

Mobile World Investment Corporation

(MWG VN)

Aiming high

BUY
(Upgrade)

TP: VND174,000
Upside: +29.1%

Mirae Asset Securities (Vietnam) LLC
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Financial highlights

Making progress again

- Top-line earnings for Mobile World Investment Corporation (MWG) recorded positive growth in the last quarter of 2020, while profit fell, due to increasing operational costs. In 4Q20, net revenue of the group reached VND27.2tr (US\$1.2bn, up by 7% YoY, or 5.8% QoQ). Rapid growth of the BachHoaXanh (BHX) grocery chain offset the negative impact of the pandemic on mobile phone and consumer electronics sales.
- In FY20, net profit after tax inched up, as high operational costs offset gross margin expansion. MWG's gross profit neared VND24tr (US\$1.03bn, +22.9% YoY). Gross profit margin rose by approximately 3%p YoY to 22.1%.

Outlook

Evolving DMX to consolidate CE market in rural areas

- The new generation of DMX stores, the DMX supermini (DMXS), was launched in June 2020. The new format enjoyed rapid growth, in terms of both store count and revenue. The sales area of the new stores is half that of a DMX mini, or a quarter of the original format. According to MWG, the gross margin of the new-layout stores is similar to that of the standard ones. MWG plans to open about 700 DMXS this year. The product range of DMXS is not limited to CE, but includes mobile phones and accessories, boosting the market share of MWG in both segments.

Robust growth of BHX to persist

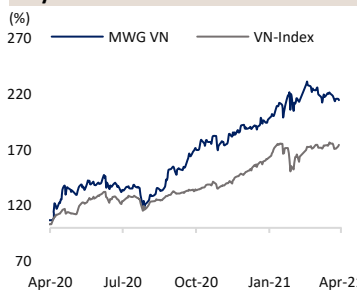
- Undoubtedly, grocery sales will be the next momentum generator for MWG. In FY20, BHX's revenue contribution to MWG almost doubled. Meanwhile, points of sales also quickly expanded, reaching 1719 stores (+711 units YoY) by year-end, and covering 24 of Vietnam's 63 provinces and cities. We believe there is room for the chain to grow in both existing and untapped areas.

Valuation

Upgrade rating to Buy on better-than-expected earnings and positive outlook

- We upgrade our rating for MWG to Buy (from Hold) and raise our target price to VND174,000 (from VND134,200), equivalent to forward P/E of 19.1x. A key change in valuation metrics was the profit margin improvement. We believe the changes in MWG's operational approach will result in improvements in both gross margin and net margin. MWG's profitability outperformed that of its regional peers, although most of its valuation metrics were significantly lower than those of peers. We expect the group's earnings growth to remain robust in FY21, due to a positive outlook for traditional markets, including mobile phones and CE, while the fast-growing BHX chain will drive MWG's momentum.

Key data



Share performance

(%)	1M	6M	12M
Absolute	-1.1	30.9	122.5
Relative	-3.6	-2.7	43.7

Current price (04/02/2021, VND)	134,800	Market cap (VNDtr)	62.834
Exchange	1,224.8	Shares outstanding (mn)	466
EPS growth (21F, %)	3.3	Free float (%)	79.5
P/E (21F, x)	14.8	Beta (12M)	0.94
Market P/E (21F, x)	19.0	52-week low (VND)	62,300
Dividend yield (%)	1.3	52-week high (VND)	139,900

Earnings and valuation metrics

FY (Dec.)	2018	2019	2020	2021F	2022F	2023F
Revenue (VNDbn)	86,516	102,174	108,546	120,567	133,206	146,990
OP (VND bn)	3,870	4,977	5,216	5,946	6,468	7,073
OP margin (%)	4.5	4.9	4.8	4.9	4.9	4.8
NP (VNDbn)	2,879	3,836	3,920	4,171	4,554	5,021
EPS (VND)	6,641	8,916	8,838	9,130	9,677	10,360
ROE (%)	38.66	36.32	28.38	24.23	21.83	20.16
P/E (x)	20.06	14.94	15.07	14.59	13.76	12.86
P/B (x)	6.57	4.87	3.93	3.31	2.83	2.46

Source: Company data, Mirae Asset Vietnam Research

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1. Earnings highlights

Making progress again

Figure 1. Revenue (VNDtr)

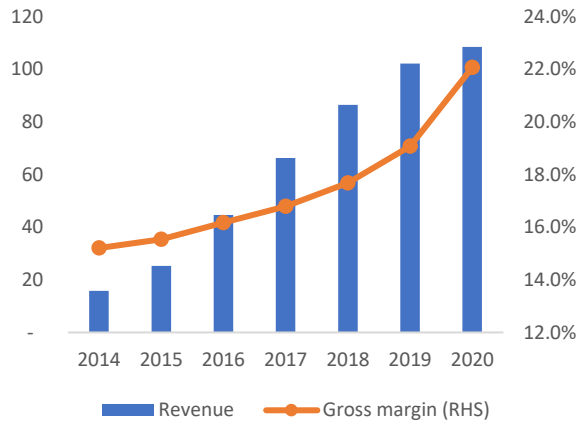
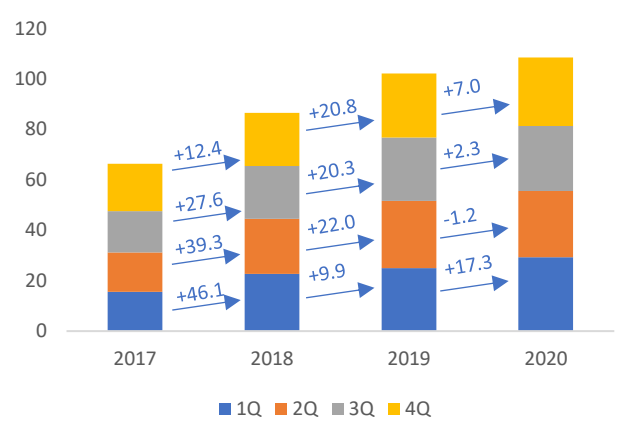


Figure 2. Quarterly sales (VNDtr, % YoY)



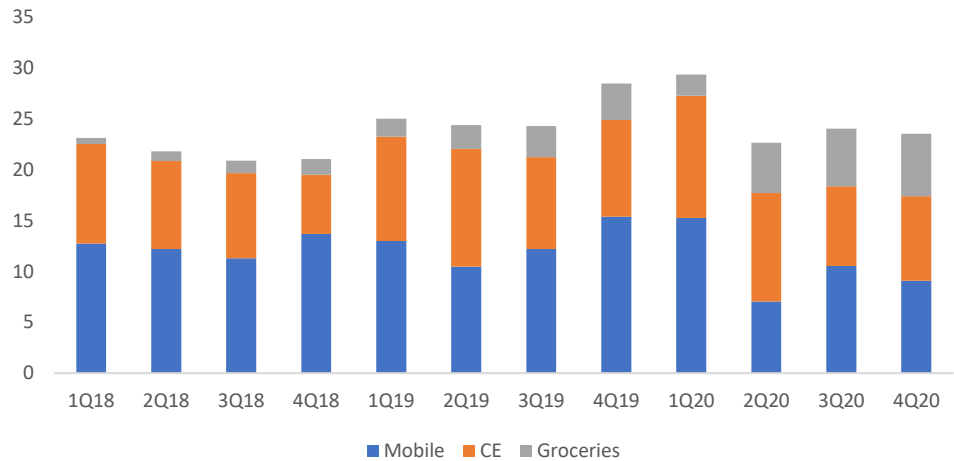
Source: Company data, Mirae Asset Vietnam Research

Top-line earnings recorded positive growth in the last quarter, while profit fell due to increasing operational costs. In 4Q20, net revenue of the group reached VND27.2tr (US\$1.2bn, up by 7% YoY, or 5.8% QoQ). Revenue from grocery sales continued to be the key driver of MWG’s revenue growth, reaching VND6.2tr in 4Q20 (US\$267mn, + 72.7% YoY, or +9.2% QoQ). However, net revenue from other products, such as mobile phones, consumer electronics, and other ICT products, declined to VND21.1tr (US\$907mn) in 4Q20, down 3.5% YoY, and up by 5% QoQ.

