

MOBILE WORLD INVESTMENT CORP (MWG) – EARNINGS FLASH

| | | | | |
|-----------------------------------|-----------------------------------|-------------------------------|----------------------|-------------------------|
| Market Price VND126,100 | Target Price VND140,700 | Dividend Yield 1.2% | Rating ADD | Sector RETAIL |
|-----------------------------------|-----------------------------------|-------------------------------|----------------------|-------------------------|

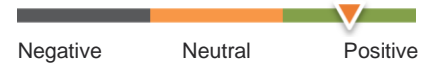
Outlook – Short term



Outlook – Long term



Valuation

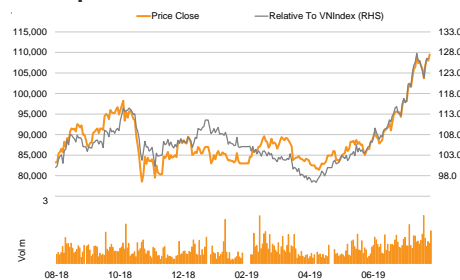


4 November 2019

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Price performance



Source: VNDIRECT

Key statistics

| | |
|------------------------------|---------|
| 52w high (VND) | 129,500 |
| 52w low (VND) | 78,156 |
| 3m Avg daily volume (shares) | 911,048 |
| 3m Avg daily value (VNDm) | 110,233 |
| Market cap (VNDbn) | 54,418 |
| Outstanding shares (m) | 443 |
| Free float (%) | 65 |
| TTM P/E (x) | 15.0 |
| Current P/B (x) | 4.9 |

Ownership

| | |
|--------------------------------------|-------|
| Mobile World Retail Advisory Co. Ltd | 11.6% |
| Tri Tam Co. Ltd | 8.7% |
| PYN Elite Fund | 3.2% |
| Others | 76.5% |

Source: VNDIRECT RESEARCH

Robust 3Q19 results on forceful store expansion

Mobile World Investment Corp (MWG) posted another batch of impressive results in 3Q19, with consolidated revenue of VND25,142bn (+20.3% yoy) and net profit of VND856bn (+32.1% yoy). Cumulatively, 9M19 net revenue rose 15.6% yoy to VND76,763bn, and net profit jumped 36.1% yoy to VND2,976bn, fulfilling 72% and 77% of our FY19F projections, respectively.

DMX maintained strong momentum. Given the slump of electronics consumption due to the rainy weather and superstition in the seventh lunar month, DMX's 3Q19 revenue rose 22% yoy driven by 1) 69 new DMX stores (a total of 907 stores at end-3Q19 vs. 737 stores at end-3Q18) and 2) the average revenue per store rising 3.9% yoy thanks to the successful layout upgrade of 125 mini-DMX stores to include more stock keeping units (SKUs), namely consumer electronics, household and kitchen appliances.

Mobile phone segment continued to beat the market. MWG's mobile phone sales grew 4% yoy in 9M19 amid the market downtrend (Vietnam's total mobile telephone sales value dropped 4.5% yoy in 9M19, according to GFK). The new mobile phone retail chain "Dien Thoai Sieu Re" (DTSR) launched in Aug 2019 to target price-orientated customers was also a surprise factor expected to revive MWG's mobile phone segment.

BHX strived to boost both revenue and profit margin. The grocery chain's revenue jumped 63% yoy in 3Q19 thanks to 1) 188 new BHX stores (total 788 stores at end-3Q19 vs. 409 stores at end-3Q18), and 2) the upgrade of standard stores to large stores (37 stores by end-Aug). BHX's gross margin is inching up closer to 20%-level, supported by the reduction in waste and shrinkage ratio to ~2.5% (vs. 3.0% in FY2018) and the integration of direct sourcing/importing from manufacturers.

