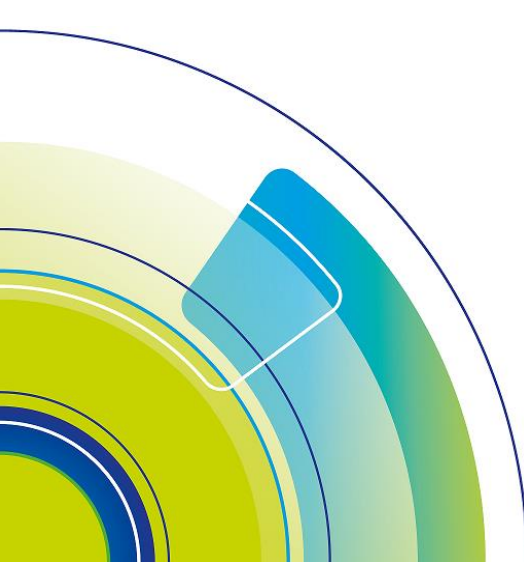




MWG Update- BUY

November 18, 2019



Ms. Chi Luong

(+84 28) 3823 4159 - Ext: 327

chihtk@acbs.com.vn

Company Update

Recommendation

BUY
HSX: MWG
Retail
Target price (VND) 147,131

Current price (VND) 118,500

Expected share price return 24.1%

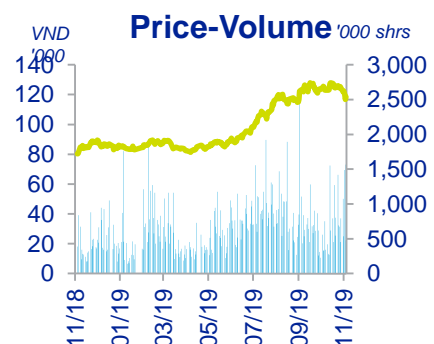
Expected dividend yield 1.3%

Expected total return 25.4%

Stock performance (%)

| | YTD | 1M | 3M | 12M |
|----------|------|------|------|------|
| Absolute | 38.9 | -5.6 | -1.3 | 50.2 |
| Relative | 23.7 | -7.5 | -5.1 | 35.4 |

Source: Bloomberg



Ownership

| | |
|--------------------------|-------|
| Retail World Ltd Co. | 13.2% |
| Tri Tam Ltd Co. | 9.9% |
| PYN Elite | 4.4% |
| NTASIAN Discovery Master | 3.7% |

Stock Statistics

15-Nov-19

Bloomberg code MWG VN

52-week range (VND) 80,600 - 129,500

Shares O/S (m) 443

Mkt cap (VND bn) 52,592

Mkt cap (USD m) 2,261

Foreign room left (%) 0.0

Est. free float (%) 89.6

3m avg daily vol (shrs) 766,284

VND/USD 23,265

Index: VNIndex / HNX 1011.33/105.89

MOBILE WORLD INVESTMENT CORP (MWG VN)

We maintain our **BUY** recommendation on MWG given on-track performance of the company's retail chains and that positive growth is expected to extend next year.

MWG's 9M2019 business results reported 17% YoY growth in net revenue, to VND76,763bn, and 36% YoY growth in EAT, to VND2,976bn, completing 75% and 77% of our full-year projections, respectively. The SG&A expenses to revenue ratio was 13.4% in 9M2019, compared with 13.1% in 9M2018, while accumulated gross profit margin expanded to 18.4% from 17.6% in 9M2018. Of which, 3Q2019 gross profit margin hit a record high at 19.7% (3Q2018: 17.7%), mainly attributed to positive contribution of white goods, appliances, kitchen wares, food & FMCGs. The addition of small appliances & kitchen wares - which have low price per item but offer high profit margins, especially private-label items - has been one of reasons for the divergence between the top and bottom line growth since the beginning of the year.

Thegioididong.com (TGDD) reported a top line of ~VND25,562bn (-3.9% YoY; the switch from mobile phone stores to consumer electronics stores continues), whereas **DienmayXanh.com (DMX)** posted net revenue growth of 22.3% YoY to ~VND44,062bn. Mobile phone products posted 4% growth despite the downtrend in the overall market (-4.5% YoY in 9M2019, according to GFK). White goods and small appliances surged by 35% and were the main driver for DMX's revenue growth.

