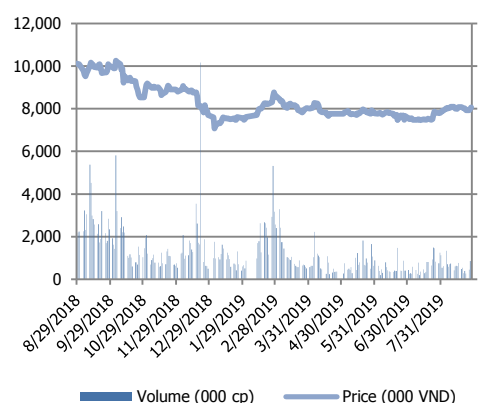


HOLD (Initiation)**VIETNAM ELECTRICAL EQUIPMENT (HSX: GEX)**

Report date	August 28, 2019
Current price	20,150 VND
Target price	22,500 VND
Upside	10.25%
Bloomberg	GEX VN
Market cap	VND 9.765bn
52 weeks movement	VND 17,700 VND 25,600 –
Average daily value	VND 31bn
FOL	49.0%
Current FO	16.3%

Price movement

Stock performance	1M	3M	12M
GEX (%)	2.2%	3.1%	-23%
VN-Index (%)	-1.7%	0.5%	-1.5%

Source: Bloomberg

Major Shareholders

GEX Investment Co Ltd	16.26%
MBCap Group	5.10%
ECO&MORE Environment and Fresh Water Investment, JSC	4.95%

Chu The Huynh

Huynh.ChuThe@mbs.com.vn

Investment Opportunities

We recommend a HOLD for GEX based on: (1) Good growth and high efficiency of electrical equipments and materials segment, (2) Positive and improved results of the expanded areas via M&A, especially when forming the value chain from production to distribution, (3) Potential of real estate that GEX has the rights to use and possibly convert to commercial properties with additional value in the future.

Investment Thesis

The restructuring process has been actively implemented in the past 3 years, making GELEX gradually become one of the leading conglomerates in Vietnam.

- To be the leading electrical equipment company nationwide: The electrical equipments and materials segment continues to grow steadily with high potential in the coming years when the company gradually completed the value chain to supply products for high-, medium-, low-voltage and residential electricity systems.
- Meanwhile, new power generation projects has been completed and started to contribute to utility segment, such as Cannan 1 & 2 hydropower-2018, Ninh Thuan solar power-2019 and Quang Tri wind power-2022. Total generating capacity is expected to reach 500-600MW by 2025. Water supply project includes the capacity expansion of Song Da water plant to 600,000 m3/day in 2022 and 1.2 million m3/day in 2030. GEX also considers investment opportunities in this area.
- Logistics operation is stable and promising when benefiting from growth of the economy and especially Vietnam's export and import.
- The company also shows its ambition to expand into industrial parks and construction materials, forming the supply chain of industrial products to customers in industrial and residential areas. Along with electrical equipments and materials, GEX will prepare to participate in the Vietnam wholesale and retail electricity market when possible, aiming at enterprises in industrial parks.

Valuation

We forecast business performance for the period 2019-2023 and apply valuation methods FCFE, P/E, P/B, EV/EBITDA to get a target price of 22,500 VND/share. Our projection does not include real estate projects that GEX will implement in the near future. We believe stock value will be higher when these projects are implemented and we will update the pricing model when new details are released.

Key Risks

Specific risks in each business sector of the company that directly affect GEX's results include market risk, market competition, risk of raw material.

The risks of capital imbalance, high cost of debt, business efficiency decrease when the company continues to increase debt to finance investment projects and M&A need to be assessed and managed.

VND bn	FY18	FY19F	FY20F	FY21F
Net revenue	13,699	15,688	17,797	20,097
EBIT	1,319	1,738	1,985	2,184
Net profit	1,283	1,154	1,347	1,610
Net profit (basic)	1,242	1,154	1,347	1,610
EPS (VND)	2,484	1,811	2,207	2,745
EPS growth (%)	11%	-6%	22%	24%
P/E (x)	9	11	9	7
EV/EBITDA (x)	5.2	6.5	5.4	4.5
Cash dividend (VND)	-	500	600	1,000
Dividend yield (%)	0%	3%	3.1%	5.1%
P/B (x)	1.41	1.59	1.46	1.34
ROE (%)	16%	13%	14%	16%
Net debt/Equity (%)	43%	77%	64%	44%

Source: MBS Research

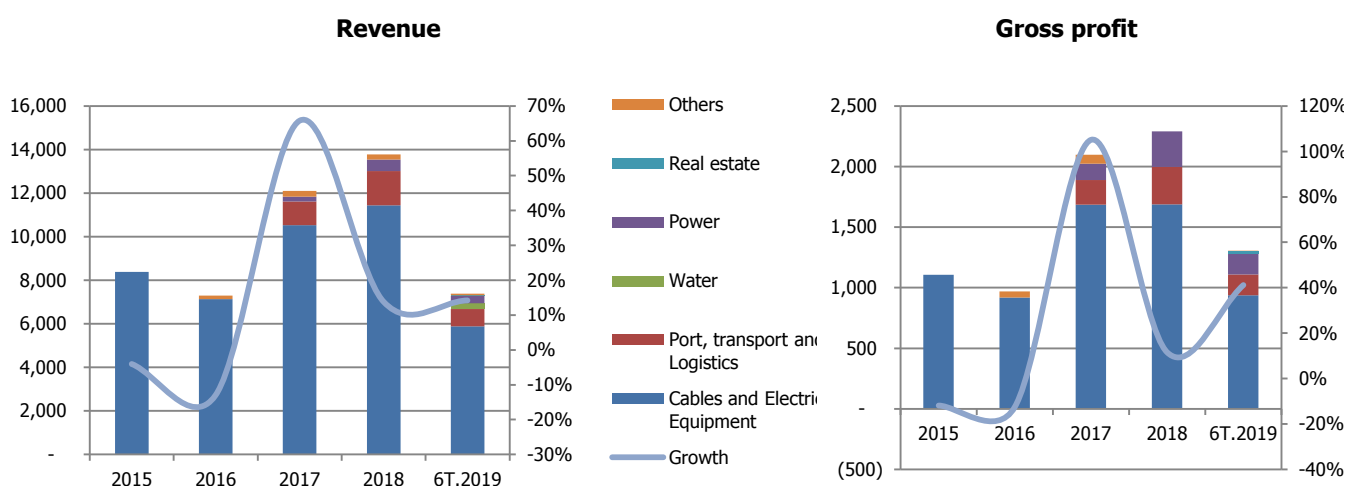
Investment thesis

Investment Highlights

Core business - electrical equipment has a stable growth

Production and business activities of subsidiaries and affiliates continued growing steadily over the years. After acquiring and holding majority stake, GELEX restructured and reorganized the group of companies via concentrating on specialization, improving production capacity, creating value chains in electrical equipments and materials, and ultimately improving business efficiency.

Revenue – Profit breakdown



Source: FS GEX, MBS Research

Electric cables and electrical equipments contributed more than 80% to revenue of GELEX and continued to grow 13.8% yoy in 1H19. Despite intensive competition, GEX's products were still sold well and grew in 2Q19. The company has completed and put into operation a new cable factory in Da Nang, increasing the capacity by 20,000 tons of all kinds.

Meanwhile, the utility group, including electricity and water supply, also increased sharply by 56%, of which water supply grew by 22% yoy while electricity was not available in 1H18. We believe that the utility segment will continue to grow well in 2H19 thanks to stable market demand and Ninh Thuan solar power plant to go into operation.

The Logistics segment also had a good growth in 2Q19 (+23% yoy) after having a slight decrease in 1Q19. Logistics revenue reached VND 788 billion in 1H19 (+8% yoy).

Profit after tax for 1H19 reached VND 465 billion, down 8% yoy due to a financial income of VND 222 billion from revaluation of investment in subsidiaries in 2018. If excluded, basic operating profit 1H19 would be increased by 37% yoy.

Improved results thanks to raw material price decline

Basic metals such as copper, aluminum, silicon steel are main raw materials in manufacturing cables and electrical equipments, accounting for 75-80% of COGS. The prices of these metals have fallen sharply since mid-2018 due to concerns about slowdown at economies around the world, especially in China, which is the largest consuming market of those basic metals.

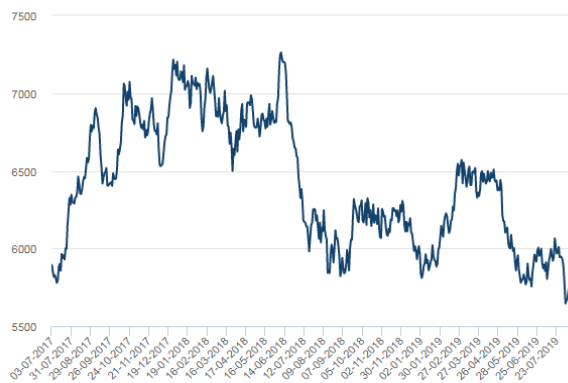
Copper prices have dropped sharply from 7,500 USD/ton in June 2018 to 5,900 USD/ton earlier this year and are currently at only 5,600 USD/ton, equivalent to a 22% decrease.

Meanwhile, aluminum prices have fallen even more sharply from 2,400 USD/ton in May 2018 to the current lowest level of 1,700 USD/ton, equivalent to a 29% decrease.

Base metal prices remain low and are unlikely to rebound sharply as increasing concerns over the US-China trade war continue to affect the Chinese economy, keeping demand growth for metals slow.

This will positively impact production and business performance of GELEX cable and electrical equipment segment in the coming years.

Copper price (USD/ton)



Aluminum price (USD/ton)



Source: LME, MBS Research

Ambition to transform into a leading conglomerate in Vietnam

In the coming years, GELEX will continue pursuing growth by participating and becoming a leading enterprise in the fields having high growth potential, such as industrial production (electrical equipment and construction materials), renewable electricity, logistics, industrial park and industrial utility supply, offices and high-class hotels in Group I cities.

