

Masan Group-----Upgrade to OUTPERFORM

Stock price weakness creates entry point

EPS: ◀▶ TP: ◀▶

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- MSN's stock has corrected by 14% in ten sessions and is down 26% from its high. With momentum in F&B, operating leverage benefits at the mine and higher associate profits being key [drivers](#) of 24% EPS CAGR (2017-20E), we upgrade the stock to OUTPERFORM (from Neutral). Our SOTP-based target price of D102,000 is unchanged and suggests 21% upside potential.
- The company's preliminary guidance for 2Q18E shows +211% YoY NPATMI, led by +29% YoY EBITDA (margin accretion and normalisation in SGA) along with +47% YoY associate profits.
- Within Masan Consumer, revenue growth is eyed at 16% YoY (partially helped by a low base). Upscaling in seasonings and 21%/430% YoY jump in beverages/beer are positives. Launch of seven innovations across categories could deliver future impetus.
- In Techcombank (TCB), two doses of equity injection (US\$1.3 bn) have created space for LDR expansion. We see a spike in associate profits for MSN which can make up ~52% of NPATMI; assuming the bank delivers an ROE of 19% (1Q18: 28.1%).

normalisation in SGA) coupled with likely increase in associate profits. At a top-line level, the food and beverages segment is expected to deliver sales growth of 16% YoY while feed is set to shrink 24% YoY due to a slump in hog prices. The resources division is anticipating a revenue jump of 37% YoY from firm tungsten prices and value-addition.

Segment performance: Innovations in F&B, signs of up-tick in animal feed and improving recoveries in mining

Within Masan Consumer (MSC), seven innovations were launched across various categories (vs one in 2Q17). In seasonings, the company forecasts 12% YoY revenue growth (albeit off a low base) with ASP accretion driving 40% of the increase. In convenience foods, sales are poised to rise 15% YoY (off a low base) but expected to climb 9% higher than the quarterly run-rate. We are also encouraged by the 21% YoY jump eyed in beverages (led by energy drinks) which is a key area of focus. Beer has seen a premium variant launch which could provide additional momentum in 2H18E in our view.

Bbg/RIC	MSN VN / MSN.HM	Price (24 May 18 , D)	84,500		
Rating (prev. rating)	O (N)	TP (prev. TP D)	102,000 (102,000)		
52-wk range (D)	114600.0 - 40650.0	Est. pot. % chg. to TP	21		
Mkt cap (D/US\$ bn)	88,511.6/ 3.9	Blue sky scenario (D)	108,877		
ADTO-6M (US\$ mn)	3.4	Grey sky scenario (D)	95,123		
Free float (%)	41.8	Performance	1M	3M	12M
Major shareholders	Masan Corporation (34%)	Absolute (%)	(11.8)	(5.9)	96.5
		Relative (%)	(3.0)	4.7	63.6
Year	12/16A	12/17A	12/18E	12/19E	12/20E
Revenue (D bn)	43,297	37,621	40,333	42,843	46,280
EBITDA (D bn)	8,654	7,309	8,079	8,643	9,693
Net profit (D bn)	2,791	3,103	3,677	4,986	5,890
EPS (CS adj. D)	2,665	2,962	3,511	4,760	5,623
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (D)	n.a.	n.a.	3,494	4,824	6,530
EPS growth (%)	88.8	11.1	18.5	35.6	18.1
P/E (x)	31.7	28.5	24.1	17.8	15.0
Dividend yield (%)	3.6	0	0	0	0
EV/EBITDA (x)	13.5	15.9	14.2	12.8	11.1
P/B (x)	5.8	6.0	4.8	3.8	3.0
ROE (%)	17.5	20.6	22.1	23.7	22.3
Net debt(cash)/equity (%)	137.6	135.4	107.8	75.1	51.2

Note 1: 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%).

[Click here](#) for detailed financials

Sell-off creates an opening; upgrade to OUTPERFORM

MSN's stock price has corrected by 14% in the past ten sessions and is also down 26% from its high in April. Our earlier thesis of earnings recovery being mostly baked in ([link](#)) now suggests room for share price performance. We upgrade the stock to OUTPERFORM (from Neutral) with an unchanged SOTP-based target price of D102,000, implying 21% upside potential. Our estimates are intact and reflect a 2017-20E EPS CAGR of 24%. Catalysts for the stock price include delivery of 2Q18 numbers recently guided for in the business update.

2Q18 business update: NPATMI eyed to be up 211% YoY

The company has issued a preliminary guidance for 2Q18E with 211% YoY increase in NPATMI to D679 bn. This is led by 32% YoY increase in consolidated EBITDA (gross margin accretion and

Figure 1: Masan Consumer Holdings—2Q/1H18E revenue guidance

D bn	2Q18E	YoY	1H18E	YoY	1H18 as % of CS 2018E
Seasonings	1,540	12%	3,104	45%	50%
Convenience Foods	992	15%	1,967	35%	47%
Coffee	365	-7%	663	19%	31%
Beverages	763	21%	1,277	29%	56%
Processed meat	46	-13%	82	-7%	31%
Beer	168	430%	262	470%	54%
Total	4,060	16%	7,646	39%	50%

Note: Sum is different due to other products. Source: Company data, CS estimates.

For Masan Nutri-Science (MNS), management expects that revenues have bottomed and eye 9% QoQ growth in 2Q18E with farmers gradually returning to productivity mode in the coming months. MNS is also looking to complete its 3F model (feed, farm and food) with the launch of branded fresh meat in 4Q18E that offers good traceability.

Masan Resources (MSR) is forecasted to deliver revenue growth of 37% to D1,895 bn in 2Q18E (as per the company) taking 1H18E to D3,382 bn (+32% YoY). If achieved, this would constitute 52% of CS' estimate. Importantly, tungsten recovery rates have further inched up to 68.1% (+250 bp QoQ) and MSR eventually aims to cross 70%.

Techcombank: New tailwinds from capital issuance

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. 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 suggests that 100 bp change in the ROE estimate can move MSN's profit needle by 3%.

Key investment risks

Sluggish sales in F&B, less-than-ideal response to new product launches, decline in hog prices, operational issues at the mine, downward revision in company forecasts and slower growth in TCB.

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Companies Mentioned (Price as of 24-May-2018)

Masan Group (MSN.HM, D84500.0, OUTPERFORM, TP D102000.0)

Disclosure Appendix

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

MSN.HM	Closing Price	Target Price	
Date	(D)	(D)	Rating
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	
16-May-18	92900.00	102000.00	



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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 D102,000. MSN warrants an OUTPERFORM rating as valuations have cooled off post the recent sell-off. Core business segments are showing signs of recovery with innovations in F&B, firmer associate profit contributions and operational efficiencies at the mine. These are poised to deliver three-year consolidated NPATMI CAGR of 24%.

Risk: Key risks to our OUTPERFORM rating and D102,000 target price for Masan Group include slowdown in sales growth in F&B along with margin erosion and lacklustre responses to new product launches. For the mining business, decline in metal pricing and operational issues can impact forecasts. In animal feed, weakness in hog prices poses direct implications for feed demand and margins. And lastly in Techcombank, slower growth trajectory (vs our forecasts) can affect MSN's profitability.

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