

Mobile World (MWG)

Top pick for demand snap back

Consumer & Retailing Analyst

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March revenue holding up despite nationwide lockdown

March revenue at VND8,500 billion and still seeing double-digit growth at about 10% YoY growth. MWG's unique ability to integrate its large store network and online platform enables the company to sustain sales as consumers opt to make online purchases during the nationwide lockdown. MWG has ample cash on hand and operating cash flow to weather the COVID-19 pandemic and is negotiating with landlords to lower rentals for most of its stores. Temporary closures only at 10% of *thegioididong* (smart phones) and *Dien may XANH* (electronics) locations and stores are still being used to fill online orders.

More consumers embracing modern trade during the COVID-19 crisis

The closure of traditional retailing channels is pressuring the market share of competitors as more consumers embrace modern trade during the pandemic. MWG is taking full advantage of this change in purchasing patterns to use its online platform to meet this shift in demand. Brick-and-mortar stores are being used to process online orders and shorten delivery times for smart phone and electronics, while the *Bach hoa XANH* and *Bach hoa XANH Online* grocery store brands clearly demonstrate their ability to become Vietnam's premier provider of fresh foods/produce.

Recommend BUY and current valuation not seen since 2016

Shares have not traded at a P/E multiple of 8x since 2016 and we recommend BUY at a target price of VND109,000 per share. MWG is our top pick among retailers and we expect the company to benefit the most when consumption normalizes after the COVID-19 pandemic stabilizes. Moreover, our expectations for market share gains add another driver for share prices during the recovery.

BUY maintain

Target price VND109,000

Upside	51.8%
Current price (Apr 10, 2020)	VND 71,800
Market cap (VNDtn/USDbn)	32.5/1.4

Forecast earnings & valuation

FY-End	2016A	2017A	2018A	2019A
Net sales (VNDbn)	44,613	66,340	86,516	102,174
Operating profit/(loss) (VNDbn)	2,007	2,795	3,774	5,035
Attributable Net profit (VNDbn)	1,577	2,206	2,879	3,834
EPS (VND)	3,842	5,372	6,689	8,661
EPS growth (%)	40.3%	39.8%	24.5%	29.5%
P/E (x)	19.0	13.6	10.9	8.4
P/B (x)	7.8	5.2	3.6	2.7
ROE (%)	49.9%	45.3%	38.7%	36.3%
Dividend yield, common (%)	0.8%	1.5%	2.1%	na

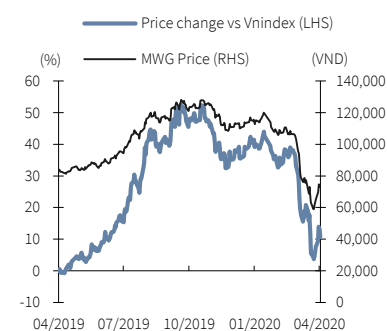
Source: Bloomberg, KBSV

Trading data

Free float (%)	89.8%
Trading value (VNDbn/USDmn)	103.3/4.4
Foreign available shares (%)	0.0%
Major shareholders (%)	Retail World Company Limited (11.6%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-23.9%	-36.4%	-40.9%	-12.8%
Relative	13.7%	12.8%	14.6%	-8.4%



Source: Fiiipro

Top pick for demand snap back

March revenue still records double-digit growth at about 10%

March revenue resilient at VND8,500 billion and still managed double-digit YoY growth at around 10%. The nationwide lock down has forced closure of only about 10% of *thegioididong* (TGDD/mobile phones) and *Dien may XANH* (DMX/electronics) locations (mainly in Hanoi) and even these stores are still being used to service online orders. Operating cash flow is ample at present and MWG is using its large presence in the retailing space to negotiate with landlords to cut rentals by up to 50% during closures or moving stores to locations with more reasonable rental fees.

Armed with Vietnam's most modern retailing distribution network to expand market share

Purchasing patterns have shifted to basic necessities and health products amid the sharp drop in disposable income and consumption demand. We believe this provides MWG – and its modern retailing distribution network – with an unprecedented opportunity to expand market share. Management indicates the disruption to traditional retailing channels has made it challenging for competitors to maintain market share. MWG has set its 2020 market share targets for mobile phones at 50% and consumer electronics at 45% but we believe MWG's expansive brick-and-mortar and online distribution platforms could actually see the company exceed these targets when demand bounces back after the COVID-19 pandemic. Moreover, the *Bach hoa XANH* (BHX) and *Bach hoa XANH Online* (BHX Online) grocery brands have excelled during that nationwide lockdown and bodes well to become the top retailer of basic necessities for Vietnam's consumers.

