

MOBILE WORLD INVESTMENT CORP (MWG) – INVESTOR MEETING NOTE

Market Price VND121,700	Target Price N/A	Dividend Yield 1.2%	Rating N/A	Sector RETAIL
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Outlook – Short term

N/A

Outlook – Long term

N/A

Valuation

N/A

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We attended the investor meeting of Mobile World Investment Corp (MWG) on Aug 13. The discussion between the management and investors was mostly focused on the current performance and future strategic development of the grocery chain Bach Hoa Xanh which is expected to be main long-term growth driver of MWG.

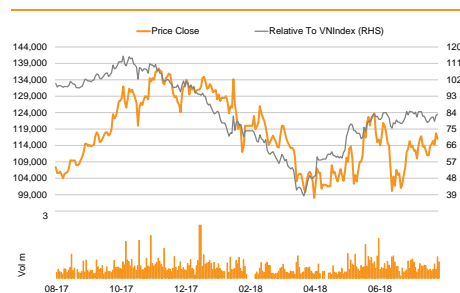
Impressive performance in 1H2018 led by white goods retailing segment. Net revenue touched VND44,570bn (+42.7% yoy, completing 51.6% of the FY18 target) and net profit surged to VND1,540bn (+43.9% yoy, fulfilling 59.1% of FY18 target). The electronics and home appliances chain (Dien May Xanh – DMX) was the biggest contributor accounting for 56.0% of net revenue, followed by mobile phone chain The Gioi Di Dong (TGDD) with 40.5% and grocery chain (Bach Hoa Xanh – BHX) with 3.5%.

BHX was in the spotlight as the future profit driver for MWG. In the long-term, BHX aims to capture 10-15% share of the US\$50-70b grocery retailing market in Vietnam by expanding the chain's footprint to 8,000-12,000 stores nation-wide (~1,000-1,500 stores located in HCMC). Currently, BHX's footprint is concentrated in HCMC and nearby provinces with 402 stores with plans to bring the total store count to 600 by end-FY18.

Continuous learning and adaption is the formula for recent improvements at BHX. MWG has gradually figured out the approach to effectively expand its grocery chain and improve profitability. Management has reshaped its strategy by: 1) moving BHX stores to major streets leading into residential zones, 2) hand-picking store sites based on residential density within 500m walking-distance radius and traffic volume in peak hours, 3) increasing the contribution of processed products in product mix (GPM ~ 20%), 4) adding and optimizing SKUs (selecting the best-selling brands of each product type) and 5) enhanced assisted inventory management systems to help store staff detect products nearing expiry.

BHX is marching towards break-even. The grocery chain enjoyed stellar growth of 286% yoy in revenue during 1H2018 with average revenue per store reaching VND930m/month in Jun (+55% vs the lowest level of VND600m/month recorded in Feb 2018). According to the management, BHX aims to lift average revenue per store to VND1.0bn/month and blended GPM to 18% to break even by end-FY18 from 16%, currently. The goal could be within the reach of MWG given the new "kaizen" approach to continuous efficiency improvements and rigorous store opening criteria. Notably, MWG indicated that the 8/10 new stores recently launched would each generate over VND1.2bn/month, post ramp-up of operations.

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	136,660
52w low (VND)	96,628
3m Avg daily volume (shares)	694,756
3m Avg daily value (VNDmn)	78,939
Market cap (VNDbn)	36,745
Outstanding shares (m)	323
Free float (%)	65
TTM P/E (x)	14.4
Current P/B (x)	5.2

Ownership

Mobile World Retail Advisory Co. Ltd	12.0%
Tri Tam Co. Ltd	9.0%
PYN Elite Fund	4.4%
Others	74.6%

