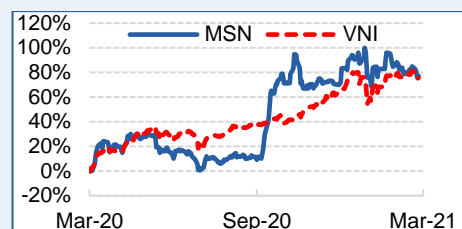


Masan Group (MSN) [BUY +38.5%]

Update Report

Industry:	Consumer		2020	2021F	2022F	2023F
Report Date:	March 31, 2021	Rev Growth	106.7%	23.9%	21.3%	26.9%
Current Price:	VND88,500	EPS Growth	-77.9%	87.5%	78.1%	49.4%
Target Price	VND121,600	GPM	23.2%	25.0%	25.8%	25.3%
Last Target Price:	VND104,700	NPM	1.6%	2.4%	3.6%	4.2%
Upside to TP:	+37.4%	EV/EBITDA*	16.2x	10.0x	8.4x	7.3x
Dividend Yield:	1.1%	P/CFO	51.7x	29.2x	14.3x	9.3x
TSR:	+38.5%	P/E	84.0x	44.8x	25.1x	16.8x



Market Cap:	USD4.5bn		MSN	VNI
Foreign Room:	USD750mn	P/E (ttm)	84.0x	18.3x
ADTV30D:	USD4.5mn	P/B (curr)	6.5x	2.5x
State Ownership:	0%	Net D/E	2.2x	N/A
Outstanding Shares:	1,174.7 mn	ROE	4.2%	13.6%
Fully Diluted Shares:	1,174.7 mn	ROA	1.3%	2.2%
3-yr PEG	N/M	*EBITDA includes profit contributions from TCB		

Company overview

Masan Group specializes in consumer businesses that span FMCG, the meat value chain and grocery retailing. Other businesses include metal-based materials and a significant holding in Techcombank.

Phap Dang, CFA
 Associate Director
phap.dang@vcsc.com.vn
 +848 3914 3588 ext. 143

CrownX leads Masan's journey back to consumer focus

- We upgrade our rating from OUTPERFORM to BUY and raise our target price (TP) by 16% to VND121,600 following our deeper look into Masan's consumer-retail platform (The CrownX/TCX), in particular its competitive advantages and growth strategy as well as the profitability of its grocery retailing arm (VCM). We present more detailed discussion of these topics as well as our revised valuation in this report. We also note that we roll over our TP horizon to mid-2022.
- Key findings: (1) VCM is on track to reach breakeven at the EBIT level in 2021; (2) potential roll-outs of a franchise store model as well as partnered coffee/tea 'corners' lead us to raise our medium and long-term forecasts for VCM; and (3) we believe there could be further upside to our forecasts from a potential partnership with Techcombank (TCB) to provide financial services at VCM's stores and a successful build-out of an e-commerce platform – potentially with support from a strategic partner. We note that we have not factored these latter two opportunities into our projections.
- Other potential upside catalysts: conglomerate discount removal if Masan significantly reduces its exposure to commodity businesses such as animal feed and metal materials.
- Key risks to our positive view: inability to raise capital, which could pressure Masan's financial position given its high debt load; restructuring of VCM (retailing) losing steam; ineffective product innovation and marketing that would lead to a significant slowdown in MCH's (FMCG) growth.

VCM's profitability improvements pave the way for a sustainable store/scale expansion. Per MSN, VCM's EBIT margin could improve to negative 2%-3% in Q1 2021 vs -7.7% in Q4 2020, which we attribute to (1) SSSG (including double digits for VinMart+), (2) an increase in total commercial margin (TCM) via negotiation with suppliers and (3) aggressive closures of underperforming stores in Q4 2020. EBIT margin improvement is critical for VCM to resume store openings, which in turn will create a feedback loop between scale-driven margin expansion and expansion of the profitable store location universe (as increasing margins will lower the required sales/store to break even).

Roll-out of franchised stores could begin in 2021, which would offer an additional avenue for profits, scale building and customer acquisition. Masan aims to leverage VCM's procurement advantages (i.e., better pricing) to recruit MCH's mom-and-pop point-of-sales (POS) as VCM's franchised stores. Given MCH's distribution network of ~300,000 POS and the fact that VinShop (a partially similar platform of Vingroup) has reached more than 50,000 POS in less than a year since launch, we believe Masan's target of 20,000 franchised stores by YE2025 is feasible.

Integrating value-added services to maximize the value of VCM's customer base. Through VCM's store network and future e-commerce platform, Masan targets to amass an extensive customer base with which it frequently interacts. We believe Masan's efforts to extract value beyond grocery from this customer base will start with TCB. For example, TCB could generate CASA deposits from TCX's customers and offer financial products such as insurance and wealth management.

