

Industry:	ICT Distribution		2021	2022F	2023F	2024F
Report Date:	June 1, 2022	Rev Growth	67.3%	31.8%	22.7%	17.3%
Current Price:	VND128,000	EPS Growth	140.4%	17.1%	11.8%	16.2%
Target Price:	VND152,000	GPM	7.2%	6.9%	6.6%	6.5%
Last Target Price	VND146,000	NPM	3.1%	2.9%	2.7%	2.7%
Upside to TP:	+18.8%	EV/EBITDA	18.8x	15.0x	13.1x	11.3x
Dividend Yield:	0.8%	P/CFO	79.6x	19.1x	31.3x	18.7x
TSR:	+19.5%	P/E	17.0x	14.5x	13.0x	11.2x



		DGW	Peers*	VNI	
Market Cap:	USD504mn	P/E (ttm)	15.2x	13.1x	13.9x
Foreign Room:	USD104mn	P/B (curr)	5.8x	1.7x	1.8x
ADTV30D:	USD4.5mn	Net D/E	0.7x	0.0x	N/A
State Ownership:	0.0%	ROE	46.8%	17.5%	15.9%
Outstanding Shares:	90.6 mn	ROA	15.2%	7.7%	2.6%
Fully Diluted Shares:	90.6 mn				
3-yr PEG:	0.9				

Company overview

DGW is one of the leading ICT distributors in Vietnam. Its main segments include phones, laptops, and office equipment. In addition to its traditional distribution services, DGW provides comprehensive market expansion services.

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Double-digit growth outlook maintained

- We downgrade our rating to OUTPERFORM from BUY as DGW's share price has rallied by 22% over the last four months. We maintain our outlook for sustainable double-digit revenue and profit growth in the next four years that is underpinned by DGW's proven market expansion and distribution capabilities.
- We nudge up our target price by 4% due to the positive effect of rolling it forward to mid-2023 vs YE2022 as previously, which is partly offset by a 3% cut in our aggregate 2022F-2024F NPAT-MI mainly because we raise our SG&A expense projections. The adjustment in our SG&A assumptions more than offsets upward revisions to our mobile revenue forecasts given Xiaomi's stronger-than-expected performance in Q1 2022.
- Upside catalysts: Value-accretive M&A that materially expands DGW's product portfolio; successful achievement of at least 10% market share for newly added home appliance brands in the next three to five years vs our more conservative mid-single-digit rate forecasts.
- Downside risks to our positive view: Loss of contracts with major brands such as Xiaomi and Apple; weaker-than-expected consumer spending on technical goods.

We expect a high double-digit CAGR in 2022F-2024F for DGW's Xiaomi mobile revenue, which is backed by Xiaomi's aggressive market share gains. Per Canalys ⁽¹⁾, Xiaomi's volume growth in Vietnam was 67% YoY in Q1 2022, leading to its current market share in Vietnam of 22% (vs 13%-14% in 2021) that ranks in second place. As such, we assume Xiaomi's smartphone volume market share in Vietnam will be in the mid/high 20s range by 2024 with DGW accounting for 73%-76% of Xiaomi's revenue by 2024. Therefore, we raise our aggregate 2022F-2024F forecast for DGW's Xiaomi's smartphone revenue by 43% vs our previous forecast.

Apple revenue to record a 2022F-2024 CAGR of more than 20% thanks to robust consumer demand and the retreat of unauthorized products. Per DGW, unauthorized products (e.g., 'parallel imports') currently account for 25%-30% of consumption of Apple products in Vietnam — down from 50% in the past — thanks to (1) Apple's more supportive policies for Vietnam such as earlier arrivals of new products and (2) the Government's stricter control of illegal imports. DGW believes that the share of unauthorized products could fall to 10% in the next few years.

We lower our forecasts for laptop & tablet revenue and office equipment (OE) in 2022F-2024F both by 11% as their business performance in Q1 2022 trailed our previous forecast. Nevertheless, DGW's market share gains in the laptop category in recent years (from 27% in 2016 to 41% in 2020, per DGW) underscore its ability to anticipate market trends (e.g., predicting fast-selling products) to outperform the industry. In addition, we anticipate strong growth for IoT products, which is backed by Vietnam's rising consumer income and urbanization.

⁽¹⁾ Canalys is an analytics and research firm based in Singapore that provides its services for companies in electronics and technology industry.

Q1 2022 Recap: Xiaomi makes significant market share gain; robust demand for laptops & tablets

Figure 1: DGW's Q1 2022 results

VND bn	Q1 2021	Q1 2022	YoY	VCSC comments
Revenue	5,007	7,009	40%	
Mobile phones	2,833	3,880	37%	Driven by (1) robust shopping activities before the Tet Holiday and (2) the expanding market share of Xiaomi's smartphones, which ranked second in Vietnam in Q1 2022 at 20% (vs third in 2021 at 12.5%).
Laptops & tablets	1,375	2,252	64%	Lifted by continued robust demand for laptops and tablets as a result of the increased consumer penetration arising from the remote working/studying trend that was established amid COVID-19.
Office equipment	718	806	12%	
Consumer goods	81	71	-12%	
Gross profit	319	466	46%	
Selling expenses	-181	-232	28%	
G&A expenses	-21	-25	20%	
EBIT	117	210	79%	
Non-operating items	18	55	206%	Driven by (1) FX gains (+230% YoY) and (2) payment discount gains (+155% YoY) but partly offset by increased interest expenses, which almost doubled YoY.
PBT	135	265	96%	
NPAT-MI	107	211	98%	
Margins				
GPM	6.4%	6.7%		GPM inched up 0.3 pts thanks to the broader contribution from laptops and tablets, which enjoy relatively superior GPM vs mobile phones (8.0% vs 5.3%, respectively, per our estimate).
EBIT margin	2.3%	3.0%		
NPAT-MI margin	2.1%	3.0%		Mainly thanks to (1) widening GPM, (2) the positive effect of operating leverage and (3) softer promotional activities amid the current global shortage of semiconductors that has tightened the supply of electronics.

Source: DGW, VCSC

2022F: Strong double-digit growth to continue

Figure 2: VCSC's 2022 forecasts

VND bn	2021	2022F old	2022F new	2022F new YoY	VCSC comments on new 2022F
Revenue	20,972	27,224	27,644	32%	
Mobile phones	9,857	12,441	14,273	45%	<p>We forecast Xiaomi's revenue will climb 40% YoY to ~VND9.4tn (USD408mn) as it will be backed by the company's aggressive market share gains in Vietnam. This forecast is higher than our previous projection of VND7.7tn (USD335mn) as Xiaomi's smartphone growth in Vietnam for Q1 2022 significantly tracked ahead our previous expectation, which we believe will more than offset the adverse impact of DGW's recent loss of exclusivity with Xiaomi.</p> <p>In addition, we raise our forecast for iPhone sales by 3% to VND4.7tn (USD213mn) as we saw to better-than-expected iPhone growth in Q1 2022 in Vietnam (+18% YoY, per Canalys).</p>
Laptops & tablets	7,899	9,874	9,084	15%	<p>We revise down our forecast for laptop & tablet revenue by 8% as Q1 2022 results trailed behind our previous expectation. We believe this segment's growth will continue to be driven by increasing consumer adoption and rising corporate spending.</p>
Office equipment	2,840	4,271	3,888	37%	<p>We forecast existing categories (corporate OE and IoT products) to deliver combined revenue of ~VND3.5tn (USD154mn; +25% YoY) owing to digital transformation trends in the corporate sector, rising consumer adoption of smart devices and DGW's potential market share gains.</p> <p>In addition, we project two new home appliance brands (i.e., Whirlpool and a Chinese brand) will contribute revenue of VND350bn (USD15mn).</p>
Consumer goods	376	639	399	6%	
Gross profit	1,511	1,926	1,897	26%	
Selling expenses	-708	-860	-903	27%	<p>Although DGW's management previously stated that Xiaomi's marketing budget for will not be as aggressive as it was previously planned now that Xiaomi has added another distributor in Synnex FPT, advertising and promotion expenses increased 27% YoY in Q1 2022. Therefore, we revise up our assumption for selling expenses.</p>
G&A expenses	-114	-127	-134	18%	
EBIT	689	939	861	25%	
Non-operating items	134	108	144	8%	We assume no gains from bond trading in 2022.
PBT	823	1,047	1,005	22%	
NPAT-MI	657	826	793	21%	
Margins					
GPM	7.2%	7.1%	6.9%		
EBIT margin	3.3%	3.4%	3.1%		
NPAT-MI margin	3.1%	3.0%	2.9%		

