

Sector: Information Technology (Latest report: [Link](#))

Recommendation	OUTPERFORM	FPT Corporation (HSX: FPT) Update business results for the first 6 months of 2021			
Current Price:	93,800	Report date:	17/08/2021	Shareholder Structure	
Previous target price:	86,000	Outstanding shares (Million)	784	Truong Gia Binh	7.1%
New target price:	107,000	Market Cap (Billion VND)	86,209	SCIC	5.9%
Dividend yield	0%	Avg. 10D Trading vol:	2,478,220	Macquarie Group	5.4%
Upside	14%	% Foreign float	49%	Bui Quang Ngoc	2.5%

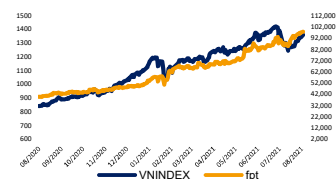
Industry Analyst:

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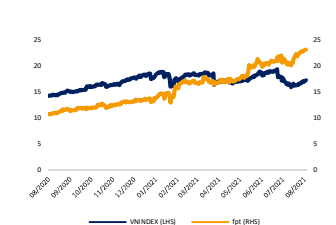
Technical Analyst:

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Target price: 114,500 VND
Cut loss price: 88,500 VND

Price comparison vs VN-index



P/E comparison vs VN-index



Valuation

- We continue to maintain **OUTPERFORM** recommendation for FPT shares with a target price of VND 107,000 in mid-2022 with the potential to increase the price of 14% compared to the price on August 17, 2021 based on two valuation models, FCFE and P/E with a weighting of 60%/40%.

Forecast business results in 2021

- BSC forecasts FPT revenue and profit in 2021 to reach VND 36,140 billion (+21.2%YoY) and profit after tax of VND 5,323 billion(+20.4% YoY). EPS FW 2021 = VND 5,049. PE FW 2021 = 18.5x.
- BSC dự báo doanh thu và lợi nhuận năm 2022 của FPT lần lượt ước đạt 42,086 tỷ đồng (+17% YoY) và lợi nhuận sau thuế đạt 6,324 tỷ đồng (+20% YoY). EPS FW 2022 = 6,103 đồng. PE FW 2021 = 15.4 lần. BSC forecasts FPT revenue and profit in 2022 is at VND 42,086 billion (+17%YoY) and profit after tax at VND 6,324 billion (+20%YoY). EPS FW 2022 = VND 6,103. PE FW 2021 = 15.4x.

Investment thesis

- Leading technology enterprises in industry face digital transformation opportunities
- Growth rate expected to remain above 20% for the next 3 years

Risks

- The complexity of epidemic affects the speed of recovery.
- Competitive risks attract human resources expert in technology

Business Update

- Accumulated in the first 7 months of 2021, FPT recorded business results with a growth rate in line with BSC estimation. Revenue and profit after tax reached 19.001 billion (+19% YoY) and 2.822 billion (+18% YoY) with positive growth in all industries.

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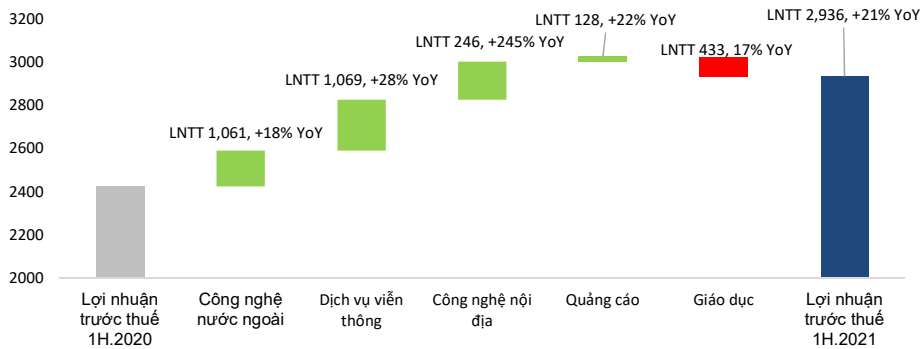
	2019	2020	Peer	VN-Index		2019	2020	2021F	2022F
PE (x)	11.4	19.3	33.3	17.3	Revenue	27,717	29,830	36,140	42,086
PB (x)	2.5	1.8	3.2	2.4	Gross profit	10,712	11,816	14,456	16,834
PS (x)	1.2	2.5	2.8	2.0	Profit after tax	3,912	4,422	5,323	6,324
ROE (%)	24%	24%	14%	13%	EPS	4,220	4,119	5,049	6,103
ROA (%)	11%	13%	6%	2%	EPS growth	8.3%	12.3%	21.6%	20.8%

I. UPDATE THE RESULTS FOR THE FIRST 6 MONTHS OF 2021

Accumulated in 7 months of 2021, FPT recorded business results with a growth rate in line with BSC estimation. Revenue and profit after tax for 7 months reached 19.001 billion (+19% YoY) and 2.822 billion (+18% YoY) respectively, equivalent to 53% of BSC all-year forecast.