Source: VNDIRECT

Financial summary (VND)	12-14A	12-15A	12-16A	12-17A
Net revenue (bn)	15,757	25,253	44,613	66,340
Revenue growth	65.9%	60.3%	76.7%	48.7%
Gross margin	15.2%	15.5%	16.2%	16.8%
EBITDA margin	6.4%	6.4%	5.6%	5.6%
Net profit (bn)	668	1,072	1,576	2,207
Net profit growth	162.0%	60.5%	47.0%	40.0%
Recurring profit growth	159.3%	59.9%	50.3%	39.1%
Adjusted EPS	5,930	7,272	10,205	7,150
FD EPS	2,474	3,771	5,284	7,387
BVPS	13,174	16,911	24,943	18,635
ROAE	58.7%	54.1%	49.8%	45.3%

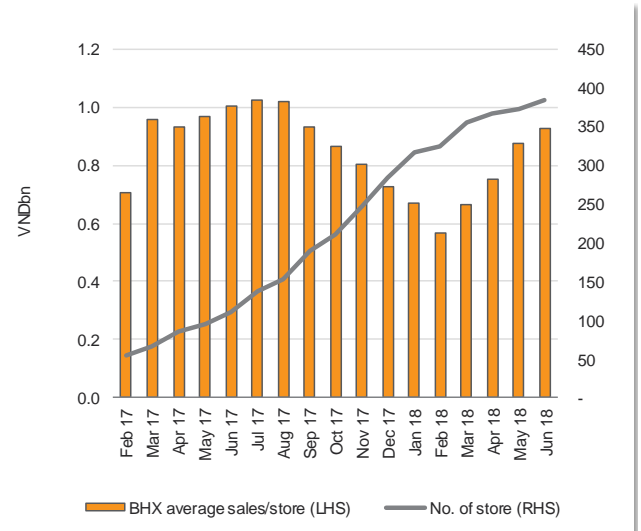
Source: VNDIRECT

Figure 1: Inside of a standard BHX grocery store



Source: VNDIRECT

Figure 2: BHX's number of stores and monthly average revenue per store



Source: MWG, VNDIRECT

BHX established 3 signature grocery store formats. MWG has categorized BHX into 3 concepts by size, including small format BHX (100-150sqm/store), standard format BHX (160-200sqm/store) and large format BHX (~300sqm/store).

- Small BHX, which is usually located in small streets or alleys, sells a total of 1,300-1,500 SKUs of fresh food and processed products. These stores are now maintaining a run-rate revenue level of VND600m/month on average and would not be the main focus of BHX at this stage.
- Standard BHX is the most common format of BHX stores and can be described as an extended version of small BHX with the addition of SKUs and a seafood aquarium. This medium-sized store format offers around 2,000-2,200 SKUs of processed products and 300 SKUs of fresh food. MWG aims to achieve monthly average revenue of VND1.5bn per standard store.
- Large BHX is the new format created to accommodate the large demand in populated residential zones with about 500 SKUs of fresh food and over 3,000 SKUs of processed food. MWG set a minimum monthly revenue target of VND3.0bn for large BHX grocery stores. These stores are located on main roads or near wet markets, where the demand is usually very high.

Figure 3: MWG's business results in 1H2018

Main businesses	Revenue (VNDbn)		Store count		Average monthly revenue per store (VNDm)		Product categories	%yoy
	1H2018	%yoy	1H2018	%yoy	1H2018	%yoy		
TGDD	18,039	3.3%	1,058	4.4%	2,842	-1.1%	Mobile phones, tablets and laptops	20%
DMX	24,949	86.5%	724	79.2%	5,743	4.0%	Electronics, white goods and small appliances	90%
BHX	1,552	286.1%	384	249.1%	674	10.6%	Fresh foods and FMCG products	286%
Total	44,570	42.7%	2,166	41.8%	3,430	0.6%		

