

13 May 2020

Masan Group (MSN)

Masan Consumer to lead recovery in 2Q

- Masan Group recorded loss in 1Q20
- 2Q20 profit growth to be driven by Masan Consumer
- Maintain BUY at TP of VND77,000

Facts: Masan Group recorded loss in 1Q20

In 1Q20, Masan Group recorded net revenue of VND17,638bn, increasing 116% yoy, driven by the consolidation of VND8,708bn of VinCommerce and Masan Consumer organic growth of +16.3% yoy. Masan MEATLife reached revenue of VND3,318bn, increasing 4% yoy, while Masan Resources recorded revenue of VND1,065bn, decreasing 10.4% yoy.

Despite posting 2x revenue growth, Masan Group recorded NPATMI loss of VND78bn in 1Q20 due to VinCommerce's negative EBITDA margin of -5.1%, MEATDeli's overheat input live hog price and yoy decrease of metal price.

Pros & cons: 2Q20 recovery by Masan Consumer

We estimate negative factors of 1Q20 including overheat live hog price, low metal price and VinCommerce's operational loss to continue to make an adverse impact on Masan Group's performance in 2Q20. However, we expect a strong recovery of the bottom line in 2Q20, based on following points:

- **Masan Consumer's revenue to grow at double-digit rate**, thanks to the acceleration of MT channel and the post-COVID-19 rebound of seasonings in HORECA channel (hotel, restaurant and catering).
- **Masan Consumer's operating profit margin to widen** thanks to larger revenue portion of seasonings, which have higher profit margin than convenience food.
- **VinCommerce to see EBITDA margin's improvement**, driven by revenue ramp-up of stores opened in 2019, including 27 Vinmart stores and 1,192 Vinmart+ stores, and cost saving attempts, which we expect to go forward in the coming quarters.

Action: Maintain BUY at TP of VND77,000

Despite of cautious views about live hog price and metal price, we expect Masan Consumer's profit growth in combination with VinCommerce's cost restructuring to lead Masan Group's profit recovery in 2Q20. We maintain **BUY** for MSN share with TP of VND77,000. Total expected return is 24%.

12M rating **BUY (Maintain)**

12M TP **77,000** from 72,300

Up/Downside **+24%** (incl 0% cash dividend)

Stock data

VNIndex (11 May, pt)	835
Stock price (11 May, VND)	62,000
Market cap (USD mn)	3,106
Shares outstanding (mn)	1,169
52-Week high/low (VND)	91,300/49,000
6M avg. daily turnover (USD mn)	3.51
Free float / Foreign ownership (%)	25.8/36.1
Major shareholders (%)	
Masan JSC	31
Sun Flower Construction	13
SK Investment Vina	9
Ardolis Investment	6

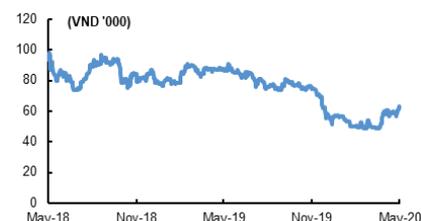
Valuation

	2019A	2020F	2021F
PE (x)	13.0	30.5	13.8
PB (x)	1.7	1.6	1.4
ROE (%)	15.4	5.4	11.0
DY (%)	0.0	0.0	0.0
EV/EBITDA (x)	7.8	7.0	5.7
EPS (VND)	4,766	2,036	4,500
BPS (VND)	36,597	38,704	43,200

Performance

	1M	6M	12M
Absolute (%)	3	(17)	(29)
Relative to VNIndex (%p)	(7)	0	(19)

Stock price



Source: Bloomberg

Toan Dao

toan.dp@kisvn.vn

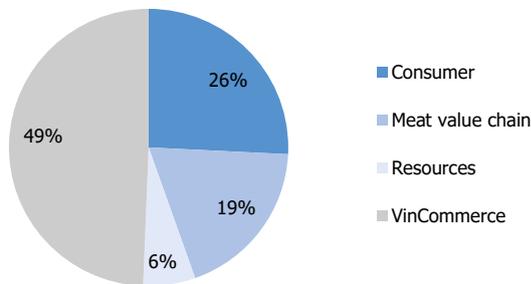
Table 1. Earnings and outlook

(VND bn, %, %p)

