



FRT Update- NEUTRAL

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Company Update

Recommendation

NEUTRAL

HSX: FRT

Retail

Target price (VND)

63,521

Current price (VND)

63,700

Expected share price return

-0.3%

Expected dividend yield

0.8%

Expected total return

0.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	-7.8	-2.2	-12.7	-34.3
Relative	-11.7	-1.0	-6.1	-12.4

Source: Bloomberg



Ownership

FPT Corp.	46.5%
Dragon Capital	8.1%

Stock Statistics

27-Apr-23

Bloomberg code

FRT VN

52-week range (VND)

55,700-106,333

Shares O/S (m)

118

Mkt cap (VND bn)

7,535

Mkt cap (USD m)

316

Foreign room left (%)

19.6

Est. free float (m)

50.4

3m avg daily vol (shrs)

968,160

VND/USD

23,875

Index: VNIIndex / HNX

1043.2/207.1

FPT DIGITAL RETAIL JSC (FRT VN)

We revise down our projections to intensify caution about the company's growth in 2023 in light of weak consumer spending power. Downgrade recommendation to **NEUTRAL** with a target price of VND63,521/share, representing a 0.5% expected total return at the end of 2023.

FRT announced net revenue of VND30,166bn (+34.1% YoY) and EAT of VND398bn (+10.3% YoY) in 2022. Divergence in the results was attributed to a higher SG&A expenses to net revenue ratio (13.7% in 2022 vs. 11.8% in 2021, mostly resulting from Long Chau) and financial profit turning from VND52bn in 2021 to negative VND82bn in 2022 (largely stemming from a 75% increase in interest expense), despite a widened gross margin (15.6% in 2022 vs. 14.0% in 2021, thanks to Long Chau's improved margin).

FRT's business results (VND bn)	2022	YoY growth
Net revenue	30,166	34.1%
FPT Shop	20,689	11.5%
Long Chau	9,596	141%
EAT	398	10.3%

Source: FRT

The **FPTShop chain** reported VND20,689bn (+11.5% YoY) in revenue, with Apple products accounting for c.50% of the total. The chain experienced a 22.5% YoY drop in revenue in 4Q22, irrespective of 32.3% YoY growth in 9M22. This was due to a high base in the same period in 2021 and weakening consumer spending, which may result from concerns about income uncertainty as well as job security amid the cloudy economic outlook, lay-off in many manufacturers, and higher interest rates discouraging consumer finance activity, etc.

The chain opened 139 new stores, bringing its number of stores in operation to 786 at the end of 2022 (YE2021: 647). FRT is prudent about opening new FPTShop stores in 2023 considering the economic outlook and consumer spending.

	2021	2022	2023F	2024F	2025F
Net Sales (VNDbn)	22,495	30,166	32,765	39,544	43,258
Growth	53.4%	34.1%	8.6%	20.7%	9.4%
EBITDA (VNDbn)	581	673	728	1,036	1,176
EBITDA margin	2.6%	2.2%	2.2%	2.6%	2.7%
Net Profit (VNDbn)	444	390	367	566	645
Growth	1697.4%	-12.0%	-5.9%	53.9%	14.1%
EPS (bonus-adjusted, VND)	3,746	3,295	3,101	4,773	5,447
Growth	2014.3%	-12.0%	-5.9%	53.9%	14.1%
ROE	30.9%	21.3%	17.0%	22.0%	20.7%
ROA	5.5%	3.7%	3.3%	4.7%	5.1%
ROIC	18.2%	10.5%	8.0%	9.9%	10.0%
Net debt/EBITDA (times)	2.7	5.1	5.6	4.4	3.9
EV/EBITDA (times)	19.0	16.4	15.1	10.6	9.4
EV/sales (times)	0.5	0.4	0.3	0.3	0.3
PER (times)	17.0	19.3	20.5	13.3	11.7
PBR (times)	3.0	3.8	3.3	2.7	2.2
DPS (VND)	500	500	500	500	500
Dividend yield	0.8%	0.8%	0.8%	0.8%	0.8%

Home appliances, which had been added to FPTShop since 2021, were present in 280 stores at the end of 2022 and are expected to expand to 600 stores in 2023. However, their contribution remained humble (accounting for c.2.5% of the chain's top line in 2022; gross margin of 20-25%). Additionally, according to the company's proposal approved in the recent annual general meeting, FRT might add bicycles, motorbikes, spare parts, maintenance and repair services to its products/services portfolio to optimize trading space. Some of these products are popular and can encounter competition from other retail chains and may take time to capture a significant portion in the overall results; however, they may help FPTShop increase revenue per store and customer traffic in the midst of the mature market of ICT products.

