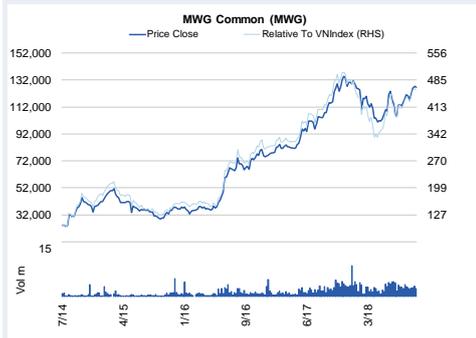


Price chart



Stock Data as of 9 October 2018

Price (VND)	129,500
Listed shares (mn)	317
Outstanding shares (mn)	323
52 week high (VND)	135,575
52 week low VND	96,628
Price change (3 months)	14.4%
Price change (6 months)	44.3%
Price change (12 months)	-13%
Free floating shares (mn)	210
Trading value (5 days average – VNDmn)	106,824
Market Cap (VNDmn)	41,810,852
Market Cap (US\$m)	1,793
Total room (mn)	158
Current room (mn)	0.000
Foreign owned ratio (%)	49.0%
Foreign ownership limit (%)	49.0%

- *Mobile World Group (MWG Outperform) has announced that it plans to issue 107,621,240 shares (33.33% of the OS) as a stock dividend to existing shareholder at the rate of 3:1.*
- *This will be funded from the capital surplus and the issuance will take place as soon as they get approval from SSC which we expect in October or November 2018.*
- *First 8 month numbers maintained the strong pace seen YTD with unaudited sales of VND 58,667 billion (+38.7% y/y) while NPAT came to VND 1,969 billion (+35.6% y/y).*
- *MWG has found a standardized format for the grocery chain and is now looking to accelerate their expansion to 500 stores by year-end.*
- *MWG delivered bottom line growth of 40% over the last 5 years. This pace will slow for the time being.*
- *HSC FY2018 forecasts call for net sales of VND 88,240 billion (+33.0% y/y), and net profit VND 2,760 billion (+25.1% y/y).*
- *HSC FY2019 forecasts call for net sales of VND 106,226 billion (+20.4% y/y), and net profit VND 3,547 billion (+28.5% y/y).*
- *We have a fair value price of VND 165,000 giving us FY2018 forward P/E of 21.0xs.*
- *Reiterate Outperform.*

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MWG will issue dividend shares at a rate of 3:1 before December 2018. Forward outlook very positive. Reiterate Outperform.

Mobile World Group (MWG Outperform) has announced that it plans to issue 107,621,240 shares (33.33% of the OS) as a stock dividend to existing shareholder at the rate of 3:1. This will be funded from the capital surplus and the issuance will take place as soon as they get approval from SSC which we expect in October or November 2018. The news on the timing of the dividend stock has been awaited for a few months and pushed MWG's share price higher over the last few days.

Quick conclusion - Reiterate Outperform. We have a fair value price of VND 165,000 giving us FY2018 forward P/E of 21.0xs. HSC forecast for FY2018 call for 25.1% y/y growth in NPAT. While our FY2019 forecasts call for 28.5% y/y growth in NPAT. The mobile segment is now mature so growth mainly comes from the consumer electronic and increasingly the grocery store chains. And both the CE and grocery store chains have made notable progress in the first 8-month. The former is now the engine of growth while the later has seen margins improve further. And we expect them to achieve breakeven at the grocery store level by year-end.

MWG has found a standardized format for the grocery chain and is now looking to accelerate their expansion to 500 stores by year-end. On the 3-5 year view we like MWG as it looks set to consolidate its position as the best retailer in Vietnam. Despite any near term challenges.

