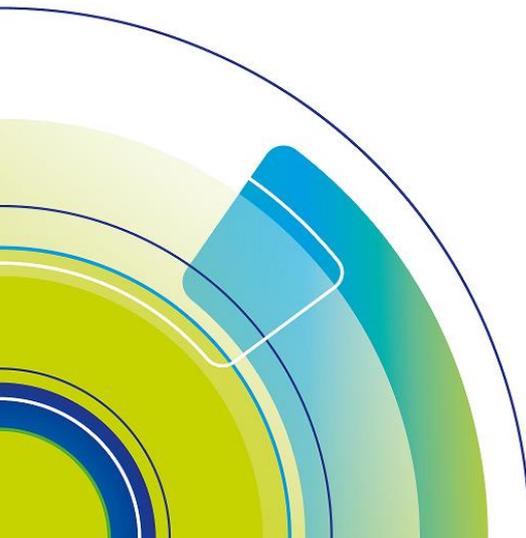




# MWG Update- BUY

June 23, 2020

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## Ms. Chi Luong

(+84 28) 3823 4159 - Ext: 327

[chihtk@acbs.com.vn](mailto:chihtk@acbs.com.vn)

## Company Update

Recommendation

**BUY**

HSX: MWG

Retail

Target price (VND)

**120,416**

Current price (VND)

**85,900**

Expected share price return

40.2%

Expected dividend yield

1.7%

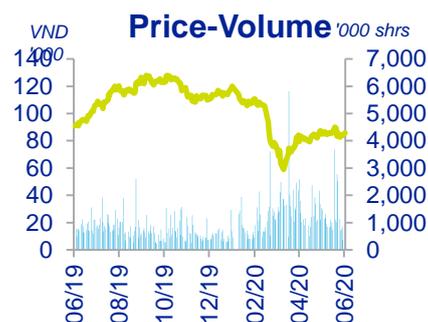
Expected total return

**41.9%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-24.4	1.1	11.3	-5.6
Relative	-15.4	-1.1	-11.8	2.1

Source: Bloomberg



## Ownership

Retail World Ltd Co.	13.2%
Tri Tam Ltd Co.	9.9%
Vietnam Enterprise Inv. Ltd	7.4%

## Stock Statistics

22-Jun-20

Bloomberg code	MWG VN
52-week range (VND)	56,300-129,500
Shares O/S (m)	453
Mkt cap (VND bn)	39,033
Mkt cap (USD m)	1,675
Foreign room left (%)	0.0
Est. free float (%)	89.1
3m avg daily vol (shrs)	1,503,462
VND/USD	23,300
Index: VNIndex / HNX	871.50/115.67

## MOBILE WORLD INVESTMENT CORP (MWG VN)

Despite COVID-19's impacts on the company's business this year, the expectation of BHX's net profit contribution within a few years is a spotlight. Maintain **BUY**.

COVID-19's impacts have been felt much clearer in MWG's business performance for the recent months, primarily due to the temporary interruption in some thegioidong.com (TGDD) and dienmayxanh.com (DMX) stores' operation in April (though online sales retained). The company had to close aggregately 600+ TGDD and DMX stores (i.e approx. 30% of their store-count) from Apr 1<sup>st</sup>-15<sup>th</sup> and maintained the closure of over 300 stores from Apr 16<sup>th</sup>-25<sup>th</sup> as per the government's requirement. Its net revenue and EAT slumped by 14% and 45% YoY in April, despite efforts in cost control. Of which, TGDD and DMX's combined revenue plummeted by nearly 30% YoY.

Recovering after the end of the social distancing stage, MWG announced 19% and 4% YoY growth in net revenue and EAT, respectively, with surging demand in DMX chain, especially for air-conditioners (whose volume doubled YoY amid hot weather), in May. Nevertheless, the company's management still holds a conservative view about consumer demand in the coming time owing to COVID-19's impacts on their income. On a cumulative basis, MWG posted 11% and -4% YoY growth in net revenue and EAT, respectively, in 5M2020; of which, online revenue accounted for 9%, compared to 7% in 1Q2020.

