

Company Update Report

FPT_FPT Joint stock company

BSC

20/2/2020

MAINTAINING THE GROWTH

Recommendation

BUY

Nguyễn Thị Cẩm Tú (cơ bản)

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Target price	70,300
Current price	54,200
Upside	29.7%

Lê Quốc Trung (ptkt)

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Target price	N/A
Current price	N/A

Market Data

Outstanding share (mil)	678.00
Mkt Cap (VND. bil)	35,163
High of 52 w	61,00
Avg Vol 10 days (share)	2,502,824
Foreign ownership	49.00%

Major shareholder (%)

Trương Gia Bình	7.08%
SCIC	5.93%
Red River Holding	4.58%
Bùi Quang Ngọc	2.75%
Deutsche Bank Ak	2.42%

Chart (1 year)



Overview: FPT is the leading technology company in Vietnam with more than 30 years of experience. After withdrawing from Retail and Distribution Sector, the company focused on Technology, especially Software Exporting.

Valuation

We continue to recommend **BUY** for FPT stock with a new target price of VND 70,300/share (down 6.6% compared to the latest target price) based on PE / FCFF method at the proportion of 40%/60% (PE fw = 13) due to (1) business results in 2019 are lower than our expectation (revenue and PBT are respectively lower 1.9% and 4.1%) (2) lower the 2020 business forecast (revenue and PBT are forecast to grow by 19.9% and 20.0%).

2020 Business plan

In 2020, FPT plans revenue and PBT are at VND 32,450 billion (+ 17% YoY) and VND 5,510 billion (+ 18% YoY) respectively.

2020 BSC Business forecast

BSC forecasts that FPT's 2020 net revenue and profit PBT will be VND 33,255 billion (+ 19.9% YoY) and VND 5,599 billion (+ 20.0% YoY). EPS FW 2020 is 5,157 VND/share (+22.2% YoY) (deducted from bonus and welfare fund)

Investment thesis

1. New trends (Digital transformation) and large export market support company growth. Vietnam continues to have the advantage thanks to cheap labor and competitive bidding prices.
2. Business growth rate is expected to remain positive in the next 2-3 years with CAGR = 18%/year.
3. Expectation to increase added value product through new technology development and M&A opportunities

Catalyst

- SCIC divests from FPT

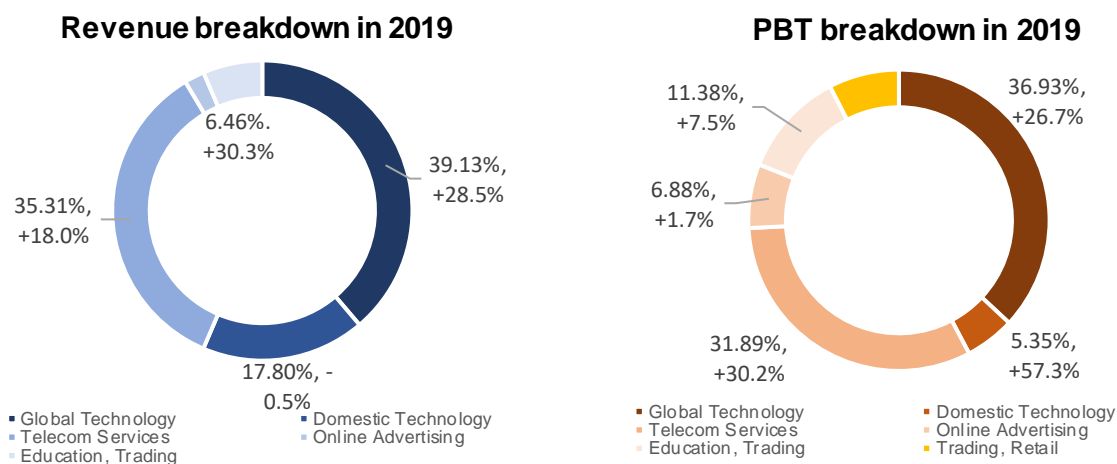
Investment risks

- Fierce competition in Telecommunications and Digital Content
- Capital intensive in telecommunications infrastructure
- Competition in recruiting employees

