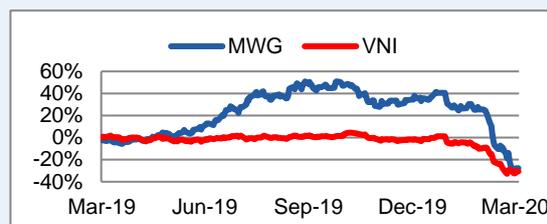


Industry:	Retailing		2019	2020F	2021F	2022F
Report Date:	April 3, 2020	Rev Growth	18.1%	4.2%	25.8%	16.3%
Current Price:	VND61,200	EPS Growth	29.6%	-7.5%	41.1%	32.3%
Current Target Price:	VND125,800	GPM	19.1%	21.1%	21.8%	22.7%
Last Target Price:	VND212,200	NPM	3.8%	3.4%	3.9%	4.5%
Upside to TP:	+105.6%	EV/EBITDA	5.6x	5.3x	4.1x	3.3x
Dividend Yield:	+0.0% ⁽¹⁾	P/Op CF	NM	3.8x	4.2x	4.1x
TSR:	+105.6%	P/E	7.1x	7.6x	5.4x	4.1x



Market Cap:	USD1.2bn	<u>MWG</u>	<u>VNI</u>
Foreign Room:	USD0.0	P/E (ttm)	7.1x 10.5x
ADTV30D:	USD4.7mn	P/B (curr)	2.3x 1.5x
State Ownership:	0%	Net D/E	65.1% N/A
Outstanding Shares:	452.9mn	ROE	36.3% 14.8%
Fully Diluted Shares:	452.9mn	ROA	11.0% 2.5%
3-yr PEG	0.3	⁽¹⁾ We assume MWG will cancel its FY2019 dividend	

Company Overview

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with YE2019 market shares of 48% and 38%, respectively. To sustain strong long-term growth, MWG is rolling out the Bach Hoa Xanh minimart chain.

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COVID-19 outbreak poses significant near-term risk

- We reiterate BUY despite cutting our target price by 41%, which is premised on (1) downward revisions of 29%/23%/20% to 2020F/2021F/2022F NPAT as the COVID-19 outbreak has been worse than our initial assumption and (2) a new valuation discount of 30% to TGDD/DMX to reflect risk of a prolonged outbreak — a material risk to ‘non-essential’ retail businesses. We will reassess this valuation discount in the future once the outbreak shows clear signs of fading.
- We now project the combined NPAT of TGDD (mobile) and DMX (consumer electronics/CE) to slide 8% in 2020 (vs an increase of 21% previously), assuming that COVID-19’s disruptions to economic activity will peak by the end of H1 2020 (vs end-Q1 2020 previously).
- We forecast earnings growth of TGDD and DMX to rebound to double-digit levels in 2021F-2022F as consumption and business activities recover from the COVID-19 crisis.
- BHX (grocery): Thanks to a rising GPM, operating leverage and improved cost control, we expect BHX’s profitability to continually improve. We project BHX will contribute 17%/26% to NPAT in 2022F/2023F, backed by a total store count of ~4,000/~5,000 vs 1,008 as of YE2019.
- MWG is trading at an appealing three-year PEG of 0.3 against our EPS CAGR forecast of 20% during 2019-2022F. We believe MWG, backed by its robust management and financial capabilities as well as its dominant scale vs competitors, will weather the COVID-19 crisis.
- Downside risks to our positive view: Slower-than-expected store roll-out and profitability progress for BHX; an extended COVID-19 outbreak that could hurt consumer spending on phones and consumer electronics and cause longer-than-expected store shutdowns and supply shortages.

In our base case, we conservatively assume 25% of TGDD/DMX store count will be closed for an entire month (April). Per MWG, up to now, ~10% of TGDD’s and DMX’s stores have been closed, most of which are in Hanoi. That said, due to the complications of COVID-19 and the Government’s directive issued on March 31, 2020, to suspend all non-essential services – especially in big cities – we opt for conservatism. *See the body of our report for our further scenario analysis.*

Management to focus on improving productivity and cost optimization to cushion adverse impact from COVID-19. Since mid-March 2020, we have observed that Vietnamese consumers have become much more cautious in response to COVID-19, which in turn has dampened discretionary spending and retail footfall. We project the blended sales/store of TGDD and DMX will sink 17% YoY, causing their combined revenue to drop 12% YoY in 2020. Nevertheless, we expect their combined earnings to see a smaller decline (-8% YoY) in 2020 on the back of a scale and mix-driven GPM expansion and cost-saving initiatives such as lifting staff productivity, rent renegotiation and rationalized store operating expenses.

We expect MWG’s dominant market position will be cemented after COVID-19 subsides. We believe the virus’ impact on smaller competitors – which have weaker financial muscle – is more profound than MWG. As such, we expect MWG to further consolidate market share going forward.