MWG's performance	April 2020	May 2020	5M2020
Net revenue (VND bn)	7,834	10,305	47,492
YoY growth	-14%	19%	11%
TGDD's revenue growth			-14.2%
DMX's revenue growth			8.3%
BHX's revenue growth			149.5%
EAT (VND bn)	209	382	1,723
YoY growth	-45%	4%	-4%

Source: MWG; ACBS collected

In addition to positive growth of small appliances and white goods, laptops' 5M2020 sales more than doubled YoY (fostered by high demand for working from home in light of the epidemic), while mobile phones continued on a downtrend in this period (the company did not disclose detailed numbers). MWG also completed adding watches to 500 stores as planned earlier; however, the probability of lower or delayed spending

	2018	2019	2020F	2021F	2022F
Net Sales (VNDbn)	86,516	102,174	112,096	128,198	147,944
Growth	30.4%	18.1%	9.7%	14.4%	15.4%
EBITDA (VNDbn)	5,351	6,706	7,443	8,986	10,394
EBITDA margin	6.2%	6.6%	6.6%	7.0%	7.0%
Net Profit (VNDbn)	2,879	3,834	3,855	4,694	5,572
Growth	30.5%	33.2%	0.5%	21.7%	18.7%
EPS (bonus-adjusted, VND)	6,672	8,661	8,514	10,063	11,597
Growth	24.3%	29.8%	-1.7%	18.2%	15.2%
ROE	38.7%	36.3%	28.0%	26.9%	25.3%
ROA	11.3%	11.0%	9.0%	10.5%	12.0%
Net debt/EBITDA (times)	0.6	1.2	0.9	0.5	0.1
EV/EBITDA (times)	8.7	7.0	6.3	5.2	4.5
EV/Sales (times)	0.5	0.5	0.4	0.4	0.3
PER (times)	12.9	9.9	10.1	8.5	7.4
PBR (times)	4.1	3.1	2.5	2.1	1.7
DPS (VND)	1,500	1,500	1,500	1,500	1,500
Dividend yield	1.7%	1.7%	1.7%	1.7%	1.7%

for this non-essential product amid COVID-19 epidemic will likely weigh down its revenue growth this year and perhaps next year.

As of May 2020, TGDD chain had 998 stores in operation. DMX opened an additional 20 stores, bringing its total number of stores to 1,038 as of May. MWG estimates to reach 1,350 DMX – 7% higher than our projection - and 800 TGDD stores at the year-end. The conversion from TGDD to DMX stores and improvements in some DMX stores' layout will continue. 2020 will see rapid store expansion in Cambodia, encouraged by good performances of the first consumer electronics store opened in 2019 and three more in early 2020 (with revenue per store of VND1.2-1.5bn per month at present). MWG plans to achieve 50 consumer electronics stores covering the entire country at the end of this year, making the company the largest consumer electronics retailer in Cambodia.

In contrast to TGDD and DMX, the grocery chain **BachhoaXanh (BHX)** performed well amid the epidemic. Net revenue grew by 149.5% YoY, accounting for 16.5% to MWG's 5M overall result. It witnessed its highest-ever monthly revenue of VND1.65bn per store in March, on the back of stockpiling demand before the social distancing stage. Nevertheless, this level may take more time to become a new normal. BHX's average sales per store returned to nearly VND1.4bn in April and VND1.2bn in May, with an impressive number of new stores of 131 in May. We forecast BHX's 2020 top line at VND19,981bn (+85.5% YoY), contributing 17.8% to MWG's overall net revenue.

BHX is now present in 24 provinces/cities, with 1,365 stores in operation as of May (2019-end: 1,008). Around 700-800 new stores are planned for 2020 and the similar number may be set for 2021. However, once reaching the presence in 24-25 provinces ranging from Central region back to the South of Vietnam, BHX may pause its geographic expansion to optimize the store network as well as distribution centers and enhance revenue per store, aiming to make net profit from 2021 before going farther to other regions. The substantial improvement in BHX's gross margin (after wastage & spoilage ratio) from over 21% in March to approximately 25% in May – thanks to increasing scale, continued negotiations with suppliers for better terms, and wastage & spoilage control, etc - have convinced us to share the same expectation with the company. According to MWG, this gross margin has allowed BHX to generate a positive EBITDA (EBITDA>0) at stores and DCs level, though monthly revenue per store was no longer at an abnormal high-level like March 2020. BHX is approaching the target of covering depreciation expenses for all stores and DCs by this year (not including general administration costs).

