

FPT Corporation (FPT)

Securing ongoing double-digit growth

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2Q 2024 revenue and earnings continued to show encouraging results

In 2Q 2024, FPT Corporation (FPT) delivered profit after taxes (NPAT) of VND2,283 billion (+23.07% YoY) on revenue of VND15,246 billion (+22.11% YoY) and gross profit margin of ~37.06%. During this quarter, global IT revenue soared to VND7,574 billion (+30.76% YoY), driven by new signed value of VND8,853 billion (+76.6%).

Global IT witnessed impressive growth as FPT broadened footprint in the US market

New signed value totaled VND18,671 billion (+22.4% YoY), largely due to the corporation's proactive efforts to secure new contracts since late 2023. In 1H 2024, FPT continued to attract high-value contracts with international partners, winning 27 major projects (double YoY) valued at over USD5 million each, with a particular focus on the Japanese and Asia-Pacific markets.

Education & Investment made significant contribution to growth

Education & Investment also demonstrated robust growth in 1H 2024, generating VND3,017 billion in revenue (+32% YoY) and VND987 billion in NPAT (+20% YoY). With ongoing capital expenditures (CAPEX) directed towards education over the coming years and enhanced educational standards, FPT is well-positioned to maintain and attract new student enrollments, thus supporting its overall growth.

We maintain our NEUTRAL stance towards FPT with a target price of VND142,800/share

Based on FCFF and P/E multiple valuation methods, business outlook, and potential risks, we reiterate our NEUTRAL stance towards FPT with a target price of VND142,800 per share, 7.4% higher than the closing price on September 17, 2024.

Neutral maintain

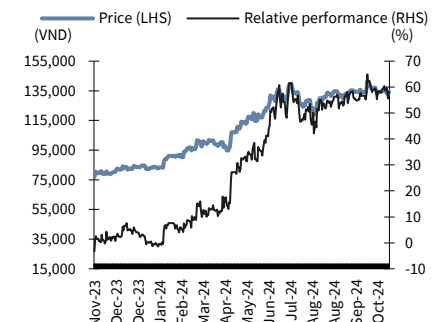
Target price	VND142,800
Upside	7.4%
Current price (Sep 17, 2024)	VND 132,900
Consensus target price	VND141,600
Market cap (VNDtn/USDbn)	194.2/7.9

Trading data	
Free float	85.9%
3M avg trading value (VNDbn/USDmn)	725.2/28.7
Foreign ownership	45.8%
Major shareholder	Truong Gia Binh (6.99%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	1.8	1.5	31.9	56.9
Relative	1.9	3.7	32.8	54.9

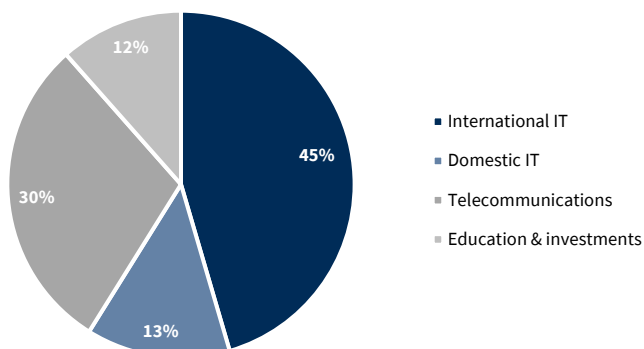
Forecast earnings & valuation

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	44,010	52,618	62,457	72,957
Operating income/loss (VNDbn)	6,491	7,788	9,358	11,213
NPAT-MI (VNDbn)	5,310	6,465	7,861	9,419
EPS (VND)	5,802	5,854	7,276	8,955
EPS growth (%)	33.4	0.9	24.0	23.0
P/E (x)	23.7	23.5	18.9	15.4
P/B (x)	4.9	4.2	3.6	3.0
ROE (%)	25.6	26.0	26.7	27.3
Dividend yield (%)	1.8	3.0	3.5	3.5



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: FPT Corporation, KB Securities Vietnam

Business operation

FPT Corporation (FPT) is a leading technology and IT services conglomerate in Vietnam, with a diverse portfolio spanning software services, telecommunications, and education. Founded in 1988, FPT has expanded globally, serving key markets including Japan, the EU, the U.S., and Southeast Asia. The IT segment contributes 46% of the group's total revenue, supported by a tech team of nearly 24,000 engineers.

