

# Masan Group (MSN.HM / MSN.VN)

**INCREASE TARGET PRICE**

Rating	<b>OUTPERFORM</b>
Price (19-Mar-19, D)	87,000
Target price (D)	(from 98,000) 100,000
Upside/downside (%)	14.9
Mkt cap (D/US\$ bn)	91,633 / 3.95
Enterprise value (D bn)	108,183
Number of shares (mn)	1,053
Free float (%)	24.3
52-wk price range (D)	114,600-73,900
ADTO-6M (US\$ mn)	2.9

Target price is for 12 months.

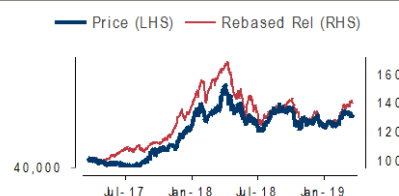
## Research Analysts

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## Well-rounded consumption model achieved

- **Concrete growth drivers.** Rising per capita incomes (8-9%), a stable share of wallet allocated to staples (~22%) and a demographic dividend (62% of population being lower than the age of 40) are the key pillars driving the Vietnam consumer story in the medium term. Growing awareness on quality and innovation can cement the position of large players with known brands.
- **Strong year ahead for Masan Consumer.** With one of the largest distribution networks and three to four brands among the Top 10, we expect Masan Consumer (MSC) to deliver another healthy performance in 2019E, with sales/NPATMI growth of 14%/16%. Recent up-scaling and new launches in seasonings and noodles can continue providing dividends while energy drinks can sustain its superior growth trajectory (35-45% increase in sales per annum). We eye stability in gross margin ahead (~45%).
- **Some headwinds in meat value chain, but long-term positives.** Masan Nutri-Science (MNS) has completed the 3F model (feed, farm and food) and positioned itself as a notable player in pork. With pork consumption (31.3 kg per capita) being the highest in Asia and constituting 49% of Vietnam's meat sales, MNS is tapping the conversion drive towards packaged, chilled meat (currently only 8% of the industry) through its MEATDeli brand. We are optimistic on long-term success if cold chain logistics are executed well. That said, the spreading of African Swine Flu (ASF) and culling of industry hogs can cut feed demand (10% reduction in sales=0.7% EPS impact). If the MNS farm is affected and asset write-downs required, EPS can erode by 5-10%.
- **Use weakness to accumulate.** We would accumulate on dips. Our SOTP-based TP of D100,000 (from D98,000) implies 15% upside potential. Estimates are nominally tweaked. With accommodative valuations (2019E P/E at 16.5x and EV/EBITDA of 11.6x), MSN's risk-reward framework is compelling and we stay OUTPERFORM on the stock.

## Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 1,006.59 on 19/03/19. On 19/03/19 the spot exchange rate was D23,208/US\$1

Performance	1M	3M	12M
Absolute (%)	2.7	6.7	(7.7)
Relative (%)	(3.1)	(2.8)	5.4

## Financial and valuation metrics

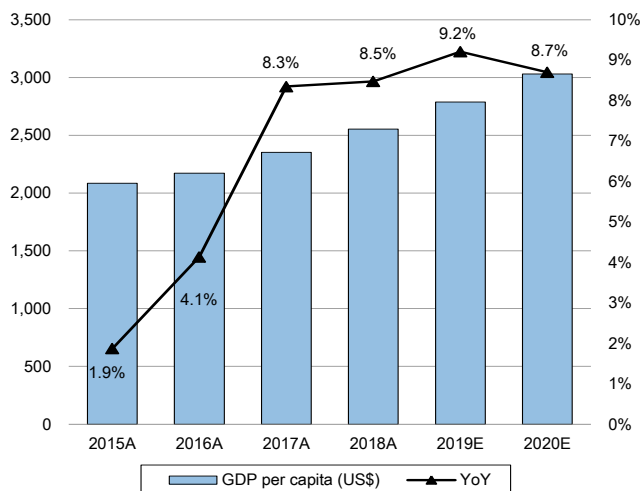
Year	12/18A	12/19E	12/20E	12/21E
Revenue (D bn)	38,187.6	40,123.0	43,487.5	47,812.5
EBITDA (D bn)	8,112.7	9,025.3	10,031.6	10,979.2
EBIT (D bn)	5,518.6	5,879.4	6,462.4	7,128.3
Net profit (D bn)	4,916.5	6,118.7	7,100.3	8,446.7
EPS (CS adj.) (D)	4,227	5,260	6,104	7,262
Chg. from prev. EPS (%)	n.a.	0.5	1.3	0.6
Consensus EPS (D)	n.a.	4,643	5,358	6,820
EPS growth (%)	58.5	24.5	16.0	19.0
P/E (x)	20.6	16.5	14.3	12.0
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	13.4	11.6	9.9	8.5
P/B (x)	3.43	2.84	2.37	1.98
ROE (%)	22.2	18.8	18.1	18.0
Net debt/equity (%)	51.1	33.3	17.2	2.7

Source: Company data, Refinitiv, Credit Suisse estimates

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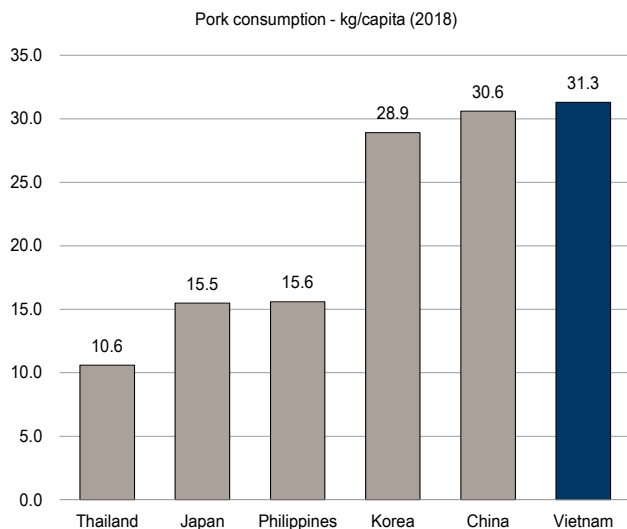
## Focus charts and tables

**Figure 1: Growing incomes to boost consumption**



Source: IMF

**Figure 3: Pork is an attractive space to play...**



Source: OECD

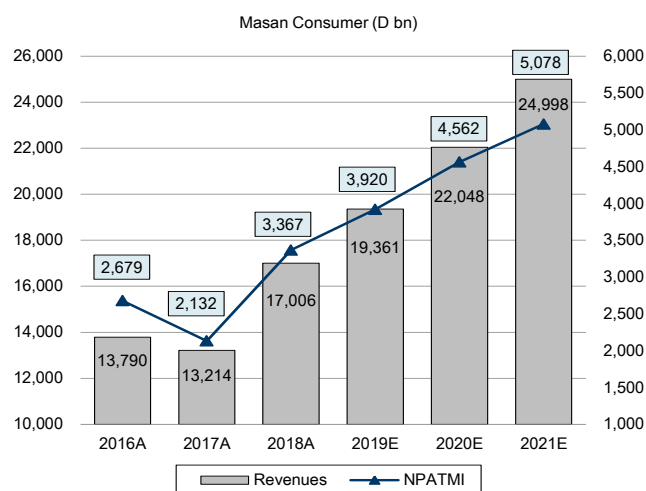
**Figure 5: Sensitivity of feed sales to total EPS**

		MNS 2019E revenue (D bn)					
		9,201	10,121	11,133	12,246	13,471	
MNS gross margins (%)	13.0%	5,010	5,027	5,046	5,067	5,090	
	14.0%	5,068	5,091	5,116	5,144	5,175	
	15.0%	5,126	5,155	5,187	5,222	5,260	
	16.0%	5,184	5,219	5,257	5,299	5,345	
	17.0%	5,242	5,282	5,327	5,376	5,431	

With ongoing risk of African Swine Flu (ASF), downside risk for feed sales is present. We estimate that every 10% change in MNS revenues will impact consolidated profitability by 0.7% while 100 bps change in margins will move profitability by 1.6%.

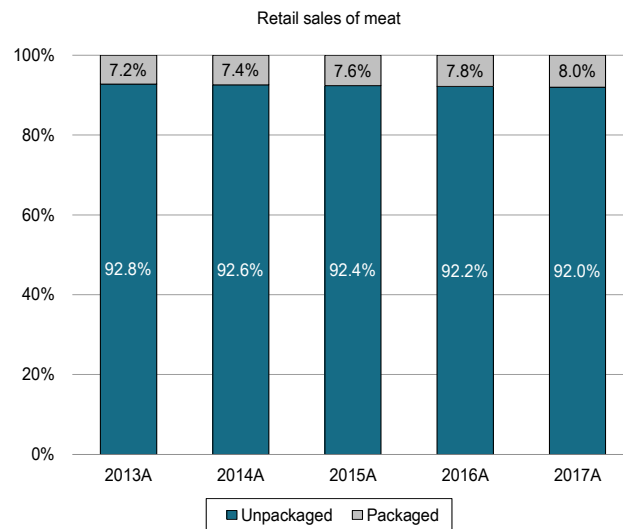
Source: Credit Suisse estimates

**Figure 2: MSC 2019E sales/EPS growth of 14%/16%**



Source: Company data, Credit Suisse estimates

**Figure 4: ...with large scope for conversion**



Source: Euromonitor

**Figure 6: Sum-of-the-parts based valuation**

Name of company	Method	D bn	% of total
Masan Consumer	27x 2019E P/E	87,716	66.0%
Masan Resources	DCF	11,497	8.7%
Masan Nutri-Science	10x 2019E P/E	2,857	2.2%
Techcombank	2.3x 2019E BV	28,324	21.3%
Other associates	Cost	2,410	1.8%
<b>Gross asset value</b>		<b>132,804</b>	
Net (debt)/cash at group level		(3,566)	
<b>Equity value</b>		<b>129,239</b>	
Conglomerate discount		10%	
<b>Net asset value</b>		<b>116,315</b>	
<b>Target price (D/sh)</b>		<b>100,000</b>	

Source: Credit Suisse estimates

# Masan Group (MSN.HM / MSN VN)

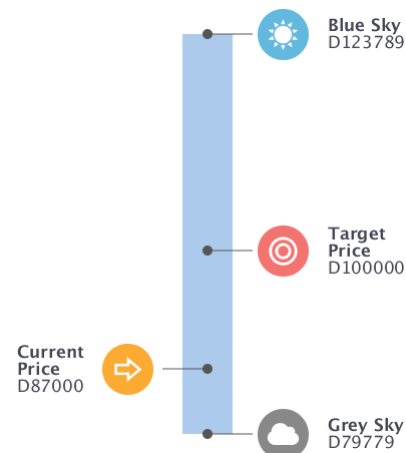
Price (19 Mar 2019): **D87,000**; Rating: **OUTPERFORM**; Target Price: (from **D98,000**) **D100,000**; Analyst: **Fahd Niaz**

