FAST MOVING CONSUMER GOODS (FMCG)

ADAPT TO INFLATION

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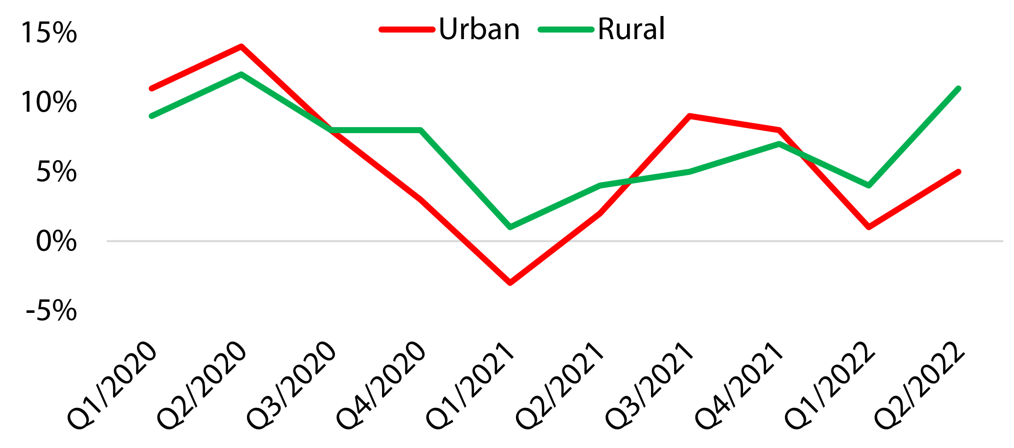
CONSUMERS GET USED TO THE IMPACTS OF HIGH INFLATION SINCE Q2 2022

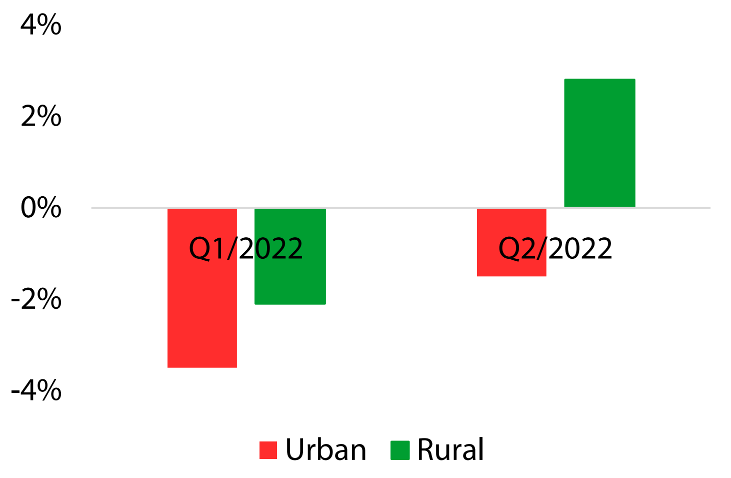
Figure 1: Growth of FMCG consumption value (%YoY)



Source: KantarWorld panel, Rong Viet Securities

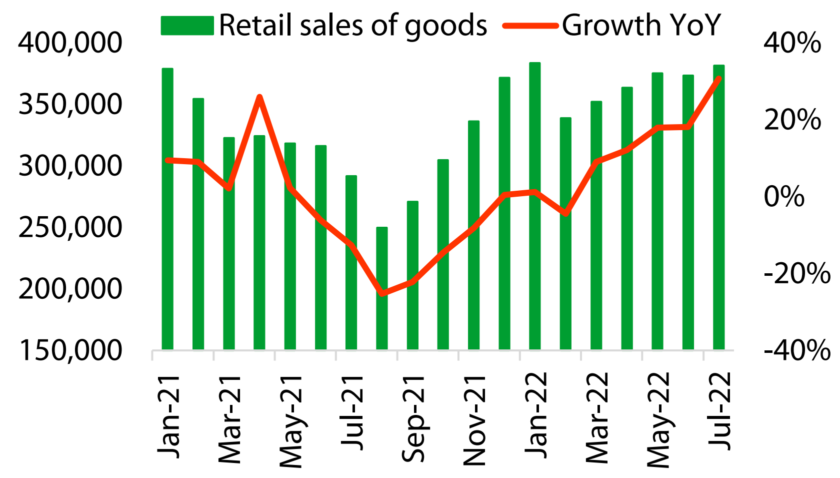
- In the worry of high inflation and stockpiling inventory of 2H2021, FMCG consumption value show a modest growth in Q1 2022, driven by higher selling prices. However, the growth of FMCG consumption volume has recovered since Q2 2022. In detail, Q2 2022 growth of FMCG consumption volume in urban and rural are -1.5% YoY (Q1 2022: -3.5% YoY) and 2.8% YoY (Q1 2022: -2.1% YoY), respectively.
- We suppose that higher selling price harmed spending needs of consumers in the beginning of the price increase period. However, consumers started getting used to the rising price in Q2 2022, together with lower stockpiling inventory, thus increasingly spending on FMCG goods which are products daily consumed. In fact, growth of retail sales of goods in Q2 2022 is higher than Q1 2022.
- On the other hands, in Q1 2022, FMCG producers are also conservative about future consumption trend amid high inflation and global supply chain disruption, evidenced by the modest index of industrial production (IIP) in Q1 2022. However, the index has recovered since Q2 2022.

Figure 2: Growth of FMCG consumption volume (%YoY)



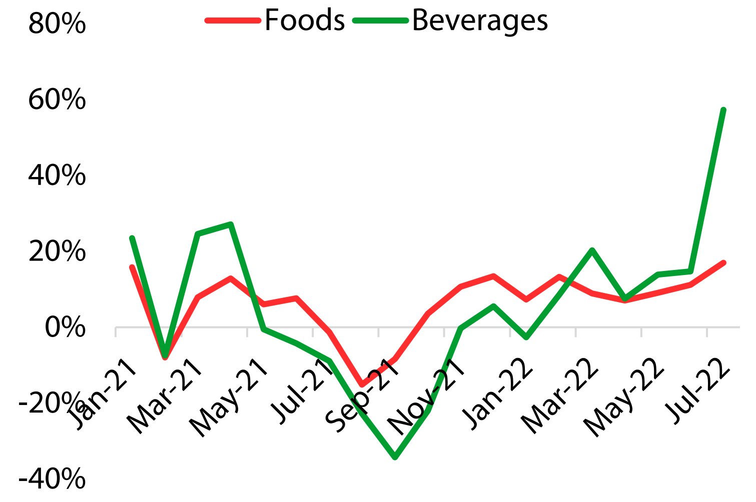
Source: KantarWorld panel, Rong Viet Securities

Figure 3: Retail sales of goods (VND bn, LHS) and growth (%YoY)



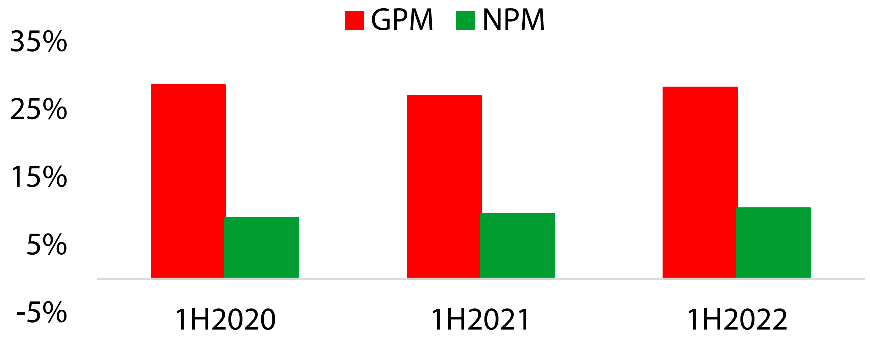
Source: GSO, Rong Viet Securities

Figure 4: Index of Industrial Production (IIP) of food and beverage segments (%YoY)



