

MASAN GROUP (MSN: HOSE)

HOLD

1Y-TP VND 90,000



Trang Pham

trangph@ssi.com.vn

+84 4 3936 6321 ext. 537

| | |
|-----------------------------------|-------------|
| Current price (VND) | 80,500 |
| Target Price (12M) | 90,000 |
| Recommendation (12M) | HOLD |
| Short-term Rating (<3M) | HOLD |
| Sector Rating | Neutral |
| Date of Report | 01-Sep-15 |

Key figures

| | |
|-------------------------------|-----------|
| Market cap (USD mn) | 2,674 |
| Market cap (VND bn) | 60,111 |
| Outstanding shares (mn) | 747 |
| 52-week high/low (VND 1,000) | 96.5/72.5 |
| Average 3M volume (share) | 224,644 |
| Average 3M value (USD mn) | 0.86 |
| Average 3M value (VND bn) | 19.27 |
| Foreign ownership (%) | 36.19 |
| State ownership (%) | n.a |
| Management ownership (%) | n.a |

Stock performance



Source: Bloomberg

Company Snapshot

Masan Group started operations in 2004 as a shipping company with a chartered capital of VND 3.2 bn. Over the years, it has grown into Vietnam's leading private sector company with a chartered capital of VND 7,467 billion as of 30 June 2015. MSN has built market leading operating platforms in consumer and resources sectors. It has a 78.4% stake in Masan Consumer and economic interests of 74.3% in Masan Resources. It has a financial investment of 30.36% of Techcombank.

Strong growth thanks to consolidation of animal feed business and higher income from Techcombank

In 1H15, the Group delivered VND 10,414 bn in net sales (+52% YoY) and VND 673 bn in net profit (vs. loss of VND 44 bn in 1H14). Net earnings to parent shareholders totaled VND 364 bn in 1H15, vs. loss of VND 333 bn in 1H14. The strong growth in profit corresponded with our expectation. The following are developments from the group in 1H15:

- **Consolidation of animal feed segment since May 2015:** the Group started to consolidate the results of Masan Nutri-Science (MNS) (which holds 52% Proconco and 70% Anco - please see the MSN corporate structure – Appendix 1). MNS contributed VND 3,332 bn in net sales and VND 217 bn in pro-forma net profit (~VND 158 bn in VAS profit in our estimates).
- **Higher income from associate (Techcombank)** as the Group no longer had to book goodwill from investment in Techcombank, which we have already identified in our previous report ([1Q15 earnings update](#)). As a result, income from associate totaled VND 252 bn in 1H15 vs. VND 41 bn in 1H14
- **Masan Consumer (MCH) recorded mild negative growth of -2% in top line and -10% in bottom line**, mostly due to lower net interest income and higher R&D and promotion expenses which led to weaker performance of Vinacafe (-10% in sales and -73.3% in net income in 1H15).
- **Higher EBITDA margin of Masan Resources:** Although tungsten price declined ~30% YoY in 1H15, prompting sales to remain flat YoY, EBITDA margin improved from 32% in 1H14 to 49% in 1H15, signaling improved operational performance.
- **Long-term debt significantly increased from VND 17.5 trn to VND 30 trn** in the period as a consequence of newly issued VND 9,000 bond to local banks and consolidated debts from Masan Nutri-Science. However, outstanding long-term debt will reduce to ~VND 23 trn by this year-end as the Group will settle down its USD-denominated debt in 3Q15.

Followings are our detailed updates on MSN's different business segments:

1. Consumer

Masan Consumer Holdings (MCH) currently has 4 key businesses: foods (convenience foods and seasonings), non-alcoholic beverages (coffee and bottled beverages), beer and meat.

MCH posted VND 5,888 bn in net sales (+3% YoY) and VND 1,214 bn in net profit (-10% YoY). Performances differed amongst segments. While **instant noodles** and **beverages** achieved single-digit sales growths, **seasonings** and **coffee** experienced negative growths due to sluggish demand even from rural area as consumers continued to reduce spending on what they considered as non-staple products. Notably, VCF's net income dramatically dropped to VND 44 bn from VND 164 bn in 1H14. VCF's shallow profit performance in 2Q15 was expected as we had anticipated spending on promotions and marketing/branding and other expenses items would continue to substantially increase in 1H15, as the company has been building new brands and launching new products since 2H14. (please see our [Update on Vinacafe in 1Q15 earnings report](#))

In the **beer** segment, Masan Brewery (which holds 100% interest in Phu Yen Beer) is in the process of increasing beer production capacity by 3x from the current capacity of 50 million liters per year to expand "Su Tu Trang" brand to the Mekong Delta market. Sales of beer were VND 296 bn in 1H15 (sales in 4Q14 were VND 150bn). This new capacity will help expansion of Masan's beer operations to previously untapped markets in Vietnam.

