March 08th, 2023

Shinhan Securities



Refrigeration Electrical Engineering Corporation

[Vietnam / Utilities]

Bloomberg Code (REE VN) | Reuters Code (REE.HM)

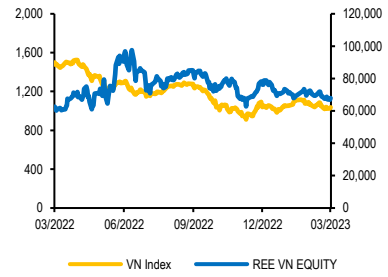
HOLD

Update Report

Target price (12 months)	**VND 75,900**
Current price (07/03/22)	VND 67,400
Upside/downside	13%

VNINDEX		1,038
P/E market (23F,x)		9.6
Market Cap (bn VND)		24,167
Outstanding shares (mn)		355
Free-Floating (mn)		110
52-Wk High/Low (VND)		100,000/58,261
90-day avg. trading volume (mn)		0.4
90-day avg. turnover (bn VND)		27
Foreign ownership (%)		49
Major shareholders (%)	Platinum Victory PTE. Ltd	30.9
	Nguyen Thi Mai Thanh	12.2

Performance	3M	6M	12M
Absolute (%)	-12.1	-18.1	6.0
Relative to VN-Index (%)	-11.8	-1.6	36.7



Source: Bloomberg

Constantly expanding

Update recommendation HOLD, target price VND 75,900

Refrigeration Electrical Engineering Corporation (HoSE: REE) is the leading enterprise in the utility sector listed on the stock exchange. REE can maintain a stable return on equity with an effective business model & suitable orientation. Based on FCFF and SoTP, we update the HOLD recommendation for REE with the target price at VND 75,900. In 2023, REE has 2 catalysts (1) The real estate segment is robust by the Etown 6 project; (2) The M&E segment is expected to come back with key projects. However, we believed that the power segment will not record a significant growth rate like in 2022 due to the favorable weather will over.

Business results in 2022

In 2022, REE recorded revenue of VND 9,372 billion (+61% YoY) and VND 3,513 billion in NPAT (+13% YoY). The main growth driver comes from the power segment, the revenue from this segment skyrocketed by 80% YoY thank to the La Nina took place, the contribution in a whole year of 3 wind power project and the Thuong Kon Tum hydropower plant, and the consolidation of the business result of Nam Ban 2 hydropower plant. The water segment and real estate continue to have sustainable growth rates. However, the M&E segment did not achieve the target of the year due to the new project is implementing have not been done for revenue records.

Outlook for 2023

In 2023, we expect the revenue and net profit of REE will reach VND 9,517 billion (+2% YoY) and VND 3,219 billion (-8% YoY). The main catalyst comes from Etown 6 is forecasted to bring cash flow from Q4/2023 and the recovery of the M&E segment. Besides, the La Nina phenomenon is predicted to pass away, which affect negatively the volume of hydropower.

Update the process of the new project and M&A activities

At the end of 2022, REE acquired 100% of Dong Duong Development Power JSC, indirectly owning Nam Ban 2 hydropower plant. The capacity of the hydropower plant is 22 MW, the installed volume is 83.9 million kWh per year, and the mean revenue is around VND 109 billion/year. In addition, REE Land won the bid for the residential project of Bo Xuyen Ward - Thai Binh City with a total land area of 13,375 m2.

Regarding the Etown 6 project, at the end of 2022, this project has completed 100% of the rough parts of the 4 basements. In Q1/2023, the construction of 5 basements and the ground floor will be completed, the project is expected to be completed in the Q4/2023.

Risks: (1) Climate change; (2) Unexpected earthquake; (3) Incidents at factories; (4) Competition is getting fiercer in the M&E segment and public investment projects are implemented slower than expected; (5) Electricity demand growth is lower than expected.

