



# **FPT Update- BUY**

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## Company Update

Recommendation

**BUY**

HSX: FPT

Technology

Target price (VND) **98,273**

Current price (VND) **86,300**

Expected share price return 13.9%

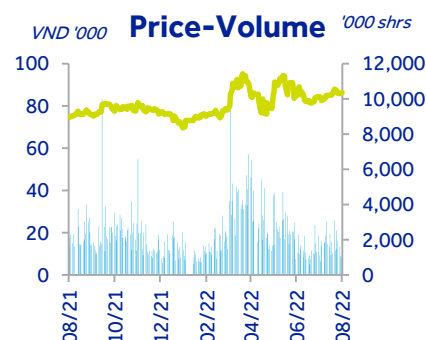
Expected dividend yield 2.3%

Expected total return **16.2%**

## Stock performance (%)

	YTD	1M	3M	12M
Absolute	14.9	2.2	0.7	15.1
Relative	28.5	-6.3	-1.7	15.2

Source: Bloomberg



## Ownership

Mr. Binh Truong (Chrm)	7.0%
SCIC	5.8%
Macquarie Group	4.7%

## Stock Statistics

25-Aug-22

Bloomberg code **FPT VN**

52-week range (VND) 70,000-99,083

Shares O/S (m) 1,097

Mkt cap (VND bn) 95,661

Mkt cap (USD m) 4,065

Foreign room left (%) 0.0

Est. free float (m) 84.4

3m avg daily vol (shrs) 1,995,197

VND/USD 23,530

Index: VNIndex / HNX 1282.5/299.5

## FPT CORPORATION (FPT VN)

The company reported strong performance in 1H2022, driven by an almost 30% YoY growth in software outsourcing segment, and is expected to maintain positive growth momentum for the rest of the year. Maintain **BUY** recommendation; target price: VND98,273/share.

FPT announced net revenue and EBT growth of 22.2% and 23.9% YoY, reaching VND19,826bn and VND3,637bn, respectively, in 1H2022.

### FPT's 1H2022 business results:

Segments	Revenue (VND bn)	YoY growth	EBT (VND bn)	YoY growth
Software outsourcing (global IT services)	8,622	29.0%	1,367	28.9%
Domestic IT services	2,732	10.9%	225	2.7%
Telecom services	6,727	15.0%	1,288	20.6%
Online advertising	350	25.5%	157	22.4%
Education, investments & others	2,087	50.0%	2,488	12.5%
Elimination <sup>1</sup>	692		1,889	
<b>Total</b>	<b>19,826</b>	<b>22.2%</b>	<b>3,637</b>	<b>23.9%</b>

Source: FPT

The global IT services segment grew by 29% YoY in revenue and 28.9% YoY in EBT in 1H2022, while maintaining its EBT margin compared to 1H2021. Most of its major markets continued to report glorious growth, including the US (+48.4%), APAC (+55.5%), Europe (+24.2%). The US market increased its share of revenue to nearly 32% and is gradually closing the gap with the Japanese market (currently the largest markets at c. 39% of the segment's revenue). Revenue from Japan climbed by 8.4% YoY, affected by deep depreciation of the JPY, although revenue in JPY rose by 17.8%. FPT has employed hedging measures and negotiated with clients to adjust service prices to mitigate these impacts. For the rest of the year, the segment is expected to maintain its high double-digit growth momentum given an increase of 40% YoY in signed revenue, reaching VND11,681bn; in which, while the US market's signed revenue was flat, Japanese market, whose growth had been slowed down significantly because of COVID-19, witnessed encouraging improvements in signed revenue in 2Q.

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	29,830	35,657	43,003	51,024	60,387
Growth (%)	7.6%	19.5%	20.6%	18.7%	18.3%
EBITDA (VNDbn)	6,038	6,665	8,289	9,794	11,644
EBITDA margin	20.2%	18.7%	19.3%	19.2%	19.3%
Net Profit (VNDbn)	3,538	4,338	5,565	6,706	8,131
Growth (%)	12.8%	22.6%	28.3%	20.5%	21.3%
EPS (bonus-adjusted, VND)	2,983	3,619	4,617	5,535	6,678
Growth (%)	12.2%	21.3%	27.6%	19.9%	20.7%
ROE	23.8%	25.8%	28.3%	28.4%	28.1%
ROA	9.4%	9.1%	10.0%	11.6%	13.7%
Net debt/EBITDA (times)	-0.7	-0.9	-0.7	-0.9	-1.1
EV/EBITDA (times)	12.0	10.8	8.7	7.4	6.2
PER (times)	28.9	23.8	18.7	15.6	12.9
PBR (times)	4.3	4.4	4.4	3.7	3.0
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	2.3%	2.3%	2.3%	2.3%	2.3%

