[Vietnam / Technology]

FPT Corp. (FPT VN)

Solid trajectory

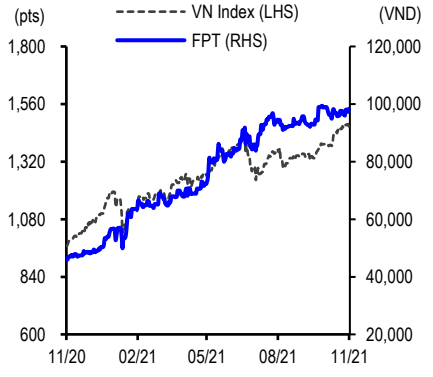
[Maintained/Target price maintained]
BUY

Target Price (12 months)	**VND 130,000**
Current Price (Nov. 16th)	VND 98,300
Upside/Downside (%)	+32.2

Vu Nguyen ☎ (+84) 6287-8037
✉ vu.nva@shinhan.com

VNINDEX			1,467
HNXINDEX			452
Market cap (VND bn)			89,204
Outstanding shares (1 mn)			908
Free float (1 mn)			763
52-week high/low (VND)			101,500/46,087
60-day avg. trading volume (mn)			2.6
60-day avg. turnover (VND bn)			203.6
Foreign ownership (%)			49
Major shareholders (%)		BOD	12.4
		State Capital Invest	5.8

Performance	3M	6M	12M
Absolute (%)	3.9	33.3	112.1
Rel. to VNINDEX (%)	(3.1)	17.5	57.9



Source: Bloomberg

Maintain BUY rating and target price at VND130,000

We maintain our TP for FPT at VND130,000 to reflect our expectation on the company's earnings in 2022 and the relative valuation compared to global peers. We believe that FPT's current share price just fairly reflects the forecast earnings result in 2021 at attractive 2021F and 2022F PER of 22.7x and 18.6x, respectively. With the long-term profit growth of at least +20% YoY thanks to the Digital Transformation solutions and services, we believe that FPT should be valued at 2022F PER of 24.5x, 7.9% premium to its current 2021F PER.

[9M21 review and outlook]

Despite the 4th wave of COVID-19 in Vietnam recently, FPT still recorded steady earnings result in 3Q21. In 9M21, the company achieved VND24.95tn in revenue (+17.9% YoY) and VND4.58tn in pre-tax profit (+20% YoY), meeting 71.9% and 71.3% of our 2021F forecast. These favorable results are contributed by the acceleration of the Technology segment, the ongoing high growth of Telecommunication, and the comeback of Education & Investment.

Technology: Global IT Services (FSoft) advanced in all the markets, especially in the US (+49% YoY), APAC (+22% YoY), and EU (12% YoY) thanks to the widespread of vaccines and the recovery of economies. Of which, DX revenue soared to VND3.9tn (+59.6% YoY), occupying 37.9% of FSoft's revenue (1H21: 31.7%) and boosting the segment's pre-tax growth and margin to +22.1% YoY and 16.6%, respectively (1H21: +18.4% YoY and 15.9%). Moreover, the YTD new oversea contracts increased by +33.5% YoY to VND12.8tn, ensuring high revenue growth for 2022. FPT's accredited capability allowed the company to win 16 large deals of over USD5mn each from international clients. We expect that FSoft would achieve USD1bn of revenue by 2023.

Meanwhile, Domestic IT Services (FIS) still maintained its strong pre-tax growth (+92.7% YoY) and margin (9.4%) thanks to the explosion of Made-by-FPT products with VND415bn (+54.9% YoY) including ~VND300bn recurring revenue, which is expected to reach ~VND400bn in 2021.

Telecommunication: The YTD pre-tax profit of this segment also grew remarkably by +21.9% YoY and gained a high margin of 19.3% due to the rise in PayTV's profit, along with the delay in capex of new facilities in Broadband Services.

