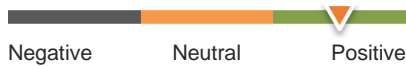


## MOBILE WORLD INVESTMENT CORP (MWG) – INITIATION

<b>Market Price</b> VND81,400	<b>Target Price</b> VND118,800	<b>Dividend Yield</b> 1.7%	<b>Rating</b> ADD	<b>Sector</b> RETAIL
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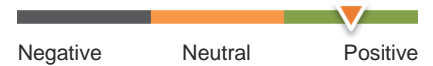
### Outlook – Short term



### Outlook – Long term



### Valuation



19 April 2019

Natalie Nguyen

minh.nguyennhu@vndirect.com.vn

### Time will prove it all

**Riding the consumer electronics (CE) boom, MWG has enjoyed exceptional growth since inception**, turning the company from a small mobile phone vendor into the largest CE retailer in Vietnam. As the next move, MWG aims to conquer the modern grocery retail market with the mini-food store chain Bach Hoa Xanh (BHX).

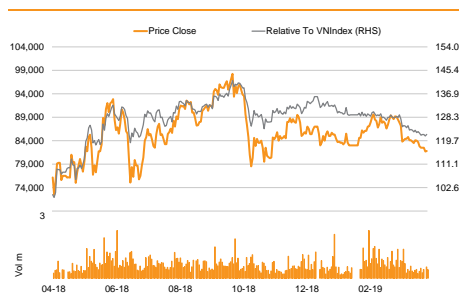
**Where we differ from consensus.** MWG's share price has declined by 26% since its height in late-Nov 2017, reflecting concern over the slower-than-expected pace of BHX new store openings which might further impact future nationwide network expansion. However we see long-term potential in the grocery retail business, underpinned by: 1) high-growth segment to lure both local and foreign retailers; and 2) improving performance of BHX in late-2018.

**CE retail business is expected to be a stable short-term growth engine.** We believe MWG is well equipped to withstand the slowdown of both the mobile and consumer electronics businesses, thanks to its economies of scale, reputation and recent smart selling strategies. We expect Dien May Xanh (DMX) to alone contribute 19.1% out of total revenue growth of 25.1% in 2019 thanks to 150 new stores and full year operations of stores opened in 2018, per our forecast.

**We initiate an ADD rating on MWG with target price of VND118,800/share**, translating to a 45.9% upside and FY2019 P/E of 14.2x which is higher than the average of regional consumer electronics retailer peers but lower than the average of grocery retailer peers. This reflects our opinion that MWG has been appraised mainly based on its CE retailing business while its growth potential in grocery retailing should also be priced in.

**Downside risk and re-rating catalysts:** Potential catalysts are: (1) better-than-expected BHX results, (2) better-than-expected sales results from The Gioi Di Dong (TGDD) thanks to new generation flagship models. Downside risks are: (1) slow expansion of BHX, (2) lower-than-expected growth of mobile and CE market.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	98,250
52w low (VND)	72,471
3m Avg daily volume (shares)	632,612
3m Avg daily value (VNDmn)	54,800
Market cap (VNDbn)	36,232
Outstanding shares (m)	443
Free float (%)	65
TTM P/E (x)	12.2
Current P/B (x)	4.0

### Ownership

Mobile World Retail Advisory Co. Ltd	11.6%
Tri Tam Co. Ltd	8.7%
PYN Elite Fund	4.3%
Others	75.4%

Source: VNDIRECT

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net revenue (bn)	66,340	86,516	108,260	129,329
Revenue growth	48.7%	30.4%	25.1%	19.5%
Gross margin	16.8%	17.7%	17.8%	18.0%
EBITDA margin	5.6%	6.3%	6.1%	6.2%
Net profit (bn)	2,207	2,877	3,742	4,717
Net profit growth	40.0%	30.4%	30.1%	26.1%
Recurring profit growth	39.1%	30.6%	29.8%	26.1%
Basic EPS	5,314	6,685	8,367	10,259
Adjusted EPS	5,302	6,673	8,356	10,249
BVPS	18,632	20,371	26,806	35,000
ROAE	45.3%	38.7%	35.4%	33.1%

Source: VNDIRECT

## LEADER TAKES A BIG BITE

**Sound business model and aggressive strategy have paid-off handsomely**

**Mobile World Investment Corporation (MWG) is the largest consumer electronics retailer in term of both revenue and earnings.** By end-FY18, the company had a portfolio of 2,187 stores across the country, involving in three retail businesses: mobile phone retail chain, namely The Gioi Di Dong (TGDD), consumer electronics retail chain – Dien May Xanh (DMX) and grocery retail chain – Bach Hoa Xanh (BHX). Making a timely expansion to ride the consumer electronics boom in Vietnam, MWG enjoyed a robust revenue CAGR FY14-18 of 53.1%. Retail mobile phone business (TGDD) experienced an impressive sale CAGR of 26.6% over FY14-18. Meanwhile, the company's entry into the consumer electronics business in 2010 marked an inflection point in its revenue growth with CAGR of 113.7% in FY14-18.

Figure 1: Key milestones

Year	Key milestones
2004	Established Mobile World Co. Ltd in Mar 2004 Opened the first TGDD stores offering mobile phones, tablets, laptops and accessories. Launched the website www.thegioididong.com for online services
2010	Opened the first DMX stores offering consumer electronics and appliances
2012	Became the first and only mobile phone retail chain (TGDD) with stores covering the entire 63 provinces in Vietnam
2014	Listed on the Ho Chi Minh Stock Exchange with 62,723,171 shares under the ticker "MWG"
2015	Opened the first BHX grocery stores offering fresh food and other product serving daily needs
2016	Became the first and only consumer electronics retail chain (DMX) with stores covering the entire 63 provinces in Vietnam
2017	Successfully acquired Tran Anh Digital World Ranked 6th place in the top private enterprises of Vietnam (VNR500 ranking)
2018	Became the 2nd largest private enterprise in Vietnam (VNR500 ranking)

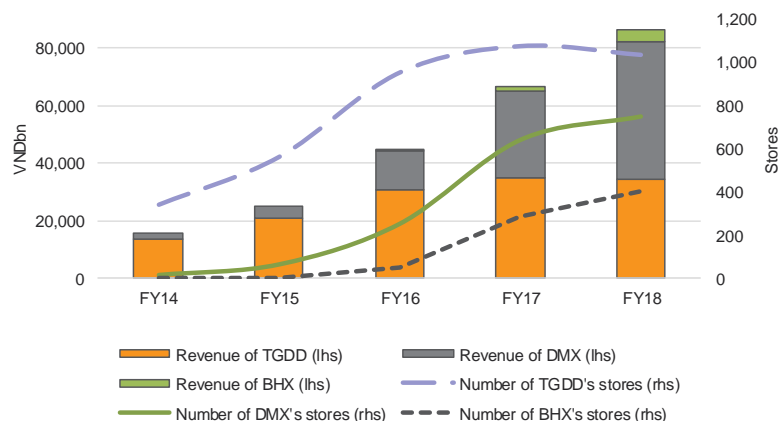
Source: VNDIRECT, MWG

Figure 2: Introduction to MWG's business empire in Vietnam

Retail chain	The Gioi Di Dong (TGDD)	Dien May Xanh (DMX)	Bach Hoa Xanh (BHX)
<b>Average store size</b>	100-200 sqm	DMX-mini (300-400 sqm) & DMX standard (500-1,000 sqm)	BHX standard (~200 sqm) & large-scaled BHX (> 300 sqm)
<b>Current number of stores</b>	1,032	750	405
<b>Store coverage</b>	63/63 provinces	63/63 provinces	HCMC and neighbouring provinces
<b>Product</b>	Mobile phones, Tablets, Laptops, Accessories, SIM cards, Operator services	White and brown goods, Mobile phones, Tablets, Laptops, Accessories, SIM cards, Operator Services	Fresh food and goods for daily basic needs
<b>Market share</b>	~50%	~35%	N/A

