

Leading company in retailing and electronics with a business system spreading over 63 provinces

Dien May Xanh is the core business of MWG

Bach Hoa Xanh is expected to be the key force of growth for MWG in the future

BHX sets a target to break even at stores and distribution center at the end of this year

Risks are always existing

INVESTMENT HIGHLIGHTS

Mobile World Investment Corporation (MWG) is No.1 company in mobile and electronics retails in Vietnam, with market shares of 45% and 35% respectively in 2018. The company currently has owned 2,500 stores in all over Vietnam.

The chain contributed 58.7% to the total revenue in the first 6M2019, equal to more than VND30 trillion (+22% YoY). The average revenue/store/month was over VND 6 billion, DMX would still be the main force of growth for MWG in the next 2-3 years.

In the long term, Bach Hoa Xanh – Green Groceries (BHX) sets a target to gain 10-15% market share of the food retail market estimated to have a scale of USD 50 – 70 billion by raising the number of stores to 8,000 – 12,000 in the whole country. At the moment, BHX stores are concentrated in HCMC and surrounding provinces, with 600 stores, which are expected to reach 800-900 stores at the end of 2019.

Groceries stores recorded an impressive revenue of 206% YoY in 6M2019 with the average revenue per store reaching VND1.5 billion/month. In this year, BHX expects to expand the store system, increase earnings per store, improve GPM, and break even at stores and distribution center at the end of this year.

Mobile retail industry tends to be saturated with penetration rates close to the maximum, SSSG will likely stay flat or decrease in the future.

There is a risk of fierce competition from E-Commerce gradually replacing traditional electronic retailers, which is currently an inevitable trend in the United States, China, and other Southeast Asian countries.

For BHX, the pressure of competition will strongly escalate due to many competitors such as Saigon Co.op, and Satrafoods as these stores are stimulating investment.

BUY

Target price	VND 136,600
Up/down	+32%
Current price (31/07/2019)	VND 103,700
Target price	VND 136,600
Market cap	VND 47,560 Bn (USD 2 Bn)
Exchange rate on 29/07/2019: USD 1= VND 23,229	

Forecast business performance

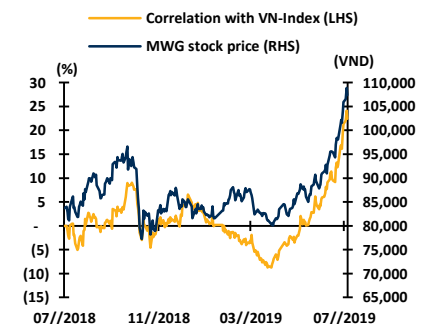
	2016A	2017A	2018A	2019F
FY-End	44,613	66,340	86,516	108,904
Net revenue (Bil VND)	76.7%	48.7%	30.4%	25.9%
Net revenue growth rate (%)	7,214	11,142	15,292	19,339
Gross profit (Bil VND)	16.2%	16.8%	17.7%	17.8%
GPM (%)	1,578	2,207	2,878	4,366
Net profit (Bil VND)	46.7%	39.8%	30.4%	51.7%
Net profit growth rate (%)	10,736	9,286	8,910	9,865
EPS (VND)	28.2%	-13.5%	-4.0%	10.7%
P/E (x)	15	14	13	13

Trading data

Number of shares outstanding	442,830,757
Average trading volume (3M)	568,499
% foreign ownership	49%

% price change

(%)	1M	3M	6M	12M
MWG	17.5%	31.6%	30.7%	29.6%
VN-INDEX	2.7%	1.2%	8.8%	5.8%



Source: Fiiopro, KBSV

I. OVERVIEW

HISTORY OF DEVELOPMENT

Table 1: The history of development of MWG

2004	<ul style="list-style-type: none"> • Mobile World Limited Company was established • Opened the first store
2007	<ul style="list-style-type: none"> • Invested by Mekong Capital, changed to a corporation
2010	<ul style="list-style-type: none"> • Thegioididong.com stores continuously popped up all over the country • At the end of 2010, a system purely operating in household equipment retail - Dien May Xanh was launched
2011	<ul style="list-style-type: none"> • At the end of 2011, the number of stores reached 200, 5 times higher than the number in 2009
2012	<ul style="list-style-type: none"> • Thegioididong.com became the first and only store system to retail mobile devices in all over 63 provinces • Dien May Xanh appeared in 9 provinces with 12 shops
2014	<ul style="list-style-type: none"> • Listed on the HOSE • The number of thegioididong.com stores gained 60%, NPAT climbed 160% over 2013
2016	<ul style="list-style-type: none"> • Dien May Xanh became the first electronics retailers of Vietnam, with a store system spreading over 63/63 provinces with more than 250 stores • Started testing a new retail chain: Bach Hoa Xanh mini-stores
2017	<ul style="list-style-type: none"> • thegioididong.com maintained its leading position in market share with 1,000 stores • DMX owned 640 stores nationwide • DMX store chain jumped by 280 stores
2018	<ul style="list-style-type: none"> • thegioididong.com and dienmayxanh.com dominated Vietnam market with 45% of mobile phones market share and 35% of electronics market share • Completed the purchase of Tran Anh retail stores • BHX reached the breakeven EBITDA at store level • Completed the investment in minority shares at An Khang Retail SJC - An Khang drugstore chain operator

Source: MWG

MWG is No.1 company in mobile and electronics retails in Vietnam, with market shares of 45% and 35% respectively

SCOPE OF BUSINESS AND MARKET POSITION

Mobile World Investment Corporation (MWG) is No.1 company in mobile and electronics retails in Vietnam, with market shares of 45% and 35% respectively in 2018. The company currently has owned 2,500 stores in all over Vietnam. Additionally, since last 2015, MWG has expanded its business scope to groceries and FMCGs retailing. The company business operations can be divided into 2 main segments: (1) Mobile phones, tablets and laptops with thegioididong.com (TGDD); (2) Electronics, air conditioners, and household appliances (Consumer electronics) with Dien May Xanh (DMX) (including Tran Anh store chain); (3) Groceries and FMCGs with Bach Hoa Xanh (BHX). In addition, MWG owns BigPhone.com, a store chain retailing mobile devices on international markets with 10 stores concentrated in Phnom Penh, Cambodia.



REVENUE STRUCTURE

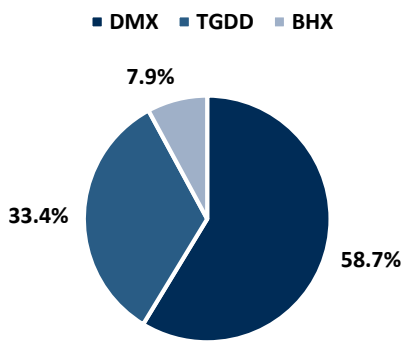
In the 1H2019, DMX added 58.7% to the total revenue

The sales of mobile phones, tablets, laptops... contributed 45.5% to the total earnings.

Considering revenue gained by each store chain, by the end of June 2019, TGDD added 33.4% to total revenue, DMX accounted for more than a half with 58.7% total revenue, and BHX contributed 7.9% to total revenue in 6 months.

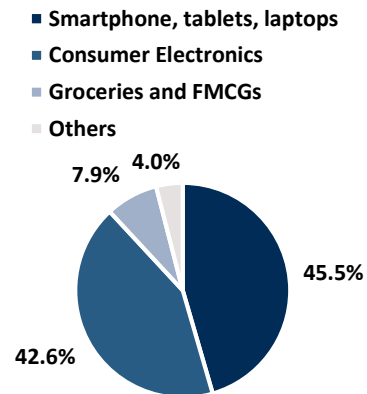
For each segments, in 6M2019, mobile phones, tablets, laptops, and components... added 45.5% to total revenue; Consumer electronics contributed 42.6%, while groceries and FMCGs accounted for 7.9% total revenue. Other services like installment, collection, secondhanded products... were 4% revenue component.

