

ICT Sector

Update Report

September 2021

Ticker: DGW

Reuters: DGW.HM

Bloomberg: PET VN Equity

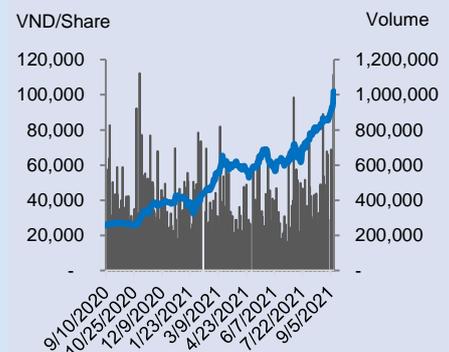
Ticker: PET

Reuters: PET.HM

Bloomberg: DGW VN Equity

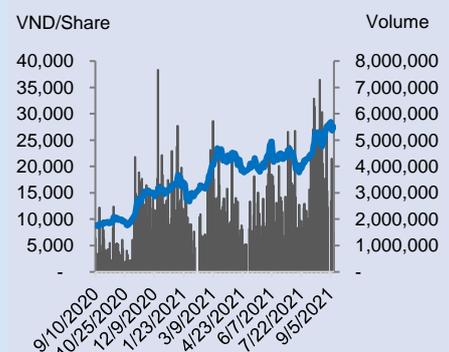
Solid growth trajectory intact despite COVID-19

DGW – PRICE MOVEMENTS



	YTD	1M	3M	6M
DGW	140.6%	28.6%	61.7%	63.6%
VNIndex	20.1%	-0.6%	-1.1%	12.6%

PET – PRICE MOVEMENTS



	YTD	1M	3M	6M
PET	75.2%	6.2%	28.8%	18.1%
VNIndex	20.1%	-0.6%	-1.1%	12.6%

In this report, we focus on how the COVID-19 pandemic had accelerated digitalization in Vietnam and the implications on Vietnamese consumer behavior and ICT-related companies under coverage. Please find below key highlights:

- Google's e-Economy SEA 2020 report indicated consumers are becoming more digital savvy. As such, 41% of all digital service consumers in Vietnam are new due to COVID-19, higher than 36% of SEA average. More importantly, 94% are intending to continue using the services post pandemic.
- Pre-COVID-19, Vietnamese usually spent 3.1 hours/day on the Internet (for personal purposes). During the height of social distancing measures, this number climbed to 4.2 hours. It is expected to stay high at 3.5 hours post-pandemic.
- These structural changes in consumer behaviors are leading to upbeat demands for ICT products. This is beneficial for ICT distributors, like DGW and PET.
- Businesses are also showing efforts to digitalize their sales channels and operations to catch up with customer trend.
- Strong outlook for the laptops and tablets in Vietnam, as people are working from home, while students are expected to study online till the end of the first semester. The global shortage of chips is denting the supply of laptops - Manufacturers are optimizing their sales and profitability via product premiumization strategy.
- Laptop distributors appear to be net beneficiaries, thanks to the ASP expansion, and GPM gains amid a rapidly moving environment.
- Per CounterPoint, Vietnam's 2Q21 smartphone shipment rose by 11% YoY. The price-for-value Xiaomi outpaced both Oppo and Vivo to rank 2nd with 17% market share by end-2Q21. Meanwhile, Apple was doing well, the fifth largest brand in Vietnam by shipment in 2Q21.
- Industry's structural changes: (1) Government's ban on importing 2G/3G feature phones, effectively from July 1, 2021, motivating further shift to smartphones, which should buoy the industry's sales growth going forwards; (2) The exit of Vsmart to benefit players focusing on lower-end products.
- Apple's authorized products are winning market share, backed by Government's tighter regulation on hand-carried products and Apple's huge supports to its authorized partners in Vietnam.
- We are expecting Vietnam's smartphone market to resume its growth from 4Q21, on the back of the reopening of retailers, pent-up demand post lockdown restriction and active launching of new products during the market's peak season. Going-forward outlook is supported by the above-mentioned structural changes.
- We retain our **OUTPERFORM** rating on PET with a VND35,224 TP (Upside: 28.1%), while cut our rating on DGW to **NEUTRAL** with a VND110,385 TP (Upside: 9.2%).

