

Mobileworld (MWG)

Positive outlook in 2H22

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2Q22 sales results maintain the growth momentum

At its Analyst Meeting, Mobileworld (MWG) unveiled its 6M22 business results with NPAT of VND2,576 billion (+1% YoY) and net revenue of VND70.804 billion (+13% YoY). Thus, the company has fulfilled 41% and 51% of its whole-year plan for earnings and revenue, respectively, and delivered 40% and 49% of our forecasts.

The outlook for TGDD/DMX will be brighter in the second half of 2022

Revenue growth of the information and communications technology (ICT) and consumer electronics (CE) segments of TGDD/DMX in the second half of the year will be higher than that of the first half of the year and 2H21 low. It is supported by: (1) the release of iPhone 14 in the coming time and (2) the approaching World Cup as well as the upcoming Lunar New Year in late January 2023.

The restructure of BHX boosted per-store sales and the new store layout will be deployed on a larger scale

The restructure of BHX received positive signals, with per-store revenue in July 2022 up 30% over 1H22 to VND1.3 billion. The group will complete its store upgrades in August, deploy the new store layout on a larger scale, and penetrate untapped provinces and cities.

We recommend BUY MWG stocks with a target price of VND84,912/share

We revise 2022F business performance for MWG after lowering valuation metrics for BHX and including the An Khang Pharmacy chain in our valuation model. In FY22, MWG's NPAT and net revenue should reach VNDVND6,377 billion (+16.9% YoY) and VND145,184 billion (+16.9% YoY), respectively. Therefore, we reiterate our BUY recommendation for MWG stocks with a target price of VND84,912/share, 27.1% higher than the closing price on August 24, 2022.

Buy maintain

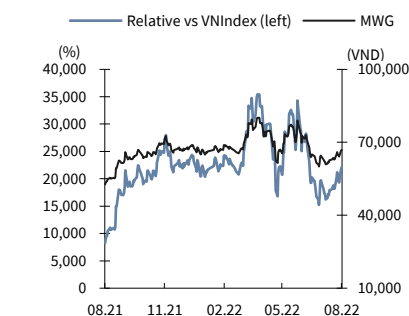
Target price	VND84,912
Upside/Downside	27.1%
Current price (Aug 24, 2022)	VND 66,800
Market cap (VNDbn/USDmn)	97.7/4,171

Trading data	
Free float	70%
3M avg trading value (VNDbn/USDmn)	264.7/11.3
Foreign ownership	49%
Major shareholder	Retail World Investment Consultant Ltd (10.48%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	8	-13	-1	27
Relative	18	-3	6	19

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net sales (VNDbn)	109,801	124,142	145,184	163,916
Earnings/Loss (VNDbn)	5,413	6,445	8,419	10,051
NPAT (VNDbn)	3,920	4,901	6,377	7,612
EPS (VND)	8,656	6,875	4,357	5,200
EPS growth (%)	0%	-21%	-37%	19%
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

Business performance

BHX saw declines in revenue following its closure of hundreds of outlets in 7M22

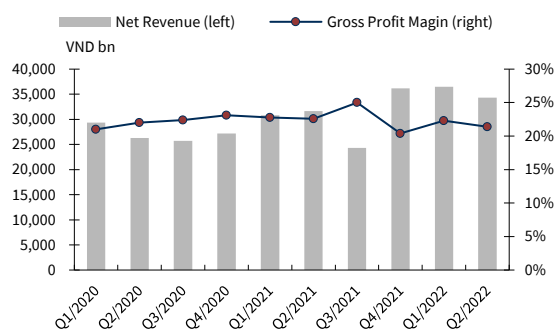
By the end of 2Q22, MWG recorded NPAT of VND2,576 billion (+1% YoY) on revenue of VND70,804 billion (+13% YoY). Thus, the company has fulfilled 41% and 51% of its whole-year plan for earnings and revenue, respectively, and delivered 40% and 49% of our forecasts.

