

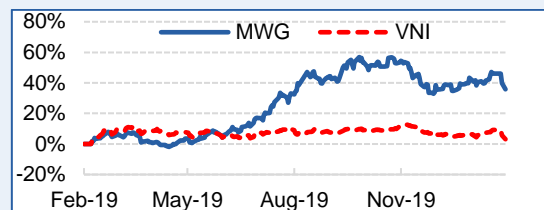


## Mobile World (MWG)

## Earnings Flash

<b>Industry:</b>	<b>Retailing</b>		<u>2018</u>	<u>2019</u>
<b>Report Date:</b>	<b>February 3, 2020</b>			
Current Price:	VND108,800	Rev y/y	30.4%	18.1%
Last Target Price:	VND215,000	EPS y/y	24.3%	29.6%
Upside:	+97.6%	GPM	17.7%	19.1%
Dividend yield:	1.4%	NPM	3.3%	3.8%
TSR:	+99.0%	EV/EBITDA	11.2x	8.9x
Rating:	BUY	P/Op CF	21.3x	NM
		P/E	16.3x	12.6x

Market Cap:	USD2.1bn		<u>MWG</u>	<u>VNI</u>
Foreign Room:	USD0	P/E (ttm)	12.6	14.5x
ADTV30D:	USD3.2mn	P/B (curr)	4.1x	2.2x
State Ownership:	0%	Net D/E	0.7x	N/A
Outstanding Shares:	453.3 mn	ROE	36.3%	15.3%
Fully Diluted Shares:	453.3 mn	ROA	11.0%	2.5%



### Company Overview

MWG owns the leading mobile phone and consumer electronics chains in Vietnam with market shares of 48% and 38%, respectively, in 2019. To sustain strong growth going forward, MWG is rolling out the Bach Hoa Xanh minimart chain.

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## Consumer electronics and GPM expansion boost profits

As we highlighted in our [Vietnam Today](#) report dated January 23, 2020, MWG released Q4 2019 results that include revenue of VND25.4tn (USD1.1bn, +21% YoY) and NPAT-MI of VND860bn (USD37mn, +24% YoY). For full-year 2019, revenue reached VND102tn (USD4.4bn, +18% YoY) while NPAT-MI amounted to VND3.8tn (USD165mn, +33% YoY). These results are broadly in line with our expectation as 2019 revenue and NPAT-MI completed 98% and 99% of our respective forecasts. Today, management provided more details on the performance of each business, which were also within our expectations. Below are our key takeaways.

**MWG increased market share in both mobile phone and consumer electronics markets.** In 2019, MWG recorded market shares of 48% (vs 45% as of YE2018) in mobile phones and 38% (vs 35% as of YE2018) in consumer electronics as it gained share across sub-categories. MWG's revenue growth was spearheaded by home appliances and kitchenware (+41% YoY) and white goods (e.g., refrigerators, air conditioners and washing machines; +32% YoY), followed by electronics (e.g., TVs and audio systems; +13% YoY).

**DMX (consumer electronics chain) spearheaded growth.** DMX's 2019 revenue soared 23% YoY, driven by solid SSSG, new store openings (268 new stores in 2019 – including conversions of high-performing mobile stores to mini-DMX – to reach a total store count of 1,018 vs 750 as of YE2018) and layout optimization (483 mini-DMX stores were converted to the new layout in 2019). Per MWG, the new DMX layout generally helps to improve sales/store by 30% vs the current layout thanks to a more extensive range of SKUs for electronics, home appliances and kitchenware.

**TGDD's (mobile phone chain) revenue slid due to conversion of high-performing stores to mini-DMX format.** Due to this conversion, as of YE2019, TGDD's store count shrunk to 996 (1,013 if including 17 "Super Cheap Phones" stores, which is MWG's new low-price format) vs 1,032 as of YE2018. Having said that, on a category basis, MWG's mobile phone sales still grew by 2% in 2019 despite an industry-wide decline.

**Roll-out of watches remains at high pace.** MWG's watch point-of-sales (shop-in-shop format) reached 253 as of YE2019 vs 227 as of November 2019, 174 as of October 2019 and 42 as of July 2019. In 2019, MWG generated VND800bn (USD34.5mn) in watch revenue, equivalent to 0.8% of its total revenue.

**YoY online sales growth continued to slow due to pricing adjustment.** Online sales growth tapered down to 3% YoY in 2019 vs 39% YoY in H1 2019. Per management, this growth slowdown is because MWG has cut down on promotions (e.g., price discount vouchers) on its online channel to better align its offline/online pricing since May 2019. This adjustment will enable MWG to more

effectively utilize its omnichannel in the sense that its online platform will better target customers who seek the convenience and service quality of online shopping rather than those chasing price discounts. This online pricing adjustment has not affected total sales, per management, as customers who were previously incentivized to order online because of the promotional vouchers simply switched to purchasing directly at stores.

**Sales/store of BHX (minimart chain) maintained above VND1.3bn (USD56,000) in December 2019, although new stores in more remote areas diluted the chain's blended average figure.**

BHX's average sales/store reached VND1.35bn (USD58,000) in December 2019 vs VND1.3bn (USD56,000) in November 2019 and more than VND1.5bn (USD64,000) in August 2019. BHX's sales/store in December 2019 still trailed that of August 2019 because new stores in the South Central Coast region as well as lower-income areas in the Mekong Delta are generating lower sales/store and thus dragging BHX's blended average sales/store.

In terms of store expansion, BHX's footprint coverage has widened to 20 provinces in southern and South Central Coast provinces in addition to HCMC. We estimate that 90% of new BHX stores in 2019 (net of store closures) were outside of HCMC. As such, stores in these provinces now constitute 57% of the total BHX store count as of YE2019 vs only 8% as of YE2018. Per MWG, in December 2019, BHX stores in HCMC generated sales of more than VND1.4bn/month/store (USD60,000) while BHX stores outside of HCMC generated sales of nearly VND1.3bn/month/store (USD56,000).

**GPM expansion further boosted the bottom line.** We estimate that the combined GPM of TGDD and DMX improved to 19.1% in 2019 vs 17.8% in 2018, on the back of a larger scale and a better product/brand mix. Since this GPM improvement only began in Q3 2019 (TGDD and DMX's combined GPM reached more than 20% in H2 2019 vs 17.8% in H1 2019, per our estimate), it should bode well for profitability in 2020 vs 2019.

**MWG's 2019 results**

VND bn	2019	YoY	Actual/VCSC's forecasts 2019	Store count as of YE2019	VCSC's YE2019 store count forecasts
<b>Revenue</b>	<b>102,174</b>	<b>18%</b>	<b>98%</b>		
TGDD	33,207	-5%	101%	1,013*	1,002*
DMX	58,197	23%	97%	1,018	1,000
BHX	10,770	152%	97%	1,008	1,000
<b>NPAT</b>	<b>3,834</b>	<b>33%</b>	<b>99%</b>		
Online sales	12,682	3%	103%		

Source: MWG, VCSC estimates (\*including Super Cheap Phones stores)

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