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### Weak purchasing power took a heavy toll on DGW's earnings and revenue

For 2Q23, Digiworld Corp (DGW) generated VND83 billion (-39.4% YoY) in NPAT on net revenue of VND4,596 billion (-6.4% YoY). Gross profit margin (GPM) expanded by 2 percentage points (ppts) to 8.55%. Sales and marketing expenses substantially increased as DGW supported retailers in marketing and sales campaigns. Though not contributing much to operating expenses, borrowing costs spiked amid a high interest rate environment in the first half of 2023.

### Performance varied among business segments

ICT revenue saw the sharpest YoY decline but slowed its decrease rate against 1Q23, laptop sales expanded by 19% YoY, and mobile sales shrank by 19% YoY. Office equipment revenue dropped by 17% YoY as businesses tightened their spending. New industries such as household appliances and FMCG all had outstanding growth due to the low base from a year ago.

### Contributions from new industries and brands are expected

Since late 2022, DGW has continuously signed contracts with new brands and expanded into new industries, namely deals with large companies such as AB InBev, Westinghouse, and Achison. Given comprehensive market expansion services (MES), we expect DGW to successfully cooperate with brands to obtain new sources of income to solve the growth puzzle.

### We recommend BUY for DGW with a target price of VND67,800/share

We forecast DGW's 2023F net revenue of VND19,643 billion (-11% YoY) and NPAT of VND440 billion (-36% YoY). We expect the recovery in ICT and new segments to help DGW rebound and grow well in 2024. We recommend BUY for DGW with a target price of VND67,800/share.

**Buy** initiate

<b>Target price</b>	<b>VND67,800</b>
Upside	15%
Current price (Oct 9, 2023)	VND58,800
Consensus target price	VND52,506
Market cap (VNDtn/USDbn)	9.6/0.4

<b>Trading data</b>	
Free float	67.2%
3M avg trading value	122.8/5.07
Foreign ownership	22%
Major shareholder	Created Future (32.8%)

<b>Share price performance</b>				
(%)	1M	3M	6M	12M
<b>Absolute</b>	-0.4	3.5	18.2	32.9
<b>Relative</b>	-5.3	-7.6	-0.2	30.8

### Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	20,923	22,028	19,643	25,212
EBIT (VNDbn)	821	868	554	1,006
NPAT (VNDbn)	655	684	440	797
EPS (VND)	4,012	4,188	2,696	4,883
EPS growth (%)	145%	4%	-36%	81%
P/E (x)	15.4	14.7	22.9	12.6
P/B (x)	5.7	4.2	3.7	3.0
ROE (%)	45%	33%	17%	26%
Dividend yield (%)	1.5%	2.5%	1.6%	1.4%



Source: Bloomberg, KB Securities Vietnam

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## Business overview

Digiworld Corp (DGW) was founded in 1997, formerly known as Hoang Phuong Co., Ltd, specializing in distributing ICT products. DGW implemented equitization in 2003 and was officially listed on the Ho Chi Minh City Stock Exchange (HOSE) in 2015 under ticker DGW.

After more than 25 years of establishment and development, DGW has become a comprehensive market development services (MES) provider and authorized distributor for more than 30 famous brands across the globe. In 2022, DGW raised its charter capital to more than VND1,600 billion and is now in Vietnam's top 2 largest ICT distributors.

**Table 1. DGW – History of establishment & development**

1997	<ul style="list-style-type: none"> <li>Established Hoang Phuong Co., Ltd, the precursor of Digiworld Corp</li> </ul>
2001	<ul style="list-style-type: none"> <li>Became an authorized distributor and provider of market expansion services (MES) for Acer</li> <li>USD999 Acer laptop introduced in Vietnam for the first time</li> </ul>
2006	<ul style="list-style-type: none"> <li>Became an authorized distributor and provider of market expansion services (MES) for HP and InFocus laptops</li> </ul>
2008	<ul style="list-style-type: none"> <li>Top 5 ICT distributors in Vietnam</li> <li>Private offering to strategic investor Mekong Capital</li> </ul>
2008–2014	<ul style="list-style-type: none"> <li>Became an authorized distributor and provider of market expansion services (MES) for Dell, Fujitsu, Toshiba, Logitech, Belkin, APC, Samsung, Genius, etc</li> </ul>
2015	<ul style="list-style-type: none"> <li>Officially listed on HOSE under ticker DGW</li> <li>Raised charter capital to USD13.6 million, with market cap of USD44.6 million</li> </ul>
2017	<ul style="list-style-type: none"> <li>Authorized and exclusive distributor and provider of market expansion services (MES) for Xiaomi</li> <li>Carried out M&amp;A in the FMCG industry, starting to distribute healthcare products, marking DGW's footstep into a new industry besides ICT</li> </ul>
2020	<ul style="list-style-type: none"> <li>Became an authorized distributor for Apple and Huawei</li> <li>Opened Mistore and the first Xiaomi warranty center in Vietnam</li> </ul>
2021	<ul style="list-style-type: none"> <li>Became a distributor of home appliances for Whirlpool – North America's leading household appliance company</li> </ul>
2022	<ul style="list-style-type: none"> <li>M&amp;A with Achison – Labor protection solutions consultancy &amp; distribution company</li> <li>Signed a cooperation agreement with AB InBev – the world's largest brewer with well-known products like Budweiser, Corona, Bucks</li> </ul>

Source: Digiworld, KB Securities Vietnam

### DGW is among top ICT distributors with comprehensive market expansion services (MES)

DGW is one of the leading ICT distributors (laptops, tablets, mobile phones, and office equipment) and exclusive provider of market expansion services (MES) for foreign brands entering Vietnam. In addition, the company is expanding into fast-moving consumer goods (FMCG), household appliances, and industrial equipment.

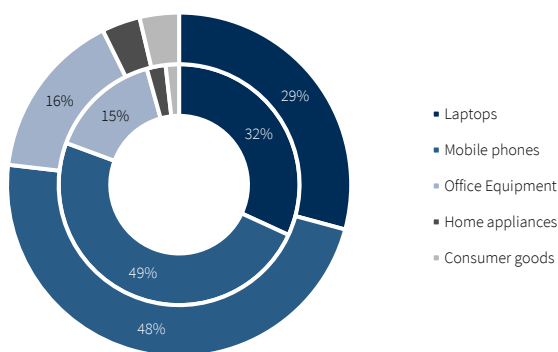
Mobile phones and laptops & tablets remain DGW's key growth drivers, accounting for 81% of the overall revenue in 2022, of which mobile phones made up 49% (15% market share) and tablets & laptops contributed 32% (40%

market share). In addition, MES, including market analysis & marketing planning; marketing execution; importation, warehousing logistics; sales & distribution; and after-sales service, are seen as a competitive advantage for DGW, helping businesses create more value and thus building customer loyalty.

**The BOD holds the majority of shares, showing that interests are closely tied to business results**

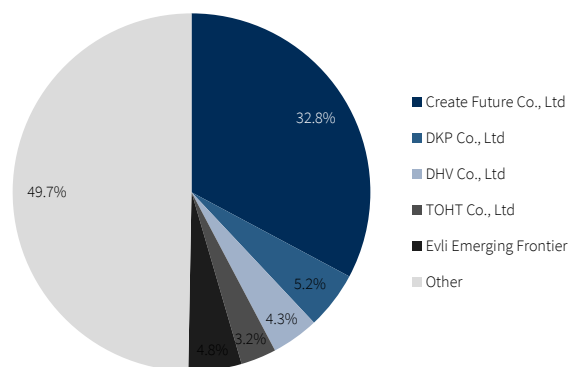
Regarding ownership structure, Mr. Doan Hong Viet, Chairman of DGW since its establishment, is DGW’s largest shareholder. The board of directors holds more than 45%, foreign investors own 22%, and the remaining belongs to other investors. It shows that DGW’s business results are closely tied to the BOD’s interests, mirroring their highest commitment to the business operation. Despite high ownership, the BOD always harmonizes the interests of all shareholders, including minority ones.

**Fig 2. DGW – Revenue breakdown (%)**



Source: Digiworld, KB Securities Vietnam

**Fig 3. DGW – Ownership structure (%)**



Source: Digiworld, KB Securities Vietnam

# Business operation

## 1. Business segments

DGW is an authorized distributor with diverse product portfolios

While retail giants like Mobile World Investment (MWG) and FPT Digital Retail (FRT) open retail chains, DGW is a wholesaler in the form of an intermediary distributor for brands to points of sales where end customers will reach their products. In addition, DGW also runs retail stores of brands such as Xiaomi and Huawei.

DGW has developed diverse product portfolios from merely laptops in the early days and then mobile phones, office equipment, FMCG & drugs, and home appliances. Currently, DGW is distributing products of more than 30 companies with many famous brands such as Apple, Xiaomi, Acer, and Dell.

Fig 4. DGW – Product portfolio



Source: Digiworld, KB Securities Vietnam

Fig 5. DGW – Distribution brands



Source: Digiworld, KB Securities Vietnam

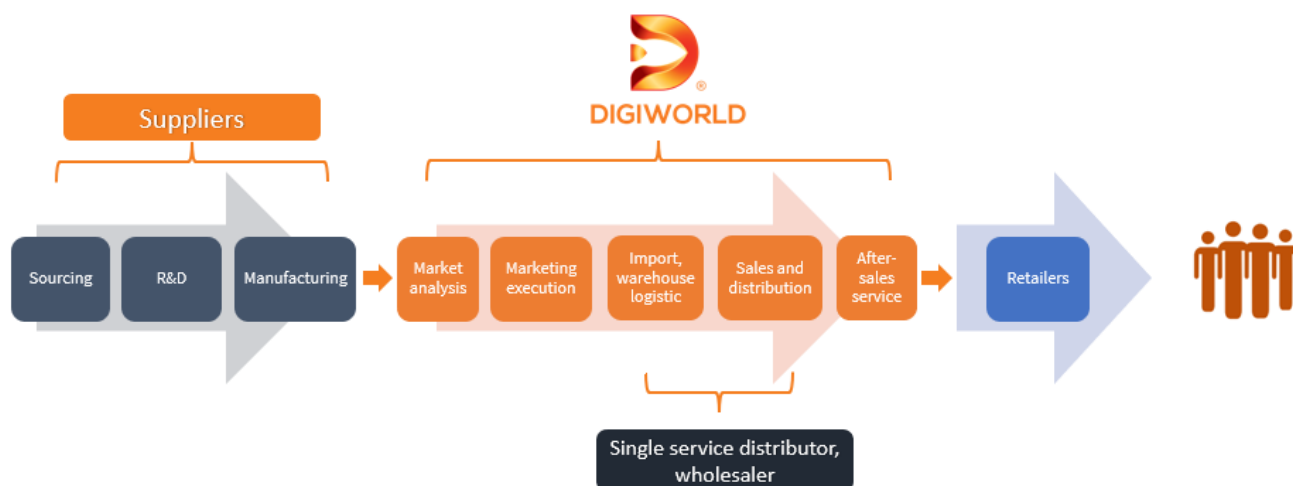
## 2. Comprehensive market expansion services (MES)

**DGW owns unique business model: B2B with comprehensive market expansion services (MES)**

The value chain is made up of five primary activities: logistics (warehouse service, importation), sales, after-sales service, marketing execution, and market analysis. The further you go, the value added to each activity should also increase, and at the same time, the requirements for qualifications and creative and organizational capacity of the distributors must also be higher.

Unlike most domestic distributors, which only focus on sales and logistics, the two lowest profitable segments in the entire value chain, DGW proactively extended its value-chain model to create business efficiency for its partners based on a win-win mindset. Apart from providing the same services as other wholesalers, DGW offers value-added services such as market research & analysis, analyzing consumer insights, market in-depth analysis, market execution in support of agents, stores, and directly operating stores for brands.

