16 May 2018
Asia Pacific/Vietnam
Equity Research
Conglomerates

Masan Group (MSN.HM / MSN VN)

Rating	**NEUTRAL**
Price (15-May-18, D)	96,200
Target price (D)	(from 87,000) 102,000
Upside/downside (%)	6.0
Mkt cap (D/US$ bn)	100,767 / 4.43
Enterprise value (D bn)	127,733
Number of shares (mn)	1,047
Free float (%)	41.8
52-wk price range (D)	114,600-40,650
ADTO-6M (US$ mn)	3.4

Target price is for 12 months.

Research Analysts

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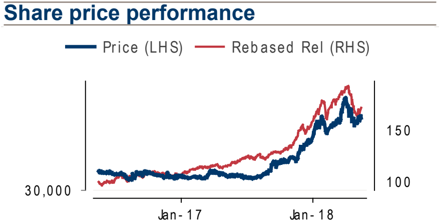
INCREASE TARGET PRICE

Earnings recovery mostly baked in

- **Food and beverages shaking off the rust:** With a leaner distribution model in place, Masan Consumer (MSC) has refreshed its product portfolio in recent months with 10-15 new launches. Management aims for a similar figure in 2H18 (across various categories) and has emphasised brand building and upscaling as key areas of focus. Impact of premiumisation is visible in 1Q18, with margins rising to 48.2% (from 46.5% in 4Q17). We expect MSC to deliver three-year sales CAGR of 9%, while NPATMI can rise faster at 20% due to margin gains and normalisation in SGA costs.
- **Feed business still struggling:** Hog prices at D40k/kg (slightly above break-even point for farmers), suggest that the probability of pick-up in feed demand is still low. 1Q18 margins (17.2%) for Masan Nutri-Science (MNS) reflected the weakest quarterly print due to more use of tier-2 product. While we are cautious on feed, we recognise an attractive opportunity in the meat market (~US$9 bn size), which MNS plans to enter in 4Q18.
- **Techcombank becoming more prominent:** Two rounds of equity injection (US$1,292 mn) have created fresh space for credit growth in TCB. We see a spike in associate profits for MSN ahead, which can constitute 51-52% of NPATMI assuming the bank delivers an ROE of 19% (1Q18: 28.1%).
- **Stock price looks fairly valued:** 3M/12M outperformance of 11%/78% has taken MSN's 2018E P/E to 27.4x (12MF P/E is +1 ST Dev above historical average). We lift our forecasts for 2019-20E by 6-19% on firmer F&B revenues/margins and higher contribution from TCB; partially offset by a slump in feed sales. On our revised numbers, we are close to consensus in 2018-19E. Target price (SOTP-based) rises to D102,000 (from D87,000) but we maintain our NEUTRAL rating as recovery looks largely reflected in the stock price. **Key risks:** F&B sales/margins, volatility in hog prices, supply-demand changes in tungsten markets and deviation in outlook for TCB.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 1,073.50 on 15/05/18.
On 15/05/18 the spot exchange rate was D22,768/US$1

Performance	1M	3M	12M
Absolute (%)	-6.1	12.4	125.8
Relative (%)	1.1	11.1	77.8

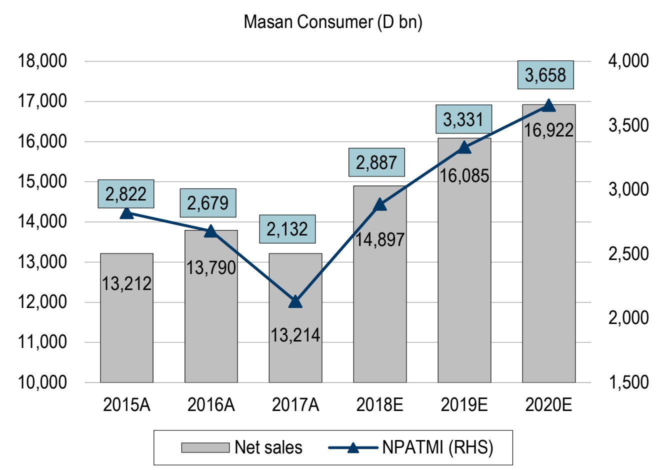
Financial and valuation metrics

Year	12/17A	12/18E	12/19E	12/20E
Revenue (D bn)	37,620.6	40,332.8	42,842.6	46,280.1
EBITDA (D bn)	7,309.2	8,079.1	8,642.7	9,692.6
EBIT (D bn)	4,385.3	5,167.5	5,818.4	6,999.7
Net profit (D bn)	3,102.7	3,677.3	4,986.2	5,889.8
EPS (CS adj.) (D)	2,962	3,511	4,760	5,623
Change from previous EPS (%)	n.a.	(0.1)	6.3	19.4
Consensus EPS (D)	n.a.	3,467	4,608	6,073
EPS growth (%)	11.1	18.5	35.6	18.1
P/E (x)	32.5	27.4	20.2	17.1
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	17.5	15.7	14.3	12.3
P/B (x)	6.79	5.44	4.29	3.43
ROE (%)	20.6	22.1	23.7	22.3
Net debt/equity (%)	135.4	107.8	75.1	51.2

Source: Company data, Thomson Reuters, Credit Suisse estimates

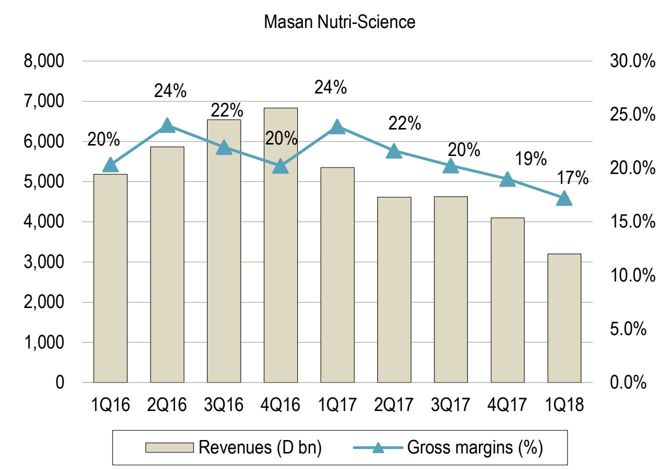
Focus charts and table

Figure 1: 9%/20% CAGR in MSC sales/NPATMI



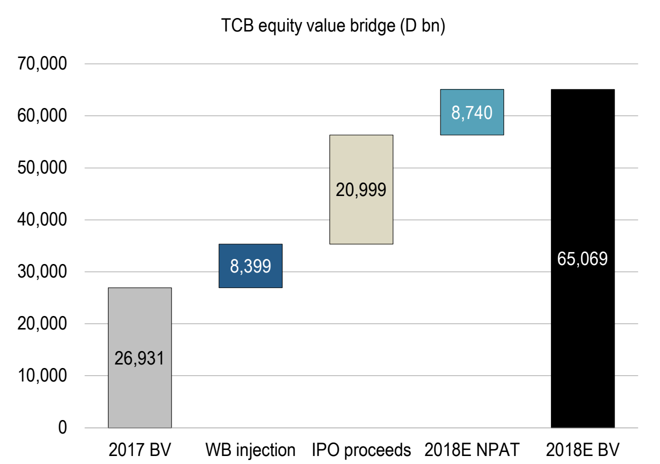
*Note: MSC does not include beer, Source: Company data, Credit Suisse estimates

Figure 2: Feed segment still searching for a bottom



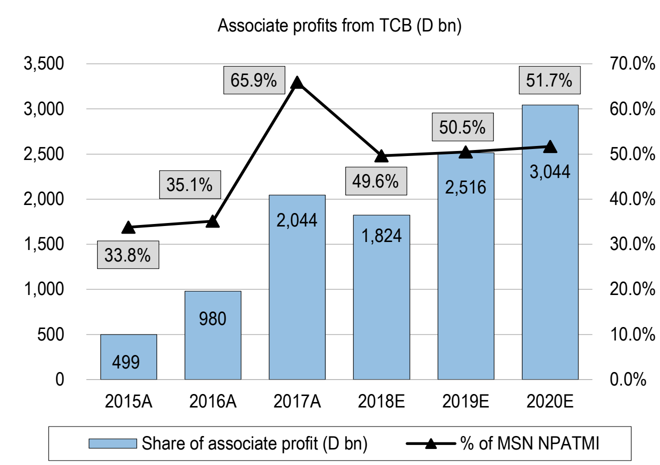
Source: Company data

Figure 3: TCB's book value can rise 2.4x by 4Q18…



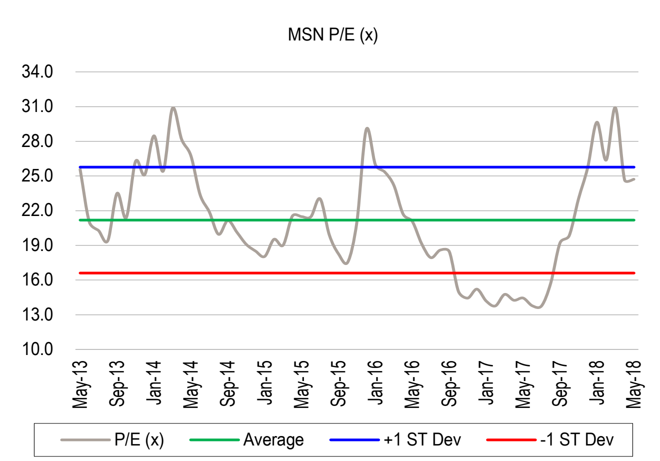
Source: Company data, Credit Suisse estimates

Figure 4: …improving associate profits for MSN



Source: Company data, Credit Suisse estimates

Figure 5: Valuations pricing in improved outlook



Source: Reuters, IBES

Figure 6: SOTP methodology shows limited upside

Name of company	Method	D bn	*% of total*
Masan Consumer	27.0x 12MF P/E	69,575	*52.7%*
Masan Resources	DCF	17,321	*13.1%*
Masan Nutri-Science	13.0x 12MF P/E	2,796	*2.1%*
Techcombank	2.8x 12MF P/B	39,834	*30.2%*
Vissan, Cholimex Foods etc	Cost	2,411	*1.8%*
Gross Asset Value (GAV)		**131,937**	
Net (debt)/cash at group level		(13,223)	
Equity value		**118,714**	
Conglomerate discount		*10%*	
Net Asset Value (NAV)		**106,842**	
No. of shares (mn)		*1,047*	
Target price (D/sh)		**102,000**	
Current price (D/sh)		96,200	
Upside/(downside)		*6.0%*	

Source: Credit Suisse estimates

Earnings recovery mostly baked in

Consumption growth engines: One picking up the pace, the other still languishing

Business model revamped towards a brand-driven one

New launches and upscaling to deliver NPATMI CAGR of 20%

Masan Consumer (MSC) has successfully completed the transition of its business model towards a "brand-driven" one (pull) and away from a "sales-focused" approach (or push). The company is now relying on concerted advertising campaigns and customer engagement to reinvigorate growth. Fruits of 10-15 innovations/new launches in the past 6-9M have been visible with 1Q18 sell-out growth to consumers rising 46% YoY and premiumizsation efforts leading to margin gains (48.2% from 46.5% in 4Q17). Management has guided on a refreshed product pipeline ahead (across categories). We expect MSC to deliver three-year sales CAGR of 9% and gross margins at ~47% due to product upscaling. Normalisation in SGA charges should push up EBITDA margins to 28-29% (up 400-500 bp from 2017). We anticipate NPATMI CAGR of 20% in 2017-20E.

Animal protein consumption platform still struggling from weak livestock prices and margin erosion

Having said the above, Masan Group's second consumption platform **(Masan Nutri-Science; MNS)** is still on a weak footing. 1Q18 sales print (D3,201 bn) and margins (17.2%) were at the lowest level since the business was set up. An unfavourable backdrop of low hog prices (~D40k/kg, nominally above farmer break-even levels), along with shift in feed sales towards 'tier-2' products, is likely to keep revenue and margin outlook in check. Our model for MNS factors in flattish sales in 2018E with gross margins at 17%. That said, the company's plan to commence retailing of branded fresh meat by 4Q18 holds promise as it serves as a proxy to Vietnam's high appetite for pork (29 kg/capita).

Operating leverage driving mining profits

Mine is benefiting from firmer metal prices

Masan Resources (MSR) has turned into a valuable asset as the impact of operating leverage is becoming visible. The latest rally in tungsten prices (up 9% YTD), along with the company's improvement in recovery rates (66.6% in 1Q18; +210 bp YoY) drove up NPATMI by 165% YoY in 1Q18 (price realisations +69% YoY). This was in a backdrop of plant maintenance activities depressing output by 25% YoY. Normalisation in volumes and sustained better pricing should allow MSR to deliver three-year revenue CAGR of 11%, with NPATMI growing at a faster pace (63% CAGR) due to operating leverage.

TCB: New tailwinds from capital issuance

Doubling of equity base opens up new opportunities

TCB can make up 51-54% of MSN's NPATMI

MSN's economic interest in Techcombank (TCB; 25.2% at 4Q17 and estimated at 18.4% post dilution) is becoming increasingly important. Post two rounds of capital injection YTD, the bank's equity base has doubled to US$2.4 bn and can reach ~US$2.8 bn by 4Q18E. We expect TCB's profits to grow at 38% on average over the next three years under an ROE assumption of 19% (1Q18: 28.1%). This implies that 51-52% of MSN's NPATMI will be obtained from associate contribution. Our sensitivity analysis suggests that a 100 bp change in the bank's ROE estimate can move MSN's profitability needle by 3%.

Trading close to intrinsic value; NEUTRAL

Positives look fully baked in after outperformance with valuations at +1 ST Dev above average

No further room for consensus upgrades

11%/78% outperformance in 3M/12M has taken MSN's stock price multiple to 27.4x/15.7x on 2018E EPS and EBITDA. Moreover, valuations are now at +1 ST Dev and growth trajectory looks to be discounted in the stock price, in our view. We lift our SOTP-based target price to D102,000 (up 17% from D87,000) but keep our NEUTRAL rating in place and see limited upside potential (6%). EPS forecasts for 2019-20E are raised by 6-19% on account of robust consumer sales/margins and stronger associate profits, partially offset by a slump in feed. Revised earnings deck takes us broadly at par with consensus for the next two years and room for stock price rally driven by street upgrades is missing.

Key risks: Offtake in food & beverages, response to new product launches, volatility in hog prices, operational backdrop at the mine and variation in growth outlook for TCB.