Investment Catalysts

Robust growth in digital transformation adoption will drive revenue. Continued expected increases in global IT spending will be a key factor supporting FPT's IT segment in 2024. Accordingly, we forecast a 22.11% growth in IT revenue for 2024.

The education business is a strategic component in addressing long-term workforce shortages. FPT has introduced new training programs aimed at developing a workforce aligned with emerging technology trends. Revenue from the education and investment segments is projected to reach VND1,649 billion (+22.88% YoY).

Notes

Please find more details below

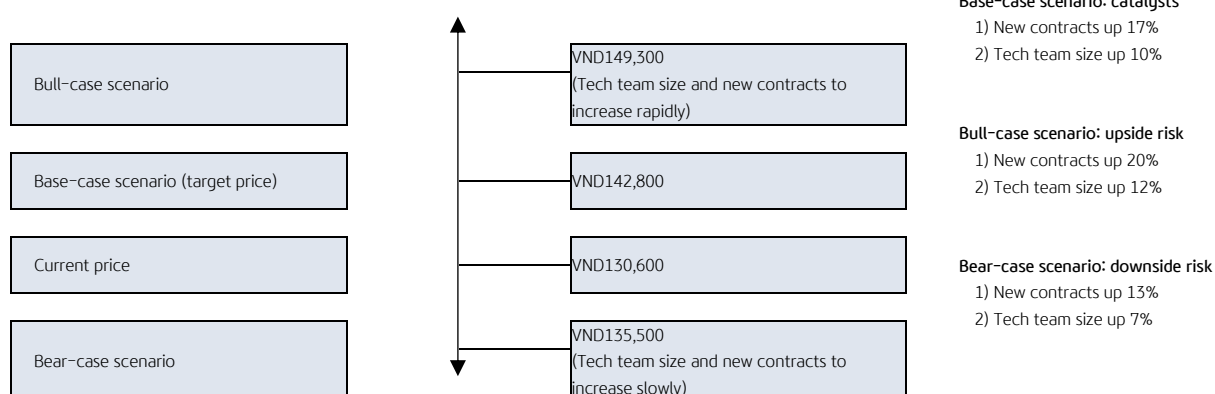
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	62,457	72,957	0%	-1%	63,408	76,436	-1%	-5%
EBIT	10,484	12,330	-1%	-5%	10,322	12,571	2%	-2%
NP after MI	8,028	9,766	7%	21%	7,840	9,826	2%	-1%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Business performance

2Q 2024 revenue and earnings continued to show encouraging results

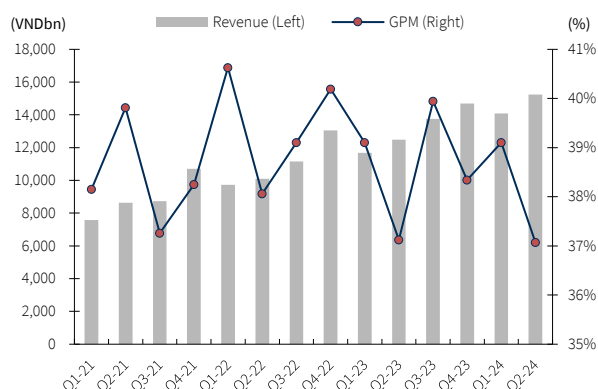
In 2Q 2024, FPT delivered profit after taxes (NPAT) of VND2,283 billion (+23.07% YoY) on revenue of VND15,246 billion (+22.11% YoY) and gross profit margin of ~37.06%. Halfway through the year, the group generated VND4,447 billion (+51% YoY) in NPAT and VND29,339 billion (+47% YoY) in revenue. Specifically, new signed value for 1H 2024 was VND18,671 billion (+22.4% YoY), which included 113 projects valued at over USD5 million, an increase of 10.8% YoY.

