


Company Note

Vietnam

ADD (no change)

Consensus ratings*: Buy 5 Hold 0 Sell 0

Current price: VND27,300
 Target price:  VND34,669
 Previous target: VND29,778
 Up/downside: 27.0%
 CIMB / Consensus: 16.0%

Reuters: REE.HM
 Bloomberg: REE.VN
 Market cap: US\$372.0m
 VND8,464,390m
 Average daily turnover: US\$1.16m
 VND26,410m
 Current shares o/s: 310.1m
 Free float: 56.1%
 *Source: Bloomberg

Key changes in this note

- FY17F EPS increased by 35%.
- FY18F EPS increased by 24%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.8	10.8	28.7
Relative (%)	7.2	2.2	0

Major shareholders	% held
Platinum Victory	22.8
Nguyen Thi Mai Thanh	14.0
HIFC	7.2

Analyst(s)



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REE Corp

Conservative FY17F targets

- Management has set a conservative net profit target of VND1,136bn for FY17F.
- Potential earnings upside could come from the mechanical and electrical engineering (M&E), real estate and hydro power segments.
- Management plans to cut DPS from VND1,600 in FY16 to VND1,000 in FY17F to save cash for investment activities.
- REE is now trading at 32% discount to NAV.

Conservative FY17F revenue and earnings targets

For FY17F, REE targets revenue of VND4,613bn (+26% yoy) and net profit of VND1,136bn (+4 yoy). We believe that the company's FY17F net profit target is too conservative. We forecast that the company's FY17F net profit will reach VND1,324bn (+19% yoy), 16% above management's target.

Potential earnings upside from M&E, real estate and hydro power

The difference between our FY17F net profit forecast and the company's target stems from: i) the company's conservative earnings estimates for its real estate projects, ii) management's conservative earnings forecast for the M&E segment, and iii) our projection that associate profits will increase from REE raising its stakes in two hydro power companies (Southern Hydro Power and Central Hydro Power). Further details are discussed in the body of this report.

Rising input costs for gas and thermal base power benefit hydro power

In 2016, the hydro power companies suffered from the drought in Vietnam, which negatively affected their profits. We expect the hydro power companies profit to bounce back to normal levels in FY17F, as rainfall improves. In addition, the input costs for coal- and gas-based power companies have risen and caused their production cost to increase. This benefits the hydro power companies in the competitive power-generation market. At end-FY16, REE had invested in nine hydro power companies.

Low return from investment in utilities

At REE's AGM, investors expressed unhappiness over its FY16 return on investment in utilities (power, water, coal) of 8%. Management admitted that it was not happy with the 8% return either and targets return of 15% for FY17F onwards. We believe the low return in FY16 was due to: i) drought that negatively affected hydro power profit, ii) its investment in non-profit generating water companies (early stage of operations), and iii) low profitability of coal companies (REE plans to divest its stakes in coal companies).

Cutting dividends

For FY17F, the company guides to pay cash DPS of not less than VND1,000 vs. FY16 DPS of VND1,600. Its planned FY17F DPS translates into dividend yield of 3.6% and dividend pay-out ratio of 23%. The reason for the cut in DPS is that the company wants to save the cash for on-going investments.

Raising our target price and earnings estimates

We raise FY17-FY18F EPS by 24-35% to reflect new real estate profit, better-than-expected earnings from M&E segment, real estate segment, and higher associates' profit/investment income. Our SOP-based target price rises by 16% accordingly and we maintain Add. The stock is trading at FY17F P/BV of 1x and at 32% discount to NAV. Downside risks are negative impact from drought on hydro power companies and ̳ appreciation that would hurt Pha Lai Thermal Power (PPC) earnings.

Financial Summary

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue (VNDb)	2,643	3,659	4,694	4,924	4,940
Operating EBITDA (VNDb)	788	1,009	1,226	1,280	1,371
Net Profit (VNDb)	853	1,109	1,324	1,400	1,516
Core EPS (VND)	2,751	3,577	4,272	4,516	4,891
Core EPS Growth	(19.8%)	30.0%	19.4%	5.7%	8.3%
FD Core P/E (x)	10.11	7.79	6.52	6.17	5.70
DPS (VND)	1,644	946	1,000	1,000	1,000
Dividend Yield	6.02%	3.46%	3.66%	3.66%	3.66%
EV/EBITDA (x)	6.31	4.74	4.53	3.54	2.42
P/FCFE (x)	9.70	NA	87.96	7.71	6.60
Net Gearing	(6.41%)	(2.79%)	9.03%	0.20%	(8.52%)
P/BV (x)	1.34	1.18	1.04	0.92	0.82
ROE	13.9%	16.4%	17.3%	16.2%	15.6%
% Change In Core EPS Estimates			35.0%	24.3%	
CIMB/consensus EPS (x)			1.16	1.21	1.45

SOURCE: COMPANY DATA, CIMB FORECASTS

Conservative FY17F targets

Company sets modest FY17F targets

For FY17F, management targets for REE to achieve revenue of VND4,613bn (+26% yoy), and net profit of VND1,136bn (+12% yoy). Breakdown of management's revenue and net profit targets, by business segment, is shown in Figure 1:

Figure 1: Company's FY17F targets

	Revenue (VNDbn)			Net profit (VNDbn)		
	FY16A	FY17 target	yoy growth	FY16A	FY17 target	yoy growth
M&E	1,739	2,000	15%	296	240	-19%
Reetech	729	720	-1%	32	43	34%
Office building	546	540	-1%	276	276	0%
Real estate	226	737	226%	121	142	17%
Power & water	419	616	47%	288	435	51%
Total	3,659	4,613	26%	1,013	1,136	12%

SOURCES: CIMB, COMPANY REPORTS

We believe that the company's FY17F net profit target is conservative because of its low profit targets for the following segments:

- M&E segment: The company targets FY17F revenue growth of 15% yoy but expects net profit decline of 19% yoy. Management explained that M&E net profit in FY16 was high because the company booked earnings for projects that were completed a few years ago. The company also said that the FY16 net margin of 17% would be difficult to maintain and its long-term net margin target is only 10-12%.
- Real estate segment: The company targets FY17F revenue growth of 226% but projects modest net profit growth of 17%. Its FY17F net margin target is only 19% vs. 53% in FY16. Management admitted that REE's real estate subsidiary (VIID) was very conservative in setting its FY17F targets.
- The power segment: At end-FY16, REE had invested in Vinh Son Song Hinh Hydro Power (VSH), Southern Hydro Power (SHP) and Central Hydro Power (CHP). In late FY16, REE increased its stake in VSH to 21%, allowing it to book its share of VSH's earnings as profit from associate. REE's stakes in SHP and CHP are both below 20% currently. We believe REE will raise its ownership levels in these two companies above 20% to book profit from associates in FY17F. If REE does this, we estimate that its FY17F net profit will outperform its target by about 7%.

Raising FY17-18F earnings forecasts

For FY17-18F, we increase our revenue forecast by 56-64% to reflect new contribution from real estate projects (the company just shared details on its real estate projects), and better-than-expected FY16 revenue from the M&E segment. We increase our FY17-18F net profit forecasts by 24-35% to reflect our higher estimates for revenue and profit from associates. Note that our FY17 net profit forecast assumes that the company can book SHP and CHP.

Figure 2: Earnings revision (VND bn)

	FY17F			FY18F		
	Old forecast	New forecast	% change	Old forecast	New forecast	% change
Revenue	2,866	4,694	64%	3,157	4,924	56%
Operating EBIT	774	1,092	41%	907	1,145	26%
Profit from associates & investment	440	541	23%	480	590	23%
Net profit	981	1,324	35%	1,126	1,400	24%
EPS	3,165	4,272	35%	3,632	4,516	24%

SOURCES: CIMB, COMPANY REPORTS

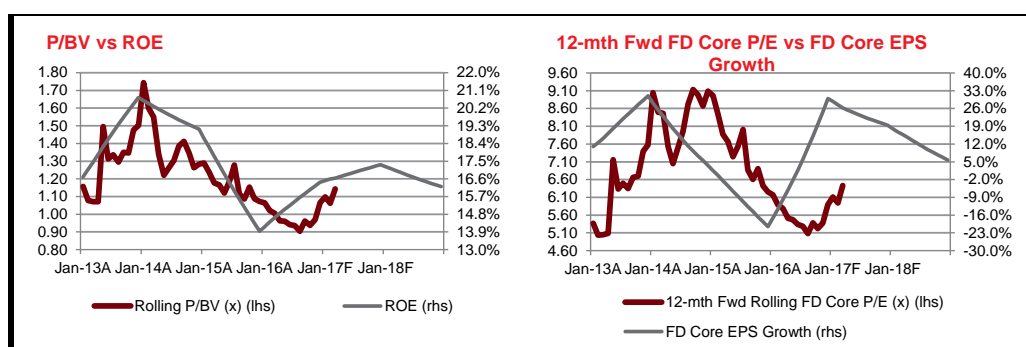
Valuation summary

Figure 3: Valuation summary

Item	Method	VNDbn
M&E value	P/E (FY17F target P/E of 10x)	2,960
Reetech	P/E (FY17F target P/E of 6x)	257
Real estate investment	DCF (17% COE, 16% WACC)	2,524
Portfolio investment	Market value & book value	6,483
Total SOTP		12,225
Debt		1,494
Minority interest		565
Cash		583
Equity value		10,749
Share outstanding		310,050,926
SOTP valuation		34,669

