

FPT Corporation (FPT)

Bright outlook fueled by IT segment

August 29, 2023

Analyst Nguyen Dinh Thuan
thuannd@kbsec.com.vn

2Q23 continued to see encouraging results

FPT Corporation (FPT) continued to record encouraging results with 2Q23 revenue of VND12,484 billion (+24% YoY), bolstered by global IT and education. The gross margin thus hit 37.1%. 2Q23 NPAT was VND1,856 billion (+18.8% YoY).

Bright outlook is powered by the IT segment

We reiterate our positive view over the IT segment on rising demand. Gartner forecasts global IT spending of USD4.7 billion this year and USD5.1 billion in 2024, implying a CAGR of 6.2% in 2022–2024. 2023 still sees bleak demand for domestic IT spending due to financial hardship facing numerous businesses. We expect improvements in 2024 thanks to increased IT budget of the public sector and FPT's capacity to expand its customer base.

Telecommunications and education maintained positive growth rates

FPT's broadband segment should enjoy a single-digit growth in the 2023–2025 period thanks to a steady rise in the number of customers following the market saturation. In the coming years, we assess that PayTV and Data Center will further drive telecom services as mentioned in the previous update report. With the reputation gained regarding IT training, we believe the education segment will attract a large number of students, given robust enrollment growth.

We recommend HOLD for FPT with a target price of VND106,100/share

Based on valuation results, business outlook, and possible risks, we downgrade our rating for FPT to HOLD. The target price is VND106,100/share, equaling a total return of 13.4% against the closing price on August 29, 2023.

Hold update

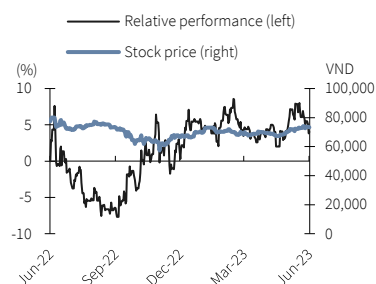
| | |
|------------------------------|--------------------|
| Target price | VND 106,100 |
| Upside | 13.4% |
| Current price (Aug 29, 2023) | VND 93,600 |
| Consensus target price | VND 93,000 |
| Market cap (USDbn) | 4.84 |

| | |
|------------------------------|----------------------|
| Trading data | |
| Free float | 84.7% |
| 3M avg trading value (VNDbn) | 111.92 |
| Foreign ownership | 49% |
| Major shareholder | Truong Gia Binh (7%) |

| | | | | |
|--------------------------------|-----------|-----------|-----------|------------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 4.6 | 7.0 | 10.4 | -7.0 |
| Relative | -0.1 | -0.4 | 3.7 | 1.1 |

Forecast earnings & valuation

| FY-end | 2021A | 2022A | 2023F | 2024F |
|--------------------------------|--------|--------|--------|--------|
| Revenue (VNDbn) | 35,657 | 44,010 | 51,951 | 61,988 |
| EBIT (VNDbn) | 6,228 | 7,589 | 8,984 | 10,719 |
| NPAT of parent company (VNDbn) | 4,337 | 5,310 | 6,355 | 7,582 |
| EPS (VND) | 4,349 | 4,429 | 5,004 | 5,971 |
| EPS growth (%) | 6% | 2% | 13% | 19% |
| P/E (x) | 10.1 | 16.6 | 21.7 | 18.2 |
| P/B (x) | 2.0 | 3.4 | 4.3 | 3.8 |
| ROE (%) | 0.2 | 0.3 | 0.2 | 0.2 |
| Dividend yield (%) | 6% | 3% | 2% | 2% |



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q23 continued to see encouraging results

FPT continued to record encouraging results with 2Q23 revenue of VND12,484 billion (+24% YoY), bolstered by global IT and education. The gross margin thus hit 37.1%. 2Q23 NPAT was VND1,856 billion (+18.8% YoY).

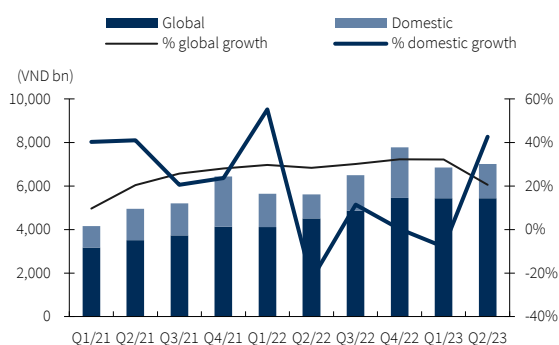
Halfway through the year, global IT services led growth with many large orders. In particular, signed contract value reached VND15,017 billion (+28.6% YoY), comprising 13 projects worth over USD5 million in aggregate. The remaining two segments, telecommunications and education, also performed well.

