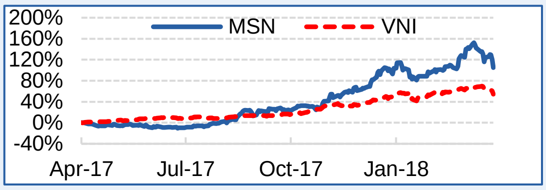
VIET CAPITAL SECURITIES

# Masan Group (MSN) [BUY +25.3%]

Update Report

| | | | | 2017 | 2018F | 2019F | 2020F |
|---|---|---|---|---|---|---|---|
| **Industry:** | **Diversified** | | | | | | |
| **Report Date:** | **April 26, 2018** | | Rev Growth | -13.1% | 10.1% | 14.4% | 8.5% |
| Current Price: | VND95,800 | | EPS Growth | 10.8% | 37.4% | 38.6% | 28.6% |
| Current Target Price: | VND120,000 | | GPM | 30.9% | 32.3% | 32.6% | 32.7% |
| Previous Target Price: | VND100,100 | | NPM | 8.2% | 9.5% | 11.5% | 13.6% |
| Upside to TP: | +25.3% | | EV/EBITDA* | 13.9x | 11.0x | 9.4x | 8.5x |
| Dividend Yield: | 0% | | P/Op CF | 30.9x | 16.7x | 13.3x | 11.5x |
| TSR: | +25.3% | | P/E | 35.1x | 25.6x | 18.4x | 14.3x |




| | | | | MSN | VNI |
|---|---|---|---|---|---|
| Market Cap: | $4.4 bn | | | | |
| Foreign Room: | $963.1 mn | | P/E (ttm) | 29.0x | 19.4x |
| ADTV30D: | $4.7 mn | | P/B (curr) | 6.6x | 3.0x |
| State Ownership: | 0% | | Net D/E | 1.5x | N/A |
| Outstanding Shares: | 1,047.4 mn | | ROE | 24.3% | 15.1% |
| Fully Diluted Shares: | 1,047.4 mn | | ROA | 5.7% | 2.4% |
| 3-yr PEG | 1.0 | | | | |

*EBITDA includes shared profits from associates

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 a bank.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## Consumer growth starts to materialize

- We update MSN with a BUY rating with 25.3% upside. The 20% upward revision in our TP is driven by an improved F&B outlook, revaluation of associate companies and higher metal prices.
- 2018F PER seems high at 25.6x, but is supported by a strong earnings outlook. We forecast an EPS CAGR of 34% during 2019-2020 driven by robust core business growth and deleveraging.
- Proceeds from MSN's potential sale of treasury shares (up to 110 million shares) will accelerate the deleveraging process and, hence, bottom line growth.
- Masan Consumer Holding (MCH) spearheaded a strong bounce-back in MSN's NPAT-MI in Q1 2018 (+244% YoY), followed by associate companies and Masan Resources (MSR).
- We raise our 2018 NPAT-MI forecast for MSN by 4% to VND3.9tn (USD173mn, +81% vs normalized 2017 NPAT-MI) mainly due to the outperformance of MCH and MSR.
- Upside catalysts: successful launches in new F&B growth pillars, such as beer and processed meat, and a further recovery in pig prices, which will support Masan Nutri-Science (MNS).
- Downside catalysts: MCH losing growth momentum and a retreat in metal prices.

**Strong sell-out growth shows MCH's shift to a brand building model is working.** MCH's reported revenue soared 78% in Q1 2018 vs Q1 2017, when it was hurt by distributor de-stocking. More importantly, MCH's sell-out, which represents end-consumer offtake, jumped 47% YoY in Q1 2018, fueled by intensified Masan marketing and product launchings, especially in the premium segment. Meanwhile, EBIT margin expanded dramatically owing to (1) a surge in high-margin seasoning sales and (2) a contraction in SG&A/revenue % on reduced trade promotion expenses. For 2018, we project MCH's revenue and EBIT will jump by 26% and 71%, respectively, vs 2017.

**MSR thrives on selling price tailwinds.** MSR's revenue ratcheted up 26% while its EBIT stepped up 47% YoY in Q1 2018, primarily due to escalating selling prices. Recovering demand in the oil & gas and manufacturing sectors, the shutdown/suspension of high-cost mines and rising costs in China due to stricter environmental standards are bolstering tungsten prices.

**MNS still weighed on by the pig oversupply crisis, but recent pick-up in pig prices is a positive sign.** MNS's revenue and EBIT plummeted 40% and 69% YoY, respectively, in Q1 2018 as (1) pig feed plunged 50% YoY and 22% QoQ due to shrinking farming activity amid low pig prices and (2) poultry feed nosedived 38% YoY as Masan stayed away from price wars. Since early April 2018, livestock pig prices have bounced from USD1.3-USD1.4/kg to USD1.6-USD1.8/kg, well above the average industry production cost of around USD1.5/kg. Supply has been gradually scaled down, and if pig prices could at least sustain this level, it would bode well for pig feed demand in late 2018 and 2019. For 2018, we project MNS's revenue will slide 9% while EBIT will drop 39% YoY. Margins are poised to dwindle due to input cost hikes and a larger sales contribution from the value segment.

