

BUSINESS PERFORMANCE & PLAN IN 2018 - 2019

4Q.2018 revenue increased by 39% QoQ, NPAT rose by 43% QoQ

Revenue in the 4Q.2018 was VND1,560 bn, gaining by VND436 bn, equal to 39% QoQ. The company growth included: (1) Nearly VND285 bn revenue from mobile phones, accounting for 65% growth; (2) about VND69 bn from office and increase equipment (15.9% growth); (3) approximately VND87 bn (20% growth) achieved from laptops and tablets.

Revenue in 12M.2018 climbed 56% YoY, NPAT rose by 39% YoY, exceeding the target of the year

In 2018, DGW recorded an impressive growth with revenue hitting VND 5,943 bn (+56% YoY), NPAT reaching VND109.2 bn (+39% YoY), which met the target of 126% and 108% for 2018. Mobile phone segment still had the highest proportion of the total growth. As compared to 2017, revenue from mobiles surged by 213% to VND2,355 bn, hitting 196% of the plan. Laptops & tablets and office equipment also surpassed the expected target with 104% and 111% of planned revenue in 2018. Operating cost increased since the company continued to invest and develop consumer goods industry.

Revenue is expected to go up by 20%, NPAT increases by 25% in 2019

In 2019, DGW expects to raise 20% revenue, equivalent to VND7,150 bn, and 25% of NPAT (VND137 bn), which will be mainly contributed by the two key industries of mobiles and office equipment. DGW announced it will still invest in consumer goods as the potential growth of market expansion services (MES) in this industry is still high.

BUSINESS ACTIVITIES

Laptops & Tablets

This is the sector contributing the most to the company's revenue (40% of the total revenue in 2018). However, in a saturated laptop market, this sector just increased by 6% in 2018. DGW forecasts that the revenue gained from this sector will remain flat in 2019. In the future, DGW strategies are (1) to make use of the trend in customer demand, provide more products of higher quality; and (2) to focus on enterprise customers who have higher demand.

Mobile phones

In 2018, mobile phone segment gained an equal revenue proportion compared to laptops & tablets with 40% of total revenue. Customers in this sector witnessed a dramatic growth thanks to the exclusive distribution contract with Xiaomi. Nevertheless, Xiaomi's strategy to expand market share via flash sales also lowered DGW profit margin in comparison with that of 2017. In 2019, DWG sets a growth target of 27% for mobile's revenue, which is a quite modest level compared to that in 2018 as the mobile market is saturated.

- Market share of **Xiaomi** stayed at 5% in 2018. DGW has provided Xiaomi with exclusive MES since 2017, and Xiaomi is now a leading brand in smartphone manufacturing with low price and high configuration. However, the competition between middle-end and low-end price segments has become more and more aggressive. Currently in the market, there are many giants such as Huawei, Asus and Vinsmart.
- DGW has chosen HMD Global as a strategic partner in **Nokia** mobile

distribution. Nokia phones are popular to Vietnamese customers thanks to their high durability. Regarding the cooperation with HMD Global, we believe the business performance of mobile segment is still positive in the future, but the high record of growth in 2018 might not happen again.

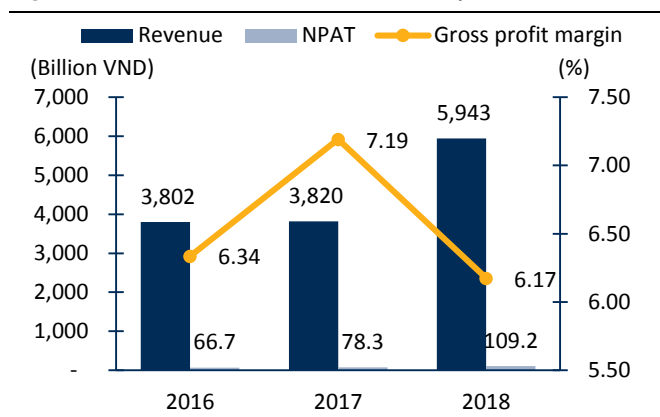
Office equipment

Office equipment growth may remain high (+48% YoY) due to low competition. In this segment, the company has distributed a relatively large portfolio of technology products and services to some types of customers including private and government enterprises. DGW has signed many contracts with various partners like Schneider, Logitech, Genius, Philips, Ricoh, etc. In 2019, DGW expects a growth of 15% for former customers and 10% for new customers.

Consumer goods

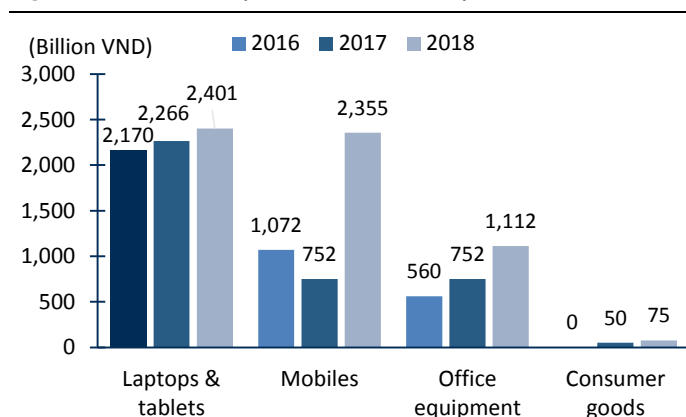
Consumer goods' revenue grew by 50% in 2018, but only reached 38% of revenue plan of the year due to difficulties in transferring from ICT to consumer goods. DGW expects to gain VND350 bn via consumer goods industry in 2019, in which there is VND170 bn gained from consumer goods and VND180 bn healthcare products. Additionally, DGW has just signed a contract with Nestlé to penetrate into the medical nutrition market which serves various consumers such as the elder, malnourished children and diabetes patients. Currently, DGW has Kingsmen energy boosters, gummy PNKids multi vitamin and Nestlé Health Science medical milk. DGW/Nestlé may face fierce competition with Abbott, Friesland Campina or Vinamilk in this market. Additionally, DGW expands its distribution – healthcare services system to 100 hospitals, 107 drugstores and 104 private clinics.

Figure 1: Revenue and NPAT over the years



Source: DGW

Figure 2: Revenue by sectors over the years



Source: DGW

ASSESSMENT

DGW experienced a thriving growth in 2018 with the total revenue increasing by 55% and NPAT up by 39%, contributed by all of DGW business fields although the growth level of the new business was not as much as expected, gross profit margin decreased to 6.2%. In 2019, DGW plans to raise revenue by 20%, amounts to VND7,150 bn, and increase NPAT by 25%, equal to VND137 bn. We expect the cooperation with HMD Global in distributing Nokia products and with Nestlé in medical nutrition product market will benefit DGW revenue in the future.

Currently, DGW shares are traded at VND22,800 (on January 28, 2019), P/E trailing is 8.37x. As DGW is the leading company in providing MES in Vietnam, with special business model and efficient strategy of multi-channel distribution, we believe that DGW has **POSITIVE** prospect in medium term.

