F
<b>Cash &amp; cash equivalent</b>	1,865	1,540	652	163	<b>Liquidity ratios</b>				
Short term investment	1,139	1,221	1,329	1,329	Current ratio	2.0	1.8	1.7	1.7
Account receivables	1,966	2,138	3,082	3,145	Quick ratio	1.6	1.5	1.5	1.5
Inventory	969	987	808	849					
Other current assets	49	113	139	132	<b>Solvency ratios</b>				
<b>Total current assets</b>	<b>5,988</b>	<b>5,999</b>	<b>6,009</b>	<b>5,617</b>	Debt/ Total assets	21%	29%	27%	25%
Tangible assets	1,676	3,589	4,433	4,753	Debt/ Equity	32%	51%	46%	41%
Depreciation	(1,261)	(1,762)	(1,914)	(2,088)					
Long term incomplete assets	153	68	276	166	<b>Efficiency ratios</b>				
Long term investment	6,992	9,214	9,287	9,767	Days of inventories	119	98	81	67
Other non-current assets	285	588	550	511	Days of receivables	111	153	169	172
<b>Total non-current assets</b>	<b>9,512</b>	<b>13,624</b>	<b>14,522</b>	<b>14,893</b>	Days of payables	186	201	194	164
<b>Total Assets</b>	<b>15,500</b>	<b>19,623</b>	<b>20,530</b>	<b>20,510</b>	CCC	43	50	56	75
Account payables	1,797	2,217	2,068	1,992					
Short-term debt	1,111	888	1,265	1,138	<b>Profitability ratios</b>				
Other short-term debt	148	164	111	112	Gross profit margin	24%	25%	28%	31%
<b>Current liabilities</b>	<b>3,057</b>	<b>3,269</b>	<b>3,443</b>	<b>3,242</b>	PBT margin	37%	35%	30%	31%
Long-term debt	2,070	4,739	4,335	3,901	ROE	20%	16%	15%	17%
Other long-term debt	445	513	540	576	ROA	13%	10%	9%	10%
<b>Non-current liabilities</b>	<b>2,515</b>	<b>5,252</b>	<b>4,874</b>	<b>4,874</b>					
<b>Total Liabilities</b>	<b>5,571</b>	<b>8,521</b>	<b>8,318</b>	<b>8,117</b>	<b>Valuation</b>				
Paid-in capital	3,101	3,101	3,101	3,101	PE	9.6	10.4	10.5	8.8
Capital surplus	1,050	1,050	1,050	1,050	PB	1.8	1.6	1.5	1.4
Retained earnings	4,928	6,006	7,115	9,042					
Other equity	-	-	-	-	<b>Growth</b>				
Minority interest	610	705	760	818	Net revenue growth	2%	-4%	15%	17%
<b>Shareholder's equity</b>	<b>9,928</b>	<b>11,102</b>	<b>12,213</b>	<b>12,394</b>	EBIT growth	28%	-1%	0%	16%
<b>Total Resources</b>	<b>15,500</b>	<b>19,623</b>	<b>20,530</b>	<b>20,510</b>	PBT growth	23%	-9%	0%	19%
Number of shares outstanding (million)	309	309	309	309	EPS growth	30%	-8%	-1%	20%

Source: REE, BSC Research

## Disclosure

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