

Initiation of Coverage

Masan

UBS Evidence Lab inside: deepening its share of the consumer wallet

One of Vietnam's largest local FMCG companies—initiate with a Buy rating

We believe Masan is well positioned to benefit from structural growth in Vietnam's consumer market given its extensive distribution network and market leadership in consumer staples such as seasonings and instant noodles. Through its investments in food and beverage (F&B), the meat value chain, and financial services, Masan aims to capture a higher share of the consumer wallet. We forecast core earnings growth of 53%/28% in 2019/2020, driven by: 1) double-digit revenue growth from Masan Consumer (MCH) via food premiumisation and beverage expansion; 2) margin expansion in Masan Nutri-Science (MNS) with the entry into branded chilled fresh meat; 3) an increase in shared profit from its 20% stake in [Techcombank](#) (TCB); and 4) lower interest expenses after the capital injection from strategic partner SK. At 19.1x 2019E PE, we think valuation is attractive: Masan is trading at a discount to Vietnam consumer peers but we estimate a 2018-21 earnings CAGR of 32%—well above [the consumer sector](#) average of 17%.

UBS Evidence Lab survey: positive implications for its strategy in key segments

A UBS Evidence Lab survey shows seasonings, instant noodles, non-alcoholic beverages, and beer rank high among categories consumers buy regularly in Vietnam. The implications are positive for Masan's strategy of premiumising its seasoning and instant noodle offerings and continuing to expand its beverage segment. MCH is shifting from a sales-driven strategy of using distributor price discounts and other incentives to sell its products to focus on consumers through branding and product innovation. We think this could drive a 2018-21E revenue CAGR of 15% for MCH.

Masan's investments are starting to bear fruit

Masan has made considerable investments in MNS to build a fully-integrated branded meat platform. We estimate gross margin expansion of 150-200bp over 2018-21, driven by the recovery in pig prices and launch of its own branded chilled fresh meat brand MEATDeli in Q418. Moreover, the 20% investment in TCB has been a major earnings contributor (about 34% of NPAT in 2018) and we expect Masan's shared profit to increase further as TCB gains market share in the retail segment.

Valuation: SOTP-based price target of D113,000

We base our price target on a SOTP methodology, using DCF for MCH, PE for MNS, EV/EBITDA for MSR, the UBS price target for TCB, and BV for long-term investments.

Equities

Vietnam
 Food Products

12-month rating **Buy**
Prior: Not Rated

12m price target **D113,000.00**
Prior: -

Price **D86,500.00**

RIC: MSN.HM **BBG:** MSN VM

Trading data and key metrics

52-wk range D114,600.00-73,900.00

Market cap. D100,612bn/US\$4.34bn

Shares o/s 1,163m (ORD)

Free float 31%

Avg. daily volume ('000) 717

Avg. daily value (m) D60,346.7

Common s/h equity (12/19E) D34,748bn

P/BV (12/19E) 2.9x

Net debt / EBITDA (12/19E) 1.3x

EPS (UBS, diluted) (D)

	From	To	% ch	Cons.
12/19E	- 4,523.54		- 4,372.93	
12/20E	- 5,796.32		- 5,357.73	
12/21E	- 6,734.86		- 6,819.78	

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Highlights (Dbn)	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
Revenues	43,297	37,621	38,188	43,505	48,642	54,003	59,685	65,976
EBIT (UBS)	6,023	4,429	5,552	6,649	7,416	8,215	8,970	9,631
Net earnings (UBS)	2,792	2,172	3,439	5,262	6,742	7,834	8,649	9,722
EPS (UBS, diluted) (D)	2,452.53	2,073.92	2,956.71	4,523.54	5,796.32	6,734.86	7,435.97	8,358.57
DPS (D)	2,000.00	0.00	0.00	0.00	0.00	0.00	3,717.99	4,179.29
Net (debt) / cash	(26,171)	(26,739)	(17,034)	(12,545)	(6,904)	(2,153)	(1,374)	1,079
Profitability/valuation	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
EBIT margin %	13.9	11.8	14.5	15.3	15.2	15.2	15.0	14.6
ROIC (EBIT) %	17.8	13.2	16.1	18.8	20.1	20.6	20.4	20.2
EV/EBITDA (core) x	8.7	10.8	12.7	10.8	9.5	8.3	7.5	6.9
P/E (UBS, diluted) x	18.6	23.8	29.8	19.1	14.9	12.8	11.6	10.3
Equity FCF (UBS) yield %	7.2	(0.1)	3.0	3.8	4.9	4.0	4.3	6.5
Net dividend yield %	4.4	0.0	0.0	0.0	0.0	0.0	4.3	4.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of D86,500.00 on 15 Mar 2019 17:04 HKT

UBS Research THESIS MAP a guide to our thinking and what's where in this report

[OUR THESIS IN PICTURES](#) →

PIVOTAL QUESTIONS

Q: Will Masan Consumer's shift in strategy boost sales?

Yes. We believe Masan Consumer's shift from a sales-driven strategy, where distributors are given special price discounts and other incentives to sell Masan's products, to focus more on the end-consumer through branding and product innovation could drive a 15% CAGR in MCH revenue over 2018-21E. Food premiumisation and expansion of its beverage segment are key growth drivers.

[more](#) →

Q: Is there potential margin upside from Masan Nutri-Science?

Yes, we believe so. We estimate gross margin expansion of 150-200bp over 2018-21 on the upturn in the pig market and Masan Nutri-Science's entry into the branded chilled fresh meat segment, which offers high gross margins of up to 30% (compared to 15-20% for animal feed).

[more](#) →

Q: Will Masan Resources detract from the group's focus on the consumer business?

No, we believe the group views the Nui Phao mine as a strategic asset rather than a part of its core consumer business. We expect Masan to continue to grow its bottom line via its consumer-centric approach, especially through its 20% investment in associate Techcombank.

[more](#) →

UBS VIEW

We have a Buy rating on Masan. We think its strong market positioning in key product categories will allow it to benefit from Vietnam's fast-growing consumer market. We forecast pre-exceptional earnings growth of 53%/28% in 2019/2020 based on double-digit revenue growth at MCH, margin expansion at MNS, an increase in shared profit from investment in TCB, and lower interest expense from its de-leveraging initiative. We believe the market is sceptical of the company's ability to execute on its long-term growth targets and think the share price could re-rate on further market share gains.

EVIDENCE

Vietnam's GDP growth remained robust at 7.1% in 2018, while household consumption as a percentage of GDP is high at over 60%. A 2018 UBS Evidence Lab survey indicates seasonings and instant noodles rank high among product categories that consumers buy once every three months and that those respondents expected stable to positive income changes over the next 12 months. Growth in sales of fast-moving consumer goods (FMCG) has also been solid, with MCH delivering 28% revenue growth in 2018.

WHAT'S PRICED IN?

Masan's share price has rallied 12% YTD after strong Q418 results. The shares are trading at 19.1x 2019E PE, below their historical mean and Vietnam consumer peers' 21.8x 2019E PE. We think this valuation gap could narrow as the market prices in Masan Consumer's strong earnings growth profile. MCH accounts for nearly 60% of our valuation for Masan.

[more](#) →

UPSIDE / DOWNSIDE SPECTRUM



[more](#) →

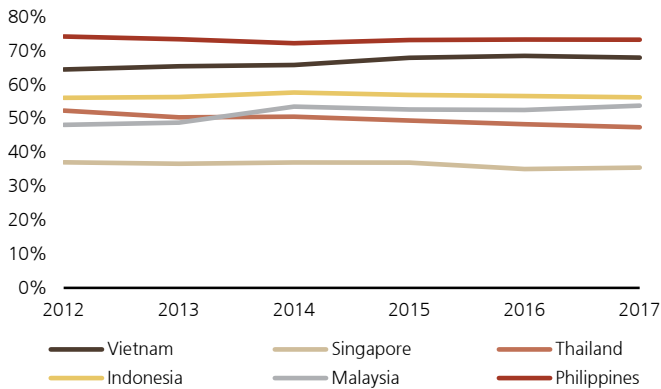
COMPANY DESCRIPTION

Masan Group is an investment holding company that engages in three main segments: 1) food and beverage through Masan Consumer; 2) meat value chain through Masan Nutri-Science; and...

[more](#) →

OUR THESIS IN PICTURES

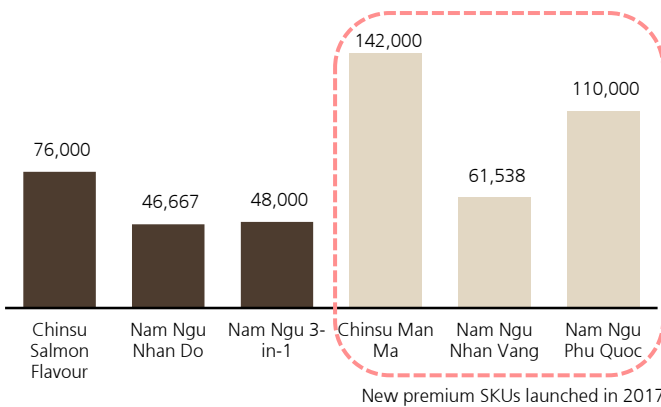
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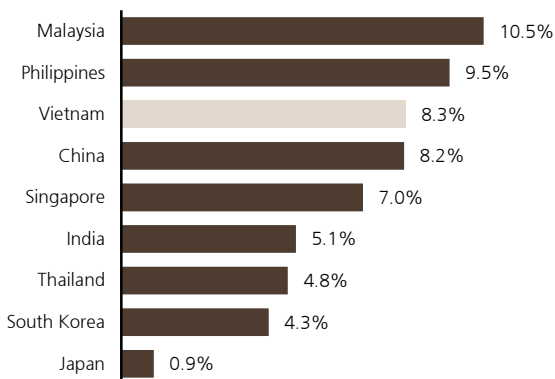
Vietnam ranks second in ASEAN in household consumption as a percentage of GDP; this bodes well for consumer-driven companies.

	Total	Ho Chi					
		Can Tho	Ha Noi	Da Nang	Minh	Urban	Rural
Instant noodle	86%	95%	79%	96%	90%	90%	79%
Carbonated soft drinks	82%	81%	72%	88%	90%	84%	79%
Cooking oil	68%	75%	68%	71%	67%	71%	62%
Beer, wine & spirits	66%	54%	71%	88%	61%	65%	67%
Bottled water	65%	67%	49%	86%	76%	70%	56%
Snacks	64%	57%	60%	75%	67%	68%	56%
Diary Beverages / Products	64%	57%	69%	76%	60%	66%	62%
Ready-to-drink tea	60%	65%	42%	61%	73%	65%	49%
Sports & Energy drink	58%	49%	39%	79%	72%	64%	47%
Condiments, Herbs and Flavorings	48%	65%	48%	64%	45%	54%	38%
Fruit juices	41%	40%	35%	62%	43%	52%	19%

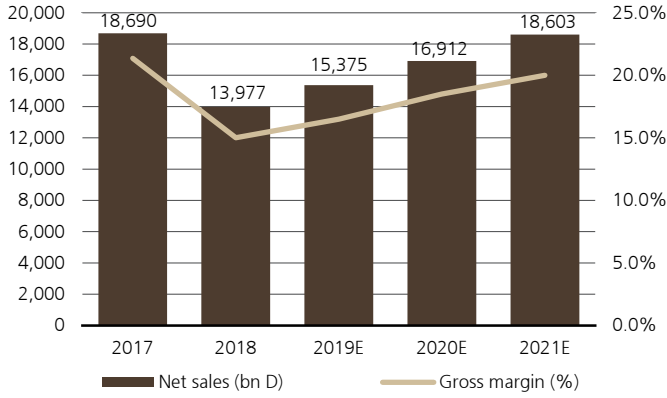
Masan is well placed to benefit—it is a market leader in consumer product categories a UBS Evidence Lab survey suggests consumers buy regularly. (Categories respondents buy at least once every three months)



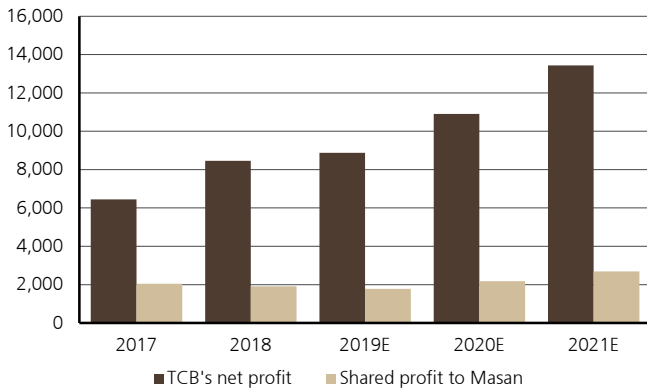
Masan's food premiumisation strategy should help drive higher growth in mature products such as seasonings and instant noodles. (Masan fish sauce SKU price comparison, D/liter)



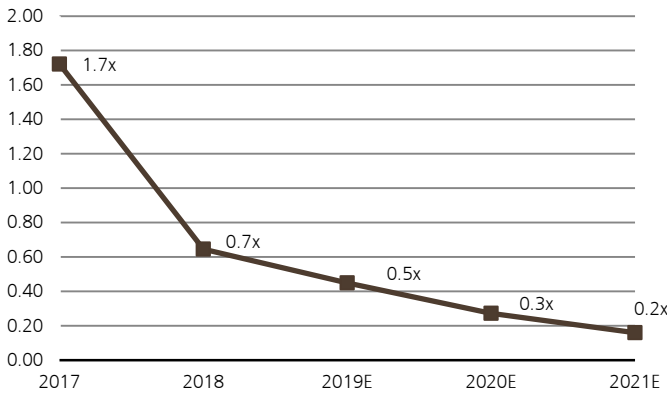
Euromonitor forecasts Vietnam to be one of the fastest growing beer markets in Asia—implying sizeable growth potential for Masan's brewery business. (Forecast 2017-22 value CAGR, Asian beer markets)



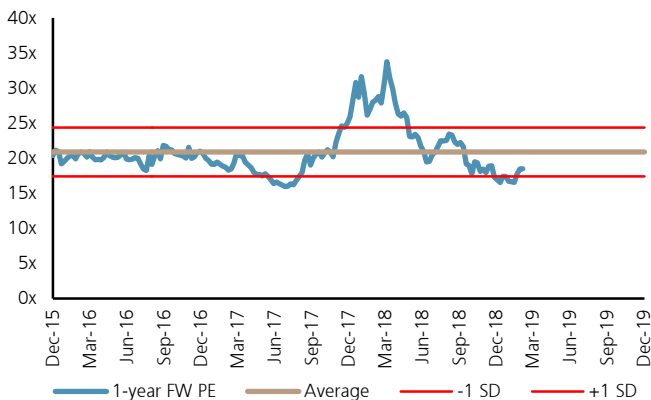
We expect gross margin expansion at MNS from 2019 onward on its entry into the branded chilled fresh meat segment (GPM of up to 30% compared to 15-20% for animal feed).



We expect Masan's shared profit from associate Techcombank to grow at a 12% CAGR over 2018-21E.



