

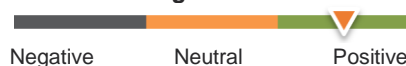
VIETNAM ELECTRICAL EQUIPMENT JSC (GEX) - COMPANY NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND28,350	N/A	N/A	NON-RATED	CONGLOMERATE

Outlook – Short term



Outlook – Long term



Valuation



7 February 2018

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Key statistics

52w high (VND)	34,450
52w low (VND)	15,945
3m Avg daily volume (shares)	2,479,531
3m Avg daily value (VNDmn)	63,929
Market cap (VNDbn)	7,564
Outstanding shares (m)	266.8
Free float (%)	75
TTM P/E	11.5x
Current P/B	2.0x

Ownership

GEX Investment One Member Co. Ltd	23.18%
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Source: VNDIRECT

Vietnam Electrical Equipment Joint Stock Corporation (GELEX – GEX VN), through over 20 years of development, has become a leading conglomerate in the electrical equipment industry. GEX has also, through its subsidiaries, diversified into logistics and port services and made investments in energy and real estate. GEX has a total of 10 subsidiaries and is consolidating its stake in some of them. GEX's recent migration from UPCOM to the main bourse should help bring its story into the mainstream and lift its valuation over time.

Electrical equipment manufacturing: the core with a synergistic portfolio and pockets of market leadership

This business line is the main profit driver with CADIVI (power cable manufacturer), THIBIDI (transformer manufacturer), and EMIC (measuring instruments manufacturer) as the main contributing subsidiaries. The combined revenue of the segment touched VND7,715 in 9MFY17, contributing 89% of GEX's overall revenues and 83% of its gross profits.

Notably, CADIVI (CAV VN) is a market leader with 23% market share in the power cable segment and dominating the Southern market with a 46% market share. Supported by 20-25% industry-wide growth, the company generated VND561.7bn in gross profit (+14.6% YoY) and realized an ROE of 32% in 2016, which is well above its peers such as Taya Electric Wire And Cable JSC (TYA VN) and Vinh Khanh Cable Plastic Corporation (VKC VN) (ROE of 11.1% and 6.7%, respectively). CADIVI expects topline to grow at 8.3% CAGR over FY15-18 to reach VND7,191bn by 2018 and generated VND735.4bn worth of gross profit in the same year.

Likewise, THIBIDI (THI VN) and EMIC are expected to add roughly VND2,600bn and VND900bn, respectively, to GEX's consolidated revenue in 2018; this is predicated on the assumption that THIBIDI will realize a FY15-18 CAGR of 7% in revenue on the back of growing transformer demand in both Vietnam and Cambodia while EMIC remains a large supplier to EVN with its market share rising from 10% to 30-40%.

This segment should also see stable growth due to its strong distribution network – which provides a bulwark against competition – and an order book worth VND380bn signed in 2017 (VND1,200bn if you include intra-company contracts).

Logistics and port services: rapid expansion in a promising market

GEX has been growing its presence in the international freight forwarding, import-export forwarding, warehousing services and port operations segments in Vietnam by gaining control over SOTRANS (STG VN) with a current shareholding of 54.78% in the subsidiary.

Figure 1: List of GEX's subsidiaries

Name	%Holding	Contributed capital (VNDbn)
Vietnam Electric Cable Corporation (CADIVI)	79.76	430.40
Electrical Equipment Company (THIBIDI)	70.79	345.50
Instrument Co., Ltd (GELEX EMIC)	100.00	368
Hanoi Electromechanical Manufacturing JSC (HEM)	65.88	242.40
Vietnam Electrical Equipment JSC (VINAKIP)	72.40	41.10
Machinery Manufacturing JSC (VIHEM)	65.37	71.90
South Logistics Joint Stock Company (SOTRANS)	54.78	436
Gelex Energy., Ltd	100.00	1,400
Gelex Land., Ltd	100.00	1.50
Gelex Cambodia Co., Ltd	100.00	0.60

Source: GEX

STG is currently operating 230,000m² of nation-wide warehouse space across some of the best sites near Ho Chi Minh City centre, industrial areas and export processing zones to facilitate both road and waterway freight transportation. The company has developed a fairly extensive logistics network comprising logistics agents in more than 100 countries worldwide and operates 3 ports spreading over an area of 50 ha in strategic locations around HCMC.

