

Masan Group Corp

Three pistons firing, fourth slowly sparking up

Company Update

Food Products. Vietnam

www

Stock Rating	Target Price	Closing Price
Buy	VND108,000	VND84,300

What's Changed	From	To
2019e EPS	5,471	4,607
2020e EPS	7,438	5,621
2021e EPS	8,800	6,604

Still banking on consumer growth; Consumer F&B and TechcomBank remain the key drivers

We reiterate our Buy rating on Masan (MSN), but reduce our TP by 7% to VND108,000 (28% upside incl. dividends). Our positive view on MSN is underpinned by sustained growth in net attributable income and EPS, as well as: i) improving top-line and EBITDA at consumer F&B (MSC) and Masan NutriScience (MNS), albeit from 2020e; ii) double-digit growth in associate earnings from Techcombank; iii) ample FCF (VND2.7-7.3trn) that should fund a return to dividends from 2019e (payout of 35-45%) and further deleveraging (net debt/equity at c34%); and iv) upside from new ventures in fresh meat and new initiatives at Masan Resources (MSR) to exploit downstream opportunities in value-added tungsten products.

Undemanding valuation, especially given strong underlying EPS growth

We continue to value MSN with a forward looking SOTP-based valuation. We derive a prospective 2020e EV of VND134.3trn (USD5.8bn) for the group – c68% of our TP (85% of MSN's share price) comes from the core Consumer F&B business and the associate TCB stake. Thus, investors are getting the animal feed (MNS), tungsten mining (MSR) businesses and potential earnings, plus any distributions or surprises, nearly for free. On a traditional multiple basis, MSN is trading at a reasonable 15.0x 2020e P/E, 2.5x BVPS (2.6% dividend yield and 17.6% ROAE) and 18.4x 2020e P/E on our TP (roughly equivalent to where MSN trades today) with strong growth ahead (EPS CAGR of 27.4% for 2018-21e). We slightly cut our P&L forecasts by 6-16% through 2021e as a recovery in the animal feed market will take longer than expected (we now see it as a 2020 – not 2019 event). In addition, our EPS forecasts are down another c10%, due to the re-issuance of MSN's treasury stock, which raised its shares outstanding by 10%.

Growth story on track

We believe MSN has delivered on our earnings growth thesis with 2018 recurring EPS up 64% Y-o-Y. Furthermore, we expect 44% EPS growth in 2019e and strong double-digit growth thereafter through 2023e. Finally, some of the key downside risks have diminished i) Techcombank is delivering on underlying growth and its strong capital base positions itself well for any upcoming M&As; and ii) local market risk is down following VNIndex's 20% correction last year. Thus, management only needs to continue to deliver on earnings growth to validate our call.

Key Financial Highlights (Dec Year End)

In VNDmn, unless otherwise stated	2018a	2019e	2020e	2021e
Revenue	38,187,617	46,381,955	49,894,012	56,121,100
EBITDA	8,256,986	10,166,725	11,342,070	12,489,325
Net income	3,438,289	5,358,172	6,538,330	7,680,939
EPS (VND)	3,190	4,607	5,621	6,604
EPS consensus (VND)	3,190	N/A	N/A	N/A
Price to earnings	26.4x	18.3x	15.0x	12.8x
Dividend yield	0.0%	1.9%	2.6%	3.6%
Net debt (cash) / Equity	0.5x	0.3x	0.2x	0.1x
EV / EBITDA	14.5x	9.6x	8.6x	7.9x
ROAE	22.2%	16.7%	17.6%	18.3%
FCF yield	5.1%	6.2%	7.4%	8.0%

Source: Masan Group Corp, Bloomberg and EFG Hermes estimates

Stock Data

Closing Price	VND84,300 as of 29 Mar 2019
Last Div. / Ex. Date	VND2,000 / 10 Jan 2017
Mkt. Cap / Shares (mn)	USD4,226 / 1,163
Av. Daily Liquidity (mn)	USD2.55
52-Week High / Low	VND114,600 / VND73,900
Bloomberg / Reuters	MSN VN / MSN.HM
Est. Free Float	44.2%

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Data Miner

Investment Thesis

In our view, the Masan equity story remains one of earnings growth and exposure to multiple segments in the day-to-day consumer spending space in Vietnam. We estimate EPS growth of 44% in 2019 and 22% CAGR through 2018-23e. We highlight the following drives in chronological order: i) Consumer F&B - where premiumisation of the product mix will boost revenues and average ASP's/SKU and new product launches (if successful) could result in a return to, and an acceleration of, organic growth in MSN's core business; ii) Techcombank - cashed up, post IPO is executing on its guidance and delivering a core 15-20% core profit growth; iii) Masan Resources - now delivering stable EBITDA (in the range of VND3.4trn p.a.) and looking at ways of tapping the Tungsten value-added products market; and finally iv) Masan Nutri-Science - as revenue from its fresh and packaged meat venture accrue alongside a steady mean reversion to normalised industry pig and animal feed volumes.

Valuation and Risks

We maintain our Buy rating on Masan Group (MSN VN) and adjust our target price to VND108,000. We continue to value MSN on a prospective 2020e Sum-of-the-Parts (SOTP) basis, looking at the group's individual business units, but we consider a peer relative EV and P/E (against our forecasts of its reported profits) to test our valuation. As MSN is really a blend of three cash generative businesses (MSC, MNS and MSR), and a core financial investment (TCB) the principal risks to our valuation and forecasts revolve around a failure by any of the key drivers of our SOTP to execute on earnings and growth.

Dec Year End	2018a	2019e	2020e	2021e
In VNDmn, unless otherwise stated				
Income Statement				
Revenue	38,187,617	46,381,955	49,894,012	56,121,100
EBITDA	8,256,986	10,166,725	11,342,070	12,489,325
Net operating profit (EBIT)	5,551,768	7,230,054	8,254,563	9,215,242
Taxes or zakat	(622,319)	(1,260,471)	(1,570,249)	(1,865,574)
Minority interest	(705,008)	(996,134)	(1,215,536)	(1,427,958)
Net income	3,438,289	5,358,172	6,538,330	7,680,939
Balance Sheet				
Cash and cash equivalents	4,961,737	5,200,902	5,440,290	4,052,217
Total assets	64,578,613	66,949,520	68,854,383	69,943,676
Total liabilities	30,498,935	27,511,670	24,739,243	20,706,525
Total equity	34,079,678	39,437,850	44,115,141	49,237,151
Total net debt (cash)	17,033,691	13,683,155	10,332,396	6,900,330
Cash Flow Statement				
Cash operating profit after tax	7,581,005	8,831,954	9,679,262	10,513,784
Change in working capital	(313,488)	(562,613)	(216,580)	(318,180)
CAPEX	(2,628,234)	(2,361,005)	(2,517,888)	(2,722,856)
Investments	(1,928,843)	(142,095)	(109,422)	(76,834)
Free cash flow	2,703,454	5,769,242	6,835,373	7,395,914
Net financing	(3,355,751)	(4,107,505)	(6,187,947)	(8,807,026)
Change in cash	(2,831,222)	239,165	239,389	(1,388,074)

Source: Masan Group Corp, EFG Hermes estimates

Dec Year End	2018a	2019e	2020e	2021e
In VNDmn, unless otherwise stated				
Per Share Financial Summary				
EPS (VND)	3,190	4,607	5,621	6,604
DPS (VND)	0	1,600.000	2,200.000	3,000.000
BVPS (VND)	25,351	29,957	33,979	38,382
Valuation Metrics				
Price to earnings	26.4x	18.3x	15.0x	12.8x
Price to book value	3.3x	2.8x	2.5x	2.2x
Price to cash flow	19.2x	14.3x	10.8x	9.6x
FCF yield	5.1%	6.2%	7.4%	8.0%
Dividend yield	0.0%	1.9%	2.6%	3.6%
EV / EBITDA	14.5x	9.6x	8.6x	7.9x
EV / Invested capital	1.9x	1.8x	1.8x	1.7x
ROAIC	9.7%	9.4%	10.7%	12.4%
ROAE	22.2%	16.7%	17.6%	18.3%
KPIs				
Revenue growth (Y-o-Y)	1.5%	21.5%	7.6%	12.5%
EBITDA growth (Y-o-Y)	17.3%	23.1%	11.6%	10.1%
Gross profit margin	31.1%	32.1%	32.4%	32.0%
EBITDA margin	21.6%	21.9%	22.7%	22.3%
Net operating profit (EBIT) mar	14.5%	15.6%	16.5%	16.4%
Effective tax rate	9.9%	16.6%	16.8%	17.0%
Net Debt (Cash) / Equity	0.5x	0.3x	0.2x	0.1x
Net Debt (Cash) / EBITDA	2.1x	1.3x	0.9x	0.6x

Source: Masan Group Corp, EFG Hermes estimates

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Core earnings and EPS growth story intact

Profitability recovery ongoing, 2019e a second year of banner EPS growth

We highlighted in our initiation in March 2018, that the Masan Group (MSN) thesis was primarily an earnings growth and earnings quality turnaround story. A year later, management has largely delivered and validated this thesis. In 2018, headline reported EPS surged nearly 64%, recurring EPS jumped 58% Y-o-Y. Despite the 2017/18 base effect relative to 2016, MSN's trailing two-year EPS CAGR was 13.2% p.a., led by a strong performance in its underlying consumer F&B business, along with growing associate profits from Techcombank.

Figure 1: MSN's growth outlook

In VND per MSN share

Year ended Dec	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3Yr-CAGR 2021e/18	5Yr-CAGR 2023e/18
Reported EPS (VND)	2,411	2,814	4,448	4,607	5,621	6,604	7,555	8,682	14.1%	14.3%
Rep. EPS growth	83.1%	16.7%	58.0%	3.6%	22.0%	17.5%	14.4%	14.9%		
EPS (VND)	2,493	1,946	3,190	4,607	5,621	6,604	7,555	8,682	27.4%	22.2%
EPS growth	84.4%	-21.9%	63.9%	44.4%	22.0%	17.5%	14.4%	14.9%		
BVPS	13,199	14,164	25,351	29,957	33,979	38,382	42,937	47,820	14.8%	13.5%
BVPS growth	-10.8%	7.3%	79.0%	18.2%	13.4%	13.0%	11.9%	11.4%		
DPS	1,967	0	0	1,600	2,200	3,000	3,800	5,200	n.m.	n.m.