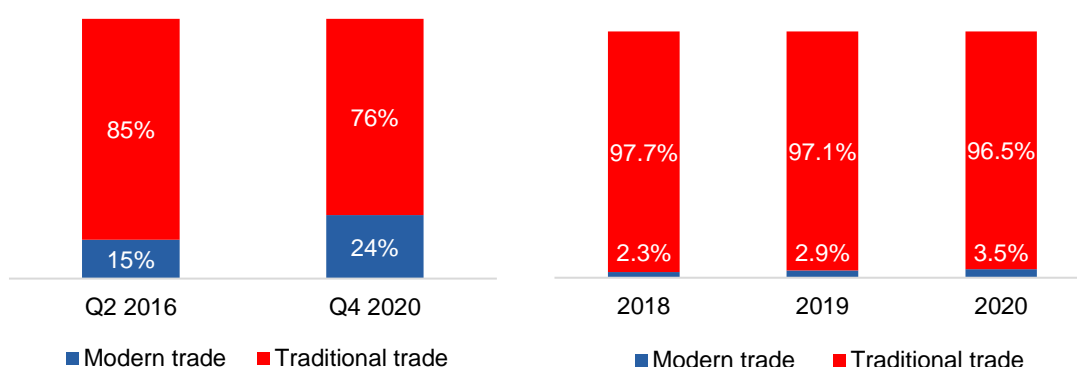
A deeper look into TCX's business and strategy

1. VCM's role in Masan's consumer strategy besides tapping into the extensive grocery retailing market

1.1. Protecting Masan's consumer product franchise in terms of distribution and profit margins as modern retail chains become more prominent

Modern trade is growing fast in Vietnam, especially in urban areas. Rising consumer demand for a better shopping experience (e.g., convenience, hygiene, product range and product quality) along with an accelerated footprint expansion by leading retail chains has boosted the penetration of modern trade in Vietnam's grocery market. That said, the expansion of modern trade has mainly focused on urban areas while penetration in rural areas has remained insignificant up to now.

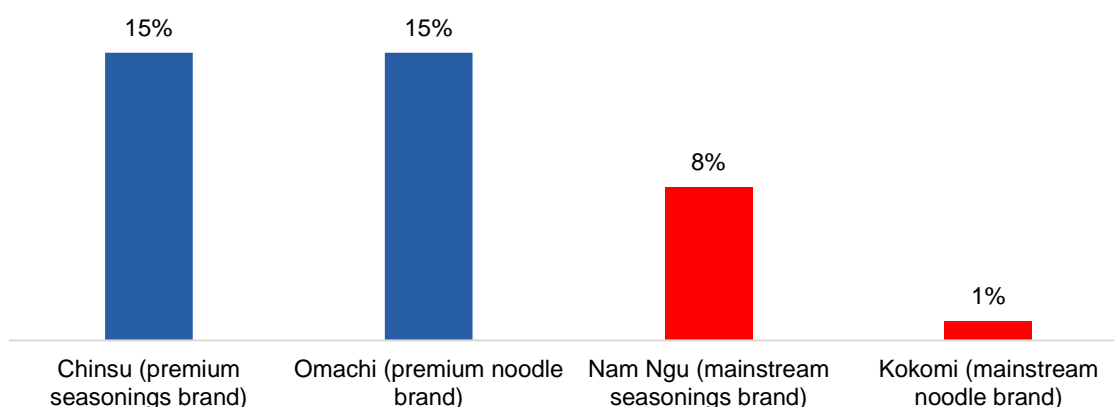
Figure 1: Modern trade vs traditional trade shares in Vietnam's FMCG consumption – Top 4 urban cities* (left chart) and rural areas (right chart)



Source: Kantar Worldpanel, VCSC (*HCMC, Hanoi, Da Nang and Can Tho)

Premiumization trends make modern trade even more vital for consumer goods companies. This is because shoppers at modern trade formats tend to have higher income than the average consumer, which drives a higher penetration of premium products in modern trade vs traditional trade. A strong presence in the premium segment would strengthen a company's brand equity as well as bolster its market share (as the premium segment grows faster than the overall market), top-line growth (from growth in value/unit) and profit margins.

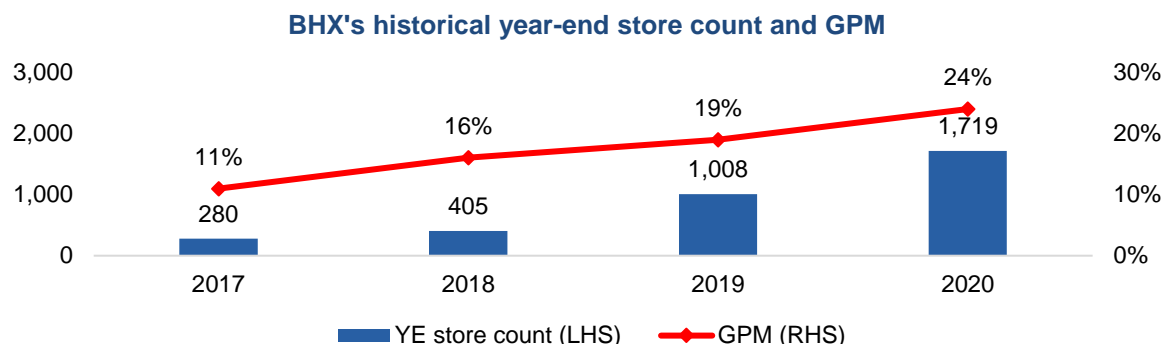
Figure 2: 2019 modern trade sales as % of total sales of some of Masan's key brands



Source: MSN

The emergence of big grocery retail chains could pressure profit margins of consumer goods companies, in our view. As the scale of these chains grows, their bargaining power with consumer goods companies will strengthen. The threat to consumer goods companies will be further compounded when these retailers roll out their 'house' products (e.g., private labels, OEM products and exclusive products) that could offer more affordable alternatives vs branded products.

