

MASAN GROUP (MSN VN EQUITY)

Growth Opportunities Are Still Ahead

BUY

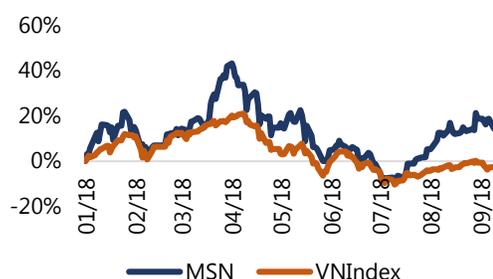
Target price: VND120,800

Upside: 28%

Our view: MSN's shares are undergoing a recovery trend, after a steep decline which was primarily caused by the contagion effect of the overall market bearish sentiment. Although shares have increased by 26% from its lowest level, we still believe in a remaining room of up to 28% for late-comers after factoring in all short-term catalysts and long-run perspectives.

52-week Price Range (VND)	Market Capitalization	Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
50,900-118,000	USD4.1bn	3.2%	10.5%	40.0%	USD2.4mn

Price performance



Event catalysts

- MCH: benefits from healthier distribution network, improving product mix and partnership agreements
- MNS: approaching a complete 3F model
- MSR: enhances profits by going further downstream
- Proceeds from selling treasury stocks will lower leverage and financial expenses

Risks to our call

- Intense competition
- Structural change in consumer taste

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Company profile: MSN is a holding company with an investment portfolio of Masan Consumer; Masan Resources, Masan Nutri-Science and Techcombank. MSN operates through the following segments: Food and Beverage, Mining and Processing, Animal Nutrition, and Financial Services.

Key metrics	2017A	2018F	2019F
Revenue growth (%)	(13.1)	9.2	22.6
NPAT growth (%)	11.1	44.7	36.0
GPM (%)	30.0	31.0	32.7
Debt/Equity (x)	2.3	2.0	0.7
ROAE (x)	17.8	28.1	23.5
ROAA (x)	5.3	6.9	8.3
EPS (VND/share)	2,681	3,880	5,276
PE (x)	29.0	23.8	17.5
PB (x)	4.4	6.3	3.1

MCH should benefit from a healthier distribution network, improving product mix and partnership agreements. By improving the health of its distribution network, and new product launches of core portfolio, we believe MCH is well positioned for its upcoming campaigns. Besides, beverages will soon play a more important role, bolstering both the companywide sales and profits. Long-run benefits from the partnership agreement with Jinju Ham also makes the company more valuable.

MNS is approaching a completed 3F model (Feed-Farm-Food), helping to raise and stabilize profit margins. MNS is well prepared for taking share from the unbranded fresh meat market, which is a significant potential on the back of consumers increasingly shifting to modern retailers for safer products. Besides, we expect MNS' animal feed category will see a strong rebound from Q4 2018, supported from high and stable pork prices.

MSR enhances profits by going further to downstream. We expect expanding APT capacity and producing other midstream products could both enhance margins and limit material price fluctuation risks. We also believe MSR can benefit in the long run with our positive outlook for tungsten prices.

MCH: benefits from a healthier distribution network, improving product mix and partnership agreements

Inventory clearance paves the way for profitability growth. MCH sacrificed short-term growth in 2017 for a healthier distribution network. By selling less to its distributors and paying higher on advertising and promotion expenses, MCH did a good job in clearing its old inventory as lowering distributor stock days to 20 from 40. We expect this will generate more room for new innovations and, coupled with several other factors, enhance gross margin to 48% from current 45%.

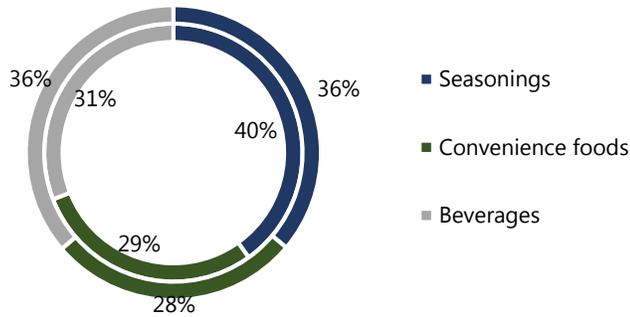
Beverages category should be a new growth driver. Given sauces and convenience foods are reaching maturity with single-digit growth, the strong performance of 25% growth in revenue and 30% growth in net income over the past five years makes the beverages category promising. In the next 3-5 years, we believe beverages will continue to maintain its double-digit growth rate (~15%) in sales, given all three main products (energy drinks, coffee and naturally mineral water) are complementing current consumer trends.

