

REFRIGERATION ELECTRICAL ENGINEERING CORP (REE) – AGM NOTE

Market Price VND37,700	Target Price N/A	Dividend Yield 4.2%	Rating N/A	Sector INDUSTRIALS
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Outlook – Short term



Outlook – Long term



Valuation



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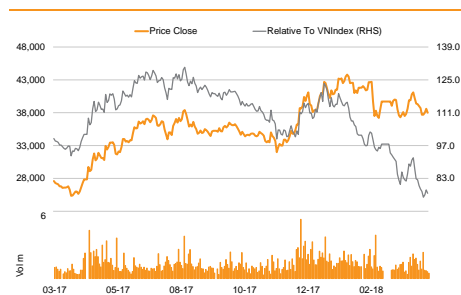
Refrigeration Electrical Engineering Corporation (REE) held its AGM on March 29th, 2018, announcing conservative targets of VND1,369bn for 2018 (-0.5%) after a very successful 2017. Growth over the next 5 years will focus on three main segments: mechanical engineering, real estate and utilities (power / water).

Conservative targets for mechanical engineering (M&E) in 2018: management set a rather conservative target growth of 13.6% (vs 36.5% growth in 2017) for the segment due to stronger competition and appearance of in-house M&E arms within major contractors (HBC, CTD). In 2017, REE M&E benefitted from robust real estate development activity, which may not be sustained in 2018. The company's current backlog value stands at VND5,405bn, equivalent to a health 2.3x 2017 revenue from the M&E division.

Office leasing area to expand by 34% this year. At the beginning of 2018, REE completed and put into operation the Etown 4 building in Doan Van Bo, District 4, HCMC, adding another 34,400 m² of floor area for office leasing, increasing total area by 34%. At the moment, the building's occupancy rate is 70% and is expected to increase to 100% in 2Q2018. Other REE office buildings are maintaining full occupancy levels and will continue to be so in the next few years due to the strong demand for Grade A and Grade B office space. In addition, Etown 5 tower development will start in April 2018 and be completed in 1Q2019 and be ready for move-in starting 2Q2019. The leasable floor area of this building is 17,000 m². For 2018, the company targets office leasing revenue of VND656bn (+28.3%). Etown 4 is expected to reach breakeven in 2018 and start contributing profits from 2019 onwards.

Real estate is expected to deliver the best performance this year out of all of REE's operating segments (+94.1%). This is thanks to deliveries of residential units by subsidiary VIID and associate company SaigonRes (SGR VN). REE also plans to increase its stake in VIID during this year up from 50.6%, currently.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	42,046
52w low (VND)	29,566
3m Avg daily volume (shares)	1,504,577
3m Avg daily value (VNDmn)	61,290
Market cap (VNDbn)	11,719
Outstanding shares (m)	310
Free float (%)	37
TTM P/E (x)	8.5
Current P/B (x)	1.3

Ownership

Platinum Victory Pte. Ptd	23.9%
Nguyen Thi Mai Thanh	7.3%
HFIC	7.2%
Other	61.6%

Source: VNDIRECT

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	2,629	2,643	3,659	4,995
Revenue growth	8.9%	0.5%	38.4%	36.5%
Gross margin	30.5%	33.7%	32.3%	28.6%
EBITDA margin	51.6%	47.4%	43.1%	39.2%
Net profit (bn)	1,062	853	1,093	1,377
Net profit growth	8.8%	(19.7%)	28.2%	26.0%
Recurring profit growth	8.8%	(19.7%)	28.2%	26.0%
Basic EPS	3,939	3,164	3,526	4,441
Adjusted EPS	3,950	3,175	3,531	4,445
BVPS	23,508	21,554	24,902	28,038
ROAE	19.1%	13.1%	15.2%	16.8%

REE tech still feeling the heat of competition. REE tech is the weakest operating segment within REE. In 2017, sales of air-conditioners decreased by 8%, however, total segment revenue increased by 29% due to expansion into mechanical products and components such as RMV system, replacement components for machinery and air conditioning systems, air diffusers and air ducts. In 2018, REE sets a lower target for REE tech at VND800bn in revenue (-15.3%) and relatively flat profit after tax.

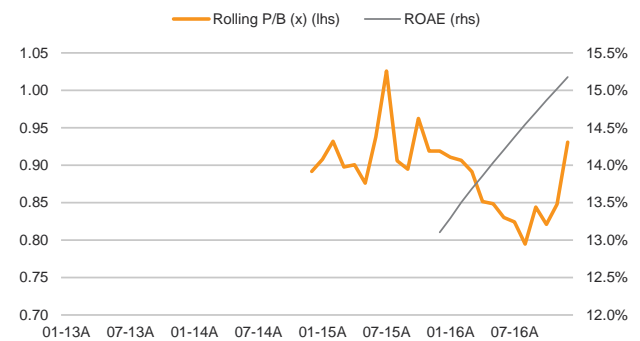
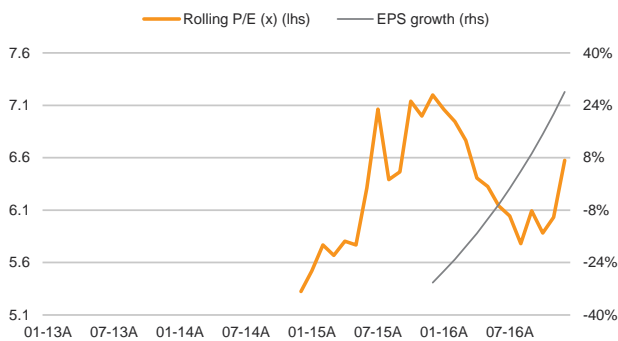
Utilities segment outperformed in 2017 but expected to see muted performance in 2018. The portfolio of power and water plants under REE performed really well in 2017 with most contribution coming from hydropower plants (2017 was a very wet year which helped boost reservoir levels). Total earnings for this segment came in at VND633 bn, up 80% on the previous year. In 2017, REE also acquired, through an auction, a 35% stake in Song Da River Water Treatment Plant (VCW), which controls 25% of the water supply market in Hanoi.

