

FPT Group (FPT)

3Q earnings up 19.7% YoY

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3Q earnings rose 19.7% YoY to VND1,375 billion

FPT Group (FPT) maintained a positive growth in 3Q21 with earnings up 19.7% YoY to VND1,375 billion on revenue of VND8,725 billion, up 15.5% YoY. Of that, in October and November, the group's earnings were VND5,851 billion (up 19.8% YoY) and revenue was VND6,848 billion (up 31.6% YoY).

Software outsourcing in key markets grew strongly

The software outsourcing segment in the US, EU and APAC markets experienced impressive growth in 3Q, reaching 64% YoY, 25% YoY and 22% YoY respectively, while the Japanese market represented the largest proportion, up 9% YoY.

Technology growth should be positive thanks to domestic and international demand

In the first nine months of 2021 (9M21), the value of new orders for IT services from abroad gained 33.5% YoY to VND12,807 billion. Meanwhile, high demand for domestic digital transformation in both public and private sectors is the driving force for the development of the domestic IT service segment. The telecommunications segment should be driven by steady growth in broadband and FPT Play.

BUY recommendation with a target price of VND123,000 per share

Based on valuation results, business outlook as well as considering possible risk factors, we recommend BUY for FPT stock. The target price is VND123,000/share, 30.1% higher than the price on December 15, 2021.

Buy update

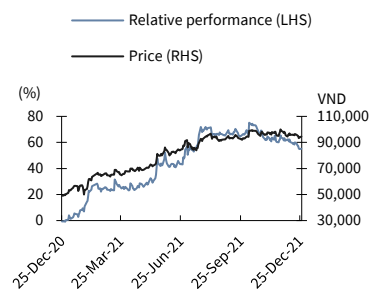
Target price	VND123,000
Upside/downside (%)	30.1
Current price (Dec 15, 2021)	VND94,300
Consensus target price	VND82,000
Market cap (VNDbn)	85,756

Trading data	
Free float (%)	87.06
3M avg trading value (VNDbn/USDmn)	247/10.9
Foreign ownership (%)	49
Major shareholder	Truong Gia Binh (7.05%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3	0	6	95
Relative	-3	-9	-2	55

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net revenue (VNDbn)	27,717	29,830	35,586	40,929
Revenue growth (%)	19.40	7.63	19.30	15.01
Gross profit (VNDbn)	10,712	11,814	13,879	16,208
Gross profit margin (%)	38.65	39.60	39.00	39.60
Net profit (VNDbn)	3,912	4,424	5,355	6,369
Net profit growth (%)	20.96	13.09	21.05	18.94
EPS (VND)	4,622	4,513	4,719	5,613
EPS growth (%)	8.24	-2.36	4.58	18.94
P/E (x)	19.9	20.3	19.5	16.4



Source: Bloomberg, KB Securities Vietnam

Updated business performance

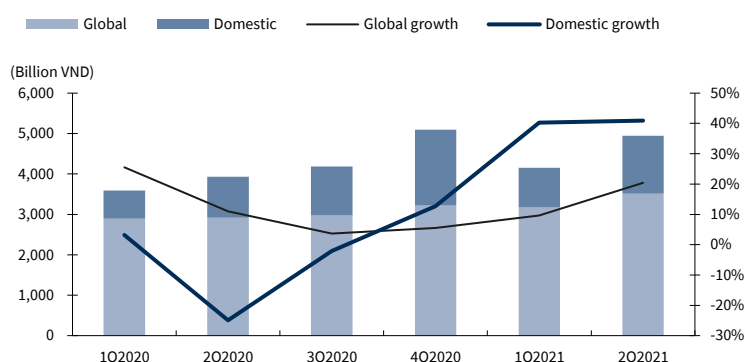
3Q21 earnings reached VND1,375 billion, up 19.7% YoY

In 3Q21, FPT maintained positive growth with revenue of VND8,725 billion, up 15.5% YoY, of which IT services segment increased 24.2% YoY, telecommunications went up 8.1% YoY, and education & investment decreased 14.5% YoY. Gross profit margin lowered by 244bps YoY to 37.3% while general and administrative expenses (G&A) declined 9.1% YoY, making 3Q earnings rise 19.7% YoY to VND1,375 billion. In October and November, FPT's earnings were VND5,851 billion (up 19.8% YoY) and revenue was VND6,848 billion (up 31.6% YoY).

