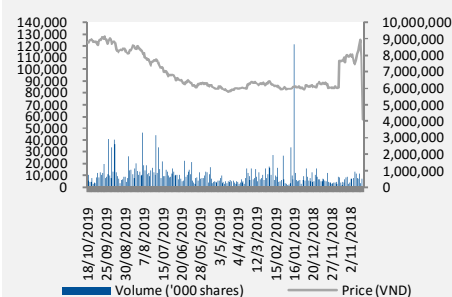


BUY(maintain)**Mobile World Group (HSX: MWG)**

Report date	Nov. 21, 2019
Current price	VND 117,100
Previous target price	VND 148,000
Target price	VND 144,000
Upside	23%
Bloomberg	MWG VN
Market cap	VND 53,576bn USD 2,329mn
52 weeks movement	VND 78,160 – 128,000
Average daily value	VND 97bn– USD 4.24 mn
FOL	49%
Current FO	49%

Grocery segment main growth driver**Our takeaway**

- In 9M2019, MWG's revenue and NPAT increased by 17% yoy and 36% yoy respectively, lower than our forecasts by 19% and 0% due to lower-than-expected CE's revenue.
- For FY19, we adjust our revenue and profit forecasts down by 2.2% and 1.3% respectively to reflect lower revenue growth of CE segment. In addition, we change our valuation method from multiple method to DCF to capture the future cash flow from grocery chain. Our new target price is VND 144,000/share. Maintain BUY recommendation.

Price movement

Stock performance	1M	3M	12M
MWG (%)	9.9%	34.1%	45.5%
VNIndex (%)	-1.0%	2.6%	-2.1%

Source: Bloomberg

Major Shareholders

Investment Advisory Retail			
World JSC		11.63%	
Tri Tam JSC		8.73%	
PYN Elite Fund		3.24%	
Nguyen Duc Tai		2.62%	

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9M19 revenue and net profit increased by 17% yoy and 36% yoy thanks to higher contribution from CE chains. In 9M2018, CE revenue grew by 22% yoy thanks to the contribution from 170 new stores of which 38 stores were converted from the goididong stores. Hence, the proportion of Grocery chains over total revenue lifted to 9.76% from 5.76% in 2018, in light of (i) higher revenue per store, increasing from VND 1.5 bn/store/month to VND 1.6 bn/store/month with higher proportion of fresh products to 50% from 40% in 2018 and (ii) higher gross profit margin of 20% in 9M19 from 19.5% in 8M2019.

Revenue and profit at VND 24,983 bn and VND 933 bn respectively in 4Q2019. For FY19, total revenue and net profit will be VND 101,746 bn (+17.6% yoy) and VND 3,909 bn (+35.7% yoy) respectively thanks to 22% growth of CE and 99.3% growth of grocery chains. We forecast grocery chain (Bachhoaxanh) will reduce its loss to VND 24 bn in FY20 from VND 592 bn in FY19. In 2020, revenue and profit of the company will increase by 29.5% yoy and 35.2% yoy respectively, mainly from 168% yoy growth of grocery chains and 19.5% yoy growth of CE.

Selling watches can be a new key growth driver for mobile and CE chains. In September 2019, MWG sold 50,000 watches at 20% gross margin, which is equivalent to 1.15 times of our forecast thanks to cross-selling concept. The revenue of this segment will rise from VND 500 bn in 2018 to VND 600 bn in 2019. In 2020, we expect this segment's revenue will reach VND 1,917 bn from 700 stores.

Valuation

We change our TP to VND 144,000 /share (+23% upside) from VND 148,000 /share after changing our valuation method from P/E to DCF method ($g = 0\%$, $WACC = 13.68\%$) and maintain a **BUY** recommendation. We change our valuation method to reflect the cash flow from BHX, the grocery chain. The stock is trading at FY19F P/E of 13.4 and FY20F P/E of 9.9, which is 21% lower than that of its peers.

