Company Update Report

FPT_FPT Joint stock company

BSC

14/4/2020

Annual General Meeting 2020 Update

Recommendation	BUY
Nguyễn Thị Cẩm Tú (fundamental)	
tuntc@bsc.com.vn	
Target price	60,700
Current price	46,400
Upside	30.8%
Nguyễn Tiến Đức (technical)	
ducnt@bsc.com.vn	
Target price	50,450
Cutloss price	44,500

Market Data	
Outstanding share (mil)	681.67
Mkt Cap (VND. bil)	31,654
High of 52 w	61,000
Avg Vol 10 days (share)	2,076,338
Foreign ownership	49.00%

Major shareholder (%)	
Trương Gia Bình	7.08%
SCIC	5.90%
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 60,700/share (down 13.6% compared to the latest target price) based on PE / FCFF method at the proportion of 40%/60% (PE fw = 11) due to (1) lower the 2020 business result due to negative impact of Covid – 19 (2) lower target P/E for FPT stock to 11 from 13.

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 31,805 billion (+ 14.7% YoY) and VND 5,321 billion (+ 14.1% YoY). EPS FW 2020 is 4,837 VND/share (+14% YoY) (deducted from bonus and welfare fund)

Catalyst

- SCIC divests from FPT

Company update

On 8/4/2020, BSC participated in online 2020 AGM of FPT. The BOD answered questions related to impact of Covid-19 and Digital Transformation strategy.

(1) Impact of Covid-19: Outsourcing segment is to grow mildly in Q2.2020 (CAGR in 2015 – 2019 was 21.5%/year). However, with solid financial base and large customers, FPT is strong enough to withstand the difficult time ahead.

(2) Digital Transformation Strategy of FPT

Moreovers, there are some important informations: (1) ESOP issuance for managers and employees, (2) 2020 dividend policy: 20% cash dividend (10% cash dividend and 15% stock dividend are to implement in June 2020).

FPT Joint stock company

On 8/4/2020, BSC participated in online 2020 AGM of FPT, most of questions focused on the impact of Covid – 19 and Digital Transformation Strategy. BSC notes the following points:

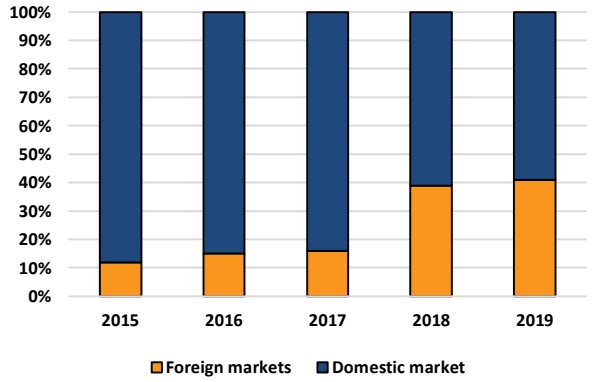
(1) Impact of Covid -19 pandemic on FPT's business activities:

FPT has prepared for different scenarios dependent on Covid-19 pandemic progress. The company focus on cutting short term investment cost, indirect expense while shifting to working online in all divisions.

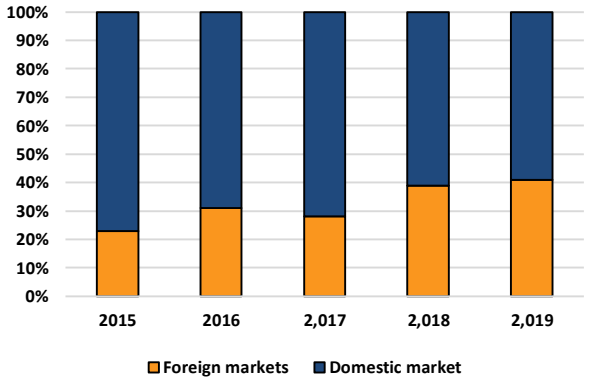
However, negative impact of Covid – 19 becomes clearer when FPT announces that Software outsourcing division's new KPI in Q2.2020 has to decreased by 15% compared to the old one and company predicts a mild growth of this division in the next quarter (historical CAGR in the period 2015 – 2019 was 21.5%/year). As Software outsourcing accounts for 39% of revenue and 37% of PBT in 2019, investors should be expected to observe a slowest quarter growth under Covid-19 crisis.

We are concerned that challenges not only comes from the short-term impact (social distance discourages bidding progress, developing new customers; cutting budget of clients) but also comes from risk of recession of global economy while 41% revenue and PBT of FPT are from foreign markets.

Proportion of foreign revenue



Proportion of foreign profit before tax

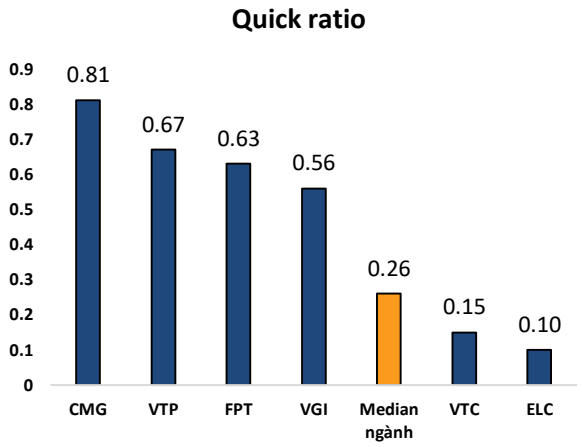


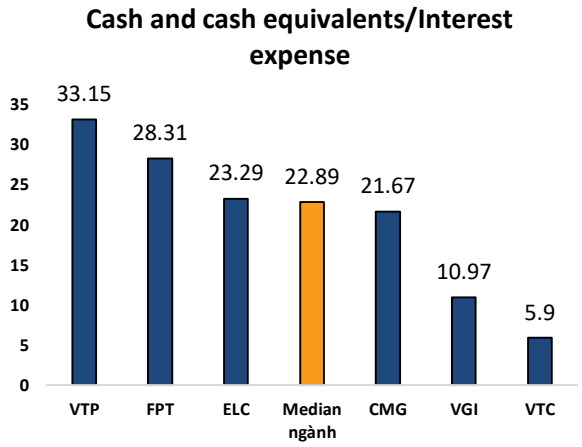
Source: FPT

However, we are confident that FPT are strong enough to withstand the difficult time ahead:

(a) Strong financial position: curren ratio of FPT is better than industry median thanks to high cash and cash equivalents. BSC has stressed test the company with the assumption that are no revenue and cashflow created but company still has to pay 50% operating expense (exclue depriciation), interest expense and payables in 2020. The result shows that FPT is able to stand in 2 quarters.

(b) Majority of clients are large corporates which have high chance to survive amid Covid-19 crisis. Currently, with a total number of 720 customers FPT provides services in 2019, 44% of revenue comes from companies which are included in Fortune Global 500.





Customer sectors	2015	2016	2017	2018	2019
Of whom have revenue >20 m USD	0	0	0	2	2
Of whom have revenue >10 m USD	2	3	5	6	7
Of whom have revenue >5 m USD	3	13	10	13	19
Of whom have revenue >1 m USD	25	45	60	70	96

Source: FPT, BSC Research

BSC expects that when the pandemic ends, the growth will bounce back to normal level and new opportunies will open thanks to (1) changing working behaviors will encourage IT investment (2) FPT gain market shares from competiors.

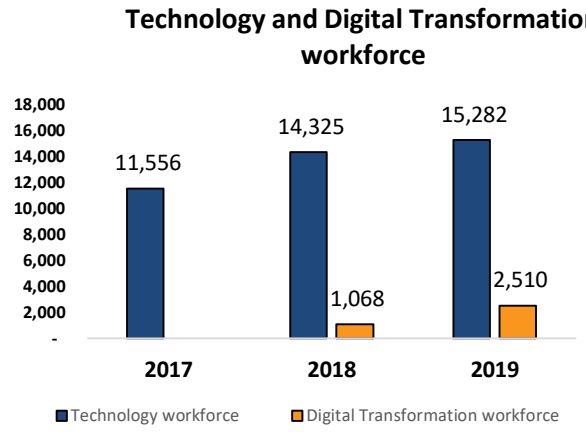
(2) FPT's Digital Transformation Strategy

