

Industry: Information Technology (Latest update report: [Link](#))

Recommendation **OPTIMISTIC** FPT Corporation (HSX: FPT) Value chain transformation

Current price (VND)	76,700	Date	11/03/2021	Shareholder structure	
Previous target price (VND)	63,580	Outstanding shares (million)	784	Truong Gia Binh	7.1%
Target price (VND)	86,000	Market capitalization (billion VND)	61,066	SCIC	5.9%
Dividend yield	2.5%	Avg. 10d trading vol (thousand shares)	2,478,220	Macquarie Group	5.4%
Upside	15.2%	% Foreign ownership	49%	Bui Quang Ngoc	2.5%

Industry analyst:

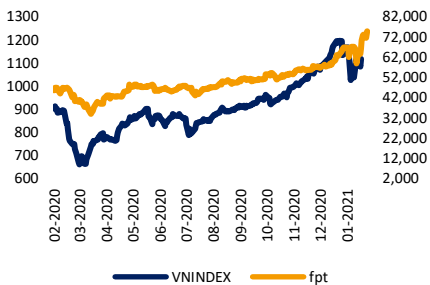
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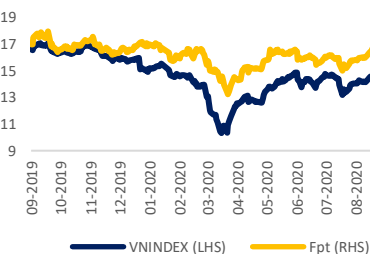
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Target price (VND) 84,700
Stop-loss price (VND) 70,700

Share price & VN index movement



FPT's P/E & VN index movement



Valuation

- We issue **OPTIMISTIC** recommendation on FPT stocks with a target price of VND86,000 in 2021 (+ 15.2% upside potential from its closing price on Mar 11th 2021), equivalent to 35.2% higher than the target price of 2020 due to the adjustment of new target P/E= 18; after re-evaluating (i) Company's competitive positioning (ii) Growth potential in the following years (iii) The P/E of businesses in the region will increase from 17 to 24 due to low interest rate.

Business plan for 2021

- FPT sets 2021's revenue and profit before tax target of VND34,730 billion (+16% YoY) and 6,210 billion (+18% YoY), respectively.

Forecast of business performance in 2021

- We forecast that FPT's net revenue and NPAT in 2021 will reach VND36,140 billion (+21.2% YoY) and VND5,323 billion (+14.6% YoY) respectively, equivalent to 2021F EPS of VND5,049 /share and a forward P/E of 15.4.

Catalyst

- An industry leader is facing opportunities for Digital transformation
- Positive business prospects in 2021

Investment risks

- FPT's recovery speed is adversely affected by the Covid-19's movement disorders
- Challenges of attracting labors in present scenario of IT job market.

Financial results & Business update

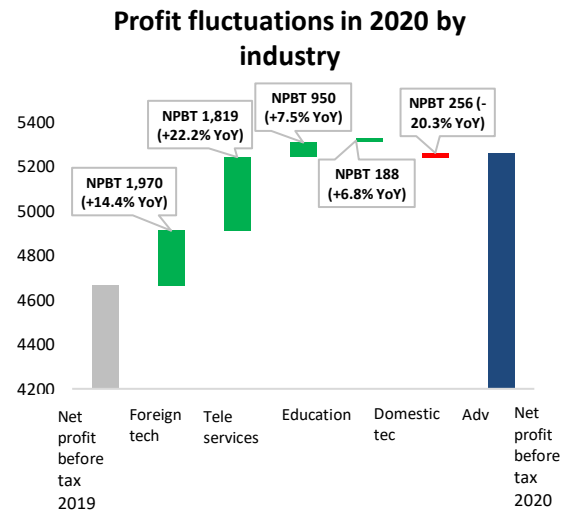
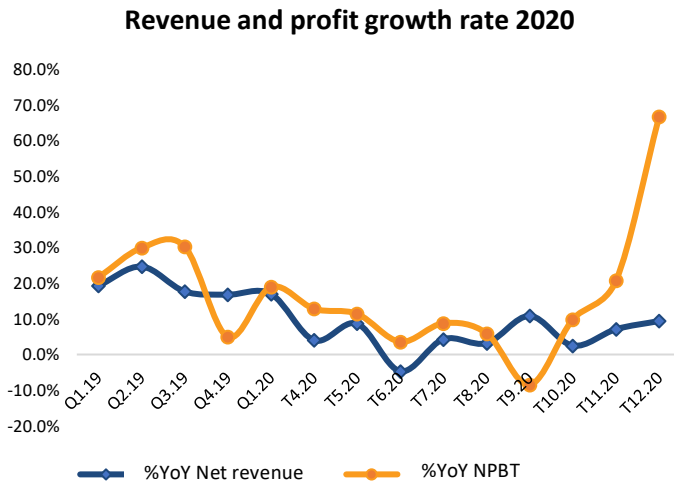
- In 2020, FPT will achieve revenue and net profit after tax of VND29,830 billion (7.6% YoY) and VND4,422 billion (+13.1% YoY) respectively, equivalent to 94% of net revenue and 99% profit, compared to BSC's latest forecast.
- BSC is optimistic about FPT's business outlook in 2021 thanks to (i) Business segments recovering from low base (ii) Digital transformation projects still have room for growth.

