

MASAN GROUP (MSN VN)

Tungsten turns to gold? Probably not...

BUY

Current price: VND 86,000

Target price: VND 93,000

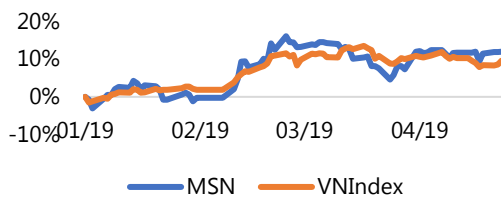
Upside: 8.1%

Event: Masan Resources (MSR VN – Not Rated) surged 16% last week following the May 28 news of China’s potential export curbs on of rare earth metals amid the US-China trade war. We don’t think the news should be meaningful for MSN, but subsequent US-China trade war events could cause a repeat of this excitement. We reiterate our BUY call on MSN, but not because of tungsten price expectations.

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52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
71,000-99,400	USD4.4bn	0.0	8.7%	24.8%	USD2.6mn

Price performance



Key Takeaways

- The market seems to believe that tungsten is a rare earth metal.
- China represents 70% of global tungsten production, and could use the metal as a bargaining chip.

Risks

- China might not ban US exports of rare earth metals.
- China might not include tungsten in its potential bans.
- Tungsten supply would likely balance relatively quickly anyway.

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Company profile: MSN’s holds controlling stakes in Masan Consumer, Masan Resources, and Masan Nutri-Science. It also holds a 20% associate stake in Techcombank. As such, the group’s operations include food and beverage, mining and processing, animal nutrition, and financial services.

“Don’t say we didn’t warn you”. China dominates the world’s tungsten production with over 80% market share, and Chinese tungsten accounts for 43% of US tungsten imports, according to Flexport data. Whether tungsten supply is a component of China’s warning remains unclear.

Is tungsten even a rare earth metal? According to our informal survey, investors appear to consider tungsten to be a rare earth metal. But [The International Union of Pure and Applied Chemistry \(IUPAC\)](#) and [CRC Handbook of Chemistry and Physics](#) do not include tungsten on their list of 17 rare earth elements.

We can’t rule out China using tungsten as a bargaining chip, rare earth or not. Tungsten accounts for 60% of MSR’s sales and 30% of profits. The table below summarizes the sensitivities to MSN’s earnings and fair value if tungsten prices rise in 2020-21E. However, we aren’t metals experts but our understanding is that any potential supply-demand mismatch would not likely persist for very long. So our sense is that last week’s share price excitement for MSR may have been overdone.

Key metrics	2018A	2019E	2020E
Revenue growth (%)	1.5	10.7	9.2
NPAT growth (%)	58.5	1.1	21.7
GPM (%)	31.1	32.9	33.5
Debt/Equity (x)	0.7	0.6	0.5
ROAE (%)	20.7	15.6	16.4
ROAA (%)	8.8	7.5	8.4
EPS (VND/share)	4,561	4,274	5,200
EPS growth (%)	67.2	(6.3)	21.7
PE (x)	29	20	16
PEG (x)	0.4	-3.1	0.7
PB (x)	2.65	2.9	2.4
Dividend yield	1%	0%	0%

Source: MSN, Yuanta Vietnam

Sensitivities to increased tungsten price for MSN	Base case (255USD/mtu)	+10%	+20%	+30%	+40%
2020E PATMI (VND bn)	6,047	6,494	6,942	7,389	7,836
2021E PATMI (VND bn)	6,487	6,943	7,400	7,856	8,312
Target price (VND)	93,000	96,736	100,467	103,284	106,088

Source: Yuanta Vietnam

PROFIT AND LOSS (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Revenue	37,621	38,188	42,272	46,161	50,623
<i>Masan Consumer</i>	<i>13,214</i>	<i>17,006</i>	<i>20,152</i>	<i>22,142</i>	<i>24,427</i>
<i>Masan Resources</i>	<i>5,405</i>	<i>6,865</i>	<i>7,393</i>	<i>7,620</i>	<i>7,768</i>
<i>Masan Nutri-Science</i>	<i>18,690</i>	<i>13,977</i>	<i>13,278</i>	<i>14,360</i>	<i>15,531</i>
<i>Other</i>	<i>312</i>	<i>339</i>	<i>1,449</i>	<i>2,039</i>	<i>2,897</i>
Cost of goods sold	(25,989)	(26,306)	(28,376)	(30,693)	(33,268)
Gross profits	11,632	11,881	13,896	15,468	17,355
Operating expenses	(7,203)	(6,330)	(7,694)	(8,170)	(9,872)
Operating profits	4,429	5,552	6,203	7,297	7,484
Net interest expenses	(3,696)	(3,091)	(1,543)	(1,664)	(1,531)
Net investments income/(loss)	2,044	1,914	1,965	2,412	2,653
Net other incomes	(43)	(33)	(37)	(37)	(37)
Pretax profits	4,139	6,244	6,588	8,007	8,569
Income taxes	(531)	(622)	(1,017)	(1,231)	(1,302)
Minority interests	505	705	600	729	780
Net profits	3,103	4,917	4,971	6,047	6,487
<i>Core earnings</i>	<i>2,171</i>	<i>3,405</i>	<i>4,971</i>	<i>6,047</i>	<i>6,487</i>
EBITDA	9,083	10,171	10,044	11,651	12,138
EPS (VND)	2,727	4,561	4,274	5,200	5,578

