

MASAN GROUP (MSN: HOSE)



NEUTRAL - 1Y Target Price: VND 94,700

Current price: VND 82,000

EARNINGS UPDATE

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CONSUMER - VIETNAM

Key figures

Market cap (USD mn)	4,086
Market cap (VND bn)	95,378
Outstanding shares (mn)	1,163
52W high/low (VND 1,000)	118/57.5
Average 3M volume (share)	822,218
Average 3M value (USD mn)	3.00
Average 3M value (VND bn)	70.76
Foreign ownership (%)	40.33
Foreign ownership limit (%)	49
State ownership (%)	0%
Management ownership (%)	N.a

MSN's Price & Trading Volume



Source: Bloomberg

Company Snapshot

Masan Group (MSN) began operations in 2004 as a shipping company, with chartered capital of VND 3.2 bn. It has grown into Vietnam's leading private sector company, with chartered capital of VND 7,680 bn as of end-2016.

MSN has built market-leading operating platforms in the consumer and resources sectors. It holds stakes of 86% in Masan Consumer Holdings (MCH; fast-moving consumer goods); 89% in Masan Nutri Science (MNS; meat production); and 94% in Masan Resources (MSR; natural resources). MSN also has a 30% stake in Techcombank (TCB).

2018 results will likely be on track

What's new

- In 3Q2018, Masan Group posted VND 9.17 tn in revenue (-2.8% YoY) and VND 748 tn in net earnings post minority interest (MI) (-1.3% YoY). Cumulatively, MSN posted VND 26.63 tn in revenue in 9M2018 (-3.0% YoY) and VND 2.307 tn (+90.2% YoY) in net earnings post MI. In terms of reporting numbers, MSN recorded VND 3.78 tn net earnings post MI since this amount included a one-off VND 1.47 tn from accounting profit (*). In 9M2018, the actual top line figure was slightly lower than our expectation (mostly because of lower sales of animal feed and mining businesses), yet the earnings figures were in-line with our forecasts.

(**This was to account for the automatic dilution in its ownership in Techcombank from 25% to 20%, as the bank sold treasury shares to increase its chartered capital in 2Q18, named the "deemed disposal". This is purely an accounting profit, and does not have any impact on the cash flow of MSN.*

- Except for Masan Nutri-Science which posted declines of 31.2% YoY in revenue and 52.2% YoY in gross profit in 9M2018 due to the impact of low pig feed demand during the trough time of the pork industry cycle, other businesses recorded positive revenue/net profit growth: Masan Consumer Holdings (+33.3% YoY/+37.4% YoY), Masan Resources (+19.4% YoY/30.2% YoY). Meanwhile, profit contribution from TCB to the group totalled VND 1.41 tn in 9M2018 (+15.1% YoY). It should be noted that MSN's interest in TCB was reduced from 25.2% in 2Q2018 to 20% in 3Q2018; hence, despite the 59% YoY growth in the bank's net income in 9M2018, profit contribution to MSN grew only 15% YoY.
- MSN sold 110 mil treasury shares to SK Group at ~ VND 100,000/share in October 2018 to receive ~VND 11 tn in cash. Recall that in November 2017, MSN bought back ~107 million shares at an average purchase price of VND 58,300/share. As a result, the number of outstanding shares will increase from 1.053 bn at the end of 2Q2018 to 1.163 bn at the end of 3Q2018 and the owner's equity increased accordingly by ~VND 4.6tn.

What's the impact: For 2018, we forecast net sales and net core earnings to parent shareholders to increase by 2.2% YoY to VND 38.4 tn and 15.8% YoY to VND 3.59 tn respectively. For 2019, we forecast the group to post VND 43.94 tn in net sales (+14.3% YoY) and VND 5.04 tn in net profit post MI (+40.3% YoY). The strong growth in net earnings for 2019 will likely come from: (1) core profit growth of 17.7% YoY mainly on a feed business recovery and increased ownership in the Nui Phao Tungsten Chemicals Manufacturing Company, and (2) an interest cost saving of ~VND 1 tn from deleveraging activities.