Source: DGW, VCSC

Summary of major revisions to our 2022-2026 forecasts

Figure 3: Summary of our forecast revisions

VND bn	2022F	2023F	2024F	2025F	2026F	Aggregate 2022F- 2026F	Aggregate New vs Old
New forecasts							
Total revenue	27,644	33,910	39,790	44,504	49,876	195,724	6%
Mobile phones	14,273	18,066	21,386	23,524	25,877	103,126	38%
Laptops & tablets	9,084	9,992	10,991	11,761	12,584	54,413	-12%
Office equipment	3,888	5,413	6,887	8,535	10,458	35,181	-11%
Consumer goods	399	438	526	684	958	3,005	-63%
Gross profit	1,897	2,237	2,596	2,949	3,358	13,038	0%
EBIT	861	987	1,146	1,341	1,573	5,908	-9%
NPAT-MI	793	910	1,062	1,242	1,453	5,460	-4%
GPM	6.9%	6.6%	6.5%	6.6%	6.7%		
EBIT margin	3.1%	2.9%	2.9%	3.0%	3.2%		
NPAT-MI margin	2.9%	2.7%	2.7%	2.8%	2.9%		
Old forecasts							
Total revenue	27,224	32,446	36,857	41,597	46,474	184,598	
Mobile phones	12,441	13,921	15,059	16,112	17,247	74,779	
Laptops & tablets	9,874	11,355	12,490	13,739	14,701	62,159	
Office equipment	4,271	6,147	7,774	9,598	11,734	39,524	
Consumer goods	639	1,023	1,534	2,148	2,792	8,136	
Gross profit	1,926	2,234	2,543	2,939	3,354	12,996	
EBIT	939	1,077	1,243	1,487	1,746	6,492	
NPAT-MI	826	944	1,094	1,310	1,538	5,713	
GPM	7.1%	6.9%	6.9%	7.1%	7.2%		
EBIT margin	3.4%	3.3%	3.4%	3.6%	3.8%		
NPAT-MI margin	3.0%	2.9%	3.0%	3.1%	3.3%		

Source: VCSC

Valuation

We maintain our FCFE valuation approach given DGW's simple business structure and the effectiveness of the FCFE method in capturing ownership dilution due to DGW's potential ESOP issuances moving forward.

In order to factor in the dilution impact of DGW's ESOP and stock option programs from the perspective of an existing shareholder, we assign our projected FCFE with weightings that reflect the cumulative dilution of projected future ESOP and stock options (**Figure 5**). In our five-year forecast period, we assume: (1) an additional 2.5% ESOP per year in FY2021 and FY2022 (to be issued in 2022 and 2023, respectively) based on DGW's guidance that there will be a 2.5% ESOP if its NPAT growth exceeds 25% and (2) stock options (to be issued in 2022) that can exercise up to 2.5% of outstanding shares at a strike price of VND60,000/share in 2023.

