

7 Dec 2020

Masan Group (MSN)

Sustainable earning recovery in 4Q20

- Masan Group's NPAT elevated in 3Q20
- Earning improvement to maintain in 4Q20
- Earning recovery to be in progress in 2021
- Downgrade to Hold

Facts: Masan Group's NPAT elevated in 3Q20

In 3Q20, Masan Group recorded net revenue of VND20,214bn (+125.4% yoy), driven by the consolidation of VND7,864bn of VinCommerce, Masan High-Tech Materials growth of 151.6% yoy and Masan Consumer growth of 32.0% yoy.

Masan Group's NPAT post-MI recorded VND852bn (-61.8% yoy) mainly due to operating loss of VinCommerce at -9.3% EBIT margin. Overall, Masan Group recorded NPAT post-MI of VND969bn (-76.4% yoy) in 9M20.

(* For more information about MSN 3Q20 business results, please refer to our recent [MSN 3Q20 business brief](#) and [3Q20 AM brief](#).

Pros & cons: Earning improvement to maintain in 4Q20

We expect Masan Consumer to maintain earning growth pillar of Masan Group in 4Q20, driven by (1) revenue surge of premium products, including granule, full-meal solutions portfolio and processed meat, which saw revenue blossom in 9M20, (2) profit consolidation of Netsco and (3) profit margins expansion thanks to larger revenue portion of Masan Consumer's higher-margin premium products. We estimate Masan Consumer to reach VND24,077bn revenue (+27.8% yoy) and VND4,914bn EBIT (+23.3% yoy) in 2020.

Besides solid earning growth of Masan Consumer, the earning enhancement of Masan MEATLife will buoy Masan Group's NPAT growth in 4Q20. Particularly, the decrease of live hog price and strong recovery of pig feed thanks to less impact of African swine fever (ASF) disease in Vietnam, coupled with stable revenue growth of poultry feed will be earning key drivers of Masan MEATLife in 4Q20. We estimate Masan MEATLife to reach VND16,280bn revenue (+18.0% yoy) and VND1,113bn EBIT (+41.3% yoy) in 2020.

We expect core business of Masan High-Tech Materials will improve in 4Q20 as gross margin improvement of copper export segment will significantly offset loss of Tungsten export. However, Masan High-Tech Materials will remain loss in the whole 2020. We estimate Masan High-Tech Materials to reach VND7,851bn revenue (+66.8% yoy) and record EBIT loss of VND-108bn in 2020.

12M rating **Hold (Downgrade)**

12M TP **94,000** from 74,000

Up/Downside **+10.5%** (incl 1.2% cash dividend)

Stock data

VNIndex (04 Dec, pt)	1,021
Stock price (04 Dec, VND)	86,000
Market cap (USD mn)	4,367
Shares outstanding (mn)	1,175
52-Week high/low (VND)	95,600/49,000
6M avg. daily turnover (USD mn)	5.42
Free float / Foreign ownership (%)	36.7/33.7
Major shareholders (%)	
Masan JSC	31.2
GIC	13.3
Sun Flower Construction	13.2
SK Investment Vina	9.4

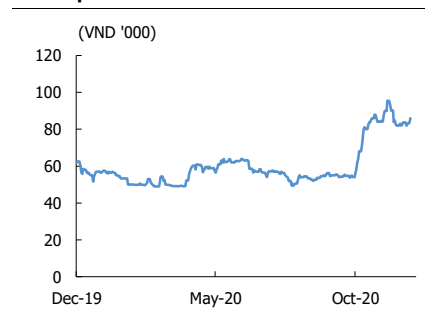
Valuation

	2019A	2020F	2021F
PE (x)	18.0	74.1	45.3
PB (x)	2.3	2.3	2.2
ROE (%)	15.4	3.2	5.0
DY (%)	0.0	1.2	0.0
EV/EBITDA (x)	11.5	11.1	8.4
EPS (VND)	4,766	1,160	1,900
BPS (VND)	36,597	36,830	38,728

Performance

	1M	6M	12M
Absolute (%)	2.1	35.4	37.6
Relative to VNIndex (%p)	(6.7)	18.5	29.9

Stock price



Source: Bloomberg

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The improvement of VinCommerce's EBITDA margin beats our expectation and is in line with its target of 0% EBITDA margin in 4Q20. We estimate VinCommerce to reach VND32,483bn revenue (+25.8% yoy) and post -4.9% EBITDA margin in 2020.