Table 1. FPT – 1H22–1H23 business results

| VND bn | 1H2022 | 1H2023 | +/-%YoY | Comments |
|--------------------------------|---------------|---------------|------------|---|
| Revenue | 19,826 | 24,166 | 22% | |
| Global IT | 8,622 | 11,227 | 30% | <ul style="list-style-type: none"> - Global IT revenue continued to show positive growth across markets. Specifically, Japan (+39.1% YoY) and APAC (+42.5% YoY) had the strongest growth of all. - Digital transformation revenue in the first half of 2023 posted VND4,886 billion (+40% YoY), focusing on new technologies such as Cloud, AI/Data Analytics, ... - Signed contract value amounted to VND15,017 billion (+28.6% YoY). |
| Domestic IT | 2,630 | 2,975 | 13% | - Domestic enterprises suffered from financial hardship, causing a slowdown in IT spending. Profit before tax of this segment in 1H23 is only VND171 billion (-24.3% YoY). |
| Telecommunications | 6,727 | 7,423 | 10% | |
| Online advertising | 350 | 259 | -26% | |
| Education, investment, others | 1,498 | 2,281 | 52% | |
| Gross profit | 7,796 | 9,202 | 18% | |
| Gross profit margin (%) | 39% | 38% | | |
| SG&A | -4,800 | -5,408 | 13% | |
| % SG&A/revenue | 24% | 22% | | |
| EBIT | 3,609 | 4,287 | 19% | |
| Financial income | 922 | 1,300 | 41% | |
| Financial expense | -604 | -784 | 30% | |
| Net other income | 28 | 52 | 86% | |
| Profit before tax (PBT) | 3,637 | 4,339 | 19% | |
| NPAT | 3,100 | 3,665 | 18% | |

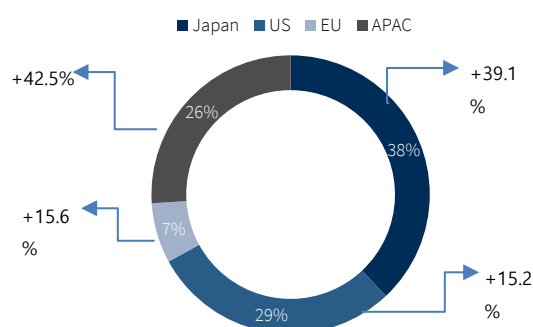
Source: FPT Corporation, KB Securities Vietnam

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



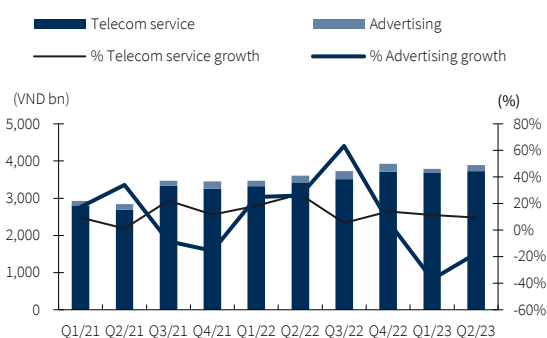
Source: FPT Corporation, KB Securities Vietnam

Fig 3. FPT – Global IT revenue growth across markets (%)



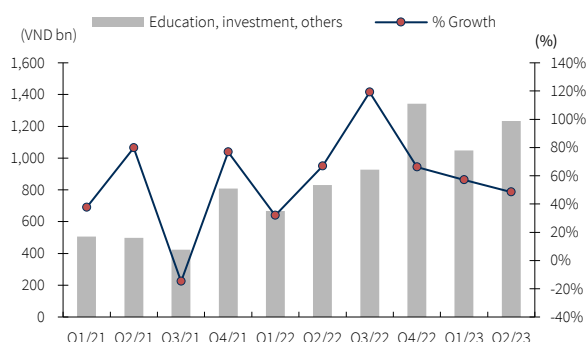
Source: FPT Corporation, KB Securities Vietnam

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



Source: FPT Corporation, KB Securities Vietnam

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



Source: FPT Corporation, KB Securities Vietnam

Bright outlook is powered by the IT segment

We reiterate our positive view over the IT segment on rising demand. Gartner forecasts global IT spending of USD4.7 billion this year and USD5.1 billion in 2024, implying a CAGR of 6.2% in 2022–2024. Accordingly, we keep our double-digit growth assumption for FPT’s global IT in the coming years. To be more specific, global IT revenue should touch VND23,256 billion (+23% YoY) in 2023 and VND28,145 billion (+21% YoY) in 2024, driven by signed contract value of VND15,017 billion in the January-through-June period. We foresee that the APAC and Japanese markets will hold their top spots by growth, considering positive signs concerning IT spending and digital transformation in these two regions. Nevertheless, the depreciation of the Japanese yen will also be a downside risk to FPT’s earnings to some extent.

After a sharp decline in 1Q23, domestic IT services PBT was back to growth track with a 13% YoY rise in 2Q23, resulting from the company promoting cooperation with the government, ministries, and sectors with good resilience amid unfavorable economic conditions. However, 2023 still sees a bleak demand for IT budget due to financial hardship facing numerous businesses. We expect improvements in 2024 thanks to increased IT budget of the public sector and FPT’s capacity to expand its customer base.

Telecommunications and education maintained positive growth rates

FPT's broadband segment should enjoy a single-digit growth in the 2023–2025 period thanks to a steady rise in the number of customers following the market saturation. In the coming years, we assess that PayTV and Data center will further drive telecom services as mentioned in the previous update report. Again, the education segment achieved high revenue growth, up 42% YoY to VND2,754 billion in 1H23. With the reputation gained regarding IT training, we believe the education segment will attract a large number of students, given robust enrollment growth. Furthermore, FPT has been working with provinces and cities nationwide to establish new educational institutions. We, therefore, anticipate a high student population growth of 35% YoY in 2023.

Forecast & Valuation

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

| (VND bn) | 2022A | 2023F | +/-%YoY | Comments |
|--------------------------------|---------------|---------------|------------|---|
| Revenue | 44,010 | 51,951 | 18% | |
| Global IT | 18,935 | 23,256 | 23% | Japan and APAC markets should enjoy the strongest revenue growth in 2023, up 25% and 35%, respectively, thanks to rising IT spending, especially on digital transformation. In contrast, the US and EU markets would experience slow growth due to economic recession risks as well as weaker demand. We project a growth rate of 16% in the US and 11% in the EU in 2023 to reflect the above risks. |
| Domestic IT | 6,586 | 6,388 | -3% | Gloomy tech spending outlook weighs on domestic IT services. |
| Telecommunications | 13,954 | 15,603 | 12% | Broadband services should sustain a steady rise following the market saturation, led by PayTV and Data Center. |
| Online advertising | 775 | 798 | 3% | |
| Education, investment, others | 3,767 | 5,906 | 57% | The Education segment is expected to maintain a positive growth momentum in 2023. |
| Gross profit | 17,167 | 20,001 | 17% | |
| Gross profit margin (%) | 39% | 39% | | |
| SG&A | (10,373) | (11,949) | 15% | |
| % SG&A/revenue | 24% | 23% | | |
| EBIT | 7,589 | 8,984 | 18% | |
| Financial income | 1,999 | 1,700 | -15% | |
| Financial expense | (1,687) | (768) | -54% | |
| Net other income | 73 | 78 | 7% | |
| Profit before tax (PBT) | 7,662 | 9,140 | 19% | |
| NPAT | 6,491 | 7,769 | 20% | |

Source: FPT Corporation, KB Securities Vietnam

We recommend HOLD for FPT with a target price of VND106,100/share

We utilize two valuation methodologies, discounted cash flow (DCF) and P/E comparable, for IT and telecommunications. As for the IT segment, we apply a 10% discount vs the industry median P/E for the time being due to concerns about dwindling demand for technology services in 2023 in the context of macroeconomic headwinds, which will derail the valuation of selected technology businesses. For education & investment, since there is no separation between these two segments, we assume the current P/E is reasonable.

Based on the equal combination of the above two approaches, we recommend HOLD for FPT with a target price of VND106,100/share, 13.4% higher than the closing price on August 29, 2023.

