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FPT Retail (FRT)

Aiming to triple Long Chau's topline in 2020E

Guiding 14% sales drop for *FPTshop* as ICT slows but aiming to triple sales at *Long Chau*

— Shareholders approved FPT's 2020E guidance for a 21% drop in pretax profit to VND220 billion on a slower revenue forecast that could fall by 8% to VND15,320 billion. Specifically, the revenue outlook at *FPTshop* fell to VND 13,820 billion or down 14% YoY but management is hoping to triple revenue at the *Long Chau* pharmaceutical chain to VND1,500 billion this year. Strategies management will implement in 2020E to improve revenue growth include: 1) boosting online sales; 2) improving the conversion rate of in-store customers making purchases and raising the average value per invoice of these purchases; and 3) expanding the customer base from business partners such as Mobifone, FPT University or FPT Telecom. Management also targets VND1,000 billion in sales for high-margin accessories and a 25% improvement in productivity to optimize store operating costs by transferring personnel from associated company FPT Corporation (FPT) to implement new technology platforms. For the *Long Chau* pharmaceutical chain, the company plans to open 150 new stores in 2020 vs 70 locations at the end of 2019 and develop private-label products. FRT will also pay up to VND1,500 per share in cash dividends for 2020 earnings.

Breakeven for Long Chau by 2022E after sales reach VND4,500 billion

— Management will continue to focus on expanding the *Long Chau* pharmaceutical chain to compensate for slowing traffic at the *FPTshop* as the demand for ICT products hits maturity. The company remains committed to expanding nationwide coverage to 220 locations this year that slowed to only 112 locations as of May due to the coronavirus but will accelerate new store openings in the upcoming months to meet this objective. The company will also focus on expanding its product mix, especially for private label products such as supplements, cosmetics and medical supplies. FRT expects revenue to triple to VND1,500 billion in 2020E from 2019's VND500 billion before *Long Chau* reaches a breakeven level of sales estimated at VND4,500 billion by 2022E.

Management warning of 15%–20% QoQ drop in 2Q revenue due to the coronavirus

— Management warned that 2Q sales could be down 15%–20% QoQ, which implies VND3,270–VND3,480 billion or down 13%–18% YoY vs 1Q sales that were only up 2% YoY. Total store closures were 170 *FPTshops* in April or about a third of all stores in the chain and all *Long Chau* locations remained open. All *FPTshops* stores reopened in May but spending remains weak, with *Long Chau* stores benefitting more from the shift in purchasing patterns from customers to basic necessities and health products due to the sharp drop in disposable income and soft consumption demand. However, weaker sales during the difficult quarter should be offset by lower rental costs after management successfully negotiated discounts to monthly rentals for most store locations for April to June.

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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