Unit: VND billion	FY18A	FY19F	FY20F	FY21F
Revenue	86,516	101,746	131,758	160,681
EBIT	3,871	4,787	6,790	8,830
Net profit	2,880	3,909	5,284	6,707
Net profit (basic)	2,880	3,909	5,284	6,707
EPS (VND)	6,500	8,820	11,923	15,135
EPS growth rate (%)		35.7%	35.2%	26.9%
P/E (x)	18.1	13.4	9.9	7.8
EV/EBITDA (x)	7.3	5.8	5.0	4.3
Dividend yield (%)	1.77%	1.77%	1.78%	1.78%
P/B (x)	3.4	2.5	1.9	1.4
ROE (%)	32.1%	35.7%	34.4%	31.7%
Net debt/equity (%)	64.5%	54.1%	45.6%	38.9%

Source: MBS Research

Earning forecast and valuation

Our forecast for FY19 revenue is VND 101,746 bn (+17.6% yoy), driven by 22.1% growth rate of CE chain. The revenue forecast of mobile, CE and grocery chain division in 2019 are VND 33,335 bn (-3.7% yoy), VND 58,081 bn (+22.1% yoy) and VND 9,934 bn (+99.3% yoy) respectively.

Mobile & CE chains assumptions:

- (1) The revenue of watch segment will be VND 395 bn in 2019 and VND 1,917 bn in 2020 (equal to 8% total revenue of mobile chain). Gross margin of this segment is expected at 20%, which is higher than mobile and CE chains.
- (2) We forecast the new number of stores of CE chain will be 150 stores in 2019 and 80 stores per year thereafter until 2023. There will be 30 mobile stores converted to CE stores each year.
- (3) The revenue per store of CE chain and mobile will increase by 7% yoy and 2% yoy respectively. The gross profit margin of these two chains will remain stable at around 18.5%.
- (4) "Dien thoai sieu re" is at the examination stage so we exclude it in our valuation.

Grocery chain assumptions:

- (1) We forecast revenue per store will increase 11% CAGR from VND 1.3bn in 2019 to VND 2bn per month in 2023. We forecast revenue per store at VND 1.9bn (+43% yoy) in 2020 thanks to new format.
- (2) We forecast around 60 new stores opened each month raising the number of stores from 855 in 2019 to 3,255 in 2022. From 2019 to 2022, MWG will still focus on south and middle part of Vietnam.
- (3) Gross margin of this chain will improve slightly from 19.5% in Sep/2019 to 20% in 2021 due to stronger bargaining power of MWG to suppliers. We expect market share of this chain to increase from 0.7% in 2019 to 3% in 2021.

Our 12-month target price of VND 144,000 per share, using DCF method. The stock is trading at FY19F P/E of 13.4 and FY20F P/E of 9.9, which is 21% lower than that of its peers.

Table 1: Detailed earnings model

Unit: VND billion		2018	2019F	2020F	2021F	2022F
Revenue		86,516	101,746	131,758	160,681	190,950
In which:	Mobile chains	34,607	33,335	33,745	33,896	34,040
	CE chains	47,584	58,082	69,431	79,647	86,703
	Grocery chains	4,984	9,934	26,665	42,947	64,507
	Watch segment	0	395	1,918	4,191	5,700
Gross profit		15,292	18,666	24,767	30,870	37,147
In which:	Mobile chains	6,091	6,100	6,243	6,339	6,434
	CE chains	8,375	10,629	12,845	14,894	16,387
	Grocery chains	797	1,838	5,200	8,589	12,901
	Watch segment	0	99	479	1,048	1,425
Financial Income		342	309	400	487	579

Selling Expenses	9,660	11,574	15,629	19,762	24,377
General & Admin Expenses	1,762	1,927	2,175	2,393	2,545
Mobile assumption	34,607	33,335	33,745	33,896	34,040
Revenue per store (per year)	33	33	34	35	36
Number of store	1,032	993	978	963	948
CE assumption	47,584	58,082	69,431	79,647	86,703
Revenue per store	68	70	73	77	78
Number of store	750	910	990	1,070	1,150
Grocery assumption	4,984	9,934	26,665	42,947	64,507
Revenue per store	14	16	22	23	24
Number of store	405	855	1,555	2,255	3,255
NPAT	2,880	3,909	5,284	6,707	7,862

