

Mobileworld (MWG)

Survived the hardship

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1Q business results drastically fell to record lows

By the end of 1Q23, Mobile World Investment's (MWG) revenue was VND26,990 billion (-26% YoY), reaching 20% of the full-year target. NPAT was only VND21 billion (-99% YoY), equal to less than 1% of the plan. GPM of the whole system plunged to 19.1% from 25.7% in 4Q22. Poor performance was attributable to a sharp decline in purchasing power, especially for non-essential goods.

ICT&CE segment faced difficulties as expected

The total sales of The gioi Di dong (TGDD) and Dien May Xanh (DMX) store chains were only VND19,940 billion (-34% YoY). GPM of these two dropped sharply from 21% to 17% due to the policy of lowering prices to stimulate demand. We forecast that the electronics segment will recover first thanks to the high demand for air conditioners in the summer.

BHX is a rare bright spot in MWG's business results

Bach Hoa Xanh (BHX) continued to improve after the restructuring. Sales of the whole chain reached VND6,370 billion (+5% YoY), and sales per store hit VND1.3 billion (+30% YoY). GPM remained at 26%, and more than 90% of stores had positive EBITDA. BHX closed 18 stores, making total store number decrease to 1710 stores due to inefficient operations or inability to negotiate with landlords.

BUY recommendation with the target price of VND44,500/share

In 2023, we forecast that MWG's NPAT and revenue would decrease 35.3% YoY and 7.2% YoY to VND2655 billion and VND124,981 billion. Although business results continue to be less promising, we believe that these negative results have already been reflected in stock prices. WE recommend BUY for MWG stock, and the target price is VND45,200, 15% higher than closing price of May 29, 2023.

Buy maintain

Target price VND44,500

Upside/Downside	15%
Current price (May 29, 2023)	38,700
Market cap (VNDbn/USDmn)	55.6/2.4

Trading data

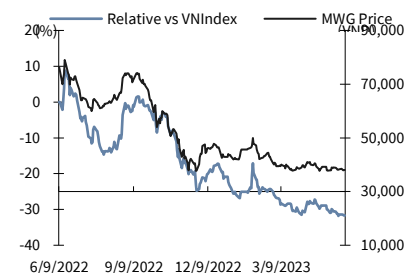
Free float	70%
3M avg trading value (VNDbn)	79.8
Foreign ownership	49%
Major shareholder	Retail World Investment Consultant (10.48%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-3	-4	-17	-50
Relative	-5	-5	-19	-32

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net sales (VNDbn)	124,142	134,722	126,180	142,738
Earnings (VNDbn)	6,466	6,575	3,663	6,476
NPAT (VNDbn)	4,901	4,102	2,487	4,393
EPS (VND)	3,346	2,801	1,699	3,001
EPS growth (%)	25%	-16%	-39%	77%
P/E (x)	11.4	13.6	22.4	12.7
P/B (x)	2.7	2.3	2.2	1.9
ROE (%)	24%	17%	10%	13%
Dividend yield (%)	15%	10%	5%	10%



Source: Bloomberg, KB Securities Vietnam

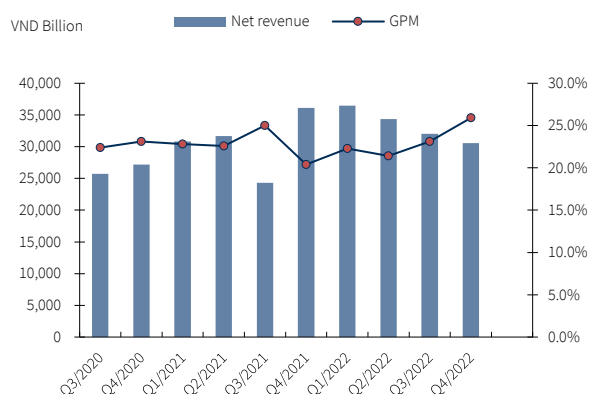
Business performance updates

Table 4. CTG – 1Q23 business results

	1Q22	1Q23	+/-%YoY	KBSV's notes
Revenue	36,819	27,335	-26%	Revenue dropped sharply as the general difficulties of the economy make income fall, credit tightened, and purchasing power weaker.
TGDD + Topzone	9992	6,640	-34%	The ICT segment is hit the hardest as it is the most non-essential product and also facing fierce competition. It is expected that the segment would recover from 4Q when Apple handsets are launched.
DMX	20020	13,306	-34%	The CE segment is also strongly affected but should recover sooner than the ICT segment thanks to the sales of air conditioners in the hot summer. DMX Supermini stores also helps to increase market share in rural areas.
BHX	6054	6,370	5%	BHX's operations are more effective after the restructuring. GPM remained at 26%, and sales per store reached VND1.3 billion. Fresh food products increased 30-40% in value and output
Gross profit	8,124	5,215	-36%	Gross profit and GPM both declined sharply due to MWG's competitive price reduction policy.
Financial income	355	359	1%	
Financial expenses	-206	-296	44%	
SG&A	-6,275	-5,110	-19%	MWG reduced staff costs thanks to its layoff and the ability to negotiation for lower floor area costs.
Operating profit	1,997	168	-92%	
Other incomes	6	-10	-267%	
Profit before taxes	2,003	159	-92%	
Profit after taxes	1,445	21	-99%	Profit dropped sharply due to both revenue and GPM decrease. The company still had to bear a lot of fixed costs.

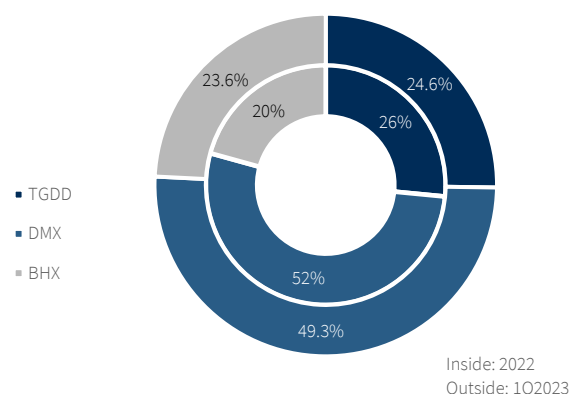
Source: Mobile World Investment, KB Securities Vietnam

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



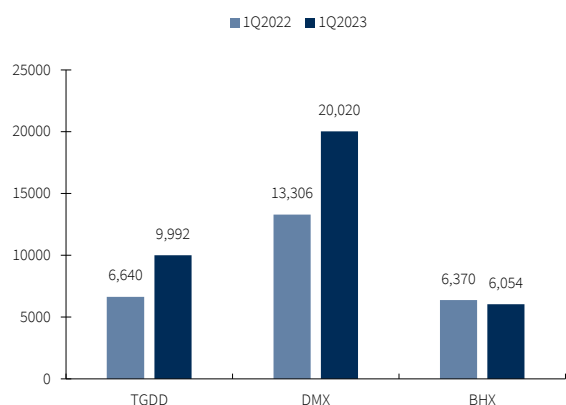
Source: Mobile World Investment, KB Securities Vietnam

Fig 2. MWG – Sales structure by store chain



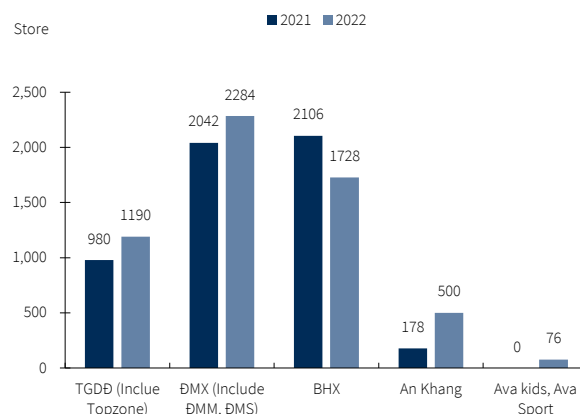
Source: Mobile World Investment, KB Securities Vietnam

Fig 3. MWG – Revenue structure by store chain



Source: Mobile World Investment, KB Securities Vietnam

Fig 4. MWG – The number of stores by chain



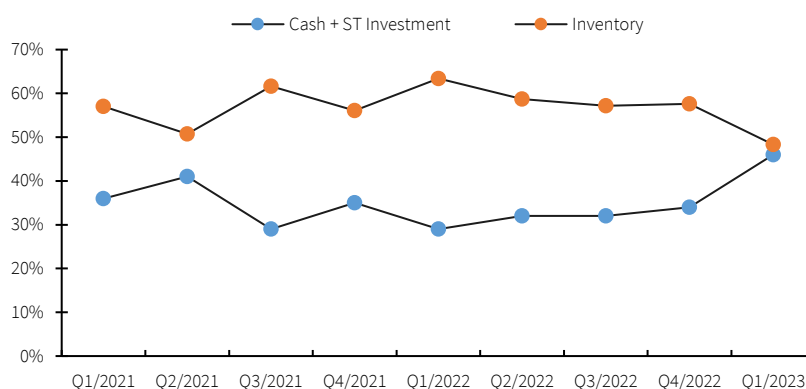
Source: Mobile World Investment, KB Securities Vietnam

1. ICT&CE segment has surpassed the most difficult period

The good control of inventories brings in large amounts of cash

Despite a sharp decline in business results, MWG's inventories are managed effectively as the ratio of inventories to current assets has decreased to a low level. This is an important factor in the context of declining purchasing power. Avoiding devaluation is a very important priority. With the ERP system, MWG can assess the needs of customers, from which they can enter the appropriate amount of goods to avoid causing inventory depreciation. Good inventory management also helps MWG have a very strong cash flow. CFO has been continuously positive in recent quarters, and the ratio of cash and short-term investment to current assets is up to 46% while it was only about 30% in previous quarters. Owning a large amount of cash in difficult times will make it easier for MWG to bounce back quickly when the market recovers.

Fig 5. MWG – Cash & short-term investment and inventories to current assets (%)



Source: Mobile World Investment, KB Securities Vietnam

MWG's low-price strategy should gain market share in the future

MWG's management also mentioned that the low-price policy will be a long-term strategy. Previously, there was a large price difference between MWG and other retailers, which helped many other small chains take MWG's market share. However, with this strategy, MWG may have a chance to reclaim market share and gain market share from segments that it has not approached. MWG's strategy is also being followed by many other chains, but in our opinion, with large resources and large coverage, MWG will have an advantage in this competition.

Business results should recover in 2H23

We expect the difficulties from the macro economy to ease from 2H23. In fact, some positive signals from the economy have been noted, such as SBV's cutting policy rates for the third time in 2023, raising base salary, and reducing VAT. This should help the purchasing power rebound as expected. According to MWG's management, the CE segment is expected to recover before the ICT segment thanks to the surging demand for air conditioners in the summer, which has been reflected in April sales (+30% MoM). May revenue should also increase by 20% MoM. In addition, when interest rates decreased, the installment purchase channel also recovered. In 1Q23, this channel dropped sharply due to tightened credit as it contributed only 10% of revenue compared to about 35% of revenue in previous quarters.

Apple's appearance in Vietnam is not a big concern

According to representatives of distribution brands in Vietnam, Apple's launching an official store in Vietnam shows that the brand considers Vietnam as a potential market, which will be more beneficial for consumers. In terms of competition with retailers, Apple's selling prices are 10-15% higher than local retailers while the after-sales services are not too different. As Vietnamese consumers tend to prioritize price and direct experience, the impacts of Apple online store on the business MWG and other phone retail chains is quite insignificant.

Indonesia is a potential market

At the beginning of 1Q23, MWG announced to close all Bluetronics stores in Cambodia as this market is quite small, and its tax system is complicated. It is difficult for MWG to compete in Cambodia, so it decided to close Bluetronics chain to focus its resources on other chains. Meanwhile, MWG said Indonesia is a very potential market with a large population and higher income. In this market, there has not yet been a model of providing full services like MWG. A quarter after entering the market, MWG achieved positive results when the sales per store has reached VND4.5-5 billion, equivalent to that of many DMX stores in Vietnam. The traffic is good, and Indonesian customers also support this new model of MWG. Moreover, the level of competition is not much when the biggest retailers here have not reached the milestone of 100 stores compared to more than 2,000 DMX stores of MWG in Vietnam.

2. BHX is a bright sport with positive outlook

MWG has found the optimal model for Bach Hoa Xanh

After many trial and restructuring periods, MWG found a successful formula for the BHX chain. To be more specific, BHX aims for 200–300m² stores (with an area less than half of a 400–500m² store but 3–4 times cheaper) located on convenient roads with high traffic (motorcycles & bicycles). BHX would focus on fresh products and popular FMCGs. Although the number of stores decreased by 20% YoY and purchasing power weakened, sales still grew positively (+5% YoY), and EBITDA was positive across the chain.

Store sales keeps improving, getting closer to the break-even point

Average sales per store per month were maintained at VND1.3billion (+30% YoY) in the first months of the year and reached VND1.35 billion in April alone. The sales should continue to improve in the coming months. In the following months, the chain's break-even point is expected to be at VND1.5 billion/store/month. The strategy to increase revenue will be implemented by (1) increasing the number of purchases, (2) increasing the value of the cart (optimizing the store layout and implementing separate promotions for each customer), and (3) attracting new customers.

In addition, BHX also continuously optimizes operating costs. It conducts rent negotiations with landlords, closes inefficient stores, and will complete the logistics system in this year. Senior executives will also receive almost no pay until the model is profitable.

3. Other store chains

AVAKids and An Khang suspend opening new stores

According to the general strategy of MWG in 2023, it will stop opening new stores and focus on protecting cash flows from negative impacts from the economy. AVA and An Khang chains will also stop opening new stores this year and concentrate on optimizing operations to increase business efficiency and aim to break even. We expect the An Khang chain to contribute 1.7% of MWG's total revenue while the AVAKids chain is not expected to contribute significantly to the corporation's revenue (<1%). The number of stores of these chains should not increase too much in 2023. They will open new ones with extreme caution to focus on the main goal of improving sales per store.

EraBlue joint venture in Indonesia is quite potential

MWG's management estimated the value of the current market of information technology and electronics products in Indonesia at USD14 billion. As this is an attractive market with not many competitors, MWG will try to perfect its business model, research the market, and try to reach 50 stores by the end of this year from the current five stores. In the further, MWG expects to achieve 20–40% market share of the entire Indonesian electronics market like DMX has done in Vietnam market.

Forecast & valuation

2023–2024F business performance

We believe that the decline in consumer purchasing power will strongly affect the whole retail industry in general and MWG. In 2023, revenue is expected to reach VND126,180 billion (–6.3% YoY) and NPAT may hit VND2,481 billion (–40% YoY). We estimate that in 2024, there would be more growth drivers when the macro environment is more stable, credit is less tight, purchasing power increases again, new store chains are opened, and the operational efficiency improves. Net revenue and NPAT in 2024 according to our forecast will reach VND155,518 billion (+23% YoY) and VND3,738 billion (+51%).

Table 6. 2023–2024F business results

	2022	2023F	+/- % YoY	2024F	+/- % YoY	KBSV's notes
Revenue	134,722	126,180	-11%	142,738	+13%	ICT products declined the most, and sales per stores fell sharply.
TGDD						TGDD does not plan to open new store in 2023.
<i>Sales</i>	32,055	28,560	-11%	32,535	+14%	Electrical goods are also affected, but the demand for air conditioners will help DMX recover sooner.
<i>Store number</i>	1,190	1,190		1,220		DMX limits opening new stores given the demand to recover from the end of 2Q.
DMX						
<i>Sales</i>	68,970	63,452	-8%	69,523	+10%	
<i>Store number</i>	2,284	2,314		2,514		
Topzone						
<i>Sales</i>	2,630	3,696	+41%	4,764	+29%	Growth comes mainly from old stores and Apple will update new products in 3Q and 4Q every year.
<i>Store number</i>	100	100		130		Topzone does not plan to open new store like TGDD.
BHX						
<i>Sales</i>	27,058	28,156	+4%	35,264	+18%	Slow growth was due to poor purchasing power.
<i>Store number</i>	1,728	1,748		1,948		There are very few new openings as the chain focuses on optimizing existing stores.
An Khang						
<i>Sales</i>	1,791	2,316	+29%	2,652	+15%	The growth comes from existing stores.
<i>Store number</i>	500	550		650		There are very few new openings as the chain focuses on optimizing existing stores.
Gross profit						
<i>GPM</i>	30,862	24,271	-21%	29,297	+20%	GPM declines due to MWG's new policy of lowering prices to gain market share.
<i>GPM</i>	23.1%	19.4%		20.7%		OPEX are optimized in 2023 by renegotiating rents and cutting some unnecessary costs.
SG&A	-24,218	-20,736	-14%	(23,166)	+12%	
PBT	6,056	3,673	-39%	6,486	+76%	
NPAT	4,102	2,481	-40%	4,393	+77%	

Source: KB Securities Vietnam

Valuation: BUY recommendation – target price VND44,500

We use two methods (1) FCFF and (2) comparison to give a reasonable price for MWG stock.