Additionally, STG has an 84% ownership stake in Vietranstimex (VTX) as well as indirect ownership (through 100% ownership of the parent company) at Southern Waterborne Transport Corporation (SWC). VTX provides an extensive range of services from international multi-modal transport, general, heavy-lift and oversized cargo-handling to “door-to-door” project cargo handling. The company is equipped with modern and specialized cargo handling equipment (estimated overall carrying capacity of 14,164 tonnes) and was the only South East Asian firm to be recognized in the Transport 50 Index¹ for being one of the world’s largest specialised transport companies, ranking 34th globally in 2017. SWC focuses on waterborne transport, port operations (Vietnam International Container Terminals - VICT port) as well as shipbuilding. STG’s port system is operated in sync with its logistics network such that the company can provide clients with integrated, one-stop-shop logistics services.

Figure 2: STG's port system

Ports	Ownership	Location	Capability	Total area (ha)
ICD Sotrans Port	100%	Thu Duc District - 9 km from HCMC center	Container port - capacity of 450,000 TEUs per year	10
Sotrans Long Binh	100%	District 9, HCMC	Harbour crane system can receive ships with weight 5,000MT	20
VICT Port	28%	District 7 - 6 km from HCMC center	Container port - 631,331 TEUs of throughput in 2016	20

Source: GEX

Logistics segment alone generated VND693.4bn in net revenue and VND115.4bn in gross profit in 9M2017, contributing 8% of GEX’s gross profit after consolidating.

Infrastructure Investment: catching the “power” infrastructure wave

According to EVN, Vietnam’s annual demand for electricity is expected to grow from 92mn MWh to 250mn MWh during 2010-2020. In the 2020 power generation targets laid out in the latest Power Development Plan (PDP), hydropower will continue to play an important, albeit reduced, part in the total generation mix (19.6% of total electricity production) while renewable energy will become more mainstream (5.6%).

Since December 2016, GEX has strengthened its presence in the power infrastructure development sector by establishing a new wholly-owned subsidiary named Gelex Energy One Member Co., Ltd (Gelex Energy with a total charter capital of VND1,400bn) to invest in the development and operation of power plants and water treatment and supply. By the end of 2017, Gelex Energy had made two notable investments in hydropower generation companies. The company holds a 67.93% stake in Phu Thanh My JSC, the operator of Song Bung 4A hydropower project which has been operating since 2013. The project has an investment cost of VND1,200bn and consists of two units with a combined capacity of 49MW, equivalent to electricity

¹ IC Transport 50 Index is calculated using the total carrying capacity of all specialized transport equipment in a company’s fleet. (Source: *International Cranes and Specialized Transport 2017*)

output of approximately 208mn kWh. Another investment was made to acquire 49% of SCI Nghe An Co., Ltd, the main investor in Ca Nan 1 and Ca Nan 2 hydropower projects. The projects have a total investment cost of VND810bn and will comprise of two units of 23 MW in total with estimated annual output of over 80mn kWh (expected completion in 2018). For 9M2017, the infrastructure segment generated VND173.4bn in net revenue and VND86.5bn in gross profit, contributing 2% and 6% to GEX's consolidated revenue and gross profit, respectively.

According to GEX's management, the company is also looking to invest in solar power projects and water treatment and supply infrastructure. Meanwhile, Decision No 11 – the first Vietnamese legal framework for solar power projects – mandated that EVN purchase all electricity from grid-connected solar power projects at US\$0.0935 per kWh under the Feed-in-Tariff system. However, the projects must be completed before June 30, 2019 to be eligible for the above preferential tariff rate. Hundreds of investors have jumped on the bandwagon and are rushing to register and develop their projects. In particular, Thanh Thanh Cong (TTC, a sugar producer and owner of Gia Lai Electric) announced plans to develop 20 solar power plants with total investment up to US\$1bn.