Source: VNDIRECT, MWG

Figure 3: MWG's revenue and store network by respective chains during FY14-FY18



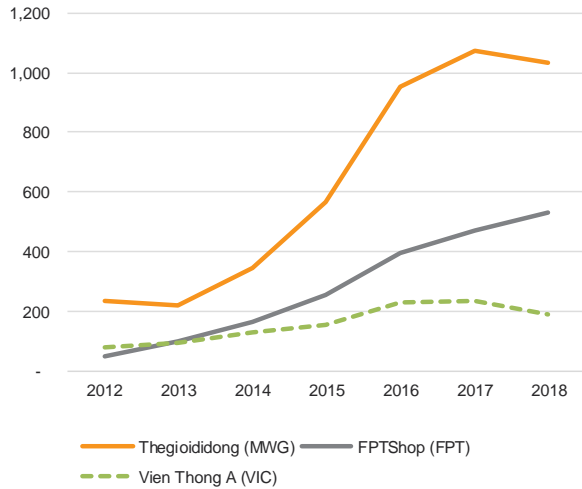
Source: VNDIRECT, MWG

**Business model built upon accumulated experiences and integrated tools.** Based on our channel-check and market-check, we believe the key successful formula for MWG includes: 1) small-scale stores, 2) intensive application of technological management to drive up operational efficiency and 3) prioritising customers and empowering employees. In particular, MWG favoured small-scale stores when expanding TGDD and DMX thanks to their operational flexibilities and cost advantages. With the limited space, MWG's sales strategy is to only sell best-selling products and brands, instead of offering a large, diversified product portfolio. The developed ERP system has helped staff members to determine best-selling and popular product SKUs (Stock Keeping Unit) and accordingly increase the proportion of those SKUs in the overall product portfolio. Illustratively, 90% of products in DMX only catered to the popular demand of customers without attempting to go beyond that.

Besides, MWG has employed the inverted pyramid business approach which advocates the importance of customers and employees. With this approach, MWG has built a qualified and loyal team of staff that would assist the retailer to achieve its goal in delivering "best retail experiences", including being attentive to customer needs, maintaining honesty and integrity and providing thorough after-sales services.

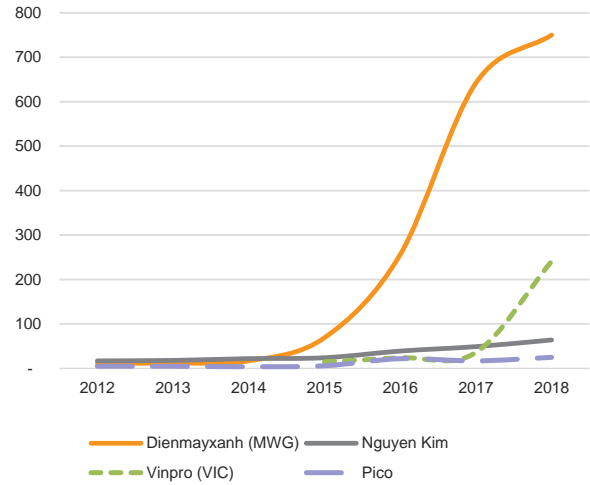
**The two legacy chains are well-positioned to lead the market after aggressive expansion.** Currently, TGDD and DMX have secured extensive store sites in major heavy-traffic locations in all primary and secondary towns in Vietnam. During the peak period, TGDD and DMX are estimated to open one new store per day. At that rate, the mobile phone and consumer electronics retail chains have left their domestic peers in the dust with a large gap in terms of store count.

Figure 4: MWG shocked the market with its aggressive TGDD store opening speed during 2014-2016



Source: VNDIRECT, COMPANY WEBSITES

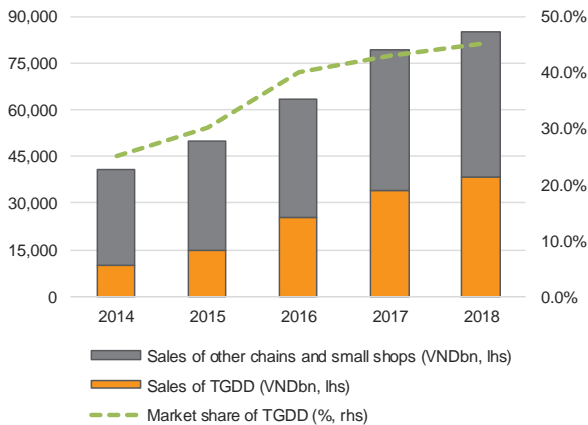
Figure 5: From 2015, DMX's coverage has grown far ahead of its competitors



Source: VNDIRECT, COMPANY WEBSITES

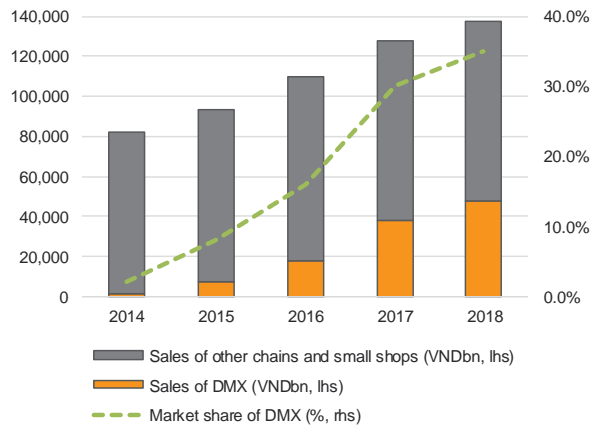
In terms of market share, the TGDD chain currently has a 45% market share of the US\$3.7bn mobile phone market; and the DMX chain accounts for 35% of the market share of the US\$5.9bn consumer electronics market (as of end-FY18, source: Euromonitor).

Figure 6: TGDD gradually captured more market share from other retail chains and mom-and-pop shops



Source: VNDIRECT, MWG, EUROMONITOR

Figure 7: DMX quickly cornered the market and became the largest consumer electronics retailer in Vietnam

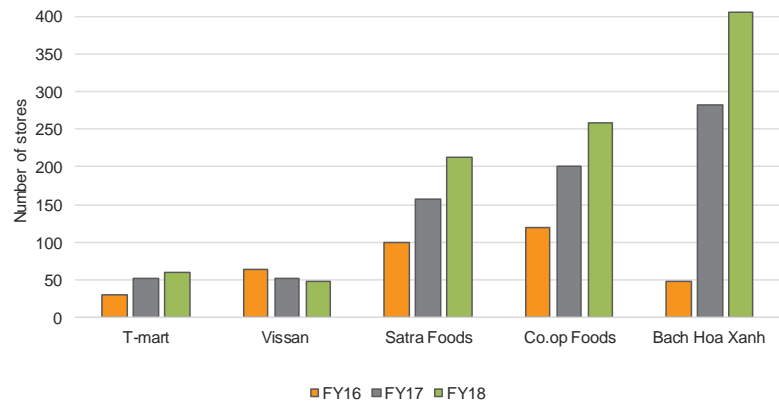


Source: VNDIRECT, MWG, EUROMONITOR ESTIMATES

### Embarking grocery business as a wet market challenger

Although stepping into retail grocery business later than its competitors, Bach Hoa Xanh (BHX) quickly grew up by following an aggressive and distinctive growth strategy. Located in accessible primary and secondary streets on the way leading to residential areas, BHX identified itself as a food-store chain, providing fresh foods and daily basic-need products. Each store offers product range of 2,000-3,000 SKUs at very competitive prices compared to the traditional wet market and mom-and-pop grocery stores. Focusing on these areas, BHX model does not fall into the “convenience store” category which offers “ready-to-eat” products and packaged foods, together with comfortable seating areas at a premium price. By end-2018, BHX has developed its footprint with 405 stores, making it the largest food-store chain in the country.

