

06/09/2022 – HSX: FPT

Industry : Information Technology(Recent Report: [Link](#))**Recommendations****BUY****FPT Joint Stock Company (HSX: FPT)****Update business results for the first 6 months**

Current price	84,100	Report writing date:	08/09/2022	Shareholder structure	
Previous target price	107,900	Outstanding Shares (Million)	1,097	Truong Gia Binh	7.0%
1 year target price	107,900	Market capitalization (billion VND)	94,892	SCIC	5.8%
Dividend yield	0%	Average liquidity of 10 sessions:	1,643,570	Macquarie Group	4.7%
Potential for price increase	28%	Foreign ownership	49%	Red River Holding	4.5%

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Recommended price: 104,000 VND

Position opening price: 87,000 VND

Valuation

- We maintain our BUY recommendation for FPT stock with a target price of VND 107,900 with upside potential of 28% from the closing level on September 7, 2022..

Forecast business results in 2022

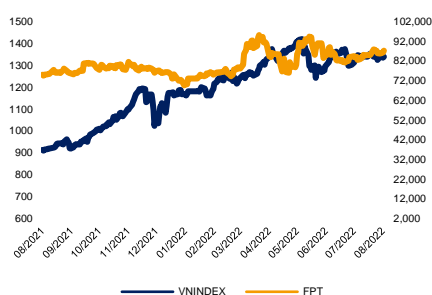
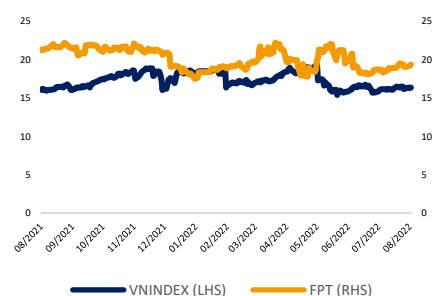
- Compared to the previous report, BSC maintains its forecast for 2022: FPT's 2022 revenue and profit after tax is forecast to reach VND 44,068 Billion (+24% YoY) and VND 6,771 Billion (+27% YoY). EPS 2022 reaches 4,800 VND/share, P/E equivalent to fw reaches 18.0

Risks

- Weak customer demand as major economic outlook faces challenges
- Risks of competition to attract human resources Technology

Business Updates

- Accumulated in the first 7 months of 2022, FPT recorded positive business results: Revenue reached 23,219 billion (+22% YoY), the group's profit after tax reached 3,613 billion (+28% YoY). Business results are in line with BSC's forecast in the previous report.
- The structure of business activities has not changed much with the main contribution continuing to come from the two segments Technology and Telecommunications with the proportion of pre-tax profit at 45% and 40% respectively.
- Foreign information technology: revenue +29% YoY, profit before tax +28% YoY. Domestic information technology: revenue +9% YoY, profit before tax +7% YoY. Telecommunications services: revenue +15% YoY and pre-tax profit +20% YoY thanks to profit margin increasing to 19.2% from 18.3% due to payTV's profit growth.

Price comparison table of FPT and VN-Index**P/E comparison table of FPT and VN index**

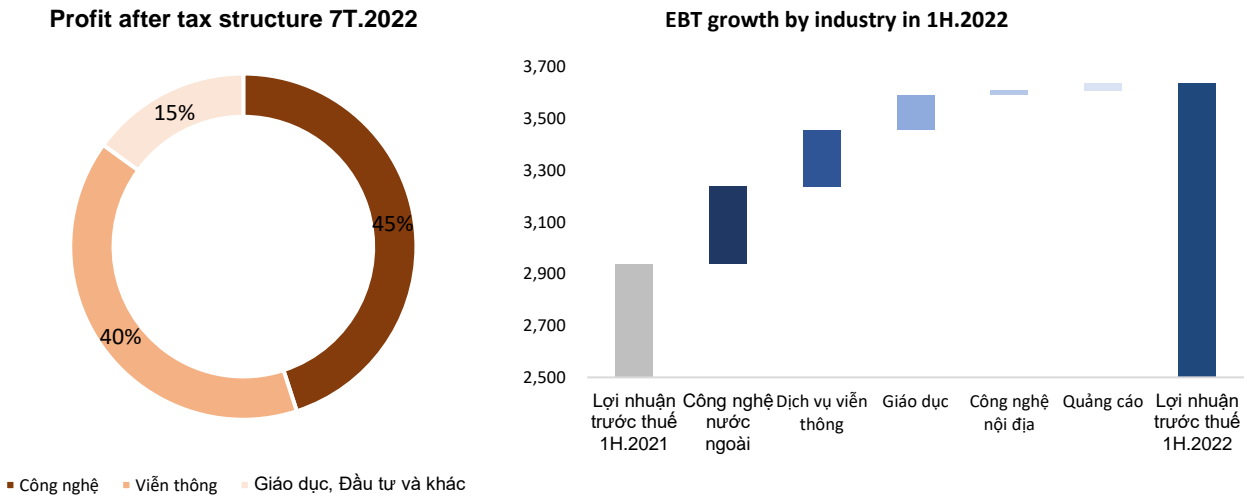
	2021	2022	Peer	VN-Index
PE (x)	21.3	19.1	21.9	13.6
PB (x)	4.7	4.8	3.2	2.1
PS (x)	2.3	2.4	2.6	1.7
ROE (%)	26%	26%	13%	15%

