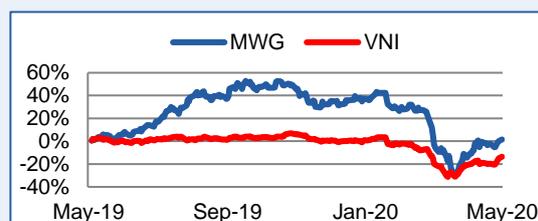


Industry:	Retailing		2019	2020F	2021F	2022F
Report Date:	May 11, 2020	Rev Growth	18.1%	4.2%	25.8%	16.3%
Current Price:	VND85,000	EPS Growth	29.6%	-7.5%	41.1%	32.3%
Target Price:	VND125,800	GPM	19.1%	21.1%	21.8%	22.7%
Upside to TP:	+48.0%	NPM	3.8%	3.4%	3.9%	4.5%
Dividend Yield:	+0.0% ⁽¹⁾	EV/EBITDA	6.7x	6.4x	4.9x	4.x
TSR:	+48.0%	P/Op CF	NM	5.3x	5.9x	5.7x
		P/E	9.8x	10.6x	7.5x	5.7x



Market Cap:	USD1.7bn		MWG	VNI	
Foreign Room:	USD0	P/E (ttm)	9.7x	13.6x	
ADTV30D:	USD5.2mn	P/B (curr)	2.9x	1.8x	
State Ownership:	0%	Net D/E	34.0%	N/A	
Outstanding Shares:	452.9mn	ROE	30.8%	13.7%	
Fully Diluted Shares:	452.9mn	ROA	10.0%	2.4%	
3-yr PEG	0.4	⁽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.

Dao Nguyen
Manager
dao.nguyen@vcsc.com.vn
+848 3914 3588 ext. 185

Phap Dang, CFA
Associate Director
phap.dang@vcsc.com.vn
+848 3914 3588 ext. 143

Management cautious about consumer spending

MWG held calls with analysts and investors today regarding its Q1 2020 results and other business updates. As expected, revenue from TGDD (mobile) and DMX (consumer electronics/CE) slumped in April due to social distancing measures imposed in Vietnam during the month. On the other hand, sales/store of BHX (grocery) eased April vs March as the boost from consumers stocking up amid the COVID-19 pandemic subsided. While management has seen positive sales improvements at TGDD and DMX since Vietnam relaxed its social distancing measures in late April, it believes this could be driven by pent-up demand as it remains cautious about future domestic consumer spending given the challenging global macro outlook, which should affect Vietnam's economy. Preliminary revised guidance for 2020 reflects this caution.

Overall, management's cautious view on consumer spending aligns with ours. Below are our more detailed discussions.

1. Preliminary April 2020 results

Total revenue nosedived ~20% YoY, in which the combined revenue of TGDD and DMX plummeted ~30% YoY. Meanwhile, the company's April 2020 earnings should drop by no more than 50% YoY, per the Chairman.

2. TGDD and DMX

2.1. Q1 and April 2020 results

- Same-store-sales (SSS) of TGDD and DMX edged down by 4% YoY in Q1 2020.
- Due to the escalation of COVID-19, both the mobile phone and consumer electronics markets contracted in Q1 2020. However, MWG continued to outperform the industry with positive revenue growth in most categories — except for mobile in which MWG recorded a smaller decline vs the overall market.
- Laptop was the fastest-growing category in Q1 2020 thanks to increased demand from people working and studying from home. MWG's laptop revenue surged 90% YoY in Q1 2020 vs 30% of the overall market. In 4M 2020, MWG's laptop sales reached more than 100,000 units. For full-year 2020, management targets to sell ~300,000 units and generate revenue of ~VND4tn (USD172mn), implying ~50% YoY growth and a market share of 30%-35%.

YoY revenue growth – Q1 2020	MWG	Overall market
Mobile phones	-1.7%	-3.4%
Consumer electronics	+2%	-13%
Major domestic appliances	+14%	-3%
Small domestic appliances	+17%	-9%

Source: MWG

- Due to the Government's social distancing measures imposed in April, MWG temporarily closed more than 600 TGDD and DMX stores from April 1 to April 15 and ~300 stores from April 16 to April 25. Since April 26, almost all of MWG's stores have been operating.

- Online sales reached 8% of TGDD and DMX's revenue in Q1 2020, but this figure stepped up to 12% in March 2020 and ~20% in April 2020. This step-up in online sales contribution — especially in April — was partly driven by increased online orders in areas where MWG's stores were temporarily shut down. MWG aims to maintain its online sales contribution to TGDD and DMX's 2020 revenue at 12%-13%, which is broadly in line with our expectation.

- Up to now, MWG has approached almost all of its landlords to negotiate rent reductions. Per the Chairman, in general, MWG successfully negotiated for reductions of 10% to 40% that would last from three to 12 months. For cases where landlords refused to offer discounts, MWG will explore options to relocate its stores to better and cheaper locations. Overall, we estimate that MWG's actual rent reductions are better than our current projection of 9%-15% reductions, on average, over April-July 2020.

