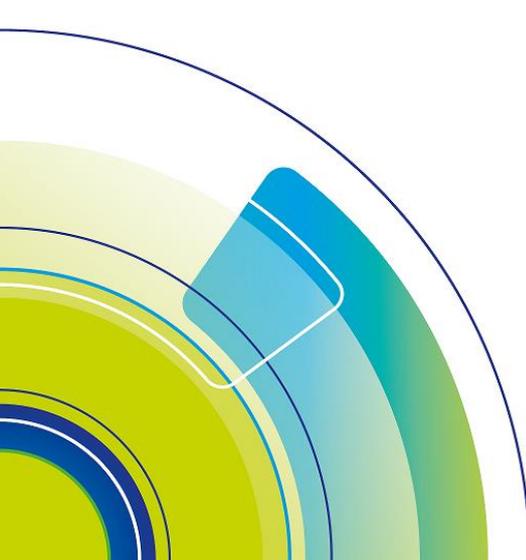




# MWG Update- BUY

March 20, 2020

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## Company Update

### Recommendation

**BUY**

HSX: MWG

Retail

### Target price (VND)

140,315

### Current price (VND)

75,600

### Expected share price return

85.6%

### Expected dividend yield

2.6%

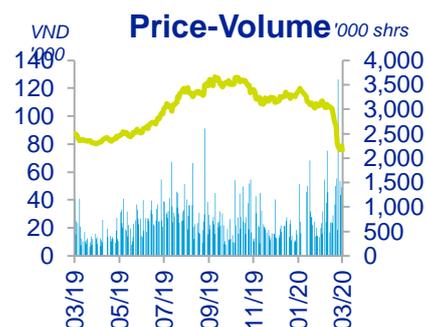
### Expected total return

88.2%

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-33.7	-27.6	-28.4	-10.1
Relative	-9.3	-8.2	-7.2	14.6

Source: Bloomberg



## Ownership

Retail World Ltd Co.	13.2%
Tri Tam Ltd Co.	9.9%
Vietnam Enterprise Inv. Ltd	4.4%

## Stock Statistics

19-Mar-20

### Bloomberg code

MWG VN

### 52-week range (VND)

71,600-129,500

### Shares O/S (m)

453

### Mkt cap (VND bn)

34,263

### Mkt cap (USD m)

1,470

### Foreign room left (%)

0.0

### Est. free float (%)

92.7

### 3m avg daily vol (shrs)

830,750

### VND/USD

23,310

### Index: VNIIndex / HNX

747.66/101.84

## MOBILE WORLD INVESTMENT CORP (MWG VN)

We reiterate our **BUY** recommendation on MWG despite downgrading target price to reflect potential slower growth this year due to the outbreak of Covid-19 epidemic.

MWG's 2019 audited business results reported 18.1% YoY growth in net revenue, to VND102,174bn, and 33.2% YoY growth in EAT, to VND3,836bn. The SG&A expenses to revenue ratio was 12.2% in 2019 (2018: 11.2%), while gross profit margin broadened to 19.1% from 17.7% in 2018. The expansion of product range, toward high-margin products under shop-in-shop model, has been one of reasons for the divergence between the top and bottom line growth as well as the widened gross margin.

Phones, tablets, laptops & accessories category accounted for 43% of the overall net revenue; consumer electronics products contributed 39.5%; fresh food & FMCGs contributed 10.5% and others (e.g watches, small appliances, sim, cards, services, etc) earned the rest. Watches, the new product line added in 2019, delivered about VND800bn of revenue, with presence in 253 stores and 430 thousand watches sold. MWG targets 500 shops selling watches this year; however, the probability of lower or delayed spending for this non-essential product amid Covid-19 epidemic will likely hinder watch revenue from doubling in 2020. We forecast 33% revenue growth for this item this year, much lower than the previous expectation.

By chain, **Thegioididong.com (TGDD)** reported a top line of ~VND33,207bn (~4% YoY, including the continued switch from mobile phone stores to consumer electronics stores), with 996 stores in operation at 2019-end. MWG has also been testing 17 low-cost mobile phone stores named **dienthoaiSIEURE.com**, targeting to gain more market share from the existing mom-and-pop shops. **DienmayXanh.com (DMX)** chain posted 22.4% net revenue growth to ~VND58,239bn, with 268 new stores (including those switched from mobile stores of ~30), bringing the number of stores to 1,018 at 2019-end. The company may not keep expanding this chain robustly given such a high number of stores. We assume 100 new stores for DMX in 2020 (inclusive of the switch from mobile phone stores to consumer electronics stores continues which we estimate at 20). As the mobile phone growth tends to flatten, we expect these chains' outlook should be underpinned by the consumer electronics segment combined with increasing contribution of new product lines added under shop-in-shop model.

