Mobile World Investment Corporation (HOSE: MWG)

Bach Hoa Xanh: improvements on the way

- **Dien May Xanh is still a short-term growth driver**
- **Bach Hoa Xanh shows significant improvements**

Bach Hoa Xanh – the grocery chain has been identified by MWG as its focus for the medium and long term. We believe Bach Hoa Xanh is showing a lot of positive developments, especially since MWG adjusted its expansion strategy in the second quarter of this year. Most of the new stores have achieved the required customer traffic as well as sales in a very short time. The chain is also getting closer to the EBITDA break-even level.

Although more adjustments still need to be done, we believe that with the experience it has as a leading retailer and a responsive management, MWG can successfully expand this model beyond Ho Chi Minh City in the next two to three years. A very fragmented Vietnam's food retail industry with an estimated size of over USD 50 bn and an average annual growth rate of over 10% is promising for MWG.

By 2022, in the base scenario, we believe that Bach Hoa Xanh could reach 4,500 stores and VND 93,000 bn sales, contributing to 50% of MWG's total sales. Presently, The Gioi Di Dong is contributing steady revenue, while Dien May Xanh is remaining a pillar of short-term growth due to the organic strength of the consumer electronics market.

*Applying a P/E of 5 times and 12 times for The Gioi Di Dong and Dien May Xanh, combined with FCFE for Bach Hoa Xanh, we estimate a target price for MWG at **VND 160,000/ share**. Adding a cash dividend of VND 1,500/share, the estimated return is **25%** compared to the closing price on 10/04/2018. Therefore, we have a **BUY** on MWG.*

Key financial ratios

Y/E Dec (VND Bn)	FY2016	FY2017	FY2018F	FY2019F
Net revenue	44,613	66,340	94,309	108,864
%change	77%	49%	42.2%	15.4%
PAT	1,577	2,206	3,064	3,678
% change	47%	39.8%	38.9%	20.0%
Net margin (%)	3.5%	3.3%	3.2%	3.4%
ROA (%)	10.6%	9.7%	11.7%	11.9%
ROE (%)	41.5%	37.6%	35.7%	31.7%
EPS (VND)	4,737	6,624	9,113	10,724
Book value (VND)	24,698	18,516	25,766	34,220
Cash dividend (VND)	0	2,000	1,500	2,000
P/E (x)	16.5	18.1	14.1	12.0
P/BV (x)	3.1	8.4	5.0	3.8

Source: MWG, RongViet Securities

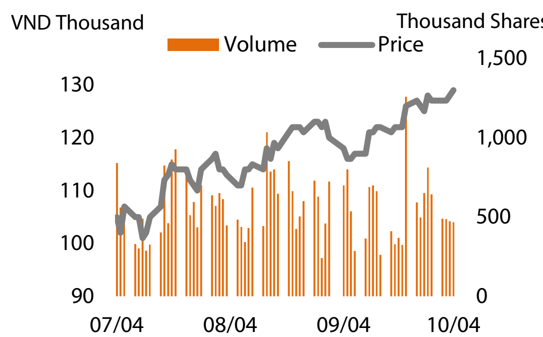
BUY + 25%

Market price (VND)	128,900
Target price (VND)	160,000
Cash Dividend (VND)*	1,500

** Expected in the next 12 months*

Stock Info

Sector	Consumer discretionary
Market Cap (VND Bn)	41,359
Share O/S (Mn)	317
Beta	0.7
Free Float (%)	85.7
52 weeks high	135.572
52 weeks low	96.626
Average trading volume (20 sessions)	535.058



Performance (%)

	3M	1Y	3Y
MWG	23.3	11.7	284
Consumer discretionary	18.6	13.5	223.6
VN-Index	11.9	27.1	72.6

Major shareholders (%)

Retail World Ltd	11.97
Tri Tam Ltd	8.98
PYN Elite	4.44
Foreigner Investor Room (%)	*49*

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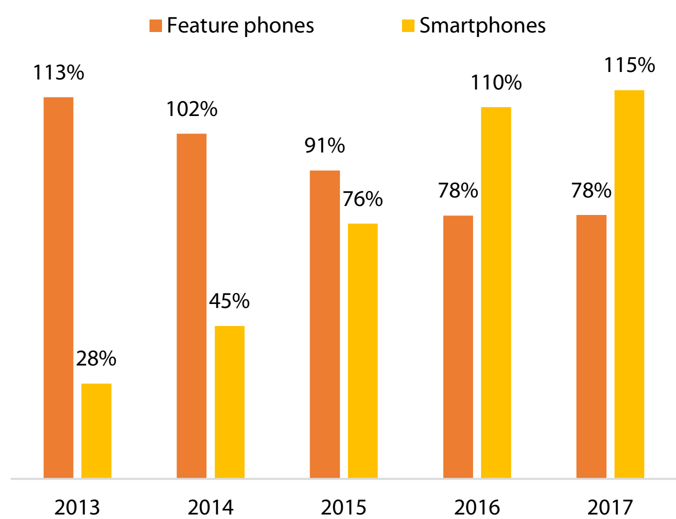
The Gioi Di Dong is entering into a saturated period

The main driver of the mobile phone industry in the growth period before 2017 was the shift from feature phones to smartphones. At the present, due to the development of technology as well as the arrival of low-cost phones from China such as Xiaomi, Oppo, smartphones have achieved a high penetration in Vietnam. During the period 2013-2017, the average price of a smartphone fell 13% while average income increased by 25%.

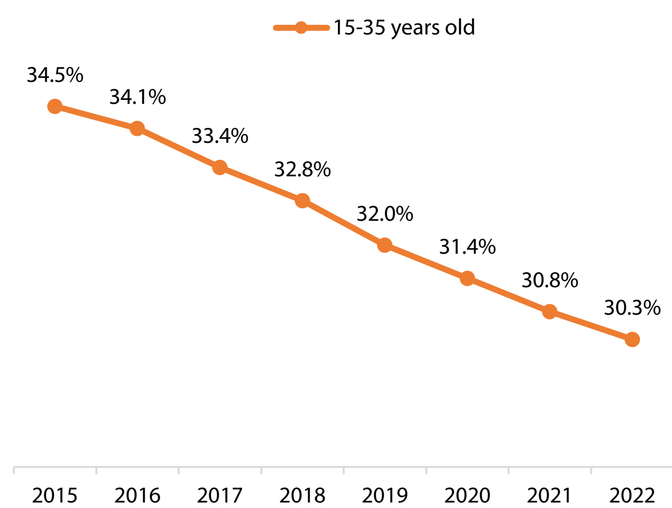
As such, new phone sales will come mainly from older users who seek to upgrade/exchange their phones. The 15-35-year-olds who are most likely to change their phones frequently are expected to decrease in proportion to the total population, which is also a limitation on the potential growth of the industry.

Figure 1: Phone penetration rate (unit: % of households)



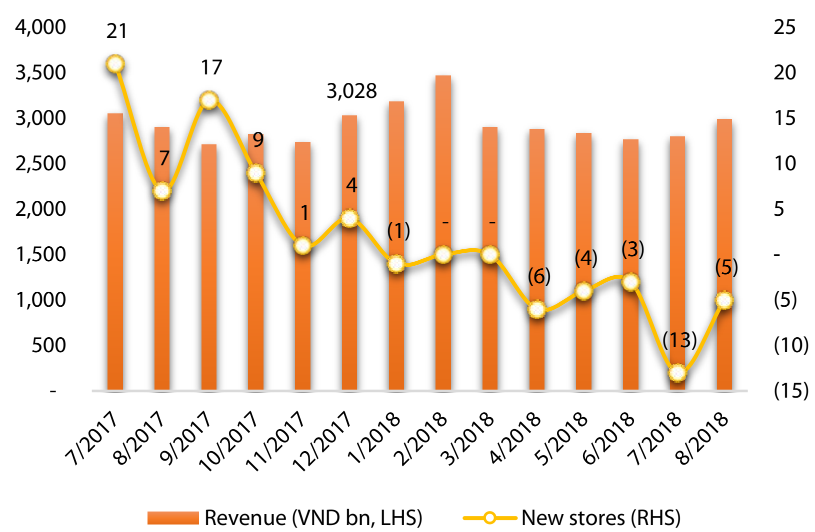
Sources: Euromonitor, RongViet Securities

Figure 2: Proportion of population aged 15 to 35 in the total population (2015 – 2022)