Fig 6. DGW's position in the value chain



Source: Digiworld, KB Securities Vietnam

### MES is a comprehensive strategic solution

The above value chain is called Market Expansion Service (MES), providing comprehensive strategic solutions to promote the business development of a product or brand in a new or existing market. Expanding into new markets requires businesses to build their distribution network, organize sales teams, do market research, and execute marketing efforts, which takes time and money. It explains why giants like P&G, Samsung, Xiaomi, Nestle, despite having enough resources, still look to MES providers. There will be more and more companies outsourcing MES to optimize costs and streamline processes and procedures. It is because MES providers like DGW have deep insights about the market, segments, and consumer behavior and can take advantage of existing platforms such as an extensive distribution network, logistics, warehouse service, and a modern ERP system to be able to bring products of companies to penetrate and develop in new markets quickly and effectively.

DGW has provided MES since the early days distributing Acer, Lemax, ... products. However, DGW could not name its service back then but simply deployed value-added services to give related parties such as suppliers and retailers/points of sales as much support as possible. It was not until 2014, especially after Nokia phones no longer contributed to DGW's total revenue, that DGW made its platform consisting of human resources, warehouse infrastructure, logistics, and inventory management software, a multi-channel distribution network with more than 6,000 points of sale, ... perfect enough to deliver professional MES. Up to now, in the ICT distribution market, DGW is the only company owing comprehensive MES.

### 3. Laptops & tablets

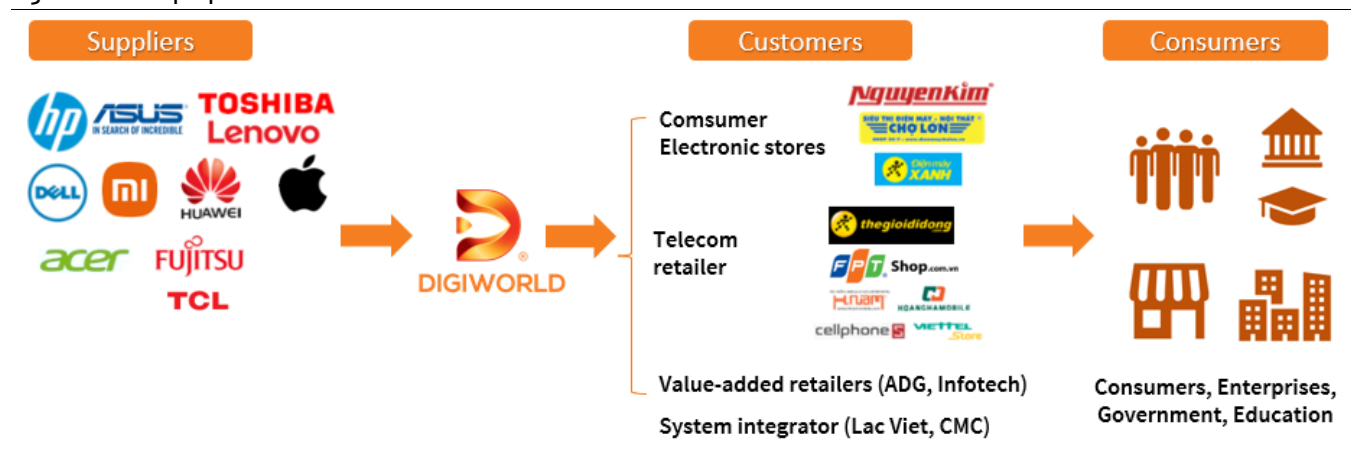
#### The core business brings future success to DGW

The laptops and tablets segment was DGW’s first business when its cooperation with Acer started in 2001. Some milestones worth mentioning include the story of introducing Acer laptops in the Vietnamese market at a low price of USD999 instead of thousands of dollars at that time for a laptop, unlocking the potential of a very primitive laptop market in Vietnam or helping Dell transform its laptops from solid as a rock image to delicate designs. DGW currently maintains its relationships with major partners such as HP, Dell, Asus... and large retail chains like Thegioididong, FPT Shop, and Nguyen Kim.

In 2022, laptop and tablet revenue narrowed by 5% YoY to VND7,027 billion, accounting for 32% of DGW’s total revenue. It was due to the high base in 2021 following the trend of studying and working from home coupled with unfavorable macroeconomic conditions, high interest rates, and reduced income, causing consumers to tighten their spending, especially on consumer discretionary.

The laptops and tablets market is becoming saturated, with growth forecast to reach about 6–7% over the next five years. We assess this business segment of DGW is no exception, given its 40% market share and the presence of most major laptop brands in Vietnam. As a result, a breakthrough with a new brand as it had with Acer or Dell is hard to make. The growth driver comes from the comprehensive MES, helping DGW gain market share from less qualified distributors and non-genuine importers. In addition, DGW will expand its presence in market segments with faster growth, namely gaming laptops and ultraportable laptops.

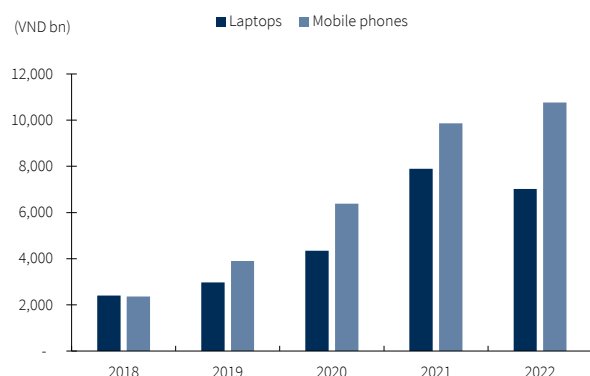
Fig 7. DGW - Laptop distribution channel



Source: Digiworld, KB Securities Vietnam

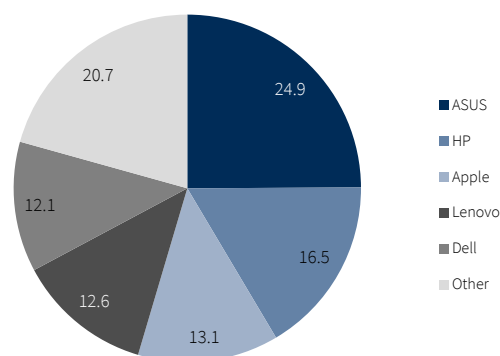


Fig 8. DGW – ICT revenue (VNDbn)



Source: Digiworld, KB Securities Vietnam

Fig 9. Vietnam – Laptop market share by brand (%)



Source: GfK Research, KB Securities Vietnam

#### 4. Mobile phones

##### Xiaomi and Apple remain the growth drivers

Mobile revenue has accounted for the largest share of DGW's total revenue in recent years. Although it just began distributing mobile phones in 2013 and struggled in 2015–2017 following Microsoft's (Nokia's controlling shareholder at the time) decision to discontinue its mobile phone business, DGW recovered strongly and saw a revenue explosion thanks to cooperation deals with Xiaomi and then Apple.

The exclusive MES deal with Xiaomi seems to be the most successful, taking DGW's name to the top in phone distribution. DGW's comprehensive MES model has helped Xiaomi penetrate the market systematically. DGW was responsible for market research & analysis, marketing execution, distributing and providing international warranty services for all products, including Xiaomi's ICT product lines in Vietnam. Not only that, DGW also operates offline Xiaomi stores and Xiaomi's e-commerce sites on platforms such as Lazada and Shopee. Xiaomi entered Vietnam from scratch but soon reached the top 3 smartphone brands with an estimated market share of ~15%, and once shortlisted top 2 (ranked second only after giant Samsung). Although DGW no longer has the exclusive right to distribute Xiaomi phones, it remains the biggest Xiaomi distributor in Vietnam (~80% market share of Xiaomi products). With past success, Xiaomi will definitely come to DGW to promote the distribution of new product lines in the future. Strategic cooperation with Xiaomi would not end in the smartphone segment, given Xiaomi's diverse portfolio featuring home appliances and consumer electronics (CE) at reasonable prices. DGW will likely win exclusive deals with Xiaomi across different product lines.

Apple will continue to be the main contributor besides Xiaomi. During the tough time for the phone market in 1Q23, Apple still enjoyed positive growth in both Vietnam and Southeast Asian countries. Vietnam has received much attention from Apple, and the first online Apple store was opened in Vietnam in May 2023. Apple will focus more on emerging markets like Vietnam in the foreseeable future due to the increasing saturation in large markets. We assess the appearance of the Apple store will hardly have an insignificant impact on distributors like DGW and will benefit them thanks to Apple's better policies.

In 2022, DGW's mobile revenue hit VND10,759 billion, up 9% YoY. However, it fell short of expectations due to China's Zero-Covid policy disrupting the supply chain of iPhone products. Furthermore, like the laptop segment, unfavorable macro conditions caused purchasing power to decline sharply in the second half of the year, especially for non-essential goods.

**The growth potential remains in the medium term but competition is increasingly fierce**

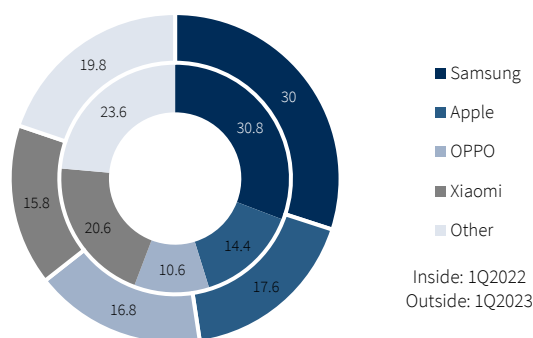
Although the smartphone market has slowed, the growth potential remains thanks to the roadmap to switch from the 2G network to the 5G network and Decree 98/2020/ND-CP restricting hand goods. The industry is estimated to grow by 8-10% in the coming years. Nonetheless, given the presence of the world's largest smartphone companies in Vietnam covering almost all segments, a success story like Xiaomi is less likely to happen again. DGW's growth driver comes from the MES model, which will help brands seeking a presence in the Vietnamese market to gain market share from weaker-performing players. Xiaomi and Apple will continue to be strategic partners in the near future. In an industry with a large market size, DGW has to compete with not only distributors like PET and FPT Synnex but also large retailers owning extensive distribution systems and complete logistics systems that enable them to distribute directly from the company to end consumers without intermediary distribution involved.

Fig 10. DGW – Mobile phone distribution channel



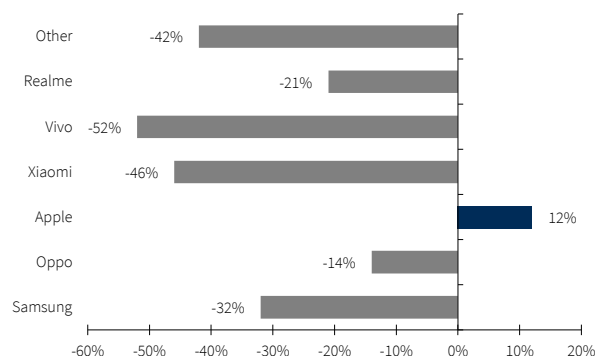
Source: Digiworld, KB Securities Vietnam

Fig 11. Vietnam – Smartphone shipment market share



Source: Counterpoint Research, KB Securities Vietnam

Fig 12. Vietnam – Smartphone shipment growth by brand in 1Q23 (%YoY)



Source: Counterpoint Research, KB Securities Vietnam

## 5. Office equipment

**DGW has developed a diverse office equipment portfolio with high growth potential**

After entering the office equipment industry, DGW has enjoyed steady growth with a diverse product portfolio comprising physical products (servers, workstations, printers) and non-physical ones (software, cloud computing), satisfying different needs of end customers like government, educational institutions, and large businesses. At the end of 2022, DGW raised its ownership at Achison to 60%. Achison has been working in industrial equipment distribution for more than 19 years with many partners and a nationwide distribution network. Therefore, DGW's partnership with Achison will strengthen both sides.

