Sector : Technology *(Latest report: Link)*

Recommendation	Buy	FPT Joint Stock Company (HSX: FPT) Fire proves gold			
Current price	50,700	Date	13/10/2020	**Majorshareholders**	
Previous target price	51,900	Outstanding share (mn)	784	Truong Gia Binh	7.1%
Current target price	63,580	Market cap(VND bn)	38,528	SCIC	5.9%
Dividend yield	0%	Average Volume 10 days (share)	1,879,662	Macquarie Group	5.4%
Upside	**25.4%**	Foreign Ownership	49%	Bui Quang Ngoc	2.5%

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Target price	59,890 VND
Cut loss price	46,580 VND

Table Comparision VNIndex and Stock chart

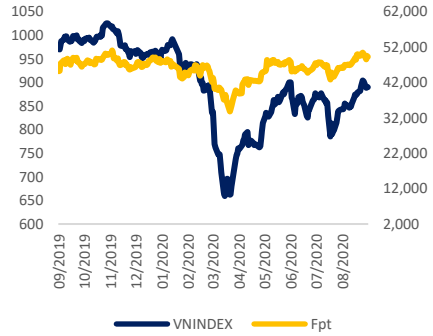
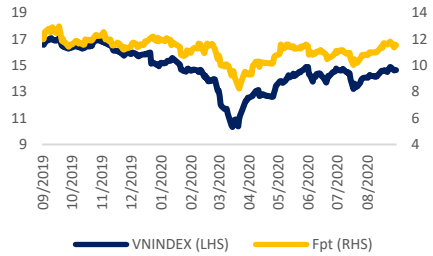


Table Comparision VnIndex and Stock's PE



Valuation

- We maintain our **BUY** recommendation with the target price of VND 61,200 (+25.4% compared to the closing price on October 13rd 2020) based on two approaches FCFE and PE. The latest target price is 22.5% higher than previous target price due to expectation of positive recovery in FY 2021.

Business Forecast

- BSC forecasts that revenue and profit of FY 2020 reach VND 31,841bn (+14.9% YoY) and VND 4,465bn (+14.1% YoY). EPS FW 2020 = 4,190 VND. PE FW 2020 = 11.7.
- BSC forecasts that revenue and profit of FY 2021 reach VND 38,193bn (+19.9% YoY) and VND 5,569bn (+24.7% YoY). EPS FW 2021 = 5,282 VND. PE FW 202. = 9.3 lần.

Investment themes

- Despite the negative impact of Covid – 19, FPT delivered an outstanding business results.
- Positive growth rate is expected in FY 2021

Risk

- Complicated and uncertain businessc condition due to corona virus

Company Update

- **Corona virus slowed down growth rate in the first 8 month of FY 2020.** Revenue and profit before tax respectively rach VND 18,321bn (+7.6% YoY) and VND 3,343bn (+11.7% YoY), accomplishing 56.4% and 60.7% of guidance.
- **Digital Transformation trend continue to be the key growth driver for FPT** thanks to (i) An inevitable trend comes from the need to apply technology in business activities and (ii) Corona virus changes customers' behavior in investing technology: increasing demand for cost optimization, operation optimization,…

	2019	2020F	Peer	VN-Index
PE (x)	10.81	11.4	20.4	14.1
PB (x)	2.1	2.1	2.2	1.9
PS (x)	1.1	1.2	2.7	29
ROE (%)	24.8%	24.4%	13.3%	13.6%
ROA (%)	12.4%	13.9%	8.4%	2.4%

	2018	2019	2020F	2021F
Revenue	23,213	27,717	31,841	38,193
Gross profit	8,723	10,712	12,354	14,972
Profit after tax	3,228	3,912	4,465	5,569
EPS	3,897	4,220	4,190	5,282
EPS Growth	-24%	8.3%	-0.7%	26%
Liability/Equity	101%	99%	64%	60%