Figure 3: MWG's BHX minimarts have seen marked GPM expansion as store count grew



Source: MWG, VCSC estimates

For the reasons above, owning VCM will underpin the competitiveness of Masan's consumer product franchise in terms of distribution and product premiumization as well as mitigate risks from retailers' rising bargaining power and private labels.

1.2. Acquiring a loyal consumer base, whose value can be leveraged via value-added services such as financial services in partnership with TCB

Amassing an extensive loyal customer base and utilizing their data to provide targeted, value-added services are the tenets of business 'ecosystems'. That said, customer acquisition models and strategies vary, ranging from e-commerce marketplaces and payment systems to ride hailing and food delivery. For Masan, it is grocery retailing, where it can serve a wide base of consumers at a high frequency since a typical consumer goes grocery shopping several times per week.

Currently, Masan has access to 8.7 million members of VinID – VCM's customer loyalty program, of which 2.2 million show at least monthly activity. As VCM broadens its footprint going forward, these numbers could double or even triple in the next five years.

Masan can maximize the value of this customer base via offering value-added services, which will most likely include financial services in partnership with TCB, in our view. For example, TCB can set up mini branches at VCM's outlets to recruit customers and sell them products such as insurance and wealth management. In addition, once VCM has rolled out its franchise model (further comments below), TCB can provide lending and payment services to VCM's franchisees. Masan could benefit from this partnership via either fee sharing or enhanced customer/partner satisfaction.

2. Synergies between MCH, MML and VCM

2.1. Distribution and marketing of MCH and MML's products at VCM's outlets

As we mentioned above, modern trade in general - and VCM in particular - will become increasingly crucial for Masan's consumer product distribution. In 2020, we estimate ~3% of MCH's revenue and ~35% of MML's meat revenue was received through VCM's stores. In our view, these ratios – especially that of MCH – will step up in the future as VCM's store network widens and as the business integration between MCH and VCM deepens.

Similarly, VCM could benefit from MCH's and MML's robust product portfolio. For example, MML's Meat Deli brand – the pioneer in chilled fresh pork in Vietnam – claims a ~35% category share in VCM's stores. Thanks to a strong reception from consumers, Meat Deli helps draw traffic to VCM's stores rather than purely cannibalizing other pork products.

Apart from distribution, VCM can support MCH and MML in terms of marketing. For example, by generating consumer behavior insights at VCM's stores as well as utilizing the stores as testing grounds, MCH and MML can improve their product innovation success rate. In addition, MCH and MML could save costs by utilizing VCM's stores as points of marketing and product display.

2.2. VCM to leverage MCH's expertise to build its private label portfolio

Private labels will be instrumental to improve VCM's margins in the long run after gains from negotiation with suppliers are exhausted.

In August 2020, VCM set up a separate Private Labels function. Masan aims to develop VCM's private labels into true FMCG brands with no explicit association to the VinMart and VinMart+ brands. Once well-established within VCM, distribution of these brands could potentially be expanded outside of VCM's network to penetrate the general trade channel.

VCM can leverage MCH's expertise in marketing and product R&D to build its private label portfolio. In our view, to avoid cannibalization, VCM's private labels will focus on categories that do not overlap with MCH's own portfolio.

2.3. VCM to leverage MCH's POS network to recruit franchised stores

In order to (1) fast track VCM's expansion to rural areas given the low penetration of modern trade in these regions, (2) fuel VCM's consumer data acquisition and (3) accelerate building scale at VCM, Masan plans to recruit qualified 'mom-and-pop' retailers to become VCM's franchised stores. MCH will help VCM identify potential franchisees among its existing general trade point-of-sales network and Masan aims to obtain 20,000 franchised stores by YE2025.

An important enabler of this franchise model lies in VCM's ability to build scale. This will help to secure higher commercial margins from suppliers and in turn, attract potential franchisees by offering them more favorable procurement prices compared to their current distributors, along with other operational benefits as outlined in the table below.

Figure 4: Potential benefits for mom-and-pop retailers from being a VCM franchisee

Lower costs	Additional revenue	Simplified retail operation
<ul style="list-style-type: none"> - Lower procurement prices. - Lower working capital needs thanks to more frequent delivery by VCM than by distributors and manufacturers. 	<ul style="list-style-type: none"> - Higher store traffic thanks to enhanced store look and feel, improved product assortment, and riding on VCM's brand building activities. - Potential extra income from value-added services such as delivery drop-off point, top-up card and digital payment user acquisition. 	<ul style="list-style-type: none"> - Only need to order from one single supplier (VCM) instead of dealing with various manufacturers and distributors. - VCM to support with sales and inventory management.

Source: MSN

We believe the top priority for Masan with this franchise model is to turbocharge its consumer data acquisition efforts. The ideal scenario for Masan would be to achieve this at the same time as generating profits from its sales to the franchisees, in which its gross margin would be more than enough to cover logistics and salesforce expenses.

VCM is piloting its franchise model in 2021 and we assume it will be officially rolled out in late 2021.

