

12 Aug 2020

Masan Group (MSN)

Masan Consumer to buoy 2H20 earning

- Masan Group reached positive EPS in 1H20
- Masan Consumer to maintain outstanding performance
- Maintain BUY

Facts: Masan Group reached positive EPS in 1H20

In 2Q20, Masan Group recorded net revenue of VND17,766bn (+92.1% yoy), driven by the consolidation of VND7,104bn of VinCommerce and Masan Consumer growth of 34.6% yoy. Masan Group's NPAT post-MI recorded VND195bn (-80.8% yoy) due to Masan Hi-Tech Materials's net loss of VND-198bn as metal price has remained low, operating loss of VinCommerce at -8.6% EBITDA margin and 86% NPAT post-MI decrease of Masan MEATLife due to overheat live hog price and slow recovery of Vietnam pig farm. In aggregate, Masan Group recorded NPAT post-MI of VND117bn (-93.8% yoy) in 1H20 thanks to earning acceleration of Masan Consumer.

Pros & cons: Masan Consumer to maintain outstanding performance

We expect Masan Consumer surge to maintain earning growth pillar of Masan Group and offset negative impact of Masan Hi-Tech Materials in 2H20, premised by (1) revenue surge of premium products in modern trade channel, which saw revenue blossom in 1H20, (2) profit consolidation of Netsco and (3) profit margins expansion thanks to larger revenue portion of Masan Consumer's higher-margin premium products. We revise up Masan Consumer's NPAT by 13% in 2020, compared to our previous estimates, to reach VND4,057bn in 2020.

As VinCommerce closed 146 weak-performed Vinmart+ stores and 4 Vinmart stores in 2Q20, we believe that cost restructuring acceleration will support for VinCommerce's EBITDA margin in 2H20. However, in order to reach EBITDA breakeven point this year, VinCommerce will need more efforts as we are concerned that low customer traffic of Vinmart inside Vincom Retail centers and slower-than-expected new store opening will refrain VinCommerce from achieving such a target in 4Q20. Therefore, we maintain our estimate for VinCommerce's 2020 EBITDA margin at -6%, improving 1.5%p yoy.

Action: Maintain BUY

Although we are concerned VinCommerce will deliver operating loss in 2020, we believe the outstanding performance of Masan Consumer will maintain the attractive valuation for Masan Group. Therefore, we maintain **BUY** for MSN share with TP of VND74,000. Total expected return is 37%.

12M rating **BUY (Maintain)**

12M TP **74,000** from 77,000

Up/Downside **+37%** (incl 2% cash dividend)

Stock data

VNIndex (11 Aug, pt)	841
Stock price (11 Aug, VND)	54,600
Market cap (USD mn)	2,730
Shares outstanding (mn)	1,169
52-Week high/low (VND)	80,900/49,000
6M avg. daily turnover (USD mn)	3.94
Free float / Foreign ownership (%)	36.4/38.7
Major shareholders (%)	
Masan JSC	31.2
GIC	13.3
Sun Flower Construction	13.2
SK Investment Vina	9.4

Valuation

	2018A	2019F	2020F
PE (x)	11.5	54.6	31.9
PB (x)	1.5	1.4	1.4
ROE (%)	15.4	2.7	4.4
DY (%)	0.0	1.8	0.0
EV/EBITDA (x)	6.7	7.5	6.9
EPS (VND)	4,766	1,000	1,711
BPS (VND)	36,597	37,670	39,379

Performance

	1M	6M	12M
Absolute (%)	(0.1)	0.1	(0.3)
Relative to VNIndex (%p)	(0.0)	0.2	(0.2)

Stock price



Source: Bloomberg

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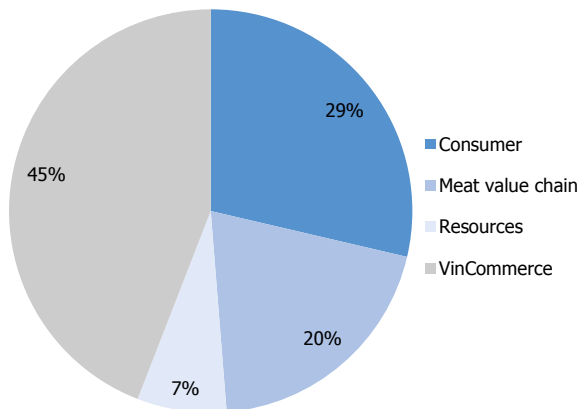
Table 1. Earnings and outlook

(VND bn, %, %p)

