

## Retail Sector

Earnings Flash Note

August 2022

Ticker: MWG

Reuters: MWG.HM

Bloomberg: MWG VN Equity

 Recommendation **OUTPERFORM**

 Target price (VND/share) **N/a**

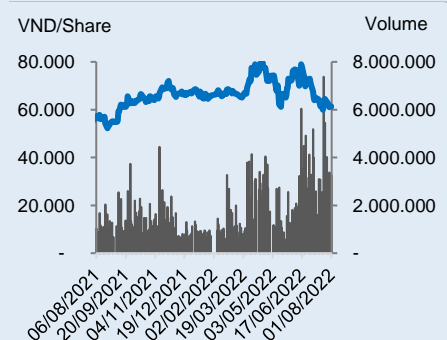
 Market price (01/8/2022) **61,300**

 Upside potential **N/a**

### SHARES INFORMATION

Trading exchange	HSX
52-week price range	52,220-79,640
Market cap	VND89,725 bn
Shares outstanding	1,463,709,630
10-day average volume	3,623,070
Foreign Ownership	49%
FOL	49%
Dividend per share	1,000
Dividend yield	1.6%
Beta	0.9

### PRICE MOVEMENTS



	YTD	1M	3M	6M
MWG	-10.5%	-9.6%	-17.5%	-6.5%
VNIndex	-19.3%	3.0%	-9.5%	-16.9%

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## 2Q22: Net profit fell by 6.8% YoY

MWG released its consolidated 2Q22 financial statements recently: 2Q22 net sales rose 8.5% YoY to VND34.3 tn, while net profit fell by 6.8% YoY to VND1.131 bn off a high 2Q21 base.

Cumulatively, MWG's 1H22 net sales and net profit reached VND70.8 tn (+13.3% YoY) and VND2,576 bn (+0.9% YoY); fulfilling 51%/ 41% of our respective FY22 forecasts.

**Figure 1: MWG's 2Q22 and 1H22 earnings results: Snapshot**

Unit: VND bn	2Q22	2Q21	YoY	1H22	1H21	YoY
Net sales	34,337	31,659	8.5%	70,804	62,486	13.3%
Net profit	1,131	1,213	-6.8%	2,576	2,552	0.9%

Source: Company data; BVSC

### TGDD & DMX: Market share gains – key growth driver

TGDD & DMX's 1H22 net sales increased solidly by 16.3% YoY to VND57 tn, or 85% of total net sales. Of which, TGDD made VND19 tn sales, including VND1.0 tn from TopZone, while DMX's net sales were VND38 tn.

Per management, TGDD & DMX outperformed the overall market and thus, driving further market share gains in 1H22. Most notably, TGDD & DMX's 2Q22 net sales remained solid, rising by 12% YoY and was only 11% below its 4Q21 peak, vs 30-40% drops of its peers.

### BHX: Short-term pains, long-term gains

BHX's 1H22 net sales looked encouraging at VND12.8 tn (-4.2% YoY) amid the re-laying and a high 2Q21 base (i.e., benefit from consumers stocking up goods in the face of lockdowns).

2Q22 net sales were 12% higher than 1Q21 levels, but 8% lower than 2Q21. Furthermore, post-restructured stores are proving to have positive results:

- Shops re-laid in Apr-22 (i.e. operating 2 months post restructuring): Sales and traffic in Jun-22 grew by 15% compared to Apr-22.
- Shops re-laid in May-22 (i.e., operating 1 month post restructuring): Sales and traffic in Jun-22 jumped by 7-10% compared to May-22.

BHX is expecting sales and traffic growth to remain sustainable in 3Q22, helping its monthly sales to reach target of VND1.3 bn/ store vs VND1.2 bn currently. This is earlier than its expectation to take place in 4Q22.

By end-2Q22, BHX had finished the re-laying 1,500 out of the 1,889 stores, while aggressively closing 251 stores, which are: (1) underperforming ones on unfavorable locations and areas, (2) ones that have high rental expenses/ sales, and (3) inefficient logistics (i.e., direct profits are not enough to cover logistics costs).

