

FPT Corporation (FPT)

Strengthen cooperation with tech giants

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2Q22 NPAT picked up 25.1% YoY to VND1,251 billion

In the second quarter of 2022, FPT Corporation (FPT) upheld its impressive business results with revenue up 16.8% YoY to VND10,096 billion thanks to the growth across all segments: Technology (up 14.5% YoY), Telecommunications (up 12.7% YoY), and Education & Investment (up 66.9% YoY). Company-wide NPAT, therefore, picked up 25.1% YoY to VND1,251 billion.

Newly signed revenue jumped by 39.9% YoY in 1H22 and FPT has been strengthening cooperation with tech giants

In 1H22, newly signed revenue of global IT services posted VND11,681 billion, up 39.9% YoY vs. the growth rate of 18.7% YoY for the whole year of 2021. Last month, FPT signed strategic cooperation agreements with NCS – a member company of Singtel Group and Shinsegae I&C – a global retail technology company under Korean Shinsegae Group. This will help FPT fly higher in the Southeast Asia and Korea.

FPT further promoted domestic digital transformation

Digital transformation revenue by the end of July 2022 reached VND4,113 billion. On August 4, FPT and TPBank (TPB) signed a strategic cooperation agreement on technology transfer, digital solutions, and digitalization promotion. Also, FPT signed digital transformation cooperation agreements with Nam Dinh and Thua Thien Hue provinces on August 2 and 18, respectively.

We recommend BUY for FPT stocks with a target price of VND114,200

Based on valuation results, business outlook as well as possible risks, we recommend BUY for FPT stocks. The target price is VND114,200/share, 36.0% higher than the closing price on September 7, 2022.

Buy maintain

Target price	VND114,200
Upside/Downside	36.0%
Current price (Sep 7, 2022)	VND 84,000
Consensus target price	VND 109,683
Market cap (VNDbn)	92,150

Forecast earnings & valuation

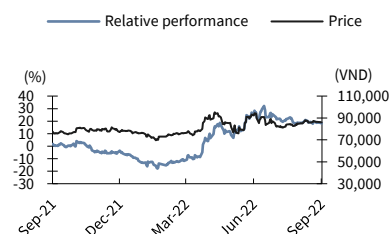
FY-end	2020A	2021a	2022F	2023F
Net sales (VNDbn)	29,830	35,657	44,495	53,645
Net sales growth (%)	7.6%	19.5%	24.8%	20.6%
Gross profit (VNDbn)	11,814	13,632	17,353	20,921
Gross profit margin (%)	39.6%	38.2%	39.0%	39.0%
Net profit (VNDbn)	3,538	4,337	5,501	6,645
Net profit growth (%)	12.8%	22.6%	26.8%	20.8%
EPS (VND)	4,513	4,779	5,014	6,058
EPS growth (%)	-2.4%	5.9%	4.9%	20.8%
P/E (x)	19.1	18.0	17.2	14.2

Trading data

Free float	87.1%
3M avg trading value (VNDbn/USDmn)	212/9.04
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7.05%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	1	-4	14	14
Relative	-1	-9	26	18



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q22 NPAT picked up 25.1% YoY to VND1,251 billion

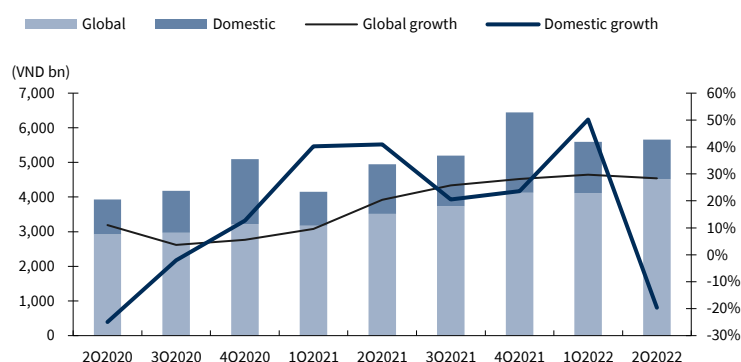
In the second quarter of 2022, FPT upheld its impressive business results with revenue up 16.8% YoY to VND10,096 billion thanks to the growth across all segments: Technology (up 14.5% YoY), Telecommunications (up 12.7% YoY), and Education & Investment (up 66.9% YoY). Gross profit margin was 38.1%, down 175bps YoY. Financial income reached VND506 billion, up 110.4% YoY. Meanwhile, G&A and selling expenses decreased slightly by 10bps YoY, accounting for 22.4% of total revenue. 2Q22 NPAT, therefore, amounted to VND1,251 billion, up 25.1% YoY.

Technology revenue was up 14.5% YoY and PBT was up 13.7% YoY.

Software export kept its steady growth with revenue up 28.4% YoY.

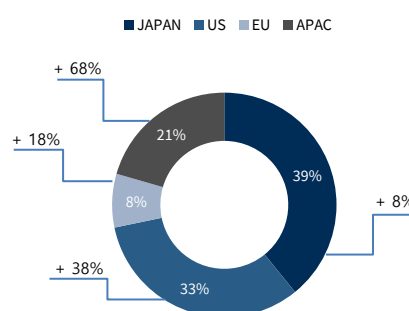
Meanwhile, domestic IT service revenue contracted by 19.6% YoY.

Fig 1. FPT – Technology revenue (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Fig 2. FPT – Software export breakdown (%)



Source: FPT Corporation, KB Securities Vietnam

Software exports in 2Q22 somewhat declined compared to the previous quarter.

Revenue in the US market, after four consecutive quarters reaching over 50%, went down to 38% YoY in 2Q22.

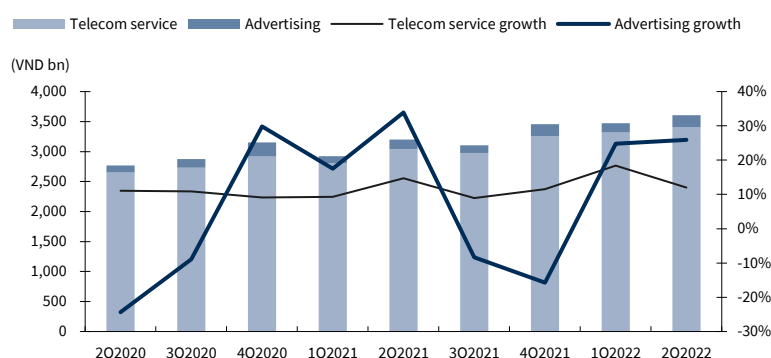
Revenue in the EU market in 2Q22 grew by 18% YoY compared to the previous three quarters reaching over 25%.

Revenue in the APAC market maintained a strong growth momentum, hitting 68% YoY, the highest over the past quarters.

In 2Q22, Telecommunications services revenue expanded by 12.0% YoY thanks to Pay TV while digital advertising revenue growth was flat QoQ at 25.9%. PBT of the Telecommunications segment in the second quarter was VND744 billion, up 19.8% YoY.

PAY TV currently contributes 20% to Telecommunications services revenue. FPT expects PayTV to grow by 25% per annum in the coming years.

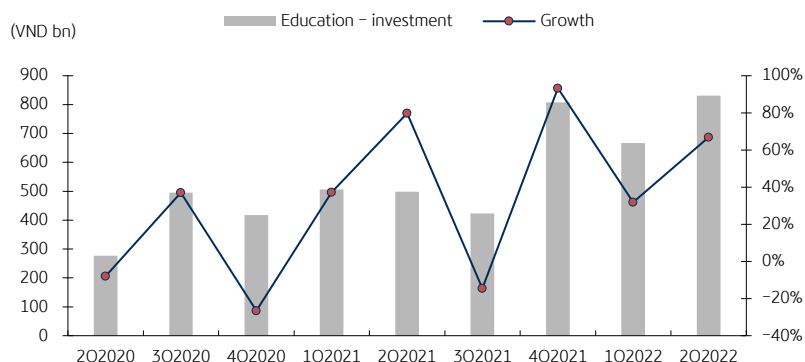
Fig 3. FPT – Telecommunications revenue (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Education and investment revenue in 2Q22 was up 66.9% YoY to VND831 billion, taking PBT to VND259 billion, up 56.0% YoY.

