true friend KIS Viet Nam Securities Corporation

Sector Note

31 Aug 2022

Retail

Non-rated

ICT retail gains spotlight in 3Q22F

Revenue recovered in 2Q22

Retail stores, except for pharmacies and F&B markets, were closed during the lockdown period to prevent Covid-19 expansion in the 2Q21. Therefore, retail performance in 2Q22 witnessed a remarkable improvement, after the government's successful control of Covid-19 and gradual recovery of the economy. The reopening also ensures the fluent input flows that gradually balance the GPM to the normal level before Covid-19. Retailers in information communications technology (ICT), automobiles, personal goods, airport witnessed a revenue growth of 13/35/83/199% yoy in 2Q22.

Gross margin diverged by product line

GPM of ICT retailers in 2Q22 dropped by nearly 1%p qoq to 15.5% due to lower selling prices, which stemmed from outnumbering supply when China steadily opened border gates with Vietnam. GPM of personal goods retailers in 2Q22 decreased by 1.1%p yoy, attributed to a larger contribution of gold bars revenue amid inflation and change of retailed product mix. GPM of the automobile industry rose by 1%p qoq and 3%p yoy, driven by the higher price of scarce supply. GPM of airport retailers in 2Q22 improved as compared to 2Q21 thanks to Vietnam's reopening policy with the resume of local flights and some international flights.

Retail keeps reviving in 2H22F

Recovery of the economy after reopening stimulates retail, in the contrast, the higher inflation rate is raising shopping hesitation. We anticipate growing ICT sales thanks to new models, especially the new iPhone 14 model coming in September 2022 and Vietnam's plan of shutting down 2G services from 2023F. With the Ghost month lies in August 2022, we anticipate a heightening revenue of automobiles from September 2022.

On the other hand, the automobile market will welcome many new models, many of which have had pre-orders. The series of products launched in 2H22 includes many high-rise vehicles. The group of foreign customers, which accounts for 90% of the total number of customers, has not yet recovered as before the pandemic. According to Vietnam National Administration of Tourism, Chinese tourists contribute 28% of Vietnam's foreign tourists in 2019, Vietnam's tourism is closely watching the updates on China's Zero Covid policy.

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In this report, we analyze the specific retailers in ICT, personal goods, automobile and airport retailers.

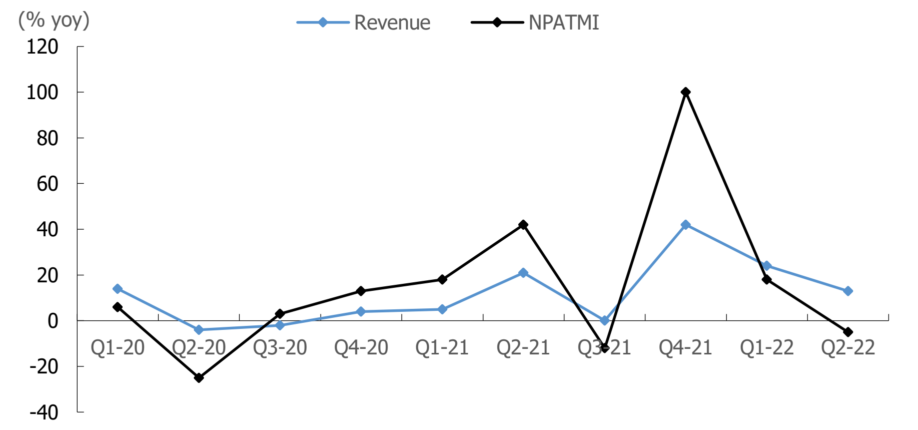
Table 1. Aggregated earnings of 4 listed ICT retailers (VND bn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	37,019	45,364	41,705	12.7	(8.1)
NPATMI	1,254	1,624	1,191	(5.0)	(26.7)

Source: Company data, KIS

Based on our data collected from 4 listed companies in ICT retailing sector, revenue slightly decreased by 8.1% qoq mainly due to decreased sales of air conditioners, meanwhile, revenue increased 12.7% yoy thanks to the recover of supply sources from China. NPATMI growth went down to -5% yoy in 2Q22, cooling off the plunge of 100% yoy in 4Q21 and 24% yoy in 1Q21. During the 4Q21-2Q22 period, NPATMI yoy growth experienced a steeper fall than revenue growth, mainly attributed to higher costs, significantly in MWG related to the restructuring of BHX chain.