Income Statement (D bn)	12/18A	12/19E	12/20E	12/21E
Sales revenue	38,188	40,123	43,487	47,813
Cost of goods sold	26,306	27,449	29,535	32,387
EBITDA	8,113	9,025	10,032	10,979
EBIT	5,519	5,879	6,462	7,128
Net interest expense/(inc.)	1,189	891	758	327
Recurring PBT	6,244	6,954	8,045	9,585
Profit after tax	5,622	6,252	7,243	8,624
Reported net profit	4,916	6,119	7,100	8,447
Net profit (Credit Suisse)	4,916	6,119	7,100	8,447
Balance Sheet (D bn)	12/18A	12/19E	12/20E	12/21E
Cash & cash equivalents	4,586	5,055	5,931	6,608
Current receivables	2,413	2,418	2,621	2,882
Inventories	4,333	4,136	4,450	4,880
Other current assets	1,168	1,219	1,294	1,375
Current assets	12,500	12,828	14,296	15,745
Property, plant & equip.	31,375	31,898	30,891	29,215
Investments	15,348	17,314	19,654	22,438
Intangibles	0	0	0	0
Other non-current assets	5,356	5,284	5,332	5,399
Total assets	64,579	67,324	70,174	72,797
Current liabilities	15,796	22,945	18,552	12,552
Total liabilities	30,499	26,997	22,604	16,604
Shareholders' equity	29,487	35,601	42,701	51,148
Minority interests	4,593	4,726	4,869	5,046
Total liabilities & equity	64,579	67,324	70,174	72,797
Cash Flow (D bn)	12/18A	12/19E	12/20E	12/21E
EBIT	5,519	5,879	6,462	7,128
Net interest	(1,189)	(891)	(758)	(327)
Tax paid	(622)	(702)	(801)	(962)
Working capital	(265)	178	(551)	(726)
Other cash & non-cash items	2,594	3,146	3,569	3,851
Operating cash flow	6,036	7,610	7,921	8,964
Capex	(2,302)	(3,669)	(2,563)	(2,174)
Free cash flow to the firm	3,734	3,941	5,358	6,790
Investing cash flow	(4,111)	(3,634)	(2,652)	(2,287)
Equity raised	4,287	0	0	0
Dividends paid	0	0	0	0
Financing cash flow	(2,183)	(3,506)	(4,394)	(6,000)
Total cash flow	(258)	469	875	677
Adjustments	0	0	0	0
Net change in cash	(258)	469	875	677
Per share	12/18A	12/19E	12/20E	12/21E
Shares (wtg avg.) (mn)	1,163	1,163	1,163	1,163
EPS (Credit Suisse) (D)	4,227	5,260	6,104	7,262
DPS (D)	0	0	0	0
Operating CFPS (D)	5,190	6,542	6,810	7,707
Earnings	12/18A	12/19E	12/20E	12/21E
Growth (%)				
Sales revenue	1.5	5.1	8.4	9.9
EBIT	25.8	6.5	9.9	10.3
EPS	58.5	24.5	16.0	19.0
Margins (%)				
EBITDA	21.2	22.5	23.1	23.0
EBIT	14.5	14.7	14.9	14.9
Valuation (x)	12/18A	12/19E	12/20E	12/21E
P/E	20.6	16.5	14.3	12.0
P/B	3.43	2.84	2.37	1.98
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/sales	2.9	2.6	2.3	1.9
EV/EBITDA	13.4	11.6	9.9	8.5
EV/EBIT	19.8	17.9	15.4	13.1
ROE analysis (%)	12/18A	12/19E	12/20E	12/21E
ROE	22.2	18.8	18.1	18.0
ROIC	10.0	10.0	10.6	11.3
Credit ratios	12/18A	12/19E	12/20E	12/21E
Net debt/equity (%)	51.1	33.3	17.2	2.7
Net debt/EBITDA (x)	2.15	1.49	0.81	0.14

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background
Masan Group is a private sector conglomerate in Vietnam with three major subsidiaries: Masan Consumer Holdings (86%), Masan Resources (96%) and Masan Nutri-Science (81%). MSN is also a strategic shareholder in Techcombank (20%)

## Blue/Grey Sky Scenario



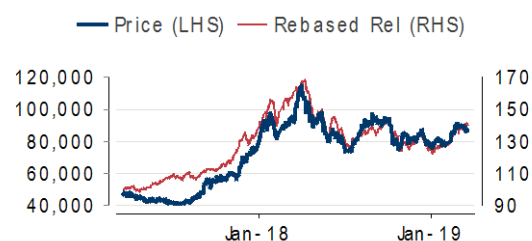
Our Blue Sky Scenario (D)	(from 104,183) 123,789
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In our blue sky scenario, we assume revenue growth of Masan Consumer at 2x our estimate and gross margins 500 bp higher across all consumer products

Our Grey Sky Scenario (D)	(from 91,817) 79,779
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In our grey sky scenario, we assume no revenue growth and 500 bp lower gross margins across all consumer products

## Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 1,006.59 on 19-Mar-2019

On 19-Mar-2019 the spot exchange rate was D23,208/US\$1

## Well-rounded consumption model achieved

In this report, we take a closer look at the consumption-driven growth drivers of Masan Group (MSN) and reiterate our liking for the stock while underpinning our 2019 market thesis where we advocated an investment approach with a ['Tilt towards consumption'](#).

### Impressive growth drivers for F&B

**8-9% increase in per capita incomes and robust spending on staples is supportive**

**MSC has 3-4 brands among the top ten in rural and urban areas**

**Forecast 2019E sales/EPS growth of 14%/16% for MSC**

The constructive backdrop for consumer staples is intact in our view. Rising per capita incomes (8-9% increase per annum from US\$2,553 in 2018) with similar increases seen in household spending on food is positive. Moreover the demographic dividend is sound as 62% of the population is forecasted to be under the age of 40 by 2020E (as per Business Monitor International, BMI). Consumers are turning increasingly conscious of quality standards and dominant players with brand loyalty are at an advantage. This sets a positive backdrop for MSC in our view as the company has one of the largest distribution networks and 3-4 brands among the top ten names in rural and urban Vietnam. We expect 2019E revenue/NPATMI growth of 14%/16% along with stable gross margins (~45%). Premiumisation and innovation should allow 10-11% sales growth in seasonings and noodles, while energy drinks can retain the stronger momentum in the near-term (35-45%). Consequently, share of this product can grow to 18-20% of MSC sales in the next two to three years (from 11%), in our view. Despite having high potential, we remain cautious on the outlook of beer due to presence of established players.

### Meat value chain: Headwinds before rewards

**Per capita consumption of pork is the highest (31.3 kg) in the region**

**MNS is tapping the conversion potential towards packaged, chilled meat through the MEATDeli brand**

**Feed sales can decline as swine flu spreads and farm economics take a hit**

The meat value chain is an attractive long-term proposition in Vietnam. Despite per capita incomes (US\$2,553 in 2018) being on the lower side, the average Vietnamese consumer has the highest appetite for pork (31.3 kg per capita) compared with Asian peers. The significance of pork is also underscored by its 49% share in total meat consumption. Substantial scope exists for conversion of fresh meat sold in wet markets towards branded, packaged and chilled variants (which is 8% of the market currently). Rising income levels and more consumer awareness on food safety can drive this switch. For MNS, the roll-out of MEATDeli (packaged and chilled pork) in 4Q18 completed the 3F model (feed, farm and food). With quality certifications and full traceability to the MNS farm, MEATDeli products are garnering good response. Distribution is in selected northern areas so far and successful scale up will rest on establishing a cold chain infrastructure.

That said, near-term risks to the feed business of MNS are present as African Swine Flu (ASF) is [spreading](#) in northern Vietnam along with some localities in the center. Revenues from animal feed accounted for 37%/12% of total sales/EBITDA in 2018 and we estimate that a 10% reduction in our 2019E estimate can trim consolidated EPS by 0.7%. However, if the MNS farm is affected and asset write-downs required, EPS can erode by 5-10%.

### Reiterate OUTPERFORM; TP D100,000

**Three year EPS CAGR of 20% with cheap valuations (2019E P/E of 16.5x)**

**We see 15% upside potential to our TP of D100,000**

We stay OUTPERFORM on MSN and reiterate the stock as one of our top picks in Vietnam. Valuations are accommodative with 2019E P/E at 16.5x and EV/EBITDA of 11.6x. MSN's P/E premium to the market is ~16% (lower end of the historical range), and has room to grow. We have made modest tweaks to our estimates and nudge up TP to D100,000 (from D98,000), implying 15% upside potential. With a three-year EPS CAGR of 20%, MSN's risk-reward framework is attractive and we would use any stock price weakness to accumulate. Large-scale de-leveraging has been undertaken post the treasury share placement, taking net gearing down to 51% (from 135%) and financial charges are expected to decline at a three year CAGR of 31% going forward. **Key risks:** (1) slowdown in sales momentum of food and beverages along with weaker margins; (2) lacklustre response to new product launches and competitive pressures; (3) weaker hog prices and outbreak of ASF that can cut feed sales; (4) decline in metal pricing and operational issues at the mine; and (5) variation in growth outlook for Techcombank.

## Regional consumer valuations

Figure 7: Asia consumer companies relative valuations

Reuters	Name of Company	Rating	Price		Mkt cap	P/E (x)		EV/EBITDA (x)		ROE (%)	P/B (x)	Margins (%)	
			Local	Target	US\$ mn	T+1	T+2	T+1	T+2	T+1	T+1	Gross	EBITDA
China													
0151.HK	Want Want China Holdings	O	6.4	6.2	10,150	20.3	19.2	11.9	11.4	19.8	4.0	44.8	25.2
0322.HK	Tingyi	N	12.0	12.2	8,560	23.4	22.4	8.2	8.3	12.5	2.9	30.9	12.3
0288.HK	WH Group Limited	O	8.7	9.8	16,210	14.0	12.9	8.0	7.8	13.6	1.9	20.5	10.2
2319.HK	China Mengniu Dairy	O	26.3	35.0	13,160	29.6	21.4	18.8	15.0	12.2	3.6	37.8	7.4
600887.SS	Inner Mongolia Yili Industrial	O	28.1	33.9	25,406	24.5	-	16.4	-	23.0	5.6	37.8	10.8
India													
NEST.BO	Nestle India	O	10,677.0	12,300.0	14,917	52.5	43.3	32.4	27.3	49.3	25.9	59.4	24.5
HLL.BO	Hindustan Unilever Ltd	O	1,699.6	1,900.0	53,313	58.4	49.7	41.9	36.3	93.5	54.6	53.3	22.3
DABU.BO	Dabur India	N	426.7	500.0	10,921	43.0	36.6	37.1	32.1	27.9	12.0	50.6	21.0
Indonesia													
INDF.JK	Indofood Sukses Makmur	O	7,300.0	8,930.0	4,506	14.1	12.7	6.0	5.6	17.0	2.4	29.0	15.9
ICBP.JK	Indofood CBP	N	10,325.0	12,210.0	8,465	24.3	22.2	14.4	13.4	20.5	5.0	32.7	19.4
AALI.JK	Astra Agro Lestari Tbk	N	12,200.0	13,550.0	1,651	12.4	12.3	7.3	7.0	9.4	1.2	23.3	24.4
BUMI.SI	Bumitama Agri Ltd	O	0.7	1.0	865	9.6	8.3	8.0	7.0	14.5	1.4	29.2	23.2
LSIP.JK	PT PP London Sumatra	O	1,155.0	1,730.0	554	6.8	9.4	4.8	4.1	12.9	0.9	27.3	26.5
IFAR.SI	Indofood Agri Resources Ltd	N	0.2	0.3	220	4.1	3.9	3.0	2.7	6.0	0.2	21.9	21.7
Korea													
051900.KS	LG Household & Healthcare	O	1,405,000.0	1,370,000.0	19,421	27.0	24.6	16.3	14.9	18.9	5.8	62.4	19.1
Thailand													
CPF.BK	Charoen Pokphand Foods	N	25.5	30.5	6,940	38.9	24.7	14.8	12.5	3.7	1.3	12.3	6.0
TUF.BK	Thai Union Group	N	18.5	19.0	2,790	17.4	14.7	15.8	14.1	9.5	1.7	16.4	7.1
TBEV.SI	Thai Beverage	O	0.8	0.9	15,337	18.4	17.5	20.6	19.9	19.6	3.6	29.4	15.3
Malaysia													
GENT.KL	Genting Berhad	O	6.9	8.6	6,593	11.6	11.1	5.9	5.5	6.3	0.7	36.3	36.3
IOIB.KL	IOI Corporation Berhad	U	4.6	4.2	7,017	29.5	30.3	20.2	19.9	10.3	3.0	22.2	20.6
KLKK.KL	Kuala Lumpur Kepong	N	24.9	25.4	6,528	29.6	26.3	15.1	13.9	7.6	2.2	12.6	9.4
Philippines													
URC.PS	Universal Robina Corporation	O	146.1	154.6	6,037	28.8	25.3	19.9	17.9	13.1	3.8	32.6	12.2
EMP.PS	Emperador Distillers Inc.	N	7.5	7.6	2,277	18.4	16.6	11.5	9.9	10.2	1.9	35.3	25.6
Vietnam													
VNM.HM	Vinamilk	N	136,900.0	124,983.8	10,272	25.5	23.4	18.9	17.0	34.6	8.8	46.3	21.5
MSN.HM	Masan Group	O	87,000.0	100,000.0	3,948	16.5	14.3	12.1	10.9	17.2	2.8	31.6	22.5
Average						23.9	21.0	15.6	13.9	19.3	6.3	33.4	18.4

Source: Thomson Reuters, Credit Suisse estimates

## Impressive growth drivers for F&B

The constructive backdrop for consumer staples is intact in our view. Rising per capita incomes (8-9% on average from US\$2,553 in 2018) with similar increases seen in household spending on food is positive. Moreover the demographic dividend is sound as 62% of the population is forecasted to be under the age of 40 by 2020E (as per BMI). Consumers are turning more conscious of quality standards and large players with commanding brand loyalty are at an advantage. We see this as setting a positive backdrop for Masan Consumer (MSC), which has one of the largest distribution networks and three to four brands among the Top 10 names in rural and urban Vietnam. We expect MSC to deliver 2019E revenue/NPATMI growth of 14%/16% along with stable gross margins (~45%). Premiumisation and new launches should allow 10-11% sales growth in seasonings and noodles while energy drinks can retain the robust momentum (35-45% growth on average). Consequently, share of this product can grow to 18-20% of MSC sales in the next two to three years (from 11%), in our view. Despite having high potential, we remain cautious on the outlook of beer due to presence of established players.

