

# Mobileworld (MWG)

## Brighter outlook in the long term

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**Business performance in the first seven months was still good, but may face many challenges for the rest of the year**

Mobile World Investment (MWG) posted VND2,784 billion in earnings (+18% YoY, completing 59% of the full-year target) on revenue of VND71,986 billion (+12% YoY, completing 58% of the objective) in the first seven months of 2021 (7M21). In particular, July earnings were VND231 billion (-23% YoY) on revenue of VND9,500 billion (+10% YoY).

**TGDD and DMX chains were badly affected by the pandemic**

MWG had to temporarily close or restrict sales of 2,000 stores or 70% of the total number of points of sale of both Thegioididong (TGDD) and Dien may Xanh (DMX) chains due to social distancing protocols which are strict and make it difficult for MWG revenue to grow.

**The BHX chain benefited from the complicated pandemic situation in Ho Chi Minh City in the short term**

MWG's Bach hoa Xanh (BHX) store chain had short-term benefits from the complicated pandemic situation in Ho Chi Minh City and neighboring localities in June and early July. BHX's 7M21 sales were VND17,600 billion (up 57% YoY), and the average revenue/store was VND2.1 billion in July.

**Recommendation: Hold – Target price: 171,700/share.**

KBSV forecast MWG's performance would be positive in the next two years. The company's earnings are estimated at VND4,432 billion on revenue of VND116,653 billion for 2021, and VND6,149 billion on revenue of VND131,814 billion for 2022. Based on MWG's business outlook and valuation, we recommend to HOLD MWG shares with a target price of VND171,700/share, 6% higher than the closing price on August 25.

## Hold maintain

**Target price VND171,700**

Upside/downside	6%
Current price (July 5, 2021)	VND161,500
Market cap (VNDtn)	77,706/3,409

### Trading data

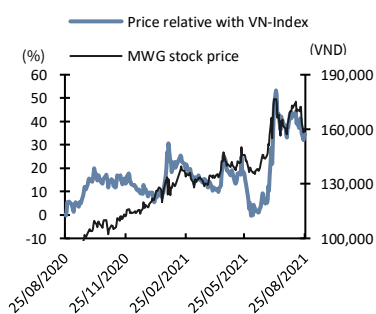
Free float (%)	75%
3M avg. trading value (VNDbn)	224/9,8
Foreign ownership (%)	49%
Major shareholder	Dragon Capital (12.08%)

### Share price performance

(%)	1M	3M	6M	12M
MWG	0.7%	10.6%	19%	84.4%
VN-Index	2.9%	0.1%	12.4%	49.8%

### Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Revenue (VNDbn)	103,485	109,801	116,653	131,814
EBIT (VNDbn)	5,035	5,413	6,116	8,486
Post-tax earnings (VNDbn)	3,836	3,920	4,432	6,149
EPS (VND thousand)	8,665	8,654	9,324	12,936
EPS growth (%)	29%	0%	8%	39%
P/E (x)	13.2	13.7	17.3	12.5
P/B (x)	4.2	3.5	3.9	3.0
ROE (%)	32%	25%	22%	24%
Dividend yield (%)	15%	15%	5%	5%
	2019A	2020A	2021F	2022F



Source: Bloomberg, KB Securities Vietnam

## 7M21 business performance

**Still maintaining the revenue growth momentum thanks to the large contribution from BHX. However, the outlook for the last 5 months of the year is not positive.**

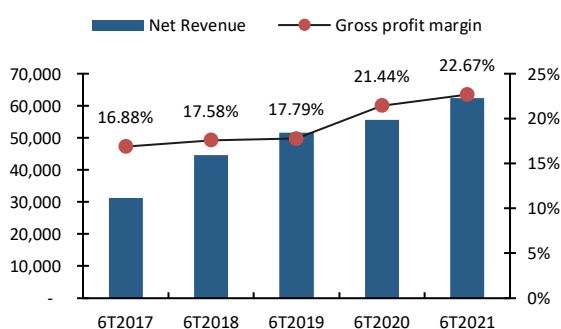
MWG's 6M21 gross profit margin improved by 22.7% after excluding sales deductions (up 1.2% YoY) thanks to a larger contribution from BHX, which has more better-profit-margin products than TGDD or DMX chains. Meanwhile, net profit margin also increased slightly to 4.04% (+0.44% YoY).

In addition, 6M21 earnings reached VND270 billion given a sharp increase in cash balance (up strongly from the loss of VND21 billion in the same period last year). This amount of profit contributed nearly 8% to the total pre-tax earnings of MWG.

July earnings were VND231 billion (down 29% YoY) on revenue of VND9,500 billion (up 10% YoY). The company still successfully maintained the revenue growth rate in July thanks to the outstanding increase from the BHX chain. BHX's 7M21 revenue accounted for more than 24% of MWG's total revenue, a significant increase compared to 17.5% of 7M20 (Figure 2).

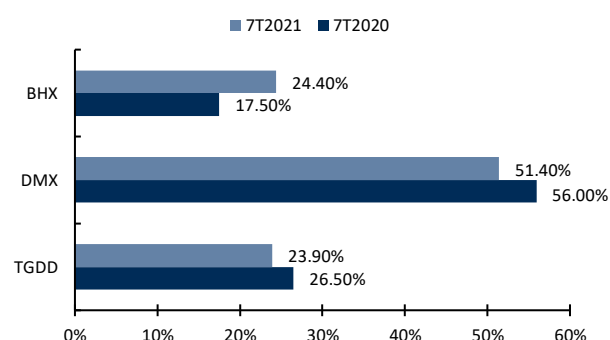
However, amid unpredictable development of the pandemic, especially in big cities, MWG's Management believes that business results in the last five months of 2021 will face many challenges as a big proportion of the revenue structure which is from two chains TGDD and DMX is strongly affected by the pandemic.

Fig 1. MWG – Net revenue and gross profit margin



Source: Mobileworld, KB Securities Vietnam

Fig 2. MWG – Revenue structure



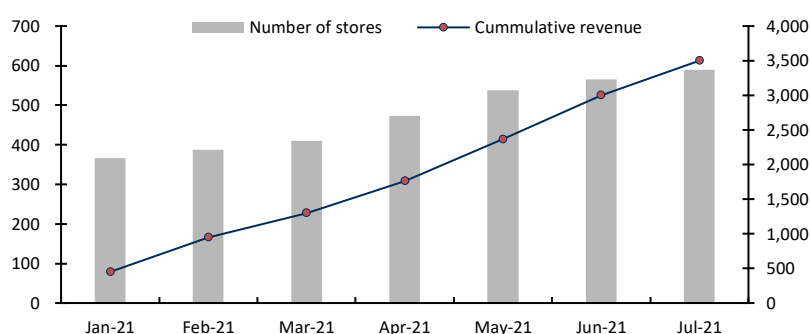
Source: Mobileworld, KB Securities Vietnam

## Challenges to TGDD/DMX stores in the last five months of 2021

### DMS is a bright spot

Dien may Xanh Supermini's (DMS) 7M21 revenue was VND3,500 billion or 10% of DMX's total revenue. DMS still maintained good revenue because most of DMS stores are concentrated in locations which are less affected by the pandemic. As of the end of July 2021, DMS had 589 stores, of which 23 new stores were opened in the month. However, MWG's Management worried that the target of opening 1,000 new stores by the end of 2021 is difficult to achieve due to unpredictable pandemic developments.

Fig 3. MWG – DMS store number and revenue



Source: Mobileworld, KB Securities Vietnam estimates

### Diversification of product portfolio comes with new business models.

As the smartphone market tends to be saturated, MWG always tries many new campaigns or sales models such as (1) selling bicycles by taking advantage of the available space, which does not incur much cost; and (2) launching an agency business model – collaborating with small stores to increase market share coming from locations where the need to open new DMX/TGDD stores is not yet big. However, the two models just went into testing in May 2021, it will take more time to assess their effectiveness. Bluetronics chain currently has 55 stores in Cambodia and is currently the largest retail chain of mobile devices and consumer electronics in this country. The chain contributed 0.3% to the total revenue of MWG.

### TGDD and DMX chains had to close and restrict sales of 2,000 stores

MWG shared it had to temporarily close or restrict sales of 2,000 stores or 70% of the total number of points of sale of both TGDD and DMX chains due to social distancing protocols which are strict and make it difficult for MWG revenue to grow. Most of these stores are concentrated in big cities like Hanoi and Ho Chi Minh City which has large number of consumer and contributes 80–90% of the whole chain's revenue.

