

# FPT Digital Retail JSC (FRT VN)

## Prescription for success: Long Chau's strategic growth

### Initiate Vietnam's #1 pharmacy chain with BUY

We initiate coverage of FRT which owns the #1 pharmacy chain in Vietnam. FRT is now the best-positioned to capture growth opportunities in the shifting trend to modern pharmaceutical chains and in the growing healthcare services market. FRT is entering a strong growth cycle with c.57% FY24-28E NPAT-MI CAGR, led by ICT segment recovery and strong pharmacy growth. We recommend BUY on FRT with a 12-month TP of VND193,760 (+19% upside potential), based on 25.4x EV/EBITDA, similar to +1SD its 5-year average of multiple blended forward.

### Pharmacy chain major growth driver

We expect Long Chau to expand its store network in the next 5 years to reach c.2,500 stores by 2028 (vs c.1,500 stores end-2023). Growth potential is supported by: i) Vietnam's growing pharmaceutical market underpinned by a large but aging population, rising income and health awareness, and low pharmaceutical expenditure per capita (Fig 8); ii) ongoing industry shift to chain pharmacies. We forecast network expansion and increasing average sales per store will drive the pharmacy chain's sales to USD1.6b in FY28E from USD600m in FY23, a 5-year CAGR of 20%.

### Kick-starting a healthcare platform

Long Chau kicked off its expansion into the vaccination business after a successful pilot in 4Q23. Management aims to reach 100 vaccination centers (VCs) in 2024 and 500 within 3 years. It aims to build a healthcare platform that offers vaccinations, medical testing with hospitals/clinics and pharmacies. Long Chau can leverage its strong customer base of c.15m in its pharmacy chain for new segments, to spur long-term growth.

### Valuation, catalysts and risks

Following Vietnam's recent stock market correction (VN-Index's 1M performance: -8%), FRT's share price has dropped 11% from its recent peak. Based on Bloomberg's multiple blended forward EV/EBITDA, FRT is trading at 24.5x, below +1SD its 5-year average. Given the market's strong sentiment on the Long Chau story, we believe FRT could trade at +1SD. Catalysts for FRT remain: i) Long Chau's strong expansion and growth potential; and ii) a potential Long Chau stake sale. Upside risk to our TP could stem from higher valuation from a Long Chau stake sale, which would likely excite the market and lead to a stronger re-rating of FRT as a whole (Fig 43). Downside risks include slower growth or the failure to sell a stake in Long Chau.

FYE Dec (VND b)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	30,166	31,850	39,511	48,320	54,824
EBITDA	668	156	821	1,271	1,607
Core net profit	385	(346)	156	468	675
Core EPS (VND)	2,826	(2,537)	1,146	3,432	4,956
Core EPS growth (%)	(11.5)	nm	nm	199.4	44.4
Net DPS (VND)	500	0	0	0	1,000
Core P/E (x)	21.2	nm	141.8	47.3	32.8
P/BV (x)	4.1	9.1	12.6	10.0	8.0
Net dividend yield (%)	0.8	0.0	0.0	0.0	0.6
ROAE (%)	21.5	(19.2)	9.3	23.5	27.1
ROAA (%)	3.6	(2.9)	1.2	3.3	4.5
EV/EBITDA (x)	17.5	132.3	34.6	22.5	17.3
Net gearing (%) (incl perps)	170.7	346.3	295.0	212.6	128.3
Consensus net profit	-	-	187	538	856
MIBG vs. Consensus (%)	-	-	(16.5)	(13.1)	(21.1)

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# BUY

Share Price VND 162,500  
12m Price Target VND 193,760 (+19%)

### Company Description

The second largest ICT retailer and no.1 pharmacy chain in Vietnam.

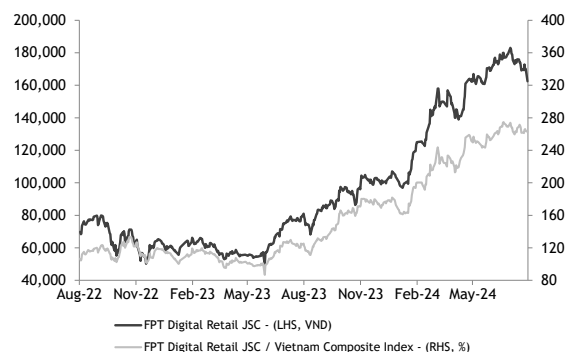
### Statistics

52w high/low (VND)	183,000/68,200
3m avg turnover (USDm)	4.3
Free float (%)	35.5
Issued shares (m)	136
Market capitalisation	VND22.1T USD882M

### Major shareholders:

FPT Corporation	46.5%
Dragon Capital	11.0%
CTBC Vietnam Equity Fund	4.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(1)	106
Relative to index (%)	(3)	2	112

Source: FactSet

### Abbreviations

ICT - Information and communication technologies  
CE - Consumer electronics  
OTC - Over-the-counter  
SKUs - Stock-keeping unit

### Stocks mentioned in the report

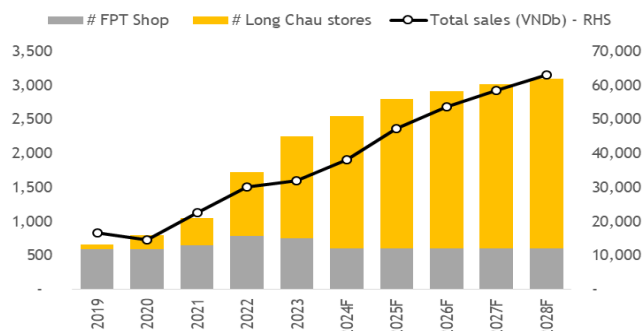
FPT Corporation (FPT VN, CP VND118,600, BUY, TP VND160,000)  
Mobile World (MWG VN, CP VND61,600, BUY, TP VND73,197)  
Pharmacy (Not listed)  
An Khang (Not listed) - a subsidiary of MWG VN  
VNVC (Not listed)  
Nhi Dong 315 (Not listed)

ESG@MAYBANK IGB  
Tear Sheet Insert

## Value Proposition

- FRT owns the No. 1 pharmacy chain in Vietnam, Long Chau, which has the largest nationwide store network of c.1,700, almost double the second player.
- FPT Shop - the second-largest ICT retailer in Vietnam with 650+ stores, is also under FRT.
- To propel its growth, Long Chau aims for a healthcare platform that covers vaccination, medical testing, and hospitals/clinics to pharmacies, etc.
- Long Chau's strategy is a combination of: 1) aggressively growing its retail network; and 2) competitive prices; backed by technology (digital and AI) from its parent company's support (FPT Corporation - Vietnam's tech leader).

### Long Chau's rapid expansion led the growth

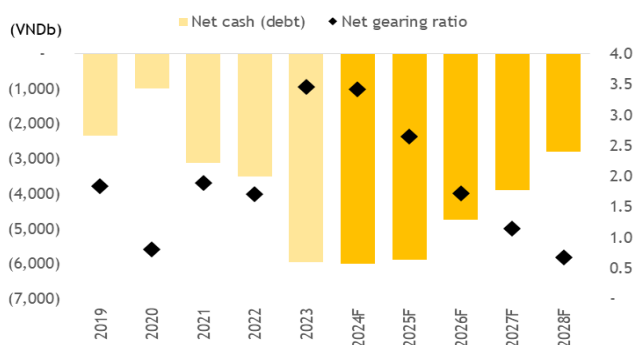


Source: Company, Maybank IBG Research

## Financial Metrics

- We forecast FY24-28 sales and NPAT-MI CAGR of 13% and 57%, respectively. We project earnings to grow faster than sales, thanks to gradual operating margin improvement to 2.6% in FY28E from 1.3% in FY24E.
- We expect solid FY24-28E earnings and slower expansion from FY26E will help to strengthen FRT's balance sheet from the current high leverage (3.5x FY23-end net gearing ratio). Any sale of a stake in Long Chau would also provide support if successful.
- Cash-conversion days rose to nearly 76 in FY23 (vs 63 days in FY22) due to sluggish ICT demand. However, we expect this to fall from FY25E onwards, supported by demand recovery.

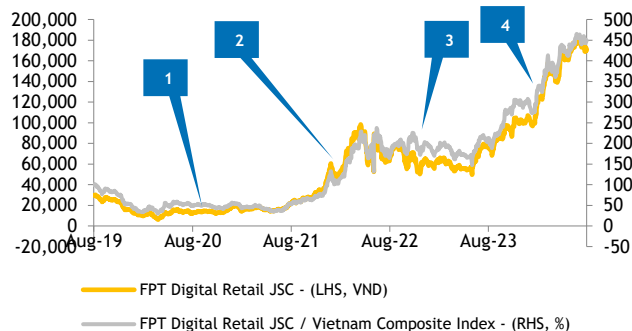
### Expect net gearing ratio to reduce in the next 5-year



Source: Company, Maybank IBG Research

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

- Unattractive business performance amid the ongoing maturity of its core ICT retail operation while pharmacy chain start-up leads to increasing losses.
- Long Chau became the #1 pharmacy chain in Vietnam after aggressive store expansion during the Covid pandemic. The chain also started generating profit.
- ICT chain faced the largest loss since listing due to an aggressive price war amid weakening demand. Meanwhile, the pharmacy chain performed well.
- Anticipating a strong FY24E earnings turnaround, Long Chau kept growing its network and started to plan for a transition to a healthcare platform and potential stake sale.

## Swing Factors

### Upside

- Stronger-than-expected recovery of the ICT segment - which previously was the major sales/profit contributor.
- Faster-than-expected expansion of Long Chau, for both existing businesses (pharmacy and vaccination) and new segments in its targeted healthcare platform.
- Strong improvement in Long Chau's profit margins lift FRT's bottom-line more than expected.
- Successful Long Chau stake sale (up to 10% via private placement).

### Downside

- Failure to raise funds via sale of a stake in Long Chau which is expected to be executed in late 2024-1H25.
- Intense competition in the ICT segment, leading to industry consolidation and negative impact on FPT Shop's performance.
- Long Chau's slower growth which might be due to: 1) lower-than-expected store expansion and same-store-sales-growth (SSSG); and 2) failure of the newly expanded vaccination business.



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Risk Rating & Score <sup>1</sup>	na
Score Momentum <sup>2</sup>	na
Last Updated	na
Controversy Score <sup>3</sup>	na

## Business Model & Industry Issues

- As a retailer, FRT’s management recognizes the role of human resources in sustainability. Therefore, FRT has policies to ensure health, welfare and development opportunities for employees.
- Exposure to the healthcare sector (pharmacy, vaccination, etc.) plays a meaningful role to provide society services to ensure healthy lives. It helps to strengthen FRT’s “S” metrics, together with its consistently maintained CSR activities over the years.
- In sum, FRT has not disclosed much information regarding ESG aspects and relatively is a laggard vs peers. It needs to make headway in improving its quantitative “E” metrics and setting tangible medium/long-term targets. It needs an ESG committee and framework to be incorporated in its operation and a development strategy for sustainable growth.

### Material E issues

- FRT’s GHG emission (scope 1+2+3) intensity by revenue (tCO2e/VNDb) declined to 3.6 in 2023 from 4.4 in 2022, based on Bloomberg’s calculation.
- FRT implements measures to reduce energy consumption, i.e. automating the usage of electronic devices, encouraging employees to use stairs instead of elevators, etc.
- Completing a new pharmaceutical warehouse in Long An, utilizing 80% solar energy.

### Key G metrics and issues

- The board of directors (BOD) structure is balanced and diversified in terms of experience, age and gender. It consists of 5 members, 2 of who are independent. There are 2 women on the BOD, including the CEO. From 2020, FRT separated the chairperson and the CEO roles.
- The total remuneration of the BOD was VND4.9b in FY23 despite a loss after tax of VND329b. In the two previous years, the BOD’s remuneration were VND5.3b/VND8.7b, implying 1.3%/2.0% of FY22/FY21 net profit, respectively.
- PwC has been the company’s auditor since 2021 (previously, it used Deloitte).
- Public information announcements are in both English and Vietnamese.

### Material S issues

- Prioritizing human resource management and development activities, including fostering fairness, providing learning opportunities, facilitating career advancement, promoting physical and mental well-being.
- Activities for community: 1) every March, employees donate one day’s salary to the FPT People Fund to support society during times of hardship or employees facing difficulties and participate in various volunteer activities nationwide; 2) “Long Chau Sharing and Caring” initiative continued to support underprivileged individuals to access healthcare services, giving over one million days of free medicine and 500 tons of rice to the community in 2023; 3) collaborating with Hope Foundation on various projects related to school sanitation, digital libraries and bridge construction across provinces; etc.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 28)						
	Particulars	Unit	2021	2022	2023	MWG VN (2023)
E	Scope 1 GHG emissions	k tCO2e	45.8	82.7	60.6	11.5
	Scope 2 GHG emissions	k tCO2e	18.7	30.5	31.2	350.5
	<b>Total</b>	k tCO2e	<b>64.5</b>	<b>113.2</b>	<b>91.8</b>	<b>361.9</b>
	Scope 3 GHG emissions	k tCO2e	13.4	19.8	23.8	131.8
	<b>Total</b>	k tCO2e	<b>77.9</b>	<b>132.9</b>	<b>115.6</b>	<b>493.7</b>
	GHG emission intensity by revenue	tCO2e/VNDb	3.5	4.4	3.6	4.2
	Share of renewable energy use in operations	NA	NA	NA	NA	1%
	% of solid waste utilisation/recycling of waste	%	NA	NA	NA	NA
	Cost savings from energy-saving initiatives	VNDb	NA	NA	NA	2
	Nox intensity	kg/tonne	NA	NA	NA	NA
Sox intensity	kg/tonne	NA	NA	NA	NA	
Dust emission	kg/tonne	NA	NA	NA	NA	
S	% of women in workforce	%	NA	NA	NA	40.9%
	% of women in management roles	%	NA	NA	NA	41.2%
	Average number of training hours per employee	number	NA	NA	NA	NA
	Lives impacted by CSR outreach ('000)	number	NA	NA	NA	NA
G	MD/CEO salary as % of reported net profit	%	NA	NA	NA	NA
	Board salary as % of reported net profit	%	2.0%	1.3%	-1.5%	0.0%
	Independent directors on the Board	%	40%	40%	40%	30%
	Female directors on the Board	%	40%	40%	40%	0%

Qualitative Parameters (Score: 33)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of the risk committee?	No
b) Is the senior management salary linked to fulfilling ESG targets?	No
c) Does the company undertake a materiality assessment of its ESG parameters and maps its operations/targets to the UN SDGs?	No
d) Has the company been involved in controversies that have impacted its management/stock price performance?	No
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	Completing a new pharmaceutical warehouse in Long An, utilizing 80% solar energy.
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	No

Target (Score: 0)		
Particulars	Target	Achieved
Net-zero carbon emissions	NA	NA
Impact		
NA		
<b>Overall Score: 22</b>		
As per our ESG matrix, Mobile World (MWG VN) has an overall score of 22.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	28	14
Qualitative	25%	33	8
Target	25%	0	0
<b>Total</b>			<b>22</b>
Quantitative	50%	28	14
Qualitative	25%	33	8
Target	25%	0	0
<b>Total</b>			<b>22</b>

As per our ESG assessment, FRT has not disclosed much information regarding ESG aspects. It needs to make headway in improving its quantitative "E" metrics and setting tangible medium/long-term targets. FRT's overall ESG score is 22, below average (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

# 1. Investment thesis

## 1.1 The leading modern pharmacy chain in Vietnam

Entering the rapidly growing pharmaceutical retail market is a game-changing transition for FRT, which is accustomed to the more subdued ICT retail segment. By strategically seizing the opportunity provided by the Covid-19 pandemic, Long Chau has become the largest pharmacy chain in Vietnam (Fig 1). Its nationwide store-count as of Jun'24 was c.1,700, almost double Pharmacy's - the second player's network. In terms of sales, Long Chau's FY23 revenue was triple Pharmacy's.