In the company's recent annual general meeting, MWG shared its future orientations including i) continuing to expand BHX store network and speeding up BHX online sales (fostered by additional investment in distribution centers), ii) bringing TGDD and DMX chains to other countries besides Cambodia, iii) creating a big app with convenient features connecting all of the company's retail chains with customers (details have not been disclosed), iv) cooperating with farmers to produce safe agricultural products (called 4KFarm), starting with vegetables. 4KFarm project is to serve BHX network at first and can be distributed widely to other retailers once the scale is large enough. MWG will support farmers in terms of technology, investment in greenhouse (membranes and nets are imported from Israel), irrigation systems and others to come up with products that comply with 4KFarm's requirements and standards - no growth hormone, no preservatives, no GMO seed, no pesticide – although the output volume can be lower than farmers' current farming practice. 4KFarm signs 3-to-5-year

production and procurement contracts with farmers and ensure to buy 100% products grown in greenhouses. The first 4K-branded products have just been introduced on Bachhoaxanh.com website. Investment for this project was not mentioned.

For the whole year 2020, we almost share the company's revised top line target considering potentially weak demand for non-essential products due to COVID-19 epidemic's impacts. Regarding bottom line, we expect 2H2020 profit margins should recover better than those in the early months of the year, driven by assumptions that Vietnam continues to control the epidemic well so that stores should maintain their normal operation. In sum, we project the company's net revenue at VND112,096 (+9.7% YoY) and EAT at VND3,857bn (+0.5% YoY).

MWG's 1Q2020 financial statement has showed improvements in inventories (which concerned investors for their surge in late 2019 (vs 9M2019) as a preparation for Tet holiday's sales season), short-term debts and operating cash flow.

Combining DCF and EV/EBITDA comparison methods, we value the stock at VND120k/share, equivalent to a total return of 41.9%.

<b>MWG FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>85,900</b>	<b>Target (VND):</b>	<b>120,416</b>	<b>Mkt cap (VND bn):</b>	<b>39,033</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>112,096</b>	<b>128,198</b>	<b>147,944</b>
<i>Sales growth</i>	<i>48.7%</i>	<i>30.4%</i>	<i>18.1%</i>	<i>9.7%</i>	<i>14.4%</i>	<i>15.4%</i>
TGDD+DTSR	34,708	34,607	33,207	28,671	26,926	25,750
DMX	30,245	47,584	58,239	63,444	70,540	81,714
BHX	1,387	4,272	10,770	19,981	30,731	40,480
CoGS ex-dep'n	54,508	70,001	81,244	86,612	97,978	112,438
Selling expenses	7,017	9,660	12,437	15,439	18,938	22,447
G&A expenses	1,345	1,762	2,074	2,892	2,602	3,003
Financial revenues	215	257	288	290	307	338
Financial expenses	1	0	2	0	0	0
<b>EBITDA</b>	<b>3,683</b>	<b>5,351</b>	<b>6,706</b>	<b>7,443</b>	<b>8,986</b>	<b>10,394</b>
<i>EBITDA margin</i>	<i>5.6%</i>	<i>6.2%</i>	<i>6.6%</i>	<i>6.6%</i>	<i>7.0%</i>	<i>7.0%</i>
Depreciation	690	1,223	1,443	1,849	2,342	2,707
<b>Operating profit</b>	<b>2,993</b>	<b>4,128</b>	<b>5,263</b>	<b>5,594</b>	<b>6,644</b>	<b>7,687</b>
<i>Operating profit margin</i>	<i>4.5%</i>	<i>4.8%</i>	<i>5.2%</i>	<i>5.0%</i>	<i>5.2%</i>	<i>5.2%</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	453	330
<i>as % of avg net debt</i>	<i>5.5%</i>	<i>10.6%</i>	<i>4.0%</i>	<i>7.1%</i>	<i>7.9%</i>	<i>12.3%</i>
<i>Interest cover (x)</i>	<i>15.1</i>	<i>11.7</i>	<i>23.4</i>	<i>10.8</i>	<i>14.7</i>	<i>23.3</i>
Tax	602	906	1,217	1,224	1,499	1,787
<i>Effective tax rate</i>	<i>21.5%</i>	<i>24.0%</i>	<i>24.2%</i>	<i>24.1%</i>	<i>24.2%</i>	<i>24.3%</i>
Minority interest	1	2	2	2	2	3
<b>Attributable net profit</b>	<b>2,206</b>	<b>2,879</b>	<b>3,834</b>	<b>3,855</b>	<b>4,694</b>	<b>5,572</b>
Cash earnings	2,895	4,102	5,277	5,705	7,036	8,278
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>8,514</b>	<b>10,063</b>	<b>11,597</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>8,514</b>	<b>10,063</b>	<b>11,597</b>
<i>EPS growth</i>	<i>39.6%</i>	<i>24.3%</i>	<i>29.8%</i>	<i>-1.7%</i>	<i>18.2%</i>	<i>15.2%</i>