As a part of MWG's strategies to "sell new/unprecedented products" and "serve unprecedented customers", in August 2019, MWG inaugurated a new mobile phone retailing model which specializes in lower cost products, named **dienthoaiSIEURE.com (DTSR)**, located in crowded districts in HCMC. The products' selling prices are set cheaper than those in TGDD chain, thanks to cutting such costs as air-conditioner, warranty (which means customers will be in charge of warranty by themselves), no exchange/return policy, etc., though products are guaranteed 100% genuine. In the trial phase, DTSR only trades mobile phones whose prices are under VND8m and has not yet opened for online sales. Second hand phones are also traded. The shops are operated with a floor area of 15-20 m² by one staff taking care of everything.

| | 2017 | 2018 | 2019F | 2020F | 2021F |
|---------------------------|--------|--------|---------|---------|---------|
| Net Sales (VNDbn) | 66,340 | 86,516 | 102,490 | 121,819 | 144,498 |
| Growth | 48.7% | 30.4% | 18.5% | 18.9% | 18.6% |
| EBITDA (VNDbn) | 3,683 | 5,351 | 6,793 | 8,296 | 9,893 |
| EBITDA margin | 5.6% | 6.2% | 6.6% | 6.8% | 6.8% |
| Net Profit (VNDbn) | 2,206 | 2,879 | 3,863 | 4,617 | 5,531 |
| Growth | 39.8% | 30.5% | 34.2% | 19.5% | 19.8% |
| EPS (bonus-adjusted, VND) | 5,367 | 6,672 | 8,464 | 9,812 | 11,402 |
| Growth | 39.6% | 24.3% | 26.9% | 15.9% | 16.2% |
| ROE | 45.3% | 38.7% | 36.3% | 32.2% | 29.6% |
| ROA | 11.7% | 11.3% | 13.2% | 14.2% | 15.3% |
| ROIC | 27.9% | 29.4% | 30.6% | 29.8% | 28.6% |
| Net debt/EBITDA (times) | 0.9 | 0.6 | 0.3 | 0.2 | 0.1 |
| EV/EBITDA (times) | 15.6 | 10.7 | 8.4 | 6.9 | 5.8 |
| EV/Sales (times) | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 |
| PER (times) | 22.1 | 17.8 | 14.0 | 12.1 | 10.4 |
| PBR (times) | 6.2 | 5.7 | 4.4 | 3.4 | 2.7 |
| DPS (VND) | 1,500 | 1,500 | 1,500 | 1,500 | 2,000 |
| Dividend yield | 1.3% | 1.3% | 1.3% | 1.3% | 1.7% |

Through this new model, MWG aims to gain more market share from the existing mom-and-pop shops, which currently holds around 35% of Vietnam's mobile phone retail market, according to our estimate. After two months of operating, the chain delivered an average sales per store of VND500m+/month, encouraging MWG to keep testing this model in provinces in the coming time. As of September 2019, MWG opened 115 TGDD and DMX new stores in the aggregate and 11 DTSS stores, bringing the number of mobile phone and consumer electronics stores to 1,928 (including 1,010 TGDD, 907 DMX and 11 DTSS). The company targets to reach around 1,000 DMX stores at the end of 2019 and may not enlarge this number substantially next year to consolidate revenue per store. As the mobile phone segment's growth tends to level out, we expect the growth outlook of these chains should be underpinned by consumer electronics segment combined with a more encouraging contribution of new product lines added under the shop-in-shop model.

At the end of September 2019, MWG had 134 stores selling **watches** (in HCMC, Southeast and Mekong Delta regions), with over 150 thousand watches of different kinds sold at TGDD and DMX stores in seven months from March to September. In March and June 2019, MWG started distributing watches and sunglasses from different brands in TGDD & DMX stores (mostly TGDD). MWG targets 250 shops selling watches in 2019 and 500 shops in 2020. We forecast revenue from watches may contribute VND555bn to the company's overall revenue in 2019 and surge by 48% YoY in 2020. The expansion of sunglasses has not made remarkable progress so far, with 6 stores in HCMC and provinces. Prescription glasses sales are currently being tested.

Additionally, in order to further exploit the laptop retail market and serve diversified customer demands, MWG recently opened 26 new laptop centers, located in big cities/provinces and close to schools. A laptop center not only acts as a showroom to display about 200 SKUs but also a distribution center for online retail.

BHX chain generated VND7,139bn (+155% YoY) of net sales, adding 9.3% to the overall result in 9M2019. The weaker revenue per store in the recent months was primarily explained by the company's drastic efforts to lessen the wastage and shrinkage rates, which brought about adverse impacts on goods supply for stores. Still, adjustments have been made to ensure enough goods for stores in tandem with holding the wastage and shrinkage rates at an acceptable level.

