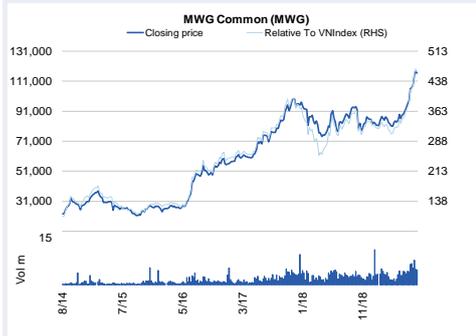


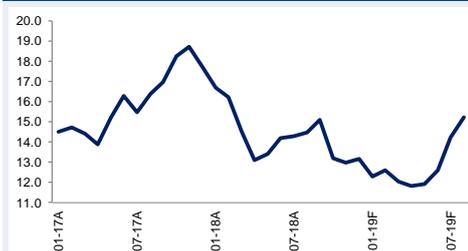
Price chart



Stock Data as of 23 August 2019

Price (VND)	116,500
Listed shares (mn)	323
Outstanding shares (mn)	443
52 week high (VND)	120,300
52 week low VND	77,198
Price change (3 months)	32.0%
Price change (6 months)	32.7%
Price change (12 months)	29.1%
Free floating shares (mn)	288
Trading value (5 days average – VNDmn)	123,579
Market Cap (VNDmn)	51,572,924
Market Cap (US\$m)	2,229
Total room (mn)	217
Current room (mn)	0.000
Foreign owned ratio (%)	49.0%
Foreign ownership limit (%)	49.0%

Rolling P/E Chart



Director
Tran Huong My
my.th@hsc.com.vn

Financial summary	12-18A	12-19F	12-20F	12-21F
Net sales (VNDm)	86,516,287	103,839,663	131,469,877	161,226,771
Net sales growth	30.4%	20.0%	26.6%	22.6%
Gross profit (VNDm)	15,292,128	18,573,292	24,011,290	30,029,061
Gross profit growth	37.3%	21.5%	29.3%	25.1%
EBITDA (VNDm)	5,093,642	6,376,382	7,907,070	9,657,881
EBITDA growth	46.8%	25.2%	24.0%	22.1%
NPAT (VNDm)	2,880,309	3,824,343	4,968,413	6,116,941
NPAT growth	30.5%	32.8%	29.9%	23.1%
NPATMI (VNDm)	2,878,724	3,822,622	4,966,177	6,114,188
NPATMI growth	30.5%	32.8%	29.9%	23.1%
EPS (VND)	6,488	8,244	10,398	12,428
EPS diluted (VND)	6,488	8,244	10,398	12,428
EPS growth	20.8%	27.1%	26.1%	19.5%
P/E (x)	18.0	14.1	11.2	9.4
P/E diluted (x)	18.0	14.1	11.2	9.4
EV/EBITDA (x)	10.8	8.2	6.2	4.9
P/B (x)	5.75	4.57	3.59	2.83

Source: Company data, (F): HSC forecasts

Groceries and consumer electronics driving our upgrade to Buy.

- 7M results were strong with net sales growth of 17.9% y/y and net profit growth of 37.3% y/y, although the net margin contracted in July due to seasonal factors.
- We are becoming more positive about the company's ability to rapidly expand the Bach Hoa Xanh grocery chain. We expect MWG will have more than 900 stores opened by the end of 2019, 1,600 stores by the end of 2020 and nearly 2,500 stores by the end of 2021.
- We are also gaining confidence that the Dien May Xanh consumer electronics chain will continue to achieve double-digit earnings growth in 2019-2021, given operational optimization and continued store openings.
- The Gioi Di Dong mobile chain is adding watches and spectacles to its product portfolio to offset saturation in the mobile phone market. This will not only help it avoid flat sales but should deliver single-digit growth from 2020 onwards.
- HSC forecasts 2019 net sales of VND 103,840 billion, up 20.0% y/y, and NPATMI of VND 3,822 billion, up 32.8% y/y. For 2020, we forecast net sales of VND 131,469 billion, up 26.6% y/y, and NPATMI of VND 4,966 billion, up 29.9% y/y
- We upgrade MWG from Outperform to Buy based on a new target price of VND 164,400 per share. Our target price reflects 41.1% upside from the current market price.

RECOMMENDATION UPGRADE

We upgrade MWG from Outperform to Buy, with a target price of VND 164,400 per share, up 8.0% from the latest target price of VND 152,200. Our target price reflects 41.1% upside from the current market price.

