

Mobile World Investment Corp

Still buying street-level Vietnam retail

Company Update

Specialty Retail. Vietnam

www

Stock Rating	Target Price	Closing Price
Buy	VND155,900	VND110,100
What's Changed	From	To
Target price	138,150	155,900
2019e EPS	7,156	8,555
2020e EPS	8,213	9,025

Raise TP by 12.8% on better underlying cash flow, solid margins, and grocery store execution...

We reiterate our Buy rating on MWG and raise our DCF-based TP to VND155,900 (+12.8%), implying 41.6% upside potential. We still see MWG as having the best exposure to Vietnam's high-growth retail market. Also, we see a favourable change in its revenue mix, as we expect BHX, mini-supermarkets, to account for 27% of total sales by 2020e – this business (20% GM guidance by 2019e vs 15-16% now) is also margin accretive, which will help drive its EBITDA margins above 6% by 2020e. Overall, we expect MWG's GM to rise to 18.3% by 2022e. Furthermore, online sales in TGDD are trending at just over 10% of group sales so far this year. By 2020e, we expect its smartphones and accessory channel (Thegioididong (TGDD) to account for 31% of total sales, electronics and appliances (Dien May Xanh (DMX), 38% and online market place (vuivui.com) 4%. The stock is trading at 15.2x and 12.9x our 2018-19e attributable EPS.

Not just high-growth retail, but also higher cash flow as cash conversion steadily improves

MWG turned cash flow (operating) positive in 2017, generating VND2,992bn over the year – despite the annual year-end inventory build-up in mobile phones and white goods. Looking forward, cash conversion cycles should narrow steadily as: i) fresh foods and ambient SKUs in the grocery channel drive higher inventory turnover; and ii) Vietnam moves away from a distribution led to a direct-vendor wholesale purchase model (in consumer electronics and appliances). So long as MWG can move the product it buys, we think we will see a clear acceleration in the group's cash-flow profile. Moreover, increasing average store revenues or improving cash conversion even further (we expect 39 days by 2022e) could provide a material boost to our terminal FCF estimate in 2022.

Key focus areas - urban grocery roll-out, optimising store revenue, and pharmacy chain development

We now expect 6,879 shops across the system (up 3.4x) operating by 2022, of which MWG's BHX will account for 5,033 POS (across the key markets of HCMC, Hanoi and the Mekong Delta). In the remaining TGDD and DMX channels, MWG is developing strategies to drive traffic, including: i) bill payments, SIM reloads (online and offline) and exchange device resale; plus ii) loyalty/membership programmes, hire purchase schemes, branded credit cards and other initiatives to increase traffic flow and avg. store revenues. For the mid-term, MWG purchased a small (undisclosed price) but fully licenced HCMC pharmacy chain, Phuc An Khanh (PAK), securing a qualified and licenced management team. MWG is now testing out concepts and designing a pharmacy-personal care strategy to drive its next growth phase. A roll-out here is not part of our forecasts and may lead to further upside.

Key Financial Highlights (Dec Year End)

In VNDmn, unless otherwise stated	2017a	2018e	2019e	2020e
Revenue	66,339,804	87,016,981	104,930,423	129,081,538
EBITDA	3,680,248	4,848,815	6,208,598	7,754,442
Net income	1,543,351	2,295,515	2,883,194	3,112,580
EPS (VND)	4,918	7,229	8,555	9,025
EPS consensus (VND)	4,918	8,689	10,473	11,722
Price to earnings	22.4x	15.2x	12.9x	12.2x
Dividend yield	1.4%	1.6%	2.0%	2.3%
Net debt (cash) / Equity	0.6x	0.4x	0.3x	0.2x
EV / EBITDA	11.6x	8.0x	6.1x	5.0x
ROAE	45.3%	38.9%	34.5%	30.6%
FCF yield	2.3%	3.0%	2.8%	1.7%

Source: Mobile World Investment Corp, Bloomberg and EFG Hermes estimates

Stock Data

Closing Price	VND110,100 as of 02 Apr 2018
Last Div. / Ex. Date	VND1,544 / 22 May 2017
Mkt. Cap / Shares (mn)	VND34,874,646 / 316.8
Av. Daily Liquidity (mn)	VND57,336.45
52-Week High / Low	VND137,500 / VND81,500
Bloomberg / Reuters	MWG VN / MWG.HM
Est. Free Float	59.0%

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Data Miner

Investment Thesis

MWG is in a transitional year, where the strategic focus is turning to the new growth vertical in its mini-supermarket channel (BHX). On the other hand, recent stellar trading figures (over the Lunar New Year) suggest that the mobile phone chain (TGDD) and consumer electronics chain (DMX) are still key near-term profit and growth drivers. The store roll-out is largely complete, and as such, the focus going forward will be on driving store traffic and optimising these channels, in part through value added services in the coming months. Finally, competition is rising in groceries, where local players (such as Saigon Co.op and Vinmart+) are targeting the mini-supermarket segment.

Valuation and Risks

We value MWG at VND155,900/share, using a DCF based valuation. Against that background we estimate a 22.4% 3-year (2017-20e) attributable EPS CAGR. We also see risk around execution as we believe the company will now open 550 mini-supermarkets in 2018e and 1,033 a year until 2022e, where ticket sizes are smaller and frequency is higher. Finally, MWG is incubating a new pharmacy channel, which may tax management's resources.

Dec Year End	2017a	2018e	2019e	2020e
In VNDmn, unless otherwise stated				
Income Statement				
Revenue	66,339,804	87,016,981	104,930,423	129,081,538
EBITDA	3,680,248	4,848,815	6,208,598	7,754,442
Net operating profit (EBIT)	2,993,039	3,775,775	4,540,032	5,243,452
Taxes or zakat	(602,415)	(722,956)	(874,280)	(1,014,642)
Minority interest	(1,217)	(1,530)	(1,850)	(2,147)
Net income	1,543,351	2,295,515	2,883,194	3,112,580
Balance Sheet				
Cash and cash equivalents	3,410,983	5,070,116	5,440,782	4,697,565
Total assets	22,813,447	29,044,771	34,013,837	39,453,367
Total liabilities	16,904,511	20,703,725	22,903,768	25,157,427
Total equity	5,908,936	8,341,046	11,110,070	14,295,940
Total net debt (cash)	3,384,818	2,933,017	2,795,202	3,205,876
Cash Flow Statement				
Cash operating profit after tax	3,077,833	4,125,859	5,334,319	6,739,800
Change in working capital	(223,588)	(688,152)	283,978	(899,648)
CAPEX	(2,087,260)	(2,252,940)	(4,364,024)	(4,996,233)
Investments	0	0	0	0
Free cash flow	905,023	1,072,511	1,034,543	632,267
Net financing	2,468,833	1,588,900	522,130	(24,532)
Change in cash	2,414,000	1,659,132	370,666	(743,217)

Source: Mobile World Investment Corp, EFG Hermes estimates

Dec Year End	2017a	2018e	2019e	2020e
In VNDmn, unless otherwise stated				
Per Share Financial Summary				
EPS (VND)	4,918	7,229	8,555	9,025
DPS (VND)	1,580	1,750	2,230	2,540
BVPS (VND)	18,638	25,053	32,533	41,003
Valuation Metrics				
Price to earnings	22.4x	15.2x	12.9x	12.2x
Price to book value	5.9x	4.4x	3.4x	2.7x
Price to cash flow	12.5x	11.5x	7.3x	7.2x
FCF yield	2.3%	3.0%	2.8%	1.7%
Dividend yield	1.4%	1.6%	2.0%	2.3%
EV / EBITDA	11.6x	8.0x	6.1x	5.0x
EV / Invested capital	3.8x	3.1x	2.5x	2.0x
ROAIC	26.1%	27.0%	26.6%	24.8%
ROAE	45.3%	38.9%	34.5%	30.6%
KPIs				
Revenue growth (Y-o-Y)	48.7%	31.2%	20.6%	23.0%
EBITDA growth (Y-o-Y)	46.5%	31.8%	28.0%	24.9%
Gross profit margin	16.8%	16.9%	17.3%	17.7%
EBITDA margin	5.5%	5.6%	5.9%	6.0%
Net operating profit (EBIT) mar	4.5%	4.3%	4.3%	4.1%
Effective tax rate	21.5%	20.7%	20.7%	20.7%
Net Debt (Cash) / Equity	0.6x	0.4x	0.3x	0.2x
Net Debt (Cash) / EBITDA	0.9x	0.6x	0.5x	0.4x

Source: Mobile World Investment Corp, EFG Hermes estimates

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Grocery channel and cash conversion are the key drivers

A transitional year, but growth continues

There is little doubt that MWG is in a transitional year, where the strategic focus is turning to the new growth vertical in its mini-supermarket channel (BHX). On the other hand, recent strong sales figures (over the Lunar New Year) suggest that the mobile phone chain (TGDD) and consumer electronics chain (DMX) are still key near-term profit and growth drivers.