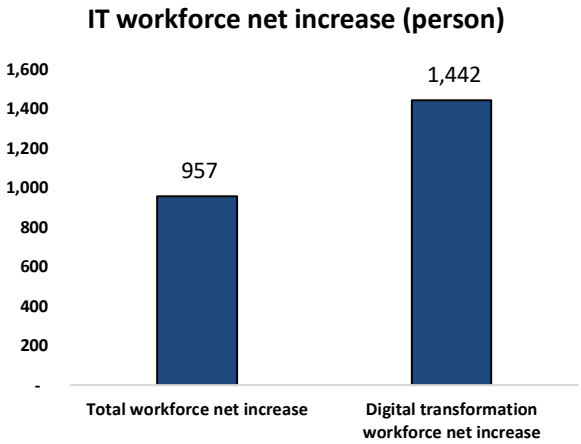
BSC continues to believe that Digital Transformation is major growth driver when DX projects record a faster growth and higher gross margin than traditional projects. In 2019, FPT had taken actions to push DX division:

(a) Increase DX workforce (+132% YoY compared to 7% growth of total IT workforce)

(b) Encourage "made by FPT" products (ex: AkaBot) which apply Big Data, AI,…

(c) Sign contracts with large local companies to implement DX activites (ex: Minh Phu Seafood Corporation). FPT will be responsible for applying technology in the supply chain (1) forecast shrimp volumes and quality (2) increase factories' efficiency (3) automate and connect different departments in supply chain





Source: FPT

(3) Other important informations

(a) ESOP issuance for managers and employees:

It is worth noting that ESOP for managers which last until 2026 has the restriction of transfer of 10 years - a quite long time on Vietnam stock market.

The maximum number of ESOP shares allowed to be issued in 1 year is 0.75% of total issued stock shares(~ 5.1 million shares). At a price of 46,400 VND/share (Closing price on April 10, 2020), the estimated ESOP cost is VND 237 bil, equal to 6% of the NPAT for 2019.

(b) The 2020 cash dividend policy is expected to be 20%: FPT has just approved the payment of 10% cash dividend and 15% stock dividend of 2019 in June 2020.

(c) FPT's expected investment costs in 2020 increase sharply

BSC believes that (1) the impact of the nCoV epidemic; (2) company intention to cut cost and (3) actual costs are historically lower than plan, actual disbursements in 2020 are difficult to reach the expected levels.

However, BSC are concerned that the expected investment cost for the Technology sector increased sharply (+ 111.8%) for 2020 (probably to serve the expansion of the operating office for IT workforce). BSC will update further details of investment projects in the following reports.

	2016	2017	2018	2019	2020F	YoY
Annual total investment expense	**1,317**	**1,105**	**2,454**	**3,239**	**4,710**	***45.4%***
Telecom sector	1,003	691	1,603	1,971	2,413	*22.4%*
Technology sector	286	375	608	791	**1,675**	***111.8%***
Education sector and Others	28	39	243	477	622	*30.4%*

Source: FPT

(4) 2020 BSC Business forecast: We assumes that 2020 growth will be negatively impacted bue to Covid - 19 before returning to normal level in 2021.

BSC forecasts that FPT's net revenue and profit after tax in 2020 will reach VND 31,806 billion (+ 14.7% YoY) and 4,459 billion (+ 14% YoY) based on the assumption:

- Software exporting major markets record slower grow: Japan market reaches VND 6,309 billion (+14% YoY); European market reaches VND 1,183 billion (+20% YoY) and US market reaches VND 3,206 billion DT (+ 20% YoY).

- Telecommunication Services sector reaches revenue of VND 10,752 billion. The Online Advertising sector decreases by 12% amid companies cutting budget for marketing and advertisement.

- 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 38.8% is lower than the latest gross margin forecast which is 39.0%)

- FPT's SG&A expenses margin in 2020 reaches 23.7%.

Business Forecast Table

Unit: VND bill	2019A	2020F Pre	2020F	2021F	Notes
Net revenue	**27,717**	**33,255**	**31,805**	**37,785**	In 2020, the Technology Division may observe slowest growth in 5 years before bouncing back to normal level in 2021. BSC assumes market growth in 2020: Japan (+ 14% YoY), Europe (+ 20% YoY) and the US (+20 % YoY)
Technology sector	15,783	19,967	18,836	23,210	
+ Global Technology	*10,848*	*13,981*	*12,851*	*16,865*	
+ Domestic Technology	*4,935*	*5,985*	*5,985*	*6,344*	
Telecommunication sector	10,398	11,500	11,275	12,807	The Telecom Services continues to be major contribution Telecom Sector. BSC expects social distancing have positive impact on Telecom Sector.
+ Telecom services	*9,789*	*10,846*	*10,751*	*12,257*	
+ Online Advertising	*538*	*654*	*524*	*550*	
Cost of goods sold	(17,006)	(20,286)	(19,465)	(23,049)	
Gross profit	**10,711**	**12,969**	**12,340**	**14,736**	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 margin of Telecommunications sector is also expected to improve when IP TV is no longer in a loss in the near future.
Gross profit margin	*38.6%*	*39.0%*	*38.8%*	*39.0%*	
Selling margin	(2,341)	(2,793)	(2,703)	(3,212)	
Selling expense margin	*8.4%*	*8.4%*	*8.5%*	*8.5%*	
Administration expense	(4,252)	(5,088)	(4,834)	(5,743)	
Administration expense margin	*15.3%*	*15.3%*	*15.2%*	*15.2%*	
Profit before tax	**4,665**	**5,599**	**5,321**	**6,498**	
Profit after tax	3,912	4,692	4,459	5,445	
EPS	**4,220**	**5,157**	**4,837**	**5,969**	

+ PE Valuation: Compared with the previous update report (Link), BSC downgrade the target P/E in 2020 to 11 from 13 due to (1) Covid-19 impact discourage the bussiness growth (2) rising uncertainty of global economy, which may worse the demand pf FPT's products.

Comparision 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	24.6	23.5	7.3%	8.3%	11.9
eFSOL IN	First Source Solution Ltd	6.9	12.5	n/a	9.9%	6.5
Info IN	Infosys	840.2	273.6	25.8%	19.1%	16.8
WPRO IN	WIPRO	334.3	193.8	17.9%	14.8%	11.4
300365 CH	Beijing forever Technology	23.1	4.1	15.7%	22.3%	23.8
300520 CH	Guochang Software Company	15.4	3.4	8.2%	5.0%	36.3
300496 CH	Thunder Software Technology	68.7	5.1	13.9%	11.4%	88.3
002657 CH	Sinodata Co	16.3	5.2	3.2%	0.3%	119.7
CAP FP	Capgemini	352.2	367.3	12.7%	7.1%	15.7
FPT	FPT	31.9	27.7	20.4%	14.2%	10.1
Median						**16.3**

PE Valuation	2019	2020	2021
EPS	4,220	4,837	5,969
PE		11	11
Fair price		**53,203**	**65,659**

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+ FCFF Valuation

	2020	2021	2022	2023
Free cash flow to firm	3,779	4,498	6,029	7,328
Current value	2,498	2,648	3,173	
Total firm value	48,796			
Debt	9,870			
Equity value	41,825			
No. of shares	678,358			
Value of a share (VND)	**61,700**			

WACC	
Rf	6%
Beta	0.9
Ke	15%
Kd	9%
E/A	60%
D/A	40%
Tax rate	20%
WACC	11.90%
g	4%

	Price	Proportion	Average price
FCFF	61,700	60%	37,020
P/E	59,300	40%	23,720
		Target price	**60,740**
		Current price	**46,400**
		Upside	**31%**

We maintain our **BUY** recommendation to FPT stock and lower the target price from VND 70,300/share to VND 60,700/share (13.6%) for the end of 2020 by combing two P/E and FCFF with the proportion of 40% / 60%.

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Disclosure

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

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