

Asian Daily

Masan Group (MSN.HM)

3Q18 results call: Buoyant on F&B and measured optimism on feed

Maintain **OUTPERFORM**

Previous Rating: **OUTPERFORM**

Target price (D): **98,000**

Previous target price (D): 104,000

- Credit Suisse hosted the 3Q18 results conference call where senior management of Masan Group discussed performance of key business segments along with a preliminary outlook for 2019E.
- Food and beverages is back to growth mode (3Q18 sales +27% YoY) with core products of seasonings and noodles benefiting from volume rebound, product innovation and up-scaling efforts. Energy drinks also maintained solid momentum due to expansion in distribution reach. Pipeline for 4Q18 comprises launch of energy drink product, high-end sausages (after the tie-up with Jinju Ham).
- Elsewhere, the slump in feed sales has been deeper than anticipated but management is eyeing recovery in 2019E as farmers return to productivity mode. Roll-out of fresh meat is also on track for 4Q18.
- We mark-to-market 9M18 and change EPS estimates by -8% to +9%. These capture the dilution due to capital raise, lower finance costs from de-leveraging, firmer sales for F&B in 2019-20E and softer margins on feed. Our revised SOTP-based TP is set at D98,000 (from D104,000) and we maintain our **OUTPERFORM** rating on MSN.

Price (30-Oct-18, D)	78,000	Est. pot. % chg. to TP	25.6	
Mkt cap (D bn/US\$ mn)	82,153 / 3,520	Blue sky scenario (D)	104,183	
Number of shares (mn)	1,053	Grey sky scenario (D)	91,817	
Free float (%)	20.0	Performance	1M 3M 12M	
52-wk range (D)	114,600 - 56,500	Absolute (%)	(15.9) (7.4) 30.0	
ADTO-6M (US\$ mn)	3.1	Relative (%)	(3.3) (0.6) 24.9	
Year	12/17A	12/18E	12/19E	12/20E
Revenue (D bn)	37,620.6	37,292.8	40,040.6	43,007.0
EBITDA (D bn)	7,309.2	8,243.3	9,106.1	9,576.4
EBIT (D bn)	4,385.3	5,050.4	6,027.7	6,676.6
Net profit (D bn)	3,102.7	5,382.8	5,982.5	6,914.0
EPS (CS adj.) (D)	2,681	4,651	5,169	5,974
Chg. from prev. EPS (%)	n.a.	(7.6)	7.7	8.7
Consensus EPS (D)	n.a.	3,995	4,556	5,584
EPS growth (%)	11.1	73.5	11.1	15.6
P/E (x)	29.1	16.8	15.1	13.1
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	15.0	11.7	9.9	8.8
P/B (x)	6.08	2.89	2.43	2.05
ROE (%)	20.6	23.4	17.5	17.0
Net debt/equity (%)	135.4	38.9	18.3	3.9

Source: Company data, Thomson Reuters, Credit Suisse estimates

We hosted the [3Q18 results](#) call with management giving updates on key business segments along with a preliminary outlook for 2019E.

Increasing traction in F&B; new launches planned for 4Q18

Masan Consumer Holdings had a noteworthy 3Q18 with revenue growth of 27% YoY (9M: 33% YoY) whilst maintaining a lean distribution channel (less than one month of demand). EBITDA margins rose 430 bp QoQ/210 bp YoY (to 27.3%) owing to the operating model transitioning towards a brand driven one rather than a sales-push approach. The core consumer products of seasonings and convenience foods saw strong double-digit revenue growth (32-36%) along with rising share of premium brands. Management noted that innovations in noodles (such as including meat) have seen a positive response and it has outlined plans to develop such products with the expertise of Jinju Ham (Korea). Within non-alcoholic beverages, energy drinks remain the fastest growing category (9M18: +55%) aided by expansion in distribution reach (points of sale have increased to 130k from 75k).

4Q18 is expected to see stronger revenues QoQ due to seasonality element (4Q is generally ~35% of full-year sales). Management has also announced an innovation pipeline in 4Q18 with re-launch campaigns planned for energy drinks (Compact brand) and sausages. A marketing investment budget of D400 bn is planned (vs D740 bn spent in 9M18). While the positives are noteworthy, the company has also acknowledged shortcomings in beer (3Q18 sales -22% YoY) and is re-thinking its distribution approach and sales strategy. Management also noted the possibility of expanding its beer product offerings.

