VNDIRECT
WISDOM TO SUCCESS
Retail Salesnote

DIGITAL WORLD (Hose: DGW)– 16 Nov 2018

What would be the best pick in Vietnam's listed equity market, especially from the foreign investors' point of view?

I would say without hesitation: MWG. But for foreign investors, it's extremely hard (actually, impossible) to buy MWG even if they pay at the limit up. My clients usually ask me how they could possibly buy MWG. Well, unless they agree to pay a 30% premium, there's no way an individual foreign investor could buy MWG.

As we are all clear about the story of MWG, the penetration of mobile phones, consumer electronics, grocery and pharmacy… then the right question should be, how could we benefit from the strong consumption growth in Vietnam? Is there any alternative company that investors should look at?

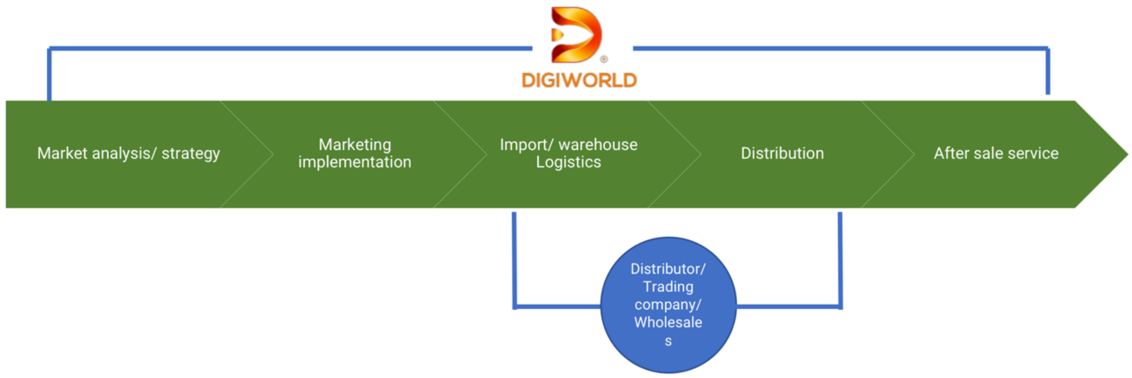
Why don't we move a bit upstream in the supply chain? MWG is the retail platform that benefits from a large and dynamic population in Vietnam. Retail lies at the end of the supply chain and before the products reach the end-user, many things have been done, including: marketing, logistics, R&D, after-sales service and operations…

Supply chain – from R&D to retail

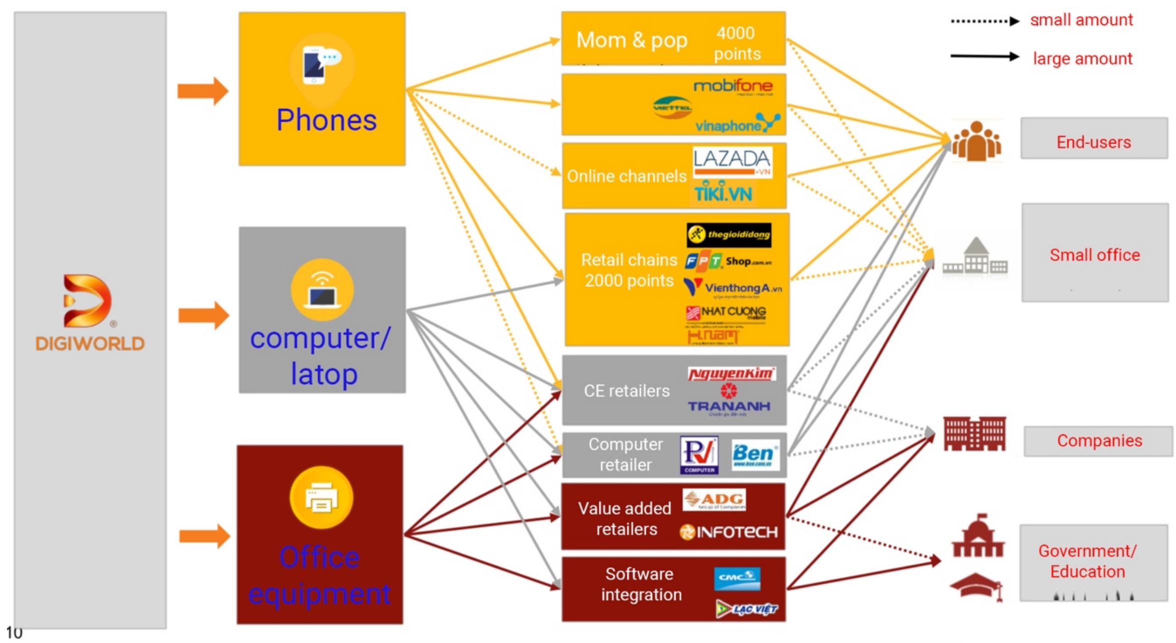
My logic is simple: since retail is doing very well, then the upstream: wholesale, logistics, marketing… should be doing well (assuming that they know how to run their businesses at a certain level of efficiency).

