

HUAWEI'S US BAN: TREMBLING IN THE MIDDLE OF THE TRADE WAR - MINIMAL IMPACT ON VIETNAM'S MOBILE PHONE MARKET

Our quick view on the potential impact of Huawei incident on global and Vietnamese mobile phone markets.

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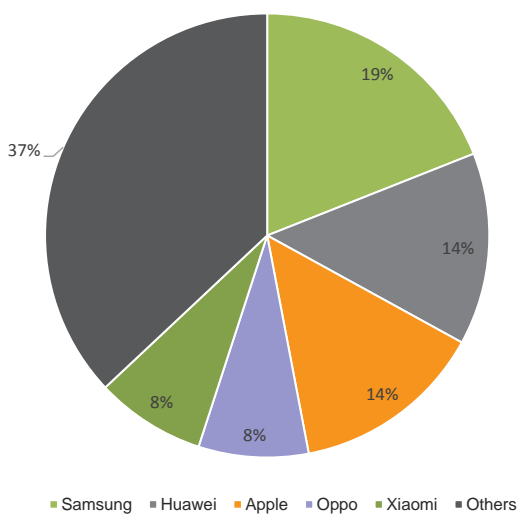
Huawei is under fire for the escalating US-China trade war

After being put on the Entity List by the US Government, Huawei will face restriction on its supply of telecommunication infrastructure and smartphones in the United States and the withdrawal of its existing US hardware and software suppliers. This would directly affect not only the manufacturing activities of Huawei, but also its customer experience when users could no longer use Android's closed-source parts including YouTube, Play Store and Google Maps. Apart from the Chinese market with relatively independent network platform, we expect Huawei's smartphone sales to diminish in its international markets.

What it means to the mobile market if US Government would not cease fire

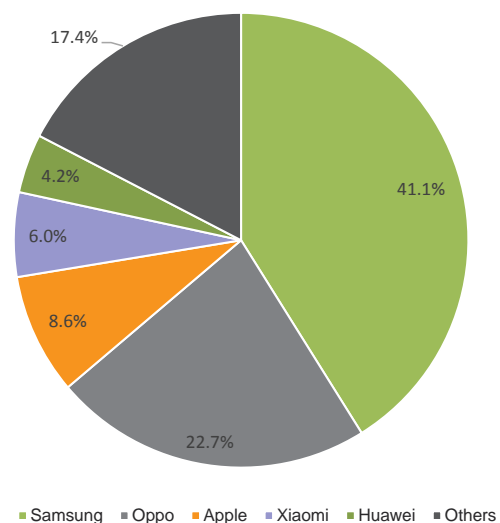
Global smartphone supply chain to be shaken up. Given the struggle of Huawei, the world's 2nd biggest mobile supplier with 14% global market share in 2018, other mobile phone manufacturers could jump in to fill the gap and capture Huawei's overseas market share. Offering similar technology under the same mid-range price category, Xiaomi and Oppo would become the substitutions for Huawei's products. Competing for more premium product range, Samsung and Apple could also be the beneficiaries. However, as part of the counter-attack from China, Apple products made in China could be imposed with a 25% tariff, thus lifting iPhone retail prices (~15-20%) and hammering its sales. According to CGS-CIMB, in 2019, Huawei's handset shipments to overseas could go down by 40% yoy while those by Oppo and Xiaomi would surge 60% and 43% yoy, respectively.

Figure 1: Global smartphone market share, by vendors in 2018



Source: COUNTERPOINT, VNDIRECT

Figure 2: Vietnam's smartphone market is shared by several giants in 2018



Source: GFK, VNDIRECT ESTIMATES

We expect there will be minimal impact on Vietnam's smartphone market. Particularly, the market share of Huawei's smartphones in Vietnam is still low at ~4%, equivalent to roughly VND2,650bn in terms of

market value in 2018, according to our estimates. Moreover, Huawei's brand recognition in Vietnam is not strong, and consumers can easily switch to other mid-range brands like Oppo and Xiaomi. We see no substantial shift in the consumer trend of Vietnam's mobile phone market following this event.

Vietnamese mobile phone retailers and distributors may experience mixed impact

FPT Retail (FRT VN, Not rated) and Mobile World Investment Corp (MWG VN, ADD, TP: VND118,800) are expected to endure certain, but insignificant, impacts. For FRT and MWG, the contribution of Huawei's handsets to their total sales is around 4 to 6%, per our market learning. As mentioned above, Oppo and Xiaomi smartphones are available as substitutions for Huawei, thus the incident would not dampen retailers' revenue. However, both of the retailers are facing risks to their inventory and the on-going installment payment contracts for Huawei smartphones (FRT with its subsidy plan). We expect two possible scenarios: 1) Huawei and its partners would share the responsibility and clear out the inventory by offering discounts and, 2) Huawei would buy back all of its smartphone stock from retailers. For the latter possibility, we have witnessed a similar case involving Samsung Galaxy Note 7, where Samsung had bought back the model from retailers and customers at retail price after the battery problem with the flagship model. Both MWG and FRT are waiting for the discussion with Huawei to find out the optimal solutions.

For the worst-case scenario, which we think will not likely to happen, that 1) the US ban would persist, 2) retailers could no longer sell Huawei products and, 3) Huawei would not provide its partners with any compensation, retailers would have to make provision for its current stock of Huawei smartphones, which would make up around VND110bn for MWG and VND40bn for FRT (approximated inventory of Huawei's products to each retailer, with assumption of 30 inventory days), in our estimation. Even in this case, the impact is not significant as the provision expenses only account for 3.8% and 11.5% of MWG and FRT's net profit (as of 2018), respectively. However, we expect that MWG and FRT would not have to bear all the responsibilities as the incident has occurred solely from Huawei's side.

Digiworld (DGW VN, Not rated) is positioned to benefit from the Huawei incident. The story is different for DGW as the distributor mostly concentrates on its exclusive distribution of Nokia as well as Xiaomi products and have no exposure to Huawei's products. Furthermore, the two foreign brands are without doubts the prime candidates to grab Huawei's market share in Vietnam.

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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.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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