Last month, MWG's net revenue was estimated at VND8,400 billion (+16% YoY). The two chains The gioi Di dong (TGDD) and Dien May Xanh (DMX) had an impressive growth of 63% from the low base seen in July 2021 after the closure of 70% of points of sales due to the pandemic. However, the Bach Hoa Xanh (BHX) grocery chain suffered a 45% decrease in revenue from its record high achieved in the same period last year on the growing demand for amassing essential goods.

Gross profit margin in 6M22 was down 0.9% YoY to 21.8%. It can be explained by: (1) the gross margin of the ICT&CE segments fell to 21% since the company implemented various promotions and liquidated inventories; (2) the BHX store upgrades in the short term incurred operational costs and reduced revenue, pulling BHX's gross margin to 25% from above 26% levels in 6M21.

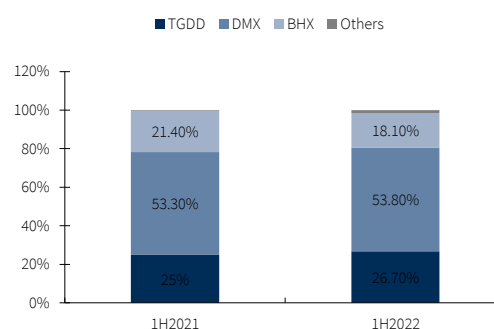
Revenue breakdown saw a significant change with a higher contribution of TGDD/DMX (up from 78.3% in 6M21 to 80.5% in 6M22). Meanwhile, grocery sales of BHX contracted by 4% YoY on store closures, thus lowering its revenue contribution to MWG to 18.1%. Revenue from other chains inched up 1.4%, namely An Khang pharmacy, AVA...

Fig 1. MWG – Net revenue and gross profit margin (VNDbn, %)



Source: Mobileworld, KB Securities Vietnam

Fig 2. MWG – Revenue breakdown



Source: Mobileworld, KB Securities Vietnam

TGDD/DMX grew positively, but sales of some product categories fell short of expectations

In 7M22, TGDD/DMX enjoyed growth of 21% YoY

TGDD/DMX's gross margin shrank due to various promotions and higher contribution of products with lower margin

Sales of some product categories fell short of expectations in the first half of the year

DMS continues to be a spotlight

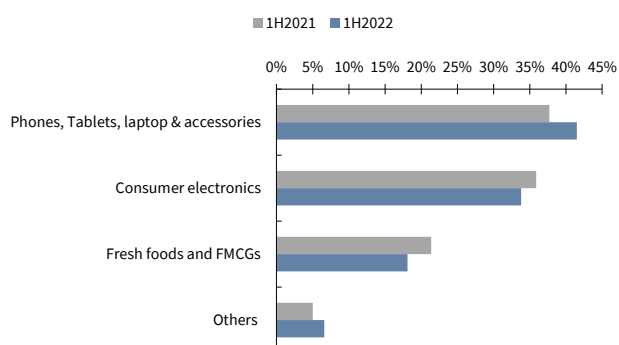
The combined revenue of TGDD (including TopZone) and DMX in 1H22 touched VND57,000 billion (+17% YoY). Notably, in July 2022, revenue of these two chains grew by 63% YoY given its low base in July 2021 as a result of the COVID-19 resurgence that forced the group to close more than 70% of stores. In 7M2022, TGDD/DMX contributed VND65,300 billion to MWG (+21% YoY).

As mentioned earlier, the gross margin of the ICT&CE segments had decreased to 21% by the end of 2Q22 as the group deployed various promotions and liquidated inventories. In its financial statements, inventories declined over the last two quarters compared to the 2021-end. Per MWG, along with the expansion of TopZone, the iPhone products have persistently increased their contribution to the total revenue. However, the profit margin of Apple products is lower than that of others.

Most product categories, such as smartphones, laptops, and tablets, recorded positive growth. In contrast, consumer electronics experienced shrinking consumption. After the peak season of the Lunar New Year, sales of the CE segment were depressed on waning demand for air conditioners under the impact of the La Nina phenomenon. However, we expect the CE market to regain its upward momentum by the end of this year thanks to the approaching World Cup (November 21–December 18, 2022) and the upcoming Lunar New Year (late January 2023).

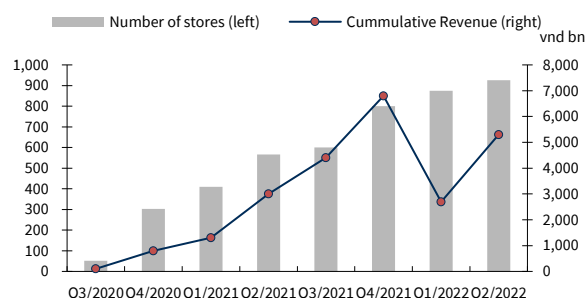
With 926 points of sale, DMX Supermini (DMS) recorded revenue 1.8 times higher YoY and increased its contribution to MWG's total revenue from 7% in 2Q21 to 10% in 2Q22. Per-store revenue remained consistent at VND1 billion per month, thus bringing in VND5,300 billion after the first six months. MWG expects DMS to continue its positive contribution to this year's business results, reaching VND10,000 billion in revenue.

Fig 3. MWG – Revenue breakdown by category



Source: Mobileworld, KB Securities Vietnam

Fig 4. DMS – Store number and cumulative revenue (stores, VNDbn)



Source: Mobileworld, KB Securities Vietnam

The release of iPhone 14 in the near future will boost TopZone's revenue

To date, TopZone reached 50 stores, contributing 2% to the combined revenue of TGDD/DMX. The average sales per store in the second quarter was about VND4-5 billion/month, down from VND6-8 billion/month in the first quarter. It was due to: (1) The popularity of new products launched last year is losing steam while Apple has not kicked off new releases this year; and (2) MWG opened 20 more TopZone in 2Q22 in some provinces with per-store revenue lower than that in megacities.

Vietnam is among those in which Apple has been boosting investment, thus benefiting Apple authorized resellers like MWG's retail chains. In particular, Apple will release iPhone 14 next month with revamped design and camera upgrades, which would be a momentum generator for TopZone and TGDD. The company plans to expand its presence with 50 more TopZone to be well-prepared for the iPhone 14 release.

As shared by the BOD at the recent Analyst Meeting, Apple products contributed USD325 million to the company's total revenue in 6M22. MWG targets USD750 million in revenue from Apple products for the whole year of 2022, up 67% from USD450 million in 2021.

The restructure of BHX is nearing completion with positive signals

BHX saw declines in revenue following its closure of hundreds of outlets in 7M22

Revenue of the grocery chain declined over the past seven months on the bulk closure of ineffective outlets. In particular, revenue was down 14% YoY to VND15,200 billion in 7M22, down 8% YoY in 2Q22, and down 45% YoY this past July from its record high in July 2021 as the demand for amassing essential goods soared amid Covid lockdowns in many provinces and cities. However, the chain has been enjoying positive growth compared to the start of 2022.

The restructure of BHX is nearing completion with positive signals

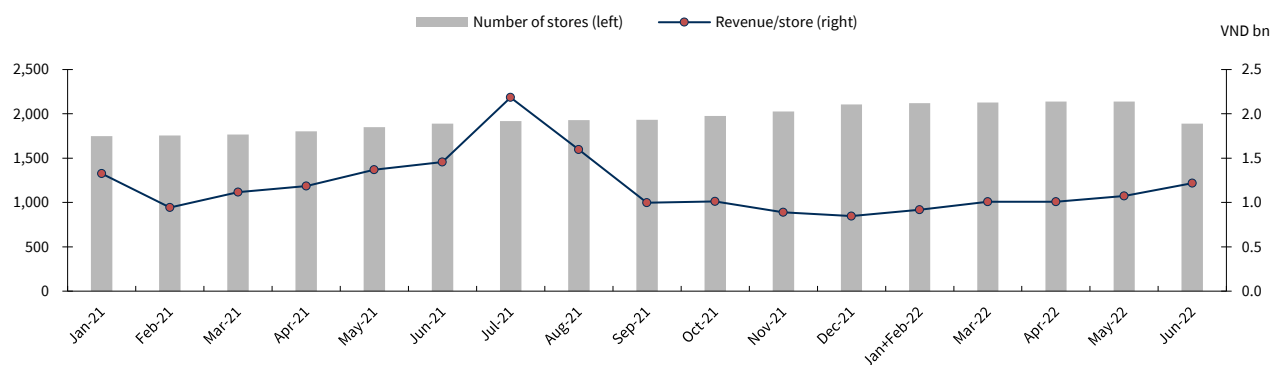
MWG has changed the layout of BHX stores since April 2022 and simultaneously closed ineffective stores. By the end of last month, BHX closed a total of about 400 stores compared to the beginning of the year and renovated almost all remaining stores. The corporation is upgrading the last 20 stores to complete BHX's restructure this August. MWG will incur costs from store closure in its 3Q22 financial statements.

