

Equity Research | March 29, 2018

We reiterate BUY rating for MWG with a revised 12M TP of VND 158,500 (previously VND 162,500) – a 38.9% upside including 2018F DPS of VND 1,200. This revision is primarily due to the longer-than-expected BHX's breakeven period 1 year. Below are key investment highlights:

- **MWG – We are still convinced by the long-term success of BHX.** MWG reported net sales of VND 66.3trn (+49% YoY) and NPAT of VND 2,206bn (+40% YoY), beating our sales forecast by 3%. BHX – assumed as MWG's growth engine after 2018F – was still making loss. We expect this grocery chain would turn profitable no earlier than 2020F, which is 1 year longer than our prior estimate due to difficulties in acquiring new customers and optimizing operations. That said, we are still convinced by the long-term success of BHX though mid-term challenges and their unfavorable impact on MWG are inevitable.
- **BHX: "We will get there"** – A statement by Mr. Robert Alan Willett (MWG's board member & BestBuy International's ex-CEO) when being asked in the AGM whether BHX can survive and become the No.1 grocery retailer in Vietnam has confirmed the Company's confidence and commitment to replicate the success of TGDD & DMX in their "younger brother" BHX. Still, BHX is facing unsolved operating issues especially in fresh stock management, resulted in net loss of VND 161bn last year. We estimate 2018F revenue to be VND 4.5trn and net loss to be VND 338bn (-20% and +275% vs. prior estimates). GPM of fresh foods and packaged foods would extend 400bps and 100bps to 16% and 12% respectively. We expect BHX to turn profitable no earlier than 2020F with net sales of VND 27trn and NPAT of VND 297bn. Our estimated new BHX stores and SSSG in 2018/19/20F are 500/1500/1500 and 20%/25%/15% respectively.
- **DMX – High double-digit sales growth is expected in 2018F.** DMX was the key growth factor of MWG last year with VND 30.2trn in sales (+120% YoY) and 642 stores by end-2017 (+386 stores vs. 2016). For 2018F, we estimate DMX to continue being MWG's sales powerhouse given that 386 new stores opened last year will run full year. Particularly, sales is expected to climb to VND 41.5trn (+37% YoY) with 70-80 new stores. SSSG may decrease to 5% (2017: 6.5%) and GPM would increase to 17% (+80 bps YoY).
- **TGDD – Matured but still a major sales contributor.** TGDD posted VND 34.6trn in sales, up 13.2% despite of negative SSSG (-2%) for the first time after 13 years in market. MWG now plans no expansion for TGDD from 2018F onwards. We estimate 0% SSSG and 0 net new store for TGDD in 2018F. Accordingly, sales would grow slightly 4.2% YoY to VND 36trn, mostly attributable to 2017 new stores that will run full year.

Figure 1: Summary of key estimate revisions

All figure in VNDbn unless otherwise stated	New estimates		Old estimates		% change	
	2018F	2019F	2018F	2019F	2018F	2019F
	Net sales, in which:	86,339	98,373	82,306	100,831	4.9%
EBITDA	4,186	4,810	4,169	5,190	0.4%	-7.3%
Net Income	2,685	2,990	2,662	3,284	0.9%	-9.0%
EPS (VND)	8,225	8,892	8,152	9,766	0.9%	-8.9%
12M TP (VND)	158,500		162,500		-2.5%	

Source: TVS Research

BUY – Potential Upside 38.9%

Dong Quang Trung, Associate  
[trungdq@tvs.vn](mailto:trungdq@tvs.vn)

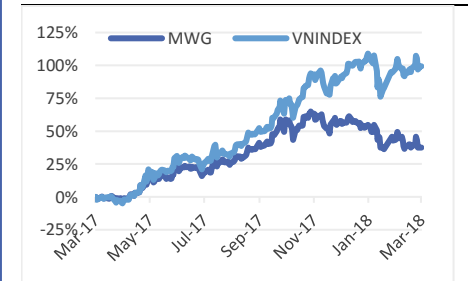
Target Price  
 12-month price target: **VND 158,500**  
 Expected 12-month dividend: **VND 1,200**

## Trading Data and Key Metrics

Ticker	MWG
Sector	Electronics Retail
Listed since	July-2014
Price as of March 27, 2018	115,000
52-week range (VND'000)	80.8/137.5
Market cap (VND bn)	36,813
Shares outstanding (mn)	316.9
Free Float (mn)	224.4
15-day average volume	701,833
2018 P / BV forward (x)	4.6
2018 P / E forward (x)	14.0
Dividend yield (%)	0.6
Net Debt to Equity (x)	0.6

Source: TVS Research, Thomson Reuters Data

## Price Performance Chart



Price performance	3M	12M	YTD
Absolute	-12.9%	37.5%	-12.2%

Source: Bloomberg

## Company Description

Mobile World Investment Corporation (MWG) is a leading B2C electronics and appliances specialist retailer in Vietnam. The Company operates 2 electronics retail chains, namely [thegioididong.com](http://thegioididong.com) (1,071 stores) and [dienmayxanh.com](http://dienmayxanh.com) (680 stores) respectively specializing in retail sale of mobile devices (40% mkt. share) and household appliances (35% mkt. share). Besides that, the Company also operates the grocery chain [bachhoaxanh.com](http://bachhoaxanh.com) (currently 362 stores), and the B2C e-commerce platform [vuivui.com](http://vuivui.com). In 2017, the Company acquired TranAnh Group – a electronics retailer in the North of Vietnam with 34 stores – and An Khang – a pharmacy retail chain with 14 stores. 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	2017A	2018F	2019F
<b>Net sales</b>	<b>44,613</b>	<b>66,340</b>	<b>86,339</b>	<b>98,373</b>
Cost of sales	37,399	55,198	71,744	81,505
<b>Gross profit</b>	<b>7,214</b>	<b>11,142</b>	<b>14,594</b>	<b>16,867</b>
Selling expenses	4,288	7,017	8,840	9,247
General administration expenses	935	1,347	2,425	3,914
Other operating income/(expenses)	-1	14	18	21
<b>EBITDA</b>	<b>2,360</b>	<b>3,481</b>	<b>4,186</b>	<b>4,810</b>
Depreciation & Amortization	370	690	839	1,082
<b>EBIT</b>	<b>1,991</b>	<b>2,792</b>	<b>3,347</b>	<b>3,727</b>
Net interest income/(expenses)	15	18	11	12
Net investment income	0	0	0	0
Others (recurring)	0	0	0	0
<b>Pretax Profit</b>	<b>2,006</b>	<b>2,809</b>	<b>3,358</b>	<b>3,740</b>
Income tax	428	602	672	748
Tax rate (%)	21%	21%	20%	20%
Minorities	1	1	1	1
<b>Net Income</b>	<b>1,577</b>	<b>2,206</b>	<b>2,685</b>	<b>2,990</b>
<b>EPS (basic, reported)</b>	<b>10,760</b>	<b>7,140</b>	<b>8,225</b>	<b>8,892</b>
Weighted shares outstanding (mn)	154	317	326	336
Common dividends declared	0	0	0	0
DPS (VND)	1,500	731	1,234	1,334
Dividend Payout ratio (%)	14%	10%	15%	15%
Dividend cover	7.2x	9.8x	6.7x	6.7x

Growth and Margin (%)				
Sales Growth	76.7%	48.7%	30.1%	13.9%
EBITDA Growth	53.0%	46.4%	20.2%	14.9%
EBIT Growth	48.0%	40.2%	19.9%	11.4%
Net Income Growth	47.2%	39.8%	21.7%	11.4%
EPS Growth	47.3%	-30.3%	15.2%	8.1%
Gross Margin	16.2%	16.8%	16.9%	17.1%
EBITDA Margin	5.3%	5.2%	4.8%	4.9%
EBIT Margin	4.5%	4.2%	3.9%	3.8%
Net Margin	3.5%	3.3%	3.1%	3.0%

Cash flow Statements (VNDbn)	2016A	2017A	2018F	2019F
Pretax profit	2,006	2,809	3,358	3,740
<i>Adjustments for:</i>				
Depreciation and amortization	370	690	839	1,082
Change in inventories	-4,504	-2,796	-2,897	-3,166
Change in trade receivables	-989	-1,299	-237	-234
Change in trade payables	3,124	3,969	1,596	1,220
Other operating cash flow	-610	-682	-1,726	-796
<b>Cash flow from operations</b>	<b>-604</b>	<b>2,690</b>	<b>934</b>	<b>1,847</b>
Net Capital expenditure	-1,260	-2,087	-1,190	-2,243
Acquisition	0	0	0	0
Divestures	0	0	0	0
Other investments, net	2	-55	0	0
<b>Cash flow from investing</b>	<b>-1,259</b>	<b>-2,142</b>	<b>-1,190</b>	<b>-2,243</b>
Equity issued	0	92	0	0
Net borrowings	2,736	2,006	723	1,261
Dividends to shareholders	-220	-232	-403	-449
Other financing	0	0	0	0
<b>Cash flow from financing</b>	<b>2,516</b>	<b>1,867</b>	<b>321</b>	<b>812</b>
<b>Net cash flow</b>	<b>653</b>	<b>2,414</b>	<b>65</b>	<b>416</b>
Opening cash	344	997	3,411	3,476
Forex change	0	0	0	0
<b>Closing cash</b>	<b>997</b>	<b>3,411</b>	<b>3,476</b>	<b>3,892</b>

Balance Sheet (VNDbn)	2016A	2017A	2018F	2019F
Cash and equivalents	997	3,411	3,476	3,892
Financial investment	0	0	0	0
Accounts receivable	243	1,442	1,679	1,913
Inventory	9,371	12,050	14,947	18,112
Prepaid expenses, other CA	1,677	1,961	2,631	3,043
<b>Total current assets</b>	<b>12,288</b>	<b>18,864</b>	<b>22,732</b>	<b>26,959</b>
<b>Property and equipment</b>				
At cost	2,784	4,833	6,022	8,265
<i>Less accumulated depreciation</i>	<i>-715</i>	<i>-1,397</i>	<i>-2,311</i>	<i>-3,391</i>
Net property and equipment	2,070	3,436	3,711	4,874
Net intangibles	27	28	29	27
Other long - term assets	422	486	753	907
<b>Total Assets</b>	<b>14,806</b>	<b>22,813</b>	<b>27,225</b>	<b>32,768</b>
Account Payables	4,683	7,372	8,968	10,188
Short-term debt	4,789	5,604	6,327	7,588
Other current liabilities, CL	1,493	2,737	2,546	3,066
<b>Total Current Liabilities</b>	<b>10,965</b>	<b>15,712</b>	<b>17,841</b>	<b>20,842</b>
Long-term debt	0	1,192	1,192	1,192
Other long-term liabilities	0	0	0	0
<b>Total long-term liabilities</b>	<b>0</b>	<b>1,192</b>	<b>1,192</b>	<b>1,192</b>
<b>Stockholders' equity</b>	<b>3,841</b>	<b>5,909</b>	<b>8,191</b>	<b>10,733</b>
Common Equity	1,540	3,170	3,265	3,363
Treasury shares	0	37	37	37
Retained earnings	2,262	0	0	0
Budget sources and other funds	38	2,699	4,886	7,330
<b>Minority interest</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Total liabilities and equity</b>	<b>14,806</b>	<b>0</b>	<b>0</b>	<b>0</b>
Capitalized leases	0	22,813	27,225	32,768
<b>Capital employed</b>	<b>3,841</b>	<b>0</b>	<b>0</b>	<b>0</b>

Ratios				
ROE (%)	41.1	37.3%	32.8%	27.9%
ROA (%)	10.7	9.7%	9.9%	9.1%
ROIC (%)	41.1	31.1%	28.6%	25.1%
Inventory days	70	70	75	80
Receivable days	1	5	7	7
Payable days	29	37	45	45
Cash conversion cycle	42	37	37	42
Asset Turnover	3.0x	2.9x	3.2x	3.0x
Net debt/equity	1.0x	0.6x	0.5x	0.5x
Interest cover - EBIT(x)	16.6x	12.3x	10.9x	10.6x

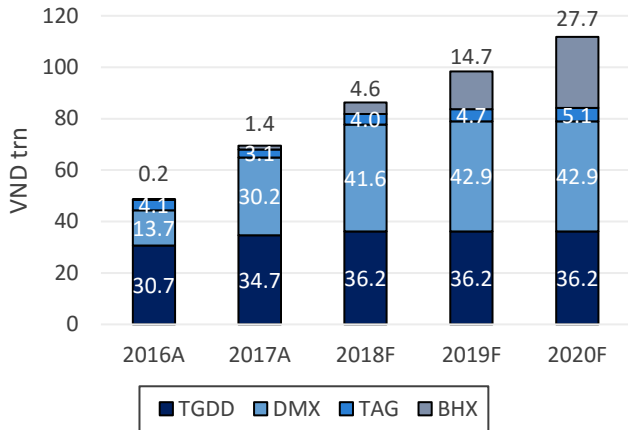
Valuation (Multiples)				
EV / EBITDA	10.2x	11.9x	9.0x	8.0x
P/E	14.5x	18.3x	14.0x	12.9x
Dividend Yield (%)	0.96	0.6%	1.1%	1.2%
P/B	6.3x	7.0x	4.6x	3.6x

Notes: CA = current assets; CL = current liabilities

Source: Thomson Reuters historical data, TVS model and forecast

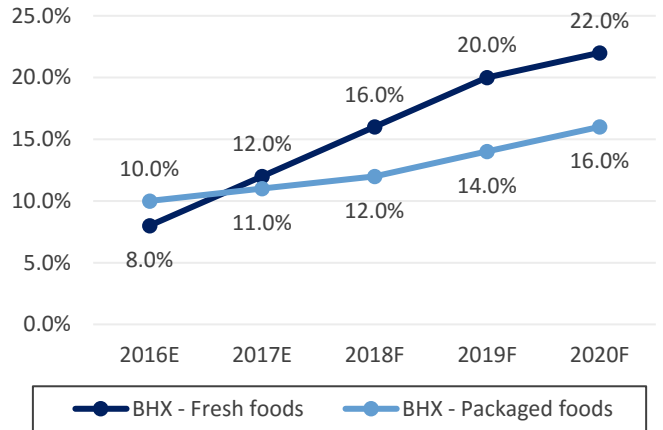
FOCUS CHARTS

Figure 2: Forecasted revenue structure by business unit



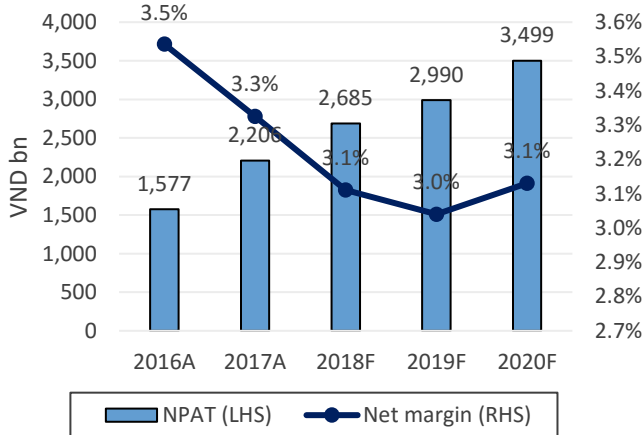
Source: Company data, TVS Research

Figure 3: BHX's margins are expected to improve



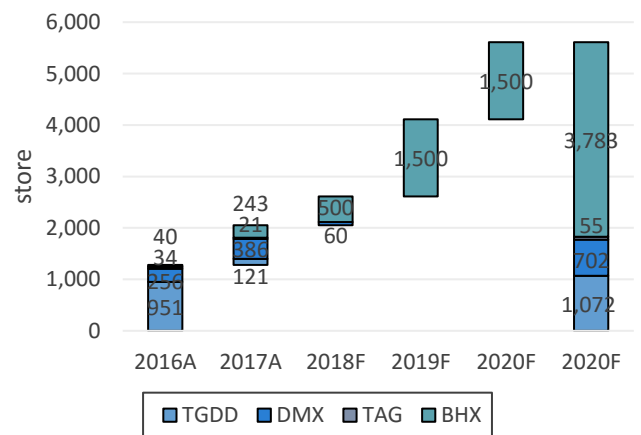
Source: Company data, TVS Research

Figure 4: NPAT margin to decline in 2018-19F due to losses of BHX before recovering in 2020F



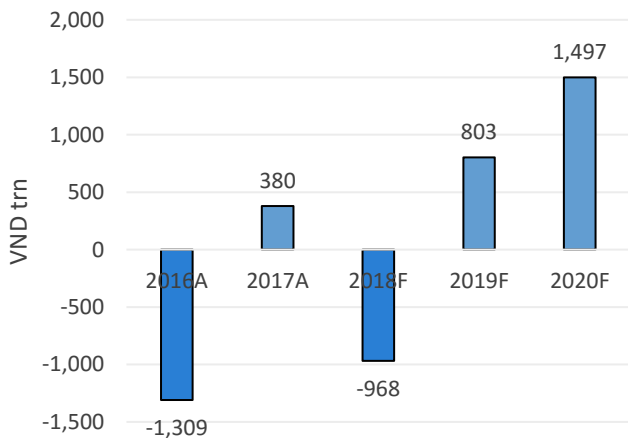
Source: Company data, TVS Research

Figure 5: Store expansion plan by business unit shows strong influx of BHX from 2019F onwards



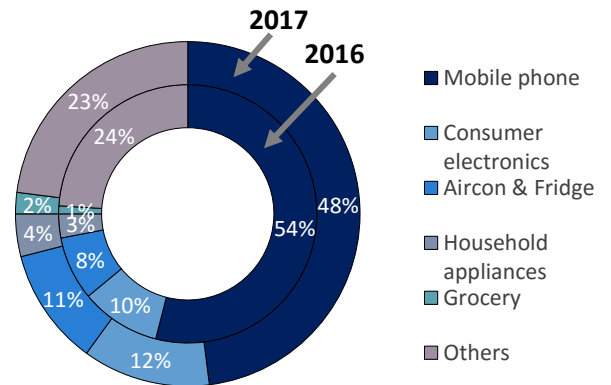
Source: Company data, TVS Research

Figure 6: Group cash flows forecast



Source: Company data, TVS Research

Figure 7: Historical revenue structure by product



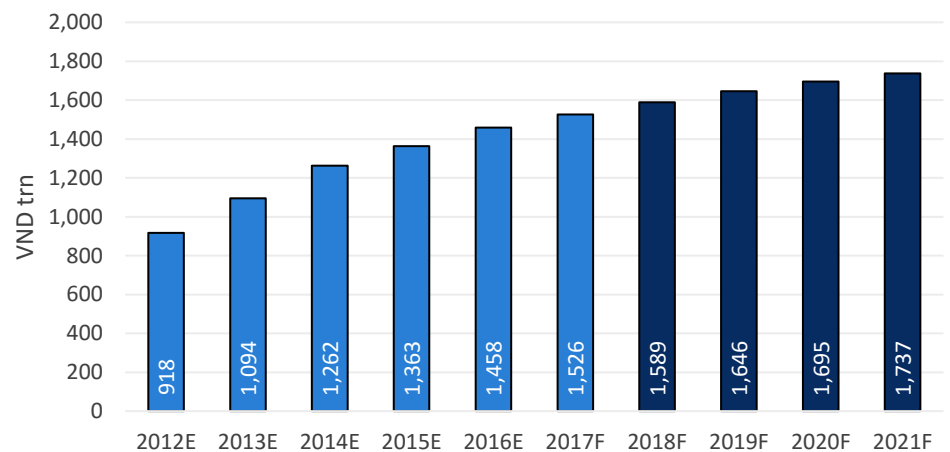
Source: Company data

## INVESTMENT THESIS

**MWG – We are still convinced by the long-term success of BHX.** MWG reported net sales of VND 66.3trn (+49% YoY) and NPAT of VND 2,206bn (+40% YoY), beating our estimates for net sales by 3%. Though TGDD was the largest sales generator last year (contributed 52% of total sales), DMX was the fastest growing business unit (+120% YoY vs. +13% YoY). BHX – MWG’s expected growth engine in 2019-20F – was still making loss. Our forecast indicates this grocery chain would turn profitable no earlier than 2020F, which is 1 year longer than our prior estimate, due to difficulties in acquiring new customers and optimizing operations. That said, we are still convinced by the long-term success of BHX though mid-term challenges and their unfavorable impact on MWG are inevitable. Besides, VN’s grocery retail is heavily fragmented market of US\$60bn where mom-and-pop stores account for 96% of total market value (Euromonitor). Thus, we believe the chance for MWG to consolidate this market using their proven retail know-how is quite potential.

Our 2018F estimate indicates MWG would slightly complete the company guidance, in which net sales would be VND 86.4trn (+30% YoY) and NPAT would be VND 2,685bn (+22% YoY) versus the company guidance of VND 86.4trn and VND 2,606bn respectively. Group margin downswing in 2018-19F is likely due to losses of BHX, before recovering in 2020F. See detailed analysis for each business unit as followings.

**Figure 8: The VN’s grocery retail to reach \$76bn in 2021F (3.6% CAGR in 2017-21F)**



Source: Euromonitor International

**BHX: “We will get there”** – A statement by Mr. Robert Alan Willett (MWG’s board member & BestBuy International’s ex-CEO) when being asked in the AGM whether BHX can survive and become the No.1 grocery retailer in Vietnam has confirmed the Company’s confidence and commitment to replicate the success of TGDD & DMX in their “younger brother” BHX. Still, BHX is facing unsolved operating issues especially in fresh stock management (e.g. obsolete inventory ratio remains as high as 3% versus the

1% target) and expecting to have them fixed no earlier than mid-2018. Besides, with 300+ stores opened last 12 months across HCMC except for CBD (now 350 stores in total), BHX's per store monthly sales has dropped to the lower end from VND 500m-1bn last year to VND 300m-1bn currently, indicating new stores are struggling to generate sales. To improve sales quality, BHX has lowered its expansion target from 1,000 stores in total by end-2018 to 700-800 stores, which is achievable in our view. Funding for BHX is secured by the 6.55% 5Y C-bond of VND 1.1trn disbursed in 4Q17 and the retained earnings of VND 2.7trn (capex per store is VND 1.5bn plus VND 300m for opening inventory), implying the certain rollout for BHX in coming years.

- **2017 review – BHX's revenue & earnings missed our forecasts.** BHX posted VND 1.4trn revenue and VND 161bn net loss last year, missing our forecasts of VND 1.8trn and VND 88bn respectively. Key factors for net loss are insufficient scale and low GPM while operating costs at BHX, in our view, were well-controlled thanks to MWG's proven expertise in retail. Good news is GPM of fresh foods (FF), which made up 45% of total sales, hit 14% in 4Q17 or c.12% on average in 2017 (+400bps YoY), on the back of more profitable product mix. Moreover, ASP of fresh items at BHX are c.10% lower than wet markets and c.20% lower than other convenience store (*TVS Research*), implying there is decent upside for selling prices and margins. Rest of sales belonged to packaged foods (PF) whose GPM remained at 11%.
- **2018-20F outlook – 2,000 stores by end-2019F but expectedly no profit until 2020F.** BHX's guidance for 2018F is VND 10trn revenue VND 400bn net loss. However, with the revised expansion plan let alone difficulties in acquiring new customers, we estimate 2018F revenue to be VND 4.5trn and net loss to be VND 338bn (-20% and +275% vs. prior estimates); GPM of FF and PF would extend 400bps and 100bps to 16% and 12% respectively. Expansion would accelerate in 2019F when sales would triple to VND 15trn, but insufficient revenue scale and GPM (20% for FF and 14% for PF) would continue causing net loss of VND 274bn. We expect BHX to turn profitable from 2020F, with sales of VND 27trn and NPAT of VND 297bn. Our estimated new BHX stores and SSSG in 2018/19/20F are 500/1500/1500 and 20%/25%/15% respectively.

