JULY

29

WEDNESDAY

" Cash flow reluctant under higher pressure of profit-taking activities "

ADVISORY DIARY

- **Listed company in August: DIGIWORLD CORPORATION (Digiworld), ticker: DGW-HSX**
- **Cash flow reluctant under higher pressure of taking profit action**

Listed company in August: DIGIWORLD CORPORATION (Digiworld), ticker: DGW-HSX

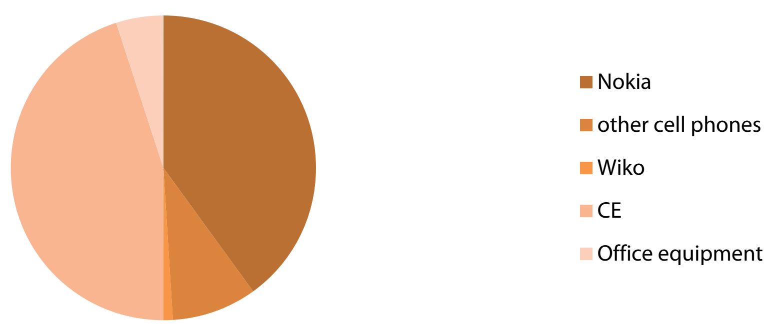
Yesterday, 28/7/2015, at the roadshow, BOD of Digiworld introduced their business operation as well as business plan to potential investors. Digiworld has high history growth and is an opportunity for investors attracted by distribution and retailing industry.

Digiworld operates in distribution of information technology products and mobile devices. Through the network of over 6,000 distributors across the country, Digiworld has distributed most of the major international brands such as Dell, Acer, Asus, Nokia… In addition, Digiworld is currently leading the market in term of computer distribution (accounts for over 24% of market share) and achieved the total market share of 8% in mobile phone distribution after 3 years penetrating this market.

Over the past 3 years (2012 – 2014). Digiworld had remarkable performance with compounded growth rate to achieve 51$, 1.3 times higher than reference average **(*)**. In 2015, net revenue in the first 6 months from Digiworld reached VND 2.092 billion, approximate to the same period and completed only 35% of the whole year plan. Particularly, electronic products (laptop, computers, tablet…) and Nokia phones continued to contribute over 85% of total revenue. Even though 6-month revenue could achieve 35% of whole year plan, we believe that the company has the ability to achieve this year plan thanks to: (1) seasonal characteristics, according to our survey, companies operating in technology equipment distribution usually reach late 6-month revenue to be 20 – 40% higher than the first 6-month period, (2) strong demand from newly-opened stores in the first 6 months of 2015 in large mobile phone distribution chain (thegioididong, viettel…), because Digiworld distributes Nokia products for such companies, (3) sale contribution from new mobile brands in the last 6 month of this year (exclusive distribution for Obi and several brands from Korea).

(*) reference average: calculating on the maximum value of 2 listed companies in the same industry with Digiworld: PSD and ST8

Figure: 6M2015 revenue structure



Source: DWG, Rongviet Research estimation

Similar to revenue growth, PAT also reaches CAGR (2012-2014) of over 42%, a 5.2x than reference average. However, 6M2015 PAT is only same as the previous period, at VND 59.7 billion and net profit margin of 2.9%.

Table: Revenue growth and PAT growth in 2012-2014

	DGW	PSD	ST8	Reference average
Revenue growth (CAGR)	51%	3%	38%	38%
PAT growth (CAGR)	42%	-13%	8%	8%

Source: Bloomberg, DWG, Rongviet Research

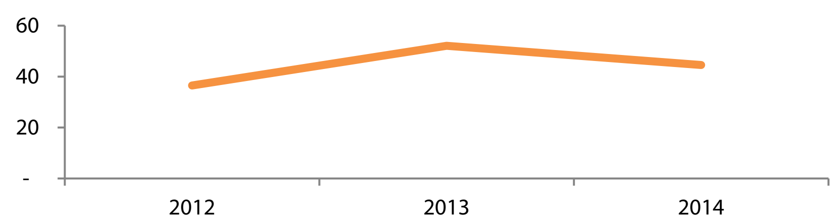
Working capital management (essential factor of distribution firms) of Digiworld is very stable and relatively more effective than other firms in this industry. Cash conversion cycle is calculated at 44 days, 10 days lower than industry average and has been fluctuating in a narrow range of 6 days/year in 2012 – 2014 periods.