	2019	2020	2021	2022F
Revenue	27,717	29,830	35,657	43,462
Gross profit	10,712	11,816	13,631	17,080
Profit after tax	3,912	4,422	5,349	6,614
EPS	4,220	3,579	4,350	5,630

I. UPDATE ON BUSINESS RESULTS FOR THE FIRST 6 MONTHS OF 2022

In the first 7 months of 2022, FPT recorded positive business results: Revenue reached 23,219 billion (+22% YoY), the group's profit after tax reached 3,613 billion (+28% YoY). Business results are in line with BSC's forecast in the previous report ([Link](#)).

The structure of business activities has not changed much with the main contribution continuing to come from the two segments Technology and Telecommunications with the proportion of pre-tax profit at 45% and 40% respectively.



Nguồn: FPT

Accumulating 6 months, business segments still maintain positive growth:

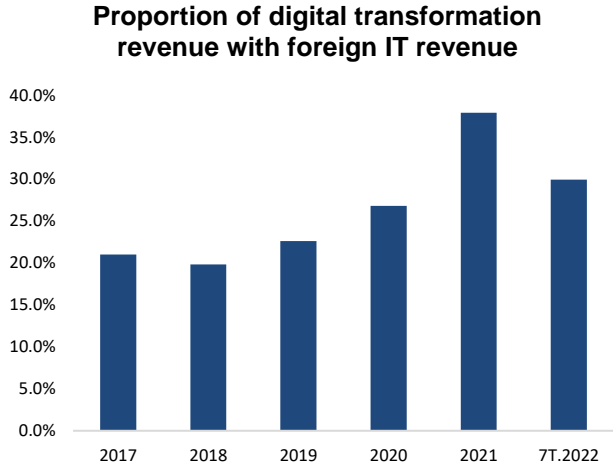
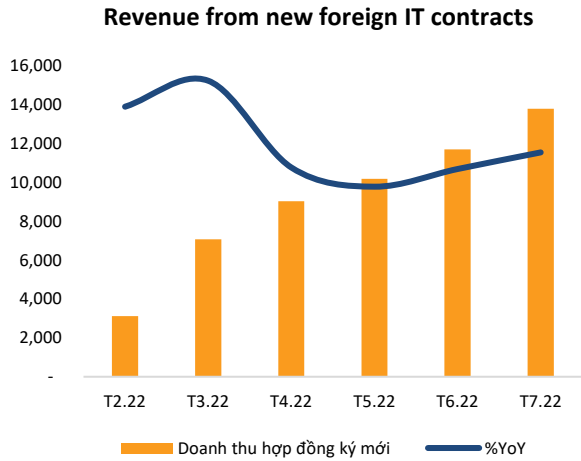
+ Foreign information technology: revenue +29% YoY, profit before tax +28% YoY. The main growth driver continued to come from Digital Transformation (+64% YoY), while traditional revenue +12% YoY. The US market and APAC recorded high growth rates of +48% YoY and +55% YoY while the Japanese market recovered but due to the depreciation of the Japanese dong, revenue was converted to VND +8% YoY.

+ Domestic information technology: revenue +9% YoY, profit before tax +7% YoY. The growth rate slowed down due to the slow implementation of projects related to the Government and Banking sector. BSC expects the growth rate to pick up again as new sign value remains positive (+ 31% YoY in Q2.22)

+ Telecommunication services: revenue +15% YoY and pre-tax profit +20% YoY thanks to profit margin increasing to 19.2% from 18.3% due to profit growth of payTV.

For the outlook at the end of 2022, BSC expects the growth rate to continue to be maintained compared to the first 6 months thanks to positive new technology contracts (international and domestic).

The growth rate of new signing value is still high thanks to the demand of Digital Transformation from customers around the world. The trend of Digital Transformation is further boosted by the Covid-19 pandemic and BSC expects this trend to continue in the medium term. In addition, in the long term, the strategy of implementing M&A deals is also a growth engine for the International Technology segment. FPT continues to pursue M&A deals - focusing on technology companies - in the local markets (USA, Europe, Singapore) that will support the Group's business activities.