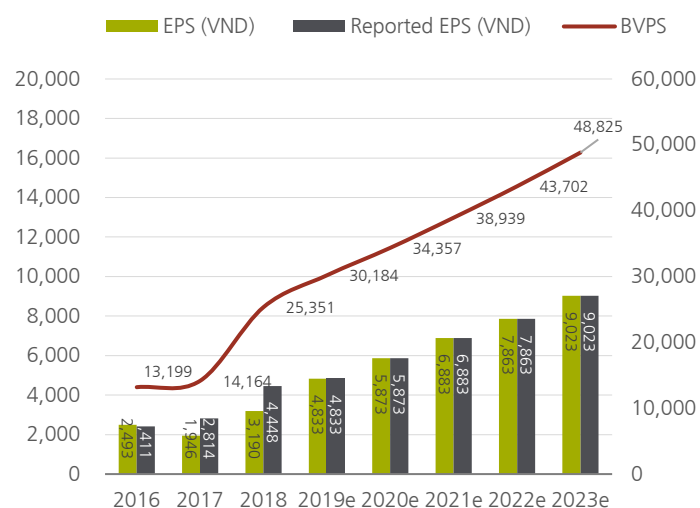
Source: Company data, EFG Hermes estimates

We expect a three- and five-year EPS CAGR of 29.2% and 23.1%, respectively

We believe a 15-20% plus reported earnings and EPS growth profile remains sustainable for Masan. 2018 was Masan's third consecutive year of reported EPS growth, and the second of recurring EPS growth (following the 2017 restructuring of the consumer F&B distribution policies). We believe a combination of top-line growth in the group's consumer foods business, slightly improving divisional EBITDA margins, as well as a steady mean reversion in animal feed revenues at Masan NutriScience and growing associate profits at Techcombank underpin the equity story for Masan Group over the next 12 to 24 months.

Figure 2: Masan EPS vs BVPS profile

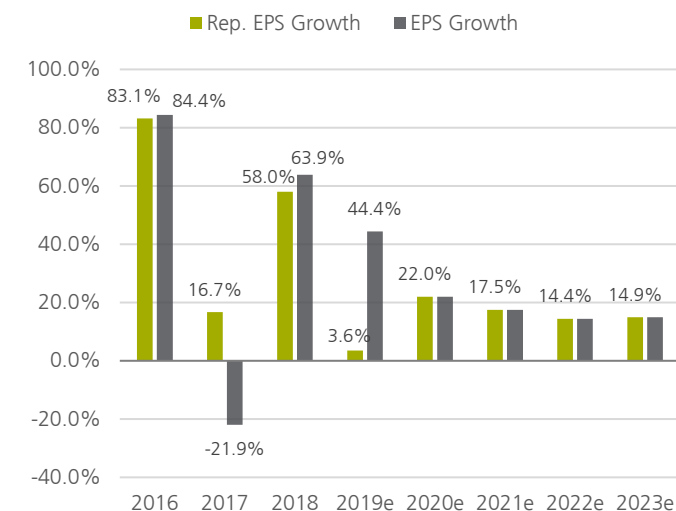
In VND per share



Source: Company data, EFG Hermes estimates

Figure 3: Masan's reported vs recurring EPS growth outlook

%

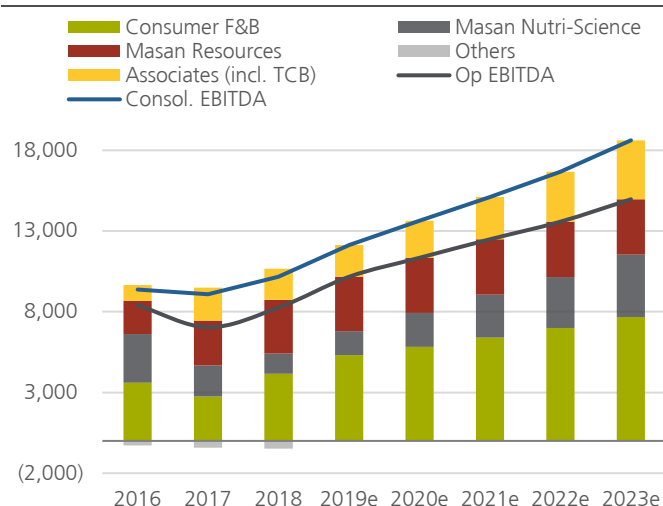


Source: Company data, EFG Hermes estimates

Consolidated EBITDA grows at a similar rate driven by Consumer F&B, TCB, and Nutri-Science

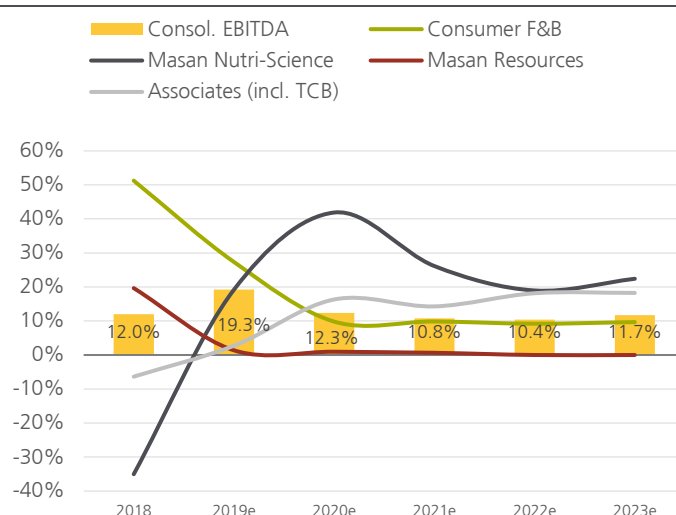
In order to achieve and potentially outperform our forecasts, Masan Group (through its key business units - MCH and MNS) have to achieve operating EBITDA growth roughly in line with Vietnam's nominal GDP expansion (c10-12% p.a.). To do so, MSN will initially need to continue to execute on its core recovery / premiumisation strategies in Masan Nutri-Science (MNS) and Consumer F&B (MCH), respectively. Following which, it needs to deliver on its new product category initiatives, especially: i) a successful launch of MNS's chilled/package meat product lines; and ii) securing a foothold in the beverages (energy drinks) and beer markets.

Figure 4: Masan's operating and consolidated EBITDA profile



Source: Company data, EFG Hermes estimates

Figure 5: Consolidated EBITDA and divisional growth



Source: Company data, EFG Hermes estimates

Associate contributions should also be fairly stable (in absolute terms) for 2019e, given that MSN's economic interest in TCB has dropped from an indirect 25.1% to a largely directly held 20% stake of a 21.5% economic interest as of 2018e. Thereafter, we expect TCB and MSN's associates to sustain 14.3-18.3% annual growth, which we forecast will result in VND1.9-3.6trn income stream across our forecast period.

Figure 6: Masan Group's EBITDA outlook

Year end	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3-Yr CAGR 2021e/18	5-Yr CAGR 2023e/18
Consumer F&B	3,602.0	2,755.0	4,167.0	5,306.8	5,828.2	6,403.1	6,992.5	7,669.6	15.4%	13.0%
Masan Nutri-Science	3,026.0	1,915.0	1,244.0	1,482.9	2,104.1	2,654.3	3,157.8	3,865.7	28.7%	25.5%
Masan Resources	2,055.0	2,783.7	3,331.0	3,377.0	3,409.8	3,432.0	3,432.0	3,432.0	1.0%	0.6%
Others	(280.6)	(414.4)	(485.0)	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Op EBITDA	8,402.4	7,039.2	8,257.0	10,166.7	11,342.1	12,489.3	13,582.3	14,967.2	14.8%	12.6%
Associates (incl. TCB)	979.9	2,044.2	1,914.3	1,966.3	2,287.5	2,614.4	3,089.5	3,653.4	10.9%	13.8%
Consol. EBITDA	9,382.4	9,083.5	10,171.3	12,133.1	13,629.6	15,103.8	16,671.7	18,620.7	14.1%	12.9%

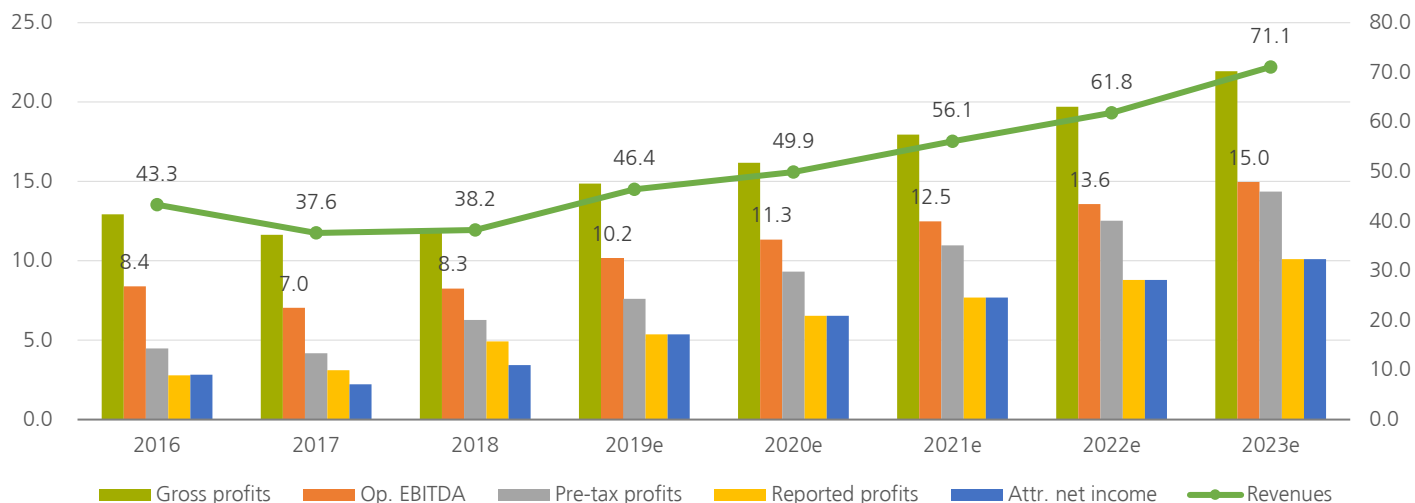
Source: Company data, EFG Hermes estimates

Underlying double digit net income and reported profit growth

We forecast 2019 attributable net income of VND5.6trn (1.6x its 2018 attributable net income of VND3.4trn) and steadily rising to VND10.5trn by 2023e.

