

Vietnam Retail

POSITIVE

[Unchanged]

Year ahead 2023: Facing headwinds but likely priced in

Appealing valuation, top picks: MWG, PNJ

Rising domestic and international macroeconomic headwinds have raised concerns about weakening consumption. Moreover, a real estate liquidity crunch triggered a bout of broad-based, forced-selling that pummeled retail stocks. Most retail stocks dropped 35% to 74% from their peaks on Apr'22, erasing 2 years of gains and underperforming the VN-Index (-32%). The exception is PNJ which suffered a relatively mild loss of 13%. Valuations retreated to attractive levels, at 1-year low T12M P/E and below the 5-year mean. Excluding the Covid sell-down in Mar'20, Vietnam's retail sector (excluding MSN) is at a 5-year low T12M P/E of 12.6x, which we think presents opportunities for value investing. Our top picks offer the best risk/reward ratios and are leaders in their segments; Mobile World (MWG VN, BUY, CP: VND43k, TP: VND73k) and Phu Nhuan Jewelry (PNJ VN, BUY, CP: VND86k, TP: VND102k). We also think Digiworld (DGW VN, CP: VND38k, NR) is an interesting proxy for small caps.

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Maintain POSITIVE sector rating

Based on our valuation and sector earnings outlook, we are still positive on the retail sector as we see an attractive long-term growth outlook. FY23E could see slowing sales (Refer Fig 19 to our heat map for FY23E top-line potential impact) but we note that FY23E sector earnings should still grow at nearly 9% YoY. Among Vietnam's listed retailers, MWG, PNJ and DGW should show the strongest earnings growth of 19-21% YoY based on our forecasts for MWG and PNJ and management guidance for DGW.

Domestic consumption: solid but facing headwinds

Vietnam's retail sales recovered healthily in 2022 (+20% YoY), driven by all segments. Retail sales of goods have even exceeded pre-Covid levels. This was supported by a strong post-pandemic recovery, wealth effect and favourable demographics. We observed that premiumisation has been leading the growth. However, recent macro headwinds, including the global growth slowdown and domestic volatility stemming from the government's bond market crackdown could weaken consumer spending in coming months. Despite challenges, we expect the impact to be manageable and gradually ease in 2H23, backed by accelerated public investment and China's re-opening. MIBG still forecasts FY23 private consumption growth of 6.0% YoY (vs 8.5% in FY22E) while we expect stronger government consumption growth of 6.2% YoY (vs 5.6% in FY22E).

Modern trade expansion: key long-term growth driver

Vietnam's retail landscape is still fragmented with traditional channels dominant (70-80%), especially in the largest category - grocery, or other potential segments, such as pharmacy or jewellery. Top retailers with leading market positions and competitive advantages like MWG, MSN, PNJ and FRT are expanding their store networks to capture the ongoing conversion to modern retail channel. The positive long-term economic outlook and favorable demographics will continue to support this shifting trend, and benefit these companies in the long run.

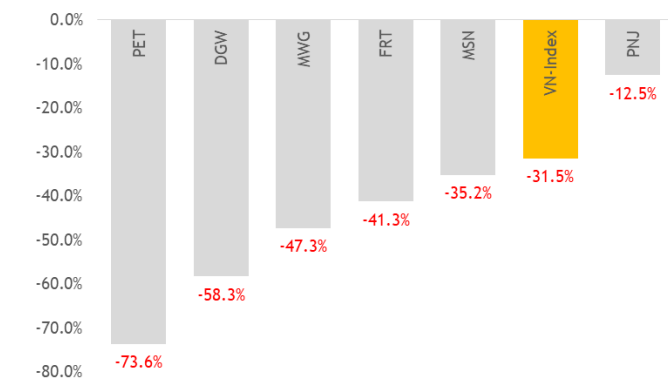
Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							22E	23E	22E	23E	22E	23E
Mobile World	MWG VN	2,655	Buy	42,900	73,000	73	14.0	11.6	2.7	2.6	3.5	4.7
Phu Nhuan Jewel	PNJ VN	1,197	Buy	86,000	102,000	21	14.8	12.8	3.3	2.9	2.3	2.9

