July 2023

MOBILE WORLD JSC (HSX: MWG)

On track to sales recovery, yet a bumpy road for full profit restoration

(VND bn)	Q1-23	Q4-22	+/- qoq	Q1-22	+/- yoy
Net revenue	27,106	30,588	-11.4%	36,467	-25.7%
PAT	21	619	-96.6%	1,444	-98.5%
EBIT	105	1,034	-89.8%	1,849	-94.3%
EBIT margin	0.4%	3.4%	-3.0 pps	5.1%	-4.7 pps

Source: MWG, RongViet Securities

Q1 2023 review – An unprofitable quarter

- MWG recorded a significant decline in Q1/23 net revenue, plummeting by 26% YoY and 11% QoQ. NPAT-MI exhibited a drastic drop of 99% YoY, resulting in minimal profits.
- TGDD and DMX saw a significant decline in net revenue, with a YoY drop of 34% and a QoQ decrease of 11%. The gross margin decreased to 17%, down 487 bps YoY, primarily due to promotional campaigns aimed at boosting sales.
- BHX reported net revenue with a 5% YoY increase but a 9% QoQ decline. BHX successfully reduced its losses, incurring only VND 354 bn (USD 15 mn) in Q1 2023, versus VND 715 bn (USD 30 mn) loss in Q4 2022.
- MWG's primary focus lies in strengthening cash flow through aggressive inventory reduction and increased net cash in Q1/2023.

2023F outlook – Preserving sales with short-term profit margin sacrifice

- ICT's Q2 monthly sales showed an improvement from the previous quarter, attributed to prevailing hot weather and effective promotion. We expect consumer demand for ICT products to improve by 9% HoH in 2H 2023. The persistent low-price strategy to sustain sales will continue squeezing the profit margin.
- BHX's sales per store have shown a significant improvement from VND 1.13 (48k USD) bn last year to VND 1.31 bn (56k USD) in FY2023, with no new store opened. We expect BHX to reach the breakeven point in 1H 2024. BHX's net loss will notably narrow by 66% YoY in FY2023.
- We forecast net revenue and net income of VND 114/132 tn (USD 4.9/5.6 tn; -15%/+16% YoY) and VND 1.5/4.4 tn (USD 63/187 mn, -64%/+192% YoY) in FY2023/24, respectively.

Valuation and recommendation

With the implementation of flexible measures to stimulate demand and gain market share, we expect ICT sales to gradually improve towards the end-2023. While it will take time for the segment's profitability to recover, MWG, with large scale advantage and strong cash flow, has the fastest ability to recover once the economy and consumption rebound.

The growth-driver segment, BHX, is demonstrating its potential to break even by the end of 2023. We still hold a positive outlook for its long-term growth prospects.

*Using the SOTP method, we arrive at a target price of **51,200/share**, representing a **5% upside** from the closing price on July 20th, 2023. We recommend **ACCUMULATING** this stock. Investor doubts following the sharp drop in Q1 2023 are gradually easing as MWG's monthly results demonstrate positive signs. The business's recovery trajectory will exhibit a U-shaped pattern with limited short-term improvement. Hence, investors may contemplate acquiring this stock at a reduced price for long-term retention.*

ACCUMULATE +5%

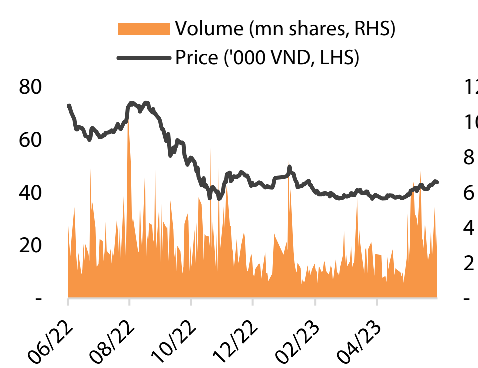
Target price (VND)	51,200
Current market price (VND)	49,100