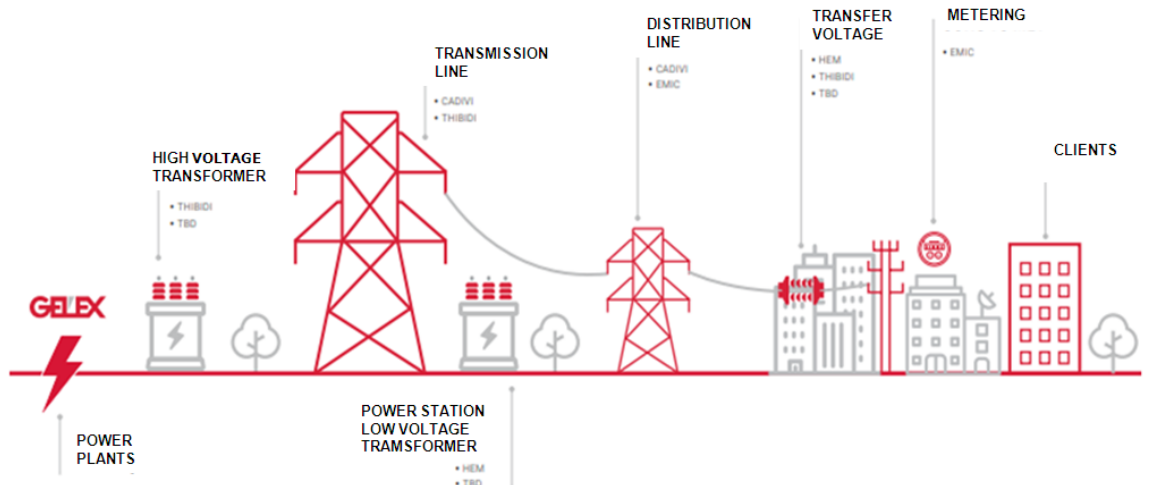
The size of the company continued to increase when the company purchased 111.93 million shares of Viglacera Corporation in 1H19, equivalent to 24.96%, with an investment value of VND 2,479 billion. Total assets increased by 19% compared to the beginning of the year and reached VND 20,591 billion.

Catalysts

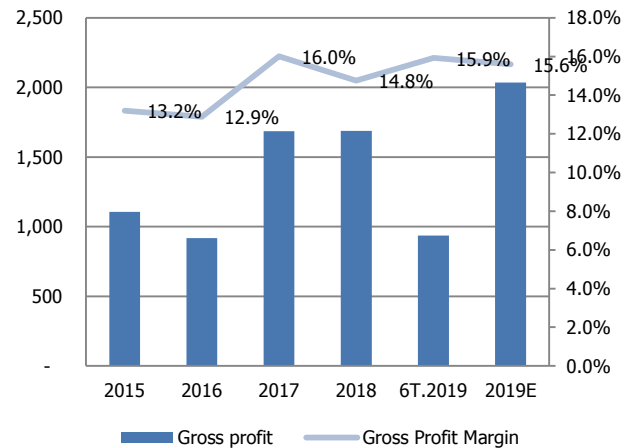
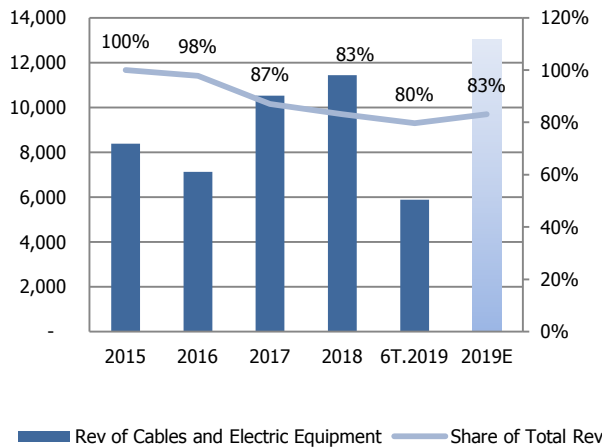
Complete value chain in electrical equipments and materials

GELEX becomes the leading player of electrical equipments and materials in Vietnam via holding majority stake of leading electric wire and cable manufacturers, including Vietnam Electric Cable Corporation (CADIVI), Vietnam Electrical Equipment JSC (THIBIDI), Ha Noi Electromechanical Manufacturing JSC (HEM), Dong Anh Electrical Equipment Corporation (TBD). The company established GELEX Electric Equipment Co., Ltd (GELEX Electric) to group companies producing electric equipment and cables, creating a unified management to improve production and business efficiency

The products of the industrial manufacturing group vary across the power sector, from wires, transformers, metering equipment and electric motors, all of which are currently products of the leading manufacturers on the domestic market.



Revenue and gross profit of electric equipment segment



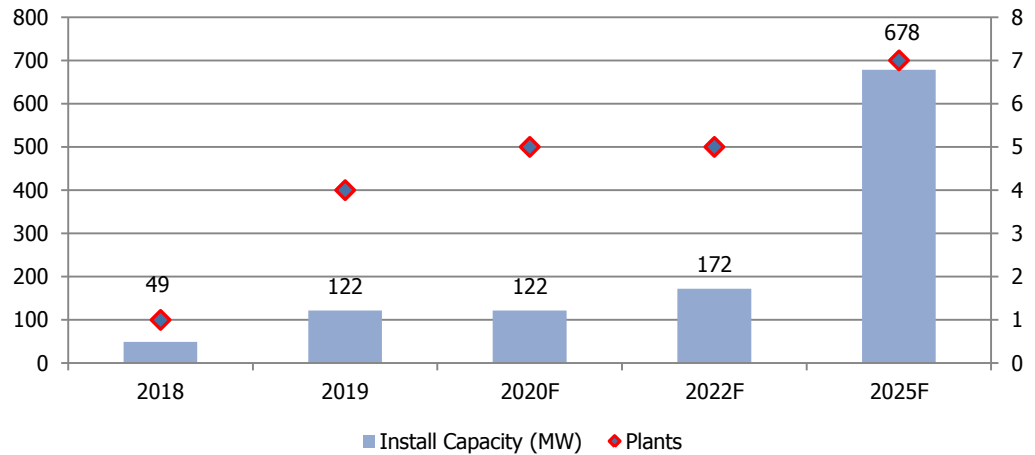
Source: GEX, MBS Research

Expansion of utilities through investment and M&A

GELEX has paid special attention to this group and has made steady steps by establishing GELEX Energy Co. Ltd (GELEX Energy) to manage and operate this group, including electricity and water.

In the field of electricity, the company has put into operation Song Bung 4A hydroelectric plants with a capacity of 49MW, Canan 1 & 2 hydroelectric plants with a capacity of 25MW, Binh Thuan Solar Power Project 50MW and are focusing on solar power project GELEX-Huong Phung 1 of 50MW.

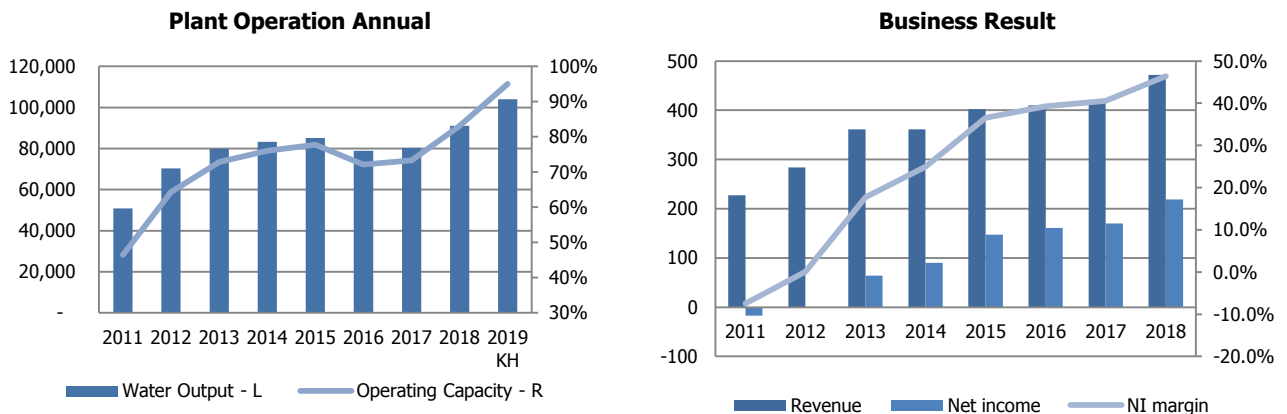
The company is expected to continue investing in other renewable energy projects in Quang Tri and Binh Phuoc so that the generation capacity will reach 350-500MW by 2025.



Source: AR GEX, MBS Research

Regarding water segment, GELEX is investing in Song Da Water Investment JSC (VCW), which is the largest water management and operation unit in Hanoi with a capacity of 300,000 m³/day, supplying clean water to the Southwest of Hanoi and will continue to expand along Mieu Mon - Xuan Mai - Hoa Lac - Son Tay. The plant production is increasing and reaching 95% designed capacity.

VCW's business results are increasing as market demand grows. The plant is expected to operate at 100% designed capacity by 2020.



Source: Viwasupco, MBS Research

The plant is to raise its capacity to 600,000 m³/day via 2 components: 1) building transmission and distribution systems No. 2 and 2) building plant to double production capacity to 600,000 m³/day.

The component of transmission and distribution systems No. 2 is actively implemented, expected to be completed in 2021. Current production will then reach 100% designed capacity and ensure continuous water supply for demand in the West of Hanoi.

The other component of capacity expansion will be constructed in 2020-2024, expected to satisfy increased demand from Mieu Mon - Xuan Mai - Hoa Lac - Son Tay.

In the long-term, the plant's output is expected to reach 1,500,000 m³/day by 2050 according to the Prime Minister's Decision No. 499/QĐ-TTg of March 21, 2013 on Approving the water supply master plan of Hanoi capital through 2030, with a vision till 2050.