In terms of 2018 reported numbers, we estimate net profit post MI would be VND 4.77 tn (+53% YoY) given that we include the one-off earnings of VND 1.47 tn discussed above.

What we recommend: At the 22 November market price of VND 82,000/share, MSN is trading at core 2018E-19E P/E of 26.5x and 18.9x, whereas 2018E-19E EV/EBITDA are at 10x and 8.9x, respectively. We use a Sum of the Parts approach to derive a 12-month TP of VND 94,700/share (from VND 96,000 previously) mostly on lower forecasted earnings of MNS and MSR. Since our 1-year target price represent an absolute upside of 15% from the current market price, we maintain our NEUTRAL rating. (A change in rating to NEUTRAL from HOLD reflects our new rating system).

Downside risks to our call: Lower-than-expected domestic demand for packaged foods, and higher-than-expected commodity prices.

9M18 wrap

1. Masan Consumer (MCH):

In 9M2018, MCH posted VND 11.9 tn in net sales (+33.3% YoY and +21.9% compared to 9M2016). Strong growth was witnessed across categories: seasonings (+39.7% YoY value growth and 30% volume growth), convenience foods (+35% YoY value growth and 28% volume growth), instant coffee (+16.7% YoY), non-alcoholic beverages (+29% YoY). Such growth was predicated upon the following factors: (1) destocking activities which created a low base for 9M2017, and (2) successful premiumization as the company launched premium variants during 9M2018 such as Nam Ngu Nhan Vang (65% premium to the existing Nam Ngu brand), Tam Thai Tu Thuong Hang (70% premium to the existing Tam Thai Tu brand), Omachi cup with real meat (120% premium to Omachi brand) and Compact brand (energy drink with 40% premium to wake up 24/7). We note that MCH has outperformed F&B peers such as Vinamilk (VNM, VND 120,100, Underperform), Kido Group (KDC, VND 25,250, Underperform), Kido Frozen Foods (KDF), and Vinasoy in 9M18, and the overall weak FMCG consumption growth of +3.6% YoY in 6M18 (according to Kantar Worldpanel)

MCH's gross profit increased by 37.4% YoY in 9M2018 thanks to gross margin expansion of 134 bps to 44.2% in 9M2018 on the back of higher ASPs. The SG&A to net revenue ratio was down to 23.8% in 9M2018 from 32.7% in the same period last year given that MCH reduced its promotion offers to distributors, and a lack of cost related to destocking activities in 1H2017.

For Masan Consumer Corporation (MCH: Upcom), net earnings to parent shareholders totalled VND 2.48 tn in 9M18, up 90% YoY. Management guides that the 2018 target of VND 3.1tn-3.4tn in net earnings post MI (+47.6%-61.9% YoY) for this company is well on track.

2. Masan Nutri-Science (MNS)

Sales totalled VND 10.035 tn in 9M2018 (-31.2% YoY) on a ~38% decrease in pig feed volume. Although pork prices started to recover from April 2018, it takes around 6-9 months for pig feed demand to fully recover.

Hog price (VND/kg)



Source: MOF, SSI Research

Gross margin was only 15.3% in 9M18 vs. 22% in the same period last year brought on by a higher revenue share from economy-tier products (e.g. Bio-zeem Xanh) as well as an input cost hike (~9% YoY in 9M2018). More specifically, in 9M2018, soymeal and maize prices increased by 18% and 4% YoY (according to Indexmundi). Net profit totalled only VND 212 bn in 9M2018 (vs. VND 650 bn in the same period last year). Given the 9M2018 actual numbers, we are of the opinion that the company will not be able to achieve its target of VND 600bn (-24.7% YoY) in net profit for 2018. MNS indicates that it had a 35% pig feed market share nationwide at the end of 3Q2018.

Branded fresh meat products will be launched in 4Q18: When fully ramped up, the MNS farm in Nghe An can process nearly 250,000 hogs, and the meat complex in Ha Nam can process about 900,000 hogs per year (~2.5% of total domestic hog production). Fresh pork will be sold at MNS' own mini stores as well as partner stores (super markets and minimarkets). No capex details regarding store openings have been provided yet, though management does not expect to spend a substantial amount, as a majority of its capex budget has already been used on building the Nghe An farm and Ha Nam complex.