Source: GSO, Rong Viet Securities

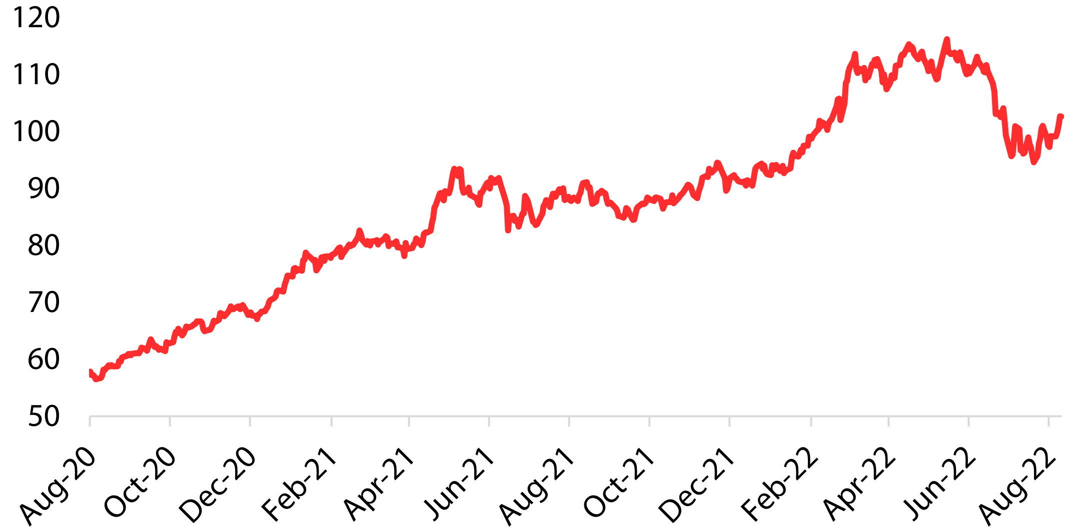
Figure 5: Gross margin (GPM) and net margin (NPM) of FMCG industry (%)



Source: Fiinpro, Rong Viet Securities

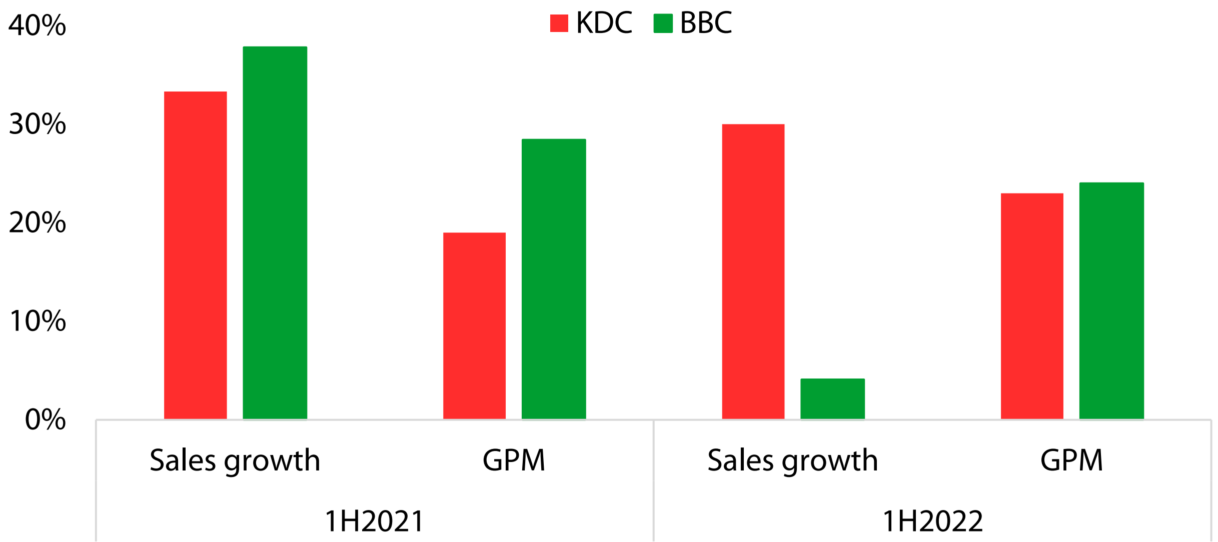
- In the same challenge of cost-push inflation in 1H2022, business performance of FMCG producers present a division. In detail, the company who was destroyed during Covid-19 pandemic or actively hedged the risk of rising commodity prices, such as Masan Consumer Holding (Upcom: MCH), Sabeco (HSX: SAB) or KIDO Group (HSX: KDC) show positive business growth. In contrast, the company who strongly depend on the fluctuation of commodity prices, likes Cholimex (Upcom: CLX) or Bibica (HSX: BBC), illustrate weak business performance in 1H2022.
- In general, according to Fiinpro, 1H2022 total sales of FMCG producers are nearly flat compared to the same period last year. Meanwhile, 1H2022 profit margins improved from 1H2021 numbers. We believe that FMCG giants have their loyalty customers, together with higher ASP, resulting in a stable growth in sales value. Besides, these giants also effectively optimize its cost structure thanks to the advantage of economies of scales, resulting in a slight improvement in profit margins, compensating for the weak performance of smaller FMCG producers. Consequently, profit margins of FMCG industry improves.

Figure 6: Agriculture and Livestock commodity price index (USD)



