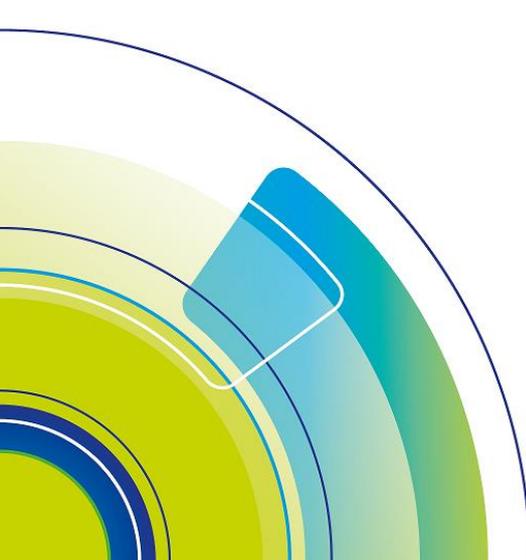




MWG Update- BUY

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Company Update

Recommendation

BUY

HSX: MWG

Retail

Target price (VND) **118,249**

Current price (VND) **87,700**

Expected share price return 34.8%

Expected dividend yield 1.7%

Expected total return **36.5%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	0.8	6.1	0.2	1.8
Relative	-10.6	-3.3	-4.2	11.5

Source: Bloomberg



Ownership

PYN Elite	4.3%
NTASIAN Discovery Master	3.5%
Dragon Capital	3.5%
Tai Nguyen (Chairman)	2.5%

Stock Statistics 07-Mar-19

Bloomberg code	MWG VN
52-week range (VND)	73,502-98,252
Shares O/S (m)	443
Mkt cap (VND bn)	38,862
Mkt cap (USD m)	1,671
Foreign room left (%)	0.0
Est. free float (%)	87.1
3m avg daily vol (shrs)	581,385
VND/USD	23,250
Index: VNIIndex / HNX	994.03/108.88

MOBILE WORLD INVESTMENT CORP (MWG VN)

Improved performance in Bach Hoa Xanh (BHX) chain and maintained growth in DienmayXanh (DMX) prolong the positive outlook for the company in 2019. **BUY.**

2018 was another splendid year for MWG, delivering VND86,516bn in net revenue and VND2,880bn in EAT, up by 30.4% YoY and 30.5% YoY respectively. The gross margin widened to 17.7% compared to 16.8% in 2017 on the back of rising margins in all three chains including BHX and thegioididong.com and DMX (in our estimate), while the SG&A expenses to net revenue ratio increased to 13.2% (2017: 12.6%). In 2018, the company opened 200 new stores, including 78 thegioididong.com and DMX in the aggregate (we combined both since some mobile phone stores have been shifted to consumer electronics stores) and 122 BHX stores, bringing the total number of stores to 2,197 (including 1,042 thegioididong.com, 750 DMX and 405 BHX). Given the company's focus on the grocery chain, we do not assume a significant hike in thegioididong.com and DMX's number of stores.

Thegioididong.com reported a top line of ~VND34,607bn, almost flat compared to that in 2017, while DMX keeps posting vivid net revenue growth of 57.3% YoY, achieving ~VND47,584bn. These were in a similar trajectory with Vietnam's technical consumer goods market, which grew by 1% YoY in mobile phones and 17% in consumer electronics segments in 2018, according to GFK data. Despite the mobile phone retail chain cooling down and probably being flat looking forward, we stick to the expectation that DMX's double-digit growth stream will extend, underpinned by Vietnam's low penetration of consumer electronic appliances, rising income, urbanisation and increasing demand for a more convenient life. Nevertheless, this growth could gradually normalize since the phase of rapid expansion has passed. We project DMX's net revenue to grow by ~34% YoY in 2019.

BHX generated VND4,272bn (+208% YoY) of net sales, adding 5% to the 2018 overall result.

