

Mobileworld (MWG)

3Q21 performance rebounds

November 19, 2021

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3Q business results were positive despite negative impacts of the pandemic

Revenue of TGDD/DMX recorded a slight decrease in 9M21 compared to 9M20, expected to strongly rebound in 4Q as the lockdown was lifted

BHX's positive revenue should continue

We recommend BUYING MWG shares, target price is VND168,800 per share

In 9M21, Mobile World Investment (MWG) posted profit after tax (PAT) of VND3,338 billion (+12% YoY) and revenue of VND86,820 billion (+7% YoY), delivering 70% and 69% of the full-year plan for profit and revenue respectively.

The two chains The gioi Di dong/Dien may Xanh (TGDD/DMX) recorded VND63,900 billion (-3% YoY) in revenue in 9M21, recovering 80% compared to the pre-pandemic level. In October, TGDD/DMX achieved more than VND10 trillion in revenue (+50% YoY, +60% MoM). In addition, the new chain TopZone also brought in VND40 billion thanks to sales of the Iphone 13 series.

In the first nine months of the year, Bach Hoa Xanh (BHX) chain's revenue hit VND22,600 billion (+50% YoY); the cumulative EBITDA margin continued to rise on a corporate level thanks to positive EBITDA ratio in September. In addition, the gross profit margin also improved significantly. The BOD set a target for gross profit margin to reach 27% in 2021 vs. 24% in 2020.

We forecast MWG's PAT at VND4,451 billion (+13.5% YoY) on revenue of VND115,465 billion (+6.3% YoY) for 2021; and PAT at VND6,062 billion (+36% YoY) on revenue of VND138,928 billion (+20% YoY) for 2022. We recommend BUYING MWG shares with a target price of VND168,800/share, 22% higher than the closing price on November 16, 2021 at VND137,900/share.

Buy

Target price VND168,800

Upside/Downside	22%
Current price (Nov 16, 2021)	VND137,900
Market cap (VNDtrn/USDmn)	98,309/4,340

Trading data

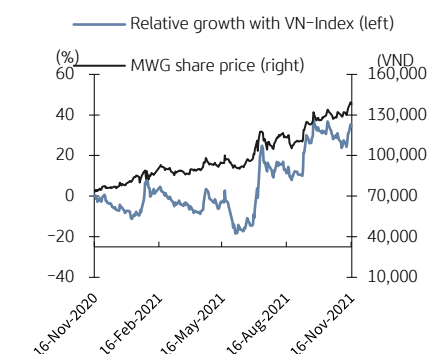
Free float	75%
3M avg trading value (VNDbn/USDmn)	181.8/7.8
Foreign ownership	49%
Major shareholder	Retail World Investment Consultant (10.76%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	7	30	44	88
Relative	2	17	32	34

Forecast earnings & valuation

FY - end	2019A	2020A	2021F	2022F
Net sales (VNDbn)	103,485	109,801	115,465	138,928
Earnings/Loss (VNDbn)	5,035	5,413	6,143	8,367
PAT (VNDbn)	3,836	3,920	4,451	6,062
EPS (VND thousand)	8,665	8,654	6,244	8,504
EPS growth (%)	29%	0%	-27%	36%
P/E (x)	13.2	13.7	22.3	16.2
P/B (x)	4.2	3.5	5.0	4.0
ROE (%)	32%	25%	23%	24%
Dividend yield (%)	15%	15%	5%	15%



3Q21 business performance

Business results of TGDD & DMX recovered beyond expectation

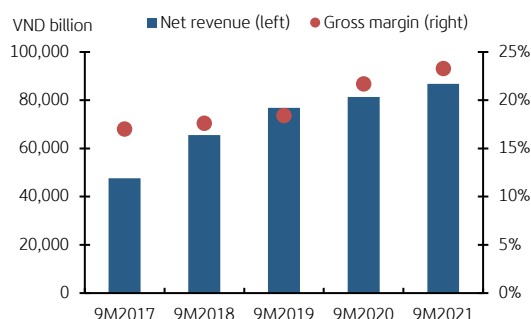
MWG posted 9M21 PAT of VND3,338 billion (+12% YoY) on revenue of VND86,820 billion (+7% YoY), delivering 70% and 69% of the full-year plan for profit and revenue respectively.