The business structure has not changed much with the main contribution continuing to come from the two fields which are Technology and Telecommunications with the proportion of profit before tax of 41% and 44% respectively.

Profit growth by industry in 1H.2021

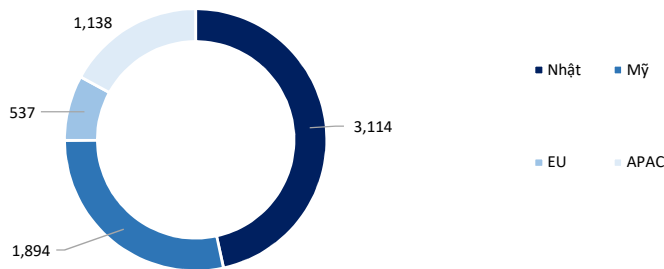


Source: FPT

Most of the business recorded positive growth:

+ Foreign technology segment benefits from (i) Customer's demand for technology investment increases again (ii) Digital transformation trend continues to take place. The Japanese market continues to account for a major proportion, despite the slowing growth rate (+3% YoY), however, management is confident the Japanese market will recover above 20% in the last 6 months of the year.

Structure of foreign technology market 1H.2021



Source: FPT

+ Telecommunication services segment benefits from (i) Delay in land cable investment due to the complexity of Covid-19 situation which helps gross profit margin improve (ii) Demand for telecommunication products is positive when social distancing takes place (IP TV has been profitable)

+ Both domestic technology and advertising have recorded good growth due to the recovery from the low base of 2020.

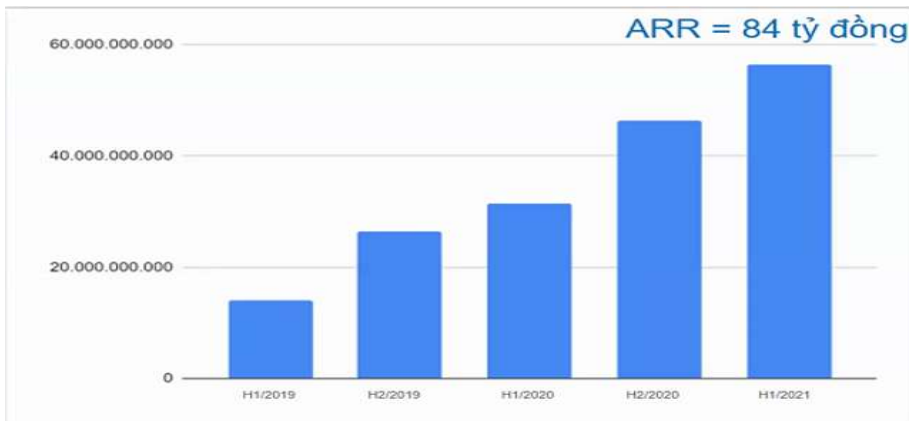
BSC believed that although the epidemic is complicated in Vietnam (especially in the southern provinces), the impact of social distancing on FPT business activities is not too negative when FPT has experienced remote work during many outbreaks in Vietnam (during the outbreak in Da Nang, about 85% of the workforce works remote). At the same time, up to now, about 33% of FPT' workforce has been vaccinated first dose, especially in Ho Chi Minh City, the rate of first dose injection is 62% (expected to reach 100% in August).

In addition, during the Analyst Meeting on August 3, the management also shared information about the start-ups that FPT is investing in, especially Base.vn. BSC contended that investing in start-ups will not have an impact on FPT overall business results in the short term, but will have a positive impact in the long term.

Some information about Base.vn

Base.vn is a corporate governance platform with some applications such as Base Work +, Base Infor+, Base Sales +,... with customer files of more than 5,000 businesses.

