

Masan Group----- Maintain NEUTRAL
Better 2018 in store, but price run-up looks to have captured this
EPS: ▲ TP: ▲

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- 2018 should show normalisation for Masan Consumer (MC). We expect 7% sales growth led by beverages, upscaling of product portfolio (seasonings and noodles) and relaunch of beer. NPATMI should rise 39% on margins, lower SGA and declining leverage.
- More strength in tungsten prices (up 7% in 2M) should underscore the high operating leverage nature of the mining business and lift NPATMI by 66% YoY in 2018E (aided by lower finance costs).
- We factor in the estimated gain on the sale of bonds in 4Q17 and lift EPS by 14%. Other than this, we raise our numbers by 18-28% on metal prices, shrinking SGA and impact of ~10% share buyback.
- With market P/E re-rating by ~41% since Oct (to 20.8x) and consensus calling for 20% EPS growth (vs 9% in 2017), we believe MSN also merits richer multiples. We raise our P/E target for MC to 25x (from 20x) and our P/B target for Techcombank to 3.1x due to superior ROE (27% trailing). Our SOTP-based target price climbs to D89,000/sh (up 59%), but we retain our Neutral rating as the price run-up has captured the earnings rebound, in our view.

Mining NPATMI to rise 66% on metal prices and lower debt
 Masan Resources has entered into a sweet spot from rising commodity prices, with the tungsten benchmark up by another 7% in 2M (after a 47% rally in 11M17). With financial charges receding, we expect NPATMI of the mine to grow 66% YoY in 2018E. The high operating leverage nature of the business is also evident from every 1% increase in our ASP assumption adding 9% to NPATMI, on our estimates.

Challenges in feed...but well placed to emerge from slump
 While pork prices have somewhat recovered from lows, a challenging environment is still in place. However, we believe MSN is better positioned to capture market share due to scale effect and the exit of smaller players. The company has maintained gross margins during the slump (9M17: 22%, flat YoY) and we expect similar levels going forward, as raw material prices have been stable (corn hovering at US\$3.5/bushel).

Lifting forecasts by 14-28%

MSN has sold off of a portion of its convertible bonds of Techcombank in 4Q17, and our discussion with management indicates that the effective stake in the associate entity is down to ~25% (from 36%). We lift our 2017E estimate by 14% to reflect an estimated one-off gain to be booked during the quarter. Beyond 2017E, we have increased our numbers by 18-28% to account for more firmness in tungsten prices, declining SGA expenses, market share gains in animal feed and impact of the recently concluded share buy-back scheme (~10%).

Sharp market re-rating calls for higher multiples for MSN

Vietnam's market valuations have re-rated by ~41% in the past 3M to reach a forward P/E of 20.8x, and consensus estimates are calling for an acceleration in EPS growth to 20% in 2018E (vs 9% in 2017). In such a scenario, we believe our target multiples for MSN have proved to be conservative. Accordingly, we raise our target P/E-based valuation for Masan Consumer to 25x (from 20x), which still reflects a discount of 14% to regional consumer staples. Similarly, we apply a 3.1x P/B multiple for Techcombank using Gordon Growth Model and a trailing ROE of 27%. Overall, our SOTP-based target price increases to D89,000/sh (up 59% from D56,000/sh), inclusive of share buyback impact.

Bbg/RIC	MSN VN / MSN.HM	Price (22 Jan 18, D)	92,500		
Rating (prev. rating)	N (N)	TP (prev. TP D)	89,000 (56,000)		
52-wk range (D)	93000.0 - 40650.0	Est. pot. % chg. to TP	(4)		
Mkt cap (D/US\$ bn)	96,891.3/ 4.3	Blue sky scenario (D)	94,300		
ADTO-6M (US\$ mn)	2.0	Grey sky scenario (D)	81,700		
Free float (%)	41.8	Performance	1M	3M	12M
Major shareholders	Masan Corporation	Absolute (%)	25.2	63.7	124.5
	(34%)	Relative (%)	11.0	32.8	66.3
Year	12/15A	12/16A	12/17E	12/18E	12/19E
Revenue (D bn)	30,628	43,297	37,674	43,599	47,469
EBITDA (D bn)	6,141	8,654	6,258	8,774	9,356
Net profit (D bn)	1,478	2,791	2,733	3,849	4,701
EPS (CS adj. D)	1,411	2,665	2,609	3,674	4,488
- Change from prev. EPS (%)	n.a.	n.a.	13.8	18.2	28.4
- Consensus EPS (D)	n.a.	n.a.	2,107	3,070	3,495
EPS growth (%)	36.9	88.8	(2.1)	40.8	22.2
P/E (x)	65.5	34.7	35.5	25.2	20.6
Dividend yield (%)	0	3.2	0	0	0
EV/EBITDA (x)	20.2	14.4	19.4	13.5	12.1
P/B (x)	5.8	6.3	5.4	4.4	3.6
ROE (%)	9.3	17.5	16.4	19.3	19.4
Net debt(cash)/equity (%)	100.7	137.6	104.0	75.5	47.1

