

FPT Corporation (FPT VN)

New opportunities emerge

Growth potential from new US-VN partnership; BUY

While FPT continues to show its resilience amid global and domestic headwinds, new long-term growth potential is emerging in the semiconductor industry due to the US-VN comprehensive strategic partnership (CSP). We forecast FPT to deliver EPS growth of 20%/25% YoY in FY23-24, respectively. We roll forward our valuation to end-FY24 and set our target price at VND115,000 based on 20x P/E, equal to 3Y avg + 1SD, up from VND93,000 based on 20x P/E, or 3Y avg +1SD.

Resilient 8M23 growth

FPT posted robust 8M23 sales growth of 21% and PBT growth of 19% YoY. Overseas IT outsourcing remained the growth engine with 30% YoY sales growth. Japan and APAC ex-JP delivered stellar sales growth of 41% YoY and 37% YoY, offsetting the slowing US market. Signed revenue jumped 25% YoY to VND19.1t/USD800m. Domestic operations still face headwinds from local property turmoil and economic slowdown. IT service sales grew only 6% YoY in 8M23 and actually declined 27% YoY in Aug'23. However, while telecom continued to generate stable cashflow, education grew a further c30-40% YoY. In 8M23, FPT fulfilled 63% of its FY23 sales guidance and 65% of PBT guidance.

Semiconductor opportunities from new US-VN CSP

On 10 Sep'23, Vietnam and the US marked a historical milestone by signing a comprehensive strategic partnership (CSP), Vietnam's highest diplomatic agreement. As a part of the new partnership, the US and Vietnam will collaborate in technology and semiconductor development. This opens big opportunities for FPT as the leading technology company in Vietnam. FPT exported c.USD280m IT services to the US in 2022 (10-Y CAGR of 33%) and aims at USD1b sales pa before FY30. FPT set up a semiconductor subsidiary in 2021 focused on chip design with a target to deliver 25m chips globally in FY24-25. FPT Education in Sep'23 launched semiconductor and microelectronics departments to enrol the first batch of students in 2024. FPT Vietnam has proposed a framework to the government to train 30,000-50,000 semiconductor engineers by 2030. These nascent steps form the basis of FPT's semiconductor journey in the next 5-10 years.

Roll forward our valuation base to FY24

We expect FPT to meet its FY23 sales and profit guidance. We forecast FY24 sales and PBT to grow 22% YoY on global and domestic recovery. EPS growth is pegged at 20% and 25% in FY23-24E. We roll forward our valuation to end-2024 and set a TP of VND115,000 on 20x P/E, ~3Y avg + 1SD.

FYE Dec (VND b)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	35,657	44,010	53,312	65,128	79,261
EBITDA	8,634	10,673	12,737	14,986	17,785
Core net profit	3,940	4,849	5,814	7,291	9,299
Core EPS (VND)	3,125	3,818	4,579	5,742	7,323
Core EPS growth (%)	21.3	22.2	19.9	25.4	27.5
Net DPS (VND)	1,440	1,728	2,000	2,500	2,500
Core P/E (x)	24.8	20.1	20.3	16.2	12.7
P/BV (x)	3.9	4.0	4.7	4.0	3.2
Net dividend yield (%)	1.9	2.2	2.2	2.7	2.7
ROAE (%)	25.8	27.2	27.8	29.3	30.7
ROAA (%)	8.3	9.2	10.3	10.8	11.5
EV/EBITDA (x)	11.0	8.9	8.9	7.4	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	6,331	7,824	9,484
MIBG vs. Consensus (%)	-	-	0.9	2.4	7.7

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BUY

Share Price	VND 92,800
12m Price Target	VND 115,000 (+27%)
Previous Price Target	VND 93,000

Company Description

FPT Corp. is the largest technology company in Vietnam with 3 main businesses including IT, telecom, and education.