2.2. 2020 outlook

- As we mentioned above, management has seen sales improvements month-to-date in May 2020 compared to March-April 2020. The Chairman attributed such improvements partly to Vietnamese consumers' high saving rates as well as their pent-up demand. He expects the negative impact from the ongoing global economic crisis on Vietnam's consumer spending will be more pronounced in the next few quarters.

- On a category basis, management thinks growth should be moderate for the consumer electronics category (which mostly includes televisions) given a lack of big sporting events in 2020. On the other hand, management is optimistic about air conditioners, refrigerators, fans and washing machines. In 2020, MWG targets to sell more than one million air conditioners, generating revenue of VND8tn-10tn (USD343mn-429mn, +50%-60% YoY). Since the last week of April, and so far in May (the beginning of the hot season in Vietnam), MWG has ramped up sales promotions for these categories.

- Management plans to shore up new store openings for DMX as well as accelerate the conversions of TGDD stores to mini-DMX in the remaining months of 2020. By YE2020, the company aims to have 1,350 DMX stores and 800 TGDD stores vs 1,030 and 1,009 as of Q1 2020, respectively. These planned store conversions are more aggressive than our expectation.

3. BHX

3.1. Q1 and April 2020 results

- In Q1 2020, BHX's SSSG was 28%.

- Sales/store normalized to VND1.4bn (USD60,000) in April 2020 after reaching VND1.7bn (USD73,000) in March. Per MWG, fresh produce sales continued to perform well while FMCG sales dropped MoM following consumers stocking up strongly in March 2020.

- GPM improved to ~21% in Q1 2020 vs ~20% in Q4 2019 mostly thanks to a reduced spoilage rate. Thanks to elevated sales, in March 2020, BHX's EBITDA was positive after distribution center (DC) costs. Per MWG, had GPM touched 23% in March 2020, BHX would have reached the breakeven point after covering all store expenses and DC costs (including depreciation) — but before G&A expenses. We note these numbers are based on March 2020's abnormally high sales/store.

- In March 2020, around 90% of BHX stores achieved or surpassed the store-level EBITDA-breakeven point.
- BHX's online orders surged by ~50%/100%/150% in January/February/March 2020 vs 2019's average as consumers stepped up online shopping during the COVID-19 outbreak in Vietnam.

3.2. 2020 outlook

- In 2020, MWG plans to open 700-800 new BHX stores that will focus on southern areas (including the South, South-Central Coast and Central Highlands). BHX's store expansion now will be concentrated locally to ensure efficiency before it expands to other surrounding regions.
- Management targets BHX will reach EBITDA-breakeven — before counting G&A expenses — by YE2020.
- Currently, BHX is operating six DCs and two supporting warehouses against a total store count of ~1,300. As it continues to open new stores in provinces outside of HCMC, BHX plans to construct smaller DCs to serve these provinces to ensure a high utilization of the DCs. Each of these small DCs can serve 50-70 stores, compared to 120-200 stores of the existing DCs.
- BHX is experimenting prioritization of promotion budget for new areas while scaling back on well-established locations that have already achieved satisfactory sales/store and customer awareness.

4. Preliminary revised guidance for 2020 and ESOP

- Management plans to propose revised 2020 business targets to the BOD. The Chairman said that in 2020, the company would try to achieve at least flat revenue vs 2019 and at least 80% of 2019 NPAT.
- Along with the above potential 2020 guidance revisions, management also plans to propose changes to its ESOP program based on FY2020 performance. Unlike past programs in which the number of ESOP shares were tied to the company's earnings growth rate, for FY2020, management wants to tie the amount of ESOP shares to the company's achievement of its earnings guidance.

5. Others

- FY2019 cash dividend: Previously, management considered cancelling cash dividends to preserve cash amid COVID-19. Now, as the COVID-19 situation has improved in Vietnam, the Chairman said management is reevaluating this decision.
- MWG aims to launch a loyalty program that encompasses all of its chains in Q4 2020. Further details are not currently available.

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Stock ratings are set based on projected total shareholder return (TSR), defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and are not related to market performance.

Equity rating key	Definition
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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%
SELL	If the projected TSR is -20% or lower
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Contacts

Corporate

www.vcsc.com.vn

Head Office

Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Transaction Office

10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Banks, Securities and Insurance

Long Ngo, Associate Director, ext 123

- Nghia Dien, Senior Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Consumer and Pharma

Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Ha Dao, Analyst, ext 194
- Vinh Bui, Analyst, ext 191

Real Estate, Construction and Materials

Hong Luu, Senior Manager, ext 120

- Vy Nguyen, Senior Analyst, ext 147
- Duc Pham, Analyst, ext 174

Retail Client Research

Duc Vu, Senior Manager, ext 363

- Huy Nguyen, Analyst, ext 173
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals

Dung Nguyen

+84 28 3914 3588, ext 136
dung.nguyen@vcsc.com.vn

Hanoi Branch

109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office

236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Alastair Macdonald, Head of Research, ext 105

alastair.macdonald@vcsc.com.vn

Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Oil & Gas and Power

Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Nghia Le, Analyst, ext 181
- Duc Le, Analyst, ext 196

Industrials and Transportation

- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Retail & Corporate Brokerage

Ho Chi Minh & Hanoi

Quynh Chau

+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn