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Masan Group (MSN)

3Q beats but continued drag from new retailing business

3Q earnings beat on negative goodwill but still down 62% YoY on *VinCommerce* drag

— 3Q earnings fell by 62% YoY to VND852 billion but topped the VND569 billion consensus by 50% on a VND881 billion negative goodwill charge. Revenue was in line with consensus at VND20,214 billion and up 125% YoY. Although the one-off negative goodwill gain from H.C. Starck acquisition helped MSN beat the consensus, overall earnings remained weak due to: 1) continued losses from *VinCommerce*; 2) depressed global commodity prices negatively impacting *Masan High-Tech Materials*; and 3) lower other income (3Q19 other income benefitted from the Jacobs E&C settlement). Revenue continued to benefit from: 1) the inclusion of *VinCommerce* in the parent consolidation and improvement in the company's calculation of "like-for-like" sales/sqm for minimarts in major markets; and 2) strong performance from the food segment that drove 32% topline growth at *Masan Consumer* (albeit some benefit from stockpiling of instant noodles ahead of the flood).

Retailing and consumer business fared well despite COVID-19

- *VinCommerce*: 3Q EBITDA remained negative at minus VND221 billion but the EBITDA margin improved dramatically to minus 2.8% from 1Q's minus 5.1% and 2Q's 8.5% on expansion of the gross profit margin to 17.8% from 2Q's 15.0% and lower operating expenses. Revenue growth reached 10.4% QoQ after management successfully achieved: 1) a boost in sales/sqm for minimarts at 14.9% for Ho Chi Minh City and 15.7% for tier 2 cities that was able to turn store-level EBITDA positive despite Covid-19; and 2) early gains from the shutdown of underperforming locations that included 319 minimart stores and 9 supermarkets in 3Q to sustain strong sales growth during its network consolidation.
- *Masan Consumer*: Strong sales of seasonings, convenience foods and processed meat drove 29% YoY growth in the food segment and 32% YoY overall sales growth. Premium and value-added products were 58% of sales in the convenience food portfolio and the urbanization strategy witnessed further success, with 50% YoY growth in sales through the modern trade channel.
- *Masan MEATLife*: Strong 3Q results driven by a rebound in pig feed demand and improved cost structure in the feed segment. Overall revenue grew by 25% YoY to VND4,210 billion with the integrated meat business now contributing to 14% of total revenue.
- *Masan High-Tech Materials*: Revenue grew by 152% YoY following the consolidation of H.C. Starck's global tungsten businesses or up 5.6% YoY on a pro forma basis with the addition of copper concentrate exports to the business portfolio. Mitsubishi Materials Corporation (5711 JT, Not Rated) will become a strategic partner after completing the purchase of a 10% stake in the company's fully-diluted capital base to become the second-largest shareholder.

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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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