April 4th, 2022

Shinhan Securities



Refrigeration Electrical Engineering Corporation

[Vietnam / Utilities]

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

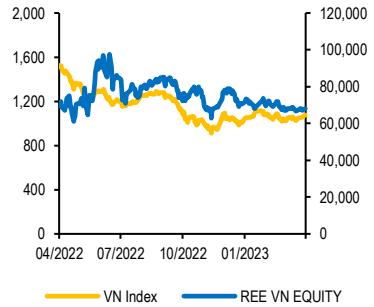
HOLD

Update Report

Target price (12 months)	**VND 77,400**
Current price (/04/22)	VND 68,100
Upside/downside (%)	14%

VNINDEX		1,077
P/E market (23F,x)		10.2
Market Cap (bn VND)		24,238
Outstanding shares (mn)		356
Free-Floating (mn)		128
52-Wk High/Low (VND)		100,000/58,261
90-day avg. trading volume (mn)		0.33
90-day avg. turnover (bn VND)		20
Foreign ownership (%)		0.9
Major shareholders (%)	Platinum Victory PTE. Ltd	30.9
	Nguyen Thi Mai Thanh	12.2

Performance	3M	6M	12M
Absolute (%)	-5.9	-6.8	-6.7
Relative to VN-Index (%)	-9.1	-6.0	22.2



Source: Bloomberg

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Real estate segment drives revenue growth

Update recommendation HOLD, target price VND 77,400

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 77,400. In 2023, REE has 3 catalysts (1) The real estate segment is robust by the Etown 6 project & real estate project in Bo Xuyen, Thai Binh; (2) The M&E segment is expected to come back with key projects; (3) Plan to increase 100 MW of power segment capacity. However, we believed that the power segment will not record a significant growth rate like in 2022 due to the favorable weather will be over.

Update AGM

In 2022, Refrigeration Mechanical and Electrical Joint Stock Company recorded revenue of VND 9,372 billion (+61% YoY) and NPATMI of VND 2,690 billion (+45% YoY) thanks to the best hydrological situation in the past 5 years. REE targets 2023 revenue at 10,962 billion (+17% YoY) and NPATMI at 2,700 billion (+0.3% YoY).

Power segment: REE targets a net profit of VND 1,351 billion (-19% YoY) due to unfavorable weather. Regarding installed capacity, REE plans to increase capacity by 100 MW and maintain the M&A strategy of suitable projects, especially in the hydropower segment. The output of REE's hydropower plants in 2023 in the competitive power generation market is estimated to account for about 10% of total output. For the Thuong Kon Tum hydropower plant, REE said that the negotiation of a new PPA price is still under consideration by EVN. Besides, REE has started research on the hydrogen segment, in the long term, REE will consider the proposal to develop solar power on the hydroelectric reservoir.

M&E segment: REE plans to increase M&E segment revenue by 20% YoY in 2023. The current backlog is at VND 4,500 billion, it is expected that the newly signed backlog in 2023 will reach VND 5,000 billion. Besides, REE will participate in bidding for backlog at the Long Thanh airport and the expansion of Tan Son Nhat and Noi Bai airports - estimated at VND 10,000 billion.

Real estate segment:

- **Project Etown6** has completed the construction of the basement, construction progress is about 1 floor/5 days, expected to top off in July 2023. In terms of rent, BoD forecast the price will be between 24 USD/m2 to 29 USD/m2 with an initial occupancy rate of 30%.
- **Bo Xuyen project** has a total area of about 2 hectares, there are about 45 commercial houses and one building. REE said that it will start construction of low-rise apartments in May 2023 and complete construction in two quarters, starting to open for sale in Q3/2023 and bringing in VND 800-900 billion in revenue in 2023. In addition, REE said that there is still no specific construction plan for the building and can sell the project to other parties.