Attractive valuation, top picks: MWG, PNJ

Valuations retreated to attractive levels, 1Y-low T12M P/E and below 5Y mean

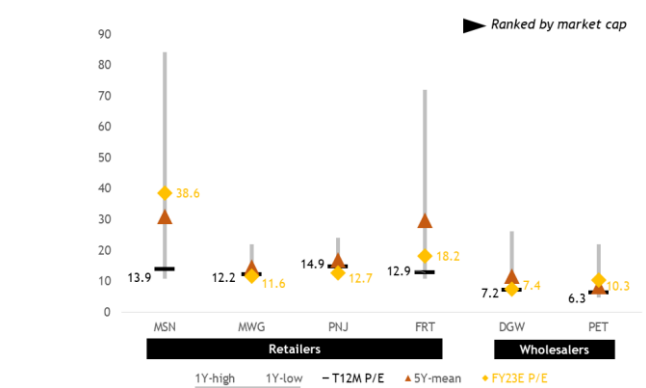
Vietnam’s benchmark stock barometer the VN-Index has dropped nearly 30% YTD amid rising macro-economic headwinds. Previous market darlings, retail stocks experienced intense selling pressure amid low liquidity and weak sentiment. A real estate liquidity crunch amid the government’s bond crackdown also triggered a serious bout of broad-based, forced-selling and dragged retail stocks lower. With the exception of PNJ, most listed retail stocks are well down from their recent peaks (by 35% to 74%) outstripping the drop in the VN-Index (-32%) (Fig.1). Valuations, as a result, retreated to attractive levels. These stocks are now trading at 1-year lows with T12M P/E’s below their 5-year means. Forward P/E’s (i.e. FY23E P/E) of both MWG and PNJ remain at attractive levels (Fig.2).

Figure 1: Except PNJ, most listed retail stocks are well down from recent peaks on Apr’22



Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

Figure 2: Valuations retreated to attractive P/E levels with 1-year low T12M P/E’s and below their 5Y-means



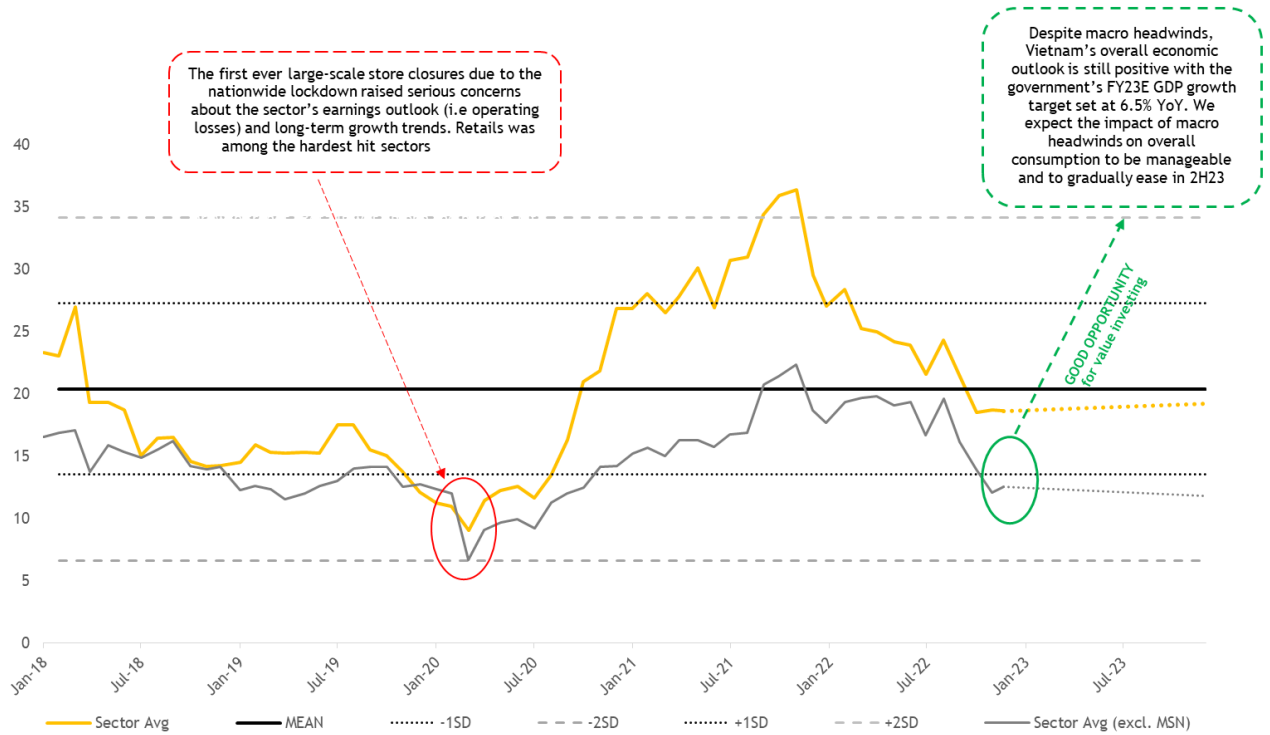
Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

Good opportunities for value investing

Excluding MSN, which recently joined the retail market in the grocery segment, we saw a 5-year low for other retail stocks in late Mar’20, caused by a sell-down amid the initial Covid outbreak - with panic selling across the market and particularly for retail stocks which were thought likely to be among the hardest impacted sectors. The first ever large-scale store closures due to the nationwide lockdown raised serious concerns about the sector’s earnings outlook amid operating losses and concerns about long-term growth trends. However, the current situation is different compared to Mar’20.