Table 1. FPT – 2Q 2024 business performance

(VNDbn)	2Q 2023	2Q 2024	+/- %YoY	Notes
Revenue	12,484	15,246	22.12%	
Global IT	5,792	7,573	30.75%	Revenue growth was driven by a 37% YoY increase in digital transformation revenue, spurred by the adoption of new technologies. The number of deals valued at over USD5 million reached 27 contracts, double the amount from the same period last year, primarily from the Japanese and APAC markets.
Japan	2,204	3,017	36.89%	
US	1,633	1,861	13.96%	
EU	425	692	62.82%	
APAC	1,530	2,003	30.92%	
Domestic IT	1,568	2,032	29.59%	Revenue from service provision decreased in proportion, offset by hardware provision, which has lower profit margins.
Telecommunications	3,728	4,080	9.44%	Revenue growth was driven by a 5.3% rise in broadband subscriptions (reaching over 4.2 million), and a 3.8% increase in Pay TV subscriptions (reaching nearly 3 million).
Education	1,342	1,649	22.88%	
Gross profit	4,634	5,651	21.95%	
Gross profit margin	37.12%	37.07%	-0.05 ppts	
Financial income	623	569	-8.67%	
Financial expenses	-288	-338	17.36%	
Profits from affiliates	-66	59		
SG&A	-2,714	-3,301	21.63%	
Operating income/loss	2,190	2,640	20.55%	
Other income	-19	1	-105.26%	
Profit before taxes (PBT)	2,218	2,669	20.33%	
Profit after taxes (NPAT)	1,856	2,288	23.28%	
NP after MI	1,509	1,875	24.25%	
NPAT margin	14.87%	15.01%	0.14 ppts	

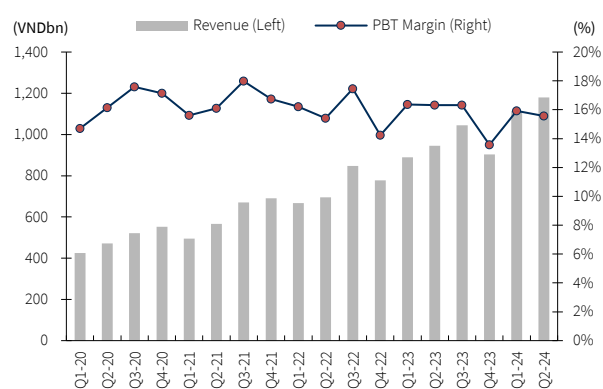
Source: FPT Corporation, KB Securities Vietnam

Fig 2. FPT – Revenue, gross profit margin (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Fig 3. FPT – Global IT revenue, pre-tax profit margin (VNDbn, %)



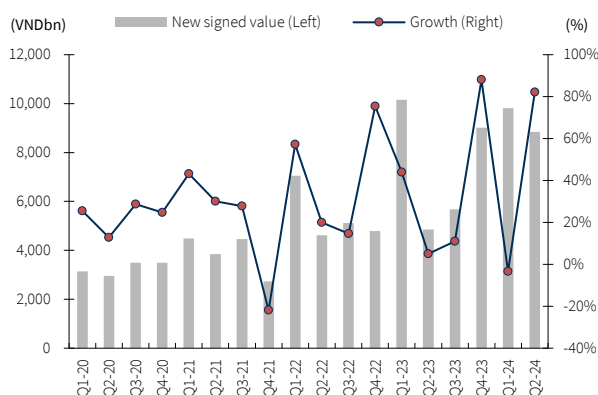
Source: FPT Corporation, KB Securities Vietnam

Global IT revenue sustained double-digit growth

Despite the gloomy economic outlook, global IT spending remains elevated, which will be a stimulus for FPT's IT segment in 2024. According to Gartner, worldwide spending on IT services and software is projected to expand by +13% and +7% YoY in 2024, respectively, as businesses accelerate digital transformation and adopt new technologies.

