

Masan Group (MSN.HM / MSN.VN)

RESEARCH BULLETIN

4Q17 comes 14% above expectations

| | |
|-------------------------|----------------|
| Rating | NEUTRAL |
| Price (29-Jan-18, D) | 94,500 |
| Target price (D) | 89,000 |
| Upside/downside (%) | -5.8 |
| Mkt cap (D/US\$ bn) | 98,986 / 4.36 |
| Enterprise value (D bn) | 123,381 |
| Number of shares (mn) | 1,047 |
| Free float (%) | 41.8 |
| 52-wk price range (D) | 97,500-40,650 |
| ADTO-6M (US\$ mn) | 2.1 |

Target price is for 12 months.

Research Analysts

Fahd Niaz, CFA
65 6212 3035
fahd.niaz@credit-suisse.com

- **Beats estimates.** 4Q17 results came in ~14% ahead of our estimates due to stronger associate profits and an above-forecast gain on the sale of convertible bonds. 4Q17 NPATMI of D1,890 bn rose 149% QoQ/100% YoY taking 2017 NPATMI to D3,103 bn (+11% YoY). Other factors contributing to the beat included (1) gross margins which came in mildly higher for 2017 at 30.9% (+106 bp YoY) and (2) modestly lower tax.
- **Two out of three segments showing promising signs.** Sales in the food and beverages segment rose 34% QoQ to D4,592 bn as the impact of inventory rebalancing has ended and the seasonality element (ahead of Tet holidays) also boosted sales. However on a YoY basis, revenues were still down 9% YoY. The company maintained gross margins at ~45%. On the mining side, revenues picked up by 8% QoQ/9% YoY aided by better tungsten prices and quarterly sales marked the highest level in the company's history. Having said that, the animal feed segment remains the problem child where low pork prices weighed on sales (-11% QoQ/-40% YoY).
- **Associate profit contribution surprises on the upside.** Associate profits (primarily Techcombank) posted a handsome increase of 195% YoY (2017: +109% YoY). The company also booked a one-time gain on the sale of convertible bonds amounting to D932 bn (~40% of PBT) which propelled financial income up by 4.8x YoY in 4Q17.

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Figure 1: Masan Group – 2017 results summary

| VND bn | 4Q16 | 3Q17 | 4Q17 | QoQ | YoY | 2016 | 2017 | YoY |
|-----------------------------|--------------|------------|--------------|---------------|---------------|--------------|--------------|--------------|
| Net sales | 13,149 | 9,433 | 10,169 | 7.8% | -22.7% | 43,297 | 37,621 | -13.1% |
| Cost of sales | 9,075 | 6,526 | 6,776 | 3.8% | -25.3% | 30,367 | 25,989 | -14.4% |
| Gross Profit | 4,074 | 2,906 | 3,393 | 16.8% | -16.7% | 12,930 | 11,632 | -10.0% |
| SGA | 2,167 | 1,670 | 1,817 | 8.8% | -16.2% | 6,907 | 7,203 | 4.3% |
| Other income/(expenses) | (4) | (10) | (21) | 103.7% | 381.1% | (35) | (43) | 24.6% |
| EBITDA | 2,521 | 1,854 | 2,216 | 19.5% | -12.1% | 8,261 | 6,884 | -16.7% |
| Depreciation & amortization | 619 | 628 | 661 | 5.3% | 6.7% | 2,273 | 2,499 | 9.9% |
| EBIT | 1,902 | 1,226 | 1,555 | 26.8% | -18.2% | 5,988 | 4,385 | -26.8% |
| Financial income | 219 | 89 | 1,045 | 1071.9% | 377.9% | 769 | 1,405 | 82.6% |
| Financial expenses | 969 | 777 | 1,070 | 37.8% | 10.5% | 3,291 | 3,696 | 12.3% |
| Share of associate profit | 275 | 554 | 812 | 46.6% | 195.0% | 980 | 2,044 | 108.6% |
| Profit before tax | 1,427 | 1,092 | 2,342 | 114.4% | 64.1% | 4,446 | 4,139 | -6.9% |
| Tax | 188 | 144 | 200 | 39.4% | 6.4% | 674 | 531 | -21.2% |
| Profit after tax | 1,239 | 948 | 2,141 | 125.8% | 72.9% | 3,772 | 3,608 | -4.4% |
| Minority Interest | 295 | 191 | 252 | 31.8% | -14.7% | 981 | 505 | -48.5% |
| Equity Holders | 944 | 758 | 1,890 | 149.4% | 100.2% | 2,791 | 3,103 | 11.1% |
| EPS (VND/sh) | 901 | 723 | 1,804 | 149.4% | 100.2% | 2,665 | 2,962 | 11.1% |
| Effective tax | 13.2% | 13.2% | 8.6% | -460 bp | -464 bp | 15.2% | 12.8% | -233 bp |
| Gross margin | 31.0% | 30.8% | 33.4% | +256 bp | +239 bp | 29.9% | 30.9% | +106 bp |

Source: Company data, Credit Suisse

Companies Mentioned (Price as of 29-Jan-2018)

Masan Group (MSN.HM, D94500.0, NEUTRAL, TP D89000.0)

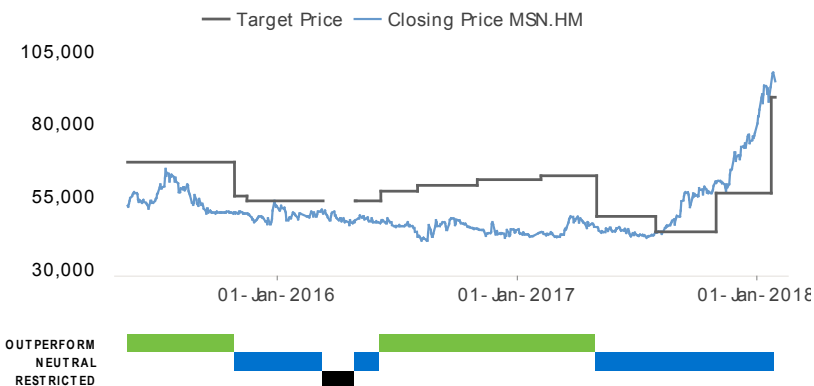
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| MSN.HM | Closing Price | Target Price | |
|-----------|---------------|--------------|--------|
| Date | (D) | (D) | Rating |
| 18-May-15 | 51666.69 | 66666.70 | O |
| 28-Oct-15 | 49333.36 | 55000.03 | N |
| 16-Nov-15 | 49000.02 | 53333.36 | |
| 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 | |
| 23-Jan-18 | 92500.00 | 89000.00 | |



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|--------------------|---------------------|------------------------------|
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| Restricted | 2% | |

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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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This research report is authored by:

Credit Suisse AG, Singapore BranchFahd Niaz, CFA

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