MWG ramped up store expansion at record-high pace. At the rate of 2.8 store opening per day on average, MWG has launched a total of 257 stores and brought total store count to 2,706 in 3Q19. The expansion of BHX was more aggressive than we expected but the contribution of new stores opened was still small as revenue per new stores has yet to reach the optimal level. We will revisit our projections and provide an update report soon.

| Financial summary (VND) | 12-17A | 12-18A | 12-19E | 12-20E |
|-------------------------|--------|--------|---------|---------|
| Net revenue (bn) | 66,340 | 86,516 | 106,056 | 130,750 |
| Revenue growth | 48.7% | 30.4% | 22.6% | 23.3% |
| Gross margin | 16.8% | 17.7% | 17.9% | 18.1% |
| EBITDA margin | 5.6% | 6.3% | 6.3% | 6.4% |
| Net profit (bn) | 2,207 | 2,877 | 3,887 | 4,817 |
| Net profit growth | 40.0% | 30.4% | 35.1% | 23.9% |
| Recurring profit growth | 39.1% | 30.6% | 34.9% | 23.9% |
| Basic EPS | 5,314 | 6,685 | 8,669 | 10,437 |
| Adjusted EPS | 5,302 | 6,673 | 8,658 | 10,426 |
| BVPS | 18,632 | 20,371 | 27,039 | 35,443 |
| ROAE | 45.3% | 38.7% | 36.5% | 33.4% |

Source: VNDIRECT RESEARCH

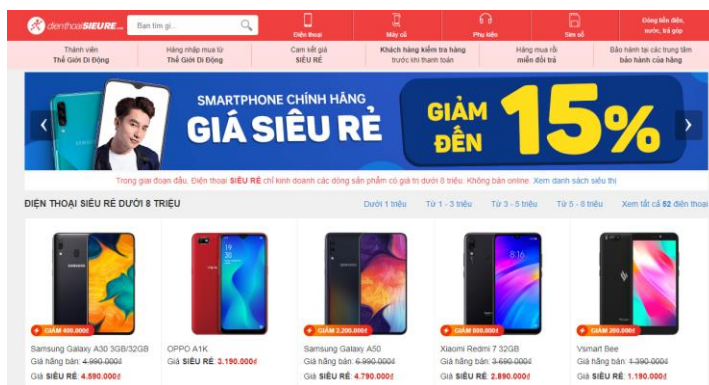
Figure 1: 9M19 results review

| FYE (VNDbn) | 3QFY18 | 3QFY19 | % yoy | 9MFY18 | 9MFY19 | % yoy | vs. FY19 forecast | Comments |
|---------------------|-----------------|-----------------|--------------|-----------------|-----------------|--------------|-------------------|--|
| Net revenue | 20,908.0 | 25,142.0 | 20.3% | 65,478.0 | 76,763.0 | 17.2% | 72.4% | In line with our projection with 1) rapid store openings in 3Q19 including 69 DMX stores and 188 BHX stores, 2) the upgrade of 125 DMX mini stores and 3) the bolstered quarterly revenue per BHX store in 3Q19 reaching VND4.4bn (+41.9% yoy) |
| TGDD | 8,570.0 | 8,529.0 | -0.5% | 26,609.0 | 25,562.0 | -3.9% | 74.7% | |
| DMX | 11,068.0 | 14,791.0 | 33.6% | 36,017.0 | 44,062.0 | 22.3% | 71.5% | GPM was slightly above our expectation as the faster-than-expected GPM enhancement of BHX and the increasing contribution of high-margin household and kitchen appliances in DMX's product mix |
| BHX | 1,248.0 | 2,034.0 | 63.0% | 2,800.0 | 7,139.0 | 155.0% | 69.7% | |
| Gross profit | 3,703.0 | 4,941.0 | 33.4% | 11,540.0 | 14,123.0 | 22.4% | 74.5% | |
| Gross profit margin | 17.7% | 19.7% | +2.0% pts | 17.6% | 18.4% | +0.8% pts | +0.6% pts | |
| Selling expenses | 2,437.0 | 3,285.0 | 34.8% | 7,210.0 | 8,743.0 | 21.3% | 72.0% | |
| as % of revenue: | 11.7% | 13.1% | +1.4% pts | 11.0% | 11.4% | +0.4% pts | -0.1% pts | |
| G&A expenses | 390.4 | 550.0 | 40.9% | 1,377.0 | 1,554.0 | 12.9% | 73.3% | |
| as % of revenue: | 1.9% | 2.2% | +0.3% pts | 2.1% | 2.0% | -0.1% pts | +0.0% pts | |
| Net profit | 647.6 | 855.5 | 32.1% | 2,187.2 | 2,976.2 | 36.1% | 76.0% | In line with our projection |
| Net margin | 3.1% | 3.4% | +0.3% pts | 3.3% | 3.9% | +0.6% pts | +0.2% pts | |

