

Mobile World (MWG)

Recovery momentum continues

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MWG recorded positive earnings growth despite the pandemic in 2020

MWG earnings posted a mere 2% YoY to VND3,920 billion on net revenue of VND108,546 billion or up 6% YoY in 2020. In the second half of 2020, MWG started to deploy different models to improve profitability, such as DMX supermini, Bluetronics in Cambodia, BHX larger-sized store (more than 500sqm) that brings positive results. Year-to-date earnings and revenue completed 114% and 99% of management's full year earnings and revenue target, respectively.

Continue to focus on expanding DMX Supermini (DMS) and upgrading BHX 500sqm-size store to improve profitability

MWG continued to open 21 new DMS in February for a total of 388 stores. Average monthly sales per store reached more than VND1.2 billion. BHX has also upgraded high-performing stores to 500sqm-size stores, raising total number of this format to 239 stores located in 19 cities and provinces in Southern Vietnam. The contribution of 500sqm-size stores in BHX's total revenue has grown from 21% in December 2020 to 25% in January 2021.

Maintain BUY and raise our 12-month target price to VND167,400

We maintain BUY on MWG and revised our 12-month target price up to VND167,400. MWG will likely perform well thanks to its strong business execution alongside our expectations for a faster recovery in consumption demand in 2021E. Our view is backed by: (1) BHX's net margin improvement in 2021E thanks to management's plan in slowing down store expansion to reach bottom-line breakeven in 2021E as well as upgrading high-performing stores to larger-sized stores; and (2) new super-mini DMX format expansion would be a key driver for MWG to gain more market share in mobile phone and consumer electronics.

Buy maintain

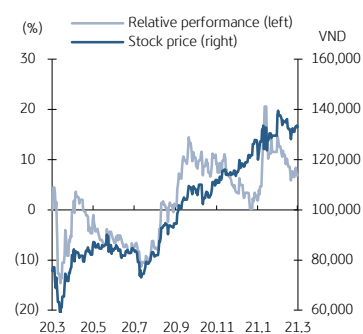
Target Price	VND167,400
Total return (%)	30.3%
Current price (Mar 31)	VND129,700
Consensus target price	VND166,500
Mkt capitalization (USDmn)	USD2,362mn

Trading data	
Free float (%)	79.1%
Avg trading value (3M)	USD6.74mn
Foreign available (%)	0.0%
Major shareholders (%)	Retail World (11.4%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.3	15.7	40.7	72.3
Relative	-5.0	3.4	6.2	2.4

Forecast earnings & valuation

Fiscal year-end	2018A	2019A	2020A	2021E
Revenue (VNDbn)	86,516	102,174	108,546	126,712
EBIT	3,871	4,977	5,216	7,496
NP attributable to parent	2,879	3,834	3,918	5,044
EPS (VND)	6,633	8,645	8,648	11,130
EPS growth (%)	25.0	30.3	0.0	28.7
P/E (x)	18.1	13.9	15.0	11.7
EV/EBITDA (x)	11.0	10.0	9.1	6.9
P/B (x)	5.9	4.4	3.8	3.0
ROE (%)	38.7	36.3	28.4	28.5
Div yield (%)	0.9	1.3	1.3	1.3



Source: Bloomberg, KB Securities Vietnam

2020 earnings showed positive growth despite the pandemic

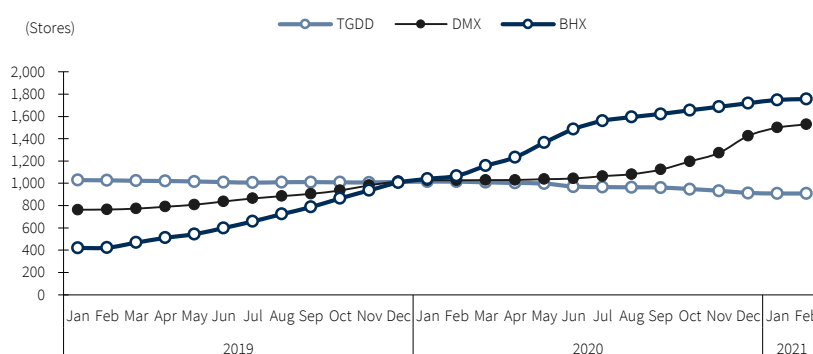
MWG earnings posted a mere 2% YoY to VND3,920 billion on net revenue of VND108,546 billion or up 6% YoY, beating other peers with no loss in 2020. In the second half of 2020, MWG started to deploy different models to improve profitability, such as DMX supermini, Bluetronics in Cambodia, BHX larger-sized store (more than 500sqm) that brings positive results. By category, watches, laptops and small appliances continued to post positive YoY growth, especially watches that have doubled its revenue in 2020, while FMCG categories posted strong 98% YoY revenue growth in 2020. Sales of mobile phones were down 11.1% YoY and consumer electronics were barely flat due to the negative impact from weak disposable income and consumption demand. Year-to-date earnings and revenue completed 114% and 99% of management's full-year earnings and revenue target, respectively.