<sup>1</sup> the internal amount that was eliminated in consolidated financial statements

Digital transformation (DX) generated 64.6% revenue growth, raising its contribution in the segment's revenue to more than 40% in 1H2022, from nearly 32% in 1H2021. FPT emphasized technologies such as cloud computing, artificial intelligence (AI)/data analytics, low code, 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 16.6% in 2022-2025.

**The domestic IT services segment** posted 10.9% YoY growth in revenue and 2.7% YoY growth in EBT in 1H2022, much lower than our expectations. This was attributed to slow revenue growth from the banking and real estate domains, which experienced limited credit growth in 1H2022. Revenue from Made-by-FPT products/solutions rose by 51.6% YoY to VND406bn, contributing 15.4% to the segment's revenue. These products/solutions may earn a high double-digit EBT margin in the mature phase despite a humble margin in the early phase.

FPT expects a better outlook for the domestic IT services segment in the second half of the year driven by the public domain. The domestic IT market has witnessed busier digital transformation activities from not only domestic enterprises but also governmental sector, with provinces planning 1-1.5% of their mid-term budget (translating to ~VND150-300bn p.a; duration 2-3 years) for digital transformation. FPT will focus on provinces with a budget of VND1,000bn, VND500bn and VND300bn in three years.

**Telecom services'** revenue and EBT rose by 15% and 20.6% YoY, to VND6,727bn and VND1,288bn, respectively, in 1H2022. Broadband services delivered 8.2% YoY growth in revenue while the others grew by 24% YoY. The overall EBT margin strengthened to 19.2% from 18.3% in 1H2021 primarily thanks to PayTV's profit growth. PayTV generated 24% revenue growth in 1H2022 and an EBT margin of 13%, which may increase to 15% after adding more ads and contents.

**The education segment** continued to see strong revenue growth of 42% YoY, reaching VND1,935bn in 1H2022.

Growth from financial revenue and affiliates continued to contribute to the company's earnings growth. While financial revenue recorded an increase of 62.9% YoY (largely thanks to interest income and exchange rate gain), earnings from affiliates climbed by 11% YoY. FPT Digital Retail JSC (HSX: FRT) reported 55% YoY growth in net revenue with EBT achieving VND263bn from VND76bn in 1H2021; in which, impressive results in 1Q was bolstered by strong expansion of Long Chau stores, high demand for pharmaceutical and health care products amid COVID-19 outbreak, together with good performance from the mobile phone chain.

In sum, for the whole year 2022, we expect FPT's net revenue and EBT at VND43,003bn (+20.6% YoY) and VND7,896bn (+24.6% YoY), 2% lower than our earlier projections mainly due to slower growth in the domestic IT services segment. 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 VND98k/share, equivalent to a return of 16.2% at the end of this year.**