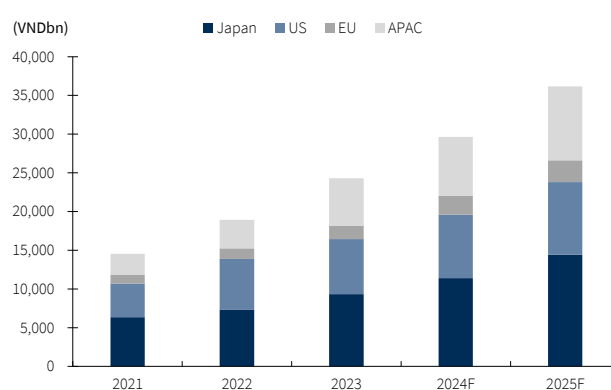
Accordingly, we project a 22.11% growth in IT revenue for 2024 based on (1) high expertise combined with market understanding, which will help FPT expand its market share, achieving growth rates of 22% and 25% in Japan and APAC, respectively; (2) strong demand for digital transformation, information security, and the trend toward hybrid work models, creating significant growth momentum; and (3) maintained competitive advantage through low-cost capabilities, allowing the business to ensure growth momentum as demand for digital transformation spending increases.

Fig 4. FPT – New signed value growth (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Fig 5. FPT – Global IT revenue breakdown (VNDbn)



Source: FPT Corporation, KB Securities Vietnam

Education & Investment made significant contribution to growth

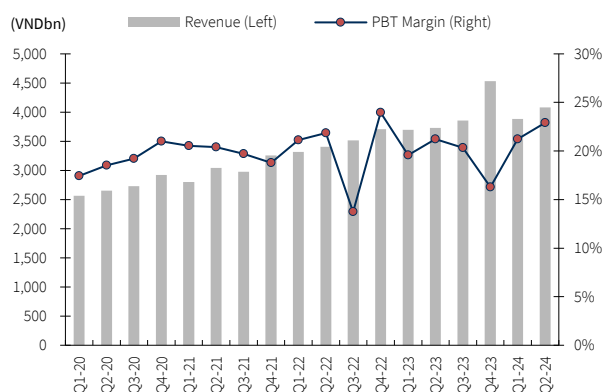
In 1H 2024, the Education segment continued to demonstrate stable growth, with revenue amounting to VND4,435 billion (+24% YoY). FPT also marked a significant milestone by launching the education complex project in Thanh Hoa, which was completed in less than six months of construction. This timely achievement enabled the enrollment of approximately 500 students in grades 1, 2, 6, 7, and 10 for the 2024–2025 school year.

FPT has consistently invested in expanding its training system, with a focus on emerging trends in IT

Apart from putting new educational institutions into operation, FPT has also introduced new teaching programs to cultivate a high-quality workforce aligned with emerging technology trends. In 2Q 2024, FPT University collaborated with FPT Automotive to launch Automotive Software Engineering aimed at developing skilled talent to meet market demands. This program allows students to gain comprehensive knowledge, from basic principles of automobile design and operation to in-depth understanding of electronic and software systems. Regarding integrated circuit (IC) design, FPT announced it will admit 1,000 students in 2024, with a focus on comprehensive training in IC design and fostering research within Vietnam's semiconductor major. Upon graduation, they will be equipped to take on various roles, including designing, simulating, and verifying analog-digital circuits; developing specification documents, consulting on design processes; managing and overseeing the semiconductor wafer and chip production processes; testing chips, managing the quality of materials and components in packaging and inspection; researching and developing materials and component structures; and developing boards and firmware to support chip applications.

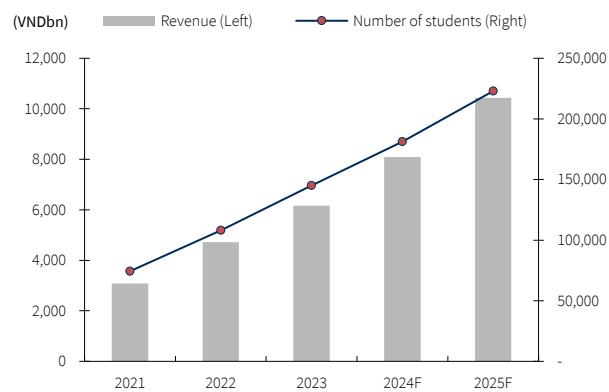
As a crucial strategic component for the group's development, the education segment will not only continue to generate significant revenue and profit for FPT given elevated student enrollment in private schools but will also create a high-quality IT workforce, driving FPT's growth in the coming time. We anticipate that revenue from the education and investment segments will increase by 31.25% and 29.15% YoY to VND8,083 billion and VND10,609 billion in 2024 and 2025, respectively, driven by an expected increase in the number of students to 181,000 and 222,000 (+25% and +23% YoY).

Fig 6. FPT – Telecommunications revenue & pre-tax profit margin (VNDbn, %)



Source: FPT Corporation, KB Securities Vietnam

Fig 7. FPT – Education revenue & student headcount (VNDbn, students)



Source: FPT Corporation, KB Securities Vietnam

Telecommunications is powered by PayTV and Data Center

We believe that PayTV and Data Center (DC) will drive telecommunications revenue in the coming years, as the broadband market has become saturated and will unlikely see significant growth. The broadband segment can provide stable flow from the existing customer base but may only achieve single-digit growth. Regarding PayTV, FPT is heavily investing in acquiring rights to entertainment programs to attract more subscribers. As for DC, the operation of two DCs in Ho Chi Minh City in 2024 could enhance the profitability of the telecommunications segment, as the gross profit margin for this segment is much better than the average for the telecommunications sector.

We project that telecommunications revenue will grow by 8.52% and 7.48% in 2024 and 2025, respectively, thanks to the growth of the DCs and a revival in online advertising after a period of cost-cutting by businesses. We expect the DC business to expand amid the rising demand for cloud computing. FPT plans to continue expanding its DC operations with the opening of an additional DC in Ho Chi Minh City, alongside the four existing DCs: Duy Tan DC in Hanoi, Tan Thuan DC in Ho Chi Minh City, Fornix HN01 (District 9) DC in Ho Chi Minh City, and Fornix DC in Hanoi.

Table 8. FPT – 2023A–2024F business performance

(VNDbn)	2023A	2024F	+/-%YoY	Notes
Revenue	52,618	63,131	19.98%	
Global IT	24,288	29,658	22.11%	
Japan	9,324	11,405	22.32%	Revenue from the Japanese market is expected to take the lead and continue to grow thanks to deep market understanding and the ability to maintain a competitive cost advantage.
US	7,115	8,182	15.00%	Digital transformation spending should drive FPT's revenue growth as the company actively expand its presence through M&A.
EU	1,736	2,430	39.98%	FPT continues to broaden market footprint in the EU thanks to active penetration into the automotive software engineering, a new trend in software development.
APAC	6,113	7,641	25.00%	
Domestic IT	7,161	8,235	15.00%	FPT would accelerate IT service provision after slow domestic growth.
Telecommunications	15,806	17,155	8.53%	
Education	6,159	8,084	31.26%	
Gross profit	20,320	24,838	22.23%	
Gross profit margin	39%	39%	0 ppts	
Financial income	2,336	2,117	-9.38%	
Financial expenses	-1,718	-1,586	-7.68%	
Profits from affiliates	0	0	0.00%	
SG&A	-11,868	-14,236	19.95%	
Operating income/loss	9,112	10,602	16.35%	
Other income	-110	70	n.a	
Profit before taxes (PBT)	9,203	11,204	21.74%	
Profit after taxes (NPAT)	7,788	8,139	4.51%	
NP after MI	6,465	8,139	25.89%	
NPAT margin	14.80%	12.89%	-2 ppts	