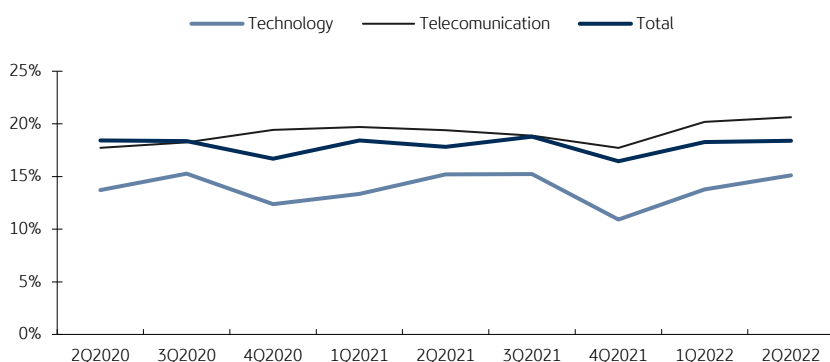
Fig 4. FPT – Education & Investment revenue (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Pre-tax profit margin in 2Q22 continued to improve QoQ, especially that of the Telecommunications segment thanks to the outstanding growth of the Pay TV segment.

Fig 5. FPT – Pre-tax profit margin (%)



Source: FPT Corporation, KB Securities Vietnam

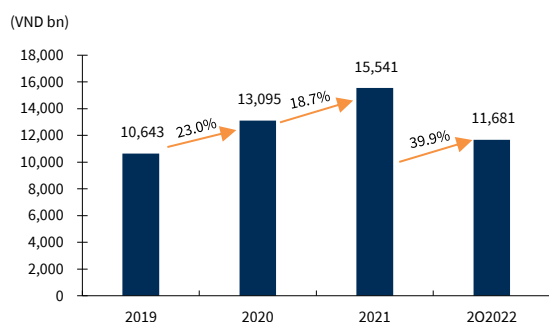
Newly signed revenue jumped by 39.9% YoY in 1H22 and FPT shook hands with NCS and Shinseggae I&C

In 1H22, newly signed revenue of global IT services posted VND11,681 billion, up 39.9% YoY vs. the growth rate of 18.7% YoY for the whole year of 2021. Halfway through the year, FPT witnessed the number of new large-scale clients on the rise, with over USD500 thousand deals up 23.2% YoY, mega-deals (USD1 mn+) up 54.0% YoY, and large deals (USD5 mn+) up 18.2% YoY. In August, FPT signed strategic cooperation agreements with NCS – a member company of Singtel Group and Shinseggae I&C – a global retail technology company under Korean Shinseggae Group. This will help FPT fly higher in Southeast Asia and Korea.

FPT further promoted domestic digital transformation

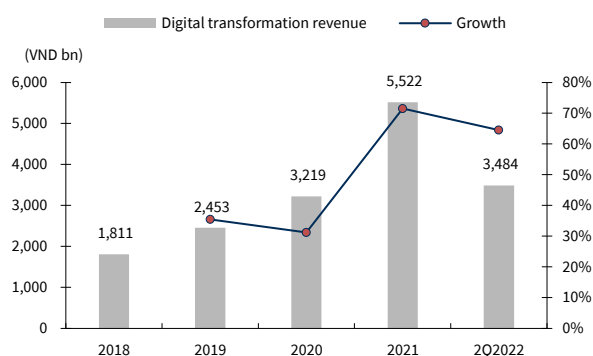
FPT further promoted digital transformation in 8M22. Digital transformation revenue as of July 31 amounted to VND4,113 billion. On August 4, 2022, FPT and TPB officially signed a strategic cooperation agreement on technology transfer, digital solutions, and digitalization promotion. In the same month, FPT also signed digital transformation cooperation agreements with Nam Dinh and Thua Thien Hue provinces. In our view, digital transformation will continue to be promoted in businesses and public administration in the coming period, which will further drive FPT's domestic IT services.

Fig 6. FPT – Newly signed revenue growth (VNDbn, %YoY)



Source: FPT Corporation, KB Securities Vietnam

Fig 7. FPT – Digital transformation revenue growth (VNDbn)



Source: FPT Corporation, KB Securities Vietnam

Forecast & Valuation

2022F business results

We estimate FPT's revenue to reach VND44,495 billion in 2022, up 24.8% YoY, unchanged from the previous forecast, based on the following assumptions:

- Technology revenue should grow by 31.6% YoY to VND27,287 billion on expectations for higher growth rate than the previous forecast for both domestic and global IT services.
- Telecommunications revenue is estimated at VND14,415 billion, up 13.6% YoY, of which Telecommunication services revenue increases 14.0% YoY with the motivation coming from PayTV.

