

Sector note

23 Dec 2021

RETAIL

Gather steam in “new normal”

- After being hurt by social distancing in 3Q21, Vietnam retail sales of goods have recovered rapidly since Oct 21.
- We expect big retailers will ride on the recovery of domestic consumption and change in shopping behavior from offline to online.
- Our retail stock picks: MWG, PNJ, and VRE.

Vietnam retail sales of goods have recovered rapidly since Oct 21

After being hurt by social distancing in 3Q21, Vietnam retail sales of goods have recovered rapidly by increasing 12.5% mom in Oct 21 and 15.2% mom in Nov 21, respectively. Oct – Nov 21 sales of listed companies also posted a strong growth like revenue of MWG's TGDD&DMX chain (Mobile phone and consumer electronics) increased by 53% / 36% yoy and PNJ's revenue increased by 13.8% / 18.9% yoy in Oct 21 / Nov 21, showing the positive results in the new normal.

We do not expect wide social distancing in 2022F

Vietnam has entered a “new normal” with “Living with pandemic” strategy since Sep 21. With high vaccinated rate and the terrible impact of supply chain disruption in 3Q21, we believe retailers and distributors will no longer bear wide-range social distancing from 4Q21 and beyond.

Big retailers will gain more market share in “new normal”

According to Ministry of Planning and Investment, more than 33.000 enterprises of wholesale, retail and repair industries have filed for closure in 11M21. We believe that the majority of these companies are small-scale companies, which be hurt by social distancing more than large-scale companies. Therefore, we expect large size retailers, especially listed retailers, to have a quicker recovery than others and gain a strong growth in 2022F.

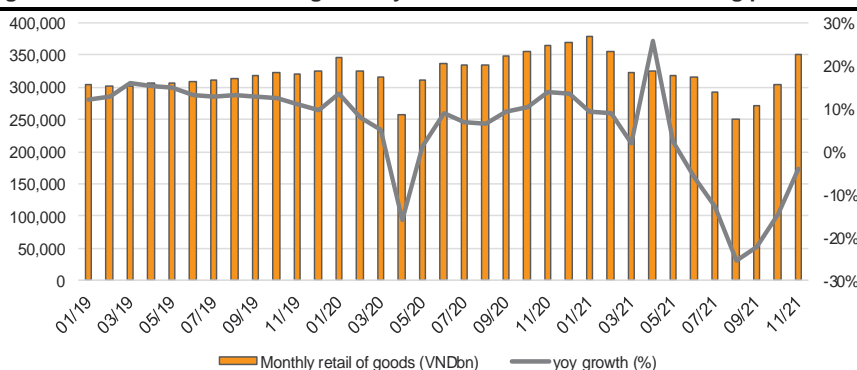
We see three trends to accelerate revenue growth for retail industry

Following the recovery of retailers, we see three trends to accelerate growth for retail industry, includes 1) Omni channel and online channel to be a key driver for retail company, 2) Growing demand for authorized high-end smartphone and work-from-home products will continue and 3) modern grocery chain benefits from the post-pandemic shift in consumption toward modern trade. Therefore, companies that are operating and applying strategies to follow the above trends will achieve good growth in the coming period.

Stock picks: We prefer MWG, PNJ, and VRE

We prefer stocks that 1) have a leading position in their business, 2) benefit greatly from above trends to accelerate their growth, and 3) have attractive valuations. Therefore, our stock picks for retail sector are MWG, PNJ and VRE. Main downside risk include: another wide-range social distancing in Vietnam.

Figure 1: Vietnam's retail sales gradually recovered after social distancing period in 3Q21



Source: VNDIRECT RESEARCH, GSO

Analyst(s):



Bach Phan Nhu

bach.phannhu@vndirect.com.vn

Analyst

Hai N

hai.nc

GATHER STEAM IN “NEW NORMAL”

2021 recap: a year of turbulence

3Q21's results of retailers were hit hard by Covid-19

3Q21's revenue and net profit of listed retailers and distributors in our watchlist declined by 10.3% yoy and 52% yoy respectively, demonstrating the impact of social distancing in 3Q21 due to the 4th Covid -19 wave. However, thanks to the strong growth in 1H21, 9M21 revenue and net profit of these companies still maintained a positive growth by 11.2% yoy and 8.3% yoy, respectively.