Figure 1: Summary P&L

In VNDmn

Year end:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	3-Yr CAGR	5-Yr CAGR
Net revenues	25,252,733	44,613,343	66,339,804	87,016,981	104,930,423	129,081,538	153,511,751	176,878,235	24.8%	21.7%
Gross profits	3,922,431	7,214,117	11,141,779	14,664,737	18,204,718	22,894,724	27,678,176	32,284,245	27.1%	23.7%
EBITDA	1,598,965	2,511,573	3,680,248	4,848,815	6,208,598	7,754,442	9,454,285	10,954,132	28.2%	24.4%
Pre-tax	1,362,341	2,006,886	2,795,444	3,496,453	4,228,305	4,907,142	5,656,493	6,180,919	20.6%	17.2%
Rep. net profit	1,071,894	1,577,383	2,205,680	2,771,967	3,352,175	3,890,353	4,484,434	4,900,196	20.8%	17.3%
Attr. net income	833,764	920,895	1,543,351	2,295,515	2,883,194	3,112,580	3,401,092	3,564,410	26.3%	18.2%

Source: Company data, EFG Hermes estimates

Figure 2: Summary per share estimates

VND actual

Year ended Dec:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	3-Yr CAGR	5-Yr CAGR
EPS (reported net profit)	3,740	5,248	7,062	8,534	9,946	11,280	12,767	13,736	16.9%	14.2%
EPS growth (reported profit)		40.3%	34.6%	20.8%	16.6%	13.4%	13.2%	7.6%		
EPS (net income)	2,682	2,998	4,918	7,229	8,555	9,025	9,683	9,991	22.4%	15.2%
EPS growth (net income)		12.8%	11.8%	64.0%	47.0%	18.3%	5.5%	7.3%	3.2%	
BVPS	8,461	12,472	18,638	25,053	32,533	41,003	50,646	60,941	30.1%	26.7%

Source: Company data, EFG Hermes estimates

The stock is trading at 15.2x our attributable and 12.9x reported 2019 EPS estimates, respectively. Underpinning these numbers are three-year net income and reported earnings CAGRs of 26.3% and 20.8%. Even adjusting these numbers for typical 20% plus (off market) premiums for blocks of stock (MWG's FOL is at 49%), the stock is still cheaper than other consumer names (Masan, MSN VN and VNM VN) that trade at 2018e multiples north of 20x P/E, on our estimates.

Figure 3: Current multiples

(x) unless otherwise stated

Year end:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
EV / EBITDA (x)	26.1	18.8	11.6	8.0	6.1	5.0	4.2	3.6
PER (x) - reported net profit	29.4	21.0	15.6	12.9	11.1	9.8	8.6	8.0
PER (x) - net income	41.0	36.7	22.4	15.2	12.9	12.2	11.4	11.0
Price to book (x)	13.0	8.8	5.9	4.4	3.4	2.7	2.2	1.8
Dividend yield (%)	0.7%	1.4%	1.4%	1.6%	2.0%	2.3%	2.6%	2.7%

Source: Company data, EFG Hermes estimates

Valuation

We reiterate our Buy rating and raise our TP to VND155,900, implying an upside of 41.6% from the current share price. We have also shifted our primary valuation approach to a DCF-based valuation from a target PEG ration methodology in our initiation. The earnings-based approach, while perfectly valid, amortises the annual ESOP expenses across our forecast period (and beyond), where a DCF takes the NPV of those multi-year charges upfront and, as such, is a more conservative approach. In any event, we also consider what our DCF implies in terms of forward multiples for MWG.

DCF valuation

We estimate a DCF value of VND155,900 at 2018e, which implies a forward 2018e P/E of 21.6x. In our view, this is a useful measure of potential upside, should MWG execute (or surprise) on either: i) higher EPS growth in the later years of our forecasts and beyond; and ii) further improvements in the company's cash conversion cycle, (beyond the 25 days we estimate in 2022e). Either outcome would raise MWG's FCF profile and can be approximated by the terminal growth assumption.

We note that MWG's FCF turned positive from 2017, but given that the company remains in an aggressive store build-out phase, and the elevated capex affects near-term (2019-20e) FCF, as such, the DCF valuation is driven largely by: i) the terminal value FCF estimate, which is working capital driven; and ii) the long-run growth rate – net income driven.

Figure 4: DCF derivation

In VNDmn

Year ended:	2018	2019e	2020e	2021e	2022e
Free cash flow	1,072,511	1,034,543	632,267	2,259,367	4,033,773
NPV of FCF stream	7,126,256	6,682,989			
NPV of terminal	53,121,547	59,230,077			77,753,732
Prev. Year net cash (debt)	(3,384,818)	(2,933,017)			
Minorities & investments	(16,832)	(21,384)			
NPV of unissued ESOP equity	(4,981,540)	(4,328,897)			
Equity value	51,864,613	58,629,768			
Shares outstanding (mn)	332.76	341.31			
Target price (VND/share)	155,900	171,780			
Upside (%)	41.6%	56.0%			

Source: Company data, EFG Hermes estimates

Our key DCF inputs include a WACC of 11.1%, underpinned by a risk-free rate of 6.0%, equity risk premium of 5.0%, an assumed beta of 1.0x, long-run nominal growth of 7.0% and a target debt/equity ratio of 15%. Our DCF also implies a terminal exit multiple of 7.1x 2021e EBITDA, which is slightly below (0.9x) where MWG currently trades 8.0x on our 2018e reported EBITDA estimate.

On a final note, for our DCF estimates, we discounted the future value at market estimate by MWG's WACC to derive an NPV of VND4.9trn at 2018e and VND4.3trn at 2019e. We deducted this value from our NPV of free cash flow to derive an adjusted equity value for the company.

DCF sensitivity analysis

We also ran a sensitivity analysis against our terminal growth rate and WACC assumptions. We note that the sensitivity analysis still shows good upside, if MWG can achieve a higher long-run nominal growth than our assumed 6%, but the DCF is still most sensitive to changes in the target debt/equity levels and the weighted average cost of capital.

Figure 5: DCF sensitivity analysis

VND actual

		Terminal growth rate				
		5.0%	5.5%	6.0%	6.5%	7.0%
WACC (%)	155,900					
	10.0%	178,900	200,100	226,700	260,800	306,300
	10.5%	159,600	176,800	197,800	224,000	257,800
	11.0%	143,600	157,700	174,700	195,500	221,500
	11.5%	130,000	141,900	155,900	172,700	193,200
	12.5%	108,500	117,100	127,000	138,600	152,300
	13.5%	92,100	98,600	106,000	114,400	124,100
	14.5%	79,300	84,300	90,000	96,400	103,600

Source: Company data, EFG Hermes estimates

Implied multiple valuation

Figure 6: Implied multiples for MWG's

(x)

Year end:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
PER (x) - reported net profit	41.7	29.7	22.1	18.3	15.7	13.8	12.2	11.3
PER (x) - net income	58.1	52.0	31.7	21.6	18.2	17.3	16.1	15.6
Price to book (x)	18.4	12.5	8.4	6.2	4.8	3.8	3.1	2.6
Dividend yield (%)	0.5%	1.0%	1.0%	1.1%	1.4%	1.6%	1.8%	1.9%

Source: Company data, EFG Hermes estimates

Our DCF implies a prospective multiple of 18.2x reported and 21.4x attributable EPS for 2018e, falling to 13.9x and 17.4x by 2020e, respectively.

We see a three-year EPS CAGR of 16.9% on 2018e-20e against reported profits and rising to 22.4% against attributable net income, on our estimates. The higher growth rate observed on net income reflects the adjustments we made to MWG's reported earnings to reflect the group's long-running ESOP programme. There is a base effect as the ESOP had a shorter two-year vesting period in 2015-16 than the four years currently, which spreads the P&L effect out over a longer period (see Appendix 1).

Figure 7: Shares out and per share estimates

VND actual (unless otherwise stated)

Per share (VND)	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
Shares outstanding (mn)	293.3	307.8	308.2	317.6	337.0	344.9	351.2	356.7
EPS	2,682	2,998	4,918	7,229	8,555	9,025	9,683	9,991
BVPS	8,461	12,472	18,638	25,053	32,533	41,003	50,646	60,941
DPS	750	1,544	1,580	1,750	2,230	2,540	2,870	2,960

Source: Company data, EFG Hermes estimates

Changes to our forecasts

Given MWG's renewed focus on BHX and recent indications from management that the TGDD and DMX store roll out is largely complete, we have made some adjustments to our model assumptions (see pages 13-15) and forecasts. The resulting changes to our estimates are fairly minor relative to our initiation. In addition, we have added 2022 estimates to our forecasts and valuation.

Overall, relative to our earlier estimates, we now expect lower revenues and a somewhat flat gross profit in 2018e and 2019e, but a stronger overall 2020e operating performance and an improved net income profile. We note that our revenue and reported profits are 1% and 4% ahead of mgmt. guidance, respectively, which we believe is still conservative following last year's in-line financial performance.

