

Mobileworld (MWG)

Adjusted forecast due to negative macro data

December 2, 2022

Analyst Pham Phuong Linh

linhpp@kbsec.com.vn

MWG completed 81% of the full-year plan after 10M22

Mobile World Investment (MWG) recorded net revenue of VND113,712 billion (+15% YoY) in 10M22 (81% of the 2022 plan). 10M22 NPAT decreased slightly by 2% YoY to VND 3,839 billion (60% of the full-year objective). In the recent meeting with analysts, the Management expected the company will complete the revenue plan and reach 90% NPAT target for 2022 amid unfavorable macro environment.

Short-term growth of ICT&CE segment falls short of expectations due to lower purchasing power

The negative signals of the economy bode ill for consumers' income and purchasing power even though the Lunar New Year is approaching. The effects on consumer discretionary like smartphones and electronics should be stronger than on other items. This situation may last until 1Q23 or even to the next two quarters and become more stable in 4Q23.

BHX expect the new strategy would bring more profit from 4Q23

The new strategy of the Bach hoa Xanh (BHX) chain in the coming time is to attract customers who are supermarket and market shoppers. We believe that the growth driver of BHX next year will be the group of targeted customers. The Management is positive that MWG would record profit from 4Q23.

BUY recommendation with a target price of VND53,300/share

We lower our forecast for MWG's 2022 results with revenue reaching VND139,014 billion (+12% YoY) and NPAT of VND5,176 billion (+5% YoY). The relevant forecasts for 2023 are VND145,810 billion (+5% YoY) and VND5,639 billion (+10% YoY) respectively. KBSV recommend BUY for MWG stocks with a target price of VND53,300/share.

Buy maintain

Target price	VND53,300
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Upside/Downside	21%
Current price (Dec 1, 2022)	44,050
Market cap (VNDbn/USDmn)	64.5/2.63

Trading data

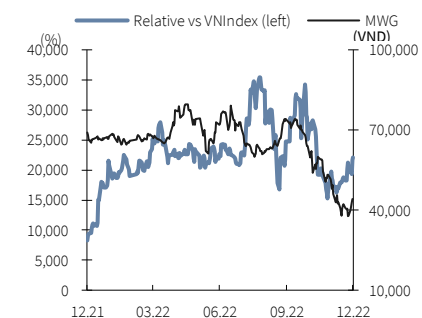
Free float	70%
3M avg trading value (VNDbn/USDmn)	230.6/9.4
Foreign ownership	49%
Major shareholder	Retail World Investment Consultant

Share price performance

(%)	1M	3M	6M	12M
Absolute	-4	-41	-37	-36
Relative	-8	-24	-22	-6

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	109,801	124,142	139,014	145,810
Earnings (VNDbn)	5,413	6,445	6,823	7,445
NPAT (VNDbn)	3,920	4,901	5,167	5,639
EPS (VND)	8,656	6,875	3,530	3,852
EPS growth (%)	0%	-21%	-48%	9%
P/E (x)	13.7	19.8	15.3	12.8
P/B (x)	3.4	3.0	4.5	1.7
ROE (%)	25%	24%	29%	27%
Dividend yield (%)	15%	5%	5%	15%



Source: Bloomberg, KB Securities Vietnam

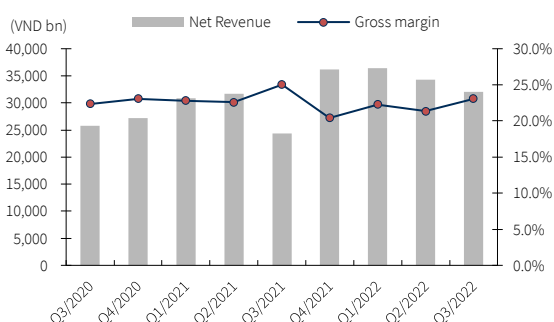
10M22 business performance

MWG completed 81% of the full-year plan after 10M22

10M22 net revenue reached VND113,712 billion (+15% YoY), fulfilling 81% of the 2022 plan). NPAT decreased slightly by 2% YoY to VND 3,839 billion, equal to 60% of the full-year objective. Thus, the company has completed 82% and 74% of our expected revenue and profit targets. In the recent meeting with analysts, the Management expected the company will complete the revenue plan and reach 90% NPAT target for 2022 amid unfavorable macro data.

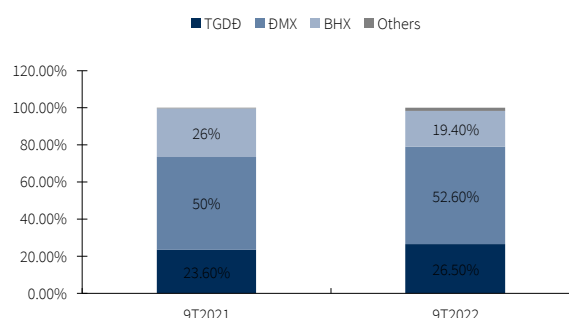
GPM improved from 21.4% in 2Q to 23.1% in 3Q thanks to the increasing proportion of consumer electronics (with higher profit margin than other products) in the revenue structure. Meanwhile, net profit of BHX and An Khang store chains remained at 25% and 22% respectively, flat compared to previous quarters.

Fig 1. MWG – Net revenue & GPM (VNDbn, %)



Source: Mobile World Investment, KB Securities Vietnam

Fig 2. MWG – Revenue structure by store chain (%)



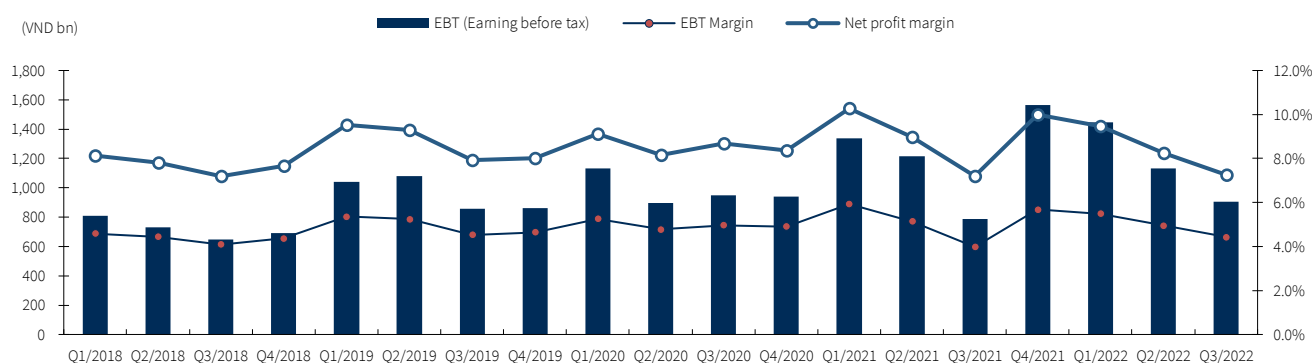
Source: Mobile World Investment, KB Securities Vietnam

NPAT did not meet expectations, but core business activities are positive compared to the general market

We noted that MWG's NPAT and net profit margin (NPM) declined in the last three quarters, especially in 3Q when NPM hit a record low of only 2.8%. According to MWG, the company has accounted for the cost of closing inefficient BHX stores in 2Q and 3Q reports, which is about VND500 billion. We believe that this expense has eroded a part of the profit of the last two quarters, and it will not appear in the next reporting periods because it is a one-time expense. The second reason for the sharp drop in NPAT in the recent quarter was the company's incurred tax loss of VND 600 billion from its subsidiary, which should be reversed later.

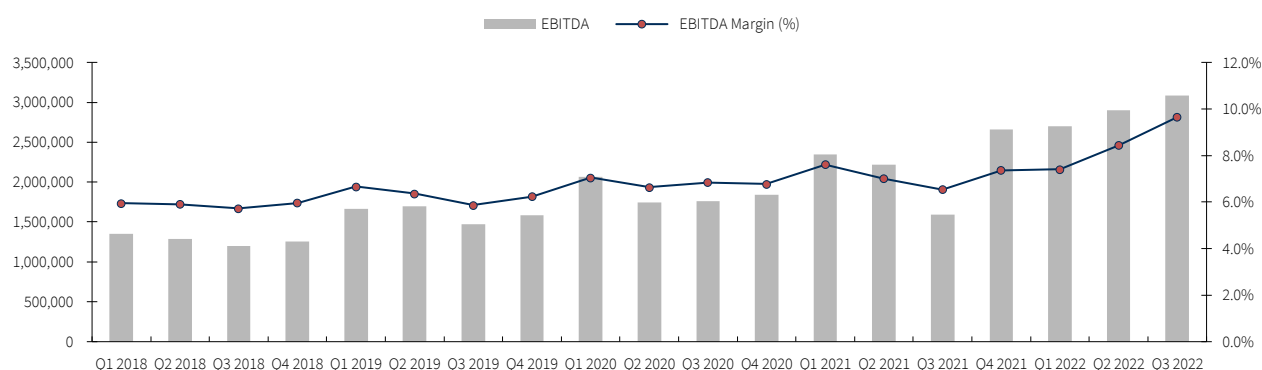
On the other hand, MWG's core business showed positive signals as 9M22 EBITDA margin reached 8.5% (+20% YoY and peaked at 9.6% in 3Q). We believe that MWG is operating efficiently compared to the general market although NPAT has not met expectations due to unusual expenses incurred recently.

Fig 3. MWG – NPAT, EBIT, margin, and NPM by quarter



Source: Mobile World Investment, KB Securities Vietnam

Fig 4. MWG – EBITDA and EBITDA margin by quarter (VNDbn, %)



Source: Mobile World Investment, KB Securities Vietnam

MWG has a stable financial status thanks to its prudent strategy

Given rising interest rates and fluctuating exchange rates, MWG has actively reduced loans. The company recently paid a USD120 million syndicated loan borrowed from Hacinco's (HSC) two years ago, thereby reducing the pressure of loss on exchange difference in 2023. MWG also settled 1.3 trillion bonds issued five years ago. MWG said that the company received a foreign currency loan of USD250 million at the end of September. The interest rate is reasonable, and the loan term is three years.

MWG maintains a prudent policy on financial issues, so it only invests in secured bonds issued by large banks for a period of three–six months. The Management confirmed that the company currently has no issues of cash flow.

1. TGDD/DMX was hit hard by sagging purchasing power in a short term

TGDD/DMX maintains a double-digit growth, compared to last year's low base levels

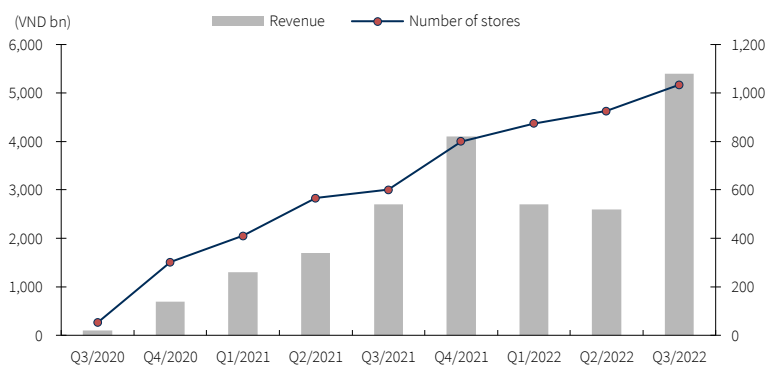
The 1022 accumulated revenue of the two chains The gioi Di dong (TGDD) and Dien may Xanh (DMX) reached VND89.6 trillion (+21% YoY), contributing 79% of the company's revenue structure. In October alone, the revenue of these two chains decreased by 18% compared to the high base level of October last year as the demand was pent-up after the period of social distancing.

In 3Q, the online channel accounted for 15% of TGDD's total revenue (+5% YoY). Despite no longer benefiting from the nationwide lockdown as in 2021, MWG's online channel still recorded positive results. The Management said that online revenue could reach VND18 trillion this year, equivalent to an increase of 30% YoY. Owning an offline store system and fast delivery service and quick installation help MWG's ICT&CE segment have an advantage and operate more efficiently than other e-commerce platforms on the market.

The DMS is operating effectively

The Dien May xanh Supermini model (DMS) currently accounts for 45% of the number of stores in the DMX chain structure (+11% YoY), bringing MWG VND8 trillion in revenue in the first nine months of the year. The Management expected the company would upgrade to DMX model or convert TGDD model into DMS in potential areas to electronics.

Fig 5. MWG – DMS net revenue & store number (VNDb, store)



Source: Mobile World Investment, KB Securities Vietnam

iPhone 14, the driving force of revenue, is having problems in supply source

The sales of iPhone 14 rose 150% compared to the product launched in 2021. However, the Management said that this growth has not yet met expectations due to problems related to the supply source from the Foxconn factory in China (70% of global iPhone production). However, it should continue the growth thanks to the fast opening of Topzone stores in the past time and many potential opportunities for the iPhone 14 product.

