

Masan Group (MSN)

Surging borrowing costs to erode earnings

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Analyst Nguyen Truong Giang
giangnt1@kbsec.com.vn

Revenue and GPM remained stable but high borrowing costs dampened NPATMI

In 2Q23, Masan Group (MSN) delivered net revenue of VND18,609 billion (+4.3% YoY), and GPM rose slightly to 28.6% from 27.2% in 1Q23 and 27.9% in 2Q22 on improved profitability of core businesses such as WCM and MCH. Amid a high interest rate environment, MSN's high-value debts resulted in substantial borrowing costs of VND1,786 billion (+66% YoY) in the same period. NPAT Pre-MI was VND429 billion (-65% YoY), and NPATMI touched VND105 billion (-89% YoY).

Companies in the consumer-retail ecosystem performed well despite tight consumer spending

The integrated consumer-retail platform with two pillars WCM & MCH achieved positive performance following restructuring efforts. WCM continued to open new Winmart+, restructured and converted stores into various models (WIN, Urban, Rural, Premium) appropriate for customers' needs in each region. MCH and MML, thanks to capitalizing on the distribution network of WCM, also saw operational efficiency improve with better sales figures.

MSN will be under pressure of bond maturity in late 2023 and early 2024

In late 2023 and early 2024, MSN and its subsidiaries will be under pressure of bond maturity worth more than VND12 trillion. Nonetheless, we believe MSN's great capacity for financing arrangements can steer the company through this.

We recommend BUY for MSN with a target price of VND97,100/share

We forecast MSN's 2023F net revenue of VND81,601 billion (+7.1% YoY) and NPATMI of VND1,185 billion (-66.8% YoY). We see that MSN's share price has already mirrored unfavorable market conditions, so we recommend BUY for MSN with a target price of VND97,100/share.

Buy maintain

Target price	VND 97,100
Upside	18%
Current price (Sep 7, 2023)	VND 82,000
Consensus target price	VND 92,238
Market cap (VNDtn/USDbn)	119/4.9

Forecast earnings & valuation

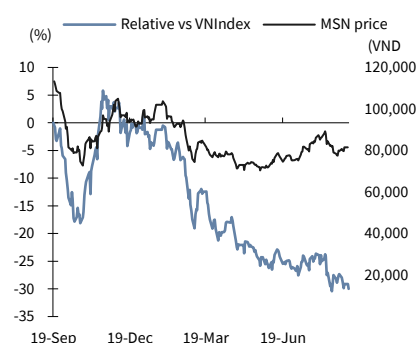
FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	88,629	76,189	81,601	92,910
EBIT (VNDbn)	11,273	5,223	2,992	8,103
NPAT (VNDbn)	8,563	3,567	1,185	5,785
EPS (VND thousand)	7254	2505	852	4064
EPS growth (%)	590%	-65%	-67%	388%
P/E (x)	13.3	31.9	96.1	19.7
P/B (x)	2.7	3.1	3.0	2.6
ROE (%)	30%	12%	7%	17%
Dividend yield (%)	1%	1%	1%	1%

Trading data

Free float	20.2%
3M avg trading value (VNDbn/USDmn)	196.7/8.2
Foreign ownership	30.1%
Major shareholder	Masan JSC (31.2%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	1	-3	-16	-21
Relative	-2	-7	-24	-15