The results reflect the following: i) a slightly rising GM trend, as the grocery channel (which has a higher GM than TGDD and DMX) takes a larger (c27% by 2020e) share of the sales mix; ii) higher SG&A expenses as opex investments and staff training in BHX ramp up over the next 12-24 months; iii) faster revenue growth after 2019e (as BHX achieves scale and profitability); and iv) acceleration of EPS (net income) vs. earnings and EPS (reported) as we see a longer amortisation of ESOP costs in the P&L (given the current four-year vs. the earlier two-year share lock-ups in place).

Figure 8: Changes to our MWG estimates

In VNDmn

Year end Item	2018e			2019e			2020e		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Net revenue	92,327,282	87,016,981	-5.8%	116,177,305	104,930,423	-9.7%	138,090,668	153,511,751	11.2%
Gross profit	14,606,465	14,664,737	0.4%	18,263,435	18,204,718	-0.3%	21,570,194	22,894,724	6.1%
EBITDA	5,222,320	4,848,815	-7.2%	6,398,746	6,208,598	-3.0%	7,407,288	7,754,442	4.7%
Reported profit	3,021,782	2,771,967	-8.3%	3,552,619	3,352,175	-5.6%	3,966,646	3,890,353	-1.9%
Attr. net income	2,545,331	2,295,515	-9.8%	2,589,227	2,883,194	11.4%	2,952,047	3,112,580	5.4%
EPS (reported net profit)	8,699	8,534	-1.9%	10,107	9,946	-1.6%	11,321	11,280	-0.4%
EPS (net income)	7,317	7,229	-1.2%	7,156	8,555	19.5%	8,213	9,025	9.9%

Source: Company data, EFG Hermes estimates

MWG's net income and EPS profile are still heavily influenced by the firm's ongoing ESOP programme. The company's current policy is to issue 1% of its shares for every 10% (pro-rated) level of reported profit growth. As we now expect more steady reported profit growth of 27% to 15% (annually across our forecast period), we have factored in a 2.6% to 1.5% annual share issuance into our reported and attributable EPS forecasts, respectively.

We are still of the belief that investors should keep an eye on MWG's underlying earnings growth and multiples; the stock trades at 15.6x and 13.2x 2018e-20e EPS (attributable net income), respectively. Even after charging out our ESOP assumptions to the P&L, we still forecast a three-year (2017-20e) EPS (reported) and EPS (net income) CAGR of 16.9% and 22.4%, respectively, (see Figure 2). Underlying EBITDA and reported profit growth stand at 28.2% and 20.8% for the same 2017-20e period, respectively.

Finally, our ESOP assumptions and calculations on adjustments to reported profits can be found on page 17 in Appendix 1.

AGM summary & Key initiatives

AGM Summary

- ☰ Key AGM outcomes / resolutions
- ☰ 2016 dividend of VND1,500/share declared (ex-date in 2Q18 to be announced) and a 50% stock dividend (up to 170mn shares out) issue to distributed later this year.
- ☰ Guidance of VND86.4trn in revenues and VND2.6trn in reported net profit (+18% Y-o-Y) for 2018e reaffirmed.
- ☰ **Existing ESOP formula to be still in place through 2019.** MWG shareholders' ratified the Dec 2018 ESOP issuance (based on FY17 results) and approved an extension of the ESOP plan as currently structured to 2019 (to be based on fiscal 2018 profits). As a result, MWG will issue 3% (currently 9.7mn) of its shares outstanding to employees in Dec 2018 and now has in-principal approval to issue a further 3% of its shares outstanding in Dec 2019.
- ☰ **Searching for operational "value add" in new BOD appointments:** MWG has yet to nominate successors to Chris Freund and Mrs. Nguyen Khanh Van (whom resigned, as Mekong Capital is no longer a shareholder) to its BoD. Management has indicated that the company is seeking a replacement Director who can contribute with strategic and operational insights to support the new grocery channel. In addition, Mr. Tai Duc Nguyen will continue to serve as Chairman and CEO concurrently.

Key initiatives – going forward

Management has indicated that within Vietnam, the network roll-out in mobile (TGDD) and consumer electronics (DMX) is largely complete and, as such, the focus going forward will be on driving store traffic and optimising these channels, in part through value-added services in the coming months.

- ☰ **Initial services in store and on TGDD and DMX channel websites**
- ☰ Focusing on traffic drivers and new revenue streams: MWG has recently launched a bill payment service (both in stores and on its channels' websites). Customers can pay for a variety of public utilities, insurance premiums as well as instalments on consumer finance loans at all MWG storefronts and websites.
- ☰ Pre-paid SIM card re-loads (both e-reload online and scratch cards in stores).
- ☰ Resale of (undamaged) returned phones, tablets and laptops.

Management has not clearly indicated what other initiatives are under consideration (for competitive reasons), but we have seen initial initiatives in the following areas by some of MWG's competitor's including:

- ☰ Loyalty programmes (particularly point-based rebates or discounts in follow-on purchases).
- ☰ Instalment-based phone payments through an employee salary deduction or card instalments.
- ☰ **New areas that MMG is not yet involved in, but could enter over time (in our view)...**
- ☰ Branded credit cards, as well as branded/outsourced hire purchase/instalment payments services.
- ☰ Certified device repair and resale of certified refurbished devices.
- ☰ Insurance/assurance: extended warranty programmes.

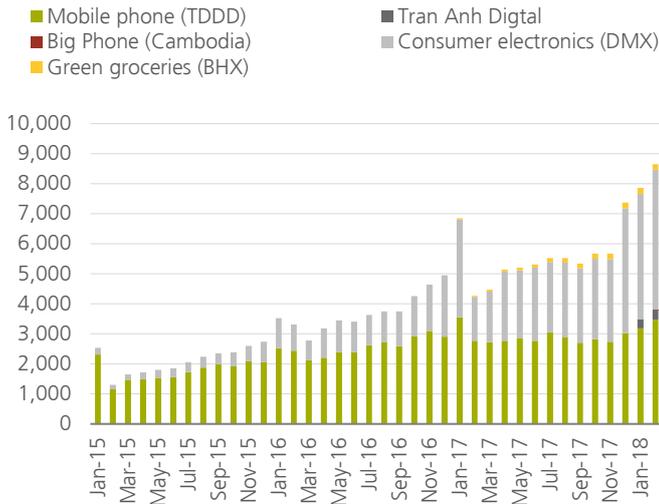
2018-19e outlook – a decent early start

Good start to 2018, with strong trading results over the Lunar New Year period

Trading results in Jan/Feb 2018 were good, both at an aggregate and average store level revenue. Revenues/average store, relative to the 2017 average, was up by 12.0% in consumer electronics and 9.8% in mobiles and accessories. Online sales also remain quite strong accounting for over 10% of revenues YTD.

