



# MWG Update- BUY

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## Company Update

Recommendation

**BUY**

HSX: MWG

Retail

Target price (VND)

52,839

Current price (VND)

39,400

Expected share price return

34.1%

Expected dividend yield

1.3%

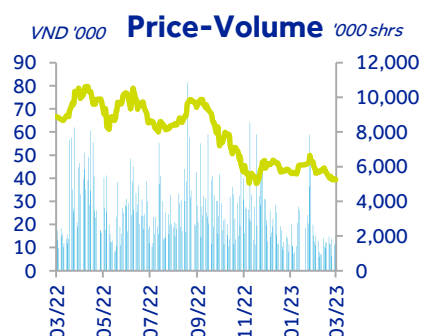
Expected total return

35.4%

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	-7.2	-11.5	-14.3	-40.9
Relative	-12.0	-9.5	-14.6	-13.2

Source: Bloomberg



## Ownership

Retail World Ltd Co.	10.5%
Arisaig Asia	7.0%
VietFund	5.3%

## Stock Statistics

8-Mar-23

Bloomberg code

MWG VN

52-week range (VND)

35,250-81,400

Shares O/S (m)

1,463

Mkt cap (VND bn)

58,242

Mkt cap (USD m)

2,519

Foreign room left (%)

0.0

Est. free float (%)

74.8

3m avg daily vol (shrs)

2,165,395

VND/USD

23,875

Index: VNIndex / HNX

1052.80/208.99

## MOBILE WORLD INVESTMENT CORP (MWG VN)

Although we maintain a **BUY** recommendation on the stock, we revise down our projections to intensify caution about impacts from weak consumer spending power on the company's growth in 2023.

MWG announced net revenue and EAT slumped by 15.3% YoY and 60.4% YoY, respectively, in 4Q22. Although this drop was partially expected considering the high base in 4Q21, the results were exacerbated by weakening consumption, a surge of 92% YoY in interest expense and a higher SG&A expenses to net revenue ratio. On a cumulative basis, 2022 net revenue climbed by 8.5% YoY, meeting 98% of our projections, while EBT and EAT slid by 6.4% and 16.3% YoY, respectively, meeting 91% of our projections, largely attributed to:

- a higher SG&A expenses on net revenue ratio (18.1% in 2022 vs 17.7% in 2021).
- financial profit shifting to negative VND69.5bn from positive VND573.2bn in 2021 due to a 102% YoY increase in interest expense, mostly given interest rate hike,
- c.VND500bn of expense from restructuring BHX chain.
- a higher effective corporate income tax rate (29.7% in 2022 vs 24.3% in 2021).

MWG's business results	2022	YoY growth
Net revenue (VNDbn)	133,405	8.5%
TGDD (including Topzone)	34,685	10%
DMX (all sizes)	68,970	10%
BHX	27,058	-4.1%
EAT (VNDbn)	4,102	-16.3%
Number of stores	Δ from YE2021	
TGDD (including Topzone)	1,190	210
DMX (all sizes)	2,284	292
BHX	1,728	-378
An Khang	500	322

Source: MWG; ACBS collected

TGDD and DMX chains (including Topzone and DMS) generated c.10% YoY revenue growth, including modest single-digit growth in 2H22 given mixed performance in 3Q and 4Q due to base effect and unfavourable business conditions. BHX's performance improved after restructuring though top line fell by 4.1% YoY on a whole-year basis.