Source: Bloomberg, KB Securities Vietnam

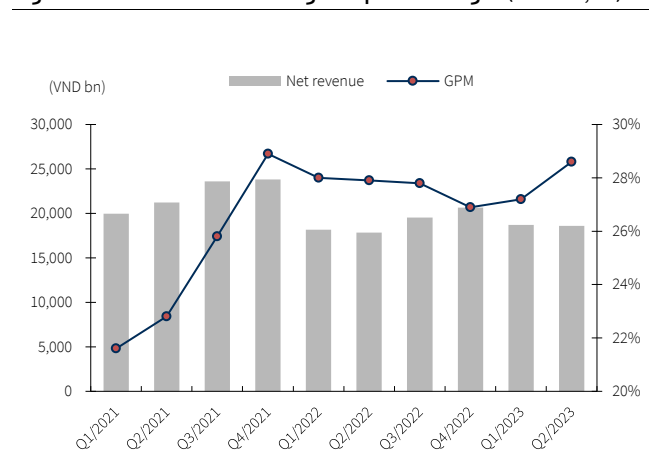
Business performance

Table 1. MSN – 2Q22–2Q23 business results

	2Q2022	2Q2023	%YoY	Comments
Revenue	17,834	18,609	4.3%	Revenue growth was protected despite weaker purchasing power due to a challenging macro environment that directly affects MSN' core businesses of consumer-retail store chains.
Masan Consumer Holdings (MCH)	5,907	6,675	13.0%	2Q23 revenue grew impressively with the main contribution of key products such as seasonings, convenience foods, and home and personal care items (HPC) with 29.8%, 24.6%, and 73.6% increases, respectively. MCH's items are sold at Winmart supermarkets to help drive better sales.
WinCommerce (WCM)	7,008	7,182	2.5%	Although a sharp drop in purchasing power negatively affected the retail industry, WCM still maintained stable revenue growth thanks to restructuring old stores and opening new ones. WCM partnered with TCB to launch the exclusive WIN membership program, which was very successful in attracting a large number of new members for WCM and helping TCB scale up its client base. It was a win-win partnership.
Masan Meatlife (MML)	1,010	1,703	68.7%	Higher revenue was driven by the strategy of closing the gap with wet markets via exclusive prices for WIN members. Sales of newly launched processed meat products are also promoted thanks to capitalizing on WCM's extensive distribution network. In the first half of 2023, processed meat sales increased by 45.5%, and daily revenue for MML products in WCM's outlets jumped by 30%.
Masan High-Tech Materials (MHT)	4,194	3,529	-15.9%	Lower revenue was caused by declining global demand for the company's products.
Gross profit	4,967	5,327	7.2%	Gross profit improved as gross margin of the core businesses of MCH and WCM improved.
Gross profit margin	21.4%	18.5%		GPM expanded as MCH and WCM's GPM improved. MCH's GPM was driven by strong revenue growth across all segments, covering fixed costs in production. WCM's GPM improved thanks to portfolio and logistics cost optimization.
Financial income	585	690	17.9%	
Financial expense	-1,576	-2,139	35.7%	Borrowing costs surged in the context of high interest rates in the first half of 2023 compared to the same period a year ago and are expected to decrease from early 2024 after bond maturity and cooling interest rates.
SG&A	-3,958	-4,335	9.5%	
EBIT	1,270	467	-63.2%	
Profit before tax (PBT)	1,261	451	-64.2%	
NPAT	1,215	429	-64.7%	Although revenue and GPM maintained growth, surging borrowing costs caused profits to slump.
NPAT of parent company	981	105	-89.3%	

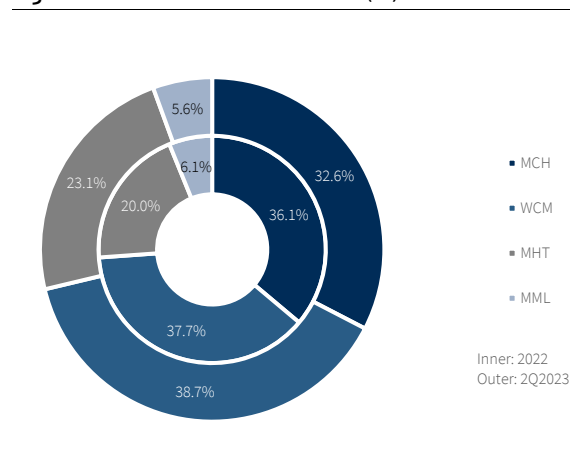
Source: Masan Group, KB Securities Vietnam