Figure 9: Channel revenue by month

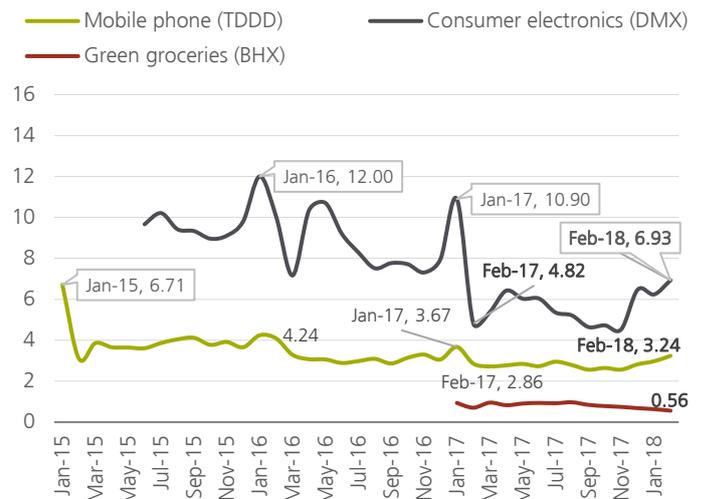
In VNDbn



Source: Company data

Figure 10: Avg. revenue per store/month

In VNDbn

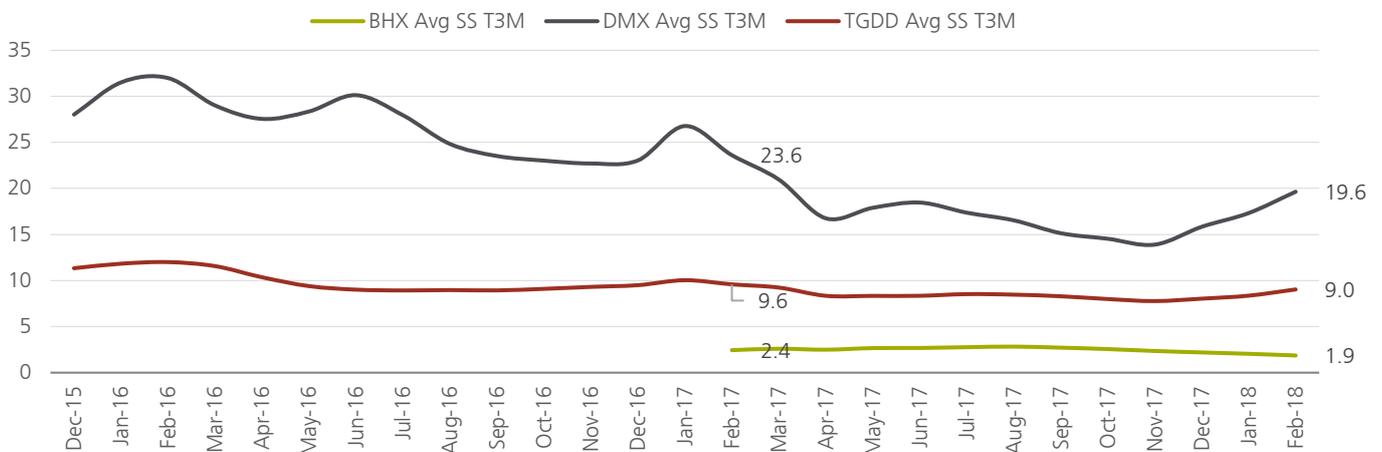


Source: Company data, EFG Hermes estimates

In a similar regard, average store sales (measured as the sum of trailing three month sales / average stores) time series (SS T3M) also give us a fair degree of confidence that cannibalisation risk in the store network is low. In both of the TGDD and BHX channels SS T3M have been fairly stable, where as in DMX, where the initial big box (c200) and more recently smaller box (c440 DMX mini shops) size formats have likely distorted the monthly revenue/store profile.

Figure 11: Total sales per store – three-month period (trailing three month time series)

In VNDbn



Source: Company data, EFG Hermes estimates

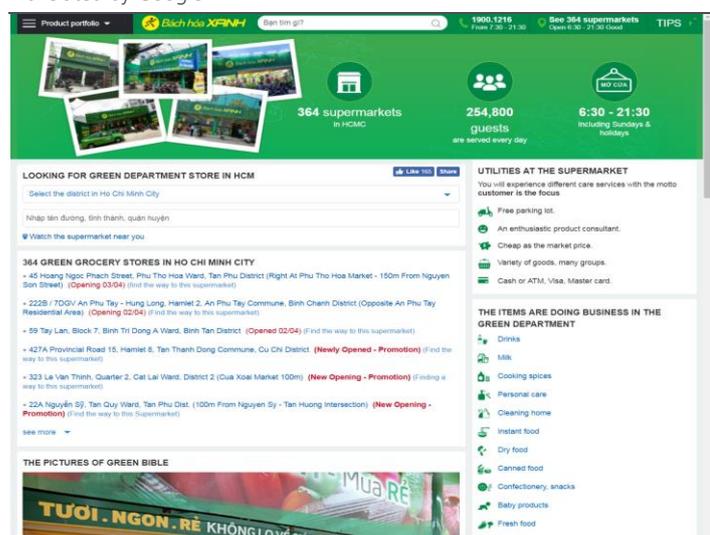
Bach Hoa Xanh – Mini supermarket grocery – the crucial growth channel

As at end-2017, MWG had 283 BHX mini-supermarket stores in HCMC, and the channel website lists 364 open as of 29 Mar 2018. The existing store network now has a cold chain (chillers, not freezers), and there are approximately 2,000 SKUs on the shelves. The product mix is roughly 1/3 fresh foods (vegetables and meat/fish) and 2/3 ambient goods.

The network and new store build-out focus is still around the greater HCMC area and MWG will reach 500 stores by Jun 2018 and will then spend most of 3Q further optimising the product mix and enhancing revenue/store. If all goes well, store additions will accelerate again in 4Q18. We expect the channel to reach as many as 833 stores by end-2018e and that MWG can sustain a store opening run-rate of close to 1,050 locations per annum through 2022E.

Figure 12: BHX webpage showing store location finder & openings

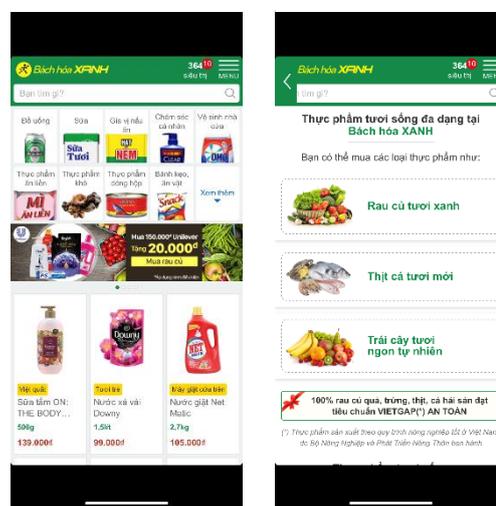
Translated by Google



Source: www.bachhoaxanh.vn

Figure 13: BHX mobile phone app screenshots

Vietnamese



Source: Company data

Management has loosely guided a potential mid-term target of 5,000 BHX stores over the next five years and believes that the channel will likely become the largest contributor to group revenues over time. The company has budgeted an investment (capex & opex) of VND3,000bn (USD 130mn) to grow the channel. This includes adding another two distribution centres (each DC supports c400 shops), capex per store of cVND3.5bn (cUSD100-150K – inclusion of cold chain) and logistic investments.

MWG is targeting a gross margin of 20% (based on international benchmarking) for BHX, and MWG believes it can achieve c18% in 2018e based on recent trading results. Overall, MWG indicates that grocery margins are likely to be better than mobile phones and consumer electronics (which range from 12-17% on key categories).

MWG also indicates that BHX should breakeven at the EBITDA level this year and be profitable in 2019e. Looking forward, the channel will be expanded into Hanoi and the Mekong delta in due course. We also do not believe MWG will tackle second-tier cities in the next two to three years, given the strength of rural and wet markets in those areas.

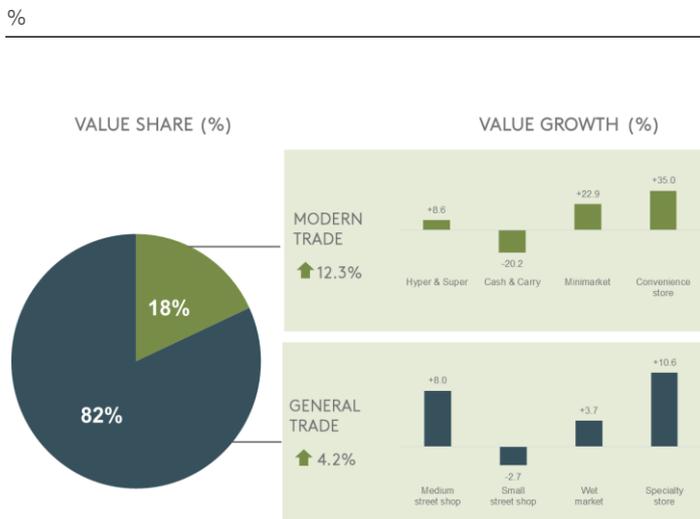
MWG is also working to vertically integrate its supply chain and buy directly from farmers, food and household goods producers, both locally and internationally. MWG has set up a dedicated buying and supply sourcing team and is working with suppliers on standardised quality standards and product specifications (size, colour, shelf life and end-to-end cold chain, etc.). Management is cognisant that these initiatives will take time, and a large part of their time is going into ensuring the successful delivery of good service levels and customer service standards, is deployed in tandem with a large-scale store roll out.

Competition is growing – Saigon Co.op and VinMart+ look most aggressive

Competition in the minimart space is growing. Both Saigon Co.op (Co.op Food), AEON (Citimart) and Vingroup (Vimart+) are targeting the mini-supermarket/fresh food format, and existing larger format supermarket Saigon Co.op marts, Big C, and Hypermarkets Lotte MM Mega Mart have been steadily growing their foot print in urban centres.

Within the minimarket and supermarket segments, Vinmart+ (which began as a convenience store) has been migrating its format into a more hybrid model of minimart/convenience store, while AEON and Saigon Co.op have been expanding their supermarkets and mini-supermarkets formats steadily. Saigon Co.op itself intends to open as many as 600 supermarkets nationally over the next few years. Finally, within the grocery space, specialty shops have been steadily popping up or planned under major brands: Vinamilk (dairy), Vissan and Masan Nutri-Science (packaged meats).

