

Asian Daily

## Masan Group (MSN.HM)

### Upbeat management guidance for 3Q; higher margins outlook over the medium term

Maintain OUTPERFORM

Previous Rating: OUTPERFORM

Target price (D): 162,000

Previous target price (D): 137,000

- We lift 2021/22E EPS by 57/23% and TP to D162,000 (D137,000), following MSN's guidance for 3Q (sales/PATMI: +30%/44% YoY) and higher EBIT margins outlook for retail in 2H (1% vs. 1H: -3.6%).
- Management has seen solid growth in noodles and seasonings in July, given higher demand amid the ongoing COVID lockdown in major cities in Vietnam with the momentum likely to continue in the near term and support sales growth for F&B in 3Q (+45% YoY). Similarly, MSN expects retail (VCM)'s sales to accelerate in 3Q (+15% YoY).
- Masan High-Tech Materials (MHT)'s core profit turned black for the first time in 2Q (D2 bn) since 3Q19 on stronger tungsten APT prices (~US\$270: +26% YoY), with the rising trend likely to sustain due to recovery in global demand. Also, Masan MEATLife's performance is on track, with robust recovery in feed sales and up-scaling of fresh meat.
- Our EPS revisions factor in: (1) higher sales and EBITDA margin (+40-95 bp) for VCM on rising sales/store and GPM and (2) higher earnings for MHT on stronger APT prices. TP is also higher given (1) raising 2022E EV/EBITDA to 12x for MHT (~Mitsubishi deal vs 10x) and (2) 28x target P/E for F&B (~regional peer re-rating/vs. 27x).

#### Pick up in seasonings and noodles volumes on upbeat demand in 3Q.

Management saw robust growth in seasonings and noodles volumes in July, due to increasing home meal consumption, amid the ongoing COVID lockdown in major cities in Vietnam. The momentum is likely to continue in the near term and support sales growth for F&B business—Masan Consumer Holdings (MCH) in 3Q (+45% YoY) and 2H (double-digit YoY growth vs 1H: +5% YoY). In profitability, while MCH's GPM is expected to be stable in 2H (~1H: 39.6%), management targets a better EBITDA margin in 2H, compared to 1H (22.3%) on higher topline growth and rationalisation of opex.

**VCM to benefit from higher shift to MT and online sales.** Similarly, MSN has also witnessed robust sales growth for retail in July, given higher demand amid the lockdown (July SSSG: up >11% MoM). This trend is expected to continue in the near term, amid increasing shift from wet markets to modern trade and continued stock piling of grocery items by consumers, which would strongly benefit VCM's sales growth in 3Q (+15% YoY). Online sales were off to a good start (~0.5% of total retail sales in July); management expects sales to accelerate in the next few quarters following the strategic partnership with Lazada. Moreover, MSN plans to further improve VCM's GPM in 2H (+84-104 bp HoH), driven by (1) continued negotiations with suppliers and (2) rolling out of new VinMart+ (Mini-supermarkets/CVs) store format (2H: 227 vs. 1H: 62) with higher fresh portfolio (40% vs. 30%). The roll out of Phuc Long kiosks of 41 stores in 2Q, with intact target of 1,000 by year end would also support further margin expansion for VCM. Overall, management is confident of achieving EBIT margin of 1% for VCM in 2H (1H: -3.6%), following breakeven in June.

**Better outlook for mining; recovery in feed sales and fresh meat expansion on track.** MHT's core profit turned black for the first time in 2Q (D2 bn) since 3Q19, given stronger tungsten APT prices (2Q: avg US\$270/mtu up 26% YoY), with the increasing trend likely to sustain due to global demand recovery. Management expects upswing in APT prices (US\$305/mtu as of July: +17% YTD) and better copper sales