## Positive backdrop for consumption

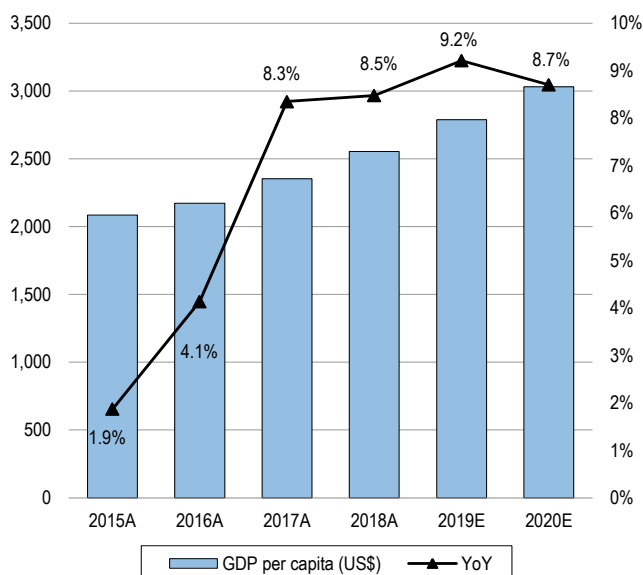
**Rising per capita incomes rising at 8-9% per annum and improving urbanization trends bode well**

**Quality awareness and brand image to assist larger players like MSC**

Vietnam's food and beverages sector is an attractive sector with growth drivers in the form of rising economic activity, growing income levels and healthy population growth. Demographic composition is more skewed towards the younger class where an increasing desire to improve quality of lifestyles and have convenience is present. Moreover, rise in urbanisation (up to 35.2% in 2018 from 33.5% in 2015) and low inflation levels should continue to lift purchasing power and boost spending on staples.

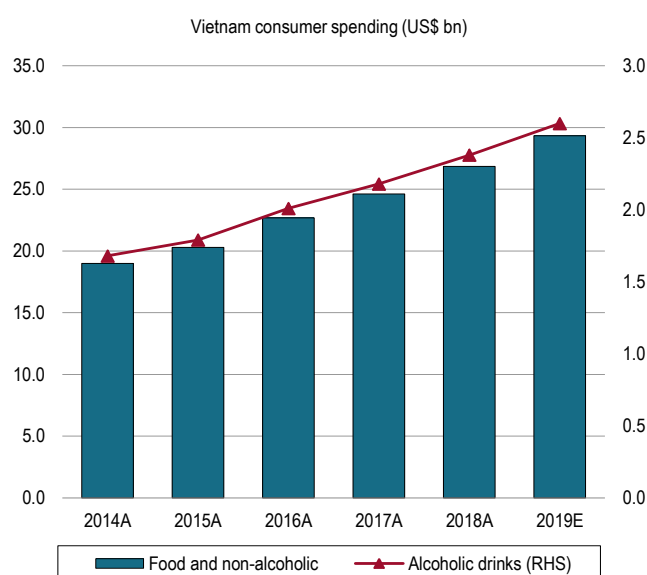
The IMF notes that per capita GDP stands at US\$2,553 in 2018 and has been growing at 6% on average in the past five years. The Fund eyes 8-9% increase per annum, going forward. We believe that development of infrastructure and distribution networks should increase consumer product penetration and support the consumption cycle in Vietnam. Given the relatively fragmented nature of various segments, there are abundant opportunities for domestic companies to redefine categories, build brands and consolidate. Besides, lack of adherence to quality and concerns about health standards have often created issues for smaller players, which places larger names at an advantage.

**Figure 8: Income levels on the uptrend**



Source: IMF

**Figure 9: Food and alcoholic drinks on the up-tick**

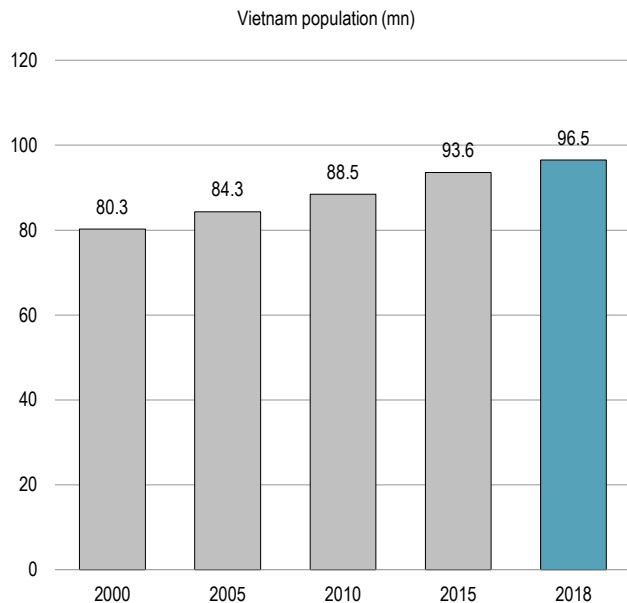


Source: Business Monitor International



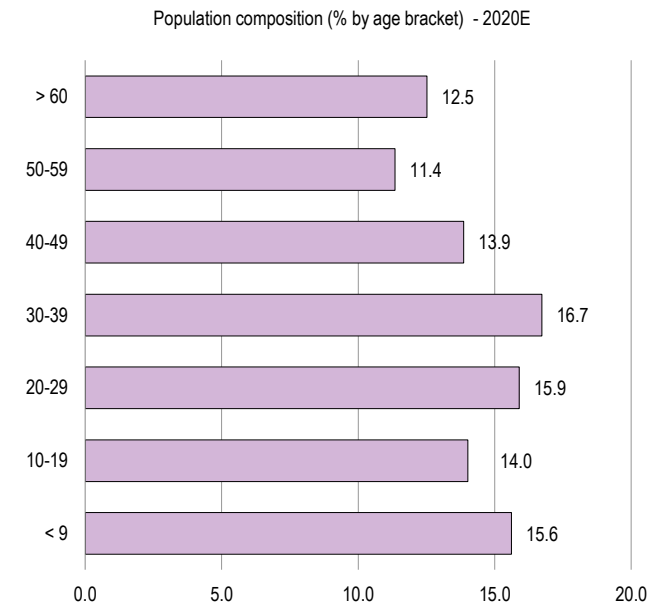
Minimum wages are on the uptick in Vietnam. In 2018, the range was US\$118-171 and for 2019E this is expected to increase to US\$126-180. Inflation remains under control with CPI at 2.6% in Jan-2019 and down from a peak of 4.8% in Jun-2018. Purchases of staples constitute ~22% of total household spending (which is estimated at US\$143 bn).

**Figure 10: Steadily growing population...**



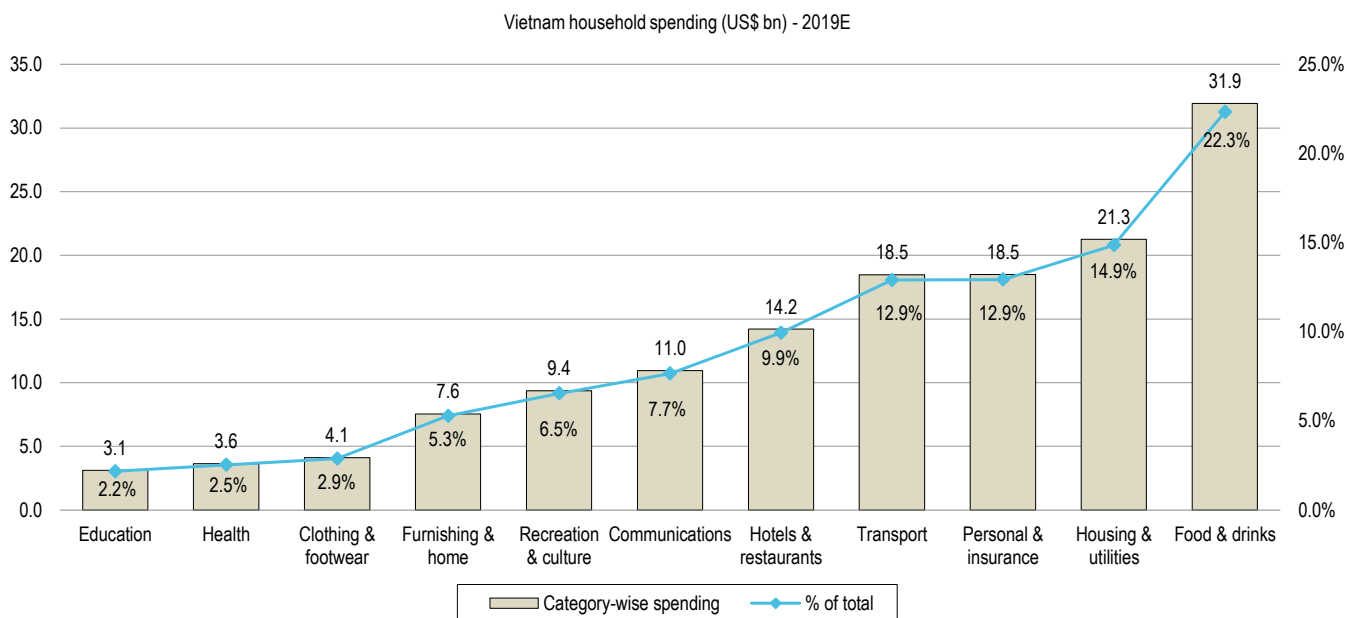
Source: Worldometer

**Figure 11: ...with 62% being less than the age of 40**



Source: Business Monitor International

**Figure 12: Allocation of the Vietnamese consumer wallet; food and drinks is the largest chunk (~22%)**



Source: Business Monitor International

## Masan Consumer to remain the key pillar of growth

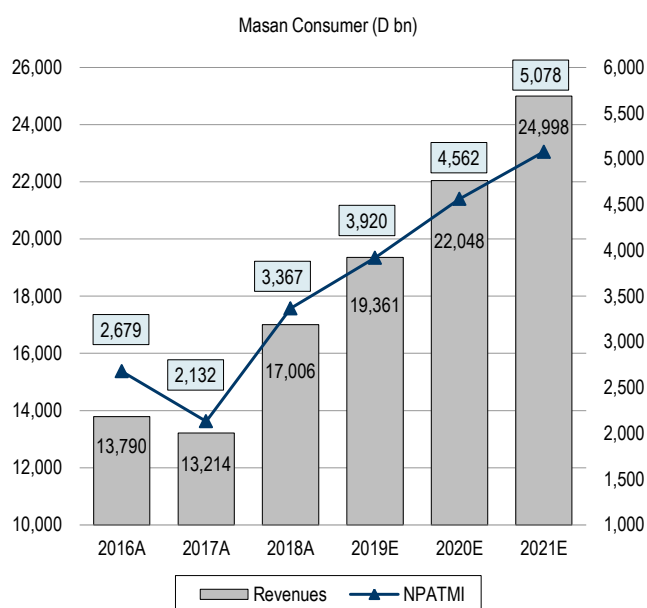
**We forecast 2019E sales/EPS growth of 14%/16% for MSC**

**Brand loyalty and distribution reach are key advantages**

4Q18 set a new record high in terms of quarterly sales for the consumer business, with revenues up 18% YoY (2018: +29% YoY). At the bottom-line, MSC's NPATMI rose 59% YoY led by gross profit accretion (+26% YoY) and reduction in SGA as percentage of sales (to 24% vs 28.3%). We expect revenue growth at 13-14% going forward (above five-year average of 8%) with strong momentum in energy drinks and premiumisation in core categories. Gross margins can stay range-bound at ~45%; however, de-leveraging could play a good role in NPATMI growth. We expect EPS growth of 16% this year also helped by decline in trade promotion spending (down to 8% of sales in 2018 vs 11% in 2017).

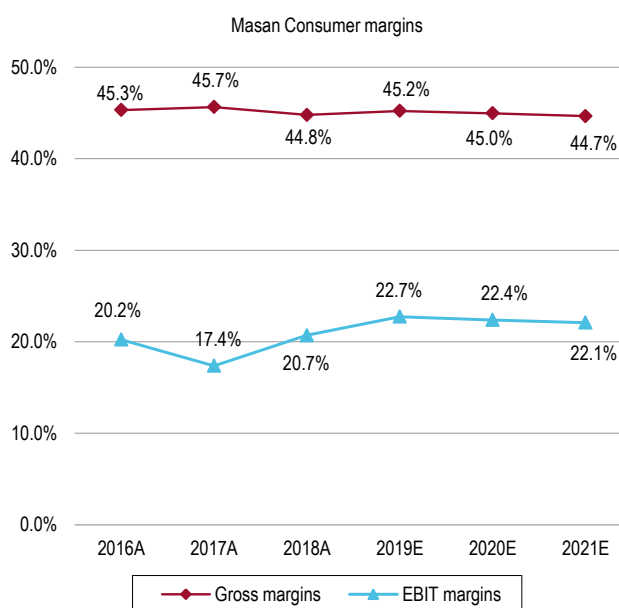
MSC's wide distribution network and a diversified product portfolio are key advantages in a backdrop where geographical reach and quality is valued. Moreover, the company has three to four brands among the Top 10 names in both rural and urban Vietnam.