Rapid growth of the BachHoaXanh (BHX) grocery chain offset the negative effects of the pandemic on mobile phone and consumer electronics sales. FY20 net sales of MWG by product groups were as follows: 1) mobile phones and tablet sales reached VND41.9tr (US\$1.8bn, -4.6% YoY), accounting for 38.6% of MWG’s revenue; 2) revenue from consumer electronics accounted for 35.4% of MWG’s revenue, down by 4.8%; 3) revenue from grocery chains was VND21.3tr (US\$917mn), nearly double that of FY19; and 4) other revenue from sales of accessories (e.g. sim, cards, services, used phones, etc.) was flat, at VND6.9tr (US\$299mn, -2.9% YoY).

Net profit after tax inched up, as high operational costs offset gross margin expansion. MWG’s gross profit was almost VND24tr (US\$1.03bn, +22.9% YoY) in FY20. Gross profit margin rose by approximately 3%p YoY to 22.1%. Gross margin expansion showed stronger bargaining power of MWG versus their suppliers. In addition, the contribution of private label products and exclusive distribution products was higher, helping MWG to improve its gross margin. On the other hand, operational costs increased to VND18.7tr (US\$808mn, +29.1% YoY). The surge in operational costs was mainly caused by store opening acceleration during the year. A total of 1,120 new stores were opened in FY20, up 34.1% YoY from FY19. Moreover, MWG either renovated or upgraded a number of stores in the last quarter of the year. In detail, the number of large BHX stores with an area of 500m² or higher increased from 32 stores in 3Q20 to 182 stores at the end of FY20. In 4Q20, store upgrades not only incurred operational costs, but also reduced revenue.

Figure 3: Revenue by category (VNDtr)



Source: Company Data, Mirae Asset Vietnam Research

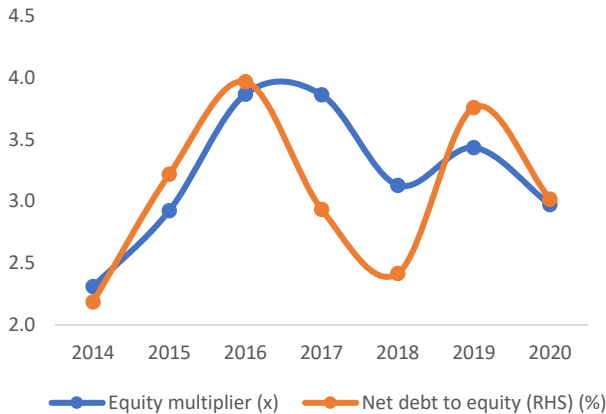
Outperforming the market

Although Vietnam made great achievements in virus containment, retail sales turnover faced strong pressure, especially those product lines which typically have low demand in an economic downturn. Vietnam’s consumer electronics sales saw the worst performance, with a drop of 17.8% YoY, while total sales of mobile phones and tablets fell by nearly 10% YoY. Amid the sector’s poor performance due to the COVID-19 pandemic, MWG’s performance was relatively impressive (mobile phones: -4.6% YoY; consumer electronics: -4.8% YoY).

2. Financial review

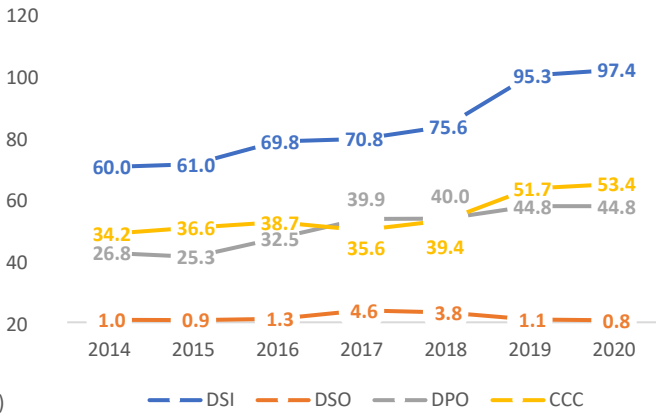
Financial health improved; cash conversion cycle weakened slightly

