

FPT CORP. (FPT VN)

[Vietnam / Technology]

Bloomberg Code (FPT VN) | Reuters Code (FPT.HM)

BUY

Company Update

Target price (12 months) **VND 115,300**

Current price (08/09/22) VND 84,000

Return 37%



[Analyst]

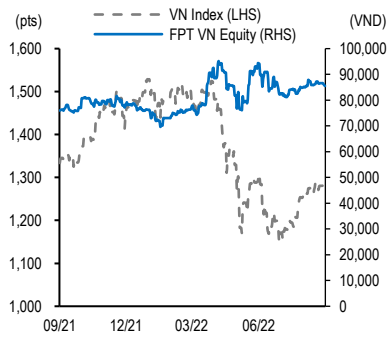
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VNINDEX	1,243
Market P/E (x)	11.0
Market Cap. (bn VND)	92,150
Outstanding Shares (mn)	1,097
Free Floating Shares (mn)	926
Free Floating (%)	84
52-Wk High/Low (VND)	99,000/70,000
90-day avg. trading volume (1mn)	2.1
90-day avg. turnover(bn VND)	160
Global ownership (%)	49

Major shareholders (%)	BoD	12.4
	State Capital Invest	5.8

Performance	3M	6M	12M
Absolute (%)	-12.3	6.3	8.3
Relative to VN-Index (%)	-7.4	22.0	15.1



Shinhan Securities

Keep growing

Maintain BUY rating and target price at VND 115,300

FPT Corporation (HoSE: FPT) is a leader in the technology sector with a core business have huge growth potential and strong financial health. We update the target price of FPT at VND 115,300 based on the expectation that revenue and net profit will continue to soar thanks to: (1) Rapid growth of the global IT segment with large customers & effective M&A strategy; (2) Made-by-FPT products gradually asserted their mark with PayTV, Data Center (DC) & advertising; (3) The education segment grew significantly driven by the increasing number of learners and tuition fees.

Update first 6 months business results in 2022 and prospects

FPT Corp. recorded net revenue of VND 19,826 billion (+22% YoY) and EBT of VND 3,637 billion (+24% YoY). FPT achieved these numbers thanks to the growth of all business segments. Notably, Global IT, advertising and education had the strongest growth rates.

Technology: Global IT services (Fsoft) were the main growth drivers as revenue increased 29% YoY. In which, revenue from the US and APAC had the strongest growth rate of 48% and 56%, respectively, helping to pull revenue of the whole sector although the Japanese market recorded a slow growth due to the depreciation of the Yen. In addition, the digital transformation (DX) segment continues to be the bright spot of the segment when revenue surged by 65% YoY with new technologies such as Cloud, AI/Data, Blockchain.

Meanwhile, Domestic IT Services (FIS) started to cool down as revenue and EBT only increased by 9% and 7% respectively due to slow disbursement from governance customers and credit scarcity. Meanwhile, Made-by-FPT products extended their gains as sales climbed by 52%.

Telecommunications: The telecommunications segment continued to rose by double digits. The profit margin of the whole sector also improved from 18.3% to 19.2% thank to PayTV and advertising. In the future, the driving force for Telecommunications revenue will come from increasing the number of broadband subscribers and expanding DCs and television services.

Education: Education revenue enlarged by 42% YoY to VND 1,935 billion. The main driving force came from the number of learners redeemed across the system increasing to 42.5% YoY.

Risks: (1) Direct competition from peers in China and India; (2) Shortage of high-quality IT human resources. (3) Exchange rate risk.

Year to Dec.	2020	2021	2022F	2023F	2024F
Revenue (bn VND)	**29,830**	**35,657**	**42,800**	**50,959**	**60,945**
OP (bn VND)	4,605	5,415	7,331	9,367	11,695
NP (bn VND)	**4,424**	**5,349**	**6,616**	**8,722**	**10,761**
EPS (VND)	4,115	4,359	4,462	4,866	4,967
BPS (VND)	20,080	19,767	19,484	19,693	19,976
OPM (%)	15.4	15.2	17.1	18.4	19.2
NPM (%)	14.8	15.0	15.5	17.1	17.7
ROE (%)	**23.8**	**25.0**	**25.4**	**26.9**	**26.6**
PER (x)	21.0	19.8	19.4	17.8	17.4
PBR (x)	4.3	4.4	4.4	4.4	4.3
EV/EBITDA (x)	12.7	10.5	7.8	5.7	4.2

Source: Company data, Shinhan Securities Vietnam

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Valuation and recommendation

We use P/E and Discounted Cash Flow (DCF) valuation methods with a weight of 50%-50% to value FPT. Our BUY recommendation is maintained with a target price of VND 115,300, equivalent to a 37% return.