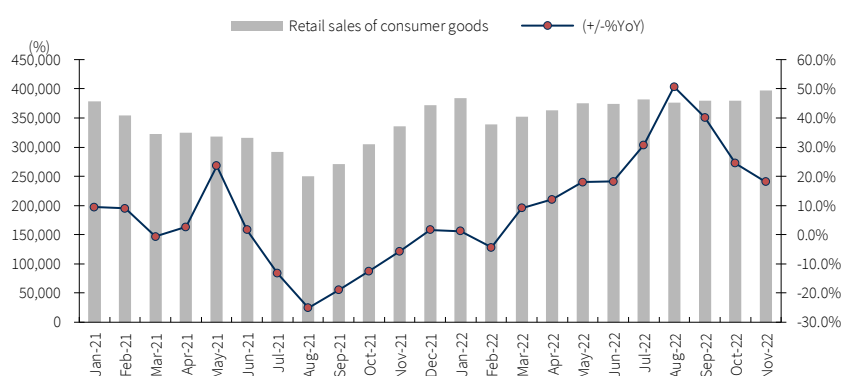
Short-term growth of ICT&CE segment falls short of expectations due to lower purchasing power

According to data from the General Statistics Office, retail sales growth should slow down in the last months of the year, although 4Q is the peak quarter and the Lunar New Year is approaching. Macro fluctuations related to interest rates, exchange rates and real estate have affected the purchasing power of consumers.

The negative signals of the economy bode ill for consumers' income and purchasing power even though the Lunar New Year is approaching. The effects on consumer discretionary like smartphones and electronics should be stronger than on other items. This situation may last until 1Q23 or even to the next two quarters and become more stable in 4Q23.

4Q22 revenue is likely to fall short of expectations due to slowing demand for electronics and MWG's more cautious plan on store opening. The company said there are currently no plans to open more stores in the first six months of 2023.

Fig 6. MWG – Retail sales of consumer goods growth (% YoY)



Source: General Statistics Office, KB Securities Vietnam

Sales of the whole chain increased even though the number of stores decreased significantly after the restructuring

2. BHX operated more efficiently after the restructuring

10M22 revenue of BHX store chain dropped 9% YoY to VND22.3 trillion. In October 2022 alone, sales gained 22% YoY. After the restructuring process, BHX showed remarkable efficiency when the sales per store reached VND1.37 billion each month, and the number of customers rose 2% on average over the months. BHX has the highest EBITDA profit ever in October.

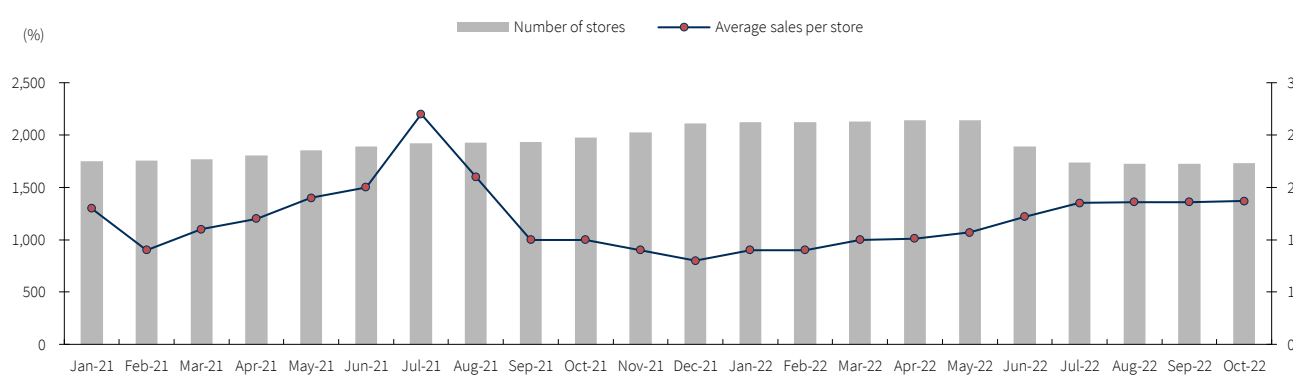
BHX will pursue a new strategy to gain market share

We assess that the purchasing power in 4Q may not meet our expectations due to the unemployment problem at factories in the South which will affect the sales of stores in this area. With the current macro context, not only smartphones but also BHX's business products will be affected, albeit to a lesser extent.

