

Equity Update | January 4, 2018

We reiterate the BUY rating for MWG with a revised 12M TP of VND 162,500 (previously VND 131,000) – a 20.1% upside including 2018F DPS of VND 1,200. This upgrade is attributable to improved cash flows following strategic M&A made in 2017. Below are key investment highlights:

- #1 M&A: Tran Anh Group (HNX ticker: TAG) – From competitor to subsidiary.** MWG completed the negotiation to acquire c.95% stake of TAG – a leading electronics retailer with 16% market share in Northern Vietnam. The deal will be funded by the 5Y 6.55%-fixed corporate bond of US\$ 50mn issued in Nov-17, and MWG will possibly pay a premium over market prices. Though TAG's business performance is questionable (VND 5bn loss in 1H17), MWG expects to leverage TAG's 34 megastores (1,500-2,000 m² per store, mostly in Hanoi) to increase its footprint in the North. We anticipate the takeover would not be easy for MWG – a Southern Vietnam-based company – due to culture and store-size differences (typical DMX's store-size is 400-600 m²), and may take it 12-18 months to optimize the operation at TAG. The "TAG" brand would remain in the first 1-2 years before being replaced by MWG's own brand. We estimate TAG to generate c.VND 7,500bn in sales and c.VND 110bn in NPAT in 2018&19F (2017E: VND 3,500bn in sales & VND 16bn in loss).
- #2 M&A: An Khang (AK) – MWG's move into retail pharmacy.** In Dec-17, MWG announced the acquisition of the pharmacy retailer AK (established in 2006, 14 stores in HCMC). This M&A shows MWG's ambition to leverage its retail know-how in multi-sector to secure future growth, amid the flagship mobile retail chain TGDD has matured and the fast-growing electronics retail chain DMX would mature in 1-2 years. Though MWG aims to open 30-40 new AK stores in 2018, there is still no clear plan regarding how it will execute the expansion. Thus, we currently rule out AK's impact on the group financials and will revisit this case in further update.
- Bach Hoa Xanh (BHX) – Expecting profit from 2019F onwards.** BHX reported VND 1.2trn in sales with 208 new stores in 11M17 (now total 248 stores, 2016: 40 stores). We estimate this grocery retail chain to end 2017 with 280 stores, all locating in suburb districts for pilot testing. BHX is still making loss, of which the primary reason, in our opinion, is due to BHX has yet reached its optimal economies of scale. Thus, despite of the current loss, we believe BHX will certainly accelerate store expansion in 2018-19F with the target of ~2,000 new stores in 2 years. Accordingly, we estimate BHX to start making profit from 2019F thanks to 1) larger scale (2,000 stores by end-2019F, TVS Research estimates), 2) more effective product mix (BHX has trimmed down its SKU from 2,200 to 1,500 in 4Q17), 3) plenty room for raising selling prices (now 10-20% under wet-market rates), and 4) more effective control over inventory loss ratio (from 3-4% currently to 1% in 2019F). Our revised 2017F estimates for BHX: revenue VND 1.8trn with 240 new stores; SSSG 20-25%; gross margin 15%. See **Figure 1** for 2018-19F store expansion and sales forecasts.
- Dien May Xanh (DMX) – On the right track.** DMX reported 11M17 revenue of VND 26trn (+124% YoY), with 351 new stores (607 in total, 2016: 256 stores). The massive store addition is right on track with the management's target for DMX in 2017 before shifting their expansion focus for BHX in 2018-19F. Our revised 2017F estimates for DMX: revenue VND 28.5trn (+108.5% YoY) with 400 new stores; SSSG 17% (2016: 15%); gross margin 16.5% (+120 bps YoY thanks to higher supplier discount). See **Figure 1** for 2018-19F store expansion and sales forecasts.
- The Gioi Di Dong (TGDD) – Sign of maturity.** TGDD reported 11M17 revenue of VND 31.7trn (+14% YoY), with 117 new stores (1,068 in total, 2016: 951 stores). Comparing to 387 new stores in 2016, it's obvious the expansion has slowed down, implying sign of maturity. Our revised 2017F estimates for TGDD: revenue VND 34.1trn (+11.4% YoY) with 125 new stores; SSSG 2% (2016: 10%); gross margin 17.5% (+100 bps YoY thanks to higher supplier discount). See **Figure 1** for 2018-19F store expansion and sales forecasts.

BUY – Potential Upside 20.1%

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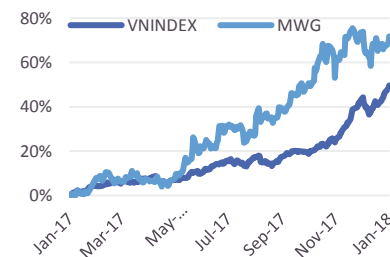
Target Price
 12-month price target: **VND 162,500**
 Expected 12-month dividend: **VND 1,200**

Trading Data and Key Metrics

Ticker	MWG
Sector	Electronics Retail
Listed since	July-2014
Price as of January 3, 2018	134,600
52-week range (VND'000)	77.5/138.6
Market cap (VND bn)	41,390
Shares outstanding (mn)	316.9
Free Float (mn)	224.4
15-day average volume	723,014
2018 P / BV forward (x)	4.6
2018 P / E forward (x)	16.5
Dividend yield (%)	0.82
Net Debt to Equity (x)	0.4

Source: TVS Research, Thomson Reuters Data

Price Performance Chart



Price performance	3M	12M	YTD
Absolute	+8.6%	+71.8%	+2.0%

Source: Bloomberg

Company Description

Mobile World Investment Corporation (MWG) is a leading B2C electronics and appliances specialist retailer in Vietnam. The Company operates two retail chains, namely thegioididong.com (1,068 stores) and dienmayxanh.com (607 stores) respectively specializing in retail sale of mobile devices (40% mkt. share) and household appliances (20% mkt. share). Besides that, the Company is piloting the grocery chain bachhoaxanh.com (currently 286 stores), which would fully operate from 2018 onwards, and the B2C e-commerce platform vuivui.com. The Company also acquired a pharmacy retail chain named An Khang with 14 stores in 2017. The Company's key competitive advantages include (1) nationwide store network and (2) in-house customized ERP system. Major shareholders are Founders & Related parties (30.5%) and PYN Elite Fund (9.1%).

SUMMARY FINANCIALS

Earning Model (VNDbn)	2016A	2017E	2018F	2019F
Net sales	44,613	64,521	82,306	100,830
Cost of sales	37,399	53,472	68,225	83,154
Gross profit	7,214	11,049	14,081	17,676
Selling expenses	4,288	6,675	8,462	9,995
General administration expenses	935	1,502	2,287	3,594
Other operating income/(expenses)	-1	11	14	17
EBITDA	2,360	3,447	4,169	5,190
Depreciation & Amortization	370	565	823	1,085
EBIT	1,991	2,883	3,346	4,104
Net interest income/(expenses)	15	22	24	54
Net investment income	0	0	0	0
Others (recurring)	0	0	0	0
Pretax Profit	2,006	2,905	3,370	4,159
Income tax	428	610	708	873
Tax rate (%)	21%	21%	21%	21%
Minorities	1	1	1	1
Net Income	1,577	2,294	2,662	3,284
EPS (basic, reported)	10,760	7,236	8,152	9,766
Weighted shares outstanding (mn)	154	317	327	336
Common dividends declared	0	0	0	0
DPS (VND)	1,500	1,100	1,300	1,500
Dividend Payout ratio (%)	14%	15%	16%	15%
Dividend cover (X)	7.2x	6.6x	6.3x	6.5x

Growth and Margin (%)	2016A	2017E	2018F	2019F
Sales Growth	76.7%	44.6%	27.6%	22.5%
EBITDA Growth	53.0%	46.1%	20.9%	24.5%
EBIT Growth	48.0%	44.8%	16.1%	22.7%
Net Income Growth	47.2%	45.4%	16.0%	23.4%
EPS Growth	47.3%	34.5%	12.7%	19.8%
Gross Margin	16.2%	17.1%	17.1%	17.5%
EBITDA Margin	5.3%	5.3%	5.1%	5.1%
EBIT Margin	4.5%	4.5%	4.1%	4.1%
Net Margin	3.5%	3.6%	3.2%	3.3%

Cash flow Statements (VNDbn)	2016A	2017E	2018F	2019F
Pretax profit	2,006	2,905	3,370	4,159
<i>Adjustments for:</i>				
Depreciation and amortization	370	565	823	1,085
Change in inventories	-4,504	-884	-2,829	-2,863
Change in trade receivables	-989	67	-49	-51
Change in trade payables	3,124	-216	1,372	1,230
Other operating cash flow	-610	727	-1,187	-1,478
Cash flow from operations	-604	3,163	1,500	2,082
Net Capital expenditure	-1,260	-1,792	-1,076	-1,494
Acquisition	0	0	0	0
Divestures	0	0	0	0
Other investments, net	2	-188	-168	-175
Cash flow from investing	-1,259	-1,980	-1,244	-1,669
Equity issued	0	0	0	0
Net borrowings	2,736	100	677	635
Dividends to shareholders	-220	-344	-399	-493
Other financing	0	0	0	0
Cash flow from financing	2,516	-244	278	143
Net cash flow	653	939	534	556
Opening cash	344	997	1,936	2,469
Forex change	0	0	0	0
Closing cash	997	1,936	2,469	3,025

Balance Sheet (VNDbn)	2016A	2017E	2018F	2019F
Cash and equivalents	997	1,936	2,469	3,025
Financial investment	0	0	0	0
Accounts receivable	243	177	225	276
Inventory	9,371	10,255	13,084	15,947
Prepaid expenses, other CA	1,677	2,425	3,094	3,790
Total current assets	12,288	14,793	18,873	23,039
Property and equipment				
At cost	2,784	4,740	6,222	8,242
<i>Less accumulated depreciation</i>	<i>-715</i>	<i>-1,279</i>	<i>-2,101</i>	<i>-3,186</i>
Net property and equipment	2,070	3,461	4,120	5,057
Net intangibles	27	26	26	25
Other long - term assets	422	610	779	954
Total Assets	14,806	18,891	23,798	29,075
Account Payables	4,683	4,468	5,840	7,070
Short-term debt	4,789	3,689	4,366	5,002
Other current liabilities, CL	1,493	2,159	2,754	3,374
Total Current Liabilities	10,965	10,315	12,960	15,445
Long-term debt	0	1,200	1,200	1,200
Other long-term liabilities	0	0	0	0
Total long-term liabilities	0	1,200	1,200	1,200
Stockholders' equity	3,841	7,375	9,638	12,430
Common Equity	1,540	3,170	3,265	3,363
Treasury shares	0	0	0	0
Retained earnings	2,262	4,165	6,333	9,026
Budget sources and other funds	38	38	38	38
Minority interest	2	2	2	2
Total liabilities and equity	14,806	18,891	23,798	29,075
Capitalized leases	0	0	0	0
Capital employed	3,841	8,575	10,838	13,630

Ratios	2016A	2017E	2018F	2019F
ROE (%)	41.1	31.1	27.6	26.4
ROA (%)	10.7	12.1	11.2	11.3
ROIC (%)	41.1	26.7	24.6	24.1
Inventory days	70	70	70	70
Receivable days	1	1	1	1
Payable days	29	30	30	30
Cash conversion cycle	42	41	41	41
Asset Turnover	3.0x	3.4x	3.5x	3.5x
Net debt/equity	1.0x	0.4x	0.3x	0.3x
Interest cover - EBIT(x)	16.6x	15.6x	15.3x	16.4x

Valuation (Multiples)	2016A	2017E	2018F	2019F
EV / EBITDA	10.2x	12.4x	10.5x	8.7x
P/E	14.5x	18.6x	16.5x	13.8x
Dividend Yield (%)	0.96	0.82	0.97	1.11
P/B	6.3x	5.8x	4.6x	3.6x

Notes: CA = current assets; CL = current liabilities

Source: Thomson Reuters historical data, TVS model and forecast

VALUATION & RECOMMENDATION

We reiterate the BUY rating for MWG with a revised 12M TP of VND 162,500 (previously VND 131,000) – a 19.1% upside, derived from both DCF (VND 162,000, see details in **Figure 2**) and P/E (VND 163,000 @ 2018F EPS of VND 8,150 & PER of 20x). With 2018F DPS of VND 1,200, total return is 20.1%. This upgrade is attributable to 1) improved cash flows following strategic M&A made in 2017 and 2) lower cost of equity following the drop of VN 10Y T-bond yield which is our benchmark for risk-free rate (-60 bps vs. last update of 5.9% p.a., Bloomberg). Though MWG currently trades at 16.5x 2018F PER and average global peers PER is 18.7x, we believe the Company deserves a forward PER of 20x on the back of its retail conglomerate position.

Key risks to valuation: (1) Fail to control loss ratio at BHX. The current loss ratio of BHX is 3% and we are assuming MWG is able control this ratio at 1% in long-term. A fail attempt to do so would pose significant downside risk to our valuation due to the thin profit margin in grocery retail. **(2) Fail to create synergy between existing and new ventures.** It is unlikely MWG will announce any other M&A in 2018-19F after 2 deals in 2017. Though MWG is the No.1 electronics retailer in Vietnam, moving in to new sectors (pharmacy) and market (Northern VN) always contain inherent risks that directly impact the group earnings and future cash flows.

Figure 1: 2018-19F store expansion and revenue growth projection

	2016A	2017E	2018F	2019F
The Gioi Di Dong				
SSSG	10.0%	2.0%	1.0%	1.0%
Old stores	564	951	1,076	1,176
New stores, net	387	125	100	50
Total stores	951	1,076	1,176	1,226
Avg monthly revenue_Old store (VNDbn)	3.4	2.7	2.7	2.6
Avg monthly revenue_New store (VNDbn)	1.7	1.9	1.6	1.6
Subtotal (VNDbn)	30,655	34,145	36,410	37,712
% growth	47.6%	11.4%	6.6%	3.6%
Dien May Xanh				
SSSG	15.0%	17.0%	15.0%	13.0%
Old stores	69	256	656	806
New stores, net	187	400	150	100
Total stores	256	656	806	906
Avg monthly revenue_Old store (VNDbn)	6.2	5.2	4.2	4.3
Avg monthly revenue_New store (VNDbn)	3.8	2.6	2.1	2.6
Subtotal (VNDbn)	13,709	28,570	36,612	44,452
% growth	205.9%	108.4%	28.1%	21.4%
Bach Hoa Xanh				
SSSG	na	25%	25%	20%
Old stores	1	40	280	800
New stores, net	39	240	520	1,200
Total stores	40	280	800	2,000
Avg monthly revenue_Old store (VNDbn)	0.5	0.6	0.7	0.7
Avg monthly revenue_New store (VNDbn)	0.5	0.5	0.5	0.6
Subtotal (VNDbn)	249	1,805	5,609	14,808
% growth	4050%	625%	211%	164%
Tran Anh				
Subtotal (VNDbn)	4,098	3,500	3,675	3,859
% growth	23%	-15%	5%	5%
Grand total (VNDbn)	44,613	64,521	82,306	100,830
% growth	76.6%	44.6%	27.6%	23%

Source: Company data, TVS Research

Figure 2: 10Y DCF-based target price calculation for MWG

(VND bn)		2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
EBIT		2,883	3,346	4,104	4,293	4,476	4,912	5,410	5,788	6,127	6,327
EBIT (1-tax)		2,277	2,643	3,242	3,392	3,536	3,880	4,274	4,573	4,840	4,998
D&A expenses		565	823	1,085	1,378	1,634	1,856	2,071	2,297	2,546	2,819
Change in working capital		-1,115	-1,579	-1,761	-1,575	-1,117	-844	-655	-507	-380	-281
Capex		-1,792	-1,076	-1,494	-1,127	-1,233	-1,315	-1,378	-1,427	-1,463	-1,490
FCFF		-65	811	1,073	2,068	2,821	3,578	4,313	4,937	5,543	6,046
PV of FCFF		-66	738	888	1,555	1,929	2,225	2,437	2,537	2,590	2,568
Beta	0.83										
WACC	10.0%										
Terminal growth rate	3.0%										
PV of Terminal value	37,839										
Enterprise value	55,239										
Less: Net debt	3,792										
Equity value	51,447										
Number of shares (mn)*	317.0										
Equity value per share (VND)	162,000										

Source: TVS Research

Note: Number of shares has included the estimated 3% ESOP issuance p.a.

ANALYST CERTIFICATION

I, **Dong Quang Trung**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

RATING and VIEWS

Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

RATING HISTORY and TARGET PRICE

Issued Date	Research	Recommendation	Market Price (VND)	01-year target price (VND)
January 3, 2018	Update	BUY	134,600	162,500
August 17, 2017	Update	BUY	107,400	131,000
June 8, 2017	Update	HOLD	97,000	108,000
March 6, 2017	Update	BUY	83,550	100,000
November 25, 2016	Update	BUY	81,050	95,000

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