Gross profit margin continued to improve, reaching 23.3% (+1.6% YoY). In our view, the increase in gross profit margin came mainly from the great contribution of BHX in 3Q.

September PAT returned to a positive level over the same period last year. Net sales and PAT jumped 28% and 50% respectively compared to the August lows, helped by the reopening of stores in some cities and provinces. In October, MWG's revenue exceeded VND12 trillion (+38% YoY and +45% MoM).

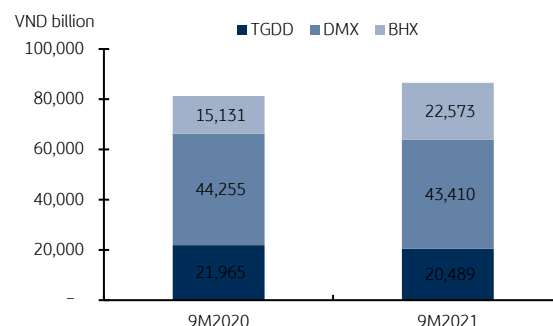
In 3Q, PAT was VND786 billion (-17% YoY) and net sales were VND24,333 billion (-5% YoY). The fall in both earnings and revenue were attributable to the severe impacts of the fourth wave of COVID-19.

Fig 1. MWG – Net sales & gross margin (VNDbn, %)



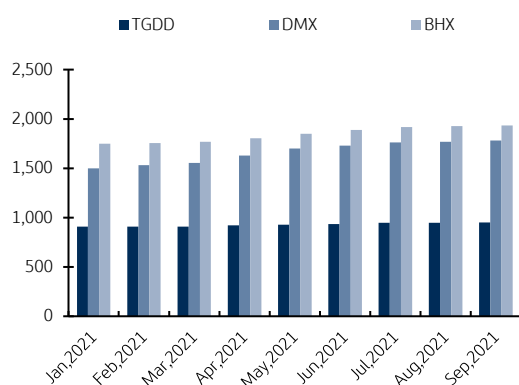
Source: Mobileworld, kB Securities Vietnam

Fig 2. MWG – Revenue structure (VNDbn)



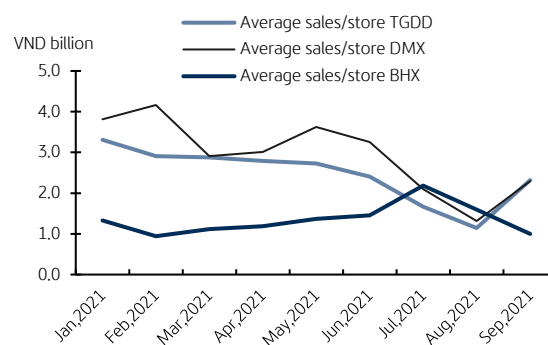
Source: Mobileworld, kB Securities Vietnam

Fig 3. MWG – Number of stores



Source: Mobileworld, kB Securities Vietnam

Fig 4. MWG – Average sales/store (VNDbn)



Source: Mobileworld, kB Securities Vietnam

TGDD/DMX chains outperformed after the lockdown

Business performance of TGDD/DMX recovers thanks to the strong breakthrough of online sales after the lockdown