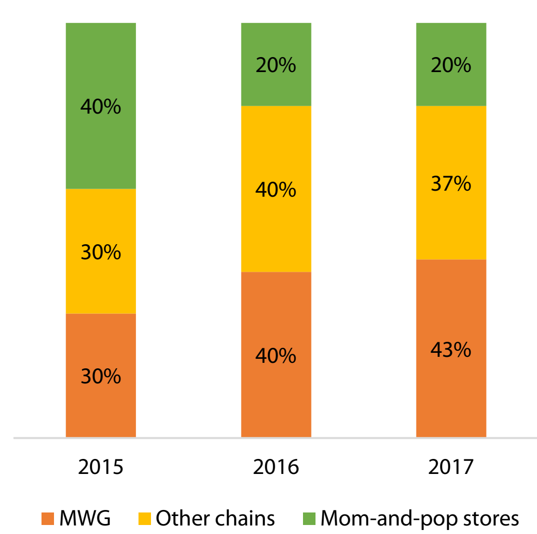
Sources: General Statistics Office of Vietnam, United Nations, RongViet Securities

Figure 3: Performance and change in store count by month of The Gioi Di Dong



Sources: MWG, RongViet Securities

Figure 4: MWG's market share in mobile phones (2017)



Source: MWG

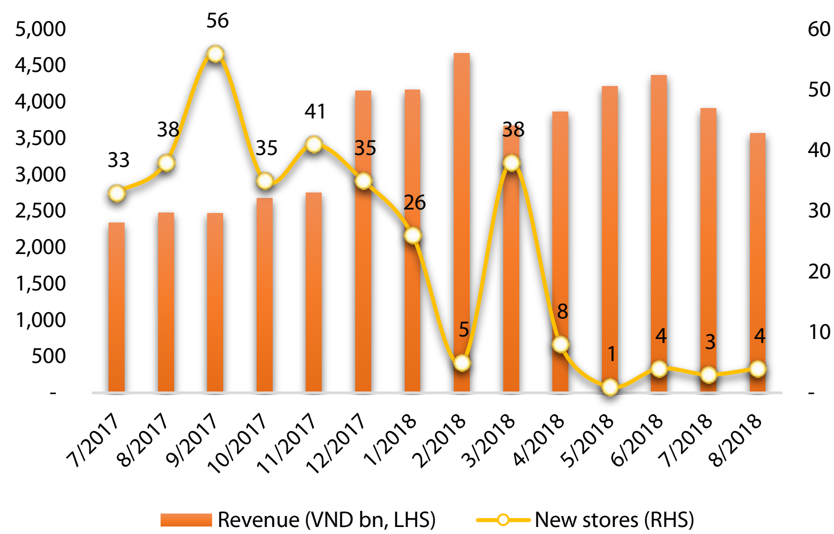
The Gioi Di Dong contributes to 40% of MWG's total revenue. With the slowdown in the mobile phone market, same store sales growth (SSSG) is almost zero, reflecting that sales in the first eight months of the year only increased 2% yoy. In the coming years, this chain will play the cash-providing role in the expansion plan of the company. Thanks to more than 1,000 stores located in most of the densely populated locations in 63 provinces, we believe that the market share of MWG in the industry will be maintained. Gross margin of The Gioi Di Dong is 17% and will remain stable.

Dien May Xanh is still a short-term growth driver

Dien May Xanh officially surpassed The Gioi Di Dong in November 2017 to become the leading revenue contributor of MWG. This chain contributed 55% of the first eight months' sales to MWG. Gross margin improved, rising from 15% at the end of 2016 to 17% at the end of 2017, the main reasons:

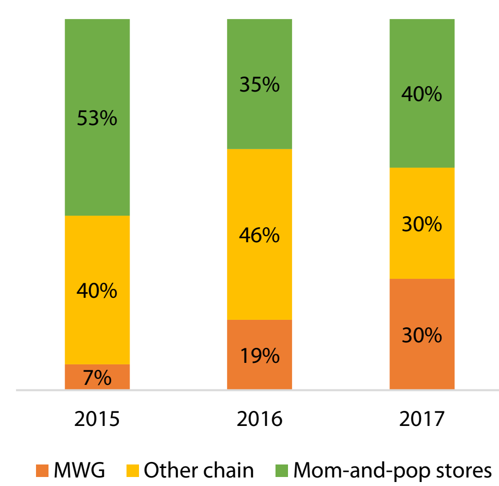
1. Increased discount from manufacturers due to scale advantage (opening 386 new stores in 2017, growing by 150%).
2. The development of consumer credit. According to a report released by the National Financial Supervisory Commission (NFSC) in 2017, consumer lending continued to grow; 65% compared to 50% in 2016. The share of consumer credit in total loans increased from 12% in 2016 to 18% in 2017.
3. The mini-store model brings high efficiency from these advantages: easy to cover residential areas, product portfolio can be flexibly customized to consumers' taste.
4. Online channel development comes with many benefits: delivery and secured payment.

Figure 5: Performance and change in store count by month of Dien May Xanh



Sources: MWG, RongViet Securities

Figure 6: MWG's market share in consumer electronics (2017)



Source: MWG

Bach Hoa Xanh shows significant improvements

Bach Hoa Xanh story has always been the focus of the market in the last two years. Therefore, most of our analysis will focus on evaluating the potential of this chain.

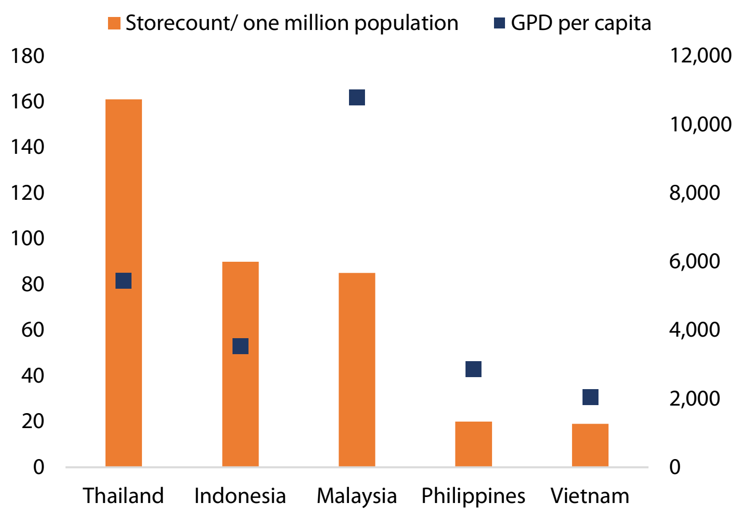
Supporting factors

The food retail market is estimated at over USD 50 bn and growing at ~ 10% per year. Very high fragmentation, 8,500 traditional markets and 1.4 million small groceries currently have a 90% market share. Bach Hoa Xanh aims to take over a piece of this market. There are some supporting elements.

1. The rise of the middle class who has little time for food shopping. Traditional markets have short-opening time and poor food preservation.

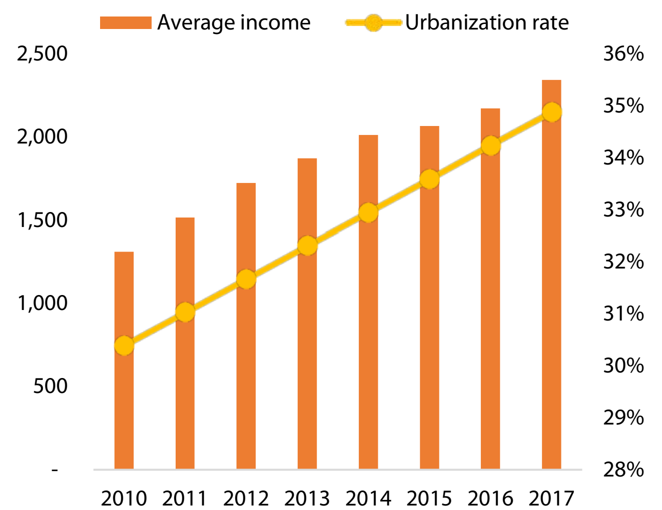
2. Awareness of food safety is increasing. Consumers are willing to pay more for fresh and clean food. According to a survey from Vibiz.vn, 63% of consumers believe that products from supermarkets and convenience stores are cleaner and safer than traditional markets.
3. Consumption habits are gradually changing. Retail chains are increasingly accepted by consumers. Especially when those chains are expanding in terms of geographical coverage and product categories to meet daily needs.
4. Government policies tightens food quality management to deal with spontaneous markets. Until 2025, HCMC did not have see an opening of new markets in the inner city and gradually reduced the number of markets in the CBD.