Online channel begins to shine as they roll out "shopping on behalf of customers" model

MWG's modern retailing network has proven to be the best in Vietnam during this crisis by providing customers with time-saving and safe alternatives to traditional shops and wet markets. For example, MWG has improved productivity and shortened delivery times of groceries by using internal applications enabling thousands of TGDD/DMX staff to take orders from BHX stores for delivery to the door step of the customer. Efficient operations have already yielded tangible results, with management indicating that in-store foot traffic has increased at 100% of its BHX stores during the COVID-19 pandemic. Number of bills in March have reached 17 million or up 40% from February's 12 million. Taken together, preliminary March sales for BHX stores are estimated at VND1,800 billion or a 145% YoY boost and we attribute this success to MWG's large store-count and full utilization of the online distribution platform.

Stock has not traded at current valuation since 2016 following this year's near 50% drop in share price

MWG's share prices has fallen nearly 50% this year, with the P/E valuation now down to 8x and at a level not seen since 2016. We recommend BUY and a target price of VND109,000 per share as our top pick among retailers to stage a strong recovery when consumption normalizes after the coronavirus pandemic stabilizes. Moreover, we expect market share gains to become an additional share price driver as the current cost savings in rents provide room to launch more promotions to spur demand into the recovery. Risks include slower-than-expected recovery in consumption after the COVID-19 pandemic due to the pull-forward of demand following stock piling ahead of the nationwide lockdown. However, we believe MWG should be more immune to this risk given its 50% exposure to fresh food/produce vs consumer companies focusing on consumer staples (eg, instant noodles/beverages/rice/hygiene products).

Income statement

(VNDmn) (Reporting standard)	2016A	2017A	2018A	2019A
	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Net sales	44,613,333	66,339,804	86,516,287	102,174,244
Cost of sales	37,399,226	55,198,025	71,224,159	82,686,445
Gross profit	7,214,106	11,141,779	15,292,128	19,487,799
Financial income	135,328	250,510	342,084	631,178
Financial expenses	120,086	234,287	436,573	569,755
of which: interest expenses	119,646	233,202	436,417	568,137
Gain/(loss) from joint ventures	0	0	(2,101)	(5,473)
Selling expenses	4,287,696	7,017,061	9,659,741	12,437,283
General & admin expenses	934,777	1,345,497	1,761,614	2,073,783
Operating profit/(loss)	2,006,875	2,795,444	3,774,182	5,034,683
Other incomes	51,130	17,685	53,233	41,557
Other expenses	32,091	3,816	21,097	22,793
Net other income/(expenses)	(961)	13,868	12,136	18,764
Pretax profit/(loss)	2,005,914	2,809,312	3,786,319	5,053,447
Income tax	427,663	602,415	906,010	1,217,207
Net profit/(loss)	1,578,251	2,206,897	2,880,309	3,836,240
Minority interest	878	1,217	1,585	1,971
Net profit attributable to shrhds	1,577,372	2,205,680	2,878,724	3,834,270

Operating statistics

(%)	2016A	2017A	2018A	2019A
Gross profit margin	16.2%	16.8%	17.7%	19.1%
EBITDA margin	5.5%	5.4%	6.0%	6.4%
EBIT margin	4.5%	4.2%	4.5%	4.9%
Pre-tax profit margin	4.5%	4.2%	4.4%	4.9%
Operating profit margin	4.5%	4.2%	4.4%	4.9%
Net profit margin	3.5%	3.3%	3.3%	3.8%

Cash flow statement

(VNDmn)	2016A	2017A	2018A	2019A
Net profit/(loss) before tax	2,005,914	2,809,312	3,786,319	5,053,447
Depreciation & amortization	465,066	815,683	1,348,952	1,533,323
Profit/(loss) from investing	(89)	(34,425)	(84,964)	(341,222)
Interest expense	119,646	233,202	436,417	568,137
Oper profit/(loss) before WC changes	2,590,537	3,823,772	5,486,723	6,813,685
(Inc)/dec in receivables	(989,518)	(1,322,949)	1,246,647	(675,980)
(Inc)/dec in inventories	(4,503,949)	(2,796,298)	(4,672,944)	(8,374,797)
Inc/(dec) in payables	3,124,565	3,970,337	1,331,043	2,823,942
(Inc)/dec in prepaid expenses	(164,867)	(96,806)	126,753	(227,805)
Trading sec, int exp & taxes	(643,249)	(914,392)	(1,257,087)	(1,645,126)
Net oper cash inflows/(outflows)	(586,482)	2,663,664	2,261,135	(1,286,081)
Fixed & other LT assets	(1,278,789)	(2,065,070)	(1,495,932)	(3,066,921)
Disposal of fixed assets	952	180	1,340	1,291
Loans granted & debt bought	0	(210,280)	(85,922)	(8,997,470)
Loan collection & debt sales	0	125,580	0	5,911,392
Investments in other entities	0	0	(828,166)	0
Divestment in other entities	0	0	0	0
Dividends & interest received	1,799	29,375	64,287	278,946
Net invest cash inflows/(outflows)	(1,276,038)	(2,120,215)	(2,344,394)	(5,872,762)
Proceeds from issue of shares	0	92,226	703,840	90,455
Payments for shrs/repurchases	(315)	0	(730)	(4,850)
Proceeds from borrowings	19,961,551	29,465,789	31,893,805	45,905,952
Repayment of borrowings	(17,225,505)	(27,456,000)	(31,690,849)	(38,801,962)
Finance lease principal payments	0	0	0	0
Dividends paid	(220,130)	(231,719)	(485,862)	(665,093)
Interest, dividends & profits	0	0	0	0
Net finance cash inflows/(outflows)	2,515,600	1,870,537	421,719	6,524,502
Net inc in cash & equiv	653,081	2,413,986	338,460	(634,341)
Cash & equiv (beginning)	343,873	996,983	3,410,983	3,749,550
Cash & equiv (ending-net FX)	996,983	3,410,983	3,749,550	3,115,237

