

FPT Retail (FRT VN)

Company Visit: Big bet on pharma

Not Rated

Current price: VND 47,900

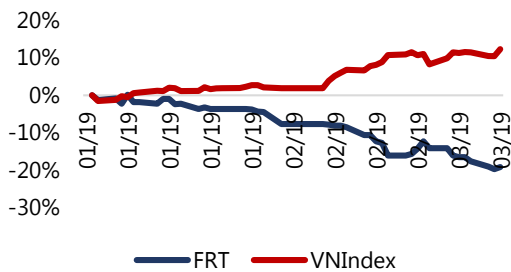
Target price: **N/A**

Upside: **N/A**

We attended FRT's annual general meeting on March 27. Although we do not see the digital segment as attractive given the maturity of the market, we appreciate management's efforts to boost sales. As a general statement, we like the pharmacy business, but we think it is too soon to assess the new operation's success.

52-week Price Range (VND)	Market Capitalization	FY18A Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3month
47,000-98,800	USD140.3mn	2.0%	0.04%	45%	USD35.6K

Price performance



Key Takeaways

- FRT is implementing numerous initiatives to boost growth in mobile phones and laptops.
- Accessories should be the main growth driver in the short run.
- FRT expects its pharmacy retail biz to drive long-term growth.

Risks

- Pharmacy retail business is a new business and its success remains uncertain.
- Telecom and digital categories may see negative same-store sales growth (SSSG).

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Company profile: FRT mainly operates as telecom and digital product retailer. Mobile phones account for 80% of sales. The company is the second largest retailer behind Mobile World (MWG VN, Not Rated) in the space with a network of 533 stores. Amid signs of slowing growth in its core industry, FRT is ramping up its pharmacy retail business as alternative growth driver.

FRT's FY18 results and FY19 guidance

VND Bn	FY18A	FY19 guidance	YoY growth
Total revenue	15,298	17,700	+16%
Mobile phones and laptops	14,700	16,200	+10%
Accessories	598	1,000	+67%
FPT Pharma	0	500	N/A
Profit after tax	348	418	+20%
ROA	7.5%		
ROE	36%		
PAT growth	+20%		
EPS growth	-19%		
P/E	14.1		
P/BV	4.2		

Source: FRT

Management is implementing numerous initiatives to boost growth of mobile phones and laptops. Given the market maturity and low (2% YoY) same-store sales growth in its core products, management is implementing various new programs to enhance sales. Notable plans include the ramp-up of the F-Friends and Subsidy programs, and accelerating Omni-channel development and credit sales. But despite its plan to open up to 100 new stores in FY19E, management only expects this segment's sales growth to reach 10% YoY.

Accessories should be the main growth driver this year. Management plans to source its accessories from China, which should help reduce purchasing prices and thus improve gross margin of this segment, which it guides at 48% this year vs. 38% for FY18A. The segment's GM is substantially higher than that of mobile phones (12%) and laptops (10%), so management expects this segment to contribute most of its FY19E earnings growth.

Retail pharmacy business : The next growth driver? For FY19E, management plans to expand its pharma network to 70 stores (vs the current 20), which it expects to generate VND500 bn of sales but a net loss of VND20 bn. Management expects the business to turn profitable from 2021. For 2022, management plans to operate a network of 700 stores generating VND 10 tn in sales and contributing up to 40% of company-wide sales.

Our view: We don't cover FRT and have no investment view on the stock. We appreciate FRT's management's efforts in trying new initiatives to enhance sales of mobile and laptop products, where the market is mature. The 10% growth guidance appears reasonable, but the 100-new-store plan could be aggressive and difficult to achieve. Accessories look more attractive, but the segment may only be a short-term driver for the next 2-3 years.

Thus, FRT's long-term growth would appear to depend heavily on the pharma biz. FRT's advantages vs the competition include a high number of stock keeping units (6,000, vs. 2K-3K for competitors), which could result in superior customer traffic. That said, it may be too early to have confidence in FRT's ability to achieve its targets for 2022.

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Ratings	Expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below 10%

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SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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