# Q1 2018: F&B segment spearheaded earnings turnaround

**Figure 1: MSN's Q1 2018 results**

| VND bn | Q1 2017 | Q1 2018 | YoY | VCSC comments |
|---|---|---|---|---|
| **Net revenue** | **8,540** | **8,274** | **-3%** | |
| Branded F&B | 2,011 | 3,586 | 78% | Q1 2017 was a low base as reported revenue was undermined by distributor de-stocking.<br>However, sell-out surged 47% YoY, underscoring strong end-consumer offtake.<br>Best performing categories: seasonings (+105%), convenience foods (+64%), coffee (+62%) and energy drinks (+76%). |
| Animal feed | 5,353 | 3,201 | -40% | Pig feed plummeted 50% YoY due to the oversupply crisis in the livestock pig market.<br>Poultry feed dipped 38% YoY as Masan opted to stay away from stiff price competition. |
| Mining | 1,176 | 1,487 | 26% | Metal prices strengthened. |
| | | | | |
| **Operating profit** | **818** | **1,352** | **65%** | |
| Branded F&B | -23 | 782 | NM | GPM broadened by 6.5 ppts YoY to 47.0% thanks to a larger contribution from seasonings.<br>SG&A/sales % dwindled from 41.7% in Q1 2017 to 25.2% in Q1 2018 aided by (1) an absence of one-off expenses to facilitate distributor de-stocking, which occurred in Q1 2017, and (2) lower trade promotions as Masan switched its model to brand building from sales-driven. |
| Animal feed | 565 | 176 | -69% | GPM shrank by 6.7 ppts YoY to 17.2% in Q1 2018 as higher-margin pig feed sales slumped. In addition, contribution from value-segment pig feed, which yields narrower margins, ramped up in Q1 2018. |
| Mining | 317 | 446 | 41% | Margins improved on higher ASP and operating leverage. |
| Others | -40 | -52 | 31% | Mostly parent expenses |
| | | | | |
| **NPAT pre-MI** | **263** | **1,022** | **289%** | |
| **NPAT-MI** | **237** | **816** | **244%** | |
| ***Shared profits from associates*** | ***325*** | ***517*** | ***59%*** | |

Source: MSN & VCSC

## MCH: stellar sell-out shows new strategy is delivering

**Figure 2: MCH's reported Q1 2018 revenue breakdown**

| VND bn | Q1 2016 | Q1 2017 | Q1 2017 vs Q1 2016 | Q1 2018 | Q1 2018 vs Q1 2017 |
|---|---|---|---|---|---|
| **Net revenue** | **2,779** | **2,011** | **-27.7%** | **3,586** | **78.3%** |
| Seasonings | 891 | 764 | -14.3% | 1,565 | 104.8% |
| Convenience foods | 888 | 596 | -32.9% | 976 | 63.8% |
| Processed meat | 9 | 34 | 293.9% | 36 | 5.6% |
| Beverages & others | 612 | 605 | -1.1% | 918 | 51.9% |
| Beer | 380 | 12 | -96.8% | 91 | 657.7% |

Source: MSN

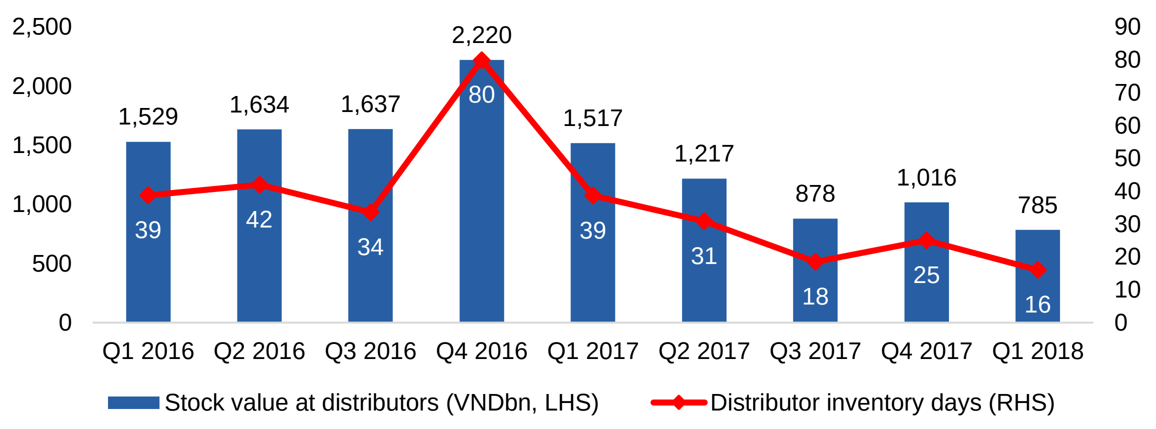
**Figure 3: MCH's sell-out in Q1 2018**

| VND bn | Q1 2016 | Q1 2017 | Q1 2017 vs Q1 2016 | Q1 2018 | Q1 2018 vs Q1 2017 |
|---|---|---|---|---|---|
| **Net revenue** | **2,924** | **2,501** | **-14.5%** | **3,658** | **46.3%** |
| Seasonings | 1,077 | 1,000 | -7.2% | 1,654 | 65.4% |
| Convenience foods | 799 | 608 | -24.0% | 922 | 51.7% |
| Processed meat | 10 | 32 | 236.6% | 47 | 46.1% |
| Beverages & others | 725 | 765 | 5.6% | 958 | 25.1% |
| Beer | 313 | 95 | -69.5% | 77 | -19.4% |