Figure 7: The penetration of small and modern stores (2014)



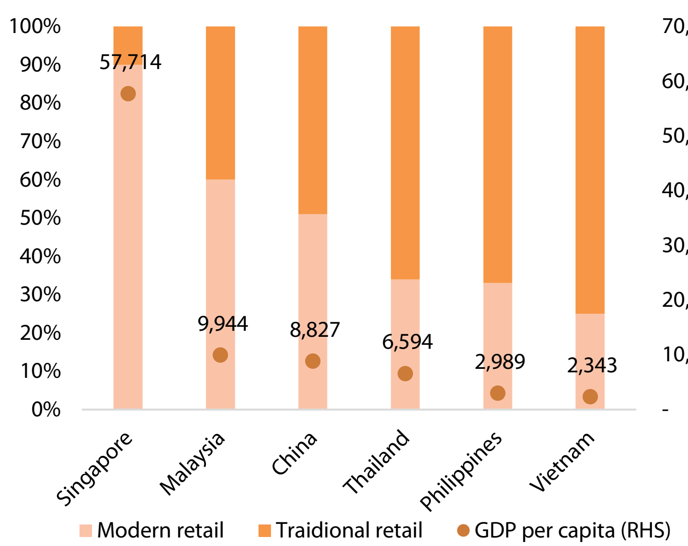
Sources: Vietnam Advisors, RongViet Securities

Figure 8: Average income and urbanization rate in Vietnam



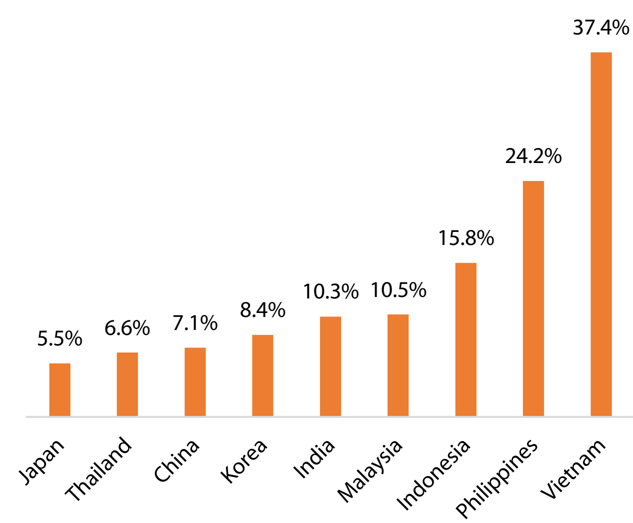
Sources: World Bank, RongViet Securities

Figure 9: Retail market share by channels (2017)



Sources: Vibiz, Worldbank, RongViet Securities

Figure 10: Growth rate of convenience stores and minimarts (2017 – 2021)



Source: IGD Research

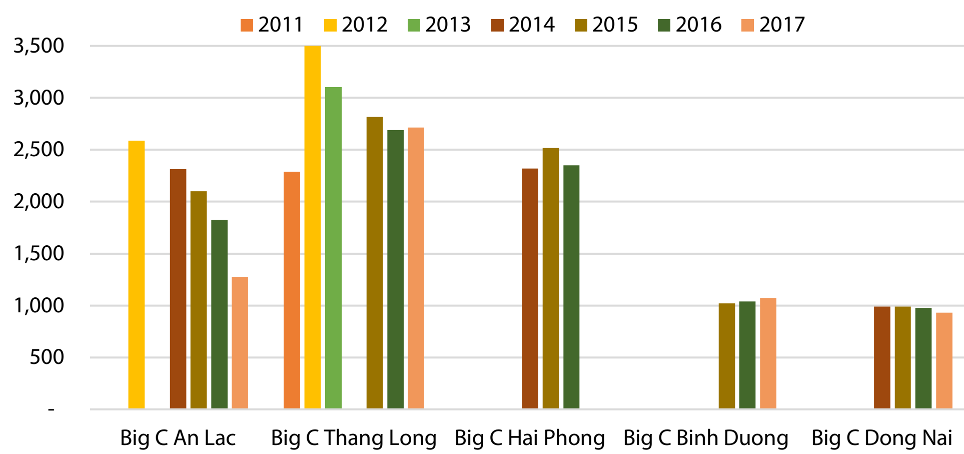
Choosing the right model: minimart

Modern retail can be categorized into the following models:

Supermarkets (Coopmart, Citimart, Vinmart) / ***hypermarkets*** (Big C) and ***shopping malls*** (Diamond Plaza, Parkson, Vincom): retail locations ranging from large to very large in terms of size and product quantity. Due to the large scale, these large retail models have limited coverage, only in large cities. Purchasing/payment is time-consuming is also a limitation of this model.

Competition in this model is also increasing due to the entry of foreign names such as Lotte, Aeon or the rise of Vinmart. This makes the pie of each player smaller. Except for Coopmart and Vinmart, other chains such as Big C, Citimart and Metro have going flat or down in business result.

Figure 11: Sales of some Big C Vietnam supermarkets (VND bn)



Sources: CafeF, RongViet Securities

Convenience stores (Circle K, 7-Eleven, Shop & Go, FamilyMart): small shops open 24/7, smaller than 100 square meters. They sell convenience items and packaged food which can be used immediately. The limitation of this model is the limited number of goods, and the price is less competitive due to the high cost of operation.

Minimart: These are "mini supermarket" with sizes of 150-300 square meters. Serving a variety of items from personal/household goods to foods.

There are four big minimart chains in the market: Bach Hoa Xanh, CoopFood, SatraFood and Vinmart+. Differences in strategy and customers are reflected in the store location and product structure of these chains:

Vinmart+: With over 1,000 stores, most of them are in medium and small scale, locating from central districts to suburban areas. The product mix consists of a variety of ready-to-eat foods. These stores are suitable for those who have little time for daily cooking.

Vinmart+ can be seen as "convenience food store". However, the fact this chain is located all over the place, especially downtown, has led to higher operating costs. The chain is not attractive in fresh food, while its dry good structure is less competitive than other minimarts.

Bach Hoa Xanh, CoopFood and SatraFood: concentrating in populated areas outside city center and near traditional markets. Besides dry goods, they serve a variety (over 100 types) of raw and fresh food. **Target customers are housewives who look for fresh/clean food**. These stores can be considered as "**mini supermarket".**

Accordingly, with the aim of competing with traditional markets and grocery stores, we value the model of these three chains are the most suitable. However, the efficiency depends on each chain's implementation.

How is Bach Hoa Xanh approaching?

After nearly two years of "try and fail", Bach Hoa Xanh came closer to the successful formula to meet three main criteria of target customers:

(1) Close-to-home and convenient stores.
(2) Fresh, delicious and varied foods
(3) Competitive price

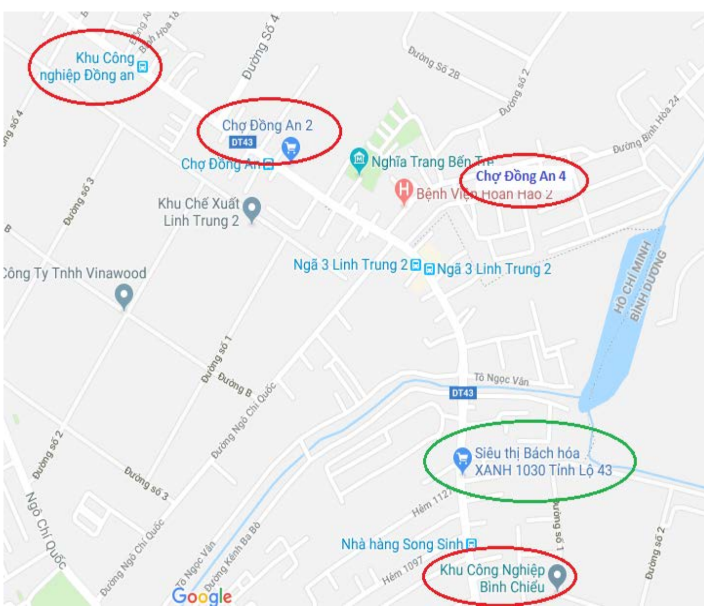
Store location

Bach Hoa Xanh has been testing store locating for a long time. At the beginning of 2018, the company still opened stores that very close to residential areas, hoping to bring the most convenience to customers (they can walk from home to store). However, this strategy proved ineffective when people still prefer to use motorcycles for shopping. Placing stores too deep in residential areas also limits the exposure of Bach Hoa Xanh to new customers.

Since 2Q, the company has changed its strategy. Accordingly, new stores will be over 150 sqr meters and located on access roads to residential areas in satellite districts, meeting the demand for food shopping on the way home of customers. In addition to requirements regarding population density and customer traffic, locations near traditional markets are also important factors.

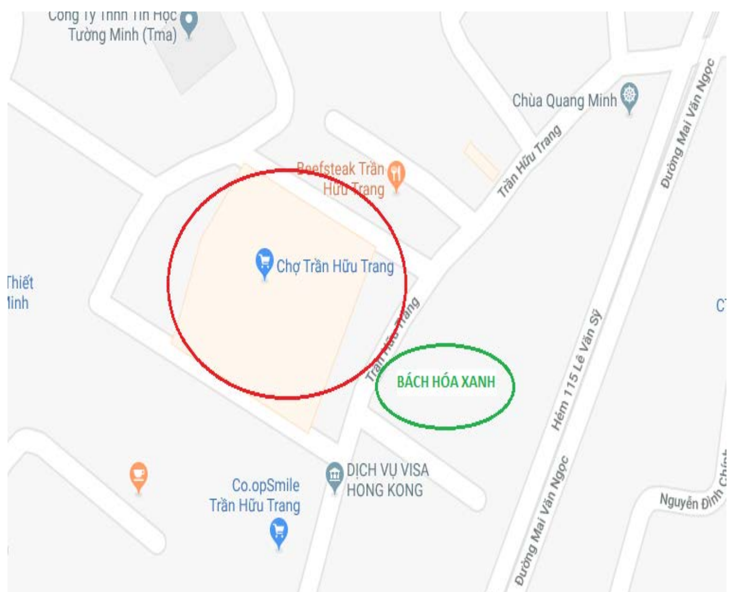
Following this strategy, most of new stores have achieved very good traffic from the beginning.

Figure 12 : Bach Hoa Xanh (large), Thu Duc district – locates near two traditional markets and many industrial zones, very high customer traffic (1.200 completed transactions/day)



Source: RongViet Securities

Figure 13: Bach Hoa Xanh (standard) Phu Nhuan district, locates opposite to Tran Huu Trang market and attracts a lot of customers from the market (over 900 completed transaction/day)



Source: RongViet Securities

Product selection

Approximately 50% of standard store's sales come from fresh foods, indicating a large buyer demand. Our observation also shows that fresh-food areas are the most attractive places to customers.

"Aquarium" model (living fishes in tanks) – very alike with traditional markets

Variety of meats which are popular in daily menu

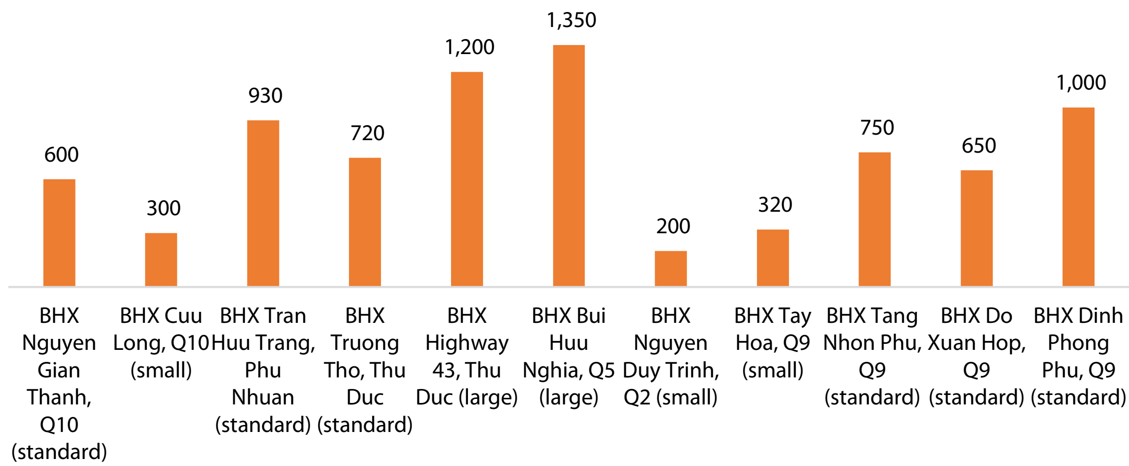
VietGAP-standard vegetables

Dry goods area

Source: RongViet Securities

The amount of fresh products served is up to 300 (standard stores) and 400 (large stores). In addition, in February, Bach Hoa Xanh also put into service the "Aquarium" model in standard and large stores. These two, along with the location factor, explain the difference between the traffic of standard/large and small stores (Figure 14).

Figure 14: Survey on number of completed transactions in several Bach Hoa Xanh stores



Source: RongViet Securities

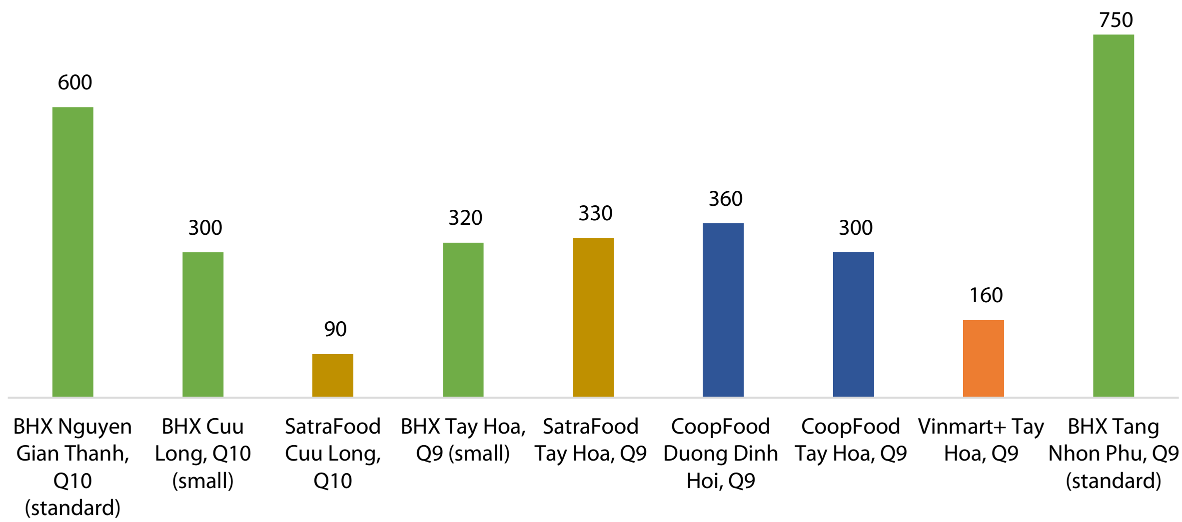
Table 1: Comparing three types of Bach Hoa Xanh stores

	Small stores	Standard stores	Large stores
Store count	~200	>200	2
Size	100-150 sqr meters	160-200 sqr meters	250-300 sqr meters
Completed transactions/day	200-400	600-1.000	~1.200
Staff number	3-6	10-15	~20
		Product mix	
FMCG	~1.500	~2.000	>2.000
Fresh vegetables and fruits	<100	150-200	200-250
Raw meats and fish	<50	~100	~150
"Aquarium" model	No	Yes	Yes

Source: RongViet Securities

In terms of quality, foods in all minimarts have VietGAP or GlobalGAP standards, generally no significant difference. However, Bach Hoa Xanh has a great advantage in terms of diversity, especially fresh meat/fish (3-4 times more than other minimart chains). We think that this diversity is a key of Bach Hoa Xanh's standard stores to bring in more customers and revenue than competitors, while Bach Hoa Xanh's small stores cannot make that kind of difference (Figure 15). However, Bach Hoa Xanh's small stores, even though established later, can still share the same amount of customers as CoopFood or SatraFood. (Refer to Appendix 1 for details).

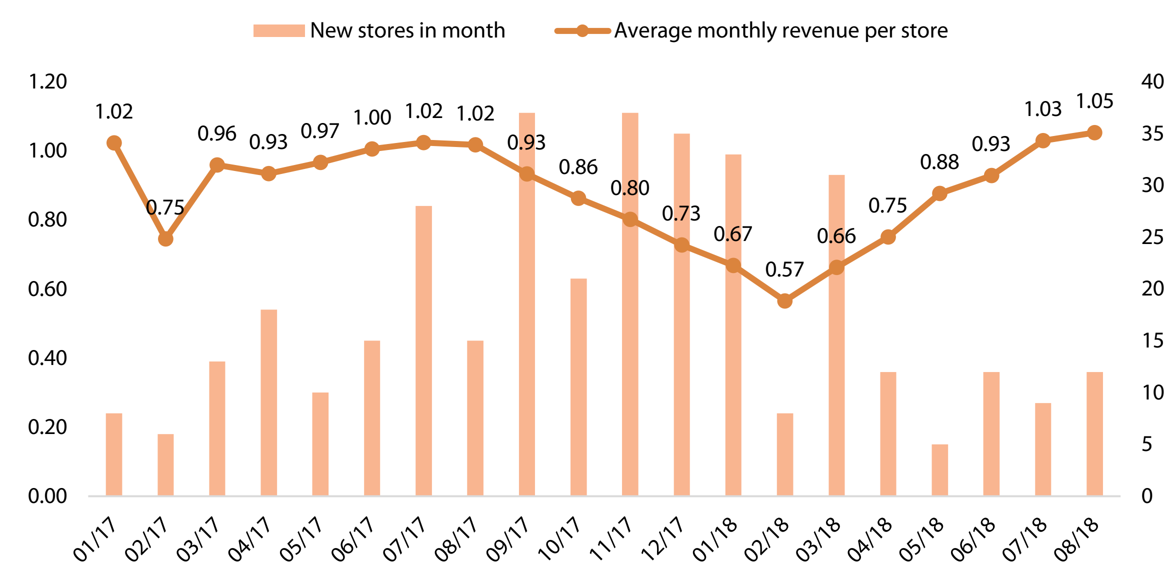
Figure 15: Survey on number of completed transactions between minimarts in the same area (same hours)



Source: RongViet Securities

In conclusion, the standard/large store model with a variety of items is a noticeable improvement that we've seen compared to the beginning of the year (when there were still a lot of small stores, resulting in less traffic). MWG has expanded and introduced the "Aquarium" model into service at small stores to transform them into standard stores. From May to August, the company has converted about 100 stores. Business results have since changed significantly.

