

MASAN CONSUMER CORPORATION (MCH) – INITIATION

Market Price	Target Price	Dividend Yield	Rating	Sector
VND121,500	VND146,800	3.61%	ADD	CONSUMER GOODS

18 October 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:6 Hold:1 Reduce:0

Target price / Consensus: N/A

Key changes in the report



Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	130,000
52w low (VND)	72,200
3m Avg daily value (VNDmn)	1,807
Market cap (VNDbn)	86,575
Free float (%)	8
TTM P/E (x)	19.4
Current P/B (x)	6.16

Ownership

Masan Consumer Holdings	92.4%
Others	7.60%

Source: VND RESEARCH

Analyst(s):



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Leading the pack

- MCH is one of the key consumer companies in Vietnam with wide-range product portfolio.
- We expect MCH's FY21F/22F earnings to grow 12.2% yoy/11.9% yoy thanks to product portfolio upgrade and deeper penetration into the soft drink category.
- We initiate coverage on MCH with an ADD rating and TP of VND146,800.

Leading Vietnam's consumer industry with a diverse product portfolio

Masan Consumer is a subsidiary of Masan Corp (MSN VN) and a dominant company in many food and beverage segments. MCH set footprint in almost all FMCG's segments: convenient foods (instant noodles, instant porridge), Seasoning (soy sauce, fish sauce, chili sauce), processed meat (pasteurized sausage, pork balls), soft drink, coffee and grains, home and personal care with well-known brands. According to Kantar Worldpanel in 2020, 98% of Vietnamese households have used at least one Masan Consumer's product.

Well-positioned to ride on the premiumization trend

Demand for premium products has been rising strongly in Vietnam thanks to a rapidly growing of middle class, higher income, and health awareness. MCH already has a strong position in the premium line with Omachi noodle cup and Omachi Business cup. Over its FY21-23F period, MCH plans to further develop the full-meal solution concept by increasing its focus on its premium cup packaging (vs. pouch), developing new product lines (such as clear noodle soup), and increasing the meat content in each product.

Net profit achieve double-digit growth in FY21-23F

We expect MCH's revenue to grow 12.6%/9.7%/9.8% yoy in FY21-23F driven by 1) 17.2%/9.6%/10.8% yoy increase in convenience food's revenue, 2) 9.4%/7.9%/7.1% yoy increase in seasoning revenue and 3) 11.2%/11.3%/15.0% yoy increase in soft drink revenue. We project net profit to achieve double-digit growth by 12.2%/11.9%/12.2% yoy in FY21-23F thanks to 1) lower SG&A expenses as the merger with VCM will help MCH save on selling costs and 2) gross margin (GM) improve by 0.1%/0.3% pts in FY22/23F after narrowing 0.4% pts in FY21F due to the product mix change.

Initiate coverage with Add rating and target price of VND146,800

MCH is traded at 18.9 TTM P/E, which is 25.2% discount to its peer average. Our target price for MCH is based on an equal combination of 10-year DCF valuation and target FY22F P/E of 20.0x. Potential re-rating catalysts 1) higher – than – expect demand for convenience food due to the impact of social distancing orders and 2) lower – than – expect material input price. Downside risks include: 1) longer – than – expect the Covid-19 pandemic and 2) higher – than – expect material input price.

Financial summary (VND)	12-20A	12-21E	12-22E	12-23E
Net revenue (bn)	23,343	26,275	28,827	31,649
Revenue growth	26.3%	12.6%	9.7%	9.8%
Gross margin	42.5%	42.1%	42.2%	42.5%
EBITDA margin	27.7%	27.6%	28.5%	29.3%
Net profit (bn)	4,520	5,070	5,672	6,365
Net profit growth	12.3%	12.2%	11.9%	12.2%
Recurring profit growth				
Basic EPS	6,236	6,942	7,691	8,545
Adjusted EPS	6,236	6,942	7,691	8,545
BVPS	19,652	21,290	24,331	27,192
ROAE	33.9%	33.9%	33.7%	33.2%

Source: VND RESEARCH

LEADING THE PACK

Investment thesis

We like MCH for

- Its leading position in the table sauce market and second position in the instant noodle market.
- The consolidation with Vincommerce give MCH a huge advantage about retail system compared to other competitors in the industry.
- MCH enjoy a CAGR of 12.0% in net profit during FY21-23F thanks to product portfolio upgrade and deeper penetration into the soft drink category.
- Stable cash dividend of VND4,500/share since it was listed on the UpCom Stock Exchange in 2017.

We initiate coverage on MCH with ADD rating. Our target price is VND146,800, which is based on an equal combination of 10-year DCF valuation (WACC: 9.2%, LTG: 1.0%) and target FY22F P/E of 20.0x. Our 2022 target P/E ratio is higher than current ratio of 18.9x and we believe that the P/E value is fair for MCH as its advantage in ROE (35.0% vs. 16.8% of peer average in TTM FY21).

Potential re-rating catalysts include 1) higher – than – expect demand for convenience food due to the impact of social distancing orders and 2) lower – than - expect material input price.

Downside risks include:

- Higher – than - expect material input price: The cost of imported raw materials in recent years accounted for about 70% of the total of materials cost thus the rise of material prices due to the high demand of material for production in the world after Covid-19 will have a great impact on MCH's gross profit margin.
- Longer – than – expected the Covid-19 pandemic: Supply chain disruption, factories required to implement Covid-19 safety producers, including requiring employees to live on-site, and inability to meet increased demand.

Figure 1: Valuation summary

Methodology	Price	Weight	Weighted price
FCFF	147.975	50%	73.987
P/E	145.614	50%	72.807
Average price			146.795
Target price 2022 (Rounded)			146.800

Source: VNDIRECT RESEARCH

Figure 2: Discounted cash flows - future cash flows to firm (FCFF) approach

Present value of Free Cash Flows to Firm (VNDbn)	56.851
Present value of Terminal value (VNDbn)	56.189
Enterprise Value (VNDbn)	113.040
Less: Net Debt Plus: Cash + ST investment (VNDbn)	(4.457)
Equity Value (VNDbn)	108.583
No. of Outstanding Share (m)	734
Equity Value Per Share (VND)	147.975
WACC	9,2%
Cost of Equity	12,4%
Long-term growth	1,0%

SOURCE: VNDIRECT RESEARCH

Figure 3: Multiples (P/E)

Net profit 2022F	5.672
2022F No. of outstanding share (m)	741
Average FY21-22F EPS	7.281
Target P/E (x)	20,0
Implied price 2022	145.614

SOURCE: VNDIRECT RESEARCH

Figure 4: Discounted cash flow model

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
EBIT	4,954	5,541	6,189	6,898	7,809	8,782	9,883	11,128	12,538	14,134	15,943
Add: Depreciation	785	985	1,196	1,407	1,618	1,829	2,040	2,251	2,462	2,673	2,884
Less: Capital expenditure	(1,470)	(1,801)	(1,809)	(1,809)	(1,809)	(1,809)	(1,809)	(1,809)	(1,809)	(1,809)	(1,809)
Changes in Working Capital	(564)	(229)	(24)	(14)	(22)	0	4	10	16	24	34
Free Cash Flow (FCF)	3,705	4,496	5,553	6,483	7,596	8,802	10,118	11,580	13,207	15,022	17,052
Less: Taxes Paid	(793)	(754)	(844)	(947)	(1,073)	(1,213)	(1,368)	(1,548)	(1,748)	(1,979)	(2,236)
Free Cash Flows to Firm	2,911	3,742	4,709	5,536	6,523	7,589	8,750	10,032	11,459	13,044	14,816
Terminal Value											160,255
PV of FCFF	2,911	3,742	4,312	4,642	5,009	5,337	5,635	5,916	6,188	6,450	6,709
PV of Terminal Value											56,189

SOURCE: VNDIRECT RESEARCH

Figure 5: Peer comparison (data at 18 Oct 2021)

Food producer	Bloomberg code	Recom m.	Share price (local cur)	Market cap (US\$m)	Target price (local cur)	3-year EPS CAGR (%)	P/E (x)			ROE (%)			ROA (%)		
							TTM	FY21F	FY22F	TTM	FY21F	FY22F	TTM	FY21F	FY22F
Indofood Cbp Sukses Makmur T	ICBP UJ	N/a	9.300	7.690	N/a	20,3	16,9	16,6	14,7	20,9	19,3	19,4	8,5	6,2	6,7
Nissin Foods Holdings Co Ltd	2897 JP	N/a	8.700	8.043	N/a	10,5	24,7	28,0	25,7	10,1	8,4	8,4	5,9	5,4	5,4
Want Want China Holdings Ltd	151 HK	N/a	5,7	8.743	N/a	9,4	13,9	13,4	12,6	27,6	27,2	27,2	13,6	13,4	13,4
Uni-President Enterprises Co	1216 TT	N/a	68,1	13.816	N/a	44,6	18,0	18,9	17,5	20,4	17,5	20,3	4,3	4,6	5,1
Masan Meatlife Corporation	MML VN	ADD	89.700	1.289	81.400	69,3	52,3	38,9	29,7	4,8	12,0	14,0	1,6	4,1	5,3
Average						30,8	25,2	23,2	20,0	16,8	16,9	17,9	6,8	6,7	7,2
Masan Consumer Corporation	MCH VN	ADD	121.500	3.822	146.800	10,9%	18,9	21,2	19,2	35,0	33,9	33,7	19,7	18,6	18,5

