

Retail Sector

Update Report

September 2022

Ticker: MWG

Reuters: MWG.HM

Bloomberg: MWG VN Equity

Growth outlook intact on BHX's profitable turnaround

 Recommendation **OUTPERFORM**

 Target price (VND/Share) **109,799**

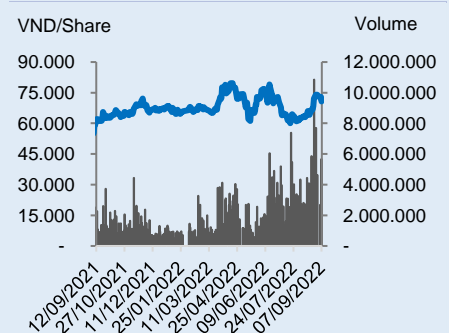
Market price (07/9/2022) 70,700

 Upside potential **55.3%**

SHARES INFORMATION

Trading exchange	HSX
52-week price range	54.830-79.640
Market cap	VND103,484 bn
Shares outstanding	1,463,709,630
10-day average volume	4,973,690
Foreign Ownership	49%
FOL	49%
Dividend per share	500
Dividend yield	0.7%
Beta	1.02

PRICE MOVEMENTS



	YTD	1M	3M	6M
MWG	3.2%	11.7%	-1.5%	8.7%
VNIndex	-18.5%	-1.2%	1.0%	-14.9%

Analyst

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Recently, MWG held its 2Q22 analyst meeting online, discussing on the following key topics: (1) BHX's progresses post restructure; (2) 2H22 outlook for each chain; and (3) BHX's upcoming spin-off. MWG also announced its Jul-22 top-line prelims.

Following the recent releasing of its audited 1H22 financial statements, we provide an in-depth analysis of 2Q22 results, while updating our estimates, rating and TP.

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

Unit: VND bn	2Q22	2Q21	y/y	6M22	6M21	y/y
Net sales	34,338	31,658	8.5%	70,804	62,487	13.3%
TGDD + DMX	26,985	24,237	11.3%	56,997	49,114	16.1%
BHX	6,762	7,421	-8.9%	12,816	13,372	-4.2%
Pretax profit	1,702	1,626	4.7%	3,705	3,454	7.3%
TGDD + DMX	2,832	2,049	38.2%	5,588	4,514	23.8%
BHX	-1,130	-423	167.2%	-1,883	-1,061	77.5%

Source: Company data; BVSC

Key highlights of 2Q22 and Jul-22 earnings results:

TGDD & DMX's 2Q22 pretax profit came in surprisingly strong, surging to the highest ever level at VND2,832 bn (+38.2% y/y; +2.8% q/q), despite off-peak season. The outperformance was spearheaded by its: (1) continued market share gains; and (2) stringent cost control, which greatly outweighed gross margin contraction.

BHX was undergoing its aggressive restructure (i.e., layout to standardize its format, and close inefficient stores) over 2Q22. Per our estimate, BHX incurred a sizable loss of VND1,130 bn, dampening the group's 2Q22 bottom-line.

- In which, write-off expenses from store closure are estimated at VND264 bn, while operating losses (i.e., include layout-related expenses) were VND866 bn vs VND759 in 1Q22.
- On bright side, BHX's Jun-22 sales remained robust at VND2.3 tn, flat m/m, despite 251 store cuts. 2Q22 gross margin stayed solid at 25%, unchanged q/q. More impressively, BHX's Jul-22 sales increased to VND2.35 tn, up 2.2% m/m, despite another c.150 store cut over the month.
- Driven by increases in traffic and basket size, sales per store had sustained m/m improvements YTD, reaching its year-end target at VND1.3 bn in Jul-22. While the trend is reportedly to maintain in Aug-22, the management is eyeing it to reach VND1.5 bn, up 50% YTD, within 4Q22.
- Excluding restructured expenses (i.e., closure- and layout-related expenses), we believe BHX's net margin had improved over time, which will reflect clearer in coming months, post restructure.

Strong earnings growth outlook for the latter half of the year

We are expecting TGDD & DMX to deliver stellar growth in 2H22, driven by: (1) this year's peak season, and (2) benefit from market consolidation for both TGDD and DMX. The turning around of BHX should complement 4Q22 bottom-line strongly.

We are now forecasting MWG's 3Q22 net profit to surge by 60.0% y/y to VND3,850 bn off a low base (i.e. impacted by extensive lockdowns), while anticipating 4Q22 net profit to reach all-time high on the turning around of BHX.

Peak season

3Q22 sales growth is fundamentally supported by q/q bounce-back in demands for ICT products, given the back-to-school season and consumers getting back from summer.