Table 1. Mobile World (MWG) – 4Q2020 vs 4Q2019 and 2020 vs 2019 results (VND billion, %)

(VND bn, %)	4Q19	4Q20	YoY	2019	2020	YoY
Sales	25,411	27,194	7.0%	102,174	108,546	6.2%
<i>TGDD</i>	7,644	7,559	-1.1%	33,207	29,525	-11.1%
<i>DMX</i>	14,177	13,491	-4.8%	58,239	57,746	-0.8%
<i>BHX</i>	3,590	6,144	71.1%	10,728	21,260	98.2%
Online sales	2,614	2,142	-18.1%	12,682	9,386	-26.0%
GP	5,365	6,275	17.0%	19,488	23,954	22.9%
SG&A	4,214	5,043	19.7%	14,511	18,738	29.1%
EBIT	1,151	1,232	7.0%	4,977	5,216	4.8%
NP after MI	860	942	9.5%	3,834	3,918	2.2%
GPM	21.1%	23.1%		19.1%	22.1%	
EBIT margin	4.5%	4.5%		4.9%	4.8%	
NPM	3.4%	3.5%		3.8%	3.6%	

Source: Company reports, KB Securities Vietnam

Fig 1. Mobile World (MWG) – TGDD, DMX and BHX store network, Jan 2019–Feb 2021 (stores)

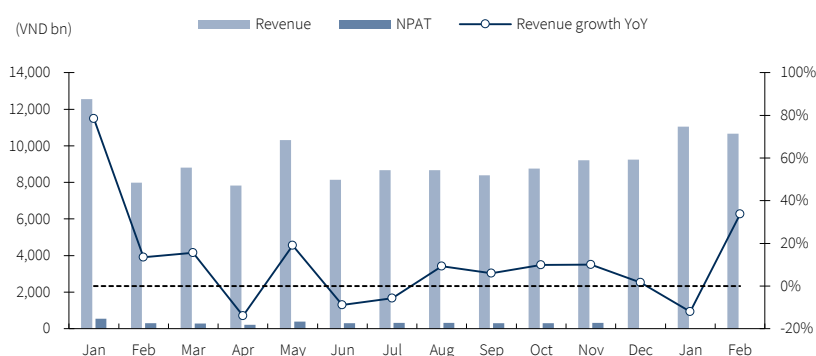


Source: Company reports, KB Securities Vietnam

Cumulative January and February 2021E earnings up 18% YoY

January earnings reached VND494 billion on VND11,049 billion in revenue which makes the net profit margin reached 4.5%. In 2-month cumulative revenue, MWG recorded 18% YoY growth in earnings at VND999 billion on consolidated net revenue of VND21,719 billion or up 6% YoY, completed 21% of management's earnings target and 17% of management's revenue target. Although nearly 100 TGDD and DMX stores were closed due to the outbreak of the pandemic, the overall first 2-month revenue of TGDD and DMX remained flat and BHX revenue continued to grow by 54% YoY.

Fig 2. Mobile World (MWG) – Revenue, NPAT and revenue growth YoY, Jan 2020–Feb 2021 (VND billion, % YoY)

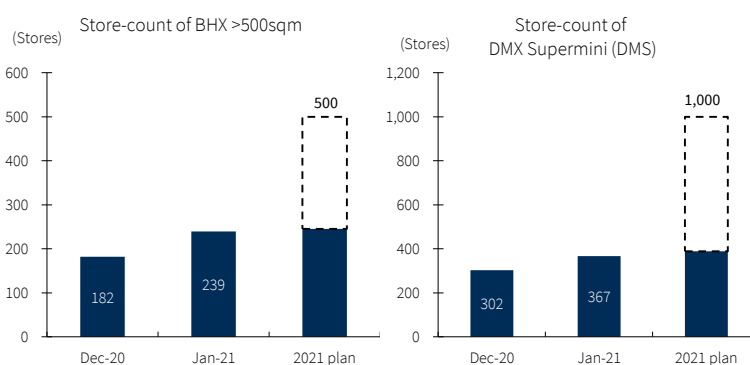


Source: MWG, KB Securities Vietnam

Continuing focus on expanding Dien May Xanh Supermini (DMS) stores and Bluetronics

MWG continues to focus on expanding the DMX super-mini (DMS) format for consumer electronics with 21 new openings in February for a total of 388 stores. Average monthly sales per store reached more than VND1.2 billion. Thanks to the aggressive expansion of DMS and positive contribution of main categories, the negative impact on the pandemic was moderated. MWG's *Bluetronics* stores selling mobile phones and consumer electronics in Cambodia also reached 50 locations, which makes MWG the CE chain with highest number of stores in Cambodia, with average sales per store at around VND1 billion per store per month.

Fig 3. Mobile World (MWG) – Store-count of DMX Supermini and BHX, Dec 2020–2021 plan (stores)

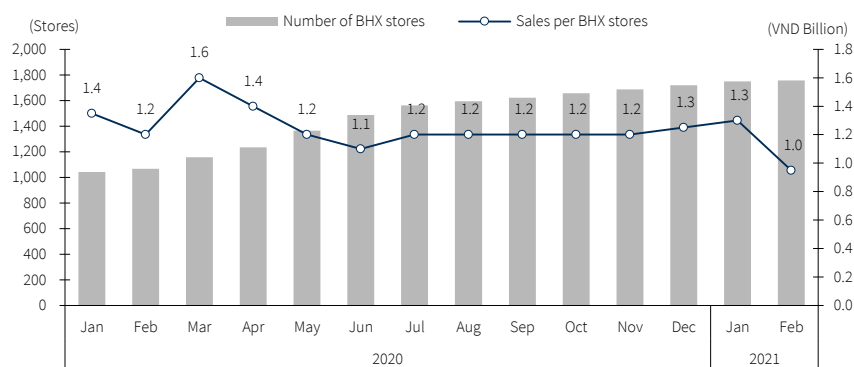


Source: MWG, KB Securities Vietnam

BHX continued to expand 500sqm-size stores and improve profitability

BHX has accounted for 21% of MWG's net sales in January, compared to 10.5% from a year ago, with the average sales per store of VND1.3 billion. BHX has also upgraded high-performing stores to 500sqm-size stores. In addition to new stores opened, BHX upgraded 60 existing stores in the first 2 months to 500sqm-size stores mainly in provincial area, raising total number of this format to 242 stores located in 19 cities and provinces in Southern Vietnam. The contribution of 500sqm-size stores in BHX's total revenue has grown from 21% in December 2020 to 25% in January 2021. BHX will maintain the expansion pace of 30 stores per month to upgrade high-performing stores and improve profitability.

Fig 4. Mobile World (MWG) – Number of BHX stores and its sales per store, Jan 2020–Feb 2021 (stores, VND billion)



Source: MWG, KB Securities Vietnam

Target price revised up to VND167,400 on strong business execution and recovering consumption demand post pandemic

We reiterate our BUY recommendation on MWG after upgrading our 12-month target price to VND167,400. MWG remains our top pick for the retailing sector with their strong business execution alongside our expectations for a faster recovery in consumption demand post pandemic. Our view is backed by: (1) BHX's net margin improvement in 2021E thanks to management's plan in slowing down store expansion to reach bottom-line break-even in 2021E as well as upgrading high-performing stores to larger-sized stores; and (2) new super-mini DMX format expansion would be a key driver for MWG to gain more market share in mobile phone and consumer electronics.

Downside risks include (1) weaker-than-expected consumer demand post pandemic; and (2) slower-than-expected margin improvement for BHX grocery chain.