In 2022, DGW's office equipment revenue touched VND3,320 billion (+21% YoY). Revenue tended to decrease in the second half of 2022 due to economic deceleration, high interest rates, and many businesses downsizing and cutting costs, and this trend would go into 2023. Nevertheless, the office equipment segment may return to its growth trajectory in 2024 on domestic and global economic rebound.

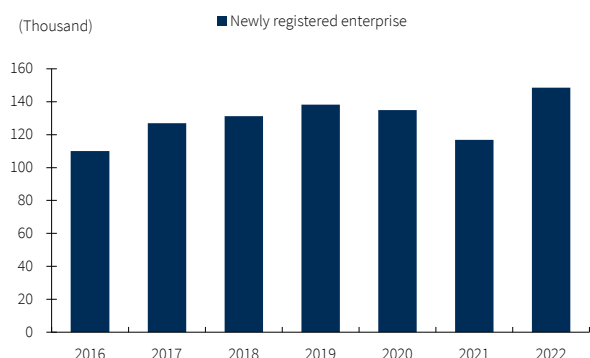
DGW currently only accounts for 5% of the office equipment market share in Vietnam, so there is ample room for growth. With the comprehensive MES, it is not surprising that companies would look to DGW to distribute their products, and DGW's product portfolio has become increasingly diverse ever since. DGW can also expand its distribution network thanks to capitalizing on Achison's points of sales. The growth potential of the office equipment segment comes from the growing number of newly established businesses, especially in the context of strong digital transformation requiring investment in both hardware and software. With high growth potential and existing advantages, DGW aims to maintain a 25% CAGR in this segment.

Fig 13. DGW – Office equipment distribution channel



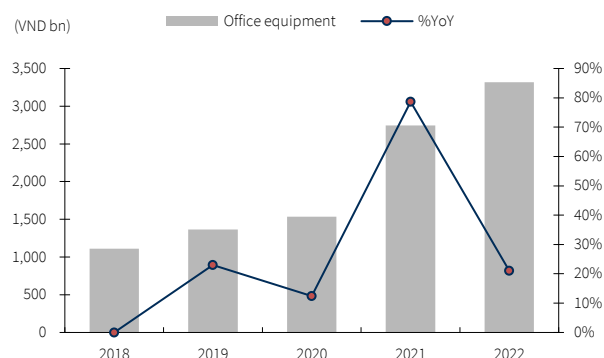
Source: Digiworld, KB Securities Vietnam

Fig 14. Vietnam – Number of new businesses (thousand)



Source: General Statistics Office, KB Securities Vietnam

Fig 15. DGW – Office equipment revenue (VNDbn, %YoY)



Source: Digiworld, KB Securities Vietnam

## 6. FMCG & drugs

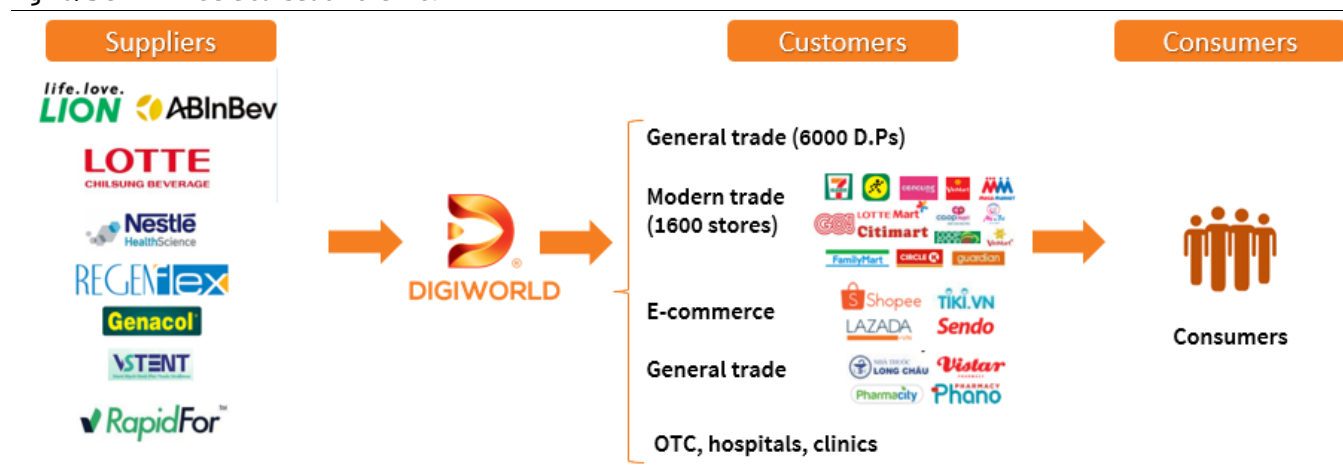
In 2017, DGW officially launched distribution services for brands in the healthcare sector and then pharmaceuticals via ETC (ethical drugs, prescription drugs) and OTC (over-the-counter). However, this segment has still not contributed significantly to DGW's revenue after five years of operation. It is because DGW could not take advantage of existing points of sale and had to establish relationships with retail points of sale, hospitals, and doctors for pharmaceutical distribution. In addition, with limited product lists, especially when imported pharmaceutical products need to go through many licensing processes with numerous terms and conditions, the products distributed by DGW are prescription drugs while there are many large pharmaceutical firms such as OPC, Traphaco, Hau Giang Pharmaceutical JSC (DHG) with diverse products and distribution network built for decades with tens of thousands of points of sale. With its current product portfolio, DGW will find it hard to compete directly and need to penetrate smaller niche markets. In general, DGW has taken the necessary steps and established facilities to obtain a license and start distribution. However, the contribution from this segment is still limited and needs more time to prove effectiveness.

For FMCG, DGW is the exclusive distributor of products from Lion (Japan) including personal cleaning products and detergents. However, like pharmaceuticals, the operational efficiency of personal hygiene and care products distribution has not been proven, mainly due to the presence of long-standing large brands in Vietnam such as P&G and Unilever, with familiar products in the daily lives of Vietnamese people. As a result, DGW's advantages are not big enough to compete with giants in the industry.

Concerning the F&B segment, DGW has officially cooperated with AB InBev to distribute beer products like Budweiser, Corona, and Beck. AB InBev was the world's largest brewer in revenue in 2022, and its Budweiser is also the best-selling beer in the world. In addition, DGW recently cooperated with LotteChilsung, setting its footprint in the F&B industry with beverages as the

mainstay. It will take more time for DGW to build relationships with points of sales and do market research carefully in this new sector. Another brand's success story in the future will pave the way for DGW to further cooperate with new brands, and a perfect MES model can save DGW a great deal of time in promoting distribution. We assess a portfolio covering famous and best-selling products of recognizable brands like AB InBev can heighten the possibility of success in this industry, thus boosting DGW's revenue growth soon.

Fig 16. DGW – FMCG distribution channel

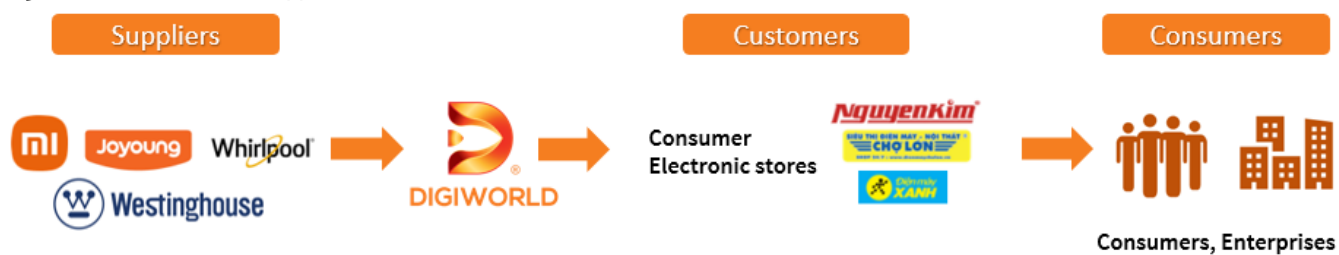


Source: Digiworld, KB Securities Vietnam

## 7. Household appliances

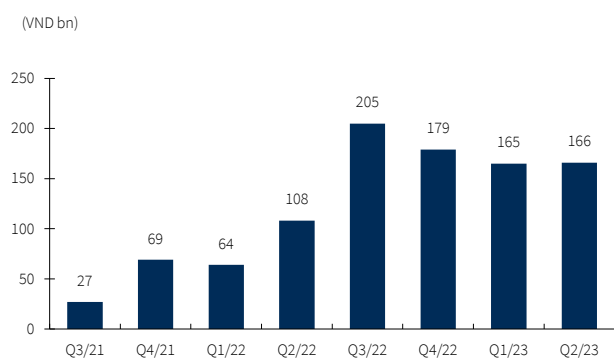
According to the Ministry of Industry and Trade, household appliances account for 9% of the total personal consumption, and this group ranks fourth among the 11 major industry groups in consumption scale. According to Whirlpool's estimates, the market size of the Vietnamese home appliance industry is ~USD12.5-13 billion with a growth rate of about 10%, which is very large for a new player like DGW. DGW officially entered this market when it signed a cooperation agreement with Whirlpool at the end of 2021 to provide comprehensive MES. Whirlpool has a history of establishment and development of more than 100 years and is one of the most popular home care brands in the US. However, this brand only grows well in the North American and European markets and has to compete with big competitors such as LG (Korea), Panasonic (Japan), and Haier (Hong Kong) in Asia. Vietnam is considered a gateway for Whirlpool that wants to develop in Asian countries and it has chosen DGW as a comprehensive partner to enter this potential market. Besides Whirlpool, DGW also joined hands with other home appliance brands like Joyoung, Xiaomi, and most recently Westinghouse. Cooperation deals with big brands show DGW's determination to develop in this segment in the future.