Figure 7: Masan Group - Key profitability items (2016-23e)

IN VNDtrn



Source: Company data, EFG Hermes estimates

Helped by lower net financing costs

In the absence of any material acquisitions, on our estimates, we also see ample free cash flow (cVND2.7 to 7.3trn) for MSN through 2021e and beyond. This should allow the company to sustain DPOs of c35-45%, implying DPS of VND1,600-5,200 across our forecast period. In addition, we see MSN's net-debt-to-equity dropping steadily from 50% at 2018 to 22% by 2020e, beyond which, we believe there is ample cash flow to further deleverage, should management wish to do so.

Figure 8: Summary P&L (2016-23e)

IN VNDbn

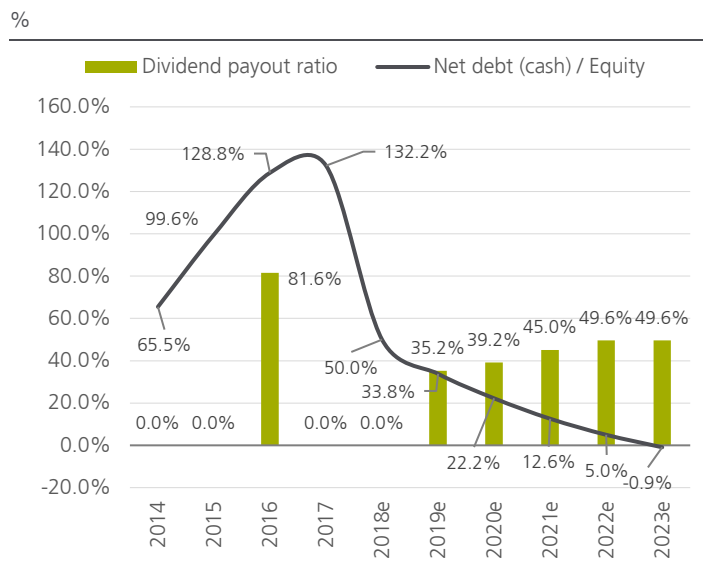
Year ended (Dec)	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3Yr-CAGR 2021e/18	5Yr-CAGR 2023e/18
Revenues	43,297	37,621	38,188	46,382	49,894	56,121	61,826	71,090	13.7%	13.2%
Gross profits	12,930	11,632	11,881	14,866	16,177	17,946	19,709	21,944	14.7%	13.1%
Op. EBITDA	8,402	7,039	8,257	10,167	11,342	12,489	13,582	14,967	14.8%	12.6%
Op profits	6,023	4,429	5,552	7,230	8,255	9,215	10,127	11,319	18.4%	15.3%
Associates	980	2,044	1,914	1,966	2,288	2,614	3,089	3,653	10.9%	13.8%
Net finance & non op inc.	(2,522)	(2,291)	(1,189)	(1,582)	(1,218)	(855)	(689)	(606)	-10.4%	-12.6%
Pre-tax profits	4,481	4,182	6,277	7,615	9,324	10,974	12,528	14,367	20.5%	18.0%
Income taxes	(709)	(574)	(655)	(1,260)	(1,570)	(1,866)	(2,106)	(2,391)	41.7%	29.5%
Minorities	(981)	(505)	(705)	(996)	(1,216)	(1,428)	(1,634)	(1,877)	26.5%	21.6%
Reported profits	2,791	3,103	4,917	5,358	6,538	7,681	8,788	10,099	16.0%	15.5%
Non-recurring items	35	(888)	(1,478)	0	0	0	0	0		
Attr. net income	2,826	2,214	3,438	5,358	6,538	7,681	8,788	10,099	30.7%	24.0%

Source: Company data, EFG Hermes estimates

Deleveraging trend is visible, TCB gains on balance sheet – a one off adj. to ROAE trends

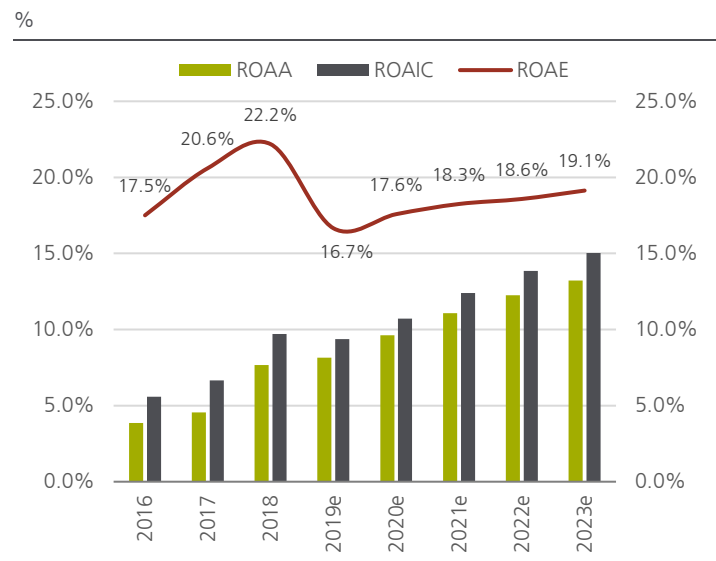
Masan chose to continue to deleverage its balance sheet (with proceeds from its own 10% treasury stock sale in Nov 2018) and elected not to pay out any valuation gains on the 'deemed disposal' on the Techcombank listing. These gain(s) resulted from a reissuance of treasury shares (by both Masan and Techcombank) at a premium to MSN's and TCB's carrying value(s) – on Masan's books. The combined effect was that Masan Group's 2018 BVPS jumped by VND11,614/share (more than 2.5x its reported EPS of VND4,448/share) in that year. As a result, MSN's ROAE for 2019e will take a corresponding hit (dropping by 5.5ppt to 16.7%). We expect that ratio to steadily improve (back towards 20%) on core profitability over time, but we note that Masan could easily manage this ratio upwards through its dividend and capital management policies.

Figure 9: Masan's net debt / equity profile vs DPO



Source: Company data, EFG Hermes estimates

Figure 10: Masan's ROAE vs ROAA and ROAIC



Source: Company data, EFG Hermes estimates

A quick revisit of the key risks to our view

In our initiation we identified five key risks to our valuation and estimates, which we believe still remain valid. Of those five, two have been substantially reduced: i) TechcomBank's underperformance; and ii) buoyant Vietnamese equity markets.

In our view, the former has been mitigated by strong ongoing operating results and a sizable capital cushion (CAR of 15.7%) post IPO that positions TCB well for M&As in the sector. Whilst the latter came to pass over the second half of 2018, when the Vietnamese equity market underwent a c20% correction due to the unwinding of a large retail-driven margin book and correction in global equity markets.

The major risk to our estimates and target price now are: i) the timing of any recovery in the animal feed market, which is needed to drive a mean reversion to 2017 profit levels at MNS; and ii) ongoing execution in premiumisation of its consumer F&B portfolio, as well as processed meat and beverages in MSC; and iii) steadily building out the new chilled fresh meat channel, initially in Hanoi and northern provinces, and subsequently in the south of Vietnam and HCMC.

On a final note, we think management's focus (esp. on financial returns / capital structure at the listco level) remains an important factor going forward. Masan has elected to retain 2018's book value gains on its balance sheet (for deleveraging and general funding purposes), which has had a one off negative effect on ROAEs. As such going forward, we think senior management in the listco need to be proactive in managing group returns so that a core ROAE near to 20% remains achievable. This will become more important as the Vietnamese market begins to move towards implementing IFRS in the coming years.

Relative performance and peer valuations

Masan vs VN-Index and Consumer foods peer comps

Since the material re-rating of the shares in 2017, MSN's shares have subsequently traded more in line with the VNIndex. To move beyond the index in terms of performance we believe Masan needs to continue to deliver on its strong underlying earnings growth for 2019e and beyond.

Figure 11: Masan Group – summary multiples

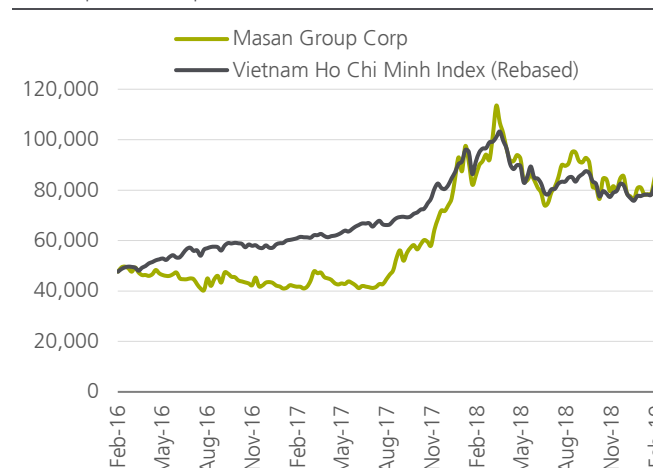
In (x) and %

Year end	2018	2019e	2020e	2021e	2022e	2023e
EV/EBITDA (x)	15.3	10.2	9.1	8.3	7.6	6.9
PER (x)	27.9	19.3	15.8	13.5	11.8	10.2
P/B (x)	3.5	3.0	2.6	2.3	2.1	1.9
Dividend Yield (%)	0.0%	1.8%	2.5%	3.4%	4.3%	5.8%

Source: Factset, EFG Hermes estimates

Figure 12: Masan Group vs. VNIndex

In MSN per share equivalent



Source: Factset

In addition, relative to a global consumer centric peer group (summary fig. 14, in detail fig. 33, page 20) below, we note MSN's relatively cheaper forward valuation on EV/EBITDA multiples (2019e 10.2x vs 12.9x), and P/E and P/B (2019e 19.3x vs 24.4x and 3.5x vs 5.2x, respectively).

