

FPT Group (FPT)

2022F pre-tax earnings up 20%

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4Q21 PAT was VND1,560 billion (+24.5% YoY)

In 4Q21, FPT maintained positive growth with PAT of VND1,560 billion (+24.5% YoY) on revenue of VND10,704 billion (+23.5% YoY). For 2021, those figures were VND5,345 billion (+20.8% YoY) and VND35,657 billion (+19.5% YoY).

FPT sets high growth targets of over 20% in all foreign markets

FPT continues to set an ambitious growth plan for 2022 in all foreign markets North Asia (+20%), America (+33%), Europe (+25%), and Southeast Asia (+25%).

The domestic technology segment in 2022 should grow by 50% YoY thanks to digital transformation

FPT expects a 3-year CAGR of no less than 30% with 2022F PBT expected to grow by 50% thanks to digital transformation. FPT will invest more in developing Made-by-FPT digital platforms targeting corporate customers in banking, finance, manufacturing, real estate, and public administration.

PayTV is the key growth driver for the Telecommunications segment

While the growth of the Broadband segment may slow down given the high domestic internet penetration rate, PayTV is estimated to grow by over 20% in the coming years thanks to the high demand for digital television of households, especially young families.

We recommend BUYING FPT shares with a target price of VND122,000 apiece

Basing on valuation results, business prospects, and potential risks, we maintain our BUY recommendation for FPT shares. The target price is VND122,000/share, 30.1% higher than the closing price on February 11, 2022.

Buy maintain

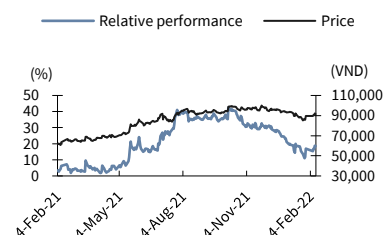
Target price	VND122,000
Upside/Downside (%)	33.1
Current price (Feb 11, 2022)	VND91,600
Consensus target price	VND128,650
Market cap (VNDbn)	83,131

Trading data	
Free float (%)	60.6
3M avg trading value (VNDbn/USDmn)	188/8.4
Foreign ownership (%)	49
Major shareholder	Truong Gia Binh (7.05%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0	-7	-3	54
Relative	0	-9	-13	19

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	29,830,401	35,657,263	42,969,520	50,875,195
Growth (%)	7.6	19.5	20.5	18.4
Gross profit (VNDbn)	11,813,657	13,700,213	16,500,296	19,536,075
Gross profit margin (%)	39.6	38.4	38.4	38.4
Net profit (VNDbn)	4,423,745	5,344,799	6,399,352	7,334,577
Growth (%)	13.1	20.8	19.7	14.6
EPS (VND)	4,513	4,774	5,716	6,551
EPS growth (%)	-2.4	5.8	19.7	14.6
P/E (x)	20.3	19.2	16.0	14.0



Source: Bloomberg, KB Securities Vietnam

Updated business performance

4Q21 PAT was VND1,560 billion (+24.5% YoY)

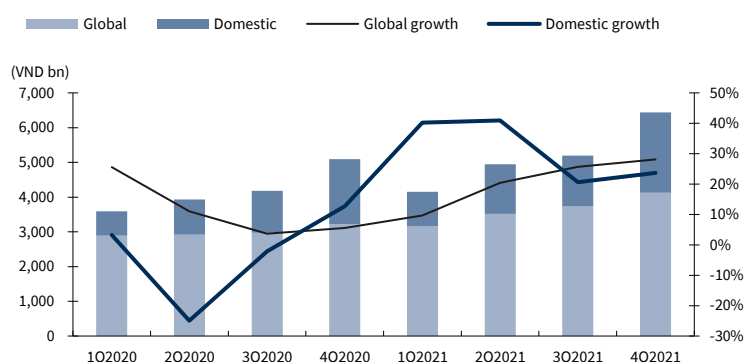
In the fourth quarter of 2021, FPT maintained positive growth with revenue of VND10,704 billion (+23.5% YoY), underpinned by Technology (+26.5% YoY), Telecommunications (+9.5% YoY), and Education & Investment (+93.3% YoY). The gross profit margin was 38.3% (-179bps YoY); profit from joint ventures and associates recovered strongly (+87.1% YoY), making 4Q21 NPAT reach VND1,560 billion (+24.5% YoY). For the whole year of 2021, FPT posted a PAT of VND5,345 billion (+20.8% YoY) on revenue of VND35,657 billion (+19.5% YoY).

