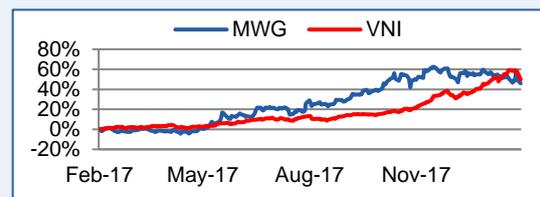


Industry:	Retailing		2017	2018F	2019F	2020F
Report Date:	February 6, 2018	Rev Growth	48.7%	42.5%	20.7%	19.0%
Current Price:	VND119,000	EPS Growth	33.2%	19.0%	36.3%	15.5%
Current Target Price:	VND172,900	GPM	16.2%	16.8%	17.0%	17.5%
Previous Target Price:	VND183,200	NPM	3.3%	2.9%	3.4%	3.4%
Upside to TP:	+45.3%	EV/EBITDA	12.1x	8.9x	6.5x	5.5x
Dividend Yield:	±0.6%	P/Op CF	14.1x	13.6x	7.0x	6.0x
TSR:	+45.9%	P/E	16.6x	14.0x	10.2x	8.9x



		MWG	Peers*	VNI
Market Cap:	\$1.7 bn			
Foreign Room:	\$0.0 bn	P/E (ttm)	16.6x	18.7x
ADTV30D:	\$3.7 mn	P/B (curr)	7.9x	1.8x
State Ownership:	0.0%	Net D/E (%)	57.3%	15.6%
Outstanding Shares:	322.9 mn	ROE	45.3%	12.0%
Fully Diluted Shares:	322.9 mn	ROA	11.7%	4.3%
3-yr PEG	0.7			2.4%

Company Overview

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with market shares of over 42% and 25%, respectively. It also has the strongest online platform in Vietnam. To sustain strong growth going forward, MWG is now ready to roll out BachhoaXANH, a minimart chain, at full speed in 2018.

Dao Nguyen
Senior Analyst
dao.nguyen@vcsc.com.vn
+848 3914 3588 ext. 185

Phap Dang
Senior Manager
phap.dang@vcsc.com.vn
+848 3914 3588 ext. 143

BachhoaXANH on track for success despite challenges

- We reiterate our BUY rating with a 46% total return. MWG's three-year PEG is appealing at 0.7.
- We cut our TP by 5% mainly due to lower forecasts for BachhoaXANH (BHX/minimart) and FY18 SSSG of mobile and consumer electronics, partly offset by lower WACC and EPS rollover.
- We revise down our sales/store and GPM forecasts for BHX in 2018 following our channel checks and project a USD14 mn loss for this chain in 2018 vs USD2 million in net profit previously.
- FY17 NPAT surged 40% YoY thanks to stellar growth in DienmayXANH (DMX/electronics), which was driven by rapid store openings, solid SSSG and full contribution from stores opened in 2016.
- We see 2018 revenue +43% YoY due to DMX (+47%), BHX (+510%) and Tran Anh consolidation (TAG/electronics). Thegioididong (TGDD/mobile) revenue should rise 7% as expansion ceases.
- 2018 NPAT should grow more slowly at 25% YoY, primarily due to the loss at BHX. Excluding BHX, 2018F NPAT would jump 30% vs 2017.

Our recent channel checks suggest our previous 2018 projections for BHX were overly optimistic... Compared to the foundational stores in Binh Tan and Tan Phu districts where BHX originated, newer BHX stores in other districts are generating much lower sales due to reasons such as their brief existence, close proximity to each other and differing consumer demographics. As such, we lower our monthly sales/new store and GPM forecasts for BHX in 2018 to VND650 mn (USD29,000) and 15.0%, respectively, vs VND1.5 bn (USD66,000) and 17.5% previously. Our channel checks and forecast revisions for BHX are discussed in more detail on page 5.

...but we remain confident of BHX's success due to MWG's execution capabilities. During our channel checks, we recognized multiple adjustments that MWG has carried out at BHX to improve services, sales and costs. This reaffirms our belief that MWG is best equipped to tackle challenges in the grocery retailing sector. For 2019, we project a positive 1.1% net margin for BHX backed by a larger scale and effective cost controls, which will drive strong blended earnings growth.

Consumer electronics (CE) remains a major driver of 2018 earnings. After surging 121% YoY in 2017, we forecast DMX's revenue will jump 47% YoY in 2018 on 50 new stores, 8% SSSG and full contribution from stores opened in 2017. TAG will add another USD182 mn, or 4%, to MWG's revenue. CE will account for 51% of MWG's revenue in 2018 vs 46% in 2017, under our projections.

Moderate growth at TGDD as store expansion stops. We pencil in zero new stores for TGDD in 2018 vs 120 in 2017. The latter's full contribution and online sales will bolster TGDD's growth in 2018.

An Khang (pharmacy) presents upside to our valuation. An Khang, which remains in its infancy, has yet to boast any clear advantage vs competitors, per our recent store visit. Similar to BHX, MWG will continuously be refining An Khang. With a market size of USD3.5 bn, big rewards await winners, but pharmacy is a more competitive space than minimarts, in our view.