Masan Group (MSN.HM / MSN VN)

Price (15 May 2018): **D96,200**; Rating: **NEUTRAL**; Target Price: **(from D87,000) D102,000**; Analyst: **Fahd Niaz**

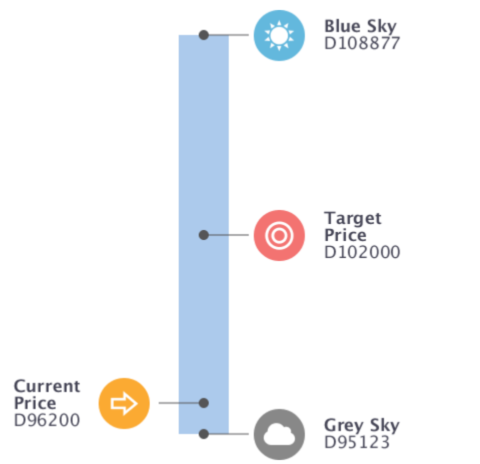
Income Statement (D bn)	12/17A	12/18E	12/19E	12/20E
Sales revenue	**37,621**	**40,333**	**42,843**	**46,280**
Cost of goods sold	25,989	28,041	29,648	31,718
EBITDA	**7,309**	**8,079**	**8,643**	**9,693**
EBIT	**4,385**	**5,168**	**5,818**	**7,000**
Net interest expense/(inc.)	2,291	2,178	1,986	2,565
Recurring PBT	**4,139**	**4,814**	**6,348**	**7,479**
Profit after tax	**3,608**	**4,153**	**5,571**	**6,570**
Reported net profit	**3,103**	**3,677**	**4,986**	**5,890**
Net profit (Credit Suisse)	**3,103**	**3,677**	**4,986**	**5,890**
Balance Sheet (D bn)	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Cash & cash equivalents	7,417	6,722	7,515	6,398
Current receivables	2,247	2,542	2,700	2,916
Inventories	4,333	4,609	4,061	3,910
Other current assets	1,148	1,339	1,433	1,536
Current assets	**15,145**	**15,212**	**15,710**	**14,761**
Property, plant & equip.	31,668	32,003	30,624	29,047
Investments	11,338	13,541	16,983	21,149
Intangibles	0	0	0	0
Other non-current assets	5,378	5,120	5,130	5,167
Total assets	**63,529**	**65,876**	**68,447**	**70,123**
Current liabilities	**15,533**	**13,367**	**34,260**	**29,367**
Total liabilities	**43,303**	**41,501**	**38,501**	**33,607**
Shareholders' equity	**14,837**	**18,512**	**23,498**	**29,388**
Minority interests	5,388	5,864	6,449	7,129
Total liabilities & equity	**63,529**	**65,876**	**68,447**	**70,123**
Cash Flow (D bn)	**12/17A**	**12/18E**	**12/19E**	**12/20E**
EBIT	**4,385**	**5,168**	**5,818**	**7,000**
Net interest	(2,291)	(2,178)	(1,986)	(2,565)
Tax paid	(531)	(661)	(777)	(909)
Working capital	(2,045)	(698)	366	(91)
Other cash & non-cash items	2,924	2,912	2,824	2,693
Operating cash flow	**2,442**	**4,542**	**6,246**	**6,128**
Capex	(2,414)	(3,247)	(1,445)	(1,116)
Free cash flow to the firm	**29**	**1,295**	**4,801**	**5,011**
Investing cash flow	**2,031**	**(3,432)**	**(2,453)**	**(2,352)**
Equity raised	99	0	0	0
Dividends paid	0	0	0	0
Financing cash flow	**(12,284)**	**(1,805)**	**(3,000)**	**(4,894)**
Total cash flow	**(7,811)**	**(695)**	**793**	**(1,118)**
Adjustments	0	0	0	0
Net change in cash	**(7,811)**	**(695)**	**793**	**(1,118)**
Per share	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Shares (wtd avg.) (mn)	1,047	1,047	1,047	1,047
EPS (Credit Suisse) (D)	**2,962**	**3,511**	**4,760**	**5,623**
DPS (D)	0	0	0	0
Operating CFPS (D)	2,332	4,336	5,963	5,850
Earnings	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Growth (%)				
Sales revenue	(13.1)	7.2	6.2	8.0
EBIT	(26.8)	17.8	12.6	20.3
EPS	11.1	18.5	35.6	18.1
Margins (%)				
EBITDA	19.4	20.0	20.2	20.9
EBIT	11.7	12.8	13.6	15.1
Valuation (x)	**12/17A**	**12/18E**	**12/19E**	**12/20E**
P/E	32.5	27.4	20.2	17.1
P/B	6.79	5.44	4.29	3.43
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/sales	3.4	3.1	2.9	2.6
EV/EBITDA	17.5	15.7	14.3	12.3
EV/EBIT	29.2	24.6	21.2	17.1
ROE analysis (%)	**12/17A**	**12/18E**	**12/19E**	**12/20E**
ROE	20.6	22.1	23.7	22.3
ROIC	8.0	9.1	9.9	11.4
Credit ratios	**12/17A**	**12/18E**	**12/19E**	**12/20E**
Net debt/equity (%)	135.4	107.8	75.1	51.2
Net debt/EBITDA (x)	3.75	3.25	2.60	1.93

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Masan Group is a private sector conglomerate in Vietnam and has three major subsidiaries: Masan Consumer Holdings (86%), Masan Resources (96%) and Masan Nutri-Science (82%). MSN is also a strategic shareholder in Techcombank (25%)

Blue/Grey Sky Scenario



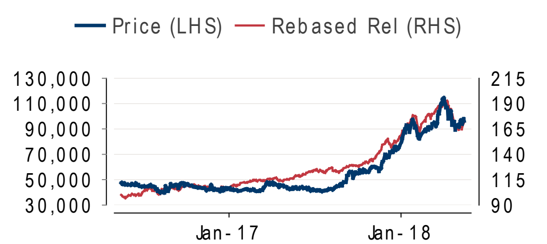
Our Blue Sky Scenario (D) **(from 94,300) 108,877**

In our blue sky scenario, we assume 200 bps higher gross margins across all consumer products and animal feed to yield a TP of VND108,877/sh

Our Grey Sky Scenario (D) **(from 81,700) 95,123**

In our grey sky scenario, we assume 200 bps lower gross margins across all consumer products and animal feed to yield a TP of VND95,123/sh

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 1,073.50 on 15-May-2018

On 15-May-2018 the spot exchange rate was D22,768/US$1

Regional consumer valuations

Figure 7: Asia consumer companies' relative valuations

Reuters	Name of Company	Rating	Price		M. cap	P/E (x)		EV/EBITDA (x)		ROE (%)	P/B (x)	Margins (%)	
			Local	Target	US$ mn	T+1	T+2	T+1	T+2	T+1	T+1	Gross	EBITDA
China													
0151.HK	Want Want China Holdings	O	7.2	9.1	11,483	21.6	19.0	12.6	12.1	21.2	4.6	44.8	25.8
0322.HK	Tingyi	N	16.0	15.9	11,421	32.0	28.3	9.5	9.1	11.7	3.7	30.0	12.3
0288.HK	WH Group Limited	O	8.2	11.9	15,293	12.0	10.6	6.6	6.0	15.4	1.8	19.9	11.0
2319.HK	China Mengniu Dairy	O	27.1	35.0	13,534	28.6	21.1	19.6	15.4	12.3	3.5	36.2	7.1
600887.SS	Inner Mongolia Yili Industrial	O	27.1	43.9	25,807	24.0		14.9		24.6	5.9	38.0	13.1
600597.SS	Bright Dairy & Food Co., Ltd	U	11.6	12.8	2,224	22.3	21.8	6.7	6.5	11.0	2.4	32.7	9.2
India													
NEST.BO	Nestle India	O	9,547.5	11,000.0	13,523	56.0	45.5	33.4	27.5	46.6	26.1	58.3	23.8
HLL.BO	Hindustan Unilever Ltd	O	1,516.0	1,675.0	48,207	55.2	46.5	39.4	33.7	91.1	50.2	51.4	21.4
DABU.BO	Dabur India	N	370.3	390.0	9,583	43.1	38.4	36.6	32.9	24.7	10.6	50.7	19.9
Indonesia													
INDF.JK	Indofood Sukses Makmur	O	6,475.0	10,550.0	4,052	13.4	11.9	5.6	5.2	13.0	1.7	28.5	15.0
ICBP.JK	Indofood CBP	N	8,200.0	10,000.0	6,815	23.9	22.5	14.0	12.9	18.9	4.5	31.5	16.5
AALI.JK	Astra Agro Lestari Tbk	N	12,000.0	13,550.0	1,646	11.3	11.7	7.2	7.1	10.3	1.2	23.1	24.2
BUMI.SI	Bumitama Agri Ltd	O	0.7	1.0	902	10.8	9.8	8.8	8.1	14.6	1.6	29.4	23.0
LSIP.JK	PT PP London Sumatra	O	1,115.0	1,730.0	542	6.6	9.1	4.6	3.9	12.9	0.8	27.3	26.5
IFAR.SI	Indofood Agri Resources Ltd	N	0.3	0.5	323	5.8	5.3	3.3	3.1	6.1	0.4	23.0	22.2
Korea													
051900.KS	LG Household & Healthcare	O	1,277,000	1,520,000	18,476	25.9	23.2	16.1	14.3	20.0	5.9	61.4	18.6
Thailand													
CPF.BK	Charoen Pokphand Foods	N	25.0	27.0	6,700	41.7	21.7	17.5	13.5	3.6	1.3	11.6	5.2
TUF.BK	Thai Union Group	N	18.2	20.0	2,703	15.1	13.6	14.3	13.4	10.6	1.6	16.8	8.0
TBEV.SI	Thai Beverage	O	0.8	1.0	14,942	17.7	14.8	12.0	9.7	19.5	3.5	31.5	17.9
Malaysia													
GENT.KL	Genting Berhad	O	8.8	11.1	8,547	15.9	12.9	8.1	7.0	5.6	0.9	34.6	34.6
IOIB.KL	IOI Corporation Berhad	U	4.8	3.9	7,549	25.2	28.8	18.3	20.5	15.6	3.9	15.1	15.1
KLKK.KL	Kuala Lumpur Kepong	N	25.5	24.3	6,885	25.4	24.7	15.1	14.6	8.9	2.3	13.4	13.0
Philippines													
URC.PS	Universal Robina Corporation	O	144.2	188.0	5,995	28.6	25.5	19.0	16.1	13.3	3.8	34.0	13.0
EMP.PS	Emperador Distillers Inc.	N	7.2	8.0	2,212	16.2	15.3	11.2	10.3	11.4	1.9	39.0	26.9
Vietnam													
VNM.HM	Vinamilk	N	176,000	180,000	11,218	24.8	22.0	18.7	16.6	44.1	10.9	45.9	23.1
Market cap weighted average						**31.9**	**25.0**	**20.6**	**16.6**	**33.7**	**14.5**	**39.6**	**17.6**

Source: Reuters, Credit Suisse estimates

Consumption growth engines: One picking up the pace, the other still languishing

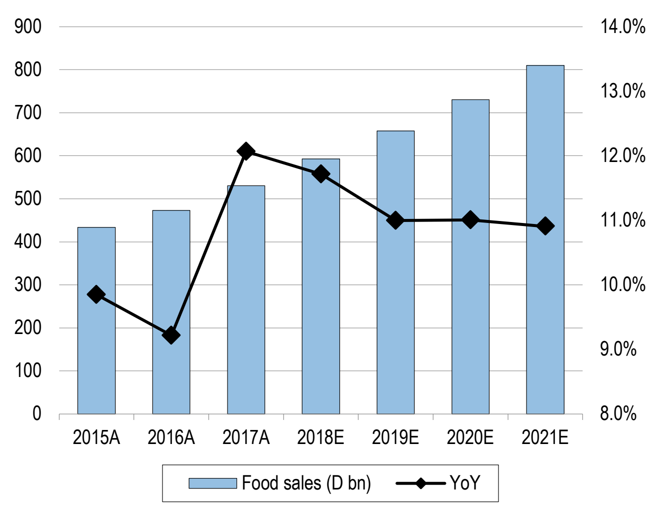
Attractive backdrop for food & beverages

Vietnam's food and beverages sector is an attractive sector with growth drivers in the form of rising economic activity and income levels, with demographic composition being more skewed towards the younger class (56% of population below the age of 30) and an increasing desire to improve quality of lifestyles. Moreover, rise in urbanisation and low inflation levels should continue to lift the purchasing power and boost spending on staples.

BMI anticipates 11% CAGR on food spending in Vietnam

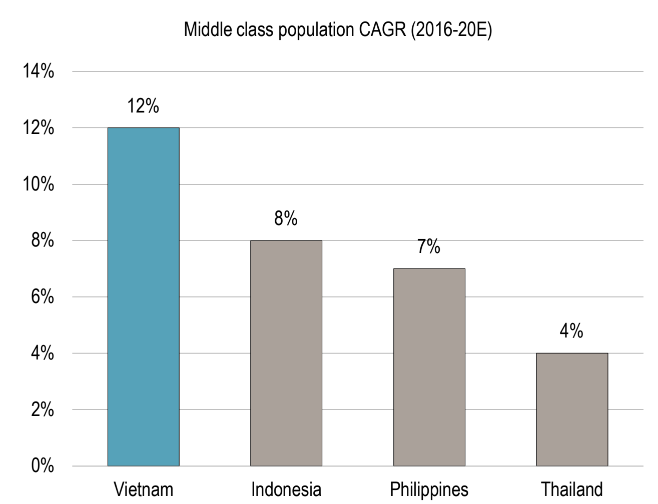
Business Monitor International (BMI) expects an 11% CAGR on food spending in the next three years. Development of infrastructure and distribution networks should increase product penetration and support the consumption cycle in the country. Given the relatively fragmented nature of various segments, there are abundant opportunities for domestic companies to redefine categories and build brands. Besides this, lack of adherence to quality and concerns about health standards have often created issues for smaller players, which can provide long-term consolidation opportunities for larger companies.

Figure 8: Double digit rise in food sales ahead…



Source: Business Monitor International

Figure 9: …with a fast-growing middle class



Source: MSN Investor Presentation

MSC business model revamp completed…

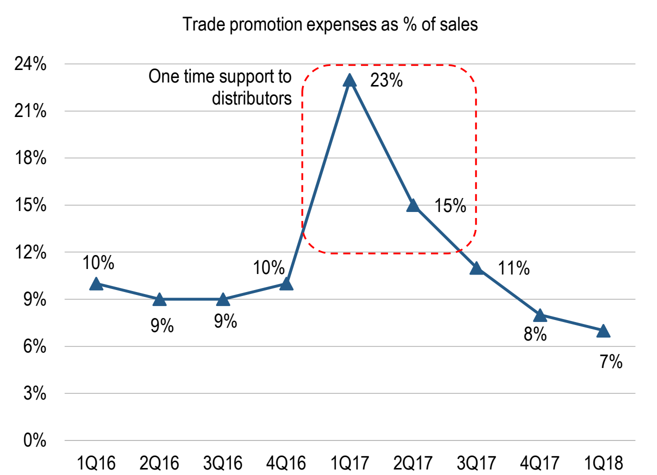
Leaner distribution model created with more focus on brand building rather than trade promotions

Masan Consumer (MSC) has successfully completed the transition of its business model towards a "brand-driven" one (pull) and away from a "sales-driven" approach (or push). The results of the initiative created short-term pain at the top-line and bottom-line level, with 2017 numbers down 4%/20% YoY (excluding beer). As per the company, ~D2,200 bn of sales were sacrificed in order to reduce inventories held with distributors. Now, the company reckons that reversion to the tried-and-tested strategy of developing strong brands and engaging consumers through marketing will restart the growth engines and drive long-term returns. The distribution network was de-stocked in 1H17 with an aim to curb reliance on trade promotion expenses and incentives offered to distributors in order to spend more on advertising. As per the company, the phase of booming growth (2008-13) was accompanied by the consumer business being a top 3 brand builder in Vietnam. The company eventually dropped out of the top 10 over 2014-16 and growth became muted.

Distributor inventory period is 2-3 weeks

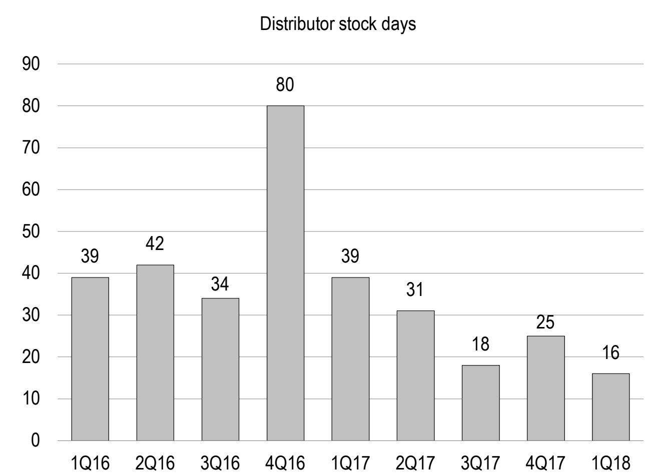
Post completion of inventory rebalancing, distributor stock days, which stood at 80 as of 4Q16, have dropped to just 16 days in 1Q18, allowing for the creation of a leaner distribution framework. Similarly, trade and sales promotion expenses as a proportion of net revenues peaked at 23% in 1Q17 and have now declined to 7% in 1Q18, allowing for more availability of capital towards brand-building activities. Management has guided that inventory levels are expected to remain in the band of 2-3 weeks, going forward.

