

Mobile World (MWG)

Earnings to thrive on Dien May Xanh post-2020

2020 business operation to focus on earning protection

Despite of weakening demand of mobile phones and consumer electronics, we expect Mobile World to deliver more optimistic results versus the rest of market in 2020, thanks to (1) nationwide strong brands of The Gioi Di Dong & Dien May Xanh, (2) advantage of large store scale and (3) strong generated free cash flow coupled with healthy balance sheet. In 2020, we estimate Mobile World to post VND109,121bn revenue (+6.8% yoy) and VND3,955bn NPAT post-MI (+3.1% yoy).

Super-mini format to bolster Dien May Xanh's earnings

We expect demand of consumer electronics will recover from the early 2021 as Viet Nam has completely controlled Covid-19's spread. Besides, management's strategies for enhancing earning and developing Dien May Xanh Super-mini format will reinforce Dien May Xanh as earning growth driver. We estimate The Gioi Di Dong & Dien May Xanh to reach 3-year CAGR NPAT growth of 24.5% in 2020-2022.

Bach Hoa Xanh to spearhead earning growth after 2022

We estimate Bach Hoa Xanh will achieve 3-year CAGR revenue growth of 53.1% in 2020-2022 thanks to full-year contribution of annual new store opening. Moreover, we expect Bach Hoa Xanh to make profit after tax from 2022, premised by promoting cost optimization after the phase of scaling up store. Bach Hoa Xanh will replace Dien May Xanh to become Mobile World's earning growth pillar after 2022.

	2017A	2018A	2019A	2020F	2021F
Sales (VND bn)	66,340	86,516	102,174	109,121	142,002
OP (VND bn)	2,779	3,871	4,977	5,344	7,018
EBT (VND bn)	2,809	3,786	5,053	5,213	7,319
NP (VND bn)	2,206	2,879	3,834	3,955	5,554
EBITDA (VND bn)	3,469	5,094	6,420	6,980	9,059
Net debt (VND bn)	3,392	3,244	7,901	132	2,729
OP margin (%)	4.2	4.5	4.9	4.9	4.9
ROE (%)	45.3	38.7	36.3	28.5	30.7
Dividend yield (%)	1.0	1.4	1.4	1.4	1.4
EPS (VND, adj.)	5,311	6,689	8,665	8,737	11,911
chg. (% YoY)	36.5	25.9	29.5	0.8	36.3
BPS (VND, adj.)	13,828	20,258	27,415	34,492	44,190
DPS (VND, adj.)	1,112	1,500	1,500	1,500	1,500
PE (x)	20.5	16.3	12.6	12.5	9.2
PB (x)	7.9	5.4	4.0	3.2	2.5
EV/EBITDA (x)	15.2	10.3	8.9	7.1	5.7

Note: Net profit, EPS and ROE attributed to controlling interest

12M rating **BUY (Maintain)**

12M TP **155,000** from 134,000

Up/Downside **+43.6%** (incl 1.4% cash dividend)

Stock data

VNIndex (14 Oct, pt)	940
Stock price (14 Oct, VND)	109,000
Market cap (USD mn)	2,129
Shares outstanding (mn)	453
52-Week high/low (VND)	127,900/58,900
6M avg. daily turnover (USD mn)	3.87
Free float / Foreign ownership (%)	89.1/49.0
Major shareholders (%)	
Nguyen Duc Tai & Affiliates	14.0
Tran Le Quan & Affiliates	8.5
Dragon Capital	8.4

Performance

	1M	6M	12M
Absolute (%)	17.2	45.7	(12.6)
Relative to VNIndex (%p)	11.9	21.9	(9.0)

Stock price



Source: Bloomberg

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What is the report about?

- Efforts of Mobile World to overcome a tough business year amid pandemic
- Super-mini format will fuel earning growth of Dien May Xanh in Vietnam
- Bach Hoa Xanh to make profit after tax in 2022
- Attractive valuation for Mobile World on intact earning growth prospect

I. Attractive valuation on intact earning growth prospect

EPS to achieve 3-year CAGR growth of 29.4% in 2020-2022

We expect Mobile World's earning to thrive in the coming years, basing on Dien May Xanh earning growth pillar and management board's initiatives to maintain Mobile World's long-term dominance in Vietnam retailing market.

We estimate Mobile World to reach 3-year CAGR revenue growth and NPAT growth of 23.8% and 32.9% in the period of 2020-2022, respectively. Particularly, The Gioi Di Dong & Dien May Xanh will reach 3-year NPAT growth of 24.5% while Bach Hoa Xanh will make profit after tax in 2022 to become earning growth pillar of Mobile World post-2022.

Table 1. Summary forecasts for Mobile World

(VND bn, %)

	2019	2020F	2021F	2022F	3-year CAGR
Revenue	102,174	109,121	142,002	167,251	23.8
YoY Growth		6.8	30.1	17.8	
The Gioi Di Dong & Dien May Xanh	91,404	87,606	103,362	116,851	
Bach Hoa Xanh	10,770	21,515	38,640	50,400	
NPAT	3,836	3,957	5,556	6,987	32.9
YoY Growth		3.1	40.4	25.7	
The Gioi Di Dong & Dien May Xanh	4,730	4,454	5,943	6,903	
Bach Hoa Xanh	(894)	(497)	(386)	84	

Source: Respective company data, KIS

Recommend BUY with TP VND155,000

Based on 3-Y average PE multiple of 13.0x, we evaluate MWG share value at VND155,000 per share. At today (14 Oct, 2020) price of VND109,000, the total expected return is 43.6%, including 1.4% cash dividend yield. Our attractive return forecast bases on two core investment catalysts:

- **The effective efforts of Mobile World on minimizing impact of pandemic.** Despite being hit by weakening demand of mobile phones and consumer electronics, we expect that efforts to protect earnings of The Gioi Di Dong & Dien May Xanh coupled with profit margin improvement of Bach Hoa Xanh, will support Mobile World to complete 2020 business targets and achieve outstanding business results compared to the rest of market.
- **Strong earnings growth to remain intact post-2020,** thanks to management board's initiatives and strong business execution, highlighted by Dien May Xanh Super-mini format and Bach Hoa Xanh's NPAT contribution since 2022, per our estimates.