2017 recap: DienmayXANH spearheaded 40% NPAT growth

Figure 1: MWG's 2017 results

VND bn	2016	2017	YoY %	VCSC comments
Revenue	44,613	66,340	48.7%	
- Thegioididong	30,655	34,708	13.2%	120 new stores, which brought total store count to 1,070 as of YE2017.
- DienmayXANH	13,709	30,245	120.6%	384 new stores, which brought total store count to 640 as of YE2017.
- BachhoaXANH	249	1,387	457.1%	280 stores as of YE2017 vs 50 as of YE2016.
Gross profit	7,214	11,142	54.4%	Margin expansion at DMX, partly curbed by broader contribution from lower-margin BHX.
- Selling expenses	-4,288	-7,017	63.7%	Higher staff costs (+69% vs FY16) and depreciation (+83% vs FY16), which rose in conjunction with store network expansion.
- G&A	-935	-1,347	44.1%	Increasing in parallel with store expansion + expenses for other ventures, such as the Cambodia expansion and vuivui.com.
Operating profit	1,992	2,778	39.5%	
PBT	2,006	2,809	40.1%	
NPAT pre-MI	1,578	2,207	39.8%	
NPAT-MI	1,577	2,206	39.8%	
NPAT margin	3.5%	3.3%		* Wider contribution from DMX, which yields a thinner net margin than TGDD * Loss at BHX and Vuivui, estimated at VND160 bn (USD7 mn) in 2017

Source: MWG & VCSC,

2018 outlook: DMX remains key earnings driver; BHX to recognize a larger loss as store expansion accelerates

Figure 2: VCSC's FY18 forecasts

VND bn	2017	2018F	2018F vs 2017	VCSC comments
Revenue	66,340	94,508	42.5%	
<i>ThegioiDong</i>	34,708	37,281	7.4%	* 1% SSSG and full-year contribution from stores opened in 2017. * 50% online sales growth. * No more store openings as footprint coverage has reached saturation.
<i>DienmayXanh</i>	30,245	44,402	46.8%	* 50 new mini-DienmayXANH to be opened in 2018, 8% SSSG and full-year contribution from stores opened in 2017. * Sales/new store revised to VND3 bn/month (USD132,000) from VND3.5 bn (USD154,000) previously since store size will likely get smaller as DMX penetrates into more remote areas.
<i>BachhoaXANH</i>	1,387	8,462	509.9%	* Total store count of 1,300 by YE2018 (vs 1,000 in previous report), 15% SSSG and full contribution from stores opened in 2017.
<i>Tran Anh</i>	NA	4,142	NM	* Consolidation starts January 2018. * On a standalone basis, we project 15% revenue growth off a low 2017 base, which was affected by the transition in ownership, i.e., MWG's takeover.
<i>An Khang</i>	NA	221	NM	30 new stores in 2018 to raise total store count to 37. Average sales/store/month of VND800 mn (USD35,000).
Gross profit	11,142	16,033	43.9%	Margin improvements at DMX and BHX thanks to their larger scale.
Selling expenses	-7,017	-10,524	50.0%	* MWG will continue to push A&P for DienmayXANH. * BachhoaXANH is estimated to have higher selling expenses as a percentage of sales.
G&A	-1,347	-1,936	43.7%	Including goodwill amortization from TAG acquisition, which amounts to VND65 bn (USD3 mn) per year.
Operating profit	2,778	3,574	28.7%	
Interest expenses	-227	-364	59.9%	Short-term debt for working capital and long-term bonds recently issued to facilitate TAG and An Khang acquisitions.
Non-operating profit	259	317	22.3%	Mostly payment discounts.
Profit before tax	2,809	3,527	25.5%	
Profit after tax	2,207	2,754	24.8%	
NPAT-MI	2,206	2,752	24.8%	Including a net loss of VND307 bn (USD14 mn) at BHX.
EPS	7,163	8,523	19.0%	EPS diluted by a 3% ESOP issuance in December 2017 and the recent private placement of 6.2 mn shares as part of TAG acquisition
EBITDA	3,468	4,699	35.5%	BHX's EBITDA to break even in 2018 under our estimates
GPM %	16.8%	17.0%		
Selling exp %	10.6%	11.1%		
G&A %	2.0%	2.0%		
OPM %	4.2%	3.8%		
EBITDA margin %	5.2%	5.0%		
NPAT margin %	3.3%	2.9%		
Effective tax rate %	21.4%	21.9%		Bigger loss from BHX, which is not tax-deductible. Losses will be carried forward.

Source: VCSC

We lower our 2018 SSSG for TGDD from 7% to 1% owing to competition from FPT Retail (FRT). On the one hand, TGDD's SSSG should strengthen in 2018 as Q4 2017 sales were affected by adverse weather, i.e., heavy rainfalls and storms, especially in the central region. On the other hand, while TGDD will likely stop new store openings altogether in 2018, its closest competitor, FRT, will look to open FPT Shops in areas where TGDD currently generates at least VND3 bn/month/store (USD132,000), thereby undercutting TGDD's traffic.

Higher store density and expansion by competitors prompt us to revise down 2018F SSSG for DMX from 11% to 8%. Apart from the fact that DMX's new store openings will narrow the proximity between its own stores, we observe that DMX's competitors, such as Nguyen Kim, Thien Hoa and Cho Lon, are also opening stores closer to DMX. Notwithstanding this, we believe DMX's SSSG will stay robust at 8% in 2018, aided by low consumption penetration in secondary cities and vibrant apartment handovers in HCMC and Hanoi.

MWG is working on a new consumer finance scheme, which could support its SSSG. Per MWG, this new financing scheme aims at lowering interest rates for consumers. Details have not been disclosed, however, the company said that it will not bear credit risks. This contrasts with FRT's financing programs, namely F-Friends, and another program, in which FRT partners up with telcos, where FRT takes on credit risks. To be fair to FRT though, its financing schemes do have an effective structure to control credit risks.

TAG has substantially solidified DienmayXANH's position in the North

On January 11, 2018, MWG successfully purchased 23.6 mn TAG shares, equivalent to a 95.2% stake. MWG then registered to acquire the remaining 4.8% on the open market from January 12 to February 11, 2018. Although MWG has not disclosed the deal structure, we understand that the payment package consisted of two parts: (1) a primary issuance of 6.2 mn MWG shares to TAG's key shareholders (sellers of the aforementioned 95.2% stake) at a price of VND93,300/share and (2) a cash consideration. Based on the Hanoi Stock Exchange's trading data, we estimate that MWG acquired TAG shares at an average price of VND34,900/share, which is the same price that MWG has offered to buy the remaining 4.8% stake. Based on these data points, we estimate that TAG was valued at VND866 bn (USD38 mn) for the deal with MWG, which puts 2018F PER of TAG at 8.2x, lucrative for MWG in our view.

