

FULL REPORT

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FPT is the top information technology enterprise in Vietnam, it has reputation in the region, and is the leading telecom service provider whose internet market share ranks second in the country.

Business performance in the first 8 months was positive thanks to software export.

Foreseen risks in the long term

FPT has currently operated in 3 major business areas which are: (1) Information technology; (2) Telecommunication; (3) Education. Leading in technology trends for 30 years, FPT is now the top enterprise in information and technology sector in Vietnam and has its reputation in the region with a large number of customers including the ones in Fortune 500. In terms of telecom, FPT ranks second in the country with 28.1% market share, and owns Internet infrastructure covering 59 cities and provinces together with 4 data centers over the country. In addition, although the education area only contributes low profit proportion, impressive development stages have been shown.

In the first 8 months of 2018, FPT's revenue and PBT increased by 19% and 32% respectively yoy (excluding revenue of retail and distribution in 2017). Revenue from Technology and Telecommunication accounted for 94% of total revenue; Technology and Telecom PBT reached VND 863 bn and VND 994 bn, increasing by 31% yoy and 19% yoy respectively, software export gained VND 773 bn, increasing by 30% yoy. Large potential growth for software export and telecom would ensure FPT development in medium term.

Risks in FPT's operations in the next 3-5 years is considered relatively low thanks to potential growth in core business. In the long term, risks will result from in telecommunication area, especially in Internet and Pay TV subscribers.

Buy

Target price	63,870 VND
Upside/Downside	48.5%
Current price (19/10/2018)	VND 43,000
Target price	VND 63,870
Market capital	VND 26,382 bn (USD 1.12 bn)
Exchange rate on 22/10/2018: 1USD = 23,390 VND	

Forecasted business performance				
FY-End	2016A	2017A	2018F	2019F
Revenue (VNDbn)	39,581	42,659	22,194	24,982
Growth rate (%)	4.14%	7.91%	-47.97%	12.56%
Gross profit (VNDbn)	8,438	9,682	8,434	9,743
Gross margin (%)	21.35%	22.70%	38.00%	39.00%
Net profit (VNDbn)	1,991	2,932	2,391	2,794
Growth rate (%)	3.1%	47.3%	-18.4%	16.8%
EPS (VND)	4,333	5,521	3,896	4,553
EPS Growth	-10.8%	27.4%	-29.4%	16.8%
P/E	10.62	8.33	11.00	9.41

Trading data	
Outstanding share	613,544,396
Avg. Daily volume (3M)	954,387
% Foreign ownership	49%
Dividend per share	2,500 VND

Performance (%)				
	1M	3M	6M	12M
FPT	-5.4%	3.5%	-14.5%	2.6%
VNINDEX	-3.7%	1.5%	-12.4%	15.6%

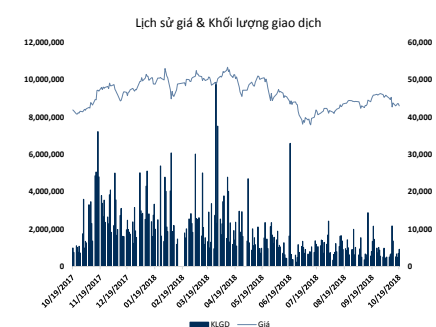


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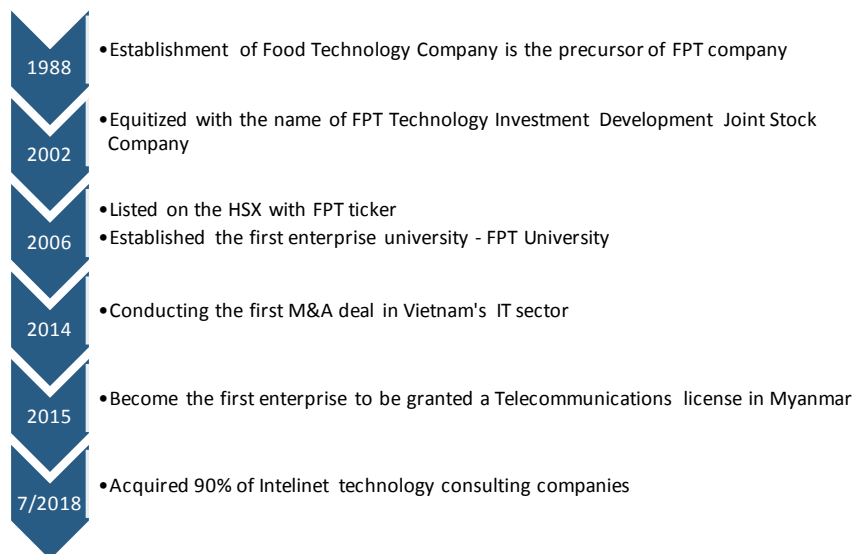
OVERVIEW

Company history

FPT Joint Stock Company operates in Information Technology industry with 3 major business areas: (1) Technology; (2) Telecom; (3) Education.

FPT is currently the top enterprise in the information technology industry in the country and in the region.

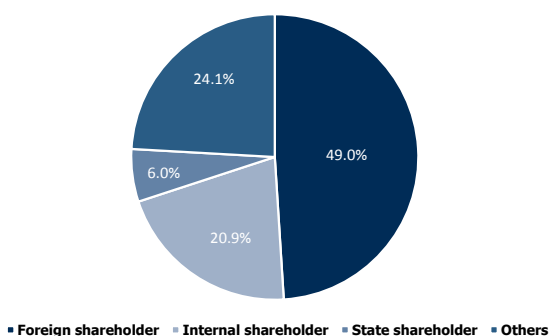
FPT JSC was listed on HSX in December 2006 (Ticker: FPT).



Ownership structure

FPT charter capital is VND 6,136 bn, of which 20.9% is owned by internal shareholders, 6% by state shareholders, 49% by foreign shareholders and 24.1% by other domestic shareholders (Figure 1). Mr. Truong Gia Binh, Chairman of FPT Group holds the largest number of shares, about 7.05%. FPT gained attraction from large organizations including Red River holding (4.58%); Deutsche Bank (2.42%); Norges Bank (1.68%), etc. According to WTO, FTAs, AFAS, the charter capital ownership of foreign investors in telecom enterprises providing network infrastructure services does not exceed 49%. Therefore, the FPT room expansion in the future is impossible.