Meanwhile, 4Q this year looks special, as The lunar Tet of FY23 will come early in the third week of Jan-23. Furthermore, World Cup FY22 is also taking place from late Nov-22 to mid Dec-22. Therefore, we are expecting 4Q22 sales, especially Nov/Dec-22 sales season to be very strong, different from normal norm of Dec/Jan.

Well-positioned to ride on market consolidation

ICT market: We are expecting MWG to drive robust market share gains, substantially backed by Apple’s outperformance. This, in turn, means that we are expecting the company’s Apple market share to further widen from 30% currently.

- On supplier front, Apple had shown clear efforts, such as: (1) cut arrival time between Vietnam and higher-tier markets to 3 weeks from 2 months previously; and (2) further diversification its productions of some products to Vietnam. Hand-carried market (i.e., previously accounted for 50% of Vietnam’s Apple sales) is likely to see further narrowing, which should strongly benefit MWG.
- On retailer front, MWG looks well-prepared to claim further market share, eyeing to raise its TopZone’s store count from 50 currently to 100, together with upgrade of existing stores at TGDD and DMX before iPhone 14 launches. Accordingly, MWG is targeting its FY22 Apple sales to surge by 70.6% y/y to USD750 mn from VND425 mn in FY21, further jumping to USD1.0 bn in FY23.

CE market: DMX Supermini (DMS) is proving to approach customers at remote areas, evidenced by surging sales in 1H22, up 91.3% y/y vs 13.7% y/y of total DMX.

Not only should DMS help DMX to consolidate CE market, but it also strengthens DMX’s margin, on its larger contribution of high-margin appliances, in our view.

Figure 2: Our FY22-23 earnings forecasts for TGDD & DMX:

Unit: VND bn	FY21	FY22F	y/y	FY23F	y/y
Net sales	94,801	112,797	19.0%	117,293	4.0%
Net profit	5,909	8,233	39.3%	8,440	2.5%
Gross margin %	21.1%	21.3%	0.2 ppt	21.0%	-0.3 ppt
OpEx as % of net sales	13.9%	12.2%	-1.7 ppt	12.8%	0.6 ppt

Source: Company data; BVSC forecasts

BHX’s profitable turnaround, becoming the group’s key driver

We are expecting BHX to see a profitable turnaround in 4Q22, post restructure. This implies that BHX will be the group’s strong growth driver from FY23 onwards.

Moving into optimisation phase, we expect:

- sales/ store to see further improvements, driven by increases in both traffic and basket size.
- gross margin should also improve sharply post restructure, bolstered by: (1) the disruption of inventory clearance, and disruption from relayout activities; (2) higher bargaining power against suppliers, on a more condensed portfolio of SKUs; and (3) Waste reduction and discounts on better forecast accuracy.
- better OpEx control, mainly as a result of: (1) the cut of low-efficient stores; (2) increasing employee productivity; and (3) rising contribution from online sales.

Figure 3: Our FY22-23 earnings forecasts for BHX: Snapshot

Unit: VND bn	FY21	FY22F	y/y	FY23F	y/y
Net sales	28,157	27,974	-0.6%	31,933	14.2%
Net profit/ (loss)	-1,011	-2,233	120.9%	484	Turnaround
Store count	2,106	1,739	-17.4%	1,839	5.8%
Sales/ store (VND bn/ month)	1.20	1.34	11.4%	1.49	11.0%
Gross margin %	27.0%	26.4%	-0.6%	28.0%	1.6%
OpEx as % of net sales	30.6%	32.8%	2.2%	26.4%	-6.4%

Source: Company data; BVSC forecasts

Our forecasts suggest FY21-23 net profit CAGR of 35%

For the group as a whole, we kept our FY22 net profit forecast largely unchanged at VND6,424 bn, up 31.1% y/y. Supported strongly by BHX’s profitable turnaround, we introduce our FY23 net profit forecast to jump by 35.8% y/y to VND8,722 bn.

Figure 4: Our FY22-23 earnings forecasts for MWG: Snapshot

Unit: VND bn	FY21	FY22F	y/y	FY23F	y/y
Net sales	122.958	140.771	14,5%	149.226	6,0%
TGDD & DMX	94.801	112.797	19,0%	117.293	4,0%
BHX	28.157	27.974	-0,6%	31.933	14,2%
Net profit	4.899	6.424	31,1%	8.924	38,9%
TGDD & DMX	5.909	8.233	39,3%	8.440	2,5%
BHX	-1.011	-2.233	120,9%	484	Turnaround

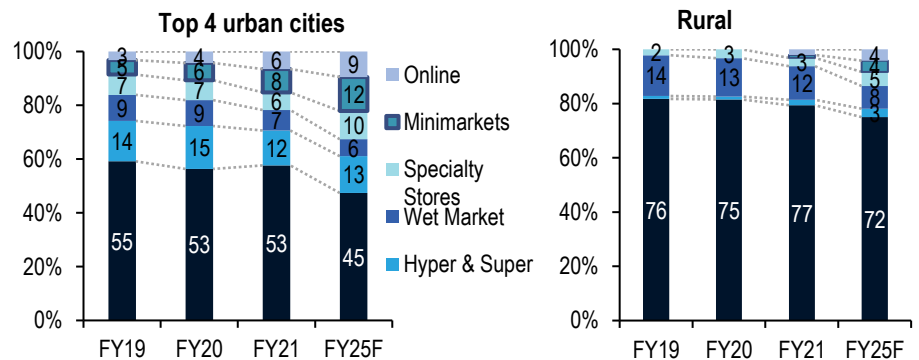
Source: Company data; BVSC forecasts

A longer-term story ahead: Structural shift towards modern grocery...

EuroMonitor estimates Vietnam’s grocery market size at USD65 bn (VND1,500 tn), dominated by traditional grocery (92%), while modern groceries have proved to win market share.

In the urban, Kantar forecasts Vietnam’s minimart and online sales channels to claim further market share to 12%/ 9% by end-FY25 from 8%/ 5% currently, propelled by: (1) Vietnamese consumers’ busier lifestyle, and (2) convenience factor. This is, of course, at the expense of market share losses from other channels. The trend is forecast to be similar for rural area.

Figure 5: The trend of shifting toward modern grocery and online to persist:



Source: Kantar Vietnam Insight Collection 2022; Unit: %

... where BHX appears to be the big winner

BHX appears to be the big winner in the longer-term story of Vietnam’s grocery market. Understanding consumer demand, BHX had restructured itself, changing from a “modern” market to minimart format.

As such, BHX is now targeting to serve customers spending 15 mins shopping for their daily routine. BHX’s distinctive offerings, including: convenient locations, direct parking slot in front of stores, and superior customer services (i.e. staff consultancy).

Figure 6: How BHX’s minimart formats differentiate itself against others?

	Minimart	Supermarket	Convenient store (CS)
Basket	Daily routine	Weekly routine	Quick purpose
Sales area & capital required	200-500 sqm Low capex: VND2-3 bn/ store	1,000-3,000 sq m Capital intensive format	100-150 sq m Capital light format
Location	<ul style="list-style-type: none"> in densely populated areas near to wet markets 	inner cities	
Number of SKUs	4,000-5,000	10,000-15,000	800-1,000
Time spending	15 mins	60-70 mins	5 mins
Value proposition	<ul style="list-style-type: none"> more convenient locations (vs supermarkets) direct parking space in front of stores fresh food offerings (vs CSs) can shop almost everything at one place (vs wet markets: visit different mom & pop shops) 	<ul style="list-style-type: none"> Convenience (vs Hypermarket) High quality, imported products, fresh grocery and deeper product categories 	<ul style="list-style-type: none"> competing against mom & pop shops convenient locations

Source: BVSC Research

Valuation summary:

We lift our target price (TP) for MWG by 18.8% to VND109,799/share (from VND92,400/share previously). This was mainly as a result of:

- The rolling over of our valuation to mid-FY23.
- The using of higher target P/S for BHX to 1.4x from 1.2x previously. This is to reflect its: (1) likely turnaround in near-term; (2) promising growth potential, benefitting from the structural shift towards modern groceries; and (3) private placement to strengthen its financial position and transparency.

These factors should promote BHX’s valuation re-rating strongly, in our view.

- We keep unchanged our target P/E for TGDD and DMX at 14.0x, on the back of its market-leading position and cash-cow businesses.

Figure 7: Our valuation arrived at a TP of VND109,799/share (Upside: 55%)

	FY22	FY23	Average	Multiple target	Results
TGDD & DMX's profit/share	5,775	5,847	5,811	14.0x	81,356
BHX's net sales/share	19,622	21,010	20,316	1.4x	28,443
Target price (VND/share)					109,799
Current price (VND/share)					70,700
Upside					55.3%

Source: BVSC

Figure 8: Sensitivity analysis, using different target P/S to value BHX, all else unchanged:

Target P/S	1.0x	1.2x	1.4x Base case	2.0x	3.0x
BHX	20,316	24,379	28,443	40,632	60,948
Target price	101,672	105,735	109,799	121,988	142,304
Upside	43.8%	49.6%	55.3%	72.5%	101.3%