Masan's deleveraging initiative should support bottom line growth and allow the company to invest further in its core consumer business. (Interest-bearing debt to equity)



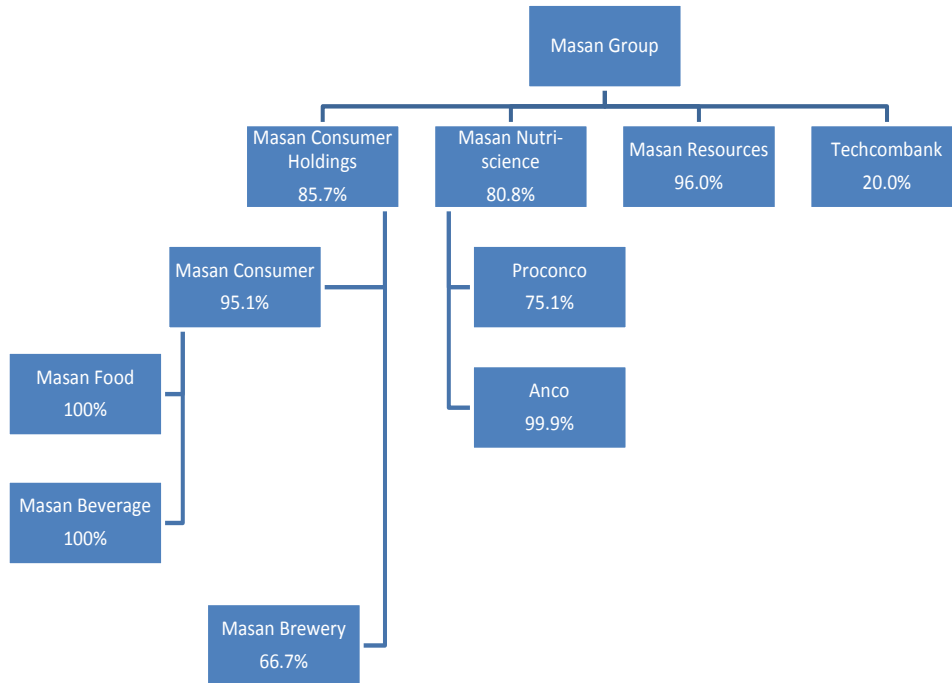
Masan is trading at 19.1x 2019E PE, below its historical mean. We believe PE multiple expansion is likely given strong earnings momentum in 2019E and onwards.

Sources for exhibits above: Company data, Reuters, Bloomberg, Euromonitor, World Bank, UBS Evidence Lab, UBS estimates

SUMMARY OF BUSINESS

[return](#) ↑

Figure 1: Organisational structure



Source: Company data

Figure 2: Masan Consumer product portfolio



Source: Company data

Figure 3: Masan Nutri-Science product portfolio



Source: Company data

PIVOTAL QUESTIONS

[return](#) ↑

Q: Will Masan Consumer’s shift in strategy boost sales?

UBS VIEW

Yes. We believe Masan Consumer's shift from a sales-driven strategy, where distributors are given price discounts and other incentives to sell Masan's products, to focus more on the end-consumer through branding and product innovation could drive a 15% CAGR in MCH revenue over 2018-21E. Food premiumisation and expansion of its beverage segment are key growth drivers.

EVIDENCE

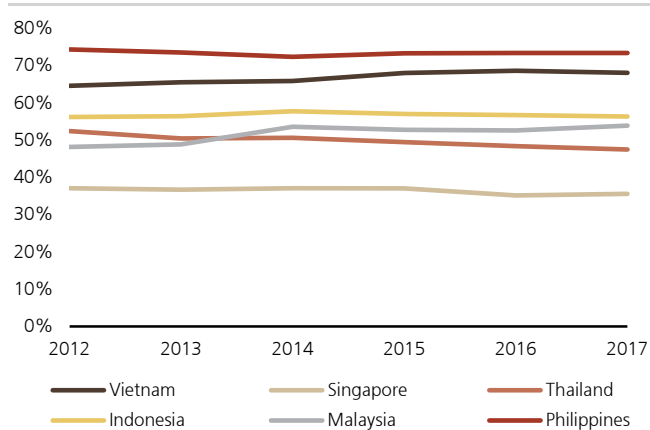
A 2018 UBS Evidence Lab survey in Vietnam suggests seasonings and instant noodles rank highly among product categories that consumers buy at least once every three months. Masan has the number one market share for seasonings in Vietnam according to Euromonitor. In convenience foods, it is a dominant player in the premium instant noodle segment, based on Euromonitor data.

WHAT'S PRICED IN?

Given execution risks in new growth segments such as beverages and beer, we believe the market is not pricing in Masan Consumer's strong earnings growth potential. MCH accounts for nearly 60% of our valuation for Masan.

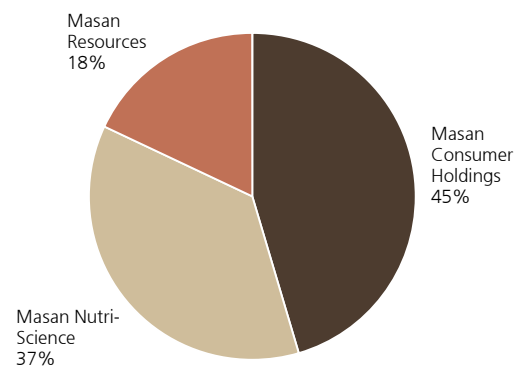
Exposure to Vietnam's growing consumer market

Figure 4: Vietnam ranks second in household consumption as a percentage of GDP in ASEAN



Source: World Bank

Figure 5: Revenue by business segment, 2018



Source: Company data

Masan has direct exposure to Vietnam's consumer market through its 85.7%-owned subsidiary Masan Consumer, established to be the group's main platform to invest in branded food and beverage opportunities. Masan Consumer is one of Vietnam's largest local diversified FMCG companies by its market share in different product categories.

Masan believes it has an addressable market of US\$9bn combined (excluding animal-based protein) in Vietnam alone.

The group has focused on organic development and acquisition of brands in large consumer categories, ranging from seasonings and instant noodles, where it is a market leader, to new growth drivers such as instant coffee, non-alcoholic beverages, beer, and processed meat. The company believes it has a combined addressable market in the aforementioned categories (excluding animal-based protein) that reaches US\$9bn in Vietnam alone, and claims 98% of all Vietnamese households have a Masan consumer product in their home.

Shift in strategy towards branding and product innovation

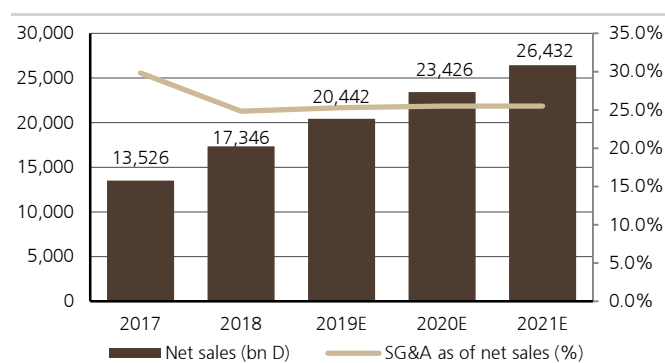
Masan formerly ran its consumer business as a sales-driven company—distributors were given price discounts and other incentives to sell Masan's products. This resulted in single-digit revenue growth from 2014-16. As a result, management shifted its strategy in 2017 and began to transform its distribution model from a 'push' to a 'pull' model. The strategic change meant a lower reliance on trade promotions to drive sales and more investment in brand building and product innovation to focus on the end-consumer. MCH has significantly cut selling, general and administrative expenses (SG&A), which declined from 29.8% of sales in 2017 to 24.8% in 2018 on lower trade promotion spending (about 8% of sales in 2018 compared to about 11% in 2017).

To improve the route to market for new products it also engaged in a de-stocking exercise in 2017, as distributors tended to prioritise selling older products. As a result, inventory days fell from more than 60 days to less than 30 days. But this also had adverse consequences on MCH's top line, with sales falling 9% YoY in 2017. Once the de-stocking initiative was completed, sales rebounded 28% YoY in 2018. Masan believes building a strong brand (via television commercials, digital ads, etc) and launching new innovative products are necessary to capture consumer spending and we therefore incorporate higher marketing expenses in our forecasts for 2019-21.

The shift from a 'push' to a 'pull' model has led to lower trade promotions and a greater focus on branding.

De-stocking initiative hurt sales in 2017 before a strong rebound in 2018.

Figure 6: MCH revenue and SG&A trends, 2017-21E



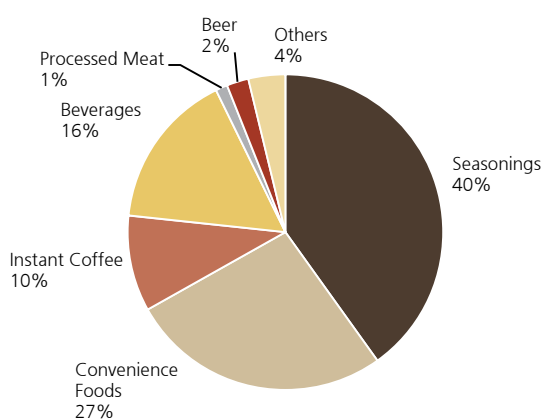
Source: Company data, UBS estimates

Figure 7: Impact of de-stocking initiative (D bn)

MCH categories	2017	% YoY	2018	% YoY
Seasonings	5,159	-10.9%	6,958	34.9%
Convenience foods	3,585	-1.0%	4,636	29.3%
Processed meat	220	511.1%	210	-4.5%
Coffee	1,532	-15.6%	1,708	11.8%
Beverages (non-alcohol)	2,045	24.5%	2,789	36.4%
Beer	350	-67.6%	388	10.9%
Others	635	-24.5%	657	3.5%
Total	13,526	-8.8%	17,346	28.2%

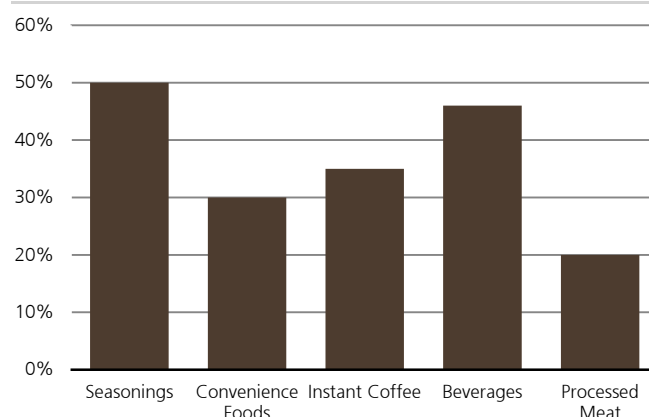
Source: Company data

Figure 8: MCH revenue by segment, 2018



Source: Company data

Figure 9: MCH gross margin by segment



Source: Company data

Although sales are coming off a high base in 2018, we expect sustained double-digit revenue growth through to 2021. We believe MCH's strategy to increase brand awareness and introduce new innovative products into the market could drive a 15% CAGR in MCH revenue over 2018-21E, with the key growth drivers being food premiumisation and expansion of its beverage segment.

We forecast a 15% CAGR in MCH revenue over 2018-21 on food premiumisation and expansion of the beverage segment.

UBS Evidence Lab survey has positive implications for Masan's premiumisation strategy

For this report, UBS Evidence Lab conducted 2,000 computer-aided personal interviews (CAPI) with Vietnam consumers aged 18-64 years in the urban and rural district of Can Tho, Ha Noi, Da Nang, and Ho Chi Minh. The interviews were conducted from 14 May to 1 June 2018 and the sample was weighted to reflect the population distribution across the four cities.

Figure 10: Categories respondents buy at least once every three months

	Total	Can Tho	Ha Noi	Da Nang	Ho Chi Minh		
					Urban	Rural	
Instant noodles	86%	95%	79%	96%	90%	90%	79%
Carbonated soft drinks	82%	81%	72%	88%	90%	84%	79%
Cooking oil	68%	75%	68%	71%	67%	71%	62%
Beer, wine & spirits	66%	54%	71%	88%	61%	65%	67%
Bottled water	65%	67%	49%	86%	76%	70%	56%
Snacks	64%	57%	60%	75%	67%	68%	56%
Dairy beverages/products	64%	57%	69%	76%	60%	66%	62%
Ready-to-drink tea	60%	65%	42%	61%	73%	65%	49%
Sports & energy drinks	58%	49%	39%	79%	72%	64%	47%
Condiments, herbs and flavourings	48%	65%	48%	64%	45%	54%	38%
Fruit juices	41%	40%	35%	62%	43%	52%	19%
Ice cream and frozen desserts	40%	31%	43%	58%	36%	42%	35%
Pre-cooked meat products	39%	32%	35%	52%	43%	47%	25%
Instant coffee mix	35%	63%	22%	35%	41%	41%	23%
Packet/cube/canned soup	29%	33%	19%	46%	36%	36%	18%
Dietary supplements	22%	18%	25%	39%	18%	25%	16%
Non-carbonated soft drinks	18%	13%	28%	32%	9%	16%	21%
Probiotic drinks	18%	17%	17%	37%	17%	20%	15%
Ready-to-drink coffee	11%	11%	11%	5%	11%	14%	5%

Source: UBS Evidence Lab

Instant noodles, beer, bottled water, and condiments ranked high among regular consumer purchases according to a UBS Evidence Lab survey.

Figure 11: Change in total income compared to past 12 months

	Total	Ho Chi					
		Can Tho	Ha Noi	Da Nang	Minh	Urban	Rural
Increased more than 10%	2%	2%	2%	2%	2%	2%	1%
Increased 6-10%	7%	3%	7%	8%	8%	7%	7%
Increased 1-5%	27%	20%	22%	27%	33%	25%	30%
Remained the same	61%	66%	69%	58%	54%	62%	60%
Reduced 1-5%	1%	5%	1%	2%	1%	2%	1%
Reduced 6-10%	*	1%	*	*	-	*	*
Reduced more than 10%	*	1%	-	*	*	*	-
Would rather not to say / Don't know	1%	1%	-	1%	1%	1%	*
Nett: Increased	36%	26%	30%	37%	43%	35%	39%
Nett: Reduced	2%	6%	1%	3%	2%	2%	1%

Source: UBS Evidence Lab

Figure 12: Expected change in total income in the next 12 months

	Total	Ho Chi					
		Can Tho	Ha Noi	Da Nang	Minh	Urban	Rural
To increase by more than 10%	2%	6%	1%	4%	2%	2%	1%
To increase by 6-10%	10%	7%	13%	9%	9%	9%	13%
To increase by 1-5%	29%	22%	22%	33%	35%	27%	33%
To remain the same	57%	61%	63%	50%	52%	60%	52%
To reduce by 1-5%	1%	2%	1%	1%	1%	1%	1%
To reduce by 6-10%	*	-	-	*	*	*	-
Would rather not to say / Don't know	1%	1%	-	1%	1%	1%	*
Nett: Increase	41%	36%	36%	47%	46%	38%	47%
Nett: Reduce	1%	2%	1%	2%	1%	1%	1%

Source: UBS Evidence Lab

The UBS Evidence Lab survey suggests seasonings and convenience foods (eg, instant noodles) rank highly among product categories that consumers buy at least once every three months. We note that an overwhelming majority of respondents picked instant noodles as their top choice. Moreover, the survey found that most respondents expected a stable to positive increase in their total income over the next 12 months. This trend bodes well for Masan's plan to premiumise its F&B portfolio via value-added innovations. Part of Masan's five-year growth plan is to deliver 20%+ growth in revenue from 2017-22 through new product offerings to ride the wave of higher consumer spending and increased demand for quality.

▪ **Seasonings**

Masan is the number one player in sauces, dressings, and condiments in Vietnam by a wide margin (35.4% share versus 11.8% for the second-largest player in 2018, according to Euromonitor). The category includes fish sauce, chili sauce, and soy sauce. According to Euromonitor, sales of fish sauces, chili sauces, and soy sauces grew at 2013-18 CAGRs of 9%, 20%, and 5%, respectively. Masan believes this category is one of its more mature in terms of growth potential, and has been repositioning its focus towards the premium segment. In 2017 it launched several premium sauce brands, including Nam Ngu Phu Quoc, Nam Ngu Nhan Vang, and Chinsu Man Ma, which are priced 2-3x higher than its traditional SKUs. Sales have had early success, with growth of 40% in 2018 and contributed 10% of seasonings revenue.