Reasons for the upgrade

- We are more positive about the company's ability to expand its Bach Hoa Xanh grocery chain rapidly, and expect it will have more than 900 stores by end of 2019, 1,600 stores by end of 2020 and nearly 2,500 stores by end of 2021. We also think that from 2H19, and into 2020 and 2021, Bach Hoa Xanh's gross margins will improve. At the same time its SG&A/sales will reduce meaningfully so that the chain will generate a small net profit in 2020 and start to contribute significant profit to MWG from 2021.
- We are also more positive regarding the performance of the Dien May Xanh (DMX) consumer electronics chain and believe that it will deliver double-digit earnings growth in 2019-2021 as:
 - (1) the consumer electronics market is forecast to grow at a CAGR of 9.6% during 2019-2021, and
 - (2) DMX will continue to gain market share (particularly from small consumer electronics shops) thanks to its robust store opening program, store layout optimization and other initiatives.
- The Gioi Di Dong (TGDD) mobile chain is adding watches and spectacles to its product portfolio. While the mobile phone market has become saturated, we think this move will not only help it avoid flat sales but also deliver single-digit growth from 2020 onwards.

RISKS TO THE RATING AND TARGET PRICE

Key upside risks are: (1) store expansion in the grocery and consumer electronics businesses is faster than our current forecasts, and (2) higher market demand of consumer electronics and watches.

Key downside risks are: (1) inflation in labor and rental costs exceeds our expectations, and (2) rising competition from offline and online retail players.

VALUATION

Our target price is VND 164,400 per share, based on a DCF methodology. Our DCF valuation assumes a 10.9% WACC and a 5.0% terminal growth rate. We assume a CAGR of 14.7% in sales and 15.6% in NPAT over the 2018-28 period. Our target price implies a forward FY19 P/E of 19.9x.

Figure 1: WACC

Risk free rate	3.7%
Equity risk premium	11.0%
Beta	0.8
Cost of equity	12.4%
Cost of debt	6.3%
CIT	20.0%
Cost of debt (net)	5.0%
Equity weight	80.0%
Debt weight	20.0%
WACC	10.9%

Source: HSC forecasts and estimates

Figure 2: FCFF valuation

	2019	2020	2021	2022	2023
Revenue	103,839,663	131,469,877	161,226,771	191,980,195	222,412,340
EBIT	5,020,161	6,294,258	7,619,322	8,507,404	9,371,581
Net profit after tax	3,822,622	4,966,177	6,114,188	6,937,287	7,723,007
Plus: D&A	1,356,220	1,612,811	2,038,558	2,452,507	2,824,557
Less: Capex	(2,618,692)	(2,814,774)	(3,159,123)	(3,180,362)	(2,786,028)
Less: WC increase	377,999	(832,384)	(3,074,325)	(3,019,602)	(1,808,976)
FCF	2,938,150	2,931,830	1,919,298	3,189,830	5,952,559
Discount factor	90%	81%	73%	66%	60%
PV of FCF	2,648,509	2,382,286	1,405,804	2,106,093	3,542,756
Sum of PV	12,085,448				
Terminal growth	5.0%				
2023 FCF x (1+g)	6,250,187				
Terminal value	105,292,913				
PV of terminal value	62,666,671				
Total PV	74,752,119				
Plus: Non-operating assets	9,426,059				
Less: Gross debt	(10,210,350)				
Less: Minority Interest	(7,159)				
Equity value	73,960,669				
Outstanding shares	449,779,336				
Fair value per share	164,438				

Source: HSC estimates

Figure 3: MWG Regional Peer Valuations

Name	Country	Mkt Cap (USDm)	Revenue growth - 1yr forward (%)	EPS growth - 1 Yr forward	ROE	Dvd 12M Yld (%)	P/E 2019F
COM7 PCL	Thailand	969	23.9	44.0	35.4	2.0	30.7
SUNING.COM CO LTD-A	China	13,308	30.4	164.9	-0.5	1.2	7.0
RAINBOW DEPARTMENT STORE	China	2,050	7.7	17.3	14.4	2.8	13.6
YONGHUI SUPERSTORES CO. LTD	China	12,655	21.6	29.5	7.5	1.9	38.0
SUN ART RETAIL GROUP HONGKONG	Hongkong	9,655	(0.2)	-4.7	11.3	1.8	25.1
ERAJAYA SWASEMBADA	Indonesia	484	(8.9)	-45.2	20.4	1.6	14.3
FPT DIGITAL RETAIL JSC	Vietnam	141	15.1	9.4	29.8	-	8.8
PHU NHUAN JEWELRIES JSC	Vietnam	804	12.8	13.4	28.7	1.6	14.6
Median		1,509.4	14.0	15.4	17.4	1.7	14.3
Market cap weighted average		10,894.9	18.0	64.7	7.4	1.7	22.3
MOBILE WORLD INVESTMENT CORP	Vietnam	2,247	26.6	26.1	37.1	1.3	14.1

Source: Bloomberg

BUSINESS OUTLOOK

The consumer electronics segment will be the key growth driver for the next three years –

By the end of July 2019 MWG had a market share of more than 40% in consumer electronics. The market, however, is still fragmented, with other consumer electronic retail chains (Nguyen Kim, Cho Lon, VinPro, Thien Hoa, Pico, MediaMart etc.) together accounting for around 25% of the total market, while mom-n-pop shops account for the remaining 35% of the market. Given the current market structure, and with MWG's ability to expand its store network quickly, there is plenty of room for MWG to grow and consolidate in the segment over the next 2-3 years. We predict a market share of more than 50% and a store count of around 1,500 by 2024.

