

REFRIGERATION ELECTRICAL ENGINEERING CORP (REE) – INITIATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND79,100	VND98,300	0.39%	ADD	CONGLOMERATE

28 April 2022

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Positive**

Consensus*: Add:4 Hold:1 Reduce:0

Target price / Consensus: 16.4%

Key changes in the report

➤ N/A

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	88,600
52w low (VND)	51,000
3m Avg daily value (VNDmn)	52,830
Market cap (VNDbn)	22,035
Free float (%)	38
TTM P/E (x)	12.5
Current P/B (x)	1.8

Ownership

Nguyen Thi Mai Thanh	12.2%
Platinum Victory Pte.Ltd	30.9%
Apollo Asia Fund Ltd	5.9%
Others	51.0%

Source: VND RESEARCH

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Growing up with sustainability

- REE, a leading multi-utility holding company, will sustainably benefit from the country utilities consumption growth.
- We see the company's aim to expand its exposure to renewable energy (RE) will drive the earnings growth since 2022F going forward.
- Initiate coverage on REE with an Add rating of VND98,300.

Building up a multi-utility's portfolio with growing exposure to RE

REE owns a dense list of power plants with total capacity up to 1,005MW, of which hydropower (52.1%), thermal power (29.1%) and RE (18.8%). The company aims to expand its portfolio in RE by 500MW in 2024F. In 2022F, its three new wind power plants (~102MW) will be put on use, becoming the new earnings growth engine. Water investment portfolio with four water treatment factories and four clean water suppliers will deliver about 8% yoy in earnings over 2022-23F thanks to stable demand growth.

M&E and property leasing businesses are warming up

As a leading M&E contractor, REE will ride on country's big story of infrastructure development. After a pull-back during last year pandemic, we expect M&E earnings to increase 165% yoy/23% yoy in 2022-23F thanks to VND3,757bn/ VND4,508bn value of new-signed backlog. By managing seven offices for lease with high occupancy rates, property leasing is a cash-cow business, making up about 22% net profit in 2022F. We expect a sprint growth of property leasing in 2023F when the new office E.town 6 will be put into operation.

Net profit to grow sustainably in 2022-23F

In 2022F, REE put out quite conservative net profit plan of VND2,061bn (+11% yoy). However, we expect 2022F net profit to rise 18% yoy to VND2,183bn with the strong support from three new wind power plants and M&E sharp recovery, offsetting modest drop in hydropower and real estate segment. In 2023F, we see positive growth in all segment, especially solid rise in real estate NP thanks to the appearance of E.town 6. Thus, 2023F net profit will increase 18% yoy to VND2,565bn.

Buy on the dip with STOP-based target price of VND98,300

The recent market-sell off has sent REE back to buy territory. We believe with an upside of 24%, the risk-reward profile is attractive to accumulate a defensive stock like REE. Re-rating catalysts include (1) Higher than expected hydropower output mobilization, (2) the announcement of new RE power price mechanism, and (3) excited public investment activities recover. Downside risks include (1) M&E GPM narrows higher-than-expected, (2) global commodity price highly volatiles longer-than-expected, and (3) water price adjustment proposal in Hanoi may not be executed due to inflation concerns.

Financial summary (VND)	12-20A	12-21A	12-22E	12-23E
Net revenue (bn)	5,640	5,810	8,939	10,659
Revenue growth	15.3%	3.0%	53.9%	19.2%
Gross margin	28.5%	39.8%	34.3%	33.7%
EBITDA margin	38.3%	47.4%	28.7%	28.9%
Net profit (bn)	1,628	1,855	2,183	2,565
Net profit growth	(0.7%)	13.9%	17.7%	17.5%
Recurring profit growth				
Basic EPS	5,251	5,982	7,042	8,273
Adjusted EPS	5,251	5,982	7,042	8,273
BVPS	36,938	42,897	49,824	57,124
ROAE	14.9%	15.0%	15.2%	15.5%

Source: VND RESEARCH

GROWING UP WITH SUSTAINABILITY

Investment thesis

We like REE for:

- REE has a dense investment portfolio with multi-utilities focus (power, water) that are currently worth about VND14,792bn, per our estimate. This portfolio delivered a dividend yield of c.9.1% in 2021, generating 62% of company's 2021 earnings. We see that REE is riding on the country's stable utilities consumption growth.
- We see the company's aim to expand its exposure to renewable energy under the COP26 commitment. The company has developed 16.3MW of rooftop solar and 102MW new wind power projects to actualize its ambition in 2021. From 2022F, REE planned to develop 200MW new RE power and striving to reach 500MW rooftop solar in 2024F.
- We forecast a 18% yoy increase in net profit from 2022F thanks to the rise in power segment and M&E recovery. For 2023F, real estate will contribute a higher portion thanks to the appearance of E.town 6, leading to a VND2,565bn (+19% yoy) in REE's net profit.

We initiate coverage on REE with ADD rating

Our target price is VND98,300, based on SOTP valuation. Currently, REE is traded at 10.4x of 2022F P/E, the lowest since Feb 2022. With a potential upside of 24%, we believe it is suitable to invest in REE - a holding corporation with a sustainable growth potential and reasonable cheap price. The company are working on several expansion and acquiring plan, as well as a lot of upcoming stories for future re-rating.

Figure 2: Water and power investment portfolio adjusted equity value

	Sector	Investment value at 4Q21 VNDbn	REE Ownership (%)	Method	Multiple target (x)	Adjusted investment value VNDbn	Premium VNDbn	Comment
Power	VSH	2,165.2	50.5%	P/E	17.4x	3,724.9	1,559.7	We expect VSH to trade at high P/E of 17.4x thanks to its new plants - Thuong Komtum with strong income outlook and high ASP.
	TBC	772.5	60.4%	P/E	14.0x	1,427.9	655.4	
	TMP	619.4	42.6%	P/E	15.0x	2,292.4	1,673.0	We apply P/E of 14.0x for TBC following promising outlook from its upcoming hydropower project Thac Ba 2.
	CHP	659.6	22.7%	P/E	15.0x	1,351.1	691.5	
	SBH	576.7	25.8%	P/E	10.0x	1,313.8	737.2	We apply a higher P/E of 15.0x for TMP and CHP, to present brighter outlook from its solar farm power.
	ISH	202.7	34.3%	P/E	10.0x	344.4	141.8	
	BDH	94.4	25.5%	BV	-	94.4	-	We apply P/E of 10.0x and BV for for smaller power with potential output drop after La Nina phase end from 5M22.
	SHP	208.0	11.1%	BV	-	208.0	-	
Coal-fired power	PPC	1,197.2	24.1%	P/B	1.5x	1,661.8	464.7	PPC is currently trade at P/B 1.2x, we apply a higher P/B of 1.5x to reflect strong output recovery from 2022. We apply 4Q21 Book value for smaller investment like NBP, QTP.
	NBP	78.7	29.4%	BV	-	78.7	-	
	QTP	49.3	1.0%	BV	-	49.3	-	
RE power	REESE	500.0	100.0%	P/B	1.9x	900.0	400.0	We apply a P/B of 1.9x to reflect strong mobilization outlook for renewable energy under government orientation.
	TBW	250.0	50.0%	P/B	1.9x	450.0	200.0	
	REE Tra Vinh	868.0	100.0%	P/B	1.9x	1,562.4	694.4	
Retail power	DTV	56.3	66.3%	7.6x	10.0x	131.1	74.8	
Total		8,297.7				15,590.2	7,292.5	
Water								
Water processing	BOO	303.7	42.1%	P/E	14.0x	894.0	590.3	We apply an average P/E of 14.0x for three HCM water treatment plants BOO, SWIC, THW with similar capacity and all reach almost full capacity.
	SWIC	321.5	40.0%	P/E	14.0x	850.0	528.5	
	THW	123.4	32.0%	P/E	14.0x	680.0	556.6	We apply a P/E of 13.6x for VCW, similar to the TTM P/E as we expect a modest growth in 2022 with no price rise.
	VCW	900.8	36.0%	P/E	13.6x	1,354.9	454.1	
Water supply	TDW	79.0	44.2%	P/E	12.9x	191.6	112.5	We apply P/E multiple of 12.9x to reflect higher income growth thanks to clean water price increase in HCMC.
	GDW	34.1	20.1%	BV	-	34.1	-	
	NBW	41.5	20.0%	BV	-	41.5	-	We apply a higher P/E multiple of 14.5x to reflect brighter recovery outlook of KHW thanks to water demand rebound in tourism area.
	KHW	256.0	43.9%	P/E	14.5x	238.3	(17.7)	
Consulting	TK+	16.8	65.0%	BV	-	16.8	-	We use BV for smaller investment GDW, NBW, TK+
Total		2,076.8				4,301.0	2,224.3	

SOURCE: VNDIRECT Research, Company reports

Figure 3: Power & Water segment RNAV-based valuation

Power				Water			Total power + water		
VNDbn	Book value at end-21	Premium	Book value adjusted	Book value at end-21	Premium	Book value adjusted	Book value at end-21	Premium	Book value adjusted
Investment portfolio	8,298	7,293	15,590	2,077	2,224	4,301	11,868	8,024	19,891
(+) Cash & other assets (exclude consolidation factor)			2,430			231			2,661
(-) Total debt and other liabilities (exclude consolidation factor)			923			245			1,168
Equity value			17,098			4,287			22,230
Discount rate (15%)			14,533			3,644			18,177

SOURCE: VNDIRECT Research, Company reports

Figure 4: Property – M&E valuation

Property sector (income approach)		
NOI (VNDbn)	Capitalization rate (%)	Property value (VNDbn)
630.58	5.00%	11,106.92
(+) Property cash		307.60
(-) Property debt		917.66
Equity value		10,496.87
M&E (P/E)		
Net profit 2022 (VNDbn)	P/E multiple	Equity value (VNDbn)
260.49	10x	2,604.95

SOURCE: VNDIRECT Research

Figure 5: SOTP-based valuation

Business sector	Method	Equity value of segment VNDbn
SOTP:		
M&E	P/E	2,605
Real estate	Income approach	10,497
Power	RNAV	14,533
Water	RNAV	3,644
Equity value		31,279
(-) Minority interest (excluding consolidation factor)		890
Implied REE equity valuation		30,389
No of share (mn)		309.05
Implied share price		98,330
Rounded share price		98,000