	2019				2020	2019	2020E	1Q20		
	1Q	2Q	3Q	4Q	1Q			QoQ	YoY	Consensus
Sales	8,160	9,250	8,968	10,976	17,638	37,354	75,335	60.7	116	N.A
Consumer	3,780	4,199	4,610	6,256	4,547	18,845	20,958	(27.3)	20.3	
Meat value chain	3,192	3,549	3,363	3,695	3,318	13,799	18,553	(10.2)	4.0	
Resources	1,188	1,501	996	1,025	1,065	4,710	4,831	3.9	(10.4)	
VinCommerce	-	-	-	-	8,708	-	30,993			
Gross profit	2,463	2,667	2,432	3,379	3,962	10,941	17,449	17.2	60.8	N.A
Gross margin	30.2	28.8	27.1	30.8	22	29.29	23.16	(8.3)	(7.7)	
Operating profit	1,160	1,226	896	1,561	53	4,843	4,093	(96.6)	(95.4)	N.A
Depreciation & Amortization	681	698	687	682	1,063	2,749	4,732	55.7	55.9	
EBT	1,141	1,275	2,667	2,021	(60)	9,287	5,066	(103)	(105)	N.A
Net profit	1,000	1,192	2,425	1,748	(216)	6,365	2,725	(112)	(122)	
Controlling-int. NP	865	1,016	2,228	1,448	(78)	5,557	2,380	(105)	(109)	
EBITDA	1,841	1,923	1,583	2,244	1,116	7,591	8,825	(50.3)	(39.4)	N.A
EBITDA margin	22.6	20.8	17.7	20.4	6	20.3	11.7	(14.1)	(16.2)	N.A
OP margin	14.2	13.2	10.0	14.2	0.3	13.0	5.4	(13.9)	(13.9)	