Out of 788 stores as of September 2019, BHX opened 380 stores in 17 Southern and South-Central Coast provinces outside of HCMC (making up 48% of the chain's total store-count). The expansion is ongoing with new locations secured in Ninh Thuan, Khanh Hoa, and Phu Yen. Nevertheless, about two-thirds of new stores opened next year are still set for HCMC, Southeast and Mekong Delta regions. Further steps to the Northern region may take place after 2021. By format, BHX had 137 large stores of ~300 sqm, accounting for 17% of BHX's total stores. Fresh food and frozen food together captured about 50% of BHX's sales. From May 2019, BHX has experimented the double-shop model (the first one is located in Tay Ninh province) by expanding shop space and adding kitchen wares/some basic small appliances into the grocery shops. According to the latest update as of October 2019, there are 60 double shops in operation.

Continued efforts in optimizing procurement, direct sourcing/importing from plantations and manufacturers has propelled BHX's gross margin (after wastage and shrinkage) to approximately 20% in late September. BHX has achieved the EBITDA

break-even at the store level with a gross margin of 18% since December 2018. However, the target that BHX's gross profit can entirely cover the operating expenses of all stores and distribution centers, not including the G&A expenses at the company level, may take longer to achieve, instead of December 2019 as planned earlier. This is because the new distribution centers added for South-Central Coast provinces need some time to optimize their capacities thanks to the store network expansion. Our projection for BHX's 2019 gross margin (after wastage and shrinkage) is 19%+ and EAT margin may be negative 4.1% (from an estimate of negative 7.5% in 2018) on a whole-year basis for 2019.

For 2019, we project BHX's number of store at 965 and top line at VND10,799bn (+152.8% YoY), enlarging BHX's contribution to MWG's overall net revenue to 10.5% for the whole year. For 2020, the number of stores is assumed at 1,665 and BHX's contribution to the overall net revenue may achieve nearly 16%.

In sum, while BHX is expanding robustly, TGDD and DMX will remain the company's largest earners. Our net revenue and EAT projections for MWG are VND102,490bn (+18.5% YoY) and VND3,865bn (+33.8% YoY), respectively, in 2019. The growth rates are expected at 18.9% and 19.5%, respectively, in 2020. Combining DCF and EV/EBITDA comparison methods, we value the stock at VND147,131/share, equivalent to a total return of 25.4% at the end of next year. **BUY.**

| MWG FINANCIALS MODEL | Price (VND): | 118,500 | Target (VND): | 147,131 | Mkt cap (VND bn): | 52,592 |
|--|---------------------|----------------|----------------------|----------------|--------------------------|----------------|
| (VND bn except where stated) | 2016 | 2017 | 2018 | 2019F | 2020F | 2021F |
| Total Net Sales | 44,613 | 66,340 | 86,516 | 102,490 | 121,819 | 144,498 |
| <i>Sales growth</i> | <i>76.7%</i> | <i>48.7%</i> | <i>30.4%</i> | <i>18.5%</i> | <i>18.9%</i> | <i>18.6%</i> |
| TGDD | 30,655 | 34,708 | 34,607 | 33,133 | 32,569 | 32,460 |
| DMX | 13,709 | 30,245 | 47,584 | 58,558 | 69,849 | 82,476 |
| BHX | 249 | 1,387 | 4,272 | 10,799 | 19,401 | 29,562 |
| CoGS ex-dep'n | 37,013 | 54,508 | 70,001 | 82,242 | 97,266 | 115,012 |
| Selling expenses | 4,288 | 7,017 | 9,660 | 11,658 | 14,101 | 17,015 |
| G&A expenses | 935 | 1,345 | 1,762 | 2,087 | 2,480 | 2,942 |
| Financial revenues | 134 | 215 | 257 | 291 | 325 | 365 |
| Financial expenses | 0 | 1 | 0 | 0 | 0 | 0 |
| EBITDA | 2,511 | 3,683 | 5,351 | 6,793 | 8,296 | 9,893 |
| <i>EBITDA margin</i> | <i>5.6%</i> | <i>5.6%</i> | <i>6.2%</i> | <i>6.6%</i> | <i>6.8%</i> | <i>6.8%</i> |
| Depreciation | 387 | 690 | 1,223 | 1,425 | 1,869 | 2,280 |
| Operating profit | 2,125 | 2,993 | 4,128 | 5,367 | 6,427 | 7,613 |
| <i>Operating profit margin</i> | <i>4.8%</i> | <i>4.5%</i> | <i>4.8%</i> | <i>5.2%</i> | <i>5.3%</i> | <i>5.3%</i> |
| Other profits/losses | (1) | 14 | 12 | 12 | - | - |
| Profits/Losses from associates | - | - | (2) | (2) | (2) | (2) |
| Net interest expense | 118 | 198 | 352 | 311 | 370 | 357 |
| <i>as % of avg net debt</i> | <i>4.3%</i> | <i>5.5%</i> | <i>10.6%</i> | <i>11.1%</i> | <i>16.9%</i> | <i>21.5%</i> |
| <i>Interest cover (x)</i> | <i>18.0</i> | <i>15.1</i> | <i>11.7</i> | <i>17.3</i> | <i>17.4</i> | <i>21.3</i> |
| Tax | 428 | 602 | 906 | 1,202 | 1,436 | 1,720 |
| <i>Effective tax rate</i> | <i>21.3%</i> | <i>21.5%</i> | <i>24.0%</i> | <i>23.8%</i> | <i>23.7%</i> | <i>23.7%</i> |
| Minority interest | 1 | 1 | 2 | 2 | 3 | 3 |
| Attributable net profit | 1,577 | 2,206 | 2,879 | 3,863 | 4,617 | 5,531 |
| Cash earnings | 1,964 | 2,895 | 4,102 | 5,288 | 6,485 | 7,810 |
| Total number of shares | 153,951,000 | 316,990,000 | 443,496,178 | 456,801,063 | 470,505,095 | 484,620,248 |
| EPS (VND) (after treasury shares) | 10,249 | 7,155 | 6,672 | 8,464 | 9,812 | 11,402 |
| Bonus factor (x) | 0.38 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 |
| Adjusted EPS (VND) | 3,846 | 5,367 | 6,672 | 8,464 | 9,812 | 11,402 |
| <i>EPS growth</i> | <i>40.9%</i> | <i>39.6%</i> | <i>24.3%</i> | <i>26.9%</i> | <i>15.9%</i> | <i>16.2%</i> |

