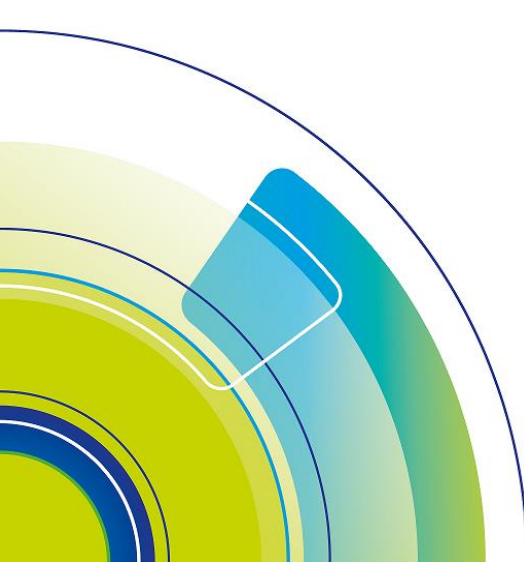




FPT Update- BUY

March 30, 2022



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Company Update

Recommendation

BUY

HSX: FPT

Technology

Target price (VND) **119,806**

Current price (VND) **104,900**

Expected share price return 14.2%

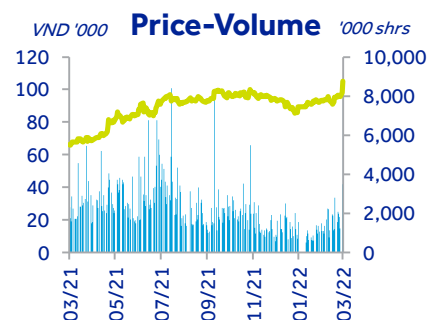
Expected dividend yield 1.9%

Expected total return **16.1%**

Stock performance (%)

	YTD	1M	3M	12M
Absolute	14.8	12.4	12.1	58.7
Relative	14.4	11.9	11.1	29.8

Source: Bloomberg



Ownership

Mr. Binh Truong (Chrm)	7.1%
SCIC	5.8%
Macquarie Bank	4.1%
QT Ltd. Co.	3.8%
ETF DCFVMVN DIAMOND	2.6%

Stock Statistics

29-Mar-22

Bloomberg code	FPT VN
52-week range (VND)	66,609-107,300
Shares O/S (m)	908
Mkt cap (VND bn)	96,927
Mkt cap (USD m)	4,223
Foreign room left (%)	0.0
Est. free float (m)	84.2
3m avg daily vol (shrs)	1,463,639
VND/USD	23,010
Index: VNIndex / HNX	1502.3/460.0

FPT CORPORATION (FPT VN)

A **BUY** recommendation on FPT is maintained, underpinned by vivid growth projections for 2022. Target price: VND119,806/shr.

FPT announced net revenue and EBT growth of 19.5% and 20.4% YoY, reaching VND35,657bn and VND6,337bn, respectively, in 2021. This vibrant momentum extended in early months of 2022 as its revenue and EBT surged by 27% and 30% YoY, respectively, in 2M2022.

FPT's 2021 business results:

Segments	Revenue (VND bn)	YoY growth	EBT (VND bn)	YoY growth
Software outsourcing (global IT services)	14,541	21.2%	2,424	23.0%
Domestic IT services	6,331	31.8%	327	22.4%
Telecom services	12,079	11.2%	2,119	16.5%
Online advertising	608	1.5%	276	8.0%
Education, investments & others	3,238	48.0%	4,226	12.8%
Elimination ¹	1,139		3,034	
Total	35,657	19.5%	6,337	20.4%

Source: FPT

The global IT services segment grew by 21.2% YoY in revenue and 23% YoY in EBT, with its EBT margin climbing to 16.7% in 2021 from 16.4% in 2020 (despite a decrease in its operating profit margin). Decent growth was reported in most of its major markets thanks to reopening economies post COVID-19. Revenue from the US, APAC and Europe rose by 52%, 27% and 15% YoY, capturing 30%, 18% and 8% of the segment's revenue, respectively, in 2021. New contracts signed with major clients in the US and Malaysia in 2020 should have contributed to the results. Growth from the largest market, Japan (which by FPT's market segmentation includes South Korea and China), remained slow at 5% YoY, partly affected by deep depreciation of JPY (revenue in JPY rose by 11%+). However, FPT does not expect the JPY to depreciate deeper and targets to restore double-digit growth for Japanese market in 2022. In 2M2022, the US and APAC markets continued to deliver stunning growth of 57% and 75% YoY, respectively, driving the global IT services segment's revenue to jump dramatically by 32.6% YoY in the period.

