

MOBILE WORLD INVESTMENT CORP (MWG) – UPDATE

| Market Price | Target Price | Dividend Yield | Rating | Sector |
|--------------|--------------|----------------|--------|-------------------|
| VND138,900 | VND180,500 | 0.73% | Add | CONSUMER SERVICES |

2 December 2021

Outlook – Short term: Positive
Outlook – Long term: Positive
Valuation: Positive

Consensus*: Add:11 Hold:4 Reduce:0

Target price / Consensus: 10.8%

Key changes in the report

➤ Increase FY22/23F NP by 0.4%/24.3%

Price performance



Source: VND RESEARCH

Key statistics

| | |
|----------------------------|---------|
| 52w high (VND) | 176,600 |
| 52w low (VND) | 110,200 |
| 3m Avg daily value (VNDmn) | 180,080 |
| Market cap (VND bn) | 98,015 |
| Free float (%) | 65 |
| TTM P/E (x) | 22.7 |
| Current P/B (x) | 5.3 |

Ownership

| | |
|----------------------------------|-------|
| Dragon capital and related group | 12.1% |
| Mobile World Retail Advisory Co. | 11.4% |
| Amersham Industries Limited | 10.0% |
| Others | 66.5% |

Source: VND RESEARCH

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Back to growth trajectory

- In Oct 21, MWG's revenue reached VND12,186bn (+39% yoy) and net profit (NP) reached VND568bn (+86% yoy).
- For 10M21, MWG posted revenue of VND99,006bn (+10% yoy) and net profit of VND3,906bn (+19% yoy), completed 79% our net profit forecast.
- Upgrade to ADD with higher target price of VND180,500.

DMX&TGDD's revenue grew robustly after social distancing

In Oct 21, MWG's revenue reached VND12,186bn (+39% yoy) and NP reached VND568bn (+86% yoy) thanks to (1) the re-openings of all TGDD (Mobile phone chain) & DMX (Consumer electronics chain) stores after social distancing; (2) high pent-up demand effect; and (3) increasing iPhones sales thank to the launch of new 13 series altogether with the introduction of Topzone chain stores. For 10M21, MWG posted revenue of VND99,006bn (+10% yoy) and net profit of VND3,906bn (+19% yoy), fulfilling 79% our full-year net profit forecast.

First profitable time of Bach Hoa Xanh in 3Q21

With average monthly revenue of VND1.59bn per store, BHX achieved its first profitable time in 3Q21, showing its ability to meet high demand with a strong logistics system and affirming BHX's growth potential. However, with people from southern industrial-economic centers return to their hometown and general market re-opened, BHX will be struggled in the next 3-6 months before returning to growth stage. Thus, we revised down our forecast of revenue of each BHX store monthly for 2022/23F by 12.7%/8.5% vs. previous report, reaching VND1.44bn/VND1.73bn per store.

Apple's products sale will lift up TGDD's revenue in FY22/23F

In Sep 21, MWG has launched Topzone store chain which is an Apple authorized store chain. As 1) market share of MWG's Apple products sale is only 23% which give room for MWG to expanse, 2) new regulations tighten hand-carrying products and 3) Apple's new warranty policy that only applies to genuine products in Vietnam will help MWG's Apple products sale became the growth engine of TGDD chain in FY22/23F. Thus, we increased TGDD's chain revenue by 13.3% / 21.8% vs. previous forecast.

Changes in FY22-23 earnings forecasts

We change MWG's revenue in FY22/23F by -2.1%/+0.16% vs. previous forecast to reflect above changes but lift net financial income by 24.2%/126.6% vs previous forecast thanks to the prolonged period of low interest rates. As the results, we lift our forecast for FY22/23F net profit by 0.4%/24.3% to VND6,598bn (+40.3% yoy)/VND8,329bn (+26.2% yoy).

Upgrade to ADD with target price of VND180,500

| Financial summary (VND) | 12-20A | 12-21E | 12-22E | 12-23E |
|-------------------------|---------|---------|---------|---------|
| Net revenue (bn) | 108,546 | 123,071 | 149,513 | 177,459 |
| Revenue growth | 6.2% | 13.4% | 21.5% | 18.7% |
| Gross margin | 22.1% | 22.8% | 22.9% | 22.7% |
| EBITDA margin | 7.6% | 6.7% | 7.4% | 7.6% |
| Net profit (bn) | 3,918 | 4,702 | 6,598 | 8,329 |
| Net profit growth | 2.2% | 20.0% | 40.3% | 26.2% |
| Recurring profit growth | | | | |
| Basic EPS | 5,494 | 6,594 | 8,894 | 10,942 |
| Adjusted EPS | 5,494 | 6,594 | 8,894 | 10,942 |
| BVPS | 21,698 | 28,273 | 35,460 | 44,251 |
| ROAE | 28.4% | 26.4% | 28.4% | 27.8% |

Source: VND RESEARCH¹

BACK TO GROWTH TRAJECTORY

Upgrade to ADD rating with target price of VND180,500

We like MWG for:

- For mobile phones and consumer electronic (CE) business, after being severely affected by Covid-19, but strong growth of revenue in Oct 21 firming MWG's position in the retail market with domination market share (more than 45% for CE and 55 % for mobile phones) and effective operation system. MWG's CE chain will continue to grow in the future thanks to the growth of Apple product market share as well as the DMX supermini (DMS) chain of stores that continues to help MWG expand its market share.
- For the grocery business, BHX achieved its first profitable time in 3Q21, showing its ability to meet high demand with a strong logistics system and affirming BHX's growth potential. Despite the post-Covid-19 difficulties in the next 3-6 months, we believe that BHX chain revenue will soon recover and back to profitable levels.
- Moreover, MWG continuously deploys new chain stores including BlueJi, BlueKids, BlueSport, BlueFashion. These will probably be new growth drivers of MWG in the future, similar to the BHX chain and the DMX super mini chain in the past.