Figure 16: Average monthly revenue per store (LHS, VND mn) and change in store count by month



Source: MWG, RongViet Securities

For standard stores that have high sales, the company will consider upgrading to larger stores by expanding the area and increasing the number of items available.

Pricing strategy

Food expense now accounts for about one third of Vietnamese household's monthly income. Therefore, the price factor plays a very important role in purchasing decisions, especially for the average housewives - Bach Hoa Xanh's target customers.

Through the survey on prices of FMCG (dry goods) there is almost no difference between Bach Hoa Xanh, CoopFood and SatraFood. However, most of the fresh food at Bach Hoa xanh is priced at 10-30% cheaper than other chains, and quite competitive compared to traditional market prices.

Table 2: Survey on prices of some food at Bach Hoa Xanh and CoopFood (unit: VND/kg) – Bach Hoa Xanh offers cheaper prices in general.

	Bach Hoa Xanh	CoopFood
White radish	16,500	19,900
Bitter melon	18,000	28,500
Lettuce	18,000	25,500
Carrot	23,400	23,900
Beetroot	18,000	17,900
Cassava root	10,000	12,000
Okras	18,000	30,900
Vietnamese celery	40,000	66,900
Aganonerian	45,000	49,500
Cabbage	15,000	25,500
Amaranth	14,000	18,900
Sprouting	12,000	12,500
Shallot leaves	30,000	42,900
Ginger	50,000	38,000
Tamarind	40,000	47,000
Zucchini	13,600	13,900
Pork	109,000	115,000
Pig thigh	85,000	100,000
Pig cutlet	94,000	95,000

Source: RongViet Securities, prices as of 08/21/2018

To sum up, although the model is not new, Bach Hoa Xanh's implementation still meet the requirements of "**convenient - diverse - cheap**".

Is the competitive advantage of Bach Hoa Xanh sustainable?

In theory, competitors can fully apply the methodology implemented by Bach Hoa Xanh. However, it is not easy for CoopFood or SatraFood to expand the size of their current stores, due to the fact that they are under 100 sqr meters.

CoopFood and SatraFood can apply Bach Hoa Xanh's model on their new stores, but we do not appreciate the expansion capacity of these two chains. The two parent companies of these chains are Saigon Coop and Satra Group. While these are big companies, they do not really focus on developing minimart chains. Therefore, despite their longevity (CoopFood - 10 years, 230 stores, SatraFood - 7 years, 180 stores), these two chains have not had a clear breakthrough. CoopFood and SatraFood have been speeding store openings since 2016, but overall store location, layout design and service quality is limited.

The strength and experience of Saigon Coop and Satra Group are not comparable to MWG, which has extensive experience in managing and expanding retail chains on a much larger scale. Moreover, MWG's management is always taking the initiative to make improvements when it recognizes it made mistakes.

After all, the ultimate goal of Bach Hoa Xanh is not to beat other minimarts, but to take over more market share from traditional market and small groceries and to become a "***traditional market with better service***".

Table 3: Comparison between BHX and its competitors

Compared to traditional markets and small grocers	Compared to other minimart chains (CoopFood, Vinmart +, SatraFood)
Advantages • Clear space, better services • Clear sources of food • Utility services: bill payment, phone cards, bank installment. • Combines market and groceries in a store • Open from 6:30 to 21:30 every day, while others only open in the early morning / afternoon. • No wasted time bargaining and parking	**Advantages** • Large stores allow more items to be offered • Friendly space for housewives • Employees interact more with customers • Fresh food with cheaper prices • Various promotions
Disadvantages • Food processing is not as quick as traditional market. • Poor interaction level	**Disadvantages** • Less experienced employees • Space in standard stores are not yet clear.

Source: RongViet Securities

Problems remain

Improve low-revenue stores

Improving revenue of nearly 200 small stores, which is a "legacy" of the testing phase, is a problem that MWG needs to solve. Upgrading to standard stores will be preferred, while stores that cannot be upgraded will be converted into mini stores (smaller than 100 sqr meters) or closed.

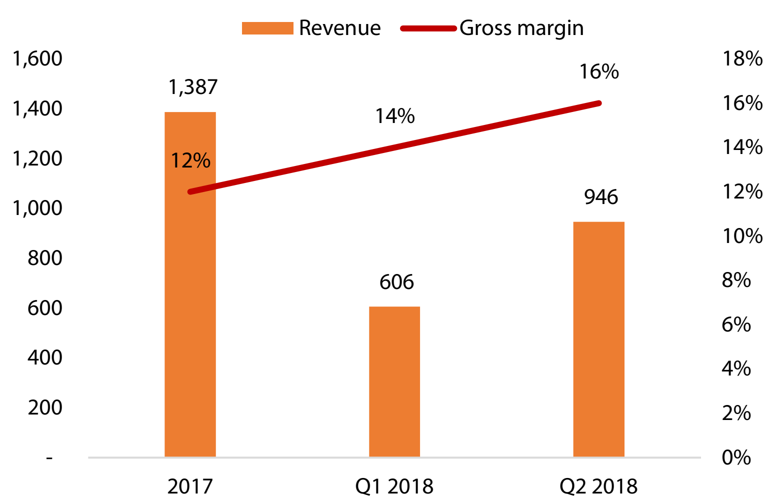
Efficient Inventory Management

Although higher SKU brings higher revenues for Bach Hoa Xanh compared to other chains, it also increases inventory management difficulties. It will take time to develop the ERP system for Bach Hoa Xanh to accurately analyze demand in specific locations/times. We believe this is a necessary trade off at the initial stage to have a high customer base and increase the ticket size.

Improve gross margins

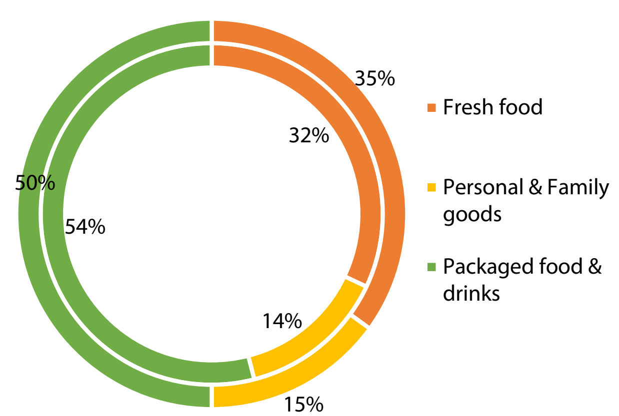
By increasing scale, improving cost management and changing the product structure, BHX's gross margin has grown significantly, from 12% in 2017 to 14% in 1Q and 16% in 2Q 2018. However, it is estimated that this chain needs to achieve an 18% gross profit margin to reach the EBITDA break-even point.