Weighted Average Cost of Capital (WACC)	
WACC (%)	**9.40**
Risk-free rate (%)	3
Equity risk premium (%)	7.8
Beta	0.93
Debt cost (%)	4.8
The cost of equity(%)	10.3
Debt-to-equity ratio	0.94
Total debt	20,096

Source: Company data, Shinhan Securities Vietnam

FCF valuation for FPT

Unit: VND billion	**2022F**	**2023F**	**2024F**	**2025F**	**2026F**
CFO	6,159	8,283	9,812	12,180	14,910
Plus: After-tax interest expense	816	859	915	989	1,086
Minus: CapEx	-2,265	-1,008	-850	-1,261	-1,389
Free Cash Flow (FCF)	**4,710**	**8,134**	**9,877**	**11,908**	**14,607**
Discount rate	0.91	0.84	0.76	0.70	0.64
PV of FCF	5,998	6,401	7,292	6,035	7,089
Terminal growth	4%				
Present value of long-term value	114,078				
Enterprise value	146,894				
Debt	20,096				
Cash and cash equivalents	5,418				
Number of shares outstanding (million units)	1,096.52				
Target price (VND)	**120,600**				

Source: Company data, Shinhan Securities Vietnam

Based on the P/E method, we collect data from businesses in the Technology and Telecommunications industry operating around the world. The average P/E of Technology and Telecommunications companies in statistics (except FPT) is at 24.92x and 16.63x, respectively. Combining FPT's NPAT forecast for 2022, we expect FPT's 12-month price target to be at VND 110,000.

SoTP valuation for FPT

Unit: VND billion	**2022F Net Profit**	**2022F P/E**	**Equity Value**	**FPT's ownership**
Technology	2,898	24.92	72,228	100%
Telemunication	2,536	16.63	42,157	46%
Education & Investment	1,183	20.00	23,652	100%
Cash and cash equivalents	5,418			
Total	120,522			
Number of shares outstanding (million units)	1,096.52			
Target price (VND)	**110,000**			

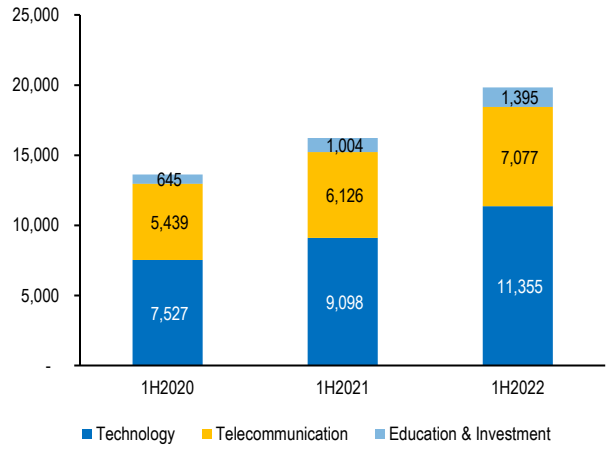
Source: Company data, Shinhan Securities Vietnam

Peer valuation

Ticker	PE	EV(milUSD)	Growth EPS (%)	ROE (%)	NPM (%)
Technology					
FPT VN	19.45	3,922	21.53	26.07	12.16
HCLT IN	18.86	29,917	8.06	21.83	15.64
INFO IN	27.51	74,095	15.15	29.15	18.17
MTCL IN	28.44	5,563	48.74	33.76	15.14
MPHL IN	28.55	5,009	17.18	21.25	11.52
TCS IN	29.39	137,794	19.50	42.13	19.90
TECHM IN	16.49	11,528	25.04	21.51	12.05
WPRO IN	18.32	26,064	16.95	20.18	15.11
EXLS US	41.85	5,196	31.03	16.68	11.60
G US	24.09	9,470	21.60	20.81	8.37
WNS US	30.49	3,562	31.07	18.38	11.43
Mean	24.92				
Median	25.80				
Telemunication					
FOX VN	13.70	884	14.44	30.16	14.35
6823 HK	17.42	16,219	(9.31)	12.82	14.20
TLKM IJ	16.02	29,552	19.01	21.03	14.94
S9436 JP	13.52	1,058	2.23	11.37	14.89
MAXIS MK	20.49	8,010	(5.65)	18.64	14.32
T MK	21.74	5,530	(12.22)	12.30	8.66
GLO PM	10.18	9,386	28.24	28.40	15.22
TEL PM	12.48	11,046	8.60	25.58	14.71
INTUCH TB	21.15	6,298	(2.90)	28.50	323.42
Mean	16.63				
Median	16.72				

