September 2016

REE Corp (REE – HSX)

Buying opportunities open as earnings bottom out

Particulars (VND bn)	Q2-FY16	Q1-FY16	*+/-qoq*	Q2-FY15	*+/-yoy*
Net Revenue	867.2	552.9	57%	683.8	27%
PAT	161.2	109.9	47%	257.8	-37%
EBIT	193.7	132.6	46%	282.9	-32%
EBIT margin (%)	22.3%	24.0%	-164bps	41.4%	-1.903bps

Source: REE, RongViet Research

- **Core businesses regained strength**
- **PPC sees intermediate earnings support**
- **Earnings to bottom out in 2016 and rebound in 2017**

Outlook and Valuation:

The decline in PPC's profitability made a dent in REE's H1 NPAT. The fact that the JPY gained over 15% against the VND and PPC failed to conclude the electricity sales contract (PPA) for Pha Lai 1 (PL1) in the first half was the main reason for its disappointing results in 1H2016. However, we expect to see a significant improvement in PPC's sales volume and profit margins in the second half, especially the fourth quarter now that the PPA for PL 1 has been renewed. Better yet, the thermal power company is under negotiations with EVN towards a compensation for its loss of revenue in H1. There is also a possibility that PPC will reverse part of the provision made in 2015 for the investment in Quang Ninh Thermal Power JSC if the investee company's profitability continues to improve. Even without regard to such extraordinary gains, we see it unlikely PPC's net profit to continue falling now that the JPY has found some balance and the company has had plans to upgrade its equipment.

*We estimate 2016 revenue and NPAT for REE at VND2,725bn (+3% yoy) and VND822bn (-4% yoy) respectively. In 2017, revenue can pick up 4% yoy and NPAT 22% yoy with the increased contribution from PPC. Though the notion that REE's profit will bottom out in 2016 is likely true, it is fully priced in. We maintain a positive outlook for REE n the long term. The completion of operating assets such as e.town Central (Dist.4, HCMC) and the water treatment plants of Tan Hiep 2 and Thu Duc 3 will be add greatly to the Company's profits and cash flows. We maintain the target price of **VND26,800/share** for REE with a rating of **ACCUMULATE** in the **LONG TERM.***

Year-end	FY2014	FY2015	FY2016F	FY2017F
Net revenue	2,629.4	2,643.4	2,699.5	2,699.5
+/- % yoy	8.9	0.5	2.1	2.1
NPAT	1,062.0	853.1	822.6	822.6
+/- % yoy	8.8	-19.7	-3.6	-3.6
Net margin	40.4	32.3	30.5	30.5
ROAA	13.8	9.5	8.6	8.6
ROEA	19.1	13.9	12.6	12.6
EPS (VND)	4,004	3,171	2,653	2,653
BPVS	3,425	2,751	2,653	2,653
Dividend	21,965	23,494	21,673	21,673
PE	1,600	1,600	1,000	1,000
P/B	6.5	7.7	8.3	8.3

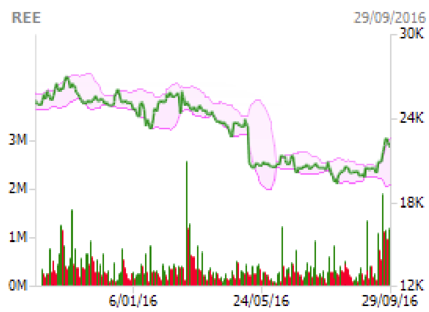
*Source: REE, RongViet Securities, *as of 28/09/2016*

BUY

Market price (VND)	22,100
Taret price (VND)	26,800
Investment horizon	LONG TERM

Stock Info.

