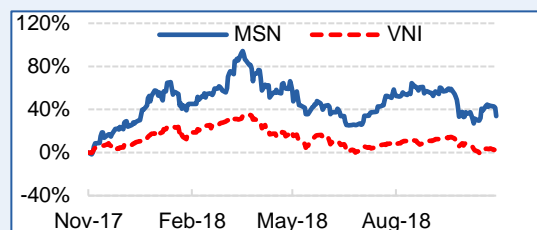


Industry:	Diversified	2017	2018F	2019F	2020F	
Report Date:	Nov. 21, 2018	Rev Growth	-13.1%	1.7%	14.1%	8.6%
Current Price:	VND81,200	EPS Growth	-22.5%	64.8%	59.6%	24.4%
Current Target Price:	VND96,500	GPM	30.9%	32.5%	32.6%	33.2%
Previous Target Price:	VND110,000	NPM	5.8%	8.9%	13.4%	15.3%
Upside to TP:	+18.8%	EV/EBITDA	12.3x	10.3x	9.0x	8.2x
Dividend Yield:	0%	P/Op CF	29.1x	17.1x	11.7x	10.1x
TSR:	+18.8%	P/E	42.6x	25.8x	16.2x	13.0x



Market Cap:	\$4.0bn	MSN	VNI	
Foreign Room:	\$342.6mn	P/E (ttm)	26.6x	16.2x
ADTV30D:	\$3.4mn	P/B (curr)	3.2x	2.5x
State Ownership:	0%	Net D/E	0.5x	N/A
Outstanding Shares:	1,163.1 mn	ROE	17.8%	14.9%
Fully Diluted Shares:	1,163.1 mn	ROA	5.0%	2.4%
3-yr core PEG	0.8	*Earnings-related metrics are based on core earnings.		
		*EBITDA includes shared profits from Techcombank		

Company Overview

Masan Group operates in the branded food and beverage sector and in the animal protein value chain. Other businesses include mining and a significant holding in Techcombank.

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Bright earnings outlook on core businesses, deleveraging

- We change our rating from BUY to OPF as we curtail our TP by 12% due to a lower Techcombank (TCB) valuation, lower animal feed profits and hikes to the risk-free rate and risk premium.
- We cut our recurring 2018F/2019F/2020F NPAT-MI by 15%/14%/12% primarily due to TCB and, to a smaller extent, Masan Nutri-Science (MNS/meat value chain).
- Per our projections, recurring EPS will soar 65%/60%/24% in 2018/2019/2020 driven by broad-based core business growth, led by the F&B business and TCB, and financial deleveraging.
- Masan Consumer Holding (MCH) is poised for continued double-digit top-line growth in 2019-2020, in our view, as the strategic restructuring carried out in 2017 is delivering positive results.
- We expect MNS to recover in 2019 after a pig supply crisis and an upcoming fresh meat launch.
- Downside risks to our positive view: MCH loses product launching momentum; fresh meat launch fails to gain traction; TCB delivers worse-than-expected earnings; metal prices retreat.

Brand building and product innovation jumpstart MCH growth. MCH carried out aggressive distributor de-stocking in 2017 to stage a strategic shift from a sales-driven strategy to a focus on marketing and product innovation. This effort is bearing fruit as MCH witnessed a ~20% increase in sell-out (sales from distributors to retailers) in 9M 2018. Profit margins also bounced back, with EBIT margin reaching 20.4% in 9M 2018 vs 10.1% in 9M 2017, on the back of reduced trade promotions and a lack of one-off expenses incurred in 2017. For 2019, we pencil in a 14% increase in revenue and a 25% jump in EBIT vs 2018F for MCH, as the top line will come off a larger base while we expect margins will continue to step up thanks to easing trade promotion expenses.

We expect MNS to rebound in 2019 on a recovery in pig farming activity and a fresh meat launch. Since April 2018, pig prices have stayed above the average industry production cost, which we expect will spur pig farming activity in 2019 vs 2018. This, coupled with easing soybean and corn prices, will bolster MNS's 2019F feed revenue and EBIT to jump 13% and 33% YoY, respectively. Meanwhile, Masan is on track to launch chilled fresh meat by YE2018, which we project will contribute 4% to MNS's 2019F revenue. Having said the above, we cut our 2018F/2019F EBIT for MNS by 21%/27% as the pig farming recovery might not be as strong as we expected, given that pig prices have cooled down from USD2.2/kg-USD2.3/kg in Q3 to USD2.0/kg-USD2.1/kg currently.

Masan Resources' (MSR) net profits to step up in 2019F aided by smaller minority interests. We note that in August 2018, MSR took full control of its value-added tungsten processing unit after acquiring the remaining 49% stake from H.C. Starck at a lucrative valuation of 3x EV/EBITDA. Backed by this, we project MSR's NPAT-MI to surge 35% in 2019F vs 2018F. Upside to our current MSR forecasts is subject to the materialization of MSR's planned mid- and downstream capacity expansion, which, in turn, will be subject to future strategic alliances forged with industry partners.