In our watch list, non-essential products retailer and commercial real-estate retailer were heavily struck by social distancing period in 3Q21, represented by Phu Nhuan Jewelry JSC (PNJ VN, ADD, VND128,200) and Vincom retail JSC (VRE VN, ADD, VND36,600) when their revenue decreased by 77.6% yoy and 55.3% yoy in 3Q21, net profit decreased by 95.6% yoy and net loss of VND160bn, respectively.

In contrast, consumer electronics, essential goods distributors, and retailers were less impacted by social distancing in 3Q21 and remained well performance in 9M21 as demand of these products remained, with notable stocks:

- Digiworld Corp (DGW VN, Not rated) recorded 9M21 revenue and net profit growth of 53.2% yoy and 96.4% yoy thanks to the strong demand for laptops and high - end genuine phone products.
- FPT Digital Retail JSC (FRT VN, Not rated) which record net profit of VND108bn in 9M21 (compared to net loss of VND10bn in 9M20) thanks to the strong demand for laptops and high - end genuine phone products and well performance of Long Chau drug store chain during social distancing period.

Figure 2: Listed retailers posted mixed results in 9M21

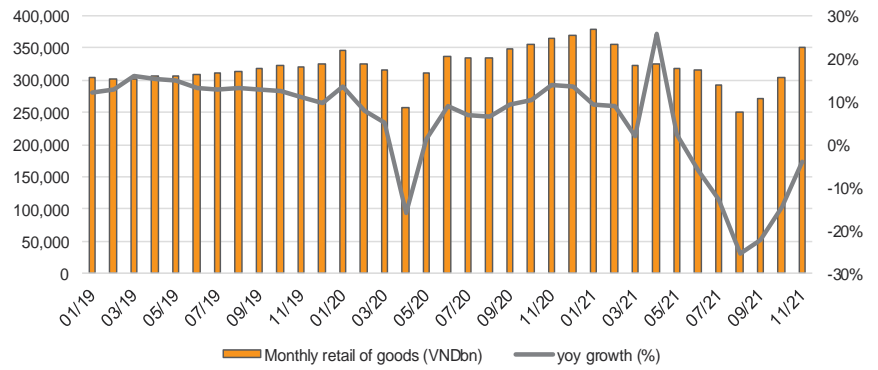
Stock	Marcap (VNDbn)	3Q20 Revenue (VNDbn)	3Q21 Revenue (VNDbn)	% yoy	9M20 Revenue (VNDbn)	9M21 Revenue (VNDbn)	% yoy	3Q20 Net profit (VNDbn)	3Q21 Net profit (VNDbn)	% yoy	9M20 Net profit (VNDbn)	9M21 Net profit (VNDbn)	% yoy
MWG	100,876	25,714	24,333	-5.37%	81,352	86,820	6.72%	951	785	-17.37%	2,976	3,336	12.11%
VRE	67,487	1,760	787	-55.27%	5,076	4,524	-10.88%	572	24	-95.76%	1,407	1,193	-15.26%
PNJ	23,078	3,922	877	-77.64%	11,668	12,514	7.25%	202	(160)	From net profit to net loss	642	576	-10.32%
DGW	11,890	3,624	3,825	5.54%	8,518	13,049	53.19%	75	107	42.81%	168	330	96.41%
FRT	4,597	3,432	4,993	45.48%	10,729	14,018	30.65%	(0)	47	From net loss to net profit	(10)	108	From net loss to net profit
PET	2,691	4,368	3,873	-11.33%	9,726	11,485	18.09%	49	55	12.13%	105	155	46.83%
PSD	931	2,906	2,338	-19.57%	6,353	5,985	-5.78%	22	38	71.78%	52	88	67.58%
Total		45,726	41,026	-10.28%	133,423	148,395	11.22%	1,871	898	-52.01%	5,342	5,786	8.32%

Source: VNDIRECT RESEARCH, Fiiipro

We saw some retailers to gather growth since Oct 21

Retail sales of goods in Vietnam have recovered rapidly since Oct 21, shortly after the “new normal” state was established and business activities in the southern region reopened since Mid Sep 21. Retail sales of goods increased by 12.5% mom in Oct 21 and 15.2% mom in Nov 21, respectively, reaching VND315,000bn in Nov 21. In 11M21, Vietnam retail sales of goods reached VND3,430,600bn (-5.5 % yoy).

