

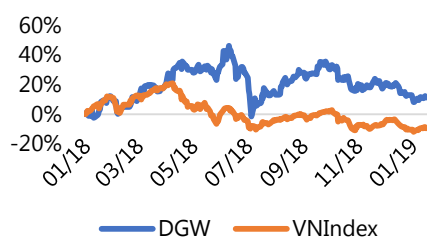
DIGIWORLD (DGW VN)
Conservative guidance for FY19
BUY

Current price: VND 22,600

Target price: VND30,000
Upside: 33%

We attended DGW's 4Q18 analyst meeting this morning. Net profit beat our forecast by 2%, but management expressed a relatively somber 2019E business outlook. In our view, management's smartphone shipment target is obviously too conservative, but we are concerned that their core brands may not be sufficiently aggressive in expanding their market share. We thus see increased risk of negative earnings revisions if evidence confirms management's concerns.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
18,700-29,700	USD39.6mn	5.7%	37.7%	40.5%	USD0.8mn

Price performance

Event catalysts

- Conservative FY2019 guidance.
- New partnership agreement with Nestlé.
- DGW stated that it will not raise funds through share issuance, at least until 2Q.

Risks to our call

- Key client risk: Xiaomi sales could disappoint and the exclusive relationship with DGW could end.
- Feature phones, which Nokia dominates, could fade out more quickly than we expect.
- Functional foods and fast-moving consumer goods (FMCG) could disappoint.

Quang Vo

Consumer Analyst

+84 28 3622 6868 (ext. 3872)

quang.vo@yuanta.com.vn

Company profile: DGW is a market expansion services (MES) provider for various branded ICT products including smartphones, laptops, tablets, and office equipment. The company is also developing a nascent consumer goods distribution business.

DGW FY18 results and FY19 guidance

USD Bn	FY2018	FY2019 guidance	YoY growth
Laptops and tablets	2,401	2,410	0%
Smartphones	2,355	3,000	27%
Office equipment	1,112	1,390	25%
Consumer goods	75	350	367%
Total revenue	5,943	7,150	20%
Net income	109	137	25%

Source: DGW

Conservative FY2019 guidance. DGW provided 2019E revenue guidance of VND 7.2tn, implying 20% YoY growth vs our 32% forecast. DGW guided 2019E smartphone sales of VND 3tn vs. our forecast of VND 4.1tn. Management noted that they usually set a conservative target at the start of the year, but we are also concerned about the limited promotional activities of its major brands.

DGW also signed a distribution contract with Nestlé to distribute its nutritional powder drink products. Management did not disclose the estimated sales from the new business, citing contract clauses. However, guidance for the overall functional foods segment (including Nestlé, Kingsmen, and PNKids) is just 2% of the FY19 sales target, so we do not expect the new business to contribute much in the short run.

No share issuance until at least 2Q19. Due to unfavorable market conditions, management does not intend to raise equity funding for now. The company will instead utilize bank credit lines to for any necessary working capital funding requirements.

Our view: Despite the moderate 4Q18 earnings beat, we came away from the meeting with a less optimistic outlook. We believe that DGW's smartphones target is obviously too conservative. That said, we share management's concern about the core phone brands' market share growth in the absence of aggressive promotional activities. We make no changes to our forecasts for now, but we believe that earnings cuts could be in the cards if evidence emerges to confirm these fears.

PROFIT AND LOSS (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2016A	2017A	2018E	2019E	2020E
Revenue	3,800	3,821	5,626	8,036	9,978
<i>Laptops and tablets</i>	2,170	2,266	2,334	2,386	2,422
<i>Smartphones</i>	1,070	752	2,256	4,384	6,076
<i>Office equipment</i>	560	752	902	1,049	1,180
<i>Consumer goods</i>	-	50	133	217	300
Cost of goods sold	(3,559)	(3,546)	(5,250)	(7,510)	(9,319)
Gross profits	241	275	375	526	660
Operating expenses	(152)	(182)	(203)	(313)	(409)
Operating profits	89	93	173	213	251
Net interest expenses	(28)	(24)	(59)	(63)	(65)
Net investments income/(loss)	-	(0)	(0)	(0)	(0)
Net other incomes	4	6	6	6	6
Pretax profits	84	100	140	179	217
Income taxes	(18)	(21)	(30)	(38)	(43)
Minority interests	-	(1)	0	-	-
Net profits	67	79	111	141	174
EBITDA	93	98	177	217	255
EPS (VND)	1,685	1,982	2,723	3,477	4,274

KEY RATIOS

	2016A	2017A	2018E	2019E	2020E
Growth (% YoY)					
Sales	(9.6)	0.5	47.2	42.8	24.2
<i>Laptops and tablets</i>	(3)	4	3	2	1
<i>Smartphones</i>	(30)	(30)	200	94	39
<i>Office equipment</i>	26	34	20	16	13
<i>Consumer goods</i>	N/A	N/A	167	63	38
Operating profit	(42.7)	5.0	85.8	23.1	17.7
EBITDA	(41.3)	5.7	80.8	22.7	17.4
Net profit	(35.6)	18.7	39.6	27.7	22.9
EPS (VND)	(38.9)	17.6	37.4	27.7	22.9
Profitability ratio (%)					
Gross margin	6.3	7.2	6.7	6.6	6.6
Operating margin	2.3	2.4	3.1	2.7	2.5
EBITDA margin	2.4	2.6	3.1	2.7	2.6
Net margin	1.8	2.1	2.0	1.8	1.7
ROA	5.2	5.4	6.4	7.0	7.4
ROE	10.8	11.9	14.9	16.3	17.0
Stability					
Net debt/equity (x)	0.5	0.9	0.7	0.7	0.5
Int. coverage (x)	3.2	3.9	2.9	3.4	3.8
Int. & ST debt coverage (x)	0.3	0.2	0.2	0.3	0.4
Cash conversion days	78.1	91.0	76.5	65.4	53.7
Current ratio (X)	1.8	1.7	1.7	1.7	1.8
Quick ratio (X)	0.7	0.7	0.7	0.7	0.8
Net cash/(debt) (VND mn)	(310)	(587)	(531)	(650)	(516)
Efficiency					
Days receivable outstanding	34	40	34	32	31
Days inventory outstanding	71	82	70	60	50
Days payable outstanding	27	31	27	26	27