Source: VNDIRECT RESEARCH, MWG

Dien Thoai Sieu Re – super cheap is the new trend. MWG brought to life the new mobile phone retail chain which set to offer consumers branded products at low prices (an average discount of 10% comparing to similar products sold in TGDD stores). DTSR chain is differentiated from the original TGDD chain by the small-scale store (15-20 sq m), low operating costs, no after-sales services and warranty for customers. The chain currently consists of a separate website (www.dienthoaisieu.com) and 11 stores in Go Vap District (Ho Chi Minh City), which recorded an average sale value per store of more than VND500m/month in Aug-Sept 2019.

Figure 2: DTSR's official website



Sources: VNDIRECT RESEARCH, WEBSITES

Figure 3: Inside a small-scale DTSR store



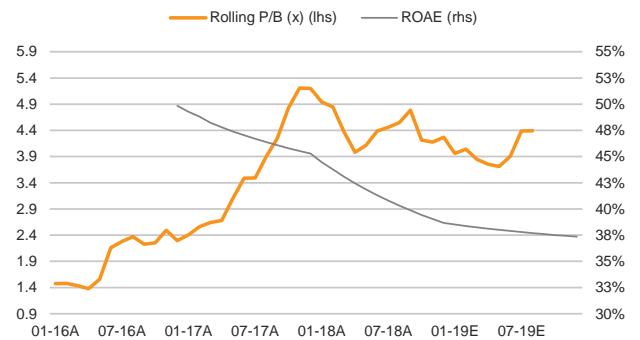
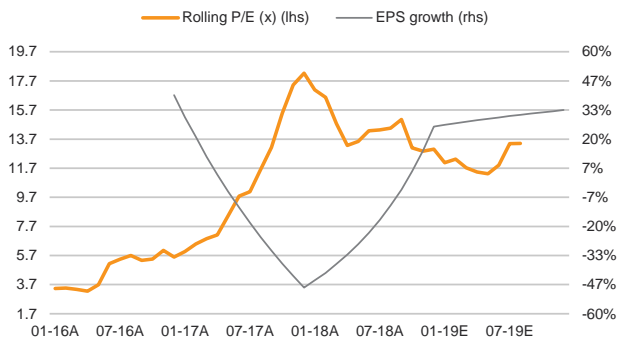
Sources: VNDIRECT RESEARCH, WEBSITES

Figure 4: Peer comparison (as at 01/11/2019)