Figure 4: DCF valuation for DGW

Cost of Equity	Current	Previous	FCFE (Five Year)	VND bn
Beta	1.0	1.0	PV of Free Cash Flows	3,874
Market risk premium %	7.0	7.0	PV of Terminal Val (4.0% g)	9,787
Risk Free Rate %	5.5	5.5	PV of FCF and TV	13,661
Cost of Equity %	12.5	12.5	- Minority Interest	0
			Equity Value	13,661
			Average share count (million)	90.1
			Value per share, VND	152,000

Source: VCSC

Figure 5: Cash flows

VND bn	2022F	2023F	2024F	2025F	2026F
Net income	793	910	1,062	1,242	1,453
- Capex	-9	-10	-11	-12	-13
+ Depreciation	6	7	7	8	8
- Change in working cap	-130	-469	-359	-311	-341
+ Net borrowings	120	447	326	245	294
+ ESOP and stock option proceeds	22	136	0	0	0
FCFE + ESOP and stock option proceeds (1)	802	1,021	1,026	1,172	1,401
Adjustment weighting related to ESOP and stock options (2)	99%	97%	97%	97%	97%
Attributed FCFE after ESOP and stock option adjustments (1 x 2)	797	990	995	1,136	1,359
Present Value of attributed FCFE	752	829	741	752	800
Cumulative PV of attributed FCFE	752	1,581	2,322	3,075	3,874

Source: VCSC

Figure 6: Sensitivity analysis of our target price for DGW to cost of equity and terminal growth rate, ceteris paribus

Target Price (VND)	Cost of equity (Ke)					
	11.5%	12.0%	12.5%	13.0%	13.5%	
Terminal growth (g)	3.0%	156,000	147,000	139,000	132,000	126,000
	3.5%	164,000	154,000	145,000	137,000	130,000
	4.0%	172,000	161,000	152,000	143,000	136,000
	4.5%	182,000	170,000	159,000	150,000	141,000
	5.0%	193,000	179,000	167,000	157,000	148,000

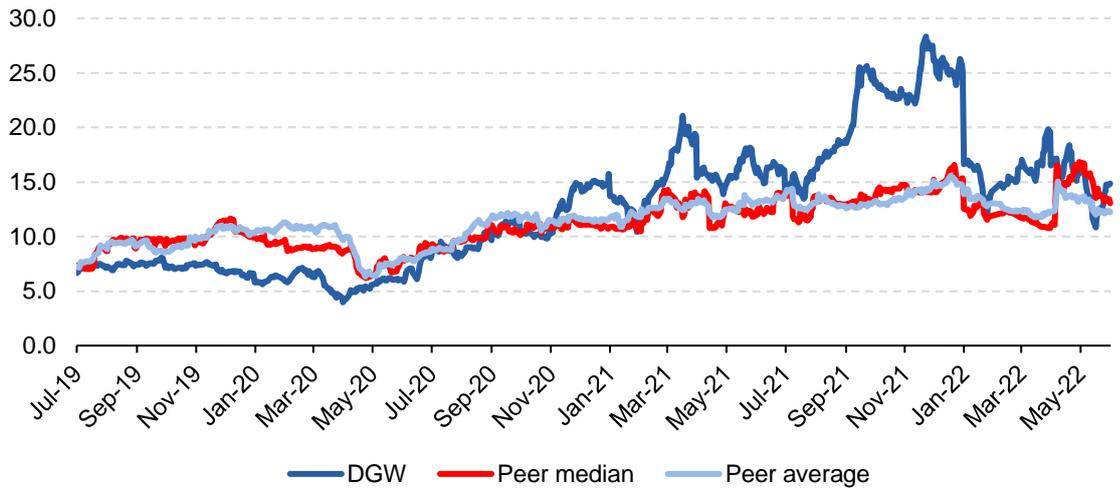
Source: VCSC

Figure 7: Comparable peers

USD mn Company	Country	Market cap	TTM Net Sales	YoY %	TTM NPAT	YoY %	Net D/E %	ROE %	TTM P/E x	LQ P/B x
SIS DISTRIBUTION	Thailand	301	28	1,011	24	21	128	25	13.1	3.0
VSTECs BHD	Malaysia	91	12	623	13	27	-18	15	7.4	1.0
METRO SYSTEMS	Thailand	95	-2	225	6	27	1	10	16.8	1.7
ERAJAYA SWASEMBA	Indonesia	587	27	3,038	71	65	26	18	8.5	1.4
METRODATA ELEC	Indonesia	583	37	1,380	38	41	-42	20	15.3	2.9
DIGIWORLD (DGW)	Vietnam	504	51	1,002	33	131	72%	47	15.2	5.8