2M 2020: NPAT growth decelerated in February as COVID-19's impact began to kick in

Figure 1: MWG's 2M 2020 results

VND bn	2M 2019	2M 2020	YoY	# stores as of 2M 2019	# stores as of 2M 2020	VCSC comments on 2M 2020 results
Revenue	17,396	20,541	18%			
TGDD ⁽¹⁾	5,920	5,916	0%	1,027	1,015	<p>* We estimate that the average monthly sales/store of TGDD reached VND3.0bn (USD127,800) in 2M 2020, +3% YoY.</p> <p>* In 2M 2020, watches contributed VND300bn (USD13mn) in revenue, equivalent to 5% of TGDD's revenue.</p>
DMX	10,461	12,037	15%	766	1,028	<p>* Mostly driven by contributions from new stores opened in 2019, while we estimate that average sales/store of DMX slumped by 23% YoY in February 2020 to VND4bn (USD171,700).</p> <p>* We attribute the above sales/store decline to (1) negative impact from COVID-19 on consumer income and sentiment as well as retail footfall, and (2) a broadening store count contribution from mini-DMX, which generates lower sales/store than the standard DMX format.</p>
BHX	1,015	2,588	155%	423	1,068	<p>* Average sales/store were solid at VND1.5bn (USD64,000) in 2M 2020, +21% YoY, per our estimate. In our opinion, grocery, among other necessity products, should not be materially affected by the COVID-19 outbreak.</p>
NPAT	729	845	16%			
Online sales	3,021	1,218	-60%			<p>Reported online sales growth nosedived 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 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.</p>

Source: MWG, VCSC; ⁽¹⁾ including "Super Cheap Phones" stores – MWG's low-price format

2020F: NPAT-MI to fall 5% as we assume a one-month shutdown for 25% of TGDD's and DMX's store count as part of the Government's countermeasures against COVID-19

In this report, we focus our scenario analysis on TGDD and DMX. Unlike TGDD and DMX, BHX provides essential goods and services that will not be subject to the Government's potential forced shutdown. In fact, BHX has benefited from consumers stocking up on necessity products as well as their priority for safety that has driven them away from wet markets.

The core components of our scenario analysis include: (1) Monthly sales/store of TGDD and DMX, (2) the number of stores subject to a forced shutdown and the duration of such shutdown, (3) assumptions on MWG's cost optimization efforts and (4) the total monthly expenses per store that MWG needs to bear in case of a shutdown.

Our base case calls for a peak of COVID-19's disruptions to economic activity by end-Q2 2020 (vs end-Q1 2020 in our previous report), with an understanding that the COVID-19 outbreak remains a fluid and highly unpredictable situation that might necessitate adjustments to our base-case assumptions in the future. As part of our base case, we assume economic activity and consumer spending will begin to recover in H2 2020. However, we do not expect a full normalization (i.e., as if COVID-19 never occurred) in consumer spending in H2 2020-2021 because we think the loss of consumer income due to the outbreak will have a lasting impact on overall consumer purchasing power and spending propensity.

Our base case assumes that 25% of TGDD and DMX stores will be shut down for effectively an entire month, which – for the sake of our scenario analysis – we assume will be April 2020 in this report. The Government announced 'Directive 16' on March 31, 2020, to temporarily suspend all non-essential services nationwide until at least April 15, 2020. Although up to now, mandatory mass store shutdowns have only occurred for MWG in Hanoi, in our base case, we still conservatively assume other cities will follow suit amid the recent escalation in COVID-19 in Vietnam and the Government's strict approach in containing the disease's spread. This risk is most pronounced in the five big cities of HCMC, Hanoi, Da Nang, Can Tho and Hai Phong due to their high population density. As of March 27, 2020, MWG has 307 TGDD stores and 249 DMX stores in these five cities.

Overall, under our estimates and projections, MWG will incur VND321mn (USD13,700) of total monthly expenses for each closed store, of which the majority will come from staff salaries (~44% of total expenses), depreciation (19%), G&A (19%) and rent (13%). Our estimates and projections are summarized in Figures 2 & 3.

Figure 2: VCSC's base case assumptions for TGDD and DMX's sales/store and number of closed/operating stores throughout 2020

VND bn	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales/store												
TGDD	3.3*	2.6	2.5	1.9	2.2	2.3	2.4	2.3	2.4	2.3	2.5	2.4
YoY	6%	-1%	-10%	-30%	-20%	-20%	-15%	-15%	-10%	-10%	-5%	-5%
DMX	7.7*	4.0	4.1	4.3	3.8	4.0	4.4	3.2	3.6	3.7	4.0	4.8
YoY	-10%	-23%	-25%	-40%	-40%	-35%	-30%	-30%	-25%	-20%	-15%	-10%
Number of closed stores												
TGDD	0	0	0	249	0	0	0	0	0	0	0	0
DMX	0	0	0	257	0	0	0	0	0	0	0	0
Number of operating stores												
TGDD	998	998	998	749	998	998	998	998	998	998	998	998
DMX	1,028	1,028	1,028	771	1,028	1,028	1,028	1,028	1,028	1,028	1,028	1,028

Source: VCSC forecasts; *stores were opened for only 27 days in January 2020 due to the Tet Holiday.

