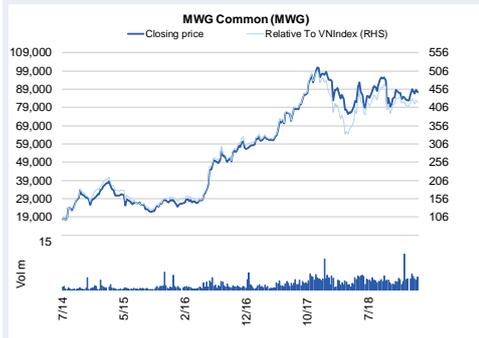


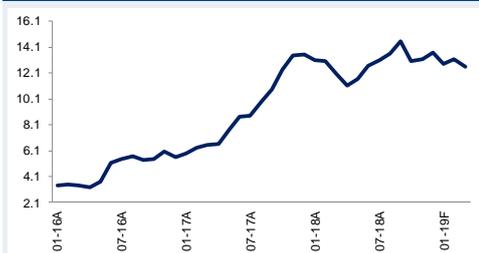
Price chart



Stock Data as of 28 March 2019

Price (VND)	84,400
Listed shares (mn)	323
Outstanding shares (mn)	443
52 week high (VND)	98,250
52 week low VND	72,471
Price change (3 months)	-13.1%
Price change (6 months)	-8.1%
Price change (12 months)	17.0%
Free floating shares (mn)	288
Trading value (5 days average – VNDmn)	29,789
Market Cap (VNDmn)	37,384,052
Market Cap (US\$mn)	1,615
Total room (mn)	217
Current room (mn)	0.000
Foreign owned ratio (%)	49.1%
Foreign ownership limit (%)	49.0%

Rolling P/E Chart



**Director**  
Tran Huong My  
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Financial summary	12-17A	12-18A	12-19F	12-20F
Net sales (VNDbn)	66,340	86,516	106,736	127,630
Net sales growth	48.7%	30.4%	23.4%	19.6%
Gross profit (VNDbn)	11,142	15,292	19,186	23,558
Gross profit growth	54.4%	37.3%	25.5%	22.8%
EBITDA (VNDbn)	3,469	5,094	5,651	7,012
EBITDA growth	46.9%	46.8%	10.9%	24.1%
NPAT (VNDbn)	2,207	2,880	3,622	4,505
NPAT growth	39.8%	30.5%	25.8%	24.4%
NPATMI (VNDbn)	2,206	2,879	3,620	4,503
NPATMI growth	39.8%	30.5%	25.8%	24.4%
EPS (VND)	7,162	6,347	7,802	9,420
EPS diluted (VND)	7,162	6,347	7,802	9,420
EPS growth	(30.1%)	(11.4%)	22.9%	20.7%
P/E (x)	13.5	13.7	10.8	9.0
P/E diluted (x)	13.5	13.7	10.8	9.0
EV/EBITDA (x)	17.2	8.0	7.1	5.4
P/B (x)	5.20	4.30	3.37	2.71

Source: Company data, (F): HSC forecasts

- *Mobile World Investment Corporation held its AGM last Friday which went smoothly with all proposals approved.*
- *Shareholders approved the FY2019 business plan, with net sales of VND 108,468 billion, up 25.4% y/y, and net profit of VND 3,571 billion, up 24.0% y/y.*
- *The consumer electronics chain will be the key earnings driver this year, while long-term prospects will rely on the grocery chain.*
- *Shareholders approved an ESOP plan to a maximum of 3% of outstanding shares, and a cash dividend of VND 1,500 per share.*
- *HSC forecasts for FY2019 calls for sales of VND 108,870 billion (+23.4% y/y), and net profit VND 3,623 billion (+25.9% y/y).*
- *Our DCF model calls for a fair price of VND 144,000 per share, implying a forward FY2019 P/E of 18.6x.*
- *Reiterate Outperform.*

AGM notes

**Mobile World Investment Corporation held its AGM last Friday, with our key takeaways as set out below.**

**Quick conclusion – The AGM went smoothly with all proposals approved. The 2019 NPAT target is VND 3,571 billion, up 24.0% y/y, and quite close to our forecast of VND 3,623 billion, up 25.9% y/y. The consumer electronics chain will be the key earnings driver this year, while long-term prospects will rely on the grocery chain. Shareholders approved an ESOP plan to a maximum of 3% of outstanding shares, and a cash dividend of VND 1,500 per share. Reiterate Outperform. Our DCF-based fair value price is VND 144,000 per share which values MWG at FY2019 P/E of 18.5x.**

FY2019 targets

**FY2019 net profit is set to grow at 24.0% y/y** – Shareholders approved the FY2019 business plan, with net sales of VND 108,468 billion, up 25.4% y/y, and net profit of VND 3,571 billion, up 24.0% y/y. Consumer electronics (CE) will continue to be the key growth driver, with a target market share of 40%, while the mobile segment is expected to maintain its leading market position and grow faster than the industry.

