

Mobile World Investment Group (MWG: HOSE)

SSI

BUY - 1Y Target Price: VND 160,300

Current price: VND 103,700

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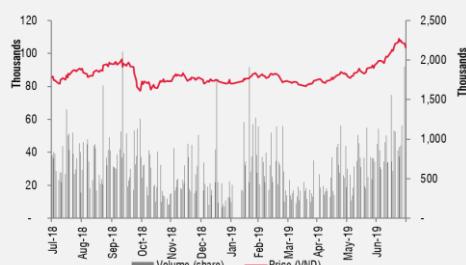
01 August 2019

CONSUMER - VIETNAM

Key figures

Market cap (USD mn)	1,979
Market cap (VND bn)	45,907
Outstanding shares (mn)	443
52W high/low (VND 1,000)	109.7/78.5
Average 3M volume (share)	719,831
Average 3M value (USD mn)	2.93
Average 3M value (VND bn)	67.88
Foreign ownership (%)	49
State ownership (%)	0
Management ownership (%)	40

MWG Price & Trading Volume



Source: Bloomberg

Company Snapshot

MWG - Mobile World Investment Corporation (previously known as Mobile World Ltd Co) was founded in March 2004 with a core focus on selling mobile phones and digital products. In Oct 2004, the first shop was inaugurated in HCMC and was named www.thegioididong.com. To penetrate the electronics market, MWG opened an electronics retail chain under the name Dienmay.com in 2010. By the end of 2015, the company opened its first grocery store named BachhoaXanh. At the end of 2018, MWG had 1,032 thegioididong stores and 750 Dienmayxanh stores and 405 BachhoaXanh stores.

COMPANY UPDATE

1H19 business results are on track

What's new

Last Friday MWG updated investors regarding its business results for June 2019 as well as 1H19.

In June alone, the company **witnessed revenue growth of 19.4% YoY (vs. 41.1% in June 2018)**, and a **net profit growth of 31.1% YoY (vs. 44.3% in June 2018)**. The net profit margin (NPM) for the month was squeezed from 4.2% in May 2019, settling in at 3.7% (but still a bit higher compared to 3.4% in June 2018) due to: (i) MWG having executed more promotional campaigns; and (ii) a strong increase in the number of new stores in June leading to an increase of S&G expenses. Please note that the NPM over several months at the beginning of the year does not represent the whole year.

Cumulatively, 1H19 **revenue increased by 16.1% YoY** (vs. 42.7% in 1H18) to reach VND 51.727 tn, accomplishing **47.7% of the company's annual plan**. This was mainly thanks to growth of the Dienmayxanh and BachhoaXanh chains. **Net margin** reached 4.1% for 1H19, higher than the 3.5% for 1H18, and the 3.3% in 2018. The net margin improvement was attributed to: **(a) improving average revenue per store; and (b) productivity enhancement at the stores, distribution centers and logistics system, leading to a reduction in operating expenses as a percentage of revenue**. As a result, 1H19 **net income attributable to shareholders** jumped by 37.7% YoY to approximately VND 2.121 tn (vs. growth of 43.9% YoY for 1H18), accomplishing **59.4% of the company's annual plan**.

At the end of June 2019, the total store count in Vietnam had increased by 12.5% YoY to reach 2,449 points of sale, increasing by 262 compared to the store count at the end of 2018, equivalent to 1.5 new store openings per day.

What's the impact

The 1H19 business results are in line with our expectations. Therefore, we **maintain our forecasts for the company**. In summary, we expect total revenue in 2019 to increase by 20.2% YoY to VND 103.972 tn. We look for net profit to increase by 35.9% YoY, and reach VND 3.912 tn, equivalent to a NPM of 3.8%, leading to an EPS of VND 8,627.

For 2020, we expect revenue to increase by 21.4% to VND 126.274 tn, and net profit to increase by 23.1% YoY to VND 4.817 tn, equivalent to a NPM of 3.8%, leading to an EPS of VND 10,314.

What we recommend

At the current price of VND 103,700, shares of MWG are trading at 2019E and 2020E PERs of 12.0x and 10.1x respectively. The stock price has increased by 14% in the past one month. We think the main reasons for the good performance of the stock include: (i) the impressive business results of the company in 5M19, especially BachhoaXanh; and (ii) the impressive performance of its covered warrants. **We maintain our SOTP-based 12-month TP for MWG of VND160,300/share for a 54.6% upside potential**, and reiterate our **BUY** rating.