Fig 1. MSN – Net revenue & gross profit margin (VNDbn, %)



Source: Masan Group, KB Securities Vietnam

Fig 2. MSN – Revenue breakdown (%)



Source: Masan Group, KB Securities Vietnam

Investment catalysts

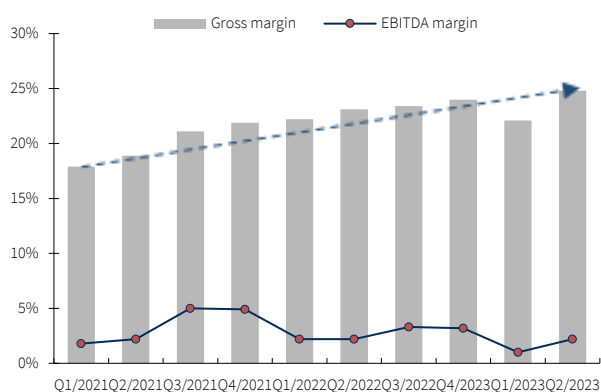
WCM's restructuring efforts proved productive against the backdrop of a challenging macro environment

Although softening purchasing power hurts the consumer–retail industry, WCM's revenue still recorded a 2.5% YoY increase in 2Q23. It can be explained by (1) improved sales of old outlets over the same period, (2) store openings, and (3) restructuring to meet consumers' requirements in each region.

Old stores' revenue improved from –10.1% in March to –4.0% in July. WCM's GPM and EBITDA margin also constantly increased with month. GPM hit 24.8% in 2Q23, up 270 bps from 22.1% in 1Q23, and EBITDA margin also inched up from 1.0% in 1Q23 to 1.3% in April, 1.6% in May, and 3.6% in June 2023, above the peak achieved last year (excluding the COVID period). It demonstrates that market demand is progressively recovering, and WCM anticipated this trend by restructuring activities towards better operational efficiency and higher GPM.

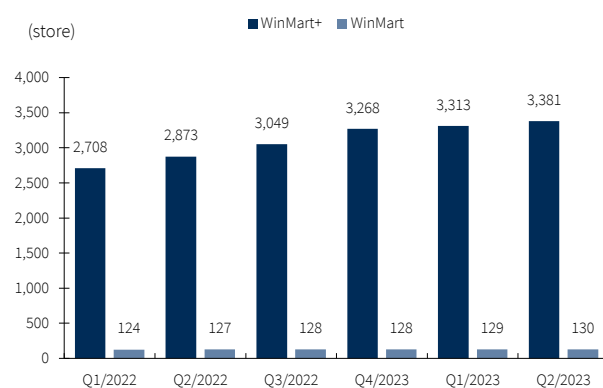
In 2Q23, WCM aggressively opened 97 new Winmart+ and 1 Winmart, totaling 3,511 locations nationwide for both minimarts and supermarkets, an increase of 115 stores compared to the end of 2022. WCM may open another 348 stores in the second half of this year, including 50 WIN stores, 200 WinMart+ Rural stores, and 98 WinMart+ stores.

Fig 4. WCM – GPM & EBITDA margin (%)



Source: Masan Group, KB Securities Vietnam

Fig 5. MSN – Winmart & Winmart+ store count



Source: Masan Group, KB Securities Vietnam

WCM sought to optimize costs and boost sales by converting store chains appropriate for each region

Apart from expansion, WCM has also converted Winmart+ stores into Rural, Urban, and Premium models appropriate for customers' needs in each region. In particular, 124 WinMart+ stores in rural have been converted into the WinMart+ Rural format with affordable products, more FMCG, and fewer fresh products compared to those in big cities, subsequently enjoying a 30% increase in daily revenue against the previous. This model, in our view, incurs relatively low costs and so can rapidly reach breakeven. However, it will confront stiff competition with traditional markets and grocery stores as shoppers' buying habits tend to change more slowly in rural than in urban. Also, it takes time to come to a judgment about the efficiency of this new model.