Source: Bloomberg, VCSC (data as of May 31, 2022)

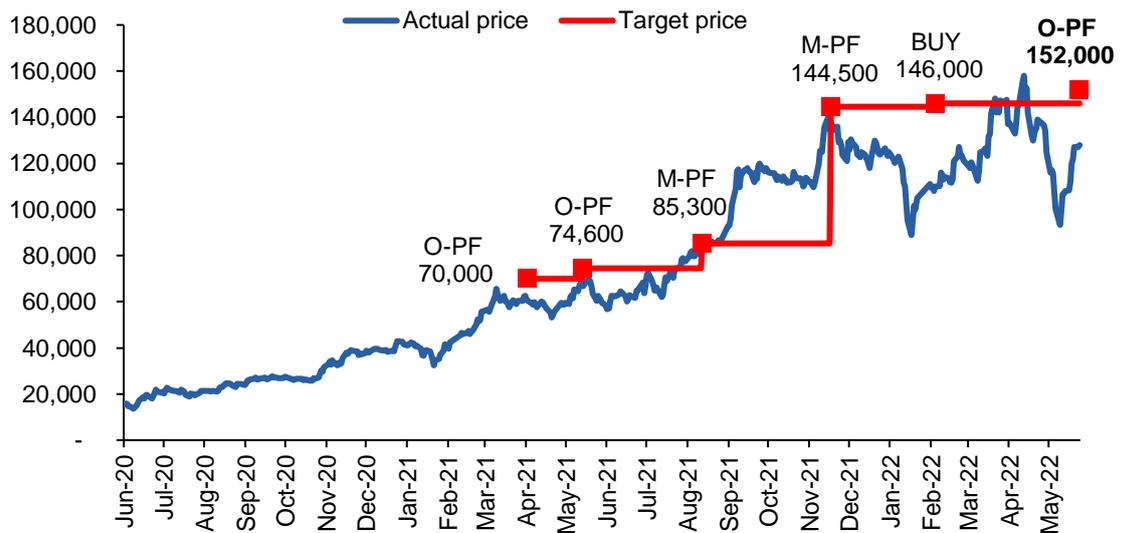
Figure 8: DGW's TTM P/E vs peers (x)



