

FPT Corporation (FPT)

Digital transformation slowed down in 3Q22

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3Q22 NPAT reached VND1,756 billion, up 27.7% YoY

FPT Corporation (FPT) continued to record impressive growth for 3Q22 with NPAT of VND1,756 billion (+27.7% YoY) and revenue of VND11,149 billion (+27.8% YoY), underpinned by revenue growth of Technology (+24.9% YoY), Telecommunications (+20.1% YoY), and Education & Investment (+119.1% YoY).

9M22 newly signed revenue climbed 42.6% YoY, and FPT became a strategic shareholder of LTS Inc

9M22 newly registered revenue of global IT services hit VND16,799 billion (+42.6% YoY). On October 13, 2022, FPT entered into an agreement to become a strategic shareholder of LTS Inc, a Japan-based company specializing in delivering business process management, consulting services, and digital transformation solutions with 20 years of experience.

Digital transformation slowed down in 3Q22

Digital transformation showed signs of leveling off in the third quarter, contributing only VND1,810 billion to total revenue, a decrease of 1.1% YoY against a surge of 64.6% YoY in the first half of the year. It was derived from: (1) the slowdown of blockchain technology and application development and (2) high base in 3Q21. FPT expects 2022F digital transformation revenue to jump by 35%-40% YoY, equivalent to 37% YoY growth in 4Q22.

We recommend BUY for FPT with a target price of VND101,900/share

Based on valuation results, business outlook and possible risks, we recommend BUY for FPT stocks. The target price is VND101,900/share, 30.1% higher than the closing price on December 6, 2022.

Buy maintain

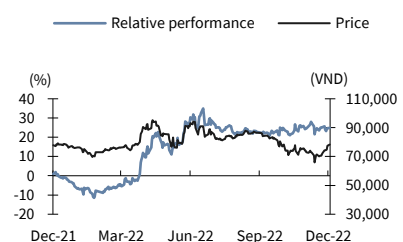
Target price	VND 101,900
Upside/Downside	30.1%
Current price (Dec 6, 2022)	VND 78,300
Consensus target price	VND 109,683
Market cap (VNDbn)	85,897

Trading data	
Free float	87.1%
3M avg trading value (VNDbn/USDmn)	126.5/5.2
Foreign ownership	49%
Major shareholder	Truong Gia Binh (7.05%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	7	-6	-12	-1
Relative	-5	6	-3	25

Forecast earnings & valuation

FY-end	2020	2021	2022F	2023F
Net revenue (VNDbn)	29,830	35,657	43,252	51,531
Net revenue growth (%)	7.6%	19.5%	21.3%	19.1%
Gross profit (VNDbn)	11,814	13,632	16,868	20,097
Gross profit margin (%)	39.6%	38.2%	39.0%	39.0%
Net profit (VNDbn)	3,538	4,337	5,524	6,555
Net profit growth (%)	12.8%	22.6%	27.4%	18.7%
EPS (VND)	4,513	4,779	5,035	5,975
EPS growth (%)	-2.4%	5.9%	5.4%	18.7%
P/E (x)	17.4	16.4	15.6	13.1



Source: Bloomberg, KB Securities

Business performance

3Q22 NPAT reached VND1,756 billion, up 27.7% YoY

FPT continued to record impressive growth for 3Q22 with NPAT of VND1,756 billion (+27.7% YoY) and revenue of VND11,149 billion (+27.8% YoY) thanks to revenue growth of Technology (up 24.9% YoY), Telecommunications (up 20.1% YoY), and Education & Investment (up 119.1% YoY). Gross profit margin was 39.1% (+184bps YoY). Financial income rose to VND550 billion (+65.4% YoY) while expenses surged as selling, general and administrative expenses (SG&A) made up 23.3% (+177bps YoY) of total revenue. As a result, 3Q22 NPAT reached VND1,756 billion, up 27.7% YoY. For 9M22, NPAT was VND4,856 billion (+28.3% YoY) on revenue of VND30,975 billion (+24.1% YoY).

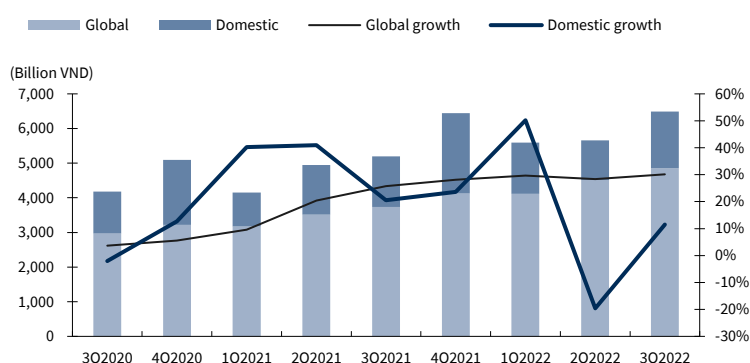
In October 2022, FPT still maintained its positive growth momentum, with revenue up 26.6% YoY thanks to growth across sectors: technology (+20.5% YoY), telecommunications (+12.8% YoY), and education and investment (+142.1% YoY).