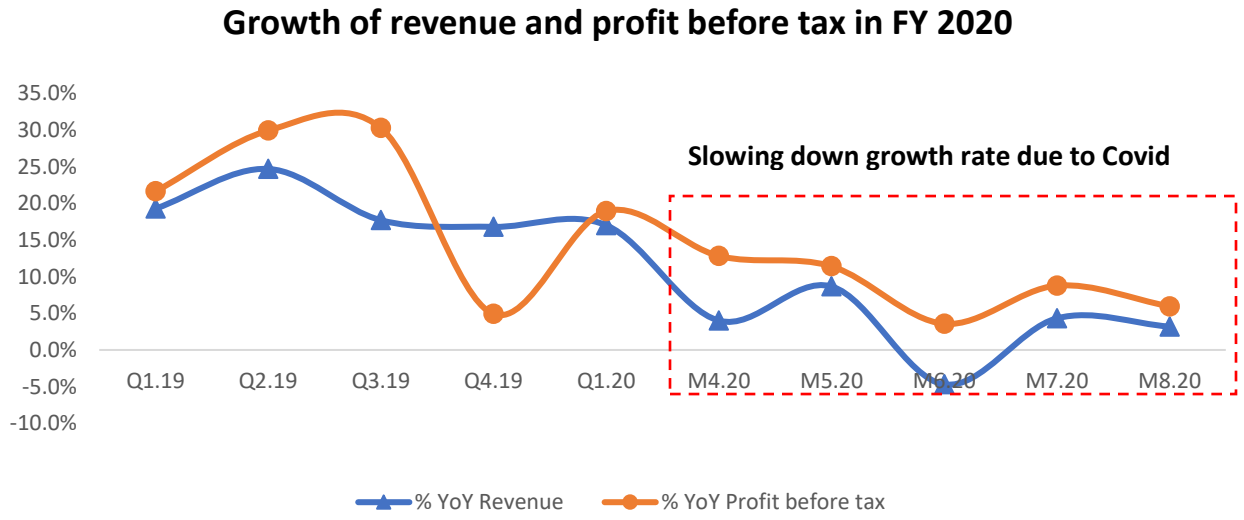
We maintain our **BUY** recommendation for the stock with the new target price for FY 2021 of VND 61,2000/ share, equivalent to the upside of 25.4% based on two valuation approaches FCFE and P/E.

A. INVESTMENT THEMES

Investment Point 1: Despite the negative impact of Covid – 19, FPT delievered outstanding business results

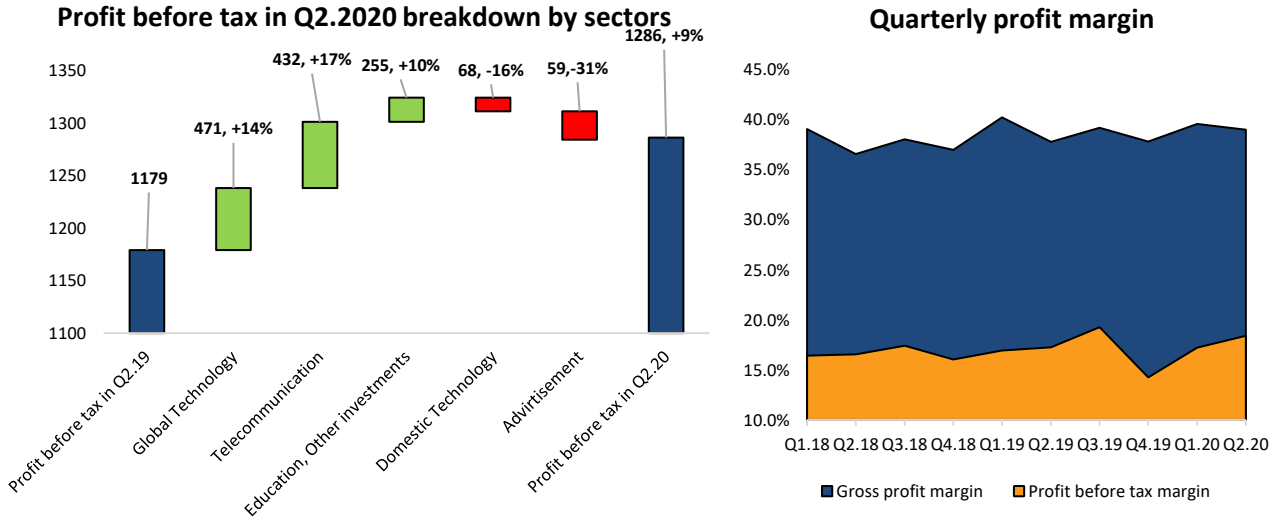
(i) Growth of the first 8 months slowed down due to corona virus

In 8 months, revenue and profit before tax reached VND 18,321bn (+7.6% YoY) and VND 3,343bn (+11.7%YoY), fullfilling 56.4% and 60.7% of guidance.



Source: FPT

Particularly, revenue and pre-tax profit of the first 6 months reached VND 13,610bn (+ 9.0% YoY) and VND 2,427bn (+ 13.5% YoY). Gross profit margin continued to improve to 39.3% from 38.9% in the same period thanks to (i) Cutting expense: marketing expense, traveling expense (due to flight restrictions) and (ii) Increasing revenue contribution of Digital Transformation projects from 8.6% to 13.0 %.



