COMPANY REPORT

KB Securities VIETNAM

FPT Corporation (FPT)

Sustain positive growth

June 22, 2023

Analyst Nguyen Dinh Thuan
thuannd@kbsec.com.vn

FPT continued to record positive business results in 1Q23

FPT Corporation (FPT) continued to post positive results for 1Q23. In particular, NPAT reached VND1,810 billion (+18% YoY) on revenue of VND11,681 billion (+20% YoY), with the main contributions from global IT and education. FPT's 1Q23 gross profit margin decreased YoY due to (1) royalty payment to broadcast international TV channels for PayTV and (2) humble domestic IT revenue and few high-margin contracts with banks or property developers.

Strong IT revenue growth in Japan and APAC offset weaker growth in the US

In the long-term, we expect the upward trend of spending on digital transformation to boost FPT's global IT as (1) FPT can uphold its edge over its comparable counterparts in the region in terms of staff costs and (2) FPT has deep capacity and years of experience in providing digital transformation consultancy and implementation services.

Education should continue to maintain its growth momentum

We expect the education segment to make a significant contribution to FPT's business results and keep up its strong growth momentum in 2023 due to (1) robust new student enrollment growth. The FPT Education system surpassed the Mega milestone with a scale of over 100,000 learners (+45% YoY), demonstrating solid demand for IT training and (2) FPT's expanding coverage across provinces/cities nationwide.

We recommend BUY for FPT stocks with a target price of VND111,800/share

Based on FCFF and P/E valuation methods, business outlook, and possible risks, we recommend BUY for FPT stocks. The target price is VND111,800/share, 30% higher than the closing price on June 22, 2023.

Buy maintain

Target price	VND 111,800
Upside	30%
Current price (Jun 22, 2023)	VND 85,500
Consensus target price	VND 103,500
Market cap (USDbn)	4.03

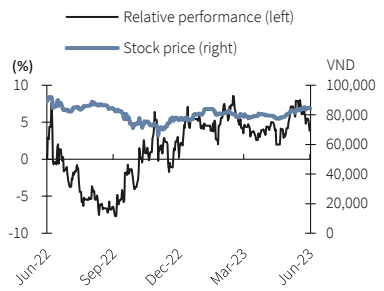
Trading data	
Free float	84.4%
3M avg trading value (VNDbn)	57.79
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	5.9	14.8	8.8	-4.8
Relative	1.1	6.9	2.3	3.4

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Revenue (VNDbn)	35,657	44,010	51,886	61,917
Operating income (VNDbn)	6,228	7,589	8,685	10,396
NPAT of parent company (VNDbn)	4,337	5,310	6,147	7,357
EPS (VND)	4,349	4,429	5,566	6,662
EPS growth (%)	6%	2%	26%	20%
P/E (x)	10.1	16.6	20.1	16.8
P/B (x)	2.0	3.4	3.8	3.4
ROE (%)	0.2	0.3	0.2	0.2
Dividend yield (%)	6%	3%	2%	2%



Source: Bloomberg, KB Securities

Business performance

FPT's 1Q2023 revenue and profit continues to maintain positive growth

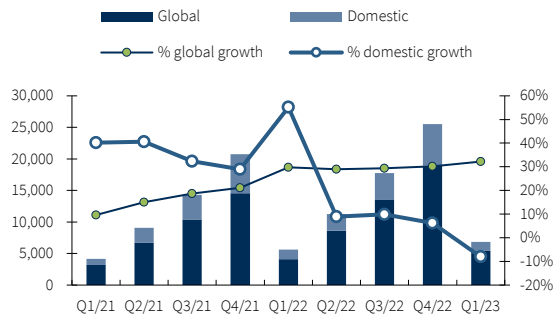
FPT's 1Q23 revenue continued to record positive growth with NPAT of VND1,810 billion (+18% YoY) on revenue of VND11,681 billion (+20% YoY), with the main contributions from global IT and education. Gross profit margin decreased YoY due to (1) royalty payment to broadcast international TV channels for PayTV and (2) humble domestic IT revenue and few high-margin contracts with banks and real estate companies.

