

## FPT Corporation (HOSE: FPT)

**BUY - Target Price: VND 59,600 (Upside: 16.2%)**

### Recommendation

We maintain a BUY recommendation for FPT shares with the following points: (1) Digital transformation revenue surged (+46%) in the context of 'new normal condition' after Covid-19; (2) FPT has a competitive advantage in human resources with high quality and low cost compared to its competitors; (3) The value of long-term contracts signed in August reached VND 1,500 bn, double the value of contracts signed in the same period in 2019.

### Company Update

In 8M2020, FPT's revenue and PBT were respectively VND 18,321 bn and VND 3,343 bn, up 7.6% and 11.7% yoy. Pre-tax profit margin improved, reaching 18.3% (17.6% in 2019) due to continuous increase in the digital transformation and software outsourcing (SO) services.

FPT's SO services seem unaffected by Covid-19, growing 14.4% from VND 6,798 to 7,774 bn in 8M2020. The domestic market also recorded many new SO service contracts in August, especially Made-by-FPT products, with revenue increasing 40% over the same period. We project that in 2020 and 2021, FPT will reach VND 12,712 bn and VND 15,311 bn in revenue from SO, up 19% and 20.5% yoy.

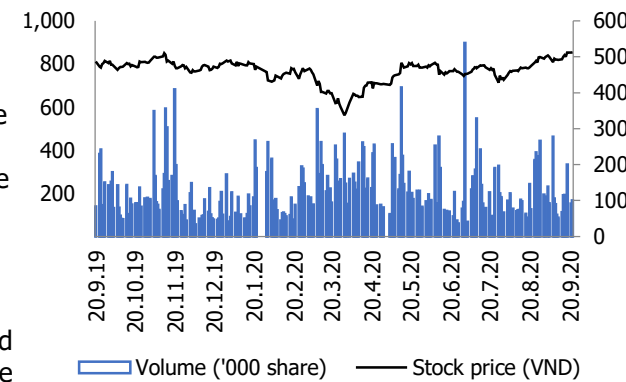
The digital transformation (DX) trend continues to be the driving force for FPT's technology growth. In 8M2020, DX service revenue grew 46% over the same period, reaching VND 2,274 bn. FPT has advantages in product diversity and cheaper prices than foreign companies. Therefore, FPT won many new DX contracts and generate big revenue for the company, accounting for 40% and 50% of SO revenue in 2020 and 2021 respectively.

FPT's revenue is forecasted to reach VND 31,819 bn and VND 36,025 bn in 2020 and 2021. Net profit margin is about 14% in 2020. Revenue will mainly grow from DX services, bringing in VND 5,085 bn and VND 7,656 bn, increasing about 58.7% and 50.6% in 2020 and 2021 respectively.

### Valuation

Based on the sum of part valuation method and P/E comparison method, we recommend BUY with a target price of 59,600/share, upside of 16.2%.

### Price movement



	1M	3M	12M
FPT (%)	8%	11%	5%
VN-Index (%)	6%	4%	-8%

	Unit	FY19A	FY20F	FY21F	FY22F
<b>Revenue</b>	<b>VND bil</b>	<b>27,717</b>	<b>31,656</b>	<b>35,829</b>	<b>40,547</b>
EBIT	VND bil	4,118	5,215	5,946	6,786
<b>Pre-tax profit</b>	<b>VND bil</b>	<b>3,912</b>	<b>4,328</b>	<b>4,906</b>	<b>5,560</b>
<b>Net income</b>	<b>VND bil</b>	<b>3,912</b>	<b>4,328</b>	<b>4,906</b>	<b>5,560</b>
EPS (VND)	VND	4,623	5,113	5,831	6,679
EPS Growth(%)	%	20%	10.6%	14.0%	14.5%
<b>P/E (x)</b>	<b>X</b>	<b>10.47</b>	<b>9.47</b>	<b>8.30</b>	<b>7.25</b>
EV/EBITDA (x)	X	8.9	7.0	6.2	5.4
Dividend (%)	%	4.1%	5.2%	6.2%	7.2%
P/B (x)	X	2.4	2.3	2.1	1.8
<b>ROE (%)</b>	<b>%</b>	<b>22.3%</b>	<b>23.2%</b>	<b>23.4%</b>	<b>22.0%</b>
Debt/Equity (%)	%	56.0%	51.8%	51.0%	50.5%

Source: MBS Research

22/09/2020

Current price	VND 51,300
Target price	VND 59,600
Upside (%)	16.2%
Bloomberg	FPT VN Equity
Market capital	VND 38,013 bn USD 1.65 bn
52-week price movement	VND 33,774 - VND 51,300
Daily trading value	VND 36.57 bn - USD 1.59 mn
Foreign ownership limit (%)	49.0%
Current foreign ownership (%)	49.0%