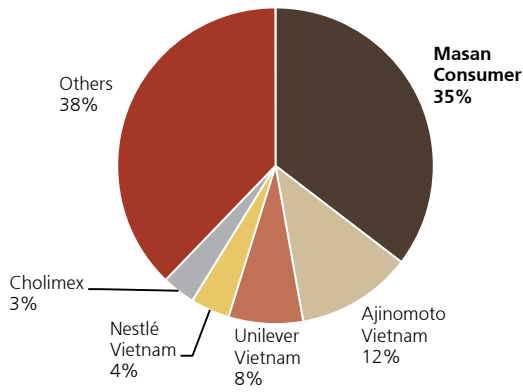
While management guided that margin improvement will not be immediate, we think there could be upside to revenue due to higher average selling prices. As such, we forecast seasonings revenue growth of 9% YoY in 2019. Seasonings have the highest gross margins in Masan's F&B portfolio, at about 50%, and represented 40% of total MCH revenue at the end of 2018.

A UBS Evidence Lab survey suggests respondents expect positive to stable increases in total income over the next 12 months.

Masan is the #1 player in seasonings.

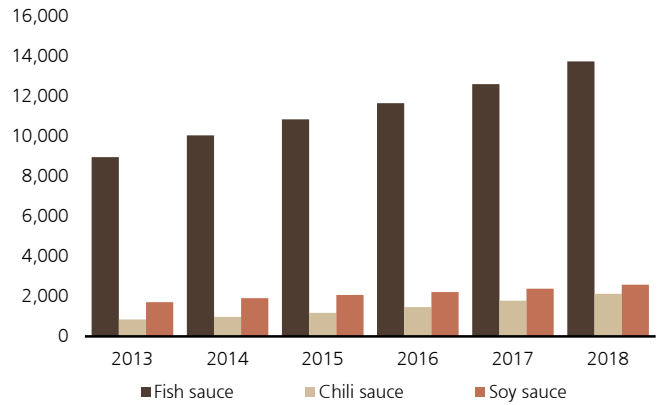
Premium brands cost 2-3x more than traditional SKUs.

Figure 13: Sauces, dressings, and condiments market share in Vietnam by company, 2018



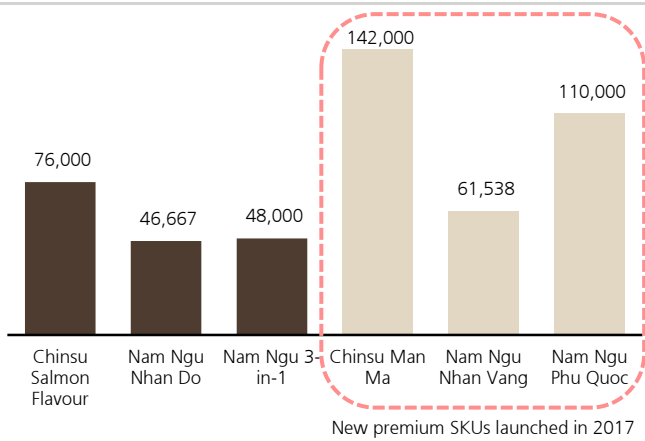
Source: Euromonitor

Figure 14: In 2013-18 sales of fish, chili, and soy sauce grew at CAGRs of 9%, 20%, and 5%, respectively (D bn)



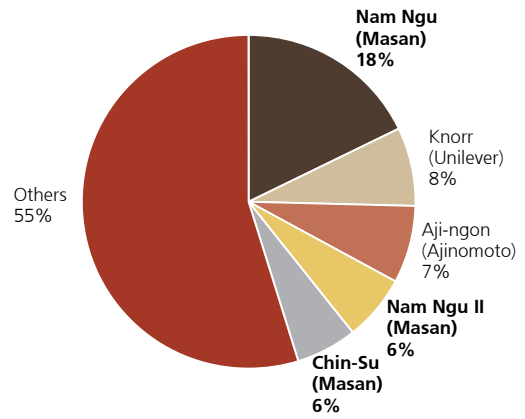
Source: Euromonitor

Figure 15: Masan fish sauce SKU price comparison (D/liter)



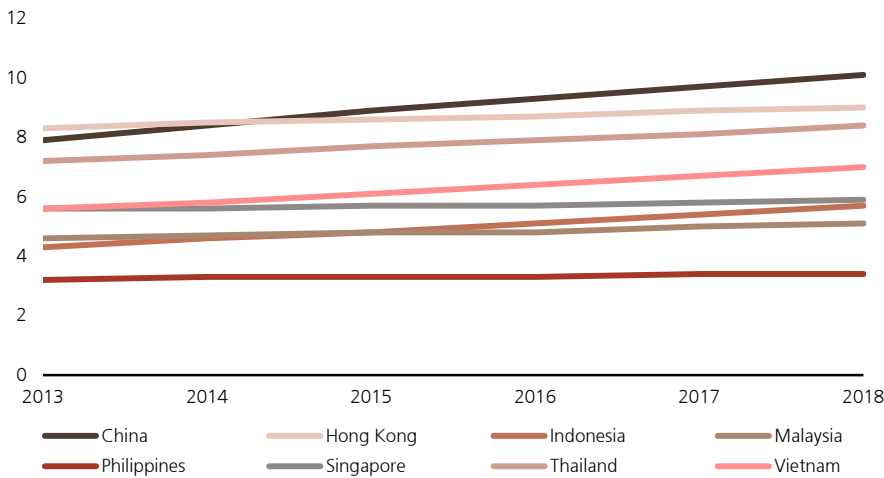
Source: Bach Hoa Xanh

Figure 16: Sauces, dressings, and condiments market share in Vietnam by brand, 2018



Source: Euromonitor

Figure 17: Sauces, dressings, and condiments consumption per capita (liters/capita)



Source: Euromonitor

▪ **Convenience foods**

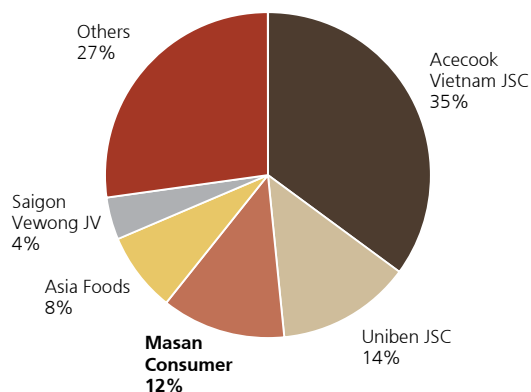
According to Euromonitor, Masan is the number three player in the convenience foods category (rice, pasta and noodles) in Vietnam. Masan's core product in this segment is instant noodles, especially in the premium segment, where urban consumers are trading up for quality. According to Euromonitor, sales of instant cup noodles grew at a 9% CAGR over 2013-18 in Vietnam. As volume growth of instant noodles has begun to slow, Masan has launched a number of premium brands such as Omachi Cup and Omachi Meat Cup to drive higher sales. These products have been well received by the market, as Masan's premium product sales grew 60% in 2018 and contributed 45% of convenience foods' revenue. We believe the premiumisation of instant noodles could continue to drive higher sales, as companies elsewhere in the region (eg, Indofood CBP) have adopted the strategy with good success (see "[Indonesia Fast-Moving Consumer Goods—UBS Evidence Lab: is premiumisation a growth driver in all FMCG categories](#)", published 4 May 2018).

Masan is the market leader in the premium instant noodle segment.

Competition in the instant noodle segment is intense, with local companies Acecook Vietnam and Uniben ahead of Masan in terms of market share and spending aggressively on marketing. However, we believe Masan's number one position in the premium brands will keep growth sustainable without the need for Masan to engage in a price war or sacrifice margins through higher marketing expenses in the economy segment. We forecast sales of Masan's convenience foods to grow 15% YoY in 2019, driven by higher volume growth of its Omachi brand. In 2018, convenience foods contributed 28% of total MCH revenue.

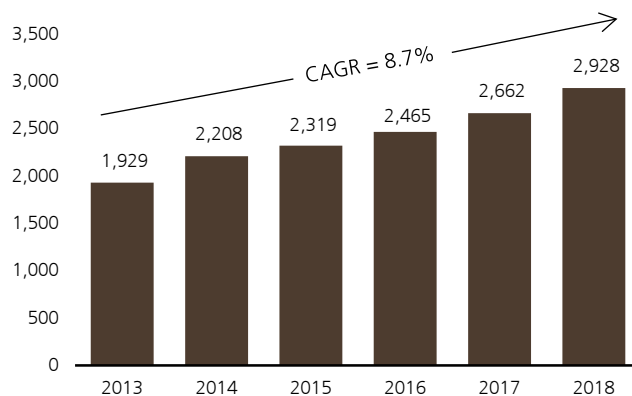
Its Omachi brand is driving growth in the premium instant noodle segment.

Figure 18: Rice, pasta, and noodles market share in Vietnam by company (2018)



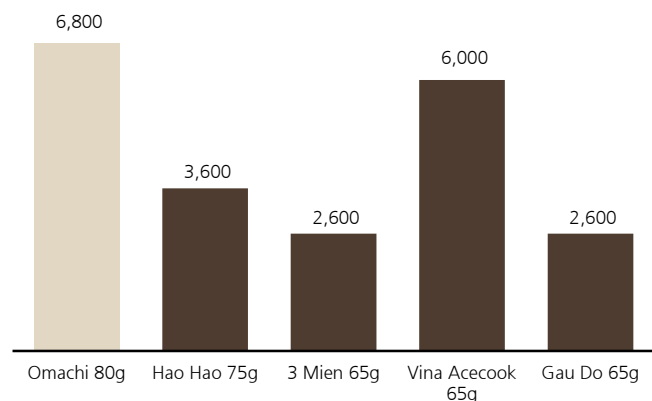
Source: Euromonitor

Figure 19: Sales of instant noodle cups in Vietnam over 2013-18 (D bn)



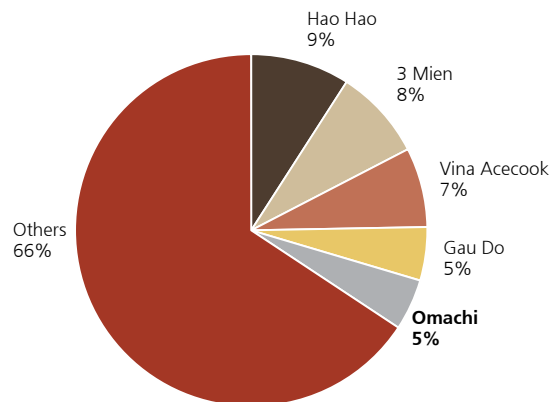
Source: Euromonitor

Figure 20: Instant noodle price comparison by brand in Vietnam (D/pack)



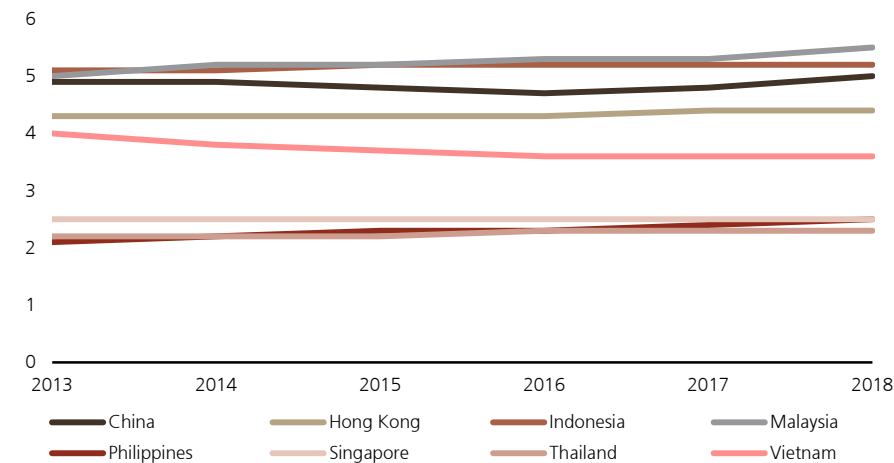
Source: Bach Hoa Xanh

Figure 21: Rice, pasta, and noodles market share in Vietnam by brand (2018)



Source: Euromonitor

Figure 22: Noodle consumption per capita (kg/capita)



Source: Euromonitor

Sea of opportunity in beverages

Masan entered the beverage business in 2011 when it acquired a 50.3% stake in Vinacafe Bien Hoa, a leading instant coffee maker in Vietnam. As of end-2018, Masan increased its stake to 98.5%. Masan went on to acquire stakes in Vinh Hao, a leading local mineral water producer, and Phu Yen Beer and Beverage to enter the beer segment. Following these acquisitions, Masan's target is for the revenue contribution from beverages (coffee, non-alcoholic beverages, and beer) to rise from 30% to 50% over the next five years.

Energy drinks are the main drivers of growth in the non-alcoholic beverage segment.

▪ **Non-alcoholic beverages**

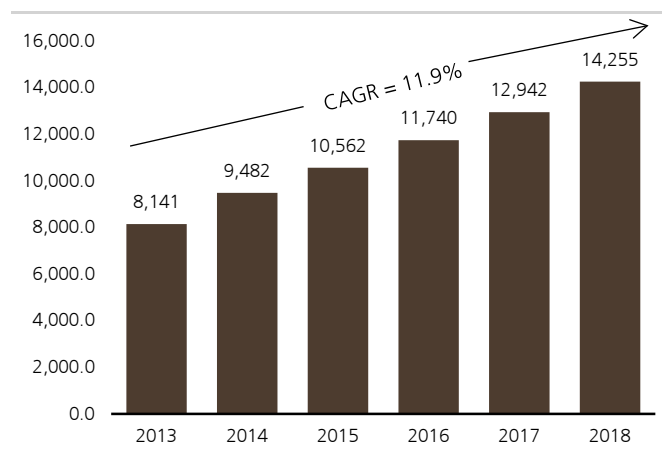
In 2018, non-alcoholic beverages (excluding coffee) accounted for 16% of total MCH revenue. Sales jumped 36% in 2018, led predominately by energy drinks. Masan's R&D team developed a breakthrough coffee-based energy drink called Wake-up 247 in 2017. Feedback from consumers was positive, and sales of energy drinks were up 60% in 2018. Part of the success in the launch was from the expansion in point of sales (POS) from 75k in 2017 to 160k in 2018. According to Euromonitor, sales of energy drinks in Vietnam recorded a 12% CAGR over 2013-18. Given increasing consumer demand and greater visibility through POS expansion, we believe Masan can quickly grow its energy drinks segment to catch up with market leaders Red Bull and PepsiCo's Sting brand. We forecast Masan's non-alcoholic beverage sales to grow 45% YoY in 2019, mainly on higher energy drink sales, as management guided for another 50%+ increase in sales.

Bottled water is a fast-growing segment as a result of increasing urbanisation.

Masan's stake in Vinh Hao, one of the most recognised and trusted Vietnamese mineral water brands, puts the company in a strong position to benefit from the increasing number of urban consumers who are more willing to buy bottled water (as opposed to the traditional means of boiling water). According to Euromonitor, sales of bottled water in Vietnam registered a 15% CAGR over 2013-18, suggesting there is room for Masan to further penetrate this fast-growing segment. Nevertheless, we view this as a longer-term opportunity and believe energy drinks will be the near-term driver of sales in the segment.

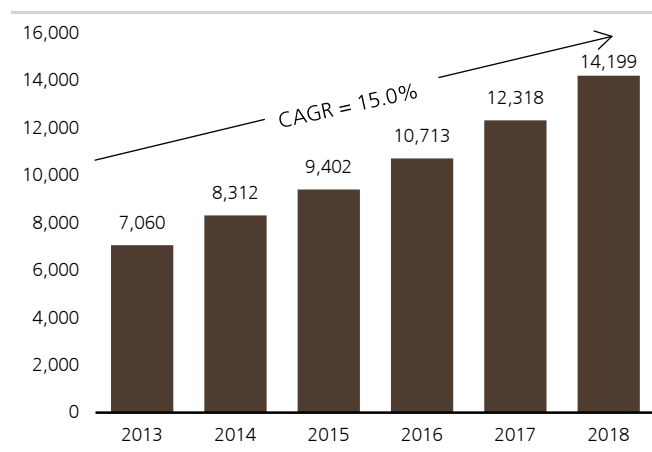
With one of the largest distribution networks in Vietnam (over 300 distributors across F&B), Masan has an advantage over most competitors in terms of visibility, as 70% of Vietnam's population is still in rural areas and relies on general trade (small retail shops targeting customers who opt for day-to-day purchases in small quantities). The company continues to add more distributors and on-premises POS, which we believe will allow it to gain market share in the beverage segment.

Figure 23: Sales of energy drinks in Vietnam, 2013-18 (D bn)



Source: Euromonitor

Figure 24: Sales of bottled water in Vietnam, 2013-18 (D bn)



Source: Euromonitor

▪ **Instant coffee**

Masan’s instant coffee segment achieved revenue growth of 11.5% in 2018 and contributed 10% of total MCH revenue. This was primarily due to the Vinacafe brand, a widely recognised instant coffee brand in Vietnam (ranked in the top 50 most valuable brands in Vietnam according to UK company Brand Finance), which grew 25% YoY. The company plans to continue to invest in R&D to launch innovative products in order to sustain 10%+ growth.

▪ **Beer**

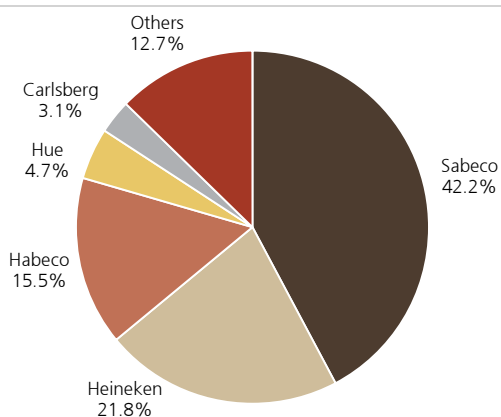
MCH set up Masan Brewery in 2015 and has a 67% stake. The remaining stake is owned by Thailand’s Boon Rawd Brewery (Singha). The company’s Su Tu Trang brand had a strong start in 2016 in the Mekong Delta region but failed to achieve national success. Sales fell 68% in 2017 and management admitted that its strategy to use the same sales and distribution team as the F&B unit needed to be changed. MCH therefore built a sales force dedicated to the beer segment in Q418 in an effort to scale up the business in 2019.

MCH set up a dedicated sales force to scale up its beer business in 2019.

Though competition in the beer segment is intense in Vietnam, with dominant players including Sabeco (now 53.6%-owned by Thai Beverage), Euromonitor still expects Vietnam to be one of the fastest growing beer markets in Asia (see Figure 26). This presents an opportunity for other players with strong distribution capabilities to gain share in a growing beer market, and Masan could be able to capitalise on its strength in the Mekong Delta region. We forecast Masan’s beer sales to grow 50% YoY in 2019, on a low base and in line with management’s guidance. In 2018, the beer segment contributed 2% of total MCH revenue.

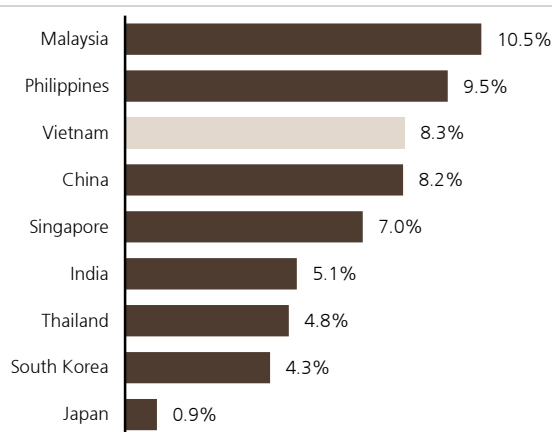
Competition is fierce—but Euromonitor projects the beer market in Vietnam to be one of the fast growing in Asia.

Figure 25: Company market share in Vietnam by volume (2017)



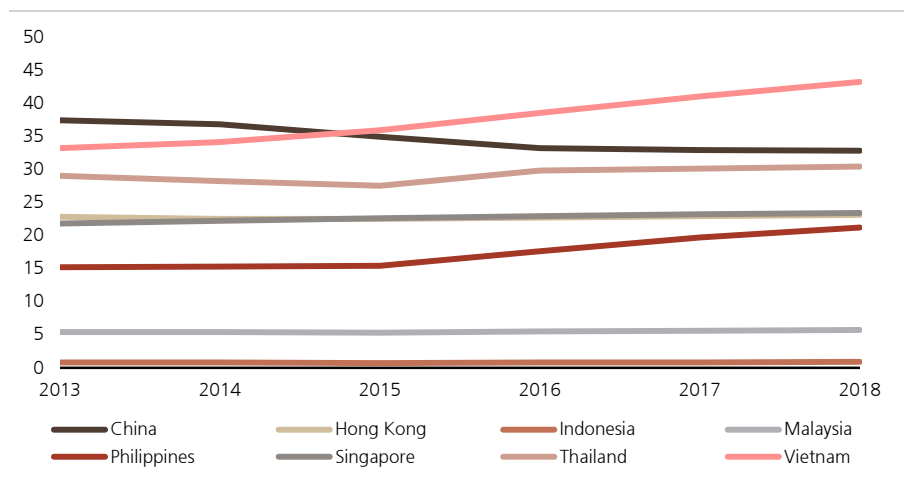
Source: Euromonitor

Figure 26: Forecast 2017-22 value CAGR of Asian beer markets



Source: Euromonitor

Figure 27: Beer consumption per capita (litres/capita)



Source: Euromonitor

Other segments still in an early stage of development

- **Processed meat**

While this is a relatively new category for Masan, the company believes it is a high potential growth driver, as processed meat represents less than 1% of Vietnam's meat consumption compared to about 14% in China, according to OECD data. In 2018, Masan formed a strategic partnership with Jinju Ham, a leading Korean branded processed meat company. The aim of the partnership is to leverage Jinju Ham's know-how with Masan's understanding of Vietnamese consumers and brand building capabilities. In Q418, Masan and Jinju Ham launched their first co-produced innovation—a premium sausage called Pinnie. The earnings contribution is small (1% of total MCH revenue) but the company expects to launch a new line-up of innovative products in 2019.

Partnership with Korea's Jinju Ham expected to bring innovative new products in 2019.

PIVOTAL QUESTIONS

[return](#) ↑**Q: Is there potential margin upside from Masan Nutri-Science?****UBS VIEW**

Yes, we believe so. We estimate gross margin expansion of 150-200bp over 2018-21 on the upturn in the pig market and Masan Nutri-Science's entry into the branded chilled fresh meat segment, which has high gross margins of up to 30% (compared to 15-20% of animal feed).

EVIDENCE

Pig prices have started to stabilise at D44,000-55,000/kg over the past three quarters, while the highest feed consumption phase takes place six to nine months after prices stabilise. In Vietnam, most fresh meat products (about 90%) are still sourced from traditional wet markets, implying there is large potential upside in the fresh meat segment.

WHAT'S PRICED IN?

We believe the market is downbeat on MNS due to weak feed sales in 2018 despite higher pig prices. We also think consensus estimates have yet to factor in the margin expansion from its entry into the branded chilled fresh meat business, which only commenced operations in Q418.

A fully-integrated 3F model to capture a US\$9bn opportunity

The company estimates total meat consumption in Vietnam at US\$9bn. According to management, the amount of animal feed required to produce 1kg of pork in Vietnam is 3.5-4kg on average, versus 2.5kg in the US. This difference implies Vietnamese consumers pay 1.5-2x more for meat than US consumers, while Vietnam's GDP per capita is one-tenth that in the US. Masan's goal is to address this problem and provide Vietnamese consumers with quality affordable meat by investing in a fully-integrated Feed-Farm-Food (3F) model meat platform.

Masan operates 12 animal feed manufacturing facilities across Vietnam, with a combined capacity of 3.5m tons per year. Its pig farm in Nghe An province commenced operations in December 2017 and has a capacity of 230-250k pigs per year. The company has also invested in a meat processing complex in Ha Nam province with capacity to slaughter and process 1.4m pigs per year (equivalent to 140k tons of pork per year).

Rise and fall of pig prices

Pig farming plays a central role in Vietnam's meat sector, as 70% of meat consumed in Vietnam is pork. According to the International Livestock Research Institute, Vietnam's local pig population grew at an annual pace of 11% from 2013-16. Prior to 2016, China was the key customer for the pig trade in Vietnam, as it imported large numbers of live pigs from Vietnam. Vietnam's pig exports to China nearly doubled in a few years, rising from approximately 17k per day in 2013 to about 33k by early 2016. As a result of the large increase in exports, Vietnamese pig farms rushed to expand, and animal feed players were a direct beneficiary. MSN's feed sales jumped 73% YoY in 2016, its first full year of operations.

The company estimates meat consumption is a US\$9bn market in Vietnam.

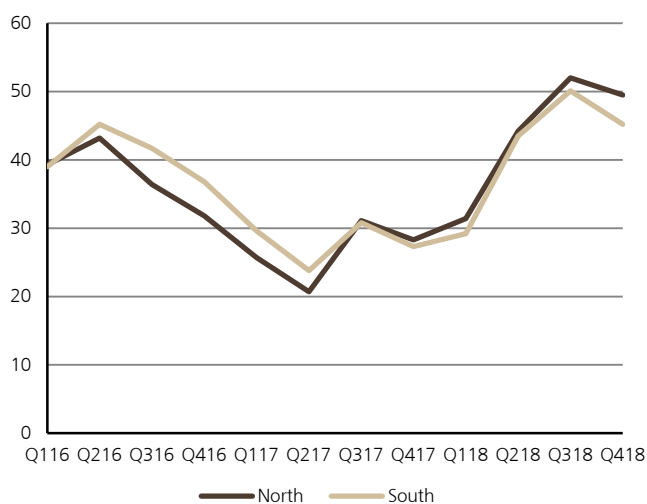
Masan operates feed, farm, and food facilities.

Pig exports to China nearly doubled from 2013 to 2016, driving up pig prices. But China then banned pig imports from Vietnam.

However, in the latter part of 2016, China stopped buying live pigs from Vietnam citing quality concerns—a ban that remains in effect. This led to an oversupply of pigs in Vietnam and drove down prices (see Figure 28). As a result, many small-scale farms reduced their pig inventory and began using homemade feed, and MSN's sales fell 23.5% in 2017 and 25.2% in 2018. Its gross margin also dropped significantly, contracting from 21.4% in 2017 to 15.0% in 2018 as it sold more of its value-for-money Bio-zeem brand in an attempt to convert farmers to switch from homemade to commercial feed.

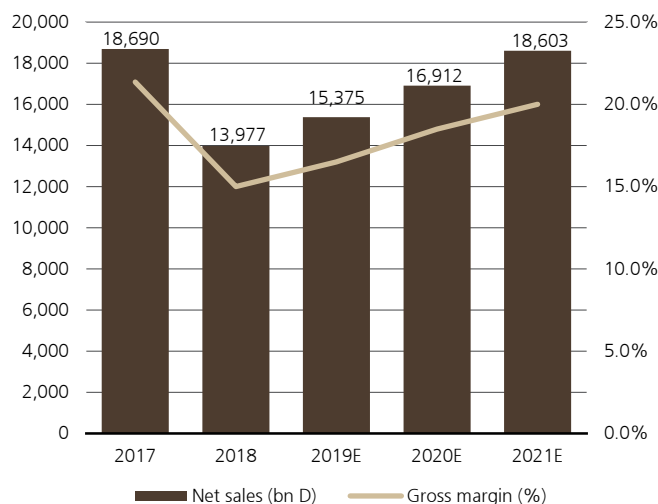
China's ban on the import of live pigs from Vietnam led to a sharp drop in pig prices in late 2016.

Figure 28: Pig prices in Vietnam (D '000/kg)



Source: Company data

Figure 29: MNS revenue and GPM trends, 2017-21E

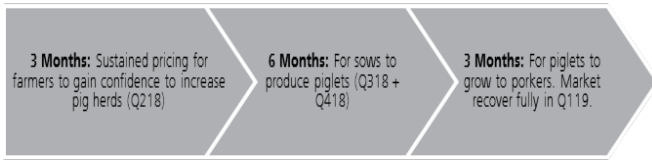


Source: Company data, UBS estimates

Risks from African Swine Fever

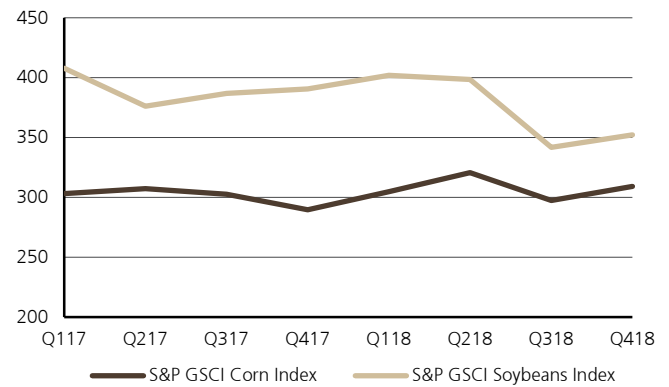
Various media outlets in Vietnam have reported two separate outbreaks of African swine fever, in the northern provinces of Hung Yen and Thai Binh. From our talks with the company, Masan's pig farm operations have not been affected and operations have been business as usual. The company does acknowledge that an outbreak could dampen sentiment, and if the situation were to worsen it could have an effect on feed sales. Nevertheless, management still expects feed sales to increase 5-10% in 2019 as the pig feed market typically takes six to nine months to recover fully after prices stabilise (see figure 30). We estimate the peak of the feed consumption phase of the pig cycle will occur in H219, when we expect improved margins on higher feed sales and raw material costs (soybean and corn) to be lower.

Figure 30: Lag time of feed market recovery



Source: Company data

Figure 31: Prices of soybean and corn



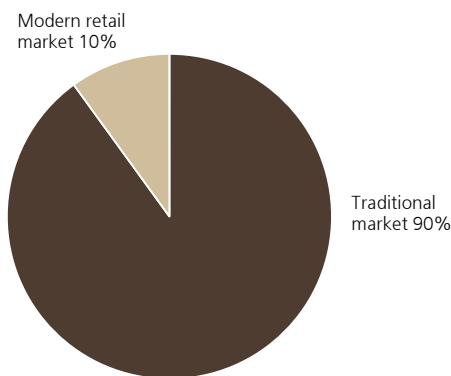
Source: Bloomberg

Shifting towards FMCG business via launch of MEATDeli

Most fresh meat products in Vietnam are still sold through traditional wet markets where quality and safety can be concerns. Masan therefore believes a strong local brand could dominate the market, which led to the launch of its own MEATDeli brand in Q418. The MEATDeli brand is priced at a 10-15% premium to wet markets due to its traceability, safety, and superior quality of meat. The company first launched the brand in Hanoi, where about 10% of Vietnamese pork is consumed, with a total of about 28 SKUs. It now has five MEATDeli retail stores and locations in 40 VinMart stores. In 2019, the company plans to expand with an additional 25-30 of its own branded stores. Capex per store is approximately D500-800m. Management guided for sales per store of D1bn per month or D12bn per year when fully ramped up, representing about 5-10% of MSN revenue in 2019.

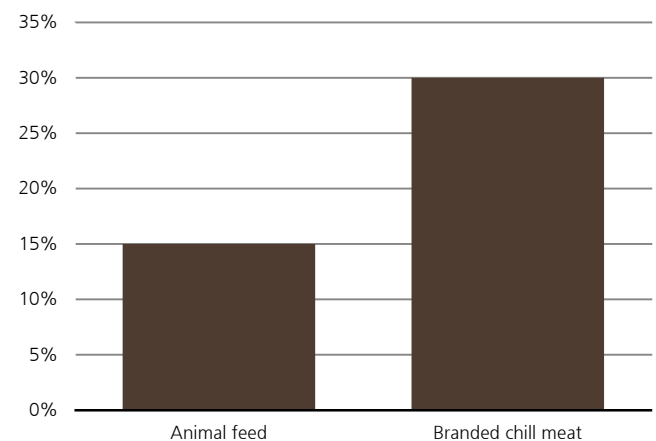
Masan launched the MEATDeli brand in Q418 to enter the branded chilled fresh meat segment.

Figure 32: Most fresh meat in Vietnam is bought in traditional markets



Source: Company data

Figure 33: GPM of animal feed vs. branded meat



Source: Company data

We are positive on Masan's strategy to expand into the branded chilled fresh meat market given the following:

- **Less volatility than the animal feed business.** The animal feed business is cyclical in nature, as evidenced by the six to nine months required for a full recovery in market prices for pigs. While the company will benefit from the upturn in 2019, the entry into the branded chilled fresh meat market will reduce the risk from livestock cycles by providing a buffer as the fresh meat segment scales up.
- **Puts MNS in a position to tap a much larger market.** By moving into branded chilled fresh meat, Masan is positioning itself to capture a greater share of the meat market in Vietnam, which it estimates at US\$9bn. The move also complements the company's investment in VISSAN (24.9% stake), which is Vietnam's largest branded fresh and processed meat company by market share, according to Euromonitor.
- **High-margin business.** Gross profit margins for chilled meat can be as high as 30% when fully ramped up, while those for animal feed are only 15-20%.

While we do not anticipate a material increase in margins from the branded chilled fresh meat business in 2019 as the pig farm will run at half of its 250k capacity, we expect margins to expand in 2020-21 on higher capacity utilisation. We estimate gross margin expansion of 150-200bp over 2018-21, which we believe to be conservative since most start-up costs and investments were made in 2018. We also note the potential upside if MNS is able to build its fresh meat into a power brand as Masan Consumer has done with fish sauces and instant noodles. This could lead to stronger sales and margins than we estimate in our model given its expanding retail presence and pricing power with contract farmers.

The pig farm will run at half its full capacity in 2019.

PIVOTAL QUESTIONS

[return](#) ↑**Q: Will Masan Resources detract from the group's focus on the consumer business?****UBS VIEW**

No. We believe the group views the Nui Phao mine as a strategic asset rather than part of its core consumer business. We expect Masan to continue to grow its bottom line via its consumer-centric approach, especially through its 20% investment in associate Techcombank.

EVIDENCE

The company has publicly stated for several years that it will not inject further capital into Masan Resources. It has also bought out the private equity investors to create the flexibility to raise strategic capital and dilute its stake. In 2018, shared profits from its investment in Techcombank represented about 34% of NPAT.

WHAT'S PRICED IN?

The significant upside to the UBS price target for Techcombank, which accounts for about 23% of our valuation for Masan, suggests the market is underappreciating the premium ROA and ROE recovery UBS analyst Worawat Saisuphatphol forecasts for the bank from 2019.

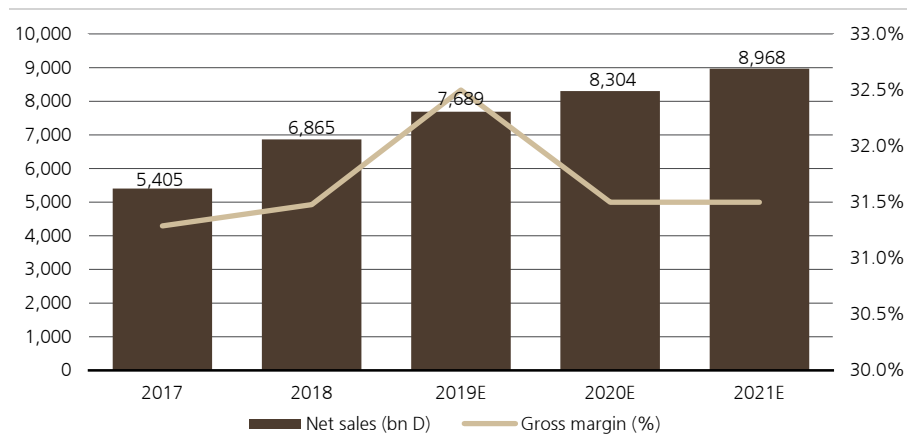
Why is an FMCG company involved in mining?

Masan Resources was established in 2010 with the acquisition of a controlling stake in the Nui Phao mine, one of the world's largest tungsten mines. Management indicates the rationale for investing in the mine stemmed from the opportunity to develop a niche industry in Vietnam in a commodity found primarily in China. MSR has a 36% market share of the global tungsten supply outside China according to the US Geological Survey. Nevertheless, the company has stated publicly that it will not invest further in the mine and has bought out all the private equity investors to raise its stake to 95.9%. This gives it greater flexibility to raise strategic capital and dilute its stake as a result, supporting our view that the company's main focus is its consumer businesses.

MSR has a 36% market share (ex-China) of global tungsten supply.

MSR earnings performance and outlook

Figure 34: MSR revenue and GPM trends, 2017-21E



Source: Company data, UBS estimates

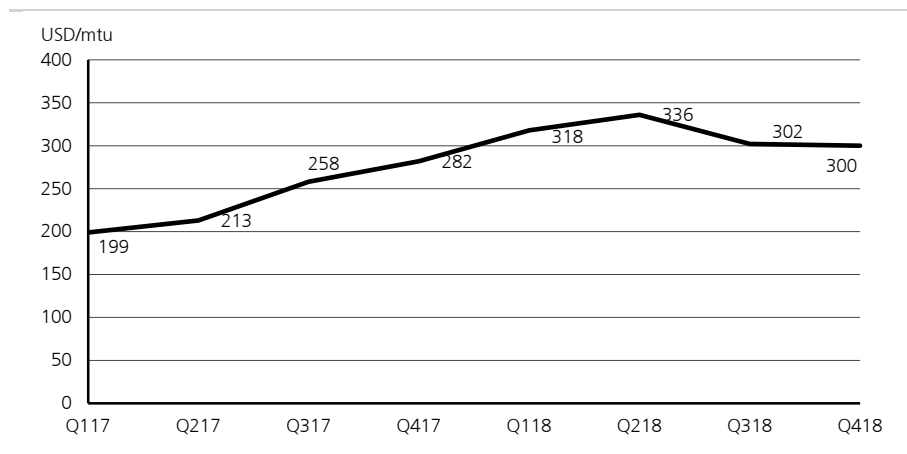
MSR commenced operations in 2014. Most of its revenue is derived from exports of tungsten, fluorspar, bismuth, and copper. As such, global commodity prices directly impact its earnings. In 2018, MSR's revenue grew 27% YoY on increased operating efficiencies and higher commodity prices. While tungsten prices softened in H218 (see Figure 35) due to seasonality in Europe and the ongoing US-China trade war, management believes there will be a structural supply deficit in tungsten as high-cost mines in China could be forced to shut down because of stricter environmental laws. This would support global tungsten prices and management has therefore guided for revenue growth of 12-22% in 2019.

MSR revenue jumped 27% YoY in 2018 on higher commodity prices.

MSR is poised to benefit from the potential structural supply deficit in tungsten.

Moving forward, the potential listing of MSR on the Ho Chi Minh Stock Exchange (HOSE) would unlock shareholder value and allow the group to focus more on its core consumer business, in our view.

Figure 35: APT price



Note: APT is ammonium paratungstate.

Source: Company data

Figure 36: Average commodity prices

Average commodity prices	Unit	2018 average	2017 average	% change	End-2018	End-2017
APT European Low	US\$/mtu	308	239	28.70%	270	294
Bismuth Low	US\$/lb	4.4	4.8	-8.50%	3.4	5.1
Copper	US\$/t	6,514	6,166	5.60%	6,018	7,157
Fluorspar Acid Grade	US\$/t	493	345	43.00%	565	410

Source: Company data

Figure 37: Summary of MSR's production

	Unit	2018	2017	Growth
Ore processed	kt	3,804	3,888	-2.20%
APT / BTO / YTO / ST (contained)	t	6,155	6,301	-2.30%
Copper in Copper Concentrate (Contained)	t	9,331	8,498	9.80%
Acid Grade Fluorspar	t	238,702	234,905	1.60%
Bismuth in Bismuth Cement (Contained)	t	2,639	2,403	9.80%

Source: Company data

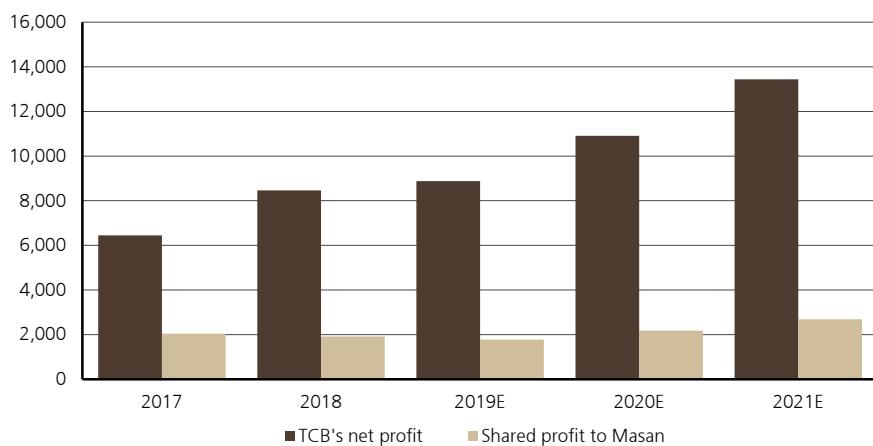
Investment in Techcombank is part of its consumer-centric approach

Masan initially acquired a 19.9% stake in Techcombank in 2009 before raising its stake to 30.6% in 2011 through a combination of shares and convertible bonds. Masan sold a sizable portion of the convertible bonds in 2017 and effectively had its share ownership diluted to the current 20% stake after TCB's capital raising in Q218. As a result of the capital raising, Masan recognised a one-time net gain of D1.47trn in 2018 from the deemed disposal of the company's interest in TCB at a price above the company's carrying value.

Masan considers TCB a core piece of its consumer-centric approach given the bank's leading franchise in retail deposits, SME and retail lending (see "[Initiation of Coverage: Techcombank—UBS Evidence Lab: the franchise with the highest ROA potential in Vietnam](#)", published 4 September 2018). Shared profit from TCB is a significant contributor to the group's earnings (about 34% of NPAT in 2018). We believe TCB's earnings momentum will remain strong, given its market leadership in mortgage lending and advanced technology platform to grow fee income. Based on UBS's earnings forecasts for TCB, we estimate Masan's shared profit from TCB will grow at a 12% CAGR over 2018-21.

Masan has a 20% stake in TCB.**Masan's investment in TCB gives it access to another portion of the consumer wallet.**

Figure 38: TCB net profit and shared profit to Masan (D bn)



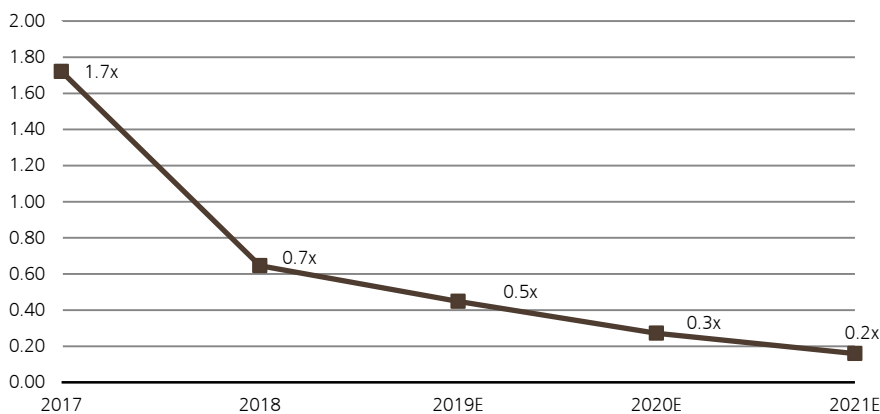
Source: Company data, UBS estimates

Fresh capital from SK spurs deleveraging initiative

In 2018, Masan entered into a strategic partnership with SK, one of the largest conglomerates in South Korea, with businesses across energy, chemicals, telecommunications, semiconductors, logistics, and services. SK invested approximately US\$470m, comprised entirely of new capital, to own a 9.4% stake in Masan and become one of the largest foreign shareholders. SK is likely to gain one board seat after Masan's Annual General Meeting in April 2019. Masan plans to utilise the new capital to fund future growth opportunities and strengthen its balance sheet.

The company expects interest savings of about D1trn in 2019 from its de-leveraging initiative.

Figure 39: Interest-bearing debt to equity



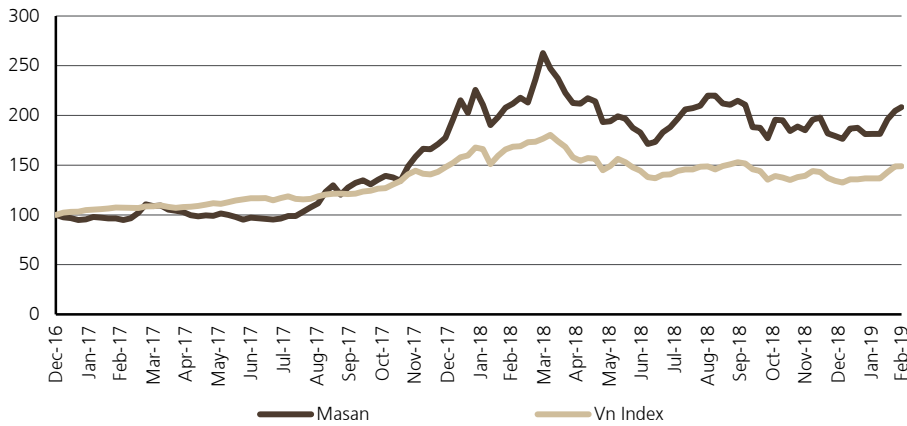
Source: Company data, UBS estimates

At the end of 2018, Masan paid down about D12.8trn worth of debt, and its interest expenses fell 16% YoY. The company expects to realise additional interest savings of D1trn in 2019. Masan's deleveraging initiative is part of its efforts to achieve a credit rating that is on par with Vietnam's long-term sovereign credit rating of BB-. In our view, Masan's strengthened balance sheet would also allow it to invest more in its core consumer business, where it believes there is the most potential. From our talks with the company, potential new areas of interest include home and personal care and over-the-counter (OTC) pharmaceutical products.

Strengthened balance sheet could lead to new investments in its core consumer business.

WHAT'S PRICED IN?

[return](#) ↑



Source: DataStream

Masan's share price was up just 1% in 2018. However, it has since rallied 12% after the company announced strong Q418 results, which resulted in 2018 core net profit rising 59% YoY. The company attributed the solid results mainly to MCH's revenue growth of 28% YoY and interest expense savings from its deleveraging initiative. When we plug the share price of D86,500 on 15 March 2019 into our DCF valuation model, holding all other input variables (margins, capex, etc) constant, the result is an implied 9% revenue CAGR over 2018-21E (versus our estimate of 12%) for the core businesses. This suggests that we differ from the market in our valuation of TCB.