Masan Consumer's net financial income significantly decreased from VND 714 bn in 1H14 to VND 426 bn in 1H15 due to lower interest income, which was only VND 672 bn in 1H15 vs VND 843 bn in 1H14. Long-term receivables reduced from VND 9,655 bn at the beginning of 2015 to VND 5,757 bn at 2Q15-end. In 2Q15, MCH issued 5-year bonds worth VND 9,000 bn to local banks (coupon rate: average deposit rate of top 4 SOCBs plus 3%). Proceeds from the transaction were used to service foreign currency debt (USD 175 mn denominated debt from JP Morgan with interest rate at Libor +3.5%-4.5%; and other high interest debts (VND denominated with interest rates from 13% to 14.5%) and to strengthen cash balance for future investments and acquisitions.

2. Animal Feed (Masan Nutrition Science – MNS)

The animal feed business was the new growth engine for the Group in the context of low commodity price. The combined brands (Proconco & Anco) generated VND 9,860 bn in 1H15 sales (VND 18,690 bn in 2014). However, due to the fact that the Group

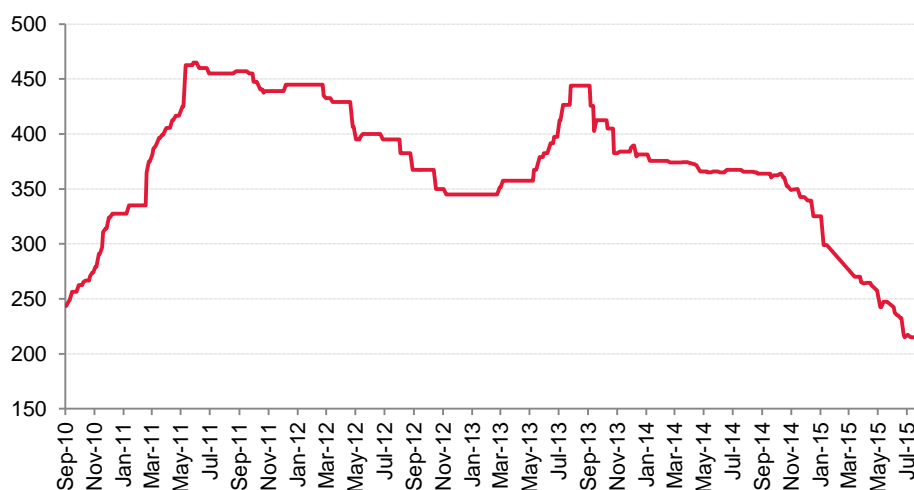
consolidated MNS from May 2015, contributed revenue was VND 3,332 bn, and pro-forma net profit was VND 217 bn and VAS net profit VND 158 bn. Three new factories are under construction, adding to the existing 10 factories and will boost total capacity by 40% to ~3 million tons by 2016. After joining Ma San Group, we can see that MNS has become more proactive in R&D and marketing. The company introduced a new product called “Bio-zeem” and launched the first of its kind TV advertisement campaign. Gross profit margin of MNS totaled 19.2% for 1H15 (vs. 14.7% of Proconco and 15.8% of Anco in 2014). Low corn, soybean and other raw material costs combined with strategy to focus on pig feed with higher margin compared to poultry feed and aqua feed were the key drivers for remarkable margin expansion.

3. Mining (Masan Resources)

Sales mildly increased by 4.9% despite challenging tungsten price, which has plunged 30% YoY in 1H15, however EBITDA margin improved from 32% in 1H14 to 49% in 1H15 thanks to improved recovery rate and production volume across all four minerals. Pro-forma net profit totaled VND 95 bn vs. loss in 1H14.