Partnership agreements should open a new growth opportunity.

In addition to beverages, processed meat also exhibits potential, with an annual growth rate of 60% in the past two years. The product's growth uptrend is likely to perpetuate in the future, given its small size and current consumer preference skewing toward convenience products. Besides, the 25%-stake acquisition of Jinju Ham at Saigon NutriFood (a subsidiary of MCH) also makes us confident in the business's positive prospects, given that Jinju Ham is facing fierce competition in the Korean market and is eager to seek new opportunities overseas. That said, processed meat may take at least 3-5 years to have a notable impact on the companywide results, given its current small scale (2% of sales).

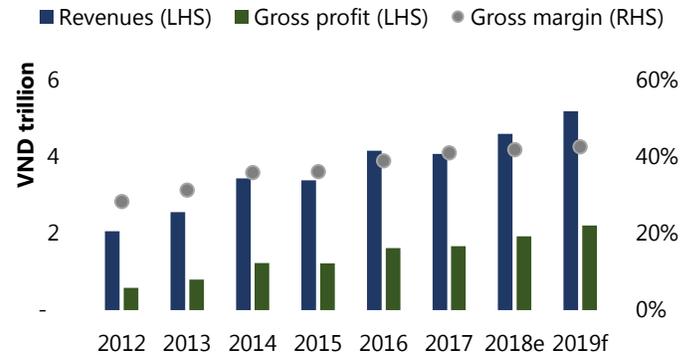
The strategic partnership with Singha also draws our attention, as opening a new gate to the Thai market. In our opinion, MCH has two advantages in this tough battle: products with affordable prices and wide food distribution network from members of Boon Rawd Brewery (parent company of Singha). However, unlike domestic competitors, many sauces manufacturers in Thailand have ample resources for marketing campaigns and discounts, leaving us concerned about the chance for success of the Chinsu Yod Thong brand. At this time, we haven't factor the new market into our model because of its current small size and uncertainties in business results.

Figure 1: Revenues by products



Source: MCH, Yuanta Securities forecasts
 (*) Inside circle: 2017, Outside circle: 2022f

Figure 2: Beverages revenue and profit growth



Source: MCH, Yuanta Securities forecasts

MNS: Closer to a completed 3F model (Feed-Farm-Food), helping to raise and stabilize profit margins

Branded fresh meat can unlocked growth. Vietnamese fresh meat market is dominated by unbranded products (roughly 86% of pork are bought via the wet market channel). It’s worth noting that after numerous low-quality meat issues, consumers are increasingly shifting to modern retailers for safer products. With higher health consciousness, we expect that demand for safety meat will strengthen in the future with expected CAGR of 20% during 2018-22.

MNS is well positioned to win the market.

We appreciate MNS’s prudent preparation. Currently, the company operates a pig farm which can provide 230,000-250,000 pigs/year (equivalent to 24,000 tons of meat) from 2019. With its 3F (Feed-Farm-Foods) complete clean food chain model, we believe the new products will meet strict food safety standards in Vietnam (such as VietGap), thus allowing it to gain consumers’ trust.

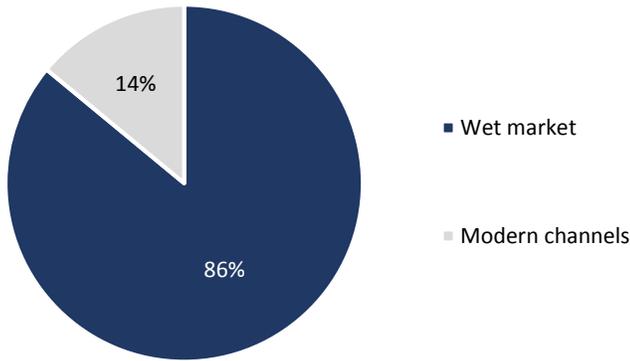
Although the contribution of the pig farm is currently relatively small (accounting for roughly 6% of MNS’s sales), it is worth noting that MNS owns a meat processing complex in Ha Nam, which can produce up to 130,000 tons of meat, more than 5 times of the pig farm’s capacity, indicating that by cooperating with farmers, the company can quickly magnify the business to cater to potential demands.