Source: Bloomberg, Rong Viet Securities

Figure 7: Sales growth (% YoY) and GPM (%) of KDC and BBC

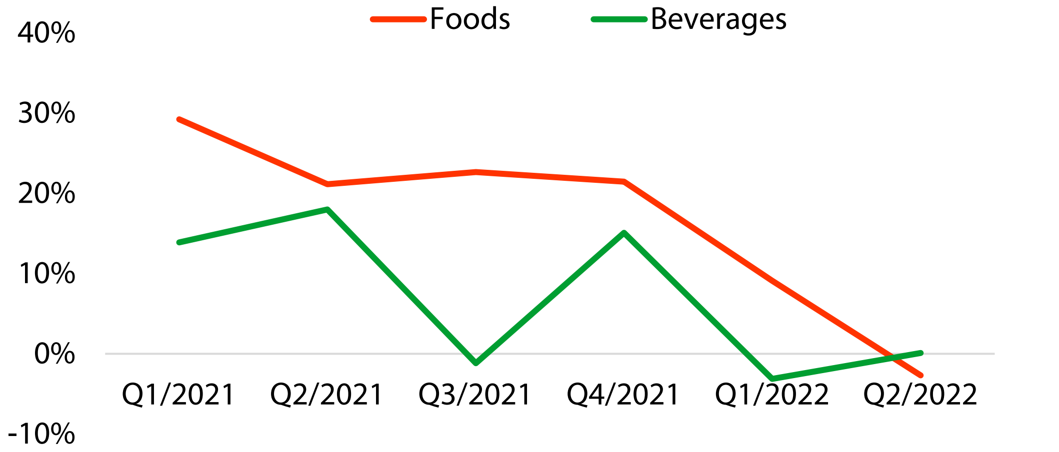


Source: KDC, BBC, Rong Viet Securities

FMCG MARKET TO REBOUND IN 2H2022

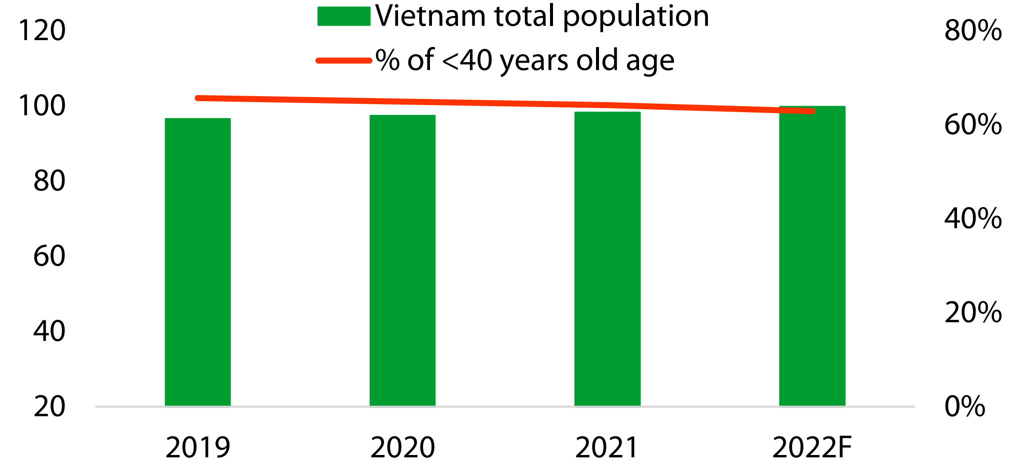
- After being attacked by Covid-19 pandemic, global supply chain disruption, and high inflation, it takes time for Vietnam FMCG market to rebound. Based on the growing signals in Q2 2022 (e.g., increasing retail sales of goods or recovery of IIP), we believe that consumers will increasingly spending in 2H2022 when inflationary pressures mitigated and whole economy reopened. For instance, students backed to schools or foreign experts return to Vietnam to work. Additionally, the index of industrial inventory (III) of foods and beverages show downward trend in 1H2022 while the IIP has recovered since Q2 2022. This is a positive signal for the rebound of consumption. Equipped by higher average selling prices, sales growth of FMCG producers is expected to be inspired in 2H2022 and onwards.
- As regards FMCG producers, they are making changes in their strategy with the purpose of adapt to inflation. In detail, some giants likes Masan Group (HSX: MSN) or Sabeco (HSX: SAB) restructure their distribution networks, product portfolio structure, or relocate resources, to tap into new behavior of consumers. For example, Masan developed a new affordable price brand (namely Beng's) for customers whose income is hit by high inflation.
- In the long-term, we believe that Vietnam FMCG industry will deliver a sustainable growth, backed by 1) increasing Vietnam population though at a modest rate (by about 1% each year by World Bank); 2) people aged under 40 years old, who interested in FMCG products more than the others, taking over 60% of total Vietnam population. Given the nature of essential consumer goods, we believe that there is still large growth room for FMCG manufacturers to exploit. On the other hands, the increasing FMCG consumption in rural area also a lighting star. We believe that the company whose distribution network covering both rural and urban areas will have better performance than the peers.

Figure 8: Index of industrial inventory of foods and beverages (% YoY)



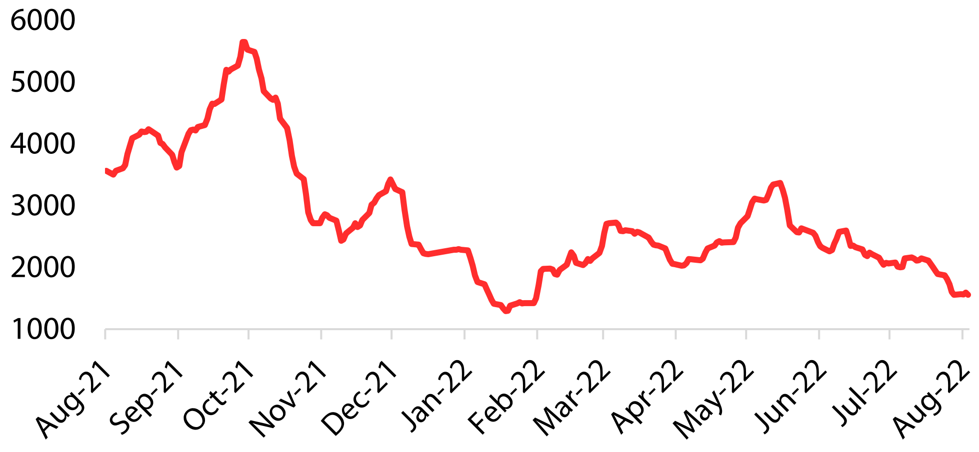
Source: GSO, Rong Viet Securities

Figure 9: Vietnam population (mn people, LHS) and contribution of <40 years old age group (%)



Source: World Bank, Bloomberg, Rong Viet Securities

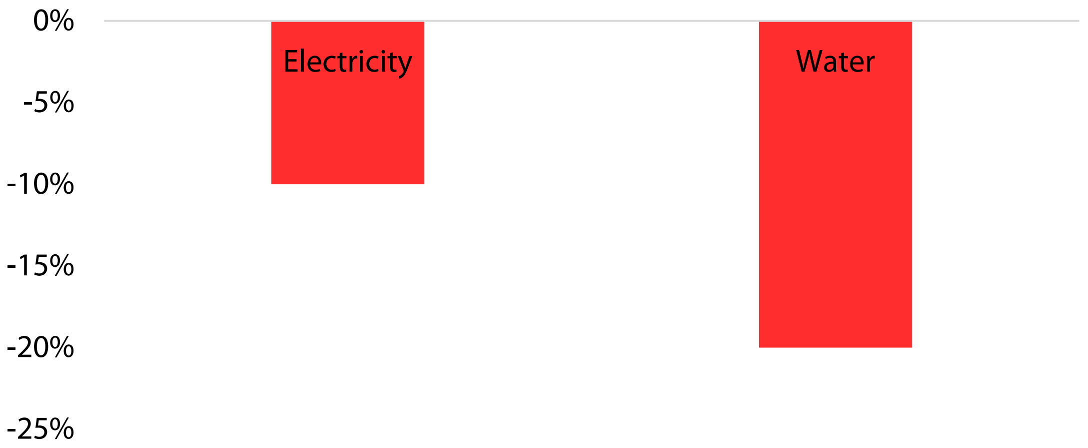
Figure 10: Baltic dry index (points)



Source: Bloomberg, Rong Viet Securities

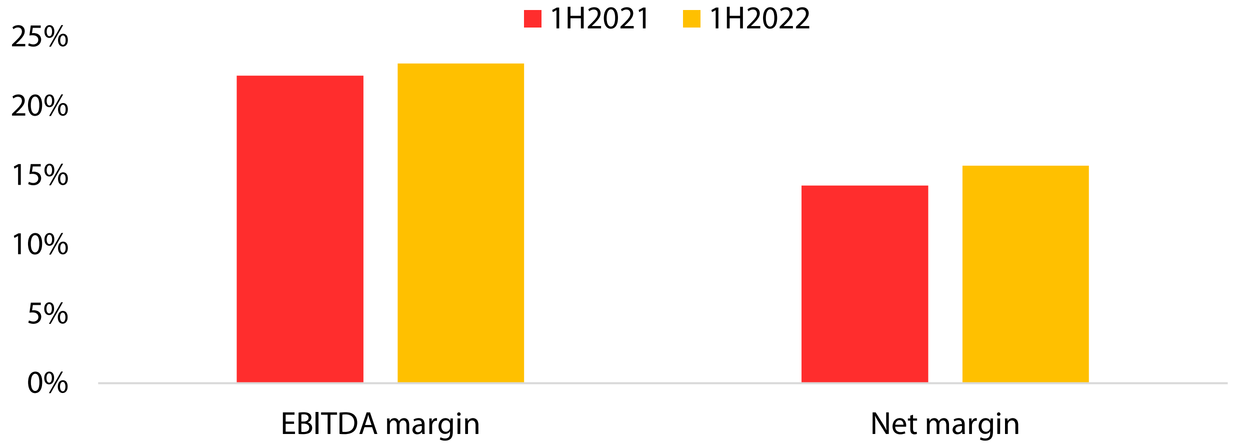
- The rise in the cost of goods is inevitable amid cost-push inflation and chaotic global supply chain. However, we expect this negative effect reflected in 1H2022 business results. Although the prices of commodity is trading at a high level compared to the same period last year, it shows a downtrend from the peak of Mar-2022 (Figure 6). Furthermore, the downtrend of Baltic Dry Index (BDI) also help to lessen the rising pressure on imported raw material such as barley or grains. Therefore, we expect that the burden of rising cost is going to ease since 2H2022 and onwards. In 11st Aug 2022, global agriculture and livestock commodity prices index was 102.6 USD (+2.2% MoM; +15.1% YoY). In the same period, BDI index was 1,556 points (+2.2% MoM; -56.4% YoY).
- Besides, we suppose that FMCG manufacturers will improve operating efficiencies to mitigate inflationary pressures by cost savings (e.g., SG&A expenses), and optimizing price & promotions, thus enhancing profitability.