Long Chau's strategy is a combination of: i) leveraging its original strong competitive advantage of an extensive prescription drug portfolio to serve chronic diseases; ii) offering competitive prices (80% of its drugs are selling at lower prices vs peers); and iii) optimized operating efficiency, backed by technology (digital and AI). These factors help Long Chau differentiate itself from other players and accelerate market consolidation to capture a large scale in the growing but fragmented pharmacy market. Among the top three drugstore players, Long Chau is the only one that maintains an aggressive expansion rate of c.500 new stores per year post-Covid (i.e. since 2022), diverging from the pace of two followers - Pharmacy (which is under restructuring) and An Khang.

## 1.2 Entering a new strong long-term growth cycle

We forecast Long Chau's sales to register a 5-year CAGR of nearly 25%, driven by: i) strong 20% pa pharmacy chain sales growth, backed by store expansion and increasing average sales per store; and ii) a new potential growth leg - vaccination which is expected to contribute 16% of Long Chau's sales in FY28E.

With the ICT retail business FPT Shop in a mature phase, Long Chau is FRT's growth leg in the next 5 years with our FY24-28E sales CAGR of 12.8% projected to contribute up to 75% of FRT's FY28E sales from 50% in FY23.

We project a new earnings growth cycle for FRT with FY24-28E NPAT-MI CAGR of 57%. This robust growth is due to: i) the recovery in the ICT retailing segment from FY24E; and ii) the pharmacy business starting to bear fruit. A gradual improvement in its operating margins helps drive our expectation of this faster earnings growth (than sales).

## 1.3 Recommend BUY with 19% upside potential and Long Chau as a major re-rating catalyst

Following the recent correction of Vietnam's stock market (VN-Index's 1M performance: -8%), FRT's share price has corrected c.11% from its recent peak. The stock is trading at 24.5x Bloomberg's multiple blended forward EV/EBITDA, below its +1SD historical 5-year average of 25.4x. Our enterprise multiple valuations (based on 25.4x EV/EBITDA) deliver a 12-month TP of VND193,760, leaving c.19% upside potential.

A major re-rating catalyst for FRT remains Long Chau's impressive expansion and growth, coupled with its positive long-term outlook helped by strategic expansion into a healthcare platform and a potential stake sale, in our view.

## 2. Investment focus

### 2.1 The #1 pharmacy chain in Vietnam

#### Long Chau owns the largest store network and market share

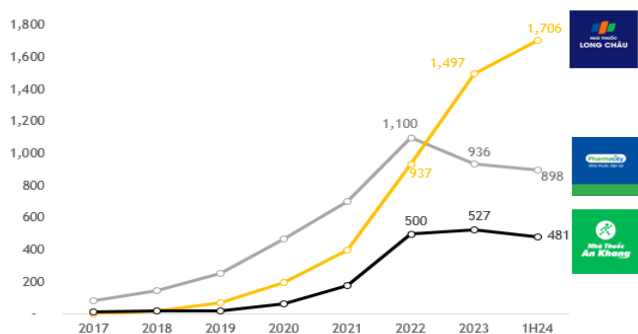
Long Chau accelerated its store expansion in 2020 and took more than two years to surpass the former leader - Pharmacity to become the largest pharmacy chain in Vietnam, in terms of both store-count and sales.

Among the top three drugstore players, Long Chau is the only one that maintains an aggressive expansion rate of c.500 new stores per year since 2022 (post-Covid), showing a divergence with the two followers - Pharmacity (which is under restructuring) and An Khang. This helps to widen the gap between Long Chau and its competitors and strengthen Long Chau’s leading position in this growing industry. As of Jun’24, Long Chau’s network reached 1,706 stores nationwide, almost double Pharmacity - the second player’s network. In terms of sales, Long Chau’s FY23 revenue was triple Pharmacity’s. This indicates that in terms of average sales per store, Long Chau is still the leader.

Long Chau’s pharmacy network already spans the nation, putting it ahead of its competitors. This represents an opportunity for Long Chau to lead the conversion trend to chain pharmacies and dominate this market. We forecast Long Chau will reach nearly 2,500 pharmacies and c.USD1.6b in sales in the next 5-years vs the total market size of pharmacy channel of c.USD3-4b. This is a significant gain vs FY23 sales of c.USD600m and c.1,500 stores.

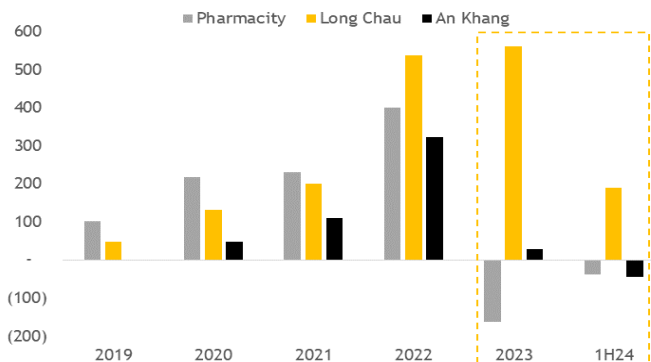
Long Chau’s rapid expansion is helping the economies of scale to kick in. Management says based on some key brands’/distributors’ sales estimates, Long Chau generates c.60-70% of retail sales for each brand. Consequently, by leveraging its bargaining power with manufacturers/distributors and sharpening its logistics, following the rapid growth of its store network, Long Chau has managed to optimize its operating efficiency to be profitable since 2021. On the other hand, Pharmacity and An Khang remain loss-making.

**Fig 1: Long Chau aggressively accelerated store expansion to become the leading pharmacy chain in 2023**



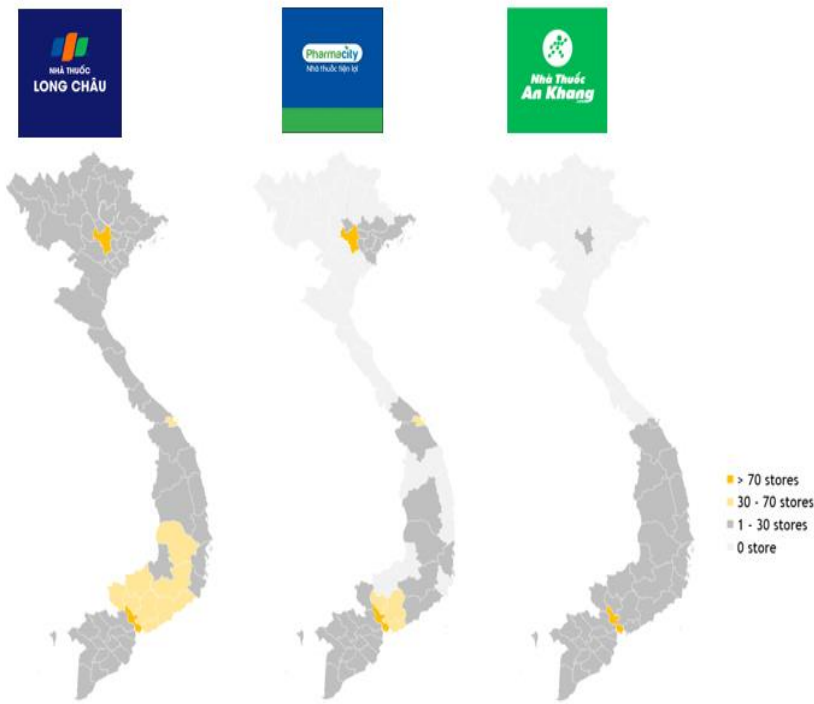
Source: Company, Maybank IBG Research

**Fig 2: Long Chau maintained its expansion pace of c.500 new stores/year since 2022, while the two followers stepped back**



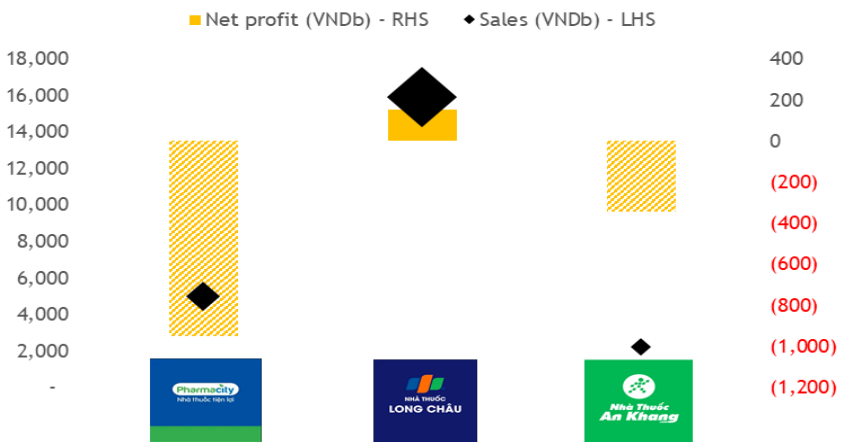
Source: Company, Maybank IBG Research

**Fig 3: Long Chau pharmacy network already covers the nation, ahead of peers**



Source: Company, Maybank IBG Research (Note: Store-count by provinces/cities)

**Fig 4: Long Chau is leading in both sales and profit vs peers**



Source: Company, Maybank IBG Research (Note: based on FY23 sales/net profit)

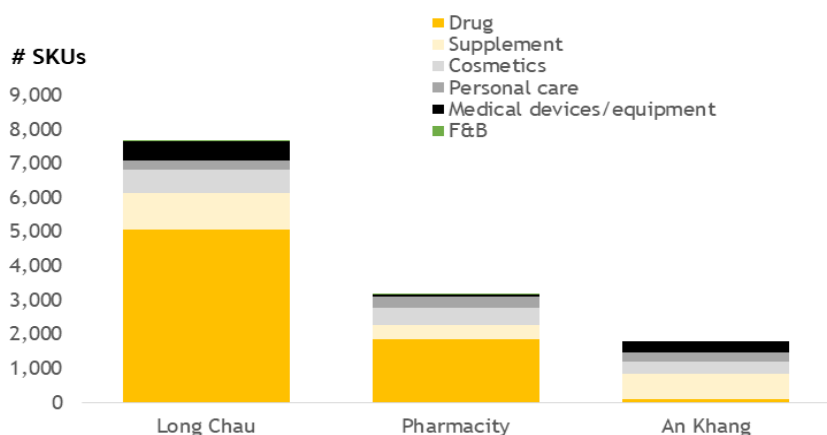
**Strong competitive advantage**

Besides its strategic and rapid expansion to capture surging demand during the Covid pandemic, Long Chau’s key success factors include: 1) the sufficiency of its drug portfolio; 2) competitive prices with 80% of Long Chau’s drugs selling at lower prices than that of mom-and-pop stores; and 3) optimized operating efficiency, backed by technology (digital and AI) and existing facility of its ICT retailing network. These help to differentiate Long Chau from other players from the start and attract customers, then maintain customer purchasing frequency and cross-selling to improve its sales per store. Long Chau owns a strong customer base of c.15m (vs Vietnam’s total households of c.21m), of whom, c.70% are loyal customers.

In contrast to both Pharmacycity and An Khang, which initially operated under pharmacy-convenience store formats, Long Chau’s strategy focuses on an extensive prescription drug portfolio. Based on data collected from the

websites of these chains, Long Chau offers c.5,000 drug SKUs, accounting for about 70% of its total SKUs vs the respective 1,800 and 58% of Pharmacy. An Khang is even smaller than Pharmacy. Note that, the actual number of SKUs that could be sold directly in-store could be higher than the website's offer (i.e. Long Chau offers up to c.25,000 SKUs in total with more than 50% being drugs, according to management). Therefore, Long Chau could well serve substantial demand for chronic diseases. About 60% of Long Chau customers suffer from chronic disease. This strong competitive advantage is strengthened by its larger scale with manufacturers or distributors more willing to cooperate with a leader like Long Chau than work with 45,000 separate mom-and-pop stores that mostly focus on generic drugs.

**Fig 5: Long Chau leads in the number of SKUs that sell throughout its retail network, especially drugs**



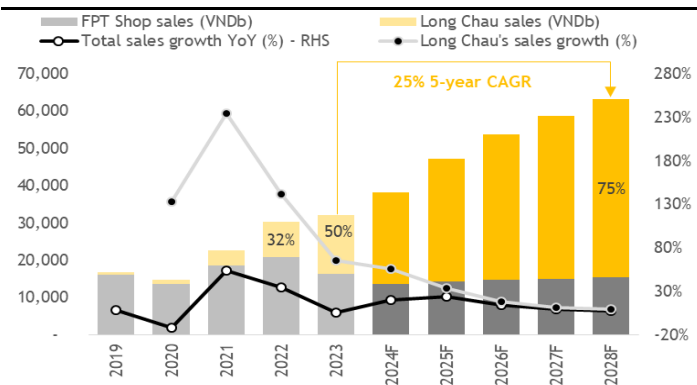
Source: Pharmacy's websites, Maybank IBG Research collects

## 2.2 Long Chau is FRT's major growth driver

We forecast Long Chau's sales value will grow at 5-year CAGR of nearly 25%, driven by: i) ongoing strong growth pharmacy chain of 20% pa, backed by store expansion and increasing average sales per store; and ii) new potential growth leg - vaccination which is expected to contribute 16% of Long Chau's sales in FY28E.

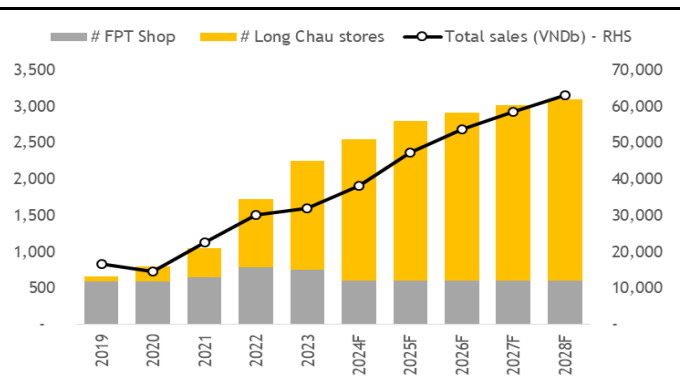
Following the maturing of its ICT retail business - FPT Shop chain, Long Chau is destined to be FRT's major growth driver in the next 5 years. Based on our forecasts, Long Chau will contribute up to 75% of FRT's total sales by FY28E from 50% in FY23.