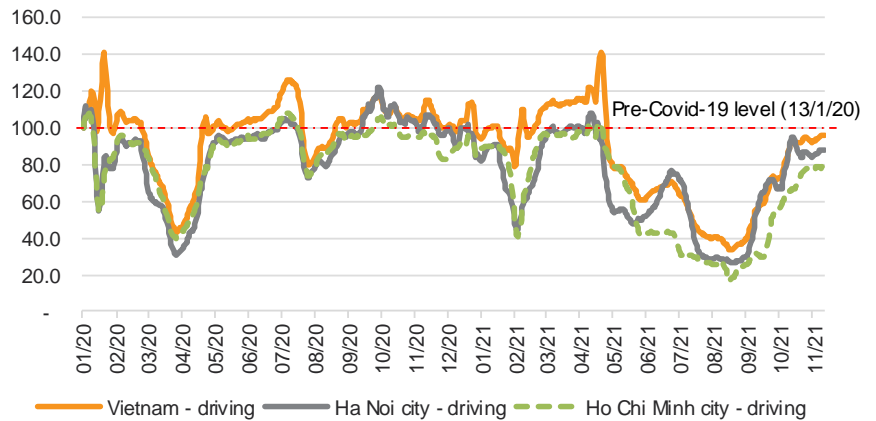
Figure 3: Vietnam monthly sale of good from 2019 – Nov 21



Source: VNDIRECT RESEARCH, GSO

According to Apple maps data, mobility trends in Vietnam are gradually recovering to pre-Covid-19 level (13 Jan 2020), from about -70% in Sep 21 to -12.1% in 24 Nov 2021. In which, mobility trends in Hanoi reached -4.1% and in HCMC reached -21.7% compared to pre-Covid-19 level. This trend indicates a good recovery of the Vietnamese economy to back to growth stage in FY22F.

Figure 4: Mobility trends from 2020 – Nov 21

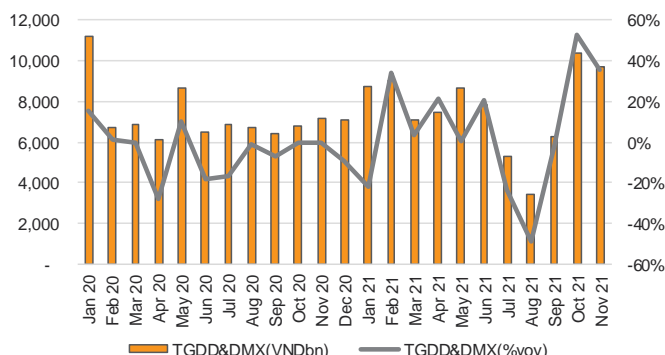


Source: VNDIRECT RESEARCH, GSO

For listed companies, Oct - Nov 21 sales of retail chains posted a strong growth, firmed a strong recovery trend of listed companies, represented by revenue of MWG's TGDD&DMX chain and PNJ :

