



CFA Institute

RESEARCH REPORT

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VIET NAM

RECOMMENDATION: **HOLD**

Downside of 11,85%

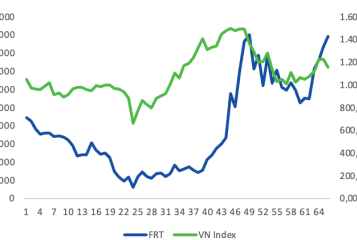
(As of 8th Dec 2023) **Closing price:** 101,800 VND

Target price: 89,738 VND

Market Snapshot	
Date	Dec 8th, 2023
Closing Price	101,800 VND
Market cap	137,743bn VND
Shares Out.	136,24m
Free Float	48,5%
52-wk High	52,640 VND
52-wk Low	106,900 VND
P/E	20,78x
EPS	2,865.19

Ownership Structure	
FPT Corporation	46.54%
CTBC Investment Co. Ltd	5.12%
Nguyen Bach Diep	0,50%
Principal Asset Management Co., Ltd	1,95%
Dragon Capital VietFund Management	1,87%
Yurie Asset Management Inc.	1,78%

SHARE PRICE MOVEMENT



SUMMARY OF FINANCIALS								
mil VND	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F
Revenue	14.661.417	22.494.961	30.165.801	38.384.189	41.212.985	44.442.666	48.159.575	51.416.923
Net income	24.719	443.732	390.361	536.538	541.061	589.088	762.226	758.963
EBIT	14.319	546.196	473.968	642.551	610.868	644.701	828.937	812.315
Net margin	0,17%	1,97%	1,29%	1,40%	1,31%	1,33%	1,58%	1,48%
Inventory Turnover	4,8	5,7	4,5	4,14	4,29	4,28	4,55	4,75
Debt-to-equity	2,05	3,64	2,67					

EXECUTIVE SUMMARY

We issue a HOLD recommendation on FPT Digital Retail JSC (Ticker: FRT.HM) with a target 12-month price of **89,738 VND** per share anchoring 11,85% discount to its latest closing price – 101,800 VND (8th December 2023). The recommended target price is determined by the combination of discounted cash flow model (FCFE) and relative valuation model (P/E) weighted 70% and 30%, respectively. Unlike other specialty retail segments, FRT rockets sales revenue and gains robustness during the pandemic, especially in 2021, FRT’s revenue is recorded an increase of 53,34% in revenue growth with 37,71% comes from ICT segments. However, this surge is believed to have phenomenal attributes and temporary effects solely. Moreover, right-timing revenue aid of Long Chau pharmaceutical chains has helped stabilize the revenue growth post pandemic. However, we assume FRT share is UNDER-PERFORM and mispriced due to the market is moderately overvalued (1) increasing retail sales value of Vietnam market as an expected brighter outlook to retail businesses; (2) the hype expansion of FPT Long Chau which might reflect the financial robustness of the company; (3) the high financial leverage and relatively low financial performance of the firm while the earning power (ROE) is relatively high compared to its peers.

1/ Vietnam retail sales value is promising to receive positive knock-on effects but not on all sectors

In accordance with Deloitte report (2022), retail market after deep plunge caused by pandemic, Vietnam’s economy is fledged to take off again and accelerated the domestic climate. With the market size scales at USD142bil and expected of USD350bil in 2025, retail industry in general is expected to constitute 59% of GDP accordingly to favorable expansionary policy of the government in respect of generating and tightening legal framework to seamless movement of CPI (Huong 2023). However, the general retail market remains limited to cover specialty retails. One of the major revenue drivers since established of FRT is ICT or consumer electronics such as mobile, laptop and recently add-on household appliances whereas, this sector is under suffering of low-to-no profitability and sluggish expansion due to the falling in customer demand (VNS 2023). Only with 1,98% CAGR 2023 – 2028, Vietnam consumer electronics market is assumed to be in saturated period (Statista 2023).

2/ Overhyped expansion of FPT Long Chau pharmaceutical chain might both reflect the ambitious goals to dominate the market but also a cautious signal to investors

Introduced in late 2018, FPT Long Chau is a pharmaceutical retail chain with approx. 1600 physical stores over 63 provinces of Vietnam as latest updated. This segmentation is a result of a right-timing M&A and sector strategy as FPT Long Chau is gaining bullish momentum and plans to double the number of physical stores to approx. 3000 in the next 5 years starting from 2023. The company is adjusting themselves to parallel with the domestic market trend in pharmaceutical sector. Domestic pharmaceutical retails would reach 7,4% increase annually (CAGR 2023 – 2028), online sales or via mobile application is expected to be a shift in purchasing norm of Vietnamese customers (Statista 2023). Henceforth, FRT’s strategy to promote FPT Long Chau is a positive alignment to maintain and stabilize company revenue growth. To be more specific, this segmentation’s revenue contribution has been rising to reach 31% in 2022 of total revenue and

Exhibit 1. FRT’s Earning Plan for 2023

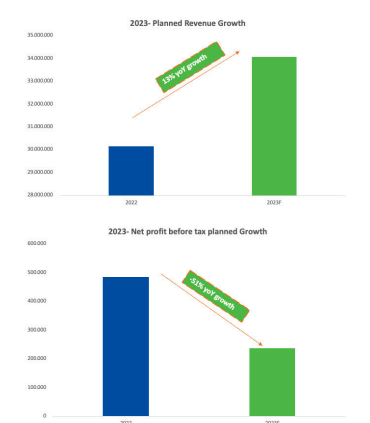


Exhibit 2. FRT Revenue Breakdown by Weight

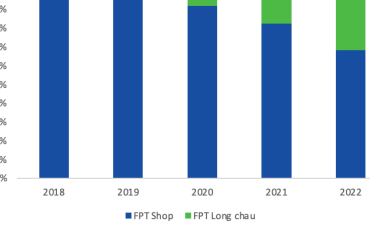
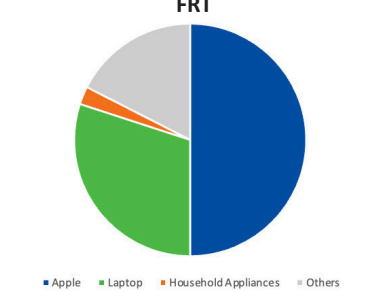


Exhibit 3. ICT Product Segmentation of FRT



the firm is aiming to reach the figure to approx. 60% in the next few years (Deloitte 2019; FRT 2023). Despite dominated position in terms of adjusting the firm to reach greater clientele via brand coverage physically and virtually, ambitious scaling returns negative operating profit growth (-13% YoY/ 2022) with exceeding cost. Also, according to FRT chairman, pharmaceutical sector requires tremendous SG&A expenses due to high benchmarks and various specialized standards as well as paperwork for pharmaceutical retailers, hence, the overhyped expansion shall be a cautious signal for investors since hiking incurred cost might hurt the already low net margin of FRT (FRT 2023).

3/ High financial leverage along with relatively inefficient financial performance of the firm might raise concerns among investors but cost-proof competitiveness might aid the firm in the long run

FRT has leverage multiplier (A/E) approx. 5.18x and debt-to-equity at 2.77x which might put FRT in harsh situation regarding long-term financial obligations and capital management. The peer median might reflect more solid capital structure with financial leverage at 2.30x and debt-to-equity at 0.32x. While the COGS and SG&A takeover 98% of total revenue on average leaving the net margin of FRT relatively low, approx. 2%. Henceforth, any cash flow shock might hurt the margin as well as weaken firm financial obligations in the short-to-long-run. Moreover, we suspect the Solvency might be main driver for high ROE compared to peers. However, with M&A activities and long-term logistics and operational investment, FRT expects this significant cost-proof competitiveness to aid the margin for long-term scaling.

BUSINESS DESCRIPTIONS

1/Products and Services

Founded in 2012, FRT is an associate corporation of FPT Corporation majoring in retail sales of 2 major chains: FPT Shop specialized in selling IT retail chain in digital products such as Mobile Phones, Tablets, Laptops and electronic accessories while its minor stream named F-studio specialized in selling Apple products as an Apple Authorized Reseller and a subsidiary company named FPT Long Chau Pharma Joint Stock Company majoring pharmaceutical retail chains. The firm first IPO is dated in April 2018 (HOSE: FRT). In the end of 2022, FPT Shop has 786 stores including 33 stores of F-Studio and 1000 physical stores of FPT Long Chau (Exhibit 1). FRT’s 2022 revenue is VND30,165bn as 34,1% YoY growth and net profit before tax is VND485bn as -12% YoY growth. FRT has diversified their customer profile across ages in Medicine field. FPT Shop is more likely to target younger audience who are currently the major labor force of Vietnam across provinces as target end users also. As only this audience mainly has early and frequent exposure to ICT devices for study and work purposes. And both segmentations have vibrant and strong brand awareness on social media platforms such as TikTok; regarding this, FRT surpasses MWG.

2/ Revenue breakdown by products and services

Since late 2018, FRT as a B2C (business-to-customer) company has been primarily segmented into 2 retail sectors:

Product segmentation:

a. FPT Shop and F-studio | Saturated period for ICT retailers awaits

Information technology equipment such as mobile phones, laptops, tablet together with household appliances, especially minor appliances such as vaccum cleaner, television, etc. Market share of FRT in terms of leading IT device retail chains in Vietnam in 2023 is approx. 20%. ICT retail sector of FRT has reduced over time in terms of revenue contribution since the establishment of FPT Long Chau, from 97% to 68% during 2018 – 2022 period (VND15,298bn - VND20,688bn) (Exhibit 2). Product segmentations are majorly favored: Laptop (approx. 30%), Apple Products (approx. 50%), household appliances (approx. 2.5%) and other ICT gadgets (Exhibit 3). As the rocketing demands for ICT devices to serve Work-from-home policy due to severe lockdowns in Vietnam in 2020-2021 duration, FRT recorded an absurd peak of Laptop and Apple Products sales volumes. Within Laptop segment, the sales volume reaches VND5,700bn which is 2,2x YoY higher. And Apple products with iPhone 13 series and MacBook Pro 2021 ramps up the sales volume by 1.6x YoY increase even in 2020 the release of iPhone 12 breaks firm records of “the highest revenue in Vietnam’s market on the first day of launch”. Henceforth, all accumulates 53% positive YoY growth in 2021. This could be rewarded by the immediate adjustment, sales strategy with sales-promotion policies and stable supply sources from the firm for designated products. And as the trend peaks and spreads not long but still maintains a decent revenue growth for FRT with the add-on household appliances sales. As of 2023, household appliance kiosk contributes 5% to the revenue and 600 out of 800 stores currently integrate ICT products and appliances to aid the revenue of FPT Shop during this harsh time for ICT retailers (Pham 2023).

b. FPT Long Chau | Long-term investment with the faith of securing firm liquidity in the future, not now

Pharmaceutical retail sales with the provision of 160,000 types of prescription and non-prescription drugs, medical equipment, cosmetics products, and many health care products, etc. Particularly, sales volumes in prescription bills are higher compared to other product lines and via customer data sources, FRT affirms its focus also on prescription bills. In mid-2023, FPT Long Chau even opens roughly 10 designated vaccination

outlets across the countries mainly in Ho Chi Minh City, Hanoi, and a few Mekong Delta Provinces. This sector has been invested significantly to increase the market coverage by physical presence at 63 provinces, as of 2023. Hence, in 2022 Long Chau contributes approx. 31% ~ VND9,595bn to the revenue along with the 3-digit growth percentage (141,27% - 2022), not to mention the store growth and the expansionary plan for Long Chau in the next 5 years. Despite bullish gain and growth, the gross margin of Long Chau is much lower than FPT Shop – 5% in 2022. As mentioned earlier, the SG&A expenses are increasing resulted from the expansionary process and incurred cost alongside (FRT 2023). Unlike FPT Shop, Long Chau is under supervision of FPT Corporation and FRT, hence, we could assume the focus plan of FRT navigating Long Chau as the rising SG&A expenses for Long Chau are distributed to branding activities to raise the brand awareness such as pricing strategies, free services experience/trial, etc. This set back of margin could assumingly be effective in the far future when Long Chau becomes more penetrated to the market vertically. Moreover, Long Chau is driving digital innovation to optimize the incurred costs also be able to reach customers via various e-commerce platforms such as mobile applications, websites (FRT 2022).

Sales channels:

In 2018, online sales contributed approx. 16% while offline sales or in-store sales took over 84%. The figure fluctuates and ends up at 19% while still being able to maintain a 5.05% YoY increase in revenue (Exhibit 4). The surging demand in ICT devices and social lockdowns not just increase the sales volumes in general but also increases the digital revenue contribution with 35% majorly from FPT Shop in 2020. Long Chau also inherits the technology resources from FPT Corp to have moderately adequate online sales channels: user-friendly mobile applications, websites, online customer service supported (FRT n.d).

Moreover, FRT also implements M&A process with Viet Han Friendship Joint Stock Company with 99,98% ownership rate to work as a subsidiary for FPT Shop and Long Chau chains in respect of storing and transporting goods. This investment starts to operate in Q2/2022.

BUSINESS STRATEGY

Management has set several key general objectives for FRT to gain the market leader favoring Long Chau pharmaceutical chains while closely maintaining the expanding system of FPT Shop.

1/ Focusing on the expansion of core business activities

FRT after the expansionary stage with the store growth spikes approx. 21% for FPT Shop in 2022, the company considers decelerating due to the sluggish customer demand for ICT purchase. The firm also focuses on stabilizing the margin rather than focusing on the FPT Shop coverage due to inflationary constraints shortage of purchasing power from customers which might exacerbate the figure compared to prior periods as the plan for 2023 net profit before tax might grow discounted 51% compared to 2022.

Regarding Long Chau pharmaceutical chains, FRT maps out the opposite direction for the growth due to more positive market outlook for this segment. Long Chau would concentrate on affirming its position on the market as the key player in pharmacy chain via prescribing drugs with hospital corporation by prompting momentum for higher store coverage and distribute specialized drug such as cancer treatment under partner hospital prescriptions.

2/ Attracting and maintaining customer base with more comprehensive services

Under the ecosystem of FPT Corporation, FRT inherits the technology integration and capital to develop digital transformation to save operation cost such as setting up new stores and maintaining the recent digital transformation from SAP, POS to flexible OMS as a high-tech cloud system while leverage technology competitiveness to reach and offer sales to broader clientele via e-commerce, as of Q3/2023 reported the online channels gain 7% YoY growth. Moreover, to aid the company revenue and more comprehensive services for customers, FRT puts effort to increase the revenue contribution of household appliance kiosks in FPT Shop to 15% in the next 3 years.

3/ Long-term investment on logistic operations to frame better cost structure

In H1/2023, FRT still has 50% of credit room to operate and function the system seamlessly while adequately prepares to invest in constructing subsidiary warehouse at Long An after the first one in Me Linh – Hanoi. The project costed initially of USD10mil with 10,000 sqm land area and 28,000 sqm construction area. The warehouse is expected to operate from July 2023 and serve for medicine internal logistics procedure.

4/ Environmental | Specialty Retailer Pioneer to practice sustainability

In 2021, FRT issues policies regarding Sustainable Packaging and Emissions. FPT Long Chau and Sanofi formulates a partnership and releases the press by early 2022. This partnership navigates the implementation of pioneering sustainable development project to treat plastic waste from Insulin pens. The project will be piloted at FPT Long Chau’s store chain in Ho Chi Minh City from July 2022 within the duration of one year aiming to collect and properly dispose of 90,000 used insulin pens, equivalent to reducing 2.3 tons of plastic waste (Sanofi 2022). With the same campaigns’ attributes, Long Chau chains sustain the sustainable practice via “Retains the old, innovates spray” program for asthma medical equipment to involve customers

to the firm ESG activities regarding Environmental pillar (Tuoitre 2023). With the effort of reducing emissions as well as waste during operational processes via the collecting medical waste from customers’ used equipment, FRT will be able to recycle the material and optimize the resource usage for manufacturing. Moreover, in 2022, criteria for in-store operations would be reasonable and practical consumption to avoid the energy such as electric, water wasted. FRT frequently instructs staff and managers on minimizing the energy use, such as setting an automatic timer for air conditioners or enlarging windows to take advantage of natural lighting.

5/ Social | Connecting FRT with every community the firm leaves footprint

FRT persists in creating new job opportunities to benefit both FRT and the society due to the expansion of Long Chau pharmaceutical chains increases the demands for labor force (Appendix A). Especially, Long Chau recently expands further location to minor districts of suburb areas hence creating more job opportunities for residence here. Regarding Community, FRT has diverse activities to support labor well-being and localities. During Covid-19, FRT ignites the Longevity Fund with program themed “Accompany parenting” to support children whose parents laid down during their time worked for FRT with scholarship of VND3mil. To public health support, FRT subsidizes VND10bn for epidemic prevention with monetary support, specialized virus-prevention medicine, medical equipment, and necessities for people in need across Vietnam where FRT chains located. In a nutshell, besides business activities, CSR framework of FRT is also enriched with activities to illustrate firm appreciation to the society, some of which even receives Government verification as well as customer trust and affectionous bond towards the brand. FRT is also the first retail firm receiving ISO 9001 2000 Certificate for its Quality Management issued by the ISO in 2021. This certification would authenticate FRT’s ability to provide customers comprehensive goods and services quality aligning with clear purchasing regulation framework.

6/ Governance | A well-versed leadership with solid expertise in economic and corporate governance

Board Structure:

The governance structure (Exhibit 5) would include BOD of 5 members, BOM 7 members and 3 members for Supervisory Board. Starting from 2020, with the provision of law and legislations, FRT’s BOD consists of 2 independent members. Moreover, with independent members as well as non-executive directors, biases could be hindered giving way to constructive decision-making process, such as Mr. Le Hong Viet – CEO of FPT Smart Cloud, he would be able to convey his capability and opinion to the digitalization process of FPT Shop and Long Chau, Mr. Nguyen Dac Viet Dung would consult the e-commerce market expansion (FRT 2022). With the talented BOM, FRT BOD could direct and manage the business operations well in midst of market hardship.

Shareholder structure:

Most of the share ownership belongs to domestic with 80,51% while the remaining is foreign ownership (FRT 2022), the most notably being FPT Corporation with 46,54% while the second highest shareholders would be CTBC Investment Co. Ltd with 6,98mil shares accounting for 5,12%. Mrs. Nguyen Bach Diep owns 0,5% making her the largest shareholder among BOD members.

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

1/ Macroeconomic Outlook

Recovering economy and stable positions of Vietnam Dong in global financial markets

Vietnam is gaining recovery momentum as the GDP growth rate depressed in two consecutive years of 2020 and 2021 at 2,9% and 2,6% respectively, has climbed back to 8% in 2022 (World Bank 2023). The figure is projected to be approx. 5,7% in the 2023F while the growth in Q4/2023 is expected to reach 6,1% - 6,3% (O’Neill 2023; Exhibit 6). Along with the oil price downturn, Vietnam’s CPI is increasing below the set target of 4,5%, 11M2023 has witnessed the CPI to grow by only 3.2% YoY (MBS 2023). Latest market updated from PwC (2023) has illustrated that only service sector is leveraging the economic growth due consumption stimulus issues, and post-COVID rebound tourism flow. However, the stability in inflation rate would benefit advanced economies better than emerging market and developing economies; in the Vietnam context, forecasted inflation rate rises below the target might reflect sluggish business activities in 2023 – 2024 period as the forecast of Vietnam CPI captures minor adjustment for 2024 (IMF 2023). Recovering macroeconomics measuring via decreasing level of headline inflation rate might be more applicable to developed economies like USA, UK while countries like Vietnam, especially domestic business climate shall be more cautious on expanding the businesses when depending on the sign of decreasing global inflation rate in 2024 (from 5.9% to 4.8%). Sharply, Vietnam market outlook of 1H2023 is partly affected by global market movement. However, the green flag is detected in terms of currency, despite volatility in the global financial market, Vietnam Dong has remained stable in the first four months of 2023 and unexpectedly go against the US Dollars with the exchange rate at VND23.500 as of Jun-23 (VNS 2023). This is resulted from the temporary loosen monetary policies of the SBV to prioritize the domestic economic recovery as the interest rates has been cut to protect Vietnam Dong over US Dollars to remain economic stability in context of uncertainty (VNS 2023, VCBS 2023).

Exhibit 5. FRT Corporate Governance Structure

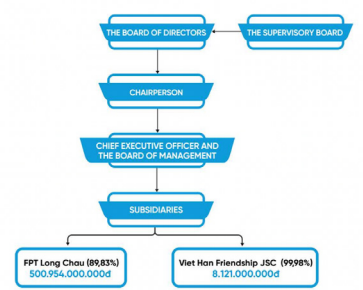
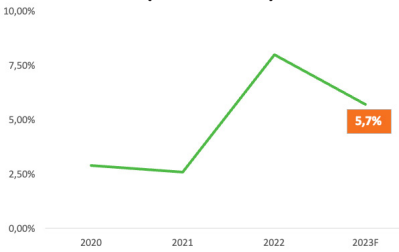


Exhibit 6. Vietnam GDP Growth Rate (2020-2023F)



Consumer confidence and how geo-economic metrics is aiding the commercial success

In terms of socioeconomic angles, Vietnam is currently in the “Golden population” with the working population dominates over the 2 other dependent groups (VTV News 2023). Coupling with the speedy urbanization process and rising level of disposable income per household could propel Vietnam commercial success with the urban consumer market scales at 46 million consumers worth USD169bil in spending (VNA 2019; Statista 2023). This suggests the elevation in purchasing power.

2/ Industry Analysis

Vietnam retail market is looking forwards to a brighter future

Retail businesses are expected contribute 59% to GDP when expanding the market size from USD142bil to USD350bil in 2025 along with government efforts to stimulate consumption and tighten legal framework (Huong 2023). In fact, the first half of 2023 records the increase in retail sales by 7,8% - USD101bil (PwC 2023). According to GSO (2023), retail sales of consumer goods and services also increases by 7,1% YoY as of Jul 2023. Along with the industry positive signal in terms of sales, Vietnam retail market attracts foreign players and make the competition even fiercer when foreign players like AEON and Lotte Mart become major players in the next 5 years of retail market (Mordor Intelligence 2023). However, the overall retail industry remains limited to cover the growth of all specialty sectors and businesses like FRT, MWG, etc.

Is there any chance for specialty retailers?

Drilling down to the specialty retailers, there are opportunities for these businesses to grow but it varies corresponding to the customer preference shift. Besides favorable demographic elements of Vietnam market, changes in customer perceptions of purchasing would determine the market concentration on what sectors of specialty retailers. McKinsey (2023) issues a report on the survey of Vietnamese customers that premiumization purchase would grow as customers are willing to spend on luxury products for better value while VCBS (2023) stated that the essential consumption maintains stable growth/ market concentration. Therefore, the non-essential products within the mid-price range would be cut-out-of-expenses due to lack of driving forces of cost incentives or pent-up phenomenal demand like in pandemic, Laptop segment might drop by 5% whereas the 3% decline will be for mobile phones in short run (Diep 2023). This drop could be explained by the segment sensitive attributes to inflation. Luxury and necessity products might have inflationary-proof stronger than non-essential such as ICT devices (Appendix B). Specifically, Vietnam computing and telephony segments are anticipated to reach growth of 0,5% and -1,8% YoY growth in 2024 (Statista 2023; Exhibit 7). While the necessities like OTC pharmaceutical is anticipated to grow strongly as Vietnamese customers are paying more attention to a few discretionary categories, including vitamins, over-the-counter medications, exercise products, and personal healthcare items (McKinsey 2023; Exhibit 8). Moreover, with Decision NO. 1165/QĐ-TTg “National Strategy for Development of Vietnam’s Pharmaceutical Industry to 2030’, pharma retailers earn cost-proof advantages when the EVFTA comes into force, pharma retailers could have broader choice of supply due to (1) the increasing domestic-manufactured medicine and (2) the entrance of imported medicine with lower cost when the tariffs are removed in halves (Shira 2023).

“Phygital” is a rising star but customers like diversifying their purchasing experience with various brands!

To retail or specialty retail, customers are navigating towards the convenient, virtual, and diverse purchase channels. “Phygital” refers to the changes in customer purchasing behaviors when they are switching to omnichannel shopping which mean customers are requiring a more comprehensive and could be able to see and touch the brand everywhere in anytime they prefer. But due to low switching costs of retail attribute, Vietnamese customers have the highest churn rate across Asia Pacific - 90 percent having switched stores or brands in the past quarter (Exhibit 9).

3/ Competitive Positioning

FRT leads the specialty retails in digital transformation

As the subsidiary of FPT Corporation as one of the most prominent IT-solution companies in Vietnam, FRT inherits the brand name as well as digital optimization solutions for management internal system as well as customer base (Hoa 2023). Switching from the traditional POS, SAP to OMS, the company would grasp most updated customer persona and how to adjust the company activities to serve them better. Besides, the mobile application of FPT Long Chau far exceeds its peers rating No.1 in medical sector on VN App store with more than 19k of ratings and downloads. Moreover, the landing page of Long Chau gains ~9.7mil visits over the last 3 months, highest among its peers while FPT Shop is a bit behind MWG with ~6.9mil visits (Exhibit 10).

FRT currently has the highest market coverage of pharma chains

Entering the pharma retail sector after the giants like An Khang from MWG, Pharmacy, Long Chau has accelerated new stores opened to catch up with the market share. After 10 years leading the pharma retail market, Pharmacy reaches 1000 stores in Apr/2022 while Long Chau reaches this figure in Dec/2022 after less than 5 years expanding and scaling. Henceforth this could be seen as the booster for the domestic pharma retail consumption (Hoa 2023). Latest updated in March 2023, Long Chau has surpassed Pharmacy

Exhibit 11. Leading Drug Stores as March 2023 Vietnam

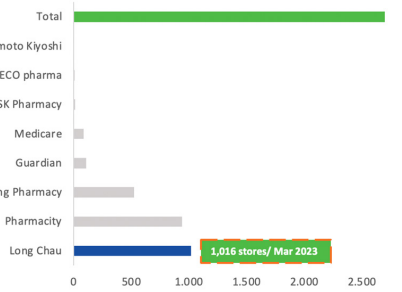


Exhibit 12. Pharma Chain Market Share 2023 Vietnam

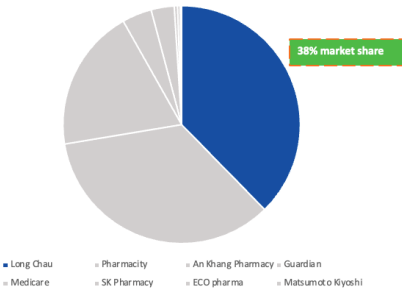


Exhibit 13. FRT Social Media Engagement compared to MWG

FPT Shop	FPT Long Chau	MWG
Tiktok		
771k Followers	104k Followers	95k Followers
44k Likes	21k Likes	125 Likes
9,8M no. of plays	2,1M no. of plays	18k no. of plays
0,72% follow growth	19% follow growth	0,42% follow growth
Facebook		
2,6M Followers	1M Followers	3,9M Followers
2,6M Likes	949K Likes	3,8M Likes

Exhibit 14. FRT Revenue Growth (2018-2022)

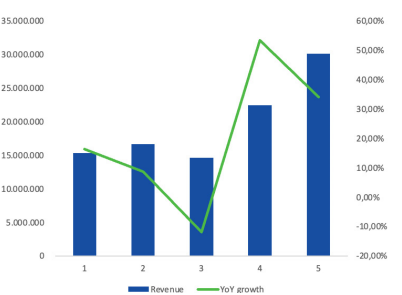
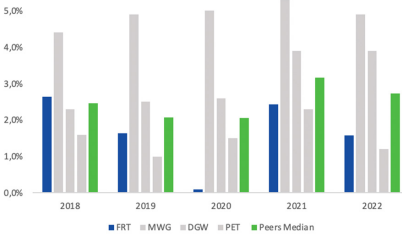


Exhibit 15. FRT's Gross Margin compared to peers



Exhibit 16. FRT's Operating Profit Margin compared to peers



and An Khang in terms of store quantity especially across 63 provinces of Vietnam (Exhibit 11). Hence, this could be seen that the market share is currently dominated by Long Chau with more than roughly 38% of Vietnam pharmaceutical retail (Exhibit 12).