Statistics

52w high/low (VND)	99,000/65,900
3m avg turnover (USDm)	7.2
Free float (%)	80.0
Issued shares (m)	1,270
Market capitalisation	VND117.8T USD4.8B

Major shareholders:

Chairman Truong Gia Binh and affiliates	8.6%
Vietnam State Capital Invest Corp SCIC	5.8%

Price Performance



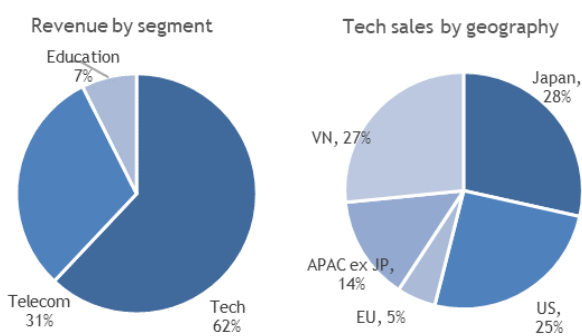
	-1M	-3M	-12M
Absolute (%)	(1)	7	21
Relative to index (%)	3	5	18

Source: FactSet

Value Proposition

- FPT is the largest technology company in Vietnam with significant market share in each of the 3 main businesses, including technology, telecom, and education.
- Technology (or IT services) accounts for 62% of group sales and is the key growth driver of the group in the long run. While Japan and the US are the main markets, providing 'Made-by-FPT' products to the domestic market helps develop its own technology.
- Telecom (providing fixed-broadband Internet access with 16% market share) is generating stable profit and cash flow.
- Education not only supplies the necessary talent to the group, but it also contributes to a growing middle-income class and low penetration of the private sector in the education system. FPT forecasts the number of enrolments to reach 120k-130k students in 2023.

Revenue by segment and geography

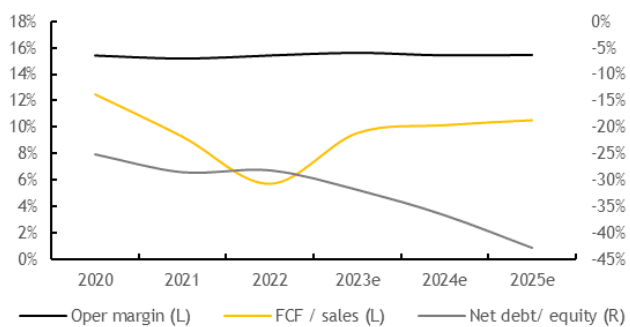


Source: Company

Financial Metrics

- Operating margin was stable at c.15-16% in FY20-22 despite the pandemic. We expect margins to improve slightly in the foreseeable future as the technology and education divisions benefit from economies of scale.
- Although capex will remain high in order to expand technology and education and maintain the competitiveness of its telecom division, operating cash flow can cover all such expenses. In general, we expect FPT can generate positive free cash flow and maintain its 40-50% payout ratio policy as well as net cash position.

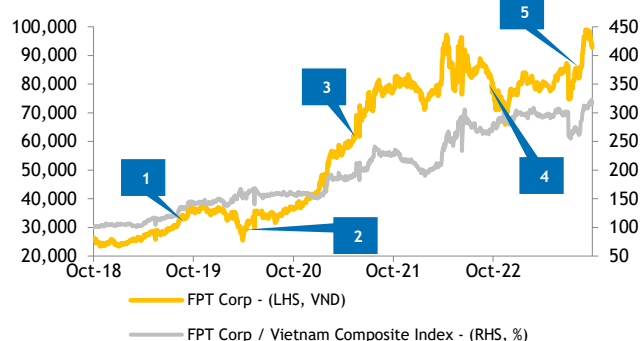
FPT's key financial ratios



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. Aug 2019: FPT's share price rose to a 10-year high as DCVFM VN Diamond ETF, in which FPT had a 15% weighting, was about to launch.
2. Feb-Mar 2020: Covid-19 outbreak.
3. Global uptrend of tech stocks thanks to digital transformation trend
4. Liquidity crunch of real estate developers caused by bond market rout impacted listed equity market.
5. The US and VN agreed on comprehensive strategic partnership, opening new IT and semiconductor opportunities for Vietnam

Swing Factors

Upside

- Global adoption of digital transformation accelerates faster than expected. Made-by-FPT products in cloud computing, blockchain, AI, RPA, etc penetrate well into domestic market.
- Non-voting depository receipt becomes available in 2023.

Downside

- Fund flows into local ETFs (such as DCVFM Diamond ETF) reverses.
- 5G technology cannibalizes fixed-broadband share.
- Vietnam Dong appreciates significantly against the USD, Yen and Euro.



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Risk Rating & Score ¹	n.a
Score Momentum ²	n.a
Last Updated	n.a
Controversy Score ³	n.a

Business Model & Industry Issues

- As FPT is an information and communication technology company with presence in more than 29 countries and territories, social and governance issues are more important within ESG context.
- FPT has a well-diversified labour force with female employees making up 38% share. The company was able to increase headcount by 47% over 2020-22. FPT not only continues to improve its public image through giving back to society but it also encourages employees to take part in volunteering activities.
- FPT maintains a high level of transparency through monthly updates about business results and company activities. Corporate governance is strong as 3/7 BOD members are independent, and inside shareholders and major shareholders hold only 17.8% and 12.8% stake respectively.
- Given cyber security is a major operating risk FPT has developed cyber security products such as CyRadar and FPT.EagleEye etc in addition to outsourced systems. However, disclosures about data privacy and cybersecurity are limited.

Material E issues

- Environment impact mostly comes from waste discharge, energy consumption in the offices nationwide. In 2022, total electricity consumption increased 33% YoY and water consumption jumped 28% YoY as total headcount increased 14% amid back-to-normal economic activities.
- Eco-friendly solutions in daily activities and investment are always prioritized and enhancing the environmental awareness of employees is constantly promoted by the company. F-Town 3 campus is classified as one of the trio of typical constructions of Bioclimatic architecture by Wallpaper magazine. FPT Complex (Da Nang) was awarded the EDGE (Excellence in Design for Greater Efficiencies) by the Ministry of Construction and the World Bank.
- In 30 years since its establishment, FPT has fully complied with waste and emissions management regulations, with no related violations recorded.

Material S issues

- FPT maintains good diversity in its workforce. Female employees accounted for 38.1% in 2022 vs 36.1% in 2017. At the executive level, women made up 34.6%. FPT has 42,408 overseas employees with 52 different nationalities working in 29 countries and territories. For inclusive development, FPT accepts everyone as their authentic selves with their own strengths and weaknesses.
- In 2022, FPT increased its labour force by 14% YoY to 42,408 employees. FPT spent 3.4m hours of employee training. FPT Software Academy, MiniMBA, and FPT Innovation Award iKhien are professional training programs and awards to turn FPT into a learning organization.
- FPT signed a cooperation agreement with the Ministry of Education and Training to digitally transform learning and teaching methods in Vietnam. Meanwhile, thanks to the coverage of FPT Telecom infrastructure in 59 of the 63 provinces, FPT is able to promote the digital society.
- 13 Mar is designated as “FPT for community” day to encourage employees to join volunteering activities. Also, FPT sponsors tuition fee for around 1,000 orphans (c.VND80b p.a in 20 years) caused by the pandemic.
- Disclosures about data privacy and cybersecurity are limited.

