# RETAIL

## WAITING FOR A TURNAROUND

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# RETAIL INDUSTRY – WAITING FOR A TURNAROUND

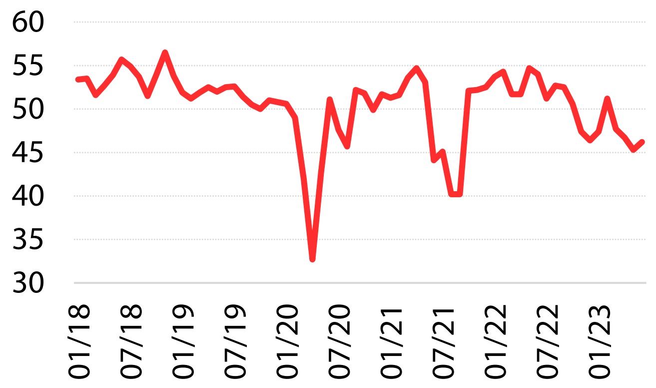
| | |
|---|---|
| **Investment Rating** | Negative · Neutral · Positive |
| **Overview** | The retail industry will slightly recover in the second half of 2023 and improve clearer in 2024. Market leaders will continue to grow their market share after the slowdown. Long-term growth will focus on fragmented segments with high expansion potential. |
| **Highlights** | **Macro headwinds hit retailers' earnings heavily in 1H 2023.**<br>• During Q1/23, ICT businesses experienced nearly unprofitable results with significant declines in both sales and gross margins. While PNJ and non-essential retailers also faced slowdowns, the reduction was not overly substantial. We expect MWG and DGW to see improved QoQ growth in Q2/23 profit.<br>• In the first 6 months of 2023, VNIndex increased by more than 11% while the stock price performance of the retail industry decreased by 1%.<br>**Gradually resume purchasing power in 2H 2023; One of the strongest recovery sectors in 2024.**<br>• We expect exporting activities and labor market to recover in 2H 2023 when the economy gradually exits a period of slowdown and constraint, and improves consumer confidence and disposable income. However, profit could not fully recover at least until 2H 2024, in our view.<br>• Current period presents a favorable opportunity for major players to expand their market share and accelerate growth in the post-slowdown phase.<br>**Long-term growth drivers remain intact.**<br>• The three primary drivers of retail growth are the expansion of the middle class, the transition from traditional to modern retail channels, and the entry of retail chains into fragmented segments.<br>• Pharmaceuticals and grocery retail are the two sectors anticipated to exhibit the most robust growth over the next five years. |
| **Risks** | • Slower-than-expected recovery due to weak economy, prolonged competition, and low consumer confidence.<br>• The nascent retail segments have not been able to grow as quickly in profit as expected. |
| **Valuation** | • Retail earnings may remain weak in Q3/23 due to the low season effect but are expected to have a clearer recovery from Q4/23 onwards. However, investors sentiment are becoming less pessimistic about the short-term difficulties and are focusing on long-term prospects.<br>• MWG and FRT have the potential for upward re-rating when their nascent businesses improve profitability. Additionally, capital sale catalysts could play a crucial role in increasing their valuation, even though the exact plans are not yet clear.<br>• PNJ offers an attractive P/E ratio for those seeking a steady 20% CAGR in NPAT over the next 5 years. The P/E fwd 2025 (the time of full recovery of profits) of MWG and FRT remains attractive at a discount compared to the 5-year average. However, we prefer to buy at a discounted area due to potential corporate risks ahead. |
| **Recommendation** | **MWG** (ACCUMULATE, TP: VND 57,600), **PNJ** (ACCUMULATE, TP: VND 88,000), **FRT** (REDUCE, TP: VND 66,600) |

# MACRO HEADWINDS HIT CONSUMER CONFIDENCE



## Consumer's income affected following economic contraction, leading to belt-tightening phenomenon

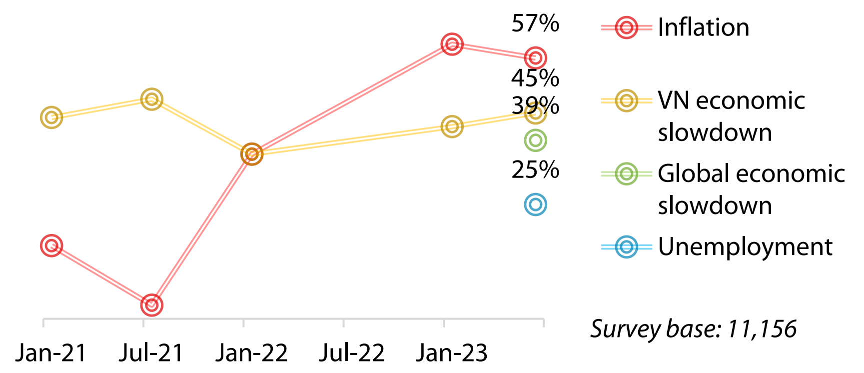
PMI remains low…




…make it difficult for the labor market

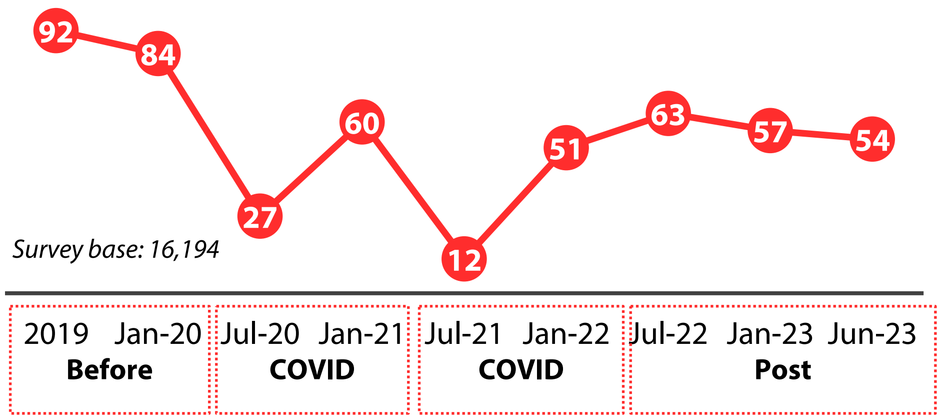
| **Present impact on salary & job security (% out of total survey base)** *(*) Survey base: 9,560* | |
|---|---|
| Hours/salary cut | 27% |
| Worried will lose job | 44% |
| Worried salary will be cut | 54% |
| **Business owners' sentiment** | |
| Plan to reduce workforce | 71% |
| Have negative economic outlook | 81% |

Inflation and domestic economic slowdown are top fears now



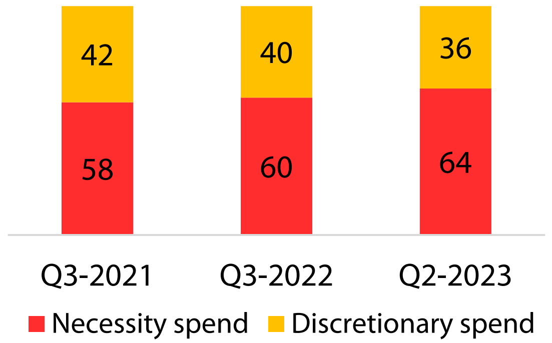

*Source: S&P Global PMI, Private Sector Development Committee / VnExpress, Infocus Mekong Research, RongViet Securities*

## Consumer confidence is going down; consumers tend to prioritize necessity spend over discretionary spend



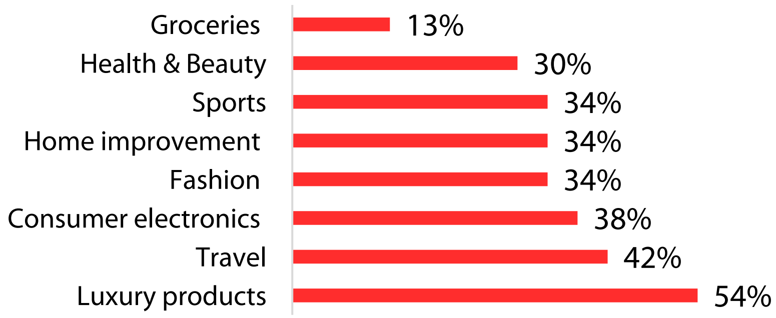

Discretionary spending proportion drops to 36%

*Survey base: 1,026*




Groceries deem to be the least affected segment

*% consumers expecting to spend less over the next 6 months*




*Source: PwC, Infocus Mekong Research, RongViet Securities*

# BRIGHTER PROSPECT FOR 2H 2023



## Policies to support domestic consumer sector in 2023

**03/2023**
**1st policy rates cut**
**(50-100 bps)**

**04/2023**
**2nd policy rates cut**
**(50 bps)**

**05/2023**
**3rd policy rates cut**
**(50 bps)**

**06/2023**
**4th policy rates cut**
**(50 bps)**

**07-12/2023**
**VAT cut, exc. tech, financials,…**
**from 10% to 8%**

- Improving purchasing power of consumers
- Mitigating financial burden for companies

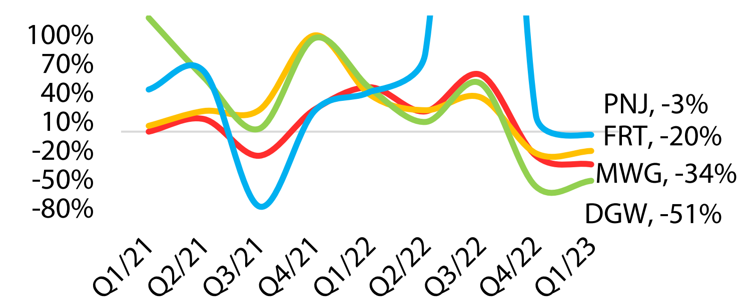
- Improving purchasing power of consumers
- Most retailers benefit from VAT cut, exc. ICT & CE chains