Figure 1: Ownership structure of FPT JSC



Source: KBSV

Table 2: List of subsidiaries and affiliates

Subsidiaries	Tỷ lệ sở hữu (%)
FPT Software Company Limited	100
FPT Information System Company Limited	100
FPT Telecom Joint Stock Company	45.65
FPT Online Services Joint Stock Company	51.95
FPT Education Company Limited	100
FPT Investment Company	100
Intelinet Corp	90
Công ty liên kết	Tỷ lệ sở hữu
SYNNEX FPT Jsc	48
FPT Digital Retail Joint Stock Company	47
FPT Securities Joint Stock Company	20
FPT Investment Fund Management Joint Stock Compa	25

Nguồn: Finnpro

FPT has currently operated in 3 business areas including Information Technology, Telecom and Education. Retail and Trading were divested in 2017.

FPT is the leading enterprise in information and technology industry in Vietnam and has its position in the region.

FPT is the network telecom service provider ranking the second in the country with 29.68% market share in internet service.

FPT University currently has 24,782 students with the employment rate after graduation of 94% in the first 12 months.

Business area

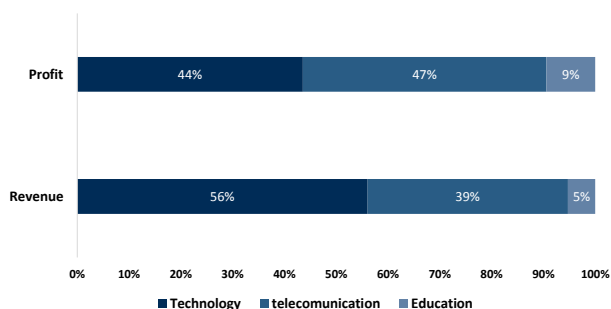
FPT currently operates in three main business areas including: (1) Information Technology; (2) Telecom; (3) Education. Technology accounted for the highest proportion in revenue and profit, accounting for 56% and 44% respectively, followed by Telecommunication which contributes 39% to revenue and 47% to profit. Education added the smallest share with 5% of revenue and 9% of profit (Figure 3). By the end of 2017, FPT reduced its ownership in FPT Retail which originally accounted for the largest portion of revenue and FPT’s trading went down to 47% and 48% respectively to focus on FPT's core areas which are Technology and Telecom.

With 30-year experience, FPT has always been at the forefront of technology trends, with two subsidiaries which are FPT Software and FPT IS, FPT is now the number one company in the information technology industry in Vietnam and the region, majoring in two main business areas including software export and information technology solution-services. At present, FPT partners with 550 clients including 64 leading corporations in Fortune 500; providing solutions and services for 100 banks and financial institutions, 500 government agencies and 200 hospitals.

FPT Telecom operates in three main business areas: (1) Internet telecommunication services; (2) FPT television services; (3) Digital content services. With Internet infrastructure spreading across 59 provinces and 4 data centers nationwide, FPT Telecom currently occupies 29.68% of the market share with a 95.7% brand awareness and trust rate, ranking higher than Viettel with 11.43% of the market share and only after VNPT with a market share of 54.6% (Figure 4).

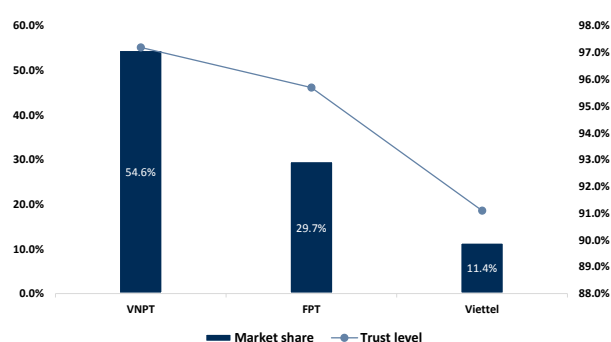
FPT University was founded in 2006, focusing on training majors such as Journalism & Communication, Language, Business Management, and highly concentrate on Information Technology. By the end of 2017, FPT University was training 24,782 students, with employment rate after graduation of 94%, which is considerably higher than that of IT departments at other universities. Moreover, as a subsidiary of Vietnam's leading technology group, software technology graduates of FPT University have an employment rate of 96%.

Figure 3: Income – profit structure in 2018



Source: FPT

Figure 4: Market share – trust rate in technology sector



Source: Brand Strategy and Competitiveness Research Insitute

BUSINESS

Technology

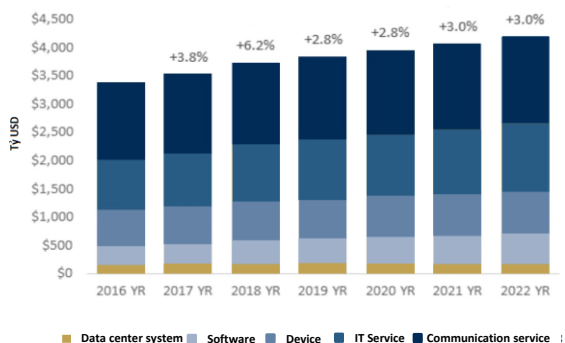
The Global Information Technology is expected to develop in the near future.

Revenue and Profit of Technology in 2017 grew 11% and 3% respectively over the same period.

According to Garner's latest forecast, the size of the global IT market in 2018 will be over USD 3.7 trillion, rise 6.2 percent compared to 2017's (Figure 5). CompTIA's IT business confidence index reached 70 points by the end of 2017, which indicates that the world is expecting a prospective period of this market. In addition, the trend toward software development is taking place with a two-year CAGR of 7%, in contrast to the saturation of the hardware production area with a two-year CAGR only at 1.6%. **To catch up with the general trend, FPT has taken development steps and focus its resources on Information technology, especially software export.**

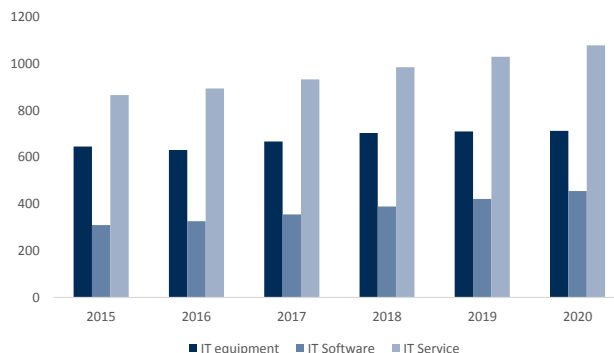
In 2017, FPT's technology area recorded a revenue of VND 11,083 billion, grew 11% yoy, of which revenue from software export reached VND 6,242 billion, equivalent to 56%, rose by 20% yoy; System integration, software solution and IT service increased by 1% yoy, reaching 4,841 billion (Figure 7). Overseas market continued to play a significant role, contributing 62% to total revenue (Figure 8), CAGR of foreign sales reached 31% per year in the period of 2013-2017. EBT in 2017 reached 1,131 billion, up 3% yoy, of which software export accounted for 94%. In the first 6 months of 2018, the impressive growth of IT sector was recorded at VND 5,457 billion in revenue and VND 592 billion in EBT, grew 21% and 31% yoy respectively, of which, software export went up by 23% yoy.