Overall, we estimate Masan Group to reach VND80,692bn revenue and VND1,356bn NPAT post-MI in 2020, increasing 116% yoy and decreasing -75.6% yoy, respectively in 2020.

Earning recovery to be in progress in 2021

In 2021, we believe the earning recovery of Masan Group will be in progress thanks to existing supporting factors. Of which, Masan MEATLife and Masan Consumer will achieve double-digit operating profit growths while Masan High-Tech Materials will make profit again. After accelerating cost structuring in 2020, we expect VinCommerce to narrow its operating loss in 2021 to support for the earning growth momentum of Masan Group.

Basing on solid earning growth of Masan Consumer and elevated earning growth of Masan MEATLife, backed by better core business performance of Masan High-Tech Materials and VinCommerce, we estimate Masan Group to reach VND92,030bn revenue and VND2,221bn NPAT post-MI in 2020, increasing 14.1% yoy and 63.8% yoy in 2021, respectively.

Action: Downgrade to Hold

We raise our target price (TP) for MSN share by 27% to VND94,000/share but downgrade to Hold from BUY as MSN share price has jumped by 62% over the last two months. Our TP increase is driven by rolling price recommendation to the end of 2021 and the increase of our estimate for Masan Group's 2021 NPAT post-MI on the back of higher earning forecasts for all four core business segments.

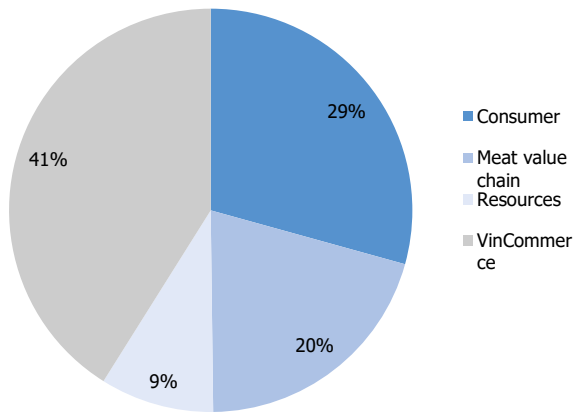
Table 1. Earnings and outlook

(VND bn, %, %p)

	2019				2020			2019 2020E		3Q20		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q			QoQ	YoY	Consensus
Sales	8,160	9,250	8,968	10,976	17,638	17,766	20,214	37,354	80,692	13.8	125.4	N.A
Consumer	3,780	4,199	4,610	6,256	4,547	5,703	6,049	18,845	24,077	6.1	31.2	
Meat value chain	3,192	3,549	3,363	3,695	3,318	3,878	4,205	13,799	16,280	8.5	25.1	
Resources	1,188	1,501	996	1,025	1,065	1,507	2,501	4,710	7,851	65.9	151.2	
VinCommerce	-	-	-	-	8,708	6,678	7,458	-	32,483	11.7	-	
Gross profit	2,463	2,667	2,432	3,379	3,962	3,895	4,818	10,941	19,075	23.7	98.1	N.A
Gross margin	30.2	28.8	27.1	30.8	22.5	21.9	23.8	29.29	23.64	1.9	(3.3)	
Operating profit	1,160	1,226	896	1,561	53	(182)	652	4,843	1,764	459.0	(27.2)	N.A
Depreciation & Amortization	681	698	687	682	1,063	1,048	332	2,749	6,264	(68.4)	(51.7)	
EBT	1,141	1,275	2,667	2,021	(60)	311	1,100	9,287	4,933	253.4	(58.7)	N.A
Net profit	1,000	1,192	2,425	1,748	(216)	54	973	6,365	1,938	1,688	(59.9)	
Controlling-int. NP	865	1,016	2,228	1,448	(78)	195	852	5,557	1,356	336	(62)	
EBITDA	1,841	1,923	1,583	2,244	1,116	867	984	7,591	8,029	13.5	(37.9)	N.A
EBITDA margin	22.6	20.8	17.7	20.4	6.3	4.9	4.9	20.3	10.0	(0.0)	(12.8)	N.A
OP margin	14.2	13.2	10.0	14.2	0.3	(1.0)	3.2	13.0	2.2	4.2	(6.8)	