Figure 3: VCSC's estimated total monthly expenses per store for TGDD and DMX (average) in April 2020

VND mn	2019 (est.)	2020F		VCSC's explanation	
		Operating stores	Closed stores	Operating stores	Closed stores
Total monthly expenses per TGDD/DMX store (average)	-498	-398	-321		
Direct store OPEX, in which:	-373	-275	-199		
+ Staff costs	-281	-188	-140	We assume staff compensation, which is partly commission-based, to decline in accordance with sales/store.	We assume staff compensation will be reduced by 50% as employees' commission income disappears.
+ Rental expenses	-60	-55	-42	We assume MWG will be able to obtain some subsidies from its landlords.	
+ Utilities and others	-32	-32	-16		We assume a 50% reduction in this expense group, mostly attributed to utility expenses.
Depreciation expenses	-60	-60	-60		
G&A expenses	-68	-61	-61	We project staff salaries will come down in accordance with the company's business performance.	
Net financial income	3	-1	-1	We project rebates from vendors to decline by 12% YoY to reach VND253bn (USD11mn) in 2020 due to lower sales performance.	

Source: VCSC

Figure 4: Sensitivity analysis of our 2020F NPAT-MI for MWG in relation to the number of closed stores and the duration of such store shutdown

Scenarios	VCSC's explanation	2020F NPAT-MI (VND bn)	YoY
1	10% of store count is shut down for one month (April 2020)	3,771	-2%
2	10% of store count is shut down for two months (April-May 2020)	3,682	-4%
3	10% of store count is shut down for three months (April-June 2020)	3,590	-6%
4 (base case)	25% of store count is shut down for one month (April 2020)	3,628	-5%
5	25% of store count is shut down for two months (April-May 2020)	3,406	-11%
6	25% of store count is shut down for three months (April-June 2020)	3,175	-17%
7	50% of store count is shut down for one month (April 2020)	3,391	-12%
8	50% of store count is shut down for two months (April-May 2020)	2,946	-23%
9	50% of store count is shut down for three months (April-June 2020)	2,485	-35%

Source: VCSC forecasts

Figure 5: VCSC's 2020 forecasts

VND bn	2019	2020F (old)	2020F (new)	YoY	VCSC comments on 2020F
Revenue	102,174	129,589	106,450	4%	
TGDD ⁽¹⁾	33,207	32,144	28,585	-14%	<p>* We project sales/store of TGDD to slide 13% YoY (vs 1% growth previously), mostly due to COVID-19 and partly offset by greater contributions from watches and laptops.</p> <p>* We now expect no conversion of high-performing TGDD stores to mini-DMX (vs 50 in our previous report) as management plans to focus more on cost optimization in 2020.</p> <p>* Our base case assumes 25% of a total of 998 stores will be temporarily closed for one month in 2020.</p>
DMX	58,197	73,537	51,963	-11%	<p>* We project sales/store of DMX to plunge 23% YoY (vs 6% growth in our previous report), mostly due to COVID-19 and a higher contribution of mini-DMX relative to the standard DMX format.</p> <p>* We expect 10 brand new stores in 2020 (vs 30 brand new stores along with 50 conversions from TGDD in our previous report), implying a total store count of 1,028 by YE2020.</p> <p>* Our base case assumes 25% of a total of 1,028 stores will be temporarily closed for one month in 2020.</p>
BHX	10,770	23,908	25,902	140%	<p>Primarily lifted by a projected 1,000 new stores (vs 750 previously) to reach a total store count of ~2,000 by YE2020, SSSG of 15% (vs 10% previously) and a full-year contribution from stores opened in 2019.</p>
Online sales	12,682	11,414	10,146	-20%	<p>* To sink off a high base as MWG only started to implement the new pricing policy in May 2019 (as mentioned above).</p> <p>* We revise our forecast as 2M 2020 performance undershot our expectation. In addition, we expect the COVID-19 outbreak to hurt overall consumer spending, including online purchases of mobile phones and consumer electronics.</p>
Gross profit	19,488	26,281	22,471	15%	
Selling expenses	-12,437	-17,137	-15,732	26%	
G&A	-2,074	-2,756	-1,964	-5%	
EBIT	4,977	6,388	4,774	-4%	
PBT	5,053	6,603	4,756	-6%	
NPAT-MI	3,834	5,119	3,628	-5%	<p>* Per our estimate, net loss from BHX will shrink from VND1.1tn (USD46mn) in 2019 to VND877bn (USD38mn) in 2020, backed by increased sales/store, GPM expansion, improved store OPEX and operating leverage.</p> <p>* Excluding BHX, NPAT-MI would decline 8% YoY in 2020 (vs 21% growth in our previous report), per our projections.</p>
EPS (VND)	8,657	11,293	8,010	-7%	* 2020 EPS will be diluted by a 2.4% ESOP issuance in January 2020.
GPM	19.1%	20.3%	21.1%		<p>* We project BHX's GPM to widen by three ppts in 2020 to 22% on the back of its ballooning scale, more effective procurement, initiatives to reduce the spoilage rate for fresh produce and roll-out of private labels.</p> <p>* We also assume the combined GPM of TGDD and DMX will step up by 1.7 ppts to 20.8% in 2020 thanks to scale and an improved product mix (e.g., a bigger contribution from high-margin home appliances and kitchenware products).</p>
Selling exp/revenue %	12.2%	13.2%	14.8%		<p>* BHX is estimated to have higher selling expenses as a percentage of sales vs TGDD and DMX.</p> <p>* Higher projected selling expenses/sales % for TGDD and DMX due to a projected decline in sales/store.</p>
G&A/revenue %	2.0%	2.1%	1.8%		
EBIT margin	4.9%	4.9%	4.5%		
NPAT-MI margin	3.8%	4.0%	3.4%		
Effective tax rate	24.1%	22.4%	23.7%		Losses from BHX are not tax-deductible and will be carried forward.

