DIGIWORLD (DGW VN)

Surging 2Q19 sales

BUY

Current price: VND 23,600

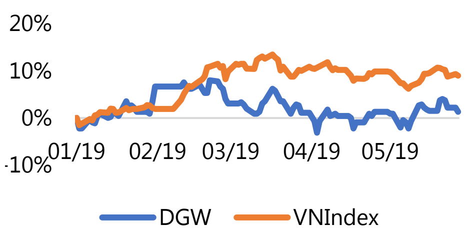
Target price: VND30,000

Upside: 27%

We attended DGW's 2Q19 analyst meeting this morning. Consolidated sales growth (+46% YoY) and PAT (+53% YoY) were very solid. The discussion focused on office equipment, which has been showing consistent double-digit growth and was the only segment to substantially beat our forecast. That said, the consolidated bottom-line was in line with our forecast due to lower-than-expected smartphone sales. We retain our target price of VND 30,000 and continue to recommend **BUY.**

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
20,600-27,700	**USD42.6mn**	**5.7%**	**34.2%**	**40.5%**	**USD0.4mn**

Price performance



Event catalysts

- The smartphone segment remains the largest revenue driver, and 2Q19 sales were up 49% YoY.
- Laptop & tablet sales surprised on the upside, increasing by 46% YoY in 2Q.
- Office equipment continues to record consistently high growth.

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.

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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. In 1H19, DGW has achieved 43.5% of our full-year 2019E forecast.

DGW 2Q19 results and FY19 guidance

USD Bn	2Q19	YoY growth	FY2019 Guidance
Net revenues	**2,006**	**+46%**	**7,150**
Laptop and tablets	654	+46%	2,410
Smartphone	967	+49%	3,000
Office equipment	322	+24%	1,390
Consumer goods	63	+214%	350
Profit after tax	**35**	**+53%**	**137**

Source: DGW

DGW's smartphone segment got back on track with +49% YoY sales growth in 2Q19 vs just +5% YoY growth in 1Q19. Nokia launched a new model (Nokia 3.2) in May and Xiaomi's latest models (Redmi Note 7 and Mi 9, launched in 1Q19) have started to bear fruit. The recovery in smartphone sales in 2Q19, which bolsters our confidence.

Laptops & tablets surprised on the upside, increasing by 46% YoY in 2Q19. This was considerably higher than 1Q19 segment growth of only 1% YoY. Management attributes the rebound in growth to their strategy of negotiating with brands for distribution of their newest and, sometimes, exclusive models. Also, increased ASPs (+10% YoY) drove an (undisclosed) increase in laptop & tablet segment profit margin in 2Q19.

Office equipment momentum is consistently increasing with growth of 24% YoY in 2Q19 vs 19% YoY in 1Q19). The server, PC, & storage device segment (+18% YoY) was the main contributor, accounting for 54% of the increased sales. IoT devices (+52% YoY, contributing 25% of the increased sales) ranked second. Management expresses a high level of confidence in the OE category and believes it could see CAGR of 25% during 2018-23, backed up by booming new FDI business establishment and DGW's solid market position.

Consumer goods recorded triple-digit growth rate of 214% YoY in 2Q19 (albeit off a small base). Management attributes this partly to nutritious products from Nestle. DGW disclosed that Nestle plans to launch new nutritious products in upcoming months, and management believes the segment sales will double every year during 2018-23.

Investment implications: Reiterate Buy. Smartphone sales YTD have lagged our forecasts by c. 14%, but the rebound in 2Q supports our confidence. By contrast, office equipment beat our estimates by c. 13%. Laptops & tablets were in line, and although consumer goods were strong, this segment is too small to affect our valuation. Overall, DGW's 1H19 bottom line was in line with our expectation and we thus retain our target price of VND 30,000.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Revenue	**3,821**	**5,943**	**7,836**	**9,778**	**11,483**
Laptops and tablets	*2,266*	*2,334*	*2,386*	*2,422*	*2,440*
Smartphones	*752*	*2,256*	*4,184*	*5,876*	*7,399*
Office equipment	*752*	*902*	*1,049*	*1,180*	*1,283*
Consumer goods	*50*	*133*	*217*	*300*	*360*
Cost of goods sold	(3,546)	(5,577)	(7,320)	(9,129)	(10,715)
Gross profits	**275**	**367**	**517**	**649**	**768**
Operating expenses	(182)	(224)	(306)	(401)	(494)
Operating profits	**93**	**143**	**211**	**248**	**274**
Net interest expenses	(24)	(39)	(63)	(65)	(75)
Net investments income/(loss)	(0)	1	1	1	1
Net other incomes	6	2	2	2	2
Pretax profits	**100**	**140**	**174**	**212**	**230**
Income taxes	(21)	(31)	(37)	(42)	(46)
Minority interests	(1)	(1)	-	-	-
Net profits	**79**	**111**	**138**	**170**	**184**
EBITDA	98	148	215	253	278
EPS (VND)	1,982	2,724	3,392	4,182	4,538

