

Price Chart


Source: HSC

Stock Data as of May 05th 2010

Price (VND)	45,400
Current listed shares	485,399,820
Outstanding shares	485,399,820
52 Week high	45,300
52 week low	32,600
Price change (3 months)	23.7%
Price change (6 months)	5.1%
Price change (12 months)	NA
Trading volume (shares)	425,580
Trading value (VNDmil)	19,293
Market Cap (VNDmil)	22,037,152
Market Cap (US\$mil)	1,155.59
Total room (no. of share)	233,435,912
Current room (no. of share)	158,948,443
Foreign owned ratio (%)	15.3%
Foreign ownership limit (%)	49.0%

Source: HSC

Ownership structure

Ownership structure as of 5 th May 2010	Actual	As of %
Masan Corporation and its subsidiary	350,239,051	72.2%
Foreigners	74,487,469	15.3%
Others	60,673,300	12.5%
Total	485,399,820	100%

Source: Company, HOSE

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MSN consolidated earnings forecast

(VNDbillion)	FY2009	FY2010F	FY2011F	FY2012F	FY2013F
Net sales	3,958	6,114	7,808	9,462	10,624
Pre-tax profit	733	1,201	1,710	2,270	2,633
Net profit (VAS)	417	811	1,196	1,640	1,938
Net profit (proforma)	719	1,127	1,476	1,844	2,373
Sales growth	NA	54.5%	27.7%	21.2%	12.3%
Pre-tax profit growth	NA	63.9%	42.4%	32.8%	16.0%
Net profit growth	NA	94.7%	47.4%	37.1%	18.2%
EPS (VAS)	858	1,661	2,302	3,157	3,731
EPS (proforma)	1,480	2,308	2,843	3,551	4,569
BVPS	9,759	10,543	12,352	13,833	15,470
P/E	24.9	15.9	12.9	10.4	8.1
P/B	3.8	3.5	3.0	2.7	2.4
EV/EBITDA	26.7	16.3	12.7	10.5	8.5

Notes: We do not include expected earnings from Nuiphaovica, the new business of MSN, in this table

Masan Group Corporation (MSN – HOSE) – Upgrade from Hold to Outperform

- MSN recently announced it will acquire the controlling interest in Nuiphaovica which holds the valuable Nui Phao tungsten/fluorspar polymetallic project in Thai Nguyen Province.
- The acquisition offers MSN an opportunity to double its earnings in 3 years but adds more risks to its business model.
- If they can execute, the mine is expected to start production in 2013 with annual revenue of more than US\$300 million and annual EBITDA of more than US\$200 million.
- With the acquisition, MSN has proved its ability to seek and execute large deals and gain controlling stakes in high quality assets.
- Existing businesses such as Masan Food and Techcombank had an outstanding performance in FY2009 and are likely to continue to grow rapidly over the next few years.
- Its hard to value the group now until the new deal is finalised but we note the price they will pay is fairly close to book value and involves no cash transfer. Potential dilution is up to 15% but only after several years.
- We are more positive now on the future prospects of MSN and upgrade our rating from HOLD to OUTPERFORM.

The acquisition of Nuiphaovica

MSN will acquire 70% interest in the Nui Phao Mining Joint Venture Company Limited (Nuiphaovica), which holds the Nui Phao tungsten/fluorspar polymetallic project in Thai Nguyen Province, from Dragon Capital Funds. And the possible final total interest of MSN in Nuiphaovica will range from 85% to 100% after on-going negotiations with other partners in the joint venture are completed.

As the talks have not been finalised yet, the final deal size is not certain. We estimate that these deals (with all parties) will be worth roughly US\$150-160 million, which is close to the book value of the project of over US\$130 million. In which Dragon's holding is being purchased for about \$135 million. It is important to note that these are very rough valuations as the deal is a very complicated one involving stock options and other financial instruments. Therefore we may have no clear idea for several months as to what the exact value of the deal is.

This is the amount that Nuiphaovica has already invested in the project. However, no cash will be paid by MSN. Instead, MSN is issuing stock options to the sellers. Based on our information, we are unlikely to see any dilution effect this year and maximum dilution is up to 15%

Nui Phao contains proven and probable reserves of 55 million tonnes of ore, making it one of the largest tungsten mines in the world. The mine is expected to produce 77,000 tonnes of ammonium paratungstate (APT), the main intermediate product and also the main tungsten raw material which is traded in the global market. The mine is also believed to contain 3.5 million tonnes of acid-grade fluorspar concentrate, 30,000 tonnes of bismuth, along with copper and gold over the 16.5-year mine life.

As such, when fully operational, Nui Phao would be able to get around 5% of the global market share in tungsten; be amongst the largest fluorspar producers in the world and also the largest bismuth producer. Nui Phao will be an open pit mine, making it easier to exploit than narrow vein mines which are common in China.

