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2Q21 earnings reached VND1,260 billion (up 16.2% YoY)

FPT posted VND1,260 billion in 2Q earnings (up 16.2% YoY) on revenue of VND9,642 billion (up 23.8% YoY). July pre-tax earnings were VND492 billion (up 13.4% YoY) and revenue was VND2,774 billion (up 1% YoY).

FPT invests in Interec International to expand the Americas market

In order to promote the provision of technology solutions and services in the Americas market, FPT Software recently announced an investment deal in Intertec International, which has been operating for 20 years in the information technology service provision industry. Currently, FPT owns over 5% of Intertec International capital, and the investment price has not yet been disclosed.

FPT may maintain good growth for the rest of 2021 and 2022

All three main business segments of FPT are growing steadily and have not been significantly affected by the COVID-19 pandemic. KBSV expects FPT to maintain its growth momentum in 2H21 and 2022.

HOLD recommendation with the target price of VND104,300 per share

Based on valuation results, business outlook and possible risk factors, we recommend HOLDING FPT shares. The target price is VND104,300 per share, 13.6% higher than the closing price on August 27, 2021.

Hold update

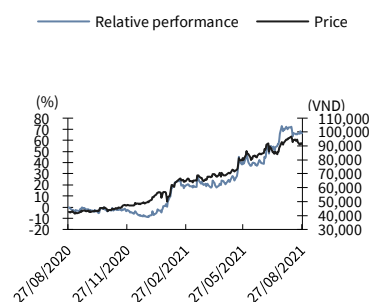
Target price	VND104,300
Upside/downside (%)	13.6%
Current price (Aug 9, 2021)	VND91,800
Consensus target price	VND82,000
Market cap (VNDtn/USDmn)	82,942

Trading data	
Free float (%)	87.06
3M avg trading value (VNDbn/USDmn)	354/15.2
Foreign ownership (%)	49
Major shareholder	Truong Gia Binh (7.07%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3	14	43	117
Relative	-3	15	30	67

Forecast earnings & valuation

FY-end	2019A	2020A	2021F	2022F
Net revenue (VNDbn)	27,717	29,830	34,777	39,918
Revenue growth (%)	19.40	7.63	16.58	14.78
Gross profit (VNDbn)	10,712	11,814	13,772	15,808
Gross profit margin (%)	38.65	39.60	39.60	39.60
Net profit (VNDbn)	3,912	4,424	5,249	6,023
Net profit growth (%)	20.96	13.09	18.66	14.74
EPS (VND)	4,622	4,513	4,626	5,308
EPS growth (%)	8.24	-2.36	2.51	14.74
P/E	19.9	20.3	19.8	17.3



Source: Bloomberg, KB Securities Vietnam

Business activities

2Q21 earnings went up 16.2% YoY to VND1,260 billion

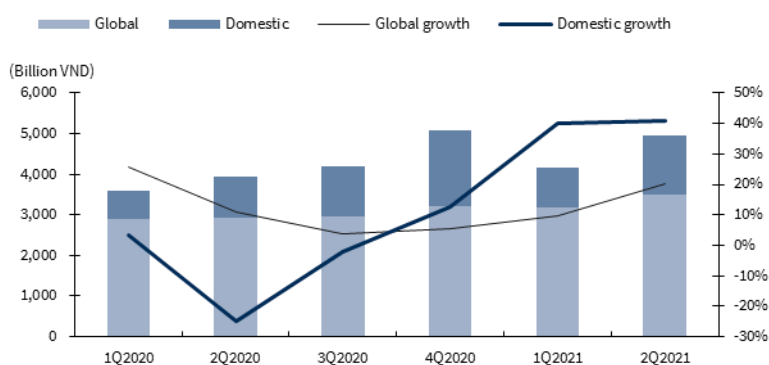
FPT's 2Q revenue hit VND8,642 billion (+23.8% YoY), of which technology segment increased by 25.7% YoY, telecommunications rose 15.6% YoY; and education & investment gained 79.8% YoY. Gross profit margin reached 40% (+100 bps YoY) while financial expenses gained 240.8% due to increased provision for devaluation of investments, resulting in 2Q after-tax earnings reaching VND1,260 billion (+16.2% YoY). Revenue in July 2021 was VND 2,774 billion (+18.3% YoY), of which technology and telecoms rose 39.1% YoY and 9.6% YoY respectively. July pre-tax earnings were VND492 billion (+13.4% YoY).