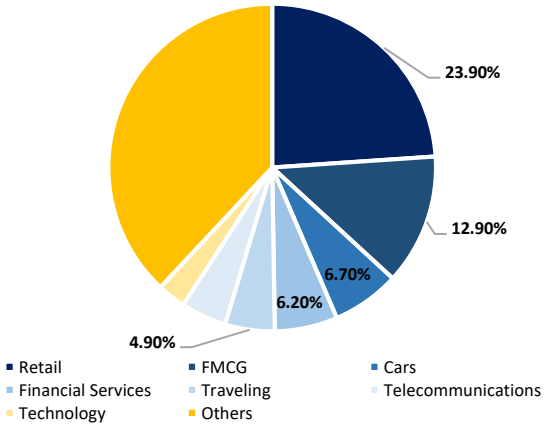
Source: FPT

+ *Global Technology segment:* Growth rate slowed down in the first 8 months with revenue and profit before tax reaching VND 7,774 bn (+14.4% YoY) and VND 1,239 bn (+ 16.5% YoY). This is due to (i) customers reduce outsourcing demand (especially those in transportation and tourism industries) (ii) it is more difficult to develop new clients and sign contracts due to working remotely instead of meeting face-to-face.

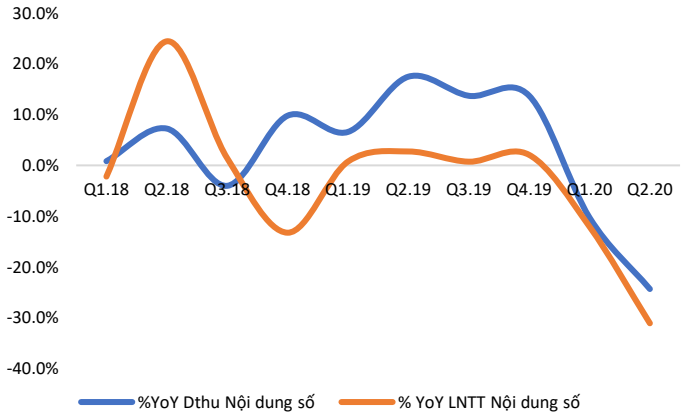
+ *Mảng Nội dung số:* là mảng sụt giảm mạnh với doanh thu và lợi nhuận trước thuế 7 tháng đạt lần lượt là 262 tỷ (-18.5% YoY) và 120 tỷ (-26.7% YoY). Dịch Covid 19 khiến các doanh nghiệp thu hẹp chi phí hoạt động: trong đó có cắt giảm mạnh chi phí marketing, quảng cáo,…BSC cho rằng mảng Nội dung số khó có thể ghi nhận mức hồi phục trong 6 tháng cuối năm khi tình hình dịch bệnh và kinh tế còn diễn biến phức tạp khiến khách hàng thu hẹp ngân sách hoạt đọng trong kho các trang báo điện tử vẫn chịu cạnh tranh gay gắt từ các nền tảng mạng xã hội, sàn thương mại.

+ *Advertisement segment:* this segment recorded a significant drop in growth rate with revenue and profit before tax posting respectively VND 262bn (-18.5% YoY) and VND 120bn (-26.7% YoY). Corona virus makes businesses to cut their markeing and advertising budget. BSC believes that Advertisement segment is unlikely to record a recovery in the last 6 months as the epidemic left an uncertain situation.

Online ad spending by industries in 2019



Growth rate of revenue and profit befor tax of Advertisement sector

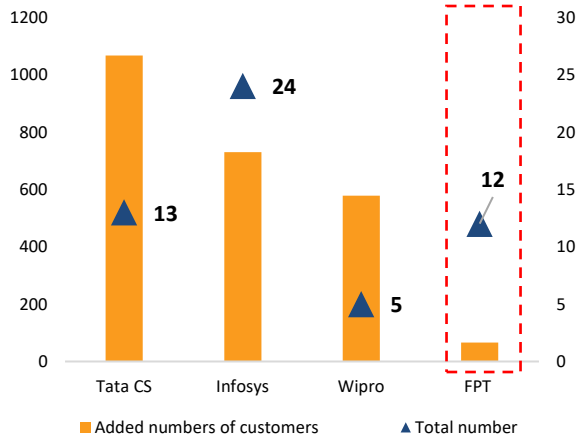


Source: Adsota, FPT

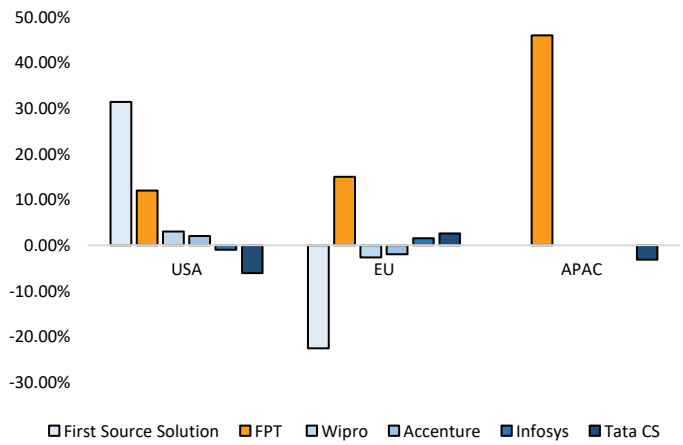
(ii) FPT showed outstanding business results compared to its peers

Although the overall growth rate is negatively affected by Covid, FPT still shows outstanding business results compared to the industry: positive growth rate compared to the sideways / decline of most competitors. Morevover, FPT is better in expanding its customer base than other competitors.