9M 2018: F&B segment spearheaded earnings turnaround

Figure 1: MSN's 9M 2018 results

VND bn	9M 2017	9M 2018	YoY	VCSC comments
Net revenue	27,451	26,630	-3%	
Branded F&B	8,934	11,907	33%	9M 2017 was a low base as reported revenue, i.e., sales from MCH to distributors, was undermined by distributor de-stocking. That said, sell-out, i.e., sales from distributors to retailers, soared ~20% YoY in 9M 2018 under our estimate, underscoring strengthening end-consumer offtake for Masan products in 9M 2018. Stock level at distributors dropped to VND921bn (USD39mn) as of end-Q3 2018 vs VND1tn (USD45mn) as of YE2017 and VND2.2tn (USD98mn) as of YE2016. Best performing categories in 9M 2018: energy drinks (revenue +55% YoY), seasonings (+37%) and convenience foods (+34%).
Meat value chain	14,590	10,035	-31%	A pig oversupply crisis from late 2016 to April 2018 dampened pig farming activity and in turn, pig feed consumption, as farmers scaled down their herds or even exited the industry. While livestock pig prices have rebounded since April 2018, a full recovery will only materialize in 2019, per management, because it typically takes the feed market about three to four quarters to fully recover (i.e., five months for sows to produce piglets and an additional four months for piglets to grow into full-sized porkers; the latter stage is when consumption of feed is highest).
Mining	3,928	4,688	19%	Metal prices strengthened, which more than offset a dip in production volume owing to lower ore grades.
EBITDA	6,241	7,718	24%	
Branded F&B	1,562	3,103	99%	GPM broadened by 1.3 pts YoY to 44.2% in 9M 2018 thanks to a larger contribution from high-margin categories, such as seasonings and energy drinks, while beer GPM also improved after suffering from heavy product returns in 2017. SG&A/sales % dwindled from 32.7% in 9M 2017 to 23.7% in 9M 2018 aided by (1) no one-off expenses to facilitate distributor de-stocking, which occurred in Q1 2017 and (2) lower trade promotions as MCH switched its business model to brand building from sales-driven.
Meat value chain	1,554	940	-40%	GPM shrank by 6.7 pts YoY to 15.3% in 9M 2018 as higher-margin pig feed sales plummeted and prices of raw materials, such as corn and soybean, ratcheted up. In addition, contribution from value-segment pig feed, which yields narrower margins, widened in 9M 2018 as farmers were in savings mode during the crisis.
Mining	1,966	2,362	20%	
TCB's contribution	1,225	1,411	15%	On a standalone basis, TCB's NPAT rocketed 60% YoY in 9M 2018 backed by a 25% increase in total operating income while provisions slumped 30% YoY as TCB finished provisioning for VAMC bonds at the end of 2017. Shared profits to MSN rose more slowly as MSN's effective ownership in TCB contracted to 21.5% following TCB's capital raising in Q2 2018, from 25.2% as of YE2017 and 36.4% as of end-Q3 2017.
Others	-66	-98	48%	Mostly expenses at parent, i.e. holdco, level.
Reported NPAT pre-MI	1,466	4,336	196%	9M 2018 figure includes a one-off, non-cash accounting gain of VND1.5tn (USD63.2mn) from a "deemed disposal" of TCB, which derived from TCB's capital raising in Q2 2018 that resulted in a reduction in MSN's ownership in the bank.
Reported NPAT-MI	1,213	3,779	212%	
Core NPAT pre-MI	1,466	2,864	95%	Interest expenses sank 10.5% YoY in 9M 2018 thanks to deleveraging, further buoying the core bottom line in addition to operating profit growth.
Core NPAT-MI	1,213	2,307	90%	

Source: MSN & VCSC

MCH: strong sell-out shows strategic shift is delivering

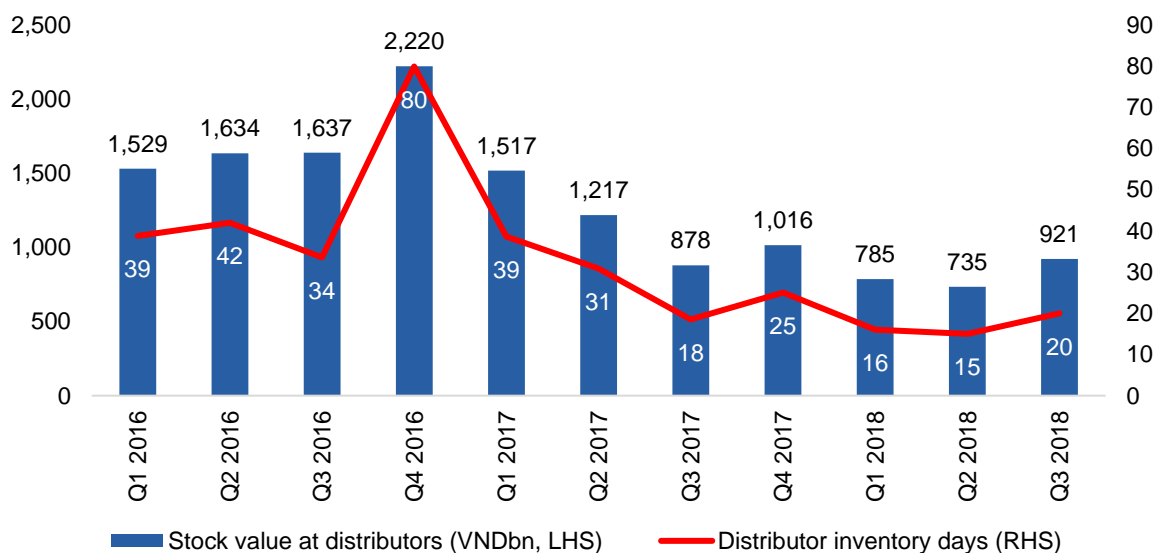
Figure 2: MCH's reported 9M 2018 revenue

VND bn	9M 2016	9M 2017	9M 2017 vs 9M 2016	9M 2018	9M 2018 vs 9M 2017
Net revenue	9,770	8,934	-9%	11,907	33%
Seasonings	3,723	3,482	-6%	4,761	37%
Convenience foods	2,589	2,435	-6%	3,271	34%
Processed meat	25	157	528%	131	-17%
Beverages & others	2,764	2,717	-2%	3,496	29%
Beer	669	143	-79%	248	73%