As detailed in [our previous report](#), we believe this acquisition has substantially cemented MWG's presence in the North (basically making it the market leader by a distance) while TAG's margins will likely strengthen significantly after being integrated into MWG. We forecast TAG's net margin to improve to 2.5% in 2018 (vs DMX's ~3%) from -1.3% in 2017 and 0.5% in 2016. We pencil in a slimmer net margin for TAG vs DMX in 2018 as laptops, which generate lower margins than white goods and mobile phones, appear to constitute a broader portion of TAG's revenue.

Figure 3: TAG's 2018 projections

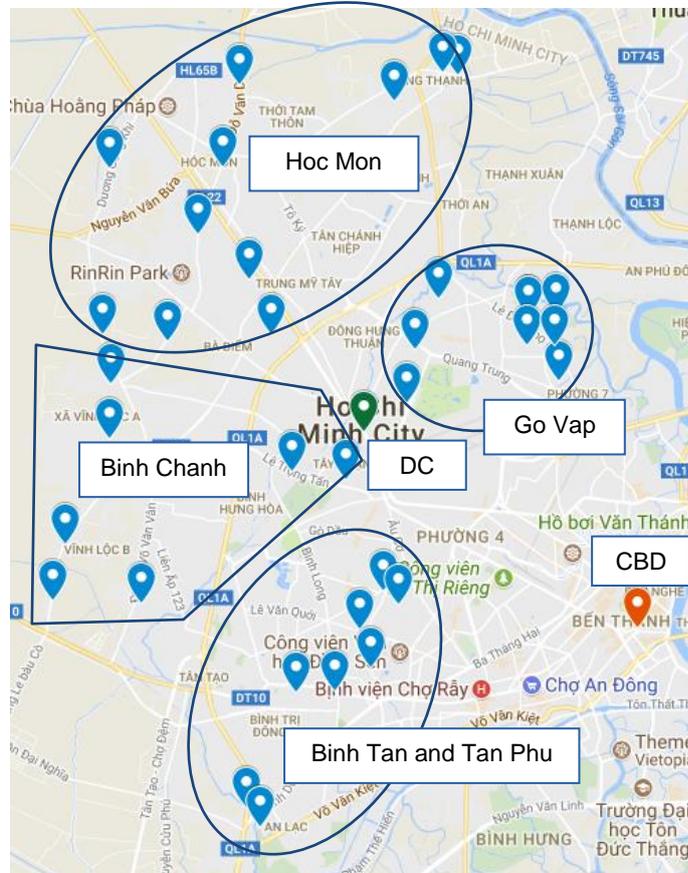
VND bn	2016	2017*	2018F	VCSC comments
Net revenue	4,098	3,602	4,142	Recover from low 2017 base, which was disrupted by the transition in ownership
Gross profit	485	455	633	GPM to expand substantially as TAG will enjoy better purchase prices as part of MWG
Operating profit	41	-27	123	
PBT	28	-47	119	Lower interest expenses on reduced short-term debt
NPAT	22	-48	105	
Net contribution to MWG's consol P&L	NA	NA	40	Goodwill amortization of VND65 bn (USD2.6 mn) per annum
GPM	11.8%	12.6%	16.0%	GPM to expand substantially as TAG will enjoy better purchase prices as part of MWG
EBIT margin	1.0%	-0.7%	3.0%	
Net margin	0.5%	-1.3%	2.5%	

Source: TAG, VCSC. *January – December 2017. TAG's fiscal year is from April 2017-March 2018.

BachhoaXANH: challenges arise as expansion gathers pace, but top-notch management execution should deliver success

Amid MWG’s plan to expand BHX’s footprint to the rest of HCMC in 2018, we recently visited 30 BHX stores in Go Vap, Binh Chanh, Hoc Mon districts and District 12, where BHX has focused its new store openings apart from Binh Tan and Tan Phu districts, where it originally started.

Figure 4: Locations of BHX stores by district



Source: VCSC

Our channel checks revealed the following key findings:

- Sales/store and sales mix can vary significantly among districts or even neighborhoods. Thus, minimart operators must be highly flexible with store formats and product assortments depending on the store location.
- BHX’s sales/store in the newer areas of expansion are well below the level of legacy stores in Binh Tan and Tan Phu districts due to their brief existence, close proximity with each other and differing consumer demographics. This prompted us to revise down sales/new store for BHX in 2018 and beyond as we previously based our assumptions on store samples in Binh Tan and Tan Phu districts. Specifically, we lower sales/new store from VND1.5 bn/month (USD66,000) to VND650 mn/month (USD29,000).
- MWG is continuously refining its stores regarding both service and cost, which has yielded positive results. This demonstrates management’s top-notch execution and underpins our optimism for BHX’s success in the hugely promising but tough-to-execute minimart sector.
- There did not seem to be any serious issues with the supply of fresh produce, which is critical to BHX’s aggressive roll-out. Fresh produce accounts for 45%-50% of BHX’s total sales.
- Assuming a GPM of 12%, we estimate that BHX can EBITDA break even at the store level with monthly sales/store of VND500 mn (USD22,000) in Hoc Mon and VND600 mn (USD26,000) in other districts.

Sales/store and sales mix vary greatly among locations

Wide range of sales/store across districts. Monthly sales/store in Hoc Mon ranges from VND200 mn-VND900 mn (USD9,000-USD40,000) compared to VND600 mn-VND1.1 bn (USD24,000-USD46,000) in Go Vap, VND400 mn-VND1.1 bn (USD19,000-USD48,000) in Binh Chanh and VND500 mn-VND1.9 bn (USD22,000-USD84,000) in Binh Tan and Tan Phu. Hoc Mon is the worst performing district due to poor sales of fresh produce. Residents of Hoc Mon make relatively low income, often grow their own vegetables and tend to prefer cheap but lower quality meat in wet markets. As a result, fresh produce spoilage is also highest in Hoc Mon for BHX. We are curious how MWG will deal with these stores in Hoc Mon in terms of what adjustments will be made or whether they will eventually close the stores.

Stores located within residential areas, rather than on big streets, post much higher sales. Stores located in the middle of a residential area can generate sales about 30% higher than those on big streets, via our observation. This is because housewives are BHX's major customers. This contrasts with mobile and CE stores, where prime locations tend to yield better sales.

Sales mix varies even for stores on the same street. We visited several stores that are located on the same streets and generate comparable sales, but their fresh/non-fresh sales mix was starkly different because they serve different neighborhoods.

Revamped fresh produce section substantially boosts sales, services and staff satisfaction

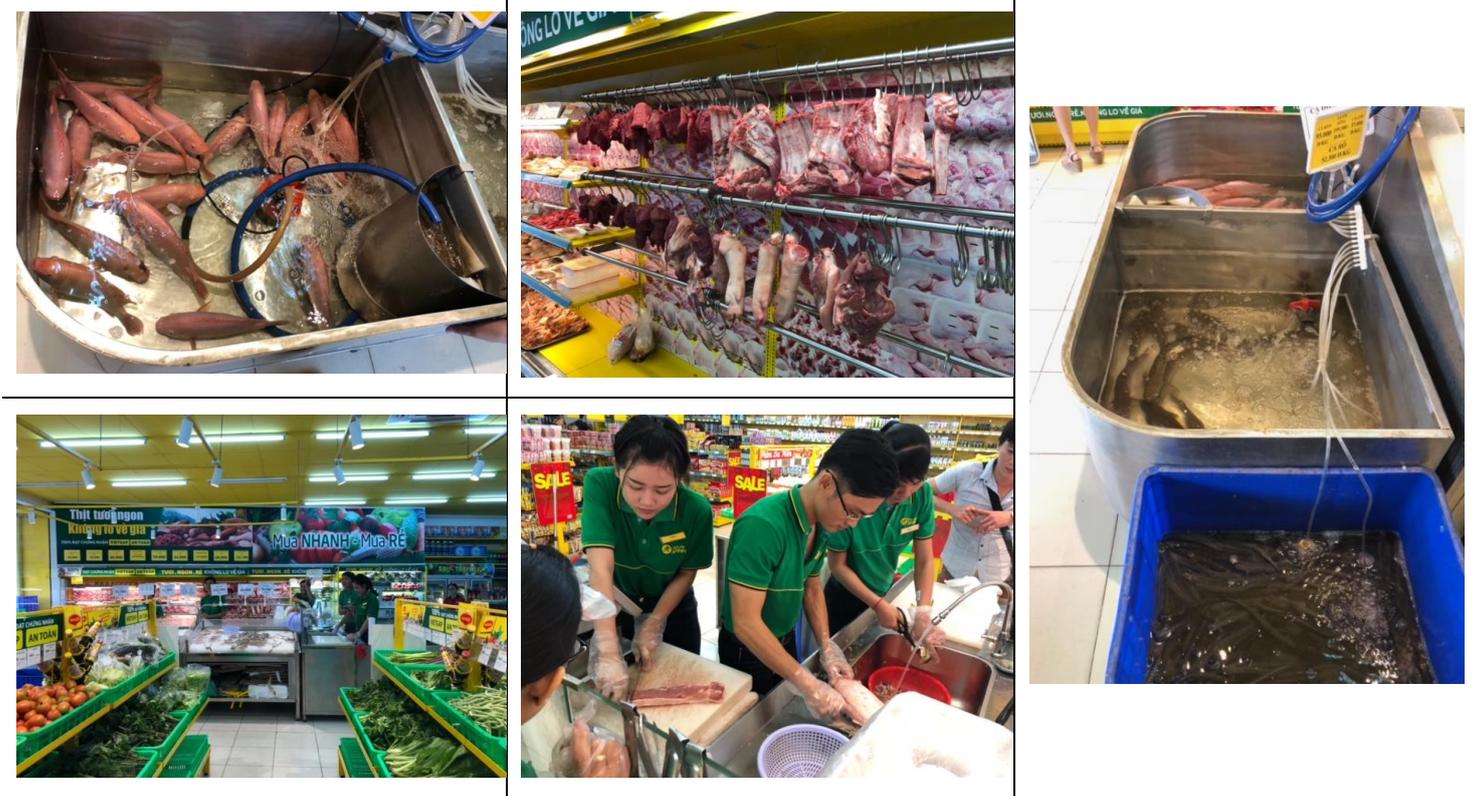
One of BHX's flagship stores on Le Trong Tan street (Tan Phu District) has seen a marked improvement following a pilot change to the store format in December 2017. In the first month of the pilot (December 2017), this store's sales jumped ~45% vs November to VND1.9 bn (USD84,000) and were on track to surpass VND2.0 bn (USD88,000) in January 2018. Fresh produce contributed roughly 60% to its sales in December 2017.

In January 2018, MWG rolled out this successful format to another 15 stores.

Key changes in this format include:

- **The fresh produce section resembles that of wet markets.** The fresh produce section has been enlarged and now also sells live fish while some fresh meat is hung up against the wall. In addition, a staff member, equipped with a microphone, is tasked with promoting the products, creating a wet market vibe that the older generations like, according to our discussion with the store staff.
- **Adding a night shift to free up time for store staff during the day so they can better serve customers.** For this Le Trong Tan store, MWG has added a night shift that is responsible for putting goods on the shelves. Free from this burden, the store staff can focus more on serving customers during the day, which not only improves the satisfaction of customers but also the staff since they only need to focus on one job.