Figure 11: Sabeco upgrades production process to save energy costs (% YoY, 1H2022)



Source: SAB, Rong Viet Securities

Figure 12: Masan Consumer Holding optimizes price & promotions to enhance margins (%)



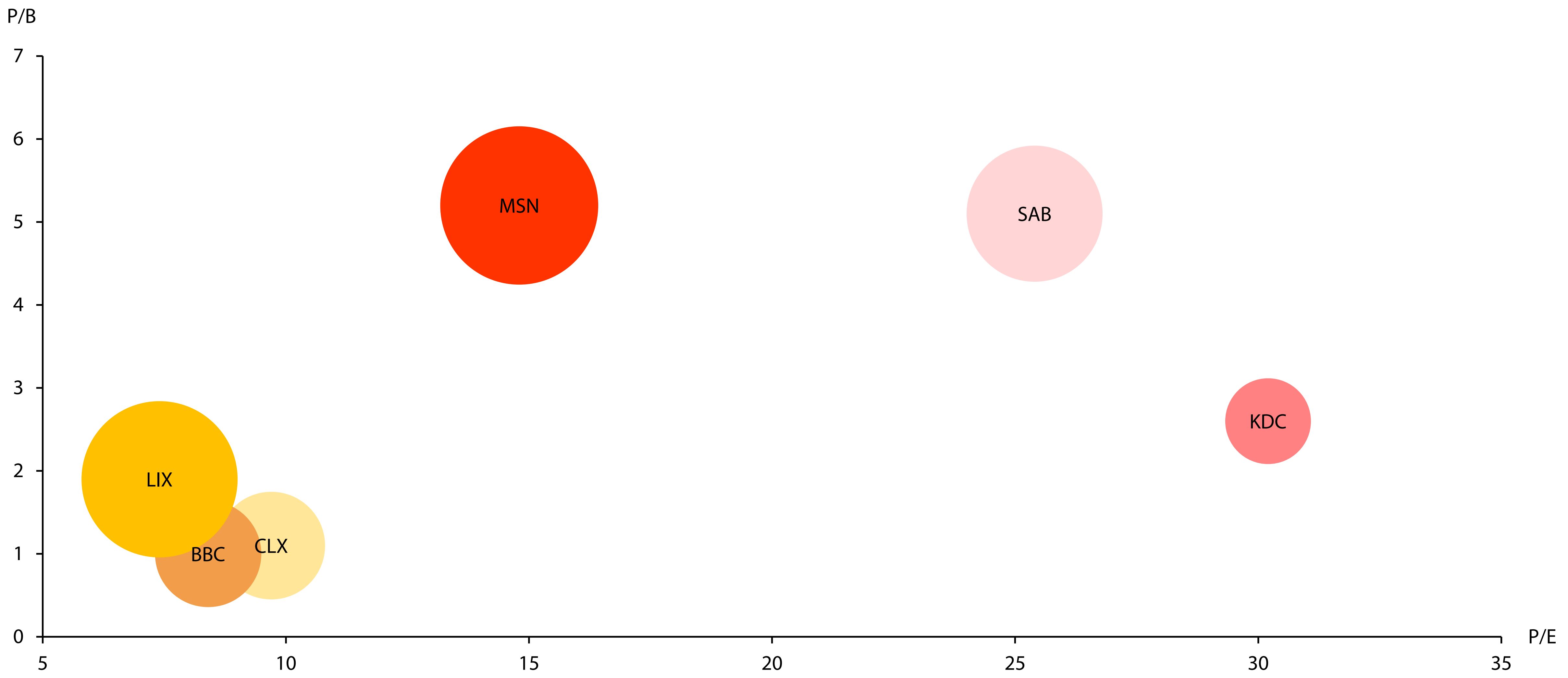
Source: MSN, Rong Viet Securities

INDUSTRY COMPARABLE (TTM)

Ticker	Market cap (VND bn)	Target price (VND)	Sales Growth (% YoY)	EBITDA Growth (% YoY)	EBITDA Margin (%)	Operating Income Margin (%)	Net Income Growth (% YoY)	Net Profit Margin (%)	ROA (%)	ROE (%)	DY (%)	Current P/E (x)	Current P/B (x)
MSN	154,474	112,800	0.5	50.7	13.1	7.7	384.9	12.2	8.3	40.2	0.8	15.1	5.2
SAB	119,278	N/A	2.1	0.7	18.5	16.6	-3.8	15.5	15.3	21.0	1.3	26.5	5.1
KDC	17,110	N/A	25.3	23.0	8.1	5.8	10.9	4.6	4.1	8.8	1.7	30.4	2.5
CLX	1,732	N/A	-9.5	-32.3	27.0	17.1	11.3	36.5	7.8	12.1	0	10.7	1.2
BBC	1,260	N/A	-18.3	35.6	13.0	0.3	170.9	13.0	9.2	12.0	1.5	8.8	0.9
LIX	1,442	N/A	-2.6	-12.7	10.2	8.2	-2.6	7.5	17.0	27.8	6.8	7.6	1.9

Source: Fiinpro, Rong Viet Securities. Share price as of 10 August 2022.

PE, PB & ROE (TTM)

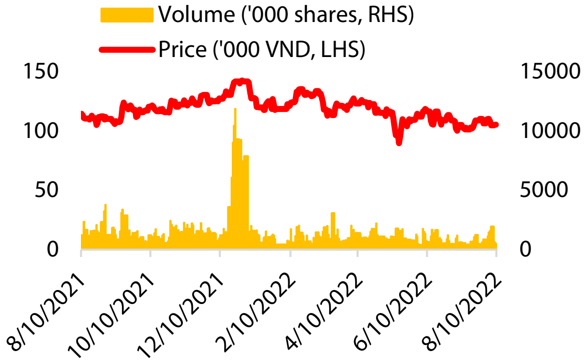


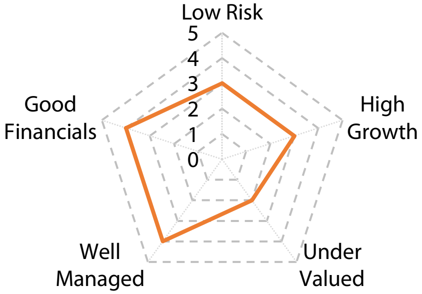
Source: FiinGroup, Rong Viet Securities. Bubble size equals respective ROE. Share price as of 10 August 2022.

LEADING CONSUMER GOODS COMPANY IN VIETNAM

HSX: MSN

<ACCUMULATE: +7%> **<MP: 105,800>** **<TP: 112,800>**





STOCK INFO

Sector	Food & Beverage
Market Cap ($ mn)	6,442
Current Shares O/S (mn shares)	1,424
3M Avg. Volume (K)	883
3M Avg. Trading Value ($ mn)	4.1
Remaining foreign room (%)	20.3
52-week range ('000 VND)	85.7 -145.8

FINANCIALS	2021A	2022F	2023F
Revenue (VND bn)	88,629	85,535	95,701
NPAT-MI (VND bn)	8,563	4,661	5,284
ROA (%)	3.0	4.9	5.2
ROE (%)	15.6	17.5	16.4
EPS (VND)	7,269	5,277	8,840
Book Value (VND)	27,796	26,713	31,074
Cash dividend (VND)	1,000	0	0
P/E (x)	14.5	20.0	11.9
P/B (x)	3.8	3.9	3.4

INVESTMENT RATIONALE

2022 outlook: A complicated performance due to deconsolidation of the feed segment (MNS Feed).