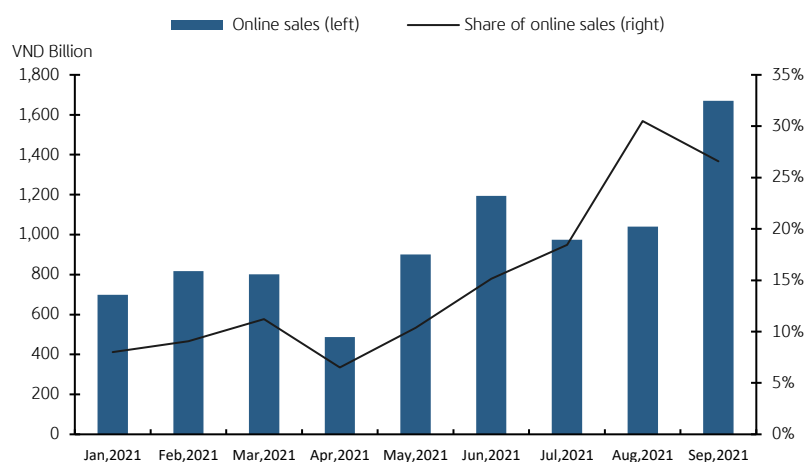
In 9M21, TGDD/DMX contributed only VND63,900 billion (-3% YoY) due to the adverse impacts of the pandemic in 3Q. To be more specific, these two chains achieved a total revenue of VND15,000 billion (-25% YoY) in 3Q21 vs. more than VND20,000 billion in 3Q20. The revenue of these two chains dropped sharply mainly due to the fact that 70% of stores had to temporarily close or restrict sales to contain the spread of COVID-19.

However, in September 2021, TGDD and DMX saw a positive recovery in revenue, reaching 85% and 75% of the average sales of the pre-pandemic months of the year respectively. In October, the two chains achieved a total revenue of more than VND10 trillion (+50% YoY, +60% MoM), greatly helping MWG's revenue to reach a record high, even higher than the peaks during Lunar New Year months. The BOD of MWG expects the recovery will continue in 4Q to make up for 3Q.

The recovery in revenue from the two chains was driven by the relaxation of social distancing measures in many cities, together with strong online sales in September which accounts for 27% of the total revenue of the two chains. The contribution of online sales to TGDD/DMX has shown signs of increasing, especially in August (Figure 5). This uptrend is consistent with our observations in the previous report on MWG.

We believe this proportion will continue to go up in the last three months of the year and may reach 30% because: (1) Shippers in many cities are now allowed going back to work and (2) Customers would prefer to shop online amid the complicated developments of the pandemic.

Fig 5. TGDD/DMX – Revenue and proportion of online sales (VNDbn, %)



Source: Mobileworld, KB Securities Vietnam

Revenue recovery is expected to continue in the months to come

We expect that TGDD/DMX's revenue will recover to the pre-epidemic average, supported by the following reasons: (1) The revenue contribution of new Apple products will focus on 4Q thanks to the earlier launch of iPhone 13 series in 2021 in comparison with iPhone 12 in 2020; (2) People often spend more on new products, especially electronic ones in 4Q to welcome a New Year; and (3) Samsung (No.1 market share) would launch the Galaxy S22 series in 1Q22.

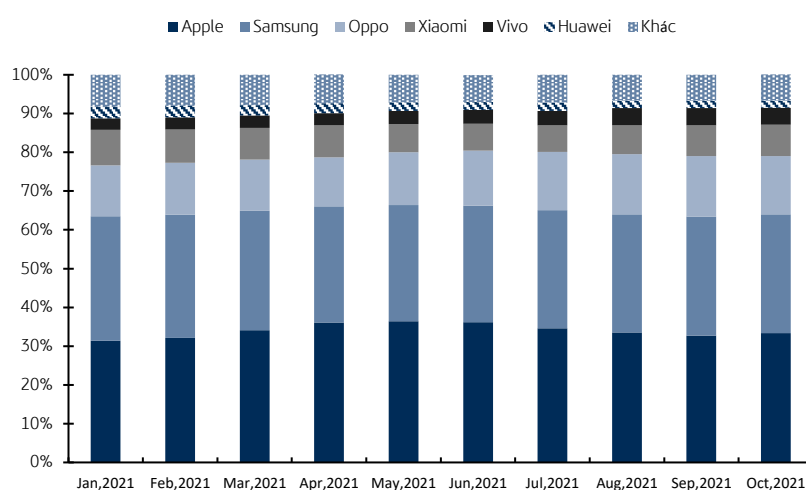
Apple products sales increased impressively after the opening of the TopZone chain