KEY RATIOS					
	2017A	2018A	2019E	2020E	2021E
Growth (% YoY)					
Sales	0.5	55.5	31.8	24.8	17.4
Laptops and tablets	*4*	*3*	*2*	*1*	*1*
Smartphones	*(30)*	*200*	*85*	*40*	*26*
Office equipment	*34*	*20*	*16*	*13*	*9*
Consumer goods	*N/A*	*167*	*63*	*38*	*20*
Operating profit	5.0	53.8	47.3	17.7	10.3
EBITDA	5.7	51.3	45.2	17.4	10.1
Net profit	18.7	39.7	24.5	23.3	8.5
EPS (VND)	17.6	37.4	24.5	23.3	8.5
Profitability ratio (%)					
Gross margin	7.2	6.2	6.6	6.6	6.7
Operating margin	2.4	2.4	2.7	2.5	2.4
EBITDA margin	2.6	2.5	2.7	2.6	2.4
Net margin	2.1	1.9	1.8	1.7	1.6
ROA	5.4	5.8	6.1	7.1	7.1
ROE	11.9	15.2	17.1	18.9	18.4
Stability					
Net debt/equity (x)	0.9	1.0	0.9	0.7	0.6
Int. coverage (x)	3.9	3.7	3.3	3.8	3.7
Int. &ST debt coverage (x)	0.2	0.2	0.2	0.3	0.3
Cash conversion days	91.0	75.9	64.9	53.3	46.5
Current ratio (X)	1.7	1.5	1.5	1.6	1.6
Quick ratio (X)	0.7	0.6	0.7	0.7	0.7
Net cash/(debt) (VND mn)	(587)	(766)	(734)	(679)	(611)
Efficiency					
Days receivable outstanding	40	33	32	31	27
Days inventory outstanding	82	72	60	50	48
Days payable outstanding	31	29	27	28	28

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2017A	2018A	2019E	2020E	2021E
Total assets	**1,594**	**2,222**	**2,278**	**2,482**	**2,695**
Cash & cash equivalents	34	71	153	156	187
ST Investment	-	-	-	-	-
Accounts receivable	482	601	681	830	849
Inventories	883	1,314	1,203	1,251	1,409
Other current assets	103	137	144	151	158
Net fixed assets	89	89	86	82	79
Others	3	10	11	12	13
Total liabilities	**905**	**1,456**	**1,431**	**1,534**	**1,639**
Current liabilities	902	1,451	1,425	1,529	1,633
Accounts payable	281	614	538	694	836
ST debts	621	837	887	835	798
Long-term liabilities	3	5	5	5	6
Long-term debts	-	-	-	-	-
Others	3	5	5	5	6
Shareholder's equity	**687**	**765**	**846**	**947**	**1,055**
Share capital	469	469	469	469	469
Treasury stocks	(6)	(6)	(6)	(6)	(6)
Others	251	173	94	(3)	(108)
Retained earnings	224	302	381	478	583
Minority interest	**2**	**1**	**1**	**1**	**1**

CASH FLOW (VND bn)					
FY (VND'bn)	2017A	2018A	2019E	2020E	2021E
Operating cash flow	**(232)**	**(137)**	**90**	**126**	**145**
Net income	79	111	138	170	184
Dep, & amortisation	5	5	4	4	4
Change in working capital	(49)	333	(75)	155	142
Others	(33)	(107)	(43)	(50)	(54)
Investment cash flow	**(14)**	**(9)**	**(2)**	**(2)**	**(2)**
Net capex	(4)	(6)	(1)	(1)	(1)
Change in LT investment	5	(4)	(1)	(1)	(1)
Change in other assets	(0)	1	-	-	-
Cash flow after invt.	(15)	(1)	-	-	-
Financing cash flow	**248**	**183**	**(6)**	**(121)**	**(112)**
Change in share capital	101	-	-	-	-
Net change in debt	278	216	50	(52)	(37)
Change in other LT liab.	(132)	(32)	(56)	(69)	(75)
Net change in cash flow	**1**	**37**	**82**	**3**	**31**
Beginning cash flow	33	34	71	153	156
Ending Cash Balance	**34**	**71**	**153**	**156**	**187**

KEY METRICS					
	2016A	2017A	2018E	2019E	2020E
PE (x)	10.7	4.2	7.0	5.7	5.2
Diluted PE (x)	10.7	4.2	7.0	5.7	5.2
PB (x)	1.3	0.6	1.1	1.0	0.9
EBITDA/share	2,402	3,635	5,278	6,197	6,821
DPS	680	797	1,352	1,667	1,808
Dividend yield (%)	3.2	7.0	5.7	7.0	7.6
EV/EBITDA (x)	14.8	8.3	4.5	3.8	3.5
EV/EBIT (x)	9.3	3.3	4.6	3.9	3.5

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HOLD	Between -10% to +10%
SELL	Below -10%

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