SOURCE: VNDIRECT Research

Figure 6: Peer comparison

Company name	Ticker	Price	Target price	Recom.	Mkt Cap	P/E(x)		P/BV(x)		EV/EBITDA (x)		ROE (%)	
	Bloomberg	LC\$	LC\$		US\$m	TTM	FY22F	Current	FY22F	TTM	FY22F	TTM	FY22F
M&E peer													
DNA Investment JSC	KSD VN Equity	8,800	NA	NR	4.6	4.8	NA	0.9	NA	NA	NA	20.0	NA
Hai Phong Electrical Mechanical JSC	DHP VN Equity	13,000	NA	NR	5.4	10.1	NA	0.8	NA	NA	NA	7.5	NA
Searefico JSC	SRF VN Equity	16,200	NA	NR	23.8	18.6	NA	1.1	NA	20.7	NA	6.2	NA
Ahluwalia Contracts India Ltd	AHLU IN Equity	517	NA	NR	451.9	13.0	10.0	3.9	NA	14.0	NA	9.2	16.3
Average						11.6	10.0	1.7	NA	17.4	NA	10.7	16.3
Power peer													
PVPower Corp	POW VN Equity	12,900	18,200	ADD	1,315.9	16.8	17.7	1.1	1.0	6.2	6.5	6.3	5.7
GENCO 3	PGV VN Equity	31,300	NA	NR	1,531.8	11.2	NA	2.1	NA	9.0	NA	NA	NA
Gia Lai Electricity JSC	GEG VN Equity	21,000	NA	NR	277.8	22.9	16.7	1.9	1.6	12.7	9.8	8.2	11.2
Quang Ninh Thermal Power JSC	QTP VN Equity	17,700	NA	NR	347.0	13.8	NA	1.3	NA	5.3	NA	9.4	NA
PetroVietnam Nhon Trach 2 Power JSC	NT2 VN Equity	22,450	29,000	ADD	281.5	11.6	10.7	1.5	1.5	5.3	NA	13.1	15.7
Ha Do Group JSC	HDG VN Equity	56,200	NA	NR	499.0	9.9	7.4	2.5	1.3	8.3	NA	29.8	24.1
Average						14.4	13.1	1.7	1.4	7.8	8.1	13.4	14.1
Water peer													
Binh Duong Water Environment JSC	BWE VN Equity	52,200	NA	NR	438.7	16.0	14.8	2.6	NA	9.1	NA	17.0	19.8
Thu Dau Mot Water JSC	TDM VN Equity	39,800	NA	NR	173.4	16.7	13.6	2.1	NA	12.1	NA	13.2	8.5
Gia Dinh Water Supply JSC	GDW VN Equity	NA	NA	NR	NA	NA	NA	NA	NA	NA	NA	8.3	NA
Song Da Water Investment JSC	VCW VN Equity	NA	NA	NR	111.4	12.9	NA	1.9	NA	9.1	NA	15.7	NA
Average						15.2	14.5	2.2	NA	10.1	NA	13.5	14.2
Multi-sector peer													
PC1 Group JSC	PC1 VN Equity	37,950	NA	NR	388.7	15.8	13.8	1.9	1.5	14.0	NA	16.0	11.5
Bamboo Capital JSC	BCG VN Equity	19,300	29,600	ADD	423.1	12.5	6.2	1.7	1.4	29.7	NA	23.7	31.2
Average						14.2	10.1	1.8	1.5	19.0	9.4	18.2	19.3
REE Corp	REE VN Equity	79,100	98,300	ADD	1,064.9	12.5	10.4	1.8	1.7	13.4	9.4	15.0	15.2

SOURCE: VNDIRECT Research, Bloomberg – Data as of Apr 27, 2022

Potential re-rating catalysts and downside risks

Potential re-rating catalyst:

- Higher than expected hydropower output mobilization in 2022 due to coal-fired shortage.
- Public investment activities recover to its central state faster-than expected.
- The new mechanism for RE power transitional price will be announced soon.

Downside risk:

- Global commodity price showed sign of slowdown longer-than-expected, affect negatively on thermal segment.
- Water price adjustment proposal in Hanoi area may not be approved due to inflation concerns.
- M&E segment profit margin narrow higher-than-expected due to cost surge and intense competition.

Company overview

A conglomerate with large exposure toward utilities »

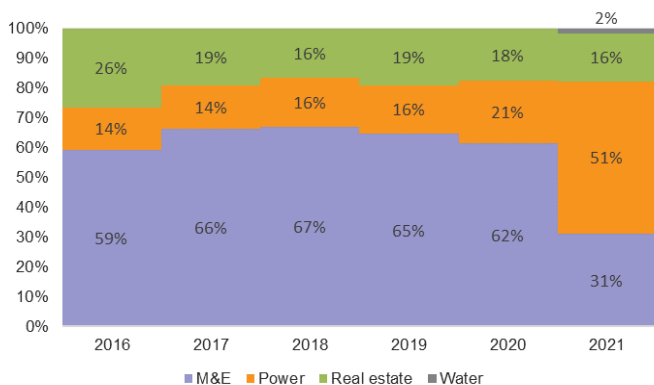
Refrigeration Electrical Engineering Corporation (REE) established in 1977 with an initial focus on mechanical and electrical engineering (M&E) and household appliances. After that, the company has steadily developed and extended into various business categories including real estate, power and water. Since 2020, the board of directors (BoD) decided to restructure the company into a holding corporation, in which its subsidiaries and associates will organized into four companies, corresponding to four business segments: M&E, property leasing, electricity and water.

Figure 7: REE owns a dense list of member companies and associates, divided in four business segments



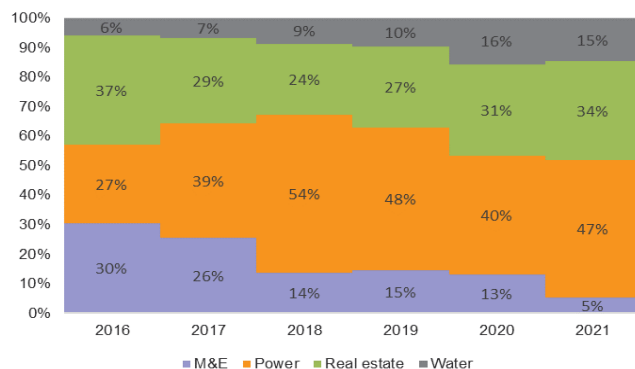
SOURCE: VNDIRECT Research, Company reports

Figure 8: M&E segment contribute majorly for REE revenue, but its weight drops in 2021 due to Covid-19



SOURCE VNDIRECT Research, Company reports

Figure 9: REE has heavily invested in power sector and has turn the segment in the most net profit contributor



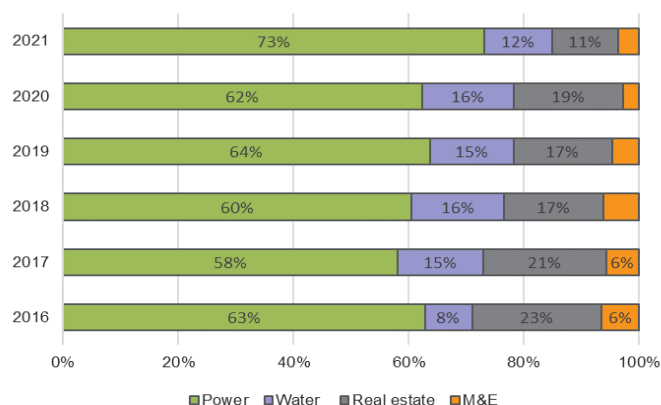
SOURCE: VNDIRECT Research, Company reports

In terms of revenue structure, power revenue portion has jumped from 15-20% in 2016-20 period to 51% of total revenue in 2021 thanks to VSH consolidation in 2Q21 while M&E sector constantly generated largest revenue to the company at about 60%-70% in 2016-20 but dropped sharply to 31% in 2021 due to business being heavily impacted by the Covid outbreak, followed by real estate (16%) and water segment (2%). Net profit structure is quite stable in the recent years, in which power contributed the most (47%), followed by real estate (34%), water segment (15%) and M&E segment (5%) in 2021.

The company strives to keep investment portfolio ROE above 15% with dominant portion on defensive segment »

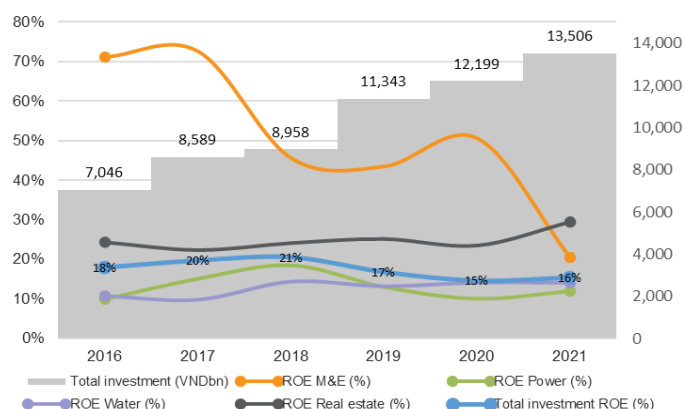
From 2016 to 2021, REE's investment portfolio ROE has remained consistently above 15%, although there has been a modest reduction since 2018 as the company expanded investing on new project and increase ownership in its associates, especially in power and water segment. However, we assess this is still a solid level of investment efficiency especially with a dominant portion of defensive segments. These two segments will be the main REE investment focus in the upcoming year, in which REE planned to continuously widen its renewable energy portfolio, while in water segment, REE are looking for investment opportunity from wastewater treatment companies to expand its water portfolio value chain.

Figure 10: REE focuses to invest on power sector with largest investment value (Unit: %)



SOURCE: VNDIRECT Research, Company reports

Figure 11: REE maintained to keep investment portfolio ROE above 15% every year

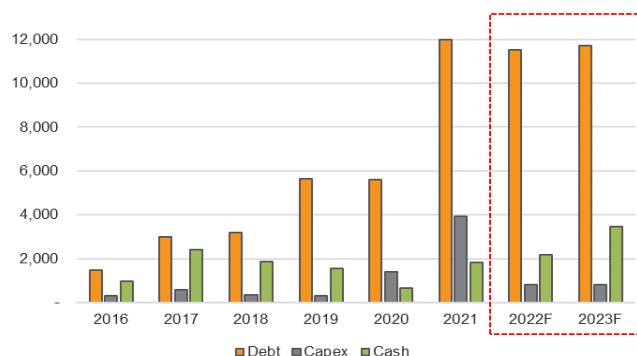


SOURCE VNDIRECT Research, Company reports

Higher leverage ratio due to VSH consolidation, but financial position remains resilience »

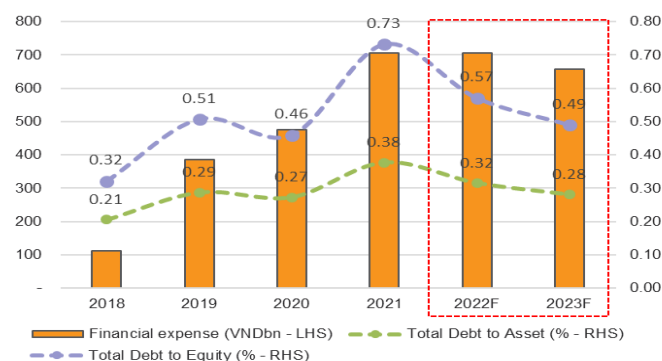
From May 2021, REE ENERGY – REE member company increased its ownership in VSH from 49.52% to 50.45%. Hence, REE has consolidated VSH's business results into its financial statements since 2H21. Notably, VSH began operating its new hydropower plant – Thuong Kom Tum with total capacity of 220MW at the end of Mar 2021. The plant is officially finished after over ten years of construction delay due to legal issue, causing the original capital plan to exaggerate from VND5,700bn to VND9,420bn. Hence, the consolidation has lifted leverage ratio higher. Due to the consolidation, REE debt-to-asset and debt-to-equity ratio rose to 0.38 and 0.73, respectively in 2021. However, Thuong Komtum is working efficiently and provides a very positive result with high ASP. Thus, we expect a gradual improvement from 2022F when REE soon fulfills its debt obligations.

Figure 12: REE have an adequate cash amount and a healthy financial position to cover debt and upcoming Capex (Unit: VNDbn)



SOURCE: VNDIRECT Research, Company reports

Figure 13: VSH consolidation and three new wind power plants boosted REE leverage ratio from 2021



SOURCE: VNDIRECT Research, Company reports

In our view, the leverage surge from VSH consolidation, has primarily negative impact only on the books, in fact, REE only spent out a small capital (VND191bn) to raise its ownership from 49.5% to 50.5%. Hence, we believe that REE still have an adequate cash amount and a healthy financial position to cover its debt and upcoming Capex (mainly from E.town 6). Due to transitional mechanism uncertainty among RE power, we have not yet included 100MWp develop in 2022F to our model. However, with an expected investment cost of around VND12bn/MW with capital structure of 35% equity – 65% debt, we believe REE can certainly cover the additional Capex with strong forecasted cash growth.