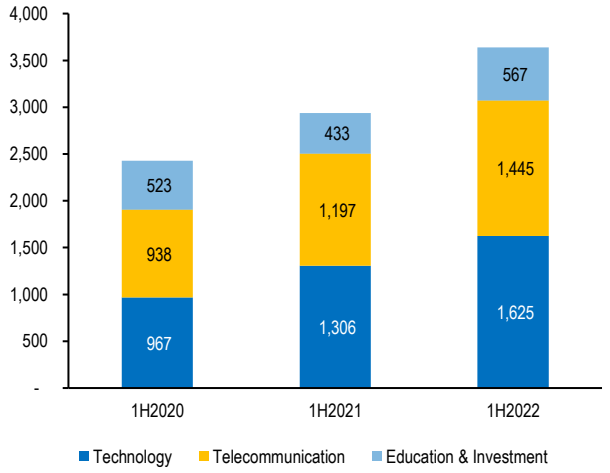
Source: Company data, Shinhan Securities Vietnam

Revenue by segment of FPT 1H2022 (VND billion)



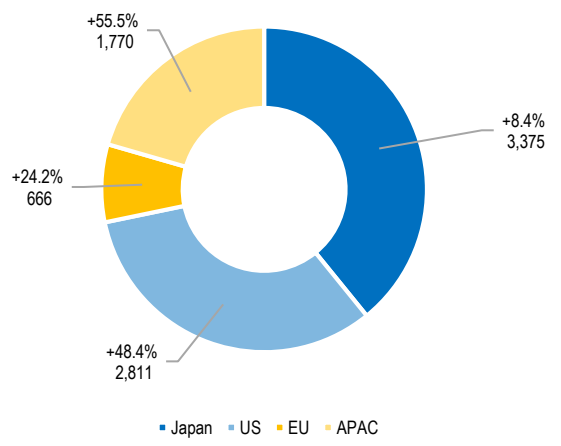
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EBT by segment of FPT 1H2022 (VND billion)



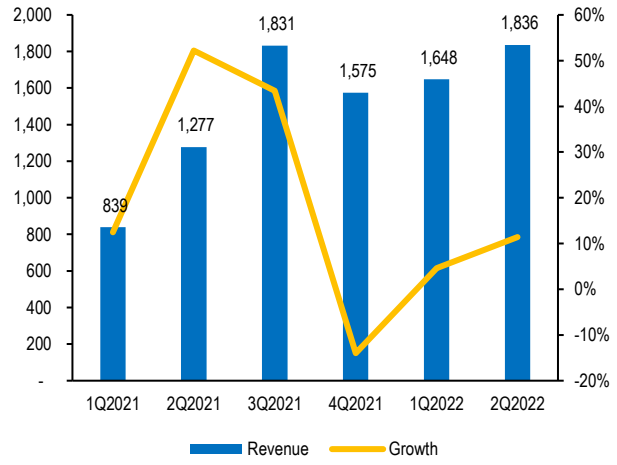
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Revenue breakdown by market of Fsoft 1H2022 (VND billion)