	2017	2018	2019F	2020F	2021F
Net Sales (VNDbn)	66,340	86,516	108,059	127,256	149,565
Growth	48.7%	30.4%	24.9%	17.8%	17.5%
EBITDA (VNDbn)	3,683	5,351	6,400	7,505	8,760
EBITDA growth	46.7%	45.3%	19.6%	17.3%	16.7%
Net Profit (VNDbn)	2,206	2,879	3,520	4,194	5,082
Growth	39.8%	30.5%	22.3%	19.1%	21.2%
EPS (bonus-adjusted, VND)	5,367	6,672	7,944	9,464	11,469
Growth	39.6%	24.3%	19.1%	19.1%	21.2%
ROE	45.3%	38.7%	33.8%	30.8%	28.9%
ROA	11.7%	11.3%	12.1%	13.5%	15.6%
ROIC	27.9%	29.4%	29.1%	29.7%	31.7%
Net debt/EBITDA (times)	0.9	0.6	0.4	0.1	(0.3)
EV/EBITDA (times)	11.4	7.9	6.6	5.6	4.8
EV/Sales (times)	0.6	0.5	0.4	0.3	0.3
PER (times)	16.3	13.1	11.0	9.3	7.6
PBR (times)	4.6	4.2	3.3	2.5	2.0
DPS (VND)	1,500	1,500	1,500	1,500	1,500
Dividend yield	1.7%	1.7%	1.7%	1.7%	1.7%

With continual modification in terms of store format, location, product portfolio, performance and testing in some other provinces beside HCMC, BHX has gained encouraging achievements at the end of 2018, including i) the average sales per store was over VND1.2bn in Dec 2018 (almost doubled compared to that in Mar 2018); ii) the average full-year gross margin reached 16% in 2018 vs. 12% in 2017 and iii) BHX started to achieve the EBITDA break-even at the store level from Dec 2018, though it has yet to make a positive net profit.

The new-format stores include: (1) standard "fresh meat & live fishes" format, with 373 stores at 2018-end, and (2) large-scaled (300sqm) format, with 32 stores at 2018-end. The old-format stores have been converted to the new ones and the conversion is expected to be fully completed by 1Q19. Fresh foods captured about 40% of the BHX's total sales.

In 2019, MWG expects BHX to reach 700 stores by the end of the year (equivalent to ~300 new stores opened). In addition to HCMC, BHX will also enhance its presence in Mekong Delta and Southeast regions. Having no doubt that this will continue to be the highest growing business, we forecast BHX's top line at VND10,097bn (+136% YoY), driven by both network expansion and rising revenue per store. This is going to enlarge BHX's contribution to MWG's overall net revenue to nearly 10% in 2019, from 5% in 2018.

MWG plans to further enhance BHX's gross margin through (a) working with FMCG manufacturers to have better trade terms, good marketing budget and attractive consumer promotions, (b) reviewing the operational process and optimize the supply chain for fresh foods. The company targets that BHX's gross profit can entirely cover the operating expenses of all stores and distribution centers, excluding the G&A expenses at the company level, latest by Dec 2019. Our gross margin projection for BHX is 19%, leading to a much better EAT margin though it may remain a slightly negative number of -0.5% on a whole-year basis for 2019. The improvement in gross margin is probably slower in the coming years, however, we expect BHX will start to see its first EAT contribution next year.

In sum, our net revenue and EAT projections for MWG are VND108,059bn (+24.9% YoY) and VND3,522bn (+22.3% YoY), respectively, in 2019. Combining DCF and PER comparison methods, we value the stock at VND118,249/share.

MWG FINANCIALS MODEL	Price (VND):	87,700	Target (VND):	118,249	Mkt cap (VND bn):	38,862
(VND bn except where stated)	2016	2017	2018	2019F	2020F	2021F
Total Net Sales	44,613	66,340	86,516	108,059	127,256	149,565
<i>Sales growth</i>	76.7%	48.7%	30.4%	24.9%	17.8%	17.5%
CoGS ex-dep'n	37,013	54,508	70,001	87,488	102,826	120,645
Selling expenses	4,288	7,017	9,660	12,227	14,590	17,372
G&A expenses	935	1,345	1,762	2,200	2,591	3,045
Financial revenues	134	215	257	257	257	257
Financial expenses	0	1	0	0	0	0
EBITDA	2,511	3,683	5,351	6,400	7,505	8,760
<i>EBITDA margin</i>	5.6%	5.6%	6.2%	5.9%	5.9%	5.9%
Depreciation	387	690	1,223	1,341	1,622	1,871
Operating profit	2,125	2,993	4,128	5,060	5,883	6,888
<i>Operating profit margin</i>	4.8%	4.5%	4.8%	4.7%	4.6%	4.6%
Other profits/losses	(1)	14	12	-	-	-
Profits/Losses from associates	-	-	(2)	(2)	(2)	(2)
Net interest expense	118	198	352	440	380	220
<i>as % of avg net debt</i>	4.3%	5.5%	10.6%	15.2%	24.9%	-22.8%
<i>Interest cover (x)</i>	18.0	15.1	11.7	11.5	15.5	31.3
Tax	428	602	906	1,095	1,305	1,581
<i>Effective tax rate</i>	21.3%	21.5%	24.0%	23.7%	23.7%	23.7%
Minority interest	1	1	2	2	2	3
Attributable net profit	1,577	2,206	2,879	3,520	4,194	5,082
Cash earnings	1,964	2,895	4,102	4,861	5,816	6,953
Total number of shares	153,951,000	316,990,000	443,496,178	443,496,178	443,496,178	443,496,178
EPS (VND) (after treasury shares)	10,249	7,155	6,672	7,944	9,464	11,469
Bonus factor (x)	0.38	0.75	1.00	1.00	1.00	1.00
Adjusted EPS (VND)	3,846	5,367	6,672	7,944	9,464	11,469
<i>EPS growth</i>	40.9%	39.6%	24.3%	19.1%	19.1%	21.2%