**Figure 13: 2019E sales/EPS growth of 14%/16%**



Note: MSC excludes beer, Source: Company data, Credit Suisse estimates

**Figure 14: Margins can stay range bound**



Source: Company data, Credit Suisse estimates

**Figure 15: Vietnam brand ranking in rural areas (2017). MSC has four brands in the top ten**

Rank	Brand name	*CRP (mn)	Penetration (%)
1	Nam Ngu	132	77.8
2	3 Mien (Uniben)	99	62.8
3	Gau Do (Asiafood)	82	62.4
4	Hao Hao	75	60.5
5	Ajinomoto	65	70.1
6	Kokomi	58	49.5
7	Oishi	55	41.0
8	A One	49	39.3
9	Chin Su	46	59.9
10	Tam Thai Tu	45	40.9

\*CRP = Consumer Reach Points, Source: Kantar Worldpanel

**Figure 16: Vietnam brand ranking in urban areas (2017). MSC has three brands in the top ten**

Rank	Brand name	*CRP (mn)	Penetration (%)
1	Hao Hao	18	76.3
2	Nam Ngu	16	70.7
3	Ajinomoto	11	77.8
4	Bien Hoa	10	65.7
5	Oishi	9	43.9
6	Chin Su	8	51.4
7	Maggi	8	64.2
8	Tam Thai Tu	7	43.9
9	Gau Do (Asiafood)	7	44.5
10	Tuong An	7	48.0

\*CRP = Consumer Reach Points, Source: Kantar Worldpanel



## Seasonings refreshed by premiumisation and innovation

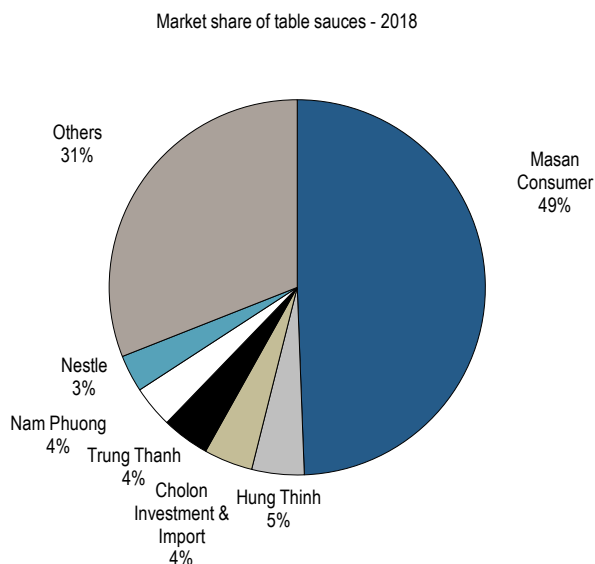
**ASP growth of 7% achieved in 2018 and strong response to premium products continuing**

**Expect sales growth of 9-11% going forward**

Seasonings portfolio delivered 35% revenue growth in 2018 backed by volume growth in core brands and upscaling initiatives. The premium product portfolio comprised of ~10% of net revenue in 2018 and this helped average selling price across the category to increase by ~7%. Brands such as Chin-su and Nam Ngu continued to perform well.

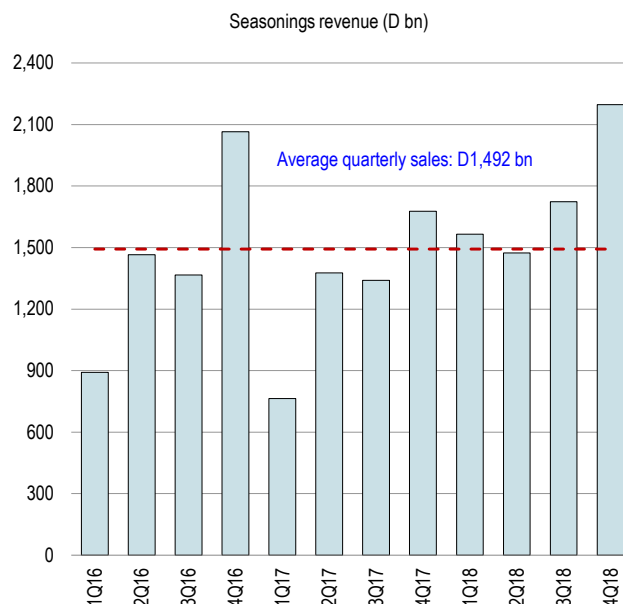
As per Euro-monitor, overall sales of sauces, dressings and condiments registered 10% growth in value terms in 2018 out of which 7% was attributable to volumes. This implies strong out-performance by MSC. Going forward, Euromonitor expects sauces, dressings and condiments to register a 7% sales CAGR till 2023E; however, we expect MSC to stay ahead of the market (9-11%). Our rationale behind this is that while the market has a number of small players, consumers will be more picky going forward and prioritise product safety and health standards. This should play in favour of large names which have financial muscle and can build brands. Note that a key factor behind MSC's strong growth in 2018 has been aggressive brand building and promotion activities.

**Figure 17: MSC is the dominant player in sauces**



Source: Euromonitor

**Figure 18: 4Q18 set a new sales record**



Source: Company data

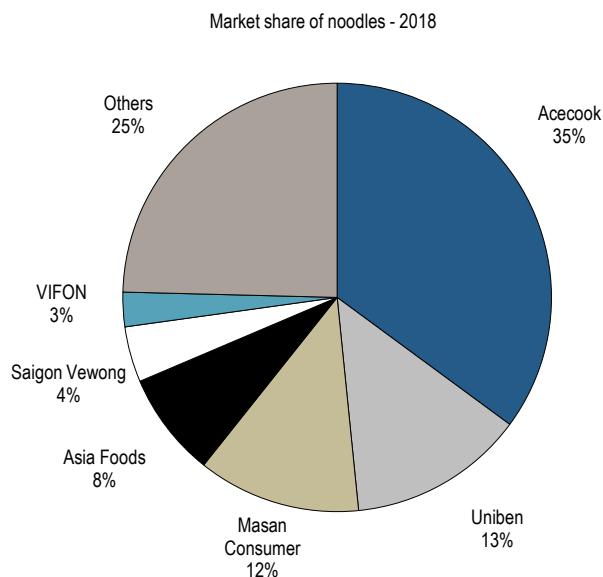
## Convenience foods seeing a sharp rebound aided by new launches

**Three consecutive years of de-growth reversed in 2018 (+29% jump in revenues)**

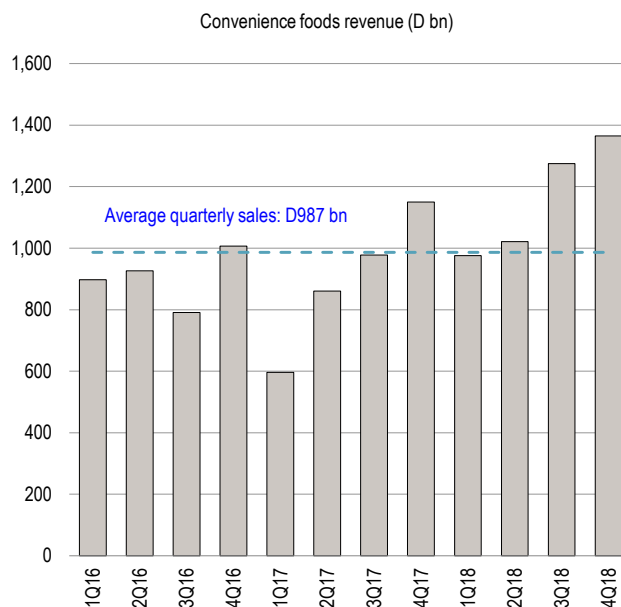
**MSC has innovated strongly here by adding flavors and ingredients to its noodles offerings**

Convenience foods (mainly instant noodles) posted 29% sales growth in 2018, reversing three years of declining sales. Double-digit volume growth (+23%) along with ASP growth (+6%) were key drivers behind the acceleration. Innovative products like Omachi Cup (full meal solutions) garnered good response, while Omachi mashed potatoes also fared well. Premium products contribution is now 40% of the portfolio. Management plans to up-scale and entire the super-premium category in 2019E (Omachi with meat balls).

Looking at the industry, Euromonitor notes that instant noodles was able to deliver 3% value growth in 2018. This implies that MSC was able to stay ahead of the curve by growing both volumes and ASP's. The retail market size of instant noodles is estimated at ~US\$1 bn and Euromonitor eyes 4-5% growth per annum going forward. We believe MSN can sustain higher growth post its investments in innovation and marketing. Vietnam has the second highest per capita consumption of noodles at 53.5 servings as per the World Instant Noodles Association. Korea ranks higher at 73.7 servings.

**Figure 19: MSC is the third largest name in noodles\***

\*in NBO terms (National Brand Owners), Source: Euromonitor

**Figure 20: Breaking above the average range**

Source: Company data

### Energy drinks leading the growth in beverages; water lagging

**No signs of slowdown in energy drinks as geographical reach expands**

**Factor in 35-45% growth with share of the product rising to 18-20% of MSC sales**

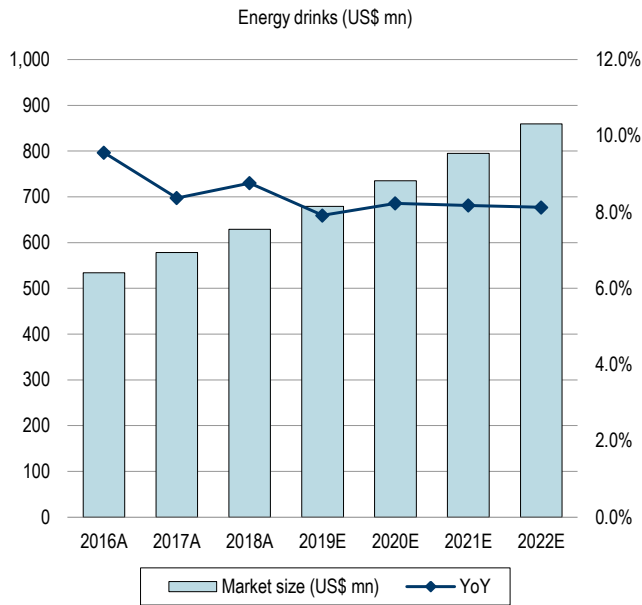
**Innovation needed in coffee to create a blend between flavor and convenience**

Energy drinks continues to be the hallmark of the beverages platform with 59% growth in sales in 2018. The “Wake Up 247” has been one of the most successful innovations for MSC. Increase in distribution points of sales from 75k last year to 160k in 2018, has helped in the superior growth rate. From 3.7% in 2015, energy drinks now accounts for 11.2% of consumer portfolio. The company has guided on investing ~D1,000 bn for growing its energy drinks production lines in 2019E. We expect this product to sustain a sharp growth trajectory in the next two to three years and factor in 35-45% growth. This can translate into energy drinks making up 18-20% of MSC sales by 2021E.

Elsewhere, volumetric growth in coffee (+11%) was the key driver of coffee sales. Management is looking to work on the R&D platform and roll-out innovative products to deliver impetus going forward as coffee was a relative laggard. Euromonitor estimates that future success in the coffee market will not only depend on convenience but also on how manufacturers maintain the intense coffee flavor that makes the taste similar to roast and ground coffee. Nestle remains the dominant player in the segment followed by two local brands: Vinacafe (MSC) and Trung Nguyen. The strong positioning of local companies has been achieved due to their understanding of tastes and preferences.

