

# FPT Group (FPT)

## 1Q earnings up 22.8%

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**1Q earnings reached VND1,151 billion, up 22.8% YoY**

FPT Group (FPT) maintained positive 1Q results, including earnings of VND1,151 billion, up 22.8% YoY on revenue of VND7,586 billion, up 14.4% YoY. In April alone, the company posted VND523 billion in earnings, up 21.3% YoY on revenue of VND2,845 billion, up 28.7% YoY.

**FPT made a strategic investment in Base.vn, which should promote the domestic digital transformation segment**

In early May 2021, FPT announced a strategic investment in Base.vn. The specific information of the total investment is not disclosed, but FPT already holds the majority of shares, which is eligible to merge Base.vn into the consolidated report. Digital transformation for the domestic customer segment, especially FPT's SME customer group, is expected to be strongly promoted via this deal in the coming time.

**FPT plans to raise revenue and profit before tax by 16.4% and 18% YoY, respectively**

FPT maintains a 2021E guidance with similar annual growth, including VND6,210 billion in earnings, up 18% YoY and VND34,720 billion in revenue, up 16.4% YoY. At the annual shareholders' meeting, shareholders approved the plan to pay VND2,000 cash dividends and stock dividends at the rate of 15%. Besides, FPT Management plans to maintain the cash dividend payout at 20% for 2021.

**Recommended to BUY FPT shares with the target price of VND104,200**

Based on valuation results, business outlook as well as considering possible risk factors, we recommend BUY for FPT stock. The target price is 104,200 VND/share, 21.9% higher than the price on June 2, 2021.

## Buy

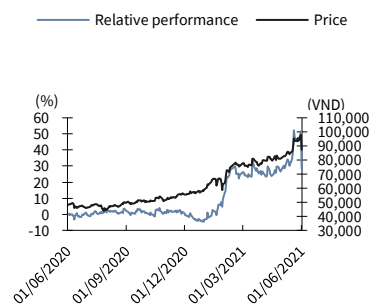
<b>Target Price</b>	<b>VND 104,200</b>
Total return (%)	21.9%
Current price (June 2, 2021)	VND 85,500
Consensus target price	VND 82,000
Mkt capitalization (USDbn)	79,041

<b>Trading data</b>	
Free float (%)	87.06%
Avg trading value (3M)	247/10.6
Foreign available (%)	49%
Major shareholders (%)	Mr Truong Gia Binh (7.07%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>FPT</b>	5.1	14.8	56.4	80.3
<b>VNIndex</b>	7.7	14.5	33.0	52.3

### Forecast earnings & valuation

Fiscal year-end	2019A	2020A	2021E	2022E
Revenue (VNDbn)	75,005	64,135	77,291	81,442
EBIT	13,648	8,682	12,116	12,267
NP attributable to parent	11,902	7,855	10,135	10,854
EPS (VND)	6,142	4052	5,295	5,671
EPS growth (%)	3.9	-34.4	31.5	7.1
P/E (x)	15.3	21.5	20	16.3
EV/EBITDA (x)	9.4	12.7	8.9	8.1
P/B (x)	3.7	3.4	5.0	4.6
ROE (%)	25.1	15.9	19.2	18.5
Div yield (%)	6.8	4.7	2.9	4.8



Source: Bloomberg, KB Securities Vietnam

## Business performance

**1Q earnings reached VND1,151 billion, up 22.8% YoY**

**April earnings rose 21.3% YoY**

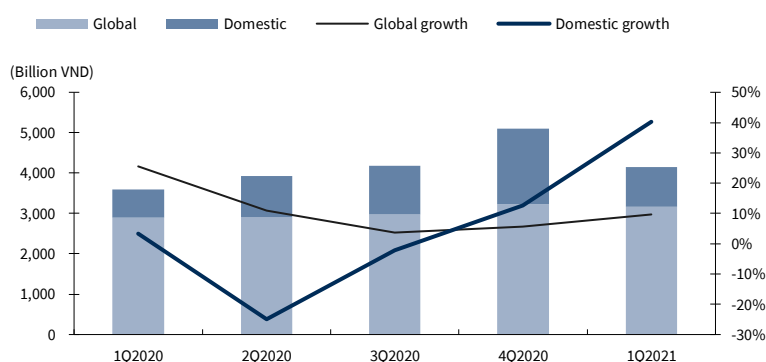
Technology pre-tax earnings grew 29.4% YoY in 1Q21 while revenue increased by 15.6% YoY. The software export segment recovered slightly and inched up 9.6% YoY after 3Q and 4Q20 subdued performance; improved profit margin helped pre-tax earnings go up 16.5% YoY. Meanwhile, the domestic IT segment recovered strongly with revenue up 40.3% YoY; and pre-tax earnings reached VND59 billion vs VND3 billion in 1Q20.

