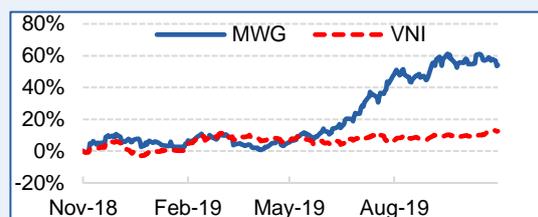


Industry:	Retailing		2018	2019F	2020F	2021E
Report Date:	November 13, 2019	Rev Growth	30.4%	24.5%	32.5%	23.0%
Current Price:	VND119,900	EPS Growth	24.3%	34.6%	34.8%	21.7%
Last Target Price:	VND215,000	GPM	17.7%	18.0%	18.4%	18.9%
Upside to TP:	+79.3%	NPM	3.3%	3.7%	3.8%	3.9%
Dividend Yield:	1.3%	EV/EBITDA	10.8x	8.4x	6.6x	5.5x
TSR:	+80.6%	P/Op CF	22.9x	7.9x	10.3x	6.4x
Rating:	BUY	P/E	18.0x	13.3x	9.9x	8.1x



Market Cap:	USD2.3bn		MWG	VNI
Foreign Room:	USD0	P/E (ttm)	14.4x	16.6x
ADTV30D:	USD3.5mn	P/B (curr)	4.7x	2.4x
State Ownership:	0%	Net D/E	0.2x	N/A
Outstanding Shares:	442.8mn	ROE	37.7%	14.7%
Fully Diluted Shares:	442.8mn	ROA	12.7%	2.5%
3-yr PEG	0.5			

Company Overview

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with YE2018 market shares of 45% and 35%, respectively. It also has the number one online platform in Vietnam by revenue. To sustain strong long-term growth, MWG is rolling out the BachhoaXANH minimart chain.

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## Business progress largely aligns with our expectations

We attended MWG's analyst meeting on November 13, 2019. Most questions focused on BHX (minimart). Overall, the key takeaways aligned with our views of MWG, with the exception of a potential delay in BHX's target of achieving its breakeven point before G&A by YE2019. However, we do not find this delay structural and concerning (more details below). We maintain our strong conviction on MWG.

### 1. Minimart business (BHX)

- Per management, BHX's target of reaching its breakeven point before G&A could be pushed out a few months, mainly due to a low utilization of two new distribution centers (DCs) in the south-central coast region that BHX recently expanded to. BHX is currently present in three provinces in this region with a total of 15 stores. However, it needs to invest in the DCs upfront to facilitate the future store roll-out. Owing to this, DC costs/revenue (including costs related to operating the DCs and transporting goods from the DCs to the stores) has risen to ~5.5% in recent months vs 4.5%-5.0% previously. Per management, had BHX kept its YE2019 store count at 700 as initially planned (vs more than 900 stores currently), BHX would have already achieved the aforementioned target of reaching its breakeven point before G&A in September 2019.

- BHX's average sales/store dropped to an estimated ~VND1.35bn (USD58,000) in September 2019 vs more than VND1.5bn (USD64,000) in August 2019 and ~VND1.6bn (USD68,000) in June 2019. Per management, in addition to rainy weather that affected the quality of fresh produce as well as undermined store traffic during peak hours, the company's excessive focus on minimizing fresh produce spoilage caused understocking in BHX in September. Management rectified this issue in mid-October and sales have improved since.

- BHX aims to generate average monthly sales/store of VND1.5bn (USD64,000) for the standard format (~150-200 sqm/store) and VND3bn (USD128,000) for the big format (~300 sqm/store), which management thinks can be accomplished as soon as next year. We note that as of September 2019, the big format accounted for 17% of BHX's total store count.

- GPM (after spoilage, wastage and loss) stepped up to almost 20% in September 2019 vs 18% at YE2018 on the back of increased direct sourcing and optimized procurement. Per management, GPM before spoilage, wastage and loss has improved to ~24% as of now; management believes this GPM could climb to 27%-28% by YE2020, partly backed by a larger scale. MWG expects BHX store count to reach ~2,000 by YE2020, which is in line with our expectation. In addition, BHX's GPM should be further buoyed by its plans to push private labels starting from 2020.

- Of the ~1,000 new stores planned for 2020, management expects 70%-80% will be located in HCMC and the South while the remainder will be in the central region, as MWG still sees extensive headroom for store expansion in the South.

## 2. Market share expansion in mobile phones and consumer electronics

- Combined 9M 2019 SSSG of TGDD (mobile phone chain) and DMX (consumer electronics) was 7%, similar to H1 2019.

- MWG significantly outperformed the market across mobile phone and consumer electronics categories in 9M 2019.

### MWG's 9M 2019 revenue growth by category vs market

Category	Overall market growth (YoY)	MWG's revenue growth (YoY)
Mobile	-4%	+4%
TVs	-6%	+4%
Air conditioners	+39%	+67%
Refrigerators	+4%	+18%
Washing machines	+1%	+16%

Source: MWG

- Management expects the TV market will strengthen in 2020 thanks to multiple major soccer events, similar to what happened in 2018.

## 3. Consumer electronics business (DMX)

- As of today, MWG has 974 DMX stores and is on track to reach 1,000 stores by YE2019 vs 750 as of YE2018.

- Management expects DMX's store expansion to ease in 2020 as it intends to focus on finetuning the chain. We currently project 150 new DMX stores in 2020.

- Despite an expected slower store expansion, DMX's growth in 2020 will be supported by (1) full contributions from stores opened in 2019 and (2) conversions of existing DMX stores into a new layout that generally enhances sales/store by ~30%, per management. MWG converted 335 mini-DMX stores to the new layout in 9M 2019, including 125 in Q3 2019. MWG plans to convert another 150 mini-DMX stores in Q4 2019.

- MWG sees headroom for further GPM improvements for both TGDD and DMX, partly thanks to a better sales mix. MWG expects revenue from small home appliances and kitchenware to reach VND7.5tn (USD322mn) in 2019 and VND10tn (USD429mn) in 2020, equivalent to 7% of our respective total revenue forecasts for MWG. Similar to grocery products, MWG aims to widen its private label portfolio for small home appliances and kitchenware in 2020.

## Rating and Valuation Methodology

**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
BUY	If the projected TSR is 20% or higher
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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Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

**Target prices** are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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