Pre-tax profit in 2022 may reach VND8,037 billion, up 26.7% YoY. The parent company's NPAT is expected at VND5,497 billion, up 26.7% YoY. EPS, therefore, should be VND6,057/share.

Table 1. FPT – 2022E–2023E business results

VND bn	2020A	2021A	2022F	2023F
Net sales	29,830	35,657	44,495	53,645
Cost of goods sold	18,017	22,025	27,142	32,723
Gross profit	11,814	13,632	17,353	20,921
Selling expense	2,714	3,605	4,539	5,472
G&A expense	4,495	4,612	6,007	7,188
Financial expense	548	1,144	1,305	1,122
PBT	5,263	6,337	8,037	9,709
NPAT of the parent company	3,538	4,337	5,501	6,645

Source: KB Securities Vietnam

We recommend BUY for FPT stocks with a target price of VND114,200/share

We use two valuation methods FCFE (Free Cash Flow to Equity) and P/E comparison of technology and telecommunications services providers of similar size in Asian developing markets. Concerning the education segment, we assume the current P/E is reasonable, given its negligible contribution to the expected earnings and unseparated education & investment.

Combining the above two valuation methods with a ratio of 50–50, we reiterate our BUY recommendation for FPT stocks. The target price is VND114,200/share, 36.0% higher than the closing price on September 7, 2022.

Table 2. FPT – Target price according to FCFE valuation method (VND/share)

Cost of equity	10.91%	Present value of perpetual value (VND bn)	99,042
Risk-free rate	3.5%	Present value for 2022–2028 (VND bn)	30,620
Market risk premium	7.8%	Equity value (VND bn)	129,662
Beta	0.95	Share outstanding (thousand shares)	1097,027
Perpetual growth rate	3.0%	Equity value / Outstanding shares (VND)	118,194
Forecast period	6 years		

Source: KB Securities Vietnam

Table 3. FPT – Target price based on P/E valuation method (VND/share)

	Industry average P/E	Contribution to NPAT	Weighted P/E
Technology	26.2	44%	11.5
Telecommunications	18.4	38%	7.0
Education & Investment	19.2	18%	3.5
Total			22.0
Target price			110,107

Source: KB Securities Vietnam

Table 4. Asian developing markets – P/E comparison among technology companies

	Market cap (USD bn)	Forward PE	Weight	Weighted P/E
Mindtree Ltd	6,592	25.5	17.3%	4.4
Mphasis Ltd	4,901	20.9	12.9%	2.7
Persistent Systems Ltd	3,243	26.7	8.5%	2.3
Coforge Ltd	2,654	23.9	7.0%	1.7
Hyundai Autoever Corp	2,356	30.0	6.2%	1.9
DHC Software Co Ltd	2,743	35.6	7.2%	2.6
Chinasoft International Ltd	2,277	10.5	6.0%	0.6
China TransInfo Technology Co., Ltd	2,201	17.2	5.8%	1.0
Taiji Computer Corp Ltd	1,557	22.6	4.1%	0.9
PCI Technology Group Co., Ltd	1,568	24.9	4.1%	1.0
Digital China Information Service Co., Ltd	1,499	21.1	3.9%	0.8
Yusys Technologies Co., Ltd	1,556	16.5	4.1%	0.7
Wonders Information Co., Ltd	1,463	92.9	3.8%	3.6
Beijing eGOVA Co., Ltd	1,140	23.4	3.0%	0.7
Fujian Boss Software Development Co., Ltd	1,344	26.0	3.5%	0.9
Hand Enterprise Solutions Co., Ltd	0,986	16.2	2.6%	0.4
Average P/E				26.2

Source: Bloomberg

Table 5. Asian developing markets – P/E comparison among telecommunications companies