Table: Working capital management performance (FY2014)

	DGW	PSD	ST8	Industry average
Inventory turnover	8	5	11	8
Receivables turnover	16	11	23	17
Payables turnover	16	11	41	26
Cash conversion cycle	44	69	38	54

Source: Bloomberg, DGW, Rongviet Research

Figure: Volatility of cash conversion cycle in 2012-2014



Source: DGW, Rongviet Research

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Digiworld will be officially listed in Ho Chi Minh stock exchange (ticker: DGW) on 03/08/2015 at an initial price of VND52,000/share. In the context of 100% year plan completion, DGW may record a VND160 billion NPAT, which equals to VND6,784 basic EPS and 7.6x PE (based on initial price of first listed date). Moreover, after being listed, the company may announcement 30% dividend, in which 20% stock dividend and the remaining 10% will be in cash. However, to control risk, investors should track the technical consumer goods (TCGs) in VN since the after bullish period, the TCGs market seems saturated. Therefore, our industry considers the most remarkable risk of DGW's operation is insufficient room for future growth.

Cash flow reluctant under higher pressure of profit-taking activities

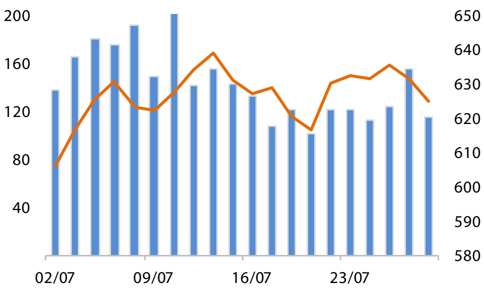
Today market happens as our expectation mentioned in yesterday AD. Cash flow is reluctant while the market fluctuates in high range. The volume is only 155.7 million shares, decreased by 21% compared to yesterday. Under pressure of profit taking action, especially in afternoon session, VNIndex and HNXindex fluctuate highly, closing at lower level (VNIndex: -6.77 points, HNXIndex: -0.47 points). Besides, foreigners keep their net selling position in this week, with the accumulating value of -137 billion dong.

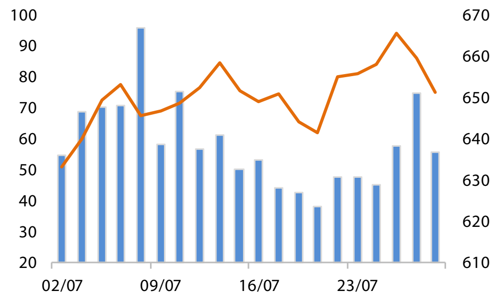
Regarding the macro news, Vietnam GSO released the monthly Socio-economic report for the month of July. The July macro readings continued to support the recovery progress expectation this year, especially for industrial production activities. According to the GSO, industrial production activities in July and the first 7 months of 2015 remained positive recording respectively 11.3% and 9.9 % in growth (yoy). Simultaneously, industrial consumption reading saw good growth too throughout the first 6 months at 15.1 % (yoy). Also, the number of newly formed businesses looks positive with the 7 month readings up 29.8 % yoy. On the other hand, retail sales's growth was slowing despite total retail sales of goods and consumer services 7T2015 maintaining a positive growth over 9.9% yoy. This is in line with the survey results on consumer confidence carried out by ANZ and Nielsen. Those results are likely caused by the unexpected domestic petrol prices developments.

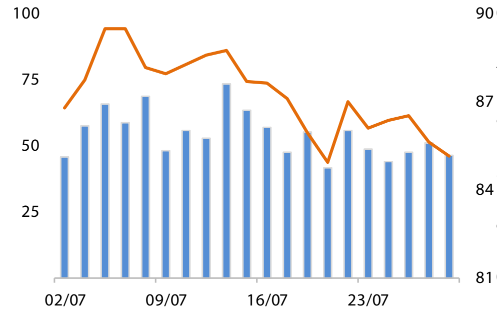
About today markets, RongViet Research market specialist believes that markets are facing minor correction in short-term period as PE of markets are quite high (PE of VNIndex and VN30 are estimated at 15x and 17x (**) respectively). On the other hand, PE of mid cap stocks (VND2,000 billion – VND5,000 billion) is 25% lower than market PE; hence, we expect this group of stocks will absorb more capital inflow, especially the ones that have positive earnings and prospects in 2H2015. We don't think market may fall back significantly as more information about TPP and FOL relaxing will become a sentiment support as well as brighter macro economy picture shall keep hold of foreigners' attraction.