(1) For FCFF, we discount the free cash flow in the corporation, assuming $g=3\%$ and $WACC=13.02\%$.

(2) For the comparison method, we use P/E and P/S for each store chain, we use $P/E = 7$ for TGDD and DMX chains because the smartphone market faces many difficulties related to the growth potential of the industry. For BHX and An Khang, the target P/S is 1 and 0.4.

We recommend BUY for MWG shares, the target price is VND44,500/share, 15% higher than closing price on May 29, 2023.

Table 7. MWG – FCFF and assumptions

Cost of equity	14.72%	PV of terminal value	63,114
Cost of debt	8%	PV of FCFF	16,109
Risk free rate	5%	Cash and Cash Equivalent	3,942
Beta	0.9	ST Investment	14,097
Terminal growth	3%	Firm value	97,262
Estimated time	Five years	Total Debt	16,184
WACC	13.02%	Equity value	81,078
		Number of share outstanding	1,463,879,280
Target price			VND55,400

Source: Mobile World Investment, KB Securities Vietnam

Table 8. MWG – Comparison method

	Earnings Per Share	P/E target	Target price
DMX&TGDD	1,984	7	13,900
	Sales Per Share	P/S target	Target price
BHX	19,200	1	19,200
An Khang	1,200	0.4	500
Target price			33,600

Source: Mobile World Investment, KB Securities Vietnam

Table 9. MWG – Final valuation

Method	Weight	Valuation
FCFF	50%	55,400
P/E-P/S	50%	33,600
Target Price	100%	VND44,500