Tungsten's alloys have numerous applications, most notably in incandescent light bulb filaments, X-ray tubes, and superalloys. Tungsten's hardness and high density give it military applications in penetrating projectiles. Tungsten compounds are most often used industrially as catalysts. Meanwhile fluorspar is mainly used in refrigerants and aluminum production.

In 2004, the MPI granted the Mining License to Nuiphaovica, a joint ventures between Canada-based Tiberon Minerals Co. Ltd (77.5%), Thai Nguyen Mineral Company (15%) and Thai Nguyen Export-Import Investment Corporation (7.5%). The license allows Nuiphaovica to explore, exploit and process tungsten, fluorspar, bismuth, copper and gold. In March 2007, Dragon Capital acquired approximately a 93.2% interest in Tiberon.

However, the mining project has been delayed for several years for many reasons. Resettlement proved to be more complicated than originally thought and was long delayed. And then due to the world financial crisis in FY2009, Nuiphaovica and its partners found it very difficult to raise funds for the project. Therefore the project needed a new investor with financial power and a fresh approach.

After the acquisition, MSN has to clear the site; get local financing, hire new management; get an offtake agreement in place and find new strategic partners to help operate the mine.

- **Get the land cleared:** This process has been delayed for various reasons but comes down to price at the end.
- **Get financing for the project:** The joint venture has spent more than US\$130 million. However, in order to start production, the project needs a total more than US\$350 million. That means Nuiphaovica needs to raise a further US\$200-250 million in debt. They need local bank lending and may issue corporate bonds with 5-7 years maturity.
- **Hire management:** Nuiphaovica has around 200 employees but most of them are at subordinate levels. Beside the current CEO Andrew Lewis, Nuiphaovica needs a full management team to run the project. MSN has to take the responsibility to hire new senior staff.
- **Get an offtake agreement in place:** Getting someone to take the output is key. Tungsten is a fairly specialised product and there are only three or four possible buyers. Generally speaking an offtake agreement and bank financing are concurrent events and its hard to get one without the other. But if MSN can get some financing in place from local banks negotiating with buyers will become a lot easier.

- **Get a strategic partner:** We believe strategic partner will be necessary to execute the project. MSN is now the local partner with the asset. Once financing and an offtake agreement is in place (especially the former) they look to bring in an experienced and most likely international partner to help operate the mine and ensure execution of the project over the next few years. Getting a new mine operational is notorious for delays and brings with several potential risks.

When the above issues are resolved, it is hoped the new mine can come on stream in late 2012/early 2013. With the assumption that APT's selling price will be US\$300 per mtu and acid-grade flourspar selling price will be US\$250 per ton, the company forecasts that the mine could generate annual revenue of more than US\$300 million and annual EBITDA of more than US\$200 million when fully operational.

We have not had time to modify our earnings model yet or assess the possible output prices. We note that currently APT is trading at about US\$230 in the market place. However we have not had any chance yet to develop an DCF model for the new business as we are lacking some basic details.

Utilization in the first year of operation would range from 50% to 75% as estimated by the company. Hence, the new business could double MSN's EBITDA over the next 3 years.

Commentary

The acquisition of Nuiphaovica, the largest resource private company in Vietnam, has proved MSN's ability to acquire controlling stakes in good businesses in attractive sectors that stand to benefit from Vietnam's economic development. And Nuiphaovica has now become the third leg of MSN conglomerate structure, beside the two existing businesses - Masan Food (72% held) and Techcombank (20% held).

At a cost of US\$150-160 million and even that in options exercisable in 3 years and not in cash – not much more than the book value of the project – is not that expensive in our view.

In return MSN has access to the largest mine in Vietnam. The challenge is to develop it and make this mine operational over the next 2-3 years. The deal means that MSN shares now has huge upside potential in terms of earnings in the next few years although at the same time it raises the risks profile of the company also.

Mining is a tough industry to execute in especially without prior experience. However MSN does bring some advantages to the table. They qualify as the local partner that owns the asset and in our opinion have the ability to bring local and national political support along with them to execute the project up to the operational stage. Until the mine starts to operate we see the main risks as political rather than commercial for the following reasons.

Local and national political support for this project will be critical;

(1) To get financing from local banks which if the project is given strategic weight by the government are much more likely to support it.

(2) Clearing and preparing the site which needs the active involvement of the local authorities.

We remember that the PM visited this site last year so there is no question the project is seen as strategic and important for Vietnam.

The rest; managing the mine once its operational and winning a good offtake agreement depends on the calibre of the strategic partner MSN can attract or any new management team they can bring in. And that of course is unknown at this stage. However if MSN can bring the mine to the operational stage we strongly believe the book value of the project will be far higher than it is at the moment and given the fairly low price they paid for it this virtually assures the project will be seen as accretive to shareholder value in the coming years.