Key G metrics and issues

- The board has 7 members, of which 3 are independent and 1 is female.
- In FY22, remuneration for the board of director, board of supervisor and board of management were VND19.6b, equivalent to 0.2% of after-tax earnings.
- Inside shareholders, including the BOD and BOM and non-management, hold 17.8% stake in total. Major shareholders hold 12.8%. Business updates are provided to investors on a monthly basis.
- In response to shareholders’ feedback, FPT changed auditor to PwC from Deloitte and added 1 female member to its BOD in 2021.
- Despite doing businesses in 29 countries and territories, FPT does not disclose enough information about results in each jurisdictions as well as a clear tax strategy.
- FPT has been preparing sustainability development report based on Global Reporting Initiative since 2013, as part of its annual report.
- Since 2014, FPT has adopted a leadership development and rotational programme to prepare top executives for FPT and its subsidiaries. Leaders are rotated into various divisions to gain diversified and management experience. In 2020, FPT interchanged two positions of chairwoman of FPT Telecom and chairman of FPT Software. Also, CEO Nguyen Van Khoa used to be FPT Telecom’s CEO before being appointed as FPT IS’ CEO in 2018 and then FPT Corp’s CEO in 2019.
- FPT has applied objective and key results management method at all levels since 2018.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 36)						
	Particulars	Unit	2020	2021	2022	Infosys (2021)
E	Scope 1 GHG emissions	m tCO2e	0	0	0	8,965
	Scope 2 GHG emissions	m tCO2e	0	0	0	51,717
	Total	m tCO2e	0	0	0	60,682
	Scope 3 GHG emissions	m tCO2e	0	0	0	183,596
	Total	m tCO2e	0	0	0	244,278
	GHG intensity (Scope 1 and 2)	tCO2e/USDm	0.0	0.0	0.0	3.7
	Green energy share of usage	%	NA	NA	NA	43%
	Treated wastewater as % of usage	%	NA	NA	NA	65%
S	% of waste reused, recycled, or sold	%	NA	NA	NA	92%
	% of green building certified	%	NA	NA	NA	52%
	% of women in workforce	%	37%	37%	38%	40%
G	% of women in management roles	%	31%	32%	35%	18%
	Average training days	number	8.3	12.8	10.0	15.7
	MD/CEO salary as % of net profit	%	0.01%	0.01%	0.01%	0.3%
	Top 10 employees salary as % of profit	%	NA	NA	NA	1.2%
G	Independent directors tenure <10 years	%	29%	29%	43%	75%
	Women directors on board	%	0%	14%	14%	25%

Qualitative Parameters (Score: 67)	
a) Is there an ESG policy in place and is there a standalone ESG committee or is it part of a risk committee?	<i>Although there is not a standalone ESG Committee yet, FPT has taken ESG initiatives for its business sustainability. The first ESG report embedded in the 2021 annual report has been published. ESG policies are approved by the board. Specific goals are then established by the Board of Management and cascaded to subsidiary level. BOM is also in charge of monitoring the implementation and achievement of such sustainable goals.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>No</i>
e) Has the company been involved in controversies which have impacted their management/stock price performance	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>FPT promotes a green working environment by increasing the usage of renewable energy (rooftop solar power) and natural water (ground water and rain water) in their buildings. FPT Complex Danang has been awarded the EDGE by the World Bank for reducing energy, water and material usage by 20%.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No target yet. But FPT launches its own environmental programmes as well as encourages employees to join volunteer activities such as planting trees.</i>

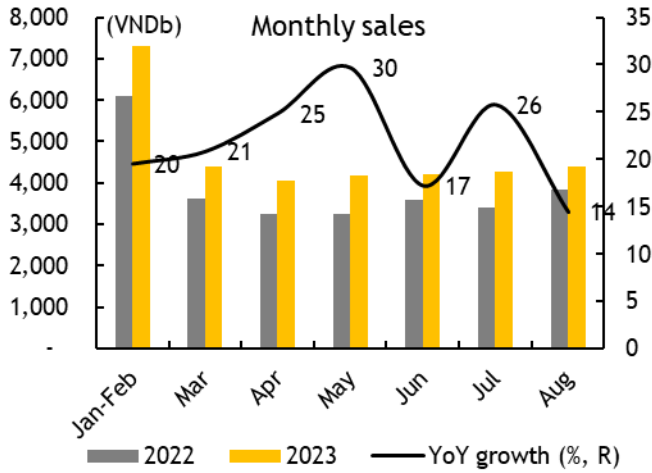
Target (Score: 0)		
Particulars	Target	Achieved
Carbon neutral	NA	NA
Net zero target	NA	NA
Increase renewable energy	NA	NA
Increase treated wastewater	NA	NA
Reduce waste to landfill	NA	NA
Improve workforce inclusion and diversity	NA	NA
Impact		
NA		
Overall score: 35		
As per our ESG matrix, FPT (FPT VN) has an overall score of 35, which is below average.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	36	18
Qualitative	25%	67	17
Target	25%	0	0
Total			35

As per our ESG assessment, FPT is aware of the importance of sustainability development and is building an ESG framework and internal policies. But the company has yet to define tangible mid/long-term targets. FPT's overall ESG score is 35, which makes its ESG rating below average in our view (average ESG rating = 50).