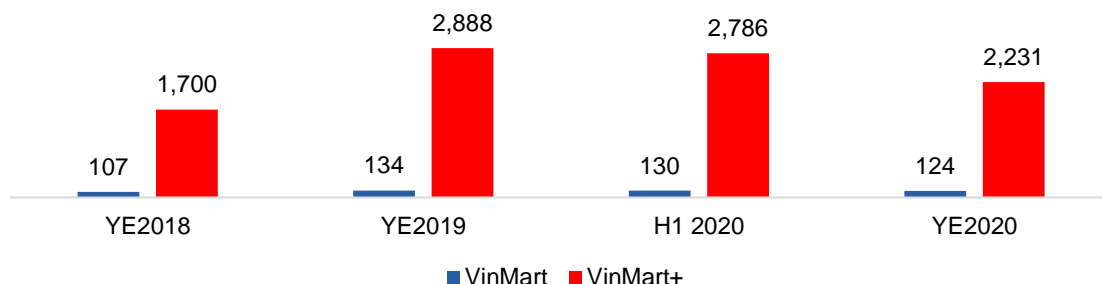
3. VCM's execution progress: On track to break even at the EBIT level in 2021 with further levers for improvements from scale and supply-chain optimization

3.1. Closures of underperforming stores and underlying improvements at existing stores

Store portfolio review was the focus at VCM in 2020 after Masan took over the business at YE2019, leading to aggressive closures of underperforming stores. VCM closed more than 740 stores in 2020, most of which occurred in the second half. More than 80% of the closed stores were in HCMC and Tier 2 cities, which had revenue of only about half the level required for store-level breakeven. As a result, store counts for VinMart (supermarket) and VinMart+ fell to 123 and 2,231 as of YE2020 vs 134 and 2,888 as of YE2019, respectively. Per Masan, these closed stores contributed an EBITDA loss of VND424bn (USD18mn) in 2020, which was about one-third of VCM's

total EBITDA loss in 2020. In addition, one-off store closure expenses amounted to ~VND400bn (USD17mn) in 2020. These losses will not recur in 2021.

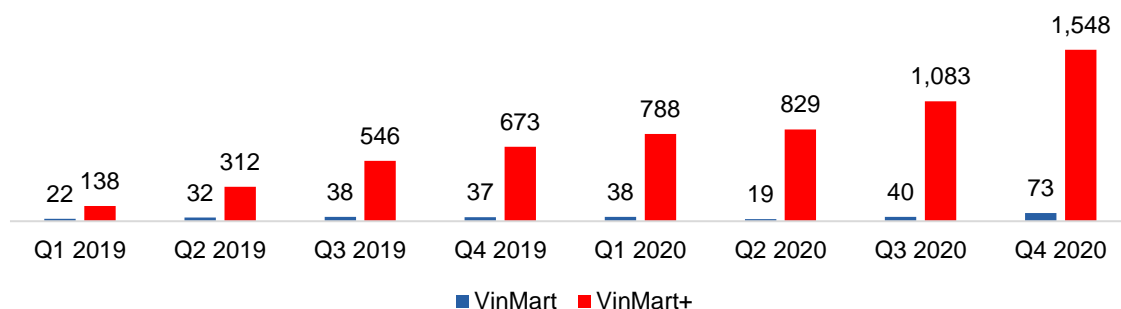
Figure 5: VCM's store count by format



Source: MSN, VCSC

At the same time, SSSG and restructuring initiatives (targeting GPM expansion and cost optimization) underpinned the existing stores. This performance improvement is evidenced by VCM's increasing number of stores that have reached positive EBITDA at the store level.

Figure 6: VCM's number of stores that have reached positive store-level EBITDA



Source: MSN, VCSC

3.2. Negotiation with suppliers to enhance TCM

Per Masan, VCM's total commercial margin (TCM, including both (1) front margin, i.e., unconditional volume discounts, and back margin, i.e., other discounts and allowances) reached 21.1% in Q4 2020 compared to BHX's reported GPM of more than 25%. Given VCM's similar scale vs BHX in terms of current revenue, this margin gap implies room for improvement at VCM.

In Q4 2020, VCM onboarded an experienced retail execution team, which worked at one of the leading big-box grocery retailers in Vietnam prior to joining VCM. We expect this new team to strengthen VCM's procurement activities. As a result, we forecast VCM's GPM will step up from 18.9% in Q4 2020 to 20.4% in full-year 2021.

Per Masan, VCM recently finished negotiations with its top suppliers – which account for ~40% of VCM's revenue – to widen VCM's commercial margins from these suppliers by two percentage points. We believe this development validates our abovementioned GPM projection.

3.3. Next cost optimization focus will be on the supply chain

Per Masan, VCM's logistics operations are currently inferior to the best practices of its competitors. For example, (1) VCM's in-house logistics costs/revenue amount to ~7% vs an industry benchmark of 5%, (2) VCM's product availability reaches 92% for ambient products and 80%-90% for fresh products vs industry benchmarks of 95%-96%, and (3) VCM's lead time between ordering to delivery amounts to one to two weeks vs an industry benchmark of less than a week.

Management attributes this inferior performance to (1) VCM's lack of in-house capabilities and logistics control as VCM outsources most of its supply-chain operations to third-party service providers and the majority of its goods are delivered directly to the stores by suppliers instead of going through VCM's distribution centers (DCs) and (2) VCM's reliance on a cross-docking logistics model, which makes it difficult to ensure sufficient product availability due to a lack of inventory storage as well as requiring tight coordination between suppliers, DCs and the stores.