Figure 5: Forecast of the global IT market size



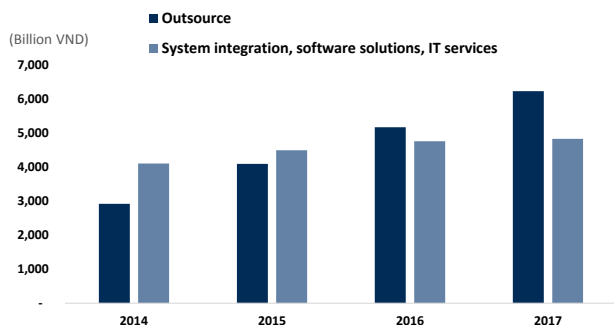
Source: Gartner

Figure 6: Forecast of IT spending in product/service



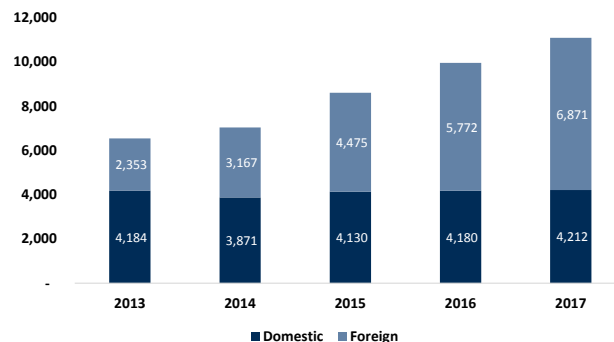
Source: Gartner

Figure 7: Technology revenue in 2014-2017



Source: FPT Annual report

Figure 8: Components of global revenue in Technology



Source: FPT Annual report

EBT in the first 6 months of 2018 in Offshore software R&D grew 23% yoy thanks to favourable foreign markets.

Expectation of a breakthrough in the global market thanks to the acquisition of Intellinet Consulting – the fastest growing technology consulting company in the US.

Competitive advantage due to low labor cost

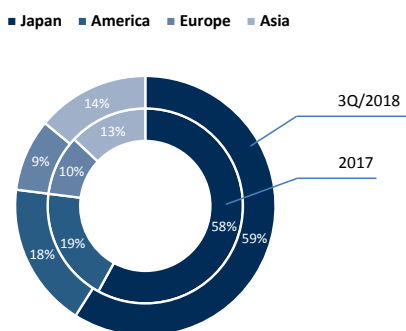
❖ *FPT Software*

Turnover of offshore software R&D is 100% from overseas market. In the first six months of 2018, Offshore software R&D continued to grow with the revenue of VND 3,578 billion, rose 29% yoy and EBT of VND532 billion, up 23% yoy. Japan is the most important market, contributing 59% of total revenue, up 29% yoy (Figure 9). In May 2018, FPT Software signed two large contracts with total value of USD 30 million with ISE Foods and Toppan Printing in the field of digital conversion. FPT's operations in Japan are positive with new contracts replacing Chinese companies thanks to the following reasons: (1) Japan tries to avoid heavy reliance on China as its biggest software export partner; (2) Chinese companies are withdrawing to home country due to rising incomes in information technology in China. The US and European markets contributed 18% and 9% of total revenue respectively, up 24% and 22% yoy, compared with a 17% and -7% YoY change in 2017. Noticably, in the Asia Pacific market, revenue increased 40% yoy thanks to strengthened operations in the Australian market. FPT plans to grow by 25% in each region by 2018.

On July 12, 2018, FPT announced the acquisition of a 90% shares in Intellinet Consulting, one of the fastest growing technology consulting firms in the US with a CAGR of 20-25% in the period of 2013-2016. Intellinet reached USD 30 million in 2017 with more than 150 experienced consultants and 200 big clients, especially there are many Fortune 500 clients. According to FPT, in the USD 40-50 million transaction, USD 30 million was paid immediately, the rest depends on the business performance of Intellinet. This is a breakthrough of FPT to provide total technology services, enhance added value in business orders coupled with attracting new orders, promoting its operation in the US market and the global market. FPT expects revenue from the US market in 2018 to reach VND 100 million, rise from VND 65 million in 2017 thanks to Intellinet's push.

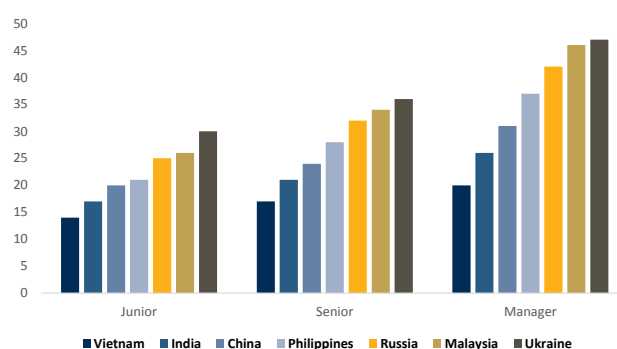
FPT in particular and IT companies in Vietnam generally have a great advantage in offshore software R&D in terms of price and labour. According to Agileengine figures, the average income per hour of junior and senior staff in Vietnam is USD 14 and USD 20 respectively, which are much lower than that of competitors such as Malaysia, China and India (Figure 10). In addition, the income in information technology industry in Vietnam is relatively high compared to the common level, so the pressure on rising income is not strong, ensuring the competitiveness in the global market in medium and long term. On the other hand, although the competence of FPT personnel is not comparable to other countries in terms of information technology, the offshore software R&D sector which does not require advanced skills is not a barrier for FPT in accessing global partners at present.