Energy business: Gearing toward sustainability

REE has invested heavily on power segment with diverse energy types »

Figure 14: REE has invested in a wide range of energy companies

Energy type	Company	REE ownership (%)	Capacity (MW)	Capacity by ownership (MW)	Location
Hydropower	Vinh Son - Song Hinh Hydropower JSC (VSH)	50.5%	356	180	
	+ Vinh Son - Song Hinh hydropower	50.5%	136	69	Côn river (Binh Dinh) - Hinh river (Phu Yen)
	+ Thuong Kom Tum hydropower	50.5%	220	111	Dak Nghe river (Kom Tum)
	Thac Ba Hydropower JSC (TBC)	60.4%	120	72	Thác Bà lake (Yen Bai)
	Muong Hum Hydropower JSC (MHP)	79.8%	35	28	Ngòi Phát river (Lao Cai)
	Thac Mo Hydropower JSC (TMP)	42.6%	220	94	Bé river (Binh Phuoc)
	Song Ba Ha Hydropower JSC (SBH)	25.8%	220	57	Phu Yen
	Srok Phu Mieng Hydropower JSC (ISH)	34.3%	51	17	Ba river (Binh Phuoc)
	Central Hydropower JSC (CHP)	22.7%	220	50	Hue - Daknong (solar)
	Binh Dien Hydropower JSC (BDH)	25.5%	44	11	Hữu Trạch river (Hue)
	Southern Hydropower JSC (SHP)	11.9%	123	15	Lam Dong
Total		0.0%	1388	524	
Coal-fired power	Ninh Binh Thermal (NBP)	29.4%	100	29	Ninh Binh
	Pha Lai Thermal (PPC)	24.1%	1040	251	Hai Duong
	Quang Ninh Thermal (QTP)	1.0%	1200	12	Quang Ninh
Total			2340	292	
Solar power	REE solar energy JSC (REESE)	100.0%	102	102	
Wind power	Thuan Binh Wind power JSC	50.0%	79	39	
	+ Phu Lac 1	50.0%	24	12	Binh Thuan
	+ Phu Lac 2	50.0%	26	13	Binh Thuan
	+ Loi Hai 2	50.0%	29	14	Ninh Thuan
	Ree Tra Vinh Wind power company Ltd (Tra Vinh V1)	100.0%	48	48	Tra Vinh
Total			127	87	
Power retail	Tra Vinh Electric Development JSC (DTV)	66.3%	na	na	Tra Vinh
Total portfolio			3957	1005	

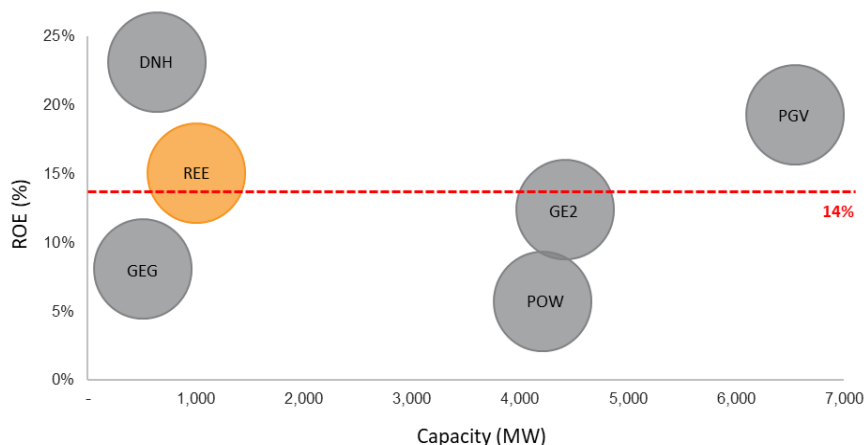
SOURCE: VNDIRECT Research, Company reports

REE has started investing in utilities sector (power & water) since 2010 and has developed a solid subsidiary and associates' portfolio. At the moment, the company exposed with total 2,635MW, in which, total capacity by REE ownership reached 1,005MW in 2021 spreading to three different types of energy, including hydro (524MW), coal-fired (292MW), and RE power (189MW). Besides, REE also consolidated one power retail company – Tra Vinh Electric Development JSC (DTV) from 2016, working as retail power distributor in Tra Vinh province. With such large capacity, REE are currently ranked at top 5 largest listed electricity enterprise in the market.

Power ROE located at efficient level, back by dense hydro portfolio »

In term of investment efficiency, we estimated REE's 2021 power portfolio ROE stayed above sector average of around 14% when comparing with other power competitor with similar power capacity scale. Moreover, we expect a higher ROE ratio from 2022F when its new developed plants work for full year, including three new wind power plants Phu Lac 2 (25.2MW), Loi Hai 2 (28.8MW) and Tra Vinh V1-3 (48MW) and one hydropower plant Thuong Komtum (220MW).

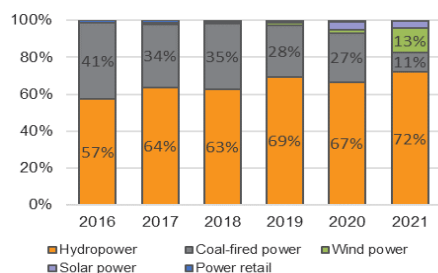
Figure 15: REE power portfolio ROE stayed above average, comparing with other power competitor



SOURCE: VNDIRECT Research, Company reports

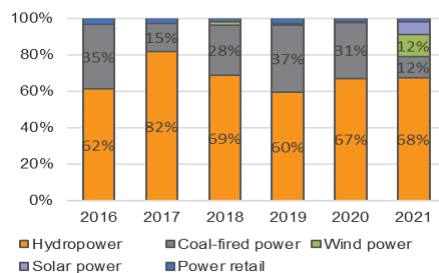
In terms of REE's power investment allocation, hydropower is invested with largest value (72%) in 2021, thus impacted the most to REE's power investment efficiency, followed by coal-fired power (11%), wind power (13%) and solar power (3%). Hydropower also contributed the largest annual net profit of 58%, followed by coal-fired power (11%), wind power (12%) and solar power (14%). Retail power contribute the least for net profit of only 4%.

Figure 16: Investment value by energy type between 2016-21 period (Unit: %)



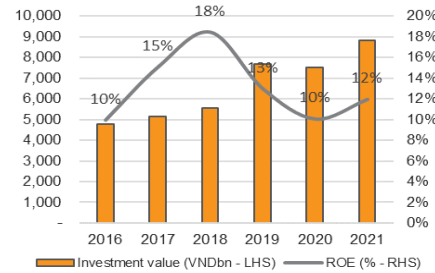
Source: VNDIRECT Research

Figure 17: Net profit structure by energy type from 2016 to 2021 (Unit: %)



Source VNDIRECT Research

Figure 18: Total power investment and power ROE from 2016 to 2021

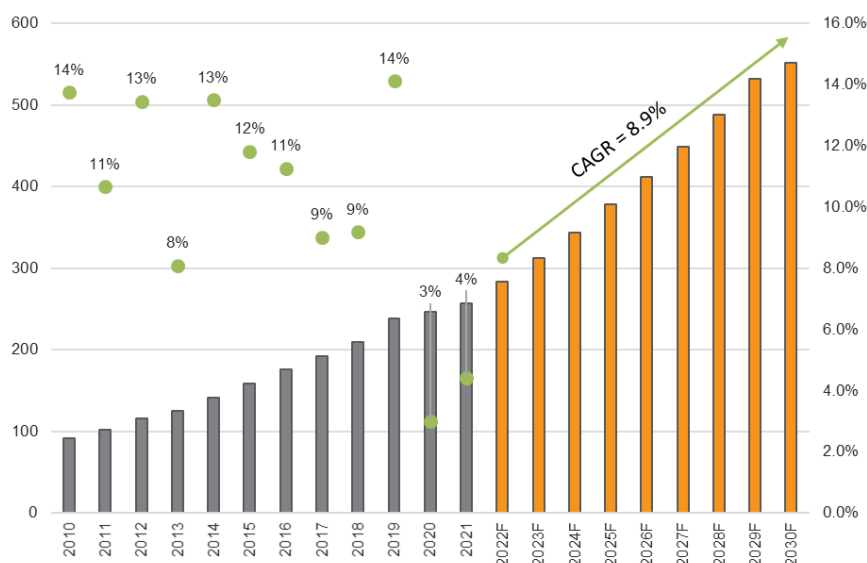


Source: VNDIRECT Research

Power segment is the spearhead for company growth, in which renewable energy contain mass potential under government orientation »

Power consumption is expected to surge after two modest growth years of 2020-21 when Vietnam economic growth return to its central state. The North is forecasted to have power shortage risk under high electric load day during hot season, and the recent coal supply shortage for thermal plant of more than 3,000MW. Under base-case scenario, the Power development plan (PDP8) draft estimated a power consumption CAGR of 8.9% in 2021-30F period, and we believe this is the driving force for the power industry to continue to grow along with the expectation of Vietnam's fast economic recovery in the coming years.

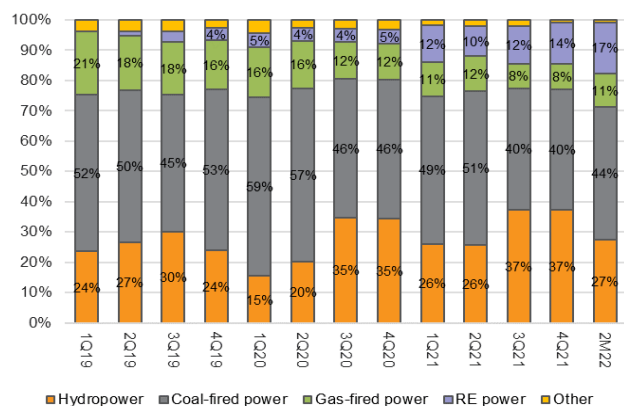
Figure 19: Power consumption expected to rise at 8.9% CAGR in 2022-30F period



SOURCE: VNDIRECT Research, PDP8 draft

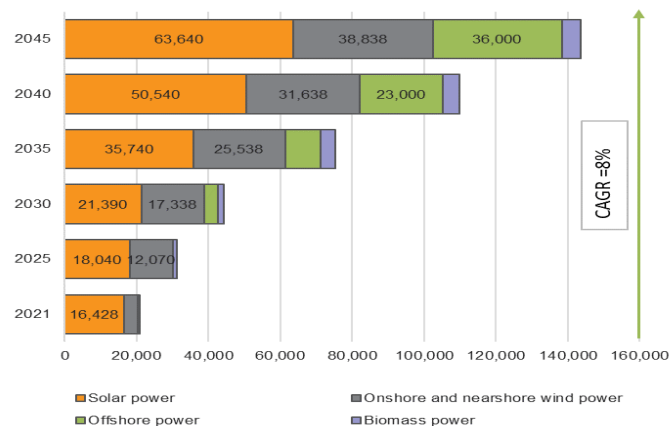
Given the fact that energy consumption demand is expected to increase dramatically in the upcoming years, developing an adequate power system to fulfill the rising demand is critical. In particular, as 1) hydropower has gradually run out potential for further exploitation (currently reach 91% of total potential and left only a small space for small hydropower (<30MW) to develop); 2) Coal-fired power faces challenging financial difficulties due to its negative environmental effect, whereas several investors have retreated from this energy source due to the global commitment of emission cut down under recent COP26. Hence, renewable energy (RE) receives huge attention due to its clean nature and massive capacity growth potential. However, because of its instability and low-capacity factor due to weather dependence, it is essential to develop additional background power source to support the power system fullness.

