



FRT Update- NEUTRAL

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Company Update

Recommendation

NEUTRAL
HSX: FRT
Retail
Target price (VND)
109,045
Current price (VND)
102,000

Expected share price return

6.9%

Expected dividend yield

0.5%

Expected total return
7.4%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	71.0	7.5	40.0	88.1
Relative	60.7	7.3	45.9	72.5

Source: Bloomberg



Ownership

FPT Corp.	46.5%
CTBC VN EQ Fund	5.1%
Truswell Securities Inv. Trust Co.Ltd	4.9%
Vina Capital FD MGM	4.8%

Stock Statistics

20-Nov-23
Bloomberg code
FRT VN

52-week range (VND)

49,217-106,900

Shares O/S (m)

136

Mkt cap (VND bn)

13,910

Mkt cap (USD m)

573

Foreign room left (%)

12.6

Est. free float (m)

49.5

3m avg daily vol (shrs)

977,572

VND/USD

24,270

Index: VNIndex / HNX

1103.6/227.7

FPT DIGITAL RETAIL JSC (FRT VN)

The company witnessed a considerable shrink in its loss after tax in 3Q2023 against 2Q2023, thanks to improved profit margins of the FPTShop chain, outperforming our projections. We expect the company may return to profit in 2024, fueled by the same movement in the FPTShop chain and Long Chau's continued growth. Rating **NEUTRAL** and moving target price to 2024 at VND109,045/share.

FRT announced net revenue of VND8,236bn (+6.8% y/y) and loss after tax (LAT) of VND13bn in 3Q2023, weighed by the FPTShop chain's sluggish performance. However, the loss reduced significantly compared with that in 2Q2023 (-VND213bn). On a cumulative basis, FRT announced net revenue at VND23,160bn (+6.7% y/y) and LAT at VND226bn in 9M2023.

The **FPTShop chain**, contributing c.53% of FRT's sales in 9M2023, reported a slump of 19.8% y/y in revenue and LAT of VND387bn in 9M2023 due to weak consumer spending for ICT products & durable goods and price war among retailers.

The **Long Chau pharmacy chain**, whose contribution has enlarged rapidly to nearly half of FRT's sales, continued to deliver vivid growth of 68.9% y/y in revenue and 374% y/y in EAT in 9M2023, fostered by strong network expansion.

The company's gross margin climbed slightly to 15.7% in 9M2023 (9M2022: 15.5%) while the SG&A expenses to net revenue ratio soared to 15.8% in 9M2023 (9M2022: 13.7%). Financial loss increased to VND181bn from VND39bn in 9M2022, contributing to the loss.

Inventories rose by 12.4% and 20% compared to the end of 2022 and 1H2023, respectively, to VND7,290bn; of which, FPTShop captured 54%. The net debt to equity ratio remained high, increasing from 172% at YE2022 to 294% at the end of September 2023.

Looking to 2024, we project the company may return to profit with EAT of VND351bn on net revenue of VND37,443bn (+16.4% y/y). **Our target price for FRT by the end of 2024 is VND109,045/share, equivalent to a total return of 7.4%.**

	2021	2022	2023F	2024F	2025F
Net Sales (VNDbn)	22,495	30,166	32,160	37,443	42,564
Growth	53.4%	34.1%	6.6%	16.4%	13.7%
EBITDA (VNDbn)	581	673	367	969	1,287
EBITDA margin	2.6%	2.2%	1.1%	2.6%	3.0%
Net Profit (VNDbn)	444	390	(173)	324	501
Growth	1697.4%	-12.0%	-	-	54.8%
EPS (bonus-adjusted, VND)	3,257	2,865	(1,269)	2,375	3,676
Growth	2014.3%	-12.0%	-	-	54.8%
ROE	30.9%	21.3%	-9.2%	17.1%	22.4%
ROA	5.5%	3.7%	-1.6%	2.7%	3.9%
ROIC	18.2%	10.5%	0.6%	7.5%	9.2%
Net debt/EBITDA (times)	2.7	5.1	13.0	5.5	4.4
EV/EBITDA (times)	29.8	25.7	47.3	17.9	13.5
EV/sales (times)	0.8	0.6	0.5	0.5	0.4
PER (times)	31.2	35.4	(80.4)	43.0	27.8
PBR (times)	4.8	6.0	7.9	6.9	5.7
DPS (VND)	500	500	500	500	500
Dividend yield	0.5%	0.5%	0.5%	0.5%	0.5%

9M2023 results still looked weak due to mixed results of FPTShop & LongChau

FRT announced net revenue of VND23,160bn (+6.7% y/y) and LAT of VND226bn in 9M2023, including LAT of VND13bn in 3Q2023. The moderate revenue growth was weighed by a 19.8% y/y drop in the FPTShop chain despite Long Chau's glorious performance.