Figure 13: Summary global F&B comps

In (x) and %

Company	P/E (x)			P/B (x)	EV/EBITDA (x)			Div. yield	ROAE	Net profit CAGR	EBITDA margin	Net debt /equity
	2018a/e	2019e	2020e	2018a/e	2018a/e	2019e	2020e	2018a/e	2019-20e	2018/16a/e	2018a/e	2018a/e
Masan Group	27.9	19.3	15.8	3.5	15.3	10.2	9.1	0.0%	17.1%	10.3%	21.6%	0.5
Water & Bev. comps (avg.)	34.1	25.5	20.4	4.5	14.5	12.6	11.4	2.4%	29.7%	2.8%	25.0%	0.6
Snacks comps (avg.)	25.2	23.3	20.8	5.9	14.6	13.2	12.5	2.1%	12.3%	3.7%	36.2%	1.4
Average	29.7	24.4	20.6	5.2	14.5	12.9	11.9	2.2%	21.0%	3.2%	30.6%	1.0
Water & Bev. comps (median)	22.4	20.7	18.6	2.9	11.6	10.5	9.8	2.1%	16.5%	3.4%	17.0%	0.8
Snacks comps (median)	23.2	21.2	19.1	3.8	12.6	12.2	11.9	2.2%	10.2%	3.4%	16.7%	0.3
Median	22.5	21.2	18.8	4.0	12.1	11.2	10.5	2.3%	10.5%	4.1%	11.6%	0.2

Source: Company data, Bloomberg, EFG Hermes estimates

Masan Group – SOTP and earnings based valuation

We reiterate our Buy rating on Masan Group (MSN VN) with a target price of VND108,000/share. On our 2020e TP, we see 28.1% upside potential upside and a 14.1% annualised TSR (inclusive of 2019-20e dividends).

SOTP valuation

Our SOTP for MSN was derived by looking at the group's individual business units. Our methodology was to derive a target 2020e EV for each of the main business units, based on: i) observed peer derived divisional EBITDA multiples (consumer F&B); ii) a consumer foods EBITDA multiple (MNS); iii) a market based price for MR; and iv) a DDM for its associate, Techcombank (TCB). We then applied those valuations to our 2020 estimates to generate a forward EV and deducted net debt (as at 2019e) to derive a target equity fair value for the group.

Figure 14: Masan Group – SOTP breakdown

Year ended Dec.	Target EBITDA multiple	2020e	Total EV	MSN econ. interest	Proportionate share
MCH	11.9	5,703.2	68,110.8	81.5%	55,510.3
MB	8.4	125.0	1,043.7	57.1%	595.9
Consumer F&B EV	11.9	5,828.2	69,154.5		56,106.3
MNS EV	11.9	2,104.1	25,128.0	82.4%	20,703.0
MR EV	7.7	3,409.8	26,169.9	96.0%	25,123.1
TechcomBank*	2.01 x Book	2,287.5	139,647.0	21.5%	30,024.1
Other Associates*	1 x Book		2,418.0		2,418.0
Sub Total		13,629.6	262,517.4		134,374.5
less proportionate net debt (2020e)			10,332.4	84.6%	8,743.7
Derived equity value			252,185.0		125,630.7
Per MSN share (VND)					108,000
Upside (%)					28.1%
Annualised TSR (incl. 2019-20e Dividend) (%)					14.1%

*Based on our TCB valuation

Source: Company data, EFG Hermes estimates

We derive an overall enterprise value for the Masan Group of VND134.4trn (cUSD5.8bn) based on the economic interests that MSN has in its consumer business unit (see Fig 21 page 12). After netting proportionate debt, this leaves us with a derived equity value of VND125.6trn for the group, which is equivalent to VND108,000/share.

In our view, the Vietnamese equity market remains largely focused on reported earnings and EPS growth as a key driver of near-term share prices. As such, we believe a baseline earnings-based metric makes sense for MSN's valuation to be benchmarked against (which we believe will help validate our SOTP valuation), in addition to our primary forward-looking SOTP valuation methodology, for the company, over time.

Our SOTP translates into a prospective P/E multiple of 21.3x for MSN (see Fig 8-9, page 10-11). We believe this to be reasonable as it correlates with its global peer list valuation, of which all sub-groups (Water & Beverage, Snacks and Breweries) trade at a median level of 19.0x 2019e P/E. While we note that our existing MENA coverage trades at 15.2x our estimates, the sample of only three stocks is too small to derive any real comparison.

As mooted earlier, MSN's superior consumer-centric earnings and earnings growth, in our view, justifies the use of an earnings based metric side-by-side with a SOTP methodology to gauge our SOTP target price against and a base-line fair value for MSN over the next two years.

We also believe that MSN will resume paying dividends in FY19e and onwards, where we expect a DPS of VND1,600 rising to VND2,200 (underpinned by DPOs of 35-45%), yielding 1.8% and 2.3% for 2019-20e, respectively.

Looking at our valuation from a P/E and earnings growth angle

We expect recurring EPS growth of 44.4% for 2019e and 22.0% for 2020e for MSN. In addition, our forecasts imply a 3-year and 5-year EPS growth CAGR of 27.4% and 22.2%, respectively.

Figure 15: MSN's EPS and growth outlook

Year ended Dec	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3Yr-CAGR 2021e/18	5Yr-CAGR 2023e/18
Reported EPS (VND)	2,411	2,814	4,448	4,607	5,621	6,604	7,555	8,682	14.1%	14.3%
Rep. EPS Growth	83.1%	16.7%	58.0%	3.6%	22.0%	17.5%	14.4%	14.9%		
EPS (VND)	2,493	1,946	3,190	4,607	5,621	6,604	7,555	8,682	27.4%	22.2%
EPS Growth	84.4%	-21.9%	63.9%	44.4%	22.0%	17.5%	14.4%	14.9%		
BVPS	13,199	14,164	25,351	29,957	33,979	38,382	42,937	47,820	14.8%	13.5%
BVPS Growth	-10.8%	7.3%	79.0%	18.2%	13.4%	13.0%	11.9%	11.4%		

Source: Company data, EFG Hermes estimates

We foresee an earnings based multiple fair range of VND96,660/share to VND117,460/share for Masan Group for the next two years through 2020e. The lower end of the range reflects a 20x multiple of MSN's 2019e EPS and the higher end reflects 20.0x our 2020e EPS, respectively. We see these multiples as easily justifiable given that we expect 44.4% and 22% EPS growth for each of those years, respectively.

Figure 16: Target price sensitivity to P/E multiples

In VND per MSN share

P/E (x) vs EPS estimates	2018e	2019e	2020e	2021e	2022e	2023e
14.0	44,660	67,660	82,220	96,360	110,080	126,330
16.0	51,040	77,330	93,970	110,120	125,800	144,370
18.0	57,420	87,000	105,710	123,890	141,530	162,420
20.0	63,800	96,660	117,460	137,650	157,250	180,460
22.0	70,180	106,330	129,200	151,420	172,980	198,510
24.0	76,560	115,990	140,950	165,180	188,700	216,560

Source: Company data, EFG Hermes estimates

Changes to our consolidated estimates

Since our initiation there has been two major impacts to our forecasts: i) our net income estimates have fallen by 6.5-16.7% over our 2019-2021e forecast period (largely on the back of lower consolidated revenue growth); and ii) a further drop of 15.8% to 26.7% in our EPS and forward DPS estimates as a consequence of MSN's re-issuance of its treasury stock (10% of shares outstanding) in 2018.

Figure 17: Adjustments to our estimates

IN VNDmn and VND per share

Year end	2019e			2020e			2021e		
Item	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Net revenue	50,158,919	46,381,955	-7.5%	55,976,700	49,894,012	-10.9%	60,228,904	56,121,100	-6.8%
Gross Profit	16,559,972	14,865,664	-10.2%	18,825,554	16,177,485	-14.1%	20,168,650	17,945,632	-11.0%
Operating EBITDA	11,136,208	10,166,725	-8.7%	12,844,967	11,342,070	-11.7%	13,821,629	12,489,325	-9.6%
Reported profit	5,731,217	5,358,172	-6.5%	7,790,664	6,538,330	-16.1%	9,217,934	7,680,939	-16.7%
Attr. net income	5,731,217	5,358,172	-6.5%	7,790,664	6,538,330	-16.1%	9,217,934	7,680,939	-16.7%
Per share									
EPS	5,471	4,607	-15.8%	7,438	5,621	-24.4%	8,800	6,604	-25.0%
DPS	1,900	1,600	-15.8%	3,000	2,200	-26.7%	3,500	3,000	-14.3%

Source: Company data, EFG Hermes estimates

Largely driven by a near-term challenging environment for Masan NutriScience

We are adjusting our top-line revenue estimates down by c7-11%, as we have pushed out our expected recovery in Masan NutriScience revenues and EBITDA to 2020e. This is largely on the back of ongoing weak sales volumes (c-10% in 1Q Y-o-Y) and corresponding feed prices from the recent African Swine Flu epidemic (now present in 23 provinces in northern Vietnam).

However, improvements in EBITDA margins at the Consumer F&B division and stable contributions from Masan resources result in a lower 5.1% to 8.2% respective drop in our operating EBITDA forecasts respectively.