Source: MSN, VCSC estimates

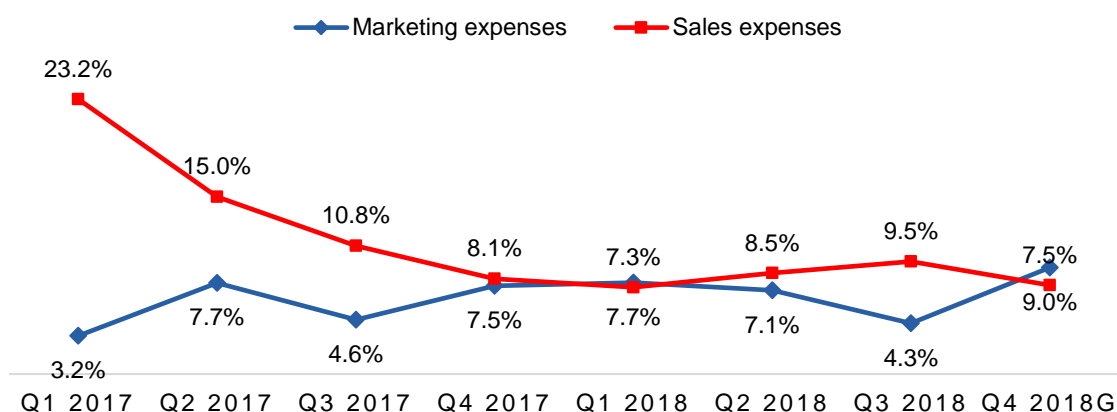
Masan's shift to a brand building model is bearing fruit. To facilitate its strategic shift from relying on trade promotions (sales-driven) to focus on branding activities and product innovation, Masan actively eased sell-in to reduce stock at distributors in 2017. Although this initiative hurt 2017 financial results (revenue is recognized when Masan delivers the goods to distributors), it will benefit Masan in the long term because (1) it shortens the route-to-market for Masan's new products because distributors tend to prioritize selling old products. Inventory days of Masan's F&B distributors have improved from a peak of 80 days in Q4 2016 to 20 days in Q3 2018; (2) it reduces spending on trade promotions, and Masan can use those savings to invest more in marketing and innovation, which will produce a greater impact on end-consumers while enhancing MCH's profit margins.

Figure 3: Stock value and inventory days of MCH's distributors



Source: MSN (inventory days are calculated based on prevailing stock levels and sell-out)

Figure 4: MCH’s marketing and sales expenses as a % of revenue



Source: MSN

Seasonings took off thanks to premium products. Premiumization is one of Masan’s key strategies to capitalize on rising consumer demand for quality. In 2017, Masan launched several premium fish sauce SKUs, including Nam Ngu Phu Quoc, Nam Ngu Nhan Vang and Chinsu Man Ma, at much higher price points than its traditional SKUs. These products boosted contribution from the premium segment (prices of at least VND50,000/liter) to Masan’s fish sauce revenue from 7% in 9M 2017 to 12% in 9M 2018. Accordingly, 9M 2018 seasoning sales were buoyed by both volume (~75% of growth) and price (~25% of growth).

Figure 5: Price comparison between Masan’s flagship fish sauce SKUs and new launches

Flagship fish sauce SKUs	 Chinsu Salmon Flavor VND38,000/500ml	 Nam Ngu Nhan Do VND35,000/750ml	 Nam Ngu 3-in-1 VND24,000/500ml
New premium SKUs launched in 2017	 Chinsu Man Ma VND71,000/500ml	 Nam Ngu Nhan Vang VND40,000/650ml	 Nam Ngu Phu Quoc VND55,000/500ml

Source: VCSC compilations

New premium variants also propped up convenience foods. While the overall instant noodle space is stagnating, the premium segment is still growing as urban consumers trade up and look for quality, convenient meal replacements. In Q3 and Q4 2017, Masan launched multiple premium variants, including Kokomi Dai (“Big Kokomi”), Omachi Cup and Omachi Meat Cup. These helped propel the contribution from the Omachi range (MSN’s premium brand) to convenience food revenue from 36% in 9M 2017 to 43% in 9M 2018, per MSN, with the Omachi range of products recording 60% revenue growth YoY. In August 2018, Masan launched Omachi mashed potatoes, which retails for VND16,000 (USD0.7) per pack. This will not only extend Masan’s convenience food offerings, but also help solidify the Omachi brand in instant noodles because part of Omachi’s premium positioning is centered on its “potato-based” instant noodles.

Figure 6: Omachi mashed potatoes launched in August 2018



Source: VCSC compilation

Energy drinks maintained positive momentum thanks to POS expansion. Wake-Up 247 has been Masan’s most successful innovation in the last few years as it pioneered the caffeine-based energy drink category. Wake-Up 247, coupled with the launch of heavy-duty energy drink Compact in April 2018, underpinned a 55% jump YoY in Masan’s energy drink revenue in 9M 2018 to VND1.3tn (USD55mn). Distribution has been broadened nationwide as the number of POS for energy drinks climbed from 50,000 in 2016 to 75,000 in 2017 and over 130,000 as of 9M 2018. Masan aims to bring this figure to ~150,000 by YE2018.