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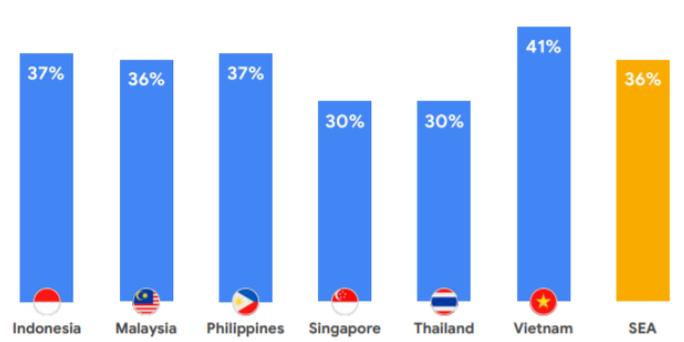
In this report, we focus on how the COVID-19 pandemic had sped up digitalization in Vietnam and its implications on Vietnamese consumer behavior and ICT-related companies under our coverage.

Consumers are becoming more digital savvy

During the pandemic in FY20, Google reported 40 mn new internet users in Southeast Asia (SEA), lifting the total number of Internet users to 400 mn (vs 250 mn in FY15). Per user feedback, 36% of all digital service consumers in Southeast Asia are new to the service as a result of COVID-19; of note, Vietnam’s (41%) – the highest in SEA.

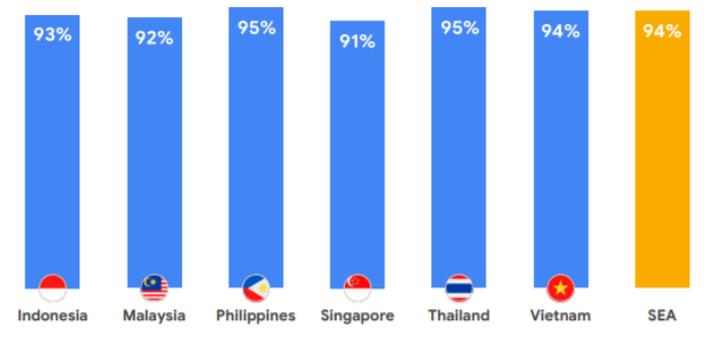
More importantly, 94% of these new consumers intend to continue with the service post-pandemic. Encouragingly, Vietnam is well comparable to SEA level at 94%.

Figure 1: On average across SEA, 36% of all digital service consumers are new due to COVID-19



Source: e-Conomy SEA 2020

Figure 2: ~94% of new digital consumers in SEA are intending to continue using the service post pandemic



Source: e-Conomy SEA 2020

Consumers spending more time online since lockdown

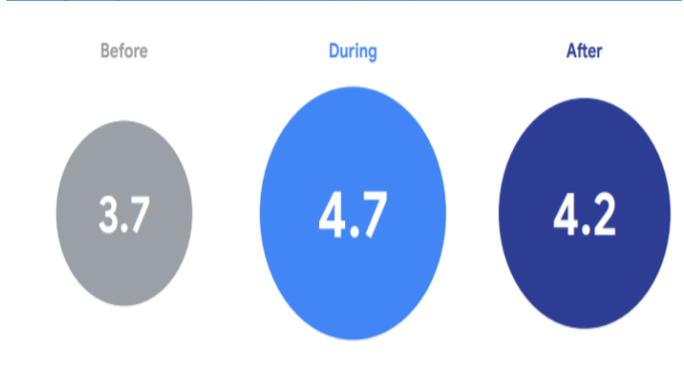
Due to COVID-19, Google numbers show average time spent on using the service on the Internet rose by 1.0 hour to 4.7 hours per day (vs 3.7 hour pre-pandemic lockdown) and is anticipated to stay at 4.2 hours even after lockdown restrictions are lifted.