Logistics development

South Logistics JSC (STG – Sotrans) manages and operates ICD Sotrans with an area of over 10 hectares, handling capacity of 450,000 TEUs, and extensive warehousing system of 230 thousand m² (plan to reach 400 thousand m³ in the coming years) in Ho Chi Minh City and Southeast provinces continue to. GELEX Logistics Co., Ltd is managing this segment.

Meanwhile, Sowatco, a subsidiary of Sotrans, is also managing and operating Sowatco Long Binh Port, District 9, Ho Chi Minh City with a scale of 20ha, 3 berths that can receive ships and barges of 5,000DWT. The location of the port deeply inland on the Dong Nai River allows Long Binh to develop in the long term when other ICDs in Truong Tho - Thu Duc area must be relocated under the urban development strategy of Ho Chi Minh City.

Via joint venture, Sowatco also holds 37% stake at No. 1 Logistics JSC which operates VICT Port in Tan Thuan Export Processing Zone. This is a big port with modern loading and unloading equipment with a large capacity of 26Contents/hour.

Besides, there are road, river, multimodal and super-heavy transport activities of members such as Vietranstimex, Sowatco,

Ports and warehouses

ICD Sotrans	Sowatco Long Binh	VICT	SPCT & Can Tho port
- 10ha at Thu Duc.	- 20ha at Distric 9 - HCMC	- 20 ha at Distric 7 - HCMC	Cooperation
450.000 Teus/year	- 3 berths that can receive ships and barges of 5,000DWT	- Allows up to 10.000 DWT. 500.000 Teus/năm	

Warehouses	Area (m ²)
Thu Duc - HCMC	35,000
Hung Dien – Binh Chanh - HCMC	30,000
Phuoc Long - Distric 9 - HCMC	15,000
Phu My – Ba Ria Vung Tau	50,000
Sotrans - Long An	10,000
Long Binh – Bien Hoa - Dong Nai	22,000
Others at Binh Duong, Can Tho, Ha Noi, HCMC	70,000
Total	232,000

Source: GEX, SOWATCO, SOTRANS, MBS Research

Great value surplus from potential real estates

The real estate segment is based on the properties that GELEX owns, manages and operates.

GELEX grouped real estate development and business activities into GELEX Land Co., Ltd. (GELEX Land) to improve efficiencies of current projects, planning suitable development strategies for other potential projects, and increasing company value in the long term.

GELEX Tower - 52 Le Dai Hanh. This is the GELEX's office combined with working office for lease of 1,937 m² at 52 Le Dai Hanh, Hanoi. The project was completed and put into use in 2014 with a total construction area of 18,289 m² with 3 basements and 22 floors.

Melia Hanoi Hotel. GELEX currently owns 76.11% of Ha Noi Electromechanical Manufacturing JSC (HEM) and HEM owns 35% of SAS-CTAMAD Joint Venture Company - the investor of Melia Ly Thuong Kiet Hotel Complex. This is a complex of hotels and offices for lease, located at 44B Ly Thuong Kiet, financial and diplomatic center of Hanoi. Melia Hotel is a world-class 5-star hotel that hosted ministers from many countries. HCO office building is currently used by many world famous companies.

Binh Minh Hotel. The Binh Minh Hotel is located at No. 10 Tran Nguyen Han and 27-29 Ly Thai To, central in Hoan Kiem District, Hanoi. Currently, the hotel is still in operation, but GELEX plans to build a complex of 5-star international standard Hotel, Commercial service and Office for lease with a total area of 9,934 m², scheduled to start after completing legal procedures in early 2020.

The group also manages and exploits a number of lands in the port and warehouse business in inner-city areas. According to the development strategy of Ho Chi Minh City and Hanoi, some ports need to move out of the city to make room for urban development. We found that Cau Dien - Nam Tu Liem – Hanoi, which HEM is managing with an area of nearly 4ha, or 10ha of ICD Sotrans are also part of the relocation program. In the long term, the company can develop these areas into commercial lands.

Currently, the company's real estate projects are still under preparing documents on construction procedures, as well as evaluating and selecting investment plans and time to ensure high efficiency. We think this strategy is suitable for the current period when the company is prioritizing to focus resources for core business activities.

Developing industrial park, supplying construction materials, energy, clean water and providing water treatment services to enterprises

Industrial park in Vietnam is growing strongly thanks to the relocation of global production and the increasing economic integration of Vietnam. Moreover, the increasingly fierce and unending US-China trade war creates opportunities for industrial park enterprises.

In order to benefit from this trend as well as complete the value chain, GELEX aims to develop industrial parks, including social housing, to create stable accommodation for workers in industrial zones, contributing to social security and attraction of industrial parks.

Besides, GELEX also aims to expand to industrial construction materials segment, enhancing the ecosystem of GELEX. The expansion can be done via investment projects or M&A with potential firms in this field or other efficient vehicles.

The group owns 25% stake of Viglacera Corporation (VGC) and tends to increase ownership whenever the State divests.

Key risks

Operating in many key areas of the economy, GELEX and its affiliates are also affected by specific risks in each business sector. Electrical equipment production is heavily influenced by demand when the products directly depend on the electricity and construction industries. On the other hand, business results have been strongly affected by fluctuation in prices of basic raw materials, which account for a high proportion of production cost such as copper, aluminum, and plastic particles. However, we believe that the company's brand, reputation and product quality built over the past 40 years will mitigate those impacts and create an opportunity for the company to expand to other segments and enhance export markets.

Electricity and water segment, albeit stable, highly depends on nature. Specifically, hydro, solar or wind power output fluctuates according with rainfalls, winds, and radiant heat that cannot be accurately measured and forecast.

Logistics segment bears specific risks related to value chain. In particular, comprehensive logistics requires a full chain of freight forwarding services for import and export goods to ensure shipment from manufacturers to consumers. However, infrastructure in Vietnam is still under development and can not satisfy requirements for logistics services. Besides, as a nature of the industry, service charges are mainly in foreign currencies, which create foreign exchange rate risk, affecting business results.

Real estate segment, which is characterized by great value, time-consuming to deploy, and huge demand for capital, also bears many risks. In addition to the mentioned economic and legal risks, real estate projects also face market risk regarding demand, risk of construction costs (due to extended implementation time), risk of investor's ability to raise capital for the project, etc.

In addition to the industry-specific risks, the company may encounter other risks when expanding into new areas, especially segment requiring huge capital from debt. If not well-controlled, capital structure will be unbalanced, operations will face many difficulties, sustainability will reduce and capital costs will increase significantly, directly affecting bottom line of the company. Thus, the company needs to seek long-term capital at appropriate costs to be sustainable in operations. Capital from equity is also an option, depending on annual business results.

Forecast and Valuation

We forecast that all segments of the company will continue to grow in the coming years, especially the utility segment thanks to expansion investments. Cable and electrical equipment will also grow thanks to growth in the electricity market and increased production capacity from additional investment in 2018-2019.

M&A activities will also be implemented in the near future in the fields of industrial parks and construction materials, and electrical equipment (via Dong Anh Electrical Equipment Corporation). Nevertheless, the state divestment process in these targets has so far no further information. We will update our assumptions when the M&A achieves more certainty.

VND bn	2018	2019E	2020F	2021F	2022F	2023F
Revenue	13,699	15,688	17,797	20,097	22,001	24,069
<i>Electrical equipments</i>	<i>11,441</i>	<i>13,043</i>	<i>14,869</i>	<i>16,951</i>	<i>18,646</i>	<i>20,510</i>
<i>Water</i>	<i>472</i>	<i>473</i>	<i>474</i>	<i>475</i>	<i>476</i>	<i>477</i>
<i>Power</i>	<i>54</i>	<i>230</i>	<i>345</i>	<i>380</i>	<i>380</i>	<i>380</i>
<i>Logistics</i>	<i>1,573</i>	<i>1,699</i>	<i>1,835</i>	<i>1,982</i>	<i>2,140</i>	<i>2,311</i>
Gross profit	2,216	2,836	3,231	3,591	3,910	4,248
Financial expenses	542	613	633	523	458	393
Selling expenses	347	396	449	507	555	607
Administrative expenses	644	706	801	904	990	1,083
Profit before tax	1,533	1,358	1,585	1,894	2,144	2,401
Profit after tax	1,283	1,154	1,347	1,610	1,822	2,041
PBT of parent company's shareholders	942	884	1,077	1,340	1,552	1,771
EPS (VND)	2,318	1,811	2,207	2,745	3,179	3,627
BVPS (VND)	13,830	12,274	13,328	14,519	15,145	15,720

Source: GEX, MBS Research

DCF method

We use the FCFE discounted cash flow method to value GEX stock based on new investment projects in the next 5 years such as the expansion of water plant and the solar power project in Ninh Thuan. We do not take into account that the company continues to buy controlling shares in Viglacera.

Capital demand for investing is forecast to increase as the company continues to expand into new areas. The company also seeks and increases loans to implement investment projects.

Cost of equity is determined at 13.26% based on the 10-year G-bond rate issued in 2Q19 and the equity risk premium of 9%.

As a result, the target price for the company reached VND 22,750 per share.