To upgrade its logistics efficiency, VCM plans to implement the following initiatives. In the short and medium term, (1) VCM's strategic partner Samsung SDS will help redesign its nationwide supply chain for fresh products – spanning key functions such as DC operations, transportation and fulfilment – while VCM is working with DB Schenker (one of the leading global logistics providers) on the ambient product supply chain; (2) VCM aims to raise the ratio of goods that flow through its DCs (~45% currently) in order to have more control over logistics as well as increase logistics rebates from suppliers; (3) VCM will balance between cross-docking and build-stock logistics models to improve product availability, and (4) VCM will invest in inventory management and supply-chain optimization systems. In the long term, VCM aims to solidify its in-house capabilities (people, systems and processes) to fully manage its supply chain along with implementing processes for cross-functional planning and collaboration (i.e., Sales and Operations Planning).

Recently, VCM onboarded a leading logistics expert – Mr. Huan Nguyen – to lead its supply-chain transformation. Prior to joining VCM, Mr. Huan Nguyen was COO of Tiki – one of the leading e-commerce platforms in Vietnam – and GiaoHangNhanh – one of the leading express delivery companies in Vietnam. Before returning to Vietnam, Mr. Huan Nguyen spent ten years at UPS and five years at Amazon – specifically in the latter's last-mile, sorting center and fulfilment functions.

Mr. Huan Nguyen is spearheading VCM's implementation of an auto inventory replenishment system, whereby the system will automatically re-order from suppliers based on data-driven analysis and forecasting. VCM has been piloting this system with ~100 SKUs of Masan products in HCMC and per management, the early results have been positive with improved product availability (>96%) and shorter inventory days (less than 30 days). In the next step, VCM plans to roll out this system for its top nationwide suppliers in home and personal care before further expansion.

3.4. Roll-out of coffee & tea corners in partnership with a leading chain to boost profitability

In January 2021, Phuc Long – one of the most popular coffee and tea chains in Vietnam (No. 1 in tea) – launched its 'kiosk' format in two VinMart+ stores in District 2 (East of HCMC, adjacent to the CBD). Per our discussion with Masan, early sales results from these kiosks have been positive and VCM will likely roll them out at more stores, especially in HCMC and Hanoi. In this cooperation, VCM's stores will receive a share of Phuc Long's revenue, per Masan. Since this revenue comes with almost no incremental costs for VCM, it will flow straight to its stores' bottom line.

Figure 7: A Phuc Long kiosk in a VinMart+ store



Source: Phuc Long's official Facebook fanpage

4. What VCM is lacking: e-commerce capabilities

Along with its own store expansion and the proposed franchise model, we believe e-commerce will be another critical long-term growth driver for VCM not only because online shopping is growing fast in Vietnam (we expect a 30%+ CAGR for Vietnam's e-commerce GMV in the next five years) but also because an omnichannel approach that leverages both online and offline platforms will provide a better all-around shopping experience for customers.

VCM has the advantage of owning a physical store network, where it can utilize its supermarkets as delivery hubs for online orders and minimart stores as pick-up points. However, e-commerce requires different expertise vs offline retailing and FMCG businesses, which, in our view, VCM and Masan do not yet have. Therefore, we believe Masan will need to build in-house capabilities – starting with recruiting talent – before we can see real traction on this front. At the same time, Masan may also look to partner with a well-established e-commerce company that can share know-how and integrate each other's platforms.

The case for removing the conglomerate discount on MSN

We started to incorporate a conglomerate discount of 15% into our valuation of MSN at YE2019 following its acquisition of VCM. Our thinking was that, by adding a heavily loss-making business in which Masan did not have established expertise to a portfolio that already included MML and MHT (which have remained primarily commodity businesses up to now), Masan was becoming overdiversified. However, the positive progress in VCM's business restructuring coupled with the abovementioned synergies between VCM and MCH, MML's meat products and even TCB have eased our concern related to VCM.

That said, to remove our conglomerate discount, we believe MSN would need to de-commoditize its overall business (i.e., significantly reduce its exposure to MML's animal feed segment and MHT), thereby strengthening the focus on its consumer franchise (FMCG, branded meat and grocery retailing). In this regard, we have a positive view on Mitsubishi Materials' USD90mn capital injection into MHT in exchange for a 10% stake in Q4 2020 as MHT can use the proceeds to either fund its operations or trim its high debt load while MSN has reduced its exposure to MHT in the process. MSN's management has hinted that it will look at similar transactions for MHT in the future. Following the same line of thought, we would have a supportive view if Masan were to monetize MML's animal feed business as the company could deploy the cash to fund its branded meat expansion as well as further de-lever the group's balance sheet.