Long-term prospects will rely on the grocery chain – The mobile segment is no longer a driver of strong growth and will be replaced by the consumer electronics segment during the course of the next three years. Subsequently (three years out), MWG expects its grocery segment to make up for the maturing of its consumer electronics segment in due course.

Great potential in the retail grocery business – According to the General Statistics Office of Vietnam (GSO), the scale of Vietnam's grocery market is around US\$60 billion per annum, with a growth rate in line with Vietnam's GDP, which will be around 6.8% y/y in 2019 and 2020. Within this, about 70% by value is purchased in urban areas, with the remaining 30%, purchased in rural areas. The grocery market is heavily fragmented, with modern retail channels accounting for around 5% in terms of overall market share, while traditional channels, i.e. wet markets, account for roughly 95% of the market. Given growing GDP per capita (USD 2,587 in 2018) and a young population in Vietnam's urban areas, we believe that modern retail channels should easily see their market share grow to around 30-40% in urban areas over the next 5-7 years, which implies 20 to 28% of the overall grocery market from the current 5% will be purchased through modern channels.

Bach Hoa Xanh (BHX) grocery chain has been doing well so far - BHX has been doing well, despite retail groceries being a totally new segment for management. Management are maximizing ERP systems, store locations, store formats and SKUs via an intensive trial and error process, with rapid adoption of lessons learned.

The impressive average store sales growth of 80% at MWG's grocery stores in 2018 and 54.5% for the first seven months of 2019 are proof of high acceptance levels by urban and rural residents for modern grocery retail, and represent the first successful steps by MWG in the retail grocery business. We expect BHX will make a small profit in 2020 and will contribute around 11.3% of MWG's NPAT in 2021.

The Gioi Di Dong (TGDD) operations (MWG's mobile segment) will see single-digit growth in coming years – The mobile market has become saturated, with negative growth (-5% y/y) likely in 1H19 and zero growth expected in the coming years according to our forecasts. MWG has established a market leading position with a market share of 45% currently.

At the same time, the company's mobile telephone chain store count has surpassed its most efficient limit, with more store openings causing self-cannibalization. MWG is now trying to reduce its mobile chain store count to optimal levels of slightly below 1,000, by converting some mobile stores into consumer electronics stores where they can also sell mobiles.

Even with fewer stores, we still expect the company to gain a few percentage points of additional market share in 2019-2021, thanks to rising store traffic stemming from new products such as watches and spectacles. Thus we expect MWG's mobile segment will deliver single-digit growth over the next three years.

2019-2021 FORECASTS

Figure 4: Forecast Revision

	2019F			2020F			2021F		
	Previous	Current	% change	Previous	Current	% change	Previous	Current	% change
Net sales	105,277,226	103,839,663	-1.4%	125,684,578	131,469,877	4.6%	146,266,687	161,226,771	10.2%
NPATMI	3,965,741	3,822,622	-3.6%	4,792,106	4,966,177	3.6%	5,712,380	6,114,188	7.0%

Source: HSC estimates

HSC has revised down our 2019 net profit forecast by 3.6% and now expect 32.8% y/y growth – We revised down our 2019 net sales forecast by 1.4% from VND 105,277 billion (+21.7% y/y) to VND 103,839 billion (+20.0% y/y), and revised down our net profit forecast by 3.6% from VND 3,968 billion (+37.9% y/y) to VND 3,822 billion (+32.8% y/y). We expect less sales from TGDD and DMX in 2H, as 2H is the low season for consumer electronics.

However, we have revised up our 2020 net profit forecast by 3.6% as we expect more new store openings in the DMX and BHX business divisions - We revised up our 2020 net sales

forecast by 4.6% from VND 125,685 billion to VND 131,469 billion (+26.6%/y/y) and revised up our net profit forecast by 3.6% from VND 4,792 billion to VND 4,966 billion (+29.9% y/y).

2021 net profit was also revised up by 7.0% as we also forecast more store count at DMX and BHX – Our 2021 net sales forecast is VND 161,227 billion (+22.6% y/y) or 10.2% higher than our previous forecast of VND 146,266 billion, while our net profit forecast was revised up by 7.0% from VND 5,712 billion to VND 6,114 billion (+23.1% y/y).

Detailed assumptions are indicated below.