Figure 20: RE power output grab a wider portion thanks to the strong rise in capacity and government preference (Unit: %)



SOURCE: VNDIRECT Research, EVN

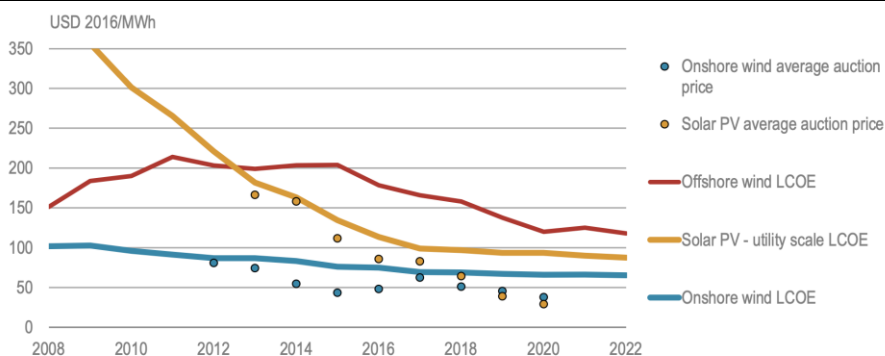
Figure 21: Under the PDP8, RE capacity will grow at 8% CAGR in 2020-45F period (Unit: MW)



SOURCE: VNDIRECT Research, PDP8 draft

From 2020, RE power output has gradually increase due to government preference, whereas its output weight increase for 4.2% in 1Q20 and magnify to 13.8% total power output at the end of 2021. Moreover, thanks to additional 3,980MW of wind power COD from 4Q21, RE output continues to widen to 16.8% of total output mobilization in 2M22. In term of capacity growth, RE capacity will increase at high CAGR of 8.8% from 20,790MW from 2021 to 143,728MW in 2045F. Moreover, according to IEA, the levelized cost of energy (LCOE) for renewable plant has significantly dropped thanks to the global development trend among this energy type. Hence, it will also benefit Vietnam in the long-term thanks to lower investment cost for upcoming projects. Under the recent coal-fired power shortage situation, EVN proposed a plan to increase mobilizing from 4,000MW of all energy types, of which, 1,000MW will come from RE power. This is a positive news to this energy sources due to higher expected output mobilized after being cut down significantly in 2H21.

Figure 22: Renewable LCOE gradually decrease



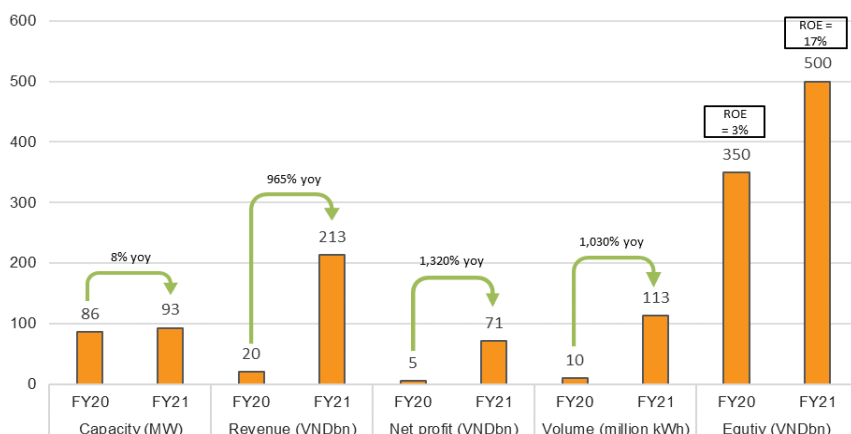
SOURCE: VNDIRECT Research, IEA

REE has focused investing in RE power with initial ambition to raise rooftop solar capacity »

REE has been focusing on RE power, initially with rooftop solar power from 2020, due to the government tendency to stimulate RE development with attractive FIT price. At the end of 2020, REE put into operation 86MWp of rooftop solar power, acquiring FIT price of 8.38cent/kWh, and located in several Southern provinces. After the Decision No.13/2020/QĐ-TTg on FIT price – the

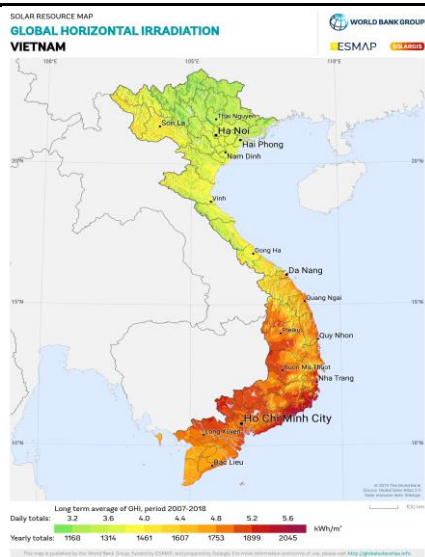
incentive mechanism development for solar power expired at end-2020, REE proposed only 16,3MW new solar project in 2021, of which 6.5MWp was put into operation. Thanks to additional 86MWp developed in 2020, total solar output reached 113m kWh (+1,030% yoy), which help ROE improve from 3% in 2020 to 17% in 2021.

Figure 23: REE solar power 2021 business result surged, thanks to 86MWp put into operation from Dec 2020



SOURCE: VNDIRECT Research, Company reports

Figure 24: Vietnam sunshine irradiation map

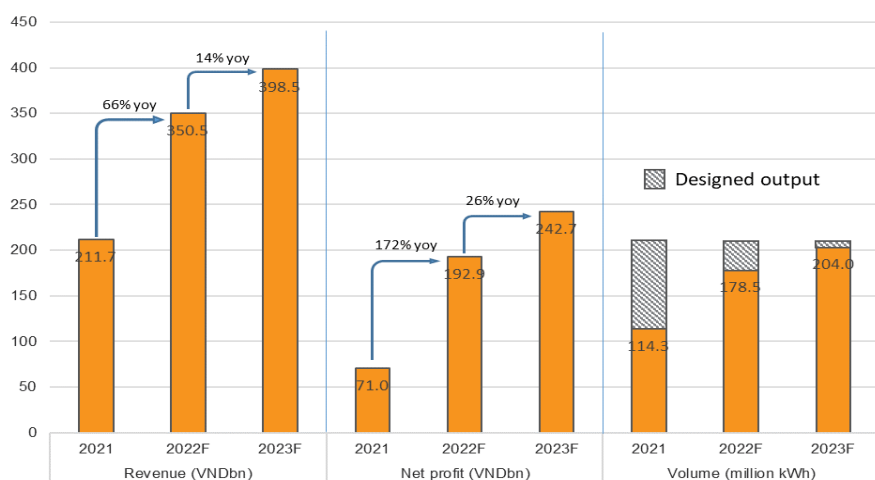


Source: ESMAP World bank

The company will continuously expand this power segment from 2022F

Solar energy is a valuable natural resource of Vietnam with solar energy intensity is around 5kWh/m², average sunshine at about 150kcal/m² and could last 2,000-2,600, ideally located at Southern, Southern Central, and Highland's provinces such as Ninh Thuan, Binh Thuan, and Dak Lak. It is a useful energy source to produce clean energy, protecting the environment combating climate change, and also contributing to Vietnam goal of being carbon neutral by 2050 under the government orientation. With clear message stated in the PDP8 draft, priority will be given to the development of green energy. Therefore, solar power energy will have plenty of space to growth in long-term.

Figure 25: REE solar power segment NP expected to rise and reach its maximum capacity in upcoming year



SOURCE: VNDIRECT Research, Company reports

In 2022F, REE will continue to develop additional 200MW RE power, in which 100MWp of new rooftop solar projects, including M&A operated solar plants as well as renting roofs to develop new projects. Moreover, the BoD planned to enhance total rooftop solar capacity to 500MWp in 2024-25F. We believe that concentrating on developing rooftop solar power is a right option, given that LCOE and investment cost (VND15-20bn/MW) narrow over year thanks to large economic scale as RE development is a global trend, and efficiency gradually improve thanks to technological advance in solar panel. Hence, REE strives for upcoming rooftop project to have sufficient inexpensive cost of around VND12bn/MW. We believe this is a relatively inexpensive investment and lower than the initial plan. We expect REE's solar power system will be benefited from larger profit margin thanks to lower-than-expected construction cost and interest expenses. Besides, REE rooftop power system only reaches half of its designed output (215m kWh) due to capacity cut down from 2H21, hence:

- In 2022F, we are looking for another solid grow year in output and revenue of 56% yoy and 66% yoy to 178m kWh and VND350bn, respectively, helping net profit to reach VND192bn in 2022F thanks to expected power consumption surge.
- In 2023F, we assume output will reach its designed capacity of 204m kWh, leading to 14% yoy and 26% yoy in revenue and net profit to VND398bn and VND242bn, respectively. We noted that we haven't include additional 100MWp that REE planned to build in 2023F due to uncertainty in solar price mechanism. However, we consider this is a positive re-rating catalyst in upcoming period.

Three new wind power plants will contribute sharply for power net profit from 2022F, offsetting expected hydropower output loss »

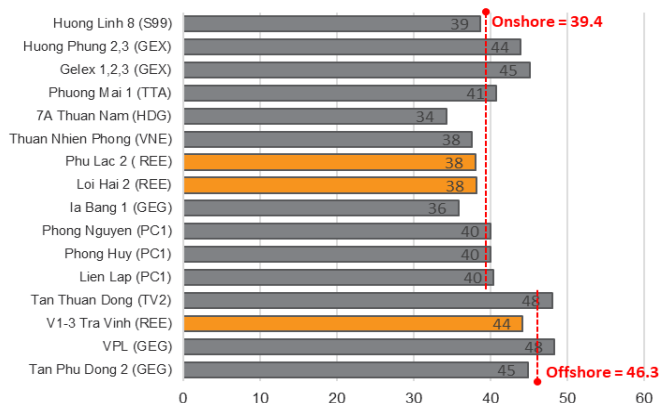
In term of wind power portfolio, REE are owning three onshore wind power plants Phu Lac 1&2, Loi Hai 2 and one nearshore wind power plant Tra Vinh V1-3, and all four-project acquired FIT price by COD on time before 01 Nov 2021. Total capacity of four wind power plant is 126MW and REE grabbed 87MW according to its investment value. REE's wind projects construction cost has reduced thanks to global renewable development trend and lower than its average peers developed in the same period. Furthermore, REE's wind power plants are located in a very ideal location, especially Loi Hai 2 in Ninh Thuan. The plant achieved a capacity factor up to 50% with high operation hour of 3,472h/year, as it located in high wind speed area up to 15m/s during the monsoon season. Due to unstable exchange rate of EUR/VND, ROE recorded a fluctuated trend. In 2021, thanks to three additional wind power projects put into operation from 11M21, these plants operated sufficiently in the only last two month and boost ROE up to 14%.

Figure 26: REE wind power plants information

Wind power plant	Location	Power plant type	Capacity (MW)	REE ownership (%)	Annual output (million kWh)	Operation hour	Investment value (VNDbn)	FIT price (cent/kWh)
Phu Lac 1	Binh Thuan	Onshore	24.0	50%	67	2,778	1089	8.5
Phu Lac 2	Binh Thuan	Onshore	25.2	50%	70	2,778	958	8.5
Loi Hai 2	Ninh Thuan	Onshore	28.8	50%	100	3,472	1098	8.5
Tra Vinh V1-3	Tra Vinh	Nearshore	48.0	100%	158	3,292	2120	9.8
Total			126.0		395		5265	

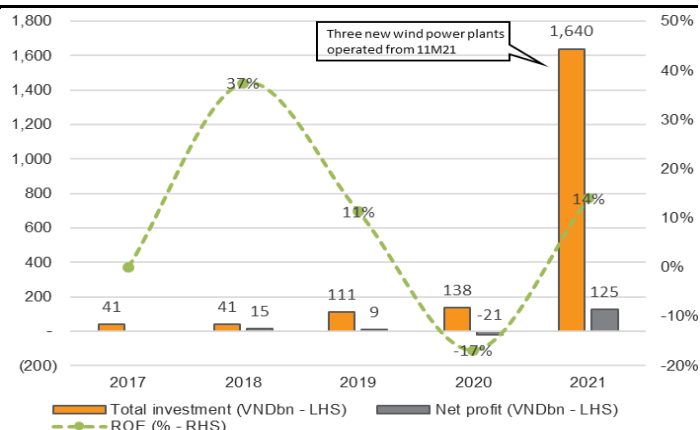
SOURCE: VNDIRECT Research, Company reports

Figure 27: REE new wind power has lower investment cost per MW than its peers' plant developed at the same period (Unit: VNDbn)



SOURCE: VNDIRECT Research, Company reports

Figure 28: Wind power's investment ROE improved from 2021 thanks to three additional plants

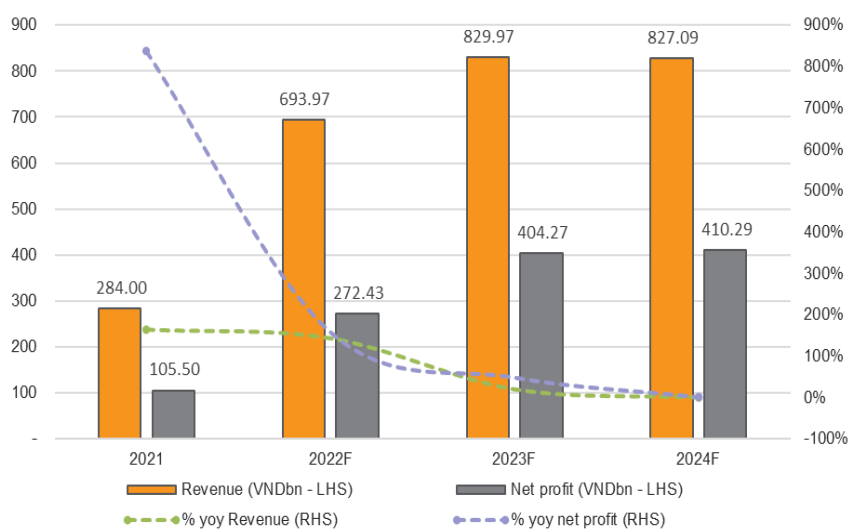


SOURCE: VNDIRECT Research, Company reports

With expectation of the government's priority toward renewable energy mobilization, along with solid expected power consumption growth in the following years of around 8.9% CAGR, as well as EVN's recent effort to upgrade the grid system, we hope that these factors will help REE's wind power to be mobilized at a high capacity from 2022F.