Figure 7: Masan’s energy drink portfolio

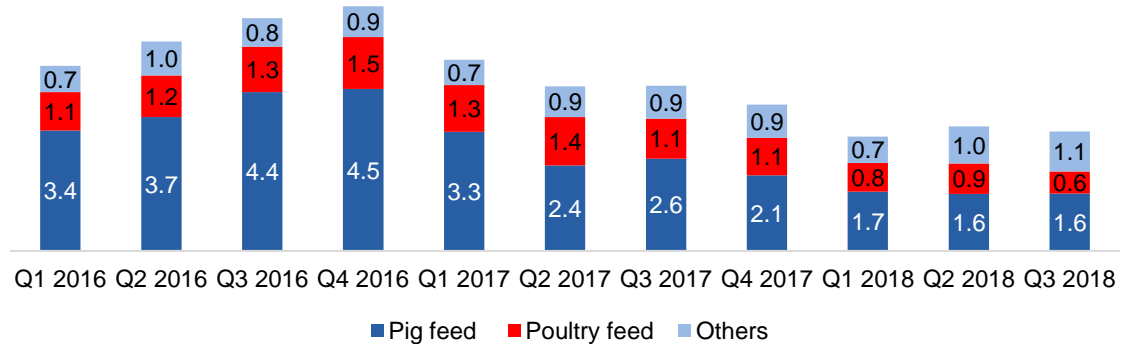


Source: VCSC compilations

Processed meat and beer have not really taken off but new launches should jumpstart momentum in 2019. These are new categories that Masan aims to develop into future growth pillars. Masan recently announced a partnership with Jinju Ham, a longstanding processed meat company in South Korea. Masan will leverage on Jinju Ham’s technological know-how to introduce innovative processed meat products to the market, starting from 2019. On the other hand, per MSN, it is setting up separate distribution and sales teams for the beer segment to prepare for a re-launch, instead of utilizing the existing platforms of its non-alcoholic beverage segment, which has proven to be ineffective. Between processed meat and beer, we are more optimistic about Masan’s potential success in the former category as beer is a highly competitive and consolidated market in which the two market leaders, Sabeco and Heineken Vietnam, hold a combined ~70% market share. We expect the level of competition in beer to stiffen going forward after ThaiBev acquired Sabeco at YE2017.

MNS: we still look forward to a rebound in 2019 but the magnitude of the recovery might not be as pronounced as we expected

Figure 8: MNS's revenue by feed type (VND tn)



Source: MSN

Commercial pig feed sales spiraled downward as farmers trimmed their pig herds. After a boom year in 2016, Vietnam's pig livestock market became oversupplied after China ceased its imports. This resulted in plunging pig prices and forced farmers to scale down their herds, which significantly weakened demand for pig feed. The damage to commercial pig feed was amplified as farmers switched to home-made feed because productivity was no longer a priority amid depressed pig prices, which stayed below production costs for a prolonged period. Therefore, total commercial pig feed sales volume in Vietnam fell from 6.3 million tons (57% of total pig feed volume) in 2016 to only 3.4 million tons (46% of total pig feed volume) in 2017. Commercial pig feed consumption slumped by another ~30% in 9M 2018 as livestock pig prices only started to rally in April 2018.

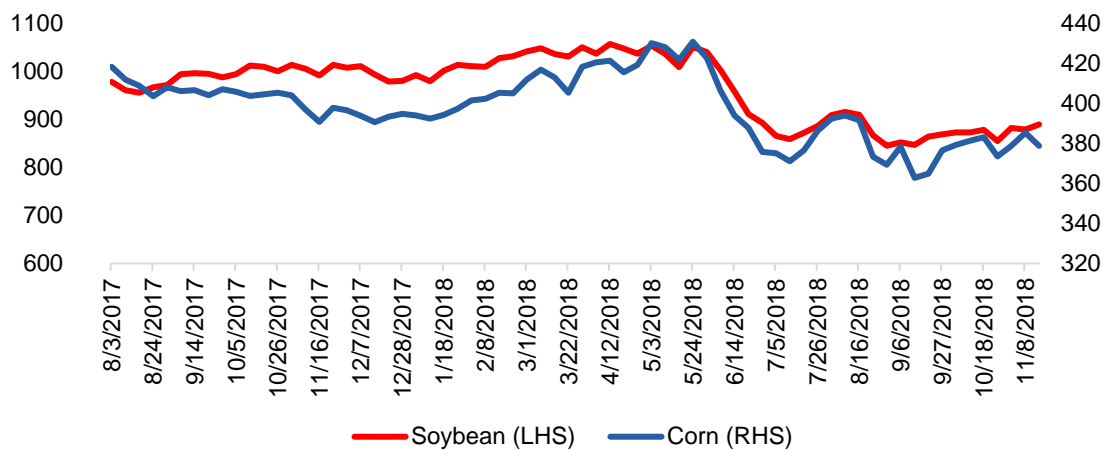
Elevated pig prices bode well for a recovery in pig farming in 2019 but it might not be as strong as we previously anticipated. As mentioned above, farmers cut their herds after the crisis broke out, which eventually led to a supply shortage. Since the beginning of April, livestock pig prices have rallied from USD1.3/kg-USD1.4/kg to USD2.0/kg-USD2.1/kg currently, which is a level farmers can make profits. As such, we expect farmers will gradually replenish pig herds, bolstering pig feed consumption in 2019. Having said that, the ramp-up in pig farming activity might be weaker than we previously expected, due to two recent developments: (1) pig prices have cooled down to USD2.0/kg-USD2.1/kg currently vs a peak of USD2.2/kg-USD2.3/kg during Q3 2018 and (2) owing to a surge in piglet prices, average production costs for many farmers have climbed from USD1.5/kg-USD1.6/kg in April 2018 to USD1.7/kg-USD1.8/kg currently. While they can still make a profit at the current levels, the narrowed spread between production costs and selling prices has increased risks for farmers. Therefore, we think they will be more cautious in re-investing in pig herds, especially after the recent painful experience of the last crisis. Consequently, we curtail our 2018F/2019F revenue for MNS by 14% and 17%, respectively.

MNS's poultry feed sales took a hit in 9M 2018 amid stiff price competition. Per Masan, owing to the slump in pig feed demand, feed producers shored up poultry feed volume to fill up capacity, which has led to fierce price cuts to the point of unprofitability. Masan chose to stand aside this price war, which resulted in a steep decline in its poultry feed volume in 9M 2018.