Education, groceries, and loans are reported to be among the key beneficiaries, which attracted larger portion of new digital service customers in SEA.

Particularly, the Vietnamese were spending 3.1 hours online (for personal use) pre-COVID-19, which spiked to 4.2 hours at the height of lockdowns in FY20. We believe FY21 number is likely far higher than FY20 level, given longer social distancing periods in the numerous provinces in Vietnam.

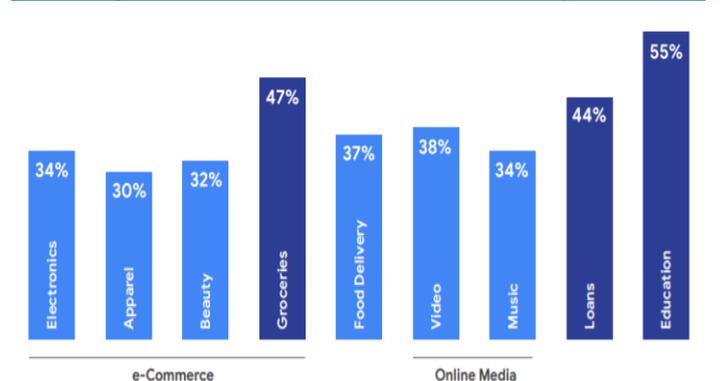
In our view, the changes in consumer behavior should have positive impacts on demand for ICT products, such as laptops, tablets, smartphones, home appliances, and FMCG. Companies, are well positioned to be net beneficiaries from this trend under our coverage, are DGW and PET.

Figure 3: Consumers spent more time on the internet since the pandemic (Average daily online time for personal purposes)



Source: e-Conomy SEA 2020

Figure 4: Education, groceries, and loans are the main beneficiaries from new digital consumers: (% of new digital service consumers out of total service consumers)



Source: e-Conomy SEA 2020

Digital adoption by businesses is also rapidly growing

Due to reduction in people movement and surge in online activity, businesses are also looking to capitalize on this trend through digital adoption. This appears to be a favorable trend showing a sharp jump in search for online selling-related enquiries, per Google e-Economy SEA 2020 report.

Within our coverage, we do see digitalization efforts from corporates to catch up with customer behaviors and changes in business environment.

For instance, MWG – the largest ICT retailer in Vietnam – had been gradually shifting its sales to online channels. To date, this a strategic move has borne fruits, especially amid the resurgence of COVID-19 in large cities. For 7M21, MWG’s TGDD/DMX online sales achieved VND6,000 bn. Notably, online sales in June surged to the highest ever level at ~ VND1,200 bn, which was slightly down to VND1,000 bn in July due to the stricter social distancing measures.

Figure 5: The growing ratio of ICT Online sales/Total sales of MWG:



Source: Company data; BVSC’s estimate

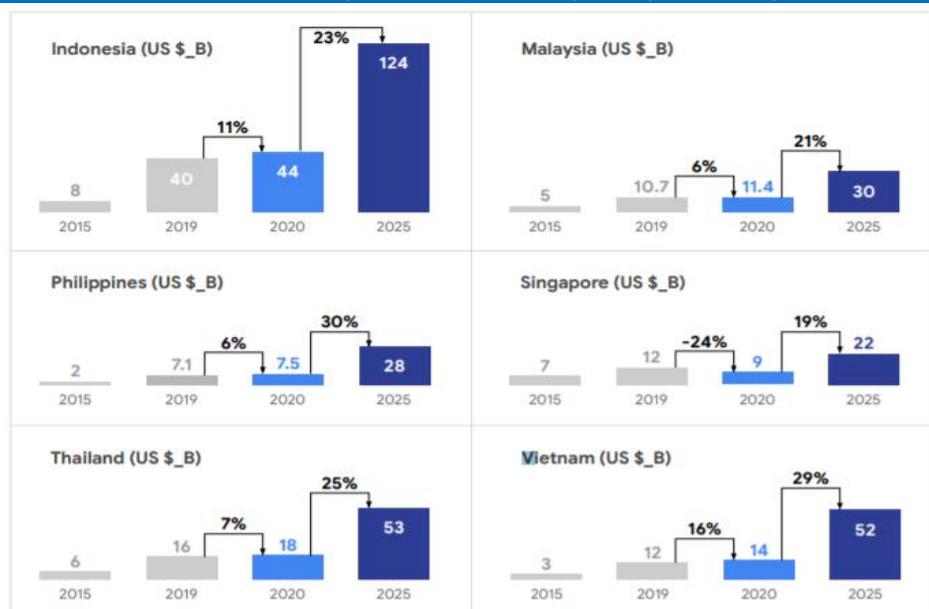
Southeast Asia's digital economy to triple in FY25...