	2021	2022U	2023F	2024F	2025F
Net sales (VNDbn)	122,958	133,405	133,570	152,178	163,103
Growth	13.3%	8.5%	0.1%	13.9%	7.2%
EBITDA (VNDbn)	9,095	10,665	10,048	13,182	14,396
EBITDA margin	7.4%	8.0%	7.5%	8.7%	8.8%
Net profit (VNDbn)	4,899	4,100	4,165	6,557	7,479
Growth	25.0%	-16.3%	1.6%	57.4%	14.1%
EPS (bonus-adjusted, VND)	3,435	2,800	2,845	4,361	4,844
Growth	19.1%	-18.5%	1.6%	53.3%	11.1%
ROE	27.3%	18.5%	16.5%	22.1%	20.8%
ROIC	22.0%	17.7%	17.7%	27.5%	31.1%
Net debt/EBITDA (times)	0.6	0.1	(0.3)	(0.7)	(1.1)
EV/EBITDA (times)	6.5	5.5	5.9	4.5	4.1
EV/Sales (times)	0.5	0.4	0.4	0.4	0.4
PER (times)	11.5	14.1	13.8	9.0	8.1
PBR (times)	1.4	2.4	2.2	1.8	1.6
DPS (VND)	1,000	1,000	500	1,000	1,000
Dividend yield	2.5%	2.5%	1.3%	2.5%	2.5%

**TGDD and DMX slowed down given weakening consumption**

Same-store sales growth of both chains in the aggregate was reported at single digit in 1Q-2Q, surged to 52% in 3Q but turned to negative 31% YoY in 4Q22. Most of categories, except laptops (which experienced stunning growth in 2021), recorded 10-20% YoY sales growth. However, MWG noted that the ICT market growth in 2022 was largely driven by increases in selling prices. We think this is explicable in the midst of inflationary pressure and exchange rate fluctuations, whereas consumption in terms of volume may be hindered by concerns about income uncertainty as well as job security amid the cloudy economic outlook, lay-off in many manufacturers, and higher interest rates discouraging consumer finance activity, etc.

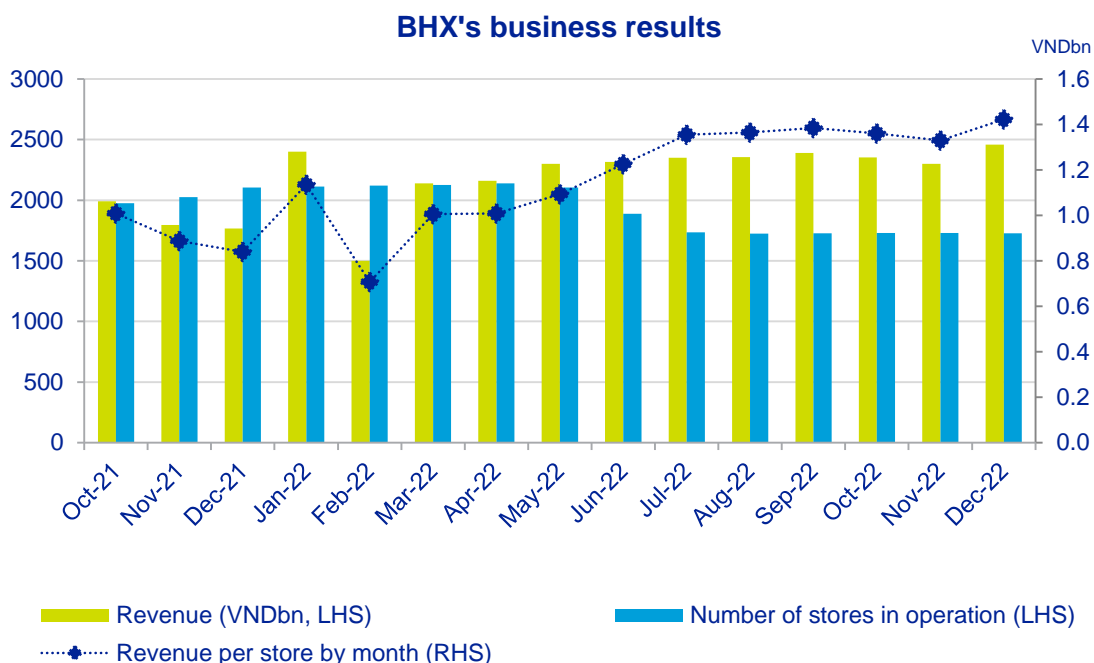
In addition to controlling costs to cope with unfavourable business conditions, since 4Q22, MWG has focused on controlling inventories to secure cashflows and diminish costs in maintaining high inventories. At the end of 2022, MWG's inventories (especially electronic devices, home appliances, accessories, watches, sunglasses, etc.) declined by 12.7% YoY and 10.4% compared to those at the end of Sept, 2022. Meanwhile, other retailers may seek to reduce their inventories in the coming time given the high level of inventories in the market, according to MWG's prediction. MWG may adjust selling prices to protect revenue though this may be a short-term action.