**Growth in the CE chain will be supported by a 20% increase in store numbers and improvements in store formats, SKUs as well as application of QR codes** – By the end of 2018, MWG had 750 CE stores. The Company plans to open a lot of new stores and convert mobile stores to CE stores to bring the total store count to 900 by the end of 2019. In addition, about 200 stores will be re-arranged to optimize product displays, with these re-formatted stores expected to deliver average sales growth of 30% y/y. The Company will also add more SKUs and apply QR codes for all products displayed, product prices and promotion programs at stores.

**The grocery chain is expected to see profit at both the store level and DC level in FY2019, with aggressive store expansion, store upgrades and rising gross profit margins** – As of the end of 2018, MWG had 405 grocery stores, including 365 standard stores and 40 old-format stores. The Company plans to upgrade all 40 old-format stores to standard stores or big stores within 2019. A standard grocery store format will have live fish, fresh meat, fruit and vegetables within its SKUs. In 2018, MWG had converted around 200 old-format stores into standard ones, closing some old-format ones in the process, while opening about 100 new standard stores, to bring the total stores count to 405 (+43.1% y/y) by year-end. In addition, total store count will be expanded by 72.8% from 405 at the end of 2018 to 700 by the end of 2019. The Company also sees the possibility of increasing grocery gross margins with better procurement, more effective promotions, as well as better marketing and supply chain management.

**FY2018 cash dividend of VND 1,500 per share** – Shareholders approved a FY2018 cash dividend of VND 1,500 per share, which is unchanged from the FY2017 cash dividend, translating to a dividend yield of 1.8% and payout ratio of 23.6%.

**Continuing to issue ESOP shares at maximum of 3% of outstanding shares if FY2019 net profit growth is 10% or above** – MWG will issue ESOP shares to employees if FY2019 net profit growth is 10% or above. The number of shares is capped at 3% of outstanding shares, and subject to actual FY2019 net profit growth and MWG stock performance versus the VN Index.

**Two new board members** – Shareholders elected Mr. Doan Van Hieu Em, CEO as a new executive board member, and Mr. Dao The Vinh, Chairman and CEO of Golden Gate JSC as an independent director.

FY2019 forecasts

**HSC forecasts for FY2019 call for 25.9% y/y growth in NPAT** – Our forecast for FY2019 calls for sales of VND 108,870 billion (+23.4% y/y), and net profit VND 3,623 billion (+25.9% y/y), based on the following key assumptions.

1. For the Mobile World (MW) chain, we forecast sales of VND 34,375 billion (+3.3%). Our assumptions include: (1) store count reducing to 1,000 stores (-3.1% y/y), (2) SSS growth of 6.8% and (3) MWG's market share in the mobile segment remaining around 45%.
2. For the consumer electronics (CE) chain, we forecast that sales will come in at VND 60,844 billion (+27.7% y/y). Our assumptions are: (1) store count comes to 900 stores (+20.0% y/y)

by year-end, (2) SSS growth of 10% and (3) MWG's market share for consumer electronics will increase further from 35.4% at the end of 2018 to around 41.7% by year-end 2019.

3. For the grocery chain, we forecast sales of VND 10,830 billion (+153.5% y/y). Our assumptions include the opening of 295 stores during the year, bringing the total store count to 700 by year-end, and average store sales rising to VND 1,633 million (+60.0% y/y) per store per month.
4. We estimate gross profit will come to VND 19,185 billion (+25.5% y/y), also assuming the overall GPM will improve slightly from 17.7% in FY2018 to 18.0% in FY2019, as the grocery chain GPM improves from 15.9% in FY2018 to 20.0% in FY2019.
5. We project a net financial loss of VND 108.4 billion (+14.7% y/y) as MWG's short-term debt/sales ratio declines to 5.5% from that of 6.4% in FY2018.
6. We forecast a loss from JVs of VND 3.0 billion, as the An Khang retail pharmacy chain will continue to make losses in our earnings model.
7. We also assume that the SGA/sales ratio will edge up to 13.5%, higher than the 13.2% of FY2018, as the grocery chain, which carries a higher SG&A/sales ratio of 23.3%, will contribute more to total sales.

