

DIGIWORLD CORP - DGW

Add

Get ready for new consumption cycle

CONSUMER GOODS | Initiation

Target price (12M)
VND44,400

Consensus*: Add:0 Hold:0 Reduce:0

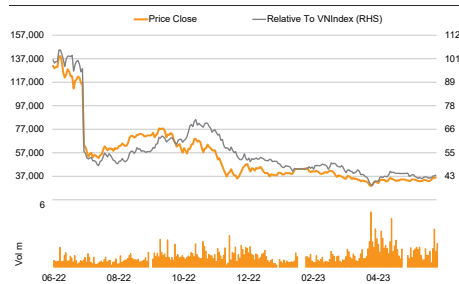
Target price / Consensus: na%

Key changes in the report

➤ N/a

Current price	VND36,200
52w high (VND)	139,200
52w low (VND)	28,700
3m Avg daily value (VNDmn)	52,657
Market cap (VNDbn)	5,914
Free float	66%
Dividend yield	1.57%
TTM P/E (x)	8.63
Current P/B (x)	2.47

Price performance



Source: VNDIRECT RESEARCH

Ownership

Created Future Co.,Ltd.	33.6%
Others	66.4%

Source: VNDIRECT RESEARCH

Analyst(s):



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- DGW is one of market leaders in ICT product distribution with more than 6,000 points of sale (POS) in Vietnam.
- FY23F net profit is expected to drop 28.8% yoy following weak domestic demand but will get back to 23.3% growth p.a over FY24-26F.
- Initiate coverage with ADD rating and TP of VND44,400.

One of largest ICT distributors with fast growth rate in the past 3 years

DGW has embarked a strong growth trajectory with FY18-22 CAGR of 38.6% in revenue to become the leading ICT distributor, followed by FPT Synnex and PET. Currently, DGW has the largest POS with 6,000 (PET:1,700; FPT Synnex: 3,800) to be the biggest Xiaomi distributor in Vietnam (~80% market share of Xiaomi products) and one of authorized distributor of Apple products.

Growing along with emerging trends in Vietnam's consumption

With a population exceeding 100m and a youthful demographic where 70% is under 35 years of age, the nation's technologically adept populace coupled with the upswing of e-commerce and the expansion of the middle class, are stimulating the demand of wide range products from consumer electronic to home appliance to maintain a sustainable growth from 6%-10% p.a from 2023-26F based on Euromonitor report. In light of this, suppliers such as DGW, which can offer a comprehensive range of distribution services, including market research and after-sales services, proved by building Xiaomi brand from zero to Top-3 in the VN smartphone market are poised to achieve success within this burgeoning market.

Poised for recovery in FY24-26F after challenging FY23F

DGW is facing a challenging year in FY23F due to the decrease in people's spending and tightening consumer finance in the non-essential product. We estimate DGW's revenue/net profit will drop by 2.8%/28.9% yoy in FY23F, before returning to a growth cycle in FY24F. For FY24-26F, as ICT demand recover from the fall in FY23F, especially in Xiaomi and Apple products, combine with DGW's expansion into other business segments, such as home appliance products (Whirlpool, Xiaomi...), consumer goods (beverage), and industrial equipment through M&A Achison, will help DGW's revenue growth can reach 11.9% p.a in FY24-26F, delivering NP growth at 23.3% p.a in the same period.

Recommend ADD rating with target price of VND44,400

We initiate coverage DGW with ADD rating with target price of VND44,400, based on an equal combination of 10-year DCF and target FY23-24F P/E of 12.0x. We believe the current price - equivalent to PE FY23-24F of 10.0x is a good opportunity to bottom fishing for a new up cycle. Potential re-rating catalysts include 1) a higher-than-expected demand of ICT products, especially Xiaomi or Apple and 2) better-than-expected brands expansion. Downside risks to our call are 1) lower demand of ICT products 2) lower-than-expected brands expansion and 3) terminal of distribution brands, especially Xiaomi or Apple.

Financial summary (VND)	12-22A	12-23E	12-24E	12-25E
Net revenue (bn)	22,059	21,440	24,431	26,879
Revenue growth	5.2%	(2.8%)	14.0%	10.0%
Gross margin	7.5%	6.7%	7.1%	7.5%
EBITDA margin	3.9%	2.9%	3.5%	3.8%
Net profit (bn)	684	486	690	825
Net profit growth	4.0%	(28.9%)	41.9%	19.6%
Recurring profit growth				
Basic EPS	4,193	2,981	4,231	5,060
Adjusted EPS	4,193	2,981	4,231	5,060
BVPS	14,683	17,668	21,904	26,970
ROAE	32.7%	18.4%	21.4%	20.7%

Source: VNDIRECT RESEARCH

Get ready for new consumption cycle

Investment thesis

We like DGW for:

- Vietnam's consumer market is a potential market in the coming period thanks to 1) population exceeding 100m and a youthful demographic where 70% is under 35 years of age, 2) the nation's technologically adept populace coupled with the upswing of e-commerce and 3) the expansion of the middle class, is stimulating the demand of wide range products from consumer electronic to home appliance. According to Euromonitor, these factors are expected to fuel sustainable annual growth rates of 6%-10% from 2023-26F in consumer electronic and home appliance. Therefore DGW, which specialize in the distribution of consumer electronics and home appliances, are expected to enjoy a healthy growth in coming years, notwithstanding any adverse macroeconomic fluctuations headwind that made negative impact to DGW's performance in FY23F.
- DGW has built a strong distribution network with a leading market share of ICT in terms of revenue. The company recorded outstanding growth in revenue and net profit in the past 5 years, reaching a CAGR of 38.6%/57.6%. In the last 2 years, DGW has contracted to distribute many potential brands products, such as Apple (since the end 2020), Whirlpool and Joyong in home appliance products, consumer goods with ABInBev and industrial equipment by M&A Achison. They will be the growth catalyst for DGW in the next phase of Vietnam consumption. We estimate DGW's top-line/bottom-line to maintain a strong growth in FY24-26F at 11.9%/23.3% p.a after a hard drawdown in FY23F.
- We believe that the headwind of consumer sector since 4Q22 has been reflected in the price of DGW with a discount of nearly 60% since peaking in April 2022. With current price of VND36,200 per share, equivalent to P/E 2023-24F of 10.0x times is a good change to bottom fishing for a new consumption cycle from 2024F.

We initiate coverage DGW with ADD rating. Our TP for DGW is VND44,400, which is based on an equal combination of 10-year DCF valuation and target FY23-24F P/E of 12.0x. Our assumptions are Rfr = 4% and WACC = 11.9%.

Figure 1: P/E ratio of DGW from 2018 - 2023



Source: VNDIRECT RESEARCH

Potential re-rating catalysts include 1) a higher-than-expected demand of ICT products, especially Xiaomi or Apple or laptop&tablet and 2) better-than-expected brands expansion, which can find a good brand like Xiaomi and Apple.

Downside risks include 1) lower demand of ICT products 2) lower-than-expected brands expansion and 3) terminal of distribution brands, especially Xiaomi or Apple.

Investment risks

- We believe that the biggest risk to DGW's distribution activities is the distribution contracts with brands, such as the loss of Xiaomi's monopoly position since Jan 22 has caused Xiaomi's growth expectations slow down. Therefore, any termination of distribution contract or change of distribution terms that reduce benefits for DGW is the operating risk of the company.
- Global macro factors affecting DGW's product supply chain such as conflicts causing broken logistics, lack of chips due to changes in international policies causing scarce goods or a new recession that causes a large reduction in ICT demand will have a significant impact on DGW's business performance.

Figure 2: Valuation summary

Methodology	Price	Weight	Weighted Value
DCF Valuation	45,422	50%	22,711
P/E Valuation	43,331	50%	21,665
Target price			44,400

Source: VNDIRECT RESEARCH

Figure 3: Valuation: Multiples (P/E)

Average 2023F-24F NPAT attribute to common share holder (VNDbn)	589
2023-24F No. of outstanding share (m)	163.075474
EPS 2023-24F	3,610.9
Target PE (x)	12.0
Implied price 2023	43,331

Source: VNDIRECT RESEARCH

Figure 4: Valuation: DCF

DCF Method	Amount
PV of FCFF (VNDbn)	4,514
Present value of terminal value (VNDbn)	3,981
Implied equity value (VNDbn)	-
Enterprise value (VNDbn)	8,495
Less: Total debt (VNDbn)	1,915
Less: Preferred securities (VNDbn)	-
Less: Noncontrolling interest (VNDbn)	(0)
Plus: Cash and Cash Equivalents (VNDbn)	828
	-
Implied equity value (VNDbn)	7,407
Outstanding shares (m)	163,075,474
Equity value per share (VND)	45,422

Source: VNDIRECT RESEARCH

Figure 5: Peer comparison

Company	Ticker	Recomm.	Price		Mkt cap	P/E (x)		3-year EPS		P/B (x)		ROA (%)		ROE (%)	
			LC\$	LC\$		US\$m	TTM	FY23F	CAGR (%)	Current	FY23F	TTM	FY23F	TTM	FY23F
Mobile World Investment Corp	MWG VN	ADD	39,300	61,500	2,448	22.3	11.4	0.2	2.49	2.04	4.6	8.4	11.7	18.3	
FPT DIGITAL RETAIL JSC	FRT VN	na	64,900	na	327	35.4	18.5	636.7	3.90	2.77	2.2	3.7	11.5	14.1	
Petrosetco Corp	PET VN	na	26,200	na	110	26.3	N/a	16.5	1.38	N/a	0.8	N/a	4.3	N/a	
Average						28.0	14.9	217.8	2.59	2.41	2.5	6.0	9.2	16.2	
Digiworld Corp	DGW VN	ADD	36,200	44,400	258	11.0	7.2	66.4	2.46	1.34	8.8	7.9	24.7	18.4	

Data as at 02 Jun 2022

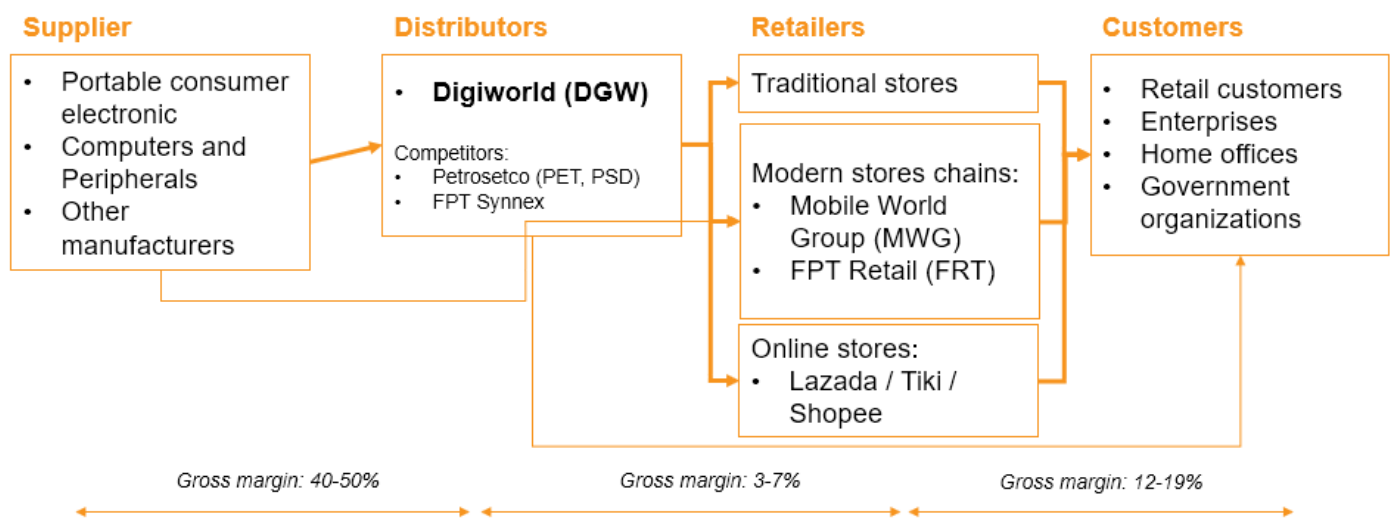
Source: VNDIRECT RESEARCH, Bloomberg

Two decades to become largest ICT distributors

Two decades of development with “Market expansion services – MES”

DGW is a distribution company established in 1997 and listed on the Ho Chi Minh Stock Exchange in 2015. Currently, DGW is distributing products in the fields of ICT (laptop & tablet, mobile phone), office equipment and consumer goods with major global brands. DGW currently distributes more than 30 brands, such as Xiaomi and Apple in the mobile phones segment, HP & Asus in the Laptop & tablet segment or Logitech in the Office equipment segment.

Figure 6: DGW's value chain



Source: VNDIRECT RESEARCH, Company reports

DGW provides a full range of distribution services, called MES (Market Expansion Services) for brands, with 5 services from market research, distribution, marketing & sales, E-Commerce to after-sales. To put it more simply, DGW provides a more complete and quality service than other distributors in the same industry such as PET, FPT Synnex provides services at the distribution stage (including import, storage and distribution stages), while DGW also provides additional services include market analysis, forecasting as well as brand development strategy services in Vietnam. As a result, DGW increases its connection to manufacturers and retailers to make their role is more important in the electronics distribution value chain by fully captures the demand between production and consumption.

Currently, DGW is implementing MES for about 40% of the contracts that DGW has signed. With the MES service, DGW can attract and expand new customer files and create loyalty from these customers when they want to enter the Viet Nam market, creating added value for DGW towards new customers.

The success story of MES is Xiaomi, which DGW has provided MES services for Xiaomi and build distribution network for Xiaomi from zero to Top-3 in market share of smart phone in Vietnam which about 15% market share in 2022.