- From 2022F, we forecast wind power volume can reach around 80% of its designed capacity to 328m kWh, leading to 144% yoy surge in revenue to VND693.97bn. On the other hand, wind power net profit will reach VND272bn from VND114bn in 2022F (+158% yoy).
- From 2023F, we believe wind output to reach nearly max its capacity output. Hence, 2023F revenue and net profit forecasted to increase 19% yoy and 48% yoy to VND829.97bn and VND404.27bn thanks to released loan payback burden and output surge.

Figure 29: Three new wind power plants will be the growth engine for REE power from 2022F

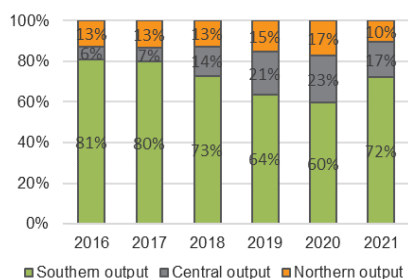


SOURCE: VNDIRECT Research, Company reports

Hydropower will come out of its peak due to the end of La Nina phase from 2Q22F »

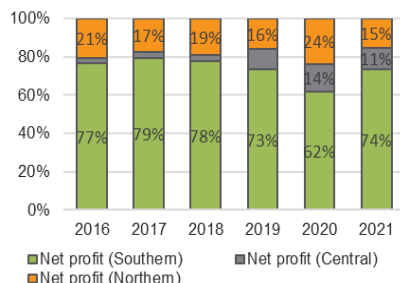
At the moment, REE owns a hydropower portfolio of 9 companies with total capacity of 524MW, distributed in all three regions including the North (TBC, MHP), the Central region (BDH, CHP), the South (VSH, TMP, ISH, SBH and SHP). By investing in four hydropower plants in the South, the annual output and profit contribution from this area is always the largest, accounting for about 60-80% of hydro annual output and profit. REE's hydropower ROE has peaked in 2017-18 (20%) thanks to favorable hydrological condition, before dropped sharply due to unfavorable hydrology in 2019-20 period. ASP recorded an upward trend from 2016-2019 thanks to shift up in ceiling price in the CGM market, and coal-fired shortage in 2019. Besides, REE has invested in several high ASP hydropower plant from 2018, helping hydro segment ASP to locate at around 1,000VND/kWh in 2018-2021 period.

Figure 30: Hydropower output contribution by region in 2016-21 period



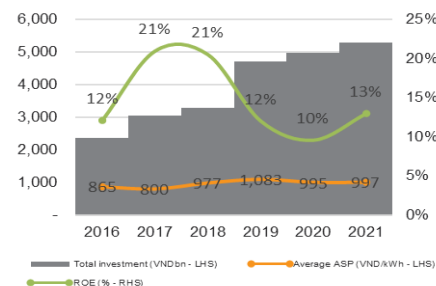
Source VNDIRECT Research

Figure 31: Hydropower NP contribution by region in 2016-21 period



Source: VNDIRECT Research

Figure 32: Hydropower investment portfolio widen from 2016 to 2021 period



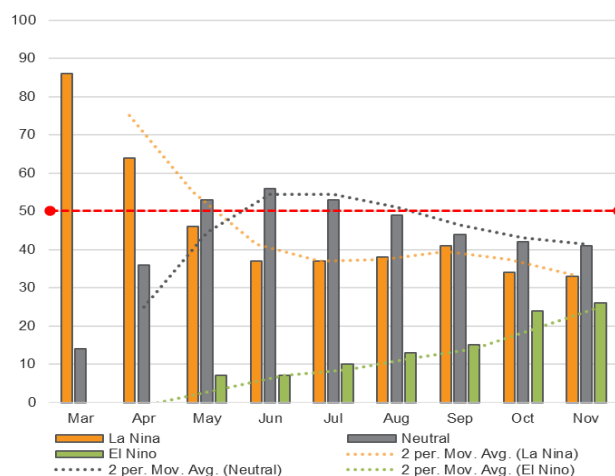
Source: VNDIRECT Research

According to the latest International Research Institute (IRI) ENSO forecast, La Nina phase will remain until April 2022 and then gradually shift to neutral state with a probability of around 53-56% from May. El Nino phase is also estimated with higher occurring possibility and La Nina will weaken.

- We expected REE's hydropower segment will remain benefited until the end of April 2022F and then start coming out of its ideal weather condition, resulting in lower volumes. Particularly, we expect a 23% yoy decrease in output among REE's hydropower investment to 2,760m kWh in 2022F, after rebound to 2,848m kWh.
- With the positive expectation about 2022F rapid electricity demand rise, as well as higher thermal output will mobilize in the CGM, we believe this will raise ceiling price of hydropower in the electricity market. Hence, we assume 2022F ASP of hydropower to increase 6%. Specifically, Thuong Kontum is likely to achieve much higher ASP growth due to the current PPA negotiation with EVN. Whereby, if it come to an agreement, Thuong Komtum ASP is expected to reach 1,400VND/kWh from 2021 1,000VND/kWh, to match its actual investment cost. From 2023F, we expected a modest ASP increase of 2% per year, to reflect slippage.

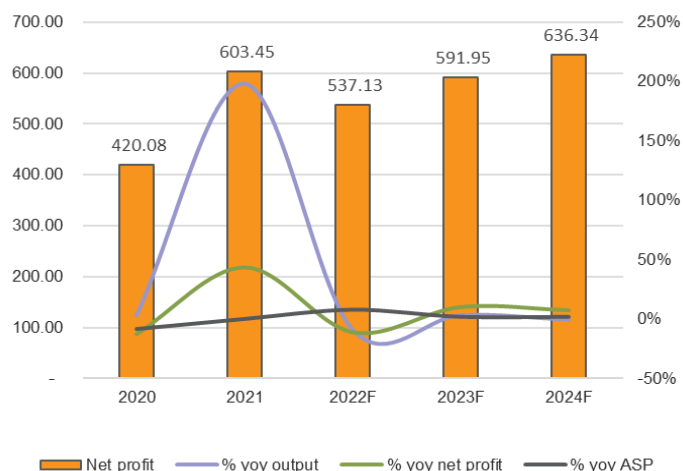
Overall, we expect a modest decline in 2022F hydropower NP of 3.0% yoy to VND656bn. Then bounce back VND721bn (+9.8% yoy) thanks to output recover.

Figure 33: According to IRI, La Nina phase will come out of its peak from May 2022 (Unit: %)



SOURCE: VNDIRECT Research, IRI

Figure 34: We expect 2022F NP to drop due to expected hydropower associates output loss (Unit: VNDbn)



SOURCE: VNDIRECT Research, Company reports

Upcoming hydropower projects are REE's re-rating catalyst for long-term

Currently, two REE's subsidiaries, TBC and VSH, are implementing new hydropower development projects Thac Ba 2 and Vinh Son 2&3. Specifically, TBC's Thac Ba 2 project has a total capacity of 18.9MW, the total investment cost is estimated at VND709bn and expected to operate for full year from 2024F. At the moment, REE owns 29.6% of the plant, equivalent to VND35.7bn contributed equity. We forecast the new plant will bring REE additional net profit of about VND42bn from 2024F, assuming the plant run at maximum capacity with ASP of 1,097VND/kWh. For Vinh Son 2&3, even though the project has been approved from 2007, it failed to resume the project due to legal bottleneck.

Figure 35: REE subsidiaries are developing new hydropower plants

Power plant	Capacity	Total investment	Location	Annual output (mkWh)	FY24F NP
Thac Ba 2	18.9MW	VND709bn	Yen Bai	69.9	42.0
Vinh Son 2&3	110MW	VND2,660bn	Gia Lai	357.0	na

SOURCE: VNDIRECT Research, Company reports

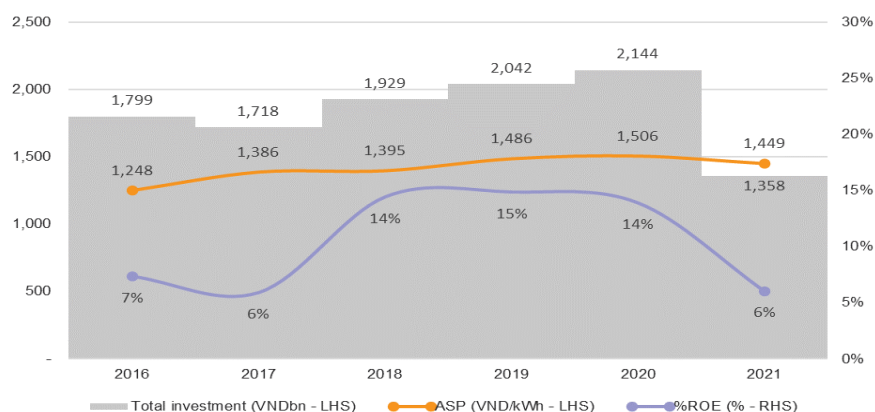
REE expected to no longer invest in new coal-fired project »

Figure 36: REE's current thermal portfolio

Company name	ownership (%)	Capacity (MW)	Investment value
PPC	24.1%	1,040	1,197
NBP	29.40%	100	79
QTP	0.98%	1,200	49

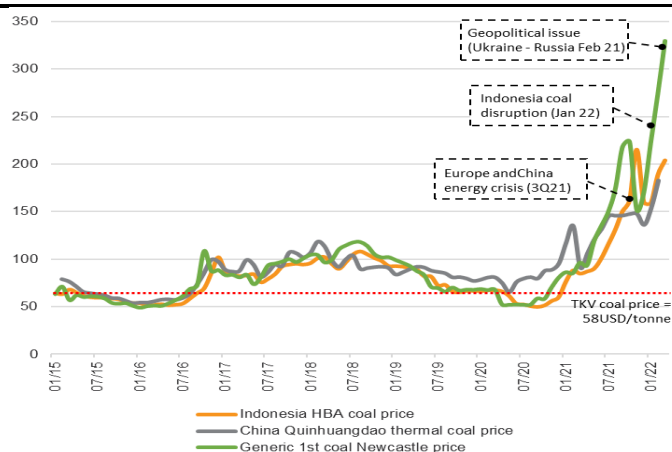
Source: VNDIRECT Research, Company reports

At the moment, REE are investing in three thermal power company PPC, NBP and QTP. However, in 2021, REE has divested its ownership in QTP from 8.04% to 0.98%, leading to 36% yoy reduction in total thermal investment value to VND1,358bn. Following the Vietnam commitment at COP26, REE plans to sell the remaining investment at QTP in 2022F, lowering its thermal portfolio and decided not to invest in thermal segment. Coal-fired power investment efficiency has increased over time with gradually growing ROE in 2016-20 period. In 2021, REE thermal associates was hit hard due to low electric-load when Vietnam power consumption suffered from strict quarantine. Hence, 2021 ROE recorded a low rate of only 6%. REE's thermal power ASP maintained at a fairly stable level of around 1,400-1,500VND/kWh in 2018-21 period.