SOURCE: VNDIRECT RESEARCH, BLOOMBERG

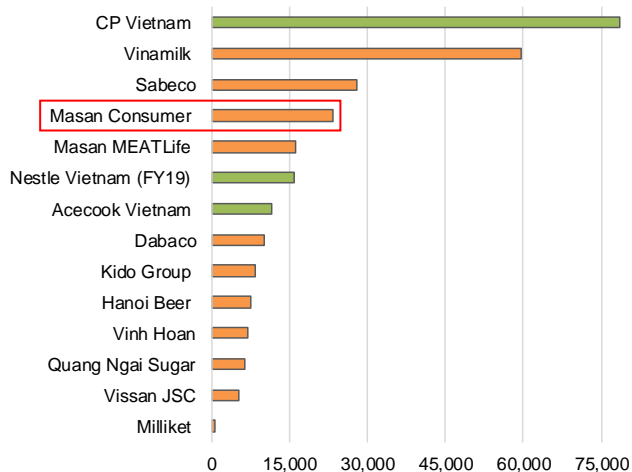
BEST CONSUMER PLAYER IN TOWN

MCH set strong footprint in all FMCG segments

Established in 1996, MCH started stepping into domestic consumer space in 2002 with soy sauce “Chinsu”. Since then, the company has robustly expanded through M&A and became one of country largest consumer player with wide range of products. MCH was in top 5 of the largest Vietnam F&B companies in terms of FY20 revenue and among top 10 valuable local brands according to Forbes 2020.

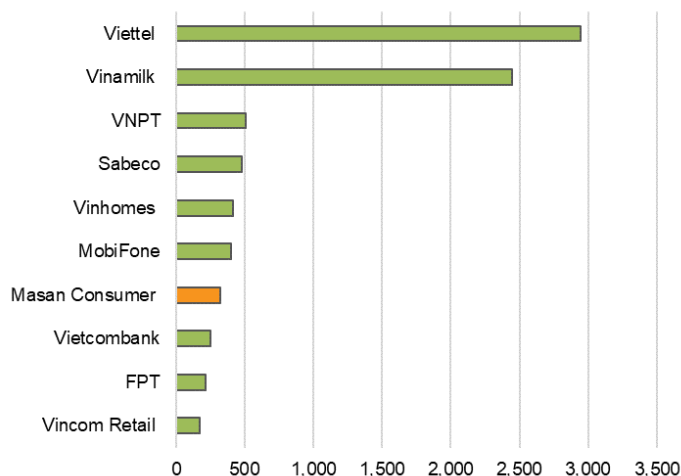
MCH set footprint in almost all FMCG's segments, including convenient foods (instant noodles & porridge), Seasoning (soy sauce, fish sauce, chili sauce), processed meat (pasteurized sausage, pork balls), soft drink, coffee and grains; even in home & personal care. 98% of Vietnamese households used at least one MCH's product. (Kantar, 2020).

Figure 6: MCH's revenue in FY20 compared to other F&B companies (unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 7: MCH was among top 10 valuable local brands according to Forbes 2020 (unit: US\$m)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 8: Masan Consumer's product universe



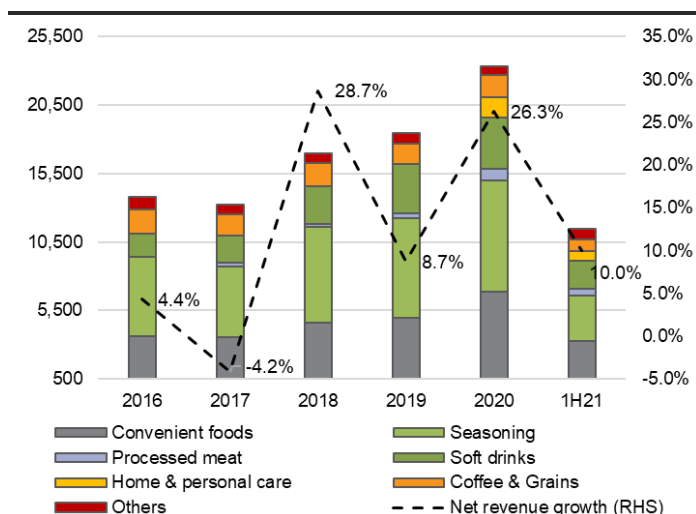
Source: VNDIRECT RESEARCH, COMPANY WEBSITE

According to Euromonitor, MCH has the largest market share table sauces with 29.8%, the second largest in instant noodle with 20.0% market share - behind Acecook Vietnam JSC (unlisted) and the third largest in energy drink off-trade market. In addition, the company was also the leader in the instant coffee (about 40% market share) with two key brands: Vinacafe and Wake up.

In addition, the company also has a vast distribution network around Vietnam (with approximately 180,000 points of sales in food and 170,000 in beverages). We believe MCH's distribution system is only behind VNM (with more than 248,000 points of sale) and SAB (with more than 600,000 points of sale).

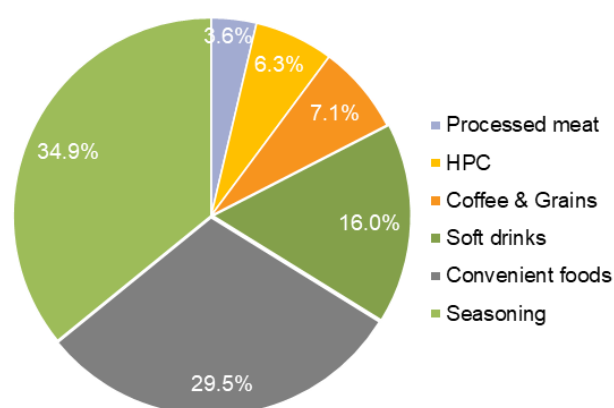
Seasoning was the largest revenue contributor, accounting for 35% of FY20 revenue, followed by Convenient foods (30%) and soft drink (16%).

Figure 9: MCH's revenue grew 14.1% FY16-20 CAGR (unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 10: MCH's FY20 revenue mix (unit: %)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

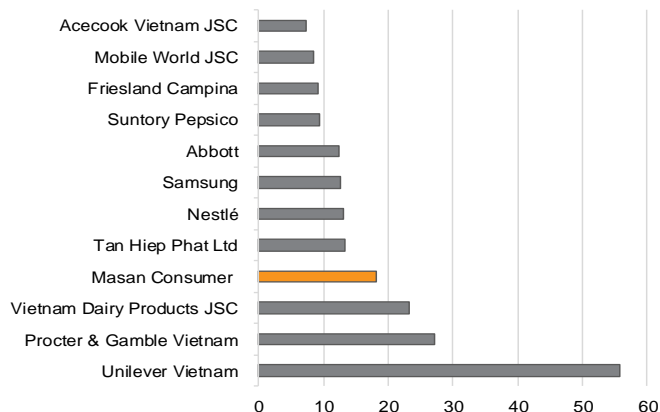
Huge advertising spend pays off with strong brand awareness

MCH ranked 2nd among listed F&B producers in Vietnam in term of marketing spending in 2020. Each year, MCH spends roughly VND2,000bn in advertisement and promotion, equivalent to c.10.5%-14.8% of revenue. According to a Kantar Media survey, MCH spent over VND400bn in 1Q19 on advertising, which landed it among the Top 4 companies in terms of advertising spending. Masan Consumer has one of the most familiar brands appearing during the "gold hour" on national free-to-air television channels, according to our survey.

In FY20, MCH spent 11.9% of its revenue on advertising and promotions, just below Vietnam Dairy Product JSC (VNM VN, ADD, TP: 110,000). We saw that the return on investment in advertising is gradually increasing as the ratio of advertising expenses of revenue is nearly unchanged while revenue increases significantly with CAGR of 17.2% in FY18-20.

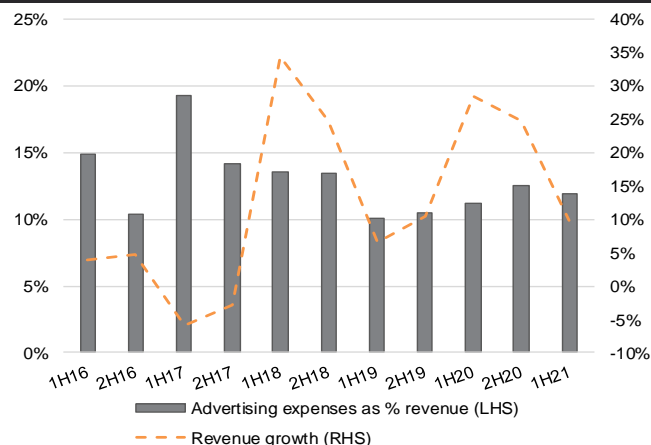
Thanks to huge spending on advertising, MCH maintains its position among Vietnam's Top 3 most chosen FMCG brand owners in Vietnam, while the other two are Unilever and Vinamilk. In 2020, the company owned four brands among the Top 10 popular food brands, including Chinsu, Nam Ngu, Tam Thai tu, Kokomi which are widely recognizable by Vietnamese consumers. According to Kantar's brand footprint 2021 ranking, MCH is Vietnam's second-largest brand owner after Unilever, with a total of 361.6m consumer reach points (from both urban and rural Vietnam). Notably, Chinsu recruited the highest number of new shoppers in the rural market, adding more than 1.1m new households in 2020 thanks to its wide range of sauces to capture consumers' needs while they stayed at home.