Year to Dec.	2020	2021	2022	2023F	2024F
Revenue (bn VND)	**5,640**	**5,810**	**9,372**	**9,517**	**9,933**
OP (bn VND)	1,901	2,387	3,984	3,671	3,984
NP (bn VND)	**1,714**	**2,135**	**3,513**	**3,219**	**3,447**
EPS (VND)	5,251	6,003	7,569	6,936	7,427
BPS (VND)	35,698	39,171	52,538	53,701	60,774
OPM	34%	41%	43%	39%	40%
NPM	30%	37%	37%	34%	35%
ROE	**15%**	**16%**	**23%**	**19%**	**18%**
PER (x)	11.7	14.8	8.9	8.4	7.8
PBR (x)	1.7	1.8	1.3	1.2	1.1
EV/EBITDA (x)	5.2	6.0	7.0	7.2	6.4

Source: Company data, Shinhan Securities Vietnam

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Valuation and Recommendation

We use sum-of-the-parts (SOTP) and discounted cash flow (DCF) valuation methods to value REE with 50%-50% weighted. We update our HOLD recommendation with a target price of VND 75,900 equivalent to a return of 13%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**11.6**
Risk-free rate (%)	4.2
Equity risk premium (%)	11.1
Beta	0.85
Debt cost (%)	8.0
The cost of equity(%)	13.6
Debt-to-equity ratio	0.5
Total debt (VND billion)	11,401

Source: Company data, Shinhan Securities Vietnam

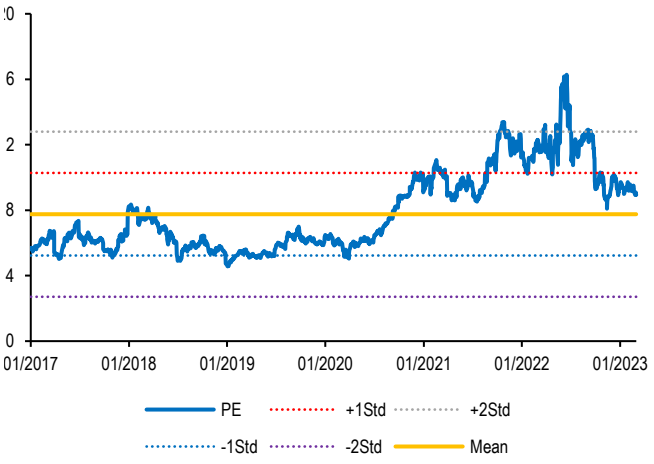
FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	3,219	3,447	3,755	4,233	4,745
Plus: After-tax interest expense	753	657	565	471	381
Plus: Depreciation & Amortization	1,089	1,126	1,162	1,199	1,237
Minus: Change in working capital	-92	161	238	-349	-66
Minus: CapEx	2,300	720	709	720	740
Free Cash Flow (FCF)	**2,853**	**4,349**	**4,535**	**5,532**	**5,689**
Discount rate	0.90	0.81	0.73	0.65	0.58
PV of FCF	2,568	3,523	3,311	3,596	3,300
Terminal growth rate (%)	2				
Present value of long-term value	20,336				
Enterprise value	36,634				
Debt	11,401				
Cash and cash equivalents	1,151				
Number of shares outstanding (billion)	0.3564				
Target price (VND)	**74,029**				

Source: Company data, Shinhan Securities Vietnam

SOTP	Value (VND billion)	Method
M&E	1,368	PE forward 8x
Real estate	9,571	DCF 5 years
Water	3,040	PE forward 8x
Power	18,454	DCF 10 years, PE forward (8x-9x)
Other investment	738	BV
Net debt (adjusted)	5,459	
Enterprise value	27,712	
Share oustanding (billion)	0.3564	
Target value (VND)	**77,755**	

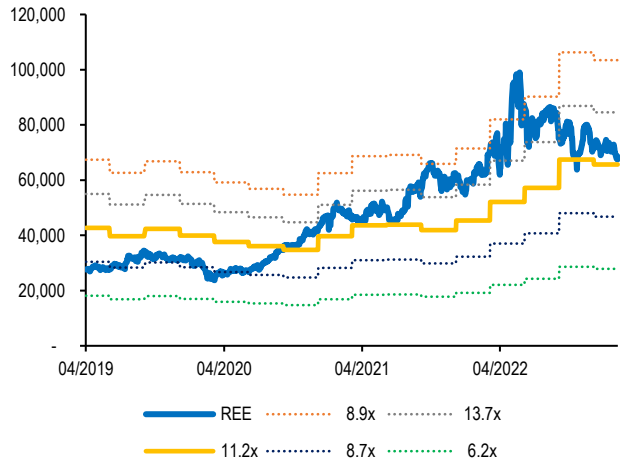
Source: Company data, Shinhan Securities Vietnam