	2018	2019	2020F	2021F	2022F
Net Sales (VNDbn)	86,516	102,174	116,588	140,428	165,978
Growth	30.4%	18.1%	14.1%	20.4%	18.2%
EBITDA (VNDbn)	5,351	6,706	8,101	9,794	11,374
EBITDA margin	6.2%	6.6%	6.9%	7.0%	6.9%
Net Profit (VNDbn)	2,879	3,834	4,403	5,456	6,482
Growth	30.5%	33.2%	14.8%	23.9%	18.8%
EPS (bonus-adjusted, VND)	6,672	8,661	9,715	11,689	13,482
Growth	24.3%	29.8%	12.2%	20.3%	15.3%
ROE	38.7%	36.3%	31.6%	30.2%	27.9%
ROA	11.3%	11.0%	10.3%	12.1%	13.7%
Net debt/EBITDA (times)	0.6	1.2	0.8	0.4	0.0
EV/EBITDA (times)	7.9	6.3	5.2	4.3	3.7
EV/Sales (times)	0.5	0.4	0.4	0.3	0.3
PER (times)	11.3	8.7	7.8	6.5	5.6
PBR (times)	3.6	2.8	2.2	1.7	1.4
DPS (VND)	1,500	1,500	2,000	2,000	2,000
Dividend yield	2.0%	2.0%	2.6%	2.6%	2.6%

**BachhoaXanh (BHX) chain** generated VND10,770bn (+152% YoY) of net sales, adding 10.5% to 2019 overall result, with 1,008 stores in HCMC and Southern and South-Central Coast provinces (43% located in HCMC). For 2020, most of new stores still focus on HCMC, Southeast and Mekong Delta regions. Further steps to the Northern region may take place after 2021. Fresh, chilled and frozen food together captured about 50% of BHX's sales (vs 40% in 2018).

Gross profit margin after spoilage and shrinkage was over 19% in 2019. MWG targets to improve this figure by 2-3 percentage points this year to cover distribution center costs. BHX has achieved the EBITDA break-even at the store level with a gross margin of 18% since December 2018. However, we project that BHX may take a few more years to cover the operating expenses of all stores, distribution centers and the G&A expenses at the company level. For 2020, we forecast BHX's number of new stores at 700 and top line at VND19,989bn (+85.6% YoY), enlarging BHX's contribution to MWG's overall net revenue to 17.1% for the whole year. Our projection for BHX's 2020 EAT margin is negative 2.1% (from an estimate of negative 4.3% in 2019 – actual figures not disclosed by the company).

For the 2020 business plan, MWG targets 20% YoY growth in net sales and 26% YoY growth in EAT. Mobile phones and consumer electronics retail businesses remain the company's main pillars. In the first two months of 2020, the company reported 18% YoY growth in net revenue and 16% YoY growth in EAT. In which, net revenue growth was 13% YoY in February compared with 21% YoY in January, implying the initial impacts from the Covid-19 epidemic while the peak season of Tet holiday was almost over. 2M2020 accumulated net revenue rose by 155% for BHX, 15% for DMX and unchanged for TGDD & DTSR chains.

Despite investors' concerns on probable influences of the Covid-19 epidemic on merchandise supply for stores, especially technology devices and consumer electronics, the company is confident that it has already fixed orders with suppliers for 1H2020 and the probability of supply interruption is low. However, on demand side, we predict that escalating movements of the epidemic since early March coupled with the government's recommendations and measures to control it may intensify people's caution, possibly lessening store visits. Meanwhile, the interruption in economic activities owing to the epidemic will likely cause negative effects on consumers' purchasing power as a result of declining income or uncertainty of future earnings. These factors may impede MWG from completing 100% of its 2020 full-year plan. Nevertheless, we are not so pessimistic given expectations that the epidemic could ease from 2H2020 thanks to the government's strong efforts; part of consumers' demand can be met through online shopping activity; and consumption for food and essential products is still high. MWG aims to boost omni-channel sales and focus on high-demand products to support revenue growth amid the epidemic. According to a survey from Nielsen in Feb 2020 on Vietnamese consumers' behaviours in response to Covid-19 impacts, 65% of consumers contributed to the survey said that they have curbed shopping for clothes and accessories but spending was unchanged or even more for food stockpiling. Nielsen's survey also reveals that the epidemic has affected strongly and significantly to offline shopping activities of 46% of consumers contributed to the survey. The figure is only 17% for online shopping. In order to support earnings, MWG aims to control costs, such as negotiating to reduce rental fees for store locations, enhancing labor productivity, etc. Accordingly, we forecast

MWG may complete 95% of its revenue target and 91% of EAT target, equivalent to 14.1% and 14.8% YoY growth, respectively.