But management guided for a conservative earnings target for this segment in 2018 of VND 617bn (-2.5%) as such stellar growth in hydropower output is unlikely to be repeated this year.

Aggressive expansion plans for water business. REE plans to invest VND600bn-VND700bn into this plant to construct another water pumping station for VCW in 2018. REE has a strategic plan for VCW to bolster up the company's management and increase its capacity by three fold over the next two years.

Despite lower targets for 2018, REE will maintain its dividend payout at VND1,600/share, same level as 2017. This will be paid in cash and corresponds to a dividend yield of 4.2% based on the current share price.

Valuation



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	2,643	3,659	4,995
Cost of sales	(1,752)	(2,478)	(3,566)
Gen & admin expenses	(182)	(220)	(242)
Selling expenses	(54)	(89)	(95)
Operating profit	655	872	1,093
Operating EBITDA	788	1,012	1,223
Depreciation and amortisation	(133)	(140)	(130)
Operating EBIT	655	872	1,093
Interest income	428	685	175
Financial expense	(81)	(68)	(275)
Net other income	7	7	9
Income from associates & JVs	37	(121)	719
Pre-tax profit	1,046	1,376	1,721
Taxation	(158)	(202)	(198)
Minority interests	(35)	(80)	(146)
Net profit	853	1,093	1,377
Adj. net profit to ordinary	853	1,093	1,377
Ordinary dividends	(510)	(293)	(597)
Retained earnings	343	800	780

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	1,420	960	2,397
Short term investments	381	749	517
Accounts receivables	1,369	1,148	1,131
Inventories	547	1,230	1,556
Other current assets	30	17	51
Total current assets	3,747	4,105	5,651
Fixed assets	518	845	1,064
Total investments	4,369	5,377	6,274
Other long-term assets	974	1,069	1,305
Total assets	9,609	11,397	14,295
Short-term debt	430	594	672
Accounts payable	225	406	446
Other current liabilities	1,571	1,617	1,809
Total current liabilities	2,226	2,618	2,927
Total long-term debt	561	899	2,309
Other liabilities	139	159	366
Share capital	2,696	3,101	3,101
Retained earnings reserve	2,936	3,570	4,542
Shareholders' equity	6,683	7,721	8,693
Minority interests	0	0	0
Total liabilities & equity	9,609	11,397	14,295

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	1,046	1,376	1,721
Depreciation & amortisation	133	140	130
Tax paid	(154)	(175)	(213)
Other adjustments	(730)	(168)	(514)
Change in working capital	480	(492)	(205)
Cash flow from operations	774	681	919
Capex	(326)	(309)	(584)
Proceeds from assets sales	4	2	6
Others	150	(547)	(71)
Other non-current assets changes	0	350	(168)
Cash flow from investing activities	(173)	(504)	(818)
New share issuance	1	0	36
Shares buyback	0	(12)	0
Net borrowings	1,122	2,168	3,907
Other financing cash flow	(834)	(1,797)	(2,420)
Dividends paid	(510)	(293)	(597)
Cash flow from financing activities	(220)	65	926
Cash and equivalents at beginning of period	1,037	1,420	960
Total cash generated	381	242	1,028
Cash and equivalents at the end of period	1,418	1,662	1,988

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	32.3%	29.9%	27.6%
Asset turnover	0.29	0.35	0.39
ROAA	9.5%	10.4%	10.7%
Avg assets/avg equity	1.38	1.46	1.57
ROAE	13.1%	15.2%	16.8%
Efficiency			
Days account receivable	104	63	58
Days inventory	114	182	159
Days creditor	46.8	59.9	45.6
Fixed asset turnover	5.10	5.37	5.23
ROIC	11.1%	11.9%	11.8%
Liquidity			
Current ratio	1.68	1.57	1.93
Quick ratio	1.44	1.10	1.40
Cash ratio	0.81	0.65	1.00
Cash cycle	171	185	171
Growth rate (yoy)			
Revenue growth	0.5%	38.4%	36.5%
Operating profit growth	4.6%	33.2%	25.3%
Net profit growth	(19.7%)	28.2%	26.0%
EPS growth	(19.8%)	11.4%	26.0%
Share value			
Basic EPS (VND)	3,164	3,526	4,441
BVPS (VND)	24,787	24,902	28,038

Source: VNDIRECT

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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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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.

Country Ratings

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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