	Unit	Value
Cost of equity	%	13.26%
Net cashflow growth after 2023	%	2.00%
PV of free cashflow 2019E - 2023F	VND bn	4,652
H PV of free cashflow after 2023F	VND bn	13,967
Cash at the end of 2019	VND bn	1,006
EV	VND bn	19,625
Debt at the end of 2019	VND bn	8,517
Equity value	VND bn	11,108
Number of share outstanding	Share	488,244,000
Value per share	VND	22,752

Relative method

We select domestic and regional enterprises which have the same businesses with the company as comparable peers, resulting in:

Tickers	Companies	Countries	Market Cap (USD mn)	P/E	P/B	EV/EBITDA T12M
KCE TB Equity	KCE ELECTRONICS PUB CO LTD	Thailand	605.04	13.62	1.60	8.85
GETD IN Equity	GE T&D INDIA LTD	India	557.33	19.48	2.90	9.50
HEG IN Equity	HEG LTD	India	516.76	1.29	1.00	0.80
KEII IN Equity	KEI INDUSTRIES LTD	India	515.11	19.90	4.64	8.98
VSI MK Equity	V.S. INDUSTRY BERHAD	Malaysia	496.93	14.66	1.46	8.91
GEX VN Equity	VIETNAM ELECTRICAL EQUIPMENT	Vietnam	425.03	8.93	1.67	8.96
ANS PM Equity	SORIANO (A) CORP	Philippines	338.79	5.08	0.89	2.17
UCHI MK Equity	UCHI TECHNOLOGIES BHD	Malaysia	297.25	17.56	7.47	15.68
CCET TB Equity	CAL-COMP ELECTRONICS THAILAN	Thailand	266.01	14.51	0.51	5.93
Average			446.47	12.78	2.46	7.75

Source: Bloomberg, MBS Research

Method	Valuation (VND)
FCFE	22,750
PE	21,955
PB	22,461
EV/EBITDA	22,684
Target price	22,463

Competitive analysis

Market and opportunities of GELEX

Domestic electricity market has grown strongly in the past few years. In the past 10 years, the power source increased from 20GW to approximately 45GW by mid-2019. According to the development master plan, it will reach 96.5 GW by 2025 and 129.5GW by 2030.

Regarding electricity transmission, the number of electrical grids is constantly increasing. Electricity distribution and transmission projects are implemented to bring electricity to provinces, forests, islands, creating a basis for economic development.

Demand for electrical wires and cables has grown sharply. High-, medium- and low-voltage transmission cables have grown in according with the development of the power, real estate construction, and especially manufacturing industries.

	Unit	2016-2020	2021-2025	2026-2030
Capacity	GW	60	96.5	129.5
500KV station	MVA	26,700	26,400	23,550
220KV station	MVA	34,966	33,888	32,750
500KV lines	Km	2,746	3,592	3,714
220KV lines	Km	7,488	4,076	3,435

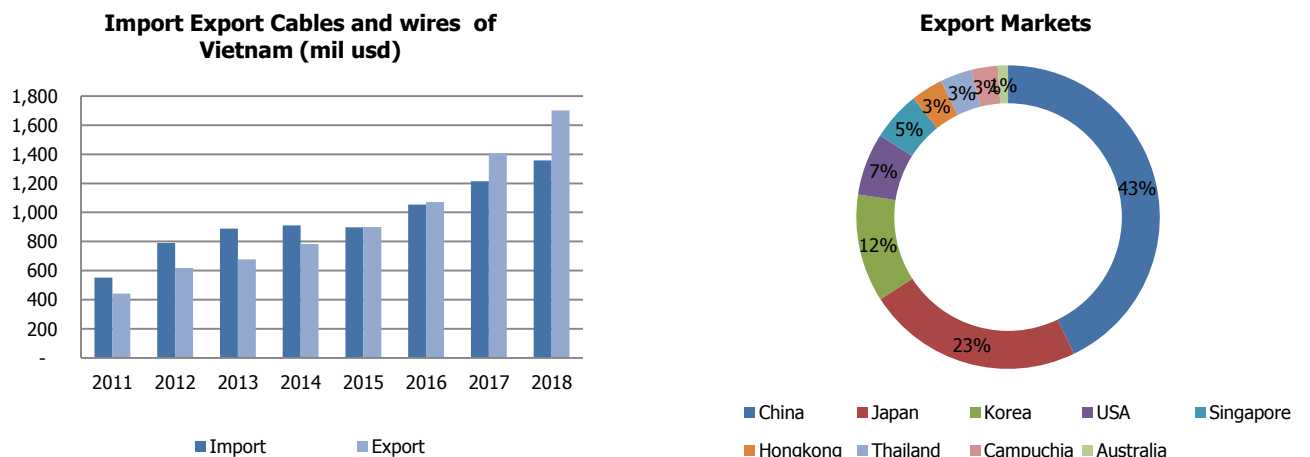
Source: Power plan VII, MBS Research

Capital requirement for electrical grid

	Unit	2016-2020	2021-2030
Total capital	USD bn	40	108
Capital for power grid	USD bn	10	27
Percentage	%	25	25
Annual average	USD bn	2.00	2.70

Source: Power plan VII, MBS Research

For export markets, domestic enterprises also strive to find and develop foreign markets to boost consumption. Export value of electrical wires and cables has been growing well over the years.



Source: GSO, MBS Research

Currently, Cadivi is one of few companies that can export to Japan and US.

Cadivi's main business is to produce electrical wires and cables for industrial and residential domestic consumption and for export. Over the years, Cadivi branded electrical wires and cables have been highly appreciated by customers for quality with more than 200 level 1st agents. The products have been exported to more than 30 countries. Currently, Cadivi is one of few companies that can export to two fastidious markets, Japan and the US, where electrical products must be of high quality and technical standards. Cadivi's export goal in 2019 is to develop new domestic and foreign customers, to focus on developing the Australian market, and to continue taking orders from the US, Myanmar and Cambodia markets. Total investment in 2019 is about VND 1,000 billion for Saigon factory and Long Thanh factory complex with an area of 6.5 ha.

Cadivi's production capacity is 120,000 tons of copper, aluminum wires and 20,000 tons of PVC, and continues to increase with expansion projects.

Meanwhile, electrical equipment market, particularly transformers and motors, also continues to grow thanks to the development of national electricity networks and manufacturing enterprises in recent years and in the coming time.

The company continues to acquire leading businesses and rearranging them to complete the value chain. In the field of electrical equipment, THI provides distribution transformers, while TBD DA supplies transmission transformers up to 500KV, and HEM manufactures and supplies electric motors.

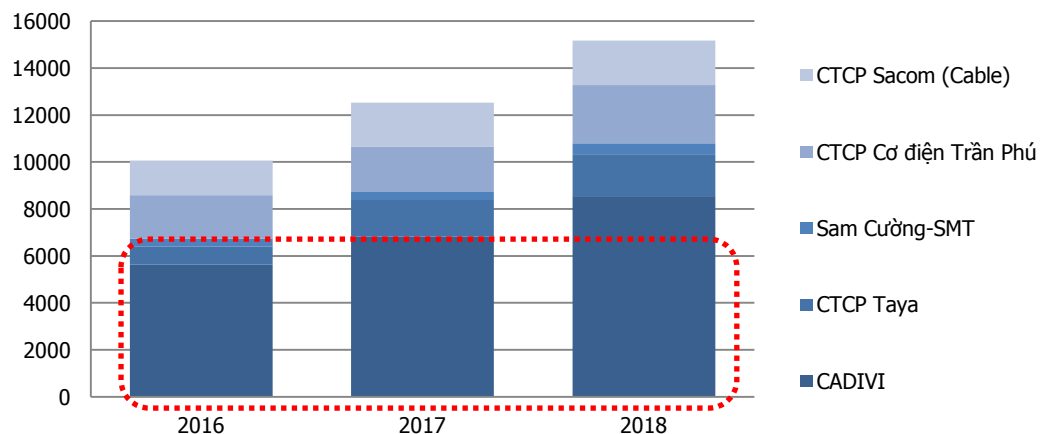
The development master plan of the electrical equipment industry to 2020, vision 2025 of the State has determined that Vietnam can produce and satisfy entire demand of electrical equipments in power transmission and substations. This is the basis for the State to have policies to encourage and support domestic businesses in developing modern technologies in production.

Electric cable is a fast growing industry, following urbanization trend and increasing demand for electricity in Vietnam as well as in the world. Import and export turnover of electric cables grew by 21% and 18% on average, respectively.

Regarding domestic production, there are currently more than 200 companies in Vietnam producing electric cables, including state-owned, joint-stock, private and FDI enterprises. Some big players: Cadivi, Cadisun, Tran Phu Electrical and Mechanical, LG Vina Cable, Taya Vietnam.

Imported electric cables of Vietnam are mainly special high voltage cables that cannot be produced domestically. Due to different segments, competitive pressure of imported cables is not much.

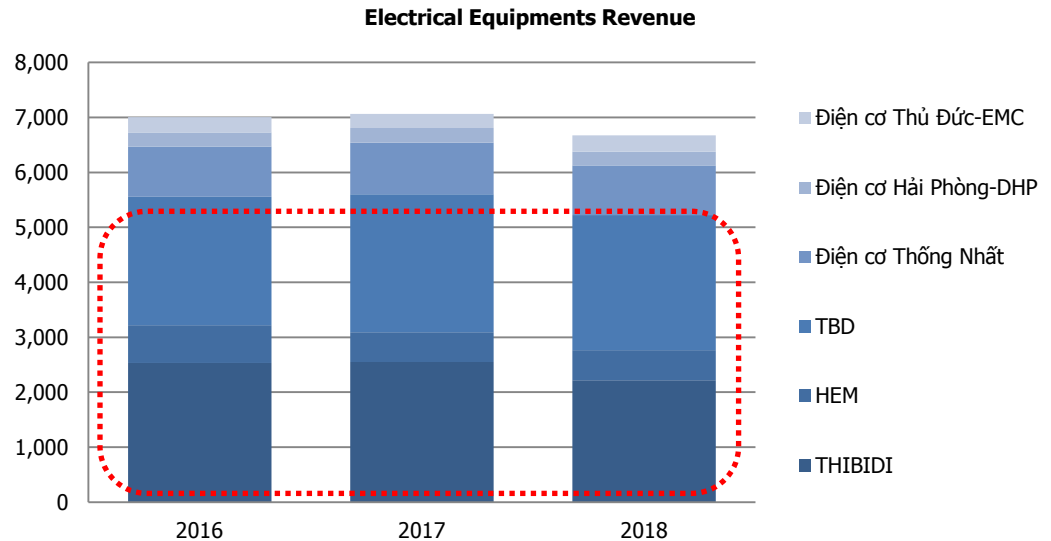
Cables and Wires Sales of Major Manufacturers



Source: FS, MBS Research

Electrical equipments segment

GEX focuses on manufacturing transformers, electric tools, electric metering equipment, etc. In the development strategy, the company will acquire three leading domestic units: Vietnam Electrical Equipment JSC (THIBIDI), Ha Noi Electromechanical Manufacturing JSC (HEM), Dong Anh Electrical Equipment Corporation (TBD). Transformer products have a wide range of markets from transmission and distribution to industrial and residential consuming.