	Market cap (USD bn)	Forward PE	Weight	Weighted P/E
XL Axiata Tbk PT	1.902	19.7	3.1%	0.6
Sarana Menara Nusantara Tbk PT	4.420	16.9	7.1%	1.2
Tata Communications Ltd	4.490	20.7	7.2%	1.5
Indus Towers Ltd	6.787	10.1	10.9%	1.1
Axiata Group Bhd	5.939	18.5	9.5%	1.8
DiGi.Com Bhd	6.224	23.7	10.0%	2.4
LG Uplus Corp	3.542	6.4	5.7%	0.4
Total Access Communication PCL	2.807	26.8	4.5%	1.2
Telekom Malaysia Bhd	4.911	16.7	7.9%	1.3
Indosat Tbk PT	3.912	32.9	6.3%	2.1
China Communications Services	2.921	5.8	4.7%	0.3
TIME dotCom Bhd	1.960	18.8	3.1%	0.6
Maxis Bhd	6.547	21.4	10.5%	2.2
TianJin 712 Communication & Broadcasting Co., Ltd	3.659	23.6	5.9%	1.4
Converge Information and Communications Technology Solutions, Inc	2.249	12.3	3.6%	0.4

Source: Bloomberg, KB Securities Vietnam

Table 6. FPT – Target price according to valuation methods (VND/share)

Valuation method	Forecast price	Weight	Weighted price
FCFE	118,194	50%	59,097
P/E	110,107	50%	55,054
Target price			114,200

Source: KB Securities Vietnam

FPT - 2020A-2023E financials

Income Statement					Balance Sheet				
(VND billion)	2020	2021	2022F	2023F	(VND billion)	2020	2021	2022F	2023F
Netsales	29,830	35,657	44,495	53,645	TOTAL ASSETS	41,734	53,698	57,834	63,169
Cost of sales	18,017	22,025	27,142	32,723	CURRENT ASSETS	23,266	35,118	36,635	38,624
Gross Profit	11,814	13,632	17,353	20,921	Cash and cash equivalents	4,686	5,418	5,166	5,000
Financial income	822	1,271	1,691	1,678	Short-term investments	12,436	20,731	20,731	20,731
Financial expenses	548	1,144	1,305	1,122	Accounts receivable	6,265	6,882	8,168	9,847
of which: interest expenses	385	484	1,305	1,122	Inventories	1,290	1,507	1,859	2,241
Gain/(loss) from joint ventures	312	687	707	729	LONG-TERM ASSETS	16,468	18,580	21,199	24,545
Selling expenses	2,714	3,605	4,539	5,472	Long-term trade receivables	243	167	167	167
General and admin expenses	4,495	4,612	6,007	7,188	Fixed assets	10,691	11,689	14,337	17,684
Operating profit/(loss)	4,878	5,542	7,194	8,817	Long-term incomplete assets	2,373	1,291	1,291	1,291
Other incomes	131	133	166	200	Long-term investments	2,581	3,102	3,102	3,102
Other expenses	59	25	31	37	Goodwill	200	466	437	437
Net other income/(expenses)	73	109	136	164	LIABILITIES	23,129	32,280	32,364	33,109
Net accounting profit/(loss) before tax	5,263	6,337	8,037	9,709	Current liabilities	22,365	29,761	29,932	30,678
Corporate income tax expenses	840	988	1,253	1,514	Trade accounts payable	2,825	2,866	0	0
Net profit/(loss) after tax	4,424	5,349	6,784	8,196	Short-term unrealized revenue	1,963	2,530	0	0
Minority interests	886	1,012	1,283	1,550	Short-term borrowings	12,062	17,799	14,902	12,562
Attributable to parent company	3,538	4,337	5,501	6,645	Long-term liabilities	764	2,519	2,432	2,432
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	38	35	35	35
					Long-term borrowings	678	2,296	2,297	2,297
					OWNER'S EQUITY	18,606	21,418	25,383	29,973
					Paid-in capital	7,840	9,076	10,970	10,970
					Share premium	50	50	50	50
					Undistributed earnings	6,391	7,000	0	0
					Other funds	532	660	3	0
					Minority interests	2,860	3,477	3,477	3,477
Margin ratio					Key ratios				
(%)	2020	2021	2022F	2023F	(x, % VND)	2020	2021	2022F	2023F
Gross profit margin	39.6%	38.2%	39.0%	39.0%	Multiple				
EBITDA margin	23.9%	23.7%	25.0%	24.5%	P/E	19.1	18.0	17.2	14.2
EBIT margin	18.9%	19.1%	21.0%	20.2%	P/E diluted	19.1	18.0	17.2	14.2
Pre-tax profit margin	17.6%	17.8%	18.1%	18.1%	P/B	4.3	4.4	4.3	3.6
Operating profit margin	16.4%	15.5%	16.2%	16.4%	P/S	2.3	2.2	2.1	1.8
Net profit margin	14.8%	15.0%	15.2%	15.3%	P/Tangible Book	1.7	1.5	1.7	1.5
					P/Cash Flow	10.6	13.4	9.5	8.3
					EV/EBITDA	13.2	11.2	8.5	7.2
					EV/EBIT	16.7	13.8	10.1	8.7
Cash Flow Statement					Operating performance				
(VND billion)	2020	2021	2022F	2023F	ROE	22.5%	24.2%	25.1%	25.1%
Net profit/(loss) before tax	5,263	6,337	8,037	9,709	ROA	8.5%	8.1%	9.5%	10.5%
Depreciation and amortisation	1,491	1,644	1,801	2,318	ROIC	16.6%	14.8%	18.1%	20.6%
Profit/loss from investing activities	-1,040	-1,700	0	0	Financial structure				
Interest expense	385	484	1,305	1,122	Cash Ratio	76.6%	87.9%	86.5%	83.9%
Operating profit/(loss) before changes in Working Capital	6,410	7,053	11,144	13,149	Quick Ratio	101.1%	102.3%	105.3%	107.5%
(Increase)/decrease in receivables	312	-694	-1,285	-1,680	Current Ratio	113.0%	118.0%	122.4%	125.9%
(Increase)/decrease in inventories	-55	-218	-352	-382	LT Debt/Equity	3.6%	10.7%	9.0%	7.7%
Increase/(decrease) in payables	1,061	1,910	900	769	LT Debt/Total Assets	1.6%	4.3%	4.0%	3.6%
(Increase)/decrease in prepaid expenses	52	-376	257	223	ST Debt/Equity	64.8%	83.1%	58.7%	41.9%
Interest expense	0	0	0	0	ST Debt/Total Assets	28.9%	33.1%	25.8%	19.9%
Net cash inflows/(outflows) from operating activities	6,340	5,840	9,914	11,444	ST Liabilities/Equity	120.2%	139.0%	117.9%	102.4%
Purchases of fixed assets and other long term assets	-3,018	-2,911	-4,450	-5,664	ST Liabilities/Total Assets	53.6%	55.4%	51.8%	48.6%
Proceeds from disposal of fixed assets	3	3	0	0	Total Liabilities/Equity	124.3%	150.7%	127.5%	110.5%
Loans granted, purchases of debt instruments	-5,954	-35,827	0	0	Total Liabilities/Total Assets	55.4%	60.1%	56.0%	52.4%
Collection of loans, proceeds from sales of debts instrument	0	27,590	0	0	Activity ratios				
Investments in other entities	-101	-451	0	0	Account Receivable Turnover	4.7	5.4	5.9	6.0
Proceeds from divestment in other entities	31	0	0	0	Inventory Turnover	14.0	15.7	16.1	16.0
Dividends and interest received	894	1,183	0	0	Account Payable Turnover	12.9	5.9	6.4	7.3
Net cash inflows/(outflows) from investing activities	-8,144	-10,413	-4,450	-5,664					
Proceeds from issue of shares	60	88	166	0					
Payments for share returns and repurchases	0	0	0	0					
Proceeds from borrowings	20,449	34,464	0	0					
Repayment of borrowings	-15,570	-26,931	-17,799	0					
Finance lease principal payments	-2	-1	0	0					
Dividends paid	-1,899	-2,254	-2,985	-3,606					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	3,037	5,365	-5,716	-5,946					
Net increase in cash and cash equivalents	1,233	791	-252	-166					
Cash and cash equivalents at the beginning of period	3,453	4,686	5,418	5,166					
Cash and cash equivalents at the end of period	4,686	5,418	5,166	5,000					

Source: FPT Corporation, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

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

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

Investment Ratings for Sectors

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

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

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