For 2023, while broadening store network is not a priority, MWG will keep improving TGDD and DMX's revenue per store, optimizing product portfolio, spurring sales of iPhone/Apple products (delivering on-track performance in general with revenue jumping by 40%+ YoY in 2022), exclusive products, value-added services, etc. and may look for new sales policies that are appropriate to the current market situation. The chains may generate narrower margins owing to promotion programs to boost sales. Although we assume a brighter picture in the last months of 2023, we revise down our expectations to intensify caution about impacts from weak consumer spending power on TGDD and DMX's growth (including DMS and Topzone) at least in 1H23. Their revenues are projected to fall by 0.4% and 3.5% YoY, 10% and 7% lower than our previous projections, respectively.

**BHX completed restructuring and improved customer traffic**

BHX's revenue fell by 4.1% YoY in 2022, compared with a 12% YoY decline in 9M. As a part of its restructuring plan, the chain closed a net number of 378 stores, bringing its number of stores in operation to 1,728 as of Dec 2022.

In addition to closing ineffective stores and standardizing store size, BHX completed changing the inside layout and reducing the number of SKUs. Despite a large number of stores closed, BHX's revenue maintained high around VND2,300-2,400bn per month and revenue per store was VND1.1-1.4bn+ in the period from May to Dec 2022, compared to c.VND1bn or less in 1Q22 and 4Q21. This was thanks to improved customer traffic with an increase of 50-60% in the number of bills compared to those in 1Q22 and 4Q21, though bill value was somewhat depressed by weak consumer spending power.



Source: MWG; ACBS's calculation

Looking to 2023, BHX is going to keep boosting revenue by increasing basket size, shopping frequency of the existing customers, and attracting new traffic from other channels. Promotion programs will be carried out primarily through cooperation with manufacturers to mitigate pressures on its margins. Optimizing the operations will continue to strengthen BHX's efficiency. Expansion of the store network is still limited and aims primarily at 150m<sup>2</sup> sized stores, accompanied by requirements in terms of efficiency. We expect BHX's revenue to climb by 8.7% YoY, accounting for 22% of MWG's overall results in 2023.

BHX reported a gross margin of c.25.5% in 2022. One-off costs related to restructuring (c.VND500bn) were booked entirely in 9M22 and no longer influence its results in 2023. We estimate that the chain's net loss shrank in 4Q22 and may keep shrinking in 2023 on the back of improvements from restructuring and continued efforts in strengthening efficiency. Nonetheless, as BHX's revenue per store has not met the company's initial expectation of VND1.5bn in the last months of 2022 and we doubt if it may reach VND1.6-1.7bn in 2023 (which MWG recently mentioned as new targets for breakeven/making profit) in the face of weak consumption, we delay the expected time that BHX may make profit at the company level to the second half of 2024.

### An Khang's contribution remains modest

An Khang expanded aggressively in the first three quarters of 2022 and close 2022 at 500 stores (YE2021: 178), compared with the initial plan of 800 stores. The average monthly revenue per store was c.VND350m, which still needs to improve compared with that of its peer Long Chau pharmacy chain. In 2023, An Khang is also going to focus on fostering revenue per store and optimizing operations to enhance business efficiency, whereas expansion of the store network is not a priority. We expect An Khang may contribute 1.6% to MWG's total net revenue and not make net profit in 2023.

A similar strategy will be applied for AVA Kids chain.

