Vietnam

www.phs.vn

Phu Hung SECURITIES

Refrigeration Electrical Engineering Corporation (REE)

HOSE - Vietnam
Industrials
2011.08.24

Overweight

Price(2011/08/22):VND 11,000
Target Price: VND 13,900

Thai Thanh Tung
(+84-8) 5413-5479
tungthai@phs.vn

Key Data

Chartered capital (VND bn)	**1,862.9**
Outstanding shares (mil shares)	**186.3**
52-week price range (VND)	**9,600~18,400**
Market cap (VND bn)	**2,049.2**
Total assets (Q2/11) (VND bn)	**4,752**
Net Value (Q2/11) (VND bn)	**2,761**
(QFII) Total Room (mil shares)	**91.3**
(QFII) Current Room (mil shares)	**24**
Foreign Holding (%)	**36.1%**
EPS 2011E (VND)	**1,908**
P/E	**5.8**
P/B	**0.7**
Cash dividend % (Face Value)	**16%**
Dividend yield (%) (Dividend/Market price)	**15%**
ROE 2011E(%)	**12.1%**
ROA 2011E(%)	**7.3%**

The holding cap for foreign strategic investors is 49%. For banking sector the cap is 30%.

Steady sales growth from business diversification

- **Company profile**: REE Corporation includes 4 main business units: providing mechanical and electrical systems (M&E), selling machinery and electronics (Reetech), real estate leasing and financial investments. Among them, M&E services generate 52% of sales, Reetech of 30% and real estate of 17%.

- **Earnings**:
(1) REE's sales have shown an upward trend with average growth of 25% per year in the last 3 years while net profit was somewhat erratic due to non-operating activities.
(2) Last year, REE posted 1,807 bn VND in sales, up 54% yoy and net profit was reported at 362 bn VND, down 16% yoy, due to higher costs of goods sold and lower non-operating income. Another explanation for 2010 profit decline was that 2009 profit was abnormally high after the refund of investment provisions.

- **2011 outlook**
(1) Vietnam is in the process of urbanization and the construction of infrastructure such as buildings and trade centers is potential.
(2) REE's interest expenses increase due to the 810 bn VND convertible bond issue in 2010.
(3) In 2011, another building Ree Tower will be put into lease operation which is expected to fuel sales growth
(4) In the first 2 quarters of 2011, REE's sales were 854 bn VND, up 15.4% yoy while net profit was posted at 170 bn VND, up 7.5% yoy. We think this year higher interest expense might be a constraint for the bottom line growth.

- **Strengths**: Steady sales growth

- **Weaknesses:** From a long term perspective, REE brand name might be diluted by the diversification into other fields.

- **Valuation:** Comparing to some key ratios of the overall market, we initiate an Overweight rating on REE with a target price of VND 13,900, implying a P/E multiple of 7 (x) EPS 2011E.

Financial Abstract: (VND bn)

Year	Revenue	(%)	Net Profit	(%)	Outstanding Shares	EPS (VND)	P/E (x)	ROE	ROA
2008	1,154.4	18.1%	-153.8	-152.8%	69,279,050	-2,219	-7.7	-7.1%	-5.6%
2009	1,174.2	1.7%	432.2	381.1%	81,043,100	5,333	8.3	18.9%	14.4%
2010	1,807.9	54.0%	362.3	-16.2%	133,668,200	2,711	9.1	13.4%	8.7%
2011E	1,923.1	6.4%	355.4	-1.9%	186,293,300	1,908	5.8	12.1%	7.3%
2012E	2,066.6	7.5%	409.8	15.3%	186,293,300	2,200	5.0	13.6%	8.4%

▪ Financial Statement Projections (VND bn)

Income statement	2008	2009	2010	2011e	2012e
Net Sales	1,154.4	1,174.2	1,807.9	1,923.1	2,066.6
Cost of goods sold	824.3	765.3	1,312.9	1,384.6	1,471.9
Gross profit	330.1	408.9	495.0	538.5	594.6
Selling Expenses	39.7	49.0	56.3	53.8	63.7
Managing Expenses	97.6	90.1	103.9	140.4	142.6
Operating profit	192.8	269.8	334.7	344.2	388.3
Non operating profit	(316.8)	222.5	169.0	196.2	210.8
Interest expense	17.7	8.1	35.9	96.2	86.8
Total profit before tax	(141.7)	484.2	467.8	444.2	512.3
Corporate Income Tax	12.1	52.0	105.5	88.8	102.5
Profit after Tax	(153.8)	432.2	362.3	355.4	409.8