Source: MSN

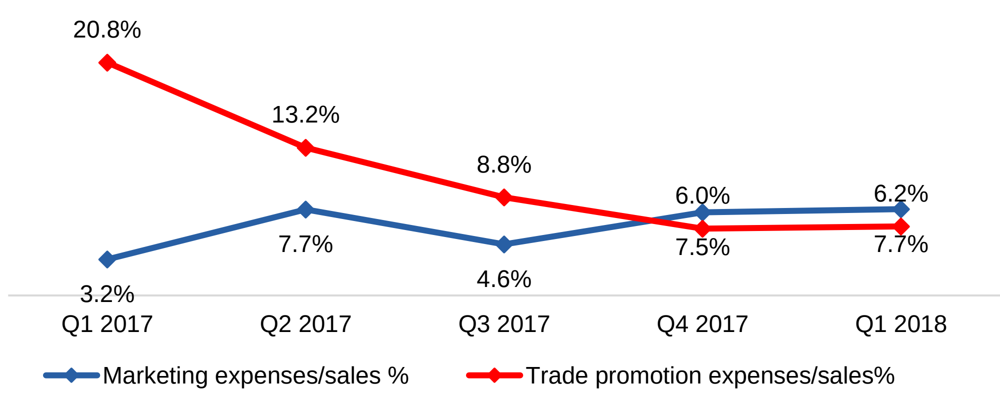
**Q1 2018 results suggest Masan's shift to brand building model was the right move.** To facilitate its strategic shift from relying on trade promotions (sales-driven) to focus on branding activities and product innovation, Masan actively eased sell-in to reduce stock at distributors in 2017. Although this initiative hurt 2017 financial results (revenue is recognized when Masan delivers the goods to distributors), it will benefit Masan in 2018 and beyond 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 16 days in Q1 2018, although this could inch up slightly in the following quarters as MCH intensifies its product launchings while preventing out-of-stock situations; and (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 4: Stock value and inventory days of MCH's distributors**




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

**Figure 5: MCH's marketing and trade promotion expenses as a % of sales**




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 of the premium segment to Masan's fish sauce from 4% in Q1 2017 to 15% in Q1 2018. Accordingly, Q1 2018 seasoning sales were buoyed by both volume (74% of growth) and price (26% of growth).

**Figure 6: Price comparison between Masan's flagship fish sauce SKUs and new launches**

| | | | |
|---|---|---|---|
| **Flagship fish sauce SKUs** |  Chinsu Salmon Flavor<br>VND38,000/500ml |  Nam Ngu Nhan Do<br>VND35,000/750ml |  Nam Ngu 3-in-1<br>VND24,000/500ml |
| **New premium SKUs launched in 2017** |  Chinsu Man Ma<br>VND71,000/500ml |  Nam Ngu Nhan Vang<br>VND40,000/650ml |  Nam Ngu Phu Quoc<br>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 contributed to sell-out growth of 89% in Q1 2018 of Omachi, Masan's premium noodle brand.

**Energy drinks maintained positive momentum thanks to POS expansion; a newly launched variant should further boost this trend.** 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's revenue climbed 76% YoY to VND359bn (USD15.8mn) in Q1 2018. After broadening the number of POS for energy drinks from 50,000 in 2016 to 75,000 in 2017, Masan aims to bring this figure to 150,000 by YE2018. In mid-April, Masan introduced its second energy drink variant, Compact, which will compete head-on with Red Bull, one of the most popular energy drink brands in Vietnam.