Figure 4. Leverage



Source: Company data, Mirae Asset Vietnam Research

Figure 5. Cash conversion cycle (days)



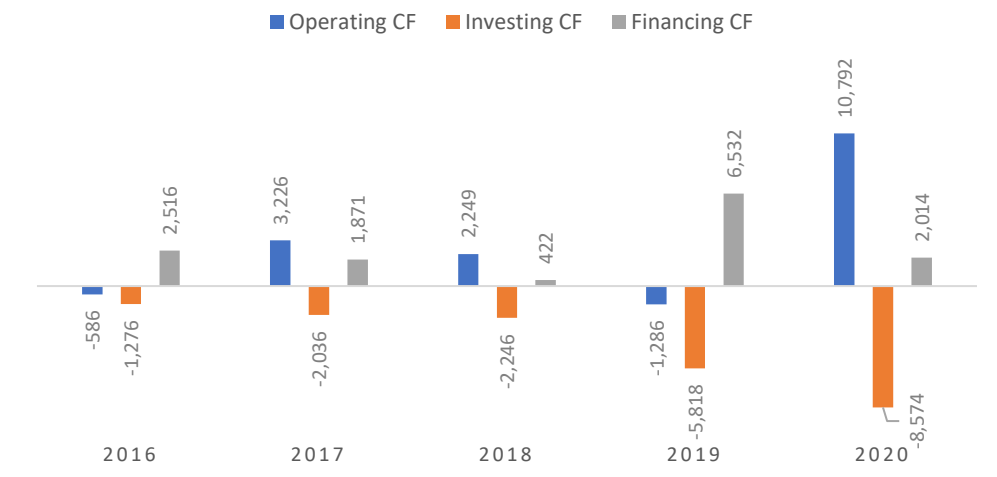
Note: DSI: days sales of inventory. DSO: days sales outstanding; DPO: days payable outstanding

Due to an uncertain sales outlook, MWG did not amass stock for the high season, leading to lower leverage ratio. By the end of FY20, net debt had increased by 20% YoY to VND16.8tr (US\$722mn), which was below that of FY19 (+101% YoY). Accordingly, the debt/equity ratio fell sharply to 60.7% (-30%p YoY). MWG’s financial leverage ratio also improved, with the equity multiplier falling to 3, a four-year low.

MWG also enhanced its liquidity. Accounts receivable fell from VND1.8tr in FY19 to VND1.6tr in FY20, showing healthy revenue. Total inventories were significantly reduced to VND19.4tr (US\$837mn, -24.6% YoY). In addition to inventory reduction, the structure of inventories showed improvement. By category, inventories of mobile phone and consumer electronics dropped to VND7tr and VND3.5tr, respectively, down by 37.4% and 51.4% YoY. Meanwhile, inventory provision increased to VND504bn (+11.9% YoY), indicating that MWG had booked provision for obsolete inventory, particularly for those products which had newer versions released during the year.

The cash conversion cycle (CCC) rose by nearly two days to 53.4 days, due to sales growth pressure in FY20 and huge inventories at the start of the financial year. We expect CCC to improve next year, based on the following assumptions: 1) higher contribution of FMCG and fresh food to MWG’s revenue; 2) advancements in supply chain; and 3) stable revenue growth after vaccines have been widely administered.

Figure 6: Cash flow



Source: Company Data, Mirae Asset Vietnam Research

3. Outlook

Evolving DMX to consolidate CE market in rural areas

The new generation of DMX stores, the DMX supermini (DMXS), was launched in June 2020. The new format enjoyed rapid growth, in terms of both store count and revenue. The sales area of the new stores is half that of a DMX mini, or a quarter of the original format. According to MWG, gross margin of the new-layout stores is similar to that of the standard ones. Notably, employees of these stores are trained to conduct a completed sale process including consulting products, collecting payments, and so on. Therefore, operational expenses are expected to be reduced, while productivity of personnel should improve.

MWG aims to take 60% of CE market share within the next two or three years. In FY20, MWG’s market share in the CE market was around 44%. In order to increase market share, MWG decided to expand its presence to include rural and remote areas. Using the former DMX store format presented challenges to achieve an optimum balance between revenue and profit; thus, the company chose to renovate the old-format stores.

Sales of CE and mobile phone products are expected to rebound in FY21, after double-digit declines in sales in FY20. In addition, we expect MWG to enjoy revenue growth, supported by higher market share in FY21. MWG plans to open about 700 DMXS this year. The product range of DMXS is not limited to CE, but includes mobile phones and accessories, boosting the market share of MWG in both segments.

Robust growth of BHX to persist

Figure 7. Store count and revenue of BHX (VNDtr)

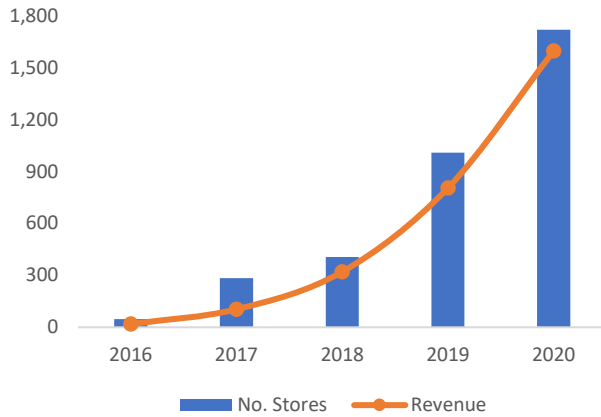
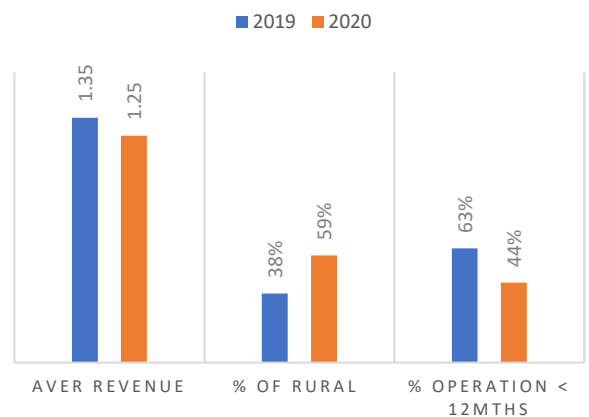


Figure 8. Store allocation and performance



Source: Company data, Mirae Asset Vietnam Research

Undoubtedly, grocery sales will be the next momentum generator for MWG. In FY20, BHX’s revenue contribution to MWG almost doubled. Meanwhile, points of sales also quickly expanded, reaching 1719 stores (+711 units YoY) by year-end and covering 24 of Vietnam’s 63 provinces and cities. We believe there is room for the chain to grow in both existing and untapped areas.

In addition to continuous expansion of gross margin, MWG is trying to reduce operational costs by improving the productivity of personnel. According to MWG, gross margin after spoilage and shrinkage reached 24% in FY20, up by 5%p YoY, thanks to stronger bargaining power and better stock control. In order to improve the operation of the chain, MWG conducted an experiment by cutting the number of employees per shift to see whether sales would be affected. There is room for margin improvement if MWG can reduce labor expenses without a corresponding drop in revenue.

BHX also playing a jump start for MWG’s pharmacy retail chain, An Khang Pharmacy (AKP). According to the company, the time required to reach per-store revenue of VND300mn/month was shortened to 0.5 years (from more than 1.5 years) if the new AKPs were opened next to crowded BHX stores. The grocery chain created spillover effects for the pharmacy chain, boosting its revenue. If stores offer a wide range of products, from durable goods to FMCG and food, they can create a one-stop shopping area. The lure of convenience will help to improve customer traffic volume. As a result, the revenue of new stores can quickly catch-up with the average revenue, while promotional costs to boost customer awareness of the new brand will be reduced.

Forecast and assumptions

Table 1: Key forecast

2021

	2020	2021	Comments
Revenue	108,546	120,567	
- Mobile phone	41,899	46,193	Sales of mobile phones expected to strongly recover in FY21 for both MWG and market.
- CE	40,359	44,335	Earnings from CE segment expected to see positive growth, due to depressed demand in FY20, market consolidation, and strong expansion of DMXS.
- Groceries	21,275	30,038	Solid domestic consumption to fuel BHX store count momentum. High brand recognition to ensure sharp sales growth in early stage. Sales per store to remain flat, as existing store upgrade plan will prevent SSSG dilution threat caused by store expansion.
Gross profit	23,954	26,917	
Gross margin (%)			Upside:
	22.1	21.4	1) Gross margin expansion of BHX expected to continue in FY21, based on stronger bargaining position and reduced logistics expenses by using more locally-produced fresh products. 2) Selling exclusive distribution products and private labels will boost gross margin for TGDD and DMX chains.
			Downside: MWG's resumption of two-price strategy to boost online sales will lead to lower gross margin.
Net profit	3,920	4,171	
Net margin (%)	3.6	3.5	Higher contribution of BHX to MWG's revenue to pressure net margin. From July FY21, MWG plans to cut operating costs and personnel expenses. Subsequently, the cost savings approach will improve net margin of BHX, as well as MWG.
YoY growth (%)			
Revenue	6.2	11.1	
- Mobile phone	-4.6	10.3	
- CE	-4.8	9.9	
- Groceries	98.3	41.2	
Gross profit	22.9	7.7	
Net profit	2.2	6.4	

4. Valuation

Table 2: MWG vs. peers

Name	Mkt cap (US\$bn)	P/E	EV/EBITDA	EV/EBIT	EV/Rev	P/BV	ROE	ROA
Siam Global House PCL	3.17	37.5	24.2	32.7	3.5	5.8	12.1	5.5
Com7 PCL	2.20	34.9	23.6	28.1	1.6	17.7	40.8	16.1
Hotel Shilla Co Ltd	2.99	45.3	14.6	33.1	1.1	5.2	-28.6	-7.0
CJ ENM Co Ltd	2.76	18.5	4.4	12.7	1.0	0.9	4.3	2.0
Shinsegae Inc	2.45	13.6	9.9	22.8	1.5	0.8	-2.2	-0.6
Lotte Shopping Co Ltd	3.19	19.5	10.1	31.1	1.1	0.3	0.0	0.2
Poya International Co Ltd	2.03	22.3	13.2	21.7	3.4	12.0	45.3	9.8
Zhejiang Orient Financial Hold	1.92	21.1	951.4	N/A	2.1	0.9	7.2	3.6
Nanjing Xinjiekou Department S	2.06	7.0	N/A	N/A	1.5	0.8	5.1	3.5
CCOOP Group Co Ltd	2.03	260.0	N/A	N/A	8.8	0.4	-4.0	-2.3
China Grand Automotive Service	3.34	6.9	8.7	10.0	0.5	0.5	5.0	1.4
Wangfujing Group Co Ltd	3.36	22.1	11.6	13.3	1.6	2.0	7.1	3.5
Hangzhou Onechance Tech Corp	2.01	26.3	18.4	20.6	6.1	9.6	26.0	22.6
Mobile World Investment Corp	2.67	11.8	6.4	8.8	0.5	3.9	28.4	8.9
Median	2.45	22.1	13.2	22.3	1.6	0.9	5.1	3.5

Sources: Bloomberg, data compiled as of 16 March 2021

Note: All valuation metrics are forward multiples

We upgrade our rating for MWG to Buy (from Hold) and raise our target price to VND174,000 (from VND134,200), equivalent to forward P/E of 19.1x. A key change in valuation metrics was the profit margin improvement. We believe the changes in MWG's operational approach will result in improvements in both gross margin and net margin. MWG's profitability outperformed that of its regional peers, although most of its valuation metrics were significantly lower than those of peers. We expect the group's earnings growth to remain robust in FY21, due to a positive outlook for traditional markets, including mobile phones and CE, while the fast-growing BHX chain will drive MWG's momentum.

Table 3: DCF model

(VND bn)	2021F	2022F	2023F	2024F	2025F
EBIT	6,419	6,970	7,606	8,428	9,310
Less: Tax	-1,284	-1,394	-1,521	-1,686	-1,862
Add: D&A	2,516	2,839	3,132	3,408	3,604
Less: Capex	-3,217	-3,229	-2,932	-2,755	-2,361
Net increase of WC	-3,137	-182	-825	-956	-485
FCFF	1,297	5,005	5,461	6,438	8,206
NPV of FCF	1,204	4,204	4,142	4,415	5,087
NPV of Terminal value	61,132				
Enterprise value	80,183				
Add: cash and equivalents	15,405				
Less: debt	16,752				
# of shares (m)	456.85				
Value per share (VND)	174,000				
WACC	9.97%				
Terminal growth	2.0%				
Risk free rate	4.0%				
Beta	1.14				
Equity risk premium	8.6%				
Cost of equity	13.8%				
Cost of debt	7.3%				

Source: Bloomberg, Mirae Asset Vietnam Research

Mobile World Investment Corporation (MWG VN EQUITY)

Comprehensive Income Statement (Summarized)

(VNDbn)	FY20	FY21F	FY22F	FY23F
Revenue	108,546	120,567	133,206	146,990
Cost of Sales	-84,592	-94,773	-104,639	-115,373
Gross Profit	23,954	25,794	28,566	31,618
SG&A Expenses	-18,738	-19,848	-22,098	-24,545
Operating Profit (Adj)	5,413	5,546	6,054	6,676
Operating Profit	5,413	5,546	6,054	6,676
Non-Operating Profit	-3	0	0	0
Net Financial Income	200	-400	-414	-397
Net Gain from Inv in Associates				
Pretax Profit	5,410	5,546	6,054	6,676
Income Tax	-1,490	-1,375	-1,501	-1,655
Net Profit	3,920	4,171	4,554	5,021
Controlling Interests	3,918	4,170	4,552	5,020
Non-Controlling Interests	2	2	2	2
EPS (Controlling Interests, VND)	8,838	9,130	9,677	10,360

Growth & margins (%)	FY20	FY21F	FY22F	FY23F
Revenue growth	6.24	11.07	10.48	10.35
Gross profit growth	22.92	7.68	10.75	10.68
EBIT growth	6.80	6.92	8.59	9.13
Net profit growth	2.18	6.41	9.17	10.27
EPS growth	3.00	3.00	3.00	3.00
Gross margin	22.07	21.39	21.45	21.51
EBIT margin	5.53	5.32	5.23	5.17
Net profit margin	3.61	3.46	3.42	3.42

Cash Flows (Summarized)	FY20	FY21F	FY22F	FY23F
Cash Flows from Op Activities	10,792	3,589	7,374	7,916
EBIT	6,004	6,419	6,970	7,606
Depr. & amortization	2,196	2,516	2,839	3,132
Others	-2,558	-2,209	-2,253	-1,998
Chg. in Working Capital	5,151	-3,137	-182	-825
Cash Flows from Inv Activities	-8,574	-3,217	-3,229	-2,932
Capital expenditures	-3,911	-3,217	-3,229	-2,932
Others	-4,663	0	0	0
Cash Flows from Fin Activities	2,014	483	-808	1,215
Dividends	-679	-706	-727	-749
Increase in equity	105	137	141	145
Increase in debt	2,594	1,052	-222	1,818
Increase (Decrease) in Cash	4,233	855	3,338	6,199
Beginning Balance	3,115	7,348	8,203	11,541
Ending Balance	7,348	8,203	11,541	17,740

Source: Company data, Mirae Asset Vietnam Research

Statement of Financial Condition (Summarized)

(VNDbn)	FY20	FY21F	FY22F	FY23F
Current Assets	37,317	43,925	49,304	56,178
Cash and Cash Equivalents	7,348	8,203	11,541	17,740
Short-term financial asset	8,057	8,057	8,057	8,057
AR & Other Receivables	1,595	2,083	1,812	2,028
Inventories	19,422	25,024	26,126	27,614
Others	895	557	1,767	738
Non-Current Assets	8,714	10,007	10,469	10,295
Net fixed assets	7,295	7,996	8,385	8,185
Investments	0	0	0	0
Other long-term assets	1,419	2,011	2,084	2,110
Total Assets	46,031	53,931	59,773	66,473
Current Liabilities	29,423	33,870	35,885	39,425
AP & Other Payables	8,728	11,765	12,732	13,600
Short-Term Financial Liabilities	15,625	16,677	17,568	19,386
Other Current Liabilities	5,069	5,428	5,585	6,439
Non-Current Liabilities	1,127	1,113	1,113	0
Long-Term Financial Liabilities	1,127	1,113	1,113	0
Other Non-Current Liabilities	0	0	0	0
Total Liabilities	30,549	34,983	36,998	39,425
Capital Stock	4,532	4,669	4,810	4,956
Treasury Share	-6	-6	-6	-6
Capital Surplus	558	558	558	558
Retained Earnings	10,390	13,718	17,403	21,530
Controlling Interests	15,482	18,948	22,775	27,047
Non-Controlling Interests	9	9	9	9
BVPS (VND)	34,115	40,530	47,287	54,512