Revenue from software export was lower than in the previous period due to the influence of the Japanese market. Meanwhile, the US market is still maintaining a good growth rate, reaching 26% YoY in 1Q21.

FPT maintained a positive growth with earnings up 22.8% YoY to VND1,151 billion on revenue of VND7,586 billion, up 14.4% YoY. Of that, revenue from technology increased by 15.6% YoY and telecommunications rose 9.6% YoY. Gross profit margin was down to 38.2% (-140 bps YoY) while financial revenue surged 82.5% YoY thanks to a strong increase in deposit interest.

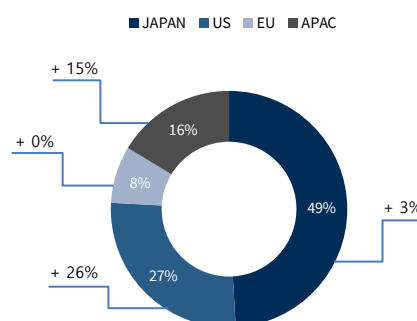
April earnings were VND523 billion, up 21.3% YoY on revenue of VND2,845 billion, up 28.7% YoY. Revenue from technology climbed 28.4% YoY, and revenue from telecommunications was firmer by 18.2% YoY. Impressive business results were attributable to a low base in the first wave of COVID-19 in April 2020.

**Fig 1. FPT – Revenue from technology in 1Q20–1Q21 (% YoY)**



Source: FPT Group, KB Securities Vietnam FPT Group, KB Securities Vietnam

**Fig 2. FPT – Revenue from software export in 1Q21 (% YoY)**

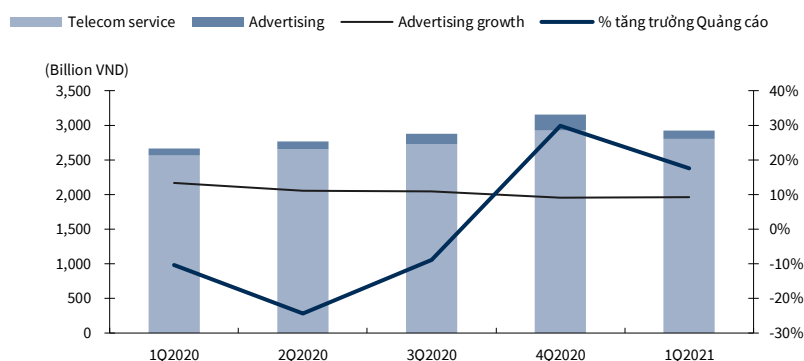


Source: FPT Group, KB Securities Vietnam

The growth of telecom services revenue reached 9.3% YoY and advertising growth reached 18.1% YoY.

Marketing expenses plummeted along with profitable PayTV, helping to increase pre-tax earnings of telecom services by 30.7% YoY

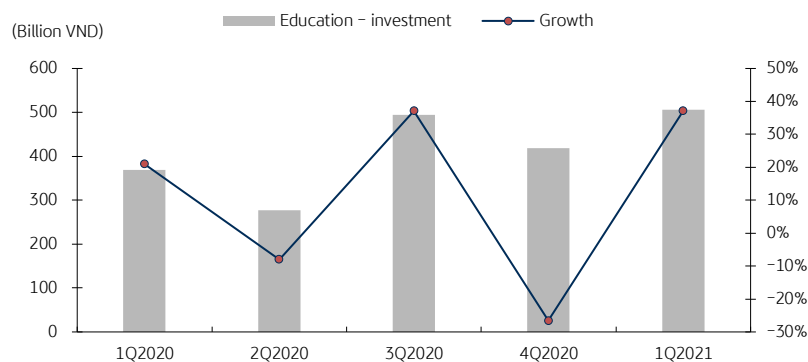
**Fig 3. FPT – Revenue from Telecom services in 1Q20–1Q21 (% YoY)**