MSR offered ~10 mn shares to retail investors at the price of VND 12,000/share in preparation for the listing. MSR shares will be listed on Upcom by the end of 3Q15 at the earliest, and then will progress to the Hanoi Stock Exchange (HNX) after meeting listing requirements of the HNX over the next 12-18 months.(MSR’s 2014 ROE was less than 5%, as it was the first year of ramping up operations.)

APT price (USD/MTU)



Source: Bloomberg

4. Banks (Techcombank)

In 1H15, the Bank achieved VND 1,032 bn in PBT, up 8.8% YoY. Impressive net interest income growth of 36.6% was offset by rising provision taken at the start of the year (VND 2,111 bn in 1H15 vs. 438 bn in 1H14). NPL ratio was at 2.4%, lower than the industry average of 3.72% in 1H15.

Update on our Earnings Estimates & Investment View

Compared to previous estimates, we have revised down estimates for 2015 revenue and earnings of the Group due to lower earnings forecast of Masan Consumer and Masan Resources:

1. Masan Consumer

Estimated net sales and VAS net income are VND 14,882 bn and VND 3,056 bn, representing growth rates of 13.6% and -10.8% YoY. Compared with previous forecast, we have revised down estimates for VCF after factoring in 1H15 results and also lowered forecast for net financial income figure. More specifically, we estimate that VCF's bottom line will drop 40% YoY (vs. a decrease of only 6% in our previous estimate). If taking out performance of VCF, Masan Consumer net income will decline by 6.7% YoY.

2. Masan Resource

Compared to our previous forecast, we have adjusted our assumptions for APT price in 2015, from USD 275/MTU to USD 250 MTU and prices of 3 other minerals as well. As a result, net sales, EBITDA and net income of the mine are estimated at VND 3,431 bn (+21.4% YoY) and VND 1,575 bn (+46% YoY) and VND 61bn (+71% YoY) respectively.

3. Masan Nutri-Science

We estimate that sales will increase by 17.2% YoY to VND 21,907 bn while pro-forma net profit after minority interest will reach VND 845 bn, increasing 11.5% YoY thanks to improved margins on low commodity prices and logistics cost savings.

4. Techcombank

We assume that the Bank could attain 40% YoY growth in its bottom line in 2015, implying VND 1,547 bn in net income, which is close with the bank's plan.

Altogether, **for 2015**, we estimate MSN will achieve net sales of VND 32,958 bn (+105% YoY) and VND 1,508 bn in net earnings to parent shareholders (+39.6% YoY). Strong growth in sales would derive from higher sales of Masan Resource and the consolidation of Masan Nutri-Science. Meanwhile, growth in net earnings will stem from contribution of Masan Nutri-Science and higher income from associates (Techcombank) as there is no longer goodwill amortization. *If we were to include goodwill amortization of this associate like in previous years, net earnings growth would be nearly flat YoY.* 2015EPS is estimated at VND 2,019, implying 2015PE at the current market price of 39x which is a very high premium compared with the overall market (12-13x).

For 2016, we set growth rates of 35.2% in net sales and 57.2% in net earnings to parent shareholders respectively. Full consolidation of MNS and higher sales from MSR on the expectation of a recovery in APT price (to USD 275/MTU in next year, which is rather positive in our view) are key drivers for top line growth. Meanwhile, earnings growth would stem from improved profitability mining business and cost savings achieved from synergies.

Besides, we noted some significant changes in balance sheet as follows:

- Long-term debt: By 1H15-end, long term debt totaled 30 trn, significantly increased from 17.5 trn at the beginning of the year. However, after settling some high-cost borrowings, long-term debt will reach ~VND 23 trn by this year-end. In the meantime, cash balance will also significantly from current VND 11.5 trn to ~VND 16 trn by this year-end. According to MSN, high cash balance will be used for upcoming M&A transactions. Although MSN has restructured its debt to enjoy more favorable financing cost, in absolute term, we see that interest expense would still remain high on higher outstanding debt. Also, interest income will also high on high cash balance.
- Total assets increased from VND 53 trn at the beginning of this year to VND 71.3 trn by 1H15-end due to consolidation of MNS and rising borrowings.

Positive catalysts in the coming time could be attributed to (1) encouraging growth in 2H15 thanks to the consolidation of animal feed business; (2) listing of MSR; and (3) prolonged low commodity prices which will benefit the F&B business.