June business results: On track

In June alone, the company **witnessed revenue growth of 19.4% YoY** (vs. 41.1% in June 2018), and a **net profit growth of 31.1% YoY** (vs. 44.3% in June 2018). The net profit margin for the month was squeezed from 4.2% in May 2019, settling in at 3.7% (but still a bit higher compared to 3.4% in June 2018) due to: (i) MWG having executed more promotional campaigns; (ii) a strong increase in the number of new stores in June leading to an increase of S&G expenses. Please note that the NPM over several months at the beginning of the year does not represent the whole year.

The strong performance in June was mainly due to the performance at the Dienmayxanh and Bachhoaxanh chains, which both saw strong YoY topline growth, as seen in the following table.

Year	2018	2019
Month	June	June
Revenue by chains (VND bn)	7,490	8,943
Growth MoM %	1.5%	3.2%
Growth YoY %	41.1%	19.4%
Thegioididong (VND bn)	2,766	2,859
Growth MoM %	-2.5%	1.5%
Growth YoY %	0.0%	3.3%
Dienmayxanh (VND bn)	4,368	5,121
Growth MoM %	3.7%	1.6%
Growth YoY %	79.2%	17.2%
Bachhoaxanh (VND bn)	351	963
Growth MoM %	8.3%	20.0%
Growth YoY %	240.8%	174.4%
Online revenue (VND bn)	962	775
Growth MoM %	-6.3%	-17.1%
Growth YoY %	156.5%	-19.4%
Net profit (VND bn)	251	329
Growth MoM %	2.4%	-10.6%
Growth YoY %	44.3%	31.1%
NPM %	3.4%	3.7%

Source: MWG announcement, SSI estimates

In June, MWG opened 23 new Dienmayxanh stores and 55 Bachhoaxanh stores. Moreover, MWG converted 6 Thegioididong stores to Dienmayxanh stores and changed the layout of 33 Dienmayxanh mini stores in order to optimize the existing space.

1H19 business results: BHX and DMX continued to be key growth drivers

Cumulatively, 1H19 **revenue increased by 16.1% YoY** (vs. 42.7% in 1H18) to reach VND 51.727 tn, accomplishing **47.7% of the company's annual plan**. This was mainly thanks to growth of the Dienmayxanh and Bachhoaxanh chains.

Sales overview, by chain outlets:

- Revenue from **Dienmayxanh** (DMX) jumped by 21.7% YoY to VND 30.364 tn (vs. +86.5% YoY in 1H18), or 58.7% of total revenue, equivalent to revenue/store/month for 1H19 of VND 6 bn (+5.1% YoY). The comparatively lower growth vs. the same period last year was due to fewer new Dienmayxanh stores being opened in 2018 (108 stores) vs. 2017 (386 stores).

- Revenue from **Thegioididong (TGDD)** fell by 4.2% YoY to VND 17.277 tn (vs. growth of 3.3% YoY in 1H18) mainly due to a lower store count (1,058 up to June 2019, vs. 1,011 up to June 2018), as well as slower growth in the mobile phone segment. Thus, the business line was responsible for generating approximately 33.4% of total group revenue, equivalent to revenue/store/month in 1H19 of VND 2.8 bn (+0.2% YoY).
- Blended same stores sales growth (SSSG) was stable at 7%, calculated for all stores of TGDD and DMX.
- **Bachhoaxanh (BHX)** revenue jumped by 163.3% YoY to VND 4.086 tn, comprising 7.9% of total revenue, and equivalent to revenue/store/month for 1H19 of VND 1.1 bn (+68.5% YoY). Regarding stores opened before 1 June 2019, average monthly revenue per store reached over VND 1.5 bn, up by almost 70% YoY and 25% compared to that at the end of 2018.