Stock Info

Sector	Retail
Market Cap (VND bn)	71,907
Current Shares O/S	1,463
Avg. Daily Volume (in 20 sessions)	3,772
Free float (%)	75.1
52 weeks High	75,400
52 weeks Low	35,250
Beta	1.3

	FY2022	Current
EPS (VND)	2,810	1,833
EPS Growth (%)	-18.5	-74.9
Diluted EPS (VND)	2,810	1,833
P/E (x)	15.3	26.9
P/B (x)	2.6	2.7
EV/EBITDA (x)	6.3	6.4
ROE (%)	18.5	11.7

Price performance



Major Shareholders (%)

Retail World Investment Consultant	10.5%
DC	7.9%
Arisaig Asia Consumer Fund Limited	6.0%
Foreign room	*0%*

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Exhibit 1: Q1/2023 Results

(VND Bn)	Q1-FY23	Q4-FY22	+/- (qoq)	Q1-FY22	+/- (yoy)
Net revenue	27,106	30,588	-11.4%	36,467	-25.7%
Gross profit	5,215	7,930	-34.2%	8,124	-35.8%
SG&A	5,109	6,896	-25.9%	6,275	-18.6%
Operating income	105	1,034	-89.8%	1,849	-94.3%
EBITDA	981	2,031	-51.7%	2,699	-63.6%
EBIT	105	1,034	-89.8%	1,849	-94.3%
Financial expenses	296	382	-22.5%	206	43.4%
- Interest Expenses	*296*	*361*	*-18.1%*	*200*	*47.5%*
Dep. and amortization	876	997	-12.1%	850	3.1%
Non-recurring items (*)					
Extraordinary items (*)					
PBT	159	933	-83.0%	2,003	-92.1%
NPAT-MI	21	619	-96.6%	1,444	-98.5%
Adjusted NPAT-MI for (*)	21	619	-96.6%	1,444	-98.5%

Source: MWG, RongViet Securities

Exhibit 2: Q1/2023 Performance Analysis

Particulars	Q1-FY23	Q4-FY22	+/- (qoq)	Q1-FY22	+/- (yoy)
Profitability Ratios (%)					
Gross Margin	19.2%	25.9%	-6.7 pps	22.3%	-3.0 pps
EBITDA Margin	3.6%	6.6%	-3.0 pps	7.4%	-3.8 pps
EBIT Margin	0.4%	3.4%	-3.0 pps	5.1%	-4.7 pps
Net Margin	0.1%	2.0%	-1.9 pps	4.0%	-3.9 pps
Adjusted Net Margin	0.1%	2.0%	-1.9 pps	4.0%	-3.9 pps
Turnover (x) (*)					
-Inventories	3.7	3.3	0.4	3.6	0.1
-Receivables	43.5	31.7	11.8	50.0	-6.6
-Payables	6.3	6.0	0.3	6.7	-0.4
Leverage (%)					
Total Liabilities/ Equity	100.5%	108.6%	-8.2 pps	186.0%	-85.5 p ps

Source: RongViet Securities; (*) Annualized

Exhibit 3: Q2/2023 Performance Forecast

Particulars (VND Bn)	Q2-FY23	+/- qoq	+/- yoy
Net revenue	28,928	7%	-16%
Gross profit	5,498	5%	-25%
EBIT	441	320%	-78%
NPAT-MI	332	1,459%	-71%

Source: RongViet Securities

Q2/2023 Assumptions:

ICT segment:

- Revenue to improve 10% QoQ but declines 20% YoY, propelled by DMX's sales enhancement.
- Gross margin to contract by 50 bps QoQ. However, SG&A/Sales is projected to decrease by 140 bps QoQ, driven by improved revenue and significant reductions in operating expenses.
- Thus, net income to increase by 83% QoQ but drop by 71% YoY.

Grocery segment:

- Revenue to rise by 14% QoQ with 15% QoQ in SSSG. Net loss to narrow by 33% QoQ to VND 247 bn (or USD 10.5 mn).

Q1/2023 Update: An unprofitable quarter

MWG recorded an abysmal Q1/23 net revenue of VND 27 Tn (or USD 983 Mn; -26% YoY; -11% QoQ) and NPAT-MI of VND 21 Bn (or USD 0.8 Mn; -99% YoY; -97% QoQ) respectively.