Revenue	9M2023 (VND bn)	Sales contribution	y/y growth in 9M2023	y/y growth in 3Q2023	q/q growth in 3Q2023
FPTShop	12,222	52%	-19.8%	-20.8%	+13.8%
Long Chau	11,088	48%	+68.9%	+63.7%	+15.9%

Source: FRT, ACBS

The LAT was largely attributed to a higher SG&A expenses to net revenue ratio and an increase in financial loss. Specifically, the increase in the SG&A to net revenue ratio (to 15.8% in 9M2023 compared to 13.7% in 9M2022) was driven by the drop in FPTShop's revenue though its SG&A expenses were similar to the same period last year's. Meanwhile, Long Chau performed more effectively with revenue growth outpacing the rise in SG&A expenses.

Financial loss jumped by 364% y/y, mainly stemming from a 72% decrease in interest income but a 42% increase in interest expense. Interest expense is an influential factor for FRT's bottom line because of the company's high leverage, mostly short-term debt, to finance working capital and network expansion (mainly for Long Chau), though the company was able to report relatively low net interest expense to average net debt in recent years (e.g 3.3% in 2022, 5.4% in 2020, 3.8% in 2019). The net debt to equity ratio was 294% at the end of September 2023 compared to 172% at the end of 2022.

Inventories rose by 12.4% and 20% compared to the end of 2022 and 1H2023, respectively, to VND7,290bn; of which, FPTShop captured 54%. FPTShop's inventories increased by 28% at the end of Sept 2023 compared to the end of 1H2023, explained by a preparation of products for the back-to-school season (e.g: laptops) and iPhones that were ready to deliver to customers. Further details were not disclosed. Regarding Long Chau, we estimated that its inventories increased by 12% and 19% compared to the end of 1H2023 and the end of 2022, respectively. However, if looking at inventories per store, the rate was in a decreasing tendency (from VND3.0bn per store at the end of 2022 to VND2.4bn at the end of Sept 2023).

The overall gross margin climbed slightly to 15.7% in 9M2023 (9M2022: 15.5%), irrespective of a squeeze in FPTShop's gross margin, thanks to Long Chau's increasing contribution.

FRT's business results	3Q2023	3Q2022	y/y growth	9M2023	9M2022	y/y growth
Net revenue (VNDbn)	8,236	7,709	+6.8%	23,160	21,708	+6.7%
EAT (VNDbn)	-13	85		-226	301	
Gross margin	16.7%	15.5%		15.7%	15.5%	
SG&A expenses to net revenue ratio	16.1%	13.9%		15.8%	13.7%	

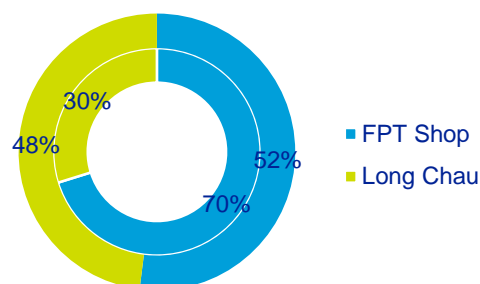
Source: FRT; ACBS

However, there have been some improvements in 3Q2023 against 2Q2023, albeit still on a y/y slide

EAT (VND bn)	9M2023	3Q2023	2Q2023	9M2022
FPTShop	-387	-69	-252	267
Long Chau	161	56	37	34

Source: ACBS' estimate

Revenue by chains in 9M2023



Source: FRT; ACBS. Inside circle describes 9M2022 and the outside one describes 9M2023.

FPTShop generated revenue of VND12,222bn (-19.8% y/y) and LAT of VND387bn in 9M2023 due to i) weak consumer spending and ii) price war among ICT retailers. We estimated mobile phone products occupied about 70% of the chain's revenue; 40-45% of which came from iPhones. As the newly launched iPhone 15 series are officially available in Vietnam from late September 2023, their revenue is expected to partially improve retailers' performance, mainly in 4Q2023, amidst the market's gloominess. According to the company's preliminary data, these products generated y/y revenue growth though detailed numbers were not revealed.

Home appliances, which has been added to FPTShop since 2021, were present in almost all of its stores; still, their contribution remains humble (5%-6% of the chain's top line).

Although the negative y/y growth continued, FPTShop witnessed positive q/q growth along with a shrink in LAT, thanks to a widened gross margin in 3Q2023 (11.3%) against 2Q2023 (8.1%) as the price war pressure somewhat diminished in the period.

The chain had 791 stores in operation at the end of September 2023, up by five stores compared to YE2022. We do not expect a significant change in its number of stores in the future given the market's maturation and that the company is prudent about opening new stores considering the economic conditions.

FPTShop	9M2023	3Q2023	6M2023
y/y sales growth	-19.8%	-20.8%	-19.2%
LAT (VNDbn)	387	69	318
Gross margin	9.7%	11.3%	8.9%
SG&A expenses to net revenue ratio	12.4%	12.8%	12.1%
Number of stores (as of Sept 2023)	791		
+/- stores from YE2022	+5		

Source: FRT; ACBS

The Long Chau pharmacy chain continued to deliver vibrant growth of 68.9% y/y in revenue, fostered by robust network expansion, enlarging its contribution to nearly

half of FRT's sales. The average revenue per store per quarter was estimated at VND3.0bn for 3Q (equivalent to an average VND1bn/month), contracting by just 6% y/y irrespective of a surge in the number of stores. Long Chau has been focusing on attracting high-value bills, usually coming from customers that have frequent demand for prescription drugs and suffer chronic diseases.

At the end of September 2023, Long Chau had 1,384 shops in operation (YE2022: 937) nationwide, compared with about 936 Pharmacy stores (as of 31 May 2023) and 540 An Khang stores. While Long Chau has made net profit, the others have not. The chain finds good opportunities to expand its network to districts of provinces thanks to lower rental costs and customers' trust on its prestige.

	Number of stores	+/- from YE2022	Avg. sales per store/month (VNDbn)	Note
Long Chau	1,384	+497	1	as of Sept 2023
Pharmacy	936	-81	n/a	as of May 31, 2023
An Khang	540	+40	0.42	as of Sept 2023
Trung Son	141	n/a	n/a	as of Nov 21, 2023

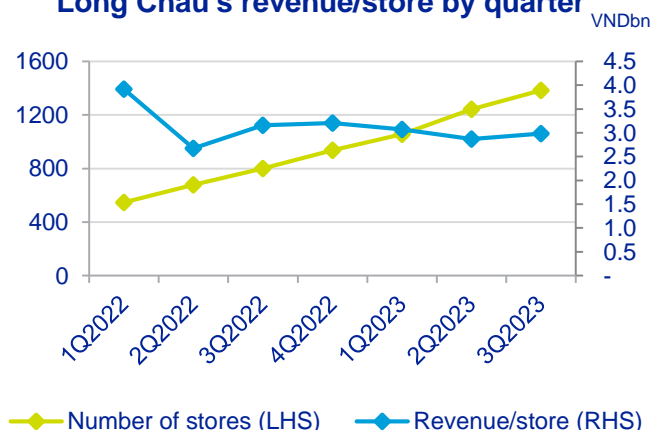
Source: FRT, MWG, Mekong Capital, ACBS

We estimate Long Chau earned VND161bn of EAT in 9M2023, jumping by 374% y/y, with a gross margin of 22.4% (9M2022: 23.1%). Although the gross 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.

Long Chau	9M2023	3Q2023	6M2023
y/y sales growth	68.9%	63.7%	72.3%
y/y EAT growth	373.5%	1597%	241%
Gross margin	22.4%	21.9%	22.7%
SG&A expenses to net revenue ratio	19.7%	19.4%	19.8%

Source: FRT; ACBS

Long Chau's revenue/store by quarter



Source: FRT; ACBS

Besides the existing businesses, FRT has recently expanded to vaccination centers, which are targeted to take advantage of Long Chau's customer base and seek growth opportunities from this untapped market. As of Nov 3rd 2023, the company had six vaccination centers, located in Ha Noi (2), HCMC (2), Dong Nai (1), Tay Ninh (1).

However, this business is still in the trial phase; further information has not been disclosed.

Earnings forecasts for 2023_2024

We project FRT's EAT may turn from negative in 2023 to positive in 2024 thanks to continued growth of Long Chau and no loss from FPTShop.

For Long Chau, as the company targets to keep expanding its store network, we assume that 300 new stores may be opened in 2024 and expect Long Chau may deliver 26.8% y/y growth in revenue and 22.5% y/y growth in EAT.

For FPTShop, we projected its revenue may grow by 7.1% y/y in 2024, based on expectations that consumer spending may see some improvements when economic difficulties diminish. The chain may return to profit in 2024, albeit still far from the previous years' levels, with gross margin being assumed to climb to 10.9% (from 10.2% expected in 2023) on the back of softer price war pressure.