MNS's 2018 GPM is hampered by higher raw material costs and a shift in sales mix toward the value segment, but it should improve in 2019 as raw material costs retreat. Amid muted demand, MNS was not able to pass the hike in raw material costs to customers, which caused its GPM to compress from 22.0% in 9M 2017 to 15.3% in 9M 2018. At the same time, in Q4 2017, Masan launched Bio-zeem Xanh, a value-for-money variant, in an effort to convert farmers from using homemade feed to commercial feed. Bio-zeem Xanh, which generates lower GPM than MNS's tier-1 Bio-zeem Do, contributed nearly 18% to pig feed revenue in 9M 2018.

Looking forward to 2019, we pencil in a 1-ppt improvement in MNS's animal feed GPM to 16% vs 15% in 2018F on the back of softening soybean and corn prices, per Figure 9.

Figure 9: Prices of soybean and corn (USD/bushel)



Source: Bloomberg

MNS: launch of branded chilled fresh meat on track for December 2018

A success with meat would strengthen MNS's growth/risk profile substantially. Ever since its acquisition of Masan Nutri-Science, Masan's vision has always been to build a fully-integrated branded meat platform, which would enable it to tap into a much larger market, instead of just animal feed, while generating both higher and more stable margins. As such, Masan's roll-out of its branded meat platform in 2019 will be a key development to watch.

Pig farm already began operations; meat processing complex under construction. Masan's pig farm in Nghe An Province (north-central Vietnam) commenced operations in December 2017. The farm boasts a capacity of 10,000 sows, which translates to 230,000-250,000 porkers/year. On February 4, 2018, Masan held the ground-breaking ceremony for its meat processing complex in Ha Nam Province (northern Vietnam), which is capable of processing up to 900,000 porkers/year.

Masan plans to start selling branded, chilled fresh meat in December 2018. Per Masan, it will likely price its meat products at a premium of 10%-15% to wet markets thanks to the traceability as well as superior quality and safety of its meat. Hanoi will be the first market for Masan's meat, where the company plans to open numerous retail shops for branding purposes. Distribution will cover both modern trade and general trade (including wet markets).

We pencil in VND770bn (USD33mn) and VND1.54tn (USD66mn) for fresh meat sales for 2019 and 2020, respectively. This is based on our assumption that the number of porkers will reach 50% and 100% of capacity in 2019 and 2020, respectively. Per our projections, operating margin will be negligible in 2019 but hit 15% in 2020 thanks to stronger capacity utilization. If Masan manages to build its fresh meat brand into a power brand, there will be upside to these forecasts in terms of both sales and profit margins given that Masan can do contract farming to shore up pig supply while boasting strong pricing power.

MSR: riding on buoyant metal prices

Management points to a structural supply deficit in tungsten owing to a shutdown/suspension of high-cost mines, rising costs in China due to the country's stricter environmental standards and strengthening demand backed by recovering capex in the oil & gas and manufacturing sectors. While tungsten prices dipped in Q3 2018 due to lackluster European demand and global political and trade issues, management forecasts tungsten prices will rally again to 9M 2018's average level by YE2018 owing to limited available supply globally. In 9M 2018, MSR's tungsten revenue ratcheted up 49% YoY to VND3.3tn (USD140mn), or 70% of MSR's total revenue.

Management expects to intensify copper shipments in Q4 after a slow 9M 2018. Per MSR, in 9M 2018, the company held back sales of copper (-47% YoY) partly in pursuit of higher price realizations. Therefore, even though MSR's 9M 2018 revenue only amounted to VND4.7tn (USD200mn), we project full-year revenue will touch VND7.3tn (USD309mn), up 35% vs 2017.

Figure 10: Relevant metal prices

Commodity prices	Unit	Average 9M 2017	Average 9M 2018	% change	As of Sept. 30, 2017	As of Sept. 30, 2018
APT European Low	USD/mtu	225	319	42%	290	275
Bismuth Low	USD/lb	4.7	4.6	-1%	5.1	4.0
Copper	USD/ton	5,952	6,642	12%	6,485	6,180
Fluorspar Acid Grade	USD/ton	337	482	43%	350	455

Source: MSN, Metals Bulletin, Industrial Minerals

Figure 11: MSR's production fell mainly due to higher utilization of lower ore grades

	Unit	9M 2017	9M 2018	Growth
Ore processed	'000 tons	2,887	2,813	-3%
Tungsten concentrate (contained)	tons	4,737	4,082	-14%
Tungsten equivalent units (contained)	tons	9,921	8,539	-14%

Source: MSN

2018 outlook: we trim our recurring NPAT-MI forecast by 16% mainly due to TCB and, to a smaller extent, MNS