Sales overview by products:

- Revenue from **phones, laptops, tablets, accessories** and **wearables** comprised 45.5% of total revenue for 1H19 (vs. 53% in 2018).
- Revenue from **electronics** (such as panel TVs, home-audio systems, camcorders), **white goods** (washing machines, air conditioners, refrigerators, etc.), **small appliances** (hair dryers, vacuum cleaners etc.), and **kitchen wares** made up 42.6% of total revenue in 1H19 (vs. 37% in 2018). In particular, white goods and household products saw over 30% revenue growth compared to 1H18. Most notable were the air-conditioner sales – during 1H19 MWG sold nearly 540,000 units (volume up +75% and value up +80% YoY). As a result, the MWG air-conditioner market share increased from 31% in 1H18 to reach 36% in 1H19 (source: GFK).
- Revenue from **fresh foods & FMCG products** leaped by 163.3% YoY, 7.9% of total 1H19 revenue (vs. 5% in 2018). More specifically, 50% of that originated from fresh products (compared to about 40% in 1H18). In June 2019, Bachhoaxanh sold approximately 9,000 tons of fresh products, up 12.5% MoM, an 80% rise compared to the beginning of 2019.
- **Online revenue** in 1H19 exhibited growth of 39.4% YoY (vs. 116.7% in 1H18) to reach VND 7.72 tn, and was responsible for 14.9% of total revenue, much higher than the 12.4% proportion of revenue in 1H18. **We notice that online revenue decreased YoY (May: down 9.0% YoY, June: down 19.4% YoY) since May 2019, though it enjoyed strong growth of 69.2% in 4M2019.** According to MWG, to effectively utilize the omni-channel retail model, it has actively decreased promotions on the online channel since May 2019, so that the difference in selling prices vs. physical stores can be avoided.
- **Net margin** reached 4.1% for 1H19, higher than the 3.5% for 1H18, and the 3.3% in 2018. The net margin improvement was attributed to: **(a) improving average revenue per store; and (b) productivity enhancement at the stores, distribution centers and logistics system, leading to a reduction in operating expenses as a percentage of revenue.**
- As a result, 1H19 **net income attributable to** shareholders jumped by 37.7% YoY to approximately VND 2.121 tn (vs. growth of 43.9% YoY for 1H18), accomplishing **59.4% of the company's annual plan.**

On the right track to complete annual new store opening target

At the end of June 2019, the total store count in Vietnam for MWG had increased by 12.5% YoY to reach 2,449 points of sale, increasing by 262 compared to the store count at the end of 2018, equivalent to 1.5 new store openings per day.

- The store count of the Thegioididong chain remained at 1,011, down by 21 as compared to the store count at the end of 2018.
- The Dienmayxanh store count reached 838 (including 35 stores of Tran Anh), up 88 as compared to the store count at the end of 2018. This was achieved by converting 21 Thegioididong stores, as well as opening 67 new stores. In 1H19, MWG also (i) expanded the area of 7 Dienmayxanh mini stores, upgrading them to large Dienmayxanh stores; (ii) changed the layout of 210 Dienmayxanh mini stores in order to optimize the existing space (80-90% of SKUs in large Dienmayxanh stores), helping revenue from those stores jump by 30% after their changes. MWG expects to change the layout of the remaining nearly 300 mini-Dienmayxanh stores in 2H 2019.
- In addition, MWG has deployed the shop-in-shop model, selling watches at 34 Thegioididong and stores as of June 30, 2019. The total number of watches sold in June alone was nearly 11,000 units. The additional sale of watches also helped raise revenue of these Thegioididong and Dienmayxanh stores by 10% on average (in addition to SSSG).
- The Bachhoaxanh store count reached 600, up by 195 as compared to the store count at the end of 2018. By format, Bachhoaxanh had 100 big-format stores with a store area of more than 300 sqm, accounting for 17% of total stores. On average, MWG opened 32 Bachhoaxanh stores/month up to June 2019. Moreover, Bachhoaxanh successfully signed more than 70 new contracts for new premises in June. As such, MWG expects that the company can easily reach its annual target of 700 stores in Q3 2019.

Other: Update on Bachhoaxanh

Since June 2019, Bachhoaxanh has started **upgrading its standard-format shops (200 sqm) whose revenue/store/month are within VND 1.7 bn – 2.5 bn/month, and still possess room for area expansion to big-format stores (> 300 sqm)**. Within June, Bachhoaxanh successfully upgraded 12 standard-format stores to big-format stores, helping revenue of these stores increase by 20% after their changes.

At the end of May 2019, Bachhoaxanh started to experiment with a '**double-shop**' model by expanding more space, by way of adding kitchenware and some basic small appliances into the grocery shops. The pilot 'double-shop' store located in Tay Ninh province showed positive results, with revenue of the store jumping by 30% after the change. Therefore, Bachhoaxanh continued to convert another 3 top revenue big-format stores in HCMC in June.