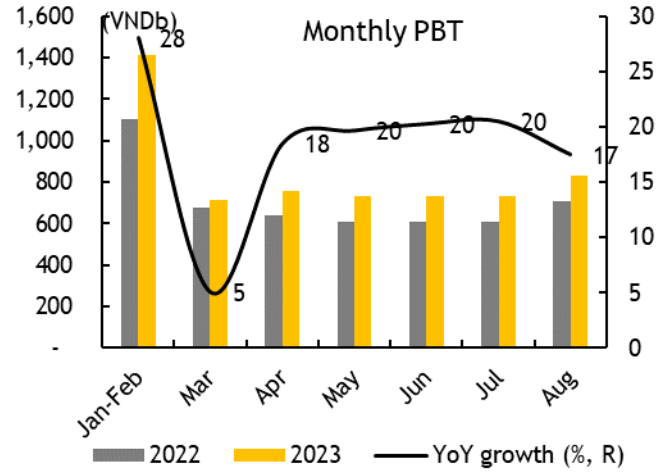
Focus charts

Fig 1: Despite global and local headwinds, 8M23 sales resilient



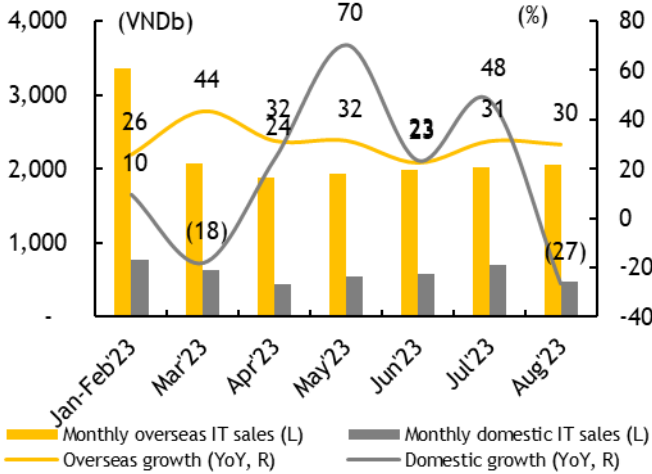
Source: FPT, Maybank IBG Research

Fig 2: PBT sustained high-teens' growth



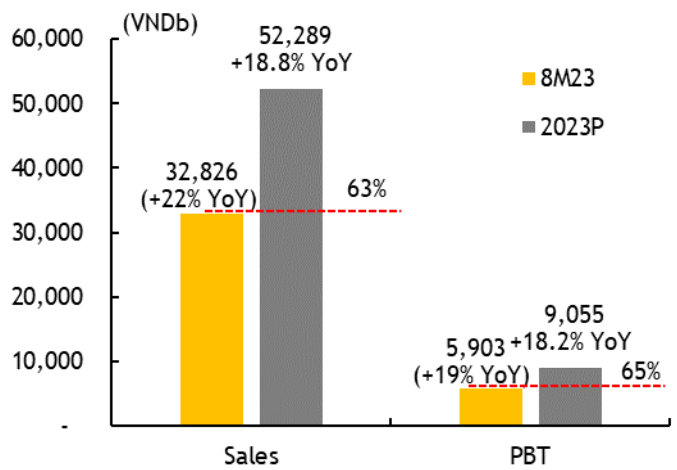
Source: FPT, Maybank IBG Research

Fig 3: Overseas IT outsourcing remains growth engine with 30% YoY growth, offsetting fluctuating domestic IT service sales



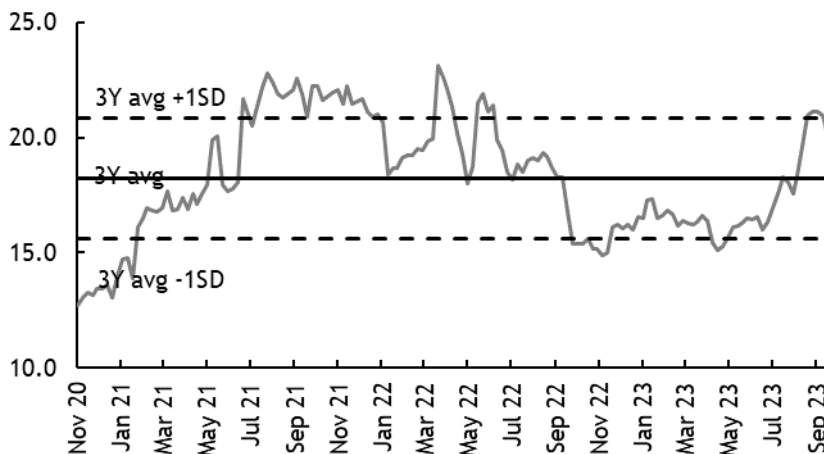
Source: FPT, Maybank IBG Research

Fig 4: In 8M23, FPT met 63% of sales and 65% of PBT targets



Source: FPT, Maybank IBG Research

Fig 5: We believe the stock deserves to trade at 20x, +1SD its 3-year average, given its resilient earnings growth of 20% YoY pa in the next 3 years



Source: Bloomberg, Maybank IBG Research

Fig 6: FPT's valuation is cheaper and less volatile than Indian peers

Company	Stock code	Mkt cap (USD m)	Country	Current (x)		1 year (x)				3 years (x)		5 years (x)	
				TTM PE	High	Low	Mean	Stdev	Mean	Stdev	Mean	Stdev	
Tata Consult	TCS IN	155,576	India	29.5	31.9	27.2	29.1	1.3	33.1	3.8	29.5	5.4	
Infosys	INFO IN	72,697	India	24.2	30.0	21.0	25.2	2.5	29.2	4.3	25.3	6.0	
HCL Tech	HCLT IN	40,397	India	22.2	23.5	18.0	20.6	1.0	21.9	2.5	19.1	4.1	
Wipro	WPRO IN	26,815	India	19.1	20.7	17.4	18.9	0.7	22.8	4.3	20.2	5.0	
Tech Mahindra	TECHM IN	14,301	India	25.3	27.0	17.1	20.2	3.0	21.5	3.7	18.7	4.6	
Mphasis	MPLH IN	5,361	India	27.3	29.3	19.7	25.2	2.7	31.6	9.8	25.7	10.7	
FPT	FPT VN	4,849	Vietnam	20.1	21.2	14.9	16.8	1.6	18.0	2.8	14.9	4.4	

Source: Bloomberg, Maybank IBG Research. Data as of 29 Sep'23

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	20.1	19.4	18.4	14.7	11.5
Core P/E (x)	24.8	20.1	20.3	16.2	12.7
P/BV (x)	3.9	4.0	4.7	4.0	3.2
P/NTA (x)	4.3	4.4	5.0	4.2	3.4
Net dividend yield (%)	1.9	2.2	2.2	2.7	2.7
FCF yield (%)	3.4	2.6	4.3	5.6	7.1
EV/EBITDA (x)	11.0	8.9	8.9	7.4	6.0
EV/EBIT (x)	17.6	14.0	13.6	11.1	8.7

INCOME STATEMENT (VND b)