- 2022 consolidated revenue and NPAT-MI of MSN is expected to be VND85.5 tn (or USD3,719 mn, -3.5% YoY) and VND4.7 tn (USD203 mn, -27.7% YoY) respectively, driven by the deconsolidation of feed segment. Excluded MNS Feed, the growth of sales and NPAT-MI is forecast to be +15.3% YoY and +63% YoY, respectively. The main supporters are strong growth of MSR; and improvement in EBITDA margin of WCM. We believe that 2021-2022 period is transition state of MSN, after that, the company will upgrade their business model to a new level – Consumer tech company.

A multi-industry business model which fuels earnings growth across various economic cycles.

- MSN owns a multi-industry business model, from FMCG (MCH, VCF and NET), animal protein producers (MML), modern retailer (WCM), to mining manufacturers (MHT - also known as MSR). Besides, MSN also run a technological subsidiary (Onemount) and owns 19.9% of Techcombank (TCB)'s total charter capital. Backed by this, MSN 's earning sources not only supports to each others but also reduces downside risk of earnings over various economic cycle in the long-term. On the other hands, TCB is another weapon supporting MSN to raise external capital.

M&A strategy to boost revenue and earnings growth.

- MSN is on the way to fulfill their ecosystem via M&A strategy, evidenced by perfect performance via historical M&A deals. MSN 's performance is expected to be a mix of their organic growth (via the growth of current potential businesses likes MCH, MML or WCM) and M&A deals, which will boost revenue and earnings growth higher.

RISKS TO OUR CALL

- The expansion of the Winmart chain may cause WCM to incur higher selling costs. In case WCM cannot manage costs effectively, a loss will be recorded.
- MSR is earning less money on significant invested capital. 2021-2022 growth of MSR is boost by increasing Vonfram prices and lower production from China. In case of China remove the lockdown, Vonfram prices will decrease. Besides, MSR has invested on Nyobolt Ltd., thus raising further CAPEX burden. Therefore, MSN bears systematic risk of inefficient investment on MSR.

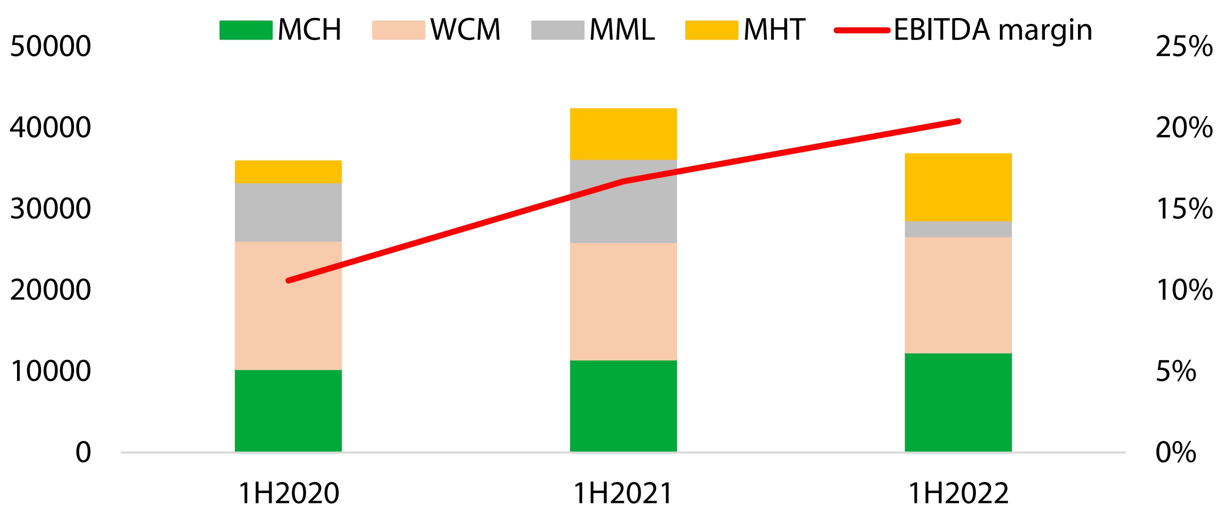
1H2022 Net Revenue: MSN 's consolidated net revenue reached VND36,023 bn (or USD1,566 mn, -12.6% YoY), mainly due to deconsolidation of the feed segment. Excluding 2021 feed revenue for a like-for-like comparison, net revenue grew by +9.1%YoY in 1H2022, driven by double-digit growth at Masan High-Tech Materials (MHT or MSR).

1H2022 Net Profit: MSN's NPAT-MI grew by +163% YoY in 1H2022 to VND2,577 bn (or USD112 mn). The main pillar is the improving margins of all business segments, except Masan MEATLife (MML). Notably, gross margin of Wincomerce (WCM) strongly improves to 22.6% in 1H2022 from 18.4% in 1H2021. According to MSN, they incorporate technical to operate Winmart chain which help to reduce WCM 's break-even point. Besides, the higher proportion of products of both fresh foods (~27%, +10 bps YoY) and MCH in the stores also strengthen gross margin.

Of which:

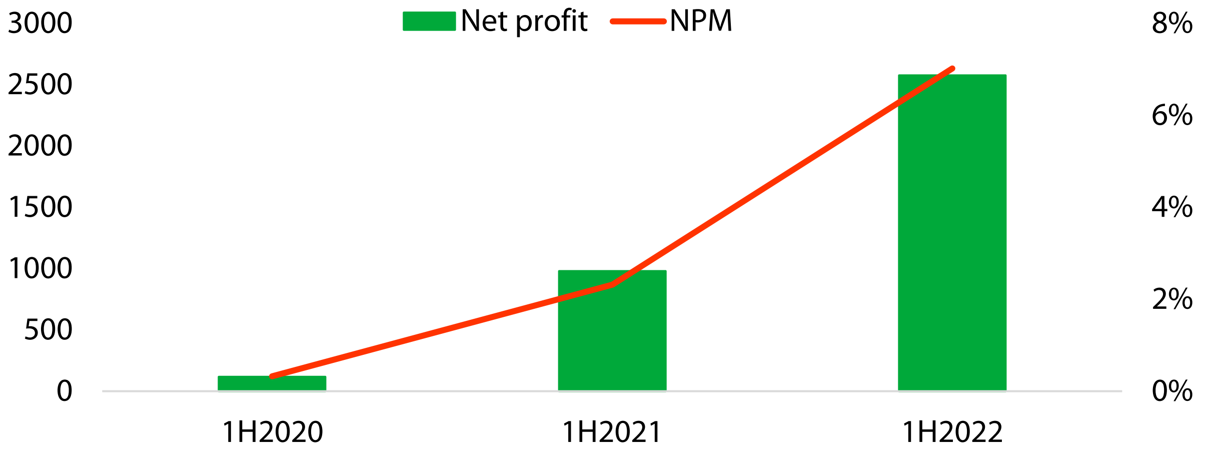
- MCH: Modest sales growth due to 1) the high base performance of stockpiling effect in Q2 2021; and 2) lower consumer purchasing power as high inflation. However, profit margins still improves since MCH optimized SG&A costs.
- WCM: Significantly expanded store count year-to-date ("YTD"), opening 306 new locations in 1H2022.
- MML: Lower pig prices offset by higher sales volume. Lower profit margins due to deconsolidation of the feed segment.
- MSR: Driven by rising commodity prices and strong demand in the advantage of lockdown policy of China due to Covid-19 pandemic.