PBT and revenue from IT service increased by 11.4% YoY and 26.5% YoY in 4Q21.

The software outsourcing segment continued to grow well, with revenue increasing by 28.1% YoY.

Meanwhile, the domestic technology growth reached 23.7%.

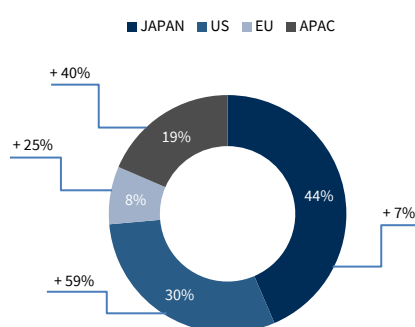
Fig 1. FPT – IT services segment in 2020–2021 (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

The US, EU, and APAC markets experienced impressive growth in 4Q21, reaching 59% YoY, 25% YoY, and 40% YoY, respectively. On the contrary, the Japanese market with the largest share only expanded by 7% YoY. The reason behind this was the depreciation of the Japanese yen despite increases in both volume (+10%) and contract value.

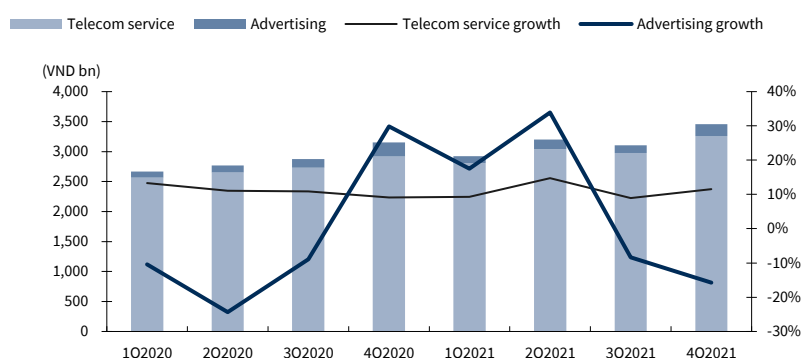
Fig 2. FPT – Software outsourcing revenue structure in 4Q21 (% YoY)



Source: FPT Group, KB Securities Vietnam

In 4Q21, Telecommunications revenue increased by 9.5% YoY, of which Telecommunication services increased 11.6% YoY and online advertising decreased by 15.7% YoY. PBT of the Telecommunications segment during the quarter reached VND612 billion (down 0.2% YoY).

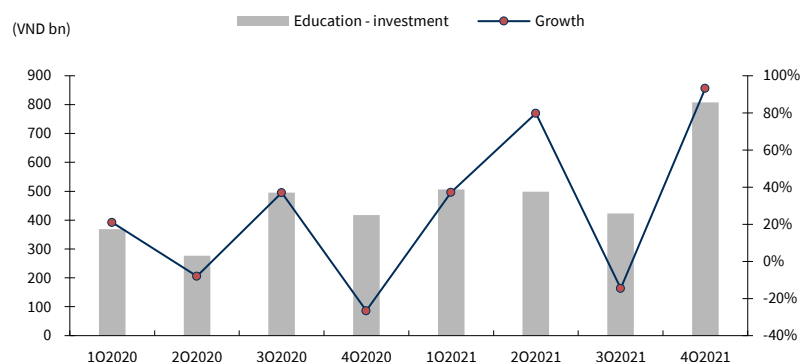
Fig 3. FPT – Telecommunications revenue in 1Q20–4Q21 (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

Revenue of the Education & Investment in 4Q21 jumped by 93.3% YoY, the highest in recent years, contributing to a gain of 43.4% YoY for the whole year of 2021.