**Figure 7: Masan's energy drink portfolio**

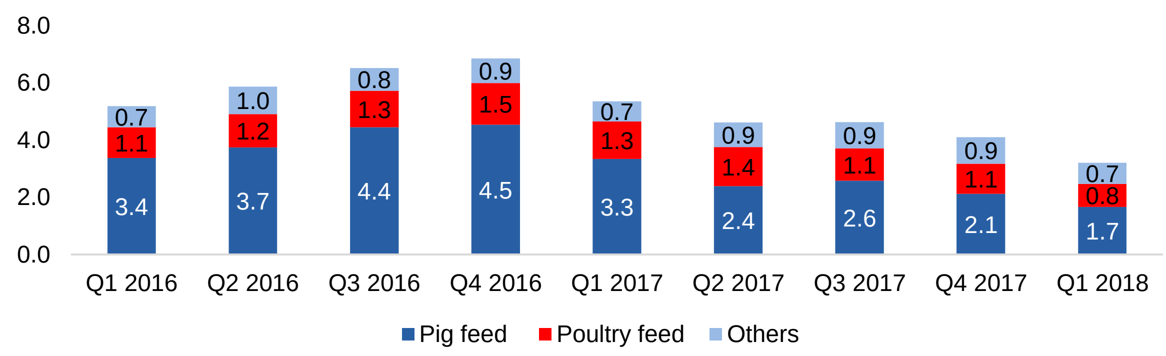

Source: VCSC compilations

**Coffee delivered 16% sell-out growth in Q1 2018 as Masan relaunched its WakeUp brand and expanded its presence in the North.** Via a relaunch in Q3 2017, Masan aimed to transform WakeUp from a pure mainstream coffee brand to having it cover a full suite of segments. Moreover, Masan is trying to cement WakeUp's presence in the northern region, where its market share ranges from only 3%-5% compared to 8%-12% in the South.

**New categories of beer and processed meat are lagging our expectation but are poised to strengthen on new launches.** In terms of beer, Masan has just launched a new mass premium variant named "Su Tu Trang King" ("White Lion King"), which is set to solidify its beer offerings. Regarding processed meat, "3-minute Meat Ball", a meal solution launched in December 2017, contributed to sales, but its traction seemed slower than our expectation due to low consumer awareness. To upgrade its processed meat platform, Masan will establish a JV with a Korean partner in Q2 2018 to acquire know-how and technology, and plans to launch premium sterilized sausage in H2 2018.

## MNS: hurt by the oversupply crisis; recent spike in pig prices a good sign

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




Source: MSN

**Commercial pig feed continued its downward spiral in Q1 2018 amid depressed pig prices.** After a boom year in 2016, Vietnam's pig livestock market became oversupply 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 further amplified as farmers switched to home-made feed because productivity was no longer a priority amid depressed pig prices. 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 continued to spiral downward in Q1 2018 as livestock pig prices were rangebound from VND28,000/kg (USD1.23) to VND32,000/kg (USD1.41), which are below the average industry production cost of around VND35,000/kg (USD1.54).

**Supply-demand balance is reverting to normal, reflected in the recent pick-up in pig prices.** As mentioned above, farmers have been narrowing their herds since the crisis broke out, which has gradually brought supply and demand toward an equilibrium. Since the beginning of April, livestock pig prices have rallied from USD1.3-USD1.4/kg to USD1.6-USD1.8/kg, a level at which farmers can make a profit. Despite this, a dramatic turnaround in farming activity in the short term is unlikely given that farmers may remain cautious about the sustainability of the current price recovery. In addition, it takes the feed market about six months to fully recover (from sows to piglets). Therefore, a pick-up in pig feed demand will likely become more pronounced in late 2018 or 2019.

**MNS's poultry feed sales took a hit in Q1 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 Q1 2018.

**MNS's GPM is being hampered by higher raw material costs and a shift in sales mix toward the value segment.** Amid muted demand, MNS was not able to pass the hike in raw material costs to customers, which caused a steep contraction in GPM in Q1 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 a narrower GPM than MNS's flagship Bio-zeem Do, contributed nearly 16% to pig feed revenue in Q1 2018.

If livestock pig prices can maintain at the current levels, farmers would start prioritizing productivity again, driving consumption back toward Bio-zeem Do, which will be accretive to MNS's GPM.

## MSR: thriving on a rally in metal prices

**MSR's revenue and EBIT rose 26% and 47% YoY, respectively, in Q1 2018 on the back of firmer ASP.** Regarding tungsten prices, management points to a structural supply deficit owing to a shutdown/suspension in high-cost mines, rising costs in China amid this country's stricter environmental standards and strengthening demand backed by recovering capex in the oil & gas and manufacturing sectors. In Q1 2018, MSR's tungsten revenue ratcheted up 64% YoY to VND1tn (USD45mn), or 69% of MSR's total revenue.

**Figure 9: Relevant metal prices**

| Commodity prices | Unit | Average Q1 2017 | Average Q1 2018 | % change | As of March 31, 2017 | As of March 31, 2018 |
|---|---|---|---|---|---|---|
| APT European Low | USD/mtu | 191 | 319 | 67% | 208 | 325 |
| Bismuth Low | USD/lb | 4.5 | 5.1 | 13% | 4.5 | 5.2 |
| Copper | USD/ton | 5,831 | 6,951 | 19% | 5,849 | 6,685 |
| Fluorspar Acid Grade | USD/ton | 281 | 486 | 73% | 330 | 500 |

Source: MSN, Metals Bulletin, Industrial Minerals

**Production fell in Q1 2018 due to a five-day maintenance shutdown and higher utilization of lower ore grades.** The five-day maintenance caused a 5% YoY decline in the amount of ore processed. Meanwhile, the utilization of lower ore grades, particularly of tungsten and fluorspar, was aimed to protect the mine's life, per management.