Thus, we forecast that MWG will produce an FY2019 EPS of VND 7,802, implying a FY2019 forward P/E of 10.8x.

**MWG's mobile segment will grow less than 10% p.a in coming years** – MWG has established an unbeatable, leading position in the market for several months, with a market share of 45%. At the same time, its mobile chain store count has surpassed the most efficient limit, with more store openings causing self-cannibalization. Negative SSSG in FY2017 was the proof. MWG is now trying to reduce its mobile chain store count to the optimal number by converting some mobile stores into CE stores. Thus MWG's mobile segment growth will be largely in line with the saturated mobile market growth at less than 10%.

**The consumer electronics segment will be the key growth driver for the next 2-3 years** – By the end of 2018 MWG had a market share of around 35% in consumer electronics. Yet the market is still fragmented, with other CE retail chains together accounting for around 25% of the total market share, while mom-n-pop shops account for about 40% of the overall market. We believe that there is plenty of room for MWG to grow and consolidate the segment over the next 2-3 years, until it has a market share of around 40-41% and a store count of around 950, which is similar to what happened in the mobile segment.

**Long-term prospects will rely on the grocery chain** – The mobile segment is no longer a driver for strong growth and, as mentioned above, the CE segment will take on that role for the next 3 years. Subsequently, MWG expects its grocery segment to make up for the anticipated sharp deceleration in growth after its CE segment reaches the optimal store count and market share.

**Great potential in the retail grocery business** – According to the GSO Vietnam, Vietnam's grocery market is around US\$ 60 billion per annum, with a growth rate in line with Vietnam's GDP. Within this, about 70% of the market value is consumed in urban areas and 30% is consumed 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, accounting for roughly 95% of the market. Given GDP per capita and demographic conditions in Vietnam's urban areas, we believe that modern channels could easily grow to a market share of around 30-40% market share in urban areas, which means 20-28% of the whole grocery market from the current 5%.

**MWG has been doing well so far** - MWG has been doing well in its totally new retail grocery segment in terms of ERP systems, store locations, store formats and SKUs via an intensive trial and error process. The impressive average store sales growth of 80% at MWG's grocery stores

in 2018 was a proof of:

1. high acceptance levels by urban residents for modern grocery retail; and
2. the first successful steps by MWG in the retail grocery business.

**However, there remains some uncertainties** – MWG had 423 grocery stores as of February 2019, including 360 stores in HCMC and 63 stores in other provinces, including Binh Duong, Binh Phuoc, Dong Nai, Long An, Ben Tre, Can Tho, Tieng Giang, Vinh Long, Tra Vinh and Tay Ninh. While the numbers show a bright picture in terms of store sales growth, GPM improvement, and chain expansion, we see some uncertainty beneath the surface.

1. Expansion in HCMC will be more challenging than at first sight - Competition is increasing as late in 2018 Saigon Coop, an experienced and highly reputable grocery retailer has also opened a Coop Food chain, with a similar format, similar SKUs and similar locations to MWG, and also providing good services. Increased rental prices and labor costs are also issues that MWG must face when expanding its store chain in HCMC.
2. Expansion to other provinces will be even more difficult – Firstly, MWG’s pricing strategy of “cheaper than traditional markets” might not work in provinces that are production areas for key agricultural products including fruit and vegetables, fish and shrimp, pork, chicken and eggs, as MWG will have to purchase from middlemen, while farmers may bring their products to traditional markets directly. Without price competitiveness, it may be hard for MWG’s grocery stores to attract consumers for frequent visits. Secondly, logistics will also be more than difficult. In the provinces, crowded residential areas like towns are far from each other. Hence, the average distance from MWG grocery distribution centers (DC) to a store in the provinces may be 3-5 times that in HCMC, i.e. 20-30 km in the provinces versus 6-7 km in HCMC. This will put a heavy burden on MWG’s logistic system, not only in terms of transportation costs, but also in terms of man power, storage capacity, inventories and delivery times. MWG then faces a logistics dilemma. Either it has a DC to ensure the proper supply of inventories to its stores as required and in time, with the DC possibly being far from optimal efficiency, or it has no DC and has to rely on distributors for supply of inventories to its stores, thus saving some money by trading off timely delivery of inventories.