Negative catalysts in the coming time could be attributed to (1) prolonged low tungsten price will impeded earnings of MSR; (2) increasing selling pressure from ESOP shares in the coming time given big discount (88% compared to market price)

Our fair value for MSN in 1-yr horizon comes to VND 90,000/share, a 12% premium compared with the current market price of VND 80,500/share. We reiterate our HOLD recommendation.

| No. | Company | Fair value (VND bn) | Fair value (\$mn) | MSN's ownership | MSN's stake/economic interest (VND bn) |
|-----|--|---------------------|-------------------|-----------------|--|
| 1 | Masan Consumer | 63,235 | 2,874 | 78.40% | 49,576 |
| 2 | Masan Resources | 7,782 | 354 | 74.10% | 5,767 |
| 3 | Masan Nutri-Science | 9,997 | 454 | 99.99% | 9,996 |
| 4 | Techcombank | 17,464 | 794 | 30.40% | 5,309 |
| 5 | Masan Brewery | 900 | 41 | 100.00% | 900 |
| | Sub-total | | | | 72,102 |
| | Net cash at Parent's Company (assumed as of Dec. 2015) | | | | (4,500) |
| | Total | | | | 67,602 |
| | No. of shares (Outstanding) | | | | 746,717,861 |
| | Fair value of a share (VND) | | | | 90,000 |

Appendix 1: Masan Group structure, as of 1H15-end

| Masan Horizon (100%) | | |
|--|-----------|-------------------------------|
| Subsidiary | Ownership | Business |
| Masan Resources Corporation | 74.10% | Investment holding |
| Masan Thai Nguyen Resources | 74.10% | Investment holding |
| Thai Nguyen Trading & investment company | 74.10% | Investment holding |
| Nui Phao Mining Co.,Ltd | 74.10% | Exploring& processing mineral |
| Nui Phao -HC. Stark | 37.80% | Processing mineral |

MASAN GROUP

| Masan Consumer Holdings (MHC) (100%) | | |
|--------------------------------------|---------------|-------------------------------|
| Subsidiaries | Ownership | Business |
| 1. Masan Consumer Corporation | 78.40% | Consumer |
| 1.1. Masan Food | 100% | Seasonings & instant noodles |
| Viet Tien Food | 100% | Chili sauce & instant noodles |
| Masan PQ | 94.50% | Fish & soya sauce |
| Masan HD | 100% | Fish & soya sauce |
| Masan MB | 100% | Instant noodles & beverage |
| Mivipack | 0% | Packaging |
| Masan DN | 100% | Instant noodles & beverage |
| Saigon Nutri Food | 99.99% | Meat |
| Cholimex Foods | 32.80% | Seasonings |
| 1.2. Masan Beverage | 100% | Beverage |
| Vinh Hao | 63.95% | Mineral water |
| Kronfa | 63.94% | Mineral water |
| 1.3. Vinacafe Bien Hoa JSC | 53.20% | Coffee |
| 2. Masan Brewery | 100% | |
| 2.1. Lamka Beer company | 100.00% | Beer |
| Phu Yen Beer | 99.99% | Beer |

| Masan Nutri Science (MNS) (100%) | Techcombank (30.4%) |
|----------------------------------|---------------------|
| Proconco (52%) | |
| Anco (70%) | |