Figure 2: Revenue structure in 6M/2019 of each store chain



Source: MWG

Figure 3: Revenue structure in 6M/2019 of each business segments

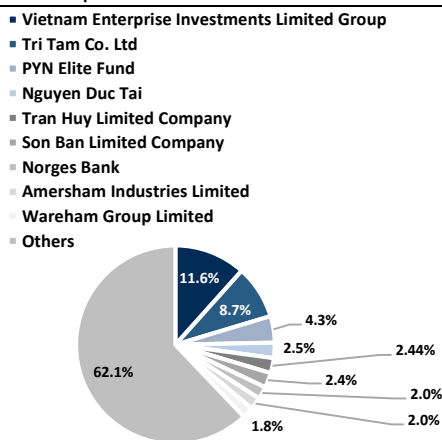


Source: MWG

BUSINESS AND OWNERSHIP STRUCTURE

MWG currently has a charter capital of VND 3,232 billion, of which 49% is owned by foreign shareholders. Mr Nguyen Duc Tai, Co-Founder, Chairman and CEO of MWG holds 2.5%. MWG has received much attention from large funds such as PYN Elite Fund (4.3%), Dragon Capital group (11%), etc.

Figure 4: Ownership structure



Source: MWG

Table 5: List of subsidiaries

Subsidiaries	Ownership (%)
Mobile World Joint Stock Company	99.95
Green Groceries Trade Joint Stock Company	99.95
Tran Anh Digital World Joint Stock Company	99.33
TGDD Information Technology Limited Company	100
MWG Cambodia Co., Ltd	99.95

Source: MWG

II. BUSINESS OPERATIONS

1. The Gioi Di Dong store chain

TGDD maintained the No.1 Vietnam market share in smartphone retailing

Authentic smartphones trading of TGDD store chain has declined from the biggest revenue component of 52% in 2017 to the second position with 40% net revenue in 2018. In 2018, MWG converted some TGDD stores into DMX or DMX mini-stores. This policy is reasonable as the smartphone market tends to be saturated. BOM of MWG set a target to maintain the No.1 market share in this segment. At the end of 2018, TGDD kept a No.1 market share in Vietnam (about 45%) with 1,032 stores in all over 63 provinces of Vietnam. By the end of June 2019, TGDD had 1,010 stores.

TGDD revenue in 6M2019 was VND 17 trillion, slightly reducing 5.5% as stores were converted into DMX

Revenue in 2018 gained from thegioididong.com was roughly VND34.6 trillion, equivalent to that in 2017. In 6M2019, earnings from TGDD hit VND17,277 billion, slightly reducing 5.5% YoY. The main reason was that TGDD stores were converted into DMX stores/DMX mini-stores.

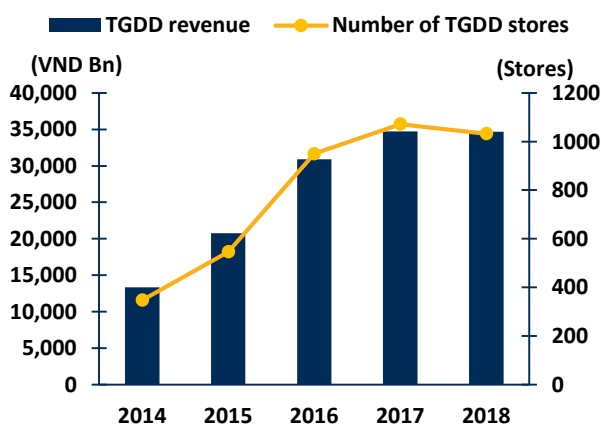
MWG is testing shop-in-shop model for wristwatch retailing, and has achieved encouraging results

At the moment, the company is implement the plan of selling new products, and testing the program of selling wristwatches in 34 TGDD and DMX stores with shop-in-shop model, which has brought encouraging results. A store sells over 500 watch on average each month, which means it gains VND600 million to VND1 billion. Only in June 2019, MWG sold nearly 11,000 watches. With this achievement, MWG will continue to expand the trading system for this product line in the coming time, and expects to reach 100 watch stores by September 30th. The scale of Vietnam watch retail market is estimated at VND18,000 billion, and quite fragmented. This is considered an attractive business field to MWG because of its high GPM (about 40-50%).

Sunglasses revenue accounted for 25% revenue of a TGDD store

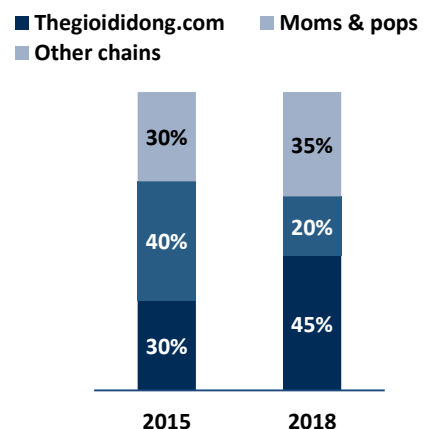
Furthermore, MWG has also officially started sunglasses trading in TGDD and DMX stores, including wristwatches in these stores. The company said that the first store is supposed to have 600 sunglasses designs to serve mid-high classed customers, with selling prices ranging from VND600 thousand – VND3 million. MWG forecast the scale of glasses market will reach USD1 billion (genuine goods). At the moment, revenue achieved from wristwatches products accounted for 25% revenue of a TGDD store, so the expansion to sunglasses market will help this chain to improve SSSG.

Figure 8: Revenue and the number of TGDD stores



Source: MWG, KBSV compilations

Figure 9: Mobile device retail market share 2015-2018



Source: MWG

DMX is the leading consumer electronics retail chain in Vietnam by market share, outstepping other competitors in the same sector

DMX added 58.7% to revenue in 6M2019, gaining 22% revenue over the same period in 2018

The new launch and conversion of TGDD stores to DMX stores bring positive results

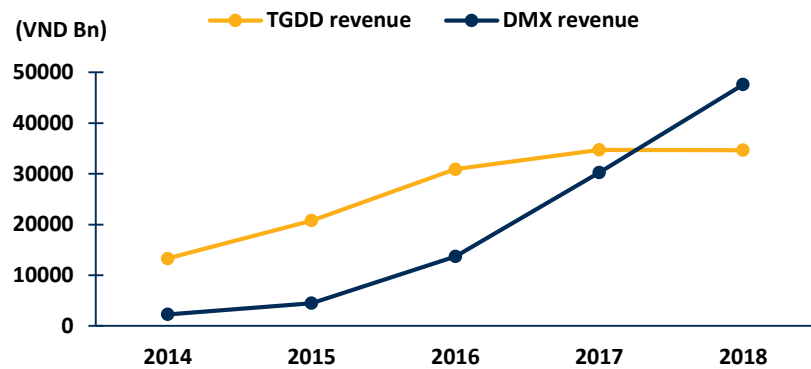
2. Dien May Xanh store chain

DMX has become the leading consumer electronics retail chain in Vietnam by market share with 35% market share in 2018. The number of DMX stores has far outstepped others in electronics sector such as Nguyen Kim (66 stores) and Dien May Cho Lon (67 stores). With more than 100 DMX stores opened in 2018 (including new stores, and stores converted from TGDD and Tran Anh Electronics), MWG owned 750 DMX stores by December 31st, 2018, and 838 stores by June 30th, 2019.

DMX also contributed the most to the total revenue of MWG with 55% revenue in 2018, and increased to 58.7% revenue in 6M2019. In 2018, DMX chain reached roughly VND47.6 trillion revenue, gaining 70% compared to the same period in 2017. In 6M2019, DMX recorded VND30,364 billion of revenue (+22% YoY) due to surging demand for air-conditioners and air-conditioning fans in hot season.

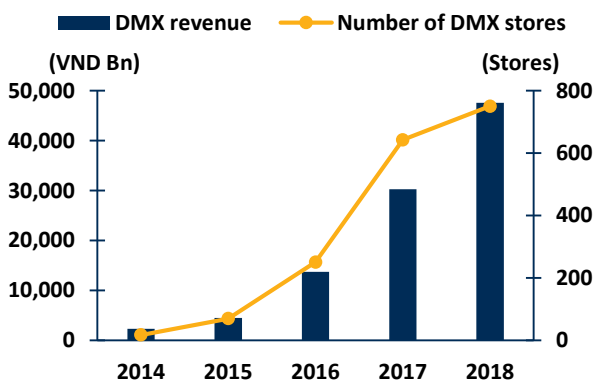
To maintain the growth of DMX store chain, MWG proposed these policies: (1) Open new DMX stores/DMX mini-stores; (2) Convert some TGDD stores to DMX stores/DMX mini-stores; and (3) Complete the purchase of TAG. The policy to convert TGDD stores to DMX stores/DMX mini-stores by selling electronics in these stores helped to increase the average earnings from each store by 50%. Compared to VND3 billion/store/month of TGDD stores, a DMX store has an average revenue of more than VND6 billion/month. With the above policies, we believe that DMX will still be the force of growth for MWG in the next 2-3 years amid a saturated smartphone market.