Figure 11: MCH was the 4th biggest advertising spender in Vietnam in 1Q19 (unit: US\$m)



Source: VNDIRECT RESEARCH, KANTAR WORLD PANNEL

Figure 12: MCH's advertising expenses as % revenue versus revenue growth (unit: %)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 13: MCH's marketing strategy targets all customers through traditional and modern channels

Traditional media



TV Commercials to capture mind share of the masses

Social networks



Utilizing online media platform to advertise and communicate with younger generation.

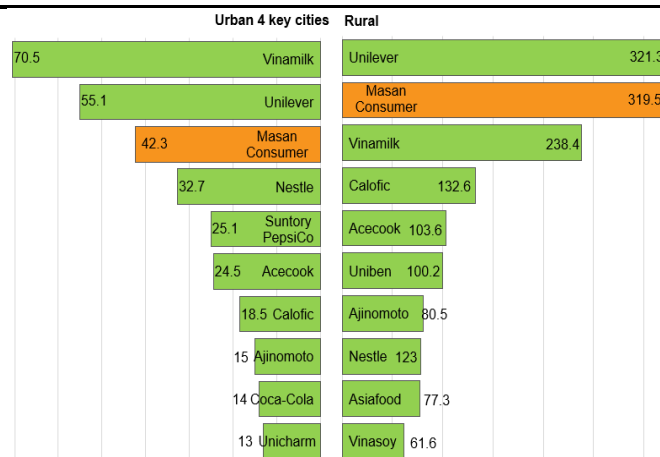
Experimental marketing



Using remarkable brands like Chinsu, Nam Ngu to sponsor culinary programmes

Source: VNDIRECT RESEARCH, COMPANY WEBSITE

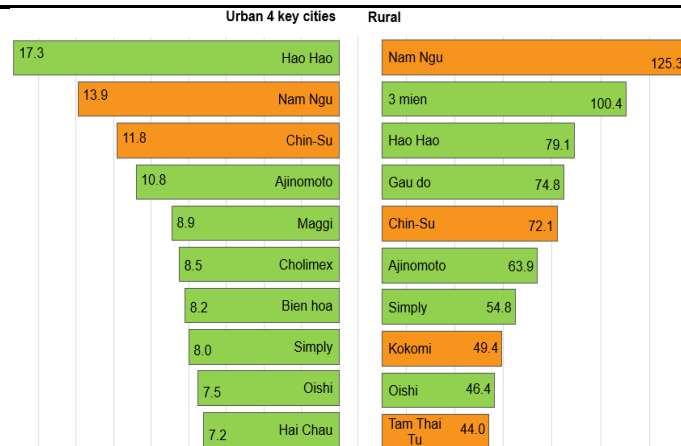
Figure 14: MCH 2nd in Vietnam's 2020 ranking – Brand Owners (unit: million point)



Source: VNDIRECT RESEARCH, KANTAR WORLD PANNEL

* **Consumer Reach Points (CRPs)** are a measurement of brand penetration (how many households buy the brand) and purchase frequency (how often **consumers** buy the brand)

Figure 15: The company owns four brands among the Top 10 popular food brands in Vietnam (unit: million point)

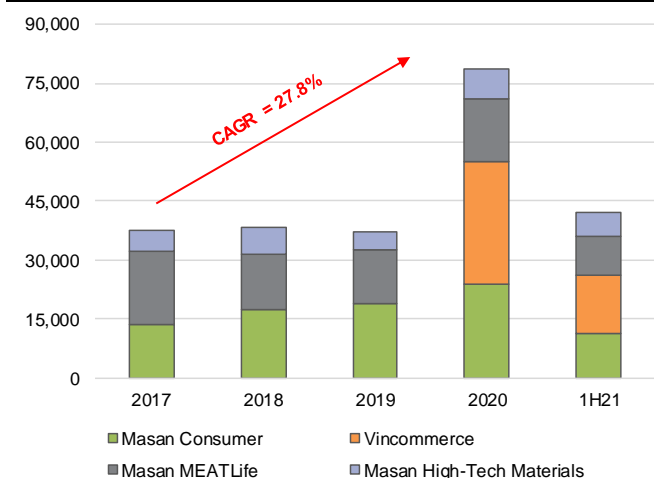


Source: VNDIRECT RESEARCH, KANTAR WORLD PANNEL

Empowered by Masan Group's eco-system

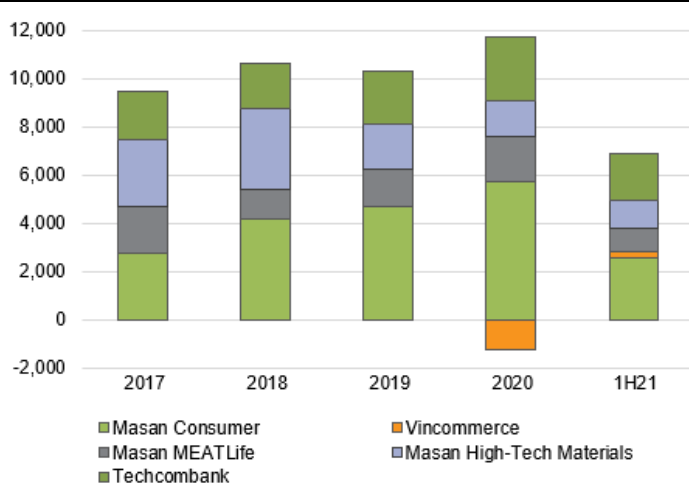
So far, MCH is a "golden goose" of Masan group, which contributed about 30.5% to MSN's FY20 revenue and 37.1% of FY20 EBITDA. In Dec 2019, MCH's parent company – Masan Group Corporation (MSN VN, Not Rated) acquired 58% stake of Vincommerce (VCM) from Vingroup (VIC VN, Not Rated). MSN aim to build a one-stop shop that satisfies all Vietnam consumers' needs including food & beverage, financial, educational, social, entertainment and health care. Together with VCM, these two companies become a perfect couple in Masan Group's ecosystem in which MCH provides essential products while VCM is responsible for distributing products to consumers.

Figure 16: MSN's revenue mainly came from MCH (unit: VNDbn)



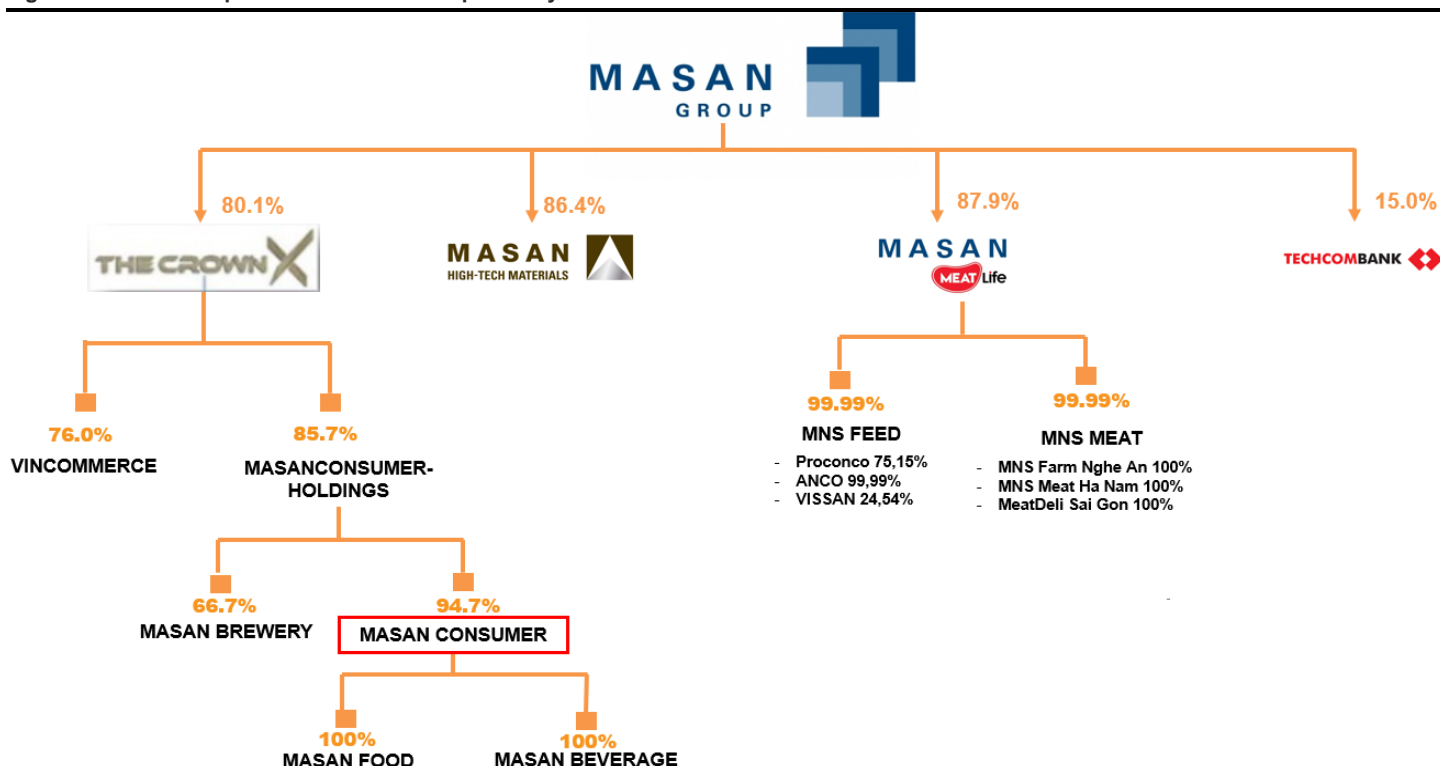
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 17: MCH was the profit maker for the whole group (VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 18: Crown X's position in Masan Group's ecosystem



Source: VNDIRECT RESEARCH, COMPANY REPORTS

We believe that MCH will be empowered with Vincommerce 's client base and network. VCM had two modern retail chains, including 1) 123 supermarkets under the VinMart brand, and 2) 2,231 convenience stores under the VinMart+ brand. With 3,000 self-owned points of sales (POS), the company can quickly showcase and trial new products in all VCM's retail systems and extensively promote its brands at these stores and supermarkets at a much lower cost than other POS.