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**	**10,244**	**9,634**
OP (bn VND)	1,901	2,387	3,984	3,925	3,441
NP (bn VND)	**1,714**	**2,135**	**3,513**	**3,490**	**3,028**
EPS (VND)	5,251	6,003	7,569	7,519	6,524
BPS (VND)	36,933	42,896	43,513	49,049	53,591
OPM	34%	41%	43%	38%	36%
NPM	30%	37%	37%	34%	31%
ROE	**15%**	**16%**	**23%**	**20%**	**16%**
PER (x)	9.3	11.5	9.0	9.1	10.4
PBR (x)	1.6	1.6	1.6	1.4	1.3
EV/EBITDA (x)	13.5	5.2	6.3	6.9	7.5

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 77,400 equivalent to a return of 14%.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**11.5**
Risk-free rate (%)	4.0
Equity risk premium (%)	11.1
Beta	0.86
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

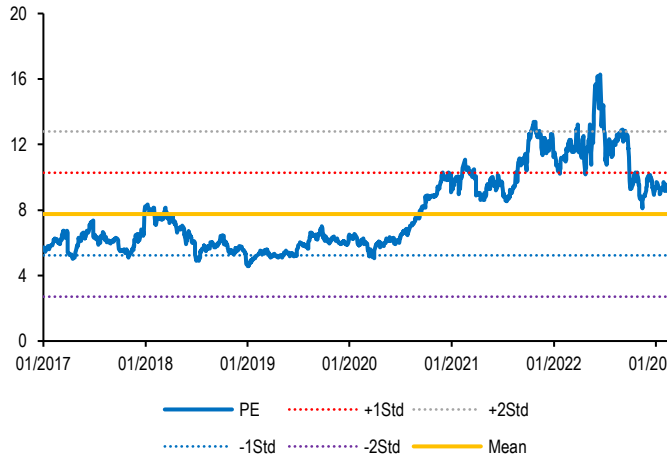
FCF valuation					
Unit: billion VND	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**
Net profit	3,490	3,028	3,226	3,807	4,269
Plus: After-tax interest expense	846	657	565	471	381
Plus: Depreciation & Amortization	1,089	1,126	1,162	1,199	1,237
Minus: Change in working capital	331	-490	-181	388	66
Minus: CapEx	2,300	720	709	720	740
Free Cash Flow (FCF)	**2,794**	**4,581**	**4,425**	**4,369**	**5,081**
Discount rate	0.90	0.81	0.73	0.65	0.58
PV of FCF	2,515	3,711	3,230	2,840	2,947
Growth rate	0				
Present value of long-term value	25,537				
Enterprise value	40,780				
Debt	11,401				
Minority interest	1,151				
Cash & cash equivalents	3,703				
Number of shares outstanding (billion)	0.3564				
Target price (VND)	**75,272**				

Source: Company data, Shinhan Securities Vietnam

SOTP	**Value (VND bn)**	**Method**
M&E	1,456	PE forward 8x
Real estate	9,830	DCF 5 years, NPV
Water	3,040	PE forward 8x
Power	18,458	DCF 10 years, PE forward (8x-9x)
Other investment	738	BV
Net debt (adjusted)	5,459	
Enterprise value	28,063	
Share oustanding (billion)	0.3564	
Target value (VND)	**78,740**	

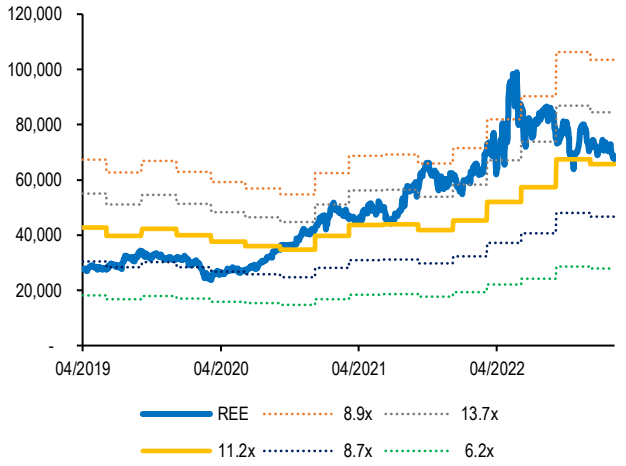
Source: Company data, Shinhan Securities Vietnam