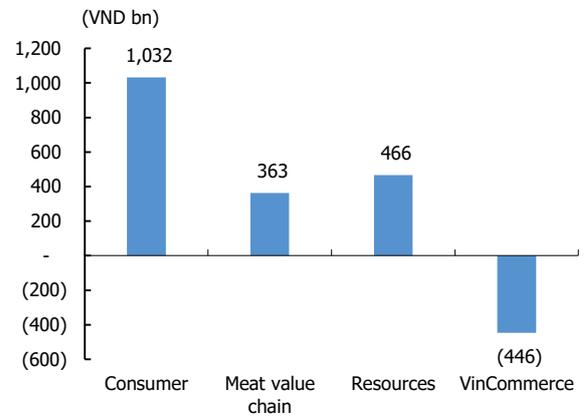
Source: Company data, KIS

Figure 1. Masan Group's revenue structure, 1Q20



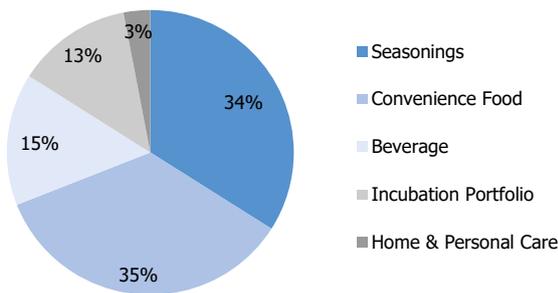
Source: Masan Group

Figure 2. Masan Group's EBITDA by segment, 1Q20



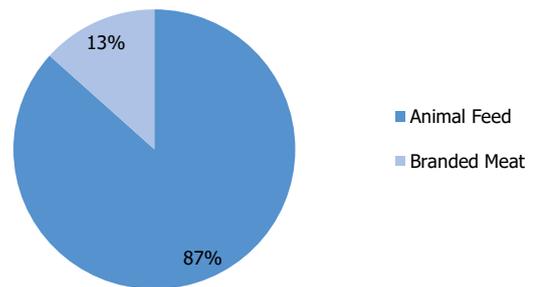
Source: Masan Group

Figure 3. Masan Consumer's revenue structure, 1Q20



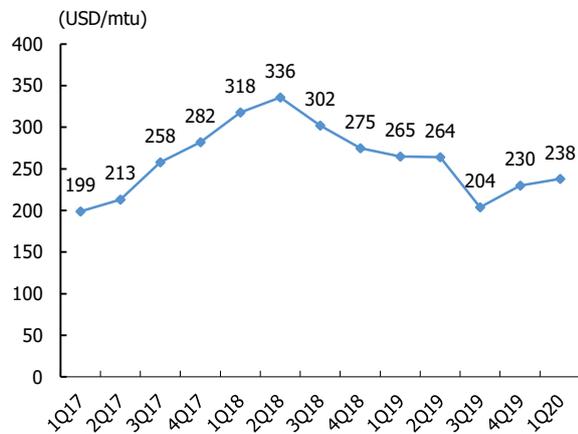
Source: Masan Group

Figure 4. Masan MEATLife's revenue structure, 1Q20



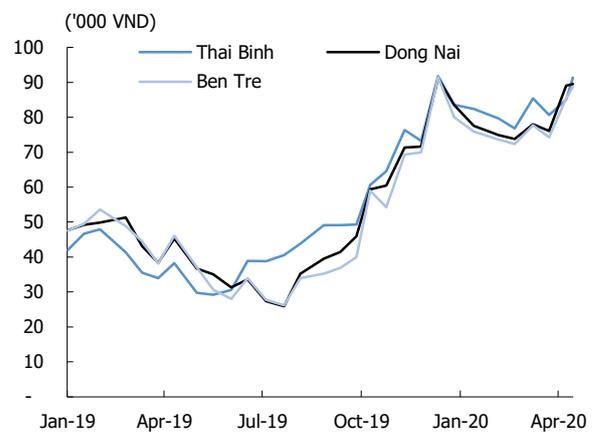
Source: Masan Group

Figure 5. APT European price



Source: Metals Bulletin

Figure 6. Vietnam domestic live hog price



Source: AgroMonitor

Table 2. Fair value calculation

(VND bn, VND, %)

Sum Of The Parts	2020E	Remarks
1) Masan Consumer		EV/EBITDA method
Equity value	60,136	
Masan's ownership	60%	We assume Vingroup to execute its right to receive 30% shares of a combined company holding Masan Consumer and VinCommerce
Equity value attributes to Masan Group (A)	36,082	EV/EBITDA multiple of peer group = 12
2) Masan MEATLife		EV/EBITDA method
Equity value	25,766	
Masan's ownership	79.3%	
Equity value attributes to Masan Group (B)	20,432	EV/EBITDA multiple of peer group = 13
3) Masan Resources		EV/EBITDA method
Equity value	14,258	
Masan's ownership	96%	
Equity value attributes to Masan Group (C)	13,687	3-Y median EV/EBITDA multiple = 11
4) VinCommerce		P/S method
Equity value	9,298	
Masan's ownership	58.6%	We assume Vingroup to execute its right to receive 30% shares of a combined company holding Masan Consumer and VinCommerce
Equity value attributes to Masan Group (D)	5,449	P/S multiple = 0.3
5) Long-term investment value		
Techcombank	12,494	RI and P/B method (Please refer to our Techcombank report for more details)
Other long-term investment	945	Market value
Equity value attributes to Masan Group (E)	13,440	
6) Other net assets (F)	990	We assume Vingroup to execute its right to receive 30% shares of a combined company holding Masan Consumer and VinCommerce
Equity Value (G) = (A) + (B) + (C) + (D) + (E) + (F)	90,080	Sum of the Parts. Parent BS
Common outstanding shares (mn shares)	1,169	
Target Price	77,000	2020
Annualized price return	24	
Expected dividend yield	-	
Total expected return	24	2020

Source: KIS

■ Company overview

Masan Group (MSN: HSX) is one of the largest diversified food and beverages corporation in Vietnam. The conglomerate also holds other businesses including grocery retailing, mining and an affiliate Techcombank.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	15,995	13,085	24,224	31,464	35,792
Cash & cash equivalents	8,057	4,962	7,585	11,537	12,003
Accounts & other receivables	3,605	3,790	7,017	9,006	9,851
Inventory	4,333	4,333	9,622	10,922	13,939
Non-current assets	43,006	46,723	61,577	65,108	64,408
Fixed assets	31,668	31,375	44,071	45,591	42,799
Investment assets	11,338	15,348	17,506	19,517	21,609
Others	4,528	4,771	11,496	7,521	7,521
Total assets	63,529	64,579	97,297	104,093	107,721
Advances from customers	241	335	1,179	2,378	3,031
Unearned revenue	-	-	12	24	31
Trade payables	2,184	2,705	5,666	6,344	8,096
Others	6,082	5,464	8,535	8,577	10,035
ST debt & due bonds	9,166	9,244	18,340	10,173	3,911
LT debt & bonds	25,630	12,752	11,676	21,676	21,676
Total liabilities	43,303	30,499	45,409	49,172	46,780
Controlling interest	14,837	29,487	42,780	45,243	50,499
Capital stock	11,574	11,631	11,689	11,689	11,689
Capital surplus	6,856	11,084	11,084	11,084	11,084
Other reserves	(15,943)	(9,423)	(8,553)	(8,537)	(8,537)
Retained earnings	12,350	16,193	28,559	31,006	36,262
Minority interest	5,388	4,593	9,108	9,678	10,442
Shareholders' equity	20,225	34,080	51,888	54,921	60,941