Source: FS, MBS Research

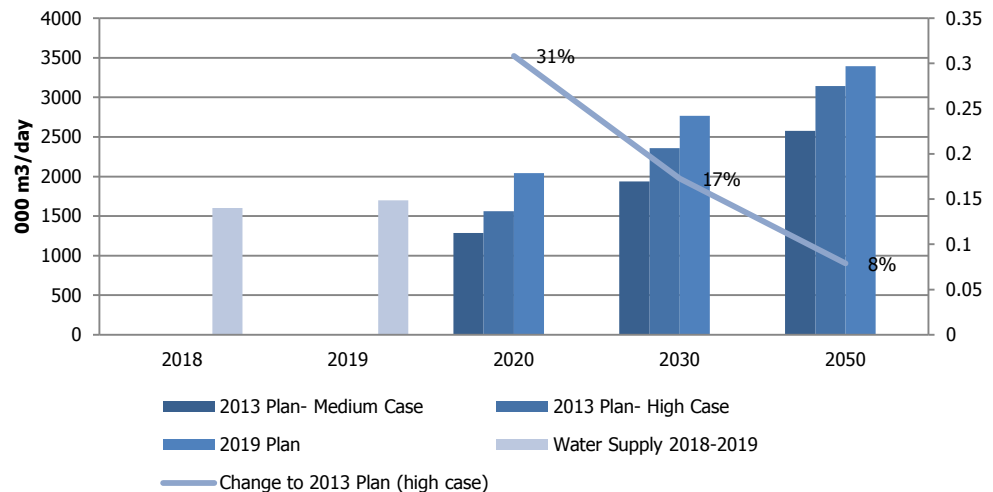
Among listed electric equipment manufacturers for transmission, metering and electric motors, GEX has owned the two strongest units, Thibidi and HEM, and continues to increase its ownership (currently 25%) in TBD when the state divests in the near future.

Utility segment

The power sector continues to grow strongly until 2030 along with the growth of the economy. The company has chose to invest in renewable energy projects such as solar power and wind power according to the sustainable trend with little impact on environment with the help of advanced technologies.

Regarding water sector, according to the Water Plan of the Capital to 2030, vision 2050 approved in 2013, the demand for clean water by 2020 will be 1.56 million m³/day, and by 2030, it will be 2.36 million m³/day and to 2050 is 3.14 million m³/day. However, under rapid urbanization and economic growth, recently, Hanoi has proposed an amendment in planned water demand, of which the demand for clean water till 2020 is expected to be 2.04 million m³/day, with average water volume for urban residents of 160-180 liters/person/day, for suburban residents of 120 liters/person/day, the usage rate of urban is 100% and suburban is about 78%, and by 2030 is about 2.77 million m³/day.

Hanoi Water Supply Planning



Source: Hanoi People's Committee, MBS Research

To meet the capital's water demand for the period up to 2030, vision 2050, both surface and groundwater sources will be used. However, surface water have priority over groundwater. Groundwater plants will gradually reduce capacity and turn into booster pump stations, become a backup water source for surface water and stop operating from 2050. Surface water sources which will replace groundwater sources are Da, Red and Duong rivers.

Urbanization is growing strongly in the western area of Hanoi with large urban projects outside the Belt 3 such as Thanh Ha Urban Area, Duong Noi Urban Area, Tram Troi - Hoai Duc Urban Area. Especially, according to the planning of Hanoi city with a vision to 2050, a series of satellite towns will be deployed for accommodation such as Son Tay - Mieu Mon - Hoa Lac - Xuan Mai. This is an opportunity for the company when the plant capacity is planned to increase to about 1.2 million m³/day by 2030. Besides, the company can also invest in new surface water plant projects such as Red River, Ba Vi or water distribution projects (Hanoi Water Co., Ltd) when the state equitized in the coming years.

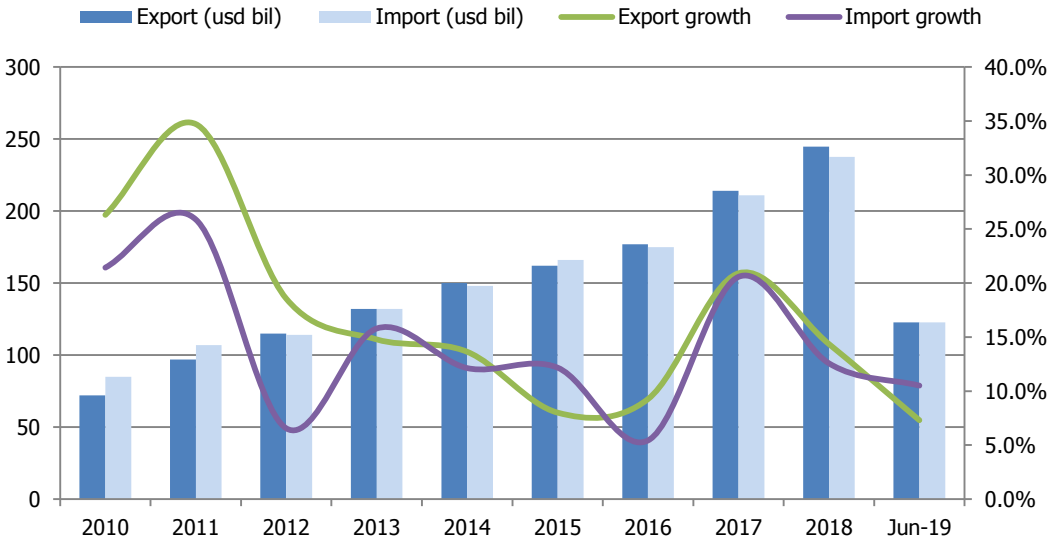
After expanding into industrial park segment, the company will also develop to supply utilities to enterprises inside and outside the industrial parks.

Logistics segment

With stably high growth of the economy in recent years, foreign direct investment inflows and production expansion of domestic enterprises, the logistics, warehousing and transportation sector is expected to continue growing in the coming years.

The company is seeking and selecting enterprises, albeit small in size, to build a comprehensive supply chain (ports, warehouses, inland waterway transport, road transport)

Vietnam import – export value



Source: GSO, MBS Research

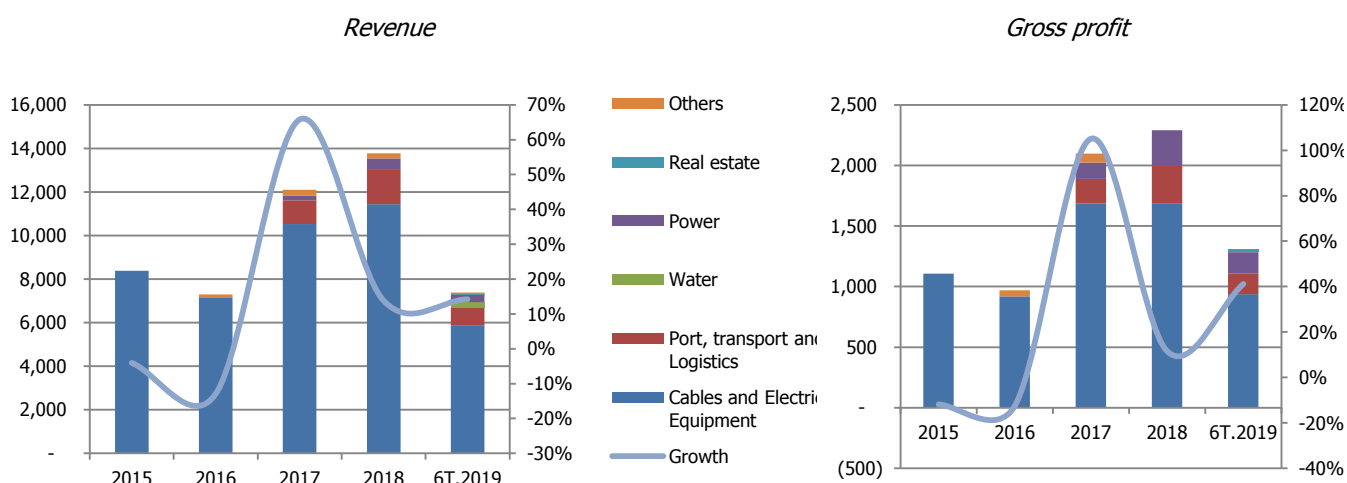
Financial analysis and forecast

In 2018, the consolidated revenue reached VND 13,699bn (+14% yoy), completed the year plan. In particular, revenue from manufacturing electrical equipments and materials reached VND 11,441bn (+9% yoy), accounting for 83.1% of total revenue. Revenue from warehouse and logistics was VND 1,573bn (+40% yoy), accounting for 11.4% of total revenue. Revenue from utility sector, which focused mainly on water as power projects have been still under construction, reached VND 526bn (+100% yoy) and accounted for 4% of total revenue.

Gross profit in 2018 reached VND 2,216bn (+12% yoy), slower than the revenue growth rate. Gross profit margin decreased to 16.17% compared to 16.57% of 2017 because gross profit margin of electrical equipments and materials segment, which represented the largest revenue share, decreased sharply in 2018 to 14.76% compared to 16.02% of 2017. Gross profit margin of logistics and utilities are high.

Financial income in 2018 reached VND 757bn (+135% yoy) thanks to gains from transferring KIP and Hanoi Plastics (VND 193bn) and profit from revaluation of investment in subsidiaries (VND 238bn)

Profit before tax in 2018 reached VND 1,533bn (+34% yoy), compared to VND 1,145bn in 2017. Profit after tax reached VND 1,283bn, profit of the parent company's shareholders reached VND 942bn (+48% yoy). EPS 2018 reached VND 2,318 per share, excluding after-tax profit contributions.