Figure 12: VCSC's 2018 forecasts

VND bn	2017	2018F Old	2018F New	2018F New vs 2017	VCSC comments on 2018 forecasts
Revenue	37,621	40,552	38,256	1.7%	
Branded F&B	13,526	17,036	17,067	26.2%	No distributor de-stocking, new product launches and a higher ASP to drive 15%-25% growth in seasonings, convenience foods and coffee. Energy drinks are forecast to soar 50% on the back of distribution expansion and launches of new variants.
Meat value chain	18,690	16,080	13,919	-25.5%	Commercial pig feed consumption nosedived due to the prolonged impact of the last pig crisis. Poultry feed sales slip amid heightening price competition. Forecast is revised down as pig feed market recovery trails expectation.
Mining	5,405	7,435	7,270	34.5%	Higher ASP bolsters growth.
Gross profit	11,632	13,149	12,447	7.0%	
Branded F&B	5,897	7,735	7,772	31.8%	
Meat value chain	3,991	2,677	2,103	-47.3%	
Mining & others	1,743	2,737	2,572	47.6%	
Selling exp.	-5,291	-5,041	-4,676	-11.6%	Normalizing after one-off investments at MCH (for distributor de-stocking) and MNS (loyalty programs to gain market share) in 2017. Forecast revised down mainly due to selling expenses at MNS.
G&A exp.	-1,912	-1,944	-1,905	-0.4%	
Operating profit	4,429	6,165	5,866	32.4%	
Interest expenses	-3,435	-3,089	-3,089	-10.1%	Smaller average debt balance in 2018 vs 2017.
Non-operating profit	3,145	3,892	3,500	11.3%	
Profit before tax	4,139	6,968	6,277	51.7%	Factor in a VND1.5tn (USD63mn) one-off gain from deemed disposal of TCB.
NPAT	3,608	6,301	5,623	55.9%	
NPAT-MI, in which:	3,103	5,467	4,859	56.6%	
TCB shared profits	2,044	2,251	1,893	-7.1%	MSN's effective ownership in TCB dwindles in 2018 following the bank's capital raising. On a standalone basis, we pencil in a 31% jump in TCB's 2018 NPAT, lower than the previous forecast of 55%. One-off VND933bn (USD40mn) gain from selling TCB convertible bonds in 2017. One-off VND1.5tn gain from deemed disposal of TCB in 2018.
Normalized NPAT-MI	2,170	3,995	3,387	56.1%	
EBITDA (excl. TCB)	7,434	9,684	9,385	26.2%	
GPM	30.9%	32.4%	32.5%		
Branded F&B	43.6%	45.4%	45.5%		Blended GPM to improve in 2018 as losses from returns of unsold beer products ease and contribution from high-margin seasonings widens.
Meat value chain	21.4%	16.6%	15.1%		Margins deteriorate due to higher input costs and change in sales mix.
Mining + others	32.3%	36.8%	35.4%		Margins to broaden on stronger ASP and operating leverage.
Selling exp as % of rev	14.1%	12.4%	12.2%		
G&A as % of rev	5.1%	4.8%	5.0%		
Operating margin	11.8%	15.2%	15.3%		
EBITDA margin	19.8%	23.9%	24.5%		
NPAT margin	9.6%	15.5%	14.7%		
NPAT-MI margin	8.2%	13.5%	12.7%		
Effective tax rate	12.8%	9.6%	10.4%		

Source: VCSC

2019 outlook: earnings to keep elevating on robust core business growth and softening interest expenses

Figure 13: VCSC's 2019 forecasts

VND bn	2018F	2019F	2019F vs 2018F	VCSC comments on 2019 forecasts
Revenue	38,256	43,660	14.1%	
Branded F&B	17,067	19,527	14.4%	Double-digit growth across core categories, led by energy drinks (+25% vs 2018F) and seasonings (+15%). Processed meat is forecast to surge 50% vs 2018F thanks to new product launches on the back of Masan's recently established partnership with Jinju Ham of South Korea.
Meat value chain	13,919	16,381	17.7%	Animal feed revenue is projected to jump 13% vs 2018F to VND15.6tn (USD664mn) as pig farming activity recovers driven by favorable pork prices. We further assume that fresh meat will contribute revenue of VND770bn (USD33mn) in 2019 based on 50% farm output capacity utilization.
Mining	7,270	7,752	6.6%	Limited ASP hike in 2019 vs 2018. Revenue growth will be partly fueled by sourcing of third-party tungsten concentrate to shore up mid-stream volume. We have not factored in upside from MSR's capacity expansion in mid-stream and downstream segments.
Gross profit	12,447	14,252	14.5%	
Branded F&B	7,772	8,934	15.0%	
Meat value chain	2,103	2,635	25.3%	
Mining & others	2,572	2,683	4.3%	
Selling exp.	-4,676	-5,166	10.5%	
G&A exp.	-1,905	-2,103	10.4%	
Operating profit	5,866	6,983	19.0%	
Interest expenses	-3,089	-1,803	-41.6%	We project MSN's total debt will shrink from USD1.5bn as of YE2017 and H1 2018 to USD724mn as of YE2019, underpinned by the treasury share proceeds and internally generated cash flow.
Non-operating profit	3,500	2,269	-35.2%	No more one-off gain (VND1.5tn/USD63mn in 2018F).
Profit before tax	6,277	7,448	18.7%	
NPAT	5,623	6,661	18.4%	
NPAT-MI, in which:	4,859	5,834	20.1%	
TCB shared profits	1,893	2,183	15.3%	We pencil in a 20% jump in TCB's standalone NPAT in 2019 vs 2018. However, MSN's weighted average effective ownership in TCB will dwindle in 2019 vs 2018 owing to TCB's capital raising in H1 2018.
Normalized NPAT-MI	3,387	5,834	72.2%	One-off VND1.5tn (USD63mn) gain from deemed disposal of TCB in 2018.
EBITDA (excl. TCB)	9,385	10,825	15.3%	
GPM	32.5%	32.6%		
Branded F&B	45.5%	45.8%		
Meat value chain	15.1%	16.1%		GPM to expand backed by more favorable raw material costs, including soybean and corn.
Mining + others	35.4%	34.6%		
Selling exp as % of rev	12.2%	11.8%		
G&A as % of rev	5.0%	4.8%		
Operating margin	15.3%	16.0%		
EBITDA margin	24.5%	24.8%		
NPAT margin	14.7%	15.3%		
NPAT-MI margin	12.7%	13.4%		
Effective tax rate	10.4%	10.6%		

Source: VCSC

Valuation

We apply a sum-of-parts valuation for MSN in which we employ the DCF method for MCH and MSR, the PER method for MNS, our house valuation for TCB and book value for other long-term investments.

