RETAIL

AS BAMBOOS GROW OLD, YOUNG SHOOTS SPRING UP

An Nguyen – an.ntn@vdsc.com.vn
Hung Nguyen – hung.nb@vdsc.com.vn

RETAIL – AS BAMBOOS GROW OLD, YOUNG SHOOTS SPRING UP

Investment Rating

Negative **Neutral** **Positive**

We anticipate that the overall picture of Vietnam retail will flourishes in H2-2024, following the economic recovery. Moreover, we believe that the level of growth will be vary across sub-sectors of the retail industry, including grocery, ICT/CE, pharmacy and specialty (jewelry) retail. Besides, we think the plan of "cost optimization strategies" mentioned by Vietnam retailers in 2024 will also be a highlight of the industry. In our viewpoint, the drivers of Vietnam retailers' performance in 2024 and onwards will be their nascent businesses (as we drew its likes young shoots, grocery, pharmacy or jewelry for examples) while the traditional business (as we drew its likes bamboos, ICT/CE for instance) is expected to rebound step-by-step to its normal level. Backed by this, together with business plan of Vietnam listed retailers, we recommend that MWG (owns the BHX chain) and FRT (owns the Long Chau chain) will show the strongest sales growth in the industry.

We see that valuation of the retail stocks is improving since Nov-2023 on the 2024 positive sales growth expectation. Besides, we suggest that the negative expectation on retailers' performance was priced in the stock prices' movement in 9M2023. Among retail stocks covered by VDSC, MWG shares is the stock owning the highest expected stock price increase. As a result, we believe that MWG is the most potential retail stock that investors should consider in 2024.

Positive outlook for overall retail picture but different growth on each sub-sectors

We believe that 2024 sales of the retail industry will draw an increase YoY backed by (1) economic recovery; and (2) 2023 low base performance. In detail, we expect the 1H2024 sales could present a recovery, then growing in H2-2024. We anticipate both consumer confidence and purchasing power to rebound in 2024, fueled by (1) the effects of both expansionary monetary and fiscal policies which implemented during 2023-24, and (2) Thrust from global economic recovery. We suppose that the effectiveness of macro factors will be more apparent in H2-2024.

To make the picture of the 2024 retail industry more colorful, we predict that the sales growth will not be the same for all sub-sectors of the retail industry, correlated to the capacity of each sub-sectors as well as consumer priority. We rank the four sub-sectors in order of sales growth from high to low in our expectation as below:

- **Grocery retailers:** Sales is expected to grow relying on (1) conservative expansion strategy and (2) the shift of shopping habits from traditional to modern channels which will support to increased average sales per store per month.
- **ICT/CE retailers:** In spite of experiencing the spike decline in 2023, ICT/CE retailers will only gain the one-digit sales growth in 2024 due to the middle-term saturated market.

- **Pharmacy retailers:** Pharmacy retailing recorded one-digit YoY growth with stable healthcare demand in Vietnam for many years. Hence, these retailers only expects to get the enormous growth once they capture larger market share from traditional pharmacy retail store. Among current Vietnam leading retailers, we suppose that Long Chau will be the potential candidate, whose effective-proven strategies in both store expansion and product/price aspects aid them to succeed in increasing its market coverage rate.
- **Jewelry retailers:** Jewelry demand is predicted to rebound in 2024, driven by (1) increase in jewelry purchasing preferences, especially from young people; and (2) rising jewelry spending per capita. In fact, the signal of the rebound has appeared in Q4 2023 with the growth of PNJ's retail sales reached +38.8% QoQ and +11.3% YoY.

Cost optimization strategies to support operating margin expansion, generating more cashflow for net profit

We suppose that profit margins of the retailers will improve, motivated by (1) better business conditions over the next 12-months; (2) cost optimization strategies (reducing logistics cost or optimizing inventory management are examples); and (3) absence of abnormal expenses. Relying on the capabilities and strategies of the four sub-sectors of the industry, we emphasize that Grocery retail and ICT/CE retail are the two sub-sectors which will have the most obvious improvement in profit margins.

- **Grocery retailers:** We suppose that profit margins of the grocery retailers will improve, motivated by improved average sales per store, cost optimization strategies: upgrading inventory management or negotiating with suppliers are for examples, and absence of abnormal expenses.
- **ICT/CE retailers:** Profit margins will be supported by the softening of "price wars" due to the less pressure of destocking, and cost optimization strategies. Almost ICT/CE retailers focus on optimizing costs rather than expanding revenue in 2024, proven by executing many strategies: (1) mass closures of inefficient stores and no plan of widen its store chain, and (2) product mix with higher margin products.

Valuation of the retail stocks is improving since Nov-2023 on the 2024 positive sales growth expectation

- Vietnam retail industry 's performance was weak in 2023 due to high inflation and slowing economic growth. On the sales base, pharmacy retail is the best performing retail categories, while ICT/CE retail is the worst performer. As regards profits, the jewelry retail shows positive growth while grocery and pharmacy retailers reduced their losses (except Long Chau reached a growth of +202% YoY). In contrast, ICT/CE retail sub-sector illustrated a strong negative profit growth as consequences of "price war" strategy, destocking effect, and low demand.
- As regards valuation, the retail stocks who succeed in convincing investors of the growth ability of their nascent business in 2023, including FRT (Long Chau pharmacy retail chain) and DGW (non-ICT products), outperformed VNIndex. We see that valuation of the retail stocks is improving since Nov-2023 on the 2024 positive sales growth expectation.

Risks to our call

Downside risks

- Slower-than-expected recovery due to weak economy and low consumer confidence.
- Retailers might book some abnormal expenses related to "closing ineffective stores".

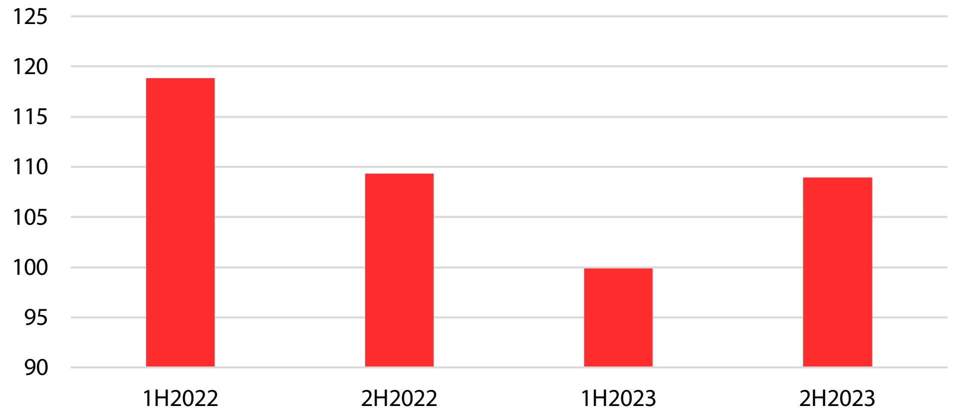
Upside risks

- Financial deals such as divestment or IPO can add more value to the stock price.

POSITIVE OUTLOOK FOR OVERALL RETAIL PICTURE BUT DIFFERENT GROWTH ON EACH SUB-SECTORS

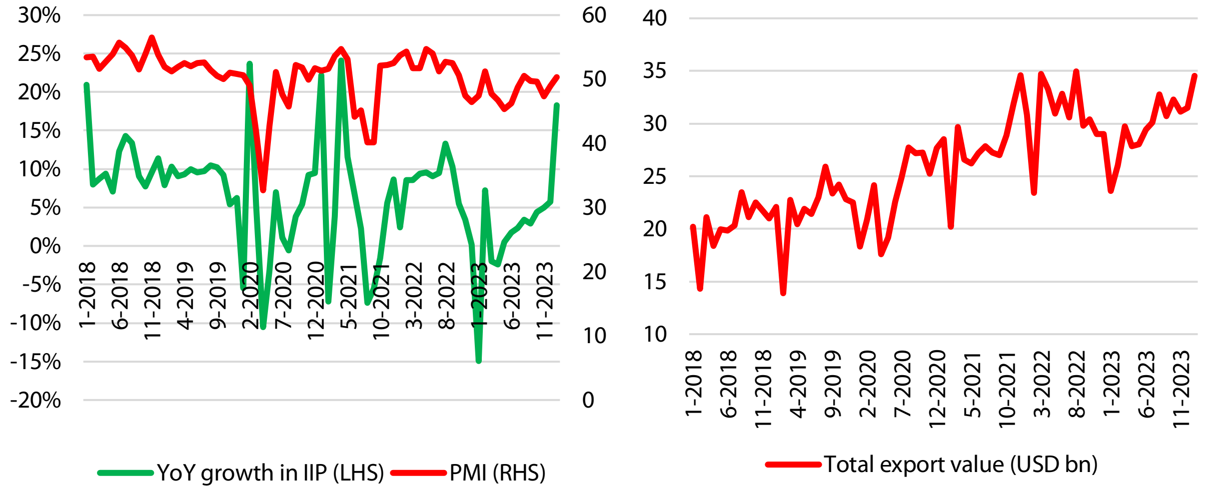
- 2024 sales of the retail industry will increase YoY against the bleak performance in 2023, relying on economic recovery. We anticipate both consumer confidence and purchasing power to rebound in 2024, fueled by (1) the effects of both expansionary monetary and fiscal policies which implemented during 2023-24, and (2) Thrust from global economic recovery (Figure 2 & 3).
- We suppose that the effectiveness of macro factors will be more apparent in H2-2024, which will encourage consumers to willing spending more in the second half compared to the first half of 2024. However, 1H2023 is the low base sales of Vietnam retailers (Figure 1), thus we believe that 1H2024 sales will show a modest positive sales growth. In general, we expect the 1H2024 sales could present a recovery, then growing in H2-2024.

Figure 1. Total sales of Vietnam listed retailers (VND tn)



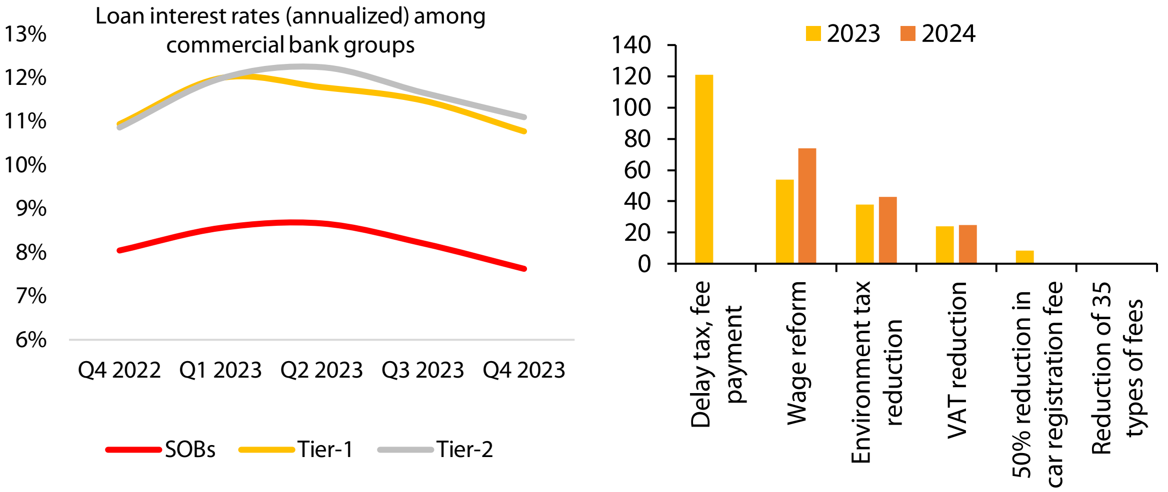
Sources: Fiinpro, RongViet Securities.

Figure 2. Some macro signals bode well for the recovery of the purchasing power in 2024



Source: VN GSO, RongViet Securities

Figure 3. Deposit rates by term & Supportive policies for consumption



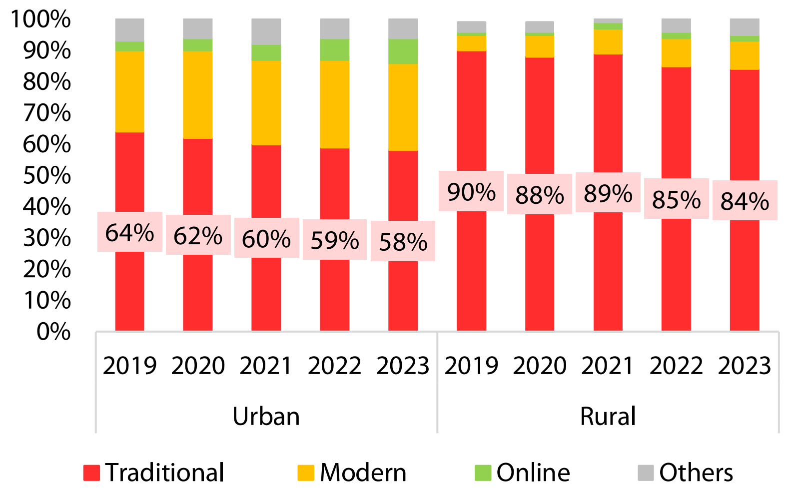
Source: MoF, RongViet Securities. Sample of 12 Banks (4 SOBs, 4 PoBs and 4 foreign banks)

POSITIVE OUTLOOK FOR OVERALL RETAIL PICTURE BUT DIFFERENT GROWTH ON EACH SUB-SECTORS

Grocery retail: Sales will be fuel by profitable expansion strategy on the shift of shopping habits from traditional to modern channels

- We suppose that grocery shopping habits of Vietnamese consumers has been re-shaped in 2019-2021 period due to Covid-19 pandemic. They adapted to making purchase through modern and online retail channels (Figure 4). Besides, grocery modern retailers restructured their store operation model to capture this trend in 2021-2023 period. We believe that grocery retailers has found the effective operation model for their retail chain in 2023, then they will enter the expansion phase with profitable since 2024.
- WCM, BHX, Saigon Co.op, Kingfood mart, Emart plan to open new stores in 2024, almost located in the urban of Hochiminh city (Table 1). Based on the modest number of new stores in the plan, we believe that these retailers expand their coverage in a conservative way to secure the sales growth and the profitability as well at some certain.
- Based on the increasing urbanization trend which keep up with growing economic activities (Figure 5), we forecast that the traffic of modern grocery retail stores will be higher over the next 12-months, resulting in an YoY increase in 2024 average sales per store per month.

Figure 4. The contribution of modern & online retail is increasing (% Value share)



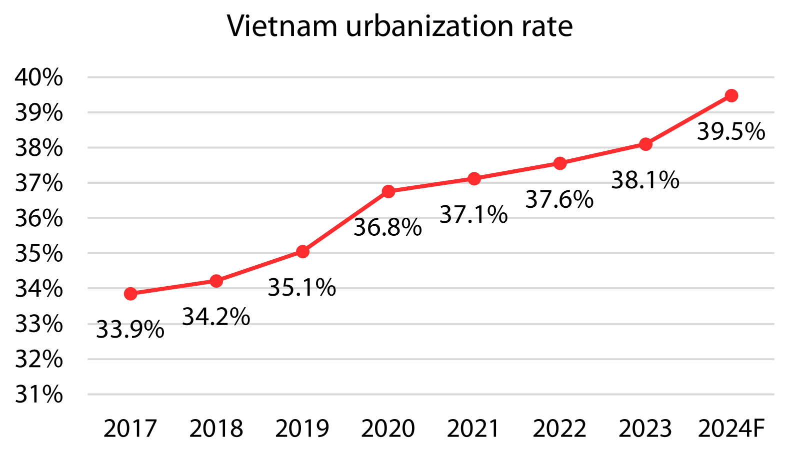
Source: KantarWorld panel, RongViet Securities

Table 1. New store expansion plan of WCM, BHX, Saigon Co.op, Kingfood mart, and Emart in 2024 (store)

	WCM (base case)	BHX	Saigon Co.op	Kingfood mart	Emart
Total stores in 2023	3633	1698	800	35	3
No. of new stores	400	100	100	35	3

Source: RongViet Securities

Figure 5. Vietnam urbanization rate keeps increasing (%)

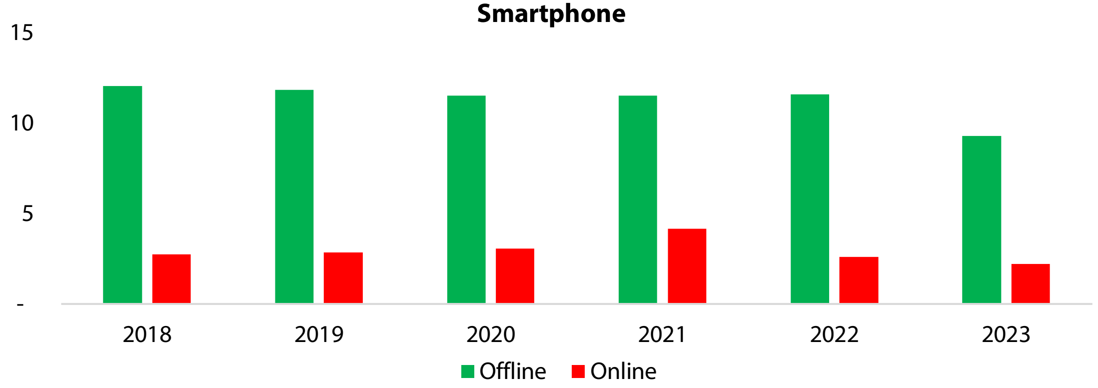


Source: Worldbank, GSO, 2024 number is forecast by Danso.org, RongViet Securities

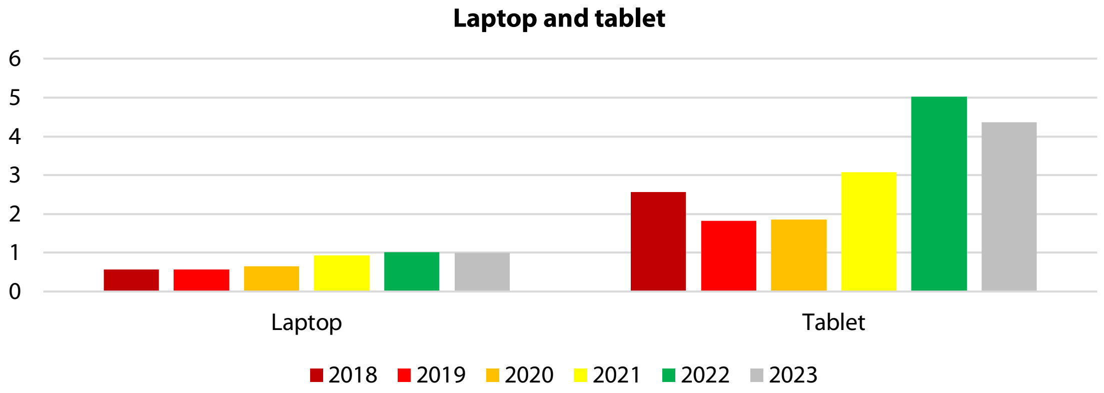
ICT/CE retail: one-digit sales growth in 2024 due to the middle-term saturated market

- In 2024, Vietnam's consumption of ICT/CE products will rebound YoY after experiencing a decline in 2023. Despite the benefit of a low base in 2023, we anticipate that sales growth will be in the high single digit due to market saturation.