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Net Revenues	2,643	3,659	4,694	4,924	4,940
Gross Profit	1,024	1,312	1,625	1,699	1,792
Operating EBITDA	788	1,009	1,226	1,280	1,371
Depreciation And Amortisation	(133)	(136)	(134)	(135)	(135)
Operating EBIT	655	872	1,092	1,145	1,236
Financial Income/(Expense)	(5)	33	(37)	(43)	(22)
Pretax Income/(Loss) from Assoc.	37	(105)	271	295	307
Non-Operating Income/(Expense)	359	591	271	295	307
Profit Before Tax (pre-EI)	1,046	1,392	1,597	1,692	1,828
Exceptional Items					
Pre-tax Profit	1,046	1,392	1,597	1,692	1,828
Taxation	(158)	(202)	(232)	(246)	(266)
Exceptional Income - post-tax					
Profit After Tax	888	1,190	1,365	1,446	1,563
Minority Interests	(35)	(80)	(40)	(46)	(46)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	853	1,109	1,324	1,400	1,516
Recurring Net Profit	853	1,109	1,324	1,400	1,516
Fully Diluted Recurring Net Profit	853	1,109	1,324	1,400	1,516

Cash Flow

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
EBITDA	787.7	1,008.6	1,226.0	1,279.9	1,371.0
Cash Flow from Inv. & Assoc.					
Change In Working Capital	268.2	(369.1)	(408.2)	(90.9)	(6.0)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(61.1)	263.0	750.0	0.0	0.0
Net Interest (Paid)/Received	2.0	486.7	(36.8)	(42.5)	(22.0)
Tax Paid	(153.9)	(173.8)	(231.9)	(245.8)	(265.6)
Cashflow From Operations	842.9	1,215.4	1,299.1	900.6	1,077.3
Capex	(326.5)	(304.3)	(1,451.7)	(54.5)	(55.8)
Disposals Of FAs/subsidiaries	3.7				
Acq. Of Subsidiaries/investments		(1,569.4)			
Other Investing Cashflow	81.3		270.7	294.8	307.3
Cash Flow From Investing	(241.4)	(1,873.7)	(1,180.9)	240.2	251.4
Debt Raised/(repaid)	288.4	503.7	(20.0)	(20.0)	(20.0)
Proceeds From Issue Of Shares					
Shares Repurchased		(11.7)			
Dividends Paid	(509.8)	(293.2)	(372.1)	(372.1)	(372.1)
Preferred Dividends					
Other Financing Cashflow	1.0				
Cash Flow From Financing	(220.4)	198.8	(392.1)	(392.1)	(392.1)
Total Cash Generated	381.1	(459.5)	(273.9)	748.8	936.7
Free Cashflow To Equity	889.9	(154.5)	98.2	1,120.9	1,308.7
Free Cashflow To Firm	668.0	(596.7)	204.3	1,225.8	1,426.8

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Cash And Equivalents	1,420	1,709	685	1,434	2,371
Total Debtors	752	620	796	835	837
Inventories	547	1,230	1,578	1,656	1,661
Total Other Current Assets	1,029	544	544	544	544
Total Current Assets	3,747	4,104	3,604	4,469	5,413
Fixed Assets	800	529	1,965	1,965	1,966
Total Investments	4,954	6,067	6,219	6,434	6,661
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	108	715	715	715	715
Total Non-current Assets	5,862	7,311	8,899	9,114	9,341
Short-term Debt	430	594	584	574	564
Current Portion of Long-Term Debt					
Total Creditors	225	407	522	548	550
Other Current Liabilities	1,571	1,602	1,602	1,602	1,602
Total Current Liabilities	2,226	2,603	2,708	2,724	2,716
Total Long-term Debt	561	899	889	879	869
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	139	175	175	175	175
Total Non-current Liabilities	700	1,074	1,064	1,054	1,044
Total Provisions	0	0	0	0	0
Total Liabilities	2,926	3,678	3,773	3,778	3,760
Shareholders' Equity	6,334	7,172	8,125	9,153	10,297
Minority Interests	349	565	605	652	698
Total Equity	6,683	7,737	8,730	9,804	10,995

Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Revenue Growth	0.5%	38.4%	28.3%	4.9%	0.3%
Operating EBITDA Growth	15.3%	28.1%	21.6%	4.4%	7.1%
Operating EBITDA Margin	29.8%	27.6%	26.1%	26.0%	27.8%
Net Cash Per Share (VND)	1,383	695	(2,543)	(63)	3,022
BVPS (VND)	20,429	23,132	26,204	29,520	33,210
Gross Interest Cover	8.86	14.50	12.68	13.49	12.60
Effective Tax Rate	15.1%	14.5%	14.5%	14.5%	14.5%
Net Dividend Payout Ratio	59.8%	26.4%	28.1%	26.6%	24.5%
Accounts Receivables Days	97.66	68.62	55.05	60.42	61.77
Inventory Days	129.1	138.6	167.0	183.0	192.3
Accounts Payables Days	47.40	49.24	55.26	60.54	63.63
ROIC (%)	48.0%	60.6%	67.0%	33.0%	34.7%
ROCE (%)	14.4%	16.2%	14.5%	13.8%	13.7%
Return On Average Assets	9.9%	11.0%	11.7%	11.4%	11.2%

Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Rev. growth (% , main biz.)	0.5%	38.4%	28.3%	4.9%	0.3%
EBITDA mgns (% , main biz.)	29.8%	27.6%	26.1%	26.0%	27.8%
Rev. as % of total (main biz.)	N/A	N/A	N/A	N/A	N/A
EBITDA as % of total (main biz.)	N/A	N/A	N/A	N/A	N/A
Rev. growth (% , 2ndary biz.)	N/A	N/A	N/A	N/A	N/A
EBITDA mgns (% , 2ndary biz.)	N/A	N/A	N/A	N/A	N/A
Rev. as % of total (2ndary biz.)	N/A	N/A	N/A	N/A	N/A
EBITDA as % of total (2ndary biz.)	N/A	N/A	N/A	N/A	N/A
Rev. growth (% , tertiary biz.)	N/A	N/A	N/A	N/A	N/A
EBITDA mgns (% , tertiary biz.)	N/A	N/A	N/A	N/A	N/A
Rev.as % of total (tertiary biz.)	N/A	N/A	N/A	N/A	N/A
EBITDA as % of total (tertiary biz.)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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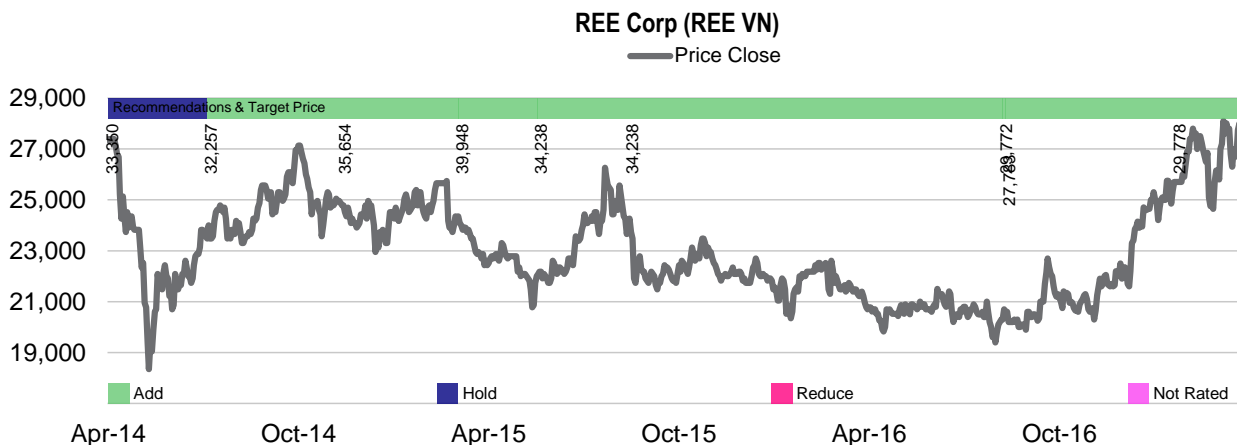
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1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BGP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared,

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- Companies certified by CAC

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- Hold** The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.
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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.

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- 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:

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- 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.