

Masan Group (MSN VN)

Buy: Potential Masan Consumer IPO, capital recycling

- ◆ News articles and AGM documents suggest Masan Group is exploring a listing of subsidiary Masan Consumer
- ◆ In this note, we examine these assets more closely and look at how this could impact the capital structure of the group
- ◆ We increase TP from VND91k to VND98k after updating for the higher valuation at its Techcombank holding; keep Buy

Masan Consumer may consider listing: According to Bloomberg News (17th April 2024) and recently-released AGM documents, Masan Group's subsidiary Masan Consumer Corporation (MCH VN, Not Rated, VND138,900) is exploring a USD1.0-1.5bn listing by early 2025. MCH currently has a listing on the UPCOM (Unlisted Public Company Market), but this listing is illiquid (ADTV: USD0.2m) and a transfer to the mainboard HOSE exchange would likely create a more liquid entity. In our view, these plans could have been prompted by the recent rally in MCH, with its market cap of USD4bn now above Masan's own market cap of USD3.8bn. MCH's 2023 EBITDA is 9% above the EBITDA of Masan's FMCG division, as it excludes losses from its beer JV with Singha (unlisted) and processed meat JV with Jinju (unlisted). MCH has a strong track record of high margins and consistent earnings growth, significantly ahead of its FMCG and packaged food peers in the region (see figure 3 and 4). MCH's five-year revenue and EPS CAGR was 10.7% and 15.4% respectively.

Impact on capital recycling plans. Masan's management initially targeted an IPO at The Crown X in 2024 or 2025 (Reuters, 24th April 2023). If the Masan Consumer listing is successful, we think that this could push back the timeline for a Crown X IPO. Recall that the Crown X not only owns Masan Consumer but also a stake in its retail assets WinCommerce. This is an early-stage business with high capex needs to open new stores and is just at the verge of breakeven in its net profits. As such, its fair valuation would be very sensitive to future assumptions of steady-state margins. Hence, management could feel that monetising Masan Consumer, which already has very strong margins today, could be an easier sell to the market than WinCommerce.

Retain Buy with a new TP of VND 98k (from VND91k). While the average interest rate of its VND debt (which represents two-thirds of total debt) is falling, the cost on its USD debt has risen after it hedged out its FX exposure. Hence, Masan's interest costs are likely to fall only gradually this year. After the pay-down in debt from the Bain Capital investment (effective April), further deleveraging depends on selling a stake at Masan High-Tech Materials (MSR VN, Not Rated, VND13,700, market cap of USD0.6bn). Recall that Masan's current gross debt is USD2.7bn, so a successful listing of MCH plus a sell-down at MSR could help the company more than half its current leverage. As WinCommerce's EBITDA margins rise, it is reaching free cash flow neutral and will have lower cash needs going forward. So broadly, we think financial pressure on the group is easing. Refer to page 5 for full valuation & risks.

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This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.
MCI (P) 061/09/2023 MCI (P) 073/10/2023 MCI (P) 007/10/2023 MCI (P) 008/01/2024

Equities Food Products

Vietnam



MAINTAIN BUY

TARGET PRICE (VND)

98000.00

PREVIOUS TARGET (VND)

91000.00

SHARE PRICE (VND)

66800.00

(as of 17 Apr 2024)

UPSIDE/DOWNSIDE

+46.7%

MARKET DATA

Market cap (VNDb)	95,580	Free float	38%
Market cap (USDm)	3,762	BBG	MSN VN
3m ADTV (USDm)	13	RIC	MSN.HM

FINANCIALS AND RATIOS (VND)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
HSBC EPS	294	1,856	3,479	4,523
HSBC EPS (prev)	294	1,856	3,479	4,523
Change (%)	0.0	0.0	0.0	0.0
Consensus EPS	740	1,439	2,584	3,772
PE (x)	227.5	36.0	19.2	14.8
Dividend yield (%)	0.3	1.2	2.2	2.9
EV/EBITDA (x)	20.6	14.9	10.1	8.2
ROE (%)	1.6	9.6	16.1	17.7

52-WEEK PRICE (VND)



Source: Refinitiv IBES, HSBC estimates

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Financials & valuation: Masan Group