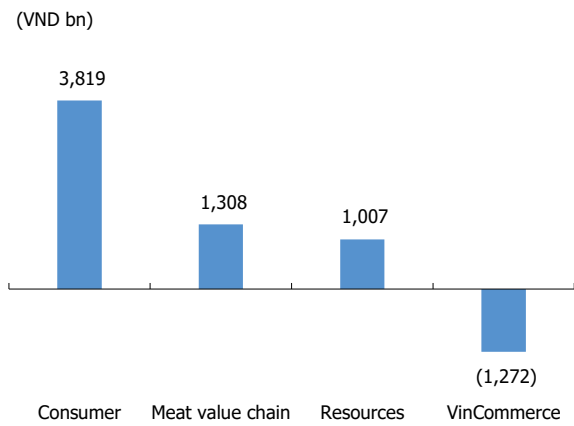
Source: Company data, KIS

Figure 1. Masan Group's revenue structure, 9M20



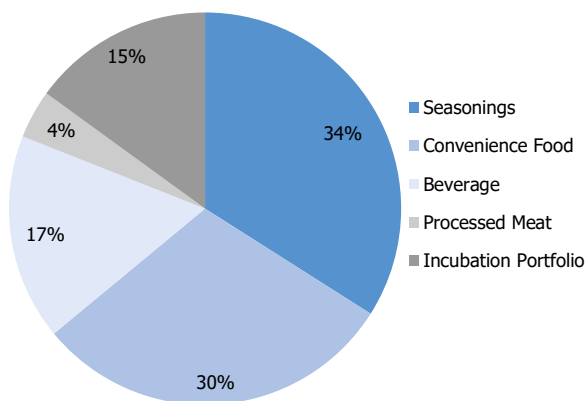
Source: Masan Group

Figure 2. Masan Group's EBITDA by segment, 9M20



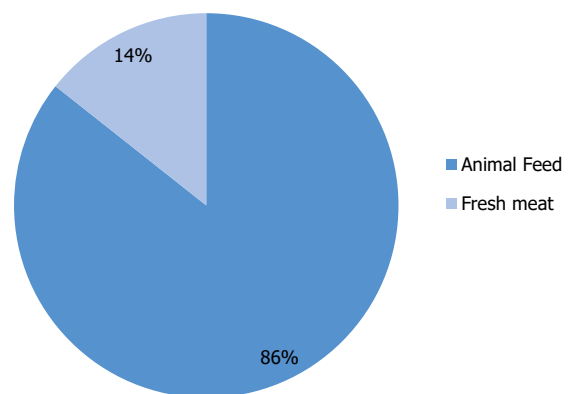
Source: Masan Group

Figure 3. Masan Consumer's revenue structure, 9M20



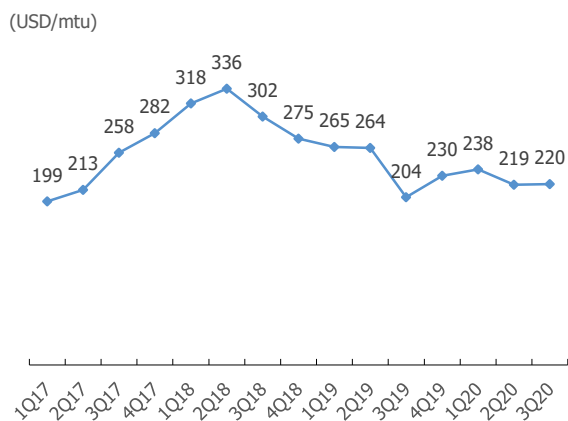
Source: Masan Group

Figure 4. Masan MEATLife's revenue structure, 9M20



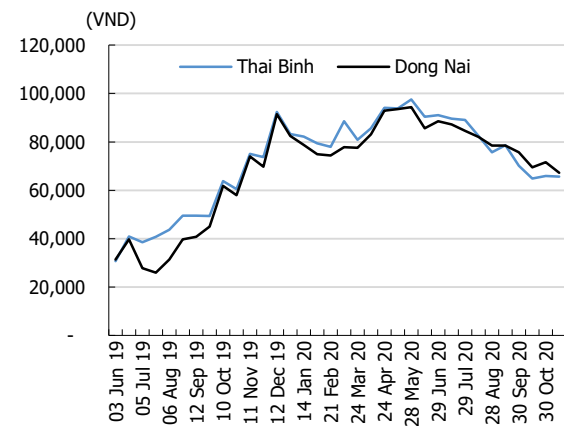
Source: Masan Group

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	79,347	
Masan's ownership	72.7	
Equity value attributes to Masan Group (A)	57,685	EV/EBITDA multiple of peer group = 12
2) Masan MEATLife		EV/EBITDA method
Equity value	31,886	
Masan's ownership	88.5	
Equity value attributes to Masan Group (B)	28,219	EV/EBITDA multiple of peer group = 13
3) Masan Hi-Tech Materials		Book value method
Equity value	11,284	
Masan's ownership	86.0	
Equity value attributes to Masan Group (C)	9,704	
4) VinCommerce		P/S method
Equity value	10,939	
Masan's ownership	71.0	
Equity value attributes to Masan Group (D)	7,767	P/S multiple = 0.3
5) Long-term investment value		
Techcombank	14,910	RI and P/B method
Other long-term investment	945	(Please refer to our Techcombank report for more details)
Equity value attributes to Masan Group (E)	15,856	Market value
6) Other net assets (F)	(9,312)	
Equity Value (G) = (A) + (B) + (C) + (D) + (E) + (F)	109,918	Sum of the Parts. Parent BS
Common outstanding shares (mn shares)	1,169	
Target Price	94,000	2021
Annualized price return	9.3	
Expected dividend yield	1.2	
Total expected return	10.5	2021