Revenue	35,657.3	44,009.5	53,312.0	65,128.1	79,261.2
EBITDA	8,634.0	10,673.1	12,737.3	14,985.8	17,784.6
Depreciation	(1,594.4)	(1,862.5)	(1,675.3)	(1,877.3)	(2,091.6)
Amortisation	(1,624.5)	(2,016.0)	(2,716.9)	(3,049.3)	(3,415.7)
EBIT	5,415.0	6,794.6	8,345.0	10,059.2	12,277.4
Net interest income / (exp)	521.0	703.2	648.4	771.1	995.3
Associates & JV	686.9	483.6	61.6	212.1	604.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(285.7)	(319.0)	0.0	0.0	0.0
Pretax profit	6,337.2	7,662.3	9,055.0	11,042.4	13,876.7
Income tax	(987.9)	(1,170.9)	(1,419.0)	(1,674.7)	(2,027.5)
Minorities	(1,011.9)	(1,181.2)	(1,246.5)	(1,355.3)	(1,630.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	4,337.4	5,310.1	6,389.5	8,012.5	10,219.1
Core net profit	3,940.2	4,848.6	5,814.4	7,291.4	9,299.4

BALANCE SHEET (VND b)

Cash & Short Term Investments	26,148.6	19,487.4	23,606.6	28,838.7	35,096.8
Accounts receivable	6,882.2	8,502.9	10,300.2	12,583.1	15,313.7
Inventory	1,507.3	1,965.8	2,381.3	2,909.1	3,540.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	10,551.5	11,776.4	14,036.0	16,478.0	19,326.7
Intangible assets	1,133.1	1,287.1	1,537.5	1,806.8	2,123.0
Investment in Associates & JVs	2,018.0	2,205.7	2,267.3	2,479.4	3,083.4
Other assets	5,457.3	6,425.1	7,461.0	8,650.4	10,033.9
Total assets	53,697.9	51,650.4	61,589.9	73,745.6	88,518.0
ST interest bearing debt	17,799.4	10,904.3	12,646.1	14,405.7	15,114.1
Accounts payable	2,865.8	3,209.2	3,887.6	4,749.2	5,779.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,296.3	1,477.8	1,713.9	1,952.4	2,048.4
Other liabilities	9,318.0	10,703.0	13,433.0	17,086.0	21,876.0
Total Liabilities	32,280.0	26,294.3	31,680.1	38,193.7	44,818.5
Shareholders Equity	17,940.9	21,046.5	24,904.5	29,760.8	36,840.2
Minority Interest	3,477.0	4,309.7	5,005.3	5,791.1	6,859.3
Total shareholder equity	21,418.0	25,356.1	29,909.8	35,551.9	43,699.5
Total liabilities and equity	53,697.9	51,650.4	61,589.9	73,745.6	88,518.0

CASH FLOW (VND b)

Pretax profit	6,337.2	7,662.3	9,055.0	11,042.4	13,876.7
Depreciation & amortisation	3,218.9	3,878.5	4,392.2	4,926.6	5,507.2
Adj net interest (income)/exp	(521.0)	(703.2)	(648.4)	(771.1)	(995.3)
Change in working capital	510.7	(744.8)	419.0	532.2	636.6
Cash taxes paid	(1,045.0)	(1,221.8)	(1,277.2)	(1,494.6)	(1,812.1)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	8,222.4	8,375.1	11,731.9	13,898.1	16,605.2
Capex	(4,911.0)	(5,865.2)	(6,633.6)	(7,276.1)	(8,246.5)
Free cash flow	3,311.3	2,509.9	5,098.2	6,622.0	8,358.8
Dividends paid	(2,254.2)	(2,222.1)	(3,082.3)	(3,725.7)	(3,701.5)
Equity raised / (purchased)	87.6	77.0	0.0	0.0	0.0
Change in Debt	7,355.5	(7,713.6)	1,977.8	1,998.1	804.4
Other invest/financing cash flow	283.7	662.7	128.0	341.1	800.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	8,784.0	(6,686.1)	4,121.7	5,235.5	6,262.1