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



Source: FPT Group, KB Securities Vietnam

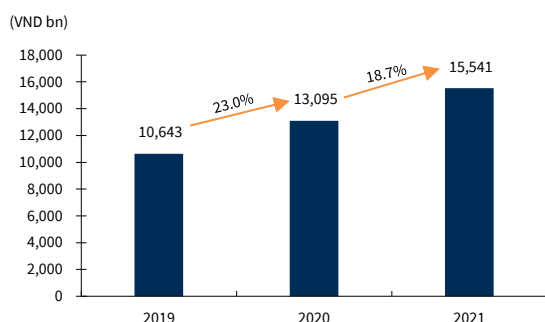
In 2021, the signed revenue of foreign IT services increased by 19% YoY

Newly signed tech orders (signed revenue) of foreign IT services last year reached VND15,541 billion (+19% YoY). The number of large-scale clients continued to grow, of which clients with revenue from USD500 thousand and USD1 million increased by 8% YoY and 7% YoY. Mega-deals (USD1 mn+) and large deals (USD5 mn+) rose by 23% YoY and 111% YoY, respectively.

FPT sets high growth targets of over 20% in all foreign markets

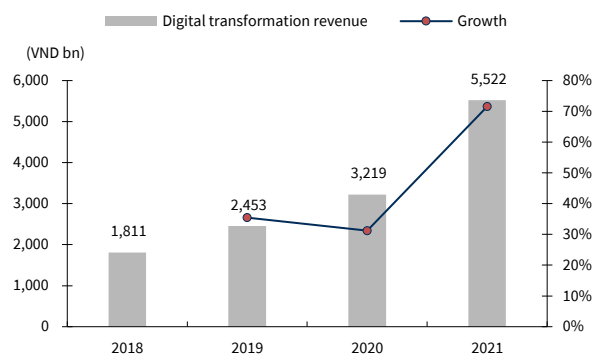
FPT continues to set an ambitious growth plan for 2022 in North Asia (+20%), America (+33%), Europe (+25%), and Southeast Asia (+25%). The management aims to return to double-digit growth for the Japanese market through organizational changes, office expansion, and recruiting business consultants. In addition, FPT will be approaching the Middle East with the expectation of encouraging growth in the long term.

Fig 5. FPT – Signed revenue in 2019–2021 (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

Fig 6. FPT – Digital transformation revenue (VNDbn, % YoY)



Source: FPT Group, KB Securities Vietnam

The domestic technology segment should grow by 50% YoY in 2022, backed by digital transformation

For the domestic technology segment, FPT expects a 3-year CAGR of no less than 30% and a 50% growth of 2022F pre-tax earnings thanks to digital transformation. FPT will invest more in developing Made-by-FPT digital platforms targeting corporate customers in banking, finance, manufacturing, real estate, and public administration. FPT aims to complete the tech solutions for businesses in three years with 80% of applied tech of FPT and the other 20% of foreign countries. In 2021, the corporation signed framework cooperation agreements with nineteen out of 40 provinces accessible to digital transformation combined with large deals with reputable enterprises such as Dat Xanh Group (DXG), Thaco, Stavian.

PayTV is the key growth driver for the Telecommunications segment

FPT expects subscriber growth at only 15% for the Broadband business due to the high domestic internet penetration rate at 60%. Besides, the profit margin may gradually decrease given slow broadband speed registration of new customers across provinces. On the contrary, PayTV should grow by more than 20% in the coming years thanks to the high demand for digital television of households, especially young families.

The high demand for IT education plays as a springboard for the education segment

FPT targets PBT of the education segment to gain 30%, supported by: (1) the growing demand for IT education & training (In 2021, FPT's new enrollment target surged by more than 50%, of which universities & colleges alone increased by 70%); and (2) the expansion of the education system (FPT last year signed memorandums of understanding (MOUs) with 20 provinces to establish local primary, secondary, and high schools).