The company is also reviewing the supply chain management, and **improving procurement efficiency** by way of the following:

- **Source fresh produce directly from local farmers** in order to increase the variety of goods, improve the gross profit margin, and ensure product freshness, with a significant reduction in transit time from the harvesting/processing place to consumers.

- Pilot ***direct import of confectionery instead of sourcing from distributors, offering 20% - 30% discount to similar products on the market.*** Bachhoaxanh sold 4 containers of confectionery in just 2 weeks after these products were available at the stores, and on the bachhoaxanh.com website.
- More than ***1,000 FMCG products were added on Bachhoaxanh online***

Our view & valuation

The 1H19 business results are in line with our expectations, and we **maintain our forecasts**.

In summary, we expect total revenue in 2019 to increase by 20.2% YoY to VND 103.972 tn, which assumes the following: (1) revenue from Thegioididong and Dienmayxanh stores rising by 13% YoY (Thegioididong revenue decreased by 5% YoY, while Dienmayxanh revenue advanced by 26% YoY) to reach VND 92.834 tn, and accounting for 90.2% of total revenue.; (2) Bachhoaxanh revenue jumping by 160.7% YoY to VND 11.138 tn, accounting for 9.8% of total revenue and based on 750 Bachhoaxanh stores at the end of 2019. Therefore, we look for net profit to increase by 35.9% YoY, and reach VND 3.912 tn, equivalent to a NPM of 3.8%, leading to an EPS of VND 8,627.

For 2020, we expect revenue to increase by 21.4% to VND 126.274 tn, and net profit to increase by 23.1% YoY to VND 4.817 tn, equivalent to a NPM of 3.8%, leading to an EPS of VND 10,314.

At the current price of VND 103,700, shares of MWG are trading at 2019E and 2020E PERs of 12.0x and 10.1x respectively. The stock price has increased by 14% in the past one month. We think that the main reasons for the good performance include: (i) the impressive business results of the company in 5M19, especially Bachhoaxanh; and (ii) the impressive performance of its covered warrant. **We maintain our SOTP-based 12-month TP for MWG of VND160,300/share for a 54.6% upside potential**, and reiterate our **BUY** rating.

APPENDIX: ANNUAL FINANCIAL STATEMENTS

VND Billion	2016	2017	2018	2019F	2020F
Balance Sheet					
+ Cash	997	3,411	3,750	6,147	9,848
+ Short-term investments	0	0	51	0	0
+ Account receivables	1,411	2,766	1,560	1,875	2,277
+ Inventories	9,371	12,050	17,446	20,902	25,310
+ Other current assets	510	636	583	700	848
Total Current Assets	12,288	18,863	23,390	29,623	38,284
+ LT Receivables	180	242	314	377	458
+ Net Fixed Assets	2,096	3,464	3,333	4,183	4,536
+ Investment properties	0	0	0	0	0
+ LT Assets in progress	80	35	245	245	245
+ LT Investments	0	0	60	60	60
+ Other LT Assets	210	219	799	787	789
Total Long-Term Assets	2,566	3,960	4,751	5,652	6,087
Total Assets	14,854	22,823	28,140	35,275	44,371
+ Current Liabilities	11,013	15,714	17,907	21,454	25,979
<i>In which: ST debt</i>	4,789	5,604	5,797	6,945	8,410
+ Non-current Liabilities	0	1,200	1,250	1,498	1,814
<i>In which: LT debt</i>	0	1,200	1,248	1,495	1,811
Total Liabilities	11,013	16,914	19,157	22,952	27,793
+ Contributed capital	1,540	3,170	4,435	4,541	4,678
+ Share premium	37	37	551	551	551
+ Retained earnings	2,262	2,699	3,990	7,221	11,338
+ Other capital/fund	3	4	7	9	12
Shareholders' Equity	3,841	5,909	8,983	12,323	16,579
Total Liabilities & Equity	14,854	22,823	28,140	35,275	44,371
Cash Flow					
CF from operating activities	-604	2,690	2,249	4,076	4,986
CF from investing activities	-1,259	-2,142	-2,332	-2,500	-2,500
CF from financing activities	2,516	1,867	422	822	1,216
Net increase in cash	653	2,414	338	2,397	3,702
Beginning cash	344	997	3,411	3,750	6,147
Ending cash	997	3,411	3,750	6,147	9,848
Liquidity Ratios					
Current ratio	1.12	1.20	1.31	1.38	1.47
Acid-test ratio	0.22	0.39	0.30	0.37	0.47
Cash ratio	0.09	0.22	0.21	0.29	0.38
Net debt / EBITDA	1.10	0.96	0.61	0.38	0.15
Interest coverage	17.77	13.36	9.68	10.84	11.01
Days of receivables	1.3	4.6	3.8	1.5	1.5
Days of payables	32.5	39.9	40.0	38.8	38.6
Days of inventory	69.8	70.8	75.6	82.0	81.6
Capital Structure					
Equity/Total asset	0.26	0.26	0.32	0.35	0.37
Liabilities/Total Assets	0.74	0.74	0.68	0.65	0.63
Liabilities/Equity	2.87	2.86	2.13	1.86	1.68
Debt/Equity	1.25	1.15	0.78	0.68	0.62
ST Debt/Equity	1.25	0.95	0.65	0.56	0.51