SEA’s digital economy grew 5% YoY in FY20 to USD105 bn despite COVID-19-led difficulties. Google forecasts the region’s digital economy shall triple to nearly USD309 bn (equivalent to a 24% FY20-25 CAGR), driven by a sharp surge in e-Commerce (+23% CAGR), online media (+15% CAGR), online tourism (+33% CAGR) and digital consumption of transport and food (+30% CAGR).

... of which, Vietnam is among the fastest growing digital economies

The ASEAN countries ranked by projected rate of growth in their respective internet economies are the Philippines (30% CAGR), Vietnam (29%), Thailand (25%), Indonesia (23%), Malaysia (21%) and Singapore (21%). The strong growth outlook of digital economy convinces us that changes in consumer behaviors (i.e., spent more time online) to stay sustainable going forwards.

Figure 6: Vietnam and Indonesia’s digital economies still growing double digits:



Source: e-Economy SEA 2020

Vietnam’s laptop market: Quick updates

Resilient demand on surging demand for work and study online

Per our observation in both distributors and retailers, laptop sales in Vietnam had been on the rise in the past 3 years, propelled by: (1) Vibrant business environment pre-COVID-19; (2) Growing digitalization efforts; and (3) Changes in consumer behaviors, as well as people are shifting to work and study online.

Normally, 3Q is the peak season for laptops in Vietnam, given the back-to-school season. Given current COVID-19 situations nationwide, students are told to study online, which is expected to last till the end of the first semester this year. Demand for laptops is booming, accordingly.

Both MWG and FRT shared that the demand for laptops in August has doubled YoY. From the supply side, Acer, as an example, stated that its Aug-21 sales doubled YoY, while expecting Sep-21 sales to soar 2-3x YoY.

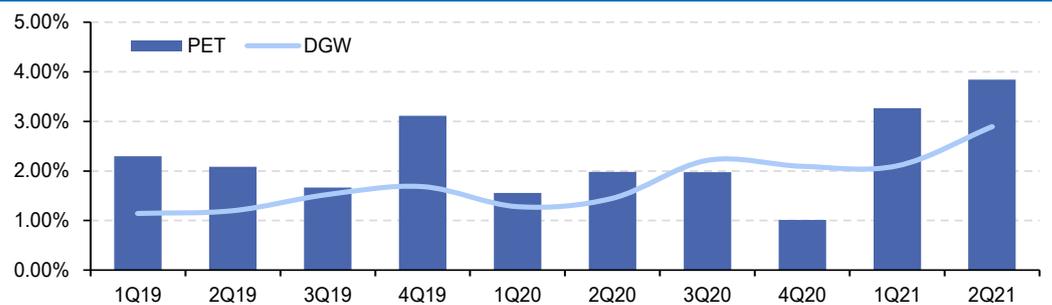
Laptop distributors have a net benefit from supply contraction

Facing world-wide shortage of chips, laptop makers are shifting to focus on higher-end products, whose selling prices are higher, which is to boost sales value and profitability. We understand that laptop makers are now further heightening their efforts on premiumization, which had indeed started pre-COVID-19 that we had discussed in our update on DGW in Nov-20.