Real-estate Investment: benefitting from a valuable land bank

Taking advantage of the existing land bank owned by entities across the group, GEX has undertaken commercial real-estate development projects at few “golden” sites within the central business district (CBD) of Hanoi. In 2014, GEX commenced the operation of Gelex Tower at 52 Le Dai Hanh, Hai Ba Trung (a 2-minute walk from Vincom Center Ba Trieu). The building has a total GFA of 18,289m² with 3 basements and 22 floors, serving as GEX's headquarters and also contains office for lease. According to the management, GEX has been pushing forward the planning process to kick off project No. 10 Tran Nguyen Han at 27-29 Ly Thai To, Hoan Kiem District (a 2-minute walk to Hoan Kiem Lake), which is currently the site of EMC's headquarters and GEX's Binh Minh Hotel. The project has an estimated GFA of 9,934m² and total investment value of VND2,161bn, and is designed to serve as a high-end hotel and serviced apartment complex. The resulting office leasing and hotel business would provide a source of stable, recurring cash flow. Moreover, GEX currently owns 65.88% of HEM which holds 35% of SAS-CTAMAD – the owner of Melia Hotel Hanoi and HCO Office building, a 5-star hotel-office complex in city center. Besides, CADIVI also owns properties in HCMC for office leasing and manufacturing factory.

GEX established Gelex Land in July, 2017 to develop and manage the company's real estate portfolio. For the next 3 years, Gelex Land has been mandated with the task of improving the operational management of the existing buildings including Gelex Tower, participating in the construction of the group's projects including No. 10 Tran Nguyen Han and providing other GEX member companies with assistance in terms of real-estate related paperwork and consultancy.

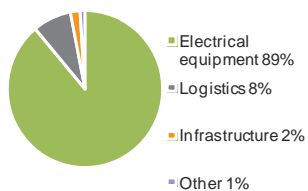
GEX's estimated total market value of land ownership in Hanoi alone could reach VND13,492bn, with the project No.10 Tran Nguyen Han project being one of the most expensive locations in the CBD (VND652.8mn/m²). Although the segment does not make a significant contribution to GEX's consolidated profit (only accounts for 3% of the group's gross profit), the current market value of the real estate on hand is expected to far surpass the book value of the initial investment due to robust property price appreciation in the CBD.

Figure 3: GEX's property summary

Project/ Land	Type	Ownership	Market Value (VNDbn)	Note
Hanoi city				
Gelex Tower	GEX's headquarter and Office for lease	100%	7,007	completed
No. 10 Tran Nguyen Han	Luxurious Hotel and serviced apartment	100%	6,485	ongoing
Total estimated value			13,492	
HCMC				
70-72 Nam Ky Khoi Nghia	Office building	100%	N/A	ongoing
209 Kinh Duong Vuong	Manufacturing plant	100%	N/A	ongoing

Source: GEX, Gachvang.com²

Figure 4: Revenue breakdown by segment in 9M2017



Source: GEX

2017 recap: solid growth at subsidiary level

For 9M2017, GEX reported VND8,669bn in net revenue (+55% YoY), thanks to the consolidation of revenue after gaining control over large subsidiaries including THIBIDI (from 43.44% to 70.79% in Dec 2016) VINAKIP (from 49.24% to 72.15% in May 2017), SOTRANS (0% to 51.03% as of Sep 30, 2017), VIHIEM (from 34.27% to 65.37% in Jul 2017), and the establishment of Gelex Energy (Dec 2016). 9M2017 consolidated gross profit reached VND1,442bn (+95.5% YoY), translating into a gross margin of 16.6% (vs. 2016's GPM of 13.3%). The expansion in GPM was attributable to raw material cost savings. Since Aug 2016, GEX (parent company) has transformed from being an electrical equipment manufacturer to being a raw material supplier to the group's member companies. According to GEX's management, the parent company now consolidates raw material purchases across its subsidiaries and associates to get better pricing terms.