Unit: billion VND

	2019	2020	Peer	VN-Index		2019	2020	2021F	2022F
PE (x)	10.8	11.4	24.2	16.9	Total revenue	27,717	29,830	36,140	42,086
PB (x)	2.1	2.5	2.9	2.2	Gross profit	10,712	11,816	14,456	16,834
PS (x)	1.1	1.2	3.5	1.7	NPAT	3,912	4,422	5,323	6,324
ROE (%)	24.8%	24.9%	13.3%	13%	EPS	4,220	4,119	5,049	6,103
ROA (%)	12.4%	11.8%	8.4%	2%	Gross profit margin	8.3%	12.3%	21.6%	20.8%

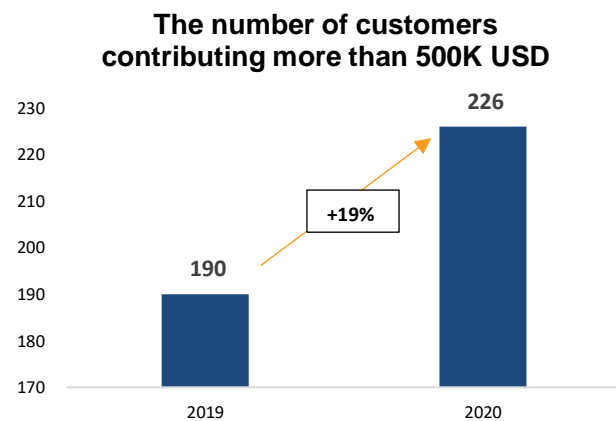
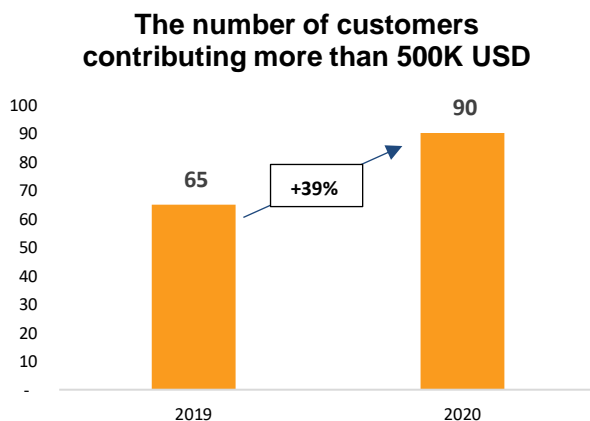
I. FINANCIAL RESULTS & BUSINESS UPDATE 2020

In 2020, FPT achieved revenue and net profit after tax of VND29,830 billion (+7.6% YoY) and VND4,422 billion (+13.1% YoY), equivalent to 93.6% of net revenue forecast and 99% profit forecast, respectively due to BSC's latest report. This business result is quite similar to BSC's expectation.



Source: FPT

Despite being negatively affected by Covid-19, the Foreign Information Technology segment still recorded double-digit growth rate (+14.4 percent YoY) in 2020. The number of customers and projects valued at over 500 thousand USD increased positively thanks to the growth in order value in the last two quarters of the year.



Source: FPT

In addition, the Telecommunications services segment - accounting for 34% of FPT's profit before tax in 2020 - grew strongly (+22% YoY) as it is an industry that has benefited from the Covid-19 epidemic: (i) number of people stay at home that increase demand for telecommunications products (Internet, television) (ii) Reduce advertising costs and new investments. FPT also said that IPTV television has recorded a profit with revenue in 2020 growing by 28% YoY and television subscribers increasing by 19% YoY (in 2019, IPTV lost about VND130 billion).

II. INVESTMENT THESIS

(1) Vietnam's leading enterprise is meeting opportunities from Digital transformation

After 33 years of establishment and development, FPT has grown to become one of the leading companies in Vietnam in the fields of: Technology, Telecommunications.

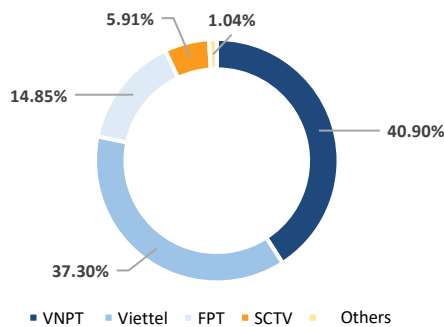
For the Technology segment, FPT is known for its rich experience with business operations spanning 22 countries, strategic partners of more than 100 businesses on the Fortune Global 500 list. Moreover, FPT's position and scale is much larger than its competitors which are companies listed on Vietnam stock exchange.

	Year founded	Revenue	Profit	Capitalization	Number of programmers
FPT	1988	29,830	4,422	61,066	16,500
CMG	1993	4,864	209	3,425	1,000
ELC	1995	802	31	559	100

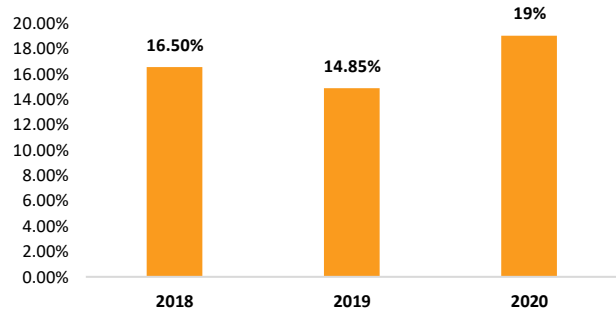
Source: Compiled by BSC

In the field of telecommunications, FPT continues to be a rare private enterprise that stands out alongside other big telecommunications names such as Viettel, VNPT with a coverage of 63/64 provinces and cities nationwide.

Fixed broadband Internet market share in 2019



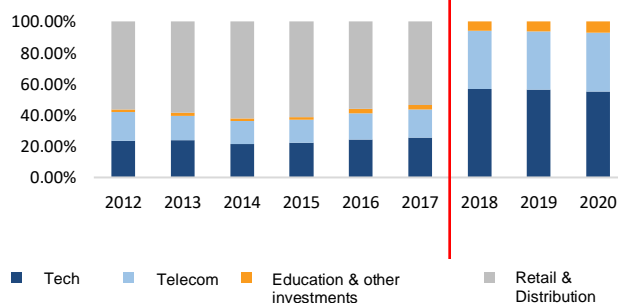
Internet market share of FPT



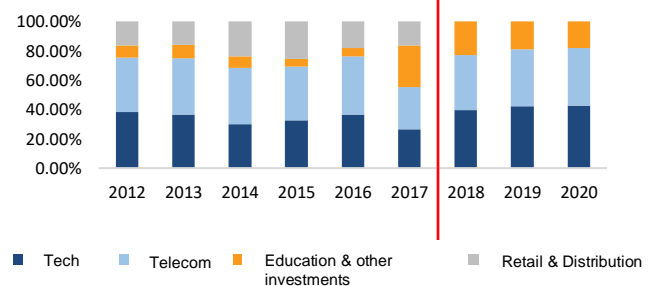
Source: Compiled by BSC

Despite being a Technology - Telecommunications company, FPT has invested in many other industries such as securities, banking, and retail. By 2017, more than half of FPT's revenue came from Distribution and Retail segment (~56%). After 2018 (divestment from FPT Trading and FPT Retail), FPT's revenue and profit structure has changed markedly (increasing the proportion of Technology segment), along with an improved valuation (PE increased from 8-9 to 11-13).

FPT's revenue structure



FPT's NPBT structure



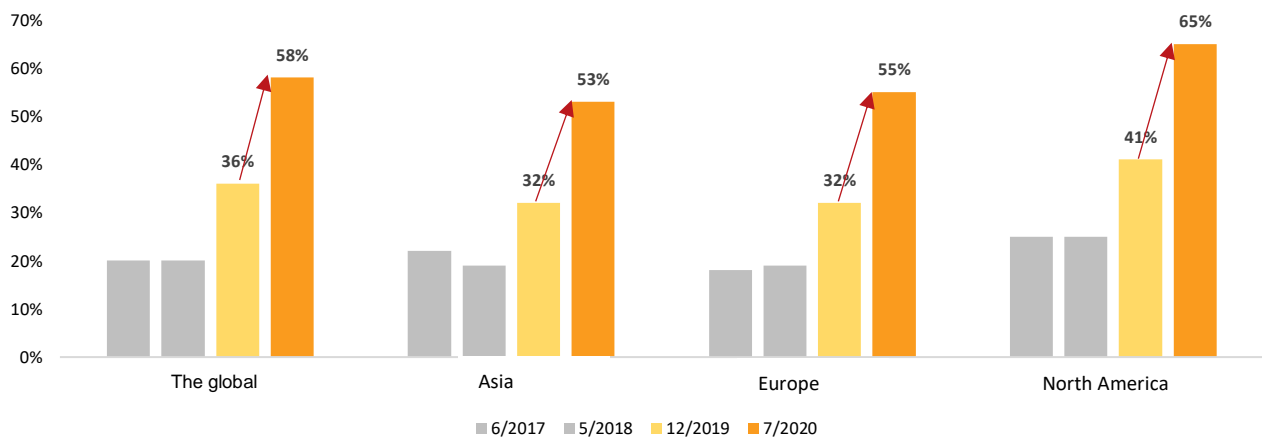
Source: FPT

Covid-19 is a lever to accelerate the trend of Digital Transformation, the past also shows that crises are opportunities for the technology industry to develop (for example, the 2YK crisis).