Revenue from IT services gained 24.2% YoY in 3Q, and earnings before taxes (EBT) were 23.8% than that of the same period last year. Software outsourcing segment continued to grow well with revenue up 25.7% YoY after a low growth in 2H20.

Meanwhile, domestic technology growth slowed down compared to 2Q due to a high base in 3Q21 but still increased by 2.5% QoQ.

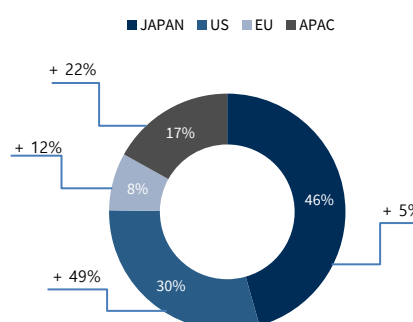
Fig 1. FPT – IT services segment in 2Q20–2Q21 (VNDbn, %)



Source: FPT Group, KB Securities Vietnam

The US, EU and APAC markets experienced impressive growth in 3Q21, reaching 64% YoY, 25% YoY and 22% YoY respectively, while the Japanese market with the largest share increased by 9% YoY.

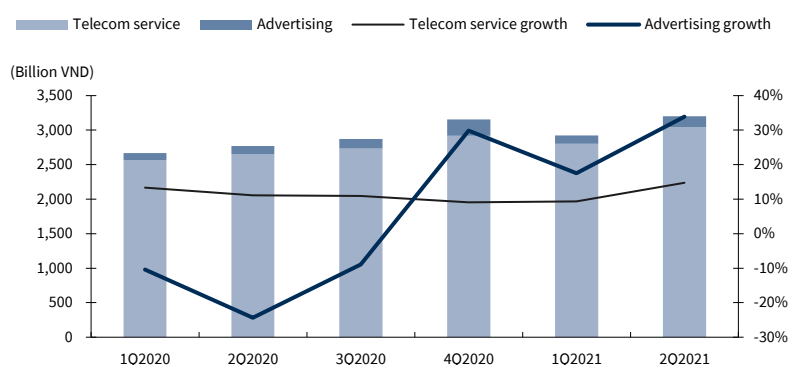
Fig 2. FPT – Software outsourcing revenue structure (% YoY)



Source: FPT Group, KB Securities Vietnam

3Q EBT of telecommunication segment in reached VND586 billion, up 11.8% YoY. Revenue gained 8.1% YoY, of which the growth of telecoms services reached 8.9% while online advertising decreased by 8.4% YoY.

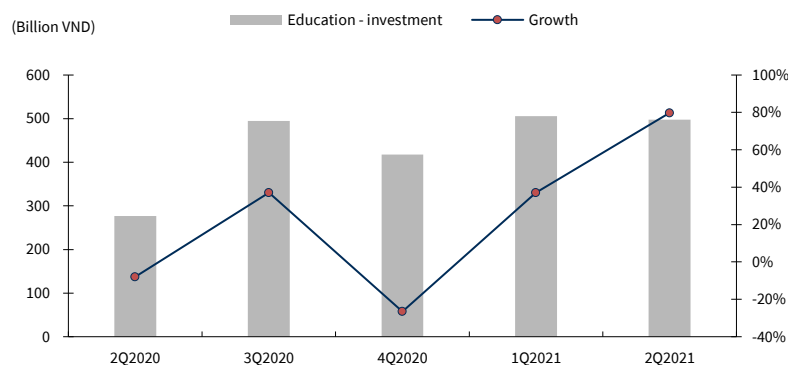
Fig 3. FPT – Telecoms revenue in 1Q20–2Q21 (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

3Q21 education & investment revenue fell 14% YoY mainly due to high base in 3Q20 after social distancing protocols were lifted

Fig 4. FPT – Education & investment revenue in 1Q20–2Q21 (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

Technology growth should be positive thanks to domestic and international demand

9M21 value of new orders for IT services from abroad gained 33.5% YoY to VND12,807 billion. The number of customers contributing more than USD1 million in revenue reached 95 customers, an increase of 9.2% compared to 9M20. There were 16 projects with a scale of over USD5 million, up 167% YoY. Meanwhile, the high demand for domestic digital transformation in both public and private sectors is the driving force for the development of the domestic IT services. By the end of November 2021, FPT's new domestic orders posted VND5,893 billion in value, up 20% YoY.

