

FPT Digital Retail (FRT)

Focusing all resources on Long Chau chain

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Business results are positive again, NPAT recorded a profit after three consecutive quarters of losses

At the end of 1Q24, FPT Digital Retail (FRT) posted VND9,042 billion in net revenue (+17% YoY), of which online revenue reached VND1,555 billion (+10% YoY). Gross profit hit VND1,807 billion, equivalent to a GPM of 20% (+4.7ppts YoY, +2.5ppts QoQ). NPAT was VND60.7 billion, a sharp increase vs VND2 billion in 1Q23, recording profit for the first time after three quarters of losses.

Long Chau maintains growth momentum, making major contributions to the entire company

Long Chau pharmacy chain brought in VND5,534 billion in revenue (61% of total revenue of the parent company), growing 68% YoY. Sales per store reached VND1.2 billion a month. In 1Q, Long Chau continued to open 90 new stores on the target of 400 new stores for the whole year. The chain's net profit is estimated at VND110 billion, doubling the same period last year.

FPT Shop continues to record subdued results

FPT Shop chain continued to show subdued performance with net revenue reaching VND3,583 billion (-20.6% YoY), recording the sixth straight quarter of negative growth. The chain had to close an additional 12 stores to optimize costs in the quarter. The positive point is that GPM of FPT Shop improved by 3.9ppts YoY, and financial costs also decreased 50% thanks to changing the product portfolio. However, it still recorded a net loss of more than VND50 billion.

Valuation: BUY rating – Target price VND207,000/share

We forecast FRT's 2024 gross profit will reach VND7,302 on revenue of VND38,066 billion (+19.5% YoY), equivalent to a GPM of 19.2% (+3ppts YoY). NPAT-MI may hit VND120 billion. We gave a BUY rating to FRT shares with a target price of VND207,000 based on the bright prospects of Long Chau chain.

Buy change

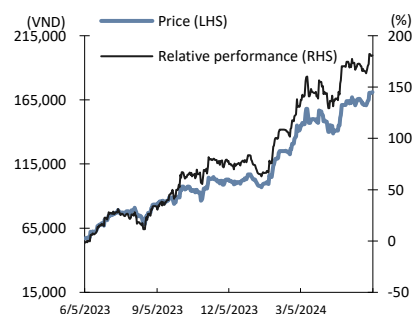
Target price	VND207,000
Upside	20%
Current price (Jun 10, 2024)	VND172,500
Consensus target price	VND163,500
Market cap (VNDtn/USDbn)	23.0/0.9

Trading data	
Free float	47.1%
3M avg trading value (VNDbn/USDmn)	133.8/5.3
Foreign ownership	35.4%
Major shareholder	FPT Corporation (46.5%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	4.3	17.9	68.0	199.8
Relative	-0.8	16.9	53.0	182.9