Total and added numbers of customers with orders > 1mn USD



Growth rate of revenue by markets in 1H.2020



Source: Companies

Table Q2.2020 Business results of some outsourcing companies

Company*	% YoY Revenue Q2	% YoY NPAT Q2	Operating profit margin	Net profit margin
Accenture	-0.9%	-1.3%	15.6%	11.4%
FirstSource Solution	8.4%	-2.7%	11.0%	8.3%
Infosys	-0.3%	+3.1%	22.7%	18.1%
Tata CS	+0.4%	-13.8%	23.6%	18.3%
Wipro	1.3%	0.1%	18.1%	16.0%
CMG	5.2%	+98.5%	4.5%	4.0%
FPT**	**+2.3%**	**+9.1%**	**17.6%**	**14.9%**

* (Exclue FPT): Financial year starts since 31/3

**: adjusted the contribution of FRT and FTG

Source: Companies

(iii) Managers had quickly actions to implement protection measures through the epidemic

Human resource: On July 26 (when the Government officially announced the infected case in Da Nang), FPT issued Directive No. 11. requesting staff members to work from home. This prompt action helps the company minimize the impact when the second wave of infection in Vietnam began.

Financial resources: In addition to the 20% salary reduction for staff at level 5 and above, FPT actively recovers receivables and reduces unnecessary investments. With healthy finance (large cash, business cash flow enough to cover costs), FPT is in a solid position to overcome this difficult period.

Investment point 2: High growth rate is expected in FY 2021

(i) In FY 2021, BSC expects the growth rate to return *(detailed information in Valuation section)*

+ Software Outsourcing is back to two digi growth rate after being strongly negatively affected in Q2 due to corona virus, signed orders returned with a growth rate of 16% over the same period. Although the growth rate is lower than the pre-corona (20% - 30%), BSC believes that this is the first optimistic signal that orders is returning.

+ Advertisement segment will bounce back from low level 2020: Although BSC believes that 2021 revenue of digital content will be difficult to recover to pre-translation level, it still grows slightly from low level in 2020 when operating businesses are back to normal.

BSC notes that the unpredictable development of Covid-19 is the main risk affecting our business forecast.

(ii) Key driver continues to come from Digital Transformation projects

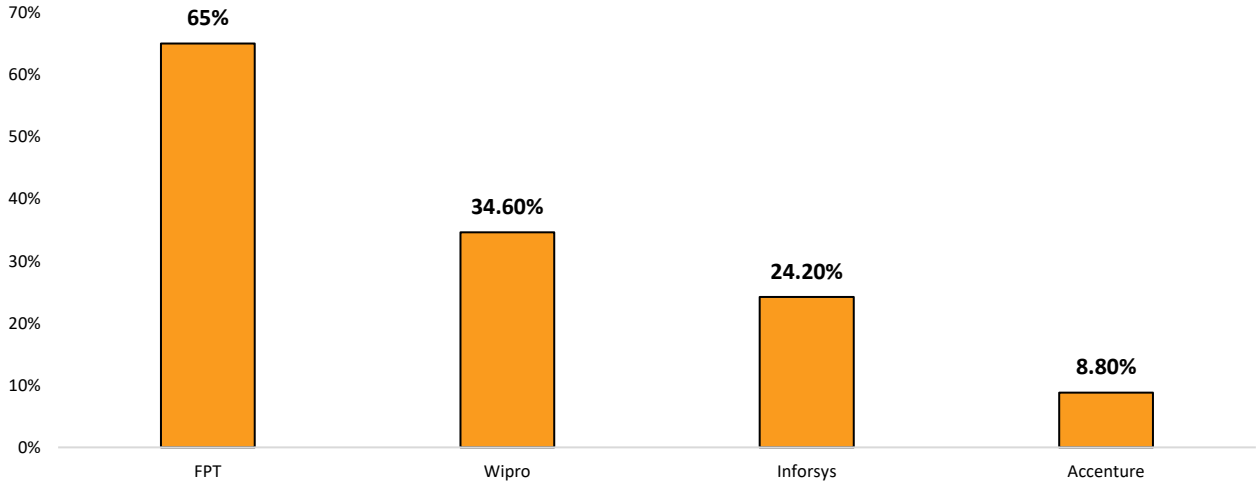
According to ISG research, total global contract value of BPO industry signed in the first 6 months is 13.2 billion USD, down by 5% YoY. In which, traditional contracts recorded the strongest decrease (-16% YoY), contracts related to cloud computing services grew 7% - although this is the lowest growth in 3 recent years. BSC believes

that the digital transformation trend will happen faster thanks to Covid - 19 and will continue to be the main growth driver of FPT in the coming time because of the following reasons:

+ Digital transformation is an inevitable trend coming from the increasing need of businesses wanting to apply digital technology in their business activities. The global Digital Transformation market is expected to grow 16% / year compared with the general 4% / year growth of the IT industry that comes from the main growth of Big Data Analytics, Cloud Computing, Mobile Technology.