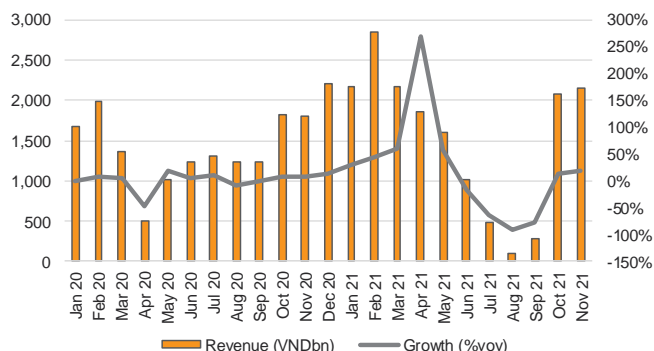
- For the TGDD&DMX chain, after all stores reopened, revenue of these two chains grew strongly, increased 53% yoy / 36% yoy to VND10,355bn / VND9,700bn in Oct 21 / Nov 21 thanks to (1) demand for high-end smartphone products is still strong when this customer segment is less affected by Covid-19, (2) high pent-up demand effect and (3) increasing iPhone sales thank to the launch of new 13 series altogether with the introduction of Topzone chain stores
- For PNJ, thanks to the re-opening of stores right in the wedding season and the pent-up demand for weddings in 3Q21, combined with a series of strategies to boost retail sales, PNJ's revenue increased by 13.8% yoy / 18.9% yoy to VND2,090bn / VND2,160bn, in Oct 21 / Nov 21.

Figure 5: Monthly revenue of TGDD&DMX from 2020 – Nov 21



Source: VNDIRECT Research, Company reports

Figure 6: Monthly revenue of PNJ from 2020 – Nov 21



Source: VNDIRECT Research, Company reports

2022F Outlook: Gather steam in “new normal”

We believe listed retailers and distributors which be large size companies and survived through Covid-19 will have a strong recovery rate and back to growth stage in 2022 thanks to 1) “New normal” state will prevent wide - range social distancing, which hurt retailers and distributors in 3Q21 and 2) large companies will tap more share from other retailers and distributors that have left the market.

We do not expect wide social distancing in 2022F

After gradually reopening the economy in southern provinces in early Oct 21, the government issued resolution No.128/NQ-CP stipulating "safe adaptation, flexibility, control effectiveness of the Covid-19 epidemic", in which there are 4 levels of pandemic to apply with the smallest area being the "communal" unit.

With 1) the application of resolution No. 128/NQ-CP, 2) the high vaccinated rate and 3) the impact of supply chain disruption in 3Q21, we believe retailers and distributors will no longer bear wide-range social distancing in the coming period. However, if the new mutation virus makes another hard pandemic situation which lead to many areas fall to level 3-4 of pandemic, it will affect the operation of retail businesses to varying level as below.

Figure 7: Retailer’s immunity level to new waves of Covid-19

	Immunity level to new waves of Covid-19	Comments
MWG	●	MWG’s operation process will not be affected when all of MWG’s stores are allowed to open throughout all levels of pandemic. BHX store chain can benefit when other sales channels such as traditional markets are limited open, to offset the reduction in sales of TGDD and DMX in case of lower demand for consumer electronic products.
FRT	●	FRT’s operation process will not be affected when all of FRT’s stores are allowed to open throughout all levels of pandemic. Long Chau store chain can benefit when people hoard medicine during epidemic period while FPT Shop may maintain its revenue level due to demand of smartphone and laptop still strong.
PNJ	◐	PNJ’s operation process will not be affected when all of PNJ’s stores will allowed to open throughout all levels of pandemic. However, new wave of pandemic will affects consumer demand for jewelry products and halt wedding ceremonies.
VRE	◑	VRE has been hardest hit among retail-related businesses, although VRE’s malls are allowed to open at all 4 levels of the epidemic but mall’s tenants operation may be restricted or limited if tennnant’s business belongs to a "high risk" group, such as a movie theater, which can cause VRE to offer more support packages for these customer groups.
DGW	●	
PET / PSD	●	Distributor’s operation process will not be affected by all levels of pandemic.

Source: VNDIRECT RESEARCH

Big retailers will gain more market share from rivals that have left the market

According to Ministry of Planning and Investment, the number of newly established companies in 11M2021 is 105,618, decreased 15% yoy and the number of companies returning to operation is 40,530, decreased 0.7% yoy. It shows that competition risks from new businesses are low in 4Q21 and helping the existing companies take advantages to grab more market share in their business.