According to FPT leaders, Start-ups that FPT invested in, the immediate goal is to attract customer files (about 3-5 years). Therefore, one of the indicators to evaluate start-ups at the early stages of development that FPT using is ARR (Annual Recurring Revenue). Currently, ARR of Base.vn in 1H.2021 is VND 84 billion with revenue growth rate of 80% YoY and paid app growth of 60% YoY.



II. BUSINESS OUTLOOK 2022

Continuing to maintain the view in the previous report ([Link](#)), BSC maintained **OUTPERFORM** view on FPT prospects in 2022 due to (i) The Technology segment expects to maintain a high growth rate since the potential in market are still great and the trend of digital transformation is still ongoing (ii) The telecommunications sector is challenged with a high base level of 2022.

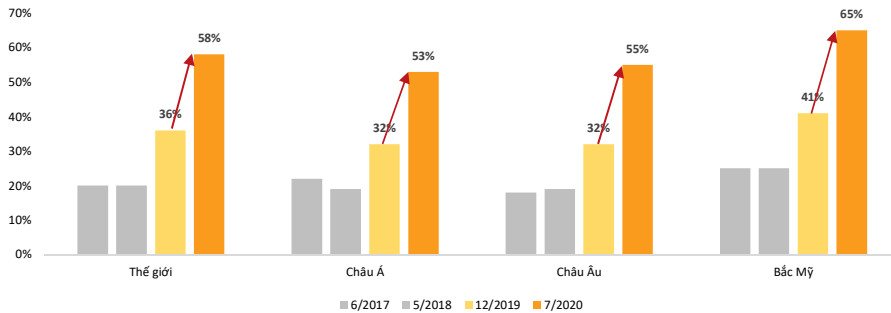
(i) The Technology Segment expects to maintain a positive growth rate after covid-19

Covid-19 is a lever to accelerate the trend of digital transformation, the past also shows that crises are an opportunity for the technology industry to develop (e.g. 2YK crisis).

+ Digital transformation is a trend that comes from the need to apply digital technology to the business of customers. The global digital transformation market is expected to grow by 16% per year compared to the overall growth of 4% per year for the IT industry with an expected size of \$ 695 billion by 2025 (according to Market Data Forecast).

+ Covid -19 pandemic changes customer behavior in the way they invest in technology: increase demand in cost optimization, system optimization... when business operations are interrupted (working remotely, switching to an online model,...). According to a McKinsey survey, the Covid-19 epidemic has caused the proportion of digital interactions of customers to skyrocket as it was three years ago combined.

Proportion of digital interactions by customers

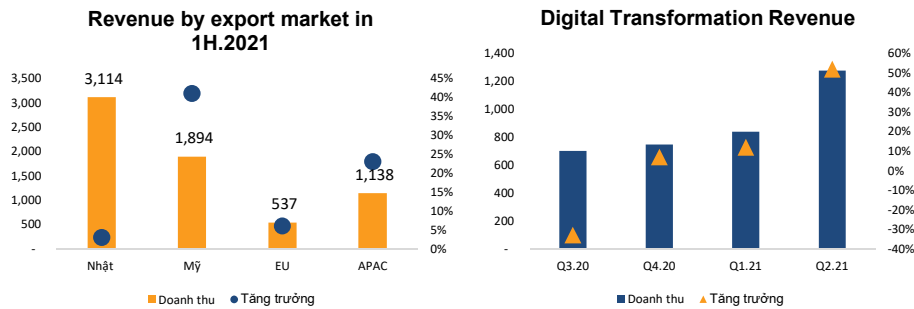


Source: McKinsey

The Group has also been very quick in developing Made-by-FPT products to serve the needs of digital transformation of customers (although still in the new stage of development): AkaBot, AkaDoc, AkaChain,...

Therefore, BSC believes that Digital Transformation will continue to be the main growth driver of the Technology segment in 2022. The Group also plans that the average growth rate of digital transformation reaching 40% per year and expects to contribute 50% of foreign technology revenue in the next four years.

BSC expects that in 2022, foreign technology revenue will record a recovery in the Japanese market (after the social distancing orders) and high growth in the US market thanks to the indirect positive influence of the manufacturing center in Costa Rica and the large market potential (+40% YoY).

