20 April 2017

REE CORP. (REE – HSX)

Higher Value Due To the Reduction of Exchange Rate Risks

ACCUMULATE

Market price (VND)	25,700
Target price (VND)	32,800
Investment term	**Long-term**

Stock Info

Sector	General Industrials
Market Cap (VND bn)	7,969
Current Shares O/S	310,058,841
Beta	0.8
Free Float (%)	2.7
52 weeks High	28,100
52 weeks Low	18,300
Avg. Daily Volume (in 20 sessions)	1,200,176

Source : Vietstock

Major shareholders (%)

Platinum Victory Pte. Ptd	22.9
Nguyen Thi Mai Thanh	7.3
HFIC	7.2
Apollo Asia Fund	5.5
Nguyen Ngoc Hai	5.5
Foreign room remainded	0.0

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PPC's Early Repayment Plan

PPC's plan to repayment their debt prior to maturity date was approved with the following schedule: (1) 75% of outstanding loans, equivalent to more than VND3,264 billion, will be repaid in April and (2) 25% of the outstanding balance will be paid in 2018 and 2019. PPC's profit after repayment will mainly come from power generation, with an estimated operating profit of over VND550 billion (+ 39% YoY).

PPC's business results were always extremely influenced by the exchange rate variation, which also created risks for REE. As a result, REE has traded at a discounted PER to other bluechip stocks. Following PPC's plan, the exchange rate risk has almost been eliminated, and their profit will only be generated from electricity production. This provides more benefits and certainty for REE's future outlook.

Positive Outlook for Hydropower Plants

By the end of 2016, REE invested more than VND4,796 billion in electricity. Based on the company's investments in 2016, we learn that they are moving towards hydropower, with some of their new investments including CHP and SHP. At the same time, REE also increased their ownership in VSH to over 21% and in DVT to 66.29%. Hence, from 2017, VSH's business results will be consolidated in REE's financial statement as an associate and that of DVT as a subsidiary.

Climate changes have made hydrological forecasting difficult. La Nina, which occurred in late 2016, resulted in impressive business results in the first quarter of 2017 for hydropower plants, including REE's associates. With favorable hydrological condition in the first half of 2017, the water capacity of large hydro reservoirs can ensure positive operations during the year. This provides a significant contrast to the negative impacts of El Nino in 2016. Therefore, we forecast that the 2017 results for hydropower plants will be positive.

Accordingly, we estimate that PBT contributed by REE's associates as well as subsidiaries in 2017 will be around VND100 billion higher than that of 2016.

Exhibit 1: Hydropower plants in REE's investment porfolio

Name	REE's ownership @31/12/2016		Investment value (VND bn)
Thac Ba Hydropower Plant (TBC)	Subsidiary	60.4%	
Vinh Son Song Hinh Hydropower Plant	Associate	21.0%	698.7
Thac Mo Hydropower Plant (TMP)	Associate	42.6%	437.8
Song Ba Ha Hydropower Plant	Associate	25.0%	453.8
Srok Phu Mieng Hydropower Plant	Associate	34.3%	167.5
Binh Dien Hydropower Plant	Associate	25.5%	67.9
Central Hydropower Plant (CHP)	Financial investment	19.0%	395.5
South Hydropower Plant (SHP)	Financial investment	10.7%	130.0
Total			**2,351.2**
Total investment value in power sector			**4,796.0**

Source: REE's financial statements

Growth in 2017 will also be backed by real estate development

The two real estate development companies that REE invested in, including VIID with Nam Le Loi project (located in Quang Ngai) and SaigonRes with Saigonres Plaza project (located in HCMc), have had good sales progress. According to these two companies' plan, these two projects will be handed over to customers in 2017. Therefore, we forecast that the company's real estate revenue will double and PBT will increase by 17.4% YoY, contributing 16.4% and 10% to REE's revenue and profit.