Figure 5: MWG Net Sales, by Chain

VND million	2018	2019F	2020F	2021F
Net sales	86,516,287	103,839,663	131,469,877	161,226,771
The Gioi Di Dong	34,610,000	34,534,643	37,330,134	40,128,084
Dien May Xanh	47,634,287	58,265,021	68,555,743	76,607,487
Bach Hoa Xanh	4,272,000	11,040,000	25,584,000	44,491,200
% y/y	2018	2019F	2020F	2021F
Net sales	30.4%	20.0%	26.6%	22.6%
The Gioi Di Dong	-0.3%	-0.2%	8.1%	7.5%
Dien May Xanh	56.2%	22.3%	17.7%	11.7%
Bach Hoa Xanh	275.2%	158.4%	131.7%	73.9%

Source: Company data, (F): HSC forecasts

1. For the The Gioi Di Dong (TGDD) chain, we forecast sales of VND 34,534 billion (-0.2% y/y) in 2019. Our assumptions include: (1) total store count reducing to 1,000 stores (-3.1% y/y), (2) MWG's market share in the mobile segment increasing from 43.3% at the end of 2018 to 45.3% at the end of 2019, and (3) first year sales of watches of VND 195 billion, assuming there are 200 stores selling watches by year end, with the average number of stores selling watches being 83 and each store selling 15 watches per day.

For 2020, we expect the store count will continue to decrease to 970, while mobile sales will continue to drop slightly, despite MWG's market share increasing to 47%. However, watch sales will grow strongly by 13x to VND 2,527 billion and become the driver of the chain sales growth (+8.1% y/y).

We expect the same growth pattern in 2021 and forecast sales growth for the chain of 7.5% y/y. We have not incorporated spectacle sales into TGDD sales from 2019 to 2021.

Figure 6: The Gioi Di Dong Chain Forecasts

(VND million)	2018	2019F	2020F	2021F
Net sales	34,610,000	34,534,643	37,330,134	40,128,084
Mobile phones	30,447,093	29,633,456	29,823,162	30,457,698
IT products	2,000,000	2,601,079	2,861,187	3,147,306
Watches	-	195,000	2,527,200	4,359,420
Others	2,162,907	2,105,108	2,118,584	2,163,661
Net sales growth (y/y%)	-0.3%	-0.2%	8.1%	7.5%
Number of shops by year end	1,032	1,000	970	950
Number of shops, average	1,040	1,016	985	960
Average revenue per shop per month based on year-end store count (VND mil)	2,795	2,878	3,207	3,520
Average revenue per shop per month based on average store count (VND mil)	2,773	2,833	3,158	3,483
Shop sales growth (%)	-4.1%	2.1%	11.5%	10.3%

Source: Company data, (F): HSC forecasts

2. For the Dien May Xanh (DMX) chain, we forecast that sales will come in at VND 58,265 billion (+22.3% y/y) in 2019. Our assumptions are: (1) total store count of 1,000 by year end (+33.3% y/y) instead of 900 stores as expected in our last report, (2) MWG's market share in the consumer electronics segment increasing further from 35.4% at the end of 2018 to around 44% by year-end 2019.

As of 31 July, DMX' store count reached 865 shops, up 15.3% ytd. From July the company will be able to open 27 DMX new stores per month (including newly opened and converted TGDD stores) and we expect they will have 1,000 stores at year-end.

DMX changed the layout of 210 mini stores in 1H, and will apply this new layout to another 66 mini stores in 2H19. With the new layout, the number of products displayed at the store is doubled or tripled compared to under the old layout, and we believe this initiative will help DMX to increase average sales per store by 30% in 2H as it did 1H.

For 2020 and 2021 we believe that DMX will continue deliver double-digit growth as it continues to benefit from industry growth in consumer electronics and home appliances of 12.7% and 9.6% respectively, and also as it gains market share from small consumer electronics shops, thereby bringing its market share to 48% in 2020 and 50% in 2021.

Figure 7: Dien May Xanh Chain Forecasts

(VND million)	2018	2019F	2020F	2021F
Net sales	47,634,287	58,265,021	68,555,743	76,607,487
Consumer electronics	33,105,829	43,870,442	53,943,002	61,567,253
Mobile	13,406,539	13,048,277	13,131,809	13,411,209
Others	1,121,918	1,346,302	1,480,932	1,629,025
Net sales growth (y/y%)	56.2%	22.3%	17.7%	11.7%
Number of shops by year end	750	1,000	1,100	1,200
Number of shops, average	696	853	1,053	1,153
Average revenue per shop per month based on year-end store count (VND mil)	5,293	4,855	5,194	5,320
Average revenue per shop per month based on average store count (VND mil)	5,703	5,693	5,423	5,535
Shop sales growth (%)	0.8%	-0.2%	-4.7%	2.1%

Source: Company data, (F): HSC forecasts

- For the Bach Hoa Xanh (BHX) chain, we forecast sales of VND 11,040 (+158.4% y/y) in 2019. Our assumptions include the opening of 515 stores during the year, which is a significant 120 stores higher than our latest forecast of 395 new stores, bringing the total store count to 920 by year-end, with average store sales per month rising to VND 1.4 billion (+55.1% y/y).