Sector	General Industrials
Market Cap (VND bn)	6,852
Current Shares O/S	310,050,926
Beta	0.82
Free float (%)	55,19
52 weeks High	22,700
52 weeks Low	19,400
20-day Avg. Volume	355,907



Price performance (%)

	3T	1N	3N
REE	8.3	4.1	14.0
Industrials	12.7	38.7	n/a
VN30 Index	8.9	14.9	22.7
VNIndex	10.4	4.1	14.0

Major Shareholders (%)

Platinum Victory Pte. Ptd	22.87
Nguyen Thi Mai Thanh	7.33
HFIC	7.15
Nguyen Ngoc Hai	5.46
Foreign room remainded	0.00

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Exhibit 1: 2Q2016 and YTD Results

Particulars (VND bn)	Q2-FY16	Q1-FY16	*+/- % (qoq)*	Q2-FY15	*+/- % (yoy)*	YTD	+/-(yoy)
Net Revenue	867.2	552.9	56.8	683.8	26.8	1.420.1	*4.4*
Gross profit	243.7	230.6	5.7	254.1	-4.1	474.3	*8.8*
SG&AC	-50.5	-47.6	6.2	-55.7	-9.3	-98.1	*-6.9*
Operating Income	193.2	183.0	5.6	198.4	-2.6	376.2	*-34.3*
EBITDA	229.6	164.7	39.4	316.8	-27.5	394.3	*-23.4*
EBIT	193.7	132.6	46.1	282.9	-31.5	326.3	*-26.7*
Financial expenses	-14.6	-19.6	-25.5	-21.1	-30.8	-34.2	*-9.4*
- Interest Expenses	-13.1	-16.4	-20.6	-20.0	-34.6	-29.5	*-16.9*
Dep. and amortization	-35.9	-32.1	11.9	-33.9	5.7	-68.0	*-1.7*
Non-recurring Items (*)	-306.0	-114.8	166.5	-108.9	180.9		
Extraordinary Items (*)							
PBT	206.8	149.0	38.7	302.9	-31.7	355.8	*-26.0*
PAT	161.2	109.9	46.7	257.8	-37.5	242.8	*-36.5*
(*) Adjusted PAT	161.2	109.9	46.7	257.8	-37.5	242.8	

Source: REE, RongViet Research

Exhibit 2: 1H2016 performance analysis

Particulars	Q2-FY16	Q1-FY16	*+/- % (qoq)*	Q2-FY15	*+/- % (yoy)*
Profitability Ratios (%)					
Gross Margin	28.1	41.7	-1359bps	37.2	-905bps
EBITDA Margin	26.5	29.8	-331bps	46.3	-1986bps
EBIT Margin	22.3	24.0	-164bps	41.4	-1903bps
Net Margin	18.6	19.9	-129bps	37.7	-1911bps
Adjusted Net Margin	18.6	19.9	-129bps	37.7	-1911bps
Turnover *(x)					
-Inventories	-3.8	-2.2	-1.6	-3.4	-0.4
-Receivables	2.6	1.7	0.9	2.4	0.2
-Payables	4.0	1.3	2.8	2.4	1.7
Leverage (%)					
Total Debt/ Equity	0.4	0.4	0.0	0.4	0.1

Source: REE, RongViet Research, (*) annualized

Core businesses regained strength

In the first half of 2016, all of REE's core businesses i.e. M&E, Reetech and office leasing showed remarkable improvements. Thanks to buoyant housing market the Company signed a total VND 1,151bn in new M&E contracts, raising its total backlog to VND 5,062bn by the end of June. Notable new contracts included large residential and industrial projects such as The Nassim Thao Dien and the international terminal of Da Nang airport. Though M&E revenue was little changed, net income rose 23% yoy in 1H2016. Reetech's air-con sales also jumped 29% yoy to 27,300 units in the first half.

REE was able to maintain the occupancy rate at its office buildings at 99-100% during the first six months while continuing the construction of its new building, i.e. e.town Central (11 Doan Van Bo, Dist.4, HCMC). The project has a total investment of VND1,200bn and 35.000sqm in NLA. The foundation and basement are under construction and the building will be finished by 4Q2017 so that tenants can begin moving in by 1Q2017.

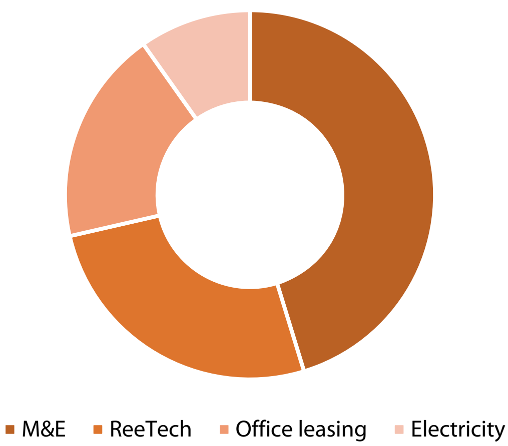
Thu Duc 3 water treatment plant was put into operation in December 2015 and is running at 50% its design capacity or 150,000m^3 a day. Tan Hiep 2 plant is under construction and should start running in early 2017.