In October 2021, MWG inaugurated a chain of Apple-authorized stores. MWG opened four stores (two in Hanoi and two in Ho Chi Minh City) next to TGDD/DMX stores in the form of AAR (Apple Authorized Reseller). These stores cover an area of 100–120m² each, expected to bring in VND2–3 billion/store/month in revenue. According to our survey, apart from genuine Apple products, those also sell lines of Sony, Anker, Belkin and more.

In December 2021, MWG plans to launch two more stores in the form of APR (Apple Premium Reseller) which are independent stores with an area of 180–220m² each and revenue expected at VND8–10 billion/store/month. MWG plans to open 50–60 stores of both models by the end of 1Q22.

TopZone's business results outperformed in October 2021 thanks to the launch of the Iphone 13 series, which brought in an average revenue of VND10 billion per store. The BOD believes the opening of the TopZone chain has not yet affected the average revenue of the neighboring TGDD stores.

Fig 6. Vietnam – Market share of smartphones (%)



Source: Statcounter, KB Securities Vietnam

BHX's positive results continue thanks to good performance in July and August

In general, BHX's business results still grew well in 9M21

In 9M21, BHX achieved VND22,600 billion in revenue (+50% YoY) thanks to the sudden spikes in July and August when consumers stocked up on food. In 3Q21, BHX's gross margin improved dramatically thanks to an 28% increase in the proportion of fresh products. The BOD set a target for gross margin to reach 27% for 2021 and 29% for 2022.

September business results returned to the pre-pandemic level

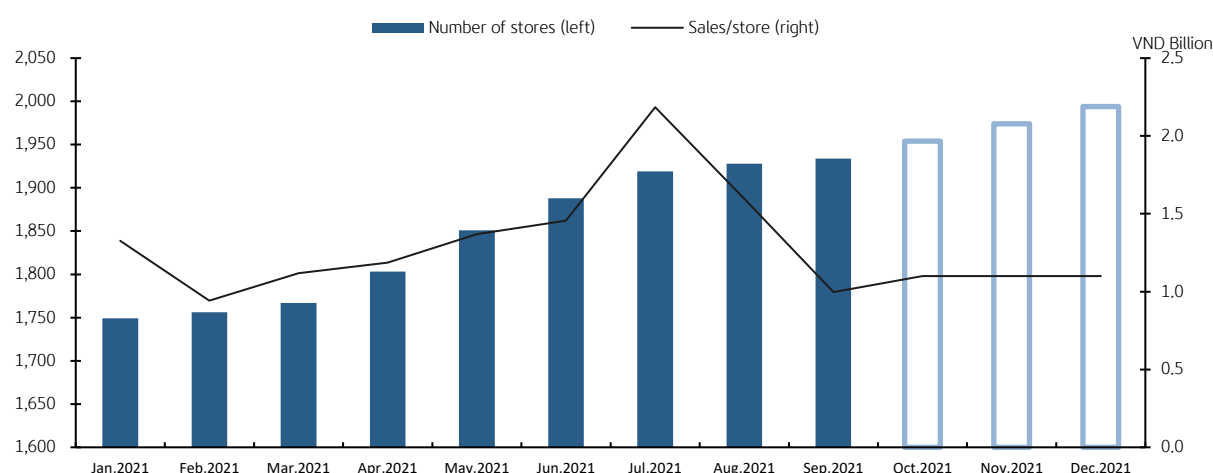
According to our estimates, BHX's September revenue was quite modest at VND1,929 billion, equal to the average of six months from January to June 2021 when the impact of the pandemic was not profound.