**Figure 10: Summary of MSR's production**

| | Unit | Q1 2017 | Q1 2018 | Growth |
|---|---|---|---|---|
| Ore processed | '000 tons | 962 | 916 | -5% |
| Tungsten concentrate (contained) | tons | 1,869 | 1,421 | -24% |
| Tungsten equivalent units (contained) | tons | 3,934 | 2,950 | -25% |

Source: MSN

**Revenue should accelerate in the following quarters as MSR intensifies copper shipments and starts processing third-party tungsten concentrate.** In Q1 2018, MSR held back sales of copper in pursuit of higher price realizations. On the other hand, to utilize spare tungsten processing capacity (total annual capacity of 9,000 tonnes vs in-house supply of 6,000-6,500 tonnes), MSR will purchase tungsten concentrate from third parties and processes it into tungsten chemicals. While the EBITDA margin from this revenue stream should be low (5%-10%), its contribution margin will help enhance the processing plant's efficiency.

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## 2018 outlook: we raise our NPAT-MI forecast by 4% thanks to MCH and MSR, curbed partly by MNS

**Figure 11: VCSC's 2018 forecasts**

| VND bn | 2017 | 2018F Old | 2018F New | 2018F New vs 2017 | VCSC comments on 2018 forecasts |
|---|---|---|---|---|---|
| **Revenue** | **37,621** | **42,474** | **41,430** | **10.1%** | |
| Branded F&B | 13,526 | 16,302 | 17,036 | 26.0% | No distributor de-stocking, new product launches and a higher ASP to drive 20%-25% growth (previous forecasts: 10%-15%) in seasonings, convenience foods and coffee.<br>Energy drinks forecast to soar 35% on the back of distribution expansion and launches of new variants.<br>Processed meat and beer revenues are projected to double vs 2017 backed by widening distribution and new launches. |
| Meat value chain | 18,690 | 19,886 | 16,959 | -9.3% | The recent spike in pig prices is positive but we are probably two to three quarters away from a pronounced recovery in farming activity and hence, a jump in consumption of commercial pig feed.<br>Poultry feed sales slip amid heightening price competition. |
| Mining | 5,405 | 6,286 | 7,435 | 37.6% | Forecast revision is driven by: (1) average tungsten price assumption raised from USD260/mtu to USD325/mtu and (2) incorporation of additional revenue from processing third-party tungsten concentrate. |
| **Gross profit** | **11,632** | **13,193** | **13,381** | **15.0%** | |
| Branded F&B | 5,897 | 7,211 | 7,735 | 31.2% | |
| Meat value chain | 3,991 | 3,693 | 2,909 | -27.1% | |
| Mining & others | 1,743 | 2,288 | 2,737 | 57.0% | |
| Selling exp. | -5,291 | -5,531 | -5,277 | -0.3% | Normalizing after one-off investments at MCH (for distributor de-stocking) and MNS (loyalty programs to gain market share) in 2017. |
| G&A exp. | -1,912 | -1,934 | -1,962 | 2.6% | |
| **Operating profit** | **4,429** | **5,728** | **6,142** | **38.7%** | |
| Interest expenses | -3,435 | -3,025 | -3,025 | -11.9% | Smaller average debt balance in 2018 vs 2017. |
| Non-operating profit | 3,145 | 2,560 | 2,419 | -23.1% | |
| **Profit before tax** | **4,139** | **5,263** | **5,536** | **33.8%** | |
| **NPAT** | **3,608** | **4,572** | **4,873** | **35.1%** | |
| **NPAT-MI, in which:** | **3,103** | **3,772** | **3,925** | **26.5%** | |
| ***Profit from associates*** | ***2,044*** | ***2,455*** | ***2,280*** | ***11.9%*** | Effective ownership in an associate company declines in 2018. |
| **Normalized NPAT-MI** | **2,170** | **3,772** | **3,925** | **80.9%** | VND933bn gain from selling TCB convertible bonds in 2017. |
| EBITDA (excl. shared profits from associates) | 7,434 | 9,248 | 9,662 | 30.0% | |
| | | | | | |
| GPM | 30.9% | 31.1% | 32.3% | | |
| Branded F&B | 43.6% | 44.2% | 45.4% | | 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% | 18.6% | 17.2% | | Margins deteriorate due to higher input costs and change in sales mix |
| Mining + others | 32.3% | 36.4% | 36.8% | | Margins to broaden on stronger ASP and operating leverage. |
| | | | | | |
| Selling exp as % of rev | 14.1% | 13.0% | 12.7% | | |
| G&A as % of rev | 5.1% | 4.6% | 4.7% | | |
| Operating margin | 11.8% | 13.5% | 14.8% | | |
| EBITDA margin | 19.8% | 21.8% | 23.3% | | |
| NPAT margin | 9.6% | 10.8% | 11.8% | | |
| NPAT-MI margin | 8.2% | 8.9% | 9.5% | | |
| Effective tax rate | 12.8% | 13.1% | 12.0% | | |