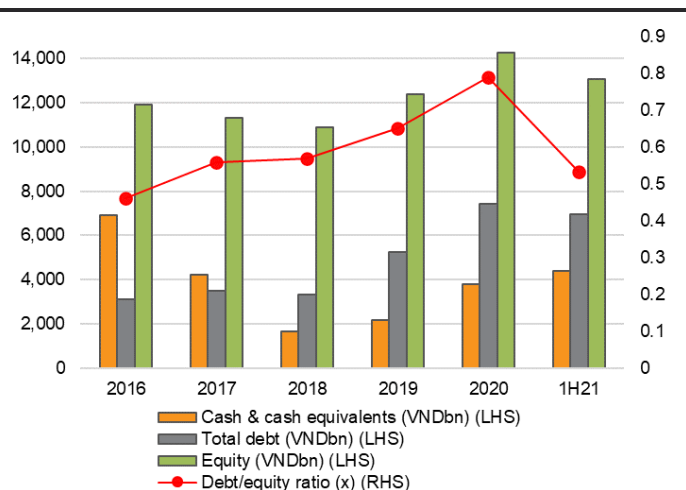
Besides, as Masan Group – MCH's parent company is able to reach customers directly, the company can access client data on product demand and customer behaviors trends to develop new products or adjust its marketing strategy. One of the terms of the acquisition allows it access to Vinmart/Vinmart+ data and the database of 9.7m VinID members. In our view, this will help MCH to quickly collect customer feedback on new products, thereby making appropriate adjustments and proactively building separate brands for each audience consumer.

Healthy balance sheet and strong profitability

MCH maintains a debt/equity ratio at a low rate, we think that the low leverage ratio is an advantage of MCH in controlling its financial status and the company will have more room to mobilize more loans to finance the expansion of production activities. In FY16-20, its debt/equity ratio rose from 0.46x to 0.79x as MCH invested in building instant noodle and beverage production lines. Specifically, in FY20 MCH has invested in instant noodle production lines (4 in Nghe An and 3 in Hau Giang) with a capacity of 18m packages/month/line and 3 pho production lines (2 in Nghe An and 1 in Hau Giang) with a capacity of 3m packages/month/line. These lines came online in 1Q21.

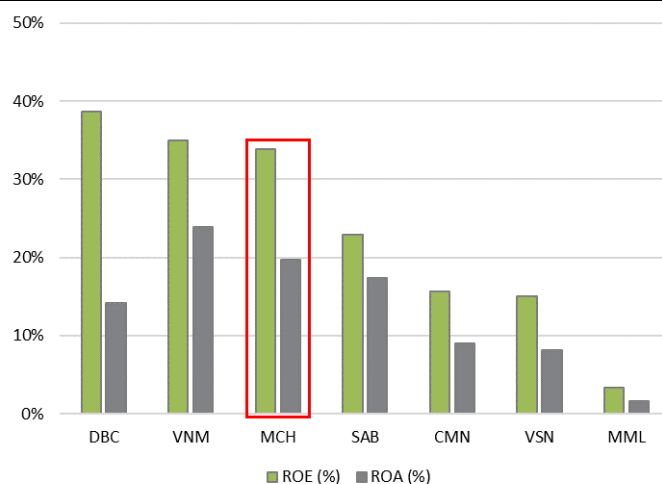
In addition, since MCH was listed on the UpCom Stock Exchange in 2017, it has maintained a regular cash dividend policy with VND4,500/share per year.

Figure 19: MCH's financial leverage In FY16-1H21



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 20: MCH's FY20 profitability ratio compared to other listed F&B producers in Vietnam



Source: VNDIRECT RESEARCH, COMPANY REPORTS

OUTLOOK

Demographic and lifestyle changes will blow tailwinds to MCH

Vietnam is the 17th largest country in term of population with 100 million and is delivering the highest GDP growth rate in ASEAN with 6.9% 2018-20 CAGR. According to Fitch Solutions, Vietnam disposable income per households will reach US\$6,848 in 2024F, with a CAGR of 8.0% in 2020-24F.

A rapidly growing middle class and rising disposable income will raise demand for healthier and more premium product. We believe that per capita income has grown stably, while inflation and exchange rates are controlled in a timely manner, giving people access to premium products. They have become far more knowledgeable about what constitutes high service standards. In addition, the Covid-19 pandemic will also affect consumers' awareness of health issues, thereby increasing the demand for high quality products that align with the health trends.

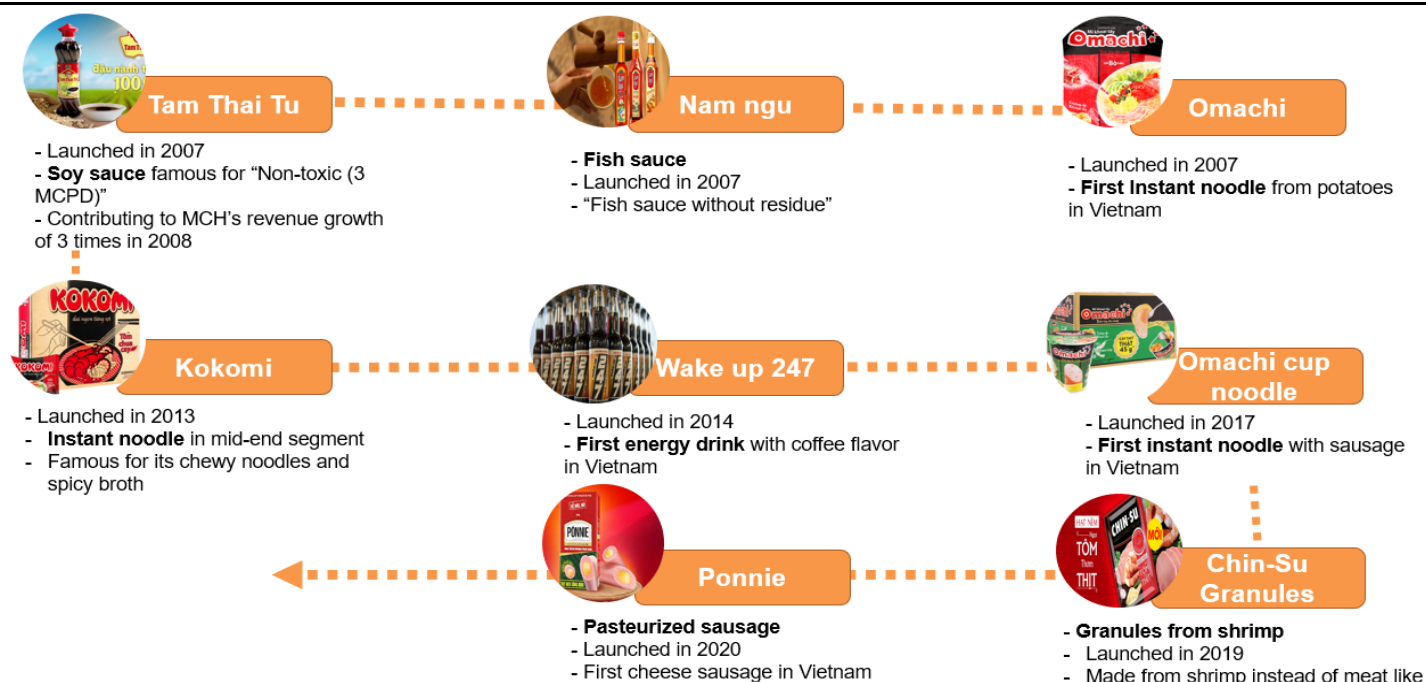
MCH's winning formulas include premium pricing and fast responding

In order to cement its leading position, MCH often adopt premium pricing strategy. The company continuously developed high quality products and marketed to higher-income individuals. For example, in 2007 when the instant noodle market did not have a clear price segment and positioning, consumers were overwhelmed by a series of instant noodles brands with unclear messages and difficult to make purchasing decisions. Masan Consumer launched the first premium instant noodle "Omachi" made from potatoes, which are believed to be healthier than the traditional ingredient — wheat. The product with slogan "Very delicious without the fear of heat" - focusing on consumers' health concerns, became an urban consumer favorites and quickly gained 15% market share just three years after launching.

The premium pricing strategy really got a boost from 2018 when MCH launched Omachi Cup - complete meal solution and Omachi mashed potatoes. In 2019, MSN continue released super premium Chinsu fish sauce with luxury packaging. This strategy helped the company dominate high-end segment with 45% market share in 2020.

We believe that MCH has the highest speed of product introduction to the FMCG market in Vietnam. The company attaches great importance to product research and development, launching an average of 30 new products each year – much higher than its competitors. MCH's products are updated in taste, style, packaging, or ingredients to meet new consumption trends. In our view, this is a competitive advantage as customers can easily find an MCH's product to meet their demand without switching to other producers. As of the end of 2020, Masan Consumer owns five brands brand with a revenue of over VND2,000bn, reflecting the continuous efforts to build and develop strong brands in the industry categories.

