



FRT Update- BUY

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Company Update

Recommendation

BUY

HSX: FRT

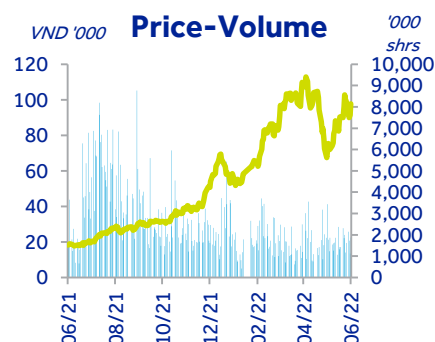
Retail

Target price (VND)	113,365
Current price (VND)	97,700
Expected share price return	15.5%
Expected dividend yield	1.0%
Expected total return	16.5%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	46.8	26.0	7.9	391.3
Relative	63.8	23.1	24.1	401.4

Source: Bloomberg



Ownership

FPT Corp.	46.5%
VinaCapital FD MGM JSC	4.8%
VOF Investment	4.8%
Amersham Industries	2.9%

Stock Statistics

16-Jun-22

Bloomberg code	FRT VN
52-week range (VND)	17,600-116,667
Shares O/S (m)	118
Mkt cap (VND bn)	11,575
Mkt cap (USD m)	503
Foreign room left (%)	29.9
Est. free float (m)	51.3
3m avg daily vol (shrs)	1,614,245
VND/USD	23,020
Index: VNIndex / HNX	1236.6/287.7

FPT DIGITAL RETAIL JSC (FRT VN)

We give a **BUY** recommendation on the stock with a target price of VND113,365/share, representing a 16.5% expected total return, fostered by Long Chau pharmacy chain's potential outlook and improvements in its profitability.

FRT's business picture was refreshed by advances in its results. The company reported vigorous growth in 2021 – net revenue of VND22,495bn (+53% YoY) and EAT of VND444bn (2020: VND10bn) – and 1Q2022. In addition to growing from a low base 2020, the performance came as a result of:

- Expansion of Long Chau pharmacy chain's scale and profitability.** Besides growth from network expansion, the chain's sales benefited from increased demand for its products due to the strong outbreak of COVID-19 in Vietnam in 2021 and early 2022. Of note, Long Chau started to post positive EAT in 2021, albeit still moderate at VND3.7bn in our estimate.
- Surging demand for laptops and other devices** serving working from home, online learning, etc. amid the outbreak and in social distancing stages. Sales of other technology devices also recovered dramatically after the end of social distancing.

In 1Q2022, FRT recorded net revenue growth of 66.9% YoY to VND7,786bn. FPT Shop chain generated VND5,646bn (+38.3% YoY), in which laptop revenue continued to rise by 74% YoY, accounting for 25% of FPT Shop's revenue. Still, we do not expect this growth to sustain in the following quarters, given high base last year and that the working-from-office and direct learning modes have been resumed as the pandemic cools down now. FPT Shop opened 29 new shops in 1Q, bringing its number of shops in operation to 676 at the end of March 2022 (YE2021: 647). In 2021, the chain expanded its product portfolio by adding small home appliances to shops that are large enough, under shop-in-shop model. This product group is set to be present in at least 160 shops at the end of this year, from 100 shops currently, and its performance will decide next steps of expansion in terms of product category (e.g larger appliances), scale, business model, etc. However, its revenue contribution remains humble at this time. We think the expansion to home appliances may support FPT Shop in improving customer traffic, taking advantage of its customer base to enhance revenue per store. Deeper penetration in the consumer electronics products and

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	14,661	22,495	27,806	31,587	35,428
Growth	-11.9%	53.4%	23.6%	13.6%	12.2%
EBITDA (VNDbn)	73	513	697	840	991
EBITDA margin	0.5%	2.3%	2.5%	2.7%	2.8%
Net Profit (VNDbn)	25	444	572	671	784
Growth	-88.4%	1697.4%	29.0%	17.2%	16.8%
EPS (bonus-adjusted, VND)	177	3,746	4,594	5,384	6,290
Growth	-89.8%	2014.3%	22.6%	17.2%	16.8%
ROE	2.0%	30.9%	30.2%	27.9%	26.0%
ROA	0.4%	5.5%	5.2%	5.9%	6.6%
ROIC	2.4%	11.8%	10.9%	12.0%	13.3%
Net debt/EBITDA (times)	13.6	6.1	4.5	3.5	2.7
EV/EBITDA (times)	147.5	21.1	15.5	12.9	10.9
EV/sales (times)	0.7	0.5	0.4	0.3	0.3
PER (times)	551.4	26.1	21.3	18.1	15.5
PBR (times)	6.4	4.6	5.5	4.4	3.5
DPS (VND)	-	500	1,000	1,000	1,000
Dividend yield	0.0%	0.5%	1.0%	1.0%	1.0%

home appliances market, if any, may aim to exploit the market potential rather than replacing the leader, dienmayxanh.com chain, which has consolidated its dominant position for years and is performing well.

FRT's business results (VND bn)	1Q2022	YoY growth
Net revenue	7,786	66.9%
FPT Shop	5,646	38.3%
Long Chau	2,159	271%
EAT	169	447%

Source: FRT

Long Chau witnessed its revenue jumping by 3.7 fold to VND2,159bn and EAT achieving around VND31bn. We estimate the average revenue per store per quarter was VND3.95bn in 1Q2022, compared with VND2.6bn in 1Q2021 and VND3.6-3.8bn in 3Q-4Q2021. As of 1Q2022, the chain had 546 shops in operation (YE2021: 400) and targets to increase this number to 700-800 at the end of 2022.

In terms of earnings, FRT generated VND169bn of EAT in 1Q2022, increasing by c.5 fold from 1Q2021's number, thanks to its gross margin enlarging from 12.6% in 1Q2021 to 15.8% in 1Q2022. Long Chau was in the spotlight as we estimate Long Chau's gross margin achieved 24.4% in 1Q2022, compared to 20.1% in 1Q2021, stemming from higher demand for health care/supplement products, which offer high profit margins, in light of the pandemic spreading. However, FRT projects Long Chau's full-year gross margin at c.22% because the proportion of health care/supplement products may normalize when the pandemic cools down. Due to higher contribution of health care/supplement products, revenue contribution of drugs decreased from c.60% to 50%+ in 1Q2022. Although Long Chau is one of a few pharmacy chains that were allowed to distribute COVID-19 treatment pills – Molnupiravir – we think this helps to bring the pills to patients systematically as well as calm down the pandemic and is not aimed to earn significant profit.

For the whole year 2022, we project FRT's net revenue and EAT at VND27,806bn (+23.6% YoY) and VND582bn (+31.1% YoY), quite similar to the company's plan. In which, we project Long Chau accounts for c.30% of FRT's net revenue (from 17.5% in 2021) and c.15% of EAT. For a long-term outlook, we believe Long Chau will be the company's growth catalyst while FPT Shop's growth is assumed at one digit. Besides Long Chau, other chains such as Pharmacity and recently An Khang also plan to gain sizable shares of Vietnam pharmaceutical retail market, which is still surrounded by a myriad of mom-and-pop stores. Despite possibly higher competition, the market is believed to offer huge growth opportunities as the emergence of retail chains will bring a new business model to this fragmented market. **Combining the DCF and EV/Sales methods, our target price for this stock is VND113k/share, equivalent to a total return of 16.5% at the year end.**

FRT FINANCIALS MODEL	Price (VND):	97,700	Target (VND):	113,365	Mkt cap (VND bn):	11,575
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	14,661	22,495	27,806	31,587	35,428	
<i>Sales growth (%)</i>	<i>-11.9%</i>	<i>53.4%</i>	<i>23.6%</i>	<i>13.6%</i>	<i>12.2%</i>	
CoGS ex-dep'n	12,619	19,340	23,537	26,485	29,495	
Selling expenses	1,566	2,071	2,791	3,345	3,887	
G&A expenses	398	586	791	926	1,063	
Financial revenues	15	28	18	18	18	
Financial expenses	20	14	8	9	10	
EBITDA	73	513	697	840	991	
<i>EBITDA margin (%)</i>	<i>0.5%</i>	<i>2.3%</i>	<i>2.5%</i>	<i>2.7%</i>	<i>2.8%</i>	
Depreciation	1	4	6	5	5	
Operating profit	72	509	692	835	986	
<i>Operating profit margin (%)</i>	<i>0.5%</i>	<i>2.3%</i>	<i>2.5%</i>	<i>2.6%</i>	<i>2.8%</i>	
Other profits/losses	14	8	8	8	8	
Profits/Losses from associates	-	-	-	-	-	
Net interest expense	58	(37)	(28)	(17)	(16)	
<i>as % of avg net debt</i>	<i>3.5%</i>	<i>-1.8%</i>	<i>-0.9%</i>	<i>-0.5%</i>	<i>-0.6%</i>	
<i>Interest cover (x)</i>	<i>1.2</i>	<i>-13.7</i>	<i>-24.8</i>	<i>-49.8</i>	<i>-59.8</i>	
Tax	18	110	146	172	202	
<i>Effective tax rate (%)</i>	<i>127.3%</i>	<i>20.2%</i>	<i>20.2%</i>	<i>20.2%</i>	<i>20.2%</i>	
Minority interest	(15)	0	10	17	25	
Attributable net profit	25	444	572	671	784	
Cash earnings	26	448	578	676	788	
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	4,594	5,384	6,290	
Bonus factor (x)	0.67	0.67	1.00	1.00	1.00	
Adjusted EPS (VND)	177	3,746	4,594	5,384	6,290	
<i>EPS growth (%)</i>	<i>-89.8%</i>	<i>2014.3%</i>	<i>22.6%</i>	<i>17.2%</i>	<i>16.8%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-1,321	2,208	504	353	360
Capex	3	2	2	2	2
Change in investment in affiliates	-	-	-	-	-
Other cashflow items	73	-373	-	-	-
Free cash flow	1,416	-2,136	72	321	426
Share issues	18	10	16	-	-
Dividends paid	79	-	121	121	121
Increase in net debt	-1,355	2,125	33	-200	-305
Net debt, end of year	996	3,122	3,155	2,955	2,650
Shareholders' equity	1,214	1,662	2,129	2,679	3,342
BVPS (VND)	15,367	21,045	17,622	22,173	27,657
Net debt / equity (%)	82.1%	187.8%	148.2%	110.3%	79.3%
Net debt / EBITDA (x)	13.6	6.1	4.5	3.5	2.7
Total assets	5,388	10,786	11,287	11,637	11,995

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	2.0%	30.9%	30.2%	27.9%	26.0%
ROA	0.4%	5.5%	5.2%	5.9%	6.6%
ROIC	2.4%	11.8%	10.9%	12.0%	13.3%
WACC	8.2%	3.4%	4.6%	5.8%	6.8%
EVA	-5.7%	8.4%	6.3%	6.3%	6.4%
PER (x)	551.4	26.1	21.3	18.1	15.5
EV/EBITDA (x)	147.5	21.1	15.5	12.9	10.9
EV/FCF (x)	7.7	-5.1	151.1	33.8	25.4
PBR (x)	6.4	4.6	5.5	4.4	3.5
PSR (x)	0.5	0.3	0.3	0.2	0.2
EV/sales (x)	0.7	0.5	0.4	0.3	0.3
PEG (x, 3 yr prospective)	0.8	0.0	1.1	1.2	1.3
Dividend yield	0.0%	0.5%	1.0%	1.0%	1.0%

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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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