Fig 1. FPT – 1Q22-1Q23 business results

VNDbn	1Q2022	1Q2023	+/-%YoY	Notes
Revenue	**9,730**	**11,681**	**20%**	
Global IT	4,111	5,435	32%	IT revenue continued to enjoy positive growth across all markets. Japan (+31.2% YoY) and APAC (+65.7% YoY) saw the strongest growth. Digital transformation revenue in 1Q23 reached VND2,103 billion (+28% YoY), focusing on new technologies such as Cloud, AI/Data Analytics, ... Newly signed revenue reached VND10,165 billion (+44.1% YoY).
Domestic IT	1,530	1,407	-8%	Local enterprises face many difficulties, causing the demand for investment in IT to decline. Profit before tax of this segment in 1Q23 was only VND18 billion (-80.6% YoY)
Telecom services	3,320	3,695	11%	
Online advertising	151	95	-37%	
Education, Investment, and others	667	1,048	57%	
Gross profit	**3,953**	**4,568**	**16%**	
Gross profit margin (%)	**41%**	**39%**		
SG&A	(2,538)	(2,694)	6%	
% SG&A/revenue	26%	23%	-12%	
Operating income	1423	2097	47%	
Financial income	416	676	63%	
Financial expense	-268	-497	86%	
Net other income	6	24	274%	
Profit before tax	**1779**	**2121**	**19%**	
NPAT	**1539**	**1810**	**18%**	

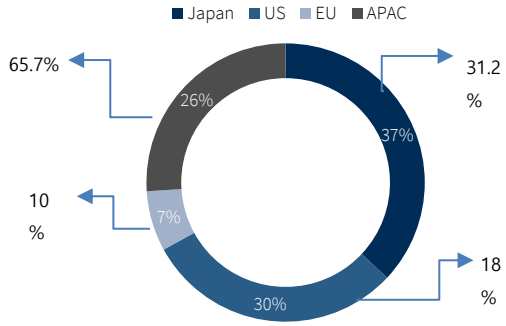
Source: FPT Corporation, KB Securities Vietnam

Fig 2. FPT – Global & domestic IT revenue growth (VNDbn, %)



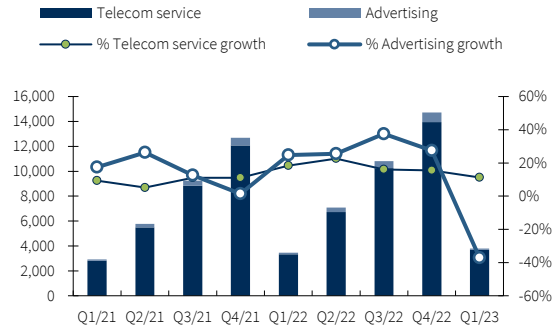
Source: FPT Corporation, KB Securities Vietnam

Fig 3. FPT – Software exports growth (%YoY)



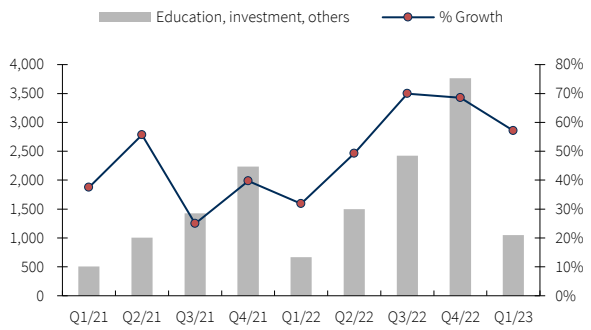
Source: FPT Corporation, KB Securities Vietnam

Fig 4. FPT – Telecom revenue growth (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

Fig 5. FPT – Education-Investment revenue growth (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

Strong IT revenue growth in Japan and APAC can offset weaker growth in the US

In terms of demand, American technological research and consulting firm Gartner., Inc forecasts global software spending in 2023 and 2024 to grow strongly, achieving 12.3% and 13.1%, respectively. It implies that businesses will prioritize investing heavily in digital transformation. In the long-term, we expect this upward trend to strengthen FPT's overseas IT prospects as (1) FPT can uphold its edge over its comparable peers in terms of staff costs and (2) FPT has deep capacity and years of experience in providing digital transformation consultancy and implementation services.