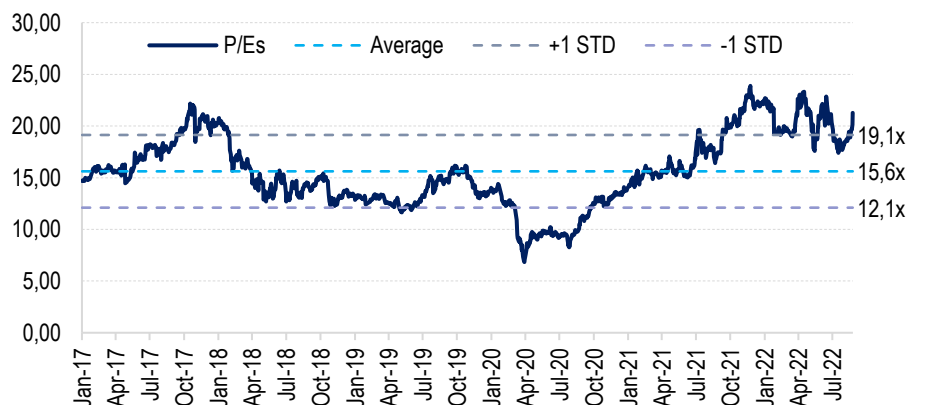
Source: BVSC

Stay Outperform at TP of VND109,799/share (Upside: 55%)

At the current price, MWG is trading at P/Es of 11.6x (FY23) and 13.9x (1-year rolling forward to mid-FY23), which we find attractive vs 15.6x of its past 5-year average and strong growth outlook on BHX’s turnaround and TGDD & DMX’s cash-cow businesses.

In longer-term, we like MWG on its: (1) competitive positioning, allowing it to be the key beneficiary from the growing consolidation of Vietnam’s ICT and CE markets; and (2) the likely winner from structural shift towards modern grocery in Vietnam’s large-scale grocery market. Maintain Outperform with a TP of VND109,799/share (Upside: 55%).

Figure 9: MWG’s 5-year P/E movements:



Source: FiinPro; BVSC

DISCLAIMER

I, **Manh Tran**, confirm that I am totally honest and have no personal motivation in making this report. All information in this report has been verified carefully and is deemed the most reliable; however, I shall take no responsibility regarding the information's accuracy and completeness. Viewpoints, comments, and assessments in this report are of **my** personal opinions with no purpose of advising the readers to buy, sell or hold any securities. This report only provides information; readers should only use this analysis report as a reference source. **Bao Viet Securities Joint-stock Company (BVSC)** and I shall take no responsibilities to investors and subjects mentioned in this report for losses incurring during investments or incorrect information about the enterprise.

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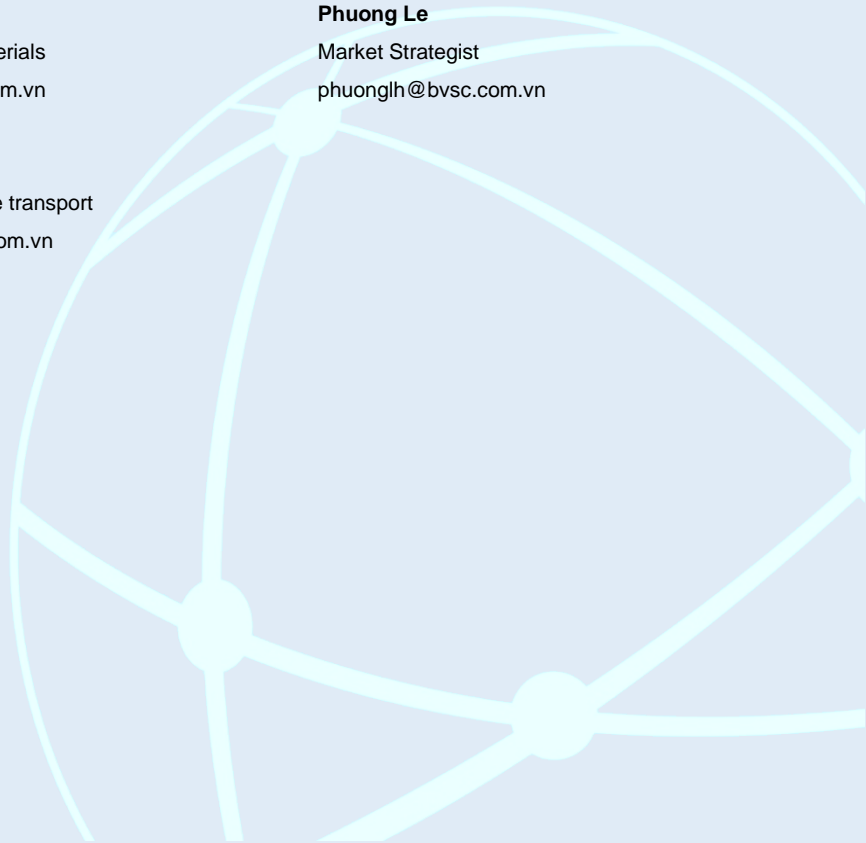
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