	2019				2020		2019	2020E	2Q20		
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY	Consensus
Sales	8,160	9,250	8,968	10,976	17,638	17,766	37,354	83,362	0.7	92.1	N.A
Consumer	3,780	4,199	4,610	6,256	4,547	5,650	18,845	23,030	24.3	34.5	
Meat value chain	3,192	3,549	3,363	3,695	3,318	3,805	13,799	16,025	14.7	7.2	
Resources	1,188	1,501	996	1,025	1,065	1,505	4,710	8,514	41.3	0.2	
VinCommerce	-	-	-	-	8,708	7,104	-	35,793	(18.4)		
Gross profit	2,463	2,667	2,432	3,379	3,962	3,895	10,941	17,304	(1.7)	46.0	N.A
Gross margin	30.2	28.8	27.1	30.8	22.5	21.9	29.29	20.76	(0.5)	(6.9)	
Operating profit	1,160	1,226	896	1,561	53	(182)	4,843	2,076	(440.0)	(114.8)	N.A
Depreciation & Amortization	681	698	687	682	1,063	1,048	2,749	4,826	(1.3)	50.3	
EBT	1,141	1,275	2,667	2,021	(60)	311	9,287	3,611	(616.8)	(75.6)	N.A
Net profit	1,000	1,192	2,425	1,748	(216)	54	6,365	1,339	(125.1)	(95.4)	
Controlling-int. NP	865	1,016	2,228	1,448	(78)	195	5,557	1,170	(350)	(81)	
EBITDA	1,841	1,923	1,583	2,244	1,116	867	7,591	6,902	(22.3)	(54.9)	N.A
EBITDA margin	22.6	20.8	17.7	20.4	6.3	4.9	20.3	8.3	(1.4)	(15.9)	N.A
OP margin	14.2	13.2	10.0	14.2	0.3	(1.0)	13.0	2.5	(1.3)	(14.3)	

