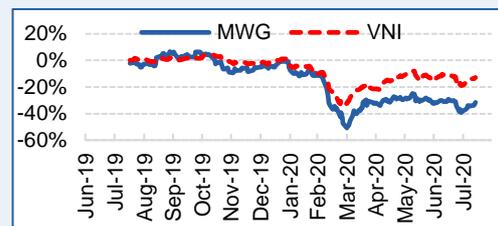


<b>Industry:</b>	<b>Retailing</b>		<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Report Date:</b>	<b>August 17, 2020</b>	Rev Growth	18.1%	6.9%	24.9%	16.2%
Current Price:	VND83,100	EPS Growth	29.6%	-5.9%	37.8%	29.2%
Target Price	VND164,500	GPM	19.1%	21.3%	21.9%	22.6%
Upside to TP:	+98.0%	NPM	3.8%	3.4%	3.8%	4.3%
Dividend Yield:	+1.8%	EV/EBITDA	6.0x	5.4x	4.2x	3.5x
TSR:	+99.8%	P/CFO	N.M.	5.7x	5.7x	5.4x
Rating:	BUY	P/E	9.6x	10.2x	7.4x	5.7x



Market Cap:	USD1.6bn		<b>MWG</b>	<b>VNI</b>
Foreign Room:	USD0	P/E (ttm)	10.1x	14.2x
ADTV30D:	USD2.5mn	P/B (curr)	2.6x	1.9x
State Ownership:	0%	Net D/E	5.9%	N/A
Outstanding Shares:	452.9 mn	ROE	30.3%	13.3%
Fully Diluted Shares:	452.9 mn	ROA	10.5%	2.3%
3-yr PEG	0.5			

### 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.

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## Positive progress despite tough industry backdrop

- We attended MWG's investor calls on August 14, 2020. Our takeaways reinforce our optimism on MWG's business execution, which should bolster strong earnings growth in the next few years.
- As expected, TGDD (mobile) and DMX (consumer electronics) are facing headwinds from softer discretionary spending. That said, MWG's plan to open a total of ~1,000 super-mini DMX stores (new format) after a successful pilot implies potential upside to our DMX forecasts post-2020.
- BHX (minimart) is seeing positive progress with a pick-up in sales/store in July vs June 2020 and room for further GPM expansion through YE2020. Management maintained its target that BHX will reach a breakeven point before G&A expenses by YE2020.

### 1. Preliminary July 2020 results

Total revenue slid 7% YoY but rose 6% MoM in July to VND8.6tn (USD369mn).

TGDD and DMX's aggregate revenue slumped 17% YoY to VND6.8tn (USD293mn), which management attributed to consumer budget tightening and a high comparative base in July 2019 when MWG ran a big promotional campaign to celebrate its 15-year anniversary. Compared to June 2020, TGDD and DMX's aggregate revenue advanced 5% in July 2020.

BHX's revenue jumped 80% YoY and 12% MoM to VND1.8tn (USD78mn) in July 2020. Average sales per store reached VND1.2bn (USD51,500) in July 2020 vs VND1.1bn (USD47,200) in June 2020; however, it was still lower than VND1.5bn (USD64,000) in July 2019 due to BHX intensifying expansion to tier-2 and tier-3 areas.

### 2. TGDD and DMX

#### 2.1. H1 2020 results

Same-store-sales growth (SSSG) of TGDD and DMX was -12% YoY in H1 2020.

MWG continued to outperform the industry across categories. As a result, MWG has increased its market share in mobile phone and consumer electronics to ~50% and more than 40%, respectively, compared to 48% and 38% as of YE2019.

**Figure 1: MWG's YoY revenue growth vs the rest of the market in H1 2020 by category**

	MWG	The rest of the market
Mobile phones	-15%	-21%
Televisions	-5%	-17%
Refrigerators	+10%	-10%
Air conditioners	-2%	-6%
Washing machines	+1%	-10%

Source: MWG

## 2.2. 2020 outlook

Due to the current resurgence of COVID-19 in Vietnam, 31 TGDD and DMX stores (including 29 in Da Nang — the epicenter of this second wave in Vietnam) are temporarily closed while more than 150 other stores are operating under restricted conditions (e.g., only serving delivery orders or limiting the amount of customers in the stores). Per MWG's estimate, its 188 TGDD and DMX stores in the central region will witness a ~30% sales drop in August 2020 vs normal levels.

Management anticipates that COVID-19 will continue to hurt consumer spending through the end of 2021. As such, MWG will not carry out aggressive promotions to stimulate demand as management believes those investments would be ineffective.

Management reiterated its plans to convert high-performing TGDD stores to DMX stores while also adding brand-new DMX stores, most of which will be under the new super-mini format. By YE2020, MWG expects to have 800 TGDD stores (vs 996 as of YE2019) and 1,350 DMX stores (vs 1,018 as of YE2019)

Regarding the super-mini DMX format (120-150 sqm/store) that targets small and remote areas, MWG has been piloting 25 stores in Tien Giang Province in the Mekong Delta region; the results of these stores have been satisfactory. On average, each store is generating VND1.1bn-1.2bn (USD47,000-51,000) in revenue per month compared to ~VND10bn (USD430,000) of the standard DMX format (800-1,000 sqm/store) and ~VND4bn (USD170,000) of the mini-DMX format (300-500 sqm/store). Management targets to reach a total of 300 super-mini DMX stores in the southwest and southeast regions by YE2020 and a total of 1,000 stores nationwide by YE2021. Backed by this format, MWG aims to acquire a 60% market share in the consumer electronics market.