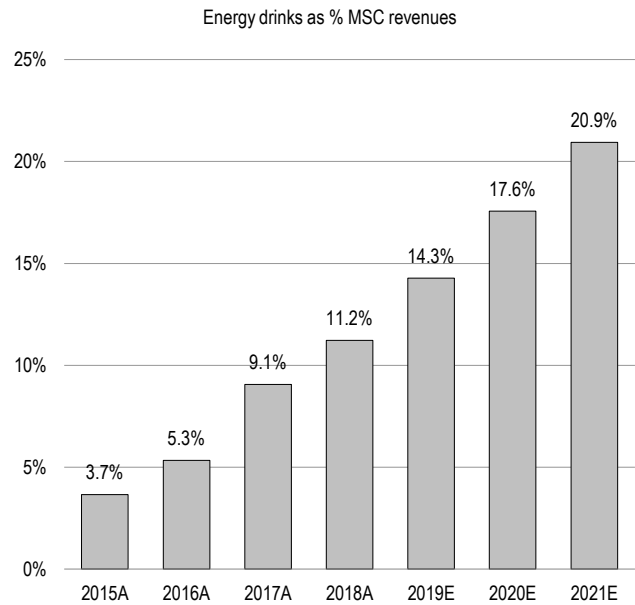
In mineral water, we expect a challenging backdrop for MSC. We estimate that sales have been largely flattish over 2017-18 and future market evolution will remain dominated by international players, namely, Suntory PepsiCo Vietnam Beverage, La Vie and Coca-Cola Beverages Vietnam. Brand loyalty for these companies are key advantages and consistent advertising campaigns refresh customer trust in their brand. Our forecasts for Vinh Hao mineral water sales are set at low-mid single-digits for the next few years.

**Figure 21: Energy drinks is a market of ~US\$620 mn and is eyed to grow at ~8% in coming years...**



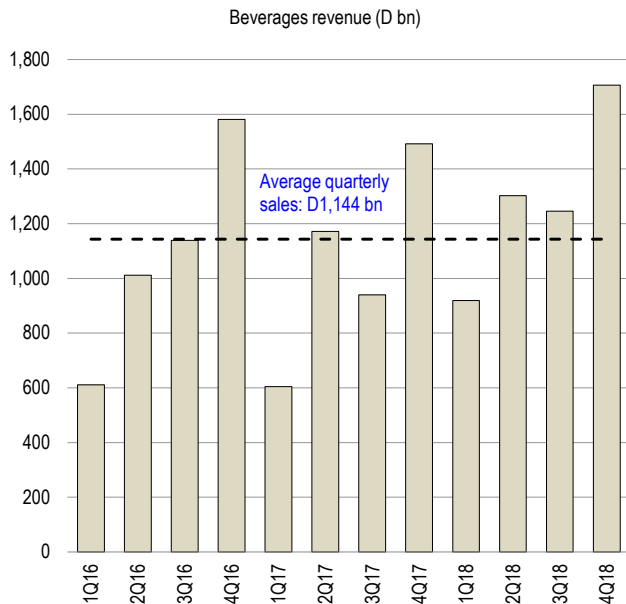
Source: Euromonitor

**Figure 22: ...but superior growth for MSC can translate into energy drinks expanding its footprint**



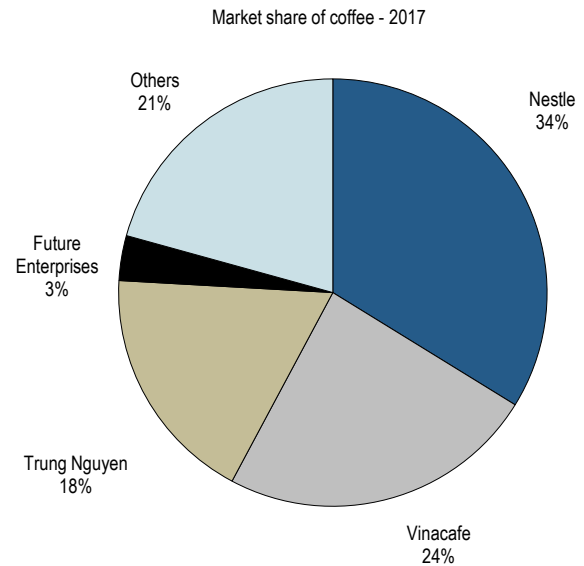
Source: Company data, Credit Suisse estimates

**Figure 23: Exceeding average levels**



Source: Company data

**Figure 24: Second largest player in coffee**



Source: Euromonitor

## Beer has deep potential... but foot print yet to be established

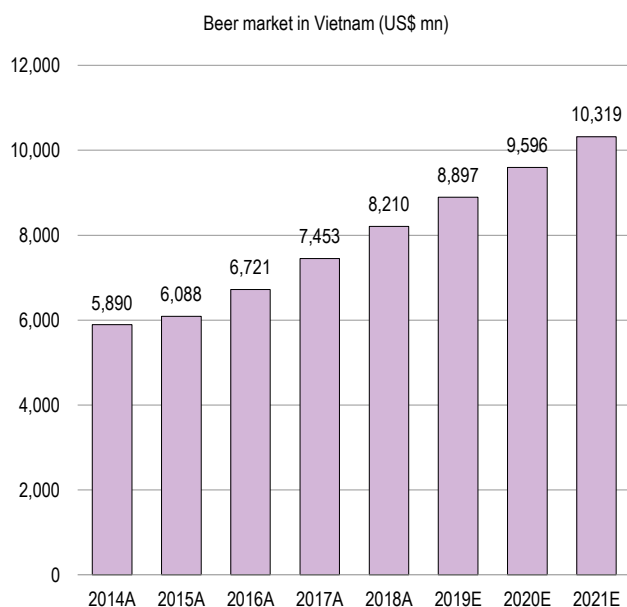
**US\$8.2 bn market is dominated by established players and MB is struggling**

**One of the highest per capita consumption of beer (58.6 liters)**

While the market is highly lucrative (~US\$8.2 bn), the firm presence of established brands has made the task of penetration tougher for Masan Brewery (MB). We understand that MB is looking to revisit its distribution channels and sales force and focus on wet markets rather than modern retail. 4Q18 beer revenues fell 33% YoY although 2018 was up 10% overall. We estimate that the product is making losses at the gross profit level.

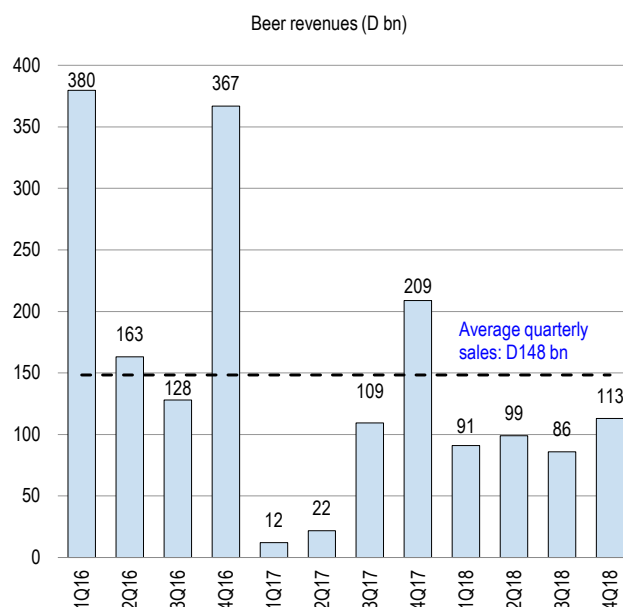
The average Vietnamese has a strong fondness for beer and its consumption (liters per capita) has been rising at 10% on average in the past few years and touched 58.6 liters in 2017 (as per BMI). Total beer drunk in the country is estimated at 4,164 mn liters (2018) and is expected to retain 7-8% growth in the coming years. This makes Vietnam the largest beer consuming country in ASEAN and the third largest in Asia, after China and Japan. With a growing culture of drinking in the younger class and the perception that drinking is a social activity, demand for beer can sustain. Euromonitor also observes that branded beer is seeing a larger increase in consumption due to quality and taste.

**Figure 25: Despite an attractive market potential...**



Source: Euromonitor

**Figure 26: ...MB has struggled to take off**



Source: Company data

## Processed meat is still in the infancy stage

**Partnership with South Korea's Jinju-Ham to drive new product launches in 2019E**

While still a small category, MSC eyes a strong innovation pipeline in processed meat after the partnership with South Korean company, Jinju-Ham. Although revenues for 2018 were down 5%, 4Q18 started to show encouraging signs (+25%) with the launch of Ponnies – premium sausage brand. Investments in production line of processed meat are also on the cards for 2019E. The category is fairly nominal for now (1-2% revenue share).

Euromonitor has noted increasing M&A activity of South Korean companies in the processed meat segment which are keen to introduce product ranges and technological expertise. Examples in recent years are CJ Corp which acquired Cau Tre Export Goods Processing and Minh Dat Food, and Daesang Corp, which acquired Duc Viet Co. The current landscape of the processed meat market is dominated by the state-owned entity VISSAN (55%) and players such as Daesang Corp, Halong and CP (3-5% market shares each). These companies have developed strong brand images and a good understanding of consumer preferences. The market size is estimated at US\$145 mn (as per Euromonitor) with a growth outlook in mid-single digits. From MSN's vantage point, the deeper potential of meat lies in packaged, chilled fresh meat rather than processed meat.

## Meat value chain: Headwinds before rewards

The meat value chain is an attractive long-term proposition in Vietnam. Despite per capita incomes (US\$2,553 in 2018) being on the lower side, the average Vietnamese consumer has the highest appetite for pork (31.3 kg per capita) compared to Asian peers. The significance of pork is also underscored by its 49% share in total meat consumption. Substantial scope exists for conversion of fresh meat sold in wet markets towards branded, packaged and chilled variants (which is 8% of the market currently). Rising income levels and more consumer awareness on food safety can drive this switch. For MNS, the roll-out of MEATDeli (packaged and chilled pork) in 4Q18 completed the 3F model (feed, farm and food). With quality certifications and full traceability to the MNS farm, MEATDeli products are garnering good response. Distribution is in selected northern areas so far and successful scale up will rest on establishing a cold chain infrastructure.

That said, near-term risks to the feed business of MNS are present as ASF is [spreading](#) in northern Vietnam along with some localities in the centre. Revenues from animal feed accounts for 37%/12% of total sales/EBITDA and we estimate that a 10% reduction in our sales estimate can trim consolidated EPS by 0.7%. However, if the MNS farm is affected and asset write-downs required, we estimate 5-10% EPS erosion.

## High pork consumption and space for conversion

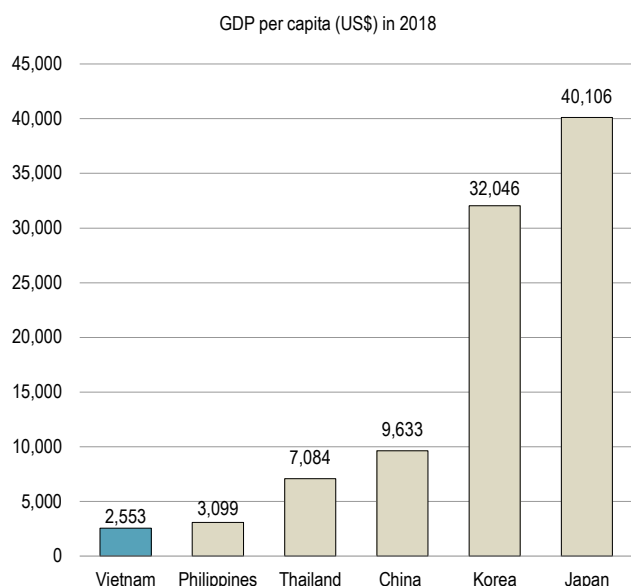
**Vietnam's consumption of pork is the highest in the region**

**Pork is 49% of total meat consumption**

**92% of pork sales are unpackaged**

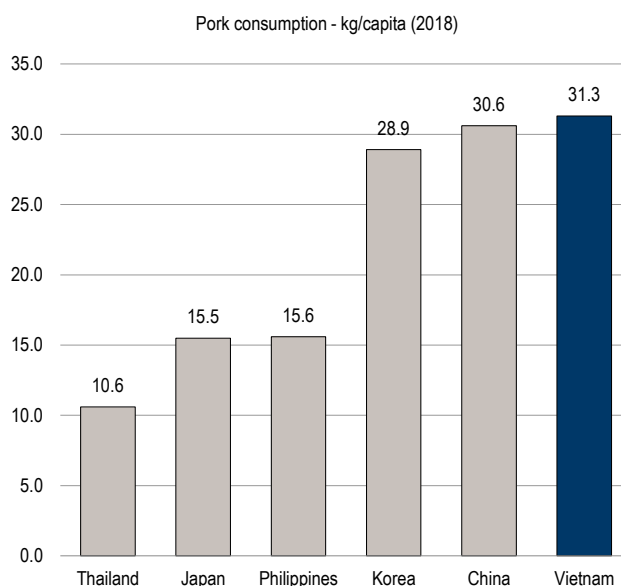
MNS is a proxy to Vietnam's entire meat value chain (feed, farm and food). Despite the country's per capita incomes (US\$2,553 in 2018) being low vs Asian peers, the appetite for pork is the highest (31.3 kg per capita as per OECD). This is several notches ahead of Thailand (10.6 kg) and Japan (15.5 kg). When compared with China, despite the average Vietnamese consumer's income being one-fourth, pork consumption edges ahead. We also note that out of total meat consumption in Vietnam, pork accounts for 49% followed by poultry (24%) and beef (21%). However, sales of meat are largely in unpackaged form (92%) which unlocks a major opportunity for conversion towards packaged variants. As income levels rise and consumer preferences move towards convenience and safety, the demand of packaged products can grow. Large-scale manufacturers upholding quality standards and leveraging their known brands stand at an advantage in our view.