KEY CASHFLOW AND BS ITEMS	2017	2018	2019	2020F	2021F	2022F
Increase in working capital	148	2,190	5,254	880	1,759	2,194
Capex	2,065	1,495	3,066	3,120	2,580	1,595
Change in investment in affiliates	0	60	-3	-3	-2	-1
Other cashflow items	-143	-426	-1,038	-	-	-
<b>Free cash flow</b>	<b>539</b>	<b>-69</b>	<b>-4,077</b>	<b>1,707</b>	<b>2,699</b>	<b>4,490</b>
Share issues	92	703	86	97	136	140
Dividends paid	232	486	665	680	700	721
Increase in net debt	-400	-148	4,657	-1,124	-2,135	-3,909
<b>Net debt, end of year</b>	<b>3,393</b>	<b>3,244</b>	<b>7,901</b>	<b>6,777</b>	<b>4,642</b>	<b>734</b>
<b>Shareholders' equity</b>	<b>5,906</b>	<b>8,977</b>	<b>12,136</b>	<b>15,408</b>	<b>19,537</b>	<b>24,528</b>
BVPS (VND)	19,157	20,806	27,414	34,027	41,888	51,055
<i>Net debt / equity</i>	<i>57.4%</i>	<i>36.1%</i>	<i>65.1%</i>	<i>44.0%</i>	<i>23.8%</i>	<i>3.0%</i>
<i>Net debt / EBITDA (x)</i>	<i>0.9</i>	<i>0.6</i>	<i>1.2</i>	<i>0.9</i>	<i>0.5</i>	<i>0.1</i>
<b>Total assets</b>	<b>22,823</b>	<b>28,123</b>	<b>41,708</b>	<b>43,856</b>	<b>45,851</b>	<b>46,933</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>28.0%</i>	<i>26.9%</i>	<i>25.3%</i>
<i>ROA</i>	<i>11.7%</i>	<i>11.3%</i>	<i>11.0%</i>	<i>9.0%</i>	<i>10.5%</i>	<i>12.0%</i>
<i>ROIC</i>	<i>27.9%</i>	<i>29.4%</i>	<i>24.9%</i>	<i>20.2%</i>	<i>21.8%</i>	<i>23.6%</i>
<i>WACC</i>	<i>11.1%</i>	<i>11.7%</i>	<i>9.1%</i>	<i>10.7%</i>	<i>11.6%</i>	<i>12.8%</i>
<i>EVA</i>	<i>16.8%</i>	<i>17.6%</i>	<i>15.8%</i>	<i>9.5%</i>	<i>10.2%</i>	<i>10.8%</i>
<i>PER (x)</i>	<i>16.0</i>	<i>12.9</i>	<i>9.9</i>	<i>10.1</i>	<i>8.5</i>	<i>7.4</i>
<i>EV/EBITDA (x)</i>	<i>12.7</i>	<i>8.7</i>	<i>7.0</i>	<i>6.3</i>	<i>5.2</i>	<i>4.5</i>
<i>EV/FCF (x)</i>	<i>86.8</i>	<i>-679.6</i>	<i>-11.5</i>	<i>27.4</i>	<i>17.3</i>	<i>10.4</i>
<i>PBR (x)</i>	<i>4.5</i>	<i>4.1</i>	<i>3.1</i>	<i>2.5</i>	<i>2.1</i>	<i>1.7</i>
<i>PSR (x)</i>	<i>0.6</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>	<i>0.3</i>
<i>EV/sales (x)</i>	<i>0.7</i>	<i>0.5</i>	<i>0.5</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.5</i>	<i>0.7</i>	<i>0.6</i>	<i>1.0</i>	<i>0.5</i>	<i>0.5</i>
<i>Dividend yield</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.7%</i>	<i>1.7%</i>