(**): PE calculated after adjusting PE higher than 20x

VNINDEX	-1.07%	624.70	VN30	-1.27%	651.21	HNXINDEX	-0.55%	85.11

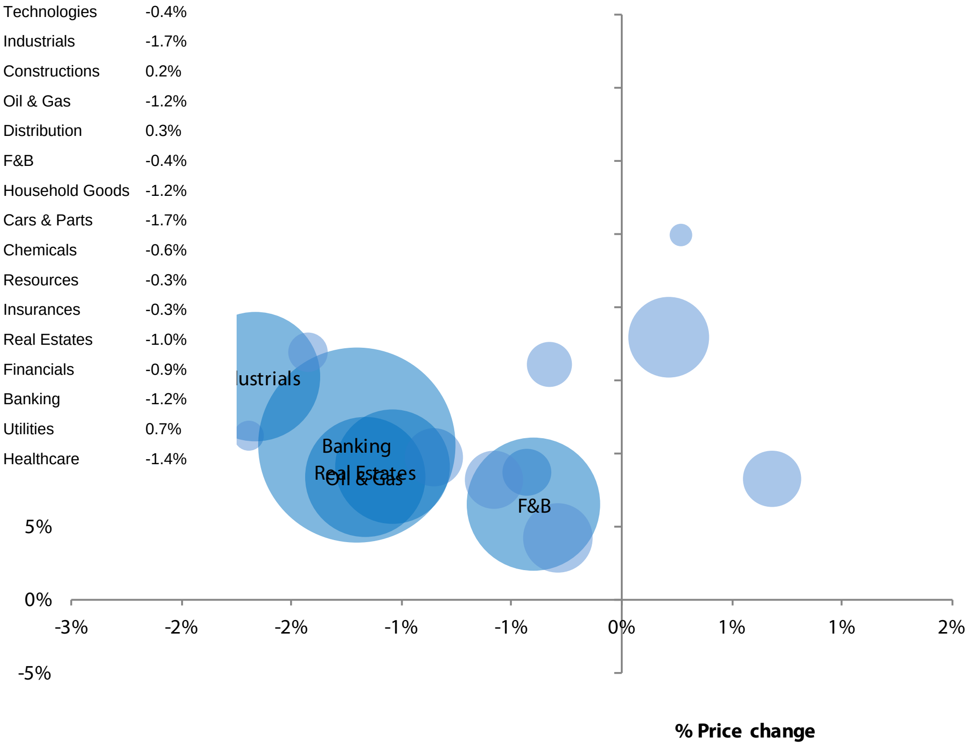




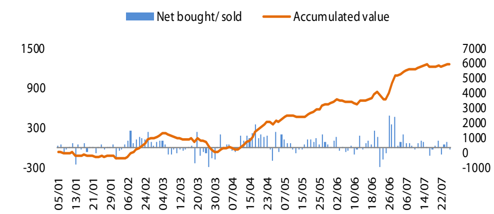


Industry Movement

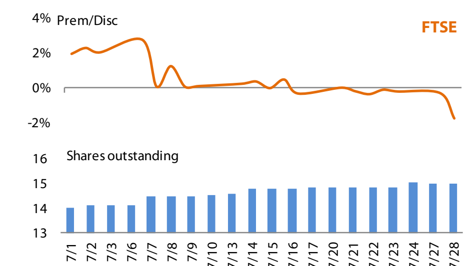
Industry	% change
Technologies	-0.4%
Industrials	-1.7%
Constructions	0.2%
Oil & Gas	-1.2%
Distribution	0.3%
F&B	-0.4%
Household Goods	-1.2%
Cars & Parts	-1.7%
Chemicals	-0.6%
Resources	-0.3%
Insurances	-0.3%
Real Estates	-1.0%
Financials	-0.9%
Banking	-1.2%
Utilities	0.7%
Healthcare	-1.4%