In addition, we also saw that MCH has a quick response to any change in consumer behavior. Thanks to the advantage of scale as well as a professional Research & Development team, MCH can quickly launch new products to meet the diverse demand of customers.

Figure 21: MCH's notable innovative products


Source: VNDIRECT RESEARCH, COMPANY WEBSITE

Figure 22: MCH quickly responses to change in consumer behaviour during and after the pandemic

	Change in consumers' spending	MCH's strategy
During the pandemic	With many local consumers working and studying from home during the lockdown and consumer foodservice outlets were forced to stop offering dine-in options, resulting in swift cooking at home. Thus, demand for instant food and pre-processed meal also rose quickly.	In 2020, MCH has launched full-meal solution with a set of 7 dishes for breakfast under Chin-su brand. New products advertised with the slogan "Breakfast at home is still fun" has hit the customer's psychology who want to enjoy plentiful dishes but can't hang out due to social distancing orders.
	Due to the social distancing order, people are restricted from traveling, thus the need for food stocking also increases.	Catching up this trend, MCH has launched the product "Kokomi 90" with 20% more weight in each package but still keep the same price, making it easier for consumers to store food.
After the pandemic	The pandemic and subsequent lockdown measures led to significant unemployment in Vietnam, which will influence consumers' purchasing decisions to focus on purchasing staple food items with reasonable prices in the short term.	Grasping this trend, MCH recently launched "Kokomi 90 Kayakay". In our view thanks to 20% larger in weight than similar products while keeping prices on par with competitors, the new product has attracted more consumer attention after being launched.
	Besides, consumers returning to their busy lifestyles after the pandemic tend to search for convenient, time-saving packaged food, making meals easier to prepare but still copious.	Masan Consumer recently launched Hotpot Saefood Noodle Omachi with the familiar slogan "Very delicious without the fear of heat", giving customers more choices for meal. In addition, the company also promoted the promotion of 7 breakfast products - full meal solutions in 1H21.

Source: VNDIRECT RESEARCH

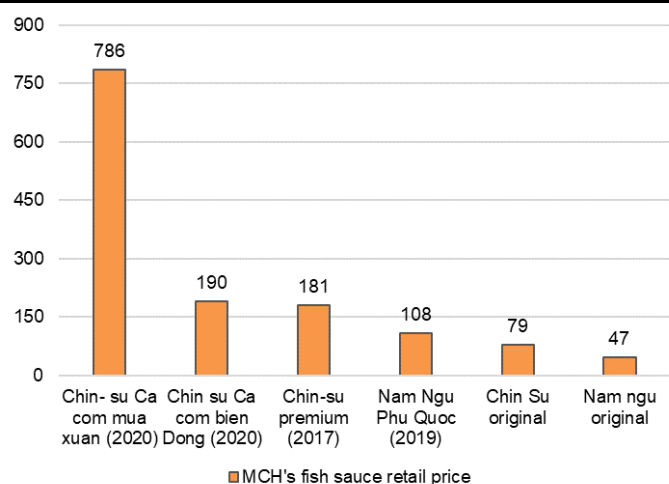
Seasonings: we expected seasonings revenue to grow steadily 7.5% CAGR over FY21-23F

Fish sauce is the key growth driver

Vietnam table sauces were valued at US\$1.4bn; and grew steadily over years at about 7.3% per annum. However, the playground is quite crowded with several local producers: Masan Consumer, Cholimes Food, Trung Thanh, Nam Duong, Thuan Phat and plenty of small, unbranded producers. In which, MCH currently holds the largest market share with familiar brands namely Nam Ngu (14.3% market share), Chinsu (6.2%), Nam Ngu II (5.3%), Tam Thai Tu (4.3%).

MCH's seasonings revenue grew 8.9% CAGR during 2016 – 2020, making up about 34.9% to MCH's FY20 revenue. About 70% of seasoning revenue was attributed to fish sauces, the most popular condiments used by locals, followed by soy sauces. As we mentioned above, MCH adopted premium pricing strategy for most of their FMCG products, thus the company continuously developed high quality products in order to lift the average selling price.

Figure 23: List of MCH's fish sauce products & prices (unit: VND/ml)



Source: VNDIRECT RESEARCH

Figure 24: MCH's premium fish sauce using glass instead of plastic to denote the higher value



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Realising the premiumisation trend, MCH launched Nam Ngu Phu Quoc fish sauce and Nam Ngu Gold Label, upgraded products of its mid-market Nam Ngu brand (accounting for 58% of fish sauce revenue) in 2H19. Until 2H20, the company continued to upgrade its product portfolio through Chinsu Ca com bien Dong – with higher protein rate in luxurious glass bottles.

Besides, the company also launched a super spicy Chinsu chili sauce that is preferred by a huge number of consumers thanks to its stronger flavor and extremely strange sweet and sour taste compared to many other chili sauces on the market. This product, along with traditional sauce products that have dominated the market for many years, helped increase soy and chili sauces revenue by 5.0% yoy in FY20.

2020 also marks the return of MCH in the granules market with Granules from shrimp and Granules with 25 nutrients. Thanks to the rapid growth of these two products, the company recorded a 50.0% yoy in granules revenue. However, we think that it will not be easy for MCH to capture a large market share in the granule segment as this is currently a playground for foreign players: Knorr (Unilever), Maggi (Nestlé), and Aji- Ngon (Miwon). All these brands are already familiar to consumers and have strong positions in the market.

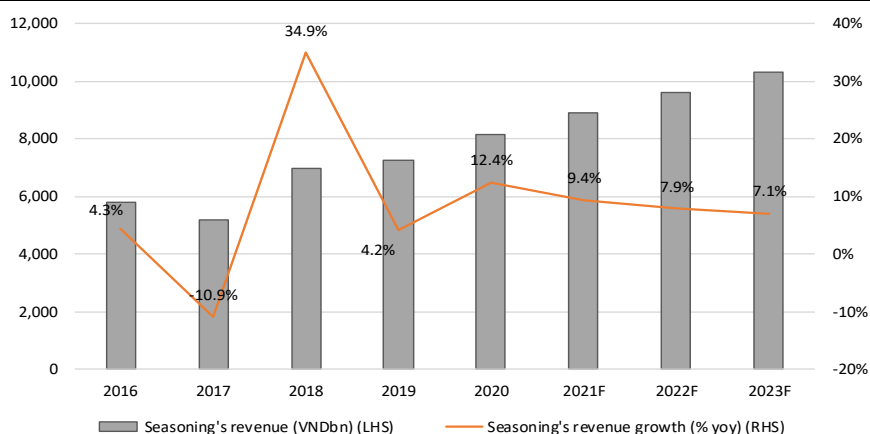
Positive revenue growth on the back of premium products

Euromonitor forecasts Vietnam's table sauce segment growth to be slightly lower in 2021F (+4.6% yoy) as stockpiling ceases and consumers have supplies of non-perishable goods at home after the social distancing orders. According to our survey, currently MCH is promoting marketing for the Nam Ngu Phu Quoc brand and Chinsu Ca com bien Dong, which are all premium products with the average selling price of 2 times higher than the middle products in the market. Thus, we forecast MCH's premium fish sauce revenue to grow 20.0% yoy thanks to the ramp-up of the Nam Ngu Phu Quoc brand and Chinsu Ca com bien Dong, while its mainstream fish sauce revenue grows 4.6% yoy, in line with growth of the overall table sauce industry as forecasted by Euromonitor. In addition, we expect MCH's sales value of granules to surge 40% yoy in FY21F, contributing

9.4% to category's revenue thanks to a higher penetration rate through Chinsu granule product with 25 nutrients. Meanwhile the soy & chili sauce segment grew steadily by 6.0% yoy due to maintaining a stable market share. Overall, we project MCH's Seasoning segment net revenue to grow 9.4% yoy in FY21F (accelerating from +4.2% in FY19).

In our view, consumers' demand for seasoning has remained stable over years, therefore we expect the Vietnam's table sauce market to rise steadily by 4.8% CAGR in FY21-23F. Since Masan Consumer holds the dominant market share in the sauce market we believe that the growth rate of MCH's seasoning segment will be roughly equivalent to the growth rate of the market. Thus, we expect MCH's mainstream fish sauce revenue grows 4.8% CAGR while its premium fish sauce sales value to rise by 15.0% CAGR in FY22-23F thanks to focusing on premium products with higher selling price. Overall, we expect MCH's seasonings revenue to reach VND10,299bn in FY23F with CAGR of 7.5%, equivalent to a CAGR of 8.9% during the period 2016-2020.