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

+ The Covid - 19 epidemic changes customer behavior in technology investment: increasing demand with cost optimization, operating system optimization, etc. when business activities are interrupted (remote working, switching to the online model, etc.). According to a survey by McKinsey, **the Covid-19 epidemic has caused the proportion of customers' digital interactions to skyrocket as much as the previous three years combined.**

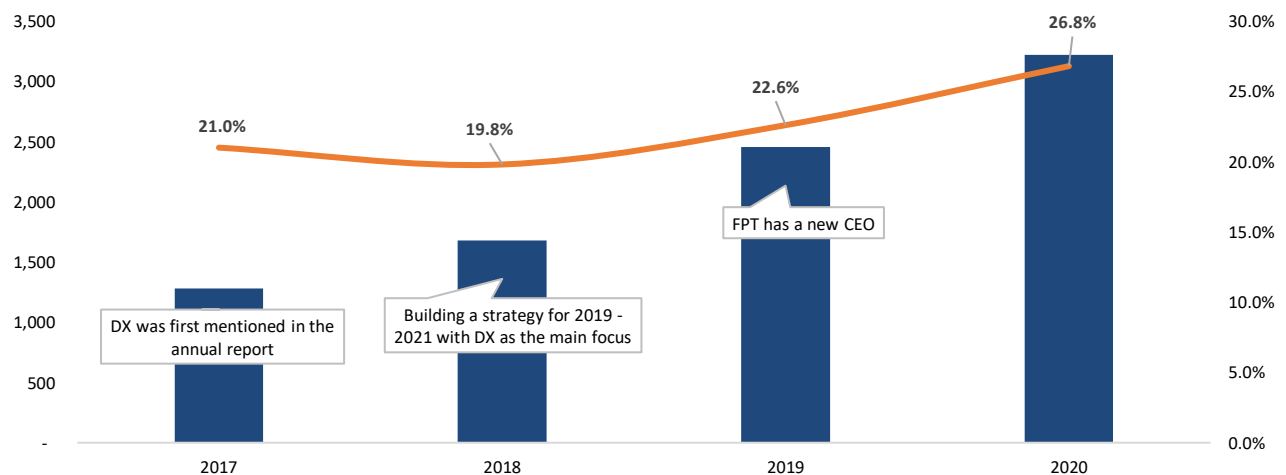
Percentage of customers' digital interactions



Source: McKinsey

Recognizing this change, **the Group has taken action and has some achievements (at an early stage) in taking advantage of this wave to transform:**

Revenue and proportion of Digital Transformation (DX) in foreign IT of FPT



Source: FPT

- + Continuing to focus on Digital Transformation projects serving customer needs: expanding branches around the world (2020: India and Brazil); Established FPT Digital to provide digital transformation roadmap consulting service.
- + Founding FPT Smart Cloude Ltd: focusing on cloud computing services with charter capital of VND100billion.
- + Development of Made by FPT products: AkaBot, AkaDoc, Aka Trans, etc. In 2020, Made by FPT products's revenue reached 500 billion, up 51% over the same period.

AkaChain	AkaDoc và Aka Trans	AkaBot
+ The first Blockchain solution for businesses	+ Handling document formats and languages	Business Automation solutions in a number of typical industries: Healthcare (Bill processing, hospital fee payment); Insurance (Claim handling, Application filling, etc.)
+ Provide solutions such as customer loyalty, traceability, customer identification	+ AI application translation support tool	

Service	FPT's products
Security	FPT Eagle EyeMDR
Mobile platform	eMobiz Fieldwork
Big data analytics	FPT DMP
Artificial intelligence	FPT AI Platform
Automation	AkaBot RPA Platform
Virtual reality	FPT Smart Worker
Blockchain	FPT Akachain

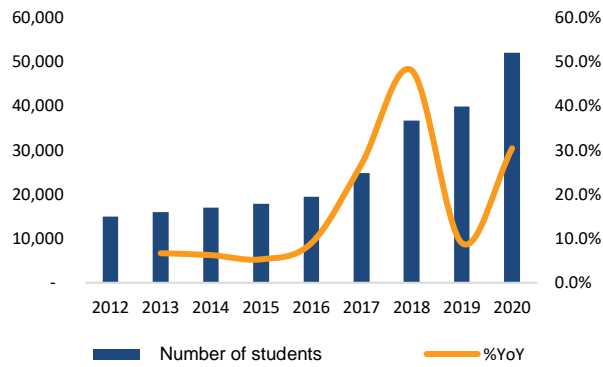
Source: FPT

In addition to the ability to provide products and services in a timely manner along with strong financial resources (large amount of cash), FPT also possesses the advantage of quality and potential human resources.

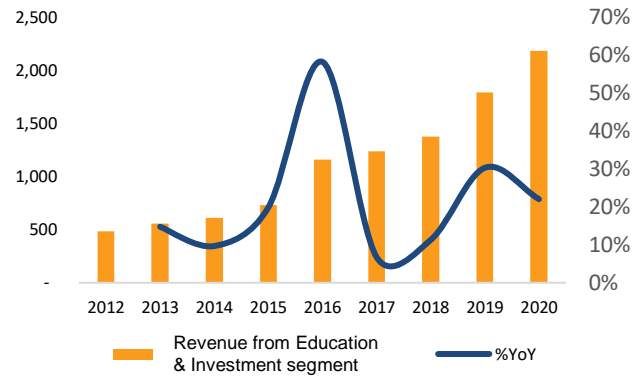
In addition to linking with research centers around the world (Mila Artificial Intelligence Research Center); The Group has recruited good people in the field of Digital Transformation: Mr. Phuong Tram – FPT Digital Transformation Consultant – Former Director of Information Technology of Dupoint.

BSC realizes that FPT also has a great advantage from FPT's Education System with 18 training institutions nationwide. This not only helps FPT to add human resources every year (about 40% of the annual graduates at FPT University work for the Corporation) but FPT can also flexibly adjust the teaching content to suit the reality. Even, BSC believes that the Education segment will become one of the most important segments of the Group (besides Information Technology and Telecommunications) when the Group sets out an ambitious strategy to expand the Education segment at a rapid rate. The target growth rate is 30-40%/year.

Number of students in FPT education system



Revenue from Education and Investment segment*



Source: FPT

*: Revenue from Education segment accounts for 98-99% of the proportion of Education and Investment segment.

Admission target for undergraduate students of the Faculty of Information Technology in 2020

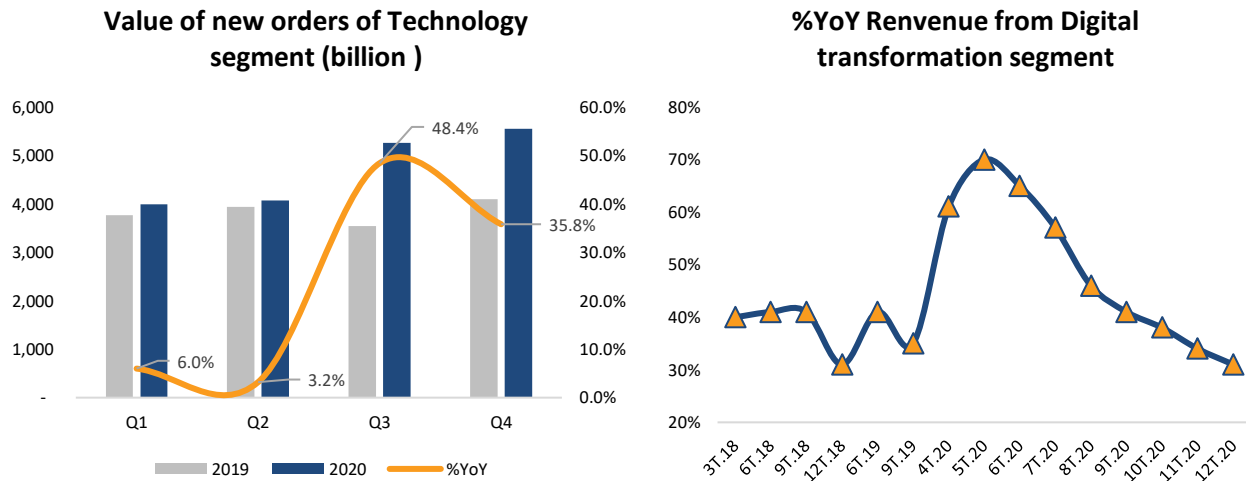
University	Admissions criteria
FPT University	4,450
University of Information Technology, Vietnam National University Ho Chi Minh City	1,770
Hanoi University of Science and Technology	1,130
VNU University of Engineering and Technology	750
Ho Chi Minh City University of Technology	585

Source: Compiled by BSC

(2) Positive business prospects in 2021

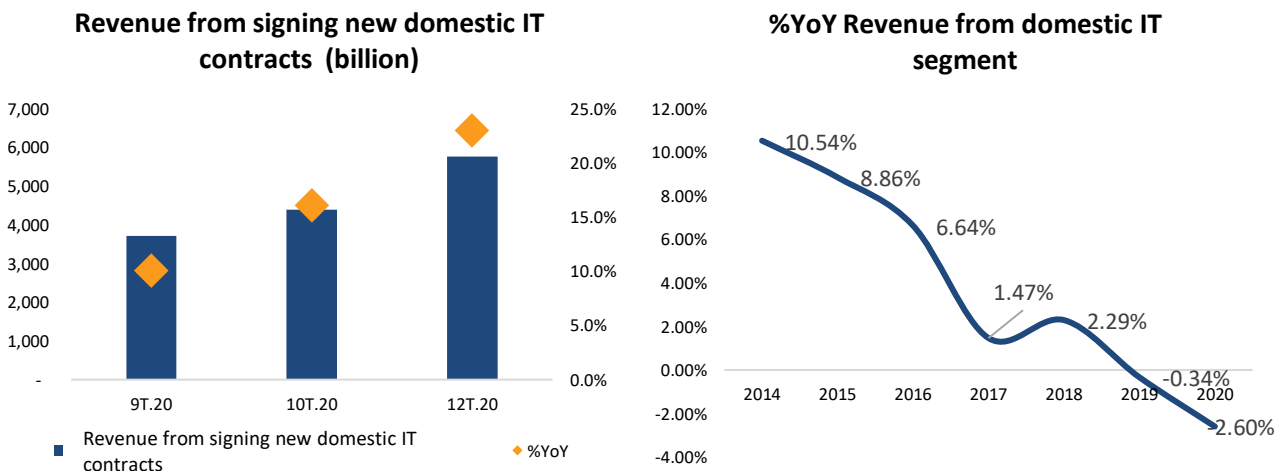
Continuing to maintain the view in our previous report ([Link](#)), BSC optimistic about FPT's 2021 prospects thanks to (i) Business segments recovering from a low base (ii) Digital transformation maintains its growth rate (described above)