Despite macro headwinds, Vietnam’s overall economic outlook is still positive with the government’s FY23E GDP growth target set at 6.5% YoY. We expect the impact of macro headwinds on overall consumption to be manageable and to gradually ease in 2H23, offset by accelerated public investment and China’s re-opening. MIBG still forecasts FY23 private consumption growth of 6.0% YoY (vs 8.5% in FY22E) while we expect stronger growth for government consumption of 6.2% YoY (vs 5.6% in FY22E). Therefore, we believe there is only a slim chance we will see similar valuation levels to Mar’20 again. Moreover, Vietnam’s retail sector (excluding MSN) is at a 5-year low T12M P/E of 12.6x, presenting attractive opportunities for value investors, in our view.

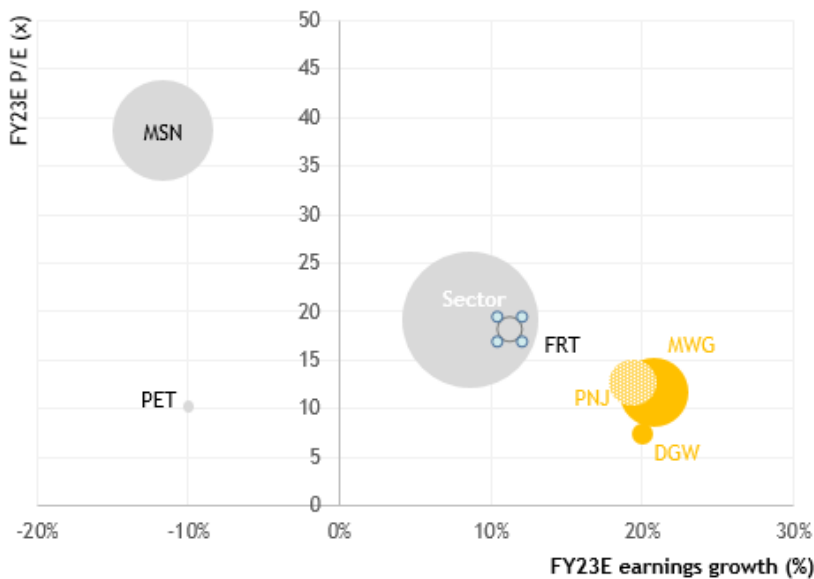
Figure 3: Vietnam's retail sector (excluding MSN) is trading at a 5-year low P/E, excluding the Mar'20 Covid sell-down,



Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

Top picks: MWG, PNJ

Figure 4: MWG, PNJ and DGW are offering the best risk/reward ratios, among Vietnam's listed retailers

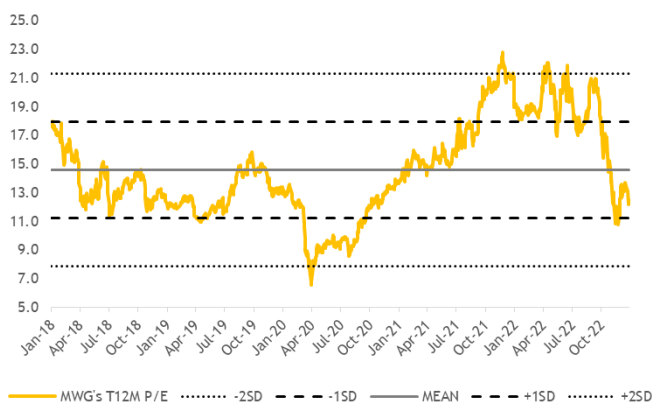


Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022, bubble size reflects market cap

MWG and PNJ are our top picks due to:

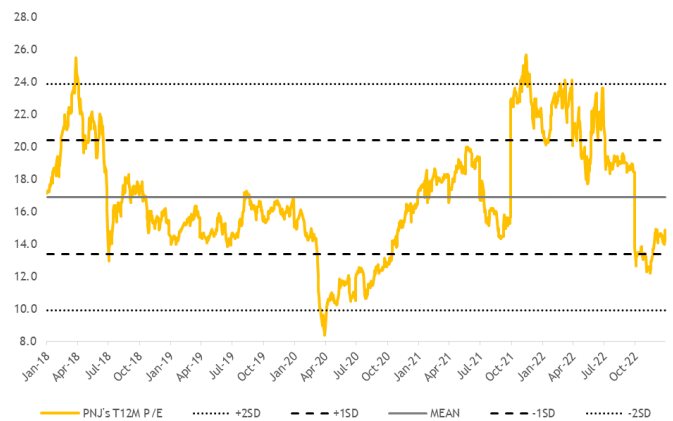
- 1) These two companies offer the best risk/reward ratios among Vietnam's listed retailers. Specifically:
 - We project they will deliver 19-21% YoY earnings growth in FY23E, as per our forecasts, the fastest growth rates among listed retail stocks in a challenging year. PNJ's target market is mid to high-end consumers who still have strong purchasing power. We believe PNJ will continue to leverage its competitive advantage to expand its market share further as unbranded jewellery makes up more than 70% of Vietnam's market. MWG is unlikely to see the same favourable conditions for its FY23E top-line as PNJ as its scale is much larger and it covers a wide range of segments from consumer discretionary goods (including mobile phones, laptops and consumer electronics) to essential goods (i.e. grocery, pharmaceuticals). But we expect to see a turnaround in MWG's grocery business (BHX) after its restructuring in 2022, which should support 2023E earnings recovery.
 - Valuation-wise, MWG and PNJ are trading at 11.6x and 12.7x FY23E P/E, below the 19.2x sector average. Historically, their T12M P/Es are close to -1SD below their 5-year means which could be considered a 5-year low if we exclude the Covid sell-down in Mar'20.

Figure 5: MWG's T12M P/E band



Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

Figure 6: PNJ's T12M P/E band



Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

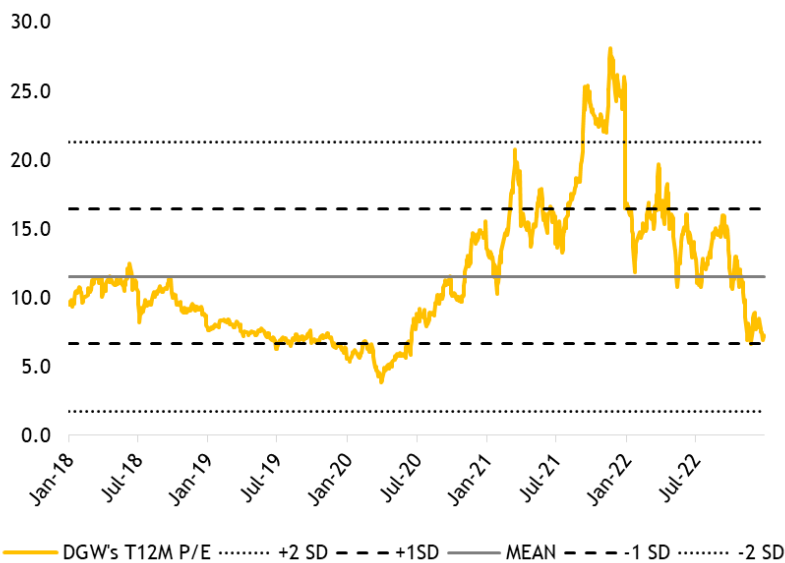
- 2) MWG and PNJ are leaders in their respective segments which we believe have the most growth potential in Vietnam's retail landscape. Macro headwinds could impact FY23 while the long-term prospects of the Vietnam retail sector are promising thanks to its favourable demographics, rising incomes and the ongoing shift from traditional to the modern trade channel. The Covid pandemic provided a unique opportunity to witness the strength as well as competitive advantages of the two companies, in our view. Therefore, we believe difficulties ahead are unlikely to derail the long-term growth prospects of MWG and PNJ. We forecast PNJ to post a robust 5-year earnings CAGR of 30% pa in FY22-26E. For MWG, we believe its bottom-line will recover in FY23E and maintain an average growth rate of 27% pa in FY23-26E.
- 3) Besides this, MWG could have another strong re-rating catalyst from the sale of a strategic stake in its grocery business.

Besides MWG and PNJ, we also highlight Digiworld (DGW VN, NR), a small but solid company that has a strong position in the distribution of ICT products through the largest distribution network and proven capabilities (including local understanding, tailor-made solutions on client demand and efficient ERP systems, etc.) via partnerships with consumer giants like Apple and Xiaomi, among others. The stock is trading at 7.4x FY223E P/E, based on management guidance of FY23 December 30, 2022

earnings growth of 20% YoY. DGW is well-positioned to maintain that growth rate in such a challenging year as FY23 as:

- 1) DGW is a wholesaler with a strong and wide customer base that spans retailers to corporate enterprises (including both local and foreign direct investment (FDI) companies) and state-related institutions. While Vietnamese consumer income may take a hit, FY23 should be a promising year for public investment acceleration. The FDI sector remained solid and digital transformation is a secular trend for most large companies.
- 2) Apple and Xiaomi which contribute more than 60% of DGW’s total sales, expect their sales to grow 25% YoY, according to management guidance. These two brands have been aggressively expanding market share in Vietnam. While Apple expects to continue to benefit from the premiumisation trend, Xiaomi with strong brand health in the mass segment should continue to fare well in this challenging business environment.
- 3) To offset a potential weakening in other existing brands, DGW will strive to add more brands and products to its distribution portfolio and to expand the sales contribution of a newly expanded segment - home appliances with a big US-based brand name, Whirlpool.
- 4) DGW plans to consolidate a new company - Achison - after raising its ownership to 75% in FY23, from 49% currently. Achison is a leading supplier of personal protective equipment and industrial products with a high profile customer base (i.e. Samsung, Intel, etc.). Achison contributes 6% of DGW’s profit.

Figure 7: DGW’s T12M P/E band



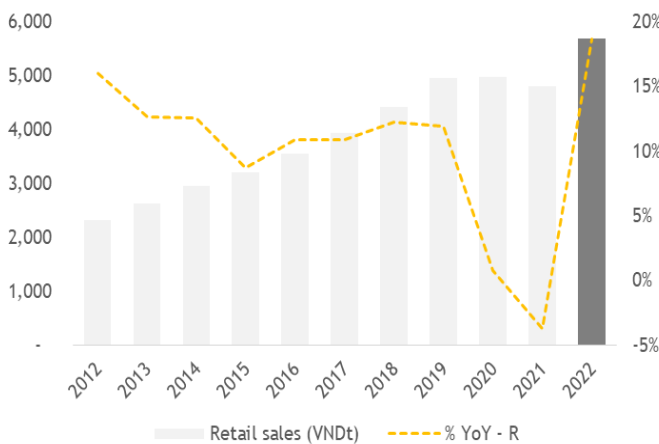
Source: Bloomberg, Maybank IBG Research / Data as of 29 Dec 2022

Solid domestic consumption faces headwinds

Retail sales recovered sturdily in 2022

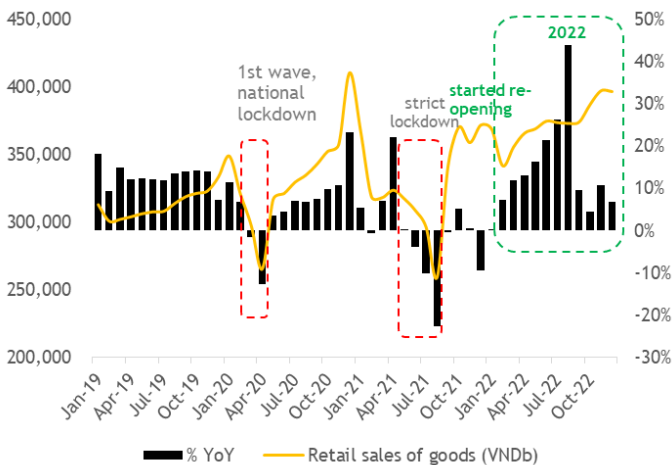
According to Vietnam General Statistics Office (GSO), FY22 retail sales grew nearly 20% YoY (or c.16% YoY excluding inflation). This follows 12%/21% growth in 1H22/9M22, indicating relatively solid demand amid rising inflation concerns. To recall, 3Q22 retail sales surged 58% from the 3Q21 low base (-28% YoY) which was caused by Covid lockdowns. The recovery was driven by all segments. Tourism and services, the segment hardest hit by Covid, returned to pre-pandemic levels. Retail sales of goods grew by more than 13% YoY in 2022, exceeding pre-Covid levels. This was supported by strong post-Covid recovery in economic growth (FY22 GDP +8% YoY, vs 6.5% government target) and consumer incomes, coupled with moderate CPI growth of 3.2%.

Figure 8: FY22 retail sales grew nearly 20% YoY



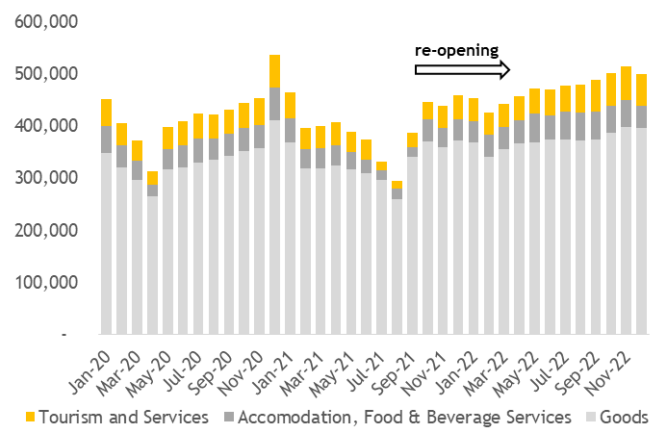
Source: GSO, CEIC, Maybank IBG Research

Figure 10: Retail sales of goods recovered, exceeding pre-Covid levels



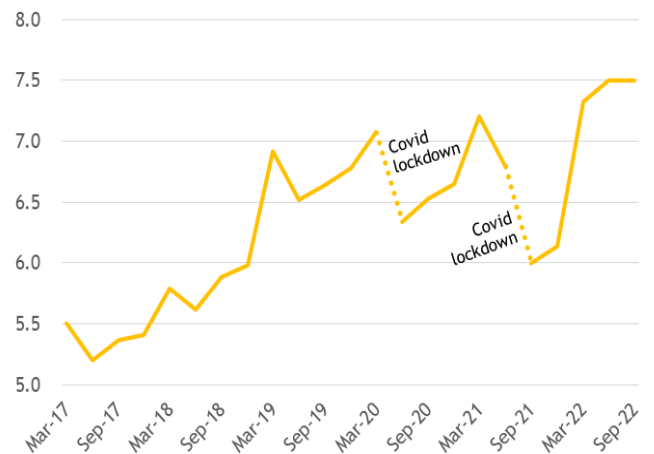
Source: GSO, CEIC, Maybank IBG Research

Figure 9: All segments rebounded. Tourism and services, the hardest hit segments, even returned to pre-Covid levels



Source: GSO, CEIC, Maybank IBG Research / Retail sales by sector (VNDb)

Figure 11: Average monthly earnings (VNDm) recovered strongly in 2022, post-pandemic



Source: GSO, CEIC, Maybank IBG Research

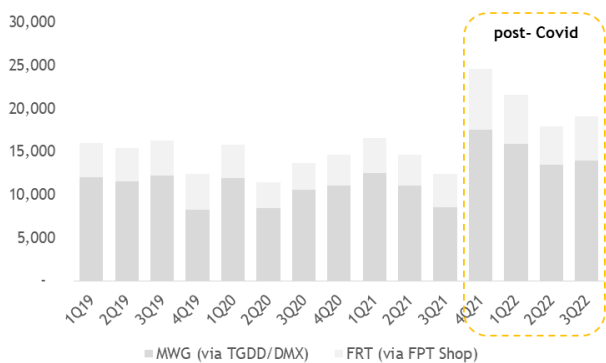
Non-essential goods and premiumisation led the growth

Retail sales of goods grew by nearly 16% YoY in 9M22. Given FMCG sales value grew by only a single-digit (according to Kantar Vietnam), retail sales of non-essential goods should have rebounded more strongly in 9M22.

We observed that premiumisation led the growth. As inflation in Vietnam is still moderate and high-income earners are relatively unaffected by rising costs, premium products with a largely affluent user-base that are less likely to be price/income sensitive led the growth in consumption. Pent-up demand caused by lockdowns and the wealth effect were also support factors. Based on the information communications technology (ICT) products sales of the two largest retailers (MWG and FPT Retail (FRT VN, CP: VND68,500, NR)) which account for >60% market share in total and jewellery sales of PNJ - the leader of branded jewellery with >60% market share, we see:

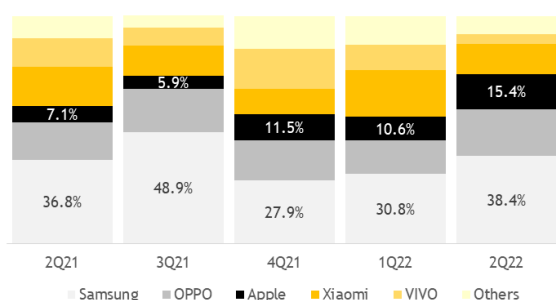
- 1) ICT products sales remained robust in 9M22 despite slowing demand for laptops/tablets after work-from-home/online study spurred a surge in sales during the two pandemic years FY20-21. Mobile phones led the growth. According to Counterpoint Research, premium smartphone (above USD400) shipments surged by 75% YoY in 2Q22 and more than double in 3Q22. This was mostly led by: i) Apple, which secured 15.4% market share in 2Q22, rapidly expanding from 7.1% a year ago (Fig. 13); and ii) increasing demand for 4G/5G smartphones due to continued migration from feature or 2G/3G phones, following plans to shut down the 2G/3G network from 2023 (feature phones accounted for c.15% of total sales volume in 2021, vs 27% in 2017, according to Euromonitor’s estimates, Fig.14).
- 2) PNJ’s retail and wholesale sales surged strongly post-Covid. To recall, PNJ’s target segment is mid to high-end consumers.

Figure 12: ICT product sales (VNDb) of the two largest retailers (MWG and FRT) continued to surge post-Covid



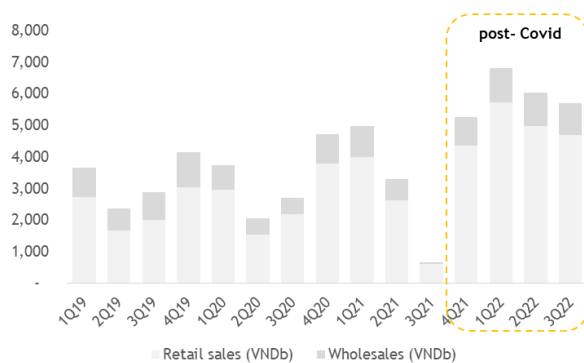
Source: Company, Maybank IBG Research

Figure 14: Vietnam smartphone shipment share by key OEM - Apple rapidly doubled market share within a year



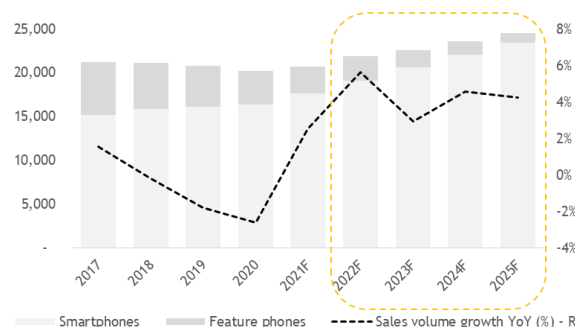
Source: Counterpoint Research Monthly Vietnam Channel Share Tracker, 2Q22

Figure 13: PNJ’s robust sales (VNDb) since re-opening in 4Q21, exceeded its pre-Covid levels



Source: Company Maybank IBG Research

Figure 15: Increasing demand for 4G/5G smartphones due to continued migration from feature or 2G/3G phones



Source: Euromonitor / Vietnam mobile phone sales volume ('000 units)

Facing headwinds but manageable

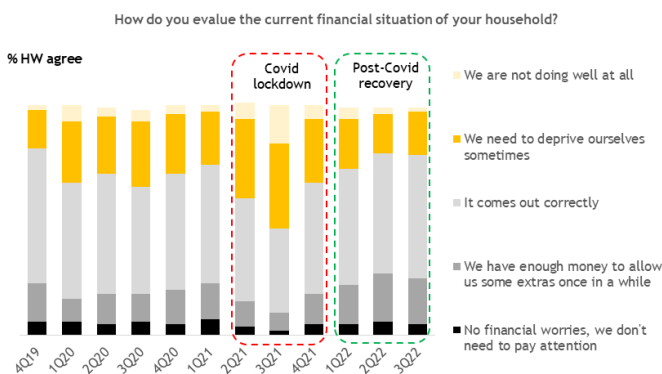
Sales in the ICT/consumer electronics segment have slowed sooner than we expected. MWG reported Oct'22 ICT/CE sales at c.VND8.3t, almost flat MoM and with no acceleration as the market entered the year-end shopping season. This could be interpreted as a warning sign for consumer spending in coming months. The short-term impact is related to unexpected supply shortages of the new iPhone 14 series due to China's Covid lockdown while the broader macro headwinds are unlikely to be temporary. Specifically:

- 1) **Global slowdowns** directly impact export-related segments (i.e. phones/electronic goods, textiles, footwear, etc.). To recall, amid the strict Covid lockdown in 3Q21, workers in these segments were hardest hit. Facing the storm again could disrupt their income recovery, and thus their hurt spending.
- 2) **Emerging local macro volatility:**
 - **Lower wealth effects:** The government's unexpected crackdown on the bond market with a subsequent stock sell-down and real estate sector liquidity crunch exacerbated concerns about the health of affluent consumers who lead Vietnam's consumption growth. Challenges in the property sector are likely to persist into FY23.
 - **Rising interest rates** are likely to crimp corporate earnings and higher mortgage rates threaten to reduce disposable household income.

However, on the positive side, we also see supporting factors, such as:

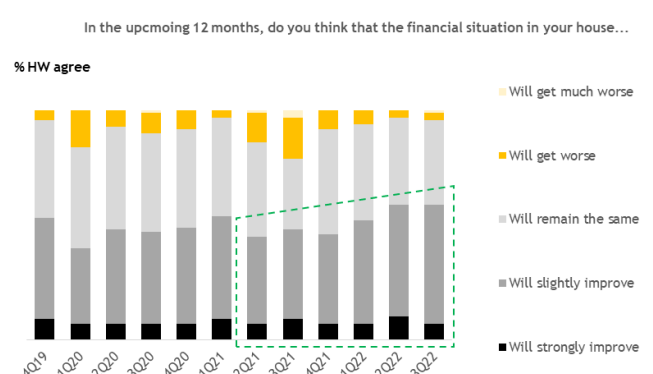
- 1) **Public investment expected to accelerate in FY23E** to help the government achieve its GDP growth target of 6.5% YoY.
- 2) **China's re-opening.** Exports to China accounted for 15.3% of Vietnam's GDP in FY21. China's shift away from its "Zero Covid" policy should support the economic rebound. This should provide an opportunity to bring Chinese tourists back to Vietnam, potentially in 2H23. To recall, the Chinese comprised >30% of international arrivals pre-pandemic. Therefore, China' re-opening would help to offset the above-mentioned negative impacts.
- 3) **We also expect interest rates to ease in 2H23** as FX markets cool down.
- 4) **Consumer confidence improved.** Compared to Covid time, consumers are now more optimistic and their financial situation has improved, according to a survey by Kantar.

Figure 16: Household financial health returned to pre-pandemic levels



Source: Kantar's survey

Figure 17: More consumers are optimistic about financial improvements in the next 12 months



Source: Kantar's survey

Therefore, we expect the negative impact on overall market demand in FY23E to be manageable and to ease in 2H23. Our economist forecasts FY23 private consumption growth of 6.0% YoY (vs 8.5% in FY22E) and expects stronger growth for government consumption of 6.2% YoY (vs 5.6% in FY22E).

Figure 18: Vietnam - Key Macroeconomic Indicators

	2019	2020	2021	2022E	2023E	2024E
Real GDP (%)	7.4	2.9	2.6	8.0	6.0	6.5
Private Consumption (%)	7.0	0.4	2.0	8.5	6.0	6.3
Government Consumption (%)	5.4	1.2	4.7	5.6	6.2	5.5
Gross Fixed Capital Formation (%)	7.7	4.1	3.7	8.5	8.2	8.3
Exports of Goods & Services (%)	6.7	5.0	14.0	9.5	6.1	6.6
Imports of Goods & Services (%)	9.5	3.4	16.2	9.5	6.4	6.7
*Current Account Balance (% of GDP)	3.6	4.3	(2.1)	(0.8)	1.2	1.9
*Fiscal Balance (% of GDP)	(2.7)	(4.5)	(4.1)	(2.5)	(3.8)	(4.2)
Inflation Rate (%)	2.8	3.2	1.8	3.2	4.3	3.9
Unemployment Rate (%)	2.2	2.5	3.0	2.3	2.4	2.3
Exchange Rate (per USD, end-period)	23,173	23,098	22,826	25,000	24,200	24,000
Benchmark Interest Rate (% p.a., end-period)	6.00	4.00	4.00	6.00	6.50	6.50

*Vietnam started using new nominal GDP series in 2021.

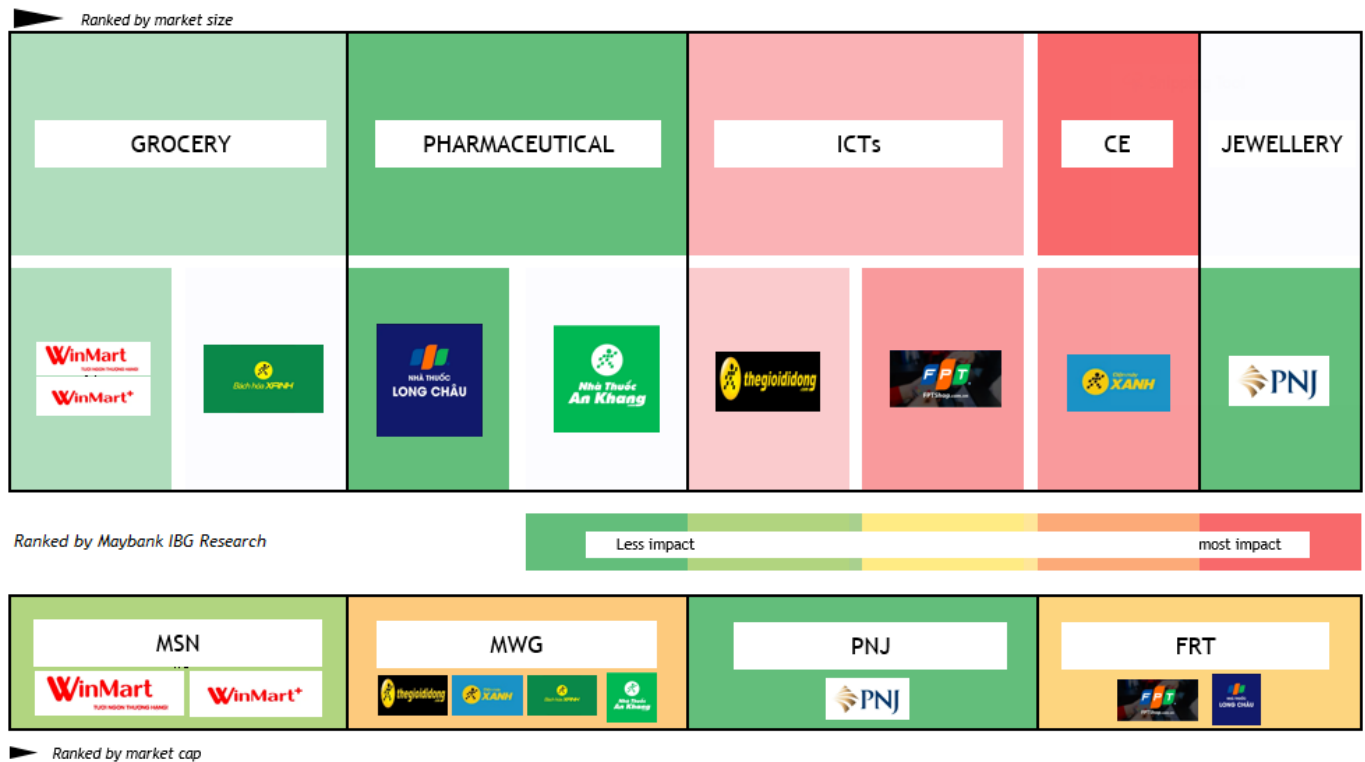
Source: CEIC, Maybank IBG Research

For listed retailers, we believe the FY23E impact will be smaller than that on overall consumption as the shifting trend to modern trade persists and modern retailers capture more growth. However, with retailers potentially facing an unfavourable year ahead, we attempt to rank the impact on FY23 top-line outlooks among sub-segments and then, Vietnam’s listed retailers in the heat map below.

This exercise is based on:

- 1) Sub-segment ranking: we consider 3 factors: i) type of goods, essentials or discretionary consumer goods; ii) penetration rate of Vietnamese consumers’ spending package; and iii) consumerism trend.
- 2) For each retail chain, we factor in: i) target customer and ii) competitive advantage as well as market position.
- 3) For each company, we incorporate all sub-segments in which they participate.

Figure 19: FY23E top-line impact ranked by sub-segment and company



Source: Maybank IBG Research

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