**Fig 6: Long Chau a clear growth driver for FPT's sales**



Source: Company, Maybank IBG Research

**Fig 7: Long Chau's rapid expansion leads the growth**



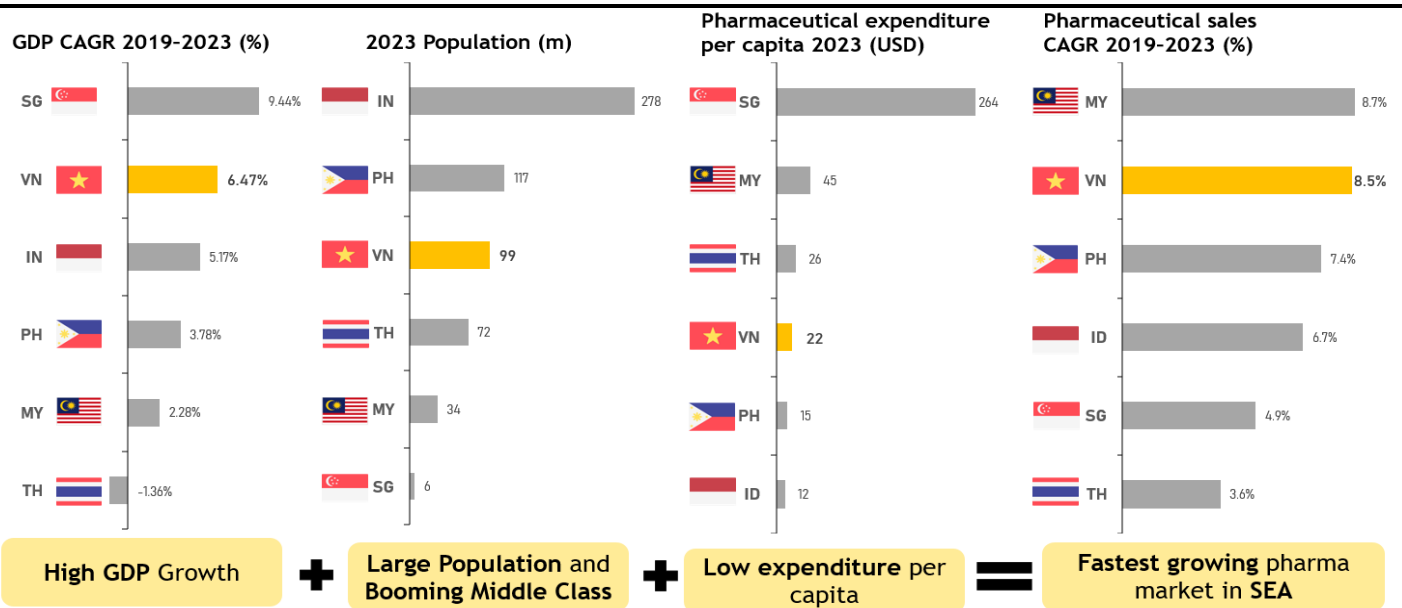
Source: Company, Maybank IBG Research collects

### To add 1,000 drugstores in next 5 years

We believe Long Chau will continue to expand its store network in the next 5 years to reach c.2,500 stores by 2028, increasing from c.1,500 as of end-2023. There is plenty of room for growth, supported by:

- I. Vietnam’s growing pharmaceutical market, mostly driven by rising incomes and potential of the large but aging population amid low healthcare/pharmaceutical expenditure per capita.

Fig 8:

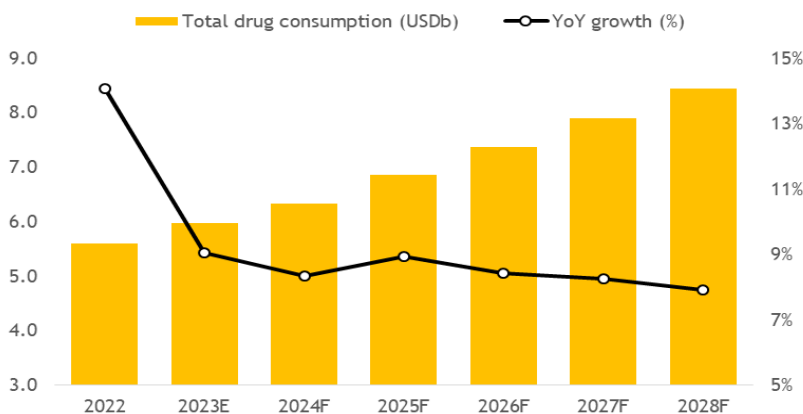


Source: Maybank IBG Research

Among the SEA countries, Vietnam is the second-largest and fastest-growing pharma market over the past five years, according to Statista. Vietnam’s pharmaceutical revenue was just behind Indonesia’s - which has nearly triple Vietnam’s population. Over the past 5 years (2019-23), Vietnam’s pharma sales grew at a high-single-digit pace with a CAGR of 8.5%, faster than 6.4% for the region.

Based on BMI forecasts, Vietnam’s total drug consumption is projected to grow at a 5-year CAGR of 8.4% to reach USD8.4b in 2028, driven by both prescription and OTC drugs.

Fig 9: BMI forecasts 5-year CAGR of 8.4% for Vietnam’s total drug consumption

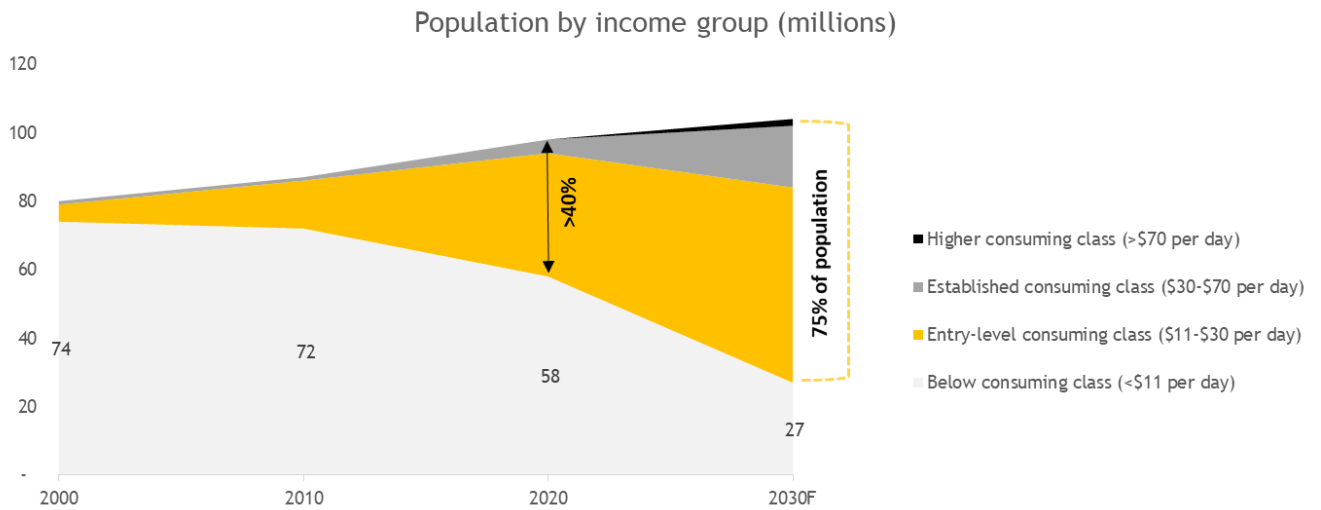


Source: BMI, Maybank IBG Research

The country’s positive economic prospects with our FY24-25 GDP growth forecasts of 6.4% and 6.2%, respectively, should support rising incomes and an expanding consumer base as well as the middle-income class who tend to have healthier lifestyles.

According to Mc Kinsey Global Institute, the country’s consumer base has grown rapidly and 75% of Vietnam’s population is expected to join the consumer class by 2030.

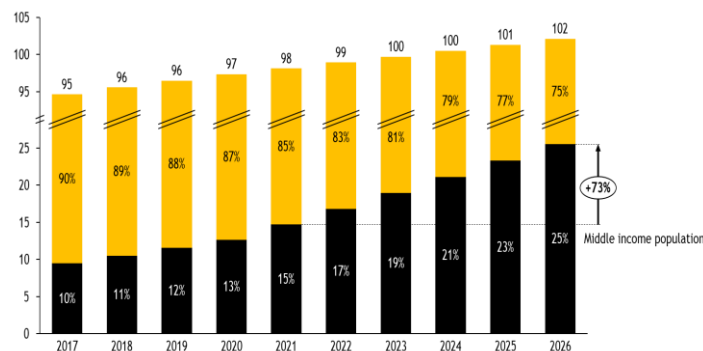
**Fig 10: The consumer base has grown rapidly and expect 75% of Vietnam’s population will join the consumer class by 2030**



Source: Mc Kinsey Global Institute analysis

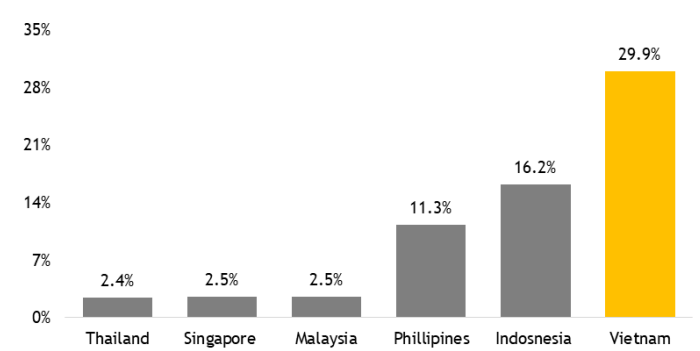
Vietnam’s emerging middle class (income of above USD10,000 pa), currently comprises 19% of the population and is expected to reach 25% by 2026, increasing by 73% within five years (2021-26), according to HIS Market forecast. This group grew at a rapid rate of c.30% pa, according to JLL’s research, compared to that of Indonesia at only c.16% or the Philippines at c.11%.

**Fig 11: Vietnam’s middle class (income of >USD10,000 pa) expected to grow 73% in the next five years**



Source: HIS Market Forecast (Unit: m people)

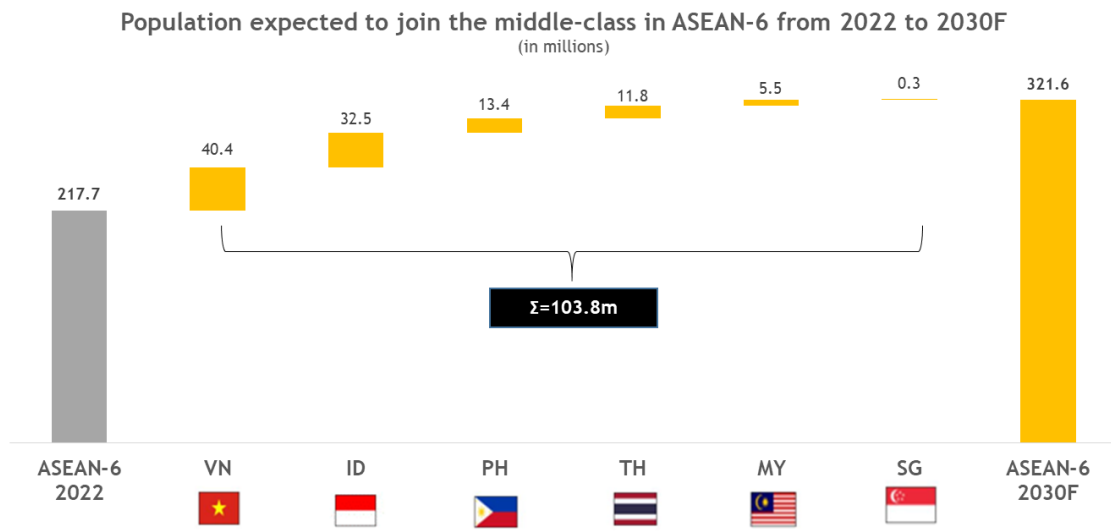
**Fig 12: Vietnam saw the fastest growth in the middle class population in Southeast Asia in 2018-20**



Source: JLL Research

Therefore, Vietnam is expected to contribute the largest population to join the middle-class in ASEAN-6 from 2022 to 2030E, i.e. 40.4m out of 103.8m of the region’s total middle-class population increase.

**Fig 13: Vietnam expected to contribute the largest population joining the middle-class in ASEAN-6 from 2022 to 2030E**

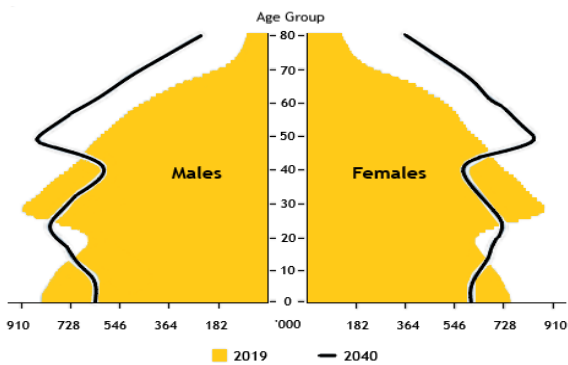


Source: Brookings, Maybank IBG Research

With a current total population of c.100m people, Vietnam has the 16th largest population in the world and it's the 6th most populous country in Asia (behind China, India, Indonesia, Japan and the Philippines). More than 60% of Vietnam's population is below the age of 40 years-old, and 40% are between the ages of 20 and 40.

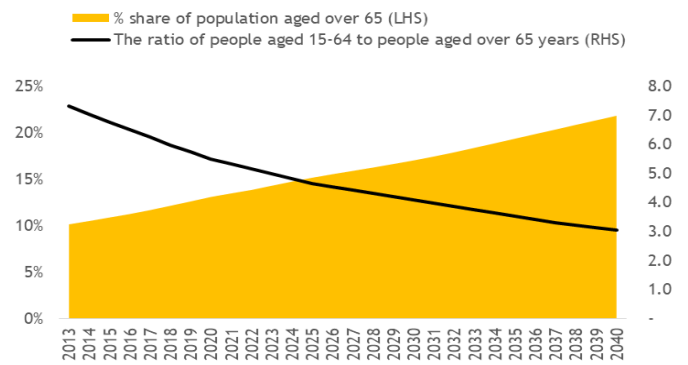
The share of the population aged 65 years and over is expected to nearly double in the next decade to reach 22% in 2040, based on Statista Market Insights. This cohort's population growth will outpace the increase in the economically active population aged 15-64. Therefore, the ratio of people aged 15-64 to people aged over 65 years will be reduced to 3x in 2040 vs 5x in 2023.