## CONTACTS

### Ho Chi Minh City Head Office

41, Mac Dinh Chi, Dist. 1, Ho Chi Minh City

Tel: (+84 28) 3823 4159

Fax: (+84 28) 3823 5060

### Hanoi Office

10 Phan Chu Trinh, HoanKiem Dist., Ha Noi

Tel: (+84 4) 3942 9395

Fax: (+84 4)3942 9407

## RESEARCH DEPARTMENT

### Associate Director

#### Giao Nguyen

(+84 28) 3823 4159 (x250)

[giaonbt@acbs.com.vn](mailto:giaonbt@acbs.com.vn)

#### Associate – Consumer-related, Technology

##### Chi Luong

(+84 28) 3823 4159 (x327)

[chiltk@acbs.com.vn](mailto:chiltk@acbs.com.vn)

#### Associate– Property

##### Truc Pham

(+84 28) 3823 4159 (x303)

[trucptt@acbs.com.vn](mailto:trucptt@acbs.com.vn)

#### Associate – Consumer-related, Media

##### Trung Tran

(+84 28) 3823 4159 (x351)

[trungtn@acbs.com.vn](mailto:trungtn@acbs.com.vn)

#### Associate – Oil & Gas

##### Hung Phan

(+84 28) 3823 4159 (x354)

[hungpv@acbs.com.vn](mailto:hungpv@acbs.com.vn)

#### Associate – Industrials

##### Huy Huynh

(+84 28) 3823 4159 (x325)

[huyha@acbs.com.vn](mailto:huyha@acbs.com.vn)

#### Analyst – Industrials

##### Phuc Tran

(+84 28) 3823 4159 (x325)

[phuctta@acbs.com.vn](mailto:phuctta@acbs.com.vn)

#### Analyst – Derivatives

##### Minh Trinh Viet

(+84 28) 3823 4159 (x352)

[minhtvh@acbs.com.vn](mailto:minhtvh@acbs.com.vn)

#### Analyst – Technical

##### Phuoc Luong

(+84 28) 3823 4159 (x250)

[phuocld@acbs.com.vn](mailto:phuocld@acbs.com.vn)

## INSTITUTIONAL CLIENT DIVISION

### Director - Head of Institutional Client

#### Tyler Cheung

(+84 28) 54 043 070

[tyler@acbs.com.vn](mailto:tyler@acbs.com.vn)

#### Customer Support Institutional Client

##### Thanh Le

(+84 28) 3823 4798

[thanhln@acbs.com.vn](mailto:thanhln@acbs.com.vn)

#### Corporate Sales Institutional Client

##### Nhu Le Mai

(+84 28) 3823 4159 (x307)

[nhultm@acbs.com.vn](mailto:nhultm@acbs.com.vn)

### Director - Institutional Client

#### Patrick Mitchell

(+84 28) 54 046 632

[patrick@acbs.com.vn](mailto:patrick@acbs.com.vn)

#### Customer Support Institutional Client

##### Ngoc Tuyen Nguyen

(+84 28) 3823 4955

[tuyennn@acbs.com.vn](mailto:tuyennn@acbs.com.vn)

#### Trading Manager

##### Huong Chu

(+84 28) 54046630 (x308)

[huongctk@acbs.com.vn](mailto:huongctk@acbs.com.vn)

#### Trader

##### Thanh Tran

(+84 28) 54046626

[thanhtt@acbs.com.vn](mailto:thanhtt@acbs.com.vn)

#### Trader

##### Dung Ly

(+84 28) 54046630

[dungln.hso@acbs.com.vn](mailto:dungln.hso@acbs.com.vn)

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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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