<b>Price (10-Aug-21, D)</b>	<b>138,500</b>	Est. pot. % chg. to TP	17.0	
Mkt cap (D bn/US\$ mn)	163,504 / 7,139	Blue sky scenario (D)	185,493	
Number of shares (mn)	1,181	Grey sky scenario (D)	102,313	
Free float (%)	34.2	<b>Performance</b>	<b>1M 3M 12M</b>	
52-wk range (D)	141,000 - 50,946	Absolute (%)	18.5 34.3 159.4	
ADTO-6M (US\$ mn)	8.3	Relative (%)	17.3 27.0 97.8	
<b>Year</b>	<b>12/20A</b>	<b>12/21E</b>	<b>12/22E</b>	<b>12/23E</b>
Revenue (D bn)	77,217.8	94,649.9	109,916	125,745
EBITDA (D bn)	9,541.2	12,063.8	15,447.5	18,388.9
EBIT (D bn)	2,810.8	6,657.4	9,824.9	12,649.9
Net profit (D bn)	1,234.0	3,799.9	6,349.1	10,405.2
EPS (CS adj.) (D)	1,045	3,219	5,378	8,814
Chg. from prev. EPS (%)	n.a.	56.8	23.2	24.6
Consensus EPS (D)	n.a.	2,753	4,380	6,542
EPS growth (%)	(68.4)	207.9	67.1	63.9
P/E (x)	132.5	43.0	25.8	15.7
Dividend yield (%)	0.7	0.7	0.0	0.0
EV/EBITDA (x)	22.8	17.8	13.1	10.4
P/B (x)	10.26	8.7	6.51	4.6
ROE (%)	4.2	21.9	28.9	34.3
Net debt/equity (%)	216.8	177.1	102.9	55.0

Source: Company data, Refinitiv, Credit Suisse estimates

(2H: +74% YoY) to help MHT to grow topline 80% YoY and PATMI 28% YoY in 2H. As for Masan MEATLife, expansion of fresh meat is on track with 2,700 POS as of June in both general trade and modern trade (Dec-20: 1,627), and impressive EBITDA margin expansion (1H: 20% vs 2020: 7%). Moreover, following upbeat feed sales in 1H (+33% YoY), the earnings outlook for the business is expected to remain resilient near term due to continued demand recovery post African swine flu.

**Earnings and TP raised on brighter growth prospects.** We lift our 2021-22E EPS by 57/23% on: (1) higher sales and EBITDA margin (+40-95 bp) for VCM on rising sales/store and GPM, (2) stronger sales and margins for MCH and (3) higher earnings for MHT amid rising APT prices, offset by lower margins for feed. Our TP is also increased to D162,000 (D137,000) on i) higher 2022E EV/EBITDA of 12x for MHT (in-line with Mitsubishi transaction vs. previous 10x) on better operational outlook and ii) 28x 2022E P/E for F&B (in-line with regional peer re-rating and vs. previous 27x). Following the revisions, CS' 2021-22E EPS are 137%/142% of street's est and we expect similar consensus EPS upgrade as well. MSN trades at an attractive 18.5x 2022E normalised P/E (ex-VCM and 16% below historical avg.) with a robust 2021-24E EBITDA CAGR of 18%. Stay OUTPERFORM.