MWG's revenue was up to expectations in September because 40% of the points of sale had to use the method of grocery delivery instead of serving customers directly. In addition, 42 stores located in the lockdown area had to close temporarily.

October results stay unchanged compared to September

In October, BHX's revenue was nearly VND2 trillion, unchanged compared to September, the average revenue was still VND1 billion per store. In addition, the BOD of BHX was quite cautious to say that the average sales per store would reach VND1.2–1.3 billion/month after about six months to one year. October revenue did not live up to expectations despite the relaxation of the social distancing mainly because: (1) The key areas whose revenue accounts for 50% are still in the center of the pandemic; and (2) People now have more choices as the traditional markets have been reopened.

Fig 7. BHX – Number of stores & sales/store (stores, VNDbn)



Source: Mobieworld, KB Securities Vietnam

TGDD/DMX chains will not be expanded in the following years, new chains will be trialed in December 2021

According to MWG's BOD, TGDD and DMX will not grow as many stores as before owing to their high distribution across the country. The company plans to open 800 DMX stores and 1,000 Dien may Xanh Supermini (DMS) stores in 2022, and focus on developing old stores for the next phase, namely applying the Shop in shop business model, or converting the TGDD stores into DMX stores if necessary. In December 2021, MWG may launch a few new business chains (sportswear, fashion) as a trial.

BHX will focus on optimizing costs and aim towards the IPO of BHX and its subsidiaries

The company has no plans to expand market shares of BHX in the Central and Northern regions in the near future. Instead, the company will focus more on optimizing costs for BHX, aiming to break even at corporate-level EBITDA in 2021 and cover all expenses in 2022.

BHX will concentrate on expanding market share in the Southern region by opening 300-400 stores in 2022 and may launch 1-2 BHX supermarkets with a large scale of about 1,500m² and 10,000-15,000 SKUs (stock keeping units). MWG will also promote online sales channels for BHX with an expectation that revenue from online sales would double in 2022. The company is going to expand the An Khang chain in 2022 by opening 500-600 stores.

In addition, the BOD shared that there would be an IPO (Initial public offering) plan for BHX and its subsidiaries operating in logistics in the distant future and those subsidiaries will be restructured with an aim to serve not only TGDD and DMX, but also external customers.

Table 1. MWG – 2021F business performance, old and new

	2021F (old)	2021F (new)	Change	KBSV NOTES
Revenue	116,653	115,465		
TGDD	25,199	27,104	+7.5%	TGDD's revenue may rebound strongly as social distancing protocols are removed. By the end of 2021, the total number of TGDD stores should be 963. In the following years, we assume that TGDD will not open more stores as its current domestic distribution is high.
DMX	58,099	58,572	+0.8%	DMX revenue should inch up vs the previous forecast. The total number of stores should be 1,800 by the end of this year and increase by 150 in 2022 to go in line with MWG's plan on launching 1,000 new DMS stores. We think the figure would not change much in the upcoming years.
BHX	33,356	29,788	-10.6%	We reduced the number of newly opened stores of BHX from 340 (old forecast) to 275 stores due to the prolonged pandemic impacts in 3Q. Therefore, BHX's forecast revenue for 2021 is reduced to VND30 trillion. In addition, we lowered the projected average sales per store to VND1.3 billion for 2021.
Gross profit	25,120	26,328	+4.8%	We raised our forecast for gross profit after considering the improvement gross profit margin of the BHX store chain. We expect 2021 gross profit margin of MWG at 27% (3.5% higher than the previous forecast).
Selling expenses	-15,879	-16,877		
General & administrative expenses	-3,525	-3,747		
Profit after tax	4,432	4,451		Although MWG's net sales may decrease, post-tax profit should be flat vs the old forecast mainly thanks to the significant improvement in BHX's gross profit margin.

Source: KB Securities Vietnam

Forecast business performance and valuation

We forecast MWG's business results with PAT of VND4,451 billion (+13.5% YoY) on revenue of VND115,465 billion (+6.3% YoY) for 2021 and PAT of VND6,062 billion (+36% YoY) on revenue of VND138,928 billion (+20% YoY) for 2022.

