

## BUY (maintain)

## Mobile World Corp (HSX: MWG)

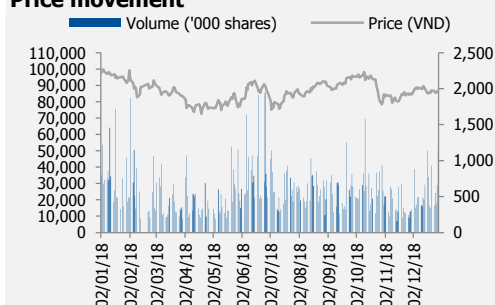
Report date	Apr. 1, 2019
Current price	VND 84,400
Target price	VND 110,500
Upside	30.90%
Bloomberg	MWG VN
Market cap	VND 37,492 bn USD 1,630 mn
52 weeks movement	VND 76,500 – VND 98,250
Average daily value	VND 49.5 bn USD 2.15 mn
FOL	49%
Current FO	49%

## The earning growth rate reached trough

## Our takeaway

- Net income for the first 2 months of 2019 was reported at VND 729 bn (+20% yoy) and revenue was only VND 17,396 bn (+5% yoy). Due to lower-than-expected revenue in February, we change our earnings forecast for the 1Q2019 from VND 992 bn to VND 977 bn, and previous projected revenue from VND 27,243 bn to VND 26,103 bn.
- However, we still maintain our forecasts in earnings, revenue and target price for the full year 2019. For the next coming months, the growth rate of MWG in earnings can improve and be higher than in February.

## Price movement



Stock performance	1M	3M	12M
MWG (%)	-0.5%	+2.4%	-12.1%
VNIndex (%)	+2.6%	+1.3%	-7.8%

Source: Bloomberg

## Major Shareholder

Research & Invest Mobile World, Ltd	11.62%
Tri Tam, Ltd	8.72%
PYN Elite Fund	4.31%
Nguyen Duc Tai	2.50%

## What's new

**Earnings growth rate in February is only 20%.** The lowest earnings growth in the history combined with a revenue growth rate of only 5% has impacted negatively on MWG's stock price. The low growth in revenue mainly came from TGDD chain and also because Tet holiday in 2019 was longer and came sooner than in 2018. We expect that MWG will improve its earnings growth later this year because (1) its earnings will not be hit by a loss in BHX chain and (2) it will open more BHX stores starting from March 2019. The number of stores has increased from 423 to 469 stores (+46 stores/month).

**New categories with gross margin of 20-30% will improve overall gross margin of the company.** In February 2019, net profit margin of MWG was still 4% higher than last year so we expect this margin will be stable.

**Update assumptions of BHX.** We increase our forecast in BHX cost structure, with G&A expenses in particular. As mentioned in the latest AGM, the G&A expense is about 2% of total revenue, which was more than VND 20 billion in the first two months of 2019. The size of the distribution center (DC) is 9,000 m2 and each store needs 30-45 m2 in DC. We forecast the G&A expense of BHX in 2019 will be VND 121.8 bn.

**TGDD growth rate is lower than market expectations.** Up to February 2019, the revenue of TGDD has decreased by VND 750 bn. We estimated the closures of 40 stores would decrease revenue of TGDD by only VND 260 bn. After excluding the effect of closing stores, **the growth rate of TGDD is about -7.37%**, which is worse than market expectations, mainly due to (1) mobiles market saturation and (2) intense competition from online shopping platforms such as Lazada, Tiki.

## Valuation

We reiterate our target price of VND 110,500 (+30.9% upside) and maintain a BUY recommendation.



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Unit: VND billion	FY17	FY18	FY19F	FY20F
<b>Revenue</b>	<b>66,340</b>	<b>86,516</b>	<b>105,125</b>	<b>131,163</b>
EBIT	2,778	3,871	5,482	7,059
<b>Net profit</b>	<b>2,207</b>	<b>2,880</b>	<b>3,716</b>	<b>4,634</b>
<b>Net profit (basic)</b>	<b>2,207</b>	<b>2,880</b>	<b>3,716</b>	<b>4,634</b>
EPS (VND)	4,980	6,500	8,385	10,457
EPS growth rate (%)		30.5%	29.0%	24.7%
<b>P/E (x)</b>	<b>16.99</b>	<b>13.02</b>	<b>10.09</b>	<b>8.09</b>
EV/EBITDA (x)	13.67	9.81	6.93	5.38
DPS (VND)	1,500	1,500	1,500	1,500
Dividend yield (%)	1.77%	1.77%	1.77%	1.77%
P/B (x)	4.53	4.18	3.28	3.12
<b>ROE (%)</b>	<b>39.9%</b>	<b>34.4%</b>	<b>33.4%</b>	<b>22.0%</b>
Net debt/equity (%)	94.8%	64.5%	55.7%	66.3%

Source: MBS Research

## Earnings assumption

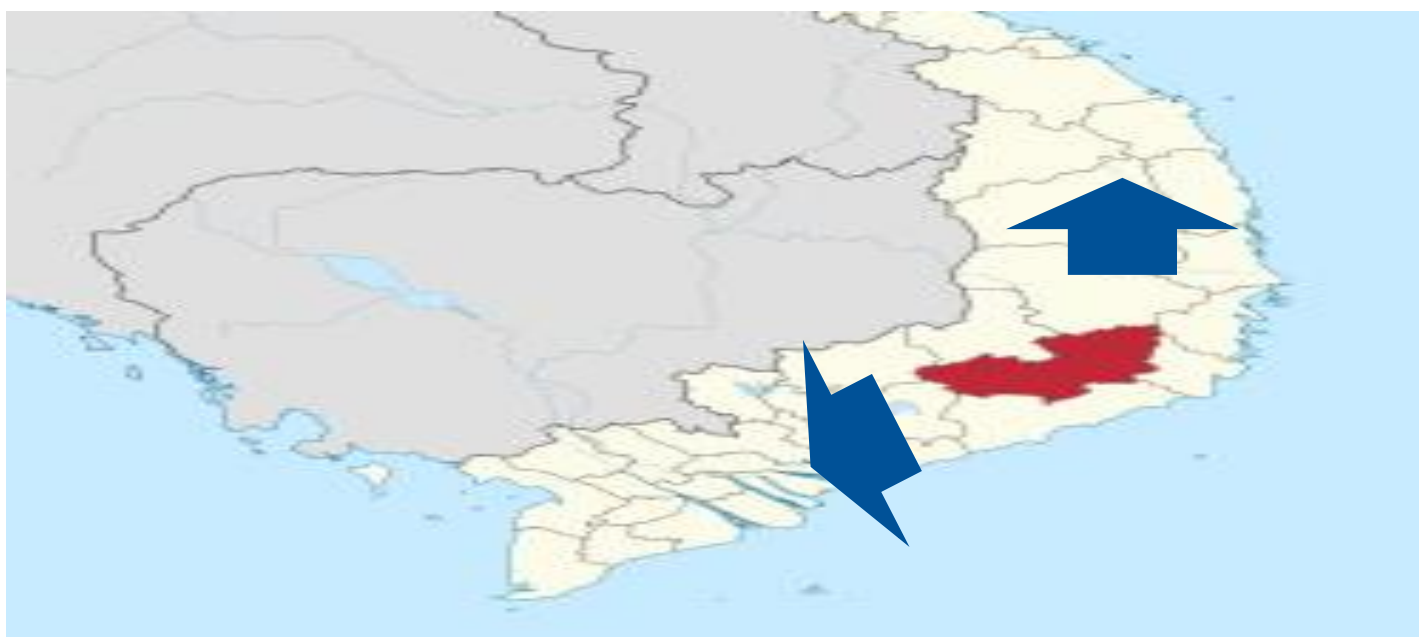
### BHX perspective

Table 1: BHX figures		
	Big - format	Small – format
Sale per store (bn/month)	2 - 3	1.2 – 1.5
Location	Near traditional market	Near workers’ place
Area	200 - 300 m2	
Proportion of fresh foods	40%	
Number of store (estimate)	386	
Gross margin	18%	
<b>Cost structure</b>		
Rent fee (VND mn/month)	780	
Employee expense (8 employees) (VND mn/month)	768	
Utility, loss weight – 2% revenue (VND mn/month)	720	
DC and logistics expense for 500 shops/year (VND mn)	120,000	

Source: MBS Research

As mentioned in the latest AGM, the G&A expense is about 2% - 3% of total revenue, which was more than VND 20 billion in the first two months of 2019. Each BHX store needs 30-45 m2 in DC and thus total capacity of the DCs with a size of 9,000 m2 can serve 300 BHX stores. However, MWG can improve the efficiency of the DCs so we expect MWG can serve all BHX stores in Southern Vietnam with 3 DCs.

**The logistics and administration DC expense is about 2-3% of BHX total revenue.** In order to contribute profit to MWG at the end of 2019, BHX needs to increase its gross profit by VND 120 billion by 2 ways: (1) improve gross margin from 18% to 20% and (2) increase the sale per store from VND 1.3 bn to VND 1.6 bn (i.e., G&A expense of each store is about VND 600 mn then MWG needs an additional revenue of VND 333 bn per store – if gross margin maintains 18%).



Source: MBS research

**Fresh foods accounts for about 40% of BHX revenue and thus the source of fresh foods is important for MWG to succeed in this segment.** Lam Dong DC will be the hub to transfer fresh foods to a DC near HCMC. Thanks to the strategic location of Lam Dong, MWG can expand its stores in Central Vietnam with only 2 new DCs. We expect that sources of fresh foods will not be a problem for MWG in the next 2 years.

The number of new stores MWG opened in March 2019 is about 46 stores and thus if keeping this pace, MWG will be able to open more than 500 stores per year from 2020 – higher than our forecast. Demand of grocery retail in Southern and Central Vietnam is higher than USD 40 billion (total grocery retail sales of VN is USD 60 billion). If MWG accounts for 30% market share of these regions, the company will have a potential to open at least 10,000 stores.

**Table 2: Potential of BHX chains**

Market size of grocery segment	USD 60 billion ~ VND 1,380,000 billion
Market size estimate for Southern and Central Vietnam	VND 828,000 billion
Market share estimated for MWG	30%
Potential revenue for MWG	VND 248,400 billion
Revenue per store per year	VND 18 billion
Potential store for MWG	13,800 stores
Estimated net margin	3%
<b>Potential net income for MWG</b>	<b>VND 7,453 billion</b>
Number of years to growth 30% in net income when success in this segment	4.8 years

Source: MBS Research

### Sources of growth in 2019

We forecast the earnings of MWG will increase from VND 2,880 billion in 2018 to VND 3,716 billion in 2019, based on: (1) an increase of VND 553 billion in profit from TGDD and DMX and (2) another increase of VND 283 billion profit from BHX after breakeven.

### February earnings concern

TGDD growth rate is lower than market expectations. Up to February 2019, the revenue of TGDD has decreased by VND 750 bn. We estimated the closures of 40 stores would decrease revenue of TGDD by only VND 260 bn. After excluding the effect of closing store, the growth rate of TGDD is about -7.37%, which is worse than market expectations, mainly due to (1) mobiles market saturation and (2) intense competition from online shopping platforms such as Lazada, Tiki.

## Financials and Valuation Summary

Income Statement (VND bn)						Ratios			
	2017	2018	2019E	2020E			2017	2018	2019E
<b>Revenue</b>	<b>66,340</b>	<b>86,516</b>	<b>105,125</b>	<b>131,163</b>		<b>Valuation</b>			
Cost of good sold	55,198	71,224	86,127	107,244		EPS	6,958	6,491	8,375
<b>Gross profit</b>	<b>11,142</b>	<b>15,292</b>	<b>18,998</b>	<b>23,919</b>		Book value per share (BVPS)	18,641	20,255	25,782
Financial income	251	342	319	398		P/E	12.2	13.0	10.1
Financial expenses	233	437	481	679		P/B	4.5	4.2	3.3
SG & A expenses	8,364	11,421	14,074	17,626		P/S	0.40	0.43	0.36
						Dividend yield	3.60%	3.60%	3.60%
<b>Profit before tax</b>	<b>2,809</b>	<b>3,788</b>	<b>4,777</b>	<b>6,030</b>		<b>Profitability</b>			
<b>Profit after tax</b>	<b>2,207</b>	<b>2,880</b>	<b>3,716</b>	<b>4,634</b>		Gross profit margin	17%	18%	18%
<b>Profit after tax for parent company</b>	<b>2,206</b>	<b>2,879</b>	<b>3,714</b>	<b>4,632</b>		EBITDA margin	17%	18%	18%
<b>Not-controlling interest</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>		Net profit margin	3%	3%	4%
						ROE	37%	32%	33%
						ROA	10%	10%	11%
Balance Sheet (VND bn)									
	2017	2018	2019E	2020E					
<b>Current assets</b>	<b>19,140</b>	<b>24,560</b>	<b>30,137</b>	<b>42,188</b>		<b>Growth</b>			
I. Cash & cash equivalents	3,411	3,750	8,487	11,876		Revenue growth		30%	22%
II. Short-term investments	-	-	-	-		Profit before tax growth		35%	26%
III. Receivables	2,766	1,560	1,706	2,129		Profit after tax growth		31%	29%
IV. Inventory	12,050	17,446	18,222	26,191		EPS		-7%	29%
V. Other current assets	636	583	708	884		Total Asset		23%	20%
<b>Non-current assets</b>	<b>3,682</b>	<b>3,580</b>	<b>3,496</b>	<b>3,717</b>		Equity		52%	27%
I. Long-term receivables						<b>Liquidity</b>			
II. Fixed assets	3,464	3,333	3,196	3,343		Current ratio	122%	137%	143%
1. Tangible fixed assets	3,436	3,305	3,171	3,319		Quick ratio	39%	30%	48%
2. Intangible fixed assets	28	28	25	25		Debt/Total assets	30%	25%	22%
III. Property	-	-	-	-		Debt/Equity	115%	78%	66%
IV. Long-term work in progress	35	245	80	80		Interest coverage	14.78	20.15	37.81
V. Long-term investments	-	60	-	-		<b>Operating efficiency</b>			
VI. Other non-current assets	219	247	300	374		Receivables turnover	23.99	55.46	5.25
<b>Total assets</b>	<b>22,823</b>	<b>28,140</b>	<b>33,633</b>	<b>45,906</b>		Days sales outstanding	15.22	6.58	69.52
<b>Liabilities</b>	<b>15,714</b>	<b>17,907</b>	<b>21,018</b>	<b>28,882</b>		Inventory turnover	4.58	4.08	4.73
<b>I. Current liabilities</b>	<b>15,714</b>	<b>17,907</b>	<b>21,018</b>	<b>28,882</b>		Days sales of Inventory	79.68	89.40	77.22
1. Short-term payables	7,373	8,253	9,979	12,426		Payables turnover	7.49	8.63	8.63
2. Short-term borrowings	5,604	5,797	6,373	10,648		Days payables outstanding	48.76	42.29	42.29
<b>II. Non-current liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>					
1. Short-term payables	-	-	-	-					
2. Long-term borrowings	<b>1,200</b>	<b>1,248</b>	<b>1,179</b>	<b>952</b>					
<b>Equity</b>	<b>5,909</b>	<b>8,983</b>	<b>11,434</b>	<b>16,069</b>					
1. Share capital	3,170	4,435	4,435	4,435					
2. Share premium	551	551	551	551					
3. Retain earnings	2,699	3,990	6,438	11,070					
4. Non-controlling interest	3	6	8	11					
5. Other capital	-	0.77	1.05	1.05					
<b>Total resources</b>	<b>22,823</b>	<b>28,140</b>	<b>33,633</b>	<b>45,906</b>					

Source: MBS

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**STOCK RATING:** The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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