Forecast business performance

We expect 2022F revenue to reach VND42,970 billion (+20.5% YoY), which is 5.0% higher than the previous forecast, supported by:

- Technology revenue should increase to VND26,124 billion (+26.0% YoY), boosted by the domestic IT service segment with higher growth expectations than the previous forecast.
- Telecommunications revenue is estimated at VND14,052 billion (+10.8% YoY), of which Telecommunications services should increase 11.0% YoY with the motivation from PayTV.

G&A expenses/revenue should decrease 13 bps to 12.7%, reflecting the effective digital transformation and efforts to reduce costs of FPT.

2022F PBT is VND6,399 billion (+19.7% YoY), NPAT of the parent company may reach VND5,187 billion (+19.7% YoY). EPS should be VND5,716 per share.

Table 7. FPT – 2022F–2023F business results

	2020A	2021A	2022F	2023F
Net revenue	29,830	35,657	42,970	50,875
Cost of goods sold	18,017	21,957	26,469	31,339
Gross profit	11,814	13,700	16,500	19,536
Selling expenses	2,714	3,712	4,383	5,189
General & admin expenses	4,495	4,575	5,470	6,426
Financial expenses	548	1,143	1,585	1,782
PBT	5,263	6,335	7,585	8,694
PAT of parent company	3,538	4,333	5,187	5,945

Source: KB Securities Vietnam

We recommend BUYING FPT shares with a target price of VND122,000 apiece

We use two valuation methods: FCFE and P/E comparison of companies in the industry with similar capital scale in Asia's developing markets for two segments: Technology and Telecommunications. We assume the current P/E for the Education segment is reasonable, considering its small contribution to the expected profit and unseparated education & investment.

Combining the above two valuation methods with the ratio of 50–50, we got the final fair price for FPT share at VND122,000 apiece, 33.2% higher than the closing price on February 11, 2022.

Table 8. 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	6 years

Source: KB Securities Vietnam

Table 9. FPT – Target price according to P/E valuation (VND)

	Average P/E	Contribution to NPAT	Weighted P/E
IT	23.2	44%	10.2
Telecommunications	20.1	38%	7.6
Education & Investment	19.2	18%	3.5
Total			21.3
Target price (VND)			119,576

Source: KB Securities Vietnam

Table 10. Asian developing markets – P/E comparison among technology companies

	Market cap (USDbn)	Forward PE	Weight	Weighted PE
Chinasoft International Ltd	3.201	11.6	11.4%	1.3
DHC Software Co Ltd	4.162	28.9	14.8%	4.3
China TransInfo Technology Co	3.458	15.9	12.3%	2.0
Hyundai Autoever Corp	2.629	32.2	9.4%	3.0
Taiji Computer Corp Ltd	2.273	26.3	8.1%	2.1
CETC Digital Technology Co Ltd	1.995	25.5	7.1%	1.8
Yusys Technologies Co Ltd	2.684	25.8	9.6%	2.5
Digital China Information Serv	2.411	22.2	8.6%	1.9
Shenzhen Sunline Tech Co Ltd	1.677	28.9	6.0%	1.7
Fujian Boss Software Development	1.402	18.7	5.0%	0.9
Mastek Ltd	1.059	23.7	3.8%	0.9
Sonata Software Ltd	1.086	19.0	3.9%	0.7
Average P/E				23.2