Exhibit 3: Business performance by segment 1H2016 (VND bn)

Revenue	1H2016	1H2015	+/-
M&E	643	664	-3%
ReeTech	371	287	29%
Office leasing	267	250	+6%
Electricity	139	159	-14%
Total	**1,420**	**1,360**	**-4%**
NPAT	**1H2016**	**1H2015**	**+/-**
M&E	116	94	23%
Reetech	17	15	13%
Office leasing	135	123	10%
Reeland & Affiliates	10	3	233%
Electricity & Coal	-63	117	
Water	22	23	-4%
Other	10	7	43%
Total	**247**	**382**	**-35%**

Source: REE, RongViet Research

Exhibit 4: Revenue breakdown by sector 1H2016

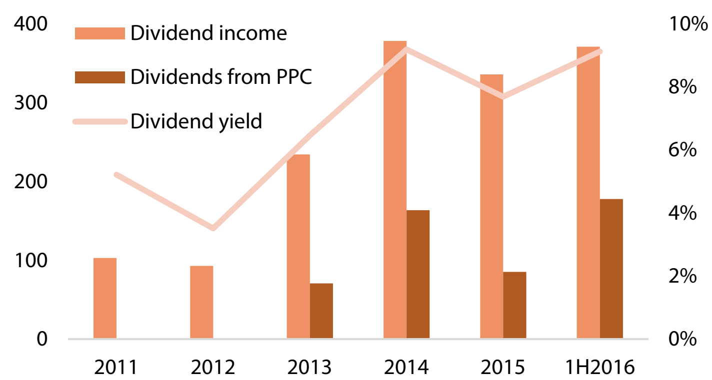


Source: REE, RongViet Research

Volatility in exchange rate and weather impacts on affiliates' profit

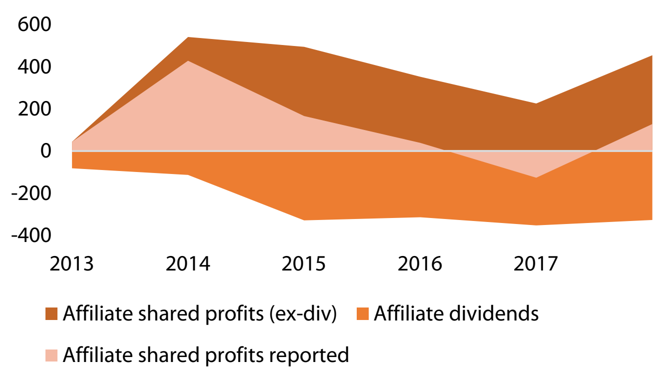
For the six months ended in June, PPC recorded a 24.4% fall of revenue because one of its two plants, i.e. Pha Lai 1 (PL1) failed to renewed its power-purchasing agreement (PPA) with EVN until early June. Not only did PL1 have to operate at sub-opitmal capacity, it had to sell electricity at disadvantageous prices. In addition, PPC reported over VND677bn in unrealized foreign exchange loss from the 15% increase of the JPY against the VND. REE reported a share of VND 88.7bn in PPC's H1 loss as compared to a gain of VND70bn in 1H2015. TBC (a subsidiary since 2014) as well as other affiliate hydropower companies also faced difficulties in the first half due to harsh weather conditions and a shortage of water. TBC reported sales volume decreasing 15% yoy and net revenue down 13% yoy in 1H2016. Total shared profit in affiliate companies (before dividends) fell from a positive VND133bn in 1H2015 to minus VND67bn in 1H2016.

