

MASAN GROUP (MSN VN)

Bad news is priced in

BUY

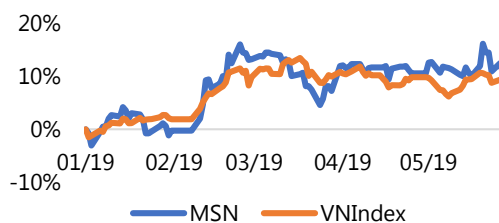
Current price: VND 76,800

Target price: VND 93,000
Upside: 18%

We attended MSN's analyst meeting yesterday. Although the company's 1H19 results lagged behind its full-year guidance, management remains confident in their ability to achieve this year's target. Although we are perhaps less optimistic than management, we believe that MSN's share price already reflects the weaker-than-consensus results. We reiterate our **BUY** recommendation.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
71,000-97,200	USD3.8bn	0.0	8.6%	24.8%	USD1.5mn

Price performance



Key Takeaways

- MCH: 2Q19 sales +6.6% YoY.
- MSR: 2Q19 sales of VND1.5 tn (-14% YoY).
- MML grew slightly, by only 0.7%, in 1H19.

Risks

- Slower-than-expected growth in food products of MCH
- Larger-than-expected impact from ASF.
- Tungsten pricing.

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Company profile: MSN holds controlling stakes in Masan Consumer, Masan Resources, and Masan MEATLife. It also holds a 20% associate stake in Techcombank. As such, the group represents a key play on the Vietnamese consumer, with operations in food and beverage, mining and processing, animal nutrition, and financial services.

MSN 2Q19 results and FY19 guidance

USD Bn	2Q19	YoY growth	FY2019 Guidance
Net revenues	9,250	+1%	45,000-50,000
Masan Consumer	4,113	+7%	20,400-22,300
Masan Resource	1,501	-14%	7,700-8,500
Masan MEATLife	3,636	+1%	16,900-19,200
Profit after tax	1,192	-50%	5,000-5,500
Core profit*	1,192	+37%	

Masan Consumer (MCH) delivered 6.6% YoY growth in 2Q19 sales. Beverages continued to be a leading growth driver, with 26% growth in sales for 1H19 driven by increased distribution coverage and new product formats (e.g. Compact cherry flavor). That said, slow growth of other products, coupled with low profit margin (due to increased raw fish sauce prices and the adjusted pricing policy for noodles) resulted in a 1% decline in operating profit in 1H19. For 2H19, management expects a better outlook with (1) double-digit growth in sales backed by new product innovations and the recovery of food products, along with (2) improved profit margin due to more efficient marketing and sales expenses.

Masan Resources (MSR) posted net revenue of VND1.5 tn in 2Q19 (-14% YoY). MSR was mainly affected by (1) lower copper volume due to lower head grades and (2) lower selling prices for tungsten. Soft market conditions also drove gross margin compression of 12 ppt (i.e., GM decreased from 36% in 2Q18 to 24% in 2Q19). Management believes that low tungsten prices are causing many Chinese producers to post losses, and thus the situation should not last long.

Masan MEATLife (MML) grew by only 0.7% in 1H19. MML (i.e., the former Masan Nutri-Science) saw double digit growth of poultry and aqua feed sales, but this was offset by a 17% decrease in pig feed sales. For 2H19, management believes pig feed consumption should recover as large-scale farms are ramping up volumes. As for MEATDeli, the business recorded c. VND 50 bn in 1H19, sales and thus is still a limited contributor to MML-wide revenues. The company guides for revenues of VND 500-1000 bn for FY19.

Despite the revenue decline, MSN's profit for 1H19 increased by 20% YoY which was mainly attributable to reduced interest expenses (of c. VND 500 bn). With VND 1.8 tn PAT in 1H19, MSN has only fulfilled 36% its FY19 guidance. However, management remains confident about their ability to reach this year's NPAT target.