KEY RATIOS

	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	(13.1)	1.5	10.7	9.2	9.7
<i>Masan Consumer</i>	<i>(4)</i>	<i>29</i>	<i>18</i>	<i>10</i>	<i>10</i>
<i>Masan Resources</i>	<i>33</i>	<i>27</i>	<i>8</i>	<i>3</i>	<i>2</i>
<i>Masan Nutri-Science</i>	<i>(23)</i>	<i>(25)</i>	<i>(5)</i>	<i>8</i>	<i>8</i>
<i>Other</i>	<i>(70)</i>	<i>20</i>	<i>20</i>	<i>20</i>	<i>20</i>
Operating profit	(26.5)	25.4	11.7	17.6	2.6
EBITDA	(3.2)	12.0	(1.3)	16.0	4.2
Net profit	11.1	58.5	1.1	21.7	7.3
EPS (VND)	10.8	67.2	(6.3)	21.7	7.3
Profitability ratio (%)					
Gross margin	30.9	31.1	32.9	33.5	34.3
Operating margin	11.8	14.5	14.7	15.8	14.8
EBITDA margin	24.1	26.6	23.8	25.2	24.0
Net margin	8.2	12.9	11.8	13.1	12.8
ROA	5.2	5.3	8.8	7.6	8.8
ROE	15.9	17.8	20.7	16.1	17.6
Stability					
Net debt/equity (x)	1.8	0.6	0.6	0.4	0.3
Int. coverage (x)	1.2	1.8	4.0	4.4	4.9
Int. & ST debt coverage (x)	0.7	0.8	1.0	1.2	1.5
Cash conversion days	(19.2)	(6.8)	15.0	-	10.0
Current ratio (X)	1.0	0.8	0.8	0.9	1.0
Quick ratio (X)	0.7	0.5	0.4	0.6	0.6
Net cash/(debt) (VND mn)	(27,379)	(17,410)	(17,944)	(15,150)	(13,588)
Efficiency					
Days receivable outstanding	22	22	25	35	30
Days inventory outstanding	68	60	65	65	65
Days payable outstanding	109	89	75	100	85

Source: Company data, YSVN

BALANCE SHEET (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Total assets	63,529	64,579	65,416	71,920	73,436
Cash & cash equivalents	7,417	4,586	2,051	4,046	2,607
ST Investment	640	376	376	376	376
Accounts receivable	2,247	2,413	2,895	4,426	4,161
Inventories	4,333	4,333	5,053	5,466	5,924
Other current assets	508	792	832	873	917
Net fixed assets	32,300	31,895	31,818	31,676	31,475
Others	16,084	20,184	22,391	25,056	27,976
Total liabilities	43,303	30,499	28,004	29,890	26,341
Current liabilities	15,502	15,765	14,074	16,853	14,191
Accounts payable	6,336	6,521	5,831	8,409	7,747
ST debts	9,166	9,244	8,244	8,444	6,444
Long-term liabilities	27,801	14,734	13,930	13,037	12,150
Long-term debts	25,630	12,752	11,752	10,752	9,752
Others	2,171	1,983	2,178	2,285	2,398
Shareholder's equity	14,837	29,487	32,370	36,366	40,748
Share capital	18,429	22,716	22,716	22,716	22,716
Treasury stocks	(6,518)	-	-	-	-
Others	12,597	6,523	2,796	(2,115)	(7,507)
Retained earnings	12,350	16,193	19,920	24,831	30,223
Minority interest	5,388	4,593	5,042	5,664	6,347

CASH FLOW (VND bn)

<i>FY (VND'bn)</i>	2017A	2018A	2019E	2020E	2021E
Operating cash flow	2,766	4,391	5,514	9,312	8,370
Net income	3,103	4,917	4,971	6,047	6,487
Dep. & amortisation	2,436	2,538	1,876	1,942	2,002
Change in working capital	(2,913)	185	(690)	2,578	(662)
Others	(2,479)	(3,859)	(1,057)	(1,273)	(1,345)
Investment cash flow	3,134	(3,867)	(4,007)	(4,465)	(4,719)
Net capex	(2,444)	(1,912)	(1,800)	(1,800)	(1,800)
Change in LT investment	2,033	(3,745)	(1,965)	(2,412)	(2,653)
Change in other assets	2,976	3,426	-	-	-
Cash flow after invt.	569	(1,635)	(242)	(254)	(267)
Financing cash flow	(11,635)	(3,357)	(4,041)	(2,852)	(5,090)
Change in share capital	3,893	58	-	-	-
Net change in debt	(6,294)	(12,801)	(2,000)	(800)	(3,000)
Change in other LT liab.	(9,234)	9,386	(2,041)	(2,052)	(2,090)
Net change in cash flow	(5,735)	(2,832)	(2,534)	1,995	(1,438)
Beginning cash flow	13,149	7,417	4,585	2,051	4,046
Ending Cash Balance	7,414	4,585	2,051	4,046	2,607

KEY METRICS

	2017A	2018A	2019E	2020E	2021E
PE (x)	28.6	28.6	19.6	16.1	15.0
Diluted PE (x)	30.9	30.9	19.6	16.1	15.0
PB (x)	4.4	4.4	3.3	3.0	2.7
EBITDA/share	7,848	7,848	8,745	8,635	10,017
DPS	2,344	1,121	1,500	1,500	1,500
Dividend yield (%)	3.6	1.5	1.8	1.8	1.8
EV/EBITDA (x)	8.1	12.7	9.6	9.7	8.3
EV/EBIT (x)	9.8	20.3	17.5	15.7	13.3

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