Source: MWG, VCSC; ⁽¹⁾ including "Super Cheap Phones" stores

2021F: Strong earnings rebound off a low base

Figure 6: VCSC's 2021 forecasts

VND bn	2020F	2021F	YoY	VCSC comments on 2021F
Revenue	106,450	133,871	26%	
TGDD ⁽¹⁾	28,585	29,179	2%	* We project SSSG of TGDD to improve by 6% YoY. * We assume MWG will convert 50 high-performing TGDD stores to mini-DMX in 2020, thereby decreasing its store count to 948 by YE2021.
DMX	51,963	62,342	20%	* We project SSSG of DMX to reach 15% off a low 2020 base. In addition, we expect TV sales to benefit from the resumption of major sports events such as the UEFA European Football Championship and the Tokyo Olympics in 2021. * We assume 30 new store openings and 50 conversions from TGDD, bringing the total store count to 1,108 by YE2021.
BHX	25,902	42,350	64%	Underpinned by a projected 1,000 new stores to reach a total store count of ~3,000 by YE2021, SSSG of 8% and a full-year contribution from stores opened in 2020.
Online sales	10,146	12,175	20%	To recover off a low 2020 base.
Gross profit	22,471	29,203	30%	
Selling expenses	-15,732	-20,309	29%	
G&A	-1,964	-2,486	27%	
EBIT	4,774	6,407	34%	
PBT	4,756	6,577	38%	
NPAT-MI	3,628	5,270	45%	* Per our estimate, BHX will turn profitable in 2021F with NPAT of VND54bn (USD2.3mn) vs a net loss of VND877bn (USD38mn) in 2020F, backed by increased sales/store, GPM expansion, improved store OPEX and operating leverage. * Excluding BHX, NPAT-MI would jump 16% YoY vs 2020, per our projections.
EPS (VND)	8,010	11,305	41%	* 2021 EPS will be diluted by a 2.4% ESOP issuance in January 2020 and another 3% ESOP issuance expected to be issued around YE2020.
GPM	21.1%	21.8%		* We project BHX's GPM to widen by three ppts in 2021 to 25% on the back of its ballooning scale and improved product mix – including a larger contribution from private labels. * We assume the combined GPM of TGDD and DMX will edge down by 0.5 ppts to 20.3% in 2021 as we expect: (1) sales from televisions, which carry lower GPM compared to other categories such as home appliances and kitchenware, to surge on the back of the aforementioned resumption of sporting events in 2021, and (2) MWG to carry out more promotions to stimulate consumer demand post-COVID-19.
Selling exp/revenue %	14.8%	15.2%		* BHX is estimated to have higher selling expenses as a percentage of sales vs TGDD and DMX. * We project selling expenses/sales % for TGDD and DMX to shrink by 40 bps to 11.7% in 2021 as blended sales/store recover.
G&A/revenue %	1.8%	1.9%		
EBIT margin	4.5%	4.8%		
NPAT-MI margin	3.4%	3.9%		
Effective tax rate	23.7%	19.8%		* 2021F effective tax rate to benefit from carried-forward loss at BHX that occurred prior to 2021.

Source: MWG, VCSC; (1) including "Super Cheap Phones" stores, MWG's low-price format.

MWG's COVID-19 update calls on April 1, 2020

The content of this section was published in our [Vietnam Today](#) daily report on April 1, 2020.

MWG hosted investor calls on April 1, 2020, that were mainly centered on the impact of COVID-19 on MWG's businesses and the company's measures to deal with this crisis. Management acknowledged COVID-19's material adverse impact on consumer income, and in turn, demand for discretionary goods — including mobile phones and electronics. However, management believes smaller competitors' struggle during this crisis will create opportunities for MWG to strengthen its already dominant leadership. Meanwhile, BHX (grocery) delivered a strong performance in March 2020 — partly thanks to consumers stocking up amid the escalation of COVID-19 as well as their priority for safety that has driven them away from wet markets.

Below are our key takeaways from the calls.

TGDD and DMX

* MWG generated total revenue of ~VND8.5tn (USD365mn, +12% YoY) in March 2020, of which combined revenue from TGDD and DMX was ~VND6.7tn (USD288mn, -5% YoY). Per management, over the past few days (i.e., after the Government called for a suspension of non-essential services as well as 15-days of social distancing), TGDD and DMX's run-rate revenue has declined by less than 20%. However, TGDD and DMX's current revenue run-rate still exceeds management's initial expectations.

* Online sales accounted for ~13% of TGDD and DMX's revenue in March 2020, which was higher than 7% in 2M 2020, as MWG shored up its online sales efforts to partly offset its offline traffic reduction as well as forced store shutdowns.

