

Recommendation

Phan Quoc Buu (FA)

buupq@bsc.com.vn

Target price	119,700
Closing price	86,100
Upside	39.0%

Le Quoc Trung (TA)

trunglq@bsc.com.vn

Target price	93,600
Price cut loss	81,350

Market data

Number of shares (stock)	443
Capitalization (billion VND)	38,153
Highest price 52 weeks	98,252
The average trading volume	491,962
Foreign ownership	49%

Major shareholders

PYN ELITE FUND	4.4%
NTASIAN DISCOVERY MA	
DRAGON CAPITAL GRO	3.6%
DUC TAI NGUYEN	2.5%
AMERSHAM INDUSTRIE	2.0%

Price movement for 1 year



Company Overview

MWG is currently the largest retailer of mobile phones and consumer electronics in Vietnam with 1,714 stores covering 63 provinces and cities. In addition, MWG is focusing on developing Bach Hoa Xanh chain, which is expected to boost revenue growth for MWG in the future.

Other reports

[Link](#)

Bach Hoa Xanh prospect - Positive

Valuation

We recommend buying MWG with a target price of VND 119,700 (+ 39.0% compared to the closing price on 18/02/2019) based on two methods of valuation as FCFF (50%) and PE (50 %).

Catalyst

- BHX segment will break even at the level of stores and distribution warehouses (DC).

- Dienmay Xanh continues to be the primary growth driver for MWG in the next two years thanks to (1) expanding stores (150 stores in 2019), (2) Increasing the number of products on display (SKUs)), (3) Launching new products, optimizing business operations.

Investment Risk

(1) The risk of growth rate will slow down in the future when (a) Dienmay Xanh chain becomes more saturated in the next two years and (b) Expand the BHX chain more slowly than planned.

(2) The difficulties of MWG when promoting BHX series include (a) Solving logistics problems from DC to stores, (b) Business problems to have more competitive selling prices.

Update business results

(1) Business results in 2018 recorded impressive growth, Dienmay Xanh continued to be the growth motivation of MWG. Net revenue and net profit of MWG in 2018 reached VND 86,516 billion (+ 30.1% yoy) and VND 2,880 billion (+ 31% yoy). SSSG in 2018 of TGDD and DMX is estimated at 10%.

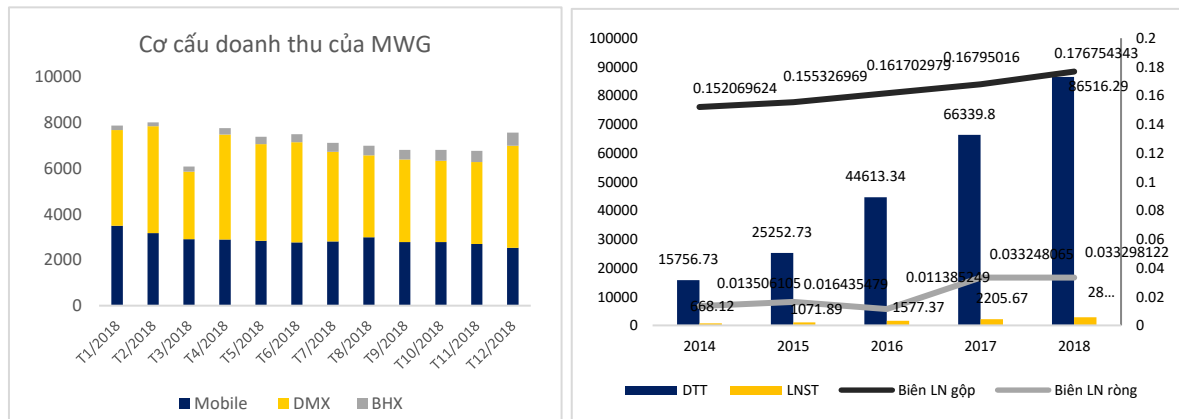
(2) By the end of 2018, MWG's total number of stores was estimated at 2,187 stores (+ 10% yoy). Specifically, the number of Mobile World stores in 2018 reached 1,032 stores (-3.7% yoy), the number of DMX stores reached 750 stores (+ 17% yoy), and the number of BHX stores reached 405 stores (+ 43% yoy).