PER of REE



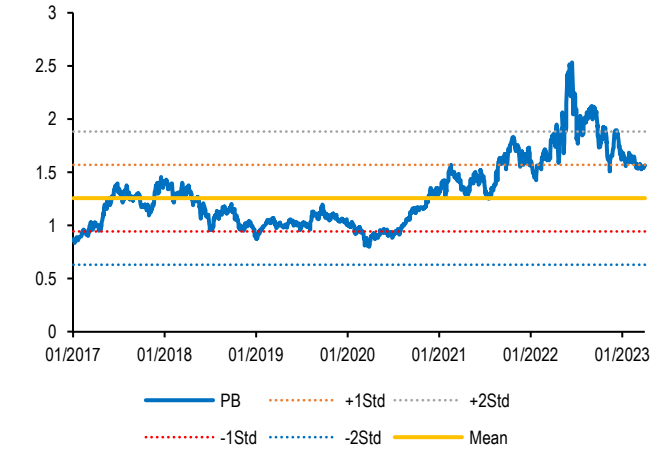
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of REE



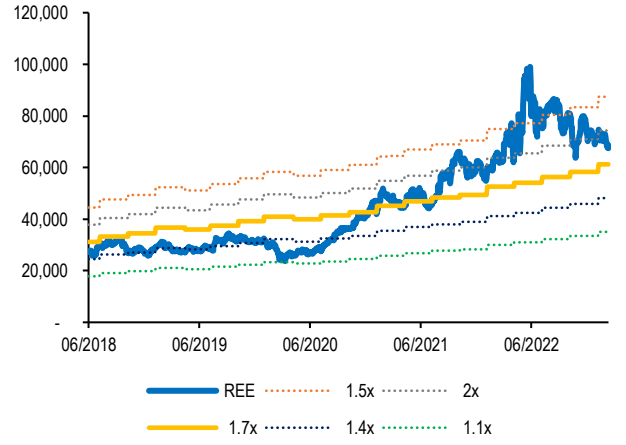
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of REE



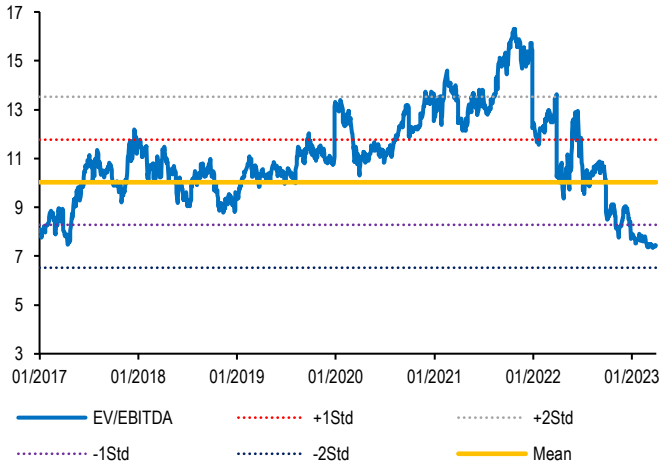
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of REE