Figure 5: New fresh produce section at BHX Le Trong Tan



Source: VCSC

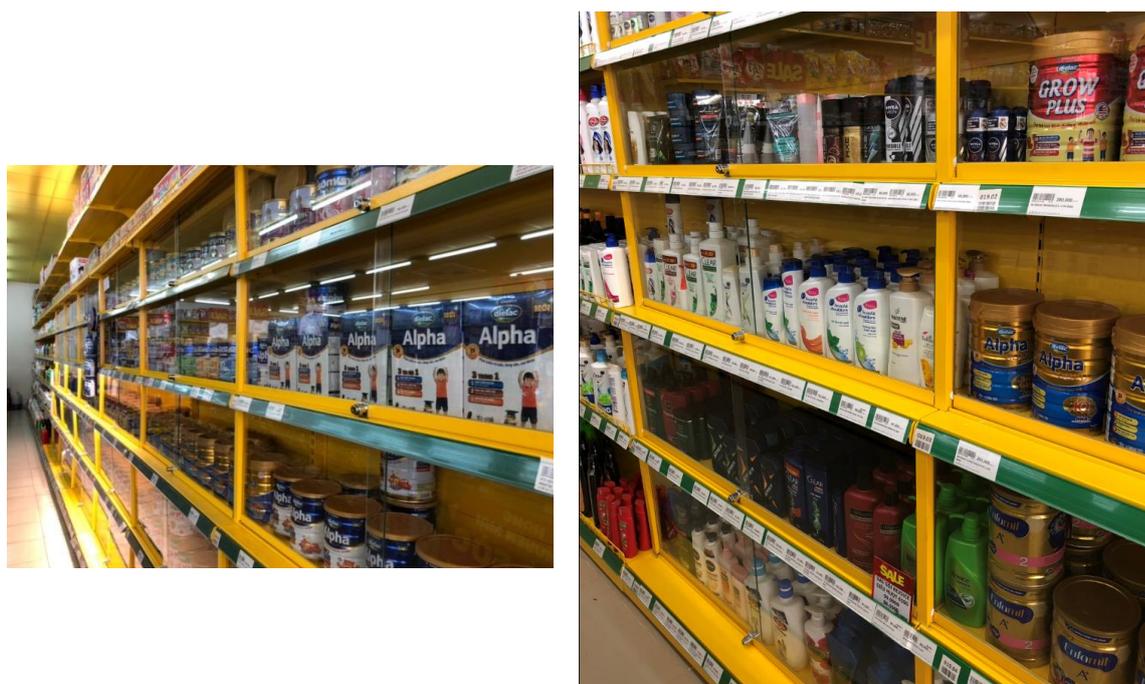
Improving cost controls

Rationalization of staff costs. Instead of deploying a relatively similar number of staff across its stores, BHX's number of staff per store now varies with sales levels. We observe that stores with monthly sales below VND500 mn (USD22,000) will have a maximum of four staff members while stores with VND500 mn-VND800 mn (USD22,000-USD35,000) in sales/month have five to six staff. The aforementioned Le Trong Tan store has a total of 14 staff.

Reduction in wastage rate. For stores that have opened for several months, store managers can rely on historical patterns to forecast inventory for the next day. At the same time, the store staff members are actively finding ways to keep vegetables in better condition, such as spraying water more often during the day or repositioning the shelves to prevent vegetables from getting directly exposed to air conditioners, which can dry them out quickly. As such, the spoilage rate has reduced to less than 1% of sales currently from 3%-5% previously.

Reduction in stolen goods. Stores are now equipped with locked glass shelves to store big-ticket items, such as milk and personal care products. In addition, convex mirrors have been installed at the corner of the stores so that shoppers can be better monitored. Our conversations with staff suggested that these initiatives have trimmed the amount of stolen goods significantly, which amounted to as much as 3% of sales previously, per management.

Figure 6: Newly installed glass shelves at BHX



Source: VCSC

GPM expansion trails management's previous guidance

BHX reached a GPM of 13%-14% in December 2017 compared to previous management guidance of 16%-17% due to insufficient scale. Management is now targeting 18% GPM in December 2018, aided by a total store count of at least 1,000 stores. In this report, we revise our 2018F GPM for BHX from 17.5% to 15%, while raising YE2018F total store count from 1,000 to 1,300.

Figure 7: VCSC's FY18-27 forecasts for BachhoaXANH

VND bn	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F
Year-end store count	1,300	2,800	4,300	5,800	6,800	7,800	8,800	9,800	10,800	11,800
Revenue	8,462	20,156	35,757	51,617	66,814	79,647	93,507	105,562	117,620	129,651
GPM	15.0%	18.2%	19.2%	20.5%	21.5%	22.5%	23.0%	23.0%	23.0%	23.0%
Gross profit	1,269	3,668	6,865	10,582	14,365	17,921	21,507	24,279	27,053	29,820
Selling expenses	1,407	3,143	5,670	8,529	11,551	14,320	16,771	18,457	20,139	21,910
%	16.6%	15.6%	15.9%	16.5%	17.3%	18.0%	17.9%	17.5%	17.1%	16.9%
G&A	169	302	536	774	1,002	1,195	1,403	1,583	1,764	1,945
%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Operating profit	-307	223	659	1,279	1,812	2,406	3,333	4,239	5,149	5,965
EBITDA	-42	947	1,931	3,097	4,009	4,779	5,610	6,334	7,057	7,779
Depreciation	264	725	1,272	1,818	2,197	2,373	2,277	2,095	1,908	1,814
PBT	-307	223	659	1,279	1,812	2,406	3,333	4,239	5,149	5,965
NPAT	-307	223	576	1,023	1,450	1,925	2,667	3,391	4,119	4,772
NPAT margin	-3.6%	1.1%	1.6%	2.0%	2.2%	2.4%	2.9%	3.2%	3.5%	3.7%
EBITDA margin	-0.5%	4.7%	5.4%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Source: VCSC

An Khang: foray into Vietnam’s USD3.5 bn pharmacy market

In January 2018, MWG completed the acquisition of the Phuc An Khang (PAK) pharmacy chain and renamed it An Khang. Details have not been disclosed but the deal size should have been small given PAK’s scale (14 stores at the time of acquisition).