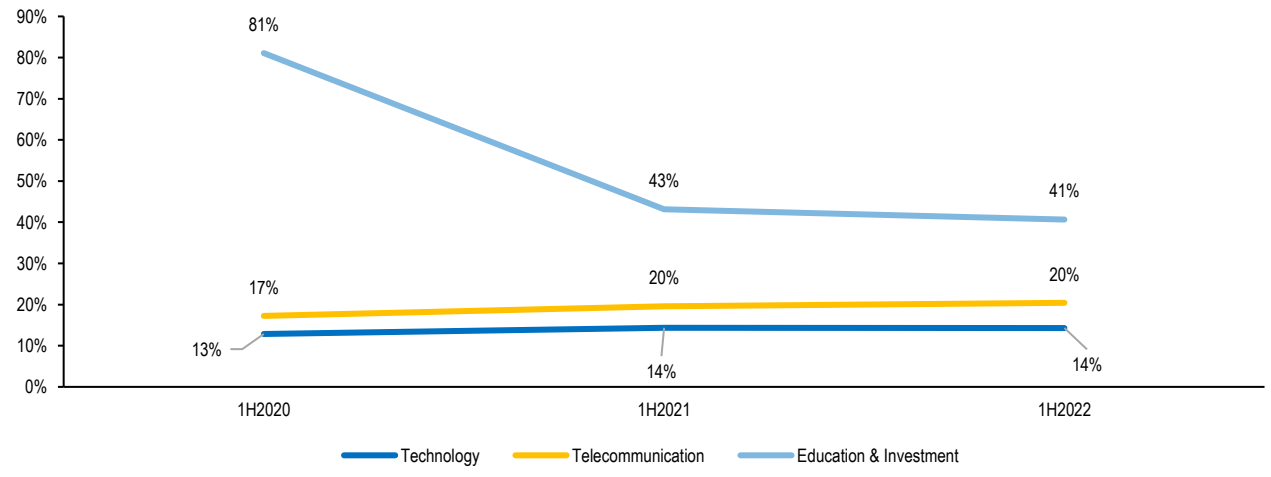
Source: Bloomberg, Company data, Shinhan Securities Vietnam

Fsoft's DX revenue (VND billion)



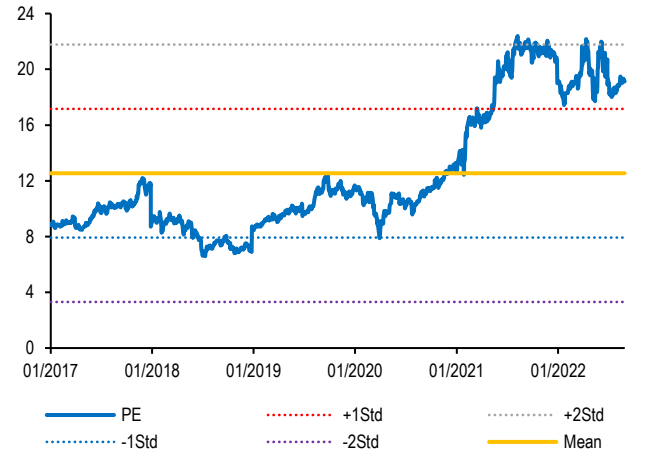
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EBT margin of FPT (%)



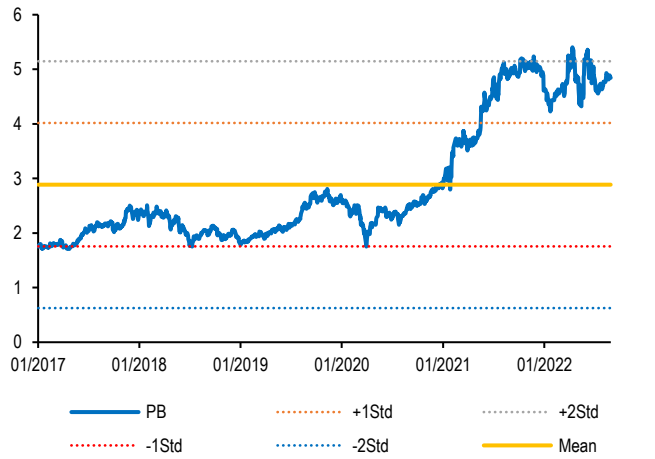
Source: Company data, Shinhan Securities Vietnam

PER of 2017-2022 (x)



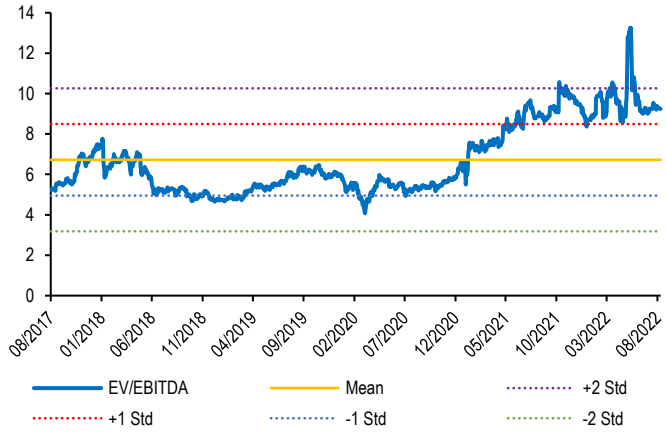
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR of FPT 2017-2022 (x)