Fig 17. DGW – Household appliance distribution channel



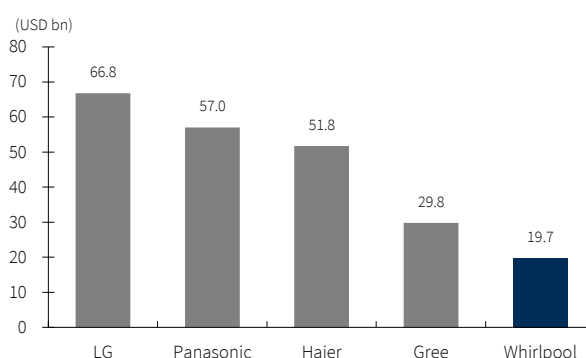
Source: Digiworld, KB Securities Vietnam

Fig 18. DGW – Household appliances revenue



Source: Digiworld, KB Securities Vietnam

Fig 19. Global – Top 5 household appliance companies by revenue in 2022



Source: KB Securities Vietnam

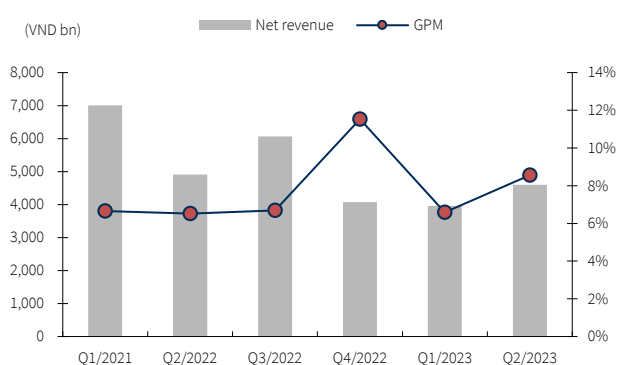
## Business performance

Table 20. DGW – 2Q22–2Q23 business results

(VNDbn)	2Q2022	2Q2023	+/-%YoY	Comments
<b>Revenue</b>	<b>4,910</b>	<b>4,596</b>	<b>-6.4%</b>	The recovery of the laptop segment plus the contributions of new businesses still cannot offset the decline of the mobile phone and office equipment segments. Revenue achieved 43% of the full-year target.
Laptops, tablets	1,150	1,342	18.8%	Purchasing power for laptop products has shown signs of recovery compared to smartphone products as retailers/points of sales have begun to stockpile goods for the back-to-school season in the third quarter.
Mobile phones	2,703	2,190	-19.0%	Purchasing power for consumer discretionary goods such as smartphones remains low. It is forecasted that the third quarter will see a strong recovery from a year earlier thanks to the release of iPhone 15 series and supply chain recovery.
Office equipment	876	728	-16.9%	DGW's business results were negatively affected by the small number of newly established businesses and spending cuts among companies.
Household appliances	108	166	53.7%	Good growth YoY is due to the low base in the same period last year and contributions from new brands.
FMCG & drugs	93	170	82.8%	Driven by new brands like AB InBev and Lotte Chilsung.
<b>Gross profit</b>	<b>320</b>	<b>393</b>	<b>22.8%</b>	Driven by improved profit margin over the same period.
Gross profit margin	6.5%	8.6%	32.3%	Driven by increased contributions of high-margin business segments such as consumer goods, household appliances, and ICT devices and a sharp fall in low-margin mobile phone sales.
Financial income	30	45	50.0%	
Financial expenses	-25	-45	80.0%	
SG&A	-150	-282	88.0%	SG&A surged as DGW lower advertising costs to support retailers and points of sales.
SG&A/Revenue	-3.1%	-6.2%	100.0%	
EBIT	175	113	-35.4%	
Other income	-2	-2	0.0%	
PBT	173	112	-35.3%	
<b>NPAT</b>	<b>137</b>	<b>87</b>	<b>-36.5%</b>	Net profit achieved 41% of the full-year target, forecast to rebound strongly in the second half of the year when the ICT market recovers in the peak shopping season.

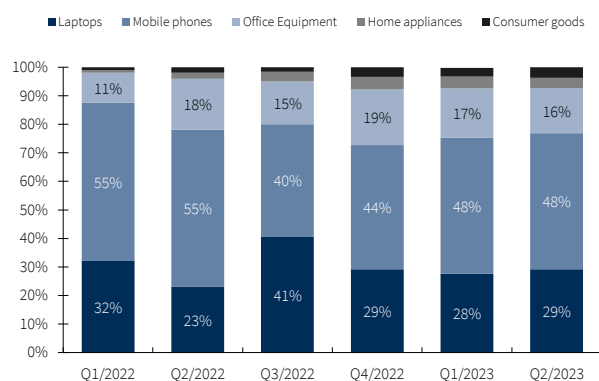
Source: Digiworld, KB Securities Vietnam

Fig 21. DGW – Net revenue & GPM (VNDbn, %)



Source: Digiworld, KB Securities Vietnam

Fig 22. DGW – Revenue breakdown (%)



Source: Digiworld, KB Securities Vietnam

## Financial analysis

### 1. Asset structure

#### Healthy asset structure

By the end of 2Q23, DGW's total assets reached VND6,560 billion, up 3.2% YTD. As a wholesaler, DGW usually maintains over 91% of its total assets as short-term assets. In particular, the two major components are inventories (39.5% of total assets) and receivables (35.9%). Due to unfavorable economic conditions in the first half of 2023, DGW has been more cautious in increasing inventory and changed its receivables policy to support retailers. This explains why DGW's inventory dropped by 20.3% while receivables jumped by 49.2% YTD, which we do not find worrisome since rising receivables are primarily from big names in the industry like Mobile World Investment (MWG) and FPT Digital Retail (FRT).

Regarding long-term assets, the main component is goodwill (nearly 50% of long-term assets), followed by tangible assets (warehouses and means of transportation) and intangible assets (software and land use rights). We assess this structure as suitable for DGW's business model with a focus on inventory and receivables management instead of fixed assets.

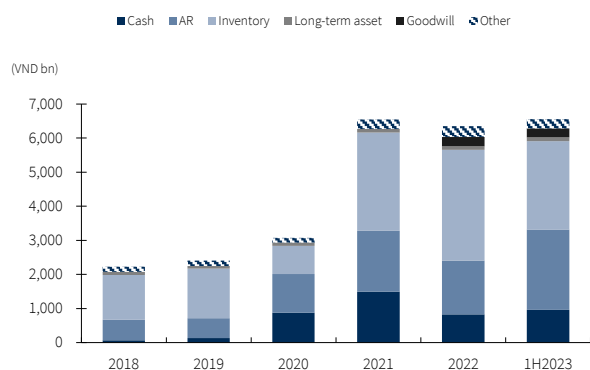
#### Capital structure

In DGW's capital structure, short-term debt, a source of working capital, always accounts for a large proportion. Short-term debt and accounts payable make up 30% and 19% of total capital, respectively. DGW's equity comprises two main components: owner's equity (25% of total capital) and retained earnings (about 11% of total capital).

In the 2019–2021 period, DGW's short-term debt ratio was relatively low, averaging ~60% of equity. However, the cooperation with many large brands caused DGW's liabilities to spike in 2022 to raise working capital for importing goods and financing projects to penetrate new industries. Accordingly, by the end of 2022, DGW's short-term debt climbed 71.4% to VND1,915 billion, principally bank loans. DGW's debt-to-equity ratio expanded from 63% to 81%. However, DGW's interest coverage ratio was still high at 10.8x (the 5-year average is 12.5x). DGW said it is often offered preferential loans at lending interest rates close to deposit interest rates thanks to a lot of mortgage inventory and using many other banks' services such as letters of credit (LCs) and bank guarantees. Low borrowing costs would help DGW to build an optimal capital structure for itself, depending on market needs.

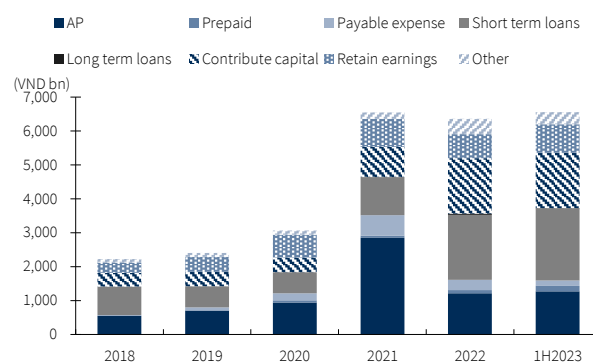


Fig 23. DGW – Asset structure



Source: Digiworld, KB Securities Vietnam

Fig 24. DGW – Capital structure



Source: Digiworld, KB Securities Vietnam

## 2. Liquidity

### Inventories increased but liquidity remained fairly high

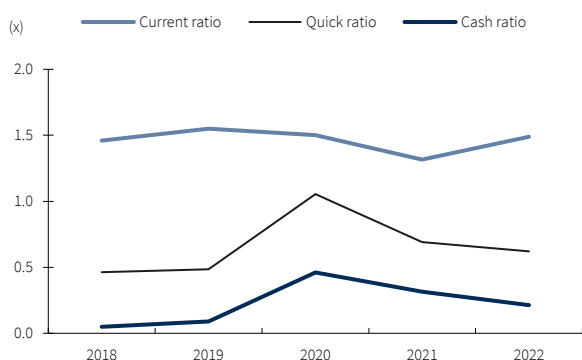
Regarding liquidity, DGW's current ratio by the end of 2022 was 1.49x, higher than the 5-year average of 1.46x. However, the quick ratio and cash ratio both decreased slightly to 0.62x and 0.21x respectively, lower than their 5-year average. It is due to weak purchasing power and retailers reducing inventory. However, we assess that DGW's liquidity remains fairly high.

## 3. Operational efficiency

### Operational efficiency temporarily declines as DGW supports retailers in marketing and sales campaigns

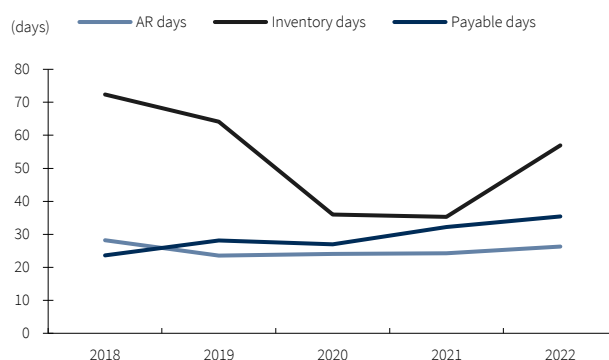
Regarding operational efficiency, inventory days rose to 57 in 2022 from 35.3 the previous year. Due to a sharp fall in consumer demand amid a weak macro environment, retailers limited inputs and increased inventory for new product lines to prepare for market entry. Implementing policies to support retailers and points of sales caused DGW's accounts receivable days to hit 26.3 days (from 24.3 days). Accounts payable days increased even more strongly to 35.4 days. Despite more receivable days, DGW still benefits from capital appropriation from suppliers. DGW's performance temporarily falls short of our expectations under the influence of external factors. We expect indices and ratios to be back on track alongside the market recovery.

Fig 25. DGW – Liquidity indices



Source: Digiworld, KB Securities Vietnam

Fig 26. DGW – Operating efficiency



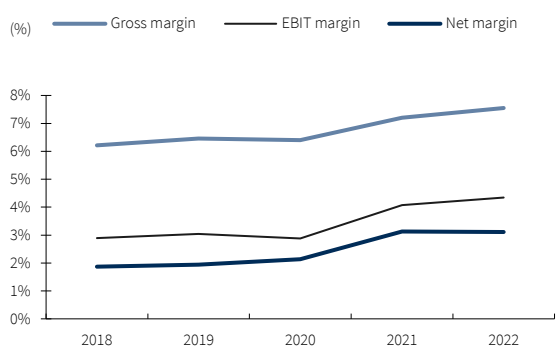
Source: Digiworld, KB Securities Vietnam

#### 4. Profitability

##### DGW maintains outstanding profitability

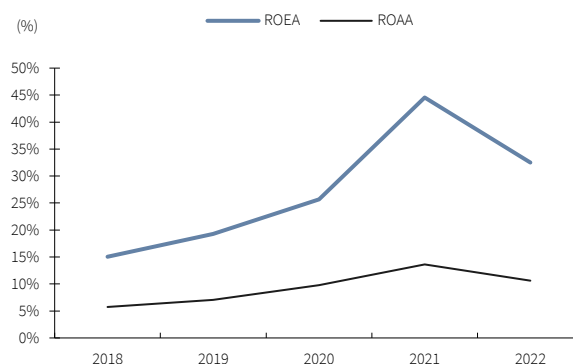
In the face of increased debt repayment pressure and reduced liquidity, we see that DGW still maintains a healthy capital structure, as evidenced by its high profitability regardless of temporary difficulties and challenges and being a long-standing reputable enterprise. In 2022, thanks to the right strategy, DGW recorded a GPM of 7.6%, a net profit margin of 3.1%, a return on average assets (ROAA) of 10.6%, and a return on earning assets (ROEA) of 32.5%. These indicators were all higher than their 5-year average.

Fig 27. DGW – GPM, EBIT margin, Net profit margin (%)



Source: Digiworld, KB Securities Vietnam

Fig 28. DGW – ROEA, ROAA (%)



Source: Digiworld, KB Securities Vietnam

## Investment catalysts

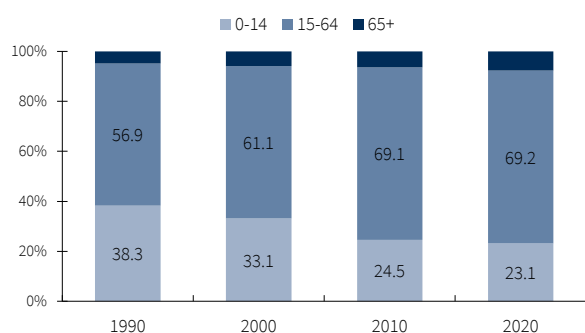
### 1. Bright outlook for the retail industry

#### Vietnam's retail industry has great growth potential

Although DGW is not directly involved in retail, the development of the entire sector positively impacts wholesalers like DGW. Local retail sales growth in the 2021–2030 period, with an expected CAGR of double digits, nearly double GDP growth, should lead the region. That explains why Vietnam attracts investment from many large retail corporations, namely Central Retail (Thailand), Lotte (Korea), and Aeon (Japan). The industry's strong growth should be driven by the following factors:

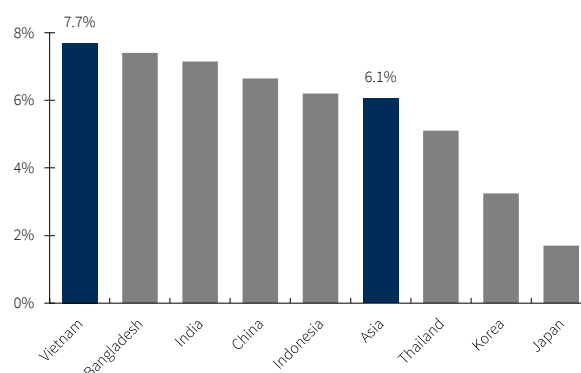
- (1) Vietnam has youthful demographics with nearly 70% of the population in the working age (15–64 years old) with more aggressive spending than the remaining economically dependent population. The young generation Y and Z spend much more than old generations. The middle class sees the fastest growth in the region, boosting spending and shopping, especially on mid- to high-end services and products.
- (2) The urbanization rate in Vietnam is forecast to grow at 2.3%/year on average until 2030, the highest in Southeast Asia.
- (3) Modern trade with many modern store chains is growing well (supermarkets, convenience stores, pharmacies), and e-commerce is growing at a CAGR of 20–25%.

Fig 29. Vietnam – Population structure in 1990–2020 (%)



Source: General Statistics Office, KB Securities Vietnam

Fig 30. Asia – Consumer spending growth in 2021–2030



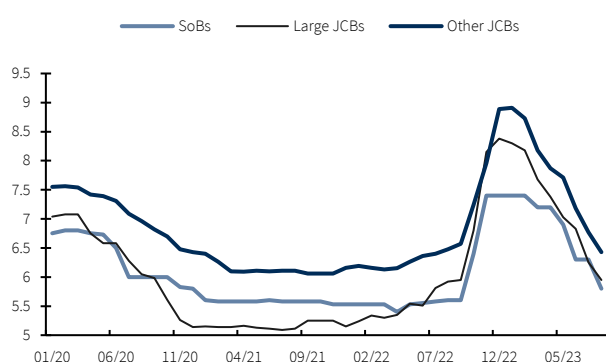
Source: HSBC, KB Securities Vietnam

#### Stimulus policies are expected to support the recovery of the retail industry

1H23 witnessed a sharp fall in consumer purchasing power. Rising inflationary pressure forced central banks to raise interest rates, resulting in economic downturn, slowing exports, many businesses downsizing, higher unemployment rates, and decreased real income. Weak purchasing power took a heavy toll on DGW's business results across segments such as phones, laptops, home appliances, and FMCG. Economic slowdown caused many businesses to go bankrupt or cut spending, dampening office equipment distribution. Amid economic headwinds, the Government and the State Bank of Vietnam (SBV) have issued fiscal and monetary policies to stimulate the economy. In

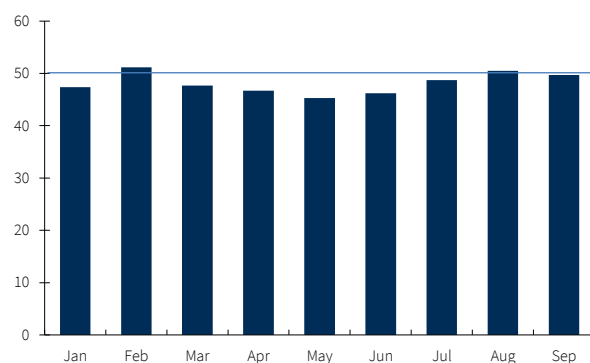
particular, the SBV has continuously cut policy interest rates, thus encouraging banks to lower deposit interest rates and lending interest rates to aid businesses. The government has issued policies like increasing the base salary and reducing VAT to boost aggregate demand. It takes time to assess impacts those policies have on the economy when major economies remain stagnant and keep high interest rates, putting enormous pressure on the USD/VND exchange rate (DGW revealed it has bought futures contracts to hedge against exchange rate risk). Installment purchases at consumer finance companies should improve when interest rates cool, thus driving revenue at retail companies. In particular, revenue contribution from installment payment made up as much as 40% and 20% of MWG and FRT's total revenue, respectively. However, these figures have plummeted over the past few months due to higher interest rates, making enterprises cut borrowing and financial institutions tighten disbursement due to concerns about rising non-performing loans. The bright spot was that the purchasing managers' index (PMI) increased above 50 for the first time in August after months below 50 despite a slight fall in September, showing signs of production recovery and more new job openings, contributing to improving real income.

Fig 31. Vietnam – Deposit interest rates among local banks



Source: State Bank of Vietnam, KB Securities Vietnam

Fig 32. Vietnam – PMI in 2023



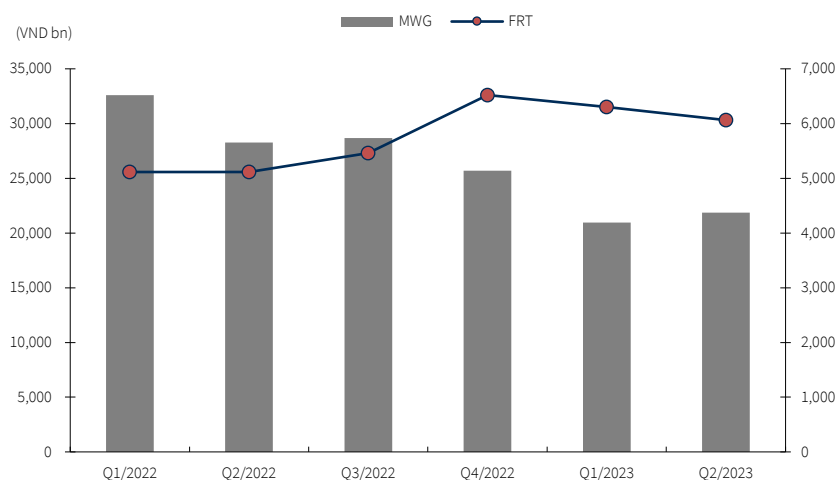
Source: General Statistics Office, KB Securities Vietnam

### ICT retail sales should have bottomed out, and low inventory would boost stockpiling among retailers

ICT retailers like MWG and FRT have reduced inventory to avoid the risk of devaluation. MWG vigorously launched the campaign "the price is so cheap" and collected a large amount of cash from destocking, resulting in inventory hitting a low. For FRT, medicine inventory surged due to the continuous expansion of the Long Chau pharmacy chain, while ICT inventory decreased significantly compared to the start of the year. With the expected recovery of purchasing power, rising income, and cooling interest rates, it is forecast that retailers will increase inputs to meet growing consumer demand.

In addition, China's reopening this year helped to resolve supply chain disruptions that occurred in 2022. The stable supply of Apple products after the new series release would push retailers to stockpile for the upcoming 'iPhone wave'.

**Fig 33. Vietnam – Inventories of retailers MWG & FRT (VNDbn)**



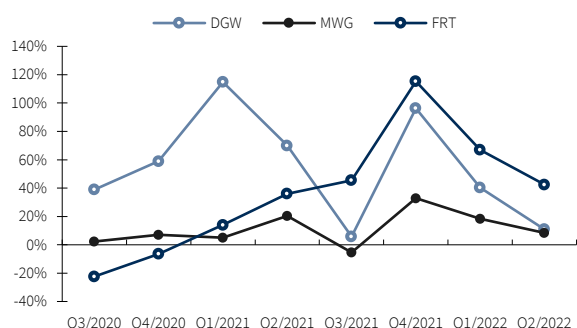
Source: Mobile World Investment, FPT Digital Retail, KB Securities Vietnam

**ICT demand should boom from the second half of 2024**

In 2020–2021, especially during the peak waves of the COVID–19 pandemic in 2021, the need to study and work from home increased sharply. For laptop products, surveys revealed that the average product life cycle is about three years, after which consumers often buy new releases to replace their old devices that seem outdated. 2H24 will likely see an explosion in new purchases of smartphone and laptop products.

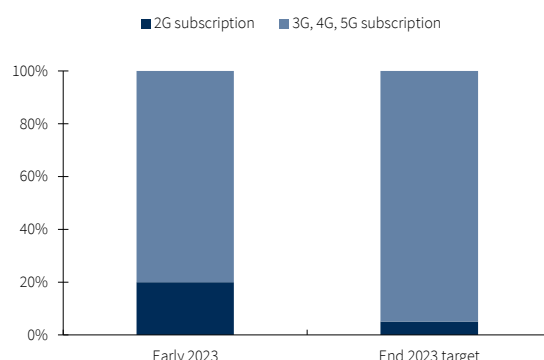
In addition, the Ministry of Information and Communications introduced a formal dispatch for the roadmap to switch off the 2G mobile signal for good no later than September 2024. Statistically, there are still more than 20 million 2G phones needing to be replaced with new models. This is an opportunity for DGW to distribute affordable smartphone lines to replace 2G mobile phones.

**Fig 34. Vietnam – Revenue growth of some ICT retailers (%)**



Source: DGW, MWG, FRT, KB Securities Vietnam

**Fig 35. Vietnam – Roadmap to switch off 2G mobile signal**



Source: KB Securities Vietnam

**DGW's MES model helps profits to be protected and supports sustainable development**

Compared to retailers, DGW's wholesale business model and specifically its MES model helps to generate stable income for the following reasons: (1) It does not require too much investment in fixed assets like building stores/points of sale. In addition, DGW's fixed costs only include premises costs

and staff costs that change with sales figures. Therefore, when demand turns negative due to market fluctuations, DGW can still stay profitable. History has proven that after more than 25 years of operation with many economic crises, DGW has never reported a loss in any quarter.

(2) DGW's GPM is also not affected since it does not have to race in the price war to win market share, and generally prices offered to retailers are finalized in a period of time given by brands. Instead, DGW will support retailers via deferred payments and sharing marketing costs.

(3) DGW also emphasized that retail and distribution are two separate segments, so the company is not worried about having to compete with retail companies. The development of retailers will also benefit DGW. For instance, the Long Chau Pharmacy chain's expansion will help DGW distribute more of its healthcare products. As mentioned earlier about the MES model, when brands want to penetrate the market or expand their coverage, they need a partner with deep market insight and a wide distribution network. Retailers ordering from DGW would receive their orders faster than those ordering directly from brands due to the longer time for shipment and customs procedures.

## 2. Growth story driven by new industries and brands

### It takes time to prove effectiveness of MES on new brands

With MES, DGW can distribute a variety of products. When expanding into a new segment, the advantage of this model remains because many processes in the MES model can be applied to different products, such as a modern logistics system managed by ERP, research team, and marketing strategy. However, DGW will have to build relationships with new retailers and points of sale and go deep into market research. Therefore, it will take at least one year for DGW to recognize revenue from distributing products in the new industry. With a large enough distribution system and good insight into that industry, DGW will be ready to distribute products for new partners without much incurred costs, shortening the time to generate revenue.