Exhibit 4: Dividend income, 2011-2016



*Source: REE, RongViet Research, *Dividend yield on long-term investments*

Exhibit 5: Shared profit/loss in affiliates (VND bn), 2013-2017



Source: REE, RongViet Research

While profit in affiliates companies declined, dividend receipts rose 39% yoy in the first half thanks to a hefty payment of VND178bn from PPC. We have observed that since PPC became an affiliate of REE, it has continuously increased the ratio dividend payout, from 10% for FY2012 to 25% for FY2015, which has been a big supplement to REE's cash flows and investment returns.

Exhibit 6: Affiliate company nvestment value, 2Q2016 (VND bn)

Company	Investment			Accumulated profit/loss					Carrying value	
	12/31/15	+/-	6/30/16	12/31/15	Dividends	Shared profit/loss	Gain from bargain purchases	6/30/16	12/31/15	6/30/16
PPC	719	61	780	557	178	(89)		290	1.276	1.070
Thai Binh Thermal Power	66		66	2		13		15	68	81
TMP	356		356	106	72	9		42	462	398
Song Ba Ha Thermal Power	368		368	14		(21)		(7)	382	361
Srok Phu Mieng Hydro Power	173		173	0		(4)		(4)	173	169
Binh Dien Hydro Power		49	49					-		49
Song Ong Hydro Power	36		36	1	1	3		3	38	39
B.O.O Thu Duc	410		410	(121)	2	20		(103)	289	307
Tan Hiep Water Investment	53	24	77	0		0		0	53	77
Thu Duc Water	66	2	68	2	3	(0)		(1)	69	67
SWIC	62		62	(11)		(6)		(17)	51	45
GDW		25	25				3	3		28
TAW	23		23	2	1	(0)		1	24	23
VIID	170		170	90	78	(4)		9	260	179
SaigonRes	54		54	11	5	7		12	65	67
NBC	59		59	36	5	5		36	95	95
TDN	46		46	33	2	(2)		28	79	74
Doan Nhat M&E	12		12	16	9	3		10	27	22
Total	**2,674**	**160**	**2,834**	**738**	**357**	**(67)**	**3**	**317**	**3,412**	**3,151**

*Source: REE, RongViet Research, *Under the equity method cash dividends paid within the reporting period are deducted from shared profits/losses in affiliate companies*

PPC's business result has positive outlook in the last quarter and could be an outstanding earning

The rainy season in Northern Vietnam will end in the fourth quarter and in the last 1-2 months of the year, hydropower plants will turn down their tubines to reserve water for the dry season of the following year. Therefore, thermal power plants will be able to sell more in Q4. We expect PPC's sale volume to increase 33% qoq and 30% yoy in Q4. On the other hand, since PPC just finalized the sell price for PL1 with EVN in June, there is a possibility that PPC will be able to recover the difference between PL1's H1 power sales according to the recognized price and sales of the new contract price. We estimate the recovery would be VND260-270bn. However, the final amount is still under negotiations with EVN.

It should be reminded that last year, PPC booked over VND460bn in provision for the investment in Quang Ninh Thermal Power JSC (QNTPC). From what we understand, QNTPC posted huge losses between 2010-2015 because of weak management and repeating maintenance stops. In addition, the biggest power company in Northern Vietnam by capacity had accumulated a staggering VND1,893bn in fx loss by year-end 2015.

Nonetheless, with negligible foreign exchange loss big changes among the firm's high-ranking managers, the business of QNTPC has improved vastly since the beginning of the 2016. In fact, QNTPC reported NPAT of VND378bn, an eight-time expansion from a year earlier. Its equity also expanded 19% to VND2,785bn during the first half. This forced PPC to reversed VND70bn in the provision for QNTPC

1H2016. If QNTPC continues to report strong profits, there is a possibility that more reversals will occur in the upcoming quarters.

PPC's revenue in 2016 is projected to decrease by 12.5% yoy and gross profit margin to 5.5 ppt from 2015. Assuming the JPY is up 15% against the VND at year end and excluding the recovery of electricity sales from EVN or reserval investment provision, PPC's 2016 NPAT may reach VND125 bn, down 79% from the previous year.

2017 is the bottom of revenue, expectation for a burst of business results in 2017

We estimate REE's 2016 revenue and PAT at around VND2,699bn (+2.1% yoy) and VND822bn, respectively. With this, 2016 basic EPS will be VND2,653. Without a share in PPC's foreign exchange loss, NPAT could grow 15% yoy in 2016 to VND979bn.