Table 2. Fair value calculation

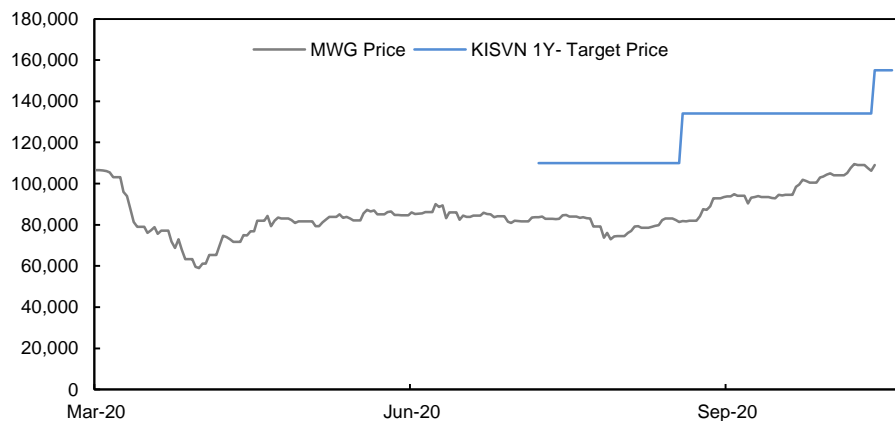
(VND bn, mn shares, VND, %)

	2020E	2021E	Remarks
Fair PE multiple		13.0	3-Y average PE of Mobile World's share
Net attributable profit	3,955	5,554	
Common outstanding shares	452.7	466.3	
Basic EPS	8,737	11,911	
Market Price		109,000	
Target Price	155,000		By the end of 2021
Annualized price return	42.2		
Expected dividend yield	1.4		
Total expected return	43.6		

Note: Separate NP excluding dividend
Source: KIS

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		
	09 Oct 20	BUY	155,000		

**■ Company overview**

Mobile World is the largest retailer of mobile phone and consumer electronics in Vietnam with current market shares of over 50% and 40%, respectively. Besides, MWG operates Bach Hoa Xanh chain, which specializes in grocery and fresh food retailing and has ballooning scale with 1,595 stores by the end of Aug 2020.

II. 2020 business operation to focus on earning protection

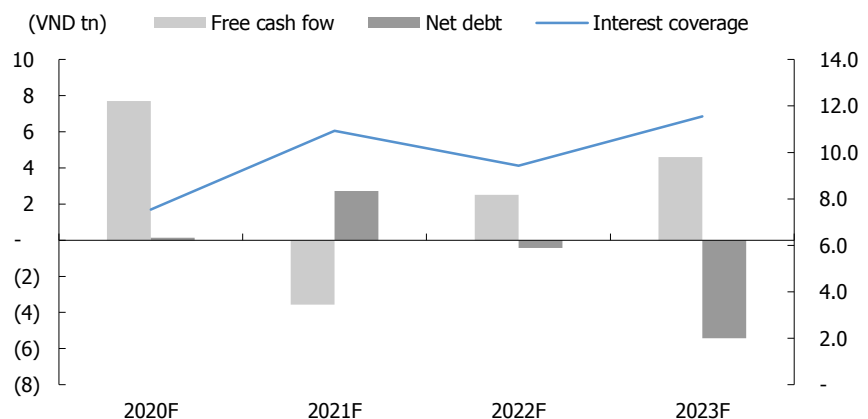
Mobile World to stay strong amid pandemic

Pandemic has impacted negatively on Mobile World's business results, focusing on mobile phones and consumer electronics, two largest revenue sources of Mobile World. Revenue of The Gioi Di Dong & Dien May Xanh recorded VND46,180bn (-2.9% yoy) in 1H20, which were hit by closed stores and weakening demand amid pandemic. Mobile World's revenue increased 7.8% yoy while NPAT dropped 4.4% yoy in 1H20 due to the increase of operating expense and remaining net loss of Bach Hoa Xanh.

In 2H20, we are concerned that the negative impact of pandemic on social income will extend in Viet Nam and undermine demand of mobile phones and consumer electronics. However, we expect that Mobile World will have better opportunities to outperform business results of the rest of market, premised by:

- **Advantage of store scale.** Mobile World has nationwide largest store network of mobile phones and consumer electronics with total 2,047 The Gioi Di Dong & Dien May Xanh stores. We expect large store scale, combined with top valuable retailer brand, will support Mobile World for protecting its market share and gross margin amid intense competition in 2H20.
- **Strong generated cash flow and healthy balance sheet.** By the end of Jun 2020, Mobile World has available cash of VND10,879bn, accounting for 28.3% of total asset. Besides, we estimate that Mobile World will gain free cash flow of VND7,708bn in 2020 and average free cash flow of VND2,218bn in period of 2020-2022. Strong free cash flow, coupled with low outstanding debt which accounts for 31% total capital by the end of Jun 2020, will support Mobile World for reducing financial risk as well as increasing Mobile World's price competition capacity versus its rivals.

Figure 1. Forecast for Mobile World's free cash flow, net debt & interest coverage



Source: KIS

Table 3. Mobile World's revenue vs Rest of market, 1H20

(VND bn, %)

1H20 yoy revenue growth	Mobile World	Rest of market
Mobile phones	(15)	(21)
Television	(5)	(17)
Refrigerator	10	(10)
Air conditioner	(2)	(6)
Washing machine	1	(10)

Source: GfK, Mobile World

Mobile World's NPAT to rise 3.1% yoy in 2020

In 2H20, we estimate The Gioi Di Dong & Dien May Xanh to decrease 6.7% yoy, mainly due to the yoy 7.4% decrease of revenue per store amid undermining demand. Curiously, The Gioi Di Dong will reach VND14,511bn revenue, decreasing 9.1% yoy and Dien May Xanh's revenue to decrease 5.3% yoy in 2H20.