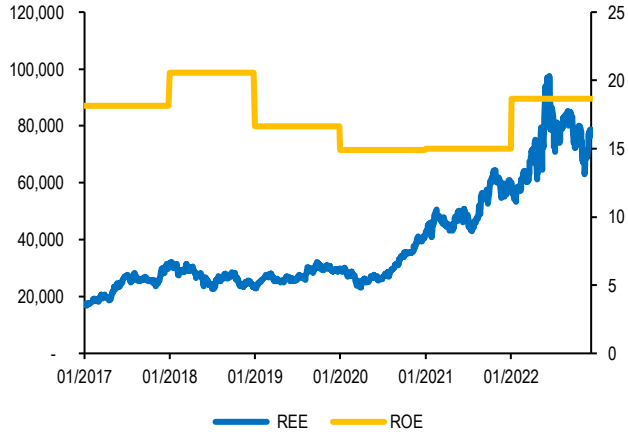
Source: Bloomberg, Company data, Shinhan Securities Vietnam

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

Company background

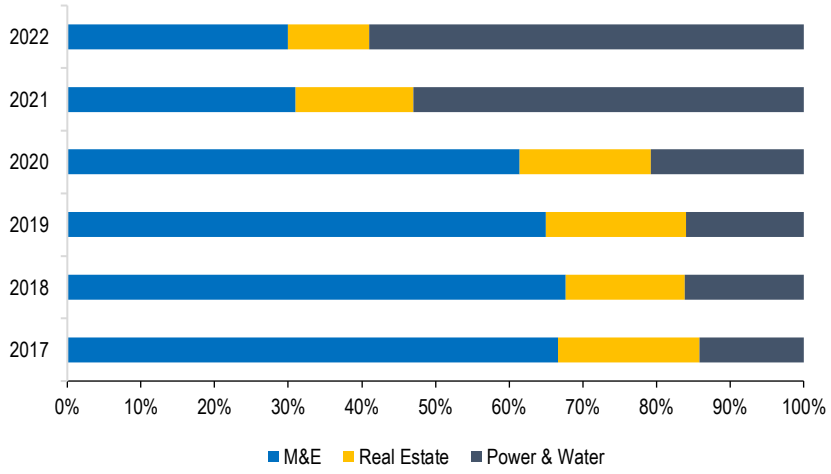
Refrigeration Electrical Engineering Corporation (HoSE: REE) was established in 1977. REE was one of two companies first listed on the Ho Chi Minh stock exchange in 2000. The shareholders of REE are concentrated because the major shareholders dominated nearly 60%. In which, Platinum Victory Pte. Ltd holds more than 30% and buys stock continuously.

No.	Shareholders	Ownership's rate
1	Platinum Victory Pte. Ltd	30.9%
2	Nguyen Thi Mai Thanh	12.2%
3	Apollo Asia Fund Ltd	5.9%
4	Nguyen Ngoc Hai	5.5%
5	State-owned (HFIC)	5.3%
6	Others	40.3%

Source: Company data, Shinhan Securities Vietnam

The company operates in 3 main segments: Mechanical & Electrical (M&E), Real estate and Power&Water. In 2010, REE expand in the utility sector, the portfolio of the power segment of REE has a total installed capacity of 978 MW. Hydropower contributed the largest part with following by coal-fired thermal power and renewable power. Besides, REE has Tra Vinh Electric Development JSC as a subsidiary company in the retail electricity segment.

REE's revenue breakdown



Source: Company data, Shinhan Securities Vietnam

Meanwhile, the M&E segment is the traditional business of REE, this part always contributes around 60% of the revenue from 2017 to 2020. However, this segment is affected significantly by Covid-19 has reduced the proportion of revenue to 30%. The net profit margin of this segment is low (below 10%) so the contribution to the NPAT of the company is not too large. In the real estate segment, REE run the first project at the same time when this company was listed on the stock exchange. The market target of REE is office rank B in Ho Chi Minh City.