| Company | Ticker | Recom. | Target Price (VND) | Market Cap (US\$ m) | EPS growth (%) | | P/E (x) | | P/B (x) | | ROE (%) | | ROA (%) | |
|-----------------------------------|---------------|------------|--------------------|---------------------|----------------|-------------|-------------|-------------|------------|------------|-------------|-------------|-------------|-------------|
| | | | | | FY19F | FY20F | FY19F | FY20F | FY19F | FY20F | TTM | FY19F | TTM | FY19F |
| Consumer electronics peers | | | | | | | | | | | | | | |
| Erajaya Swasembada Tbk PT | ERAA IJ | NA | NA | 401 | -46.8 | 66.1 | 12.5 | 7.5 | 1.1 | 1.0 | 11.8 | 9.0 | 4.5 | 3.9 |
| FPT Digital Retail JSC | FRT VN | NA | NA | 139 | 13.1 | 11.5 | 8.4 | 7.5 | 2.3 | 1.9 | 35.0 | 30.0 | 7.7 | 7.2 |
| Challenger Technologies Ltd | CHLG SP | NA | NA | 135 | NA | NA | NA | NA | NA | NA | 20.7 | NA | 13.6 | NA |
| Tsann Kuen Enterprise Co Ltd | 2430 TT | NA | NA | 95 | NA | NA | NA | NA | NA | NA | 3.3 | NA | 1.3 | NA |
| Sunfar Computer Co Ltd | 6154 TT | NA | NA | 39 | NA | NA | NA | NA | NA | NA | 3.2 | NA | 2.0 | NA |
| Average | | | | | -16.9 | 38.8 | 10.5 | 7.5 | 1.7 | 1.5 | 14.8 | 19.5 | 5.8 | 5.6 |
| Median | | | | | -16.9 | 38.8 | 10.5 | 7.5 | 1.7 | 1.5 | 11.8 | 19.5 | 4.5 | 5.6 |
| Grocery retailing peers | | | | | | | | | | | | | | |
| Sumber Alfaria Trijaya Tbk PT | AMRT IJ | NA | NA | 2,692 | 37.9 | 20.6 | 40.6 | 32.9 | 5.6 | 5.0 | 14.6 | 14.2 | 3.7 | 4.1 |
| Taiwan FamilyMart Co Ltd | 5903 TT | NA | NA | 1,607 | 10.0 | 14.2 | 27.5 | 24.1 | 8.3 | 7.7 | 34.8 | 29.9 | 3.9 | 5.2 |
| Average | | | | | 24.0 | 17.4 | 34.1 | 28.5 | 7.0 | 6.4 | 24.7 | 22.1 | 3.8 | 4.7 |
| Median | | | | | 24.0 | 17.4 | 34.1 | 28.5 | 7.0 | 6.4 | 24.7 | 22.1 | 3.8 | 4.7 |
| MWG | MWG VN | ADD | 140,700 | 2,406 | 29.7 | 20.4 | 14.4 | 12.0 | 4.6 | 3.5 | 37.7 | 36.5 | 12.7 | 12.4 |

Source: VNDIRECT RESEARCH, MWG

Valuation



Income statement

| (VNDbn) | 12-18A | 12-19E | 12-20E |
|--------------------------------------|----------------|----------------|----------------|
| Net revenue | 86,516 | 106,056 | 130,750 |
| Cost of sales | (71,224) | (87,095) | (107,036) |
| Gen & admin expenses | (1,762) | (2,121) | (2,615) |
| Selling expenses | (9,660) | (12,151) | (15,078) |
| Operating profit | 3,870 | 4,689 | 6,021 |
| Operating EBITDA | 5,093 | 6,070 | 7,809 |
| Depreciation and amortisation | (1,223) | (1,381) | (1,788) |
| Operating EBIT | 3,870 | 4,689 | 6,021 |
| Interest income | 342 | 636 | 523 |
| Financial expense | (437) | (451) | (504) |
| Net other income | 12 | 21 | 26 |
| Income from associates & JVs | (2) | 0 | 0 |
| Pre-tax profit | 3,785 | 4,895 | 6,066 |
| Tax expense | (906) | (1,004) | (1,244) |
| Minority interest | (2) | (4) | (5) |
| Net profit | 2,877 | 3,887 | 4,817 |
| Adj. net profit to ordinary | 2,877 | 3,887 | 4,817 |
| Ordinary dividends | (486) | (688) | (705) |
| Retained earnings | 2,391 | 3,199 | 4,112 |