Given the company’s entrenched brand name in the F&B industry, along with a deep pocket for marketing and promotion activities and current strong management, we believe the company requires only 1-2 years to build a valuable brand. Afterward, we expect the segment could rapidly expand, contributing up to 25% of MNS sales by 2022.

Pork prices recovery could be a short-term catalyst. After the crash of pork prices in 2017, farmers suffered severe losses and heavily trimmed their pig

herd. The shortage in supply has led to a wild recovery in pork prices in 2018. Because of a lag of 6-9 months between pork price rebound and the recovery of pig herd, we expect the animal feed category will recover from Q4 2018. We also expect MNS's gross margin will quickly return to 22% in 2019 (from estimated 17% for 2018) as a result of farmers shifting to more premium products for higher productivity.

Figure 3: Volume of selling pork by channels



Source: EVBN

Figure 4: Pork prices



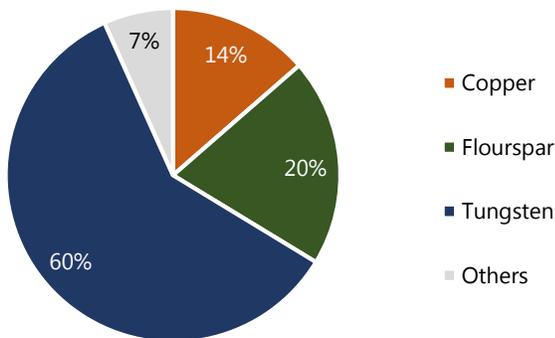
Source: Yuanta Securities compiled and forecasts

MSR: Enhancing profits by going further to downstream

MSR anticipates to produce higher value-added products. Currently, MSR operates as a miner (upstream) and producer of several midstream products (APT, oxides). In the foreseeable future, the company intends to bolster its profits by going further downstream. MSR will expand the APT capacity to 12,000 tons from the current 9,350 tons, and seek strategic partners to manufacture other value added products (tungsten metal powder and tungsten carbides). Based on current market prices and production costs for these new products, we estimate that MSR's gross margin will strengthen to 40% by 2022, from current 35%.

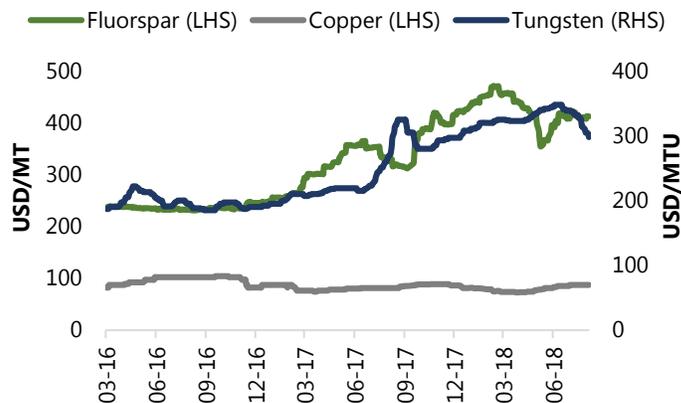
The upward trend of tungsten prices are likely to persist. Over the last three months, market prices of tungsten have cooled off, primarily caused by the end of some environmental-related suspensions in China. However, the correction might not last long. We believe increased China's consumption of tungsten concentrates and the current supply restrictions could bring prices back to their uptrend.

Figure 5: Revenues by products



Source: Yuanta Securities compiled

Figure 6: Fluorspar, copper, and tungsten prices



Source: Bloomberg

Proceeds from selling treasury stocks could improve MSN’s financial health

MSN will re-issue around 109 million treasury shares to SK Group this year. With the estimated price of roughly VND 100,000/share, we expect the company could ‘pocket’ around VND 11 trillion, which in turn will be used for mitigating current debt burden or being a source of M&A budget. In our view, we appreciate the former choice, considering that MSN’s debt service coverage ratio has been below 1 over the last five years. In case MSN chooses to service its debt, the company can improve the ratio up to 1.3 from the current level of 0.7, and save VND ~1,100 billion in interest expense each year.