New industries such as household appliances, F&B, and labor protection products have higher GPM (10–15%) than previous ICT products (~6–7%). With the emergence of many new industries, DGW will need time to assess the profitability of new industries. Success in new industries will determine DGW's future.

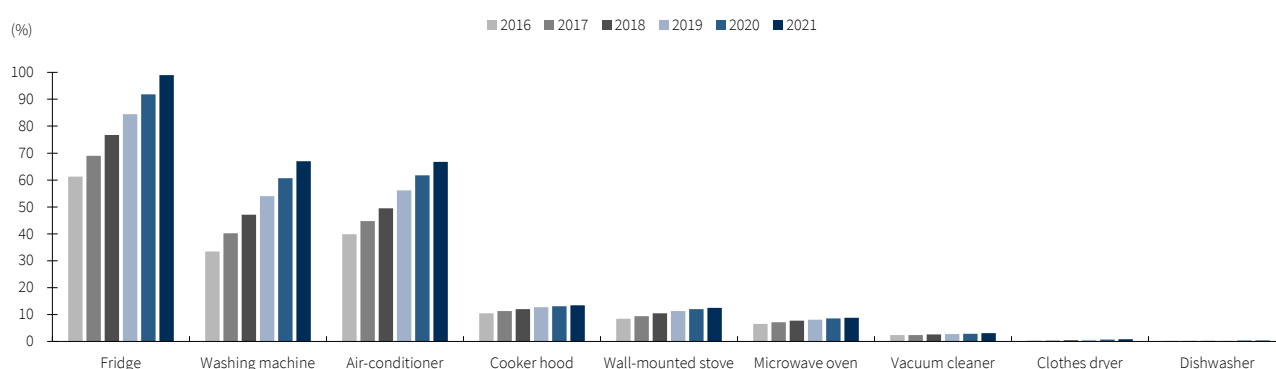
DGW would encounter numerous difficulties when entering a new industry other than ICT: (1) new industries have larger scale and DGW would have to compete with many competitors (DKSH, Zuellig Pharma, MESA, Phu Thai) and many long-standing brands with established logistics and distribution networks; (2) it takes time to do market research, develop marketing strategies, and build relationships with retailers and points of sale; and (3) product portfolio should be diverse enough and include products from reputable manufacturers. It takes quite a long time for new brands to gain market share from existing ones, and success may not come to all.

### The home appliance industry is expected to grow when big names enter the market

With an estimated market size of USD12.5–13 billion and a CAGR of 10%, it will be a fertile market for big brands, and less popular products will likely enjoy stronger growth. Factors driving growth include family separation, high demand for household items of younger generations, improvements in average income, and increased reliance on smart household products (cleaning robots, dishwashers). DGW's advantage lies in the distribution network which is quite similar to the ICT industry. Large electronics retail chains (Dien may Xanh, Nguyen Kim) and mobile phone retail chains (FPT Shop, CellphoneS) have also started distributing home appliances.

Whirlpool is a long-standing brand and can be considered the most famous in the North American market, covering mid- to high-end products. Besides Whirlpool, DGW has also cooperated with Xiaomi, Joyoung, and recently Westinghouse. Investors are concerned about DGW having to compete with giants like LG, Samsung, and Toshiba. Despite that, there are still untapped potential niches such as dishwashers, cleaning robots, and range hoods. Nonetheless, we assess that it will take time for DGW to record significant revenue from small niches.

Fig 36. Vietnam – Households owning home appliances over the years by percentage



Source: Euromonitor, KB Securities Vietnam

### DGW enters the F&B industry, cooperating with the world's largest brewer AB InBev

The Vietnamese beer market, with an estimated value of up to USD9.2 billion, is forecast to grow at a CAGR of 11% over the next three years thanks to post-pandemic tourism and economic recovery. Vietnam is ranked third in terms of beer consumption per capita in Asia, only after China and Japan. It also means competition in the beer market in Vietnam is very stiff, led by Heneiken, Sabeco, and Habeco, and there is usually a beer company in each locality. AB InBev was introduced in Vietnam for the first time in 2015, but it still failed to conquer the local market after many years and only accounts for about 1% of the market share. It is attributable to the following reasons:

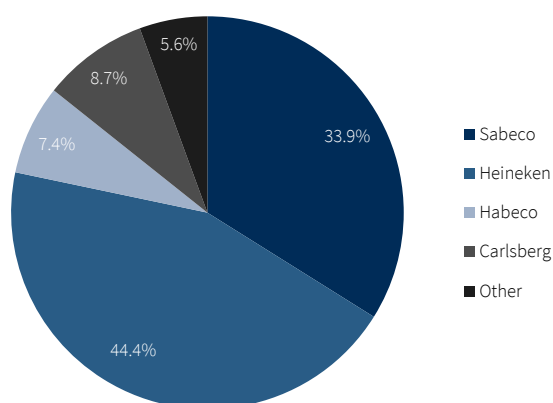
- (1) AB InBev maintains its off-trade platform (supermarkets, convenience stores) while Vietnamese people prefer on-trade (restaurants, pubs, bars).
- (2) Vietnam's old generations often prefer domestic products by Habeco, Sabeco, or local brands since they have been familiar with domestic brands and prioritize low-priced products because they are often consumed in bulk.

We believe the beer industry in general and AB InBev in particular will have a lot of growth potential in the future for:

- (1) The economic slowdown temporarily causes beer consumption of HORECA (Hotel – Restaurant – Catering), the largest beer-consuming service sector, to decline as people cut spending and switch to affordable products. However, accommodation and catering services revenue seems to have bottomed out and is recovering.
- (2) Gen Y and Gen Z now drink less beer than millennials due to better health consciousness and Decree 100. Along with improved income, they are gradually switching from low-end and poor-quality products to mid- and high-end ones. As a result, branded beer products like AB InBev's Budweiser, Corona, and Beck will have better growth potential.
- (3) Despite being the world's leading brewing group, AB InBev can compete with other domestic products across most segments in terms of selling prices. With its long experience and resources, AB InBev is implementing many marketing campaigns with DGW to penetrate and expand the market. AB InBev's high-quality products would be well-received along with economic and purchasing power recovery, gaining market share from weaker brands.

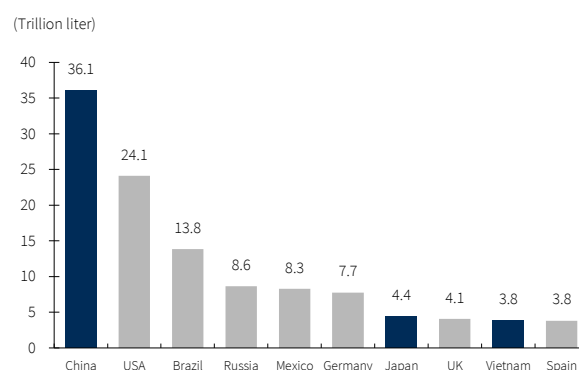
Although DGW just entered the F&B market, it has connected with 16,000 agents and developed a sales system including digital platforms like Shopee, Tiki, Lazada, Sendo, traditional points of sale (small grocery stores), and modern ones (supermarkets, convenience stores). As a new player, it needs more time to research and analyze the market to come up with effective marketing and sales strategies. Along with the capacity to quickly increase coverage thanks to a nationwide distribution system and a modern logistics system, DGW will soon make AB InBev products reach consumers. We see that DGW's comprehensive MES and its cooperation with a world-leading giant like AB InBev will drive the future growth of DGW.

Fig 37. Vietnam – Beer market share by brand in 2021 (%)



Source: KB Securities Vietnam

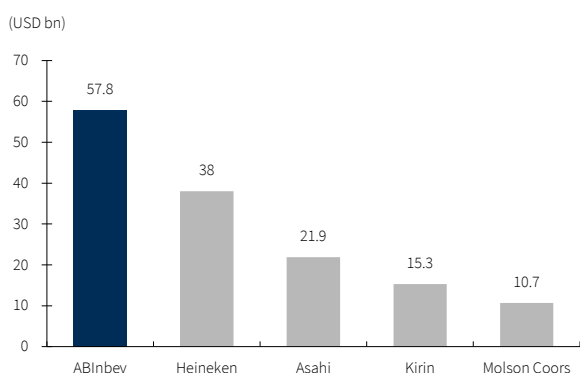
Fig 38. Global – Top 10 beer-drinking countries in 2022 (million kg)



Source: Kirin Holdings, KB Securities Vietnam

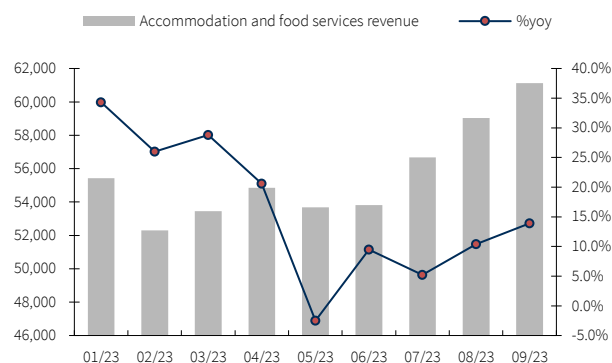


Fig 39. Global – Top 5 brewers by revenue in 2022 (USDbn)



Source: KB Securities Vietnam

Fig 40. Vietnam – Accommodation and food services revenue by month (VNDbn)



Source: General Statistics Office, KB Securities Vietnam

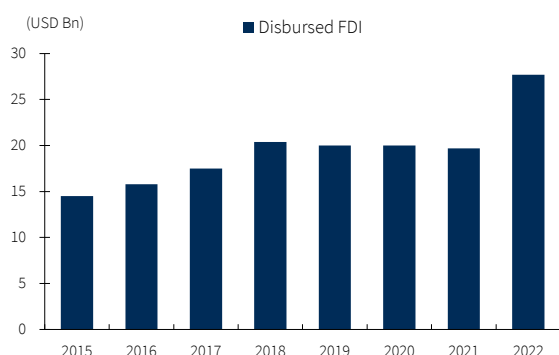
**Big potential comes from industrial equipment distribution**

The industrial equipment market is currently on a large scale and has a lot of growth potential in the future. It can be attributed to FDI inflows from giants in Asia such as Singapore, Korea, Japan, the US... as well as the relocation of high-tech factories of major global brands like Lego and Samsung into Vietnam. Therefore, demand for labor protective products in production and investment activities at industrial zones will increase in the future, especially high-quality products from reputable manufacturers.

According to FCDO research, demand for personal protective equipment (PPE) would increase by 6-9% annually until at least 2025. On the market, more than 65% are poor-quality products, and there are only a few distributors of high-quality products from reputable brands. This is because many businesses do not comply with current laws, using substandard products. We believe the pandemic and recent unfortunate events (occupational accidents and incidents) helped to raise awareness and promote safety at work. Besides, regulations on occupational safety and health have also been more tightly controlled, creating conditions for quality products to gain market share.