TGDD & DMX: Sudden drop in ICT & CE consumption

TGDD and DMX experienced a significant decline in net revenue, with a YoY drop of 34% and a QoQ decrease of 11%. The total net revenue reached VND 20 tn (USD 723 mn). Sales of mobile phones and household electronics witnessed a YoY decline of approximately 25% to 35%, while laptop and tablet sales were halved compared to the previous year.

Key factors contributed to this decline:

(1) There was a sharp decrease in consumer demand for non-essential products due to financial constraints.
(2) Workers' lower incomes also caused them to take out fewer consumer loans for ICT & CE goods. According to MWG, the proportion of ICT revenue generated through consumer loans decreased from 35% to only 10% in Q1 2023.
(3) The impact of the Covid-19 pandemic on remote-working diminished significantly.

The gross margin is estimated to be 17%, representing a decline of 487 bps YoY and 872 bps QoQ. As the global economic slowdown continues to impact purchasing power, resulting in diminished demand for ICT and consumer electronics, MWG was compelled to implement extensive trade promotions to clear excess inventory.

Bach Hoa Xanh: Narrowing its losses following a comprehensive restructuring effort

In Q1 2023, BHX reported net revenue of VND 6,342 bn (USD 270 mn), reflecting a 5% YoY increase but a 9% QoQ decline. In Q3 2023, BHX operated 1,710 stores, 18 fewer than the end of Q4 2022. The average monthly sales per store in Q1 2023 reached VND 1.25 bn, indicating a notable YoY growth of 32%, albeit an 8% decline compared to Q4 2022. Store traffic remained resilient, while the average ticket size in Q1 2023 was approximately 85% of the level recorded in Q1 2022. The QoQ growth decline can be attributed to weakened purchasing power resulting from the economic slowdown, particularly affecting BHX's primary target customers, namely industrial park workers whose income has been constrained.

BHX successfully reduced its losses, only VND 354 bn in Q1 2023, significantly lower than the estimated VND 715 bn loss in Q4 2022, driven mainly by lower SG&A/Sales because of no more costs incurred from store closures. The net margin improved to -5.6%, marking a YoY increase of 689 bps and a QoQ increase of 444 bps. Moreover, BHX achieved a company-wide EBITDA of more than 1% in Q1 2023, aligned with the performance of WinCommerce.

Prioritizing healthy cash flow

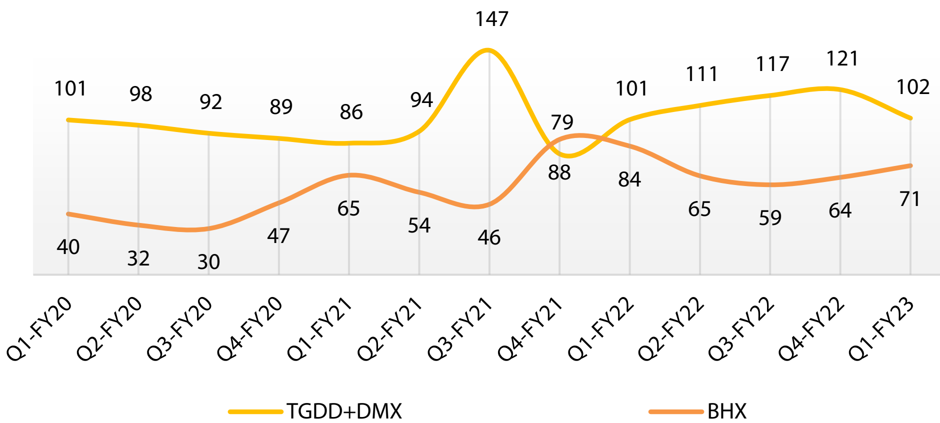
MWG experienced a significant shift in its financial position, transitioning from a net debt of VND 1.4 bn (USD 62 mn) at the end of 2022 to a net cash position of VND 2.6 tn (USD 110 mn) at the end of Q1 2023. This transformation was primarily driven by a notable 31% increase in the company's cash and short-term investments. Consequently, we anticipate that financial income will make a more substantial contribution to MWG's overall profitability in FY2023.

Additionally, the company made significant progress in reducing its inventories, which amounted to VND 21 tn (or USD 890 mn), reflecting an 18% decrease compared to the previous quarter. We firmly believe that the strong cash flow generated will provide MWG with greater flexibility to pursue a low-priced strategy, enabling the company to gain a larger market share. Moreover, this solid financial foundation will support MWG in quickly recovering once consumer demand rebounds.

Table 1: MWG's financial health (VND Bn)

	Q4-FY22	Q1-FY23
Cash, cash equivalent & short-term investments	15,120	19,809
Inventory	25,696	20,957
Current liabilities	26,000	24,064
Total debt	16,589	17,214
Quick ratio	0.7	0.9
Total liabilities/Equity	109%	100%

Figure 1: Days of inventory in hand by segment



Source: MWG, RongViet Securities

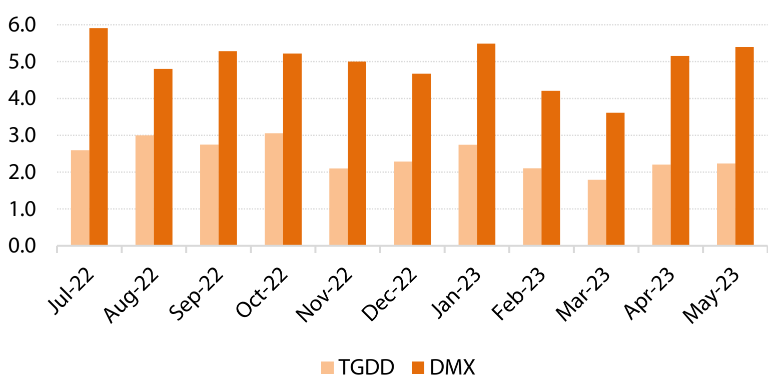
ICT segment: Sales to gradually recover in Q2/2023, but gross margin will not recover soon

Q2 monthly sales show an improvement from the previous quarter

While TGDD's revenue remained stagnant, DMX experienced notable growth in April and May 2023. As per MWG's assessment, this upturn can be attributed to the prevailing hot weather, which led to a substantial surge in air-conditioner sales. Additionally, the implementation of discounts and promotional strategies in Q2/2023 also played a pivotal role in bolstering sales figures.

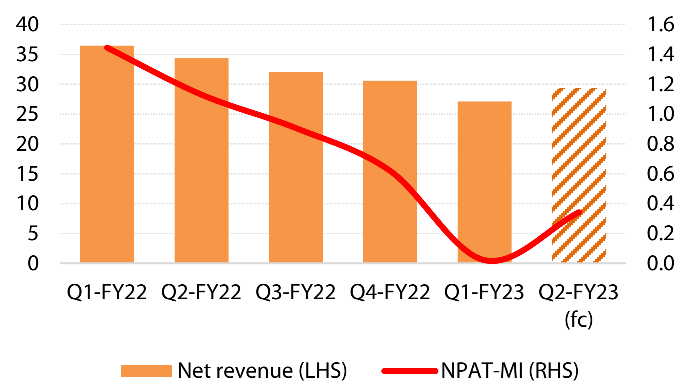
Regarding the gross margin, we forecast a further decline of 50 bps QoQ for Q2 2023, as a result of price reductions. However, a more optimistic outlook is expected for SG&A/Sales, which is projected to decrease by 140 bps QoQ this quarter, thanks to improved revenue and significant reductions in operating expenses. **As a result, in Q2 2023, we forecast ICT's sales to improve by 10% QoQ and the segment's net profit to rise by 83% QoQ compared to the low figures of Q1/2023.**

Figure 2: Monthly sales of TGDD and DMX (VND Tn)



Source: MWG, RongViet Securities

Figure 3: MWG's quarterly revenue and NPAT (VND Tn)



