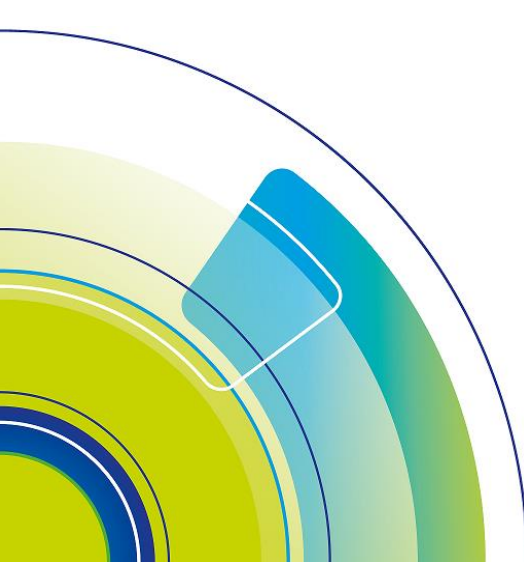




FPT Update- BUY

June 26, 2023



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Company Update

Recommendation

BUY
HSX: FPT
Technology
Target price (VND) 96,646

Current price (VND) 85,800

Expected share price return 12.7%

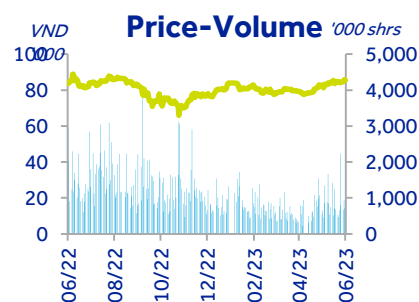
Expected dividend yield 2.3%

Expected total return 15.0%

Stock performance (%)

	YTD	1M	3M	12M
Absolute	11.6	3.8	9.1	0.7
Relative	-1.6	-2.5	0.6	4.1

Source: Bloomberg



Ownership

Mr. Binh Truong (Chrm)	7.0%
SCIC	5.8%
QT Limited Co.	3.7%

Stock Statistics 26-Jun-23

Bloomberg code **FPT VN**
52-week range (VND) 61,300-90,200

Shares O/S (m) 1,104

Mkt cap (VND bn) 94,752

Mkt cap (USD m) 3,998

Foreign room left (%) 0.0

Est. free float (m) 84.4

3m avg daily vol (shrs) 723,316

VND/USD 23,700

Index: VNIIndex / HNX 1132.0/231.0

FPT CORPORATION (FPT VN)

The company retained solid growth in the first five months of 2023, driven by 32% YoY growth in the global IT services segment, and is expected to extend the momentum for the whole year. Maintain **BUY** recommendation with a target price of VND96,646/share, equivalent to a total return of 15.0% at the end of 2023.

FPT announced net revenue and EBT growth of 20.1% and 19.2% YoY, reaching VND11,681bn and VND2,121bn, respectively, in 1Q23. The growth rates sustained in 5M23 with 22.9% and 19.2% YoY, respectively.

FPT's 1Q23 business results:

Segments	Revenue (VND bn)	YoY growth	EBT (VND bn)	YoY growth
Telecom services	3,695	11.3%	723	14.2%
Online advertising	95	-37.0%	1	-99.0%
Global IT services	5,438	32.3%	888	33.1%
Domestic IT services	1,400	-8.4%	17	-81.1%
Education, investments & others	1,053	70.3%	491	53.7%
Total	11,681	20.1%	2,121	19.2%

Source: FPT

The global IT services segment continued to deliver stellar revenue growth of 32% YoY in 1Q and 5M23, while EBT grew by 29.3% YoY in 5M23. Most of its major markets performed well, including the US (+18% YoY in 1Q; +14% in 5M), APAC (+65.7% in 1Q; +50.4% in 5M), Europe (+10% in 1Q; +14% in 5M). Japan and the US remain the largest earners, capturing 37% and 30% of the segmented revenue respectively, followed by APAC (26%) and Europe (7%). Revenue from Japan has been on recovery, growing by 31.2% in 1Q and 41% YoY in 5M23. This recovery is expected to extend thanks to resurgence of investments on IT services and digital transformation post COVID-19. FPT expects the global IT services segment to achieve \$1bn of revenue this year.