We recommend BUYING MWG shares with a target price of VND168,800/share

Based on two methods of valuation discounted cash flow (DCF) and P/E-P/S valuation multiples with the ratio of 50-50, we recommend BUYING MWG shares with a target price of VND168,800/share, 22% higher than the closing price on November 16, 2021 at VND137,900/share.

We give a target P/E of 11.5x for ICT chains (TGDD & DMX) thanks to their huge advantage in nationwide distribution over competitors, and a target P/S of 0.9x for BHX as BHX may reach the corporate-level breakeven point in 2022.

Table 2. MWG – Share price according to P/E-P/S valuation multiples (VND)

Chains	Method	EPS, sales/share	P/E, P/S target	Valuation results
TGDD & DMX	P/E	9,662	11.5	111,465
BHX	P/S	51,696	0.9	46,527
Total				157,992

Source: KB Securities Vietnam

Table 3. MWG – Target price according to DCF & P/E-P/S valuation multiples (VND)

Method	Valuation	Weight
DCF	179,684	50%
P/E- P/S	157,992	50%
Target price	168,800	100%

Source: KB Securities Vietnam

MWG – Business performance

Income statement					Balance sheet				
(VNDbn)	2019A	2020A	2021E	2022E	(VNDbn)	2019A	2020A	2021E	2022E
Net sales	103,485	109,801	115,465	138,928	Total assets	41,708	46,031	50,379	59,477
Cost of sales	(82,686)	(84,592)	(89,137)	(107,183)	Current assets	35,012	37,317	40,203	48,642
Gross Profit	19,488	23,954	26,328	31,745	Cash & equivalents	3,115	7,348	6,434	9,649
Financial income	631	794	1,212	1,517	ST investments	3,137	8,057	8,057	8,057
Financial expenses	(570)	(594)	(773)	(827)	Accounts receivable	1,815	1,595	1,678	2,018
of which: interest expenses	(568)	(594)	(773)	(827)	Inventory	25,745	19,422	23,093	27,786
Gain/(loss) from joint ventures	(3)	(4)	0	0	Other current assets	1,199	895	941	1,132
Selling expenses	(12,437)	(15,334)	(16,877)	(19,695)	Long-term assets	6,696	8,714	10,176	10,835
General & admin expenses	(2,074)	(3,404)	(3,747)	(4,373)	LT trade receivables	375	439	462	566
Operating profit/(loss)	5,035	5,413	6,143	8,367	Fixed assets	5,404	7,295	8,644	8,970
Other income	42	44	0	0	Investment properties	0	0	0	0
Other expense	(23)	(46)	0	0	LT incomplete assets	87	133	180	237
Net other income/(expenses)	19	(3)	0	0	LT investments	56	53	55	67
Pretax profit/(loss)	5,053	5,410	6,143	8,367	Goodwill	0	0	0	0
Income tax	(1,217)	(1,490)	(1,692)	(2,304)	Other LT assets	774	794	835	1,004
Net profit/(loss)	3,836	3,920	4,451	6,062	Liabilities	29,565	30,549	30,669	34,657
Minority interests	8	9	11	11	Current liabilities	28,442	29,423	29,724	33,917
Net profit after MI	3,828	3,911	4,440	6,051	Trade accounts payable	12,055	8,728	9,178	11,043
					Advances from customers	0	0	0	0
Operating ratios					ST borrowings	13,031	15,625	15,927	17,317
(%)	2019A	2020A	2021E	2022E	Special reserves	0	0	0	0
Revenue growth	18%	6%	5%	20%	Other current liabilities	3,356	5,069	4,619	5,557
