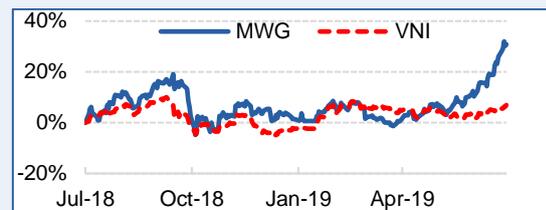


Industry:	Retailing		2018	H1/19 ⁽¹⁾	2019F
Report Date:	July 26, 2019	Rev y/y	30.4%	16.1%	23.5%
Current Price:	VND106,700	EPS y/y	24.3%	33.8 ⁽²⁾	27.7%
Last Target Price:	VND164,700	GPM	17.7%	N/A	18.0%
Upside:	+54.4%	NPM	3.3%	N/A	3.5%
Dividend yield:	+1.4%	EV/EBITDA	9.9x	N/A	8.1x
TSR:	+55.8%	P/Op CF	20.4x	N/A	8.2x
Rating:	BUY	P/E	16.0x	N/A	12.5x



Market Cap:	USD2.0bn		MWG ⁽¹⁾	VNI
Foreign Room:	USD0	P/E (ttm)	13.5x	17.1x
ADTV30D:	USD3.6mn	P/B (curr)	N/A	2.5x
State Ownership:	0%	Net D/E	N/A	N/A
Outstanding Shares:	442.8 mn	ROE	N/A	14.8%
Fully Diluted Shares:	442.8 mn	ROA	N/A	2.5%
3-year PEG:	0.7			

(1) Prelim results
(2) Diluted by the recent 3% ESOP issuance

Company Overview

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with market shares of 45% and 35%, respectively. It also has the top online platform in Vietnam in terms of revenue. To sustain strong growth going forward, MWG is rolling out the BachhoaXANH minimart chain.

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Strong momentum reinforces our conviction

- MWG announced prelim H1 2019 results. Revenue jumped 16% while NPAT surged 38% YoY.
- Upbeat H1 2019 earnings were primarily driven by the consumer electronics chain (DMX) whose revenue soared 22% YoY. In addition, blended net margin widened by 60 bps to 4.1% in H1 2019, which we attribute to MWG's widening scale and operating leverage.
- NPAT growth strengthened to 48% YoY in Q2 2019 vs 29% YoY in Q1 2019 as TGDD (mobile phone chain) and DMX displayed improvement in YoY revenue growth.
- BHX (grocery chain) continued to see rising sales per store while its store expansion is accelerating.
- H1 2019 results reinforce our optimism on MWG. We see potential upside risk to our current forecasts, particularly in terms of profit margins and BHX's sales per store.

DMX spearheaded growth; conversions to new store layout underpin same-store-sales growth (SSSG). DMX's H1 2019 revenue jumped 22% YoY, driven by solid SSSG, new store openings (88 new stores in H1 2019, including conversions of high-performing mobile stores to mini-DMX, to reach a total store count of 838 vs 750 as of YE2018) and layout optimization (210 mini-DMX stores converted to the new layout in Q2 2019). Per MWG, the new DMX layout generally helps improve sales/store by 30% vs the current layout thanks to a more extensive range of SKUs for electronics, small home appliances and kitchenware. MWG plans to convert the remaining nearly 300 mini-DMX stores by YE2019, which will bolster SSSG in 2020, in our view.

TGDD's revenue slid due to conversion of high-performing stores to mini-DMX format. Due to this conversion, as of H1 2019, TGDD store count shrunk to 1,011 vs 1,032 as of YE2018. Having said that, on a category basis, MWG's mobile phone sales still posted positive growth in H1 2019, per management. According to MWG, SSSG of TGDD and DMX combined reached 7% in H1 2019, which is higher than the 5% mark in Q1 2019.

Roll-out of fashion watches supports same-store sales. MWG's watch point-of-sales (shop-in-shop format) reached 34 as of June 2019 vs 18 as of May 2019. Per MWG, on average, watch sales helped raise revenue of associated TGDD and DMX stores by 10%. In June 2019, MWG sold nearly 11,000 watches at an ASP of VND1.2mn-VND1.3mn (USD50-USD55).

Online sales contribution broadened in H1 2019, although growth decelerated in Q2 2019 due to pricing adjustment. Online sales surged 39% YoY in H1 2019, accounting for 16% to TGDD and DMX's combined revenues in H1 2019 vs 13% in H1 2018. MWG's stellar online sales are being underpinned by its omnichannel that leverages on an extensive, nationwide physical store network. Online sales growth tapered down to 13% YoY in Q2 2019 vs 67% YoY in Q1 2019. Per management, this growth slowdown is because MWG has cut down on promotions (e.g. price

discount vouchers) on its online channel to better align its offline/online pricing since May 2019. This adjustment will enable MWG to more effectively utilize its omnichannel in the sense that its online platform will better target customers who seek the convenience and service quality of online shopping rather than those chasing price discounts. This online pricing adjustment has not affected total sales, per management, as customers who were previously incentivized to order online because of the promotional vouchers simply switched to purchasing directly at stores.

BHX's sales/store stepped up, partly driven by a larger mix of big-store (flagship) and double-shop formats. We estimate BHX's average sales/store reached ~VND1.6bn (USD68,000) in June 2019, +7% MoM and ~30% higher than Q4 2018's average. This was partly aided by a broadening contribution from the big-store format (~300 sqm/store), which made up 17% of the total BHX store count as of H1 2019 vs 8% as of YE2018.

In addition to opening new big stores, BHX is (1) converting high-performing standard-format stores (USD73,000-USD107,000 in monthly sales per store) to the big-store format. 12 such conversions were completed in H1 2019. Post-conversion, per MWG, these stores normally see a 20% improvement in sales; and (2) converting high-performing big-format stores to double-shop format, which sells basic small home appliances and kitchenware in addition to groceries. Post-conversion, these stores typically record a 30% uplift in sales, per MWG. As of June 2019, BHX has four double-shop stores.

Meanwhile, we estimate that 95% of new BHX stores in H1 2019 (net of store closures) were outside of HCMC (i.e., the Mekong Delta and Southeast regions). As such, stores in these provinces now constitute 36% of the total BHX store count as of June 2019 vs only 8% as of YE2018.

Increasing direct sourcing, including for imports, boosted fresh produce sales. In April 2019, BHX started to import fruits directly from suppliers in the US, EU, Australia, New Zealand, South Africa, Egypt and Thailand. Partly thanks to this, the sales contribution from fresh produce, chilled and frozen products ballooned to more than 50% in H1 2019 vs ~40% in H1 2018. Meanwhile, BHX has also started piloting direct imports of confectionery. Per management, these imported confectionary products sell at a 20%-30% discount to other similar products on the market.

MWG's preliminary H1 2019 results

VND bn	Q1 2019	YoY	Q2 2019	YoY	H1 2019	YoY	Store count as of H1 2019	VCSC's YE2019 store count forecasts
Revenue	25,017	10%	26,710	22%	51,727	16%		
TGDD	8,756	-8%	8,521	0%	17,277	-4%	1,011	982
DMX	14,619	16%	15,745	27%	30,364	22%	838	900
BHX	1,642	171%	2,444	158%	4,086	163%	600	900
NPAT	1,041	29%	1,080	48%	2,121	38%		
Online sales	4,650	67%	3,070	13%	7,720	39%		

Source: MWG, VCSC

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Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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