### The Board of Directors must take measures to save costs

MWG also tried to optimize costs as tight distancing measures made it hard for TGDD and DMX to maintain revenue growth: (1) transferring 40% of employees of suspended TGDD/DMX stores to the support system of BHX; and (2) negotiating with landlords to reduce rental costs.

## BHX benefits from complicated pandemic developments

**BHX is one of the main growth drivers of MWG in the medium and long term, expected to contribute 30% to total revenue by 2025.s**

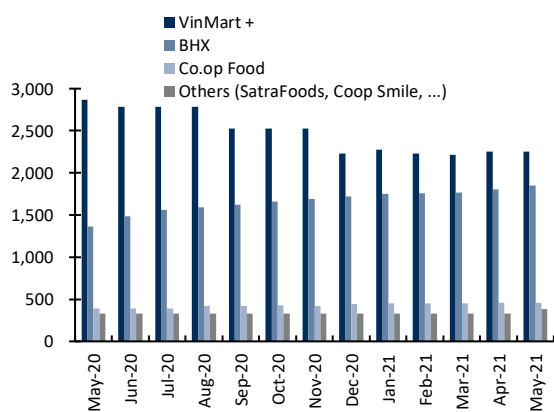
BHX chain had 1,919 stores as of July 31, 2021, far ahead of chains like Coop Food or SatraFoods in terms of store number. Currently, BHX has slowed down the speed of opening new stores, aiming to (1) focus on upgrading large-scale stores of 500 square meters and (2) improve profit margin. We believe that BHX can bring the total number of stores nationwide to be equal to or higher than the largest chain in the market (VinMart+) in the near future as BHX have not opened stores in the Northern region.

During the time when the Coronavirus infections peaked in Ho Chi Minh City and neighboring localities, the BHX chain benefited when wholesale and traditional markets were suspended temporarily. This is considered as a chance for BHX to partially change the consumer habits without spending too much and switch from traditional retailing to modern retailing. Therefore, in the long term, the current social distancing protocols should bring great benefits to the BHX chain.

BHX's 7M21 revenue reached VND 17,600 billion (up 57% YoY), and July revenue peaked at VND4,200 billion (up 55% MoM and 133% YoY), contributing 45% of MWG's total revenue in July (VND2.1 billion per store on average). This helped MWG maintain revenue growth while 2,000 DMX and TGDD store chains were restricted sales and suspended.

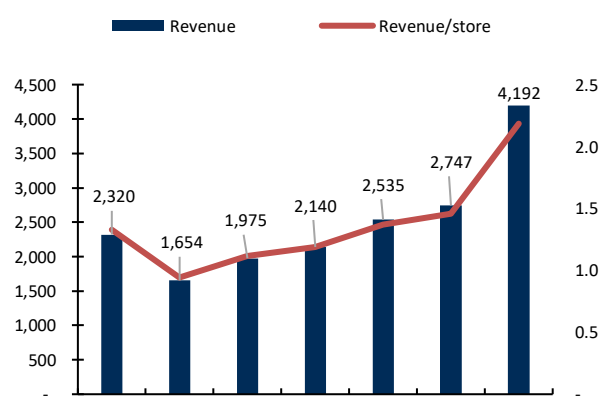
KBSV assess that average sales per store will grow in the short term, and BHX chain will contribute more to total revenue (30% of MWG's revenue in the long term). Increasing proportion BHX's revenue should help MWG to improve gross profit margin in the long term as fresh products usually have a relatively high gross margin.

Fig 4. MWG – The number of stores



Source: NielsenIQ, KB Securities Vietnam estimates

Fig 5. MWG – BHX chain's revenue



Source: Mobileworld, KB Securities Vietnam estimates

Table 1. MWG – 2021F revenue (VND billion)

