

## MOBILE WORLD GROUP (MWG VN): Analyst Meeting Takeaways

### Moving toward the next growth driver(s)

### Not Rated

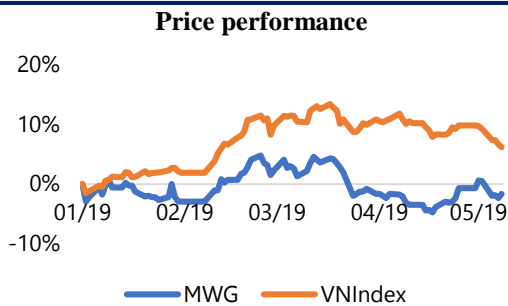
Current price: VND 85,000

Target price: N/A

Upside: N/A

We attended MWG's analyst meeting on May 10. MWG continues to report strong operating results and is outperforming the industry despite the relative maturity of consumer electronics and telecommunication devices. The grocery business is expanding aggressively and exhibits strong potential to become the company's next growth pillar. That said, we think this segment requires more time to become a notable earnings driver.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
74,700-98,300	USD 1.6bn	1.8%	0.0%	87.1%	USD 2.1mn



### Key Takeaways

- MWG is on track to fulfil FY19 guidance.
- Expansion/conversion planned for core TGDD and DMX stores.
- Aggressive expansion at BHX (fresh foods & FMCGs).
- Broadening its product range to find the next growth driver(s).

### Risks

- BHX sales could cool down.
- The slowdown in consumer electronics may be faster than expected.

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**Company profile:** MWG is the largest electronics retailer in Vietnam with 45% market share in phones and 35% in consumer electronics. MWG's The Gioi Di Dong (TGDD) chain (phones, laptops, tablets, etc.) accounted for 48% of revenues in FY18, while its Dien May Xanh (DMX) chain (consumer electronics) contributed 41% of sales. MWG started retailing fresh foods and FMCGs under the Bach Hoa Xanh (BHX) chain in 2016, and this segment has since grown to reach 7% of total FY18 group revenues.

### MWG's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	86,516	108,468	+25%
PAT	2,880	3,571	+24%
ROA	11.3%		
ROE	38.7%		
EPS growth	+26%		
P/E	13.0		
P/BV	4.2		

Source: MWG

**MWG is on track to fulfil FY19 guidance** with 1Q19 sales of VND 25tn (+10% YoY, 23% of 2019 guidance) and NPAT of VND 1tn (+29% YoY; 29% of guidance). 1Q19 sales growth was attributable to consumer electronics (16% YoY growth at DMX) and fresh foods/FMCGs (+156% YoY growth at BHX), while TGDD's sales declined by 8% YoY. Gross margin expansion (+26bps YoY) and SG&A cost contraction (-42bps YoY) also helped boost the bottom-line result.

**Expansion/conversion strategy for TGDD and DMX chains.** MWG plans to open new DMX stores and to convert TGDD stores into DMX stores, with the target of 850 DMX stores by end-June (vs 774 at end-March). In addition, MWG targets sales-per-store to expand by 30% via improved store layout to increase the number of SKUs. MWG expects sales for DMX to grow by 20% YoY and for TGDD to expand by 10% YoY in FY19.

**BHX expanding aggressively.** MWG plans to open 50 BHX stores per month for the rest of 2019, substantially boosting the total number of stores from the current figure of 469. MWG plans to accelerate the number of contracts signed directly with suppliers, which it expects will improve gross margin by 100-150 bps. In addition, logistical and storage efficiency improvements to ensure the freshness and reduce the proportion of spoilage are on the right track, as evidenced by the 2ppt YoY increase in gross margin at BHX to 18% in 1Q19.

**In search of the next growth driver(s).** MWG is currently implementing a pilot scheme to sell wristwatches and kitchenware. Wristwatch sales only launched on March 8 but contributed 1.8% of company-wide sales in that month. Meanwhile, kitchenware posted 50% YoY growth and contributed 6.8% of sales in 1Q19.

**Our view:** We don't cover MWG and have no investment view on the stock. The company is clearly doing a good job in expanding the grocery business, and we agree with management's view about the strong potential of the market. That said, MWG is not all about groceries. Its two main pillars – phones and consumer electronics – are showing signs of slowing down. It may be unrealistic to expect the still-nascent grocery business to maintain the overall (large) group's sales growth at historically impressive levels of 40%-50% (over the last three years). It may take a while for the grocery business to have made a substantial (and positive) earnings contribution.

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