In the more positive scenario where PPC will be compensated for the loss of sale under PL1, 2016 NPAT can be VND855 bn (+12% yoy) or VND 2,705 per share.

We would like to emphasize that 2016 earnings of both PPC and REE have declined for reasons beyond the companies' control. However, our macro team see only a small possibility for the extended increase of the JPY in 2017. Also, PPC just finalized the PPA for PL1 in June with the selling price under the new contract just slightly lower than in the last. A major maintenance session in Q3 can expaned the combined capacity of PL1 and PL2 by 6%. On top of a possibility for extraordinary gains, 2016 could already be the lowest year for both PPC and REE.

In 2017, with positive growth forecast for PPC, TBC and the other power companies, net revenue is projected to grow 4.2% yoy to VND2,812bn and NPAT 22% yoy to VND1,007bn or VND3,247 per share. Rhe operation of e.town Central, Thu Duc 3 and Tan Hiep 2 could allow REE to achieve annual NPAT growth above 10% in 2018.

Outlook

The decline in PPC's H1 NPAT was such that its made a big dent in REE's consolidated net income. The JPY gaining over 15% against the VND and the failure the conclude the electricity sales contract (PPA) for Pha Lai 1 (PL1) contributed largely to PPC's disappointing results in the first half. However, we expect to see a significant improvement in PPC's sales volume and profit margins in the second half, especially the fourth quarter now that the PPA for PL 1 has been renewed. Better yet, the thermal power company is under negotiations with EVN towards a compensation for its loss of revenue in H1. There is also a possibility that PPC will reverse part of the provision made in 2015 for the investment in Quang Ninh Thermal Power JSC if the investee company's profitability continues to improve. Even without regard to such extraordinary gains, we see it unlikely PPC's net profit to continue falling now that the JPY has found some balance and the company has had plans to upgrade its equipment.

We estimate 2016 revenue and NPAT for REE at VND2,669bn (+2% yoy) and VND822bn (-4% yoy) respectively. In 2017, revenue can pick up 4% yoy and NPAT 22% yoy with the increased contribution from PPC. Though the notion that REE's profit will bottom out in 2016 is likely true, it has been fully priced in. We maintain a positive outlook for REE n the long term. The completion of operating assets such as e.town Central (Dist.4, HCMC) and the water treatment plants of Tan Hiep 2 and Thu Duc 3 will be add greatly to the Company's profits and cash flows. We maintain the target price of **VND26,800/share** for REE with a rating of **BUY** in the **LONG TERM.**

Unit: VND bn

PERFORMANCE	**FY2014**	**FY2015**	**FY2016E**	**FY2017F**
Revenue	2,629.4	2,643.4	2,699.5	2,812.4
COGS	1,826.8	1,752.1	1,791.9	1,889.0
Gross profit	**802.6**	**891.3**	**958.3**	**923.4**
Selling Expense	45.4	54.5	52.6	53.8
G&A Expense	131.3	181.8	175.3	182.8
Finance Income	459.5	429.8	469.8	427.5
Finance Expense	42.2	83.3	69.8	85.4
Other profits	52.7	6.9	5.8	17.6
PBT	**1,262.4**	**1,045.7**	**1,010.5**	**1,175.0**
Prov. of Tax	163.8	157.6	152.0	132.6
Minority's Interest	36.7	35.0	35.9	35.7
PAT to Equity Shareholder	**1,062.0**	**853.1**	**822.6**	**1,006.7**
EBIT	**1,080.7**	**1,075.4**	**1,065.6**	**1,245.5**
EBITDA	1,141.8	1,208.1	1,192.3	1,451.3