Source: MWG, KB Securities Vietnam

Balance sheet

(VNDmn) (Reporting standard)	2016A	2017A	2018A	2019A
	VN GAAP	VN GAAP	VN GAAP	VN GAAP
Total assets	14,854,263	22,822,664	28,122,531	41,708,096
Current assets	12,288,142	18,862,861	23,371,995	35,011,897
Cash & equivalents	996,983	3,410,983	3,749,550	3,115,237
ST investments	0	0	50,922	3,137,000
Receivables & others	1,676,963	1,969,938	1,755,943	2,751,963
Inventories	9,370,732	12,050,163	17,446,005	25,745,428
Long-term assets	2,566,121	3,959,803	4,750,537	6,696,199
LT trade receivables & others	386,772	460,688	548,092	657,392
Fixed assets & inv properties	2,096,423	3,463,658	3,333,148	5,403,777
LT incomplete assets	80,421	35,457	256,832	87,430
LT investments	0	0	59,938	56,464
Goodwill	2,505	0	552,527	491,135
Total liabilities	11,012,906	16,913,748	19,139,496	29,564,503
Current liabilities	11,012,906	15,713,815	17,929,433	28,442,367
Trade payables & others	6,162,197	10,037,059	11,993,368	15,258,103
Advances & unrealized sales	20,044	22,475	38,062	81,528
Short-term borrowings	4,788,992	5,603,506	5,836,455	13,031,016
Long-term liabilities	0	1,199,933	1,210,063	1,122,137
LT trade payables	0	0	0	0
LT customer advances	0	0	1,896	0
Unrealized revenue	0	0	0	0
Long-term borrowings	0	1,199,933	1,208,167	1,122,137
Owners' equity	3,841,358	5,908,916	8,983,035	12,143,592
Paid-in capital	1,539,509	3,169,884	4,434,962	4,435,462
Share premium	36,718	36,718	551,452	555,207
Undistributed earnings	2,261,763	2,698,573	3,989,604	7,149,694
Reserves & other adj	1,130	1,130	1,130	1,130
Minority interests	2,316	2,776	6,249	7,786

Key ratios

(x, %, VND)	2016A	2017A	2018A	2019A
Multiples				
P/E	19.0	14.0	10.9	8.4
P/E diluted	19.0	14.0	10.9	8.4
P/B	7.8	5.2	3.6	2.7
P/S	0.7	0.5	0.4	0.3
P/tangible book	7.8	5.2	3.8	2.8
P/cash flow	(51.1)	11.6	13.9	(25.1)
EV/EBITDA	14.8	10.0	6.9	6.7
EV/EBIT	18.2	12.9	9.2	8.7
Operating performance				
ROE	49.9%	45.3%	38.7%	36.3%
ROA	14.3%	11.7%	11.3%	11.0%
ROIC	26.5%	25.8%	27.3%	21.3%
Financial structure				
Cash ratio	9.1%	21.7%	20.9%	11.0%
Quick ratio	9.1%	21.7%	21.2%	22.0%
Current ratio	111.6%	120.0%	130.4%	123.1%
LT debt/equity	0.0%	20.3%	13.5%	9.2%
LT debt/total assets	0.0%	5.3%	4.3%	2.7%
Debt/equity	124.7%	115.2%	78.5%	116.6%
Debt/total assets	32.2%	29.8%	25.0%	33.9%
ST liabilities/equity	286.9%	266.1%	199.7%	234.4%
ST liabilities/total assets	74.1%	68.9%	63.8%	68.2%
Total liabilities/equity	286.9%	286.4%	213.2%	243.6%
Total liabilities/total assets	74.1%	74.1%	68.1%	70.9%
Activity ratios				
Asset turnover	4.0	3.5	3.4	2.9
Inventory turnover	5.2	5.2	4.8	3.8
Account payables turnover	11.2	9.2	9.1	8.1

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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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