We lift our TP to VND180,500 by using sum-of-parts methodology to value MWG's two core businesses: consumer electronics (TGDD and DMX) at VND89,000 per share and grocery retailing (BHX) at VND91,500 (WACC: 11.6%).

- We raise valuation of TGDD&DMX chain by 65.4% to VND89,000 per share thanks to 1) a rollover of valuation to FY22F, 2) additional revenue from Apple's products in FY22/23F and beyond and 3) increase of gross margin of these chain vs previous report as from range of 18.0% - 20.5% to 20.0% - 21.5% in FY22-31F as TGDD&DMX are increasing their bargaining power and increase weight of private brand sale.
- We raise valuation of BHX chain by 45.2% to VND91,500 per share thanks to 1) a rollover of valuation to FY22F, 2) increase of gross margin of BHX chain vs previous report as from range of 25% - 26% to 26 % in FY22-31F as Bach Hoa Xanh are increasing their sale of fresh products and increase weight of private brand sale to offset the reduction in BHX revenue in FY22/23F of 12.6%/8.6% and 3) reduced WACC to company level, at 11.6% vs 14.0% in previous report as Bach Hoa Xanh has shown its strong performance and was first profitable in 3Q21, helping to reduce risks in terms of profitable and expansion capabilities vs previous reports.

Downside risks: A wide range social distancing period that makes MWG closes their DMX and TGDD stores, which currently contributed 80% to total MWG's revenue. Slower-than-expected BHX & DMX stores opening, lower than expected revenue per stores of each chain.

Re-rating catalysts: faster-than-expected expansion, higher-than-expected revenue per store or higher-than-expected gross margin and success in their new chains such as BlueJi, BlueFashion, BlueKids or BlueSports.

Figure 1: Target price

| | Method | Equity value per share (VND) |
|--------------|--------|------------------------------|
| TGDD and DMX | DCF | 89,000 |
| BHX | DCF | 91,500 |
| Target price | | 180,500 |

Source: VND RESEARCH

Figure 2: DCF valuation – TGDD and DMX

| | |
|----------------------------------|-----------------|
| PV of FCF | 42,127.0 |
| PV of terminal value (2% growth) | 23,207.2 |
| Enterprise Value | 65,334.2 |
| Less: Total debt | 8,180.4 |
| Plus: Cash and Cash Equivalents | 6,323.5 |
| Equity value | 63,470.3 |
| Outstanding shares | 713,065,495 |
| Equity value per share | 89,000 |

Source: VND RESEARCH

Figure 3: DCF valuation – BHX

| | |
|----------------------------------|---------------|
| PV of FCF | 34,431 |
| PV of terminal value (2% growth) | 37,425 |
| Enterprise Value | 71,856 |
| Less: Total debt | 8,180 |
| Plus: Cash and Cash Equivalents | 1,581 |
| Equity value | 65,257 |
| Outstanding shares | 713,065,495 |
| Equity value per share | 91,500 |

Source: VND RESEARCH

Figure 4: WACC assumptions

| | |
|------------------------|--------------|
| Cost of capital | |
| Beta | 0.9 |
| Market premium | 11.0% |
| Risk free rate | 3.0% |
| Cost of equity | 13.3% |
| Cost of debt | 8.00% |
| WACC | 11.6% |

Source: VND RESEARCH

Figure 5: Peer comparison

| Company | Bloomberg Ticker | Recom. | Share Price (local curr) | Target Price (local curr) | Market Cap (US\$ m) | P/E (x) | | | 3-year EPS CAGR (%) | P/BV (x) | | | ROE (%) | | | ROA (%) | | |
|--------------------------------------|------------------|--------|--------------------------|---------------------------|---------------------|---------|-------|-------|---------------------|----------|-------|-------|---------|-------|-------|---------|-------|-------|
| | | | | | | TTM | FY22F | FY23F | | TTM | FY22F | FY23F | TTM | FY22F | FY23F | TTM | FY22F | FY23F |
| CE&Grocery retailer | | | | | | | | | | | | | | | | | | |
| Mobile World Investment Corp | MWVG VN | ADD | 138,900 | 180,500 | 4,360 | 22.7 | 15.6 | 12.7 | 18.0% | 5.3 | 3.9 | 3.1 | 25.2% | 28.4% | 27.8% | 9.4% | 11.3% | 11.9% |
| Consumer electronics peers | | | | | | | | | | | | | | | | | | |
| Erajaya Swasembada Tbk PT | ERAA IJ | na | 610.0 | na | 678 | 9.4 | 9.3 | 7.9 | 58.8% | 1.7 | 1.5 | 1.3 | 18.9% | 17.4% | 18.1% | 9.9% | 9.1% | 9.6% |
| FPT DIGITAL RETAIL JSC | FRT VN | na | 61,500 | na | 214 | 42.5 | 30.9 | 22.8 | -36.4% | 3.7 | 3.8 | 3.4 | 9.0% | 12.9% | 16.2% | 1.7% | na | na |
| Challenger Technologies Ltd | CHLG SP | na | 0.56 | na | 165 | 8.4 | na | na | 14.7% | 1.6 | na | na | 19.6% | na | na | 13.7% | na | na |
| Sunfar Computer Co Ltd | 6154 TT | na | 18.05 | na | 52 | 11.6 | na | na | -13.1% | 1.1 | na | na | 10.0% | na | na | 5.9% | na | na |
| Tsann Kuen Enterprise Co Ltd | 2430 TT | na | 40.55 | na | 244 | 12.0 | na | na | 7.4% | 1.3 | na | na | 11.5% | na | na | 3.8% | na | na |
| Average - Consumer electronics peers | | | | | | 16.8 | 20.1 | 15.3 | 6.3% | 1.9 | 2.6 | 2.4 | 13.8% | 15.2% | 17.2% | 7.0% | 9.1% | 9.6% |
| Median - Consumer electronics peers | | | | | | 11.6 | 20.1 | 15.3 | 7.4% | 1.6 | 2.6 | 2.4 | 11.5% | 15.2% | 17.2% | 5.9% | 9.1% | 9.6% |
| Grocery retailing peers | | | | | | | | | | | | | | | | | | |
| Taiwan FamilyMart Co Ltd/Taiwan | 5903 TT | na | 252.5 | na | 2,035 | 38.5 | 34.6 | 24.3 | 14.8% | 9.6 | 9.0 | 7.5 | 24.4% | 20.9% | 31.8% | 2.4% | 3.0% | 4.3% |
| Sumber Alfaria Trijaya Tbk PT | AMRT IJ | na | 1,195 | na | 3,458 | 32.3 | 29.9 | 24.4 | 61.0% | 6.1 | 5.8 | 5.1 | 20.5% | 20.1% | 21.4% | 5.9% | 6.0% | 6.8% |
| Average - Grocery retailing peers | | | | | | 35.4 | 32.3 | 24.3 | 37.9% | 7.8 | 7.4 | 6.3 | 22.5% | 20.5% | 26.6% | 4.1% | 4.5% | 5.5% |

Data as at 01 Dec 2021

Source: VND RESEARCH, Bloomberg

10M21 recap: earnings dip in 3Q21 but grew robustly in Oct 21

3Q21 earnings dampened by social distancing period

In 3Q21, MWG's revenue reduced 5.4% yoy to VND24,333bn due to social distancing has halted about 60-70% of TGDD&DMX stores to operate, resulting in lower TGDD and DMX chain revenue by 34.3% yoy and 33.9% yoy, respectively. In contrast, BHX chain revenue increased by 62.2% yoy on the back of 36.1% increase in revenue per store and 19.2% yoy increase in total stores. The surge in revenue per store of BHX comes from 1) social distancing promoting the need to hoard essential goods and 2) modern retail chains such as BHX were maintained to operate throughout social distancing period.

3Q21 gross margin reached 25.02%, increased by 2.66% pts yoy, due to 1) change in product mix with higher contribution of BHX revenue (37.8% of total sales (compared to 22.1% in 3Q20), which has higher GM than TGDD and DMX chains, and 2) the proportion of fresh goods in BHX's revenue accounted for 51% (compared to about 43-47% in 1H21), helping to keep BHX's gross profit margin stayed at a higher level in 3Q21.

However, MWG's number of BHX stores increased by 19.2% yoy and 601 DMS stores by the end of 3Q21, as well as the promotion programs to boost sale of TGDD&DMX, made selling expenses/revenue ratio increased by 2.95% pts to 17.5%. Thus, 3Q21 net profit decreased 17.4% yoy to VND785bn.

Figure 6: 9M21 results comparison (unit: VNDbn)

| | 3Q20 | 3Q21 | yoy% | 9M20 | 9M21 | yoy% | VND's FY21F forecast | %vs VND's forecast | Comments |
|--------------------------------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------------|--------------------|---|
| Number of stores (End period) | | | | | | | | | |
| TGDD | 962 | 950 | -1.25% | 962 | 950 | -1.25% | 927 | 102.48% | |
| DMX | 1124 | 1180 | 4.98% | 1124 | 1180 | 4.98% | 1,170 | 100.85% | |
| BHX | 1623 | 1934 | 19.16% | 1623 | 1934 | 19.16% | 2,038 | 94.90% | |
| DMS | 52 | 601 | 1055.77% | 52 | 601 | 1055.77% | 902 | 66.63% | Below our expectation due to social distancing in 3Q21 slowing down DMS opening rate |
| Revenue per stores (Monthly) | | | | | | | | | |
| TGDD | 2.60 | 1.71 | -34.27% | 2.54 | 2.40 | -5.54% | 2.38 | 100.6% | |
| DMX | 3.72 | 2.46 | -33.89% | 4.37 | 3.67 | -16.04% | 4.19 | 87.6% | |
| BHX | 1.16 | 1.59 | 36.13% | 1.04 | 1.30 | 25.20% | 1.45 | 89.4% | |
| DMS | - | 0.78 | | - | 0.81 | | 0.69 | 118.5% | |
| Revenue | 25,714 | 24,333 | -5.37% | 81,352 | 86,820 | 6.72% | 128,267 | 67.69% | Below our forecast |
| TGDD | 7,499 | 4,868 | -35.09% | 21,965 | 20,490 | -6.72% | 26,512 | 77.28% | |
| DMX | 12,541 | 8,704 | -30.59% | 44,255 | 39,010 | -11.85% | 58,842 | 66.30% | |
| BHX | 5,672 | 9,201 | 62.22% | 15,131 | 22,573 | 49.19% | 35,485 | 63.61% | Below our expectation mainly as monthly revenue per BHX store did not maintain as high as expected in Sep 21 due to 1) the loosening of the social distancing situation causing the traditional markets and traditional shops to reopening and 2) a wave of workers returning to their homeland reduces demand in southern. |
| DMS | | 1,400 | | | 4,400 | | 7,428 | 59.24% | Below our forecast |
| COGS | 19,964 | 18,245 | -8.61% | 63,672 | 66,563 | 4.54% | 99,549 | 66.86% | |
| Gross profit | 5,750 | 6,089 | 5.90% | 17,680 | 20,257 | 14.58% | 28,718 | 70.54% | Below our forecast |
| GM | 22.36% | 25.02% | 2.66% pts | 21.73% | 23.33% | 1.60% pts | 22.39% | -0.94% pts | |
| Net financial income | 125 | 124 | -0.52% | 104 | 393 | 279.99% | 542 | 72.56% | In line with our forecast |
| Selling Expenses | 3,753 | 4,270 | 13.77% | 11,075 | 13,061 | 17.94% | 18,003 | 72.55% | |
| General and admin expenses | 840 | 975 | 16.05% | 2,621 | 3,164 | 20.72% | 4,746 | 66.66% | |
| SG&A expenses | 4,594 | 5,246 | 14.19% | 13,695 | 16,225 | 18.47% | 22,749 | 71.32% | In line with our forecast |
| Selling expenses / revenue | 14.6% | 17.5% | 2.95% pts | 13.6% | 15.0% | 1.43% pts | 14.0% | -1.04% pts | |
| G&A expenses / revenue | 3.3% | 4.0% | 0.74% pts | 3.2% | 3.6% | 0.42% pts | 3.7% | 0.06% pts | |
| SG&A expenses / revenue | 17.9% | 21.6% | 3.69% pts | 16.8% | 18.7% | 1.85% pts | 17.7% | -0.99% pts | |
| Operating profit | 1,279 | 966 | -24.50% | 4,084 | 4,418 | 8.17% | 6,511 | 67.85% | |
| Pretax Profit | 1,278 | 968 | -24.26% | 4,076 | 4,422 | 8.48% | 6,511 | 67.91% | |
| Net profit | 951 | 785 | -17.37% | 2,976 | 3,336 | 12.11% | 4,937 | 67.58% | Below our forecast |

Source: VNDIRECT RESEARCH, Company reports

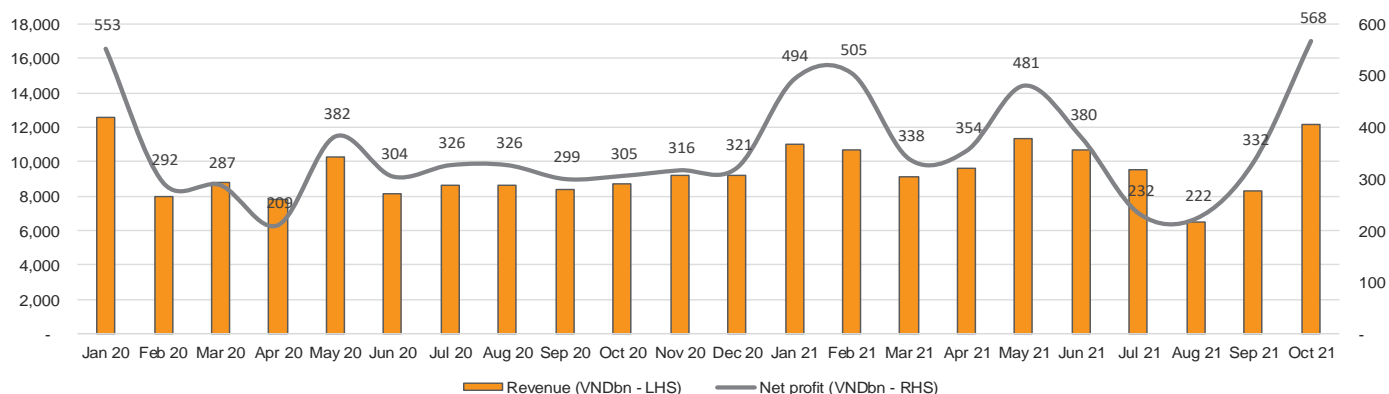
Oct 21: DMX&TGDD's revenue grew robustly after social distancing

In Oct 21, all TGDD& DMX stores returned to operation after 3 months of social distancing, MWG's revenue reached VND12,186bn (+39% yoy) and net profit reached VND568bn (+86% yoy).

- TGDD&DMX 's revenue reached VND10,200bn (+52% yoy) thanks to 1) the effect of pent-up demand after social distancing in 3Q21 and 2) new Iphone 13 series combined with the launch of Topzone chain store has boost sales of Iphone phones right after opening.
- BHX's revenue reached VND2,027bn, equivalent to VND1.04bn revenue per store in Oct 21, much lower than Jul – Aug level as of 1) people in southern regions moved to their hometowns, especially people in industrial-economic centers such as HCMC, Dong Nai, Binh Duong, lead to a reduction in demand of BHX's products in these area and 2) the traditional markets and individual retail stores has opened after social distancing eased which increased competition with BHX.

For 10M21, MWG posted revenue of VND99,006bn and net profit of VND3,906bn, fulfilling 79% of our forecast, below our forecast.

Figure 7: MWG's monthly revenue and net profit from 2020-2021



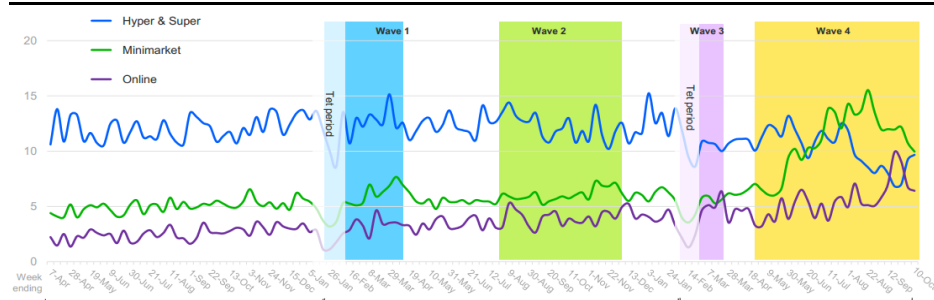
Source: VNDIRECT RESEARCH, Company reports

FY22-23 Outlook: Back to growth trajectory

First profitable time of Bach Hoa Xanh

According to Kantar Worldpanel, In Mid-Oct 21, minimarket channel's market share has reduced to 10% from the peak of above 14% in Jul 21, still maintain higher level than pre-4th-Covid-19 level (May 21 and earlier) of about 5% pts although the social distancing eased since Mid-Sep 21. These figure has firmed the shift of consumption to the minimarket channel post-social distancing period toward modern trade channel, especially minimarket like Bach Hoa Xanh chain.

Figure 8: Share by channel – weekly FMCG spending (Urban 4 key cities) from Apr – Oct 21



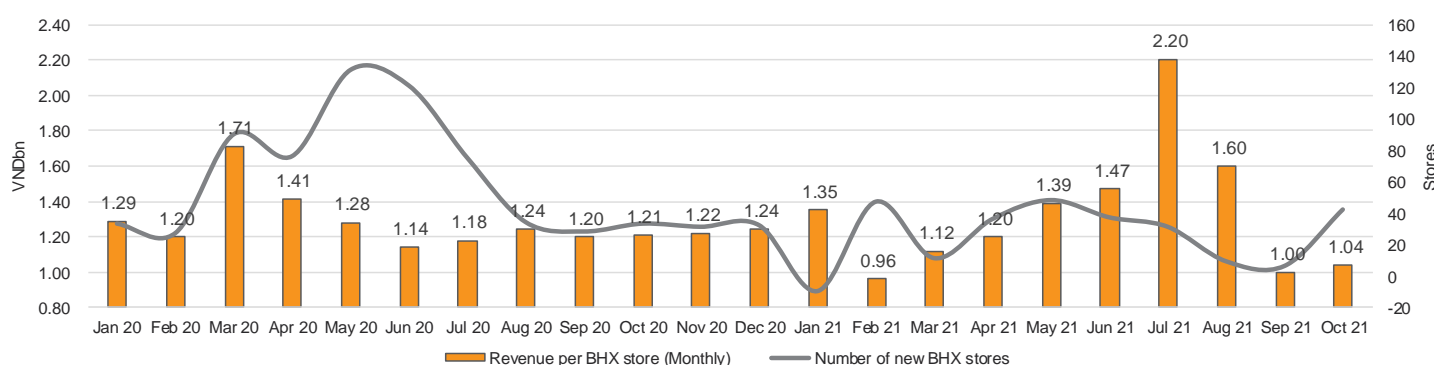
Source: VNDIRECT RESEARCH, Kanta Worldpanel

With average monthly revenue of VND1.59bn per store, BHX achieved its first profitable time in 3Q21, showing its ability to meet high demand with a strong logistics system and affirming BHX's growth potential.

However, BHX's revenue per store during Sep – Oct 2021 dropped sharply to VND1.00bn – VND1.04bn/store after strong growth in Jun – Aug 21 period shows that BHX is facing difficulties than general minimarket as 1) a reduction in consumption when people from southern industrial-economic centers return to their hometown, 2) competition from general market and individual retail stores when they re-opened and 3) negative media news have a worse impact on BHX revenue than we expected in the previous report.

We expect that in the next 3-6 months, when Vietnam, especially the southern region, is fully vaccinated, then, services and production return to normal activities will boost the consumer demand for Bach Hoa Xanh chain. Thus, we revise down the monthly revenue of each BHX store for 2022/23F by 12.7%/8.5% vs. previous report, reaching VND1.44bn/VND1.73bn per store. Thus, revenue of the BHX chain will decrease by 12.6%/8.6% respectively compared to the previous report.

Figure 9: BHX's monthly revenue per store and number of new stores from 2020-2021



Source: VNDIRECT RESEARCH, Company reports

Topzone with Apple products will be new growth engine for TGDD chain

In Sep 21, MWG has launched Topzone chain store (<https://www.topzone.vn/>) which is an authorized chain store specializing in selling Apple products in Vietnam such as iPhone, iPad, Apple Watch, Macbook and accessories. MWG plans to open 50-60 Topzone stores from now until end 1Q22F to grab more market share of Apple products and mobile phone in Viet Nam.

According to MWG, MWG's market share of Apple products sales accounts for about 23% in Vietnam. Thus, strategy of opening the Topzone stores and restricting hand-carried goods according to Decree No. 98/2020/ND-CP will boost MWG's Apple products sales to get for market share, which we estimate about more than 40% in the next 2 years.

With an estimation of 1) Apple market size of about VND33,750bn (US\$1.5bn), 2) MWG's Apple products sales are currently around VND7,900bn (US\$350m) and 3) MWG's Apple products sale of 40% market share in FY23F, revenue from Apple products will add about VND2,700bn per year to TGDD's chain revenue in FY22/23F.

As a result, we increased monthly revenue per TGDD store by 9.9%/17.8% vs. our previous report to VND2.67bn/VND2.91bn to reflect additional revenue from Apple products as above. Thus, TGDD's chain revenue increased by 13.3%/21.9% vs. previous report.

Figure 10: MWG's Topzone Store



Source: VND RESEARCH, COMPANY REPORTS

Figure 11: MWG's Topzone Store



Source: VND RESEARCH, COMPANY REPORTS

Launching new retail models to find long-term growth engines

Besides the Topzone chain, MWG is continuing to launch other retail chains with new products including BlueJi, BlueKids, BlueSport, BlueFashion:

- BlueJi: retail chain of fashion jewelry and accessories, with 5 stores in HCMC that were put into operation from 20 Nov 21. The products of this retail chain are mainly silver jewelry and stone jewelry, aimed at general users at reasonable prices.
- BlueKids: retail chain of kids and mom products.
- BlueFashion: retail chain of fashion products.
- BlueSport: retail chain of sports clothing, accessories, smart watches and bicycles.

We believe that by experiment these chains, MWG may get new opportunities for future growth, thanks to 1) the cost of testing chain stores is low due to MWG uses existing distribution systems and human resources, 2) aiming to expand into categories where small retailers are struggling due to the pandemic such as BlueJi/BlueFashion.

Figure 12: BlueSport store



Sources: VND RESEARCH, COMPANY REPORTS

Figure 13: BlueJi counter in DMX store



Sources: VND RESEARCH, COMPANY REPORTS

Organisation restructuring plan for long-term development

MWG has announced a plan to restructure its organisation in FY21-22F as following:

- 4k Farm Ltd and Tam Tam Installation - Warranty Service Ltd are converted into joint stock companies.
- Transferring An Khang pharmacy chain to Bach Hoa Xanh to optimize the management of these two chains.
- Establishing a new joint stock company specializing in Logistics-Forwarding which under control of MWG group.
- Increase capital for Bach Hoa Xanh by VND3,200bn and VND800bn for TGDD to serve business expansion plan.

With the above restructuring process and according to MWG's BOD, MWG will 1) expand its logistics and forwarding services from serving internal demand to both internal and external demand to increase MWG's revenue as MWG's logistics system, the operation team, trucks and warehouses are available; and 2) MWG may make IPOs of its subsidiaries, especially Bach Hoa Xanh chain, thus these IPOs can re-value MWG's subsidiaries at a higher price, based on our views.

FY22-23 earnings revision

We change our forecasts as follow:

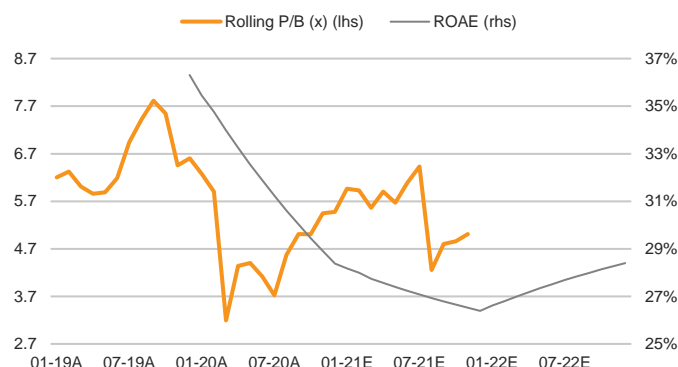
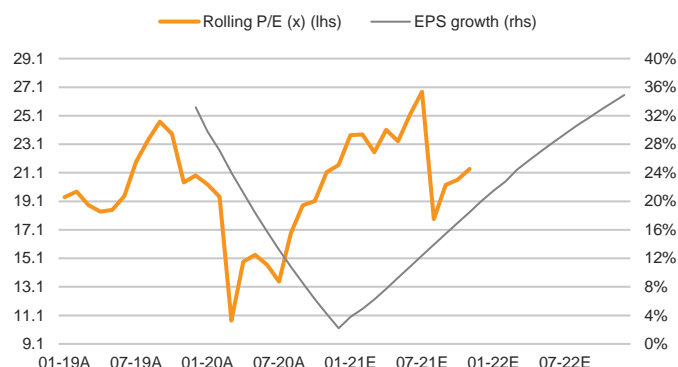
- We reduce number of DMS (Dien May Xanh supermini) stores in FY22/23F by 100 stores/100 stores respectively due to MWG is slowing down DMS's expansion plan which is delayed by Covid-19 in 3Q21.
- We increase number of TGDD stores in FY22/23F by 31 stores/31 stores to reflect the change in number of TGDD stores in 10M21.
- We decrease revenue per BHX store in FY22F/23F by 12.7%/8.5% due to lower than expected sale per store of BHX in Sep – Oct 21.
- We increase revenue per TGDD store in FY22F/23F by 9.9%/17.8% to reflect additional revenue from Apple products in FY22/23F.
- MWG's revenue in FY22F/23F change by -2.1%/+0.16% vs. previous forecast.
- We increase gross margin by 0.2 pts %/0.4 pts % to 22.9%/22.7% in FY22/23F as MWG is increasing their mark share to gain more bargaining power and continuing to increase the proportion of private and exclusive products with higher profit margins in all of their businesses.
- We also increase net financial income of MWG in FY22/23F by 24.2%/126.6% vs previous forecast due to the prolonged period of low interest rates, MWG transferred about VND5,053bn of short-term financial investment into long-term financial investment to achieve more financial income.
- As the results, we reduce our forecast for FY22F net profit by 0.4% to VND6,598bn (+40.3% yoy) and lift our forecast for FY23F net profit by 24.3% to VND8,329bn (+26.2% yoy).

Figure 14: Changes in our FY21- 23 earnings forecasts

| | Old forecast | | | New forecast | | | %Chg | | |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|
| | 2021F | 2022F | 2023F | 2021F | 2022F | 2023F | 2021F | 2022F | 2023F |
| Number of stores | | | | | | | | | |
| TGDD | 927 | 927 | 927 | 958 | 958 | 958 | 31 stores | 31 stores | 31 stores |
| DMX | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 1,170 | 0 stores | 0 stores | 0 stores |
| BHX | 2,038 | 2,398 | 2,598 | 2,038 | 2,398 | 2,598 | 0 stores | 0 stores | 0 stores |
| DMS | 902 | 1,302 | 1,702 | 802 | 1,202 | 1,602 | -100 stores | -100 stores | -100 stores |
| Revenue per store | | | | | | | | | |
| TGDD | 2.38 | 2.43 | 2.47 | 2.34 | 2.67 | 2.91 | -1.68% | 9.88% | 17.81% |
| DMX | 4.19 | 4.52 | 4.97 | 4.19 | 4.52 | 4.97 | 0.00% | 0.00% | 0.00% |
| BHX | 1.45 | 1.65 | 1.89 | 1.26 | 1.44 | 1.73 | -13.10% | -12.73% | -8.47% |
| DMS | 0.69 | 0.94 | 1.03 | 0.68 | 0.96 | 1.06 | -1.45% | 2.13% | 2.91% |
| Revenue | 128,267 | 152,736 | 177,174 | 123,071 | 149,513 | 177,459 | -4.05% | -2.11% | 0.16% |
| TGDD | 26,512 | 27,068 | 27,439 | 26,890 | 30,656 | 33,434 | 1.43% | 13.26% | 21.85% |
| DMX | 58,842 | 63,427 | 69,768 | 58,842 | 63,427 | 69,768 | 0.00% | 0.00% | 0.00% |
| BHX | 35,485 | 47,501 | 58,927 | 30,762 | 41,534 | 53,880 | -13.31% | -12.56% | -8.56% |
| DMS | 7,428 | 14,740 | 21,040 | 6,577 | 13,896 | 20,377 | -11.46% | -5.73% | -3.15% |
| COGS | (99,549) | (118,075) | (137,612) | (95,034) | (115,291) | (137,229) | -4.54% | -2.36% | -0.28% |
| Gross profit | 28,718 | 34,661 | 39,562 | 28,037 | 34,222 | 40,230 | -2.37% | -1.27% | 1.69% |
| % gross margin | 22.4% | 22.7% | 22.3% | 22.8% | 22.9% | 22.7% | 0.40% pts | 0.20% pts | 0.40% pts |
| Net financial income | 542 | 492 | 327 | 505 | 611 | 741 | -6.83% | 24.19% | 126.61% |
| Selling expenses | (18,003) | (21,138) | (24,848) | (17,954) | (21,240) | (24,338) | -0.27% | 0.48% | -2.05% |
| G&A expenses | (4,746) | (5,346) | (6,201) | (4,554) | (5,233) | (6,211) | -4.05% | -2.11% | 0.16% |
| SG&A expenses | (22,749) | (26,484) | (31,049) | (22,508) | (26,473) | (30,549) | -1.06% | -0.04% | -1.61% |
| Selling expenses/Rev | -14.0% | -13.8% | -14.0% | -14.6% | -14.2% | -13.7% | -0.60% pts | -0.40% pts | 0.30% pts |
| G&A expenses/Rev | -3.7% | -3.5% | -3.5% | -3.7% | -3.5% | -3.5% | 0.00% pts | 0.00% pts | 0.00% pts |
| SG&A expenses/Rev | -17.7% | -17.3% | -17.5% | -18.3% | -17.7% | -17.2% | -0.60% pts | -0.40% pts | 0.30% pts |
| Operating profit | 5,969.0 | 8,177.0 | 8,513.0 | 5,529.0 | 7,749.0 | 9,681.0 | -7.37% | -5.23% | 13.72% |
| Pretax profit | 6,511 | 8,669 | 8,840 | 6,034 | 8,360 | 10,422 | -7.33% | -3.56% | 17.90% |
| Net profit | 4,937 | 6,573 | 6,703 | 4,702 | 6,598 | 8,329 | -4.76% | 0.38% | 24.26% |