Figure 8: Mini food-store operators in Vietnam

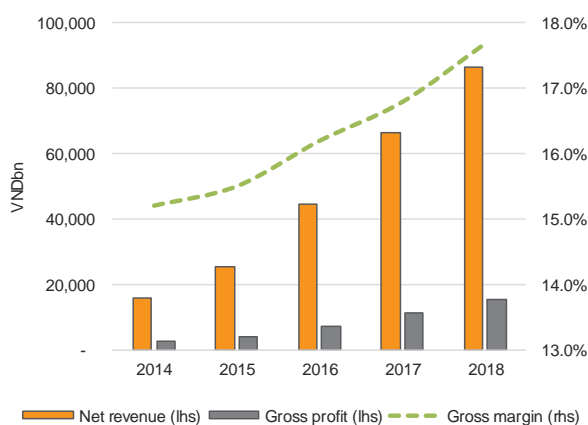


Source: VNDIRECT, COMPANY WEBSITES

**Profitability was underpinned by margin expansion and a healthy balance sheet**

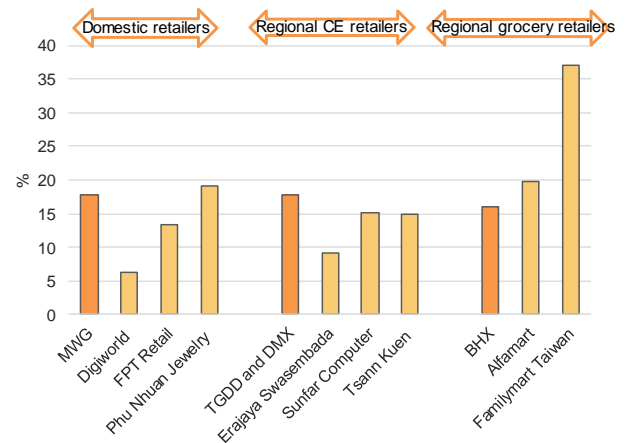
**Gross margin expansion in the works.** MWG has witnessed an impressive blended GM expansion in the last five years, thanks to 1) high level of bargaining power with suppliers, given its leading positions in both CE and mobile markets, 2) realisation of the economies of scale and 3) the growing involvement of technology in inventory management. Accordingly, TGDD and DMX achieved superior GM level in 2018 (~17.8%) comparing to other consumer electronics retailers (regional peer average of 14.7%). BHX business also witnessed the expansion in GM level from 12% in FY17 to 16% in FY18 (reaching the highest level of 18% in Dec-FY18). We expect the expansion and evolvement of BHX will further bolster MWG's margin to reach 17.8% in FY19 and 18.0% in FY20.

Figure 9: Gross margin of MWG expanded continuously in the past few years



Source: VNDIRECT, MWG

Figure 10: Gross margin comparison of leading retailers in FY18

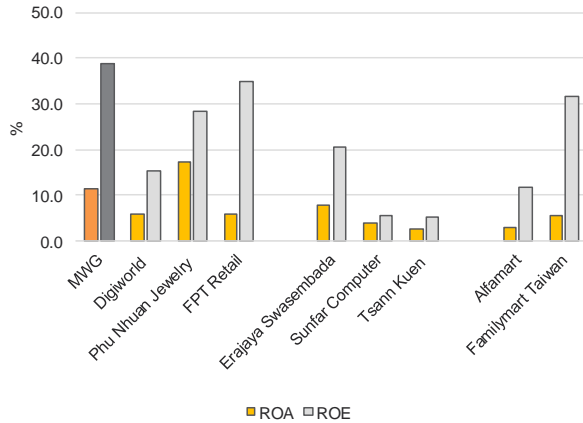


Source: VNDIRECT, BLOOMBERG

**Healthy balance with acceptable financial leverage,** resulted in sound return-on-capital compared to other domestic and global leading peers, apart from PNJ (involving in both jewellery manufacturer and retailing). Despite expanding in fast pace, MWG still maintained a healthy performance thanks to a good asset turnover (3.4x, higher than CE peers average of 2.3x and grocery retail peers average of 1.6x) and a reasonable financial leverage

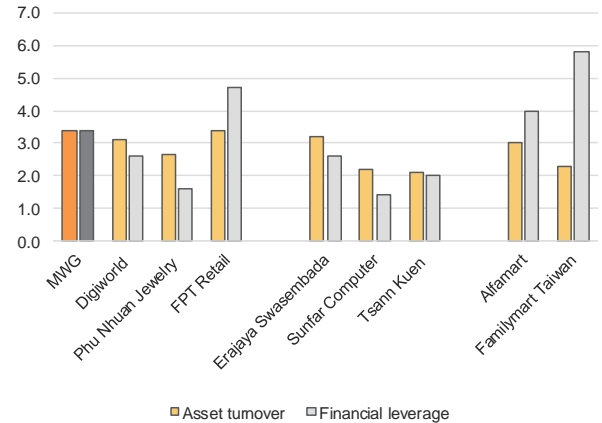
(3.4x, higher than CE peers average of 2.4x and lower than grocery retail peers average of 4.2x).

Figure 11: ROE and ROA comparison of leading retailers in FY18



Source: VNDIRECT, BLOOMBERG

Figure 12: Asset turnover and financial leverage comparison of leading retailers in FY18



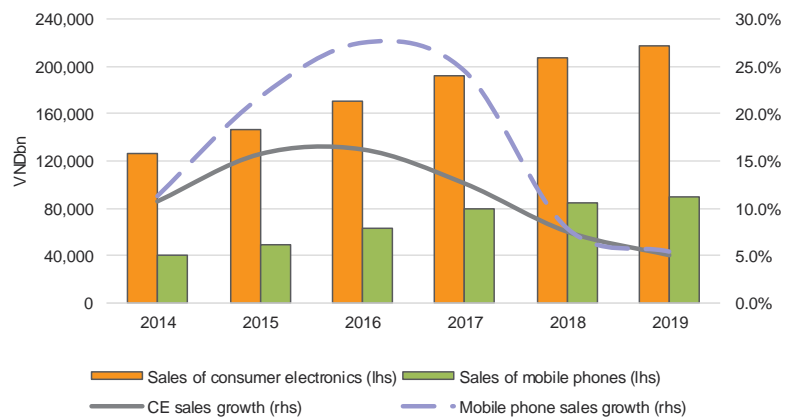
Source: VNDIRECT, BLOOMBERG

### WELL-EQUIPED TO WITHSTAND THE SLOWDOWN OF CONSUMER ELECTRONICS AND MOBILE BUSINESS

#### MWG is under scrutiny for the slowdown of both mobile phone and CE markets

According to Nielsen, mobile phone penetration was estimated about 90% as of 2017, raising the concern that room for sales growth was limited. Vietnam mobile phone sales was expected to grow at CAGR 18-23F of 9.6% (vs. CAGR 13-18F of 18.4%). In the meantime, household penetration of major CE products including fridge freezers, air conditioners and washing machines has also inched up at a high level. General consumer electronics sales growth is expected to lose steam with CAGR 18-23F of 6.9% after a strong growth seen in previous years (CAGR 13-18F of 12.6%).