<b>FPT FINANCIALS MODEL</b>	<b>Price (VND):</b>	<b>86,300</b>	<b>Target (VND):</b>	<b>98,273</b>	<b>Mkt cap (VND bn):</b>	<b>95,661</b>
<b>(VND bn except where stated)</b>	<b>2020</b>	<b>2021</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	
<b>Total Net Sales</b>	<b>29,830</b>	<b>35,657</b>	<b>43,003</b>	<b>51,024</b>	<b>60,387</b>	
<i>Sales growth (%)</i>	<i>7.6%</i>	<i>19.5%</i>	<i>20.6%</i>	<i>18.7%</i>	<i>18.3%</i>	
CoGS ex-dep'n	16,722	20,381	24,416	29,097	34,494	
Selling expenses	2,930	3,605	4,264	5,021	5,886	
G&A expenses	4,082	4,612	6,030	7,156	8,463	
Financial revenues	106	266	260	308	364	
Financial expenses	163	660	264	264	264	
<b>EBITDA</b>	<b>6,038</b>	<b>6,665</b>	<b>8,289</b>	<b>9,794</b>	<b>11,644</b>	
<i>EBITDA margin (%)</i>	<i>20.2%</i>	<i>18.7%</i>	<i>19.3%</i>	<i>19.2%</i>	<i>19.3%</i>	
Depreciation	1,491	1,644	1,766	1,830	1,949	
<b>Operating profit</b>	<b>4,548</b>	<b>5,021</b>	<b>6,522</b>	<b>7,965</b>	<b>9,695</b>	
<i>Operating profit margin (%)</i>	<i>15.2%</i>	<i>14.1%</i>	<i>15.2%</i>	<i>15.6%</i>	<i>16.1%</i>	
Other profits/losses	73	109	67	67	67	
Profits/Losses from associates	312	687	618	674	733	
Net interest expense	(331)	(521)	(689)	(691)	(729)	
<i>as % of avg net debt</i>	<i>9.9%</i>	<i>10.0%</i>	<i>11.5%</i>	<i>9.3%</i>	<i>6.5%</i>	
<i>Interest cover (x)</i>	<i>-13.8</i>	<i>-9.6</i>	<i>-9.5</i>	<i>-11.5</i>	<i>-13.3</i>	
Tax	840	988	1,184	1,410	1,684	
<i>Effective tax rate (%)</i>	<i>17.2%</i>	<i>17.8%</i>	<i>16.4%</i>	<i>16.3%</i>	<i>16.2%</i>	
Minority interest	886	1,012	1,146	1,282	1,410	
<b>Attributable net profit</b>	<b>3,538</b>	<b>4,338</b>	<b>5,565</b>	<b>6,706</b>	<b>8,131</b>	
Cash earnings	5,029	5,981	7,331	8,535	10,080	
Total number of shares	783,987,486	907,551,649	1,097,026,572	1,102,511,705	1,108,024,263	
<b>EPS (VND) (after treasury shares)</b>	<b>4,116</b>	<b>4,342</b>	<b>4,617</b>	<b>5,535</b>	<b>6,678</b>	
Bonus factor (x)	0.72	0.83	1.00	1.00	1.00	
<b>Adjusted EPS (VND)</b>	<b>2,983</b>	<b>3,619</b>	<b>4,617</b>	<b>5,535</b>	<b>6,678</b>	
<i>EPS growth (%)</i>	<i>12.2%</i>	<i>21.3%</i>	<i>27.6%</i>	<i>19.9%</i>	<i>20.7%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-1,979	-825	1,646	-80	90
Capex	3,014	2,908	2,961	2,935	2,948
Change in investment in affiliates	68	37	484	427	486
Other cashflow items	-7	-24	-178	-70	-91
<b>Free cash flow</b>	<b>3,918</b>	<b>3,838</b>	<b>2,062</b>	<b>5,184</b>	<b>6,465</b>
Share issues	60	88	45	55	55
Dividends paid	1,899	2,254	2,194	2,205	2,216
Increase in net debt	-2,078	-1,671	87	-3,033	-4,304
<b>Net debt, end of year</b>	<b>-4,369</b>	<b>-6,040</b>	<b>-5,954</b>	<b>-8,987</b>	<b>-13,291</b>
<b>Shareholders' equity</b>	<b>15,746</b>	<b>17,941</b>	<b>21,358</b>	<b>25,913</b>	<b>31,883</b>
BVPS (VND)	20,086	19,770	19,469	23,504	28,775
Net debt / equity (%)	-27.7%	-33.7%	-27.9%	-34.7%	-41.7%
Net debt / EBITDA (x)	-0.7	-0.9	-0.7	-0.9	-1.1
<b>Total assets</b>	<b>41,734</b>	<b>53,698</b>	<b>57,201</b>	<b>58,723</b>	<b>60,389</b>

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	23.8%	25.8%	28.3%	28.4%	28.1%
ROA	9.4%	9.1%	10.0%	11.6%	13.7%
ROIC	28.4%	33.7%	36.7%	38.1%	42.5%
WACC	10.8%	10.8%	10.8%	10.8%	10.8%
EVA	17.6%	22.9%	25.9%	27.3%	31.7%
PER (x)	28.9	23.8	18.7	15.6	12.9
EV/EBITDA (x)	12.0	10.8	8.7	7.4	6.2
EV/FCF (x)	18.4	18.8	35.1	13.9	11.2
PBR (x)	4.3	4.4	4.4	3.7	3.0
PSR (x)	2.6	2.2	1.8	1.5	1.3
EV/sales (x)	2.4	2.0	1.7	1.4	1.2
PEG (x, 3 yr prospective)	1.4	1.0	0.8	0.8	0.8
Dividend yield	2.3%	2.3%	2.3%	2.3%	2.3%

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### 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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