With a continued focus on digital transformation (DX) services, DX revenue enlarged its contribution to 42.3% of the segmented revenue, jumping by 28% YoY in 1Q and 38% YoY in 5M23. FPT emphasized technologies such as cloud computing, artificial intelligence (AI)/data analytics, low code, etc.

	2021	2022	2023F	2024F	2025F
Net Sales (VNDbn)	35,657	44,010	53,188	63,237	75,032
Growth (%)	19.5%	23.4%	20.9%	18.9%	18.7%
EBITDA (VNDbn)	6,665	8,235	9,814	11,822	14,144
EBITDA margin	18.7%	18.7%	18.5%	18.7%	18.9%
Net Profit (VNDbn)	4,338	5,310	6,339	8,028	9,896
Growth (%)	22.6%	22.4%	19.4%	26.7%	23.3%
EPS (bonus-adjusted, VND)	3,619	4,419	5,232	6,594	8,087
Growth (%)	21.3%	22.1%	18.4%	26.0%	22.7%
ROE	25.8%	27.2%	27.4%	28.5%	28.3%
ROA	9.1%	10.1%	12.2%	15.3%	18.5%
ROIC	33.7%	36.7%	40.7%	49.9%	57.6%
Net debt/EBITDA (times)	-0.9	-0.9	-1.1	-1.3	-1.6
EV/EBITDA (times)	10.6	8.6	7.2	6.0	5.0
EV/Sales (times)	2.0	1.6	1.3	1.1	0.9
PER (times)	23.7	19.4	16.4	13.0	10.6
PBR (times)	4.3	4.5	3.7	3.1	2.5
DPS (VND)	2,000	2,000	2,000	2,000	2,000
Dividend yield (%)	2.3%	2.3%	2.3%	2.3%	2.3%

The domestic IT services segment's revenue fell by 8.4% in 1Q despite climbing by 7% YoY in 5M23, attributed to a curb or delay in enterprises' IT spending amid tough economic conditions. While waiting for the economic recovery, FPT aims at the public sector to generate growth given busier digital transformation activities from this sector in the recent years. Nevertheless, we assume the segment may post single-digit growth in 2023.

The telecom services segment maintained stable growth of 11.3% YoY in revenue and 14.2% YoY in EBT, to VND3,695bn and VND723bn, respectively, in 1Q23. Broadband services, contributing most to the segment's results, delivered 7.1% YoY revenue growth while the others grew by 16.1% YoY. The overall EBT margin strengthened to 19.6% in 1Q23 from 19.1% in 1Q22 primarily owing to a pause in capital expenditure for some infrastructure items. In contrast to the telecom services segment, **the online advertising segment** witnessed poor performance with revenue plunging by 37% and EBT plunging by 99% YoY due to a reduction in companies' advertising budget in light of the cloudy economy.

The education segment extended its growth momentum, rising by 47% YoY to VND1,412bn of revenue in 1Q23. Looking forward, FPT targets to keep expanding its wide-ranging educational ecosystem covering all levels with diverse majors and strengthening its presence throughout provinces and cities nationwide.

In sum, while the global IT services, telecom services and education segments may maintain their growth momentum, a gloomy outlook is forecast for the domestic IT services, online advertising segments and the company's affiliates this year. Profits from affiliates, including Synnex FPT and FPT Digital Retail, slumped by 79% YoY in 1Q23 as a result of weak consumer spending. We expect FPT's net revenue and EBT at VND53,188bn (+20.9% YoY) and VND9,011bn (+17.6% YoY) in 2023. 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 VND96,646/share, equivalent to a total return of 15.0% at the end of 2023.**

FPT FINANCIALS MODEL	Price (VND):	85,800	Target (VND):	96,646	Mkt cap (VND bn):	94,752
(VND bn except where stated)	2021	2022	2023F	2024F	2025F	
Total Net Sales	35,657	44,010	53,188	63,237	75,032	
<i>Sales growth (%)</i>	<i>19.5%</i>	<i>23.4%</i>	<i>20.9%</i>	<i>18.9%</i>	<i>18.7%</i>	
CoGS ex-dep'n	20,381	25,009	30,964	36,825	43,766	
Selling expenses	3,605	4,526	5,056	5,973	6,999	
G&A expenses	4,612	5,846	6,934	8,219	9,747	
Financial revenues	266	649	469	382	259	
Financial expenses	660	1,042	888	780	635	
EBITDA	6,665	8,235	9,814	11,822	14,144	
<i>EBITDA margin (%)</i>	<i>18.7%</i>	<i>18.7%</i>	<i>18.5%</i>	<i>18.7%</i>	<i>18.9%</i>	
Depreciation	1,644	1,833	1,914	2,049	2,298	
Operating profit	5,021	6,402	7,900	9,773	11,846	
<i>Operating profit margin (%)</i>	<i>14.1%</i>	<i>14.5%</i>	<i>14.9%</i>	<i>15.5%</i>	<i>15.8%</i>	
Other profits/losses	109	73	73	73	73	
Profits/Losses from associates	687	484	315	594	674	
Net interest expense	(521)	(704)	(723)	(747)	(988)	
<i>as % of avg net debt</i>	<i>10.0%</i>	<i>10.7%</i>	<i>8.0%</i>	<i>5.6%</i>	<i>5.2%</i>	
<i>Interest cover (x)</i>	<i>-9.6</i>	<i>-9.1</i>	<i>-10.9</i>	<i>-13.1</i>	<i>-12.0</i>	
Tax	988	1,171	1,404	1,743	2,116	
<i>Effective tax rate (%)</i>	<i>17.8%</i>	<i>16.5%</i>	<i>16.3%</i>	<i>16.6%</i>	<i>16.5%</i>	
Minority interest	1,012	1,181	1,268	1,416	1,569	
Attributable net profit	4,338	5,310	6,339	8,028	9,896	
Cash earnings	5,981	7,143	8,253	10,077	12,194	
Total number of shares	907,551,649	1,097,026,572	1,102,511,705	1,108,024,263	1,113,564,385	
EPS (VND) (after treasury shares)	4,342	4,419	5,232	6,594	8,087	
Bonus factor (x)	0.83	1.00	1.00	1.00	1.00	
Adjusted EPS (VND)	3,619	4,419	5,232	6,594	8,087	
<i>EPS growth (%)</i>	<i>21.3%</i>	<i>22.1%</i>	<i>18.4%</i>	<i>26.0%</i>	<i>22.7%</i>	

KEY CASHFLOW AND BS ITEMS	2021	2022	2023F	2024F	2025F
Increase in working capital	-825	424	-691	-256	-361
Capex	2,908	3,210	3,059	3,134	3,097
Change in investment in affiliates	37	188	-102	177	257
Other cashflow items	-24	-124	-52	-67	-81
Free cash flow	3,838	3,198	5,936	6,956	9,121
Share issues	88	77	55	55	55
Dividends paid	2,254	2,222	2,205	2,216	2,227
Increase in net debt	-1,671	-1,052	-3,786	-4,795	-6,950
Net debt, end of year	-6,040	-7,093	-10,878	-15,674	-22,624
Shareholders' equity	17,941	21,046	25,235	31,103	38,827
BVPS (VND)	19,770	19,185	22,889	28,070	34,868
Net debt / equity (%)	-33.7%	-33.7%	-43.1%	-50.4%	-58.3%
Net debt / EBITDA (x)	-0.9	-0.9	-1.1	-1.3	-1.6
Total assets	53,698	51,650	52,053	53,125	53,900

KEY RETURN AND VALUATION RATIOS	2021	2022	2023F	2024F	2025F
ROE	25.8%	27.2%	27.4%	28.5%	28.3%
ROA	9.1%	10.1%	12.2%	15.3%	18.5%
ROIC	33.7%	36.7%	40.7%	49.9%	57.6%
WACC	14.8%	14.8%	14.8%	14.8%	14.8%
EVA	18.9%	21.9%	25.9%	35.1%	42.8%
PER (x)	23.7	19.4	16.4	13.0	10.6
EV/EBITDA (x)	10.6	8.6	7.2	6.0	5.0
EV/FCF (x)	18.4	22.1	11.9	10.2	7.8
PBR (x)	4.3	4.5	3.7	3.1	2.5
PSR (x)	2.2	1.8	1.5	1.2	1.0
EV/sales (x)	2.0	1.6	1.3	1.1	0.9
PEG (x, 3 yr prospective)	1.2	0.9	0.7	0.6	0.6
Dividend yield	2.3%	2.3%	2.3%	2.3%	2.3%

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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.

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

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

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