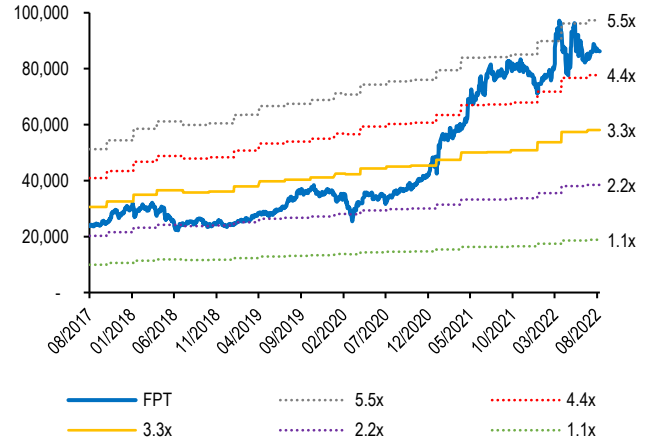
Source: Bloomberg, Company data, Shinhan Securities Vietnam

EV/EBITDA of FPT 2017-2022 (x)



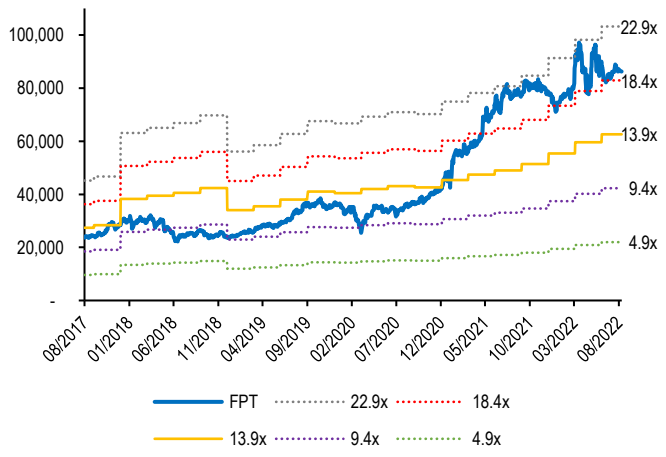
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PBR band chart of FPT (x)



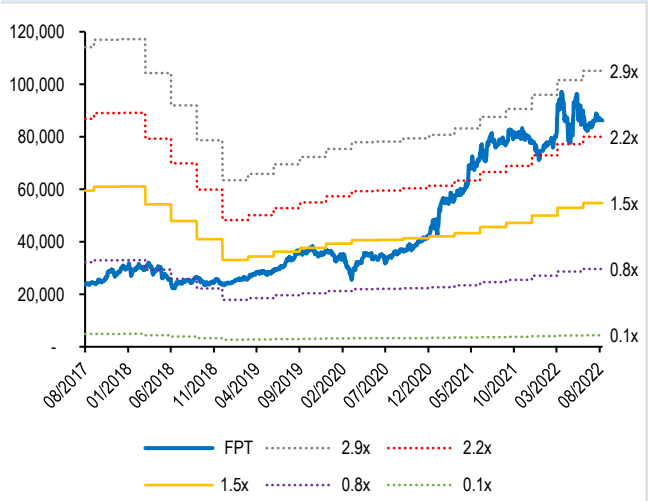
Source: Bloomberg, Company data, Shinhan Securities Vietnam

PER band chart of FPT (x)