Currently, the BHX chain has more than 1,700 stores with many models, of which the two models that the company focuses on expanding next year are 150–200m² and 300–400m². MWG will focus on opening BHX stores in industrial parks and crowded residential areas, but the company will not open as massively as before. Instead, it would apply new evaluation criteria so that any store to be opened will be effective.

The new strategy of the Bach Hoa Xanh (BHX) chain in the coming time is to attract customers who are supermarket and market shoppers. This is consistent with the goal of the restructuring process of BHX as BHX stores have full products like supermarkets, but still ensure the freshness of goods sold in the market. In order to implement this strategy, besides efficiently operating the stores, the company will run more promotions to bring the most benefits to customers. The Management said that the promotions are all from MWG's partners, so the company will not incur additional costs. We believe that the growth driver of BHX next year will come from the group of potential customers that the company is targeting.

Fig 7. MWG – Store number & monthly average sales per store (store, VNDbn)



Source: Mobile World Investment, KB Securities Vietnam

3. Other store chains

MWG suspended the opening of more An Khang drug stores to improve its efficiency

Compared to the plan to open 800 stores set out at the beginning of the year, MWG decided to suspend new openings of more than 500 An Khang drug stores after considering the current difficulties on the market. Pharmacies operating for at least six months have monthly average sales per store of VND400–500 million, and new pharmacies opened within six months earn VND 300–350 million/pharmacy/month. Stores with a revenue of VND400–500 million/month is strong enough to cover operating costs (including depreciation costs). GPM continued to remain at 22%.

Currently, MWG is aiming to retain customers who buy chronic drugs (recurring purchases) through loyalty programs and promotions on the app. It is estimated that if the average revenue of each pharmacy is maintained at 450–500 million/month and the net profit is 22%, the An Khang chain will break even and be profitable.

MWG plans to open electronics store in Indonesia next year

In December, MWG should launch five electronics stores with EraBlue brand in Indonesia. According to MWG's assessment, the electronics market in Indonesia is relatively primitive, so the potential growth is very large. The market mostly has traditional stores with a limited list of goods and post-purchase services. Therefore, the inherent post-purchase services (fast delivery and fast installation) of MWG will be a great competitive advantage in this market. EraBlue stores are expected to be located on major roads, not in shopping centers. With an area of about 400m², the average monthly sales per store is expected to reach VND3 billion.

Forecast & valuation

2022–2023F performance

We lower our forecast for MWG's 2022–2023F business results due to the less optimistic macro situation. For 2022, we expect MWG's net revenue to reach VND139,014 billion (+12% YoY) and NPAT to reach VND5,176 billion (+5% YoY). We believe that purchasing power will not recover in 1H23 but will stabilize from 3Q or 4Q. As a result, MWG's estimated net revenue and NPAT will increase slightly compared to 2022 to VND145,810 billion (+5% YoY) and VND5,639 (+10% YoY) respectively.

Table 1. MWG – 2022–2023F business results

	2021A	2022F	2023F	KBSV's notes
Net revenue	124,141	139,014	145,810	
ICT&CE (TGDD, DMX, Topzone)				
TGDD				
<i>Revenue (VNDbn)</i>	30,823	34,272	32,250	Purchasing power in 4Q was not as expected, and this situation may extend to 3Q or 4Q next year. Consumer-discretionary such as smartphones and computers will be affected amid inflation
<i>Growth (% YoY)</i>		11.2%	-5.9%	
<i>Store number (store)</i>	970	1,070	1,080	There are no plans to open new stores until the macro situation is more stable
DMX				
<i>Revenue (VNDbn)</i>	62,709	71,971	73,045	Consumer electronics are also affected, SSSG per store is lower as the proportion of DMS stores (which have lower revenue) is increasing sharply
<i>Growth (% YoY)</i>		14.8%	1.5%	
<i>Store number (store)</i>	1,992	2,292	2,302	MWG would mainly open new DMS stores which operate more efficiently
Topzone				
<i>Revenue (VNDbn)</i>	280	2,620	7,320	Sales continue to be supported by new product lines, but still lower than the previous forecast partly because of the supply shortage
<i>Growth (% YoY)</i>		835.7%	179.4%	
<i>Store number (store)</i>	10	101	120	The plan on store opening is suspended until 2H23
BHX				
<i>Revenue (VNDbn)</i>	28,157	28,270	29,734	Sales were flat, compared to of last year's high base as the restructured stores were performing well. It is expected to achieve 5.2% growth in 2023
<i>Growth (% YoY)</i>		0.4%	5.2%	
<i>Store number (store)</i>	2,106	1,756	2,056	MWG would continue to closely watch the stores after restructuring and slowly open BHX stores in provinces if there is any new opening plan until the end of 2022
An Khang				
<i>Revenue (VNDbn)</i>	62	1,881	3,462	SSSG per store of BHX stores is VND0.35 billion/month, VND0.5 billion/month for independent store when pharmacies operate in normal conditions (no disease outbreak)
<i>Growth (% YoY)</i>		2919.3%	84.1%	
<i>Store number (store)</i>	178	530	650	MWG temporarily stops launching new stores and evaluate the performance of existing stores
<i>Selling expenses (VNDbn)</i>	-17,914	-19,284	-20,282	
<i>G&A expenses (VNDbn)</i>	-3,829	-4,122	-4,336	
Net profit (VNDbn)	4,901	5,167	5,639	MWG fulfilled 80% 2022E profit target