**Figure 27: Low income levels in a regional context...**

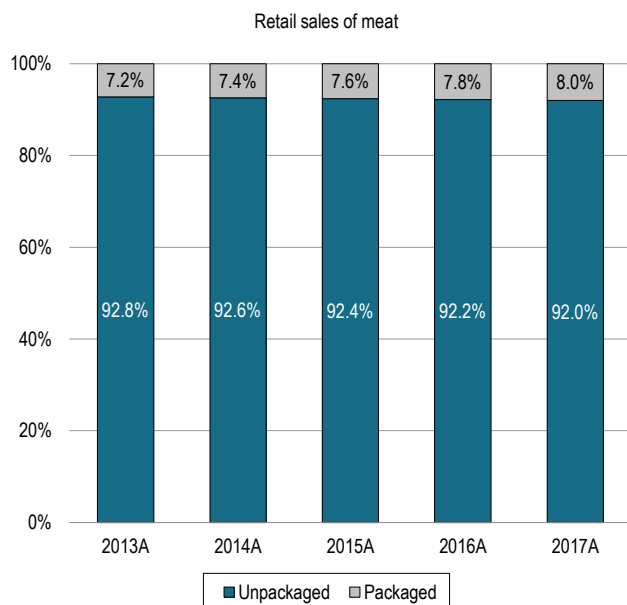


Source: IMF

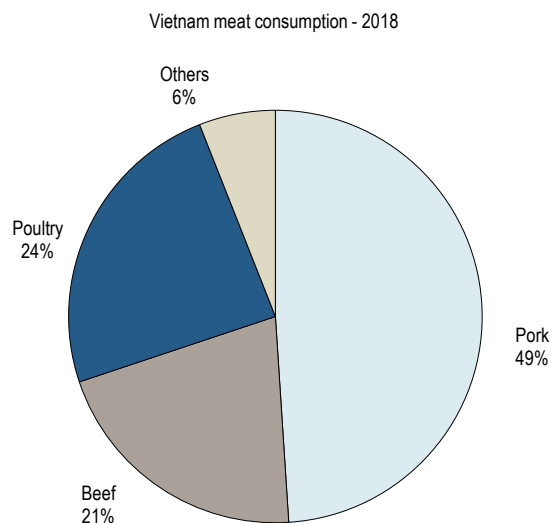
**Figure 28: ...but an appetite that exceeds peers**



Source: OECD

**Figure 29: Attractive potential for conversion**

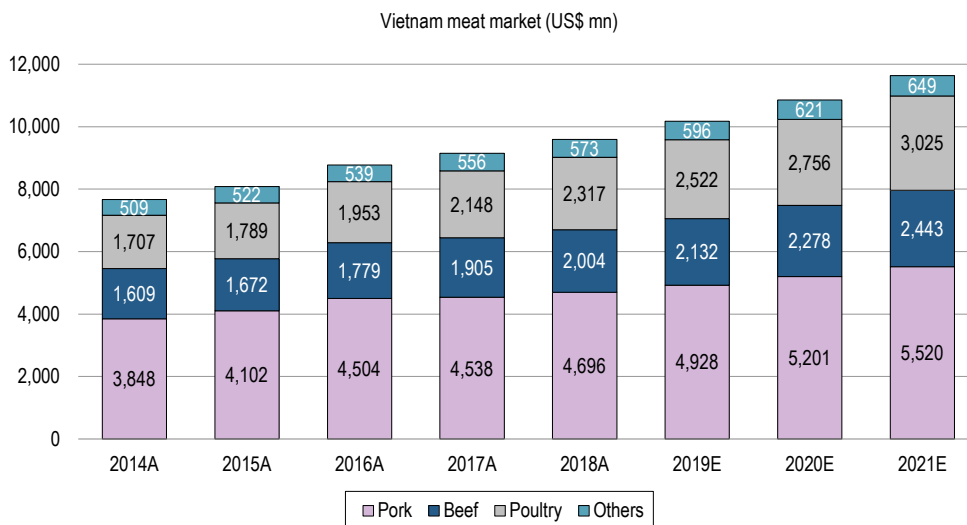
Source: Euromonitor

**Figure 30: Pork dominates meat consumption**

Source: Euromonitor

### US\$9.6 bn meat market growing at 5-6% per annum

As per Euromonitor, the overall meat market in Vietnam is estimated at US\$9.6 bn in 2018 out of which pork accounted for US\$4.7 bn. The latter has grown at an average of 5-6% per annum in recent years and similar trends are forecasted going forward. In 2018, Euromonitor also observed that due to growing concerns on meat quality, consumer preferences continued shifting towards purchasing meat from modern retailers which are viewed as having more comprehensive measures of storage and supply verification.

**Figure 31: Sales of various meat products in Vietnam**

Source: Euromonitor



## Near-term slowdown in feed sales from swine flu

**ASF has been spreading in recent weeks and is often leading to mass culling if detected**

**MNS farm has taken preventive measures but risk of impact cannot be ruled out**

Market dynamics in Vietnam are showing some signs of change recently due to the rising cases of ASF. The disease has escalated in recent weeks and has been reported in 19 localities in northern Vietnam primarily with some cases in the central region also. We understand that few instances have surfaced in the Nghe An province also (where the MNS pig farm is located). Our discussion with MSN management indicates that stringent preventive and control measures are in place at the farm to shield against any outbreak, however the risk factor is present. The ASF, while not harmful to humans is generally considered as fatal for hogs and in the event of detection, can call for entire herds to be culled. Currently there is no approved vaccine for ASF and prevention is the recommended path. The government has scaled up efforts to control the spread with proactive testing, check points on transportation and swift culling in the event of detection. Lately, HCMC (which consumes about 10,000 pigs per day) has blocked pig transport into the city. That said, loopholes remain in the southern provinces which are facing the risk of sick pigs being transported from the north. As per news [reports](#), prices in the north are ~D13k/kg lower (at D30k/kg) compared to D43k/kg in the south.

### 5-10% downside risk to 2019E NPATMI if MNS farm has to cull its herd

Note that MNS had eyed pig sales of 130k/250k in 2019/20E. In the table below, we conduct a brief sensitivity on potential write-down to biological assets in case swine flu is detected at the MNS farm and large scale culling is required (with no compensation). Assuming a herd size of 100k-200k animals, we estimate that inventory losses could amount to US\$14 mn-27 mn or 5-10% of MSN's 2019E NPATMI.

**Figure 32: Back of the envelope working suggests one-off 5-11% EPS erosion**

Number of pigs to be culled	100,000	150,000	200,000
Average weight (kg)	70	70	70
Market price (D/kg)	45,000	45,000	45,000
<b>Estimated inventory write-down (D bn)</b>	<b>315</b>	<b>473</b>	<b>630</b>
Estimated inventory write-down (US\$ mn)	13.6	20.4	27.2
<b>% of MSN 2019E PATMI</b>	<b>5.1%</b>	<b>7.7%</b>	<b>10.3%</b>

Source: Credit Suisse estimates

### Feed makes up 37% of sales and 12% of EBITDA for the group

**Contribution of the feed segment to revenue and profitability has declined since 2016**

With farmers bearing losses due to culling of herds, we see a negative read-through for feed demand in coming months. While the government has offered some compensation, this may not be sufficient and may not extend across the board in case the virus spreads rapidly. While the contribution of the feed business to consolidated financials has declined in the past three years, it may translate into a stock price overhang. From 56% of sales in 2016, MNS constituted 37% of group sales in 2018. Similarly the segment's share in reported EBITDA is down to 12% (from 31%). We estimate that contribution of MNS to consolidated NPAT in percentage terms is in the mid single digits.

**Figure 33: Contribution of MNS feed has declined in both sales and EBITDA**

D bn	2016	2017	2018
<b>Total revenue</b>	<b>43,297</b>	<b>37,621</b>	<b>38,188</b>
MNS revenue	24,423	18,690	13,977
<i>MNS as % of total</i>	<i>56.4%</i>	<i>49.7%</i>	<i>36.6%</i>
<b>Total reported EBITDA</b>	<b>9,669</b>	<b>9,396</b>	<b>10,482</b>
MNS EBITDA	3,026	1,915	1,244
<i>MNS as % of total</i>	<i>31.3%</i>	<i>20.4%</i>	<i>11.9%</i>

Source: Company data

### 10% cut in feed sales trims EPS by 0.7%

While the company had initially expected 10%+ growth in the feed market in 2019, we believe this will be revised lower in the wake of swine flu epidemic. Our base case incorporates 10% decline in feed. In the table below, we show sensitivity analysis of a 10% change in revenues and 100 bp change in gross margin to MSN's consolidated EPS.

**Figure 34: Percentage cut in feed sales estimate can trim 2019E EPS by 0.7% while 100 bp change in gross margins can move EPS by 1.6%**

		MNS 2019E revenue (D bn)				
		9,201	10,121	11,133	12,246	13,471
MNS gross margins (%)	13.0%	5,010	5,027	5,046	5,067	5,090
	14.0%	5,068	5,091	5,116	5,144	5,175
	15.0%	5,126	5,155	5,187	5,222	5,260
	16.0%	5,184	5,219	5,257	5,299	5,345
	17.0%	5,242	5,282	5,327	5,376	5,431

Source: Credit Suisse estimates

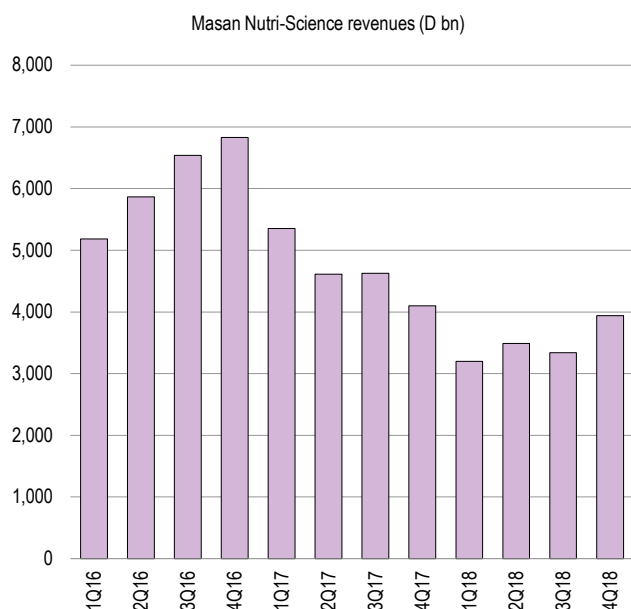
### 2018 was another tough year but operational efficiencies seen

Post the slump in hog prices in 2017-18, the recovery in feed demand and return of the farming cycle has taken longer than expected. MNS feed revenues shrank 25% YoY in 2018 while margins eroded by 640 bp to 15% due to cost pressures and higher reliance on Tier-2 feed product (Bio-xeem Xanh). This product was aimed at assisting farmers in converting back to commercial feed from home-made feed.

### Salesman efficiency has improved in 2018

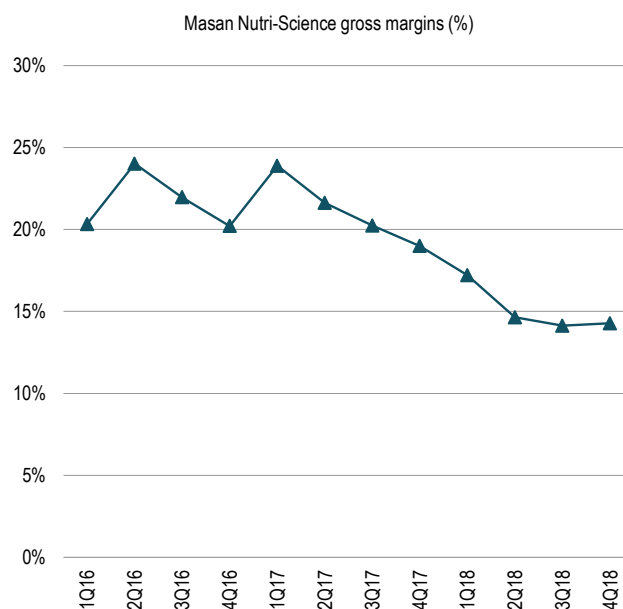
From its peak in 2016, sales of MNS have now declined by 43% and margins have shaved off by 640 bp. That said, during the downturn, MNS has improved its sales efficiency and lifted its operational platform. This is adequately gauged through its revenue per salesman which has seen an increase to D5.2 bn in 4Q18 from D2.9 bn in 1Q18.