Contrary to The Gioi Di Dong and Dien May Xanh, Bach Hoa Xanh has shown robust revenue growth during pandemic. In 2H20, we estimate Bach Hoa Xanh to reach VND12,056bn revenue, surging 81.3% yoy, driven by full revenue contribution of 478 stores opened in 1H20, which will cushion the yoy 13.2% decrease of monthly revenue per store in 2H20 due to revenue dilution impact of new stores locating in new provinces or sub-urban areas.

On the aspect of earnings, we have strong view that Mobile World will protect its earning successfully, based on several methods:

- **Increasing revenue contribution of high-margin products**, including small appliances, watches and accessories.
- **Maximizing revenue per store by switching from high-traffic The Gioi Di Dong stores to Dien May Xanh stores** as Dien May Xanh store has higher revenue per store than that of The Gioi Di Dong store. We estimate 49 The Gioi Di Dong stores will be converted to Dien May Xanh stores by the end of 2020, accounting for 75% Dien May Xanh's new store opened in 2020 (excluding Dien May Xanh Super-mini's store count).
- **Promoting after-sales service to strengthen customer loyalty**. The negative impact of pandemic will erase retailers with weak brand, small market shares and high financial leverage. Therefore, customers will be likely to choose top retailers to receive stable long-term customer support.
- **Expanding Bach Hoa Xanh's profit margins by scaling distribution centers (DCs)**, which will optimize the distance between DCs and stores. By the end of Jun 2020, Mobile World has total 12 DCs and targets to reach 14 DCs by the end of this year.

In overall, despite of facing weakening demand of mobile phones and consumer electronics, we expect Mobile World to achieve more optimistic results than rest of market thanks to management board's solutions and strong executions to protect earning. In overall, we estimate Mobile World to deliver VND53,482bn revenue (+5.8% yoy) and VND1,930bn (+12.5% yoy) NPAT in 2H20. Aggregate 2020, Mobile World will reach revenue and NPAT at VND109,121bn (+6.8% yoy) and VND3955bn (+3.1% yoy), completing 99% and 115% business guidance, respectively.

Table 4. Forecast for Mobile World's business results in 2H20 & 2020 (VNDbn, %)

	1H19	2H19	2019	1H20	2H20	2020
Revenue	51,621	50,553	102,174	55,639	53,482	109,121
YoY Growth				7.8	5.8	6.8
Gross profit	9,182	10,306	19,488	11,930	11,602	23,532
YoY Growth				29.9	12.6	20.8
Operating profit	2,720	2,257	4,977	2,829	2,515	5,344
YoY Growth				4.0	11.4	7.4
NPAT	2,120	1,715	3,834	2,025	1,930	3,955
YoY Growth				(4.4)	12.5	3.1

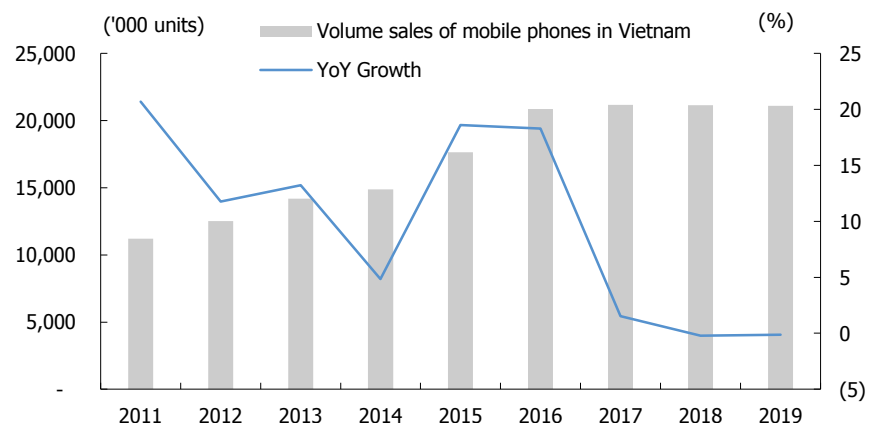
Source: KIS

III. Super-mini format to fuel Dien May Xanh' earnings

1. Mobile World's revenue of mobile phones to drop in 2021

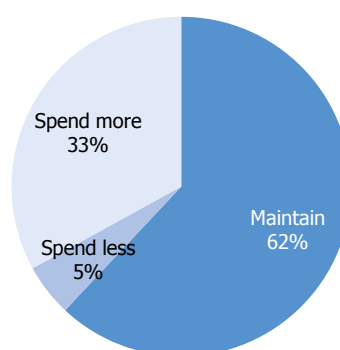
Vietnam mobile phones segment is reaching maturity

Sales of mobile phones in Vietnam reached 21.1 mn units in 2019, decreasing slightly 0.14% yoy and posting 5-year CARG of 4.6% in 2015-2019, lower than 12% 5-year CAGR of 2011-2015, per EuroMonitor. The volume deceleration of mobile phones in Vietnam has signaled the mature phase of this product lines. In our view, sales volume of mobile phones has slowed down because Vietnamese consumers has found satisfaction with their existing smartphone's function. After several times upgrading their smartphones, Vietnamese consumers have not found more significant differences of utility in new smartphone models. This factor will undermine the demand for smartphone replacement in the context of lacking technology breakthrough on smartphone in the coming years. According to Deloitte's pre-pandemic survey, 68% Vietnamese consumers in survey will likely maintain or less increase their expenditure in mobile phones.

Figure 2. Volume sales of mobile phones in Vietnam, 2014-2019

Source: EuroMonitor

Figure 3. Statistic of Vietnam expenditure on mobile phone



Source: Deloitte

The Gioi Di Dong's revenue of mobile phones to drop 15.2% in 2021

We estimate The Gioi Di Dong's revenue will record VND24,572bn (-15.2% yoy) in 2021 due to:

- **The decrease in revenue of mobile phones** as the result of store conversion as Dien May Xanh has lower mobile phones revenue per store compared to that of The Gioi Di Dong.
- **Slow demand recovery amid the negative impact of pandemic on social income.** Despite of Vietnam's efforts to control pandemic, we are concerned that pandemic will refrain the recovery of social expenditure in 2021. According to Asian Development Bank (ADB), in case of controlling successfully pandemic's spread, Vietnam unemployment rate of young labor can still record 10.8% in 2020, increasing significantly compared to figure of 6.9% in 2019.
- **Lower demand of replacing smartphones** as Vietnamese consumers have found it fully satisfied with their existing smartphones. Besides, current pandemic's spread in developed countries will delay the new launch of new smartphone versions as well as the application of new technology breakthrough.

Dien May Xanh places footnotes in small communities

2. Dien May Xanh super-mini to unlock unmerited demand

In Jun 2020, Dien May Xanh launched new format named "Dien May Xanh Super-mini". Compared to Dien May Xanh Large and Dien May Xanh Mini, Dien May Xanh Super-mini has smaller size at 120-150 sqm. However, Dien May Xanh Super-mini still has almost full product lines, distributing its every 25% space for consumer electronics (CEs), information & communications technologies (ICTs), small appliances (SAs) and white goods (WGs). Dien May Xanh Super-mini has not sold laptop, one of highest-revenue product of Dien May Xanh in 2020, as management board found that laptop demand in small communities still remains unattractive for promoting sales of this product in small communities.

Table 5. Store formats of Dien May Xanh

Dien May Xanh Large	Dien May Xanh Mini	Dien May Xanh Super-mini
<ul style="list-style-type: none"> • 310 stores • 18,000 store visits/month • Size: 800-1,200 m2 • Revenue/store: VND8-30bn 	<ul style="list-style-type: none"> • 760 stores • 15,000 store visits/month • Size: 300-350 m2 • Revenue/store: VND4-8bn 	<ul style="list-style-type: none"> • 300 stores in 2020 (plan) • Size: 120-150 m2 • Revenue/store: VND1-1.2bn

Source: Mobile World

Per management, Dien May Xanh Super-mini will be placed in areas and cities that Dien May Xanh has not placed its footsteps. In 2-month trial operation with 17 stores opening in Tien Giang Provinces from Jun 19 to Aug 21, Dien May Xanh Super-mini has achieved monthly average revenue of VND1.2bn per store, receiving initial optimistic acceptance of customers.

Table 6. Business result of Dien May Xanh Super-mini's trial operation (VND bn, %)

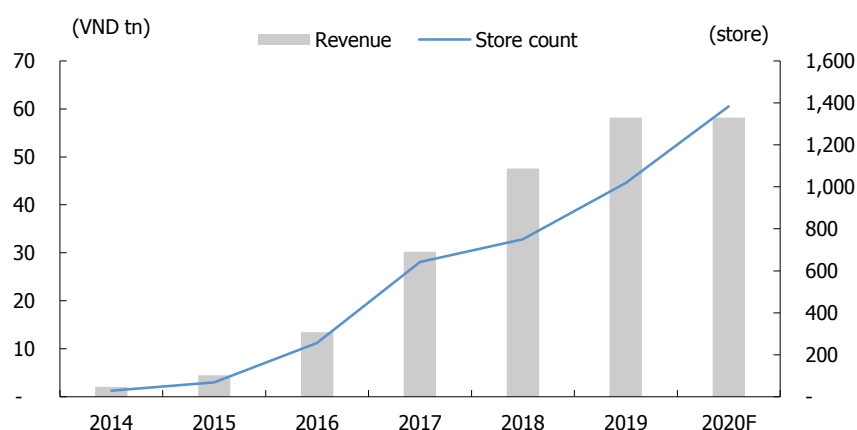
	Mobile World	Dien May Xanh Super-mini
Revenue	8,669	1084
Gross margin	21.7	23
Operating expense ratio	17	17.3
Net margin	3.8	4.6

Source: Mobile World

We believe Super-mini format will support Dien May Xanh for capturing unmerited demand and expand its domestic market share in the period of 2020-2022, driven by:

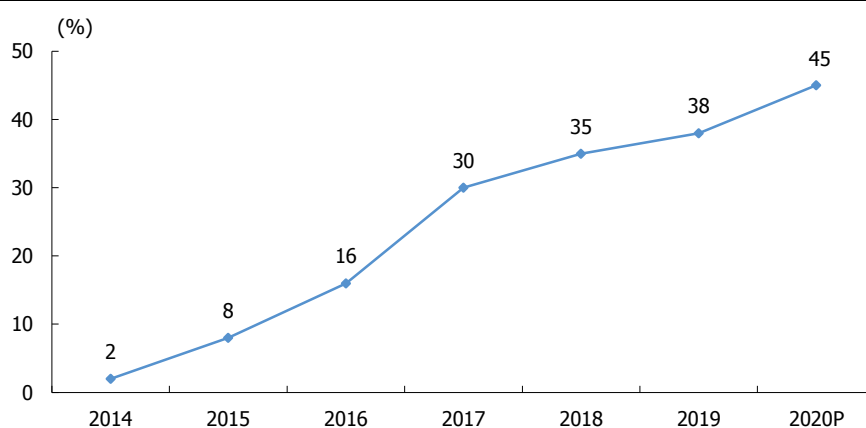
- **Penetration to small communities with fitting format.** Unlike to city market, small communities, especially rural areas, have sparse population density, lower income per capita and expenditure focusing more on household spending. Super-mini format with smaller size, extensive store network, wide range product lines of small appliances and full after-sales service, will be Dien May Xanh's appropriate format to unlock demand in small communities.
- **Capturing underserved demand in small communities.** According to Vietnam General Statistics Office, rural population accounts for 65% total Vietnam population. While mobile phones and consumer electronics retailing in urban areas have developed comprehensively on complete standardized format, retailing market in rural areas have still fragmented with low product quality, unidentified origin and worse after-sales services. In order to find genuine goods, rural customers have to move further to cities to find reliable retailers. We expect Mobile World's footsteps in rural areas with standardized format, strong sales competition capacity, high-qualified sales-after services will be suitable strategies to take advantage of these market weak points and reinforce Dien May Xanh's position as domestic leading retailer.

Figure 4. Dien May Xanh's revenue & store count, 2014-2020F



Source: KIS

Figure 5. Dien May Xanh's domestic market share, 2014-2020P



Source: Mobile World

Super-mini format will operate at lower expense margin. Although Super-mini format's size is half of Mini format's size, Super-mini format's leasing expense is only one-quarter of Mini format's leasing expense. Besides, applying all-in-one model, hiring less staffs, one manager's multi-store management and partly expense share from suppliers will motivate Super-mini format to deliver lower expense margin. According to business tracking of Mobile World, Dien May Xanh Super-mini format reached gross margin and profit margin of 23% and 4.6%, respectively, higher than those of the whole Mobile World.

Table 7. Business results of Dien May Xanh's Super-mini format

(VND bn, %)

	2020F	2021F	2022F
Revenue	466	9,389	15,804
Store	300	1,004	1,191
NPAT	21	506	851
NPAT margin	4.6	5.4	5.4
NPAT growth		2,262	68

Source: KIS

Strong NPAT recovery for The Gioi Di Dong & Dien May Xanh in 2021

3. Dien May Xanh to reinforce the role of Mobile World's earning growth driver

We expect that demand of consumer electronics will start to recover from the early 2021. Owing large store network, leading market share, support from strong cash flow and management board's cost-saving initiatives will support Dien May Xanh for maintaining top retailer position in consumer electronics market. Besides, the role of Dien May Xanh as Mobile World's earning growth pillar will be bolstered by store scale acceleration of Dien May Xanh Super-mini in period of 2020-2022, which we expect to expand Dien May Xanh's market share and profit margins in the coming years.

We estimate Dien May Xanh to reach revenue of VND69,401bn (+19.3% yoy) in 2021. In summary, The Gioi Di Dong & Dien May Xanh can reach revenue of VND103,362bn (+18% yoy) in 2021 and VND116,851bn (+13% yoy) in 2022. The Gioi Di Dong & Dien May Xanh's NPAT to reach VND5,943bn (+33.4% yoy) in 2021 and VND6,903bn (+16.2% yoy) in 2022, at net margin of 5.7% and 5.9%, respectively. We estimate The Gioi Di Dong & Dien May Xanh's NPAT growth and NPAT margin will elevate at high double-digit growths in the coming years thanks to:

- **Larger revenue contribution of high-margin products**, including household appliances and watches, will expand The Gioi Di Dong & Dien May Xanh's gross margin.
- **Store scale acceleration of Dien May Xanh Super-mini** will boost Dien May Xanh's revenue in rural areas. Per management, Dien May Xanh Super-mini targets to own 300 stores, 1,000 stores and 1,200 stores. Management board expects Super-mini format to motivate Dien May Xanh to achieve domestic market share of 60% by the end of 2022. As management board has continuously shown disciplinary execution in completing business guideline, combined with the confirmed success of Dien May Xanh retailing format, we have expectation that Dien May Xanh Super-mini will gain its success to fulfill management board's ambition.

We estimate Dien May Xanh Super-mini to attribute VND506bn NPAT and VND851bn NPAT to Dien May Xanh's revenue in 2021 and 2022, equivalent to NPAT portion of 8.5% and 12.3%, respectively.

Table 8. Business results of The Gioi Di Dong & Dien May Xanh

(VND bn, %)

	2020F	2021F	2022F
Revenue	87,606	103,362	116,851
Total stores	2,347	3,147	3,447
YoY Growth	(4.2)	18.0	13.0
Gross profit	18,393	22,082	25,391
YoY Growth	5.5	20.1	15.0
Operating profit	5,840	7,405	8,885
YoY Growth	(1.6)	26.8	20.0
NPAT	4,454	5,943	6,903
YoY Growth	(5.8)	33.4	16.2

Source: KIS

IV. Bach Hoa Xanh to set Mobile World's leading position in grocery modern trade market

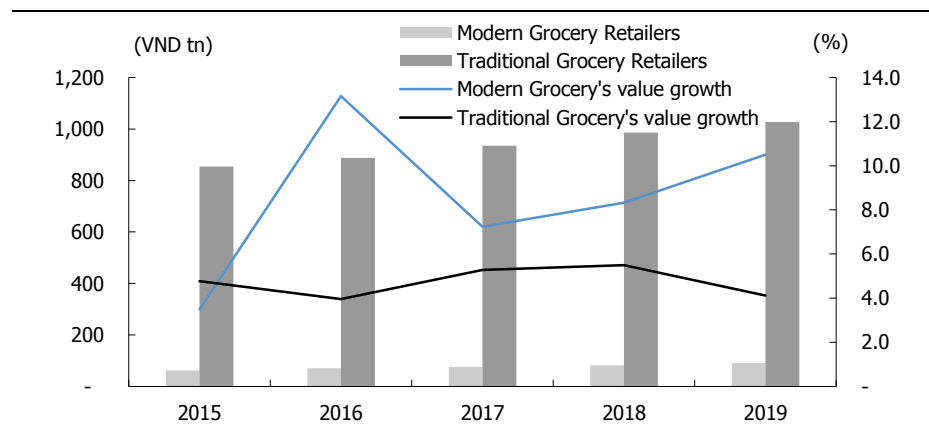
1. Modern trade format has large development potentials

Modern trade format has lead the value growth of Vietnam retailing market

In Vietnam, modern grocery trade format has reached higher value growth than that of traditional grocery format in Viet Nam, as reaching 5-year CAGR sales value growth of 7.8% versus 3.8% growth of traditional grocery format in the period of 2015-2019. In 2019, while trade value of traditional market and traditional grocery store grew by only 3% yoy, supermarket format grew at higher growth, reaching 10% yoy.

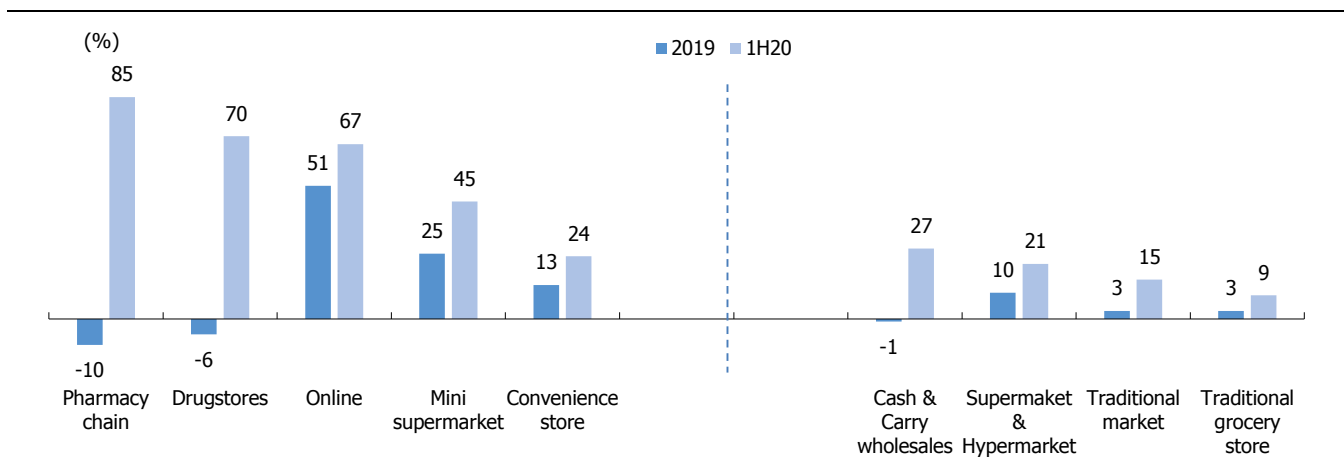
Modern trade format elevated at high double-digit growth in 1H20 thanks to the increase of grocery demand amid pandemic. Particularly, trade value of supermarket rose by 21% yoy. In which, mini supermarket surged by 45% yoy, surpassing the growth of traditional market (+15% yoy) and traditional grocery store (+9% yoy) in 1H20. As trade value accelerated, urban market shares of supermarket format widened to 15% and 6.2% in 1H20, respectively.

Figure 6. Sales value of Traditional trade market vs Modern trade market



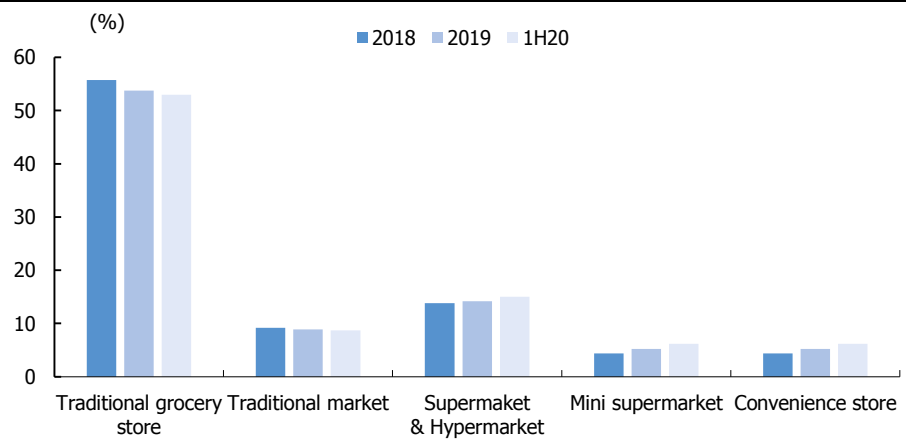
Source: EuroMonitor

Figure 7. Trade value growth of retailing market by channel



Source: Kantar Worldpanel

Figure 8. Market share of Vietnam retailing market by channel, 2018-1H20



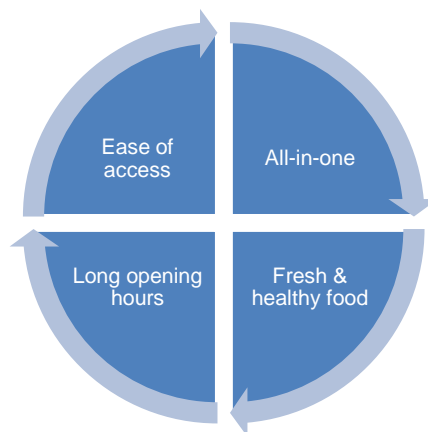
Source: Kantar Worldpanel

Growth prospect of modern grocery trade format to remain intact

In our view, modern trade has large potentials to accelerate its market share in Viet Nam in the long term, backed by:

- **Potential upside on market share, gained from traditional grocery format**, thanks to the fact that 92% market share of retailing market still belongs to traditional trade retailers.
- **More advantages of modern trade format, compared to traditional trade format in fitting demand of urban customers**. Including All-in-one standardized format, fresh & healthy food, long opening hours and ease of access via large store scale, modern trade format will be fitter with urban living style and provide better shopping experience for urban customers than traditional trade format.

Figure 9. The advantages of modern trade format



Source: KIS

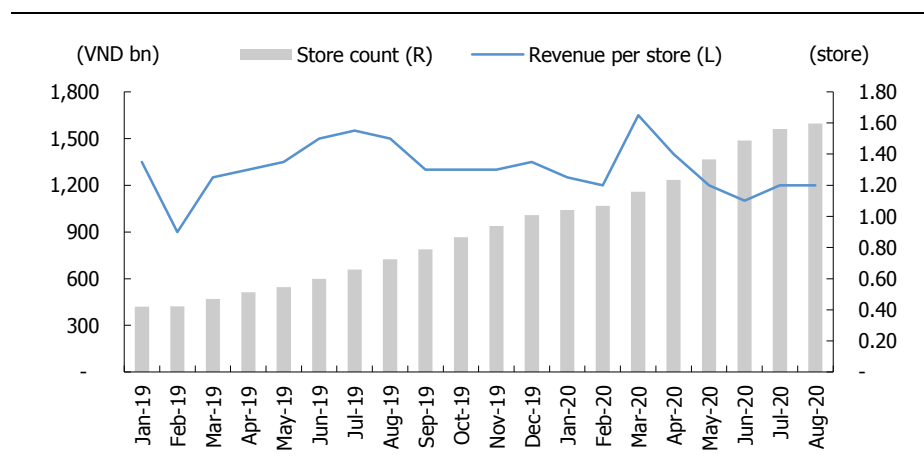
Bach Hoa Xanh to maintain its revenue surge post-2020

2. Bach Hoa Xanh to make profit after tax in 2022

Bach Hoa Xanh has proven its resistance against pandemic as reaching revenue blossom in both pandemic waves. Basing on growth prospect of modern trade format, we expect Bach Hoa Xanh to maintain its role as Mobile World’s revenue growth driver, thanks to:

- **Full-year revenue contribution of annual new store opening.** We estimate Bach Hoa Xanh to open 792 stores in 2020. Besides, we estimate Bach Hoa Xanh to open average 500 stores per year in period of 2020-2022. Despite of the impact of revenue per store dilution as new stores will be opened far away from Tier-1 cities, the continuance of store expansion will maintain Bach Hoa Xanh’s double-digit revenue growth in the coming years.

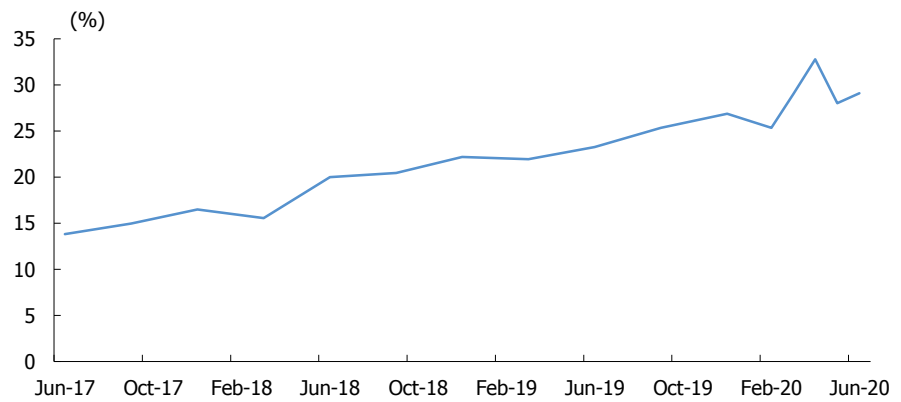
Figure 10. Bach Hoa Xanh’s store count and monthly revenue per store



Source: KIS

- **Customer traffic of mini supermarket in urban areas to increase post-pandemic.** After recognizing peak demand in Apr 2020, customer traffic of mini supermarket has still extended its long-term increase trend with nearly 30% urban customers visiting mini supermarkets in Jun 2020. Until now, mini supermarket format has accessed to 66% households in urban communities, increasing by 240,000 households in the period of Jun 2019-Jun 2020. As urban customers has just visited mini supermarket 4 times per quarter and spent by only VND100k per store visit, we expect that mini supermarket in urban communities to see the long-term increase in both traffic and trade value.

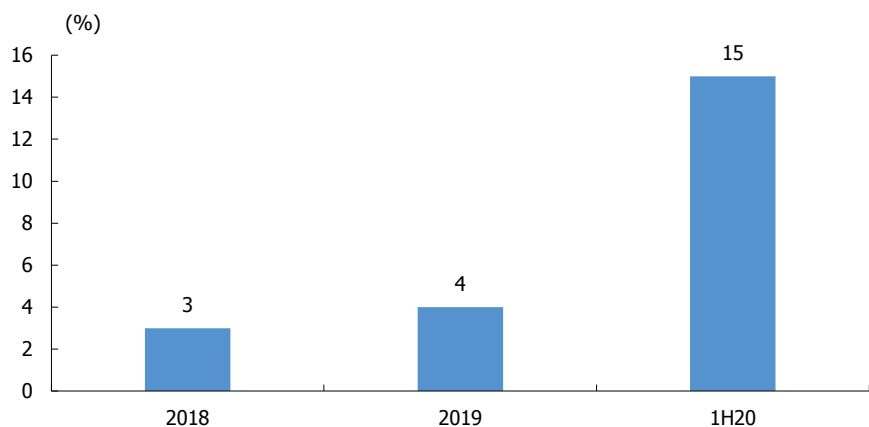
Figure 11. Monthly percentage of customer purchasing in mini supermarket in urban communities , Jun 2017 - Jun 2020



Source: Kantar Worldpanel

- Mini supermarket penetrates to rural communities.** Beside placing successful footsteps in urban communities, mini supermarket is penetrating to rural communities with Bach Hoa Xanh as the leading retailers. Diversified categories of product lines, better quality of fresh products and product's clear origin establish the competitive advantage for mini supermarket in rural communities, compared to traditional market. Customer percentage of mini supermarket in rural communities has reached 15% in 2019, surging by 5 times after 3 years. Although rural customer's expenditure in mini supermarket is equivalent to urban customer's expenditure, their store visit just remains once per quarter, signaling large upside for trade value growth of this modern trade format in the coming years.

Figure 12. Percentage of customer purchasing in mini supermarket in rural communities, 2018-1H20



Source: Kantar Worldpanel

Focusing on cost optimization

After 2-year store scale acceleration, Bach Hoa Xanh will decelerate its store scale and focus on cost optimization. Particularly, the increase of DCs number, which management board targets to reach 14 DCs by the end of 2020, will improve distribution distance between DCs and stores and reduce spoilage rate, leading to higher gross margin and operating margin.