Figure 1. Declining revenue growth in 2Q22 due to off-season



Source: Company data, KIS

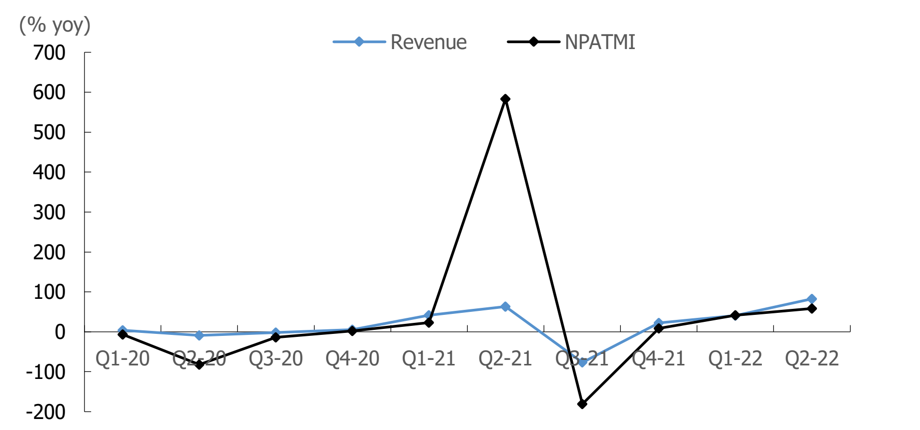
Table 2. Aggregated earnings of 3 listed personal goods retailers (VND bn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	4,554	10,196	8,318	82.7	(18.4)
NPATMI	232	723	369	59.1	(49.0)

Source: Company data, KIS

Aggregating 4 listed personal goods retailers, their performance significantly improved. The revenue growth in 2Q22 was 83% yoy, doubled that of 1Q22, due to the low base in 2Q21. Compared to 1Q22, the revenue in 2Q22 decreased by 18% qoq, after the wedding season and pent-up demand after the Covid-19 pandemic. NPAT-MI yoy growth rate went in a similar rising trend but at a slower pace which can be explained by the high contribution of SG&A fixed costs.

Figure 2. Rising revenue growth in 2Q22 yoy, compared to the lockdown period



Source: Company data, KIS

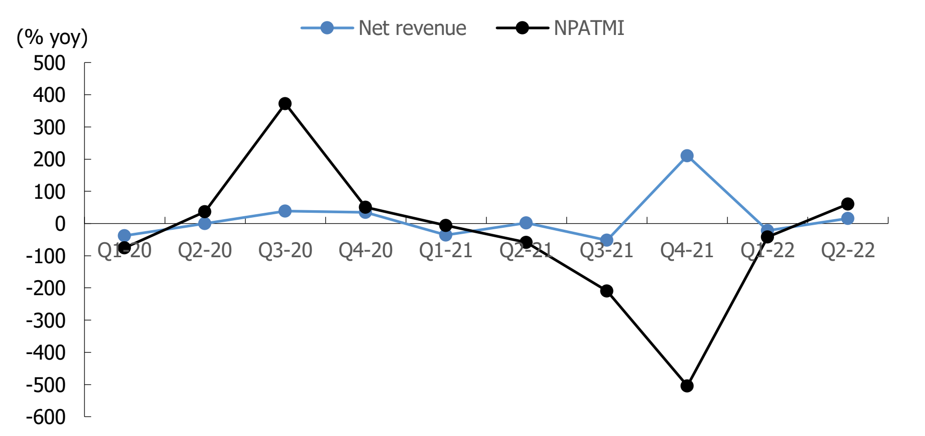
Table 3. Aggregated earnings of 4 listed Automobile retailers (VND bn, %)

	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	6,770	7,849	9,127	34.8	16.3
NPATMI	57	148	237	315.8	60.1

Source: Company data, KIS

Based on our data collected from 4 listed automobile companies, automobile sector growth witnessed an uptrend as compared to the same previous period. NPATMI growth was 316% yoy, faster than the speed of revenue growth (35% yoy), thanks to utilizing operation leverage.

Figure 3. Revenue growth in 2Q22 thanks to the registered fee reduction



Source: Company data, KIS

Table 3. Aggregated earnings of 2 listed airport retailers (VND bn, %)

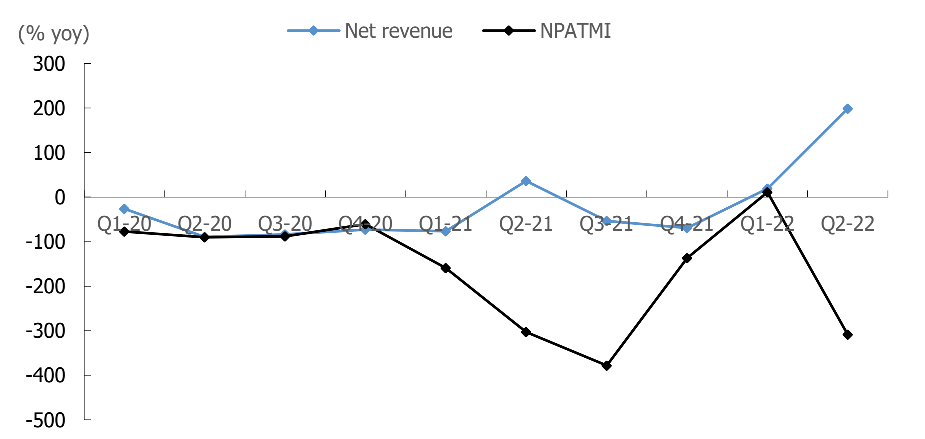
	2Q21	1Q22	2Q22	YoY	QoQ
Revenue	144	199	430	198.9	116.2

NPATMI	(47)	(20)	98	N/A	N/A

Source: Company data, KIS

Based on our data collected from 2 listed airport retailers, their performance remained recovering in 2Q22. The revenue growth pace was at 199% yoy and 116% qoq as the Civil Aviation Authority of Vietnam has reopened more international routes and Vietnamese airlines have increased the frequency of domestic flights. NPATMI positively increased to VND98bn as compared to the loss of VND20bn in 1Q22.

Figure 4. Revenue growth in 2Q22 due to reopening of more routes

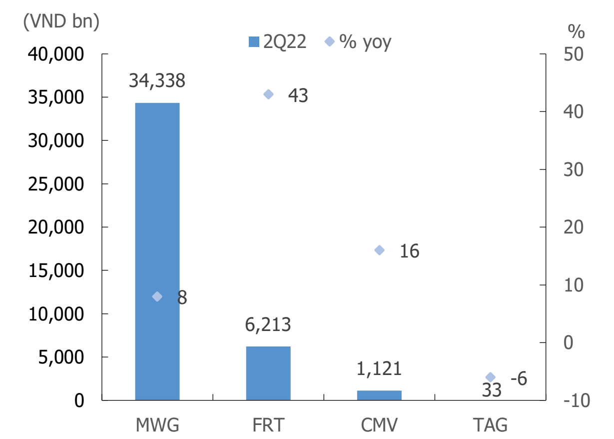


Source: Company data, KIS

Control of Covid-19 rehabilitated the retail industry

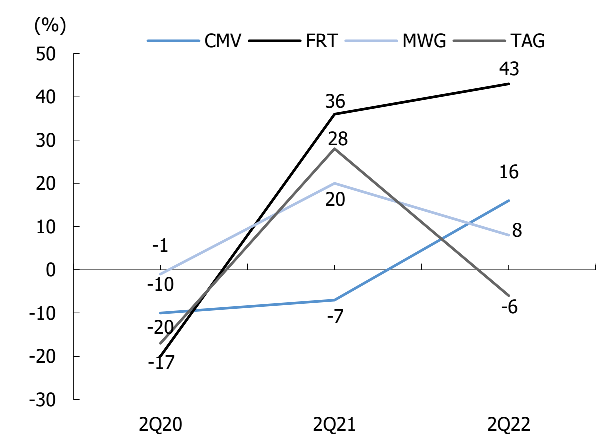
Breaking down aggregated revenue of the top 4 retailers operating in ICT field in 2Q22, MWG contributed the largest proportion with the revenue of VND34tn, quintupled revenue of the second runner-up FRT (VND7.8tn). Overall, the revenue of the industry slightly improved with 16% and 8% yoy growth of MWG and CMV respectively thanks to the reopening of ICT stores after the lockdown period during Covid-19 pandemic. On the other hand, FRT accelerated its revenue growth by 43% yoy, remarkably faster than other competitors, as the positive result of the expansion of Long Chau by 278 pharmacies in 2022F.