**Figure 35: Feed segment showed recovery in 4Q18**



Source: Company data

**Figure 36: Margins found a trough**



Source: Company data

## MEATDeli: Marathon, not a sprint

We constructively view the opportunity of conversion from fresh meat sold in wet markets to a more branded version with good traceability. Using the newly established Ha Nam slaughtering house which has a capacity of 1.4 mn porkers per annum, MNS set the stage for a formal entrance in meat. The complex was established with an investment of ~D1,000 bn (or ~US\$44 mn) and has obtained certification of safety.

**Packaged and chilled fresh meat under the name of MEATDeli rolled out in 4Q18**

**Dedicated stores and partnerships are retailing the product**

**Revenue target is nominal in 2019E**

In Dec-2018, the roll-out of MEATDeli (packaged and chilled fresh meat) was the final step in completing the 3F model (feed, farm and food) and should enable MNS to start de-linking the business from the commodity cycle and start moving towards an FMCG model of brand-building and demand stickiness. So far, five dedicated MEATDeli stores have been opened in Northern Vietnam and MNS has partnerships with 39 Vinmart stores in Hanoi to stock the product. By the end of 2019, management aims to have 25 MEATDeli stores. MNS will continue searching for partnerships with retailers to expand outreach. The product offering so far has ~28 SKUs across meat parts with different consumer pack sizes. Revenue target from meat in 2019E sits at D800-1,000 bn (~2% of group sales).

As per Euromonitor, issues related to low quality meat with unknown origins are common. This is leading consumers to alter their shopping patterns towards modern retailers, which are perceived to offer better-quality products due to stricter standards and procedures for logistics, storage and the verification of meat. Going forward, Euromonitor expects consumer awareness to rise and the ability to differentiate between quality meat products to increase, allowing them to become increasingly selective when choosing meat products. Modern grocery retailers such as hypermarkets and supermarkets will become even more popular due to their commitment on quality. Consequently, consumers will be increasingly willing to spend more money through these distribution channels.

With the latest spread of ASF (discussed above), consumers have recently been seen shifting their purchases to meat found in super markets that has quality certifications.

### Key challenges: scale up and cold-chain logistics

**Establishing cold chain network and smooth scaling up will be deliverables to success**

We believe success of MEATDeli over the long-term will revolve around the ability to scale up the retail distribution network to other areas in Vietnam and laying out a smooth supply chain. Development of cold-chain logistics which include chilled storage facilities and refrigerated trucks will be vital to preserve meat at low temperatures and maintain quality. Moreover, raising consumer awareness is essential as the concept remains new so far.

**Figure 37: Outdoor snapshot of the new stores**



Source: MSN investor presentation

**Figure 38: Indoor snapshot of the new stores**



Source: MSN investor presentation

## Reiterate OUTPERFORM; TP D100,000

15% upside potential to our TP of D100,000

Three year EPS CAGR of 20% with valuations at 2019E P/E of 16.5x

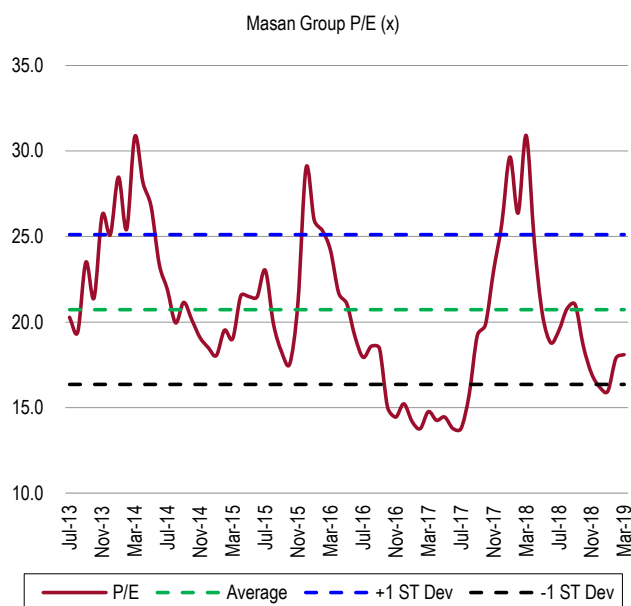
We maintain our OUTPERFORM rating on MSN and reiterate the stock as one of our top picks in Vietnam. Valuations are accommodative with 2019E P/E at 16.5x and EV/EBITDA of 11.6x. We have made modest tweaks to our estimates and nudge up TP to D100,000 (from D98,000), implying 15% upside potential. With a three-year EPS CAGR of 20%, MSN's risk-reward framework is attractive and we would use any stock price weakness (due to news flow on ASF) to accumulate. Moreover, valuation premium over the market lies at 16%, which is at the lower end of the historical range leaving room for expansion. Large-scale de-leveraging has been executed post the treasury share placement to SK Group, taking net gearing down to 51% in 4Q18 (from 135% in 4Q17). We forecast financial charges to decline at a three-year CAGR of 31% going forward.

**Figure 39: Sum-of-the-parts based valuation for MSN**

Name of subsidiary	Valuation method	D bn	% of total
Masan Consumer	27x 2019E P/E	87,716	66.0%
Masan Resources	DCF	11,497	8.7%
Masan Nutri-Science	10x 2019E P/E	2,857	2.2%
Techcombank	2.3x 2019E BV	28,324	21.3%
Other associates	Cost	2,410	1.8%
<b>Gross asset value</b>		<b>132,804</b>	
Net (debt)/cash at group level		(3,566)	
<b>Equity value</b>		<b>129,239</b>	
<i>Conglomerate discount</i>		10%	
<b>Net asset value</b>		<b>116,315</b>	
No. of shares (mn)		1,163	
<b>Target price (D/sh)</b>		<b>100,000</b>	

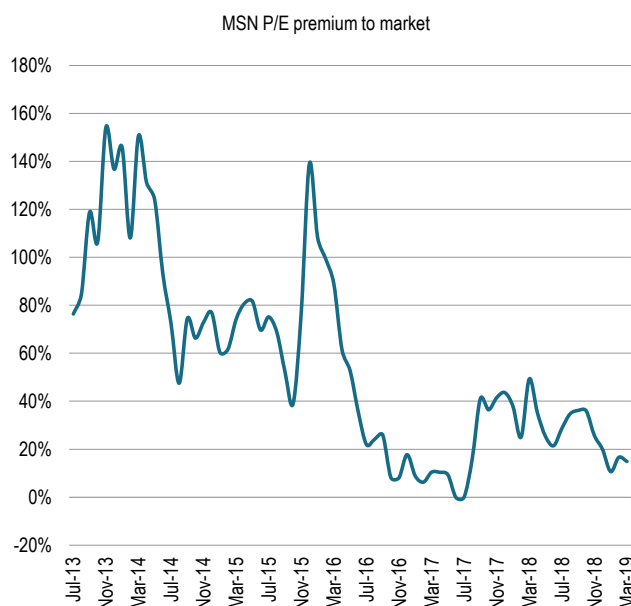
Source: Credit Suisse estimates

**Figure 40: Valuations have room to grow**



Source: IBES

**Figure 41: P/E premium to the market is low**



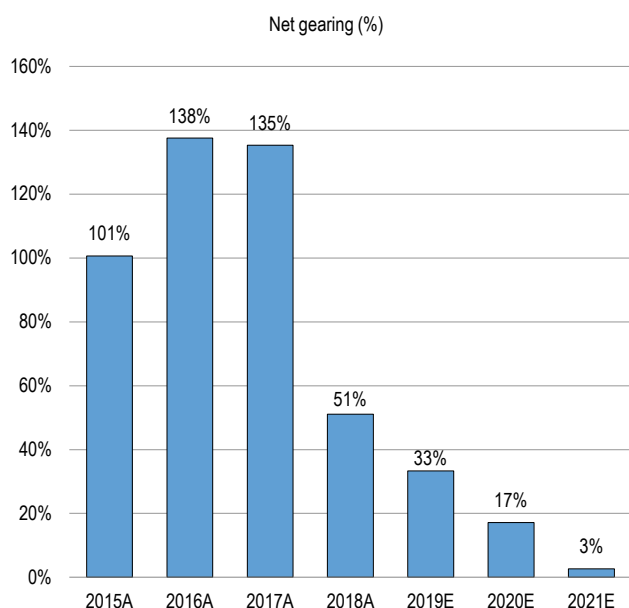
Source: IBES

## Hefty de-leveraging achieved in 4Q18

**Finance costs to decline at a three year CAGR of 31%**

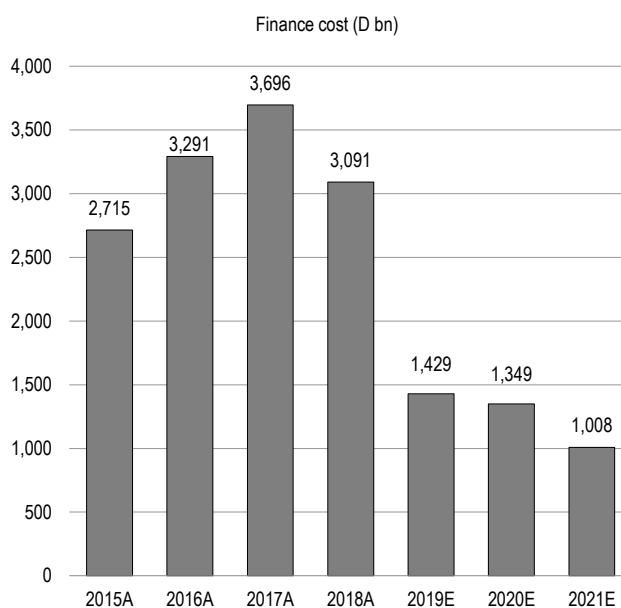
MSN has successfully sold ~9.5% of its share capital in the form of a treasury sale. SK Group (in partnership with National Pension Service and IMM Investment) have made the complete investment in MSN at a share price of D100,000. Post receiving the entire proceeds of US\$470 mn, MSN has paid off ~US\$525 mn in debt in 4Q18, taking net gearing down to 51%. We expect finance cost to decline at a CAGR of 31% (2018-21E).

**Figure 42: Large-scale pay down of debt achieved**



Source: Company data, Credit Suisse estimates

**Figure 43: Reduction in financial charges ahead**



Source: Company data, Credit Suisse estimates

## Softer metal prices makes value addition important

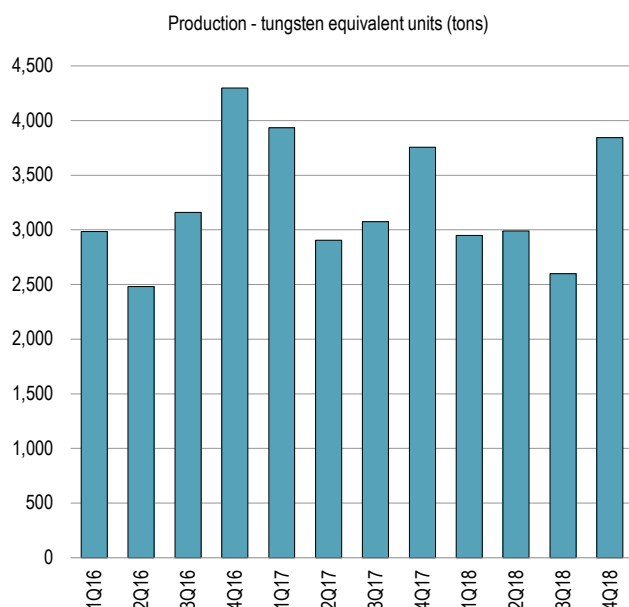
**Elimination of minority interest and higher processing of third party ore drove profitability surge in 2018 despite tungsten price softness**

Masan Resources (MSR) has acquired the 49% stake in the tungsten chemical processing plant effectively reducing minority interests to zero. NPATMI resultantly climbed 200% YoY in 4Q18. But EBITDA margin has weakened to 42% in 4Q18 (from 51% in 1Q18) due to a softer commodity pricing backdrop and lower margins on processing of third-party material. Note that MSR increased its WO<sub>3</sub> purchases from 237 tons in 2017 to 958 tons in 2018. We estimate that third-party processing generated ~D1,500 bn of sales in 2018 (22% of total). This also supported the 2018 NPATMI growth of 222% YoY.