On the other hand, there were 106,441 companies left market in 11M21, increased 13.9% yoy. In which, more than 31% of the companies belong to the wholesale, retail and repair industries. We believe that the majority of these companies are small-scale companies, which be hurt by social distancing more than large-scale companies with strong brand and strong management system. Therefore, we expect large size retailers and distributors to have a quick recovery and strong growth in 2022F.

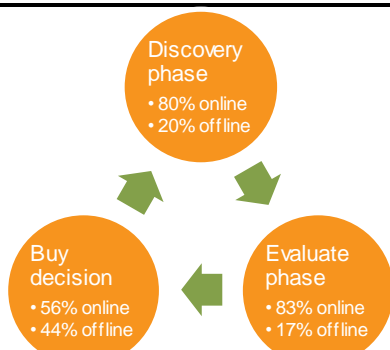
Among listed companies in our projection, we expect retailers to have a strong growth in net profit in 2022 with MWG's expected net profit to reach VND6,598bn (+40.3% yoy), PNJ's expected net profit is VND1,616bn (+60.6% yoy), VRE's expected net profit is VND3,679bn (+68.9% yoy).

We see three trends to accelerate revenue growth for retail industry

#1. Omni channel and online channel to be a key driver for retail company in “new normal”

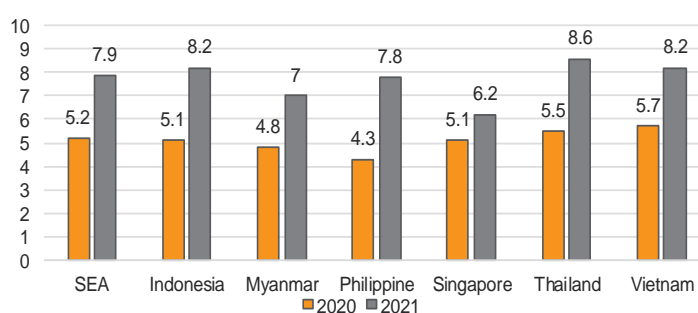
Browsing and researching about products are now done mostly online instead of offline. At the same time, the share of spending that goes to offline channels is shrinking, according to research by Facebook and Bain&Company. In the first two stages of the consumer journey—the Discovery stage and Evaluate stage—at least 80% of channels used by consumers are online. Browsing products, comparing items, checking reviews and conducting research are now mostly done in channels like social media, ecommerce website, brand-owned websites and videos. But in the final stage of the consumer journey, the buy decision stage, online is only starting to capture an increasing share of sales.

Figure 8: Online channels have become more prevalent at each step of the consumer journey



Source: VNDIRECT Research, Facebook and Bain&Company

Figure 9: Digital consumer: Average number of websites used per respondent in Facebook and Bain&Company report (pages)



Source: VNDIRECT Research, Facebook and Bain&Company

For retailers, we believe that introducing an omnichannel strategy to complete the consumer journey is the right strategy to boost listed retailers and distributors' revenue. According to data from iPrice, Shopee and Lazada are the leading e-commerce sites in Vietnam with monthly visits in 3Q21 up to 77.8m and 21.4m. Therefore, putting stores on e-commerce sites will help retailers and distributors expand their customer base and increase sales in the near future.

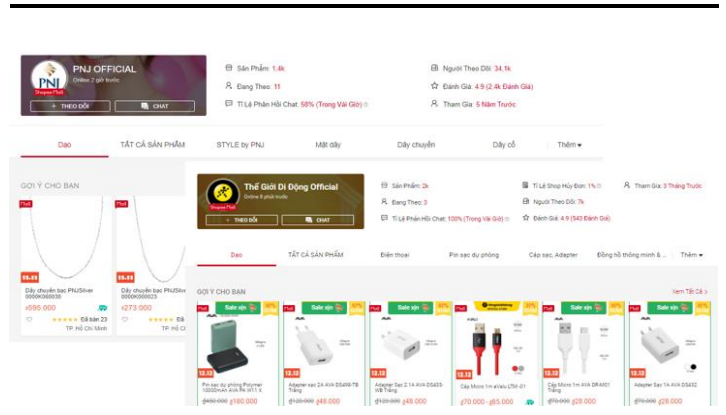
With this trend, we expect companies that have invested in and built a good online platform, built community pages and diversified selling channels on e-commerce sites to benefit from the omnichannel trend, in which MWG and PNJ are prominent retail companies.