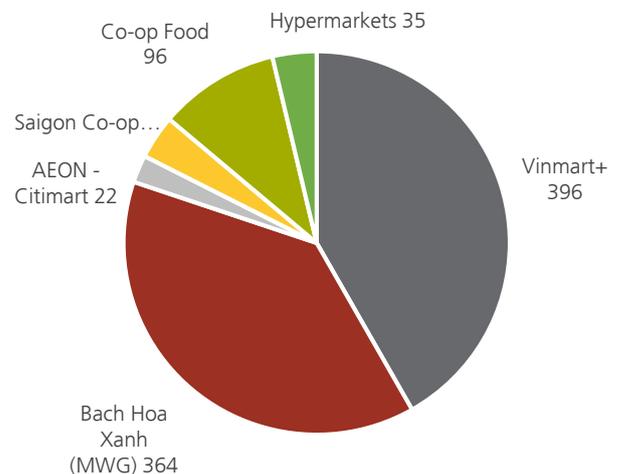
Figure 14: Recent growth trends



Source: Kantar world panel

Figure 15: Major supermarket & mini-markets in HCMC at Feb 2018

Number - excludes convenience stores



Source: Company data, EFG Hermes estimates

In addition, there has been an aggressive ramp-up in convenience store openings. Brands such as Circle K (264 stores nationally – 160 in HCMC), Family Mart (AEON - 137 HCMC stores), B’s mart (166 HCMC stores) have a sizable presence as well as 7/11, which entered Vietnam last year. Each of these chains are planning to deploy well over 1,000 locations nationwide in the coming years.

The convenience store format in Vietnam is different than BHX’s mini-supermarket format in a few ways. It is more focused on immediate consumable items (i.e. soft drinks, cigarettes and confectionaries), whilst minimarkets and supermarkets are more focused on a broader mix of daily essentials and foods, as well as household and personal care products. Overall, we do not see this channel as a direct competitor to BHX or the supermarkets, as convenience stores tend to target crowded streets and areas, whereas mini-supermarkets are usually located in more residential areas.

Overall, even as trade overall is growing in both general and modern channels (see Figure 12 above and retail sales data in Appendix 2), the growth trend is favouring modern trade, albeit from a low base, as we believe modern trade represents only 15-20% of food retail spending in Vietnam currently. By example, both Vinamilk and Masan Consumer claim over 80% of their sales are still in the general channel (each has products across more than 250k POS) nationwide.

Pharmaceutical is the other mid-term project

MWG acquired the operations of a small HCMC pharmacy-based chain Phuc An Khang in late 2017. The chain had 30 stores, but MWG has reduced that number to seven stores post-acquisition. MWG is now quietly developing a business strategy for Phuc An Khang with the existing management team. Initiatives include: i) broadening the product range (health & beauty and supplements – drive traffic); ii) product safety/original certification (prescription drugs); iii) branding and concept. MWG has hinted that a volume-driven discount/generic chain (targeting a health, beauty, medicinal and whole family needs) is thought to be a good model for Vietnam.

The rationale for the purchase was to secure an experienced and qualified management team and acquire a fully-licensed enterprise in the pharmacy sector. MWG management believes the retail drug market (prescription & OTC) is worth cUSD5.0bn in 2017, a number also stated by other entities (FPT retail) that are also investing in this sector.

Figure 16: Phuc An Khang

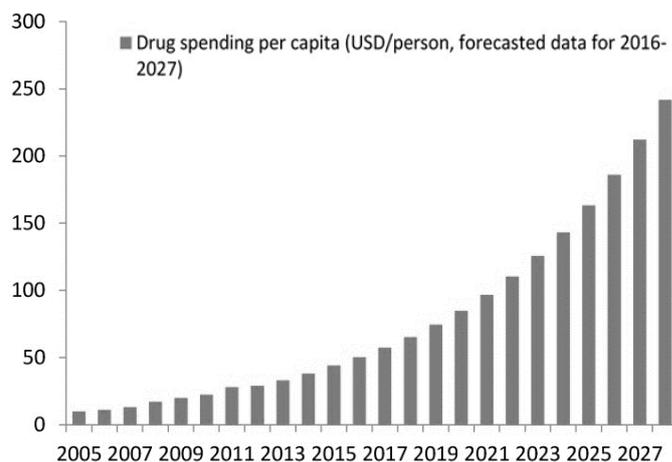
Pharmacy layout



Source: Company data

Figure 17: Per capita drug consumption in Vietnam

USD actual



Source: International Journal of Public Health, MDPI

Quantifying the retail pharmacy opportunity in Vietnam

A 2017 study, “Pharmaceutical industry in Vietnam: Sluggish Sector in a Growing Market in the International Journal of Public Health (MDPI)” concluded that: i) growth in drug spending per capita has been continuous and stable. The average drug expenditure per capita was USD9.85 in 2005, USD22.25 in 2010 and up to USD44 in 2015. The average growth rate reached 17.7% per year between 2005 and 2010 and 14.6% between 2010 and 2015; ii) assuming that the expenditure maintains a growth rate of at least 14% per annum up to 2025, it is estimated that drug spending per capita will double to USD85 in 2020 and quadruple to USD163 in 2025. This equates to a national market size range of USD7.8bn to USD15.2bn, over 2020 to 2025, respectively.

The study also noted that demand for pharmaceutical products expanded rapidly as a consequence of high economic growth, rising income per capita, higher urban population, as well as an ageing population. Against that background in 2015, there were approximately 57,000 pharmacies in Vietnam, (about 6.6 outlets per 10,000 people,) the ratio of which is higher in cities than rural areas. The sector is fragmented, with most pharmacies individually owned or informally attached to medical facilities.

The sector is also experiencing a flurry of investment in modern trade. Pharmacy (currently 96 HCMC outlets) has secured undisclosed venture capital investment from Mekong Capital, while FPT Retail acquired

Long Chau pharmacy in 2017. Press articles citing industry participants suggest that revenue/store ranges from as low as VND200mn to VND3.0bn (USD10,000-135,000) per month.

MWG summary forecasts

Our revised estimates for MWG are driven by two factors: i) a stable increase of 5% (from 2019e – then trending down to 2%) in average monthly store revenue in the TGDD and DMX channels; and ii) an annual addition of around 1,050 BHX stores annually though 2022e (of which 600 are in 2018e).

We used the average SS T3M time series data (Fig 11. page 9) to derive our estimates of avg. monthly revenue/store for each of MWG’s channels, which can be seen below. In addition, with the TGDD and DMX store footprints largely built out, we now believe that average store revenue growth will be an effective proxy for same-store-sales growth (SSSG), particularly in the TGDD channel and over time in the DMX channel. We note that MWG does not disclose SSSG at a channel or overall level at this juncture.

Figure 18: MWG store roll-out and revenue/average store assumptions

No. and VNDbn

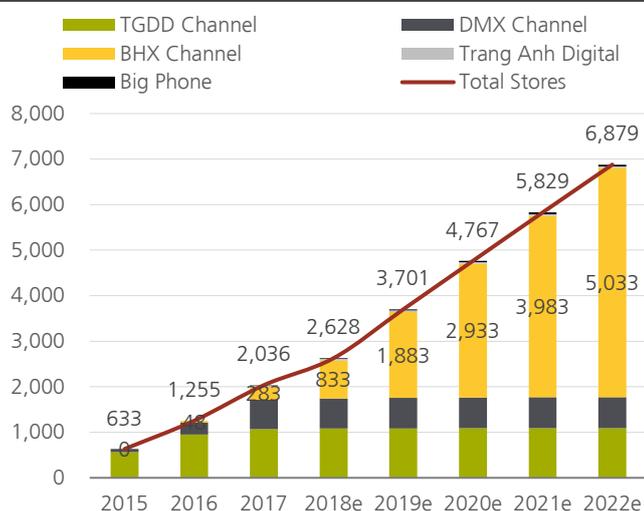
MWG retail network	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
TGDD channel	564	951	1,072	1,082	1,087	1,090	1,092	1,092
DMX channel	69	256	642	662	672	677	679	679
BHX channel	0	48	283	833	1,883	2,933	3,983	5,033
Trang Anh Digital			35	35	35	35	35	35
Big Phone			4	16	24	32	40	40
Total stores	633	1,255	2,036	2,628	3,701	4,767	5,829	6,879
Revenue/store (VNDbn)	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
TGDD (Rev/mth/avg store)	3.81	3.40	2.86	2.80	2.94	3.06	3.16	3.22
DMX (Rev/mth/avg store)		7.03	5.61	5.45	5.77	6.03	6.22	6.36
BHX (Rev/mth/avg store)		4.15	0.70	0.99	1.09	1.23	1.30	1.34
TAD & Big Phone (Rev/mth/avg store)				3.69	3.07	2.73	2.46	2.33
VV.Com (Rev growth)					200.0%	152.0%	76.0%	38.0%

Source: Company data, EFG Hermes estimates

We still expect a strong revenue growth profile for MWG. By 2020e, we see revenue reaching VND130bn (a 25.1% three-year CAGR) and rising thereafter to VND178bn by 2022e (a 21.8% five-year CAGR).

Figure 19: Store count by channel

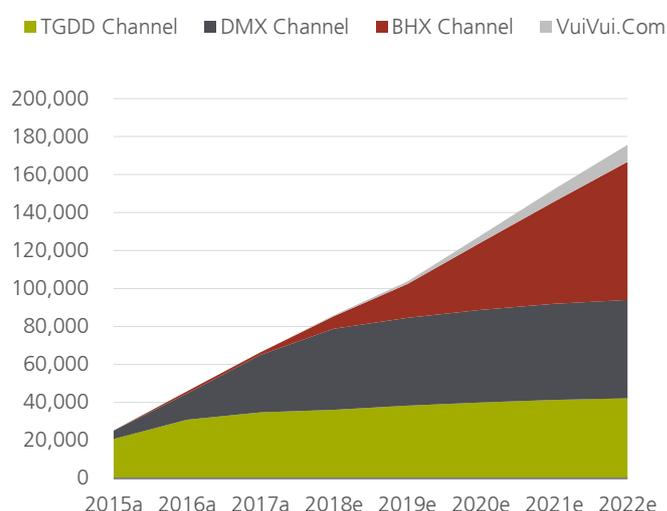
No.



