

Vietnam: Retail
22 April 2024
FRT VN
BUY
TP upside +18%
Close 19 Apr 2024

Price	VND 141,000
12M Target	VND 166,800
Previous Target	VND 100,600
Change	+66%

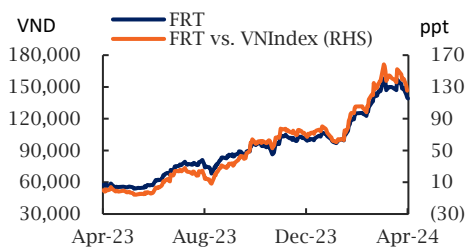
What's new?

- ▶ We revise up our forecasts for the pharmacy chain, which has persistently beat our expectation and those of the Street.
- ▶ We revise down our forecasts for the ICT&CE retail segment given the prolonged price war, which doesn't appear to be over.
- ▶ FRT plans to open 400 new pharmacies & 100 vaccination centers in 2024.
- ▶ The strategic partnership with IHH Singapore opens up the potential to widen the company's healthcare ecosystem.

Our view

- ▶ We believe Long Chau Pharmacy chain is on track to expand to 3,000 pharmacy outlets by end-2027E.
- ▶ The vaccination centers present upside risk for FRT's long-term business operations.
- ▶ Our long-term view on the ICT&CE retail segment has not changed: Consumer electronics remains challenging – But it won't go to zero.
- ▶ We increase our target price by +66% to VND 166,800 per share, implying 12-month TSR of 18%.
- ▶ We reiterate BUY on FRT.

Company profile: FPT Digital Retail (FRT) operates chain stores across Vietnam. Long Chau Pharmacy (50% of 2023 sales) has emerged as FRT's key growth driver, while the two legacy consumer electronics retail chains (half of 2023 sales) have gone ex-growth. FRT's new vaccination centers are still a minor business segment but have catalyzed further interest in the stock among domestic investors. FRT is 46.5% owned by [FPT Corp \(BUY\)](#).

Share price performance relative to VNI


Market cap	US\$760mn
6M avg. daily turnover	US\$3.0mn
Outstanding shares	136mn
Free float	40.0%
Total FINI ownership	49.0%
Major shareholders	60.3%
2023 Net debt / Equity	4.2x
EV/EBITDA	10.7x
2024E P/E	53.3x
Trading platform	HOSE
FOL Room	13.4%

Source: Fiinpro, Bloomberg, Yuanta Vietnam (*)

Financial outlook (VND bn)

Year to Dec (VNDbn)	2023A	2024E	2025E	2026E
Sales	31,849	37,953	47,265	56,285
Op. profit	(85)	424	593	717
Net profit	(346)	176	345	476
EPS (VND)	(2,537)	1,291	2,533	3,497
EPS chg (%)	-177%	-151%	96%	38%
P/E (x)	(55.2)	108.5	55.3	40.0
ROE (%)	-19.1%	10.2%	17.1%	19.9%
Div. yield (%)	0.0%	0.0%	0.7%	0.7%
DPS (VND)	-	-	1,000	1,000

Source: Fiinpro, Yuanta Vietnam

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FPT Retail (FRT VN)

The restless visionary

We continue to view Long Chau as the key growth driver, a view that has been widely adopted on the Street – which is understandable given Long Chau's clear leadership position among Vietnamese modern pharmacies. Long Chau plans to add 400 new pharmacies to reach c.1.9k stores by the end of 2024E. We expect double-digit sales growth (CAGR of 27%) in 2023E–2027E, with a total of 3,000 pharmacies by the end of 2027E.

Vaccination centers have emerged as a share price catalyst. Long Chau currently (Apr 19) runs a network of 58 vaccination clinics and targets 100 clinics by yearend. We assume this business will contribute c.4–5% of consolidated sales starting from 2025E, and this business represents 5% of our new fair value estimate for FRT. Given the lack of disclosure on this business, our assumptions for it are admittedly speculative in nature. As such, we provide sensitivities (page 10) illustrating how a range of possible results for the vaccination centers would affect our target price.

FRT continues to streamline its electronics retail networks by closing low-performance stores. However, we expect sales per store to improve by +5% YoY in 2024E & 2025E as household appliance product diversification helps to increase ticket size. Our long-term view on this segment has not changed: "Consumer electronics remains challenging – But it won't go to zero". We forecast tepid-but-positive ICT sales CAGR of 6% in 2023–27E, but we assume just 2% terminal growth in our valuation for this segment.

We reiterate BUY and increase our target price by +66% to VND166,800 per share, implying 12-month TSR of +18.3%. This target price is based on a sum-of-the-parts valuation approach that comprises the pharmacy / vaccination segment (77% of our fair value estimate) consumer electronics (23%). We have not factored in any value for the medical partnership with IHH, but investors could consider this as a free option.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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2023 – The rock bottom year...

.. But it was also the year that the pharmacy retail segment emerged as the key sales growth driver. The latter development was in line with our expectations, which at this point have become the Street consensus view, but the pharmacy chain's sales growth exceeded our expectations -- and those of the Street.

Long Chau's sales accelerated by +66% YoY to reach VND 15.8tn last year. This outstanding growth was driven by the stronger-than-expected expansion of the Long Chau Pharmacy footprint. Long Chau opened a net 560 pharmacies in 2023A, which was head-and-shoulders above the Street's expectation of 400-500 pharmacies.

Meanwhile, the electronics retail segment posted negative sales growth (-22% YoY to VND 16.1tn in 2023) amid reduced consumer discretionary spending due to the unfavorable economic conditions. Business operations were further impacted by the prolonged price war in ICT device retailing.