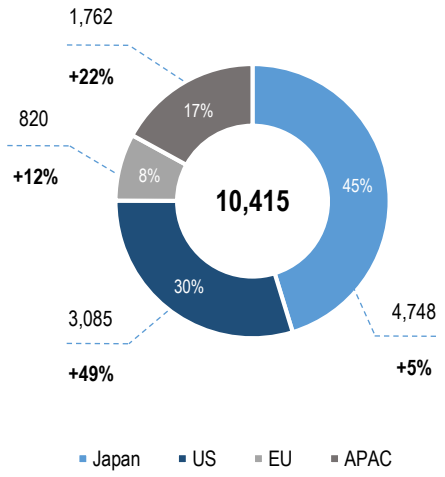
Education & Investment: Education revenue increased by +49% YoY to VND2.1tn, driven by the completion of admission for 2021-22 with the number of students rocketing by +50% YoY (FPT's university: +70% YoY). The favorable results imply the attractiveness of the Education business as well as the huge demand and explosive tendency of studying IT, which then produces high-skilled workforce for FPT.

Year to Dec.	2019	2020	2021F	2022F	2023F
Revenue (bn VND)	**27,717**	**29,830**	**34,728**	**41,181**	**49,527**
OP (bn VND)	4,147	4,605	5,639	6,991	8,719
NP (bn VND)	**3,912**	**4,424**	**5,381**	**6,592**	**8,031**
EPS (VND)	4,214	4,115	4,325	5,298	6,455
BPS (VND)	20,581	20,083	20,268	23,973	28,618
OPM (%)	15.0	15.4	16.2	17.0	17.6
NPM (%)	14.1	14.8	15.5	16.0	16.2
ROE (%)	**23.3**	**23.8**	**24.1**	**24.4**	**24.5**
PER (x)	23.3	23.9	22.7	18.6	15.2
PBR (x)	4.8	4.9	4.8	4.1	3.4
EV/EBITDA (x)	13.6	11.9	9.2	7.5	5.9

Source: Company data, Shinhan Securities Vietnam

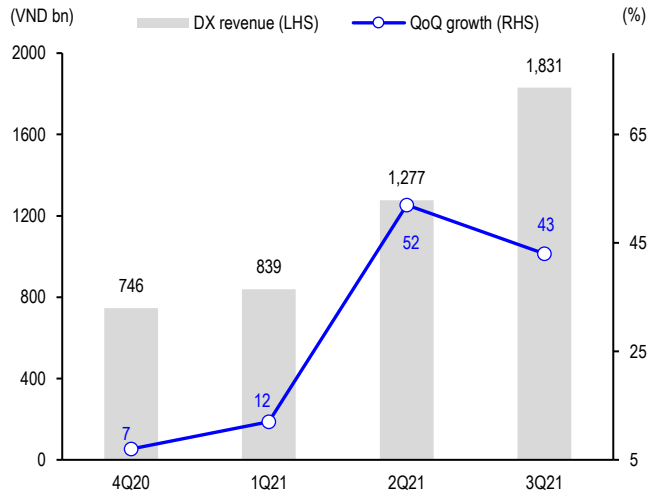
Shinhan Securities Vietnam Co. Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Analysts employed by Shinhan Securities Vietnam Co. Ltd., or a non-US affiliate thereof, are not registered/qualified as research analysts with FINRA, may not be associated persons of the member and may not be subject to FINRA restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. For analyst certification and important disclosures, refer to the Compliance & Disclosure Notice at the end of this report.

FSoft's 9M21 revenue breakdown by market



Source: Company data, Shinhan Securities Vietnam

FSoft's DX revenue – A new key growth driver



Source: Company data, Shinhan Securities Vietnam

9M21 FPT earnings review

(Unit: bn VND)	9M20	9M21	% YoY growth	% of FY2021	
				FPT Guidance	SSV Forecast
Revenue	**21,164**	**24,953**	**17.9**	**71.9**	**71.9**
① Technology	*11,711*	*14,294*	*22.1*	*72.9*	*72.6*
+ Global IT Services (FSoft)	*8,779*	*10,415*	*18.6*	*-*	*73.6*
+ Domestic IT Services (FIS)	*2,932*	*3,880*	*32.3*	*-*	*70.2*
② Telecommunication (FTel)	*8,311*	*9,232*	*11.1*	*72.7*	*72.7*
+ Telecom Services (FOX)	*7,948*	*8,822*	*11.0*	*-*	*73.1*
+ Digital Content Services (FOC)	*364*	*410*	*12.7*	*-*	*64.0*
③ Education & Investment	*1,142*	*1,427*	*25.0*	*59.5*	*61.0*
Gross profit	8,345	9,606	15.1	-	68.8
Operating profit	3,345	3,952	18.1	-	70.1
Pre-tax profit	**3,814**	**4,575**	**20.0**	**73.7**	**71.3**
① Technology	*1,606*	*2,097*	*30.4*	*77.1*	*74.6*
+ Global IT Services	*1,418*	*1,732*	*22.1*	*-*	*-*
+ Domestic IT Services	*188*	*365*	*92.7*	*-*	*-*
② Telecommunication	*1,462*	*1,783*	*21.9*	*74.9*	*72.5*
+ Telecom Services	*1,303*	*1,600*	*22.8*	*-*	*-*
+ Digital Content Services	*159*	*183*	*15.0*	*-*	*-*
③ Education & Investment	*745*	*695*	*(6.6)*	*62.6*	*60.6*
Net profit	**3,170**	**3,785**	**19.4**	**-**	**70.3**
Margin (%)			**+/- bps**		
Gross margin	39.4%	38.5%	(93.4)	-	(168.0)
Operating margin	15.8%	15.8%	3.3	-	(40.1)
Pre-tax margin	**18.0%**	**18.3%**	**31.3**	**44.9**	**(14.1)**
① Technology	*13.7%*	*14.7%*	*95.7*	*80.7*	*39.5*
+ Global IT Services	*16.2%*	*16.6%*	*47.8*	*-*	*-*
+ Domestic IT Services	*6.4%*	*9.4%*	*299.5*	*-*	*-*
② Telecommunication	*17.6%*	*19.3%*	*172.2*	*57.3*	*(4.4)*
+ Telecom Services	*16.4%*	*18.1%*	*174.2*	*-*	*-*
+ Digital Content Services	*43.7%*	*44.6%*	*95.3*	*-*	*-*
③ Education & Investment	*65.2%*	*48.7%*	*(1,653.3)*	*245.4*	*(32.9)*
Net margin	**15.0%**	**15.2%**	**19.0**	**-**	**(32.6)**

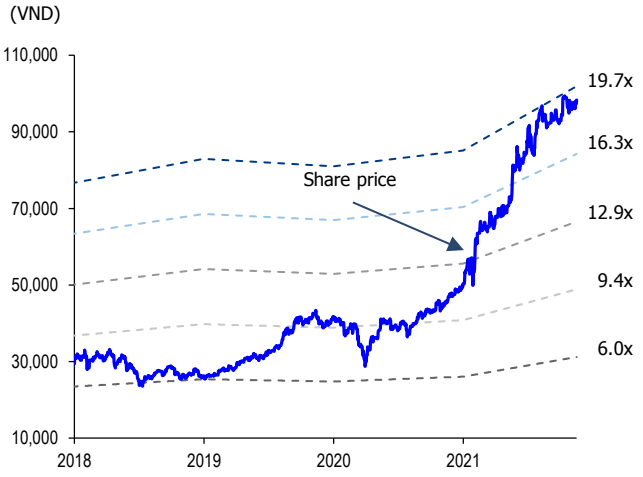
Source: Company data, Shinhan Securities Vietnam

FPT Corp. 12M Fwd PER



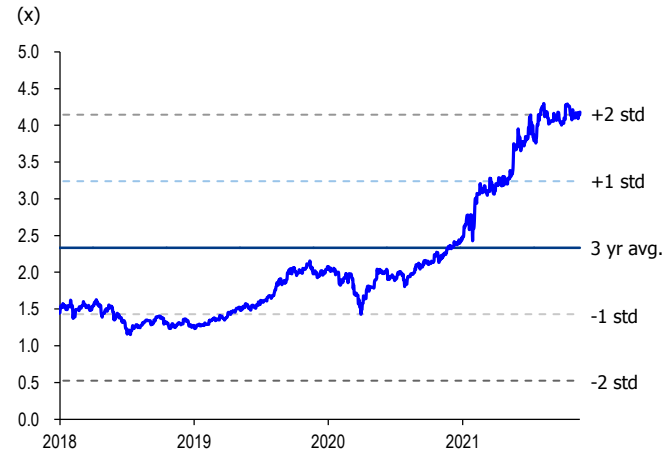
Source: Bloomberg, Company data, Shinhan Securities Vietnam

FPT Corp. PER band chart



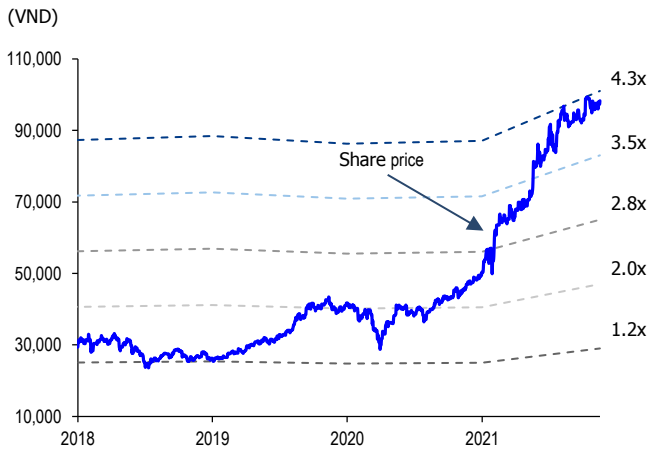
Source: Bloomberg, Company data, Shinhan Securities Vietnam

FPT Corp. 12M Fwd PBR



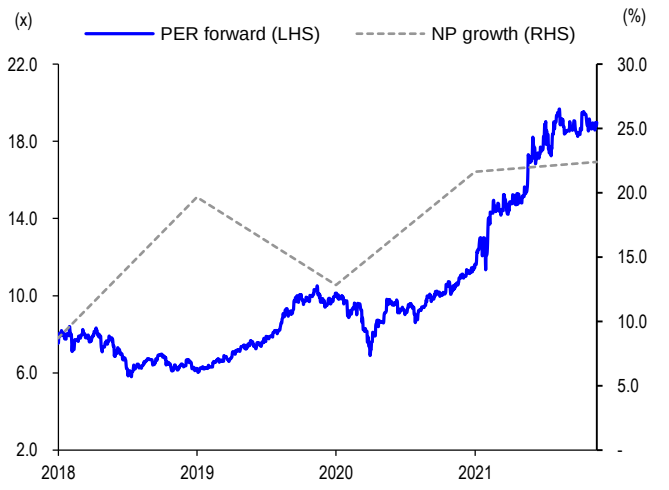
Source: Bloomberg, Company data, Shinhan Securities Vietnam

FPT Corp. PBR band chart



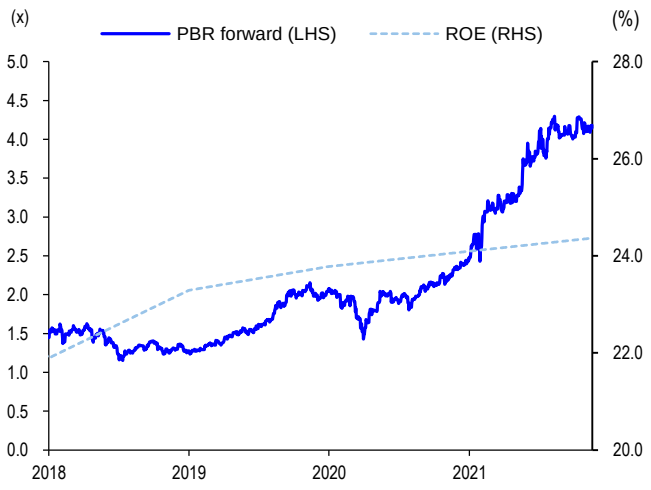
Source: Bloomberg, Company data, Shinhan Securities Vietnam