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (VNDb)				
Revenue	78,252	87,103	100,633	116,619
EBITDA	6,474	9,933	14,859	18,466
Depreciation & amortisation	-4,124	-5,226	-6,038	-6,997
Operating profit/EBIT	2,350	4,707	8,821	11,469
Net interest	-5,724	-4,000	-2,000	-2,000
PBT	2,563	4,707	8,821	11,469
HSBC PBT	2,563	4,707	8,821	11,469
Taxation	-693	-941	-1,764	-2,294
Net profit	419	2,636	4,940	6,423
HSBC net profit	419	2,636	4,940	6,423
Cash flow summary (VNDb)				
Cash flow from operations	500	5,133	7,063	10,097
Capex	-2,211	-5,000	-5,000	-5,000
Cash flow from investment	-7,824	-7,999	-7,999	-7,999
Dividends	-244	-1,130	-2,117	-2,753
Change in net debt	2,308	3,995	3,052	654
FCF equity	-1,711	133	2,063	5,097
Balance sheet summary (VNDb)				
Intangible fixed assets	16,479	19,070	19,070	19,070
Tangible fixed assets	53,921	58,635	63,830	67,537
Current assets	43,763	35,651	36,574	40,764
Cash & others	10,125	6,130	3,077	2,423
Total assets	147,383	133,713	139,831	147,728
Operating liabilities	39,574	26,855	28,034	29,508
Gross debt	69,572	69,572	69,572	69,572
Net debt	59,448	63,443	66,495	67,149
Shareholders' funds	26,560	28,192	33,131	39,554
Invested capital	64,465	80,371	88,363	95,439

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	2.7	11.3	15.5	15.9
EBITDA	-32.8	53.4	49.6	24.3
Operating profit	-55.0	100.3	87.4	30.0
PBT	-50.2	83.7	87.4	30.0
HSBC EPS	-88.3	532.2	87.4	30.0
Ratios (%)				
Revenue/IC (x)	1.2	1.2	1.2	1.3
ROIC	2.7	5.2	8.4	10.0
ROE	1.6	9.6	16.1	17.7
ROA	5.4	6.1	7.5	8.6
EBITDA margin	8.3	11.4	14.8	15.8
Operating profit margin	3.0	5.4	8.8	9.8
EBITDA/net interest (x)	1.1	2.5	7.4	9.2
Net debt/equity	155.5	170.2	157.5	138.0
Net debt/EBITDA (x)	9.2	6.4	4.5	3.6
CF from operations/net debt	0.8	8.1	10.6	15.0
Per share data (VND)				
EPS Rep (diluted)	294	1,856	3,479	4,523
HSBC EPS (diluted)	294	1,856	3,479	4,523
DPS	171	796	1,491	1,938
Book value	18,625	19,853	23,332	27,855

Key forecast drivers

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Masan Consumer revenue growth	3	15	15	15
Consumer Retail revenue growth	2	10	20	20
Masan MeatLife revenue growth	46	10	20	20
Masan Resources revenue growth	-9	0	0	0

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.7	1.7	1.5	1.3
EV/EBITDA	20.6	14.9	10.1	8.2
EV/IC	2.1	1.8	1.7	1.6
PE*	227.5	36.0	19.2	14.8
PB	3.6	3.4	2.9	2.4
FCF yield (%)	-1.8	0.1	2.2	5.3
Dividend yield (%)	0.3	1.2	2.2	2.9

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a	Governance Indicators	12/2023a
GHG emission intensity*	n/a	No. of board members	6
Energy intensity*	n/a	Average board tenure (years)	n/a
CO ₂ reduction policy	Yes	Female board members (%)	16.7
Social Indicators		Board members independence (%)	33.3
Employee costs as % of revenues	n/a		
Employee turnover (%)	n/a		
Diversity policy	Yes		

Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (VND)	66800.00	Free float	38%
Target price (VND)	98000.00	Sector	Food Products
RIC (Equity)	MSN.HM	Country/Region	Vietnam
Bloomberg (Equity)	MSN VN	Analyst	Shuo Han Tan, CFA
Market cap (USDm)	3,762	Contact	+65 6658 0624