Source: Company, SSI forecasts

VND Billion	2016	2017	2018	2019F	2020F
Income Statement					
Net Sales	44,613	66,340	86,516	103,972	126,274
COGS	-37,399	-55,198	-71,224	-85,332	-103,330
Gross Profit	7,214	11,142	15,292	18,641	22,944
Financial Income	135	251	342	402	528
Financial Expense	-120	-233	-437	-523	-633
Income from associates	0	0	0	0	0
Selling Expense	-4,288	-7,017	-9,660	-11,264	-13,940
Admin Expense	-935	-1,347	-1,762	-2,129	-2,586
Income from business operation	2,007	2,795	3,774	5,127	6,314
Net Other Income	-1	14	12	18	22
Profit Before Tax	2,006	2,809	3,786	5,145	6,336
Net Income	1,578	2,207	2,880	3,914	4,820
NI attributable to shareholders	1,577	2,206	2,879	3,912	4,817
Minority interest	1	1	2	2	3
Basic EPS (VND)	2,881	5,372	6,689	8,627	10,314
BVPS (VND)	24,945	18,646	20,258	27,160	35,474
Dividend (VND/share)	1,500	1,500	1,500	1,500	1,500
EBIT	2,126	3,037	4,223	5,668	6,969
EBITDA	2,495	3,726	5,446	7,318	9,116
Growth					
Sales	76.7%	48.7%	30.4%	20.2%	21.4%
EBITDA	53.9%	49.3%	46.1%	34.4%	24.6%
EBIT	49.2%	42.9%	39.1%	34.2%	23.0%
NI	46.7%	39.8%	30.5%	35.9%	23.1%
Equity	54.7%	53.8%	52.0%	37.2%	34.5%
Chartered Capital	4.8%	105.9%	39.9%	2.4%	3.0%
Total assets	104.4%	53.6%	23.3%	25.4%	25.8%
Valuation					
P/E	54.1	24.4	13.0	12.0	10.1
P/B	6.3	7.0	4.3	3.8	2.9
P/Sales	1.5	0.8	0.4	0.5	0.4
Dividend yield	1.0%	1.1%	1.7%	1.4%	1.4%
EV/EBITDA	11.1	12.0	7.7	6.9	5.5
EV/Sales	0.6	0.7	0.5	0.5	0.4
Profitability Ratios					
Gross Margin	16.2%	16.8%	17.7%	17.9%	18.2%
Operating Margin	4.8%	4.5%	4.8%	5.3%	5.4%
Net Margin	3.5%	3.3%	3.3%	3.8%	3.8%
Selling exp./Net sales	9.6%	10.6%	11.2%	10.8%	11.0%
Admin exp./Net sales	2.1%	2.0%	2.0%	2.0%	2.0%
ROE	49.9%	45.3%	38.7%	36.7%	33.4%
ROA	14.3%	11.7%	11.3%	12.3%	12.1%
ROIC	25.4%	22.4%	22.4%	23.4%	22.3%

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Market Perform: Expected to provide price gains similar to the market over next 12 months.

Underperform: Expected to provide price gains of up to 10 percentage points less than the market over next 12 months.

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