*Source: RongViet Securities*

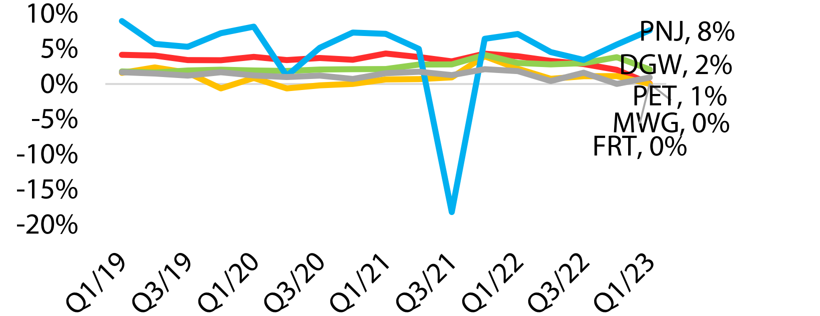
- **Gradually improving consumer purchasing power**. We expect exporting activities and labor market to recover in 2H 2023 when the economy gradually exits a period of slowdown and constraint, improving consumer confidence and disposable income.
- **Government policy** to support domestic consumption. In consumer sector, VAT reduction policy has recently been applied to BHX, MSN (excluding MHT), VNM, PNJ and QNS. Companies not eligible for VAT reduction include TGDD&DMX, FPTShop, VEA, FPT, SAB, and DGW. Nonetheless, it is important to highlight that while we acknowledge the positive impact of the VAT reduction on the recovery of retail businesses, we firmly believe that its significance is more supportive than pivotal. The key determinants for recovery remain to be income levels and purchasing power.
- **Profit margin, especially for ICT & CE segment, will take a long time to recover to previous levels**, but will gradually improve in the second half of 2023 as interest expense pressure from retail businesses will subside and old high-priced inventories will be released.
- **Good time to establish a dominant position in fragmented segments.** Post-slowdown winners would be leading retailers whose market share enlarges resulting from small players going out of business. Major players in fragmented segments will rapidly increase market share if the right strategy is followed.
- A full recovery in retailers' business results should be from 2024, depending on the pace of economic recovery.

## Dismal earnings in Q1 2023; Deleveraging to shore up cash flow

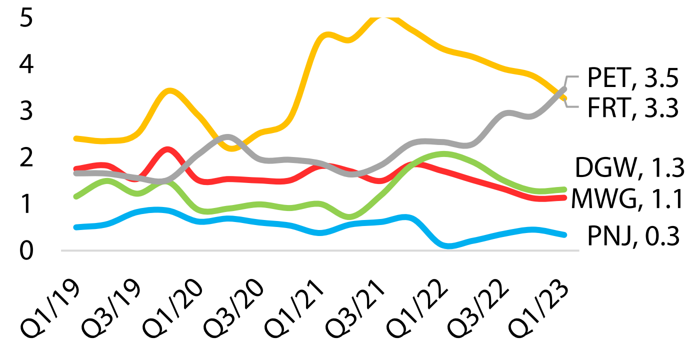
YoY sales growth of ICT retailers dropped significantly from Q4/22




Near-zero net margin of ICT retailers in the aftermath of weak sales and shrunken gross margin



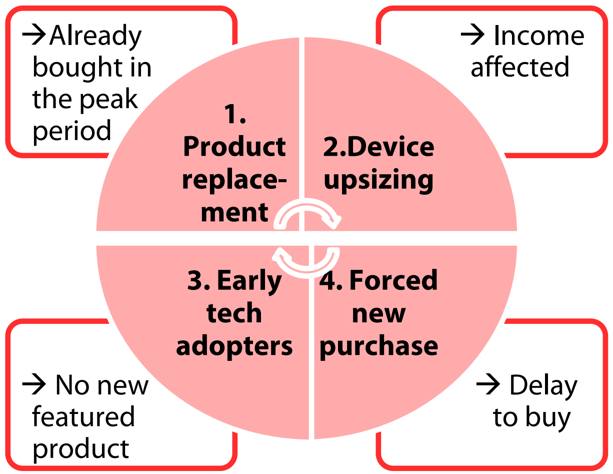

D/E ratio (x): FRT and PET face high financial risk.




*Source: FiinPro, RongViet Securities*

## Four purposes to buy ICT & CE products

Customer groups' purchasing power is diminished.




*Source: RongViet Securities*

- **ICT& CE was the hitting-hardest segment in 1H 2023.** A flurry of promotions and price reduction to cushion subdued sales, but these are also profit margin killers.
- **U-shaped recovery.** We expect ICT retailers' business results to recover slightly from the first half of the year thanks to increased consumer confidence, improved consumer lending, shopping season and the launch of new product lines (especially the iPhone 15).
- However, we believe that purchasing power will only recover to organic growth in 2024 when the economy and labor market improve and enter the cycle of replacing electronic devices (avg of 2 years).
- Of the four groups of ICT buyers that we classify, we expect group 3 (Early tech adopters) and group 4 (Forced new purchase) to have a recovery momentum in the second half of 2023, while the remaining two groups will continue to delay procurement until 2024.
- Jewelry sales weaken but decline slightly.

# ESSENTIAL RETAIL: STABLE DEMAND, OPPORTUNITY TO EXPAND MARKET SHARE FOR MT RETAILERS

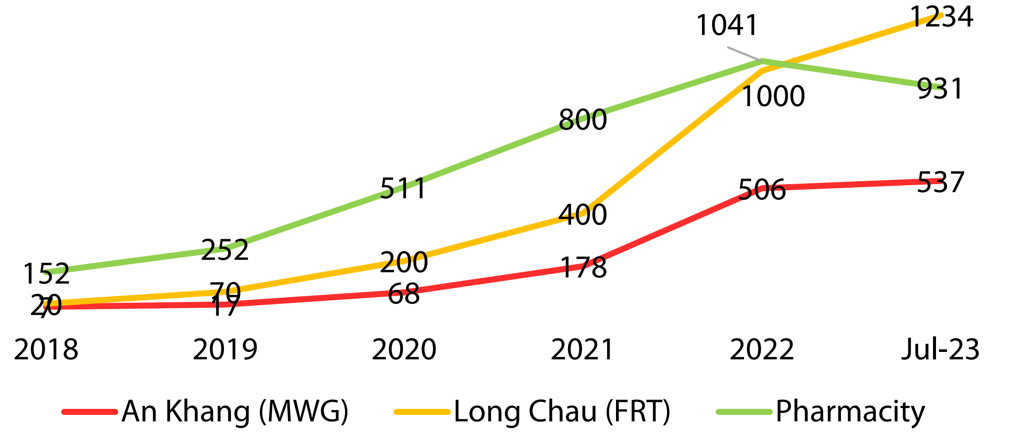
## PHARMACY: Good time to establish a dominant position

**Vietnam's pharmaceutical retail industry is still highly fragmented.** This is the industry with the fastest growth in sales for existing MT retailers over the next five years.

**Long Chau is on track to become the winner**

- Long Chau is the only profitable pharmaceutical chain currently
- The pause in the new opening of An Khang and Pharmacity is an opportunity for Long Chau to continue to accelerate.

### Store count of pharmacy chains




*Source: RongViet Securities*

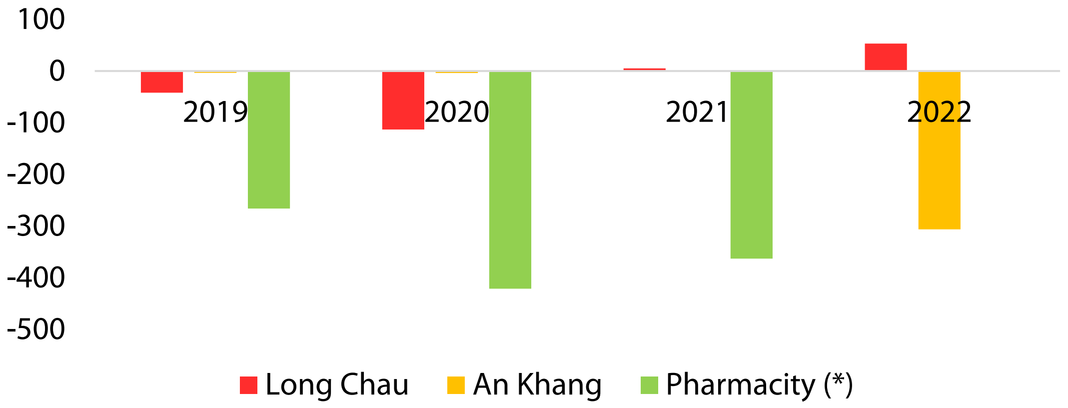
### Comparison of financial performance of key pharma chains

| | Sales per store/month | Gross margin (FY2022, %) | Net profit (FY2022 – VND bn) |
|---|---|---|---|
| An Khang | VND 400 mn (or USD 17k) | 20% | Loss of VND 306 Bn (or USD 13 mn) |
| Pharmacity (*) | VND 500 mn (or USD 21k) | N/A | Loss of VND 363 Bn (or USD 15 mn) |
| Long Chau | VND 1.1 bn (or USD 55k) | 23% | Gain of VND 53 Bn (of USD 2 mn) |