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	37,621	38,188	37,354	75,335	96,034
Operating profit	4,429	5,552	4,843	4,093	7,207
Financial income	1,405	1,902	1,188	432	531
Interest income	345	325	285	432	531
Financial expenses	3,696	3,091	2,201	3,507	3,105
Interest expenses	3,435	2,668	1,866	3,507	3,105
Other non-operating profit	2,800	3,035	3,843	2,024	2,092
Gains (Losses) in associates, subsidiaries and JV	2,044	1,914	2,182	2,024	2,092
Earnings before tax	6,183	8,158	9,287	5,066	8,817
Income taxes	531	622	740	317	701
Net profit	3,608	5,622	6,365	2,725	6,024
Net profit of controlling interest	3,103	4,916	5,557	2,380	5,260
EBITDA	7,039	8,257	7,591	8,825	12,109

Cash flow

(VND bn)

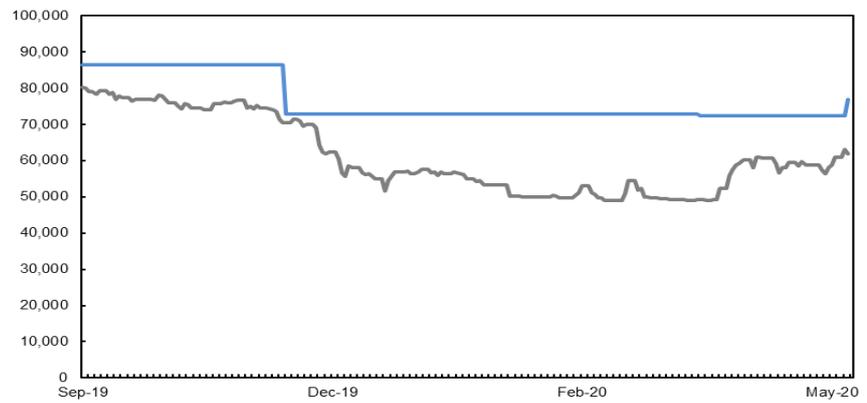
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,766	4,391	5,104	4,120	8,838
Net profit	3,608	5,622	6,365	2,725	6,024
Dep'n & Amort'n	2,611	2,705	2,749	4,732	4,901
Net incr. in W/C	(3,452)	(3,936)	(4,009)	(3,337)	(2,088)
C/F from investing	3,134	(3,867)	(6,011)	(1,992)	(2,109)
Capex	(2,100)	(2,628)	(3,140)	(1,992)	(2,109)
Incr. in investment	5,234	(1,238)	(2,872)	-	-
C/F from financing	(11,635)	(3,357)	3,117	1,824	(6,263)
Incr. in equity	(2,365)	10,928	271	-	-
Incr. in debt	(6,558)	(12,980)	3,236	1,824	(6,263)
Dividends	(2,713)	(1,304)	(390)	-	-
C/F from others	3	1	5	-	-
Increase in cash	(5,732)	(2,831)	2,215	3,952	466

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	2,700	4,539	4,766	2,036	4,500
BPS	12,819	25,351	36,597	38,704	43,200
DPS	2,970	-	-	-	-
Growth (%)					
Sales growth	(13.1)	1.5	(2.2)	101.7	27.5
OP growth	(26.5)	25.4	(12.8)	(15.5)	76.1
NP growth	(4.4)	55.8	13.2	(57.2)	121
EPS growth	10.8	67.2	4.5	(57.3)	121
EBITDA growth	(16.2)	17.3	(8.1)	16.2	37.2
Profitability (%)					
OP margin	11.8	14.5	13.0	5.4	7.5
NP margin	9.6	14.7	17.0	3.6	6.3
EBITDA margin	18.7	21.6	20.3	11.7	12.6
ROA	5.7	8.5	7.9	2.6	5.6
ROE	20.6	22.2	15.4	5.4	11.0
Dividend yield	4.8	-	-	-	-
Dividend payout ratio	110	-	-	-	-
Stability					
Net debt (VND bn)	26,739	17,034	22,431	20,199	13,471
Net debt/equity (%)	132	50	43	37	22
Valuation (x)					
PE	22.7	13.6	13.0	30.5	13.8
PB	4.8	2.4	1.7	1.6	1.4
EV/EBITDA	7.3	7.3	7.8	7.0	5.7

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Masan Group (MSN)	01 Mar 19	Hold	86,400		
	19 Nov 19	Hold	73,000		
	24 Mar 20	BUY	72,300		
	13 May 20	BUY	77,000		



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Prepared by: Toan Dao

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