As for the urban market, WCM has recently converted the Winmart supermarket chain into Premium and Urban models with a focus on fresh products of high quality and modern & eye-catching design. As a result, those stores have all seen stronger revenue growth and more customer traffic than before. The multi-utility integrated WIN store model also drove sales at old stores, with revenue up 4%.

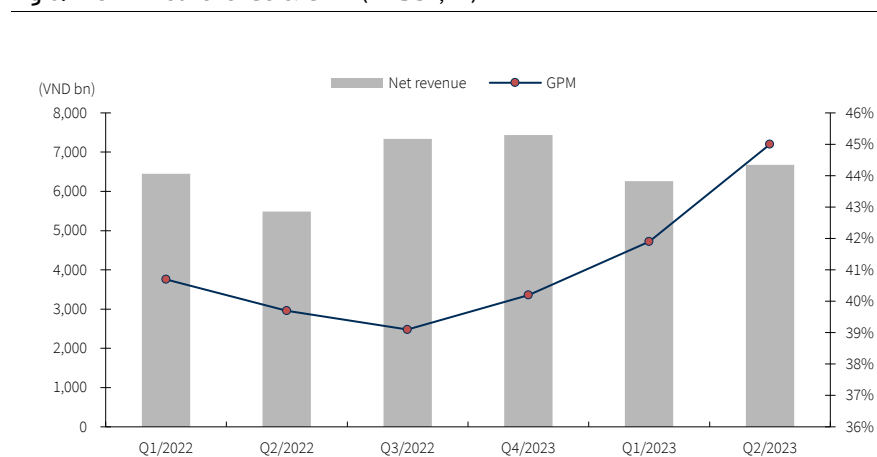
In 2H23, WCM plans to develop 250 WinMart+ stores in urban areas into multi-utility WIN stores and convert 676 Winmart+ stores to the WinMart+ Rural model and 9 WinMarts to Urban and Premium models to boost sales. Continuous expansion and restructuring during tough economic times reflect WCM's boldness. It has been well-prepared to anticipate economic recovery and is ready to accelerate when necessary.

MCH's business situation improved thanks to taking advantage of WCM's extensive distribution channel

Thanks to taking advantage of WCM's nationwide coverage with over 3,000 points of sales, other companies in the ecosystem in general and MCH in particular all benefited and performed well.

In 2Q23, MCH recorded a growth rate of 13.0% over the same period. It was driven by seasonings (up 29.8% YoY), convenience foods (up 24.6% YoY), and personal and home care products (HPC) (up 73.6% YoY). MCH's GPM continuously expanded and hit 45.0% in 2Q23 (up 5.3 pts YoY) after cooling input material costs. WCM's extensive distribution network helps MCH products to be distributed effectively to optimize GPM. Accordingly, selling prices, payment terms, production management, inventories, and supply chains can easily adjusted for each region to best meet customers' needs.

Fig 6. MCH – Net revenue & GPM (VNDbn, %)



Source: Masan Group, KB Securities Vietnam

The exclusive membership program for WIN members supports other companies in the consumer-retail ecosystem

The exclusive membership program for WIN members has shown positive signals since its implementation in early 2023. To date, 6 million customers have registered to be WIN members, including 2.4 million active members per month, with a frequency of three times a month. Although it does not contribute much financially, it supports many other companies in the ecosystem.