The Long Chau pharmacy chain continued to report vivid growth of 141% YoY in revenue, to VND9,596bn, in 2022 driven by strong network expansion and less impacts to drug consumption by the economic turmoil. The average revenue per store per quarter was estimated at VND2.7-3.2bn in 2Q, 3Q and 4Q22, after touching VND3.92bn in 1Q owing to surging demand for drugs/healthcare products given the COVID-19 outbreak. At YE2022, Long Chau had 937 shops in operation (YE2021: 400), covering 63 provinces/cities, compared with about 936 Pharmacity stores (63 provinces/cities) and 530 An Khang stores (63 provinces/cities). While Long Chau started to make profit from 2021, the others have not.

Long Chau earned c.VND53bn of EBT in 2022 (2021: VND4.9bn), 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 view of COVID-19 outbreak. The chain's gross margin achieved 23.6% in 2022, compared to 20.9% in 2021. Although this margin still has potential to broaden further, we do not assume a sharp pattern for the improvement considering the company's target of an affordable/low selling price strategy to expand the customer base.

Outlook

We project FRT's net revenue growth at 8.6% n/n but EAT may decrease by 5.5% YoY in 2023 due to negative earnings growth projection for FPTShop. Assuming 400 new stores opened in 2023, we expect Long Chau may deliver 49.3% growth in revenue and 67% YoY growth in EAT. Long Chau finds good opportunities to expand its network to districts of provinces thanks to lower rental costs and customers' trust on its prestige. Long Chau will continue to focus on attracting high-value bills, usually coming from customers that have demand for prescription drugs and suffer chronic diseases. For FPTShop, although we expect a brighter economic picture in the last months of 2023, we revise down our expectations for the chain to intensify caution amid the economic turbulence and weakening consumer spending power. The chain's revenue and EAT are projected to fall by 10% and 16% YoY, 12% and 20% lower than our previous projections, respectively. ICT products may generate narrower margins owing to promotion programs to keep customers and boost sales, though they may be partially offset by higher contribution of home appliances, which offer better margins.

Interest expense may remain an influential factor for FRT's bottom line because of its high net debt of VND3,459bn, with a net debt to equity ratio of 172% in 2022 (2021: VND1,562bn with 94%), though the company has been able to report relatively low net interest expenses to average net debt in recent years (e.g 3.3% in 2022, 5.4% in 2020, 3.8% in 2019).

Combining the DCF, PER and EV/Sales methods, **our target price for this stock is VND64k/share, equivalent to a total return of 0.5% at the end of 2023.**