Figure 9: FPT Software’s revenue proportion in different regions



Source: FPT Annual report

Table 10: Average income per hour in Information technology (USD/h)



Source: FPT Annual report

FPT IS provide IT service, software solutions and system integration.

Growth rate in the first half of the year was 68% yoy, expected to complete the year plan.

FPT IS will continue to concentrate on the domestic market and reduce its hardware investment in the long run.

Telecommunication continued to follow its upward trend. For the first 6 months of 2018, revenue and EBT increased 15% yoy and 17% yoy respectively

❖ **FPT IS**

FPT IS is a leading provider of software solutions, IT services and system integration such as Enterprise Resource Planning (ERP) and Business Process Outsourcing (BPO). Domestic customers account for most of the revenue, including three main customer groups: (1) Government, (2) Bank, (3) Enterprise. Besides, FPT IS also has clients in developing countries such as Myanmar, Bangladesh, etc.

In the first six months of this year, FPT IS's revenue rose 68% yoy, with gross margin profit improving from 1.3% in 2017 to 3-4% at current time. Revenue in the second half of the year will not be as positive as the first half. However, there is a high probability that it will achieve its plan. There are 2 reasons for low sales in the last 6 months compared to that of 2017: (1) In 2017, there is a contract for upgrading ATM maintenance from the Bank; (2) Projects for the government are being delayed.

In the coming time, with the current unfavourable situation of governmental projects, FPT will focus on developing the network of corporate clients. Long-term development of FPT IS is oriented in two main directions: (1) focus on developing the domestic market, targeting only foreign markets in developing countries with similarities to Vietnam for easy assess and implementation; (2) decrease the proportion of hardware business due to low gross profit margin and obscure competitive advantages with competitors.

Telecommunication

Telecommunication growth has slowed down compared to the previous period, revenue in 2017 reached VND 7,652 billion, up 14.8% yoy, CAGR in the period of 2013-2017 reached 16.64%. EBT in 2017 was VND 1,222 billion, increased 2% yoy and the CAGR in 2013-2017 reached 5% (Figure 11). EBT was 16%, decreasing year over year. The decline in profit margin is due to (1) the reduction in service fees when the network is expanded to provinces, (2) network operators are constantly reducing their price in competition for subscribers. However, in the first half of this year, FPT Telecom has gained back its growth in business results with revenue of VND 4,191 billion, up 15% yoy; EBT is VND 727 billion, up 17% yoy.

Internet subscribers remain to grow in 3 to 5 years

According to FPT, in the first 6 months of 2018, revenue from Internet rose by 13% yoy, of which the total subscriber growth was higher than the revenue growth with the rate of 18%, due to price reduction for subscribers in provinces. The potential growth of Internet is expected to continue thanks to these factors: (1) The demand for FTTH fiber network remains to increase. According to statistics from the Viet Nam Telecommunications Authority, FTTH subscribers in Vietnam reached 10.61 million, up 39.6% yoy and 5-year CAGR reached 118% (Figure 13). (2) 45% of the population has not used the Internet. According to Statista, the number of Internet users in Vietnam reached 53.86 million, about 55.5% of the total population of Vietnam (Figure 12). Statista forecasts that the number of Internet users will reach 59.48 million by 2022. The great market rooms, brand reputation, and new subscriber growth are main drivers for FPT Telecom's growth in the next 3-5 years.

Competitive Internet package in high speed segment thanks to technology advantages. The 1 Gbps package has not gain high popularity due to high cost

Thanks to its technological advantages, FPT Telecom now offers very competitive high speed packages which offer few price differences compared low speed packages. FPT is the only company in the top 3 offering 45 Mbps and 55 Mbps packages for individuals and households (Figure 14). In terms of price, FPT 12-month 45Mbps package is 3.7 million VND, much lower than the 40Mbps package of 12 months of VNPT and Viettel, which are 4.5 million VND and 4.2 million VND respectively (VAT included and exclusive of frequent promotional from agents). In addition, in May 2017, FPT officially launched a 1 Gbps - Sóc Internet package targeting at high-income individuals and households, which is a high-speed package that outperformed all existing ones. However, this package has not gained popularity due to the cost of 5-7 times higher normal package.

Pay TV grew 50% yoy in the first half of the year, expecting to break even in 2019

FPT's Pay TV continued to show impressive growth of over 50% yoy in the first 6 months. According to FPT estimations, Pay TV will break even and gain profit at the end of 2019. Pay-TV market in Vietnam is facing difficulties as providers have to reduce prices for subscriber growth resulting in profit decline. However, FPT TV has a several advantages thanks to the integration of online TV products with the internet to offer customers more choices.

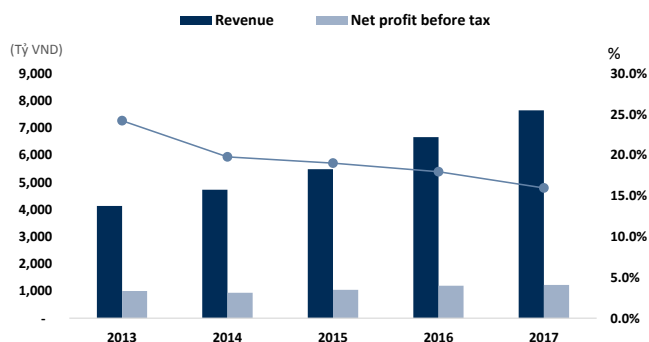
FPT Play is the major area in long-term growth.

In OTT television, FPT Play, MyK +, Clip TV and Netflix are market leaders in terms of quality as well as service prices. Investment in OTT is being considered as a natural trend thanks to the the Internet development, the popularity of FTTH, and internet mobile which enables young people to use internet-connected devices instead of traditional TVs. In the early days, FPT Play, together with other providers accepted loss by reducing price to grow more subscribers, but they are still struggling with the problem of prevalent TV piracy. However, with the advantage of resources, technology and brand awareness, FPT Play is expected to contribute impressively to FPT Telecom's long-term business results.