Figure 7: DGW's Market expansion services - MES

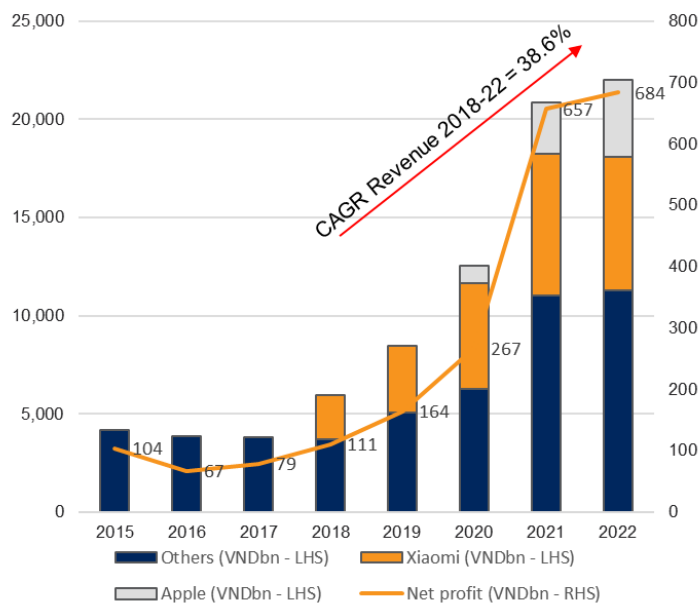


Source: VNDIRECT RESEARCH, Company reports

DGW is the largest ICT distributor in revenue and distribution network

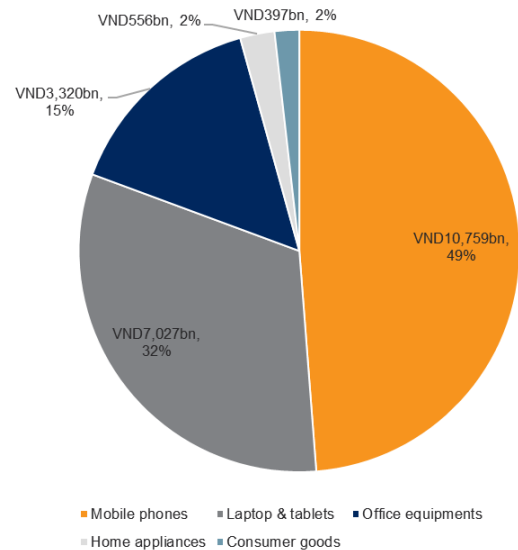
DGW posted a strong growth in FY18-22 revenue with CAGR 38.6% to reach VND22,107bn in FY22. This strong growth of revenue is mainly thanks to the growth of Xiaomi smart phones in the same period, which posted a CAGR of about 43.2% and contributed 30.1% in DGW's 2022 revenue. Besides, with the contract to distribute Apple products from 2020, Apple's revenue starts to contribute 12.7%/17.8% to the total DGW revenue in 2021/2022. In addition, with the demand for laptops & tablets growing in the period affected by Covid. - 19, laptop & tablet revenue also achieved a CAGR of 29.1% in FY18-22F to contribute 25.6% of total DGW revenue in 2021. DGW's bottom-line also posted a CAGR of 57.6% in the period from 2018 – 2022.

Figure 8: DGW's revenue and net profit from 2015 – 2022



Source: VNDIRECT RESEARCH, COMPANY REPORTS

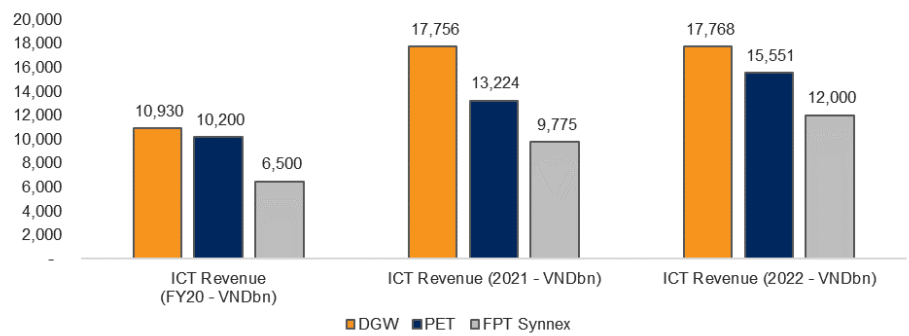
Figure 9: DGW's revenue breakdown by business in 2022



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Thanks to the strong growth in the past 4 years, DGW has become the leader in the distribution of ICT (Information & Communication Technologies products such as phones, laptops, tablets) in Vietnam in terms of revenue. According to our estimates, with DGW's ICT revenue reaching VND17,756bn in 2021 and VND9,965bn in 1H22, DGW has had higher ICT revenue than other distribution companies in the industry including PET, Synnex FPT with ICT revenue in 2021 at about VND13,224bn and VND9,775bn, respectively.

Figure 10: ICT revenue of DGW, PET and FPT Synnex in 2020/22 (VNDbn – per our estimation)



Source: VNDIRECT RESEARCH, Company reports

Besides revenue size, DGW also owns the largest distribution chain when compared to the above ICT distribution companies with DGW's leading position is its network of about 6,000 points-of-sale (POS) vs PET's 1,700 POS and Synnex FPT's 3,800 POS.

Figure 11: Business comparison of ICT distribution/retail companies

	Revenue (FY20 - VNDbn)	Revenue (2021 - VNDbn)	Revenue (2022 - VNDbn)	Points of sale	Revenue by segment	Services	Number of distributed brands
Distributors							
DGW	12,709	21,303	22,107	6,000	49% mobilephones 32% from laptop and tablet 15% from home and office equipments	Traditional distribution MES - Market Expansion Service	30+
PET	13,666	17,921	17,665	1,700	88% from ICT equipments	Traditional distribution	22
FPT Synnex	13,110	19,550	24,000	3,800	50% from ICT equipments	Traditional distribution	51
Retailers							
MWG	108,546	124,142	133,405	3,374	26% from mobilephones 51.7% from CE equipments	Modern retail chain	
FRT	14,661	22,620	4,100	937	69% from ICT equipments	Modern retail chain	

Source: VNDIRECT RESEARCH, Company reports

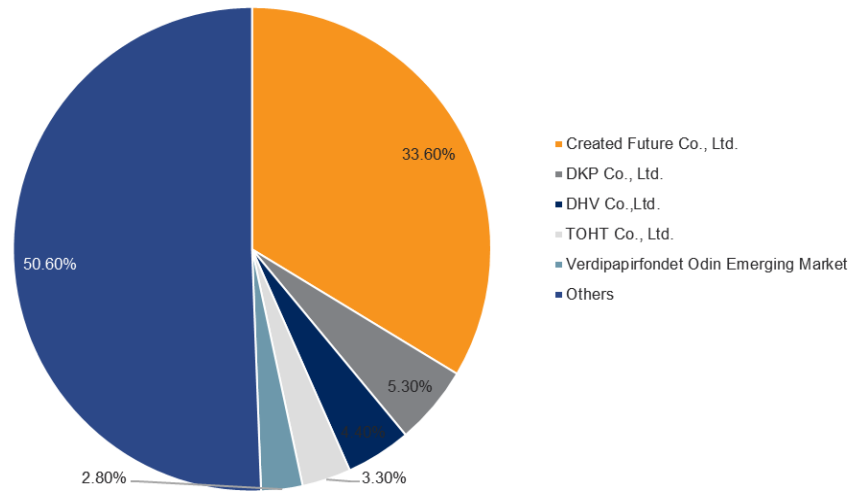
Strong commitment from the management team of DGW

CEO Doan Hong Viet has been the principal of DGW since its founding and remains the company's biggest shareholder. The management team own 46.6% of DGW and this stake has remained almost unchanged since DGW listed. This owning structure makes a strong commitment of DGW's management as it can tie their benefit with DGW's results in terms of operating and share price.

Moreover, this owning structure also give DGW's management more power in decision making than other leading distributors which are member companies of big conglomerates making their decision affected by parent company (i.e. Synnex FPT is an associate company of FPT Corporation and Synnex Corporation; PET is a member of Vietnam Oil and Gas Group (PetroVietnam) which owns 23% of PET).

Major insider shareholders include Created Future Limited (CEO's holding company), DKP Co., Ltd (Dang Kien Phuong – Chairwoman cum Deputy CEO), DHV Co., Ltd. (Doan Hong Viet - CEO), TOHT Co., Ltd. (To Hong Trang – Deputy CEO and the CEO's wife), helping DGW's growth momentum be associated with the interests of the BOD, is a strong point for DGW to maintain its revenue and profit growth in the next period.

Figure 12: DGW's shareholders structure (as of end 2022)



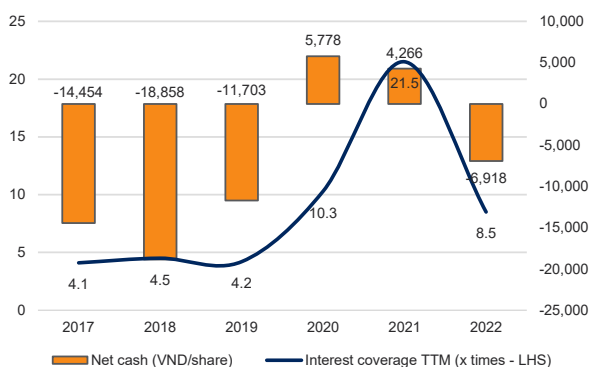
Source: VNDIRECT RESEARCH, Company reports

Risks rising in balance sheet with strong net debt followed strong expansion recently

DGW maintains a stable leverage ratio during the period from 2019 to 2021 with D/E ratio around 0.5x – 0.7x with a strong interest coverage ratio, reached 21.5x times in 2021. However, DGW has increased short-term loans (+71% yoy at end-22) to finance business operations with an increase in inventory by 12.7% yoy at end-22 despite facing declining demand of ICT products. As a result, interest coverage drops from 21.5x at end-21 to 8.5x at end-22.

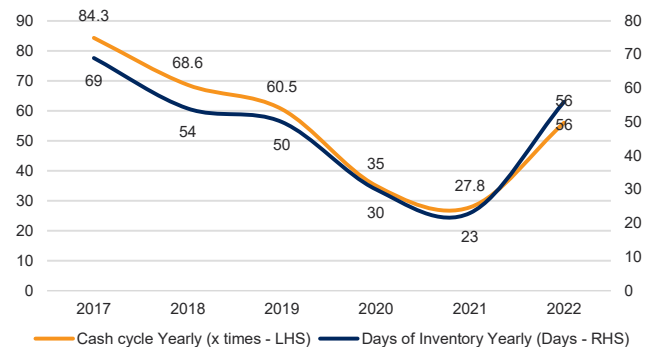
With the continuous increase in inventory in 2021-22, days of inventory and cash cycle increased from 23 to 56 days of inventory and 27.8 to 56 days of cash cycle from 2021 – 2022, showed a risk rising in leverage structure and inventory management in the content of high interest rates and weak market demand.

Figure 13: DGW's net cash and interest coverage from 2017-2022



Source: VNDIRECT Research, company report, Dstock

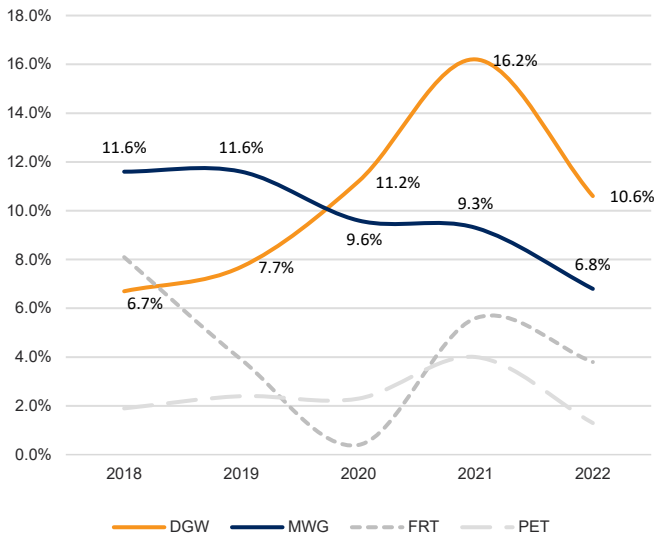
Figure 14: DGW's cash cycle and days of inventory from 2017-2022



Source: VNDIRECT Research, company report, Dstock

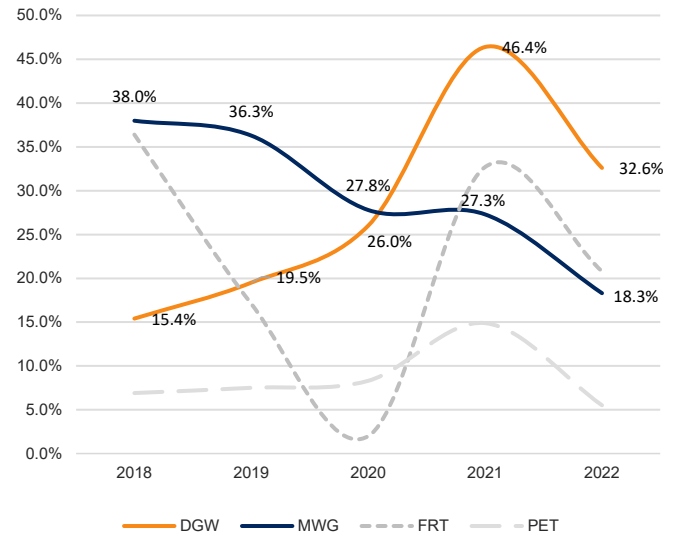
In terms of profitability, DGW's ROA and ROE are superior to other distributors and retailers in the market. In which, ROA in 2022 of DGW reached 10.6%, higher than MWG, FRT, PET at 6.8%, 3.8% and 1.3%. ROE 2022 of DGW reached 32.6%, compared to 20.8%, 18.3% and 5.5% of FRT, MWG and PET.

Figure 15: ROA of listed ICT distributors and retailers from 2018 – 22



Source: VNDIRECT Research, company report, Dstock

Figure 16: ROE of listed ICT distributors and retailers from 2018 –22



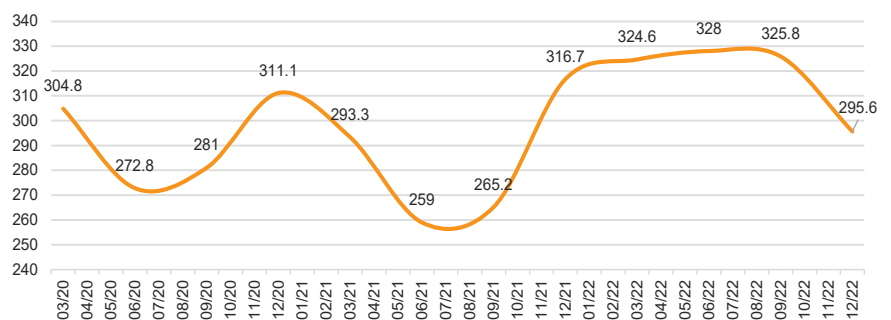
Source: VNDIRECT Research, company report, Dstock

2023F outlook: A hardship for all segment due to dent in consumption

FY23F is a difficult year for DGW as 1) people’s spending on non-essential products decrease, 2) tightening in consumer finance and 3) retail businesses prioritize reducing inventory to protect cash flow rather than increasing stocking products from distributors.

People’s income dropped since 4Q22 which decrease people’s spending on non-essential products: Based on data of International Data Corporation (IDC), global shipments of smartphones will decline 1.1% in 2023 to 1.19 billion units as market continues to suffer from weak demand and ongoing macroeconomic challenges. Global macroeconomic fluctuations as well as in Vietnam have also caused people’s income to decline in 4Q22, at 9% qoq and consumer confidence to decline in the context that macro fluctuations are still present, causing consumption of non-essential products as ICT declines.

Figure 17: Vietnam’s monthly earnings from 2020 to 2022 (Unit:US\$month)

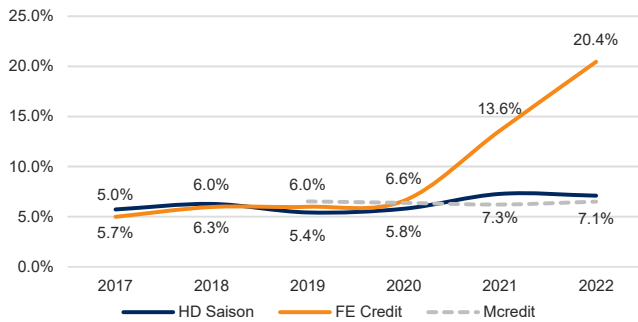


Source: VNDIRECT RESEARCH, CEIC, GSO

Tightening consumer finance make a strong impact on consumer’s budget: Vietnam consumer finance has grown strongly in 2020-21 with low interest rates and a resilient economy during the pandemic, with growth reaching 15.2% yoy and 32% yoy respectively in 2020/2021 to reach VND167,580bn at

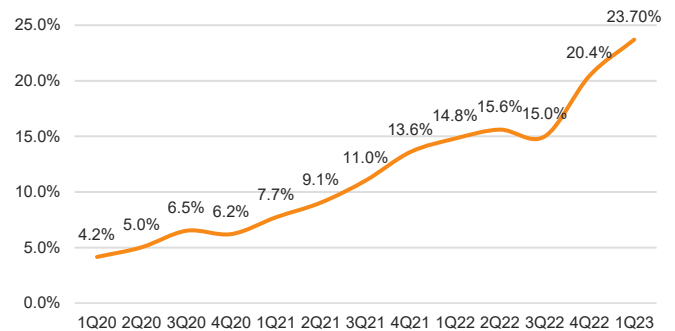
the end of 2021. The favorable growth in consumer credit partly reflects on the revenue growth of retailer and distributor company when people have more funding sources to spend. According to our estimates, about 30-40% of retail sales of large retail chains came from consumer finance in this period.

Figure 18: Yearly NPL ratio of Top-3 consumer finance company from 2017 - 2022



Source: VNDIRECT Research, company report

Figure 19: Quarterly NPL ratio of FE Credit from 2020 - 2022



Source: VNDIRECT Research, company report

However, this strong growth is accompanied by an increased risk of bad debt in the context that 1) people's income declines reduce their ability to repay debt and 2) some of consumer finance companies are investigated, causing the ability to claim debt more difficult. Thus, financial lenders will be stricter in approving new credit applications. According to the data we calculated, FE Credit, which holds the largest share of consumer credit lending in the market with 45%, had a sharp increase in bad debt ratio from 15% at the end of 3Q22 to 20.4% at the end of 4Q22. Therefore, for at least the next 6 months, the tightening of consumer finance will reduce the money flowing into consumption and make a negatively affect to revenue growth of distributors and retailers this year.

Retailer prioritize reducing their inventory to protect cash flow rather than increasing stocking products from distributors: In order to protect operating cash flow in declining consumption period, large retailers have focused on cost-effective management and reducing inventory, most notably MWG when they have continuously reduced their inventory since end-3Q22, reached -27% to only about VND21,267bn in end-1Q23, indicating that the demand for imports from distributors will continue to decline this year.

Therefore, DGW will face a strong headwind in FY23F to maintain its market share at the expense of a sharp decline in bottom line with a lower gross profit margin to support retail channels. We forecast DGW FY23F's revenue to drop by 2.7% yoy while net profit drop by 28.8% before returning to the growth cycle from FY24F.

Mobile phones: Growing despite saturated ICT market since 2024F

Despite showing signs of saturation, we expect the smart phone segment, which contributes nearly 50% of DGW's revenue in 2022, to continue to maintain its growth momentum since 2024F, after recovering from difficulties in FY23F.

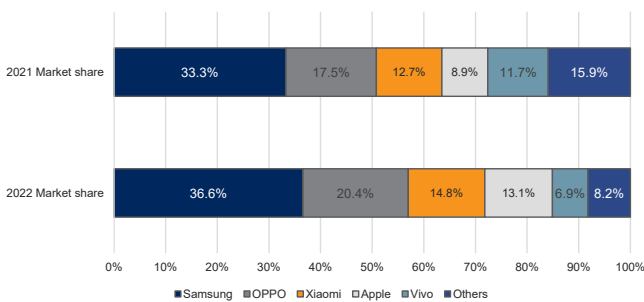
Based on data from Euromonitor, the annual growth of smart phones volume in Vietnam in 2023-27F fluctuates at only 0.1% - 2.1% yoy, showing the saturation in smart phones market. However, the total smartphone market value still maintained growth at 7.7% - 9.4% yoy in the same period, mainly thanks to the

increase in average price of smart phones to reach the total smart phones market size of VND182,162bn by 2027F.

Even though Vietnam's smart phones market value growth is in the sub-double digits, we see there is still some bright spots for DGW's growth in upcoming 5 years, coming from 1) a roadmap to turn off 2G and growth of 5G network to accelerate the transition from feature to smart phones, 2) the tightening of hand-carried goods to promote genius distributors like DGW, 3) High demand for high-ends smart phones which make a strong growth of Apple products and 4) the explosion of online entertainment and consumption to support DGW's main revenue brand: Xiaomi and Apple.

Roadmap to turn off 2G network and the growth of 5G network accelerates the transition from feature to smart phones. The Ministry of Information and Communications requested to stop 2G/3G technology from 2024. Currently, with 24m 2G subscribers using feature phones and assuming a shift to the mid to low-end smartphone segment (VND3-10m/unit), equivalent to a VND72tr size of market, will increase demand for mid- to low-end products and we think Xiaomi will be the largest beneficial. Therefore, with the transition from feature phones to smart phones, we believe that DGW will benefit the most as it holds a market share of more than 80% in the distribution of Xiaomi products in Vietnam.

Figure 20: Vietnam's mobile phone market share in 2021 and 2022



Source: VNDIRECT RESEARCH, Counterpoint

Figure 21: 5G map in ASEAN region



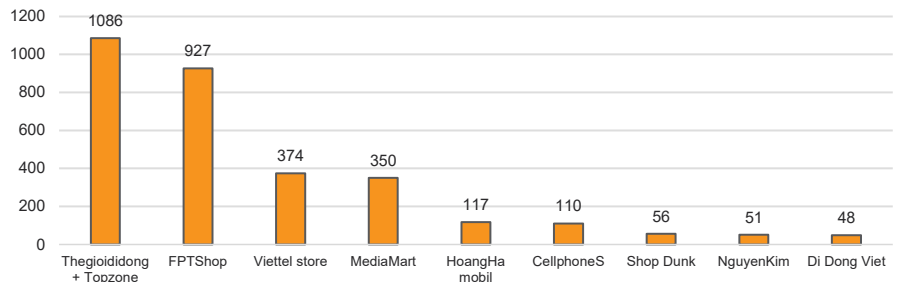
Source: VNDIRECT RESEARCH, Ookla

5G continues to grow and will account for 62% of smartphones shipped worldwide in 2023F, rising to 83% by 2027F, based on IDC forecast. According to data from Ookla, in the ASEAN region, the coverage of 5G broadcasting stations in Vietnam is lower than in other countries when there are only about 17 stations, compared to more than 1,600 stations in Thailand, 88 stations in the Philippines or 114 stations in Malaysia. Therefore, the next growth steps in 5G network infrastructure will be the growth engine for 5G smart phones sales in the coming period. Thus, this also support for sale of 5G smartphone in the next stage of Vietnam.

Restricting hand-carried goods gives genuine stores an advantage: Decree No. 98/2020/ND-CP of the Government tightens hand-carried goods into Vietnam, which will support genuine authorized distributors, in which more high-end products such as iPhone phones will be sold through authorized dealers to have better growth rate, when the demand focuses on the genuine channel. Therefore, retailers of iPhone products will maintain a strong growth momentum in the period 2023-24F when they can take market share from the hand-carried goods market, including Topzone and Thegioididong chains of MWG, FPTShop chain of FRT or Viettel stores, ... The retail growth of these chains will be the

growth engine for distributors of iPhone products, including DGW, PET or FPT Synnex during this period.

Figure 22: Number of retail stores by chains which distributed Apple iPhone as at end-2022

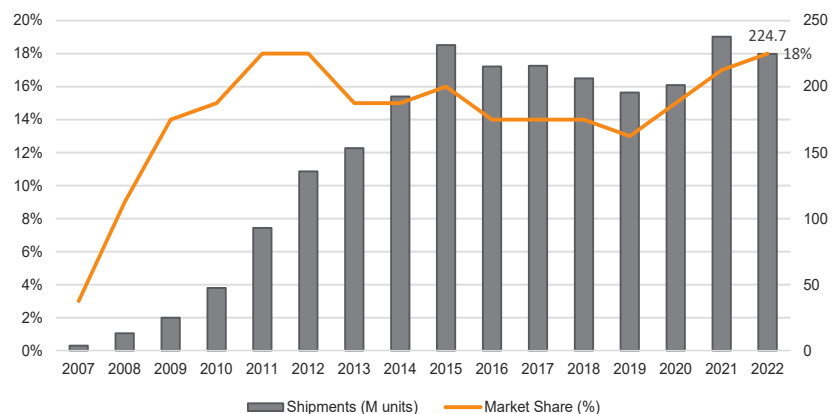


Source: VNDIRECT RESEARCH, Company websites

Premium products like Apple still in a good demand: During the pandemic period, the global shipment of Apple iPhone still maintained a growth momentum, especially in 2022 when the number reached 225 million units (-0.5% yoy) to reach a market share of 18%. We believe the growth of iPhone products will remain above the industry average thanks to a number of factors such as: 1) Apple has built a loyal customer base for its products to maintain a strong demand of new iPhone, 2) users of high-end products such as iPhones tend to have less income affected by the pandemic, and 3) Apple has more the ability to upgrade its products in design and features than other phone brands to boost their sales in the future.

In Vietnam, after starting to tighten hand-carried goods as well as higher demand for authorized iPhone products, iPhone market share reached 13.1% (+4.2 pts % yoy) and entered top 4 largest mobile phone market share in Vietnam in 2022.

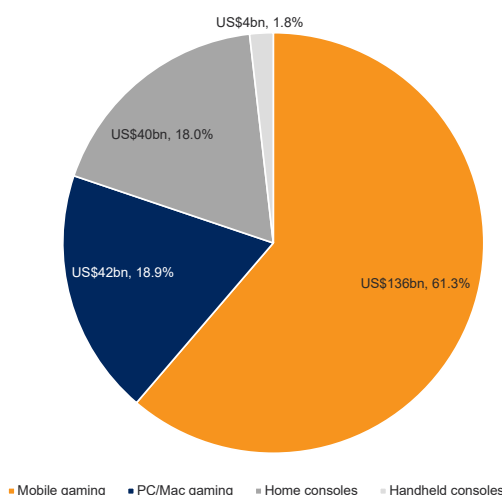
Figure 23: Shipment units and market share of Apple iPhone from 2007 – 2022



Source: VNDIRECT Research, Counterpoint

The explosive trend of mobile games increases the demand for mid-range phones with good configuration and long usage time: According to statistics of SLA Digital, the global gaming market size reaches US\$222bn in 2022, of which mobile gaming is the primary driver of growth for digital games consumption with a scale of about US\$136bn (61% in gaming spending in 2022). Therefore, with performance-oriented products to meet entertainment requirements through gaming as well as other entertainment services, we believe that Xiaomi products will benefit greatly in this trend.

Figure 24: Worldwide consumer spending on games by major device group in 2022



Source: VNDIRECT RESEARCH, SLA Digital

Although DGW is no longer the monopoly distributor of Xiaomi products in Vietnam since Jan 22, after FPT Synnex became the 2nd distributor of this brand, with current network and good service quality, we expect DGW to hold Xiaomi's market share of over 80% within the next 3 years. We estimate DGW's Xiaomi revenue will grow at 14.9% yoy in FY24F after a strong drop of 30.2% yoy in FY23F, then stay flat to FY26F, contribute 20%-22% to DGW's revenue in FY23-26F respectively.

For Apple products, with market share reached 13.1% (+23.6% yoy) in 2022 thanks to 1) large customer base and POS, and 2) genuine Apple products benefit from restriction of hand-carried products and tightening of origin requirements when warranting, we believe Apple revenue will be main driving force for DGW's growth in FY23-26F, at 14% p.a and contribute 22.4-23.6% in DGW's revenue, overpass Xiaomi's revenue. Thus, for smart phone revenue of DGW, we expect it can growth 8.6% p.a in FY24-26F period, mainly thank to growth of Apple revenue.

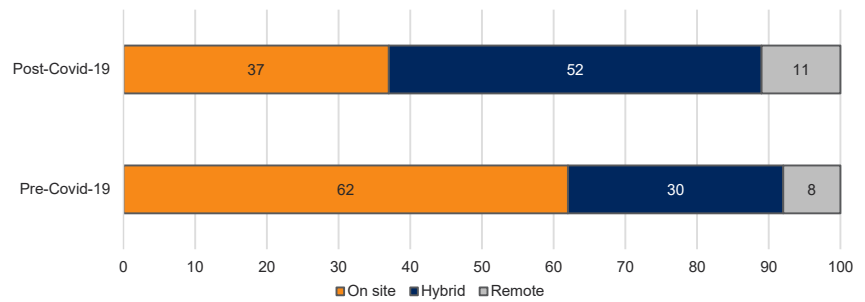
Laptop and tablet: Revenue record single digits growth from FY24F after falling in FY23F

According to 2019 Population and Housing Census by GSO, 91.9% of households using televisions; 91.7% of households use a phone (landline, mobile or tablet); 30.7% of households have computers (including desktops and laptops). Thus, the computer market still has room for growing.

We believe DGW's revenue of laptops & tablet segment can back to growth momentum since 2024F after a sharp drop of 22% in FY23F before growing 2-7.5% p.a from 2023-26F, contributing to about 22.6%-22.9% in DGW's revenue in the same period, per our estimation, thanks to 1) trend of working from home and changing working styles of employees in post-pandemic still be maintained and 2) demand for entertainment, especially for gaming is rising.

According to a survey by McKinney, the demand for remote work and hybrid work increased by 25% compared to before the epidemic redefining this trend, 52% of workers would prefer a more flexible working model post pandemic.

Figure 25: Pre-Covid-19 working models and desired post-Covid-19 working models (% , survey participants – n = 5,043)



Source: VNDIRECT RESEARCH, McKinsey

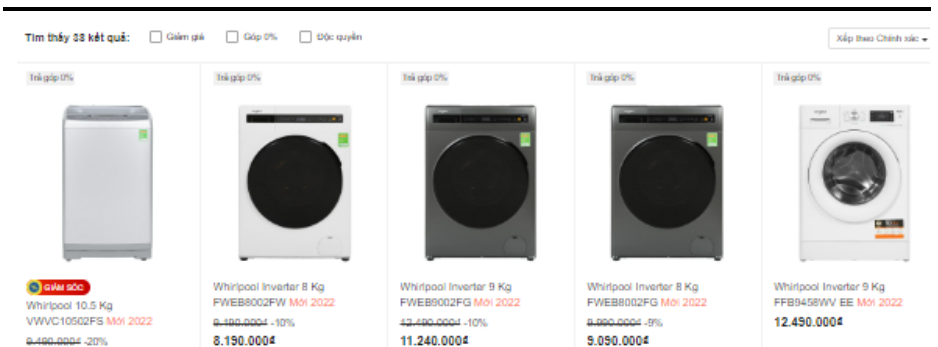
Others segments: Constantly expanding new brands and products

Basic living equipment are also used by the majority of households in 2019 increased significantly compared to 2009. The highest increase is the percentage of households using refrigerators, increased by 48.9% (in 2009: 31.6%, in 2019: 80.5%); followed by washing machines, increased by 37.3% (in 2009: 14.9%, in 2019: 52.2%) and air conditioners increased by 25.5% (in 2009: 5.9%, in 2019: 31.4%). The growth of these products creates opportunities for DGW to expand to new brands to expand their distribution markets.

Whirlpool: the new player in Vietnam home appliance market: Whirlpool is a famous American corporation founded in 1911 with a background and business experience in the home appliance industry for more than 110 years. Whirlpool Corporation manufactures and markets major home appliances. The Company provides home appliance products including laundry appliances, refrigeration, air conditioning equipment, cooking appliances, dishwashers, and mixers and other small household appliances. Whirlpool is the world's leading home appliance manufacturer with strong market positions in key countries including the U.S., Brazil, the U.K., Canada, Italy, France and Russia.

DGW signed a strategic cooperation agreement with Whirlpool Corporation, whereby DGW will become the exclusive partner to implement the MES (Market Expansion Services) for Whirlpool home appliances from the end of 2021 to penetrate Vietnam electronic market with the market size of about US\$2.4bn.

Figure 26: Some of Whirlpool products have been distributed to large scale retailer



Source: VNDIRECT RESEARCH, Dienmayxanh.com

In addition to the Whirlpool, DGW continues to develop the market for Xiaomi home products, notably the Xiaomi TV product launched since 2Q22 and is expected to contribute about more than 1% in total DGW revenue in FY23-24F. We expect DGW's home appliance revenue can make a growth of 33.8% in FY22-26F and contribute 4.3-5.8% to DGW's total revenue in the same period.

M&A with Achison to expand the distribution network to industrial equipment: At end-2022, DGW also completed the increase of ownership to 60% of Achison, a company specializing in the distribution of labor protection products and industrial equipment such as: protective uniforms, clean room equipment, grinding stone, cutting stone, polishing machine, etc. Given Vietnam's industrial development potential, coupled with an increasing demand for industrial equipment, we think this could be DGW's growth lever in the near future, when we estimate the growth rate. Achilles' revenue growth could reach 34.2% p.a in 2023-26F after DGW takeover, per our estimation.

Figure 27: Some of Achison products have been distributed



Source: VNDIRECT RESEARCH, Company report

Consumer products: Thai InBev is the new potential brand for DGW: In 2023, DGW entered the beverage industry with imported beer products from ABInBev group such as Budweiser, Corona, Beck, etc. With the strong post-pandemic recovery of the accommodation and food services sales in Vietnam grow by 52% yoy in 2022, we expect this consumer products segment of DGW to help increase consumer products revenue growth by 58% p.a to contribute from 2.8% - 4.9% of DGW's revenue in the period 2023-26F.

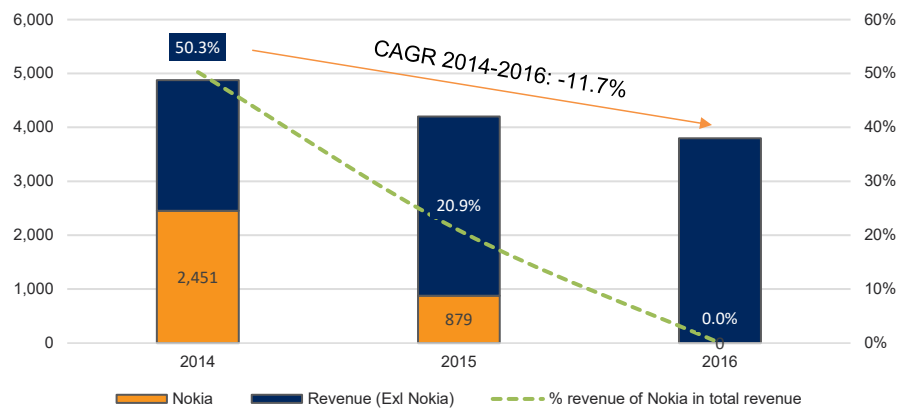
With the continuous expansion of distribution through new segments, DGW will be more diversified to reduce the risk of dependence on ICT distribution. At the results, we expect home appliances, consumer goods and industrial equipment revenue to increase the proportion of DGW's revenue in FY23-26F, increasing from 11.9% in FY23F to 17.6% in FY26F.

DGW's investment risks

Depending on the growth of big brands, there are many risks in case unexpected events appear: We believe that the biggest risk to DGW's distribution activities is the distribution contracts with brands, such as the loss of Xiaomi's monopoly position to FPT Synnex since Jan 22 has caused the Xiaomi's growth expectations slow down. Therefore, any termination of distribution contract or change of distribution terms that reduce benefits for DGW is the operating risk of the company. Moreover, we believe that DGW meets a strong pressure to maintain its leading position, revenue and services to continue maintaining the distribution relationship with Xiaomi. Thus, the risk of Xiaomi cutting services or continuing to expand their distributors will put pressure on DGW.

Besides, a case that DGW encountered in the period 2014-2016 was the event that Microsoft acquired Nokia and changed its sales strategy in Vietnam. As of 2014, Nokia's revenue accounted for 50.3% of DGW's total revenue and gradually decreased to 0% in 2016, causing DGW's total revenue to decrease by 11.7% CAGR during this period.

Figure 28: Nokia revenue of DGW from 2014 – 2016 (VNDbn)



Source: VNDIRECT Research, company reports

According to our estimates, in the period of 2022-24F, revenue of Xiaomi and Apple is contributing 20-25% each to total revenue of DGW and DGW still faces great risk when distribution contracts problems with these firms, although this risk is lower than in 2014-16. In the case of Xiaomi, according to our 2022 estimated data, 10% of Xiaomi's revenue will correspond to 2.6% of DGW's gross profit.

E-commerces or B2C distribution channels will reduce the growth of products distributed by DGW: We believe that although DGW is developing e-commerce sites for Xiaomi as a service in Xiaomi distribution activities in Vietnam, but if Xiaomi reduces these services, it will have a significant impact on DGW's business.

The ability to find a new strong brand like Xiaomi or Apple will be relatively difficult in the near future: In the past 5 years, it can be said that DGW's strong growth is supported by product quality and policies of Xiaomi; and for the next 3 years is Apple. Being able to find a similar "goose that lays golden eggs" to create a new revenue spike is quite challenging for DGW as almost of global strong brands already developed in Vietnam.

1Q23 results and earnings forecasts

1Q23 revenue decreased 43.5% yoy to VND3,960bn follow the 1) the reduction of consumer spending as lower people income follow a strong macro volatility in global and Vietnam, 2) high base from 1Q22 due to high season after pandemic and 3) the tightening in consumer finance also hit the demand of ICT's products.

- In which, Laptop&tablet and Mobile phones revenue decreased by 51% yoy to VND1,094bn and VND1,899bn respectively, reflecting strong slumping demand of ICT segment.
- Office equipment revenue decreased slightly by 8% yoy.
- Home appliances revenue increased sharply, reaching 158% yoy to VND165bn thanks to the distribution of new products from Whirlpool, Xiaomi TVs since the end of 2022.

Net financial income decreased 82% yoy to VND10.4bn follow the rising in interest rate while short-term debt increased 13% yoy to VND1,979bn in 1Q23.

As the results, 1Q23 net profit of DGW reached VND79.4bn, -62.3% yoy, likely reached bottom in net profit, per our estimation.

Figure 29: 1Q23 results comparison

(VNDbn)	1Q22	1Q23	%yoy	4Q22	%qoq
Revenue	7,008.70	3,959.93	-43.5%	4,075.12	-2.8%
COGS	-6,542.25	-3,699.19	-43.5%	-3,605.30	2.6%
Gross profit	466.45	260.73	-44.1%	469.82	-44.5%
<i>Gross margin</i>	6.7%	6.6%	-0.1 pts %	11.5%	-4.9 pts %
Net financial income	57.89	10.43	-82.0%	-5.62	-285.6%
Selling expenses	-231.97	-118.38	-49.0%	-223.22	-47.0%
G&A expenses	-24.71	-45.55	84.3%	-40.24	13.2%
SG&A expenses	-256.68	-163.93	-36.1%	-263.46	-37.8%
<i>Selling expenses / Revenue</i>	-3.3%	-3.0%	0.3 pts %	-5.5%	2.5 pts %
<i>G&A expenses / Revenue</i>	-0.4%	-1.2%	-0.8 pts %	-1.0%	-0.2 pts %
<i>SG&A expenses / Revenue</i>	-3.7%	-4.1%	-0.4 pts %	-6.5%	2.4 pts %
Operating profit	266.00	105.05	-60.5%	200.04	-47.5%
Pre-tax profit	265.17	106.60	-59.8%	197.54	-46.0%
Net profit	210.84	79.39	-62.3%	155.75	-49.0%

Source: VNDIRECT Research, company reports

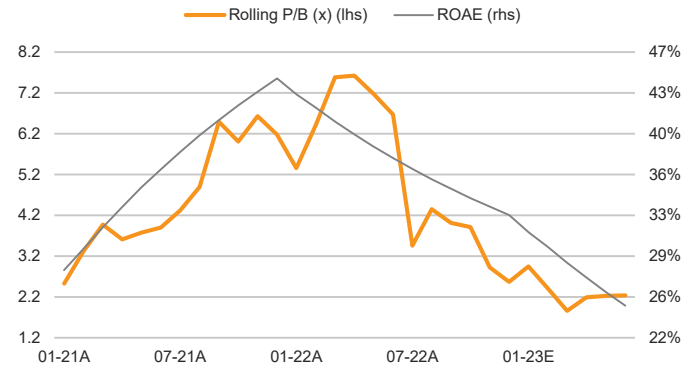
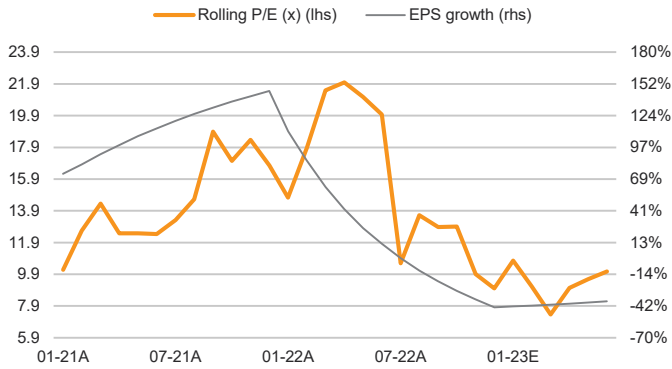
FY23-24F earnings forecasts

Figure 30: VNDirect's forecast on DGW's business in the period FY23-24F

Unit: VNDbn	2020	2021	2022	2023F	2024F
Net revenue	12,536	20,971	22,059	21,440	24,431
% yoy	47.7%	67.3%	5.2%	-2.8%	14.0%
Laptop&Tablet	4,350	7,799	7,027	5,495	5,605
Mobilephone	6,384	9,872	10,759	9,576	11,116
Office equipment	1,504	2,617	3,320	3,818	4,200
Consumer goods	251	376	397	1,032	1,342
Others (Industrial, Home appliance)	47	307	556	1,517	2,167
% in Net revenue					
Laptop&Tablet	34.7%	37.2%	31.9%	25.6%	22.9%
Mobilephone	50.9%	47.1%	48.8%	44.7%	45.5%
Office equipment	12.0%	12.5%	15.1%	17.8%	17.2%
Consumer goods	2.0%	1.8%	1.8%	4.8%	5.5%
Others (Industrial, Home appliance)	0.4%	1.5%	2.5%	7.1%	8.9%
Gross profit	803	1,511	1,662	1,428	1,732
<i>Gross profit margin</i>	6.4%	7.2%	7.5%	6.7%	7.1%
Selling expenses	-434	-708	-722	-701	-799
G&A expenses	-90	-114	-136	-134	-152
SG&A expenses	-525	-822	-858	-835	-951
<i>Selling expenses / revenue</i>	3.5%	3.4%	3.3%	3.3%	3.3%
<i>G&A expenses / revenue</i>	0.7%	0.5%	0.6%	0.6%	0.6%
<i>SG&A expenses / revenue</i>	4.2%	3.9%	3.9%	3.9%	3.9%
Pretax profit	334	823	862	609	863
Net profit	267	657	684	487	691
% yoy	62.5%	146.1%	4.0%	-28.8%	41.9%

Source: VNDIRECT RESEARCH

Valuation



Income statement

(VNDbn)	12-23E	12-24E	12-25E
Net revenue	21,440	24,431	26,879
Cost of sales	(20,012)	(22,699)	(24,863)
Gen & admin expenses	(134)	(152)	(168)
Selling expenses	(701)	(799)	(879)
Operating profit	593	781	970
Operating EBITDA	607	781	970
Depreciation and amortisation	(14)	0	0
Operating EBIT	593	781	970
Interest income	16	83	63
Financial expense			
Net other income	(1)	(1)	(1)
Income from associates & JVs	0	0	0
Pre-tax profit	608	863	1,032
Tax expense	(122)	(173)	(207)
Minority interest	0	0	0
Net profit	486	690	825
Adj. net profit to ordinary	486	690	825
Ordinary dividends	(89)	(163)	(163)
Retained earnings	397	527	662

Balance sheet

(VNDbn)	12-23E	12-24E	12-25E
Cash and equivalents	946	1,291	1,802
Short term investments	0	0	0
Accounts receivables	1,935	2,205	2,426
Inventories	2,401	2,724	2,984
Other current assets	121	121	121
Total current assets	5,404	6,341	7,333
Fixed assets	109	116	123
Total investments	71	71	71
Other long-term assets	396	398	399
Total assets	5,979	6,925	7,925
Short-term debt	1,005	1,140	1,249
Accounts payable	1,606	1,821	1,995
Other current liabilities	411	316	208
Total current liabilities	3,022	3,277	3,451
Total long-term debt	41	41	41
Other liabilities	6	6	6
Share capital	1,632	1,632	1,632
Retained earnings reserve	1,194	1,884	2,710
Shareholders' equity	2,881	3,572	4,398
Minority interest	29	29	29
Total liabilities & equity	5,979	6,925	7,925

Cash flow statement

(VNDbn)	12-23E	12-24E	12-25E
Pretax profit	608	863	1,032
Depreciation & amortisation	(14)	0	0
Tax paid	(122)	(173)	(207)
Other adjustments	(31)	(15)	(6)
Change in working capital	563	(461)	(406)
Cash flow from operations	1,004	214	413
Capex	(14)	(14)	(14)
Proceeds from assets sales	0	0	0
Others	0	0	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	(14)	(14)	(14)
New share issuance	2	3	4
Shares buyback	0	0	0
Net borrowings	(910)	135	109
Other financing cash flow			
Dividends paid	(89)	(163)	(163)
Cash flow from financing activities	(997)	(25)	(50)
Cash and equivalents at beginning of period	828	946	1,291
Total cash generated	(7)	174	348
Cash and equivalents at the end of period	821	1,121	1,639

Key ratios

	12-23E	12-24E	12-25E
Dupont			
Net profit margin	2.3%	2.8%	3.1%
Asset turnover	3.48	3.79	3.62
ROAA	7.9%	10.7%	11.1%
Avg assets/avg equity	2.34	2.00	1.86
ROAE	18.4%	21.4%	20.7%
Efficiency			
Days account receivable	30.7	30.8	30.7
Days inventory	43.8	43.9	43.8
Days creditor	29.3	29.4	29.3
Fixed asset turnover	209.71	217.62	225.65
ROIC	12.3%	14.4%	14.4%
Liquidity			
Current ratio	1.8	1.9	2.1
Quick ratio	1.0	1.1	1.3
Cash ratio	0.3	0.4	0.5
Cash cycle	45.3	45.4	45.3
Growth rate (yoy)			
Revenue growth	(2.8%)	14.0%	10.0%
Operating profit growth	(26.3%)	31.6%	24.3%
Net profit growth	(28.9%)	41.9%	19.6%
EPS growth	(28.9%)	41.9%	19.6%

Source: VNDIRECT RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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