We did witness laptop sales remains robust YoY, but start to show signs of slowdown in 2Q21, largely impacted by supply contraction. That being said, the key driver for robust sales during 2Q21 is ASP expansion, which we expect to likely sustain going forwards. In fact, we also learnt that both MWG and FRT are being faced with a heavy scarcity of lower-priced laptops, which, in turn, encourages consumers to move up to higher-priced products.

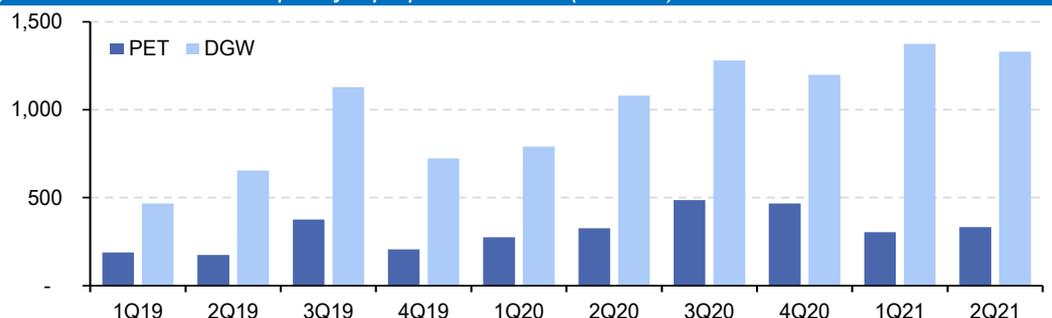
Despite supply headwinds, we believe laptop distributors are well positioned to be direct, net beneficiaries, as (1) The booming demand should help contain selling expenses (i.e., discount/promotional expenses); and (2) The manufacturers’ premiumization strategy to expand ASPs, supportive of both sales growth and margins.

Figure 7: DGW and PET’s pretax profit margin trend of the laptop segment: Stay uptrend



Source: Company data; BVSC’s estimate

Figure 8: DGW and PET’s quartly laptop sales trend: (VND bn)



Source: Company data; BVSC’s estimate

Vietnam’s handset market: Quick updates

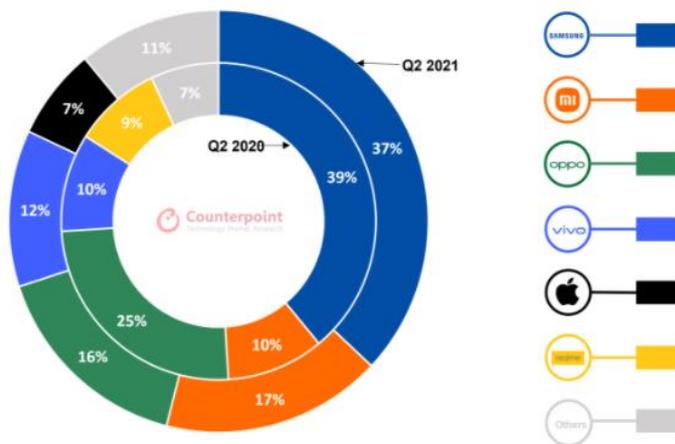
Competitive landscape: Xiaomi and Apple are the rising stars

Per CounterPoint Research, Vietnam’s 2Q21 handset shipment rose by 11% YoY, contributed largely by pent-up demand and a new user base coming from the feature phone segment.

Shipment performance in 2Q21 by brand is set out as below:

- Samsung remained its dominant position with a 37% market share.
- Xiaomi expanded its market share solidly to 17%, capturing the second spot, surpassing Oppo and Vivo.
- Apple replaced Realme to be the 5th largest brand.

Figure 9: Vietnam’s smartphone shipment share - Top 5 brands in 2Q20 and 2Q21:



Source: CounterPoint Research

Xiaomi is well-positioned to drive further market share gains

To date, Xiaomi’s price-for-value strategy had proven to bear fruits, helping it drive solid market share gains globally and of course in Vietnam. We see there are some key factors, helping Xiaomi’s market share expansion outlook to remain sustainable at least towards mid-term.