The Cambodian business is tracking with MWG's plan. MWG expects to raise its consumer electronics format store count in Cambodia from 11 in August 2020 to 50 at YE2020.

## 3. BHX

### 3.1. H1 2020 results

SSSG reached 12% in H1 2020.

GPM stepped up to ~25% in Q2 2020 vs ~21% in March 2020. This GPM expansion helped BHX to achieve positive EBITDA before G&A expenses in H1 2020.

Breaking down BHX's profitability in Q2 2020 from another angle, management said that its store operating expenses (including depreciation) was 21%-22% of revenue while distribution center (DC) expenses were 5%-6% of revenue. As mentioned above, management maintained its target that BHX will be able to cover all DC expenses by YE2020.

Part of BHX's targeted profitability improvements will come from GPM expansion. Management believes that BHX's GPM can widen by another one-to-two ppts vs current levels by YE2020 on the back of its ballooning scale, more effective procurement as well as swelling contributions from private labels and OEM products.

In order to improve local procurement of fresh products, management is considering setting up its procurement division to become region-based (i.e., different procurement teams for each region)

instead of its current category-based structure (i.e., different teams that take care of each category nationwide).

Meanwhile, management targets that BHX will carry 1,000-1,500 of private-label and OEM SKUs by YE2021. We note that BHX's standard format (~200 sqm/store) and big format (~300 sqm/store) typically carry a total of 2,500-3,000 and 3,500-4,000 SKUs, respectively.

BHX expanded its footprint from 15 cities/provinces in H1 2019 to 24 cities/provinces in H1 2020. Accordingly, its number of DCs increased from five in H1 2019 to 12 in H1 2020 with management planning to have a total of 20 DCs by YE2020 to support both offline stores and online delivery.

MWG also provided more colors regarding BHX's store count breakdown by area as well as age as of Q2 2020 (we note that Vietnam has 63 cities and provinces in total):

By area:

- Tier 1: Top 10 cities/provinces in terms of income per capita. BHX is currently present in five of these cities/provinces, which account for 53% of its total store count (vs 78% as of Q2 2019).
- Tier 2: The next 20 cities/provinces (11-30) by income per capita. BHX is currently present in 12 of these 20 cities/provinces, which account for 34% of its total store count (vs 17% as of Q2 2019).
- Tier 3: The 31<sup>st</sup>-50<sup>th</sup> cities/provinces. BHX is currently present in seven of these cities/provinces, which account for 13% of its total store count (vs 5% in Q2 2019).
- Per MWG, BHX stores in tier-1 areas are generating average revenue/month/store of VND1.4bn (USD60,000) while that of stores in tier 2 and 3 areas is 70%-85% that of tier-1 stores.

By age:

- 40% of BHX's current stores have been operating for more than 12 months vs 64% as of Q2 2019. On average, the more than one-year-old stores are averaging revenue/store/month of VND1.4bn (USD60,000), while that of less than one-year-old stores is 20%-25% lower.

Regarding BHX Online, there were 260,000 completed transactions in H1 2020 (+117% YoY) that were served by 11 DCs at the end of Q2 2020 (vs one at the end of Q2 2019). As of Q2 2020, BHX Online has expanded its coverage to eight cities/provinces vs only two in Q1 2020. Nevertheless, online sales are contributing only 1% to BHX's revenue. In the long term, management believes that BHX Online could ultimately account for at least 20% of BHX's revenue. BHX Online will target consumers who value convenience and a satisfactory shopping experience rather than competing on prices against e-commerce marketplaces.

### 3.2. 2020 outlook

To bolster its average revenue/store, BHX is slowing its store opening pace to 50-80 new stores per month after recording more than 100 new stores per month since March 2020.

As of today, BHX has nearly 1,600 stores. Management is confident in fulfilling its target of 1,900-2,000 stores by the end of 2020.

In HCMC, BHX is upgrading its high-performing stores to the new 450-550 sqm format, which we highlighted in our store visit note, [Ongoing fine-tuning of stores to bolster sales](#), dated July 14, 2020. Per MWG, the first BHX stores under this format are generating VND100mn-150mn (USD4,300-6,400) in revenue per day.

4K Farm — BHX's contract farming division on vegetables — remains in an early phase of development. Due to limited supply, MWG is making 4K Farm available only online and at select high-performing stores.

#### 4. Others

Per management, the integrated An Khang stores (located adjacent to BHX's 450-550 sqm stores) — which we also highlighted in the above store visit note — are performing well. Average revenue/store/month amounts to VND200mn-300mn (USD8,600-12,900) against daily bills of 100-150 and store sizes of 20-30 sqm. This An Khang format can leverage BHX's store traffic as well as space that allows it to minimize operating expenses. Management thinks that MWG can open up to 100 integrated An Khang stores per annum.

MWG does not have any plans for capital raising nor M&A at this point.

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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%
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