The profit margin have been improved thanks to reducing contribution in Vietnam Public-Utility Telecommunication Service Fund

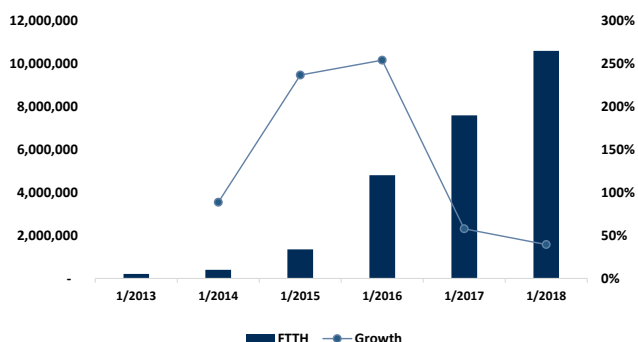
On July 16, 2018, the Government approved Decision No. 868/QĐ-TTĐ on reducing contribution to Vietnam Public-Utility Telecommunication Service Fund from 1.5% to 0.7% of broadband revenue. This decision will help FPT improve significantly its margins in telecommunication.

Figure 11: Telecommunication’s earnings in 2013-2017



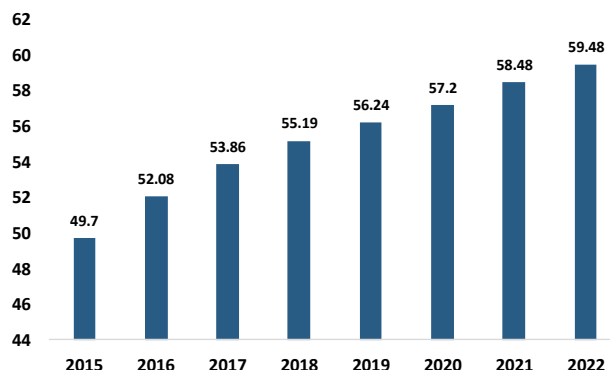
Source: FPT

Figure 13: FTTH tax growth 2013-2018



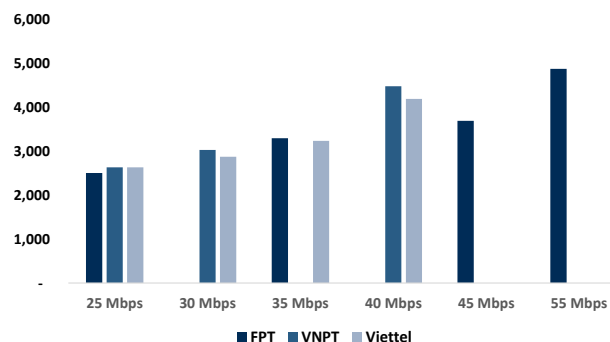
Nguồn: Cục Viễn Thông

Figure 12: The number of Internet users (million people)



Source: Statista

Biểu đồ 14: FTTH package price with line speed



Nguồn: Bloomberg

FPT University continues to be attractive to students thanks to education quality and the rising of It sector.

Education

Revenue of the education sector in 2017 was VND 1,044 bn, 6% more than expected. The newly recorded student enrolment rate increased by 53% compared to that in 2016, relevant to 12,500 new students of all educational levels. Earnings before taxes reached VND 245 bn. In 2018, FPT expected the number of new students enrolled to rise by 40% based on: (1) Can Tho FPT University has been completely built, and begun to recruit students this year, this new educational institution will attract a large number of students from Southeast provinces, (2) The demand to have a major in information technology will increase because of promising job opportunity and salary. FPT University’s competitive advantage compared to other IT universities such as Hanoi University of Science and Technology and Posts, Telecommunications Institute of Technology, etc. is that students have chance to practice in a real working environment. Branches of FPT University have always been located near FPT Software so that students can work as interns and official staff in their last school year.

In the first six months of 2018, gross margin was improved, reaching 40% thanks to divestment from FPT Retail and Syntex. Revenue and NPAT growth remained healthy.

Reliable assets structure with VND 9,000 bn of cash and bank deposits.

Loan/ total assets ratio was 47.2%, Current ratio was 1.35.

Financial analyzing

Net revenue in 2017 was VND 42,569 billion, up 7.91% yoy, this is the fifth consecutive year of revenue growth since 2012. 10-year CAGR were 12.2%. The gross profit margin in 2017 was 22.7%, up 1.35% compared to 2016's and 3% compared to 2015's due to the increase in proportion of software export. Earning after tax in 2017 reached VND 2,932 billion, rose by 47.3% yoy thanks to the sharp increase in financial income. 10-year CAGR of EAT is 14.8%.

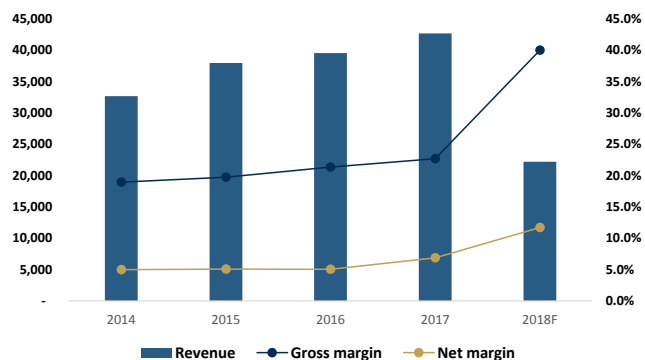
Revenue of the first 6 months of 2018 is VND 10,236 billion, increased 19% in comparable data (combined results of FPT retail and Syntex using the equity method) and decreased 49% yoy in actual data. Gross profit margin soared remarkably to 40% because of the absence of FPT Retail and Syntex which have great revenue but low gross margin. In addition, the cost of sales dropped substantially by 37.4% yoy due to a decrease in FPT Retail's cost of sales. EAT in the first 6 months reached VND 1,103 bn, up 18% yoy. According to the latest data, revenue of 8 months in 2018 was 14,061 billion, down 49% yoy, EBT was VND 2,340 billion, rose by 17% yoy.

The total assets until the second quarter of 2018 was VND 26,286 bn, increasing by 5.1% compared to early period. Short-term accounts receivables accounted for the largest proportion of current assets, relevant to 32.4%, of which a large amount came from customer accounts receivables and no backlog customer had to pay more than 10% of the total accounts receivable. Short-term financial investment was VND 4,866 bn, stably increasing in the recent years, all of that amount came from bank deposits. Massive amount of cash and bank deposits worth VND 9,000 bn, showing that FPT has a considerable cash amount to make a stable investment in business activities when necessary.