Figure 14: VCSC's valuation for MSN

VND bn	Method	Equity value	MSN's ownership	Equity value attributed to MSN	Implied valuation multiples
Masan Consumer Holding	DCF	63,831	85.7%	54,704	2019F PER of 21.2x
Masan Nutri-Science	PER	12,541	80.8%	10,133	2019 PER of 18.0x
Masan Resources	DCF	18,808	96.0%	18,056	2019F EV/EBITDA of 8.2x
Net debt at holdco level				-9,731	
Proceeds from treasury shares				10,990	
Techcombank		121,676	21.5%	26,151	2019F PBR of 2.1x.
Cholimex investment	BV		27.3%	207	
Vissan investment	BV		20.1%	1,725	
Total equity value				112,235	
Share count (mn)*				1,163.1	
Target price (VND)				96,500	

Source: VCSC

Key changes to our MSN valuation vs previous report

- MCH valuation shrinks by 2% mainly due to increases in risk-free rate (from 4.0% to 4.5%) and our universal risk premium (from 8.0% to 8.4%).
- MNS valuation declines by 27% primarily due to our downward revision in 2019F NPAT-MI while we maintain our target PER at 18x.
- MSR valuation contracts by 10% mainly due to the aforementioned increases in risk-free rate and our universal risk premium as well as our downward revisions in projected tungsten prices during 2019-2021 from USD350/mtu previously to USD325/mtu following the recent softening in tungsten prices.
- Our banking team recently cut valuation of TCB by 20%. For more details, see our TCB report "[Symbiotic relationship with VIC deepens in Q3 2018](#)" dated November 9, 2018.

Sensitivity analysis of MSN target price in relation to Masan Consumer

Figure 15: Sensitivity analysis of our target price for MSN in relation to Masan Consumer's WACC and terminal growth rate, ceteris paribus

MSN target price (VND)	Masan Consumer's terminal growth (g)	Masan Consumer's WACC				
		9.4%	9.9%	10.4%	10.9%	11.4%
	2.0%	87,100	86,100	85,100	84,200	83,300
	3.0%	92,200	91,100	90,000	89,000	88,000
	4.0%	99,000	97,700	96,500	95,300	94,100
	4.5%	103,200	101,900	100,500	99,300	98,000
	5.0%	108,300	106,800	105,400	104,000	102,600

Source: VCSC

Comparable peers for MNS

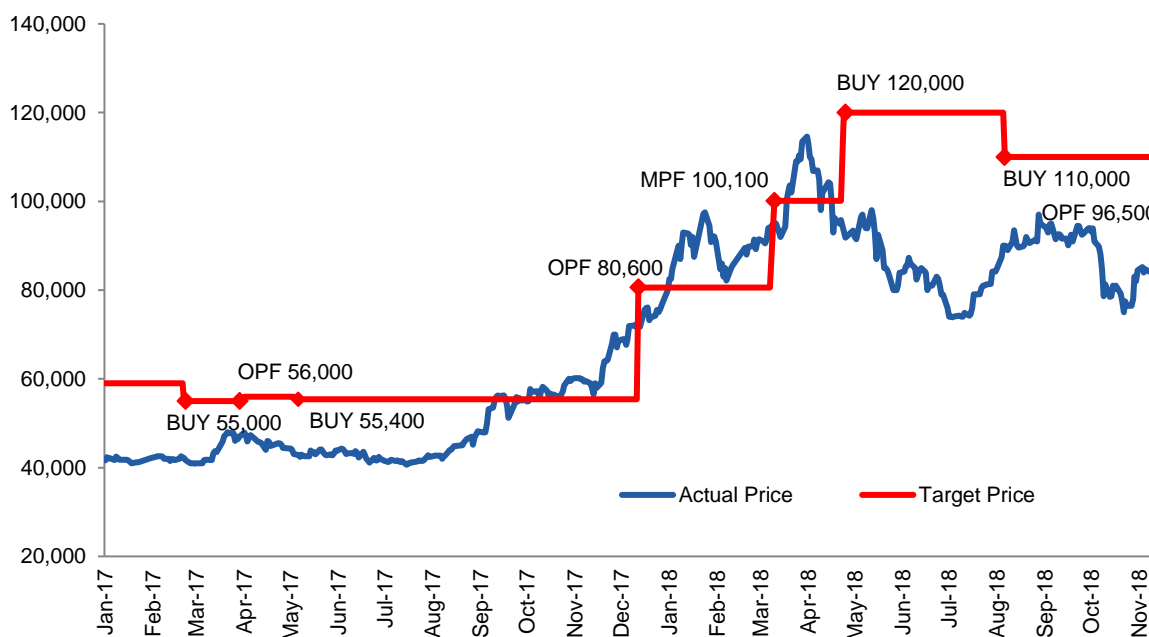
We maintain our target PER of 18x for MNS, which is generally in line with the average and median 2018F PERs of our selected peer group, which consists of animal feed producers in emerging Asian countries.

Figure 16: Comparable peers for MNS

Company	Member Ticker	Mkt Cap (USD mn)	OPM	NPM	ROE	D/E	2018F PER
Charoen Pokphand Indonesia	CPIN IJ Equity	6,201	7.5 %	5.1 %	24.2%	37.5 %	20.5
Guangdong Haid Group	002311 CH Equity	5,119	4.3 %	3.7 %	19.1%	33.8 %	24.7
Tongwei	600438 CH Equity	4,444	9.8 %	7.7 %	15.7%	46.4 %	14.9
New Hope Liuhe	000876 CH Equity	4,151	2.3 %	3.7 %	8.5%	34.6 %	14.0
Beijing Dabeinong Technology Group	002385 CH Equity	2,202	7.7 %	6.8 %	8.8%	32.4 %	21.2
Japfa Comfeed Indonesia	JPFA IJ Equity	1,662	7.6 %	3.4 %	20.2%	62.0 %	10.5
Jiangxi Zhengbang Technology	002157 CH Equity	1,615	3.8 %	2.6 %	2.4%	98.7 %	24.3
Liaoning Wellhope Agri-Tech	603609 CH Equity	981	3.3 %	3.4 %	17.8%	33.5 %	11.9
Ningbo Tech-Bank	002124 CH Equity	948	9.0 %	8.6 %	5.4%	15.4 %	32.0
Avanti Feeds Ltd	AVNT IN Equity	691	19.4 %	13.2 %	53.6%	0.5 %	16.1
Tecon Biology	002100 CH Equity	653	9.8 %	8.8 %	11.5%	58.8 %	14.2
Tangrenshen Group	002567 CH Equity	626	3.5 %	2.3 %	6.6%	19.8 %	20.9
Average		2,441	7.3%	5.8%	16.2%	39.4%	18.8
Median		1,639	7.6%	4.4%	13.6%	34.2%	18.3