Source: RongViet Securities

Persistent weakness in ICT product purchasing power. Sustained low-price strategy and promotions drive sales enhancement

In our assessment, the recovery observed in Q2/2023 can be largely attributed to seasonal factors and proactive measures taken by businesses to stimulate demand through promotional activities. However, the key drivers for a sustainable revival in the electronics retail sector - consumer income and purchasing power - have yet to display any significant signs of improvement. Factors such as subdued employment prospects, sluggish new home purchases, and weak consumer loans are expected to persist throughout the latter half of this year. Consequently, we anticipate that ICT sales in Q3 2023 will remain at a relatively low level until a more notable rebound takes place in the final quarter, primarily driven by the year-end shopping season and the introduction of new product lines. Thus, we project **a modest recovery of only 9% in ICT & CE sales during 2H 2023 compared to 1H.**

To attain a sustained growth trajectory in the consumer electronics retail industry, we posit that it will likely take at least a year for consumers to regain confidence, enhance savings, and expand their inclination towards product replacement. Consequently, we expect MWG's sales in this segment to gradually rise from a low point, with a slow-paced increase, before a clearer recovery in purchasing power anticipated in 2H 2024.

Furthermore, the maintenance of a competitive pricing strategy among retailers, aimed at securing consumer traffic, is anticipated to alter consumer behavior, prompting them to meticulously compare prices across different retail chains. As a result, we anticipate a gradual improvement in the gross margin as the company liquidates existing inventory and stock new inventory at a lower cost in 2H 2023. However, we do not foresee a return to the profit margin levels observed in previous years, at least until 2024.

For FY2023, we forecast that **ICT's revenue and net income will reach VND 86 tn (USD 3.6 tn) and VND 2.5 tn (USD 0.11 tn), dropping by 19%/65% YoY**, respectively.

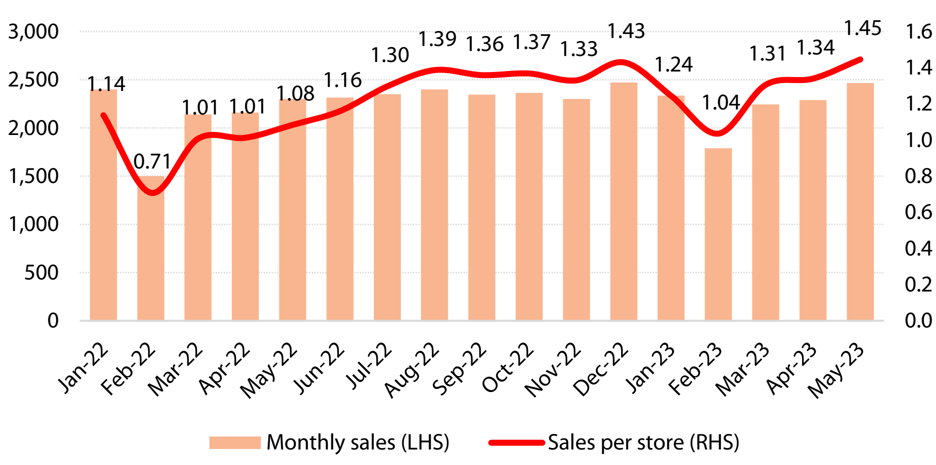
BHX: Store efficiency gradually improves. Losses will narrow significantly in 2023.

Revenue per store has shown a significant improvement

In May 2023, Bach Hoa Xanh (BHX) experienced a noteworthy improvement in revenue per store, averaging VND 1.45 bn per month. This marks an increase from the average of VND 1.13 bn per month in 2022 and VND 1.34 bn per month in April 2023. These positive trends indicate that BHX's restructuring efforts have gradually demonstrated their effectiveness in enhancing both traffic and store efficiency. Additionally, the stable demand for essential products and BHX's competitive price enable the company to attract a new customer base, even in the face of a weakened economy.