Source: GELEX, MBS Research

In 1H19, the company's business results had a good growth. Revenue reached VND 7,101bn (+14% yoy) and gross profit was VND 1,284bn (+41% yoy). Profit before and after tax respectively reached VND 581bn (-5% yoy) and VND 465bn (-12% yoy). Thus, although the after-tax profit decreased, gross profit increase indicated that core businesses are improving. Profit after tax decreased due to a sharp increase in financial expenses while financial income decreased as in 1H18 the company had a gain of VND 222bn from revaluation of investment in subsidiaries.

Electric equipment and cables had revenue of VND 5,886bn (+13.8% yoy) thanks to the stable growth and revenue of utilities, including water and electricity, increased sharply to VND 336bn (+56.3%).

During 1H19, prices of raw materials such as copper and aluminum were 18-20% lower than 1H18. Meanwhile, PVC resin price did not change much, making gross profit increased by 42% to VND

937bn. Gross profit margin of this segment increased quite well and reached 15.9% compared to 12.8% in 1H18.

Revenue from port and logistics sectors reached VND 788bn (+8.3% yoy). Thanks to good cost control, gross profit reached VND 172bn (+28% yoy) and gross profit margin reached 21.9% in 1H19 compared to 18.4% in 1H18.

Meanwhile, utilities increased strongly when water revenue was VND 264bn (+22% yoy) and gross profit was VND 151bn (+28% yoy). Gross profit margin reached 57.2% compared to 54.9% in 1H18.

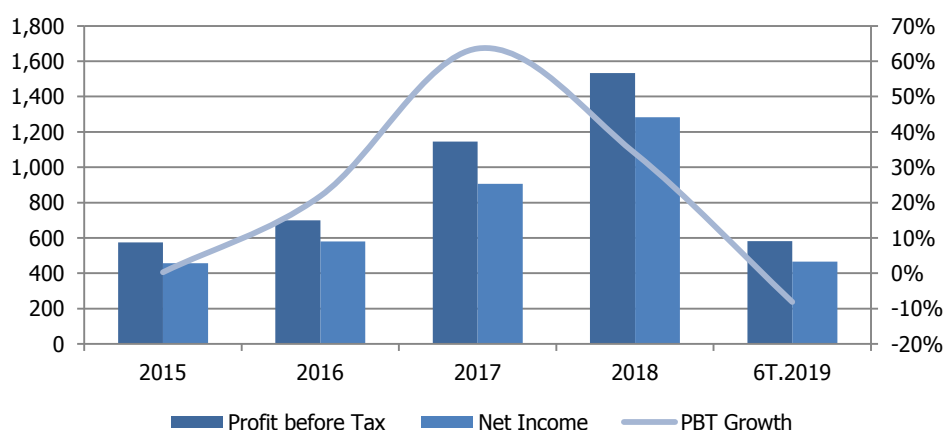
Electricity segment recorded a revenue of VND 72bn in 1H19 and gross profit of VND 23bn while 1H18 did not have revenue from this segment. Profit margin reached 32%. Hydropower revenue in 1H19 was low due to difficult hydrological situation around the Song Bung 4A plant area.

Office leasing remained stable in terms of revenue and profit. Meanwhile, other business activities saw a 26% decline in revenue and low gross profit margin but had little impact to the company's business results due to low contribution.

During th1H19, financial income decreased by VND 202bn from VND 369bn to VND 167bn due to no gain from revaluation of investment in subsidiaries and reduced interest income on deposits. Meanwhile, financial expenses increased sharply by VND 100bn from VND 272bn to VND 372bn. Therefore, profit from financial activities in 1H19 increased by VND 302bn compared to 1H18. The company has increased its debt to satisfy the expansion investments, and as a result, interest expenses in 1H19 increased by VND 71bn to be at VND 291bn. We believe that financial expenses will continue to increase when some projects start to run such as solar power plants, electric cable factory in Da Nang.

Both selling and administrative expenses increased over the same period and reached VND 222bn and 324bn, respectively. The expansion of current operations and new areas of business made administrative expense increased by 14% yoy, while selling expense increased sharply by 61%.

Profit after tax for parent company's shareholders reached VND 319bn (-17% yoy) and earnings per share reached 763 VND/share.



Source: GELEX, MBS Research

Based on the 1H19 business results, we forecast FY19 total revenue year of VND 15,688bn (+14% yoy). In particular, revenue from cable and electrical equipment would be at VND 13,043bn, from logistics transport at VND 1,699bn, from energy sector at VND 706bn, while real estate sector would be stable at VND 80bn in revenue and other activities decreased by 30% to be VND 160bn.

We also expect the company to receive contributed profit from TBD and VGC as gain/loss from associates in 2019 and the following years. We will update when the company completes increasing ownership in these entities. We forecast in 2019 profit before and after tax of VND 1,358bn and VND 1,154bn, respectively, profit for parent company's shareholders of VND 884bn, and earnings per share of 1,811 VND/share.

Asset analysis

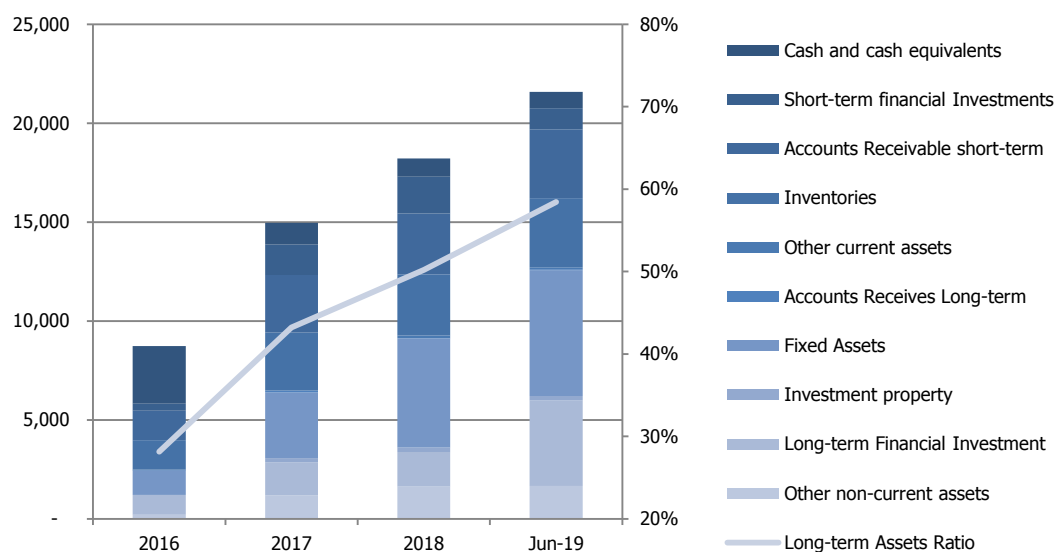
Total assets have been growing rapidly in 2018 and 1H19 from investment projects and M&A. The company also increased its debt to the highest level in the past 5 years to finance these activities, putting pressure on interest expenses in the coming periods.

Total assets have risen sharply since 2015 when the State divested all its stake and the company implemented a development strategy of expanding into new projects in utilities and executing M&A. By the end of 2018, total assets reached VND 17,246bn, an increase of 3.5 times compared to VND 4,917bn of 2015. By the end of 2Q19, total assets continued to increase to VND 20,591bn, as the company continued to invest in solar energy water and electric equipment projects.

Short-term assets were VND 7,982bn down slightly by 1.5% compared to the beginning of the year and accounted for 38.8% of total assets, while long-term assets reached VND 12,609bn, up 37.9% and represented 61.2% of total assets.

Regarding short-term assets, cash and cash equivalents reduced while receivables and inventories increased. The receivables also included a deposit of VND 1,073 billion to buy shares of an electric equipment manufacturing company.

Meanwhile, the increase in long-term assets mainly focused on fixed assets and long-term investments. In 2Q19, the company completed and put into operation Ninh Thuan solar power plant with an investment value of about VND 1,200 billion. At the same time, the group of companies also bought 111.93 million VGC shares of Viglacera with a total value of VND 2,478.86bn (24.97% stake). The water project phase II has been under construction with a value in progress of VND 620bn, increased by VND 110bn compared to the beginning of the year.



Source: GELEX, MBS Research

Capital structure

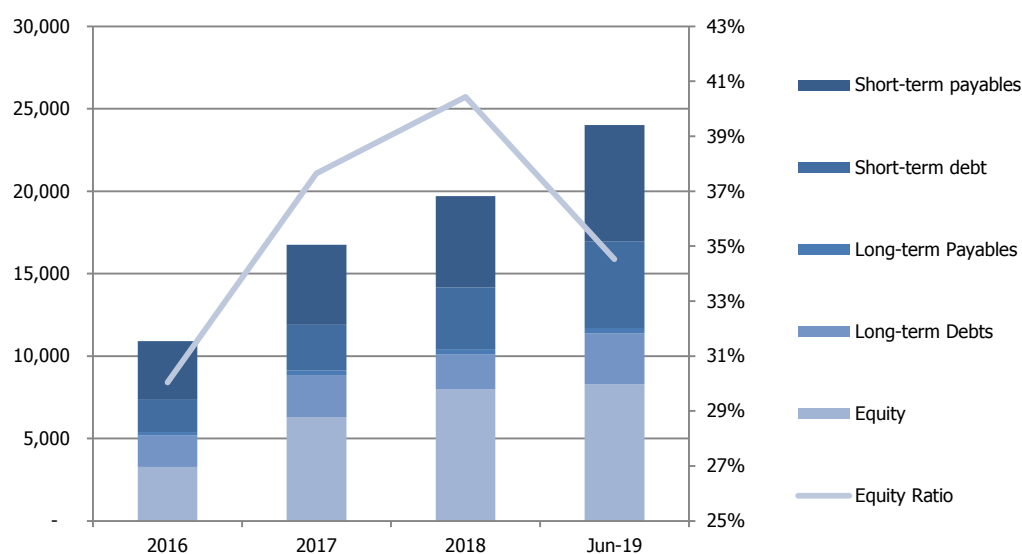
In accordance with the increase in assets, capital of the company also increased rapidly, in which liabilities increased by 82% per year on average in the last 3 years, while equity was 33%. Liabilities

as of the end of 2018 were VND 9,282 billion, of which short-term liabilities were VND 6,827 billion, long-term were VND 2,455 billion. Equity reached VND 7,965 billion.