Figure 10: Lesser focus on sales incentives…



Source: Company data

Figure 11: …and a leaner distribution model



Source: Company data

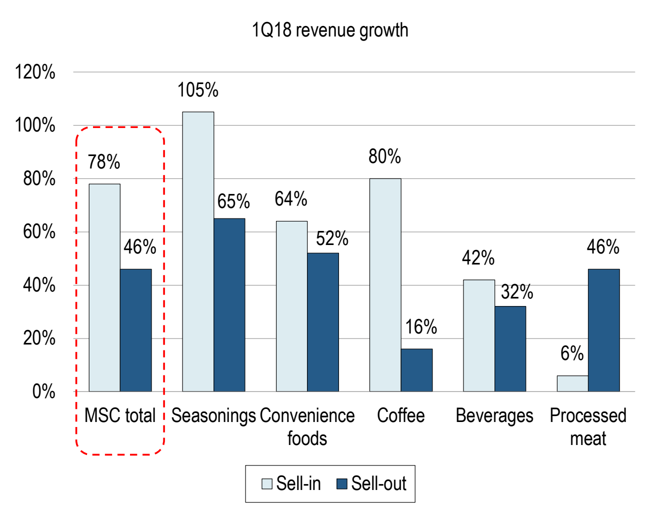
…with emphasis on innovation and upscaling ahead

1Q18 sell-out growth up 46% YoY and margins up on premiumisation

However, quarterly sales trends still look at par with average

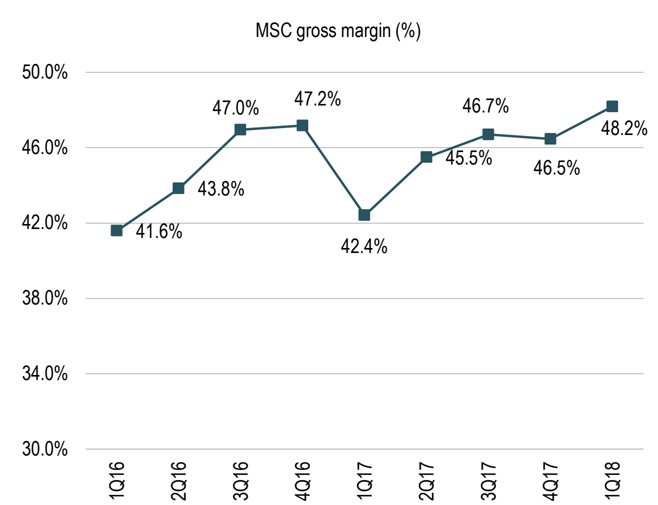
While the impact of the destocking initiative pulled down F&B revenues by 9% YoY in 2017 and created a low base, the 1Q18 revenue print (+78% YoY on a sell-in basis) is encouraging when tied up with sell-out rates (+46% YoY) that accurately reflects end-consumer offtake. The drivers were broad-based with the legacy portfolio of seasonings and convenience foods, in particular posting strong growth (65%/52%) due to new variant launches and premiumisation. Having said that, we note that 1Q18 sales (D3,586 bn) were still in line with the recent quarterly average (D3,549 bn) and growth rates will dissipate over 2018E as base effect normalises. We acknowledge the improvement on gross margins that have ticked up to 48.2% in 1Q18 due to the improved product mix, normalisation in beer operations and premium realisations from higher-priced SKU's.

Figure 12: Sell-out growth of 1Q18 is a positive sign



Source: Company data

Figure 13: Margins have ticked up



Source: Company data

Innovation pipeline looks healthy

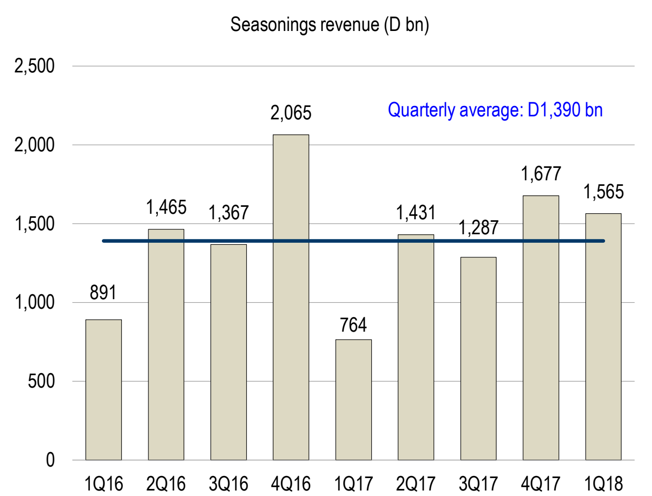
After a dull 2014-16 with 5-7 new product launches, MSC has ramped up the pace in the past 9M through 10-15 innovations across categories and is looking to roll out a similar number in the remainder of the year. We note that the new products launched in seasonings ("Chinsu", "Nam Ngu", "Chinsu Man Ma" and "TTT Thuong Hang") and convenience foods ("KKM Dai", "OMC Cup" and "OMC Meat Cup") are at premium prices.

Seasonings: Up trading and tapping adjacent categories

More variants of seasonings due to be rolled out in 2H18 with emphasis on upscaling

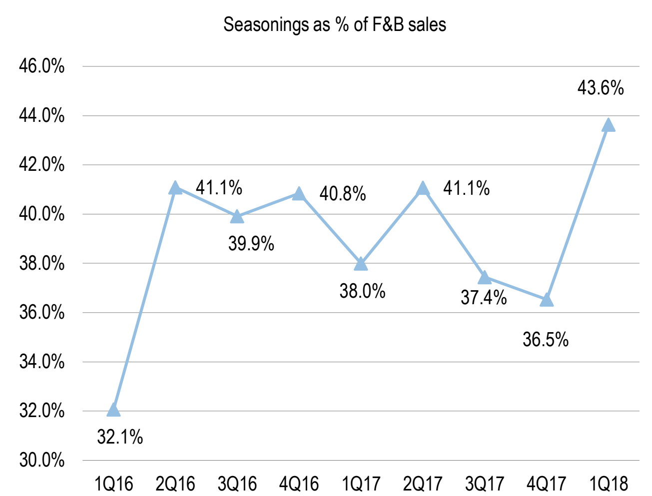
The seasonings portfolio registered a 105% headline growth in 1Q18 (albeit off a low base). Compared to 1Q16, the growth rate is at 75%. As per the company, 74% of revenue growth (vs 1Q17) was driven by volumes and the remainder by prices. The revitalised performance comes on the heels of four product launches in 2H17 (which saw price hikes of 2-5% and also marked premiums of 70-200% over the basic versions). Notably, the higher-priced fish sauce now accounts for 15% of seasonings portfolio as compared to 4% last year. Over the remainder of 2018E, three more variants of seasonings ("Chinsu Oyster sauce", "Chinsu cooking solution" and "Chinsu granule") are due to be rolled out, which can provide a fresh impetus to the growth momentum. As the low base effect wears off during the year, we expect seasonings to deliver a 21% YoY jump in sales in 2018E to D6,229 bn (close to the lower end of management range of D6,000-7,000 bn). We have also built in margin accretion due to higher-priced variants.

Figure 14: Upscaling and innovation helped in 1Q18



Source: Company data

Figure 15: Sharp increase in sales mix



Source: Company data

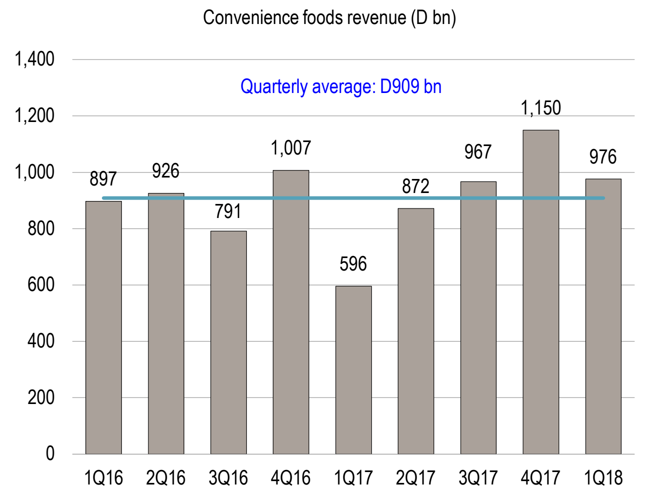
Convenience foods: Premiumisation and innovation

Sales growth of 64% in 1Q18 (off a low base) but above average

We favourably view the performance of convenience foods that delivered sell-in growth of 64% in 1Q18 to D976 bn (albeit off a low base). Quarterly revenues were 7% above the recent average. As per the company, 90% of the revenue increase on a YoY basis came from volumes. The premium "Omachi" brand was up 89% YoY on a sell-out basis and the "Omachi cup noodle with meat" showed a positive customer response due to its innovative nature. Moreover, the launch of "Kokomi Dai" in 2H17 (priced 40% above the base version) also contributed in boosting sales. For the rest of the year, MSN has guided on seven new launches covering the boiling noodles and spaghetti categories (under "Omachi", "Kokomi" and "Lovemi" brands), which can provide further support. We factor in 16% sales growth to D4,174 bn in 2018E, which is 7% lower than management target of D4,500 bn as noodles remains a highly competitive market. Potential areas of upside can include (1) stronger footprints in southern regions where market share of "Omachi" and "Kokomi" is still in single digits and (2) unveiling of a new brand targeting millennials.

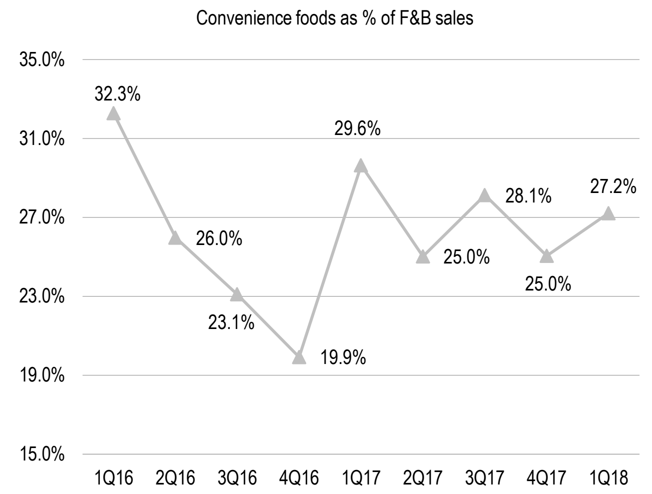
Forecast is 7% lower than the company target as the competition is high

Figure 16: Up YoY and exceeding average levels



Source: Company data

Figure 17: Share in revenues hovering at 25-30%



Source: Company data

Beverages: Energy drinks going strong, but coffee and water lagging

Energy drinks is a top priority after super-normal growth in recent years

Energy drinks (within beverages) is an area of high focus for the company as sales have been rising at a 66% CAGR in the last four years to D1,225 bn (in 2017). "Wake-up 247" has been one of the most successful brands and has seen expansion in the distribution network (to 75k points of sale from 50k) and improved customer loyalty leading to 1Q18 growth of 75% YoY on a sell-in basis (and 32% on a sell-out basis). In order to further tap this market, MSC has launched a new energy drink named "Compact". A solid response here can potentially deliver an upside to our 16% revenue CAGR estimate for energy drinks.

Mineral water is sluggish and outlook is muted due to presence of multi-nationals

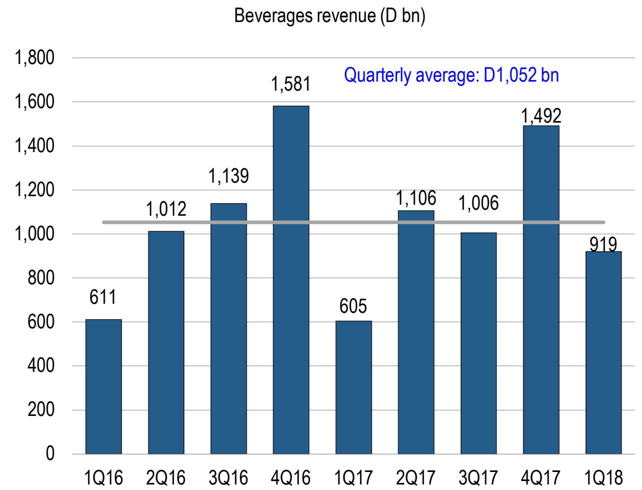
The other product within the beverages umbrella is **mineral water** where sales have been largely stable over 2016-17. Although MSN plans for a new brand release, the presence of multi-nationals with established operations will make penetration a tough task, in our view. Overall, our total 2018E sales forecast for energy drinks and mineral water combined is D2,281 bn (24% lower than management target of ~D3,000 bn).

Coffee and nutrition cereals posted a combined growth of 67% YoY in 1Q18 (to D405 bn), with volumes being the key driver behind coffee sales. The "Wake-up" brand of Vinacafe (#3 coffee brand) has a good loyalty and offers scope to deliver market share gains in northern regions of Vietnam. From what we understand, there are two 2-3 innovations for coffee/cereals in the pipeline for 2018E. Entrance into the Roast & Ground coffee segment (13 bn cups market size vs 4 bn cups for instant coffee) can offer long-term growth potential and MSC is targeting to enter this space in 2019.

2020E vision to develop 50/50 sales split between food/beverages needs more work

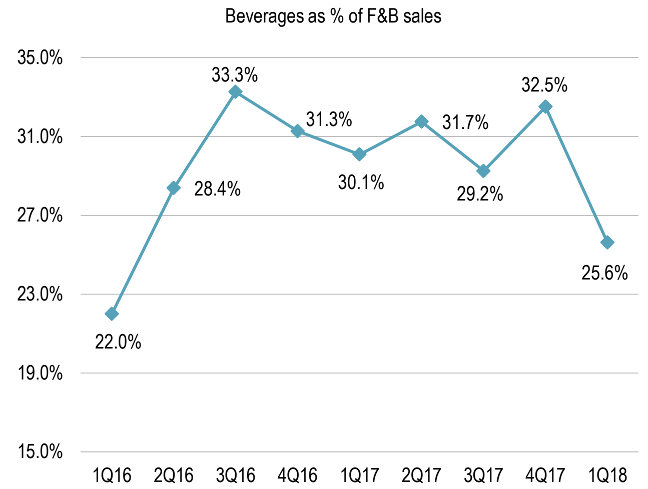
Overall, beverages accounted for 25.6% of consumer sales in 1Q18 (31.1% in 2017) and the company has laid out its long-term target to raise its share to 50% by 2020E. In order to achieve this, we highlight the need to deliver more impetus to mineral water and coffee.