The Foreign Information Technology segment grew strongly thanks to the positive growth in the value of newly signed contracts. After meeting customers and signing new contracts were negatively affected in the first half of 2020, FPT showed an amazing recovery when new contract value grew by over 35% in the last two quarters of the year 2020. BSC believes that the demand for technology investment (especially digitization projects) is not greatly affected by Covid - 19, and is even an opportunity to promote technology investment of customers. Since projects are usually implemented in 6 months, BSC expects from the first quarter of 2021 to record positive business results from orders signed at the end of last year.



Source: FPT

The domestic IT segment is expected to grow strongly from the low base of 2020. In 2020, BSC believes that (i) corporate customers will reduce demand due to the epidemic (ii) the Government limited new public investment. In 2021, BSC expects (i) the Government sector to increase public investment (ii) Enterprises return to invest in Technology as the two main drivers for the strong growth of the domestic IT segment. By the end of 2020, the value of new orders for this segment reached VND 5.775 billion (+23% YoY), and the fourth quarter reached VND2,057 billion (+56% YoY).



Source: FPT

Telecommunications Services segment finds it difficult to maintain a high growth rate like 2020. In 2021, BSC believes that the positive impact of the Covid-19 epidemic on the Telecommunications services segment will decline when people can get back to normal life. Growth factor will come from the company continuing to increase its coverage in wards and communes (+10 – 11% of revenue). At the same time, BSC believes that the Telecommunications segment has some positive points: IPTV is expected to be profitable (2019: loss of 130 billion, 2020: exiting loss) and DC to increase rental capacity after sales were negatively affected in 2020.

III. BUSINESS RESULTS FORECAST & VALUATION

Forecast of business results in 2021: BSC expects FPT's growth rate in 2021 to return to pre-pandemic level. **FPT's 2021 net revenue and profit after tax is forecast to reach VND36,140 billion (+21% YoY) and VND 5,322 billion (+20% YoY)** based on the following assumptions:

- Software export markets recorded strong growth after the epidemic: Japan market reached 7,305 billion in revenue (+21% YoY); European market reached 1,372 billion in revenue (+38% YoY) and US market reached 4.077 billion in revenue (+40% YoY).

- Telecommunications segment recorded growth in Telecommunication Services while Digital Content recovered from a low base: Telecommunication Services segment achieved VND12,150 billion in revenue (+11% YoY), Digital Content segment revenue reached VND635 billion, an increase of 5% compared to 2020.

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

- FPT's selling and administrative expense margin in 2020 reached 24%.

Table: FPT's financial results forecast

Unit: billion VND	2020A	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
Cost of goods sold	(18,015)	(21,684)	(25,252)
Gross profit	11,816	14,456	16,834
GPM	39.6%	40.0%	40.0%
Selling expenses	(2,713)	(3,253)	(3,788)
Selling expenses margin	9.1%	9.0%	9.0%
Administrative expenses	(4,501)	(5,421)	(6,313)
Administrative expenses margin	15.1%	15.0%	15.0%
Net profit before tax	5,261	6,337	7,467
Net profit after tax	4,422	5,323	6,324
EPS	4,119	5,049	6,103

Source: :BSC Research

P/E method: Compared to the latest update report ([Link](#)), we raise FPT's target P/E to 18.0 from P/E 12 after re-evaluating (i) Company competitive positioning (FPT is meeting opportunities to increase value of technology products) (ii) Growth potential in the coming years (iii) The P/E level of businesses in the region increased from 17 to 24 due to the low interest rate.

Table: Comparison of valuation rates of some businesses in the region

Stock code	Company	Market cap (thousand billion VND)	Revenue (thousand billion VND)	ROE	NPM	P/E
3706 TT	Mitac Holding Corp	30.6	26.9	7.4%	14.5%	13.2
eFSOL IN	First Source Solution Ltd	22.7	13.3	n/a	n/a	17.6
Info IN	Infosys	1,793	297	28.2%	33.1%	30.4
WPRO IN	WIPRO	750	200	18.7%	28.5%	24.3
300365 CH	Beijing forever Technology	20.1	3.8	11.9%	51.5%	21.8
CAP FP	Capgemini	648	421	14.8%	26.1%	24.2
300496 CH	Thunder Software Technology	186	6.1	13.3%	42.6%	133.4
300520 CH	Guochang Software Company	15.2	5.3	7.7%	29.6%	35.1
FPT	FPT	60.9	29.3	23.8%	29.6%	18.8
Median						24.2