Source: VCSC

## MCH: innovation and premiumization of portfolio fuel growth

**Figure 12: MCH's product launching pipeline for traditional categories**

| | H1 2018 | H2 2018 |
|---|---|---|
| **Seasonings**<br>***Up-trade consumers + upgrade portfolio*** | Launch Chinsu granule<br>Launch Chinsu oyster sauce | Launch Chinsu cooking solution |
| **Convenience foods**<br>***Upgrade image of current brands + introduce a new brand for Millennials*** | | Launch Kokomi Dai Boiling Noodle<br>Launch Omachi Boiling Noodle<br>Launch Omachi mashed potato<br>Launch Lovemi noodle, a new brand for Millennials |
| **Coffee**<br>***Build Wake-up as nationwide and premium brand + maintain Vinacafe as heritage brand*** | Launch new instant coffee Wake-Up Ngay Moi (Wake-Up New Day)<br>Launch instant coffee 2-in-1 | Launch a coffee extension brand |

Source: MSN

**Figure 13: MCH's strategic initiatives for newer categories**

| Category | Key strategic initiatives |
|---|---|
| **Non-alcoholic drinks** | Expand energy drink portfolio, including heavy-duty and light energy drink innovations<br>Launch a new mineral water brand, Vivant.<br>Launch Vihawa purified water in small pack size<br>Launch mineral-based drinks, RTD tea, juice and Asian specialty drinks in 2019 |
| **Processed meat** | Launch premium sterilized sausage in H1 2018<br>Build up "Heo Cao Boi" (Cowboy Pig) as a processed meat power brand |
| **Beer** | Launch more premium variants<br>Leverage on beverage distribution network |

Source: MSN

**Distribution system is one of Masan's most crucial competitive edges, especially given its emphasis on product innovation.**

We had an opportunity to learn about MCH's advanced distribution management system (DMS) in our recent visit to the company's factory and R&D center. We were able to see how the system works in real time and how it enables Masan to manage closely and effectively its sales and distribution progress.

MCH's Oracle-based DMS enables real-time tracking of sales by salesman, product, distributor and POS. Therefore, when launching a new product, Masan can make immediate analysis of the product's geographical coverage, sales progress vs target and sales performance by region so that it can adjust accordingly. For example, Masan can recognize an area in which its new product has not been as widely available as planned so it can communicate with salesmen to improve the product's presence in that particular area.

Every salesman is equipped with a tablet. Every morning, the tablet will synchronize the updated pricing, routes, promotions and KPIs to guide the salesman about what to do during that day. Key KPIs include total sales, sales of focus products, quality of coverage (i.e., the number of outlets covered; each salesman has 180 customers and they serve 30 customers per day on average), quality of service (e.g., each month, at least 140 customers place at least one order) and the number of products per order.

MCH's strong DMS and its nationwide network of 13 factories, eight distribution centers and 300 distributors lay a robust infrastructure for new products to be launched quickly and effectively.

## MNS: launch of branded chilled fresh meat is on track for Q4 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 Q4 2018 and 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 1.4 million porkers/year.

**Masan plans to start selling branded, chilled fresh meat in Q4 2018.** Per Masan, it will likely price its meat products at a premium of 5%-10% to wet markets thanks to the traceability as well 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).

**Masan announced strategic hires that will lead its fresh meat platform.** These hires include (1) Mr. Matthys van der Lely, CEO of Masan Meat, who led the roll-out of a meat retail chain for Bounty Fresh Food, a big protein group in the Philippines; and (2) Mr. Stefan Henn, who will head Masan Meat's R&D. Mr. Henn has his own family meat business in Germany and has worked for a variety of consumer companies around the world.

**We pencil in nearly VND138bn (USD6mn) and VND572bn (USD25mn) in meat sales in 2018 and 2019, respectively.** This is based on our assumption that the pig farm in Nghe An will operate at roughly 50% capacity in 2019. Meanwhile, profits will be negligible in these two years due to sub-optimal scale.