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	29,830	35,657	44,203	52,754	62,783
Growth (%)	7.6%	19.5%	24.0%	19.3%	19.0%
EBITDA (VNDbn)	6,038	6,665	8,561	10,055	11,873
EBITDA margin	20.2%	18.7%	19.4%	19.1%	18.9%
Net Profit (VNDbn)	3,538	4,338	5,561	6,775	8,244
Growth (%)	12.8%	22.6%	28.2%	21.8%	21.7%
EPS (bonus-adjusted, VND)	3,579	4,342	5,549	6,726	8,144
Growth (%)	12.2%	21.3%	27.8%	21.2%	21.1%
ROE	23.8%	25.8%	28.0%	28.0%	27.5%
ROA	9.4%	9.1%	10.2%	12.2%	14.5%
Net debt/EBITDA (times)	-0.7	-0.9	-1.0	-1.2	-1.5
EV/EBITDA (times)	14.8	13.4	10.4	8.9	7.5
EV/Sales (times)	3.0	2.5	2.0	1.7	1.4
PER (times)	29.3	24.2	18.9	15.6	12.9
PBR (times)	5.2	5.3	4.4	3.6	2.9
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	1.9%	1.9%	1.9%	1.9%	1.9%

¹ the internal amount that was eliminated in consolidated financial statements

Digital transformation (DX) generated 72% revenue growth to VND5,522bn, raising its contribution in the segment's revenue to nearly 38% in 2021, from ~27% in 2020. The growth rate was 81.4% YoY in 2M2022. FPT emphasized on such technologies as cloud computing (capturing 50% of DX revenue), artificial intelligence (AI)/data analytics (18%), low code (10%), etc. The company aims to keep participating in digital transformation process for enterprises and organizations worldwide and boosting revenue from these services given promising growth projections for global DX spending in the upcoming years. According to FPT, global DX spending is forecast to speed up with a CAGR of 16.2% in 2020-2024.

The domestic IT services segment posted outstanding results versus previous years, with revenue and EBT increasing by 31.8% and 22.4% YoY, respectively in 2021. Revenue from Made-by-FPT products/solutions rose by 42.8% YoY, though their contributions were still moderate at 11% of the segment's revenue. The domestic IT market witnessed busier digital transformation activities from domestic enterprises and government sector – in line with the government's orientation – in 2021, while COVID-19 might also have accelerated investments in IT services to help enterprises/organizations secure their operations amid the unpredictable and long-lasting pandemic. Moving forward, FPT plans to keep investing in Made-by-FPT products/solutions and improve its capabilities to satisfy rising demand for digital transformation from the domestic market. In 1H2021, FPT also announced to invest in Base Enterprise (Base.vn) to build a comprehensive digital transformation platform for small and medium enterprises. The segment's EBT margin was 5.2% for the whole year (2020: 5.6%), lower than the figure of 9%+ in 9M2021 because of recording more expenses for human resource (e.g recruitment, bonus, etc.) in the last quarter. FPT still pursues the target of enhancing this segment's EBT margin to 8-10% thanks to focusing on software-related services rather than hardware-related services.

Telecom services' revenue and EBT grew by 11.2% and 16.5% YoY, respectively, in 2021. Broadband services, making most in the segment's results, delivered 8.7% YoY growth in revenue with an EBT margin of 19.7%. Broadband subscription increased by nearly 16% in spite of a decline in ARPU partly owing to the segment's expansion to tier 2 cities. The whole segment's EBT margin strengthened to 17.5% from 16.7% in 2020 thanks to a surge in PayTV's profit and pause in capital expenditure for international broadband facilities due to the pandemic. Positive performance of PayTV service continued to contribute to the telecom division's growth of 20.2% YoY in revenue and 20.8% YoY in EBT in 2M2022.

Education, investments & others posted 48% growth in revenue and 12.8% growth in EBT. Total number of students increased by 43% in 2021. FPT aims to keep expanding the Education segment both vertically (launching new training courses) and horizontally (expanding to more provinces and cities nationwide) to become a mega education institution.

Although financial expenses rose by 108.8% YoY because of provisions for investments in start-ups, an increase of 54.6% YoY in financial revenue (largely thanks to interest income and exchange rate gain) contributed to support the company's earnings. Earnings from affiliates skyrocketed by 120% YoY, according to FPT's 2021 income statement, after experiencing a deep drop in 2020. FPT Digital Retail JSC (HSX: FRT) reported 53% YoY growth in net revenue with EBT jumping to VND554bn from VND28bn in 2020. Advances in both network expansion and business results made Long Chau – FRT's pharmacy chain – a highlight, while the

mobile phone chain's performance was bolstered by high demand for laptops/PCs serving working from home/online learning and recovery in consumption of other ICT products after the end of social distancing stage.

We expect FPT's 2022 net revenue and EBT at VND44,203bn and VND8,080bn, up by 24% and 27.5% YoY, respectively, surpassing the company's business plan of VND42,420b (+19% YoY) of revenue and VND7,618bn (+20,2% YoY) of EBT. Our projections are driven by high double-digit growth rates in all divisions; in which, the technology division plays the most important role. Using sum of parts approach to evaluate FPT stock (namely PER for Synnex FPT, DCF combined PER for FRT and DCF combined PER for the rest of FPT), our target price for the stock is VND120k/share, equivalent to a return of 16.1% at the end of this year.