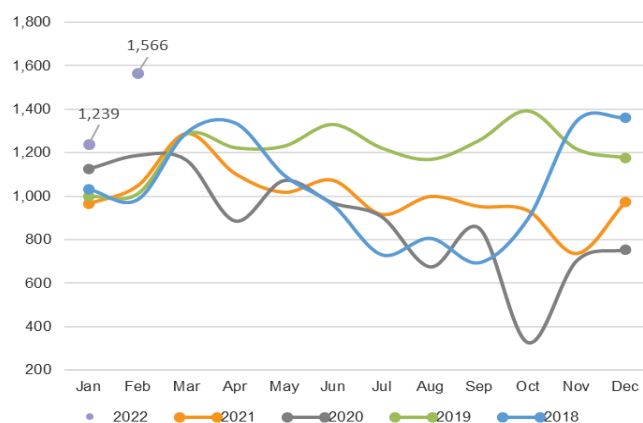
Figure 37: Total thermal investment dropped in 2021 after QTP divestment


SOURCE: VNDIRECT Research, Company reports

Its coal-fired power associates are expected to recover from 2022F

Figure 38: Global coal price surged from 3Q21 according to several negative events from end-21 (Unit: USD/tonne)


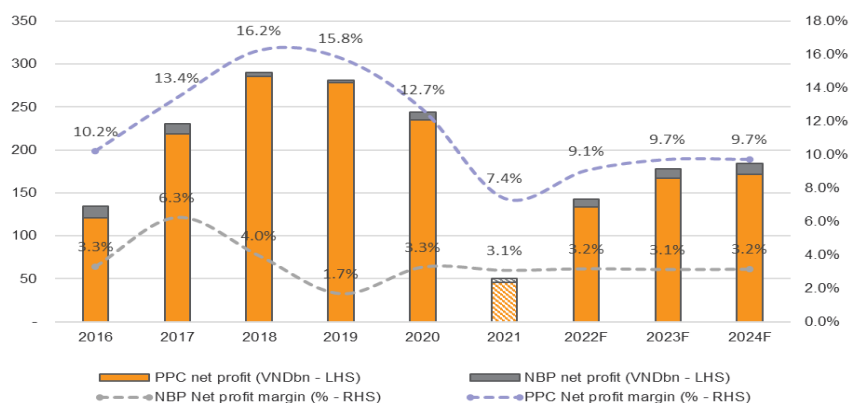
SOURCE: VNDIRECT Research, Bloomberg, TKV

Figure 39: ASP in the CGM rose sharply in 2M22 thanks to higher mobilisation among thermal power plant (Unit: VND/kWh)


SOURCE: VNDIRECT Research, GENCO 3

The international coal price has surged up accordingly after several notable events from end-21, including the recent geopolitical impact of Russia – Ukraine conflict since Feb 2022. At the moment world coal price has risen dramatically under the need of strong post-Covid economic recovery around the world, causing coal price to reach around 2-3x higher from 3Q21, including two major Vietnam importers – Australia and Indonesia. However, we believe coal price will rebalance due to recent bright negotiation steps between Russia and Ukraine. Beside the positive expectation about coal supply and price, we expect some of the macro determinants to underpin the positive outlook for PPC and NBP's output in FY22F thanks to:

- Hydropower will come out of its ideal weather condition when La Nina phase end from May 2022, supporting higher mobilization from coal-fired power.
- Thermal power maintained its essential role as background sources, ensuring the fullness and stability of power system.
- Electricity contract output (Qc) applied to thermal power plant is 80%, establishing conditions for power plant to increase mobilized output for the competitive generation market (CGM) with total (Qm) of 20%.

Figure 40: Thermal net profit will rebound from 2022F after bleak net profit result in 2021


SOURCE: VNDIRECT Research, Company reports

We expect total REE thermal net profit to surge 184% yoy to VND142bn in 2022F and 24% yoy to VND177.47bn in 2023F with dominant contribution from PPC (90% total thermal profit):

- Thanks to S5 unit returning to operation and S6 unit scheduled to finish repair from 2H22F, we expect a more remarkable output recovery from PPC of 54% yoy to 4,130m kWh. In 2023F, we expect output to improve as the two main unit S5, S6 Pha Lai 2 will be able to function for the entire year, increasing PPC output production by 14% yoy to 4,720m kWh, mitigating Pha Lai 1 low efficiency.
- NBP will continue to operate as an auxiliary power plant in 2022F, contributing to unscheduled background operation and power system stability. We expect NBP output to recover 16% yoy to 454m kWh thanks to positive expectation about thermal output rebound, after edging up to 510m kWh in 2023F.

Overall, we sum up total output contribution by ownership and also net profit portion by energy type in 2022-24F period as follow:

Figure 41: Total output by ownership and net profit contribution by energy types from 2021 to 2024F.

	2021	2022F	%yoy	2023F	%yoy	2024F	%yoy
Total output (million kWh)	4,363.19	4,741.15	9%	5,110.96	8%	5,286.72	3%
Hydropower	3,036.68	2,759.90	-9%	2,848.14	3%	2,830.97	-1%
Solar power	113.00	178.50	58%	204.00	14%	204.00	0%
Wind power	134.20	329.07	145%	394.67	20%	394.67	0%
Thermal power	762.30	1,130.52	48%	1,289.64	14%	1,448.76	12%
Power supply	317.00	343.16	8%	374.52	9%	408.32	9%
REE power net profit (VNDbn)	967.72	1,210.34	25%	1,458.09	20%	1,506.66	3%
Hydropower	736.09	656.92	-11%	721.33	10%	769.37	7%
Solar power	90.04	192.90	114%	242.66	26%	229.31	-6%
Wind power	77.78	198.05	155%	297.36	50%	301.22	1%
Thermal power	50.20	142.71	184%	177.47	24%	183.91	4%
Retail power	13.61	19.77	45%	19.26	-3%	22.84	19%

SOURCE: VNDIRECT Research, Company reports

Water: Cash cow segment with stable profitability

REE continuously invested in water segment in recent years

In our view, the water industry occupies a critical role in daily needs due to manufacture demands and daily life activities. Therefore, annual growth rate of water segment is usually stable, and closely related on the urbanization and development rate of the economy. Hence, REE has continuously thicken its

water portfolio, in which, total investment value surge 23% CAGR from VND831bn to VND2,059bn in 2021. At the moment, REE are owning total 9 associated companies located on two major metropolitan cities Hanoi (1) and HCMC (6) and one famous tourism destination – Nha Trang, Khanh Hoa, divided into three sectors in water value chain, including:

- Clean water treatment (BOO, SWIC, THW, VCW).
- Clean water supply (TDW, GDW, NBW, KHW).
- From 2Q21, REE has consolidated TKPLUS (TK+) working in water processing consultant.

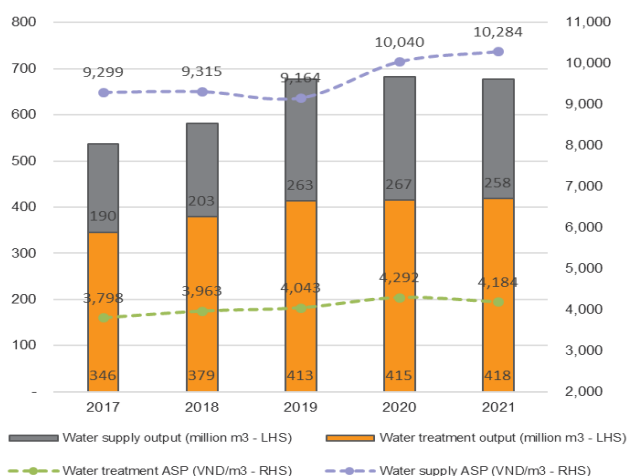
Figure 42: REE owns a dense list of water companies, working in three main sub-sectors

Company	Location	REE ownership (2021)	REE investment value	Capacity (m3/day)	Water loss rate (%)	Business location
Clean water treatment				1,200,000		
B.O.O Thu Duc (BOO)	Thu Duc	42.1%	303.7	300,000		District 2,7,9, Nha Be, and Thu Duc city
Thu Duc III (SWIC)	Thu Duc	40.0%	321.5	300,000		
Tan Hiep II (THW)	Tan Hiep	32.0%	123.4	300,000		West area of HCMC
Song Da (VCW)	Ha Noi	36.0%	900.8	300,000		South West areas of Hanoi
Clean water supply						
Thu Duc Water Supply (TDW)	Thu Duc	44.2%	79.0		12.0%	District 2,9 and Thu Duc city
Gia Dinh WASUCO (GDW)	Gia Dinh	20.1%	34.1		15.4%	Binh Thanh, Phu Nhuan, and part of Q3, Go Vap district
Nha Be WASUCO (NBW)	Nha Be	20.0%	41.5		13.1%	District 4,7 and Nha Be district
Water processing and supply						
Khanh Hoa Water Supply (KHW)	Khanh Hoa	43.9%	256.0	120,000	15.7%	Nha Trang city, Dien Khanh, Cam Lam, Khanh Son district
Water processing consultant						
TK+	HCMC	65.0%				

SOURCE: VNDIRECT Research, Company reports

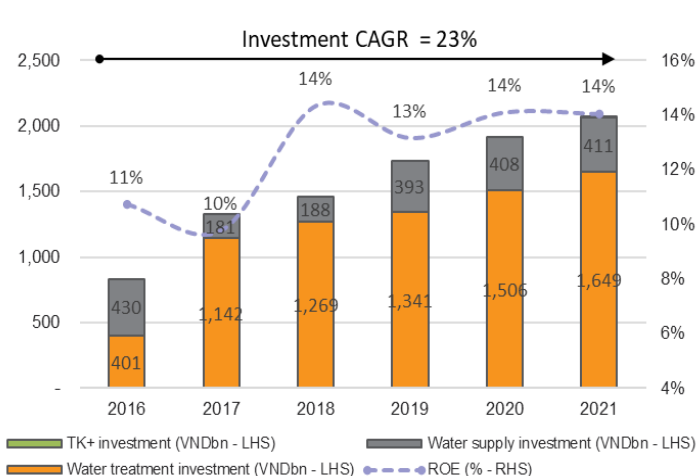
Water price in each locality governed by the People's Committee rather than being under general management like electricity. Besides, retail clean water price is usually modified yearly in accordance with each local plan of around 3-6% each year. In particular, after staying flat from 2015 to 2019, HCMC clean water price started to increase 6% in 2020 following government price roadmap. From 2022, clean water price continues to increase 6% after unchanged 2021 due to Covid support. On the other hand, Hanoi remains a stable water price under the People's Committee decision from 2013, several companies currently recommend adjusting up water price following roadmap due to cost surge.

Figure 43: Water output steadily grown from 2017 to 2019 then slowed down in two Covid year 2020-21



SOURCE: VNDIRECT Research, Company reports

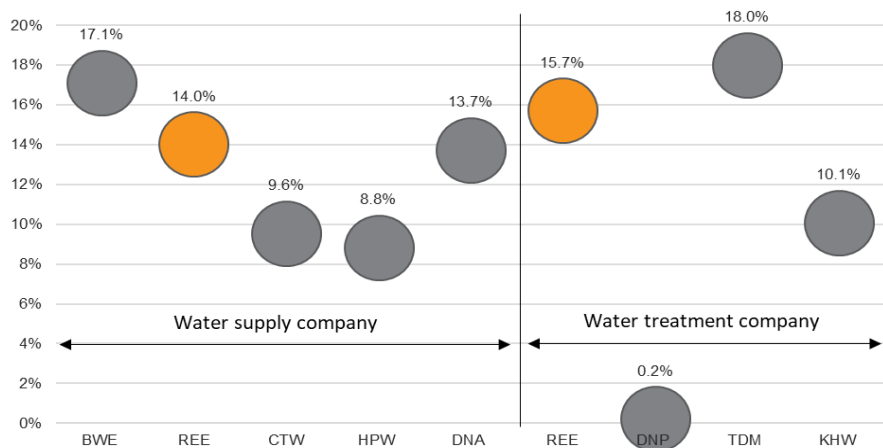
Figure 44: Water investment value gradually grown 23% CAGR from 2016 to 2021 and ROE% also improve from 11% to 14% respectively



SOURCE: VNDIRECT Research, Company reports

In our observations, ROE of REE's water segment is quite stable, higher than its peers in both value chains, water treatment and water supply, in which, REE's water treatment and supply segments have ROE about 15.7% and 14.0%, only lower than the two companies in Binh Duong province BWE (17.1%) and TDW (18.0%), an area with a higher average water price due to several industrial zones.