Figure 18: 1Q18 sales climbed 52% YoY but the number is still below the recent run-rate



Source: Company data

Figure 19: Target to raise beverages to 50% of consumer sales by 2020E is a tough ask



Source: Company data

Beer: High prospect market but MSN yet to make an impression

Beer is struggling to find a firm footing

Company looking to launch a premium variant and improve geographical presence

Revenue estimate is 52% below management guidance

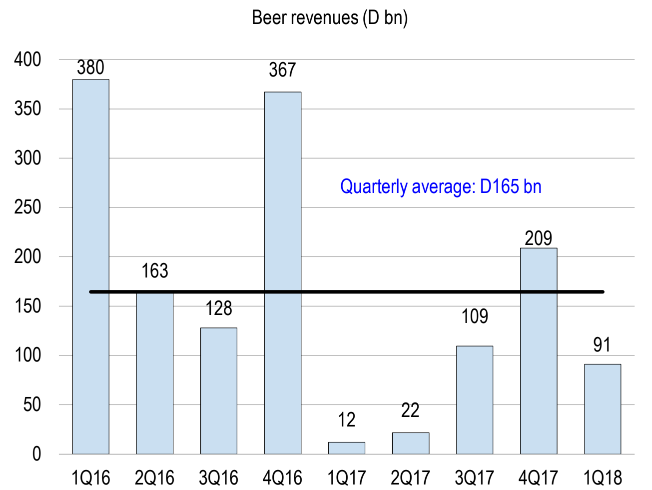
After a rough 2017 when beer revenues collapsed by 66% YoY as the company scaled back its earlier launch, the signs are still mixed. In 1Q18, sell-in growth to distributors was up 564% YoY to D91 bn, however, sell-out product to customers shrank 19% YoY to D77 bn. Moreover, we estimate that the brewery is making nominal gross profits. While the "Su Tu Trang" base brand was relaunched in 2H17, MSN is also pinning its optimism on an upcoming premium beer launch and geographical expansion of product availability through its vast distribution network. The strategy in beer is to use more traditional retail channels (like wet markets) instead of modern retail and create brand awareness through beer festivals (six hosted in 2017). Our revenue forecast is conservatively set at D484 bn in 2018E, however, we build in an acceleration in 2019E (+77% YoY to D858 bn), as impact of the new launch and widening of distribution network starts to reap dividends. Conversely, management target for 2018E is set at D1,000-1,200 bn and we see a downside risk to this. On a long-term basis, the strategic partnership with Singha can further assist the brewery due to the latter's technological and brewing capabilities.

Vietnam is the third largest beer consuming nation in Asia

The average Vietnamese has a strong fondness for beer and its consumption (litres per capita) has been rising at 10% on average in the past few years and touched 58.6 litres in 2017 (as per BMI). Total beer drunk in the country is estimated at 4,310 mn litres (2017) and is expected to retain 5-6% growth in the coming years. This makes Vietnam the largest beer consuming country in the ASEAN and the third largest in Asia, after China and Japan. With a growing culture of drinking in the younger class and the perception that drinking is a social activity, demand for beer can sustain. Euromonitor also observes that branded beer is seeing a larger increase in consumption due to quality and taste.

Imposition of Special Consumption Tax in 2017 and 2018 can create some dilution for demand for price-sensitive customers, however, Euromonitor opines that beer is well integrated into the Vietnamese lifestyle and a bigger dent may not be visible.

Figure 20: Beer is yet to find a firm footing



Source: Company data

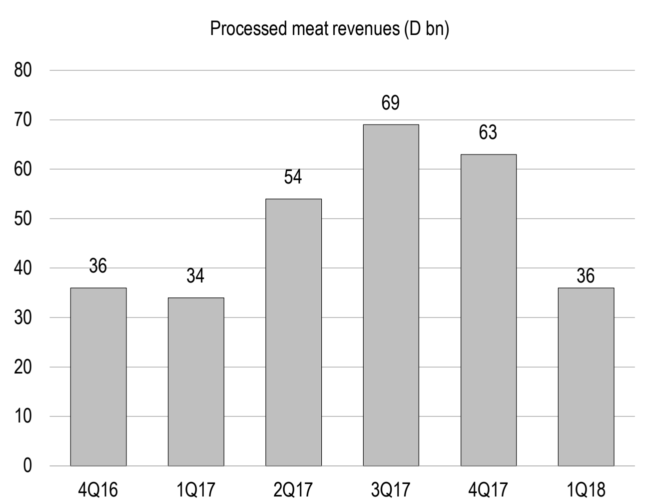
Figure 21: Market fundamentals are robust

Source: Euromonitor

Processed meat: At an infancy stage

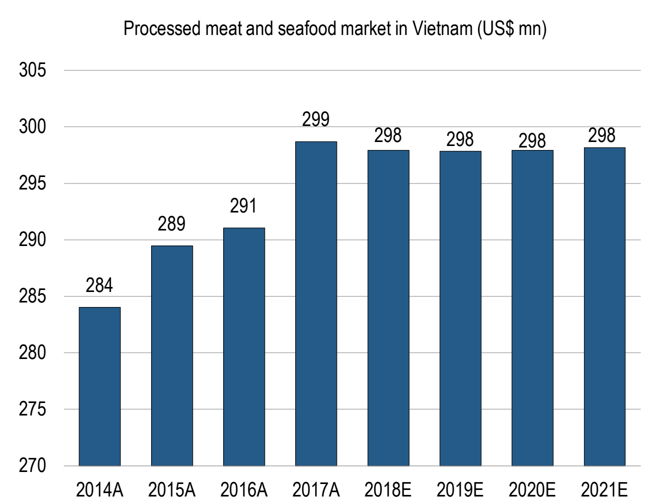
Meat products sold by the company mainly include sausages under the "Heo Cao Boi" brand name. In 2017, revenues of D220 bn were a mere 1.6% of F&B sales; however, management sees a good opportunity here given high protein demand of Vietnamese consumers. As per Euromonitor, the processed meat and seafood market is still developing and holds a size of US$300 mn (as compared to the overall meat market of US$9 bn). If executed properly, MSN's sales of processed meat can grow at multiple folds and market share can be lifted from 3% at present. Management has guided on innovative products such as sterilised sausages to be launched in coming months. 4Q17 has already witnessed the roll out of ready-to-eat hot meat balls. While 1Q18 has made a modest impression so far (sales flat YoY), we see room for an upside and pencil in D264 bn for the year (vs company target of >D500 bn).

Figure 22: Still a tiny fraction in the bigger scheme



Source: Company data

Figure 23: Stable market size as per Euromonitor



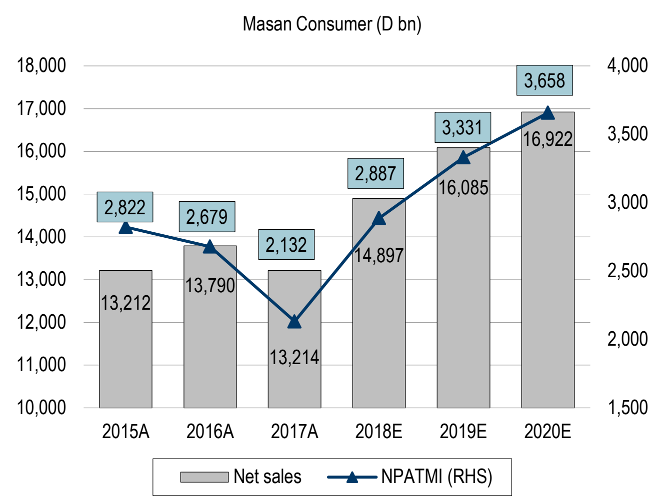
Source: Euromonitor

MSC to post 20% NPATMI CAGR over 2017-20E

Excluding beer, MSC can deliver three-year revenue CAGR of 9%

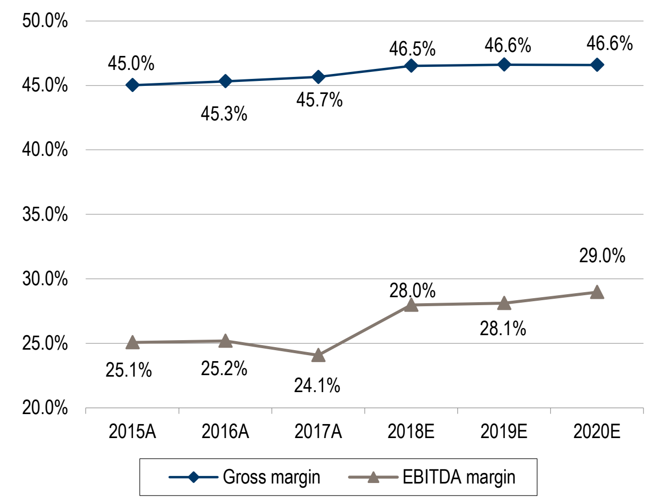
We expect MSC to deliver three-year revenue CAGR of 9% (excluding beer) and see gross margin uptick to 46-47% as product mix scales up. We also expect SGA expenses to decline to 24-25% of net sales due to reduction in trade promotion expenses, which should push up EBITDA margins to 28-29% (up 400-500 bp from 2017). Earnings should also get a lift from a reduction in the minority interest as holding in Vinacafe has gone up to 98.5% from 68.5%. Our model builds in three-year NPATMI CAGR of 20%.

Figure 24: MSC on an upward trajectory…



*Note: MSC does not include beer, Source: Company data, Credit Suisse estimates

Figure 25: …helped by margin accretion



Source: Company data, Credit Suisse estimates

52.7% of our gross asset value of MSN; valued at 27.0x 12MF P/E

We value MSC at 27.0x 12MF earnings, which is at a discount of 5% to regional consumer peers. This translates into an attributable value of D69,575 bn (US$3,065 mn) for MSN. MSC accounts for 52.7% of our total GAV. Areas of upside include stronger revenues from new launches, margin accretion from premiumisation and a reduction in the minority interest.

Key risk is on execution of business plan

While the company's 2020E vision is to have a 50/50 split of food/beverages in its top line (74/26 currently), we note several execution risks, such as increased competition, delays in roll out of new products and less-than-ideal customer response to innovations, leading to sunk costs. Failure to implement its business strategy and meeting sales/profit guidance may lead to the market assigning a higher conglomerate discount to the company.

Pig farming: Dependence on Chinese appetite becomes a double-edged sword for Vietnam

The Chinese demand boom over 2013-16…

Supply of Vietnamese hogs in 2016 touched 54.5 mn heads (up 37% from 2013 levels) due to Chinese demand

Being the largest consumer of pork globally, the Chinese market is of high importance to Vietnam that has natural advantages of proximity. Daily exports of hogs to China nearly doubled from 17,000 in 2013 to 33,000 by early 2016, underpinning the lucrative incentives available for Vietnamese farmers. Industry reports also indicated that swine farms in Vietnam fattened the hogs to satisfy demand from China. The robust demand from China prompted Vietnamese farmers to invest in raising more sows; coupled with improved productivity, the supply of hogs climbed to 54.5 mn heads in 2016 (up 37% from 39.8 mn heads in 2013). While trade takes place unofficially at the borders of Guangxi and Yunnan provinces, there have been instances in the past when trade was halted.

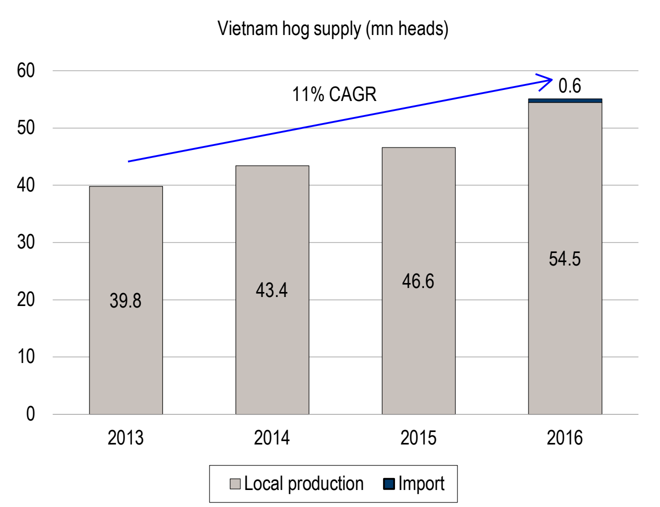
…has plunged in the past 18-24M

Halt in imports in mid-2016 has created a major crisis, with more than 35% of farmers exiting the market

While export momentum was expected to be maintained in 2016, China reduced hog imports due to veterinary issues, which led to prices collapsing from D45k/kg (~US$2/kg) to D35/kg (~US$1.5/kg) by the end of the year. Oversupply was estimated at ~7 mn hogs, which further pushed down prices to a low of D22k/kg (~US$1/kg). Economic viability became unfeasible for farmers as break-even cost of production is estimated at D35k/kg (US$1.5/kg). While medium- and larger-sized farmers were better positioned to withstand the pressure due to operational efficiencies and financial muscle, MSN estimates that 25% of dealers ceased trading and more than 35% of farmers exited the market. During this slump, the market size for commercial feed is believed to have halved to 3.4 mn tons as home-made feed was substituted as the first choice. However, **Masan Nutri-Science (MNS)** has fared better than the market, with pig feed volume decreasing only 23% in 2017 (to 1.9 mn tons), thereby improving its market share to 35% (+500 bp YoY).

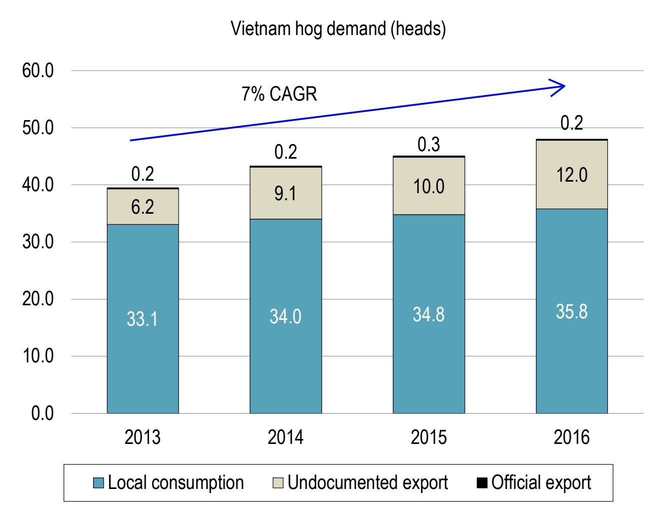
Going forward, industry studies from Ipsos Business Consulting have indicated that in the event of more cautious Chinese import appetite (due to preference for clean meat with traceability), there could be a sizeable reduction in imports from Vietnam.