**Grocery retail can make a significant contribution in 2021 at the earliest** – In our earnings model, we forecast that MWG’s grocery chain will have positive EBITDA at the chain level in 2019. We also forecast that grocery retail can make a significant contribution of around 15.6% to MWG’s EBIT in 2021, if every single aspect of the business, including store expansion, store sales growth, GPM improvement, and operational efficiency improvement, all occur at the same time.

### Valuation

**Valuation** – Our DCF model calls for a fair price of VND 144,000 per share, implying a forward FY2019 P/E of 18.6x.

Our DCF valuation assumes a 10.2% WACC and a 4.0% terminal growth rate. We assume a CAGR of 15.2% in sales and 15.3% in NPAT over the 2018-28 period, and terminal growth rate of 4.0%.

Figure 1: MWG DCF model

	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F	FY2026F	FY2027F	FY2028F
Revenue	106,736,119	127,629,528	150,963,866	178,519,908	208,167,186	242,150,276	277,037,995	305,660,234	330,180,429	356,789,894
% y/y	23.4%	19.6%	18.3%	18.3%	16.6%	16.3%	14.4%	10.3%	8.0%	8.1%
EBIT	5,011,514	6,195,054	7,491,497	8,749,129	9,972,362	11,312,104	12,688,444	13,838,837	14,843,889	15,932,710
EBIT margin	4.7%	4.9%	5.0%	4.9%	4.8%	4.7%	4.6%	4.5%	4.5%	4.5%
Unlevered net income	6,114,047	7,557,965	9,139,626	10,673,938	12,166,282	13,800,767	15,479,902	16,883,382	18,109,544	19,437,906
Plus: D&A	894,899	1,085,013	1,297,758	1,235,647	1,458,000	1,717,403	1,372,981	1,485,766	1,667,376	1,870,449
Less: Capex	(1,804,860)	(1,692,405)	(1,582,358)	(1,615,619)	(1,624,692)	(1,791,644)	(1,772,993)	(1,651,326)	(1,816,913)	(1,998,765)
Less: WC increase	(1,887,652)	(1,380,978)	(1,805,507)	(3,364,387)	(2,458,872)	(2,633,130)	(2,627,749)	(2,324,659)	(2,130,152)	(2,228,939)
UFCF	3,316,434	5,569,595	7,049,519	6,929,579	9,540,717	11,093,395	12,452,141	14,393,163	15,829,856	17,080,651
Discount factor	91%	82%	75%	68%	62%	56%	51%	46%	42%	38%
PV of UFCF	3,009,468	4,586,279	5,267,623	4,698,730	5,870,472	6,194,053	6,309,179	6,617,645	6,604,541	6,466,786
Sum of PV	55,624,776									

Source: HSC estimates

Figure 2: DCF model - key assumptions

Terminal value - growth in perpetuity approach		Cost of equity	
Terminal growth	4.0%	Risk free rate	3.8%
2028 FCF x (1+g)	17,763,877	Equity risk premium	7.7%
Terminal value	286,514,150	Beta	1.0
PV of terminal value	11,554,572	Cost of equity	11.5%
EV		Cost of debt	
Total PV	67,179,349	Cost of debt	6.5%
Plus: Non-operating assets	3,800,473	CIT	20.0%
Less: Gross debt	(7,044,622)	Cost of debt (net)	5.2%
Less: Minority Interest	(6,246)	WACC	
EV	63,928,953	Weight of equity	80.0%
OS	443,496,178	Weight of debt	20.0%
FV	144,148	WACC	10.2%

Source: HSC estimates

Investment thesis

**Reiterate Outperform.** HSC's DCF-based fair value comes to VND 144,000 per share. MWG has met its target of proof of concept for its grocery store chain, and has also worked out a standardized format for scaling up. However, there are still a lot of things that need to be worked out via trial and error, such as location targeting, SKU choices and logistics in different provinces. That's simply how retail is and there are no short cuts. EBITDA break-even for the grocery chain occurred in December 2018, but it might take until 2020 for them to make a profit from the grocery segment. HSC has always taken the view that MWG will eventually be successful in its plan to build a nationwide and profitable grocery store chain, although expanding out from its HCMC base will bring enormous challenges.