	2020	2021F	YOY	KBSV NOTES
MWG	108,546	116,653	5%	
TGDD	29,525	25,199	-14%	Net revenue decreased YoY due the COVID-19, making it quite difficult to generate revenue in the last five months of the year. We estimate the total number of stores at 930 by the end of this year, assuming an average revenue per store of VND2.3 billion per month.
DMX	57,746	58,099	0.6%	We believe that revenue from DMX stores will not decrease significantly despite the pandemic thanks to new DMS stores. The total number of stores should be more than 1,800 stores by the end of 2021. Considering the bad impacts from the pandemic, we believe that the number of new stores opened in the last two quarters of 2021 will be less than the figure of more than 300 stores in 1H21, assuming average sales per store of VND2.65 billion per month.
BHX	21,275	33,356	57%	Revenue grew 57% thanks to a surge in average sales per store. According to our estimates, the number of new stores opened is 340 stores. The pandemic may slow the speed of opening new stores in 2Q and 3Q. We assume that average sales per store is VND1.35 billion per month.
Gross profit	23,954	25,120	5%	We believe that the gross profit margin this year may be slightly lower than that of 2020 (21.5% vs 22%) as the prolonged pandemic (may last until the end of the year) can hinder the growth of BHX's gross margin.
Selling expenses	-15,334	-15,879	3%	
Administration costs	-3,404	-3,525	3.5%	
Pre-tax earnings	5,410	6,116	13%	
Post-tax earnings	3,920	4,432	13%	

Source: Mobileworld, KB Securities Vietnam

## Forecast business performance and valuation

### Forecast business performance

We forecast MWG's 2021 earnings would reach VND4,819 billion (up 23% YoY) on revenue of VND126,378 billion (up 15% YoY).

### Valuation & recommendation

We believe that the business prospects of MWG are quite positive in the medium and long term when the pandemic is under control in major cities, supported by: (1) the trend of modern food retail chains (traditional channels accounting for 70% of the whole market), and (2) new products and business models to increase market share and revenue.

However, risks still exist: (1) prolonged pandemic may delay the reopening of TGDD and DMX stores; and (2) the reopening of traditional markets given controlled pandemic may cause a slight decrease in BHX's revenue.

After combining the two valuation methods DCF and P/E (with the ratio of 50–50), we find that MWG's reasonable P/E is 16x times, with a 2021 EPS of VND9,324 per share. We recommend HOLDING MWG shares, and the target price is VND171,700 per share, 6% higher than the closing price on August 25, 2021 (VND161,500 per share).

**Table 2. MWG – DCF valuation**

Risk-free rate	2.6%
Risk premium	9.9%
Beta	0.9
Terminal growth	1.5%
WACC	8.86%

Source: KB Securities Vietnam

**Table 3. MWG – Combination of the two methods**

Method	Weight	Result
DCF valuation	50%	194,246
P/E valuation	50%	149,185
Combination	100%	171,700

Source: KB Securities Vietnam

## MWG - 2021-2022E forecasts

Income statement (VNDbn)	2019A	2020A	2021E	2022E
Net sales	103,485	109,801	116,653	131,814
Cost of sales	(82,686)	(84,592)	(91,533)	(101,857)
Gross Profit	19,488	23,954	25,120	29,957
Financial income	631	794	1,212	1,517
Financial expenses	(570)	(594)	(811)	(920)
of which: interest expenses	(568)	(594)	(811)	(920)
Gain/(loss) from joint ventures	(3)	(4)	0	0
Selling expenses	(12,437)	(15,334)	(15,879)	(18,058)
General & admin expenses	(2,074)	(3,404)	(3,525)	(4,009)
Operating profit/(loss)	5,035	5,413	6,116	8,486
Other income	42	44	0	0
Other expense	(23)	(46)	0	0
Net other income/(expenses)	19	(3)	0	0
Pretax profit/(loss)	5,053	5,410	6,116	8,486
Income tax	(1,217)	(1,490)	(1,684)	(2,337)
Net profit/(loss)	3,836	3,920	4,432	6,149
Minority interests	8	9	9	9
Net profit after MI	3,828	3,911	4,423	6,139

Operating ratios (%)	2019A	2020A	2021E	2022E
Revenue growth	18%	6%	6%	13%
EBIT growth	33%	7%	15%	36%
EBITDA growth	38%	8%	15%	39%
NP after MI growth	172%	8%	15%	39%
Gross profit margin	19%	22%	22%	23%
EBITDA margin	8%	8%	8%	10%
EBIT margin	5%	5%	6%	7%
Pre-tax profit margin	5%	5%	5%	6%
Net profit margin	4%	4%	4%	5%