Total assets up to Q2/2018 was VND 26,286 billion, up 5.1%. Short-term receivables accounted for the largest proportion in short-term asset, which is 32.4%, the majority from customer receivables, of which there is no customer outstanding higher than 10% of total receivables. Short-term financial investment reached 4,866 billion and increased steadily in recent years, all of them are bank deposits. The amount of cash and deposits in large banks was nearly 9,000 billion VND, showing that FPT is cash abundant and able to finance its business activities.

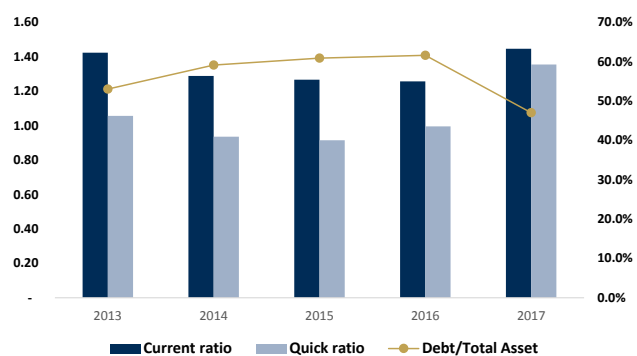
In first half of 2018, FPT's debt / total assets ratio was 47.2%, increased slightly by 0.2% against 2017 and declined steeply by 14.4% compared to 2016's. This is due to 2017 restructuring and dramatical decline of short-term and long-term loans. The current and fast payment ratio of FPT is 1.35 and 1.22, respectively, showing that FPT's asset structure is healthy and able to pay its debts.

Figure 15: 2014-2018F Business performance



Nguồn: FPT

Figure 16: Debt structure and solvency ratio



Nguồn: FPT

Risks

FPT business activities growth was supposed to remain positive in the next three to five years, short-term risks would hardly incur thanks to large existing market. In the long term, FPT may have to face the two main risks:

Fierce competition in Telecom sector

Regarding to long-term Internet sector affected from increasing subscribers, telecommunication companies would provide package discounts to enhance competitiveness, which raises subscribers, but decreases profit, adversely affecting profit growth. Changing entertainment consumption habits of customers and competitive challenges from the world famous enterprises such as Netflix, Youtube, Facebook, etc. or other Vietnam large companies like VNPT, Viettel, etc. cause many difficulties to business activities of FPT TV and FPT Play.

Staff low competency as compared to the world standards leading to potential risks

We strongly believe that FPT software processing activities will become the main drive of FPT development in the upcoming period. However, FPT staff's low competency compared to other technology companies in the world remains potential risks in the long term. Up to present, FPT has just participated in processing stages whose insignificant surplus value and a few barriers to entry. In case of losing competitive advantage of cheap labor price, FPT would have to face many difficulties in searching for new agreements. Furthermore, in the non-stop developing technology industry of the world, FPT business growth would have to cope with numerous impediments unless the staff quality were improved to approach and create products with high surplus value.

VALUATION

2018 Earning forecast

In 2018, FPT revenue was forecasted to reach VND 22,194 bn, decreasing by 47.97% yoy if compared in real statistics, increasing by 20.3% yoy if compared relatively based on:

Revenue of technology sector went up by 11.7% yoy, and gained VND 12,380 bn, of which software export sector continued to play a vital role in purchase orders from Japan and the U.S. This sector achieved 20% yoy increase, while Hardware and Services ground to a standstill, only up by 1% yoy resulting from businesses' orientation.

Revenue of Telecom sector was expected to reach VND 8,610 bn, increasing 12.5% yoy, of which Telecom services kept increasing by 13% yoy thanks to positive outlook of boosting FTTH, Pay TV và FPT Play subscribers; Digital content climbed by 6% yoy.

Revenue from education was VND 1,204 bn, increasing by 15.3% yoy with high expectation of new student enrolment growth in the next September.

Gross margin was projected to be 38%, significantly improved compared to previous years, and fluctuated around 20%-22% as in 2017, FPT sold FPT Retail and Trading and converted them into FPT affiliates which were the two main sources of revenue but had extremely low margin of 12-13%.

Cost of goods sold were expected to fell sharply by 44.8% yoy as there was no extra cost spent for FPT Retail. Projected total COGS and enterprise management/ revenue was 24.2%.

It was supposed that revenue gained from FPT Retail and FPT Syntex reach VND 431 bn.

Earnings before taxes was expected to be VND 3,471 bn, reducing by 18.4% yoy, accomplish the planned targets in early year. NPAT of the parent company was VND 2,391, decreasing 18.45% yoy, EPS was expected to gain VND 3,896/ share.

In 2019, FPT revenue and NPAT was supposed to achieve VND 24,982 bn, increasing by 12.6% yoy and 16.9% yoy respectively if FPT activities had healthy development as in 2018. EPS forward 2019 was VND 4,553/ share.

FPT NPAT in 2018 was expected to be VND 2,391 bn, down by 18.45% yoy, EPS forward was VND 3,896/share.

Figure 17: 2018 business results expectation

Billion VND	2015A	2016A	2017A	2018F	2019F
Revenue	37,960	39,531	42,659	22,194	24,982
COGS	30,466	31,093	32,976	13,760	15,239
Gross profit	7,494	8,438	9,682	8,434	9,743
Selling Expense	2,332	2,751	3,441	1,898	2,136
Administration expense	2,227	2,638	3,075	3,462	3,897
Financial Expense/profit	(168)	(119)	982	(34)	(90)
Profit from affiliated companies	-	-	-	431	435
Profit before tax	2,851	3,014	4,255	3,471	4,055
Profit after tax for parent company	1,931	1,991	2,932	2,391	2,794

Source: KBSV

Valuation

We used correlative valuation method to compare P/E index of other peers whose same-size capital in Asian developing markets in terms of Technology and Telecom (P/E was adjusted based on the difference in interest rates among countries), while Education sector was not a big contributor to the expected profit, current P/E was assumed to be reasonable.

Current FPT P/E forward in 2018 was 11.88x, relatively low as compared to other peers in the region

FPT has currently traded with 8.49x P/E trailing and expected 11.0x P/E forward in 2018, which is a tempting price compared to other peers in Asian developing markets and Vietnam market in general.