+ The Covid epidemic - 19 changes customers' behavior in investing in Technology: increasing demand with cost optimization, optimization of operating systems, .. when business are interrupted in 2020 (working remotely, moving to online platform, ...). These new demands will drive the growth of Digital Transformation projects in the coming time (FPT's revenue from the Transformation project in the first 6 months of the year increase 65% YoY, Infosys's revenue grow 25% YoY).

% YoY of Digital Transformation revenue in first half of 2020



Source: Companies

In order to meet digital transformation demands, FPT has taken quick actions as following:

+ Encouraging Made by FPT products: AkaBot, AkaDoc, Aka Trans, ... BSC believes that the company management is quick to self-develop the products to use. new technology and take advantage of FPT know - how to create products with high added value.

+ Founding FPT Smart Cloude Ltd: focusing on cloud computing service with charter capital of 100 billion VND.

AkaChain	AkaDoc and Aka Trans	AkaBot
+ First Blockchain related business solutions + Providing services such as traceability, customer identification	+ Handling documents and languages format + AI – applied in translation support tools	Automation Solutions in some industries: Health care (Bill Processing, Hospital Fee Payments), Insurance (Applications Fillment, Complaints,…)

Services	FPT's Products
Security	FPT Eagle EyeMDR
Mobile Platform	eMobiz Fieldwork
Big Data Analysis	FPT DMP
AI	FPT AI Platform
Automatives	AkaBot RPA Platform
Virtual reality	FPT Smart Worker
Blockchain	FPT Akachain

Source: FPT

B. FORECAST AND VALUATION

2020 business forecast: BSC expects that growth rate in FY 2020 is hugely impacted by corona virus before returning to the two digit growth rate in FY 2021. Net revenue and NPAT in FY 2020 reach VND 31,840 bn (+14.9% YoY) and VND 4,465bn (+14.% YoY) based on the following assumptions:

- Software outsourcing markets record slowing down growth rate: Revenue of Japan reach VND 6,309bn (+14% YoY), EU market reach VND 1,104 bn (+12% YoY) and USA market reach VND 3,073bn (+15% Yoy).

- Telecom segment post growth in Telecom Services while observing a strong decline in Advertisement segment: Telecom Services revenue reach VND 10,752bn (+9.8% YoY), Advertisement Revenue decline by 12% to VND 524bn

- Gross profit margin post a minor increase to 38.8% from 38.6% in the same period thanks to increasing the contribution of Digital Transformation projects and increasing productivity per employee