If everything is on track, we have very tentatively forecast that MSN'S EBITDA can reach US\$320 million by FY2013 and then US\$430 million by FY2014 with maximum dilution up to 15%. In other words, at the current market price, FY2013 EV/EBITDA and FY2014 EV/EBITDA would be only 5x and 4x respectively.

However, lots of effort will be required to bring this mine to the operational stage. Many challenges lie ahead, in which raising a large amount of money and finding a good strategic partner will be the hardest in our opinion.

Even so based on the potential of the mine and the fairly inexpensive cost of acquisition we upgrade MSN to an OUTPERFORM from a HOLD.

AGM update

The AGM of Masan Group was held recently. At the AGM, the management covered a lot of issues related to company strategy, FY2009 results and the FY2010 plan.

Both existing businesses of MSN had outstanding performance in FY2009. Masan Food' sales came at VND3,958 billion, up 106% y/y and net profit was reported at VND664 billion, up 74% y/y. Key sales growth drivers were fish sauce and instant noodles with sales growth of 104% y/y and 271% y/y respectively. With a significant market share gain, Masan Food has confirmed its leading position in the sauce and convenience food segments. Meanwhile, Techcombank's net profit was posted at VND1,700 billion, up 43.7% y/y and the bank has become the second largest private bank in terms of profit.

For FY2010, the group targets a net profit of VND1,200 billion (on a pro forma basis) for existing businesses. At Masan Food level, net profit target is VND1,000 billion, up 50% y/y. Meanwhile Techcombank has committed to generate a profit before tax of VND3,467 billion, up 54% y/y. For the longer term, MSN expects its existing businesses to grow at 30-50% per annum and each business to have market cap of \$2-3 billion in the next five years. The company also plans to increase its market capitalization to \$5 billion over the next three years.

In its AGM back in March, Masan Food set ambitious long term objectives including: (1) sales to grow at least 50% per annum, (2) US\$1 billion of sales by FY2013-2014, (3) net margin of 15%, and (4) market capitalization to grow at 50% per annum.

To reach those objectives, Masan Food plans to dominate seasoning and convenient food sectors, expand into food necessities such as processed frozen meat and rice, penetrate and win a dominating market share in the rural market and develop the supermarket channel. And Masan Food will also pursue a M&A strategy focusing on food producers with sales above VND2,000 billion and net profit of VND200-300 billion.

We believe that Masan Food can achieve its targets and we forecast in FY2010, Masan Food will report sales of VND6,113 billion, up 54.5% y/y and net profit of VND1,013 billion, up 52.6% y/y.

For TCB, although the economic environment seems to be tougher for commercial banks in FY2010 than in FY2009, we are positive for the bank. We forecast that the bank will see the pretax profit increase by 30% in FY2010. With a strong retail banking focus and excellent technology transfer from HSBC, the bank is ahead of most of its peers and seems to be gaining ground on ACB. On OTC market, the stock is trading at a forward P/E of 8x and a forward P/B of 1.8x

Regarding the group's M&A strategy, MSN's management insists that potential investee size must be \$100 million or above, MSN must acquire a controlling stake and that the IRR of each investment must be 30% per annum at least. Another key objective is to increase value of each new business to \$1 billion in 5 years. The M&A strategy is focused on growth sectors such as FMCG, resources, healthcare and infrastructure.

Regarding the new ventures strategy, the management has confirmed that Masan Ventures is focusing on BPO (business process outsourcing), agro-commodities, financial services, logistics & distribution and warehousing.

The AGM approved a capital raising plan including:

- Issuance of 20 million common shares via private placement. At the AGM, the management committed issue price will be above market price to protect shareholders.
- Issue 10 million ESOP shares to employees at price of VND10,000 per share.
- Issue stock options via private placement. Expected number of new shares after the options are exercised is 60 million shares.

Masan Food objectives from 2010 to 2014

Unit: VNDbillion	2010	2011	2012	2013	2014
Sales	7,000	10,000	14,000	18,000	22,000
Net profit	1,200	1,500	2,200	3,300	3,500
Number of leading brands (hold more than 50% market share)	4	8	10	12	14
Market cap growth	75%	75%	75%	50%	50%

However, MSN's management have confirmed they have no current plans to issue stock this year. We also understand that they may be about to receive a 6 years VND loan equivalent to US\$40 million with a low interest rate of 8% per annum. Plus the existing cash position of VND660 billion, the company has sufficient funds for its investments and does not need to raise more equity capital.

In fact, as we noted there is a stock option issue as a part of the Nuiphaovica acquisition. But these are not exercisable for three years which is a critical point. Then in 2013, outstanding shares are likely to diluted by up to 15% when the options are exercised.

We forecast in FY2010 MSN will record consolidated sales of VND6,114 billion, up 54% y/y and net profit on VAS basis of VN811 billion, up 95% y/y. On pro forma basis, net profit is forecasted at VND1,127 billion, up 57% y/y. MSN is trading at FY2010 P/E of 19.7x and EV/EBITDA of 16.3x.

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