FPT RETAIL (FRT) – NOT- RATED NOTE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND64,000	N/A	3.1%	NOT RATED	RETAIL

Outlook – Short term	Outlook – Long term	Valuation
Not rated	Not rated	Not rated

15 February 2019
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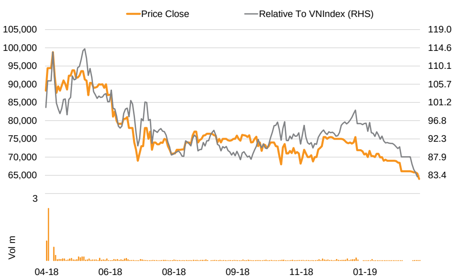
Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	98,818
52w low (VND)	62,100
3m Avg daily volume (shares)	26,970
3m Avg daily value (VNDmn)	1,952
Market cap (VNDbn)	4,454
Outstanding shares (m)	68
Free float (%)	37.9
TTM P/E (x)	12.9
Current P/B (x)	3.8

Ownership

FPT Corporation	47.0%
VOF Investment Limited	7.4%
Wareham Group Limited	3.8%
Others	41.8%

Source: VNDIRECT

FPT Retail (FRT) slightly undershot the FY2018 management target due to a slump in Apple product sales 4Q18.

Apple – sweet fruit turns sour. Given its ownership of the majority of Apple Premium Reseller (APR) stores in Vietnam, FRT has been realizing ~30% of total revenue from Apple products, which also exposed itself to the performance of Apple's products. Accordingly, in Q4, FRT could not maintain double-digit growth with top-line growth of 8.0% yoy and bottom-line growth of 4.9% yoy due to the struggling sales of the new iPhones and FRT's attempts to boost sales via price reductions and other promotion schemes. Cumulatively, FRT reported FY2018 net revenue of VND15,298bn (+16.1%, completing 95.5% of the annual target) and net profit of VND347.7bn (+20.0%, fulfilling 92.2% of the annual target).

FRT continued to extend its mobile handset retail footprint. With 58 new FPT Shop stores opened in 2018, FRT brought the total store count to 530 FPT Shop stores and 14 F. Studio stores. However, the store expansion has slowed down in 4Q18 with only net 7 new store openings and we expect this slowdown to persist into 2019, given the maturity of the mobile phone market in Vietnam and the growing dominance of FRT's main competitor, Mobile World Corp.

The pharmacy chain – Long Chau has not yet been consolidated into FRT. FRT officially entered the pharmaceutical market by acquiring a 75% stake in a new subsidiary, FPT Long Chau JSC, which has 100% ownership of Long Chau pharmacy chain (including 23 stores). However, the stores are yet to be legally brought under FPT corporate ownership and we expect the process to be completed by 1Q2019. Furthermore, the retailer also aims to launch 50 new stores in 2019, bringing the store count to 73 stores.

FRT is currently trading at a TTM P/E of 12.9x, a 1.6% discount to the global peer average global TTM P/E of 13.1x. We do not find this particularly attractive given the slow-down in FRT's mobile retail sales growth and also, given that the fragmented and competitive nature of the pharma retailing market in Vietnam implies that significant investment will be required to make Long Chau a new growth engine.

Financial summary (VND)	12-15A	12-16A	12-17A	12-18A
Net revenue (bn)	7,950	10,853	13,180	15,298
Revenue growth	50.5%	36.5%	21.4%	16.1%
Gross margin	14.2%	13.0%	13.8%	13.4%
EBITDA margin	2.9%	3.1%	3.4%	3.5%
Net profit (bn)	146	208	290	348
Net profit growth	255.4%	42.4%	39.7%	20.0%
Recurring profit growth	322.8%	35.2%	44.6%	20.5%
FD Basic EPS	2,143	3,052	4,263	5,114
FD Adjusted EPS	2,143	2,960	4,135	4,961
BVPS	4,587	7,578	11,714	16,673
ROAE	78.1%	50.2%	44.2%	36.0%

Source: VNDIRECT

Figure 1: Comparison of Financial Results

FYE (VNDbn)	4QFY17	4QFY18	% yoy	FY17	FY18	% yoy	Comments
Net revenue	**3,948.9**	**4,265.8**	**8.0%**	**13,179.7**	**15,298.3**	**16.1%**	* 58 new FPT Shop stores and full contribution of stores opened in 2017 * Further supported by F. Friends (1) and Telco price subsidy (TPS) sale programs (2)
Gross profit	**553.7**	**562.8**	**1.6%**	**1,816.3**	**2,043.6**	**12.5%**	
Gross profit margin	*14.0%*	*13.2%*	*-0.8% pts*	*13.8%*	*13.4%*	*-0.4% pts*	* Higher contribution from F. Friends and TPS programs at the expense of margin squeeze * Lower GPM from Apple products due to promotions to push up sales and clear inventory
Selling expenses	328.0	298.6	-9.0%	1,154.0	1,225.2	6.2%	
as % of revenue:	*8.3%*	*7.0%*	*-1.3% pts*	*8.8%*	*8.0%*	*-0.8% pts*	* Better cost control with staff cost slightly rose by 0.2% yoy while store count increased by 12.1%
G&A expenses	88.8	109.0	22.7%	300.3	357.9	19.2%	
as % of revenue:	*2.2%*	*2.6%*	*0.4% pts*	*2.3%*	*2.3%*	*0.0% pts*	
Pre-tax profit	**144.0**	**150.5**	**4.5%**	**363.1**	**434.8**	**19.7%**	
Net profit	**114.7**	**120.3**	**4.9%**	**289.9**	**347.7**	**20.0%**	
Net margin	**2.9%**	**2.8%**	*-0.1% pts*	**2.2%**	**2.3%**	*0.1% pts*	

(1) F. Friends refers to the installment payment sale scheme involving FRT and qualified customers (staff under companies in agreement with FRT)

(2) Telco Price Subsidy refers to the program supported by FRT and its mobile telecom partners where customers get discounts for their phone and data fee

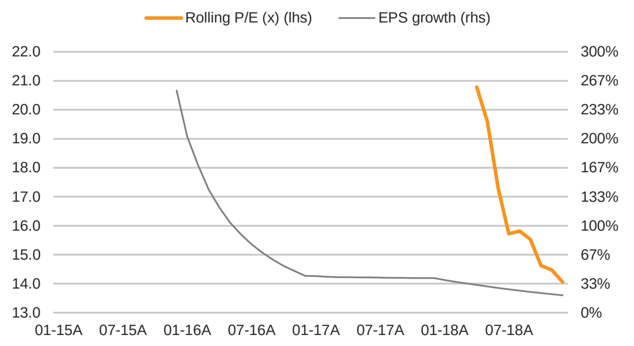
Source: FRT, VNDIRECT

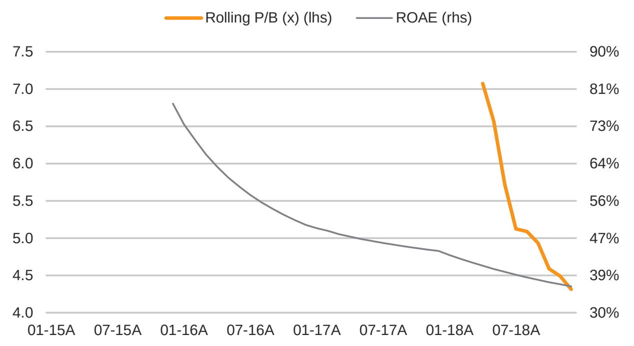
Figure 2: Peer Comparison

Company	Country	Market cap (USDmn)	TTM NPAT Growth (%)	TTM EPS growth (% YoY)	ROE(%)	ROA(%)	D/E (%)	TTM P/E (x)	P/B (x)
Mobile World Investment Corp	Vietnam	1,644	30.5	24.4	38.7	11.3	78.4	12.9	4.3
Challenger Technologies Ltd	Singapore	136	34.7	32.0	23.5	16.6	-	9.4	2.1
Com7 PCL	Thailand	637	55.5	50.0	37.1	14.7	72.8	23.5	7.9
Redington India Ltd	India	444	3.9	3.7	14.4	4.6	37.5	6.8	0.9
Average			***31.1***	***27.5***	***28.4***	***11.8***	***47.2***	***13.1***	***3.8***
Median			***32.6***	***28.2***	***30.3***	***13.0***	***55.1***	***11.1***	***3.2***
FRT	**Vietnam**	**188**	**20.0**	**20.0**	**35.0**	**7.5**	**168.3**	**12.9**	**3.8**

Source: BLOOMBERG, VNDIRECT

Valuation





Income statement

(VNDbn)	12-16A	12-17A	12-18A
Net revenue	10,853	13,180	15,298
Cost of sales	(9,443)	(11,363)	(13,255)
Gen & admin expenses	(243)	(300)	(358)
Selling expenses	(937)	(1,154)	(1,225)
Operating profit	**230**	**362**	**460**
Operating EBITDA	230	362	460
Depreciation and amortisation	**0**	**0**	**0**
Operating EBIT	**230**	**362**	**460**
Interest income	75	54	43
Financial expense	(75)	(82)	(101)
Net other income	30	29	32
Income from associates & JVs	0	0	0
Pre-tax profit	**259**	**363**	**435**
Tax expense	(52)	(73)	(87)
Minority interest	0	0	0
Net profit	**208**	**290**	**348**
Adj. net profit to ordinary	208	290	348
Ordinary dividends	0	0	(280)
Retained earnings	**208**	**290**	**68**

Balance sheet

(VNDbn)	12-16A	12-17A	12-18A
Cash and equivalents	1,458	638	1,069
Short term investments	0	0	4
Accounts receivables	865	1,016	1,274
Inventories	1,948	1,723	2,506
Other current assets	138	131	150
Total current assets	**4,409**	**3,509**	**5,002**
Fixed assets	2	46	46
Total investments	0	0	0
Other long-term assets	300	316	307
Total assets	**4,710**	**3,871**	**5,355**
Short-term debt	2,435	1,173	2,947
Accounts payable	1,428	1,499	706
Other current liabilities	333	403	543
Total current liabilities	**4,195**	**3,075**	**4,196**
Total long-term debt	0	0	0
Other liabilities	0	0	0
Share capital	200	400	680
Retained earnings reserve	315	396	454
Shareholders' equity	**515**	**796**	**1,134**
Minority interest	0	0	25
Total liabilities & equity	**4,710**	**3,871**	**5,355**

Cash flow statement

(VNDbn)	12-16A	12-17A	12-18A
Pretax profit	**259**	**363**	**435**
Depreciation & amortisation	2	1	1
Tax paid	(47)	(68)	(93)
Other adjustments	36	54	110
Change in working capital	**(9)**	**(172)**	**(1,822)**
Cash flow from operations	**241**	**179**	**(1,369)**
Capex	(96)	(52)	(0)
Proceeds from assets sales	0	0	0
Others	(232)	315	0
Other non-current assets changes	0	0	0
Cash flow from investing activities	**(327)**	**263**	**(0)**
New share issuance	0	0	0
Shares buyback	0	(0)	0
Net borrowings	753	(1,262)	1,774
Other financing cash flow	2	0	305
Dividends paid	0	0	(280)
Cash flow from financing activities	**755**	**(1,262)**	**1,799**
Cash and equivalents at beginning of period	789	1,458	638
Total cash generated	**669**	**(819)**	**431**
Cash and equivalents at the end of period	1,458	638	1,069

Key ratios

	12-16A	12-17A	12-18A
Dupont			
Net profit margin	1.9%	2.2%	2.3%
Asset turnover	2.96	3.07	3.32
ROAA	5.7%	6.8%	7.5%
Avg assets/avg equity	8.87	6.54	4.78
ROAE	50.2%	44.2%	36.0%
Efficiency			
Days account receivable	4.02	8.47	5.67
Days inventory	75.5	55.4	69.0
Days creditor	55.3	48.1	19.4
Fixed asset turnover	4,144	549	333
ROIC	7.0%	14.7%	8.5%
Liquidity			
Current ratio	1.05	1.14	1.19
Quick ratio	0.59	0.58	0.59
Cash ratio	0.35	0.21	0.26
Cash cycle	24.2	15.7	55.3
Growth rate (yoy)			
Revenue growth	36.5%	21.4%	16.1%
Operating profit growth	8.8%	57.4%	27.2%
Net profit growth	42.4%	39.7%	20.0%
EPS growth	42.4%	39.7%	20.0%
Share value			
Basic EPS (VND)	3,052	4,263	5,114
BVPS (VND)	7,578	11,714	16,673

Source: VNDIRECT

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Description:	Excellent	Very Good	Good	N/A	

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Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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