Telecommunications and education segments should grow steadily in 2022

For telecoms services, the number of new subscribers in 10M21 of the whole industry reached 2.15 million, up 18.1% YoY along with cost reduction and promising profit from PayTV. In addition, the education segment may also grow strongly in 2022 because: (1) The pandemic makes students planning to study abroad stay in the country at private schools; and (2) the demand of the IT industry increases.

Forecast business performance

2021F performance should be positive

We estimate 2021 revenue to reach VND 35,586 billion, up 19.3% YoY, based on the following factors:

- Technology revenue should grow 21.4% YoY to VND20,406 billion with the motivation from both domestic and international markets.
- Telecommunications revenue is estimated at VND11,466 billion, up 10.3% YoY, of which Telecoms services revenue increases 11.0% YoY thanks to low growth base in 2020 and stable demand from the market.

G&A expenses/revenue ratio is forecast at 12.8%, down 227 bps YoY, reflecting the efficiency of digital transformation and efforts to reduce costs of FPT.

2021F EBT is up 21.1% YoY to VND6,371 billion, and earnings after taxes of the parent company is expected to reach VND4,283 billion, up 21.0% YoY. EPS should be VND4,719 billion per share.

In 2022, with a large number of new contracts signed, we expect FPT will continue to maintain its growth momentum with revenue reaching VND40,929 billion (up 15.0% YoY) and earnings attributable to parent company should hit VND5,094 billion (up 18.9% YoY).

Table 5. FPT – 2021–2022F results

	2019	2020	2021F	2022F
Revenue	27,717	29,830	35,586	40,929
COGS	17,005	18,017	21,708	24,721
Gross profit	10,712	11,814	13,879	16,208
Selling expenses	2,346	2,714	3,630	4,175
General & admin expenses	4,219	4,495	4,555	5,198
Financial expenses	592	548	1,048	1,236
EBT	4,665	5,263	6,371	7,578
NPAT	3,135	3,538	4,283	5,094

Source: KB Securities Vietnam

KBSV recommends BUYING FPT shares with the target price of VND123,000 apiece

We use two valuation methods: FCFE and P/E comparison of companies in the same industry with the same capital scale in Asia's developing markets for two segments: Technology and telecommunications. For the education & investment segment, due to its small contribution to the expected profit and the lack of separation between the education and investment, we assume the current P/E is reasonable.

Combining the above two valuation methods with the ratio of 50–50, we got the final fair price for a FPT share at VND123,000, 30.1% higher than the price on December 15, 2021.

Table 6. FPT – FCFE valuation

	Assumption
Cost of Equity	10.7%
Risk free rate	2.9%
Market risk premium	8.2%
Beta	0.95
Perpetual growth rate	3%
Forecast period	five years

Source: KB Securities Vietnam

Table 7. Asian developing markets – P/E comparison among technology companies

	Market cap (USDbn)	PE trailing	Weight	Weighted PE
Chinasoft International Ltd	3.821	13.7	11.9%	1.6
DHC Software Co Ltd	3.794	28.0	11.8%	3.3
China TransInfo Technology Co	3.648	17.5	11.4%	2.0
Hyundai Autoever Corp	3.204	36.1	10.0%	3.6
Tajji Computer Corp Ltd	2.478	30.0	7.7%	2.3
CETC Digital Technology Co Ltd	2.374	25.5	7.4%	1.9
Yusys Technologies Co Ltd	2.227	21.5	7.0%	1.5
Digital China Information Serv	1.873	18.1	5.8%	1.1
Shenzhen Sunline Tech Co Ltd	1.622	27.7	5.1%	1.4
Fujian Boss Software Developme	1.361	18.7	4.2%	0.8
Mastek Ltd	1.186	27.1	3.7%	1.0
Sonata Software Ltd	1.179	21.4	3.7%	0.8
Hand Enterprise Solutions Co L	1.160	12.6	3.6%	0.5
Beijing eGOVA Co Ltd	1.082	27.0	3.4%	0.9
Guomai Technologies Inc	1.028	26.9	3.2%	0.9
P/E average				23.5

Source: KB Securities Vietnam

Table 8. Asian developing markets – P/E comparison among telecommunications companies

	Market cap (USDbn)	PE trailing	Weight	Weighted PE
Tata Communications Ltd	5,227	23.0	10.8%	2.5
LG Uplus Corp	5,193	7.7	10.7%	0.8
Tianjin 712 Communication & Br	5,070	31.2	10.4%	3.3
Telekom Malaysia Bhd	4,855	17.3	10.0%	1.7
Converge Information and Commu	4,852	24.5	10.0%	2.4
Sarana Menara Nusantara Tbk PT	4,059	14.8	8.3%	1.2
China Communications Services	3,321	5.8	6.8%	0.4
Total Access Communication PCL	3,162	24.8	6.5%	1.6
XL Axiata Tbk PT	2,296	24.6	4.7%	1.2
Indosat Tbk PT	2,181	23.1	4.5%	1.0
TIME dotCom Bhd	1,904	19.2	3.9%	0.8
New Guomai Digital Culture Co	1,686	39.4	3.5%	1.4
Talkweb Information System Co	1,644	42.3	3.4%	1.4
Route Mobile Ltd	1,423	42.4	2.9%	1.2
BizConf Telecom Co Ltd	0,937	12.6	1.9%	0.2
Link Net Tbk PT	0,806	11.3	1.7%	0.2
P/E average				21.4

Source: KB Securities Vietnam

Table 9. FPT – P/E valuation

	P/E average	Contribution in NPAT	Weighted P/E
IT	23.5	42%	9.9
Telecommunications	21.3	39%	8.3
Education & Investment	21.2	19%	4.0
Total			22.2
Target price			124,645

Source: KB Securities Vietnam

Table 10. FPT – Target price according to valuation results

Methods	Forecast price	Weight	Weighted price
FCFE	121,426	50%	60,713
P/E	124,645	50%	62,322
Target price			123,000

Source: KB Securities Vietnam

FPT – 2018A–2021F financial data

Income Statement					Balance Sheet				
(VND billion)	2018A	2019A	2020A	2021F	(VND billion)	2018A	2019A	2020A	2021F
Net sales	23,214	27,717	29,830	35,586	TOTAL ASSETS	29,757	33,394	41,734	50,826
Cost of sales	14,491	17,005	18,017	21,708	CURRENT ASSETS	18,406	18,979	25,612	32,484
Gross Profit	8,723	10,712	11,814	13,879	Cash and cash equivalents	3,926	3,453	4,686	5,136
Financial income	600	650	822	1,128	Short-term investments	5,569	6,709	12,436	17,000
Financial expenses	361	592	548	1,048	Accounts receivable	6,427	6,536	6,265	7,636
of which: interest expenses	238	359	385	1,048	Inventories	1,341	1,284	1,290	1,597
Gain/(loss) from joint ventures	439	405	312	512	LONG-TERM ASSETS	11,351	14,415	16,122	18,341
Selling expenses	2,048	2,346	2,714	3,630	Long-term trade receivables	110	262	243	243
General and admin expenses	3,553	4,219	4,495	4,555	Fixed assets	7,689	9,143	10,691	12,603
Operating profit/(loss)	3,361	4,205	4,878	5,774	Long-term incomplete assets	1,175	1,650	2,373	2,373
Other incomes	60	113	131	157	Long-term investments	2,202	2,497	2,581	2,581
Other expenses	3	58	59	71	Goodwill	326	226	200	508
Net other income/(expenses)	58	55	73	85	LIABILITIES	14,982	16,595	23,129	29,226
Net accounting profit/(loss) before tax	3,858	4,665	5,263	6,371	Current liabilities	14,451	16,102	22,365	28,463
Corporate income tax expenses	575	771	1,046	1,016	Trade accounts payable	2,510	2,642	2,825	3,441
Net profit/(loss) after tax	3,234	3,912	4,424	5,355	Short-term unrealized revenue	1,611	1,827	1,963	0
Minority interests	614	776	886	1,072	Short-term borrowings	6,599	7,514	12,062	16,944
Attributable to parent company	2,620	3,135	3,538	4,283	Long-term liabilities	531	493	764	764
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	109	92	38	38
					Long-term borrowings	367	350	678	678
					OWNER'S EQUITY	14,775	16,799	18,606	21,600
					Paid-in capital	6,136	6,784	7,840	9,075
					Share premium	49	50	50	50
					Undistributed earnings	5,293	5,961	6,391	0
					Other funds	313	413	552	3
					Minority interests	2,302	2,835	2,860	2,860