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2019 continues to be a good year with high growth in core sectors. Revenue and profit before tax respectively reached VND 27,717 billion (+19.4% YoY) and VND 4,665 billion (+20.9% YoY), equivalent to completing 103.9% of the revenue plan and 104.6% of the profit before tax plan. Revenue and profit before tax are respectively 1.9% and 4.1% lower than the latest forecast of BSC ([Link](#)). The gap is mainly due to (1) Software export revenue is 3.6% lower than expectation (2) Gross profit margin is 80 percentage points lower than the forecast.

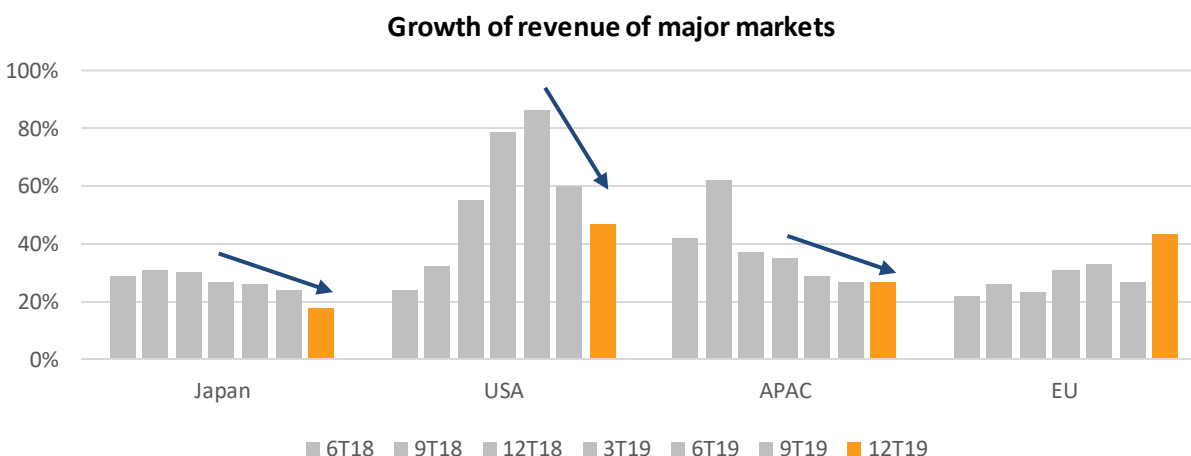
In general, business structure have not much major change in 2019 that Technology and Telecom account for the main proportion in revenue (56.9% and 37.5%) and profit before tax (42.3% and 38.8%).



Source: FPT

However, BSC notes the following points:

(1) Major markets of Global Technology sector recorded the slow – down growth



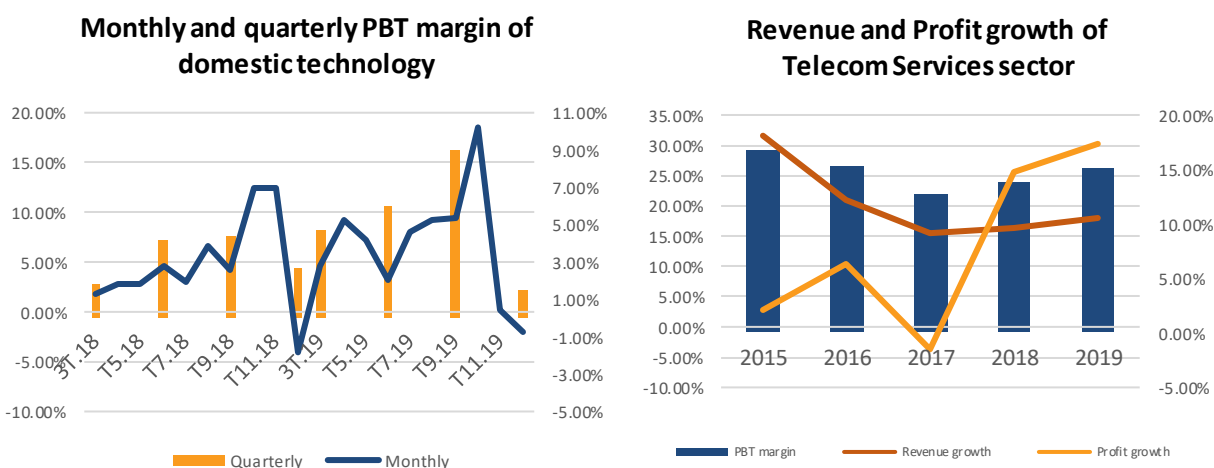
Source: FPT

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By 2019, the growth rates of the main markets are slowing down. BSC considers that major markets (especially Japan) have reached certain large market sizes, along with difficult recruitment of personnel, making the high growth more difficult to maintain. However, considering that (1) the market potential is still high, (2) FPT has raised wages to attract personnel and (3) F - Soft's leaders are determined to implement the new development strategy: increasing revenue per customer, focusing on projects with better gross profit margin, **BSC still expects profit growth rate to remain at 20% per year.**

(2) Domestic Technology sector strongly improved the PBT margin which BSC believes is hard to maintain in 2020.

Although revenue reached VND 4,935 billion (-0.5% YoY), profit before tax recorded a sudden growth to VND 250 billion (+57.2% YoY) thanks to the increase in profit margin from 3.21% to 5.07%. BSC comments that the profit margin increased strongly due to (1) narrowing hardware proportion, increasing software proportion (2) increasing the proportion of contracts with banks with high profit margins (+78.5% YoY). **However, BSC believes that it is difficult for the domestic IT sector to keep strong growth in 2020** due to a decrease in the proportion of banking contracts (normally signed every 3 years).



Source: FPT

(3) Telecom services sector recorded a high growth thanks to the increase in the number of broadband subscribers despite the saturation of Vietnamese Telecom industry.

Revenue and profit before tax were VND 9,789 billion (+18.05% YoY) and VND 1,488 billion (+30.02% YoY) respectively. BSC expects the company's continuing investment in telecommunications infrastructure will pave the way for new subscriber growth - however, BSC believes that this growth rate (along with revenue growth rate) will slow down in the coming time as Vietnam's telecommunications industry has saturated for years. However, a number of factors that can help boost profit growth include (1) IP TV is expected to cut losses in 2020 (2019 loss of VND 130 billion) (2) Datar Center has just come into operation with higher gross profit margin (~30% - 35%).

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2020 BSC Business forecast: BSC expects FPT to maintain a profit growth of 20% in the coming years with the main business lines growing steadily.

However, BSC thinks that human resource risk is the biggest risk for the company to maintain its growth. In 2019, that (1) the company recruited fewer people than the annual average number in 2019 (BSC estimates new net employment of 1,500 people in 2019 compared to average 3,000), (2) the 25% increase in salary to attract employees indicates that pressure to recruit has been higher than in previous years. Although the market demand is potentially high, a shortage of employees will directly affect the growth of the net income.

BSC forecasts that FPT's net revenue and profit after tax in 2020 will reach VND 33,255 billion (+ 19.9% YoY) and 5,599 billion (+ 20.0% YoY) based on the assumption:

- Software exporting major markets continue to grow at a positive level: Japan market reaches VND 6,641 billion (+20% YoY); European market reaches VND 1,282 billion (+30% YoY) and US market reaches VND 3,741 billion DT (+ 40% YoY).
- Telecommunication Services sector reaches revenue of VND 10,846 billion. The Online Advertising sector continues to be flat due to fierce competition.
- Gross profit margin is expected to increase slightly to 39.0% from 38.6% thanks to an increase in the proportion of projects related to Digital Transformation and increase in labor productivity (however, the gross margin of 39.0% is lower than the latest gross margin forecast which is 39.8%)
- FPT's SG&A expenses margin in 2020 reaches 23.7%.

