

20 Aug 2020

Mobile World (MWG)

2H20 to focus on profit protection

- Pandemic hits consumer electronics in 1H20
- 2H20 strategy to focus on profit protection
- Strong earnings growth to resume post-2020
- Recommend BUY at TP of VND134,000

Facts: Pandemic hits consumer electronics in 1H20

Mobile World recorded VND55,639bn revenue (+7.8% yoy) and VND2,027bn NPAT (-4.4% yoy) in 1H20, completing 51% and 59% of the year targets, respectively. Dien May Xanh, The Gioi Di Dong and Bach Hoa Xanh contributed 57%, 26% and 17% respectively to Mobile World's total revenue in 1H20. Online revenue recorded VND4,993bn (-35.3% yoy) and accounting for 9% total revenue, mostly contributed by The Gioi Di Dong & Dien May Xanh.

Bach Hoa Xanh was revenue driver in 1H20, contributing VND9,459bn (+132% yoy), thanks to SSSG of 12% YoY and the full contribution of more than 400 stores opened in 2H19. After reaching VND1.6bn monthly revenue per store in Mar 2020, Bach Hoa Xanh's revenue per store has decreased since Apr 2020 to deliver VND1.1bn in Jun 2020. The company said the decrease was mainly due to the revenue dilution of stores operating less than 12 months, which are primarily located in new provinces or sub-urban areas and are recording monthly revenue per store of nearly VND1bn.

Bach Hoa Xanh reached post-spoilage gross margin of 25% in 2Q20, rising 4.1% qoq thanks to better trade discount as Bach Hoa Xanh has scaled up remarkably and improved its bargaining power with suppliers. Gross margin improvement helped Bach Hoa Xanh reach positive EBITDA margin at store & DC level despite of still recording EBIT loss in 1H20.

On the contrary, The Gioi Di Dong & Dien May Xanh recorded revenue of VND46,180bn in 1H20 (-2.9% yoy), due to (1) store closure in Apr 2020 amid pandemic and (2) SSSG of -12% YoY in the context of lower consumer expenditure. However, The Gioi Di Dong & Dien May Xanh still gained market shares in most of the product lines.

By the end of Jun 2020, Bach Hoa Xanh chain increased by 478 new stores to 1,486 stores, completing 83% of the year-end target. Number of distribution centers (DC) reached 11 units as of Jun 2020, mainly located in Southeast region. The Gioi Di Dong has 971 stores after closing 42 stores in 1H20, of which a part were converted to Dien May Xanh stores. Dien May Xanh has 1,044 stores, increasing by 26 stores year to date.

12M rating **BUY (Maintain)**

12M TP **134,000** from 110,000

Up/Downside **+63.8%** (incl 0% cash dividend)

Stock data

VNIndex (19 Aug, pt)	851
Stock price (19 Aug, VND)	81,800
Market cap (USD mn)	1,598
Shares outstanding (mn)	453
52-Week high/low (VND)	128,000/58,900
6M avg. daily turnover (USD mn)	4.14
Free float / Foreign ownership (%)	89.1/49.
Major shareholders (%)	
Retail World Company Ltd	11.4
Tri Tam Company Ltd	8.5
Dragon Capital	8.4

Valuation

	2019A	2020F	2021F
PE (x)	9.4	10.4	8.0
PB (x)	3.0	2.3	1.9
ROE (%)	36.3	25.5	26.6
DY (%)	1.8	0.0	1.8
EV/EBITDA (x)	7.0	5.7	4.9
EPS (VND)	8,665	7,902	10,289
BPS (VND)	27,415	35,158	43,214

Performance

	1M	6M	12M
Absolute (%)	(28.2)	(2.6)	(26.0)
Relative to VNIndex (%p)	(17.7)	(0.4)	(18.5)

Stock price



Source: Bloomberg

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Pros & cons: 2H20 strategy to focus on profit protection

We maintain our view that Bach Hoa Xanh will play revenue key driver in 2H20, premised by double-digit SSSG and higher contribution of new stores opened in 1H20. Although the Southeast region has entered the rainy season which can increase spoilage rate, we expect Bach Hoa Xanh can maintain profit margins in 2H20, backed by contribution of 11 DCs and deceleration of store expansion as Bach Hoa Xanh has completed 83% of the store count's year target.

Referring to the impact of pandemic on Da Nang market, The Gioi Di Dong & Dien May Xanh has had to close 29/38 stores due to the current city lockdown. Meanwhile, more than 150 other stores in the Central are operating limitedly under control of social distancing. As accounting for only 9% Mobile World's total revenue, we estimate The Gioi Di Dong & Dien May Xanh in the Central to have a negligible impact on Mobile World with revenue loss of only VND500bn, assuming social distancing in the Central will extend till the end of Sep 2020. However, we are concerned that pandemic will spread negative impact beyond the Central, when higher unemployment rate and personal income decrease will further tighten consumer spending, significantly undermining demand for ICT and CE in 2H20.

Despite of nationwide weakening demand of ICT and CE, we expect The Gioi Di Dong & Dien May Xanh can deliver more optimistic results in 2H20, compared to the rest of market, thanks to (1) scale advantage, (2) higher revenue contribution of high-margin products, including home appliances, watch and accessories, (3) maximizing revenue per store by switching from high-traffic The Gioi Di Dong stores to Dien May Xanh stores, and (4) promoting after-sales service to strengthen customer loyalty.

Overall, we estimate Mobile World to record VND48,938bn revenue (-3.2% yoy) and VND1,552bn NPAT (-9.5% yoy) in 2H20, mostly driven by management board's efforts to protect earnings of The Gioi Di Dong & Dien May Xanh and yoy widening profit margins of Bach Hoa Xanh. In aggregate 2020, we expect Mobile World's revenue and NPAT to reach VND104,576bn and VND3,577bn, increasing 2.3% yoy and decreasing 6.7% yoy, respectively.

Strong earnings growth to resume post-2020

We believe Mobile World will maintain long-term bright outlook, driven by:

- **Management board's initiatives to expand market share of ICT and CE** in small areas via Dien May Xanh's super-mini format. Besides, we expect demand of ICTs and CEs to recover in 2021 as the economy recovers after the crisis.
- **Bach Hoa Xanh to see profit margin uptrend**, which we estimate to achieve positive operating profit in 2022 and bolster Mobile World's earning growth in the long term.

In the period of 2020-2024, we estimate Mobile World's revenue to reach 5-year CAGR growth of 16%. Mobile World's NPAT to reach 5-year CAGR of 34%, thanks to the annual double-digit NPAT growth of Dien May Xanh and profit contribution of Bach Hoa Xanh since 2022.

Action: Recommend BUY at TP of VND134,000

Despite being hit by weakening demand of ICT and CE, we expect that earnings protection efforts of The Gioi Di Dong & Dien May Xanh, in combination with profit margin improvement of Bach Hoa Xanh, will support Mobile World to complete 2020 business targets.

Moreover, we expect Mobile World will maintain strong earnings growth post-2020, thanks to management board's strong business execution, highlighted by business initiatives of Dien May Xanh and profit contribution of Bach Hoa Xanh since 2022.

Based on 3-Y average PE multiple of 13.0x, we evaluate MWG share value at VND134,000 per share. At today (19 Aug, 2020) price of VND81,800, the total expected return is 63.8%, including no cash dividend. Our recommendation on MWG is **BUY**.

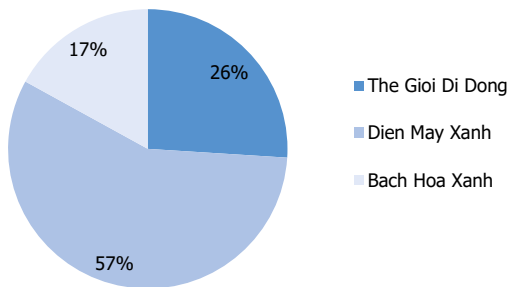
Table 1. Earnings and outlook

(VND bn, %, %p)

	2019				2020		2019	2020E	2Q20		
	1Q	2Q	3Q	4Q	1Q	2Q			QoQ	YoY	Consensus
Sales	25,017	26,604	25,142	25,411	29,353	26,286	102,174	104,576	(10.5)	(1.2)	N.A
The Gioi Di Dong	8,756	8,486	8,321	7,645	8,365	6,101	33,207	27,520	(27.1)	(28.1)	
Dien May Xanh	14,510	15,792	13,760	14,177	16,496	15,218	58,239	55,588	(7.7)	(3.6)	
Bach Hoa Xanh	1,751	2,327	3,061	3,589	4,491	4,968	10,728	21,468	10.6	113.5	
Gross profit	4,434	4,748	4,941	5,365	6,160	5,770	19,488	22,581	(6.3)	21.5	N.A
Gross margin	17.7	17.8	19.7	21.1	21.0	22.0	19.1	21.6	1.0	4.1	
Operating costs	3,079	3,383	3,835	4,214	4,563	4,539	14,511	17,870	(0.5)	34.2	
Selling cost	2,466	2,992	3,285	3,695	3,783	3,538	12,437	15,748	(6.5)	18.3	
G&A cost	613	391	550	520	780	1,001	2,074	2,123	28.3	155.8	
Operating profit	1,355	1,366	1,106	1,151	1,597	1,231	4,977	4,711	(22.9)	(9.9)	N.A
Depreciation & Amortization	311	327	369	435	471	513	1,443	1,634	9.0	56.9	
OP margin	5.4	5.1	4.4	4.5	5.4	4.7	4.9	4.5	(0.8)	(8.8)	
EBT	1,341	1,396	1,137	1,180	1,544	1,254	5,053	4,715	(18.8)	(10.2)	N.A
Net profit	1,041	1,080	856	860	1,132	894	3,836	3,579	(21.0)	(17.1)	
Controlling-int. NP	1,040	1,079	855	860	1,132	894	3,834	3,577	(21.0)	(17.2)	
EBITDA	1,666	1,693	1,475	1,586	2,068	1,745	6,420	6,345	(15.7)	3.1	N.A
EBITDA margin	6.7	6.4	5.9	6.2	7.0	6.6	6.3	6.1	(0.4)	0.3	

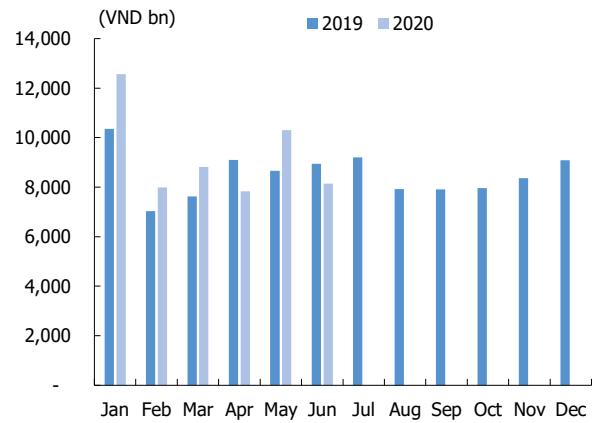
Source: Company data, KIS

Figure 1. MWG's revenue structure by segment, 1H20



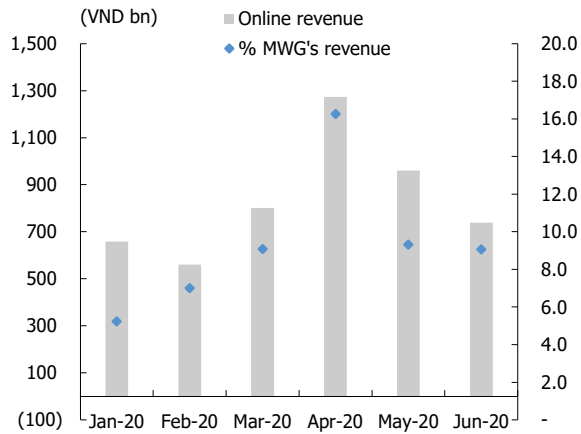
Source: Mobile World

Figure 2. MWG's monthly revenue



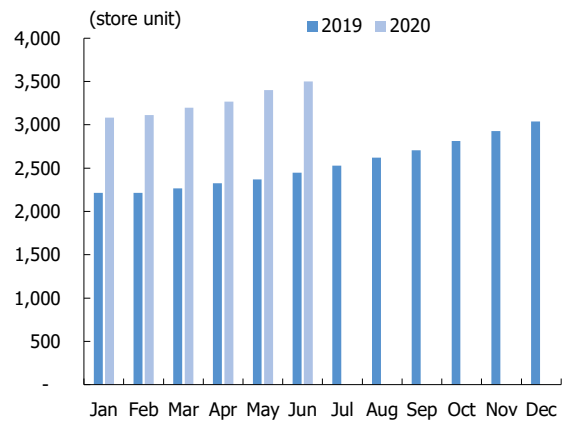
Source: Mobile World

Figure 3. MWG's contribution of online revenue, 1H20



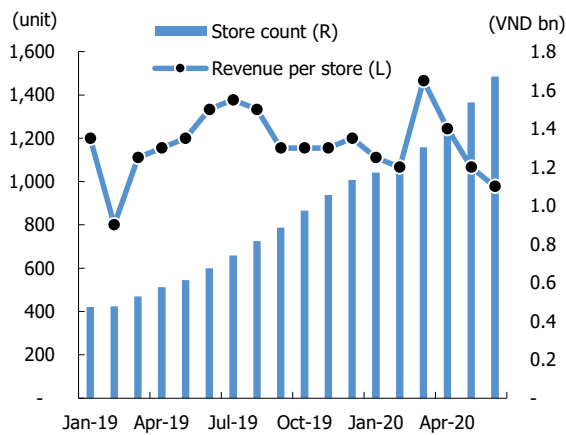
Source: Mobile World

Figure 4. MWG's store count



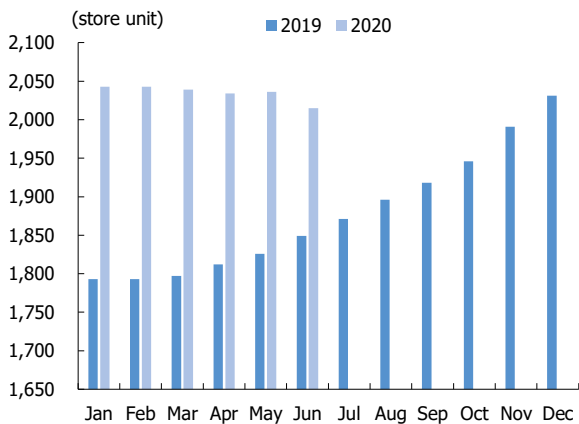
Source: Mobile World

Figure 5. BHX's store count & avg monthly revenue per store



Source: Mobile World

Figure 6. TGDD + DMX's store count, 2019-2020



Source: Mobile World

Table 2. Fair value calculation

(VND bn, mn shares, VND, %)

	2020E	2021E	Remarks
Fair PE multiple		13.0	3-Y average PE of Mobile World's share
Net attributable profit	3,577	4,797	
Common outstanding shares	452.7	466.3	
Basic EPS	7,902	10,289	
Market Price		81,800	
Target Price	134,000		By the end of 2021
Annualized price return	63.8		
Expected dividend yield	-		
Total expected return	63.8		

■ Company overview

Mobile World is the largest retailer of mobile phone and consumer electronics in Vietnam with current market shares of 50% and 40%, respectively. Besides, MWG operates Bach Hoa Xanh chain, which specializes in grocery and fresh food retailing and has ballooning scale with 1,486 stores by the end of Jun 2020.

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	18,384	23,103	34,187	35,847	45,752
Cash & cash equivalents	3,411	3,800	6,252	12,110	15,402
Accounts & other receivables	2,923	1,856	2,190	3,085	3,786
Inventory	12,050	17,446	25,745	20,652	26,564
Non-current assets	3,499	3,650	5,548	6,871	7,282
Fixed assets	3,499	3,590	5,491	6,814	7,225
Investment assets	-	60	56	56	56
Others	939	1,370	1,973	657	657
Total assets	22,823	28,123	41,708	43,375	53,691
Advances from customers	22	38	81	-	-
Unearned revenue	-	-	0.3	-	-
Trade payables	7,373	8,245	12,055	12,169	12,320
Others	2,715	3,812	3,274	3,999	5,028
ST debt & due bonds	5,604	5,836	13,031	10,161	15,060
LT debt & bonds	1,200	1,208	1,122	1,122	1,122
Total liabilities	16,914	19,139	29,565	27,450	33,531
Controlling interest	5,906	8,977	12,136	15,915	20,149
Capital stock	3,170	4,435	4,435	5,190	5,328
Capital surplus	37	551	555	558	558
Other reserves	1	1	(5)	(559)	(562)
Retained earnings	2,699	3,990	7,150	10,727	14,825
Minority interest	3	6	8	10	12
Shareholders' equity	5,909	8,983	12,144	15,925	20,161

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,664	2,261	(1,286)	13,252	2,108
Net profit	2,207	2,880	3,836	3,579	4,800
Dep'n & Amort'n	690	1,223	1,443	1,634	2,039
Net incr. in W/C	(233)	(1,842)	(6,565)	8,039	(4,731)
C/F from investing	(2,120)	(2,344)	(5,873)	(9,339)	(2,645)
Capex	(2,065)	(1,495)	(3,066)	(2,466)	(2,450)
Incr. in investment	(55)	(850)	(2,807)	(6,873)	(195)
C/F from financing	1,875	460	6,529	(2,669)	4,336
Incr. in equity	92	705	86	202	136
Incr. in debt	2,014	241	7,109	(2,870)	4,900
Dividends	(232)	(486)	(665)	-	(699)
C/F from others	(5)	13	3,082	4,613	(506)
Increase in cash	2,414	389	2,452	5,858	3,292

Income statement

(VND bn)

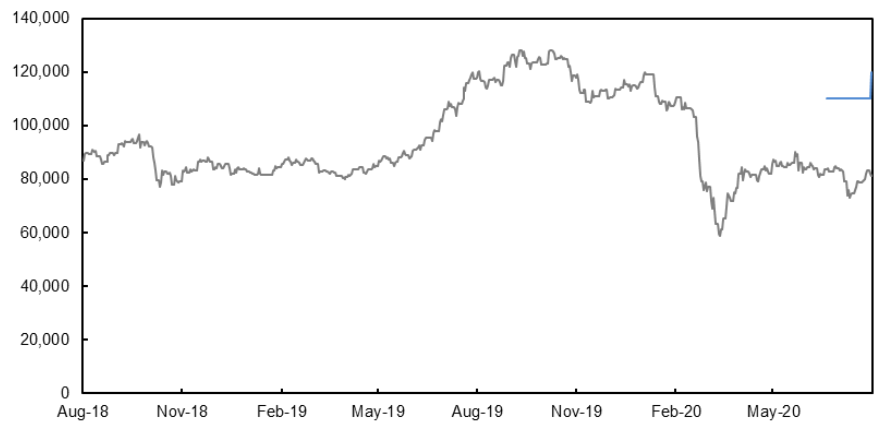
FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	66,340	86,516	102,174	104,576	128,352
COGS	55,198	71,224	82,686	81,995	99,598
Gross profit	11,142	15,292	19,488	22,581	28,754
SG&A expenses	8,363	11,421	14,511	17,870	23,034
Operating profit	2,779	3,871	4,977	4,711	5,720
Financial income	251	342	631	456	884
Interest income	35	85	344	456	884
Financial expenses	234	437	570	750	601
Interest expenses	233	436	568	750	601
Other non-operating profit	228	269	305	297	320
Gains (Losses) in associates, subsidiaries and JV	-	(2)	(3)	-	-
Earnings before tax	2,809	3,786	5,053	4,715	6,323
Income taxes	602	906	1,217	1,136	1,523
Net profit	2,207	2,880	3,836	3,579	4,800
Net profit of controlling interest	2,206	2,879	3,834	3,577	4,797
EBITDA	3,469	5,094	6,420	6,345	7,759

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	5,311	6,689	8,665	7,902	10,289
BPS	13,828	20,258	27,415	35,158	43,214
DPS	1,112	1,500	1,500	-	1,500
Growth (%)					
Sales growth	48.7	30.4	18.1	2.4	22.7
OP growth	39.5	39.3	28.6	(5.3)	21.4
NP growth	39.8	30.5	33.2	(6.7)	34.1
EPS growth	(30.1)	(6.6)	29.5	(8.8)	30.2
EBITDA growth	45.9	46.8	26.0	(1.2)	22.3
Profitability (%)					
OP margin	4.2	4.5	4.9	4.5	4.5
NP margin	3.3	3.3	3.8	3.4	3.7
EBITDA margin	5.2	5.9	6.3	6.1	6.0
ROA	11.7	11.3	11.0	8.4	9.9
ROE	45.3	38.7	36.3	25.5	26.6
Dividend yield	1.4	1.8	1.8	-	1.8
Dividend payout ratio	20.9	22.4	17.3	-	14.6
Stability					
Net debt (VND bn)	3,392	3,244	7,901	(827)	780
Net debt/equity (%)	57.4	36.1	65.1	(5.2)	3.9
Valuation (x)					
PE	15.4	12.2	9.4	10.4	8.0
PB	5.9	4.0	3.0	2.3	1.9
EV/EBITDA	11.7	7.9	7.0	5.7	4.9

Changes to recommendation and target price

Company (code)	Date	Recommendation	Target price	% vs. avg. price	% vs. high (low)
Mobile World (MWG)	08 Jul 20	BUY	110,000		
	19 Aug 20	BUY	134,000		



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Prepared by: Toan Dao

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