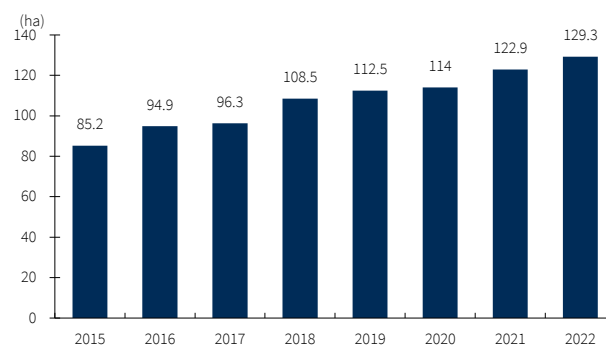
As mentioned before, DGW has successfully acquired Achison, a leading industrial equipment distribution company with more than 20 years of experience. Achison seems to be a version of DGW in labor protective equipment distribution when it owns a portfolio of high-quality products from the top manufacturers in the world, namely 3M, Dupont, and Honeywell, and an extensive distribution network covering many factories and industrial parks. Achison provides comprehensive industrial equipment solutions for key industries such as electronics, food, oil and gas, construction... Not only foreseeing the potential of the industrial equipment distribution segment, DGW realizes that Achison's distribution network can strengthen its current ecosystem to cross-sell other products like office equipment and laptops.

Fig 41. Vietnam – Disbursed FDI in 2015–2022 (USDbn)



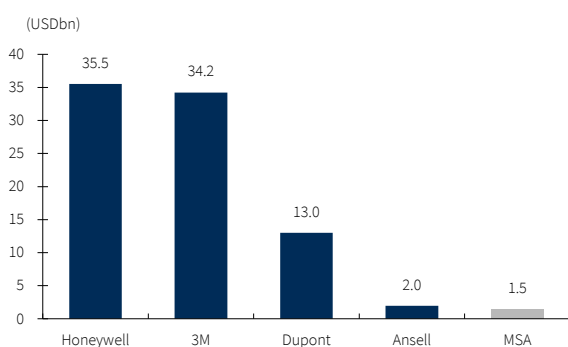
Source: General Statistics Office, KB Securities Vietnam

Fig 42. Vietnam – Total industrial land area (ha)



Source: KB Securities Vietnam

Fig 43. Global – Top 5 industrial equipment manufacturers by revenue in 2022 (USDbn)



Source: KB Securities Vietnam

Fig 44. Achison’s major partners



Source: Achison, KB Securities Vietnam

### 3. 3C strategy and MES model as competitive advantages

**MES model serves as a solid competitive advantage while opening up opportunities to expand into new businesses for DGW**

With MES different from models at other distribution companies, DGW is superior to its competitors, helping DGW to maintain its position. Not only that, a more perfect MES platform has enabled DGW to expand into other industries besides ICT since 2017, such as healthcare products and FMCG. With past success stories and a comprehensive MES model, DGW is confident that companies desiring to penetrate and develop in the Vietnamese market will come to it. DGW is also willing to provide separate services in the MES chain based on customers' needs, consequently helping DGW get more customers as well as encouraging them to use other remaining services.

**5 pieces to complete the MES puzzle**

DGW is currently the only MES provider in the ICT distribution market. We believe other distributors like FPT Trading, Petrosetco... will sooner or later deploy MES. However, a comprehensive MES model requires the perfection of all processes, which will take time and money and a thorough strategy requiring a qualified leader and close coordination with his team. MES serve as DGW's solid competitive edge over other competitors.

The first piece of the MES puzzle is market research and analysis to build effective sales and distribution solutions for each brand. When a brand wants to enter the market, DGW will conduct market research and surveys from different angles, including market segmentation and size, competitors, and potential, from which DGW will propose scenarios and plans, such as how, which segment, pricing strategy, brand positioning, ... so that the company can penetrate the market effectively.

The second piece is marketing execution. When introducing new products to the market, DGW will support brands and retailers in terms of public relations, marketing, sales, and public events.

The third one is the logistics system. Most distributors invest in warehouses and transportation facilities. DGW is different from others when owning Germany-based SAP's modern ERP system. While many are still implementing processes in a simple manner, DGW sought to complete the ERP system right from the beginning. Despite numerous difficulties, DGW succeeded in the end, which created many advantages and improved its reputation in the eyes of foreign brands and domestic retailers. Even big companies like Phu Nhuan Jewelry (PNJ) and MWG encountered various obstacles when building and completing ERP. Therefore, perfecting ERP from the early days created a big gap between DGW and others. DGW can now make a difference in logistics solutions, delivery optimization, and real-time inventory management, thus creating effective delivery and ordering plans.

**Fig 45. DGW – Effectiveness of SAP's ERP system**



Source: Digiworld, KB Securities Vietnam

The fourth one is distribution service. DGW has an extensive network that is still being expanded as mentioned above. With this advantage, DGW can quickly and effectively distribute products when cooperating with new brands. Furthermore, DGW runs stores for brands, from premise renting and staff recruitment to operation. Since retailers cannot display all their products on the shelves, brands use this service to enhance customer experience. DGW has successfully operated Xiaomi and Huawei stores, bringing outstanding experiences to customers.

The final piece is after-sales service. DGW coordinated with brands to build warranty centers, support centers, and customer service centers to answer customer inquiries on behalf of brands. This is also an advantage compared to non-genuine hand goods or imported ones as consumers will have their items repaired by a third party without a quality guarantee when an error arises.

Fig 46. DGW – MES model



Source: Digiworld, KB Securities Vietnam

### The 3C strategy helps to perfect and operate MES effectively

To perfect and operate effectively the MES model, it requires right strategies in each step of the entire MES model. DGW's consistent business strategy throughout the past 20 years is 3C, which stands for human capital, cornerstone, and chances. Regarding cornerstone, DGW has built a retail network with more than 16,000 agents from online to offline for different product lines, proactively perfecting the modern ERP system right from the start. To strengthen its competitive advantage and outpace many competitors, DGW applied modern technology to the logistics system. As for human capital, human resource can be considered DGW's most valuable asset and is a fulcrum to exploit business opportunities. Unlike distribution businesses primarily focusing on fixed assets, DGW invests in staff to carry out steps in the MES chain. DGW focuses on building corporate culture, organizes training courses, and highly appreciates each individual's contribution. In addition, there is a factor that makes human resource at DGW different from its competitors: ESOP. ESOP is an effective tool that helps the company retain talent and motivate its team. With two weapons human and cornerstone, DGW only needs to grasp chances when they come. As long as the growth potential is great enough, DGW will get to work to distribute new product lines since it will achieve good results without investing too much.

**The BOD is dedicated and visionary, with interests closely tied to the company's business results**

It was thanks to the significant contribution of the board of directors (BOD) led by Chairman Doan Hong Viet that made DGW the leading ICT distributor in Vietnam with a unique business model and double-digit earnings growth for many consecutive years. The key members have all accompanied the establishment and development of the company. DGW's success stories, namely bringing Acer into the Vietnamese market and exploring the laptop market, bringing Xiaomi phones from scratch to the top 3 smartphone brands or being the first company in the industry to complete the ERP system, demonstrate the talent and vision of DGW's leadership. The BOD holds the majority of shares since the listing, implying that the BOD's interests are closely tied to the company's business results. With this ownership structure, many shareholders may worry that the management would work for their gain. However, after many years of operation and eight years listed on the stock exchange, the BOD has always harmonized the interests of all shareholders, including minority shareholders, with a win-win mindset for all parties. DGW always pays cash dividends at a rate of ~15-20% of NPAT, ensuring regular cash flow for shareholders and sufficient working capital to boost DGW's growth.

Notably, DGW's Chairman Doan Hong Viet recently bought CTR shares and became a major shareholder of Viettel Construction (HSX: CTR). We assess that DGW would cooperate with CTR in telecommunications, civil construction, and integrated solutions. We expect this will be a win-win cooperation between DGW and CTR in the future.

**Fig 47. DGW – Talented management team**



**Mr. Doan Hong Viet**  
(37% ownership share)



**Mrs. To Hong Trang**  
(3% ownership share)



**Mrs. Dang Kien Phuong**  
(5% ownership share)

Source: KB Securities Vietnam

## Investment risks

### **Weaker-than-expected recovery of purchasing power**

With businesses closely tied to the purchasing power of the economy, the speed of economic and purchasing power recovery has a great influence on DGW's business results. We are concerned that the economy will not be able to absorb stimulus policies amid growing worries about the economic recession among Vietnam's main trading partners China and the US, the FED maintaining high interest rates, rising USD/VND exchange rate pressure... The above risk elements will slow the recovery of the domestic economy, leading to purchasing power to recover weaker than expected.

### **Not-as-expected contribution from new brands**

DGW has cooperated with many brands, but success did not come to all. We see that brands need to earn a reputation globally, have achieved achievements in many other markets, and own a diverse product portfolio with reasonable prices to be able to be successful in the Vietnamese market. We are worried that as the ICT industry becomes saturated and new industries do not contribute as much as expected to business results, it will affect DGW's long-term growth. However, DGW is cooperating with the world's leading brands, such as AB InBev and Whirlpool. We believe the product lines of such brands will contribute more or less to the future growth of DGW.

### **Competition in new industries**

In the ICT industry, DGW is superior to other peers thanks to its MES, years of experience, and cooperation with well-known brands. However, when expanding into new businesses, DGW will have to encounter many strong competitors, not only distributors but also brands already present in the market. DGW will compete directly or start from a niche market, which will affect the business performance of other businesses. We recommend investors monitor the ability to compete in new industries other than ICT to evaluate DGW's capability.

## Forecast & Valuation

### 2023F business results

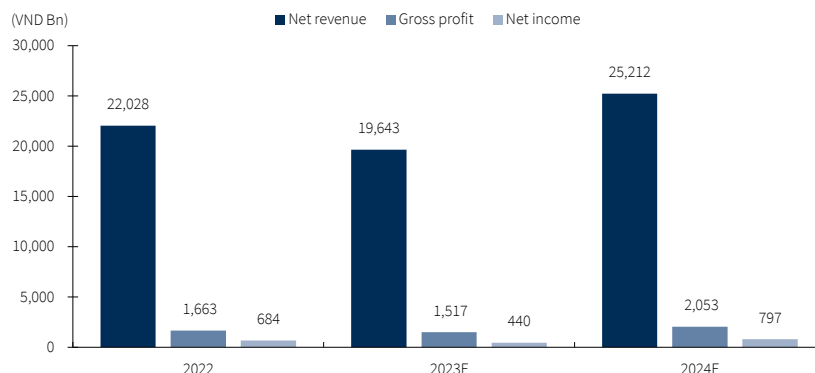
We assess that DGW will benefit from the recovery of the retail industry in 2H23, and new brands will further contribute to DGW's business results. For 2023F, we forecast DGW's net revenue to reach VND19,643 billion (-11% YoY) and GPM to improve by 5 bps YoY to 7.60%. NPAT is expected at VND423 billion (-38% YoY) due to weak purchasing power in 1H23. In 2024, with the expectation of the recovery of the ICT industry along with growth potential from new industries, DGW will regain impressive growth momentum.