| KEY CASHFLOW AND BS ITEMS | 2016 | 2017 | 2018 | 2019F | 2020F | 2021F |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Increase in working capital | 1,718 | 148 | 2,190 | 1,218 | 3,228 | 3,815 |
| Capex | 1,278 | 2,065 | 1,495 | 2,167 | 2,013 | 2,040 |
| 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 | 1,438 | 901 | 1,543 |
| Share issues | 0 | 92 | 703 | 137 | 141 | 145 |
| Dividends paid | 220 | 232 | 486 | 685 | 706 | 969 |
| Increase in net debt | 2,083 | -400 | -148 | -890 | -336 | -719 |
| Net debt, end of year | 3,792 | 3,393 | 3,244 | 2,354 | 2,018 | 1,299 |
| Shareholders' equity | 3,839 | 5,906 | 8,977 | 12,292 | 16,344 | 21,050 |
| BVPS (VND) | 24,945 | 19,157 | 20,806 | 26,932 | 34,736 | 43,339 |
| Net debt / equity | 98.8% | 57.4% | 36.1% | 19.1% | 12.3% | 6.2% |
| Net debt / EBITDA (x) | 1.5 | 0.9 | 0.6 | 0.3 | 0.2 | 0.1 |
| Total assets | 14,854 | 22,823 | 28,123 | 30,547 | 34,263 | 38,251 |

| KEY RETURN AND VALUATION RATIOS | 2016 | 2017 | 2018 | 2019F | 2020F | 2021F |
|---------------------------------|-------|-------|--------|-------|-------|-------|
| ROE | 49.9% | 45.3% | 38.7% | 36.3% | 32.2% | 29.6% |
| ROA | 14.3% | 11.7% | 11.3% | 13.2% | 14.2% | 15.3% |
| ROIC | 28.3% | 27.9% | 29.4% | 30.6% | 29.8% | 28.6% |
| WACC | 9.2% | 11.1% | 12.4% | 10.6% | 11.2% | 11.3% |
| EVA | 19.0% | 16.8% | 17.0% | 20.0% | 18.6% | 17.3% |
| PER (x) | 30.8 | 22.1 | 17.8 | 14.0 | 12.1 | 10.4 |
| EV/EBITDA (x) | 22.8 | 15.6 | 10.7 | 8.4 | 6.9 | 5.8 |
| EV/FCF (x) | -30.8 | 106.4 | -832.5 | 39.9 | 63.7 | 37.2 |
| PBR (x) | 4.8 | 6.2 | 5.7 | 4.4 | 3.4 | 2.7 |
| PSR (x) | 1.2 | 0.8 | 0.6 | 0.5 | 0.4 | 0.4 |
| EV/sales (x) | 1.3 | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 |
| PEG (x, 3 yr prospective) | 0.9 | 0.7 | 0.8 | 0.7 | 0.8 | 0.8 |
| Dividend yield | 1.3% | 1.3% | 1.3% | 1.3% | 1.3% | 1.7% |