Figure 10: A comparison of revenue between TGDD and DMX



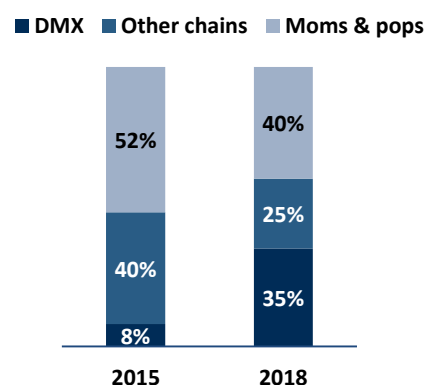
Source: MWG, KBSV compilations

Figure 11: Revenue from Dien May Xanh



Source: MWG, KBSV compilations

Figure 12: Consumer electronics market share



Source: MWG

BHX store chain focuses on retailing fresh groceries and necessities. This chain is competing with traditional wet markets

BHX has standard stores with an average revenue of about VND1.3 billion/store/month, and larger stores with an average revenue of 2.3 billion/store/month

BHX reached EBITDA breakeven at stores at the end of 2018. Revenue of BHX accounted for 7.9% revenue 6M2019, fresh food accounted for more than 50% revenue of BHX

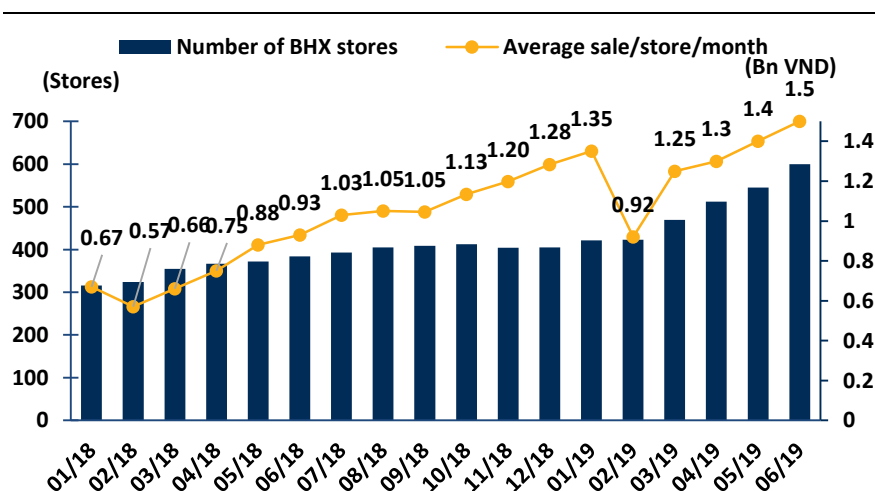
3. Bach Hoa Xanh store chain

Started in a testing program in 2015, BHX is a store chain which retails fresh food (meat, fish, vegetables, fruits...) and necessities with stores located in HCMC and other surrounding provinces. BHX stores have been opened on the main roads and traditional markets, which is aimed at directly competing with grocery stores and wet markets. 2018 is an important year to BHX as the company continuously tested and changed its forms of business operations, from locating stores to goods arrangement, and image recognition.

BHX has two models, namely standard BHX and new BHX. A standard BHX store has an area of 160-180 m², with 2,000 types of products. There are about 500 transactions per day, and average revenue is VND1.3 billion/store/month. Meanwhile, in some areas with a large demand from customers, high population, near markets... BHX selects and upgrades stores to a larger model with an area of more than 300 m², with 3,000 product lines, in which there are 300 fresh products. By the end of June 2019, BHX has 100 large stores with an area of 300 m² each, which doubled the area of a store at the end of 2018. These large store currently account for 17% total stores of the whole chain. The number of transactions per day is roughly 1,000 with an average revenue of VND2.3 billion/store/month.

Average revenue of a BHX store reached VND800-900 million/month from the end of June 2018, and reached VND1.5 billion/store/month by the end of June 2019. Revenue from the retailing of fresh food and FMCGs in 2018 was over VND4,240 billion, accounting for 5% total revenue of the year, tripled the revenue for this segment in 2017, in which fresh food accounted for 40% revenue of BHX. BHX reached EBITDA breakeven at stores in December 2018, with GPM reaching 18% after excluding food waste and order cancels. By the end of June 2019, BHX chain contributed 7.9% to total revenue, with a revenue of more than VND 4 trillion (+206% YoY), in which 50% revenue was from fresh food. From 283 stores of old model at the end of 2017, in 2018 BHX reached 365 stores of new model thanks to the company's efforts to convert and open new stores, equal to 90% of 405 BHX active stores on December 31, 2018. New-model stores include: (1) stores selling high-quality "fresh meat – swimming fish" and (2) new 300m² model stores. By June 2019, BHX owned 600 stores in 15 provinces/city, in which there were 218 stores outside HCMC.

Figure 13: Average revenue /store/month and the number of BHX stores



Source: MWG, KBSV compilations

Hinh 14: Inside a Bach Hoa Xanh new model store



Source: KBSV

MWG completed the business plan with 100% revenue targets and 111% net profit targets for 2018

MWG recorded a consolidated net revenue of VND51,727 billion (+16% YoY) and NPAT of VND2,121 billion (+38% YoY) in 6M 2019

III. BUSINESS PERFORMANCE & FINANCIAL STATUS

By the end of 2018, consolidated net revenue of MWG hit VND86,516 billion and consolidated net profit hit VND2,880 billion, increasing more than 30% YoY. As a result, MWG completed the business plan with 100% revenue targets and 111% net profit targets for the whole year.

By the end of December 31, 2018, MWG owned TGDD1,032 stores, 750 DMX stores, and 405 BHX stores, reaching 2,187 stores in total in all over the provinces, while this number was just 1,997 stores in 2017. In particular, some TGDD stores have been converted into DMX stores/DMX mini-stores, and MWG has completely bought Tran Anh store chain.

MWG also announced the consolidated business performance in 6M 2019. To be more specific:

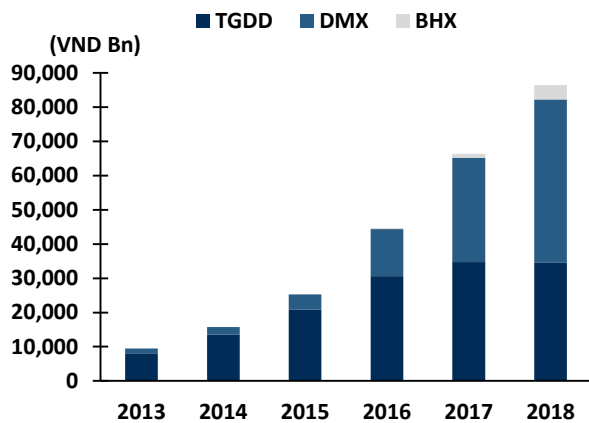
Net revenue hit VND51,727 billion, NPAT was VND2,121 billion, gaining 16% and 38% compared to the same period 2018. According to the above business results, MWG has completed 48% revenue plan and 59% NPAT plan for 2019.

MWG's business performance showed impressive results as by the end of Q1/2019, MWG only reached VND25,017 billion of net revenue and VND1,041 billion of NPAT, equivalent to 23% revenue plan and 29% NPAT plan for 2019.

By the end of June 30, 2019, MWG had 2,449 stores in total, of which there were 262 stores newly opened in 6M2019. From the beginning of 2019, MWG open 1.5 new stores per day. To be more specific, by the end of June 2019, MWG had 1,011 TGDD stores, 838 DMX stores, and 600 BHX stores. By the end of June 2019, MWG also changed 21 TGDD to DMX Mini-stores.

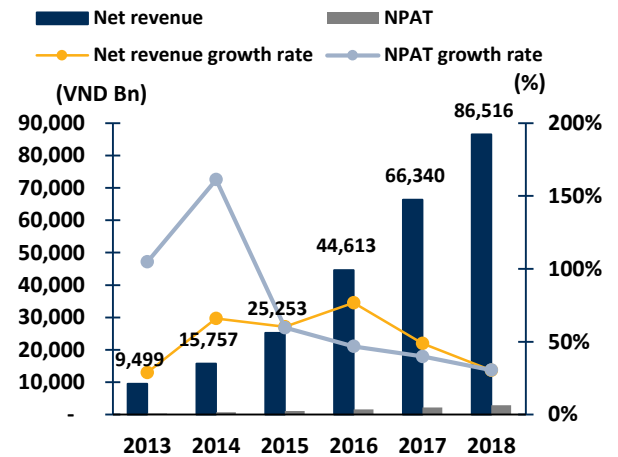
In addition, MWG changed the product arrangement for DMX stores. Only in Q2/2019, MWG changed the layout of 210 DMX mini-stores. Stores whose layout changed recorded >30% revenue growth compared to the previous business results.