Appendix 2: ANNUAL FINANCIAL STATEMENTS

| VND Billion | 2013 | 2014 | 2015F | 2016F |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Balance Sheet | | | | |
| + Cash | 5,699 | 5,166 | 12,270 | 14,023 |
| + Short-term investments | 3,287 | 4,042 | 5,643 | 5,643 |
| + Account receivables | 975 | 5,177 | 6,592 | 8,912 |
| + Inventories | 1,070 | 1,605 | 3,635 | 4,712 |
| + Other current assets | 168 | 438 | 766 | 1,026 |
| Total Current Assets | 11,199 | 16,428 | 28,905 | 34,317 |
| + LT Receivables | 450 | 1,388 | 2,966 | 4,010 |
| + Net Fixed Assets | 23,121 | 24,065 | 26,011 | 25,372 |
| + Investment properties | 0 | 0 | 0 | 0 |
| + LT Investments | 10,761 | 8,745 | 8,598 | 8,598 |
| + Goodwill | 437 | 792 | 1,484 | 1,423 |
| + Other LT Assets | 533 | 1,547 | 3,297 | 4,292 |
| Total Long-Term Assets | 35,304 | 36,537 | 42,356 | 43,696 |
| Total Assets | 46,502 | 52,965 | 71,261 | 78,012 |
| + Current Liabilities | 9,784 | 11,797 | 17,234 | 20,741 |
| <i>In which: ST debt</i> | <i>6,636</i> | <i>6,042</i> | <i>8,654</i> | <i>9,617</i> |
| + Non-current Liabilities | 13,457 | 19,243 | 25,592 | 25,165 |
| <i>In which: LT debt</i> | <i>12,067</i> | <i>17,522</i> | <i>23,490</i> | <i>22,440</i> |
| Total Liabilities | 23,241 | 31,040 | 42,826 | 45,906 |
| + Contributed capital | 7,349 | 7,358 | 7,358 | 7,358 |
| + Share premium | 9,602 | 9,631 | 9,631 | 9,631 |
| + Retained earnings | 6,357 | 7,072 | 8,579 | 11,264 |
| + Other capital/fund | -8,875 | -9,045 | -9,045 | -9,045 |
| Owners' Equity | 14,433 | 15,016 | 16,524 | 19,209 |
| NCI | 8,829 | 6,909 | 11,911 | 12,898 |
| Total Liabilities & Equity | 46,502 | 52,965 | 71,261 | 78,013 |
| Cash Flow | | | | |
| CFO | -316 | 333 | 246 | 2,841 |
| CFI | -4,438 | -4,676 | -5,889 | -4,000 |
| CFF | 4,735 | 3,812 | 8,580 | -87 |
| Net increase in cash | -19 | -531 | 2,937 | -1,247 |
| Beginning cash | 5,719 | 5,699 | 5,166 | 8,104 |
| Ending cash | 5,699 | 5,166 | 8,104 | 6,857 |
| Liquidity Ratios | | | | |
| Current ratio | 1.14 | 1.39 | 1.68 | 1.65 |
| Acid-test ratio | 1.02 | 1.22 | 1.42 | 1.38 |
| Cash ratio | 0.92 | 0.78 | 1.04 | 0.95 |
| Net debt / EBITDA | 3.68 | 2.95 | 2.93 | 2.32 |
| Interest coverage | 5.83 | 2.87 | 3.27 | 4.09 |
| Days of receivables | 7.22 | 53.30 | 53.27 | 50.80 |
| Days of payables | 50.37 | 37.34 | 25.63 | 32.33 |
| Days of inventory | 42.95 | 51.45 | 38.67 | 47.52 |
| Capital Structure | | | | |
| Equity/Total asset | 0.31 | 0.28 | 0.23 | 0.25 |
| Liabilities/Total Assets | 0.50 | 0.59 | 0.60 | 0.59 |
| Liabilities/Equity | 1.61 | 2.07 | 2.59 | 2.39 |
| Debt/Equity | 1.30 | 1.57 | 1.95 | 1.67 |
| ST Debt/Equity | 0.46 | 0.40 | 0.52 | 0.50 |