PER of REE



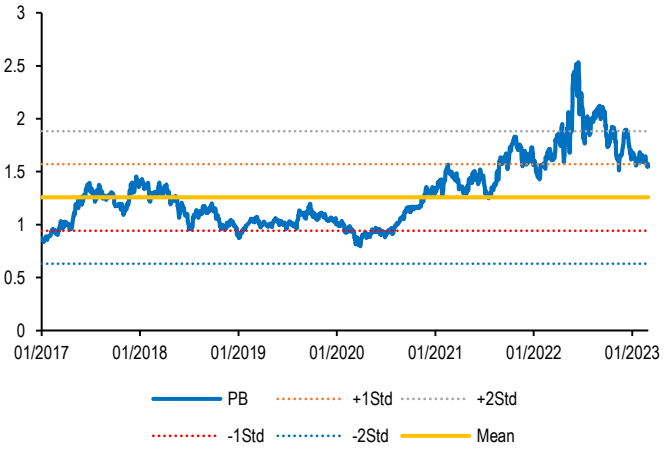
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of REE



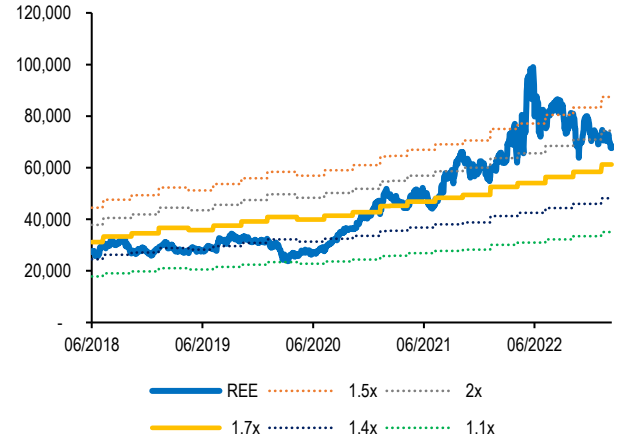
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of REE



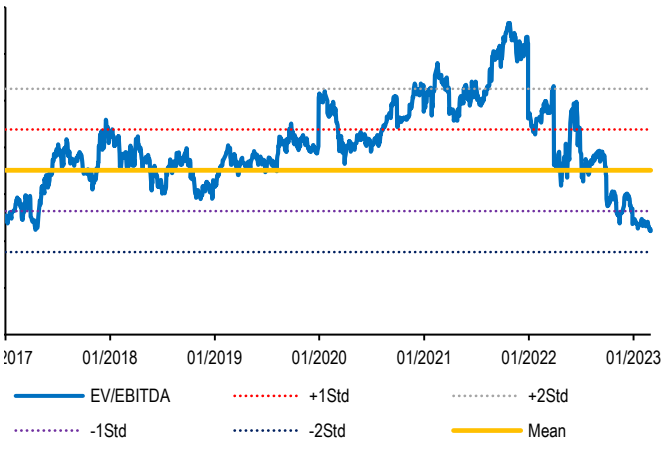
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of REE