We expect the number of stores will increase by 720 stores to 1,640 stores by 2020 year-end, with an increase of 840 stores to 2,480 by 2021 year-end. Average store sales per month will rise by 18.6% y/y to VND 1.7 billion in 2020 and by 5.8% y/y to 1.8 billion in 2021.

Figure 8: Bach Hoa Xanh Chain Forecasts

(VND million)	2018	2019F	2020F	2021F
Net sales	4,272,000	11,040,000	25,584,000	44,491,200
Net sales growth (y/y%)	275.2%	158.4%	131.7%	73.9%
Number of shops by year end	405	920	1,640	2,480
Number of shops, average	385	642	1,253	2,060
Average revenue per shop per month based on year-end store count (VND mil)	879	1,000	1,300	1,495
Average revenue per shop per month based on average store count (VND mil)	925	1,434	1,701	1,800
Shop sales growth (%)	46.2%	55.1%	18.6%	5.8%

Source: Company data, (F): HSC forecasts

We forecast that BHX will make a small net profit in 2020 (of VND 98 billion from a loss of VND 344 billion in 2019), and start to generate significant net profit in 2021 (of VND 562 billion, or 11.3% of MWG's NPAT).

- We estimate gross profit will come to VND 18,575 billion (+21.5% y/y), also assuming that the overall GPM will improve slightly from 17.7% in FY18 to 17.9% in FY19, as the grocery chain GPM improves from 15.9% in FY18 to 19.2% in FY19.

We think that BHX' gross margin will improve in 2H19 and coming years as: (1) the average purchase price will be lower with more direct purchases or direct imports, and more purchases of fresh food from local suppliers, (2) a higher contribution from fresh food than current levels of 35-40% to more than 50% of total sales and (3) the fresh food disposal ratio will reduce from 3% currently to just over 1% thanks to better control processes.

For TGDD and DMX, we expect their gross margins will be unchanged from 2018 to 2021, at 18.0% for TGDD and 17.6% for DMX.

Figure 9: MWG Gross Margin by Chain

Gross margin (%)	2018	2019F	2020F	2021F
Overall	17.7%	17.9%	18.3%	18.6%
The Gioi Di Dong	18.0%	18.0%	18.0%	18.0%
Dien May Xanh	17.6%	17.6%	17.6%	17.6%
Bach Hoa Xanh	16.3%	19.2%	20.5%	21.0%

Source: Company data, (F): HSC forecasts

- We also assume that the SGA/sales ratio will decrease to 13.1% in 2019 from 13.2% in 2018, as a result of enhanced operating efficiency at all three chains, particularly lower labor cost/sales, with details as set out below.
 - Recent changes to the store layout at mini DMX stores will lead to a 30% increase in store sales, while the number of salesmen remains unchanged. This will result in lower selling expenses/sales at the DMX chain.
 - Higher productivity across all chains has resulted from the implementation of discrete work shifts.
 - Automation was introduced at major BHX warehouses.
 - Thanks to the robust store expansion, BHX will see lower SG&A/sales over coming years, especially as a result of lower distribution center operating expenses (opex)/sales.

Figure 10: MWG SG&A/sales by Chain

SG&A/sales (%)	2018	2019F	2020F	2021F
Overall	13.2%	13.1%	13.5%	13.9%
The Gioi Di Dong	12.4%	12.0%	11.9%	11.8%
Dien May Xanh	12.4%	12.0%	11.9%	11.8%
Bach Hoa Xanh	28.6%	22.3%	20.0%	19.4%

Source: Company data, (F): HSC forecasts

- We expect a shorter cash conversion cycle as BHX has less inventories days than TGDD and DMX, while its contribution to company sales increases over time.

Inventories days for mobile phone and accessories, consumer electronics and groceries are 40-50 days, 70-90 days and 15-25 days, respectively. The sales contribution by BHX will increase from 4.9% in 2018 to 10.7% in 2019, 19.7% in 2020 and 27.9% in 2021, therefore the company's inventory days will decrease to 73.1, 63.4 and 62.5 days in 2019, 2020, and 2021 according to our forecasts. This will lead to shorter cash conversion cycles in 2019-2021.

Figure 11: MWG BS analysis

Indicator	2018	2019F	2020F	2021F
Days sales outstanding	9.1	8.3	8.1	8.1
Days in inventories	75.6	73.1	63.4	62.5
Days payables outstanding	40.0	38.8	38.0	38.5
Cash conversion cycle (days)	44.7	42.6	33.5	32.1

Source: Company data, (F): HSC forecasts

7. We expect short term debts as percentage of sales will decrease from 2020 due to improvements in net operating cashflow, as a result of shorter cash conversion cycles and rising profit.