Unit: %

FINANCIAL RATIO	**FY2014**	**FY2015**	**FY2016E**	**FY2017F**
Growth				
Revenue	8.9	0.5	2.1	4.2
Operating Income	61.6	4.7	11.5	-6.0
EBITDA	47.9	5.8	-1.3	21.7
EBIT	52.0	-0.5	-0.9	16.9
PAT	8.8	-19.7	-3.6	22.4
Total Assets	20.8	14.3	-0.3	5.0
Equity	13.7	7.2	6.1	8.0
Internal growth rate	11.4	6.9	7.9	7.7
Profitability				
Gross profit/Revenue	30.5	33.7	35.5	32.8
Operating profit/ Revenue	23.8	24.8	27.1	24.4
EBITDA/ Revenue	43.4	45.7	44.2	51.6
EBITDA/ Revenue	41.1	40.7	39.5	44.3
Net margin	40.4	32.3	30.5	35.8
ROAA	13.8	9.5	8.6	10.3
ROIC or RONA	17.4	15.1	14.0	15.3
ROAE	19.1	13.9	12.6	14.4
Efficiency				
Receivable Turnover	2.6	2.2	2.2	2.7
Inventory Turnover	3.2	3.1	3.2	3.3
Payable Turnover	2.3	1.5	1.2	1.5
Liquidity				
Current	1.9	1.7	1.9	2.0
Quick	1.5	1.4	1.6	1.7
Solvency				
Total Debt/Equity	34.9	46.2	36.4	32.5
Current Debt/Equity	5.1	6.8	6.8	5.0
Long-term Debt/ Equity	6.9	8.9	8.7	8.8

Unit: VND bn

BALANCE SHEET	**FY2014**	**FY2015**	**FY2016E**	**FY2017F**
Cash and equivalents	1,037	1,420	1,191	1,100
Short-term investment	250	381	458	458
Receivables	1,031	1,369	1,053	1,069
Inventories	598	547	560	590
Other current assets	50	30	31	32
Total Current Asset	**2,967**	**3,747**	**3,292**	**3,249**
Tangible Fixed Assets	494	450	289	160
Intangible Fixed Assets	35	34	29	26
Construction in Progress	34	316	632	0
Investment Property	635	585	527	1,575
Long-term Invest ment	4,117	4,369	4,588	4,817
Other long-term assets	41	108	219	228
Goodwill	79	0	0	0
Long-term Asset	**5,437**	**5,862**	**6,284**	**6,805**
Total Asset	**8,403**	**9,609**	**9,575**	**10,054**
Payables	887	1,439	950	907
Other current liabilities	363	356	316	315
Current Debt	301	430	459	366
Long-term Debt	410	561	581	636
Other long-term liabilities	104	139	139	139
Total Liability	**2,065**	**2,926**	**2,445**	**2,362**
Owner's Equity	**5,910**	**6,334**	**6,720**	**7,261**
Capital	2,691	2,696	3,101	3,101
Retained Earnings	1,939	2,350	2,650	3,191
Funds & Reverses	236	237	323	323
Others	**0**	**0**	**0**	**0**
Total Equity	**5,910**	**6,334**	**6,720**	**7,261**
Minority's Interest	428	349	410	431
TOTAL DEBT & EQUITY	**8,403**	**9,609**	**9,575**	**10,054**

CASH FLOW STATEMENT	**FY2014**	**FY2015**	**FY2016E**	**FY2017F**
Profit before tax	1,262.4	1,045.7	1,010.5	1,175.0
-Depreciation	57.1	132.7	126.7	205.8
-Adjustments	*-632.6*	*-380.7*	*75.7*	*-178.4*
+/- Working capital	-38.2	-23.4	-379.1	-224.0
Net Operating CFs	**648.8**	**774.4**	**833.8**	**978.4**
+/- Fixed Asset	-43.4	-322.7	-227.0	-471.3
+/- Deposit, equity investment	-339.8	-307.6	-379.4	-288.6
Interest, dividend, cash profit	360.9	457.4	-68.1	160.6
Net Investing CFs	**-22.4**	**-172.9**	**-674.4**	**-599.4**
+/- Capital	32.7	1.0	0.0	0.0
+/- Debt	263.1	288.4	99.3	11.2
Dividend paid& other	-419.8	-509.8	-487.3	-480.2
Net Financing CFs	**-124.0**	**-220.4**	**-388.0**	**-469.0**
+/- cash & equivalents	502.3	381.1	-228.7	-90.0
Beginning cash & equivalents	**535.8**	**1,036.7**	**1,419.7**	**1,191.0**
Impact of exchange rate	-1.5	2.0	0.0	-0.8
Ending cash & equivalents	**1,036.7**	**1,419.7**	**1,191.0**	**1,100.3**

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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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