FPT FINANCIALS MODEL	Price (VND):	104,900	Target (VND):	119,806	Mkt cap (VND bn):	96,927
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	29,830	35,657	44,203	52,754	62,783	
<i>Sales growth (%)</i>	<i>7.6%</i>	<i>19.5%</i>	<i>24.0%</i>	<i>19.3%</i>	<i>19.0%</i>	
CoGS ex-dep'n	16,722	20,381	25,348	30,563	36,652	
Selling expenses	2,930	3,605	4,453	5,241	6,136	
G&A expenses	4,082	4,612	5,732	6,816	8,076	
Financial revenues	106	266	155	184	219	
Financial expenses	163	660	264	264	264	
EBITDA	6,038	6,665	8,561	10,055	11,873	
<i>EBITDA margin (%)</i>	<i>20.2%</i>	<i>18.7%</i>	<i>19.4%</i>	<i>19.1%</i>	<i>18.9%</i>	
Depreciation	1,491	1,644	1,766	1,830	1,949	
Operating profit	4,548	5,021	6,795	8,226	9,924	
<i>Operating profit margin (%)</i>	<i>15.2%</i>	<i>14.1%</i>	<i>15.4%</i>	<i>15.6%</i>	<i>15.8%</i>	
Other profits/losses	73	109	75	75	75	
Profits/Losses from associates	312	687	678	740	813	
Net interest expense	(331)	(521)	(532)	(660)	(806)	
<i>as % of avg net debt</i>	<i>9.9%</i>	<i>10.0%</i>	<i>7.3%</i>	<i>6.3%</i>	<i>5.4%</i>	
<i>Interest cover (x)</i>	<i>-13.8</i>	<i>-9.6</i>	<i>-12.8</i>	<i>-12.5</i>	<i>-12.3</i>	
Tax	840	988	1,328	1,595	1,910	
<i>Effective tax rate (%)</i>	<i>17.2%</i>	<i>17.8%</i>	<i>18.1%</i>	<i>17.9%</i>	<i>17.8%</i>	
Minority interest	886	1,012	1,190	1,331	1,464	
Attributable net profit	3,538	4,338	5,561	6,775	8,244	
Cash earnings	5,029	5,981	7,327	8,604	10,193	
Total number of shares	783,987,486	907,551,649	912,089,407	916,649,854	921,233,104	
EPS (VND) (after treasury shares)	4,116	4,342	5,549	6,726	8,144	
Bonus factor (x)	0.87	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	3,579	4,342	5,549	6,726	8,144	
<i>EPS growth (%)</i>	<i>12.2%</i>	<i>21.3%</i>	<i>27.8%</i>	<i>21.2%</i>	<i>21.1%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-1,979	-825	-491	-519	-391
Capex	3,014	2,908	2,961	2,935	2,948
Change in investment in affiliates	68	37	431	493	566
Other cashflow items	-7	-24	-178	-70	-91
Free cash flow	3,918	3,838	4,248	5,626	6,980
Share issues	60	88	45	46	46
Dividends paid	1,899	2,254	1,824	1,833	1,842
Increase in net debt	-2,078	-1,671	-2,470	-3,838	-5,184
Net debt, end of year	-4,369	-6,040	-8,510	-12,348	-17,532
Shareholders' equity	15,746	17,941	21,723	26,711	33,158
BVPS (VND)	20,086	19,770	23,819	29,142	35,997
Net debt / equity (%)	-27.7%	-33.7%	-39.2%	-46.2%	-52.9%
Net debt / EBITDA (x)	-0.7	-0.9	-1.0	-1.2	-1.5
Total assets	41,734	53,698	55,011	56,160	57,424

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	23.8%	25.8%	28.0%	28.0%	27.5%
ROA	9.4%	9.1%	10.2%	12.2%	14.5%
ROIC	28.4%	33.7%	40.9%	45.3%	50.7%
WACC	10.7%	10.7%	10.7%	10.7%	10.7%
EVA	17.7%	23.0%	30.2%	34.6%	40.0%
PER (x)	29.3	24.2	18.9	15.6	12.9
EV/EBITDA (x)	14.8	13.4	10.4	8.9	7.5
EV/FCF (x)	22.8	23.2	21.0	15.8	12.8
PBR (x)	5.2	5.3	4.4	3.6	2.9
PSR (x)	3.2	2.7	2.2	1.8	1.5
EV/sales (x)	3.0	2.5	2.0	1.7	1.4
PEG (x, 3 yr prospective)	1.4	1.0	0.8	0.8	0.8
Dividend yield	1.9%	1.9%	1.9%	1.9%	1.9%

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DISCLAIMER

Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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