FRT is the market leader in building brand image on social media

Along with the physical coverage across 63 provinces, customers can find Long Chau across many virtual means. Targeting the labor force like Gen Z and millennials, social media activities of FRT has higher engagement and reach compared to its peers in both segments: FPT Shop and FPT Long Chau (Exhibit 13). While FPT Shop mainly drives towards the young, its brand image on social media has content pillars vibrant and trendy such as ICT devices review, or sales program updated. While Long Chau builds its image on social media as the professional pharma retail chains with trusted information like personal pharmacist advice, this content pillar could help FRT reach broader clientele not just solely the young (FRT n.d). Its peers like MWG, DGW are far less behind FRT in terms of social media reach and engagement, and this shall be considered one of the most potential sales channels for FRT as TikTok becomes a prominent search engine compared to Google or other engines to gen Z which has the population of 13mil persons – or approx. 19% of Vietnam population in 2019 (Kuermayr and Le 2023; Huang 2022).

FINANCIAL ANALYSIS

1/ Peer selection

Three domestic players are selected for further comparison based on the mutual attributes regarding geography (Vietnam), sector (Specialty Retail), product (ICT gadgets and devices): Mobile World Group, Digiworld Corporation, and Petro Vietnam General Services Corp. Comparable peer selection is crucial, and this analysis selection is supported via Refinitiv Eikon database to sort out the viable competitors with criteria mentioned.

Identifier	Company Name	Country	Market Capitalization (VND)
FRT.HM	FPT Digital Retail JSC	Vietnam	13.742.897.461.822
MWG.HM	Mobile World Investment Corp	Vietnam	62.157.022.021.979
DGW.HM	Digiworld Corp	Vietnam	8.868.143.987.267
PET.HM	PetroVietnam General Services Corp	Vietnam	2.890.940.961.815

2/ Financial analysis

Operating Profitability

Revenue growth

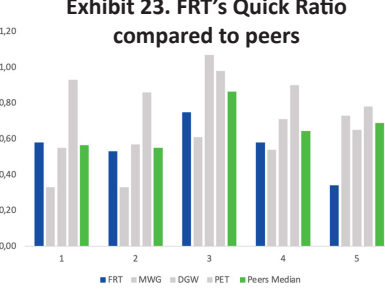
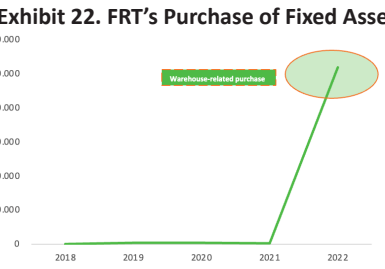
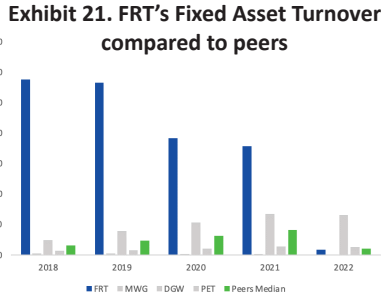
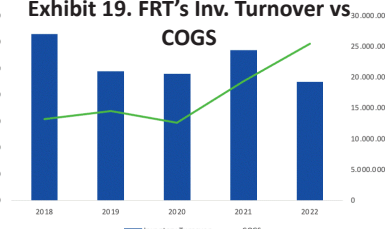
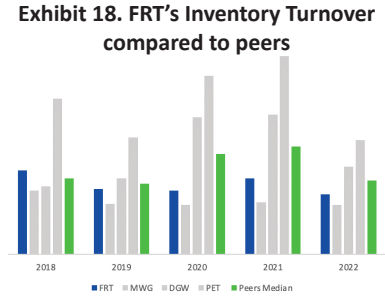
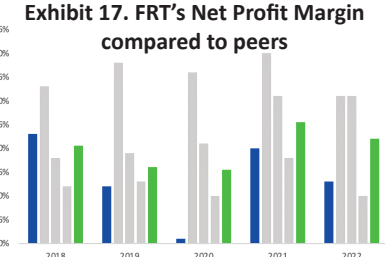
FRT revenue growth fluctuates dramatically parallel with the domestic business climate and the trend is relatively likewise that of MWG (Exhibit 14). The first plunge of FRT is drawn within 2020 with approx. -12% YoY growth from 2019 (from VND16.633bn to VND14.661bn). This duration was a harsh time for global market in general but compared to its major rival – MWG, FRT could not maintain a positive figure of growth rate because (1) purchasing power of customers favoring ICT market declines drastically due to the first shock of pandemic (Hung 2021; FRT 2021); (2) despite the growth in Long Chau chains, the sector solely weights 8,12% of total revenue, hence, its capability to aid in or compensate for the -16,42% loss of ICT sector revenue is impossible. However, FRT growth surpasses its peers accordingly to rocketing demands of ICT devices serving study and work purposes during social lockdowns in 2021 (Giap 2021). Coupling with 232% YoY revenue increase and 17,68% revenue contribution in Medicine sector, FRT gain bullish momentum from negative growth in 2020 to 53% YoY increase in 2021. FRT has utilized their capital and strong distribution networks including suppliers and sales channels to maintain the operations of the chains normally. Also, the company also leverages digital platforms such as Hi. FPT mobile application and shipment advantages to reach larger clientele hereby boosting Long Chau chain revenue (Tam 2021; FRT 2021).

Gross Profit Margin (GPM)

FRT gross profit margin remains consistent for the most part of 5 years, within the range of 12,7% - 15,6%. The figure is high to peer group median and only behind that of MWG (Exhibit 15). Hence, we could explain the changes in GPM by COGS which makes up approx. 84% in 2021, and 2022. The increase in GPM from 13,4% to 15,6% excepted the drop in 2019, is a reward for firm effort in waste management and sustainable practices as mentioned in Environmental Pillar above which help FRT gain better negotiation position with its supplier network.

Operating Profit Margin (OPM)

Besides COGS, SG&A expenses are also one of the pinpoints to examine whether the FRT could manage the CFO well or not. FRT’s OPM fall behind the peer median due to incremental increasing SG&A expenses of Long Chau expansion in terms of outlet quantities (Exhibit 16). This decrease is further anticipated by the firm, long-term investment is ignited to compensate for the SG&A. Specifically, as Long Chau pharma chains are invested to become major revenue driver of FRT besides the saturated ICT market, hence in 9M2022, FRT lend FPT Long Chau Pharma more than VND1.100bn and Viet Han Friendship JSC VND100bn (Vu 2022).



Due to the expansionary plan of Long Chau, FRT needs more promotional sale programs, free services trials to attract customer awareness about the brand which aligns with brand images of reasonable price and professional services (FRT 2023). Henceforth, the SG&A expenses might surge and affect the margin which has further expected. Besides that, the company M&A with Viet Han JSC to construct first warehouse is an investment aiming to aid for distribution and storing costs for both Long Chau and FPT Shop, also the second warehouse in Long An is under construction which is specialized for Long Chau operations (FRT 2023). Overall, this decrease is anticipated and in a long run, it is expected to be backed up when the investment efficiency intersects the higher margin resulting from lower cost primarily in Medicine sector.

Net Profit Margin (NPM)

Due to highly leveraged capital structure, FRT’s net margin has fallen over 5 years from 2,3% to 1,3% due to rising level of interest expense compared to minor changes in provisions for income taxes (Exhibit 17). Regardless of Covid outbreak year, 2022 NPM is even lowered compared to prior year due to the turbulent macroeconomics context of hiking interest rates and inflationary headwinds which soars input costs and interest expenses (VNS 2023).

Operating Efficiency

Inventory Turnover

FRT’s inventory turnover is moderately high compared to its peers and above the peer threshold in 2018 (Exhibit 18). However, COGS might not the key driver to inventory turnover changes (Exhibit 19). But excessive inventory and poor inventory management are indeed significant drivers to the decrease in inventory efficiency; because the growth of COGS fall behind that of Inventory over 5-year timeframe. To be more specific, 2021 inventory has increased by 170% YoY leaving the 2022 growth at 32% due to the surplus from 2021 (Exhibit 20). Coupling with downward ROA, FRT is losing its ability in generating sales from its assets including inventories over 5 years (Appendix C). All leads to a peer-lower level of Inventory Turnover in 2022 (4,5 vs 5,6). However, the growth level of FRT is less dramatic than its peer median as the total market of ICT is entering the “cool-off” point after the 2021 heat, customers have no demand to renew their devices as the demand for re-purchasing is roughly 2-year-duration; the reducing gap of FRT in 2021-2022 period is 21% while that figure of peer group is 31%. This could be regarded as the firm effort and effectiveness of long-term investment in warehouse to aid the incurred cost and excessing stocking in midst of market distresses.

Fixed Asset Turnover

FRT has the largest fixed asset turnover out of the selected industry peers and the median out of nearly 20 times in 2018; however, the figure degrades overtime and reaches the deepest plunge in 2022 (Exhibit 21). The reducing trend of fixed asset turnover could be fully explained by the company strategy for massive market expansion favoring Long Chau chains (Exhibit 22). The purchase of warehouse and relevant construction set-ups are assumed to be account for 2022 figure as the purchase of fixed assets soars up in 2022. Meanwhile the sales growth in this year could not catch up with the expansionary flow resulting in the decrease of fixed asset turnover of FRT.