Source: Mobile World Investment, KB Securities Vietnam

MWG – 2021A–2024F financials

Income Statement					Balance Sheet				
(VND Billion)	2021	2022	2023 F	2024 F	(VND Billion)	2021	2022	2023 F	2024 F
Net sales	124,142	134,722	126,180	142,738	Total assets	62,971	55,834	55,273	62,801
Cost of sales	-95,326	-102,543	-100,672	-112,042	Current assets	51,955	44,578	46,024	54,316
Gross profit	27,632	30,862	24,271	29,297	Cash & equivalents	4,142	5,061	3,804	5,528
Financial Income	1,288	1,313	1,287	1,345	ST investments	14,237	10,069	14,097	12,687
Financial Expenses	-715	-1,383	-1,159	-1,000	Accounts receivable	3,162	3,001	2,518	3,568
of which: interest expenses	-674	-1,362	-1,147	-990	Inventory	29,167	25,696	24,605	31,402
Gain/(loss) from joint ventures	0	0	0	0	Long-term assets	110,16	11,256	9,249	8,484
Selling expenses	-17,914	-22,337	-19,126	-21,366	LT trade receivables	482	503	472	533
General & admin expenses	-3,823	-1,881	-1,611	-1,799	Fixed assets	9,647	9,728	7,746	6,737
Operating profit/(loss)	6,466	6,575	3,663	6,476	Investment properties	80	124	187	258
Net other income/(expenses)	6	-518	10	10	Liabilities	42,593	31,902	29,615	33,408
Gain/(loss) from joint ventures	0	0	0	0	Current liabilities	42,593	26,000	25,024	29,606
Pretax profit/(loss)	6,472	6,056	3,673	6,486	Trade accounts payable	12,180	8,746	7,949	9,992
Income tax	-1,570	-1,955	-1,185	-2,093	Advances from customers	0	0	0	0
Net profit/(loss)	4,901	4,102	2,487	4,393	ST borrowings	24,647	10,688	11,593	13,020
Minority interests	12	15	19	25	Long-term liabilities	0	5,901	4,591	3,802
Net profit after MI	4,890	4,087	2,468	4,368	LT payables	0	0	0	0
					LT borrowings	0	0	0	0
					Other LT liabilities	0	5,901	4,591	3,802
					Shareholders' equity	20,378	23,933	25,657	29,392
					Paid-in capital	7,131	14,639	14,639	14,639
					Share premium	561	555	520	588
					Undistributed earnings	12,675	8,724	10,479	14,140
					Reserve & others	0	0	0	0
					Minority interest	12	15	19	25
Margin ratio					Key ratio				
	2021	2022	2023 F	2024 F	(x, % VND)				
Gross profit margin	22%	23%	19%	21%	Multiple				
EBITDA margin	9%	8%	7%	8%	P/E	11.4	13.6	22.4	12.7
EBIT margin	6%	6%	4%	5%	P/E diluted	11.4	13.6	22.4	12.7
Pre-tax profit margin	5%	4%	3%	5%	P/B	2.7	2.3	2.2	1.9
Operating profit margin	6%	6%	4%	5%	P/S	0.4	0.4	0.4	0.4
Net profit margin	4%	3%	2%	3%	P/Tangible Book	5.8	5.7	7.2	8.3
					P/Cash Flow	-5	100.8	-44.3	32.3
					EV/EBITDA	5.5	5.1	6.8	5
					EV/EBIT	5.3	5.1	7.9	5.1
Cash flow statement					Operating Performance				
(VND Billion)	2021	2022	2023 F	2024 F	ROE%	17.80%	28.70%	10.80%	10.50%
Net profit	6,472	6,056	3,673	6,486	ROA%	10.00%	18.70%	7.60%	8.00%
Plus: depreciation & amort	2,921	3,540	3,417	3,741	ROIC%	19.50%	38.00%	18.80%	21.80%
Plus: investing (profit)/loss	-85	-341	-500	-500					
Interest Expense	-674	-1,362	-1,147	-990	Financial Structure				
Change in working capital	8,633	7,893	5,443	8,737	Cash ratio	0.8	1	1.5	2.7
(Inc)/dec - receivables	-828	-589	483	-1,051	Quick Ratio	1.3	1.6	2.2	3.3
(Inc)/dec - inventory	-9,924	3,792	1,091	-6,797	Current Ratio	1.7	2.3	2.8	3.9
Inc/(dec) - payables	3,782	-2,287	-796	2,042	LT Debt/Equity	0	0	0	0
Inc/(dec) - advances	-27	-101	36	-184	LT Debt/Total assets	0	0	0	0
Other adj for operations	0	0	0	0	ST Debt/Equity	0.3	0.2	0.2	0.1
Operating cash flow	920	7,794	8,477	4,094	ST Debt/Total assets	0.1	0.1	0.1	0.1
Purchase of Fixed Assets and long	-4,976	-3,505	-866	-2,108	ST liabilities/Equity	0.9	0.7	0.4	0.3
Proceeds from disposal of fixed as	0	0	0	0	ST liabilities/Total asset	0.4	0.3	0.3	0.2
Loans granted, purchases of debt in	-19,225	-20,799	-18,573	-17,583	Total liabilities/Equity	0.9	0.7	0.5	0.4
Collection of loans, proceeds from	12,164	25,852	11,315	17,086	Total liabilities/Total assets	0.4	0.3	0.3	0.2
Investments in other entities	-16	-181,03	0	0	Activity Ratio				
Proceed from divestment in other en	796	0	0	0	Account receivable turnover	53	44	46	47
Dividends and interest received	1,88	1,137	0	0	Inventory turnover	4.1	3.7	4	4
Investing cash flow	-11,254	1,549	-8,124	-2,605	Account payable turnover	10.1	9.5	11.9	13.2
Proceeds from issue of shares	228	193	0	0					
Payment for share returns and repur	-2	-5	0	0					
Proceeds from borrowings	63,936	65,252	58,043	68,744					
Repayment of borrowings	-56,045	-73,314	-58,920	-67,046					
Finance lease principal payments	0	0	0	0					
Dividends paid	-240	-732	-732	-1,464					
Interests, dividends, profits receive	0	0	0	0					
Financing cash flow	7,878	-8,606	-16,10	234					
Net increase in cash & equivalents	-3,206	919	-1,257	1,723					
Cash & equivalents - beginning	7,348	4,142	5,061	3,804					
Cash & equivalents - ending	4,142	5,061	3,804	5,528					

Source: Mobile World Investment, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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