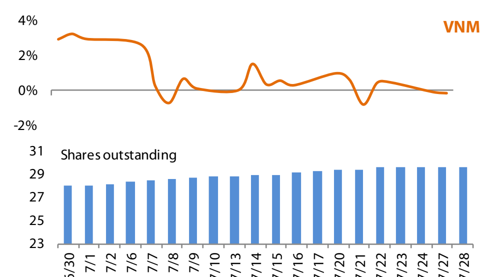


Foreign Investors Trading



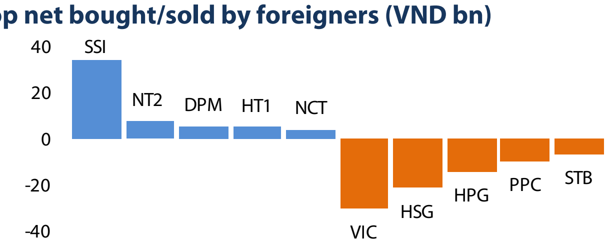
ETF



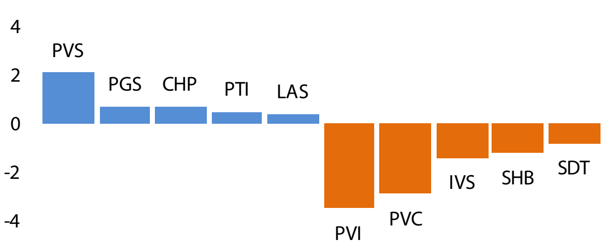


Top net bought/sold by foreigners (VND bn)

HSX



HNX



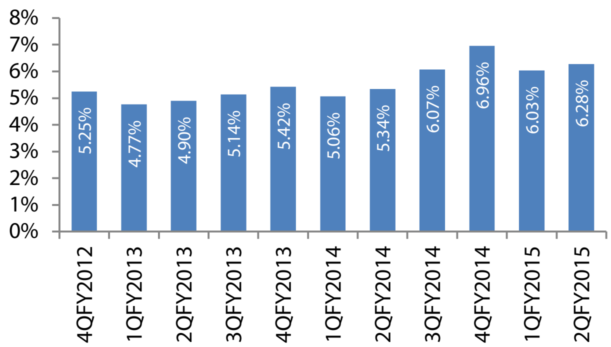
Top Active

Ticker	Price	Volume	% price change
FLC	8.0	10.78	2.6%
SSI	27.5	6.23	-1.8%
MBB	15.9	4.01	-0.6%
OGC	2.4	3.65	-4.0%
CTG	22.5	3.54	-2.2%

Ticker	Price	Volume	% price change
KLF	5.8	6.98	1.8%
FIT	11.8	5.16	9.3%
SHB	8.4	4.13	-2.3%
HUT	11.9	2.31	4.4%
KVC	28.8	1.53	-10.0%

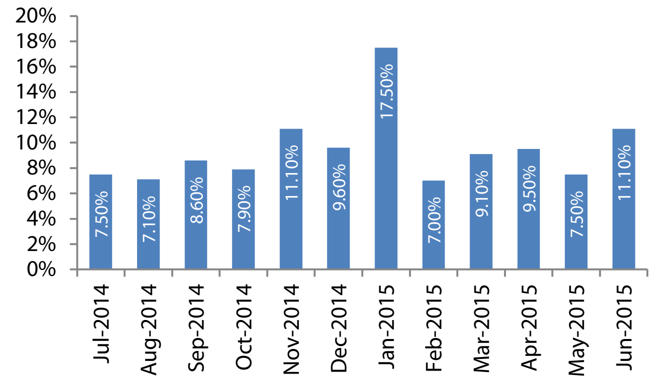
MACRO WATCH

Graph 1: GDP Growth



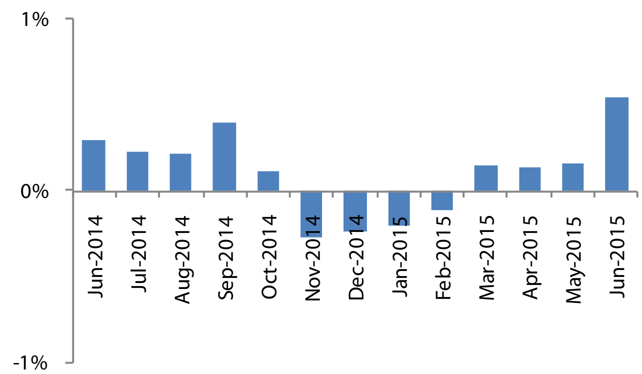
Sources: GSO. Rongviet Securities database
(*) Comparision price in 1994