Liquidity

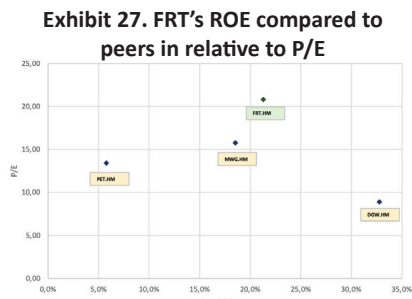
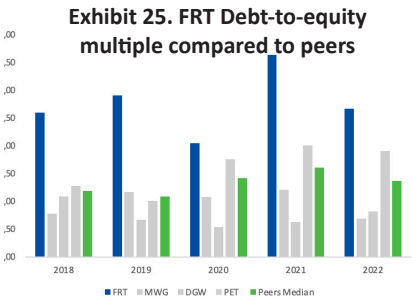
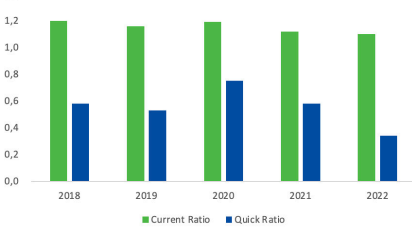
Short-term Liquidity

Glancing at the Quick Ratio of FRT, the firm’s ability to meet short-term financial obligations reduces and is lower compared to its peers and the median to some certain degree (Exhibit 23). This suggests low short-term liquidity of FRT as the firm might face hardship in short-term debts and obligations such as the firm has risen the level of short-term debt by approx. 81% including the adjusted reduction in 2021-2022 period. Moreover, as a retailer, the gap between quick ratio and current ratio of FRT illustrates the heavy reliance of the firm on stockpiling which are less liquidate assets; the gap is widened and has its value above the peer threshold due to (1) saturated demand in ICT devices post 2021 peak, (2) rising demand in medicine and supplements (Exhibit 24).

Long-term Liquidity

FRT’s debt-to-equity ratio is the highest multiple among its peers and the group median (Exhibit 25). This illustrates a higher risk when the company leverages the debt to finance its activities but in an excessive proportion to the firm equity. Coupling with the decreasing interest coverage ratio (ICR) as the firm abilities to meet short-term obligations, FRT is assumed to have a weak debt management to meet the long run financial obligations. However, according to the firm’s plan, the underlying cause for weak ICR is the anticipated negative growth of operating profit (EBIT) due to rising SG&A expenses as mentioned earlier while the interest expenses rise due to market distress. However, FRT further expected the structure of D/E and the company would aid the risk by the prospects in Long Chau as the chain expansion is making progress regardless of market uncertainty.

Exhibit 24. FRT’s Current Ratio and Quick Ratio



ROE DuPont Analysis

	Industry Median	2018	2019	2020	2021	2022
Net Margin	7,00%	2,27%	1,28%	0,17%	1,97%	1,29%
Asset Turnover	1,44	3,39	2,83	2,45	2,78	2,83
Leverage	2,3	4,56	5,18	4,44	6,49	5,24
ROE	13,70%	35,12%	18,76%	1,83%	35,58%	19,19%

Source: Refinitiv Eikon, Self-estimation

Over 2018-2022 period, FRT’s ROE leads a decreasing trend from 35,12% to 19,19% driving by low profitability and operational efficiency. Among three components of ROE, **Leverage** takes up the largest proportion in relative to profitability and efficiency, hence, this could be a “red-flag” for investors about firm suspicious abilities to meet long-term financial obligations. The figure keeps rising from 4,56 to 5,24 including the peak in 2021 (6,49) and decline in 2020 (4,44). As in 2021, ROE bounces back strongly from the depressing level of 2020 due to (1) higher leverage ratio and (2) recovery from the drastically decreasing level of net margin as the firm profitability (0,17% to 1,97%). This aligns with the public information on the rocketing sales of ICT devices and the revenue growth of company favoring ICT segmentation (Exhibit 26). However, the recovery ROE rate in 2021 would enfold hidden risk due to the rising level of leverage multiple (A/E) from 4,56 to 6,49 while the industry median remains at much lower level – 2,30. This scale up in leverage ratio could be seen as the temporary strategy to expand and seize the industry phenomenal growth. In FRT context, net margin is extremely fragile compared to industry median because Long Chau expansion has soared SG&A expenses with sales and promotional/experimental payment schemes/programs to acquire new customers as well as boosting free services trials consumption, high leverage structure might put FRT in the positions of making losses and financial obligation hardship in a long run. Besides the moderate revenue growth in 2018-2019 period, the reducing asset turnover indicates the market expansion in favor of new stores open, the recovery in efficiency is spotted in 2021 and 2022 due to the Long Chau chain networks start to reach the even point in early 2022 and generates profit also turns their inventory, as the primary deviation in current assets and ROE, into revenue post pandemic favoring the less-affected medicine sector. In sharp, ROE Dupont Analysis provides the intrinsic values of FRT as-planned-low profitability to aid the company market domination plan, decreasing efficiency and long-term investment is expected to better the process but requires longer penetration time to truly examine the effectiveness; and the leverage ratio remains high and major driver of ROE which might mislead the share price of FRT compared to peers (Exhibit 27).

VALUATION

1/ Risk and Required Rate of Return by CAPM calculation

Using CAPM calculation, we would determine the rate of return also the investment risk (β_i):

$$E(R_i) = r_f + \beta_i \times [E(R_m) - r_f]$$

Where:

We use the 10-year Vietnam government bond yield as the risk-free rate (r_f) which scores at: 2,48%. The raw beta is 1,49 as a resulted of the regression model between FRT monthly returns (dependent variable) VN-Index monthly returns (independent variable) within the 30th April 2018 – 30th September 2023 timestamp. Then we use the adjusted Beta calculation to finalize the figure:

$$Adjusted\ Beta = Raw\ Beta \times \frac{2}{3} + \frac{1}{3} = 1,33$$

The equity risk premium is calculated based on the calculation:

$$E(R_m) - r_f = 16\% - 2,48\% = 13,52\%$$

Where $E(R_m)$ as the market return is assumed to be 16%, hence, the equity risk premium equals 13,52%.

Variable	Value
Risk-free rate (r_f)	2,48%
Beta (β_i)	1,33
Equity risk premium [$E(R_m) - r_f$]	13,52%
Return [$E(R_i)$] – Cost of equity	20,49%

2/ Discounted Cash Flow – FCFE Model

Revenue Projection

Exhibit 28. FPT Shop Revenue Projection



Exhibit 29. FRT Store Growth Projection

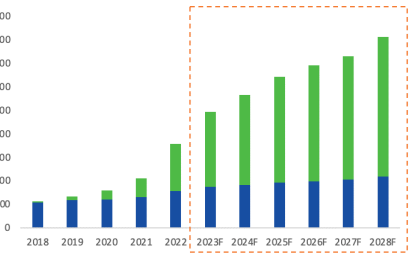


Exhibit 30. FPT Long Chau Revenue Growth Projection

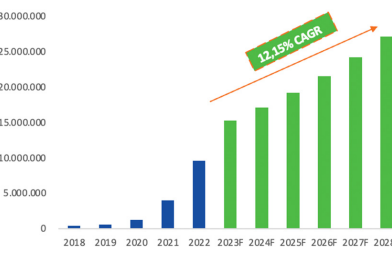


Exhibit 31. FRT Revenue Breakdown Projection

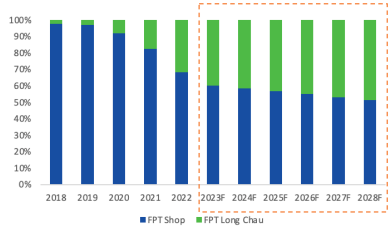


Exhibit 32. FRT COGS Projection

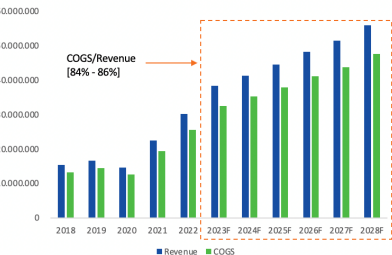
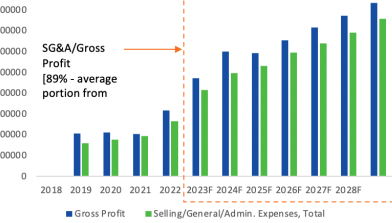


Exhibit 33. FRT SG&A Expense Projection and Contribution to GP



ICT Retail - FPT Shop and F-Studio

Despite saturation period ahead, we expect the revenue continue to grow since FRT would hinder the growth of new stores open with the plan of 50 stores per year in 2024 and 2025 to maintain the profitability and efficiency of FPT Shop and F-studio (Hieu 2023). Moreover, according to the previous industry landscape, consumer electronics and household appliances are not major but moderate-to-low concerns of customers as well as specialty retail sectors, we suspect the new stores growth of FPT Shop would be much sluggish and meticulous (Exhibit 28). And as the firm maps out the slower growth of stores, they show their demand to at least stabilize the revenue per store, hence we take the average revenue per store from historical data for the forecasted value. With the forecasted number of new stores open during 2023F-2028F duration, we anticipate the revenue growth of ICT retail chain would contribute 56% on average with 4,5% CAGR.

Pharma

Throughout the analysis, Long Chau pharma chains have strong prospect to become major driver of FRT revenue as medicine and health care could reach broader customer segmentation and its demand gets along with life-long necessities. Together with the plan from FRT to reach 3000 Long Chau stores in the next 5 years, we “interfere” the 3-digit stores growth in our forecast results (Exhibit 29). Unlike FPT Shop, the main objective of Long Chau is store coverage, hence we would focus to project the revenue growth upon the industry historical and forecasted prospects hereby proportionally scale down to the number of stores to see whether with the market future growth, is it possible for Long Chau to reach 3000 stores in 2028 or not. Revenue growth drivers are: (1) 11,4% historical growth of Vietnam domestic pharmaceutical market value, (2) 0,75% YoY projected market growth (Statista 2023; Statista 2020). Therefore, revenue projection for Long Chau might assumingly exceed this analysis forecast if the firm could maintain the current position as the top leader with significant growth. Applying similar average method, we could forecast the stable and relatively high revenue per store of Long Chau, the assumption to take average value is partly firmied by the 6-month-break-even-point of Long Chau chain, although this break-even point duration could vary upon the store location and coverage, such as rural area with cheaper operational cost would reach the break-even point earlier than 6 months while urban area with central location would reach the point longer, we take the average of 6 months as our final assumption (FRT 2023). In sharp, with the method mentioned, we suspect the revenue growth of FRT would be 12,15% CAGR and contribute approx. 44% to the final revenue, on average (Exhibit 30; Exhibit 31).