A key factor to monitor BHX's current chain is the breakeven point, which signifies through sales per store. With the assumption that costs and the number of stores remain unchanged, we estimate that BHX can achieve breakeven when the revenue per store reaches approximately VND 1.6-1.7 bn per month. **Depending on the pace of Vietnam's economic recovery, we expect BHX to reach the breakeven point either in Q4 2023 or the first half of 2024.**

Figure 4: BHX's monthly sales and sales per store (VND Bn)



Source: MWG, RongViet Securities

Notable reduction in BHX's net loss

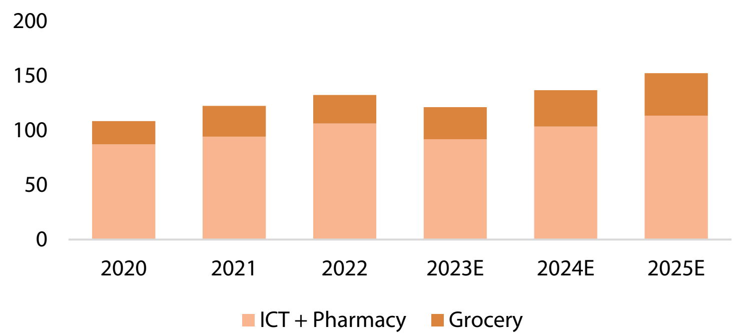
We forecast BHX's revenue per store to reach VND 1.31/1.48/1.57 bn, up 16%/13%/6% YoY, with 0/100/200 new stores in 2023/2024/2025 respectively. Furthermore, we expect BHX's gross profit margin to improve by 50 bps annually over the course of the next three years. This improvement can be attributed to a reduction in wastage rates and an increase in store count.

Additionally, we project a decrease of 6.9 pps in SG&A/sales in 2023. This reduction is primarily due to the elimination of one-time costs incurred from the closure of BHX stores in 2022. Recalled, in Q2 and Q3 2022, BHX closed over 400 inefficient stores and implemented structural changes in the remaining stores, including store layout enhancements, improvements in food and service quality, and adjustments to product categories. Costs associated with the closure of inefficient stores amounted to nearly VND 500 bn.

Considering the combination of improving revenue per store, enhanced gross margin, and reduced SG&A expenses, we forecast BHX's net loss in 2023 to be VND 981 bn (USD 42 mn), compared to the net loss of nearly VND 2.9 tn (USD 122 mn) incurred in the previous year.

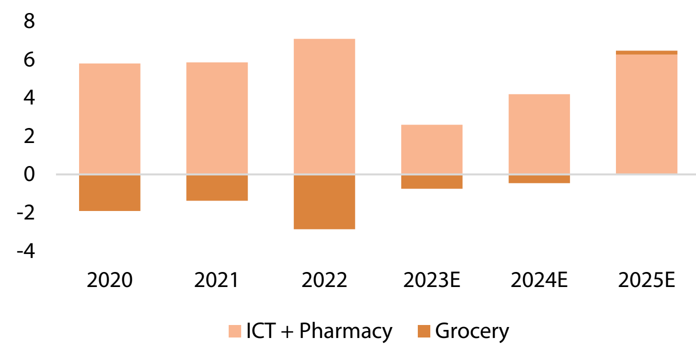
2023/2024 forecast: We expect that ICT's net income will recover in FY2024 on the low base of FY2023, albeit lower than the FY2020-2022 period. BHX's net income will continue to narrow its losses in FY2024, driven by a cautious yet effective approach to expanding its store network. Combining the advancements in both segments, the forecast indicates **net revenue and net income figures of VND 114/132 tn (-15%/+16% YoY) and VND 1.5/4.4 tn (-64%/+192% YoY) in FY2023/2024, respectively.**

Figure 5: Revenue contribution forecast (VND tn)



Source: RongViet Securities

Figure 6: NPAT contribution forecast (VND tn)