Figure 1: 1H2022 sales (VND bn, LHS) and EBITDA margin (%, RHS)



Source: MSN, Rong Viet Securities

Figure 2: 1H2022 net profit (VND bn, LHS) and net margin (%, RHS)



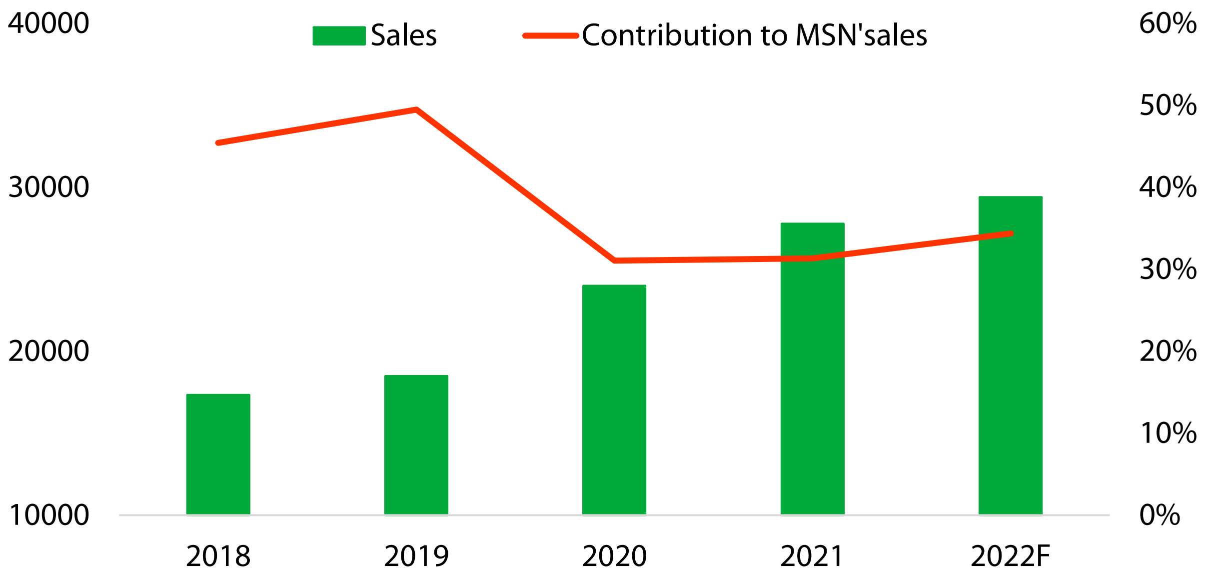
Source: MSN, Rong Viet Securities

MCH – EBITDA MARGIN IMPROVES THANKS TO OPTIMIZE SG&A COSTS

Optimizing SG&A costs to compensate for the slowdown of sales growth

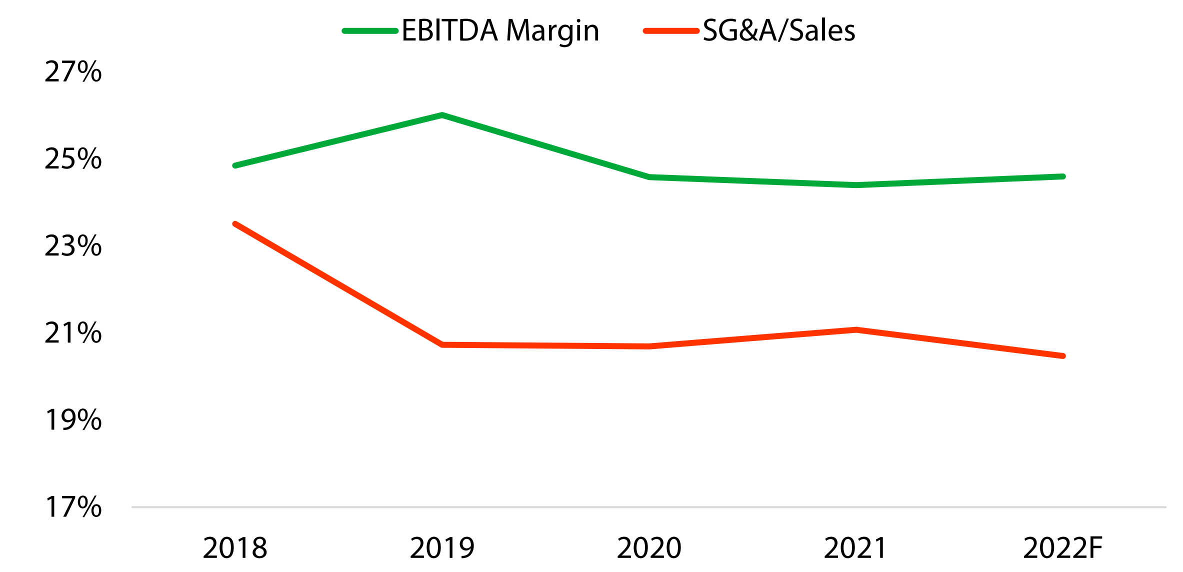
- MCH' sales expected to be VND29.4 tn (or USD1,279 mn, +5.9% YoY) as consumer spending sentiment weakened amid high inflation. In the challenges of 2022, the positive sales growth is protected since MCH is the Vietnam FMCG leader with the largest number of SKUs. Backed by this, integrated with Winmart retail chain, MCH is able to capture all food & beverage demand of consumers.
- Profit margins of MCH is expected to improve, explained by 1) higher selling prices; 2) diversified product portfolio (from affordable to premium) which compensate the rising input cost; and 3) optimizing SG&A expenses. In fact, 1H2022 gross margin and EBITDA margin of MCH are 40.2% (+60 bps YoY) and 23.1% (+80 bps YoY), respectively.
- MCH is expected to continue to be the largest contributor of MSN performance, accounting for 34% of total net revenue and 53% of total gross profit.

Figure 3: MCH's Sales (VND bn, LHS) and Contribution to total sales (%, RHS)



Source: MCH, MSN, Rong Viet Securities

Figure 4: MCH's SG&A/net sales ratio and EBITDA margin (%)