Operating Expenses and Net Margin
Cost of Goods Sold (COGS)

As a retailer, FRT’s COGS would not be include and be affected by production or downstream cost but majorly upstream. Therefore, this cost might remain similar proportion to revenue within the range of 84%-86% (Exhibit 32). Most input goods of FRT are imported goods such as ICT devices, especially Apple products averagely contributing 50% of the revenue, while in terms of pharma chains, Vietnam ranks 2nd country in SEA with most imported medicine where the imported medicine value is USD2.308mil compared to exported value is USD105mil (Statista 2023). Therefore, this would form the assumption on average proportion of COGS in relative to revenue due to the heavy reliance on input source of which trend and value might have been captured within market uncertainty and distress. Also, the cost is expected to not exceed 86% due to FRT strong supply network proven via its activities throughout pandemic, especially Long Chau.

Selling, General, and Administrative Expenses (SG&A)

Due to limited breakdown of the expenses like details of Advertisement fee to have a comprehensive snapshot on these expenses, we assume to forecast these expenses as a block without segement breakdowns. Due to the heavy reliance on suppliers and market conditions, FRT could strategize and hinder the rise of SG&A to further elevate or at least maintain the EBIT margin instead of COGS. As there is long-term investment in warehouse to earn cost-proof advantages for FRT and the warehouse in Me Linh – Hanoi starts to operate in 2022, the effectiveness might gain result in 2023 to protect the margin and aid the continuing expansionary plan of Long Chau. Therefore, with the compensation from long-term investment, we suspect SG&A to be slightly lower and quite constant in relative to revenue (Exhibit 33).

Capital Expenditure (CAPEX)

According to the accounting and data input rules from Refinitiv Eikon, we assume the purchase of fixed asset as FRT’s capital expenditure. Therefore, we would break down the capital expenditure by business segments upon the sales growth and intangible assets do not count but tangible and fixed assets such as PP&E (i.e. buildings, office equipment, machinery, etc.). Glancing at the capital expenditure in 2018A-2022A period, the capital expenditure only surges in 2022 due to Viet Han JSC acquisition and warehouse construction cost only, which should be the starting point to forecast (Exhibit 34). Majority of FRT revenue streams from offline channels regardless the increasing contribution of online channels, the figure is eighty-something percent, therefore, we would calculate the capital expenditure based on the revenue growth in relative to each segmen. As proof, the expansion of Long Chau makes this segment’s capital expenditure surpasses the FPT Shop. Also, the purchase and construction cost of the planned investment in second warehouse

Exhibit 34. FRT CAPEX Projection

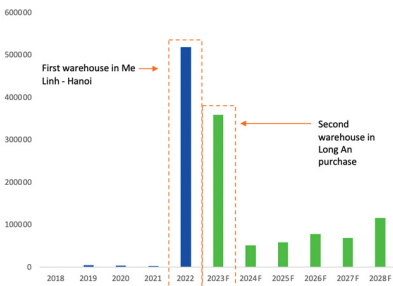


Exhibit 35. FRT Inventory Projection by segments

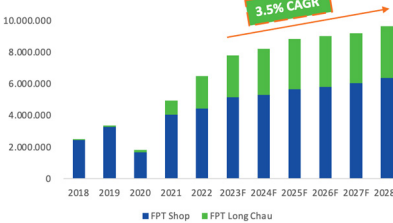


Exhibit 36. FRT Average A/R days (2018-2022)

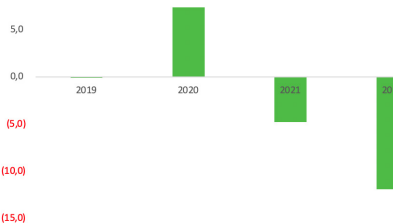


Exhibit 37. FRT A/R Projection

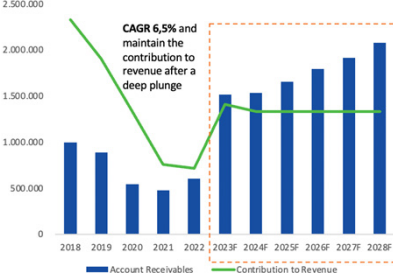


Exhibit 38. FRT A/P Projection

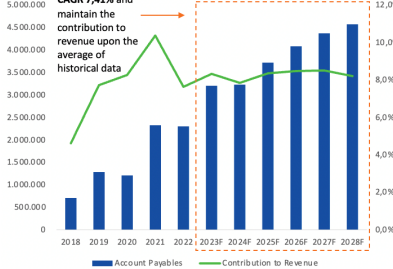


Exhibit 39. FRT Net Borrowings Projection



in Long An is added in 2023F with the announced budget plan at USD10mil ~ VND242.646mil. From 2024 onwards, we do not receive any further information on further plant or factory purchase, hence, we assume FRT capital expenditure would remain proportionally upon the segmented sales growth for store expansion favoring Long Chau and store maintenance favoring FPT Shop.

Changes in Working Capital

Inventory

According to financial analysis above, we keep the assumption that inventories make up most part of the working capital in terms of current assets. FRT business plan has emphasized the Long Chau expansion and the saturation point ahead of FPT Shop, increasing level of inventory shall be in line with two pinpoints. As there is no certain pattern of growth for inventory, we take median method to calculate the growth of inventory by segment. Regarding FPT Shop, we suspect the inventory per store to be stable with minor changes despite the ICT devices would not witness any peak like that of 2021 due to the add-on household appliances and all-time demand for Apple Products which would be a side booster to avoid excessive stock. Meanwhile, the overall inventories of Long Chau increases because of the rising number of stores. All-time demand for drugs/ supplements and being less prone to market shift and customer preferences like ICT sector make Long Chau inventories per store remain at a moderate level, even decreasing over time (Exhibit 35). Therefore, we anticipate the inventory growth rate of 23% by 2028.

Account Receivables (A/R)

We assume the FRT A/R as the Total Receivables excluding the note receivables as note receivables are promises to pay such as interest rates hence, we want to eliminate it to capture a more stringent view on short-term sales to customer. With the efficiency in managing the credit sales, account receivables decrease in general during 2018A-2022A period and its reduction in A/R days (Exhibit 36). This could be understandable when the company has various credit sales programs with more than 200 product lines varying across brands benefited from FPT Shop “0% interest” installment. Even Long Chau pharma chains issue program of credit sales to official cancer-prescription drugs with 0% interest (My 2023). Therefore, with the positive and market-leading sales initiatives, we expect A/R to increase to satisfy the firm’s objective of penetrate the brand images of (1) reasonable prices for everyone, (2) companionship and empathy with financial hardship of customers with the best services and clear medicine origins, to customers’ perception hereby increasing the sales volume and USP of hospital-origin pharma counters in a long run. We could see how the firm sacrifice the short-term net margin with the ambition to gain market domination. A/R shall gradually increase with the CAGR of 6,56% with the contribution to revenue around the range of 3,7% (Exhibit 37).

Account Payables (A/P)

A/P is relatively biased to put further assumptions on its forecast; hence we constantly keep the growth constant in relative to the revenue. The total current liabilities increase over 2018A-2022A period, but the contribution of A/P degrades which might imply that FRT construct the current liabilities with capital leases and short-term debt; the expansionary of both Long Chau and FPT Shop might explain due to FRT needs in-time funding to seize the market momentum and growth potential. Like A/R, we forecast upon its historical contribution to revenue and take the average for the forecasted figure. Also, we expect the A/P would increase in a faster pace compared to A/R because expansionary plan to become the full-serviced healthcare provider will require to expand the supplier network from the old ones which might yet receive the incentive and benefits. Thus, A/P projection will grow with CAGR of 7,41% with the contribution to revenue approx. 8% (Exhibit 38).

Net Borrowings

We focus forecasting net borrowings of the firm upon its contribution to revenue growth (Exhibit 39). As the revenue growth could be a starting point as it is one of the backbones of company growth strategy especially to Long Chau, revenue is crucial to scale up the number of stores as well as invest in improving the ecosystem to make it a full health care service, not just selling medicine (FRT 2023). Looking into Exhibit., we could see net borrowings decrease despite the incremental revenue. This result is aligning with the firm announcement on the working capital management. The net borrowings reduce due to the prospects and efforts of the firm to manage inventory as well as short-term interest expenses. As proof, we could further anticipate the inventory turnover from 2023F-2028F would be below 5x on average. Moreover, FRT also affirms with investors on the expansionary plan of Long Chau would further be aided by equity instead of debt hereby making the decreasing level of forecasted net borrowings align with firm’s strategy.

Depreciation and Amortization

D&A is expected to rise but not in much fluctuated manners as the capital expenditure rise for warehouse and store expansion. According to FRT (2020), Buildings and constructions have useful lives of 25-50, machinery and equipment would last for 3-5 years, therefore, we expect the D&A expense would remain constant at 0,38% of revenue.