Figure 1: Summary of earnings revisions

D bn	New estimate		Old estimate		% change	
	2021E	2022E	2021E	2022E	2021E	2022E
<b>Net revenue</b>	<b>34,650</b>	<b>109,916</b>	<b>88,751</b>	<b>105,025</b>	<b>7%</b>	<b>5%</b>
Masan Consumer Holdings	27,944	30,314	27,429	30,387	2%	0%
VinCommerce	32,218	40,031	29,597	38,496	9%	4%
Masan MEATLife	20,515	23,022	20,337	22,808	1%	1%
Masan High-Tech Materials	13,975	16,850	11,389	13,335	23%	24%
<b>EBITDA</b>	<b>12,064</b>	<b>14,148</b>	<b>10,586</b>	<b>14,010</b>	<b>14%</b>	<b>10%</b>
<b>EBITDA margin</b>	<b>12.7%</b>	<b>14.1%</b>	<b>11.9%</b>	<b>13.3%</b>	<b>+82 bp</b>	<b>-71 bp</b>
Masan Consumer Holdings	22.5%	22.5%	21.4%	22.5%	+107 bp	Flat
VinCommerce	3.5%	5.5%	2.5%	5.1%	+95 bp	+40 bp
Masan MEATLife	9.1%	10.9%	10.1%	11.3%	-100 bp	-37 bp
Masan High-Tech Materials	21.3%	24.7%	21.3%	23.8%	Flat	+88 bp
<b>Net financial expense</b>	<b>4,573</b>	<b>4,359</b>	<b>4,324</b>	<b>3,516</b>	<b>8%</b>	<b>24%</b>
<b>PBT</b>	<b>5,833</b>	<b>9,371</b>	<b>4,300</b>	<b>8,272</b>	<b>36%</b>	<b>13.3%</b>
<b>Minority interest</b>	<b>1,158</b>	<b>1,918</b>	<b>878</b>	<b>1,374</b>	<b>32%</b>	<b>-3%</b>
<b>NPATMI</b>	<b>3,800</b>	<b>6,349</b>	<b>2,423</b>	<b>5,155</b>	<b>57%</b>	<b>28%</b>

Source: Credit Suisse estimates

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## Valuation Methodology and Risks

### Target Price and Rating

#### Valuation Methodology and Risks: (12 months) for Masan Group (MSN.HM)

**Method:** We use SOTP (sum-of-the-parts) to value Masan Group at D162,000. For the consumer business we use a target P/E (price-to-earnings) multiple of 28.0x on 2022E NPAT. We assign a target 2022E EV/EBITDA of 12x for mining. For Masan MEATLife, we use a target P/E of 10.0x on 2022E earnings of feed business and DCF of MEATDeli. For VCM, we apply 2022E EV/S multiple of 1.7x (in line with the recent TCX transaction price). Associate stakes in Techcombank are taken at market value. Other long-term investments are assumed at cost. Our total SOTP is lowered by a conglomerate discount of 15% to derive a target price of D162,000. We have an OUTPERFORM rating on MSN given: (1) increasing synergy signs between F&B and grocery retail, (2) boosting online grocery retail via Lazada and (3) continuing strong execution in fresh meat and full recovery in feed. Cumulatively, we estimate a 2021-24E consolidated EBITDA CAGR of 18%.

**Risk:** Key risks to our OUTPERFORM rating and D162,000 target price for Masan Group are: (1) lower margins for VCM, (2) slower recovery in demand for feed, (3) lower-than-expected global tungsten prices and (4) weaker performance of innovation or premium consumer product launches.

### Companies Mentioned (Price as of 10-Aug-2021)

**Masan Consumer** (MCH.HNO, D127800.0)

**Masan Group** (MSN.HM, D138500.0, OUTPERFORM, TP D162000.0)

**Masan MEATLife** (MML.HNO, D75900.0)

**Mitsubishi Materials** (5711.T, ¥2,278)

## Disclosure Appendix

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

MSN.HM	Closing Price	Target Price	Rating
Date	(D)	(D)	
19-Sep-18	89352.19		R
27-Sep-18	91605.59	101892.85	O
30-Oct-18	76419.64	96014.41	
20-Mar-19	83277.81	97973.89	
24-Apr-19	86217.02	95034.68	
08-Jul-19	82787.94	95034.68	*
03-Sep-19	72500.68	89156.24	
06-Nov-19	74460.16	81808.20	N
17-Dec-19	54963.35		R
02-Jan-20	55355.25	81808.20	N
11-Feb-20	48888.97	56530.94	
20-Mar-20	48203.15	54865.38	
02-Jun-20	62605.32	59078.26	
18-Aug-20	51338.32	66622.25	O
26-Oct-20	86119.05		R
24-Nov-20	80338.59	66622.25	O
09-Mar-21	85960.62	106087.50	
06-Apr-21	91116.28		R
20-May-21	107078.98	106087.50	O
07-Jul-21	116000.00	137000.00	

\* Asterisk signifies initiation or assumption of coverage.



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