(3) Business performance of each segment of MWG in 2018 and orientation of 2019 (See the detailed update on page 2).

(4) MWG sets its business plan for 2019 with net revenue and profit after tax of VND 108.468 billion (+ 25% yoy) and VND 3,571 billion (+ 24% yoy). The cost of fixed asset investment (CAPEX) in 2019 is expected to be VND 2,000 billion with ½ for BHX and ½ for DMX.

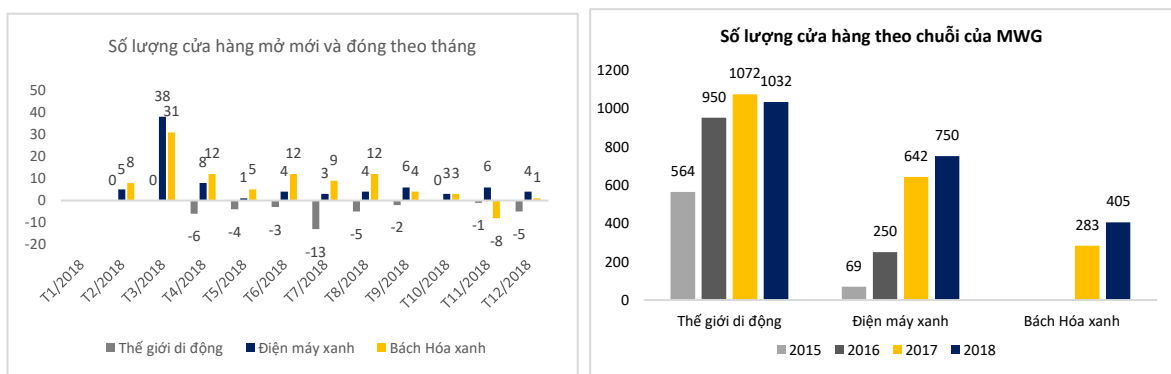
(5) BSC forecasts that MWG's net revenue and profit after tax in 2019 are estimated at VND 108,220 billion (+ 25.4% yoy) and VND 3,566 billion (+ 23.8% yoy), EPS 2018F = VND 8,040/share.

Business results in 2018 recorded impressive growth, DienmayXanh continued to be the growth motivation of MWG. Net revenue of MWG in 2018 reached VND 86,516 billion (+ 30.1% yoy), fulfilling 100% of the revenue target of 2018. Net profit in 2018 reached VND 2,880 billion (+ 31% yoy), completed 111% of 2018 profit plan. SSSG in 2018 of TGDD and DMX is estimated at 10%.



Source: MWG, BSC Research

Growth number of stores each chain. By the end of 2018, MWG's total number of stores was estimated at 2,187 stores (+ 10% yoy). Specifically, (1) the number of stores in TGDD in 2018 reached 1,032 stores (-3.7% yoy), (2) The number of stores of DMX reached 750 stores (+ 17% yoy) and (3) Number of stores BHX reached 405 stores (+ 43% yoy).



Source: MWG, BSC Research

Business performance of the segments of MWG in 2018 & orientation in 2019:

(1) Potential growth of TGDD segment is limited due to saturated market: Revenue from TGDD in 2018 reached VND 34,607 billion (-0.3% yoy), accounting for 40% of MWG's revenue structure. Accordingly, MWG's mobile phone market share is accounting for 45%, MWG is aiming to increase its market share to 50% from the end of 2020. We think with (1) the current market share accounts for a large proportion, (2) Phone market is showing signs of saturation (according to IDC's forecast, the smart phone market in the period of 2019-2022 will grow at 3%/year), The strong growth in this segment is not feasible, therefore MWG will continue the transformation of TGDD to DMX-Mini and DMX models.

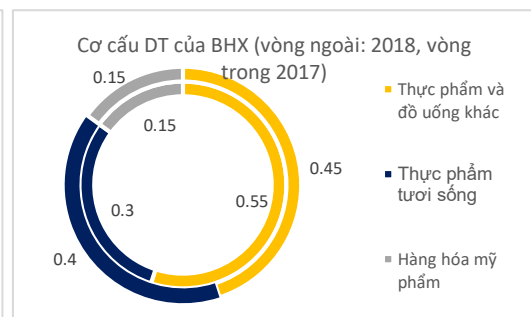
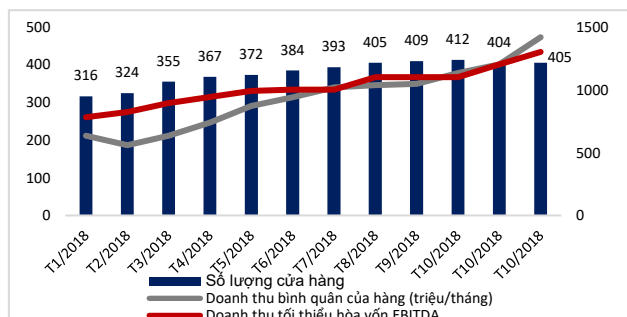
(2) The DienmayXanh segment is expected in 2019 to continue to be the main growth driver for MWG. DMX revenue in 2018 reached VND 47,584 billion (+ 56% yoy), accounting for 55% of MWG's revenue structure. The current market share of DMX segment is estimated to reach 35% of the market share of electronics and increase the market share to 45% from the end of 2020 onwards. With the current market share, we believe that in 2019, the growth rate of Dienmay Xanh will slow down compared to the growth rates of the previous years but remain at about 30% -35%. To ensure DMX growth, MWG will implement some strategies including:

a. Expected to open about 150 new stores in 2019 (including new stores and stores converted from TGDD). According to MWG's estimation, the average revenue of post-converted stores (expanding business of electronic products) is estimated to increase by about 50%. Accordingly, the criteria for a converted shop include (1) High turnover, (2) The area of modern electric chains is not dense and (3) Able to expand the area of the store.

b. Increasing the number of SKUs in DMX-Mini stores (currently accounting for 70% of the number of outlets). Increasing the number of SKUs will help DMX stores improve sales significantly thanks to the extensive sales portfolio. Accordingly, the ability to display at DMX-Mini stores is estimated at 80% of the SKUs of massive DMX after changing the way of displaying products. In 2019, the number of DMX-Mini stores converted was about 200 stores, and MWG expects revenue growth in these stores to reach 30%.

c. Launching new products, expanding more brands, SKUs in the sales portfolio and optimizing business performance: We think that this is the core to help MWG maintain its growth. We have found that DMX has added a number of new computer-based products (CPUs), monitors, printers and smart watches.

(3) BHX chain achieved EBITDA break-even point at the end of 2018 and prospects of breakeven at the store and distribution level (Distribution center - DC). Revenue from BHX segment reached VND 4,326 billion (+ 280% yoy), accounting for 5% of MWG's revenue structure. We see that BHX chain in 2018 has achieved better results than we expected:



a. The average revenue/store (30 days of operation) of BHX in 12/2018 reached 1.4 billion VND/month Thanks to the new store model (1) Store standard "fresh meat - fish wading" and "300m2 large-scale shop".

b. Gross profit margin improved to 16% from 12% in 2017. Gross margin improved mainly thanks to the increase in the proportion of fresh food segment, estimated to account for 40% of total revenue compared to 30% in 2017, which is a group with a high gross profit margin.

Prospects for 2019: (1) Plans to double revenue growth in 2019 and breakeven targets at store & DC level. We note that the above break-even level does not include management costs at the enterprise level, (2) Increasing the total number of BHX stores at the end of 2019 to over 700 stores, (3) Expanding stores in the Mekong River Delta and Southeast and (4) Continue to optimize purchase and operational management, thereby helping to save costs and improve gross profit margins. We expect BHX's gross profit margin to reach 18% in 2019.

MWG sets its business plan for 2019 with net revenue and profit after tax of VND 108.468 billion (+ 25% yoy) and VND 3,571 billion (+ 24% yoy). The cost of fixed asset investment (CAPEX) in 2019 is expected to be VND 2,000 billion with ½ for BHX and ½ for DMX.

BSC forecasts that MWG's net revenue and profit after tax in 2019 are estimated at VND 108,220 billion (+ 25.4% yoy) and VND 3,566 billion (+ 23.8% yoy), EPS 2018F = VND 8,040/share, based on the following assumptions (1) The number of new stores in 2018 of DMX chain is 150 stores, of which 36 are converted from TGDD (equivalent to conversion rate of 30% of the total number of new open stores), BHX is 304 stores. (2) The average growth of DMX and TGDD chains is 10%, (3) BHX series has achieved breakeven level at store and DC level, (4) Ratio of selling and management expenses/Net revenue is 13%.

SUMMARY OF FINANCIAL REPORTING INDICATORS

	2014	2015	2016	2017	2018
Net revenue	15,757	25,253	44,613	66,340	86,516
Gross profit	2,396	3,922	7,214	11,142	15,292
Financial revenue	71	81	135	251	342
Financial expenses	(21)	(41)	(120)	(234)	(437)
Interest	(21)	(39)	(120)	(233)	(436)
Selling expenses	(1,349)	(2,351)	(4,288)	(7,017)	(9,660)
General and administrative	(241)	(249)	(935)	(1,345)	(1,762)
Operating profit/loss	856	1,362	2,007	2,795	3,774
Other loss/profit	12	23	(1)	14	12
Profit before tax	868	1,386	2,006	2,809	3,786
Profit after tax	674	1,076	1,578	2,207	2,880
Minority interest	6	4	1	1	2
Parent company profit	668	1,072	1,577	2,206	2,879
EPS					
Current assets	2,838	6,176	12,288	18,863	23,390
Money and short-term in	213	344	997	3,411	3,800
Short-term receivables	297	636	1,411	2,766	1,560
Inventories	2,195	4,933	9,371	12,050	17,446
Other current assets	133	264	510	636	583
Long-term assets	570	1,089	2,566	3,960	4,751
Long-term receivables	-	112	180	242	314
Fix assets	434	849	2,096	3,464	3,333
Long-term uncompleted	-	43	80	35	245
Other long-term assets	113	85	210	219	799
Total assets	3,407	7,266	14,854	22,823	28,140
Liabilities	1,923	4,782	11,013	16,914	19,157
Short-term liabilities	1,923	4,782	11,013	15,714	17,907
Short-term Debt	619	2,053	4,789	5,604	5,797
Long-term liabilities	-	-	-	1,200	1,250
Long-term Debt	-	-	-	1,200	1,248
Equity	1,475	2,484	3,841	5,909	8,983
Contributed capital	1,120	1,469	1,540	3,170	4,435
Undistributed profits	318	978	2,262	2,699	3,990
Total resources	3,407	7,266	14,854	22,823	28,140
% yoy DT	#N/A	369%	505%	598%	449%
Gross profit margin	15.2%	15.5%	16.2%	16.8%	17.7%
Interest/Net revenue	0.1%	0.2%	0.3%	0.4%	0.5%
Selling expenses/Net revenue	8.6%	9.3%	9.6%	10.6%	11.2%
General and administrative	1.5%	1.0%	2.1%	2.0%	2.0%
Net profit margin	4.3%	4.3%	3.5%	3.3%	3.3%

Net revenue of MWG in 2018 recorded positive growth of VND 65,478 billion (+ 37% yoy), equivalent to VND 86,516 billion (+ 30.1% yoy). SSSG in 2018 of TGDD and DMX is estimated at 10%.

SG&A expenses/net sales in 2018 increased to 13.0% compared to 12.4% in the same period. Profit after tax of 2018 reached VND 2,880 billion (+ 31% yoy). Net profit margin improved slightly compared to the period down to 3.28%, up 0.02% over the same period

Inventories accounted for a large proportion of short-term assets mainly due to the retail industry's characteristics of VND 17,446 billion, an increase of VND 5,396 billion compared to the beginning of the year.

The main reason is because MWG actively prepares and accumulates goods in order to serve the peak season shopping demand for 2,187 stores at the end of 2018 (compared to 1997 stores at the end of 2017).

Total short-term and long-term loans are VND 7,045 billion, an increase of VND 241 billion compared with 01/01/2018. MWG's debt is mainly focused on short-term debt, mainly to finance working capital.

Gross profit margin in 2018 continued to improve to 17.7% from 16.8% in 2017 mainly due to the increasing proportion of green machine segment.

SOME FINANCIAL RATIO

1. Liquidity	2014	2015	2016	2017	2018
Current ratio	1.48	1.29	1.12	1.20	1.31
Quick ratio	0.27	0.20	0.22	0.39	0.30
2. Capital structure					
Current assets/Total as	0.83	0.85	0.83	0.83	0.83
Long-term assets/Total	0.17	0.15	0.17	0.17	0.17
Liabilities/Total assets	0.56	0.66	0.74	0.74	0.68
Liabilities/Equity	1.30	1.93	2.87	2.86	2.13
Short-term Liabilities/T	0.56	0.66	0.74	0.69	0.64
Long-term liabilities/To	-	-	-	0.05	0.04
3. Operational capacity					
Inventory turnover	7.7	6.0	5.2	5.2	4.8
Receivables turnover	341.6	416.1	278.5	79.2	95.5
Accounts payable turnc	17.0	16.3	12.6	9.6	9.8
Days' sales in inventory	47.6	61.0	69.8	70.8	75.6
Days sales in receivabl	1.1	0.9	1.3	4.6	3.8
Days payable outstand	21.4	22.4	29.0	38.0	37.2
CCC	27.2	39.5	42.1	37.4	42.2
4. Profitability					
Net profit margin	4.3%	4.3%	3.5%	3.3%	3.3%
ROE	59.2%	54.4%	49.9%	45.3%	38.7%
ROA	23.9%	20.2%	14.3%	11.7%	11.3%
Net operating profit ma	5.4%	5.4%	4.5%	4.2%	4.4%
5. Dupont analysis (5 components)					
Financial leverage	2.48	2.70	3.50	3.86	3.42
Assets turnover	5.59	4.73	4.03	3.52	3.40
EBIT margin	0.06	0.06	0.05	0.05	0.05
Interest burden	0.98	0.97	0.94	0.92	0.90
Tax burden	0.78	0.78	0.79	0.79	0.76
6. Valuation					
PE		15.9	11.3	16.7	
PB		6.9	4.7	6.2	
EPS		7,297	10,246	6,958	
BVPS		16,897	24,937	18,632	
7. Growth (%)					
Total assets	53%	113%	104%	54%	23%
Debt	84.3%	68.4%	54.7%	53.8%	52.0%
Net revenue	65.9%	60.3%	76.7%	48.7%	30.4%
Gross profit	70.3%	63.7%	83.9%	54.4%	37.3%
Net income	160.7%	59.7%	46.7%	39.8%	30.5%
EPS					

Current and quick-payment ratios still maintain a good level and continuously improve each year

MWG focuses mainly on short-term debt to finance working capital due to the specific element of the retail industry. In addition, due to this particular factor, MWG also maintains its asset structure focusing mainly on short-term assets (83%) and long-term assets (17%). The index of total short-term and long-term debt/total assets and net debt/equity were all improved over the years.

Profitability improved slightly. The ability of MWG to continue to improve profitability will not be much as the two DMX and TGDD chains have become stable.

Technical highlights:

- Current trend: Medium-term price increase.
- MACD trend indicator: Negative divergence, MACD is pointing up.
- RSI indicator: Neutral area, adjusted from the upper Bollinger channel.
- MA line: 3 MA lines continue moving sideways.

Outlook: MWG is still in the cumulative span around the channel of 85 from the beginning of December, with the support at 81.35 (Fibonacci 23.6%). The RSI corrected slightly after stocks hit the upper bolinger channel. Besides, the movement of 3 MA lines shows that the stock is in a cumulative trend. The slight correction of the stock before MA200 shows that the breakout level is still unclear. Thus, MWG may continue to accumulate around this price range when the technical indicators are still quite mixed.

Recommendations: It is possible to buy at the price range of 82-83 when the stock is still in the previous accumulative span. For high risk traders, buy a part when the stock is at the price of 85. Take profit at the price of 92 and close the loss if the stock loses the support level of 81.35.



Disclosure

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BSC Headquarter

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Ha Noi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, Ho Chi Minh City
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

Website: <http://www.bsc.com.vn>
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