Mobile World (MWG) – Discounted cash flow model

DCF VALUATION

Terminal value (VND in billions)						Terminal value (US\$ in millions)				
	84,991	98,067	111,142	124,218	137,294	3,695	4,264	4,832	5,401	5,969
Present value of firm						Present value of firm				
WACC	6.5x	7.5x	8.5x	9.5x	10.5x	6.5x	7.5x	8.5x	9.5x	10.5x
6.8%	73,521	82,941	92,361	101,781	111,201	3,181	3,590	4,000	4,409	4,819
7.8%	70,733	79,724	88,715	97,706	106,697	3,059	3,450	3,841	4,232	4,623
8.8%	68,096	76,681	85,266	93,851	102,437	2,945	3,318	3,691	4,064	4,438
9.8%	65,600	73,801	82,002	90,204	98,405	2,836	3,193	3,549	3,906	4,262
10.8%	63,237	71,075	78,912	86,750	94,588	2,733	3,074	3,415	3,756	4,096
Present value of equity per share						Present value of equity per share				
WACC	6.5x	7.5x	8.5x	9.5x	10.5x	6.5x	7.5x	8.5x	9.5x	10.5x
6.8%	141,500	162,300	183,000	203,800	224,600	6.10	7.00	7.90	8.80	9.70
7.8%	135,300	155,200	175,000	194,800	214,700	5.80	6.70	7.60	8.40	9.30
8.8%	129,500	148,400	167,400	186,300	205,300	5.60	6.40	7.20	8.10	8.90
9.8%	124,000	142,100	160,200	178,300	196,400	5.40	6.10	6.90	7.70	8.50
10.8%	118,800	136,100	153,400	170,700	188,000	5.10	5.90	6.60	7.40	8.10

Projected Unlevered Free Cash Flows (VNDbn)	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
EBIT	806	1,322	1,992	2,779	3,871	4,977	5,216	7,496	9,824	11,736	12,929	14,685
Taxes on EBIT @ 20.0%	161	264	398	556	774	995	1,043	1,499	1,965	2,347	2,586	2,937
Earnings before interest	645	1,058	1,593	2,223	3,097	3,981	4,173	5,997	7,859	9,389	10,343	11,748
Depreciation & provisions	172	229	465	816	1,349	1,528	2,254	2,164	2,134	1,990	2,131	2,133
(Profit)/loss from investing	-5	-1	0	-35	-85	-341	-558	-726	-651	-583	-523	-470
Other adj for oper activities	-126	-50	-598	13	325	-384	8	-193	-239	-275	-301	-336
Cash flow from operations	686	1,236	1,460	3,017	4,686	4,785	5,877	7,241	9,103	10,521	11,649	13,076
Change in working capital	-615	-1,895	-2,031	-336	-2,209	-5,926	5,169	-10,301	-2,844	-2,884	-2,232	-2,556
Capital expenditures	-326	-687	-1,750	-2,138	-1,440	-3,435	-4,190	-2,407	-2,195	-2,539	-2,716	-2,931
Decrease in investments	0	0	0	0	-60	3	4	2	2	2	2	2
Unlevered free cash flow	-255	-1,346	-2,321	542	978	-4,572	6,859	-5,464	4,066	5,100	6,704	7,591
Forecasted exchange rate	21,388	22,445	22,761	22,698	23,175	23,173	23,266	23,359	23,453	23,547	23,641	23,736
Unlevered FCF (US\$m)	-12	-60	-102	24	42	-197	295	-234	173	217	284	320

Firm Value Calculations

WACC	8.8%	PV of future cash flows (VNDbn)	12,292	2021E Total debt (VNDbn)	16,752
DCF period	5 Yrs	PV of terminal value (VNDbn)	72,974	2021E Cash (VNDbn)	7,349
Terminal EBITDA (VNDbn)	13,076	PV of Firm (VNDbn)	85,266	Terminal value as % of firm value	85.6%
Terminal multiple (x)	8.5x	Current exchange rate (VND)	23,000	Current shares outstanding (mn)	453.2

Cost Of Capital Calculations

WACC	8.8%	Re-levered beta	0.952	Risk free rate	3.0%
Cost of equity	10.7%	Debt beta	0.495	Market risk premium	8.1%
Cost of debt	7.0%	Unlevered beta	0.643	Target gearing	60.0%
		Statutory corporate tax rate	20.0%	Debt premium	4.0%

Memorandum

(VNDbn, US\$m)	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Discount Factor	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.07	1.17	1.27	1.38	1.51
Present value in VND	0	0	0	0	0	0	0	-5,083	3,477	4,010	4,844	5,043
Present value in US\$	0	0	0	0	0	0	0	-218	148	170	205	212