Regarding surging inventories at 2019-end (vs 9M2019) – mostly in consumer electronics, handsets, home appliances, foods and accessories - the company explained it as a preparation for Tet holiday's sales season, which took place right in January 2020 instead of February or later in the previous years. Before viewing it as a negative implication, we think more observations on the company's coming results are needed.

Combining DCF and EV/EBITDA comparison methods, we value the stock at VND140k/share, equivalent to a total return of 88.2% at the end of the year. **BUY.**

<b>MWG FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>75,600</b>	<b>Target (VND):</b>	<b>140,315</b>	<b>Mkt cap (VND bn):</b>	<b>34,263</b>
<b>(VND bn except where stated)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Total Net Sales</b>	<b>66,340</b>	<b>86,516</b>	<b>102,174</b>	<b>116,588</b>	<b>140,428</b>	<b>165,978</b>
<i>Sales growth</i>	<i>48.7%</i>	<i>30.4%</i>	<i>18.1%</i>	<i>14.1%</i>	<i>20.4%</i>	<i>18.2%</i>
TGDD+DTSR	34,708	34,607	33,207	32,157	32,060	32,313
DMX	30,245	47,584	58,239	64,442	77,287	90,139
BHX	1,387	4,272	10,770	19,989	31,082	43,525
CoGS ex-dep'n	54,508	70,001	81,244	90,950	108,576	127,433
Selling expenses	7,017	9,660	12,437	15,474	19,551	24,187
G&A expenses	1,345	1,762	2,074	2,366	2,850	3,369
Financial revenues	215	257	288	304	344	385
Financial expenses	1	0	2	0	0	0
<b>EBITDA</b>	<b>3,683</b>	<b>5,351</b>	<b>6,706</b>	<b>8,101</b>	<b>9,794</b>	<b>11,374</b>
<i>EBITDA margin</i>	<i>5.6%</i>	<i>6.2%</i>	<i>6.6%</i>	<i>6.9%</i>	<i>7.0%</i>	<i>6.9%</i>
Depreciation	690	1,223	1,443	1,779	2,164	2,487
<b>Operating profit</b>	<b>2,993</b>	<b>4,128</b>	<b>5,263</b>	<b>6,322</b>	<b>7,630</b>	<b>8,887</b>
<i>Operating profit margin</i>	<i>4.5%</i>	<i>4.8%</i>	<i>5.2%</i>	<i>5.4%</i>	<i>5.4%</i>	<i>5.4%</i>
Other profits/losses	14	12	19	8	8	8
Profits/Losses from associates	-	(2)	(3)	(4)	(4)	(4)
Net interest expense	198	352	225	518	426	320
<i>as % of avg net debt</i>	<i>5.5%</i>	<i>10.6%</i>	<i>4.0%</i>	<i>7.3%</i>	<i>8.0%</i>	<i>13.2%</i>
<i>Interest cover (x)</i>	<i>15.1</i>	<i>11.7</i>	<i>23.4</i>	<i>12.2</i>	<i>17.9</i>	<i>27.8</i>
Tax	602	906	1,217	1,404	1,750	2,086
<i>Effective tax rate</i>	<i>21.5%</i>	<i>24.0%</i>	<i>24.2%</i>	<i>24.2%</i>	<i>24.3%</i>	<i>24.4%</i>
Minority interest	1	2	2	2	3	3
<b>Attributable net profit</b>	<b>2,206</b>	<b>2,879</b>	<b>3,834</b>	<b>4,403</b>	<b>5,456</b>	<b>6,482</b>
Cash earnings	2,895	4,102	5,277	6,182	7,620	8,969
Total number of shares	316,990,000	443,496,178	443,546,178	453,209,870	466,806,166	480,810,351
<b>EPS (VND) (after treasury shares)</b>	<b>7,155</b>	<b>6,672</b>	<b>8,661</b>	<b>9,715</b>	<b>11,689</b>	<b>13,482</b>
Bonus factor (x)	0.75	1.00	1.00	1.00	1.00	1.00
<b>Adjusted EPS (VND)</b>	<b>5,367</b>	<b>6,672</b>	<b>8,661</b>	<b>9,715</b>	<b>11,689</b>	<b>13,482</b>
<i>EPS growth</i>	<i>39.6%</i>	<i>24.3%</i>	<i>29.8%</i>	<i>12.2%</i>	<i>20.3%</i>	<i>15.3%</i>