Source: VNDIRECT RESEARCH

Valuation



Income statement

| (VNDbn) | 12-21E | 12-22E | 12-23E |
|--------------------------------------|----------------|----------------|----------------|
| Net revenue | 123,071 | 149,513 | 177,459 |
| Cost of sales | (95,034) | (115,291) | (137,229) |
| Gen & admin expenses | (4,554) | (5,233) | (6,211) |
| Selling expenses | (17,954) | (21,240) | (24,338) |
| Operating profit | 5,529 | 7,749 | 9,681 |
| Operating EBITDA | 7,077 | 9,555 | 11,674 |
| Depreciation and amortisation | (1,548) | (1,806) | (1,993) |
| Operating EBIT | 5,529 | 7,749 | 9,681 |
| Interest income | 1,204 | 1,500 | 1,770 |
| Financial expense | (699) | (889) | (1,029) |
| Net other income | (0) | 0 | 0 |
| Income from associates & JVs | 0 | 0 | 0 |
| Pre-tax profit | 6,034 | 8,360 | 10,422 |
| Tax expense | (1,327) | (1,756) | (2,084) |
| Minority interest | (5) | (7) | (8) |
| Net profit | 4,702 | 6,598 | 8,329 |
| Adj. net profit to ordinary | 4,702 | 6,598 | 8,329 |
| Ordinary dividends | (238) | (742) | (1,142) |
| Retained earnings | 4,464 | 5,856 | 7,187 |

Balance sheet

| (VNDbn) | 12-21E | 12-22E | 12-23E |
|---------------------------------------|---------------|---------------|---------------|
| Cash and equivalents | 7,904 | 13,284 | 22,812 |
| Short term investments | 3,704 | 4,500 | 5,342 |
| Accounts receivables | 2,490 | 2,925 | 3,368 |
| Inventories | 25,477 | 27,846 | 30,571 |
| Other current assets | 1,142 | 1,515 | 1,702 |
| Total current assets | 40,718 | 50,070 | 63,795 |
| Fixed assets | 6,820 | 6,901 | 6,244 |
| Total investments | 5,069 | 5,067 | 5,060 |
| Other long-term assets | 990 | 1,381 | 1,686 |
| Total assets | 53,597 | 63,418 | 76,784 |
| Short-term debt | 15,527 | 15,630 | 17,949 |
| Accounts payable | 11,680 | 14,087 | 16,756 |
| Other current liabilities | 5,382 | 6,727 | 7,940 |
| Total current liabilities | 32,589 | 36,444 | 42,646 |
| Total long-term debt | 834 | 649 | 424 |
| Other liabilities | | | |
| Share capital | 7,131 | 7,418 | 7,612 |
| Retained earnings reserve | 12,477 | 18,333 | 25,521 |
| Shareholders' equity | 20,160 | 26,304 | 33,686 |
| Minority interest | 14 | 21 | 29 |
| Total liabilities & equity | 53,597 | 63,418 | 76,784 |

Cash flow statement

| (VNDbn) | 12-21E | 12-22E | 12-23E |
|---|----------------|----------------|----------------|
| Pretax profit | 6,034 | 8,360 | 10,422 |
| Depreciation & amortisation | 1,548 | 1,806 | 1,993 |
| Tax paid | (1,327) | (1,756) | (2,084) |
| Other adjustments | (505) | (353) | (373) |
| Change in working capital | (3,489) | 928 | 901 |
| Cash flow from operations | 2,260 | 8,985 | 10,858 |
| Capex | (1,875) | (1,892) | (1,264) |
| Proceeds from assets sales | 3 | 4 | 4 |
| Others | (270) | (104) | (189) |
| Other non-current assets changes | (663) | (794) | (835) |
| Cash flow from investing activities | (2,804) | (2,786) | (2,283) |
| New share issuance | 1 | 3 | 2 |
| Shares buyback | 0 | 0 | 0 |
| Net borrowings | 1,276 | (81) | 2,094 |
| Other financing cash flow | 0 | 0 | 0 |
| Dividends paid | (238) | (742) | (1,142) |
| Cash flow from financing activities | 1,039 | (820) | 954 |
| Cash and equivalents at beginning of period | 7,410 | 7,904 | 13,284 |
| Total cash generated | 495 | 5,379 | 9,529 |
| Cash and equivalents at the end of period | 7,904 | 13,284 | 22,812 |

Key ratios

| | 12-21E | 12-22E | 12-23E |
|--------------------------|--------|--------|--------|
| Dupont | | | |
| Net profit margin | 3.8% | 4.4% | 4.7% |
| Asset turnover | 2.47 | 2.56 | 2.53 |
| ROAA | 9.4% | 11.3% | 11.9% |
| Avg assets/avg equity | 2.80 | 2.52 | 2.34 |
| ROAE | 26.4% | 28.4% | 27.8% |
| Efficiency | | | |
| Days account receivable | 1.9 | 1.6 | 1.4 |
| Days inventory | 97.9 | 88.2 | 81.3 |
| Days creditor | 44.9 | 44.6 | 44.6 |
| Fixed asset turnover | 17.28 | 21.79 | 27.00 |
| ROIC | 12.9% | 15.5% | 16.0% |
| Liquidity | | | |
| Current ratio | 1.2 | 1.4 | 1.5 |
| Quick ratio | 0.5 | 0.6 | 0.8 |
| Cash ratio | 0.4 | 0.5 | 0.7 |
| Cash cycle | 54.9 | 45.2 | 38.2 |
| Growth rate (yoy) | | | |
| Revenue growth | 13.4% | 21.5% | 18.7% |
| Operating profit growth | 6.0% | 40.2% | 24.9% |
| Net profit growth | 20.0% | 40.3% | 26.2% |
| EPS growth | 20.0% | 34.9% | 23.0% |

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

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