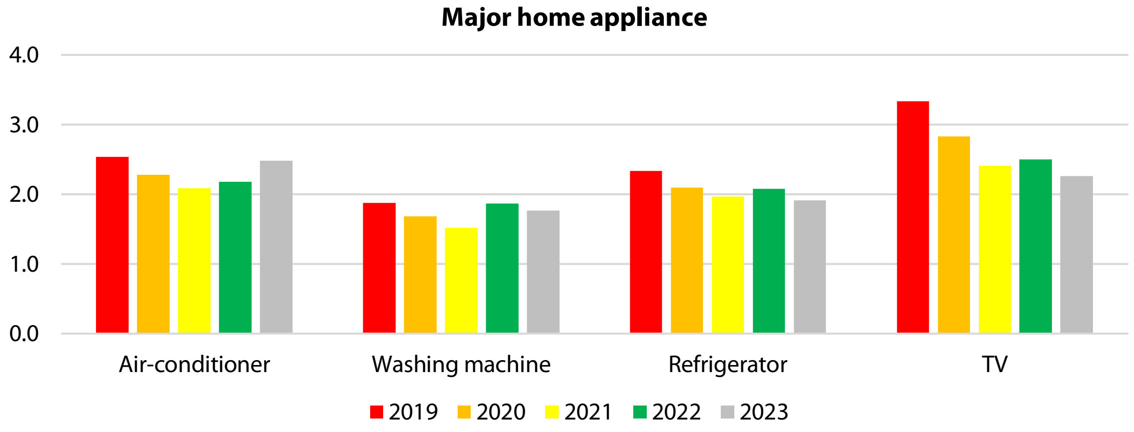
Figure 6. Due to difficult macroeconomic conditions, Vietnam end-users limited their discretionary spending in 2023 (mn units)



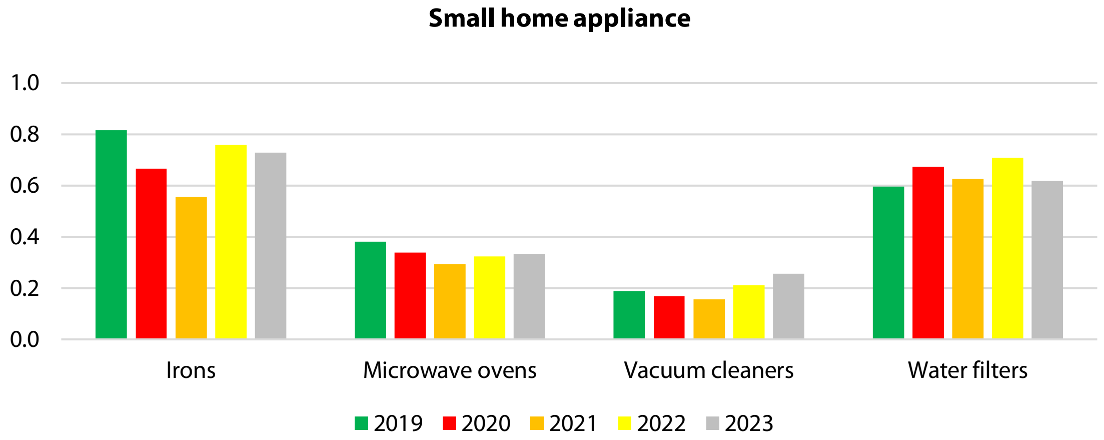
Source: GFK, RongViet Securities



Source: GFK, RongViet Securities



Source: GFK, RongViet Securities



Source: GFK, RongViet Securities

ICT/CE market witnesses the saturated signal in the middle-term

- **Store count (Figure 7)**

- In recent years, most retailers have slowed down their store expansion efforts, and some have even closed existing stores. Simultaneously, they have diversified into other sectors to reduce their reliance on traditional products. For example, MWG has entered the FMCGs and pharmaceutical sectors, FRT has expanded into pharmaceuticals, and DGW has diversified into FMCGs and medical devices.

- **Sales volume's growth rate (Figure 6)**

- Over the past five years, sales figures have remained relatively stable, except for Laptop and Tablet sales, which experienced notable increases due to the work-from-home trends prompted by the Covid-19 pandemic.

- **Current inefficiency of the technological transformation**

- In terms of 4G/5G adoption, 5G network technology is currently in the "testing" phase across 59 provinces and does not appear to be ready for market penetration in the near future. Moreover, considering the current demand for mobile internet access, a 4G network is deemed adequate to fulfill the majority of end-users' needs in Vietnam.
- The market volume of 2G phones has been declining year-over-year due to the shift from feature phones to smartphones in recent years. Therefore, despite Vietnam's plan to completely switch off the 2G network starting in September 2024, we anticipate limited potential for significant increases in smartphone sales figures resulting from this event (Figure 9).
- The adoption of Artificial Intelligence (AI) in ICT products is expected to drive their replacement cycle. However, since AI technology is still in its early stages and comes with a high price tag, we will closely monitor its prospects in developed countries before assessing its potential in Vietnam.

- **Penetration rate (Figure 8)**

Mobile phone

- The smartphone penetration rate has reached 96.9% (refer to Figure 8), surpassing that of Southeast Asian peers.

Laptop & PC

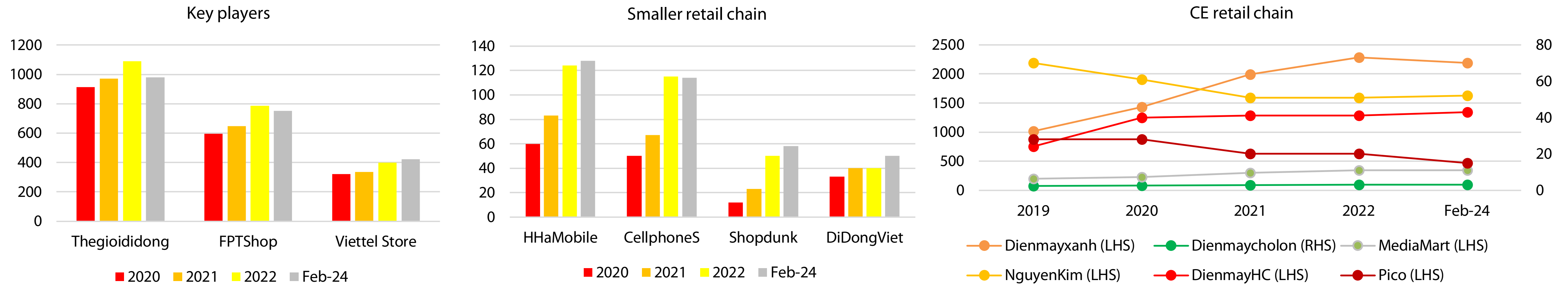
- Laptop market penetration increased rapidly after the Covid-19 sales boom, reflecting the trend of working from home, reaching 68.5% in 2022 (according to Statista).
- It's important to highlight that laptop demand is predominantly fueled by urban areas, which have a significant presence of office workers and college students. However, given that more than 60% of the population resides in rural areas, the current level of 68.5% suggests limited potential for further growth in the coming years compared to similar countries like Thailand, Indonesia, and the Philippines.

Consumer electronics

- Urban area: The high penetration rates reached by over 70% (Figure 8).
- Rural area: The monthly average income of rural residents significantly lags behind that of urban residents, making it challenging for them to afford high-value products such as major home appliances on a regular basis. Additionally, the inadequate rural traffic infrastructure in Vietnam poses obstacles for retailers and distributors, hindering the efficient delivery of goods from stock centers to stores or directly to customers' homes.

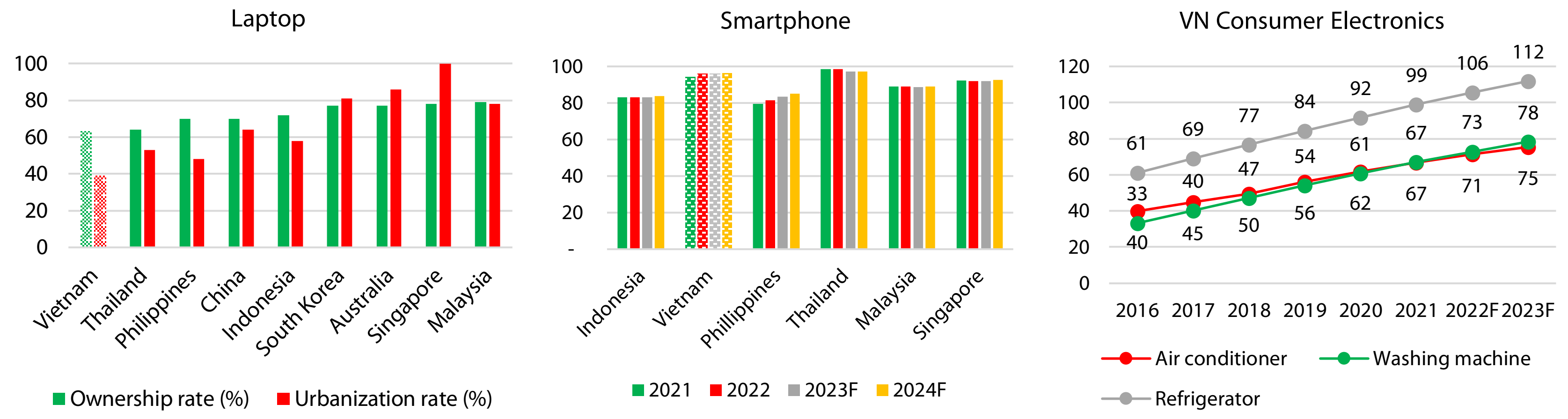
POSITIVE OUTLOOK FOR OVERALL RETAIL PICTURE BUT DIFFERENT GROWTH ON EACH SUB-SECTORS

Figure 7. Store count of ICT/CE retailers (Stores)



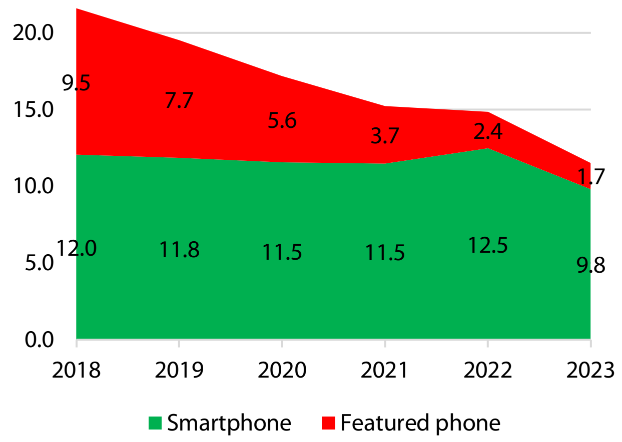
Source: RongViet Securities

Figure 8. The penetration rate of Vietnamese ICT/CE market (%)



Source: Statista, Worldbank, Insider Intelligence, RongViet Securities

Figure 9. VN phone sales volume (%)



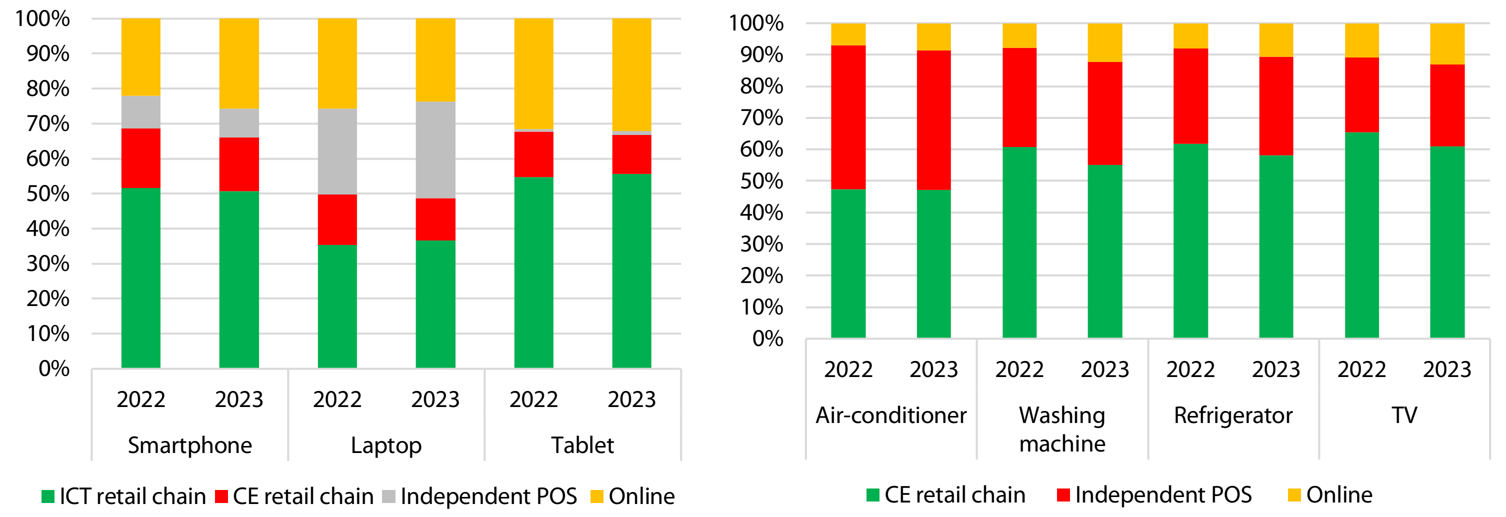
Source: GFK, RongViet Securities

POSITIVE OUTLOOK FOR OVERALL RETAIL PICTURE BUT DIFFERENT GROWTH ON EACH SUB-SECTORS

Competition in the ICT/CE market is intensifying as it approaches saturation.

- Over the past five years, several new retailers have emerged in the ICT market, such as CellphoneS, Shopdunk, HHaMobile, and Didongviet. These retailers have adopted easier pricing and marketing strategies to target the new generation, spanning ages 18 to 40. Additionally, consumer trends are spreading rapidly through online channels such as Lazada, Shopee, and TiktokShop, as well as brand flagship stores like Apple, Samsung, and Xiaomi.
- Given the significant share of modern retail in ICT/CE products (~70% for smartphones, ~70% for tablets, ~50% for laptops, and ~65% for home appliances), we predict limited volume growth potential for leading ICT/CE retailers (such as TGDD, DMX, FPT Shop, and Viettel Store) in the medium term (Figure 11).