Source: Bloomberg

History of VCSC’s recommendations for MSN



Financial Statements

INCOME STATEMENT (VND bn)	2017	2018F	2019F
Revenue	37,621	38,256	43,660
COGS	-25,989	-25,810	-29,409
Gross Profit	11,632	12,447	14,252
Sales & Marketing exp,	-5,291	-4,676	-5,166
General & Admin exp,	-1,912	-1,905	-2,103
Operating Profit	4,429	5,866	6,983
Financial income	1,405	1,845	321
Financial expenses	-3,696	-3,349	-2,064
In which, interest expense	-3,435	-3,089	-1,803
Share profit/loss from associates	2,044	1,916	2,208
Net other income/(loss)	-43	0	0
Profit before Tax	4,139	6,277	7,448
Income Tax	-531	-653	-787
NPAT before MI	3,608	5,623	6,661
Minority Interest	-505	-764	-827
NPAT less MI, reported	3,103	4,859	5,834
NPAT less MI, adjusted	2,170	3,387	5,834
EBITDA (excl. TCB)	7,434	9,385	10,825
EPS basic reported, VND	2,727	4,508	5,016
EPS basic adjusted ⁽¹⁾ , VND	1,907	3,143	5,016
EPS fully diluted ⁽¹⁾ , VND	1,907	3,143	5,016

(1) Adjusted for one-off items

RATIOS	2017	2018F	2019F
Growth			
Revenue growth	-13.1%	1.7%	14.1%
Operating profit (EBIT) growth	-26.5%	32.4%	19.0%
PBT growth	-6.9%	51.7%	18.7%
EPS growth, adjusted	-22.5%	64.8%	59.6%
Profitability			
Gross Profit Margin	30.9%	32.5%	32.6%
Operating Profit, (EBIT) Margin	11.8%	15.3%	16.0%
EBITDA Margin	19.8%	24.5%	24.8%
NPAT less MI Margin, adj,	5.8%	8.9%	13.4%
ROE	20.6%	22.1%	18.2%
ROA	5.3%	8.6%	9.9%
Efficiency			
Days Inventory On Hand	68	66	66
Days Accts, Receivable	12	10	8
Days Accts, Payable	33	29	27
Cash Conversion Days	47	47	48
Liquidity			
Current Ratio x	1.0	1.0	1.2
Quick Ratio x	0.6	0.6	0.6
Cash Ratio x	0.5	0.5	0.5
Debt / Assets	54.8%	37.1%	25.1%
Debt / Capital	63.2%	42.6%	29.4%
Net Debt / Equity	132.2%	53.2%	27.7%
Interest Coverage x	1.3	1.9	3.9

BALANCE SHEET (VND bn)	2017	2018F	2019F
Cash & cash equivalents	7,417	6,485	4,972
Short term investment	640	640	640
Accounts receivables	1,222	943	1,077
Inventories	4,333	4,950	5,640
Other current assets	1,533	1,123	1,282
Total Current assets	15,145	14,141	13,610
Fix assets, gross	39,915	44,818	46,112
- Depreciation	-8,248	-10,885	-13,844
Fix assets, net	31,668	33,933	32,268
LT investment	11,338	14,715	16,919
LT assets other	5,378	4,955	4,531
Total LT assets	48,384	53,603	53,718
Total Assets	63,529	67,744	67,328
Accounts payable	2,105	2,043	2,327
Short-term debt	9,166	7,166	3,666
Other ST liabilities	4,261	4,333	4,946
Total current liabilities	15,533	13,543	10,939
Long term debt	25,630	17,998	13,200
Other LT liabilities	2,140	2,295	2,620
Total Liabilities	43,303	33,836	26,759
Preferred Equity	0	0	0
Paid in capital/Issued capital	11,574	11,574	11,574
Add'l share capital/share premium	6,856	17,846	17,846
Retained earnings	12,350	16,656	22,490
Other equity	-15,943	-16,908	-16,908
Minority interest	5,388	4,741	5,567
Total equity	20,225	33,908	40,569
Liabilities & equity	63,529	67,744	67,328
CASH FLOW (VND bn)	2017	2018F	2019F
Beginning Cash Balance	13,149	7,417	6,485
Net Income	3,103	4,859	5,834
Dep, & amortization	2,611	2,950	3,272
Change in Working Capital	-152	82	-86
Other adjustments	-2,317	-2,358	-947
Cash from Operations	3,244	5,533	8,073
Capital Expenditures, net	-2,100	-5,587	-1,294
Investments, net	4,757	-1,683	5
Cash from Investments	2,657	-7,270	-1,289
Dividends Paid	-2,713	-553	0
Δ in Share Capital	-5,877	10,990	0
Δ in ST debt	548	-2,000	-3,500
Δ in LT debt	-6,842	-7,632	-4,798
Other financing cash flows	3,252	0	0
Cash from Financing	-11,632	805	-8,298
Net Change in Cash	-5,732	-932	-1,513
Ending Cash Balance	7,417	6,485	4,972

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Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as (target price – current price)/current price + dividend yield, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
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