Source:MWG, MBS Research

Table 2: Valuation

Consolidated (VND million)		2019	2020	2021	2022	2023
EBIT		5,484,644	7,376,800	9,219,862	10,825,319	12,656,529
Adjusted EBIT		5,484,644	7,376,800	9,219,862	10,825,319	12,656,529
Effective CIT rate (%)		22.2%	22.2%	22.2%	22.2%	22.2%
EBIT(1-T)		4,267,053	5,739,150	7,173,053	8,422,098	9,846,780
Add: Depreciation		227,340	353,065	497,059	513,589	456,625
Less: CAPEX		1,103,493	1,411,016	1,468,863	1,979,401	2,048,417
Less: Change in WC		-1,917,630	1,682,660	1,612,834	1,692,201	1,847,792
Free cash flow to firm		5,308,530	2,998,540	4,588,415	5,264,085	6,407,195
Terminal growth	0.0%				Terminal value	46,849,922
Discount period		-2.88	-1.88	-0.88	0.12	1.12
Discount factor		1.44744	1.27330	1.12012	0.98536	0.86651
Present value		7,683,780	3,818,050	5,139,558	5,187,011	5,551,891
				Total value		40,595,870
PV of FCF	67,976,160					
Cash & cash equivalents	996,983					
ST Investments	0					
Total Firm Value	68,973,143					
Debt	4,788,992					
Equity Value	64,184,151					
Equity Value after Liquidity Discount	64,184,151					
No. of shares	443,171,453					
Value of a share	144,829					

Source: MBS Research

Table 3: Sensitivity Analysis

We used two variables in sensitivity analysis for DCF valuations: (1) terminal growth rate and (2) WACC

WACC (2018-2022)		Terminal growth				
		-1.0%	-0.500%	0.0%	0.500%	1.0%
11.7%	138,373	141,864	145,610	149,641	153,990	
	138,040	141,496	145,206	149,196	153,502	
	137,734	141,156	144,829	148,781	153,044	
	137,454	140,843	144,480	148,393	152,615	
	137,200	140,556	144,158	148,034	152,214	

Source: MBS Research

Table 4: 9M2019 commendation:

Unit: VND billion	9M2018	9M2019	%yoy	Our comments
Revenue	65,478	76,763	17.2%	Number of stores decreased from 1,032 to 1,000. Revenue per store decreased slightly by 3% due to large stores changed to CE chains. There is low contribution of watch segment in 1H19 but this revenue will be higher in 2H19.
Mobile chains	26,609	25,562	-3.9%	
CE chains	36,017	44,061	22.3%	Number of stores increased from 724 to 838. Revenue per store increased 7% yoy at the same level of industry growth rate.
Grocery chains	2,800	7,139	155.0%	Number of stores increase from 384 to 600. Revenue store increased significantly from 800 million/store/month to VND 1,600 million/store/month (+100% yoy)
Gross profit	11,539	14,123	22.4%	Gross margin maintain around 17.6%
Selling expense	7,210	8,743	21.3%	Selling expense over sale ratio will increase in the last half of 2019 due to higher proportion of grocery chains. New chain setup leading to higher ratio SG&A cost/sale.
G&A expense	1,377	1,554	12.9%	
NPAT	2,187	2,976	36.1%	

Source: MBS Research

Table 5: Change in forecast:

Unit: VND billion	2019 (old)	2019 (new)	% change	2020 (old)	2020 (new)	% change	Our comments
Revenue	103,794	101,746	-2.0%	135,353	131,758	-2.7%	
Mobile chains	29,413	33,335	13.3%	27,943	33,745	20.8%	We believe that MWG could gain more market share of this segment thanks to "dien thoai sieu re" and better competitive advantage.
CE chains	64,330	58,082	-9.7%	83,340	69,431	-16.7%	We lower revenue per store growth rate from 12% yoy to 7% yoy.
Grocery chains	9,934	9,934	0%	23,859	26,665	11.8%	We increased sale per store from VND 1.6 bn/month to VND 1.8 bn/month.
Gross profit	19,086	18,666	-2.2%	25,337	24,767	-2.3%	Gross margin remains stable.
Selling expense	11,839	11,574	-2.2%	15,552	15,629	0.5%	Selling expense/sale ratio will increase from 11.17% to 11.86% due to higher proportion of grocery chains.
G&A expense	2,203	1,927	-12.5%	2,615	2,175	-16.8%	
NPAT	3,817	3,909	2.4%	5,298	5,284	-0.3%	

