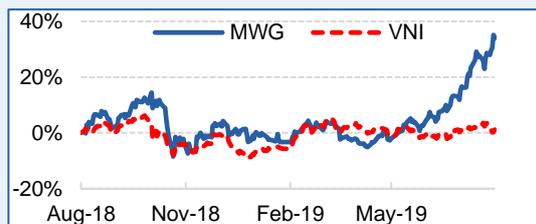


<b>Industry:</b>	<b>Retailing</b>		<u>2018</u>	<u>2019F</u>	<u>2020F</u>	<u>2021F</u>
<b>Report Date:</b>	<b>August 9, 2019</b>	Rev Growth	30.4%	23.5%	21.2%	16.8%
Current Price:	VND115,900	EPS Growth	24.3%	27.7%	26.1%	18.7%
Last Target Price:	VND164,700	GPM	17.7%	18.0%	18.2%	18.5%
Upside to TP:	+42.1%	NPM	3.3%	3.5%	3.8%	4.0%
Dividend Yield:	1.3%	EV/EBITDA	10.7x	8.8x	7.3x	6.3x
TSR:	+43.4%	P/Op CF	22.2x	8.9x	11.2x	7.7x
Rating:	BUY	P/E	17.4x	13.6x	10.8x	9.1x



Market Cap:	USD2.2bn		<u>MWG</u>	<u>VNI</u>
Foreign Room:	USD0	P/E (ttm)	14.7x	16.4x
ADTV30D:	USD4.2mn	P/B (curr)	4.9x	2.4x
State Ownership:	0%	Net D/E	0.1x	N/A
Outstanding Shares:	442.7mn	ROE	38.6%	14.7%
Fully Diluted Shares:	442.7mn	ROA	12.1%	2.5%
3-yr PEG	0.7			

**Company Overview**

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with YE2018 market shares of 45% and 35%, respectively. It also has the number one online platform in Vietnam by revenue. To sustain strong long-term growth, MWG is rolling out the BachhoaXANH minimart chain.

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**Store expansion ahead of expectation**

We attended MWG's store visit tour and analyst meeting over the last two days. Overall, the key takeaways reinforce our bullish view on MWG. We see potential upside to our current forecasts, pending a fuller review, especially regarding store expansion of DMX (consumer electronics chain) and BHX (minimart chain), BHX's sales per store as well as a revenue contribution from new categories such as watches and sunglasses.

**1. Market share expansion in mobile phones and consumer electronics**

- Combined H1 2019 SSSG of TGDD (mobile phone chain) and DMX was 7%, which was higher than the 5% in Q1 2019.
- MWG's market shares in mobile phones and consumer electronics have widened to 47% and 37%, respectively, compared to 45% and 35% as of YE2018. In air conditioners, MWG's market share has already surpassed 40%. In H1 2019, MWG outgrew the overall market across categories.

**MWG's H1 2019 revenue growth by category vs market**

Category	Overall market growth (YoY)	MWG's revenue growth (YoY)
Mobile	-5%	+3%
TVs	-10%	+2%
Air conditioners	+46%	+80%
Refrigerators	+3%	+15%
Washing machines	0%	+15%

Source: MWG

**2. Consumer electronics business (DMX)**

- As of today, MWG has close to 890 DMX stores. Management targets to have a total of ~1,000 stores by YE2019, which beats our current projection of 900 stores. Management further aims to reach a total of 1,500 DMX stores by 2021-2022, which is much more aggressive than our current projection of ~1,000 stores. As such, we see substantial potential upside to our current forecasts for DMX.
- In Q2 2019, MWG converted 210 mini-DMX stores to a new layout that boasts a wider range of SKUs for both consumer electronics and home appliance/kitchenware products. Per MWG, the new DMX layout generally helps to improve sales/store by 30% vs the current layout. MWG plans to convert the remaining ~300 mini-DMX stores by YE2019, which will bolster SSSG in 2020, in our view.

### 3. Minimart business (BHX)

- GPM reached 19% in June 2019 vs ~18% in March 2019 on the back of BHX's broadening scale and increased direct sourcing.
- As of June 2019, nearly 40% of BHX's store count were already able to cover all their direct operating costs, including distribution center costs and depreciation expenses. As such, BHX is on track to accomplish management's target of achieving profitability for the entire chain before G&A expenses by YE2019. Management said that this target could be accomplished sooner than December 2019.
- In June 2019, the standard format (~200 sqm/store, 83% of BHX's store count) averaged monthly sales of VND1.4bn (USD60,000) per store while the big format (~300 sqm/store, 17% of BHX's store count) averaged more than VND2.3bn (USD100,000) per store. Per our estimate, the blended average monthly sales of BHX reached ~VND1.6bn (USD68,000) per store in June 2019, +7% MoM and ~30% higher than the Q4 2018 average.
- Management expects BHX's store count will reach between 900-1,000 by YE2019 while it can open 70-80 new BHX stores per month in 2020. Therefore, we see material potential upside to our current store count projections for BHX of 900 by YE2019 and 1,500 by YE2020.
- Management believes BHX's store coverage in HCMC still has extensive headroom to expand. As of June 2019, BHX had more than 380 stores in HCMC. Management estimates that BHX could ultimately open a total of 1,500 stores in HCMC alone.
- In addition to a continued focus on opening new stores in the South, management plans to open BHX stores in the central region in 2020. Penetration into the North is likely to happen after 2021 or in 2021 at the earliest.
- BHX is experimenting a new process to reduce spoilage rate that currently is in practice at 20-30 stores. Management finds the spoilage rate in these experimented stores amounts to ~1.8% compared to ~3% for the whole BHX chain. Thus, MWG expects to roll out this new process to the remainder of BHX stores in the near future, which should meaningfully improve the chain's profitability.

### 4. Mobile business

MWG is piloting a "low-price" mobile phone store format, called "Dien Thoai Sieu Re" ("Super Cheap Phones" in English). With this format, MWG intends to further take market share away from mom-and-pop shops (~20% of the market) by tapping into price-sensitive consumers. Prices in this store format are at least 10% lower than those of the same products in TGDD stores. In exchange, in this store format, MWG will (1) minimize capex (e.g., small size of 16-20 sqm per store; no air conditioners) and operating expenses (e.g., only one employee per shift) and also (2) cut down on customer services (e.g., no product return/exchange; no warranty from MWG and only a manufacturer warranty).

### 5. Watches and sunglasses

- As of today, MWG has more than 50 watch points of sales (shop-in-shop format that is located inside TGDD and DMX stores). Management aims to raise watch points of sales to 100 by September 2019, 200 by YE2019 and 500 by June 2020. On average, MWG is selling about 25 watches per shop per day with an ASP of ~VND1.4mn-VND1.5mn (USD60-USD64).
- Meanwhile, as of today, MWG has six sunglass points of sales (shop-in-shop format that is located inside TGDD and DMX stores). On average, MWG sells about ten pairs of sunglasses per shop per day with an ASP of VND1.8mn (USD77).

## Rating and Valuation Methodology

**Stock ratings** are set based on projected total shareholder return (TSR), defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , 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
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, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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