2021F: Broad-based business improvements

Figure 8: VCSC's 2021 forecasts

VND bn	2020	2021F old	2021F new	YoY	VCSC comments on 2021F
Revenue	77,218	94,344	95,645	24%	
MCH	23,971	28,290	28,290	18%	Spearheaded by processed meat (+60%), energy drinks (+30%), HPC (+40% on a standalone basis) and convenience foods (+15%).
VCM	30,978	35,152	35,152	13%	We project VinMart+/VinMart store counts will reach 2,731/124 by YE2021 from 2,231/124 as of YE2020 as VCM plans to resume store openings following a year of restructuring in 2020. The top line will also be underpinned by projected double-digit SSSG.
MML	16,119	21,071	22,372	39%	Feed: VND16.6tn (USD715mn; +21% YoY) thanks to an expected recovery in domestic pig farming activity as well as catfish exports. In this report, we incorporate a projected 10% hike to feed ASP to partly offset recent price rallies in animal feed materials such as corn and soybean. Pork: VND4.6tn (USD200mn; +93% YoY) as MML expands its meat POS and livestock supply base in addition to softening pork prices that should propel domestic pork consumption, in our view. Hog prices have come down from a peak of ~USD4.5/kg in mid-2020 to ~USD3.2/kg currently. We assume 3F Viet — the poultry company that MML acquired in late November 2020 — will contribute VND1.2tn (USD52mn) in revenue.
MHT	7,426	12,370	12,370	67%	Mainly underpinned by (1) a full-year consolidation of HCS vs more than six months in 2020, (2) a rebound in tungsten sales and ASP in accordance with improved global economic activity and (3) higher realized copper ASP, assuming that MHT will successfully secure a sales channel for its copper as it did in 2020 via obtaining an export license.
Intercompany adjustments & Others	-1,276	-2,539	-2,539	99%	Elimination of intercompany transactions between MCH/MML and VCM.
EBIT	1,682	6,114	6,256	272%	
MCH	4,727	5,269	5,269	11%	We project compression in EBIT margin as faster-growing categories such as processed meat and HPC currently generate thinner margins compared to mainstay categories such as seasonings and energy drinks.
VCM	-3,213	-671	-671	-79%	Bolstered by double-digit SSSG, GPM expansion (from ~17% in 2020 to ~20% in 2021F thanks to negotiation with suppliers) and a full year's benefit from the closure of underperforming stores in 2020.
MML	1,073	1,147	1,289	20%	Blended margins to contract due to a larger contribution from the meat business — which is running at low capacity — along with elevated raw material prices (e.g., corn and soybean) that will hurt feed margins.
MHT	-337	976	976	N/M	Profits to be supported by a larger sales volume and higher ASP. We assume average tungsten price will step up to ~USD260/mtu in 2021 vs ~USD230/mtu in 2020.
Others (e.g., holdco overhead, goodwill amortization)	-568	-608	-608	7%	
Associate profits	2,640	3,165	3,165	20%	See our TCB Update Report, In strong position to deliver resilient 2021 growth , dated February 9, 2021, for more details.
Interest expenses	-3,770	-4,909	-4,909	30%	Owing to a larger average debt balance.
Other non-ops	1,773	290	290	-84%	Mostly due to our assumption of no one-off items as there were in 2020.
PBT	2,325	4,661	4,802	107%	
NPAT	1,395	3,589	3,707	166%	
NPAT-MI	1,234	2,304	2,321	88%	

Source: MSN, VCSC

Valuation

We apply a sum-of-parts valuation as presented in **Figure 9**. In this report, we increase our target price from VND104,700/share to VND121,600 primarily due to the following changes.

- We roll over our valuations across businesses (except for TCB, for which we use VCSC's latest published target price) to mid-2022 vs YE2021 in our previous report.
- We incorporate the franchise model for VCM – which accounts for 20% of our total valuation of VCM – and raise our projected mature EBITDA margin for VCM's own stores by 50 bps to 7.9% thanks to a potential margin uplift from the roll-out of coffee and tea kiosks as we discussed on page 6. Overall, our VCM valuation jumps 58% vs our previous report.

Figure 9: VCSC's valuation for MSN

VND bn	Method	Equity value	MSN's ownership	Equity value attributed to MSN	Implied target multiples	valuation
MCH	DCF	117,982	72.7%	85,741	26x average earnings.	2021F-2022F
MML	PER	17,290	88.5%	15,302	12x average earnings for feed business; 1x average 2021F-2022F sales for meat business.	2021F-2022F
MHT	EV/EBITDA	23,691	87.3%	20,676	10x average EBITDA.	2021F-2022F
VCM	DCF	45,095	80.0%	36,066	1.3x average revenue.	2021F-2022F
Net cash/(debt) at holdco level				-23,172		
TCB		156,055	21.5%	33,540	2021F PBR of 1.7x.	
Total equity value				168,153		
Share count (million)				1,174.7		
Equity value/share (VND)				143,100		
Conglomerate discount				15%		
Target price (VND)				121,600		

Source: VCSC

Figure 10: VCSC's 10-year projections for VCM – Own store model

VND bn	2020	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Minimart count	2,231	2,731	3,431	4,431	5,631	6,831	8,031	9,031	10,031	11,031	12,031
Supermarket count	124	124	129	134	139	144	149	154	159	164	169
Revenue	30,978	35,152	43,317	54,306	65,413	77,833	90,873	103,845	116,710	130,218	144,401
Gross profit	5,232	7,171	9,811	12,843	15,961	19,575	23,082	26,377	29,644	33,075	36,678
SG&A	-8,445	-7,842	-9,493	-11,808	-13,480	-16,086	-18,269	-20,687	-22,584	-24,943	-27,422
EBIT	-3,213	-671	318	1,035	2,481	3,489	4,813	5,690	7,060	8,132	9,256
EBITDA	-1,234	967	2,231	3,340	4,514	5,954	7,179	8,204	9,220	10,287	11,408
GPM	16.9%	20.4%	22.7%	23.7%	24.4%	25.2%	25.4%	25.4%	25.4%	25.4%	25.4%
EBIT margin	-10.4%	-1.9%	0.7%	1.9%	3.8%	4.5%	5.3%	5.5%	6.0%	6.2%	6.4%
EBITDA margin	-4.0%	2.8%	5.2%	6.2%	6.9%	7.7%	7.9%	7.9%	7.9%	7.9%	7.9%