OUR VIEW

Although some of MSN’s business lines are facing challenges due to their markets approaching maturity, we still believe MSN could sustain its company-wide sales strong growth, bolstered by an emerging beverage segment and upcoming projects (fresh meat, high-value-added tungsten products). Besides, proceeds from reselling treasury shares could also be considered as notable catalyst as improving the company’s financial health and mitigating its interest expense burden.

Overall, although shares have increased by 26% from its lowest level, we still believe in a remaining room of up to 28% for late-comers after factoring in all short-term catalysts and long-run perspectives.

VALUATION

We use sum of the part method (SOTP) to evaluate MSN due to its various businesses.

Subsidiaries and associates	Method	Enterprise value (VND bn)	MSN economic interest	Proportionate share (VND bn)	
Masan Consumer Holding	Masan Consumer (MCH)	FCFF, P/E	70,718	83.0%	58,727
	Masan Brewery	P/B	818	57.2%	468
MSR		FCFF, EV/EBITDA	25,643	95.9%	24,592
MNS	Anco and Proconco (excluding VISSAN)	FCFF	38,888	82.4%	32,044
	VISSAN	FCFF, EV/EBITDA	3,250	20.6%	670
	MSN Nutri Farm and MNS Meat Ha Nam	EV/EBITDA	14,414	100.0%	14,414
TCB		P/B	124,830	20.0%	27,213
Total Enterprise value					158,127
Less proportionate net debt					(18,225)
Equity value					139,902
Per MSN/share (VND)					120,879
Implied 2019 P/E					22.4

PROFIT AND LOSS (VND bn)

<i>FY (VND'bn)</i>	2015A	2016A	2017A	2018F	2019F
Revenue	30,628	43,297	37,621	41,070	50,351
Cost of goods sold	(20,820)	(30,367)	(25,989)	(28,736)	(34,759)
Gross profits	9,809	12,930	11,632	12,334	15,592
Operating expenses	(5,709)	(6,907)	(7,203)	(7,393)	(8,660)
Operating profits	4,100	6,023	4,429	4,942	6,932
Net interest expenses	(2,715)	(3,291)	(3,696)	(2,631)	(1,631)
Net investments	499	980	2,044	1,997	2,419
Net other incomes	(40)	(35)	(43)	(40)	(37)
Pretax profits	3,227	4,446	4,139	6,068	8,106
Income taxes	(699)	(674)	(531)	(1,018)	(1,251)
Minority interests	1,049	981	505	560	748
Net profits	1,478	2,791	3,103	4,490	6,107
<i>Core earnings</i>	<i>1,461</i>	<i>2,791</i>	<i>2,171</i>	<i>3,016</i>	<i>6,107</i>
EBITDA	6,414	9,382	9,083	9,121	11,580
EPS (VND)	1,980	3,634	2,681	3,880	5,276

KEY RATIOS

	2015A	2016A	2017A	2018F	2019F
Growth (% YoY)					
Sales	90.4	41.4	(13.1)	9.2	22.6
Operating profit	52.6	46.9	(26.5)	11.6	40.3
EBITDA	70.8	46.3	(3.2)	0.4	27.0
Net profit	36.9	88.8	11.1	44.7	36.0
EPS (VND)	34.9	83.6	(26.2)	44.7	36.0
Profitability ratio (%)					
Gross margin	32.0	29.9	30.9	30.0	31.0
Operating margin	13.4	13.9	11.8	12.0	13.8
EBITDA margin	20.9	21.7	24.1	22.2	23.0
Net margin	4.8	6.4	8.2	10.9	12.1
ROA	4.0	5.2	5.3	7.0	9.0
ROE	12.0	15.9	17.8	29.0	27.8
Stability					
Net debt/equity (x)	1.6	1.8	1.8	1.9	0.7
Int. coverage (x)	1.5	1.8	1.2	1.9	4.2
Int. & ST debt coverage (x)	0.6	0.8	0.7	0.8	1.3
Cash conversion days	(6.0)	(13.5)	(19.2)	15.0	35.0
Current ratio (X)	1.1	1.3	1.0	1.0	1.2
Quick ratio (X)	0.8	1.0	0.7	0.6	0.7
Net cash/(debt) (VND mn)	(27,295)	(27,942)	(27,379)	(30,153)	(19,199)
Efficiency					
Days receivable outstanding	49	23	22	25	35
Days inventory outstanding	53	59	68	70	75
Days payable outstanding	108	95	109	80	75