* Management saw strong pick-ups in sales of some categories such as entertainment devices, home appliances, refrigerators and laptops as consumers are ramping up their purchases of goods necessary for their work/study from home. Per MWG, its laptop sales surged ~200% YoY in March 2020 and Q1 2020's laptop sales already achieved 40% of the company's full-year target.

* The percentage of customer's financed purchases (i.e., purchases funded by consumer finance companies) has climbed during the COVID-19 outbreak. Before the outbreak, customer's financed purchases typically accounted for ~40% of MWG's revenue.

* As of the end of March 2020, ~10% of TGDD and DMX's store count has been temporarily closed in accordance with the Government's directive to pause non-essential services to combat COVID-19. These closed stores are mostly in Hanoi. Per MWG, on average, sales of the closed stores plummeted by two-thirds vs their normal levels with the remaining one-third of sales coming from online orders.

* Details on potential further store shutdowns are unavailable at this point as MWG will respond to instructions from relevant local authorities as they arise.

* Management expects smaller competitors to struggle mightily against COVID-19. As such, MWG aims to reach 50% market share in mobile and 45% in CE by YE2020 vs 48% and 38% as of YE2019, respectively.

* MWG will focus on optimizing costs for TGDD and DMX amid their falling sales. These cost-saving initiatives will include: (1) negotiations with TGDD/DMX landlords to reduce up to 50% in rent for operating stores and rent exemptions for closed stores during the current challenging period (per management, up to now, MWG has successfully negotiated with ~30% of its landlords); (2) minimizing new recruitment as MWG aims to lift its staff productivity as well as mobilize its staff among the businesses, depending on circumstances; (3) adjusting the working hours of sales staff in accordance with sales; (4) cutting operating expenses at the store level as well as at the head office; and (5) reining in marketing activities until the outbreak eases.

* MWG will put all its new store openings and store conversions for TGDD and DMX on hold until the COVID-19 outbreak is contained. Therefore, store opening resources will solely focus on BHX.

* Inventory days of TGDD and DMX are at optimal levels, per management. MWG has deliberately deferred, reduced and cancelled its inventory orders. It will also negotiate with suppliers to lengthen its payable days, if necessary.

BHX

* BHX's revenue reached VND1.8tn-VND1.9tn (USD77mn-USD81mn) in March 2020, 3x YoY. Based on this information, we estimate that BHX's average sales/store amounted to VND1.7bn (USD73,000) in March 2020, well above 2M 2020's VND1.5bn (USD64,000) and 2019's VND1.3bn (USD55,800). In March 2020, BHX's total bill numbers surged to ~17 million compared to ~12 million in February 2020.

* Management views COVID-19 as an opportunity for BHX to cement its brand equity. Per MWG's CEO, in the past few weeks, BHX has only raised its selling prices in line with the increases in its purchasing prices; meanwhile, selling prices in wet markets have jumped as consumers are stocking up on food. Thus, BHX's brand equity has improved significantly thanks to its superior convenience and quality as well as price stability.

* In order to better serve consumers as well as utilize to TGDD and DMX's spare human capacity during the COVID-19 outbreak, MWG will launch soon an app for BHX store delivery. Under this delivery model, MWG's staff, including those of TGDD and DMX, will shop on behalf of customers (broadly similar to the GrabFood or GrabMart models). Specifically, when customers order on the app, BHX's IT system will allocate the order to the nearest BHX store and the staff in charge will come to the store, buy the requested products and deliver them to the customers. Customers will pay a VND30,000 (USD1.2) delivery fee per order. Currently, BHX's online orders are being delivered from its distribution centers (DCs). Per management, the product assortment on this store delivery app will be limited to only the 50-100 most frequently purchased SKUs vs 5,000-7,000 SKUs available on BHX's website.

* BHX's online orders have rocketed in the past two months. The two DCs serving online orders are running at twice their pre-COVID-19 levels. As such, BHX plans to add three new DCs by the end of April to keep up with demand.

* Per MWG, it is now easier for BHX to find quality locations at more affordable rents compared to pre-COVID-19. As such, it believes it can maintain a pace of opening close to 100 stores per month for BHX for the rest of 2020. As a result, MWG will likely achieve the higher range of its target of opening 700-1,000 new BHX stores in 2020.

Other developments:

* Liquidity: MWG is repaying its loans and trade payables on time. The company is using less than 50% of its credit limit at banks. MWG has also seen a decline in borrowing rates (i.e., short-term debt is now charging MWG 5% or less). Per management, MWG's current cash balance can cover four to five months of operations — even in the worst case of no revenue. Having said that, MWG does have plans to lengthen its loan duration to alleviate short-term pressure on its cash flow.

* MWG is considering cancelling its cash dividend plan for FY2019 (to be paid in 2020) as it wants to preserve cash for business operations. Similarly, M&A and share buybacks are unlikely to happen.

Valuation

We value MWG using a sum-of-the-parts method, including (1) a five-year DCF for the mobile and consumer electronics businesses and (2) a nine-year DCF for the minimart business. We apply a higher cost of equity (20%) to the minimart business to reflect the high uncertainty of our long-term assumptions given that BHX remains in its early stages. Meanwhile, we do not employ a peer-based valuation for MWG owing to a limited comparable universe.