2Q technology pre-tax earnings rose 39.5% YoY on revenue up 25.7% YoY.

The software outsourcing segment grew strongly to 20.4% YoY after having a low growth rate in 2H21.

Meanwhile, the IT segment continued to maintain high growth with revenue up 40.9% YoY and pre-tax earnings up 175% YoY

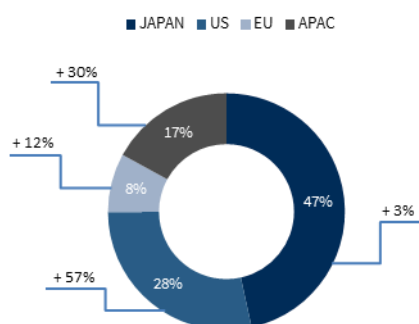
Fig 1. FPT – Technology revenue from 1Q20 to 2Q21 (% YoY)



Source: FPT Group, KB Securities Vietnam

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

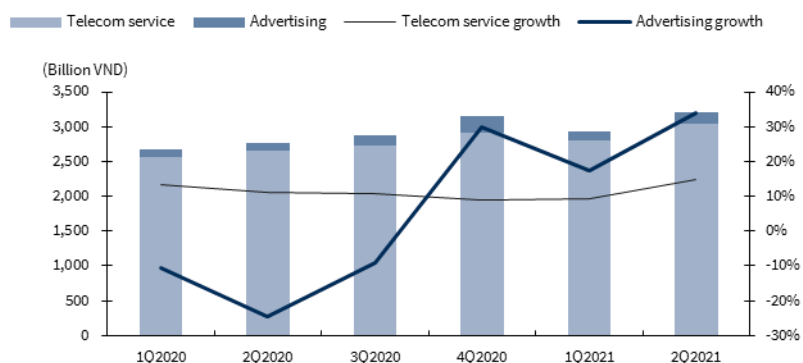
The US and APAC markets grew impressively in 2Q21, reaching 57% YoY and 30% YoY respectively, while the Japanese market with the largest share increased by a mere of 3% YoY



Source: FPT Group, KB Securities Vietnam

2Q2021, Telecommunication revenue increased by 15.6% YoY, in which Telecom service growth reached 14.7% YoY and advertising growth reached 33.9% YoY thanks to low base in 2020. Pay TV contributes about 16% of Telecommunication segment's revenue and PBT margin is about 9%. Marketing expenses plummeted along with profitable PayTV, helping to increase EBT of Telecommunication Services by 26.2% YoY

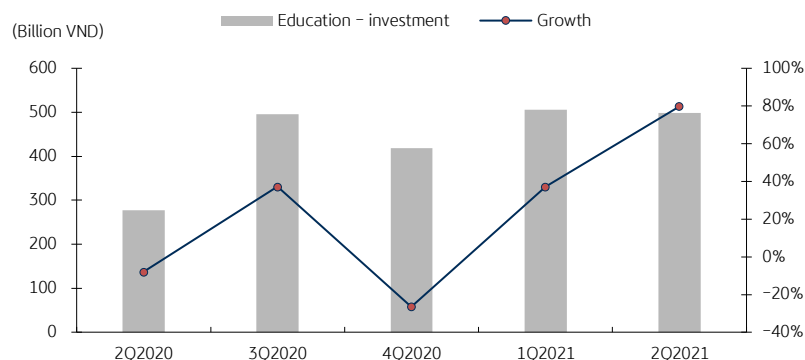
Fig 3. FPT- Telecoms revenue from 1Q20 to 2Q21 (% YoY)