Source: MBS Research

Financials and Valuation Summary

Income Statement (VND bn)	2018	2019E	2020E	2021E	Ratios	2018	2019E	2020E
Revenue	86,516	101,746	131,758	160,681	Valuation			
Cost of good sold	71,224	83,080	106,992	129,812	EPS	6,500	8,820	11,923
Gross profit	15,292	18,666	24,767	30,870	Book value per share (BVPS)	20,255	24,717	34,633
Financial income	342	309	400	487	P/E	18.1	13.4	9.9
Financial expenses	437	463	515	602	P/B	3.4	2.5	1.9
SG & A expenses	11,421	13,501	17,804	22,155	P/S	0.6	0.5	0.4
					Dividend yield	1.8%	1.8%	1.8%
Profit before tax	3,788	5,024	6,865	8,621	Profitability			
Profit after tax	2,880	3,909	5,284	6,707	Gross profit margin	17.7%	18.3%	18.8%
Profit after tax for parent company	2,879	3,907	5,281	6,704	EBITDA margin	17.6%	18.2%	18.7%
Not-controlling interest	2	2	3	4	Net profit margin	3.3%	3.8%	4.0%
					ROE	32.1%	35.7%	34.4%
					ROA	10.3%	12.1%	12.7%
Balance Sheet (VND bn)	2018	2019E	2020E	2021E	Growth			
Current assets	24,509	28,077	36,244	46,129	Revenue growth		17.6%	29.5%
I. Cash & cash equivalents	3,750	7,425	9,810	14,168	Profit before tax growth		32.6%	36.6%
II. Short-term investments	0	1	2	3	Profit after tax growth		35.7%	35.2%
III. Receivables	1,560	1,835	2,376	2,897	EPS		35.7%	35.2%
IV. Inventory	17,446	17,130	22,060	26,765	Total Asset		14.6%	28.9%
V. Other current assets	583	686	888	1,083	Equity		22.0%	40.1%
Non-current assets	3,580	4,121	5,264	6,318	Liquidity			
I. Long-term receivables					Current ratio	136.9%	140.0%	143.9%
II. Fixed assets	3,333	3,831	4,889	5,861	Quick ratio	29.7%	46.2%	48.4%
1. Tangible fixed assets	3,305	3,806	4,864	5,836	Debt/Total assets	25.1%	22.1%	19.2%
2. Intangible fixed assets	28	25	25	24	Debt/Equity	54.1%	45.6%	38.9%
III. Property	0	1	2	3	Interest coverage	14.8	20.2	37.8
IV. Long-term work in progress	245	80	80	80	Operating efficiency			
V. Long-term investments	0	60	0	0	Receivables turnover	55.5	55.5	5.3
VI. Other non-current assets	247	290	376	458	Days sales outstanding	6.6	6.6	69.5
Total assets	28,089	32,198	41,509	52,448	Inventory turnover	4.1	4.9	4.8
Liabilities	19,155	21,235	26,148	31,267	Days sales of Inventory	89.4	75.3	75.3
I. Current liabilities	17,907	20,055	25,194	30,312	Payables turnover	8.6	8.6	8.6
1. Short-term payables	8,253	9,626	12,397	15,041	Days payables outstanding	42.3	42.3	42.3
2. Short-term borrowings	5,797	5,928	7,000	8,237				
II. Non-current liabilities	1,248	1,180	954	955				
1. Short-term payables	0	1	2	3				
2. Long-term borrowings	1,248	1,179	952	952				
Equity	8,983	10,962	15,360	21,180				
1. Share capital	4,435	4,435	4,435	4,435				
2. Share premium	551	551	551	551				
3. Retain earnings	3,990	5,966	10,361	16,178				
4. Non-controlling interest	6	8	11	15				
5. Other capital	-	-	-	-				
Total resources	28,089	32,198	41,509	52,448				

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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