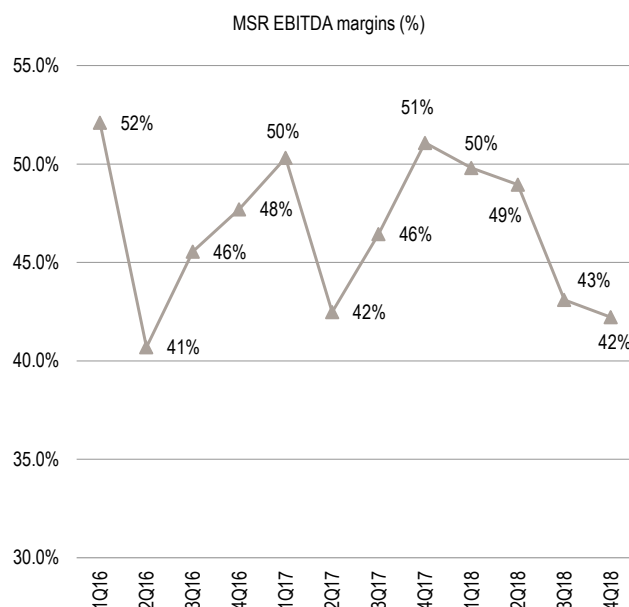
Despite an attractive backdrop for global tungsten, pricing has softened due to US-China trade tensions. From levels of US\$336/mtu in 2Q18, prices dropped to US\$275/mtu by 4Q18 and are now hovering in the same range. That said, supply dynamics remain in favor of stronger prices going forward as stringent environmental concerns in China lead to consolidation in the sector and potential capacity removal. With full ramp-up, MSR has evolved into the largest tungsten producer globally ex-China.

**Looking to scale up tungsten processing capacity and explore value addition**

In 2019E, MSR is looking to increase its tungsten chemicals processing capacity to 12,000 tpa (from 7,500 tpa). Certain milestones achieved in 2018 such as higher tungsten recovery rates are worth noting. Going forward, MSR is looking to seek strategic partners for upgrading technology platforms and exploring downstream offerings to produce variants of tungsten oxides and carbides. That said, management has informed that the parent company (MSN) will not be making further investments in MSR.

**Figure 44: Quarterly mining output**

Source: Company data

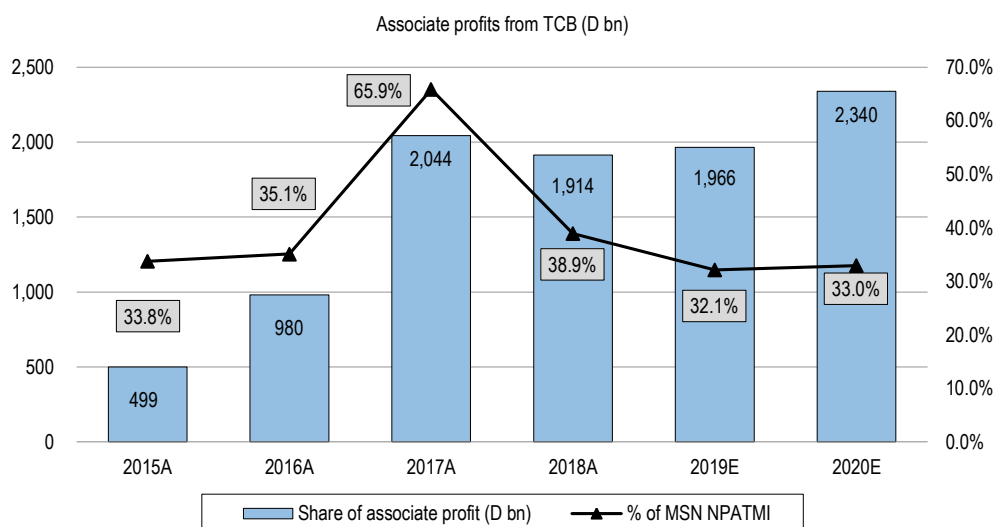
**Figure 45: Price weakness lowering margins**

Source: Company data

## TCB is an asset that churns out strong profitability

**On a 19% ROE assumption, associate profits from TCB can constitute 32-33% of MSN's NPATMI**

Techcombank continued to surf the favorable macro backdrop. The bank delivered 31% growth in PAT in 2018 with NIMs expanding to 3.8% (+20 bp YoY). NII registered healthy jump of 25%. TCB's consumer-centric strategy and focus on mortgage lending saw the latter rise by 20%. Going forward, we expect associate profits to account for 32-33% of MSN's NPATMI under an ROE assumption of 19%.

**Figure 46: TCB to account for 32-33% of MSN's NPATMI**

Source: Company data, Credit Suisse estimates



## Key investment risks

### **Sales in F&B, margin fluctuations and response to new products**

MSC constitutes 48% of consolidated sales and 56% of EBITDA making revenue and margin outlook a key driver of future estimates. Success of new product launches/innovations will need to be tracked along with ability to realise synergies across the distribution network. Moreover, MSC's efforts to upscale its portfolio hold implications for margins. We estimate that 100 bp change in our gross margin assumptions for all products would filter through to a 2-3% impact on MSN's NPATMI.

### **Hog prices and ASF impacting farming activity and feed demand**

While prices recovered to D45-47k/kg, they are showing volatility lately. Outlook of hog prices holds direct implications for revenues and margins for MNS as stronger prices can lead to greater usage of Tier 1 feed product. Our sensitivity illustrates that every 100 bp move in gross margins can impact MSN's NPATMI by 1.6%. On the flip side, exacerbation of ASF and possibly higher culling of livestock can hurt farm economics and lead to a downturn in feed demand. From the perspective of MNS, this may also lead to asset write-downs in farming operations and potential downward revision in valuation of biological assets (livestock) if ASF is detected (we estimate 5-10% impact on a one-off basis).

### **Volatility in metal pricing and operational backdrop at the mine**

While high degree of operating leverage has benefited mining profitability, any correction in tungsten prices can have an adverse impact. Similarly, operational issues with the plant and weaker recovery rates can lead to downward revision in estimates.

### **Variation in growth outlook for Techcombank**

We have assumed TCB's future ROE to settle at 19% over our forecast horizon under an assumption of no payouts. We think this metric is achievable due to a focused consumer driven growth strategy with the incremental equity raise of 2018 providing space for LDR expansion. We note that a 100 bp shift in TCB's ROE impacts MSN's NPATMI by 2%.

**Companies Mentioned** (Price as of 19-Mar-2019)

**Astra Agro Lestari Tbk** (AALI.JK, Rp12,200)  
**Bumitama Agri Ltd** (BUMI.SI, S\$0.67)  
**Charoen Pokphand Foods Public** (CPF.BK, Bt25.5)  
**China Mengniu Dairy** (2319.HK, HK\$26.3)  
**Dabur India** (DABU.BO, Rs426.7)  
**Emperador Distillers Inc.** (EMP.PS, P7.52)  
**Genting Berhad** (GENT.KL, RM6.93)  
**Hindustan Unilever Ltd** (HLL.BO, Rs1699.6)  
**IOI Corporation Berhad** (IOIB.KL, RM4.55)  
**Indofood Agri Resources Ltd** (IFAR.SI, S\$0.2)  
**Indofood CBP** (ICBP.JK, Rp10,325)  
**Indofood Sukses Makmur** (INDF.JK, Rp7,300)  
**Inner Mongolia Yili Industrial Group** (600887.SS, Rmb28.05)  
**Kuala Lumpur Kepong** (KLKK.KL, RM24.92)  
**LG Household & Healthcare** (051900.KS, W1,405,000)  
**Masan Group** (MSN.HM, D87000.0, OUTPERFORM, TP D100000.0)  
**Nestle India** (NEST.BO, Rs10677.0)  
**PT Perusahaan Perkebunan London Sumatra Indonesia** (LSIP.JK, Rp1,155)  
**Techcombank** (TCB.HM, D26750.0)  
**Thai Beverage** (TBEV.SI, S\$0.82)  
**Thai Union** (TUF.BK, Bt18.6)  
**Tingyi** (0322.HK, HK\$11.96)  
**Universal Robina Corporation** (URC.PS, P146.1)  
**Vietnam Dairy Products Joint Stock Company** (VNM.HM, D136900.0)  
**WH Group Limited** (0288.HK, HK\$8.67)  
**Want Want China Holdings Ltd.** (0151.HK, HK\$6.4)

## Disclosure Appendix

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**3-Year Price and Rating History for LG Household & Healthcare (051900.KS)**

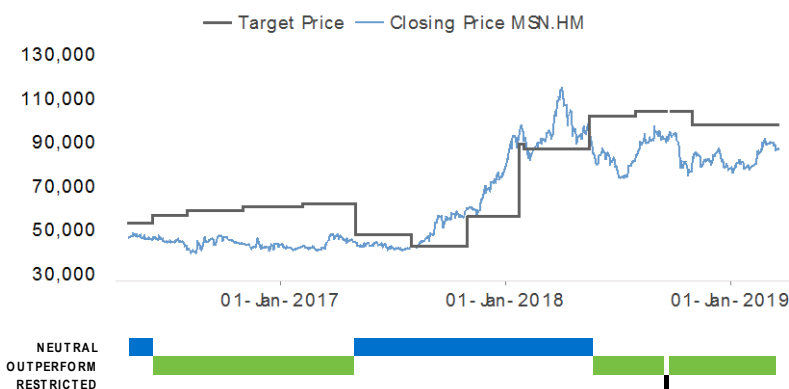
051900.KS	Closing Price	Target Price	
Date	(W)	(W)	Rating
26-Apr-16	1,004,000	1,260,000	O
26-Jul-16	1,092,000	1,300,000	
25-Aug-16	928,000	1,200,000	
24-Oct-16	923,000	1,150,000	
18-Apr-17	813,000	1,000,000	
07-Jun-17	989,000	1,190,000	
26-Jul-17	994,000	1,200,000	
24-Oct-17	1,131,000	1,300,000	
23-Jan-18	1,202,000	1,400,000	
24-Apr-18	1,267,000	1,520,000	
23-Oct-18	1,087,000	1,370,000	

\* Asterisk signifies initiation or assumption of coverage.



## 3-Year Price and Rating History for Masan Group (MSN.HM)

MSN.HM	Closing Price	Target Price	
Date	(D)	(D)	Rating
29-Apr-16	46666.69	53333.36	N
07-Jun-16	46000.02	56666.70	O
02-Aug-16	41000.02	58666.70	
01-Nov-16	43666.69	60666.70	
06-Feb-17	42600.00	62000.00	
02-May-17	44450.00	48000.00	N
31-Jul-17	42800.00	42700.00	
31-Oct-17	59500.00	56000.00	
23-Jan-18	92500.00	89000.00	
31-Jan-18	92100.00	87000.00	
16-May-18	92900.00	102000.00	
25-May-18	83500.00	102000.00	O
30-Jul-18	81400.00	104000.00	
19-Sep-18	91200.00		R
27-Sep-18	93500.00	104000.00	O
30-Oct-18	78000.00	98000.00	



\* Asterisk signifies initiation or assumption of coverage.

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**Outperform (O)** : The stock's total return is expected to outperform the relevant benchmark\* over the next 12 months.

**Neutral (N)** : The stock's total return is expected to be in line with the relevant benchmark\* over the next 12 months.

**Underperform (U)** : The stock's total return is expected to underperform the relevant benchmark\* over the next 12 months.

\*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and Asia stocks (excluding Japan and Australia), ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

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Neutral/Hold*	38%	(27% banking clients)
Underperform/Sell*	13%	(21% banking clients)
Restricted	2%	

\*For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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## Target Price and Rating

### Valuation Methodology and Risks: (12 months) for Masan Group (MSN.HM)

**Method:** We use SOTP (sum-of-the-parts) to value Masan Group at D100,000. For the consumer business we use a target P/E (price-to-earnings) multiple of 27.0x on 2019E EPS. We take a DCF (discounted cash flow) of the mine over project life. For Masan Nutri-Science, we use a target P/E of 10.0x on 2019E EPS. Associate stakes in Techcombank are taken at 2.3x 2019E book value. Other long-term investments are assumed at cost. Our total SOTP is lowered by a conglomerate discount of 10% to derive a target price of D100,000. We believe MSN warrants an OUTPERFORM rating as core consumer segment is faring well with innovations in F&B. Moreover, firm associate profit contributions and operational efficiencies at the mine are positive. MSN has also de-levered substantially. Cumulatively, we eye a three-year consolidated NPATMI CAGR of 20%.

**Risk:** Key risks to our OUTPERFORM rating and D100,000 target price for Masan Group include a slowdown in sales growth in F&B along with margin erosion and lacklustre responses to new product launches. For the mining business, declines in metal pricing and operational issues could impact forecasts. In animal feed, weakness in hog prices would have direct implications for feed demand and margins. And lastly in Techcombank, a slower growth trajectory (vs our forecasts) could affect MSN's profitability.

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This research report is authored by:

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