Source: KB Securities Vietnam

BUY recommendation with a target price of VND53,300 per share

We believe that MWG's business in 10M22 is relatively positive compared to the general market. In 2023, the retail industry in general and MWG in particular should face many challenges, but we believe that with its leading position in the industry, healthy finance and rightful strategy, MWG is an attractive investment opportunity. This stock is currently trading at a 2022 P/E of 12.x, which is an undervalued zone.

We combine two methods of DCF valuation and compare P/E – P/S (weighting 50–50) to value MWG stock. With the P/E–P/S method, we keep the adjusted target price for the ICT&CE chain at 9.x (the mobile phone market faces many difficulties) and the target P/S for BHX and An Khang are 1.x and 0.5.x respectively.

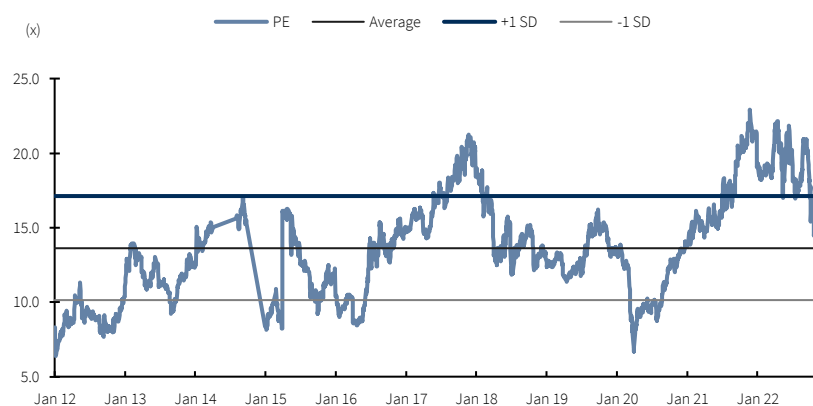
KBSV recommends BUY for MWG stocks with the target price of VND53,300/share, 21% higher than closing price on December 1, 2022.

Table 2. MWG – Valuation results

Valuation method	Weight	Estimated price
DCF	50%	58,479
P/E	50%	48,193
Target price	100%	53,300

Source: KB Securities Vietnam

Fig 8. MWG – P/E valuation in 2017–2022



Source: Bloomberg, KB Securities Vietnam

Risk of decreasing prices

The supply of iPhone 14 would continue to be interrupted, and the purchasing power may drop more sharply, causing ICT&CE products to be consumed more slowly next year. The plan to open new chains may not meet expectations because the company has switched to a cautious strategy which only opens new stores given more stable signs of the retail market.