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	19.5	23.4	21.1	22.2	21.7
EBITDA growth	13.6	23.6	19.3	17.7	18.7
EBIT growth	17.6	25.5	22.8	20.5	22.1
Pretax growth	20.4	20.9	18.2	21.9	25.7
Reported net profit growth	22.6	22.4	20.3	25.4	27.5
Core net profit growth	22.1	23.1	19.9	25.4	27.5
Profitability ratios (%)					
EBITDA margin	24.2	24.3	23.9	23.0	22.4
EBIT margin	15.2	15.4	15.7	15.4	15.5
Pretax profit margin	17.8	17.4	17.0	17.0	17.5
Payout ratio	41.8	41.3	39.7	39.6	31.1
DuPont analysis					
Net profit margin (%)	12.2	12.1	12.0	12.3	12.9
Revenue/Assets (x)	0.7	0.9	0.9	0.9	0.9
Assets/Equity (x)	3.0	2.5	2.5	2.5	2.4
ROAE (%)	25.8	27.2	27.8	29.3	30.7
ROAA (%)	8.3	9.2	10.3	10.8	11.5
Liquidity & Efficiency					
Cash conversion cycle	42.7	45.5	48.3	48.1	48.3
Days receivable outstanding	66.4	62.9	63.5	63.2	63.4
Days inventory outstanding	22.9	23.3	24.0	24.0	23.8
Days payables outstanding	46.5	40.7	39.2	39.1	38.8
Dividend cover (x)	2.4	2.4	2.5	2.5	3.2
Current ratio (x)	1.2	1.3	1.3	1.3	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	2.0	1.9	1.9	2.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Net gearing (%) (excl. perps)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	2.3	1.2	1.1	1.1	1.0
Capex/revenue (%)	13.8	13.3	12.4	11.2	10.4
Net debt/ (net cash)	(6,052.8)	(7,105.2)	(9,246.6)	(12,480.6)	(17,934.4)

Source: Company; Maybank IBG Research

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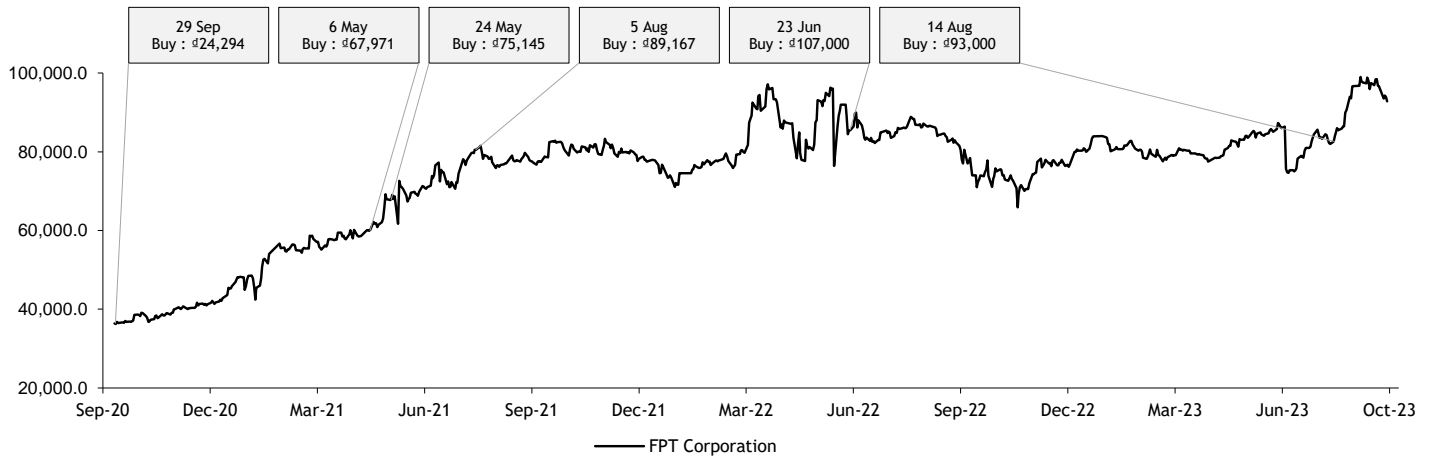
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