- The industry’s structural changes (1): The exit of VSmart. As such, given VinSmart’s relatively large ~10% market share, we see the exit of the low-priced VinSmart to benefit low-end-heavy segment, especially the price-for-value Xiaomi.
- The industry’s structural changes (2): Circular 43 prohibits the import of 2G/3G feature phones by the Government to promote the use of smartphones, effective from July 1, 2021.
 - Discontinuation of 2G/3G feature phones will pave the way for further conversion to smartphones, which should benefit all smartphone brands.
 - However, we believe the lower-end smartphone segment will enjoy greater benefits, as its market share by shipment in Vietnam is larger than the high-end’s. In our view, further shift from feature phones to smartphones will boost ASP, sales value, and margins.
- Consumer’s structural changes: Spending more time online, as discussed above. We believe this will positively impact smartphone sales.
- Xiaomi had been well-prepared to contain any COVID-19-led disruptions led by COVID-19 by fruitfully putting its first phase of smart factory into operation in early last year, with a fully automated production line that can produce 1 mn smartphones p.a. Meanwhile, Xiaomi is currently reported that its Phase 2 of smart factory is expected to be put into operation in FY23 with a yearly output of 10 mn units.

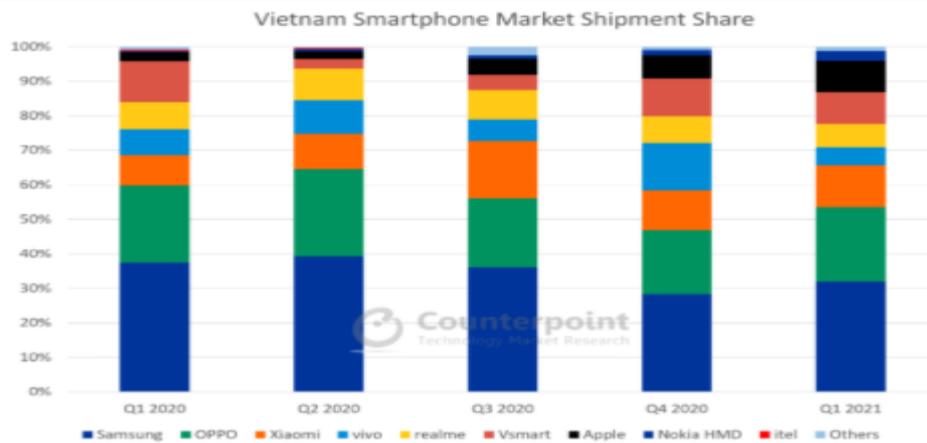
Apple’s market share is stepping up soundly in Vietnam

As presented in Figures 9 and 10, Apple had been claiming market share in Vietnam robustly and evidently since 3Q20. In our view, Apple’s sound market share gains had been on the back of the following twin fundamental changes:

- (1) Apple shows huge efforts to claim market share in Vietnam.
 - We note that, since Jul-20, Apple has signed with DGW, PET, FPT Synnex, and Viettel to distribute its authorized products in Vietnam.
 - Apple has shown its attempts, such as: (1) Shorten arrival time to launch new products between Vietnam and other countries and, (2) Narrow the price gap between official and hand-carried products.
- (2) Decision 98/2020 of the Government on hand-carried products.

We understand that Vietnamese consumers hold a greater aspirational value for Apple, together with logistics difficulties amid COVID-19, which helps the brand to sell out authorized products.

Figure 10: Vietnam’s smartphone shipment share trend in 1Q20-1Q21:



Source: CounterPoint Research

From the distributor side, we see both PET and DGW’s sales of Apple-related (including both iPhones and other products, including: laptops, tablets, watches, and accessories) were robust.

Taking PET – The best distributor among four authorized players – as an example, its Apple sales were at over VND330 bn in 3Q20, which surged strongly to above VND1.0 tn in the past 3 quarters, per our estimates. Most impressively, similar to DGW, PET was enjoying fastest-moving sales of iPhones 12 series in 1Q21, where we estimate contribution from Apple was at over VND1.7 tn, accounting for a significant 40.1% of its 1Q21 net sales.