Figure 13: The slowdown in growth of both mobile phone and CE segments in period 2017-19



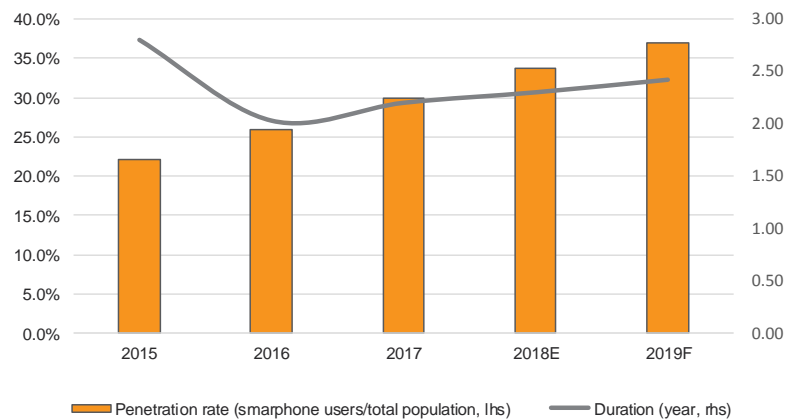
Source: VNDIRECT, EUROMONITOR

**However we still see upside in the retail mobile phone business thanks to the smartphone revolution.**

Amid the fall by 19% yoy of feature phone sales volume, smartphone retail sales volume still managed a surge by 5% yoy, making a contribution to 76.5% of total mobile phone sales by end-FY18. At the forefront of smartphone boom, Vietnam smartphone penetration is still low at ~34% in 2018 and forecasted to climb to 37% by 2019. We expect smartphones sales to continue to thrive in the next few years thanks to 1) the conversion of feature phones to smartphones and 2) the frequency of smartphone upgrade and 3) the increase in smartphones' selling prices.

Per our estimates, the average time for a Vietnamese to replace his smartphone is around 2.0-2.4 years. Based on the above calculation, the demand for smartphone replacement is around 13m units per year (for 2019-2020 period), this figure is equivalent to 81% of sales volume in 2018. Along with the low market penetration rate, we do not see a huge risk of a drop in smartphone sales volume in at least the next few years.

**Figure 14: VNDIRECT's estimates of smartphone penetration rates and replacement periods**



Source: VNDIRECT estimation, WORLDBANK, EMARKETER

Furthermore, a slowdown in general mobile phone sale volume could be partially offset by the increase in smartphone average selling price (ASP). We expect that ASP will continue to rise gradually during 2018E-2023F at 5.2%/year on average, largely driven by smartphones, due to: 1) rising input costs, 2) more sophisticated technology and 3) consumer's willingness to pay higher prices (especially given the availability of payment plans).

**Figure 15: iPhone's price leap over the years**



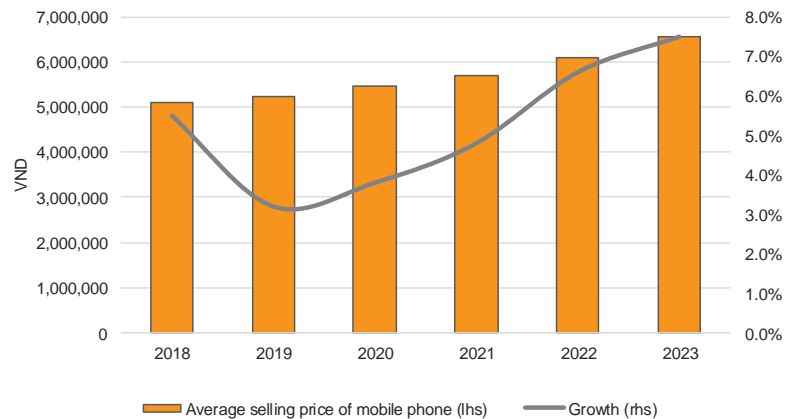
Source: VNDIRECT, WEBSITES

**Figure 16: Samsung Galaxy's price has climbed up fast**



Source: VNDIRECT, WEBSITES

Figure 17: Average selling price of smart phones projected for the period 2018E-2023F



Source: VNDIRECT, EUROMONITOR

We believe MWG is better positioned than its local peers to capture the opportunity from this smartphone revolution. As the market leader with outstanding customer services, MWG would be the destination for the consumers when it comes to smartphone conversion and upgrade. For instance, MWG has received 10,000 pre-orders for the Samsung Galaxy S10, which doubled the pre-orders for Samsung Galaxy S9 as the upcoming model is perceived to embed breakthrough technology, according to the management.

### Consumer electronics business is still a stable growth engine in the short-term

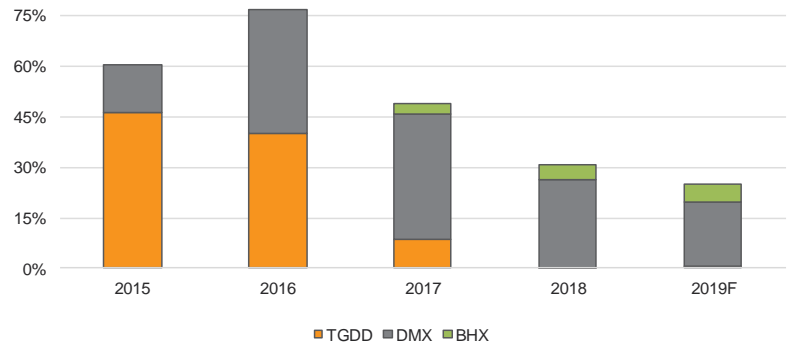
*With overlapping product portfolios, TGDD stores have been converted to DMX mini/DMX stores. The stores selected for conversion were located in areas with high population density, good traffic and with opportunity for expansion. The conversion by expanding rental area and adding consumer electronic SKUs allowed the post-conversion stores to record an average of 50% revenue growth compared to their previous performance. MWG also plans to upgrade the DMX mini's store layout to optimise the number of SKUs and product display area. These stores are expected to record ~30% revenue growth while their rental and operating expenses are almost unchanged. (Source: MWG)*

Dien May Xanh (DMX)'s footprint is still expanding despite market perception. After completing the acquisition of Tran Anh Group (TAG), MWG has converted all 39 big-sized TAG stores into DMX branded names, enhancing the coverage in North Vietnam, especially in Hanoi. Those stores, in combination with newly-opened stores and stores converted from TGDD, boosted DMX's network to 750 stores by end-2018. In 2019, MWG plans to open 150 DMX stores (both newly-opened and converted from TGDD). This is a surprise to the market and has exceeded our earlier expectations.

DMX is expected to be a major growth driver for MWG in 2019. Besides expanding its network, MWG expects to increase its sales per store thanks to the increase in SKUs, inclusion of new product categories and the dual-pricing strategy. According to our estimates, higher revenue per store (+50% yoy), new stores launched in 2019 and full year operation of stores opened in 2018 will help boost DMX's total sales by 34.7% yoy in 2019, alone adding 19.1% out of total 25.1% yoy revenue growth for MWG.



Figure 18: Contribution to revenue growth of MWG by retail chains



Source: VNDIRECT, MWG

### Beefing up product category and attracting new clients to boost revenue

Since the beginning of 2019, MWG started to implement 3 initiatives in order to boost its same-store sale growth, including: 1) selling things that have never been sold and 2) approach undiscovered customer groups; and 3) adopting dual-pricing policy.

**Adding more to its revenue basket, leveraging on its extensive store network.** In the past, MWG focused on improving product depth by increasing options under each SKU displayed in TGDD and DMX stores. However, under the new strategy, MWG would further improve product breadth by introducing new types of products to its existing stores.

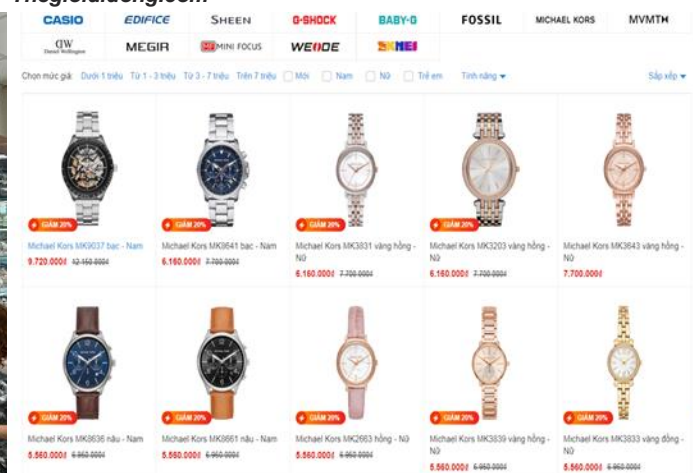
MWG has added fashion watches to its product portfolio, for the underlying reasons: 1) targeting the fragmented VND17,000bn watch market, 2) tapping into the high-profit margin fashion watches (20-30%) segment and 3) providing substitute products to smart watches to increase the wallet share from existing customers (both mainly fall under the price range of VND1m-VND6m per product).

