



FPT Update- BUY

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Company Update

Recommendation

BUY
HSX: FPT
Technology
Target price (VND) 96,238

Current price (VND) 76,900

Expected share price return 25.1%

Expected dividend yield 2.6%

Expected total return 27.7%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	1.3	2.6	-1.0	-0.2
Relative	33.1	4.5	8.9	30.8

Source: Bloomberg



Ownership

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

Stock Statistics

30-Dec-22

Bloomberg code FPT VN

52-week range (VND) 61,300-99,083

Shares O/S (m) 1,097

Mkt cap (VND bn) 84,361

Mkt cap (USD m) 3,555

Foreign room left (%) 0.0

Est. free float (m) 84.3

3m avg daily vol (shrs) 1,226,259

VND/USD 23,730

Index: VNIIndex / HNX 1007.09/205.3

FPT CORPORATION (FPT VN)

The company almost completed a fruitful 2022, driven by 31% YoY growth in software outsourcing segment, and is expected to keep growth momentum for 2023. Maintain **BUY** recommendation with a target price of VND96k/share, equivalent to a return of 27.7% at the end of 2023.

FPT announced net revenue and EBT growth of 24.1% and 23.8% YoY, reaching VND30,975bn and VND5,665bn, respectively, in 9M2022. The results were 23.4% and 22.5% YoY, respectively, in 11M2022.

FPT's 9M2022 business results:

Segments	Revenue (VND bn)	YoY growth	EBT (VND bn)	YoY growth
Software outsourcing (global IT services)	13,479	29.4%	2,219	28.1%
Domestic IT services	4,439	11.8%	380	14.5%
Telecom services	10,243	16.1%	1,928	20.5%
Online advertising	564	37.5%	241	31.4%
Education, investments & others	2,249	68.2%	897	23.2%
Total	30,975	24.1%	5,665	23.8%

Source: FPT; ACBS calculation

The global IT services segment generated revenue growth of 29.4% YoY in 9M and 31% YoY in 11M2022. 9M2022 EBT grew by 27.6% YoY, with an EBT margin of 16.5%, similar to that in 9M2021. Most of its major markets performed well, including the US (+42.4% in 9M; 48.6% in 11M), APAC (+56.4% in 9M; 47.3% in 11M), Europe (+23.4% in 9M). Revenue from Japan, which was slackened by COVID-19 and deep depreciation of the JPY, has been on recovering, growing by 12% in 9M and 13% YoY in 11M2022 (versus 8% YoY in 1H). The recovery is expected to extend in Japan with a growth rate of 25-30% projected in 2023 thanks to resurgence of spending for IT services post COVID-19. For 2023, given an increase of 42.6% YoY in signed revenue in 9M2022 (11M2022: +37.1%), the global IT services segment may retain its high double-digit growth momentum and complete the target of achieving \$1bn of revenue, from \$800m at present.

	2020	2021	2022F	2023F	2024F
Net Sales (VNDbn)	29,830	35,657	43,883	51,685	61,719
Growth (%)	7.6%	19.5%	23.1%	17.8%	19.4%
EBITDA (VNDbn)	6,038	6,665	8,440	9,873	11,775
EBITDA margin	20.2%	18.7%	19.2%	19.1%	19.1%
Net Profit (VNDbn)	3,538	4,338	5,532	6,491	7,928
Growth (%)	12.8%	22.6%	27.5%	17.3%	22.1%
EPS (bonus-adjusted, VND)	2,983	3,619	4,589	5,357	6,511
Growth (%)	12.2%	21.3%	26.8%	16.8%	21.5%
ROE	23.8%	25.8%	28.2%	27.6%	27.8%
ROA	9.4%	9.1%	10.1%	11.5%	13.8%
Net debt/EBITDA (times)	-0.7	-0.9	-0.8	-1.1	-1.3
EV/EBITDA (times)	10.6	9.6	7.6	6.5	5.4
EV/Sales (times)	2.1	1.8	1.5	1.2	1.0
PER (times)	25.8	21.3	16.8	14.4	11.8
PBR (times)	3.8	3.9	4.0	3.3	2.7
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	2.6%	2.6%	2.6%	2.6%	2.6%

Digital transformation (DX) revenue rose by 34% YoY in 9M and 27% YoY in 11M, contributing 38% to the segment's revenue. FPT emphasized technologies such as cloud computing, artificial intelligence (AI)/data analytics, low code, etc.