# FINANCIAL RATIOS

## Company Update

Thursday, 28 March 2019

Income statement (VNDbn)	12-18A	12-19F	12-20F	Cashflow statement (VNDbn)	12-18A	12-19F	12-20F
Net sales	86,516	106,736	127,630	Operating cashflow	2,249	3,074	4,715
COGS	(71,224)	(87,550)	(104,072)	Investing cashflow	(2,332)	(1,802)	(1,688)
Gross profit	15,292	19,186	23,558	Financing cashflow	422	(591)	(174)
Net financial income	(94)	(108)	(146)	Net cashflow	338	680	2,853
SGA expenses	(11,421)	(14,430)	(17,631)	Cash & equivalents at period start	3,411	3,750	4,420
Operating profit	3,774	4,645	5,776	Forex effects	0	0	0
EBITDA	5,094	5,651	7,012	Cash & equivalents at period end	3,750	4,430	7,272
PBT	3,786	4,645	5,776				
NPAT	2,880	3,622	4,505				
NPATMI	2,879	3,620	4,503				
Balance sheet (VNDbn)	12-18A	12-19F	12-20F	Key ratios	12-18A	12-19F	12-20F
<b>Assets</b>				<b>Valuation</b>			
<b>Current assets</b>	<b>23,390</b>	<b>27,804</b>	<b>34,023</b>	EPS (VND)	6,347	7,802	9,420
Cash & cash equivalents	3,750	4,420	7,230	EPS diluted (VND)	6,347	7,802	9,420
Short-term investments	51	0	0	EBITDA (VNDbn)	5,094	5,651	7,012
Short-term receivables	1,560	2,028	2,425	BVPS (VND)	20,255	25,057	31,201
Inventories	17,446	20,571	23,434	DPS (VND)	1,500	1,500	1,500
Other current assets	583	786	934	P/E (x)	13.7	10.8	9.0
<b>Long-term assets</b>	<b>4,751</b>	<b>5,100</b>	<b>5,382</b>	P/E diluted (x)	13.7	10.8	9.0
Long-term receivables	314	374	447	EV/EBITDA (x)	8.00	7.09	5.37
Fixed assets	3,333	3,764	4,042	P/B (x)	4.30	3.37	2.71
Investment properties	0	0	0	Dividend yield	1.8%	1.8%	1.8%
Long-term investments	60	57	53	<b>Profitability</b>			
Other long-term assets	799	784	779	Gross margin	17.7%	18.0%	18.5%
Goodwill				EBITDA margin	5.9%	5.3%	5.5%
<b>Total assets</b>	<b>28,140</b>	<b>32,904</b>	<b>39,405</b>	Pretax margin	4.4%	4.4%	4.5%
<b>Resources</b>				Net margin	3.3%	3.4%	3.5%
<b>Liabilities</b>	<b>19,157</b>	<b>21,458</b>	<b>24,725</b>	SG&A/sales	13.2%	13.5%	13.8%
Current Liabilities	17,907	20,210	23,607	ROAE	38.7%	35.4%	34.5%
Long-term Liabilities	1,250	1,248	1,118	ROAA	11.3%	11.9%	12.5%
<b>Owners' equity</b>	<b>8,983</b>	<b>11,446</b>	<b>14,680</b>	<b>Liquidity</b>			
Share capital	4,435	4,568	4,705	Current ratio	1.31	1.38	1.44
Retained earnings	3,990	6,319	9,416	Quick ratio	0.33	0.36	0.45
Funds and other capital	558	559	559	<b>Leverage</b>			
Minority interest	0	0	0	Debt/Equity	78.4%	62.2%	51.1%
<b>Liabilities &amp; Equities</b>	<b>28,140</b>	<b>32,904</b>	<b>39,405</b>	Total debt ratio	68.1%	65.2%	62.7%
				EBIT interest coverage ratio	8.9	13.1	14.3
				<b>Efficiency</b>			
				Days sales outstanding	9.13	6.14	6.38
				Days in inventories	75.6	79.2	77.4
				Days payables outstanding	40.0	37.3	37.1
				Cash conversion cycle (days)	44.7	48.1	46.7

Source: Company data, (F): HSC forecasts

Source: Company data, (F): HSC forecasts

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### Explanation of Equity Research Ratings

**BUY:** Expected to outperform the market by more than 10% per annum  
**OUTPERFORM:** Expected to outperform the market by 10% per annum  
**HOLD:** Expected to perform in line with the market  
**UNDERPERFORM:** Expected to underperform the market by 10% per annum  
**SELL:** Expected to underperform the market by more than 10% per annum



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