Source: KB Securities Vietnam

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

	Market cap (USDbn)	Forward PE	Weight	Weighted PE
Tata Communications Ltd	4,746	20.5	10.0%	2.1
LG Uplus Corp	4,880	7.4	10.3%	0.8
Tianjin 712 Communication & Br	4,468	26.5	9.4%	2.5
Telekom Malaysia Bhd	4,864	17.1	10.3%	1.8
Converge Information and Communications	4,253	20.6	9.0%	1.8
Sarana Menara Nusantara Tbk PT	3,762	13.9	7.9%	1.1
China Communications Services	3,801	6.4	8.0%	0.5
Total Access Communication PCL	3,372	27.2	7.1%	1.9
XL Axiata Tbk PT	2,309	23.0	4.9%	1.1
Indosat Tbk PT	3,156	23.4	6.7%	1.6
TIME dotCom Bhd	1,874	18.5	4.0%	0.7
New Guomai Digital Culture Co	1,445	44.4	3.1%	1.4
Talkweb Information System Co	1,447	37.6	3.1%	1.2
Route Mobile Ltd	1,396	44.1	3.0%	1.3
BizConf Telecom Co Ltd	0,676	12.6	1.4%	0.2
Link Net Tbk PT	0,872	12.7	1.8%	0.2
Average P/E				20.1

Source: Bloomberg, KB Securities Vietnam

Table 12. FPT – Target price according to valuation results (VND)

Valuation method	Forecast price (VND)	Weight	Weighted price (VND)
FCFE	124,569	50%	62,284
P/E	119,576	50%	59,788
Target price			122,000

Source: KB Securities Vietnam

FPT – 2019A–2022F financials

Income Statement

(VND billion)	2019A	2020A	2021A	2022F
Net sales	27,717	29,830	35,657	42,970
Cost of sales	17,005	18,017	21,957	26,469
Gross Profit	10,712	11,814	13,700	16,500
Financial income	650	822	1,271	1,686
Financial expenses	592	548	1,143	1,585
of which: interest expenses	359	385	483	1,585
Gain/(loss) from joint ventures	405	312	685	706
Selling expenses	2,346	2,714	3,712	4,383
General and admin expenses	4,219	4,495	4,575	5,470
Operating profit/(loss)	4,205	4,878	5,541	6,748
Other incomes	113	131	133	161
Other expenses	58	59	25	30
Net other income/(expenses)	55	73	109	131
Net accounting profit/(loss) before tax	4,665	5,263	6,335	7,585
Corporate income tax expenses	0	0	0	0
Net profit/(loss) after tax	3,912	4,424	5,345	6,399
Minority interests	776	886	1,012	1,212
Attributable to parent company	3,135	3,538	4,333	5,187

Margin ratio

(%)	2019A	2020A	2021A	2022F
Gross profit margin	38.6%	39.6%	38.4%	38.4%
EBITDA margin	23.0%	23.9%	23.7%	25.5%
EBIT margin	18.1%	18.9%	19.1%	21.3%
Pre-tax profit margin	16.8%	17.6%	17.8%	17.7%
Operating profit margin	15.2%	16.4%	15.5%	15.7%
Net profit margin	14.1%	14.8%	15.0%	14.9%

Cash Flow Statement

(VND billion)	2019A	2020A	2021A	2022F
Net profit/(loss) before tax	4,665	5,263	6,335	7,585
Depreciation and amortisation	1,355	1,491	1,644	1,793
Profit/loss from investing activities	-903	-1,040	-1,699	0
Interest expense	359	385	483	1,585
Operating profit/(loss) before changes in Working Capital	5,772	6,410	7,051	10,963
(Increase)/decrease in receivables	-481	312	-694	-1,005
(Increase)/decrease in inventories	256	-55	-218	-306
Increase/(decrease) in payables	306	1,061	1,783	802
(Increase)/decrease in prepaid expenses	-687	52	-376	225
Interest expense	0	0	0	0
Net cash inflows/(outflows) from operating activities	3,899	6,340	5,842	1,605
Purchases of fixed assets and other long term assets	-3,233	-3,018	-2,913	-4,297
Proceeds from disposal of fixed assets	2	3	3	0
Loans granted, purchases of debt instruments	-1,207	-5,954	-35,827	0
Collection of loans, proceeds from sales of debts instruments	0	0	27,590	0
Investments in other entities	-110	-101	-451	0
Proceeds from divestment in other entities	120	31	0	0
Dividends and interest received	582	894	1,183	0
Net cash inflows/(outflows) from investing activities	-3,845	-8,144	-10,415	-4,297
Proceeds from issue of shares	72	60	88	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	13,404	20,449	34,464	0
Repayment of borrowings	-12,505	-15,570	-26,931	-17,799
Finance lease principal payments	-2	-2	-1	0
Dividends paid	-1,484	-1,899	-2,254	-2,816
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-514	3,037	5,365	2,274
Net increase in cash and cash equivalents	-461	1,233	791	-418
Cash and cash equivalents at the beginning of period	3,926	3,453	4,686	5,418
Cash and cash equivalents at the end of period	3,453	4,686	5,418	5,000