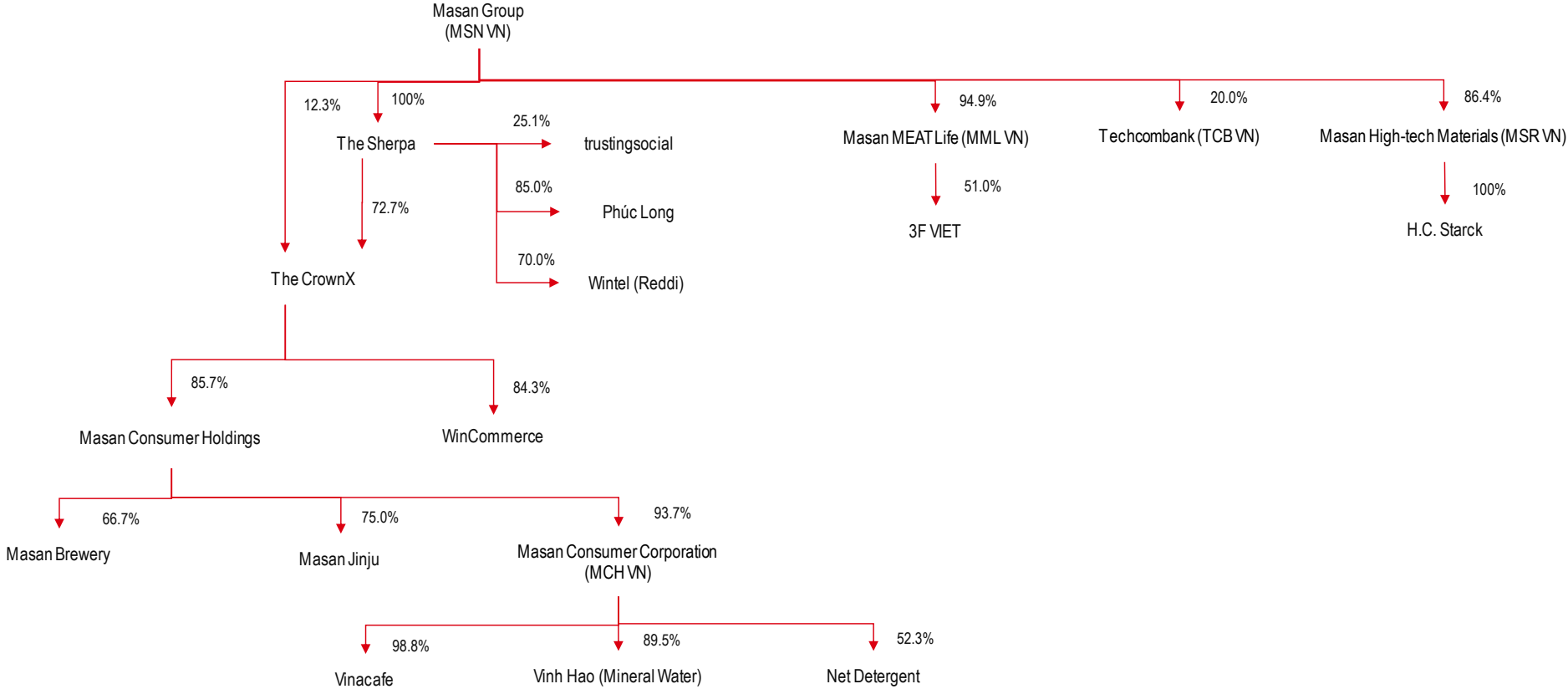
Price relative



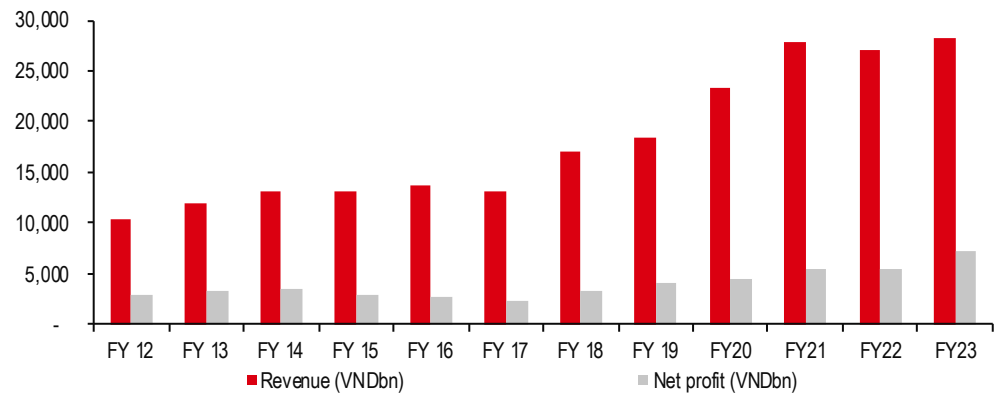
Source: HSBC

Note: Priced at close of 17 Apr 2024

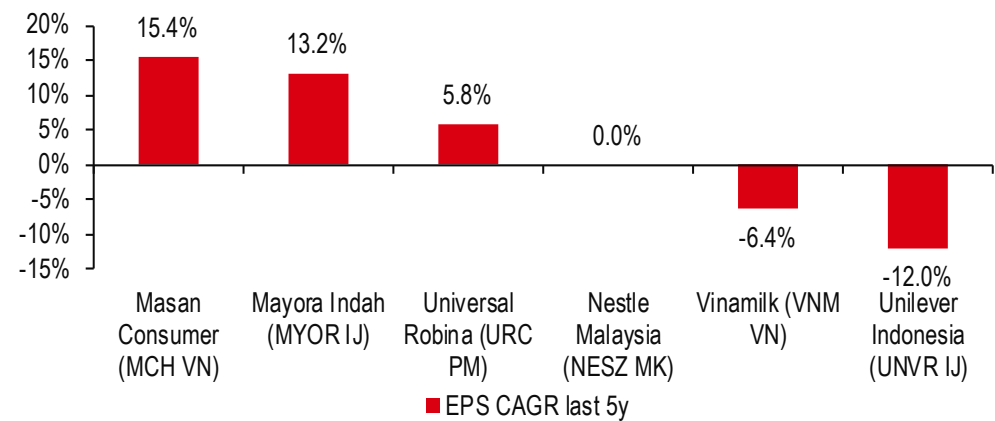
Figure 1: Group Structure



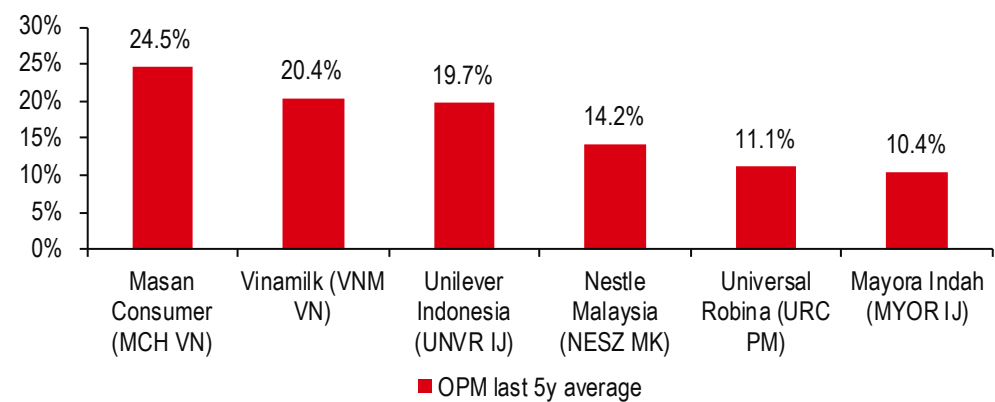
Source: Company

Figure 2: Masan Consumer's historical financials


Source: Company

Figure 3: Masan Consumer's EPS growth vs peers


Source: Company

Figure 4: Masan Consumer's profitability vs peers