The domestic IT services segment posted revenue growth of 11.8% in 9M and 2.7% YoY in 11M2022. This performance was largely attributed to slow revenue growth from the banking and real estate domains, which experienced difficulties and limited credit growth in the past time. In addition to the banking and real estate domains capturing 40% of the segment's revenue, other key domains include enterprises in VNR500 list (accounting for 40% of revenue) and public sector (20%). Although the segment's outlook may be fostered by the two latter groups given busier digital transformation activities from not only enterprises but also public sector in the recent years, difficulties in the banking and real estate domains and unfavourable economic conditions are predicted to linger in 1H2023, probably weighing on the segment's growth in the period. We assume the segment may post moderate single-digit growth in 2023.

Telecom services' revenue and EBT rose by 16.1% and 20.5% YoY, to VND10,243bn and VND1,928bn, respectively, in 9M2022. Broadband services delivered 9.3% YoY growth in revenue while the others grew by 25.1% YoY. The overall EBT margin strengthened to 18.8% from 18.1% in 9M2021 primarily thanks to PayTV's profit growth. PayTV contributed 22% to the telecom services segment's revenue with an EBT margin of 12-13%, which may increase to 16-17% after adding more ads and contents. For 2023, we expect the telecom services segment may continue to record broadband services as the key contributors, despite mediocre growth given the mature market, while other services may still seek for good double-digit growth.

The education segment grew by of 47% YoY, reaching VND3,104bn in 9M2022. FPT targets to keep expanding this segment vertically (launching new training courses) and horizontally (expanding to more provinces/cities), and investing in campus system, schools for various grades.

Growth from financial revenue continued to contribute to the company's earnings performance. Although financial expenses inflated by 31.3% YoY due to interest expenses and foreign exchange loss, the company's financial revenue jumped by 63.8% YoY thanks to interest income and exchange rate gain. With net cash of VND5,795bn as of 9M2022, increased interest rates may not be a pressure for the company. On the other side, profits from affiliates contracted by 6.5% YoY in 9M, which may not reverse in 4Q2022 due to the high base last year.

In sum, for the whole year 2022, we expect FPT's net revenue and EBT at VND43,883bn (+23.1% YoY) and VND7,759bn (+22.4% YoY). The projections are 17.8% and 18.2% YoY, respectively, for 2023 driven by continued growth of the company's key segments while tough outlook may remain in the domestic IT services segment. Using sum of parts approach to evaluate FPT stock (namely PER for Synnex FPT, DCF combined EV/Sales for FRT and DCF combined PER for the rest of FPT), **our target price for the stock is VND96k/share, equivalent to a return of 27.7% at the end of this year.**