Source: FPT

However, major economies face many challenges that will directly affect customer demand – BSC assesses that this risk will partially affect the forecast for 2023.

FPT is a corporation with business activities in 26 countries and territories with a focus on customers in the fields of: Utilities, Manufacturing, Banking - Finance, Auto. In the context that major economies around the world are facing many challenges, the demand for technology of customers will also be partly affected when the cost of raw materials skyrockets.

Update report on macro situation of 3 major economies: <https://www.bsc.com.vn/Report/ReportFile/3832162>

Country/Region	Challenges of the economy	Proportion of foreign IT revenue in 1H.2022
Japan	The Yen depreciates	39%
US	Recession, High Inflation	33%
EU	Raw material prices soar	8%

Since the beginning of 2022, the Japanese Yen has depreciated 17.8% against the US dollar, and continues its downward trend. Although FPT uses hedging tools, the depreciation of the Yen caused revenue in the Japanese market to grow 8.4% in VND compared to 17.8% in Yen. The Japanese market is a large, traditional market of foreign technology, accounting for 39% of foreign technology revenue and 17% of total revenue of the corporation.



II. FORECAST AND VALUATION

Business forecast 2022: Compared to the previous report, BSC maintains its forecast for 2022: FPT's 2022 net revenue and profit after tax is forecast to reach VND 44,068 billion (+24% YoY) and VND 6,771 billion (+27% YoY) based on the previous report. Assumptions:

- Revenue from software export markets recorded positive results with the recovery in Japanese market: Japanese market (+15% YoY in Japanese dong); APAC market (+40% YoY) and US market (+50% YoY).

- Telecommunication segment slowed down due to the high base level of 2021: Telecommunication Services segment reached 13.728 billion in revenue (+13% YoY), Content segment revenue reached 635 billion (+4% YoY).

- Gross profit margin is forecasted to increase slightly to 39.3% from 38.2% thanks to an increase in the proportion of projects related to Digital Transformation and increase in labor productivity.

- Selling and general management expense margin equivalent to 2021 is 23.2%

FPT's Business Results Forecast Table

Unit: billion dong	2020	2021	2022F	2023F
Net Revenue	29,830	35,657	43,462	54,237
Technology Block	16,804	20,736	26,854	35,259
+ Foreign IT	11,997	14,541	18,490	25,640
+ Domestic IT	4,803	6,196	8,364	9,619
Telecommunications Division	11,470	12,686	14,395	16,213
+ Telecommunications Services	10,862	12,079	13,728	15,513
+ Digital content	614	608	635	700
COGS	(18,015)	(22,025)	(26,381)	(32,922)
Gross profit	11,816	13,632	17,080	21,315
Gross profit margin	39.6%	38.2%	39.3%	39.3%
Selling expenses	(2,713)	(3,604)	(4,346)	(5,424)
Selling Cost Margin	9.1%	10.1%	10.0%	10.0%
Management costs	(4,495)	(4,612)	(5,737)	(7,050)
Marginal Management Cost of Enterprises	15.1%	12.9%	13.2%	13.0%
Profit before tax	5,263	6,337	7,730	9,532
Profit after tax	4,424	5,349	6,614	8,102
EPS	4,120	4,349	5,632	6,760

Nguồn: BSC Research

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PE method: Compared to the latest update report, we continue to keep the target P/E for FPT at 19.

PE . method	2021	2022F
EPS	4,349	4,768
PE		19
Fair value		90,600

Price comparison table of some businesses in the region

Company	Capitalization (trillion VND)	ROE	P/B	P/E
Tata Consultancy LTD	3,424	42%	12.6	30.2
Infosys	1,799	31%	8.3	27.5
HCL Technologies LTD	751	22%	4.2	18.6
Capgemini	716	18%	3.3	21.9
WIPRO	648	18%	3.2	19.1
Tech Mahindra LTD	308	n/a	n/a	18.5
Thunder Software Technology	179	15%	9.8	69.5
Mphasis LTD	117	20%	5.7	27.5
Mitac Holding Corp	25.9	-2%	0.6	3.5
Beijing forever Technology	19	1%	2.6	229.5
Guochang Software Company	17	7%	3.4	46.7
CMG	31	2%	0.5	29.2
FPT	94	27%	4.8	18.6
Median				24.4

Discounted Cash Flow Method:

Average cost of capital	
Rf	3.5%
Beta	0.9
Ke	12.5%
Kd	7%
E/A	60%

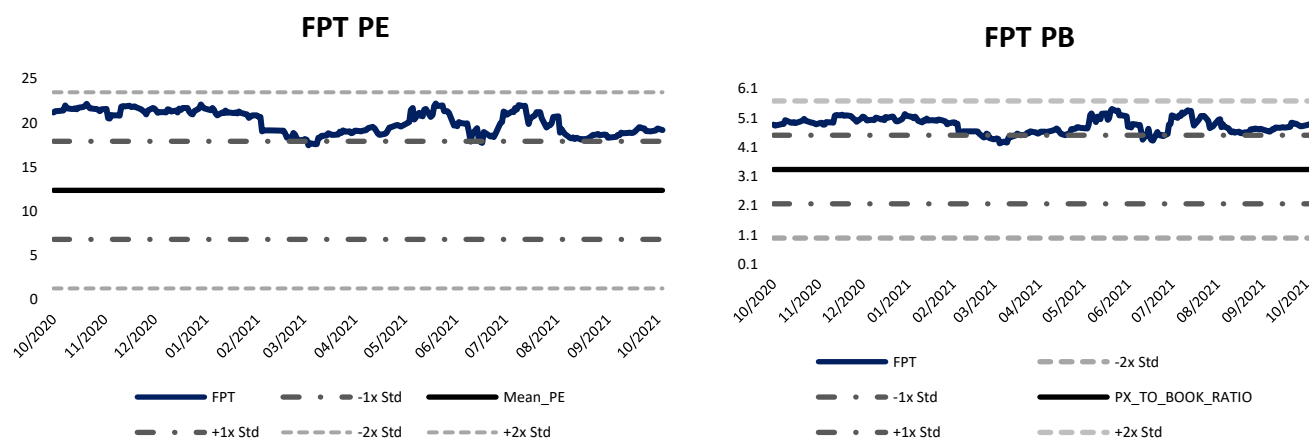
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Tax	20%
WACC	11.5%
g	8%

	2022F	2023F	Terminal
The company's free cash flow	4,086	3,729	95,528
Present value	103,267		
Total enterprise value	129,415		
In debt	20,095		
Equity	109,319		
Number of shares	1,097,026,572		
Value per share (VND)	119,300		

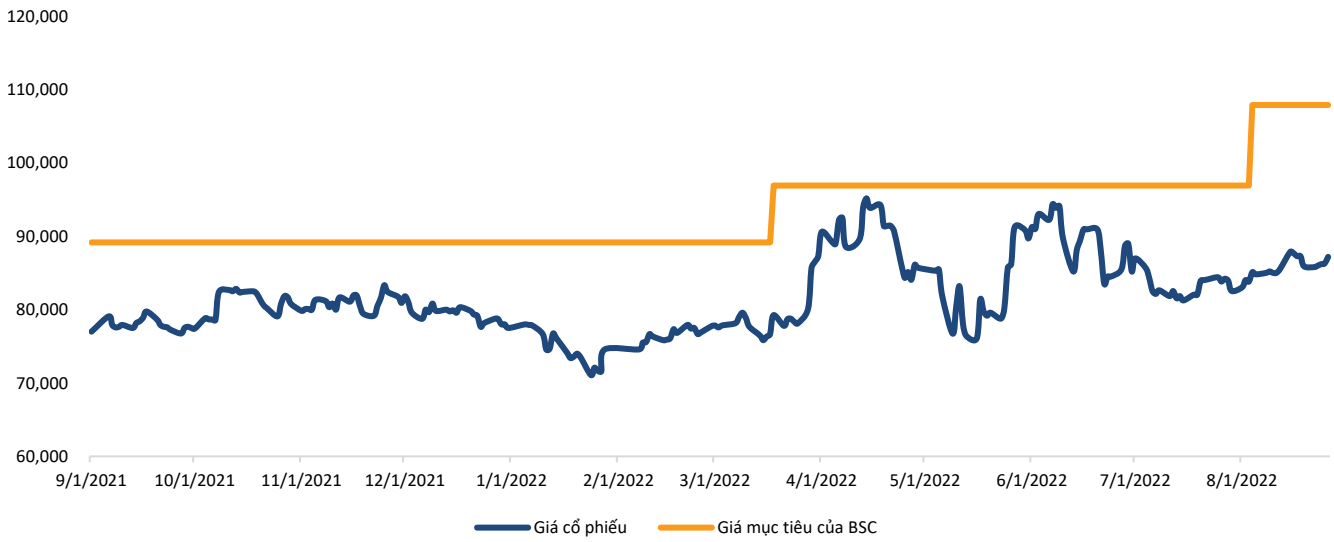
	Price	Proportion	Average price
FCFF	119,300	60%	71,600
P/E	90,600	40%	36,300
		Target Price	107,900
		Current price	84,100
		Upside	28%

We raise our **BUY** recommendation for FPT stock with a **target price for 2022 of VND 116,300/share** based on two methods P/E and FCFF with a weighting of 40%/60%.



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STOCK PRICE VOLTAGE COMPLEX TO RECOMMENDATION



Disclosure

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