Having said that, despite the recent recurrence of COVID-19, we are expecting 3Q21 sales of authorized Apple products to remain decent, mainly supported by market share gains. Notably, of note, we expect demand for each product category to be different (higher for laptops and tablets; while lower for iPhones, where we consider to be the late cycle of Phones 12 series), which should complement each other.

Expect market to resume growth from 4Q21

We are expecting Vietnam’s mobile phone market to resume its growth momentum from 4Q21, as we witnessed in 1H21. Normally, 4Q is Vietnam’s peak season of mobile phones, where brands are actively launching new products to ride on upbeat demand from customers. We are also expecting the reopening of offline stores of large retailers to be another key driver of sales recovery.

Product launching and sales recovery are, of course, beneficial for distributors, like PET and DGW. Meanwhile, structural changes are expected to shape a brighter outlook for Vietnam’s smartphone market going forwards.

DGW - Good news is largely priced in; Risk-reward unattractive

Figure 11: Our FY21-22 earnings forecasts for DGW: Snapshot

VND bn	2019	2020	2021F	2022F
Net sales	8,493	12,536	19,866	24,588
YoY %	43.1%	44.3%	58.5%	23.8%
Gross profits	550	803	1,381	1,699
GPM %	6.50%	6.40%	6.95%	6.91%
Pretax profits	210.0	333.8	615.6	782.4
Net profits (attributable to shareholders)	162.9	267.2	488.4	620.8
YoY %	46.8%	64.0%	82.8%	27.1%
EPS (VND/ share)	1,981	3,107	5,525	7,022
DPS (VND/ share)	500	500	1,000	1,500
Payout ratio%	25.2%	16.1%	18.1%	21.4%

Source: Company data; BVSC forecasts

3Q21 outlook: Strong net profit forecast, up 63.6% YoY

Following strong 2Q21 earnings season on surprises of margin expansion, and booming demand outlook for ICT products, especially laptops and tablets, we are revising up our 3Q21 net sales and net profit forecasts for DGW to VND4,845 bn (+33.7% YoY) and VND124.8 bn (+63.6% YoY), respectively.

Our upward revision on 3Q21 earnings forecasts is to reflect: (1) Better margin expansion in a fast-moving environment and (2) Solid market share gains of Xiaomi and Apple to help neutralize any negative effects from the overall market and thus, sustaining its YoY growth momentum.

We expect robust 3Q21 earnings season to be the short-term catalyst for DGW amid a cloudy 3Q21 outlook led by COVID-19 resurgence.

Figure 12: Our quarterly earnings forecasts for DGW: Snapshot

VND bn	1Q21A	2Q21A	3Q21F	4Q21F
Net sales	5,005.0	4,218.0	4,845.0	5,796.4
Net profit	105.0	116.4	124.8	140.4
Net sales growth, YoY%	116.7%	63.3%	33.7%	44.3%
Net profit growth, YoY %	133.5%	142.5%	63.6%	43.4%

Source: Company data; BVSC forecasts

FY21-22 outlook: Rapid growth trajectory intact

We expect DGW's 4Q21 earnings season to remain robust to reach net profits of VND140.4 bn (+43.4% YoY), supported by demand recovery post lockdown, Xiaomi and Apple's solid market share gains, and upbeat margin expansion outlook.

Accordingly, we revise up our FY21 net sales and net profit forecasts for DGW to VND19,866 bn (+58.5% YoY) and VND488.4 bn (+82.8% YoY), respectively.

For FY22, we are expecting DGW to maintain its double-digit earnings growth outlook, calling for net sales of VND24,588 bn (+23.8% YoY) and net profits of VND620.8 bn (+27.1% YoY), respectively.