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

Associate – Consumer-related, Technology Chi Luong

(+84 28) 3823 4159 (x327)

chiltk@acbs.com.vn

Associate – Financials Yen Tran

(+84 28) 3823 4159 (x326)

yentran@acbs.com.vn

Associate – Property Truc Pham

(+84 28) 3823 4159 (x303)

trucptt@acbs.com.vn

Associate – Consumer-related, Media Trung Tran

(+84 28) 3823 4159 (x351)

trungtn@acbs.com.vn

Associate – Oil & Gas Hung Phan

(+84 28) 3823 4159 (x354)

hungpv@acbs.com.vn

Analyst – Industrials Phuc Tran

(+84 28) 3823 4159 (x325)

phuctta@acbs.com.vn

Analyst – Technical Phuoc Luong

(+84 28) 3823 4159 (x250)

phuocld@acbs.com.vn

Analyst – Derivatives Minh Trinh Viet

(+84 28) 3823 4159 (x352)

minhtvh@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director - Head of Institutional Client

Tyler Cheung

(+84 28) 54 043 070

tyler@acbs.com.vn

Director - Institutional Client

Patrick Mitchell

(+84 28) 54 046 632

patrick@acbs.com.vn

Customer Support Institutional Client

Thanh Le

(+84 28) 3823 4798

thanhln@acbs.com.vn

Corporate Sales Institutional Client

Nhu Le Mai

(+84 28) 3823 4159 (x307)

nhultm@acbs.com.vn

Customer Support Institutional Client

Ngoc Tuyen Nguyen

(+84 28) 3823 4955

tuyennn@acbs.com.vn

Trading Manager Huong Chu

(+84 28) 54046630 (x308)

huongctk@acbs.com.vn

Trader Nhan Nguyen

(+84 28) 38234159 (x311)

nhanntt.sgn@acbs.com.vn

Trader Thanh Tran

(+84 28) 54046626

thanhtt@acbs.com.vn

Trader Dung Ly

(+84 28) 54046630

dungln.hso@acbs.com.vn

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%.

Analyst Certification(s)

We, the author(s) of this report, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures

ACBS and/or an affiliate thereof (hereby collectively called ACBS) did or may seek to do business with companies covered in this report as its routine business. ACBS's proprietary trading accounts may have a position in such companies' securities. As a result, the investor should be aware that ACBS may have a conflict of interest from time to time.

ACBS produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Disclaimer

This report is provided for information purposes only. ACBS makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this report. ACBS will not treat unauthorized recipients of this report as its clients. Prices shown (if any) are indicative and ACBS is not offering to buy or sell or soliciting offers to buy or sell any financial instrument. **Without limiting any of the foregoing and to the extent permitted by law, in no event shall ACBS, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this report or its contents.** Other than disclosures relating to ACBS, the information contained in this report has been obtained from sources that ACBS believes to be reliable, but ACBS does not represent or warrant that it is accurate or complete. The views in this report are subject to change, and ACBS has no obligation to update its opinions or the information in this report.

Some parts of this report reflect the assumptions, views and analytical methods of the analysts who prepared them, and ACBS is not responsible for any error of their works and assumptions. ACBS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report.

The analyst recommendations in this report reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of ACBS. This report does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the investors who receive it. The securities discussed herein may not be suitable for all investors. ACBS recommends that investors independently evaluate each issuer, securities or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This report may not be distributed to the public media or used by the public media without prior written consent of ACBS. Otherwise it will be considered as illegal. The breacher shall compensate fully to ACBS any loss or damage which arises from such breach (if any).

In the event that the distribution and/or receipt of this report is prohibited by the investor's jurisdiction, the investor shall dismiss this report immediately otherwise it will be at his/her own risks.

ACBS does not provide tax advice and nothing contained herein should be construed to be tax advice. Accordingly, the investors should seek advice based on their particular circumstances from an independent tax advisor. This report may contain links to third-party websites. ACBS is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by ACBS. Access to any third-party website is at the investor's own risks, and the investor should always review the terms and privacy policies at third-party websites before submitting any personal information to them. ACBS is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

© Copyright ACBS (2019). All rights reserved. No part of this report may be reproduced in any manner without the prior written permission of ACBS.