Figure 5. ICT revenue



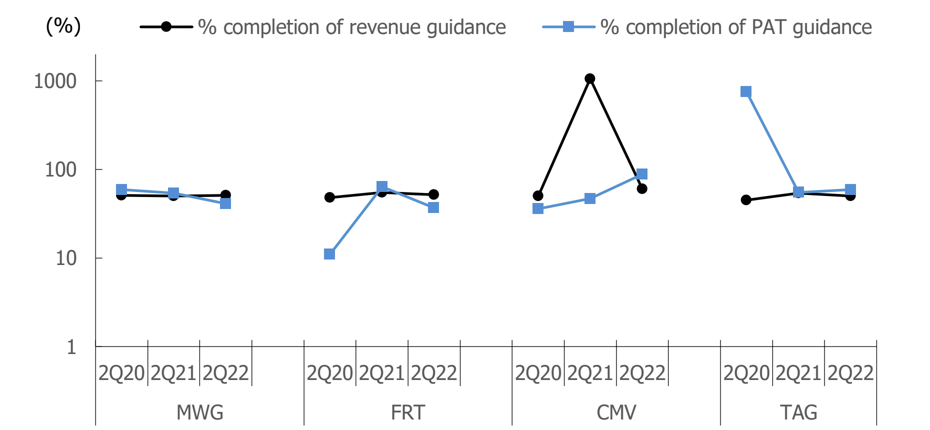
Source: Company data, Fiinpro

Figure 6. ICT – revenue yoy growth rate



Source: Company data, Fiinpro

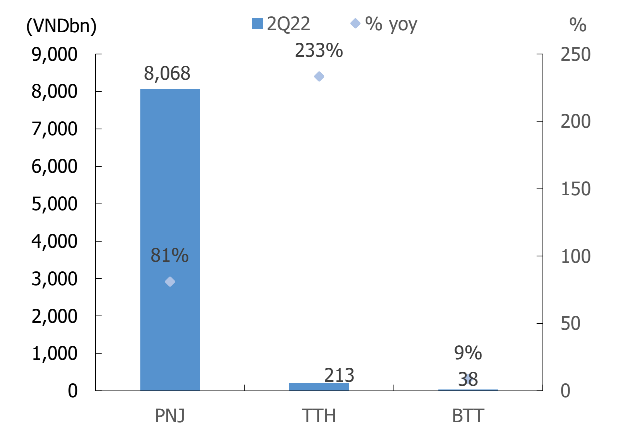
Figure 7. The ICT retailers fulfilled 50-60% of ther 2022F revenue targets



Source: Company data, KIS

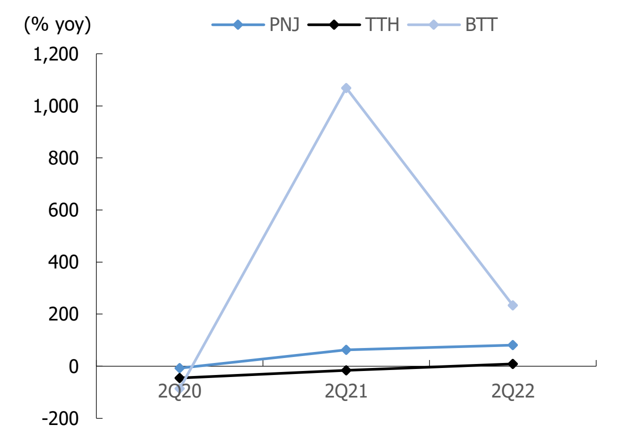
Analyzing revenue of the top listed personal retailers, PNJ strengthened the key player role with VND8tn in 2Q22, PNJ's growth rate was a noticeable high at 81%, comparing a new normal status in 2Q22 to the frustrating period in 2Q21. Ho Chi Minh City, the strategic market of PNJ, was locked down for Covid-19 prevention from the middle of May-21 to the end of Oct-21 which led PNJ to temporarily close 80% of its stores. Weddings delay and lockdown status also contributed to lower demand for jewelry in 2Q21.

Figure 8. Personal goods - revenue



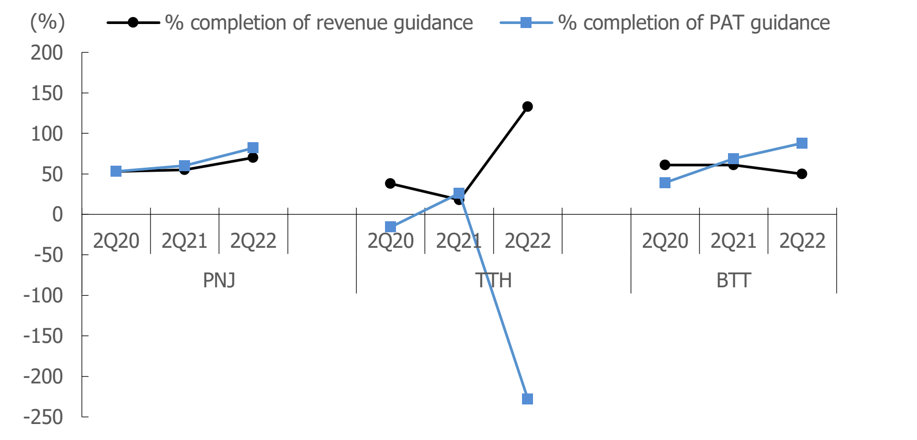
Source: Company data, Finpro

Figure 9. Personal goods – revenue yoy growth rate



Source: Company data, Finpro

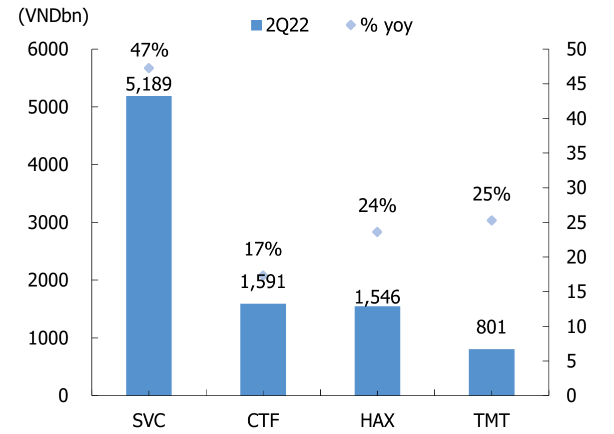
Figure 10. The personal good fulfilled 0-133% of the 2022F revenue targets



Source: Company data, KIS

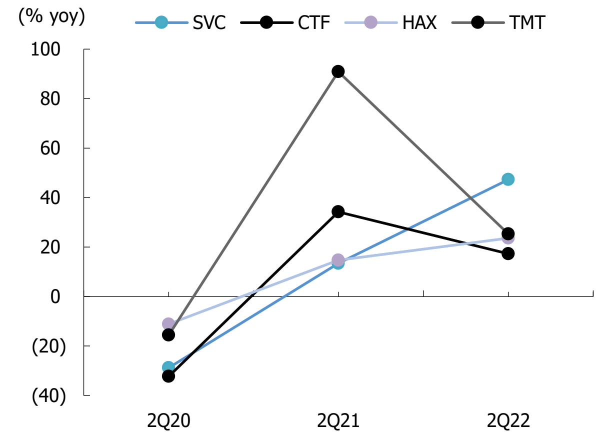
After Vietnam successfully controlled Covid-19 pandemic, the stimulus policy of a 50% reduction in registration tax positively influenced automobile sales in 2Q22. Among the top listed automobile retailers, SVC was the biggest revenue-generating producer with revenue of VND5tn, followed by CTF and HAX with revenue of around VND1.5tn, the growth rate was 17% and 24% respectively. Considerably, SVC's revenue bloomed in 2Q22, up 47% as compared to 2Q21 when the lockdown occurred.

Figure 11. Automobile - revenue



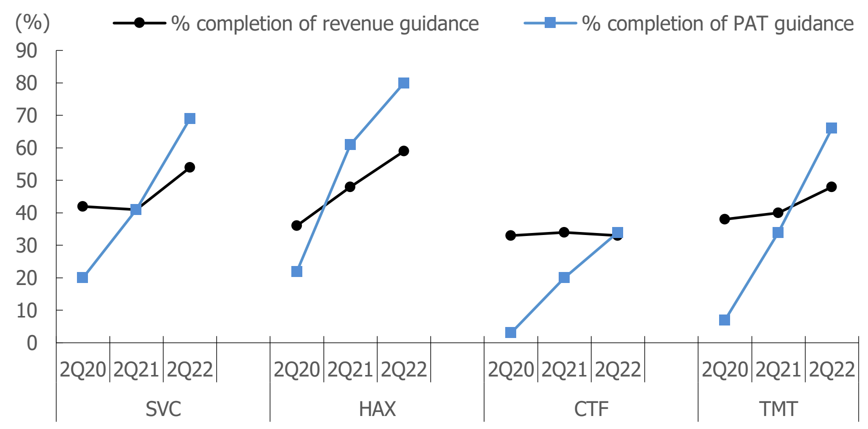
Source: Company data, Finpro

Figure 12. Automobile – revenue yoy growth rate



Source: Company data, Finpro

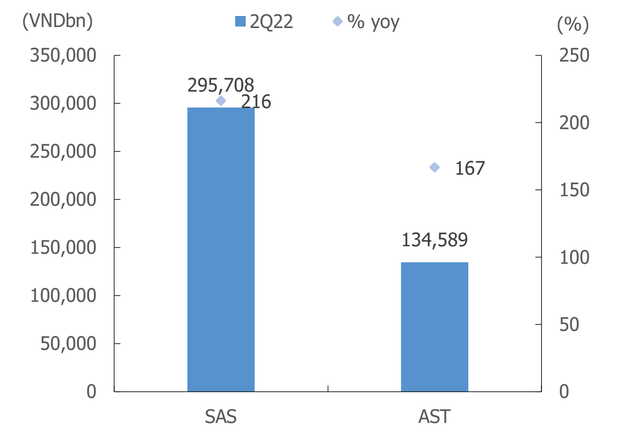
Figure 13. The automobile fulfilled 33-59% of ther 2022F revenue targets



Source: Company data, KIS

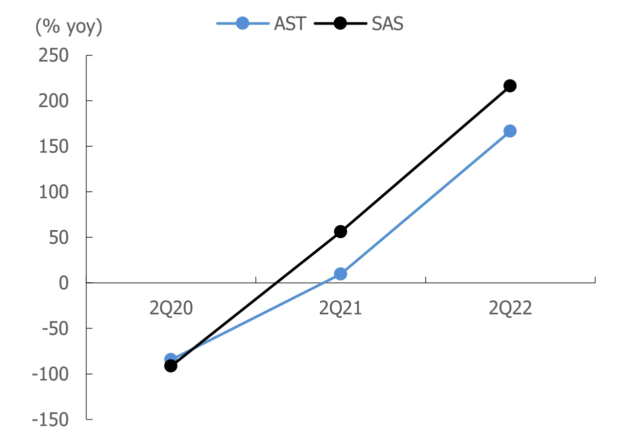
Comparing the two listed airport retailers in 2Q22, the revenue of SAS was VND296tn, which doubled that of AST (VND135tn). Revenue of SAS and AST surged by 216% and 167% yoy respectively in 2Q22, remaining recovering from disruption in Covid-19 pandemic. Revenue mostly came from local customers as most international routes are still restricted.

Figure 14. Airport retail - revenue



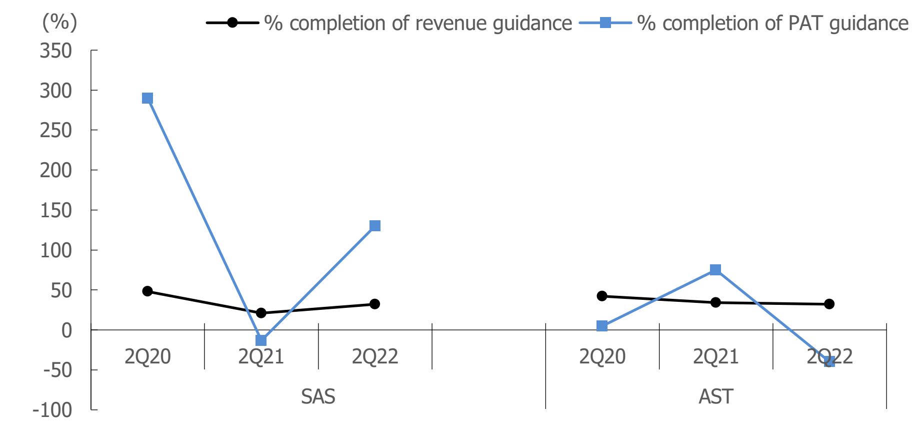
Source: Company data, Fiinpro

Figure 15. Airport retail – revenue yoy growth rate



Source: Company data, Finpro

Figure 16. The airport retailers fulfilled 32% of ther 2022F revenue targets



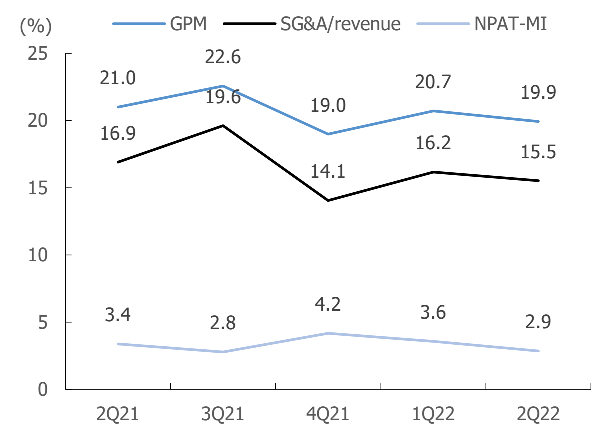
Source: Company data, KIS

Inflation and shortage of raw materials led to inverse trends in GPM of sub-sectors.

Since late April 2022, ICT products' prices cooled off due to outnumbering supply when China steadily opened border gates with Vietnam. That led GPM of ICT retailers in 2Q22 to drop by nearly 0.8%p to 19.9% as compared to 1Q22. MWG had higher GPM than other players thanks to better product mix with larger proportion of household equipment than other players'.

Figure 17. ICT – performance indicators

Figure 18. ICT – GPM by company



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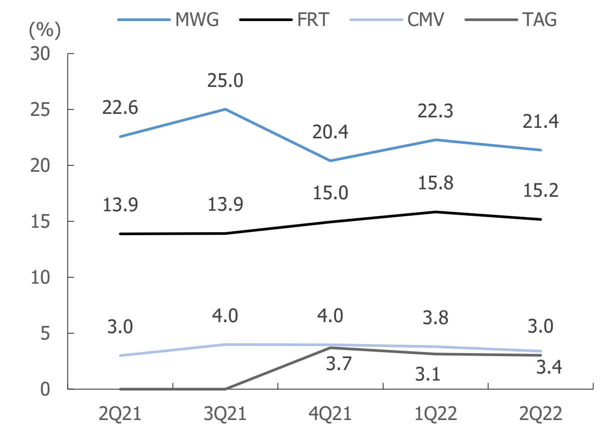
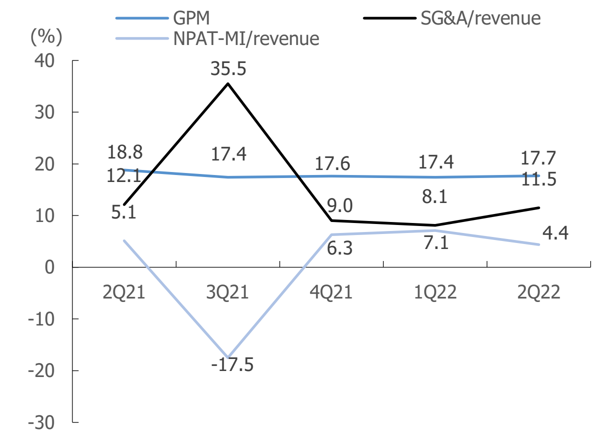


Source: Company data, Fiinpro

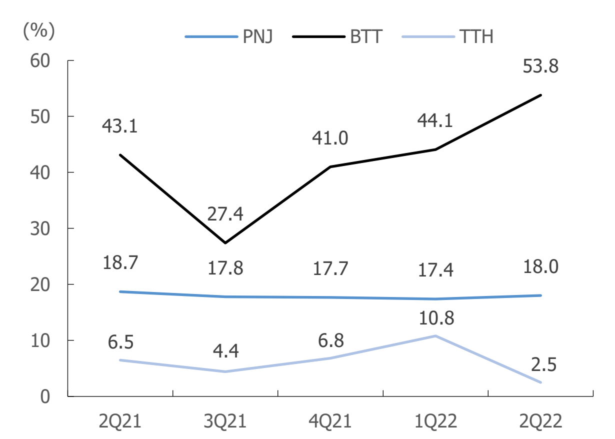
GPM of personal goods retailers in 2Q22 decreased by 1.1% p yoy, attributed to a larger contribution of gold bars revenue with low margin amid inflation and change of retailed product's mix. Higher GPM of BTT than other players mainly attributed to high proportion of leasing in revenue, which has the higher GPM rate than retails and other operating business.

Figure 19. Personal goods – performance indicators



Source: Company data, Finpro

Figure 20. Personal goods – GPM by company

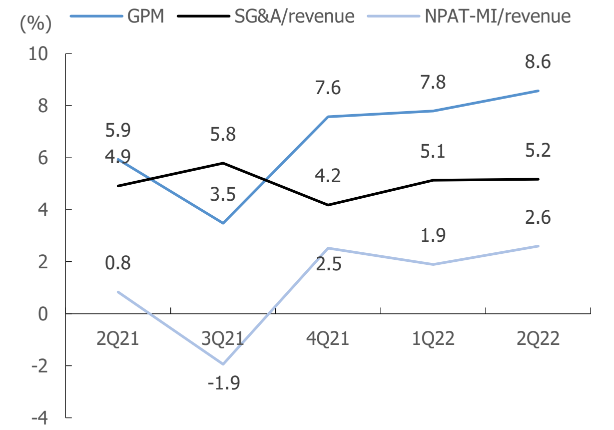


Source: Company data, Finpro

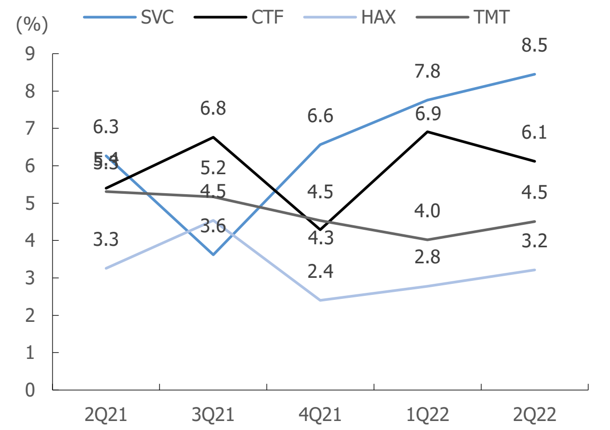
In the inverse trend, GPM of the automobile industry rose by 1% p qoq and 3% p yoy, driven by the higher price of scarce supply, which can be explained by the global shortage of semiconductor components for the automobile industry in 2022.

Figure 21. Automobile – performance indicators

Figure 22. Automobile – GPM by company



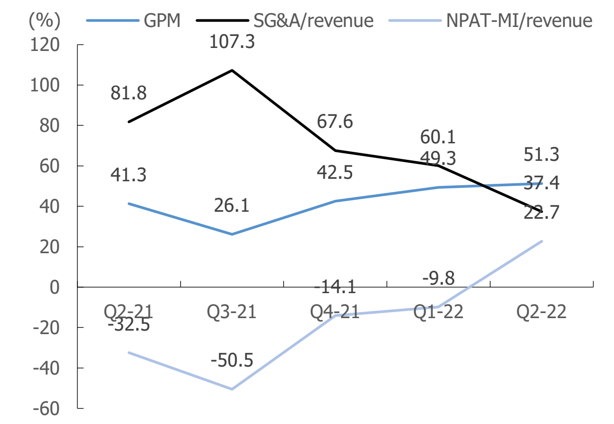
Source: Company data, Finpro



Source: Company data, Finpro

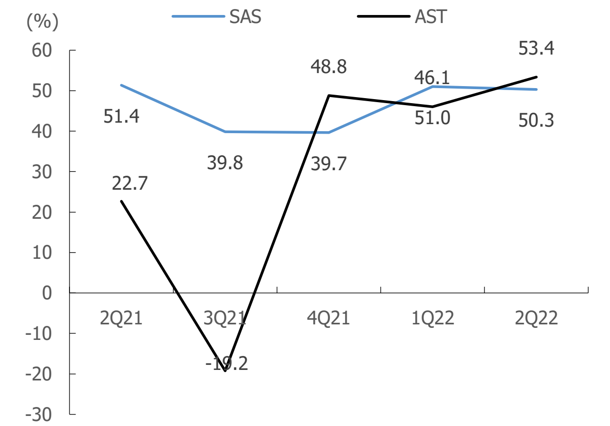
GPM of airport retailers remained highly positive in 2Q22 thanks to higher tourism demand after Vietnam's reopening policy with the resume of local flights and some international flights.

Figure 23. Airport – performance indicators



Source: Company data, Finpro

Figure 24. Airport – GPM by company



Source: Company data, Finpro

Inversed expectation for 3Q22

Recovery of the economy after reopening stimulates retails, including ICT, automobile & jewelry goods, better care of health and travel. However, the higher inflation rate is raising hesitation in purchasing activities. ICT stores are looking for a high season of laptop sales in Aug and Sep as students are preparing for the new school year. We anticipate growing sales thanks to new models, especially the new iPhone 14 model coming in September 2022. With the trend of 4G and 5G technology, combined with Vietnam's plan of shutting down 2G services from 2023F, the sale of smartphones is expected to increase in 2H22F.

The pharmaceutical is a fruitful land for retailers to grow after Covid-19. We expect 2H22F to be the gearing time of current pharmaceutical retailers before boosting the gas in 2023F. Entering the 2H22F, the supply of many car models is gradually stabilizing. We witnessed a recovered volume of imported cars in July and August 2022 after the Ghost month, compared to the same period. On the other hand, the automobile market will welcome many new models, many of which have had pre-orders. The series of products launched in 2H22F includes many high-rise vehicles. With the Ghost month lies in August 2022, we anticipate a heightening revenue of automobiles from September 2022.

Currently, tourists are mainly Vietnamese and experts. The group of foreign customers, which accounts for 90% of the total number of customers, has not yet recovered as before the pandemic. By the end of 2022F, Civil Aviation Authority of Vietnam (CAAV) expects to fully resume flights to Taiwan, Japan and Korea and increase the frequency of flights to China to reach 30% of the frequency before the Covid-19 pandemic. According to Vietnam National Administration of Tourism, Chinese tourists contribute 28% of Vietnam's foreign tourists in 2019, Vietnam's tourism is closely watching the updates on China's Zero Covid policy.

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