| VND Billion | 2013 | 2014 | 2015F | 2016F |
|--|---------------|---------------|---------------|---------------|
| Income Statement | | | | |
| Net Sales | 11,943 | 16,089 | 32,959 | 44,560 |
| COGS | -6,943 | -9,489 | -24,727 | -32,057 |
| Gross Profit | 4,999 | 6,600 | 8,232 | 12,503 |
| Financial Income | 664 | 1,571 | 1,010 | 1,010 |
| Financial Expense | -607 | -1,711 | -1,640 | -1,804 |
| Selling Expense | -1,982 | -2,865 | -3,357 | -5,045 |
| Admin Expense | -890 | -1,048 | -1,591 | -2,768 |
| Income from business operation | 2,186 | 2,546 | 2,653 | 3,896 |
| Net Other Income | 21 | 246 | 100 | 100 |
| Income from associates | -193 | -53 | 473 | 558 |
| Profit Before Tax | 2,013 | 2,740 | 3,227 | 4,554 |
| Net Income | 1,307 | 2,037 | 2,494 | 3,672 |
| Minority interest | 856 | 957 | 987 | 987 |
| NI attributable to shareholders | 451 | 1,080 | 1,508 | 2,685 |
| Growth | | | | |
| Sales | 14.9% | 34.7% | 104.9% | 35.2% |
| EBITDA | -5.3% | 80.4% | 22.7% | 25.1% |
| EBIT | -12.1% | 72.8% | 13.9% | 33.1% |
| NI | -33.4% | 55.8% | 22.4% | 47.2% |
| Equity | 17.7% | 4.0% | 10.0% | 16.2% |
| Chartered Capital | 6.9% | 0.1% | 0.0% | 0.0% |
| Total assets | 20.2% | 13.9% | 34.5% | 9.5% |
| Valuation | | | | |
| PER | 133.5 | 59.1 | 42.4 | 26.9 |
| PBR | 4.2 | 4.2 | 3.6 | 3.1 |
| Profitability Ratios | | | | |
| Gross Margin | 41.9% | 41.0% | 25.0% | 28.1% |
| Operating Margin | 18.3% | 24.9% | 8.0% | 8.7% |
| Net Margin | 10.9% | 12.7% | 7.6% | 8.2% |
| Selling exp./Net sales | 16.6% | 17.8% | 10.2% | 11.3% |
| Admin exp./Net sales | 7.4% | 6.5% | 4.8% | 6.2% |
| ROE | 9.8% | 13.8% | 15.8% | 20.6% |
| ROA | 3.1% | 4.1% | 4.0% | 4.9% |
| ROIC | 5.3% | 8.7% | 8.3% | 9.9% |

Source: MSN, SSI Research

1. ANALYST CERTIFICATION

The research analyst(s) on this report certifies that (1) the views expressed in this research report accurately reflect his/her/our own personal views about the securities and/or the issuers and (2) no part of the research analyst(s)' compensation was, is, or will be directly or indirectly related to the specific recommendation or views contained in this research report.

2. RATING

Within 12-month horizon, SSIResearch rates stocks as either BUY, HOLD or SELL determined by the stock's expected return relative to the market required rate of return, which is 16% (*). A BUY rating is given when the security is expected to deliver absolute returns of 16% or greater. A SELL rating is given when the security is expected to deliver returns below or equal to negative 8%, while a HOLD rating implies returns between negative 8% and 16%.

Besides, SSIResearch also provides Short-term rating where stock price is expected to rise/reduce within *three* months because of a stock catalyst or event. Short-term rating may be different from 12-month rating.

Industry Rating: We provide the analyst' industry rating as follows:

- ❖ Overweight: The analyst expects the performance of the industry over the next 6-12 months to be attractive vs. the relevant broad market
- ❖ Neutral: The analyst expects the performance of the industry over the next 6-12 months to be in line with the relevant broad market
- ❖ Underweight: The analyst expects the performance of the industry over the next 6-12 months with caution vs. the relevant broad market.

**The market required rate of return is calculated based on 1-year Vietnam government bond yield and market risk premium derived from using Relative Equity Market Standard Deviations method. Our rating bands are subject to changes at the time of any significant changes in the above two constituents.*

3. DISCLAIMER

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. SSI and other companies in the SSI and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies.

This document is for private circulation only and is not for publication in the press or elsewhere. SSI accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user.

WWW.SSI.COM.VN

**SAIGON SECURITIES
INC.**

Member of the Ho Chi
Minh Stock Exchange,
Regulated
by the State Securities
Commission

HO CHI MINH CITY

72 Nguyen Hue Street,
District 1
Ho Chi Minh City
Tel: (848) 3824 2897
Fax: (848) 3824 2997
Email: info@ssi.com.vn

HA NOI

1C Ngo Quyen Street
Ha Noi City
Tel: (844) 3936 6321
Fax: (844) 3936 6311

4. CONTACT INFORMATION

Institutional Research & Investment Advisory

Trang Pham

Senior Analyst, Consumer Goods & Services

Tel: (844) 3936 6321 ext. 537

trangph@ssi.com.vn

Phuong Hoang

Deputy Managing Director,

Head of Institutional Research & Investment Advisory

phuonghv@ssi.com.vn

Hung Pham

Associate Director

hungpl@ssi.com.vn

Giang Nguyen

Associate Director

giangntt@ssi.com.vn