

# Digital World (DGW)

## Conservative expectation for 1H23F

### Sluggish revenue in 4Q22

DGW's revenue in 4Q22 decreased by 49% yoy to VND4tn mainly driven by mobile phone distribution (revenue: VND1.7tn, -49% yoy). Distribution revenue of laptops & tablets came in at VND1,188bn, -64% yoy, (29% of distribution revenue), mobile phone distribution revenue downed 49% yoy to VND1,777bn (44% of distribution revenue) in 4Q22. The tumbling sales to instant retailers dragged the NPATMI to drop by 52% yoy to VND156bn despite flattish selling expenses. Accordingly, NPATMI margin was 3.8%, -0.3%p yoy in 4Q22.

### Inventory surged in 4Q22 due to low demand

The cash conversion cycle increased from 23 days in 4Q21 to 75 days in 4Q22, mainly due to larger stock of inventories for (1) slower-than-expected demand of ICT in the year-end sale season, and (2) tepid sales of new home appliances due to weak public awareness of brand. World Cup 2022 soccer event supported good sales of TV XiaoMi in 4Q22. DGW could intensify the promotions campaign, with assistance from brands, to clear the inventories in 2023F.

### Conservative expectation for 1H23F

Overall, the management anticipates that net revenue and net profit in 2023F will rise by 14% yoy and 15% yoy respectively, more significantly from 2H23, along with the expected to be lower interest rate and cooling of inflation. More specifically, DGW expects mobile phone sales in 2023F will improve by 13% yoy, office equipment sales up by 17% yoy, home appliance sale up by 65% yoy and the consumer good sale to surge by 157%.

### Climbing debt/equity ratio to 0.8

In 2022, DGW recorded a net cash outflow of VND1.3tn, mostly in 1Q44 for clearing trade payables and increasing inventories. D/E ratio climbed from 0.6 in 4Q21 to 0.8 in 4Q22 but is still at a controllable level, according to the management. DGW is facing higher interest expenses along with a larger short-term loan balance and higher interest rate, specifically, interest expenses rose by 91% qoq and 3.5x yoy to VND42bn in 4Q22. Interest expenses tripled yoy to VND99bn in 2022.

### Valuation

DGW is currently trading at TTM PE of 9.5x lower than 5-year average of 11.4x TTM PB of 2.7x is higher than 2.4x correspondingly. PE and PB is approaching 5-year average. We think this valuation is fair, given the ROE and ROA at 33.5% and 10.5% respectively in 2022.

Yr to	Sales	OP	NP	EPS	% chg	EBITDA	PE	EV/EBITDA	PB	ROE	DY
Dec	(VND bn)	(VND bn)	(VND bn)	(VND)	(YoY)	(VND bn)	(x)	(x)	(x)	(%)	(%)
2018A	5,937	143	111	2,722	40.8	149	14.9	16.3	2.2	15.0	2.0
2019A	8,488	199	164	3,920	44.0	206	10.4	10.7	1.8	19.3	1.2
2020A	12,536	278	267	6,191	57.9	284	6.6	5.1	1.5	25.7	2.5
2021A	20,923	686	654	7,390	19.4	692	5.5	4.6	2.0	44.6	1.2
2022P	22,059	805	684	7,297	(1.3)	798	5.6	3.7	1.6	33.5	4.7

12M rating **Non-rated**

12M TP

Up/Downside

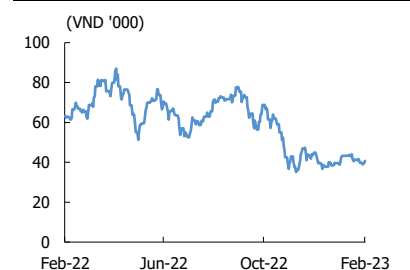
#### Stock Data

VNIndex (16 Feb, pt)	1,058
Stock price (16 Feb, VND)	40,650
Market cap (USD mn)	287
Shares outstanding (mn)	167
52-Week high/low (VND)	87,022/35,100
6M avg. daily turnover (USD mn)	2.35
Free float / Foreign ownership (%)	67.2/27.0
Major shareholders (%)	912
Created Future Ltd.	32.78
Probus Opportunities	5.1
JPMC EVLI Emerging Frontier Fund	4.81

#### Performance

	1M	6M	12M
Absolute (%)	4.8	(43.0)	(35.8)
Relative to VNIndex (%p)	5.4	(26.6)	(7.9)

#### Stock price trend



Source: Bloomberg

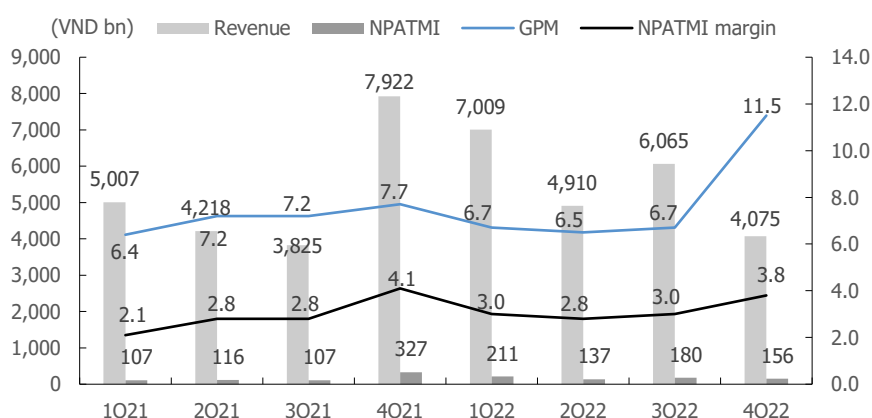
### Research Department

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## Sluggish revenue in 4Q22

DGW's revenue in 4Q22 decreased by 49% yoy to VND4tn mainly driven by mobile phone distribution, which downed 49% yoy to VND1.7tn. Revenue of DGW's distribution segment in 4Q22 mostly came from laptops & tablets of VND1,188bn (29% of distribution revenue, downed 64% yoy), mobile phone distribution of VND1,777bn (44% of distribution revenue, downed 49% yoy), office equipment of VND794bn (19% of distribution revenue, downed 14% yoy), and the home appliance of VND179bn (3% of distribution revenue, upped 47% yoy).

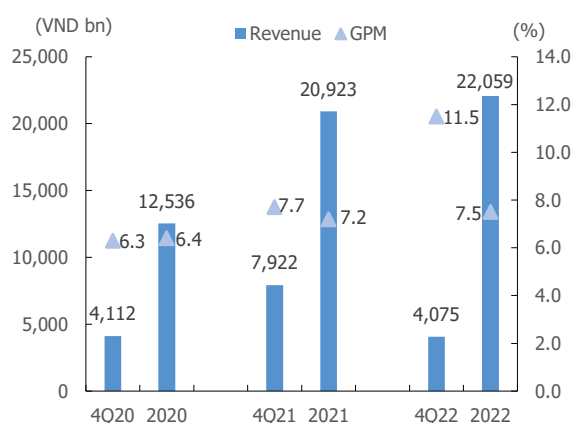
**Figure 1. DGW's quarterly performance**



Source: Company data, KIS

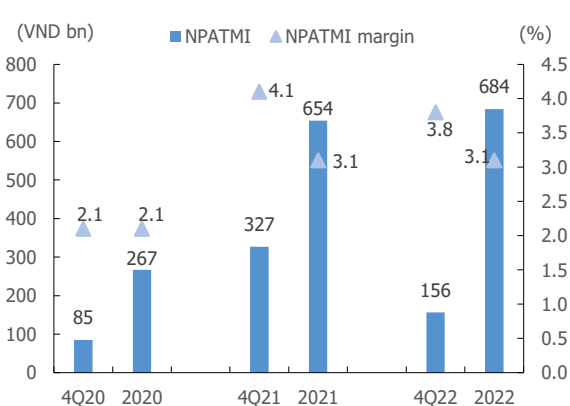
The company posted a gross profit of VND470bn in 4Q22, downed 23% yoy. However, GPM was 11.5%, grew by 3.8%p yoy compared to 4Q21, driven by the increase of iPhone, Xiaomi TV and others home appliances sales which bring a high-profit margin. Meanwhile, NPATMI dropped 52% yoy to VND156bn as selling expenses remained stable amid tumbling sales to instant retailers. Accordingly, NPATMI margin in 4Q22 was 3.8%, which fell by 0.3%p yoy.

**Figure 2. Movement of revenue & GPM**



Source: Company data

**Figure 3. Movement of NPATMI & NPATMI margin**

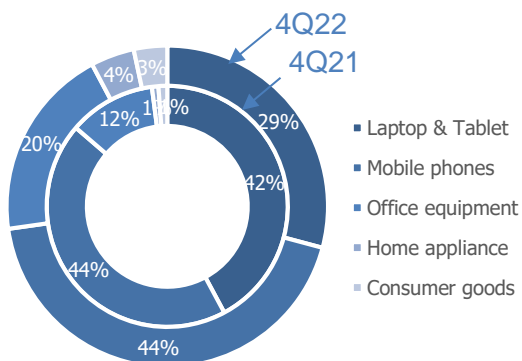


Source: Company data

Totally, revenue leaned by 5% yoy in 2022, in which, mobile phone sales (contributed to 49% of sales) grew 9% yoy to VND11tn. Office equipment went up by 27% yoy to VND3.3tn, contributed to 15% of sales. Home appliance grew fastest by 149% yoy to VND556bn. Consumer goods slightly upped by 6% to

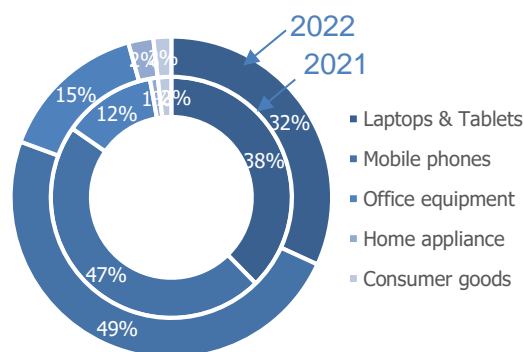
VND397bn, merely contributed to 2% of revenue. Laptop & tablet which contributed to 32% of sales, unfortunately dropped by 11% yoy to VND7tn in 2022. GPM in 2022 improved by 3%p yoy to 7.5% thanks to better product mix, meanwhile NPATMI margin stabled at 3.1%.

**Figure 4. Revenue structure in 4Q21 & 4Q22**



Source: Company data

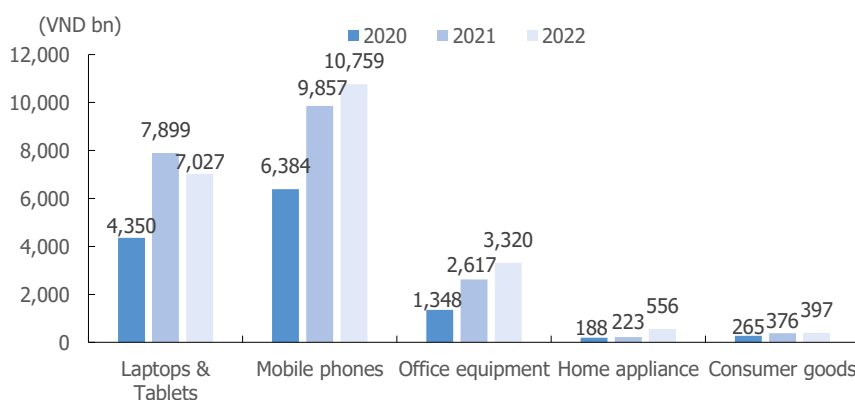
**Figure 5. Revenue structure in 2021-2022**



Source: Company data

### Conservative expectation for 2023F

**Figure 6. Revenue movement by product lines**



Source: Company data, KIS

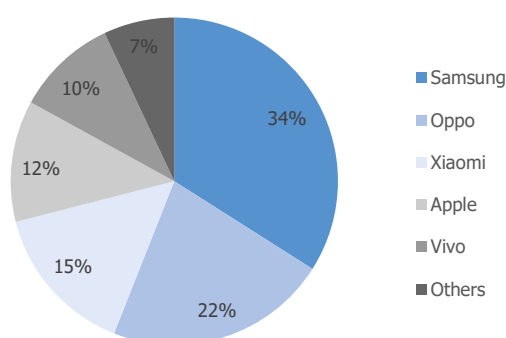
Overall, the management anticipated that net revenue and net profit in 2023F will rise by 14% yoy and 15% yoy respectively. CAGR of DGW's mobile phone sales in 2020-2022 was 30%. Xiaomi and iPhones (each took 30% of DGW's smartphone revenue) are key growth factors in DGW's smartphone sales. DGW expects mobile phone sales in 2023F will improve by 13% yoy. Xiaomi is the 3rd largest mobile brand in Vietnam, holding 15% of Vietnam's smartphone market and is targeting to get the 2nd position, under Samsung and over Oppo, with the strategy of increasing both selling prices and intense marketing activities. On the other hand, CAGR of DGW's laptop & tablet sales in 2020-2022 was 27%, which is expected to stay unchanged in 2023F. Which, Sale of office laptops is more positive than consumer laptop sales in 2023F.

Office equipment grew at a CAGR of 57% in 2020-2022. DGW plans to restructure Achison in 2023F, including cutting 10% of employees whilst keeping the management board. From which, office equipment sale is expected to grow by 17% yoy in 2023F. Home appliances increased at CAGR of 72%

respectively in 2020-2022. Recently, Home appliance sales also increased by 159% yoy to VND179bn in 4Q22 primarily driven by high Xiaomi TV sales during World Cup 2022, thanks to a competitive price. Home appliance sale is expected to grow by 65% yoy in 2023F.

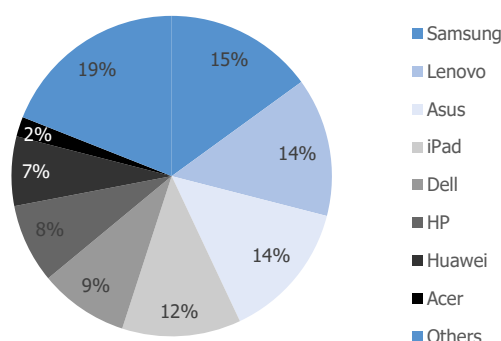
Consumer goods including pharmaceuticals, juice milk, beers, etc. with a high GPM of 15%-20% but contribute an insignificant proportion in DGW sales. In 2023F, DGW will expand distributing F&B goods via MT channels and expect the consumer good sale to surge by 157%.

**Figure 7. Market share of smartphone brands in Vietnam by YE22**



Source: IDC Vietnam

**Figure 8. Market share of laptop brands in Vietnam by YE22**

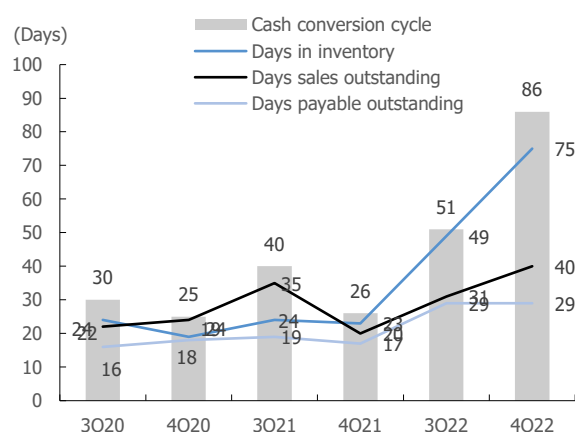


Source: Euromonitor

### High inventories and debt/equity ratio in 4Q22

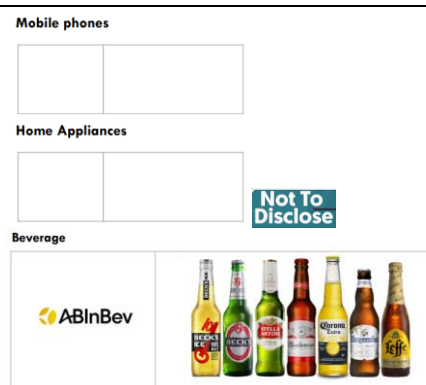
The cash conversion cycle increased from 23 days in 4Q21 to 86 days in 4Q22, mainly due to larger stock of inventories for (1) under-expected low demand of ICT in the year-end sale season, and (2) slow selling of new home appliances due to brand's under-awareness. DGW plans for promotions in 2023F, with assistance from brands, to clear the inventories.

**Figure 9. The conversion cash cycle increased**



Source: Company data

**Figure 10. New product lines in 1Q23**

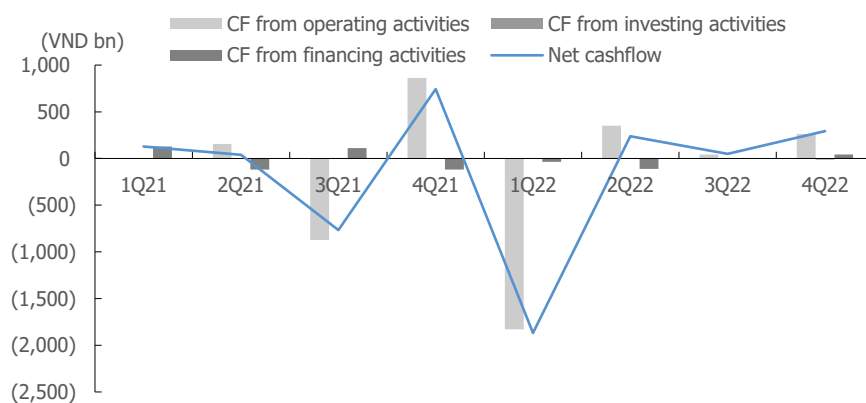


Source: Company data

In 2022, DGW recorded a net cash outflow of VND1.3tn, mostly in 1Q22 for clearing trade payables and increasing inventories. The D/E ratio climbed from 0.6 in 4Q21 to 0.8 in 4Q22 but still in a controllable level, according to the management. DGW is facing higher interest expenses along with a larger short-

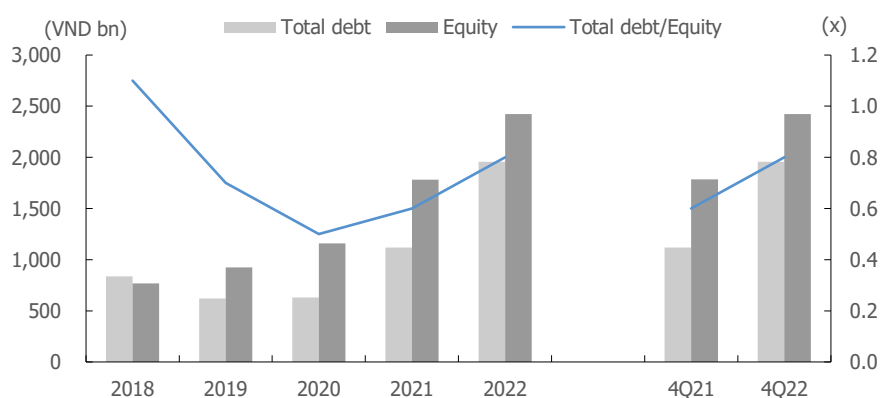
term loans balance and higher interest rate, specifically, interest expenses rose by 91% qoq and 3.5x yoy to VND42bn in 4Q22. Interest expenses tripled yoy to VND99bn in 2022.

**Figure 11. DGW's quarterly cashflow**



Source: Company data, KIS

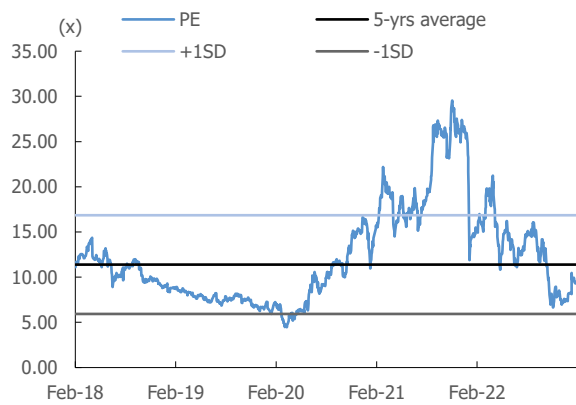
**Figure 12. D/E ratio surged in 2022**



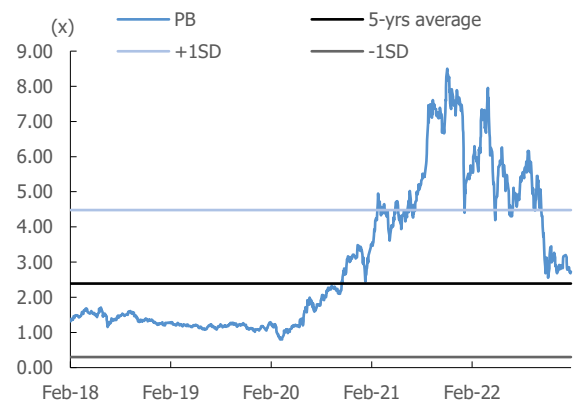
Source: Company data, KIS

## Valuation

DGW is currently trading at TTM PE of 9.5x lower than 5-year average of 11.4x. TTM PB of 2.7x is higher than 2.4x correspondingly. PE and PB is approaching 5-year average. We think this valuation is fair, given the ROE and ROA at 33.5% and 10.5% respectively in 2022.

**Figure 13. DGW's 5-year TTM PE**

Source: Company data

**Figure 14. DGW's 5-year TTM PB**

Source: Company data

**Company overview**

Established in 1997, Digiworld – The leading Market Expansion Services provider in Vietnam – has achieved many successes, especially in the ICT sector. With over two decades of building prestige, Digiworld has been the Market Expansion Services provider and authorized distributor for more than 30 world-renowned technology brands and has a distribution network of 16,000 points of sale nationwide.

**Balance sheet**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	1,502	2,118	2,288	2,862	6,256
Cash & cash equivalent	34	71	131	878	1,494
Accounts & other receivables	482	601	585	1,131	1,786
Inventory	883	1,314	1,454	827	2,888
Non-current assets (Adj.)	92	105	118	207	289
Fixed Asset	84	84	81	88	94
Investment assets	0	4	6	60	66
Others	109	144	144	75	199
Total assets	1,594	2,223	2,405	3,069	6,545
Advances from customers	3	13	2	67	72
Unearned revenue	0	0	0	0	0
Trade payables	229	547	700	941	2,844
Others	51	60	157	272	730
ST debt & bond	621	837	620	630	1,117
LT debt & bond	0	0	0	0	0
Total liabilities	905	1,457	1,480	1,910	4,764
Controlling interest	687	766	921	1,157	1,779
Capital stock	408	408	420	432	886
Share premium	61	61	61	61	61
Other reserves	0	0	0	0	0
Retained earnings	224	303	446	670	838
Minority interest	2	1	4	2	2
Owners' equity	689	766	925	1,159	1,781

**Cash flow**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	(232)	(126)	287	826	149
Net profit	78	110	163	267	655
Depreciation	5	5	6	6	6
Net incr. in W/C	(316)	(241)	117	553	(512)
C/F from investing	(14)	(11)	(2)	(58)	12
Capex	(1)	(6)	(2)	(13)	(12)
Incr. in investment	(13)	(5)	(0)	(46)	25
C/F from financing	248	173	(226)	(22)	455
Incr. in equity	10	0	12	12	12
Incr. in debts	265	206	(217)	9	488
Dividends	(28)	(32)	(21)	(43)	(44)
C/F from others	0	0	0	0	0
Increase in cash	1	37	59	746	617

**Income statement**

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	3,821	5,937	8,488	12,536	20,923
COGS	3,546	5,568	7,940	11,733	19,415
Gross profit	275	369	548	803	1,508
SG&A	182	226	349	525	822
Operating profit	93	143	199	278	686
Financial income	24	32	61	83	180
Interest income	1	0	0	1	1
Financial expenses	24	39	51	33	42
Interest expenses	23	32	48	27	32
Other non-operating profit	6	2	0	2	(2)
Gains (Losses) in associates, subsidiaries and JV	(0)	1	1	4	(2)
Earnings before tax	100	140	210	334	820
Income taxes	21	30	47	66	165
Net profit	78	110	163	267	655
Net profit of controlling interest	79	111	164	267	654
EBITDA	37	46	55	52	33

**Key financial ratio**

	2017A	2018A	2019A	2020A	2021A
<b>Per-share (VND)</b>					
EPS	1,933	2,722	3,920	6,191	7,390
BPS	16,918	18,808	22,045	26,849	20,116
DPS	680	797	498	996	499
<b>Profitability (%)</b>					
OP margin	2.4	2.4	2.3	2.2	3.3
NP margin	2.1	1.8	1.9	2.1	3.1
EBITDA margin	2.6	2.5	2.4	2.3	3.3
ROA	9.8	5.7	7.1	9.8	13.6
ROE (excl MI)	22.8	15.0	19.3	25.7	44.6
Dividend yield	1.9	2.2	1.4	2.7	1.4
Dividend payout ratio	35.2	29.3	12.7	16.1	6.8
<b>Stability</b>					
Net debt (VND bn)	587	766	489	(248)	(377)
Net debt/equity (%)	85.1	99.9	52.9	(21.4)	(21.2)
<b>Valuation (x)</b>					
PE	19.0	13.5	9.4	5.9	5.0
PB	2.2	2.0	1.7	1.4	1.8
EV/EBITDA	21.3	15.2	9.9	4.5	4.1

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- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

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- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

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Prepared by: Research Department



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