Source: VNDIRECT

TGDD witnessed modest growth of 3.3% but it should not be mistaken as a weak performance. Total revenue from selling mobile phones, tablets, laptops and accessories (which are sold in both TGDD and DMX stores) posted 20% yoy growth in 1H2018, 5 times higher than the total market's growth rate of 4% in term of value (GFK). Accordingly, MWG increased its market share in mobile phones & tablets to 45% (vs. 40% market share in 1H2017). TGDD stores achieved a roughly estimated SSSG of around 10% over the period but total reported revenue growth was low mainly due to the conversion of a number of TGDD stores to DMX mini stores (there is significant SKU overlap between the two formats). By 1H2018, more than 80 TGDD stores were converted to DMX stores and thus reducing the store count of TGDD to 1058 (-14% vs the number of stores as of end-FY17). MWG could continue converting standard TGDD stores (~150sqm/store) which satisfy previously set criteria regarding traffic, sales and the potential to be expanded to DMX mini stores of 350-500sqm. The renovated stores essentially combine DMX and TGDD's product portfolios and are reported to generate double the revenues of the pre-conversion stores. MWG does not intend to launch more TGDD stores and will, instead, focus on driving up same-store-sales-growth (SSSG) and online sales. MWG targets 50% market share in the mobile phones & tablets segment by 2020.

DMX remains the near-term growth driver. DMX has lifted the total store count to 724 (+79.2% yoy), including 35 Tran Anh stores and over 80 converted TGDD stores. Accordingly, revenue from consumer electrical appliances chain DMX (including recently acquired Tran Anh and converted DMX mini stores) surged by 86.5% yoy in 1H2018, boosting MWG's market share in the consumer electrical and electronic appliances market to 35% (vs. 23% market share in 1H2017). In terms of market-wide channel mix, the retailer shared that of 95 out of every 100 units of consumer appliance products sold in Vietnam are sold through physical retail stores and only 5 units are sold through online channel. 33 out of every one of the 95 units sold via physical stores are sold by MWG (equivalent to 34% offline market share). More than 2 out of the 5 units sold via online channels are sold through MWG's ecommerce websites (equivalent to 45% online market share).

Figure 4: DMX's market share breakdown

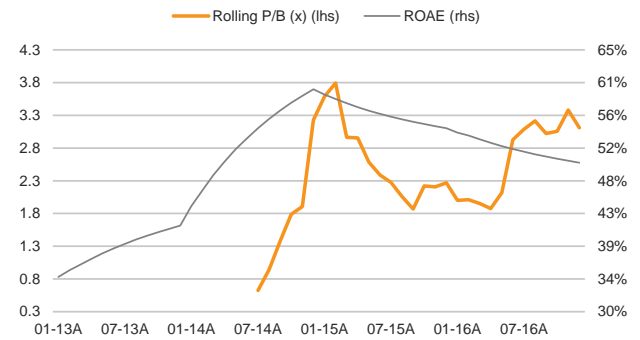
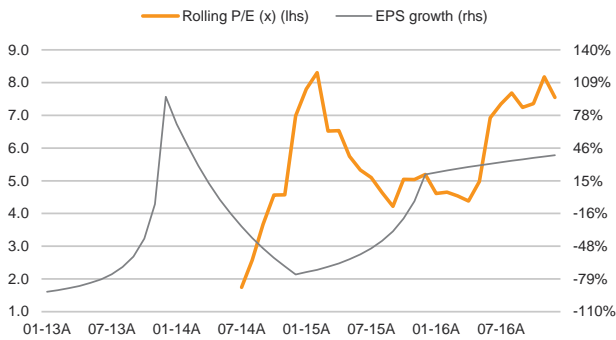
Channel type	Channel contribution in total market	DMX's market share per channel
Offline channel	95%	34%
Online channel	5%	45%
Total market	100%	35%

Source: MWG

Seeing the opportunities from the low penetration rate of some consumer appliance categories in the population and the large market share of 40% still held by mom-and-pop shops, MWG aims to capture 45% market share by 2020.

MWG has set reasonable targets for 2018. The retailer targets VND86,390bn in consolidated net revenue (+30.2% yoy) and consolidated net profit of VND2,603bn (+17.9% yoy) for this year. Management has decided to pay total cash dividends of VND1,500/share and issue stock dividends at a ratio of 2:1. Besides, the company will also issue ~9.7m shares for ESOP purposes.