Figure 45: REE water segment ROE stay at high level comparing to its water peers



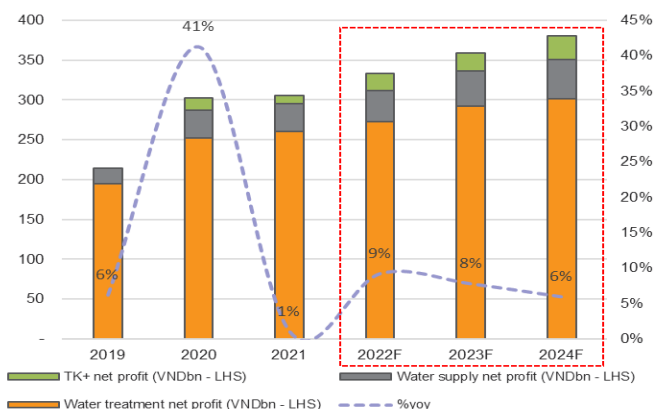
SOURCE: VNDIRECT Research, Company reports

Water segment output will increase consistently from 2022F

We evaluate the factors affecting each business segment with specific differences, following:

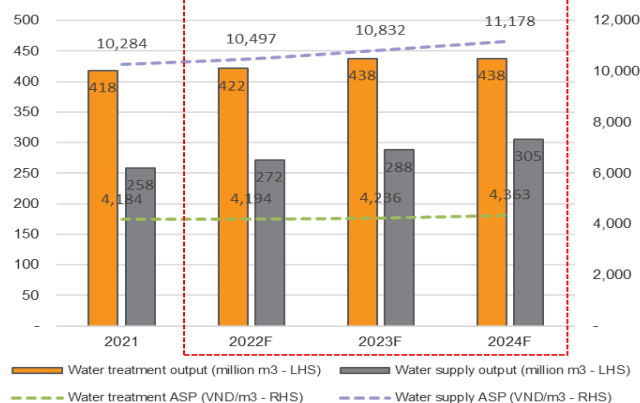
- **For water treatment company:** the biggest factor affecting business result is plant investment capital, depreciation cost, placement position near water source and output volume selling price to distribution companies. Clean water treatment plants often have a consistent revenue and output with relatively slow growth rate. Its profit margin is quite high of around 35-40% thanks to low inventory characteristic as produced water is immediately distributed right after processing.
- **For water supply company:** the company's performance depends heavily on the water loss rate and population density in the distribution area. Water distribution firms frequently incur significant maintenance and upgrade costs due to the deterioration of water supply system.

Figure 46: We expect a consistent NP growth among water segment in 2022-24F period



SOURCE: VNDIRECT Research, Company reports

Figure 47: Water treatment will reach its maximum capacity, left alone price increase is the major catalyst



SOURCE: VNDIRECT Research, Company reports

From 2022F, we expected water segment growth may slow down after water treatment companies reached its maximum capacity. We assume clean water output demand will increase at 6% CAGR in 2021-30F, according to the Vietnam Water Supply and Sewerage Association (VWSA). Moreover, due to Hanoi's water price roadmap, we expect Hanoi retail water price to edge up 3% per year in 2022-23F. HCMC, on the other hand, has benefited from clean water price increase of 6% since Jan 2022 water segment net profit will increase 9% yoy/8% yoy in 2022-23F to VND333bn and VND359bn with maximum capacity assumption among water treatment companies from 2023F.

Figure 48: Summary of water segment business result by REE ownership

	2021	2022F	%yoy	2023F	%yoy	2024F	%yoy
Total output (million m3)	231.20	246.81	7%	258.41	5%	264.06	2%
Water treatment	148.08	158.00	7%	164.27	4%	164.27	0%
Water supply	83.12	88.81	7%	94.14	6%	99.79	6%
Total net profit (VNDbn)	304.98	333.03	9%	358.83	8%	374.00	4%
Water treatment	259.82	272.76	5%	292.32	7%	301.45	3%
Water supply	35.16	38.92	11%	43.95	13%	48.60	11%
Water consultant	10.00	21.36	114%	22.55	6%	23.95	6%

SOURCE: VNDIRECT Research, Company reports

New-signed backlog surge will be the fulcrum for 2022F M&E recover

REE M&E segment includes three field: M&E contractor, air conditioner distributor, and rooftop solar EPC contractor. The segment has encountered fierce competition from private companies, causing the contractor package price to decrease over the years to attract customers, leading to the downtrend of revenue and net profit margin from 2017-21. However, Vietnam is entering a new public investment cycle, in which REE will be a beneficiary with 60% of M&E market share in public investment segment and the company has a robust experience in terms of M&E contractor for several projects. We believe REE has a high potential to win several M&E packages from mega airport projects such as Long Thanh international airport and Tan Son Nhat T3 terminal. Hence, we forecast new-signed backlog in 2022-23F continue to increase at 20% CAGR to VND4,508bn and VND5,410bn, respectively.

Figure 49: REE has firm experiences as M&E contractor for several airport projects

Project	Construction time	Work scope
Noi Bai international airport	Jun 2000 - Dec 2001	M&E contractor
Lien Khuong airport	Dec 2007 -Dec 2009	M&E contractor
Tan Son Nhat international airport	Nov 2004 - Sep 2007	M&E contractor
T2 Terminal Noi Bai international airport	Aug 2012 - Dec 2014	Mechanical, ventilation system & BMS installation
T2 Terminal Tan Son Nhat international airport	Phase 1: May 2015 - Oct 2016 Phase 2: Jul 2017 - Aug 2018	M&E installation and station equipment supply
Da Nang airport international terminal	Apr 2016 - Sep 2017	M&E contractor
Cam Ranh airport international terminal	Feb 2017 - May 2018	Mechanical supply and installation
T2 terminal Phu Bai international airport*	Jul 2021 - Nov 2022	M&E contractor

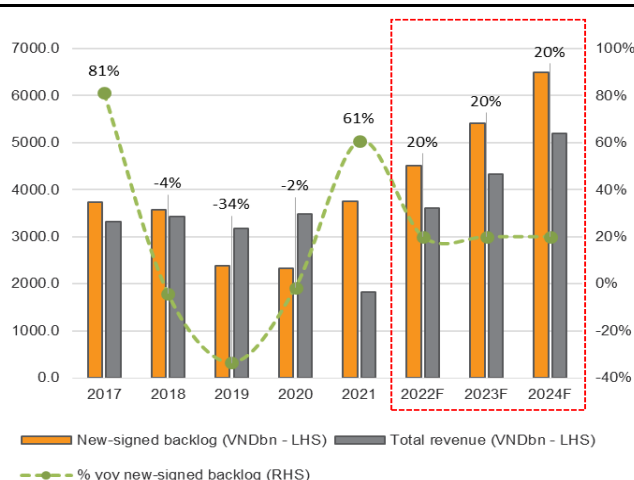
SOURCE: VNDIRECT Research, Company reports

We expect M&E segments will regain its growth momentum in FY22F thanks to the new signed contract. Besides, we believe Reetech business will benefit from vibrant M&E activities when real estate and public investment market return to its growth state after years of delay. Moreover, the company also implemented several branding strategy and distribution network toward the North and Southeast region to boost sale. Rooftop solar contractor activities also expected

to rise as the company plans to install and operate additional 100MWp rooftop solar power in FY22F:

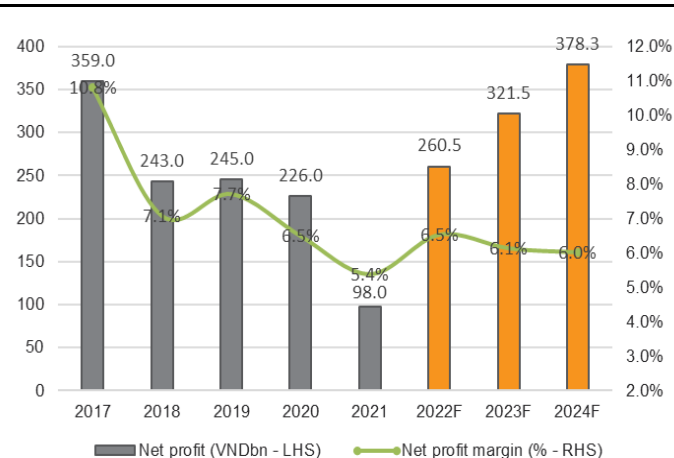
- In FY22F, we forecast a strong rise in revenue of 98.6% yoy to VND3,607bn for total M&E segment. We also expect a solid rise in FY22F NP to VND235.9bn (+140.7% yoy), however, we anticipated that NP margin will remain low (6.5%), as commodities price are highly volatile, causing by unpredictable supply chain disruption and recent geopolitical factors.
- In 2023F, we expected a consistent revenue growth of 20% yoy to VND5,230bn. We remain a low NP margin of 6.1% due to sector competition and uncertain movement of materials and equipment price, hence, NP will increase 23.4% yoy to VND321.5bn.

Figure 50: New-signed backlog surge 61% yoy in FY21, contributing to strong revenue rebound in FY22F.



SOURCE: VNDIRECT Research, Company reports

Figure 51: 2022F NP will rise to VND260.5bn while NP margin remain low and inches up to 6.5%



SOURCE: VNDIRECT Research, Company reports

E.town 6 to be REE's property long-term catalyst

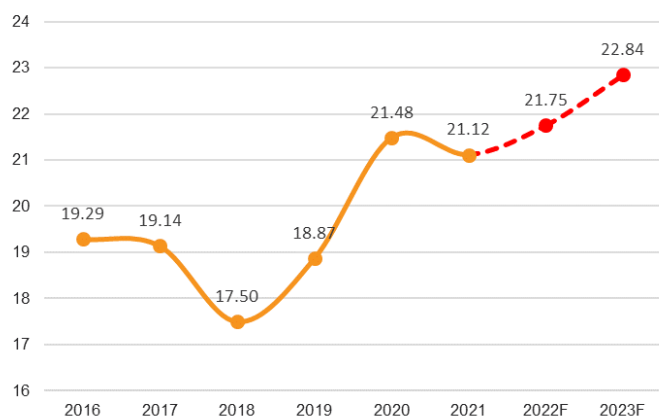
Figure 52: REE office building portfolio

Building	Land area (m2)	Renting price (US\$/m2)	Construction cost (VNDbn)
E.town central	34,000	27	1,178
REE tower	18,000	22	347
E.town 1	30,000	19	na
E.town 2	26,633	18	222
E.town 3,4	15,000	18	157
E.town 5	30,000	20	353
E.town 6*	40,000	25	1,600

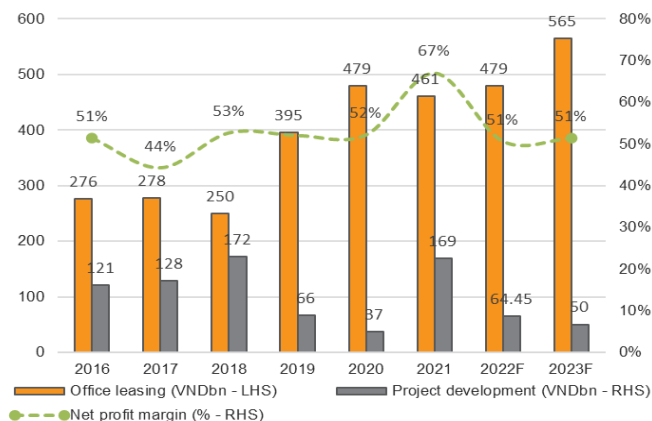
Source: VNDIRECT Research

REE has specialized in real estate development, with two main segments: rental real estate and project development. These two segments both bring a high profit margin, about 50% thanks to low cost of capital and management expenses.