FPT is the industry leader in terms of Technology and Telecom, and remained sustainable growth in recent years. FPT biggest potential development could be achieved when the company was restructured, and concentrated on high margin business field instead of spending resources in many sectors like previous period. Regarding to the valuation results, business outlook and low risk level in FPT activities in the period ahead, we recommend to **BUY** FPT stocks. Target price is VND 63,869, 48.5% more than the price in October 19, 2018.

Figure 18: P/E comparison in Telecom sector

	Market capitalization (million USD)	P/E forward 2018	P/E adjusted	Proportion	P/E forward 2018 based on proportion
FPT	1,127.0	11.03			
SHANGHAI ATHUB CO LTD-A	922.0	35.02	21.76	0.12	2.54
TIME DOTCOM BHD	1,158.9	19.76	14.31	0.15	2.10
JASMINE INTL PUBLIC CO LTD	1,354.7	16.09	16.09	0.17	2.76
INESA INTELLIGENT TECH INC-B	1,084.8	19.06	12.71	0.14	1.74
ADDSINO CO LTD -A	1,745.6	32.56	20.23	0.22	4.47
ZHEJIANG DAILY DIGITAL CUL-A	1,635.1	14.40	8.95	0.21	1.85
P/E average					15.46

Nguồn: Bloomberg, KBSV

Figure 19: P/E comparison in Technology sector

	Vốn hóa thị trường(million USD)	P/E dự phóng 2018	P/E điều chỉnh	tỷ trọng	P/E dự phóng 2018 theo tỷ trọng
FPT	1,127.0	11.03			
SHENZHEN DAS INTELLITECH-A	1,047.9	23.87	12.73	6.3%	0.80
NIIT TECHNOLOGIES LTD	954.0	24.65	25.47	5.7%	1.45
SHENZHEN KINGDOM SCI-TECH-A	1,178.2	43.46	14.06	7.0%	0.99
BEIJING PHILISENSE TECHNOL-A	1,132.8	17.94	8.65	6.8%	0.59
TATA ELXSI LTD	1,014.4	30.70	33.34	6.1%	2.02
BEIJING TEAMSUN TECHNOLOGY-A	1,177.7	89.24	24.04	7.0%	1.69
IREADER TECHNOLOGY CO LTD-A	1,292.2	67.18	30.68	7.7%	2.37
HANGZHOU LIANLUO INTERACT-A	1,579.1	56.46	34.45	9.4%	3.25
CHINASOFT INTERNATIONAL LTD	1,619.8	16.27	11.10	9.7%	1.07
HISENSE ELECTRIC CO LTD-A	1,892.4	14.56	6.61	11.3%	0.75
BEYONDSOFT CORP-A	596.0	18.02	9.15	3.6%	0.33
HWA CREATE CO LTD-A	680.8	63.11	14.42	4.1%	0.59
SHENZHEN SUNWIN INTELLIGEN-A	731.0	21.58	11.15	4.4%	0.49
INSPUR SOFTWARE CO LTD-A	862.6	42.95	16.73	5.1%	0.86
GCI SCIENCE & TECHNOLOGY-A	993.3	31.00	18.31	5.9%	1.09
P/E trung bình					18.31

Nguồn: Bloomberg, KBSV

Figure 20: FPT Valuation

	P/E current	P/E sector average 2018	profit cotribution 2018	P/e dự forward 2018 based on profit contribution	targeted price
Technology		18.31	44%	8.06	31,388
Communicationi		15.46	47%	7.27	28,316
Education		11.88	9%	1.07	4,166
Tổng				16.39	63,869

Nguồn: KBSV

APPENDIX

Financial statement

Business performance

Billion VND	2015	2016	2017	6T/2018
Sales	38,707	40,447	43,298	10,236
Sales deductions	-747	-916	-640	-11
Net sales	37,960	39,531	42,659	10,225
Cost of sales	-30,466	-31,093	-32,976	-6,369
Gross Profit	7,494	8,438	9,682	3,856
Financial income	453	575	1,583	266
Financial expenses	-620	-694	-601	-212
of which: interest expenses	-263	-374	-369	-102
Gain/(loss) from joint ventures (from 2015)	34	35	71	216
Selling expenses	-2,227	-2,638	-3,075	-875
General and admin expenses	-2,332	-2,751	-3,441	-1,600
Operating profit/(loss)	2,802	2,964	4,220	1,651
Other incomes	147	100	102	61
Other expenses	-97	-50	-67	-25
Net other income/(expenses)	49	50	35	36
Income from investments in other entities	0	0	0	0
Net accounting profit/(loss) before tax	2,851	3,014	4,255	1,687
Corporate income tax - current	-497	-425	-698	-253
Corporate income tax - deferred	84	-13	-29	-22
Corporate income tax expenses	-413	-438	-727	-275
Net profit/(loss) after tax	2,438	2,576	3,528	1,412
Minority interests	507	585	597	309
Attributable to parent company	1,931	1,991	2,932	1,103