Figure 19: The first watch display in a TGDD store



Source: VNDIRECT

Figure 20: Fashion watch segment in the online website Thegioididong.com



Source: VNDIRECT, COMPANY WEBSITE

**Approaching undiscovered customer groups.** Despite capturing a large portion of market share, MWG still considers that there are groups of customers that it has not approached. MWG has attempted to make TGDD and DMX store chains more appealing to attract consumers outside its existing customer pool.

Figure 21: MWG’s initiatives in diversifying product and customer portfolio

	Existing products	Existing customer demographics	New products	Targeted customer demographics
TGDD	Smart-watches	Young, high-tech, middle to high-income, fitness-oriented buyers	Fashionary watches	Young to middle-aged, low to middle-income, fashion-oriented buyers
DMX	Big households appliances (white and brown goods)	Occasional buyers	Small households products (kitchenware)	Frequent buyers

Source: VNDIRECT

In launching new products, MWG also tried out a new marketing strategy. Recently, the retailer held an outdoor discount sale of small household products in front of the store to draw attention from nearby housewives and commuters.

Figure 22: Household products display outside a DMX store



Source: WEBSITES





Figure 23: Housewives were attracted to the sales



Source: WEBSITES

**Adopting dual-pricing policy to attract discount-seeking customers.** MWG’s management has announced the dual-pricing policy on its e-commerce platform Dienmayxanh.com, by which MWG offers the same product at two different price levels: 1) at retail price level with full warranty and service options and 2) a lower price excluding any warranty and services. The added-value options of MWG for same-price products are relatively similar to that of its competitors like Nguyen Kim, Vinpro and Pico. Thus, MWG could differentiate itself from other peers by allowing the customers to save money by opting out of the options. This dual-pricing policy is initially applied to selected TV products available on DMX’s website.

Figure 24: MWG’s warranty and service options

Free shipping	Free installation	Exchangeable in 1 month	Manufacturer's warranty
 <p>Giao hàng miễn phí, không mua không sao</p>	 <p>Miễn phí công lắp đặt</p>	 <p>1 đổi 1 trong 1 tháng (Nếu lỗi)</p>	 <p>Bảo hành chính hãng</p>

Source: VNDIRECT, Dienmayxanh.com

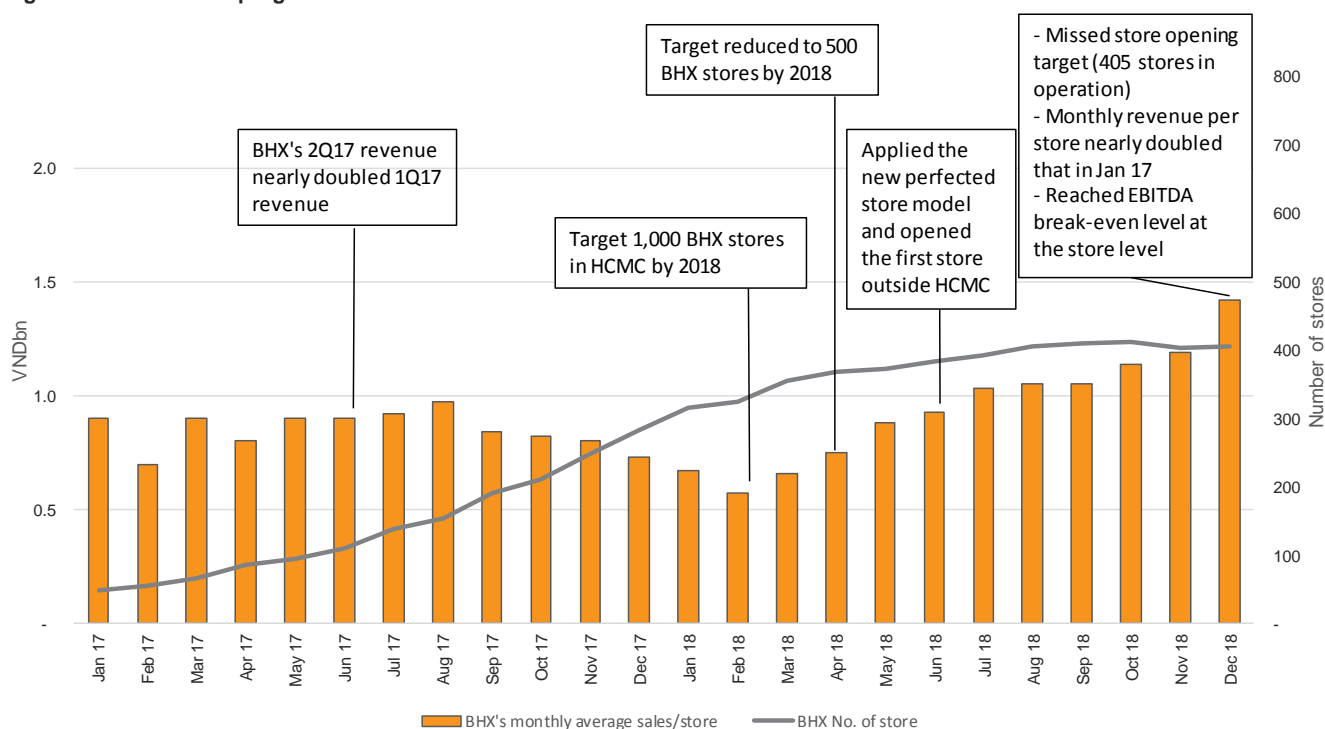
## RECENT DISAPPOINTING PERFORMANCE OF GROCERY RETAIL BUSINESS DAMPENED INVESTORS' SENTIMENT BUT TIME WILL PROVE IT ALL

The slowdown of new store opening last year raising investors' concern about its expansion capability

Average monthly sales per store dropped significantly from VND0.9bn in 2HFY17 to VND0.7bn in 1H2018 when MWG started to expand quickly from mid-2017. BHX has missed two store opening targets in 2018 after a downward-adjustment in mid-year as the grocery chain tried to perfect the store-opening formula and improve revenue per store during 2HFY18. BHX's store launches were mainly in HCMC and some nearby provinces, raising investors' concern about the planned nationwide expansion of the grocery chain, especially with fresh products, which depends upon the distinct characteristics of supply and product sourcing.

In our view, the sluggish performance of BHX could be explained by the following factors: 1) the rapidly-changing store format from small stores to standard stores with "fresh meat and live fish" and large stores outside HCMC, 2) the slower-than-expected store opening rate and 3) the inability to generate profit.

Figure 25: Our tracked progress of BHX in 2017-2018



Source: VNDIRECT, MWG

## We believe better performance since late-2018 signals a turning point

After pushing up sales per store, BHX finally reached average monthly revenue of VND1.4b/month (per our estimate) in Dec-18, which is almost double that of 1Q18's figures. Furthermore, given the revenue boost and gross margin expansion to 16% (vs. 12% in FY2017), BHX has reached the EBITDA level at store level but still fell short of generating net profit at the store level.

MWG has figured out the winning store opening formula. By experimenting and learning from experiences, MWG has arrived at

their store opening formula, which includes: 1) locating BHX stores on major streets leading into residential zones, 2) hand-picking store sites based on residential density within 500m walking-distance radius and traffic volume during peak hours, 3) adding and optimising SKUs (selecting the best-selling brands of each product type) and 4) applying ERP systems to assist employees in inventory management, product display and process transactions.