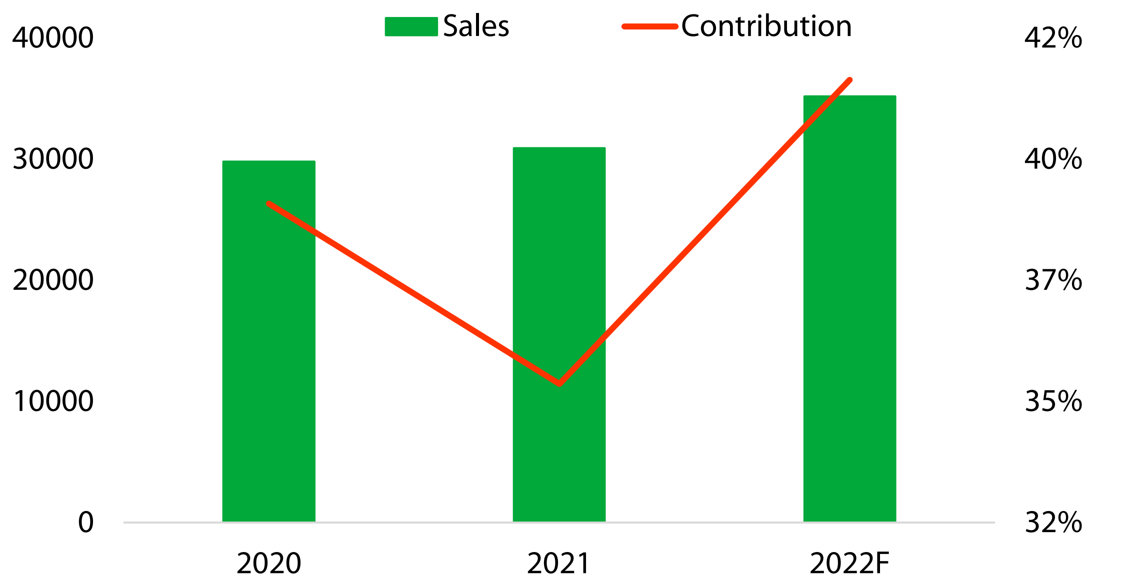
Source: MCH, Rong Viet Securities

WCM – CONTINUE TO IMPROVE PROFIT MARGINS

Profit margin improves as incorporating technical to operate Winmart chain

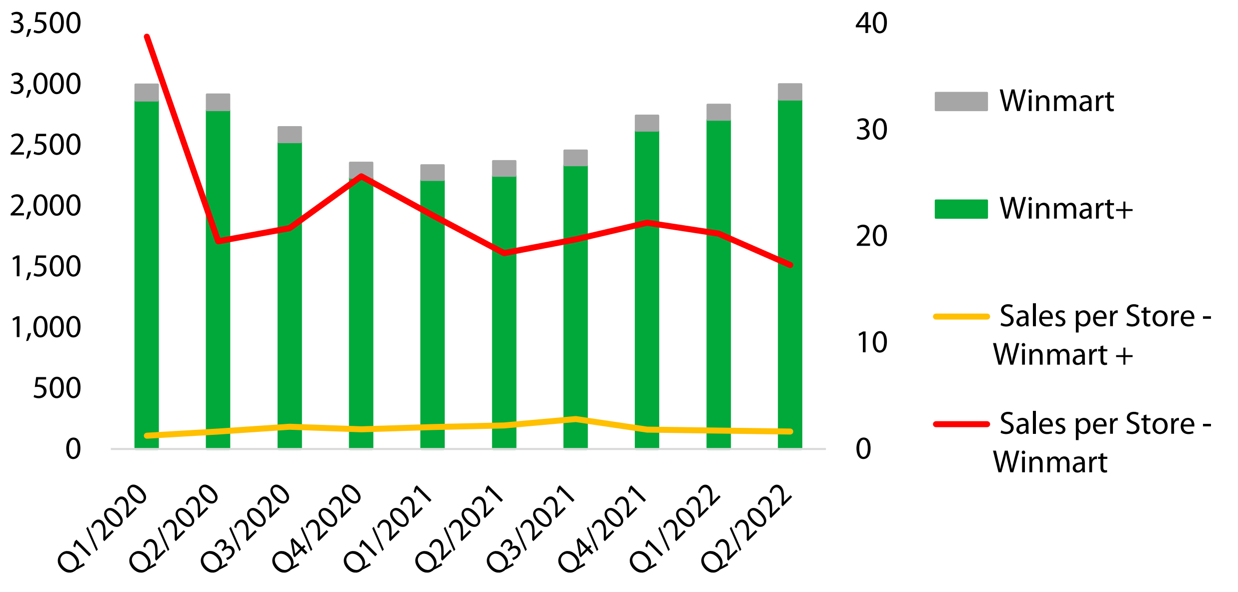
- 2022 revenue to grow by +13.9% YoY, backed by the aggressive expansion of Winmart chain. After focusing on cost restructuring to find the more efficient retail format (e.g., sharing renting fees), together with incorporating technical to operate Winmart chain, WCM is able to sharply scale up the retail chain while maintaining a healthy profit margin since 2022. Although 1H2022 WCM 'sales shows a modest negative growth due to lower traffic amid high inflation, we expect that 2H2022 accelerating store expansion will offset this decline. In detail, the company is going to open 800 new stores in 2H2022, expanding the total number of stores to ~3,800 in 2022, equivalent to store count increase of 39% YoY.
- According to MSN, the new stores is able to reach EBITDA break-even point after 6 month-1 year of operations. As a result, we believe that 2H2022 profit margins of WCM will continue improving, leading to a higher profit margins for the whole year compared to 2021 performance. In fact, 1H2022 gross margin and EBITDA margin of WCM enhance to 22.6% (+420 bps YoY) and 2.2% (+10 bps YoY) respectively.

Figure 5: WCM's Sales (VND bn, LHS) and Contribution to total sales (%)



Source: MSN, WCM, Rong Viet Securities

Figure 6: WCM's store count (units, LHS) and sales per store (VND bn, RHS)

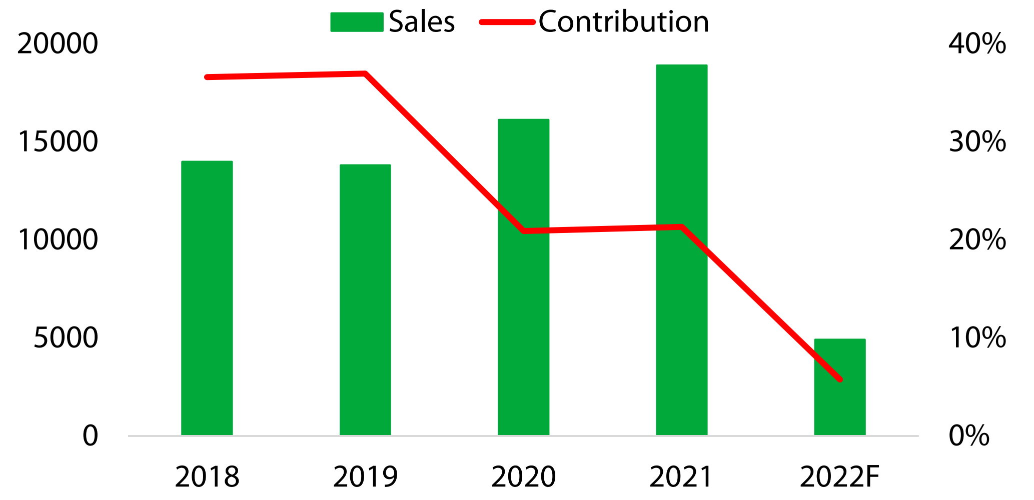


Source: MSN, WCM, Rong Viet Securities

2022 organic sales is expected to show single-digit rate due to lower pork prices

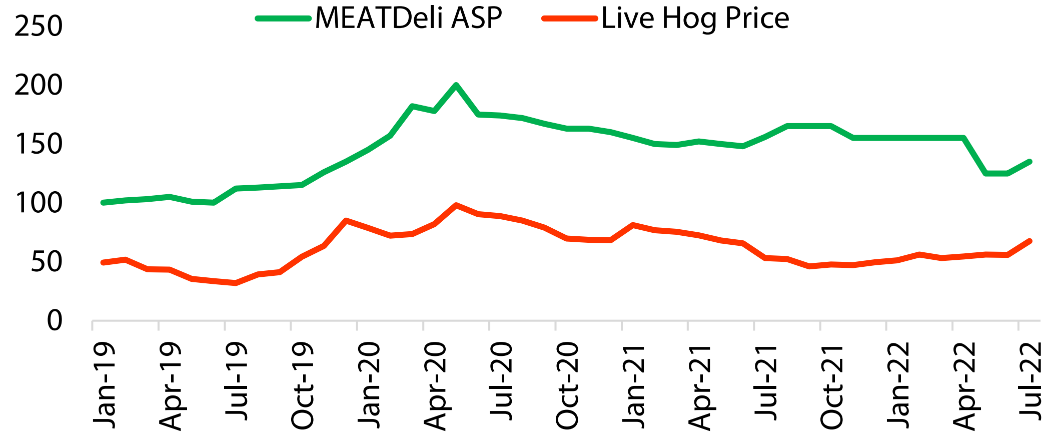
- MML revenue is expected to reach VND 4,902 Bn (or USD213 mn, -74.1% YoY). The negative growth is explained by deconsolidation of the feed segment (MNS Feed). Excluded MNS Feed, the organic growth is forecast to be +9.3% YoY. Although 1H2022 revenue of MML decreased by -6.1% YoY as lower pork prices, higher sales volume is a positive signal amid inflationary pressure hitting consumer's wallets. After selling MNS Feed and successfully printed the MEATDeli pork brand into consumer 's mind, together with the larger coverage of modern trade channel (main distribution channel of MML), MEATDeli pork has their loyalty customers. Since pork prices has recovered in Jul-2022, we expect that the negative effect of decreasing pork prices will be narrowed in 2H2022.
- Additionally, in 2H2022, MML is going to launch a new pork brand whose selling price is lower than MEATDeli pork, closing the price gap with wet market, thus aiming to expand customer data base. By doing this, 2H2022 sales volume of MML is expect to continue increasing.
- However, 2022 profit margins is forecast to be weak due to 1) lower pork prices; 2) new non-premium pork brand will slightly grab profit margin in short-term though enhance sales; and 3) increasing feed prices. Although profit margins of chicken segment is expected to improve thanks to higher chicken prices and sales volume, it only accounts for ~30% of total sales.