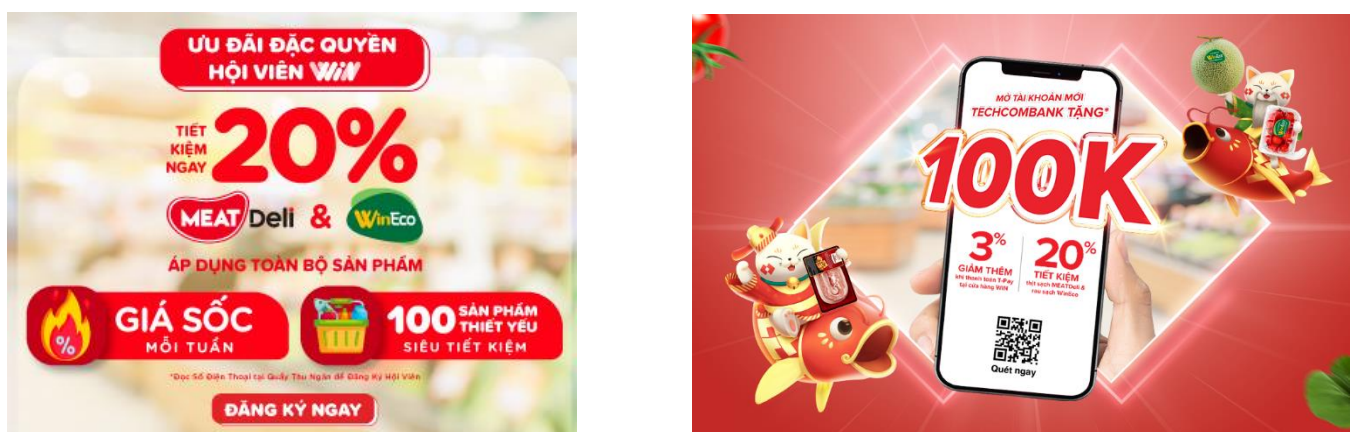
For MCH, the WIN membership program helped to measure product demand to develop appropriate production and distribution plans and tailor-made marketing strategies. Special offers for WIN members can also include new products and those prioritized boosting sales.

For MML, the WIN membership program boosted sales of branded meat products thanks to exclusive prices for WIN members (WIN members are entitled to a 20% discount). The total revenue of the entire MML system reached VND1,703 billion (+68.7% YoY), of which daily revenue of MML products in the WCM supermarket/minimart chain climbed 30% to 1.55 million each in June 2023. For processed meat, revenue grew 45.5% to VND1,108 billion in the first half of 2023, fueled by marketing strategies and WCM's support to introduce MML products to its distribution network with more than 3,000 supermarkets.

The WIN membership program in association with Techcombank (TCB) also produced good results. The January-through-June period saw 670,000 new bank accounts open through the WCM chain, and MSN will receive VND150,000–400,000 for each bank account opened in return. This strategy benefits not only MSN and TCB but also customers.

The WIN membership program helped MSN understand consumer behavior and aggregate consumer data. Winmart's wide coverage promotes Online to Offline, with suitable offers to satisfy and retain customers. Along with that, the cooperation with TCB and Trusting Social will make MSN's long-term strategy of Point of Life a reality.

Fig 7. WCM – Exclusive prices for WIN members



Source: KB Securities Vietnam

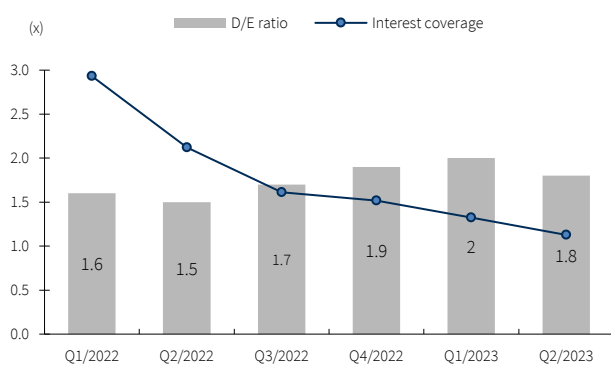
MSN will be under pressure of bond maturity in late 2023 and early 2024

Despite positive signals in business performance, MSN is undergoing an obstacle from high interest expenses, with continuous increases in the amount of debt for store expansion and supplementing working capital for the WCM chain. Along with that, MSN has constantly acquired and added many businesses to its ecosystem. Amid tight financial conditions in 1H23, MSN's high-value debts resulted in substantial borrowing costs, thus dampening profits. It seems risky when the interest coverage ratio has continuously decreased in recent quarters while D/E has stayed pretty high.