While BHX is eyeing to complete the restructuring by end-Jul, BHX is expecting its store count to range between 1,700-1,800 at end-3Q22 vs 1,889 stores at end-2Q22. This is implying that that BHX is continuing to review and close underperforming stores in 3Q22. We are expecting the net long-term impact is positive (i.e. core margins to widen) at the expense of some one-off closure-related costs in short term. That said, BHX's FY22 bottom-line are likely lower than our current forecasts.

**Figure 2: MWG's sales breakdown in 2Q22 and 1H22: Snapshot**

Unit: VND bn	2Q22	2Q21	YoY	1H22	1H21	YoY
<b>Net sales</b>	<b>34,337</b>	<b>31,659</b>	<b>8.5%</b>	<b>70,804</b>	<b>62,487</b>	<b>13.3%</b>
TGDD & DMX	26,997	24,201	11.6%	56,997	48,994	16.3%
BHX	6,760	7,438	-9.1%	12,800	13,360	-4.2%
Others	580	20	20.6x	1,007	133	7.6x
<b>Online sales</b>	<b>4,050</b>	<b>2,806</b>	<b>44.3%</b>	<b>9,985</b>	<b>5,300</b>	<b>88.4%</b>
TGDD & DMX	3,487	2,313	50.7%	9,187	4,593	100.0%
BHX	564	493	14.3%	799	707	13.0%

Source: Company data; BVSC

## Operating margins hold up well

MWG's 2Q22 operating margin remained healthy at 5.1 %, stable vs 4Q21-1Q22 levels and higher than 4.7% in 2Q21. The OpEx/ net sales were under strict control, greatly outweighing gross margin contraction, as a result of heavy promotions to stimulate demand and inventory clearance.

**Figure 3: MWG's OPM trend in 1Q20-2Q22: OPM stayed in good shape**

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Gross margin %	21,0	22,0	22,4	23,1	22,8	22,6	25,0	20,4	22,3	21,4
Selling expenses/ net sales %	12,9	13,5	14,6	15,7	13,8	14,4	17,5	13,4	13,8	14,8
G&A expenses/ net sales %	2,7	3,8	3,3	2,9	3,5	3,5	4,0	1,8	3,4	1,5
<b>Operating margin %</b>	<b>5,4</b>	<b>4,7</b>	<b>4,5</b>	<b>4,5</b>	<b>5,5</b>	<b>4,7</b>	<b>3,5</b>	<b>5,1</b>	<b>5,1</b>	<b>5,1</b>

Source: Company data; BVSC

We are expecting MWG's operating margins to see further pick-ups in up and coming quarters, as a result of low pressure from inventory clearance, re-layouting, and clearer improvements in BHX's efficiency post restructuring.

## Net financial losses put pressure on net profit

MWG reported a net financial loss of VND62.4 bn in 2Q22 vs gains of VND148.6 bn in 1Q22 and VND133.9 bn in 2Q21. While 2Q22 financial income was almost unchanged, financial expenses climbed sharply by 110.8% YoY to VND360.2 bn (+74.6% QoQ), mainly due to a sharp rise in interest expense. This is similar to other retail-wholesale companies under our coverage, such as FRT, DGW, and PET.

## Strong balance sheet and operating cash flow

By 2Q22, MWG's total assets were VND59,217 bn, in which cash and cash equivalents were ample at VND15,218 bn (accounting for 25.7% of total assets). The company's short-term debts were VND22,345 bn (-8.7% QoQ; +2.1% YTD) while remaining long-term debt free. Operating cash flow was robust at VND4,623 bn compared to a negative VND2,262-3,382 bn in the previous two quarters.

## Maintain Outperform; estimates and TP under review

MWG's share prices had corrected sharply by 17.5%, underperforming VNIndex performance of -9.5% in the past 3 months.

We maintain our **Outperform** rating for MWG, given BHX's brighter outlook post-restructuring and TGDD & DMX's solid market share gains; however, put our estimates and target price (TP) under review.