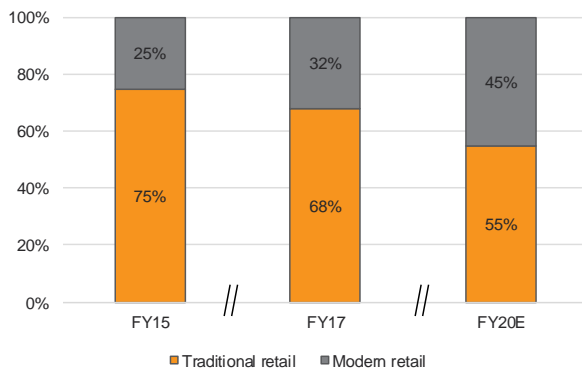
**We expect BHX to complete the Southern market coverage by end-FY19.** After perfecting the store opening method, BHX targets to open more than 700 stores by end-FY19, focusing on the Mekong Delta and Southeast region. Up until the beginning of Apr-18, BHX operates 480 stores, which cover the two big cities of HCMC and Can Tho and 11 out of 17 provinces in the South. As of the beginning of 2Q19, BHX only has to launch 220 more stores and cover six more provinces to reach its target, this would translate to ~25 stores per month till the end of this year. We think this is an attainable goal as MWG is very skilled and well-positioned in securing prime locations and negotiating with landlords. Furthermore, it only takes the retailer 15 days to prepare a location as a standard BHX store. We believe that with the determined opening formula, BHX could wrap up the chain expansion in the South by the end of this year. Since 2019 is determined to be a pivotal year for the nation-wide expansion plan, MWG will base its 2019 performance to set further goals for the following years. We therefore have a conservative forecast in the coming years, and our base case forecast suggests BHX's revenue to contribute 30% to MWG's revenue in 2024F.

**Different purchasing approach is expected to drive up gross margin.** Instead of purchasing via intermediaries, MWG will directly contact the original manufacturers and farmers for fresh food and import goods. We expect that the new purchasing approach could lift BHX's gross margin thanks to 1) the reduction in input cost of fresh and imported goods by 50% as compared to purchasing via intermediary parties, 2) high chance of getting discounts from the manufacturers and farmers for large orders and 3) reduction in transport expenses given the freedom to choose manufacturers near store locations. MWG projects that with the new purchasing mechanism, BHX could reach a gross margin level of 20%. At that GM level, BHX would become profitable after covering the operating expenses of all stores and distribution centres (not including G&A expenses at the company level).

### **In the long-term we see that grocery retail is a high-growth segment to lure both local and foreign retailers**

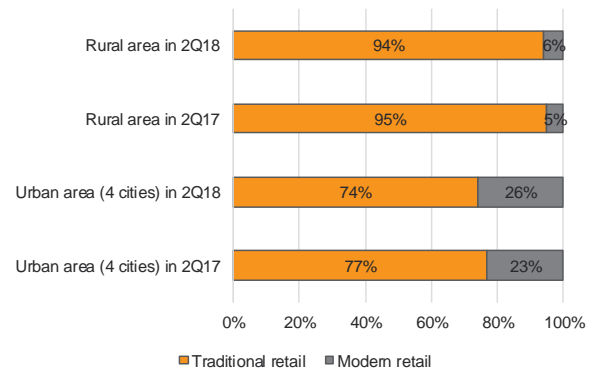
The grocery retail industry in Vietnam is mainly split between traditional retail (i.e. wet markets, small street stores) and modern retail (i.e. convenience stores, hypermarkets, supermarkets) with traditional retail accounting for 68% of total retail value in 2017 (EU-Vietnam Business Network 2018). However, Vietnamese consumers are switching from traditional markets to modern retail channels with the contribution from modern retail to total sector value reaching 45% by 2020 (MoIT). Evolving customer preference is causing the transformation of the retail landscape. In particular, we note the gradual expansion of modern retail grocery stores in Vietnam, following increasing concern about food safety, hygiene, convenience and product diversification (according to USDA 2018). The growing presence of convenience stores is mostly occurring in urban areas, especially in Ho Chi Minh City (HCMC) and Hanoi.

Figure 26: Retail channels by value contribution in Vietnam



Source: VNDIRECT, EVBN 2018

Figure 27: FMCG retail landscape by value share %



\*4 cities included Hanoi, Ho Chi Minh City, Da Nang and Can Tho

Source: VNDIRECT, KANTAR WORLDPANEL

According to Nielsen, Vietnamese shoppers have reduced their visits to wet markets and go to convenience stores or minimarts more often. This lucrative modern grocery market has encouraged fierce competition between convenience store/mini mart chains in Vietnam including both domestic brands (Vinmart+, Bach Hoa Xanh, Co.op Food) and foreign players (Circle K, B's mart, 7-Eleven). We expect the growth of modern retail grocery stores to continue on the back of store expansion by both foreign and domestic retailers.

### WE EXPECT AN EPS CAGR OF 23.6% OVER FY19-21F

Overall, we hold a positive view on MWG's outlook where revenue growth in the mobile phone and consumer electronics segments (TGDD and DMX) stay on track while the grocery retailing segment (BHX) finds a breakthrough. We project an EPS CAGR of 23.6% over FY19-FY21F, with TGDD and DMX still having large contributions (80%-90% of total revenue) and BHX increasing its contribution to overall revenue of the corporation (5% in FY18 to 17% in FY21F).

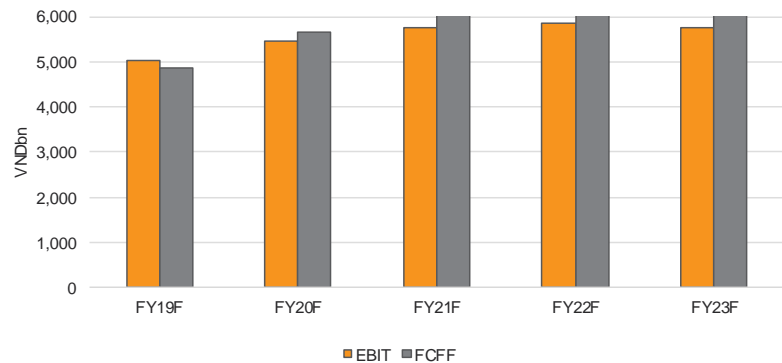
Figure 28: VNDIRECT's detailed forecast of MWG performance for FY19F-FY21F

VNDbn	2018	2019F	2020F	2021F
<b>Total revenue</b>	86,516	108,260	129,329	146,265
<b>TGDD</b>	34,606	35,072	34,832	34,700
%yoy	-0.3%	1.3%	-0.7%	-0.4%
<b>DMX</b>	47,584	64,086	77,486	86,139
%yoy	57.3%	34.7%	20.9%	11.2%
<b>BHX</b>	4,326	9,102	17,011	25,426
%yoy	211.9%	110.4%	86.9%	49.5%
<b>Gross profit</b>	15,292	19,319	23,225	26,581
<i>Blended GPM</i>	17.7%	17.8%	18.0%	18.2%
<b>SG&amp;A</b>	11,421	14,583	17,455	19,780
<i>as % of revenue</i>	13.2%	13.5%	13.5%	13.5%
<b>Net profit</b>	2,880	3,746	4,722	6,046
%yoy	30.5%	30.1%	26.1%	28.1%
<b>Store count:</b>				
TGDD	1,032	1,015	1,000	1,000
DMX	750	900	920	920
BHX	405	700	950	1,200

Source: VNDIRECT, MWG

On the back of sustainable growth, TGDD and DMX will serve as the strong base for BHX. Considering the free cash flow for the firm (FCFF) contributed by both chains, we project TGDD and DMX to enjoy positive FCFF due to solid profit generation and lowering long-term investment and changes in net working capital levels. This suggests TGDD and DMX no longer need capital injection as they could support themselves with cash to spare. They would be able to also support their sibling BHX which is still in its early development stage.