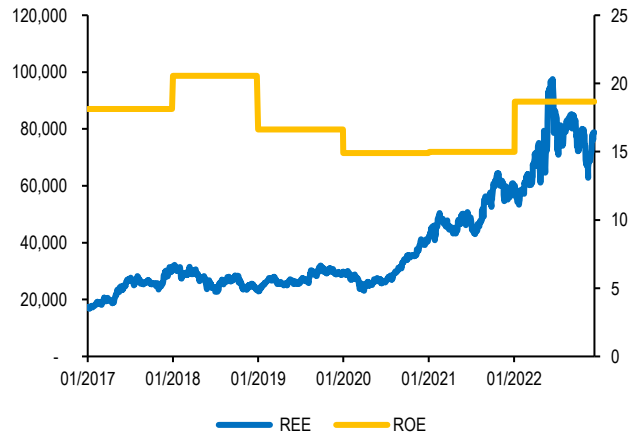
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of REE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Correlation of REE and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events of REE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Total assets	**20,530**	**31,827**	**33,928**	**35,400**	**36,841**
Current assets	6,009	6,806	8,586	7,788	8,834
Cash & equivalents	652	1,831	1,151	1,220	2,376
Short-term financial asset	1,329	914	1,749	1,237	1,192
Accounts receivable	3,082	2,987	4,013	3,903	3,875
Inventories	808	800	1,422	1,428	1,391
Non-current assets	14,521	25,021	25,342	27,612	28,007
Net fixed assets	2,519	15,992	15,770	16,981	16,575
Investment assets	9,287	6,261	6,491	7,512	8,519
Other long-term assets	2,715	2,768	3,081	3,119	2,913
Total liabilities	**8,521**	**15,469**	**14,717**	**13,684**	**12,391**
Current liabilities	3,269	4,062	4,091	4,438	4,550
Accounts payable	2,180	2,829	2,636	2,665	2,682
Short-term borrowings	1,265	1,234	1,455	1,773	1,868
Others	1,547	2,169	1,987	1,999	1,987
Non-current liabilities	4,874	11,407	10,626	9,246	7,841
Long-term borrowings	4,335	10,740	9,946	8,566	7,161
Other financial liabilities	539	667	680	680	680
Total shareholders' equity	**12,213**	**16,358**	**19,211**	**21,716**	**24,450**
Capital stock	3,101	3,101	3,564	3,564	3,564
Capital surplus	1,050	1,050	1,050	1,050	1,050
Other capital	187	187	188	187	187
Retained earnings	7,115	8,964	10,706	12,472	14,413
Non-controlling interest equity	760	3,056	3,703	4,443	5,236
*Total debt	5,600	11,974	11,401	10,339	9,029
*Net debt (cash)	4,948	10,143	10,250	9,119	6,653

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**5,640**	**5,810**	**9,372**	**9,517**	**9,933**
Growth (%)	*15.3*	*3.0*	*61.3*	*1.5*	*4.4*
COGS	(4,034)	(3,500)	(5,056)	(5,520)	(5,761)
Gross profit	**1,606**	**2,310**	**4,315**	**3,997**	**4,172**
GPM (%)	*28.5*	*39.8*	*46.0*	*42.0*	*42.0*
SG&A	(367)	(455)	(669)	(657)	(683)
Operating profit	**1,901**	**2,387**	**3,984**	**3,671**	**3,984**
Growth (%)	*(0.5)*	*25.6*	*66.9*	*(7.9)*	*8.5*
OPM (%)	*33.7*	*41.1*	*42.5*	*38.6*	*40.1*
Non-operating profit	(231)	(228)	(847)	(714)	(589)
Financial income	222	466	203	160	210
Financial expense	(475)	(707)	(943)	(827)	(722)
In which: interest expenses	(416)	(663)	(879)	(827)	(722)
Net other non-operating profit	22	13	(107)	(47)	(77)
Pre-tax profit	**1,924**	**2,400**	**3,876**	**3,577**	**3,830**
Income tax	(210)	(264)	(363)	(358)	(383)
Net profit	**1,714**	**2,135**	**3,513**	**3,219**	**3,447**
Growth (%)	*(0.3)*	*24.6*	*64.5*	*(8.4)*	*7.1*
NPM (%)	*30.4*	*36.7*	*37.5*	*33.8*	*34.7*
Controlling interest	1,628	1,855	2,690	2,479	2,654
Non-controlling interest	85	280	823	740	793
EBIT	**2,340**	**3,063**	**4,755**	**4,404**	**4,552**
Growth (%)	*0.5*	*30.9*	*55.2*	*(7.4)*	*3.4*
EBIT Margin (%)	*41.5*	*52.7*	*50.7*	*46.3*	*45.8*
EBITDA	**2,662**	**3,956**	**5,947**	**5,493**	**5,678**
Growth (%)	*(11.9)*	*157.3*	*(7.2)*	*(7.6)*	*3.4*
EBITDA margin (%)	*47.2*	*68.1*	*63.5*	*57.7*	*57.2*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**613**	**1,525**	**1,559**	**3,189**	**3,648**
Net profit	1,714	2,135	3,513	3,219	3,447
D&A expense	322	893	1,192	1,089	1,126
(Gain) from investing activities	(1,116)	(1,163)	(1,145)	(1,027)	(1,086)
Change in working capital	(1,043)	981	(1,526)	(92)	161
Others	736	(1,321)	(475)	-	-
Cash flow from investments	**(827)**	**(2,013)**	**(763)**	**(1,345)**	**(469)**
Change in fixed assets	(1,391)	(3,911)	(722)	(2,140)	(510)
Change in investment assets	(22)	23	(737)	512	45
Others	586	1,875	696	283	(4)
Cash flow from financing	**(674)**	**1,667**	**(1,476)**	**(1,775)**	**(2,023)**
Change in equity	-	-	-	-	-
Net borrowing	(70)	1,753	(900)	(1,062)	(1,310)
Dividends	(604)	(86)	(576)	(713)	(713)
Change in total cash	**(888)**	**1,179**	**(680)**	**69**	**1,156**
Beginning cash	1,540	652	1,831	1,151	1,220
Change in FX rates	-	-	-	-	-
Ending cash	652	1,831	1,151	1,220	2,376