- Selling and Administration expense margin reach 23.7% in FY 2020

Table Business Forecast

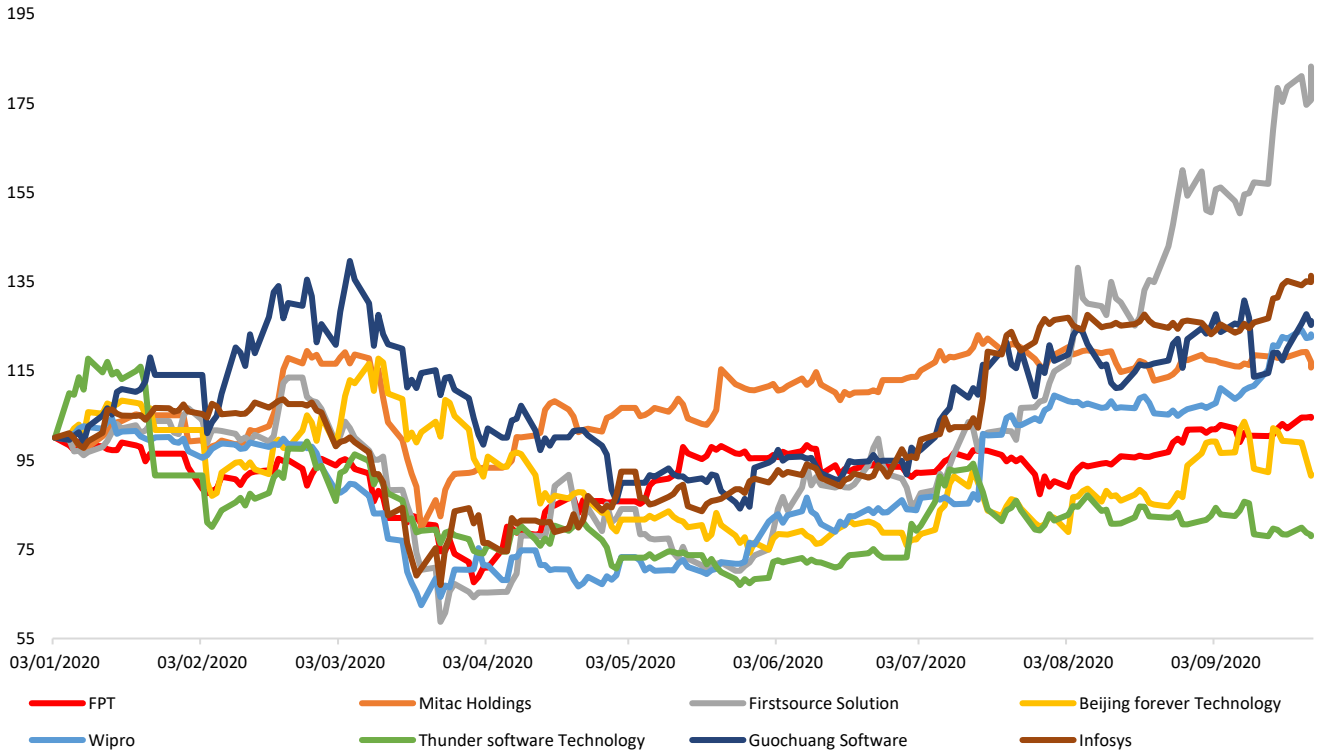
Unit: bn VND	2019A	2020F	2021F
Net revenue	**27,717**	**31,840**	**38,193**
Technology sector	15,783	18,872	23,618
+ GlobalTechnology	*10,848*	*12,887*	*17,272*
Telecommunication sector	10,398	11,275	12,807
+ Telecom services	*9,789*	*10,752*	*12,149*
+ Online Advertising	*538*	*524*	*550*
Cost of goods sold	(17,006)	(19,487)	(23,221)
Gross profit	**10,711**	**12,354**	**14,972**
Gross profit margin	*38.6%*	*38.8%*	*39.2%*
Selling expense	(2,341)	(2,706)	(3,246)
Selling expense margin	*8.5%*	*8.5%*	*8.5%*
Administration expense	(4,252)	(4,839)	(5,805)
Administration expense margin	*15.2%*	*15.2%*	*15.2%*
Profit before tax	**4,665**	**5,327**	**6,619**
Profit after tax	3,912	4,464	5,547
EPS	**4,220**	**4,190**	**5,282**

Source: BSC Research

PE Approach: Compared to our previous report (Link), we continue to maintain target PE for the stock of 11/5, 35% in discount compared to PE median.

YTD (first closing price in 2020 = 100), FPT stock price was in the lower return group while the company delivered a impressive business result under Covid – 19 pandemic.

FPT stock gave a lower return while business result was impressive under the pandemic



	FPT	Mitac	First source	Beijing	Wipro	Thunder Software	Guochuang software	Infosys
YTD Growth in stock price	4.49%	15.72%	83.21%	-8.17%	23.18%	-22.05%	26.21%	36.31%
Trough - Peak	54.6%	45.21%	211.96%	23.78%	97.21 %	16.39%	50.05%	103.49%

Table Comparision with peers

Ticker	Company	Marketcap (tril VND)	Revenue (tril VND)	ROE	Net profit margin	P/E
3706 TT	Mitac Holding Corp	27.8	23.5	7.3%	8.3%	12.3
eFSOL IN	First Source Solution Ltd	14.0	12.5	n/a	9.9%	13.1
Info IN	Infosys	1,253	273.6	25.8%	19.1%	23.2
WPRO IN	WIPRO	511.7	193.8	17.9%	14.8%	16.8
300365 CH	Beijing forever Technology	24.4	4.1	15.7%	22.3%	30.2
300520 CH	Guochang Software Company	17.6	3.4	8.2%	5.0%	39.5
300496 CH	Thunder Software Technology	120.0	5.1	13.9%	11.4%	103.4
CAP FP	Capgemini	352.2	367.3	12.7%	7.1%	25.2
FPT	**FPT**	**38.7**	**27.7**	**20.4%**	**14.2%**	**11.5**
Median						**17.8**

PE Valuation	**2019**	**2020**	**2021**
EPS	4,220	4,190	5,282
PE		11.5	11.5
Target price		**48,200**	**60,750**

FCFF approach:

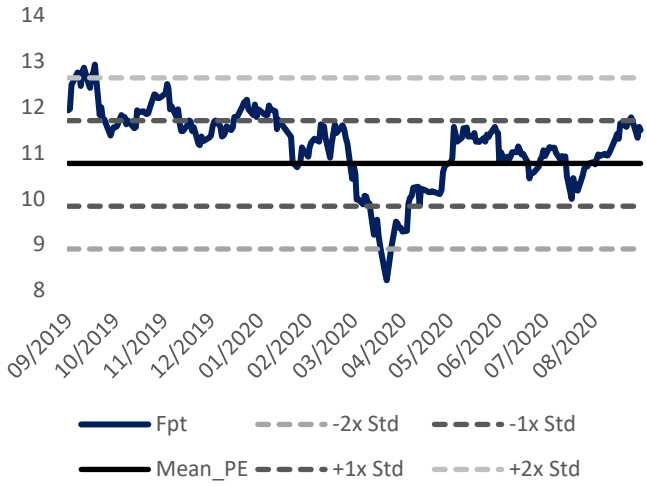
WACC	
Rf	4%
Beta	0.9
Ke	14%
Kd	9%
E/A	60%
Tax rate	20%
WACC	11.5%
g	4%