Our view: We believe the poorer-than-consensus 2Q19 results is already priced into MSN's valuation following the 16% share price decline since late June. We see this as an attractive entry opportunity and reiterate our Buy recommendation.

Source: MSN

(*) After excluding 2Q18 abnormal profit of VND 1.5 tn (deemed disposal of MSN's interest in Techcombank).

PROFIT AND LOSS (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Revenue	37,621	38,188	42,272	46,161	50,623
<i>Masan Consumer</i>	<i>13,214</i>	<i>17,006</i>	<i>20,152</i>	<i>22,142</i>	<i>24,427</i>
<i>Masan Resources</i>	<i>5,405</i>	<i>6,865</i>	<i>7,393</i>	<i>7,620</i>	<i>7,768</i>
<i>Masan Nutri-Science</i>	<i>18,690</i>	<i>13,977</i>	<i>13,278</i>	<i>14,360</i>	<i>15,531</i>
<i>Other</i>	<i>312</i>	<i>339</i>	<i>1,449</i>	<i>2,039</i>	<i>2,897</i>
Cost of goods sold	(25,989)	(26,306)	(28,376)	(30,693)	(33,268)
Gross profits	11,632	11,881	13,896	15,468	17,355
Operating expenses	(7,203)	(6,330)	(7,694)	(8,170)	(9,872)
Operating profits	4,429	5,552	6,203	7,297	7,484
Net interest expenses	(3,696)	(3,091)	(1,543)	(1,664)	(1,531)
Net investments income/(loss)	2,044	1,914	1,965	2,412	2,653
Net other incomes	(43)	(33)	(37)	(37)	(37)
Pretax profits	4,139	6,244	6,588	8,007	8,569
Income taxes	(531)	(622)	(1,017)	(1,231)	(1,302)
Minority interests	505	705	600	729	780
Net profits	3,103	4,917	4,971	6,047	6,487
<i>Core earnings</i>	<i>2,171</i>	<i>3,405</i>	<i>4,971</i>	<i>6,047</i>	<i>6,487</i>
EBITDA	9,083	10,171	10,044	11,651	12,138
EPS (VND)	2,727	4,561	4,274	5,200	5,578

KEY RATIOS

	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	(13.1)	1.5	10.7	9.2	9.7
<i>Masan Consumer</i>	<i>(4)</i>	<i>29</i>	<i>18</i>	<i>10</i>	<i>10</i>
<i>Masan Resources</i>	<i>33</i>	<i>27</i>	<i>8</i>	<i>3</i>	<i>2</i>
<i>Masan Nutri-Science</i>	<i>(23)</i>	<i>(25)</i>	<i>(5)</i>	<i>8</i>	<i>8</i>
<i>Other</i>	<i>(70)</i>	<i>20</i>	<i>20</i>	<i>20</i>	<i>20</i>
Operating profit	(26.5)	25.4	11.7	17.6	2.6
EBITDA	(3.2)	12.0	(1.3)	16.0	4.2
Net profit	11.1	58.5	1.1	21.7	7.3
EPS (VND)	10.8	67.2	(6.3)	21.7	7.3
Profitability ratio (%)					
Gross margin	30.9	31.1	32.9	33.5	34.3
Operating margin	11.8	14.5	14.7	15.8	14.8
EBITDA margin	24.1	26.6	23.8	25.2	24.0
Net margin	8.2	12.9	11.8	13.1	12.8
ROA	5.2	5.3	8.8	7.6	8.8
ROE	15.9	17.8	20.7	16.1	17.6
Stability					
Net debt/equity (x)	1.8	0.6	0.6	0.4	0.3
Int. coverage (x)	1.2	1.8	4.0	4.4	4.9
Int. & ST debt coverage (x)	0.7	0.8	1.0	1.2	1.5
Cash conversion days	(19.2)	(6.8)	15.0	-	10.0
Current ratio (X)	1.0	0.8	0.8	0.9	1.0
Quick ratio (X)	0.7	0.5	0.4	0.6	0.6
Net cash/(debt) (VND mn)	(27,379)	(17,410)	(17,944)	(15,150)	(13,588)
Efficiency					
Days receivable outstanding	22	22	25	35	30
Days inventory outstanding	68	60	65	65	65
Days payable outstanding	109	89	75	100	85