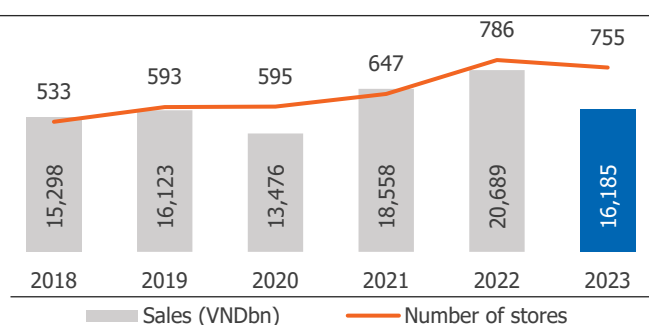
This segment's poor performance was widely flagged, and we suspect that few investors harbor many hopes for this segment to recover to growth mode. We tend to agree: this business is effectively ex-growth, in our view. Slow growth may fail to inspire much excitement, but that doesn't mean that the business is going to zero.

As such, FRT's consolidated sales were up by +5.6% YoY in 2023 to reach VND 31.9tn in 2023. However, full-year pre-tax losses came in at VND 329bn, down from pre-tax gains of VND 398bn in 2022. The negative PBT of 2023 was attributable to the increase in SG&A costs (+26.5% YoY in 2023) due in part to promotional activities to boost CE segment sales amid the ongoing price war.

Fig.1-2: Sales by segment

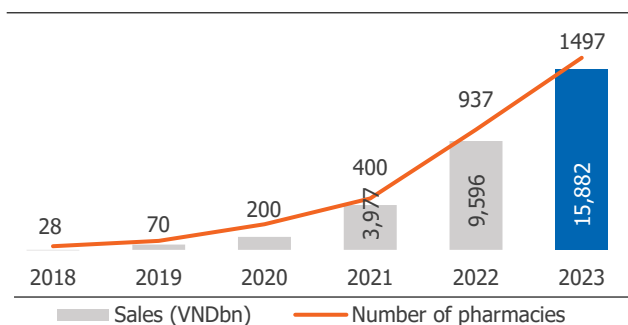
Electronics retail segment

2023 sales growth: ▼22% YoY
5-year CAGR: ▲1%



Pharmaceuticals retail segment

2023 sales growth: ▲66% YoY
5-year CAGR: ▲136%



Source: Company data, Yuanta Vietnam

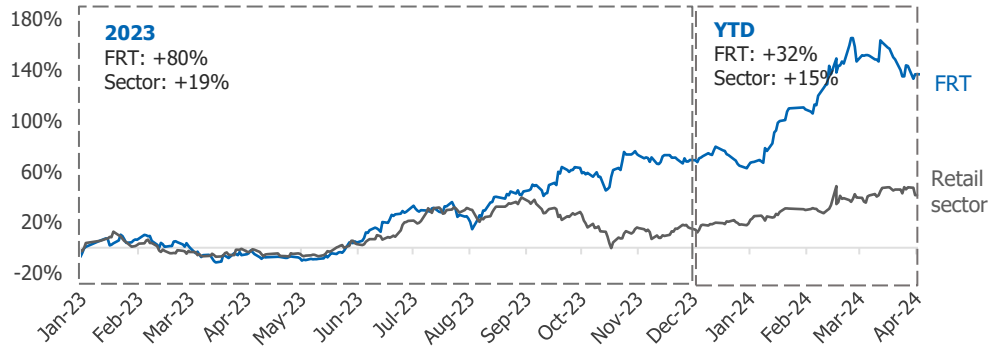
Despite the weak 2023 bottom line, FRT's share price has increased by +137% since January 1, 2023 and by +83% since our 17 Jul initiation. The share price reached our previous target price of VND 100,600 by end-2023, before charging on to a peak price of VND 158,000 (+48% from end-2023) on March 13. The ticker has since corrected by 12% from that March peak to the current level of VND 141,000 (+32% YTD as of Apr 19, 2023).

FRT has substantially outperformed the broader retail sector, which was up +19% in 2023 and has gained +15% YTD, according to FiinproX.

High expectations regarding the continuous expansion of the Long Chau Pharmacy chain has been a crucial reason for this rather astounding share price performance.

But we believe the stock has continued to gain as domestic investors envision the operational potential for its vaccination centers in the years ahead.

Fig.3: FRT's stock has dramatically outperformed the retail sector



Source: FiinproX (data as of Apr 19, 2024)

The long run story remains attractive

We re-iterate our BUY recommendation on FRT and increase our target price to VND 166,800 (+66% vs our previous target price), which implies 18.3% 12-month total shareholders returns.

This substantial increase in our target price is mainly driven by upward revisions for Long Chau Pharmacy as well as the inclusion of the potential of its newly launched vaccination centers.

These two chains contribute 77% of our valuation for FRT. This weighting is up from the 66% figure in our previous valuation estimate, which did not include any valuation for the vaccination centers and which was based on what we now believe to have been overly conservative operational assumptions for Long Chau Pharmacy.

The contribution of the consumer electronics retail segment decreases from the previous 34% to just 23% of our new SOTP valuation for FRT. This decline is intuitively obvious given the increased valuation weighting for Long Chau, but it also reflects our forecast cuts for the CE retail business, where we were previously too optimistic.

Key Assumptions behind our view:

1) **Long Chau Pharmacy will remain FRT's key growth driver** going forward.