Cut to NEUTRAL; End-FY22 TP at VND110,385/ share (Upside: 9.2%)

Despite raising our DCF-based TP to VND110,385/ share (Upside: 9.2%), we lower our rating on DGW to Neutral, as the share prices surged strongly by over 62% in the past 2 months. We apply a 5% valuation discount on account of COVID-19 uncertainties.

Our higher TP is as a result of: (1) Upward revision on earnings forecasts; (2) Lower discount rate, on using a lower ERP of 7.4% (per the latest update of Damodaran, vs 8.2% previously); and (3) Roll over our valuation to end-FY22.

PET - Growth and cash, what is not to like?

Figure 14: Our FY21-22 earnings forecasts for PET: Snapshot

VND bn	2019	2020	2021F	2022F
Net sales	10,008	13,453	16,264	19,348
YoY %	-9.8%	34.4%	20.9%	19.0%
Gross profits	611	669	893	1,093
GPM %	6.11%	4.97%	5.49%	5.65%
Pretax profits	185	207	371	451
Net profits (attributable to shareholders)	122	137	237	298
YoY %	7.9%	12.4%	72.6%	26.0%
EPS (VND/ share)	1,321	1,526	2,589	3,261
DPS (VND/ share)	1,000	1,000	1,700	2,500
Payout ratio %	75.7%	65.5%	65.7%	61.3%

Source: Company data; BVSC forecasts

3Q21 outlook: Solid net profit forecast, up 27.6% YoY

Similar to DGW, PET has enjoyed 2Q21 margin gains as well as booming demand for ICT products, we are estimating PET's 3Q21 net sales and net profits of VND3,646.5 bn (-16.5% YoY) and VND62.7 bn (+27.6% YoY), respectively.

We expect solid 3Q21 bottom-line growth to be the stock's short-term catalyst.

Figure 15: Our quarterly forecasts for PET: Snapshot

VND bn	1Q21A	2Q21A	3Q21F	4Q21F
Net sales	4,212.9	3,399.7	3,646.5	5,005.0
Net profits	47.9	52.0	62.7	74.4
Net sales growth, YoY%	48.0%	35.3%	-16.5%	19.5%
Net profit growth, YoY %	59.1%	137.9%	27.6%	169.1%

Source: Company data; BVSC forecasts

FY21-22 outlook: Double-digit net profit growth momentum to sustain

For FY21, we are revising up both our net sales and net profit forecasts for PET to VND16,264 bn (+20.9% YoY) and VND237 bn (+72.6% YoY), respectively.

That said, we are expecting to see the company's strong 4Q21 earnings season, forecasting net sales to reach VND5,005 bn (+19.5% YoY), while net profits are forecast to surge robustly to VND74.4 bn (+169.1% YoY) off a low 4Q20 base.

We introduce our FY22 net sales and net profit forecasts for PET to reach VND19,348 bn (+19.0% YoY) and VND298 bn (+26.0% YoY).

Dividend yields attractive at 6.2-9.1%

PET is a dividend play with our coverage, sustaining consistent, high dividend pay-out policy. During FY15-20, PET had maintained a high cash dividend payout ratio, ranging between 65.5-90.4%. We forecast PET's FY21-22 DPS to range between at least VND1,700-2,000/ share. Dividend yields look juicy at 6.2-9.1% vs the current price.

Thanh Da project and PVN's divestment remain as mid-term catalysts

We maintain our view that any progress of Thanh Da project after getting its pink book (either calling for a joint co-operation from a well-established developer or divest it) and PVN's divestment are PET's mid-term catalysts. Once happened, it should support to drive the stock's valuation re-rating.

Stay OP; TP at VND35,224/share (Upside: 28.1%)

We retain **OP** rating on PET and roll over our valuation to end-FY22 to arrive at a TP of VND35,224/ share (Upside: 28.1%). We use a target P/E of 12.0x, while applying a 10% valuation discount to its intrinsic value; of which, 5% for volatility on effective tax rates, and 5% for COVID-19 uncertainties.

At the current share price, PET is trading at an attractive FY22 P/E of 8.4x, which is 41.9% discount compared to DGW's 14.5x FY22 P/E.

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