Fig 48. DGW – 2022A–2023F business results

(VNDbn)	2022A	2023F	% YoY	2024F	% YoY	Comments
<b>Revenue</b>	<b>22,028</b>	<b>19,643</b>	<b>-11%</b>	<b>25,212</b>	<b>28%</b>	Revenue decreased YoY due to softer purchasing power in 1H23. The core business ICT products distribution is expected to recover in 2H23. In 2024, revenue should explode thanks to new industries and stronger purchasing power.
Laptops, tablets	7,027	6,535	-7%	8,169	25%	The laptop industry rebounded earlier than expected in 2023 and should grow strongly in 2024 thanks to stronger purchasing power and new purchases to replace the old ones bought during the COVID-19 pandemic on surging demand.
Mobile phones	10,759	9,145	-15%	11,797	29%	Like the laptop segment, the mobile phone segment also saw decreased sales due to a sharp fall in purchasing power for consumer discretionary. It is expected to boom in 2024 thanks to stronger purchasing power, new purchases to replace the old ones, and 2G mobile service switch-off.
Office equipment	3,320	3,220	-3%	3,961	23%	The office equipment segment moved sideways in 2023 due to a small number of newly established businesses and spending cuts. It is forecasted that demand for office equipment among businesses will increase again alongside the economic recovery in 2024. This is also a fertile market for DGW.
Home appliances	556	962	73%	1,616	68%	With continuous cooperation with famous home appliance brands and aggressive market coverage expansion, the potential of this industry remains huge for DGW.
Consumer goods	397	742	87%	1,284	73%	DGW has been doing market research after cooperating with the world's largest brewer AB InBev. It is expected that mid- and high-end products of this brand will be well-received alongside the recovery of purchasing power and changes in habits among young consumers.
<b>Gross profit</b>	<b>1,663</b>	<b>1,517</b>	<b>-9%</b>	<b>2,053</b>	<b>35%</b>	
Gross profit margin (GPM)	7.5%	7.7%	2%	8.1%	5%	Thanks to the contribution of new product lines with higher GPM, DGW's GPM increased slightly and is expected to improve further in the future.
SG&A	(858)	(971)	13%	(1,083)	11%	
SG&A/revenue	-3.9%	-4.9%	27%	-4.3%	-13%	In 2023, DGW had to support retailers and points of sales in terms of advertising and marketing costs due to poor purchasing power, leading sales and marketing costs to increase sharply. In 2024, SG&A expenses are forecasted to decrease to the median previous years.
Financial income	209	147	-30%	163	11%	
Financial expenses	(144)	(137)	-5%	(128)	-7%	
EBIT	957	694	-27%	1,137	64%	
EBT	862	557	-35%	1,009	81%	
<b>NPAT</b>	<b>684</b>	<b>440</b>	<b>-36%</b>	<b>797</b>	<b>81%</b>	Revenue decreased while DGW had to support retailers and points of sales in terms of advertising and marketing costs, causing profits to drop sharply. It is expected that in the future, thanks to the contribution of new product lines with higher margins, DGW's NPAT will grow well.

Source: Digiworld, KB Securities Vietnam

Fig 49. DGW – 2022A–2024F business results



Source: Digiworld, KB Securities Vietnam

**We recommend BUY for DGW with a target price of VND67,800/share**

We combine two valuation approaches (1) discounted cash flow and (2) P/E to assess DGW's value.

(1) For the discounted cash flow method, we utilize free cash flow to the firm (FCFF) with the assumptions stated below (Table 50). We give DGW a target price of VND76,500/share.

(2) For the P/E method, we give DGW a target P/E of 16x, close to the 5-year average P/E +1 Std deviation due to the expectation of a strong recovery in 2024 and new businesses in the future. Moreover, DGW's deals with Xiaomi and Apple had not been mirrored in the price in 2018–2020, causing the average P/E to decrease. The target EPS is VND3,496, the average EPS for 2023 and 2024, since the current price partly reflected the expectations in 2024. We give DGW a target price of VND59,200/share.

Based on an equal combination of the above valuation methods, we recommend BUY for DGW with a target price of VND67,800/share, 15% higher than the closing price on October 9, 2023.

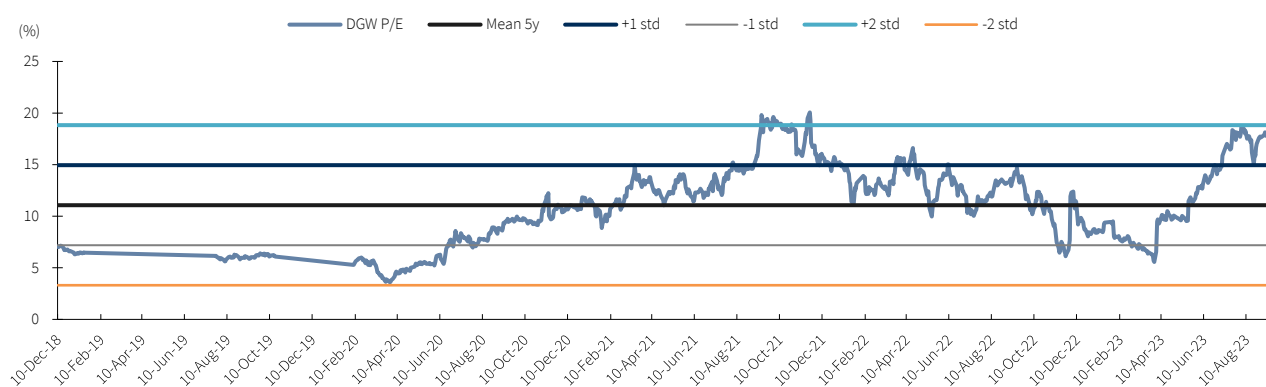


Table 50. DGW – FCFF valuation &amp; model assumptions

(VNDbn)	2023F	2024F	2025F	2026F	2027F
NPAT	440	797	996	1,246	1,493
Depreciation	6	7	8	9	11
Interest expense x (1-t)	110	103	102	90	77
Capex	(14)	(16)	(23)	(27)	(32)
Working capital	(291)	(677)	2	(366)	(108)
FCFF	251	213	1,085	954	1,440
Equity cost	14.04%	Present value of terminal value			11,241
Cost of capital	6.00%	Present value of FCFF			2,813
Risk-free rate	5.00%	Cash & equivalents			741
Beta	1.1	Short-term investments			-
Terminal growth	4.0%	Enterprise value			14,796
Duration	5	Net debt			2,013
WACC	12.19%	Equity			12,783
		Outstanding shares			167,072,974
<b>Target price</b>					<b>76,500</b>

Source: KB Securities Vietnam

Fig 51. DGW – Historical P/E in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

## DGW – 2021A–2024F financials

Income statement					Balance Sheet				
(VNDbn)	2021A	2022A	2023F	2024F	(VNDbn)	2021A	2022A	2023F	2024
Net sales	20,923	22,028	19,643	25,212	Total assets	6,545	6,355	6,466	7,78
Cost of sales	(19,415)	(20,365)	(18,127)	(23,158)	Current assets	6,255	5,783	5,878	7,17
Gross Profit	1,508	1,663	1,517	2,053	Cash & equivalents	1,494	828	741	95
Financial income	180	209	147	163	ST investments	0	0	0	
Financial expenses	(42)	(144)	(137)	(128)	Accounts receivable	1,679	1,496	1,866	2,01
of which: interest expenses	(32)	(94)	(137)	(128)	Inventory	2,910	3,445	3,143	4,03
Gain/(loss) from joint ventures	(2)	(2)	-	-	Long-term assets	289	573	588	60
Selling expenses	(708)	(722)	(795)	(893)	LT trade receivables	18	22	25	2
General & admin expenses	(114)	(136)	(177)	(189)	Fixed assets	94	95	103	11
Operating profit/(loss)	821	868	554	1,006	Investment properties	0	0	0	
Net other income/(expenses)	(2)	(6)	3	3	Liabilities	4,764	3,932	3,766	4,44
Pretax profit/(loss)	820	862	557	1,009	Current liabilities	4,753	3,882	3,757	4,43
Income tax	(221)	(175)	(117)	(212)	Trade accounts payable	2,844	1,210	1,375	1,63
Net profit/(loss)	655	684	440	797	Advances from customers	72	96	59	7
Minority interests	1	(0)	(0)	(0)	ST borrowings	1,117	1,915	2,013	2,26
Net profit after MI	654	684	440	797	Long-term liabilities	10	50	9	1
					LT payables	0	0	0	
					LT borrowings	10	9	9	1
					Other LT liabilities	0	41	0	
					Shareholders' equity	1,781	2,423	2,700	3,33
					Paid-in capital	886	1,632	1,632	1,63
					Share premium	61	61	61	6
					Undistributed earnings	838	707	984	1,61
					Reserve & others	0	0	0	
					Minority interest	2	29	29	2
Operating ratios					Key ratio				
	2021A	2022A	2023F	2024F	(%, %, VND)	2021A	2022A	2023F	2024
Gross profit margin	7.2%	7.5%	7.7%	8.1%	Multiple				
EBITDA margin	4.1%	4.4%	3.6%	4.5%	P/E	15.4	14.7	22.9	12.
EBIT margin	4.1%	4.3%	3.5%	4.5%	P/E diluted	15.4	14.7	22.9	12.
Net Operating margin	3.9%	3.9%	2.8%	4.0%	P/B	5.7	4.2	3.7	3.
Pre-tax profit margin	3.9%	3.9%	2.8%	4.0%	P/S	0.5	0.5	0.5	0.
Net profit margin	3.1%	3.1%	2.2%	3.2%	P/Tangible Book	5.9	4.3	3.8	3.
					P/Cash Flow	(15.1)	(116.4)	46.8	19.
					EV/EBITDA	13.0	2.1	2.9	2.
					EV/EBIT	13.1	2.1	2.9	2.
Cash flow statement					Operating Performance				
(VNDbn)	2021A	2022A	2023F	2024F	ROE%	44.5%	32.5%	17.2%	26.4%
Net profit	820	862	557	1,009	ROA% <td>13.6%</td> <td>10.6%</td> <td>6.9%</td> <td>11.2% </td>	13.6%	10.6%	6.9%	11.2%
Plus: depreciation & amort	6	9	6	7	ROIC% <td>22.6%</td> <td>15.6%</td> <td>9.3%</td> <td>14.2% </td>	22.6%	15.6%	9.3%	14.2%
Plus: investing (profit)/loss	-35	-44	0	0					
Interest Expense	32	94	137	128	Financial Structure				
Change in working capital	823	922	700	1,144	Cash ratio	0.3	0.2	0.2	0.
(Inc)/dec - receivables	-762	335	-359	-176	Quick Ratio	0.7	0.6	0.7	0.
(Inc)/dec - inventory	-2,066	-488	302	-891	Current Ratio	1.3	1.5	1.6	1.
Inc/(dec) - payables	2,365	-1,732	-252	395	LT Debt/Equity	0.0	0.0	0.0	0.
Inc/(dec) - advances	-5	-18	18	-5	LT Debt/Total assets	0.0	0.0	0.0	0.
Other adj for operations	0	0	0	0	ST Debt/Equity	0.6	0.8	0.7	0.
Operating cash flow	149	-1,110	38	149	ST Debt/Total assets	0.2	0.3	0.3	0.
Purchase of Fixed Assets and long-term assets	-12	-8	-14	-16	ST liabilities/Equity	2.0	0.8	0.6	0.
Proceeds from disposal of fixed assets	0	0	0	0	ST liabilities/Total asset	0.6	0.3	0.3	0.
Loans granted, purchases of debt instruments	-6	-24	0	0	Total liabilities/Equity	2.0	0.8	0.6	0.
Collection of loans, proceeds from sales of debts instruments	0	6	0	0	Total liabilities/Total assets	0.6	0.3	0.3	0.
Investments in other entities	-10	-307	-4	-7					
Proceed from divestment in other entities	0	0	0	0	Activity Ratio				
Dividends and interest received	41	48	0	0	Account receivable turnover	12.5	14.7	10.5	12.
Investing cash flow	12	-285	-18	-22	Inventory turnover	6.7	5.9	5.8	5.
Proceeds from issue of shares	12	22	0	0	Account payable turnover	7.6	17.3	13.0	14.
Payment for share returns and repurchase	0	0	0	0					
Proceeds from borrowings	4,902	9,943	5,107	6,555					
Repayment of borrowings	-4,415	-9,145	-5,050	-6,303					
Finance lease principal payments	0	0	0	0					
Dividends paid	-44	-91	-163	-163					
Interests, dividends, profits received	0	0	0	0					
Financing cash flow	455	729	-106	89					
Net increase in cash & equivalents	-667	-87	215	525					
Cash & equivalents - beginning	878	1,494	828	741					
Cash & equivalents - ending	1,494	828	741	956					

Source: Digiworld, KB Securities Vietnam

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## Investment ratings & definitions

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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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