The BHX renovation strategy has shown positive signals. Per MWG, in the first quarter of 2022, BHX's sales increased by 15–20% with customer traffic volume jumping by 20–25% over the same period last year. Per-store revenue was VND1.1 billion per month in 2Q22 and hit VND1.3 billion in July alone. Thus, the average revenue of BHX stores has risen by 30% YTD. From now until the end of the year, MWG will focus more on new models to prepare for the nationwide expansion over the next two years.

MWG will make an IPO for BHX in 2023

The BOD revealed that MWG is preparing for the capital sale and IPO of BHX. It is expected MWG will complete its sale of 20% stake in BHX right in the first quarter of 2023. Besides, MWG plans to make an IPO for the BHX grocery chain within next year.

Fig 5. BHX – Store number and per-store revenue (store, VNDbn)



Source: Mobileworld, KB Securities Vietnam

Other chains

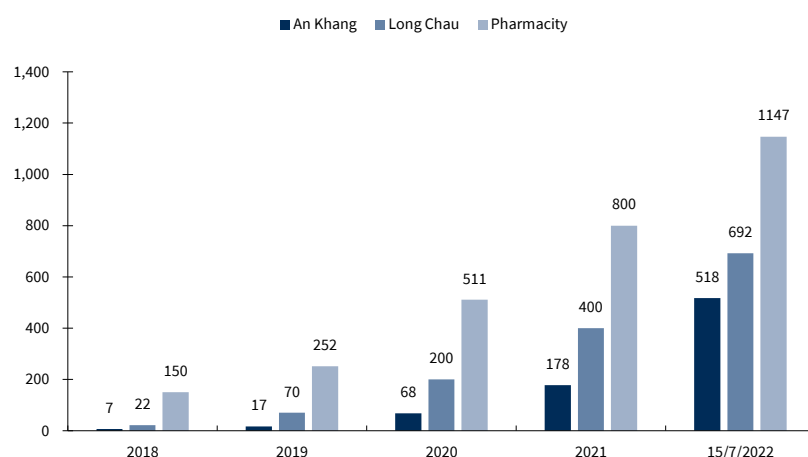
The expansion of the An Khang pharmacy chain exceeded initial expectations

As a latecomer in the pharmaceutical retail market, MWG has been in a race to expand the An Khang pharmacy chain in 2022. In the first six months of this year, the chain had 365 pharmacies across provinces. By July 15, the store count had increased to more than 500 stores, far exceeding the target of 400 stores before the 3Q22-end.

In 2Q22, revenue of drugstores went down 20–30% from its peak recorded in the previous quarter when the COVID-19 pandemic resurged. Per-store revenue was VND500–550 million/month for independent stores and VND350–400 million/month for those next to BHX stores. These figures are similar to our forecast for MWG's pharmaceutical retail segment.

The gross margin of the An Khang chain in the first two quarters of 2022 was relatively consistent at over 20%. The rent and administration expenses of drugstores are lower than those of TGDD/DMX since drugstores only cover 30–40 m². Therefore, MWG's BOD expects per-store revenue of the pharmacy chain to reach VND500 million/month so that An Khang can reach its breakeven in 4Q22. In our estimates, MWG would start turning a profit from the An Khang chain from 2023 onwards.