Note 1: Masan Group is a private-sector conglomerate in Vietnam and has three major subsidiaries: Masan Consumer (77.8%), Masan Resources (72.7%) and Masan Nutri-Science (99%). The group is also a strategic shareholder in Techcombank (30.4%)

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Restart of growth in food and beverages

We believe 2018 is likely to show normalisation in the consumer business after completion of strategic initiatives that had interrupted the company's growth trajectory in 1H17. Growth is expected to be broad based, with beverages (in particular, energy drinks) leading the way. Along with upscaling in the product portfolio for seasonings and noodles, we expect 7% YoY revenue growth to ~D14.6 bn; however, we highlight that NPATMI for Masan Consumer is expected to rise 39% YoY, on the back of mild margin accretion, a steep reduction in SGA expenses and shrinking leverage. Management opines that revenue can potentially beat 2016 levels (D14.8 bn), which implies growth of at least 9% YoY; however, we remain a bit conservative.

Figure 1: Target price sensitivity to valuation multiples (D/sh)

		Masan Consumer P/E (x)				
		21.0	23.0	25.0	27.0	29.0
TCB P/B (x)	2.1	72,339	76,193	80,047	83,901	87,754
	2.6	76,816	80,669	84,523	88,377	92,231
	3.1	81,292	85,146	89,000	92,854	96,708
	3.6	85,769	89,622	93,476	97,330	101,184
	4.1	90,245	94,099	97,953	101,807	105,661

Source: Credit Suisse estimates

Price run-up looks to have captured most of the positives

3M outperformance (33%) has priced in the earnings rebound of 2018E and has also been buoyed by optimism regarding the upcoming listing of Techcombank. With the stock now trading at 25.1x, we keep our Neutral rating intact as valuations look fair. Factors that could deliver upside include a sharper recovery in food and beverages sales, swift upturn in pork prices and above-expected associated profits.

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Companies Mentioned (Price as of 22-Jan-2018)

Masan Group (MSN.HM, D92500.0, NEUTRAL, TP D89000.0)

Disclosure Appendix

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3-Year Price and Rating History for Masan Group (MSN.HM)

MSN.HM Date	Closing Price (D)	Target Price (D)	Rating
18-May-15	51666.69	66666.70	O
28-Oct-15	49333.36	55000.03	N
16-Nov-15	49000.02	53333.36	
11-Mar-16	49000.02		R
29-Apr-16	46666.69	53333.36	N
07-Jun-16	46000.02	56666.70	O
02-Aug-16	41000.02	58666.70	
01-Nov-16	43666.69	60666.70	
06-Feb-17	42600.00	62000.00	
02-May-17	44450.00	48000.00	N
31-Jul-17	42800.00	42700.00	
31-Oct-17	59500.00	56000.00	



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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Masan Group (MSN.HM)

Method: We use SOTP to value Masan Group at VND89,000. For the consumer business we use a target P/E multiple of 25.0x. We take a DCF of the mine over project life. For Masan Nutri-Science, we use a target P/E of 10.0x. Associate stakes in Techcombank are taken at 3.1x P/B and that in VISSAN at cost. Our total SOTP is lowered by a conglomerate discount of 15% to derive a target price of VND89,000 MSN warrants a NEUTRAL rating as recent price run up has captured the recovery prospects of the consumer business in 2018E along with impact of higher metal prices

Risk: Key risks to our NEUTRAL rating and TP of VND89,000 include competition in consumer business creating margin erosion and market share losses. Higher CPI inflation that erodes purchasing power and decrease in consumer confidence can also dent sales for Masan Consumer. For the mining business, decline in metal prices and unforeseen disruptions in operations can be risk factors. Fluctuations in corn/soybean prices, higher competition and currency depreciation can raise risks for Masan Nutri-Sciences.

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