Source: Company data, EFG Hermes estimates

Figure 20: Consolidated revenue profile

(%)

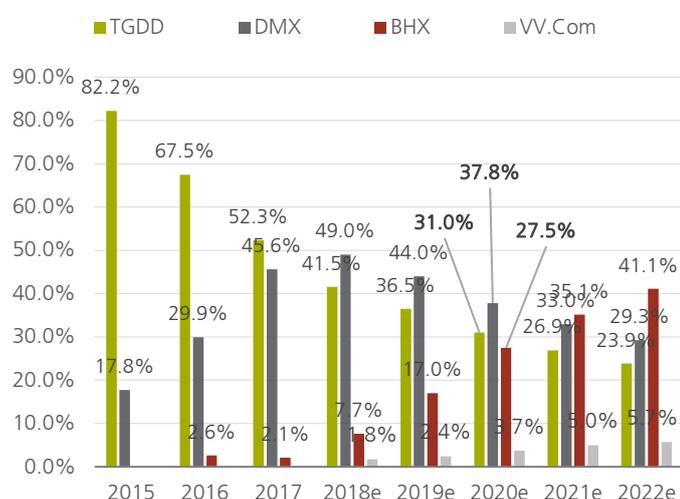


Source: Company data, EFG Hermes estimates

But we note that mobile phones (TGDD: 52%) and consumer electronics (45%) dominate the overall share of MWG's revenues.

Figure 21: Share of revenues by key channels (%)

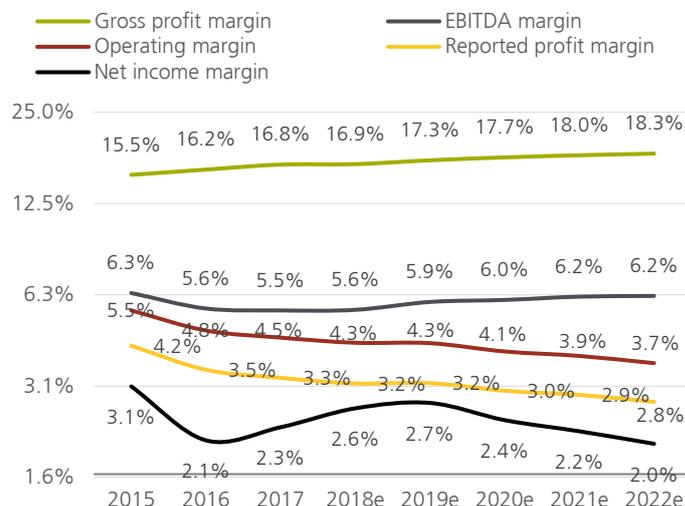
In VNDbn



Source: Company data, EFG Hermes estimates

Figure 22: MWG blended margin outlook

%



Source: Company data, EFG Hermes estimates

The changes in our attributable net income margin and estimates reflect the assumptions we have made on ESOP expensing (as is explained in Appendix 1). MWG's reported net margins track the operating margins fairly closely, given stable tax rates and funding costs.

Figure 23: Detailed P&L

In VNDm

Year ended Dec:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
Mobile phones (TGDD)	20,749,000	30,904,000	34,708,000	36,141,133	38,302,184	40,018,348	41,313,699	42,217,329
Consumer Electronics (DMX)	4,482,000	13,709,000	30,245,000	42,677,457	46,207,321	48,781,530	50,618,822	51,783,728
Green Grocery (BHX)	0	1,194,000	1,387,000	6,661,391	17,879,918	35,482,260	53,940,487	72,760,931
Elimination & other channels	21,733	(1,193,657)	(196)	1,537,000	2,541,000	4,799,400	7,638,744	10,116,247
Net revenues	25,252,733	44,613,343	66,339,804	87,016,981	104,930,423	129,081,538	153,511,751	176,878,235
COGS	(21,330,302)	(37,399,226)	(55,198,025)	(72,352,244)	(86,725,705)	(106,186,814)	(125,833,576)	(144,593,990)
Gross profits	3,922,431	7,214,117	11,141,779	14,664,737	18,204,718	22,894,724	27,678,176	32,284,245
SG&A	(2,600,410)	(5,222,473)	(8,363,966)	(11,114,808)	(13,909,792)	(17,922,639)	(21,941,324)	(26,010,574)
Other income	79,031	133,294	215,225	225,846	245,106	271,368	290,455	301,199
EBITDA	1,598,965	2,511,573	3,680,248	4,848,815	6,208,598	7,754,442	9,454,285	10,954,132
Dep'n & amort.	(197,913)	(386,635)	(687,209)	(1,073,040)	(1,668,567)	(2,510,990)	(3,426,979)	(4,379,261)
Associates	0	0	0	0	0	0	0	0
Net financing	(38,711)	(118,053)	(197,595)	(279,323)	(311,727)	(336,310)	(370,813)	(393,951)
Pre-tax	1,362,341	2,006,886	2,795,444	3,496,453	4,228,305	4,907,142	5,656,493	6,180,919
Income taxes	(310,013)	(427,664)	(602,415)	(722,956)	(874,280)	(1,014,642)	(1,169,584)	(1,278,019)
Minorities	19,565	(1,839)	12,651	(1,530)	(1,850)	(2,147)	(2,475)	(2,705)
Rep. net profit	1,071,894	1,577,383	2,205,680	2,771,967	3,352,175	3,890,353	4,484,434	4,900,196
ESOP costs & others	(238,129)	(656,487)	(662,329)	(476,451)	(468,981)	(777,773)	(1,083,342)	(1,335,786)
Attr. net income	833,764	920,895	1,543,351	2,295,515	2,883,194	3,112,580	3,401,092	3,564,410

Source: Company data, EFG Hermes estimates

A closer look at cash flow

We also expect to see capex rising steadily (VND2.3trn in 2018e to VND5.4trn in 2022e) on the heavy grocery build out (c1,050 locations p.a.), which, in due course, will include more cold (incl. frozen) and supply chains as well as logistic/fulfillment investments and this will result in rising depreciation expenses/store.

The resulting depreciation expenses (VND1.0trn in 2018e rising to VND4.3trn in 2022e) could begin to exert pressure on operating margins on our estimates. In that regard, improving revenue/store and SSSG (currently undisclosed) are likely to be important drivers of any earnings surprises over and above our estimates.

Figure 24: Summary cash flow

In VNDmn

Year ended Dec:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
EBITDA	1,598,965	2,511,573	3,680,248	4,848,815	6,208,598	7,754,442	9,454,285	10,954,132
Operating cash flow (less taxes)	1,288,952	2,083,909	3,077,833	4,125,859	5,334,319	6,739,800	8,284,701	9,676,113
Change in working capital & others	(2,028,722)	(2,455,338)	(85,550)	(800,409)	64,249	(1,111,301)	(843,913)	(242,843)
Capex & Investments	(658,757)	(1,278,789)	(2,087,260)	(2,252,940)	(4,364,024)	(4,996,233)	(5,181,421)	(5,399,497)
Free cash flow	(1,398,527)	(1,650,219)	905,023	1,072,511	1,034,543	632,267	2,259,367	4,033,773
Non op cash flow (net int. & taxes)	(210,800)	(640,887)	(959,856)	(1,002,279)	(1,186,007)	(1,350,952)	(1,540,397)	(1,671,970)
Net chg in debt/financing cash flow	1,740,280	2,944,216	2,468,833	1,588,900	522,130	(24,532)	1,002,348	706,694
Net cash generated	130,953	653,111	2,414,000	1,659,132	370,666	(743,217)	1,721,317	3,068,496
Cash & Equiv. (Year-end)	343,873	996,983	3,410,983	5,070,116	5,440,782	4,697,565	6,418,882	9,487,379

Source: Company data, EFG Hermes estimates

As noted earlier, MWG turned cash flow (operating less working capital) positive, as well as free cash flow positive in 2017. This was despite the year-end inventory build-up reflecting the (Dec) Christmas and pending Lunar New Year (Jan-Feb) holidays and peak sales periods. On free cash flow, the improvement in working capital combined with VND3.7bn in EBITDA fully paid for the VND2.1bn in capital expenditure in 2017.