Source: FPT Group, KB Securities Vietnam

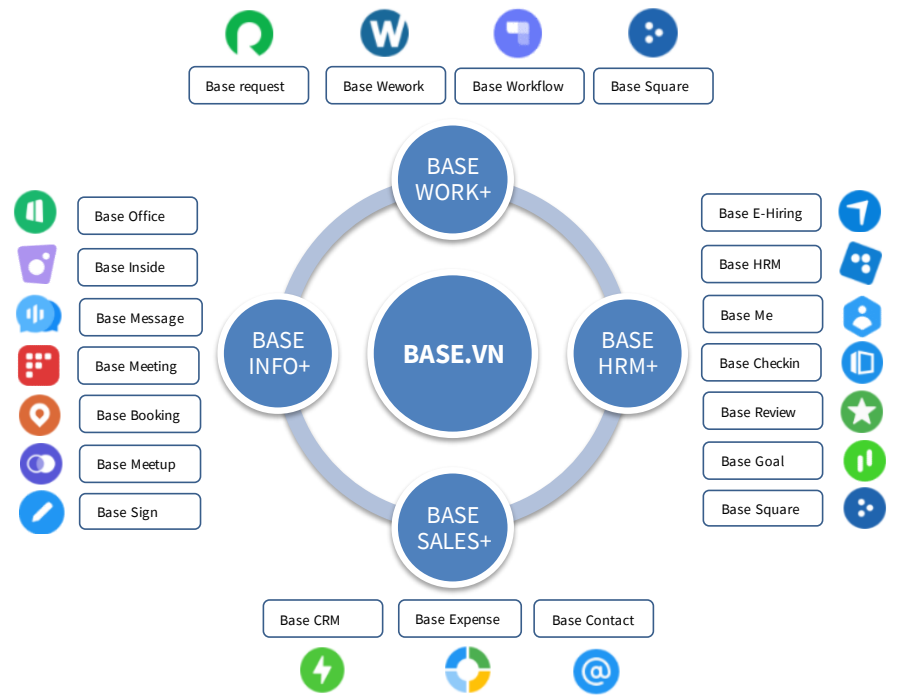
Investment & education revenue increased by 37.1% YoY in 1Q21

**Fig 4. FPT – Revenue from Education – Investment in 1Q20–1Q21 (% YoY)**



Source: FPT Group, KB Securities Vietnam

Fig 5. FPT – Base.vn business model



Source: FPT Group, KB Securities Vietnam

**FPT made a strategic investment in Base.vn, opening the prospect of promoting the domestic digital transformation segment**

In early May 2021, FPT announced a strategic investment in Base.vn. The specific information of the total investment is not disclosed, but FPT already holds the majority of shares, which is eligible to merge Base.vn into the consolidated report. Base.vn is a comprehensive business management platform, focusing on three main lines: (1) work and project management; (2) smooth and transparent information system setup; and (3) management strategy development & human resource development. After five years of operation, Base.vn has now developed more than 50 applications, and had 5,000 SME customers such as Vietnam Prosperity Bank (VIB), Asia Commercial Bank (ACB), Sacombank (STB), VinCommerce, Golden Gate, Pizza Hut, McDonald's, The Coffee House, Decathlon, Bamboo Airways, and Novaland (NVL). Digital transformation for the domestic customer segment, especially FPT's SME customer group, is expected to be strongly promoted through this deal in the coming time.

**Outlook to maintain good growth for the rest of 2021**

For foreign IT services, in 1Q21, revenue from newly registered accounts reached VND4,489 billion, up 43% YoY. There are 21 customers that paid over USD1 million in revenue (up 16.7% YoY), four projects with a scale of over USD5 million, doubled compared to last year's two projects. For Telecom services, wide broadband subscriber growth in the first two months of the year was good (1.3% MoM and 1.7% MoM respectively). Furthermore, reduced marketing costs and increasing growth from PayTV helped to ensure the growth prospects of this segment in the medium term.

**FPT plans to achieve revenue and profit before tax at 16.4% and 18% YoY, respectively**

FPT maintains a 2021E guidance with similar annual growth, including VND6,210 billion in earnings, up 18% YoY and VND34,720 billion in revenue, up 16.4% YoY. To be more specific, revenue and pre-tax earnings objectives for technology sector are up 16.8% YoY and 21.6% YoY respectively, in which digital transformation revenue should increase by 30-40% YoY with the main contribution from overseas markets (+50% YoY). For the domestic information technology segment, FPT expects to improve its net profit margin by over 10% by reducing the proportion of hardware and increasing the proportion of software and Made-by-FPT products. Telecommunications revenue and EBT targets are up by 10.8% YoY and 14.8% YoY, driven by broadband growth (15-18% profit growth in the next three years). Education & investment segment plans to increase revenue and EBT by 53.9% and 16.6% YoY.