First 8 month numbers maintained the strong pace seen YTD - For the first 8-months, MWG posted unaudited sales of VND 58,667 billion (+38.7% y/y) while NPAT came to VND 1,969 billion (+35.6% y/y), fulfilling 68% and 75.8% of its full year sales and NPAT targets respectively. By segment;

- The MW chain reported sales of VND 23,828 billion (+1.8% y/y) with 1,040 stores operating as of August-end, or the same store count as that of August-end 2017.
- The CE chain reported sales of VND 32,425 billion (+78.2% y/y) with 731 stores operating as of August-end (+53.9% y/y).
- The grocery chain reported sales of VND 2,372 billion (+250.3% y/y) with 405 stores operating as of August-end (+164.7% y/y)

Meanwhile, average grocery store sales have improved from VND 670 million per month in Q1 to VND 950 million per month in August, in which the standardized stores, i.e. having fresh meat and live fish, have the average sales at VND 1,100 million per month. We expect the first 9M numbers to maintain the same broad trend as seen above in the first 8M numbers.

MWG has given details of its standardized format - A standardized grocery store format will have an area of 160 – 200 sqm and will have fresh meat and live fish as part of in its SKUs. Finalizing the standardized format is actually an important part of the process for MWG before it can scale up its grocery retail chain.

In our earning model, we estimate that MWG's standardized stores will reach break-even point at the store level at a sales level of VND 850 – 900 million per month. Given the total operating cost of an average grocery store comes to around VND 120 - 130 million per month while MWG's grocery store have a GPM of 14%. Operating cost per store includes;

- (1) About VND 30 - 35 million in monthly rental for an average area of 160 - 200 sqm.
- (2) Monthly salary of around VND 40 million for 6-7 staff.
- (3) Utility expenses of around VND 30 million per month.
- (4) Other expenses of around VND 20 million to cover logistic at the distribution center and good delivery at store.

HSC estimates that the grocery chain is probably at a breakeven at store level for all stores that are older than 3 months. For the whole chain, due to expenses for the distribution centers and logistics, we estimate a loss of just VND (150) billion YTD.



MWG has also developed a flagship store format - At the end of July 2018, Bach Hoa Xanh (BHX) developed a large store concept up to 300 sqm, located in Thu Duc district, HCMC. This store was upgraded from a standard store given the high population density and proximity to a wet market area. The flagship store stocks approximately 3,000 SKUs including more than 300 fresh SKUs. This store has achieved monthly sales exceeding VND3 billion and more than 1,000 transactions per day.

MWG will accelerate grocery store opening in coming months to hit year-end target of 500 stores – In the coming months, BHX will accelerate new store openings to meet its target of 500 stores by 2018-end. The focus area will be mainly at the HCMC East zone (District 2, District 9, Thu Duc), the HCMC South zone (District 4, District 7, District 8, Binh Chanh, Nha Be) and neighboring provinces such as Binh Duong, Long An, Dong Nai, Tien Giang and Ben Tre. Meanwhile, the company also has a plan to open a new distribution center for cold storage for its fresh products. The move to expand stores in central districts and also more crowded areas as well as the opening of a new distribution center for cold storage will increase operating expenses of the grocery chain in the rest of the year. However, this is essential for the chain to scale up.

HSC FY2018 forecasts

HSC FY2018 forecasts call for 25.1% y/y growth in NPAT – For FY2018 HSC forecast that MWG will make net sales of VND 88,240 billion (+33.0% y/y), and net profit VND 2,760 billion (+25.1% y/y). Based on the following key assumptions;

1. For the Mobile World (MW) chain, we forecast that the chain will make sales of VND 36,505 billion (+5.2%). Our assumptions include: (1) store count comes at 1,055 stores (-1.6% y/y); (2) SSS growth of 5%; and (3) MWG's market share in the mobile segment will remain at around 50%. Some big mobile stores switched into mini CE stores, and the market is mainly driven by phone replacement with almost unchanged volume as the switching from feature phone to smart phone completed. Then we believe MWG's SSSG will turn to 5% from that of -2% in FY2017.
2. For the consumer electronics (CE) chain, we forecast that sales will come at VND 47,745 billion (+56.6% y/y). Our assumptions are: (1) store count will grow to 800 stores (+24.6% y/y) by year-end which includes 35 TAG stores; (2) SSS growth of 10%; and (3) MWG's market share for consumer electronics will increase further from 32% at 2017-end to around 38% by 2018-end.
3. For the grocery chain, we forecast sales of VND 3,990 billion (+250% y/y). Our assumptions includes the opening of 267 stores during the year, bringing store count to 550 by year-end and average store sales coming at VND 790 million per store per month.