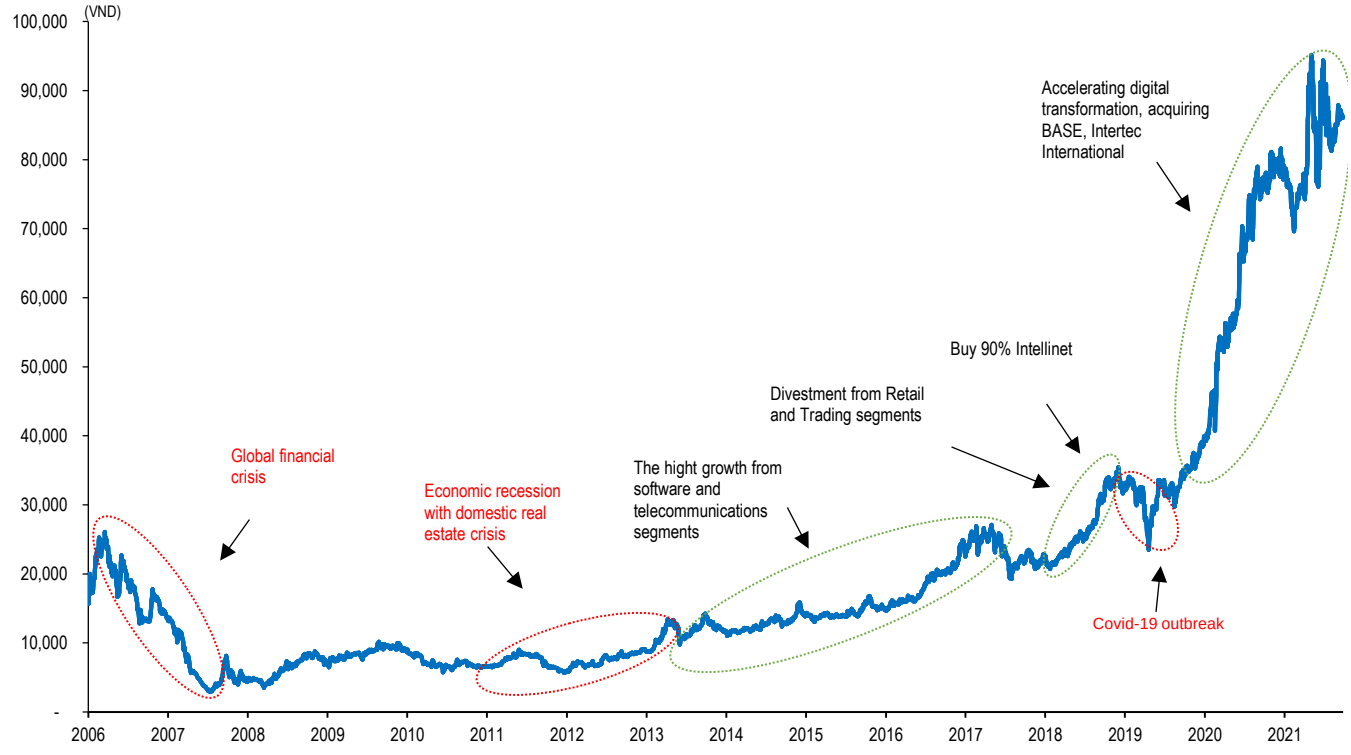
Source: Bloomberg, Company data, Shinhan Securities Vietnam

P/S band chart of FPT (x)



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Key events chart of FPT



Source: Bloomberg, Company data, Shinhan Securities Vietnam

Appendix: Financial Statements

Statement of financial position

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Total assets	**41,734**	**53,698**	**61,500**	**72,031**	**84,701**
Current assets	25,612	35,118	42,851	53,540	66,005
Cash & equivalents	4,686	5,418	10,335	16,962	24,761
Short-term financial asset	12,436	20,731	21,363	23,340	25,197
Accounts receivable	6,265	6,882	8,624	10,205	12,396
Inventories	1,290	1,507	1,833	2,204	2,659
Non-current assets	16,122	18,580	18,649	18,490	18,697
Net fixed assets	8,318	10,399	9,335	8,831	8,789
Investment assets	2,373	1,291	1,693	1,301	801
Other long-term assets	5,431	6,890	7,621	8,358	9,107
Total liabilities	**23,129**	**32,280**	**35,402**	**39,547**	**44,279**
Current liabilities	22,365	29,761	31,930	35,134	38,333
Accounts payable	2,825	2,866	3,440	4,096	4,898
Short-term borrowings	12,062	17,799	17,595	18,087	17,968
Others	7,478	9,096	10,895	12,951	15,467
Non-current liabilities	764	2,519	3,473	4,413	5,946
Long-term borrowings	678	2,296	3,243	4,176	5,698
Other financial liabilities	-	-	-	-	-
Total shareholders' equity	**18,606**	**21,418**	**26,098**	**32,484**	**40,422**
Capital stock	18,603	21,415	26,095	32,481	40,420
Capital surplus	50	50	50	50	50
Other capital	920	1,178	1,178	1,178	1,178
Retained earnings	6,391	7,000	8,538	10,986	14,121
Non-controlling interest equity	2,860	3,477	4,729	6,378	8,414
*Total debt	12,740	20,096	20,838	22,263	23,666
*Net debt (cash)	(4,382)	(6,053)	(10,861)	(18,040)	(26,292)