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Business Forecast Table

Unit: VND bill	2019A	2019F	2020F cũ	2020F mới	Notes
Net revenue	27,717	28,269	33,858	33,255	The Technology Division continues to maintain a high growth rate: Japan (+ 20% YoY), Europe (+ 30% YoY) and the US (+40 % YoY)
Technology sector	15,783	16,795	20,966	19,967	
+ Global Technology	10,848	11,253	14,980	13,981	
+ Domestic Technology	4,935	5,542	5,985	5,985	
Telecommunication sector	10,398	10,027	11,300	11,500	
+ Telecom services	9,789	9,431	10,657	10,846	The Telecom Services continues to be major contribution Telecom Sector. However, BSC believes that the high subscriber growth in 2019 will not maintain in 2020 and 2021.
+ Online Advertising	538	595	643	654	
Cost of goods sold	(17,006)	(17,131)	(20,382)	(20,286)	
Gross profit	10,711	11,138	13,475	12,969	BSC expects that the gross margin will continue to slightly improve due to the increase in the proportion of projects related to Capital conversion with higher LNG margin. However, the gross profit margin is lower than initially expected when the company raises wages.
Gross profit margin	38.6%	39.4%	39.8%	39.0%	
Selling margin	(2,341)	(2,375)	(2,844)	(2,793)	
Selling expense margin	8.4%	8.4%	8.4%	8.4%	
Administration expense	(4,252)	(4,325)	(5,180)	(5,088)	
Administration expense margin	15.3%	15.3%	15.3%	15.3%	Gross margin of Telecommunications sector is also expected to improve when IP TV is no longer in a loss in the near future.
Profit before tax	4,665	4,809	5,867	5,599	
Profit after tax	3,912	4,030	4,916	4,692	
EPS	4,220	4,866	5,403	5,157	

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+ PE Valuation: BSC recognizes that most enterprises in the region have large scale in terms of (1) market cap, (2) revenue and (3) human resources, we assume that the target PE for FPT is 13.

Comparison with peers' PE in region table

Ticker	Company	Market cap (tril VND)	Rev (tril VND)	ROE	Net profit margin	P/E
3706 TT	Mitac Holding Corp	27.8	23.5	6.7%	8.3%	14.8
eFSOL IN	First Source Solution Ltd	10.3	12.5	n/a	9.9%	9.2
Info IN	Infosys	1,104.3	273.6	25.8%	19.1%	20.9
WPRO IN	WIPRO	455.1	193.8	17.9%	14.8%	14.7
300365 CH	Beijing forever Technology	26.1	4.1	15.7%	22.3%	26.9
300520 CH	Guochang Software Company	20.0	3.4	8.2%	5.0%	64.3
300496 CH	Thunder Software Technology	86.4	5.1	13.9%	11.4%	119.4
002657 CH	Sinodata Co	19.5	5.2	3.2%	0.3%	143.4
CAP FP	Capgemini	484.2	367.3	12.7%	7.1%	22.1
FPT	FPT	37.9	27.7	20.4%	14.2%	12.8
Median						21.5

PE Valuation	2019	2020	2021
EPS	4,220	5,157	6,200
PE		13	13
Fair price		67,041	80,600

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+ FCFF Valuation

	2020	2021	2022	2023
Free cash flow to firm	3,695	5,029	6,212	7,511
Current value	2,383	2,899	3,200	5,132
Total firm value	52,282			
Debt	7,866			
Equity value	44,416			
No. of shares	612,699			
Value of a share (VND)	72,493			

WACC	
Rf	6%
Beta	0.9
Ke	15%
Kd	9%
E/A	60%
D/a	40%
Tax rate	20%
WACC	12%
g	1%

	Price	Proportion	Average price
FCFF	72,493	60%	43,496
P/E	67,041	40%	26,816
	Target price		70,312
	Current price		54,200
	Upside		29.70%

We maintain our **BUY** recommendation to FPT stock and lower the target price from VND 75,300/share to VND 70,300/share (-6.6%) for the end of 2020 by combining two P/E and FCFF with the proportion of 40% / 60%.

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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