Figure 25: MCH's seasoning revenue to post a CAGR of 7.5% in FY21-23F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Convenience food: From instant noodle to full-meal solution

Premiumization is the key growth driver

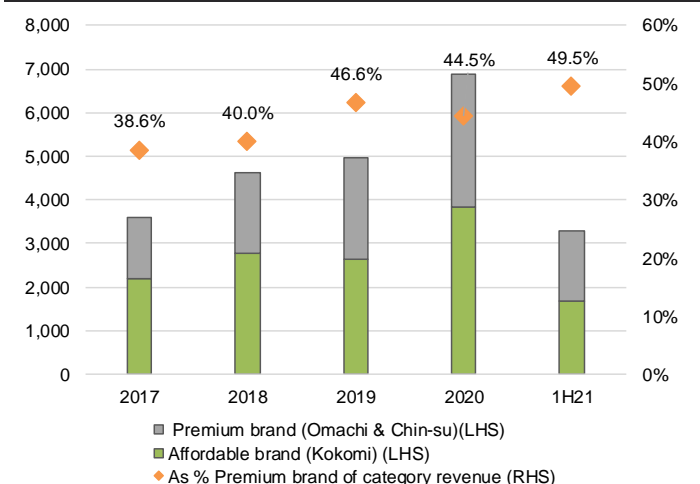
Data from the World Instant Noodles Association (WINA) showed that Vietnam ranks 3rd in the world in terms of total consumption of instant noodles in 2020, increasing of nearly 30% yoy (from 5.43bn packages in 2019) and was valued at US\$1.2bn. In which MCH is the second-biggest instant noodle maker, holding a 20.0% market share in 2020, standing behind Acecook's 32.6% (data from Euromonitor).

Currently, there are about 50 companies producing instant noodles in Vietnam, bringing many choices to consumers in terms of both types and prices of items. This result shows that the competition in the market is quite fierce. Most of the instant noodle market share belongs to four giants: Acecook, Masan Consumer, Uniben and Asia Foods. In which, we believe Acecook is MCH's main competitor in the mid-range price segment with Hao Hao brand - recognized by 100% of Vietnamese consumers with an average supply of nearly 3bn packages per year. Meanwhile, foreign noodle brands are MCH's main competitors in the high-end price segment namely Koreno (Paldo – Korea), Samyang (Korea), and Nissan (Japan). In the face of competitive pressure when new players enter the instant noodle market, MCH has chosen its own path by focusing on investing in premium products aimed at high-end customers.

MCH started focusing on premium product strategy in 2017 by launching "Omachi Cup Noodle" product - the first instant noodle with sausage in Vietnam which made a big splash and helped the category's revenue increase by 29.3%

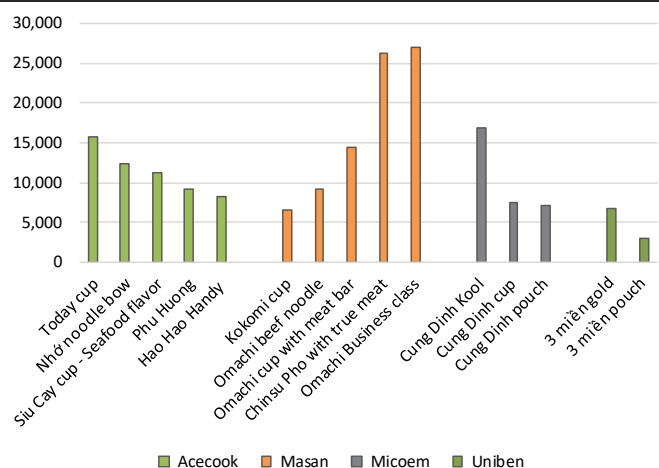
yoy in FY18. Up until now, high-end products have been the main driver of its convenient food revenue growth with FY17-20 CAGR of 30.3%. In 2020, Omachi brand dominates high-end segment with 45% market share in 2020, with revenue grew 32% yoy, becoming a top - selling brand Supermarket and best - selling noodle bowl in the country, according to the management.

Figure 26: Sales from premium brand Omachi rose quickly in recent years (unit: VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 27: Selling price of MCH's products are higher than competitors (unit: VND)



Source: VNDIRECT RESEARCH, COMPANY WEBSITES

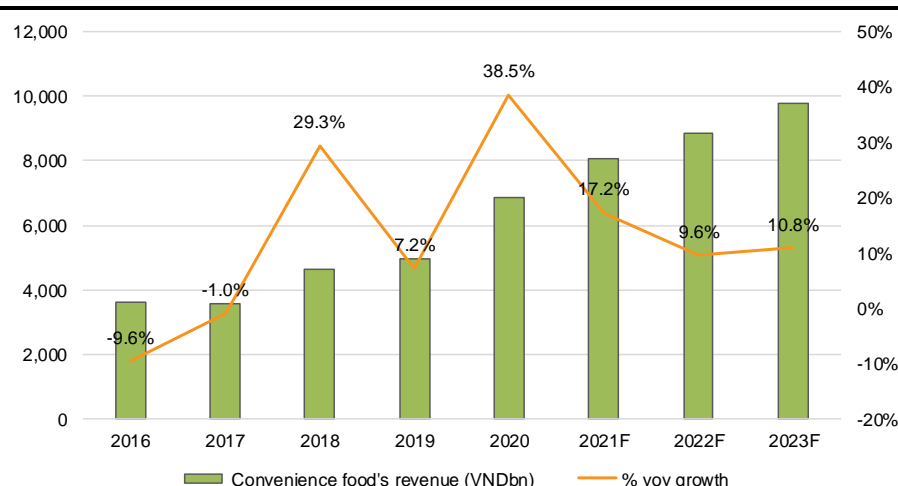
Full-meal solution product become the spotlight

We believe the stellar performance of convenient food segments are mostly contributed by “Full meal solution concept”, which provide customers ready-to-eat meal products that save time in preparation while preserving the delicious taste. The company aims to make each package a nutritious, healthy meal suitable for the busy lifestyle of modern consumers.

- Omachi cup (first noodle with sausage) and Omachi Business Class (noodle with shrimp and XO sauce) which had been warmly welcomed by consumers.
- In 2020, MCH introduced the Chinsu breakfast set which created eating at home trend with seven dishes enough for all days in week and satisfy the different tastes of every family member.
- In 1H21, MCH has launched “Kokomi 90 Kayaka” which is 20% larger in weight than similar products while keeping prices on par with competitors and “Hotpot Seafood Noodle Omachi”, giving customers more choices for meal.

Over the FY21-23F period, MCH plans to further develop the full-meal solution concept by focusing on its premium cup packaging (vs. pouch), developing new product lines (such as clear noodle soup), and increasing the meat content in each product. Thus, we expect the sales value from the premium brands (Omachi, Chinsu) to grow 20.0% yoy in FY21F, followed by a CAGR of 15.0% over FY21-23F. Meanwhile, sales of the affordable brand (Kokomi) is expected to surge 15% yoy in FY21F driven by increasing demand for essential items in 2H21 as a result of social distancing orders.

According to Euromonitor, instant noodle's sale is expected to grow from VND27,117bn in 2020 to VND36,345bn in 2025F, with CAGR of 4.1% in the period 2021-2025F. We expect MCH's convenient food segment to post a revenue CAGR of 10.2% over FY21-23F – higher than sector growth as the company focuses on premium strategy which raising its average selling price.

Figure 28: We project MSN's convenience food revenue to post a CAGR of 10.2% in FY21-23F


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Soft drink category: Energy drinks to be the growth engine

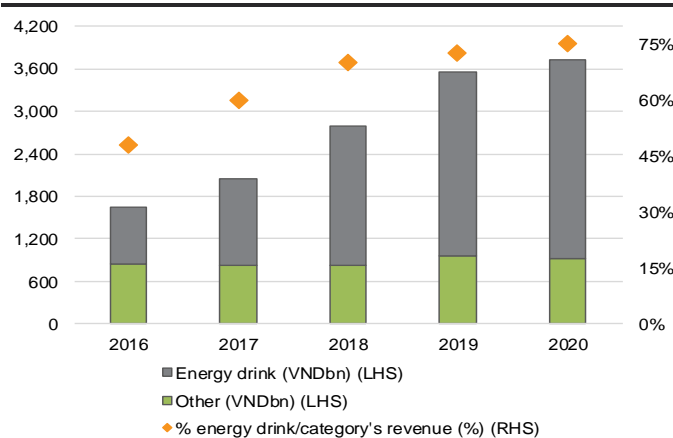
Revenue growth thanks to breakthrough innovation

Soft drink has been the quickest-growing product line for MCH in recent years with a FY15-20 CAGR of 30.9%, in which energy drink was the largest contributor. The company started its journey to find the most suitable product for consumers' energy drink needs since 2014. In 2014, MCH launched its Wakeup 247 energy drink with coffee flavour, when existing products from Redbull (Redbull), Suntory Pepsico (Sting) and Tan Hiep Phat (Number 1) only had the traditional honey and strawberry flavours. Thanks to the coffee flavour and support of strong TV ad campaigns, Wakeup 247 quickly became the favoured choice for coffee lovers and those who need to keep alert at work.

In 2020, Wakeup 247's share in the off-trade energy drinks market expanded to 11.4% (+6.1% pts since 2014) and became the fourth biggest energy drink brand in Vietnam. MCH's revenue from energy drinks accelerated, with a FY15-20 CAGR of 39.4%, reaching VND2.8tr in FY20, accounting for 75.4% of MCH's soft drinks segment revenue.