We met Digil World (the ticker DGW) to learn how they plan to leverage on Vietnam's growing consumption trend. The meeting was interesting (almost two hours long):

- Market Expansion Service (MES) is the core business of DGW after restructuring two years ago. DGW provides full services to help a new brand enter the Vietnam market, including: market research, marketing campaigns, working with retail to distribute products, warehouse and logistics and after-sales service (e.g. repairs).
    - The first question is: why would foreign brands (e.g. Xiao Mi or Nokia) want to work (exclusively) with DGW rather than MWG or FRT? => The reason is: (i) MWG and FRT do not cover 100% of the market. If a brand wants to reach every Vietnamese, they will have to work with many retailers and local distributors (ii) The brand will have to do marketing themselves or they will have to hire a local marketer (iii) The brand will also have to take care of warehouse and logistics or, again, they have to outsource to a local provider => obviously, working with DGW is a good option because DGW will take care of everything including working with local retailers such as MWG, FRT and mom&pop shops. Cost, time, efficiency and local knowledge are the key comparative advantages of DGW.



Differences between DGW and wholesale companies.



DGW business

- Xiao Mi contributed significantly to DGW's 2018 bottomline. 9M18 revenue from mobile phones grew 293% (yoy). In 2019, DGW expects its topline will increase about VND1,000 bn because of its exclusive contract with Nokia (although the gross margin is not very high. It could be about 4% to 5%). Besides, DGW just signed a contract with HTC to distribute HTC products in Vietnam. DGW and HTC are working on the products list. If things run well, HTC products will further contribute to DGW's 2019 topline.
- Healthcare products and FMCG are the next business lines: Revenue is still small but DGW expects it could be much bigger in the next three years. DGW already has access to 4,000 healthcare points of sales (POS) and 6,000 FMCG points of sales thanks to its M&A activities.
    - DGW admits that the new business lines are challenging but the competition in the FMCG & healthcare retail areas are rising, which creates opportunities for them. The retail players in this business are very fragmented as the biggest retail chain has only 200 stores compared to 45,000 POS nationwide. Even though DGW's current infrastructure and ERP system could be used for the new business, DGW still has to learn a lot of things. M&A is a good option for DGW.

- DGW is looking to buy smaller companies to expands its business. The target companies must be able to either (i) help DGW expand their POS network or (ii) have a good valuation.

Conclusion: We like the company and we think it's a BUY:

- Corporate governance looks good (founder and BOD owns about 50% of the company) and the company is well-run. The shift in the strategy is a good signal and I like the way they address all the risks and opportunities for entering the new business.
- I expect Nokia will contribute about VND30 bn PBT in 2019 (about VND600 EPS), Xiao Mi will continue to do well and HTC will give a lift to their income.
- DGW expects healthcare and FMCG to contribute 29% gross profit in 2019 (more than VND100 bn). I think this is an ambitious target. However, if they achieve 50% of their target, then the healthcare and FMCG sectors will contribute about VND40bn NP in 2019 (about VND1,000 EPS).
- My estimation: 2019 EPS will be around VND3,300 (without including profit from HTC, health care and FMCG). My target price for YE 2019 is VND30,000 (equivalent P/E 10x). Upside could be much higher if we see increasing revenue from healthcare and FMCG products.

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