

Horizon Securities

Research team

Phuong Le

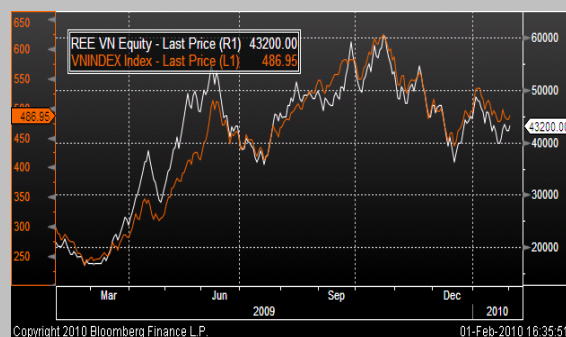
Analyst

phuongle@horizonsecurities.com

Stock Profile/Statistics		1-Feb-10
Reuters Ticker		REE.HM
Sector		Real Estate
VND/USD		18,500
Shares Outstanding		81,041,798
Market Capitalisation (VNDmln)		3,484,797
Foreign Room (%)		5.5%
52 week High/ Low (VND)		63,500 / 16,600
3-mth average daily T/O		59,216

Stock Performance (%)	1M	3M	6M
Absolute (%)	(2.92)	(19.25)	(5.26)
Relative (%)	(1.36)	(2.64)	(9.19)

Ownership Structure	%
State	4.9%
Foreigners	37.5%
Others	57.7%



Company Visit Note

Refrigeration Electrical Engineering Corp. (REE.HM): REE is a Vietnam-based company engaged in the electrical components and equipment industry. The company is mainly involved in three business segments: mechanical and engineering (M&E), trading and real estate.

At its current price of VND43,000, REE trades at a 23.8% discount to our NAV estimate of VND53,250 per share.

Key takeaways from the meeting:

Well positioned in the economic downturn

To save costs, companies have shifted their preference from grade A or B offices to grade C, private houses, villages or moving out to suburban areas like District 4, 6, 7, Tan Binh and Binh Thanh district. This movement brings opportunities to low-priced offices for small and middle end enterprises like REE. As a result, all of the E-town buildings are operating at an above 98% occupancy rate.

Stability of future earnings

REE's e-town offices are a reliable source of revenue due to its high occupancy rate, generating around VND309bln (US\$16.7mln) of revenues in 2009. By the end of 2010, management expects to have an additional 29,000 sq meters coming online with the Ba Hom and Doan Van Bo office towers. These projects are expected to contribute an incremental VND115bln (US\$6.2mln) in revenues and VND60bln (US\$3.2mln) in operating income.

Thanks to its performance in the real estate segment, REE's operating profit (EBIT) has increased 41% over the previous year.

Strong balance sheet with rich cash and low debt

For the past three years, REE has managed to keep its debt to equity ratio below 8%. Therefore, we believe that REE should be able to attain external financing in order to upgrade or expand its business in the future. However, management has noted that REE would not need to raise any long term debt this year since it is generating plenty of cash from its current business operations.

Valuation metric

We believe that a sum of the parts valuation is most appropriate given REE's diversified business lines. For the M&E and ReeTech businesses, we have applied a 12x and 13.4x P/E, respectively, to 2010 earnings to come up with the segment's contribution values. For the real estate business, we used a perpetual discounted cash flow analysis because REE has historically had predictable cash flows and we foresee continued high occupancy rates in the future, however, we have applied a 20% discount rate to be on the conservative side.

REE currently trades at a 23.8% discount to our NAV estimate of VND53,250 per share, implying a potential 23.8% upside from the current share price of VND43,000.

Figure 1. Sum of the parts – REE

Business segment	EBIT 2010 (est.) VNDmln	Net profit 2010 (est.) VNDmln	P/E	Attributable 2010E Value VNDmln
M&E	67,865	50,899	12.0x	610,786
Ree-tech	51,743	38,807	13.4x	520,990
Real estate	Perpetual DCF @ 20% discount rate			1,375,193
Book value of financial investment	@ 31/12/2009			1,650,957
Net cash (debt)	@ 31/12/2009			78,779
Outstanding share				81,041,798
Net Asset Value (VND)				53,250
Current share price				43,000
(Discount)/Premium to NAV				23.8%