Growth drivers for 2018-2020: Office Leasing Segment

Offices for lease can be a driver for REE's growth during 2018-2020. In the 2017's AGM, REE's chairwoman shared their plan to increase the leasable area to about 200,000 m2 by the end of 2020, which is double the current area. In 2018-2019, we expect that the leasable area may increase by 50%; 35% of the increase will come from the e.town Central Building (11 Doan Van Bo, District 4). Occupancy rates for this building may reach about 50% during the first year. In addition, the etown EW building is being demolished for new construction, and will have an additional area of over 15,000 m2. The project will begin from Q3 2017 and we expect that it will be completed by Q3 2018.

With the contribution of these two buildings, we estimate that REE's revenue from the office leasing segment may increase by more than 50% in 2018 and 2019. However, due to the demolition of e.town EW (with approximately 2,400 m2 being leased), we forecast that the sales growth of this business line will be a mere 2.4% YoY.

High Backlog Provides a Solid Growth for REE's M&E Segment in 2017-2018

We forecast that REE M&E and Reetech will maintain stable growth in 2017. Particularly, *for REE's ME segment*, the value of contracts signed in the last three years reached more than VND2,000 billion per annum. By the end of 2016, the backlog was approximately VND4,500 billion, slightly up from the end of 2015. Hence, we estimate that the revenue and operating profit of REE's M&E segment will grow by 15% YoY, reaching VND2,000 billion and VND340 billion, respectively.

In the refrigeration segment, we project that sales will grow thanks to (1) high contribution from export thanks to new markets like Cuba, Myanmar and several Middle East countries and (2) growth in the domestic real estate market. However, due to competitive pressure, the profit margin of this business segment will continue to slightly decline in 2017, and it will be difficult to improve in subsequent years. We estimate that Reetech's revenue and operating income in 2017 will be VND 765 billion (+5% YoY) and VND 57.4 billion (-2% YoY), respectively.

Outlook and Valuation

REE's business performance in 2016 was quite impressive with sales growth of 38% YoY and PBT growth of 25% YoY. Although REE has focused its investments on utilities (electricity and water), the company's real estate segment (project development and office leasing) is also a key driver for business growth.

In FY2017, we forecast that REE's sales and PBT will grow by 23% and 11% YoY, respectively, based on the contribution of M&E, real estate development, and its electricity and water associates. We forecast that the company's FY2017 EPS will reach VND3,791, slightly lower than our previous forecast due to the lowered PPC's forecasted earnings. Although there will temporarily be no contribution from e.town EW, the operating cash flow from the office leasing segment will not be significantly affected.

Despite being a large company in the stock market, REE's relative valuation is always lower than other bluechips due to concerns of PPC's JPY-denominated debt. Given that PPC will make its repayment ahead of schedule, this risk appears to have been eliminated. Moreover, although M&E's business is dependent on the real estate market condition, the growth potential of other business lines such as electricity, water, and office for lease are high following REE's plan. Given the long-term positive growth prospects, we raise the PER applied to REE to 9.0x.

Hence, we revise up the target price to VND 32,800 per share and recommend for investors to **ACCUMULATE** in the **long term**.

Exhibit 02: Key financials

Y/E Dec (VND bn)	FY2015	FY2016	FY2017E	FY2018F
Net Revenues	2,643.4	3,659.4	4,506.3	4,507.4
% chg	0.5%	38.4%	23.1%	0.0%
PAT	853.1	1,067.6	1,175.4	1,309.2
% chg	-19.7%	25.1%	10.1%	11.4%
EBIT margin (%)	32.3%	29.2%	26.1%	29.0%
ROA (%)	9.5%	10.2%	9.6%	9.6%
ROE (%)	13.9%	15.8%	15.7%	15.9%
EPS (VND)	2,757	3,526	3,791	4,222
Adjusted EPS (VND)	2,408	3,105	3,791	4,222
Book value (VND)	23,494	23,080	25,252	27,853
Cash dividend (VND)	1,600	1,600	1,600	1,600
P/E (x)	9.3	6.8	6.8	6.1
P/BV (x)	0.9	0.9	1.0	0.8

Source: REE's Financial statement, RongViet Securities' compilation and estimates, Price as of 19/04/2017

BRIEF UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective which is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

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