KEY CASHFLOW AND BS ITEMS	2016	2017	2018	2019F	2020F	2021F
Increase in working capital	1,718	148	2,190	1,708	1,517	1,756
Capex	1,278	2,065	1,495	1,345	1,211	1,211
Change in investment in affiliates	0	0	60	-2	-1	0
Other cashflow items	-831	-143	-426	-467	-345	-413
Free cash flow	-1,862	539	-69	1,343	2,744	3,574
Share issues	0	92	703	-	-	-
Dividends paid	220	232	486	665	665	665
Increase in net debt	2,083	-400	-148	-678	-2,079	-2,909
Net debt, end of year	3,792	3,393	3,244	2,566	487	-2,422
Shareholders' equity	3,839	5,906	8,977	11,832	15,360	19,777
BVPS (VND)	24,945	19,157	20,806	26,701	34,664	44,631
<i>Net debt / equity</i>	<i>98.8%</i>	<i>57.4%</i>	<i>36.1%</i>	<i>21.7%</i>	<i>3.2%</i>	<i>-12.2%</i>
<i>Net debt / EBITDA (x)</i>	<i>1.5</i>	<i>0.9</i>	<i>0.6</i>	<i>0.4</i>	<i>0.1</i>	<i>-0.3</i>
Total assets	14,854	22,823	28,123	30,300	31,749	33,257

KEY RETURN AND VALUATION RATIOS	2016	2017	2018	2019F	2020F	2021F
<i>ROE</i>	<i>49.9%</i>	<i>45.3%</i>	<i>38.7%</i>	<i>33.8%</i>	<i>30.8%</i>	<i>28.9%</i>
<i>ROA</i>	<i>14.3%</i>	<i>11.7%</i>	<i>11.3%</i>	<i>12.1%</i>	<i>13.5%</i>	<i>15.6%</i>
<i>ROIC</i>	<i>28.3%</i>	<i>27.9%</i>	<i>29.4%</i>	<i>29.1%</i>	<i>29.7%</i>	<i>31.7%</i>
<i>WACC</i>	<i>9.2%</i>	<i>11.1%</i>	<i>12.3%</i>	<i>13.4%</i>	<i>13.8%</i>	<i>13.7%</i>
<i>EVA</i>	<i>19.0%</i>	<i>16.8%</i>	<i>17.1%</i>	<i>15.7%</i>	<i>15.9%</i>	<i>18.0%</i>
<i>PER (x)</i>	<i>22.8</i>	<i>16.3</i>	<i>13.1</i>	<i>11.0</i>	<i>9.3</i>	<i>7.6</i>
<i>EV/EBITDA (x)</i>	<i>16.8</i>	<i>11.4</i>	<i>7.9</i>	<i>6.6</i>	<i>5.6</i>	<i>4.8</i>
<i>EV/FCF (x)</i>	<i>-22.6</i>	<i>78.1</i>	<i>-612.2</i>	<i>31.3</i>	<i>15.3</i>	<i>11.8</i>
<i>PBR (x)</i>	<i>3.5</i>	<i>4.6</i>	<i>4.2</i>	<i>3.3</i>	<i>2.5</i>	<i>2.0</i>
<i>PSR (x)</i>	<i>0.9</i>	<i>0.6</i>	<i>0.4</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>
<i>EV/sales (x)</i>	<i>0.9</i>	<i>0.6</i>	<i>0.5</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>0.4</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>

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DISCLAIMER

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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