Table 7. FPT – FCFF valuation

| | | | |
|-----------------|-------|--|-----------|
| Cost of equity | 13% | PV of terminal value (TV) | 96,583 |
| Risk free rate | 5% | PV of 2023–2027 (PV) | 50,038 |
| Market premium | 8,22% | Total present value | 146,621 |
| Beta | 1 | Owner equity | 149,478 |
| Terminal growth | 4% | Outstanding shares (thousand) | 1,269,969 |
| | | Equity/outstanding shares (VND) | 105,932 |

Source: KB Securities Vietnam

Table 8. FPT – P/E valuation

| | Target P/E | Revenue contribution | Proportion |
|------------------------|------------|----------------------|----------------|
| IT | 28 | 45% | 12.6 |
| Telecommunications | 15 | 37% | 5.6 |
| Education & investment | 16.3 | 19% | 3.1 |
| Total | | | 21.2 |
| Target price | | | 106,318 |

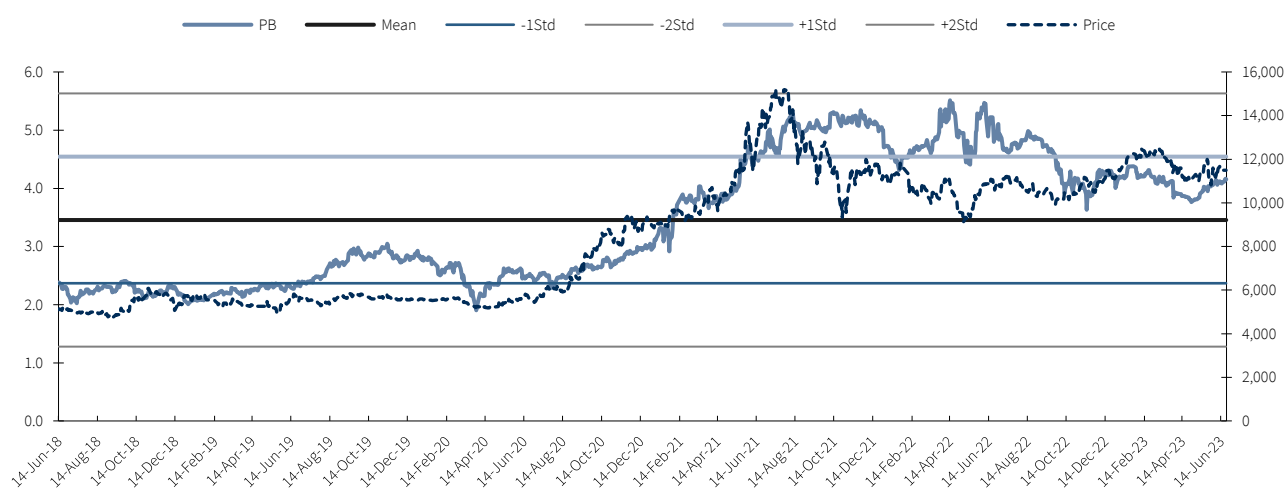
Source: KB Securities Vietnam

Table 9. FPT – Valuation results

| Valuation method | Forecast price | Weighting | Fair price |
|-------------------------------|----------------|-----------|----------------|
| FCFF | 105,932 | 50% | 52,966 |
| P/E | 106,318 | 50% | 53,159 |
| Target price (rounded) | | | 106,100 |
| Current price | | | 93,600 |
| Upside to target price | | | 13.4% |

Source: KB Securities Vietnam

Fig 10. FPT – Historical P/B & share performance in 2018–2023 (x)



Source: Bloomberg, KB Securities Vietnam

Table 11. Asia – P/E multiple of IT peers in developing economies

| | Market cap (VND tn) | Forward PE | Weighting | Weighted PE |
|------------------------------------|---------------------|------------|-----------|-------------|
| Persistent Systems Ltd | 109 | 30 | 8.7% | 2.6 |
| Mphasis Ltd | 102 | 20 | 8.1% | 1.6 |
| Beijing Ultrapower Software Co Ltd | 100 | 38 | 7.9% | 3.0 |
| Isftstone Information Technology | 98 | 16 | 7.8% | 1.2 |
| Tajji 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 Development | 42 | 27 | 3.4% | 0.9 |
| Digital China Information Serv | 42 | 28 | 3.4% | 0.9 |
| Average P/E | | | | 31 |

Source: Bloomberg, KB Securities Vietnam

Table 12. Asia – P/E multiple of telecommunications peers in developing economies

| | Market cap (VND tn) | Forward PE | Weighting | Weighted PE |
|---|---------------------|------------|-----------|-------------|
| 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 Group | 39 | 36.5 | 4% | 1.5 |
| Converge Information and Communications | 38 | 9.0 | 4% | 0.4 |
| Route Mobile Ltd | 35 | 26.5 | 4% | 1.0 |
| Average P/E | | | | 14.5 |

Source: Bloomberg, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@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

Research Division
research@kbsec.com.vn

Macro/Strategy

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

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhdh@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
tienss@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.