Figure 18: Summary P&L – 2016-23e

In VNDbn

Year ended (Dec)	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Revenues	43,297	37,621	38,188	46,382	49,894	56,121	61,826	71,090
Gross profits	12,930	11,632	11,881	14,866	16,177	17,946	19,709	21,944
Op. EBITDA	8,402	7,039	8,257	10,167	11,342	12,489	13,582	14,967
Op profits	6,023	4,429	5,552	7,230	8,255	9,215	10,127	11,319
Associates	980	2,044	1,914	1,966	2,288	2,614	3,089	3,653
Net finance & non op inc.	(2,522)	(2,291)	(1,189)	(1,582)	(1,218)	(855)	(689)	(606)
Pre-tax profits	4,481	4,182	6,277	7,615	9,324	10,974	12,528	14,367
Income taxes	(709)	(574)	(655)	(1,260)	(1,570)	(1,866)	(2,106)	(2,391)
Minorities	(981)	(505)	(705)	(996)	(1,216)	(1,428)	(1,634)	(1,877)
Reported profits	2,791	3,103	4,917	5,358	6,538	7,681	8,788	10,099
Non-recurring items	35	(888)	(1,478)	0	0	0	0	0
Attr. net income	2,826	2,214	3,438	5,358	6,538	7,681	8,788	10,099

Source: Company data, EFG Hermes estimates

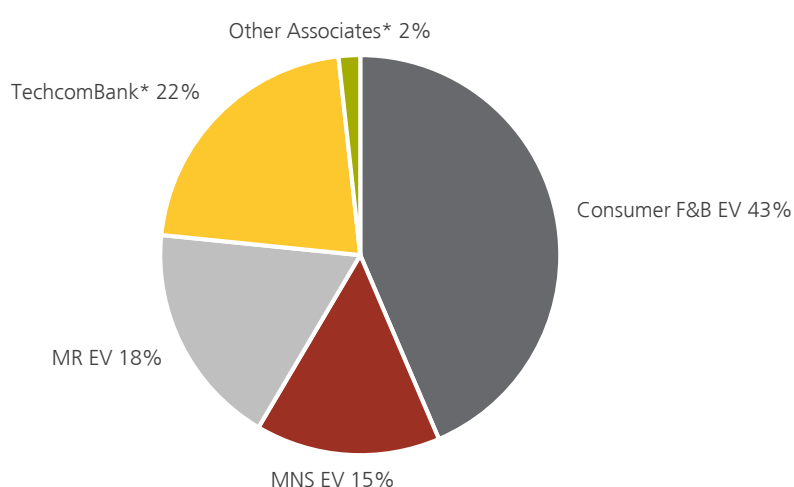
Valuations of the key business units

We continue to see Masan Group (MSN) as a conglomerate, but it remains primarily a consumer F&B company via Masan Consumer Holdings (MSC – 43% of EV) and via its exposure to Techcombank (TCB – 22.0% of EV) – a good consumer franchise bank. Combined these two entities account for VND72,200 per share, equivalent to 84% of the market price and 67.1% of our SOTP target price of VND108,000 per share.

Thus, we still see Techcombank as a key value driver given strong underlying earnings momentum and reasonable valuation (2.0 BVPS with an 18.8% ROAE) but we also expect the strong MSC consumer story to continue to help drive the share price.

Figure 19: MSN's SOTP enterprise value breakdown

%



*Associates based on book value – not EV
Source: Company data, EFG Hermes estimates

Consumer F&B (MSC)

Our general approach for the SOTP valuation is based on deriving an enterprise value as at 2020e for MSC by applying a target EBITDA multiple of 11.9x our 2020 estimate, and adjusting this derived firm value to reflect MSN's 57.1-81.5% economic interests in the individual (MSC and MB) business units. This results in a forecast EV for the MCH that can be used as an input to MSN's group level SOTP derived enterprise value.

Figure 20: Derivation of consumer F&B (MSC) enterprise value

In VNDbn

Year ended Dec.	Target EBITDA multiple	2020e	Total EV	MSN Econ. Interest	Proportionate share
Masan Consumer (MSC)	11.9	5,703.2	68,110.8	81.5%	55,510.3
Masan Brewery	8.4	125.0	1,043.7	57.1%	595.9
Consumer F&B EV	11.9	5,828.2	69,154.5		56,106.3
Per MSN share (VND)					48,200

Source: Company data, EFG Hermes estimates

At our target EV range of 8.4x to 11.9x (11.9x weighted. avg.) 2020e MSC EBITDA, we estimate that MSC contributes VND55.5trn (equivalent to VND48,200 per MSN share) or 43% to MSN's group level EV of VND131.4 1trn (see fig. 2, page 6); this makes MCH the largest contributor to our SOTP valuation.

TechcomBank (TCB)

Our 2020e (one year forward) fair value estimate for TCB is VND39,938 per TCB share, which equates to a total valuation of VND139,646bn (USD4,932mn). At this price, we value the bank at 2.0x its 2020e BVPS and 12.3x its 2019e EPS. This translates into VND24,000 per MSN share outstanding, based on MSN's 2020e expected 20% shareholding/economic interest in Techcombank.

To calculate our fair value estimate for TCB, we applied our standard five-year dividend discount model (DDM). The cost of equity (CoE) assumed is 11.7%, and this has been derived using a risk-free rate of 6.0%, equity risk premium of 5.0% and a beta of 1.14x. As our valuation is in local currency (VND), we have applied a terminal growth rate of 4%. We believe the 4% terminal growth rate best reflects Vietnam's high level of banking system penetration. In the table below, we provide our assumptions used to calculate TCB's unadjusted target price estimate and its contribution to MSN's SoP valuation.

Figure 21: Techcombank DDM valuation

In VND per TCB and MSN per share

Year ended	2020e	2021e	2022e	2023e
DPS	973	1,111	1,313	1,552
PV	871	891	942	997
Total PV	3,700			
Terminal Value				
ROE				18.8%
COE				11.7%
Growth				4.0%
BVPS				29,294
TV				56,411
PV of TV	36,238			
Total PV	39,938		MSN stake	20.0%
- Implied P/ Dec. 2020e BV	2.00		Adj. factor	3.01
- Implied P/ Dec. 20120e EE	12.3		Per MSN share	24,000

Source: Company data, EFG Hermes estimates

As our unadjusted fair value of TCB is highly sensitive to our COE and terminal ROAE assumptions, we provide a sensitivity analysis below, which we have converted into a per MSN share equivalent for the purposes of this report.

Figure 22: Techcombank DDM sensitivities

Adjusted to value per MSN share

		Terminal RoE						
		14.3%	15.8%	17.3%	18.8%	20.3%	21.8%	23.3%
Cost of equity	9.7%	22,700	25,700	28,700	31,700	34,600	37,600	40,600
	10.7%	19,700	22,200	24,700	27,300	29,800	32,300	34,900
	11.7%	17,400	19,600	21,800	24,000	26,200	28,400	30,600
	12.7%	15,700	17,600	19,600	21,500	23,500	25,400	27,400
	13.7%	14,300	16,000	17,800	19,500	21,300	23,000	24,800

Source: Company data, EFG Hermes estimates

Masan Nutri-Science (MNS)

We have chosen to apply the same EBITDA multiple to our forecast of MNS's 2020e EBITDA estimate as we did for our consumer foods business. We note this results in a target EV that is substantially 50% lower than we used in our initiation coverage. This is largely due to a 43% reduction in our 2020e EBITDA forecast of VND2,104bn (see Fig 24, page 14) given ongoing headwinds in animal feed sales volumes in Vietnam.

Figure 23: MNS's contribution to MSN's SoP

In (x) and VNDbn

Year ended Dec. (VNDbn)	Target EBITDA multiple	2020e EBITDA	Total EV	MSN Econ. Interest	Proportionate share
MNS EV	11.9	2,104.1	25,128.0	82.4%	20,703.0
Per MSN share (VND)					17,800

Source: Company data, EFG Hermes estimates

MNS accounts for 13.3% of our Group EV which is equivalent to VND17,800 per share, looking forward, our valuation implies a EBITDA multiple range of 16.9x to 6.5x across our forecast period.

Figure 24: MNS EBITDA implied by our forecasts

(x)

Year-end	2017	2018	2019e	2020e	2021e	2022e	2023e
Implied EBITDA multiple (x)	13.1	20.2	16.9	11.9	9.5	8.0	6.5

Source: Company data, EFG Hermes estimates

Masan Resources (MSR)

For Masan Resources, we have chosen to benchmark our valuation to the company's quoted share price on Vietnam's UpCom market (Ticker: MSR) for the last 12 months ADVol. for MSR has been about 60,300 shares with ADVal. of VND1.4bn (cUSD65,000), while this is not a large number in its own right, given a low free float of 4% and that over 98% of trades are order-matched, we feel there is reasonable price-determination for the stock to base our valuation upon.

MSR's derived enterprise value stands at VND26.2trn (USD1.1bn) inclusive of VND10.3trn in net debt (as at 2019e). With MSN's shareholding at 96%, this results in a EV contribution of VND25.1trn to our SOTP, which is equivalent to VND21,600 per share. Against our EBITDA estimate of cVND3.4trn, our benchmark equates to 7.7 to 7.6x EBITDA across our forecast period. We note in our initiation we had a slightly lower target EV of VND23.3trn, based on the group's carrying value and proportionate net debt.

Figure 25: Derivation of MSR's enterprise value

In VNDbn

Masan Resources	UpCom Mkt. Cap.	Year ended	2018	2019e	2020e	2021e
Equity value	15,828	Revenues	6,865	7,422	7,533	7,608
Net (cash) debt - 2019	10,342	EBITDA	3,331	3,377	3,410	3,432
Enterprise value	26,170	EBITDA (x)	7.9	7.7	7.7	7.6
Economic interest	96%					
Proportionate share	25,123			Per MSN share (VND)		21,600

Source: Company data, EFG Hermes estimates

Divisional 2018 operational review and 2019 updates

Masan Consumer Holdings (MSC)

Masan's consumer F&B group had a stellar 2018 with divisional revenue jumping 27% Y-o-Y to VND17,345bn. Whilst some of this is base effect (from the 2017 distribution restructuring), relative to 2016, last year's top line expanded 17% in absolute terms. Similarly gross profit expanded by 28.4% (16.6% vs 2016), whilst EBITDA jumped 51% Y-o-Y (15.7% vs. 2016). The EBITDA surge was driven by a far more effective SG&A spend of VND4,307bn (+6.7% Y-o-Y), which added 4.0ppt to the 2018 EBITDA margin.