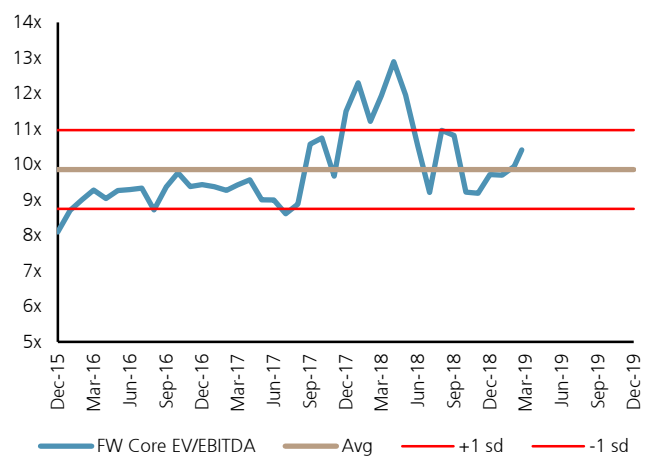
Masan is trading at 19.1x one-year forward PE, below its historical mean and the Vietnam consumer average of 21.8x 2019E PE. We believe the discount could narrow as Masan enters its high growth phase (we estimate an earnings CAGR of 32% over 2018-21). We think the share price could re-rate on: 1) robust growth in non-alcoholic beverages and beer sales, two categories with high execution risks; 2) a recovery in gross margin from its entry into branded chilled fresh meat; 3) strong operating performance from TCB; 4) higher-than-expected interest expense savings; and 5) a dividend announcement (as the only cash dividend was in 2016).

Figure 40: One-year forward PE



Source: Reuters, company data, UBS estimates

Figure 41: One-year forward EV/EBITDA



Source: Reuters, company data, UBS estimates

Figure 42: ASEAN consumer peer valuations (LC)

Stock	Rating	Share price	Price target	Upside/downside	Mkt cap (USDm)	PER (x) 2019E	PER (x) 2020E	EPS CAGR 2018-21E	PBV (x) 2019E	PBV (x) 2020E	ROE (%) 2019E	ROE (%) 2020E	EV/EBITDA (x) 2019E	EV/EBITDA (x) 2020E	EBITDA CAGR (18-21E)
Indonesia Consumer															
PT Hanjaya Mandala Sampoerna	Buy	3,790.00	4,500.00	19%	30,893	32.0	28.6	11%	12.4	11.5	39%	42%	23.3	20.7	12%
Unilever Indonesia	Sell	49,900.00	36,500.00	-27%	26,681	50.8	46.1	0%	56.6	49.1	105%	114%	35.1	32.1	9%
PT Gudang Garam	Buy	92,050.00	95,000.00	3%	12,412	18.3	16.4	13%	3.6	3.3	21%	21%	12.3	11.2	12%
Indofood CBP Sukses Makmur	Neutral	10,300.00	11,500.00	12%	8,417	24.2	21.1	14%	5.0	4.4	22%	22%	14.5	12.6	14%
Mayora Indah	Not Rated	2,620.00	NA	NA	4,106	29.3	25.2	6%	6.0	5.1	22%	21%	16.6	14.6	9%
Kalbe Farma	Sell	1,555.00	1,200.00	-23%	5,108	26.6	24.4	9%	4.5	4.1	18%	18%	16.3	15.1	7%
Indofood S.M.	Not Rated	7,175.00	NA	NA	4,416	13.8	12.8	13%	1.7	1.6	12%	13%	7.1	6.5	11%
Sumber Alfaria Trijaya	Not Rated	905.00	NA	NA	2,634	51.8	44.6	NA	6.1	5.5	9%	13%	10.8	9.7	NA
Ace Hardware Indonesia	Not Rated	1,805.00	NA	NA	2,170	26.4	23.0	NA	6.4	5.5	26%	25%	20.4	17.8	14%
Matahari Department Store	Neutral	3,840.00	4,800.00	25%	767	5.3	5.6	16%	3.2	2.9	64%	55%	3.1	3.1	-2%
Market cap weighted average						33.7	30.3	8%	21.2	18.7	49%	53%	22.4	20.2	11%
Vietnam Consumer															
Vietnam Dairy Products	Buy	137,000.00	158,000.00	15%	10,284	24.8	21.6	12%	7.6	6.7	34%	33%	16.6	14.3	12%
Ma San Group Corp	Buy	86,500.00	113,000.00	31%	4,337	19.1	14.9	32%	2.9	2.4	16%	18%	10.8	9.5	12%
Mobile World Investment	Buy	88,600.00	120,000.00	35%	1,692	11.1	9.7	14%	4.7	4.1	40%	46%	7.0	6.5	13%
Market cap weighted average						21.8	18.6	17%	6.1	5.3	30%	30%	14.0	12.2	12%
Thailand Consumer															
CP All	Sell	75.50	60.00	-21%	21,398	31.3	27.7	13%	7.3	6.5	24%	25%	19.2	17.7	8%
Thai Beverage	Buy	0.82	0.83	2%	15,115	19.3	18.0	16%	3.4	3.0	19%	18%	15.3	13.7	17%
Berli Jucker PCL	Not Rated	50.00	NA	NA	6,314	27.6	24.6	11%	1.7	1.7	6%	7%	15.7	14.5	6%
Charoen Pokphand Foods	Not Rated	26.50	NA	NA	7,199	18.6	16.3	37%	1.3	1.2	8%	8%	12.9	11.8	-1%
Home Product Center	Buy	15.20	16.60	9%	6,307	30.6	26.8	15%	9.5	9.0	32%	35%	17.4	15.5	12%
Minor International	Buy	38.25	45.00	18%	5,323	19.7	17.6	27%	2.0	1.9	11%	11%	11.3	10.4	27%
Siam Makro	Not Rated	37.00	NA	NA	5,603	29.7	27.8	6%	8.6	7.8	31%	31%	17.3	15.9	4%
Robinson PCL	Neutral	59.50	67.00	13%	2,085	18.5	16.7	11%	3.3	3.0	19%	19%	10.3	9.2	11%
Market cap weighted average						25.6	22.9	17%	5.1	4.6	20%	20%	16.2	14.8	11%
Philippines Consumer															
SM Investments Corp.	Sell	934.00	940.00	1%	21,353	26.1	23.3	14%	2.9	2.7	12%	12%	6.8	5.2	10%
Universal Robina Corporation	Buy	145.70	160.00	10%	6,095	28.1	24.7	14%	3.5	3.3	13%	14%	13.7	12.7	10%
Jollibee Foods Corp	Neutral	316.20	350.00	11%	6,514	38.0	33.0	12%	6.4	5.7	18%	18%	21.4	18.2	14%
Puregold Price Club	Buy	49.00	59.00	20%	2,573	18.4	16.5	12%	2.4	2.2	13%	14%	10.4	9.3	10%
Emperador	Not Rated	7.45	NA	NA	2,264	15.8	14.6	NA	1.8	1.6	12%	12%	12.4	11.2	NA
San Miguel Food and Beverage Inc	Neutral	106.50	110.00	3%	11,944	29.5	26.7	11%	5.7	5.1	20%	20%	10.8	10.1	10%
Robinsons Retail	Buy	84.00	106.00	26%	2,208	19.6	17.9	9%	1.9	1.8	10%	10%	10.6	9.5	10%
LT Group	Buy	16.00	21.50	34%	3,286	9.2	9.5	7%	1.0	0.9	11%	10%	19.4	16.8	23%
Market cap weighted average						26.4	23.6	13%	3.8	3.4	14%	15%	11.4	9.8	11%
Malaysia Consumer															
Nestle Malaysia	Not Rated	148.70	NA	NA	8,530	47.9	45.6	8%	52.2	54.0	108%	116%	31.2	29.4	5%
Fraser & Neave Holdings Bhd	Not Rated	34.84	NA	NA	3,126	29.2	26.9	8%	5.0	4.7	18%	18%	20.2	18.7	10%
BAT (Malaysia)	Neutral	34.56	38.00	10%	2,412	19.7	18.1	8%	23.0	22.6	118%	126%	15.0	13.8	7%
Heineken Malaysia	Not Rated	22.74	NA	NA	1,680	22.9	21.7	6%	18.3	18.7	79%	81%	15.3	14.4	1%
Carlsberg Brewery Malaysia	Not Rated	25.74	NA	NA	1,937	26.8	25.1	7%	31.5	38.1	136%	156%	18.8	17.6	8%
Market cap weighted average						36.1	34.0	8%	34.4	35.9	94%	101%	24.2	22.7	6%
Singapore Consumer															
Sheng Siong Group	Not Rated	1.09	NA	NA	1,210	21.4	19.5	7%	5.1	4.9	25%	26%	14.1	13.0	6%
Market cap weighted average						21.4	19.5	7%	5.1	4.9	25%	26%	14.1	13.0	6%
Sector weighted average						29.3	26.3	12%	12.9	11.8	35%	37%	17.9	16.1	11%

Above data as of 15 March 2019. Consensus data for non-rated companies.
Source: Bloomberg, Reuters, UBS estimates

UPSIDE / DOWNSIDE SPECTRUM

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Masan is trading
at D86,500
(as of 15 March).

Value drivers (2019E)	MCH rev growth	MNS margin	MSR rev growth	TCB valuation (p/s)
D130,000 upside	25%	+200bp	20%	D49,500
D113,000 base	20%	+150bp	12%	D42,500
D70,000 downside	5%	0bp	0%	D22,000

Source: UBS estimates

Risk to the current share price is skewed (2.6:1) to the upside

Masan is trading at **D86,500** (as of 15 March).

Upside (D130,000): We assume MCH launches strong innovative products in seasonings and convenience foods to support higher sales volume while its average selling prices increase due to its premiumisation strategy. We also assume the non-alcoholic beverage and beer segments achieve robust revenue growth of 50-60% on greater efficiency from dedicated sales and distribution teams, pushing MCH revenue up 25% YoY. We assume MNS benefits from the upturn in the pig market and ramp up of the fresh meat business is faster-than-expected, leading to MNS margin expansion of 200bp. We assume MSR revenue grows 20% YoY, boosted by higher commodity prices and increased capacity utilisation. We use TCB's upside valuation of D49,500 (based on our initiation report). In this scenario, we would derive a SOTP-based valuation of D130,000.

Base (D113,000): We expect MCH to deliver revenue growth of 20% YoY, fueled by food premiumisation in seasonings and convenience foods (11-19% growth) and growth in the non-alcoholic beverage segment (45%), driven primarily from energy drinks. We estimate MNS margin expansion of 150bp as raw material prices for feed retreat and the contribution from branded chilled fresh meat rises to about 5% of total MNS sales from less than 1% in 2018. We also expect MSR revenue to grow 12% YoY from increased output capacity and stable commodity prices.

Our SOTP-based price target of D113,000 is based on DCF for MCH, a PE multiple of 18x for MNS, an EV/EBITDA multiple of 6.5x for MSR, our price target for TCB, and book value for other long-term investments. MCH accounts for nearly 60% of our valuation for Masan.

Downside (D70,000): We assume Masan faces intense competition in seasonings and convenience foods and is unable to gain significant traction for its premium products. We assume non-alcoholic beverage and beer sales take longer-than-expected to ramp up with the new sales and distribution teams. This would lead to MCH sales growth of only 5% YoY. For MNS, we assume pig farmers are more cautious in raising new livestock in this cycle, causing margins to stay flat due to its economy Bio-zeem brand accounting for a higher proportion of sales. For MSR, we

assume tungsten prices fall from 2018 levels but increased output capacity results in flat revenue growth. We use TCB's downside valuation of D22,000 (based on our initiation report). In this scenario, we would derive a SOTP-based valuation of D70,000.

Price target derivation

Figure 43: SOTP-based price target

<u>Dbn</u>	<u>Method</u>	<u>Equity value</u>	<u>MSN ownership</u>	<u>Equity value attributed to MSN</u>	<u>Implied valuation multiples</u>
Masan Consumer Holding	DCF	91,210	85.7%	78,167	2019E PE of 22x
Masan Nutriscience	PE	10,378	80.8%	8,385	2019E PE of 18x
Masan Resources	EV/EBITDA	13,491	96.0%	12,952	2019E EV/EBITDA of 6.5x
Techcombank		148,605	20.0%	29,721	2019E PB of 2.5x
Cholimex investment	BV		32.8%	249	
Vissan investment	BV		24.9%	2,135	
Total equity value				131,610	
Share count (m)				1,163	
Valuation (D/share)				113,149	

Source: UBS estimates

Figure 44: WACC calculation for MCH

<u>WACC</u>	
Risk-free rate	5.0%
Equity risk premium	5.0%
Beta	1.00
Cost of equity	10.0%
Pre-tax cost of debt	9.7%
Effective tax rate	13%
Post-tax cost of debt	8.5%
Target debt to total cap ratio	10%
WACC	9.9%
Growth	5.0%

Source: UBS estimates

Figure 45: Asian animal feed peer valuations (LC)

Company Name	Ticker	Rating	Price	Price target	Dividend	Market	PE 2018E	PE 2019E	PE 2020E	P/B 2018E	EV/EBITDA 2018E	EV/EBITDA 2019E	EV/EBITDA 2020E	Net debt to enterprise value	ROE 2018E
					yield 2018E	cap (USDmn)									
Global Animal Feed															
Charoen Pokphand Indonesia Tbk PT	CPIN.JK	Not Rated	7,050.00		0.8%	8,179	25.6	24.8	23.2	6.0	16.3	15.9	14.7	1.5%	25.8%
Japfa Comfeed Indonesia Tbk PT	JPFA.JK	Not Rated	2,170.00		2.0%	1,800	10.7	9.5	9.1	2.1	6.6	6.0	6.1	16.1%	21.3%
Malindo Feedmill Tbk PT	MAIN.JK	Not Rated	1,445.00		0.0%	229	12.3	11.7	10.2	1.6	6.7	6.3	5.8	32.8%	14.3%
Japfa Ltd	JAPF.SI	Not Rated	0.70		1.1%	969	8.9	8.1		1.1	5.4	5.1		44.3%	13.3%
New Hope Liuhe Co Ltd	000876.SZ	Not Rated	13.46		1.2%	8,444	27.3	18.9	11.0	2.5	25.0	19.5	13.2	10.3%	9.3%
Avanti Feeds Ltd	AVNT.NS	Not Rated	412.20		1.3%	801	19.4	15.8	13.0	4.5	11.5	9.4	7.4		25.6%
WH Group	0288.HK	Buy	7.27	7.96	4.3%	13,569	13.9	13.0	12.4	1.7	7.6	7.4	7.3	15.7%	12.5%
Guangdong Haid Group	002311.SZ	Neutral	27.06	28.20	1.1%	6,364	29.0	22.6	15.6	5.5	17.1	13.7	9.7	7.2%	20.5%
Tongwei Co Ltd	600438.SS	Not Rated	12.47		1.1%	7,204	24.2	15.9	12.9	3.3	13.7	9.7	7.9	7.2%	13.6%
Market cap weighted average							21.7	17.6	14.4	3.4	14.3	12.1	10.0		

Above data as of 15 March 2019. Consensus data for non-rated companies.
Source: Bloomberg, Reuters, UBS estimates

Figure 46: Global resource peer valuations (LC)

Company Name	Ticker	Rating	Price	Price target	Dividend	Market	PE 2018E	PE 2019E	PE 2020E	P/B 2018E	EV/EBITDA 2018E	EV/EBITDA 2019E	EV/EBITDA 2020E	Net debt to enterprise value	ROE 2018E
					yield 2018E	cap (USDmn)									
Global Resources															
BHP Limited	BHP.AX	Buy	36.52	35.00	5.3%	130,173	13.3	13.4	11.4	2.0	5.9	6.5	6.1	7.0%	15.8%
Rio Tinto Limited	RIO.AX	Neutral	89.99	94.00	9.4%	105,214	11.0	11.0	10.6	2.2	6.7	6.5	5.9		19.9%
Glencore Plc	GLEN.L	Neutral	302.55	300.00	4.4%	55,847	11.4	10.8	7.7	1.4	6.1	5.5	4.3	38.2%	12.1%
Grupo Mexico	GMEXICOB.MX	Buy	47.67	55.00	5.3%	19,046	9.5	8.6	6.8	1.5	4.5	4.2	3.5	21.0%	17.1%
Market cap weighted average							11.9	11.8	10.2	1.9	6.1	6.2	5.5		

Above data as of 14 March 2019.
Source: Bloomberg, Reuters, UBS estimates

Figure 47: Masan—sensitivity analysis (D/share)

		Masan Consumer's terminal growth				
Masan Group valuation		4.0%	4.5%	5.0%	5.5%	6.0%
Masan Consumer's WACC	10.9%	93,861	96,782	100,202	104,260	109,153
	10.4%	98,205	101,728	105,907	110,946	117,139
	9.9%	103,559	107,906	113,149	119,599	127,725
	9.4%	109,373	114,718	121,286	129,548	140,259
	8.9%	116,703	123,468	131,976	143,001	157,855

Source: UBS estimates

Figure 48: UBS versus consensus estimates

D bn	2019E			2020E			2021E		
	UBS	Consensus	% diff	UBS	Consensus	% diff	UBS	Consensus	% diff
Revenue	43,505	45,072	-3%	48,642	49,451	-2%	54,003	51,337	5%
EBIT	6,649	6,789	-2%	7,416	6,978	6%	8,215	7,378	11%
Earnings	5,262	5,481	-4%	6,742	6,220	8%	7,834	7,911	-1%

Source: Bloomberg, Reuters, UBS estimates

COMPANY DESCRIPTION

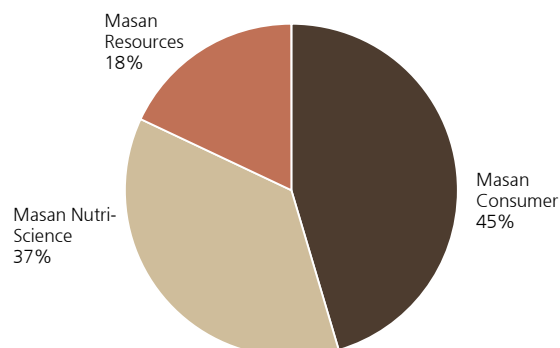
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Masan Group is an investment holding company that engages in three main segments: 1) food and beverage through Masan Consumer; 2) meat value chain through Masan Nutri-Science; and 3) mineral resources and chemical processing through Masan Resources. The group also has exposure to financial services through its associate Techcombank, one of the largest joint stock commercial banks in Vietnam. The company was listed on the Ho Chi Minh Stock Exchange in 2009, becoming the sixth largest company in Vietnam by market capitalisation at the time.