FPT FINANCIALS MODEL	Price (VND):	76,900	Target (VND):	96,238	Mkt cap (VND bn):	84,361
(VND bn except where stated)	2020	2021	2022F	2023F	2024F	
Total Net Sales	29,830	35,657	43,883	51,685	61,719	
<i>Sales growth (%)</i>	<i>7.6%</i>	<i>19.5%</i>	<i>23.1%</i>	<i>17.8%</i>	<i>19.4%</i>	
CoGS ex-dep'n	16,722	20,381	24,849	29,169	35,014	
Selling expenses	2,930	3,605	4,459	5,229	6,176	
G&A expenses	4,082	4,612	6,069	7,209	8,608	
Financial revenues	106	266	450	311	370	
Financial expenses	163	660	515	515	515	
EBITDA	6,038	6,665	8,440	9,873	11,775	
<i>EBITDA margin (%)</i>	<i>20.2%</i>	<i>18.7%</i>	<i>19.2%</i>	<i>19.1%</i>	<i>19.1%</i>	
Depreciation	1,491	1,644	1,781	1,959	2,084	
Operating profit	4,548	5,021	6,659	7,914	9,691	
<i>Operating profit margin (%)</i>	<i>15.2%</i>	<i>14.1%</i>	<i>15.2%</i>	<i>15.3%</i>	<i>15.7%</i>	
Other profits/losses	73	109	67	67	67	
Profits/Losses from associates	312	687	494	526	577	
Net interest expense	(331)	(521)	(540)	(665)	(698)	
<i>as % of avg net debt</i>	<i>9.9%</i>	<i>10.0%</i>	<i>8.2%</i>	<i>7.5%</i>	<i>5.3%</i>	
<i>Interest cover (x)</i>	<i>-13.8</i>	<i>-9.6</i>	<i>-12.3</i>	<i>-11.9</i>	<i>-13.9</i>	
Tax	840	988	1,164	1,376	1,655	
<i>Effective tax rate (%)</i>	<i>17.2%</i>	<i>17.8%</i>	<i>16.2%</i>	<i>16.0%</i>	<i>15.9%</i>	
Minority interest	886	1,012	1,063	1,305	1,450	
Attributable net profit	3,538	4,338	5,532	6,491	7,928	
Cash earnings	5,029	5,981	7,313	8,450	10,012	
Total number of shares	783,987,486	907,551,649	1,097,026,572	1,102,511,705	1,108,024,263	
EPS (VND) (after treasury shares)	4,116	4,342	4,589	5,357	6,511	
Bonus factor (x)	0.72	0.83	1.00	1.00	1.00	
Adjusted EPS (VND)	2,983	3,619	4,589	5,357	6,511	
<i>EPS growth (%)</i>	<i>12.2%</i>	<i>21.3%</i>	<i>26.8%</i>	<i>16.8%</i>	<i>21.5%</i>	

KEY CASHFLOW AND BS ITEMS	2020	2021	2022F	2023F	2024F
Increase in working capital	-1,979	-825	810	-321	-238
Capex	3,014	2,908	2,961	2,935	2,788
Change in investment in affiliates	68	37	194	107	158
Other cashflow items	-7	-24	-178	-70	-91
Free cash flow	3,918	3,838	3,169	5,659	7,213
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	-1,020	-3,509	-5,052
Net debt, end of year	-4,369	-6,040	-7,061	-10,569	-15,621
Shareholders' equity	15,746	17,941	21,324	25,664	31,432
BVPS (VND)	20,086	19,770	19,438	23,278	28,367
Net debt / equity (%)	-27.7%	-33.7%	-33.1%	-41.2%	-49.7%
Net debt / EBITDA (x)	-0.7	-0.9	-0.8	-1.1	-1.3
Total assets	41,734	53,698	56,061	56,892	57,607

KEY RETURN AND VALUATION RATIOS	2020	2021	2022F	2023F	2024F
ROE	23.8%	25.8%	28.2%	27.6%	27.8%
ROA	9.4%	9.1%	10.1%	11.5%	13.8%
ROIC	28.4%	33.7%	39.0%	40.6%	47.7%
WACC	15.0%	15.0%	15.0%	15.0%	15.0%
EVA	13.4%	18.7%	24.0%	25.6%	32.7%
PER (x)	25.8	21.3	16.8	14.4	11.8
EV/EBITDA (x)	10.6	9.6	7.6	6.5	5.4
EV/FCF (x)	16.3	16.6	20.1	11.3	8.8
PBR (x)	3.8	3.9	4.0	3.3	2.7
PSR (x)	2.3	2.0	1.6	1.4	1.1
EV/sales (x)	2.1	1.8	1.5	1.2	1.0
PEG (x, 3 yr prospective)	1.3	1.0	0.8	0.7	0.6
Dividend yield	2.6%	2.6%	2.6%	2.6%	2.6%

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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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