Statement of comprehensive income

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Revenue	**29,830**	**35,657**	**42,800**	**50,959**	**60,945**
Growth (%)	8%	20%	20%	19%	20%
COGS	**(18,017)**	**(22,025)**	**(26,129)**	**(31,086)**	**(37,338)**
Gross profit	**11,814**	**13,632**	**16,671**	**19,873**	**23,607**
GPM (%)	40%	38%	39%	39%	39%
SG&A	**(7,209)**	**(8,217)**	**(9,340)**	**(10,506)**	**(11,911)**
Operating profit	**4,605**	**5,415**	**7,331**	**9,367**	**11,695**
Growth (%)	11%	18%	35%	28%	25%
OPM (%)	15%	15%	17%	18%	19%
Non-operating profit	**131**	**133**	**133**	**133**	**133**
Financial income	822	1,271	1,373	1,586	1,847
Financial expense	(548)	(1,144)	(1,673)	(1,385)	(1,519)
In which: interest expenses	(385)	(484)	(982)	(1,034)	(1,102)
Net other non-operating profit	131	133	133	133	133
Pre-tax profit	**5,263**	**6,821**	**8,809**	**11,398**	**13,921**
Income tax	(943)	(988)	(1,211)	(1,641)	(2,058)
Net profit	**4,424**	**5,349**	**6,616**	**8,722**	**10,761**
Growth (%)	13%	21%	24%	32%	23%
NPM (%)	15%	15%	15%	17%	18%
Controlling interest	4,337	4,337	5,365	7,072	8,726
Non-controlling interest	886	1,012	1,252	1,650	2,036
EBIT	**5,649**	**6,821**	**8,809**	**11,398**	**13,921**
Growth (%)	12%	21%	29%	29%	22%
EBIT Margin (%)	19%	19%	21%	22%	23%
EBITDA	**7,139**	**8,465**	**10,767**	**13,458**	**16,194**
Growth (%)	12%	19%	27%	25%	20%
EBITDA margin (%)	24%	24%	25%	26%	27%

Statement of cash flow

Year to Dec. (bn VND)	2020	2021	2022F	2023F	2024F
Cash flow from operations	**6,430**	**5,372**	**6,379**	**8,779**	**10,490**
Net profit	4,424	5,349	6,616	8,722	10,761
Depreciation expense	(720)	(1,094)	(1,481)	(1,562)	(1,666)
Amortization expense	(162)	(174)	(189)	(185)	(137)
(Gain) from investing activities	(1,134)	(1,958)	(2,060)	(2,273)	(2,534)
Change in working capital	1,650	337	154	583	459
Others	-	-	-	-	-
Cash flow from investments	**(8,209)**	**(9,809)**	**(267)**	**(1,241)**	**(1,272)**
Change in fixed assets	(4,833)	(2,265)	(1,008)	(850)	(1,261)
Change in investment assets	(3,376)	(8,816)	(632)	(1,977)	(1,858)
Others	822	1,271	1,373	1,586	1,847
Cash flow from financing	**3,012**	**5,161**	**(1,194)**	**(911)**	**(1,419)**
Change in equity	34	60	76	95	117
Net borrowing	4,877	7,356	742	1,425	1,404
Dividends	(1,899)	(2,254)	(2,012)	(2,432)	(2,939)
Change in total cash	**1,233**	**724**	**4,918**	**6,627**	**7,799**
Beginning cash	3,453	4,686	5,418	10,335	16,962
Change in FX rates	(0)	7	(1)	-	-
Ending cash	4,686	5,418	10,335	16,962	24,761