Valuation



Income statement

(VNDbn)	12-15A	12-16A	12-17A
Net revenue	25,253	44,613	66,340
Cost of sales	(21,330)	(37,399)	(55,198)
Gen & admin expenses	(249)	(935)	(1,346)
Selling expenses	(2,351)	(4,288)	(7,017)
Operating profit	1,323	1,991	2,779
Operating EBITDA	1,520	2,378	3,469
Depreciation and amortisation	(197)	(387)	(690)
Operating EBIT	1,323	1,991	2,779
Interest income	81	135	251
Financial expense	(41)	(120)	(234)
Net other income	23	(1)	14
Income from associates & JVs	0	0	0
Pre-tax profit	1,386	2,005	2,810
Tax expense	(310)	(428)	(602)
Minority interest	(4)	(1)	(1)
Net profit	1,072	1,576	2,207
Adj. net profit to ordinary	1,072	1,576	2,207
Ordinary dividends	(2)	(220)	(232)
Retained earnings	1,070	1,356	1,975

Balance sheet

(VNDbn)	12-15A	12-16A	12-17A
Cash and equivalents	344	997	3,411
Short term investments	0	0	0
Accounts receivables	636	1,410	2,766
Inventories	4,933	9,371	12,050
Other current assets	264	510	636
Total current assets	6,177	12,288	18,863
Fixed assets	849	2,096	3,464
Total investments	0	0	0
Other long-term assets	241	470	496
Total assets	7,267	14,854	22,823
Short-term debt	2,053	4,789	5,604
Accounts payable	1,971	4,680	7,373
Other current liabilities	757	1,543	2,736
Total current liabilities	4,781	11,012	15,713
Total long-term debt	0	0	1,200
Other liabilities	0	0	0
Share capital	1,469	1,540	3,170
Retained earnings reserve	978	2,262	2,699
Shareholders' equity	2,484	3,840	5,907
Minority interest	2	2	3
Total liabilities & equity	7,267	14,854	22,823

Cash flow statement

(VNDbn)	12-15A	12-16A	12-17A
Pretax profit	1,386	2,005	2,810
Depreciation & amortisation	197	387	690
Tax paid	(196)	(531)	(691)
Other adjustments	33	86	102
Change in working capital	(2,061)	(2,534)	(246)
Cash flow from operations	(641)	(587)	2,665
Capex	(587)	(1,279)	(2,065)
Proceeds from assets sales	0	1	0
Others	(71)	2	29
Other non-current assets changes	0	0	(85)
Cash flow from investing activities	(658)	(1,276)	(2,121)
New share issuance	0	0	92
Shares buyback	(2)	0	0
Net borrowings	1,434	2,736	2,010
Other financing cash flow	0	0	0
Dividends paid	(2)	(220)	(232)
Cash flow from financing activities	1,430	2,516	1,870
Cash and equivalents at beginning of period	213	344	997
Total cash generated	131	653	2,414
Cash and equivalents at the end of period	344	997	3,411

Key ratios

	12-15A	12-16A	12-17A
Dupont			
Net profit margin	4.2%	3.5%	3.3%
Asset turnover	4.73	4.03	3.52
ROAA	20.1%	14.2%	11.7%
Avg assets/avg equity	2.70	3.50	3.87
ROAE	54.1%	49.8%	45.3%
Efficiency			
Days account receivable	1.11	1.99	7.88
Days inventory	84.4	91.7	79.7
Days creditor	33.7	45.8	48.8
Fixed asset turnover	39.3	30.3	23.9
ROIC	23.6%	18.3%	17.4%
Liquidity			
Current ratio	1.29	1.12	1.20
Quick ratio	0.26	0.26	0.43
Cash ratio	0.07	0.09	0.22
Cash cycle	51.8	47.9	38.8
Growth rate (yoy)			
Revenue growth	60.3%	76.7%	48.7%
Operating profit growth	64.1%	50.5%	39.6%
Net profit growth	60.5%	47.0%	40.0%
EPS growth	52.0%	40.0%	40.0%
Share value			
Basic EPS (VND)	7,306	10,237	7,166
BVPS (VND)	16,911	24,943	18,635

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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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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