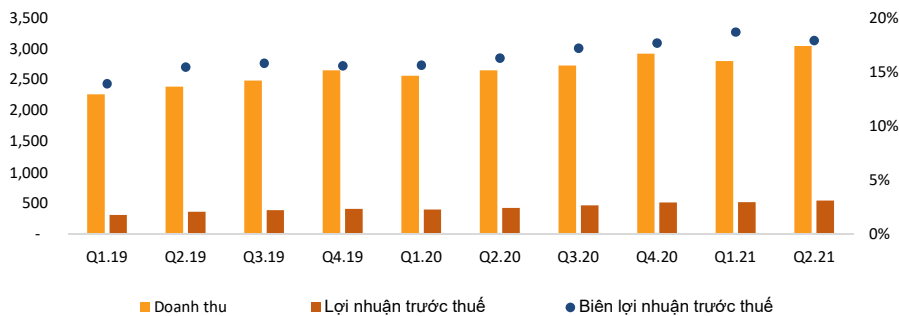


Source: FPT

(ii) Telecommunications department face the challenge with a high ground level of 2021

In the period of 2020 - 2021, due to the impact of the Covid epidemic, the disbursement of investment to the telecommunications sector (land cable) is delayed to help reduce costs and profit margins of the telecommunications sector to grow well.

Telecommunications service business results



Source: FPT

However, BSC contended that in 2022, after the Covid-19 epidemic is controlled, investment will be re-implemented, making the profit margin in 2022 may decrease and the profit growth rate returns to the average level of around 11-13% per year (from a margin of 19% to 15%).

In addition, (i) FPT Television is profitable and (ii) Deploying new Data Centers are two factors supporting the growth of the telecommunications sector in 2022.

+ As of August 2021, FPT Television reached 2 million subscribers. Revenue reached 1,000 billion and recorded a profit for the first time at 100 billion. BSC believes that covid 19 has boosted demand for the service, helping the number of subscribers grow well.

+ FPT continues to expand Data Centers with the plan to open 2 new Data Centers in Ho Chi Minh City and 1 Data Center in Hanoi. Data Centers will support the improvement of the profit margin of the Telecommunications segment when net margin of DC is 30% (compared to the net telecommunications margin of 22%).

III. FORECAST AND VALUATION

Business results forecast 2022: BSC expects **net revenue and profit after tax in 2022 of FPT to reach VND 42,086 billion (+17%YoY) and 6.323 billion (+19) % YoY** based on the following assumption:

- Software export market recorded strong growth in revenue: Japanese market reached 8.401 billion (+15%YoY); The European market reached 1.784 billion (+30%YoY) and the US market reached 5.708 billion (+40%YoY).

- Telecommunications sector continued to record positive growth: Telecommunication Services segment reached 13.728 billion in revenue (+13% YoY), Content revenue reached 635 billion (+5% YoY).

- Gross profit margin is forecasted to increase slightly to 40.0% from 39.6% thanks to an increase in proportion of projects related to Digital Transformation and an increase in labor productivity

- SG&A margin is equivalent to 2020 which is 24%

FPT Business Results Forecast Table

Unit: billion VND	2020	2021F	2022F
Net revenue	29,830	36,140	42,086
Technology Segment	16,805	21,587	25,776
+ Foreign IT	12,000	16,476	20,359
Telecommunications Segment	11,466	12,784	14,364
+ Telecommunication Services	10,867	12,149	13,729
+ Digital Content	599	635	635
COGS	(18,015)	(21,684)	(25,252)
Gross profit	11,816	14,456	16,834
Gross margin	39.6%	40.0%	40.0%
Selling expenses	(2,713)	(3,253)	(3,788)
Selling expenses margin	9.1%	9.0%	9.0%
Administration expenses	(4,495)	(5,421)	(6,313)
Administration expenses margin	15.1%	15.0%	15.0%
Pre-tax profit	5,263	6,337	7,467
Profit after tax	4,424	5,323	6,324
EPS	4,120	5,049	6,103

Source: BSC Research

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Commented [TN3R2]: Đây là dự phóng của 2022 ạ. So với 1H 21 thì vẫn oke ạ. Biên SG&A khoảng 23.3%, năng suất lao động 1H + 7% YTD.

PE model: Compared to the latest updated report ([Link](#)), we continue to keep the target P/E level for FPT at 18.