Source: RongViet Securities

Valuation

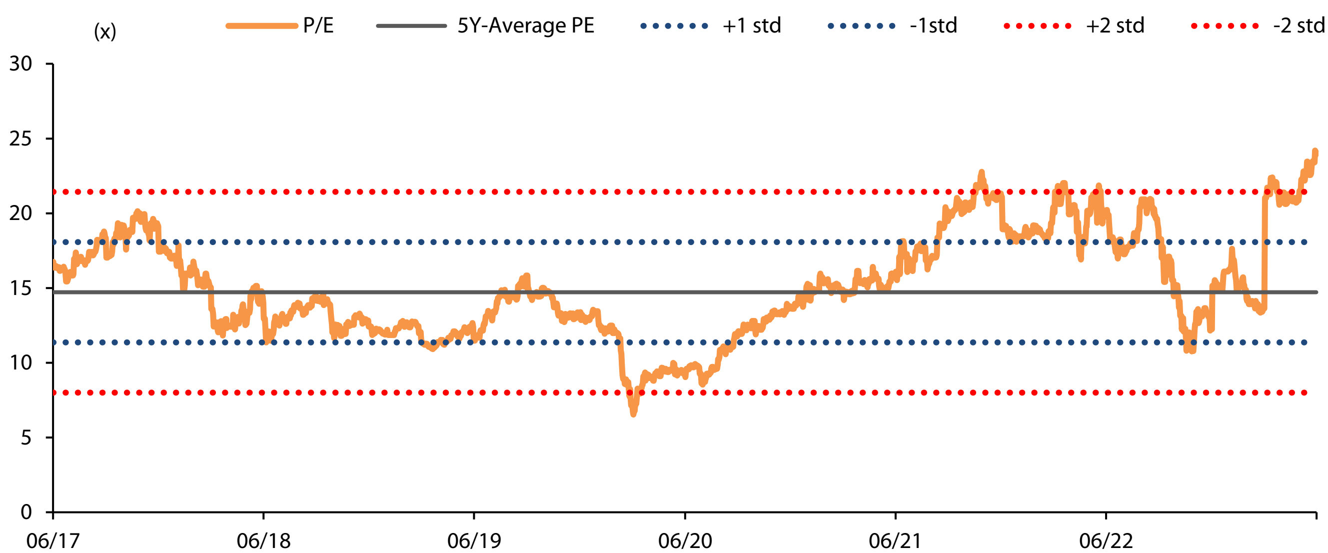
We use the sum-of-the-parts method to evaluate the stock. We use the DCF and P/S methodology to evaluate BHX (10Y FCFE with Ke of 15%, terminal growth of 3%), then arrive at the valuation of VND 23 tn (USD 1 bn) for the chain. For TGDD/DMX, we combine DCF (5Y FCFE with Ke with 15%, terminal growth of 0.5%), along with a forward P/E multiple of FY2023-24 of 10x and come up with a valuation of VND 52 tn (USD 2.2 bn).

Table 2: MWG's valuation summary

Unit: VND Bn	Valuation approach	% Contribution	Equity Value (VND Bn)	Equity Value (USD Bn)	Value per share
BHX	10Y FCFE (Ke: 15%, growth: 3%)	25%	23,056	1.0	10,700
	P/S @ 1.0x 2023-24F Sales	25%			20,800
TGDD/DMX	5Y FCFE (Ke: 15%, growth: 0.5%)	25%	51,895	2.2	47,000
	P/E @ 10x 2023-24F EPS	25%			23,900
Target price (VND)			**74,951**	**3.2**	**51,200**
Cash dividend					**500**
Current market price (VND) @ 20/07/2023					49,100
Total stock return					**5%**
TP / 2023F EPS					50.3
TP / 2024F EPS					17.2

Source: RongViet Securities

Figure 7: Historical P/E (x)



Source: Bloomberg, RongViet Securities

VND Bn

INCOME STATEMENT	FY2021	FY2022	FY2023E	FY2024E
Revenue	**122,958**	**133,405**	**114,072**	**131,963**
COGS	95,326	102,623	91,724	104,919
Gross profit	**27,632**	**30,782**	**22,347**	**27,044**
Selling expenses	17,914	21,790	19,150	20,832
G&A expenses	3,830	2,348	1,492	1,760
Financial income	1,266	1,313	1,677	2,295
Financial expenses	714	1,383	1,273	1,263
Other income/loss	27	-518	-	-
Gain/(loss) from joint ventures	4	-	-	-
PBT	**6,472**	**6,056**	**2,111**	**5,484**
Tax expenses	1,570	1,955	618	1,130
Minority interests	3	2	2	2
PAT	**4,899**	**4,100**	**1,490**	**4,351**
EBIT	5,888	6,644	1,706	4,452
EBITDA	8,809	10,227	5,250	8,100

%

FINANCIAL RATIO	FY2021	FY2022	FY2023E	FY2024E
Growth (%)				
Revenue	13.3	8.5	-14.5	15.7
EBITDA	18.8	16.1	-48.7	54.3
EBIT	12.9	12.8	-74.3	160.9
PAT	25.0	-16.3	-63.6	192.0
Total assets	36.8	-11.4	3.1	15.4
Total equity	31.6	17.4	3.2	11.7
Profitability (%)				
Gross margin	22.5	23.1	19.6	20.5
EBITDA margin	7.2	7.7	4.6	6.1
EBIT margin	4.8	5.0	1.5	3.4
Net margin	4.0	3.1	1.3	3.3
ROA	7.8	7.3	2.6	6.5
ROE	24.1	17.1	6.0	15.8
Efficiency				
Receivable Turnover	38.9	43.4	50.1	50.3
Inventory Turnover	3.3	4.0	4.2	4.2
Payable Turnover	5.3	6.7	6.0	6.0
Liquidity				
Current	1.3	1.7	1.8	1.8
Quick	0.6	0.7	1.0	1.1
Finance Structure (%)				
Total Debt/Equity	121.0	69.4	71.2	77.6
Current Debt/Equity	107.4	44.7	47.3	56.2
Long-term Debt/Equity	13.6	24.7	23.9	21.4

VND Bn

BALANCE SHEET	FY2021	FY2022	FY2023E	FY2024
Cash and cash equivalents	4,944	5,061	8,688	13,706
Short-term investments	13,435	10,059	16,094	19,313
Accounts receivable	3,162	3,072	2,275	2,623
Inventories	29,180	25,696	22,001	25,103
Other current assets (inc. non-trade receivables)	1,255	743	779	818
Property, plant & equipment	9,647	9,723	6,346	3,501
Acquired intangible assets (inc. Goodwill)	436	381	247	187
Investment in affiliates	-	241	242	242
Other non-current assets	925	858	900	945
Total assets	**62,983**	**55,834**	**57,573**	**66,439**
Accounts payable	17,957	15,312	15,316	17,473
Short-term borrowings	21,879	10,688	11,665	15,486
Long-term borrowings	2,768	5,901	5,901	5,901
Other non-current liabilities	-	-	-	-
Bonus and Welfare fund	-	-	-	-
Technology development fund	-	-	-	-
Total liabilities	**42,605**	**31,902**	**32,882**	**38,860**
Common stock and APIC (additional paid in capital)	7,689	15,197	15,197	15,197
Treasury stock (enter as -)	-2	-5	-5	-5
Retained earnings	12,675	8,724	9,482	12,370
Other comprehensive income	5	2	2	2
Investment Development Fund	-	-	-	-
Total equity	**20,366**	**23,918**	**24,676**	**27,564**
Minority Interest	12	15	15	15

VALUATION RATIO (*)	FY2021	FY2022	FY2023E	FY2024E
EPS (dong)	6,870	2,801	1,018	2,973
P/E (x)	10.0	15.3	48.2	16.5
BV (dong)	28,562	16,339	16,857	18,829
P/B (x)	2.4	2.6	2.9	2.6
DPS (dong/cp)	1,000	500	500	1,000
Dividend yield (%)	2%	1%	1%	2%

VALUATION MODEL	Price	Weight	Average
SOTP	51,200	100%	51,200

VALUATION HISTORY	Price	Recommendation	Period
Dec-2022	61,900	BUY	1 year
Jul-2023	51,200	ACCUMULATE	1 year

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report. we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information. investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

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The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy. securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

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