Industry outlook

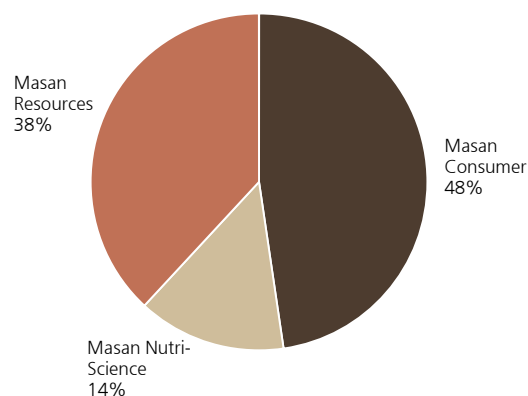
Vietnam is one of the fastest-growing emerging economies in the world with GDP growth of 7.1% in 2018, while UBS's economics team forecasts 6.8% GDP growth in 2019. A key driver of economic growth will be foreign direct investment (FDI) in the form of state-owned enterprise (SOE) privatisation. Vietnam's consumer market is structurally poised to grow due to rising disposable incomes, demographic shifts, and greater commitment from large consumer companies towards product development, marketing, and distribution. As a market leader with a strong portfolio of consumer staple products, we believe Masan is well-positioned to benefit from Vietnam's improving macroeconomic outlook.

Revenue by segment, 2018



Source: Company data

EBIT by segment, 2018



Source: Company data

Company overview

Business segments

Masan has investments in four main businesses:

1) Masan Consumer, which manufactures and distributes a wide range of daily food and beverage items including soy sauce, fish sauce, chili sauce, instant noodles, coffee, beer and processed meat;

2) Masan Nutri-Science, which manufactures animal protein feed and directly serves consumers with its branded chilled fresh meat products (under the MEATDeli brand). The group started distributing these meat products in December 2018 from its farm in Nghe An and Ha Nam provinces under the MEATDeli brand;

3) Masan Resources, which operates the Nui Phao mine. Located in northern Vietnam, it is one of the largest tungsten mines in the world. The company is also known for its fluorspar and bismuth production;

4) Techcombank (TCB), in which Masan holds a 20% non-controlling stake. The bank aims to deliver accessible and affordable financial services to Vietnam's 96 million residents.

Business model and strategy

Vietnam's economy remains robust, with GDP growth coming in at 7.1% in 2018. The country has a population of 96 million people with a median age of 31.7, indicating strong domestic consumption potential. According to the OECD, Vietnam is one of the top 10 countries in the world in terms of pork consumption per capita, with pork consumption higher than that of any other type of protein. Masan's vision is to provide quality and affordable products for the basic daily needs of every Vietnamese, including the 70% that live in rural areas. Its core strategy is to employ a consumer-centric approach by producing well-recognised brands that can win the trust and loyalty of consumers.

Masan Consumer focuses on brand building and product innovation to fulfil unmet demand from consumers in Vietnam. Its product portfolio is spread across diversified categories in the mass and premium markets.

Masan Nutri-Science concentrates on developing an integrated 3F model, with a farm in Nghe An with a full capacity of 250,000 porkers per annum and a newly established meat processing complex in Ha Nam with a full capacity of 1.4 million pigs per annum. The modern trade for fresh chilled pork meat in Vietnam is underpenetrated, the company estimates it makes up only 5-10% of sales, with the remainder dominated by traditional wet markets. Realising the potential in the underpenetrated market, and consumers' growing health-consciousness, Masan launched its own MEATDeli brand. It currently distributes in 5 owned specialty stores and has a presence in 40 VinMart/VinMart+ stores. In 2019, the company expects to open 25-30 of its own specialty stores and add a presence in 100 VinMart/VinMart+ stores.

Masan Resources contributed strong profits to the group in recent years, especially with the rebound in commodity prices and as a result of China's strict environmental policies, which is affecting the global supply of tungsten. The company's vision is to look for a strategic partnership to transform from a miner into a global downstream tungsten industrial player.

Market position and main competitors

Masan Consumer is the number one player in Vietnam's sauces and condiments sector, which includes fish sauce, soy sauce, and chili sauce, with market share of 35.4% in 2018 according to Euromonitor. Its instant noodles are dominant in the premium segment; in overall instant noodles it had a market share of 12.3% according to Euromonitor, after Acecook (35.1%) and Uniben (13.3%) in 2018.

According to Kantar Worldpanel, 98% of Vietnamese consumers use at least one Masan product, with Nam Ngu fish sauce the most chosen food brand in the rural areas. The company is ranked second for instant noodles in Vietnam's urban areas, at the heels of Acecook's instant noodle brand Haohao according to Kantar Worldpanel. Masan's other products include Chin-su, Tam Thai Tu and Kokomi sauces and noodles, which are all in the top 10 most chosen brand list in both rural and urban regions according to Kantar Worldpanel.

Masan Nutri-science is the biggest animal protein company in Vietnam, with a market share of 35% in 2017, according to the company. The company has also launched a value product, Bio-zeem, to attract farmers using homemade feed. By launching its branded fresh chilled meat brand, MEATDeli, the company has successfully implemented its 3F model, with the goal of dominating a segment worth US\$9bn.

With market share of 36% of ex-China tungsten in 2018, according to the US Geological Survey, Masan Resources is a leading player in the global tungsten market. Its biggest competitor is China, the largest tungsten producer in the world, with annual production accounting for approximately 83% of global production. However, the Chinese government has been tightening environmental policies, which could force tungsten mines to shut down production, to the benefit of Masan Resources.

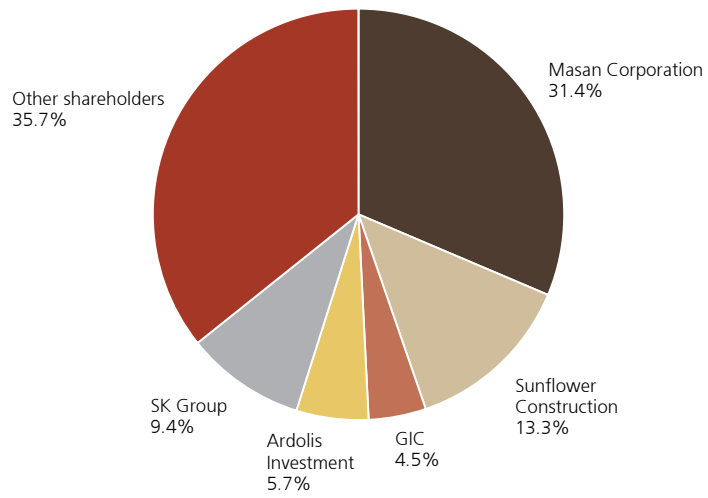
Company, management and shareholder background

Masan's Chairman and CEO, Mr Nguyen Dang Quang co-founded Masan Group in 1996. He holds a Doctorate in Technical Sciences from the National Academy of Science of Belarus and Master's degree in Administration and Business Management from the Plekhanov Russian Economic University. He currently holds 15 shares of Masan directly, as well as indirect holdings through Masan Corp and Sunflower Construction.

Ms Nguyen Hoang Yen is Deputy CEO of Masan Consumer, and a member of the Board of Directors of Masan Group. She has been a major contributor to the success of transforming Masan Consumer from primarily a foodstuff company to the largest consumer company in Vietnam by market share. She also serves as Chairwoman of Masan PQ and a member of the Board of Directors of Masan Corporation. She is also the wife of Mr Quang Nguyen.

The largest shareholder of Masan Group is Masan Corporation (31.4%), which is a private company co-founded by Mr Nguyen Dang Quang and Mr Ho Hung Anh, with their ownership percentages undisclosed. The second largest shareholder of Masan Group is Sunflower Construction, which is 100% owned by Masan Corporation, with a 13.3% stake.

Figure 49: Masan's major shareholders, as of end-February 2018



Source: Ho Chi Minh Stock Exchange

Financial outlook

Figure 50: Key assumptions

D bn	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
MCH revenue	14,826	13,526	17,346	20,442	23,426	26,432	29,536	33,006
Seasonings	5,788	5,159	6,958	7,550	8,191	8,885	9,636	10,448
Convenience foods	3,621	3,585	4,636	5,332	6,110	6,978	7,945	9,023
Instant coffee	1,816	1,532	1,708	1,879	2,067	2,273	2,501	2,751
Beverages	1,643	2,045	2,789	4,044	5,257	6,309	7,255	8,343
Processed meat	36	220	210	378	435	500	575	661
Beer	1,081	350	388	582	669	770	885	1,018
Others	841	635	657	676	697	718	739	761
MNS revenue	24,423	18,690	13,977	15,375	16,912	18,603	20,464	22,510
MSR revenue	4,049	5,405	6,865	7,689	8,304	8,968	9,686	10,461
Total group revenue	43,297	37,621	38,188	43,505	48,642	54,003	59,685	65,976
Gross profit	12,930	11,632	11,881	14,132	16,169	18,308	20,185	22,095
Gross margin	29.9%	30.9%	31.1%	32.5%	33.2%	33.9%	33.8%	33.5%
EBIT	6,023	4,429	5,552	6,649	7,416	8,215	8,970	9,631
EBIT margin	13.9%	11.8%	14.5%	15.3%	15.2%	15.2%	15.0%	14.6%
TCB contribution	980	2,044	1,914	1,776	2,181	2,688	3,395	4,100
Earnings	2,791	2,170	3,444	5,262	6,742	7,834	8,649	9,722
Drivers								
Sauces market	22,148	24,321	26,842	28,721	30,731	32,882	35,184	37,647
% increase	9.0%	9.8%	10.4%	7.0%	7.0%	7.0%	7.0%	7.0%
Market share	38.7%	36.5%	35.4%	35.9%	36.4%	36.9%	37.4%	37.9%
Noodle market	32,128	34,601	37,809	40,834	44,101	47,629	51,439	55,554
% increase	6.2%	7.7%	9.3%	8.0%	8.0%	8.0%	8.0%	8.0%
Market share	11.9%	10.6%	7.7%	8.2%	8.7%	9.2%	9.7%	10.2%

Source: Company data, Euromonitor, UBS estimates

**UBS Evidence Lab is a sell-side team of experts, independent of UBS Research, that work across 12 practice areas and 45 specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research Analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of over 3,000 differentiated UBS Research reports. UBS Evidence Lab does not provide research, investment recommendations, or advice, but provides insight-ready datasets for further analysis by UBS Research and by clients.*

For this report, UBS Evidence Lab conducted 2,000 computer aided personal interviews (CAPI) of Vietnam consumers aged 18-64 years old in both urban and rural districts of Can Tho, Ha Noi, Da Nang and Ho Chi Minh. The interviews were conducted from 14 May to 1 June 2018 and the sample is weighted to reflect population distributions across the four cities. Conclusions based on the total sample have a potential sampling error of just +/-1.74% at a 90% confidence level.

Masan (MSN.HM)