Figure 26: Domestic supply climbed at 11% CAGR…



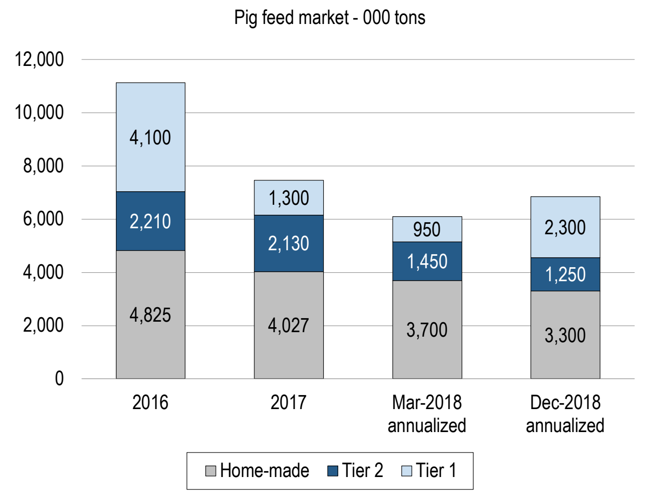
Source: Ipsos Business Consulting

Figure 27: …as unofficial exports were promising



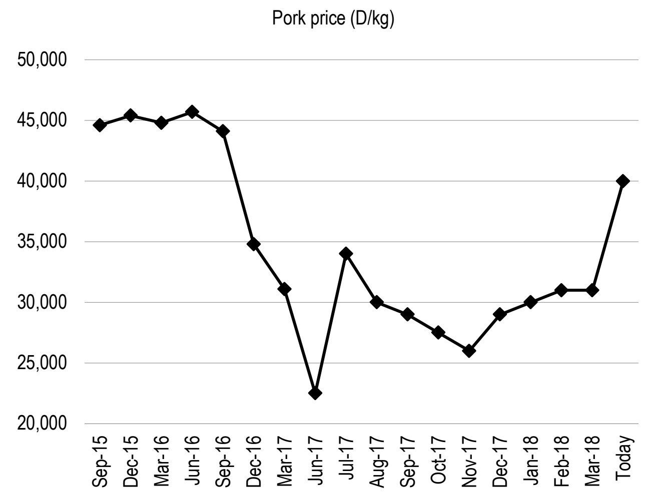
Source: Ipsos Business Consulting

Figure 28: MSN expects market to have bottomed



Source: MSN investor presentation

Figure 29: Question marks on sustainability



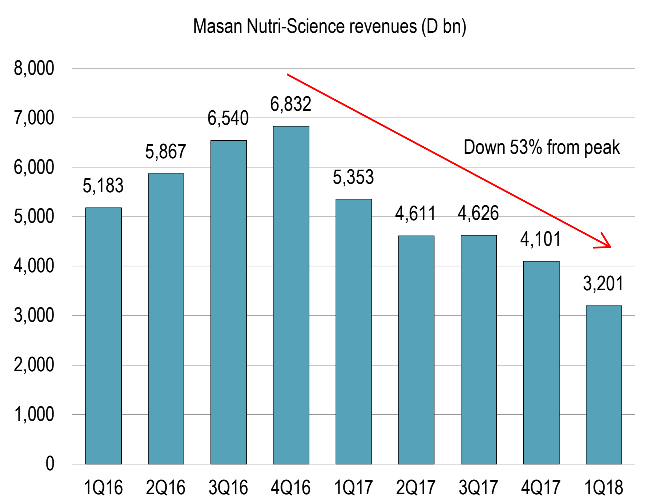
Source: MSN investor presentation

1Q18 reflected ongoing struggles of MNS

MNS revenues/margins plunged to the lowest quarterly number since business acquisition

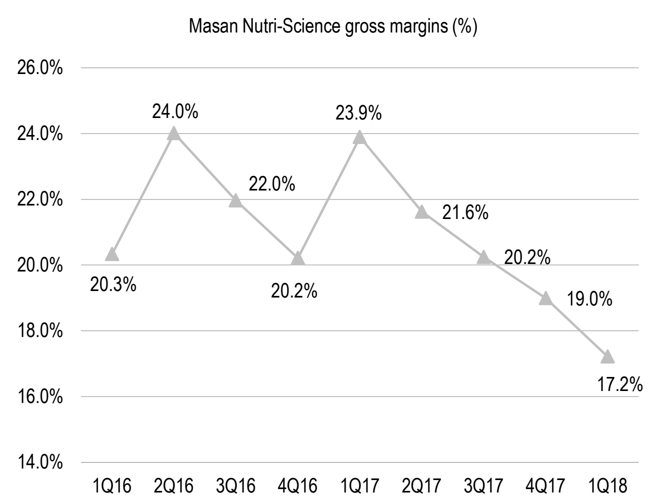
Weakness in hog prices pulled down revenues by 22% QoQ/40% YoY to D3,201 bn in 1Q18, while gross margins also plunged by 670 bp YoY to 17.2%. We acknowledge the impact of a higher base of 1Q17 as the main crunch of the crisis only started from late 2Q17/early 3Q17. However, the margin erosion (lowest quarterly reading since acquisition of the feed platform) was driven by a limited pass-through ability of cost pressures and a shift in product mix towards "Bio-zeem Xanh". The latter is positioned as a tier-2 feed product and aims to draw farmers again towards commercial feed (from home-made feed).

Figure 30: Lowest quarterly revenue print…



Source: Company data

Figure 31: …along with plunge in margins



Source: Company data

Entrance into fresh, branded meat is promising

MSN's pig farm at Nghe An has commenced operations with a capacity of 250k porkers per annum. Total CAPEX incurred at the farm is US$70 mn, as per the company. In addition to the pig farm, construction of a slaughtering house in the nearby Ha Nam province has also commenced in 1Q18 and is targeted to be completed in 2H18. This complex is designed to have a processing capacity of 1.4 mn porkers on an annual basis.

As per management, the newly formed entity **MNS Meat** is looking to begin sales of fresh branded meat by 4Q18 and will mark another step towards the long-term vision of becoming an integrated animal protein player. Recent hires of senior executives for MNS Meat are: (1) Mr. Matthys van der Lely as CEO who successfully developed the meat retail chain of Bounty Fresh Food (Philippines) and (2) Mr. Stefan Henn as R&D Director having over 40 years of experience in the meat industry.

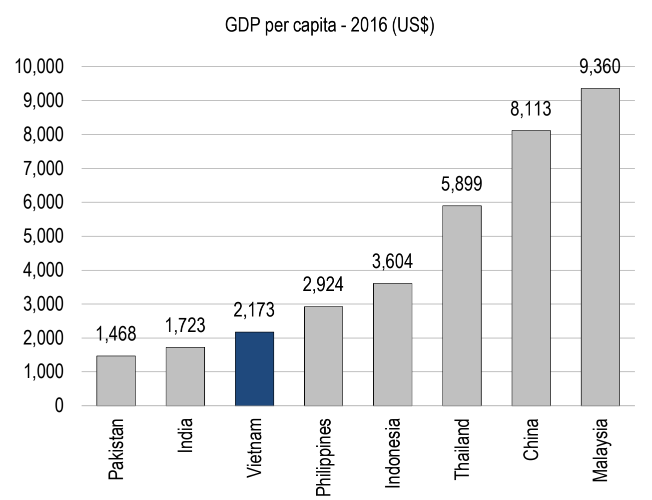
Vietnam's per capita consumption is high despite low incomes

Entrance into branded fresh meat offers long-term potential due to Vietnam's high appetite for pork (29kg/capita)

We constructively view the opportunity of conversion from fresh meat sold in wet markets to a more branded version with good traceability—a product MNS plans to offer. As per Euromonitor, Vietnam's fresh meat market is around US$9 bn. With the meat sector being fragmented, MNS sees an opportunity to establish a strong footing here.

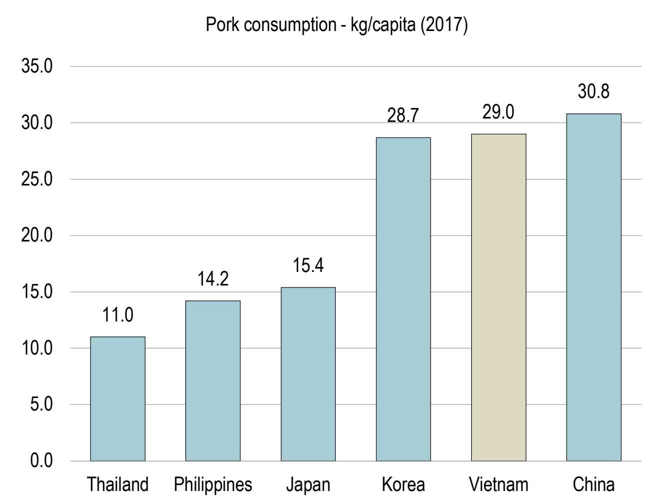
Despite one of the lowest per capita incomes in Asia (at US$2,173), Vietnam's consumer spends a considerable amount on meat, with pork consumption estimated at 29kg/capita, as per OECD, and just behind China (30.8kg/capita). However, it is several notches ahead of Thailand (11 kg) and Japan (15.4 kg). Pork is the dominant meat in Vietnamese consumption and constituted 68% of the total consumption in 2016. As income levels rise and consumers assign higher importance to food safety, the conversion pace towards branded fresh meat can pick up, which should benefit MNS Meat.

Figure 32: Despite low income levels…



Source: World Bank

Figure 33: …appetite for pork is high



Source: OECD

MNS to see profitability erosion in 2018E

Outlook for sales and margins is still subdued until hog price recovery is viewed as sustainable, in our view

Lately, pork prices have recovered to D40k/kg and management expects a firmer environment towards 4Q18 as farmers begin focusing on productivity. We believe the recommencement of farming will be a gradual process until the price hike is seen as sustainable. Greater use of tier-2 "Bio-xeem Xanh" product is likely to keep gross margins at 17%. We expect MNS' revenues to be flat in 2018E, while margin compression should drive down NPATMI by 58% YoY. We are 5% lower than management guidance at the top-line level. Going forward, we have factored in a three-year revenue CAGR of 3% and assumed gradual margin recovery to 18% by 2020E.

Figure 34: Management expects 4-7% sales growth in 2018E (CS estimate is flat)

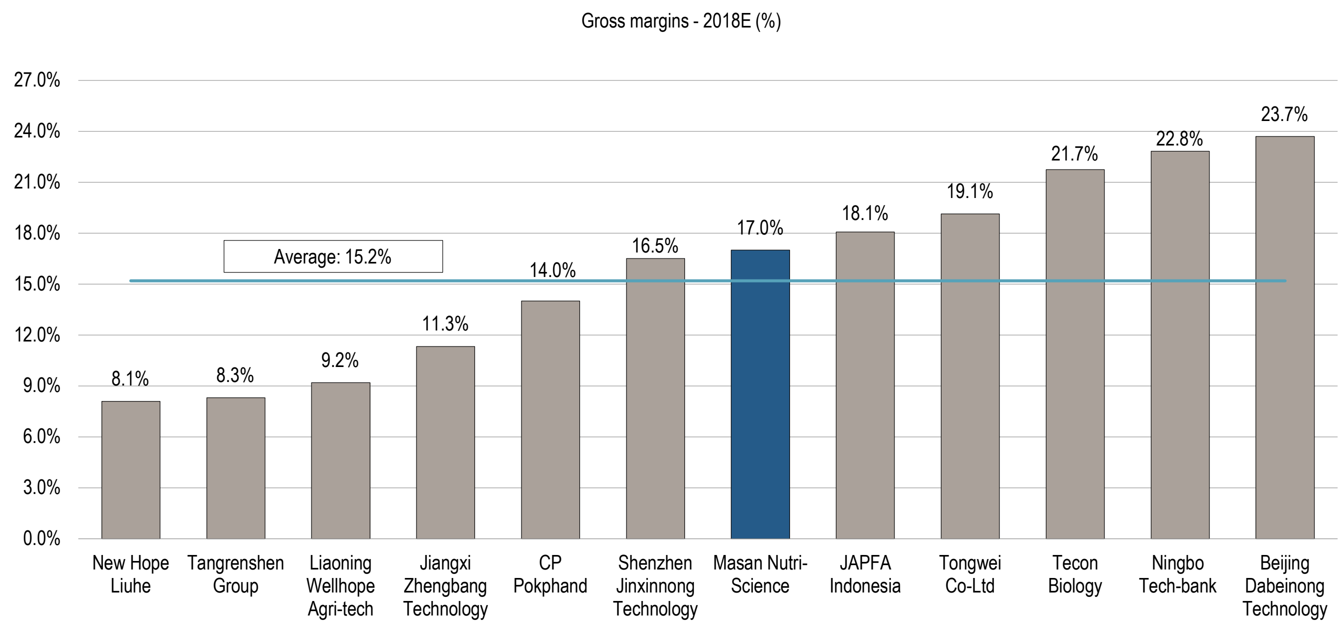
D bn	2017 reported number	MNS 2018-low target	MNS 2018-high target	MNS 2018-low (YoY)	MNS 2018-high (YoY)	Credit Suisse estimate	Credit Suisse 2018 YoY	1Q18 as % of MNS low	1Q18 as % of MNS high	1Q18 as % of Credit Suisse
Masan Nutri Science	18,690	19,500	19,950	4.3%	6.7%	18,498	-1.0%	16.4%	16.0%	17.3%

Source: Company forecasts, Credit Suisse estimates

2.1% of our gross asset value of MSN; valued at 13x 12MF P/E

As displayed in the chart below, MNS's gross margins for 2018E (at 17%) are above those of regional feed manufacturers. We use a target P/E of 13x to value the feed segment slightly above peers, which derives an attributable value of D2,743 bn or US$121 mn for MSN. This accounts for 2.1% of our GAV. Potential upside to our valuation can emerge from a faster recovery in the hog price environment, which accelerates the shift towards tier-1 feed, improves margins and warrants a higher multiple. MSN's long-term aim is to capture 50% of the market of pig feed and the company has already made rapid strides from a 20% market share in 2015 to ~35% in 2017. Consolidation within the industry and exit of smaller players can provide an opportunity to MNS to enhance its footprint.

Figure 35: Masan Nutri-Science margins are above regional average



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

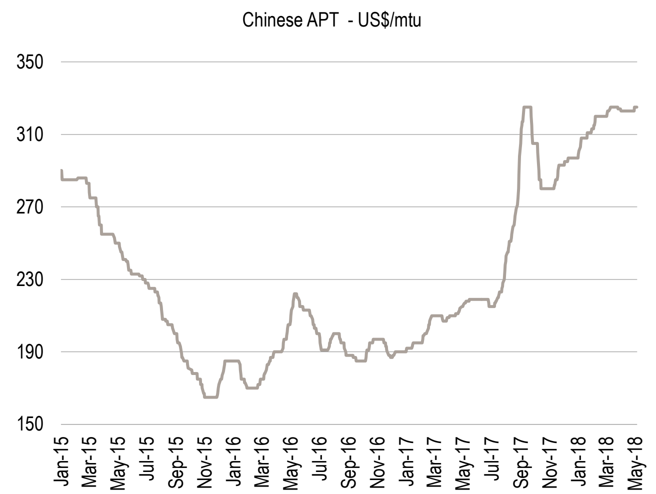
Operating leverage driving mining profits

Structural tightness in tungsten market

Environmental inspections, curtailed export licenses and reduction in quotas in China have tightened the tungsten market

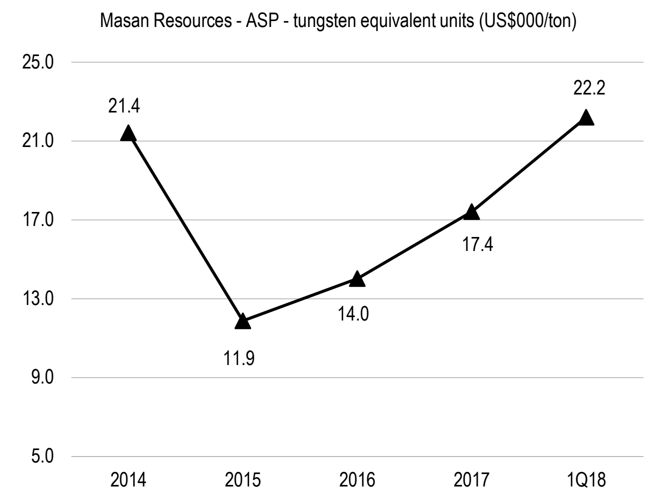
China is the world's largest producer of tungsten with production of ~79 KT in 2017 (vs 72 KT in 2016 as per United States Geological Survey). However, supply headwinds have been present in the form of environmental inspections, cancellation of export licenses and production quotas being imposed on miners. Metal prices, which rallied 51% from mid-2017 to reach a peak of US$325/mtu in Oct-Nov, saw a subsequent contraction to US$280/mtu. However, the rally has restarted since Jan-2018 and prices are up 9% to US$325/mtu YTD amidst renewed supply concerns. The Chinese government has tightened regulatory checks and emission standards, and has curtailed polluting factories and processing facilities in over 28 cities. Environment inspections in the Jiangxi province, which is a major production hub of the metal, are likely to be closely watched by the market due to its ramifications for global tungsten prices. Shutdown of capacity has created a tight demand-supply situation, which may restrict downside in prices. However, demand has remained upbeat in major products that utilise tungsten as inputs such as welding tools, metal alloys, turbine blades, smartphones and car batteries.