Figure 26: MSC category revenue and profitability profile

VNDbn

Year-end	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3-Yr CAGR	5-YR CAGR
Revenues	14,826	13,526	17,345	20,106	22,200	24,393	26,702	29,437	12.0%	11.2%
Seasonings	5,788	5,159	6,958	8,002	8,802	9,506	10,480	11,524	11.0%	10.6%
Convenience foods	3,621	3,585	4,636	5,331	5,865	6,334	6,549	7,089	11.0%	8.9%
Coffee	1,816	1,532	1,708	1,907	2,059	2,162	2,270	2,384	8.2%	6.9%
Beverages (non-alcoholic)	1,643	2,045	2,789	3,207	3,528	3,810	4,116	4,369	11.0%	9.4%
Alcoholic beverages (Beer)	1,081	315	388	755	1,000	1,590	2,247	2,977	60.0%	50.3%
Processed meat	36	221	210	235	263	295	330	370	12.0%	12.0%
Others	841	669	656	669	683	696	710	724	2.0%	2.0%
Gross profit	6,493	5,897	7,572	8,786	9,701	10,660	11,669	12,864	12.1%	11.2%
Gross margin (%)	43.8%	43.6%	43.7%	43.7%	43.7%	43.7%	43.7%	43.7%		
EBITDA	3,602	2,755	4,167	5,307	5,828	6,403	6,992	7,670	15.4%	13.0%
EBITDA margin (%)	24.3%	20.4%	24.0%	26.4%	26.3%	26.2%	26.2%	26.1%		

Source: Company data, EFG Hermes estimates

Looking forward to 2019, we expect Consumer F&B growth to sustain itself

Masan's management indicates it plans to continue its premiumisation initiatives and maintain its current level of advertising and promotion efficiency to drive forward growth in its consumer F&B business.

Overall, an improving share of sales volume in premium products in the portfolio (10% of seasonings and c40% of convenience foods in 4Q18) should continue to help deliver a strong top-line in 2019e and over our forecast period. For 2019, we estimate Consumer F&B revenue to jump by 15.9% to VND20.1trn, underpinned by 11.6-15% growth in the key seasonings (c40% of revenue), convenience foods (c30% of revenue), as well as coffee and beverages (c15% of revenue) categories. Cumulatively, these categories account for nearly 92% of our top-line forecasts.

We continue to estimate gross margins of c44% across our forecasts, which results in a 16% expansion of gross profit for 2019e to VND8,786bn, on our estimates. Finally, we forecast SG&A (% of sales) of 26% from 2019e and beyond. This is ahead of the 2018 level of 24.8%, but below 2017's level of 29.8%. This results in a sustainable EBITDA margin of 26.2% for the business, across our forecast period.

We see several underlying strategies at play:

☰ Convenience Foods: Shift to packaged cup noodles and more innovation in ready-to-eat meals

Management has highlighted that premiumisation remains a key driver here, the launch of cup noodles could have a profound impact on revenue/SKU for that particular category. Cup noodles are selling at cVND15,000/SKU (a 50% price premium to packaged noodles). However, it is still early days, sales run rates have tripled since the 3Q17 launch, with ample room to grow further. Elsewhere, similar plans exist to boost the ready-to-eat meal offerings and bring premium products across key brands such as Omachi and Kokomi.

☰ Strengthening take up of Chilli Sauce and ongoing premiumisation in fish/soya sauces and granules

Within the sauces category, management has noted that volumes have grown by as much as 30% in 2018. Driven in part by a rapid take up in Chili Sauces and strong core product performances (fish & soya sauces) in key brands such as Nam Ngu and Chin Su. Management indicated that premium product sales have risen to 10% in 2018 from c7% (+40% growth) of overall seasonings revenue. Moving forward, within the premium segment, MCH is focused on securing dominance in the modern trade channel, whilst maintaining its leading share in the traditional channel.

☰ Beverages, energy drinks, and coffee

Masan's beverage category continues to deliver some of highest growth (albeit from a smaller base) for the group. Management stated strong revenue growth of 36% Y-o-Y in 2018 (amplified by a 56% 4Q18 increase). Success here is reportedly driven by yet wake up 24/7 and Compact energy drinks, as well as a sizable increase in the distribution to 160,000 points-of-sales (from 75,000) for this product group.

Elsewhere, in coffee, following the tender for an incremental 30% stake in VinaCafe in early 2018, Masan has been focused on internal efficiencies and R&D investment with a goal to sustain 10% top-line growth going forward. For 2018, VinaCafe's coffee products delivered 11% annual top-line growth, helped by a strong instant coffee performance (+25% growth). Masan's strategy in coffee continues to be focused on building market share in the largely traditional roasted and ground coffee market, whilst holding its own in the highly competitive instant coffee market place.

☰ While turning attention to new categories to develop over time

Finally, management is turning its attention to boosting its newer product categories, such as processed meats. Masan announced a joint venture agreement with South Korea's Jinju Ham in late 2018, and will be rolling out a series of co-produced products over 2019 to help drive growth in this segment. The initial joint product launched was branded 'Ponnie' and helped drive a 4Q18 revenue jump of 24.5% reducing what was an overall mediocre year of 4.8% growth (VND210bn) for that category, which remains a nascent (c1.2%) revenue contributor.

On a final note, Masan's Brewery JV with Thailand's Boon Rawd continues to try and find market share in a highly competitive market. 2018 remained a weak year in which 4Q revenue fell by 33% to VND169bn exasperated by low (sub 1%) market share. Masan Brewery recently hired a marketing team that previously worked with Sabeco, to focus on premise and HORECA sales to establish a base for growth in the coming years. Beer remains a minor category for Masan, but they have ample excess capacity at their 200mn litre facility, and if they can stimulate sales, they can easily meet demand.

2019 outlook - Techcombank

Techcombank's (TCB) 2018 reported earnings came in at VND8,474bn a 31% increase over 2017. EPS growth was substantially lower at 2%, but BVPS jumped 20% reflecting the re-issuance of 17% (517mn – 300% bonus issue adjusted) in treasury shares and full retention of profits. Income from IEA's jumped 25% to VND11.1trn, while non-interest income rose 6% to VND5.8trn. TCB's cost income ratio was held to 35%, which along with VND1.4trn in recoveries offset VND1.8trn in provisions, which helped the bank deliver on its 2018 PBT guidance of VND10.6trn.

Figure 27: Techcombank summary estimates

IN VNDmn and per TCB share

Year	Net income (VNDmn)	EPS (VND)	DPS (VND)	BVPS (VND)	P/E	P/BV	Div yield (%)	RoAA	RoAE
Dec. 2008	1,183,083	764	0	5,149	36.2	5.38	0.0%	2.00%	21.0%
Dec. 2009	1,700,169	818	0	4,521	33.9	6.13	0.0%	2.24%	26.3%
Dec. 2010	2,072,755	786	0	3,562	35.2	7.78	0.0%	1.71%	24.8%
Dec. 2011	3,153,766	962	0	3,817	28.8	7.26	0.0%	1.91%	28.8%
Dec. 2012	765,686	233	0	4,049	118.7	6.84	0.0%	0.42%	5.9%
Dec. 2013	659,071	200	0	4,224	138.5	6.56	0.0%	0.39%	4.8%
Dec. 2014	1,077,883	325	0	4,512	85.3	6.14	0.0%	0.64%	7.5%
Dec. 2015	1,530,197	461	0	4,955	60.1	5.59	0.0%	0.83%	9.7%
Dec. 2016	3,208,679	976	0	5,960	28.4	4.65	0.0%	1.50%	17.8%
Dec. 2017	6,445,595	2,573	0	9,039	10.8	3.06	0.0%	2.55%	27.7%
Dec. 2018	8,473,997	2,617	0	14,809	10.6	1.87	0.0%	2.94%	21.5%
Dec. 2019e	9,746,949	2,788	0	17,747	9.9	1.56	0.0%	2.63%	17.0%
Dec. 2020e	11,335,793	3,242	973	20,016	8.5	1.38	3.5%	2.69%	17.2%
Dec. 2021e	12,950,167	3,704	1,111	22,609	7.5	1.23	4.0%	2.71%	17.4%
Dec. 2022e	15,300,859	4,376	1,313	25,672	6.3	1.08	4.7%	2.84%	18.1%
Dec. 2023e	18,091,468	5,174	1,552	29,294	5.4	0.95	5.6%	2.98%	18.8%

Source: Company data, EFG Hermes estimates

Looking forward to 2019, Techcombank is targeting to increase total assets by 17% to VND375.8trn, total capital (incl. CDs, valuable papers and deposits) by 32% to VND274.2bn, and credit outstanding by at least 13% to VND245.4bn. In addition the bank plans to hold reported NPLs below 2.5% and is guiding recurring PBT growth of 20% to VND11.7trn. This translates into reported PBT growth of 10% (inclusive of 2018 gains from the sale of TCB Finance to Lotte Group). There is no mention of a cash dividend for 2018, as we expected.

On a final note, TCB plans to issue a further 10mn common shares (0.3% of shares outstanding) in an ESOP in 2Q or 3Q19. The issue price will be VND10,000 per share (equivalent to a 63% discount to market today – VND175bn). Under VAS accounting standards, expensing (per IFRS 2) of stock grants is not required.

On balance, our estimates are approximately c5% ahead of guidance at the PBT and total assets level. Credit expansion and NPLs are broadly in-line with our current forecasts. Thus at the margin, it is unlikely that we will see significant or material changes to our 2019e forecasts or the associate contributions of VND1,966bn to our 2019e net income forecast for Masan Group.

2019 outlook – Masan Nutri Science

Masan's management has guided that animal feed revenue is steadily recovering (VND3.9trn +17% at 4Q/3Q18) which (if sustained) should put the underlying feed business on a path towards revenue of VND16,395bn for 2019e. However, we do not think there will be a quick return to pre-2017 revenue levels. The pork export market (particularly China) remains closed for live pork or hog imports from Vietnam (from ongoing African swine flu risks) and volatile pig prices (ranging from VND30-50,000/kg) will keep local farmers from aggressively expanding herds in the near term. Recovery in the animal feed market may be an event for 2020e and beyond, in our view.

Despite this, we feel MNS is in a somewhat better position than most other domestic pure feed entities. The company has opened i) its first pig farm and slaughter facility in the north in Nghe Anh province (2019 capacity 150,000 pigs – rising to a planned 250,000); and ii) the first of several planned lines (2019 capacity of 140,000 pigs – of a planned 1.4mn) at a slaughter and processing plant in Ha Nam province. Masan will ultimately invest VNDD2.4bn to scale both facilities.