Source: HRS research, company data

Figure 2. Local peer comps for trading segment

Ticker	Company	US\$/share	52 Weeks		TSO (mm)	Market cap	Gross margin	Net Margin	ROA	ROE	P/E	P/B
			High	Low								
ST8 VN	SIEU THANH JSC	\$1.68	\$2	\$1	10.3	\$17	21%	6%	17.34%	25.67%	7.0x	1.8x
VBH VN	VIETTRONICS BINH HOA JSC	\$0.62	\$1	\$0	2.9	\$2	18%	2%	3.19%	4.58%	23.1x	1.1x
LGC VN	LU GIA MECHANICAL ELECTRIC JSI	\$1.52	\$2	\$1	8.3	\$13	16%	15%	4.05%	9.92%	16.9x	1.7x
VTB VN	VIETTRONICS TANBINH JSC	\$0.81	\$1	\$1	11.0	\$9	19%	11%	9.32%	12.20%	6.7x	0.8x
Average							18%	9%	8%	13%	13.4x	1.3x
Median							18%	9%	7%	11%	12.0x	1.4x

Source: Bloomberg at 1 Feb 2010

Company snapshot

Business operations

Figure 3. Revenue 2006 - 2009

Key statistic (VNDmIn)	2006A	2007A	2008A	2009E
Net Sales	824,141	977,085	1,154,393	1,173,772
% YoY	112.76%	18.56%	18.15%	1.68%
Gross Profit	216,638	297,801	330,076	461,521
% Margin	26.29%	30.48%	28.59%	39.32%
EBITDA	173,139	222,987	228,872	308,187
% Margin	21.01%	22.82%	19.83%	26.26%
Net Income	222,530	291,527	(153,825)	436,872
% Margin	27.00%	29.84%	(13.33%)	37.22%
% YoY	227.25%	31.01%	(152.77%)	384.01%

Source: Company data

Figure 4. Revenue 2006 - 2009

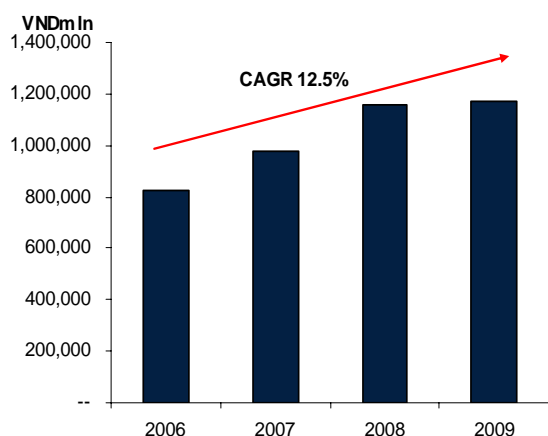
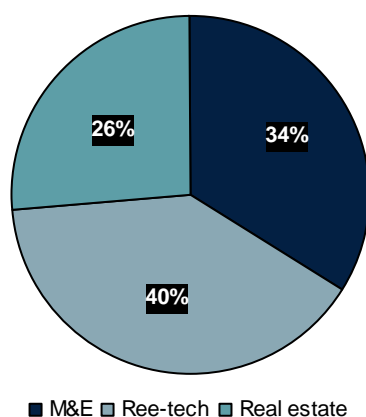


Figure 5. Revenue breakdown 2009



Source: Company data

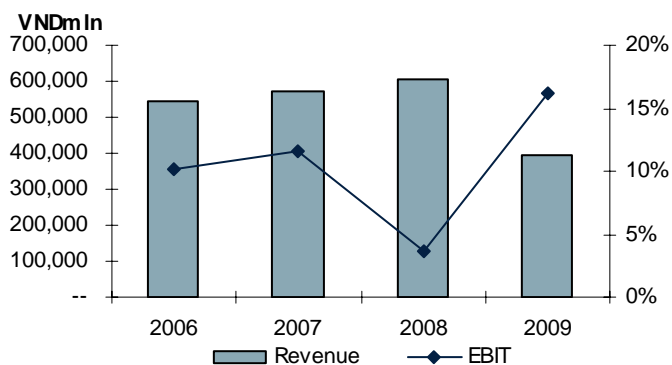
Source: Company data

M&E

REE leads the M&E market with around a 30% market share nationwide by focusing on large scale construction projects (over US\$3mIn). The company provides M&E services for civil, commercial, industrial and infrastructure projects which includes air conditioner (AC) systems, electric power supply, low voltage electrical systems and fire services. REE is the only domestic company that can service large projects such as Tan So Nhat International Airport and New World Hotel.

In 2009, the M&E segment (34% of total revenues) reported revenues of VND397mIn (US\$21.5mIn), a decline of 34% compared to 2008. The sharp drop in revenues can be attributed to the slow down in construction of new commercial buildings.