KEY CASHFLOW AND BS ITEMS	2017	2018	2019	2020F	2021F	2022F
Increase in working capital	148	2,190	5,254	1,498	2,664	2,839
Capex	2,065	1,495	3,066	2,280	2,160	1,560
Change in investment in affiliates	0	60	-3	-3	-2	-1
Other cashflow items	-143	-426	-1,038	0	0	0
<b>Free cash flow</b>	<b>539</b>	<b>-69</b>	<b>-4,077</b>	<b>2,406</b>	<b>2,798</b>	<b>4,571</b>
Share issues	92	703	86	97	136	140
Dividends paid	232	486	665	906	934	962
Increase in net debt	-400	-148	4,657	-1,597	-2,001	-3,750
<b>Net debt, end of year</b>	<b>3,393</b>	<b>3,244</b>	<b>7,901</b>	<b>6,304</b>	<b>4,304</b>	<b>554</b>
<b>Shareholders' equity</b>	<b>5,906</b>	<b>8,977</b>	<b>12,136</b>	<b>15,729</b>	<b>20,388</b>	<b>26,048</b>
BVPS (VND)	19,157	20,806	27,414	34,706	43,675	54,176
<i>Net debt / equity</i>	<i>57.4%</i>	<i>36.1%</i>	<i>65.1%</i>	<i>40.1%</i>	<i>21.1%</i>	<i>2.1%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.9</i>	<i>0.6</i>	<i>1.2</i>	<i>0.8</i>	<i>0.4</i>	<i>0.0</i>
<b>Total assets</b>	<b>22,823</b>	<b>28,123</b>	<b>41,708</b>	<b>43,705</b>	<b>46,363</b>	<b>48,274</b>

KEY RETURN AND VALUATION RATIOS	2017	2018	2019	2020F	2021F	2022F
<i>ROE</i>	<i>45.3%</i>	<i>38.7%</i>	<i>36.3%</i>	<i>31.6%</i>	<i>30.2%</i>	<i>27.9%</i>
<i>ROA</i>	<i>11.7%</i>	<i>11.3%</i>	<i>11.0%</i>	<i>10.3%</i>	<i>12.1%</i>	<i>13.7%</i>
<i>ROIC</i>	<i>27.9%</i>	<i>29.4%</i>	<i>24.9%</i>	<i>22.9%</i>	<i>24.8%</i>	<i>26.3%</i>
<i>WACC</i>	<i>11.1%</i>	<i>12.4%</i>	<i>8.4%</i>	<i>10.1%</i>	<i>10.9%</i>	<i>11.8%</i>
<i>EVA</i>	<i>16.8%</i>	<i>17.0%</i>	<i>16.5%</i>	<i>12.8%</i>	<i>13.9%</i>	<i>14.5%</i>
<i>PER (x)</i>	<i>14.1</i>	<i>11.3</i>	<i>8.7</i>	<i>7.8</i>	<i>6.5</i>	<i>5.6</i>
<i>EV/EBITDA (x)</i>	<i>11.4</i>	<i>7.9</i>	<i>6.3</i>	<i>5.2</i>	<i>4.3</i>	<i>3.7</i>
<i>EV/FCF (x)</i>	<i>78.2</i>	<i>-612.3</i>	<i>-10.3</i>	<i>17.5</i>	<i>15.1</i>	<i>9.2</i>
<i>PBR (x)</i>	<i>3.9</i>	<i>3.6</i>	<i>2.8</i>	<i>2.2</i>	<i>1.7</i>	<i>1.4</i>
<i>PSR (x)</i>	<i>0.5</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>	<i>0.2</i>	<i>0.2</i>
<i>EV/sales (x)</i>	<i>0.6</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.5</i>	<i>0.5</i>	<i>0.4</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>
<i>Dividend yield</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.0%</i>	<i>2.6%</i>	<i>2.6%</i>	<i>2.6%</i>

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### Our Recommendation System

**BUY:** where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

**HOLD:** where we believe it will be -15% to 15%.

**SELL:** where we believe it will be lower than -15%.

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