Figure 17: Revenue (VND bn) and gross margin of Bach Hoa Xanh



Source: MWG, RongViet Securities

Figure 18: Revenue structure by items (inner circle: 1Q 2018, outer circle: 2Q 2018)



Source: MWG, RongViet Securities

In our opinion, Bach Hoa Xanh can improve its profit margin by doing the following:

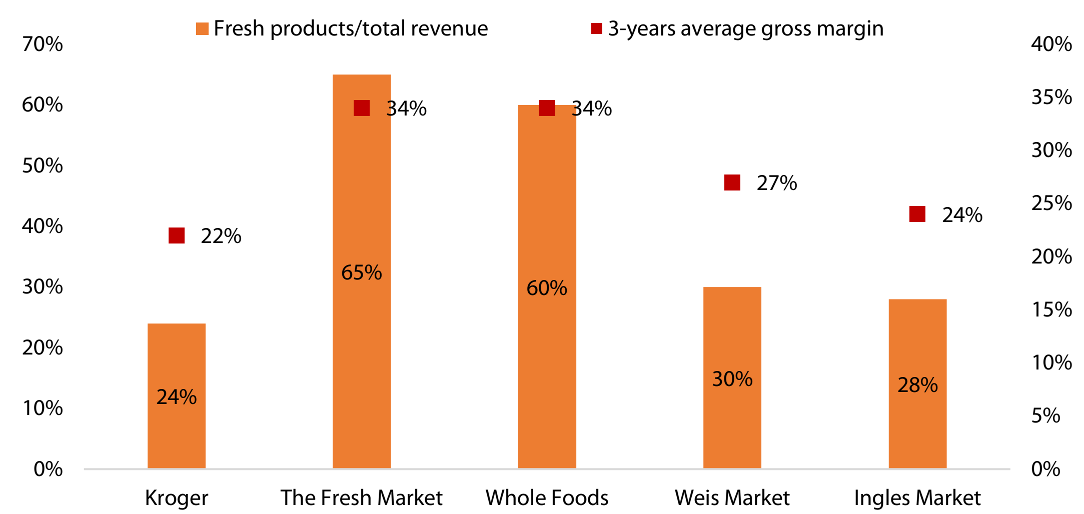
1/Increase selling prices – Possible

Bach Hoa Xanh is using a low-price strategy, where prices are 10-30% lower than CoopFood or SatraFood, in order to attract customers. We believe customers prefer "convenience" and "diversity & clean" to "cheap". Thus, Bach Hoa Xanh can increase selling prices from the current low level, which will be higher than traditional market prices but still lower or equivalent compared to other chains.

2/ Increasing fresh food contribution - Possible

Retail chains with a food-based product structure usually have higher margins (Figure 19). For Bach Hoa Xanh, adjustment in the item structure has brought an improvement in gross margin (Figure 17 and 18). Currently, around 50% of sales in standard stores are from fresh food and this ratio will continue to increase, thereby increasing the profit margin of the entire chain.

Figure 19: Comparing some big grocery chains in the US



Source: RongViet Securities

3 / Increasing scale - quite challenging

Often, increasing scale will bring higher discounts to retailers. However, in Vietnam, agricultural production is fragmented and farmers can only provide a limited amount of products. Hence, a larger-scale increases in profitability in the industry is limited as compared to the phone business.

4 / Reduce the rate of defect – a challenge

Wasted goods, especially fresh food with very short life cycles, will erode the already thin margin of retailers. This is an usual problem in the industry.

Because Bach Hoa Xanh is in the early phase in this industry, the food waste rate is quite high (2-3%). Currently, MWG is applying a discount on over same day food. Bach Hoa Xanh has not promoted this much while other chains such as CoopFood and SatraFood are doing quite well with that scheme.

With good execution, we think the net margin of Bach Hoa Xanh will eventually be 3-4%. The chain can enjoy a higher net margin than other groceries such as Kroger and Ingles Markets due to the fact that it is more food-based than others and also have lower management cost (sharing back office with The Gioi Di Dong and Dien May Xanh).

Table 4: Some big grocery chains in the world

Companies	Countries	Market cap (VND trillion)	2017 Revenue (VND trillion)	CAGR 2012 – 2017 in revenue	3-years average gross margin	5-years average net margin	P/E	EV/EBITDA
Kroger	US	569,254	2,787,309	5%	22%	1.7%	14x	8x
Sprouts Farmers	US	74,558	105,970	21%	29%	3.2%	21x	11x
Weis Markets	US	29,111	78,758	5%	27%	2.5%	24x	7x
Ingles Markets	US	16,679	90,711	2%	24%	1.2%	13x	7x
Whole Foods	US		363,144	7%	34%	3.3%		
Woolworths	Australia	629,958	621,520	-1%	29%	2.2%	23x	11x
GS Retail	Korea	60,951	166,241	13%	19%	2.5%	27x	9x
President Chain Store	Taiwan	258,154	165,275	3%	33%	6.2%	11x	17x
CPALL	Thailand	443,431	315,770	20%	22%	3.7%	32x	18x
Thanapiriya	Thailand	1,066	1,070		13%	3.8%	22x	14x
Sumber Alfaria Trijaya (Alfamart)	Indonesia	52,710	104,387		19%	1.1%	65x	11x

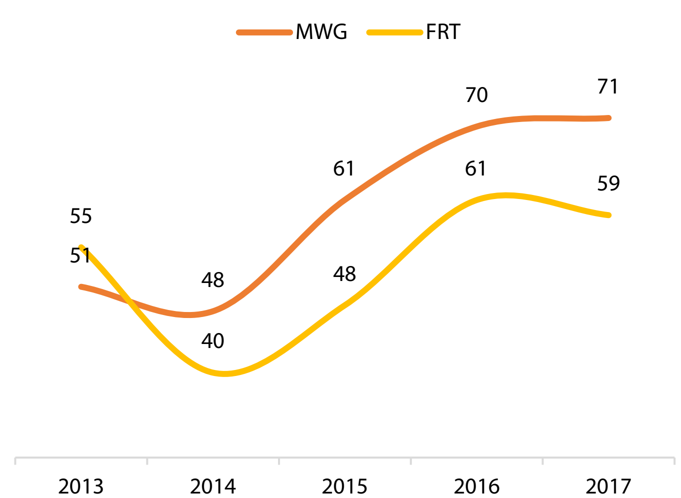
Source: Bloomberg, RongViet Securities, data as of 9/20/2018

Financial analysis

During the period of 2014-2017, MWG's sales grew by a total of 310% and the number of stores rose by 450%. Accordingly, the DOH also increased significantly (Figure 20). Operating cash flow was not sufficient to fund the expansion of both The Gioi Di Dong and Dien May Xanh, leading for the need of additional debt in 2015 and 2016. The Debt / Total Assets ratio increased from 56% to 74% (Figure 21).

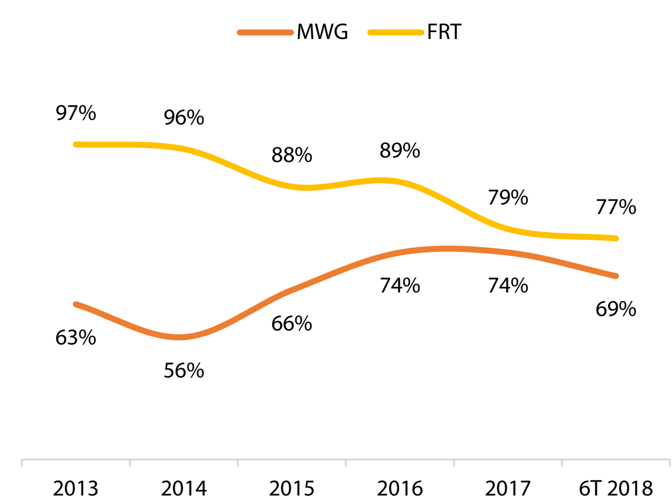
Prior to 2017, MWG's debt structure included only short-term debt used to finance working capital. By the end of 2017, the company issued VND 1,135 bn worth of five-year bonds to carry out M&A activities. As of 2017, the demand for working capital slowed down, and the rise of Dien May Xanh resulted in a markedly improved cash flow. The cash flow from The Gioi Di Dong and Dien May Xanh will be used for Bach Hoa Xanh's expansion.