Figure 1: Masan Consumer—product wise growth

Revenue (VND bn)	3Q17	3Q18	YoY (%)	9M17	9M18	YoY (%)
Seasonings	1,266	1,723	36.1	3,408	4,761	39.7
Convenience foods	966	1,275	32.0	2,423	3,271	35.0
Coffee	356	417	17.1	913	1,066	16.8
Non alcoholic beverages	489	676	38.2	1,480	1,910	29.1
Beer	110	86	-21.8	180	275	52.8
Processed meat	70	50	-28.6	157	131	-16.6
Others	181	153	-15.5	407	493	21.1
Total	3,438	4,380	27.4	8,968	11,907	32.8

Source: Company data

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Prolonged slump in feed; eyeing better days in 2019E

Management acknowledged shortcomings in the feed segment where recovery has been slower than earlier expectations even though pork prices have remained above D40k/kg since 2Q18 (sufficient for primary profits). 2018 revenues are on course to decline 20-30% YoY, however, the company aims to exceed the sector growth estimate of 10% in 2019E. This can be driven by consolidation of Tier 1 and Tier 2 feed and dedicated products to large farmers. Over the medium term, management eyes gross margins at 15-18% (14.1% in 3Q18). Regarding the MNS Meat venture, the company has said that trade distribution partners are already on-board and launch of meat product is on track for 4Q18. While firm targets are yet to be released, preliminary estimates for sales are D500-1,000 bn (1-3% of group revenues).

De-leveraging on the cards post treasury share offering

MSN is looking to use the proceeds from the treasury share placement (US\$470 mn) to de-lever and management has guided that long-term debt worth D6,000 bn at the stand-alone group level and D3,000 bn at the Masan Consumer Holdings level will be retired initially. Consequently, debt-to-EBITDA should recede to <2.5x (from 3.2x).

Looking to pursue value addition in mining

Due to weaker pricing environment, copper inventory of D650 bn (45% of quarterly sales) was retained in 3Q18. Masan Resources now holds 100% of the tungsten processing facility (previously 51%) and management is looking to explore value additive opportunities.

Update model for 9M18; reiterate **OUTPERFORM**

We incorporate 9M18 accounts in our model and change EPS forecasts by -8% to +9%. This captures the dilution due to capital raise, lower finance costs from de-leveraging, firmer F&B sales in 2019-20E and softer margins on feed. Our revised SOTP-based TP is set at D98,000 (from D104,000) and we maintain our **OUTPERFORM** rating. Adjusted EPS growth for 2019E (excluding one-offs) stands at 51% YoY. MSN trades at 2019E P/E of 14.8x and we believe the recent stock price weakness (-18% in 1M) looks unwarranted.

Disclosure Appendix

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

MSN.HM	Closing Price	Target Price	
Date	(D)	(D)	Rating
16-Nov-15	49000.02	53333.36	N
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	
31-Jan-18	92100.00	87000.00	
16-May-18	92900.00	102000.00	
25-May-18	83500.00	102000.00	O
30-Jul-18	81400.00	104000.00	
19-Sep-18	91200.00		R
27-Sep-18	93500.00	104000.00	O

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Target Price and Rating

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

Method: We use SOTP (sum-of-the-parts) to value Masan Group at D98,000. For the consumer business we use a target P/E (price-to-earnings) multiple of 27.0x on 2019E EPS. We take a DCF (discounted cash flow) of the mine over project life. For Masan Nutri-Science, we use a target P/E of 15.0x on 2019E EPS. Associate stakes in Techcombank are taken at 2.4x 2019E book value. Other long-term investments are assumed at cost. Our total SOTP is lowered by a conglomerate discount of 10% to derive a target price of D98,000. We believe MSN warrants an OUTPERFORM rating as valuations have cooled off post the recent sell-off. Core business segments are showing signs of recovery with innovations in F&B, firmer associate profit contributions and operational efficiencies at the mine. These are poised to deliver a forecast three-year consolidated NPATMI CAGR of 30%.

Risk: Key risks to our OUTPERFORM rating and D98,000 target price for Masan Group include a slowdown in sales growth in F&B along with margin erosion and lacklustre responses to new product launches. For the mining business, declines in metal pricing and operational issues could impact forecasts. In animal feed, weakness in hog prices would have direct implications for feed demand and margins. And lastly in Techcombank, a slower growth trajectory (vs our forecasts) could affect MSN's profitability.

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