Figure 29: FCFF contributed by TGDD and DMX



Source: VNDIRECT ESTIMATES

### ESOP REMAINS AS THE BIGGEST DEBATE BETWEEN INVESTORS

The ESOP scheme has become an annual tradition in MWG, given the annual growth rate of MWG's NPAT in the year in review is 10% and above. Issuance price is not lower than VND 10,000/share or 50% of market price.

Figure 30: Conditions of the ESOP scheme

% NPAT growth rate	% ESOP (% of outstanding share)
<10%	0%
>10%	% NPAT growth rate x 0.1 (maximum ESOP rate of 3%)

Source: VNDIRECT, MWG

From the investors' view, this has led to a significant and unpreventable stock dilution for existing shareholders. However, to show commitment to its shareholders, MWG has enforced a lock-up period of four years to the shares issued under the ESOP scheme (only 25% of the shares will be unlocked after each year) and also promised to revise downward the ESOP share issuance rate to 80% if the average share price of MWG in 2019 compared to 2018 is not 10% higher than the increase/decrease in value of the VN-Index in 2019 compared to 2018.

Also, as another attempt to counter investors' fear of dilution, MWG has announced in the recent AGM the plan to issue stock option rights to key management personnel of MWG and its subsidiaries. MWG estimated to issue 50,000 non-transferrable options, equivalent to 50,000 common shares. The exercise price of the option would be the average closing price of MWG shares over the last 30 trading sessions before the approval date. The employees can choose whether to exercise the option during the 3-year effective period. MWG wants to experiment with this scheme to reduce the ESOP rate and balance the interest of employees and shareholders.

## VALUATION & RECOMMENDATION

### Initiate coverage with an Add rating

We initiate coverage on MWG with an Add rating and a TP of 118,800, derived using DCF methods on the respective businesses. Our rating is underpinned by: 1) company 's sound business model to be a dominant player in the fast-growing Vietnam retail market; (2) its ability to capture the opportunities from the smartphones revolution and high-growth grocery retail segment; and 3) its attractive valuation vs. regional peers.

### Valuation

We apply the sum-of-the-parts method on MWG's two core businesses: consumer electronics (TGDD and DMX) and grocery retailing (BHX). In particular, we use a 5-year DCF for TGDD and DMX and run a 10-year DCF for BHX as we believe consumer electronics segment will remain the main pillar for the whole business in the next five years while grocery segment would be able to catch up with its brother businesses from 2024 onwards (EBIT to grow at FY24F-29F CAGR of 14.5%).

Figure 31: Assumptions

Cost of Capital	
Beta	1.0
Market Risk Premium	11.0%
Risk Free Rate	5.0%
Cost of Equity	16.0%
Cost of Debt	8.0%
Corporate Tax Rate	20.0%
<b>WACC</b>	<b>12.8%</b>

Source: VNDIRECT

Figure 32: Discounted Cash Flows of TGDD and DMX

	2019	2020	2021	2022	2023
<b>EBIT</b>	5,015	5,466	5,771	5,856	5,762
<b>Tax</b>	-1,003	-1,093	-1,154	-1,171	-1,152
<b>Depreciation</b>	1,366	1,668	1,929	2,062	2,328
<b>Capex</b>	-622	-233	-176	-180	-183
<b>Change in work cap</b>	104	-159	590	-79	-43
<b>Free Cash Flows</b>	4,860	5,649	6,960	6,488	6,712
<b>Present Value of FCF</b>	4,568	4,689	5,150	4,282	3,893

Source: VNDIRECT

Regarding the valuation of BHX, we apply a WACC of 20% to reflect our conservative view on the risks that BHX is bearing in terms of profitability and expansion capability.

Figure 33: Discounted Cash Flows of BHX

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>EBIT</b>	-34	649	1,308	1,869	2,476	3,679	4,464	5,030	5,625	6,465	7,240
<b>Tax</b>	7	-130	-262	-374	-495	-736	-893	-1,006	-1,125	-1,293	-1,448
<b>Depreciation</b>	321	590	782	981	1,180	1,363	1,541	1,723	1,910	2,101	2,298
<b>Capex</b>	-989	-861	-893	-929	-879	-824	-855	-886	-918	-951	-986
<b>Change in work cap</b>	-706	-666	-575	-671	-675	-525	-345	-2,279	-694	-663	-687
<b>Free Cash Flows</b>	-1,401	-418	360	876	1,607	2,957	3,912	2,582	4,798	5,659	6,417
<b>Present Value of FCF</b>	-1,317	-347	266	578	932	1,538	1,800	1,059	1,727	1,811	1,797

Source: VNDIRECT

Figure 34: DCF Valuation of TGDD and DMX

DCF Method	Amount	Unit
PV of Free Cash Flows	18,689	VNDbn
PV of Terminal Value	21,307	VNDbn
<b>Enterprise value</b>	<b>39,996</b>	<b>VNDbn</b>
Cash and cash equivalents	2,047	VNDbn
Total debts	(4,227)	VNDbn
Equity Value	37,812	VNDbn
Shares	443	million
<b>Price per share</b>	<b>85,300</b>	<b>VND/share</b>

Source: VNDIRECT

Figure 35: DCF Valuation of BHX

DCF Method	Amount	Unit
PV of Free Cash Flows	8,047	VNDbn
PV of Terminal Value	8,271	VNDbn
<b>Enterprise value</b>	<b>16,318</b>	<b>VNDbn</b>
Cash and cash equivalents	1,364	VNDbn
Total debts	(2,818)	VNDbn
Equity Value	14,865	VNDbn
Shares	443	million
<b>Price per share</b>	<b>33,500</b>	<b>VND/share</b>

Source: VNDIRECT

Figure 36: Summary of valuation for MWG

	Method	Equity value per share (VND)
TGDD and DMX	DCF	85,300
BHX	DCF	33,500
<b>Target price</b>		<b>118,800</b>
<b>2019F P/E at target price</b>		<b>14.20</b>

Source: VNDIRECT

Hence, we arrive at the fair value of MWG at VND118,800/share, translating to FY2019 P/E of 14.2x. As can be seen in the peer comparison below, CE retailers usually bear lower price multiples compared to grocery retailers, which could indicate market's conservative view on CE retailers due to their narrow profit margins and high cyclical risks. Per our projection, MWG will be traded at a premium to CE retailer peers average but at a discount to grocery retailer peers average. This reflects our opinion that MWG has been appraised mainly based on its CE retailing business and its growth potential in grocery retailing should also be priced in.

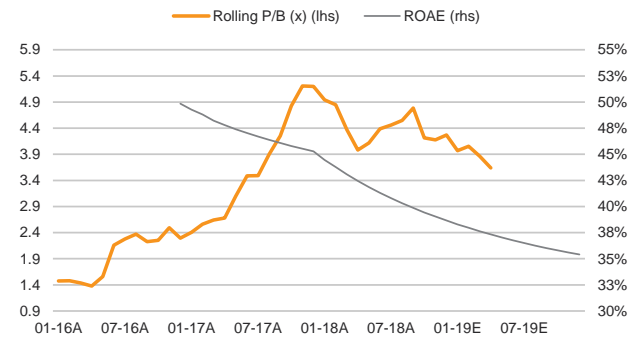
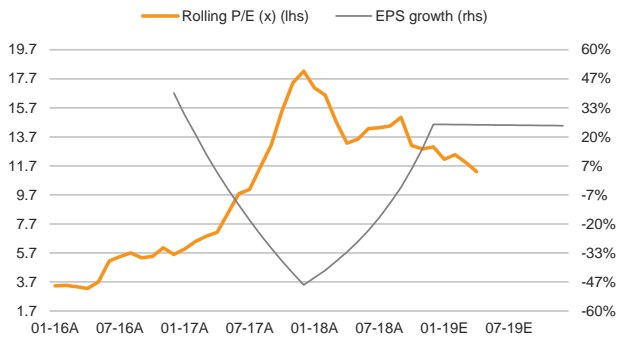
Figure 37: Peers comparison (as of Apr-17)