Source: Company. Vinamilk (VMN, VND64,200, Buy), Unilever Indonesia (UNVR IJ, IDR2,390, Not rated), Nestle Malaysia (NESZ MK, MYR123, Not rated), Universal Robina (URC PM, PHP93.00, Hold), Mayora Indah (MYOR IJ, IDR2,360, Buy)

Valuation & risks:

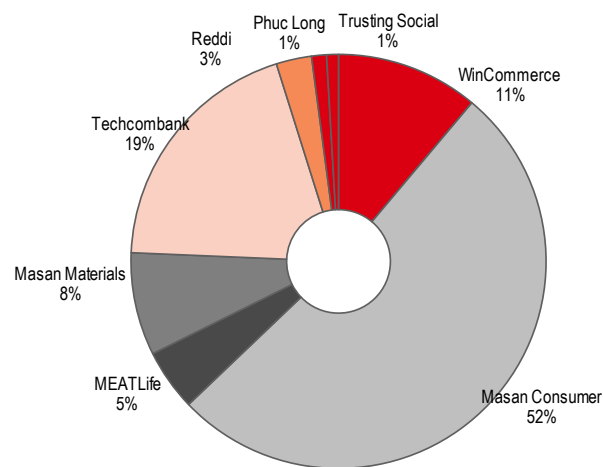
We raise our TP from VND91,000 to VND98,000 as we update the market values of listed companies. This implies an upside of c47% from the current level and therefore we reiterate our Buy rating on the stock.