Source: Company data, YSVN

BALANCE SHEET (VND bn)

<i>FY Dec 31 (VND'bn)</i>	2016A	2017A	2018E	2019E	2020E
Total assets	1,306	1,594	1,858	2,198	2,470
Cash & cash equivalents	33	34	130	61	142
ST Investment	5	-	-	-	-
Accounts receivable	361	482	524	702	847
Inventories	714	883	1,007	1,234	1,277
Other current assets	106	103	108	113	119
Net fixed assets	85	89	87	85	82
Others	3	3	3	3	3
Total liabilities	677	905	1,059	1,259	1,359
Current liabilities	673	902	1,056	1,256	1,356
Accounts payable	330	281	395	545	697
ST debts	343	621	661	711	659
Long-term liabilities	4	3	3	3	3
Long-term debts	-	-	-	-	-
Others	4	3	3	3	3
Shareholder's equity	630	687	797	937	1,109
Share capital	459	469	469	469	469
Treasury stocks	(6)	(6)	(6)	(6)	(6)
Others	288	251	143	6	(162)
Retained earnings	177	224	332	469	637
Minority interest	-	2	2	2	2

CASH FLOW (VND bn)

<i>FY (VND'bn)</i>	2016A	2017A	2018E	2019E	2020E
Operating cash flow	166	(232)	59	(116)	137
Net income	67	79	111	141	174
Dep. & amortisation	2	5	4	4	4
Change in working capital	134	(49)	114	150	152
Others	(24)	(33)	(35)	(43)	(49)
Investment cash flow	(7)	(14)	(2)	(2)	(2)
Net capex	(6)	(4)	(2)	(2)	(2)
Change in LT investment	-	5	0	0	0
Change in other assets	-	(0)	-	-	-
Cash flow after invt.	(1)	(15)	-	-	-
Financing cash flow	(158)	248	39	49	(54)
Change in share capital	-	101	-	-	-
Net change in debt	(103)	278	40	50	(52)
Change in other LT liab.	(54)	(132)	(1)	(1)	(2)
Net change in cash flow	1	1	96	(69)	82
Beginning cash flow	32	33	34	130	61
Ending Cash Balance	33	34	130	61	142

KEY METRICS

	2016A	2017A	2018E	2019E	2020E
PE (x)	9.6	10.7	8.9	7.0	5.7
Diluted PE (x)	9.6	10.7	8.9	7.0	5.7
PB (x)	0.8	1.3	1.3	1.2	1.1
EBITDA/share	3,027	2,402	4,345	5,330	6,260
DPS	1,780	680	1,085	1,386	1,703
Dividend yield (%)	11.0	3.2	4.5	5.7	7.0
EV/EBITDA (x)	8.6	14.8	5.6	4.5	3.9
EV/EBIT (x)	0.2	0.1	5.7	4.6	3.9

APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Ratings	Expected return within the next 12 months – excluding dividend
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

Global Disclaimer

© 2018 Yuanta. All rights reserved. The information in this report has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

This report provides general information only. Neither the information nor any opinion expressed herein constitutes an offer or invitation to make an offer to buy or sell securities or other investments. This material is prepared for general circulation to clients and is not intended to provide tailored investment advice and does not take into account the individual financial situation and objectives of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, investments or investment strategies discussed or recommended in this report. The information contained in this report has been compiled from sources believed to be reliable but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This report is not (and should not be construed as) a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on such business in that jurisdiction.

Yuanta research is distributed in the United States only to Major U.S. Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended and SEC staff interpretations thereof). All transactions by a US person in the securities mentioned in this report must be effected through a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, as amended. Yuanta research is distributed in Taiwan by Yuanta Securities Investment Consulting. Yuanta research is distributed in Hong Kong by Yuanta Securities (Hong Kong) Co. Limited, which is licensed in Hong Kong by the Securities and Futures Commission for regulated activities, including Type 4 regulated activity (advising on securities). In Hong Kong, this research report may not be redistributed, retransmitted or disclosed, in whole or in part or any form or manner, without the express written consent of Yuanta Securities (Hong Kong) Co. Limited.

YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA

Head of Research
Tel: +84 28 3622 6868 (ext. 3815)
matthew.smith@yuanta.com.vn

Quang Vo

Analyst (Consumer)
Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tam Nguyen

Analyst (Property)
Tel: +84 28 3622 6868 (ext. 3874)
tam.nguyen@yuanta.com.vn

Tanh Tran

Analyst (Banks)
Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Institutional Sales

Huy Nguyen

Head of Institutional sales
Tel: +84 28 3622 6868 (ext. 3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen

Sales Trader
Tel: +84 28 3622 6868 (ext. 3890)
duyen.nguyen@yuanta.com.vn