KEY METRICS

	2015A	2016A	2017A	2018F	2019F
PE (x)	39.1	17.8	28.6	23.8	17.5
Diluted PE (x)	59.2	26.1	27.2	23.8	17.5
PB (x)	2.1	2.5	4.4	6.6	3.9
EBITDA/share	8,589	12,215	7,848	7,881	10,005
DPS	858	231	2,344	-	-
Dividend yield (%)	1.1	0.4	3.1	-	-
EV/EBITDA (x)	13.2	8.1	12.7	11.7	9.2
EV/EBIT (x)	18.5	10.8	17.8	21.7	15.4

Source: Company data, YSVN

BALANCE SHEET (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2015A	2016A	2017A	2018F	2019F
Total assets	71,850	73,039	63,529	65,414	70,280
Cash & cash equivalents	8,324	13,149	7,417	5,599	5,929
ST Investment	294	1,771	640	640	640
Accounts receivable	3,127	2,277	2,247	2,250	3,449
Inventories	4,418	5,390	4,333	5,117	6,190
Other current assets	547	290	508	533	560
Net fixed assets	33,307	32,922	32,300	32,957	32,527
Others	21,833	17,241	16,084	18,318	20,986
Total liabilities	44,741	52,726	43,303	43,373	32,442
Current liabilities	14,962	17,867	15,502	14,464	14,308
Accounts payable	6,596	9,249	6,336	6,298	7,142
ST debts	8,367	8,618	9,166	8,166	7,166
Long-term liabilities	29,778	34,859	27,801	28,908	18,133
Long-term debts	27,253	32,472	25,630	26,630	15,630
Others	2,525	2,387	2,171	2,278	2,503
Shareholder's equity	16,615	15,276	14,837	16,169	27,757
Share capital	17,098	18,331	18,429	18,429	18,429
Treasury stocks	-	(641)	(6,518)	(6,518)	-
Others	8,537	11,956	12,597	10,412	(2,090)
Retained earnings	8,561	7,016	12,350	14,535	20,520
Minority interest	10,494	5,036	5,388	5,872	10,081

CASH FLOW (VND bn)

<i>FY (VND'bn)</i>	2015A	2016A	2017A	2018F	2019F
Operating cash flow	3,823	4,119	2,766	6,383	7,630
Net income	1,478	2,791	3,103	4,490	6,107
Dep. & amortization	1,609	2,239	2,436	2,183	2,229
Change in working capital	841	2,653	(2,913)	(37)	844
Others	(2,086)	(6,832)	(2,479)	(1,043)	(1,278)
Investment cash flow	(8,110)	(19,16)	3,134	(5,074)	(4,468)
Net capex	(8,354)	(5,062)	(2,444)	(3,077)	(2,049)
Change in LT investment	3,349	(4,573)	2,033	(1,997)	(2,419)
Change in other assets	517	980	2,976	-	-
Cash flow after invt.	(3,621)	(10,509)	569	-	-
Financing cash flow	7,435	19,871	(11,63)	(3,124)	(2,833)
Change in share capital	109	214	3,893	-	-
Net change in debt	12,055	5,471	(6,294)	-	(12,000)
Change in other LT liab.	(4,729)	14,187	(9,234)	(3,124)	9,167
Net change in cash flow	3,148	4,825	(5,735)	(1,815)	329
Beginning cash flow	5,166	8,324	13,149	7,414	5,599
Ending Cash Balance	8,314	13,150	7,414	5,599	5,929

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HOLD	Between -20% to +20%
SELL	Below 20%

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SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company’s outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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