Figure 25: MWG's cash conversion cycle

Days

Year end:	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
Debt / equity (x)	0.83	1.25	0.95	0.82	0.63	0.55	0.48	0.41
Net debt / equity (x)	0.69	0.99	0.37	0.21	0.14	0.22	0.12	-0.03
Age of payables	34	46	49	47	45	43	41	40
Age of inventory	85	92	81	75	65	60	55	50
Age of receivables	1	2	8	8	10	12	14	15
Cash conversion cycle	52	48	39	36	30	29	28	25

Source: Company data, EFG Hermes estimates

MWG's 2017 cash conversion cycle stood at 39 days, underpinned by an inventory age of 81 days. The relatively high levels of inventory reflect a couple of factors: i) seasonal peaks in inventory due to Christmas stocking and the approaching Lunar New Year peak sales periods; and ii) in consumer electronics and mobile devices, Vietnam is still largely a distributor (and not direct purchase) led wholesale market. This tilts purchasing towards bulkier volume inventory purchases and away from demand-led "just in time" stock rolls and deliveries.

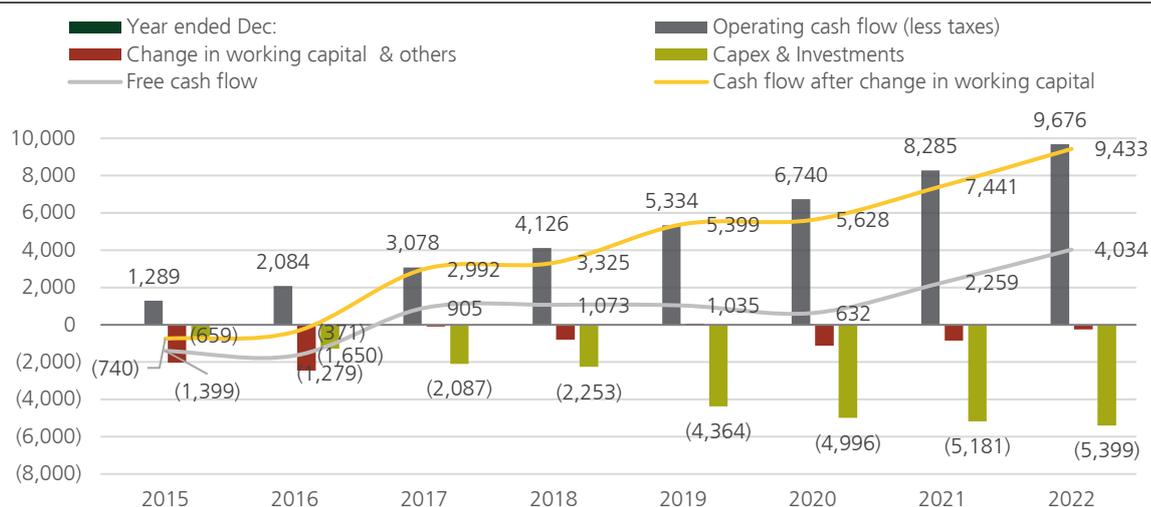
Overall, we expect to see a steady improvement in cash conversion as: i) MWG engages in more direct purchasing from manufacturers (as it does with Apple and Samsung already); and ii) faster inventory turnover in groceries than in consumer electronics (given that product shelf life is much shorter).

Going forward, we expect working capital to be largely funded by short-term debt, and capex to be funded largely by operating cash flow. As a result, we see free cash flow of VND1.0bn to VND2.3bn on our estimates.

We also believe MEWG will continue for the foreseeable future to be a heavy investor in technology (particularly logistics and fulfillment) and data.

Figure 26: MWG’s cash flow components

In VNDbn



Source: Company data, EFG Hermes estimates

Importance of cash conversion cycles as a driver of cash flow upside

On a final note, we highlight the potential boost to cash flow, should MWG be able to achieve a lower cash conversion cycle. We assume that days-receivable rise to a steady state of 15 days (given a wider use of credit cards over time) and we run a sensitivity analysis against a mid-term change of payables and inventory.

We believe the most plausible scenario is one where MWG can drive its inventory age down to below 50 days by 2020e. So long as MWG can maintain days payable to no more than 40 days (49 days at in 2017), we could see a dramatic VND1.3bn to 4.9bn improvement in operating cash flow for the company. Thus, in addition to driving revenues (SSSG) and executing on its grocery business, improving cash conversion could be a material driver of value for the company, in our opinion.

Figure 27: 2022e operating cash flow sensitivity - cash conversion cycle

In VNDmn – DSO assumed to be constant at 15 days

		Age of Inventory					
		60	55	50	45	40	35
Age of Payables	30.0	1,758,561	3,675,160	5,591,760	7,508,360	9,424,959	11,341,559
	33.3	3,039,064	4,955,664	6,872,263	8,788,863	10,705,463	12,622,062
	36.7	4,319,567	6,236,167	8,152,766	10,069,366	11,985,966	13,902,566
	40.0	5,600,070	7,516,670	9,433,270	11,349,869	13,266,469	15,183,069
	43.3	6,880,574	8,797,173	10,713,773	12,630,373	14,546,972	16,463,572
	46.7	8,161,077	10,077,676	11,994,276	13,910,876	15,827,476	17,744,075
	50.0	9,441,580	11,358,180	13,274,779	15,191,379	17,107,979	19,024,579

Source: Company data, EFG Hermes estimates

Appendix 1 – ESOP expense methodology

At the latest AGM (Mar 2018), MWG shareholders resolved to ratify the financial year 2017 ESOP and to continue the ESOP programme for financial year 2018. This means the company issuing 3% (9.69mn shares as of today) of its shares outstanding in Dec 2018 and potentially up to another 3% in Dec 2019 based on the formula in Figure 28 below.

Figure 28: ESOP stock grants since MWG's listing

In VNDmn (unless otherwise stated)

Financial year / Issue Year	Value at Market	No. of Employees	Value / Employee	USD equiv
Pre-listing ESOP / Dec 14	523,145	598	874.8	\$38,907
2015 ESOP / Dec-15	787,908	866	909.8	\$42,539
2016 ESOP / Dec-16	564,487	1,362	414.5	\$18,209
2017 ESOP / Dec-18	776,832	2,752	282.3	\$12,279
2018 ESOP /Dec -19	1,099,092	TBC	TBC	

Source: Company data, EFG Hermes estimates

Figure 29: Current ESOP formula

%

Scenario	1	2	3
Reported profit growth or Share price rel perf.	< 10%	10% > <=30%	>30%
ESOP (% of shares outstanding)	0%	0.1 * NP Growth (%)	3%
Share price rel. perf. factor (vs VNIndex)	80%	100%	100%
Issue price	Lower of VND10,000/sh or T90D avg. close		

Source: Company data

Given that stock-based compensation is excluded from reported profits in Vietnam, (as we did in our initiation) we have calculated an assessment of the ESOP plan(s) against the IFRS 2 (stock grant) standard to calculate an annual 'economic' cost of the ESOP to MWG. We then applied this as a charge to the company's annual reported profits by expensing our "value at market" estimate matched to each tranche's particular vesting period(s). This results in an annual charge to reported profits of VND261.6bn to VND676.2bn for the ESOPs that were issued in 2014-17, and VND476.5bn to VND468.9bn for 2018-19e (where ESOPs are AGM approved) – but issuance is still pending, respectively.

For 2019-20e and beyond, we made a broad assumption on future P&L costs by using a theoretical 20x earnings multiple against the prior year's attributable EPS, and then reflected 'value at market' this as a percentage of each year's selling expenses (ranges from 12.2% to 6.1%), which we charge out against reported profit, by adding them to the earlier years' amortising ESOP expenses.

For our DCF estimates, we discounted the future value at market estimate by MWG's WACC to derive an NPV of VND4.9bn at 2018e and VND4.4bn at 2019e.

Figure 30: ESOP fair value and P&L (un-expensed) estimates

Year ended Dec	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
ESOP AGM approval date	12-Sep-14	26-Feb-15	19-May-16	31-Mar-17	16-Mar-18				
Adj. share price / assumed value (20x PER)	98,500	112,800	77,000	84,150	113,400	144,575	171,091	180,502	193,657
Previous years reported profit growth (%)	N/A.	N/A.	N/A.	47.2%	39.8%	25.7%	20.9%	16.1%	15.3%
Annual ESOP (no. of shares -mn)	5.31	6.98	7.33	9.23	9.69	8.54	7.14	5.59	5.41
% of shares out (pre-issue)	5.0%	5.0%	5.0%	3.0%	3.0%	2.6%	2.1%	1.6%	1.5%
Value at Market/cash equiv. (VNDbn)	523,145	787,908	564,487	776,832	1,099,092	1,235,167	1,222,276	1,009,776	1,047,008
% of selling exps.	42.2%	36.6%	14.5%	12.3%	10.1%	12.2%	9.8%	6.8%	6.1%
Lock-up / vesting period (Years)	2	2	2	4	4	4	4	4	4
ESOP issue date	10-Dec-14	11-Dec-15	19-Dec-16	15-Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Amortised P&L charge (VNDbn)		261,573	655,526	676,197	476,451	468,981	777,773	1,083,342	1,335,786

Source: Company data, EFG Hermes estimates

As we explained in our initiation report, we believe MWG will, in due course, make changes to the stock grant nature of its ESOP programme. As MWG has not made any disclosure as to when it may make changes, until such time, we will continue to assume the company issues stocks to shareholders based on its current practice.