Source: Company data, Shinhan Securities Vietnam

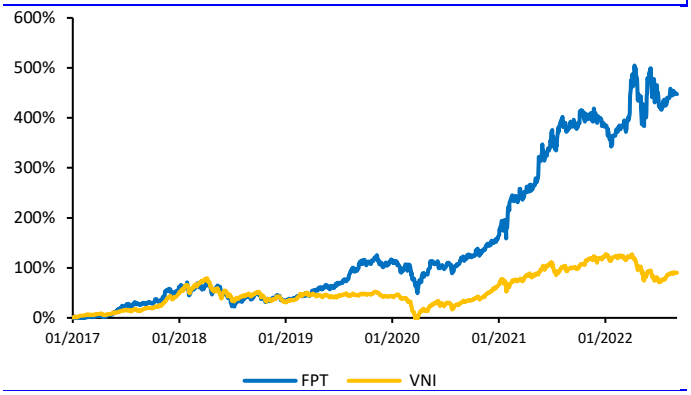
Key ratios

Year to Dec.	2020	2021	2022F	2023F	2024F
EPS (VND)	4,115	4,359	4,462	4,866	4,967
BPS (VND)	20,080	19,767	19,484	19,693	19,976
DPS (VND)	2,000	2,000	2,000	2,000	2,001
PER (x)	21.0	19.8	19.4	17.8	17.4
PBR (x)	4.3	4.4	4.4	4.4	4.3
EV/EBITDA (x)	12.7	10.5	7.8	5.7	4.2
Dividend payout ratio (%)	20.0	20.0	20.0	20.0	20.0
Dividend yield (%)	2.3	2.3	2.3	2.3	2.3
Profitability					
EBITDA margin (%)	23.9	23.7	25.2	26.4	26.6
OPM (%)	15.4	15.2	17.1	18.4	19.2
NPM (%)	14.8	15.0	15.5	17.1	17.7
ROA (%)	10.6	10.0	10.8	12.1	12.7
ROE (%)	23.8	25.0	25.4	26.9	26.6
Stability					
Debt to equity ratio (%)	68.5	93.8	79.8	68.5	58.5
Net debt ratio (%)	(61.4)	(71.5)	(100.9)	(134.0)	(162.4)
Cash ratio (%)	76.6	87.9	99.3	114.7	130.3
Interest coverage ratio (x)	14.7	14.1	9.0	11.0	12.6
Activity (%)					
Working capital turnover (times)	9.7	8.3	5.3	3.5	2.6
Inventory turnover (days)	14.0	15.7	15.6	15.4	15.4
Receivable turnover (days)	4.0	4.9	5.1	5.0	5.0

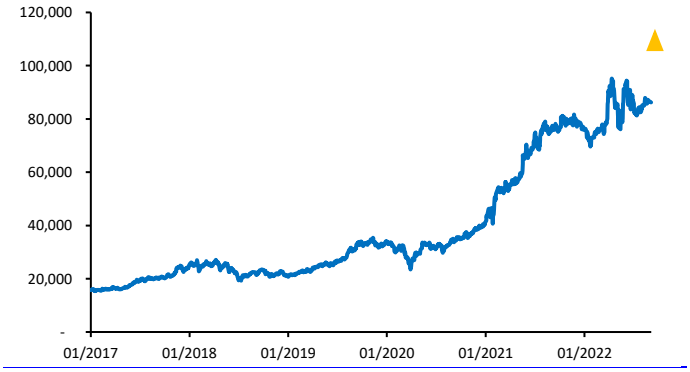
Source: Company data, Shinhan Securities Vietnam

FPT Corp (FPT VN)

Share performance



Target price (VND)



Date	Rating	Target price (VND)	Target price gap Average	Target price gap Average
18/05/2021 (Initital report)	BUY	91,100	19.8	1.6/48.7
20/09/2021 (Update report)	BUY	130,000	25.3	16.5/39.8
16/11/2021 (Update report)	BUY	130,000	8.1	1.2/23.2
08/09/2022 (Update report)	BUY	115,300	34.2	20.1/45.6

Note: Calculation of target price gap based on past 12 months

Shinhan Securities Vietnam

Stock	Sector
◆ **BUY:** Expected 12-month gain of 15% or more ◆ **HOLD:** Expected 12-month loss of 15% to gain of 15% ◆ **SELL:** Expected 12-month loss of 15% or more	◆ **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 HOLD ◆ **UNDERWEIGHT:** Based on market cap, largest share of sector stocks under coverage is rated SELL

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