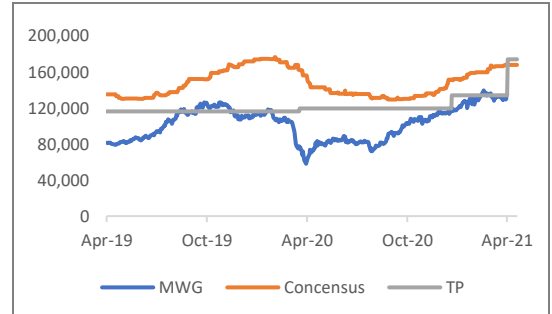
Forecasts/Valuations (Summarized)	FY20	FY21F	FY22F	FY23F
P/E (x)	15.07	14.59	13.76	12.86
P/CF (x)	5.6	17.3	8.7	8.3
P/B (x)	3.93	3.31	2.83	2.46
EV/EBITDA (x)	8.5	8.0	7.3	6.3
EPS (VND)	8,838	9,130	9,677	10,360
BPS (VND)	34,115	40,530	47,287	54,512
DPS (VND)	1,500	1,500	1,500	1,500
Payout ratio (%)	17.3	16.9	16.0	14.9
Dividend Yield (%)	5.0	6.0	7.0	8.0
DSI (days)	97.4	85.6	89.2	85.0
DSO (days)	0.8	1.7	2.0	1.4
DPO (days)	44.8	39.5	42.7	41.7
CCC (days)	53.4	47.8	48.5	44.8
ROA (%)	8.9	8.3	8.0	8.0
ROE (%)	28.4	24.2	21.8	20.2
Liability to Equity Ratio (%)	197.3	184.6	162.5	145.8
Current Ratio (%)	126.8	129.7	137.4	142.5
Net Debt to Equity Ratio (%)	60.7	50.6	31.4	6.1
Interest Coverage Ratio (x)	10.1	7.3	7.6	8.2

Appendix 1

Important disclosures and disclaimers

Two-year rating and TP history

Company	Date	Rating	TP (VND)
Mobile World Investment Corp.	03/19/2020	Buy	119,600
Mobile World Investment Corp.	12/22/2020	Trading Buy	134,200
Mobile World Investment Corp.	04/02/2021	Buy	174,000



Stock ratings

Buy	Expected 12-month performance: +20% or greater
Trading Buy	Expected 12-month performance: +10% to +20%
Hold	Expected 12-month performance: -10% to +10%
Sell	Expected 12-month performance: -10% or worse

Sector ratings

Overweight	Expected to outperform the market over 12 months
Neutral	Expected to perform in line with the market over 12 months
Underweight	Expected to underperform the market over 12 months

Rating and TP history: Share price (—), TP (—), Not Rated (■), Buy (▲), Trading Buy (■), Hold (●), Sell (◆)

* Our investment rating is a guide to the expected return of the stock over the next 12 months.

* Outside of the official ratings of Mirae Asset Daewoo Co., Ltd., analysts may call trading opportunities should technical or short-term material developments arise.

* The TP was determined by the research analyst through valuation methods discussed in this report, in part based on estimates of future earnings.

* TP achievement may be impeded by risks related to the subject securities and companies, as well as general market and economic conditions.

Ratings distribution and investment banking services

	Buy	Trading Buy	Hold	Sell
Ratings distribution				
Investment banking services				

* Based on recommendations over the 12 months through

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