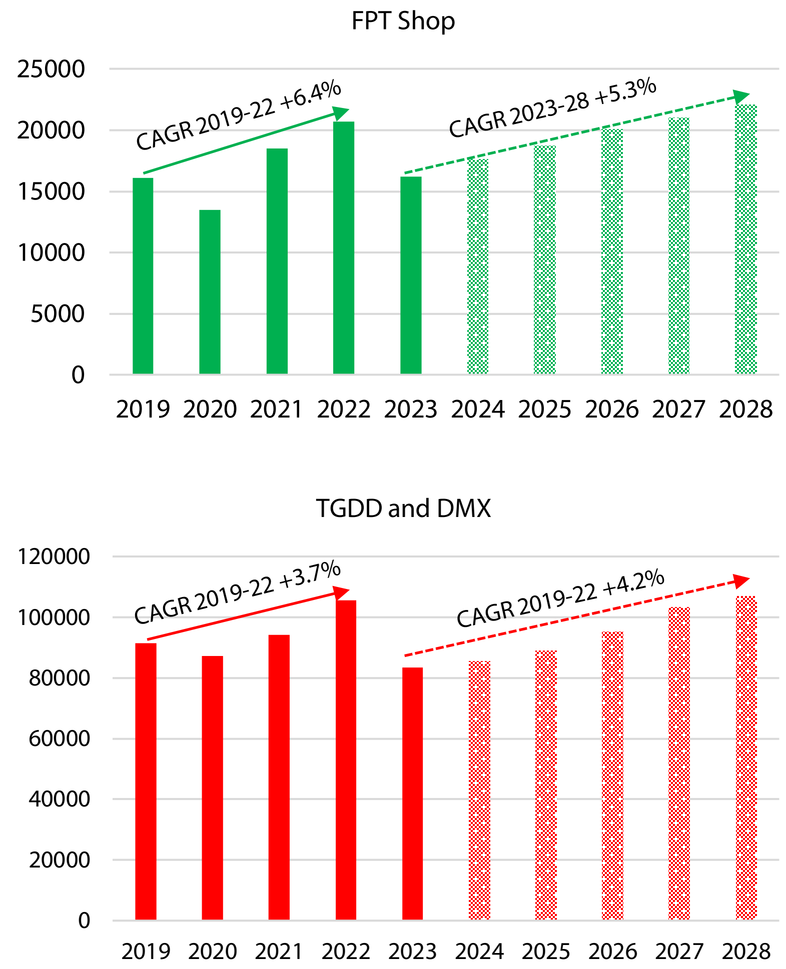
Figure 11. ICT/CE retailers will not gain more market share from independent points-of-sales in the medium term but is hampered by the growth of online channel



Source: GFK, RongViet Securities

Source: GFK, RongViet Securities

Figure 10. Forecasted revenue of some ICT/CE retailers in next 5 years (VND bn)



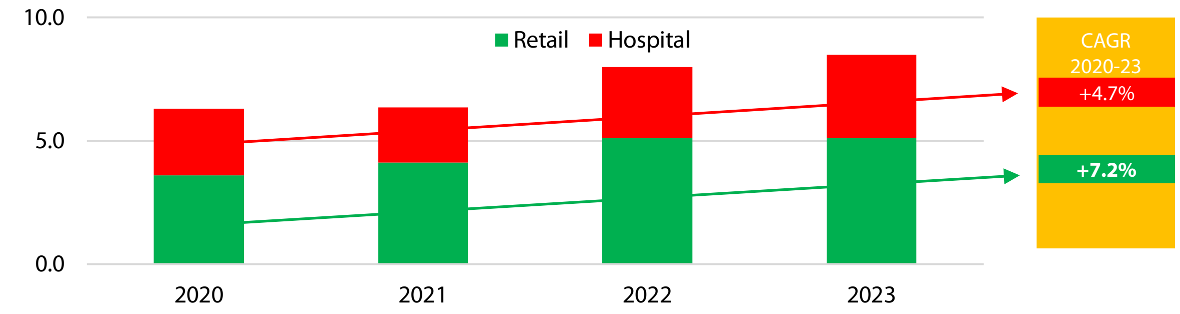
Source: RongViet Securities

POSITIVE OUTLOOK FOR OVERALL RETAIL PICTURE BUT DIFFERENT GROWTH ON EACH SUB-SECTORS

Pharmacy retail: Opportunities for modern branded pharmacy retailers owning large retail system

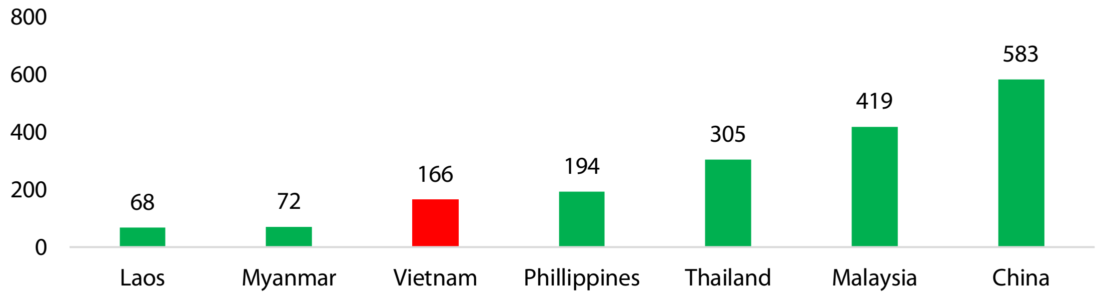
- We anticipate that pharmaceutical sales in Vietnam will achieve stable single-digit growth (Figure 12), supported by its resilience to macroeconomic challenges, the aging population structure of Vietnam (Figure 14), rising prevalence of non-communicable diseases, and improvements in both income and pharmaceutical expenditure per capita (Figure 13, 15).
- However, we project that there still a room for strong growth for modern branded pharmacy retailers owning large retail system amid industry fragmentation. Particularly, the modern retailers will get the enormous growth once they capture larger market share from traditional pharmacy retail store.

Figure 12. The pharmaceutical sales is relatively inelastic against economic headwinds (USD bn)



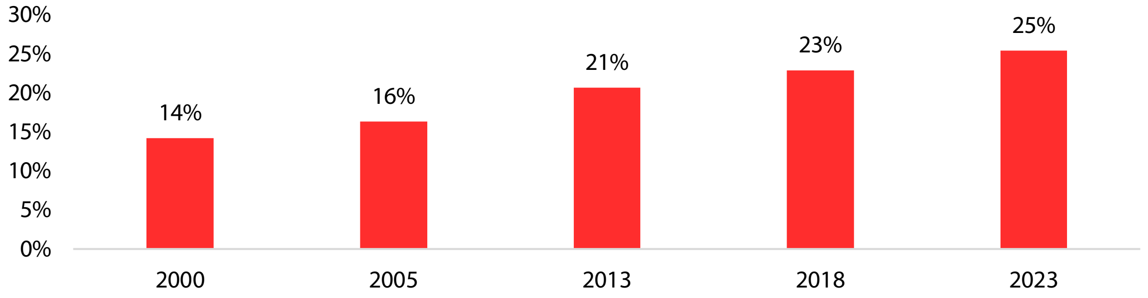
Source: IQVIA, RongViet Securities

Figure 13. Vietnamese's pharmaceutical expenditure per capita is lower than it of other Asian countries (USD)



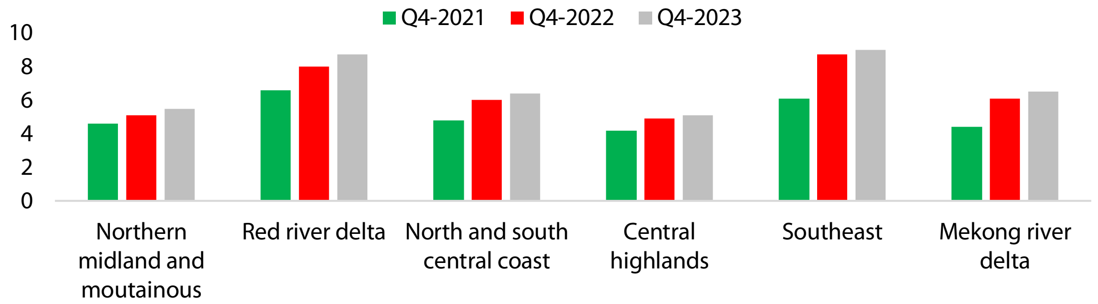
Source: Worldbank, RongViet Securities

Figure 14. % 50-100+ aging population in Vietnam (%)



Source: PopulationPyramid.net, RongViet Securities

Figure 15. Vietnamese's income per capita by region(VND mn)

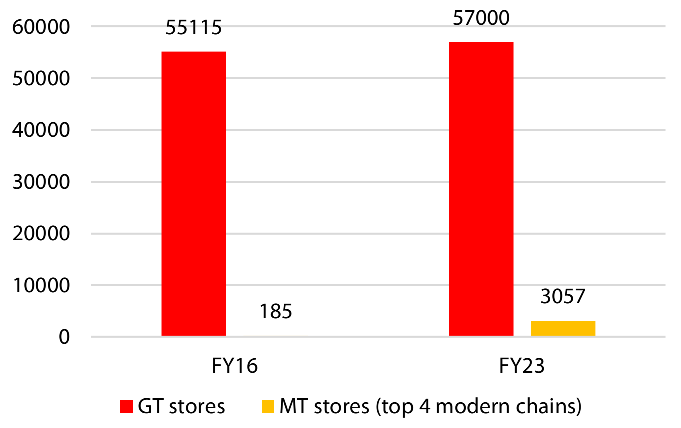


Source: VN GSO, RongViet Securities

Vietnamese consumers have shifted their purchasing habits from GT channel to MT channel when buying medicine.

- Considering the competitive advantages of modern chains over traditional pharmacy stores (Table 2) and the fragmented nature of the Vietnamese pharmacy market (Figure 16), we anticipate that the modern trade (MT) channel will quickly gain prominence among customers' preferences over the next three years.

Figure 16. Pharmacy store count (store)



Source: IQVIA, MWG, RongViet Securities

Table 2. The comparison of modern retail chain and traditional pharmacy store models

Factor	Modern retail chain	Hospital pharmacy stores	Mom-and-pop stores
Fixed price	Cheaper fixed price than the general market by its strategy and its scale of economics	Frequently adhere to pricing policies mandated by local authorities, potentially leading to lower prices compared to those in mom-and-pop pharmacies.	Have the autonomy to establish their pricing policies, often prioritizing profit maximization. Consequently, prices at these pharmacies may exceed those at hospital pharmacies.
Origin and quality	All medicines are sourced transparently and ensures reliable quality.		Not assured for end-users.
Monthly sales/store	~ VND 0.5-1 bn	~ VND 0.2-0.4 bn	
Health insurance	Given the presentation of a verified invoice, prescription drug expenses can be reimbursed through private health insurance.	Prescription drug costs can be reimbursed under both social and private health insurance plans	Due to the absence of an electronic invoice system, prescription drug expenses cannot be reimbursed under private health insurance.
Medicine SKUs	~2,000-4,000 medicine SKUs in both ETC & OTC. Medicine product mix varies among retailers (mostly 40-70% of drug SKUs). Besides, they offer more types of products: functional foods, personal care, vaccine.	Focus on ETC products with 80% of total SKUs.	1,000 – 2,000 medicine SKUs only in OTC market (almost contained the basic types of medicine of 70-80%)
Inventories	Inventories per store is higher than traditional model due to the strategy: always refill enough medicine 24/24.		
Online platform	Allow end-users to place orders, and on-site delivery service is always available. All of these services are either free or have a small fee.	Not available	Not available
Consulting service quality	The amount of training time to launch a new official retail staff is 6-10 months with a full range of knowledge as one expertise pharmacist. All staffs graduated from pharmacy university/college.	Expert doctors and medical staff are available to provide detailed and professional guidance on the use of medical products..	Most pharmacy store's licensed representatives are only named as a guise, almost selling/consulting activities are taken responsibility by retail staffs with little expertise. Staff training is hands-on.
Waiting time	Maintain 4-6 pharmacists/store during its opening hours (7am-10pm), combined to applying technology to search types of medicine or payment system, it likely save a waiting time for consumers.	It frequently have 1-2 counter pharmacists with intermittent operating hours during a day. They also tend to use a cash payment or search the required medicines manually.	

Source: RongViet Securities compilation

Long Chau is on track to become the long-term winner in modern pharmacy retailing in Vietnam

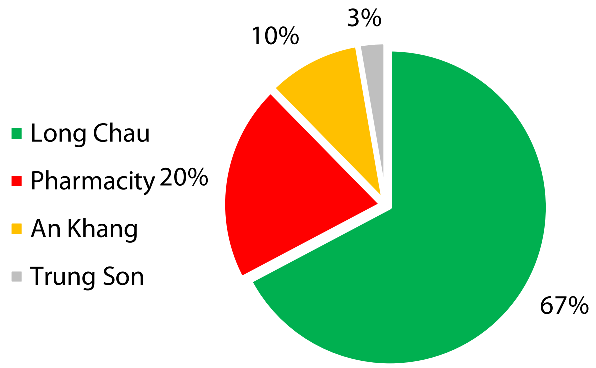
- Long Chau has the highest store count with the widest provincial coverage nationwide but maintaining the efficiency of its performance: (1) leading sales per store, (2) Long Chau is the only profitable pharmaceutical chain at current.
- We anticipate that Long Chau will maintain its largest market share position in the next 05 years but have limited room to grow its market share in MT channel due to its over 50% covered on this channel (Figure 17).

Table 3. Market share of top 4 modern pharmacy chains

	Long Chau	Pharmacity	An Khang	Trung Son
Medicine SKUs	4,103	2,038	1,932	127
Store size	60-70 m2	25-120 m2	30-40 m2	40-60 m2
Location	Residential & nearby hospital	Residential & gas stations	Residential	Residential & nearby hospital
Average sales per month per store (VND bn)	1.03	0.45	0.35	0.8
Gross margin	22.5%	~30-32%	~19-20%	N.A
Net margin	0.9%	Negative	Negative	N.A

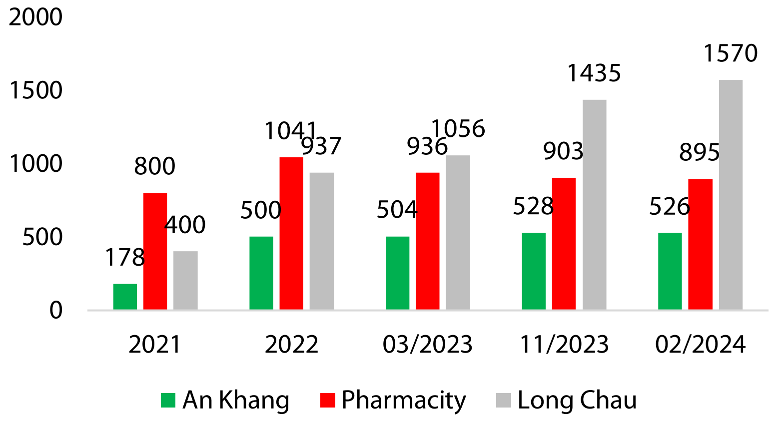
Source: RongViet Securities

Figure 17. Market share of top 4 modern pharmacy chains



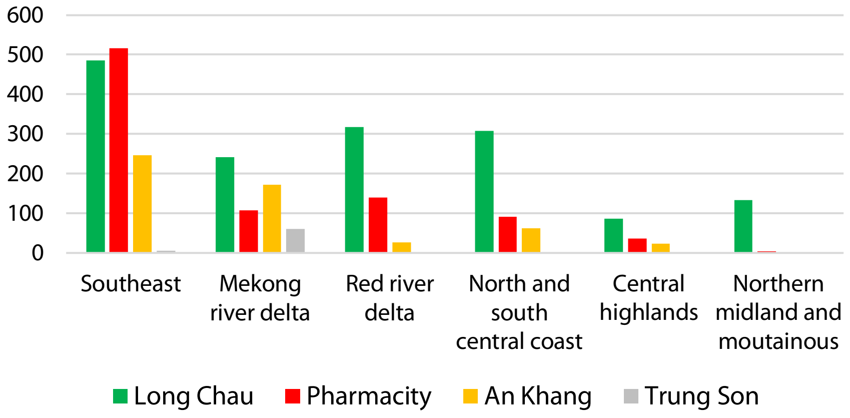
Source: RongViet Securities

Figure 18. Long Chau grew its store count solidly while other retailers stagnated



Source: RongViet Securities

Figure 19. Long Chau's stores accounted for the highest store count in almost Vietnam's region



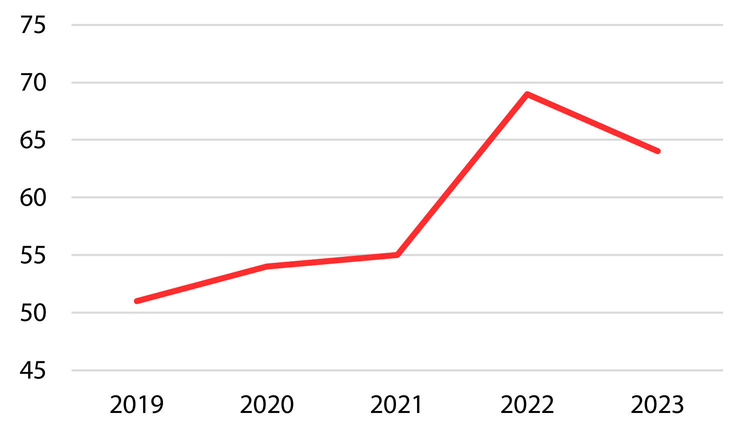
Source: RongViet Securities

Jewelry retail: Jewelry retail sales is predicted to rebound since 2024 after experiencing a decline in 2023

On the back of better purchasing power, we believe that Vietnam jewelry demand will be warmed up by increasing jewelry purchasing preferences of Vietnamese people; and rising jewelry spending per capita.