**Figure 9: BHX's store expansion and revenue growth projection in 2018-19F**

	2016A	2017A	2018F	2019F
SSSG	8.3%	20%	20%	25%
New store/Old store mthly sales	104%	52%	80%	80%
Old stores	1	40	283	783
New stores, net	39	243	500	1,500
Total stores	40	283	783	2,283
Avg mthly rev_Old store (VNDbn)	0.5	1.0	0.7	0.8
Avg mthly rev_New store (VNDbn)	0.5	0.5	0.6	0.6
<b>Sub total</b>	<b>249</b>	<b>1,387</b>	<b>4,575</b>	<b>14,705</b>
% growth	4050%	457%	230%	221%

Source: TVS Research

**Figure 10: BHX's projected P&L in 2018-20F**

(VND bn)	2017E	2018F	2019F	2020F
<b>Net sales</b>	<b>1,387</b>	<b>4,575</b>	<b>14,705</b>	<b>27,650</b>
Fresh foods	624	2,288	8,088	16,590
Packaged foods	763	2,288	6,617	11,060
<b>COGS</b>	<b>1,247</b>	<b>3,980</b>	<b>12,242</b>	<b>22,397</b>
<b>Gross profit</b>	<b>140</b>	<b>595</b>	<b>2,463</b>	<b>5,254</b>
<i>Gross margin</i>	<i>10.1%</i>	<i>13.0%</i>	<i>16.8%</i>	<i>19.0%</i>
<b>Selling expenses</b>	<b>11</b>	<b>92</b>	<b>294</b>	<b>553</b>
<b>G&amp;A expenses – Store</b>	<b>241</b>	<b>742</b>	<b>2,144</b>	<b>3,980</b>
<b>G&amp;A expenses – DC</b>	<b>12</b>	<b>24</b>	<b>71</b>	<b>119</b>
<b>EBITDA</b>	<b>-124</b>	<b>-262</b>	<b>-46</b>	<b>602</b>
<i>EBITDA margin</i>	<i>-8.9%</i>	<i>-5.7%</i>	<i>-0.3%</i>	<i>2.2%</i>
Depreciation	37	76	228	230
<b>NPBT</b>	<b>-161</b>	<b>-338</b>	<b>-274</b>	<b>372</b>
<i>CIT rate</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>
<b>NPAT</b>	<b>-161</b>	<b>-338</b>	<b>-274</b>	<b>297</b>
<i>Net margin</i>	<i>-11.6%</i>	<i>-7.4%</i>	<i>-1.9%</i>	<i>1.1%</i>

Source: TVS Research

**DMX – High double-digit sales growth is expected in 2018F.** DMX was the key growth factor of MWG last year with VND 30.2trn in sales (+120% YoY) and 642 stores by end-2017 (+386 stores vs. 2016). We estimate GPM expanded 110 bps to 16.2% as DMX enjoyed higher discount from suppliers for larger revenue scale. However, SSSG dropped to 6.5% from 15% of 2016, indicates DMX has entered its maturity stage. For 2018F, we estimate DMX to continue being MWG's sales powerhouse given that 386 new stores opened last year will run full 12M this year. Particularly, sales would climb to VND 41.5trn (+37% YoY) though SSSG may decline to 5% (2M18 sales was VND 8.8trn, +88% YoY), exceeding TGDD to become MWG's leading sales generator. GPM would increase to 17% (+80 bps YoY), which is the highest obtainable GPM of DMX in long-term in our view. DMX will limit new stores at 70-80 in 2018F and no expansion is planned afterwards.

**Figure 11: DMX's store expansion and revenue growth projection in 2018-19F**

	2016A	2017A	2018F	2019F
SSSG	15.0%	6.5%	5.0%	0.0%
New store/Old store mthly sales	57%	55%	50%	50%
Old stores	69	256	642	702
New stores, net	187	386	60	0
Total stores	256	642	702	702
Avg mthly rev_Old store (VNDbn)	8.3	6.4	5.2	5.1
Avg mthly rev_New store (VNDbn)	4.7	3.5	2.6	2.5
<b>Sub total</b>	<b>13,709</b>	<b>30,245</b>	<b>41,567</b>	<b>42,865</b>
% growth	205.9%	120.6%	37.4%	3.1%

Source: TVS Research

**TGDD – Matured but still a major sales contributor.** TGDD posted VND 34.6trn in sales, up 13.2% despite of negative SSSG (-2%) for the first time after 13 years in market. It should be noticed that sales of mobile phone were still growing 30% as DMX also offers this product. After opening 121 new stores in 2017, MWG now plans no expansion for TGDD from 2018F onwards and may convert some inefficient TGDD stores (unprofitable or slow growth) into BHX. Indeed, MWG converted 5 TGDD stores into BHX in Jan-18, at the same time closed 1 and opened 5 more to keep TGDD store number at around 1,070. For 2018F, we estimate 0% SSSG and 0 net new store for TGDD. Accordingly, sales would grow slightly 4.2% YoY to VND 36trn, mostly attributable to 2017 new stores that will run full year (2M18 sales was VND 6.7trn, +5% YoY).

**Figure 12: TGDD’s store expansion and revenue growth projection in 2018-19F**

Revenue projection	2016A	2017A	2018F	2019F
SSSG	10.0%	-2.0%	0.0%	0.0%
New store/Old store mthly sales	29%	5%	50%	50%
Old stores	564	951	1,072	1,072
New stores, net	387	121	0	0
Total stores	951	1,072	1,072	1,072
Avg mthly rev_Old store (VNDbn)	4.0	3.0	2.8	2.8
Avg mthly rev_New store (VNDbn)	1.2	0.2	1.4	1.4
<b>Sub total</b>	<b>30,655</b>	<b>34,708</b>	<b>36,153</b>	<b>36,153</b>
% growth	47.6%	13.2%	4.2%	0.0%

Source: TVS Research

**TAG – Will soon integrate into DMX.** As we mentioned in earlier notes, MWG completed acquiring 99% of TranAnh Group (TAG) in 4Q17 and will consolidate TAG’s FS from 2018 onwards. Right after the acquisition, TAG reported declining business results as 2017 sales dropped 24% to VND 3.1trn and incurred net loss of VND 99bn (-560% YoY). Main causes of this decline were 1) major changes in top management during the acquisition (all middle managers and above were replaced by DMX’s employees) and 2) DMX required TAG to dispose slow-moving inventories in 4Q17. TAG currently has 55 stores in the North and Middle of Vietnam, and MWG plans no expansion for this brand. MWG insists it will complete integrating the operations of TAG into DMX by end-2018 with top priority is to close the GPM gap between TAG and DMX from 5% currently to 1%. Accordingly, we estimate TAG’s sales to recover this year, up 30% to VND 4trn, yielding NPAT of 50bn.

**An Khang Pharma (AK) – MWG’s first move into retail pharmacy.** In Dec-17, MWG announced its investment in the pharmacy retailer AK (established in 2006, currently 14 stores in HCMC) via convertible bond. This investment showed 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 after 2018F. However, AK is not the group’s focus now (20-30 stores in 2018F expectedly) as most of the resources will be allocated to BHX. Thus, we

still rule out AK's impact on the group financials and will revisit this case in further update.

**Key risks: (1) Fail to control loss ratio at BHX.** The current obsolete inventory ratio of BHX is 3% and we assume MWG would be able to reduce this ratio to 1% in long-term. A fail attempt to do so would pose major downside risk to our valuation due to the thin profit margin in grocery retail. **(2) GPM of BHX does not improve.** Our investment thesis is fundamentally based on the assumption that BHX would improve its GPM in coming years via 1) new product mix and 2) trade discount with suppliers when revenue scale enlarges. Unless, the breakeven period of BHX would extend and accordingly reduce the company's future cash flows as well as value.



## VALUATION & RECOMMENDATION

We reiterate the BUY rating for MWG with a revised 12M TP of VND 158,500 (previously VND 162,500) – a 37.8% upside, derived from both DCF (VND 153,000, see Figure 15) and P/E (VND 164,000 @ 2018F EPS of VND 8,225 & PER forward of 20x). With 2018F DPS of VND 1,200, total return is 38.9%. Though MWG currently trades at 14x 2018F PER and the average global peers PER is 18.7x, we believe the Company deserves a premium PER forward of 20x on the back of its retail conglomerate position.

**Figure 13: Sensitivity analysis of share price & 2018F GPM of BHX**

		GPM BHX 2018F - Fresh						
		14.5%	15.0%	15.5%	16.0%	16.5%	17.0%	17.5%
GPM BHX 2018F - Packaged	10.5%	147,000	149,500	151,500	154,000	156,000	158,500	160,500
	11.0%	148,500	150,500	153,000	155,000	157,500	159,500	162,000
	11.5%	150,000	152,500	154,500	157,000	159,000	161,500	164,000
	12.0%	152,000	154,000	156,500	<b>158,500</b>	161,000	163,500	165,500
	12.5%	153,000	155,500	157,500	160,000	162,500	164,500	167,000
	13.0%	155,000	157,000	159,500	162,000	164,000	166,500	168,500
	13.5%	156,500	159,000	161,500	163,500	166,000	168,000	170,500

Source: TVS Research

**Figure 14: Sensitivity analysis of share price & 2018F SSSG of DMX & BHX**

		SSSG DMX 2018F						
		2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
SSSG BHX 2018F	14.0%	135,000	136,000	136,500	137,500	139,000	140,000	141,000
	16.0%	141,000	142,500	143,500	144,500	145,500	146,000	147,500
	18.0%	148,500	149,000	150,000	151,000	152,500	153,500	154,500
	20.0%	155,500	156,500	157,500	<b>158,500</b>	159,500	160,500	161,500
	22.0%	163,000	164,000	165,000	166,500	167,500	168,500	169,000
	24.0%	171,500	172,500	173,000	174,500	175,500	176,500	177,500
	26.0%	180,000	181,000	182,000	183,000	184,500	185,000	186,000

Source: TVS Research

**Figure 15: 5Y DCF-based target price calculation for MWG**

(VND bn)		2018F	2019F	2020F	2021F	2022F
EBIT		3,347	3,727	4,398	4,858	5,182
EBIT (1-tax)		2,677	2,982	3,518	3,886	4,146
D&A expenses		839	1,082	1,410	1,629	1,741
Change in working capital		-2,397	-2,071	-1,189	-893	-368
Capex		-2,087	-1,190	-2,243	-2,243	-1,047
<b>FCFF</b>		<b>-968</b>	<b>803</b>	<b>1,497</b>	<b>2,379</b>	<b>4,471</b>
PV of FCFF		-905	686	1,170	1,701	2,924
Beta	0.80					
WACC	9.3%					
Terminal growth rate	3.0%					
PV of Terminal value	47,658					
Enterprise value	53,236					
Less: Net debt	3,385					
Equity value	49,851					
Number of shares (mn)*	326.5					
Equity value per share (VND)	<b>153,000</b>					

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.

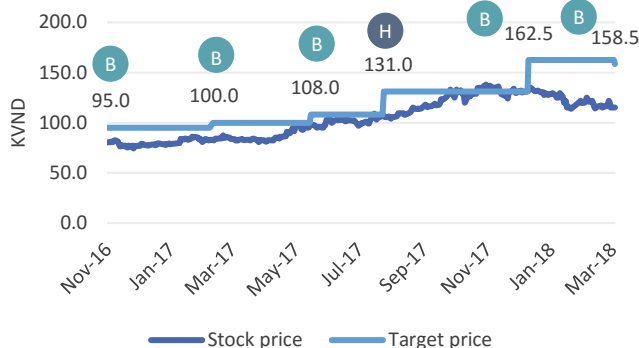
## RATING and VIEWS

Buy (B), Neutral (N), Sell (S) – Our recommendations are based on absolute return that each stock is rated on the basis of a total return, measured by the upside potential (including capital gains and dividend) over a 12-month time horizon. 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
<b>Buy</b>	Total Stock's Return Potential > 15%
<b>Neutral</b>	Total Stock's Return Potential between (-15%) and 15%
<b>Sell</b>	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
<b>Buy</b>	Stock price expected to rise within three-month because of a specific catalyst or event
<b>Sell</b>	Stock price expected to fall within three-month because of a specific catalyst or event
<b>Not-rated</b>	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



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## THIEN VIET SECURITIES JOINT-STOCK COMPANY

### HO CHI MINH

63A Vo Van Tan St, District 3  
Floor 9, Bitexco Nam Long Building  
Tel: +84 (28) 7300 6588 | Fax: +84 (28) 299 2088

### HA NOI

22 Lang Ha, Dong Da  
TDL Building  
Tel: +84 (24) 7300 6588 | Fax: +84 (24) 3248 4821

## RESEARCH DEPARTMENT

**Duy Nguyen (Mr.), Manager**  
Equity Capital Market  
[duynh@tvs.vn](mailto:duynh@tvs.vn)

**Son Nguyen (Mr.), Senior Analyst**  
Real Estate  
[sonnt@tvs.vn](mailto:sonnt@tvs.vn)

**Trung Dong (Mr.), Senior Analyst**  
Consumer Goods  
[trungdq@tvs.vn](mailto:trungdq@tvs.vn)

**My Tran (Mr.), Associate**  
Agribusiness  
[mytttd@tvs.vn](mailto:mytttd@tvs.vn)

**Quang Luong (Mr.), Analyst**  
Team Support  
[quanglt@tvs.vn](mailto:quanglt@tvs.vn)

## INVESTMENT BANKING

[ib.hcm@tvs.vn](mailto:ib.hcm@tvs.vn)

## BROKERAGE DEPARTMENT

[brokerage.hcm@tvs.vn](mailto:brokerage.hcm@tvs.vn)  
[brokerage.hn@tvs.vn](mailto:brokerage.hn@tvs.vn)