Figure 6. Revenue & EBIT margin 2006 – 2009



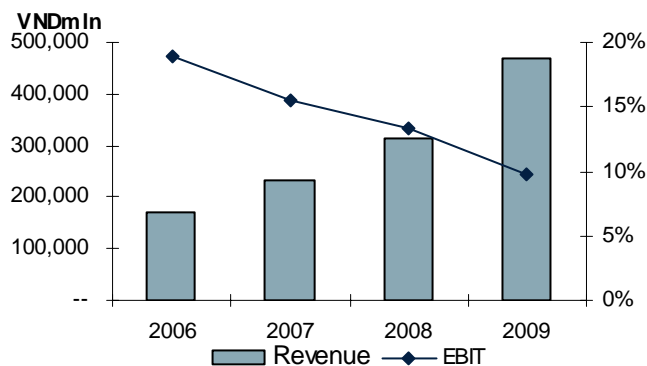
Source: Company data

Ree-tech (Air conditioner)

Reetech focuses on the manufacturing of air conditioning units and distributes its products through 70+ distributors and agencies in 28 cities/provinces across Vietnam.

Ree-tech doesn't have the brand equity of foreign market leaders such as Toshiba, LG and Samsung so it competes on price and has a comfortable market share of 6%. In 2009, the Ree-tech segment generated revenues of VND468mIn (US\$25.3mIn), representing a 49.6% growth compared to 2008 and contributes 40% to REE's total revenue.

Figure 7. Revenue & EBIT margin 2006 – 2009



Source: Company data

Real estate

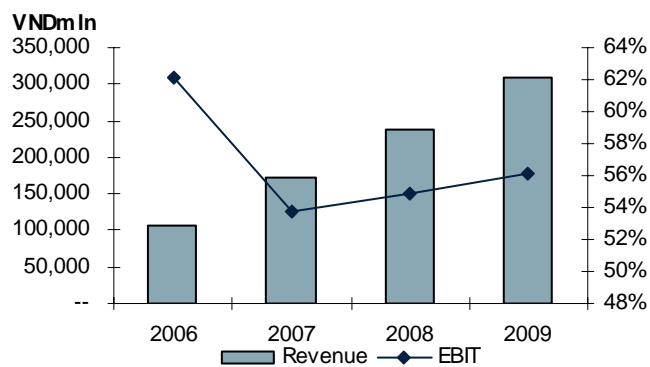
A slowing economy and drops in FDI investments have slowed the demand for offices in HCMC, particularly grade A and B office buildings. In order to save costs, Companies have shifted their preference from grade A or B offices to grade C, private houses, villages or moving out to suburban areas like District 4, 6, 7, Tan Binh and Binh Thanh district. This movement brings opportunities to low-priced offices for small and middle-end enterprises like REE. We believe that REE is positioned to benefit from the demand downstream. With an occupancy rate in excess of 95% and long term lease contracts, REE's real estate business has had very stable cash flows from its 70,000 sqm of office space. Office leasing revenues reached VND309bIn (US\$16.7mIn) and accounted for 26% of REE's revenues in 2009.

Furthermore, REE is expected to have an additional 29,000 sq meters coming online with the Ba Hom and Doan Van Bo office towers. REE expects full occupancy for the

Company Visit Note – REE JSC

25,000 available sq. meters at Doan Van Bo with a price of \$20/sq meter. Assuming that REE will achieve 95% capacity, the Doan Van Bo project alone would contribute an incremental VND115bln in revenue and VND60bln in operating income.

Figure 8. Revenue & EBIT margin 2006 – 2009



Source: Company data

Company Visit Note – REE JSC

Financial Summary

Income statement (VNDmln)

FY ended, 31 December	2005A	2006A	2007A	2008A	2009E
Net Sales	387,357	824,141	977,085	1,154,393	1,173,772
COGS	(249,081)	(607,503)	(679,284)	(824,317)	(712,251)
Gross Profit	138,276	216,638	297,801	330,076	461,521
Selling, G&A expense	(60,502)	(62,000)	(102,952)	(137,318)	(189,448)
EBITDA	92,574	173,139	222,987	228,872	308,187
EBIT	77,774	154,638	194,849	192,758	272,073
Interest Expense	--	(10,856)	9,478	17,662	(8,349)
Financial Income	18,283	154,936	250,663	183,012	213,739
Net Income	68,000	222,530	291,527	(153,825)	436,872
Adjusted Net Income	64,802	67,312	103,814	198,252	212,394

Balance sheet (VNDmln)