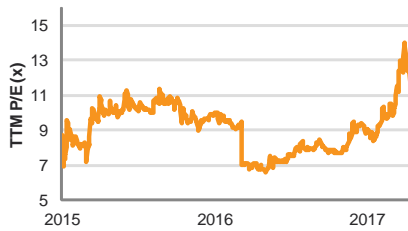
Despite strong GPM expansion, GEX's core profit growth saw little change as financial expenses soared to VND306.2bn (vs. 9M2016's figure of VND42.1bn). GEX issued bonds to support its aggressive acquisition strategy, contributing to the escalation in borrowing costs to VND263.2bn (vs. 9M2016's figure of VND38.6bn, accounting for 86% of total financial expenses in 9M2017).

Overall, GEX achieved a 9M2017 consolidated EAT of VND1,025bn (+104.3% YoY), mostly due to the one-off profit worth VND525bn from the divestment by SOWATCO (SWC) in the joint venture company - Keppel Land Watco. If we normalize for consolidation of results from newly created subsidiaries, GEX still realized 31.5% YoY growth in reported EAT in 9M2017, although this was largely due to the one-off gain adhered to above.

GEX has been constructing a portfolio of synergistic businesses through inorganic means by consolidating leading players in the market. As can be seen from its M&A track record, GEX is savvy in terms of both identifying market opportunities for diversification as well as honing in on M&A targets. However, the company is taking on more leverage to finance its acquisitions. Total borrowings have risen to VND5,069bn in 9M2017 but leverage is still very moderate at a debt/equity ratio of 0.81x at the end of 9M2017. However, integration of acquired business will be key to the long-term viability of this strategy and, hence, leverage could become a future risk if used recklessly to pursue future acquisitions and stake consolidations.

² Gachvang.com is a trusted online real-estate database in Vietnam. The function "DinhZaDi" provides estimated market value of the property given its location, which is calculated from public and user-submitted data, taking into account special features, location, and market conditions. (Source: Gachvang.com)

Figure 5: GEX Historical TTM P/E ratio



Source: BLOOMBERG

Valuation looks attractive: growth still not fully priced in

Following the divestment of a 78.74% stake in GEX by the Ministry of Industry and Trade (MoIT) in 2015, GEX and its subsidiaries (including CAV and THIBIDI) have earned more freedom to participate in foreign-invested projects as well as in restructuring and development activities. This has encouraged GEX to undertake aggressive acquisitions and build a dynamic business portfolio, starting from the end of 2016. This new-found dynamism seems to have been recognized by the market, resulting in a significant expansion in GEX’s valuation multiples since early 2017.

At the current price of VND28,350/share, GEX is trading at a TTM P/E of 11.5x, a 23.3% discount to the regional peer average. We believe that GEX deserves a higher valuation due to its dominant market share in key segments of the Vietnamese electrical equipment manufacturing industry and synergistic portfolio of businesses.

GEX switched its listing from the UPCOM to the Ho Chi Minh Stock Exchange (HOSE) starting from Jan 18, 2018. GEX shares reached ceiling on the first two trading days on the new bourse, touching VND 32,200/share versus the initial reference price of VND25,100/share, with over 2 million shares overbought at close on the first trading day. The significantly enhanced access to equity capital after listing on HOSE might enable GEX to continue to pursue its aggressive, investment and M&A-driven growth strategy. A listing on the main bourse will also ensure better disclosure going forward which should help to bring GEX’s story further into the mainstream.

Figure 6: Peer comparison

Company	Country	Market Cap (VNDbn)	ROA(%)	ROE (%)	TTM P/E (x)	TTM P/B (x)	D/E
Electrical Components and Equipment							
Shanghai Acrel Co., Ltd -A	China	8,272	11.7	15.0	24.4	3.5	0.2
KS Terminals INC	Taiwan	6,738	9.1	12.2	16.8	2.0	0.2
Pak Elektron Ltd	Pakistan	6,111	8.4	13.8	8.5	1.1	0.4
Dong Anh Electrical Equipment	Vietnam	1,057	7.7	31.1	10.3	2.9	2.8
<i>Average</i>		<i>5,545</i>	<i>9.2</i>	<i>18.1</i>	<i>15.0</i>	<i>2.3</i>	<i>0.9</i>
GEX	Vietnam	7,564	6.7	18.0	11.5	2.0	0.8

Source: BLOOMBERG, VNDIRECT

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Definition:

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- 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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Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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