Figure 15: Revenue by chain over the years



Source: MWG

Figure 16: Net revenue and NPAT over the years



Source: MWG

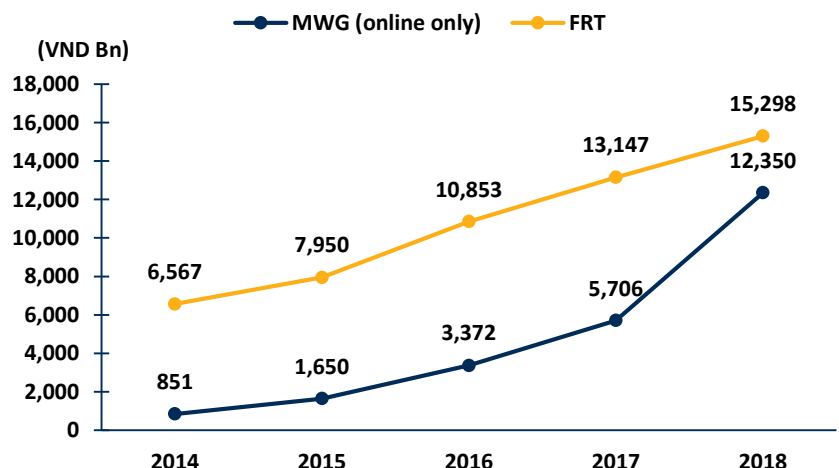
Revenue growth of online trading skyrocketed, exceeding VND10,000 billion in 2018

In the last few years, MWG’s online trading saw a surging growth. From a revenue from online trading at under VND1,000 billion (in 2014), and only contributing 5.9% in total revenue, by 2018 this revenue reached VND12,350 billion, accounting for 14.3% total revenue of MWG. Online revenue increased 116% over 2017, and completed 123% plan of the year. MWG had 12 thousand successful transactions per day via websites of MWG. With 3 websites serving online shopping demand for mobile phones, electronics and FMCGs, which are thegioididong.com, dienmayxanh.com and bachhoaxanh.com, MWG is the company that contributed the biggest revenue in the whole online retail market in Vietnam. MWG’s online revenue alone was nearly equal to total revenue of FPT Retail (FRT: HSX) (more than VND15,000 billion in 2018), or even outstepped other competitors in electronics sector such as Media Mart, Nguyen Kim, PICO, etc.

Online revenue contributed 15% in total revenue in 6M 2019

Online revenue of 6M 2019 was VND7,720 billion, gaining 39% compared to the same period last year and adding 15% to 6M total revenue. However, in the last 3 months, online revenue of MWG are declining, and online revenue in June 2019 only hit VND775 billion (-20% YoY). The reason for that is because the smartphone market is considered to be quite saturated.

Figure 17: Comparison between FRT total revenue and MWG online revenue



Source: MWG

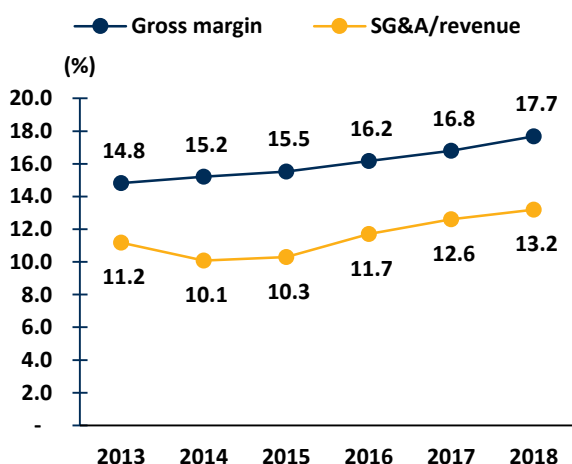
Profit margin steadily gained over the years

GPM steadily gained over the years and hit 17.7% in 2018, the highest in the last few years. Net profit margin of 6M 2019 was 4.1%, climbing 0.6% compared to 3.5% of the same period in 2018. The reason for this profit margin improvements is because the average revenue of each store in each store chain increased, while operational costs of each store had no significant changes.

SG&A surged

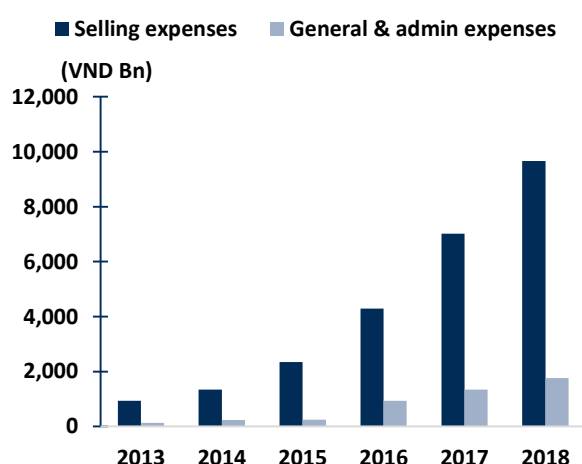
SG&A surged with the expansion of MWG distribution network. These are the 2 main expenses of MWG, and helped to maintain the growth momentum in the last years. Selling expenses has a CAGR of 59% for the period of 2013-2018, while CAGR of General & admin expenses is about 69% for the same period. This is a good signal for a retailer as MWG as GPM and the number of stores climbed accordingly.

Figure 18: GPM and SG&A/revenue ratio over the years



Source: MWG

Figure 19: Cost movements over the years



Source: MWG

Table 20: Business result 2018 vs. 2017

	Revenue 2018 (VND Bil)	YoY growth	Revenue structure 2018	GPM 2018	GPM 2017
TGDD	34,606	-0.3%	40%	17.4%	17.4%
DMX	47,638	56.2%	55%	17.5%	17.2%
BHX	4,272	275.1%	5%	18.0%	12.0%
Net revenue	86,516	30.4%	100%	17.7%	16.8%

Source: MWG, KBSV

ROA and ROE have gone down over the years

ROA and ROE of MWG tend to go down over the years. However, we think that this is not a risk to MWG. The main reason for this is because NPAT did not keep up with the growth rate of total assets and owner’s equity. We believe that the current growth rate of Total assets and Owner’s equity are reasonable as MWG is stimulating investment into BHX and DMX.

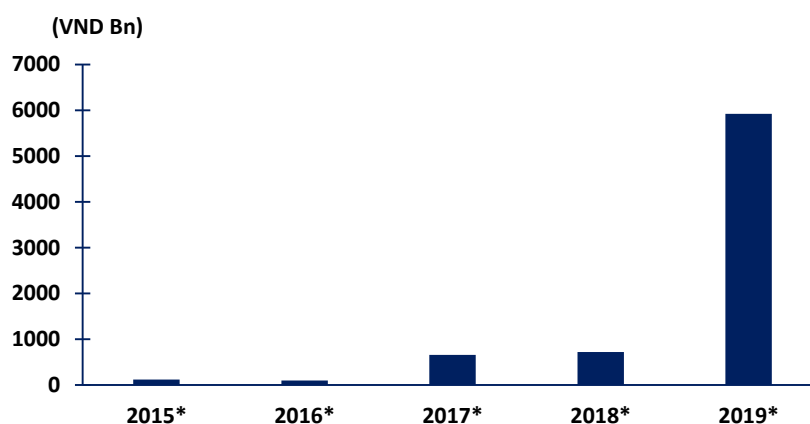
Asset structure

For MWG, inventory accounts for the largest proportion in Asset structure of the company. Nevertheless, the proportion of inventory out of total assets tends to decrease. Specifically, in 2015, inventory accounted for 68% total assets; by 2018, this figure fell to 62%. Cash and cash equivalents tend to go up over the years, from 5% of total assets in 2015 to 13% total assets in 2018, reaching VND3,750 billion. In 2017 and 2018, the cash flow from business operations sharply increased, and became the main financing source for MWG’s investment activities. While MWG tests and invests into new business segments, further expansion of retail system area will need a stable investment capital from the cash flow from the company’s business activities. We think that this shows positive trend in the stability of MWG’s growth momentum in the future.