4. We then estimate GP will come to VND 14,787 billion (+32.7% y/y). Also assume overall GPM will slightly decline from 16.80% in FY2017 to 16.75% in FY2018 as sales mix shifts more towards the lower margin grocery store chain.
5. We project net financial income will come at VND(76.8) billion vs. VND 17.6 billion in FY2017. Net financial expenses increase as MWG borrows to finance its CE and grocery expansion.
6. We also assume SGA/sales ratio to slightly increase from 12.6% in FY2017 to 12.7% in FY2018 as MWG changes its bonus scheme towards more cash less ESOP.

Leading to an EPS of VND 7,845 and therefore valuing the company at a P/E of 16.6xs.

HSC FY2019 forecasts

HSC FY2019 forecasts call for 28.5% y/y growth in NPAT – For FY2019 HSC forecasts that MWG will make net sales of VND 106,226 billion (+20.4% y/y), and net profit VND 3,547 billion (+28.5% y/y). Based on the following key assumptions;

1. For the Mobile World (MW) chain, we forecast that the chain will make sales of VND 38,520 billion (+5.5%). Our assumptions include: (1) store count remains at 1,055 stores (+6.3% y/y); (2) SSS growth of 5.5%; and (3) MWG's market share in the mobile segment will remain at around 50%.
2. For the consumer electronics (CE) chain, we forecast that sales will come at VND 59,239 billion (+24.1% y/y). Our assumptions are: (1) store count comes at 800 stores (+9.6% y/y) by year-end; (2) SSS growth of 15%; and (3) MWG's market share for consumer electronics will increase further from 38% at 2018-end to around 40% by 2019-end.
3. For the grocery chain, we forecast sales of VND 8,467 billion (+112% y/y). Our assumptions includes the opening of 450 stores during the year, bringing store count to 1,000 by year-end and average store sales coming at VND 910 million (+15% y/y) per store per month.
4. We then estimate GP will come to VND 18,013 billion (+21.8% y/y). Also assume overall GPM will slightly improve from 16.75% in FY2018 to 16.90% in FY2019 as GPM of grocery chain improves from 14% in FY2018 to 18% in FY2019.
5. We project net financial income will come at VND(109.6) billion (+42.6% y/y). Net financial expenses increase as MWG borrows to finance its CE and grocery expansion.
6. We also assume SGA/sales ratio to come at 12.6%, slightly lower than 12.7% of FY2018.

Leading to an EPS of VND 9,983 and therefore valuing the company at a P/E of 13.0xs.

MWG delivered bottom line growth of 40% over the last 5 years. This pace will slow for the time being – MWG has been able to manage its growth such that the bottom line kept pace with top line growth until now. With the mobile segment now mature and the growth engine is shifting to the consumer segment while the grocery business is in its early phase. And while progress has been made to boost overall GPM; margins tends to decline for now as grocery segmental GPM is lower than the average. HSC estimates grocery store GPM at 14% or still less than for other segments - which compares to 17.1% for mobile and 16.7% for the consumer electronics segment. Indeed the grocery business is a trickier business to manage than the other two segments given the very short shelf life of fresh food & vegetables and meat & fish which we think accounts for about 30% - 40% of average store sales. Not only is wastage a major concern but the building of a backbone to ensure direct procurement will also be a time consuming affair. Especially as the grocery stores chain moves out of its comfort zone in HCMC. Improving the grocery chain GPM here is the key to restoring MWG's bottom line growth to the same level as top line growth. Which we are confident that they will manage to do over the next few years.

Investment thesis

Reiterate Outperform. We have a fair value price of VND 165,000 giving us FY2018 forward P/E of 21.0xs. MWG has met its target of concept proof for grocery store chain in FY2017. However there are still a lot of things that need to be worked out via trial-n-error, like location and SKU choices across the network. That's simply how retail is and there are no short cuts. So it might take until 2019 for them to make a reasonable profit from grocery. 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 the HCMC base will bring enormous logistical challenges.

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



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