Source: Company data, VCSC

Figure 11: VCSC's 10-year projections for VCM – Franchise model

VND bn	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
No. of franchised stores	0	2,000	5,000	10,000	15,000	20,000	22,000	23,000	24,000	25,000
Average monthly revenue per store (VND bn)		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Revenue		4,800	16,800	36,000	60,000	84,000	100,800	108,000	112,800	117,600
Gross profit		428	1,702	3,974	6,623	9,272	11,127	11,921	12,451	12,981
SG&A		-525	-1,766	-3,662	-5,992	-8,208	-9,599	-10,007	-10,185	-10,463
EBIT		-97	-64	312	631	1,064	1,528	1,915	2,266	2,518
EBITDA		-20	134	716	1,253	1,838	2,306	2,579	2,806	2,926
GPM		8.9%	10.1%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
EBIT margin		-2.0%	-0.4%	0.9%	1.1%	1.3%	1.5%	1.8%	2.0%	2.1%
EBITDA margin		-0.4%	0.8%	2.0%	2.1%	2.2%	2.3%	2.4%	2.5%	2.5%

Source: VCSC

Figure 12: VCSC's 10-year projections for VCM – Total (own store + franchise models)

VND bn	2020	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Revenue	30,978	35,152	48,117	71,106	101,413	137,833	174,873	204,645	224,710	243,018	262,001
Gross profit	5,232	7,171	10,239	14,545	19,935	26,198	32,354	37,503	41,566	45,527	49,659
SG&A	-8,445	-7,842	-10,019	-13,574	-17,142	-22,078	-26,477	-30,285	-32,591	-35,128	-37,884
EBIT	-3,213	-671	220	971	2,793	4,120	5,877	7,218	8,975	10,398	11,775
EBITDA	-1,234	967	2,211	3,474	5,229	7,207	9,017	10,510	11,799	13,093	14,333
NPAT	-3,700	-1,042	-74	744	2,715	4,162	4,921	5,816	7,210	8,341	9,441
GPM	16.9%	20.4%	21.3%	20.5%	19.7%	19.0%	18.5%	18.3%	18.5%	18.7%	19.0%
EBIT margin	-10.4%	-1.9%	0.5%	1.4%	2.8%	3.0%	3.4%	3.5%	4.0%	4.3%	4.5%
EBITDA margin	-4.0%	2.8%	4.6%	4.9%	5.2%	5.2%	5.2%	5.1%	5.3%	5.4%	5.5%
Net margin	-11.9%	-3.0%	-0.2%	1.0%	2.7%	3.0%	2.8%	2.8%	3.2%	3.4%	3.6%

Source: Company data, VCSC

Figure 13: FCFE valuation for VCM

FCFE (VND bn)	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Net income	-1,042	-74	744	2,715	4,162	4,921	5,816	7,210	8,341	9,441
D&A	1,638	1,990	2,503	2,436	3,087	3,139	3,292	2,824	2,695	2,559
Change in working cap	385	176	310	775	99	5	-42	-58	-11	3
Capex	-1,177	-1,797	-2,589	-2,947	-3,033	-2,665	-2,308	-2,378	-2,450	-2,253
FCFE	-196	295	968	2,979	4,316	5,401	6,757	7,598	8,575	9,750
Discounted FCFE	-183	240	682	1,827	2,301	2,504	2,724	2,664	2,614	2,585
Cumulative PV of FCFE	17,957									
Terminal value	27,138									
Equity value	45,095									
Discount rate	15% ⁽¹⁾									
Terminal growth	5% ⁽¹⁾									