It is too early to evaluate An Khang’s chance of success at this point, as similar to BHX, MWG will continuously experiment and fine tune An Khang’s store format. For the time being, An Khang has a negligible impact on our P&L projections and valuation.

An Khang’s exterior design and layout have been revamped to boast a more modern and uniform look. Prior to MWG’s acquisition, An Khang’s exterior designs were not consistent. Up to now, MWG has renovated and put into operation seven stores. In terms of interior layout, PAK used to set up high stalls, which was typical among traditional pharmacy chains. In the new format, MWG uses shorter tables while also providing chairs to customers, which underscores its customer-centric culture.

Figure 8: Old Phuc An Khang vs An Khang



Source: media, Forbes Vietnam

Product assortment has not differentiated itself yet. Drug variety at An Khang looks rather limited while its pricing is broadly similar to other pharmacies. On the other hand, An Khang has started to sell personal care products, such as shampoo and hand soap.

Valuation

Figure 9: Valuation summary

	Method	Weighting	Equity value (VNDbn)	Target price (VND)	Contribution (VND/sh)
Thegioidadong & DienmayXANH	DCF	80%	46,995	145,524	116,419
	TTM PER @ 20.6x (10% premium to peers)	20%	48,290	149,534	29,907
BachhoaXANH	DCF	100%	8,576	26,558	26,558
Target Price					172,900
FY17F PER at TP					24.1x
FY18F PER at TP					20.3x

Source: VCSC

Discounted Cash Flows – Thegioidadong, DienmayXANH and TAG

Figure 10: DCF Valuation

Cost of Capital	Previous Report	Revised	FCFF (Five Year)	
Beta	0.9	0.8	PV of Free Cash Flows	14,156
Market Risk Premium %	7.2	7.2	PV of Terminal Val (1.5% g)	37,090
Risk Free Rate %	4.6	3.8	PV of FCF and TV	51,245
Cost of Equity %	11.1	9.6	+ Cash & ST investments	2,545
Cost of Debt %	10	8.0	- Debt	-6,796
Debt %	16	5	- Minority Interest	0
Equity %	84	95	Equity Value	46,995
Corporate Tax Rate %	20	20	Shares (mn)	323
WACC %	10.6	9.5	Price per share, VND	145,524

Figure 11: Cash flows

Discounted Cash Flow	FY18	FY19	FY20	FY21	FY22
EBIT	3,960	4,604	4,981	5,371	5,747
- Tax	-773	-931	-1,102	-1,364	-1,549
+ Depreciation	829	862	699	497	247
- Capex	-294	-166	-207	-250	-267
- Working cap increase	-1,260	-283	-632	-111	-42
Free Cash Flow	2,461	4,085	3,739	4,143	4,136
Present Value of FCF	2,260	3,438	2,880	2,917	2,660
Cumulative PV of FCF	2,260	5,698	8,578	11,496	14,156

Source: VCSC

Discounted Cash Flows – BachhoaXANH

Figure 12: DCF Valuation

Cost of Capital	Previous Report	Revised	FCFF (Five Year)	
Beta	NA	NA	PV of Free Cash Flow	2,875
Market Risk Premium %	NA	NA	PV of Terminal Val (5.0% g)	5,702
Risk Free Rate %	NA	NA	PV of FCF and TV	8,576
Cost of Equity %	25%*	20%*	+ Cash & ST investments	0
Cost of Debt %	NA	NA	- Debt	0
Debt %	NA	NA	- Minority Interest	0
Equity %	100%	100%	Equity Value	8,576
Corporate Tax Rate %	20%	20%	Shares (mn)	323
WACC %	25%*	20%*	Price per share, VND	26,558

Source: VCSC

*We apply a high cost of equity for BHX to reflect the high uncertainty of our long-term assumptions given that BHX remains in its early stage. Having said that, we reduce our WACC by 5 pts to 20% in this report, as BHX's cost structure and store opening prospects have become clearer after our recent channel check.

Figure 13: Cash flows

VND bn	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
EBIT	-307	223	659	1,279	1,812	2,406	3,333	4,239	5,149	5,965
- Tax	61	-45	-132	-256	-362	-481	-667	-848	-1,030	-1,193
+ Depreciation	326	786	1,333	1,880	2,197	2,373	2,277	2,095	1,908	1,814
- Capex	-1,882	-2,768	-2,768	-2,768	-1,845	-1,845	-1,845	-1,845	-1,845	-1,845
- WC increase	118	249	420	396	461	290	331	297	303	303
Free Cash Flow	-1,684	-1,555	-488	531	2,262	2,743	3,429	3,937	4,485	5,043
PV of FCF	-1,403	-1,080	-282	256	909	918	957	916	869	815
Cumulative PV of FCF	-1,403	-2,483	-2,765	-2,509	-1,600	-682	275	1,191	2,060	2,875

Source: VCSC

Figure 14: Peer comparables – TGDD and DMX/TAG

(USD mn) Company	Country	Mkt cap	TTM Net Sales	Y-o-Y%	TTM NPAT	Y-o-Y %	Debt/Equity	ROE	TTM P/E	Adjusted TTM P/E	LQ P/B
Henan Spendor Science & Technology	China	383.3	78.7	(7.3)	9.8	(30.3)	25.4	4.3	36.2	26.2	1.5
Redington	India	995.6	6,132.8	16.0	69.2	9.6	43.2	15.2	13.7	11.2	2.0
Jaymart PCL	Thailand	561.7	356.0	18.3	15.4	29.7	200.4	17.7	33.2	35.7	5.6
PT Erajaya Swasembada	Indonesia	182.2	1,623.4	(0.2)	22.2	17.5	26.5	8.7	8.2	6.6	0.7
Median		472.5	989.7	7.9	18.8	13.6	34.8	12.0	23.4	18.7	1.8
Average		530.7	2,047.7	6.7	29.2	6.6	73.9	11.5	22.8	19.9	2.4
Mobile World	Vietnam	1,692.9	2,922.5	48.7	89.3	39.8	124.7	45.3	16.6	16.6	7.9