Balance sheet	2008	2009	2010	2011e	2012e
Current Assets	**1,119.0**	**1,408.2**	**2,653.8**	**1,927.5**	**1,852.3**
Cash and Cash Equivalents	359.0	244.4	1,171.8	348.7	373.7
Short term financial investment	182.5	325.4	288.7	180.0	121.0
Short term Account Receivables	457.6	575.1	600.3	683.7	785.5
Inventory	107.0	242.9	569.3	688.1	542.8
Other Current Assets	12.9	20.4	23.7	26.9	29.3
Non-current Assets	**1,489.3**	**1,973.7**	**2,308.1**	**2,835.4**	**3,136.1**
Long term Account Receivables	-	-	-	-	-
Fixed assets	45.4	89.6	158.5	278.3	354.5
Real estate investments	531.8	521.9	484.5	444.4	388.9
Long term Financial Investments	909.1	1,356.9	1,651.3	2,096.4	2,373.3
Other long term assets	3.1	5.3	13.8	16.3	19.4
Total Assets	**2,608.3**	**3,381.9**	**4,961.9**	**4,762.8**	**4,988.4**
Liabilities	**510.3**	**895.0**	**2,032.7**	**1,797.4**	**1,932.6**
Short term Liabilities	404.8	792.3	1,946.8	1,731.7	1,864.0
Long term Liabilities	105.4	102.7	85.9	65.7	68.5
Owners equity	**2,098.0**	**2,486.9**	**2,929.2**	**2,965.4**	**3,055.8**
Common stocks	810.4	810.4	1,862.9	1,862.9	1,862.9
Expenditures and Other Funds	1,287.6	1,676.5	1,066.3	1,102.5	1,192.9
Total Equity	2,608.3	3,381.9	4,961.9	4,762.8	4,988.4

DuPont Analysis (ROE Breakdown=1x2x3)	2008	2009	2010	2011e	2012e
Net profit margin (1)	-0.13	0.37	0.20	0.18	0.20
Total assets turnover (2)	0.44	0.35	0.36	0.40	0.41
Leverage (3)	1.24	1.36	1.69	1.61	1.63

Investment Valuation ratios	2008	2009	2010	2011e	2012e
P/S	0.7	0.8	0.8	1.1	1.0
P/B	0.4	0.4	0.5	0.7	0.7
P/CF (Operating)	9.3	2.1	24.1	728.4	5.5
PEG 1 ratio (PE/Sales growth)	na	na	0.4	0.3	0.2

Cash flow	2008	2009	2010	2011e	2012e
Total profit before tax	(141.7)	484.2	467.8	444.2	512.3
Non-cash items	372.1	(127.3)	(113.4)	(55.6)	(64.0)
Changes in net working capital	(148.4)	65.0	(293.3)	(385.8)	(74.3)
Net operating cash flow	82.0	421.8	61.0	2.8	374.0
Net Investing cash flow	(88.2)	(469.8)	(121.6)	(264.4)	(87.8)
Net Financing cash flow	59.4	(66.7)	988.0	(561.5)	(261.2)
Net Cash during the period	53.2	(114.6)	927.4	(823.1)	25.0
Cash at beginning of year	305.9	359.0	244.4	1,171.8	348.7
Cash at end of year	359.0	244.4	1,171.8	348.7	373.7

Financial ratios	2008	2009	2010	2011e	2012e
Capital Structure					
Current assets/Total assets	43%	42%	53%	40%	37%
Non-Current assets/Total assets	57%	58%	47%	60%	63%
Liabilities/Total assets	20%	26%	41%	38%	39%
Equity/Total assets	80%	74%	59%	62%	61%
Interest coverage ratio	(7.0)	60.8	14.0	5.6	6.9
Liquidity					
Current ratio	2.8	1.8	1.4	1.1	1.0
Quick ratio	2.5	1.5	1.1	0.7	0.7
Cash conversion cycle (Days)	159.6	223.7	214.8	249.4	209.8
Operating CF/Sales	0.1	0.4	0.0	0.0	0.2
Operating CF/Interest expense	4.6	52.1	1.7	0.0	4.3
Operating CF/Short term debt	0.2	0.5	0.0	0.0	0.2
Efficiency					
Inventory Days	46.7	114.3	156.1	178.9	132.8
Receivables Days	142.7	176.3	119.5	128.0	136.8
Current assets turnover	1.0	0.8	0.7	1.0	1.1
Fixed assets turnover	25.5	13.1	11.4	6.9	5.8
Total assets turnover	0.4	0.3	0.4	0.4	0.4
Profitability					
Gross margin	28.6%	34.8%	27.4%	28.0%	28.8%
Operating margin	16.7%	23.0%	18.5%	17.9%	18.8%
Net profit margin	-13.3%	36.8%	20.0%	18.5%	19.8%
Effective tax rate	-8.5%	10.7%	22.6%	20.0%	20.0%
ROE	-7.1%	18.9%	13.4%	12.1%	13.6%
ROA	-5.6%	14.4%	8.7%	7.3%	8.4%

Source: REE and PHS's estimates

Analyst Certification

Each research analyst(s), strategist(s) or research associate(s) responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to each issuer or security that the research analyst, strategist or research associate covers in this research report, all of the views expressed by that research analyst, strategist or research associate in this research report accurately reflect their personal views about those issuer(s) or securities. Each research analyst(s), strategist(s) or research associate(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst, strategist or research associate in this research report.

Ratings Definition

Overweight (OW) = Expected to outperform the local market by >10%
Neutral (N) = Expected to in line with the local market by +10%~ -10%
Underweight (UW) = Expected to underperform the local market by >10%.
Not Rated (NR) = The stock is not rated in Phu Hung's coverage universe or not listed yet.
Performance is defined as 12-month total return (including dividends).

Disclaimer

5th Fl., Lawrence S. Ting Bldg., 801 Nguyen Van Linh St, Tan Phu Ward, Dist 7, HCMC
Tel: (+84-8) 5413-5479 – Fax: +84 8 54135472 Web: www.phs.vn