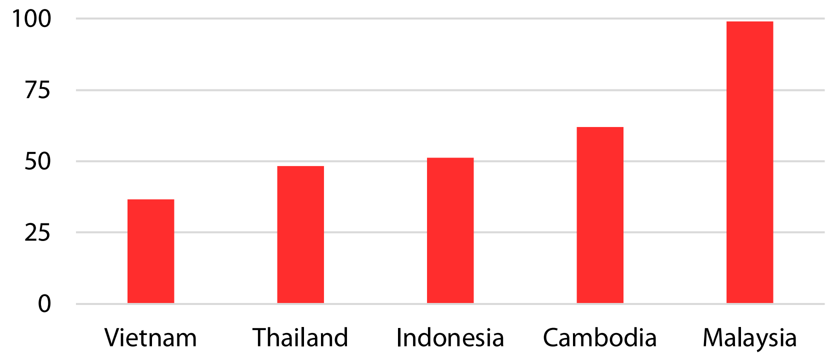
- **Increasing jewelry purchasing preferences**. There are more and more applications help people connect with each other as well as making money such as Facebook or Tiktok. Different from the last decade, Vietnamese people (both of male and female) willing spend on jewelry to strengthen their beauty. To prove, the level of searches related to jewelry spending on Google is increasing year by year (Figure 20). In our opinion, the slight decrease in 2023 is due to the weak macro economy. We expect this trend to rebound as the economy recovers in 2024.
- **Rising jewelry spending per capita**. Compared to other Southeast Asia countries, Vietnam jewelry spending per capita is lower (Figure 21). In the assumption that the Southeast Asia have same cultural, social and economic characteristics, we believe that Vietnam jewelry spending per capital will move up to the level as same as these countries. In fact, retail sales of PNJ – Vietnam leading jewelry retailer – showed a continuous growth despite of Covid-19 pandemic and modest decline only in the unfavorable business condition of 2023 period (Figure 22).

Figure 20. Level of interest in jewelry of Vietnamese people (points)



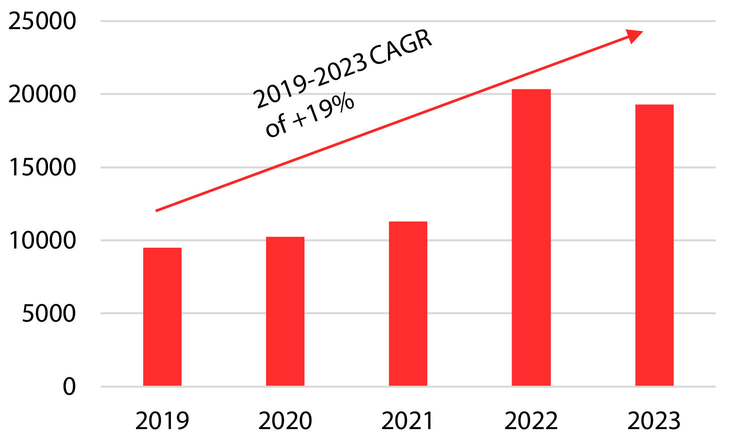
Source: trends.google.com.vn, RongViet Securities

Figure 21. Jewelry spending per capita of Vietnamese people is lower than the other Southeast Asia countries (2023, USD)



*Source: Statista Market Insight, RongViet Securities; * For Vietnam, we adjust by using the data from Statista/0.3 as Statista only count the sales from branded jewelry companies who take 30% of total market share.*

Figure 22. Jewelry retail sales of PNJ illustrates an upward trend (VND bn)



Source: PNJ, RongViet Securities

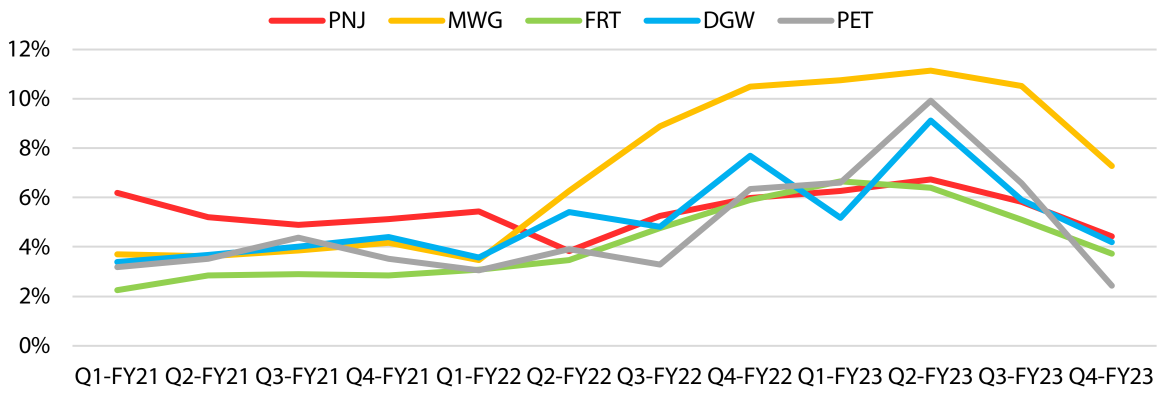
- We suppose that profit margins of the retailers will improve, motivated by (1) better business conditions over the next 12-months; (2) cost optimization strategies (Table 4); and (3) absence of abnormal expenses.
- We project that the first motivation will come from (1) improved demand; (2) eases of "price war" & inventory destocking pressures; and (3) decreasing borrowing rates.
- Among Vietnam listed retailers, we suppose that the retailers whose business related to ICT/CE & Grocery products presenting the weakness performance in terms of net margin in 2023. Therefore, relying on the capabilities and strategies of the four sub-sectors of the industry, we emphasize that Grocery retail and ICT/CE retail are the two sub-sectors which will have the most obvious improvement in profit margins.

Table 4. Cost optimization strategies of listed retailers in 2024

Company	Cost optimization strategies	Effect
MWG	- Negotiate better deals and terms with suppliers. - Optimize store networks by closing underperforming stores. - Optimize product mix. - Upgrade logistic system.	- Improve gross margin. - Improve gross margin. - Improve gross margin. - Improve operating margin.
FRT	- Optimize store networks by closing underperforming stores. - Upgrade inventory management system. - Optimize product mix.	- Improve gross margin. - Improve gross margin. - Improve gross margin.
PNJ	Upgrade manufacturing process to save production costs.	Improve gross margin.
Wincommerce	- Upgrade stock management efficiency (aging/stock room/store warning automation). - Apply data and AI/ML technology in reducing logistics cost.	- Improve gross margin. - Improve operating margin.

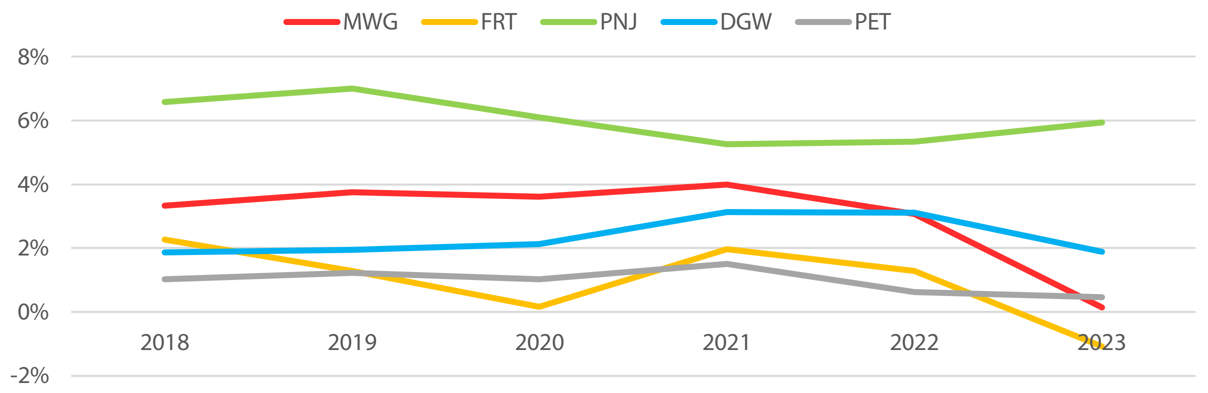
Source: MWG, PNJ, FRT, MSN, RongViet Securities

Figure 23. Annualized borrowing rate of listed retailers (%)



Source: MWG, PNJ, FRT, DGW, PET, RongViet Securities

Figure 24. Net profit margin of listed retailers (%)



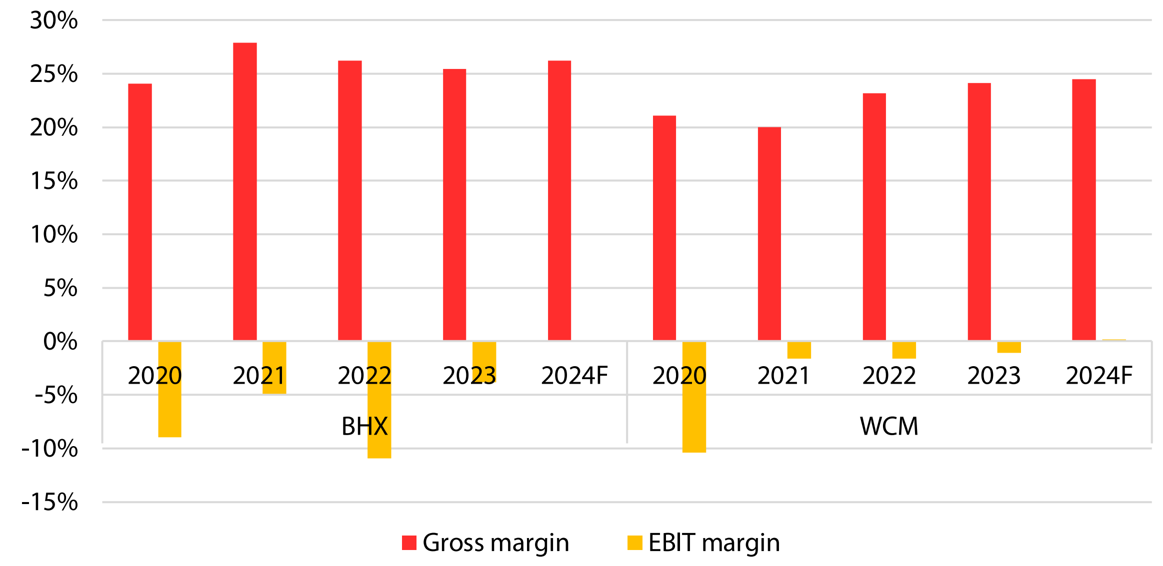
Source: MWG, PNJ, FRT, DGW, PET, RongViet Securities

COST OPTIMIZATION STRATEGIES TO SUPPORT OPERATING EXPANSION, GENERATING MORE CASHFLOW FOR NET PROFIT

Profit margins of grocery retailers will improve owing to the cost optimization strategies, normalized expenses, and improved sales per store

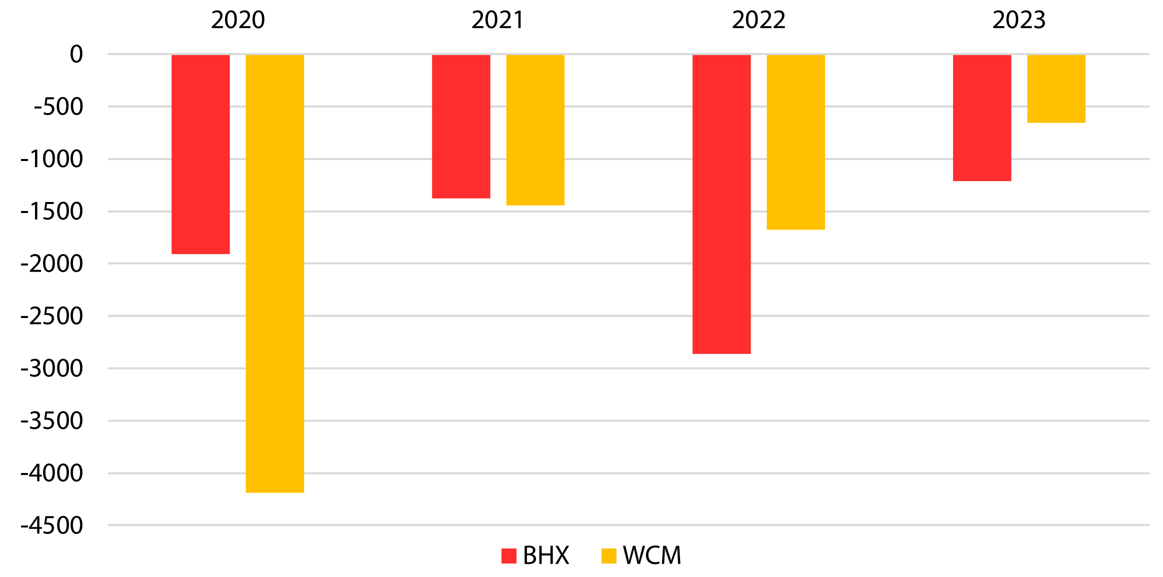
- **Cost optimization solutions**. After found the suitable operation model, almost Vietnam grocery retailers focus on cost optimization besides scaling-up sales. Three key cost optimization solutions which will be focused in 2024 are (1) optimizing inventory management to limit obsolescence rate, (2) negotiating better deals and terms with suppliers, and (3) saving logistics cost.
- **Normalized expenses**. In 2023, some retailers such as BHX booked one-off expenses related to restructure store chain. Due to the retailers finished their store-structuring phase, we believe they will not book such expenses in 2024.
- **Improved average sales per store.** In 2024, the number of stores which operated over 1-year (old stores) is significantly higher than the number of new stores. Consequently, we predict that higher sales per store of the old stores will compensate for lower sales per store of the new stores, leading average sales per store to increase YoY.

Figure 25. Profit margins of WCM and BHX is improving (%)



Source: BHX, MSN, RongViet Securities

Figure 26. WCM and BHX is reduce their losses in 2023 (VND bn)

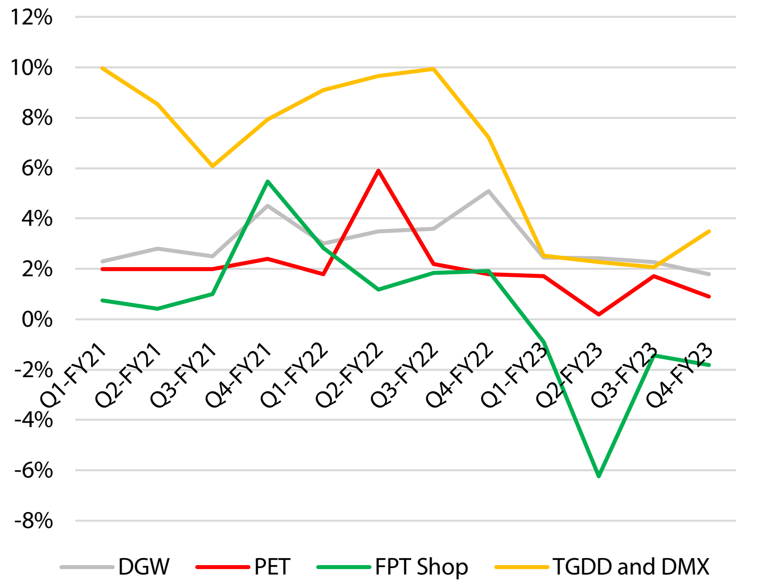


Source: BHX, MSN, RongViet Securities

Better business conditions over the next 12-months, together with cost optimization strategies, will boost profit margins of ICT/CE retailers

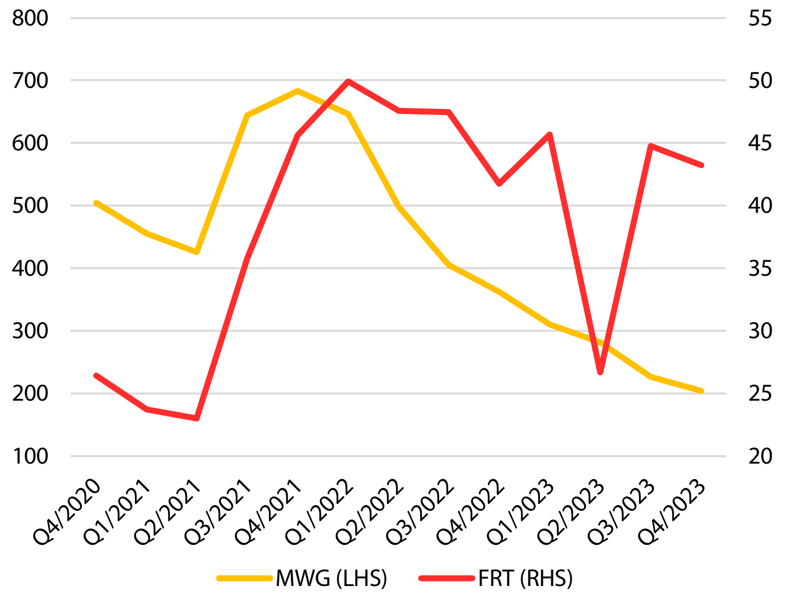
- MWG, a leader in the ICT sector, began to improve its operating margin from Q4-2023, signaling a positive outlook for the conclusion of the "ICT price wars."
- The pressure of ICT/CE destocking has eased, resulting in a reduction in price discounts. To prove, provision for devaluation of inventory of MWG and FRT has illustrated a downward trend between Q1 2022 and Q4 2023 (Figure 28). Additionally, the days of inventory-on-hand (DOH) of TGDD and DMX has decreased while the number of the others increased in Q4 2023 (Figure 29). We expect that there will be a lag between the provision for devaluation of inventory and the DOH, thus we predict that the DOH of ICT/CE retailers will decline, together with expected improved sales since Q1 2024.
- Many retailers are proactively closing inefficient stores, which is expected to optimize their cost structures better than 2023 period, supporting operating margin expansion. We expect that operating margin of ICT/CE retailers has bottom-out since Q4 2023 (Figure 27).

Figure 27. ICT/CE 's operating margin (%)



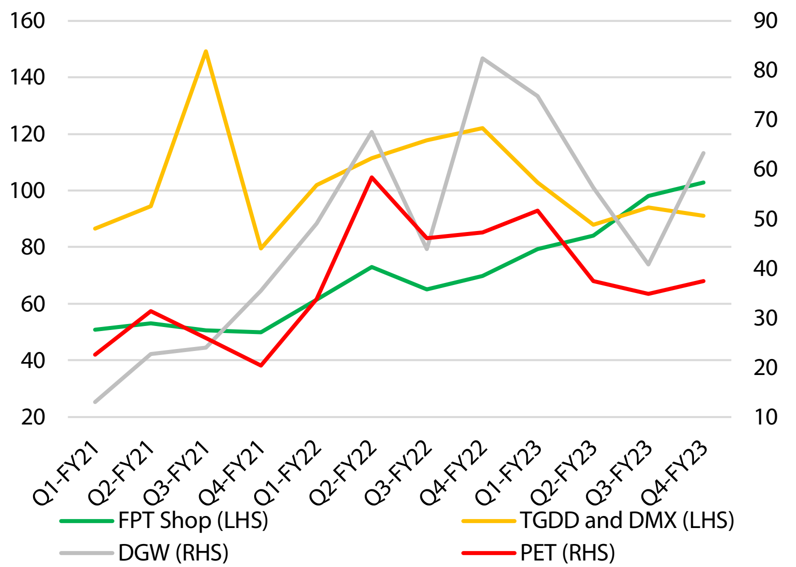
Source: MWG, FRT, DGW, PET, RongViet Securities

Figure 28. Provision for devaluation of inventory of MWG and FRT (VND bn)



Source: MWG, FRT, RongViet Securities

Figure 29. ICT/CE's days of inventory-on-hand (days)



Source: MWG, FRT, DGW, PET, RongViet Securities

VALUATION OF THE RETAIL STOCKS IS IMPROVING SINCE NOV-2023 ON THE 2024 POSITIVE SALES GROWTH EXPECTATION

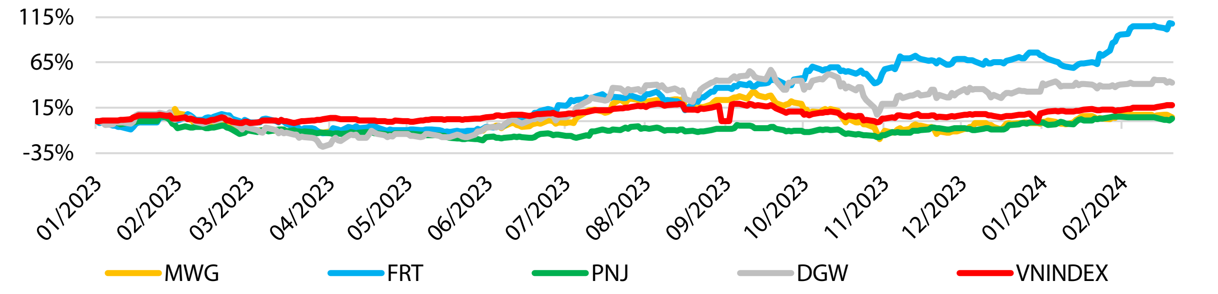
2023 sector review:

- Vietnam retail industry 's performance was weak in 2023 due to high inflation and slowing economic growth. However, there was a diversification in the sales of each sub-sectors, including ICT/CE, grocery, pharmacy, and specialty (jewelry). Pharmacy retail is the best performing retail categories, while ICT/CE retail is the worst performer. As regards profit, the jewelry retail shows positive growth from the high-base of 2022, while grocery and pharmacy retailers reduced their losses (except Long Chau reached a growth of +202% YoY). In contrast, ICT/CE retail sub-sector illustrated a strong negative profit growth as consequences of "price war" strategy, destocking effect, and low demand.
- Notably, some retail giants such as FRT or MWG booked abnormal expenses because of business restructuring in 2023, causing net profit to become thinner and thinner.

Retail stock price & Valuation

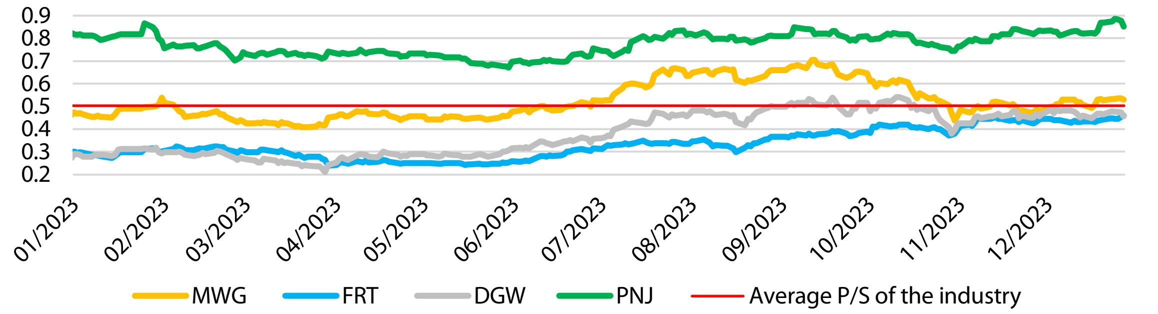
- In general, the retail stocks who succeed in convincing investors of the growth ability of their nascent business in 2023, including FRT (Long Chau pharmacy retail chain) and DGW (non-ICT products, with Office equipment & Consumer goods are the most two potential segments), outperformed VNIndex.
- We see that valuation of the retail stocks is improving since Nov-2023 on 2024 positive sales growth expectation. Except FRT presented positive YoY growth for three consecutive quarters from Q2, MWG, DGW and PNJ has returned to positive sales growth in Q4 2023 (Figure 28). As a result, we suppose that the negative expectation on retailers' performance was priced in the stock prices' movement in 9M2023.

Figure 30. Stock price performance of listed retailers (%, YTD)



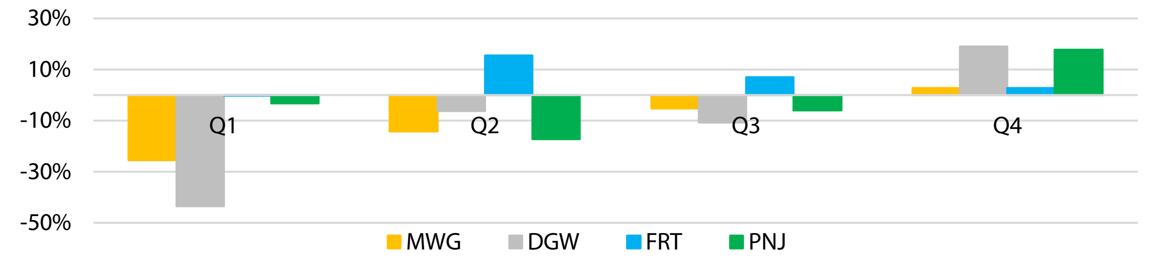
Source: Bloomberg, RongViet Securities. Data as of Feb 22nd 2024

Figure 31. Trailing P/S of retailers (x)



Source: Bloomberg, RongViet Securities; Average P/S of the industry is calculated by the P/S of MWG, FRT, DGW and PNJ.

Figure 32. Sales growth of MWG, DGW, FRT, PNJ (% YoY)



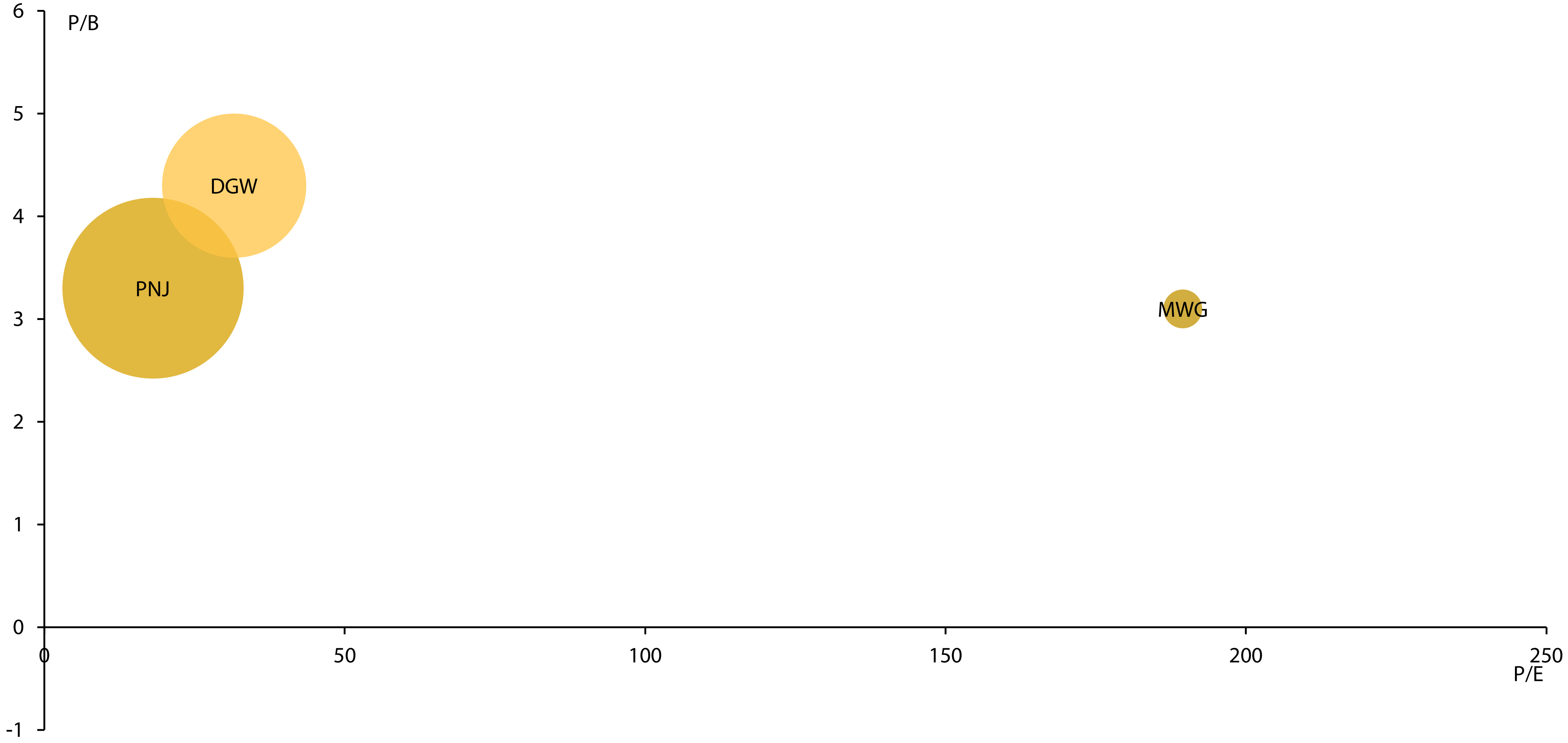
Source: MWG, DGW, FRT, PNJ, RongViet Securities.

INDUSTRY COMPARABLE

Ticker	Market cap (VND bn)	3m ave. matching order value (VND mn)	Cur. PER (x)	Cur. PBR (x)	4Q TTM ROE (%)	Target price (VND)	Market price (VND)	Expect return (%)	2023A			2024			Revenue growth (%)		NPAT growth (%)	
									Revenue (VND bn)	NPAT (VND bn)	EPS (VND)	Revenue (VND bn)	NPAT (VND bn)	EPS (VND)	2023A	2024F	2023A	2024F
FRT	20,395	83,564	n.a	12.75	-19.2%	139,500	149,000	-6,4%	31,850	(346)	(2,537)	41,619	304	2,229	5.6%	30.7%	n.a	-188.0%
MWG	71,796	454,925	189.46	3.08	0.7%	58,500	50,700	15.4%	118,280	168	115	124,854	1,279	1,181	-11.3%	5.6%	-95.9%	662.8%
PNJ	32,954	130,413	18.12	3.29	21.6%	97,500	97,500	0%	33,137	1,971	5,435	35,375	2,245	6,345	-2.2%	6.8%	8.9%	13.9%
DGW	11,193	139,135	31.59	4.31	14.2%	N.R	65,800	n.a	18,817	354	2,121	n.a	n.a	n.a	-14.6%	n.a	-48.2%	n.a
PET	3,079	18,386	38.49	n.a	n.a	N.R	27,200	n.a	17,508	81	754	n.a	n.a	n.a	-0.2%	n.a	-27.1%	n.a

Source: Fiinpro, RongViet Securities. Share price as of 04th Apr 2024.

PE, PB AND ROE (TTM)

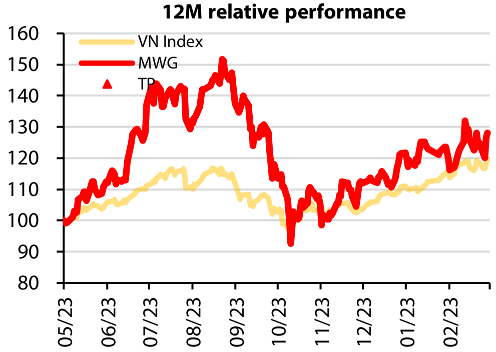


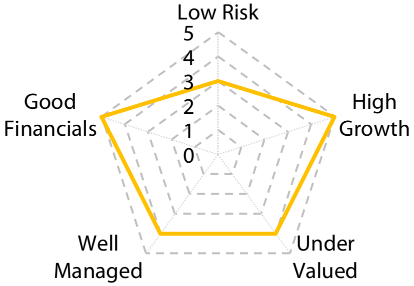
Source: Fiinpro, RongViet Securities. Bubble size equals respective ROE. Share price as of 22nd Mar 2024.

TRIPLE-DIGIT PROFIT GROWTH THANKS TO COST OPTIMIZATION STRATEGIES

HSX: MWG

ACCUMULATE: +15% **MP: 50,700** **TP: 58,500**





STOCK INFO

Sector	Retail
Market Cap ($ mn)	2,899
Current Shares O/S (mn shares)	1,462
3M Avg. Volume (K)	9,929
3M Avg. Trading Value (VND Bn)	455
Remaining foreign room (%)	4.6
52-week range ('000 VND)	33.6 – 59.3

FINANCIALS	2023A	2024E	2025F
Revenue (VND bn)	118,280	124,854	132,164
NPATMI (VND bn)	168	1,279	2,640
ROA (%)	0.3	2.9	4.2
ROE (%)	0.7	7.1	10.3
EPS (VND)	115	1,181	1,804
Book Value (VND)	15,964	16,635	17,439
Cash dividend (VND)	500	500	1,000
P/E (x)	373.0	43.9	28.6
P/B (x)	2.7	3.1	3.0

INVESTMENT RATIONALES

2024 profit margins will increase backed by favorable business condition and cost optimization strategies

- In 2024, the average sales per store per month of the TGDD/DMX and BHX chains are expected to be VND1.8 bn (+3% YoY) and VND1.8 bn (+17% YoY), respectively. Consumer purchasing activities is expected to be better over the next 12 months, fueling the sales growth. However, because ICT/CE market is saturated in the mid-term, we expect ICT/CE sales growth will be modest. Meanwhile, BHX's revenue will continue to show strong growth thanks to the "push sales" strategy as well as larger coverage.
- MWG's profit margins is expected to increase backed by favorable business condition, including ease of the high-cost pressures of ICT/CE inventory or absence of "price war" strategy. Besides, it is also inspired by MWG's efforts to improve profits (cost optimization strategies mentioned in the retail industry report or suspending investment in non-essential projects are for examples), and the below-year ago abnormal expenses related to closure of inefficient stores and BHX restructuring.
- Due to the cost burden, MWG's 2023 profits decrease to the lowest level since 2013. Therefore, we expect the NPAT-MI to grow at triple digits in 2024.

Bach Hoa Xanh is a bright spot for long-term investment

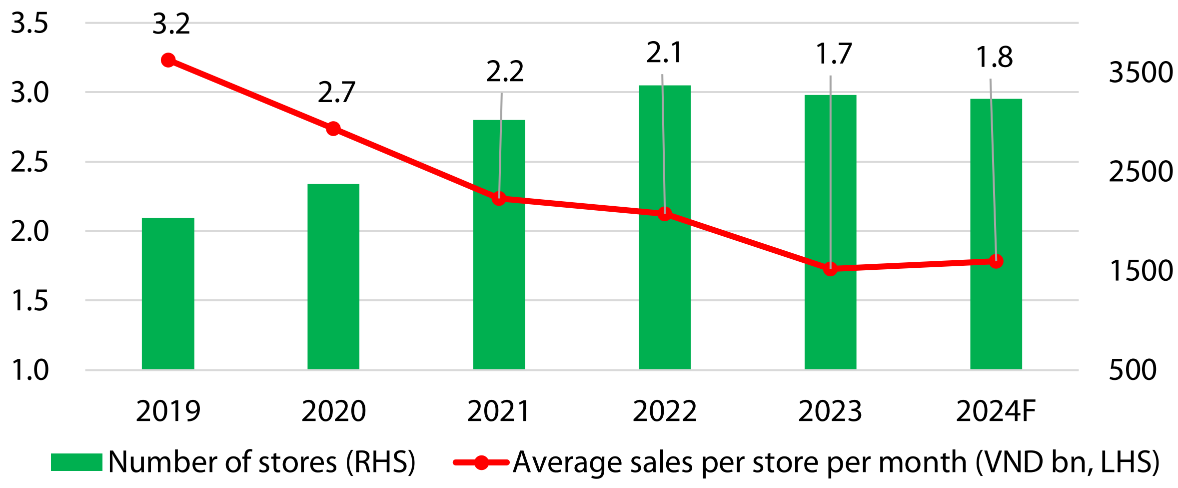
- In 2024, MWG plans to open 100 new BHX stores, located in HoChiMinh city. Backed by this, 2024 sales of BHX will be higher.
- We believe that consumers trust in BHX has improved in 2023, promoting higher-and-higher traffic to BHX stores over the years. To prove, after implementing restructuring project in Apr-2023, BHX's average sales per store per month (ASPS) keeps showing an upward trend, reaching VND1.9 bn (or USD0.08 mn) in Dec-2023 from VND1.3 bn (or USD0.05 mn) in Mar-2023. We believe that BHX will enter its profitable expansion phase since 2024, leading the ASPS to grow in 2024 and onwards.
- BHX is expected to have found a suitable operating model, leading to the prospect of improving operating costs thanks to advantages of economies of scale and cost optimization strategies. With improved profits, MWG will successfully find suitable investment partners with a high price for the BHX chain.

RISKS TO OUR CALL

- The better-than-expected ICT/CE demand recovery, or better-than-expected terms with suppliers, could lead the gross margin to be higher than our forecast.

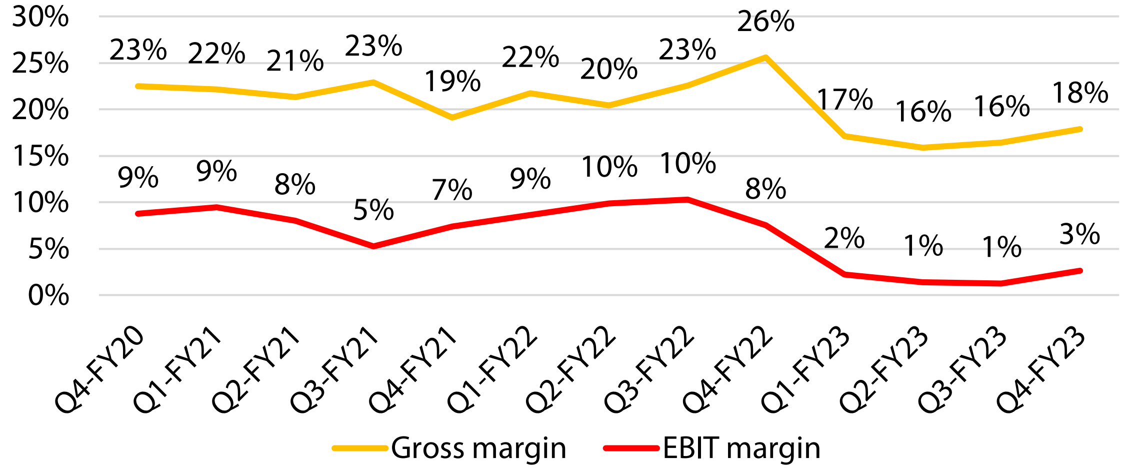
2024 PROFIT MARGINS WILL INCREASE

Figure 1: TGDD/DMX 's average sales per store per month is expected to improve as a result of the closure of inefficient stores and the economic recovery in 2024



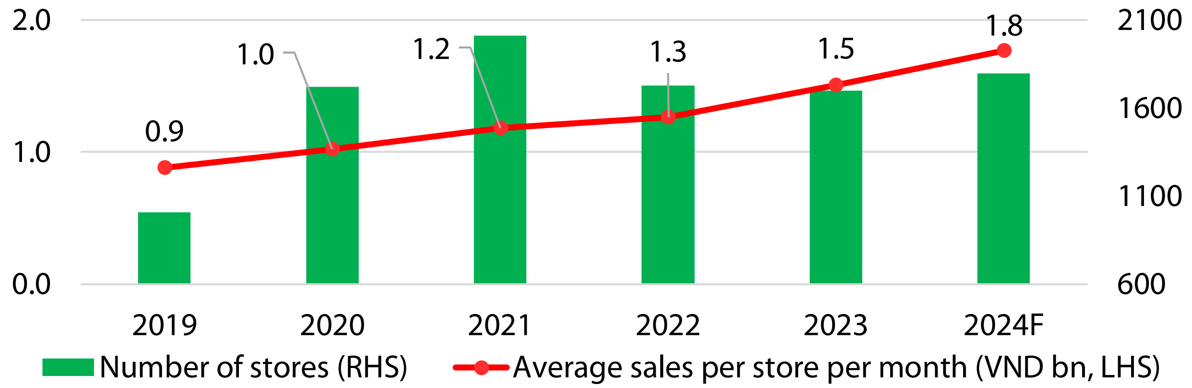
Source: MWG, RongViet Securities

Figure 2: TGDD/DMX 's margins (%) will recover on the absence of "price war" strategy and ease of high price inventory pressure in 2024. Both gross margin and EBIT margin have recovered since Q4 2023.



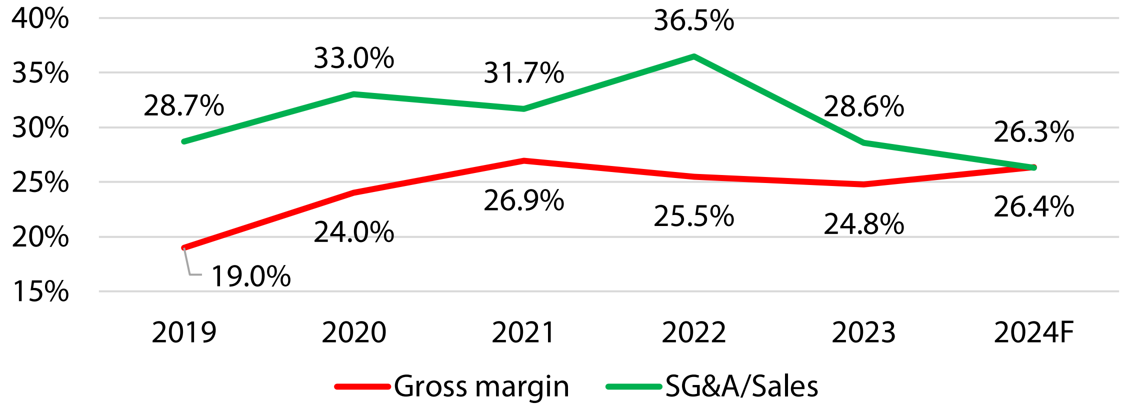
Source: MWG, RongViet Securities

Figure 3: BHX 'sales is predicted to increase thanks to both higher average sales per store per month and higher number of stores



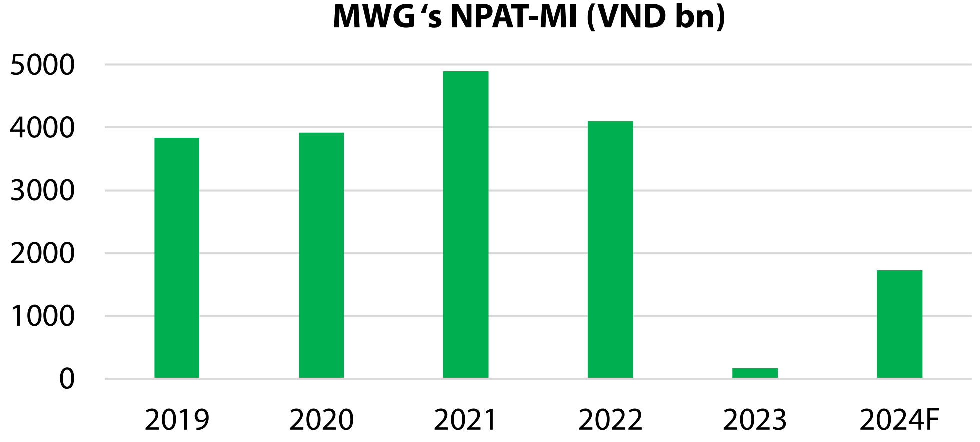
Source: MWG, RongViet Securities

Figure 4: BHX 's margins will expand based on cost optimization strategies, better terms with suppliers, effective inventory management or logistic cost optimization are for examples



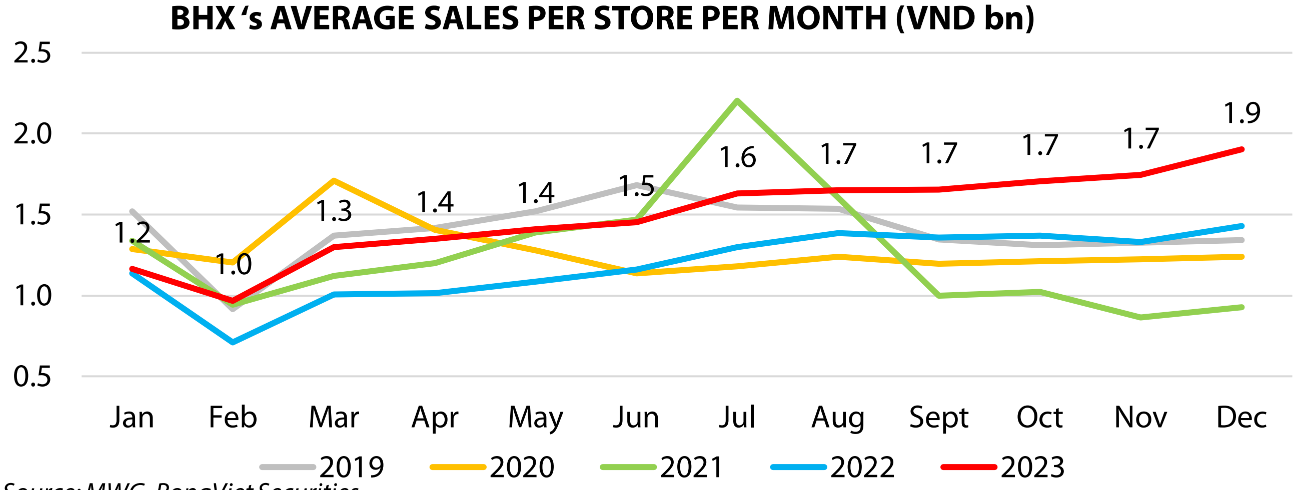
Source: MWG, RongViet Securities

Figure 5: 2023 NPAT-MI is the lowest profit in the last decade which will create a low base for triple-digit profit growth in 2024



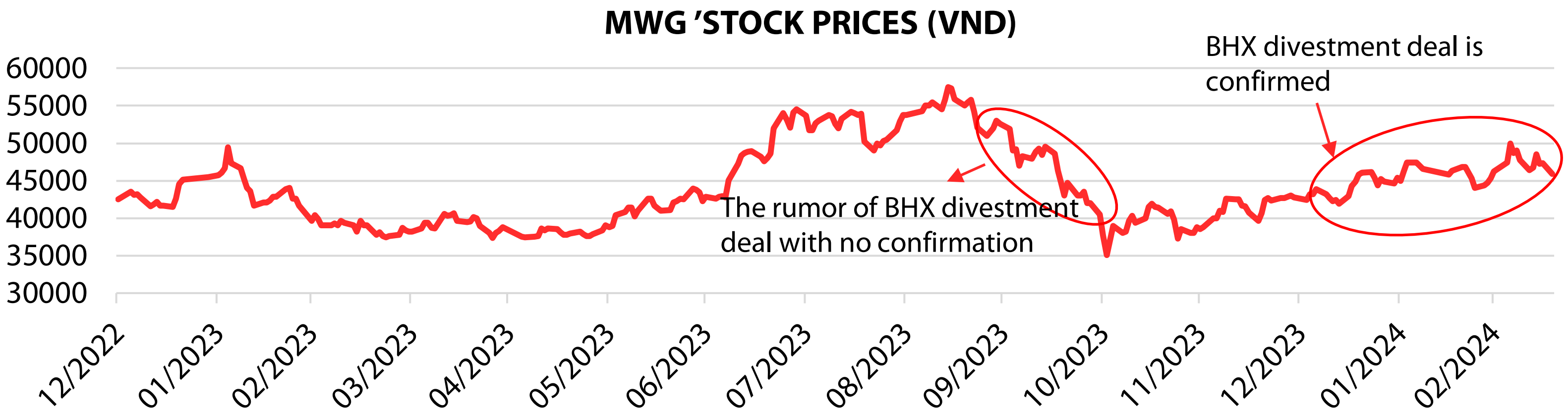
Source: MWG, RongViet Securities

Figure 6: Investors is expected to willing pay a premium for BHX shares on the confidence of increased average sales per store per month. This creates a favorable condition for MWG to divest BHX 'shares at higher value in 2024 compared to 2023.



Source: MWG, RongViet Securities

Figure 7: MWG 'stock prices bottom-out since Nov-2023 when BHX average sales per store per month maintained at over VND1.7 bn level, then continued to be pushed up by news of the BHX divestment deal



Source: Bloomberg, RongViet Securities

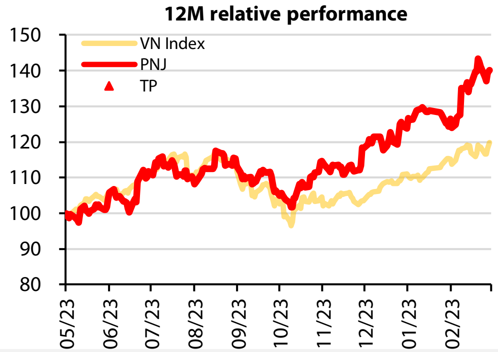
Table 1: MWG 's SOTP valuation

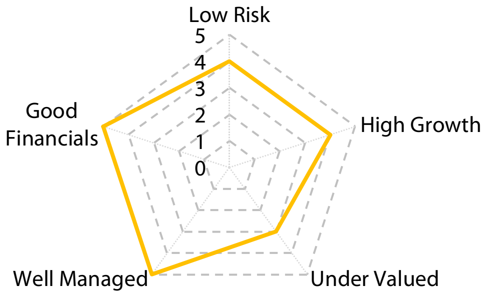
Sum of the part (SoTP)	Valuation method	% Contribution	Target price (VND)
TGDD/DMX	5Y FCFF (WACC: 10.7%)	50%	12,200
	P/E @ 15x	50%	8,700
BHX	P/S @ 1.4x	100%	37,600
Target price (VND)			**58,500**

Source: RongViet Securities

INCREASED JEWELRY SALES DRIVING NET PROFIT TO NEW RECORD HIGH

NEUTRAL: +0% **MP: 97,500** **TP: 97,500**





STOCK INFO

Sector	Retail
Market Cap ($ mn)	1,330
Current Shares O/S (mn shares)	335
3M Avg. Volume (K)	1,422
3M Avg. Trading Value (VND Bn)	130
Remaining foreign room (%)	0
52-week range ('000 VND)	70.1 – 103.8

FINANCIALS	2023A	2024E	2025F
Revenue (VND bn)	33,137	35,375	38,684
NPATMI (VND bn)	1,971	2,245	2,660
ROA (%)	13.7	17.2	16.9
ROE (%)	24.8	23.4	23.2
EPS (VND)	6,001	6,345	6,797
Book Value (VND)	29,312	27,062	29,287
Cash dividend (VND)	2,000	2,000	2,500
P/E (x)	14.3	15.4	14.3
P/B (x)	2.9	3.6	3.3

INVESTMENT RATIONALES

Retail segment will drive the sales growth in 2024

- In the picture of economic recovery, we believe that retail segment will be growth driver for PNJ performance in 2024, in the pillars of, (1) the increase in jewelry demand; (2) the leading position of PNJ in reaching customers thanks to the largest store network throughout Vietnam; and (3) PNJ 's various advertising and promotions campaigns.
- 2023 sales of PNJ record a negative growth of -2% YoY because the weak sales of the retail segment, with VND19,403 bn (-7% YoY), on the back of unfavorable business condition. Because the retail segment takes approximate 60% of total revenue, its positive sales growth will fuel total sales to be up.

Gross margin is expected to continue to improve on the higher-and-higher contribution of retail segment

- Retail segment has the highest gross margin among the four main businesses of PNJ. It accounts for over 90% in gross profit structure of PNJ also. Therefore, the expected upward trend of retail segment 'sales will make its contribution to total sales to be higher-and-higher, resulting in expansion of gross margin.
- In 2023, PNJ invested on (1) increase production capacity; and (2) improve production technology projects. We expect that the advantage of these two projects will take effect in 2024, which help optimize production costs, then improving gross margin.

Increased jewelry sales driving 2024 net profit to new record high

- We predict 2024 net profit to reach new record high of VND2,245 bn (+14% YoY), supported by increased jewelry sales and PNJ's effective SG&A cost management capacity. In 2023, PNJ's net profit enjoyed benefit of below-year ago level raw gold, went up to the profit peak since its establishment despite of negative sales growth and rising SG&A/sales ratio.

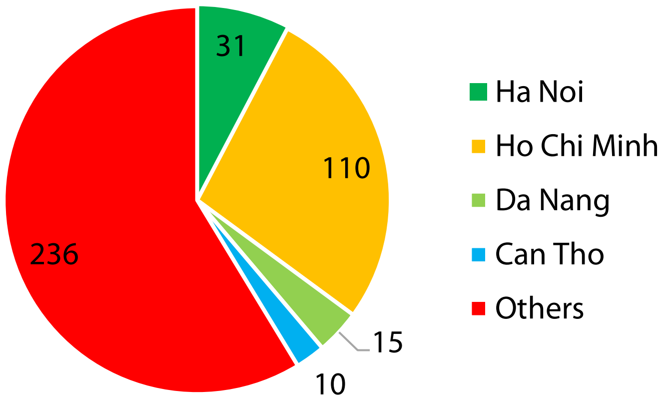
RISKS TO OUR CALL

- The significant decrease in gold bar prices, which could drag down gold bar demand. This will lead the gold bar sales of PNJ to be under our expectations.
- The product mix and cost optimization strategies of PNJ could not fully compensate the expensive raw gold costs, causing gross margin to be under our expectations.

RETAIL SEGMENT WILL BE GROWTH DRIVER IN 2024

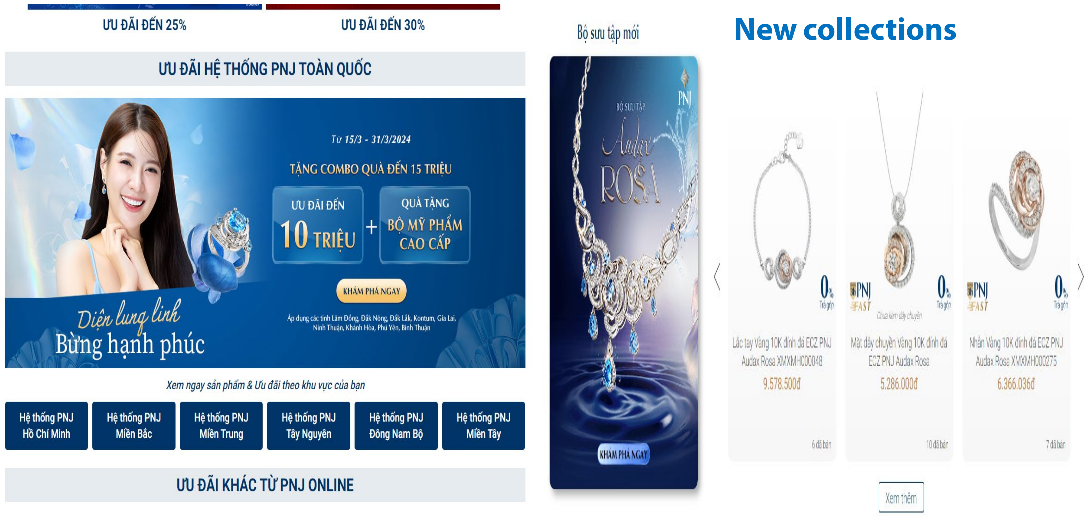
Figure 1: PNJ is believed to capture the jewelry demand recovery thanks to its largest store network throughout Vietnam

PNJ 'store count (stores, 02/2024)



Source: PNJ, RongViet Securities.

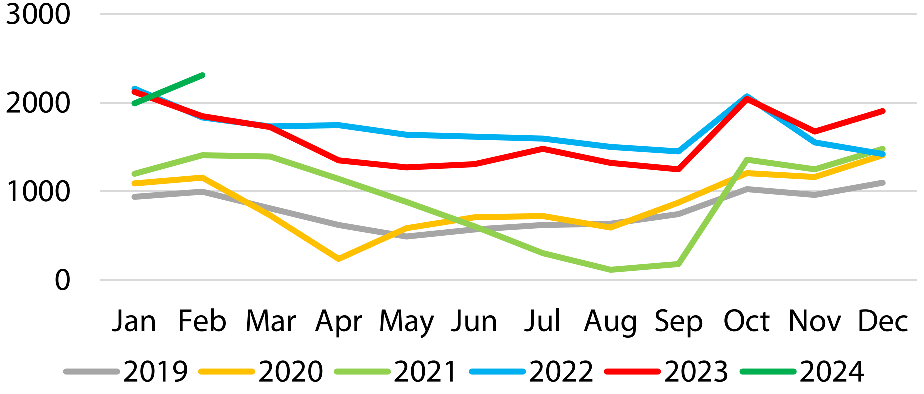
Figure 2: PNJ launches various advertising and promotion campaigns as well as new collections to boost sales of jewelry products



Source: PNJ, RongViet Securities.

Figure 3 The positive signals of sales growth has appeared since Nov-2023 with the monthly sales has exceeded year-ago level

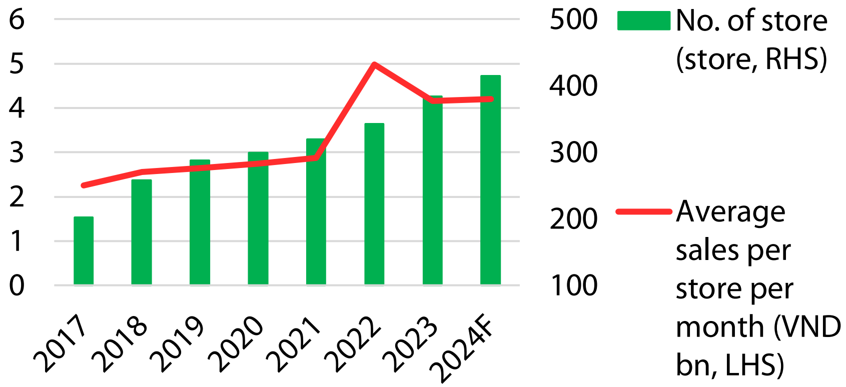
PNJ 'sales of retail segment by month



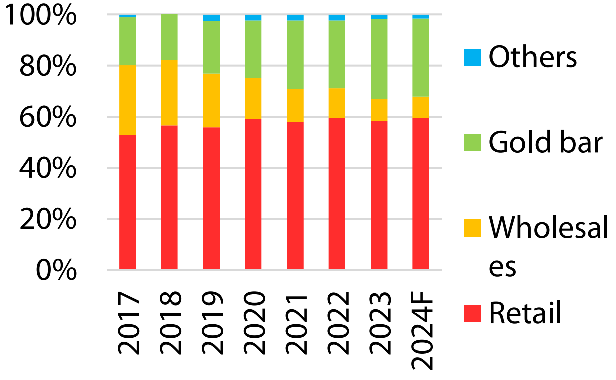
Source: PNJ, RongViet Securities.

Figure 4: Average sales per store per month set a new high thanks to PNJ 's efforts in expanding retail segment. The contribution of retail segment presents an upward trend, reached app. 60% in 2023

Performance of Gold retail segment



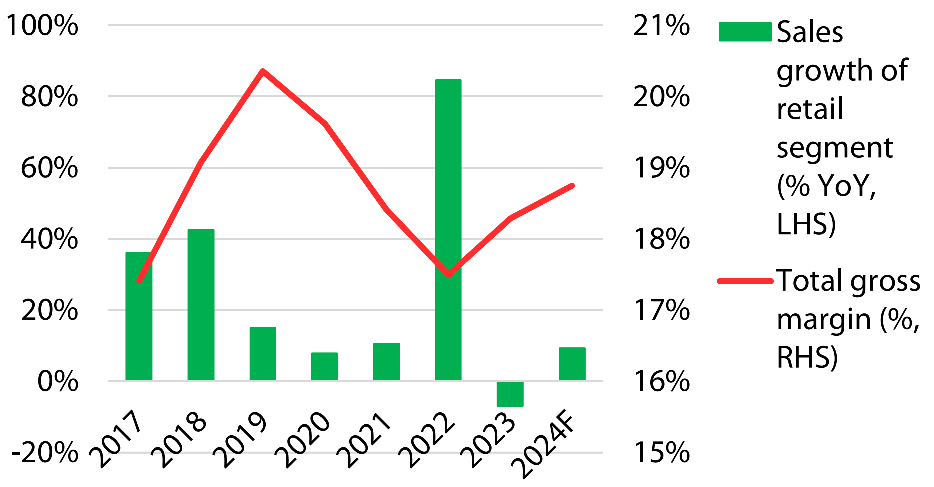
PNJ 'sales breakdown



Source: PNJ, Average sales per store per month was estimated by VDSC, RongViet Securities.

INCREASED JEWELRY SALES DRIVING NET PROFIT TO NEW RECORD HIGH

Figure 5: The growth of retail segment will enlarge gross margin as it has the highest margin compared to other segments



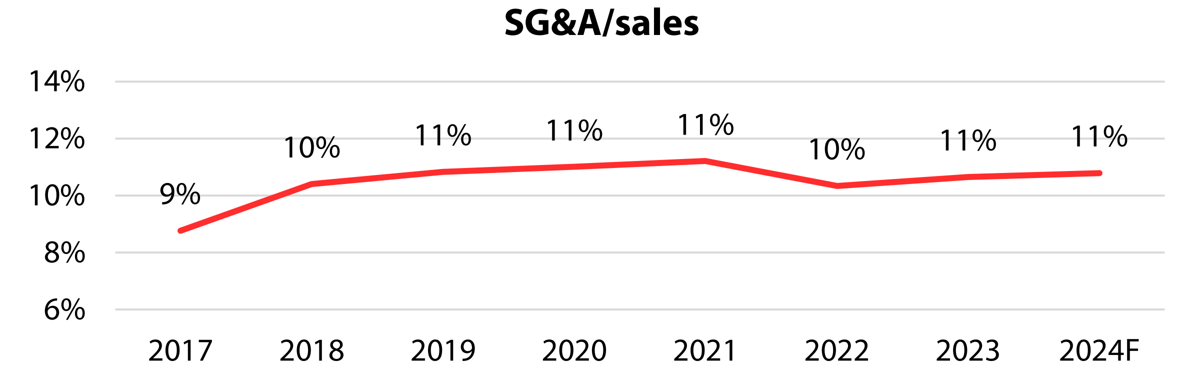
Source: PNJ, 2021-2023 period was biased by Covid-19 pandemic and the surge of gold prices, RongViet Securities

Table 1: PNJ invested in projects to increase operational efficiency in 2022 & 2023. We expect that these projects will bring positive effects to PNJ in 2024

No.	Investment project name	Budget (VND mn)	Execution time	Effects
1	Increase production capacity.	285,000	Q2/2022 to Q3/2023	Serve the retail segment, expanding sales.
2	Improve and innovate production technology & product designs.	70,000	Q3/2022 to Q1/2023	Optimize production costs, enhancing gross margin.
3	Develop retail store chain in width (geography) and depth (product line).	785,000	Q2/2022 to Q2/2023	Expand the jewelry market, enhancing sales.
4	Implement the digital transformation roadmap.	285,000	Q2/2022 to Q2/2023	Optimize costs.

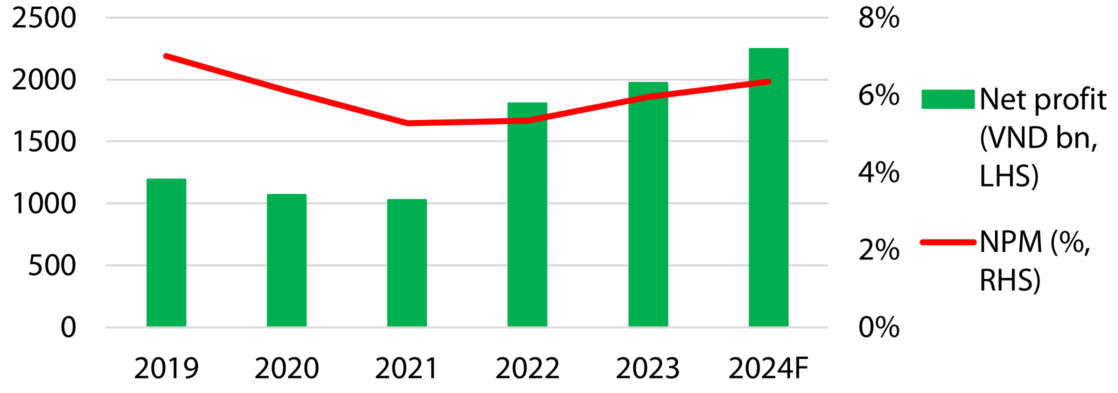
Source: PNJ, RongViet Securities

Figure 6: PNJ's effective SG&A cost management capacity, evidenced by stable SG&A/sales ratio, will fuel the growth of net profit



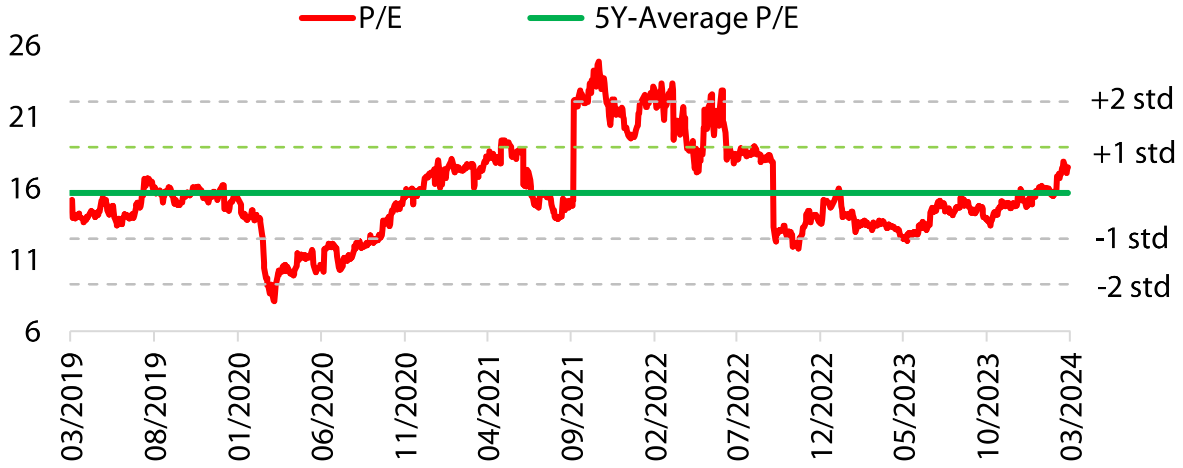
Source: PNJ, RongViet Securities

Figure 7: 2024 net profit is predicted to reach new record high after went up to the peak since its establishment in 2023



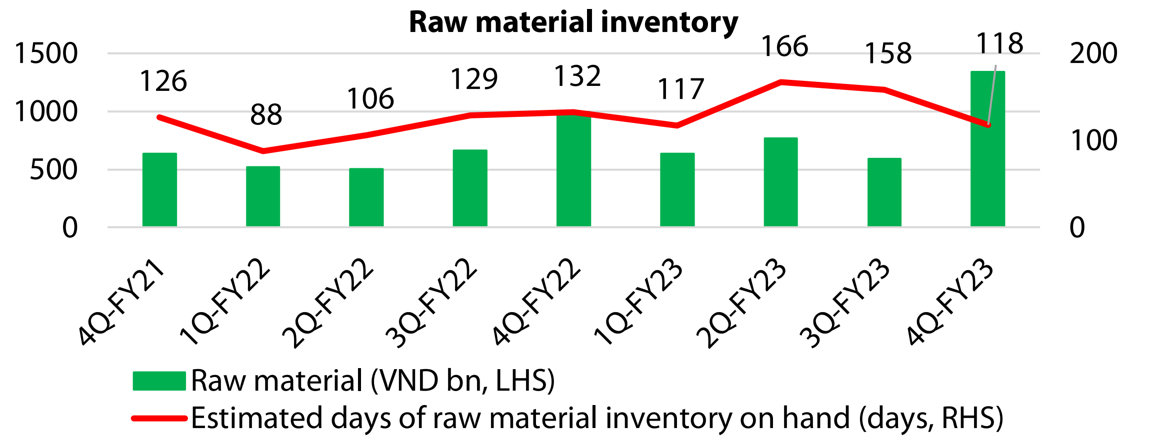
Source: PNJ, RongViet Securities

Figure 8: PNJ's trailing P/E is 17.4x which is higher than its 5Y-average level (15.7x)



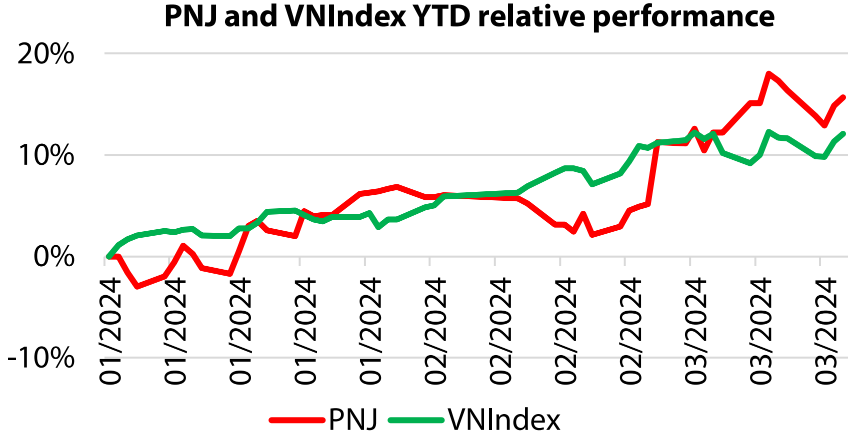
Source: Bloomberg, RongViet Securities

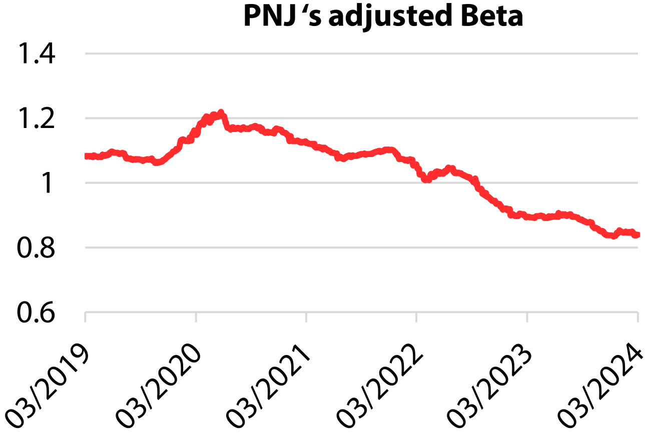
Figure 9: There is still a risk from raw material inventory. It is the product mix and cost optimization strategies of PNJ could not fully compensate the expensive raw gold costs, causing gross margin to be under our expectations

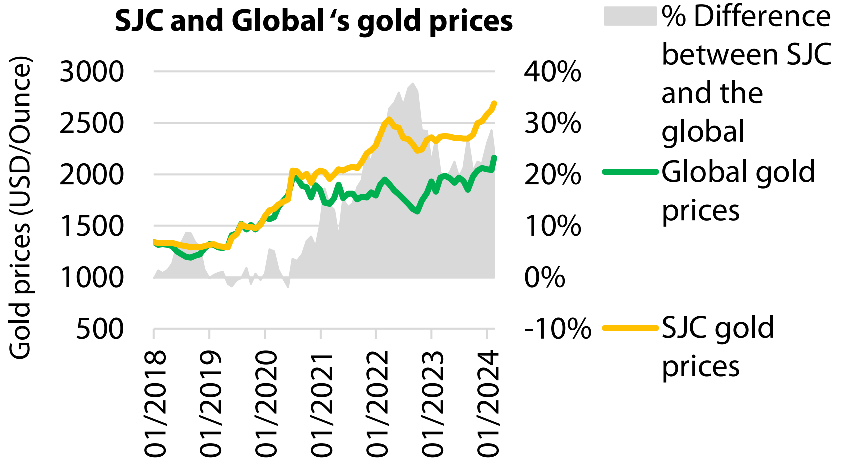


Source: PNJ, RongViet Securities

Figure 10: PNJ stock prices has increased by +15% YTD on the expectations of both recovery in the retail segment in 2024 and surge in the gold bar prices. Meanwhile, VNIndex rose by +12% - lower than the number of PNJ stock – while the decreasing of PNJ's adjusted beta ratio indicates that it's moving towards being less reactive to VNIndex 's movements. Therefore, we expect positive expectation of PNJ performance has been reflected in the stock's price movement.





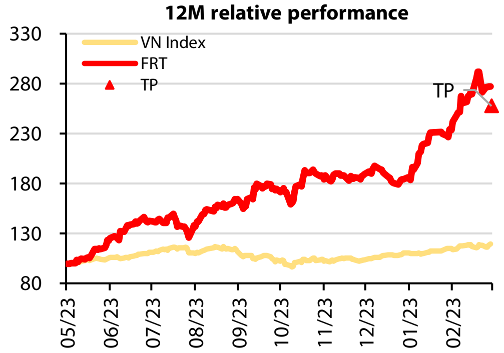


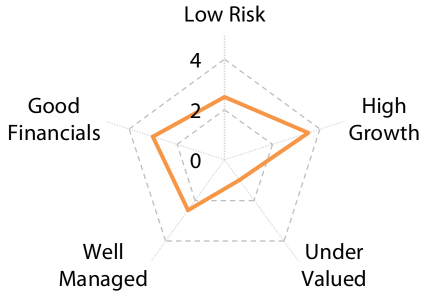
Source: Bloomberg, Fiinpro, RongViet Securities

FAST MOVE TO CAPURE MARKET SHARE IN RURAL AREA

HSX: FRT

REDUCE: -6% **MP: 149,000** **TP: 139,500**





STOCK INFO

Sector	Retail
Market Cap ($ mn)	823
Current Shares O/S (mn shares)	136
3M Avg. Volume (K)	666
3M Avg. Trading Value (VND Bn)	84
Remaining foreign room (%)	13.0
52-week range ('000 VND)	53.04 - 162.1

FINANCIALS	2023A	2024F	2025F
Revenue (VND bn)	31,850	41,619	50,806
NPATMI (VND bn)	-346	304	595
ROA (%)	-2.6%	2.4%	4.2%
ROE (%)	-21.6%	16.6%	24.5%
EPS (VND)	-2,537	2,229	4,366
Book Value (VND)	11,738	13,467	17,833
Cash dividend (VND)	0	0	0
P/E (x)	-52.2	65.5	33.4
P/B (x)	12.4	10.8	8.2

INVESTMENT RATIONALES

FPT Shop regains the positive profit after a huge loss

- Regarding FPT Shop, we anticipate that its net sales will flourish by +8.7% YoY following one year of historic decline in tandem with the wave of ICT/CE recovery in 2024.
- This retail chain will regain the positive profit of VND 54 bn, driven by (1) the easing of both "ICT pricing wars" and "borrowing interest rate", (2) its proactive policy of optimizing cost by closing the relative number of inefficient stores during 2023, (3) product mix with higher gross margin such as home appliance.

Long Chau persists its riding role for FRT's performance in 2024

- Long Chau pressed the gear to capture the market share in retail pharmacy from traditional store model by its aggressive store expansion nationwide and many pricing/product strategies targeting for consumer benefit during 2023 and expects to intensifying more on this year. We forecast Long Chau's net sales and NPAT reached by 62%, 128% YoY, respectively, in 2024.

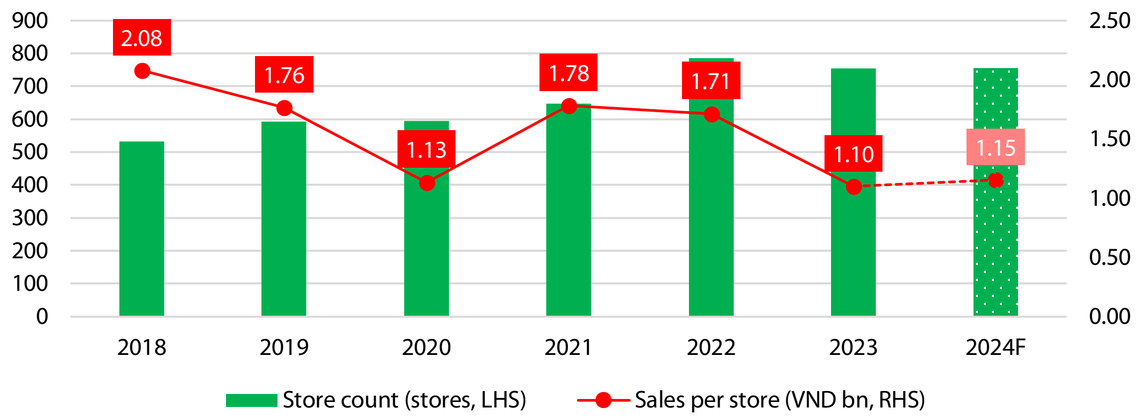
FRT's valuation is closely tied to Long Chau's prospects of revenue expansion into Tier-2, -3 provinces

- We believe that Long Chau would be rerated its target P/S should It shows the over impressive-than-forecast figures (sales per stores and total store count) surrounding its strategies to dominate Vietnamese rural pharmacy retailing.

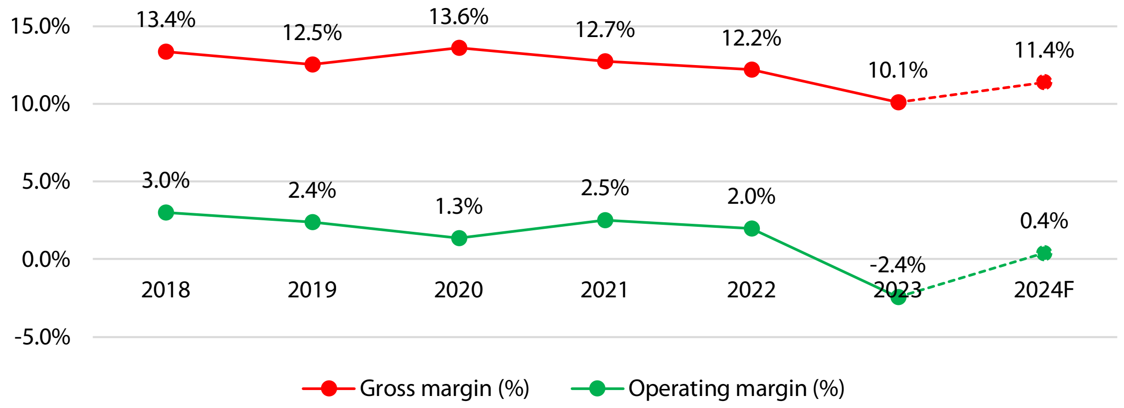
RISKS TO OUR CALL

- Long Chau does not perform well in rural area as expected;
- The fast widening of other pharmacy retailers such as Pharmacity, An Khang, Trung Son Pharma.

Figure 1. In the context of modest growth of ICT sales, FPT Shop focus on optimizing costs by some strategies: mass closure of stores in 2023 and no plan to expand it in 2024, product mix (adding home appliance) combining with the easing of price wars, FPT Shop will regain the positive profit in 2024.

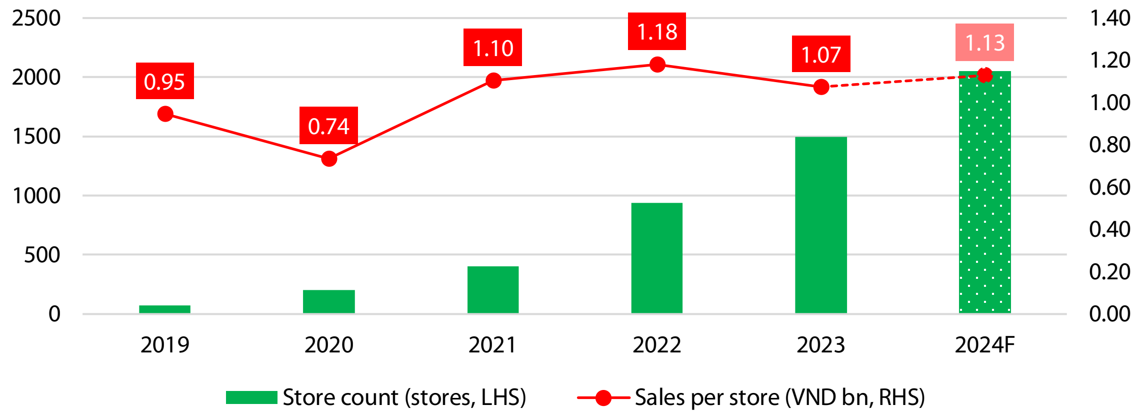


Source: FRT, RongViet Securities

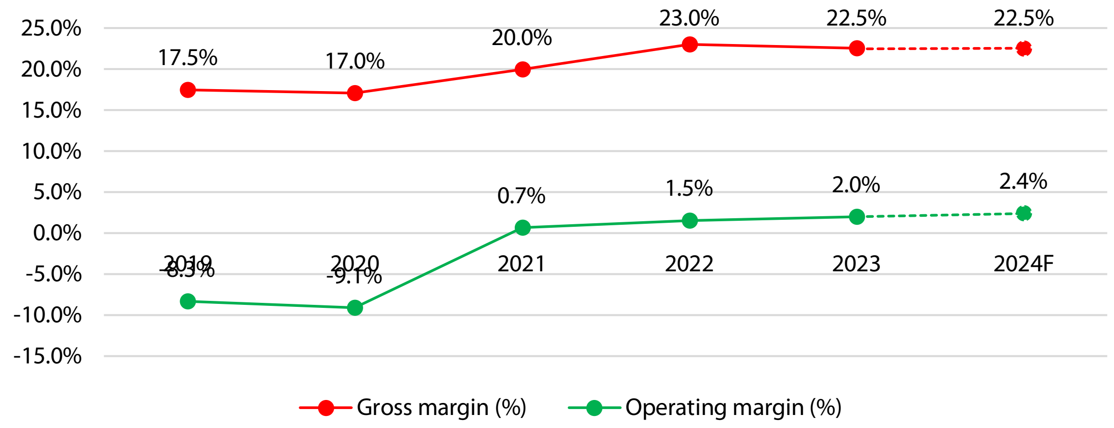


Source: FRT, RongViet Securities

Figure 2. Long Chau will expand its coverage into Tier-2, -3 with the same pace of opening store like 2023, we suppose that new stores' revenue performs not lagging (75%) compared to that of old stores, which reach SSSG of +4.5% in 2024. Coupled with the continuing of cost optimizing in its operating system, Long Chau will reach the solid growth in both Revenue and NPAT.



Source: FRT, RongViet Securities



Source: FRT, RongViet Securities

LONG CHAU COULD BE RERATED ITS TARGET P/S SHOULD IT SHOWS THE OVER IMPRESSIVE-THAN-FORECAST RETAILING CRITERIA

The nascent retailer like Long Chau is evaluated by P/S method on the regular basis due to the scaling of revenue is the decisive factor to its progress in the long run. Furthermore, Long Chau has also made a positive profit since 2019 (after only one operating year), indicating that the potential of growing earnings in tandem with its revenue widening.

We revise up Long Chau's target FY24 P/S from 0.60x to 0.85x (*) as we expect Long Chau to largen its store counts more intensely combining with maintaining its solid sales per stores in rural area. In 2024, FRT is not on expanding the FPT Shop chain, aimed at concentrating its capital towards strengthening the Long Chau chain, which encompasses drugstores and vaccine centers.

After manipulating mostly MT channel, this step would be seen as its effort to identify its dominance against the numerous traditional pharmacy stores in Tier-2, -3 provinces. **We suppose that rural area is the fertile land for Long Chau in the long run with the following properties:**

- Given that more than 60% of Vietnamese population resides in rural areas and the fragmented characteristics of pharmacy retailing market in these provinces, suggesting a huge room for further growth of Long Chau in the coming years.
- Long Chau has continuously refined its strategies to embed its exceptional services into customers' perceptions, differentiating itself from other pharmacy stores across in both general trade (GT) and modern trade (MT) channels.

Notably, this target P/S (*) remains lag compared to Asian peers (1.0-1.6x). We believe that Long Chau would be rerated its target P/S should It shows the over impressive-than-forecast figures (sales per stores and total store count) surrounding its strategies to dominate Vietnamese rural pharmacy retailing. (Table 1)

Table 1. Pharmaceutical chain's regional peers

Company name	Market Cap	No. Outstanding Shares (million)	Trailing ROE	Trailing ROA	YoY sales growth	YoY trailing eps growth	Gross margin	Net margin	P/E	P/S	P/B	Levered Beta
Apollo Hospital	869,725	144	13.9	5.9	13	(22)	48	4.9	106	5.24	14.03	0.77
Yifeng Pharmacy	39,210	1,011	16.5	7.0	26	42	40	6.4	27	1.74	4.17	0.65
Welcia Holdings	570,684	210	11.7	4.8	8	(3)	31	2.4	21	0.47	2.43	0.58
DaShenLin Pharma	24,770	1,139	20.0	6.5	26	41	38	4.9	20	1.07	3.62	0.83
Tsuruha Holdings	565,380	50	9.6	4.9	7	15	30	2.6	21	0.55	1.96	0.68
Laobaixing Pharma	17,115	585	13.7	4.3	23	18	32	3.9	19	0.76	2.57	1.00
Shanghai No 1	83,228	120	3.4	1.8	21	(51)	22	1.1	167	1.82	5.57	0.75
MedFirst	2,278	223	13.7	6.1	1	44	21	5.4	18	1.03	2.28	1.11
LongChau					65	188	23	0.8				
Average			12.8	5.2	15.8	10.2	32.6	3.9	49.9	1.6	4.6	0.8
Median			13.7	5.4	17.0	16.3	31.2	4.4	21.1	1.1	3.1	0.8

Source: Bloomberg, RongViet Securities, as of March 8th, 2024

Table 2. FRT's valuation summary

	Valuation approach	% Contribution	Value per share
FPT Shop	5Y FCFF (WACC: 10.6%, g: 2.0%)	100%	15,300
Long Chau	10Y FCFF (WACC: 10.6%, g: 2.0%)	40%	85,700
	P/S @ 0.85x 2024F SPS	60%	149,846
Target price (VND)			**139,500**
Current market price (VND) (04/04/2024)			149,000
Total stock return			**-6.0%**
TP / 2024F EPS			59.7
TP / 2025F EPS			30.5

Source: RongViet Securities

RONG VIET SECURITIES

VIET DRAGON SECURITIES CORPORATION

Floor 1 to Floor 8, Viet Dragon Tower, 141 Nguyen Du Street., Dist.1, HCMC, Vietnam

www.vdsc.com.vn