MSN is under enormous pressure as most of its loans are floating ones (floating interest rates equal the average deposit rate of 12-month term deposits). However, deposit rates of most banks have dropped sharply recently, so we expect MSN's borrowing costs will lower since floating rates are adjusted periodically, pushing up earnings growth.

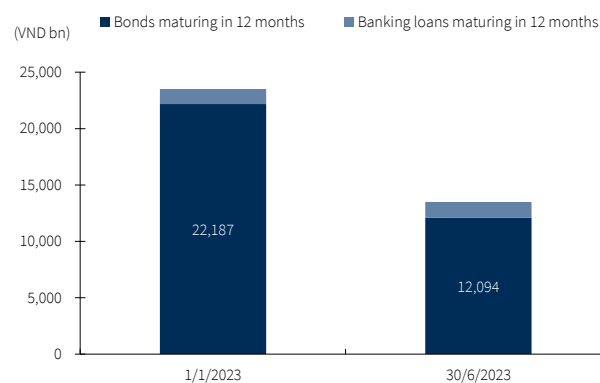
Besides, MSN will face loan repayment pressure in 2023 and 2024 with more than VND13 trillion in long-term loans, of which the value of bonds falling due is over VND12 trillion. We believe recovering purchasing power will enable companies in MSN's ecosystem to generate positive cash flow. Furthermore, a great capacity for financing arrangements, proven by successful capital restructuring deals in the past, will help steer the company through the pressure of bond maturity.

Fig 8. MSN – D/E & interest coverage ratio



Source: Masan Group, KB Securities Vietnam

Fig 9. MSN – Long-term debts



Source: Masan Group, KB Securities Vietnam

Forecast & Valuation

2023F business results

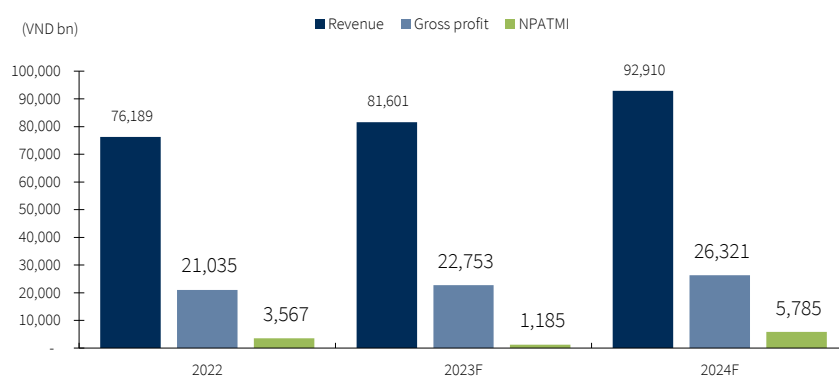
We see that MSN will continue its recovery from 2Q23 with continuous revenue growth and improved gross margin thanks to the contribution of two main pillars, WCM and MCH. 2023F net revenue should be VND81,601 billion (+7% YoY), and GPM should reach 27.9%, a slight YoY increase. NPAT Pre-MI may be down 45% YoY to VND2,633 billion on high interest expenses. NPAT for shareholders of the parent company is VND1,185 billion (-67% YoY). When the whole economy bounces back, MSN is expected to grow strongly again, underpinned by the consumer-retail ecosystem.