Technology revenue was up 24.9% YoY and PBT was up 27.6% YoY in 3Q22.

Software export continued its steady growth with revenue up 30.1% YoY.

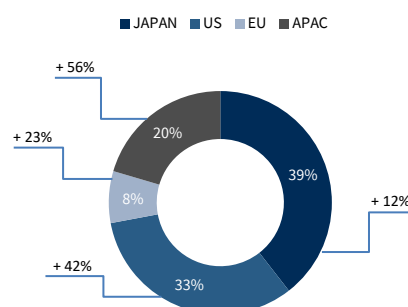
Meanwhile, domestic IT service revenue improved by 11.5% YoY.

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



Source: FPT Corporation, KB Securities Vietnam

Fig 2. FPT – Software export revenue breakdown (%)



Source: FPT Corporation, KB Securities Vietnam

Software exports enjoyed the highest quarterly growth in recent years.

Revenue in the US market picked up 33% YoY, lower than the average of the previous quarters (>50%) despite rising USD/VND exchange rate.

Revenue in EU grew by 22% YoY.

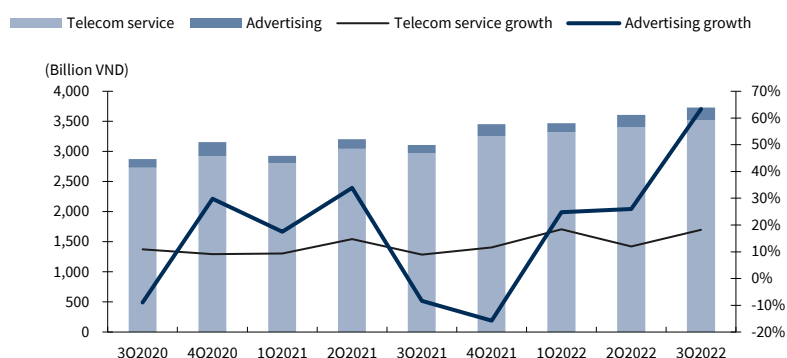
Revenue in the APAC market maintained solid growth momentum compared to recent quarters, reaching 58% YoY.

Revenue in Japan rose by 19% YoY, the sharpest increase in recent quarters. Excluding a weakening JPY, the figure would be 26% YoY.

3Q22 Telecommunications revenue grew by 20.1% YoY, driven by Pay TV while digital advertising revenue climbed 63.4% YoY against the low base in 3Q21. PBT reached VND724 billion, up 23.5% YoY in the third quarter.

PayTV currently contributes 20% to Telecommunications services revenue. FPT expects PayTV to grow by 25% per year in the years ahead.

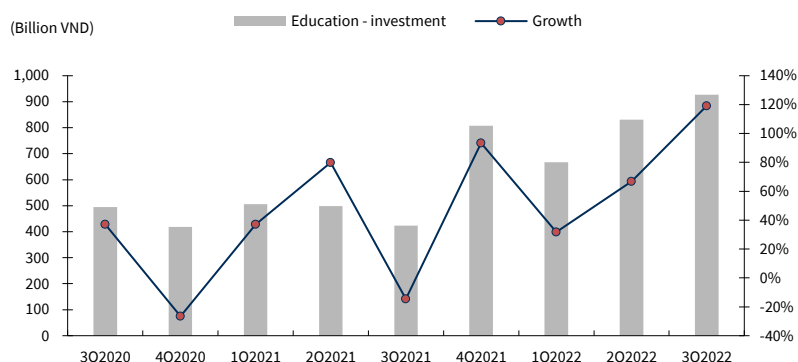
Fig 3. FPT – Telecommunications revenue (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

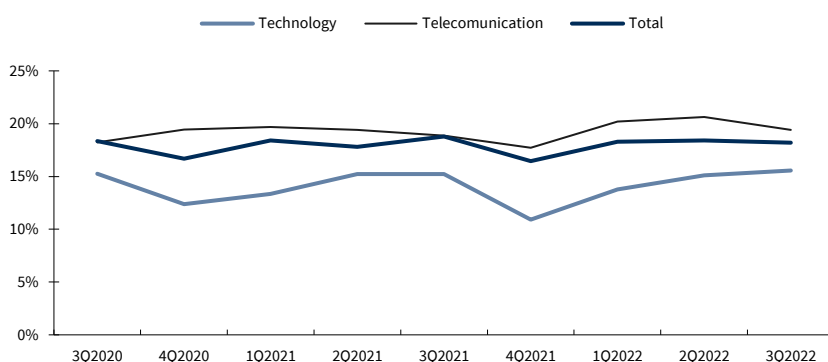
Education and investment revenue in 3Q22 reached VND927 billion (+119.1% YoY), helping PBT to touch VND294 billion (+12.2% YoY).