- ◆ Our value for WinCommerce remains at VND26tn. We use an unchanged 20x FY24e EV/EBITDA multiple, pegged to the five-year historical multiple average of its ASEAN convenience store peers. We choose 2024 as the base year to reflect normalised EBITDA margins. Given its early stage of growth, our fair value here remains very sensitive to future margin estimates.
- ◆ Our fair value of Masan Consumer remains at VND120tn. We continue to use 15x FY24e EV/EBITDA multiple, a 15% discount to the five-year historical multiple average of its Asian food sauce peers to reflect Vietnam's frontier market status.
- ◆ We continue to use MeatLife (MML VN, CMP VND28,500, Not Rated), Masan Materials MSR VN, CMP VND18,500, Not Rated), and Techcombank's (TCB VN, CMP VND33,400, Not Rated) current market prices (as of 17 Apr 2024) as fair value.
- ◆ We value Reddi (unlisted) at VND6tn, using a 5x 2025e EV/Sales multiple, the midpoint of Asian telecommunications multiple (3x EV/Sales) and our payment sector multiple (7x EV/Sales). We use 2025 as the base year to reflect its early development stage, then discount the value back at a 10% cost of equity (a risk-free rate of 3.5%, an equity premium of 6.5%, and an equity beta of 1.0).
- ◆ We keep our valuation for Phuc Long at VND3.7tn, using an unchanged 2x FY24e EV/Sales multiple, the five-year historical multiples of food retail peer Jollibee (JFC PM, PHP228.80, Not Rated). We use a sales multiple as the business is still scaling up hence its net margins are extremely volatile.
- ◆ We include Trusting Social (unlisted) at its last-raise valuation of USD260m, or VND5,970bn (unchanged).
- ◆ We subtract parent-level net debt (as subsidiary-level debt has been accounted for at each subsidiary's equity value) and then apply a 0% conglomerate discount to the SOTP value to reflect synergies across its ecosystem.

SOTP valuation

	Method	Valuation (VND bn)	% Masan Ownership	Value to Masan (VND bn)	% of SOTP
WinCommerce	20x 2024e EV/EBITDA	26,448	68%	18,011	11.1%
Masan Consumer	15x 2024e EV/EBITDA	120,333	70%	83,872	51.7%
MEATLife	Market price	8,840	88%	7,771	4.8%
Masan Materials	Market price	15,058	86%	13,010	8.0%
Techcombank	Market price	157,985	20%	31,597	19.5%
Reddi	5x 2025e EV/sales (discounted at 10%)	6,388	70%	4,472	2.8%
Phuc Long	2x 2024e EV/sales	3,684	51%	1,879	1.2%
Trusting Social	Last raise	5,970	25%	1,493	0.9%
Parent net debt	Balance Sheet	(23,300)	100%	(23,300)	
SOTP (VNDbn)					138,804
% parent co discount					0%
Fair value (VNDbn)					138,804
No. of shares (bn)					1.42
Fair value per share (VND)					98,000

Source: HSBC estimates

SOTP breakdown


Source: HSBC estimates

Key downside risks:

- ◆ Slower improvement in profit margins than expected owing to store opening costs
- ◆ Inability to service or pay down debt if profit recovery is slower than expected
- ◆ Profit volatility at banking and commodities divisions could negatively impact profits
- ◆ Rising commodity input costs could pressure margins
- ◆ Failure to integrate new acquisitions may result in higher-than-expected costs

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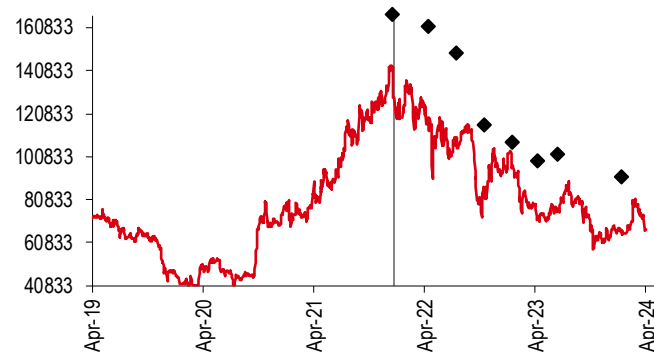
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Share price and rating changes for long-term investment opportunities

Masan Group (MSN.HM) share price performance VND Vs HSBC rating history



Rating & target price history

From	To	Date	Analyst
N/A	Buy	06 Jan 2022	Shuo Han Tan
Target price	Value	Date	Analyst
Price 1	166667	06 Jan 2022	Shuo Han Tan
Price 2	161000	04 May 2022	Shuo Han Tan
Price 3	149000	02 Aug 2022	Shuo Han Tan
Price 4	115000	02 Nov 2022	Shuo Han Tan
Price 5	107000	02 Feb 2023	Shuo Han Tan
Price 6	98500	28 Apr 2023	Shuo Han Tan
Price 7	101500	04 Jul 2023	Shuo Han Tan
Price 8	91000	02 Feb 2024	Shuo Han Tan

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
MASAN GROUP	MSN.HM	66800.00	17 Apr 2024	5, 7

Source: HSBC

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