Figure 20: Days of inventory on hand



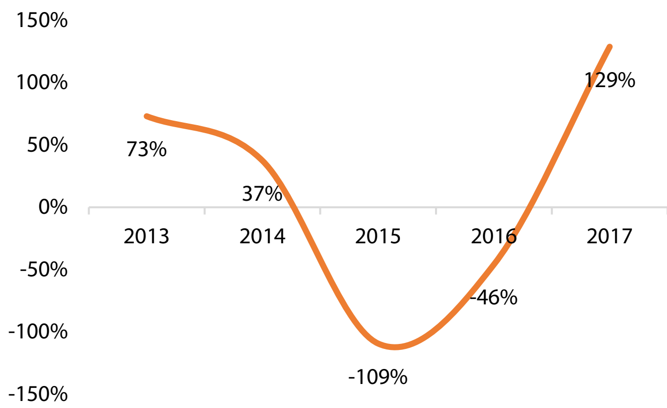
Sources: MWG, FRT, RongViet Securities

Figure 21: Total debt/ Total asset



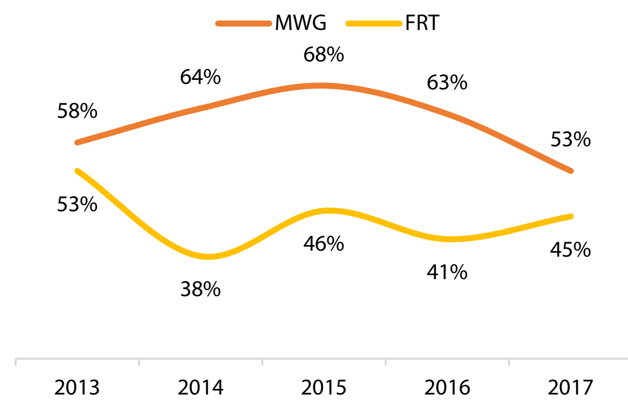
Sources: MWG, FRT, RongViet Securities

Figure 22: CFO/ Capex



Sources: MWG, FRT, RongViet Securities

Figure 23: Inventory/ Total asset



Sources: MWG, FRT, RongViet Securities

Forecast

The Gioi Di Dong

As forecasted, The Gioi Di Dong will close about 100 outlets in 2018 and 2019, most of which will be converted to mini Dien May Xanh, while some will be closed. In general, the sales of the chain will fluctuate between VND 33,000 bn and VND 35,000 bn / year.

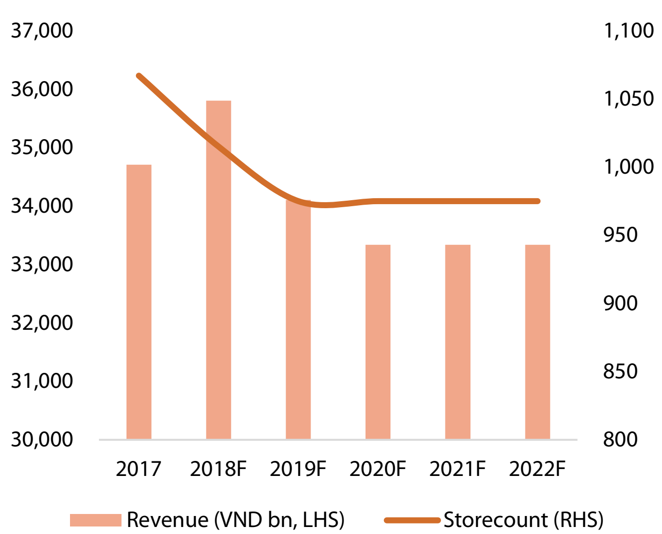
Dien May Xanh

MWG will continue to expand its network of mini electronic stores, with about 200 new stores to open by 2020, half of which will be converted from The Gioi Di Dong.

Turnover of Dien May Xanh is estimated to increase 76% in 2018 thanks mainly to the contribution from the large stores opened last year. The SSSG of the chain will reach 5% in 2019 and gradually decrease in the following years.

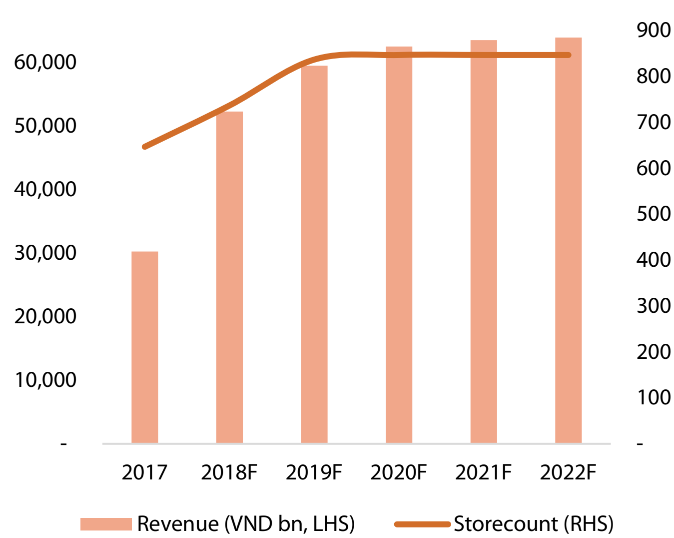
Revenue growth will fall to 14% and 5% respectively in 2019 and 2020 as new stores will only be small (50-60% of sales compared to large stores). The chain's revenue will be stable from 2020 on, contributing around VND 63,000 bn / year.

Figure 24: Forecasted revenue and store count of The Gioi Di Dong



Source: RongViet Securities

Figure 25: Forecasted revenue and store count of Dien May Xanh

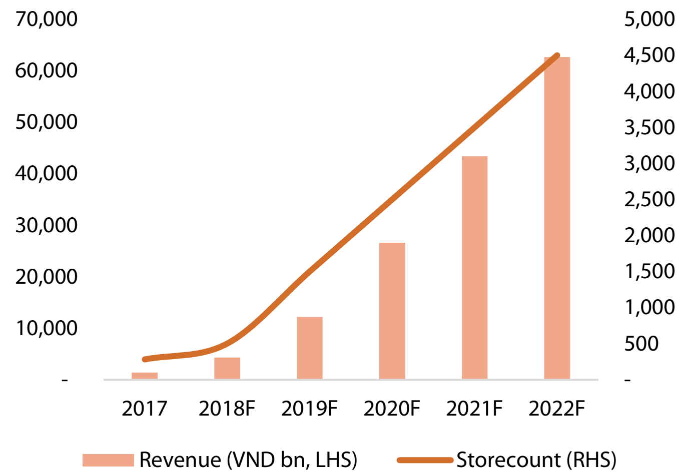


Source: RongViet Securities

Bach Hoa Xanh

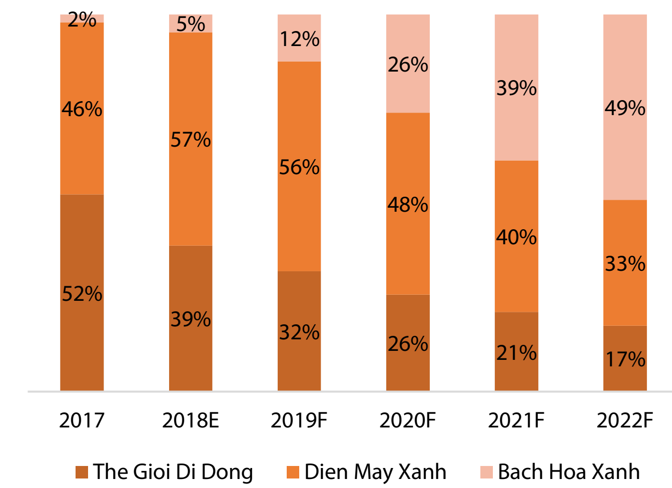
By the end of August 2018, there were 245 (out of 406) Bach Hoa Xanh stores located in four districts: Binh Tan (107), Tan Phu (40), Binh Chanh (42) and District 12 (56) - those are the densely populated areas of the city (nearly 30% of the total population). Thus, this chain is quite concentrated in the West and has not yet expanded to the remaining populated areas.

Figure 26 : Forecasted revenue and store count of Bach Hoa Xanh



Source: RongViet Securities

Figure 27: Forecasted revenue breakdown



Source: RongViet Securities

In terms of demand, we think that residential areas surrounding a type 2 and type 3 market (from 200 to 400 pavilions) are enough for three Bach Hoa Xanh stores to operate well, with over 600 guests/day. While the type 1 market (over 400 pavilions), are the major wholesale markets, it should ensure to be enough for four-five Bach Hoa Xanh stores.

Currently, there are 17 type 1 markets in Ho Chi Minh City, about 230 in type 2 and 3 and nearly 600 spontaneous markets. This will be sufficient for about 1,500 standard Bach Hoa Xanh stores.

Our base case scenario:

Bach Hoa Xanh can reach the break-even point by the end of 2018 and will cover Chi Minh City in 2019 before expanding to neighboring areas. Bach Hoa Xanh has had success in the South East and some provinces in the West. This is where the abundant supply of resources, high rates of urbanization, high concentration of population and high openness to modern retail channels matters.

We estimate that in 2022 Bach Hoa Xanh will look like this:

- 1,500 stores in Ho Chi Minh City and 3,000 stores in other provinces.
- Average revenue per store of VND 2 bn VND per month.

In a less positive scenario:

Bach Hoa Xanh cannot break even this year. The chain will need more time to adjust and complete covering Ho Chi Minh City in 2020, then expand to other provinces such as Binh Duong, Bien Hoa. By 2022, the number of Bach Hoa Xanh stores will be about 2,000.