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**	**35,772**	**36,708**
Current assets	6,009	6,806	8,586	7,926	8,565
Cash & equivalents	652	1,831	1,151	959	2,206
Short-term financial asset	1,329	914	1,749	1,332	1,156
Accounts receivable	3,082	2,987	4,013	4,098	3,854
Inventories	808	800	1,422	1,537	1,349
Non-current assets	14,521	25,021	25,342	27,846	28,143
Net fixed assets	2,519	15,992	15,770	16,981	16,575
Investment assets	9,287	6,261	6,491	7,710	8,667
Other long-term assets	2,715	2,768	3,081	3,155	2,901
Total liabilities	**8,521**	**15,469**	**14,717**	**13,785**	**12,406**
Current liabilities	3,269	4,062	4,091	4,539	4,565
Accounts payable	2,180	2,829	2,636	2,766	2,697
Short-term borrowings	1,265	1,234	1,455	1,773	1,868
Others	1,547	2,169	1,987	2,049	2,023
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**	**21,987**	**24,302**
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	12,680	14,299
Non-controlling interest equity	760	3,056	3,703	4,506	5,202
*Total debt	5,600	11,974	11,401	10,339	9,029
*Net debt (cash)	4,948	10,143	10,250	9,380	6,823

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Revenue	**5,640**	**5,810**	**9,372**	**10,244**	**9,634**
Growth (%)	*15.3*	*3.0*	*61.3*	*9.3*	*-6.0*
COGS	(4,034)	(3,500)	(5,056)	(6,044)	(5,973)
Gross profit	**1,606**	**2,310**	**4,315**	**4,200**	**3,661**
GPM (%)	*28.5*	*39.8*	*46.0*	*41.0*	*38.0*
SG&A	(367)	(455)	(669)	(701)	(665)
Operating profit	**1,239**	**1,855**	**3,646**	**3,499**	**2,996**
Growth (%)	*(0.5)*	*25.6*	*66.9*	*(1.5)*	*(12.3)*
OPM (%)	*22.0*	*31.9*	*38.9*	*34.2*	*31.1*
Non-operating profit	685	545	230	379	368
Financial income	222	466	203	160	210
Financial expense	(475)	(707)	(943)	(930)	(722)
In which: interest expenses	(416)	(663)	(879)	(930)	(722)
Net other non-operating profit	938	786	970	1,149	880
Pre-tax profit	**1,924**	**2,400**	**3,876**	**3,878**	**3,364**
Income tax	(210)	(264)	(363)	(388)	(336)
Net profit	**1,714**	**2,135**	**3,513**	**3,490**	**3,028**
Growth (%)	*(0.3)*	*24.6*	*64.5*	*(0.7)*	*(13.2)*
NPM (%)	*30.4*	*36.7*	*37.5*	*34.1*	*31.4*
Controlling interest	1,628	1,855	2,690	2,687	2,332
Non-controlling interest	85	280	823	803	696
EBIT	**2,340**	**3,063**	**4,755**	**4,808**	**4,086**
Growth (%)	*0.5*	*30.9*	*55.2*	*1.1*	*(15.0)*
EBIT Margin (%)	*41.5*	*52.7*	*50.7*	*46.9*	*42.4*
EBITDA	**2,662**	**3,956**	**5,947**	**5,897**	**5,212**
Growth (%)	*(11.9)*	*157.3*	*(7.2)*	*(0.8)*	*(11.6)*
EBITDA margin (%)	*47.2*	*68.1*	*63.5*	*57.6*	*54.1*

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022	2023F	2024F
Cash flow from operations	**613**	**1,525**	**1,559**	**3,023**	**3,608**
Net profit	1,714	2,135	3,513	3,490	3,028
D&A expense	322	893	1,192	1,089	1,126
(Gain) from investing activities	(1,116)	(1,163)	(1,145)	(1,225)	(1,036)
Change in working capital	(1,043)	981	(1,526)	(331)	490
Others	736	(1,321)	(475)	-	-
Cash flow from investments	**(827)**	**(2,013)**	**(763)**	**(1,440)**	**(338)**
Change in fixed assets	(1,391)	(3,911)	(722)	(2,140)	(510)
Change in investment assets	(22)	23	(737)	417	176
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)**	**(192)**	**1,247**
Beginning cash	1,540	652	1,831	1,151	959
Change in FX rates	-	-	-	-	-
Ending cash	652	1,831	1,151	959	2,206