Terminal Growth Rate

For perpetuity growth of FRT, we would assume the rate to be upon (1) GDP growth rate, (2) forecasted market growth of OTC pharmaceuticals, household appliances and consumer electronics market in 2028 in the context of Vietnam market. Vietnam forecasted GDP growth rate of Vietnam is 5,8% (O’Neil 2023). Besides, our analysis anticipates the revenue to grow in both drivers hence we take the weighted value of each. For pharma growth, we take the forecasted average revenue contribution of Long Chau multiply with the expected industry growth by 2028, applying similar method to household appliances and consumer electronics, we return the expected growth for FRT regarding to its major segmentations: 7,69%. Henceforth, the terminal growth rate would be the average between 5,8% and 7,69%: 6,75%.

Variable	Value
Net income (2023F – mil VND)	536.538
No. of shares outstanding (mil)	136,24
Forecasted EPS	3.938,180
Forward P/E (times)	24,246
Forecasted price (VND)	95.486,338

EVALUATION

Discrepancies between the real market price of FRT and the intrinsic value could be explained by:

(1) The research bias and lack of accuracy in analysis assumptions could mislead the intrinsic share price. Confirmation bias and overconfidence bias could be referred to situational concept where financial advisors are framing like looking for the prior patterns and overflow their investment recommendations with overconfidence in their abilities or prospects of the markets (Van de Venter and Michayluk 2008; Vidya et.al 2023). Hence, human advisors would associate with several biases which make the valuation less accurate and different from the market price.

(2) The efficient market hypothesis (EMH) states that financial markets would shift in relative to information spread which is fast as an information-processor. Also, the stock price includes more than just historical data, in semi-strong and strong form of EMH, stock price reflects public and private information thus skewing the actual value (Downey 2023). As for FRT, it is traded at a 9,93% higher price compared to our valuation target price of VND91.694. While we assume the share price to be underperformed, the market price reflects the opposite. Looking into the intrinsic value of FRT business activities in 2023, it would be challenging to for the firm to reach the expectation in revenue growth. While the plan for revenue growth in 2023 would be 2-digit, but as of Q3/2023, the growth is approx. 9% YoY while net profit before tax contracts approx. c.153% which is far more drastical than the planned figure. Despite Q4 is usually the time for Apple products to compensate for the loss of 3Q previous, but as the assumptions of underperform, we keep the assumption that FRT share price is underperform and could not meet the year plan due to the low profitability in ROE model. Apple products could not help this time.

Sensitivity analysis

Sensitivity Analysis		Terminal Growth Rate (g)				
		5,75%	6,25%	6,75%	7,25%	7,75%
E(Ri)	18,49%	99.432	101.485	103.713	106.139	108.790
	19,49%	92.818	94.506	96.325	98.294	100.430
	20,49%	87.086	88.489	89.981	91.612	93.357
	21,49%	82.067	83.245	84.503	85.849	87.292
	22,49%	77.636	78.633	79.694	80.824	82.031

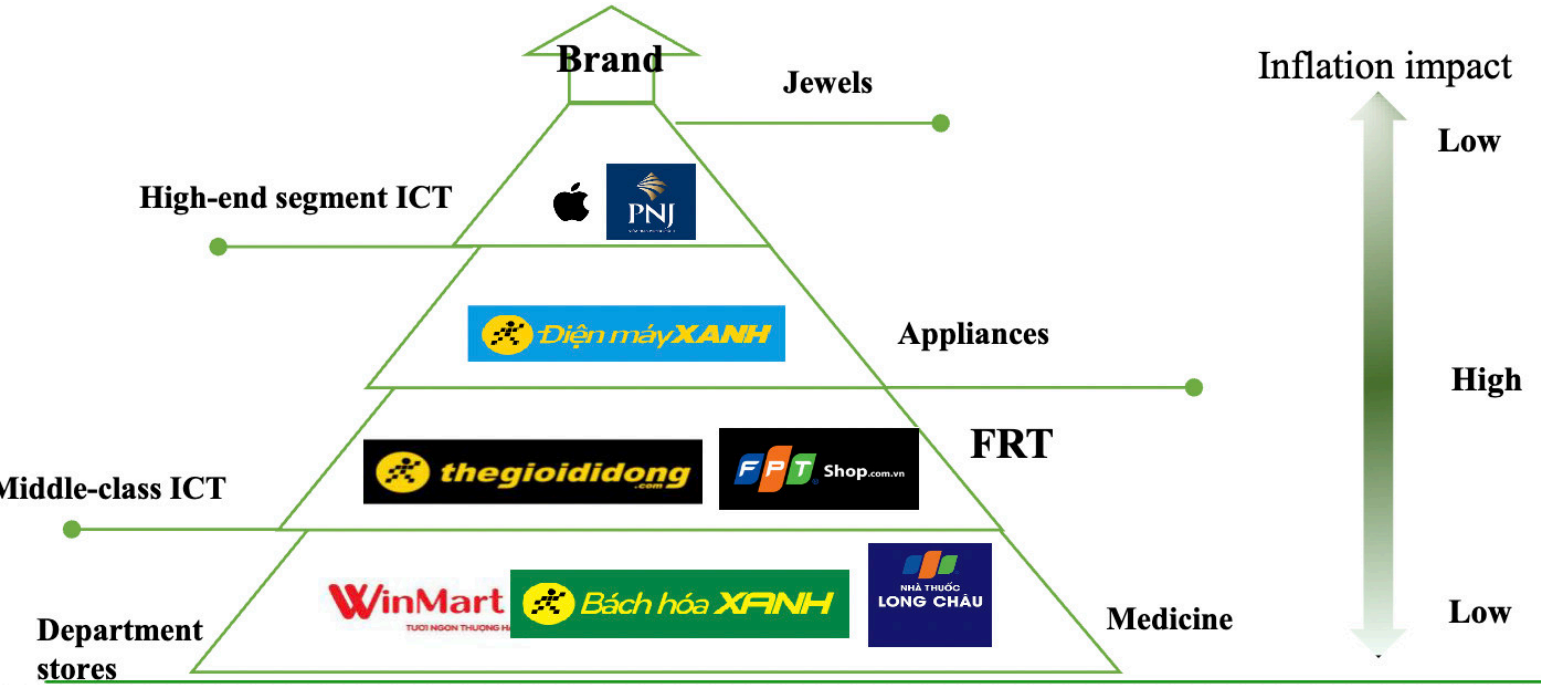
We also conduct a sensitivity analysis between CAPM – E(Ri) and the Terminal Growth Rate – g to further examine whether the changes in these two factors could have sensitivity to our recommendation or not. The analysis returns that FRT share price would have positive relationship with terminal growth rate while every increase in E(Ri) would reduce the share price. We would use the variation of 0,5% for terminal growth rate and 1% for E(Ri). For every increase in g will result increase our share price by 2% while one-level increase in E(Ri) will reduce our share price by 6%. Hence, when the market is in its worst scenario of 5,75% and investors ask for higher return – 22,49%, the share price will decrease by 15% which might affect our recommendation from HOLD to SELL. But when the market is most favorable, g equals 7,75% and E(Ri) equals 18,49%, our recommendation remains HOLD but with a positive prospect on FRT with share price: VND108.790 which is 21% different from our intrinsic value. Therefore, the leverage and fragile financial health of FRT during the massive expansionary stage shall be considered thoroughly as current market price might be overvalued but not too much to eliminate it out of the portfolio. As proof, Dragon Capital recommends that the 5%-12% discount might not be an exit signal for investors during the today climate (Chau 2023).

APPENDICES:

A - JOB OPPORTUNITIES IN PHARMA.



B - INFLATIONARY IMPACTED SEGMENTATION SPLIT.



C - FRT INVENTORY MANAGEMENT

	2019	2020	2021	2022
ROA	4,70%	0,50%	6,90%	4,60%
Inv. Turnover	4,9	4,8	5,7	4,5
Avg. Inv. Days	74,2	75,6	63,9	82,0

D - INCOME STATEMENT. Source: Self-produced and Refinitiv Eikon.