Company	Country	Market cap (US\$m)	TTM NPAT Growth (%)	TTM EPS growth (%)	ROE(%)	ROA(%)	D/E (x)	TTM P/E (x)	P/B (x)
<b>Consumer electronics peers</b>									
Erajaya Swasembada Tbk PT	Indonesia	357	150.7	134.2	20.5	7.9	88.8	5.7	1.1
FPT Retail	Vietnam	158	20.0	20.0	35.0	7.7	254.3	10.9	3.2
Challenger Technologies Ltd	Singapore	145	20.4	21.8	22.1	15.3	0.0	10.1	2.1
Tsann Kuen Enterprise Co Ltd	Taiwan	109	-28.6	-18.3	5.2	2.6	0.4	15.0	0.7
Sunfar Computer Co Ltd	Taiwan	41	-34.6	-34.2	5.6	3.8	3.6	21.4	1.0
<b>Average</b>			<b>25.6</b>	<b>24.7</b>	<b>17.7</b>	<b>7.5</b>	<b>69.4</b>	<b>12.6</b>	<b>1.6</b>
<b>Grocery retailers</b>									
Sumber Alfaria Trijaya Tbk PT	Indonesia	2,726	81.1	79.9	11.6	2.9	87.5	58.8	6.5
Taiwan FamilyMart Co Ltd	Taiwan	1,567	18.1	14.8	31.8	5.5	43.6	29.9	8.8
<b>Average</b>			<b>49.6</b>	<b>47.3</b>	<b>21.7</b>	<b>4.2</b>	<b>65.5</b>	<b>44.3</b>	<b>7.7</b>
<b>MWG</b>	<b>Vietnam</b>	<b>1,564</b>	<b>30.5</b>	<b>24.4</b>	<b>38.7</b>	<b>11.3</b>	<b>78.4</b>	<b>12.2</b>	<b>4.0</b>

Source: VNDIRECT



**Valuation**



**Income statement**

(VNDbn)	12-18A	12-19E	12-20E
Net revenue	86,516	108,260	129,329
Cost of sales	(71,224)	(88,941)	(106,104)
Gen & admin expenses	(1,762)	(2,165)	(2,587)
Selling expenses	(9,660)	(12,418)	(14,868)
<b>Operating profit</b>	<b>3,870</b>	<b>4,736</b>	<b>5,770</b>
Operating EBITDA	5,093	6,159	7,494
<b>Depreciation and amortisation</b>	<b>(1,223)</b>	<b>(1,423)</b>	<b>(1,724)</b>
<b>Operating EBIT</b>	<b>3,870</b>	<b>4,736</b>	<b>5,770</b>
Interest income	342	374	467
Financial expense	(437)	(420)	(323)
Net other income	12	22	26
Income from associates & JVs	(2)	0	0
<b>Pre-tax profit</b>	<b>3,785</b>	<b>4,712</b>	<b>5,940</b>
Tax expense	(906)	(966)	(1,218)
Minority interest	(2)	(4)	(5)
<b>Net profit</b>	<b>2,877</b>	<b>3,742</b>	<b>4,717</b>
Adj. net profit to ordinary	2,877	3,742	4,717
Ordinary dividends	(486)	(685)	(703)
<b>Retained earnings</b>	<b>2,391</b>	<b>3,057</b>	<b>4,014</b>

**Balance sheet**

(VNDbn)	12-18A	12-19E	12-20E
Cash and equivalents	3,749	4,089	5,110
Short term investments	51	65	78
Accounts receivables	1,560	1,965	2,530
Inventories	17,446	20,975	22,786
Other current assets	583	758	1,006
<b>Total current assets</b>	<b>23,389</b>	<b>27,852</b>	<b>31,510</b>
Fixed assets	3,578	3,890	3,280
Total investments	60	87	78
Other long-term assets	1,113	1,427	1,402
<b>Total assets</b>	<b>28,140</b>	<b>33,256</b>	<b>36,270</b>
Short-term debt	5,797	5,413	3,233
Accounts payable	8,253	9,880	10,320
Other current liabilities	3,858	4,776	5,632
<b>Total current liabilities</b>	<b>17,908</b>	<b>20,069</b>	<b>19,185</b>
Total long-term debt	1,248	1,008	768
Other liabilities	2	3	3
Share capital	4,435	4,567	4,686
Retained earnings reserve	3,990	7,044	11,058
<b>Shareholders' equity</b>	<b>8,976</b>	<b>12,166</b>	<b>16,299</b>
Minority interest	6	10	15
<b>Total liabilities &amp; equity</b>	<b>28,140</b>	<b>33,256</b>	<b>36,270</b>

**Cash flow statement**

(VNDbn)	12-18A	12-19E	12-20E
<b>Pretax profit</b>	<b>3,785</b>	<b>4,712</b>	<b>5,940</b>
Depreciation & amortisation	1,223	1,423	1,724
Tax paid	(830)	(966)	(1,218)
Other adjustments	53	219	78
<b>Change in working capital</b>	<b>(1,981)</b>	<b>(1,781)</b>	<b>(1,406)</b>
<b>Cash flow from operations</b>	<b>2,250</b>	<b>3,607</b>	<b>5,118</b>
Capex	(1,484)	(1,611)	(1,094)
Proceeds from assets sales	1	2	3
Others	(764)	(41)	(4)
Other non-current assets changes	(86)	(441)	2
<b>Cash flow from investing activities</b>	<b>(2,333)</b>	<b>(2,091)</b>	<b>(1,093)</b>
New share issuance	705	132	118
Shares buyback	(1)	0	0
Net borrowings	203	(624)	(2,420)
Other financing cash flow	0	1	1
Dividends paid	(486)	(685)	(703)
<b>Cash flow from financing activities</b>	<b>421</b>	<b>(1,176)</b>	<b>(3,004)</b>
Cash and equivalents at beginning of period	3,411	3,749	4,089
<b>Total cash generated</b>	<b>338</b>	<b>340</b>	<b>1,021</b>
Cash and equivalents at the end of period	3,749	4,089	5,110

**Key ratios**

	12-18A	12-19E	12-20E
<b>Dupont</b>			
Net profit margin	3.3%	3.5%	3.6%
Asset turnover	3.40	3.53	3.72
ROAA	11.3%	12.2%	13.6%
Avg assets/avg equity	3.42	2.90	2.44
ROAE	38.7%	35.4%	33.1%
<b>Efficiency</b>			
Days account receivable	1.60	1.65	2.17
Days inventory	89.4	86.1	78.6
Days creditor	42.3	40.5	35.6
Fixed asset turnover	24.4	29.0	36.1
ROIC	18.0%	20.1%	23.2%
<b>Liquidity</b>			
Current ratio	1.31	1.39	1.64
Quick ratio	0.33	0.34	0.45
Cash ratio	0.21	0.21	0.27
Cash cycle	48.7	47.2	45.2
<b>Growth rate (yoy)</b>			
Revenue growth	30.4%	25.1%	19.5%
Operating profit growth	39.3%	22.4%	21.8%
Net profit growth	30.4%	30.1%	26.1%
EPS growth	25.8%	25.2%	22.6%
<b>Share value</b>			
Basic EPS (VND)	6,685	8,367	10,259
BVPS (VND)	20,371	26,806	35,000

Source: VNDIRECT

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- 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.*

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Definition:

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- 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.

**Hien Tran Khanh – Deputy Head of Research**

Email: [hien.trankhanh@vndirect.com.vn](mailto:hien.trankhanh@vndirect.com.vn)

**Natalie Nguyen – Analyst**

Email: [minh.nguyennhu@vndirect.com.vn](mailto:minh.nguyennhu@vndirect.com.vn)

**VNDIRECT Securities Corporation**

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: [research@vndirect.com.vn](mailto:research@vndirect.com.vn)

Website: <https://vndirect.com.vn>