Source: Company data, Shinhan Securities Vietnam

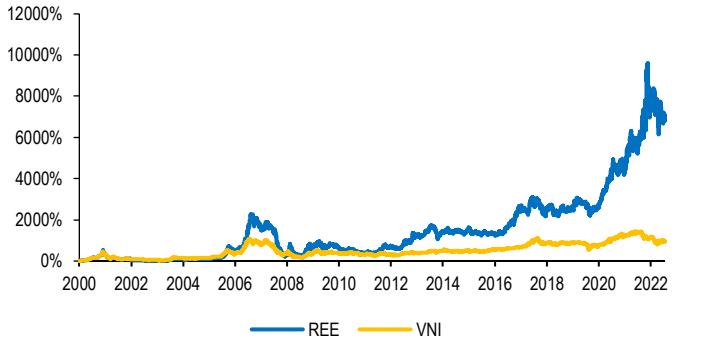
Key ratios

Year to Dec.	2020	2021	2022	2023F	2024F
EPS (VND)	5,251	6,003	7,569	7,519	6,524
BPS (VND)	36,933	42,896	43,513	49,049	53,591
PER (x)	9.3	11.5	9.0	9.1	10.4
PBR (x)	1.6	1.6	1.6	1.4	1.3
EV/EBITDA (x)	13.5	5.2	6.3	6.9	7.5
Dividend payout ratio (%)	37.0	0.0	21.0	26.0	26.0
Dividend yield (%)	3.9	0.0	3.1	3.8	3.8
Profitability					
EBITDA margin (%)	47.2	68.1	63.5	57.6	54.1
OPM (%)	22.0	31.9	38.9	34.2	31.1
NPM (%)	30.4	36.7	37.5	34.1	31.4
ROA (%)	8.3	6.7	10.4	9.8	8.2
ROE (%)	15.0	16.1	22.7	20.0	15.9
Stability					
Debt to equity ratio (%)	45.9	73.2	59.3	47.0	37.2
Net debt ratio (%)	185.9	256.4	172.4	159.1	130.9
Cash ratio (%)	60.6	67.6	70.9	50.5	73.6
Interest coverage ratio (x)	5.6	4.6	5.4	5.2	5.7
Activity (%)					
Working capital turnover (times)	9.7	9.0	14.3	15.0	13.9
Inventory turnover (days)	4.5	4.4	4.6	4.1	4.1
Receivable turnover (days)	2.2	1.9	2.7	2.5	2.4

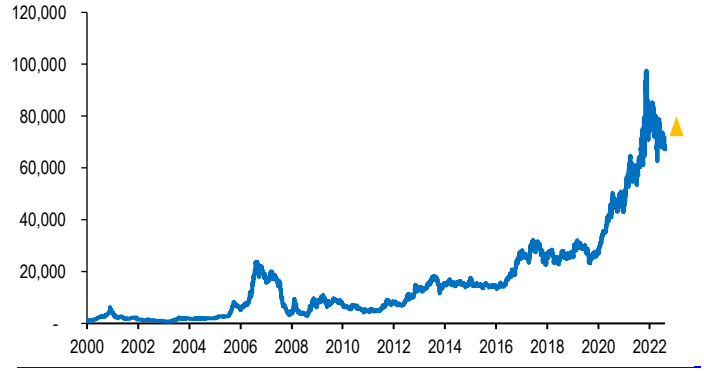
Source: Company data, Shinhan Securities Vietnam

Refrigeration Electrical Engineering Corporation (REE VN)

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ırget price



Date	Rating	TP (VND)	TP gap (%) TB	Max/Min
01/12/2022 (Initiation)	BUY	88,300	11.6	-13.4/35.9
04/04/2023 (Update report)	HOLD	77,400	2.6	-28.0/21.1

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

Shinhan Securities Vietnam

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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