Source: Company data, Shinhan Securities Vietnam

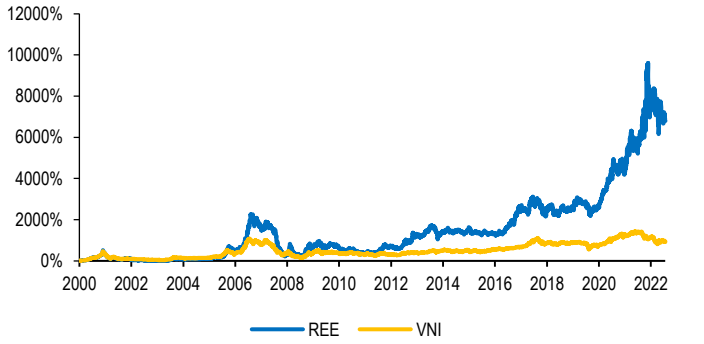
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	5,251	6,003	7,569	6,936	7,427
BPS (VND)	36,933	42,896	43,513	48,465	53,911
PER (x)	9.3	11.5	8.9	8.4	7.8
PBR (x)	1.6	1.6	1.6	1.6	1.6
EV/EBITDA (x)	15.1	5.9	6.3	6.8	6.6
Dividend payout ratio (%)	37.0	5.0	21.0	29.0	27.0
Dividend yield (%)	8.9	0.9	3.1	4.3	4.0
Profitability					
EBITDA margin (%)	47.2	68.1	63.5	57.7	57.2
OPM (%)	33.7	41.1	42.5	38.6	40.1
NPM (%)	30.4	36.7	37.5	33.8	34.7
ROA (%)	8.3	6.7	10.4	9.1	9.4
ROE (%)	15.0	16.1	22.7	18.6	17.9
Stability					
Debt to equity ratio (%)	45.9	73.2	59.3	47.6	36.9
Net debt ratio (%)	185.9	256.4	172.4	166.0	117.2
Cash ratio (%)	60.6	67.6	70.9	55.4	78.4
Interest coverage ratio (x)	5.6	4.6	5.4	5.3	6.3
Activity (%)					
Working capital turnover (times)	9.7	9.0	14.3	14.5	14.6
Inventory turnover (days)	4.5	4.4	4.6	3.9	4.1
Receivable turnover (days)	2.2	1.9	2.7	2.4	2.6

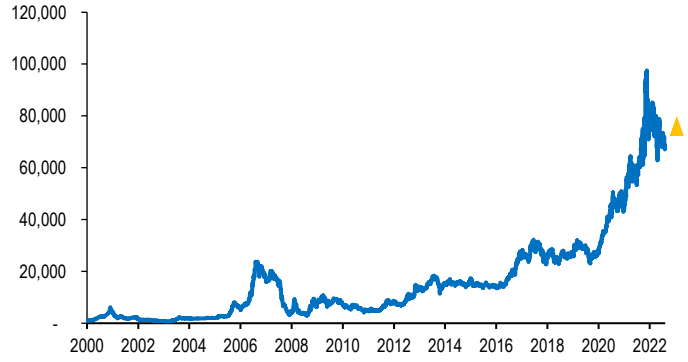
Source: Company data, Shinhan Securities Vietnam

Refrigeration Electrical Engineering Corporation (REE VN)

ıare price



ırget price



Date	Rating	TP (VND)	TP gap (%) TB	Max/Min
01/12/2022 (Initiation)	BUY	88,300	11.6	-13.4/35.9
08/03/2023 (Update report)	HOLD	75,900	-0.5	-30.6/19.4

Note: Calculation of target price gap based on past 12 months

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Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY ◆ **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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