In this report, we apply a new valuation discount of 30% to our DCF-derived estimated equity value of TGDD and DMX, which is to reflect the risk of worse-than-expected escalation of COVID-19 — a material risk to non-essential retail businesses. We will reassess this valuation discount once COVID-19 shows clear signs of fading.

Figure 7: Summary of VCSC's valuation for MWG

	Method	Equity value (VND bn)	Equity value/share (VND)
TGDD & DMX	DCF	83,810	141,237
Valuation discount for TGDD and DMX			-30%
BHX	DCF	12,377	26,915
Target Price			125,800
2020F PER at TP			15.7x
2020F PER at TP (TGDD & DMX)			11.1x
2021F PER at TP			9.9x
2021F PER at TP (TGDD & DMX)			8.8x

Source: VCSC

Discounted Cash Flows – TGDD and DMX

Figure 8: DCF Valuation

Cost of Capital	Previous Report	Revised	FCFF (Five Year) – VND bn	
Beta	0.8	0.8	PV of Free Cash Flows	25,007
Market Risk Premium %	8.7	8.7	PV of Terminal Val (1.5% g)	46,862
Risk Free Rate %	4.5	4.5	PV of FCF and TV	71,869
Cost of Equity %	11.5	11.5	+ Cash & ST investments	6,252
Cost of Debt %	8.0	8.0	- Debt	-14,153
Debt %	10	10	- Minority Interest	0
Equity %	90	90	Equity Value	63,968
Corporate Tax Rate %	20	20	Shares (million)	452.9
WACC %	11.0	11.0	Value per share, VND	141,237

Source: VCSC

Figure 9: Cash flows (VND bn)

	2020F	2021F	2022F	2023F	2024F
Earnings before interest and tax	6,274	7,178	7,924	8,828	9,673
- Tax	-1,255	-1,436	-1,585	-1,766	-1,935
+ Depreciation	1,162	992	647	474	61
- Capex	-90	-411	-53	-55	-57
- Change in working cap	2,302	-960	-2,732	1,074	-403
Free Cash Flow	8,394	5,364	4,202	8,554	7,340
Present Value of FCF	7,565	4,357	3,076	5,644	4,365
Cumulative PV of FCF	7,565	11,922	14,998	20,643	25,007

Source: VCSC

Figure 10: Sensitivity analysis of our target price for MWG in relation to TGDD and DMX DCF's WACC and terminal growth rate, ceteris paribus

MWG Target Price (VND)	WACC					
		10.0%	10.5%	11.0%	11.5%	12.0%
Terminal growth (g)	0.5%	121,200	119,700	118,200	116,800	115,400
	1.0%	125,000	123,400	121,800	120,300	118,800
	1.5%	129,100	127,400	125,800	124,200	122,600
	2.0%	133,800	132,000	130,200	128,500	126,800
	2.5%	138,900	137,000	135,100	133,300	131,600

Source: VCSC

Discounted Cash Flows – BHX

Figure 11: DCF Valuation

Cost of Capital	Previous Report	Revised	FCFF (Five Year) – VND bn	
Beta	NA	NA	PV of Free Cash Flow	3,514
Market Risk Premium %	NA	NA	PV of Terminal Val (5.0% g)	8,676
Risk Free Rate %	NA	NA	PV of FCF and TV	12,190
Cost of Equity %	20%	20%	+ Cash & ST investments	0
Cost of Debt %	NA	NA	- Debt	0
Debt %	NA	NA	- Minority Interest	0
Equity %	100%	100%	Equity Value	12,190
Corporate Tax Rate %	20%	20%	Shares (million)	452.9
WACC %	20%	20%	Value per share, VND	26,915

Source: VCSC

Figure 12: Cash flows

VND bn	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
EBIT	-877	54	1,215	2,490	3,933	5,286	6,292	7,265	7,944
- Tax	0	0	0	-220	-787	-1,057	-1,258	-1,453	-1,589
+ Depreciation	747	1,259	1,709	2,164	2,459	2,557	2,557	2,557	2,818
- Capex	-2,583	-2,613	-2,613	-2,613	-2,613	-2,613	-2,613	-2,613	-2,613
- WC increase	-616	-90	-25	-221	-212	-215	-188	-170	-165
Free Cash Flow	-3,329	-1,391	285	1,600	2,780	3,957	4,789	5,586	6,395
PV of FCF	-2,774	-966	165	771	1,117	1,325	1,336	1,299	1,239
Cumulative PV of FCF	-2,774	-3,740	-3,575	-2,803	-1,686	-361	975	2,274	3,514

Source: VCSC

Figure 13: Sensitivity analysis of our target price for MWG in relation to BHX DCF's WACC and terminal growth rate, ceteris paribus

MWG Target Price (VND)	WACC					
		10.0%	15.0%	20.0%	25.0%	30.0%
Terminal growth (g)	3.0%	206,600	145,900	123,200	112,100	106,000
	4.0%	222,200	149,400	124,400	112,700	106,200
	5.0%	244,200	153,600	125,800	113,200	106,500
	6.0%	277,100	158,700	127,300	113,800	106,800
	7.0%	332,000	165,100	129,100	114,500	107,100