Figure 36: Global tungsten prices have rallied…



Source: the BLOOMBERG PROFESSIONAL™ service

Figure 37: …with benefits accruing to MSR

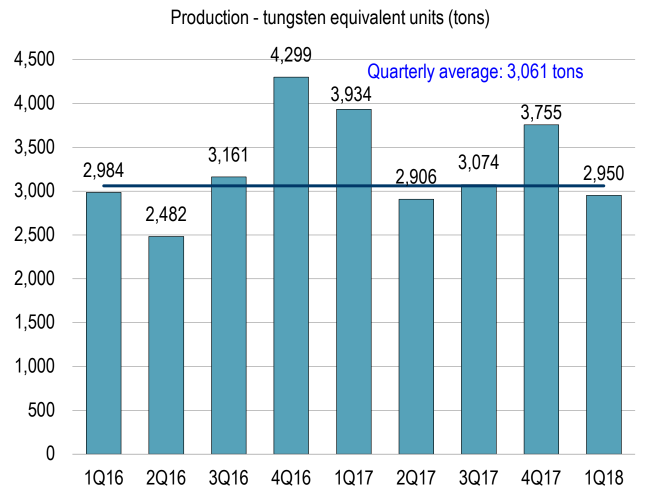


Source: Company data, Credit Suisse estimates

1Q18 performance overview

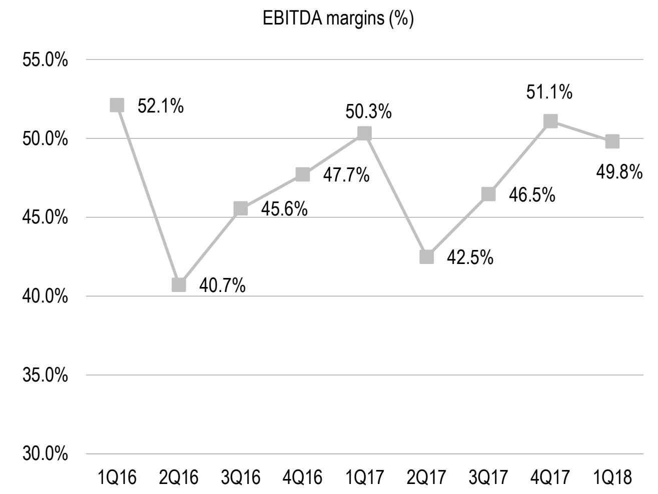
Masan Resources (MSR) grew top line by 26.4% YoY in 1Q18, which was mainly due to price realisation improvement (up to US$22.2/mtu: +69% YoY), even as material processed dipped 5% YoY due to plant maintenance and production dropped 25% YoY to 2,950 tons (on a tungsten equivalent basis). EBITDA margins clocked in 49.8% (from 42.5% in 1Q17) due to operational efficiencies and improved recoveries. At a profitability level, NPATMI rose 168% YoY to D117 bn (second highest quarterly reading since commissioning of the mine). In the results commentary, MSR informed that sales of copper amounting to D265 bn were postponed in an attempt to seek better prices.

Figure 38: Output dipped in 1Q due to maintenance



Source: Company data

Figure 39: Margins display some volatility



Source: Company data

Forecast 11%/63% revenue/NPATMI CAGR

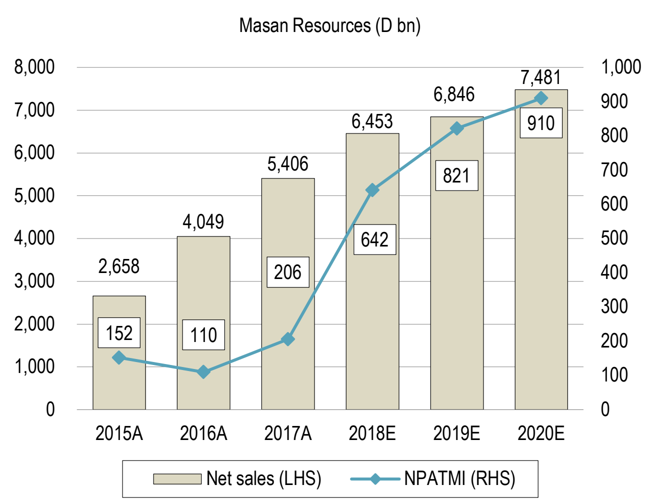
Operating leverage to allow MSR's NPATMI to outpace sales

MSR has turned into a valuable asset with a recovery in commodity prices and operational ramp up. We project a revenue CAGR of 11% over 2017-20E, while the impact of operating leverage should take NPATMI CAGR to 63%. Although MSR still accounts for ~33% of the total group debt, the project is well positioned to churn out positive free cash flows as the full impact of stronger metal prices emerges. This should also act to alleviate market concerns about the mine milking group cash flows.

13.1% of our gross asset value; priced using DCF methodology

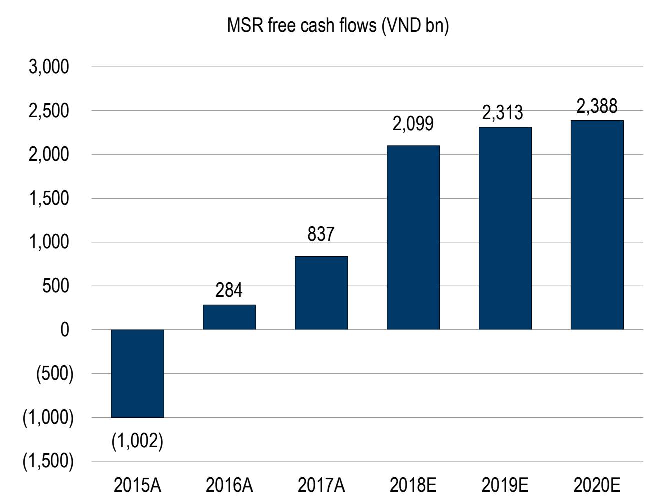
Our DCF-based valuation over project life implies a value of D17,321 bn (~US$763 mn) as the attributable number for MSN (using 96% economic interest). This constitutes 15.8% of our GAV. MSR trades at 2018E EV/EBITDA of 8.9x (based on UPCom exchange prices).

Figure 40: Better outlook for sales/NPATMI…



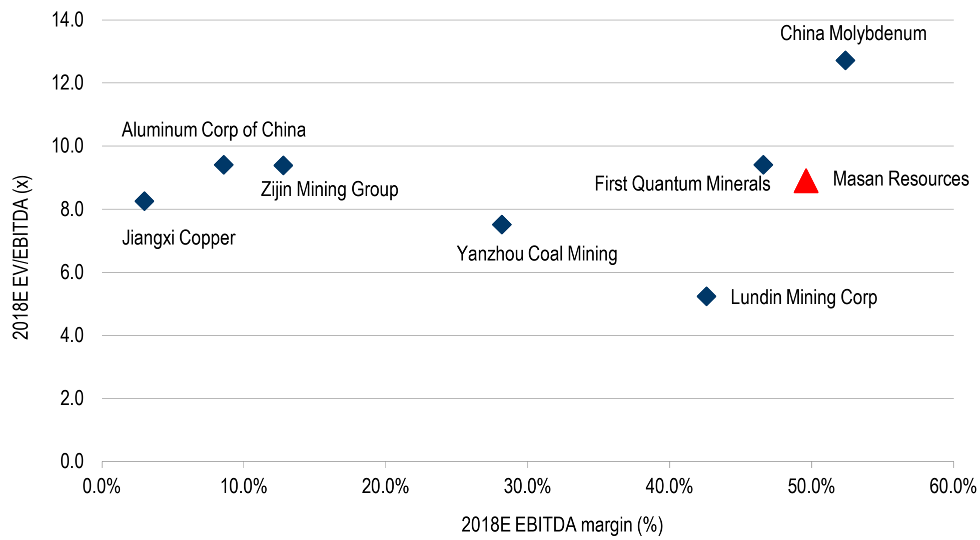
Source: Company data, Credit Suisse estimates

Figure 41: …leading to robust FCF generation



Source: Credit Suisse estimates

Figure 42: One of the highest EBITDA margins at comparable valuations



Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse estimates

Our estimates are on the conservative side

MSR targets revenue growth of 35-48% YoY in 2018E implying D7,300 bn on the low end and D8,000 bn on the high end. NPATMI guidance reflects an increase of 191/386% YoY under the low-/high-end scenario. While 1Q18 NPATMI has only made up 18% of our 2018E estimate (12-20% of management), we believe that firmer tungsten price impact and operating leverage should enable a strong performance in the coming quarters.

Figure 43: The company looks to grow revenues by 35-48% in 2018E and NPATMI by 191%/386%

D bn	2017 reported number	MSR 2018-low target	MSR 2018-high target	MSR 2018-low (YoY)	MSR 2018-high (YoY)	Credit Suisse estimate	Credit Suisse 2018 YoY	1Q18 as % of MSR low	1Q18 as % of MSR high	1Q18 as % of Credit Suisse
Masan Resources sales	5,406	7,300	8,000	35.0%	48.0%	6,453	19.4%	20.4%	18.6%	23.0%
Masan Resources NPATMI	206	600	1,000	191.4%	385.6%	642	211.7%	19.5%	11.7%	18.2%

Source: Company forecasts, Credit Suisse estimates

Two sources of earnings upside

Idle tungsten processing capacity from joint venture can be utilised

MSR's JV plant with H.C Starck (in which MSR's economic interest is 51%) processes metals into value-added versions and is looking to ramp up further. As per the company, the existing capacity of 9,000 tons is only being partially utilised (6,000-6,500 tons) as supply from the tungsten mine is near peak levels. The remaining idle capacity can be brought online in the form of tungsten concentrate purchases from third parties. In 1Q18, 300 tons of material was procured for processing.

Better recoveries from Falcon project

MSR is also undertaking an initiative to lift operating parameters and improve the recovery rate of tungsten from 64.5% in 1Q17 to >72% upon completion. As of 1Q18, recoveries have already climbed to 66.6% and the company targets to reach 72% by the year end.

Figure 44: Aiming to cross a recovery rate of 70% by the year end

	2014	1Q17	1Q18	2018E
Tungsten recovery rate	50.0%	64.5%	66.6%	72.0%

Source: Company data

TCB: New tailwinds from capital issuance

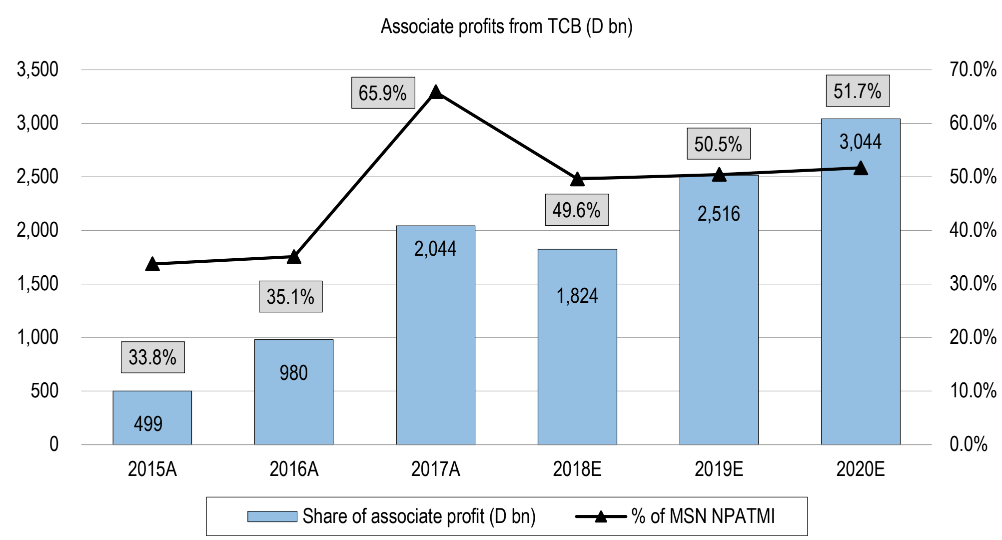
Vietnam Technological and Commercial Joint Stock Bank (also known as Techcombank; TCB) has an asset base of D273 trn (~US$12 bn), deposits of D181 trn (~US$8 bn) and outstanding loans of D162 trn (~US$7 bn) as at 1Q18. The bank has recently been listed on the Ho Chi Minh Stock Exchange (HOSE) and is due to commence trading on 5 June.

One of the largest profitability drivers for MSN

TCB is becoming a major driving force for MSN, with NPATMI contribution estimated at 51-52% after doubling of equity base

MSN's strategic holding in TCB (25.2% at 4Q17; estimated at 18.4% post dilution) warrants strong attention, given its substantial contribution to the group's bottom line. In 2017, associate profits accounted for 65.9% of NPATMI. We expect TCB's PAT to grow at 38% on average over the next three years under an assumption that the bank can deliver an ROE of 19% (1Q18: 28.1% on an annualised basis). Having said that, we note that full impact of growing profits may not be visible in MSN's income statement as economic interest is expected to hover at 20.9% on a weighted average basis in 2018E and can further taper down to 18.4% in 2019E. Post complete dilution, we eye 51-52% of MSN's NPATMI being sourced from TCB profits in future years. While we do not have coverage/estimates of TCB, our sensitivity analysis suggests that 100 bp increase in the bank's ROE can push up MSN's 2019E NPATMI by 3%.

Figure 45: Share of TCB profits to constitute 51-52% of MSN's NPATMI

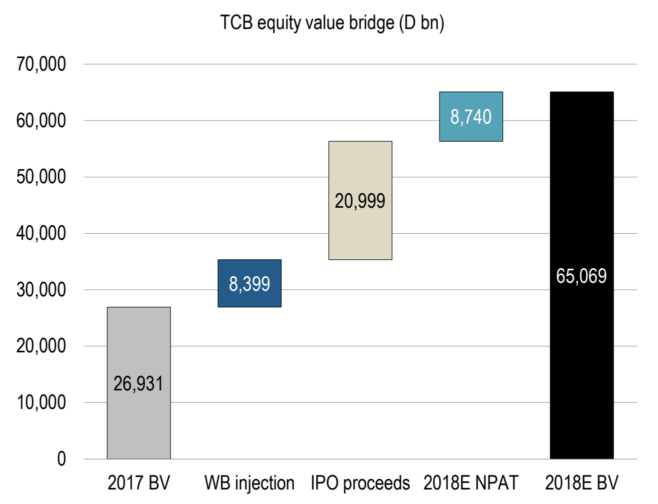


Source: Company data, Credit Suisse estimates

Two doses of equity to boost growth

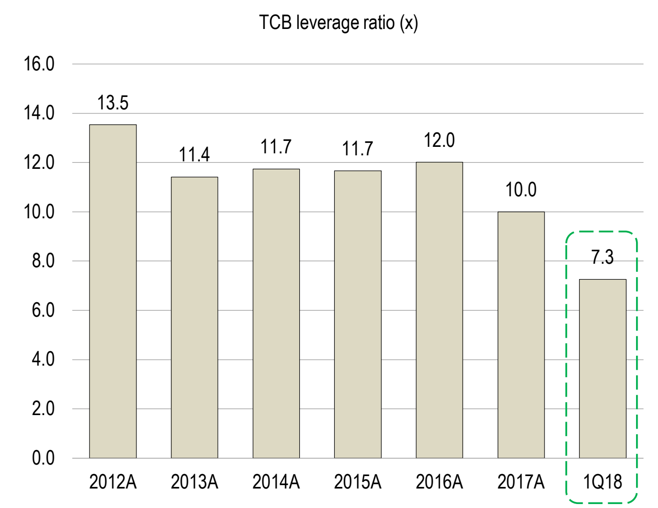
Post the **US$370 mn equity injection by Warburg Pincus (WB) in 1Q18**, TCB's leverage ratio has substantially dropped to 7.3x (from 10.0x in 4Q17) creating a fresh balance sheet space for growth, while also providing more capital cushion for conversion to Basel II standards. In April 2018, TCB has successfully **issued 164 mn shares (at D128,000/sh) in 2Q18 raising a handsome US$922 mn**. On a cumulative basis, the capital injections have doubled the bank's equity base to US$2.4 bn and lifted reported Capital Adequacy Ratio from 12.7%. In our view, fresh credit growth can be more easily accommodated as LDR has receded to 89% in 1Q18 (from 93% in 4Q17).