Figure 12: MWG Debt Forecast

(in VND million)	2018	2019F	2020F	2021F
Short-term debts	5,796,626	7,863,879	6,639,404	6,511,738
As % of sales	6.7%	7.5%	5.0%	4.0%
Interest rate	5.83%	6.30%	6.50%	6.50%
Interest expenses	337,887	495,424	431,561	423,263
Long-term debts	1,247,996	1,247,996	1,117,597	1,117,597
New borrowing in year	48,063	-	-	-
Principle payment	-	-	(130,399)	-
Interest rate	8.1%	8.1%	8.1%	8.1%
Interest expenses	98,529	100,464	95,215	89,967
ST+LT Interest expenses	436,417	595,888	526,776	513,230

Source: Company data, (F): HSC forecasts

Figure 13: MWG Financial Income and Expenses

	2018	2019F	2020F	2021F
Financial income	342,084	500,170	630,550	769,640
Income from early payment	255,851	309,289	389,912	475,921
Interest income	84,857	190,881	240,638	293,720
Others	1,376	-	-	-
Financial expenses	436,573	595,888	526,776	513,230
Interest expenses	436,417	595,888	526,776	513,230
FX loss	2	-	-	-
Others	155	-	-	-
Net financial income/(loss)	(94,489)	(95,718)	103,773	256,411

Source: Company data, (F): HSC forecasts

7M 2019 PERFORMANCE REVIEW

MWG saw 7M net profit of VND 2,411 billion, up 37.3% y/y – The results are line with our expectations – 7M net sales came in at VND 60,229 billion, up 17.9% y/y, while 7M NPAT was VND 2,411 billion, up 37.3% y/y. The sales drivers were the Dien May Xanh chain with sales growth of 23.7% y/y, and the Bach Hoa Xanh chain with very strong sales growth of 159.1%. The Gioi Di Dong, however, saw a sales decline of 1.1% y/y.

Figure 14: MWG 7M Results

(in VND billion)	7M 2018	7M 2019	y/y%
Net sales	51,686	60,929	17.9%
NPAT	1,756	2,411	37.3%
Net margin	3.4%	4.0%	

Source: Company data,

July net margin dropped to 3.2% compared to 3.7% in June due to higher promotional costs - In July only, net sales were very strong at VND 9,202 billion, up 29.3% y/y and 2.9% m/m, thanks

to big promotional campaigns during the month. NPAT was posted at VND 290 billion, up 34.3% y/y but 11.9% lower than the June level because of lower ASPs related to promotional campaigns. As a result, the net margin in July came to 3.2%, below the June level of 3.7%. This is as expected because 2H is the low season and margins are usually lower than 1H.

The Gioi Di Dong mobile chain

- **26 TGDD stores were converted to DMX in 7M**

As of 31 July, TGDD's store count was 1,006, down 3.7% y/y and 2.5% ytd as 26 TGDD stores were converted to DMX stores during 7M.

Figure 15: The Gioi Di Dong Performance in 7M FY19

	7M 2018	7M 2019	y/y%
Number of stores by month end	1,045	1,006	-3.7%
Average sales per store per month, based on month-end store count (VND billion)	3.25	3.34	2.7%
Net sales (VND billion)	20,389	20,167	-1.1%

Source: Company data

- **Watches were sold at 42 TGDD and DMX stores for four months, recording sales of around VND 39 billion** – Within this the sales volume was 30,000 watches, with an ASP of VND 1.3 million per watch.
- **Average sales per store improved by a further 2.7% y/y** - However due to fewer stores, TGDD net sales dropped slightly by 1.1% y/y from VND 20,389 billion to VND 20,167 billion.
- **Store expansion was also more rapid than the company forecast**

Dien May Xanh consumer electronics chain

Figure 16: Dien May Xanh Performance in 7M FY19

	7M 2018	7M 2019	y/y%
Number of stores by month end	727	865	19.0%
Average sales per store per month, based on month-end store count (VND billion)	6.62	6.88	4.0%
Net sales (VND billion)	28,859	35,704	23.7%

Source: Company data

As of 31 July, there were 865 DMX stores, up 15.3% ytd and 19.0% y/y. By store format, out of the 865 DMX stores, 250 stores are big stores (with selling areas of 800-1,000 sqm), while 637 stores are mini stores (with selling areas of 300-350 spm)

- **Layout changes have driven average sales per store to increase by 30%**

MWG has been carrying out its plan to upgrade the layout of all DMX mini stores over two years. 210 mini stores had their layouts changed in 1H19, completing the full-year target. Therefore, management has revised up the target number for layout changes this year to 276.

The layout changes helped to increase average sales per store by 30% in 1H. For all stores, average sales per store per month were VND 6.88 billion, up 4.0% y/y.

Bach Hoa Xanh grocery chain

- **Store expansion has been faster than expected**

As of 31 July, there were 659 BHX stores, up 62.7% ytd and 67.7% y/y. By location, 40.7% of the stores are located in HCMC, while 59.3% are located in other provinces in the South West and South East of Vietnam. Expansion in HCMC has been slower than in the provinces as it is more difficult to get as many locations in HCMC in a short period of time than in the provinces.