During 1H19, liabilities increased to VND 12,303bn, up 30%, while equity reached VND 8,288bn, up 4% compared to the begin of the year.

Short-term liabilities were VND 8,890bn, accounting for 43% of the total capital, increased by 30% compared to the beginning of the year. Long-term liabilities reached VND 3,413 billion, accounting for 17% of the total capital, increased by 39% compared to the beginning of the year. Long-term liabilities consisted mainly of long-term debt of VND 3,086bn.

Total short-term and long-term loans and bonds by the end of 2Q19 were VND 8,342bn, of which short-term debt was VND 5,256bn, an increase of VND 1,514bn, and long-term debt was VND 3,086bn, increased by VND 954bn compared to the beginning of the year.



Source: GELEX, MBS Research

The company continues to carry out investment projects in the fields of electric power and water, and thus the increase in short and long-term debt at the moment is appropriate. Current capital structure is quite balanced, in our view, and bears not much solvency risk. However, for investment projects in the long-term, the company needs to seek long-term stable funding sources. We also expect increasing financial expenses in the coming periods in accordance with fast rising debt.

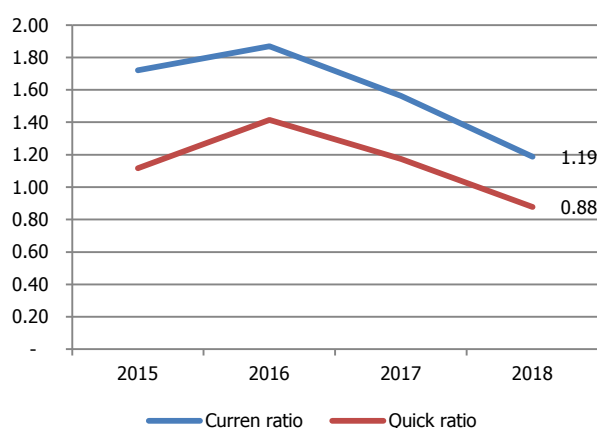
Equity also increased to ensure the balance of capital structure for investment projects, via conversion of convertible bonds, issuance of new shares to existing shareholders, new shares issuance at the rate of 15%. After the issuances, the charter capital will reach VND 4,882.44bn.

Financial ratios

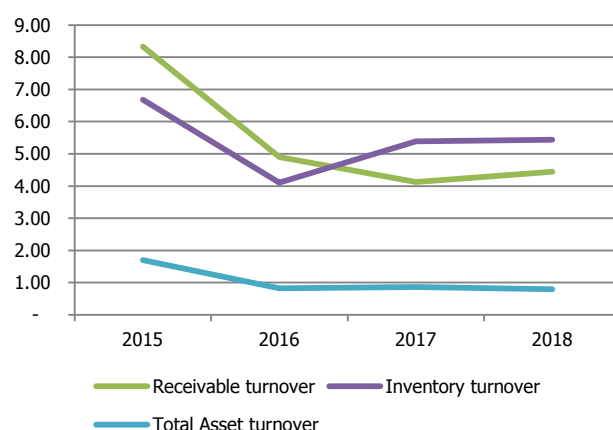
Liquidity ratios have declined, reflecting the company's operation and development investments. By the end of 2018, the current ratio was 1.19 while the quick ratio was 0.88. It will take time to return to good levels as before because the company is in the process of investing in big projects.

Operating ratios remained at the average level of the past 3 years, though lower than 2015 when the State divested and the company began to expand its size. We expect the operating ratios to increase when the investment projects come into operation with greater revenue and lower depreciation costs over the years.

Liquidity ratios



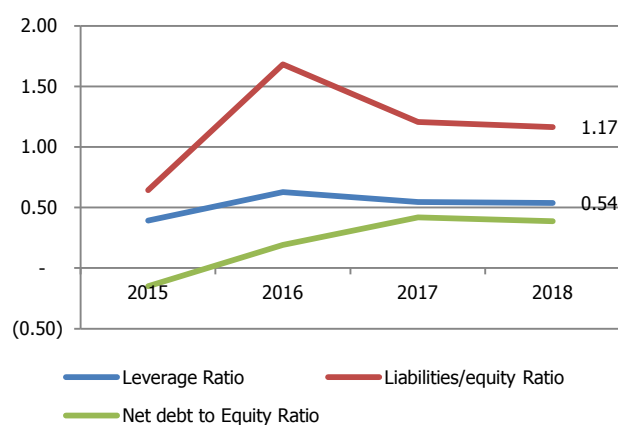
Operating ratios



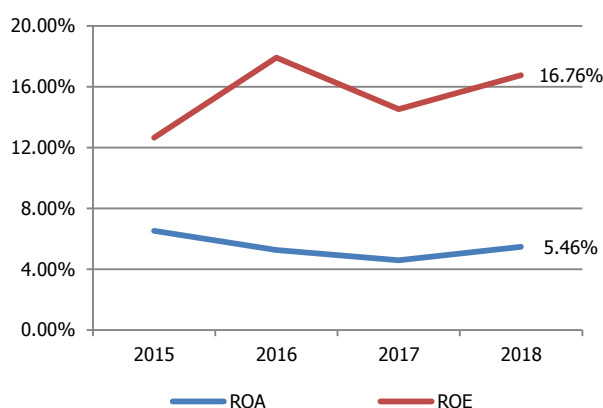
Liabilities were at a time doubled to equity, though they were controlled at 1.65 times by the end of 2018. Net borrowing at the end of 2018 reached a relatively low level of 0.39 times of equity, indicating that equity is also increasing to ensure capital structure balance.

Profitability ratio shows slightly increases in 2018 (ROE of 16.8% and ROA of 5.5%). We believe that the profitability in 2019 will not be good because the company continues to invest in new projects and those projects have not come into operation to take effect yet.

Leverage ratios



Profitability ratios



Cashflow analysis

	Unit	2015	2016	2017	2018	H1.2019
Profit before tax	VND bn	574	700	1144	1533	581
Cash flow from operating activities	VND bn	6	147	-31	493	929
Cash flow from investing activities	VND bn	-353	-697	-2.460	-1.369	-3635
Cash flow from financing activities	VND bn	95	2.943	676	701	2.593
Cash and cash equivalent	VND bn	518	2.912	1.098	924	811
Net debt	VND bn	(446)	624	2.636	3.086	6.451
Equity	VND bn	2.993	3.277	6.306	7.965	8.288
Net debt/equity	%	-15%	19%	42%	39%	78%

Source: GELEX, MBS Research

Cash flow from operating activities recently was quite good, albeit lower than net earnings. Meanwhile, cash flow from investing activities was largely negative because the company has implemented the strategy to increase company size by investing in new projects and M&A new businesses. The company also raised huge financial cash flows for this strategy, especially in 1H19 with an increase of VND 2,593bn in debt.

Increasingly using debt to finance expansion strategy could cause financial imbalance. Net debt has increased to reach VND 6,451bn at the end of 2Q19, double the amount at the beginning of the year. The ratio Net debt/Equity increased to 78%, the highest level in the last 4 years.

Appendix

VIETNAMESE NAME:	TỔNG CÔNG TY CỔ PHẦN THIẾT BỊ ĐIỆN VIỆT NAM
GLOBAL NAME:	VIETNAM ELECTRICAL EQUIPMENT JOINT STOCK CORPORATION
ALIAS:	GELEX
HEADQUARTER:	GELEX Tower, 52 Le Dai Hanh Street, Hai Ba Trung District, HaNoi
TEL:	8424 3972 6245
FAX:	8424 3972 6282
WEBSITE:	http://www.gelex.vn

Vietnam Electrical Equipment Joint Stock Corporation (GELEX) was established in 1990, with the role of grouping business units in the electrical equipment industry. After the State divested its stake in December 2015, GELEX had a drastic change toward expanding business fields and M&A leading electric equipment manufacturers, power, water, logistics projects and restructured into 4 main areas that closely create synergy and increase operational efficiency.

1. Electric Equipment - GELEX ELECTRIC

Electrical equipment group consists of leading manufacturing companies in cables (Vietnam Electric Cable Corporation - CADIVI), transformers (Vietnam Electrical Equipment JSC – THIBIDI, Dong Anh Electrical Equipment Corporation – TBD), electric motors (Ha Noi Electromechanical Manufacturing JSC – HEM), electric metering equipment (EMIC Electrical Measuring Instrument Ltd).

2. Utility - GELEX Energy

This segment is fairly new. GELEX currently owns Song Da Water Investment JSC via M&A, with current capacity of 300,000m³/day. The expansion project to double capacity to 600,000m³/day is in progress.

In 2018, the company also implemented 2 solar and wind power projects. Previously, the company bought SCI Nghe An company who is the investor of Canan 1-2 project with a total capacity of 23 MW. According to the development plan, the company will increase total capacity of power plants to 657 MW by 2025.

- Song Bung 4A Hydropower Plant: 49MW
- Canan 1-2 Hydroelectric Plant: 23 MW, of which Canan 2 with a capacity of 16MW has been put into operation since 3Q18 and Canan 1 with a capacity of 7MW will be put into operation in 2Q19.
- Ninh Thuan solar power plant: 49 MWp, went into operation in May 2019

Other projects that will be implemented until 2025 are:

- GELEX 1,2,3 wind project in Quang Tri, total capacity of 90MW
- Huong Phung 2 wind power project, total capacity of 20 MW
- Huong Phung 3 wind power project, total capacity of 30MW
- Binh Phuoc solar power project, total capacity of 416MWp

3. Logistic - GELEX Logistics

Logistics and warehousing group include South Logistics JSC (Sotrans), Southern Waterborne Transport (Sowatco), Vietranstimex Multi Modal Transport Holding (VTM). These are big

players in the South region, operating in the field of port operation, warehousing, river and road transportation, creating logistics chain in the largest economic region in the country.