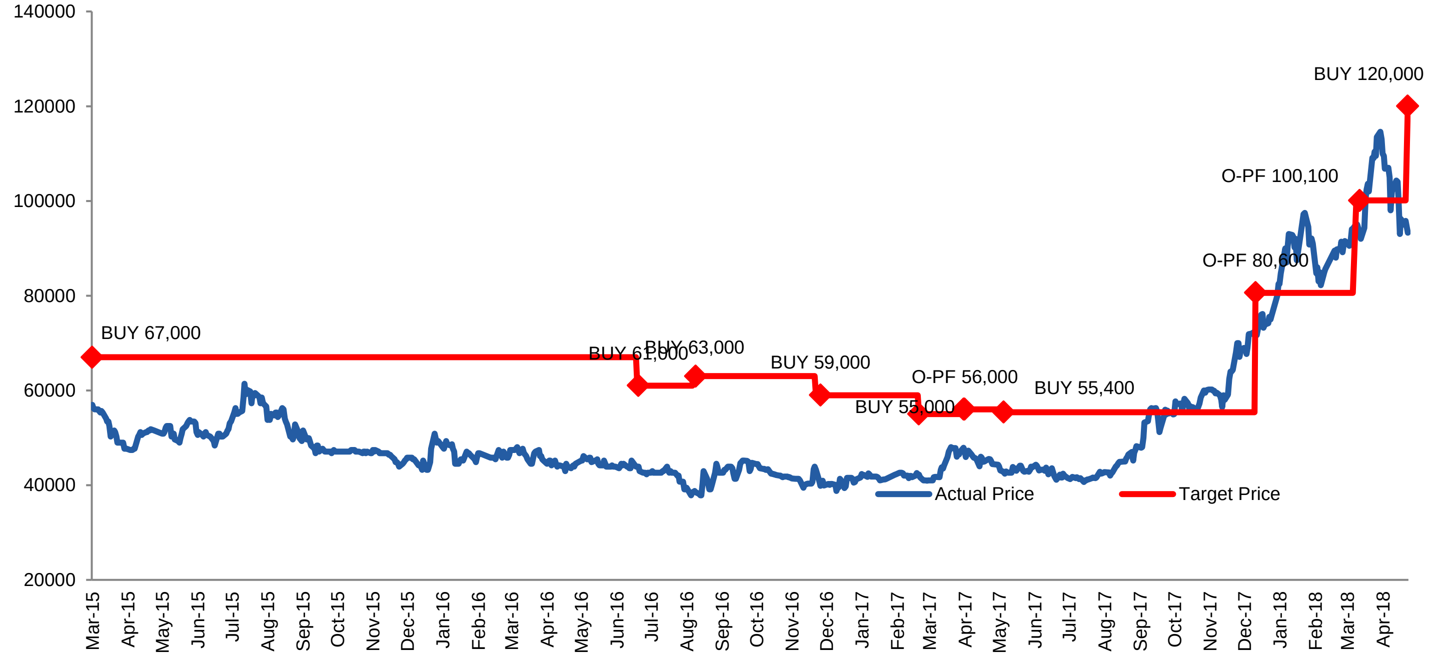
# Valuation

### Figure 14: Summary of latest valuation

| VND bn | Method | Equity value | % Change from previous valuation (March 13, 2018) | MSN's ownership | Equity value attributed to MSN | Implied valuation multiples |
|---|---|---|---|---|---|---|
| Masan Consumer Holding | DCF | 72,739 | +12.3% | 85.7% | 62,337 | 2018 PER of 26.0x for MSC<br>2018 P/S of 1.0x for MSB |
| Masan Nutri-Science | PER | 18,379 | -15.3% | 82.4% | 15,144 | 2018 PER of 30.1x<br>2019 PER of 18.0x |
| Masan Resources | DCF | 17,451 | +46.7% | 96.0% | 16,753 | 2018 EV/EBITDA of 7.9x |
| Net debt at holdco level | | | | | -9,463 | |
| Associate company | PBR | 180,679 | +64.8% | 21.5% | 38,832 | |
| Cholimex investment | BV | | | 27.3% | 207 | |
| Vissan investment | BV | | | 20.5% | 1,760 | |
| **Total equity value** | | | | | **125,571** | |
| Share count (mn) | | | | | 1,047.4 | |
| **Target price (VND)** | | | | | **120,000** | |

Source: VCSC

## History of recommendations



VIET CAPITAL SECURITIES

# Financial Statements

| INCOME STATEMENT (VND bn) | 2017 | 2018F | 2019F |
|---|---|---|---|
| **Revenue** | **37,621** | **41,430** | **47,391** |
| COGS | -25,989 | -28,049 | -31,964 |
| **Gross Profit** | **11,632** | **13,381** | **15,427** |
| Sales & Marketing exp, | -5,291 | -5,277 | -5,784 |
| General & Admin exp, | -1,912 | -1,962 | -2,167 |
| **Operating Profit** | **4,429** | **6,142** | **7,476** |
| Financial income | 1,405 | 377 | 367 |
| Financial expenses | -3,696 | -3,285 | -3,085 |
| In which, interest expense | -3,435 | -3,025 | -2,825 |
| Share profit/loss from associates | 2,044 | 2,303 | 2,743 |
| Net other income/(loss) | -43 | 0 | 0 |
| **Profit before Tax** | **4,139** | **5,536** | **7,500** |
| Income Tax | -531 | -664 | -819 |
| **NPAT before MI** | **3,608** | **4,873** | **6,681** |
| Minority Interest | -505 | -948 | -1,240 |
| **NPAT less MI, reported** | **3,103** | **3,925** | **5,441** |
| **NPAT less MI, adjusted** | **2,170** | **3,925** | **5,441** |
| EBITDA | 7,434 | 9,662 | 11,318 |
| EPS basic reported, VND | 2,727 | 3,747 | 5,195 |
| EPS basic adjusted(1), VND | 1,907 | 3,747 | 5,195 |
| EPS fully diluted(1), VND | 1,907 | 3,747 | 5,195 |