Figure 10: PNJ's promotion campaign on social media



Source: VNDIRECT Research, Company social page

Figure 11: Retailers join e-commerce website



Source: VNDIRECT Research, Shopee

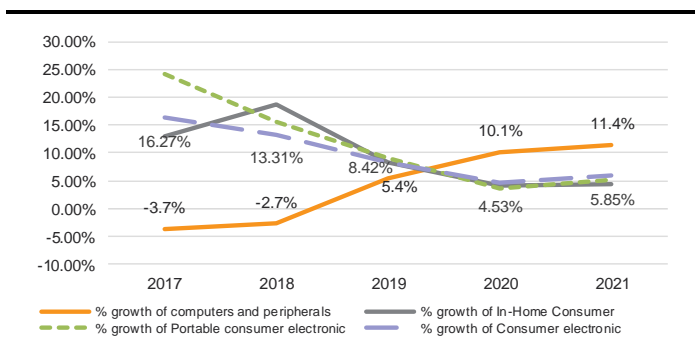
#2. Growing demand for authorized distributed high-end smartphone and working-from-home products will continued post pandemic

For high-end smartphone: Although mobile phone market has been gradually saturated with growth in the period of 2019-2021 only around 5-7% p.a but for FY22F and beyond, we believe authorized mobile phone distributors will maintain a higher growth thanks to 1) demand for high-end products is less affected by the pandemic, 2) the tightening of Hand-carrying regulations help authorized retailers tap more share from individual retailers and 3) tightening warranties, which require authorized receipts for Apple products from authorized resellers will concentrated Apple products demand into authorized resellers.

For working-from-home products: According to the Vietnam population survey, only 30.7% of households have computers (including desktops and laptops), showing that the computer market still has great growth potential, especially in pandemic and post-pandemic period when the demand for computer products will strongly increase thanks to the need for work-from-home and entertainment.

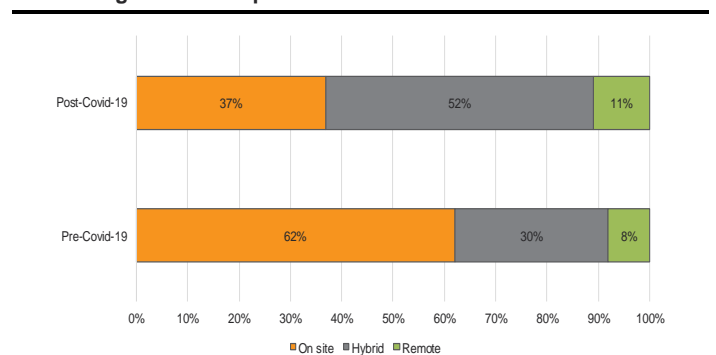
Given these trends, we expect MWG and FRT to benefit the most from the sharp increase in demand for genuine Apple products and laptops, while DGW and PSD will benefit from distribution phase to distribute these products to retailers.

Figure 12: Mobile phone and consumer electronic market growth in period of 2016-21F (% yoy)



Source: VNDIRECT Research, Euromonitor

Figure 13: Working models pre-Covid-19 and desired working models post-Covid-19 (% survey participants) firm growing demand for working-from-home products

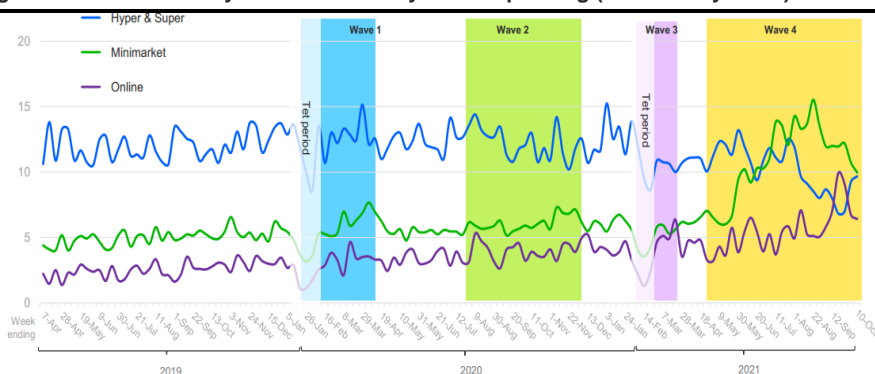


Source: VNDIRECT Research, McKinsey

#3. Modern grocery chain benefits from the post-pandemic shift in consumption toward modern trade

According to Kantar Worldpanel, In Mid-Oct 21, the market shares of online channels and minimarkets fell back to around 10%/6% after peaking during period in Aug – Sep 21. However, the market shares still at a high level compared to pre-epidemic (about 3% for online channels and 5% for minimarket channels) showing the ability to maintain operations during social distancing period of these channels and a shift in consumer trends after the pandemic.

Figure 14: Value share by channel – Weekly FMCG spending (Urban 4 key cities)



Source: VNDIRECT RESEARCH, Kantar Worldpanel

According to the Ministry of Industry and Trade (MoIT) projections, by FY25F, the added value of the domestic trade sector will contribute about 13.5% of GDP, and the total retail sales of goods and services will rise about 9-9.5% p.a. print FY21-25F. The proportion of total retail sales of goods by modern trade will reach about 35-40% by 2025F. With MoIT’s plan, the modern trade sale can maintain a growth momentum of over double digits throughout the period 2021-25F.

Therefore, enterprises with modern sales chains will maintain their growth momentum better than the general market. We believe MWG is a leading stock in this trend as they build modern grocery retail chains – Bach Hoa Xanh - with extensive coverage throughout the south of Vietnam.

Stock picks: We prefer MWG, PNJ, and VRE

MWG (MWG VN, ADD, VND180,500) is the biggest retailer in the electronics sector market with two chains, The Gioi Di Dong (mobile phone chain) and Dien May Xanh (consumer electronics chain), as well as a growing modern retail chain in the grocery market, Bach Hoa Xanh. We expect MWG can post a robust growth in net profit of 40.3% yoy/26.2% yoy in FY22/23F thanks to revenue growth from genuine Apple products as well as increasing market share in the retail market after the pandemic.

PNJ (PNJ VN, ADD, VND128,200) is the largest jewelry retailer in Vietnam, with a jewelry market share of more than 30% in jewelry chains in Vietnam and continues to expand after the pandemic. PNJ reported that Oct 21 revenue posted a strong growth of 13.5% yoy, confirming PNJ’s strong recovery after social distancing period. We expect PNJ can post a robust growth in net profit of 60.7% yoy/22.6% yoy in FY22/23F.

VRE (VRE VN, ADD, VND36,600) VRE is Vietnam’s largest commercial real estate operator, with more than 1.7m sqm of retail space in 80 shopping malls nationwide and four formats to target many customer segments. We believe VRE will benefit the most from potential growth in modern trade in Vietnam’s retail industry when risks from social distancing are reduced than FY20-21 period.

Figure 15: Retailers peers

Company	Bloomberg Ticker	Recom.	Share Price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	P/E (x)			3-year EPS			P/BV (x)			ROE (%)			ROA (%)		
						TTM	FY22F	FY23F	CAGR (%)	TTM	FY22F	FY23F	TTM	FY22F	FY23F	TTM	FY22F	FY23F		
CE&Grocery retailer																				
Mobile World Investment Corp	MWG VN	ADD	134,800	180,500	4,190	22.0	15.2	12.3	18.0%	5.1	3.8	3.0	25.2%	25.6%	29.3%	9.4%	8.7%	10.4%		
Consumer electronics peers																				
Erajaya Swasembada Tbk PT	ERAA LJ	na	590.0	na	662	9.1	8.8	7.4	58.8%	1.6	1.5	1.3	18.9%	17.8%	18.5%	9.9%	9.3%	9.8%		
FPT DIGITAL RETAIL JSC	FRT VN	na	87,500	na	301	60.5	41.4	40.9	-36.4%	5.2	5.4	4.8	9.0%	13.4%	12.6%	1.7%	na	na		
Sunfar Computer Co Ltd	6154 TT	na	17.60	na	51	11.6	na	na	-13.1%	1.1	na	na	10.0%	na	na	5.9%	na	na		
Tsann Kuen Enterprise Co Ltd	2430 TT	na	37.65	na	225	11.2	na	na	7.4%	1.3	na	na	11.5%	na	na	3.8%	na	na		
Average - Consumer electronics peers						20.1	25.1	24.1	6.3%	2.2	3.4	3.1	13.8%	15.6%	15.5%	7.0%	9.3%	9.8%		
Grocery retailing peers																				
Taiwan FamilyMart Co Ltd/Taiwan	5903 TT	na	249.0	na	1,998	37.7	41.0	25.1	14.8%	9.4	8.8	7.4	24.4%	20.9%	32.2%	2.4%	2.7%	4.3%		
Sumber Alfaria Trijaya Tbk PT	AMRT LJ	na	1,215	na	3,548	33.0	30.6	24.9	61.0%	6.2	5.9	5.2	20.5%	20.1%	21.4%	5.9%	6.0%	6.8%		
Average - Grocery retailing peers						35.3	35.8	25.0	37.9%	7.8	7.4	6.3	22.5%	20.5%	26.8%	4.1%	4.3%	5.5%		
Jewelry retailers																				
Phu Nhuan Jewelry JSC	PNJ VN	ADD	94,500	128,200	937	22.4	23.1	15.8	11.8%	3.9	3.8	3.2	18.3%	18.4%	22.9%	11.6%	12.0%	14.6%		
Chow Tai Fook Jewellery Group Ltd	1929 HK	na	13.88	6.00	17,793	18.8	19.1	16.2	27.7%	4.3	4.1	3.7	24.5%	21.8%	23.4%	10.1%	10.6%	11.0%		
Chow Sang Sang Holdings Ltd	116 HK	na	10.44	na	907	8.1	7.1	6.4	-12.1%	0.6	0.6	0.5	7.4%	8.1%	8.6%	5.4%	5.9%	6.2%		
Average - Jewelry retailers						13.5	13.1	11.3	7.8%	2.4	2.3	2.1	16.0%	15.0%	16.0%	7.7%	8.2%	8.6%		
Retail real estate companies																				
Vincom Retail JSC	VRE VN	ADD	31,500	36,600	3,121	33.0	38.8	25.0	25.2%	2.3	2.3	2.1	7.4%	6.1%	9.0%	5.6%	3.9%	6.4%		
SM Prime Holdings Inc	SMPH PM	na	34.95	na	20,133	52.0	45.1	29.0	-5.9%	3.1	3.0	2.8	6.1%	6.8%	9.8%	2.6%	3.3%	4.7%		
Central Pattana PCL	CPN TB	na	55.00	63.25	7,312	33.5	39.3	26.8	-10.4%	3.5	3.2	3.0	10.7%	9.5%	11.9%	3.1%	2.8%	4.0%		
Pakuwon Jati Tbk PT	PWON LJ	na	462.0	700.0	1,565	21.2	17.1	13.5	-7.7%	1.4	1.4	1.3	7.1%	7.8%	9.2%	3.8%	4.2%	5.0%		
Average - Retail real estate peers						35.6	33.8	23.1	-8.0%	2.7	2.5	2.3	8.0%	8.0%	10.3%	3.2%	3.4%	4.6%		

Data as at 22 Dec 2021

Source: VNDIRECT RESEARCH, BLOOMBERG

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

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

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

Sector Ratings

Definition:

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

Hien Tran Khanh – Research Director

Email: hien.trankhanh@vndirect.com.vn

Bach Phan Nhu– Analyst

Email: bach.phannhu@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>