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	31,425	38,018
Cash & cash equivalents	8,057	4,962	7,585	10,575	15,542
Accounts & other receivables	3,605	3,790	7,017	9,224	9,687
Inventory	4,333	4,333	9,622	11,626	12,788
Non-current assets	43,006	46,723	61,577	63,972	62,387
Fixed assets	31,668	31,375	44,071	44,131	39,963
Investment assets	11,338	15,348	17,506	19,842	22,424
Others	4,528	4,771	11,496	7,521	7,521
Total assets	63,529	64,579	97,297	102,918	107,925
Advances from customers	241	335	1,179	2,547	2,904
Unearned revenue	-	-	12	26	30
Trade payables	2,184	2,705	5,666	6,752	7,428
Others	6,082	5,464	8,535	8,952	9,751
ST debt & due bonds	9,166	9,244	18,340	-	-
LT debt & bonds	25,630	12,752	11,676	31,676	31,676
Total liabilities	43,303	30,499	45,409	49,953	51,788
Controlling interest	14,837	29,487	42,780	43,052	45,271
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	28,815	31,034
Minority interest	5,388	4,593	9,108	9,914	10,866
Shareholders' equity	20,225	34,080	51,888	52,965	56,137

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,766	4,391	5,104	4,573	7,545
Net profit	3,608	5,622	6,365	1,938	3,173
Dep'n & Amort'n	2,611	2,705	2,749	6,264	6,746
Net incr. in W/C	(3,452)	(3,936)	(4,009)	(3,629)	(2,374)
C/F from investing	3,134	(3,867)	(6,011)	(2,065)	(2,579)
Capex	(2,100)	(2,628)	(3,140)	(2,065)	(2,579)
Incr. in investment	5,234	(1,238)	(2,872)	-	-
C/F from financing	(11,635)	(3,357)	3,117	481	-
Incr. in equity	(2,365)	10,928	271	-	-
Incr. in debt	(6,558)	(12,980)	3,236	1,650	-
Dividends	(2,713)	(1,304)	(390)	(1,169)	-
C/F from others	3	1	5	-	-
Increase in cash	(5,732)	(2,831)	2,215	2,990	4,967

