

Conglomerate

Update Report

August 2021

 Recommendation **OUTPERFORM**

 Target price (VNĐ/CP) **160,000**

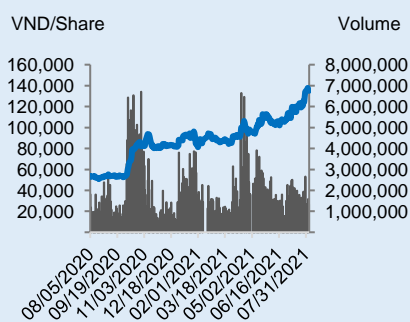
Market price (05/08/2021) 135,000

Upside potential 18.5%

SHARES INFORMATION

Trading exchange	HSX
52-week price range	50,950-137,800
Market cap	VND159,372 bn
Outstanding shares	1,180,534,692
10-day average volume	1,481,480
% Foreign ownership	33.48%
Foreign room	49%
Dividend per share	VND1,000
Dividend yield	0.74%
Beta	0.68

PRICE MOVEMENT



	YTD	1M	3M	6M
MSN	53%	21%	42%	52%
VN-Index	22%	-5%	7%	19%

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All-round improvement in consumer segments.

Strong earnings growth in 1H 2021, consumer segments in the spotlight.

MSN reported robust 1H 2021 business result with net revenue of VND41,196 bn (+16.4% YoY) and NPAT-Post MI of VND979 bn (+736.8% YoY), fulfilling 44.8% and 39.2% AGM target on net revenue and NPAT-Post MI (lower end) respectively.

- Masan Consumer Holdings (MCH) posted 11.7% growth in net revenue and 10.2% growth in EBITDA.** Key categories such as seasonings, packaged foods and beverages recorded growth thus gaining share despite a weak FMCGs market due to COVID-19. We believe MCH has benefit from its strategy focusing on premiumization, diversification and convenience as consumers while temporarily cutting spending, are paying more attention on health-safety issues thus looking for quality convenience products to consume at home.
- VinCommerce (VCM) posted -8.5% decline in net revenue and the 3rd consecutive quarter of positive and improving EBITDA margin.** On the revenue side, the decline was mainly due to 550 less stores in operation compared to last year while existing stores recording double digit growth in LFL revenue/m² in key areas, such as HCMC. On the profitability side, EBITDA margin improved 848 bps thanks to re-negotiation with suppliers and operation optimization initiatives. Phuc Long kiosks model, having proven to improve store profitability, will continue to be rolled out among VMP stores. In general, while COVID-19 restrictions on wet markets have helped improving traffic to VCM retail chains, revamp of product assortments & layouts, pricing & promotion and sales services also played a significant role.
- Masan MeatLife (MML) posted 42.1% growth in net revenue and 19.6% growth in EBITDA.** Feed volume, especially pig feed picked up significantly thanks to nationwide herd replenishment while poultry and aqua feed also performed well. Regarding integrated meat business, MML contributed 11.4% of overall revenue with GPM consistently above 20%, partly uplifting pressures from a narrowing GPM of feed business due to rising agricultural commodities prices. Like VCM, we believe the recent closure of wet markets have accelerated the conversion of fresh meat consumption towards the packaged and branded side. We personally have observed a surge in demand for MeatDeli products in various VMP stores.

- **Masan Hi-Tech Materials (MSR) posted 137.6% growth in net revenue and 86.9% growth in EBITDA.** The rebound of global economic activities has led to strong rally of metal prices, which was the main reason of MSR impressive recovery in 1H 2021. We note that MSR recorded no copper sales in the period and outstanding inventory is estimated at 14,000 tons at the end of Q2 2021. Possible sale of such inventory in 2H 2021 could bring a considerable earnings surprise.

Bottom-line likely to triple for full-year 2021. With encouraging changes in the 1H 2021, BVSC forecast a strong full-year result with net revenue of VND96,498 bn (+25% YoY) and NPAT-MI of VND3,599 bn (+191.6% YoY), translatable to EPS of VND3,063 per share and forward PER of 44.1x.

Recommendation: Given all-round strong 1H 2021 result and promising 2H prospect, we call **OUTPERFORM** on MSN stock with SOTP target price of **VND160,000 per share**. Apart from solid core earnings growth, unsold copper inventory at MSR and the remaining round of equity raising in The CrownX could also be material short-term catalysts sometime in the 2H this year.