FPT Corp. PER forward and NP growth



Source: Bloomberg, Company data, Shinhan Securities Vietnam

FPT Corp. PBR forward and ROE



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix : Financial statements

Statement of financial position

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Total assets	**33,394**	**41,734**	**47,283**	**54,497**	**63,327**
Current assets	18,979	25,612	30,401	36,626	44,731
Cash & equivalents	3,453	4,686	5,892	9,519	14,495
Short-term financial asset	6,709	12,436	13,891	14,413	14,858
Accounts receivable	7,533	7,200	9,070	10,836	13,121
Inventories	1,284	1,290	1,549	1,858	2,258
Non-current assets	14,415	16,122	16,881	17,871	18,596
Net fixed assets	9,143	10,691	11,233	12,035	12,558
Investment assets	2,497	2,581	2,715	2,849	2,982
Other long-term assets	2,776	2,849	2,933	2,987	3,056
Total liabilities	**16,595**	**23,129**	**24,950**	**27,482**	**30,488**
Current liabilities	16,102	22,365	23,933	26,298	29,159
Accounts payable	2,642	2,825	3,299	3,912	4,705
Short-term borrowings	7,514	12,062	11,923	12,095	12,120
Others	5,947	7,478	8,711	10,291	12,333
Non-current liabilities	493	764	1,016	1,185	1,330
Long-term borrowings	350	678	924	1,084	1,218
Other financial liabilities	143	86	92	101	112
Total shareholders' equity	**16,799**	**18,606**	**22,333**	**27,014**	**32,838**
Capital stock	6,784	7,840	9,055	10,459	12,080
Capital surplus	50	50	50	50	50
Other capital	1,170	1,465	1,466	1,466	1,466
Retained earnings	5,961	6,391	7,825	9,783	12,378
Non-controlling interest equity	2,835	2,860	3,937	5,257	6,865
*Total debt	7,863	12,740	12,847	13,179	13,339
*Net debt (cash)	(2,299)	(4,382)	(6,936)	(10,754)	(16,014)

Statement of cash flow

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Cash flow from operations	**3,792**	**6,430**	**5,435**	**7,182**	**8,879**
Net profit	3,912	4,424	5,381	6,592	8,031
Depreciation expense	1,355	1,491	1,870	1,954	2,234
Amortization expense	-	-	-	-	-
(Gain) from investing activities	(1,055)	(1,134)	(1,318)	(1,436)	(1,478)
Change in working capital	(419)	1,650	(497)	72	93
Others	-	-	-	-	-
Cash flow from investments	**(3,740)**	**(8,236)**	**(2,683)**	**(1,976)**	**(1,857)**
Change in fixed assets	(3,182)	(3,404)	(2,411)	(2,756)	(2,756)
Change in investment assets	(1,140)	(5,727)	(1,455)	(522)	(445)
Others	582	894	1,184	1,302	1,344
Free cash flow	**52**	**(1,806)**	**2,753**	**5,206**	**7,022**
Cash flow from financing	**(513)**	**3,039**	**(1,547)**	**(1,578)**	**(2,047)**
Change in equity	72	60	40	45	52
Net borrowing	899	4,879	106	332	160
Dividends	(1,484)	(1,899)	(1,694)	(1,956)	(2,259)
Change in total cash	**(461)**	**1,233**	**1,205**	**3,627**	**4,976**
Beginning cash	3,926	3,453	4,686	5,892	9,519
Change in FX rates	(12)	(0)	-	-	-
Ending cash	3,453	4,686	5,892	9,519	14,495

Source: Company data, Shinhan Securities Vietnam

Statement of comprehensive income

Year to Dec. (bn VND)	2019	2020	2021F	2022F	2023F
Revenue	**27,717**	**29,830**	**34,728**	**41,181**	**49,527**
Growth (%)	19.4	7.6	16.4	18.6	20.3
COGS	**(17,005)**	**(18,017)**	**(20,776)**	**(24,419)**	**(29,146)**
Gross profit	**10,712**	**11,814**	**13,952**	**16,761**	**20,381**
GPM (%)	38.6	39.6	40.2	40.7	41.2
SG&A	**(6,565)**	**(7,209)**	**(8,313)**	(9,771)	(11,662)
Operating profit	**4,147**	**4,605**	**5,639**	**6,991**	**8,719**
Growth (%)	32.8	11.0	22.5	24.0	24.7
OPM (%)	15.0	15.4	16.2	17.0	17.6
Non-operating profit	**518**	**659**	**777**	**884**	**888**
Financial income	650	822	1,006	1,123	1,166
Financial expense	(592)	(548)	(614)	(625)	(663)
In which: interest expenses	(359)	(385)	(614)	(625)	(663)
Net other non-operating profit	460	385	385	385	385
Pre-tax profit	**4,665**	**5,263**	**6,416**	**7,875**	**9,607**
Income tax	(753)	(840)	(1,035)	(1,283)	(1,576)
Net profit	**3,912**	**4,424**	**5,381**	**6,592**	**8,031**
Growth (%)	21.0	13.1	21.6	22.5	21.8
NPM (%)	14.1	14.8	15.5	16.0	16.2
Controlling interest	3,135	3,538	4,304	5,272	6,423
Non-controlling interest	776	886	1,077	1,320	1,608
EBIT	**5,024**	**5,649**	**7,030**	**8,499**	**10,270**
Growth (%)	22.6	12.4	24.5	20.9	20.8
EBIT Margin (%)	18.1	18.9	20.2	20.6	20.7
EBITDA	**6,378**	**7,139**	**8,900**	**10,453**	**12,503**
Growth (%)	21.2	11.9	24.7	17.5	19.6
EBITDA margin (%)	23.0	23.9	25.6	25.4	25.2