(1) Adjusted for one-off items

| RATIOS | 2017 | 2018F | 2019F |
|---|---|---|---|
| **Growth** | | | |
| Revenue growth | -13.1% | 10.1% | 14.4% |
| Operating profit (EBIT) growth | -26.5% | 38.7% | 21.7% |
| PBT growth | -6.9% | 33.8% | 35.5% |
| EPS growth, adjusted | -22.5% | 96.5% | 38.6% |
| | | | |
| **Profitability** | | | |
| Gross Profit Margin | 30.9% | 32.3% | 32.6% |
| Operating Profit, (EBIT) Margin | 11.8% | 14.8% | 15.8% |
| EBITDA Margin | 19.8% | 23.3% | 23.9% |
| NPAT less MI Margin, adj, | 8.2% | 9.5% | 11.5% |
| ROE | 20.6% | 24.5% | 27.3% |
| ROA | 5.3% | 7.6% | 9.9% |
| | | | |
| **Efficiency** | | | |
| Days Inventory On Hand | 68 | 63 | 66 |
| Days Accts, Receivable | 12 | 10 | 8 |
| Days Accts, Payable | 33 | 27 | 27 |
| Cash Conversion Days | 47 | 46 | 47 |
| | | | |
| **Liquidity** | | | |
| Current Ratio x | 1.0 | 0.8 | 1.0 |
| Quick Ratio x | 0.6 | 0.4 | 0.6 |
| Cash Ratio x | 0.5 | 0.3 | 0.5 |
| Debt / Assets | 54.8% | 50.4% | 42.6% |
| Debt / Capital | 63.2% | 59.0% | 50.3% |
| Net Debt / Equity | 132.2% | 121.9% | 75.1% |
| Interest Coverage x | 1.3 | 2.0 | 2.6 |

| BALANCE SHEET (VND bn) | 2017 | 2018F | 2019F |
|---|---|---|---|
| Cash & cash equivalents | 7,417 | 4,363 | 7,040 |
| Short term investment | 640 | 640 | 640 |
| Accounts receivables | 1,222 | 1,022 | 1,169 |
| Inventories | 4,333 | 5,379 | 6,130 |
| Other current assets | 1,533 | 1,216 | 1,391 |
| **Total Current assets** | **15,145** | **12,620** | **16,370** |
| Fix assets, gross | 39,915 | 44,818 | 46,708 |
| - Depreciation | -8,248 | -10,885 | -13,844 |
| Fix assets, net | 31,668 | 33,933 | 32,863 |
| LT investment | 11,338 | 13,631 | 16,368 |
| LT assets other | 5,378 | 4,955 | 4,531 |
| **Total LT assets** | **48,384** | **52,519** | **53,763** |
| **Total Assets** | **63,529** | **65,139** | **70,132** |
| | | | |
| Accounts payable | 2,105 | 2,250 | 2,530 |
| Short-term debt | 9,166 | 8,118 | 8,118 |
| Other ST liabilities | 4,261 | 4,693 | 5,368 |
| Total current liabilities | 15,533 | 15,061 | 16,016 |
| Long term debt | 25,630 | 24,741 | 21,741 |
| Other LT liabilities | 2,140 | 2,486 | 2,843 |
| **Total Liabilities** | **43,303** | **42,288** | **40,600** |
| | | | |
| Preferred Equity | 0 | 0 | 0 |
| Paid in capital/Issued capital | 11,574 | 11,574 | 11,574 |
| Add'l share capital/share premium | 6,856 | 6,856 | 6,856 |
| Retained earnings | 12,350 | 15,722 | 21,163 |
| Other equity | -15,943 | -16,908 | -16,908 |
| Minority interest | 5,388 | 5,608 | 6,848 |
| **Total equity** | **20,225** | **22,851** | **29,532** |
| **Liabilities & equity** | **63,529** | **65,139** | **70,132** |

| CASH FLOW (VND bn) | 2017 | 2018F | 2019F |
|---|---|---|---|
| **Beginning Cash Balance** | **13,149** | **7,417** | **4,363** |
| Net Income | 3,103 | 3,925 | 5,441 |
| Dep, & amortization | 2,611 | 2,950 | 3,272 |
| Change in Working Capital | -152 | 47 | -118 |
| Other adjustments | -2,317 | -899 | -1,035 |
| **Cash from Operations** | **3,244** | **6,022** | **7,561** |
| | | | |
| Capital Expenditures, net | -2,100 | -4,903 | -1,889 |
| Investments, net | 4,757 | -1,683 | 5 |
| **Cash from Investments** | **2,657** | **-6,586** | **-1,884** |
| | | | |
| Dividends Paid | -2,713 | -553 | 0 |
| ∆ in Share Capital | -5,877 | 0 | 0 |
| ∆ in ST debt | 548 | -1,048 | 0 |
| ∆ in LT debt | -6,842 | -889 | -3,000 |
| Other financing cash flows | 3,252 | 0 | 0 |
| **Cash from Financing** | **-11,632** | **-2,491** | **-3,000** |
| | | | |
| **Net Change in Cash** | **-5,732** | **-3,054** | **2,677** |
| **Ending Cash Balance** | **7,417** | **4,363** | **7,040** |

# VCSC Rating and Valuation Methodology

**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% |
| NOT RATED | The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company. |
| RATING SUSPENDED | A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock. |

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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