**Fig 14: Vietnam's age pyramid in 2019 and 2040**



Source: Euromonitor, Maybank IBG Research

**Fig 15: Population aged 65+ years expected to nearly double in the next decades to reach 22% in 2040**



Source: Statista, Maybank IBG Research

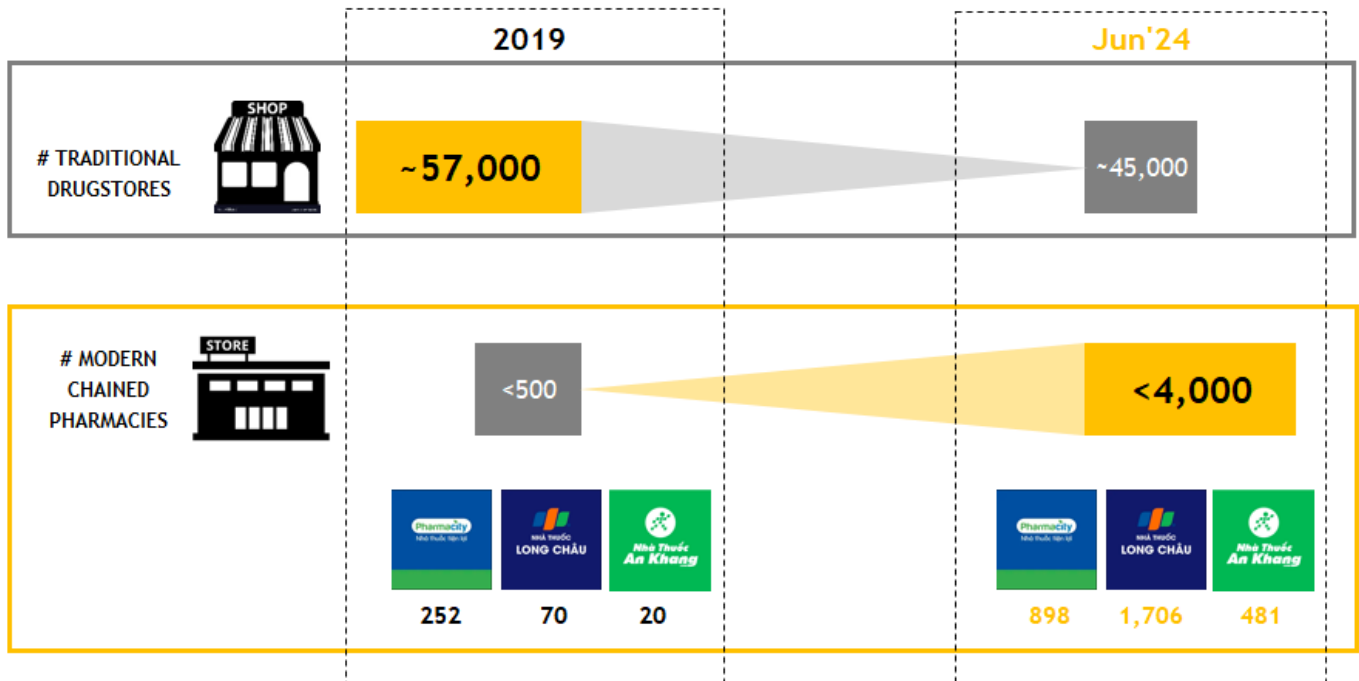
**II. The ongoing shift to chain pharmacies**

The retail landscape of the pharmacy industry remains highly fragmented. The traditional channel (separated mom-and-pop drugstores) still dominates with c.45,000 stores nationwide vs less than 4,000 stores of modern pharmacy chains. This represents opportunities for big players to capture share through strategic expansion.

The Covid pandemic helped to accelerate the retail conversion to modernization. We observed the top three pharmacy chains rapidly

expanded their store-count during 2020-22 (Fig 1), putting pressure on traditional pharmacies to shrink from nearly 60,000 stores before Covid.

**Fig 16: The ongoing shift in Vietnam’s pharmaceutical retail landscape over the past 5 years**



Source: Maybank IBG Research collects

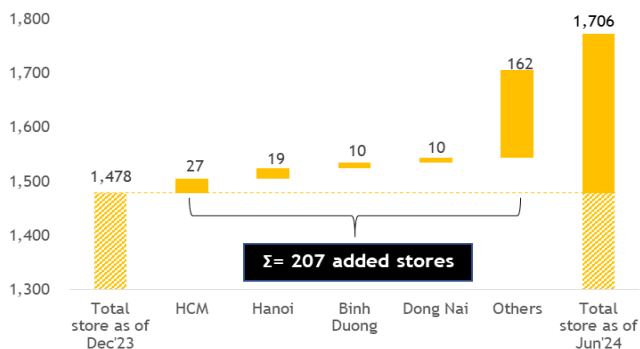
We believe the consolidation trend will continue as chain pharmacies offer a wide range of trusted and branded products, convenience and better customer service quality than mom-and-pop drugstores. Professional medical consultancy from qualified pharmacists and omni-channel should allow consumers to enjoy the integration of online and offline channels are advantages of modern chains in comparison with traditional pharmacies.

As already noted, Long Chau is well-positioned to capture this rising demand and has room for further expansion, in our view.

Based on our observations, Long Chau is increasing its store density in about 50 provinces/cities across the country, but big cities like Hochiminh, Hanoi, Binh Duong and Dong Nai are still leading the store expansion in 1H24 with 66 newly opened stores, accounting for 29% of the total store increase. This suggests that even in the most modernized cities in Vietnam, there is still room for new store openings.

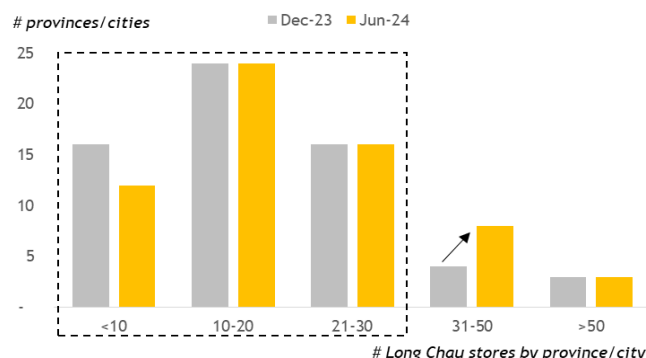
Additionally, the number of provinces that have less than 30 Long Chau pharmacies still make up a majority share of its retail network, c.83% as of Jun'24. Along with urbanization and industry consolidation, we believe that store expansion opportunities abound for Long Chau in the next 5 years.

**Fig 17: Long Chau expanded its store network across the country with 207 stores added in 1H24, led by big cities**



Source: Maybank IBG Research

**Fig 18: Despite increasing density, the number of provinces that have 10-30 stores still makes up a majority share**

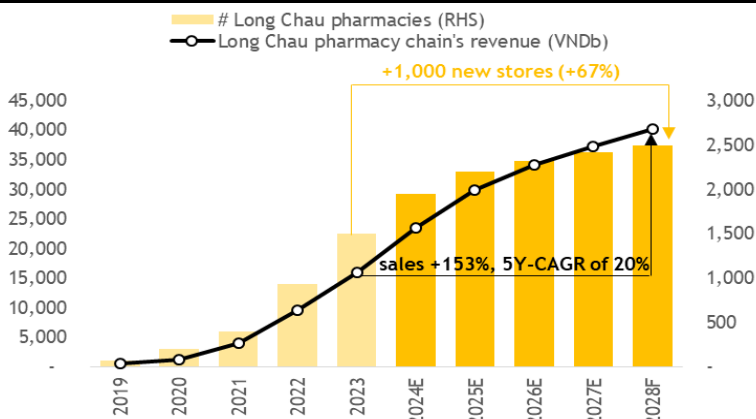


Source: Maybank IBG Research

**FY23-28E sales CAGR of 20% for the pharmacy chain**

Coupled with our expected average sales per store growth of 10-11% pa in FY24-25E and high-single-digit growth in the following years, we forecast Long Chau’s pharmacy chain sales will post a 5-year CAGR of 20% to reach VND40.2t (~USD1.6b) in FY28E. This is a significant gain vs FY23 sales of c.USD600m.

**Fig 19: We expect Long Chau pharmacy’s FY28E sales to reach c.USD1.6b**



Source: Company, Maybank IBG Research

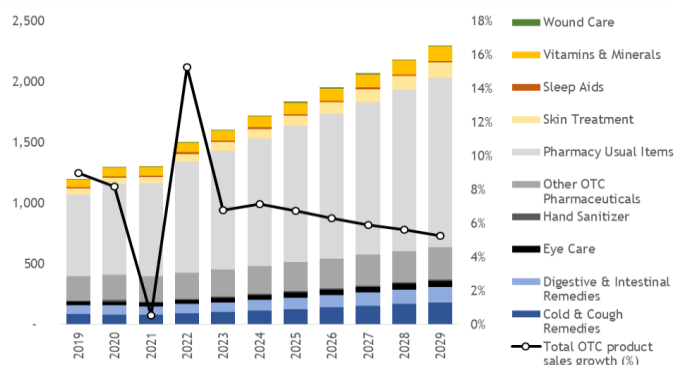
Our average sales per store growth assumption is based on:

- The expected growth of total drug consumption at an 8.4% CAGR in FY23-28E, based on BMI forecasts.
- Potential to increase non-medicine sales, driven by rising demand for dietary supplements and other personal care/beauty products. Non-medicine products currently contribute c.40% of Long Chau’s sales. The black market for imported supplements and beauty products is prevalent and Long Chau has potential to win over demand with legitimate products.

Vietnam’s OTC products market exhibits promising growth potential with an expected annual growth rate (2024-29E CAGR) of 6%, leading to a market volume of USD2.3b by 2029, according to Statista. Rising health consciousness among consumers is leading to higher demand for vitamins and dietary supplements, which still contributes a minor part of sales (c.5%) in the OCT products market. The trend is part of a broader shift towards preventative medicine as Vietnamese consumers seek to bolster their immune systems and overall well-being. The pandemic has served as a

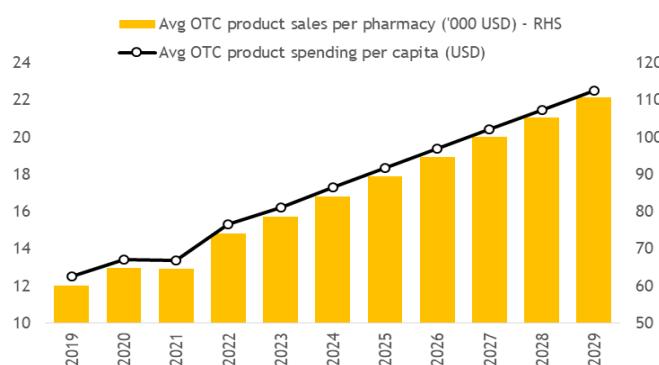
wake-up call for many, highlighting the critical role that a healthy lifestyle plays in safeguarding against illnesses.

**Fig 20: OTC product sales by segment (VNDb) and total sales growth YoY (%)**



Source: Statista, Maybank IBG Research

**Fig 21: The average OTC product sales per pharmacy and per capita is on the rise**



Source: Statista, Maybank IBG Research

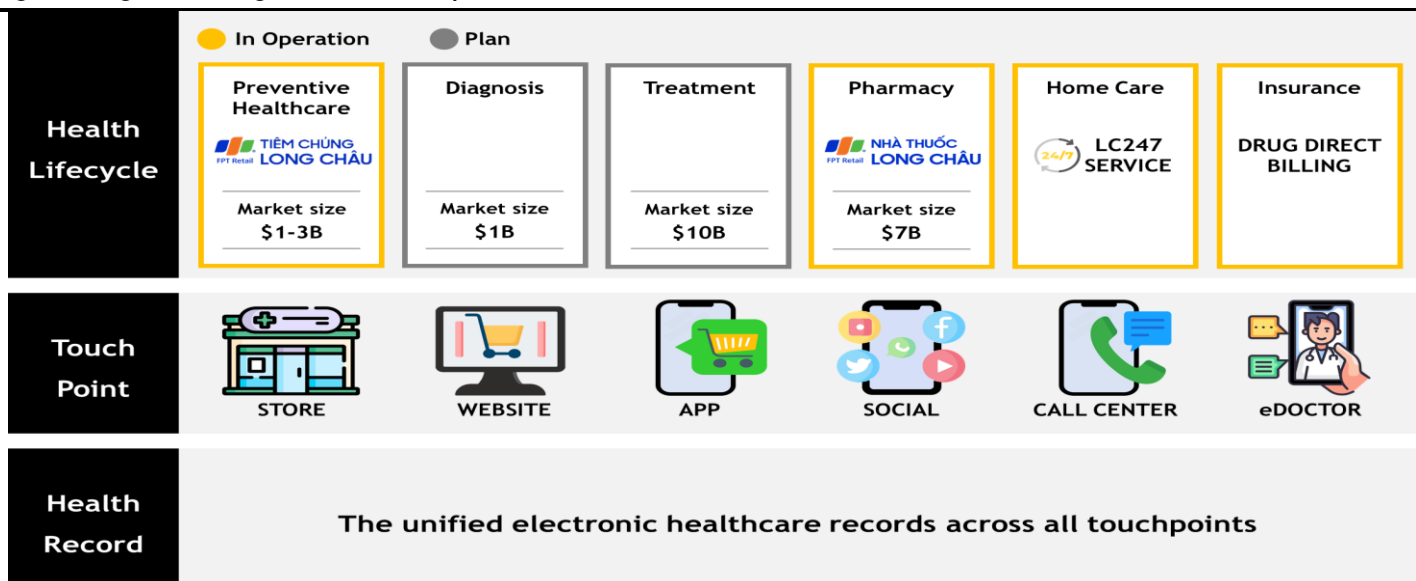
### 2.3 Long Chau’s strategic expansion into healthcare Transition from a pharmacy chain to healthcare platform

To enlarge its long run growth potential, besides the existing successful pharmacy chain, Long Chau aims for a healthcare platform that covers vaccination, medical testing, hospitals/clinics to pharmacies, etc.

Compared to the market size of total pharmaceutical market of USD6-7b (including hospital and pharmacy channel), the targeted healthcare segments that Long Chau aims to expand to could be worth USD12-14b, including: i) preventive healthcare services (~USD1-3b); ii) diagnosis (~USD1b); and iii) treatment (~USD10b), according to management.

As noted, Vietnam’s healthcare outlook is promising, underpinned by rising incomes, a large but aging population amid current low healthcare expenditure per capita. The public health system is a major service provider without a priority of service quality, mostly due to low investment and over capacity. The rising middle-income class could accelerate demand for private healthcare services and drive strong growth in this industry in coming decades, in our view.

**Fig 22: Long Chau’s targeted healthcare platform**



Source: Company, Maybank IBG Research

The transition from a pharmacy chain to healthcare platform is based on successful models in the US, such as Walmart Health, as shared by management in its recent AGM. Walmart Health provides affordable and accessible healthcare services via its 4,600 pharmacies and 75 clinics with FY23 total revenue of USD47b. Compared to Walmart Health, Long Chau's management is confident that it has similar necessary factors for being successful in this strategic expansion, including:

- Large customer base of over 15m with a focus on chronic diseases.
- Strong store coverage with nearly 1,700 drugstores nationwide and good reputation in this sector.
- Leveraging its current strategic partnerships with well-known brand names in the healthcare industry such as IHH Healthcare, Bao Viet Insurance, etc. to collaborate to rapidly build the healthcare system.
- Implementing technology (i.e. AI, Chat BOT, big data, personalization, etc...) to reduce the cost of medical visits.

### **Vaccination: Kicked off with initial positive results**

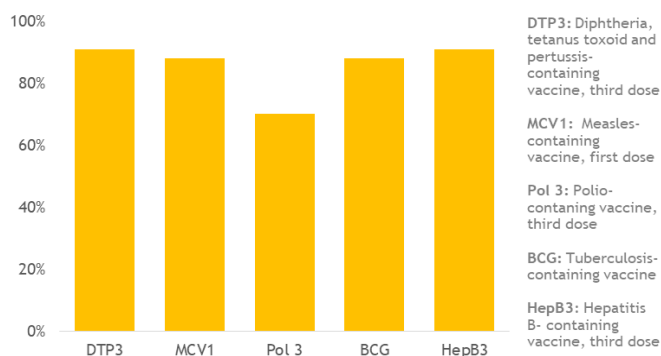
At the beginning of 2024, Long Chau kicked off its expansion into the vaccination business, after a successful pilot in 4Q23. Management aims for 500 VCs in the next 3 years. The target for 2024 is 100.

By 1H24, it had already opened 86 VCs in 1H24, including both standalone and shop-in-shop (located on the upper floors of its drugstores) or side-by-side model to go along with its current extensive pharmacy network. Initial results showed positive signs, i.e. for 6 months of operating VCs, the average monthly sales per centre was c.VND2.2b (in subscription) and VND1.5b (actual vaccinated), higher than that of USD1.1-1.2b for its pharmacies.

This business segment represents substantial potential with an estimated market size that could reach USD1-3b and annual double-digit growth, according to Long Chau's management, supported by:

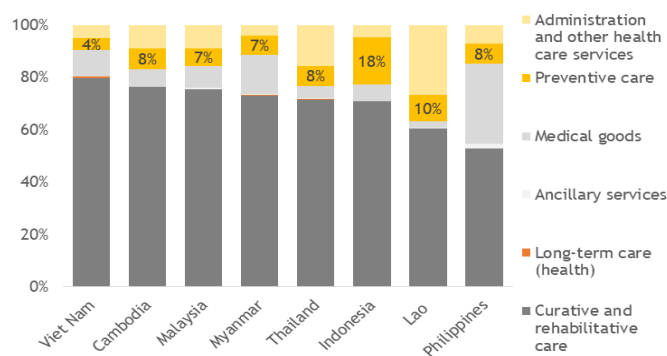
- I. Vietnam's low vaccinated penetration rate of c.4%, compared to 15%-30% in other regional countries. Preventive healthcare like vaccination in Vietnam mostly focuses on children, backed by the national expanded program on immunization (EPI) to prevent childhood diseases like diphtheria, tetanus, pertussis, measles and polio, etc. Despite high vaccine coverage for diseases in the EPI, other common vaccines (i.e. influenza, and HPV, etc.) are still under-covered in Vietnam. For example, the influenza vaccine coverage rate in Korea and the US is nearly 86% and 67%, respectively, vs c.4-5% in Vietnam. HPV is among the most popular vaccines in developed countries, such as Korea (65%), the US (>50%) and Singapore (20-30%) while only 3% of Vietnamese women are vaccinated. In terms of health expenditure, the proportion of preventive services in Vietnam (c.4%) is the lowest among regional countries (7-18%).

**Fig 23: WHO and UNICEF estimates of Vietnam’s immunization coverage, 2022**



Source: WHO, UNICEF, Maybank IBG Research

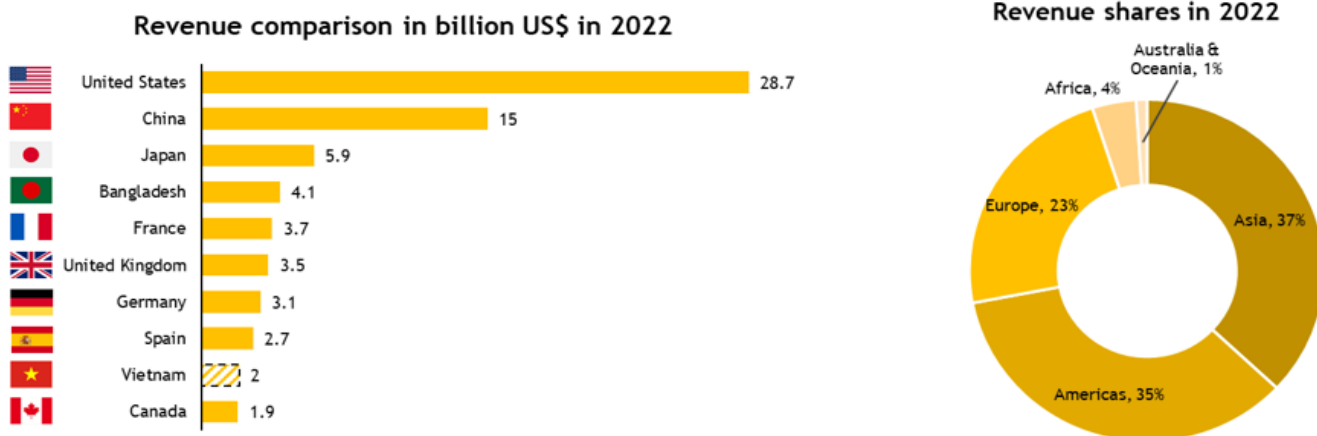
**Fig 24: Health expenditure by type of service of Vietnam regional countries, 2019**



Source: WHO Global Health Expenditure database, Maybank IBG Research

- II. The vaccine demand for children is also decent as Vietnam maintains a high birth rate which helps to add more than 1m more children annually. A new-born needs about 32 doses in their first 2-3 years.
- III. Increasing preventive healthcare awareness after Covid-19 pandemic. To recall, Vietnam is among the highest vaccinated countries for Covid-19 with a rate of nearly 90% of the population. It made Vietnam join the top global vaccine market in terms of sales in 2022 (Fig 25). The pandemic helped consumers understand the importance of vaccines and increased their focus on other disease vaccines.

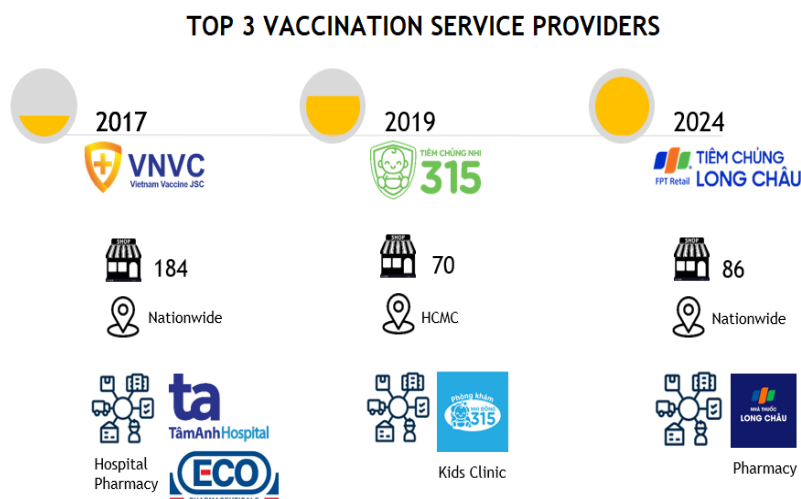
**Fig 25: Vaccine revenue in 2022**



Source: Statista, Maybank IBG Research

Long Chau became the third player in the private sector to run a chain of vaccination services in Vietnam. VNVC is the leader with 184 VCs nationwide and serves all kinds of demand while Nhi 315 focuses on children in the HCMC area with 70 VCs. These two players are also backed by their healthcare ecosystem. VNVC is a part of its owner’s system which includes hospital (Tam Anh) and pharmacy chain (Eco Pharmaceuticals). Nhi 315 is under Nhi Dong 315 kids clinic chain that was recently invested by Singapore-based GIC.

Fig 26: Top 3 vaccination service providers in Vietnam



Source: Maybank IBG Research collects (Data as of Jun'24)

Given the segment’s current competitive landscape, Long Chau’s strategy is to capture untapped vaccination demand of adults at more reasonable prices - the same strategy that Long Chau applied for its pharmacy business. Based on our collected data, Long Chau’s vaccination prices are the lowest among the three players (Fig 27). It plans to do this by leveraging its current pharmacy network with nearly 1,700 stores and 2,000 pharmacists, coupled with technology to explore its large customer base of 15m. We observe that Long Chau is actively approaching its customers to promote vaccination via in-store pharmacists and their Zalo OA network with c.10m users. Zalo is a leading social platform in Vietnam with 73m users as of 2023, making it one of Vietnam’s most popular messaging apps.

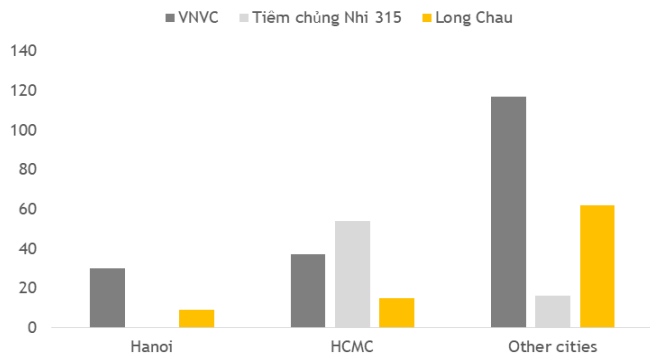
Fig 27: Long Chau’s vaccination prices are the lowest among the three players

Prevention	Vaccine name	Price		
		Highest	Lowest	
		VNVC	Nhi 315	Long Chau
Measles - mumps - rubella	MMR II (3 in 1)	Lowest	Highest	Lowest
	Priorix	Lowest	Highest	Lowest
Diphtheria - pertussis - tetanus	Adacel	Lowest	Highest	Lowest
	Boostrix	Lowest	Highest	Lowest
Diphtheria - pertussis - tetanus - polio	Tetraxim	Lowest	Highest	Lowest
Diphtheria, pertussis, tetanus, polio, purulent meningitis, Hib pneumonia, hepatitis B	Infanrix Hexa (6 in 1)	Lowest	Highest	Lowest
	Hexaxim (6 in 1)	Lowest	Highest	Lowest
Chicken pox	Varilrix	Lowest	Highest	Lowest
Japanese encephalitis	Imojev	Lowest	Highest	Lowest
Meningitis, pneumonia, otitis media caused by pneumococcus	Synflorix	Lowest	Highest	Lowest
	Prevenar 13	Lowest	Highest	Lowest
Meningitis caused by meningococcus groups B and C	VA-Mengoc-BC	Lowest	Highest	Lowest
	Menactra	Lowest	Highest	Lowest
Hepatitis A + B	Twinrix	Lowest	Highest	Lowest
Hepatitis A	Avaxim 80U	Lowest	Highest	Lowest
Influenza	Vaxigrip Tetra 0.5ml	Lowest	Highest	Lowest
	Influvac tetra 0,5ml	Lowest	Highest	Lowest
Cervical cancer, oropharyngeal cancer, genital warts... caused by HPV (4 strains)	Gardasil 0.5ml	Lowest	Highest	Lowest
	Gardasil 9 0.5ml	Lowest	Highest	Lowest
Acute diarrhea caused by Rotavirus	Rotateq	Lowest	Highest	Lowest
	Rotarix	Lowest	Highest	Lowest
Typhoid	Typhim VI	Lowest	Highest	Lowest
Cholera	Morcavax	Lowest	Highest	Lowest

Source: Maybank IBG Research collects

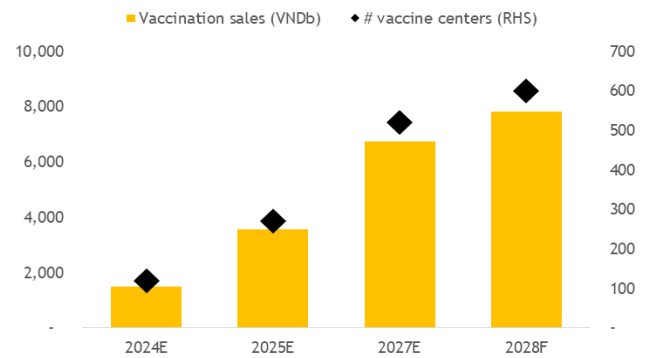
We expect Long Chau will open 120 VCs in 2024 and this will accelerate further in the next four following years to reach 600 VCs by 2028. With an average monthly sales per store estimate of USD1.4-1.5b, we forecast the vaccination business could generate VND1.5t in sales for FY24E, contributing c.6% of Long Chau’s total sales. At our projected FY24-28E sales CAGR of 51%, vaccination sales to reach VND7.8t in FY28E, accounting for c.16% of Long Chau’s total sales. Profit margin of this new business is expected to be similar to pharmacy when it matures.

**Fig 28: VNVC and Long Chau aim for nationwide networks while Nhi 315 mostly focuses on HCMC and surrounding areas**



Source: Company, Maybank IBG Research (Data as of Jun'24)

**Fig 29: We forecast Long Chau will open 600 VCs and sales to reach VND7.8t in 2028**



Source: Maybank IBG Research

Looking at VNVC’s performance in the first years of operation, the chain started with FY17 sales of VND32b only, but rapidly accelerated to VND7.2t after 5 years when the network reached 100 VCs by end-2022. With FY22 net profit of VND265b, net margin was c.4%. Compared to VNVC, Long Chau’s VCs are smaller in size, therefore, we expect Long Chau will operate a denser network to create a competitive advantage of proximity as well as leveraging its drugstore network.

### 3. Financial analysis

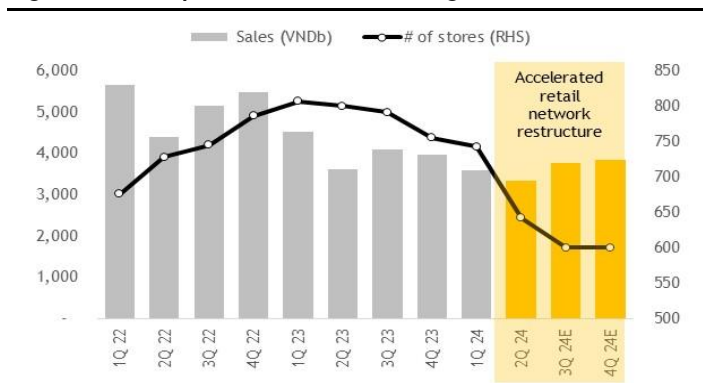
#### 3.1 Notable FY24E earnings turnaround

We forecast FY24E NPAT-MI of VND156b for FRT vs a loss of VND346b in FY23, a notable turnaround (Fig 36). This should be driven by strengthening profitability of Long Chau and recovery in the ICT segment.

We forecast a strong improvement in Long Chau’s bottom-line in FY24 of 122% YoY, led by sales expansion (+57% YoY) and an improvement in operating efficiency.

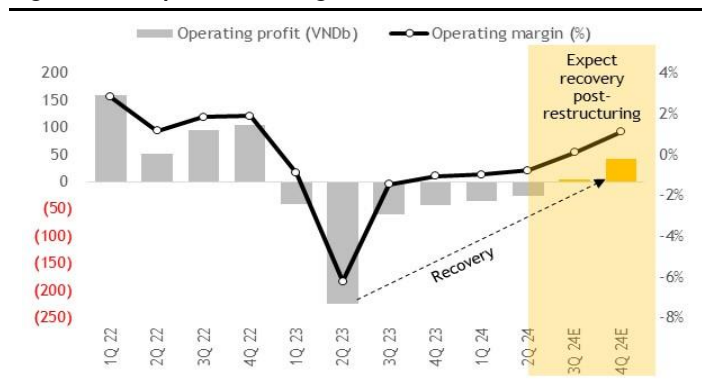
FY23 was the hardest year for FRT given the extremely challenging business environment in the ICT segment - the previous major profit contributor of the company. Due to an aggressive price war amid sluggish demand, FPT Shop endured its largest loss since listing. However, the ICT segment’s performance bottomed out in 3Q23 and the price war eased. Additionally, FPT Shop also restructured its retail network in 1H24, closing about 100 stores in 2Q24. Compared to 2Q23, FPT Shop network was reduced by 20% YoY. Our forecasts factored in this movement, resulting in our below consensus earnings forecasts. Together with the ongoing recoveries in the overall economy and consumption, we expect FPT Shop to regain its breakeven point in 2H24E.

**Fig 30: FPT Shop has been restructuring its retail network**



Source: Company, Maybank IBG Research

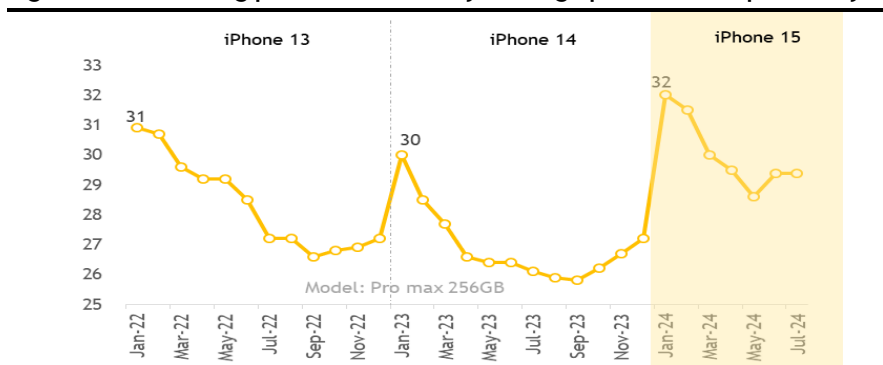
**Fig 31: We expect it will regain its breakeven level in 2H24E**



Source: Maybank IBG Research

We track iPhone retail prices as an indicator of consumer purchasing power as well as competition in the ICT segment. The selling price of iPhone 15 is currently holding up better than that of iPhone 13 and iPhone 14 in 2022-2023. This indicates that consumer purchasing power is improving and could be accelerated in the coming peak season of the industry (from late 3Q) when the economic recovery should have kicked in.

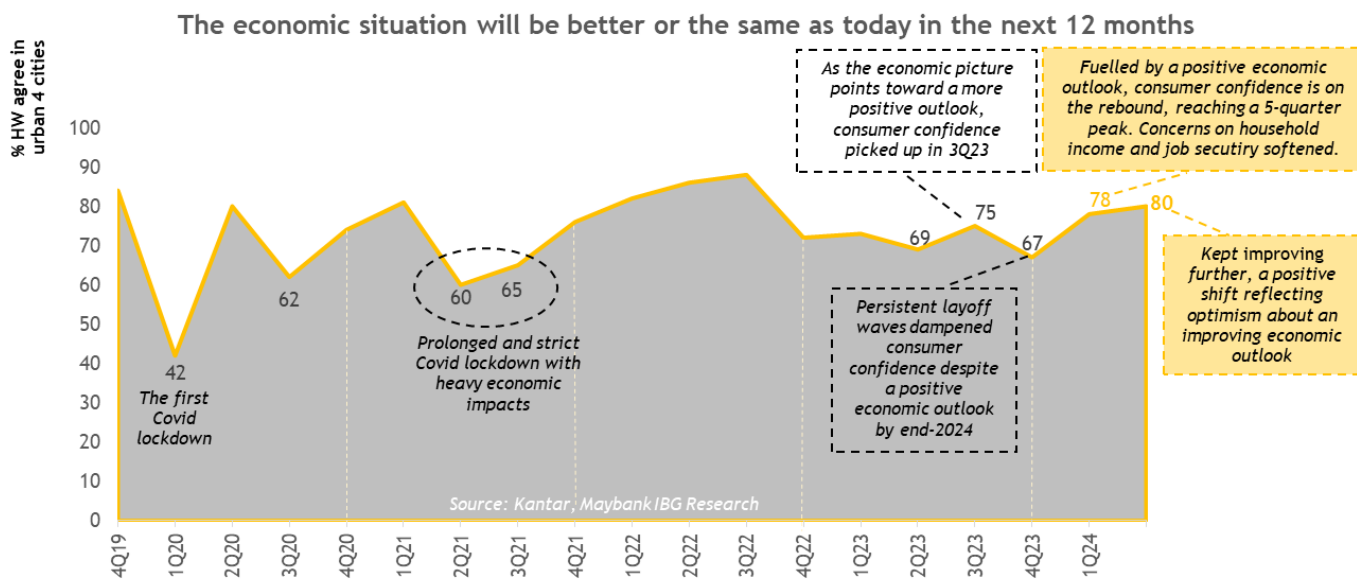
**Fig 32: iPhone selling prices are currently holding up better than previously**



Source: Maybank IBG Research collects

Our 2H24 recovery acceleration is also supported by Kantar’s survey results that showed improvement in consumer confidence in 1H24, reaching the highest level since 4Q22.

**Fig 33: As expected, consumer sentiment improved in 1H24, suggesting potential accelerating consumption in 2H24**

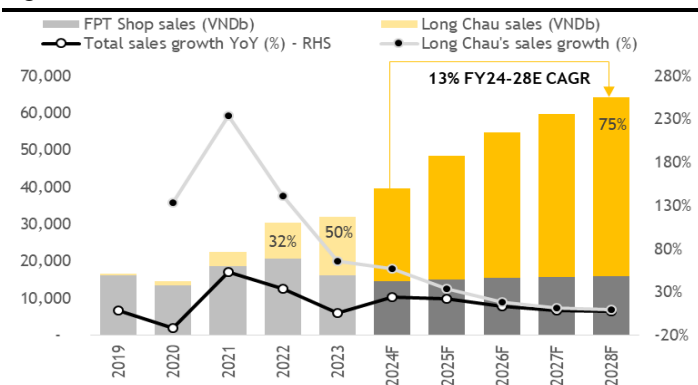


Source: Kantar, Maybank IBG Research

### 3.2 FY24-28E NPAT-MI CAGR of 57%, led by Long Chau Top-line to grow at FY24-28E CAGR of 13.3%

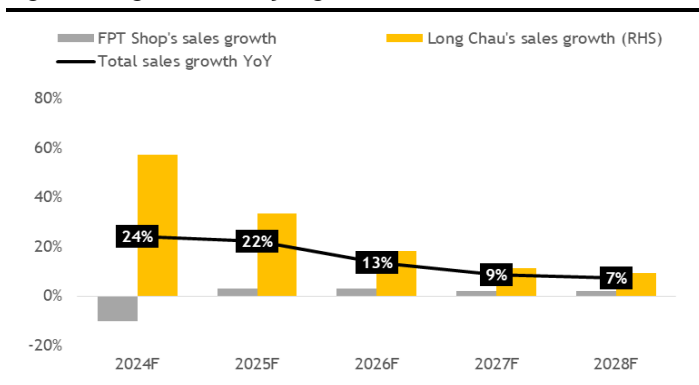
FRT’s ICT retailing business is maturing due to limited growth in overall demand and FPT Shop’s eroding competitive advantage as the sector leader - Mobile World - strengthens its dominance. Therefore, we expect annual sales growth of 3-5% for FPT Shop in FY24-28E. Thanks to a strong growth spurt - Long Chau (FY24-28E sales CAGR of 17.8%) as detailed in 2.2 - we see 12.8% sales CAGR for FRT in our forecast period (FY24-28E).

**Fig 34: We forecast 13.3% sales CAGR for FY24-28E**



Source: Company, Maybank IBG Research

**Fig 35: Long Chau is major growth driver for FY24-28E sales**



Source: Maybank IBG Research

#### Entering strong earnings growth cycle

We project a new earnings growth cycle for FRT at FY24-28E NPAT-MI CAGR of 57%, driven by:

#### Recovery of ICT retail segment

As noted, ICT retailing is projected to turnaround in FY24E. With our expectation of modest sales growth in the next 5 years and improving operating efficiency post-restructuring of its retail network in FY24, we

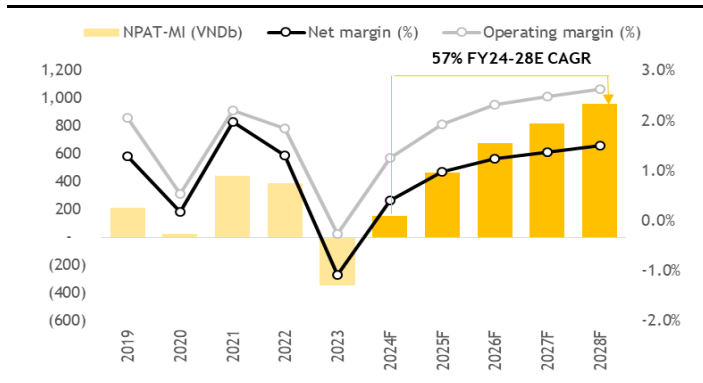
forecast FPT Shop will remain profitable in FY25-28E. However, as the sector’s business environment has shifted after the price war in 2023 towards narrowing profit margins, we expect average operating margin of 1.3% for FPT Shop during FY25-28E. This is below the average of 2.4% in 2017-20, which excludes the impact of the Covid pandemic and the worst year 2023.

**The pharmacy business bears fruit**

Long Chau’s economies of scale have started to kick in and this helps it to secure sufficient products on favourable terms. Therefore, despite remaining competitive with its selling prices strategy, Long Chau could reduce the breakeven time for a new store to about 3 months from 6 months previously.

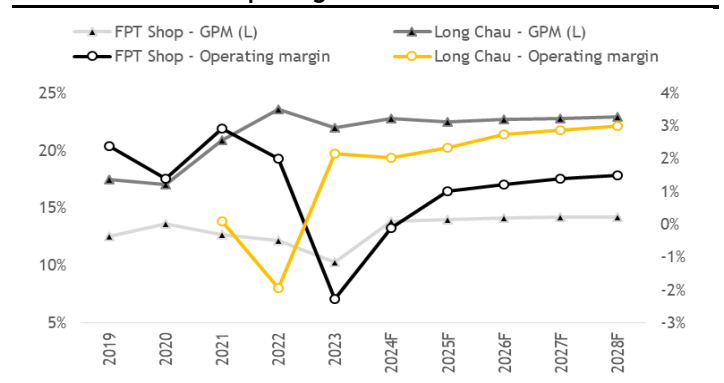
We project the most aggressive store expansion since FY22 (with average new store openings of c.500 pa) to persist until the end of FY24E, then gradually slow in FY25-28E. With the time payback estimation of 1.5-2.0 years, we expect Long Chau’s operating margin to improve from FY25E to reach 3% in FY28E (vs FY23: 2.2%). Long Chau’ back-end system, which is highly focused on inventory management, supported by big data/machine learning, also plays an important role in improving operational efficiency. According to management, its stock-out rate is less than 5% while Long Chan has not increased inventory.

**Fig 36: We project a new earnings growth cycle for FRT at FY24-28E NPAT-MI CAGR of 57%**



Source: Company, Maybank IBG Research

**Fig 37: Long Chau’s operating margins should widen from FY25E while FPT Shop margins stabilise in FY24-28E**

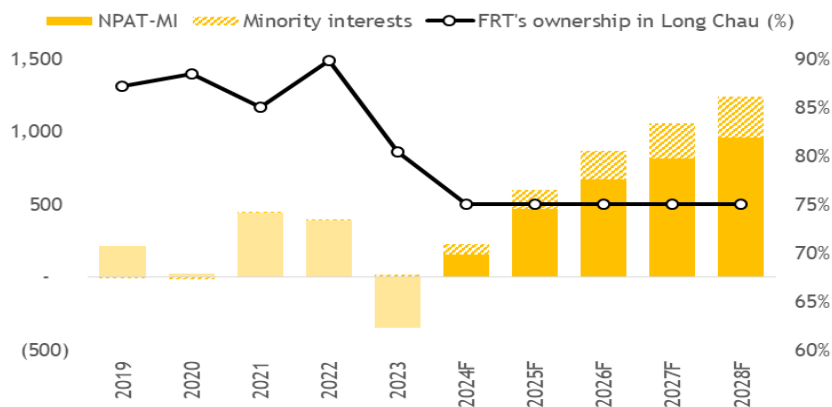


Source: Maybank IBG Research

All in all, we expect FRT’s earnings to grow faster than sales in our forecast period (FY24-28E), mainly due to gradual improvement in operating margin to 2.6% in FY28E from 1.3% in FY24E.

However, the net margin should be much lower, i.e. 1.5% in FY28E (vs 0.4% in FY24E) due to increasing minority interests. Long Chau becomes a major profit contributor in our forecast period while FRT’s ownership of this subsidiary could potentially be reduced to 75% by end-FY24 vs 80.5% at end-FY23. This does not reflect the dilution risk of Long Chau’s private placement plan of up to a 10% stake.

**Fig 38: Increasing minority interest as Long Chau becomes major contributor**



Source: Company, Maybank IBG Research

**Fig 39: Key forecast items**

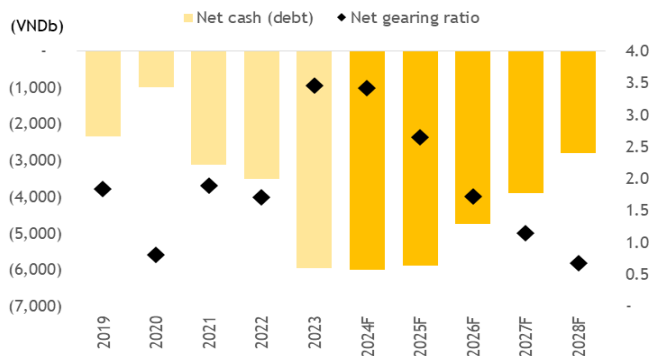
Key P&L items (VNDb)	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E	FY28E
<b>Net sales</b>	<b>30,166</b>	<b>31,850</b>	<b>39,511</b>	<b>48,320</b>	<b>54,824</b>	<b>59,632</b>	<b>64,077</b>
FPT Shop	20,689	16,185	14,534	14,970	15,419	15,728	16,042
Long Chau	9,596	15,882	24,977	33,349	39,404	43,904	48,035
<b>Sales growth (% YoY)</b>	<b>34.1%</b>	<b>5.6%</b>	<b>24.1%</b>	<b>22.3%</b>	<b>13.5%</b>	<b>8.8%</b>	<b>7.5%</b>
FPT Shop	11.5%	-21.8%	-10.2%	3.0%	3.0%	2.0%	2.0%
Long Chau	141.3%	65.5%	57.3%	33.5%	18.2%	11.4%	9.4%
<b>% of sales</b>	<b>100%</b>	<b>101%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
FPT Shop	69%	51%	37%	31%	28%	26%	25%
Long Chau	32%	50%	63%	69%	72%	74%	75%
<b>Gross profit</b>	<b>4,703</b>	<b>5,162</b>	<b>7,701</b>	<b>9,599</b>	<b>11,119</b>	<b>12,243</b>	<b>13,278</b>
% YoY	49.2%	9.7%	49.2%	24.7%	15.8%	10.1%	8.4%
% gross margin	15.6%	16.2%	19.5%	19.9%	20.3%	20.5%	20.7%
% SGA/sales	13.7%	16.5%	18.2%	17.9%	18.0%	18.1%	18.1%
<b>EBIT</b>	<b>557</b>	<b>(85)</b>	<b>494</b>	<b>927</b>	<b>1,268</b>	<b>1,477</b>	<b>1,683</b>
% YoY	12.5%			87.6%	36.8%	16.5%	13.9%
% EBIT margin	1.8%	-0.3%	1.3%	1.9%	2.3%	2.5%	2.6%
<b>PBT</b>	<b>486</b>	<b>(294)</b>	<b>308</b>	<b>748</b>	<b>1,090</b>	<b>1,320</b>	<b>1,553</b>
% YoY	-12.4%			142.9%	45.7%	21.2%	17.6%
<b>Net profit</b>	<b>398</b>	<b>(329)</b>	<b>228</b>	<b>598</b>	<b>872</b>	<b>1,056</b>	<b>1,242</b>
<b>NPAT-MI</b>	<b>390</b>	<b>(346)</b>	<b>156</b>	<b>468</b>	<b>675</b>	<b>820</b>	<b>959</b>
% YoY	-12.0%			199.4%	44.4%	21.4%	16.9%
% net margin	1.3%	-1.1%	0.4%	1.0%	1.2%	1.4%	1.5%

Source: Company, Maybank IBG Research forecasts

### 3.3 High leverage likely to be reduced in coming years

As at end-FY23, FRT's total borrowings were VND8.1t (+51% YoY) due to the poor FY23 performance after it suffered the hardest hit in its ICT segment and amid continued aggressive expansion of its pharmacy chain. This resulted in a new high gearing ratio (net debt/equity) of 3.5x (vs FY22: 1.7x).

**Fig 40: Expect net gearing ratio to reduce in the next 5 years**



Source: Company, Maybank IBG Research

**Fig 41: OCF and current ratio improvements also projected**



Source: Maybank IBG Research

We expect solid FY24-28E earnings and slower expansion from FY26E to strengthen FRT's balance sheet from the current high leverage.

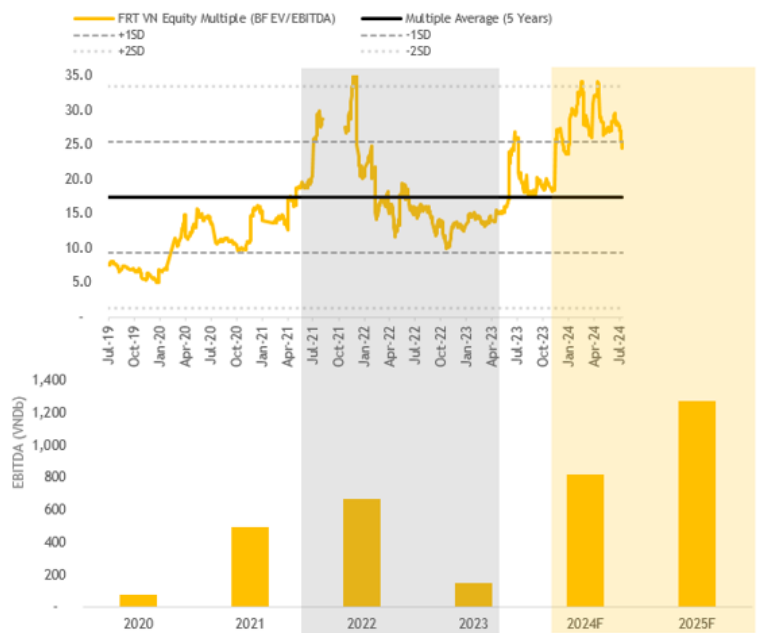
Long Chau's plan to sell a stake is also another support if successful. To supports its expansion plan, FRT plans to raise capital via a private placement of up to 10% of Long Chau. The expected timeline is late 2024-1H25. If successful, FRT's ownership of Long Chau could be reduced to 68%.

## 4. Valuation

We view FRT as a growing stock due to the key growth driver - Long Chau is in an aggressive expansion mode and has passed its breakeven point. On the other hand, the previous major sales/profit contributor - its ICT retail business has just started to recover from its big loss last year and the recovery has been gradual. The strong leading position of Long Chau, coupled with its impressive expansion and growth, has attracted investor attention, especially since the chain turned profitable and the prospect of a stake sale was raised. Therefore, we use an EV/EBITDA valuation multiple methodology to capture the fair value of FRT.

Fig 42: Enterprise multiple valuation

FY25E EBITDA (VNDb)	1,271
Target EV/EBITDA (x)	25.4
<b>Target enterprise value (EV)</b>	<b>32,352</b>
<i>Less debt (VNDb)</i>	<i>(8,108)</i>
<i>Add cash (VNDb)</i>	<i>2,155</i>
<b>Fair value (VNDb)</b>	<b>26,398</b>
Number of outstanding shares (m)	136.2
<b>Fair value per share (VND)</b>	<b>193,760</b>
Current price (VND/share)	162,500
<b>Upside/(downside)</b>	<b>19.2%</b>



Source: Bloomberg, Maybank IBG Research (Data updated as of 5 Aug, 2024)

Following the recent correction of Vietnam stock market (VN-Index's 1M performance: -8%), FRT's share price has corrected c.11% from its recent peak. The stock is trading at 24.5x Bloomberg's multiple blended forward EV/EBITDA, below the 25.4x of +1SD its historical 5-year average. Given the market's strong sentiment on the Long Chau story, we believe FRT could trade at +1SD level. Based on our FY25E EBITDA of VND1,271b (+55% YoY), we arrived at a 12-month TP of VND193,760, leaving c.19% upside potential. We recommend BUY on FRT with Long Chau as a major re-rating catalyst, specifically, its impressive expansion and growth and a potential stake sale.

Upside risk to our target price could stem from the higher valuation that Long Chau could get for its strategic stake sale, which will likely excite the market and lead to a stronger re-rating of FRT as a whole. To demonstrate this upside risk, we roughly estimate an SOTP-based target prices for FRT, assuming a valuation range for Long Chau of USD1-1.5b in Fig 43 below.

Fig 43: Rough SOTP-based target price for FRT, assuming a valuation range of Long Chau from USD1-1.5b

	Base		Best		Blue sky	
<b>Long Chau's value assumption (USDb)</b>	<b>1.00</b>	<b>1.10</b>	<b>1.20</b>	<b>1.30</b>	<b>1.40</b>	<b>1.50</b>
FY24E sales (USDb)	0.99					
Implied target P/S (x)	1.01	1.11	1.21	1.31	1.41	1.51
FRT's economic interest in Long Chau	68% (*)					
<b>Long Chau's implied value to FRT (USDb)</b>	<b>0.68</b>	<b>0.75</b>	<b>0.82</b>	<b>0.89</b>	<b>0.95</b>	<b>1.02</b>
<b>FPT Shop value (USDb)</b>	<b>0.31</b>	<b>0.31</b>	<b>0.31</b>	<b>0.31</b>	<b>0.31</b>	<b>0.31</b>
<b>FRT's enterprise value (USDb)</b>	<b>0.99</b>	<b>1.06</b>	<b>1.12</b>	<b>1.19</b>	<b>1.26</b>	<b>1.33</b>
Number of outstanding shares (m)	136.2					
<b>Fair value per share (VND)</b>	<b>182,951</b>	<b>195,571</b>	<b>208,190</b>	<b>220,810</b>	<b>233,430</b>	<b>246,050</b>
<b>Current price (VND/share)</b>	<b>162,500</b>					
Upside potential (%)	13%	20%	28%	36%	44%	51%

USD/VND (as of 2 Aug 2024) 25,217

(\*) Assuming the successful selling of a 10% stake in Long Chau

Source: Bloomberg, Maybank IBG Research (Data updated as of Aug 2, 2024)

In this valuation, we fixed the value of FPT Shop chain at USD310m based on our FY24E sales and a target P/S of 0.53x, a 30% discount vs our valuation for TGDD/DMX - an ICT/CE chain of MWG, the leader with a dominant market share of above 50%. TGDD/DMX's FY24-25E sales and store-count are nearly 5 times higher than FPT Shop, and it was still profitable in the challenging 2023 while FPT Shop suffered its largest loss since listing.

Based on our FY24E sales forecast, assuming a valuation range for Long Chau of USD1-1.5b, implies a target P/S of 1.0-1.5x. This notable premium compared to 0.4-0.5x of our selected listed Chinese pharmacy chains (Fig 47), which are of relatively comparable size and business model to Long Chau, could be justified by Long Chau's stronger sales cycle of c.118% 5-year CAGR vs the c.21% selected peer average and its leading position in Vietnam's pharmaceutical retail market with potential expansion into a healthcare platform.

Fig 44: Chinese listed pharmaceutical chains that are relatively of comparable size and business model to Long Chau

Ticker	Company name	# of stores	Market cap (USDm)	T12M P/E (x)	FY24E P/E (x)	FY25E P/E (x)	P/B (x)	P/S	EV/EBIT DA (x)	ROE (%)	ROA (%)	Net margin (%)	Operating margin (%)	Gross margin (%)	D/E (%)	Sales 5Y-CAGR (%)	FY23 sales (USDb)
603883 CH	LAOBAIXING PHARMACY	782	1,732	13.1	10.9	9.1	1.8	0.5	9.5	13.9	4.5	4.3	6.9	32.5	146.5	17.0	3.2
002727 CH	YIXINTANG PHARMACEUTICAL	2,400	1,117	14.7	8.3	7.2	1.0	0.5	7.8	7.0	3.3	3.1	4.7	33.0	61.7	12.8	2.5
301017 CH	SHUYU CIVILIAN PHARMACY	1,800	526	47.4	14.5	11.1	1.7	0.4	14.6	3.5	0.9	0.8	2.6	28.3	194.5	26.8	1.3
605266 CH	YUNNAN JIANZHUIJA HEALTH	1,200	469	NA	7.1	5.9	1.2	0.4	8.4	14.0	4.0	4.2	6.7	35.9	162.1	25.9	1.3
<b>AVERAGE</b>				<b>25.1</b>	<b>10.2</b>	<b>8.3</b>	<b>1.4</b>	<b>0.4</b>	<b>10.1</b>	<b>9.6</b>	<b>3.2</b>	<b>3.1</b>	<b>5.2</b>	<b>32.4</b>	<b>141.2</b>	<b>20.6</b>	<b>2.1</b>
<b>Long Chau</b>		<b>1,706</b>										<b>0.9</b>	<b>2.2</b>	<b>22.0</b>		<b>117.7</b>	<b>0.6</b>

Source: Bloomberg, Maybank IBG Research (Data updated as of Aug 2, 2024)

## 5. Risks

Key risks for FRT’s business operations include:

- Reputational damage due to unhealthy competition and policy risk affect FRT’s store expansion rate.
- Unexpected problems may incidentally emerge due to Long Chau’s operations (pharmacy, vaccination) and this could include serious impact to the health of customers. This could put Long Chau’s reputation at risk - an important factor for a corporation in the healthcare sector. In a worst-case scenario, this could potentially lead to the authorized withdrawal of Long Chau’s operating licenses.
- High leverage at 3.5x net gearing ratio as of end-FY23, mostly in short-term debt, is also a potential risk.

## 6. Corporate information

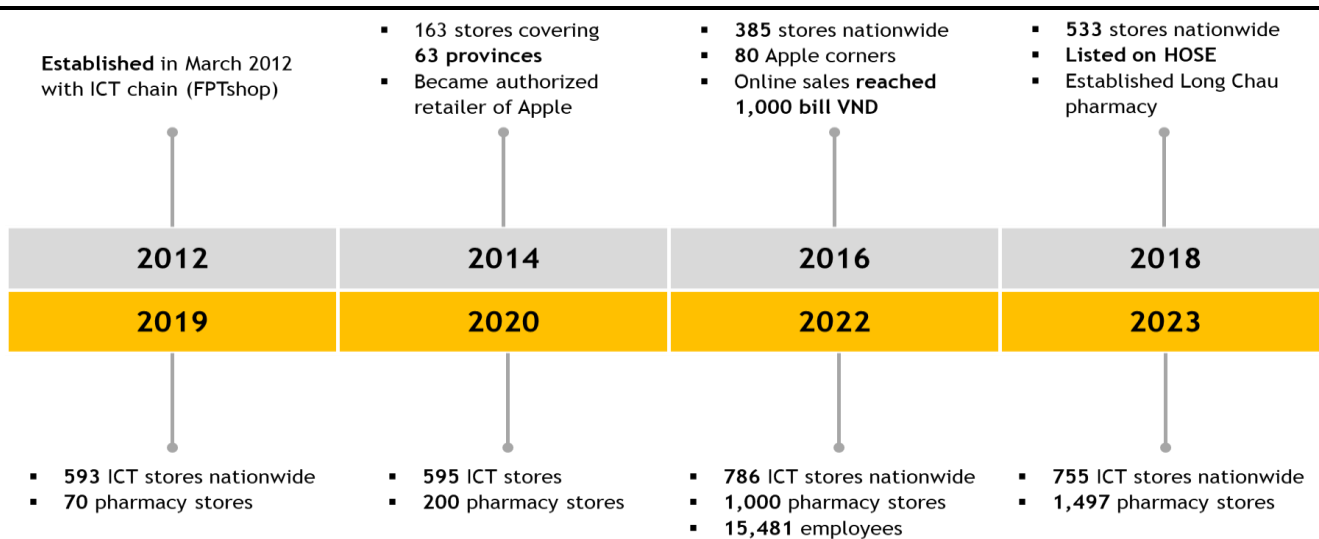
### Company overview

FRT is a subsidiary of FPT Corporation (FPT VN). It was founded in 2012 as an ICT retail chain named FPT Shop, and then added F.Studio - brand shops for Apple Authorized Reseller in 2014. FPT Shop ranks second in this segment, behind Mobile World (MWG VN).

Faced with intense competition and ongoing saturation of the ICT retail market, FRT found new growth in the retail pharmaceutical sector by acquiring Long Chau pharmacy chain in 2017. Following its aggressive expansion, Long Chau became the market leader, dominating the modern chain pharmacy segment nationwide.

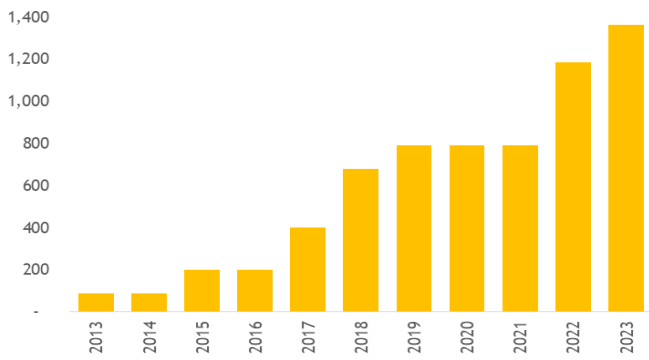
By Jun’24-end, FRT’s nationwide retail network comprised 642 FPT Shop stores and 1,706 Long Chau drug stores.

Fig 45: FRT’s key milestones



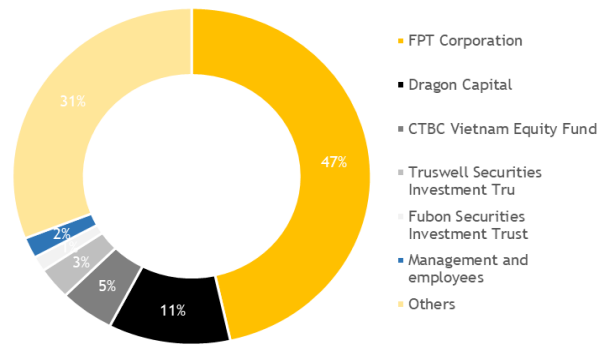
Source: Company, Maybank IBG Research

**Fig 46: FRT's charter capital (VNDb)**



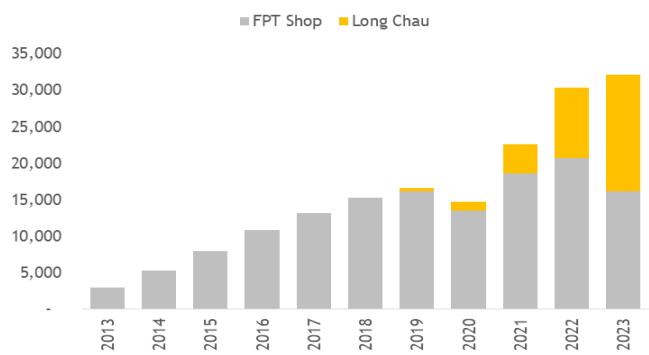
Source: Company, Maybank IBG Research

**Fig 47: Shareholder structure**



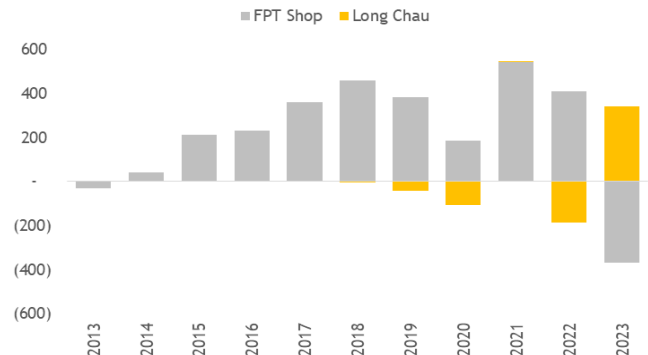
Source: Company, Maybank IBG Research

**Fig 48: Sales mix (VNDb)**



Source: Company, Maybank IBG Research

**Fig 49: EBIT structure (VNDb)**



Source: Company, Maybank IBG Research

Fig 50: Board of directors



**Ms. NGUYEN BACH DIEP**

Chairperson

Year of birth: 1972 - Education: Bachelor of Business Administration, HCMC (HCMC) Open University

Ms. Diep has been a steadfast companion to FPT Retail throughout its development, which has lasted more than a decade. Under her leadership, FPTShop has become the market's second-largest technology equipment retail chain, while FPT Long Chau has emerged as the leading pharmacy chain in Vietnam.



**Mr. HOANG TRUNG KIEN**

BOD member

Year of birth: 1978 - Education: Master of Business Information Systems, Free University of Brussels (Belgium)

With more than 22 years in FPT, Mr. Kien has held significant positions in multiple subsidiaries of the Corporation. Taking over his role in FPT Retail at the end of 2019, he is a core member of the leadership team that led FPT Retail through one of the most challenging periods, especially during the COVID-19 pandemic as well as the post-pandemic market volatility.



**Ms. TRINH HOA GIANG**

BOD member

Year of birth: 1971 - Education: Bachelor, Foreign Languages University (Vietnam National University); Bachelor of Economics, Trade University

Ms. Giang joined FPT Retail in 2003. With her strong vision, courage, and audacity, she is named "the female commander in the front line of exploring new lands", laying the foundation for the stable growth of FPT Retail. Currently, Ms. Giang holds the position of Deputy CEO of Sen Do Joint Stock Company.



**Mr. NGUYEN DAC VIET DUNG**

Independent BOD member

Year of birth: 1974 - Education: IT Engineer, Hanoi University of Science & Technology

Over 27 years after joining FPT, Mr. Dung has been a pioneer in key business activities of the Corporation and has contributed to the strong development of Vietnam's technology industry.

Mr. Nguyen Dac Viet Dung currently holds the positions of Chairperson of Sen Do Joint Stock Company and Chairperson of FPT Wallet Company Limited.



**Mr. LE HONG VIET**

Independent BOD member

Year of birth: 1981 - Education: Software Engineer, University of Sydney (Australia)

With nearly two decades of companionship, his solid professional background, and experience working in various countries worldwide, Mr. Viet has laid the foundation for the application and development of the latest technologies in FPT. Furthermore, he has spearheaded the expansion of a varied technology ecosystem, incorporating innovative technologies like Blockchain, Big Data, and Cloud across the Corporation. Presently, Mr. Viet serves as the CEO of FPT Smart Cloud Company Limited.

Source: Company

Fig 51: Board of management



**Mr. HOANG TRUNG KIEN**

Chief Executive Officer

Year of birth: 1978 - Education: Master of Business Information Systems, Free University of Brussels (Belgium)

With more than 22 years in FPT, Mr. Kien has held significant positions in multiple subsidiaries of the Corporation. Taking over his role in FPT Retail at the end of 2019, he is a core member of the leadership team that led FPT Retail through one of the most challenging periods, especially during the COVID-19 pandemic as well as the post-pandemic market volatility.



**Mr. NGUYEN VIET ANH**

Deputy CEO

Year of birth: 1977 - Education: Master of Business Administration in Marketing, National University of Singapore

After accumulating years of knowledge and experience in large domestic and foreign corporations, Mr. Viet Anh officially joined FPT Retail in 2016. He has positively contributed to FRT's business strategy and growth, achieving impressive results.



**Ms. NGUYEN DO QUYEN**

Chief Operating Officer (COO)

Year of birth: 1981 - Education: Bachelor of Finance and Banking, Banking Academy

From 2014 to 2018, Ms. Quyen was the operations director, liaising between the Board of Management (BOM) and the sales departments to enhance operational efficiency. She successfully spearheaded the "We Love FPTShop" project, elevating FPTShop's brand image and garnering significant acclaim among customers.

Since 2019, as COO, she has assumed additional responsibilities for product management and business development for the FPT Long Chau chain. Ms. Quyen has also played a pivotal role in the digital transformation journey at FPT Retail, serving as the Chief Digital Officer (CDO). Her contributions have led to numerous remarkable achievements, including the 2016 FPT's Trạng (the first winner of the Trạng FPT Competition) and Miss FPT 2018 awards.



**Mr. PHAM DUY HOANG NAM**

Chief Financial Officer (CFO)

Year of birth: 1990 - Education: Bachelor, National Economics University (Hanoi)

With years of experience working at Deloitte - the world's leading auditing firm - and the Accounting and Finance Department of FPT Corporation, Mr. Hoang Nam is one of FPT Retail's young leaders with solid expertise. After four years at FPT Retail, Mr. Hoang Nam has significantly improved the Company's financial performance.



**Mr. HOANG CAO CHUNG**

Human Resources Director (HRD)

Year of birth: 1986 - Education: Bachelor, Trade University

In the Top 13 winners of FPT Under 35 in the first season (2016), Mr. Chung represents FPT's dynamic, confident, and creative young generation. After two years at FPT Retail, Mr. Chung has made numerous positive contributions toward enhancing the Company's workforce quality.



**Mr. PHAM DANG KHOI**

Chief Technology Officer (CTO)

Year of birth: 1985 - Education: Bachelor of IT, HCMC University of Transport

Having joined FPT Software in 2014, with a wealth of experience and solid technological expertise, Mr. Khoi has led numerous large-scale projects in fiercely competitive markets like Japan and the Asia-Pacific region. Prior to joining FPT Retail, he spearheaded the technology team at FPT Software, collaborating with FPT Retail to establish OneTeam DX. This initiative successfully transitioned the entire operational system of the FPT Long Chau pharmacy chain to a new platform equipped with modern technology, thereby reducing customer service time. Mr. Khoi was honored as one of FPT's Top 100 outstanding individuals in 2017.

Source: Company

## Appendix I

Methodology of our proprietary ESG scoring.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	24.2	nm	141.8	47.3	32.8
Core P/E (x)	21.2	nm	141.8	47.3	32.8
P/BV (x)	4.1	9.1	12.6	10.0	8.0
P/NTA (x)	4.5	10.6	14.5	11.1	8.7
Net dividend yield (%)	0.8	0.0	0.0	0.0	0.6
FCF yield (%)	nm	nm	nm	0.3	5.4
EV/EBITDA (x)	17.5	132.3	34.6	22.5	17.3
EV/EBIT (x)	21.0	nm	57.5	30.8	21.9
<b>INCOME STATEMENT (VND b)</b>					
Revenue	30,165.8	31,849.6	39,511.4	48,319.7	54,823.9
EBITDA	668.1	156.1	820.6	1,271.4	1,606.5
Depreciation	(107.0)	(225.2)	(307.9)	(324.6)	(317.5)
Amortisation	(4.6)	(15.3)	(18.5)	(19.9)	(21.3)
EBIT	556.5	(84.5)	494.2	926.9	1,267.7
Net interest income / (exp)	(82.6)	(212.0)	(164.2)	(179.0)	(177.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	11.7	2.3	(22.1)	0.0	0.0
Pretax profit	485.6	(294.2)	307.8	747.9	1,089.8
Income tax	(86.7)	(35.0)	(80.2)	(149.6)	(218.0)
Minorities	(7.7)	(16.4)	(71.5)	(130.7)	(196.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	390.4	(345.6)	156.2	467.6	675.3
Core net profit	385.1	(345.6)	156.2	467.6	675.3
<b>BALANCE SHEET (VND b)</b>					
Cash & Short Term Investments	1,864.6	2,154.8	1,940.1	1,909.3	1,874.0
Accounts receivable	538.3	394.5	489.4	598.4	679.0
Inventory	6,484.0	8,426.9	9,285.2	10,388.7	10,690.7
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	677.0	1,079.5	1,091.6	967.0	771.5
Intangible assets	172.1	228.1	229.6	229.7	228.4
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	787.8	814.7	814.7	814.7	814.7
<b>Total assets</b>	<b>10,523.8</b>	<b>13,098.4</b>	<b>13,850.6</b>	<b>14,907.9</b>	<b>15,058.3</b>
ST interest bearing debt	5,363.3	8,108.3	7,946.1	7,787.2	6,619.1
Accounts payable	2,307.4	2,274.3	2,796.8	3,352.0	3,813.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	804.0	997.0	1,072.0	1,004.0	929.0
<b>Total Liabilities</b>	<b>8,474.5</b>	<b>11,379.3</b>	<b>11,814.8</b>	<b>12,143.1</b>	<b>11,361.2</b>
Shareholders Equity	2,008.2	1,599.3	1,755.4	2,223.1	2,762.1
Minority Interest	41.1	119.9	280.4	541.7	934.9
<b>Total shareholder equity</b>	<b>2,049.3</b>	<b>1,719.2</b>	<b>2,035.8</b>	<b>2,764.8</b>	<b>3,697.0</b>
<b>Total liabilities and equity</b>	<b>10,523.8</b>	<b>13,098.4</b>	<b>13,850.6</b>	<b>14,907.9</b>	<b>15,058.3</b>
<b>CASH FLOW (VND b)</b>					
Pretax profit	485.6	(294.2)	307.8	747.9	1,089.8
Depreciation & amortisation	111.6	240.6	326.4	344.5	338.8
Adj net interest (income)/exp	12.5	(16.5)	(72.6)	(67.9)	(68.7)
Change in working capital	(1,896.5)	(1,697.5)	(335.1)	(762.7)	(16.1)
Cash taxes paid	(135.4)	(0.1)	442.2	405.6	243.1
Other operating cash flow	(152.4)	(47.6)	0.0	0.0	0.0
Cash flow from operations	(1,575.3)	(1,818.6)	214.8	280.2	1,342.3
Capex	(454.0)	(705.2)	(340.0)	(220.0)	(142.0)
Free cash flow	(2,029.3)	(2,523.9)	(125.2)	60.2	1,200.3
Dividends paid	(39.5)	(59.2)	0.0	0.0	(136.2)
Equity raised / (purchased)	11.5	27.3	0.0	0.0	0.0
Change in Debt	(684.1)	2,744.9	(162.2)	(158.9)	(1,168.1)
Other invest/financing cash flow	2,365.7	50.1	145.3	135.8	137.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(375.7)	239.2	(142.1)	37.1	33.5

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	34.1	5.6	24.1	22.3	13.5
EBITDA growth	(3.0)	(76.6)	425.8	54.9	26.4
EBIT growth	12.5	nm	nm	87.6	36.8
Pretax growth	(12.4)	nm	nm	142.9	45.7
Reported net profit growth	(12.0)	nm	nm	199.4	44.4
Core net profit growth	(11.5)	nm	nm	199.4	44.4
<b>Profitability ratios (%)</b>					
EBITDA margin	2.2	0.5	2.1	2.6	2.9
EBIT margin	1.8	nm	1.3	1.9	2.3
Pretax profit margin	1.6	nm	0.8	1.5	2.0
Payout ratio	17.5	0.0	0.0	0.0	20.2
<b>DuPont analysis</b>					
Net profit margin (%)	1.3	nm	0.4	1.0	1.2
Revenue/Assets (x)	2.9	2.4	2.9	3.2	3.6
Assets/Equity (x)	5.2	8.2	7.9	6.7	5.5
ROAE (%)	21.5	(19.2)	9.3	23.5	27.1
ROAA (%)	3.6	(2.9)	1.2	3.3	4.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	62.4	74.9	75.6	66.9	61.5
Days receivable outstanding	14.8	5.3	4.0	4.1	4.2
Days inventory outstanding	80.7	100.6	100.2	91.5	86.8
Days payables outstanding	33.1	30.9	28.7	28.6	29.5
Dividend cover (x)	5.7	nm	nm	nm	5.0
Current ratio (x)	1.1	1.0	1.0	1.1	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.2	1.2	1.2	1.2	1.3
Net gearing (%) (incl perps)	170.7	346.3	295.0	212.6	128.3
Net gearing (%) (excl. perps)	170.7	346.3	295.0	212.6	128.3
Net interest cover (x)	6.7	na	3.0	5.2	7.1
Debt/EBITDA (x)	8.0	nm	9.7	6.1	4.1
Capex/revenue (%)	1.5	2.2	0.9	0.5	0.3
Net debt/ (net cash)	3,498.8	5,953.4	6,006.0	5,877.9	4,745.1

Source: Company; Maybank IBG Research

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