Source: Bloomberg

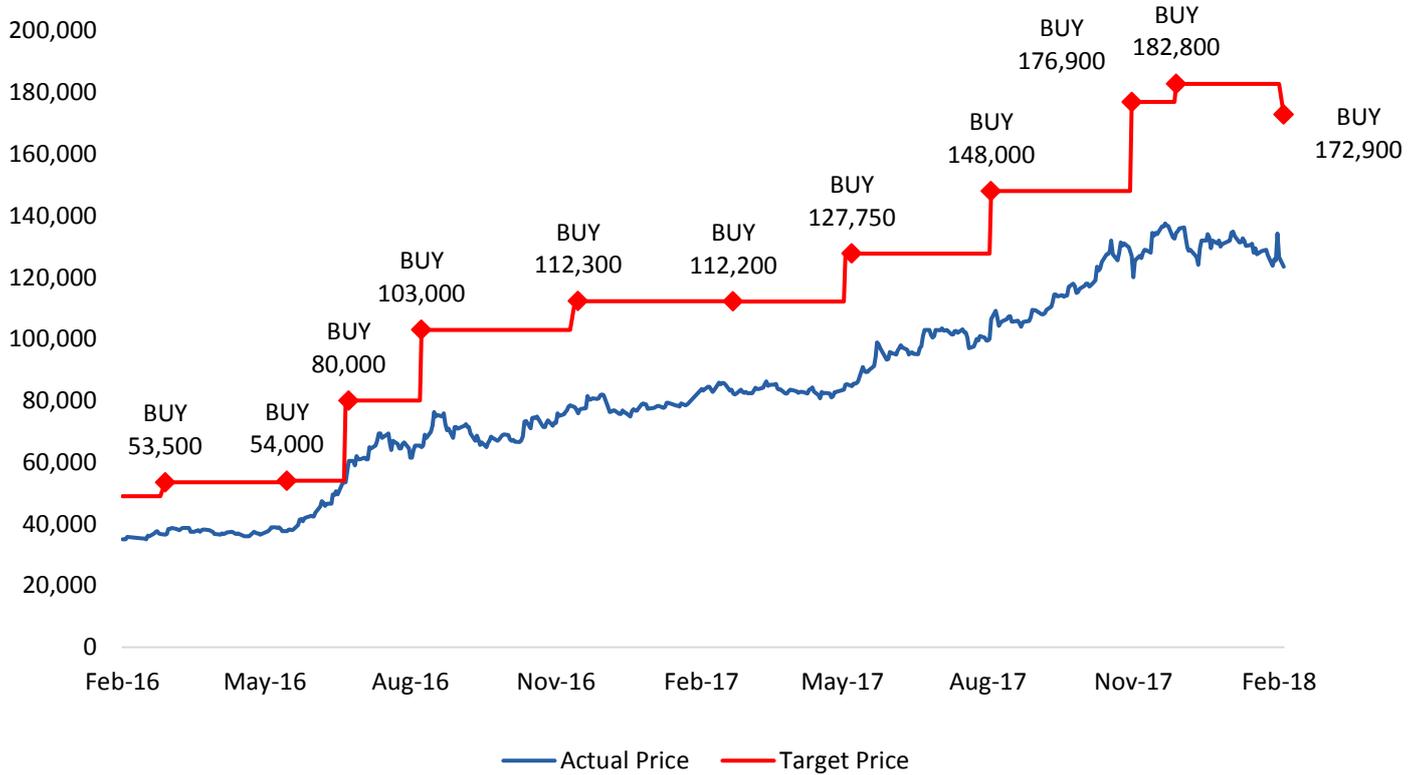
Figure 15: Peer comparables – BachhoaXANH

(USD mn) Company	Country	Mkt cap	TTM Net Sales	Y-o-Y%	TTM NPAT	Y-o-Y %	Debt/Equity	ROE	TTM P/E	Adj. TTM P/E	LQ P/B
Cp All Pcl	China	22,838.6	13,288.1	7.6	541.1	15.0	317.3	33.4	39.3	42.2	10.2
President Chain Store Corp	India	10,341.8	7,119.9	2.7	343.9	13.3	15.1	38.1	28.5	35.2	10.5
Sumber Alfaria Trijaya Tbk P	Indonesia	1,821.7	4,533.0	11.2	25.4	(42.7)	127.1	6.8	60.4	48.4	4.9
Philippine Seven Corp	Philippines	1,536.7	703.8	12.3	23.6	3.9	37.2	23.8	67.4	57.5	14.7
Taiwan Familymart Co Ltd	Taiwan	1,449.8	2,059.3	6.4	41.6	(9.4)	42.1	26.6	33.1	40.8	8.8
Jiajiayue Group Co Ltd-A	China	1,513.0	1,614.6	2.9	37.8	1.6	18.2	15.1	28.4	32.5	4.1
Midi Utama Indonesia Tbk Pt	Indonesia	219.7	706.8	14.7	10.8	(21.7)	237.8	17.3	20.5	16.4	3.4
China Shun Ke Long Holdings	China	95.1	168.8	15.8	3.0	(5.9)	40.7	8.2	29.0	38.4	2.3
Thanapiriya Pcl	Thailand	66.3	44.5	(25.6)	1.7	(14.1)	-	10.6	32.1	34.5	3.5
Median		1,513.0	1,614.6	7.6	25.4	(5.9)	40.7	17.3	32.1	38.4	4.9
Average		4,431.4	3,359.9	5.3	114.3	(6.7)	92.8	20.0	37.6	38.4	6.9

Source: Bloomberg

Recommendation History

Figure 15: Historical VCSC target price vs share price (adjusted for stock splits)