- REE is currently owning a portfolio of seven Grade B office buildings, all locating on densely populated street of Ho Chi Minh City (HCMC), a complex area including large number of office buildings, and are well-run with high occupancy rates of around 98% annually.
- However, while renting activities thrived gradually, the project development sector was shaky due to several legal challenges and difficulties in land bank expansion. In 2021, REE recorded no project, and it has completed Vietnam infrastructure investment and development JSC (VIID) divestment, brought the company a total one-off net profit of VND163bn.

Figure 53: Renting price increase from 2022-23F (Unit: US\$/m²)


SOURCE: VNDIRECT Research, Company reports

Figure 54: 2022-23F property segment net profit forecast


SOURCE: VNDIRECT Research, Company reports

In 2022F, we expect a 14% yoy NP decrease to VND543.9bn from real estate segment due to one-off profit surge from 2021. From 2023F, we expect on a NP rebound of 13% yoy to VND614bn thanks to the appearance of E.town 6, in which:

- 2022F NP from project development segment will drop 70% yoy after recording one-off divestment profit in 2021. At this year, REE signed a 51% investment in a joint venture with SaigonRes (SGR) to co-develop a commercial residential real estate project in Phu Hoi (Nhon Trach, Dong Nai). Total project land area of 7.9ha, total construction cost expected at VND1,000bn and the project will bring REE about VND50bn in 2022F. From 2023F, we expect a humble profit of around VND50bn due to modest contribution from SGR (29.9% REE ownership).
- For office leasing segment, REE started construction of E.town 6 from 2020 and the company planned to operate from 4Q23F. E.town 6 will be the new Grade B office building, with total leasable up to 40,000m², and equipped more modern facilities. The building, when opened from 2023F, will contribute to REE's total leasable area reaching around 190,000m² (+25%) with expected higher leasing price of around 25-27US\$/m²/month. We assume rent will increase about 3-4% for grade B office building due to 1) High demand for Grade B office regarding the customer transition trend from Grade A to reduce cost, 2) HCMC Grade B occupancy rate remained high at 92% even during Covid (CBRE), and we expect a limited supply for 2022 due to demand surge, 3) REE rent price are locating at around 21US\$/m²/month, lower than average HCMC Grade B renting of 25.5US\$/m²/month. Overall, 2022-23F NP will increase 4% yoy and 18% yoy to VND479bn and VND565bn, respectively.

Earnings forecast summary for 2022-23F period

Overall, we sum up REE total business result as follow:

- In 2022-23F, M&E will continue to be the major contributor for REE revenue, followed by power sector and real estate sector. On the other hand, water segment provides a modest revenue thanks to its subsidiaries TKPLUS. Hence, REE revenue will increase 50% yoy and 19% yoy to VND9,045bn and VND10,797bn in 2022-23F, respectively. Besides:
- SG&A up 31% due to VSH consolidation.
- Financial income drops 65% yoy in 2022F after one-off profit from QTP divestment in 2021, then rebound 25% yoy in 2023F following cash deposit growth.
- 2022F financial expense stays high at VND690bn due to debt surge for new project and VSH consolidation from 2021 but reduce 4% yoy from 2024F when the company fulfill its debt obligation.
- Associated profit rise 48% yoy and 10% yoy to VND846bn and VND930bn in 2022-23F, respectively, with major contribution from power and water segment growth.

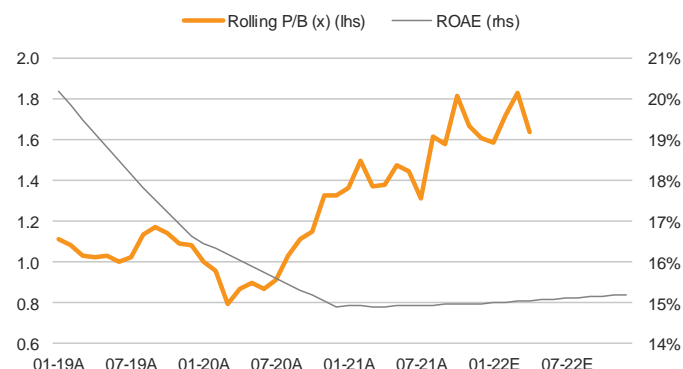
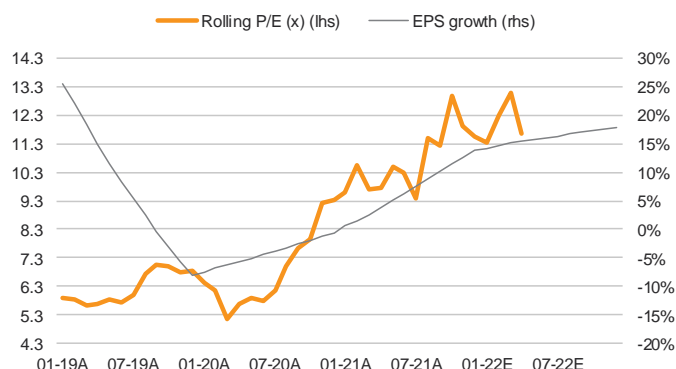
Hence, Net profit will continue to be fulfill dominantly by power and real estate segment, followed by water and M&E, in which, 2022F net profit will rise 19% yoy thanks to positive signal from power segment and strong M&E recovery. From 2023F, real estate segment will record a solid rise, thanks to the appearance of E.town 6, contributing to 2023F net profit growth. Overall, net profit in 2022-23F period will rise 19% yoy and 18% yoy to reach VND2,232bn and VND2,636bn, respectively. In which, power will continue to contribute the largest in 2022-23F, follow by real estate, water and M&E. Notably, the company has decided to pay cash dividend of 10% (1000VND/share) and 15% stock dividend for its existing shareholder in 2022F. With about 309m share outstanding, we expect a VND309bn cash dividend payment from 2022F and VND46bn share dividend payment.

Figure 55: REE business result summary for 2022-24F period

VNDbn	2021	2022F	%yoy	2023F	%yoy	2024F	%yoy
Revenue	6,048.21	9,045.53	50%	10,797.21	19%	12,140.58	12%
Power	3,201.21	3,996.31	25%	4,296.58	8%	4,422.82	3%
Water	92.00	97.52	6%	103.37	6%	109.57	6%
M&E	1,816.00	3,982.42	119%	5,229.74	31%	6,275.69	20%
Real estate	939.00	969.28	3%	1,167.52	20%	1,332.49	14%
Gross profit	2,364.12	3,078.84	30%	3,616.22	17%	3,915.31	8%
SG&A	456.87	596.68	31%	711.79	19%	813.27	14%
Financial income	464.84	160.81	-65%	201.10	25%	304.23	51%
Financial expense	706.21	690.53	-2%	691.74	0%	664.63	-4%
Associate profit	571.94	846.06	48%	930.17	10%	939.37	1%
NPAT	2,135.86	2,544.88	19%	3,033.67	19%	3,345.59	10%
Minority interest	281.20	335.05	19%	399.40	19%	440.47	10%
Net profit	1,875.00	2,232.81	19%	2,636.03	18%	2,814.19	7%
Power	873.00	1,132.79	30%	1,382.70	22%	1,420.21	3%
Water	274.00	311.68	14%	336.27	8%	350.05	4%
M&E	98.00	260.49	166%	321.51	23%	378.33	18%
Real estate	630.00	527.86	-16%	595.55	13%	665.61	12%
EPS (VND/share)	5,981.64	7,041.73		8,474.80		9,386.71	

SOURCE: VNDIRECT Research, Company reports

Valuation



Income statement

(VNDbn)	12-21A	12-22E	12-23E
Net revenue	5,810	8,939	10,659
Cost of sales	(3,498)	(5,869)	(7,070)
Gen & admin expenses	(372)	(462)	(536)
Selling expenses	(85)	(161)	(180)
Operating profit	1,855	2,446	2,872
Operating EBITDA	1,534	1,531	1,924
Depreciation and amortisation	322	915	948
Operating EBIT	1,855	2,446	2,872
Interest income	465	161	198
Financial expense	(706)	(691)	(753)
Net other income	13	23	26
Income from associates & JVs	774	846	930
Pre-tax profit	2,401	2,786	3,272
Tax expense	(265)	(268)	(317)
Minority interest	(281)	(335)	(390)
Net profit	1,855	2,183	2,565
Adj. net profit to ordinary	1,855	2,183	2,565
Ordinary dividends	(86)	(310)	(310)
Retained earnings	1,769	1,873	2,255

Balance sheet

(VNDbn)	12-21A	12-22E	12-23E
Cash and equivalents	1,831	2,246	2,799
Short term investments	864	921	1,397
Accounts receivables	2,986	4,185	5,163
Inventories	799	1,410	1,819
Other current assets	276	282	380
Total current assets	6,756	9,044	11,559
Fixed assets	16,464	16,202	15,908
Total investments	6,311	7,157	8,088
Other long-term assets	2,296	2,369	2,660
Total assets	31,826	34,773	38,215
Short-term debt	1,324	750	732
Accounts payable	860	861	1,076
Other current liabilities	2,173	2,817	3,354
Total current liabilities	4,356	4,428	5,162
Total long-term debt	10,650	10,718	10,589
Other liabilities	464	788	972
Share capital	3,101	3,101	3,101
Retained earnings reserve	8,962	10,862	13,124
Shareholders' equity	13,301	15,448	17,712
Minority interest	3,055	3,391	3,780
Total liabilities & equity	31,826	34,773	38,215

Cash flow statement

(VNDbn)	12-21A	12-22E	12-23E
Pretax profit	2,401	2,786	3,272
Depreciation & amortisation	895	915	948
Tax paid	(230)	(268)	(317)
Other adjustments	(1,045)	(749)	(1,228)
Change in working capital	(283)	(1,145)	(727)
Cash flow from operations	1,738	1,540	1,948
Capex	(3,912)	(654)	(654)
Proceeds from assets sales	1	0	0
Others	1,291	161	198
Other non-current assets changes	611	(65)	(483)
Cash flow from investing activities	(2,009)	(558)	(939)
New share issuance	121	0	0
Shares buyback	0	0	0
Net borrowings	1,416	(506)	(147)
Other financing cash flow	(1)	248	2
Dividends paid	(86)	(310)	(310)
Cash flow from financing activities	1,450	(568)	(456)
Cash and equivalents at beginning of period	652	1,831	2,246
Total cash generated	1,179	415	553
Cash and equivalents at the end of period	1,831	2,246	2,799

Key ratios

	12-21A	12-22E	12-23E
Dupont			
Net profit margin	31.9%	24.4%	24.1%
Asset turnover	0.22	0.27	0.29
ROAA	7.1%	6.6%	7.0%
Avg assets/avg equity	2.12	2.32	2.20
ROAE	15.0%	15.2%	15.5%
Efficiency			
Days account receivable	187.6	170.9	176.8
Days inventory	83.4	87.7	93.9
Days creditor	89.7	53.6	55.5
Fixed asset turnover	0.60	0.55	0.66
ROIC	6.5%	7.2%	7.8%
Liquidity			
Current ratio	1.6	2.0	2.2
Quick ratio	1.4	1.7	1.9
Cash ratio	0.6	0.7	0.8
Cash cycle	181.2	205.0	215.2
Growth rate (yoy)			
Revenue growth	3.0%	53.9%	19.2%
Operating profit growth	49.7%	31.9%	17.4%
Net profit growth	13.9%	17.7%	17.5%
EPS growth	13.9%	17.7%	17.5%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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