Source: FPT Group, KB Securities Vietnam

Revenue from the education & investment segment increased by 80% YoY in 2Q mainly thanks to revenue from the education segment

Fig 4. FPT- Education & investment revenue from 1Q20 to 2Q21 (% YoY)



Source: FPT Group, KB Securities Vietnam

FPT invests in Interec International to expand the American market

To promote the provision of technology solutions and services in the Americas market, FPT Software recently invested in Intertec International, which has been operating for 20 years in the information technology service provision industry with offices throughout the US and two service centers in Costa Rica and Colombia. This deal should help FPT to (1) expand and optimize operations in the US market and (2) utilize and coordinate resources at the two service centers in Costa Rica and Colombia, expecting to save 30% of operating costs in these areas. Currently, FPT owns over 5% of Intertec International's capital, and the investment has not yet disclosed.

Outlook to maintain good growth for the rest of 2021 and 2022

The IT's value of new orders reached VND5,848 billion in 2Q, up 43.9% YoY. The number of customers contributing more than USD1 million in revenue reached 50 customers, up 138% YoY. Over USD5 million projects are 11, up 175% QoQ. For telecoms services, the number of newly opened subscribers in 7M21 reached 1.65 million, up 31.5% YoY; and cost reduction and profit from PayTV should maintain growth. In addition, the education sector should also grow strongly in 2H21 and 2022 thanks to: (1) Admissions in August-September, (2) students' plan to study in the country instead of studying abroad amid the pandemic, and (3) the increasing demand of the IT industry.

Forecast business performance

2021F business performance

We maintain our forecast published in the previous report with estimated revenue of VND34,777 billion, up 16.6% YoY based on the following factors:

- IT revenue grew by 15% YoY to VND19,253 billion, of which foreign IT was the main driving force (up 20% YoY).
- Telecommunications revenue is estimated at VND 13,132 billion, up 14.5% YoY, of which telecommunication services increase 15% YoY thanks to low growth in the same period in 2020 and stable demand from the market.

Gross profit margin is forecast to reach 39.6%, flat YoY.

G&A expense/revenue is forecast at 14.5%, down 60 bps YoY, reflecting the company's efforts to reduce costs.

Estimated pre-tax earnings is VND6,246 billion, up 18.7% YoY, 0.8% higher than the plan. Net profit attributable to the parent company is expected to hit VND4,198 billion, up 18.7% YoY, EPS is expected to reach VND4,626 billion per share.

For 2022, we expect FPT to maintain its growth momentum with revenue reaching VND 39,918 billion, up 14.8% YoY and net profit attributable to the parent company reaching VND4,817 billion, up 14.7% YoY.

Table 1. FPT – 2021-2022F performance

	2019	2020	2021F	2022F
Revenue	27,717	29,830	34,777	39,918
COGS	17,005	18,017	21,005	24,111
Gross profit	10,712	11,814	13,772	15,808
Selling expense	2,346	2,714	3,164	3,631
Administration expense	4,219	4,495	5,043	5,748
Financial expense	592	548	583	568
PBT	4,665	5,263	6,246	7,166
NPAT	3,135	3,538	4,198	4,817

Source: KB Securities Vietnam

Valuation – HOLD recommendation and target price of VND101,700 apiece

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

Combining the above two valuation methods with the ratio of 50–50, we get the final fair price for FPT shares is VND104,300 per share, 13.6% higher than the price on August 27, 2021.

Table 2. FPT – FCFE method

Assumption	Value
Cost of Equity	10.7%
Risk free rate	2.9%
Market risk premium	8.2%
Beta	0.95
Perpetual growth rate	5%
Forecast period	6 years

Source: KB Securities Vietnam

Table 3. Asian IT companies – P/E comparison

	Market capitalization (USD Billion)	PE trailing	Weight	PE based on weight
ORACLE FINANCIAL SERVICES	5,500	19.6	39.6%	7.8
DOUYU INTERNATIONAL HOLD-ADR	1,248	45.5	9.0%	4.1
BEIJING ORIENT NATIONAL-A	1,761	15.4	12.7%	2.0
MONTNETS RONGXIN TECHNOLOG-A	2,755	40.5	19.8%	8.0
INESA INTELLIGENT TECH INC-B	1,002	9.8	7.2%	0.7
WUXI BOTON TECHNOLOGY CO - A	0,814	7.7	5.9%	0.5
HANGZHOU ELECTRONIC SOUL N-A	0,811	7.9	5.8%	0.5
P/E average				23.4

Source: KB Securities Vietnam

Table 4. Asian Telecoms companies – P/E comparison

	Market capitalization (USD Billion)	PE trailing	Weight	PE based on weight
TELEKOM MALAYSIA BHD	5,440	18.8	15.7%	3.0
TOTAL ACCESS COMMUNICATION	2,570	19.8	7.4%	1.5
GUANGDONG SOUTH NEW MEDIA -A	1,690	13.3	4.9%	0.6
TATA COMMUNICATIONS LTD	18,300	19.7	52.9%	10.4
TIME DOTCOM BHD	5,760	25.7	16.7%	4.3
NET263 LTD-A	0,810	19.3	2.4%	0.5
P/E average				20.3

Source: KB Securities Vietnam

Table 5. FPT – P/E valuation

	Sector average PE	EBT structure	PE based on weight
IT	23.4	42%	9.8
Telecoms	20.3	39%	7.9
Education & Investment	21.1	19%	4.0
Total			21.8
Target price			100,622

Source: KB Securities Vietnam

Table 6. FPT – Combination of the two methods

Methods	Forecasted price	Weight	Price based on weight
FCFE	108,177	50%	54,088
P/E	100,622	50%	50,511
Target price			104,300