We remain confident in the continued growth momentum of the pharmacy chain, and we have adjusted the number of pharmacies for FY2023 to 1,497 (from our previous conservative assumption of only 1,387 pharmacies in 2023E).

In 2024E–2027E, we assume that Long Chau will open 450 new pharmacies per year with sales per store to increase by +5% YoY per year. As such, we forecast this pharmaceuticals retail chain to post double-digit sales growth over the period (CAGR +27% in 2023–2027E).

2) **Our model now incorporates additional upside for Long Chau's newly launched vaccination centers.**

Our sense is that the share price has in part been driven by hopes for this business, so it makes sense to consider it when determining our target price for FRT. However, financial disclosure on the vaccination centers is extremely sparse so including it in our model necessarily involves a certain amount of speculation on our part.

Here's what we know of the numbers. There are 58 vaccination centers (as at Apr 19, 2024) located in 27 of Vietnam's 63 provinces. Management aims to increase this total to 100 centers by the end of the year.

Which takes us to the speculative component of our analysis. We assume this medical chain to contribute c.4–5% in consolidated sales starting from 2025E. We believe this assumption to be justified by the vaccination clinic network's current scale. However, it is admittedly somewhat subjective and not all readers will agree with our approach.

As such, please see pages 7 – 10 for a sensitivity table indicating how various bull & bear case outcomes for the vaccination clinic chain might impact our fair value and target price. The same section of this report also provides an overview of major vaccination services providers in Vietnam.

3) **We have cut our previously positive assumptions for the electronics retail segment to better reflect reality...**

Previously, we had expected that FPT Shop could overcome the pressure of the price war and would open another 30 outlets in 2H23. Unfortunately, we were wrong about that, as the company closed down a net 31 FPT Shop outlets in 2023. Specifically, FRT added 14 new stores in 1H23, but went on to closed 45 outlets in 2H23 under the pressure of the price war.

In 2024E, we expect the company to continue filtering out poorly performing stores. But we also expect sales per store to improve by +5% YoY, driven by product diversification, which might help to boost average ticket sizes.

...However, our long-term view on the electronics retail segment has not changed: “Consumer electronics segment remains challenging, but it won’t go to zero”. Consumer electronics retailing may be structurally ex-growth, but extrapolating recent performance as continuing in perpetuity would be a mistake.

We see cyclical upside from a) the full shutdown of 2G networks this year and 3G networks in 2026, and b) the typical replacement cycle as three years have passed since the 2021 COVID lockdowns. As such, we still expect this segment to post tepid CAGR sales growth in 2023–2027E of 6%.

Table.1: Forecast revisions

Unit: VNDbn	2023A	2024E forecasts				2025E forecasts			
		Old	New	New/old forecasts (%)	YoY growth (%)	Old	New	New/old forecasts (%)	YoY growth (%)
Sales	31,850	40,284	37,953	-5.8%	19.2%	47,648	45,465	-4.6%	19.8%
<i>FPT Shop</i>	16,185	20,304	16,657	-18.0%	2.9%	21,550	17,962	-16.6%	7.8%
<i>Long Chau</i>	15,882	19,980	21,296	6.6%	34.1%	26,098	27,503	5.4%	29.1%
Gross profits	5,161	6,973	7,025	0.7%	36.1%	8,566	9,006	5.1%	28.2%
Operating profits	(85)	542	424	-21.8%	599.4%	845	593	-29.9%	39.8%
Net profits	(346)	463	176	-62.0%	150.8%	740	345	-53.4%	96.2%
EPS (VND)	(2,537)	3,400	1,291	-62.0%	150.9%	5,432	2,533	-53.4%	96.2%

Source: Yuanta Vietnam

Another promising chapter in the long-term story is not incorporated in our fair value estimate – consider it a free option. We refer here to FRT’s recent strategic partnership with Singapore’s largest healthcare provider, IHH.

We believe that this partnership could open up the potential of a new -- and very attractive -- business segment in the long run. The announcement of the deal was another factor driving interest in FRT’s stock among domestic retail investors, in our view.

Given that we have already included speculative upside for Long Chau’s vaccination centers in our fair value estimate, we are ignoring the IHH tie-up in our model. As such, this partnership effectively represents a free call option for investors.