Source: VCSC; ⁽¹⁾ Similar to our assumptions for MWG's grocery retail business

Recommendation History

Figure 14: Historical VCSC target price vs share price (VND, adjusted for stock splits)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2020	2021F	2022F	2023F	B/S (VND bn)	2020	2021F	2022F	2023F
Revenue	77,218	95,645	116,030	147,297	Cash & equivalents	7,721	4,053	4,499	7,608
COGS	-59,329	-71,757	-86,148	-110,080	ST investments	447	447	447	447
Gross Profit	17,889	23,888	29,882	37,217	Accounts receivable	2,062	2,875	3,359	3,968
Sales & Marketing exp	-13,166	-14,118	-17,157	-21,399	Inventories	12,498	14,058	15,749	16,722
General & Admin exp	-3,041	-3,514	-3,990	-4,674	Other current assets	7,032	7,032	7,032	7,032
Operating Profit	1,682	6,256	8,735	11,143	Total Current assets	29,761	28,466	31,086	35,777
Financial income	1,431	590	320	347	Fixed assets, gross	72,755	77,646	81,889	86,807
Financial expenses	-4,557	-5,209	-5,206	-5,122	- Depreciation	-20,884	-25,739	-30,927	-36,398
- o/w interest expense	-3,770	-4,909	-4,906	-4,822	Fixed assets, net	51,871	51,908	50,963	50,409
Associates	2,640	3,165	3,491	3,855	LT investments	20,353	23,276	26,760	30,609
Net other income/(loss)	1,129	0	0	0	LT assets other	13,751	13,317	12,883	12,449
Profit before Tax	2,325	4,802	7,340	10,223	Total LT assets	85,976	88,501	90,606	93,467
Income Tax	-930	-1,095	-1,244	-1,465	Total Assets	115,737	116,966	121,693	129,245
NPAT before MI	1,395	3,707	6,096	8,759	Accounts payable	6,833	6,936	8,151	10,083
Minority Interest	-161	-1,386	-1,962	-2,583	Short-term debt	22,545	18,139	16,729	14,765
NPAT less MI, reported	1,234	2,321	4,135	6,176	Other ST liabilities	9,497	9,497	9,497	9,497
NPAT less MI, adj ⁽¹⁾	-108	2,321	4,135	6,176	Total current liabilities	38,875	34,572	34,377	34,345
EBITDA (excluding TCB)	7,437	13,059	15,871	18,562	Long-term debt	39,466	42,466	42,466	42,466
EPS reported, VND	1,054	1,976	3,520	5,257	Other LT liabilities	12,366	12,366	12,366	12,366
EPS adjusted ⁽¹⁾ , VND	-92	1,976	3,520	5,257	Total Liabilities	90,706	89,404	89,208	89,176
EPS diluted, adj ⁽¹⁾ , VND	-92	1,976	3,520	5,257	Preferred Equity	0	0	0	0
DPS, VND	0	1,000	1,000	1,000	Paid-in capital	11,747	11,747	11,747	11,747
DPS/EPS (%)	0%	51%	28%	19%	Share premium	11,084	11,084	11,084	11,084
⁽¹⁾ Adjusted for one-offs					Retained earnings	2,182	3,329	6,289	11,290
RATIOS	2020	2021F	2022F	2023F	Other equity	-9,076	-9,076	-9,076	-9,076
Growth					Minority interest	9,093	10,478	12,440	15,023
Revenue growth	106.7%	23.9%	21.3%	26.9%	Total equity	25,030	27,563	32,484	40,068
Op profit (EBIT) growth	-65.3%	272.0%	39.6%	27.6%	Liabilities & equity	115,737	116,966	121,693	129,245
PBT growth	-67.3%	106.6%	52.8%	39.3%	Y/E shares out, mn	1,174.7	1,174.7	1,174.7	1,174.7
EPS growth, adjusted	N/M	N/M	78.1%	49.4%	Y/E treasury shares, mn	0.0	0.0	0.0	0.0
Profitability					CASH FLOW (VND bn)	2020	2021F	2022F	2023F
Gross Profit Margin	23.2%	25.0%	25.8%	25.3%	Beginning Cash Balance	6,801	7,721	4,053	4,499
Op Profit, (EBIT) Margin	2.2%	6.5%	7.5%	7.6%	Net Income	1,234	2,321	4,135	6,176
EBITDA Margin	9.6%	13.7%	13.7%	12.6%	Dep, & amortization	4,584	5,631	5,965	6,248
NPAT-MI Margin	1.6%	2.4%	3.6%	4.2%	Change in Working Cap	-479	-2,270	-960	351
ROE	4.2%	14.1%	22.3%	27.4%	Other adjustments	-3,326	-2,122	-1,872	-1,615
ROA	1.3%	3.2%	5.1%	7.0%	Cash from Operations	2,013	3,561	7,267	11,159
Efficiency					Capital Expenditures, net	-3,678	-4,891	-4,243	-4,918
Days Inventory On Hand	68	68	63	54	Other investments, net	-30,741	243	7	7
Days Accts, Receivable	8	9	10	9	Cash from Investments	-34,419	-4,648	-4,236	-4,911
Days Accts, Payable	37	34	31	30	Dividends Paid	-1,402	-1,175	-1,175	-1,175
Cash Conversion Days	39	43	42	33	Δ in Share Capital	57	0	0	0
Liquidity					Δ in ST debt	4,205	-4,406	-1,410	-1,964
Current Ratio x	0.8	0.8	0.9	1.0	Δ in LT debt	27,790	3,000	0	0
Quick Ratio x	0.3	0.2	0.2	0.4	Other financing C/F	2,677	0	0	0
Cash Ratio x	0.2	0.1	0.1	0.2	Cash from Financing	33,327	-2,581	-2,585	-3,139
Debt / Assets	53.6%	51.8%	48.6%	44.3%	Net Change in Cash	921	-3,668	446	3,109
Debt / Capital	71.2%	68.7%	64.6%	58.8%	Ending Cash Balance	7,721	4,053	4,499	7,608
Net Debt / Equity	215.1%	203.6%	167.0%	122.7%					
Interest Coverage x	0.4	1.3	1.8	2.3					

Source: Company data, VCSC



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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Truc Ngo, Analyst, ext 116
- Tu Hoang, Analyst, ext 139

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Ha Dao, Senior Analyst, ext 194
- Son Tran, Senior Analyst, ext 185
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Manager, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Trung Nguyen, Senior Analyst, ext 129
- Anh Tong, Analyst, ext 363

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

Luong Hoang, Manager, ext 364

- Nguyen Truong, Senior Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Manager, ext 135
- Nghia Le, Analyst, ext 181
- Duc Le, Analyst, ext 196

Industrials and Transportation

Nam Hoang, Manager, ext 124

- Dang Thai, Senior Analyst, ext 149

Retail & Corporate Brokerage

Ho Chi Minh & Hanoi

Quynh Chau

+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn