



FRT Update- BUY

November 21, 2022

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Company Update

Recommendation

BUY

HSX: FRT

Retail

Target price (VND) **76,200**

Current price (VND) **65,200**

Expected share price return 16.9%

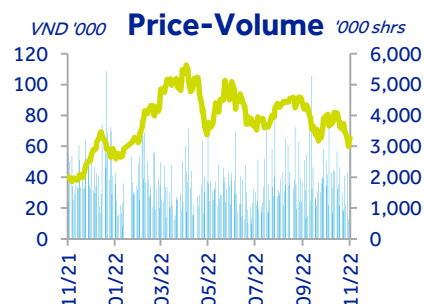
Expected dividend yield 1.5%

Expected total return **18.4%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-8.1	-18.0	-23.5	61.9
Relative	28.3	-10.3	0.3	95.3

Source: Bloomberg



Ownership

FPT Corp.	46.5%
VinaCapital	4.8%
VOF Investment	4.8%
CTBC VN EQ Fund	3.6%

Stock Statistics

17-Nov-22

Bloomberg code **FRT VN**

52-week range (VND) 37,000-116,667

Shares O/S (m) 118

Mkt cap (VND bn) 7,251

Mkt cap (USD m) 308

Foreign room left (%) 24.8

Est. free float (m) 50.2

3m avg daily vol (shrs) 1,901,991

VND/USD 24,858

Index: VNIIndex / HNX 941.3/187.2

FPT DIGITAL RETAIL JSC (FRT VN)

We give a **BUY** recommendation on the stock with a target price of VND76,200/share, representing a 18.4% expected total return at the end of 2023, fostered by Long Chau pharmacy chain's potential outlook and improvements in its profitability.

FRT announced net revenue of VND21,708bn (+54.9% YoY) in 9M2022. The FPT Shop chain reported VND15,233bn (+32.3% YoY) in revenue, with 98 new shops opened, bringing its number of shops in operation to 745 at the end of September 2022 (YE2021: 647). Laptops, which enjoyed high demand in the first half of the year, experienced slowdown in revenue (-35% YoY) in 3Q2022 due to a high base last year. Revenue from other products, generated most by mobile phones and Apple products, rose by 114.5% in 3Q and 42.6% YoY in 9M2022.

FRT's business results (VND bn)	9M2022	YoY growth
Net revenue	21,708	54.9%
FPT Shop	15,233	32.3%
Long Chau	6,562	159%
EAT	301	178%

Source: FRT

The Long Chau pharmacy chain witnessed its revenue soar by 159% YoY to VND6,562bn. The average revenue per store per quarter was VND3.2bn in 3Q2022, after touching VND3.95bn in 1Q owing to surging demand for drugs/healthcare products in light of COVID-19 outbreak. As of September 2022, Long Chau had 800 shops in operation (YE2021: 400), covering 63 provinces/cities, compared with 1,071 Pharmacy stores (63 provinces/cities) and 529 An Khang stores (33 provinces/cities). While Long Chau started to make profit from 2021, the others have not.

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	14,661	22,495	29,673	35,148	39,244
Growth	-11.9%	53.4%	31.9%	18.4%	11.7%
EBITDA (VNDbn)	73	513	531	635	752
EBITDA margin	0.5%	2.3%	1.8%	1.8%	1.9%
Net Profit (VNDbn)	25	444	397	431	502
Growth	-88.4%	1697.4%	-10.4%	8.4%	16.4%
EPS (bonus-adjusted, VND)	177	3,746	3,191	3,459	4,027
Growth	-89.8%	2014.3%	-14.8%	8.4%	16.4%
ROE	2.0%	30.9%	22.0%	20.4%	20.4%
ROA	0.4%	5.5%	3.5%	3.5%	3.9%
ROIC	3.1%	18.2%	11.4%	11.1%	11.2%
Net debt/EBITDA (times)	1.5	3.0	4.5	4.3	3.8
EV/EBITDA (times)	128.5	18.4	17.8	14.9	12.6
EV/sales (times)	0.6	0.4	0.3	0.3	0.2
PER (times)	368.0	17.4	20.4	18.9	16.2
PBR (times)	4.2	3.1	4.0	3.5	3.0
DPS (VND)	-	500	1,000	1,000	1,000
Dividend yield	0.0%	0.8%	1.5%	1.5%	1.5%

In terms of earnings, FRT achieved EAT of VND301bn (+177.5% YoY), attributed to a broadened gross margin (15.5% in 9M2022 vs. 13.4% in 9M2021), in spite of a higher SG&A expenses to net revenue ratio (13.7% in 9M2022 vs 12.8% in 9M2021) and financial profit turning from VND34bn in 9M2021 to negative VND39.1bn in 9M2022 (largely stemming from 69% increase in interest expense).

Long Chau earned c.VND34bn of EAT in 9M2022 (9M2021: VND1.3bn), although the bulk of earnings (VND31bn) were recorded in 1Q in conjunction with the revenue surge driven by surging demand for drugs/healthcare products in light of COVID-19 outbreak. We estimate Long Chau's gross margin improved to 22.8% in 9M2022, compared to 19.3% in 9M2021. The gross margin peaked in 1Q2022 at 24.4%, on the increased contribution of high-profit margin products (e.g supplements), before normalizing in 2Q-3Q as the post COVID surge subsided. Additionally, better bargaining power given the chain's increasing scale was and will be an important factor influencing enhancement of this margin.

For the whole year 2022, we project FRT's net revenue and EAT at VND29,673bn (+31.9% YoY) and VND401bn (-9.6% YoY). The FPT Shop chain may find it hard to outperform the high base in 4Q2021, while Long Chau will likely continue to expand its contribution with 100 new stores expected to open in the final quarter of 2022.

Looking to 2023, inflationary pressures in some products, combined with the global economic turbulence, may dampen consumer purchasing power, though the impacts may vary in different consumer segments and product categories. Our projections for FRT's net revenue and EAT growth are 18.4% and 9.1% YoY, respectively, in 2023. Assuming 300 new stores opened in 2023, we believe Long Chau remains the company's growth catalyst with an expected growth of 47% YoY in revenue and 81% growth in EAT, while FPT Shop is assumed to post single-digit growth.

Increases in interest rates could put pressure on FRT's bottom line, though the company has been able to report relatively low net interest expenses to average net debt in recent years (which were -4.4% in 2021, 5.4% in 2020, 3.8% in 2019). FRT reported net debt of VND2,499bn (including short-term loan receivables) as of September 2022 (compared with VND1,562bn at the end of 2021). Fluctuations in foreign exchange rates may not cause significant concerns for FRT's debts as foreign currency denominated debt accounted for just 6% of the company's total debt. However, the fluctuations may lead to a narrower gross margin for the FPT Shop chain as the majority of its products are imported, while we are not sure if the increase in COGS may be passed all to consumers in view of potentially weaker purchasing power.

Combining the DCF (incorporated changes in cost of equity rate from 12.6% to 16.1%), PER and EV/Sales methods, **our target price for this stock is VND76k/share, equivalent to a total return of 18.4% at the end of next year.**

FRT FINANCIALS MODEL	Price (VND):	65,200	Target (VND):	76,200	Mkt cap (VND bn):	7,251
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	14,661	22,495	29,673	35,148	39,244	
<i>Sales growth (%)</i>	<i>-11.9%</i>	<i>53.4%</i>	<i>31.9%</i>	<i>18.4%</i>	<i>11.7%</i>	
FPT Shop	13,476	18,558	20,248	21,260	22,323	
Long Chau	1,186	3,937	9,425	13,887	16,920	
CoGS ex-dep'n	12,619	19,340	25,033	29,382	32,576	
Selling expenses	1,566	2,071	3,273	4,120	4,751	
G&A expenses	398	586	846	1,014	1,168	
Financial revenues	15	28	34	19	19	
Financial expenses	20	14	25	15	16	
EBITDA	73	513	531	635	752	
<i>EBITDA margin (%)</i>	<i>0.5%</i>	<i>2.3%</i>	<i>1.8%</i>	<i>1.8%</i>	<i>1.9%</i>	
Depreciation	1	4	6	9	12	
Operating profit	72	509	526	627	740	
<i>Operating profit margin (%)</i>	<i>0.5%</i>	<i>2.3%</i>	<i>1.8%</i>	<i>1.8%</i>	<i>1.9%</i>	
Other profits/losses	14	8	9	9	9	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	58	(37)	43	106	108	
<i>as % of avg net debt</i>	<i>5.4%</i>	<i>-4.4%</i>	<i>2.2%</i>	<i>4.2%</i>	<i>3.8%</i>	
<i>Interest cover (x)</i>	<i>1.2</i>	<i>-13.7</i>	<i>12.3</i>	<i>5.9</i>	<i>6.8</i>	
Tax	18	110	91	92	128	
<i>Effective tax rate (%)</i>	<i>127.3%</i>	<i>20.2%</i>	<i>18.8%</i>	<i>17.6%</i>	<i>20.3%</i>	
Minority interest	(15)	0	4	7	11	
Attributable net profit	25	444	397	431	502	
Cash earnings	26	448	403	440	514	
Total number of shares	78,981,792	78,981,792	120,842,142	120,842,142	120,842,142	
EPS (VND) (after treasury shares)	266	5,619	3,191	3,459	4,027	
Bonus factor (x)	0.67	0.67	1.00	1.00	1.00	
Adjusted EPS (VND)	177	3,746	3,191	3,459	4,027	
<i>EPS growth (%)</i>	<i>-89.8%</i>	<i>2014.3%</i>	<i>-14.8%</i>	<i>8.4%</i>	<i>16.4%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-1,883	1,533	938	568	418
Capex	3	2	72	30	20
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	73	(373)	(93)	(93)	(93)
Free cash flow	1,978	-1,461	-701	-252	-18
Share issues	18	10	16	-	-
Dividends paid	79	-	121	121	121
Increase in net debt	-1,918	1,450	806	373	139
Net debt, end of year	111	1,562	2,367	2,741	2,879
Shareholders' equity	1,214	1,662	1,955	2,265	2,646
BVPS (VND)	15,367	21,045	16,175	18,741	21,892
Net debt / equity (%)	9.2%	94.0%	121.1%	121.0%	108.8%
Net debt / EBITDA (x)	1.5	3.0	4.5	4.3	3.8
Total assets	5,388	10,786	11,884	12,568	13,087

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	2.0%	30.9%	22.0%	20.4%	20.4%
ROA	0.4%	5.5%	3.5%	3.5%	3.9%
ROIC	3.1%	18.2%	11.4%	11.1%	11.2%
WACC	15.2%	6.6%	8.3%	9.1%	9.3%
EVA	-12.1%	11.6%	3.2%	1.9%	1.8%
PER (x)	368.0	17.4	20.4	18.9	16.2
EV/EBITDA (x)	128.5	18.4	17.8	14.9	12.6
EV/FCF (x)	4.8	-6.5	-13.5	-37.4	-531.0
PBR (x)	4.2	3.1	4.0	3.5	3.0
PSR (x)	0.5	0.4	0.3	0.2	0.2
EV/sales (x)	0.6	0.4	0.3	0.3	0.2
PEG (x, 3 yr prospective)	0.6	0.0	6.1	1.1	1.0
Dividend yield	0.0%	0.8%	1.5%	1.5%	1.5%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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