Pharmacity: Based on 2021 data due to no public data for 2022

*Source: RongViet Securities*

### Bottom line of pharma chains (VND Bn)




(*) No data of Pharmacity in FY2022

*Source: RongViet Securities*

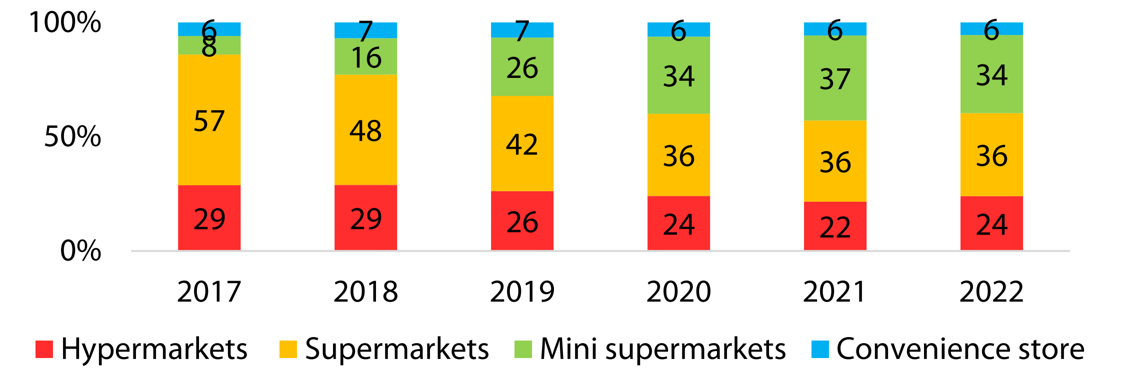
# ESSENTIAL RETAIL: STABLE DEMAND, OPPORTUNITY TO EXPAND MARKET SHARE FOR MT RETAILERS

## GROCERY: Shifting priorities from swift expansion to emphasizing break even

**Stable demand.** Although sales have slowed down, they are still relatively stable. Retailers are also cautious in the new opening strategy and give priority to the break-even point.

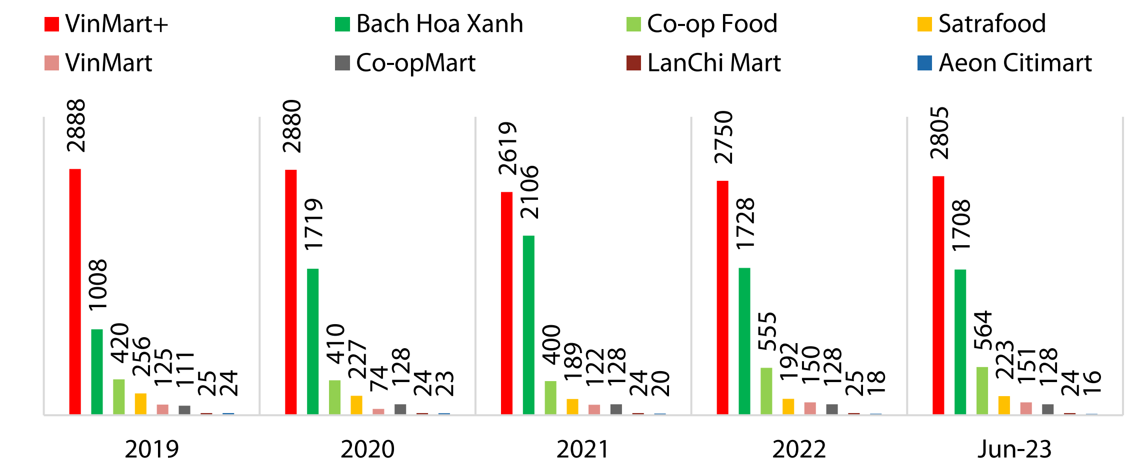
**After undergoing restructuring, BHX is anticipated to reach a break-even point in late this year.** BHX's low cost and operating cost optimization strategy proved effective in the current economic context, helping the chain to gradually reach the break-even point.

### Market share of grocery by modern trade channel



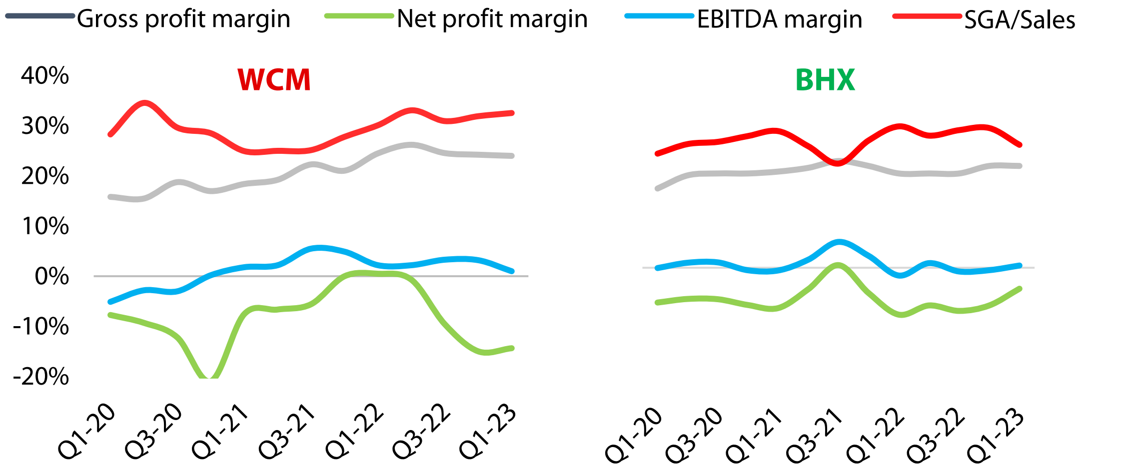

*Source: Euromonitor, RongViet Securities*

### Store count of grocery chains




*Source: Euromonitor, RongViet Securities*

### WCM and BHX GPM, NPM, EBITDA margin and SGA/Sales



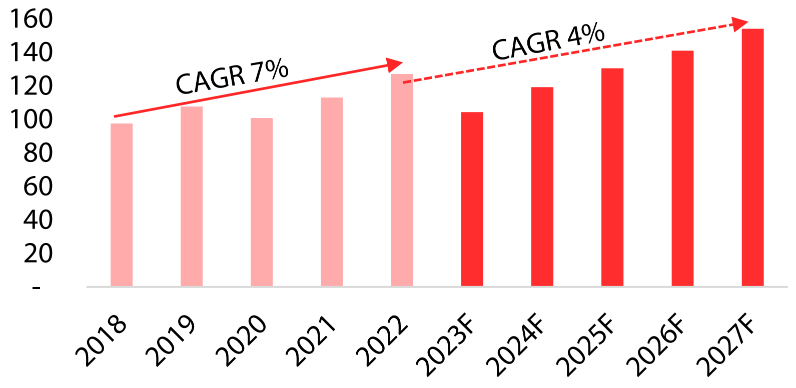

*Source: RongViet Securities*

# PHARMACY AND GROCERY HAVE AMPLE ROOM TO GROWTH



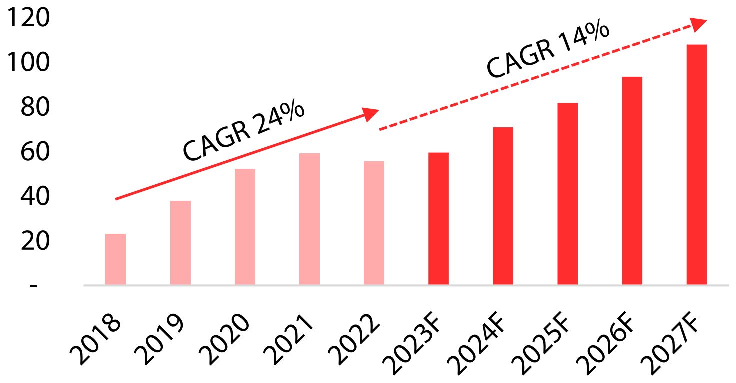
## Which retail segments explore highest 5Y growth in our coverage list?

### ICT sales forecast (VND Tn)



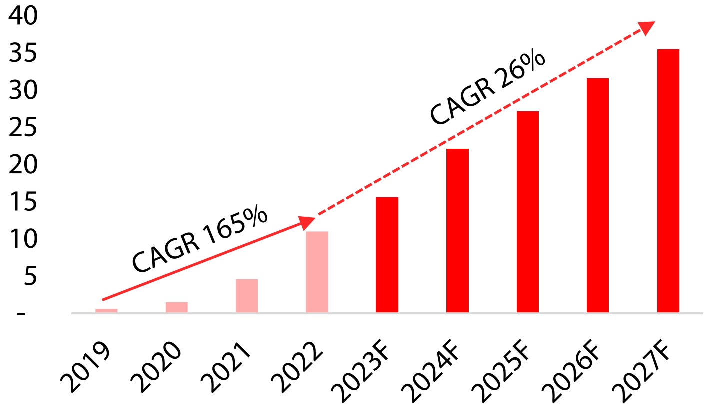

Forecast basket: TGDD + DMX (MWG); FPT Shop (FRT)

### Grocery sales forecast (VND Tn)



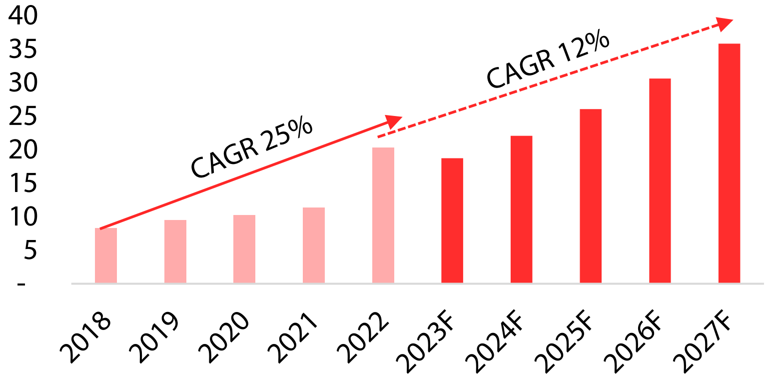

Forecast basket: BHX (MWG), WCM (MSN)

### Pharmacy sales forecast (VND Tn)




Forecast basket: An Khang (MWG), Long Chau (FRT)

### Jewelry sales forecast (VND Tn)




Forecast basket: PNJ

*Source: RongViet Securities.*

- Over the next five years, the two sectors expected to exhibit the most robust sales growth are pharmaceutical and grocery retail. This growth will be fueled by their increasing market share. Additionally, businesses in this segment experienced stronger profit growth compared to revenue growth, benefiting from economies of scale.
- Retail of ICT & CE faces constraints in expanding store size since the top two enterprises in the industry hold more than 60% of the market share. Nevertheless, growth prospects in the next five years will be driven by rising demand for technology products and the replacement cycle of existing technology products.
- Jewelry retail, encompassing only PNJ in our coverage, is poised to witness 12% YoY growth over the next five years, primarily attributed to the expanding middle class. It is anticipated that profit growth will parallel the increase in sales.

# BIG PICTURE OF KEY DRIVERS SHAPING THE RETAIL LANDSCAPE

## What will drive the short-term recovery and the long-term growth?

### Growth drivers of Vietnam retail in short-, mid-, and long-term

Short-term — Mid-term — Long-term

**Consumer prudence diminishes**
Economy, employment and wages to improve

**Promotion to boost sales**
Financially capable businesses offering discounts and promotions will boost sales and seize long-term market share opportunities.

**Income recovery following economic rebound**
The sustainable recovery of the retail industry after the slowdown hinges on the ability to regain income levels.

**Ecommerce, Ommi-channel**
Ecommerce may contribute 30% to retail sales in the next 5 years (from 12% currently), according to Lazada.

**Penetrating into fragmented segment to gain market share**
Grocery & Pharmacy

**MT channel to grow its market share**
Rapid urbanization helps transition from traditional channel to modern channel

**Moving to the middle class**
Interest lies in service quality, with less focus on prices, and a preference for branded retail chains.

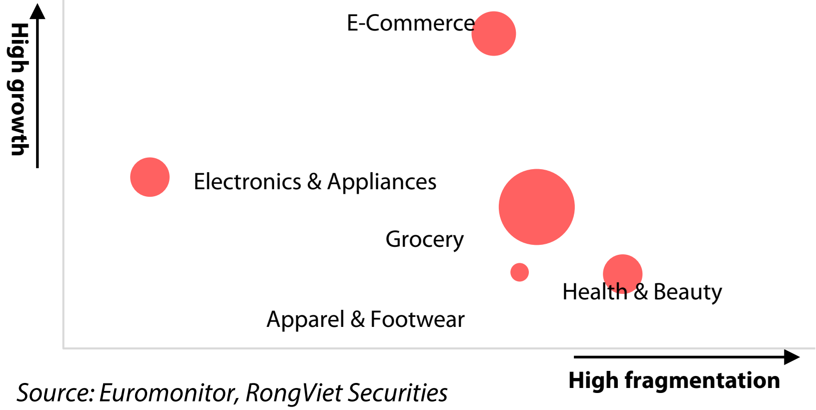
# BIG PICTURE OF KEY DRIVERS SHAPING THE RETAIL LANDSCAPE



- We anticipate that certain sub-sectors with significant untapped potential in the MT channel will experience remarkable growth in the coming years.
- According to McKinsey, by 2035, over half of the Vietnamese population will join the global middle class, leading to an increase in consumer demands and preferences for premium products. This trend is expected to fuel the expansion of both MT and omni channels.
- The grocery and health & beauty segments still have considerable room for growth, as their current penetration rates remain relatively low. Companies like MWG's Bach Hoa Xanh and FRT's Long Chau are likely to benefit the most from this opportunity.
- Retailers will increasingly target the Northern regions, where modern trade channels have not yet gained substantial traction. However, they will first focus on consolidating their market share in the South before tapping into these untapped markets. Urbanization will also play a role in shaping consumer behavior, allowing for the expansion of modern retail networks in Tier 2 and 3 areas.
- Capital raising stories are expected to become more prevalent starting in 2024. Young chains like BHX or LC are projected to achieve positive earnings by then, making it an opportune time for them to raise capital and accelerate their store expansion. Should this scenario unfold, these chains may experience a revaluation of their worth.

## Growth and fragmentation of key segments

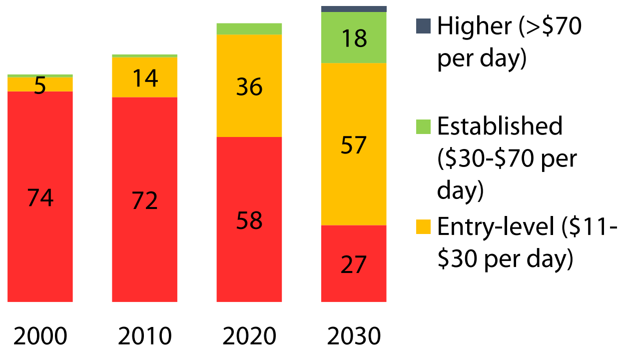
Health & Beauty and Grocery have the highest fragmentation
Electronics & Appliances and E-commerce have the highest growth




*Source: Euromonitor, RongViet Securities*

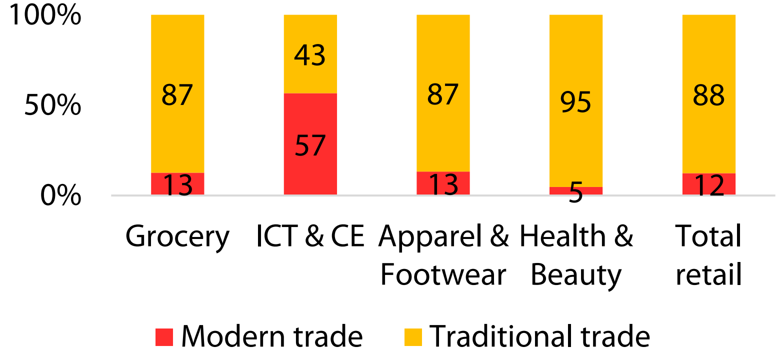
## Population by income group (mn people)

Consuming class continues widening



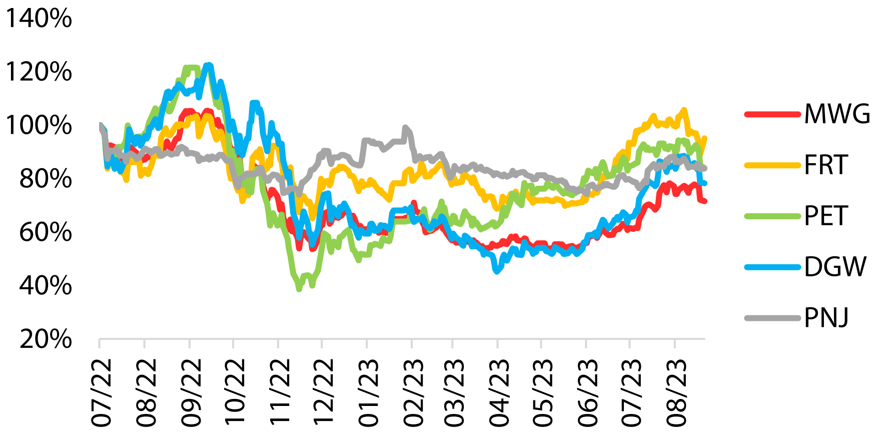

## Market share of modern and traditional trade

MT grew 8% over the past 5Y and accounted for 12% total retail sales



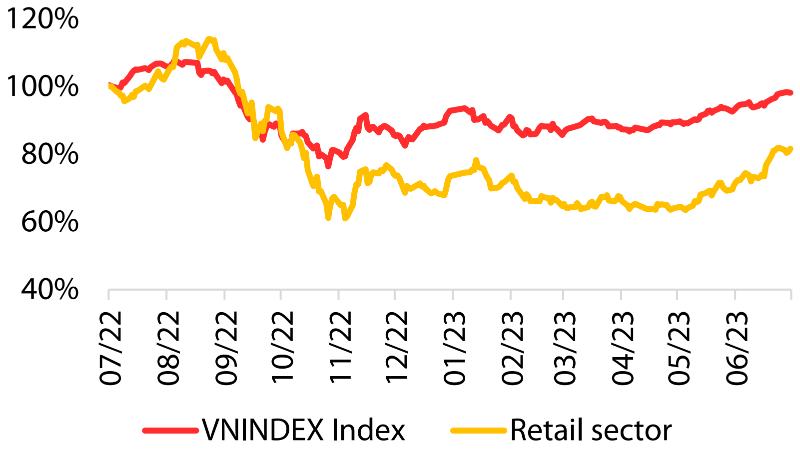

*Source: Fiinpro, RongViet Securities*

### Stock price performance of retail stocks




*Source: Fiinpro, RongViet Securities*

### Stock price performance of retail sector vs. VNI




*Source: Fiinpro, RongViet Securities*

### Sales growth, NPAT growth and P/E fwd 2023F-2025F

| | Sales growth (%) | | | NPAT growth (%) | | | P/E fwd | | | Avg 5Y P/E (x) |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2023F | 2024F | 2025F | 2023F | 2024F | 2025F | 2023F | 2024F | 2025F | |
| MWG | -15% | 16% | 11% | -72% | 249% | 78% | 66.3 | 19.0 | 10.9 | 14.9 |
| FRT | 7% | 22% | 15% | -147% | 282% | 82% | N/A | 27.3 | 15.0 | 36.3 |
| PNJ | -3% | 12% | 13% | -1% | 22% | 27% | 14.6 | 13.4 | 12.1 | 18.7 |

*Source: RongViet Securities*

- Challenges in business results lie ahead, but we anticipate a gradual recovery in the upcoming quarters. Investors are aware that these difficulties are temporary and are focusing on businesses with strong long-term growth potential. MWG and FRT are expected to experience robust profit growth in 2024-2025, driven by the recovery of the ICT segment and the gradual profitability of their "start-up" segments.
- For investors seeking opportunities in strong recovery themes after the slowdown, discounted price zones in MWG and FRT stocks are likely to be appealing. For investors interested in sustainable earnings growth and current reasonable P/E ratios, PNJ remains our top pick.

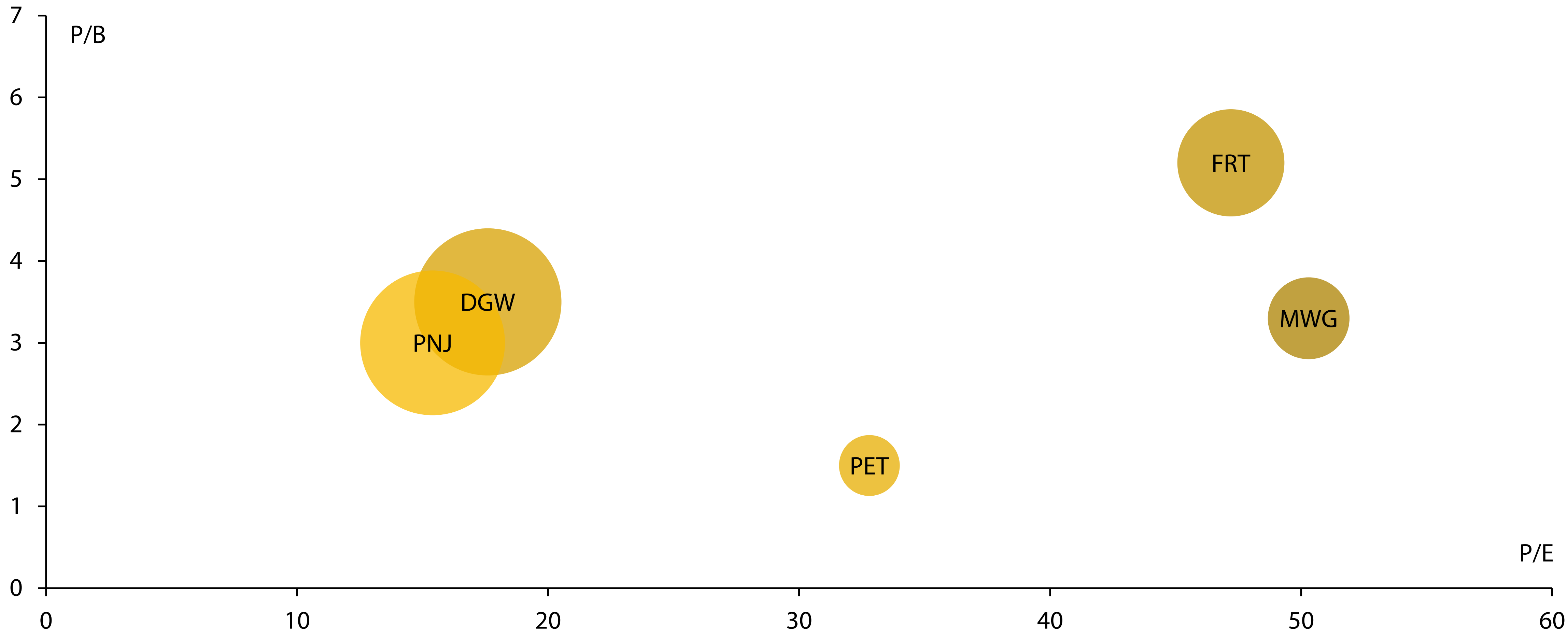
# INDUSTRY COMPARABLE (TTM)



| Ticker | Mkt Cap. | Target price | Closing price | NTM Cash dividend | Foreign room leftover % | Revenue growth %YoY | | | NPAT-MI growth %YoY | | | 2023 's Profitability | | P/E | | P/B | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ($mn) | (VND) | (07/31/2022) | | | 2022A | 2023F | 2024F | 2022A | 2023F | 2024F | ROE(*) | ROA(*) | Cur.(*) | 5 Yr. AVG | Cur.(*) | 5 Yr. AVG |
| **MWG** | 3,315 | 57,600 | 53,700 | 500 | 0.0 | 8.5 | -14.5 | 15.7 | -7.8 | -72.2 | 248.6 | 2.0 | 4.7 | 68.8 | 14.9 | 3.1 | 3.9 |
| **FRT** | 439 | 66,600 | 76,400 | 0 | 16.2 | 34.1 | 6.9 | 21.7 | -12.0 | -146.6 | -281.9 | -1.7 | -10.3 | -57.2 | 36.3 | 4.9 | 3.3 |
| **PNJ** | 1,149 | 88,000 | 83,000 | 2,000 | 0.5 | 73.3 | -5.9 | 12.1 | 77.4 | -0.8 | 17.2 | 13.7 | 21.7 | 15.2 | 18.7 | 3.2 | 3.8 |
| **PET** | 125 | N.R | 29,850 | N.A | 0.0 | -0.3 | n.a | n.a | -57.1 | n.a | n.a | 3.7 | 0.7 | 32.3 | 10.1 | 1.5 | 0.9 |
| **DGW** | 382 | N.R | 54,100 | N.A | 25.6 | 5.3 | n.a | n.a | 4.5 | n.a | n.a | 21.7 | 7.9 | 17.7 | 10.7 | 3.5 | 2.8 |

*Source: Bloomberg, RongViet Securities. Data was updated as of July 31th ,2023.*
**For covered stocks: ROE, ROA, P/B, and P/E are estimated based on 2023 earnings*
*For followed stocks: the ratios was updated based on last 12 months data*
*N.R: Non rate*
*N.A: Not available*
*NPAT-MI: Net profit after tax and minority interest*

# PE, PB AND ROE (TTM)

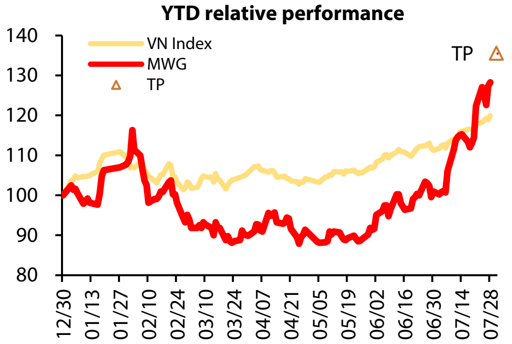


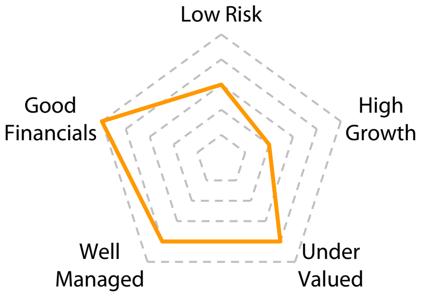

*Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 31 Jul 2023.*

# THE LONG ROAD TO PROFIT RECOVERY



**ACCUMULATE: +12%** **MP: 51,700** **TP: 57,600**




## STOCK INFO

| | |
|---|---|
| Sector | Retail |
| Market Cap ($ mn) | 3,280 |
| Current Shares O/S (mn shares) | 1,463 |
| 3M Avg. Volume (K) | 3,852 |
| 3M Avg. Trading Value (VND Bn) | 173 |
| Remaining foreign room (%) | 0.0 |
| 52-week range ('000 VND) | 35.25 – 75.4 |

| FINANCIALS | 2022A | 2023F | 2024F |
|---|---|---|---|
| Revenue (VND bn) | 133,405 | 114,072 | 131,963 |
| NPATMI (VND bn) | 4,100 | 1,141 | 3,977 |
| ROA (%) | 7.3 | 2.0 | 6.1 |
| ROE (%) | 17.1 | 4.7 | 14.8 |
| EPS (VND) | 2,801 | 779 | 2,717 |
| Book Value (VND) | 16,339 | 16,618 | 18,335 |
| Cash dividend (VND) | 500 | 500 | 500 |
| P/E (x) | 15.3 | 66.3 | 19.0 |
| P/B (x) | 2.6 | 3.1 | 2.8 |

## INVESTMENT RATIONALES

**Unprofitable in the first half, better outlook in the latter half**

- MWG recorded total revenue of VND 57 tn, down 20% YoY. In which, ICT revenue was VND 41.5 tn (USD 1.7 bn), down 27% YoY and BHX chain revenue was VND 13.6 tn (or USD 0.5 bn), up 7% YoY. MWG's profit margins squeezed due to promotions and price cuts, resulting in a 99% YoY decline with only VND 39 bn (USD 1.6 mn) in NPAT in 1H 2023. Despite a mild improvement in sales during Q2 2023, none of MWG's chains witnessed substantial progress in their bottom lines compared to the previous quarter.
- ICT: We expect sales to gradually recover, but bottom line to take long time to recover until price competition comes to an end. A more notable rebound is expected in Q4 2023 when consumer purchasing power to regain and new product lines to launch.
- BHX: Sales per store showed promising improvement with VND 1.5 bn in mid-2023 following restructuring efforts. However, BHX's plan to reach break-even point in Q4 23 might be hindered by challenging economic conditions, making it difficult to further enhance purchasing power. We forecast this chain may continue to incur a loss of VND 1 tn (USD 42 mn) in FY23.

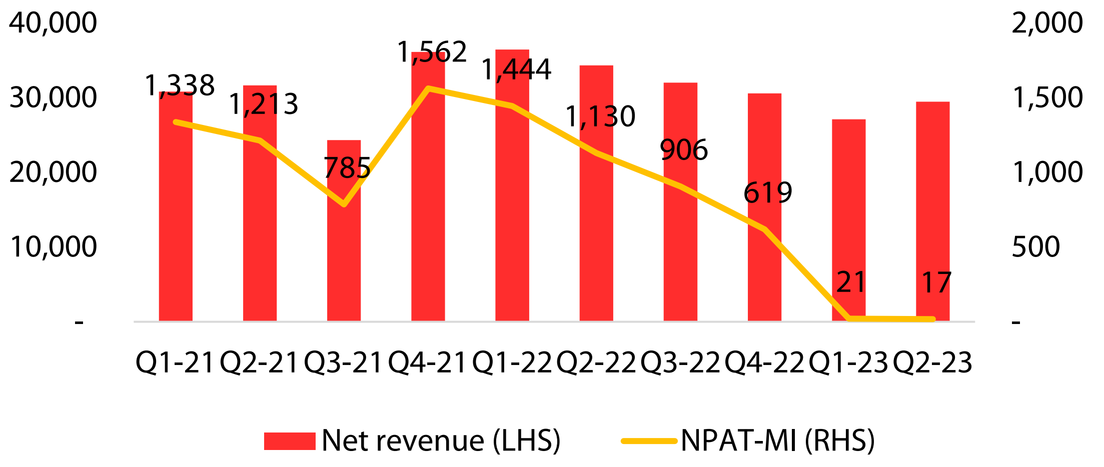
**Leading position allows the company to recover rapidly after the slowdown**

- MWG's strong physical store presence and strong cash flow facilitate a quick recovery and market share expansion post-economic rebound. According to our forecast, the ICT segment is anticipated to experience a robust recovery in 2024, and the BHX chain is expected to reach the break-even point in mid-2024, followed by a positive bottom line in FY2025.
- Based on this forecast, MWG's trading P/E ratio of 19.0x/10.9x for 2024F/2025F appears attractive for long-term investors, given the projected EPS CAGR of 23% from FY2022-2027F. Hence, investors may consider accumulating the stock at its discounted price.

## RISKS TO OUR CALL

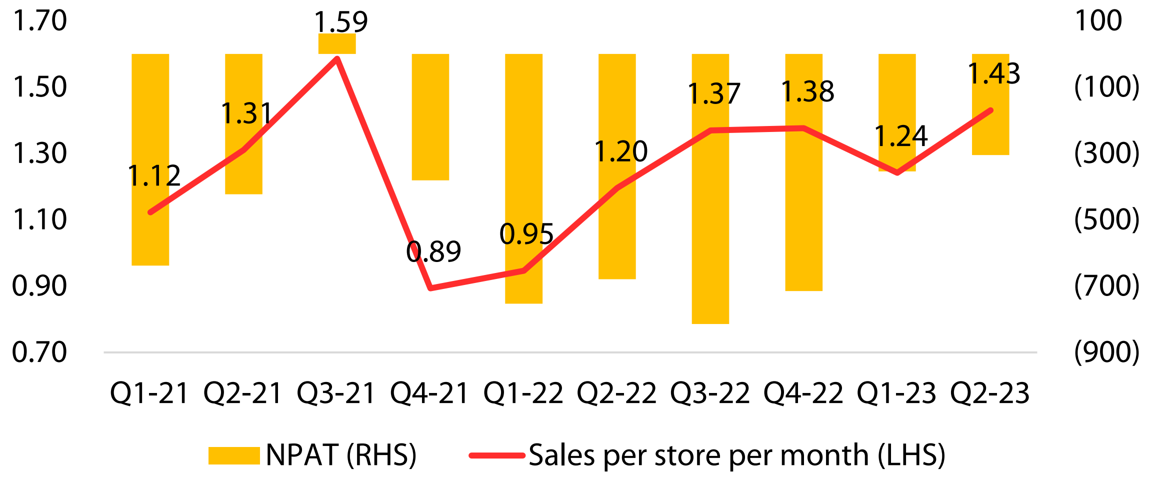
- Slower/faster-than-expected ICT demand recovery.
- The breakeven timing fluctuations and capital sales can influence the valuation of the BHX chain.

### Dismal business results in 1H 2023, stemming from weak demand and price competition of ICT segment (VND Bn)



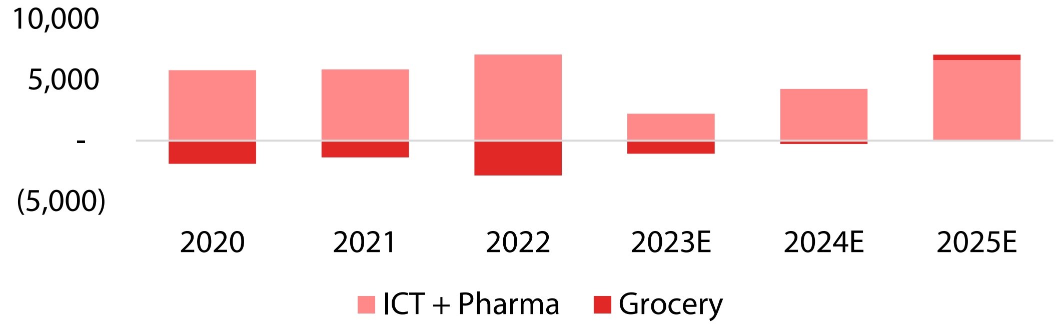

*Source: MWG, RongViet Securities*

### BHX’s sales per store is improving and net loss is narrowing (VND Bn)




*Source: MWG, RongViet Securities*

### BHX's loss is expected to continue to shrink by half in 2H 2023 compared to 1H 2023, before reaching breakeven point in 2024; Combined with ICT profit to gradually recover in 2024, although still lower than 2020-22 level as price competition remains (VND Bn)




*Source: RongViet Securities*

### Valuation summary

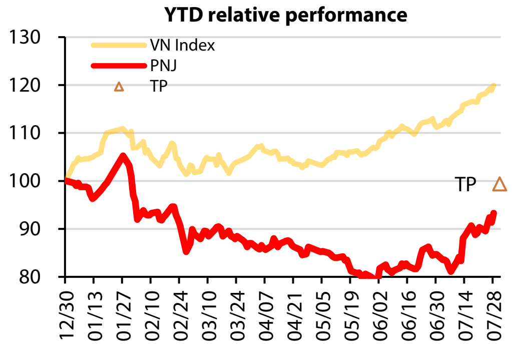
| Unit: VND Bn | Valuation approach | % Contribution | Value per share |
|---|---|---|---|
| BHX | 10Y FCFE (Ke: 13%, g: 3%) | 25% | 13,600 |
| | P/S @ 1.2x 2023-24F Sales | 25% | 25,000 |
| TGDD/DMX | 5Y FCFE (Ke: 13%, g: 1%) | 25% | 54,500 |
| | P/E @ 10x 2023-24F EPS | 25% | 22,100 |
| **Target price (VND)** | | | **57,600** |
| **Cash dividend** | | | **500** |
| Current market price | | | 51,700 |
| **Total stock return** | | | **12%** |
| TP / 2023F EPS | | | 73.9 |
| TP / 2024F EPS | | | 21.2 |
| TP / 2025F EPS | | | 12.2 |

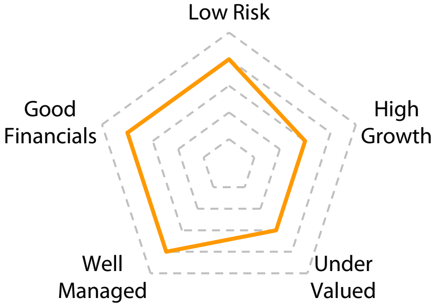
*Source: RongViet Securities*

# RETAILERS LEAST AFFECTED BY MACRO HEADWINDS IN 2023

**HSX: PNJ**

**ACCUMULATE: +11%** **MP: 80,800** **TP: 88,000**




## STOCK INFO

| | |
|---|---|
| Sector | Personal & Household Goods |
| Market Cap ($ mn) | 1,136 |
| Current Shares O/S (mn shares) | 328 |
| 3M Avg. Volume (K) | 854 |
| 3M Avg. Trading Value (VND Bn) | 65 |
| Remaining foreign room (%) | 0.9 |
| 52-week range ('000 VND) | 67.5 – 95.1 |

| FINANCIALS | 2022A | 2023F | 2024F |
|---|---|---|---|
| Revenue (VND bn) | 33,876 | 31,893 | 35,752 |
| NPATMI (VND bn) | 1,807 | 1,792 | 2,101 |
| ROA (%) | 13.6 | 13.7 | 12.2 |
| ROE (%) | 28.5 | 21.7 | 21.4 |
| EPS (VND) | 7,340 | 5,460 | 5,828 |
| Book Value (VND) | 25,740 | 25,221 | 27,280 |
| Cash dividend (VND) | 2,000 | 2,000 | 2,000 |
| P/E (x) | 12.2 | 14.7 | 13.7 |
| P/B (x) | 2.6 | 3.2 | 2.9 |

## INVESTMENT RATIONALE

**Financially resilient customer base has stabilized earnings in FY2023**

- Despite the global economic slowdown, PNJ's business performance only suffered minor setbacks in 1H 2023, with a 10% YoY decline in revenue and 1% YoY decrease in NPAT. However, the weak demand backdrop presents an opportunity for PNJ to gain more market share, as indicated by its retail sales drop of only 10% YoY compared to a 16% YoY plunge nationwide (as per WGC) in 1H 2023.
- With the government's expansionary policy and the middle affluent class's fast-paced economic recovery, PNJ is expected to rebound during 2H 2023, with sales gradually improving month by month. Thus, we anticipate a slight YoY decrease of 6% YoY in net revenue and 1% YoY in NPAT for PNJ in FY2023.

**Promising long-term investment with steady growth potential for the next five years**

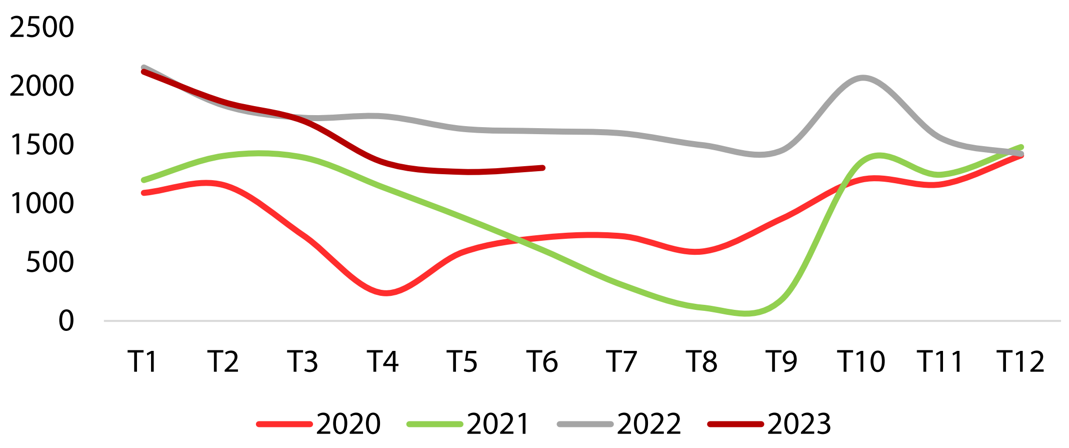
- Anticipated growth in jewelry demand and enhanced operating efficiency contribute to our projected EPS CAGR of 16% for the period 2023-2027F.
- Based on our analysis, PNJ's target price results in a 2023F/2024F P/E ratio of 16.1x/15.1x, respectively, compared to its five-year average TTM P/E of 15x.

## RISK TO OUR CALL

- Jewelry demand being stronger/weaker than our expectation.
- Changes in the new capacity expansion plan.

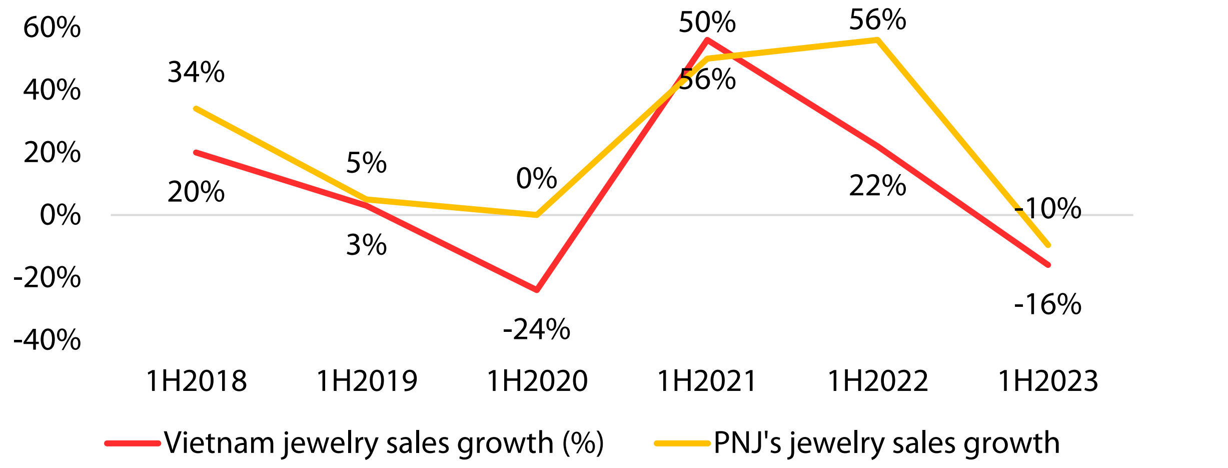
# RETAILERS LEAST AFFECTED BY MACRO HEADWINDS IN 2023

## PNJ's monthly retail sales (VND Bn)



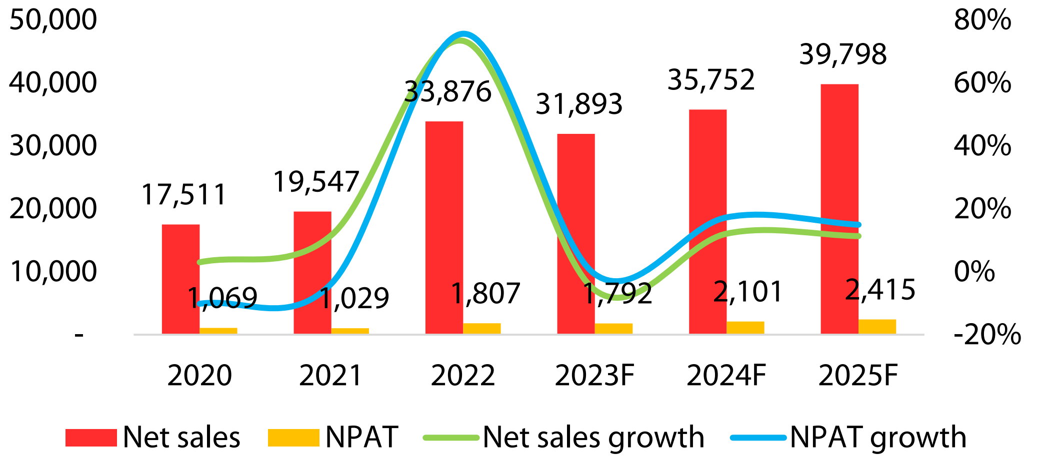

*Source: PNJ, RongViet Securities*

## Vietnam vs. PNJ in jewelry sales growth (% YoY)



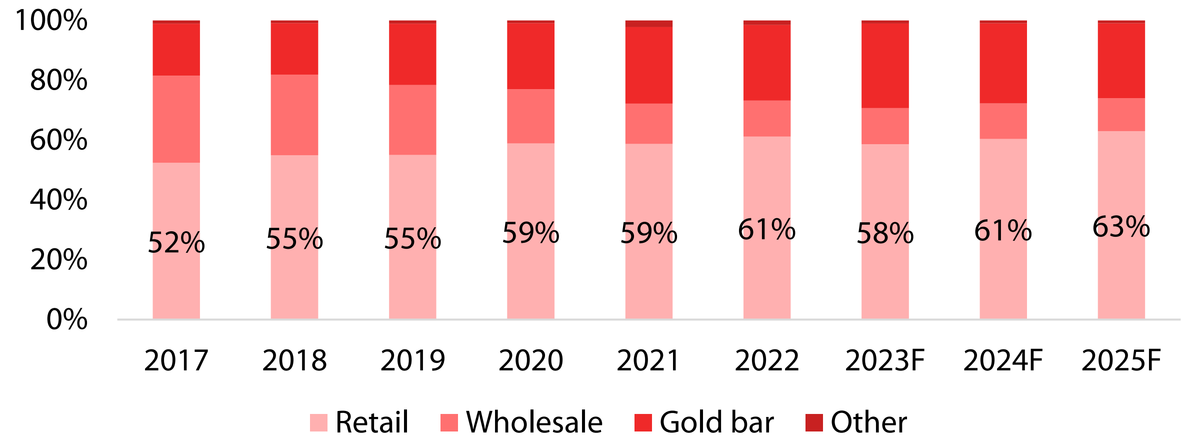

*Source: PNJ, RongViet Securities*

## Net sales and NPAT forecast (VND Bn)




*Source: RongViet Securities*

## Revenue structure forecast (%)

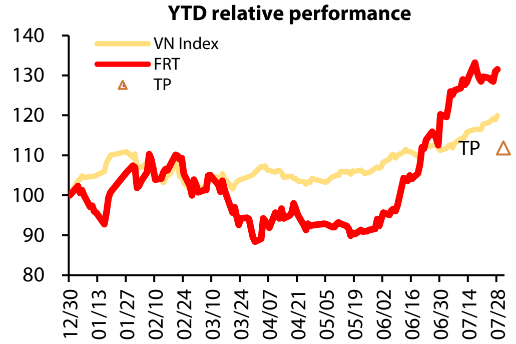


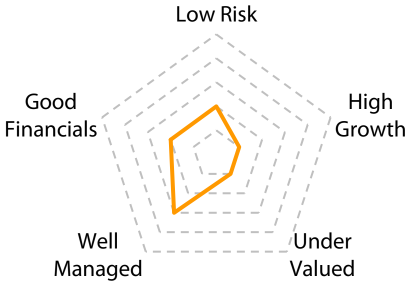

*Source: RongViet Securities*

# PRICED-IN EXPECTATIONS OF RECOVERY

**HSX: FRT**

**REDUCE: -12%** **MP: 76,400** **TP: 66,600**




## STOCK INFO

| | |
|---|---|
| Sector | Retail |
| Market Cap ($ mn) | 446 |
| Current Shares O/S (mn shares) | 136 |
| 3M Avg. Volume (K) | 1,027 |
| 3M Avg. Trading Value (VND Bn) | 69 |
| Remaining foreign room (%) | 16.3 |
| 52-week range ('000 VND) | 48.43 – 81.3 |

| FINANCIALS | 2022A | 2023F | 2024F |
|---|---|---|---|
| Revenue (VND bn) | 30,166 | 32,261 | 39,267 |
| NPATMI (VND bn) | 390 | -182 | 331 |
| ROA (%) | 3.8 | -1.6 | 2.7 |
| ROE (%) | 19.4 | -10.3 | 16.3 |
| EPS (VND) | 3,295 | -1,539 | 2,798 |
| Book Value (VND) | 16,951 | 14,912 | 17,209 |
| Cash dividend (VND) | 500 | - | - |
| P/E (x) | 18.2 | N/A | 23.8 |
| P/B (x) | 3.5 | 5.1 | 4.4 |

## INVESTMENT RATIONALES

**Long Chau's improvement is insufficient to make up for the loss from FPT Shop in FY2023.**

- In 1H 2023, FRT recorded revenue of VND 15 tn (USD 0.6 bn, +7% YoY) and net loss of VND 224 bn (USD 10 mn). In which, Long Chau achieved net revenue of VND 6.8 bn (USD 0.3 bn, +72% YoY) and net profit of VND 94 bn (USD 4 mn, +268% YoY). The substantial loss of FPT Shop was ascribed to the sharp price cuts combined with low demand, particularly for Apple items.
- We anticipate the ICT segment's bottom line to continue incurring loss in Q3, albeit at a slightly slower rate than the previous quarter, before turning a profit in Q4 2023 given an uptick in consumer spending, a cyclical renewal of technology products, and the introduction of new product lines. Conversely, given its successful store growth plan, we forecast that Long Chau will retain the profitability established in 1H 2023 over the latter half. However, the profit generated by Long Chau may not be sufficient to offset the losses incurred by the remaining chain.
- FRT is anticipated to experience a robust rebound in its FY2024 bottom line, driven by the ICT segment's recovery from a low base and the continued improvement in profitability of LC.

**Long Chau is the key growth engine from FY2023**

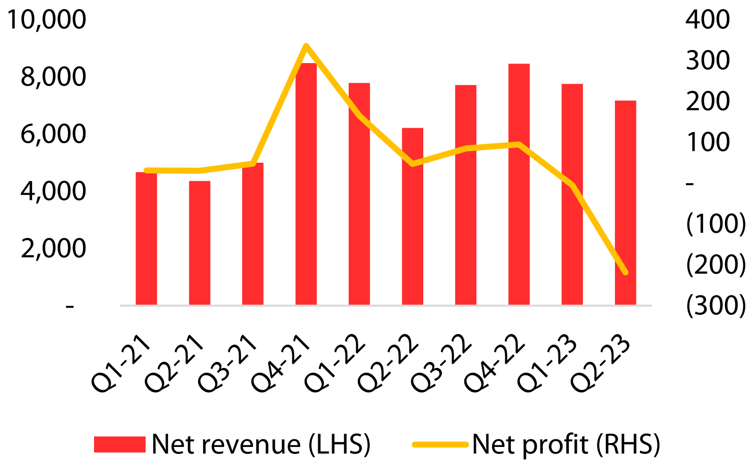
- We anticipate a 64% CAGR growth in LC's NPAT from FY2022-2027F, driven by strong store expansion and continuous profitability improvement.
- Capitalizing on competitors' difficulties, LC is expected to increase its retail pharmaceutical market share significantly to facilitate faster-than-expected profit growth. Hence, the chain should be had a re-valuation with a premium target P/S ratio of 0.5x compared to the previous 0.3x and 1.0x for regional peers.
- The recent stock price jump has already factored in the expected recovery next year. Despite the possibility that the worst is behind us, the persisting challenges of purchasing power difficulties and stiff competition cast doubt on the business's ability to escape from losses in the coming quarters.

## RISKS TO OUR CALL

- Slower/faster-than-expected ICT demand recovery.
- LC's store rollout and profitability to fall short of/exceed expectations.

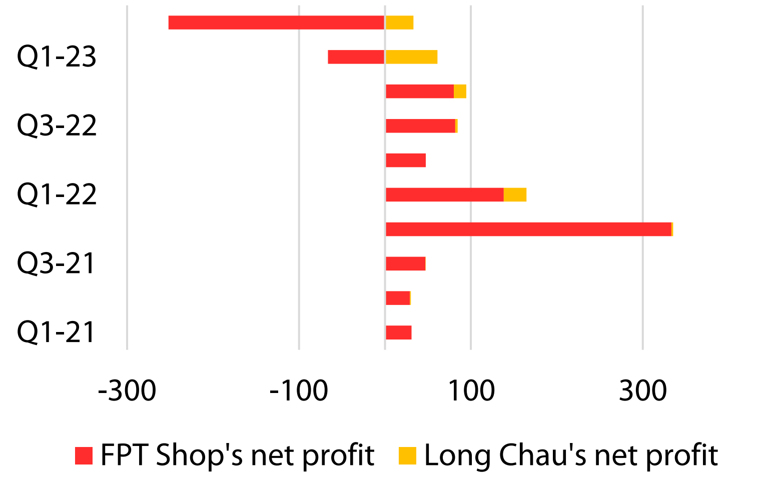
# PRICED-IN EXPECTATIONS OF RECOVERY

## Incurring losses in 1H 2023 (VND Bn)



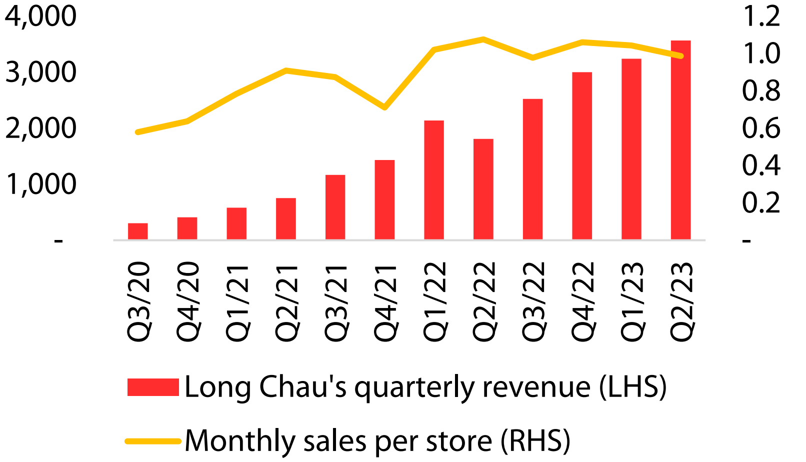

*Source: FRT, RongViet Securities*

## LC became main profit contributor(VND Bn)



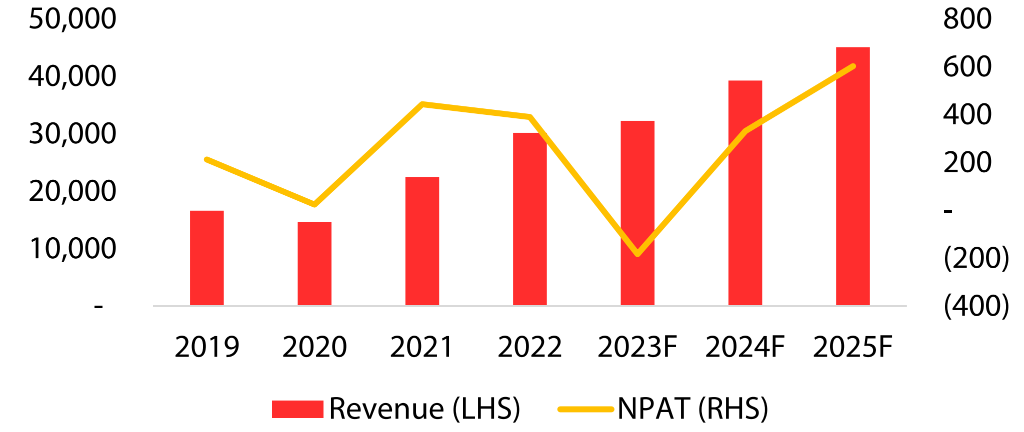

*Source: FRT, RongViet Securities*

## LC sales grow notably driven by store expansion (VND Bn)




*Source: FRT, RongViet Securities*

## Strong recovery in FY2024 on the low base of FPT Shop and continuing improvement of LC (VND Bn)




*Source: RongViet Securities*

## Valuation summary

| Unit: VND Bn | Valuation approach | % Contribution | Value per share |
|---|---|---|---|
| FPT Shop | 5Y FCFF (WACC: 11.7%, g: 1.2%) | 50% | 19,500 |
| | P/E @ 15x 2024F EPS | 50% | 5,500 |
| Long Chau | 10Y FCFF (WACC: 11.7%, g: 5.0%) | 50% | 33,400 |
| | P/S @ 0.5x 2023-24 EPS | 50% | 74,773 |
| **Target price (VND)** | | | **66,600** |
| Cash dividend | | | 0 |
| Current market price (VND) @ 31/07/2023 | | | 76,400 |
| **Total stock return** | | | **-13%** |
| TP / 2023F EPS | | | -43.3 |
| TP / 2024F EPS | | | 23.8 |
| TP / 2025F EPS | | | 13.1 |

*Source: RongViet Securities*

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