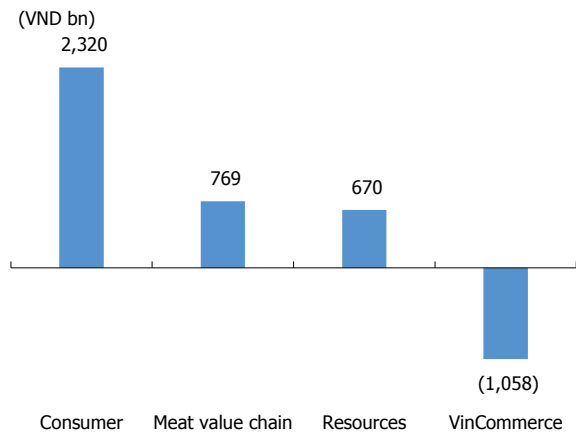
Source: Company data, KIS

Figure 1. Masan Group's revenue structure, 1H20



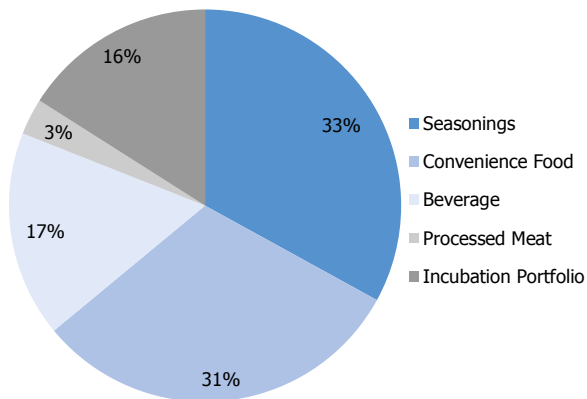
Source: Masan Group

Figure 2. Masan Group's EBITDA by segment, 1H20



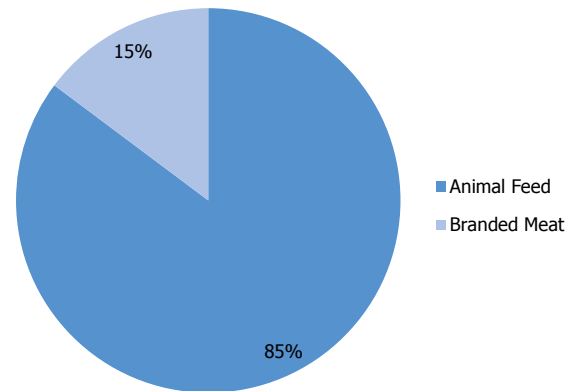
Source: Masan Group

Figure 3. Masan Consumer's revenue structure, 1H20



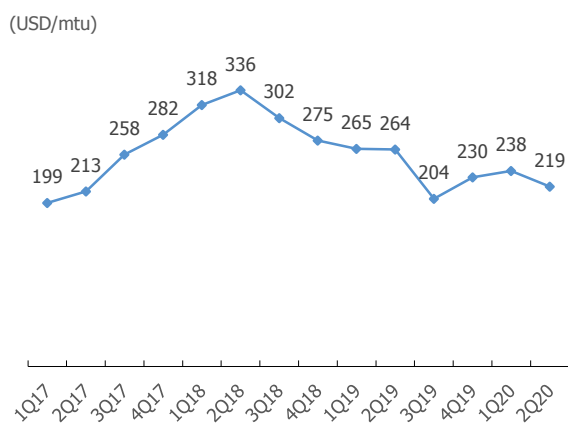
Source: Masan Group

Figure 4. Masan MEATLife's revenue structure, 1H20



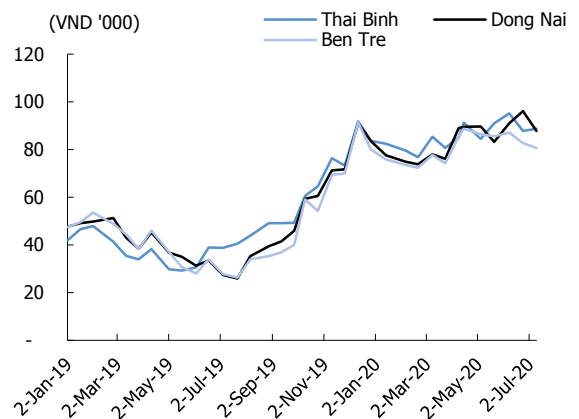
Source: Masan Group

Figure 5. APT European price



Source: Metals Bulletin

Figure 6. Vietnam domestic live hog price



Source: AgroMonitor

Table 2. Fair value calculation

(VND bn, %)

Sum Of The Parts	2020E	Remarks
1) Masan Consumer		EV/EBITDA method
Equity value	59,716	
Masan's ownership	71%	We assume Vingroup to execute its right to receive its equity stake of a combined company holding Masan Consumer and VinCommerce
Equity value attributes to Masan Group (A)	42,279	EV/EBITDA multiple of peer group = 12
2) Masan MEATLife		EV/EBITDA method
Equity value	17,368	
Masan's ownership	79.3%	
Equity value attributes to Masan Group (B)	13,773	EV/EBITDA multiple of peer group = 13
3) Masan Hi-Tech Materials		Book value method
Equity value	9,910	
Masan's ownership	96%	
Equity value attributes to Masan Group (C)	9,514	
4) VinCommerce		P/S method
Equity value	9,106	
Masan's ownership	69.1%	We assume Vingroup to execute its right to receive its equity stake of a combined company holding Masan Consumer and VinCommerce
Equity value attributes to Masan Group (D)	6,292	P/S multiple = 0.3
5) Long-term investment value		
Techcombank	12,810	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)	13,756	
6) Other net assets (F)	990	We assume Vingroup to execute its right to receive its equity stake of a combined company holding Masan Consumer and VinCommerce
Equity Value (G) = (A) + (B) + (C) + (D) + (E) + (F)	86,604	Sum of the Parts. Parent BS
Common outstanding shares (mn shares)	1,169	
Target Price	74,000	2020
Annualized price return	36	
Expected dividend yield	2	
Total expected return	37	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	33,334	35,293
Cash & cash equivalents	8,057	4,962	7,585	11,537	12,003
Accounts & other receivables	3,605	3,790	7,017	9,333	9,688
Inventory	4,333	4,333	9,622	12,464	13,603
Non-current assets	43,006	46,723	61,577	64,863	64,282
Fixed assets	31,668	31,375	44,071	45,255	42,469
Investment assets	11,338	15,348	17,506	19,608	21,813
Others	4,528	4,771	11,496	7,521	7,521
Total assets	63,529	64,579	97,297	105,718	107,096
Advances from customers	241	335	1,179	2,631	2,905
Unearned revenue	-	-	12	27	30
Trade payables	2,184	2,705	5,666	7,239	7,901
Others	6,082	5,464	8,535	9,140	9,751
ST debt & due bonds	9,166	9,244	18,340	11,469	9,009
LT debt & bonds	25,630	12,752	11,676	21,676	21,676
Total liabilities	43,303	30,499	45,409	52,182	51,271
Controlling interest	14,837	29,487	42,780	44,034	46,032
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	29,797	31,795
Minority interest	5,388	4,593	9,108	9,502	9,793
Shareholders' equity	20,225	34,080	51,888	53,536	55,825