3. Masan Resources

Net revenue reached VND 4.69 tn in 9M18 (+19.4% YoY) thanks to a 42% higher APT price and a 43.1% higher CaF2 price while the total tungsten equivalent unit volume declined by 13.9% YoY. The sales number for 9M18 was lower than our expectation due to: (1) the drop of 14% YoY in tungsten equivalent volume in 9M2018 from maintenance in 1Q2018 on unexpected water issues, and (2) slow copper sales on a softer copper price in 3Q2018 impacted by trade-war concerns. Still, net earnings to parent shareholders totalled VND 340 bn in 9M18, up 247% YoY thanks to revenue growth and gross margin improvement (up 270 basis points).

For 2018, management keeps the guidance of VND 7.3 tn to VND 8 tn in revenue, and VND 600 bn to VND 1 tn in net earnings to parent shareholders (+191%-385% YoY). This is based on the assumption of higher APT prices (+25.5% YoY), and the maximization of capacity utilization of the tungsten chemical plant (fully-owned by MSR today), which may process an additional 3,000 tonnes of tungsten concentrate as provided by third parties, along with the existing 6,500 tonnes produced annually from the Nui Phao mine (by the end of 2017, the mine operated at full capacity of 6,500 tonnes).

4. Techcombank

TCB posted its 9M 2018 PBT at VND 7.77 tn (+60.6% YoY), roughly 77.7% of its 2018 PBT guidance and mainly driven by strong growth in both net interest income (NII, +26.4% YoY) and non-NII (+25.2% YoY). Third quarter NII was a welcome surprise clocking in at VND 3.12 tn, translating to an impressive 51.6% YoY growth. Well-controlled expenses also contributed towards more robust earnings, as operating expenses rose less than expected (only +17.4% YoY), and there was also a decline in provision expenses (-29.6% YoY). Please refer to our 6 November report on TCB ([link](#)).

Estimates and Valuation

Management guidance: MSN has set a target of VND 3.4-4 tn in core net profit post MI for 2018 (+10-29% YoY).

Our estimate: For 2018, we forecast net sales and net core earnings to parent shareholders to increase by 2.2% YoY to VND 38.4 tn and 15.8% YoY to VND 3.59 tn respectively. For 2019, we forecast the group to post VND 43.94 tn in net sales (+14.3% YoY) and VND 5.04 tn in net profit post MI (+40.3%YoY). The strong growth in net earnings for 2019 will likely come from: (1) core profit growth of 17.7% YoY mainly on a feed business

recovery and increased ownership in the Nui Phao Tungsten Chemicals Manufacturing Company, and (2) an interest cost saving of ~VND 1 tn from deleveraging activities

In terms of 2018 reported numbers, we estimate net profit post MI would be VND 4.77 tn (+53% YoY) given that we include the one-off earnings of VND 1.47 tn discussed on page 1.

For 2019, we estimate MSN to post 17.7% YoY growth in core net earnings post MI. Key assumptions are as follows:

- **Animal feed:** For 2018, our estimated net revenue is VND 14 tn (-25% YoY) on a lower volume of pig feed and VND 365 bn in net profit (-54.2% YoY) due to a squeeze in gross margin (from 21.4% in 2017 to 16% in 2018). A lower gross margin is attributable to an increasing weight for “Bio-zeem Xanh”, which carries a thinner margin. For 2019, we expect MNS to achieve 15.5% YoY sales growth and 35% YoY net profit growth driven by a recovery in the hogs market as well as an improved gross margin.
- **Consumer:** Masan Consumer’s net sales and net income growth are set at 21.3% and 50% YoY in 2018, thanks to the low base in 2017 from inventory restructuring efforts and reduced interest expenses & selling expense. Selling expenses are expected to normalize from 22.8% of total sales to reflect recent destocking activities in 2017 down to an 18% level in 2018. For Masan Beverages, we expect 2018 sales to reach VND 1.56 tn (+400% YoY) after destocking activities in 2017. For 2019, we estimate Masan Consumer to post a 15.2% net sales growth and 10.9% YoY net profit growth respectively.
- **Masan Resources:** We estimate mining revenue to reach VND 6.8tn (+26.5% YoY) and net earnings to parent shareholders to increase by 157% YoY to VND 529 bn in 2018 from increased average market prices of APT (+25.5% YoY, from USD239/MTU to USD300/MTU), of copper (+2% YoY to USD6,000/tonne) and of CaF2 (+16% YoY to USD400/MT), and lower minority interest after MSR acquired a 49% stake of the JV with H.C.Stark (September 2018). For 2019, we expect MSR to post 7.5% sales growth and 45.5% YoY net earnings to parent shareholders growth, on an increased volume and a 100% consolidation of the Nui Phao Tungsten Chemicals Manufacturing Company. For 2019, we assume prices of APT, CaF2, Copper and Bismuth to decline by 6%-12% YoY due to trade-war uncertainties.
- **Techcombank:** For 2018, we maintain our assumption regarding customer loan growth, but we raise our estimate of the amount of corporate bonds in Techcombank’s balance sheet. Hence, we adjust our credit assumption from 15% to 20% YoY. We also revise down our NIM assumption by 23 bps to 3.9% from the previous 4.13%, due to a marginal increase in the cost of funding as compared to our previous estimate. Therefore, our PBT estimate does not change much, at roughly VND 10.5 tn (+31% YoY).

For 2019, we increase the share of individual loans to our total loan book from 43% in 2018 to 45% in 2019. We also increase Techcombank’s credit growth from the previous 15% to 17% on its substantial capital buffer, while decreasing NIM from our previous 4.17% to 3.93% due to rising deposit rate concerns and partly on NII moving to fee income. Our PBT projection arrives at VND 12.88 tn (+22.5% YoY).

MSN: forecast revisions

VNDbn	2018E	2019E	Notes/key assumptions
Net sales (Group)			
- New	38,436	43,942	
- Old	41,981	46,995	
- Change (%)	-8.4%	-6.5%	Lowered sales forecasts for MNS and MSR after taking into account the 9M results
Net profit (core)			
- New	4,270	5,780	
- Old	4,311	4,911	
- Change (%)	-1.0%	17.7%	Taking into account the deleveraging from new cash injection from SK Group
Net earnings after MI (core)			
- New	3,593	5,041	
- Old	3,559	4,123	
- Change (%)	1.0%	22.3%	

Source: SSI forecasts

At the 22 November price of VND 82,000/share, MSN is trading at core 2018E-19E P/E of 26.5x and 18.9x, whereas 2018E-19E EV/EBITDA are at 10x and 8.9x, respectively. We use a Sum of the Parts approach to derive a 12-month TP of VND 94,700/share (from VND 96,000 previously) mostly on lower forecasted earnings of MNS and MSR. Since our 1-year target price represent an absolute upside of 15% from the current market price, we have NEUTRAL view for the time being.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018F	2019F
Balance Sheet				
+ Cash	13,149	7,417	23,223	25,064
+ Short-term investments	1,771	640	0	0
+ Account receivables	2,277	2,247	2,021	2,311
+ Inventories	5,390	4,333	3,847	4,386
+ Other current assets	290	508	253	289
Total Current Assets	22,876	15,145	29,345	32,050
+ LT Receivables	1,817	1,454	1,613	1,844
+ Net Fixed Assets	29,821	29,830	27,243	24,661
+ Investment properties	0	0	0	0
+ LT Assets in progress	2,356	1,838	1,838	1,838
+ LT Investments	12,241	11,338	11,322	11,322
+ Other LT Assets	3,927	3,924	2,716	3,098
Total Long-Term Assets	50,163	48,384	44,732	42,762
Total Assets	73,039	63,529	74,076	74,812
+ Current Liabilities	17,898	15,533	15,313	17,459
<i>In which: ST debt</i>	<i>8,618</i>	<i>9,166</i>	<i>9,030</i>	<i>10,296</i>
+ Non-current Liabilities	34,828	27,770	23,400	16,209
<i>In which: LT debt</i>	<i>32,472</i>	<i>25,630</i>	<i>21,930</i>	<i>14,533</i>
Total Liabilities	52,726	43,303	38,713	33,669
+ Contributed capital	7,681	11,574	11,631	11,631
+ Share premium	10,650	6,856	11,148	11,148
+ Retained earnings	7,016	12,350	15,943	20,984
+ Other capital/fund	-5,033	-10,554	-3,359	-2,620
Shareholders' Equity	20,313	20,225	35,363	41,143
Total Liabilities & Equity	73,039	63,529	74,076	74,812
Cash Flow				
CF from operating activities	4,119	2,766	8,758	7,972
CF from investing activities	-19,165	3,134	17	0
CF from financing activities	19,871	-11,635	7,032	-6,131
Net increase in cash	4,825	-5,735	15,806	1,840
Beginning cash	8,324	13,149	7,417	23,223
Ending cash	13,149	7,417	23,223	25,064
Liquidity Ratios				
Current ratio	1.28	0.98	1.92	1.84
Acid-test ratio	0.96	0.66	1.65	1.57
Cash ratio	0.83	0.52	1.52	1.44
Net debt / EBITDA	2.78	2.72	1.71	0.33
Interest coverage	2.43	2.20	2.92	4.25
Days of receivables	9.2	12.2	11.3	10.2
Days of payables	29.1	31.8	29.5	27.4
Days of inventory	58.9	68.3	57.9	51.1
Capital Structure				
Equity/Total asset	0.28	0.32	0.48	0.55
Liabilities/Total Assets	0.72	0.68	0.52	0.45
Liabilities/Equity	2.60	2.14	1.09	0.82
Debt/Equity	2.02	1.72	0.88	0.60
ST Debt/Equity	0.42	0.45	0.26	0.25