MWG – 2020A–2023E financials

Income statement					Balance sheet				
(VNDbn)	2019A	2020A	2021E	2022E	(VNDbn)	2019A	2020A	2021E	2022E
Net sales	109,801	124,142	139,014	145,810	Total assets	46,031	62,983	65,389	68,293
Cost of sales	(84,592)	(95,326)	(108,856)	(113,867)	Current assets	37,317	51,976	52,182	55,345
Gross Profit	23,954	27,632	30,158	31,944	Cash & equivalents	7,348	4,944	5,998	7,560
Financial income	794	1,266	1,287	1,345	ST investments	8,057	13,435	13,435	13,435
Financial expenses	(594)	(714)	(1,216)	(1,224)	Accounts receivable	1,595	3,162	3,541	3,714
of which: interest expenses	(594)	(674)	(1,143)	(1,151)	Inventory	19,422	29,180	27,803	29,162
Gain/(loss) from joint ventures	(4)	4	0	0	Other current assets	895	1,255	1,405	1,474
Selling expenses	(15,334)	(17,914)	(19,284)	(20,282)	Long-term assets	8,714	11,007	13,207	12,949
General & admin expenses	(3,404)	(3,830)	(4,123)	(4,336)	LT trade receivables	439	482	540	567
Operating profit/(loss)	5,413	6,445	6,823	7,445	Fixed assets	7,295	9,634	11,680	11,350
Other income	44	76	0	0	Investment properties	0	0	0	0
Other expense	(46)	(49)	0	0	LT incomplete assets	133	80	80	80
Net other income/(expenses)	(3)	27	0	0	LT investments	53	0	0	0
Pretax profit/(loss)	5,410	6,472	6,823	7,445	Goodwill	0	0	0	0
Income tax	(1,490)	(1,570)	(1,655)	(1,806)	Other LT assets	794	811	908	952
Net profit/(loss)	3,920	4,901	5,167	5,639	Liabilities	30,549	42,605	44,914	43,218
Minority interests	9	12	11	11	Current liabilities	29,423	39,836	39,815	38,670
Net profit after MI	3,911	4,889	5,156	5,628	Trade accounts payable	8,728	12,180	13,628	14,294
					Advances from customers	0	0	0	0
					ST borrowings	15,625	21,879	20,626	18,544
					Special reserves	0	0	0	0
					Other current liabilities	5,069	5,778	5,561	5,832
					Long-term liabilities	1,127	2,768	5,099	4,548
					LT payables	0	0	0	0
					LT borrowings	1,127	2,768	5,099	4,548
					Other LT liabilities	0	0	0	0
					Shareholders' equity	15,482	20,378	20,475	25,075
					Paid-in capital	4,532	7,131	7,131	7,131
					Share premium	551	561	628	659
					Treasury stock	0	0	0	0
					Undistributed earnings	10,390	12,675	12,705	17,275
					Reserve & others	0	0	0	0
					Minority interests	9	12	11	11
					Total liabilities & equity	46,031	62,983	65,389	68,293
					Key ratios				
					(x, % VND)	2019A	2020A	2021E	2022E
					Valuations				
					P/E	13.7	19.8	42.3	38.8
					P/E diluted	13.7	19.8	42.3	38.8
					P/B	3.4	3.0	10.7	4.2
					P/S	0.5	0.5	1.7	0.8
					EV/EBITDA	8.5	9.0	27.3	10.7
					EV/EBIT	10.7	12.2	37.0	13.9
					EPS	8,656	6,875	3,530	3,852
					DPS (annual, ordinary)	1,500	525	731	1,500
					Dividend payout ratio (%)	15%	15%	5%	15%
					Operating performance				
					ROE	25%	24%	25%	22%
					ROA	9%	8%	8%	8%
					ROIC	12%	11%	11%	12%
					Financial structure				
					Total liab/equity	2.0	2.1	2.2	1.7
					Current ratio (x)	1.3	1.3	1.3	1.4
					Interest coverage (x)	9.9	10.1	10.6	7.0
					Activity ratios				
					Asset turnover	3.0	2.3	2.2	2.2
					Receivables turnover	70.0	52.2	41.5	40.2
					Inventory turnover	4.6	3.9	3.8	4.0
					Payables turnover	7.5	10.1	8.3	8.3

Source: Mobile World Investment, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Duong Duc Hieu – Head of Equity Research
hieudd@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Banks, Insurance & Securities

Nguyen Anh Tung – Senior Analyst
tungna@kbsec.com.vn

Macroeconomics & Banks

Le Hanh Quyen – Analyst
quyenlh@kbsec.com.vn

Nguyen Duc Huy – Analyst
huynd1@kbsec.com.vn

Strategy, Chemicals

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Strategy, Fishery & Textiles

Tran Thi Phuong Anh – Analyst
anhhttp@kbsec.com.vn

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Utilities

Tieu Phan Thanh Quang – Analyst
quangtpt@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Retails & Consumers

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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Investment Ratings for Stocks

(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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