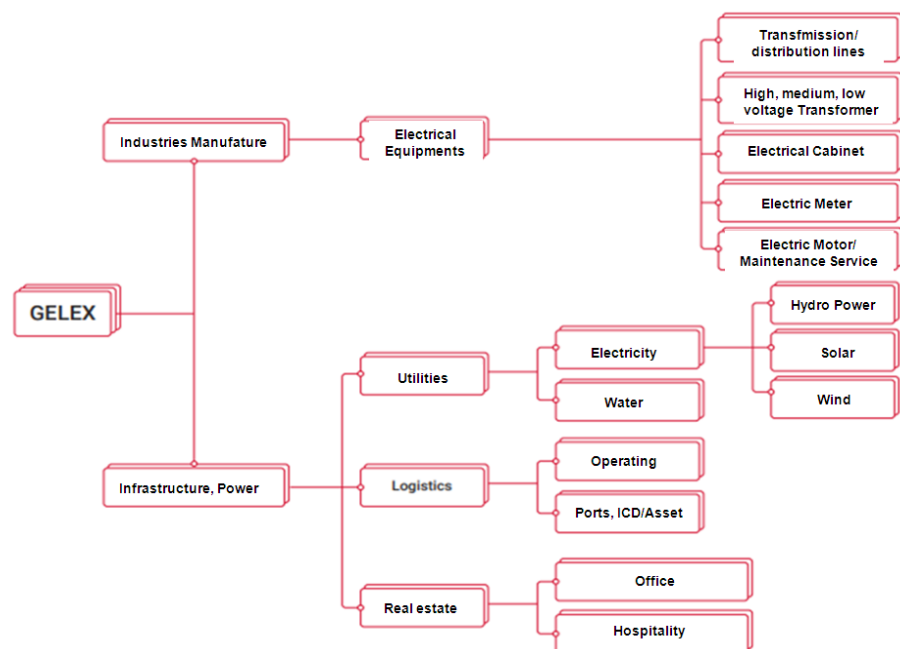
4. Real estate - GELEX Land

Real estate segment was based on real estate projects of subsidiaries and associates of GELEX. Some of the major real estate are Gelex headquarters building, Project 10 Tran Nguyen Han, Melia hotel project, factories located in the inner city (Cadivi, Thibidi, Sotrans or Sowatco in Ho Chi Minh City, Bien Hoa).

- Gelex Tower 52 Le Dai Hanh - Hai Ba Trung - Hanoi
- Melia Hotel - Hanoi: GELEX currently owns 76.11% of Hanoi Electromechanical Manufacturing JSC (HEM), while HEM owns 35% of SAS-CTAMAD Joint Venture who is the investor of the Melia Ly Thuong Kiet Hotel Complex
- Binh Minh Hotel Project - No. 10 Tran Nguyen Han - Hanoi
- Cadivi Tower- 779 Kinh Duong Vuong - District 6 - Ho Chi Minh City
- Factory land area of HEM with an area of about 4 ha.
- Thu Duc ICD land lot of Sotrans with an area of 10ha.

The company also aims to expand into industrial park via acquiring controlling stake in Viglacera Corporation. By the end of 1Q19, the company owns 24.9% of Viglacera. This is a long-term view to provide comprehensive solution packages for industrial park clients.

Group structure



List of subsidiaries and associates

No	Company	Ownership	Charter capital (VND)	Main activities
I.	Công ty TNHH Thiết bị Điện GELEX	100%	2,219	SXKD và quản lý các khoản đầu tư trong lĩnh vực sản xuất thiết bị điện
1	CTCP Dây cáp điện Việt Nam-CADIVI	91.64%	576	Sản xuất kinh doanh dây và cáp điện
1.1	- CT TNHH MTV Cadivi Đồng Nai	100.00%	Na	Sản xuất kinh doanh dây và cáp điện
1.2	- CT TNHH MTV Cadivi Miền Bắc	100.00%	Na	Sản xuất kinh doanh dây và cáp điện
2	CTCP Chế tạo điện cơ Hà Nội- HEM	66.16%	368	Sản xuất chế tạo kinh danh thiết bị, động cơ điện
2.1	- CTCP điện cơ Hà Nội	99.82%	13	Sản xuất chế tạo kinh danh thiết bị, động cơ điện
2.2	- Trường Cao đẳng Công nghệ Hà Nội	100.00%	19	Đào tạo bồi dưỡng cao đẳng và dạy nghề
2.3	- CTCP chế tạo Máy điện Việt Nam-Hungari	65.37%		Sản xuất chế tạo kinh danh thiết bị, động cơ điện
3	CTCP Thiết bị điện -Thibidi	78.52%	488	SX chế tạo kinh doanh thiết bị điện
3.1	- CTCP Sản xuất thiết bị điện Đông Anh	51.00%	120	SX và KD máy biến áp
3.2	- TCT Thiết bị điện Đông Anh CTCP	24.89%	283	SX và KD máy biến áp
4	CT TNHH thiết bị đo điện EMIC	100.00%	150	SX chế tạo kinh doanh thiết bị đo điện
II	Công ty TNHH MTV Năng lượng GELEX	100.00%	2,300	Quản lý các khoản đầu tư trong lĩnh vực năng lượng
1	CTCP Phú Thạnh Mỹ	71.28%	618	Sản xuất thủy điện
2	CTTNHH MTV Năng lượng Gelex Ninh Thuận	100.00%	368	Sản xuất, truyền tải và phân phối điện mặt trời
3	CTCP Đầu tư nước sạch Sông Đà	60.46%	750	SX và cung cấp nước sạch
4	CTTNHH điện gió Hướng Phùng	84.62%	39	SX, truyền tải và phân phối điện gió
III	Công ty TNHH MTV GELEX Logistics	100.00%	1,210	Quản lý các khoản đầu tư trong lĩnh vực kinh doanh dịch vụ kho bãi, hàng hóa và vận tải
1	CTCP Kho vận Miền Nam	54.78%	854	Kinh doanh dịch vụ kho bãi và lưu giữ hàng hóa
2	CTCP Cảng miền Nam	51.00%	20	Kinh doanh vận tải đa phương thức, giao nhận hàng hóa
3	CT TNHH MTV đầu tư hạ tầng Sotrans	100.00%	220	Kinh doanh dịch vụ hỗ trợ liên quan đến vận tải
4	TCT CP Đường Sông Miền Nam	84.39%	671	Kinh doanh thương mại, cơ khí đóng tàu và dịch vụ tiếp vận
5	CT TNHH MTV Sotrans Hà Tĩnh	100.00%		Kinh doanh hoạt động vận tải bằng đường bộ
6	CTCP Vận tải đa phương thức Vietranstimex	84.00%	210	Vận tải đường bộ, đường biển, đường sắt và đường thủy
7	CTCP Xây lắp Công trình	86.15%		Xây dựng các công trình dân dụng
8	CTCP Đóng mới và sửa chữa phương tiện thủy Cần Thơ	70.00%		Cung cấp dịch vụ đóng tàu và cấu kiện nổi
9	CTCP Dịch vụ xây dựng và cơ khí đường thủy Miền Nam	51.00%		Xây dựng công trình dân dụng
10	CT TNHH MTV Sotrans Logistics	100.00%		Kinh doanh dịch vụ kho bãi và lưu giữ hàng hóa

IV	Công ty TNHH MTV GELEX Land	100.00%	50	Kinh doanh bất động sản
V	Công ty TNHH Gelex Campuchia	100.00%	0.53	Kinh doanh phân phối sản phẩm thiết bị điện
VI	Công ty dây đồng Việt Nam	36.35%	191	Sản xuất và kinh doanh vật tư điện

Source: GELEX, MBS Research

CONTACT: Equity Research**MBS Equity Research**

Nguyễn Thị Huyền Dương – (Duong.NguyenThiHuyen@mbs.com.vn – Tel: 0982268088) – Southern Area Team Leader

Consumer Goods**Nguyễn Thị Huyền Dương**

(Duong.NguyenThiHuyen@mbs.com.vn – Tel: 0982268088)

Construction Materials**Nguyễn Bảo Trung**

(Trung.NguyenBao@mbs.com.vn – Tel: 0988739505)

Aviation**Nguyễn Nam Khoa**

(Khoa.NguyenNam@mbs.com.vn – Tel: 0912323051)

Pharmacy, Natural Rubber**Nguyễn Đăng Thiện**

(Thien.NguyenDang@mbs.com.vn – Tel: 0909917939)

Fisheries**Nguyễn Thanh Danh**

(Danh.NguyenThanh@mbs.com.vn – Tel: 0354358427)

Industrial, Energy**Chu Thế Huỳnh**

(Huynh.ChuThe@mbs.com.vn – Tel: 0919336595)

Securities**Phạm Việt Duy**

(Duy.PhamViet@mbs.com.vn – Tel: 0986696617)

Oil, Gas & Power**Nguyễn Hoàng Bích Ngọc**

(Nqoc.NguyenHoangBich@mbs.com.vn – Tel: 0774701272)

Logistics**Lê Khánh Tùng**

(Tung.LeKhanh@mbs.com.vn – Tel: 0335699989)

Real estate, Construction**Nguyễn Tiến Dương**

(Duong.NguyenTien@mbs.com.vn – Tel: 0911225869)

STOCK RATING: The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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MBS HEAD OFFICE

MB Building, 3 Lieu Giai, Ba Dinh, Ha Noi
 Tel: +84 4 3726 2600 – Fax: +84 4 3726 2600
 Website: www.mbs.com.vn

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