Source: Bloomberg & VCSC

Financial Statements

INCOME STATEMENT (VND bn)	2017	2018F	2019F
Revenue	66,340	94,508	114,033
COGS	-55,198	-78,475	-94,087
Gross Profit	11,142	16,033	19,946
Sales & Marketing exp,	-7,017	-10,524	-12,979
General & Admin exp,	-1,347	-1,936	-2,223
Operating Profit	2,778	3,574	4,744
Financial income	251	308	332
Financial expenses	-233	-364	-287
In which, interest expense	-227	-364	-287
Share profit/loss from associates	0	0	0
Net other income/(loss)	14	9	9
Profit before Tax	2,809	3,527	4,797
Income Tax	-603	-773	-931
NPAT before MI	2,207	2,754	3,866
Minority Interest	-1	-1	-2
NPAT less MI, reported	2,206	2,752	3,864
NPAT less MI, adjusted	2,206	2,752	3,864
EBITDA	3,468	4,699	6,398
EPS basic reported, VND	7,163	8,523	11,617
EPS basic adjusted ⁽¹⁾ , VND	7,163	8,523	11,617
EPS fully diluted, VND	7,163	8,523	11,617

(1) Adjusted for one-off items

RATIOS	2017	2018F	2019F
Growth			
Revenue growth	48.7%	42.5%	20.7%
Operating profit (EBIT) growth %	39.5%	28.7%	32.7%
PBT growth %	40.1%	25.5%	36.0%
EPS growth %, adjusted	33.2%	19.0%	36.3%
Profitability			
Gross Profit Margin %	16.8%	17.0%	17.5%
Operating Profit, (EBIT) Margin %	4.2%	3.8%	4.2%
EBITDA Margin %	5.2%	5.0%	5.6%
NPAT less MI Margin, adj, %	3.3%	2.9%	3.4%
ROE %	45.3%	36.8%	35.4%
ROA %	11.7%	11.6%	14.1%
Efficiency			
Days Inventory On Hand	70.8	59.7	56.6
Days Accts, Receivable	4.6	5.0	4.1
Days Accts, Payable	38.0	35.9	35.1
Cash Conversion Days	37.5	28.8	25.5
Liquidity			
Current Ratio x	1.2	1.3	1.4
Quick Ratio x	0.3	0.2	0.3
Cash Ratio x	0.2	0.2	0.3
Debt / Assets %	29.8%	22.4%	16.8%
Debt / Capital %	53.5%	38.0%	28.3%
Net Debt / Equity %	57.3%	36.7%	7.1%
Interest Coverage x	12.2	9.8	16.5

BALANCE SHEET (VND bn)	2017	2018F	2019F
Cash & cash equivalents	3,411	2,232	4,144
Short term investment	0	0	0
Accounts receivables	1,442	1,152	1,393
Inventories	12,050	13,617	15,557
Other current assets	1,961	2,042	2,042
Total Current assets	18,864	19,043	23,136
Fix assets, gross	4,890	7,284	10,218
- Depreciation	-1,402	-2,646	-4,300
Fix assets, net	3,489	4,638	5,918
LT investment	0	0	0
LT assets other	461	1,143	1,079
Total LT assets	3,949	5,782	6,997
Total Assets	22,813	24,825	30,133
Accounts payable	7,372	8,374	10,119
Short-term debt	5,604	4,367	3,856
Other ST liabilities	2,737	1,819	2,194
Total current liabilities	15,712	14,560	16,169
Long term debt	1,192	1,192	1,192
Other LT liabilities	0	0	0
Total Liabilities	16,905	15,753	17,362
Preferred Equity	0	0	0
Paid in capital/Issued capital	3,170	3,326	3,409
Add'l share capital/share premium	37	532	532
Retained earnings	2,699	5,209	8,823
Other equity	1	1	1
Minority interest	3	4	6
Total equity	5,909	9,072	12,771
Liabilities & equity	22,813	24,825	30,133
CASH FLOW (VND bn)	2017	2018F	2019F
Beginning Cash Balance	997	3,411	2,232
Net Income	2,206	2,752	3,864
Dep, & amortization	690	1,126	1,654
Change in Working Capital	-277	-1,013	-60
Other adjustments	101	-39	67
Cash from Operations	2,719	2,827	5,525
Capital Expenditures, net	-2,087	-2,207	-2,934
Investments, net	-84	-856	0
Cash from Investments	-2,172	-3,063	-2,934
Dividends Paid	-232	-242	-249
Δ in Share Capital	92	652	82
Δ in ST debt	815	-1,353	-511
Δ in LT debt	1,192	0	0
Other financing cash flows	-1	0	0
Cash from Financing	1,867	-943	-678
Net Change in Cash	2,414	-1,179	1,913
Ending Cash Balance	3,411	2,232	4,144

Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

Risks: Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative

Disclaimer

Analyst Certification of Independence

I, Dao Nguyen, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any

related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.

Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team

+84 28 3914 3588
research@vcsc.com.vn

Cameron Joyce, Manager, ext 163

Banks, Securities, Insurance

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Consumer and Pharma

Phap Dang, Senior Manager, ext 143

- Dao Nguyen, Senior Analyst, ext 185
- Nghia Le, Analyst, ext 181

Industrials and Transportation

Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Trang Tran, Analyst, ext 149

Institutional Sales and Brokerage

& Foreign Individuals

Head of Institutional Sales

Michel Tosto, M. Sc.
+84 28 3914 3588 ext 102
michel.tosto@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City

Quynh Chau
+84 28 3914 3588 ext 222
quynh.chau@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Barry Weisblatt, Head of Research, ext 105

barry.weisblatt@vcsc.com.vn

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Oil & Gas, Power and Fertilizer

Duong Dinh, Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

Vietnamese Sales

Dung Nguyen
+84 28 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Hanoi

Quang Nguyen
+84 24 6262 6999 ext 312
quang.nguyen@vcsc.com.vn