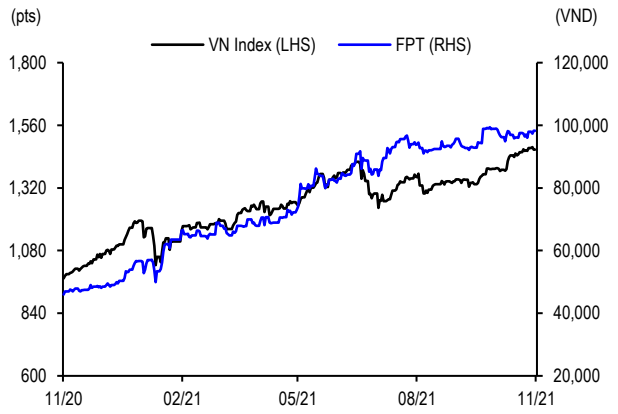
Key ratios

Year to Dec.	2019	2020	2021F	2022F	2023F
EPS (VND)	4,214	4,115	4,974	5,298	6,455
BPS (VND)	20,581	20,083	23,308	23,973	28,618
DPS (VND)	2,000	2,000	2,000	2,000	2,000
PER (x)	23.3	23.9	22.7	18.6	15.2
PBR (x)	4.8	4.9	4.8	4.1	3.4
EV/EBITDA (x)	13.6	11.9	9.2	7.5	5.9
Dividend payout ratio (%)	20.0	20.0	20.0	20.0	20.0
Dividend yield (%)	2.0	2.0	2.0	2.0	2.0
Profitability					
EBITDA margin (%)	23.0	23.9	25.6	25.4	25.2
OPM (%)	15.0	15.4	16.2	17.0	17.6
NPM (%)	14.1	14.8	15.5	16.0	16.2
ROA (%)	11.7	10.6	11.4	12.1	12.7
ROE (%)	23.3	23.8	24.1	24.4	24.5
Stability					
Debt to equity ratio (%)	46.8	68.5	57.5	48.8	40.6
Net debt to EBITDA ratio (%)	(36.0)	(61.4)	(77.9)	(102.9)	(128.1)
Cash ratio (%)	63.1	76.6	82.7	91.0	100.7
Interest coverage ratio (x)	14.0	14.7	11.4	13.6	15.5
Activity (%)					
Working capital turnover (times)	8.1	9.7	7.1	4.9	3.8
Inventory turnover (days)	13.0	14.0	14.6	14.3	14.2
Receivable turnover (days)	3.7	4.0	4.3	4.1	4.1

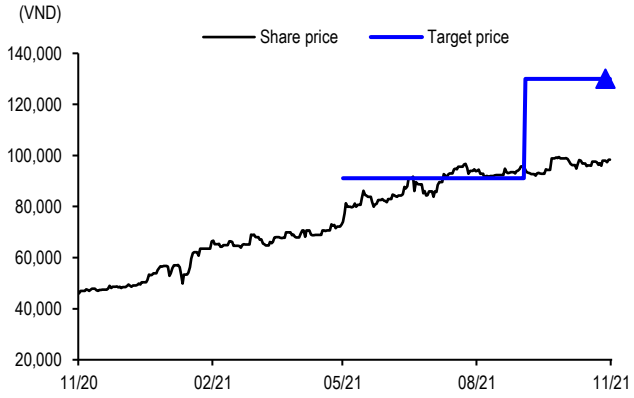
Source: Company data, Shinhan Securities Vietnam

FPT Corp. (FPT VN)

Share performance



Target price



Date	Rating	Target price (VND)	Target price gap (%)	
			Average	Max/Min
May 18th, 2021 (Initiation)	BUY	91,100	19.8	4.6/48.7
September 20th, 2021 (Update)	BUY	130,000	25.3	16.5/39.8
November 16th, 2021 (Update)	BUY	130,000	8.1	1.2/23.2