Capital structure

Total assets of the company in 2018 was VND28,140 billion, VND5 trillion more than that in early this year. For 2018, the total value of short-term and long-term loans was VND7,045 billion, owner’s equity was VND8,983 billion. Total long-term and short-term borrowings/total assets and net debt/owner’s equity ratios have all been improved over the years.

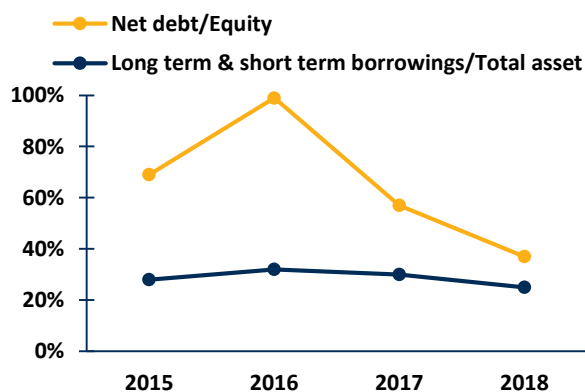
Figure 21: The cash flow from business operations



*: Trailing 4 quarters, ended on June 30th

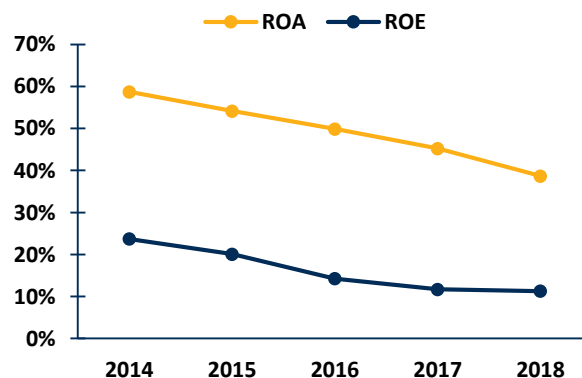
Source: Fiinpro, KBSV compilations

Figure 22: Net debt/Owner’s equity and Total longterm & shortterm borrowings/Total assets



Source: MWG

Figure 23: ROA & ROE



Source: MWG

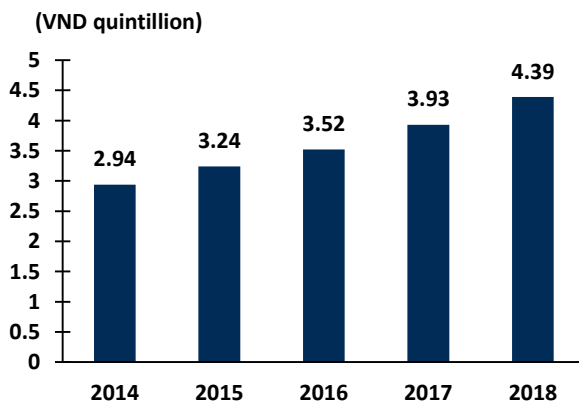
III. INVESTMENT HIGHLIGHTS

Favorable macroeconomic factors, population structure, people's income pave the way for continued booming retail activities in Vietnam

Retail activities will continue to benefit from economic growth and high urbanization speed. According to the forecast by the Trade Research Institute (Ministry of Industry and Trade), in 2016 - 2020, retail trade growth rate of Vietnam may reach 11.9%/year, the market scale will be around USD179 billion in 2020, in which modern retail activities account for >45% compared to 25% in 2016. By 2020, according to the plan, there will have been 1,200 – 1,500 stores nationwide, 180 trade centers, and 157 shopping malls. There will be a surge in the growth of necessities. According to the GSO, total retail sales and revenue of consumer services of Vietnam in 2018 hit VND4.39 quintillion (+9.4% YoY), the highest level ever.

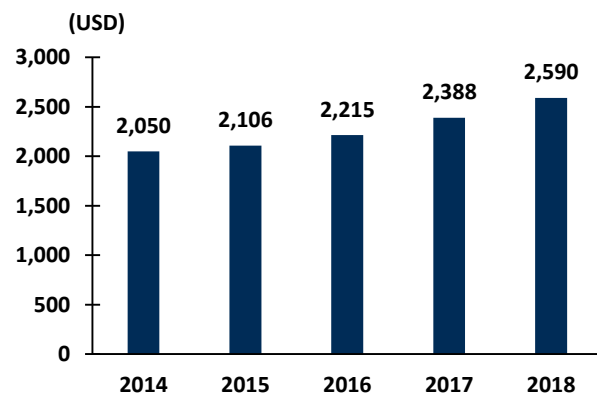
The disposable income of people tends to increase and the demographic conditions become more favorable. With a high population rate (97 million at the end of 2018), economic growth rate and the growth rate of income per capita are in the top group of the region, reaching USD2,590/year in 2018; and they are expected to gain 8-10% each year, Vietnam retail market has many potential factors to support domestic retail groups and international businesses to penetrate into the market. The consumption trend of youth/middle-aged people also changes the trading method from traditional trading channels to shopping malls, convenient stores or online shopping channels. This change is suitable to MWG's business strategy.

Figure 24: Total retail sales of goods and services



Source: GSO

Figure 25: GDP per capita over the past few years



Source: KBSV compilations

Dien May Xanh is the main force of growth in the next 2-3 years

The retailing of consumer electronics has better growth potential thanks to low penetration rate. According to Euromonitor (a corporation that majors in market research located in London), revenue of consumer electronics retail segment is expected to achieve a CAGR of 10-10.5% in 2018-2023 because: (1) Disposable income of people increases thanks to high growth rate of GDP (6.1% on average in 2012-2018), which creates high expectations about the demand for consumer electronics in the mid-term; (2) The penetration rate of consumer electronics is still low (51% for TV, air conditioner 33%, washing machine 30%); and (3) the easy access to consumer finance channels has led to an increase in spending on shopping.

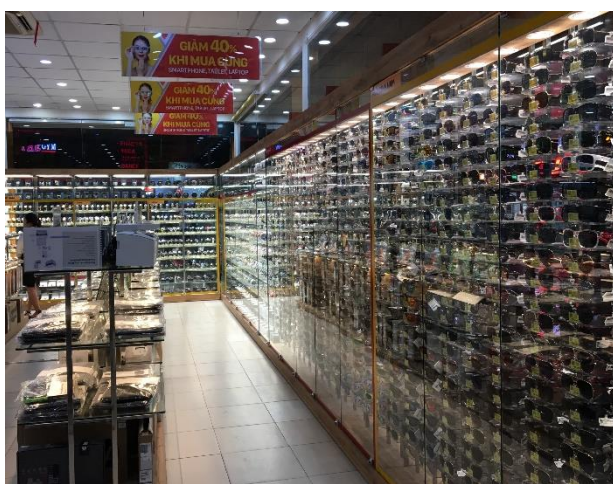
DMX has exceeded TGDD since November 2017 to become the leading segment in terms of biggest revenue contribution to MWG with about 58.7% revenue in 6M 2019. Currently, revenue per store of TGDD is about VND2.8 billion/month, while DMX’s is over VND6 billion/month. There have been more than 80 stores completely converted since the middle of 2017. This will help MWG optimize costs and gain more market share from small local stores – currently accounting for 40% of the whole market. Additionally, market in the Northern region is also very potential as DMX currently owns only 15% market share of this region.

MWG plans to further raise DMX stores by 150 stores in 2019, and convert available DMX mini-stores to new-model stores. Only in the second quarter of 2019, MWG completely changed the layout of 210 DMX mini-stores. DMX mini-stores whose layout changed can gain more 30% revenue/store as there are more displayed products for consumer electronics and house appliances/kitchenware. MWG expects to change the layout for the rest of roughly 300 DMX mini-stores in the last 6M of 2019.

MWG are implementing the strategy to diversify product lines with the sale of watches and glasses in TGDD and DMX shop-in-shop stores. This strategy is currently bringing positive results, adding VND600 million to VND1 billion to average revenue per store. Thanks to the good usage of layout, staff and stores... this shop-in-shop model can save MWG’s expenses, and increase profit margin. At the moment, MWG is applying discount policies of 20-40% for customers who buy watches and glasses together with mobile phones, tablets, and laptops. The additional sale of watches at TGDD and DMX stores help these store gain 10% average revenue.