Figure 28: Masan Nutri-Science's (MNS) revenue and EBITDA outlook

IN VNDbn

Year-end	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3-Yr CAGR	5-YR CAGR
Revenues	24,423	18,690	13,977	17,624	18,495	20,787	23,265	26,548	14.1%	3.4%
Animal feed	24,423	18,690	13,727	16,395	16,829	17,455	18,267	19,050	8.3%	1.3%
Packaged meat	0	0	250	1,230	1,666	3,332	4,250	7,497	137.1%	22.1%
EBITDA	3,023	1,915	1,244	1,483	2,104	2,654	3,158	3,866	28.7%	12.3%
EBITDA margin (%)	12.4%	10.2%	8.9%	8.4%	11.4%	12.8%	13.6%	14.6%		

Source: Company data, EFG Hermes estimates

In a recent analysts call, Masan management verbally shared some data points on the feed and emerging packaged fresh meat venture. In the core feed business following a better start to the year, MNS is now facing some feed demand headwinds in Northern Vietnam from the African Swine Fever outbreak. The outbreak has now reached 23 provinces and the key market of Hanoi in March, volumes at major slaughter facilities were down 30% M-o-M to a baseline of 10,000 hogs/day. Retail demand has reportedly taken a hit as well. However, MNS animal feed business is national in scope and demand in South Vietnam may provide some resilience to the division's performance for 2019e vs 2018.

Moving forward this year, MNS is focusing its energies on building out its packed fresh meat product under a 'Meat Deli' branding (with a strong emphasis on end-to-end cold chain and own farm sourced pork). MNS has made early moves to market opening (an initial) five retail shops in Hanoi, and securing shelf space for its products in various modern trade chains (particularly Vinmart), primarily in and around the capital Hanoi and in Northern Vietnam.

Overall, the packaged fresh meat business should have a positive impact on MNS's EBITDA margins over time. Management indicates that it can command a 10-15% price premium over traditional wet markets for its Meat Deli products and EBITDA margins are approximately 5ppt higher (15%) than the underlying animal feed business. For the near term, MNS's focus is on building its branding and consumer recognition on the quality and safety aspects of its products. The company is also in the early stages of looking for land to establish slaughter and processing plants near HCMC for future years.

In the longer run, MNS hopes to grow this business into a national brand and take an approximate 5% of the national animal feed and fresh meat market. This would result in an overall top-line of approximately USD500mn p.a. given a USD10.0bn market size as of today.

2019 Outlook – Masan Resources

Masan continues to fine tune and improve operations at its Masan Resources Tungsten mining unit. 2018 revenue jumped 27% Y-o-Y on strong Fluorspar prices and improved tungsten recovery rates. In addition, the full consolidation of the JV APT processing unit (in 4Q18) into MSR should help profit grow further in 2019e.

Our MSR estimates continue to reflect our key initiation assumptions of: i) average APT price of USD300/MTU; ii) tungsten concentrate production of 6,400 tonnes, and roughly VND2.9trn per annum in non-tungsten revenues (primarily fluorspar and bismuth). We estimate ongoing EBITDA contributions of cVND3.4trn across the mine's life.

Figure 29: Masan resources (MSR) revenue and EBITDA outlook

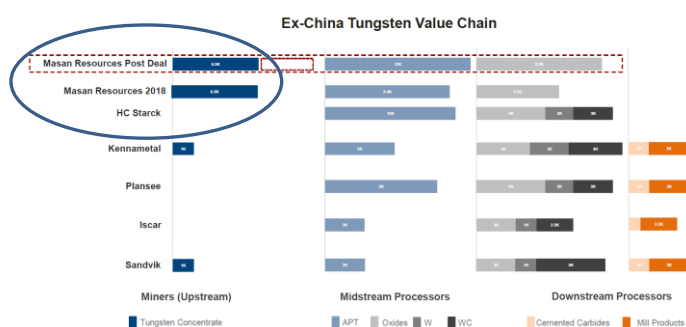
In VNDbn and %

Year-end	2016	2017	2018	2019e	2020e	2021e	2022e	2023e	3-Yr CAGR	5-YR CAGR
Revenue	4,048.8	5,404.6	6,865.0	7,422.0	7,533.0	7,608.3	7,608.3	7,608.3	3.5%	2.1%
Gross profit	1,103.3	1,690.9	2,161.0	2,680.5	2,720.6	2,747.8	2,747.8	2,747.8	8.3%	4.9%
EBITDA	2,060.1	2,783.7	3,331.0	3,377.0	3,409.8	3,432.0	3,432.0	3,432.0	1.0%	0.6%
EBITDA margin	50.9%	51.5%	48.5%	45.5%	45.3%	45.1%	45.1%	45.1%		

Source: Company data, EFG Hermes estimates

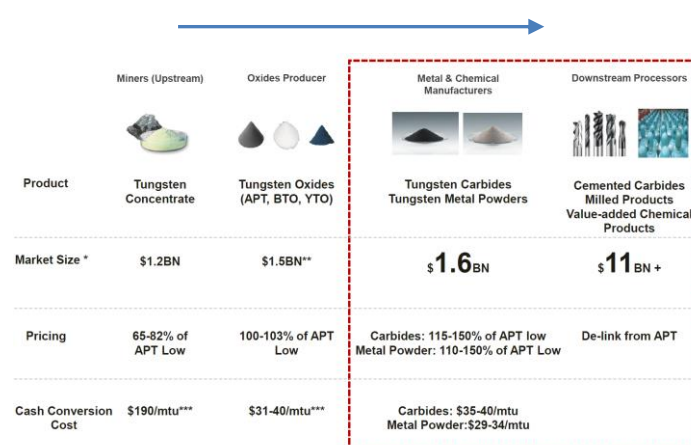
MSR's strategic focus remains on maximising efficiencies and in its Tungsten operations. Now that the company has fully acquired its mineral processing plant, management plans to boost its APT processing capacity to 12,000 MTUs and process (additional external, plus its own supplies) tungsten concentrate into midstream oxide products, such as APT, tungsten oxide and others. In the longer term, MSR's strategic vision is to form additional strategic relationships to tap higher revenue opportunities in carbides, metal powders and tungsten cemented products. To achieve this, MSN management has indicated it may seek to sell a minority stake in the mine (to a strategic partner), and potentially seek a wider listing (beyond UpCom) in due course.

Figure 30: MSR's position in the tungsten value chain



Source: Company data

Figure 31: MSR's strategic objective



Source: Company data

Appendix – Consumer peer comps

Figure 32: Global F&B comps

In (x) and (%)