	2020	2021F	2022F	2023F
Net Revenue	77,218	96,498	113,400	130,850
MCH	23,971	28,046	34,126	40,906
VCM	30,978	34,261	40,981	47,830
MML	16,119	22,189	26,630	31,150
MSR	7,291	13,428	13,340	12,898
NPAT	1,395	5,399	7,130	10,404
MCH	4,370	4,986	6,457	8,037
VCM	(3,733)	(898)	126	1,285
MML	492	607	1,462	2,165
MSR	52	619	745	790
NPAT-MI	1,234	3,599	4,754	6,320
EPS	1,050	3,063	4,045	5,380
PER	128.5	44.1	33.4	25.1

1H 2021 Recap: Strong earnings growth with consumer segments in the spotlight

MSN reported robust 1H 2021 business result with net revenue of VND41,196 bn (+16.4% YoY) and NPAT-Post MI of VND979 bn (+736.8% YoY), fulfilling 44.8% and 39.2% AGM target on net revenue and NPAT-Post MI (lower end) respectively. However, with all-round improvements observed in the 1H, especially in the consumer segments, we believe MSN should end the year, delivering the upper end of the Group's bottom-line target (~VND4,000 bn). We summarized key 1H movements in the following table:

VND bn	1H 2021	1H 2020	Growth	Comments
Net revenue	41,196	35,404	16.4%	
-MCH	11,476	10,275	11.7%	<p>Growth was recorded despite a weak FMCGs market and high-base effect of 1H 2020 where consumer panic-stocking necessities due to COVID-19 lockdown.</p> <p>-Seasonings up 5.2% YoY: fish sauce (+7.5% YoY), chili sauce (+3.1% YoY), soy sauce (-12.4% YoY) and granules (+14.7% YoY).</p> <p>-Convenience foods up 3.1% YoY, driven by 12.2% growth in the 2Q. Premium portfolio and home-meal replacement are now contributing 49.5% and 13% of the category revenue. Strong movement in 2Q was mainly due to consumers anticipating new pandemic restrictions.</p> <p>-Processed meat up 53.3% YoY with “Ponnie” doubled YoY.</p> <p>-Beverages up 16.8% YoY driven by energy drinks (+17.6% YoY) and nutrition drinks (52% YoY). Beer also recorded 79.6% growth from a low base last year.</p> <p>-Home & Personal Care slightly up 3% YoY.</p>
-VCM	14,476	15,813	(8.5%)	<p>Overall revenue declined due to 550 less stores in operation. However, considerable improvement can be observed in existing stores:</p> <p>-VMP: 73 newly opened and 57 closed. LFL revenue/m2 up 12.3% in 1H and up 21.4% in 2Q alone. HCMC and 2nd tier cities posting 22% and 23.5% growth. HN and 1st tier cities also recorded 3.4% and 4.5% growth.</p> <p>-PL kiosks: 41 opened improving related VMP stores by 4% in EBITDA margin. Planning to open 1,000 kiosks in 2H 2021. Average daily revenue was recorded at VND10.5 mn in July 2021.</p> <p>-VM: 0 newly opened and 1 closed. LFL revenue/m2 decline narrowed to -4% in 2Q compared to overall -11% of 1H 2021. LFL revenue/m2 picked up strongly in July thanks to online sales orders and consumers preparing for new pandemic restrictions.</p>
-MML	10,232	7,202	42.1%	<p>-Feed: pig feed volume up 60% thanks to herd replenishment, chicken feed up 9% and aqua feed up 34%.</p> <p>-Integrated meat contributed VND1,438 bn in net revenue or 11.4% of consolidated revenue. Factory is running at 11% utilization and targeting to reach 25-30% by year-end.</p> <p>-3F Viet contributed VND630 bn in net revenue or 5% of consolidated revenue.</p>
-MSR	6,107	2,570	137.6%	Rebound in global economic activities led to a new cycle of commodity prices in 1H 2021:

				<p>-APT averaged 262 USD/mtu, up 14% YoY thanks to recovery of automotive, oil & gas and aviation sectors.</p> <p>-Bismuth averaged 3.4 USD/lb, up 37% YoY.</p> <p>-Copper averaged 9,108 USD/t, up 66% YoY.</p> <p>-Fluorspar averaged 417 USD/t, up 3% YoY.</p> <p>MSR recorded no copper sales in 1H 2021. We estimate copper concentrate inventory sat at ~14,000 tons at the end of 2Q. MSN is working for a resolution and offload of this inventory should occur in the 2H.</p> <p>With the consolidation of HCS, hi-tech chemicals are now contributing 67% of MSR's consolidated revenue in 1H 2021 compared to 18% last year.</p>
EBITDA	6,891	3,744	84.1%	
-MCH	2,557	2,320	10.2%	-EBITDA margin narrowed by 30 bps due to rising input prices.
-VCM	298	(1,014)	N/A	<p>3 consecutive quarters with positive and improving EBITDA margin, from 0.2% in 4Q 2020 to 2.2% in 2Q 2021. Overall, 2.1% EBITDA margin was reported in 1H 2021, up 848 bps YoY:</p> <p>-Total commercial margin (TCM) improved by 2.4% in 1H 2021 thanks to re-negotiation with suppliers. Targeting overall 3% uplift in TCM for the whole year.</p> <p>-Better cost control: (i) 550 less loss-making stores; (ii) reduction in operating cost per store (430 bps).</p> <p>-Logistics optimization: improved flow of goods.</p>
-MML	920	769	19.6%	<p>-EBITDA margin declined by 170 bps due to narrowing feed GPM. MML has not increased feed price to support farmers. However, with the correction of soybean and corn price recently, we expect GPM to improve from 3Q 2021.</p> <p>-Integrated pork consistently delivering GPM well over 20%. Further improvement is apparent with the launch of "MeatDeli premium".</p>
-MSR	1,194	639	86.9%	<p>-Gross margin recorded at 12.2% in 1H 2021, up by 8.9% YoY thanks to improving metal prices.</p> <p>-As selling price is benchmarked on a -2M basis, profit margin will continue to expand in 2H 2021.</p>
-TCB contr.	1,953	1,132	72.5%	
NPAT-MI	979	117	736.8%	

2021 Forecast: Bottom-line likely to triple

With encouraging changes in the 1H 2021, BVSC forecast a strong full-year result with net revenue of VND96,498 bn (+25% YoY) and NPAT-MI of VND3,599 bn (+191.6% YoY), translatable to EPS of VND3,063 per share and forward PER of 44.1x. Our key assumptions for each segment are presented in the following table:

VND bn	2021F	2020	Growth	Assumptions
Net revenue	96,498	77,218	25.0%	
-MCH	28,046	23,971	17.0%	-Seasonings +10%, Convenience Foods +15%, Processed Meats +55%, Beverage +25%, HPC +5%
-VCM	34,260	30,978	10.6%	-VMP: 400 newly opened and 60 closed stores. LFL revenue growth/m2 ~12% for full year. Due to COVID-19, we assume only 200 PL kiosks to be opened by year end, contributing around VND61 bn in shared revenue (@VND8.5 mn revenue / day). -VM: 2 closed stores. LFL revenue growth/m2 -5% for full year. We expect sales to normalize after COVID-19 restrictions are relaxed.
-MML	22,189	16,119	37.7%	-Feed: Pig +35%, Poultry +10%, Aqua +30% -Integrated meat +53.1% in revenue. Full-year processed porkers ~400,000
-MSR	13,428	7,291	84.2%	-APT 280USD/mtu, Copper 9,500USD/t, Bismuth 3.8USD/lb, Fluorspar 425USD/t. -We expect ~17,000 tons of copper will be sold in 2H 2021.
NPAT	5,399	1,395	287.0%	
-MCH	4,986	4,370	14.1%	-GPM stable at 42%.
-VCM	(898)	(3,733)	N/A	-EBITDA margin ~3.1% for full year, driven by 300 bps improvement in GPM, 650 bps improvement in SG&A/sales.
-MML	607	492	23.4%	-Feed GPM to recover in 2H 2021 thanks to the recent correction of agriculture commodities prices. Full year average 13%. -Integrated meat GPM average 24.4% for full year.
-MSR	619	52	1,090.3%	-Full year GPM ~23.1% compared to 2.4% last year thanks to higher metal prices.
-TCB contr.	3,300	2,646	24.7%	
NPAT-MI	3,599	1,234	191.7%	-Translatable to EPS of VND3,063 per share and forward PER of 44.1x

Valuation

We estimate MSN's fair value at VND160,000 per share based on SOTP method. Valuation for individual subsidiary are as follows:

	Equity Value	MSN's Interest	MSN's Value	Note
The CrownX	162,779,307	84.90%	138,199,632	
Masan Consumer Holdings	114,214,227	72.78%		DCF equivalent to 2021F PER of 28.3x
VinCommerce	48,565,080	71.10%		SK paid USD 410m for 16.26%
Masan MeatLife	21,774,129	87.90%	19,139,459	Average of: (1) DCF or 2021F PER 52.5x (2) 12.7x 2022F PER for feeds and investment cost of fresh meat business
Masan Hi-Tech Materials	21,150,000	86.40%	18,273,600	Mitsubishi paid USD 90m for 10%
Techcombank	220,929,205	21.50%	47,499,779	~2.4x 2021F PBR
Phuc Long Heritage	352,500	20.00%	70,500	MSN paid USD 15m for 20%
Net Debts at Parent			(25,730,707)	Net debts on MSN's parent balance sheet at the end of 2Q 2021 Net debts of subsidiaries are already deducted in the respective valuation
MSN SoTP Equity Value			197,452,263	
Conglo. Discount (%)			5.0%	Lower discount as we are seeing more synergies in the consumer segments
MSN Fair Equity Value			187,579,650	
Outstanding Shares			1,174,683,246	
MSN FV Per Share			159,685	