**FINANCIAL RATIOS**

<b>Profit and loss statement</b>				
<b>Unit (VND billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>
Revenues	108,546	122,958	141,863	152,127
Cost of goods sold	84,592	95,326	109,193	116,016
Gross profit	23,954	27,632	32,670	36,111
Financial income	794	1,266	1,431	2,055
Financial expense	(714)	(780)	(785)	(606)
Profit after tax	3,918	4,899	6,591	8,268

<b>Balance sheet</b>				
<b>Unit (VND billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>
Cash and cash equivalents	7,348	4,944	4,192	4,891
Short-term receivables	1,595	2,200	1,969	2,048
Inventories	19,422	29,180	27,957	27,132
Tangible fixed assets	7,428	9,714	8,989	7,623
<b>Total assets</b>	<b>46,031</b>	<b>62,983</b>	<b>65,905</b>	<b>69,596</b>
Short-term liabilities	29,423	39,836	38,394	36,114
Long-term liabilities	1,127	2,768	1,419	0
Owners' equity	15,472	20,366	26,092	33,482
<b>Total resources</b>	<b>46,031</b>	<b>62,983</b>	<b>65,905</b>	<b>69,596</b>

<b>Financial Indicators</b>				
<b>Indicator</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>
<b>Growth</b>				
Revenue growth (%)	6%	13%	15%	7%
Net profit growth (%)	2%	25%	35%	25%
<b>Yield</b>				
Gross profit margin (%)	22.1%	22.5%	23.0%	23.7%
Net profit margin (%)	3.6%	4.0%	4.6%	5.4%
ROA (%)	8.5%	7.8%	10.0%	11.9%
ROE (%)	25.3%	24.1%	25.3%	24.7%
<b>Capital structure</b>				
D/A	64%	63%	58%	52%
D/E	197%	209%	153%	108%
<b>Per shares</b>				
EPS (VND/share)	8,656	6,872	9,005	10,968
Book value (VND/share)	34,140	28,562	35,634	44,396

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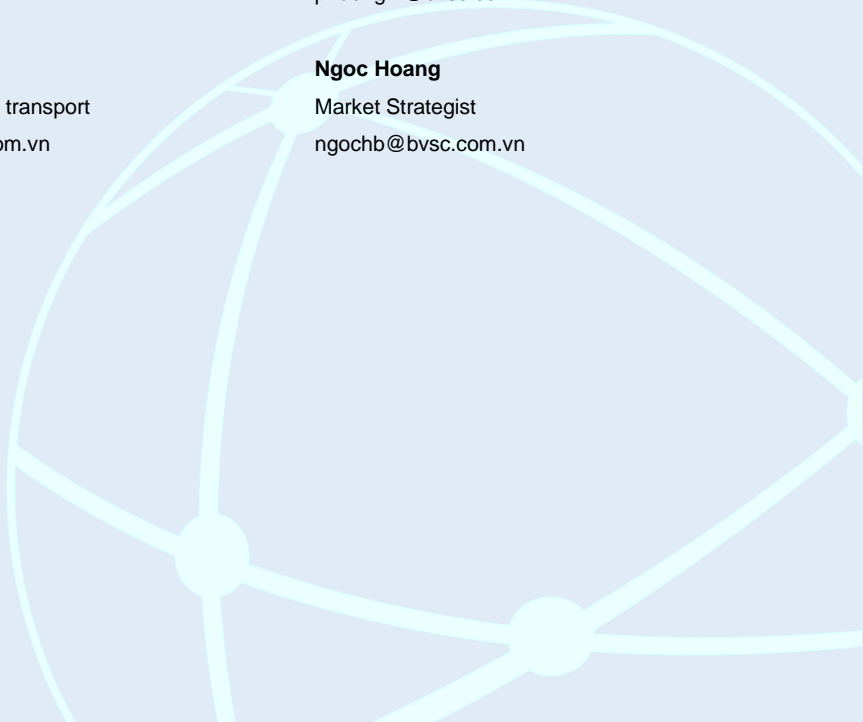
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