## FPT Corporation (HOSE: FPT)

Income Statement (VND bn)	2019	2020E	2021E	2022E
<b>Revenue</b>	<b>27,717</b>	<b>31,656</b>	<b>35,829</b>	<b>40,547</b>
Cost of good sold	17,006	18,939	21,392	24,152
<b>Gross profit</b>	<b>10,711</b>	<b>12,717</b>	<b>14,437</b>	<b>16,396</b>
Financial income	690	285	322	365
Financial expenses	628	708	802	907
SG & A expenses	6,593	7,503	8,492	9,610
<b>Profit before tax</b>	<b>4,665</b>	<b>5,136</b>	<b>5,829</b>	<b>6,615</b>
<b>Profit after tax</b>	<b>3,912</b>	<b>4,328</b>	<b>4,906</b>	<b>5,560</b>
<b>Profit after tax for parent company</b>	<b>3,136</b>	<b>3,469</b>	<b>3,956</b>	<b>4,531</b>
<b>Not-controlling interest</b>	<b>776</b>	<b>859</b>	<b>950</b>	<b>1,029</b>
Balance Sheet (VND bn)	2019	2020E	2021E	2022E
<b>Current assets</b>	<b>19,038</b>	<b>23,825</b>	<b>26,334</b>	<b>29,246</b>
I. Cash & cash equivalents	3,458	7,078	7,526	8,108
II. Short-term investments	6,778	6,331	7,166	8,109
III. Receivables	6,520	6,331	7,166	8,109
IV. Inventory	1,284	1,644	1,864	2,115
V. Other current assets	998	2,440	2,612	2,805
<b>Non-current assets</b>	<b>14,621</b>	<b>13,192</b>	<b>16,120</b>	<b>19,250</b>
I. Long-term receivables	222	256	295	340
II. Fixed assets	7,488	9,446	11,607	13,916
1. Tangible fixed assets	6,294	8,305	10,447	12,736
2. Intangible fixed assets	1,194	1,141	1,161	1,181
IV. Long-term work in progress	1,650	2,233	2,233	2,233
V. Long-term investments	2,497	1,721	2,091	2,460
VI. Other non-current assets	4,188	3,166	3,583	4,055
<b>Total assets</b>	<b>33,659</b>	<b>37,016</b>	<b>42,454</b>	<b>48,497</b>
<b>Liabilities</b>	<b>16,784</b>	<b>17,515</b>	<b>19,746</b>	<b>22,268</b>
<b>I. Current liabilities</b>	<b>16,291</b>	<b>17,021</b>	<b>19,238</b>	<b>21,743</b>
1. Short-term payables	8,775	9,199	10,381	11,714
2. Short-term borrowings	7,516	7,822	8,857	10,028
<b>II. Non-current liabilities</b>	<b>493</b>	<b>494</b>	<b>508</b>	<b>525</b>
1. Short-term payables	143	127	141	158
2. Long-term borrowings	350	367	367	367
<b>Equity</b>	<b>14,037</b>	<b>15,810</b>	<b>18,070</b>	<b>20,566</b>
1. Share capital	6,784	6,784	6,784	6,784
2. Share premium	76	76	76	76
3. Retain earnings	5,999	7,772	10,032	12,528
4. Other capital	1,179	2,038	2,129	2,207
<b>5. Non-controlling interest</b>	<b>2,835</b>	<b>3,693</b>	<b>4,643</b>	<b>5,671</b>
<b>Total resources</b>	<b>33,659</b>	<b>37,016</b>	<b>42,454</b>	<b>48,497</b>

Source: MBS research

Ratios	2019	2020E	2021E	2022E
<b>Valuation</b>				
EPS	4,623	5,113	5,831	6,679
Book value per share (BVPS)	20,691	23,305	26,636	30,315
P/E	12.6	10.5	9.5	8.3
P/B	2.4	2.3	2.1	1.8
P/S	1.2	1	0.9	0.8
Dividend yield	4.1%	5.2%	6.2%	7.2%
<b>Profitability</b>				
Gross profit margin	39%	40%	40%	40%
EBITDA margin	41%	40%	40%	40%
Net profit margin	14%	14%	14%	14%
ROE	22%	23%	23%	22%
ROA	12%	12%	12%	11%
<b>Growth</b>				
Revenue growth	19%	14%	13%	13%
Profit before tax growth	21%	10%	13%	13%
Profit after tax growth	21%	11%	13%	13%
EPS	20%	11%	14%	15%
Total Asset	13%	10%	15%	14%
Equity	13%	13%	14%	14%
<b>Liquidity</b>				
Current ratio	117%	140%	137%	135%
Quick ratio	103%	116%	114%	112%
Debt/Total assets	23%	22%	22%	21%
Debt/Equity	56%	52%	51%	51%
Interest coverage	14.8	20.2	37.8	47.3
<b>Operating efficiency</b>				
Receivables turnover	4.3	5.0	5.3	5.0
Days sales outstanding	85.9	73.0	69.5	73.0
Inventory turnover	13.2	11.5	11.5	11.4
Days sales of Inventory	27.6	31.7	31.8	32.0
Payables turnover	1.9	2.1	2.1	2.1
Days payables outstanding	188.3	177.3	177.1	177.0

Macro outlook

Stock market outlook

Key investment themes

Sector Outlook

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**STOCK RATING:** The recommendation is based on the difference between the 12-month target price and the current price:

Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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