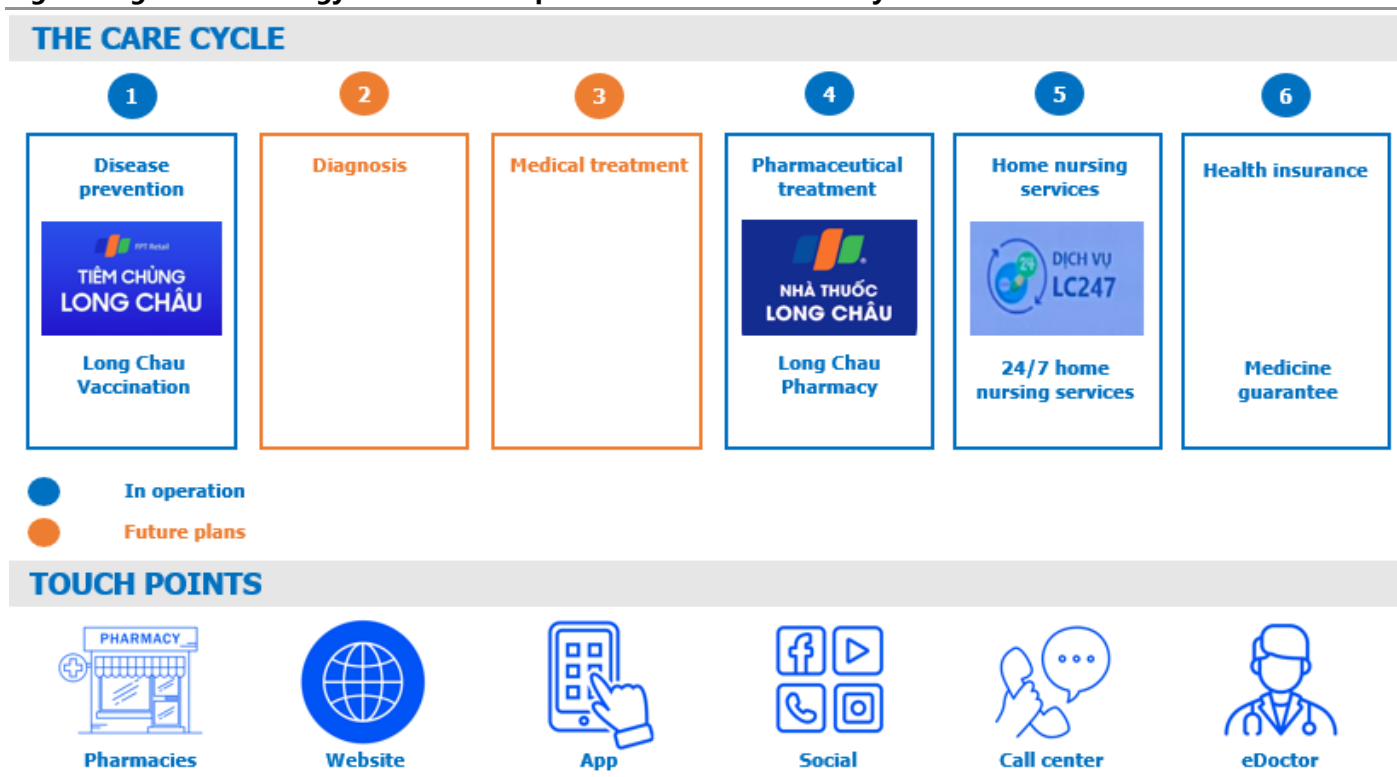
This approach (i.e., ignoring the IHH partnership) may likewise turn out to be too conservative given the attractive growth potential of Vietnam’s private healthcare industry.

Notably, the sector has attracted substantial FDI inflows, especially from Singapore. The three listed largest healthcare service providers in Singapore are all reportedly looking at Vietnam as among the region’s markets with the greatest potential in healthcare. Recent partnerships between these groups and Vietnamese hospitals and pharmacy retail chains include the following:

- ▶ **Raffles Medical (BSL SP – Not rated)** entered into a strategic partnership and management agreement with AIH Hospital (Vietnam) in Oct 2023.
- ▶ **Thomson medical (A50 SP – Not rated)** paid US\$ 381 million to acquire shares in FV Hospital, a private and 100% foreign-owned hospital in Vietnam. This was the largest hospital acquisition deal in Vietnam’s history.
- ▶ **IHH Healthcare (QOF SP – Not rated)** signed a strategic partnership with FPT Long Chau on 29 Jan, 2024, which aims to provide the most advanced healthcare treatments to Vietnamese patients at a reasonable price. This event is also one of the reason why FRT’s share price has outperformed so strongly in the last few months.

This partnership between IHH Healthcare and Long Chau opens up a great opportunity for the latter entity to complete its healthcare ecosystem in Vietnam. A new segment might be launched once they finish the market learning stage, potentially offering further upside for the share price in the long run.

Fig.4: Long Chau’s strategy to build a comprehensive healthcare ecosystem



Source: Company data

Vaccinations: A new promising segment

Vietnam EPI (*)

Introduced in 1981 and supported by the WHO and UNICEF, the EPI provides vaccines against 11 popular and preventable diseases for children.

The main purpose is to maintain the vaccination rate for under 1-year old children at over 90%, especially in mountainous and remote areas.










Before 2017, almost Vietnamese children relied on the State-implemented Expanded Program on Immunization (EPI) (*), in which vaccines are provided free of charge at public vaccination rooms.

However, public vaccine supply shortages (caused by limited production capacity of manufacturers and/or prolonged bidding procedures) has led to the rise of the private vaccination industry since 2017. This is understandable: When public supply shortages can disrupt children's vaccination schedules, parents are highly willing to pay extra fees for on-time vaccinations from private sector providers, rather than simply waiting for vaccines to be resupplied at government facilities.

The national data indicate that demand for private sector vaccination services is increasing and there is still plenty of room for further growth. The number of doses administered at private vaccination centers has increased from 3–4 million doses in 2014 (10% of total vaccinations in Vietnam that year) to 10 million doses in 2023 (30% of total doses).

The three main players in the industry are Vietnam Vaccine JSC (VNVC); Nhi Dong 315; and FPT Long Chau, the latest major new player. The figure below provides operational overviews and comparisons among these three chains.

Table.2: Comparison of major vaccination services providers in Vietnam

	Vietnam Vaccine JSC	Nhi Dong 315	FPT Long Chau
			
Establishment	Jun 2017	Jun 2019	Jul 2023
Number of clinics (as of Mar 2024)	150+	50+	50+
Coverage area	Nationwide	Mainly located in HCMC and surrounding areas	25 of the 63 provinces
Target customers	Adults and Kids	Kids (0–15 years old) and Expectant mothers	Adults and Kids
Scale of clinic			
Price ranges			
Advantages	<ul style="list-style-type: none"> ✓ Strategic partnerships in place with various reputable vaccine providers. ✓ A strong and positive reputation. ✓ Spacious clinics. 	<ul style="list-style-type: none"> ✓ Specializing in child and maternal health. ✓ Nhi Dong 315 also runs a comprehensive pediatric care system, with 130+ pediatric clinics nationwide currently and plans to expand this to 250 clinics going forward. 	<ul style="list-style-type: none"> ✓ Largest modern pharmacy chain in Vietnam bolsters Long Chau's brand recognition and offers a one-stop shop approach. ✓ Attracting more customers through loyalty programs, with current membership of 15 million individuals.