Balance sheet

| (VNDbn) | 12-18A | 12-19E | 12-20E |
|---------------------------------------|---------------|---------------|---------------|
| Cash and equivalents | 3,749 | 3,277 | 7,795 |
| Short term investments | 51 | 64 | 78 |
| Accounts receivables | 1,560 | 1,909 | 2,275 |
| Inventories | 17,446 | 22,908 | 25,179 |
| Other current assets | 583 | 742 | 1,017 |
| Total current assets | 23,389 | 28,900 | 36,344 |
| Fixed assets | 3,578 | 4,143 | 3,507 |
| Total investments | 60 | 85 | 78 |
| Other long-term assets | 1,113 | 1,419 | 1,407 |
| Total assets | 28,140 | 34,547 | 41,336 |
| Short-term debt | 5,797 | 6,363 | 7,845 |
| Accounts payable | 8,253 | 10,143 | 10,453 |
| Other current liabilities | 3,858 | 4,688 | 5,700 |
| Total current liabilities | 17,908 | 21,194 | 23,998 |
| Total long-term debt | 1,248 | 1,008 | 768 |
| Other liabilities | 2 | 3 | 3 |
| Share capital | 4,435 | 4,590 | 4,699 |
| Retained earnings reserve | 3,990 | 7,187 | 11,299 |
| Shareholders' equity | 8,976 | 12,332 | 16,552 |
| Minority interest | 6 | 10 | 15 |
| Total liabilities & equity | 28,140 | 34,547 | 41,336 |

Cash flow statement

| (VNDbn) | 12-18A | 12-19E | 12-20E |
|---|----------------|----------------|----------------|
| Pretax profit | 3,785 | 4,895 | 6,066 |
| Depreciation & amortisation | 1,223 | 1,381 | 1,788 |
| Tax paid | (830) | (1,004) | (1,244) |
| Other adjustments | 53 | 206 | 104 |
| Change in working capital | (1,981) | (3,453) | (1,694) |
| Cash flow from operations | 2,250 | 2,025 | 5,020 |
| Capex | (1,484) | (1,830) | (1,122) |
| Proceeds from assets sales | 1 | 2 | 3 |
| Others | (764) | (38) | (8) |
| Other non-current assets changes | (86) | (425) | (22) |
| Cash flow from investing activities | (2,333) | (2,291) | (1,149) |
| New share issuance | 705 | 155 | 109 |
| Shares buyback | (1) | 0 | 0 |
| Net borrowings | 203 | 326 | 1,242 |
| Other financing cash flow | 0 | 1 | 1 |
| Dividends paid | (486) | (688) | (705) |
| Cash flow from financing activities | 421 | (206) | 647 |
| Cash and equivalents at beginning of period | 3,411 | 3,749 | 3,277 |
| Total cash generated | 338 | (472) | 4,518 |
| Cash and equivalents at the end of period | 3,749 | 3,277 | 7,795 |

Key ratios

| | 12-18A | 12-19E | 12-20E |
|--------------------------|--------|--------|--------|
| Dupont | | | |
| Net profit margin | 3.3% | 3.7% | 3.7% |
| Asset turnover | 3.40 | 3.38 | 3.45 |
| ROAA | 11.3% | 12.4% | 12.7% |
| Avg assets/avg equity | 3.42 | 2.94 | 2.63 |
| ROAE | 38.7% | 36.5% | 33.4% |
| Efficiency | | | |
| Days account receivable | 1.60 | 1.59 | 1.38 |
| Days inventory | 89.4 | 96.0 | 86.1 |
| Days creditor | 42.3 | 42.5 | 35.7 |
| Fixed asset turnover | 24.4 | 27.5 | 34.2 |
| ROIC | 18.0% | 19.7% | 19.1% |
| Liquidity | | | |
| Current ratio | 1.31 | 1.36 | 1.51 |
| Quick ratio | 0.33 | 0.28 | 0.47 |
| Cash ratio | 0.21 | 0.16 | 0.33 |
| Cash cycle | 48.7 | 55.1 | 51.7 |
| Growth rate (yoy) | | | |
| Revenue growth | 30.4% | 22.6% | 23.3% |
| Operating profit growth | 39.3% | 21.2% | 28.4% |
| Net profit growth | 30.4% | 35.1% | 23.9% |
| EPS growth | 25.8% | 29.7% | 20.4% |
| Share value | | | |
| Basic EPS (VND) | 6,685 | 8,669 | 10,437 |
| BVPS (VND) | 20,371 | 27,039 | 35,443 |

Source: VNDIRECT 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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