Figure 46: Equity base can rise by 2.4x by 4Q18E



Source: Company data, Credit Suisse estimates

Figure 47: More reduction in leverage likely in 2Q18



Source: Company data

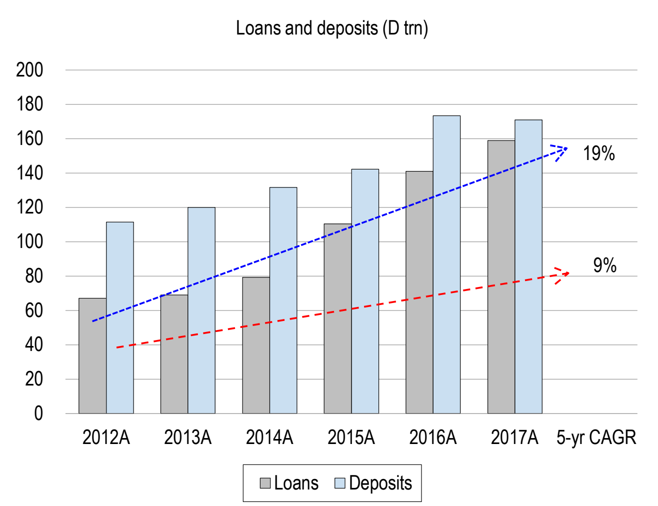
Healthy operating parameters

While we do not have TCB under coverage, we do shed some light on its historical operating metrics and future areas of focus as laid out by the company.

19% loan CAGR over 2012-17; deposit book becoming less costlier

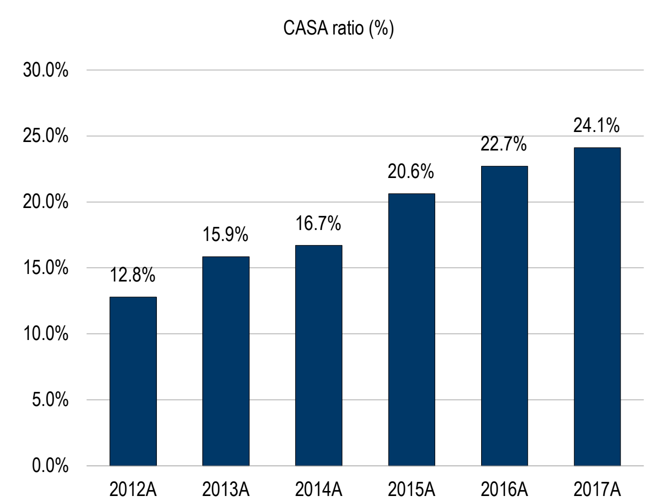
TCB has grown deposits/loans at a CAGR of 9%/19% over the last five years, carrying LDR to 93%. Moreover, CASA ratio has climbed to 24.1% in 2017 (from 16.7% in 2014) as the pace of low-cost current and margin deposits (denominated in local currency) has risen at 23-37%, while term deposits have been more muted at 6%.

Figure 48: Loan growth outpacing deposits



Source: Company data

Figure 49: Rising CASA split is positive

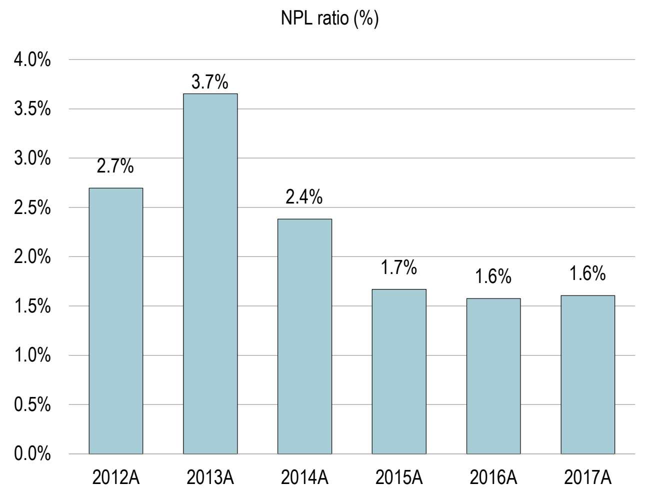


Source: Company data

Improving asset quality

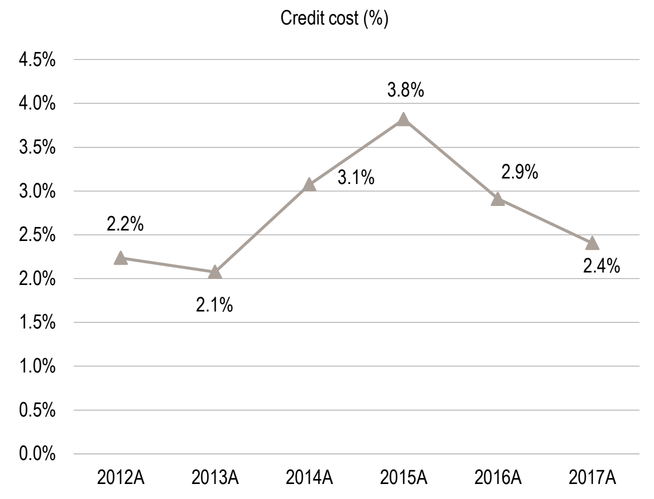
TCB also fares well on asset quality having fully provisioned for and written of bonds issued by the Vietnam Asset Management Company. NPL ratio has stabilised at ~1.6% in the past two years, while credit costs have eased off to 240 bp (from 380 bp in 2015).

Figure 50: NPL ratio has stabilised…



Source: Company data

Figure 51: …with credit charge also receding

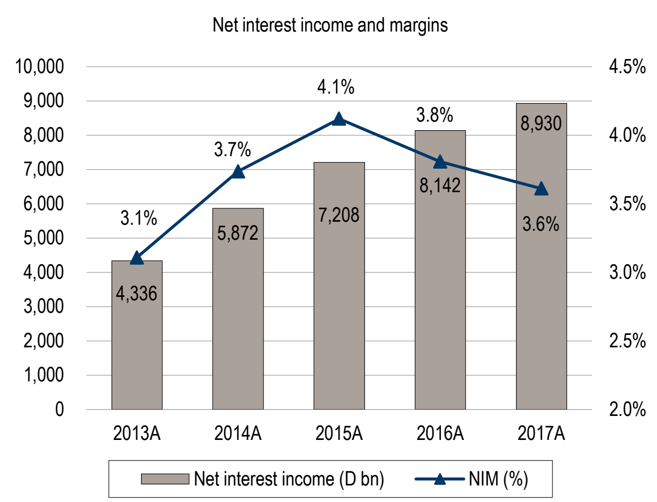


Source: Company data, Credit Suisse estimates

Impressive core and non-core income trajectory; discipline on cost

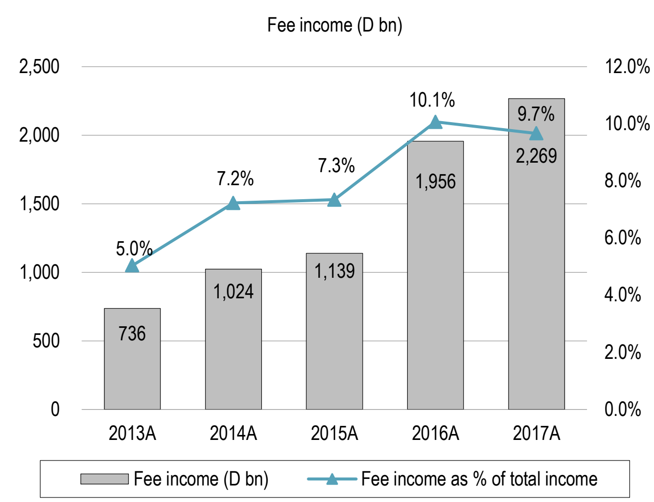
A 53% net profit CAGR over the past five years has multiple drivers behind it. First, net interest income (NII) has grown at a five-year CAGR of 12%, while fee income has outpaced NII growth and clocked in a CAGR of 32% to D2,269 bn in 2017 (adjusted for one-off item). Second, the share of fee income has subsequently risen to 9.7% in the total income (3.2% in 2012). Third, TCB has exhibited cost discipline with operating expenses up 7% on average p.a, taking PPOP CAGR to 36%. And lastly, despite a rise in provisioning costs (20% CAGR), ROE has climbed to 32.9% from 6.1% in 2012.

Figure 52: Average NII growth of 13% since 2013



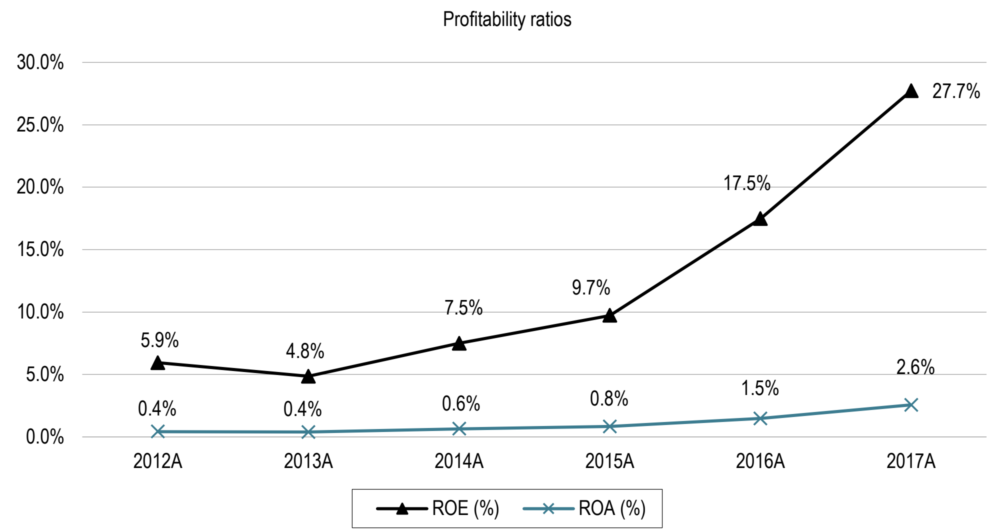
Source: Company data

Figure 53: *Fee income is 9.7% of total income



*Note: 2017 excludes one-off item, Source: Company data

Figure 54: Return metrics have been on a steep upward trajectory



Source: Company data

Future areas of concentration

We understand that TCB is actively turning its attention towards four areas:

- **Emphasis on 'Affluent' and 'Mass Affluent':** The bank intends to prioritise 'Affluent' and 'Mass Affluent' customers, defined as having household income above D1 bn and between D0.2-1 bn. These two categories translate into a customer base of 189k (as per the bank) and represent 13% of active customers that are considered low risk. Moreover, TCB estimates that 77% of customers are easily accessible through their presence in large cities and 57% of them have already been banking with TCB.
- **Mortgages:** With low penetration ratios and scope to develop partnership with property developers, TCB views mortgage lending as having a strong growth potential. Gross mortgage loans increased at a two-year CAGR of 24% to D44.8 tn in 2017.
- **Credit cards:** The bank seeks to target 'Affluent' and 'Mass Affluent' customers that are believed to have a higher propensity to spend. TCB already has a market leadership in VISA credit card transaction volumes (Oct-2016 – Sep-2017) via its active card user base.
- **Bancassurance:** TCB has already entered into a long-term exclusive partnership with Manulife and has a 26% market share in bancassurance by capitalising on its distribution strength and loyal customer base. Penetration ratios for bancassurance are 11% for the 'Affluent' segment and 8.7% for the 'Mass Affluent' segment as of 2017.
- **Wealth management:** With a focus on simple investment products, TCB looks to tap the growing middle class and also develop its investment banking franchise.

TCB accounts for 30.2% of our gross asset value; P/B of 2.8x applied to 12MF equity base

We use a target P/B of 2.8x to value TCB, which is above sector average (2.4x on a 12MF basis as per IBES). 1Q18 annualised ROE of 28.1% is superior to peers (~18%). Despite ROE attrition from equity injections, TCB is better positioned to sustain a medium-term growth, in our view. Advantages of a cleaner asset book (reported NPL ratio of 1.6%) and capital buffer also support the case for higher multiples being assigned. Our effective equity stake for MSN translates into D 39,834 bn (US$1,755 mn) using a post-IPO holding of 19.8%. The contribution to MSN's GAV works out to be 30.2%.

Figure 55: Valuation of TCB at 2.8x 12MF book value

Target P/B (x)	**2.8**
Book value (12MF) - D bn	71,899
Equity value (D bn)	**201,318**
Equity value (US$ mn)	8,867
MSN economic interest post IPO	*19.8%*
Effective value to MSN (VND bn)	**39,834**
% of MSN GAV	*30.2%*

Source: Credit Suisse estimates

Figure 56: Vietnam banks' comparative valuations

Name	Reuters	Price	Mkt Cap	P/E (x)		EPS growth (%)			Dividend yield (%)		P/B (x)		ROE (%)	
		D/sh	(US$ mn)	18E	19E	18E	19E	20E	18E	19E	18E	19E	18E	19E
VPBANK	VPB.HM	50,200	3,301	10.6	9.3	4%	13%	18%	-	0.5%	2.1	1.7	21%	26%
VietinBank	CTG.HM	29,850	4,881	14.3	11.0	4%	31%	NA	NA	NA	1.6	1.4	15%	16%
Military Bank	MBB.HM	31,000	2,472	12.3	9.9	33%	24%	NA	2.1%	2.1%	1.8	1.5	17%	19%
Asia Commercial Bank	ACB.HN	44,500	2,119	12.8	12.1	78%	5%	23%	0.7%	0.7%	2.5	2.1	20%	18%
Weighted Average				**12.7**	**10.5**	**22%**	**21%**	**8%**	**0.5%**	**0.7%**	**1.9**	**1.6**	**17.8%**	**19.2%**

Source: Reuters, IBES

Trading close to intrinsic value; NEUTRAL

Outperformance of 11%/78% in 3M/12M has stretched multiples and positives look priced in

Post 3M/12M outperformance of 11%/78%, MSN now trades at 2018E P/E of 27.4x and EV/EBITDA of 15.7x. We reckon that the improved fundamental backdrop across main business segments is fully captured in the stock price. We keep our NEUTRAL rating on the stock intact, however, lift our earnings forecasts for 2019-20E by 6-19% on account of firmer consumer sales/margins and associate profits, partially offset by a longer slump in hog prices. Our SOTP-based valuation is raised to D102,000 (up 17.2% from D87,000).

Figure 57: Summary of estimate and valuation revisions

D/sh	EPS-2018E	EPS-2019E	EPS-2020E	Target price	Rating
New	3,511	4,760	5,623	102,000	NEUTRAL
Old	3,513	4,479	4,709	87,000	NEUTRAL
% change	*-0.1%*	*6.3%*	*19.4%*	*17.2%*	*Unchanged*

Source: Credit Suisse estimates

Lifting SOTP valuation to D102,000 (up 17%)

Raising EPS by 6-19% and SOTP target price by 17% to D102,000

We use sum-of-the-parts (SOTP) methodology to derive a valuation of D102,000 (up 17% from D87,000). For MSC, we use a target P/E of 27.0x on 12MF earnings, which yields a valuation of D69,575 bn or US$3,065 mn (52.7% of GAV). Given the fixed life nature of MSR, we take a DCF over the entire duration and assign an equity value of D17,321 bn or US$ 763 mn (13.1% of GAV). Our valuation for MNS is pegged at 15.0x 12MF earnings, which is slightly above the regional peer average. For TCB, we have assumed MSN's stake to dilute to 19.8% (post IPO) and used a target 2.8x P/B multiple on 12MF book value yielding an equity value of D39,834 bn or US$1,755 mn (30.2% of GAV). Post incorporating stakes in other associates and net debt at the group level, we apply a conglomerate discount of 10% (previously 15%) to obtain our TP of D102,000. The rationale behind the lower discount is the improved price discovery for TCB after listing.