Income Statement	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
Revenue	15.298.335	16.633.960	14.661.417	22.494.961	30.165.801	38.384.189	41.212.985	44.442.666	48.159.575	51.416.923	55.845.117
Cost of Revenue (COGS)	13.254.725	14.522.903	12.620.415	19.343.448	25.462.623	32.399.675	35.294.455	37.911.923	41.008.105	43.695.406	47.522.666
%/rev	87%	87%	86%	86%	84%	84%	86%	85%	85%	85%	85%
Gross Profit	2.043.610	2.111.057	2.041.002	3.151.513	4.703.178	5.984.515	5.918.531	6.530.742	7.151.470	7.721.517	8.322.451
FPT Shop	1.997.524	2.046.232	1.875.943	2.599.962	3.225.615	2.789.754	2.860.058	2.975.297	3.085.391	3.161.761	3.387.525
%/rev	13%	12%	13%	12%	11%	12%	12%	11,8%	12%	12%	12%
Long Chau	46.086	64.825	165.776	557.199	1.496.112	283.155	370.737	483.947	602.516	691.023	660.862
%/rev	0%	0%	1%	2%	5%	1,85%	2%	2,5%	3%	2,86%	2%
Gross profit margin	13%	13%	14%	14%	16%	15,59%	14,36%	14,69%	14,85%	15,02%	14,90%
Selling/General/Admin. Expenses, Tot	1.583.114	1.768.320	1.935.903	2.656.653	4.146.636	4.961.021	5.309.553	5.942.837	6.379.782	6.913.569	7.577.440
FPT Shop	10%	10%	12%	10%	9%	10%	10%	10%	10%	10%	10%
Long Chau	0%	0%	1%	2%	4%	3%	2%	3%	3%	3%	3%
%/rev	10%	11%	13%	12%	14%	13%	13%	13%	13%	13%	14%
Depreciation/Amortization	781	837	1.372	3.811	115.286	146.695	157.506	169.849	184.054	196.502	213.426
%/rev	0,005%	0,005%	0,009%	0,017%	0,382%	0,382%	0,382%	0,382%	0,382%	0,382%	0,382%
Operating Income (EBIT)	402.788	272.823	14.319	546.196	473.968	642.551	610.868	644.701	828.937	812.315	883.241
%growth	21%	-32%	-95%	3714%	-13%	36%	-5%	6%	29%	-2%	9%
%/rev	2,6%	1,6%	0,1%	2,4%	1,6%	1,7%	1,5%	1,5%	1,7%	1,6%	1,6%
Net Income Before Taxes	434.775	278.003	28.427	554.140	485.623	674.058	634.228	672.161	855.377	842.557	918.341
%/ rev	3%	2%	0%	2%	2%	1,76%	1,51%	1,78%	1,78%	1,64%	1,64%
Provision for Income Taxes	87.028	74.155	18.211	110.242	87.549	75.437	73.119	72.912	83.852	78.574	76.779
Net Income After Taxes	347.747	203.847	10.217	443.898	398.074	598.621	561.109	599.250	771.525	763.983	841.562
Net Income	347.763	213.015	24.719	443.732	390.361	536.538	541.061	589.088	762.226	758.963	860.685
FPT Shop	339.920	206.474	22.720	366.074	267.724	271.439	274.752	278.073	282.013	285.695	289.431
%/rev	2%	1%	0%	2%	1,29%	1,39%	1,22%	1,21%	1,42%	1,31%	1,31%
Long Chau	7.843	6.541	1.999	77.658	122.637	124.342	125.852	127.362	129.155	130.831	132.534
%/rev	2%	1%	0%	2%	1,28%	1,39%	1,21%	1,20%	1,41%	1,30%	1,30%
Net profit margin	2,27%	1,28%	0,17%	1,97%	1,31%	1,40%	1,33%	1,33%	1,58%	1,48%	1,54%
%growth	20%	-39%	-88%	1695%	-12%	37%	1%	9%	29%	0%	13%
Basic Normalized EPS	2.500,73	1.514,45	154,27	3.256,94	2.865,19	3.875	3.646	3.908	4.981	4.892	5.316
%/rev	0,02%	0,01%	0,00%	0,01%	0,01%	0,01%	0,01%	0,01%	0,01%	0,01%	0,01%

E - BALANCE SHEET. Source: Self-produced work and Refinitiv Eikon.

Balance Sheet	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
Total Receivables (excl. note)	997.840	888.087	545.692	477.246	603.715	1.512.828	1.533.931	1.654.138	1.792.480	1.913.717	2.078.533
%rev	7%	5%	4%	2%	2%	3,9%	3,7%	3,7%	3,7%	3,7%	3,7%
Total Inventory	2.506.219	3.383.542	1.826.718	4.930.359	6.483.828	7.819.825	8.224.218	8.861.138	9.022.495	9.192.019	9.649.472
growth		35%	-46%	170%	32%						
weighted	16,38%	20,34%	12,46%	21,92%	21,49%	20,37%	19,96%	19,94%	18,73%	17,88%	17,28%
FPT shop inv	2.449.700	3.279.643	1.678.989	4.067.489	4.446.851	5.144.009	5.309.698	5.676.726	5.801.236	6.048.683	6.369.455
FPT shop inv per store	4.596	5.531	2.822	6.287	5.658	5.950	5.806	5.885	5.854	5.879	5.876
growth		20%	-49%	123%	-10%	5,16%	-2,42%	1,37%	-0,53%	0,42%	-0,05%
Long Chau shop inv	56.519	103.899	148.371	871.705	2.062.549	2.675.816	2.914.520	3.184.412	3.221.259	3.143.336	3.280.017
Long Chau inv per store	1.884	1.528	742	2.179	2.063	1.679	1.532	1.424	1.312	1.203	1.105
growth		-19%	-51%	194%	-5%	-12,13%	-8,74%	-7,05%	-7,89%	-8,32%	-8,11%
Total Current Assets (excluding cash)	3.504.059	4.271.629	2.372.410	5.407.605	7.087.543	9.332.653	9.758.148	10.515.276	10.814.975	11.105.736	11.728.004
Accounts Payable	705.892	1.287.522	1.214.790	2.335.743	2.307.356	3.203.476	3.229.605	3.721.367	4.083.414	4.376.167	4.578.796
A/P Growth	-53%	82%	-6%	92%	-1%	39%	1%	15%	10%	7%	5%
%/ Rev	4,6%	7,7%	8,3%	10,4%	7,6%	8,3%	7,8%	8,4%	8,5%	8,5%	8,2%
Accrued Expenses	170.569	183.299	238.744	512.496	653.063	636.293	727.922	844.011	940.674	970.874	1.023.588
weighted	1%	1%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Notes Payable/Short Term Debt	2.947.272	3.698.036	2.485.948	6.047.406	5.363.331						
Current Port. of LT Debt/Cap	--	--	--	--	--						
Other Current liabilities, Total	185.169	139.274	222.966	211.062	150.624	384.304	395.384	437.220	422.065	444.249	523.242
weighted	1%	1%	2%	1%	0%	1%	1%	1%	1%	1%	1%
Total Current Liabilities (without debt)	1.061.630	1.610.095	1.676.500	3.059.301	3.111.043	4.224.073	4.352.911	5.002.598	5.446.153	5.791.291	6.125.625
Total Liabilities	4.033.886	5.320.047	4.173.851	9.123.860	8.515.566						
Working Cap	2.442.429	2.661.534	695.910	2.348.304	3.976.500	5.108.580	5.405.237	5.512.678	5.368.822	5.314.445	5.602.379
Changes in WC	-2.625.458	219.105	-1.965.624	1.652.394	1.628.196	1.132.080	296.657	107.441	-143.856	-54.376	287.933

F - REVENUE PROJECTION BREAKDOWN. Source: Self-produced work and Refinitiv Eikon.

	Historical					Forecast					
FPT Revenue Breakdown (mil VND)	2018	2019	2020	2021	2022	2023F	2024F	2025F	2026F	2027F	2028F
Total Revenue	15.298.335	16.633.960	14.661.417	22.494.961	30.165.801	38.384.189	41.212.985	44.442.666	48.159.575	51.416.923	55.845.117
%growth	16,37%	8,73%	-11,86%	53,43%	34,10%	27,24%	7,37%	7,84%	8,36%	6,76%	8,61%
ICT	15.298.357	16.123.176	13.475.727	18.558.083	20.688.829	23.092.195	24.063.013	25.208.972	26.588.987	27.225.509	28.714.446
%growth		5,39%	-16,42%	37,71%	11,48%	11,62%	4,20%	4,76%	5,47%	2,39%	5,47%
%weight	97,74%	96,93%	91,91%	82,50%	68,58%	60,16%	58,39%	56,72%	55,21%	52,95%	51,42%
Number of stores (x)	533	593	595	647	786	865	915	965	991	1.029	1.084
%store growth		11%	0,34%	9%	21%	10,0%	5,8%	5,5%	2,7%	3,8%	5,4%
Rev per store	28.702	27.189	22.648	28.683	26.322	26.709	26.310	26.134	26.832	26.461	26.489
Pharmacy	345.000	510.783	1.190.840	3.977.188	9.595.942	15.291.995	17.149.972	19.233.694	21.570.588	24.191.414	27.130.671
%growth		48,05%	133,14%	233,982%	141,27%	59,36%	12,15%	12,15%	12,15%	12,15%	12,15%
%weight	2,26%	3,07%	8,12%	17,68%	31,81%	39,84%	41,61%	43,28%	44,79%	47,05%	48,58%
Number of stores (x)	30	68	200	400	1000	1.594	1.902	2.236	2.455	2.613	2.968
%store growth		127%	194%	100%	150%	59%	19,4%	17,5%	9,8%	6,4%	13,6%
Rev per store	11.500	7.512	5.954	9.943	9.596	9.596	9.017	8.603	8.785	9.257	9.142
Total weight	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

G - FCFE CALCULATION. Source: Self-produced work and Refinitiv Eikon.

FY	2023	2024	2025	2026	2027	2028
VND (VND millions)						
Net Income	536.537,71	541.060,85	589.088,45	762.226,14	758.963,00	860.684,70
Depreciation Expense	146.694,58	157.505,52	169.848,54	184.053,62	196.502,37	213.425,80
Capital Expenditures (negative numbers in the statement means cash outflow)	(359.049,10)	(50.511,97)	(58.165,24)	(77.160,29)	(68.362,67)	(115.444,17)
Change in Working Capital (negative numbers in the statement means cash outflow)	(1.132.080,08)	(296.657,38)	(107.440,52)	143.856,05	54.376,47	(287.933,35)
Net Borrowing	3.722.309	1.105.504	1.284.335	1.375.491	1.072.733	1.366.545
FCFE (FV)	2.914.412,40	1.456.900,69	1.877.665,79	2.388.466,20	2.014.212,00	2.037.277,59

FCFE		1	2	3	4	5	
	FY	2023	2024	2025	2026	2027	2028
Step 1: Estimate your Future FCFE	g	20,49%	20,49%	20,49%	20,49%	20,49%	6,75%
\$ -	FCFE	2.914.412,40	1.456.900,69	1.877.665,79	2.388.466,20	2.014.212,00	2.037.277,59
PV terminal							14.823.032,50
PV 5 years @ 20,49%	DCF	d2.418.800,23	d1.003.524,41	d1.073.409,12	d1.133.222,22	d6.630.037,68	
Intrinsic Value	Intrinsic Value	d89.981					
	Market Value	d101.800	As 8 Dec 2023				
	HOLD						

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