Figure 7: MML's Sales (VND bn, LHS) and Contribution to total sales (%, RHS)



Source: MSN, Rong Viet Securities

Figure 8: MEATDeli pork ASP and live hog price ('000 VND/kg)

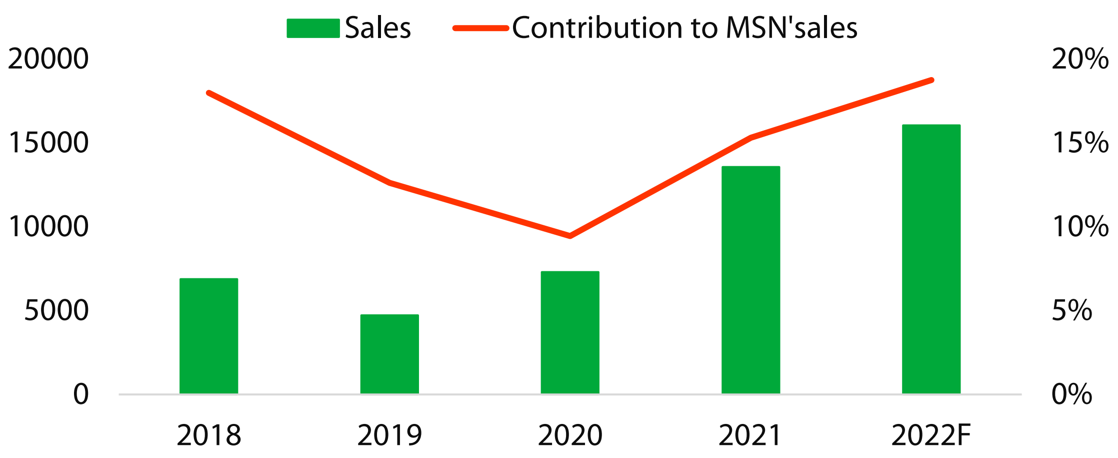


Source: Vietnambiz, MSN, Rong Viet Securities

Increasing Vonfram prices boost strong growth in both top-and-bottom lines.

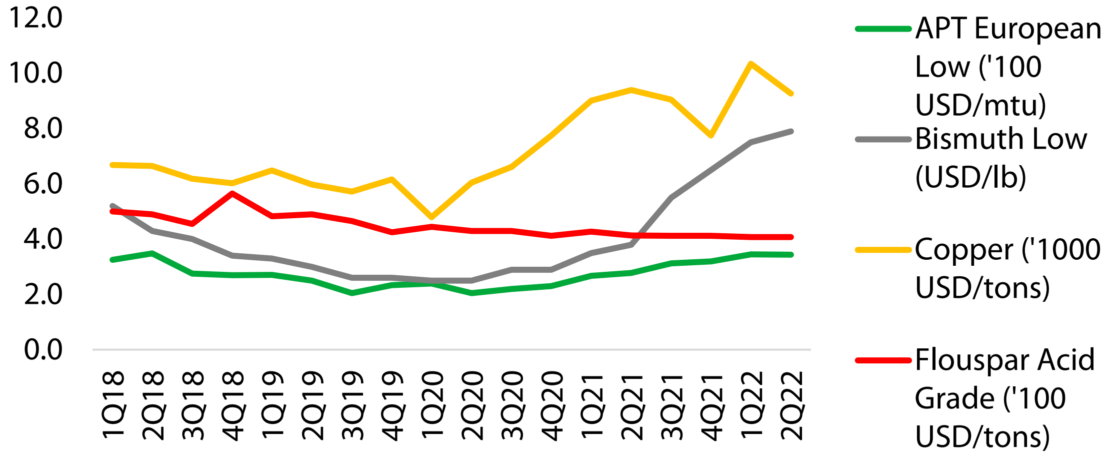
- MSR 's revenue growth will be +18.2% YoY to VND16 tn (or USD697 mn) in 2022. The Vonfram demand is expected to remain an upward trend thanks to the need to convert automotive technology from gasoline to electric. In addition, lower production from China due to Zero Covid-19 policy supports increasing Vonfram prices.
- MSR has invested on Nyobolt Ltd., - a fast-charging, high power, low degradation battery solutions company that leverages MHT's advanced tungsten materials. Although this investment will raise CAPEX burden in the next few years, it contains long-term potential growth when Nyobolt 's products would be accepted by the market.
- MSR 's 2022 profit margins is expected to continue improving on the back of increasing Vonfram prices. In fact, 1H2022 gross margin and EBITDA margin of MSR are 17.7% (+550 bps YoY) and 22.4% (+280 bps YoY), respectively. However, we expect that MSR only enjoy this advantage within 2021-2022 period. When the chaotic of Covid-19 pandemic eases and China lifts lockdown policy, Vonfram prices will decrease.
- For the long-term view, MSR is the weakness of Masan. Although MSR occupies by the second smallest proportion in total revenue (2021: 18.3%) of MSN, it contributes the biggest proportion in total asset (2021: 33.3%) and total liabilities (2021: 29.9%) of the group. In case of decreasing Vonfram prices, MSN bears a systematic risk of inefficient investment.

Figure 9: MSR's Sales (VND bn, LHS) and Contribution to total sales (%, RHS)



Source: MSR, Rong Viet Securities

Figure 10: Quarterly metal prices



Source: Industrial Minerals, MSN, Rong Viet Securities

Sum Of The Parts (SoTP)	FY2022F	Comments
1) Masan Consumer (MCH)		DCF method
Equity value	99,095	
Masan's ownership	70.0	
Equity value attributed to Masan Group (A)	69,367	16x justify PE multiple
2) Masan MEATLife (MML)		EV/EBITDA method
Equity value	8,827	
Masan's ownership	87.8	
Equity value attributed to Masan Group (B)	7,750	EV/EBITDA multiple of peer group = 12.5
3) Masan High-tech Materials (MSR)		EV/EBITDA method
Equity value	61,334	
Masan's ownership	99.9	
Equity value attributed to Masan Group (C)	61,272	EV/EBITDA multiple of peer group = 7.4
4) WinCommerce (WCM)		P/S method
Equity value	42,075	
Masan's ownership	68.6	
Equity value attributed to Masan Group (D)	28,863	P/S multiple = 1.2
5) Phuc Long Heritage		
Equity value	8,201	
Masan's ownership	51.0	P/E multiple = 15
Equity value attributed to Masan Group (E)	4,182	
6) Long-term investment value		
Techcombank (TCB)	7,812	
Other long-term investment	945	DCF + P/B method
Equity value attributed to Masan Group (F)	8,757	
7) Other net assets (F)	(19,541)	
Equity Value (A) + (B) + (C) + (D) + (E) + (F) + (G)	**160,651**	
Common outstanding shares (mn shares)	1,424	
Target Price	**112,800**	FY2022
Annualized price return (%)	7	
Expected dividend yield	-	
Total expected return (%)	**7**	FY2022

Source: Rong Viet Securities; VND Bn

In 2022, we expect

- MCH will maintain low two-digit growth in bottom lines despite topline 's modest growth as the company optimizes SG&A cost amid high inflation.
- WCM will present double-digit sales growth thanks to expansion store chain strategy, though still record a loss in net profit during initial stage.
- MML will show a weak performance due to the deconsolidation of MNS Feed, and lower pork prices.
- MSR will lead consolidated growth.
- Based on SoTP valuation, we evaluate MSN at VND 112,800 per share. We recommend to **ACCUMULATE** on MSN shares with the total expected return of +7%.

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