Source: FPT Corporation, KB Securities Vietnam

Valuation

FPT is trading at over +2 standard deviations above its historical mean P/E ratio, reflecting strong market expectations for the company's growth potential as the number of high-value contracts increases substantially. We anticipate FPT's earnings will maintain a compounded annual growth rate of 17–20% over the next three to four years. Therefore, FPT should be valued in relation to comparable companies within developing Asian countries. Specifically, we have selected firms in the same sector with market capitalizations similar to FPT to assess the value of its IT and telecommunications segments. As for the education and investment segments, we believe the current price accurately reflects the value of these business operations.

We use a combination of two valuation methods, discounted cash flow (DCF) and the P/E multiple, each weighted equally at 50%. Accordingly, we determine a target price for FPT shares at VND142,800 per share, 7.4% higher than the closing price on September 17, 2024.

Table 9. FPT – FCFF valuation

	Valuation method	Contribution to FPT
Accumulated value		58,933
Terminal value	EV/EBITDA 9x	106,207
Total value		165,140
(+) Cash & Short-term investments		28,297
(-) Net Debt		-13,185
(-) Minority interest		-4,959
Owner's equity		175,293
Number of shares outstanding (million shares)		1,270.00
Value per share		138,100
Current price (Sep 17, 2024)		132,900
Upside		3.91%

Source: KB Securities Vietnam

Table 10. FPT – P/E multiple valuation

Segments	P/E	Contribution to FPT
IT	28.75	75,357
Telecommunications	19.53	37,350
Education & Investment	26.70	34,101
Target price		146,900
Upside		10.53%

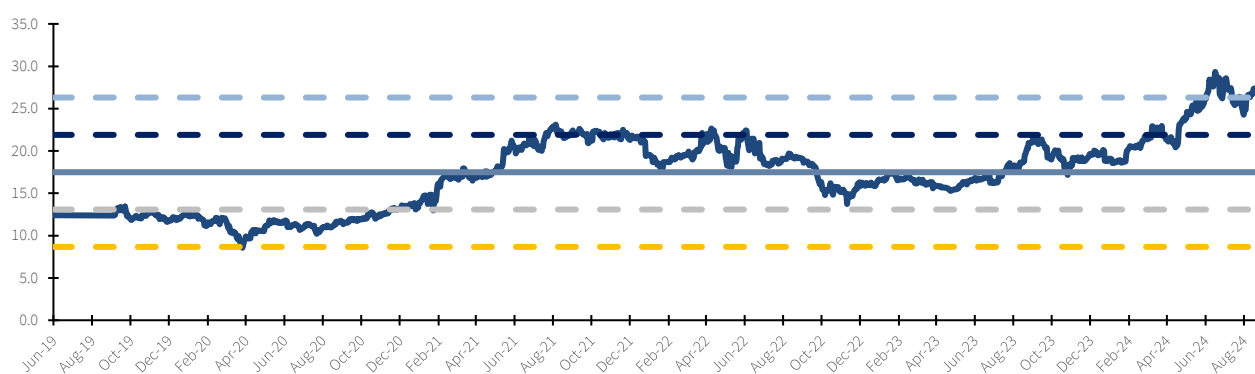
Source: KB Securities Vietnam

Table 11. FPT – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	138,100	50%	69,300
P/E	146,900	50%	73,450
Target price			142,500
Current price (Sep 19, 2024)			132,900
Upside			7.4%

Source: KB Securities Vietnam

Fig 12. FPT – P/E during 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

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Investment Ratings for Stocks

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

Buy:	Neutral:	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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