Source: Company reports, KB Securities Vietnam

Mobile World (MWG) – Summarized financials & forecasts, 2020A–2023E

Income statement					Balance sheet				
(VNDbn)	2020A	2021E	2022E	2023E	(VNDbn)	2020A	2021E	2022E	2023E
Net sales	108,546	126,712	147,569	161,372	Total assets	46,140	50,002	58,282	67,229
Cost of sales	84,592	98,338	113,992	124,148	Current assets	37,426	41,105	49,274	57,727
Gross Profit	23,954	28,374	33,578	37,224	Cash & equivalents	7,349	8,857	12,700	17,097
Financial income	794	410	392	375	ST investments	8,057	0	0	0
Financial expenses	594	948	944	940	Accounts receivable	1,703	2,673	1,881	3,157
of which: interest expenses	591	946	942	938	Inventory	19,422	28,507	33,439	36,076
Gain/(loss) from joint ventures	(4)	0	0	0	Other current assets	895	1,069	1,254	1,398
Selling expenses	15,334	17,740	20,660	22,592	Long-term assets	8,714	8,897	9,008	9,501
General & admin expenses	3,404	3,138	3,094	2,895	LT trade receivables	439	499	543	541
Operating profit/(loss)	5,413	6,958	9,271	11,171	Fixed assets	7,295	7,007	6,607	6,651
Other income	44	51	59	65	Investment properties	0	0	0	0
Other expense	46	38	44	48	LT incomplete assets	133	663	1,124	1,630
Net other income/(expenses)	(3)	13	15	16	LT investments	53	50	48	46
Pretax profit/(loss)	5,410	6,971	9,286	11,187	Goodwill	430	382	339	301
Income tax	1,490	1,922	1,857	2,237	Other LT assets	364	295	346	332
Net profit/(loss)	3,920	5,049	7,429	8,950	Liabilities	30,658	30,144	31,670	32,341
Minority interests	2	5	7	9	Current liabilities	29,531	29,018	30,544	31,214
Net profit after MI	3,918	5,044	7,422	8,941	Trade accounts payable	12,485	12,472	13,794	14,881
					Advances from customers	87	67	78	84
					ST borrowings	15,625	15,125	15,125	14,625
					Special reserves	0	0	0	0
					Other current liabilities	1,334	1,354	1,547	1,623
					Long-term liabilities	1,127	1,127	1,127	1,127
					LT payables	0	0	0	0
					LT borrowings	1,127	1,127	1,127	1,127
					Other LT liabilities	0	0	0	0
					Shareholders' equity	15,482	19,857	26,612	34,888
					Paid-in capital	4,532	4,532	4,532	4,532
					Share premium	558	558	558	558
					Treasury stock	(5)	(5)	(5)	(5)
					Undistributed earnings	10,390	14,765	21,520	29,795
					Reserve & others	(1)	(1)	(1)	(1)
					Minority interests	9	9	9	9
					Total liabilities & equity	46,140	50,002	58,282	67,229
Operating ratios					Key ratios				
(%)	2020A	2021E	2022E	2023E	(x, %, VND)	2020A	2021E	2022E	2023E
Revenue growth	6.2	16.7	16.5	9.4	Valuations				
EBIT growth	4.8	43.7	31.0	19.5	P/E	15.0	11.7	7.9	6.6
EBITDA growth	14.7	29.3	23.8	14.8	P/E diluted	14.9	11.6	7.9	6.5
NP after MI growth	2.2	28.7	47.1	20.5	P/B	3.8	3.0	2.2	1.7
Gross profit margin	22.1	22.4	22.8	23.1	P/S	0.5	0.5	0.4	0.4
EBITDA margin	6.9	7.6	8.1	8.5	EV/EBITDA	7.9	6.1	4.9	4.3
EBIT margin	4.8	5.9	6.7	7.3	EV/EBIT	11.3	7.8	6.0	5.0
Pre-tax profit margin	5.0	5.5	6.3	6.9	Dividend yield, ordinary (%)	1.2	1.2	1.2	1.2
Net profit margin	3.6	4.0	5.0	5.5	EPS	8,648	11,130	16,376	19,728
					BVPS	34,162	43,815	58,719	76,979
					SPS	239,589	279,587	325,609	356,064
					DPS (annual, ordinary)	1,511	1,500	1,500	1,500
					Dividend payout ratio (%)	17.3	13.4	9.1	7.5
					Operating performance				
					ROE	28.4	28.5	31.9	29.1
					ROA	8.9	10.5	13.7	14.2
					ROIC	38.9	50.8	57.9	55.3
					Financial structure				
					Total liab/equity	198.0	151.8	119.0	92.7
					Net debt/equity	60.7	37.2	13.3	(3.9)
					Current ratio (x)	1.3	1.4	1.6	1.8
					Interest coverage (x)	8.8	7.9	10.4	12.5
					Activity ratios				
					Asset turnover	2.5	2.6	2.7	2.6
					Receivables turnover	61.7	57.9	64.8	64.1
					Inventory turnover	4.8	5.3	4.8	4.6
					Payables turnover	8.1	10.1	11.2	11.2

Source: Company reports, 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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