Cash flow statement

Billion VND	2015	2016	2017	Q2/2018
Net profit/(loss) before tax	2,851.15	3,013.90	4,255.12	906.31
Depreciation and amortisation	732.88	933.44	1,039.42	286.03
Amortisation of goodwill	0.00	0.00	0.00	0.00
Provisions	94.01	110.60	184.57	28.00
Unrealised foreign exchange gain/loss	-3.15	16.02	-18.95	-34.39
Profit/loss from liquidating fixed assets	0.00	0.00	0.00	0.00
Profit/loss from investing activities	-318.81	-351.18	-1,330.95	-208.22
Interest expense	262.50	374.19	368.55	55.09
Operating profit/(loss) before changes in Working Capital	3,618.58	4,096.96	4,497.74	1,032.82
(Increase)/decrease in receivables	-863.52	-514.70	-2,311.60	182.89
(Increase)/decrease in inventories	-693.10	714.10	-617.89	-19.21
Increase/(decrease) in payables	395.16	1,123.67	1,709.30	483.24
(Increase)/decrease in prepaid expenses	-526.46	14.76	-143.62	-94.12
Interest paid	-211.92	-359.77	-386.41	-49.02
Corporate Income Tax paid	-438.29	-531.44	-493.64	-27.35
Other receipts from operating activities	-124.56	-231.93	-265.69	-55.55
Net cash inflows/(outflows) from operating activities	1,155.89	4,311.66	1,988.18	1,453.70
Purchases of fixed assets and other long term assets	-2,090.20	-1,433.11	-1,104.37	-658.37
Proceeds from disposal of fixed assets	115.91	4.64	3.87	0.42
Loans granted, purchases of debt instruments	-1,218.53	-912.25	-942.51	420.15
Collection of loans, proceeds from sales of debts instruments	0.00	0.00	0.00	-485.88
Investments in other entities	0.00	-314.07	0.00	-79.53
Proceeds from divestment in other entities	65.35	322.22	-973.83	165.90
Dividends and interest received	226.57	308.77	408.06	98.07
Net cash inflows/(outflows) from investing activities	-2,900.91	-2,023.81	-2,608.78	-539.24
Proceeds from issue of shares	30.95	66.58	39.14	26.55
Payments for share returns and repurchases	-4.35	-0.88	-0.13	0.00
Proceeds from borrowings	23,921.46	22,299.13	21,302.57	2,920.83
Repayment of borrowings	-21,980.61	-21,165.45	-21,923.25	-2,078.48
Dividends paid	-974.00	-1,058.58	-1,330.43	-799.40
Interests, dividends, profits received	0.00	0.00	0.00	0.00
Net cash inflows/(outflows) from financing activities	993.45	140.80	-1,912.10	69.49
Net increase in cash and cash equivalents	-751.57	2,428.65	-2,532.70	983.95
Cash and cash equivalents at the beginning of period	4,336.28	3,584.71	6,013.36	3,076.14
Effect of foreign exchange differences	0.00	0.00	0.00	0.00
Cash and cash equivalents at the end of period	3,584.71	6,013.36	3,480.66	4,060.09

Source: Fiiipro

Financial targets

	2013	2014	2015	2016	2017	TTM Q2/2018
Current ratio	1.42	1.29	1.27	1.26	1.45	1.41
Debt/Total Asset	0.53	0.59	0.61	0.62	0.47	0.47
EBIT	2,336.07	2,334.67	2,935.16	3,048.52	3,166.64	3,094.28
EBITDA	2,779.06	2,881.94	3,668.04	3,981.96	4,206.06	4,203.14
Gross margin	20.49%	18.96%	19.74%	21.35%	22.70%	27.19%
Net Margin	7.64%	6.37%	6.42%	6.52%	8.27%	11.10%
Asset Turnover	1.70	1.62	1.56	1.41	1.56	1.27
Equity Turnover	4.04	3.96	3.91	3.66	3.46	2.48
ROE%	24.01%	19.82%	19.87%	18.41%	23.75%	22.98%
ROA%	10.12%	8.11%	7.93%	7.12%	10.69%	11.72%
Receivable turnover	7.87	8.10	8.55	8.09	8.32	6.78
Inventory turnover	7.09	6.61	6.10	6.25	11.69	12.35
Payable turnover	10.72	10.14	10.44	9.46	10.93	11.06
P/E	7.87	9.69	10.50	10.62	8.33	9.06
P/B	1.76	2.00	2.13	2.22	2.14	2.40

Source: Fiiipro

Accounting balance sheet

Billion VND	2015	2016	2017	Q2/2018
CURRENT ASSETS	18,959	21,909	16,060	16,758
Cash and cash equivalents	3,585	6,013	3,481	4,060
Cash	1,879	2,708	1,886	2,415
Cash equivalents	1,705	3,305	1,594	1,645
Short-term investments	2,617	3,472	4,379	4,866
Held-to-maturity investment	2,617	3,472	4,379	4,866
Accounts receivable	5,534	6,640	6,152	5,430
Trade accounts receivable	4,477	4,814	5,038	4,227
Inventories	5,268	4,554	1,020	1,276
Other current assets	1,955	1,229	1,028	1,126
Short-term prepaid expenses	830	701	760	941
VAT to be claimed	1,106	405	156	147
Other taxes receivable	19	123	112	37
LONG-TERM ASSETS	7,087	7,925	8,940	9,528
Long-term trade receivables	349	381	232	246
Fixed assets	4,292	4,590	5,247	5,419
Tangible fixed assets	3,971	4,131	4,585	4,583
Intangible fixed assets	319	456	658	832
Long-term incomplete assets	693	1,021	806	975
Long-term investments	728	826	1,783	1,925
Investments in associates	271	290	1,334	1,498
Other long-term investments	633	757	749	749
Provision for long-term investments	-176	-221	-300	-322
Other long-term assets	1,025	1,106	872	962
TOTAL ASSETS	26,046	29,833	25,000	26,286
LIABILITIES	15,863	18,385	11,761	12,401
Current liabilities	14,968	17,430	11,100	11,902
Trade accounts payable	2,815	3,757	2,279	1,618
Advances from customers	297	582	561	576
Taxes and other payable to State Budget	318	342	320	244
Payable to employees	694	827	830	718
Accrued expenses	519	603	918	969
Construction contract in progress payables	13	19	20	23
Short-term unrealized revenue	1,492	1,242	1,294	1,330
Other payables	302	524	439	273
Short-term borrowings	8,191	9,207	4,117	5,972
Provision for ST liabilities	17	8	6	5
Bonus and welfare funds	309	319	314	174
Long-term liabilities	896	956	661	499
Long-term advances from customers	54	54	40	0
Unrealized revenue	35	12	48	83
Other long-term payables	185	149	2	8
Long-term borrowings	614	733	565	405
Deferred income tax liabilities	0	2	3	0
Provision for long-term liabilities	7	6	3	3
Technology-science development fund	0	0	0	0
OWNER'S EQUITY	10,182	11,448	13,238	13,886
Capital and reserves	10,180	11,445	13,236	13,883
Paid-in capital	3,975	4,594	5,310	6,136
Share premium	49	49	49	49
Investment and development funds	79	127	171	167
Other funds	87	87	87	87
Undistributed earnings	4,395	4,614	5,511	4,671
Minority interests	1,601	1,923	1,809	2,124
TOTAL RESOURCES	26,046	29,833	25,000	26,286

Investment portfolio recommendations**Buy:** +15% or more**Take profit:** trong khoảng +15% và -15%**Sell:** -15% or less**DISCLAIMER**

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