Source: VCSC

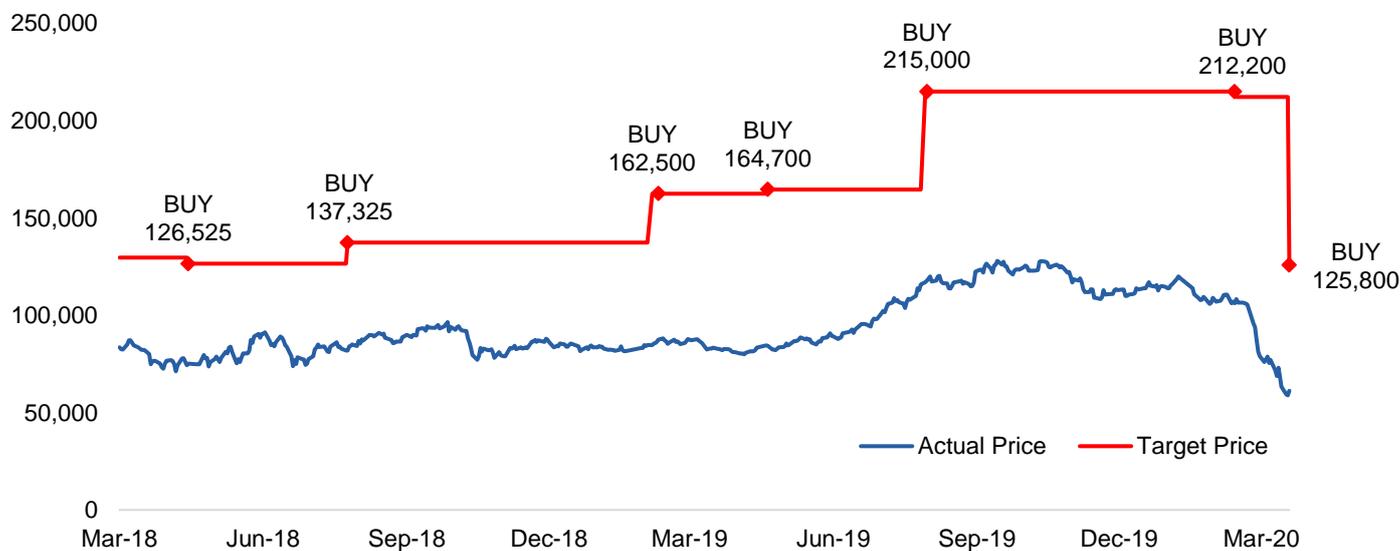
Figure 14: VCSC's 2020-2028 forecasts for BHX

VND bn	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
YE store count	2,008	3,008	4,008	5,008	6,008	7,008	8,008	9,008	10,008
Revenue	25,902	42,350	59,665	77,571	94,697	112,041	126,403	140,313	153,748
<i>GPM</i>	22.0%	25.0%	26.5%	27.5%	28.3%	28.5%	28.5%	28.5%	28.5%
Gross profit	5,698	10,587	15,811	21,332	26,752	31,932	36,025	39,989	43,818
<i>Selling expenses</i>	-5,979	-9,601	-13,344	-17,290	-20,925	-24,405	-27,205	-29,918	-32,799
<i>% of revenue</i>	-23.1%	-22.7%	-22.4%	-22.3%	-22.1%	-21.8%	-21.5%	-21.3%	-21.3%
<i>G&A</i>	-596	-932	-1,253	-1,551	-1,894	-2,241	-2,528	-2,806	-3,075
<i>% of revenue</i>	-2.3%	-2.2%	-2.1%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
EBIT	-877	54	1,215	2,490	3,933	5,286	6,292	7,265	7,944
<i>EBITDA</i>	-130	1,313	2,924	4,654	6,392	7,843	8,848	9,822	10,762
<i>Depreciation</i>	747	1,259	1,709	2,164	2,459	2,557	2,557	2,557	2,818
<i>PBT</i>	-877	54	1,215	2,490	3,933	5,286	6,292	7,265	7,944
NPAT	-877	54	1,215	2,270	3,146	4,229	5,033	5,812	6,356
<i>NPAT margin</i>	-3.4%	0.1%	2.0%	2.9%	3.3%	3.8%	4.0%	4.1%	4.1%
<i>EBITDA margin</i>	-0.5%	3.1%	4.9%	6.0%	6.8%	7.0%	7.0%	7.0%	7.0%