Note: Calculation of target price gap based on past 6 months

Shinhan Securities Vietnam Ratings

Stock

- **BUY:** Expected 12-month gain of 20% or more
- **Trading BUY:** Expected 12-month gain of 15% to 20%
- **HOLD:** Expected 12-month gain of 15% to loss of -15%
- **REDUCE:** Expected 12-month loss of -15% or more

Sector

- **OVERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated BUY
- **NEUTRAL:** Based on market cap, largest share of sector stocks under coverage is rated Trading BUY or HOLD
- **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

Compliance & Disclosure Notice

Analyst Certification

- The following analysts hereby certify that their views about the companies and securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: VU NGUYEN

Important Disclosures & Disclaimers

- As of the date of publication, Shinhan Securities Vietnam Co. Ltd. does not beneficially own 1% or more of any class of common equity securities of the following companies mentioned in this report: FPT Corp. JSC (FPT VN)
- Shinhan Securities Vietnam Co. Ltd. or one of its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months.
- During the last 12 months, the companies mentioned in this report were not investment banking clients of Shinhan Securities Vietnam Co. Ltd. and/or one or more of its affiliates.
- Shinhan Securities Vietnam Co. Ltd. or one of its affiliates has not received compensation for investment banking services from such companies in the past 12 months.
- Shinhan Securities Vietnam Co. Ltd. or one of its affiliates does not expect to receive or intends to seek compensation for investment banking services from such companies or one of their affiliates in the next three months.
- Shinhan Securities Vietnam Co. Ltd. or one of its affiliates, and/or their respective officers, directors, or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities of the companies mentioned in this report.
- As of the date of publication, research analysts responsible for this report and members of their households do not have any financial interest in the debt or equity securities of the companies mentioned in this report.
- Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of Shinhan Securities Vietnam Co. Ltd., including profits derived from investment banking. The analysts responsible for this report may also receive compensation based upon, among other factors, the overall profitability of sales and trading businesses relating to the class of securities or financial instruments for which such analysts are responsible.
- All opinions and estimates regarding the companies and their securities are accurate representations of the research analysts' judgments, and may differ from actual results.
- This report is intended to provide information to assist investment decisions only, and should not be used or construed as an offer or a solicitation of an offer to buy or sell any securities. The information herein has been obtained from sources deemed reliable, but such information has not been independently verified and no guarantee, representation or warranty, expressed or implied, is made as to its accuracy, completeness or correctness. Shinhan Securities Vietnam Co. Ltd. makes the best effort but does not guarantee the accuracy, completeness or correctness of information and opinions translated into English from original Vietnamese language materials. Shinhan Securities Vietnam Co. Ltd. accepts no liability whatsoever for any direct, indirect and/or consequential loss arising from any use of this material or its contents. Stock selection and final investment decisions should be made at the investor's own and sole discretion.
- This report is distributed to our customers only, and any unauthorized use, duplication, or redistribution of this report is strictly prohibited.
- Investing in any Vietnamese securities or related financial instruments discussed in this research report may present certain risks. The securities of Vietnamese issuers may not be registered with, or be subject to the regulations of, the US Securities and Exchange Commission. Information on Vietnamese securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the US. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in currencies other than the Vietnam dong is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Distribution

- United States: This report is distributed in the US by Shinhan Investment America, Inc., a member of FINRA/SIPC, and is only intended for major US institutional investors as defined in Rule 15a-6(a)(2) of the US Securities Exchange Act of 1934. All US persons that receive this document by their acceptance thereof represent and warrant that they are major US institutional investors and have not received this report under any express or implied understanding that they will direct commission income to Shinhan Securities Vietnam Co. Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any US recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Shinhan Investment America, Inc., which accepts responsibility for the contents of this report in the US. The securities described herein may not have been registered under the US Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the US or to US persons unless they have been registered or are in compliance with an exemption from registration requirements.
- All Other Jurisdictions: Customers in all other countries who wish to effect a transaction in any securities referenced in this report should contact Shinhan Securities Vietnam Co. Ltd. or its affiliates only if distribution to or use by such customer of this report would not violate applicable laws and regulations and not subject Shinhan Securities Vietnam Co. Ltd. and its affiliates to any registration or licensing requirement within such jurisdiction.

Shinhan Securities Vietnam Co. Ltd. policies regarding conflicts of interest are available at:
http://file.shinhaninvest.com/filedoc/clause/conflictofinterest.pdf