FRT FINANCIALS MODEL	Price (VND):	63,700	Target (VND):	63,521	Mkt cap (VND bn):	7,535
(VND bn except where stated)	2021	2022	2023F	2024F	2025F	
Total Net Sales	22,495	30,166	32,765	39,544	43,258	
<i>Sales growth (%)</i>	<i>53.4%</i>	<i>34.1%</i>	<i>8.6%</i>	<i>20.7%</i>	<i>9.4%</i>	
FPT Shop	18,558	20,689	18,620	21,599	22,247	
Long Chau	3,937	9,477	14,145	17,944	21,011	
CoGS ex-dep'n	19,272	25,347	27,111	32,463	35,313	
Selling expenses	2,071	3,259	3,921	4,819	5,408	
G&A expenses	586	887	1,017	1,239	1,374	
Financial revenues	28	26	26	26	26	
Financial expenses	14	25	13	13	13	
EBITDA	581	673	728	1,036	1,176	
<i>EBITDA margin (%)</i>	<i>2.6%</i>	<i>2.2%</i>	<i>2.2%</i>	<i>2.6%</i>	<i>2.7%</i>	
Depreciation	72	115	159	185	214	
Operating profit	509	558	569	851	962	
<i>Operating profit margin (%)</i>	<i>2.3%</i>	<i>1.8%</i>	<i>1.7%</i>	<i>2.2%</i>	<i>2.2%</i>	
Other profits/losses	8	12	12	12	12	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(37)	84	132	143	150	
<i>as % of avg net debt</i>	<i>-4.4%</i>	<i>3.3%</i>	<i>3.5%</i>	<i>3.3%</i>	<i>3.3%</i>	
<i>Interest cover (x)</i>	<i>-13.7</i>	<i>6.7</i>	<i>4.3</i>	<i>5.9</i>	<i>6.4</i>	
Tax	110	88	73	144	165	
<i>Effective tax rate (%)</i>	<i>20.2%</i>	<i>18.5%</i>	<i>16.7%</i>	<i>20.3%</i>	<i>20.3%</i>	
Minority interest	0	8	9	10	13	
Attributable net profit	444	390	367	566	645	
Cash earnings	515	506	526	750	859	
Total number of shares	78,981,792	118,472,535	118,472,535	118,472,535	118,472,535	
EPS (VND) (after treasury shares)	5,619	3,295	3,101	4,773	5,447	
Bonus factor (x)	0.67	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	3,746	3,295	3,101	4,773	5,447	
<i>EPS growth (%)</i>	<i>2014.3%</i>	<i>-12.0%</i>	<i>-5.9%</i>	<i>53.9%</i>	<i>14.1%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	1,462	1,646	282	826	425
Capex	172	518	630	200	200
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	-342	-211	-160	-160	-160
Free cash flow	-1,461	-1,869	-546	-435	74
Share issues	10	11	-	-	-
Dividends paid	-	39	59	59	59
Increase in net debt	1,450	1,897	605	495	-15
Net debt, end of year	1,562	3,459	4,064	4,558	4,543
Shareholders' equity	1,662	2,008	2,316	2,823	3,409
BVPS (VND)	21,045	16,951	19,552	23,825	28,772
<i>Net debt / equity (%)</i>	<i>94.0%</i>	<i>172.2%</i>	<i>175.4%</i>	<i>161.5%</i>	<i>133.3%</i>
<i>Net debt / EBITDA (x)</i>	<i>2.7</i>	<i>5.1</i>	<i>5.6</i>	<i>4.4</i>	<i>3.9</i>
Total assets	10,820	10,524	11,437	12,438	13,009

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
<i>ROE</i>	<i>30.9%</i>	<i>21.3%</i>	<i>17.0%</i>	<i>22.0%</i>	<i>20.7%</i>
<i>ROA</i>	<i>5.5%</i>	<i>3.7%</i>	<i>3.3%</i>	<i>4.7%</i>	<i>5.1%</i>
<i>ROIC</i>	<i>18.2%</i>	<i>10.5%</i>	<i>8.0%</i>	<i>9.9%</i>	<i>10.0%</i>
<i>WACC</i>	<i>6.3%</i>	<i>7.4%</i>	<i>7.5%</i>	<i>7.6%</i>	<i>8.2%</i>
<i>EVA</i>	<i>11.9%</i>	<i>3.1%</i>	<i>0.5%</i>	<i>2.3%</i>	<i>1.8%</i>
<i>PER (x)</i>	<i>17.0</i>	<i>19.3</i>	<i>20.5</i>	<i>13.3</i>	<i>11.7</i>
<i>EV/EBITDA (x)</i>	<i>19.0</i>	<i>16.4</i>	<i>15.1</i>	<i>10.6</i>	<i>9.4</i>
<i>EV/FCF (x)</i>	<i>-7.5</i>	<i>-5.9</i>	<i>-20.2</i>	<i>-25.3</i>	<i>148.3</i>
<i>PBR (x)</i>	<i>3.0</i>	<i>3.8</i>	<i>3.3</i>	<i>2.7</i>	<i>2.2</i>
<i>PSR (x)</i>	<i>0.3</i>	<i>0.3</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>
<i>EV/sales (x)</i>	<i>0.5</i>	<i>0.4</i>	<i>0.3</i>	<i>0.3</i>	<i>0.3</i>
<i>PEG (x, 3 yr prospective)</i>	<i>0.0</i>	<i>1.6</i>	<i>1.0</i>	<i>0.5</i>	<i>1.0</i>
<i>Dividend yield</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>	<i>0.8%</i>

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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.

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

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

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