Source: VCSC

Recommendation History

Figure 15: Historical VCSC target price vs share price (VND, adjusted for stock splits)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2019	2020F	2021F	2022F	B/S (VND bn)	2019	2020F	2021F	2022F
Revenue	102,174	106,450	133,871	155,701	Cash & equivalents	3,177	4,416	6,394	9,543
COGS	-82,686	-83,979	-104,667	-120,339	ST investments	3,075	5,075	7,075	9,075
Gross Profit	19,488	22,471	29,203	35,362	Accounts receivables	262	329	414	481
Sales & Marketing exp	-12,437	-15,732	-20,309	-24,388	Inventories	25,745	18,751	23,592	30,933
General & Admin exp	-2,074	-1,964	-2,486	-2,884	Other current assets	2,752	2,867	3,606	4,194
Operating Profit	4,977	4,774	6,407	8,090	Total Current assets	35,012	31,438	41,080	54,226
Financial income	631	607	804	1,024	Fixed assets, gross	9,271	11,944	14,968	17,635
Financial expenses	-570	-641	-656	-723	- Depreciation	-3,780	-5,746	-8,098	-10,684
- o/w interest expense	-568	-641	-656	-723	Fixed assets, net	5,491	6,198	6,870	6,951
Associates	-3	-3	-3	-3	LT investments	56	56	56	56
Net other income/(loss)	19	19	25	28	LT assets other	1,149	1,149	1,149	1,149
Profit before Tax	5,053	4,756	6,577	8,416	Total LT assets	6,696	7,403	8,075	8,156
Income Tax	-1,217	-1,127	-1,305	-1,440	Total Assets	41,708	38,841	49,155	62,382
NPAT before MI	3,836	3,630	5,272	6,975	Accounts payable	12,055	6,788	10,501	15,024
Minority Interest	-2	-2	-3	-3	Short-term debt	13,031	11,304	12,432	15,250
NPAT less MI, reported	3,834	3,628	5,270	6,972	Other ST liabilities	3,356	3,496	4,397	5,114
NPAT less MI, adjusted⁽¹⁾	3,834	3,628	5,270	6,972	Total current liabilities	28,442	21,588	27,330	35,388
EBITDA	6,420	6,741	8,759	10,676	Long-term debt	1,122	1,248	1,248	0
EPS reported, VND	8,657	8,010	11,305	14,956	Other LT liabilities	0	0	0	0
EPS adjusted ⁽¹⁾ , VND	8,657	8,010	11,305	14,956	Total Liabilities	29,565	22,836	28,578	35,388
EPS diluted, adj ⁽¹⁾ , VND	8,657	8,010	11,305	14,956	Preferred equity	0	0	0	0
DPS, VND*	0	1,500	1,500	1,500	Paid-in capital	4,435	4,666	4,666	4,806
DPS/EPS (%)	0%	19%	13%	10%	Share premium	552	552	552	552
⁽¹⁾ Adjusted for one-offs					Retained earnings	7,150	10,778	15,348	21,621
RATIOS	2019	2020F	2021F	2022F	Other equity	-1	-1	-1	-1
Growth					Minority interest	8	10	12	15
Revenue growth	18.1%	4.2%	25.8%	16.3%	Total equity	12,144	16,004	20,577	26,993
Op profit (EBIT) growth	28.6%	-4.1%	34.2%	26.3%	Liabilities & equity	41,708	38,841	49,155	62,382
PBT growth	33.5%	-5.9%	38.3%	28.0%	Y/E shares out, mn	442.7	466.2	466.2	480.2
EPS growth, adjusted	29.6%	-7.5%	41.1%	32.3%	Y/E treasury shares, mn	0.8	0.4	0.4	0.4
Profitability					CASH FLOW (VND bn)	2019	2020F	2021F	2022F
Gross Profit Margin	19.1%	21.1%	21.8%	22.7%	Beginning Cash Balance	3,750	3,177	4,416	6,394
Op Profit, (EBIT) Margin	4.9%	4.5%	4.8%	5.2%	Net Income	3,834	3,628	5,270	6,972
EBITDA Margin	6.3%	6.3%	6.5%	6.9%	Dep, & amortization	1,443	1,967	2,352	2,586
NPAT-MI Margin, adj,	3.8%	3.4%	3.9%	4.5%	Chge in Working Cap	-5,870	1,686	-1,051	-2,757
ROE	36.3%	25.8%	28.8%	29.3%	Other adjustments	-421	2	3	3
ROA	11.0%	9.0%	12.0%	12.5%	Cash from Operations	-1,014	7,282	6,574	6,805
Efficiency					Capital Expenditures, net	-3,067	-2,673	-3,024	-2,667
Days Inventory On Hand	95.3	96.7	73.8	82.7	Investments, net	-3,023	-2,000	-2,000	-2,000
Days Accts, Receivable	1.1	1.0	1.0	1.0	Cash from Investments	-6,090	-4,673	-5,024	-4,667
Days Accts, Payable	40.7	44.7	28.8	36.5	Dividends Paid	-658	0	-699	-699
Cash Conversion Days	55.7	53.0	46.0	47.3	Δ in Share Capital	90	231	0	140
Liquidity					Δ in ST debt	7,234	-1,727	1,128	2,818
Current Ratio x	1.2	1.5	1.5	1.5	Δ in LT debt	-126	126	0	-1,248
Quick Ratio x	0.2	0.5	0.5	0.5	Other financing C/F	0	0	0	0
Cash Ratio x	0.2	0.4	0.5	0.5	Cash from Financing	6,532	-1,371	429	1,011
Debt / Assets	33.9%	32.3%	27.8%	24.4%	Net Change in Cash	-572	1,238	1,978	3,149
Debt / Capital	53.8%	44.0%	39.9%	36.1%	Ending Cash Balance	3,177	4,416	6,394	9,543
Net Debt / Equity	65.1%	19.1%	1.0%	-12.5%					
Interest Coverage x	8.8	7.4	9.8	11.2					

Source: Company data, VCSC, * we assume MWG will cancel its FY2019 cash dividend.

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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%
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