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



Source: FPT Corporation, KB Securities Vietnam

Fig 5. FPT – Pretax profit margin (%)



Source: FPT Corporation, KB Securities Vietnam

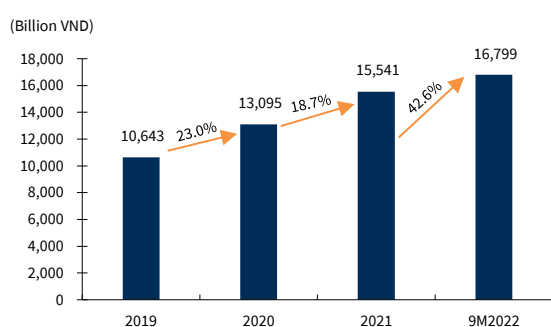
9M22 newly signed revenue climbed 42.6% YoY, and FPT became a strategic shareholder of LTS Inc

9M22 newly registered revenue of global IT services reached VND16,799 billion up 42.6% YoY vs. 8.7% growth in 2021. As of the end of 3Q22, new large-scale clients kept rising, with the number of customers achieving revenue over USD500 thousand and over USD1 million expanded by 18.5% YoY and up 21.1% YoY, respectively. Also, mega-deals (USD1mn+) and large deals (USD5mn+) rose by 18.9% YoY and 45.2% YoY. On October 13, 2022, FPT entered into an agreement to become a strategic shareholder of LTS Inc, a Japan-based company specializing in delivering business process management, consulting services, and digital transformation solutions with 20 years of experience. LTS is expected to help FPT gain contracts worth tens of millions of dollars in the Japanese and international markets.

Digital transformation slowed down in 3Q22

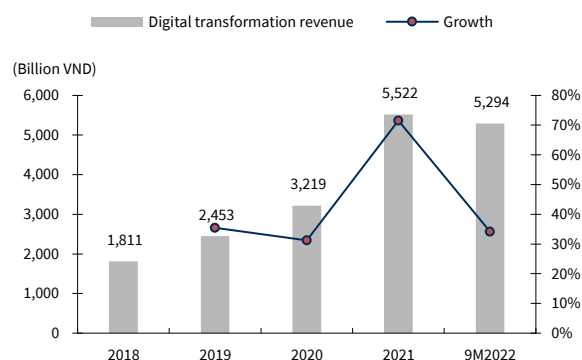
Digital transformation showed signs of leveling off in the third quarter, contributing only VND1,810 billion to total revenue, a decrease of 1.1% YoY against a surge of 64.6% YoY in the first half of the year. It was attributable to: (1) the slowdown of the blockchain technology and the application development and (2) high base in 3Q21. FPT expects 2022F digital transformation revenue to grow by 35%-40% YoY, equivalent to 37% YoY growth in 4Q22. From our observations, with high global inflation and central banks' monetary policy tightening, the demand for digital transformation will somewhat decline in 2023, thus lowering FPT's revenue growth. However, in the long term, as populations continue to age, digital transformation will play a critical role as countries prepare for the demographic shift, which will be a growth driver for FPT.

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

For 2022F, we estimate FPT's revenue of VND43,252 billion, up 21.3% YoY and down 2.8% from the previous projection based on the following assumptions:

- Technology revenue should grow by 23.4% YoY to VND 25,595 billion as domestic IT service revenue may fall short of expectations.
- Telecommunications revenue is estimated at VND14,863 billion, up 17.2% YoY, of which Telecommunication services revenue increases by 16.0% YoY on the back of PayTV while digital content services revenue advances by 40% YoY from the low base in 2021.

NPAT of the parent company is expected at VND5,524 billion, up 27.4% YoY. EPS, therefore, is VND5,035.

2023F business results

For 2023F, we estimate FPT's revenue to be VND51,531 billion (+19.1% YoY), driven by software exports and telecommunications. NPAT may touch VND6,555 billion (+18.7% YoY).