Income statement

(VND bn)

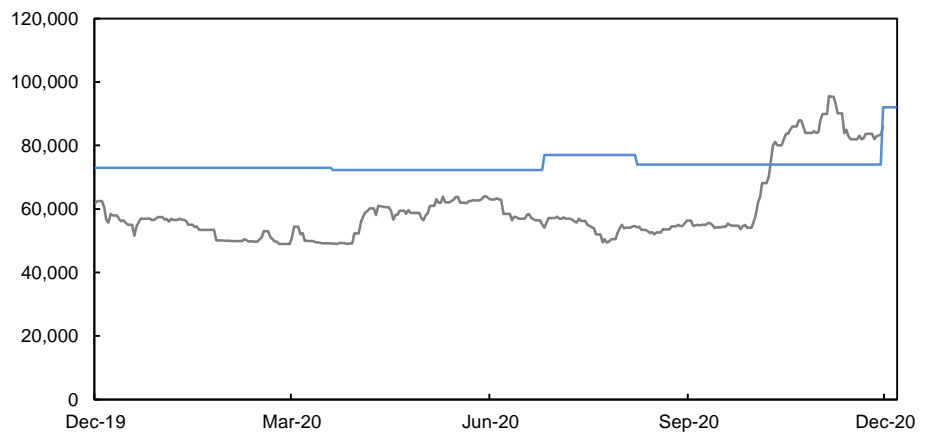
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	37,621	38,188	37,354	80,692	92,030
COGS	25,989	26,306	26,413	61,616	67,779
Gross profit	11,632	11,881	10,941	19,075	24,251
SG&A expenses	7,203	6,330	6,098	17,311	19,595
Operating profit	4,429	5,552	4,843	1,764	4,656
Financial income	1,405	1,902	1,188	1,414	640
Interest income	345	325	285	1,414	640
Financial expenses	3,696	3,091	2,201	4,054	3,646
Interest expenses	3,435	2,668	1,866	4,054	3,646
Other non-operating profit	2,800	3,035	3,843	3,459	2,582
Gains (Losses) in associates, subsidiaries and JV	2,044	1,914	2,182	2,349	2,582
Earnings before tax	6,183	8,158	9,287	4,933	6,814
Income taxes	531	622	740	646	1,058
Net profit	3,608	5,622	6,365	1,938	3,173
Net profit of controlling interest	3,103	4,916	5,557	1,356	2,221
EBITDA	7,039	8,257	7,591	8,029	11,402

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	2,700	4,539	4,766	1,160	1,900
BPS	12,819	25,351	36,597	36,830	38,728
DPS	2,970	-	-	1,000	-
Growth (%)					
Sales growth	(13.1)	1.5	(2.2)	116.0	14.1
OP growth	(26.5)	25.4	(12.8)	(63.6)	163.8
NP growth	(4.4)	55.8	13.2	(69.6)	64
EPS growth	10.8	67.2	4.5	(75.7)	64
EBITDA growth	(16.2)	17.3	(8.1)	5.8	42.0
Profitability (%)					
OP margin	11.8	14.5	13.0	2.2	5.1
NP margin	9.6	14.7	17.0	2.4	3.4
EBITDA margin	18.7	21.6	20.3	10.0	12.4
ROA	5.7	8.5	7.9	1.9	2.9
ROE	20.6	22.2	15.4	3.2	5.0
Dividend yield	3.5	-	-	1.2	-
Dividend payout ratio	110	-	-	86.2	-
Stability					
Net debt (VND bn)	26,739	17,034	22,431	20,987	16,021
Net debt/equity (%)	132.2	50.0	43.2	39.6	28.5
Valuation (x)					
PE	31.5	18.9	18.0	74.1	45.3
PB	6.7	3.4	2.3	2.3	2.2
EV/EBITDA	11.2	10.7	11.5	11.1	8.4

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		
	04 Dec 20	Hold	94,000		



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Prepared by: Toan Dao

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