

MOBILE WORLD INVESTMENT CORP (MWG)

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Huỳnh Minh Tuấn

tuan.huynh@vndirect.com.vn

Price performance

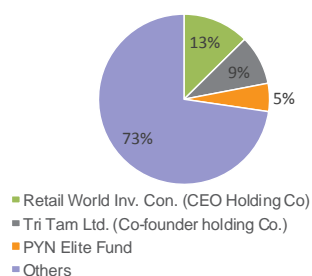


Source: VNDIRECT

Key statistics

52w high (VND)	103,500
52w low (VND)	63,967
Average daily turnover (3m)	291,756
Market cap (VND) billion	30,793
Outstanding shares (m)	307.6
Free float (%)	67
Beta	0.73

Ownership



Source: VNDIRECT

Last Thursday (8/3/2017), we visited two typical stores and the distribution center of BachhoaXanh as well as attended the quarterly analyst meeting with MWG's managers. Here are some related updates:

1H2017 business result update

In 1H2017, MWG recorded net revenue of VND31,240 billion (+59% yoy) and NPAT of VND1,070 billion (+28% yoy). In which, net sales from thegioididong chain grew by 25% yoy, thanks to the sales contribution of 449 new stores launching in 2016-2017, accounting for 44% of total stores at the end of June 2017, but SSSG remained flat. Meanwhile, DienmayXanh chain witnessed a dramatic growth of 140% yoy in net sales, backed by the SSSG of 10% and the contribution of 335 new stores opened in 2016-2017, accounting for 83% total stores at the end of June 2017.

Gross margin of the group improved by 1% thanks to an enhancement of DienmayXanh chain's margin, which increased by 2% (200bps) compared to the figure of 1H2016.

However, NPAT of MWG just reached VND1,070 billion (+28% yoy), equivalent to a drop of 1% in net margin. The main reason of this was due to an increase of 86% yoy in their labor cost since the higher cash bonus for store managers has been expensed in lieu of issuing ESOP as previous years. Currently, they have achieved 49% of their target NPAT for this year. At this target, MWG would deliver the 2017's EPS of VND7,200, equivalent to PER of 15.2.

1H2017 business result update (Unit: VND billion)

	1H2016	1H2017	Growth	%target
Revenue	19,650	31,240	59%	50%
Thegioididong	14,022	17,457	24%	49%
DienmayXanh	5,587	13,381	140%	53%
BachhoaXanh	41	402	880%	19%
Gross profit	3,199	5,279	65%	50%
Net profit	835	1,070	28%	49%
Number of store				
Thegioididong	827	1,013	22%	
DienmayXanh	111	404	264%	
BachhoaXanh	~20-30	110	340%	

Source: VNDIRECT

Update on BachhoaXanh chain's operation

This chain currently owns over 140 stores. They can now open an average of 30 stores per month, compared with 10-20 stores per month in the first five months. In 1H2017, this grocery chain generated VND402 billion (+877% yoy) in net sales and gross margin was modestly at 13%. This unattractive figure was due to (1) they have proactively lowered selling prices in order to raise traffic for this chain, and (2) low power to bargain with their suppliers due to small scale of sales. Their CEO expects to raise this gross margin by 2-4% by the end of this year and double their outstanding store number.

In 1H2017, BHX witnessed a loss of VND59 billion, equivalent to the net margin of -14.6%. They explained this was the result of (1) inadequate control of stolen stocks at their stores and (2) relatively high indirect cost. At the meeting, MWG's CEO expressed his confidence to overcome this challenge and believe they can generate positive NPAT at BHX chain within next 2 years.

Nevertheless, we were fascinated by the new store template of this chain. The two stores we visited in 3rd August 2017 were much better than some stores we experienced shopping in the early of June 2017. Some improvements were:

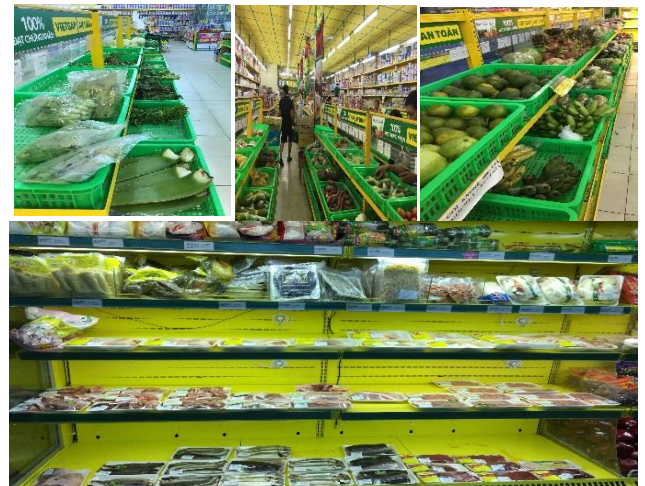
- (1) direct sellers interacted more friendly with their customers, which made us feel as if we went shopping at traditional wet markets but under more convenient places. Also, their staffs advertised excitedly their promotion goods to customers.
- (2) the fresh food section was restructured in order to provide their customers more freedom to select their preferred goods (as shown in two photos below). At this typical store, which their managers evaluated as the best in their chain, the renovation on the fresh section helped to increase this store's total sales by 30% and its average sales per month was about VND1.6-1.9 billion, with 45% from fresh food and 55% from grocery goods.

In general, BHX chain recorded the average sales per month of VND800-900 million for each store in 1H2017, which is quite similar to the figure we collected from Coopfood and Satrafood chains, the similar business models with BHX.

Photos from the recent visit (August 2017)



Photos from the visit in June 2017



Source: VNDIRECT

Update on M&A plan

The Company announced officially to their shareholders to vote by document the new budget plan of VND2,500 billion rather than VND500 billion, which would be financed by mid-term loan from banks. Their managers did not disclose details on those M&A deals, especially the name of objective companies. However, most of investors at the meeting supposed that it would relate to 2 different deals, including merging the electronics chain in the Northern province and purchasing the pharmacy retail chain. When being asked about the plan for expanding the pharmacy retail chain, the chairman shared that they would not hurry up in expansion. In the next 2 years, the priority would be to explore the suitable model for pharmacy business. In the next 2 years, the key expansion would be concentrated on electronics and grocery business.

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Phường Nguyễn Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Huỳnh Minh Tuấn – Analyst

Email: tuan.huynh@vndirect.com.vn

VNDIRECT Securities Corporation

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

Tel: +84 439724568

Email: research@vndirect.com.vn

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