FY ended, 31 December	2005A	2006A	2007A	2008A	2009E
Cash and cash equivalents	170,556	318,353	305,885	359,043	274,654
Account receivables	101,958	252,377	407,464	457,623	556,442
Inventories	129,235	96,625	204,892	106,954	227,181
Current assets	409,001	901,712	1,615,207	1,118,979	1,372,064
Long- term receivables	--	--	--	--	--
Fixed assets	61,519	180,886	53,645	45,351	89,629
Long-term investments	176,248	222,206	814,426	909,089	1,356,919
Other long-term assets	1,314	3,511	1,858	3,070	4,198
Non current assets	424,701	610,903	1,275,918	1,489,274	1,972,632
Total assets	833,702	1,512,615	2,891,125	2,608,253	3,344,696
Account payable	61,091	76,888	121,579	68,293	124,370
Accrued liabilities	--	172	2,541	6,122	505
Current liabilities	247,396	330,067	531,139	403,530	750,912
Long-term loan & debt	43,900	59,036	47,568	32,571	23,829
Other long-term liabilities	5,871	7,216	11,221	13,020	15,251
Non current liabilities	73,671	97,181	104,268	105,436	102,503
Total debts	104,300	117,830	121,398	180,848	171,144
Total liabilities	321,067	427,248	635,407	508,966	853,415
Minority Interest	571	801	10,933	10,821	24,731
Shareholders' funds	512,064	1,084,566	2,244,785	2,088,466	2,466,550

Cash flow (VNDmln)

FY ended, 31 December	2005A	2006A	2007A	2008A	2009E
Pretax income	80,972	299,000	392,040	(141,657)	488,202
Pretax income after adjustment	96,082	175,634	221,102	230,415	340,097
Net CF from operating activities	107,691	52,802	45,657	81,983	403,918
Net CF from investing activities	(119,407)	(277,231)	(937,857)	(88,237)	(377,189)
Net CF from financing activities	158,171	372,227	879,733	59,412	(111,261)
Net increase(decrease) in cash	146,455	147,798	(12,467)	53,158	(84,532)
Cash at beginning of year	24,101	170,555	--	--	359,043
Cash at end of year	170,556	318,353	305,885	359,043	274,654

Ratio analysis

FY ended, 31 December	2005A	2006A	2007A	2008A	2009E
Revenue Growth (%)	N/A	112.76%	18.56%	18.15%	1.68%
Gross Margin (%)	35.70%	26.29%	30.48%	28.59%	39.32%
SG&A Margin (%)	(15.62%)	(7.52%)	(10.54%)	(11.90%)	(16.14%)
Operating Margin (%)	20.08%	18.76%	19.94%	16.70%	23.18%
EBITDA Margin (%)	23.90%	21.01%	22.82%	19.83%	26.26%
Interest Margin (%)	--	(1.32%)	0.97%	1.53%	(0.71%)
Net Margin (%)	17.55%	27.00%	29.84%	(13.33%)	37.22%
Adjusted Net Margin (%)	16.73%	8.17%	10.62%	17.17%	18.09%
Adjusted Net Income Growth (%)	N/A	3.87%	54.23%	90.97%	7.13%
Accts Receivable (days)	95	110	150	143	171
Accts Payables (days)	90	46	65	30	64
Inventory Turnover days	189	58	110	47	116
Current Ratio (x)	1.65x	2.73x	3.04x	2.77x	1.83x
Debt to Capitalization (%)	16.92%	9.80%	5.13%	7.97%	6.49%
Debt to Equity (%)	20.37%	10.86%	5.41%	8.66%	6.94%
Assets Turnover Ratio (x)	0.46x	0.54x	0.34x	0.44x	0.35x
Return on Assets (%)	8.16%	14.71%	10.08%	(5.90%)	13.06%
Return on Equity (%)	13.28%	20.52%	12.99%	(7.37%)	17.71%

Disclaimer

This report has been issued by the Horizon Securities Corporation (“HRS”) with the instructional contributions of Horizon Capital whose employees are specified in the publication. This report is for information of its institutional and professional customers; and it is not intended for review of and should not be distributed for retail customers in Vietnam.

This report is and should not be construed as an offer to sell or a solicitation of an offer to purchase or subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. Investors are advised make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular circumstances such as their financial situation, investment objectives and other considerations.

In preparing this report, we have relied upon and assumed the accuracy and completeness of all information available from public and other sources which we believe to be reliable, but which we have not independently verified. HRS makes no express or implied guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of such information.

Opinions, estimates, and projections expressed are current opinions of the authors as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.

HRS and its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, companies mentioned herein. Further, HRS and its affiliates, and/or their officers, directors and employees involved in the preparation or issuance of this report may, from time to time, have long or short positions in, and buy or sell, the securities, or derivatives (including options) thereof, of companies mentioned herein, or related securities or derivatives in a manner that may be consistent or inconsistent with this report and opinions expressed therein. As a result, investors should be aware that HRS and its affiliates and/or their officers, directors and employees may have a conflict of interest that could affect this report.

This report shall not be copied, reproduced, distributed (in whole or in part) or disclosed by recipients to any other person without the express permission of HRS in writing.



A Member of Horizon Capital Group

194 Nguyen Cong Tru Street, 5th Floor
District 1, Ho Chi Minh City
Vietnam

Tel: +84.8.3914.7027 Fax: +84.8.3914.7020
Email: info@horizonsecurities.com