Table 8. FPT – 2022–23F business results

	2020A	2021A	2022F	2023F
Net revenue	29,830	35,657	43,252	51,531
Cost of goods sold	18,017	22,025	26,383	31,434
Gross profit	11,814	13,632	16,868	20,097
Selling expense	2,714	3,605	4,412	5,256
G&A expense	4,495	4,612	5,839	6,905
Financial expense	548	1,144	1,468	1,309
PBT	5,263	6,337	8,071	9,577
NPAT of the parent company	3,538	4,337	5,524	6,555

Source: KB Securities Vietnam

We recommend BUY for FPT with a target price of VND101,900/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 VND101,900/share, 30.1% higher than the closing price on December 6, 2022.

Table 9. FPT – FCFE valuation

Cost of equity	12.8%	Present value of perpetual value (VND bn)	78,985
Risk-free rate	5.0%	Present value for 2022–2028 (VND bn)	27,285
Market risk premium	7.8%	Equity value (VND bn)	106,270
Beta	0.95	Share outstanding (thousand shares)	1097,027
Perpetual growth rate	3.0%	Equity value / Outstanding shares (VND)	96,871
Forecast period	6 years		

Source: KB Securities Vietnam

Table 10. FPT – P/E valuation

	Industry average P/E	Contribution to NPAT	Weighted P/E
Technology	26.3	46%	12.1
Telecommunications	17.2	36%	6.2
Education & Investment	16.3	18%	2.9
Total			21.2
Target price			106,949

Source: KB Securities Vietnam

Table 11. FPT – Asian developing markets – P/E comparison among technology companies

	Market cap (USDbn)	Forward PE	Weight	Weighted P/E
SK Square Co Ltd	3,957	6.5	8.1%	0.5
Route Mobile Ltd	1,030	26.8	2.1%	0.6
XL Axiata Tbk PT	1,596	14.9	3.3%	0.5
Tata Communications Ltd	4,606	20.7	9.5%	2.0
LG Uplus Corp	4,054	7.2	8.3%	0.6
Telekom Malaysia Bhd	4,785	14.4	9.8%	1.4
Talkweb Information System Co	1,307	30.1	2.7%	0.8
China Communications Services	2,480	4.8	5.1%	0.2
TIME dotCom Bhd	1,997	18.5	4.1%	0.8
Sarana Menara Nusantara Tbk PT	3,780	15.2	7.8%	1.2
Total Access Communication PCL	2,880	29.5	5.9%	1.7
New Guomai Digital Culture Co	1,234	42.5	2.5%	1.1
PT Indosat Tbk	3,131	22.2	6.4%	1.4
Globe Telecom Inc	5,596	14.6	11.5%	1.7
Converge Information and Communications	2,055	11.9	4.2%	0.5
Tianjin 712 Communication & Br	4,118	25.5	8.5%	2.2
Average P/E				17.2

Source: Bloomberg, KB Securities Vietnam

Table 12. FPT – Asian developing markets – P/E comparison among telecommunications companies

	Market cap (USDbn)	Forward PE	Weight	Weighted P/E
Persistent Systems Ltd	3,981	31.1	9.1%	2.8
Mphasis Ltd	4,913	21.3	11.2%	2.4
Chinasoft International Ltd	2,741	12.7	6.3%	0.8
Coforge Ltd	3,123	27.2	7.1%	1.9
Hyundai Autoever Corp	2,249	25.6	5.1%	1.3
Sonata Software Ltd	1,010	17.0	2.3%	0.4
China TransInfo Technology Co	2,141	19.7	4.9%	1.0
DHC Software Co Ltd	2,929	35.9	6.7%	2.4
Happiest Minds Technologies Lt	1,759	53.9	4.0%	2.2
Shenzhen Sunline Tech Co Ltd	1,243	30.1	2.8%	0.9
PCI Technology Group Co Ltd	1,499	22.0	3.4%	0.8
Yusys Technologies Co Ltd	1,667	21.8	3.8%	0.8
Digital China Information Serv	1,608	25.0	3.7%	0.9
Hand Enterprise Solutions Co L	1,137	17.7	2.6%	0.5
Taiji Computer Corp Ltd	2,656	34.8	6.1%	2.1
Fujian Boss Software Development	1,738	31.0	4.0%	1.2
Beijing eGOVA Co Ltd	1,422	28.3	3.3%	0.9
Richinfo Technology Co Ltd	1,108	28.6	2.5%	0.7
Jiayuan Science & Technology C	1,114	40.3	2.5%	1.0
Issoftstone Information Technol	3,651	15.2	8.4%	1.3
Average P/E				26.3

Source: Bloomberg, KB Securities Vietnam

Table 13. FPT – FCFE & P/E valuation

Valuation method	Forecast	Weight	Weighted price
FCFE	96,871	50%	48,436
P/E	106,949	50%	53,474
Target price			101,900

Source: 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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