Source: Bloomberg, VCSC

Recommendation History

Figure 9: Recommendation history (share prices adjusted for share splits – VND/share)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2021	2022F	2023F	2024F	B/S (VND bn)	2021	2022F	2023F	2024F
Revenue	20,971	27,644	33,910	39,790	Cash & equivalents	1,494	2,144	2,497	2,840
COGS	-19,460	-25,747	-31,673	-37,194	ST investments	0	0	500	1,000
Gross Profit	1,511	1,897	2,237	2,596	Accounts receivables	1,727	1,863	2,285	2,682
Sales & Marketing exp	-708	-903	-1,100	-1,287	Inventories	2,843	2,414	3,275	3,868
General & Admin exp	-114	-134	-150	-163	Other current assets	195	256	315	369
Operating Profit	689	861	987	1,146	Total Current assets	6,259	6,677	8,871	10,758
Financial income	180	193	225	273	Fixed assets, gross	127	136	146	157
Financial expenses	-42	-49	-59	-74	- Depreciation	-32	-38	-45	-52
- o/w interest expense	-32	-43	-53	-67	Fixed assets, net	95	98	101	105
Associates	-2	0	0	0	LT investments	65	65	65	65
Net other income/(loss)	-2	0	0	0	LT assets other	129	192	270	361
Profit before Tax	823	1,005	1,153	1,346	Total LT assets	289	355	436	530
Income Tax	-165	-211	-242	-283	Total Assets	6,548	7,032	9,307	11,289
NPAT before MI	658	794	911	1,063	Accounts payable	2,844	2,232	2,868	3,331
Minority Interest	-1	-1	-1	-1	Short-term debt	1,117	1,237	1,684	2,011
NPAT less MI, reported	657	793	910	1,062	Other ST liabilities	792	1,044	1,280	1,502
NPAT less MI, adjusted⁽¹⁾	657	793	910	1,062	Total current liabilities	4,753	4,512	5,832	6,843
EBITDA	695	867	994	1,153	Long-term debt	0	0	0	0
EPS reported, VND	7,522	8,805	9,842	11,434	Other LT liabilities	10	10	10	10
EPS adjusted ⁽¹⁾ , VND	7,522	8,805	9,842	11,434	Total Liabilities	4,764	4,523	5,842	6,854
EPS diluted, adj ⁽¹⁾ , VND	7,522	8,805	9,842	11,434	Preferred equity	0	0	0	0
DPS, VND	1,000	1,000	1,000	1,000	Paid-in capital	886	908	930	930
DPS/EPS (%)	13.3%	11.4%	10.2%	8.7%	Share premium	61	61	174	174
⁽¹⁾ Adjusted for one-offs					Retained earnings	841	1,544	2,362	3,331
RATIOS	2021	2022F	2023F	2024F	Other equity	-6	-6	-6	-6
Growth					Minority interests	2	3	4	5
Revenue growth	67.3%	31.8%	22.7%	17.3%	Total equity	1,784	2,509	3,465	4,435
Op profit (EBIT) growth	147.7%	24.9%	14.7%	16.1%	Liabilities & equity	6,548	7,032	9,307	11,289
PBT growth	146.6%	22.1%	14.7%	16.8%	Y/E shares out, mn	88.4	90.6	92.9	92.9
EPS growth, adjusted	140.4%	17.1%	11.8%	16.2%	Y/E treasury shares, mn	0.2	0.2	0.2	0.2
Profitability					CASH FLOW (VND bn)	2021	2022F	2023F	2024F
Gross Profit Margin	7.2%	6.9%	6.6%	6.5%	Beginning Cash Balance	878	1,494	2,144	2,497
EBIT Margin	3.3%	3.1%	2.9%	2.9%	Net Income	657	793	910	1,062
EBITDA Margin	3.3%	3.1%	2.9%	2.9%	Depreciation & amortization	6	6	7	7
NPAT-MI Margin, adj,	3.1%	2.9%	2.7%	2.7%	Change in Working Cap	-433	-130	-469	-359
ROE	44.9%	36.9%	30.4%	26.9%	Other adjustments	-84	-62	-76	-90
ROA	13.7%	11.7%	11.1%	10.3%	Cash from Operations	146	607	371	620
Efficiency					Capital Expenditures, net	-9	-10	-11	-12
Days Inventory On Hand	34	37	33	35	Investments, net	27	0	-500	-500
Days Accts, Receivable	25	24	22	23	Cash from Investments	15	-9	-510	0
Days Accts, Payable	32	37	29	30	Dividends Paid	-44	-91	-91	-93
Cash Conversion Days	27	24	26	28	Δ in Share Capital	12	22	136	0
Liquidity					Δ in ST debt	488	120	447	326
Current Ratio x	1.3	1.5	1.5	1.6	Δ in LT debt	0	0	0	0
Quick Ratio x	0.7	0.9	1.0	1.0	Other financing C/F	0	0	0	0
Cash Ratio x	0.3	0.5	0.4	0.4	Cash from Financing	455	51	492	233
Debt / Assets	0.2	0.2	0.2	0.2	Net Change in Cash	616	649	353	343
Debt / Capital	0.4	0.3	0.3	0.3	Ending Cash Balance	1,494	2,144	2,497	2,840
Net Debt / Equity	-0.2	-0.4	-0.4	-0.4					
Interest Coverage x	21.6	20.0	18.5	17.0					

Source: Company data, VCSC

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + 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%
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