			✓ Backing by Vietnam's leading IT Group – FPT Corp – supports its digitalization efforts.
Disadvantages	<ul style="list-style-type: none"> × Vaccines and service prices are generally more expensive compared to other chains. 	<ul style="list-style-type: none"> × Network coverage is still low (mainly in HCMC and surrounding areas). × Limited customer targeting 	<ul style="list-style-type: none"> × Relatively small-sized clinics × Limited adjacent parking. × Recent entry means it needs time to build consumer trust.

Source: Yuanta Vietnam

Long Chau's vaccination service is fully functional and easy to approach for customers. In our view, the key factors that drive customers to utilize private vaccination services are --

- (1) Convenience,
- (2) The need for on-time vaccination (which the public vaccination system doesn't always fulfill), and
- (3) Trust in the brand (i.e., doctor professionalism & vaccine quality).

On the other hand, the relatively small size of Long Chau's clinics could be considered a drawback for this business, although it's unclear how much clinic size is deciding factor for customers when choosing where to get vaccinated. Moreover, each clinic is fully equipped and must ensure regulatory compliance on vaccination centers (i.e., Decree 104/2016/NĐ-CP).

Perhaps a bigger challenge is based on the recency of the company's entrance into this market. Being a new player means that Long Chau does not have the widest footprint coverage in the nation, and it may take time to build up trust among customers.

However, we believe that Long Chau's strong pharmacy brand recognition and the group's leading foundation in technology should support confidence in this business going forward.

As such, we are optimistic regarding the possibilities for Long Chau's vaccination services. We believe that despite not being the first mover, it has the potential to become the largest vaccination chain in Vietnam, just as it has achieved with the pharmacy chain.

Fig.5: Number of pharmacies

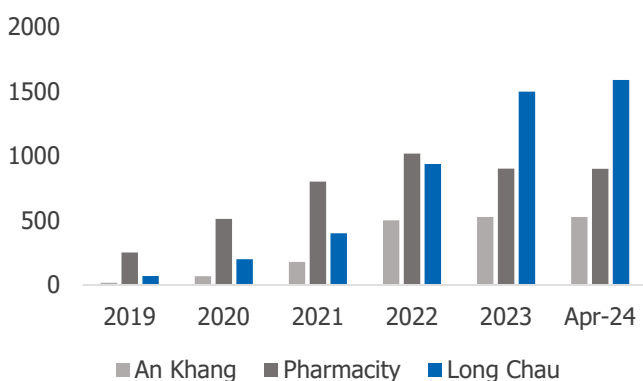
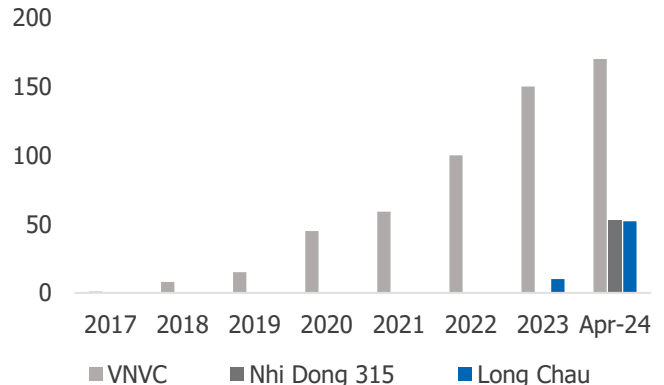
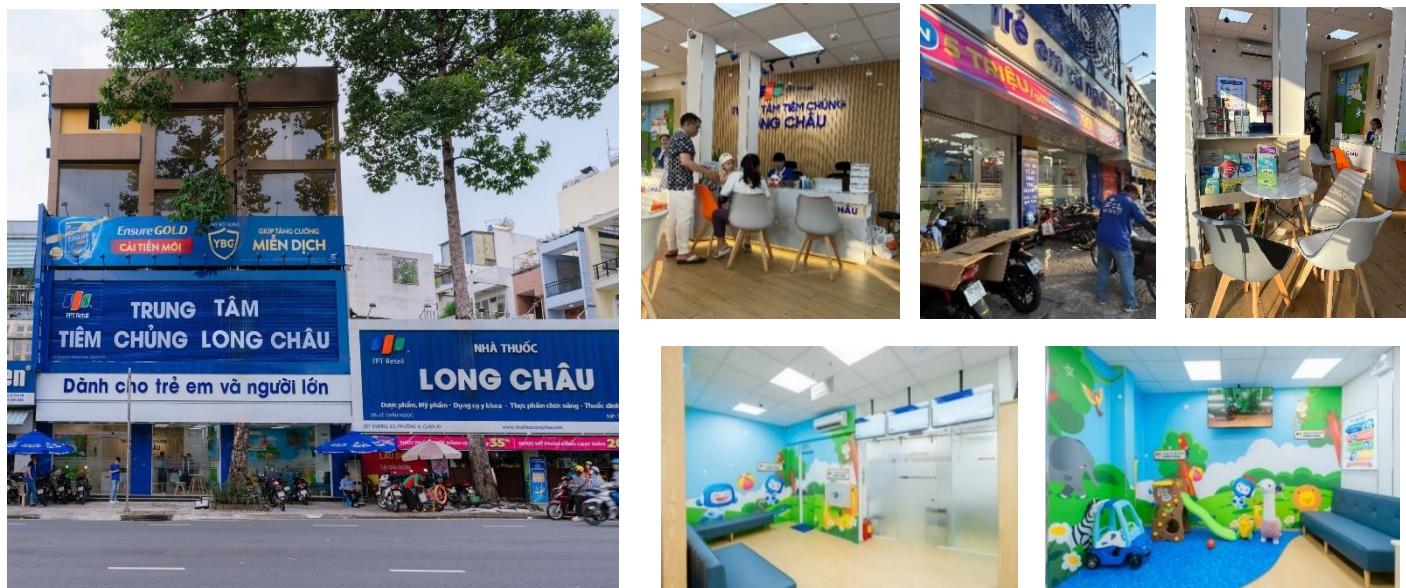