Cash flow (VNDbn)	2019A	2020A	2021E	2022E
Net profit	5,053	5,410	6,116	8,486
Plus: depreciation & amort	1,443	2,196	2,457	2,844
Plus: investing (profit)/loss	(341)	(558)	(558)	(558)
Change in working capital	(6,455)	5,151	(1,165)	(504)
(Inc)/dec - receivables	(676)	850	(100)	(220)
(Inc)/dec - inventory	(8,375)	6,270	(1,575)	(1,411)
(Inc)/dec - other curr assets	0	0	0	0
Inc/(dec) - payables	2,824	(1,894)	545	1,205
Inc/(dec) - advances	(228)	(75)	(35)	(78)
Inc/(dec) - other curr liab	0	0	0	0
Other adj for operations	0	0	0	0
Operating cash flow	(1,286)	10,792	4,072	6,547
ST investments	0	0	0	0
Capital expenditures	(3,067)	(3,911)	(3,313)	(3,968)
Investment properties	0	0	0	0
Investment in subsidiaries	0	0	0	0
Other assets	0	0	0	0
Other adj for investments	(2,806)	(4,663)	339	340
Investing cash flow	(5,873)	(8,574)	(2,974)	(3,628)
Issuance/(repayment) of debt	45,906	51,168	54,365	61,429
ST debt	(38,802)	(48,574)	(51,970)	(58,596)
Other liabilities	0	0	0	0
Issuance/(retirement) of equity	86	99	0	0
Dividends paid	(665)	(679)	(227)	(227)
Other adj for financing	0	0	0	0
Financing cash flow	6,525	2,014	2,169	2,606
Net increase in cash & equivalents	(634)	4,233	3,267	5,525
Cash & equivalents - beginning	3,750	3,115	7,348	10,615
Cash & equivalents - ending	3,115	7,348	10,615	16,140

Balance sheet (VNDbn)	2019A	2020A	2021E	2022E
Total assets	41,708	46,031	52,986	63,704
Current assets	35,012	37,317	43,288	52,650
Cash & equivalents	3,115	7,348	11,588	19,195
ST investments	3,137	8,057	8,057	8,057
Accounts receivable	1,815	1,595	1,695	1,915
Inventory	25,745	19,422	20,998	22,408
Other current assets	1,199	895	950	1,074
Long-term assets	6,696	8,714	9,698	11,054
LT trade receivables	375	439	467	528
Fixed assets	5,404	7,295	8,151	9,275
Investment properties	0	0	0	0
LT incomplete assets	87	133	181	235
LT investments	56	53	56	63
Goodwill	0	0	0	0
Other LT assets	774	794	843	953
Liabilities	29,565	30,549	33,265	37,985
Current liabilities	28,442	29,423	32,320	37,245
Trade accounts payable	12,055	8,728	9,273	10,478
Advances from customers	0	0	0	0
ST borrowings	13,031	15,625	18,381	21,495
Special reserves	0	0	0	0
Other current liabilities	3,356	5,069	4,666	5,273
Long-term liabilities	1,122	1,127	945	740
LT payables	0	0	0	0
LT borrowings	1,122	1,127	945	740
Other LT liabilities	0	0	0	0
Shareholders' equity	12,144	15,482	19,721	25,719
Paid-in capital	4,435	4,532	4,532	4,532
Share premium	551	551	585	661
Treasury stock	0	0	0	0
Undistributed earnings	7,150	10,390	14,595	20,517
Reserve & others	0	0	0	0
Minority interests	8	9	9	9
Total liabilities & equity	41,708	46,031	52,986	63,704

Key ratios (x, % VND)	2019A	2020A	2021E	2022E
Valuations				
P/E	13.2	13.7	17.3	12.5
P/E diluted	13.2	13.7	17.3	12.5
P/B	4.2	3.5	3.9	3.0
P/S	0.5	0.5	0.7	0.6
EV/EBITDA	8.7	7.7	9.0	6.5
EV/EBIT	10.9	10.5	12.2	8.5
EPS	8,665	8,654	9,324	12,936
DPS (annual, ordinary)	1,500	501	477	477
Dividend payout ratio (%)	15%	15%	5%	10%
Operating performance				
ROE	32%	25%	22%	24%
ROA	9%	9%	8%	10%
ROIC	15%	12%	11%	13%
Financial structure				
Total liab/equity	2.4	2.0	1.7	1.5
Current ratio (x)	1.2	1.3	1.3	1.4
Interest coverage (x)	9.7	9.9	10.1	8.5
Activity ratios				
Asset turnover	3.0	2.5	2.4	2.3
Receivables turnover	61.6	64.4	70.9	73.0
Inventory turnover	3.8	3.7	4.5	4.7
Payables turnover	9.0	7.5	10.3	10.5

Source: Bloomberg

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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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