Figure 29: MCH's soft drink portfolio


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 30: Energy drink contributed the most to soft drink's revenue


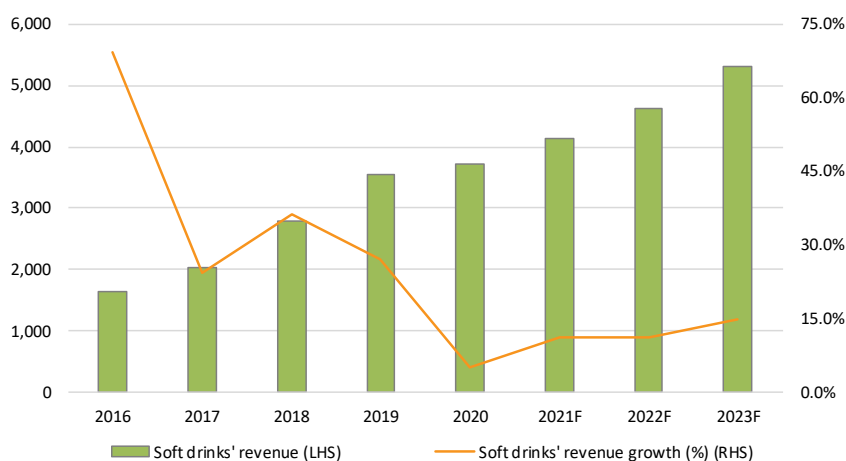
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Energy drinks to be the key driver

In 2020, the company launched Ho Van energy drink brand with traditional honey flavor to compete with Red Bull & Number 1 and Compact energy drink with cherry flavor to take on the existing traditional energy drinks to compete with Sting. They quickly gained market share in 2020 with 1% for Compact Cherry and 0.6% for Ho Van after nearly one debut year. In our view, MCH's soft drink products have strengths in advertising, making it easier for products to approach consumers. In addition, taste is also a competitive advantage of Masan Consumer with Wake-up 247 in coffee flavor and Compact in cherry flavors that impress customers thanks to its unique taste compared to other products on the market. Thus, we believe these products will continue to gain market share in the coming years.

For FY21F, we expect energy drink revenue will continue to increase by 10.0% yoy and keep the momentum with a CAGR of 12.5% in FY21-23F thanks to the higher penetration of new product. Therefore, we forecast the soft drinks revenue to grow 11.2% yoy in FY21F and achieve VND5,304bn (+15.0% yoy), claiming 19.9% market share in FY23F.

Figure 31: We project MCH's soft drinks revenue to post a CAGR of 13.1% in FY21-23F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Other categories

Home personal care category: Tapping into new markets

In Feb 2020, MCH has acquired 52% of Net Detergent JSC (NETCO) via a newly established home and personal care indirect subsidiary – Masan HPC. According to the management the home and personal care (HPC) is now an attractive "playground" for episodes multinational corporation with a market value of about US\$3.1bn, thus there still have many growth opportunities for the company to build strong domestic brand. We believe that MCH's professional R&D team along with the experience of NETCO about production, technique and technology will help MCH broaden its product portfolio to better serve 100m Vietnamese consumers.

In FY21F, we forecast HPC segment to growth 16.2% thanks to the wide distribution of products throughout the Vinmart and Vinmart+ systems along with the contribution from the new product "Joins 2 in 1" to the category's revenue. For FY23F, we expect HPC's revenue to reach VND2,169bn (+9.0% yoy) with a CAGR of 12.7% in FY21-23F, contributing 6.9% to MCH's total revenue.

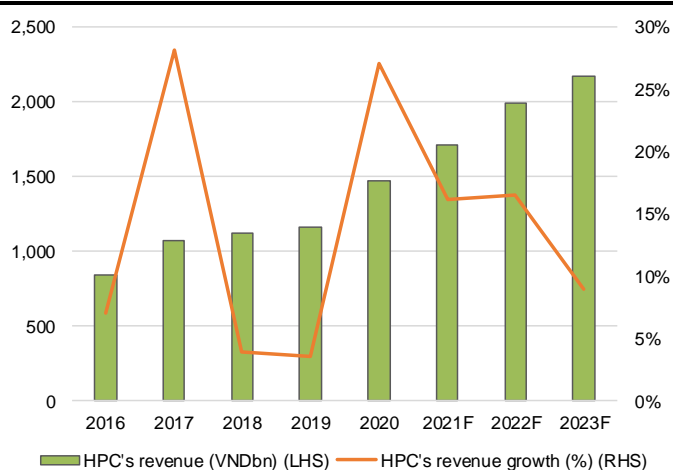
Processed meat: Counting on sausage products

In 2020, the processed meat industry grew impressively by 53.3% yoy, contributing 5.0% to MCH's revenue. We believe the positive revenue growth is

mainly due to the new pasteurized sausage product - Ponnies launched in 2020, known as the first cheese-filled sausage in Vietnam and 80% meat-based sausage. According to our survey, the product is well received by consumers (especially children) thanks to its unique taste.

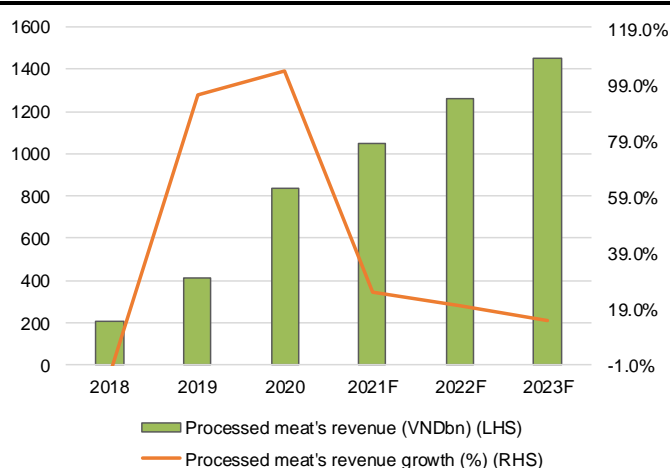
In FY21-23F, the company continues to focus on product premium strategy through research and development of new initiatives. We expect FY21 will continue to be a successful year for the processed meat segment with revenue increase by 25.0% yoy from the high base in FY20. For FY23F, we forecast processed meat's revenue to reach VND1,449bn with a CAGR of 17.5% in the period FY21-23F.

Figure 32: We forecast MCH's soft drinks revenue to post a CAGR of 12.7% in FY21-23F



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 33: FY21F processed meat revenue increase 25.0% yoy despite high – base in FY20



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Outlook: We expect MCH's net profit to grow 12.0% during FY21-23F

We expect MCH's FY21F revenue and net profit to grow 12.6% and 12.2% yoy, respectively, thanks to:

- Revenue of convenience food and seasoning grow 17.2% yoy and 9.4% yoy driven by 1) higher demand for food stockpiling in 2H21 due to social distancing orders and 2) MCH's strategy focus on premium products and full-meal solutions.
- Soft drink's revenue increase by 11.2% yoy to VND4,145bn on the back of larger market share in energy drink category.
- In 1H21, MCH's blended GM decreased slightly by 0.2% pts to 40.9%. In our view, the plunge was due to: 1) the product mix change as MCH has merged with NET in Feb 2020, which has GM 15.6%-21.0% lower than GM of MCH's main segments and 2) the increase in input material prices following the upward trend of global commodity prices.
- In FY21F, we project GM in convenience food and seasoning to drop 0.5% pts and 0.5% pts, respectively due to higher input cost. However, in our view the increase in materials cost will be partly offset by MCH's strategy focus on high-end products which have twice selling price as much as mid-range products. In addition, the GM of new business – HPC is still lower than other MCH's segment by 13-26% pts. Thus, blended GM narrow by 0.4% pts in FY21F.
- SG&A expenses/revenue drops 0.7% pts to 16.8% thanks to the optimizing advertisement and promotion expenses of MCH after the

merge with VCM which will offset the increasing cost of labor and shipping due to pandemic.

We forecast MCH's revenue and net profit to rise 9.7%/9.8% yoy and 11.9%/12.2% yoy, respectively in FY22/23F due to:

- Revenue of convenience food surges 9.6%/10.8% yoy in FY22/23F after a strong growth of 17.2% yoy in FY21F.
- Revenue of seasoning grows steadily by 7.9%/7.1% yoy in FY22/23F thanks to MCH's leading position in the seasoning market and premium fish sauce products contributing a higher proportion to the category's revenue.
- Soft drink's revenue increases 11.3%/15.0% yoy in FY22-23F thanks to deeper penetration into the energy drink industry with new initiatives, thus gaining 1.7%/2.7% pts market share in the energy drink market.
- Gross profit margin growth of 0.1%/0.3%pts to 42.2%/42.5% in FY22-23F thanks to KDC's strategy focus on premium convenient foods and seasoning products. Moreover, we expect GM of HPC segment to improve 0.5% pts during FY22-23F thanks to salvaging the size advantages of parent company – Masan Consumer in negotiating input prices.
- SG&A expenses/revenue drops 0.3% pts in FY22F and stay at 16.5% in FY23F thanks to the optimizing advertisement and promotion expenses of MCH after merging with VCM.