VND Billion	2016	2017	2018F	2019F
Income Statement				
Net Sales	43,297	37,621	38,436	43,942
COGS	-30,367	-25,989	-25,800	-29,416
Gross Profit	12,930	11,632	12,636	14,526
Financial Income	769	1,405	614	489
Financial Expense	-3,291	-3,696	-3,683	-2,765
Income from associates	0	0	0	0
Selling Expense	-4,971	-5,291	-4,286	-5,045
Admin Expense	-1,936	-1,912	-2,114	-2,417
Income from business operation	4,481	4,182	5,059	6,849
Net Other Income	-35	-43	0	0
Profit Before Tax	4,446	4,139	5,059	6,849
Net Income	3,772	3,608	4,270	5,780
NI attributable to shareholders	2,791	3,103	3,593	5,041
Minority interest	981	505	677	739
			13.3%	40.3%
Basic EPS (VND)	2,462	2,727	3,089	4,334
BVPS (VND)	19,889	12,819	25,188	29,522
Dividend (VND/share)	0	0	0	0
EBIT	7,559	7,574	7,691	8,959
EBITDA	9,938	10,185	10,278	11,541
Growth				
Sales	41.4%	-13.1%	2.2%	14.3%
EBITDA	33.4%	2.5%	0.9%	12.3%
EBIT	34.2%	0.2%	1.5%	16.5%
NI	49.3%	-4.4%	18.4%	35.4%
Equity	-25.1%	-0.4%	74.8%	16.3%
Chartered Capital	2.9%	50.7%	0.5%	0.0%
Total assets	1.7%	-13.0%	16.6%	1.0%
Valuation				
P/E	26.3	28.1	26.5	18.9
P/B	3.3	6.0	3.3	2.8
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	7.6	10.0	10.0	8.9
EV/Sales	1.8	2.7	2.7	2.3
Profitability Ratios				
Gross Margin	29.9%	30.9%	32.9%	33.1%
Operating Margin	15.9%	19.1%	18.4%	19.3%
Net Margin	8.7%	9.6%	11.1%	13.2%
Selling exp./Net sales	11.5%	14.1%	11.2%	11.5%
Admin exp./Net sales	4.5%	5.1%	5.5%	5.5%
ROE	15.9%	17.8%	15.4%	15.1%
ROA	5.2%	5.3%	6.2%	7.8%
ROIC	10.3%	11.3%	10.7%	11.4%

Source: MSN, SSI Research

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Buy: Expected to provide price gains of at least 10 percentage points greater than the market over next 12 months

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