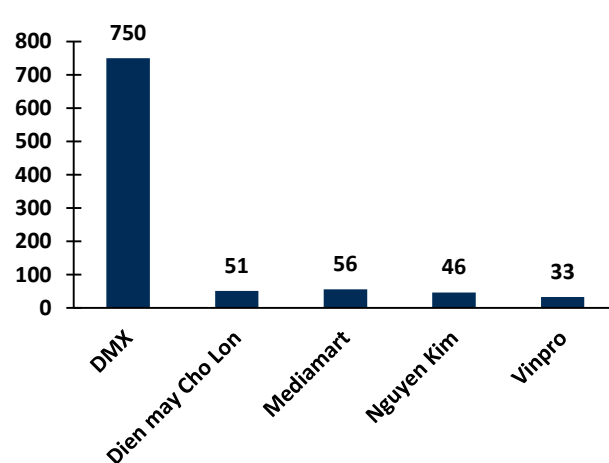
We think that TGDD and DMX have competitive advantages of big brand and large business network (>1,800 stores all over Vietnam) and the focus on customer experience. MWG makes a difference with other competitors by their service quality: from the enthusiasm, honesty and integrity of sales staff, safe after-sales services to developing a website with user-friendly interface. MWG has gained its market share convincingly in the last years, and we believe that the target to gain 45% retail market share in electronics by 2020 of DMX is practicable.

Figure 26: MWG sells watches and glasses in shop-in-shop stores



Source: KBSV

Figure 27: The number of electronics stores (2018)



Source: KBSV compilations

Bach Hoa Xanh is a growth potential in the long term

The retail of groceries – consumer goods is a potential market, especially when the income per capita is at a high level. Statistics of Euromonitor said that the scale of groceries retail market in Vietnam has currently reached >USD50 billion with a growth rate of about 10%/year. This market is highly fragmented as 90% market share is owned by 8,500 traditional markets and 1.4 million small retail groceries. We believe that this is a very potential market to MWG if the expansion issue is solved.

Average revenue per BHX store saw an impressive growth. From 20 stores selling “fresh meat – swimming fish” tested since the beginning of this year, by the end of June 2019, BHX had 600 stores all over the country. In particular, there were 218 stores in 14 Southern provinces outside HCMC (accounting for 36% total BHX stores compared to 8% at the end of 2018). Stores that have been in stable operation continued to gain average revenue to VND1.5 billion/store/month. Profit margin of BHX hit 19% by June 2019. Average revenue in BHX stores continuously increased because of (1) flexible purchase of fresh food at large volume; (2) improved ability to select area to open new stores and ensure stores quickly achieve targeted sales after opening.

In 2019, the company will continue to improve the direct purchase of imports, thereby raising GPM. Imported goods sold in BHX stores will mainly come from Western countries such as apples and cherries from the US and New Zealand, oranges and grapes from Australia and South Africa. The volume of imported products considerably increased from 30 containers in April to 80 containers in May. After fruits and sea fish, BHX decided to try importing confectioneries directly. BHX sold 4 containers of confectioneries just in 2 weeks after these products were displayed for sale at stores and on bachhoaxanh.com website. Products that are directly imported by BHX have prices 10-30% lower the prices on the market.

The contribution of fresh, chilled and frozen goods to total revenue of BHX in 6M increased by more than 50%. This is the advantage of BHX when this group attracts frequent buyers and often brings higher GPM than FMCGs.

At the moment, MWG has 2 active warehouses in HCMC and 1 warehouse for preliminary processing in Lam Dong, and expects to open 2 new distributing centers to sell fresh food and lower logistics charges. The method of buying fresh food right in the local markets helps to increase production of goods, raise GPM. In addition, products sold by this method will be fresher as the transportation time from harvesting places to consumers is shortened.

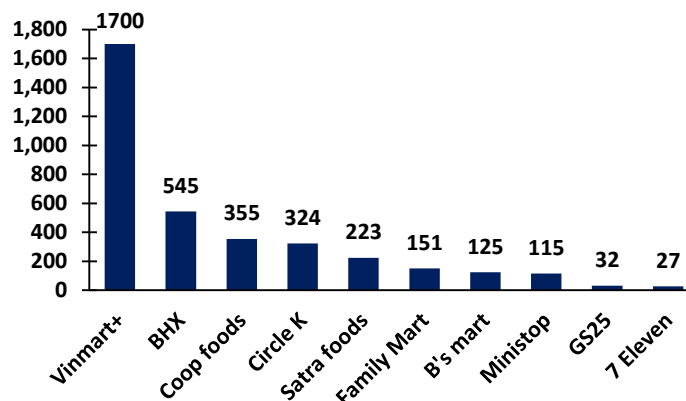
Newly opened stores of BHX in provinces outside HCMC have an average revenue/store of about VND1.6 – 2 billion in April 2019, higher than that of the whole store chain (VND1.5 billion in June 2019.)

By the end of May 2019, BHX has launched a model of bringing kitchenware and some essential household appliances to the Double shop model (BHX combined with household appliances), the first testing store was located in Tay Ninh. Double Shop stores selling household appliances have a revenue growth of about 30% compared to that before conversion. After the testing of this model was successful in Tay Ninh at the end of May, BHX converted 3 large 300 m² stores that had high sales results in HCMC in June 2019.

In addition, **MWG also ensured the land area to reach higher number of BHX stores** set from the beginning of the year (700 stores). The ability to select the location of stores of MWG is increasingly improved, which helps to boost revenue in each store. Only in June, MWG successfully signed more than 70 business premises for BHX. MWG expects to reach 700 BHX stores in Q3/2019.

By the end of 2019, MWG expects that BHX will break even at stores and distributing centers, which is in line with our forecast.

Figure 28: The number of stores of each chain



Source: KBSV compilations

Continuing to maintain the core competitive advantage of **optimizing the operating system through ERP** and optimizing customer experience through customer care. We highly appreciate the experience in operating retail chains along with the application of IT in supply chain management of MWG. MWG is one of the businesses using ERP very effectively.

IV. INVESTMENT RISKS

The risk of a saturated smartphone market

Thegiodidong.com chain after 5 years experiencing strong growth started to slow down, revenue of this segment in 2018 slightly fell over 2017. The reason of this decline is because electronics products have become much more popular thanks to the emerging of many smartphones with low prices from China such as Xiaomi, and Oppo. The penetration rates are close to the maturation: 84% in big cities, and 71% in secondary cities, according to Nielsen (Global information, data and measurement company based in New York, USA).

Although MWG owns online shopping websites that have traffic and transaction at the top of Vietnam like thegiodidong.com, dienmayxanh.com, and bachhoaxanh.com, the competition in prices with other online competitors “fighting” to gain market share may decrease operational profit margin of MWG.

Increasing competition pressure from the participation of foreign retailers

In addition to large companies in E-Commerce sector with low expense strategy such as Lazada (Alibaba), Shopee (SEA Group) and Tiki (JD.com), reputatous e-commerce giants from developed markets such as Rakuten (Japan), AeonEshop (Japan), Lotte (Korea) and even Amazon (US) also join the market in the long term, which helps to bring quality products to the market and create significant competitive pressure for Vietnam’s E-Commerce pie in the coming years.

Risks to BHX store chain

BHX has to compete with other peers such as Saigon Co.op, and Satrafoods. In addition, transportation fees from distribution centers to stores account for 3% revenue of BHX, so this chain has to reduce COGS or increase revenue of stores in order to increase BHX's GPM by 18-20%. These efforts may meet some difficulties while BHX wants to expand over the market in provinces. As a result, BHX may not reach the breakeven at stores and warehouses at the end of this year. Furthermore, about 50% revenue of BHX comes from fresh food, the cost of damaged goods accounts for about 2.5% of total revenue. Therefore, it is necessary for MWG to have suitable methods of transporting and storing goods to ensure the freshness and food safety of these items.

V. VALUATION

1. Forecast business performance

MWG plans to gain 25% YoY revenue and 25% YoY NPAT

In 2019, MWG set a plan for net revenue to reach VND108,468 billion (+25% YoY) and NPAT to reach VND3,571 billion (+24% YoY). According to MWG's BOM, 2019 is the year to set an important background to prepare for BHX to expand strongly nationwide. The retailing of smartphones, and consumer electronics still the main source of revenue and profit for MWG this year, consumer electronics segment is targeted to account for 40% market share.