P/E method	2020	2021	2022
EPS	4,119	5,049	6,103
PE		18	18
Target price		90,900	109,900

Discounted cash flow method

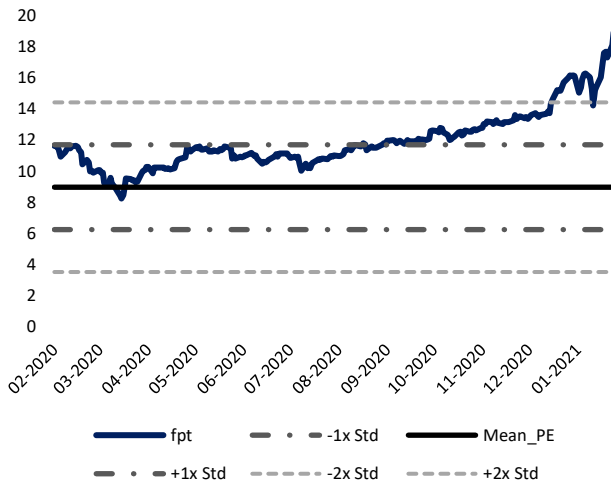
WACC	
Rf	3.5%
Beta	0.9
Ke	12.5%
Kd	8%
E/A	60%
Thuế	20%
WACC	11.5%
g	6%

	2021F	2022F	2023F
FCFE	3,825	4,104	3,729
NPV	45,729		
Firm value	74,586		
Debt	12,740		
Equity value	77,831		
Outstanding shares	783,987,486		
Share price (VND)	82,600		

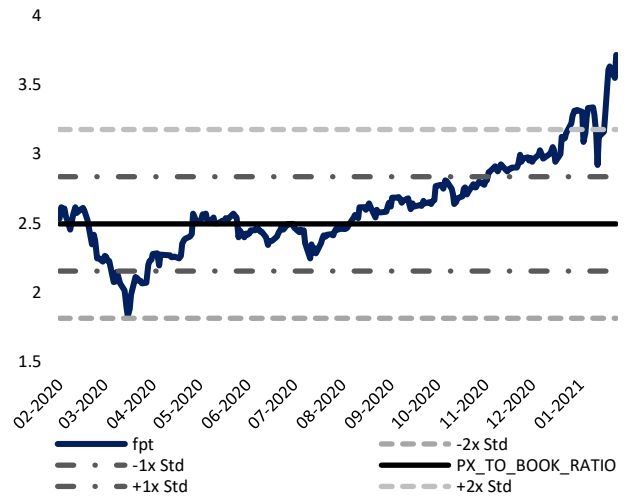
	Price	Weight	Average Price
FCFF	82,600	60%	49,600
P/E	90,900	40%	36,400
		Target price	86,000
		Current price	76,700
		Upside	12.1%

We issue an **OPTIMISTIC** recommendation on FPT with a **2021 target price of VND86,000/share**, using FCFE and P/E method with the weights of 60% & 40%, respectively.