Figure 34: VNDirect's forecast on MCH's business in the period FY21-23F

Unit: VNDbn	2020	2021F	2022F	2023F
Net revenue	23,343	26,275	28,827	31,649
% yoy	26.3%	12.6%	9.7%	9.8%
Convenient foods	38.5%	17.2%	9.6%	10.8%
Seasonings	12.4%	9.4%	7.9%	7.1%
Soft Drinks	5.0%	11.2%	11.3%	15.0%
Others revenue	12.3%	11.9%	8.6%	7.9%
Gross profit	9,919	11,060	12,162	13,456
Gross margin	42.5%	42.1%	42.2%	42.5%
SG&A	(4,965)	(5,519)	(5,973)	(6,558)
SG&A as % revenue	-21.3%	-21.0%	-20.7%	-20.7%
EBIT	4,954	5,541	6,189	6,898
EBIT margin	21.2%	21.1%	21.5%	21.8%
EBT	5,391	5,910	6,612	7,421
EBT margin	23.1%	22.5%	22.9%	23.4%
Tax	(793)	(754)	(844)	(947)
Tax rate	-14.7%	-12.8%	-12.8%	-12.8%
Net profit to common	4,520	5,070	5,672	6,365
Net margin	19.4%	19.3%	19.7%	20.1%
%yoy	12.3%	12.2%	11.9%	12.2%

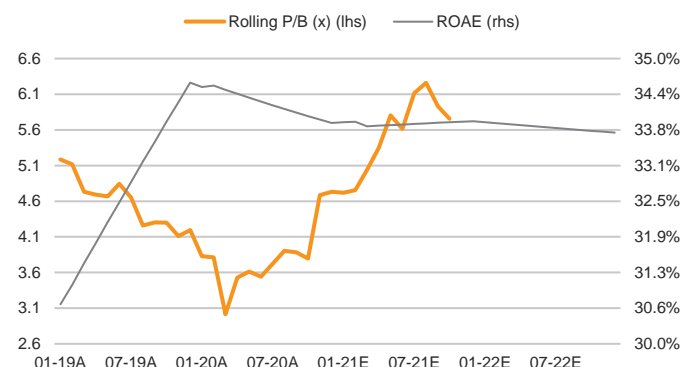
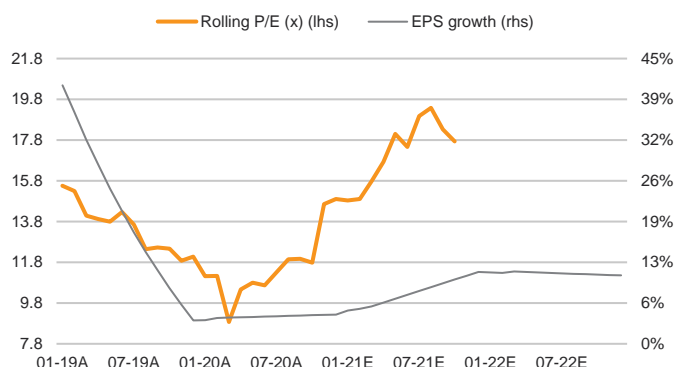
Source: VNDIRECT RESEARCH

1H21 earning review: Double digit revenue growth

Figure 35: Results comparison

VNDbn	6M21	6M20	yoy	Comment
Revenue	11,021	10,029	10.0%	
Convenience food	3,288	3,189	3.1%	The convenience food revenue increased by 3.1% yoy in 6M21 mainly driven by higher demand from consumers increasing food stocks amid the pandemic in June and July. Premium segment contributed 49.5%, while home meal replacements contributed 13.0% of overall category revenues.
Seasoning	3,279	3,117	5.2%	Seasoning continued growth momentum from FY20 by rising 5.2% yoy in 1H21. In which fish sauce category was up 7.5% yoy, soy sauce down 12.4% yoy, while chili sauce segment up 3.1% yoy mainly due to higher base effect from 1H20.
Processed meat	547	357	53.2%	Processed meat delivered 53.3% yoy revenue growth in 1H21. Notably, "Ponnie" brand was a leading driver of growth with revenues nearly doubling as processed meat premiumization continues to succeed.
Soft drink	2,639	2,395	10.2%	Soft drink segment grew 10.2% yoy in 1H21 mainly thanks to 17.6% yoy increase in energy drink revenue. According to management, the category will launch breakthrough innovations in 2H21 to diversify products to meet consumer demand.
Home and personal care	745	508	46.7%	HPC segment contributed 6.8% in net revenue during 1H21, up 1.7% pts compared to 1H20 on a like-for-like basis. New brand "Joins" detergent and softener, launched in 2H2020, continues to track well on a run-rate basis and now contributes 11% of segment revenue.
Other	28	6	365.7%	
Gross profit	4,506	4,125	9.2%	
Gross margin	40.9%	41.1%	-0.2% pts	GM slightly contracted by 0.2% pts as higher GM for seasonings, processed meats and beverages offset by lower margins in convenience foods and consolidation effects of HPC business.
SG&A	2,430	2,146	13.2%	
SG&A as % revenue	22.0%	19.5%	2.6% pts	
Selling expenses	1,975	1,737	13.7%	Selling expenses increased significantly by 13.7% yoy as the company promoted advertising activities for new products in 6M21 resulting in a 21.8% yoy increase in advertising expenses. We observed that recently the company is focusing on advertising products such as Chinsu Ca com bien Dong fish sauce, 90g Kokomi noodles and omachi noodles cooked in beef stew.
% revenue	17.9%	15.8%	2.2% pts	
G&A expenses	455	409	11.2%	
% revenue	4.1%	3.7%	0.4% pts	
EBITDA	2,492	2,358	5.7%	
EBITDA margin	22.6%	21.4%	1.2% pts	
EBIT	2,076	1,979	4.9%	
EBIT margin	18.8%	18.0%	0.9% pts	
Pre-tax profit	2,330	2,187	6.5%	
Pre-tax profit margin	21.1%	19.8%	1.3% pts	
Tax	318	319	-0.3%	
Tax rate	13.7%	14.6%	-0.9% pts	
Net profit	1,963	1,834	7.0%	
Net margin	17.8%	16.6%	1.2% pts	
EPS diluted	2770	2602	6.5%	

Source: VNDIRECT RESEARCH

Valuation

Income statement

(VNDbn)	12-21E	12-22E	12-23E
Net revenue	26,275	28,827	31,649
Cost of sales	(15,215)	(16,665)	(18,192)
Gen & admin expenses	(1,109)	(1,217)	(1,336)
Selling expenses	(4,410)	(4,757)	(5,222)
Operating profit	5,541	6,189	6,898
Operating EBITDA	6,526	7,385	8,305
Depreciation and amortisation	(985)	(1,196)	(1,407)
Operating EBIT	5,541	6,189	6,898
Interest income	745	855	980
Financial expense	(371)	(426)	(451)
Net other income	(20)	(22)	(25)
Income from associates & JVs	15	16	18
Pre-tax profit	5,910	6,612	7,421
Tax expense	(754)	(844)	(947)
Minority interest	(87)	(97)	(109)
Net profit	5,070	5,672	6,365
Adj. net profit to ordinary	5,070	5,672	6,365
Ordinary dividends	(3,302)	(3,335)	(4,117)
Retained earnings	1,768	2,337	2,248

Balance sheet

(VNDbn)	12-21E	12-22E	12-23E
Cash and equivalents	4,113	5,069	6,010
Short term investments	263	317	383
Accounts receivables	3,394	3,724	4,089
Inventories	2,293	2,511	2,741
Other current assets	89	97	107
Total current assets	10,152	11,719	13,330
Fixed assets	6,755	7,304	7,651
Total investments	249	249	249
Other long-term assets	11,716	13,318	15,150
Total assets	28,872	32,590	36,381
Short-term debt	7,519	8,250	9,057
Accounts payable	1,471	1,613	1,771
Other current liabilities	2,450	2,688	2,952
Total current liabilities	11,440	12,552	13,780
Total long-term debt	1,314	1,441	1,582
Other liabilities	495	565	664
Share capital	7,338	7,411	7,485
Retained earnings reserve	6,351	8,688	10,936
Shareholders' equity	15,623	18,033	20,355
Minority interest	0	0	0
Total liabilities & equity	28,872	32,590	36,381

Cash flow statement

(VNDbn)	12-21E	12-22E	12-23E
Pretax profit	5,910	6,612	7,421
Depreciation & amortisation	985	1,196	1,407
Tax paid	(754)	(844)	(947)
Other adjustments	(394)	(406)	(417)
Change in working capital	(229)	(24)	(14)
Cash flow from operations	5,519	6,535	7,450
Capex	(1,801)	(1,809)	(1,809)
Proceeds from assets sales	0	0	0
Others	(1,797)	(1,745)	(1,987)
Other non-current assets changes	85	85	85
Cash flow from investing activities	(3,514)	(3,469)	(3,711)
New share issuance	350	367	371
Shares buyback	0	0	0
Net borrowings	1,385	858	949
Other financing cash flow	0	0	0
Dividends paid	(3,302)	(3,335)	(4,117)
Cash flow from financing activities	(1,567)	(2,110)	(2,798)
Cash and equivalents at beginning of period	3,818	4,113	5,069
Total cash generated	438	956	941
Cash and equivalents at the end of period	4,257	5,069	6,010

Key ratios

	12-21E	12-22E	12-23E
Dupont			
Net profit margin	19.3%	19.7%	20.1%
Asset turnover	0.97	0.94	0.92
ROAA	18.6%	18.5%	18.5%
Avg assets/avg equity	1.82	1.83	1.80
ROAE	33.9%	33.7%	33.2%
Efficiency			
Days account receivable	6.6	6.6	6.6
Days inventory	55.0	55.0	55.0
Days creditor	35.3	35.3	35.5
Fixed asset turnover	4.21	4.10	4.23
ROIC	20.7%	20.5%	20.5%
Liquidity			
Current ratio	0.9	0.9	1.0
Quick ratio	0.7	0.7	0.8
Cash ratio	0.4	0.4	0.5
Cash cycle	26.3	26.2	26.0
Growth rate (yoy)			
Revenue growth	12.6%	9.7%	9.8%
Operating profit growth	11.8%	11.7%	11.5%
Net profit growth	12.2%	11.9%	12.2%
EPS growth	11.3%	10.8%	11.1%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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