Margin ratio				
(%)	2018A	2019A	2020A	2021F
Gross profit margin	37.6%	38.6%	39.6%	39.0%
EBITDA margin	22.7%	23.0%	23.9%	25.5%
EBIT margin	17.6%	18.1%	18.9%	20.8%
Pre-tax profit margin	16.6%	16.8%	17.6%	17.9%
Operating profit margin	14.5%	15.2%	16.4%	16.2%
Net profit margin	13.9%	14.1%	14.8%	15.0%

Cash Flow Statement				
(VND billion)	2018A	2019A	2020A	2021F
Net profit/(loss) before tax	3,858	4,665	5,263	6,371
Depreciation and amortisation	1,165	1,355	1,491	1,646
Profit/loss from investing activities	-761	-903	-1,040	0
Interest expense	238	359	385	1,048
Operating profit/(loss) before changes in Working Capital	4,639	5,772	6,410	9,064
(Increase)/decrease in receivables	-159	-481	312	-1,370
(Increase)/decrease in inventories	-229	256	-55	-307
Increase/(decrease) in payables	645	306	1,061	616
(Increase)/decrease in prepaid expenses	-368	-687	52	156
Interest expense	-264	-538	-402	-1,048
Net cash inflows/(outflows) from operating activities	3,588	3,899	6,340	6,051
Purchases of fixed assets and other long term assets	-2,454	-3,233	-3,018	-3,559
Proceeds from disposal of fixed assets	1	2	3	0
Loans granted, purchases of debt instruments	-1,188	-1,207	-5,954	-4,564
Collection of loans, proceeds from sales of debts instruments	0	0	0	0
Investments in other entities	-710	-110	-101	0
Proceeds from divestment in other entities	180	120	31	0
Dividends and interest received	474	582	894	0
Net cash inflows/(outflows) from investing activities	-3,697	-3,845	-8,144	-8,123
Proceeds from issue of shares	27	72	60	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	10,282	13,404	20,449	0
Repayment of borrowings	-8,047	-12,505	-15,570	-12,062
Finance lease principal payments	0	-2	-2	0
Dividends paid	-1,708	-1,484	-1,899	-2,361
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	553	-514	3,037	2,522
Net increase in cash and cash equivalents	445	-461	1,233	450
Cash and cash equivalents at the beginning of period	3,481	3,926	3,453	4,686
Cash and cash equivalents at the end of period	3,926	3,453	4,686	5,136

Key ratios				
(x,%, VND)	2018A	2019A	2020A	2021F
Multiple				
P/E	21.5	19.9	20.3	19.5
P/E diluted	21.5	19.9	20.3	19.5
P/B	4.5	4.5	4.6	4.4
P/S	2.4	2.2	2.4	2.3
P/Tangible Book	2.0	1.9	1.8	1.7
P/Cash Flow	15.7	16.0	11.4	13.8
EV/EBITDA	15.8	13.1	11.7	9.2
EV/EBIT	20.3	16.6	14.7	11.2
Operating performance				
ROE	21.0%	22.5%	22.5%	22.9%
ROA	8.8%	9.4%	8.5%	8.4%
ROIC	18.2%	18.4%	16.6%	15.7%
Financial structure				
Cash Ratio	65.7%	63.1%	76.6%	77.8%
Quick Ratio	106.3%	100.6%	101.1%	101.9%
Current Ratio	127.4%	117.9%	114.5%	114.1%
LT Debt/Equity	2.5%	2.1%	3.6%	3.1%
LT Debt/Total Assets	1.2%	1.0%	1.6%	1.3%
ST Debt/Equity	44.7%	44.7%	64.8%	78.4%
ST Debt/Total Assets	22.2%	22.5%	28.9%	33.3%
ST Liabilities/Equity	97.8%	95.9%	120.2%	131.8%
ST Liabilities/Total Assets	48.6%	48.2%	53.6%	56.0%
Total Liabilities/Equity	101.4%	98.8%	124.3%	135.3%
Total Liabilities/Total Assets	50.3%	49.7%	55.4%	57.5%
Activity ratios				
Account Receivable Turnover	3.7	4.3	4.7	5.1
Inventory Turnover	12.3	13.0	14.0	15.0
Account Payable Turnover	8.1	12.9	5.9	6.4

Source: FPT Group, 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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