	12/16	12/17	12/18	12/19E	% ch	12/20E	% ch	12/21E	12/22E	12/23E
Income statement (Dbn)										
Revenues	43,297	37,621	38,188	43,505	13.9	48,642	11.8	54,003	59,685	65,976
Gross profit	12,930	11,632	11,881	14,132	18.9	16,169	14.4	18,308	20,185	22,095
EBITDA (UBS)	8,402	7,025	8,202	9,739	18.7	10,635	9.2	11,603	12,563	13,462
Depreciation & amortisation	(2,379)	(2,597)	(2,650)	(3,090)	16.6	(3,218)	4.1	(3,388)	(3,593)	(3,832)
EBIT (UBS)	6,023	4,429	5,552	6,649	19.8	7,416	11.5	8,215	8,970	9,631
Associates & investment income	980	2,044	1,914	1,776	-7.2	2,181	22.8	2,688	3,395	4,100
Other non-operating income	(162)	(254)	(305)	(31)	89.8	(29)	6.4	(27)	(25)	(22)
Net interest	(2,394)	(3,010)	(2,395)	(1,725)	28.0	(1,213)	29.7	(700)	(457)	(431)
Exceptionals (incl goodwill)	0	930	1,477	0	-	0	-	0	0	0
Profit before tax	4,446	4,139	6,244	6,669	6.8	8,355	25.3	10,176	11,883	13,278
Tax	(674)	(531)	(622)	(667)	-7.2	(835)	-25.3	(1,526)	(2,377)	(2,656)
Profit after tax	3,772	3,608	5,622	6,002	6.8	7,519	25.3	8,650	9,506	10,622
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(981)	(505)	(705)	(740)	-5.0	(777)	-5.0	(816)	(857)	(900)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	2,791	3,103	4,916	5,262	7.0	6,742	28.1	7,834	8,649	9,722
Net earnings (UBS)	2,792	2,172	3,439	5,262	53.0	6,742	28.1	7,834	8,649	9,722
Tax rate (%)	15.2	12.8	10.0	10.0	0.3	10.0	0.0	15.0	20.0	20.0
Per share (D)										
EPS (UBS, diluted)	2,452.53	2,073.92	2,956.71	4,523.54	53.0	5,796.32	28.1	6,734.86	7,435.97	8,358.57
EPS (local GAAP, diluted)	2,452.38	2,962.06	4,226.88	4,523.54	7.0	5,796.32	28.1	6,734.86	7,435.97	8,358.57
EPS (UBS, basic)	2,452.53	2,073.92	2,956.71	4,523.54	53.0	5,796.32	28.1	6,734.86	7,435.97	8,358.57
Net DPS (D)	2,000.00	0.00	0.00	0.00	-	0.00	-	0.00	3,717.99	4,179.29
Cash EPS (UBS, diluted) ¹	4,542.79	4,552.89	5,234.97	7,180.28	37.2	8,563.23	19.3	9,647.26	10,525.28	11,652.74
Book value per share	13,420.63	14,164.33	25,350.78	29,874.32	17.8	35,670.64	19.4	42,405.50	46,123.48	50,302.77
Average shares (diluted)	1,138.26	1,047.47	1,163.15	1,163.15	0.0	1,163.15	0.0	1,163.15	1,163.15	1,163.15
Balance sheet (Dbn)										
Cash and equivalents	14,920	8,057	4,962	5,455	10.0	6,096	11.7	6,847	7,626	10,079
Other current assets	7,956	7,088	7,538	8,387	11.3	9,230	10.1	11,770	14,577	16,080
Total current assets	22,876	15,145	12,500	13,842	10.7	15,326	10.7	18,618	22,202	26,159
Net tangible fixed assets	25,691	25,611	25,970	26,879	3.5	28,161	4.8	29,773	31,680	33,849
Net intangible fixed assets	7,231	6,689	5,925	5,925	0.0	5,925	0.0	5,925	5,925	5,925
Investments / other assets	17,241	16,084	20,184	20,285	0.5	20,389	0.5	20,497	20,610	20,726
Total assets	73,039	63,529	64,579	66,932	3.6	69,801	4.3	74,813	80,417	86,659
Trade payables & other ST liabilities	9,280	6,367	6,552	6,897	5.3	7,247	5.1	7,609	8,030	8,511
Short term debt	8,618	9,166	9,244	5,000	-45.91	4,000	-20.00	4,000	4,000	4,000
Total current liabilities	17,898	15,533	15,796	11,897	-24.7	11,247	-5.5	11,609	12,030	12,511
Long term debt	32,472	25,630	12,752	13,000	1.9	9,000	-30.8	5,000	5,000	5,000
Other long term liabilities	2,356	2,140	1,952	1,952	0.0	1,953	0.0	1,954	1,954	1,955
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	52,726	43,303	30,499	26,850	-12.0	22,200	-17.3	18,562	18,985	19,466
Common s/h equity	15,276	14,837	29,487	34,748	17.8	41,490	19.4	49,324	53,649	58,510
Minority interests	5,036	5,388	4,593	5,333	16.1	6,110	14.6	6,927	7,784	8,683
Total liabilities & equity	73,039	63,529	64,579	66,931	3.6	69,800	4.3	74,813	80,417	86,659
Cash flow (Dbn)										
Net income (before pref divs)	2,791	3,103	4,916	5,262	7.0	6,742	28.1	7,834	8,649	9,722
Depreciation & amortisation	2,379	2,597	2,650	3,090	16.6	3,218	4.1	3,388	3,593	3,832
Net change in working capital	1,714	(2,317)	(588)	(534)	9.1	(525)	1.7	(2,210)	(2,417)	(1,056)
Other operating	9	(52)	(34)	0	-	0	-	0	0	0
Operating cash flow	6,894	3,330	6,945	7,817	12.6	9,435	20.7	9,011	9,826	12,498
Tangible capital expenditure	(2,594)	(2,842)	(3,375)	(4,000)	-18.5	(4,500)	-12.5	(5,000)	(5,500)	(6,000)
Intangible capital expenditure	(600)	(542)	(764)	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	5,519	1,265	(3,933)	(69)	-	(72)	-	(76)	(80)	(84)
Investing cash flow	2,325	(2,118)	(8,072)	(4,069)	49.6	(4,572)	-12.4	(5,076)	(5,580)	(6,084)
Equity dividends paid	(2,304)	0	0	0	-	0	-	0	(4,325)	(4,861)
Share issues / (buybacks)	(5,251)	(5,422)	10,011	740	-92.6	777	5.0	816	857	900
Other financing	(2,033)	2,232	(1,073)	0	-	0	-	0	0	0
Change in debt & pref shares	5,471	(6,294)	(12,801)	(3,995)	68.79	(5,000)	-25.14	(4,000)	0	0
Financing cash flow	(4,117)	(9,484)	(3,863)	(3,255)	15.7	(4,223)	-29.7	(3,184)	(3,468)	(3,961)
Cash flow inc/(dec) in cash	5,102	(8,272)	(4,989)	493	-	640	29.8	752	778	2,453
FX / non cash items	1,199	1,410	1,894	0	-100.0	0	-	0	0	0
Balance sheet inc/(dec) in cash	6,301	(6,863)	(3,095)	494	-	640	29.7	752	778	2,453

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Masan (MSN.HM)

	12/16	12/17	12/18	12/19E	12/20E	12/21E	12/22E	12/23E
Valuation (x)								
P/E (local GAAP, diluted)	18.6	16.7	20.8	19.1	14.9	12.8	11.6	10.3
P/E (UBS, diluted)	18.6	23.8	29.8	19.1	14.9	12.8	11.6	10.3
P/CEPS	10.0	10.8	16.8	12.0	10.1	9.0	8.2	7.4
Equity FCF (UBS) yield %	7.2	(0.1)	3.0	3.8	4.9	4.0	4.3	6.5
Net dividend yield (%)	4.4	0.0	0.0	0.0	0.0	0.0	4.3	4.8
P/BV x	3.4	3.5	3.5	2.9	2.4	2.0	1.9	1.7
EV/revenues (core)	1.7	2.0	2.7	2.4	2.1	1.8	1.6	1.4
EV/EBITDA (core)	8.7	10.8	12.7	10.8	9.5	8.3	7.5	6.9
EV/EBIT (core)	12.2	17.1	18.8	15.8	13.6	11.7	10.5	9.7
EV/OpFCF (core)	-	-	14.1	12.0	10.6	9.3	8.4	7.8
EV/op. invested capital	2.2	2.3	3.0	3.0	2.7	2.4	2.1	2.0
Enterprise value (Dbn)								
Market cap.	51,260	55,163	92,473	100,612	100,612	100,612	100,612	100,612
Net debt (cash)	26,586	26,455	21,886	14,789	9,724	4,529	1,764	148
Buy out of minorities	7,765	5,212	4,991	4,963	5,722	6,519	7,355	8,233
Pension provisions/other	1,798	1,648	1,489	1,412	1,412	1,413	1,414	1,414
Total enterprise value	87,410	88,479	120,839	121,777	117,471	113,073	111,145	110,408
Non core assets	(14,058)	(12,792)	(16,725)	(16,794)	(16,866)	(16,942)	(17,022)	(17,106)
Core enterprise value	73,352	75,687	104,114	104,983	100,605	96,131	94,123	93,302
Growth (%)								
Revenue	41.4	-13.1	1.5	13.9	11.8	11.0	10.5	10.5
EBITDA (UBS)	42.1	-16.4	16.7	18.7	9.2	9.1	8.3	7.2
EBIT (UBS)	46.9	-26.5	25.4	19.8	11.5	10.8	9.2	7.4
EPS (UBS, diluted)	107.8	-15.4	42.6	53.0	28.1	16.2	10.4	12.4
Net DPS	-	-	-	-	-	-	-	12.4
Margins & Profitability (%)								
Gross profit margin	29.9	30.9	31.1	32.5	33.2	33.9	33.8	33.5
EBITDA margin	19.4	18.7	21.5	22.4	21.9	21.5	21.0	20.4
EBIT margin	13.9	11.8	14.5	15.3	15.2	15.2	15.0	14.6
Net earnings (UBS) margin	6.4	5.8	9.0	12.1	13.9	14.5	14.5	14.7
ROIC (EBIT)	17.8	13.2	16.1	18.8	20.1	20.6	20.4	20.2
ROIC post tax	14.3	7.2	12.6	16.2	17.3	16.4	14.7	14.4
ROE (UBS)	17.5	14.4	15.5	16.4	17.7	17.3	16.8	17.3
Capital structure & Coverage (x)								
Net debt / EBITDA	3.1	3.8	2.1	1.3	0.6	0.2	0.1	(0.1)
Net debt / total equity %	128.8	132.2	50.0	31.3	14.5	3.8	2.2	(1.6)
Net debt / (net debt + total equity) %	56.3	56.9	33.3	23.8	12.7	3.7	2.2	(1.6)
Net debt/EV %	35.7	35.3	16.4	11.9	6.9	2.2	1.5	(1.2)
Capex / depreciation %	114.4	117.1	163.9	161.8	173.1	184.5	191.3	195.7
Capex / revenue %	6.0	7.6	8.8	9.2	9.3	9.3	9.2	9.1
EBIT / net interest	2.5	1.5	2.3	3.9	6.1	11.7	19.6	22.3
Dividend cover (UBS)	1.2	-	-	-	-	-	2.0	2.0
Div. payout ratio (UBS) %	81.5	-	-	-	-	-	50.0	50.0
Revenues by division (Dbn)								
Masan Consumer	14,826	13,526	17,346	20,442	23,426	26,432	29,536	33,006
Masan Nutri-Science	24,423	18,690	13,977	15,375	16,912	18,603	20,464	22,510
Masan Resources	4,049	5,405	6,865	7,689	8,304	8,968	9,686	10,461
Others	0	0	0	0	0	0	0	0
Total	43,297	37,621	38,188	43,505	48,642	54,003	59,685	65,976
EBIT (UBS) by division (Dbn)								
Masan Consumer	2,062	1,862	3,265	3,925	4,451	5,022	5,612	6,106
Masan Resources	563	1,431	1,930	2,240	2,336	2,523	2,725	2,943
Masan Nutri-Science	3,398	1,270	555	769	947	1,023	1,023	1,013
Others	0	(134)	(198)	(284)	(318)	(353)	(390)	(431)
Total	6,023	4,429	5,552	6,649	7,416	8,215	8,970	9,631

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+30.6%
Forecast dividend yield	0.0%
Forecast stock return	+30.6%
Market return assumption	10.0%
Forecast excess return	+20.6%

Valuation Method and Risk Statement

We derive our price target based on an SOTP valuation, using DCF for Masan Consumer, PE for Masan Nutriscience, EV/EBITDA for Masan Resources, our house valuation for Techcombank, and book value for other long-term investments.

We believe company-specific risks include: inadequate strategic planning resulting in an inability to meet long-term strategic objectives; increasing competition resulting in margin pressure and market share losses; risks from operational errors; inventory obsolescence and ineffective inventory lifecycle management; social media risk that may lead to reputational damage; succession risk where key roles in the company are satisfactorily filled within an acceptable timeframe; failure of IT system; product contamination due to operational negligence; increase price in raw material and wages, utilities, transport costs; adverse impact from pig prices and other factors that affect the overall pig market; foreign exchange risk; overpaying for acquisitions and integration failure; volatility in global prices for the minerals; negative impact from State Bank of Vietnam's new regulations, poor control of asset quality, cyber-attack risks.

Industry-specific risks include changes in consumer preferences/loyalty that lead to reduced demand in Masan's products; adverse regulatory developments for the mineral sectors; impact on export tariffs from other countries on consumer and minerals products; disease outbreak in pigs that can lead to product contamination and quality issues.

Country-specific risks include slowing economic growth; rising inflation; increasing unemployment; adverse political developments leading to instability; trade war leading to trade restrictions; adverse weather and natural disasters such as flooding that could impact consumption.

We derive our TCB price target from a two-stage valuation model (DDM and Gordon growth model). Key downside risks to our estimates are competition, particularly as the sector remains fragmented, and regulations that may hinder the bank's ability to quickly grow fee income. If the bank cannot gear up the balance sheet effectively, ROE could disappoint due to ongoing balance sheet deleveraging. NPLs could surprise negatively if the bank compromises asset quality as it tries to lever up the balance sheet. Although the bank has sufficient capital, its ability to expand credit could be limited by the regulator. The profitability outlook could also be at risk if the macro environment is weaker than we expect. We also flag risk from changes to top management. We note the relatively high turnover of CEOs. TCB hired two foreign CEOs during 2012-15 before the current CEO, Mr Nguyen Le Quoc Anh, took the position in 2016. Like other banks, TCB faces the risk of cyber-attacks. This could lead to higher spending on system upgrades and downside risk to our EPS estimates.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	49%	26%
Neutral	FSR is between -6% and 6% of the MRA.	38%	23%
Sell	FSR is > 6% below the MRA.	14%	14%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2018.

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3: Percentage of companies under coverage globally within the Short-Term rating category.

4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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Company Disclosures

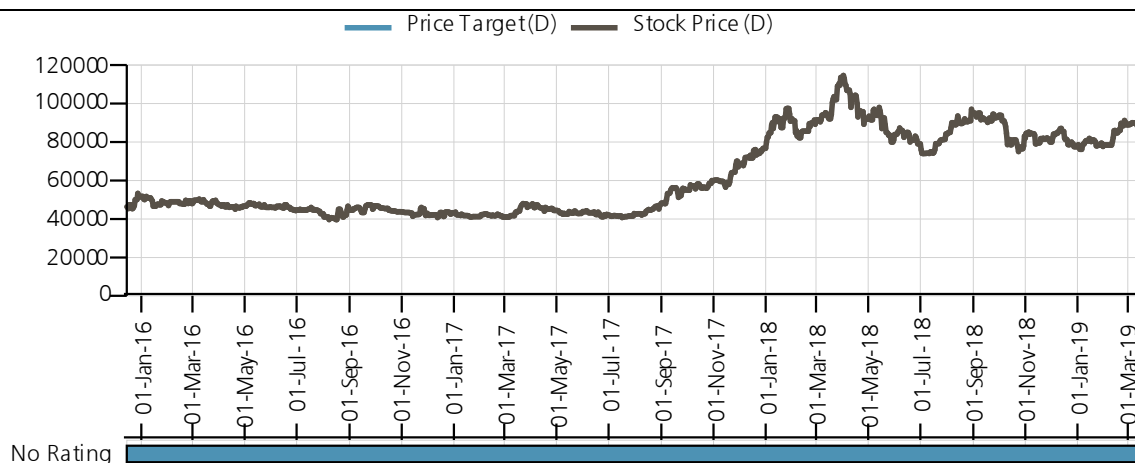
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Masan	MSN.HM	Not Rated	N/A	D86,500.00	15 Mar 2019
Techcombank	TCB.HM	Buy	N/A	D26,850.00	15 Mar 2019

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

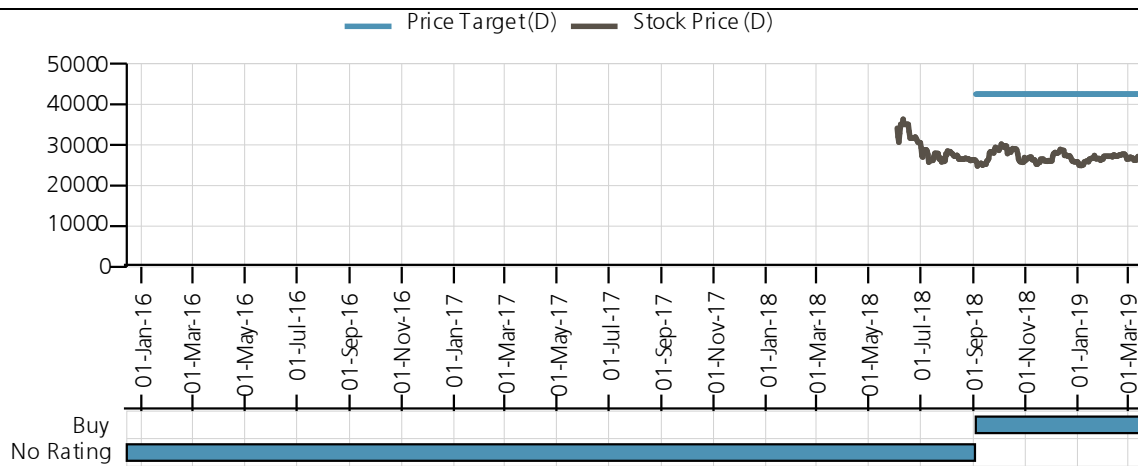
Masan (D)



Date	Stock Price (D)	Price Target (D)	Rating
2015-12-15	46333.36	-	No Rating

Source: UBS; as of 15 Mar 2019

Techcombank (D)



Date	Stock Price (D)	Price Target (D)	Rating
2015-12-15	NaN	-	No Rating
2018-09-04	26100.0	42500.0	Buy

Source: UBS; as of 15 Mar 2019

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