Fig.6: Number of vaccination clinics



Below are a few pictures of Long Chau's vaccination centers in Ho Chi Minh City. Naturally, we were careful not to intrude on the customers in these photographs, and this is especially true of children in the clinic playrooms. However, please be assured that business appeared to be brisk during our visits in late March / early April.

Fig.7: One of vaccination rooms of FPT Long Chau in HCMC



Long Chau vaccination center (left) and Long Chau Pharmacy (right)

Source: Yuanta Vietnam compiled

In our observation, the clinic was clean and hygienic but the space is a bit small compared to the main competitor chain. The staff -- including vaccination consultants, the nurses and even the security guards -- were all very nice and welcoming to customers.

We asked for a brief consultation, and the consultant seems to be well-versed (i.e., trained) on the company's products and services. She tried to persuade us to buy a vaccine package instead of buying a single dose. But we feel comfortable with that approach given the win-win scenario she gave us.

For example, buying a specific vaccine package at Long Chau will offer more promotions as well as lower prices (compared to that of the leading player), and the vaccines purchased are held for subsequent doses for the individual customer. In addition, customers are able to earn points after buying vaccines. The points can be used to pay for medicinal products at Long Chau Pharmacy.

Post-vaccination services are also a plus, in our experience. After getting vaccinated, customers are required to stay for 30 minutes to monitor for immediate side effects. This is usual at any vaccination rooms. We didn't actually purchase any vaccines, but according to actual customers with whom we spoke, the staff provide good care services to them (and their children) even after they return home, by calling directly and providing instructions to clients if any complications are noticed.

Our forecasts for this business are admittedly speculative in nature. As stated previously, the company has not yet made any official financial disclosures related to the vaccination chain. Publicly available figures for the entire industry are likewise rather limited.

As such, our financial assumptions for Long Chau's vaccination centers are based on a comparison of the chain's current scale and customer service capabilities with that of the market leader, VNVC, in its initial year of establishment.

According to our observations, VNVC's clinic sizes are wide-ranging (200–3,000 square meters), whereas Long Chau's clinics range around 100–200m² in size. As such, we believe it appropriate to assume that Long Chau's customer service capabilities at each clinic are less than those of VNVC.

VNVC posted revenues-per-clinic of VND3–5bn per month in its very first year of operations (2017–2018). In our base case, we assume that Long Chau will have 150 clinics recording average monthly revenues of VND1.0bn per clinic in 2025E, or around c.25% of VNVC's per-clinic sales in Year 1 of its operations.

These assumptions result in forecast vaccination clinic revenues of VND1,800bn in 2025E, resulting in 6.5% of sales for the overall Long Chau segment and 3.8% of consolidated sales for FRT. In addition, we assume that vaccination sales will grow by 47% YoY in 2026E, reaching 7.7% of Long Chau's revenues and 4.7% of FRT's revenues.

We think that base-case assumptions for sales are conservative. FRT targets a network of 100 vaccination centers by end-2024E, suggesting the potential to exceed 150 clinics in 2025E. In addition, we think that average revenues per clinic could exceed what VNVC delivered in Year 1 despite Long Chau's lesser floor space, given increased middle class spending power as well as vaccine awareness. These factors likely present upside risk for sales at this business.

Lack of disclosure means that our base case assumptions for vaccination services are admittedly speculative in nature. Thus, we present the following sensitivity analysis, as an attempt to illustrate how various bull/bear sales outcomes in 2025E in terms of 1) the number of clinics opened and 2) revenues-per-clinic might impact our target price.

Table 3. FRT Fair Value Sensitivities – Vaccine Clinic Revenues in 2025E

		Number of clinics				
		50	100	150	200	250
Revenues per clinic (VNDbn)	-	158,800	158,800	158,800	158,800	158,800
	0.5	160,100	161,500	162,800	164,100	165,400
	1.0	161,500	164,100	166,800	169,400	172,000
	1.5	162,800	166,800	170,700	174,700	178,600
	2.0	164,100	169,400	174,700	180,000	185,200
Revenues per clinic (VNDbn)		Number of clinics				
		50	100	150	200	250
Revenues per clinic (VNDbn)	-	-4.8%	-4.8%	-4.8%	-4.8%	-4.8%
	0.5	-4.0%	-3.2%	-2.4%	-1.6%	-0.8%
	1.0	-3.2%	-1.6%	0.0%	1.6%	3.1%
	1.5	-2.4%	0.0%	2.3%	4.7%	7.1%
	2.0	-1.6%	1.6%	4.7%	7.9%	11.0%

Source: Yuanta Vietnam

But again, this table assumes no difference in gross margin for this business from that of the Group. This may be unsatisfactory to purists, but Long Chau Pharmacy's gross margin is likewise undisclosed.

As discussed below, our estimated fair value for the Long Chau segment (the pharmacy chain and vaccination centers) is based on a 2025E price-to-sales multiple of 0.6x.

In any case, investors who don't believe in the vaccination story and/or wish to avoid the uncertainty regarding this business might consider valuing it at a flat zero. The vaccination business represents roughly 5% of our fair value estimate for FRT.

Stripping out this business entirely from our estimated fair value for the Long Chau segment would result in a target price of VND158,800 for FRT. This still implies +13% upside from the closing price of April 19.

Valuation and risks

Our target price of VND 166,800 per share implies 12-month TSR of 18.3%. This target price is based on a sum-of-the-parts valuation approach that comprises the consumer electronics (23% of our fair value estimate) and pharmacy operations (77%).

Table.4: Increasing our target price by +66%

Valuation summary (VND bn)	
Electronics retail segment	
FCFE-based valuation	5,137
Pharmaceuticals retail segment	
2025E sales	29,303
Target P/S	0.6
Company value	17,582
Total equity value	22,719
Number of shares	136,242,389
Target price (VND)	166,800

Source: Yuanta Vietnam

- 1) **We value the electronics retail segment using a two-stage FCFF model**, as financial disclosure is sufficient for us to use this (preferred) methodology. Our assumptions:

WACC of 8.6%, based on 4.7% risk-free rate, 8.5% risk premium, and Beta of 1.2.

Terminal growth of 2.0%, which is appropriately below long-term GDP growth given our view that this is an ex-growth business.

Table.5: FCFF valuation

Free cash flow to firm (FCFF)	FY2023A	FY2024E	F2025E	FY2026E
Net income	(475)	50	146	171
(+) D&A	-	33	35	38
(-) CAPEX	(221)	29	(86)	(81)
(-) Change in NWC	(1,377)	1,214	(56)	382
FCFF	(2,074)	1,327	39	511
Present value	(2,074)	1,250	34	408
1st stage	3,068	WACC		8.6%
Terminal value	5,150	Terminal growth		2.0%
Total equity value	5,137			

Source: Yuanta Vietnam

- 2) **We apply a forward P/S multiple to value Long Chau**. Financial disclosures at the pharmaceutical retail chain are less detailed than those of the ICT business, and this is even more true for the vaccination services chain. Thus, as much as we would prefer to engage in a DCF valuation, doing so would be even more assumption-dependent than usual.

As such, we adopt a simplified approach and apply a 2025E price-to-sales multiple to value this segment, using regional comparable multiples as a reality check. In our new valuation, we have increased our 2025E P/S multiple to 0.6x (from the previous assumption of 0.5x).

Admittedly, this is a rough approach to fundamental valuation and including the vaccination business makes it even more speculative. However, we think our

multiple is at least conservative given that regional peers trade at a median 2025E P/S of 0.9x (source: Bloomberg).

Arguably, Long Chau merits a premium to industry players in the region given its current scale as the No.1 player in Vietnam's modern pharma industry and its very attractive growth trajectory. As stated, we forecast Long Chau to post revenue CAGR of +27% for 2023–2027E, which is higher than the Street forecast for regional peers of +12% CAGR in the same four-year period.

Table.6: Long Chau vs. regional peers

Ticker	Company name	2023 sales (USDmn)	2023–2027E CAGR (%)	2024E P/S	2025E P/S
MEDPLUS IN Equity	MEDPLUS HEALTH SERVICES LTD	568	19%	1.4	1.2
6469 TT Equity	GREAT TREE PHARMACY CO LTD	518	N/A	1.7	1.5
603883 CH Equity	LAOBAIXING	3,000	14%	0.8	0.7
603939 CH Equity	YIFENG	2,957	16%	1.8	1.5
RRHI PM Equity	ROBINSON RETAIL HOLDINGS	3,454	7%	0.3	0.2
002727 CH Equity	YIXINGTANG	2,592	6%	0.7	0.6
Median		2,775	12%	1.1	0.9

Source: Yuanta Vietnam, Bloomberg

Risks to our view

- 1) **Prolonged macro gloom.** Vietnam posted 1Q24 GDP growth of 5.7%, the highest level compared to the same period of 2020–2023. We expect consumer confidence to rebound at least starting from 2H24, which shall help to boost demand for discretionary items. However, if consumer sentiment continues to slump, this will impact on the demand for discretionary consumption.
- 2) **Risks related to our valuation model.** A slower-than-expected expansion rate or sales growth at Long Chau Pharmacy is the key downside risk to our fair value estimate for FRT. Also, revenue-generating capability at Long Chau's vaccination centers going forward could be a secondary risk to our valuation estimate.
- 3) **Brand protection is also critical for Long Chau.** As discussed, FRT must persistently work to foster a culture of compliance and service excellence among its pharmacy employees. This task will become increasingly complex as the number of pharmacies and employees grows in the years ahead.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Revenue	30,166	31,849	37,953	47,265	56,285
Retail	20,689	16,185	16,657	17,962	19,357
Wholesales	9,596	15,882	21,296	27,503	34,288
Gold bar	(25,463)	(26,688)	(30,928)	(38,259)	(45,342)
Others	4,703	5,161	7,025	9,006	10,943
Cost of goods sold	(4,147)	(5,246)	(6,601)	(8,413)	(10,226)
Gross profits	557	(85)	424	593	717
Operating expenses	174	80	96	119	142
Operating profits	(256)	(292)	(278)	(253)	(231)
Net interest expenses	(232)	(285)	(278)	(253)	(231)
Net investments income/(loss)	-	-	-	-	-
Net other incomes	12	2	3	3	4
Pretax profits	486	(295)	244	462	632
Income taxes	(88)	(35)	(49)	(92)	(126)
Minority interests	8	16	20	24	29
Net profits	390	(346)	176	345	476
EBITDA	683	151	510	694	828
EPS (VND)	3,295	(2,537)	1,291	2,533	3,497

KEY RATIOS					
	2022A	2023A	2024E	2025E	2026E
Growth (% YoY)					
Sales	34.1%	5.6%	19.2%	24.5%	19.1%
Retail	11.5%	-21.8%	2.9%	7.8%	7.8%
Wholesales	141.3%	65.5%	34.1%	29.1%	24.7%
Gold bar	12.5%	-115.2%	-601.8%	39.8%	20.9%
Others	19.0%	-77.9%	237.8%	36.1%	19.4%
Operating profit	-12.0%	-188.5%	-150.9%	96.2%	38.1%
EBITDA	-12.0%	-177.0%	-150.9%	96.2%	38.1%
Net profit					
EPS (VND)	15.6%	16.2%	18.5%	19.1%	19.4%
Profitability ratio (%)					
Gross margin	2.3%	0.5%	1.3%	1.5%	1.5%
Operating margin	1.3%	-1.1%	0.5%	0.7%	0.8%
EBITDA margin	19.4%	-19.1%	10.2%	17.1%	19.9%
Net margin	3.8%	-2.5%	1.4%	2.4%	3.0%
ROA	34.1%	5.6%	19.2%	24.5%	19.1%
ROE	11.5%	-21.8%	2.9%	7.8%	7.8%
Liquidity					
Current ratio (x)	1.1	1.0	1.0	1.0	1.0
Quick ratio (x)	0.3	0.3	0.3	0.3	0.3
Stability					
Net debt/Equity (x)	2.3	4.2	3.4	3.3	2.6
Int. coverage (x)	2.5	-0.3	1.5	2.3	3.1
Int. & ST debt coverage (x)	0.1	(0.0)	0.1	0.1	0.1
Cash conversion days	55	77	74	57	47
Net cash / (debt) (VNDbn)	(4,618)	(3,651)	(5,305)	(4,574)	(4,573)
Efficiency					
Days receivable outstanding	1	1	2	2	2
Days inventory outstanding	82	102	100	85	75
Days payable outstanding	28	26	28	30	30

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Total assets	10,524	13,098	14,384	15,563	16,665
Cash & cash equivalents	746	961	1,248	624	643
ST Investment	1,119	1,194	1,423	1,772	2,110
Accounts receivable	538	394	610	626	863
Inventories	6,484	8,427	8,434	9,295	9,244
Other current assets	440	439	523	652	776
Net fixed assets	847	1,308	1,699	2,037	2,365
Others	350	376	447	557	663
Total liabilities	8,474	11,379	12,466	13,401	14,129
Current liabilities	8,474	11,379	12,465	13,400	14,128
Accounts payable	2,307	2,274	3,549	4,221	5,031
ST debts	5,363	8,108	7,730	7,701	7,336
Others	804	996	1,187	1,478	1,760
Long-term liabilities	0	1	1	1	1
Long-term debts	0	0	0	0	0
Others	0	1	1	1	1
Shareholder's equity	2,049	1,719	1,918	2,162	2,536
Share capital	1,185	1,362	1,362	1,362	1,362
Treasury stocks	-	-	-	-	-
Others	41	120	143	178	212
Retained earnings	824	237	413	621	962

CASH FLOW (VND bn)					
FY (VND'bn)	2022A	2023A	2024E	2025E	2026E
Operating cash flow	(1,470)	(1,768)	2,415	1,625	1,964
Net income	486	(294)	244	462	632
Dep. & amortization	115	233	86	101	111
Change in working capital	(2,266)	(2,177)	671	(634)	187
Others	194	470	1,414	1,697	1,034
Investment cash flow	1,823	(730)	(1,749)	(2,221)	(1,580)
Net capex	(383)	(404)	(352)	(337)	(327)
Change in LT investment	2,222	(35)	(229)	(349)	(338)
Change in other assets	157	69	(122)	(186)	(180)
Cash flow after invt.	(173)	(359)	(1,047)	(1,349)	(735)
Financing cash flow	(712)	2,713	(379)	(29)	(365)
Change in share capital	11	27	-	-	-
Net change in debt	(684)	2,745	(379)	(29)	(365)
Change in other LT liab.	(39)	(59)	-	-	-
Net change in cash flow	(360)	215	287	(624)	20
Beginning cash flow	1,105	746	961	1,248	624
Ending Cash Balance	746	961	1,248	624	643

KEY METRICS					
	2022A	2023A	2024E	2025E	2026E
PE (x)	42.5	-55.2	108.5	55.3	40.0
Diluted PE (x)	42.5	-55.2	108.5	55.3	40.0
PB (x)	8.1	11.1	9.9	8.8	7.5
EBITDA/share	5,769	1,108	3,742	5,091	6,078
DPS	500	-	-	1,000	1,000
Dividend yield (%)	0.4%	0.0%	0.0%	0.7%	0.7%
EV/EBITDA (x)	32.5	-303.9	60.3	44.1	36.0
EV/EBIT (x)	32.5	32.5	-303.9	60.3	44.1

Appendix A: Important Disclosures

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