FINANCIAL RATIOS

Profit and loss statement				
Unit (VND billion)	2017	2018	2019	2020
Revenues	37,621	38,188	37,354	77,218
Cost of goods sold	-25,989	-26,306	-26,413	-59,329
Gross profit	11,632	11,882	10,941	17,889
Financial income	1,405	1,902	1,188	1,431
Financial expenses	-3,696	-3,091	-2,201	-4,557
NPAT-MI	3,103	4,916	5,558	1,234

Balance sheet				
Unit (VND billion)	2017	2018	2019	2020
Cash and cash equivalents	7,417	4,586	6,801	7,721
Accounts receivable – short-term	2,247	2,413	5,418	7,051
Inventories	4,333	4,333	9,622	12,498
Tangible fixed assets	29,830	29,204	40,792	49,582
Long-term investments	11,338	15,348	17,506	20,353
Total assets	63,529	64,579	97,297	115,737
Short-term loans	15,533	15,796	30,492	38,875
Long-term debt	27,770	14,703	14,917	51,832
Owners' equity	20,225	34,080	51,888	25,030
Total resources	63,529	64,579	97,297	115,737

Financial Indicators				
Indicator	2017	2018	2019	2020
Growth				
Revenue growth (%)	-13%	2%	-2%	107%
Net profit growth (%)	11%	58%	13%	-78%
Yield				
Gross profit margin (%)	31%	31%	29%	23%
Net profit margin (%)	8%	13%	15%	2%
ROA (%)	5%	8%	6%	1%
ROE (%)	15%	14%	11%	5%
Capital structure				
Total liabilities to total asset (%)	68%	47%	47%	78%
Total liabilities to owners' equity (%)	214%	89%	88%	362%
Per shares				
EPS (VND/share)	2,727	4,561	4,766	1,054
Book value (VND/share)	17,475	29,299	44,389	21,308

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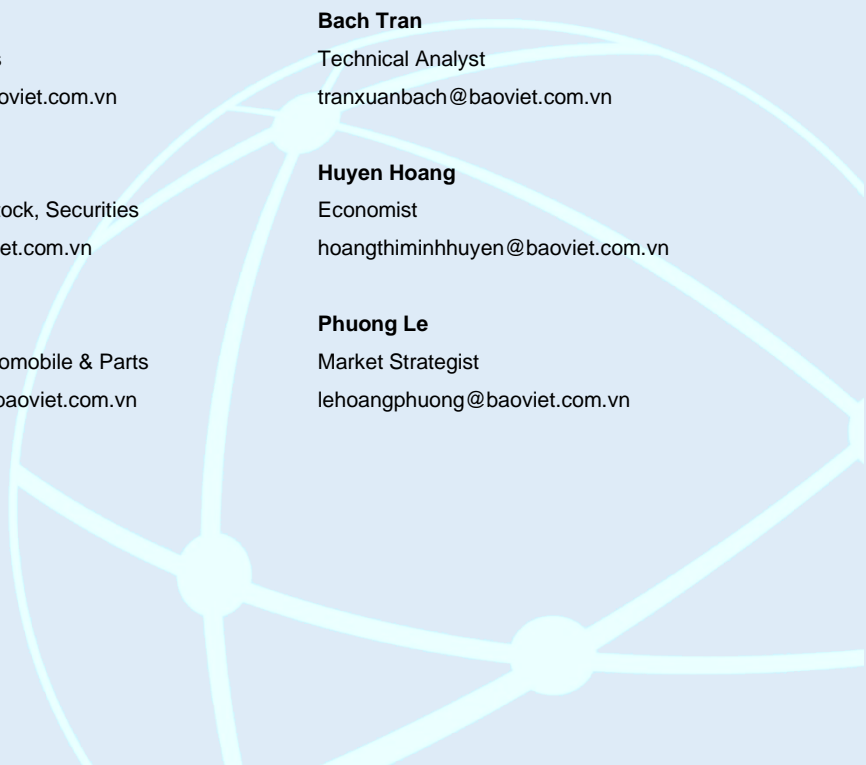
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