Over the near term, FPT's IT revenue growth in the US alone should slow down due to declining demand. New IT orders only inched up 2% this April. In addition, the wave of layoffs among tech companies in the first quarter of 2023 raised more concerns about waning demand in this field. However, the resilience of the Japanese market and strong adoption of digital transformation in APAC may offset weaker growth in the US market. A more stable JPY and heightened IT spending demand on IT, especially on digital transformation in Japan after a long period of being affected by COVID, would strengthen FPT's prospects in this market.

In the first quarter of 2023, FPT recorded many large orders from foreign markets, including six projects worth over USD5million each. New IT global contract value is VND10,165 billion (+44.1% YoY).

PayTV and Data Center should drive Telecom services growth

The main growth driver of telecom services will depend heavily on PayTV and Data Center when the broadband services market is almost saturated. In 2023, FPT plans to spend 40% of its annual CAPEX on telecommunications, principally upgrading the undersea fiber optic cable system, diversifying contents for pay TV services, and putting the Data Center in District 9 into operation.

In 1Q23, revenue from PayTV and others amounted to VND549 billion (+33.8% YoY), while pre-tax profit narrowed to VND174 billion (-21.8% YoY) due to royalty investment cost for PayTV to increase competition. We expect PayTV's business results to improve further over the next quarters thanks to (1) paid TV rights and (2) rising subscribers thanks to diverse sports content.

In addition, Data Center will help boost earnings growth of the telecom business as its net profit margin is usually 20% higher than that of broadband services. FPT plans to further expand its coverage with two more data centers opened in Ho Chi Minh City and one in Hanoi.

Education should continue to maintain growth momentum

We expect the education business to significantly contribute to FPT's growth and maintain its strong growth momentum in 2023, supported by (1) solid new student enrollment growth. The FPT Education system surpassed the Mega milestone with a scale of over 100,000 learners (+45% YoY), demonstrating solid demand for IT training and (2) FPT's expanding coverage across provinces/cities nationwide. Specifically, FPT Unischool Ha Nam was topped off this spring and is expected to welcome about 10,000 students this year. Previously, FPT worked with more than 24 provinces/cities in Vietnam to establish K-12 schools in 2022.

Forecast

Fig 6. FPT – 2022A–2023F business results

	2022A	2023F	+/-%YoY	Notes
Revenue	**44,010**	**51,886**	**18%**	
Global IT	18,935	23,256	23%	– IT revenue in Japan and APAC is forecast to grow respectively 25% and 35% in 2023 thanks to huge spending demand on IT, especially digital transformation, in these markets. – In contrast, the US and EU markets will experience weaker growth due to concerns about economic recession as well as shrinking demand in these two markets. We project FPT's growth in the US at 16% and in the EU at 11% in 2023 to reflect the above risks.
Domestic IT	6,586	6,323	-4%	Domestic IT services bleak due to weak IT spending demand outlook.
Telecom services	13,954	15,603	12%	Broadband services should remain flat as the market is almost saturated. Telecom growth should be led by PayTV and Data Center.
Online advertising	775	798	3%	
Education, Investment, and others	3,767	5,906	57%	It is expected that Education will continue to maintain positive growth momentum in 2023.
Gross profit	**17,167**	**19,976**	**16%**	
Gross profit margin (%)	**39%**	**39%**	**-1%**	
SG&A	(10,373)	(11,934)	15%	
% SG&A/revenue	24%	23%	-2%	
Operating income	7,589	8,685	14%	
Financial income	1,999	1,417	-29%	
Financial expense	-1,687	-774	-54%	
Net other income	73	78	7%	
Profit before tax	**7,662**	**8,841**	**15%**	
NPAT	**6,491**	**7,515**	**16%**	

Source: FPT Corporation, KB Securities Vietnam

Valuation

We select two approaches, discounted cash flow (DCF) and P/E ratio in relation to comparable peers across developing countries in Asia for IT and Telecommunications. As for the IT segment, we apply a 10% discount versus the current P/E median of the sector, reflecting concerns about waning demand for IT services in 2023 due to negative macro factors that will affect the valuation of technology businesses under our coverage. For the Education segment, since there is no separation between the education and investment segments, we assume the current P/E is justified.

Based on the two valuation methods above with a ratio of 50-50, we recommend BUY for FPT shares with a target price of VND111,800/share, 30% higher than the closing price on June 22, 2023.

Fig 7. FPT – FCFF valuation

Cost of equity	13%	PV of terminal value (TV)	81,627
Risk-free rate	5%	Total present value in 2023-2027 (PV)	48,399
Risk premium	8%	**Total present value**	130,027
Beta	1	**Value of owner equity**	130,511
Terminal growth	3%	No. of outstanding shares (thousand shares)	1,104,332
		Equity/outstanding shares (VND)	**106,363**

Source: KB Securities Vietnam

Fig 8. FPT – P/E valuation

	Target P/E	Contribution to revenue	Weight
IT	28	45%	12.6
Telecom	14.5	37%	5.4
Education & Investment	16.3	19%	3.1
Total			21.1
Target price			117,238

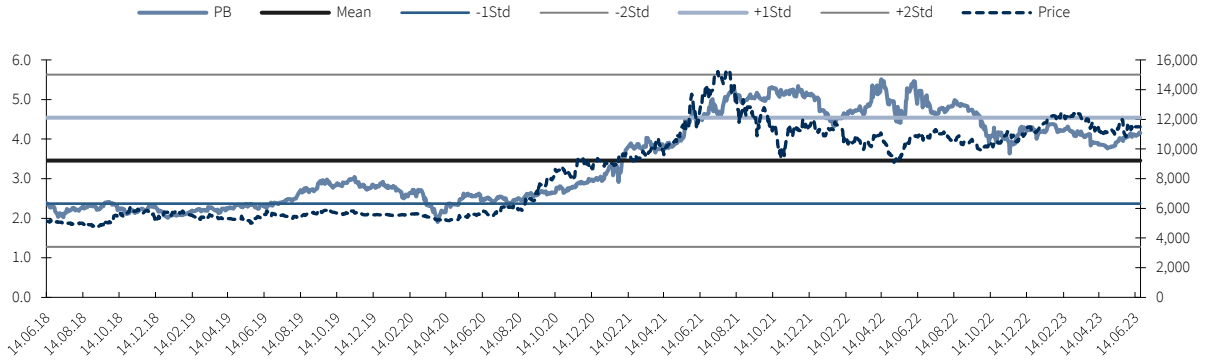
Source: KB Securities Vietnam

Fig 9. FPT – Valuation methods

Valuation method	Forecast price	Weight	Weighted price
FCFF	106,312	50%	53,156
P/E	117,238	50%	58,619
Target price (rounded)			**111,800**
Current price			85,500
Upside to target price			**30.8%**

Source: KB Securities Vietnam

Fig 10. FPT – Historical P/B (x)



Source: Bloomberg, KB Securities Vietnam

Fig 11. Asia – P/E of IT companies among developing nations in Asia

	Market cap (VNDtn)	Forward P/E	Weight	Weighted P/E
Persistent Systems Ltd	109	30	8.7%	2.6
Mphasis Ltd	102	20	8.1%	1.6
Beijing Ultrapower Software Co	100	38	7.9%	3.0
Isoftstone Information Technol	98	16	7.8%	1.2
Taiji Computer Corp Ltd	94	48	7.5%	3.6
DHC Software Co Ltd	85	32	6.8%	2.2
Coforge Ltd	79	26	6.3%	1.6
China TransInfo Technology Co	74	35	5.9%	2.1
Wonders Information Co Ltd	68	67	5.4%	3.6
Hyundai Autoever Corp	60	23	4.8%	1.1
CETC Digital Technology Co Ltd	59	25	4.7%	1.2
PCI Technology Group Co Ltd	54	24	4.3%	1.0
Yusys Technologies Co Ltd	48	32	3.8%	1.2
Chinasoft International Ltd	48	13	3.8%	0.5
Beijing eGOVA Co Ltd	47	37	3.8%	1.4
Richinfo Technology Co Ltd	46	40	3.7%	1.5
Fujian Boss Software Developme	42	27	3.4%	0.9
Digital China Information Serv	42	28	3.4%	0.9
P/E average				31

Source: Bloomberg, KB Securities Vietnam

Fig 12. Asia– P/E of telecommunications companies among developing nations in Asia