Valuation

Our projections for FRT's net revenue and EAT are VND37,443bn (+16.4% y/y) and VND351bn in 2024. Combining the DCF and EV/Sales methods, **our target price for FRT is VND109,045/share.**

FRT FINANCIALS MODEL	Price (VND):	102,000	Target (VND):	109,045	Mkt cap (VND bn):	13,910
(VND bn except where stated)	2021	2022	2023F	2024F	2025F	
Total Net Sales	22,495	30,166	32,160	37,443	42,564	
<i>Sales growth (%)</i>	<i>53.4%</i>	<i>34.1%</i>	<i>6.6%</i>	<i>16.4%</i>	<i>13.7%</i>	
CoGS	19,343	25,463	27,044	31,115	35,166	
Selling expenses ex-dep'n	2,003	3,152	3,838	4,227	4,820	
G&A expenses ex-dep'n	582	879	921	1,141	1,301	
Financial revenues	28	26	20	20	20	
Financial expenses	14	25	10	10	10	
EBITDA	581	673	367	969	1,287	
<i>EBITDA margin (%)</i>	<i>2.6%</i>	<i>2.2%</i>	<i>1.1%</i>	<i>2.6%</i>	<i>3.0%</i>	
Depreciation	72	115	227	318	367	
Operating profit	509	558	140	651	920	
<i>Operating profit margin (%)</i>	<i>2.3%</i>	<i>1.8%</i>	<i>0.4%</i>	<i>1.7%</i>	<i>2.2%</i>	
Other profits/losses	8	12	12	12	12	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	(37)	84	258	246	266	
<i>as % of avg net debt</i>	<i>-4.4%</i>	<i>3.3%</i>	<i>6.3%</i>	<i>4.9%</i>	<i>4.8%</i>	
<i>Interest cover (x)</i>	<i>-13.7</i>	<i>6.7</i>	<i>0.5</i>	<i>2.6</i>	<i>3.5</i>	
Tax	110	88	44	66	133	
<i>Effective tax rate (%)</i>	<i>20.2%</i>	<i>18.5%</i>	<i>-37.6%</i>	<i>16.4%</i>	<i>20.4%</i>	
Minority interest	0	8	22	27	32	
Attributable net profit	444	390	-173	324	501	
Cash earnings	515	506	54	641	868	
Total number of shares	78,981,792	118,472,535	136,242,389	136,242,389	136,242,389	
EPS (VND) (after treasury shares)	5,619	3,295	-1,269	2,375	3,676	
Bonus factor (x)	0.58	0.87	1.00	1.00	1.00	
Adjusted EPS (VND)	3,257	2,865	-1,269	2,375	3,676	
<i>EPS growth (%)</i>	<i>2014.3%</i>	<i>-12.0%</i>	<i>-</i>	<i>-</i>	<i>54.8%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	1,462	1,646	382	648	643
Capex	172	518	752	360	240
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	(342)	(211)	(160)	(160)	(160)
Free cash flow	-1,461	-1,869	-1,240	-527	-176
Share issues	10	11	-	-	-
Dividends paid	-	39	68	68	68
Increase in net debt	1,450	1,897	1,308	595	244
Net debt, end of year	1,562	3,459	4,767	5,362	5,605
Shareholders' equity	1,662	2,008	1,767	2,023	2,455
BVPS (VND)	21,045	16,951	12,971	14,846	18,021
Net debt / equity (%)	94.0%	172.2%	269.7%	265.1%	228.3%
Net debt / EBITDA (x)	2.7	5.1	13.0	5.5	4.4
Total assets	10,820	10,524	11,591	12,441	13,117

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	30.9%	21.3%	-9.2%	17.1%	22.4%
ROA	5.5%	3.7%	-1.6%	2.7%	3.9%
ROIC	18.2%	10.5%	0.6%	7.5%	9.2%
WACC	6.8%	7.8%	8.1%	7.3%	7.7%
EVA	11.4%	2.8%	-7.6%	0.1%	1.5%
PER (x)	31.2	35.4	-80.0	43.0	27.8
EV/EBITDA (x)	29.8	25.7	47.1	17.9	13.5
EV/FCF (x)	-11.8	-9.2	-13.9	-32.9	-98.8
PBR (x)	4.8	6.0	7.8	6.9	5.7
PSR (x)	0.6	0.5	0.4	0.4	0.3
EV/sales (x)	0.8	0.6	0.5	0.5	0.4
PEG (x, 3 yr prospective)	0.1	-0.3	0.7	-0.6	0.9
Dividend yield	0.5%	0.5%	0.5%	0.5%	0.5%

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DISCLAIMER

Our Recommendation System

BUY: prospective 12 month VND total return (including dividends) will be more than 20%.

OUTPERFORM: prospective 12 month VND total return (including dividends) will be 10% to 20%.

NEUTRAL: prospective 12 month VND total return (including dividends) will be -10% to 10%.

UNDERPERFORM: prospective 12 month VND total return (including dividends) will be will be -20% to -10%.

SELL: prospective 12 month VND total return (including dividends) will be lower than -20%.

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