Appendix

Income Statement (Billion VND)					Balance Sheet (Billion VND)					
	2015	2016	2017	2018		2015	2016	2017	2018	
Net sales	4,203.36	3,800.07	3,820.94	5,943.43	CURRENT ASSETS	1,171.27	1,218.48	1,501.89	2,122.92	
Cost of sales	-3,938.89	-3,559.31	-3,546.19	-5,576.51	Cash and cash equivalents	31.67	32.82	34.10	71.26	
Gross Profit	264.47	240.76	274.75	366.92	Short-term investments	4.90	4.90	0.00	0.00	
Financial income	14.11	19.27	24.49	32.40	Accounts receivable	348.99	360.89	482.23	601.22	
Financial expenses	-40.20	-27.89	-23.87	-38.82	Inventories	669.58	714.28	883.04	1,313.70	
of which: interest expenses	-23.13	-22.80	-22.61	-32.12	LONG-TERM ASSETS	84.24	87.74	92.06	98.92	
Gain/(loss) from joint ventures (from 2015)	0.00	0.00	-0.28	0.82	Long-term trade receivables	2.32	2.32	2.34	4.12	
Selling expenses	-64.32	-98.27	-125.93	-134.55	Fixed assets	81.29	84.79	83.69	84.39	
General and admin expenses	-45.44	-53.83	-55.72	-89.14	Investment properties	0.00	0.00	0.00	0.00	
Operating profit/(loss)	128.62	80.04	93.44	137.63	Long-term incomplete assets	0.00	0.00	0.00	0.00	
Other incomes	6.04	5.94	9.44	4.23	TOTAL ASSETS	1,255.51	1,306.21	1,593.95	2,221.84	
Other expenses	-1.30	-1.70	-3.32	-1.88	LIABILITIES	646.96	676.63	904.51	1,455.68	
Net other income/(expenses)	4.74	4.24	6.12	2.36	Current liabilities	619.27	672.58	901.91	1,450.73	
Income from investments in other entities	0.00	0.00	0.00	0.00	Trade accounts payable	153.20	275.89	229.46	547.27	
Net accounting profit/(loss) before tax	133.36	84.28	99.57	139.99	Advances from customers	3.96	10.24	2.78	12.73	
Corporate income tax expenses	-29.78	-17.56	-21.12	-30.81	Short-term unrealized revenue	0.00	0.00	0.28	0.00	
Net profit/(loss) after tax	103.57	66.73	78.44	109.18	Short-term borrowings	422.91	342.57	620.94	836.88	
Minority interests	0.00	0.00	-0.74	-1.40	Long-term liabilities	27.69	4.05	2.60	4.95	
Attributable to parent company	103.57	66.73	79.18	110.58	Long-term trade payables	0.00	0.00	0.00	0.00	
					Long-term advances from customers	0.00	0.00	0.00	0.00	
					Unrealized revenue	0.00	0.00	0.00	0.00	
					Long-term borrowings	22.90	0.00	0.00	0.00	
Operating ratios	2015	2016	2017	2018	OWNER'S EQUITY	608.54	629.58	689.43	766.16	
Gross profit margin	6.29%	6.34%	7.19%	6.17%	Paid-in capital	306.13	306.13	407.52	407.52	
EBITDA margin	3.76%	2.44%	2.56%	2.49%	Share premium	152.62	152.62	61.23	61.23	
EBIT margin	3.68%	2.33%	2.44%	2.41%	Undistributed earnings	155.67	176.70	224.20	302.32	
Pre-tax profit margin	3.17%	2.22%	2.61%	2.36%	Minority interests	0.00	0.00	2.36	0.96	
Operating profit margin	3.06%	2.11%	2.45%	2.32%						
Net profit margin	2.46%	1.76%	2.05%	1.84%						
Cash Flow	Indirect - Billion VND	2015	2016	2017	2018	Main indicators	2015	2016	2017	2018
Net profit/(loss) before tax		133.36	84.28	99.57	139.99	Valuations				
Depreciation and amortisation		3.25	4.00	4.80	4.89	P/E	6.83	10.60	11.89	8.51
Profit/loss from investing activities		0.00	-0.57	-0.53	-0.12	P/E diluted	6.83	10.60	11.89	8.51
Interest expense		23.13	22.80	22.61	32.12	P/B	1.16	1.12	1.37	1.23
Operating profit/(loss) before changes in Working Capital		162.16	112.60	139.63	186.81	P/S	0.17	0.19	0.25	0.16
(Increase)/decrease in receivables		-51.56	-13.78	-110.93	-155.92	P/Tangible Book	1.28	1.23	1.49	1.34
(Increase)/decrease in inventories		62.37	-46.26	-154.90	-434.26	P/Cash Flow	-24.51	4.27	-4.05	-6.87
Increase/(decrease) in payables		-127.02	142.12	-66.42	331.76	EV/EBITDA	7.10	10.97	15.61	11.52
(Increase)/decrease in prepaid expenses		-14.91	12.33	0.91	-5.60	EV/EBIT	7.25	11.47	16.41	11.92
Net cash inflows/(outflows) from operating activities		-28.85	165.80	-232.35	-137.00	Management Efficiency				
Purchases of fixed assets and other long term assets		-1.17	-7.50	-0.53	-5.59	ROE%	21.96	10.78	12.01	15.19
Proceeds from disposal of fixed assets		0.00	0.38	0.00	0.00	ROA%	8.13	5.21	5.46	5.80
Loans granted, purchases of debt instruments		0.00	0.00	0.00	-0.28	ROIC%	14.67	9.12	7.10	8.93
Collection of loans, proceeds from sales of debts instruments		0.00	0.00	4.90	0.00	Financial structure				
Investments in other entities		0.00	0.00	-18.87	-3.55	Cash Ratio	0.05	0.05	0.04	0.05
Proceeds from divestment in other entities		0.00	0.00	0.00	0.01	Quick Ratio	0.61	0.59	0.57	0.46
Dividends and interest received		0.00	0.20	0.53	0.12	Current Ratio	1.89	1.81	1.67	1.46
Net cash inflows/(outflows) from investing activities		-1.17	-6.92	-13.98	-9.29	LT Debt/Equity	0.04	0.00	0.00	0.00
Proceeds from issue of shares		193.65	0.00	10.00	0.00	LT Debt/Total Assets	0.02	0.00	0.00	0.00
Payments for share returns and repurchases		0.00	0.00	0.00	0.00	Debt/Equity	0.73	0.54	0.90	1.09
Proceeds from borrowings		3,142.46	2,691.48	2,832.74	3,393.41	Debt/Total Assets	0.36	0.26	0.39	0.38
Repayment of borrowings		-3,328.26	-2,794.71	-2,567.44	-3,177.47	ST Liabilities/Equity	1.02	1.07	1.31	1.89
Finance lease principal payments		0.00	0.00	0.00	0.00	ST Liabilities/Total Assets	0.49	0.51	0.57	0.65
Dividends paid		-14.63	-54.49	-27.72	-32.48	Total Liabilities/Equity	1.06	1.07	1.31	1.90
Interests, dividends, profits received		0.00	0.00	0.00	0.00	Total Liabilities/Total Assets	0.52	0.52	0.57	0.66
Net cash inflows/(outflows) from financing activities		-6.78	-157.73	247.58	183.46	Operating ratios				
Net increase in cash and cash equivalents		-36.81	1.15	1.25	37.17	Account Receivable Turnover	13.81	11.82	10.93	12.93
Cash and cash equivalents at the beginning of period		68.27	31.67	32.82	34.10	Inventory Turnover	5.62	5.14	4.43	5.05
Cash and cash equivalents at the end of period		31.67	32.82	34.10	71.26	Account Payable Turnover	21.90	16.59	14.03	14.36

Source: DGW, KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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