	Market cap (VNDtn)	Forward P/E	Weight	Weighted P/E
Indosat Tbk PT	109	20.0	12%	2.3
Globe Telecom Inc	105	13.1	11%	1.5
Telekom Malaysia Bhd	97	14.2	10%	1.5
LG Uplus Corp	88	6.6	9%	0.6
GrameenPhone Ltd	87	11.1	9%	1.0
China Communications Services	84	6.7	9%	0.6
Sarana Menara Nusantara Tbk PT	83	13.3	9%	1.2
TIME dotCom Bhd	82	19.8	9%	1.7
XL Axiata Tbk PT	49	17.2	5%	0.9
Jasmine Broadband Internet Inf	41	6.5	4%	0.3
Montnets Cloud Technology Grou	39	36.5	4%	1.5
Converge Information and Commu	38	9.0	4%	0.4
Route Mobile Ltd	35	26.5	4%	1.0
P/E average				14.5

Source: Bloomberg, KB Securities Vietnam

FPT – 2021A–2024F business results

Income Statement (VND billion)	2021	2022	2023F	2024F
Net sales	35,657	44,010	51,886	61,917
Cost of sales	22,025	26,842	31,910	38,079
Gross Profit	13,632	17,167	19,976	23,838
Financial income	1,271	1,999	1,417	1,489
Financial expenses	-1,144	-1,687	-774	-690
of which: interest expenses	-484	-646	-774	-690
Gain/(loss) from joint ventures (from 2015)	687	484	484	484
Selling expenses	-3,605	-4,526	-5,189	-6,192
General and admin expenses	-4,612	-5,846	-6,745	-8,049
Operating profit/(loss)	6,228	7,589	8,685	10,396
Other incomes	133	184	208	248
Other expenses	-25	-111	-130	-155
Net other income/(expenses)	109	73	78	93
Income from investments in other entities	0	0	0	0
Net accounting profit/(loss) before tax	6,337	7,662	8,841	10,582
Corporate income tax expenses	-988	-1,171	-1,326	-1,587
Net profit/(loss) after tax	5,349	6,491	7,515	8,994
Minority interests	1,012	1,181	1,368	1,637
Attributable to parent company	4,337	5,310	6,147	7,357

Balance Sheet (VND billion)	2021	2022	2023F	2024F
CURRENT ASSETS	53,698	51,650	63,749	69,231
Cash and cash equivalents	35,118	30,938	42,756	46,648
Short-term investments	5,418	6,440	8,603	10,498
Accounts receivable	20,731	13,047	20,804	20,220
Inventories	6,882	8,503	9,951	11,875
LONG-TERM ASSETS	1,507	1,966	2,360	2,817
Long-term trade receivables	18,580	20,713	20,993	22,583
Fixed assets	167	225	225	225
Investment properties	10,399	12,033	13,386	14,976
Long-term incomplete assets	0	0	0	0
Long-term investments	3,102	3,238	3,228	3,228
TOTAL ASSETS	466.0	407.9	407.9	407.9
LIABILITIES	32,280	26,294	30,398	31,465
Current liabilities	29,761	24,521	28,553	29,520
Trade accounts payable	2,866	3,209	4,706	5,431
Advances from customers	711	491	491	491
Short-term unrealized revenue	17,799	10,904	11,317	9,819
Short-term borrowings	2,519	1,773	1,845	1,945
Long-term liabilities	0	0	0	0
Long-term trade payables	0	0	0	0
Long-term advances from customers	95	115	115	115
Unrealized revenue	2,296	1,478	1,578	1,678
Long-term borrowings	21,418	25,356	33,351	37,766
OWNER'S EQUITY	9,076	10,970	10,970	10,970
Paid-in capital	50	50	50	50
Share premium	7,000	7,712	11,400	15,814
Undistributed earnings	3	3	0	0
Minority interests	3,477	4,310	4,310	4,310

Margin ratio	2021	2022	2023F	2024F
Gross profit margin	38.2%	39.0%	38.5%	38.5%
EBITDA margin	19.2%	19.5%	18.4%	18.0%
EBIT margin	19.1%	18.9%	18.5%	18.2%
Pre-tax profit margin	17.8%	17.4%	17.0%	17.1%
Operating profit margin	17.5%	17.2%	16.7%	16.8%
Net profit margin	15.0%	14.7%	14.5%	14.5%

Cash Flow Statement (VND billion)	2021	2022	2023F	2024F
Net profit/(loss) before tax	6,337	7,662	8,841	10,582
Depreciation and amortization	1,644	1,833	1,755	1,967
Profit/loss from investing activities	-1,700	-1,987	-1,987	-1,987
Interest expense	484	646	774	690
Operating profit/(loss) before changes in Working Capital	7,053	9,042	9,383	11,252
(Increase)/decrease in receivables	-694	-1,949	-1,621	-1,448
(Increase)/decrease in inventories	-218	-498	-458	-395
Increase/(decrease) in payables	1,910	1,300	343	1,497
(Increase)/decrease in prepaid expenses	-376	-634	309	216
Net cash inflows/(outflows) from operating activities	5,840	5,054	7,725	10,571
Purchases of fixed assets and other long-term assets	-2,911	-3,215	-3,632	-4,334
Proceeds from disposal of fixed assets	3	6	0	0
Loans granted, purchases of debt instruments	-35,827	-32,995	0	0
Collection of loans, proceeds from sales of debts instruments	27,590	40,669	0	0
Investments in other entities	-451	-557	0	0
Proceeds from divestment in other entities	0	56	0	0
Dividends and interest received	1,183	1,794	0	0
Net cash inflows/(outflows) from investing activities	-10,413	5,757	-3,632	-4,334
Proceeds from issue of shares	88	77	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	34,464	28,120	100	100
Repayment of borrowings	-26,931	-35,740	0	-1,498
Finance lease principal payments	-1	-8	0	0
Dividends paid	-2,254	-2,222	-2,459	-2,943
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	5,365	-9,773	-1,946	-4,341
Net increase in cash and cash equivalents	791	1,038	2,147	1,896
Cash and cash equivalents at the beginning of period	4,686	5,418	6,456	8,603
Cash and cash equivalents at the end of period	5,478	6,456	8,603	10,498

Key ratios (x, %, VND)				
Multiple				
P/E	10.1	16.6	20.1	16.8
P/E diluted	10.1	16.6	20.1	16.8
P/B	2.0	3.4	3.8	3.4
P/S	1.1	1.8	2.4	2.0
P/Tangible Book	2.0	3.4	3.8	3.4
P/Cash Flow	6.8	16.0	16.0	11.7
EV/EBITDA	8.0	10.0	12.9	11.0
EV/EBIT	9.9	12.3	15.3	13.0
Operating performance				
ROE	25%	26%	23%	24%
ROA	8.1%	10.3%	9.6%	10.6%
ROIC	18.8%	26.3%	25.4%	28.9%
Financial structure				
Cash Ratio	0.31	0.27	0.21	0.21
Quick Ratio	0.71	0.66	0.63	0.77
Current Ratio	1.45	1.27	1.18	1.13
LT Debt/Equity	11%	6%	5%	4%
LT Debt/Total Assets	4%	3%	2%	2%
Debt/Equity	83%	43%	34%	26%
Debt/Total Assets	33%	21%	18%	14%
ST Liabilities/Equity	139%	97%	86%	78%
ST Liabilities/Total Assets	55%	47%	45%	43%
Total Liabilities/Equity	151%	104%	91%	83%
Total Liabilities/Total Assets	60%	51%	48%	45%
Activity ratios				
Account Receivable Turnover	5.2	5.2	5.2	5.2
Inventory Turnover	14.6	13.7	13.5	13.5
Account Payable Turnover	7.8	8.5	6.9	7.1

Source: FPT Corporation, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Research Division
research@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienns@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:
Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 - Fax: (+84) 24 3776 5928

Hanoi Branch:
Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 - Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:
Level 2, TNR Tower Nguyen Cong Tru, 180-192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 - Fax: (+84) 28 3914 1969

Saigon Branch:
Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 - Fax: (+84) 28 3910 1611

CONTACT INFORMATION
Institutional Client Center: (+84) 28 7303 5333 - Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 - Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

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

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

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

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

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.