Balance Sheet

(VND billion)	2019A	2020A	2021A	2022F
TOTAL ASSETS	33,394	41,734	53,697	57,202
CURRENT ASSETS	18,979	25,266	35,117	36,119
Cash and cash equivalents	3,453	4,686	5,418	5,000
Short-term investments	6,709	12,436	20,731	20,731
Accounts receivable	6,536	6,265	6,882	7,888
Inventories	1,284	1,290	1,507	1,813
LONG-TERM ASSETS	14,415	16,468	18,580	21,083
Long-term trade receivables	262	243	167	167
Fixed assets	9,143	10,691	11,691	14,194
Long-term incomplete assets	1,650	2,373	1,292	1,292
Long-term investments	2,497	2,581	3,100	3,100
Goodwill	226	200	467	467
LIABILITIES	16,595	23,129	32,276	32,111
Current liabilities	16,102	22,365	29,812	29,733
Trade accounts payable	2,642	2,825	2,866	0
Short-term unrealized revenue	1,827	1,963	2,584	0
Short-term borrowings	7,514	12,062	17,799	22,889
Long-term liabilities	493	764	2,465	2,378
Long-term trade payables	0	0	0	0
Long-term advances from customers	0	0	0	0
Unrealized revenue	92	38	35	35
Long-term borrowings	350	678	2,296	2,297
OWNER'S EQUITY	16,799	18,606	21,420	25,004
Paid-in capital	6,784	7,840	9,076	9,076
Share premium	50	50	50	50
Undistributed earnings	5,961	6,391	6,998	0
Other funds	413	532	665	3
Minority interests	2,835	2,860	3,477	3,477

Key ratios

(x, %, VND)	2019A	2020A	2021A	2022F
Multiple				
P/E	19.8	20.3	19.2	16.0
P/E diluted	19.8	20.3	19.2	16.0
P/B	4.4	4.6	4.6	3.9
P/S	2.2	2.4	2.3	1.9
P/Tangible Book	1.9	1.8	1.6	1.5
P/Cash Flow	15.9	11.3	14.2	51.8
EV/EBITDA	13.0	11.6	9.8	7.6
EV/EBIT	16.5	14.7	12.2	9.1
Operating performance				
ROE	22.5%	22.5%	24.1%	24.1%
ROA	9.4%	8.5%	8.1%	9.1%
ROIC	18.4%	16.6%	14.8%	14.2%
Financial structure				
Cash Ratio	63.1%	76.6%	87.7%	86.5%
Quick Ratio	100.6%	101.1%	102.3%	104.7%
Current Ratio	117.9%	113.0%	117.8%	121.5%
LT Debt/Equity	2.1%	3.6%	10.7%	9.2%
LT Debt/Total Assets	1.0%	1.6%	4.3%	4.0%
ST Debt/Equity	44.7%	64.8%	83.1%	91.5%
ST Debt/Total Assets	22.5%	28.9%	33.1%	40.0%
ST Liabilities/Equity	95.9%	120.2%	139.2%	118.9%
ST Liabilities/Total Assets	48.2%	53.6%	55.5%	52.0%
Total Liabilities/Equity	98.8%	124.3%	150.7%	128.4%
Total Liabilities/Total Assets	49.7%	55.4%	60.1%	56.1%
Activity ratios				
Account Receivable Turnover	4.3	4.7	5.4	5.8
Inventory Turnover	13.0	14.0	15.7	15.9
Account Payable Turnover	12.9	5.9	6.4	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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