Graph 2: IIP



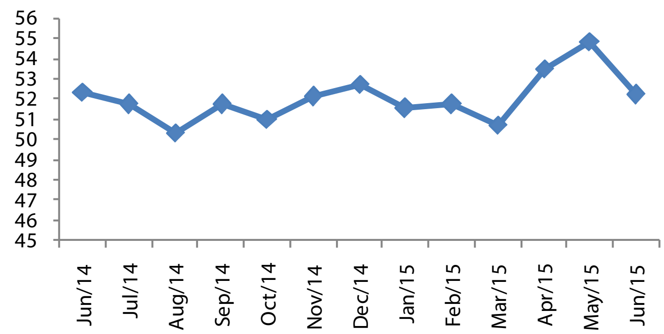
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



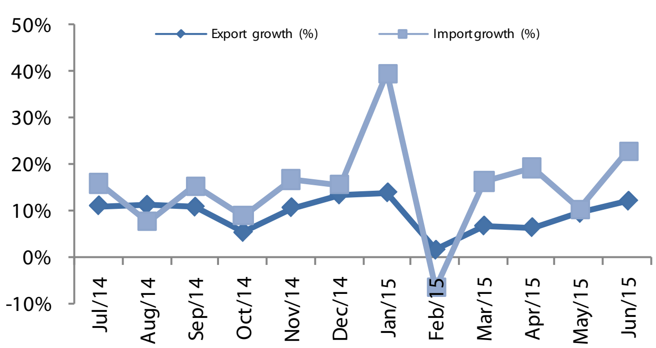
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



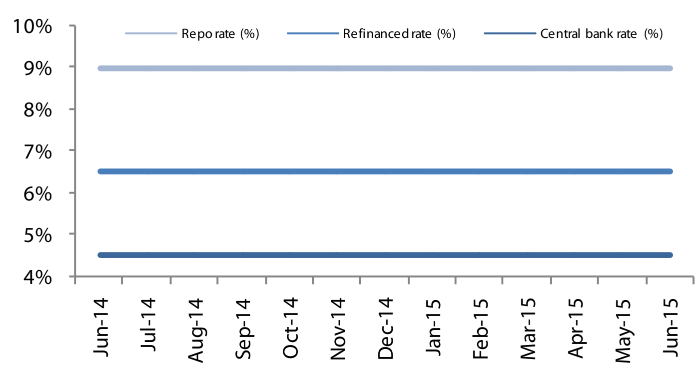
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth



Sources: GSO. Rongviet Securities database

Graph 6: Interest



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
LCG - A new cycle begins	July 16th, 2015	Accumulate – Intermediate term	9,500
PVD - Well-positioned in the industry but still early to expect upturn	July 14th, 2015	Accumulate – Intermediate term	61,700
PGS - Favorable time to grow	July 10th, 2015	Buy – Intermediate term	27,000
DNP - Cash flowing in pipes	July 09th, 2015	Buy – Long term	21,900
BMI - Solid base for a bright future	July 08th, 2015	Accumulate – Long term	22,800

Please find more information at http://www.vdsc.com.vn/en/companyReport.rv?categoryId=302

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	07/07/2015	0% - 0.75%	0% - 2.5%	11,750	11,729	0.18%
VEOF	07/07/2015	0% - 0.75%	0% - 2.5%	10,022	9,821	2.05%
VF1	16/07/2015	0.2% - 1%	0.5%-1.5%	23,097	23,391	-1.26%
VF4	15/07/2015	0.2% - 1%	0%-1.5%	10,591	10,578	0.12%
VFA	10/07/2015	0.2% - 1%	0%-1.5%	7,579	7,426	2.06%
VFB	10/07/2015	0.3% - 0.6%	0%-1%	12,233	12,211	0.18%
ENF	10/07/2015	0% - 3%	0%	11,584	11,424	1.40%
MBVF	09/07/2015	1%	0%-1%	10,530	10,563	-0.31%
MBBF	08/07/2015	0%-0.5%	0%-1%	12,157	12,133	0.20%

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