	2020	2021	2022
Free cash flow to firm	2,637	2,822	3,299
Present value	45,729		
Total firm value	55,217		
Debt	6,970		
Equity value	48,244		
Number of shares	783,987,486		
Value of a share (VND)	**61,537**		

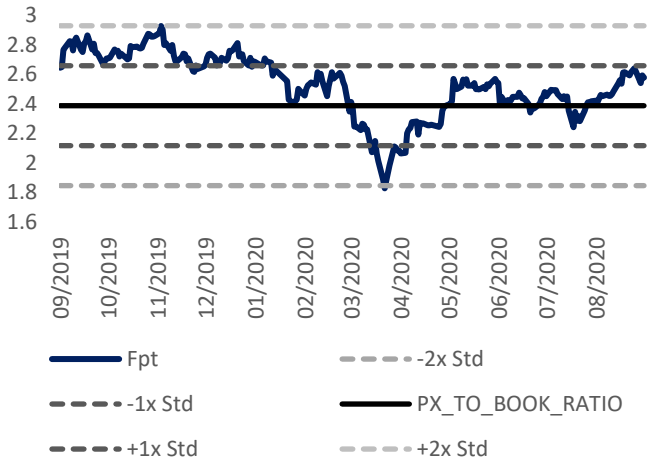
	Price	Proportion	Average price
FCFF	65,500	60%	39,300
P/E	60,700	40%	24,280
		Target price	**63,580**
		Current price	50,700
		Upside	25.4%

We maintain our BUY recommendation for FPT stock with the latest target price in 2021 of VND 63,580 VND per share based on two approaches: P/E and FCFF.