By store format, 82.1% are standard stores (with selling areas of 150 sqm and revenue of VND 1.4 billion per month), while 17.9% are big stores (with selling areas of 350 sqm and revenue of VND 2.3 billion per month).

Currently the company is capable of opening 50 -60 stores per month and will have 900 -1,000 stores by year end, which is 100 stores higher than the initial target of 800 stores. Store expansion

relies heavily on the company's ability to secure locations, design and build the stores and hire and train staff. There are 2,000 people in charge of acquiring locations, as well as carrying out design and construction. The company hires and trains 3,000 new employees each month and this has been well supported by a digital platform called "4.0 recruitment".

Figure 17: Bach Hoa Xanh Performance in 7M FY19

	7M 2018	7M 2019	y/y%
Number of stores by month end	393	659	67.7%
Average sales per store per month, based on month-end store count (VND billion)	0.83	1.28	54.5%
Net sales (VND billion)	1,952	5,057	159.1%

Source: Company data

- **In July, average sales per store per month were more than VND 1.5 billion.**

Average sales per store per month reached VND 1.28 billion, up 54.5% y/y. In July alone average sales per store were higher at more than VND 1.5 billion. Within this, sales of fresh foods, chilled and cold foods accounted for 50% of total store sales, on average.

- **4 distribution centers (DCs) so far**

- As of 9 August, BHX had four DCs, including two in HCMC, one in Dong Nai and one in the Mekong Delta. On average, one DC covers 150 stores.
- There are two further temporary DCs in the Mekong Delta, which will be replaced by two official DCs currently under construction, in early 2020. That means that the number of DCs will increase to six in early 2020.
- Currently the DC cost/sales ratio is 3%

- **Management plans for BHX in 2H19**

- Continue to expand the chain in the South.
- Increase average sales of existing stores via: (1) converting standard stores that have average sales of VND 1.7-2.5 billion per month to big stores if possible, and (2) converting any soundly performing big stores to a Double Shop format that sells household appliances together with groceries. Sales of household appliances usually contribute 8-10% of a Double Shop's sales.

Currently there are around 40 standard stores being considered for upgrading to big stores and two big stores have converted to the Double Shop format.

- Review the supply chain and improve the procurement via: (1) purchasing fresh goods from nearby suppliers, and (2) direct imports of some FMCG products. In July, BHX imported 80-100 containers of goods, with these imported goods accounting for 5% of the chain's sales.
- Continuously launching multiple solutions to control fresh goods disposals and loss ratios.

FINANCIAL RATIOS

Company Update

Monday, 26 August 2019

Income statement (VNDm)	12-19F	12-20F	12-21F
Net sales	103,839,663	131,469,877	161,226,771
COGS	(85,266,371)	(107,458,587)	(131,197,710)
Gross profit	18,573,292	24,011,290	30,029,061
Net financial income	(93,932)	104,081	255,836
SGA expenses	(13,553,131)	(17,717,032)	(22,409,738)
Operating profit	4,923,233	6,394,354	7,872,511
EBITDA	6,376,382	7,907,070	9,657,881
PBT	4,929,657	6,394,354	7,872,511
NPAT	3,824,343	4,968,413	6,116,941
NPATMI	3,822,622	4,966,177	6,114,188

Balance sheet (VNDm)	12-19F	12-20F	12-21F
Assets			
Current assets	29,024,466	33,987,371	41,597,180
Cash & cash equivalents	8,382,641	9,861,053	11,479,051
Short-term investments	0	0	0
Short-term receivables	3,181,501	2,647,618	4,536,694
Inventories	16,695,156	20,514,382	24,404,086
Other current assets	765,168	964,318	1,177,350
Long-term assets	6,036,148	7,345,178	8,587,416
Long-term receivables	363,439	460,145	564,294
Fixed assets	4,840,188	6,042,151	7,162,716
Investment properties	0	0	0
Long-term investments	56,941	52,955	50,307
Other long-term assets	775,580	789,927	810,099
Goodwill			
Total assets	35,060,614	41,332,549	50,184,596
Resources			
Liabilities	23,435,333	26,059,264	30,254,694
Current Liabilities	22,187,337	24,941,667	29,137,097
Long-term Liabilities	1,247,996	1,117,597	1,117,597
Owners' equity	11,625,280	15,273,285	19,929,902
Share capital	4,568,011	4,705,051	4,846,202
Retained earnings	6,498,626	10,008,903	14,523,611
Funds and other capital	558,644	559,331	560,088
Minority interest	0	0	0
Liabilities & Equities	35,060,614	41,332,549	50,184,596