In overall, we estimate Bach Hoa Xanh to deliver revenue of VND38,640bn in 2021 and VND50,400bn in 2022, equivalent to 3-year CAGR growth of 53.1% in 2020-2022. Revenue growth will be supported by total 1,500 stores opened in 3 years till 2022 and average monthly revenue per store of VND1.5bn. Moreover, basing on store scale deceleration, we expect Bach Hoa Xanh will have made profit after tax solidly since 2022.

Table 9. Business results of Bach Hoa Xanh

(VND bn, %)

	2019	2020F	2021F	2022F	2023F	2024F
Revenue	10,770	21,515	38,640	50,400	63,360	77,520
Stores	1,008	1,800	2,300	2,800	3,300	3,800
YoY revenue growth	149.0	99.8	79.6	30.4	25.7	22.3
Gross profit	2,046	5,140	9,467	12,852	16,790	21,318
Gross margin	19.0	23.9	24.5	25.5	26.5	27.5
EBIT	(894)	(496)	(386)	84	832	1,892
EBIT margin	(8.3)	(2.3)	(1.0)	0.2	1.3	2.4
NPAT	(894)	(496)	(386)	84	832	1,690
Net margin	(8.3)	(2.3)	(1.0)	0.2	1.3	2.2

Source: KIS

Balance sheet

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Current assets	18,384	23,103	34,187	37,993	51,392
Cash & cash equivalents	3,411	3,800	6,252	13,094	17,040
Accounts & other receivables	2,923	1,856	2,190	3,219	4,189
Inventory	12,050	17,446	25,745	21,679	30,162
Non-current assets	3,499	3,650	5,548	6,900	7,310
Fixed assets	3,499	3,590	5,491	6,843	7,253
Investment assets	-	60	56	56	56
Others	939	1,370	1,973	657	657
Total assets	22,823	28,123	41,708	45,550	59,359
Advances from customers	22	38	81	82	106
Unearned revenue	-	-	0.3	-	-
Trade payables	7,373	8,245	12,055	12,527	13,410
Others	2,715	3,812	3,274	4,090	5,456
ST debt & due bonds	5,604	5,836	13,031	12,104	18,648
LT debt & bonds	1,200	1,208	1,122	1,122	1,122
Total liabilities	16,914	19,139	29,565	29,926	38,742
Controlling interest	5,906	8,977	12,136	15,614	20,604
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	10,426	15,280
Minority interest	3	6	8	10	13
Shareholders' equity	5,909	8,983	12,144	15,624	20,617

Cash flow

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
C/F from operations	2,664	2,261	(1,286)	10,801	682
Net profit	2,207	2,880	3,836	3,957	5,556
Dep'n & Amort'n	690	1,223	1,443	1,636	2,040
Net incr. in W/C	(233)	(1,842)	(6,565)	5,208	(6,914)
C/F from investing	(2,120)	(2,344)	(5,873)	(2,555)	(2,716)
Capex	(2,065)	(1,495)	(3,066)	(2,497)	(2,450)
Incr. in investment	(55)	(850)	(2,807)	(58)	(266)
C/F from financing	1,875	460	6,529	(1,404)	5,980
Incr. in equity	92	705	86	202	136
Incr. in debt	2,014	241	7,109	(927)	6,543
Dividends	(232)	(486)	(665)	(679)	(699)
C/F from others	(5)	13	3,082	-	-
Increase in cash	2,414	389	2,452	6,842	3,946

Income statement

(VND bn)

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Sales	66,340	86,516	102,174	109,121	142,002
COGS	55,198	71,224	82,686	85,588	110,453
Gross profit	11,142	15,292	19,488	23,532	31,549
SG&A expenses	8,363	11,421	14,511	18,189	24,530
Operating profit	2,779	3,871	4,977	5,344	7,018
Financial income	251	342	631	313	655
Interest income	35	85	344	313	655
Financial expenses	234	437	570	750	702
Interest expenses	233	436	568	750	702
Other non-operating profit	228	269	305	306	348
Gains/Losses in associates, subsidiaries and JV	-	(2)	(3)	-	-
Earnings before tax	2,809	3,786	5,053	5,213	7,319
Income taxes	602	906	1,217	1,256	1,763
Net profit	2,207	2,880	3,836	3,957	5,556
NP of controlling interest	2,206	2,879	3,834	3,955	5,554
EBITDA	3,469	5,094	6,420	6,980	9,059

Key financial data

FY-ending Dec.	2017A	2018A	2019A	2020F	2021F
Per-share data (VND, adj.)					
EPS	5,311	6,689	8,665	8,737	11,911
BPS	13,828	20,258	27,415	34,492	44,190
DPS	1,112	1,500	1,500	1,500	1,500
Growth (%)					
Sales growth	48.7	30.4	18.1	6.8	30.1
OP growth	39.5	39.3	28.6	7.4	31.3
NP growth	39.8	30.5	33.2	3.1	40.4
EPS growth	(30.1)	(6.6)	29.5	0.8	36.3
EBITDA growth	45.9	46.8	26.0	8.7	29.8
Profitability (%)					
OP margin	4.2	4.5	4.9	4.9	4.9
NP margin	3.3	3.3	3.8	3.6	3.9
EBITDA margin	5.2	5.9	6.3	6.4	6.4
ROA	11.7	11.3	11.0	9.1	10.6
ROE	45.3	38.7	36.3	28.5	30.7
Dividend yield	1.0	1.4	1.4	1.4	1.4
Dividend payout ratio	20.9	22.4	17.3	17.2	12.6
Stability					
Net debt (VND bn)	3,392	3,244	7,901	132	2,729
Net debt/equity (%)	57.4	36.1	65.1	0.8	13.2
Valuation (x)					
PE	20.5	16.3	12.6	12.5	9.2
PB	7.9	5.4	4.0	3.2	2.5
EV/EBITDA	15.2	10.3	8.9	7.1	5.7

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