**FPT approved the plan to pay 20% cash dividend, 15% stock dividend**

At the 2021 annual shareholders' meeting, shareholders approved the plan to pay VND2,000 cash dividends and stock dividends at the rate of 15%. Besides, FPT Management plans to maintain the cash dividend payout at 20% for 2021.

## Forecast business performance

### Forecast 2021 outturn

In 2021, we estimate FPT's revenue to reach VND34,777 billion, up 16.6% YoY based on the following factors:

- Technology revenue may grow 15% YoY to VND19,253 billion, of which foreign IT was the main driving force, up 20% YoY.
- Telecommunications revenue is estimated at VND13,132 billion, up 14.5% YoY, of which Telecommunication services increases 15% YoY thanks to low growth in 2020 and stable demand from the market.

Gross profit margin is forecast to be flat at 39.6%.

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

The forecast pre-tax earnings in 2021 are VND6,252 billion, up 18.8% YoY, 0.8% higher than the plan. Parent company's NPAT is expected to reach VND4,202 billion, up 15.6% YoY and EPS should be VND4,661 billion/share.

**Table 6. FPT – 2021–2022F performance**

	2019	2020	2021F	2022F
Revenue	27,717	29,850	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	576	555
PBT	4,665	5,263	6,252	7,179
NPAT	3,135	3,538	4,202	4,826

Source: KB Securities Vietnam

### Valuation – BUY recommendation, target price VND101,700/share

We use two valuation methods: FCFE and compare the P/E ratio of companies in the same industry with the same capital size in Asia's developing markets for two segments technology and telecoms. For the Education segment due to its small contribution to the 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 to get the final fair price for FPT shares, we conclude it is VND104,200 /share, 21.9% higher than the price on June 2, 2021.

Table 7. 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 8. IT companies in Asian developing countries – P/E comparison

	Market cap (Billion USD)	PE trailing	Weight	PE based on weight
ORACLE FINANCIAL SERVICES	4.130	16.2	28.4%	4.6
DOUYU INTERNATIONAL HOLD-ADR	2.560	20.5	17.6%	3.6
BEIJING ORIENT NATIONAL-A	1.590	19.3	10.9%	2.1
MONTNETS RONGXIN TECHNOLOG-A	1.930	39.35	13.3%	5.2
INESA INTELLIGENT TECH INC-B	1.070	18.58	7.3%	1.4
WUXI BOTON TECHNOLOGY CO - A	1.080	12.53	7.4%	0.9
HANGZHOU ELECTRONIC SOUL N-A	1.040	11.93	7.1%	0.9
SHENZHEN YSSTECH INFO-TECH-A	1.160	32.6	8.0%	2.6
<b>P/E average</b>				<b>21.3</b>

Source: KB Securities Vietnam

Table 9. Telecoms companies in Asian developing countries – P/E comparison

	Market cap (Billion USD)	PE trailing	Weight	PE based on weight
TELEKOM MALAYSIA BHD	5.630	19.46	32.8%	6.4
TOTAL ACCESS COMMUNICATION	2.330	16.7	13.6%	2.3
GUANGDONG SOUTH NEW MEDIA -A	1.980	21.9	11.5%	2.5
TATA COMMUNICATIONS LTD	4.210	24.48	24.5%	6.0
TIME DOTCOM BHD	2.040	26	11.9%	3.1
NET263 LTD-A	0.986	22.38	5.7%	1.3
<b>P/E average</b>				<b>21.5</b>

Source: KB Securities Vietnam

Table 10. FPT – P/E method

	P/E average	NPAT weight	P/E weight
Technology	21.5	42%	8.9
Telecommunications	21.5	39%	8.4
Education & investment	21.5	19%	4.1
Total			21.4
<b>Target price</b>			<b>99,822</b>

Source: KB Securities Vietnam

Table 11. FPT – Combination of the two methods

Methods	Forecasted price	Weight	Weighted price
FCFE	108,680	50%	54,340
P/E	99,822	50%	49,911
<b>Target price</b>			<b>104,200</b>