Source: Company data, (F): HSC forecasts

Cashflow statement (VNDm)	12-19F	12-20F	12-21F
Operating cashflow	5,922,681	6,188,883	5,604,653
Investing cashflow	(2,615,695)	(2,810,789)	(3,156,475)
Financing cashflow	1,326,105	(1,899,683)	(830,181)
Net cashflow	4,633,091	1,478,412	1,617,997
Cash & equivalents at period start	3,749,550	8,382,641	9,861,053
Forex effects	0	0	0
Cash & equivalents at period end	8,382,641	9,861,054	11,479,050

Key ratios	12-19F	12-20F	12-21F
Valuation			
EPS (VND)	8,244	10,398	12,428
EPS diluted (VND)	8,244	10,398	12,428
EBITDA (VNDm)	6,376,382	7,907,070	9,657,881
BVPS (VND)	25,470	32,487	41,156
DPS (VND)	1,500	1,500	1,500
P/E (x)	14.1	11.2	9.4
P/E diluted (x)	14.1	11.2	9.4
EV/EBITDA (x)	8.19	6.25	4.93
P/B (x)	4.57	3.59	2.83
Dividend yield	1.3%	1.3%	1.3%
Profitability			
Gross margin	17.9%	18.3%	18.6%
EBITDA margin	6.1%	6.0%	6.0%
Pretax margin	4.7%	4.9%	4.9%
Net margin	3.7%	3.8%	3.8%
SG&A/sales	13.1%	13.5%	13.9%
ROAE	37.1%	36.9%	34.7%
ROAA	12.1%	13.0%	13.4%
Liquidity			
Current ratio	1.31	1.36	1.43
Quick ratio	0.56	0.54	0.59
Leverage			
Debt/Equity	77.7%	50.4%	38.0%
Total debt ratio	66.8%	63.0%	60.3%
EBIT interest coverage ratio	8.5	12.0	15.0
Efficiency			
Days sales outstanding	8.33	8.11	8.13
Days in inventories	73.1	63.4	62.5
Days payables outstanding	38.8	38.0	38.5
Cash conversion cycle (days)	42.6	33.5	32.1

Source: Company data, (F): HSC forecasts

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Awarded by Finance Asia, Asiamoney, Institutional Investor and Thomson Reuters

HEAD OFFICE

Level 5 & 6, AB Tower
76 Le Lai, District 1, HCMC
T : (+84 28) 3823 3299
F : (+84 28) 3823 3301

HANOI OFFICE

Level 2, Cornerstone building
16 Phan Chu Trinh, Hoan Kiem District
T: (+84 24) 3933 4693
F: (+84 24) 3933 4822

E: info@hsc.com.vn W: www.hsc.com.vn



HSC Institutional Research

Financial Institutions

Do Minh Trang
Sector Head
trang.dminh@hsc.com.vn
+84 24 3933-4693 x4806

Pham Lien Ha
ha.plien@hsc.com.vn
+84 24 3933-4693 x4847

Consumer

Tran Huong My
Sector Head
my.th@hsc.com.vn
+84 28 3823-3299 x362

Truong Hong Kim
kim.thong@hsc.com.vn
+84 24 3933-4693 x4850

Bui Nguyen Cam Giang
giang.bnc@hsc.com.vn
+84 28 3823-3299 x369

Industrials

Vo Thi Ngoc Han
Sector Head
han.vtn@hsc.com.vn
+84 28 3823-3299 x314

Che Thi Mai Trang
trang.ctmai@hsc.com.vn
+84 24 3933-4693 x4848

Real Estate

Ho Thi Kieu Trang
Sector Head
trang.htk@hsc.com.vn
+84 28 3823-3299 x129

Fixed Income

Luu Cong Thanh
Head of Fixed Income Research
thanh.luucong@hsc.com.vn
+84 28 3823-3299 x4845

Energy and Utilities

Truong Thu My
Sector Head
my.tt@hsc.com.vn
+84 24 3933-4693 x4806

Vu Hoai Linh
linh.vhoai@hsc.com.vn
+84 24 3933-4693 x4844

Economics/Macro

Pham Vu Thang Long
Chief Economist
long.pvthang@hsc.com.vn
+84 24 3933-4693 x4805

Corporate Access

Vu Thi Dung
Dung.vt@hsc.com.vn
+84 28 3823-3299 x334

Market Data

Vo Thi Nhat Minh
Sector Head
minh.vtn@hsc.com.vn
+84 28 3823-3299 x365

Huynh Thi Kim Khue
khue.htk@hsc.com.vn
+84 28 3823-3299 x999

Hoang Mai Xuan Lan
lan.hmx@hsc.com.vn
+84 28 3823-3299 x160

Sales

Stephen McKeever
stephen.mckeever@hsc.com.vn
+84 28 3823-3299 x169

Trading

Tran Tan Dat
dat.tt@hsc.com.vn
+84 28 3823-3299 x167

Research

Chris Hunt
chris.hunt@hsc.com.vn
+84 28 3823-3299 x350