Table comparing valuations of some businesses in the region

Ticker	Corporate	Market Cap (thousand billion VND)	Revenue (thousand billion VND)	ROE	Net profit revenue	P/E
3706 TT	Mitac Holding Corp	27.8	26.9	7.4%	14.5%	6.2
eFSOL IN	First Source Solution Ltd	43.1	13.3	n/a	n/a	34.2
Info IN	Infosys	2,245	297	28.2%	33.1%	30.4
WPRO IN	WIPRO	1,037	200	18.7%	28.5%	29.5
300365 CH	Beijing forever Technology	23.0	3.8	11.9%	51.5%	78.7
CAP FP	Cappgemini	866	421	14.8%	26.1%	29.3
300496 CH	Thunder Software Technology	197	6.1	13.3%	42.6%	101.1
300520 CH	Guochang Software Company	21.0	5.3	7.7%	29.6%	110.1
FPT	FPT	86.2	29.3	23.8%	29.6%	22.4
Median						34.2

PE model	2020	2021	2022
EPS	4,119	5,049	6,103
PE		18	18
Giá trị hợp lý		90,900	109,900

DCF model:

WACC	
Rf	3.5%
Beta	0.9
Ke	12.5%
Kd	8%
E/A	60%
Thuế	20%
WACC	11.5%
g	6%

	2022F	2023F	Terminal
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Commented [RB4]: A thấy mấy lâu nay PE FPT đang gd quanh 20 lần, liệu có rerate PE FPT lên 20 ko , nếu 20 thì chắc PEG tầm 1 lần vẫn gọi là make sense nhì.

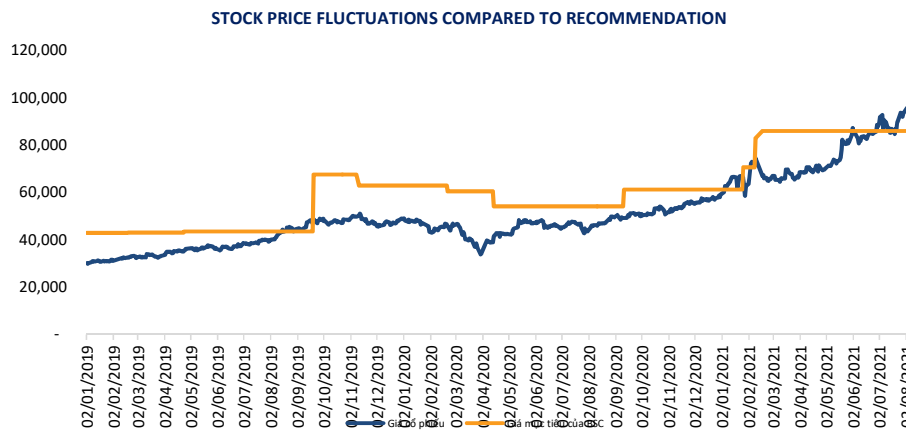
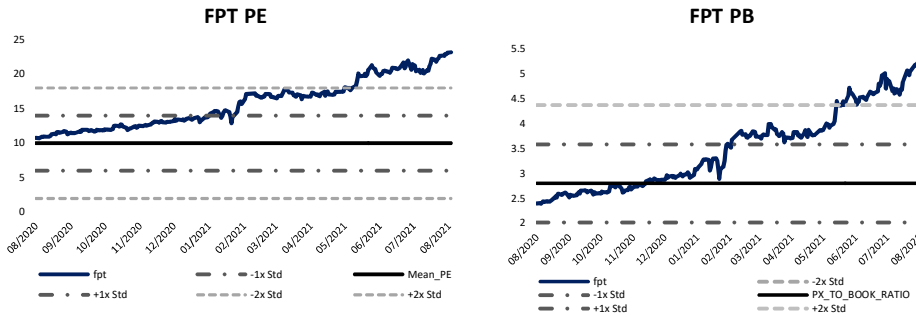
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Còn định giá thì FPT quanh mức 20 – 22 e nghĩ vẫn ok, chưa vào mức cảnh báo.



Free cash flow to the firm	4,104	3,729	69,645
Present value	77,929		
Total enterprise value	95,051		
Debt	12,740		
Equity	82,321		
Number of outstanding shares	783,987,486		
Market value (VND)	104,900		

	Price	Weight	Average price
FCFF	104,900	60%	63,000
P/E	109,900	40%	44,000
	Target price		107,000
	Current price		93,800
	Upside		14%

We recommend **OUTPERFORM** for FPT shares with a **target price for 2022 at VND 107,000 per share** based on P/E and FCFF models with a proportion of 40%/60%.



APPENDIX



Income Statement (Billion)	2018	2019	2020	2021F
Net revenue	23,213	27,717	29,830	36,140
COGS	-14,490	-17,005	-18,014	-21,684
Gross profit	8,723	10,712	11,816	14,456
Selling expenses	-2,048	-2,346	-2,713	-3,253
Administration expenses	-3,559	-4,219	-4,501	-5,421
Operating profit	3,795	4,610	5,188	6,317
Financial revenue	607	650	822	723
Financial expenses	-368	-592	-548	-530
Interest expenses	-238	-358	-385	-444
Profit from joint ventures/associations	439	405	312	342
Other profit/loss	58	55	73	20
Pre-tax profit	3,852	4,664	5,261	6,337
Tax	-623	-753	-839	-1,014
Profit after tax	3,228	3,912	4,422	5,323
Non-controlling interests	614	776	885	1,011
Profit after tax - Non-controlling interests	2,615	3,135	3,537	4,312
EPS	3,897	4,220	4,119	5,049

Balance sheet (Billion)	2018	2019	2020	2021F
Cash and cash equivalents	3,926	3,453	4,685	7,725
Short-term investments	5,568	6,709	12,436	6,709
Current account receivables	6,424	6,536	6,263	8,913
Inventories	1,340	1,284	1,290	2,043
Other current assets	1,114	996	934	1,185
Current assets	18,373	18,979	25,608	26,127
Tangible fixed assets				
Accumulated depreciation	6,513	7,492	8,318	9,941
Long-term assets in progress	1,174	1,650	2,373	175
Long-term investments	2,202	2,496	2,605	2,570
Other long-term assets	1,352	2,287	2,601	2,312
Long-term assets	11,352	14,415	16,141	15,281
Total assets	29,726	33,394	41,749	41,437
Current trade payables	2,510	2,641	23,148	2,185
Short-term debt	6,603	7,513	12,062	9,383
Other current liabilities	337	387	726	310
Total current liabilities	14,432	16,102	22,382	15,425
Long-term debt	366	349	678	479
Other long-term liabilities	109	92	38	79
Total long-term liabilities	531	493	765	470
Total Liabilities	14,963	16,594	23,148	17,090
Share capital	6,136	6,783	7,840	7,840
Share premium	50	50	50	50
Undistributed earnings	5,289	5,961	6,391	10,562
Other capital	87	765	920	103
Non-controlling interests	2,301	2,835	2,859	4,571

Cash flow statement (Billion)	2018	2019	2020	2021F
(Loss)/Profit	3,852	4,664	5,261	6,619
Depreciation and amortization	1,164	1,355	1,491	1,534
Working capital changes	-255	81	-86	(1,247)
Other adjustments				
Net cash flow from operating activities	3,584	3,898	6,321	4,902
Purchase and construction of fixed assets	-2,464	-3,233	-3,018	(1,216)
Other investment				
Net cash flow from investment activities	-3,696	-3,845	-8,127	(1,309)
Dividends paid	-1,707	-1,483	-1,899	(1,357)
Net borrowing fund	-2,239	899	4,879	821
Other charges	-9	-	-	-
Net cash flow from financing activities	558	-514	-3,037	(535)
Beginning of year cash flow	3,480	3,926	3,453	4,684
Cash flow in the year	446	-460	1,232	3,058
Ending of year cash flow	3,926	3,453	4,684	7,725

Ratio (%)	2018	2019	2020	2021F
Liquidity				
Current ratio	1.27	1.18	1.15	1.59
Quick ratio	1.10	1.04	1.05	1.40
Capital structure				
Debt/Total Asset	50%	50%	55%	44%
Debt/Equity	101%	99%	124%	78%
Efficiency				
Days Sales of Inventory	29.7	28.2	26.1	39.8
Days Sales Outstanding	83.3	74.9	78.3	56.0
Days Payable Outstanding	60.3	55.3	43.7	32.4
CCC	52.7	47.8	54.6	63.4
Profit margin				
Gross margin	37.6%	38.6%	39.6%	39.2%
Profit after tax margin	13.9%	14.1%	14.8%	14.1%
ROE	23.1%	24.8%	24.9%	24.7%
ROA	11.8%	12.4%	11.7%	13.2%
Valuation				
PE	11.1	10.8	11.7	9.3
PB	2.6	2.1	2.1	1.8
Growth				
Net revenue growth	-45.6%	19.4%	7.6%	19.9%

BUSINESS UPDATE REPORT
18/08/2021 – HSX: FPT



Total Owners' equity	14,762	16,799	18,603	22,553
Total Liabilities and owners' equity	29,726	33,394	41,749	41,437
Number of outstanding shares	613	678	784	784

EBIT growth	-9.5%	21.1%	12.8%	24.3%
Pre-tax growth	-24.0%	8.3%	2.4%	25.6%
EPS growth				

Source: BSC Research.

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

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