Table 10. MSN – 2022A–2024F business results

(VND bn)	2022A	2023F	% YoY	2024F	% YoY	Comments
Revenue	76,189	81,601	7%	92,910	14%	Purchasing power gradually recovered, driving MSN's two pillars of the retail-consumer ecosystem.
Masan Consumer Holdings (MCH)	28,103	30,070	7%	33,679	12%	MCH's consumer products sales should rise on recovering purchasing power and thanks to WCM's extensive distribution channel.
WinCommerce (WCM)	29,369	30,837	5%	35,463	15%	New openings and store restructuring appropriate for each region were carried out to optimize costs and increase revenue. WCM should reach breakeven in 2024.
Masan Meatlife (MML)	4,785	6,699	40%	8,374	25%	Integrate chilled and processed meat products into the WCM chain combined with exclusive prices for WIN members to boost sales
Masan High-Tech Materials (MHT)	15,550	13,995	-10%	15,394	10%	Demand for MHT products is relatively weak but should recover in 2024 when the global economy progressively rebounds.
Gross profit	21,035	22,753	8%	26,321	16%	
Gross profit margin (GPM)	27.6%	27.9%	1%	28.3%	2%	2023F GPM should increase slightly. Although MCH and WCM's GPM improved, MHT's unfavorable business situation pulled down GPM of the entire company. GPM is forecast to increase in 2024.
Financial income	2,576	2,075	-19%	1,719	-17%	
Financial expense	(6,362)	(8,184)	29%	(6,010)	-27%	In a high interest rate environment, MSN's high-value debts made MSN suffer financially, thus eroding profits. In 2024, interest expense pressure is expected to abate on lower interest rates and reduced amount of debt.
SG&A	(16,366)	(18,283)	12%	(19,520)	7%	
SG&A/revenue	-21.5%	-22.4%	4%	-21.0%	-6%	
Lợi nhuận H&KD	5,223	2,992	-43%	8,103	171%	
LNTT	5,147	2,992	-42%	8,103	171%	
NPAT Pre-MI	4,754	2,633	-45%	6,887	162%	
NPATMI	3,567	1,185	-67%	5,785	388%	Although revenue and gross profit continue to grow, surging borrowing costs eroded MSN's profits. In 2024, when the whole economy bounces back, MSN is expected to grow strongly again, underpinned by the consumer-retail ecosystem.

Source: Masan Group, KB Securities Vietnam

Fig 11. MSN – 2022A–2024F business results



Source: Masan Group, KB Securities Vietnam

We recommend BUY for MSN with a target price of VND97,100/share

We utilize the sum-of-the-parts valuation approach to assess MSN's value. We only cover companies/subsidiaries that significantly contribute to the overall revenue of MSN, including WCM, MCH, MML, MHT, TCB, and PLH. Subsidiaries with smaller contributions are temporarily not factored in this valuation.

- (1) For MCH, we use the P/E method with a forward P/E of 14x.
- (2) For WCM, we use the P/S method with a forward P/S of 2.0x from 1.8x as WCM has made significant improvements ever since the event of SK Group buying WCM's stake.
- (3) For MML, we use the P/B method with a forward P/B of 2x.
- (4) For PLH, we use the deal valuation following MSN's acquisition of PLH.
- (5) For MHT, we use the EV/EBITDA method with a forward EV/EBITDA of 12x.
- (6) For TCB, we use KBSV's forecast.

We recommend BUY for MSN with a target price of VND97,100/share, 18% higher than the closing price on September 7, 2023. We believe MSN's share price has mirrored unfavorable market conditions such as weak purchasing power and high interest rates. Our BUY rating is based on the expectation of the recovery of the retail & consumer industry and lower interest expenses.

Table 12. MSN – SOTP valuation

Companies	Valuation method	Equity value (VND bn)	MSN's ownership	Contribution to MSN
The CrownX		150,253	84.9%	127,564
MCH	P/E	88,578		
WCM	P/S	61,675		
MML	Market price	10,550	94.9%	10,012
MSR	EV/EBITDA	19,589	86.4%	16,925
Phuc Long Heritage	Deal valuation	8,161	85.0%	6,937
TCB	KBSV's forecast	132,600	21.4%	28,376
Total				189,815
Net debt				50,818
Equity value				138,997
Outstanding shares				1,430,843,406
Target price (VND)				97,100

Source: KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam

Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam

Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam

Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656

Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276

Email: ccc@kbsec.com.vn

Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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