MWG expects to have 1,900 TGDD and DMX stores by the end of 2019, BHX achieve the breakeven at stores and distribution centers

In 2019, MWG expects to convert TGDD stores to DMX mini-stores/DMX stores; the number of newly opened/converted stores are forecast at 150, average revenue is expected to gain by 50%; the total number of TGDD and DMX stores is planned to be 1,900 stores by the end of 2019. For BHX, the target by the end of 2019 is to gain direct profit (fully offset operating costs at stores and distribution centers, but excluding company-level costs).

About revenue:

TGDD is forecast to decrease 35-40 stores, revenue will be down by 0.3% YoY in 2019 to VND34 trillion

- **The Gioi Di Dong:** According to GFK forecast, the growth rate of smartphones retail market is about 1% in 2019. Therefore, the company will open more stores and convert around 35-40 stores to DMX stores. As a result, the number of stores by the end of 2019 of TGDD is forecast to be about 992 (-3.9% YoY). SSSG is expected to be 1%. We estimate revenue from this chain to have a growth rate of -0.3% in 2019, equivalent to revenue of about VND34,489 billion.

DMX is expected to open and convert 150 stores, average revenue/store/month will rise to VND6.4 billion, revenue will hit VND63 trillion in 2019 (+34% YoY)

- **Dien May Xanh:** In 2019, we forecast that MWG will open and convert 150 DMX stores (+38% YoY). In addition, GFK forecast that the retail market growth rate will continue to be at 10-11%. Market share of this segment of MWG in 2018 is 35%, so there is still room to gain more market share. If SSSG were about 12%, average revenue/store/month would reach VND6.4 billion. The layout of DMX stores is optimized, new products such as watches, glasses sold in shop-in-shop stores have high profit margin. Revenue from DMX is forecast to increase 33% in 2019, equal to a revenue of about VND63,368 billion.

BHX chain may reach 850 stores by the end of 2019, average revenue /store/month will climb to VND1.5 billion, and revenue may hit VND11 trillion in 2019 (+155% YoY)

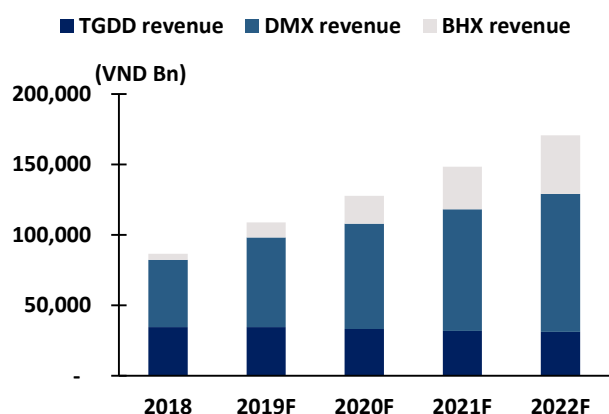
- **Bach Hoa Xanh:** We believe that the number of BHX stores may reach 850 stores by the end of 2019 because MWG has ensured the shop spaces exceeding the target of the year and expects the average revenue /store/month stay at VND1.5 billion in 1H/2019, we forecast revenue of BHX in 2019 will reach about VND11,047 billion (+155% YoY).

About profit:

GPM of MWG may inch up to 17.8%, while net profit margin will increase to 4.0%

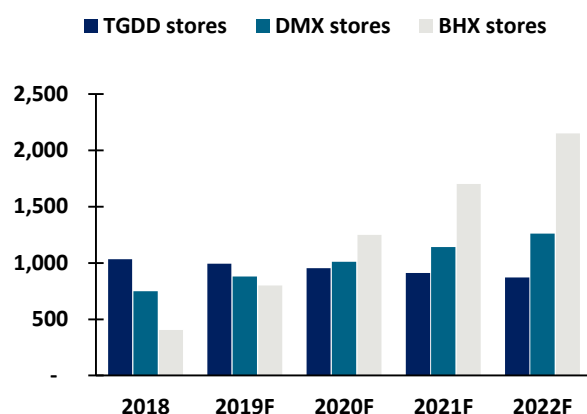
We estimate GPM of MWG this year will increase slightly to 17.8%, GPM of DMX and BHX will still be improved. SG&A/net revenue ratio accounts for 2% and 11% respectively. We estimate NPAT of MWG will rise from 3.3% to 4.0% in 2019 as net profit margin in 6M has reached 4.1%. NPAT is estimated to be VND4,366 billion (+52% YoY), exceeding the profit plan of the year.

Figure 29: Forecast revenue of MWG store chains



Source: KBSV forecasts

Figure 30: Forecast store number in each chain



Source: KBSV forecasts

Table 31: Forecast business results

Bn VND	2015A	2016A	2017A	2018A	2019E	2020F
Net revenue	25,253	44,613	66,340	86,516	108,904	135,232
Cost of goods sold	21,330	37,399	55,198	71,224	89,565	110,841
Gross profit	3,922	7,214	11,142	15,292	19,339	24,391
Selling expenses	2,351	4,288	7,017	9,660	11,031	14,470
General & admin expenses	249	935	1,346	1,762	2,163	2,704.64
Net profit after tax	1,076	1,578	2,207	2,880	4,366	5,874
NPAT of Parent company	1,072	1,577	2,206	2,879	4,365	5,873

Source: MWG, KBSV forecasts

2. Valuation

We use DCF and P/E to evaluate MWG.

We estimate revenue and cash flow by DCF as follows:

Table 32: DCF valuation

(Bn VND)	2019E	2020F	2021F	2022F	2023F
Net revenue	108,904	135,232	165,839	201,282	243,317
EBITDA	7,451	9,741	12,041	14,282	18,247
Operating income	5,502	7,217	9,212	11,438	14,122
Tax	(1,373)	(1,848)	(2,432)	(3,123)	(4,003)
Depreciation & amortisation	1,458	1,749	1,599	937	1,209
Capex	(2,408)	(2,996)	(1,942)	(2,357)	(2,850)
Changes in Net working capital	(587)	(1,481)	(1,306)	(1,065)	1,636
FCFF	2,591	2,641	5,132	5,830	10,115
PV of cash flows (WACC 11.3%)	19,849				
PV of Terminal value (g = 3%)	57,061				
Enterprise value	76,910				
Equity value	76,180				
Number of outstanding shares (million)	443				
Stock price based on DCF ('000)	172				

Source: KBSV forecasts

Table 33: Valuation of some same-sector companies in the region

Companies	Ticker	Countries	Market capital (USD)	Beta	P/E
AEON CO (M) BHD	AEON	Malaysia	603,681,050,000	0.82	21.54
CP ALL PCL	CPALL	Thái Lan	25,511,867,321	0.86	38.22
SM PRIME HLDGS	SMPH	Philippines	21,411,810,675	1.09	32.85
SUMBER ALFARIA TRIJAYA	AMRT	Indonesia	2,793,357,612	0.31	53.65
ROBINSONS RETAIL	RRHI	Philippines	2,403,892,759	0.54	22.83
CAPITALAND RETAIL	CRCT	Singapore	1,184,740,050	0.64	11.35
MATAHARI DEPT	LPPF	Indonesia	762,800,676	0.92	10.06
PHU NHUAN JEWELRY	PNJ	Việt Nam	711,184,525	1.00	15.47
RAMAYANA LESTARI	RALS	Indonesia	695,745,208	0.73	14.54
JIANPU TECHNOLOGY	JT	US	629,438,421	-	-
FPT DIGITAL RETAIL	FRT	Việt Nam	177,103,742	-	12.09
CHALLENGER TECH	CHLG	Singapore	141,561,218	0.59	9.98
DIGIWORLD CORP	DGW	Việt Nam	37,817,043	0.88	7.36
EPICENTRE HOLDINGS	EPIC	Singapore	2,102,098	-	-
Mean					17.85
Median					13.32

Source: Bloomberg, KBSV

Valuation results

MWG is the biggest retailer that sell smartphones, electronics, and food in Vietnam. We believe that MWG has found a suitable development strategy, and MWG has been successful in finding the right development determination for BHX and optimizing revenue for DMX and TGDD stores, and developing new business segments such as selling watches and eyeglasses. With DCF and P/E forward 13x, we value MWG share at VND136,600/share at the end of 2019 and recommend to BUY with expected upside of 32% compared to the prices at July 31, 2019.