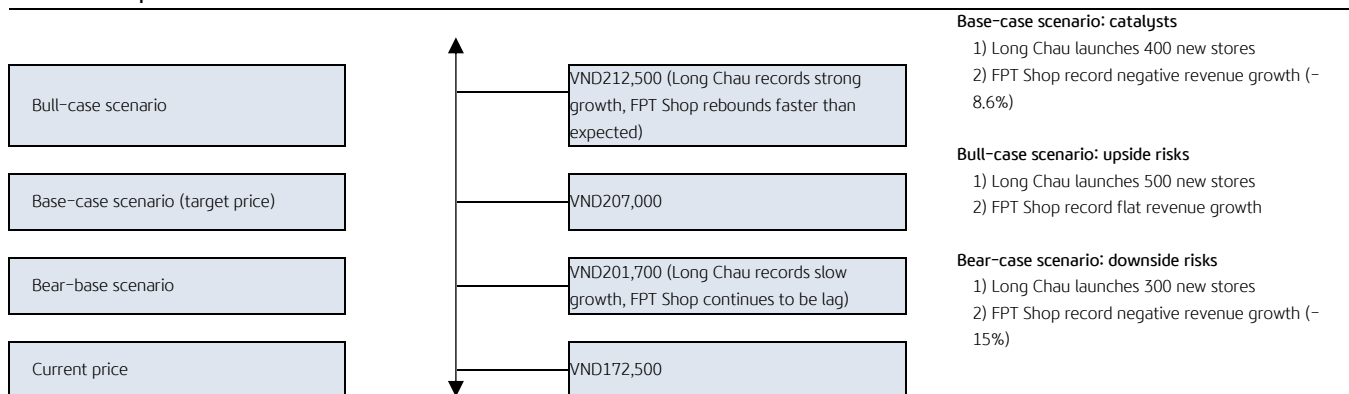
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	30,166	31,850	38,066	45,381
Operating income/loss (VNDbn)	474	(297)	857	1,470
NPAT-MI (VNDbn)	390	(346)	120	403
EPS (VND)	336	(242)	151	391
EPS growth (%)	-40%	N/A	N/A	158%
P/E (x)	58.7	(71.0)	113.4	43.9
P/B (x)	11.4	13.6	12.6	10.1
ROE (%)	21%	-17%	12%	25%
Dividend yield (%)	0.2%	0.3%	0.0%	0.3%



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	38,548	44,216	38,219	45,563	0%	3%
EBIT	637	987	489	846	-23%	-14%
NP after MI	339	502	120	403	-65%	-20%

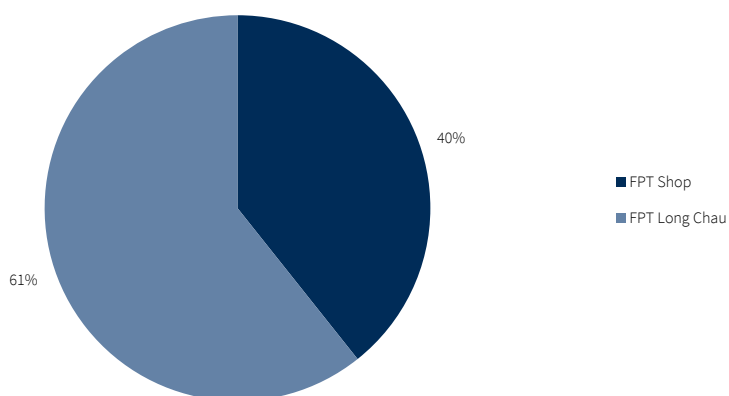
Source: KB Securities Vietnam

KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	38,219	45,563	39,338	47,773	-3%	-5%
EBIT	489	846	546	1,038	-10%	-18%
NP after MI	120	403	123	469	-3%	-14%

Source: Bloomberg, KB Securities Vietnam

Revenue composition (1Q24)



Source: FPT Digital Retail, KB Securities Vietnam

Business operation

FPT Digital Retail JSC (FRT) was established in 2012. It is an affiliated company of FPT Corporation and owns two large retail chains, FPT Shop and FPT Long Chau. FPT Shop sells smartphones and laptop products with a market share of about 15-20%, ranking second in the industry. FPT Long Chau trades in pharmaceutical products, is the first profitable pharmaceutical retail chain and has the largest market share (estimated at over 20%).

1Q24 performance updates

Long Chau is the mainstay to the entire company

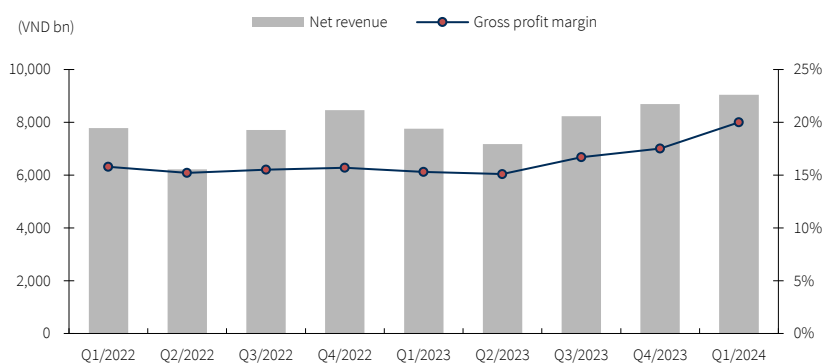
At the end of 1Q24, FRT posted VND9,042 billion in net revenue (+17% YoY) and VND60.7 billion in NPAT, a sharp increase vs VND2 billion in 1Q23. FPT Long Chau continues to be the main growth driver of the whole business, while FPT Shop continued to record a loss of more than VND50 billion.

Table 1. FRT – Updated business results

(VNDbn, %)	1Q23	1Q24	+/-%YoY	3M23	3M24	+/-%YoY	Notes
Revenue	7,753	9,042	16.6%	7,753	9,042	16.6%	
FPT Shop	4,513	3,583	-20.6%	4,513	3,583	-20.6%	The ICT industry recovered slowly, FPT Shop's competitors accelerated after the price war.
FPT Long Chau	3,284	5,534	68.5%	3,284	5,534	68.5%	Long Chau launched 90 new stores, bringing the total number of stores to nearly 1,600 stores. Sales per store per month reached VND1.2 billion.
Gross profit	1,186	1,807	52.4%	1,186	1,807	52.4%	GPM improved thanks to (1) FPT Shop changing product structure to higher margin products; (2) Long Chau's ability to negotiate good prices with suppliers, reducing the order cancellation rate.
Gross profit margin (GPM)	15.3%	20.0%	4.7ppts	15.3%	20.0%	4.7ppts	
Financial income	17	25	47.1%	17	25	47.1%	
Financial expenses	-86	-61	-29.1%	-86	-61	-29.1%	FRT can access loans with good interest rates, helping reduce financial costs.
SG&A	-1,119	-1,683	50.4%	-1,119	-1,683	50.4%	
Operating profit/loss	-2	89	N/A	-2	89	N/A	
Profit before taxes (PBT)	2	89	4350.0%	2	89	4350.0%	Although FPT Shop continued to record losses, thanks to contributions from Long Chau, FRT start to post profit after three consecutive quarters of recording losses.
Profit after taxes (NPAT)	2	61	2950.0%	2	61	2950.0%	
NP after MI	-5	39	N/A	-5	39	N/A	

Source: FPT Digital Retail, KB Securities Vietnam

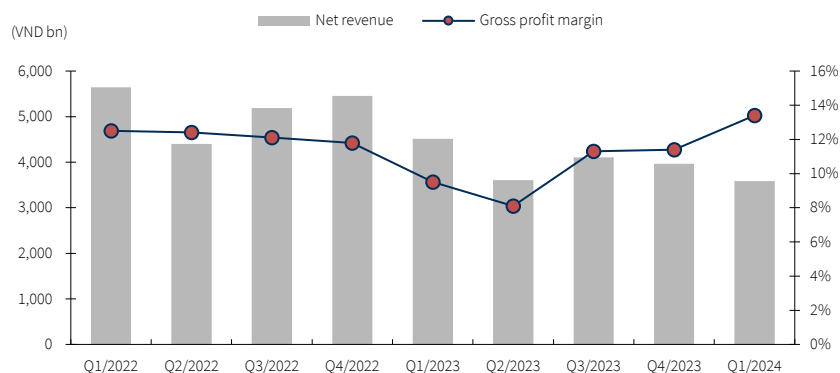
Fig 2. FRT – Net revenue & GPM (VNDbn, %)



Source: FPT Digital Retail, KB Securities Vietnam

Revenue of the FPT Shop chain has been recording negative growth for six straight quarters. However, thanks to changing product structure and increasing sales of household items with higher profit margins, its GPM has improved, bringing in a modest gross profit growth.

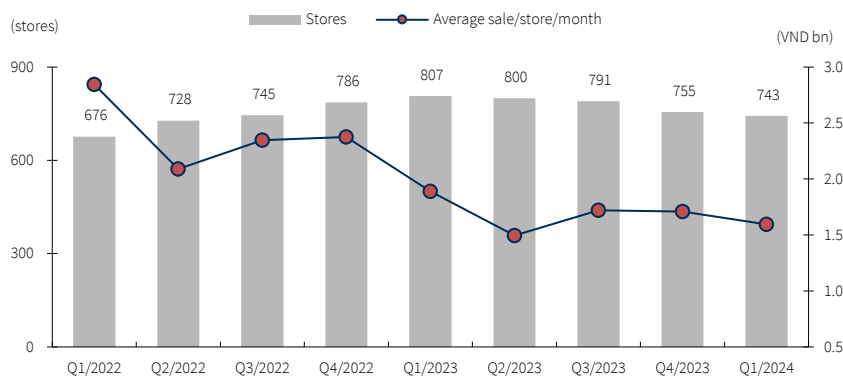
Fig 3. FPT Shop – Net revenue & GPM (VNDbn, %)



Source: FPT Digital Retail, KB Securities Vietnam

FPT Shop continued to close stores to optimize costs, but the average sales per store showed no signs of improvement.

Fig 4. FPT Shop – Store number and average sales (store, VNDbn)



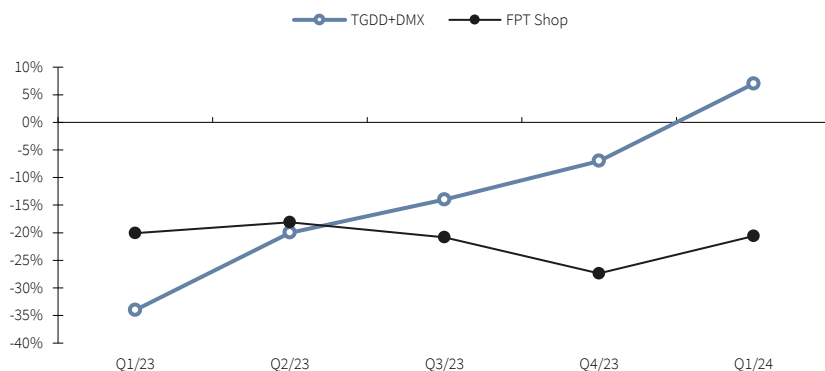
Source: FPT Digital Retail, KB Securities Vietnam

FPT Shop is a laggard in the recovery process of the ICT industry

After ending the price war to gain market share, FPT Shop is slower in the recovery process and seems to be losing market share to competitors. The chain continues to post negative growth in revenue in six straight quarters, which has shown no signs of ending. Although there have been actions to close stores to cut costs, the chain still recorded a loss for the fifth consecutive quarter.

FPT Shop has recently started selling more electrical and household appliances to take advantage of market coverage and increase profit margins. The positive point is that although revenue decreased, gross profit has grown again. However, we assess that the electronics market already has the presence of many long-standing business chains such as Dienmayxanh, Mediamart, Nguyen Kim, and so on. FPT Shop does not have specific advantages, so it will be difficult to make a breakthrough when entering this new industry. We forecast that the FPT Shop chain will continue to record negative growth in revenue this year and recover slowly in the following years due to industry saturation and fierce competition from other chains. Meanwhile, FRT is also focusing all its efforts on the Long Chau chain, so the FPT Shop chain may have less resources.

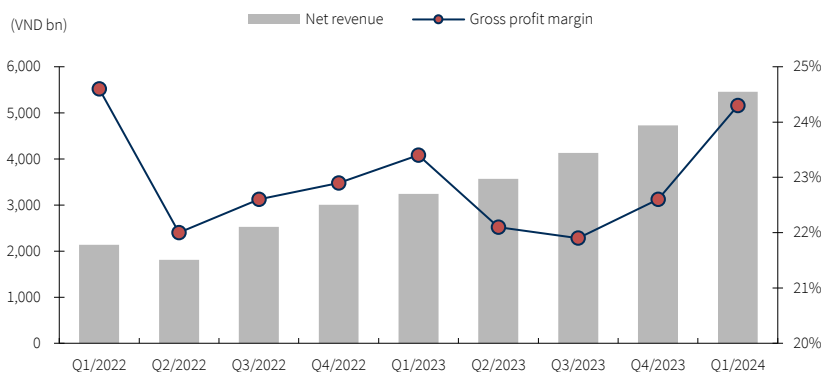
Fig 5. FRT & MWG – Revenue growth of smartphones & electronics chains



Source: FPT Digital Retail, Mobile World Investment, KB Securities Vietnam

Fig 6. FPT Long Chau – Revenue & GPM (VNDbn, %)

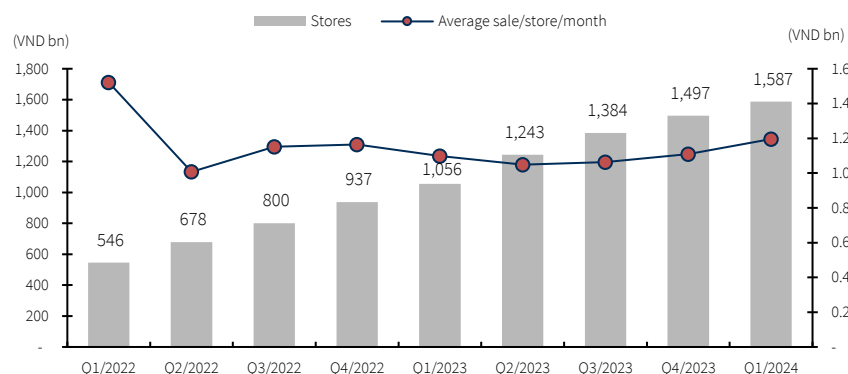
Long Chau continues to maintain strong revenue growth, contributing the main revenue and profit to FRT. Thanks to its large market share, the chain has an advantage in negotiating with suppliers to increase GPM.



Source: FPT Digital Retail, KB Securities Vietnam

Fig 7. FPT Long Chau – Store number and average sales (store, VNDbn)

In 1Q24, the chain launched 90 stores, bringing the total number of stores to 1,600. Despite constantly opening new stores, average sales per store are still growing. This shows that Long Chau stores are still attracting customers very well and taking market share from small retail stores. In the 2024 guidance, FRT will open 400 new Long Chau pharmacies.



Source: FPT Digital Retail, KB Securities Vietnam

Long Chau Vaccination is a new driving force

At the recent AGM, the management said they would develop the Long Chau chain towards a comprehensive health care center for customers, starting with introducing vaccination services.

The vaccination market is still considered quite new in Vietnam. Previously, the domestic market focused on hospitals and public health centers, but in the past five years, especially after the Covid pandemic, private vaccination centers such as VNVC, Vinmec, and Nhi 315 emerged, showing the potential of this industry. Although there is no accurate estimate of the market size, according to an FRT representative, the vaccine coverage rate in Vietnam is currently about 4% of the population, while many other countries in the region are 15 – 30%. Some prominent vaccination centers include:

- **VNVC:** Currently VNVC has nearly 200 vaccination centers with a diverse range of customers. According to the most recent published data in 2022, the chain's revenue and profit hit more than VND7,200 billion and VND265 billion, corresponding to a net profit margin of nearly 4%.
- **Nhi 315:** By the end of 2023, Nhi 315 has more than 50 vaccination centers concentrated mainly in Ho Chi Minh City and surrounding areas with mainly children as customers. Recently, the chain has been supported by capital injection from many large units such as GIC (Singapore Government Investment Fund), TVS (Thien Viet Securities), and BDA Capital Partners. This shows the great potential of the vaccination in particular and health care services in general.
- **Long Chau Vaccination:** Although it has just entered the market, Long Chau shows great determination. It opened 41 vaccination centers in 1Q24 out of 100 new centers in this year's objective. According to FRT, each vaccination center can bring in VND1.5–2.5 billion/month in revenue. The fast pace of new openings is thanks to Long Chau's available locations (opening right inside or next to Long Chau pharmacies). It is expected that the vaccination centers will bring trillions VND in revenue to FRT.

Long Chau Vaccination has competitive advantages such as (1) the advantage of customer base, brand and coverage of nearly 1,600 Long Chau pharmacies; (2) resource and technology advantages from FRT and the parent corporation FPT; and (3) experience in the health care industry and experience in opening a chain with Long Chau pharmacy. With strong competitive advantages, it is expected that Long Chau vaccination will continue to make firm steps and become a new growth driver for FPT Long Chau.

FRT plans to make a private placement of 10% stake to complete the healthcare ecosystem

At the AGM, Ms. Nguyen Bach Diep, chairwoman of FRT shared that she will make FPT Long Chau into a health ecosystem with Long Chau Healthcare Platform, following the life cycle of a person's health from disease prevention to health care, medical examination and treatment. To complete the ecosystem, the board of directors said it will make a private placement of up to 10% of shares to supplement capital while also looking for strategic partners to cooperate.

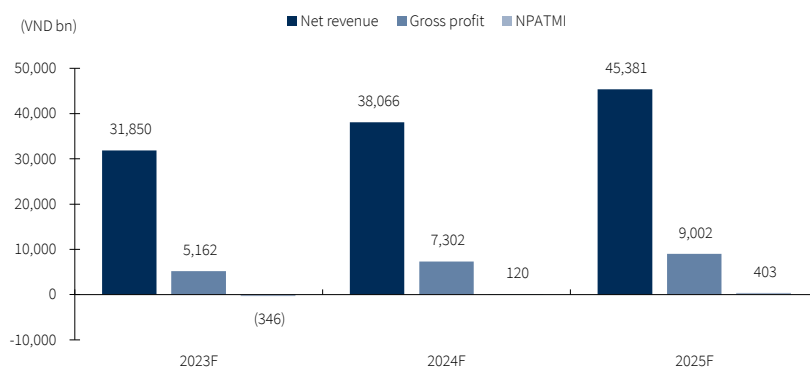
Forecast & valuation

Table 8. FRT – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
Revenue	31,850	38,066	19.5%	45,381	19.2%	
FPT Shop	16,185	14,801	-8.6%	15,540	5.0%	FPT Shop chain revenue is expected to record negative growth this year, and the growth rate should be very slow in the coming years.
FPT Long Chau	15,882	23,419	47.5%	30,023	28.2%	Long Chau continues to maintain strong growth thanks to continuously opening new stores and targeting the health care ecosystem with new business segments such as vaccination, health care, and treatment.
Gross profit	5,162	7,302	41.5%	9,002	23.3%	Gross profit margin should improve thanks to increased sales of high-margin products (household appliances and healthcare products) and the market share advantage in price negotiation with suppliers.
Gross profit margin (GPM)	16.2%	19.2%	3.0%	19.8%	0.7%	
Financial income	80	98	22.0%	95	-2.7%	
Financial expenses	(292)	(262)	-10.3%	(276)	5.2%	
SG&A	(5,246)	(6,281)	19.7%	(7,352)	17.0%	
Operating profit/loss	(297)	857	N/A	1,470	71.6%	
Profit before taxes (PBT)	(294)	317	N/A	665	109.8%	
Profit after taxes (NPAT)	(329)	206	N/A	532	158.3%	Long Chau chain is expected to continue strong revenue and profit growth, making a major contribution to the entire company.
NP after MI	(346)	120	N/A	403	235.7%	

Source: FPT Digital Retail, KB Securities Vietnam

Fig 9. FRT – 2024–2025F results (VNDbn)



Source: FPT Digital Retail, KB Securities Vietnam

Valuation: BUY rating – Target price VND207,000/share

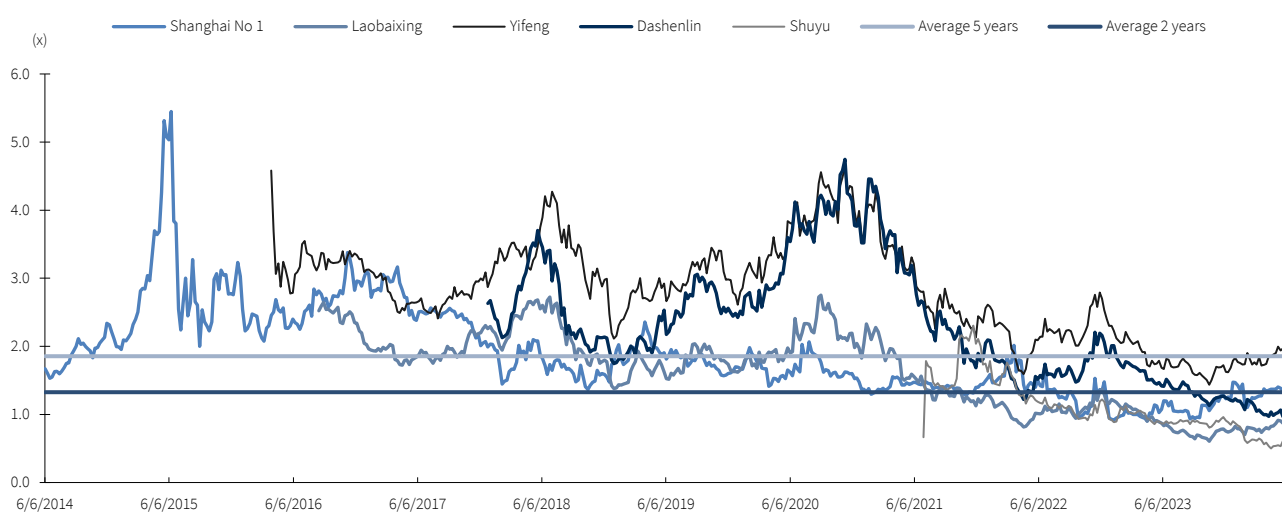
We used the SOTP method to value FRT shares. As its chains all operate in the retail industry, we used the P/S method, which is a common method to value retail chains in the industry.

(1) FPT Shop: We used a target P/S of 0.3x as the average P/S level in the period 2018–2020 before the Covid and when Long Chau had not contributed significantly to the consolidated revenue of FRT.

(2) FPT Long Chau: We used a target P/S of 1.3x, which is the two-year average of large pharmacy chains in China. We find this to be a quite conservative valuation compared to the valuation history of chains. At the IPO stage, these chains often have P/S valuations exceeding 2x. We conduct research on pharmacy chain models in China based on their many similarities in economics, society, demographics and business models. Pharmacy chains in China focusing on selling medicine and healthcare products are similar to Long Chau, while pharmacy chains in developed countries such as the US and Europe often follow the supermarket model. The area of the store is quite large, and it also sells other items besides medicine such as cosmetics, personal care, mother and baby products (like Pharmacy chain). Accordingly, we use the valuation of Chinese pharma chains to compare with the Long Chau chain.

In conclusion, we gave a BUY recommendation to FRT stock with a price target of VND207,000/share, 20% higher than the closing price on June 10, 2023, assuming that the Long Chau pharmacy chain will strongly grow and become a healthcare ecosystem.

Table 10. Chinese pharmacy chains – P/S valuation since IPO (x)



Source: Bloomberg, KB Securities Vietnam

Table 11. FRT – Valuation in a comparables approach

	2024 estimate sales	P/S target	FRT's ownership	Ownership value
FPT Shop	14,801	0.25	100%	3,700
FPT Long Chau	23,419	1.3	81%	24,508
Equity value				28,208
Outstanding shares				136,242,389
Target price (VND)				207,000

Source: KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Neutral:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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