Appendix 2 – Retail & market trading data in Vietnam

In 2017, retail sales of consumer goods and services reached VND3,934 trn (USD171bn), increasing by 10.9%, compared to 2016. Retail sale of goods accounted for 74.7% of the total sales (USD128.5bn), while accommodation, catering and travel services accounted for the remainder.

HCMC retail sales market stood at USD34.2bn, based on GSO 2016 data. Even if only 30% of that expenditure is in groceries and household goods, we still believe a USD10.0bn market size is more than enough for MWG’s BHX to compete and carve out a leading place within.

Figure 31: National retail sales & retail trade & services

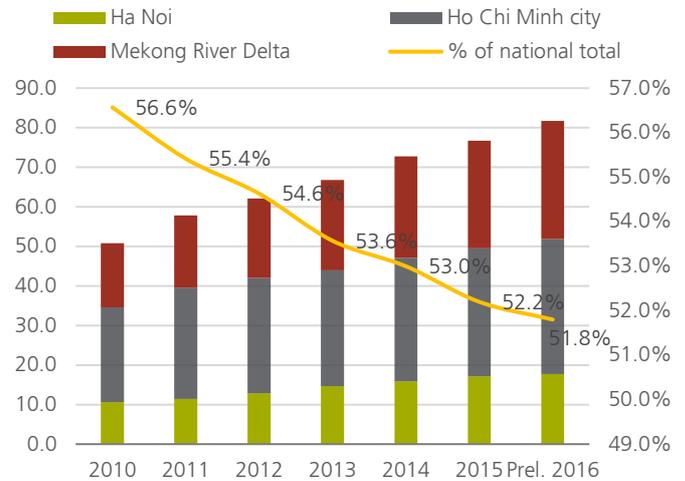
In USDbn



Source: GSO

Figure 32: MWG’s key target markets

In USDbn

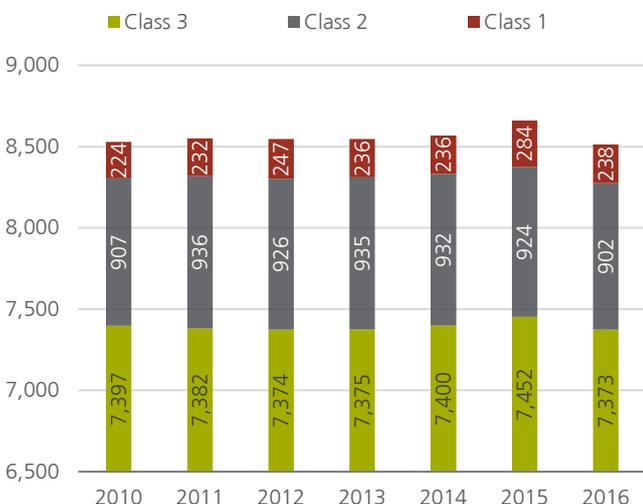


Source: GSO

The same GSO data gives some clarity of the number of wet markets by category and location. We believe this data captures major wholesale markets and wet retail markets. The data does not reflect the prevalence of general trade, where companies such as Vinamilk and Masan claim POS in excess of 250,000 locations nationwide.

Figure 33: National markets by category

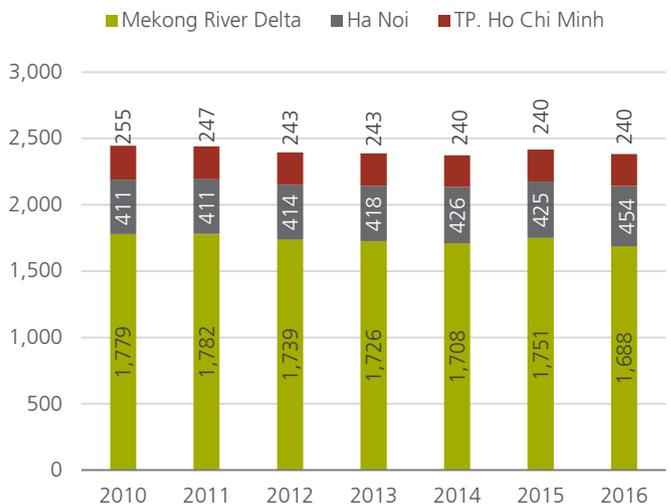
No. actual



Source: GSO

Figure 34: Markets in MWG key areas

No. actual



Source: GSO

Financial Statements

Income Statement (Dec Year End)

In VNDmn	2017a	2018e	2019e	2020e
Revenue	66,339,804	87,016,981	104,930,423	129,081,538
COGS	(55,198,025)	(72,352,244)	(86,725,705)	(106,186,814)
Gross profit	11,141,779	14,664,737	18,204,718	22,894,724
SG&A	(8,363,966)	(11,114,808)	(13,909,792)	(17,922,639)
Other operating inc (expense)	215,225	225,846	245,106	271,368
EBITDA	3,680,248	4,848,815	6,208,598	7,754,442
Depreciation and amortisation	(687,209)	(1,073,040)	(1,668,567)	(2,510,990)
Net operating profit (EBIT)	2,993,039	3,775,775	4,540,032	5,243,452
Share of results from associates	0	0	0	0
Net investment income (loss)	0	0	0	0
Net interest income (expense)	(192,071)	(279,323)	(311,727)	(336,310)
Other non-operating inc (exp.)	(4,466)	0	0	0
FX gains (loss)	(1,058)	0	0	0
Net provisions	0	0	0	0
Income before taxes or zakat	2,795,444	3,496,453	4,228,305	4,907,142
Taxes or zakat	(602,415)	(722,956)	(874,280)	(1,014,642)
Net inc before minority interest	2,193,029	2,773,497	3,354,025	3,892,500
Minority interest	(1,217)	(1,530)	(1,850)	(2,147)
Reported net income	2,191,811	2,771,967	3,352,175	3,890,353
Adjusted net income	1,543,351	2,295,515	2,883,194	3,112,580

Source: Mobile World Investment Corp, EFG Hermes estimates

Balance Sheet (Dec Year End)

In VNDmn	2017a	2018e	2019e	2020e
Cash and cash equivalents	3,410,983	5,070,116	5,440,782	4,697,565
Accounts receivable (current)	1,441,601	1,890,928	2,874,806	4,243,777
Inventory	12,050,163	14,646,492	15,147,231	16,996,101
Other debit balances (current)	1,961,417	2,195,796	2,394,392	2,662,402
Total current assets	18,864,165	23,803,332	25,857,211	28,599,844
PP&E (net)	3,460,791	4,641,080	7,336,927	9,822,559
Goodwill & intangibles	27,830	27,440	27,051	26,662
Investments (non-current)	0	0	0	0
Other debit balances (non-current)	460,688	572,944	792,674	1,004,326
Total non-current assets	3,949,283	5,241,439	8,156,626	10,853,522
Total assets	22,813,447	29,044,771	34,013,837	39,453,367
Short term debt	5,603,506	6,810,838	7,043,689	7,903,441
Accounts payable (current)	7,371,801	9,178,468	10,486,545	12,180,539
Other credit balances (current)	2,691,084	3,476,300	4,135,414	5,027,623
Total current liabilities	15,666,391	19,465,606	21,665,648	25,111,602
Long term debt	1,192,295	1,192,295	1,192,295	0
Other credit balances (non-current)	45,825	45,825	45,825	45,825
Total non-current liabilities	1,238,120	1,238,120	1,238,120	45,825
Total net worth	5,906,160	8,336,739	11,103,913	14,287,635
Total equity	5,908,936	8,341,046	11,110,070	14,295,940
Total equity and liabilities	22,813,447	29,044,771	34,013,837	39,453,367

Source: Mobile World Investment Corp, EFG Hermes estimates

Cash Flow (Dec Year End)

In VNDmn	2017a	2018e	2019e	2020e
Cash operating profit after taxes	3,077,833	4,125,859	5,334,319	6,739,800
Change in working capital	(223,588)	(688,152)	283,978	(899,648)
Cash flow after change in WC	2,992,283	3,325,450	5,398,567	5,628,499
CAPEX	(2,087,260)	(2,252,940)	(4,364,024)	(4,996,233)
Investments	0	0	0	0
Free cash flow	905,023	1,072,511	1,034,543	632,267
Non-operating cash flow	(959,856)	(1,002,279)	(1,186,007)	(1,350,952)
Cash flow before financing	(54,833)	70,232	(151,464)	(718,685)
Net financing	2,468,833	1,588,900	522,130	(24,532)
Change in cash	2,414,000	1,659,132	370,666	(743,217)

Source: Mobile World Investment Corp, EFG Hermes estimates

Rating and Target Price chart



Rating Distribution

Rating	Coverage Universe%
Buy	52%
Neutral	36%
Sell	12%
Not Rated	0%
Under Review	0%

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Specialty Retail. Vietnam

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