Source: Company data, YSVN

BALANCE SHEET (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Total assets	63,529	64,579	65,416	71,920	73,436
Cash & cash equivalents	7,417	4,586	2,051	4,046	2,607
ST Investment	640	376	376	376	376
Accounts receivable	2,247	2,413	2,895	4,426	4,161
Inventories	4,333	4,333	5,053	5,466	5,924
Other current assets	508	792	832	873	917
Net fixed assets	32,300	31,895	31,818	31,676	31,475
Others	16,084	20,184	22,391	25,056	27,976
Total liabilities	43,303	30,499	28,004	29,890	26,341
Current liabilities	15,502	15,765	14,074	16,853	14,191
Accounts payable	6,336	6,521	5,831	8,409	7,747
ST debts	9,166	9,244	8,244	8,444	6,444
Long-term liabilities	27,801	14,734	13,930	13,037	12,150
Long-term debts	25,630	12,752	11,752	10,752	9,752
Others	2,171	1,983	2,178	2,285	2,398
Shareholder's equity	14,837	29,487	32,370	36,366	40,748
Share capital	18,429	22,716	22,716	22,716	22,716
Treasury stocks	(6,518)	-	-	-	-
Others	12,597	6,523	2,796	(2,115)	(7,507)
Retained earnings	12,350	16,193	19,920	24,831	30,223
Minority interest	5,388	4,593	5,042	5,664	6,347

CASH FLOW (VND bn)

<i>FY (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Operating cash flow	2,766	4,391	5,514	9,312	8,370
Net income	3,103	4,917	4,971	6,047	6,487
Dep. & amortisation	2,436	2,538	1,876	1,942	2,002
Change in working capital	(2,913)	185	(690)	2,578	(662)
Others	(2,479)	(3,859)	(1,057)	(1,273)	(1,345)
Investment cash flow	3,134	(3,867)	(4,007)	(4,465)	(4,719)
Net capex	(2,444)	(1,912)	(1,800)	(1,800)	(1,800)
Change in LT investment	2,033	(3,745)	(1,965)	(2,412)	(2,653)
Change in other assets	2,976	3,426	-	-	-
Cash flow after invt.	569	(1,635)	(242)	(254)	(267)
Financing cash flow	(11,635)	(3,357)	(4,041)	(2,852)	(5,090)
Change in share capital	3,893	58	-	-	-
Net change in debt	(6,294)	(12,801)	(2,000)	(800)	(3,000)
Change in other LT liab.	(9,234)	9,386	(2,041)	(2,052)	(2,090)
Net change in cash flow	(5,735)	(2,832)	(2,534)	1,995	(1,438)
Beginning cash flow	13,149	7,417	4,585	2,051	4,046
Ending Cash Balance	7,414	4,585	2,051	4,046	2,607

KEY METRICS

	2017A	2018A	2019E	2020E	2021E
PE (x)	28.6	28.6	19.6	16.1	15.0
Diluted PE (x)	30.9	30.9	19.6	16.1	15.0
PB (x)	4.4	4.4	3.3	3.0	2.7
EBITDA/share	7,848	7,848	8,745	8,635	10,017
DPS	2,344	1,121	1,500	1,500	1,500
Dividend yield (%)	3.6	1.5	1.8	1.8	1.8
EV/EBITDA (x)	8.1	12.7	9.6	9.7	8.3
EV/EBIT (x)	9.8	20.3	17.5	15.7	13.3

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BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below -10%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

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