Figure 58: Our SOTP valuation shows a target price of D102,000/sh

Name of company	Method	D bn	*% of total*
Masan Consumer	27.0x 12MF earnings	69,575	*52.7%*
Masan Resources	Discounted cash flow	17,321	*13.1%*
Masan Nutri-Science	15.0x 12MF earnings	2,796	*2.1%*
Techcombank	2.8x 12MF book value	39,834	*30.2%*
Vissan, Cholimex Foods and others	Cost	2,411	*1.8%*
Gross Asset Value		**131,937**	
Net (debt)/cash at group level		(13,223)	
Equity value		**118,714**	
Conglomerate discount		*10%*	
Net Asset Value		**106,842**	
No. of shares (mn)		*1,047*	
Target Price (VND/sh)		**102,000**	

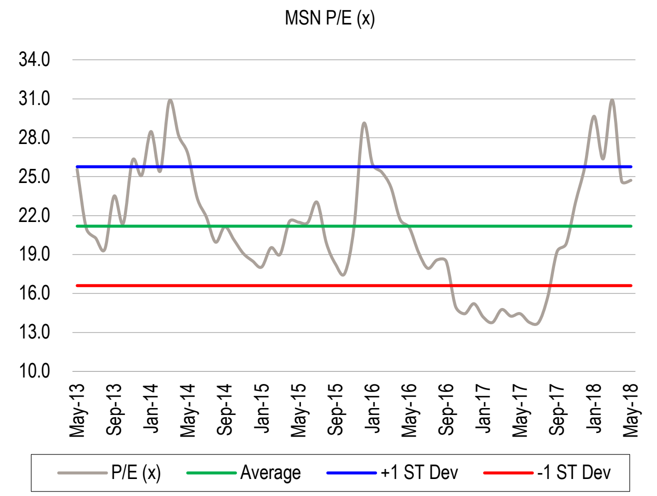
Source: Credit Suisse estimates

Rich valuations; no room for consensus upgrades

We are close to consensus in 2018-19E

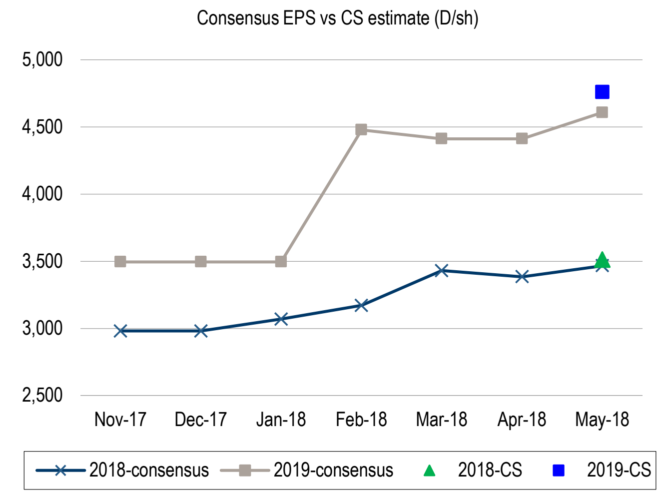
MSN is trading at a P/E of 24.7x (on a 12MF basis), which is one standard deviation above its average. The lofty level makes us skeptical on prospects of future multiple expansion. Moreover, our 2018-19E forecasts are largely in line with consensus numbers, which creates limited room for stock price performance on the back of upgrades for the street.

Figure 59: Valuations are +1 ST Dev above mean



Source: Reuters, IBES

Figure 60: We are largely at par with consensus



Source: IBES, Credit Suisse estimates

Key investment risks

Sales in F&B, margin fluctuations and response to new products

MSC constitutes 38% of consolidated sales and 52% of EBITDA, making the revenue and margin outlook a key driver of future estimates. Success of new product launches/innovations will need to be tracked, along with ability to realise synergies across the distribution network. Moreover, MSC's efforts to upscale its portfolio hold implications for margins. We estimate that 100 bp change in our gross margin assumptions for all products will likely filter through to a 3% impact on MSN's NPATMI.

Hog prices impacting farming activity and feed demand

While prices have risen to D40k/kg, it is difficult to call sustainability for now. Outlook of hog prices holds direct implications for revenues and margins for MNS, as stronger prices can lead to greater usage of tier-1 feed product and subsequently improve margins. On the flip side, more depression in the market can move farmers towards tier-2 and possibly even home-made feed, which can dent revenue/margin outlook. Our sensitivity illustrates that every 100 bp move in gross margins can impact MSN's NPATMI by 2.5%.

Volatility in metal pricing and operational backdrop at the mine

While a high degree of operating leverage has benefited mining profitability in recent quarters, any correction in tungsten prices can have an adverse impact. Similarly, issues with plant operations and weaker recovery rates can lead to cuts in forecasts. In the table below, we show the impact of a 5% change in the average price realisation and output volumes (both on a tungsten equivalent basis) to MSR's 2019E NPATMI equating to ~26%.

Figure 61: 5% move in prices/volumes impacts MSR's 2019E NPATMI by ~26%

		Average price realization (US$000/ton) – tungsten equivalent units				
		19.9	20.8	21.9	23.0	24.1
Annual production (tons) – tungsten equivalent units	11,778	57	234	420	616	821
	12,367	234	420	616	821	1,037
	12,986	420	616	$\boxed{821}$	1,037	1,264
	13,635	616	821	1,037	1,264	1,501
	14,317	821	1,037	1,264	1,501	1,751

Source: Credit Suisse estimates

Variation in growth outlook for Techcombank

Post two rounds of capital injection, we have assumed TCB's future ROE to settle at 19% under an assumption of no payouts. We believe that a 19% ROE is achievable due to a focused consumer-driven growth strategy with the incremental equity providing space for LDR expansion. We see that a 100 bp shift in TCB's ROE impacts MSN's NPATMI by 3%.

Revision in management targets

Changes in management targets in future quarters may elicit stock price reaction. At the Annual General Meeting, the company issued formal targets depicted in the table below. MSN expects consolidated sales to hover between D45,150 bn and D47,000 bn for 2018E, implying growth of 20%/25% from the previous year. Similarly, NPATMI is guided in a range of D3,400-4,000 bn, suggesting a jump of 10-29% on a YoY basis. 1Q18 has met ~18% of the top-line target and 20-24% of profit targets.

Figure 62: MSN targets relative to CS and proportion of annual targets met through 1Q18 results

D bn	2017 reported	Company 2018-low target	Company 2018-high target	Company 2018-low (YoY)	Company 2018-high (YoY)	Credit Suisse estimate	Credit Suisse 2018 YoY	1Q18 as % of company low	1Q18 as % of company high	1Q18 as % of Credit Suisse
Consolidated revenue	**37,621**	**45,150**	**47,000**	**20.0%**	**24.9%**	**40,333**	**7.2%**	**18.3%**	**17.6%**	**20.5%**
Masan Consumer Holdings	13,526	17,900	19,500	32.3%	44.2%	15,381	13.7%	20.0%	18.4%	23.3%
Masan Nutri Science	18,690	19,500	19,950	4.3%	6.7%	18,498	-1.0%	16.4%	16.0%	17.3%
Masan Resources	5,405	7,300	8,000	35.1%	48.0%	6,453	19.4%	20.4%	18.6%	23.0%
Consolidated NPATMI	**3,103**	**3,400**	**4,000**	**9.6%**	**28.9%**	**3,677**	**18.5%**	**24.0%**	**20.4%**	**22.2%**

Source: Company forecasts, Credit Suisse estimates

Companies Mentioned *(Price as of 15-May-2018)*
Aluminum Corporation Of China Ltd. (601600.SS, Rmb4.51)
Aluminum Corporation Of China Ltd. (2600.HK, HK$4.35)
Asia Commercial Joint Stock Bank (ACB.HN, D44500.0)
Astra Agro Lestari Tbk (AALI.JK, Rp12,000)
Bright Dairy & Food Co., Ltd (600597.SS, Rmb11.58)
Bumitama Agri Ltd (BUMI.SI, S$0.69)
C P Pokphand Co (0043.HK, HK$0.74)
Charoen Pokphand Foods Public (CPF.BK, Bt25.0)
China Mengniu Dairy (2319.HK, HK$27.05)
China Molybdenum Co. Ltd (3993.HK, HK$5.85)
China Molybdenum Co. Ltd (603993.SS, Rmb8.33)
DBN Group (002385.SZ, Rmb5.49)
Dabur India (DABU.BO, Rs370.3)
Emperador Distillers Inc. (EMP.PS, P7.2)
First Quantum Minerals Ltd. (FM.TO, C$20.96)
Genting Berhad (GENT.KL, RM8.76)
Hindustan Unilever Ltd (HLL.BO, Rs1516.0)
IOI Corporation Berhad (IOIB.KL, RM4.75)
Indofood Agri Resources Ltd (IFAR.SI, S$0.3)
Indofood CBP (ICBP.JK, Rp8,200)
Indofood Sukses Makmur (INDF.JK, Rp6,475)
Inner Mongolia Yili Industrial Group (600887.SS, Rmb27.07)
Jiangxi Copper (600362.SS, Rmb17.72)
Jiangxi Copper (0358.HK, HK$11.54)
Kuala Lumpur Kepong (KLKK.KL, RM25.5)
LG Household & Healthcare (051900.KS, W1,277,000)
Lundin Mining Corp. (LUN.TO, C$8.4)
Masan Group (MSN.HM, D96200.0, NEUTRAL, TP D102000.0)
Military Commercial Joint Stock Bank (MBB.HM, D31000.0)
Nestle India (NEST.BO, Rs9547.45)
New Hope Liuhe (000876.SZ, Rmb7.25)
PT Japfa Comfeed Indonesia Tbk (JPFA.JK, Rp1,610)
PT Perusahaan Perkebunan London Sumatra Indonesia (LSIP.JK, Rp1,115)
SZ Jinxinnong (002548.SZ, Rmb8.65)
TRS (002567.SZ, Rmb5.69)
Tech-bank (002124.SZ, Rmb8.92)
Tecon (002100.SZ, Rmb6.58)
Thai Beverage (TBEV.SI, S$0.8)
Thai Union (TUf.BK, Bt20.1)
Tingyi (0322.HK, HK$15.96)
Tongwei (600438.SS, Rmb12.95)
Unilever Indonesia (UNVR.JK, Rp47,450)
Universal Robina Corporation (URC.PS, P144.2)
VPBANK (VPB.HM, D50200.0)
Vietnam Bank for Industry and Trade (CTG.HM, D29850.0)
Vietnam Dairy Products Joint Stock Company (VNM.HM, D176000.0)
WH Group Limited (0288.HK, HK$8.18)
Want Want China Holdings Ltd. (0151.HK, HK$7.24)
Wellhope (603609.SS, Rmb9.52)
Yanzhou Coal Mining Company Limited (1171.HK, HK$11.28)
Yanzhou Coal Mining Company Limited (600188.SS, Rmb15.07)
Zhengbang Tech (002157.SZ, Rmb4.48)
Zijin Mining Group Co., Ltd (2899.HK, HK$3.59)

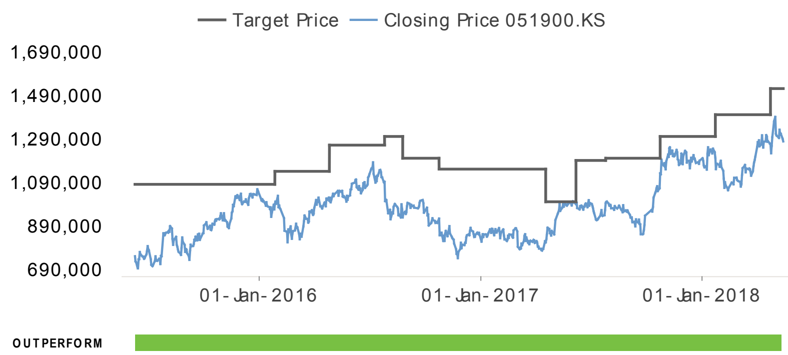
Disclosure Appendix

Analyst Certification
I, Fahd Niaz, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for LG Household & Healthcare (051900.KS)

051900.KS Date	Closing Price (W)	Target Price (W)	Rating
10-Jun-15	750,000	1,080,000	O
27-Jan-16	990,000	1,140,000	
26-Apr-16	1,004,000	1,260,000	
26-Jul-16	1,092,000	1,300,000	
25-Aug-16	928,000	1,200,000	
24-Oct-16	923,000	1,150,000	
18-Apr-17	813,000	1,000,000	
07-Jun-17	989,000	1,190,000	
26-Jul-17	994,000	1,200,000	
24-Oct-17	1,131,000	1,300,000	
23-Jan-18	1,202,000	1,400,000	
24-Apr-18	1,267,000	1,520,000	

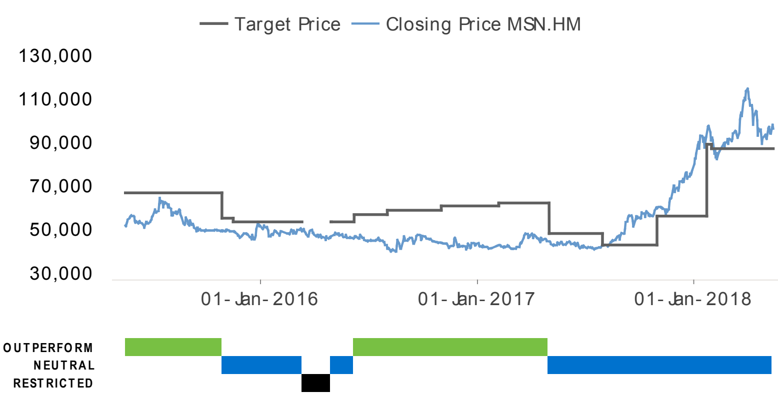
** Asterisk signifies initiation or assumption of coverage.*



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	
23-Jan-18	92500.00	89000.00	
31-Jan-18	92100.00	87000.00	

** Asterisk signifies initiation or assumption of coverage.*



As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

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Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	38%	(56% banking clients)
Underperform/Sell*	12%	(52% banking clients)
Restricted	2%	

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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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 D102,000. For the consumer business we use a target P/E (price-to-earnings) multiple of 27.0x on 12MF earnings. We take a DCF (discounted cash flow) of the mine over project life. For Masan Nutri-Science, we use a target P/E of 13.0x on 12MF earnings. Associate stakes in Techcombank are taken at 2.8x 12MF 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 VND102,000. MSN warrants a NEUTRAL rating as valuations are rich (one standard deviation above historical average) and fully reflect the recovery prospects of the consumer business along with impact of higher metal prices, in our view. Moreover, there is limited room for consensus upgrades.

Risk: Key risks to our NEUTRAL rating and D102,000 target price for Masan Group includes degree of sales growth in F&B along with margin fluctuations and responses to new product launches. For the mining business, volatility in metal pricing and operational performance can impact forecasts. In animal feed, outlook of hog prices poses direct implications for feed demand and margins. And lastly in Techcombank, variation in growth trajectory (vs our forecasts) can affect MSN's profitability.

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures/view/selectArchive for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names
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Credit Suisse beneficially holds >0.5% long position of the total issued share capital of the subject company (INDF.JK, ICBP.JK, UNVR.JK, 051900.KS).
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Arnab Mitra worked as an employee in Hindustan Unilever.
Analyst Anita Soni holds a long position in the equity securities of First Quantum Minerals (FM.TO).

For date and time of production, dissemination and history of recommendation for the subject company(ies) featured in this report, disseminated within the past 12 months, please refer to the link: https://rave.credit-suisse.com/disclosures/view/report?i=361659&v=-1txaplm1tzpl6bn1vhc903iuf .

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