Source: KB Securities Vietnam

FPT – 2018A–2021F financials

(VND billion)	2018A	2019A	2020A	2021F	(VND billion)	2018A	2019A	2020A	2021F
Net sales	23,214	27,717	29,850	34,777	TOTAL ASSETS	29,757	33,394	41,734	45,923
Cost of sales	14,491	17,005	18,017	21,005	CURRENT ASSETS	18,406	18,979	25,612	27,669
Gross Profit	8,723	10,712	11,814	13,772	Cash and cash equivalents	3,926	3,453	4,686	5,136
Financial income	600	650	822	867	Short-term investments	5,569	6,709	12,436	12,436
Financial expenses	361	592	548	583	Accounts receivable	6,427	6,536	6,265	7,462
of which: interest expenses	238	359	385	583	Inventories	1,341	1,284	1,290	1,545
Gain/(loss) from joint ventures	439	405	312	312	LONG-TERM ASSETS	11,351	14,415	16,122	18,253
Selling expenses	2,048	2,346	2,714	3,164	Long-term trade receivables	110	262	243	243
General and admin expenses	3,553	4,219	4,495	5,043	Fixed assets	7,689	9,143	10,691	12,526
Operating profit/(loss)	3,361	4,205	4,878	5,850	Long-term incomplete assets	1,175	1,650	2,373	2,373
Other incomes	60	113	131	153	Long-term investments	2,202	2,497	2,581	2,581
Other expenses	3	58	59	70	Goodwill	326	226	200	496
Net other income/(expenses)	58	55	73	83	LIABILITIES	14,982	16,595	23,129	24,383
Net accounting profit/(loss) before tax	3,858	4,665	5,263	6,246	Current liabilities	14,451	16,102	22,365	23,619
Corporate income tax expenses	575	771	1,046	996	Trade accounts payable	2,510	2,642	2,825	3,323
Net profit/(loss) after tax	3,234	3,912	4,424	5,249	Short-term unrealized revenue	1,611	1,827	1,963	0
Minority interests	614	776	886	1,051	Short-term borrowings	6,599	7,514	12,062	12,480
Attributable to parent company	2,620	3,135	3,538	4,198	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	21,541
					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	532	3
					Minority interests	2,302	2,855	2,860	2,860
Margin ratio					Key ratios				
(%)	2018A	2019A	2020A	2021F	(x, %, VND)	2018A	2019A	2020A	2021F
Gross profit margin	37.6%	38.6%	39.6%	39.6%	Multiple				
EBITDA margin	22.7%	23.0%	23.9%	24.4%	P/E	21.5	19.9	20.3	19.8
EBIT margin	17.6%	18.1%	18.9%	19.6%	P/E diluted	21.5	19.9	20.3	19.8
Pre-tax profit margin	16.6%	16.8%	17.6%	18.0%	P/B	4.5	4.5	4.6	4.5
Operating profit margin	14.5%	15.2%	16.4%	16.8%	P/S	2.4	2.2	2.4	2.4
Net profit margin	13.9%	14.1%	14.8%	15.1%	P/Tangible Book	2.0	1.9	1.8	1.9
					P/Cash Flow	15.7	16.0	11.4	14.3
					EV/EBITDA	15.8	13.1	11.7	9.8
					EV/EBIT	20.3	16.6	14.7	12.2
Cash Flow Statement					Operating performance				
(VND billion)	2018A	2019A	2020A	2021F	ROE	21.0%	22.5%	22.5%	22.5%
Net profit/(loss) before tax	3,858	4,665	5,263	6,246	ROA	8.8%	9.4%	8.5%	9.1%
Depreciation and amortisation	1,165	1,355	1,491	1,641	ROIC	18.2%	18.4%	16.6%	17.8%
Profit/loss from investing activities	-761	-903	-1,040	0	Financial structure				
Interest expense	238	359	385	583	Cash Ratio	65.7%	63.1%	76.6%	74.4%
Operating profit/(loss) before changes in Working Capital	4,639	5,772	6,410	8,470	Quick Ratio	106.3%	100.6%	101.1%	102.7%
(Increase)/decrease in receivables	-159	-481	312	-1,197	Current Ratio	127.4%	117.9%	114.5%	117.2%
(Increase)/decrease in inventories	-229	256	-55	-255	LT Debt/Equity	2.5%	2.1%	3.6%	3.1%
Increase/(decrease) in payables	645	306	1,061	498	LT Debt/Total Assets	1.2%	1.0%	1.6%	1.5%
(Increase)/decrease in prepaid expenses	-368	-687	52	126	ST Debt/Equity	44.7%	44.7%	64.8%	57.9%
Interest expense	-264	-338	-402	-583	ST Debt/Total Assets	22.2%	22.5%	28.9%	27.2%
Net cash inflows/(outflows) from operating activities	3,588	3,899	6,340	5,824	ST Liabilities/Equity	97.8%	95.9%	120.2%	109.6%
Purchases of fixed assets and other long term assets	-2,454	-3,233	-3,018	-3,478	ST Liabilities/Total Assets	48.6%	48.2%	53.6%	51.4%
Proceeds from disposal of fixed assets	1	2	3	0	Total Liabilities/Equity	101.4%	98.8%	124.3%	113.2%
Loans granted, purchases of debt instruments	-1,188	-1,207	-5,954	0	Total Liabilities/Total Assets	50.3%	49.7%	55.4%	53.1%
Collection of loans, proceeds from sales of debts instruments	0	0	0	0	Activity ratios				
Investments in other entities	-710	-110	-101	0	Account Receivable Turnover	3.7	4.3	4.7	5.1
Proceeds from divestment in other entities	180	120	31	0	Inventory Turnover	12.3	13.0	14.0	14.8
Dividends and interest received	474	582	894	0	Account Payable Turnover	8.1	12.9	5.9	6.4
Net cash inflows/(outflows) from investing activities	-3,697	-3,845	-8,144	-3,478					
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	-2,314					
Interests, dividends, profits received	0	0	0	0					
Net cash inflows/(outflows) from financing activities	553	-514	3,037	-1,896					
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					

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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