EBIT growth	33%	7%	15%	33%	Long-term liabilities	1,122	1,127	945	740
EBITDA growth	38%	9%	14%	34%	LT payables	0	0	0	0
NP after MI growth	172%	9%	14%	34%	LT borrowings	1,122	1,127	945	740
Gross profit margin	19%	22%	23%	23%	Other LT liabilities	0	0	0	0
EBITDA margin	8%	8%	8%	9%	Shareholders' equity	12,144	15,482	19,710	24,820
EBIT margin	5%	5%	6%	7%	Paid-in capital	4,435	4,532	7,131	7,131
Pre-tax profit margin	5%	5%	5%	6%	Share premium	551	551	579	697
Net profit margin	4%	4%	4%	4%	Treasury stock	0	0	0	0
					Undistributed earnings	7,150	10,390	11,989	16,982
					Reserve & others	0	0	0	0
Cash flow					Minority interests	8	9	11	11
(VNDbn)	2019A	2020A	2021E	2022E	Total liabilities & equity	41,708	46,031	50,379	59,477
Net profit	5,053	5,410	6,143	8,367					
Plus: depreciation & amort	1,443	2,196	2,505	2,798	Key ratios				
Plus: investing (profit)/loss	(341)	(558)	(750)	(750)	(x, % VND)	2019A	2020A	2021E	2022E
Change in working capital	(6,455)	5,151	(3,332)	(3,289)	Valuations				
(Inc)/dec - receivables	(676)	850	(82)	(341)	P/E	13.2	13.7	22.1	16.2
(Inc)/dec - inventory	(8,375)	6,270	(3,671)	(4,693)	P/E diluted	13.2	13.7	22.1	16.2
(Inc)/dec - other curr assets	0	0	0	0	P/B	4.2	3.5	5.0	4.0
Inc/(dec) - payables	2,824	(1,894)	450	1,865	P/S	0.5	0.5	1.0	0.8
Inc/(dec) - advances	(228)	(75)	(29)	(120)	EV/EBITDA	8.7	7.7	13.4	10.1
Inc/(dec) - other curr liab	0	0	0	0	EV/EBIT	10.9	10.5	18.1	13.1
Other adj for operations	0	0	0	0	EPS	8,665	8,654	6,244	8,504
Operating cash flow	(1,286)	10,792	1,778	3,445	DPS (annual, ordinary)	1,500	525	1,500	1,500
ST investments	0	0	0	0	Dividend payout ratio (%)	15%	15%	5%	15%
Capital expenditures	(3,067)	(3,911)	(3,853)	(3,125)	Operating performance				
Investment properties	0	0	0	0	ROE	32%	25%	23%	24%
Investment in subsidiaries	0	0	0	0	ROA	9%	9%	9%	10%
Other assets	0	0	0	0	ROIC	15%	12%	12%	14%
Other adj for investments	(2,806)	(4,663)	1,457	2,856	Financial structure				
Investing cash flow	(5,873)	(8,574)	(2,396)	(269)	Total liab/equity	2.4	2.0	1.6	1.4
Issuance/(repayment) of debt	45,906	51,168	51,386	61,826	Current ratio (x)	1.2	1.3	1.4	1.4
ST debt	(38,802)	(48,574)	(51,444)	(60,718)	Interest coverage (x)	9.7	9.9	10.1	8.9
Other liabilities	0	0	0	0	Activity ratios				
Issuance/(retirement) of equity	86	99	0	0	Asset turnover	3.0	2.5	2.4	2.5
Dividends paid	(665)	(679)	(238)	(1,070)	Receivables turnover	61.6	64.4	70.6	75.2
Other adj for financing	0	0	0	0	Inventory turnover	3.8	3.7	4.2	4.2
Financing cash flow	6,525	2,014	(295)	38	Payables turnover	9.0	7.5	10.4	11.1
Net increase in cash & equivalents	(634)	4,233	(913)	3,215					
Cash & equivalents - beginning	3,750	3,115	7,348	6,434					
Cash & equivalents - ending	3,115	7,348	6,434	9,649					

Source: KB Securities Vietnam

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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