Valuation

	Method	Valuation
The Gioi Di Dong	P/E 5x	32,000
Dien May Xanh	P/E 12x	56,500
Bach Hoa Xanh	FCFE	
Base scenario		67,000
Less positive scenario		24,500
Total		117,500 - 160,000

A view on ESOP

In the report released in February 2017, we adjusted the impact of ESOP by estimating the value of bonus shares and recognizing it as a compensation expense, thereby reducing the net profit and EPS.

However, after review, we assume that this hypothetical cost may be higher than the actual cost if the company actually chooses a compensation plan instead of ESOP (in simple terms, the ESOP value is estimated at VND 900 bn, but if the company pays in cash, the actual number may be much less). As such, the method we applied in the last report could consider a higher cost than it actually was.

Instead, in this report, we calculate the EPS based on the adjusted number of shares increased by the additional issuance of 3%. This reflects the dilution of existing shareholders throughout the years. If the profit does not grow, the loss for existing shareholders will be the increased. Therefore, MWG only implements the maximum ESOP of 3% when the company achieves a net profit growth rate of over 30%.

MWG's ESOP policy

Bonus shares are issued by MWG to its employees at the price of VND 10,000 / share, the issuance rate to the total outstanding shares are determined as follows:

% NPAT growth	% ESOP (maximum 3%)
<10%	0%
From 10%	% NPAT growth x 0.1

ESOP recipient are key managers who contributed to increasing sales and improving business performance of the company in the year.

Table 5: ESOP structure

Department	%
Front division (store managers, region and area managers, online sales)	67%
Product division (product managers and executives)	13%
Backoffice (HR, accounting, IT, marketing)	13%
Board of directors	7%
Total	100%

Source: MWG

From 2017, MWG adjusted its ESOP policy. Accordingly, ESOP shares in 2017 and subsequent years will be locked from transferring in four years (25% of shares will be transferable each year) instead of just two years as before (each year 50% of the shares are allowed to transfer). This change helps:

1. Increasing loyalty of employees who received ESOP by increasing ESOP's locking time.
2. Reducing the number of shares to be transferred freely in the following years, thereby reducing the pressure on existing shareholders.

Appendix 1: Survey on minimarts in the same area

We selected minimarts in Tay Hoa area, District 9 as comparative example. The four shops: Bach Hoa Xanh's small store, SatraFood, CoopFood and Vinmart + are located near to each other. SatraFood is located opposite to the Bach Hoa Xanh store.

	Small Bach Hoa Xanh	CoopFood	SatraFood	VinMart+
Size	>100 sqr meter	<100 sqr meter	<100 sqr meter	~50 sqr meter
Average completed transactions per day	320	300	330	160
Operating time	0.5 year	Several years	Several years	Nearly one year
Storefront	Largest storefront and parking lot. Big sign and bright&attractive lights.	Wide storefront and big parking lot. However, the sign is less catchy and quite dark.	Narrowest front of all the four stores. Small parking lot and sign.	Storefront and parking lot are sizable. Shop sign is quite catchy.
Location	Few meters away from the spontaneous market	100 meters away from Bach Hoa Xanh	Opposite Bach Hoa Xanh	Few meters away from CoopFood
Product mix	A lot of FMCG, around 80 types of fresh food.	Offers more vegetable than Bach Hoa Xanh but very limited in meat and has no fish.	Offers less vegetable and dry goods than Bach Hoa Xanh. However, there are a lot of fishes (has fish tank also)	Serves only few types of vegetable and does not have fresh meat/fish.
Pricing	Cheapest of all the stores	Higher than Bach Hoa Xanh 10-30% depends on goods.	Vegetables are more expensive than CoopFood. Meat are comparable to CoopFood and higher than Bach Hoa Xanh.	
Goods that customers often purchase	Vegetable, fresh meat/fish and FMCG.	Vegetable and FMCG	Fresh meat/fish	FMCG

We also noticed that the mini Bach Hoa Xanh still has plenty of available space. It could be upgraded to a standard store, while the other three stores do not have much a chance for expansion.

The survey results do not necessarily represent the whole dimension of each chain. However, our survey at stores in other regions also yielded relatively similar results.

Unit: VND billion

PROFIT & LOSS STATEMENT	2016	2017	2018F	2019F
Revenue	44,613	66,340	94,309	108,864
COGS	37,399	55,198	77,914	89,613
Gross profit	7,214	11,142	16,395	19,250
Selling expenses	4,288	7,017	10,592	12,506
G&A expenses	935	1,347	1,864	2,111
Financial income	135	251	138	211
Financial expense	120	233	259	259
Other income/loss	-1	14	14	14
Gain/(loss) from joint	0	0	0	0
Profit Before Tax	2,006	2,809	3,832	4,599
Tax expense	428	602	766	920
Minority interests	1	1	1	1
Profit After Tax	1,577	2,206	3,064	3,678
EBIT	1,992	2,778	3,939	4,633
EBITDA	2,378	3,468	4,893	6,004

Percentile changes	2016	2017	2018F	2019F
Growth				
Revenue	76.7%	48.7%	42.2%	15.4%
EBITDA	56.6%	45.8%	41.1%	22.7%
EBIT	50.6%	39.5%	41.8%	17.6%
PAT	47.2%	39.8%	38.9%	20.0%
Total assets	104.4%	53.6%	15.0%	17.4%
Total equity	55.5%	54.4%	46.1%	35.5%
Profitability				
Gross margin	16.2%	16.8%	17.4%	17.7%
EBITDA margin	5.3%	5.2%	5.2%	5.5%
EBIT margin	4.5%	4.2%	4.2%	4.3%
Net margin	3.5%	3.3%	3.2%	3.4%
ROA	10.6%	9.7%	11.7%	11.9%
ROIC	51.8%	39.1%	40.2%	36.0%
ROE	41.5%	37.6%	35.7%	31.7%
Efficiency				
Receivables turnover	31.6	23.9	45.5	46.6
Inventories turnover	4.0	4.6	5.3	5.5
Payables turnover	6.0	5.5	7.2	7.3
Liquidity				
Current	1.1	1.2	1.3	1.4
Quick	0.3	0.4	0.4	0.5
Finance Structure				
Total debt/equity	125.9%	115.8%	79.2%	58.5%
ST debt/equity	125.9%	95.5%	65.3%	48.2%
LT debt/equity	0.0%	20.3%	13.9%	10.3%

Unit: VND billion

BALANCE SHEET	2016	2017	2018F	2019F
Cash and cash equivalents	997	3,411	3,398	3,729
Short-term investments	0	0	1,000	2,000
Accounts receivable	1,411	2,775	2,074	2,334
Inventories	9,371	12,050	14,581	16,381
Other current assets (inc. non-trade receivables)	510	628	660	693
Property, plant & equipment	2,150	3,461	3,400	4,529
Acquired intangible assets (Inc. Goodwill)	27	28	587	587
Long term investments	0	0	61	61
Other non-current assets	389	461	484	508
Total assets	14,854	22,813	26,245	30,821
Accounts payable	6,219	10,104	10,834	12,331
Short-term borrowings	4,789	5,604	5,604	5,604
Long-term borrowings	0	1,192	1,192	1,192
Other non-current liabilities	0	0	0	0
Bonus and Welfare fund	5	5	36	72
Technology-science development fund	0	0	0	0
Total liabilities	11,013	16,905	17,665	19,199
Common stock and APIC (additional paid in capital)	1,540	3,170	3,329	3,396
Treasury stock (enter as -)	0	0	0	0
Retained earnings / accumulated deficit	2,262	2,699	5,247	8,223
Other comprehensive income / (loss)	1	1	1	1
Investment and Development Fund	0	0	0	0
Total equity	3,802	5,869	8,577	11,620
Minority Interest	2	3	3	3

CASH FLOW STATEMENT	2016	2017	2018F	2019F
Profit before tax	2,006	2,809	3,832	4,599
Depreciation	359	683	954	1,371
Adjustments	225	326	-	-
Change in Working capital	(3,177)	(1,128)	(1,898)	(1,515)
Net Operating CFs	(586)	2,690	2,888	4,455
Change in Fixed Asset	(1,605)	(2,041)	(917)	(2,524)
Change in Deposit, equity investment	329	(101)	(939)	(2,000)
Interest, dividend, cash profit	-	-	-	-
Net Investing CFs	(1,276)	(2,142)	(1,856)	(4,524)
Change in Capital	73	1,630	97	67
Change in Debt	2,736	2,007	-	-
Dividend paid & other	(293)	(1,771)	(1,143)	333
Net Financing CFs	2,516	1,867	(1,046)	400
Beginning cash & equivalents	344	997	3,412	3,398
Change in cash & equivalents	653	2,414	(14)	331
Ending cash & equivalents	997	3,412	3,398	3,729

Company Report

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Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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