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,766	4,391	5,104	1,975	5,261
Net profit	3,608	5,622	6,365	531	2,128
Dep'n & Amort'n	2,611	2,705	2,749	4,960	5,136
Net incr. in W/C	(3,452)	(3,936)	(4,009)	(3,517)	(2,003)
C/F from investing	3,134	(3,867)	(6,011)	(2,096)	(2,216)
Capex	(2,100)	(2,628)	(3,140)	(2,096)	(2,216)
Incr. in investment	5,234	(1,238)	(2,872)	-	-
C/F from financing	(11,635)	(3,357)	3,117	4,073	(2,579)
Incr. in equity	(2,365)	10,928	271	-	-
Incr. in debt	(6,558)	(12,980)	3,236	4,073	(2,579)
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

Income statement

(VND bn)

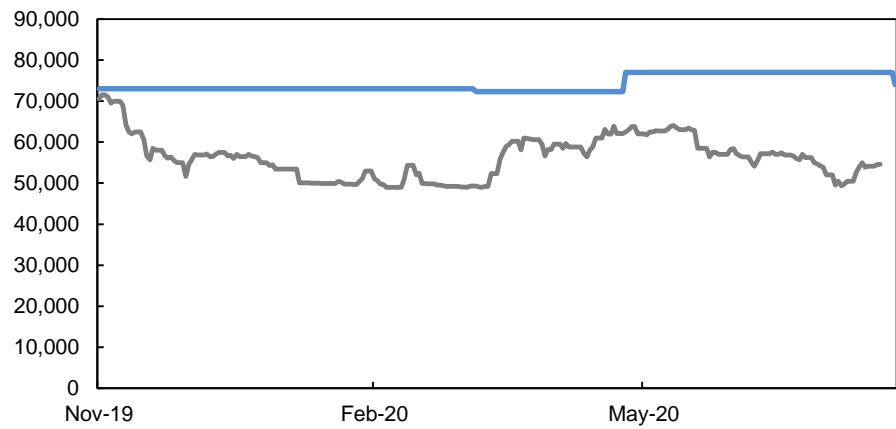
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	37,621	38,188	37,354	83,362	92,038
COGS	25,989	26,306	26,413	66,058	72,095
Gross profit	11,632	11,881	10,941	17,304	19,944
SG&A expenses	7,203	6,330	6,098	15,229	16,926
Operating profit	4,429	5,552	4,843	2,076	3,018
Financial income	1,405	1,902	1,188	847	617
Interest income	345	325	285	847	617
Financial expenses	3,696	3,091	2,201	3,543	3,283
Interest expenses	3,435	2,668	1,866	3,543	3,283
Other non-operating profit	2,800	3,035	3,843	2,115	2,205
Gains (Losses) in associates, subsidiaries and JV	2,044	1,914	2,182	2,115	2,205
Earnings before tax	6,183	8,158	9,287	3,611	4,762
Income taxes	531	622	740	156	266
Net profit	3,608	5,622	6,365	1,339	2,290
Net profit of controlling interest	3,103	4,916	5,557	1,170	2,000
EBITDA	7,039	8,257	7,591	6,902	8,020

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	2,700	4,539	4,766	1,000	1,711
BPS	12,819	25,351	36,597	37,670	39,379
DPS	2,970	-	-	1,000	-
Growth (%)					
Sales growth	(13.1)	1.5	(2.2)	123.2	10.4
OP growth	(26.5)	25.4	(12.8)	(57.1)	45.4
NP growth	(4.4)	55.8	13.2	(79.0)	71
EPS growth	10.8	67.2	4.5	(79.0)	71
EBITDA growth	(16.2)	17.3	(8.1)	(9.1)	16.2
Profitability (%)					
OP margin	11.8	14.5	13.0	2.5	3.3
NP margin	9.6	14.7	17.0	1.6	2.5
EBITDA margin	18.7	21.6	20.3	8.3	8.7
ROA	5.7	8.5	7.9	1.3	2.1
ROE	20.6	22.2	15.4	2.7	4.4
Dividend yield	5.5	-	-	1.8	-
Dividend payout ratio	110	-	-	100.0	-
Stability					
Net debt (VND bn)	26,739	17,034	22,431	21,495	18,569
Net debt/equity (%)	132.2	50.0	43.2	40.2	33.3
Valuation (x)					
PE	20.0	12.0	11.5	54.6	31.9
PB	4.3	2.2	1.5	1.4	1.4
EV/EBITDA	6.0	6.2	6.7	7.5	6.9

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Masan Group (MSN)	19 Nov 19	Hold	73,000		
	24 Mar 20	BUY	72,300		
	13 May 20	BUY	77,000		
	11 Aug 20	BUY	74,000		



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- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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