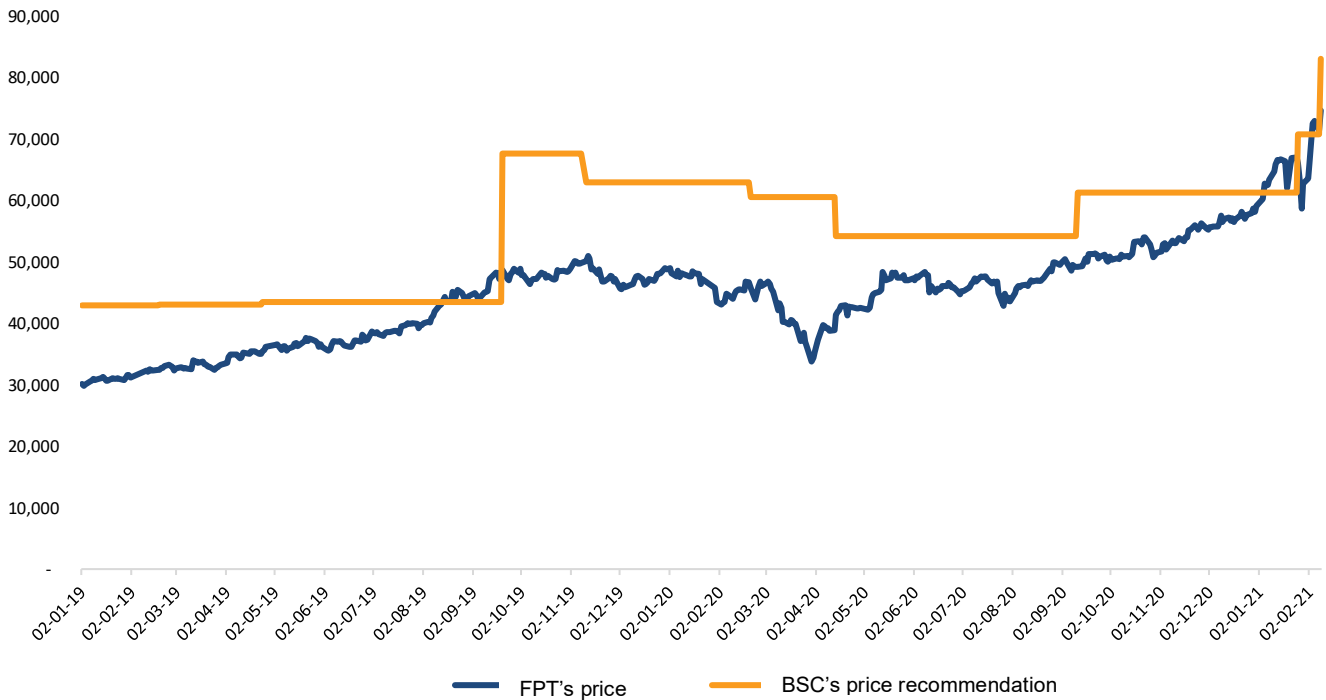
FPT's PE



FPT's PB



FPT's price movement compared to BSC's recommendation



APPENDIX

IS (billion VND)	2018	2019	2020	2021F
Net revenue	23,213	27,717	29,830	36,140
Cost of goods sold	-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
Administrative expenses	-3,559	-4,219	-4,501	-5,421
Operating income	3,795	4,610	5,188	6,317
Financial income	607	650	822	723
Financial expenses	-368	-592	-548	-530
Interest expenses	-238	-358	-385	-444
Profit/ Loss from affiliates	439	405	312	342
Other gains/losses	58	55	73	20
Profit before tax	3,852	4,664	5,261	6,337
Tax payment	-623	-753	-839	-1,014
Profit after tax	3,228	3,912	4,422	5,323
Minority interest	614	776	885	1,011
NPAT- minority interest	2,615	3,135	3,537	4,312
EPS	3,897	4,220	4,119	5,049

BS (billion VND)	2018	2019	2020	2021F
Cash & cash equivalent	3,926	3,453	4,685	7,725
Short-term investment	5,568	6,709	12,436	6,709
Account receivables	6,424	6,536	6,263	8,913
Inventory	1,340	1,284	1,290	2,043
Other current assets	1,114	996	934	1,185
Total current assets	18,373	18,979	25,608	26,127
Tangible fassets	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 non-current assets	1,352	2,287	2,601	2,312
Total non-current assets	11,352	14,415	16,141	15,281
Total Assets	29,726	33,394	41,749	41,437
Account payable	2,510	2,641	23,148	2,185
Short-term debt	6,603	7,513	12,062	9,383
Other short-term debt	337	387	726	310
Current liabilities	14,432	16,102	22,382	15,425
Long-term debt	366	349	678	479
Other long-term debt	109	92	38	79
Non- current liabilities	531	493	765	470
Total Liabilities	14,963	16,594	23,148	17,090
Paid-in capital	6,136	6,783	7,840	7,840
Capital surplus	50	50	50	50
Retained earnings	5,289	5,961	6,391	10,562
Other equity	87	765	920	103
Minority interest	2,301	2,835	2,859	4,571
Owner's equity	14,762	16,799	18,603	22,553
Total Resources	29,726	33,394	41,749	41,437
Number of shares outstanding (million)	613	678	784	784

CF (billion VND)	2018	2019	2020	2021F
Profit after tax	3,852	4,664	5,261	6,619
Depreciation	1,164	1,355	1,491	1,534
Change in net working capital	-255	81	-86	(1,247)
CF from operating activities	3,584	3,898	6,321	4,902
Fixed assets investment	-2,464	-3,233	-3,018	(1,216)
CF from investing activities	-3,696	-3,845	-8,127	(1,309)
Dividend paid	-1,707	-1,483	-1,899	(1,357)
Cash from net borrowing	-2,239	899	4,879	821
Other revenue	-9	-	-	-
CF from financing activities	558	-514	-3,037	(535)
Cash & cash equivalent, beginning of the year	3,480	3,926	3,453	4,684
CF during the year	446	-460	1,232	3,058

Ratios (%)	2018	2019	2020	2021F
Liquidity ratios				
Current ratio	1.27	1.18	1.15	1.59
Quick ratio	1.10	1.04	1.05	1.40
Solvency ratios				
Debt/ Total assets	50%	50%	55%	44%
Debt/ Equity	101%	99%	124%	78%
Efficiency ratios				
Days of inventories	29.7	28.2	26.1	39.8
Days of receivable	83.3	74.9	78.3	56.0
Days of payable	60.3	55.3	43.7	32.4
CCC	52.7	47.8	54.6	63.4
Profitability ratios				
Gross profit margin	37.6%	38.6%	39.6%	39.2%
Net profit 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%
NPAT growth	-9.5%	21.1%	12.8%	24.3%
EPS growth	-24.0%	8.3%	2.4%	25.6%

DISCLOSURE

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