### Shutting down AVA Sport and Bluetronics

After considering growth potential and contributions to the overall results, MWG announced to shut down AVA Sport (12 stores) and Bluetronics (Cambodia; 44 stores). With the closure of Bluetronics, MWG can focus resources to Indonesian market and skip Cambodian market, where MWG found hard to compete in terms of selling prices. The first five consumer electronics stores named EraBlue were launched in Indonesia in Dec 2022 and reported initial positive performance. Given similarity between Indonesia and Vietnam in terms of growth potential, population, market size, consumer behaviour, etc. MWG expects this expansion may deliver fruitful results in the future.

### Forecast and valuation

Investments in bonds were collected entirely, according to our update with the company early 2023. MWG's financials saw improvements at the end of the year thanks to controlling costs, inventories, store network expansion amid increasing interest rates. Net debt shrank to VND1,443bn compared to VND5,915bn as of Sept 2022 and VND5,307bn at the end of 2021, leading to a softer net debt to EBITDA ratio of 0.1x (2021: 0.6x) and net debt to equity of 6.0% (2021: 26.1%). With a lower level of debt and slowdown in business expansion, we expect the company's interest expense to lessen in 2023. The company's 2023 earnings may be underpinned by lower interest expense, BHX's improved performance and the absence of BHX's restructuring costs. On the other hand, promotion programs that MWG plans to boost revenue may offset these supporting factors.

In sum, we project MWG may generate net revenue of VND133,570 (+0.1% YoY) and EAT of VND4,167bn (+1.6% YoY), 6% and 18% lower than our previous projections, respectively. Combining the DCF and EV/Sales methods, **our target price for MWG is VND52,839/share, equivalent to a total return of 35.4% at the end of this year.**

	2023F	YoY growth
<b>Net revenue</b>	<b>133,570</b>	<b>0.1%</b>
TGDD	34,557	-0.4%
DMX	66,259	-3.5%
BHX	29,425	8.7%
An Khang	2,164	44.3%
<b>EAT</b>	<b>4,167</b>	<b>1.6%</b>

*Source: ACBS's projections*

<b>MWG FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>39,400</b>	<b>Target (VND):</b>	<b>52,839</b>	<b>Mkt cap (VND bn):</b>	<b>58,242</b>
(VND bn except where stated)	2021	2022U	2023F	2024F	2025F	
<b>Total Net Sales</b>	<b>122,958</b>	<b>133,405</b>	<b>133,570</b>	<b>152,178</b>	<b>163,103</b>	
<i>Sales growth</i>	<i>13.3%</i>	<i>8.5%</i>	<i>0.1%</i>	<i>13.9%</i>	<i>7.2%</i>	
CoGS ex-dep'n	92,405	99,040	99,791	113,006	120,753	
Selling expenses	17,914	21,790	21,817	23,791	25,581	
G&A expenses	3,823	2,348	2,351	2,678	2,871	
Financial revenues	320	459	451	494	513	
Financial expenses	40	21	14	15	16	
<b>EBITDA</b>	<b>9,095</b>	<b>10,665</b>	<b>10,048</b>	<b>13,182</b>	<b>14,396</b>	
<i>EBITDA margin</i>	<i>7.4%</i>	<i>8.0%</i>	<i>7.5%</i>	<i>8.7%</i>	<i>8.8%</i>	
Depreciation	2,921	3,582	3,668	3,751	4,067	
<b>Operating profit</b>	<b>6,174</b>	<b>7,083</b>	<b>6,381</b>	<b>9,431</b>	<b>10,329</b>	
<i>Operating profit margin</i>	<i>5.0%</i>	<i>5.3%</i>	<i>4.8%</i>	<i>6.2%</i>	<i>6.3%</i>	
Other profits/losses	6	(518)	12	12	12	
Profits/Losses from associates	(2)	-	-	-	-	
Net interest expense	(294)	508	243	(24)	(350)	
<i>as % of avg net debt</i>	<i>-8.9%</i>	<i>15.0%</i>	<i>-38.4%</i>	<i>0.4%</i>	<i>2.7%</i>	
<i>Interest cover (x)</i>	<i>-21.0</i>	<i>13.9</i>	<i>26.2</i>	<i>-397.4</i>	<i>-29.5</i>	
Tax	1,570	1,955	1,982	2,907	3,209	
<i>Effective tax rate</i>	<i>24.3%</i>	<i>29.7%</i>	<i>32.3%</i>	<i>30.7%</i>	<i>30.0%</i>	
Minority interest	3	2	2	3	4	
<b>Attributable net profit</b>	<b>4,899</b>	<b>4,100</b>	<b>4,165</b>	<b>6,557</b>	<b>7,479</b>	
Cash earnings	7,820	7,682	7,833	10,308	11,546	
Total number of shares	713,065,495	1,463,879,280	1,463,879,280	1,503,404,021	1,543,995,929	
<b>EPS (VND) (after treasury shares)</b>	<b>6,869</b>	<b>2,800</b>	<b>2,845</b>	<b>4,361</b>	<b>4,844</b>	
Bonus factor (x)	0.50	1.00	1.00	1.00	1.00	
<b>Adjusted EPS (VND)</b>	<b>3,435</b>	<b>2,800</b>	<b>2,845</b>	<b>4,361</b>	<b>4,844</b>	
<i>EPS growth</i>	<i>19.1%</i>	<i>-18.5%</i>	<i>1.6%</i>	<i>53.3%</i>	<i>11.1%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022U	2023F	2024F	2025F
Increase in working capital	6,282	8	2,195	2,230	1,238
Capex	4,976	4,407	363	1,605	2,205
Change in investment in affiliates	-53	181	0	0	0
Other cashflow items	-642	1,322	340	340	340
<b>Free cash flow</b>	<b>-4,027</b>	<b>4,408</b>	<b>5,616</b>	<b>6,814</b>	<b>8,443</b>
Share issues	226	188	-	395	406
Dividends paid	240	732	1,463	751	1,543
Increase in net debt	4,040	-3,864	-4,153	-6,457	-7,305
<b>Net debt, end of year</b>	<b>5,307</b>	<b>1,443</b>	<b>-2,710</b>	<b>-9,167</b>	<b>-16,472</b>
<b>Shareholders' equity</b>	<b>20,366</b>	<b>23,918</b>	<b>26,620</b>	<b>32,821</b>	<b>39,162</b>
BVPS (VND)	28,571	16,344	18,191	21,838	25,372
Net debt / equity	26.1%	6.0%	-10.2%	-27.9%	-42.1%
Net debt / EBITDA (x)	0.6	0.1	-0.3	-0.7	-1.1
<b>Total assets</b>	<b>62,971</b>	<b>55,834</b>	<b>54,384</b>	<b>54,127</b>	<b>53,163</b>

KEY RETURN AND VALUATION RATIOS	2021	2022U	2023F	2024F	2025F
ROE	27.3%	18.5%	16.5%	22.1%	20.8%
ROA	9.0%	6.9%	7.6%	12.1%	13.9%
ROIC	22.0%	17.7%	17.7%	27.5%	31.1%
WACC	11.1%	15.7%	15.9%	15.9%	15.9%
EVA	10.9%	2.0%	1.8%	11.6%	15.2%
PER (x)	11.5	14.1	13.8	9.0	8.1
EV/EBITDA (x)	6.5	5.5	5.9	4.5	4.1
EV/FCF (x)	-14.7	13.4	10.5	8.7	7.0
PBR (x)	1.4	2.4	2.2	1.8	1.6
PSR (x)	0.5	0.4	0.4	0.4	0.4
EV/sales (x)	0.5	0.4	0.4	0.4	0.4
PEG (x, 3 yr prospective)	15.4	1.2	0.6	0.4	0.7
Dividend yield	2.5%	2.5%	1.3%	2.5%	2.5%



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### Our Recommendation System

**BUY:** where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

**HOLD:** where we believe it will be -15% to 15%.

**SELL:** where we believe it will be lower than -15%.

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