Table 34: Valuation results

Valuation method	Price	Weight	Price (VND)
P/E	101,253	50%	50,626
DCF	171,963	50%	85,981
Target price			136,600

Source: KBSV forecasts

APPENDIX

Income Statement (Billion VND)	2016	2017	2018	1H/2019
Net sales	44,613.33	66,339.80	86,516.29	51,621.17
Cost of sales	-37,399.23	-55,198.02	-71,224.16	-42,438.97
Gross Profit	7,214.11	11,141.78	15,292.13	9,182.20
Financial income	135.33	250.51	342.08	271.51
Financial expenses	-120.09	-234.29	-436.57	-267.14
of which: interest expenses	-119.65	-233.20	-436.42	-267.11
Gain/(loss) from joint ventures (from 2015)	0.00	0.00	-2.10	-0.49
Selling expenses	-4,287.70	-7,017.06	-9,659.74	-5,457.77
General and admin expenses	-934.78	-1,345.50	-1,761.61	-1,004.11
Operating profit/(loss)	2,006.87	2,795.44	3,774.18	2,724.19
Other incomes	31.13	17.68	33.23	20.59
Other expenses	-32.09	-3.82	-21.10	-8.01
Net other income/(expenses)	-0.96	13.87	12.14	12.58
Income from investments in other entities	0.00	0.00	0.00	0.00
Net accounting profit/(loss) before tax	2,005.91	2,809.31	3,786.32	2,736.78
Corporate income tax expenses	-427.66	-602.41	-906.01	-616.09
Net profit/(loss) after tax	1,578.25	2,206.90	2,880.31	2,120.69
Minority interests	0.88	1.22	1.58	1.07
Attributable to parent company	1,577.37	2,205.68	2,878.72	2,119.62

Operating ratios	2016	2017	2018	TTM Q2/2019
Gross profit margin	16.17%	16.80%	17.68%	17.78%
EBITDA margin	5.33%	5.23%	5.89%	6.21%
EBIT margin	4.46%	4.19%	4.47%	4.82%
Pre-tax profit margin	4.50%	4.23%	4.38%	4.82%
Operating profit margin	4.50%	4.21%	4.36%	4.80%
Net profit margin	3.54%	3.33%	3.33%	3.70%

Cash Flow	2016	2017	2018	1H/2019
Net profit/(loss) before tax	2,005.91	2,809.31	3,786.32	2,736.78
Depreciation and amortisation	386.63	689.71	1,222.87	638.62
Profit/loss from investing activities	0.00	-35.34	-84.86	-127.25
Interest expense	119.65	233.20	436.42	267.11
Operating profit/(loss) before changes in Working Capital	2,590.54	3,823.77	5,486.72	3,476.35
(Increase)/decrease in receivables	-989.52	-1,322.95	1,246.65	494.62
(Increase)/decrease in inventories	-4,503.95	-2,796.30	-4,672.94	1,080.36
Increase/(decrease) in payables	3,124.56	3,970.34	1,331.04	-142.09
(Increase)/decrease in prepaid expenses	-164.87	-96.81	126.75	-89.25
Net cash inflows/(outflows) from operating activities	-586.48	2,663.66	2,261.13	4,090.61
Purchases of fixed assets and other long term assets	-1,278.79	-2,065.07	-1,495.93	-1,027.31
Proceeds from disposal of fixed assets	0.95	0.18	1.34	27.96
Loans granted, purchases of debt instruments	0.00	-210.28	-85.92	-6,113.40
Collection of loans, proceeds from sales of debts instruments	0.00	125.58	0.00	30.92
Investments in other entities	0.00	0.00	-828.17	0.00
Proceeds from divestment in other entities	0.00	0.00	0.00	0.00
Dividends and interest received	1.80	29.37	64.29	31.55
Net cash inflows/(outflows) from investing activities	-1,276.04	-2,120.21	-2,344.39	-7,050.28
Proceeds from issue of shares	0.00	92.47	705.36	0.48
Payments for share returns and repurchases	-0.32	0.00	-0.73	-3.42
Proceeds from borrowings	19,961.55	29,465.79	31,893.81	22,841.94
Repayment of borrowings	-17,225.51	-27,456.00	-31,690.85	-19,678.48
Finance lease principal payments	0.00	0.00	0.00	0.00
Dividends paid	-220.13	-231.72	-485.86	-657.71
Interests, dividends, profits received	0.00	0.00	0.00	0.00
Net cash inflows/(outflows) from financing activities	2,515.60	1,870.54	421.72	2,502.81
Net increase in cash and cash equivalents	653.08	2,413.99	338.46	-456.86
Cash and cash equivalents at the beginning o period	343.87	996.98	3,410.98	3,749.55
Cash and cash equivalents at the end of period	996.98	3,410.98	3,749.55	3,292.66

Balance Sheet (Billion VND)	2016	2017	2018	1H/2019
CURRENT ASSETS	12,288.44	18,862.86	23,371.99	27,617.54
Cash and cash equivalents	996.98	3,410.98	3,749.55	3,292.66
Short-term investments	0.00	0.00	50.92	6,133.40
Accounts receivable	1,410.64	2,765.85	1,542.53	1,309.52
Inventories	9,370.73	12,050.16	17,446.01	16,424.09
LONG-TERM ASSETS	2,565.82	3,959.80	4,750.54	5,149.29
Long-term trade receivables	179.69	242.12	313.78	330.67
Fixed assets	2,096.13	3,463.66	3,333.15	3,930.03
Investment properties	0.00	0.00	0.00	0.00
Long-term incomplete assets	80.42	35.46	256.83	51.37
TOTAL ASSETS	14,854.26	22,822.66	28,122.53	32,766.83
LIABILITIES	11,012.91	16,913.75	19,139.50	22,335.86
Current liabilities	11,012.91	15,713.81	17,929.43	21,216.00
Trade accounts payable	4,680.04	7,373.23	8,244.61	8,278.29
Advances from customers	20.04	22.48	38.06	41.10
Short-term unrealized revenue	0.00	0.00	0.00	17.50
Short-term borrowings	4,788.99	5,603.51	5,836.45	9,090.48
Long-term liabilities	0.00	1,199.93	1,210.06	1,119.87
Long-term trade payables	0.00	0.00	0.00	0.00
Long-term advances from customers	0.00	0.00	0.00	0.00
Unrealized revenue	0.00	0.00	0.00	0.00
Long-term borrowings	0.00	1,199.93	1,208.17	1,119.87
OWNER'S EQUITY	3,841.36	5,908.92	8,983.04	10,430.96
Paid-in capital	1,539.51	3,169.88	4,434.96	4,434.96
Share premium	36.72	36.72	551.45	551.45
Undistributed earnings	2,261.76	2,698.57	3,989.60	5,440.04
Minority interests	2.32	2.78	6.25	7.16

Main indicators	2016	2017	2018	TTM Q2/2019
Valuations				
P/E	8.65	12.73	13.65	13.49
P/E diluted	8.65	12.73	13.65	13.49
P/B	3.55	4.76	4.38	4.54
P/S	0.31	0.42	0.45	0.51
P/Tangible Book	3.58	4.78	4.39	4.55
P/Cash Flow	-23.26	10.54	17.38	7.87
EV/EBITDA	7.33	9.07	8.36	9.33
EV/EBIT	8.75	11.33	11.00	12.01
Management Efficiency				
ROE%	49.88	45.24	38.66	36.80
ROA%	14.26	11.71	11.30	11.84
ROIC%	23.08	21.86	24.15	-2.64
Financial structure				
Cash Ratio	0.09	0.22	0.21	0.16
Quick Ratio	0.22	0.39	0.30	0.53
Current Ratio	1.12	1.20	1.30	1.30
LT Debt/Equity	0.00	0.20	0.13	0.11
LT Debt/Total Assets	0.00	0.05	0.04	0.03
Debt/Equity	1.25	1.15	0.78	0.98
Debt/Total Assets	0.32	0.30	0.25	0.31
ST Liabilities/Equity	2.87	2.66	2.00	2.03
ST Liabilities/Total Assets	0.74	0.69	0.64	0.65
Total Liabilities/Equity	2.87	2.86	2.13	2.14
Total Liabilities/Total Assets	0.74	0.74	0.68	0.68
Operating ratios				
Account Receivable Turnover	278.51	79.20	96.06	220.10
Inventory Turnover	5.15	5.06	4.73	4.72
Account Payable Turnover	11.25	9.16	9.12	10.51

Source: MWG, KBSV

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

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