Source: KB Securities Vietnam

## FPT – 2018A–2021F financials

Income Statement					Balance Sheet				
(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	45,650
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	576	Accounts receivable	6,427	6,536	6,265	7,462
of which: interest expenses	238	359	385	576	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	17,980
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	5,856	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	223
Net other income/(expenses)	58	55	73	83	LIABILITIES	14,982	16,595	23,129	24,107
Net accounting profit/(loss) before tax	3,858	4,665	5,263	6,252	Current liabilities	14,451	16,102	22,365	23,343
Corporate income tax expenses	575	771	1,046	997	Trade accounts payable	2,510	2,642	2,825	3,323
Net profit/(loss) after tax	3,234	3,912	4,424	5,254	Short-term unrealized revenue	1,611	1,827	1,963	0
Minority interests	614	776	886	1,052	Short-term borrowings	6,599	7,514	12,062	12,204
Attributable to parent company	2,620	3,135	3,538	4,202	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	21,544
					Paid-in capital	6,136	6,784	7,840	9,016
					Share premium	49	50	50	50
					Undistributed earnings	5,293	5,961	6,391	0
					Other funds	313	413	552	3
					Minority interests	2,302	2,835	2,860	2,860

Margin ratio				
(%)	2018A	2019A	2020A	2021F
Gross profit margin	37.6%	38.6%	39.6%	39.6%
EBITDA margin	22.7%	23.0%	23.9%	24.4%
EBIT margin	17.6%	18.1%	18.9%	19.6%
Pre-tax profit margin	16.6%	16.8%	17.6%	18.0%
Operating profit margin	14.5%	15.2%	16.4%	16.8%
Net profit margin	13.9%	14.1%	14.8%	15.1%

Cash Flow Statement				
(VND billion)	2018A	2019A	2020A	2021F
Net profit/(loss) before tax	3,858	4,665	5,263	6,252
Depreciation and amortisation	1,165	1,355	1,491	1,641
Profit/loss from investing activities	-761	-903	-1,040	0
Interest expense	238	359	385	576
Operating profit/(loss) before changes in Working Capital	4,639	5,772	6,410	8,470
(Increase)/decrease in receivables	-159	-481	312	-1,197
(Increase)/decrease in inventories	-229	256	-55	-255
Increase/(decrease) in payables	645	306	1,061	498
(Increase)/decrease in prepaid expenses	-368	-687	52	126
Interest expense	-264	-338	-402	-576
Net cash inflows/(outflows) from operating activities	3,588	3,899	6,340	6,102
Purchases of fixed assets and other long term assets	-2,454	-3,233	-3,018	-3,478
Proceeds from disposal of fixed assets	1	2	3	0
Loans granted, purchases of debt instruments	-1,188	-1,207	-5,954	0
Collection of loans, proceeds from sales of debts instruments	0	0	0	0
Investments in other entities	-710	-110	-101	0
Proceeds from divestment in other entities	180	120	31	0
Dividends and interest received	474	582	894	0
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	-2,316
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	553	-514	3,037	-2,174
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

Key ratios				
(x, %, VND)	2018A	2019A	2020A	2021F
Multiple				
P/E	20.0	18.5	18.9	18.3
P/E diluted	20.0	18.5	18.9	18.3
P/B	4.2	4.2	4.3	4.1
P/S	2.3	2.1	2.2	2.2
P/Tangible Book	1.8	1.8	1.6	1.7
P/Cash Flow	14.6	14.9	10.6	12.6
EV/EBITDA	14.7	12.1	10.8	9.1
EV/EBIT	18.8	15.3	13.6	11.3
Operating performance				
ROE	21.0%	22.5%	22.5%	22.5%
ROA	8.8%	9.4%	8.5%	9.2%
ROIC	18.2%	18.4%	16.6%	17.9%
Financial structure				
Cash Ratio	65.7%	63.1%	76.6%	75.3%
Quick Ratio	106.3%	100.6%	101.1%	103.8%
Current Ratio	127.4%	117.9%	114.5%	118.5%
LT Debt/Equity	2.5%	2.1%	3.6%	3.1%
LT Debt/Total Assets	1.2%	1.0%	1.6%	1.5%
ST Debt/Equity	44.7%	44.7%	64.8%	56.6%
ST Debt/Total Assets	22.2%	22.5%	28.9%	26.7%
ST Liabilities/Equity	97.8%	95.9%	120.2%	108.4%
ST Liabilities/Total Assets	48.6%	48.2%	53.6%	51.1%
Total Liabilities/Equity	101.4%	98.8%	124.3%	111.9%
Total Liabilities/Total Assets	50.3%	49.7%	55.4%	52.8%
Activity ratios				
Account Receivable Turnover	3.7	4.3	4.7	5.1
Inventory Turnover	12.3	13.0	14.0	14.8
Account Payable Turnover	8.1	12.9	5.9	6.4

Source: FPT Group, KB Securities Vietnam



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## Investment ratings & definitions

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### 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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