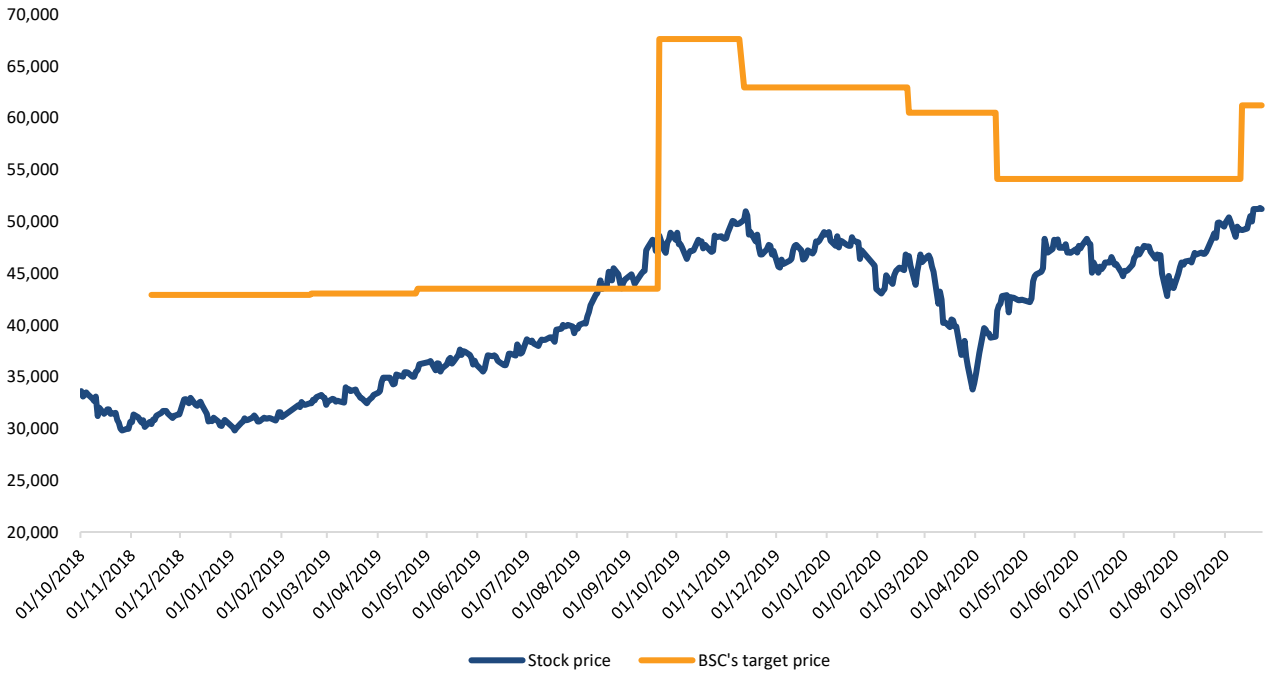
FPT PE



FPT PB



FPT'S STOCK CHART AND BSC'S RECOMMENDATION



APPENDIX

Profit and Loss (bn VND)	2018	2019	2020F	2021F
Net revenue	23,213	27,717	31,840	38,193
Cost of goods sold	-14,490	-17,005	-19,487	-23,221
Gross profit	8,723	10,712	12,354	14,972
Selling expense	-2,048	-2,346	-2,706	-3,246
Administration expense	-3,559	-4,219	-4,839	-5,805
Income from business opertaion	3,795	4,610	5,328	6,645
Financial income	607	650	486	575
Financial expense	-368	-592	-530	-536
Interest expense	-238	-358	-452	-443
Income from associates/JVs	439	405	563	661
Net other income	58	55	55	55
Profit before tax	3,852	4,664	5,328	6,645
Corporate Income Tax	-623	-753	-863	-1,077
Profit after tax	3,228	3,912	4,465	5,569
Net income attributable to NCI	614	776	863	1,058
Net income attributable to shareholders	2,615	3,135	3,579	4,511
EPS	3,897	4,220	4,190	5,282

Cashflow statement (bn VND)	2018	2019	2020F	2021F
Profit before tax	3,852	4,664	5,327	6,619
Depreciation	1,164	1,355	1,268	1,534
Changes in capex	(255)	81	(1,793)	(1,247)
Cash flows from operating activities	3,584	3,898	4,272	4,902
Purchases of fixed assets	(2,464)	(3,233)	(1,3269)	(1,216)
Cash flows from investing activities	(3,696)	(3,845)	(1,579)	(1,309)
Dividend paid	(1,707)	(1,483)	(1,357)	(1,357)
Net borrowing	(2,239)	899	1,178	821
Other borrowing	(9)	-	-	-
Cash flows from financing activities	558	(514)	(179)	(535)
Beginning cash	3,480	3,926	3,453	4,667
Ending cash	3,926	3,453	4,667	7,725

Balance sheet (bn VND)	2018	2019	2020F	2021F
Cash and cash equivalents	3,926	3,453	4,667	7,725
Shorterm investments	5,568	6,709	6,709	6,709
Accounts receivable	6,424	6,536	7,341	8,913
Inventories	1,340	1,284	1,715	2,043
Other current assets	1,114	996	993	1,185
Total current assets	18,373	18,979	21,516	26,127
Fixed assets	6,513	7,492	8,767	9,941
Long term assets in progress	1,174	1,650	675	175
Long term invesments	2,202	2,496	2,570	2,570
Other long term assets	1,352	2,287	2,301	2,312
Total non current assets	11,352	14,415	14,701	15,281
Tổng TS	**29,726**	**33,394**	**36,089**	**41,437**
Total assets	2,510	2,641	1,834	2,185
Current payable	6,603	7,513	8,513	9,383
Short term borrowing	337	387	261	310
Other payables	14,432	16,102	13,708	15,425
Current Liabilities	366	349	528	479
Long term borrowing	109	92	66	79
Otherlong term payable	531	493	597	470
Total Liabilities	**14,963**	**16,594**	**15,106**	**17,090**
Contributed capital	6,136	6,783	7,840	7,840
Share premium	50	50	50	50
Retained earnings	5,289	5,961	7,903	10,562
Other funds	87	103	103	103
Non controlling interests	2,301	2,835	3,725	4,571
Shareholders' Equity	14,762	16,799	20,983	24,347
Total Liabilitesand Equity	**29,726**	**33,394**	**36,089**	**41,437**
Outstanding number of shares	613	678	784	784

Ratio(%)	2018	2019	2020F	2021F
Liquidity				
Current ratio	1.27	1.18	1.66	1.59
Cash ratio	1.10	1.04	1.39	1.40
Solvency				
Liabilities/Asset	50%	50%	37%	44%
Liabilities/Equity	101%	99%	73%	78%
Efficiency				
Inventory period (day)	29.7	28.2	40.9	39.8
Receivable collection period (day)	83.3	74.9	57.4	56.0
Payable payment period (day)	60.3	55.3	43.7	32.4
CCC	52.7	47.8	54.6	63.4
Profitability				
Gross profit margin	37.6%	38.6%	38.8%	39.2%
Net margin	13.9%	14.1%	14.1%	14.1%
ROE	23.1%	24.8%	26.2%	24.7%
ROA	11.8%	12.4%	13.7%	13.2%
Market ratio				
PE	11.1	10.8	11.7	9.3
PB	2.6	2.1	2.1	1.8
Growth				
Revenue growth	-45.6%	19.4%	14.9%	19.9%
PBT growth	-9.5%	21.1%	14.2%	24.3%
EPS growth	-24.0%	8.3%	-0.7%	25.6%

Source:BSC Research.

DISCLOSURE

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