Fig 6. Vietnam – Drugstore number



Source: KB Securities Vietnam

AVA chains will continue to be expanded

After piloting and recording initial positive results, by the end of June 2022, MWG had 50 AVAKids and 10 AVASport. The BOD expects the number of AVAKids and AVASport stores to be 100 and 15 respectively by the end of this year.

Forecast & Valuation

In 2022, MWG should reach

In 2022, we forecast MWG's business results with NPAT of VND6,377 billion (+30% YoY) and net revenue of VND145,184 billion (+16.9% YoY).

Table 1. MWG – 2022F business results

VND bn	2021A	2022F	YoY	Notes
Revenue	124,142	145,184	16.90%	
ICT&CE (TGDD, DMX, TopZone)				
TGDD				
Revenue	30,823	32,218	4.60%	Stores will operate stably without being disrupted by the pandemic as they were in 2021. We estimate the store count to be 1020 by the end of 2022, assuming per-store revenue of VND2.7 billion/month.
Store number	970	1020		MWG will open 60 new TGDD stores and convert 10 TGDD into DMX.
DMX				
Revenue	62,709	77,822	24%	Although the business performance of the consumer electronics segment in 1H22 fell short of expectations, it is expected to be more positive in 2H22. Revenue should grow by 24% YoY thanks to: (1) the low base seen in 2021, (2) the effective operation of DMS, and (3) the approaching World Cup and the upcoming Lunar New Year.
Store number	1992	2192		Including 1,000 DMS.
TopZone				
Revenue	280	3720	1229%	The iPhone 14 launch next month would drive the revenue growth of TopZone stores. We estimate the average revenue is VND4–5 billion/month per AAR store and VND8–10 billion/month per APR store.
Store number	10	100		As of the end of 2Q22, MWG had 50 TopZone stores. The company plans to open 50 new TopZone from now until the end of the year to prepare for the launch of the iPhone 14.
BHX				
Revenue	28,157	28,920	16.5%	The sudden increase in the demand for amassing essential goods in 2021 helped BHX to achieve record-high revenue since its introduction. However, we still expect BHX to maintain positive growth on the high base of last year thanks to the restructure of BHX that can help stores operate more efficiently. We estimate per-store revenue to reach VND1.3 billion/month.
Store number	2106	1750		BHX is in the process of restructuring and closed about 400 ineffective stores by the end of last month. From now until the end of the year, BHX has no plans for store expansion and will operate the remaining stores under a new model.
An Khang				
Revenue	62	2484	3887%	Per-store revenue is VND350–400 million/month for those next to BHX stores and VND500 million/month for independent stores without being disrupted by COVID-19.
Store number	178	770		The store count increased by 592 stores compared to the end of 2021.
Net profit	4,901	6,377	30%	The estimated net profit is higher on improved sales of all chains.

Source: Mobileworld, KB Securities Vietnam

We recommend BUY for MWG stocks with a target price of VND84,912/share

We are upbeat about MWG's business prospects in the medium and long term based on the following assumptions: (1) TGDD/DMX will maintain double-digit growth despite the saturation of the retail industry; (2) MWG will turn a profit from BHX and expand the presence of BHX stores on their effective operation after restructure; (3) MWG will complete the capital sale and IPO of BHX in 2023; and (4) An Khang drugstore numbers will increase rapidly, helping MWG expand its market share in the potential pharmaceutical retail market.

We combine two valuation methods DCF (discounted cash flow) and P/E-P/S with a ratio of 50-50 to find a fair price for MWG stocks. For the P/E-P/S method, we keep the target P/E for TGDD/DMX at 11.5x and the target P/S for BHX at 1.0x. Besides, we also added the An Khang pharmacy chain to our valuation model with an expected P/S of 0.5x.

We reiterate our BUY recommendation for MWG stocks with a target price of VND84,912/share, 27.1% higher than the closing price on August 24, 2022.

Table 2. MWG – Target price according to valuation methods (VND/share)

Valuation method	Weight	Estimated price
DCF	50%	99,126
P/E	50%	70,699
Target price	100%	84,912

Source: KB Securities Vietnam

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Investment ratings & definitions

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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