Company	Country	Mcap	P/E (x)			P/B (x)	EV/EBITDA (x)			Div. yield	ROAE	Net profit CAGR	EBITDA margin	Net debt /equity
			2018a/e	2019e	2020e		2018a/e	2019e	2020e					
EFG Hermes Coverage			19.5	14.7	11.9	4.3	12.0	9.6	8.0	3.5%	25.3%	4.3%	26.3%	0.6
Edita Food Industries	Egypt	671	30.1	18.3	13.1	8.8	18.2	12.4	9.3	1.5%	51.7%	3.3%	27.7%	0.6
Agthia	UAE	637	11.4	10.6	9.3	1.3	7.4	6.8	6.1	3.2%	10.7%	5.1%	-9.9%	(0.6)
Halwani Brothers	Saudi Arabia	339	17.1	15.2	13.3	2.8	10.3	9.5	8.7	5.6%	13.4%	4.5%	61.0%	1.9
W&B comps (avg.)			34.1	25.5	20.4	4.5	14.5	12.6	11.4	2.4%	29.7%	2.8%	25.0%	0.6
Coca-Cola HBC	Switzerland	12,547	22.4	20.7	18.6	3.3	11.5	11.0	10.2	2.1%	15.0%	3.0%	28.6%	0.9
Coca-Cola Bottlers	Japan	5,553	62.4	28.8	21.2	1.0	10.3	7.8	6.9	1.5%	59.8%	3.4%	6.3%	0.6
Fevertree Drinks	UK	4,231	53.7	46.9	40.1	18.2	41.3	35.8	30.7	0.5%	15.7%	0.6%	-39.1%	(0.9)
ITO	Japan	4,142	45.5	42.7	40.3	4.2	14.6	13.9	13.4	0.8%	6.3%	4.1%	8.5%	0.3
National Beverage	USA	3,368	20.4	18.2	16.4	9.0	13.6	12.1	11.0	4.0%	11.6%	3.0%	-57.3%	(1.1)
Embotelladora Andina	Chile	3,382	20.4	18.4	15.6	2.9	9.0	8.6	7.9	3.7%	13.2%	4.0%	73.0%	2.2
Britvic	UK	3,118	18.0	15.3	14.4	5.6	11.6	11.3	10.7	3.5%	17.4%	-0.1%	174.8%	2.8
Coca-Cola Icecek	Turkey	1,616	34.4	14.3	4.5	1.4	6.8	5.7	5.1	1.7%	48.2%	7.8%	38.6%	1.6
Lotte Chilsung Beverage	S. Korea	1,084	8.4	24.1	21.2	0.9	N/A	9.9	9.4	2.3%	N/A	-13.2%	N/A	N/A
Ichitan Group	Thailand	141	84.0	37.3	21.0	0.7	N/A	N/A	N/A	0.9%	92.1%	11.1%	25.5%	1.9
Power Root	Malaysia	140	5.5	13.8	10.8	2.5	11.8	9.4	8.3	5.1%	17.3%	7.2%	-9.3%	(2.0)
Snacks comps (avg.)			25.2	23.3	20.8	5.9	14.6	13.2	12.5	2.1%	12.3%	3.7%	36.2%	1.4
Nestle	Switzerland	273,403	N/A	20.9	19.1	N/A	N/A	15.1	14.2	0.0%	N/A	N/A	N/A	N/A
Mondelez International	USA	69,465	16.4	19.4	18.0	2.3	18.3	16.6	15.9	2.4%	5.7%	2.2%	67.2%	4.2
Hershey	USA	23,014	19.9	19.5	18.5	24.5	N/A	13.8	13.4	2.6%	1.8%	3.2%	275.0%	N/A
Chocoladefabriken Lindt	Switzerland	16,775	36.2	33.7	31.4	4.1	20.8	19.6	18.3	1.3%	7.4%	1.7%	3.7%	0.3
Conagra Brands	USA	11,660	11.7	11.0	9.9	1.5	12.6	10.4	9.6	3.5%	13.6%	9.0%	98.2%	9.9
Want Want	China	10,389	20.3	19.3	17.6	4.4	12.4	11.7	11.2	2.5%	7.8%	6.6%	-41.5%	(0.9)
Britannia Industries	India	9,803	59.3	49.2	41.1	17.1	39.2	32.6	27.5	0.6%	20.1%	0.2%	-24.5%	(0.6)
Grupo Bimbo	Mexico	8,909	29.5	20.7	17.3	2.2	8.5	7.7	7.1	1.0%	26.0%	3.4%	113.1%	3.0
Indofood	Indonesia	8,715	27.9	25.6	23.5	5.6	17.3	15.9	14.7	1.7%	9.3%	3.0%	-32.4%	(0.6)
Tingyi	China	7,744	20.6	19.5	17.8	2.6	7.1	7.0	6.8	2.6%	8.1%	11.5%	18.6%	(0.4)
Universal Robina	Philippines	6,216	33.2	29.1	26.8	3.8	17.3	16.1	14.8	2.0%	10.5%	3.2%	28.7%	1.3
Flowers Foods	USA	4,414	20.0	21.6	20.3	3.1	13.6	12.4	11.9	3.8%	18.1%	5.8%	77.6%	2.7
Mayora indah pt	Indonesia	4,185	34.6	29.4	25.3	7.0	20.8	17.6	15.5	0.9%	16.9%	-0.2%	30.6%	1.7
Yamazaki Baking	Japan	3,809	37.1	22.3	21.8	1.6	8.0	6.1	6.0	0.9%	18.9%	6.7%	-6.0%	(0.3)
Tiger Brands	S. Africa	3,609	17.3	14.5	12.8	2.8	15.0	12.1	10.5	3.9%	19.9%	5.3%	-3.4%	(0.2)
Lotus Bakeries	Belgium	2,367	25.8	28.3	26.2	5.8	N/A	18.1	16.8	0.9%	8.3%	3.9%	N/A	N/A
Greggs	UK	2,350	25.9	23.2	21.7	10.7	12.2	11.0	10.3	1.9%	10.2%	2.4%	-18.2%	(0.3)
Ulker Biskuvi	Turkey	1,205	10.6	11.5	9.7	2.2	9.8	8.3	7.2	2.8%	7.1%	5.0%	41.2%	2.4
Finsbury Food Group	UK	144	7.7	7.3	N/A	N/A	4.5	4.3	N/A	4.3%	N/A	5.9%	14.7%	1.2
Cadbury	Nigeria	60	N/A	39.7	16.7	N/A	10.6	8.0	6.3	2.4%	N/A	-9.1%	8.5%	(0.2)
Breweries comps (avg.)			43.4	21.4	44.5	5.5	10.9	9.3	8.4	2.9%	17.3%	4.0%	30.4%	1.5
Tsingtao Brewery	China	6,808	26.9	25.3	23.1	2.2	11.9	11.2	10.5	1.6%	9.2%	5.4%	-56.0%	(5.0)
Nigerian Breweries	Nigeria	1,658	34.7	21.6	16.2	4.1	10.5	8.7	7.5	4.4%	31.5%	8.0%	16.7%	0.4
East African Breweries	Kenya	1,583	17.9	15.9	13.8	16.6	8.0	7.2	6.1	3.8%	15.9%	5.2%	234.8%	N/A
Tanzania Breweries	Tanzania	1,479	16.3	13.6	12.8	N/A	9.3	8.2	7.2	5.2%	12.2%	4.9%	-10.5%	N/A
Soc Frigorifique	Tunisia	1,260	17.9	16.0	N/A	3.5	10.5	9.5	N/A	2.9%	N/A	4.1%	-18.3%	(0.6)
Societe Des Brasseries	Morocco	698	20.5	15.6	N/A	3.9	7.6	7.0	N/A	5.3%	N/A	5.4%	-44.4%	(0.6)
International Breweries	Nigeria	689	204.2	33.8	207.1	6.7	18.4	14.2	13.2	0.0%	N/A	-2.4%	78.0%	14.4
Namibia Breweries	Namibia	665	23.8	22.9	21.9	6.6	N/A	N/A	N/A	2.1%	4.2%	2.3%	-1.8%	(0.0)
Guinness	Nigeria	394	21.1	18.9	16.5	1.6	7.8	6.8	5.6	2.3%	30.6%	2.5%	7.2%	0.2
Oulmes	Morocco	301	50.6	30.7	N/A	4.3	14.4	11.5	N/A	1.6%	N/A	5.0%	98.1%	3.1
Median			21.8	20.7	18.2	3.6	11.7	11.0	10.3	2.3%	13.5%	4.0%	14.7%	0.4
Average			31.5	22.8	24.2	5.3	13.5	12.0	11.2	2.5%	19.0%	3.6%	31.3%	1.1

Source: Company data, EFG Hermes estimates

Financial Statements

Income Statement (Dec Year End)

In VNDmn	2018a	2019e	2020e	2021e
Revenue	38,187,617	46,381,955	49,894,012	56,121,100
COGS	(26,306,208)	(31,516,291)	(33,716,528)	(38,175,467)
Gross profit	11,881,409	14,865,664	16,177,485	17,945,632
SG&A	(5,662,478)	(6,949,060)	(7,231,477)	(8,020,288)
Other operating inc (expense)	0	0	0	0
EBITDA	8,256,986	10,166,725	11,342,070	12,489,325
Depreciation and amortisation	(2,705,218)	(2,936,670)	(3,087,507)	(3,274,083)
Net operating profit (EBIT)	5,551,768	7,230,054	8,254,563	9,215,242
Share of results from associates	1,914,340	1,966,341	2,287,500	2,614,443
Net investment income (loss)	1,511,394	0	0	0
Net interest income (expense)	(2,574,977)	(1,439,523)	(1,108,526)	(778,381)
Other non-operating inc (exp.)	(99,598)	(142,095)	(109,422)	(76,834)
FX gains (loss)	(25,917)	0	0	0
Net provisions	0	0	0	0
Income before taxes or zakat	6,277,010	7,614,777	9,324,115	10,974,471
Taxes or zakat	(622,319)	(1,260,471)	(1,570,249)	(1,865,574)
Net inc before minority interest	5,654,691	6,354,306	7,753,866	9,108,897
Minority interest	(705,008)	(996,134)	(1,215,536)	(1,427,958)
Reported net income	4,949,683	5,358,172	6,538,330	7,680,939
Adjusted net income	3,438,289	5,358,172	6,538,330	7,680,939

Source: Masan Group Corp, EFG Hermes estimates

Balance Sheet (Dec Year End)

In VNDmn	2018a	2019e	2020e	2021e
Cash and cash equivalents	4,961,737	5,200,902	5,440,290	4,052,217
Accounts receivable (current)	1,523,385	1,773,201	2,038,579	2,453,046
Inventory	4,333,191	4,692,632	5,010,293	5,696,070
Other debit balances (current)	1,681,305	1,833,066	1,898,110	2,013,437
Total current assets	12,499,618	13,499,801	14,387,273	14,214,768
PP&E (net)	25,969,549	25,804,273	25,686,075	25,588,037
Goodwill & intangibles	5,405,557	5,104,649	4,765,710	4,425,003
Investments (non-current)	15,347,915	17,297,305	18,884,316	20,697,339
Other debit balances (non-current)	5,355,974	5,243,492	5,131,010	5,018,528
Total non-current assets	52,078,995	53,449,719	54,467,110	55,728,907
Total assets	64,578,613	66,949,520	68,854,383	69,943,676
Short term debt	9,243,779	9,243,779	10,952,547	8,542,478
Accounts payable (current)	2,668,610	2,590,380	2,763,650	3,137,710
Other credit balances (current)	3,883,126	4,159,761	4,417,995	4,941,324
Total current liabilities	15,795,515	15,993,920	18,134,192	16,621,512
Long term debt	12,751,649	9,640,278	4,820,139	2,410,070
Other credit balances (non-current)	1,951,771	1,877,472	1,784,912	1,674,944
Total non-current liabilities	14,703,420	11,517,750	6,605,051	4,085,014
Total net worth	29,486,744	34,844,916	39,522,207	44,644,217
Total equity	34,079,678	39,437,850	44,115,141	49,237,151
Total equity and liabilities	64,578,613	66,949,520	68,854,383	69,943,676

Source: Masan Group Corp, EFG Hermes estimates

Cash Flow (Dec Year End)

In VNDmn	2018a	2019e	2020e	2021e
Cash operating profit after taxes	7,581,005	8,831,954	9,679,262	10,513,784
Change in working capital	(313,488)	(562,613)	(216,580)	(318,180)
Cash flow after change in WC	7,260,531	8,272,342	9,462,682	10,195,604
CAPEX	(2,628,234)	(2,361,005)	(2,517,888)	(2,722,856)
Investments	(1,928,843)	(142,095)	(109,422)	(76,834)
Free cash flow	2,703,454	5,769,242	6,835,373	7,395,914
Non-operating cash flow	(2,178,925)	(1,422,572)	(408,037)	23,039
Cash flow before financing	524,529	4,346,670	6,427,336	7,418,952
Net financing	(3,355,751)	(4,107,505)	(6,187,947)	(8,807,026)
Change in cash	(2,831,222)	239,165	239,389	(1,388,074)

Source: Masan Group Corp, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	56%
Neutral	33%
Sell	11%
Not Rated	0%
Under Review	0%

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Company (Reuters/Bloomberg)	Rating (29 Mar 2019)	Price (29 Mar 2019)
FPT Corp (FPT.HM/FPT VN)	Buy	VND45500.00
Masan Group Corp (MSN.HM/MSN VN)	Buy	VND84300.00
Mobile World Investment Corp (MWG.HM/MWG VN)	Buy	VND84800.00
Vietnam Dairy Products (VNM.HM/VNM VN)	Neutral	VND134800.00

Analyst Coverage (Kato Mukuru)

Company (Reuters/Bloomberg)	Rating (29 Mar 2019)	Price (29 Mar 2019)
ASA International Group Plc (ASAI.L/ASAI LN)	Buy	GBP4.49
Asia Commercial Bank (ACB.HN/ACB VN)	Buy	VND30300.00
Bank For Foreign Trade (VCB.HM/VCB VN)	Neutral	VND67300.00
MB Bank (MBB.HM/MBB VN)	Buy	VND22400.00
Vietnam Prosperity Jsc Bank (VPB.HM/VPB VN)	Buy	VND20200.00
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