

FPT CORP (FPT)

Current Price VND45,850 **Target Price** VND58,300 **Dividend Yield** 5.2% **Recommendation** Add **Sector** TECHNOLOGY

Outlook – Short term



Outlook – Long term



Valuation



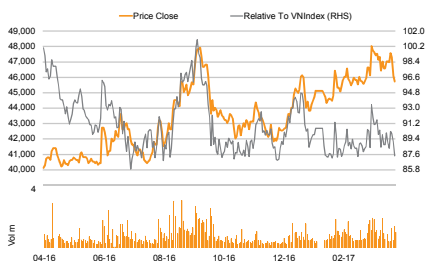
20 April 2017

Tuan Huynh

tuan.huynh@vndirect.com.vn

We consider the year 2017 as the proper time for investing in FPT due to (1) retail and trading divestments set to be finalized (2) the telecommunication is forecasted to grow at 2-digit figure in earnings in the next five years (3) the software outsourcing business is expected to remain the sustainable growth of above 25% per year.

Price performance



Source: VNDIRECT

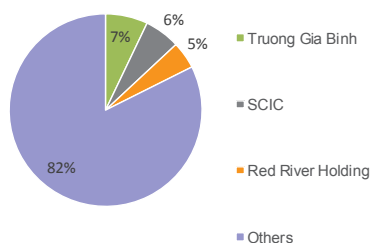
Divestments from retail and trading businesses set to be finalized as investors' expectations. At the 2017's AGM, FPT's managers stated the divestments would be completed by the end of this year. We estimate the total reasonable value of those subsidiaries is ~VND4,500 billion. Subsequently, FPT would focus solidly on the technology and telecom segments, which are relatively more potential in terms of the industry outlook and the profitability.

Key statistics

| | |
|-----------------------------|--------|
| 52w high (VND) | 48,000 |
| 52w low (VND) | 40,009 |
| Average daily turnover (3m) | 62 |
| Market cap (VND) billion | 21,166 |
| Outstanding shares (m) | 461.6 |
| Free float (%) | 40 |
| Beta | 0.81 |

We expect the telecom business would get higher profitability. In 2014-2016, due to intensive depreciation expense, the bottom line increased by ~8%/year despite the growth of 25% in the top line. However, we estimate the last-mile and modem devices' cost would reduce by 50% yoy in 2017 after swapping the copper fiber to the optical fiber cable for ~70% subscribers so the PBT margin of the broadband sub-segment would increase by ~1% yoy in 2017, which would in turn push the total PBT of this business to grow by 14% yoy, backed by the growth of 15% yoy in sales in 2017. If accounting for the provision for the Public Fund, which we assume to be at ~1% of its revenue, the PAT would increase by 7% yoy in 2017.

Ownership



Source: VNDIRECT

Software outsourcing (~27% PBT), we are forecasting is remained the robust annual growth of ~25% in 2017-2021 and improves PBT margin gradually. Sales growth drivers are from (1) strengthening the market share in Japan market, which in turn leverages FPT brand name in other markets (2) the labor cost remains over 50% lower than Chinese and Indian competitors. Also, we expect to see the PBT margin to improve gradually by 0.5% in 2017, backed by (1) reduction in the duplicated labor cost at the FPT Slovakia subsidiary and (2) greater operating efficiency in new markets, Europe and Asia, in accordance with the growth in sales.

| Financial summary (VND) | 12-14A | 12-15A | 12-16A | 12-17E |
|-------------------------|--------|--------|--------|--------|
| Revenue (bn) | 32,645 | 37,960 | 39,531 | 45,528 |
| Revenue growth | 20.8% | 16.3% | 4.1% | 15.2% |
| Gross margin | 19.0% | 19.7% | 21.3% | 21.9% |
| Operating EBITDA (bn) | 2,882 | 3,668 | 3,982 | 4,607 |
| Net profit (bn) | 1,632 | 1,931 | 1,991 | 2,316 |
| Net profit growth | 1.5% | 18.3% | 3.1% | 16.3% |
| EPS | 3,553 | 4,204 | 4,334 | 5,041 |
| BVPS | 17,400 | 18,774 | 20,736 | 23,457 |
| ROAE | 21.6% | 23.4% | 22.0% | 22.8% |

Source: VNDIRECT

HEADING IN THE RIGHT DIRECTION TO REDEFINE THE CORE BUSINESS

The key driver: Telecom business is on track to boost profit

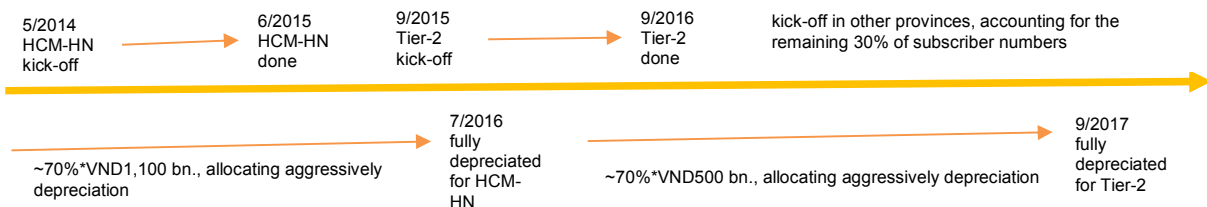
Intensive depreciation cost at FOX

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------|------|------|------|------|------|
| Sales growth | 31% | -6% | 12% | 15% | 20% |
| D&A cost/sales | 6% | 6% | 8% | 10% | 11% |
| EBITDA margin | 24% | 28% | 26% | 29% | 29% |
| EBIT margin | 18% | 22% | 18% | 19% | 18% |

Source: VNDIRECT

After two years of aggressively depreciating huge capital expenditure (Capex) for the fiber optics swap project, the profitability of broadband business (~48% 2016 PBT of Telecom business) is improving. FPT kicked off the fiber optics swap project in early 2014. In this project, FPT has upgraded their cable back-bone system and swapped the last-mile cable to end-users' houses in order to provide better services, that is, FTTH in lieu of current ADSL plan. After 2.5 years, subscribers in Hanoi, HCM and other 5 biggest cities, accounting for over 70% of total subscriber numbers, have been completely transferred from ADSL to FTTH. According to the VAS, the on-going cost (stations and large equipment) relating to this project is capitalized, and then depreciated in 5-7 years while the cost relating to the last mile cable and modem device is recorded in the balance sheet as the prepaid expenses item, and then aggressively allocated to COGS within 2 years. More details about the implementing and cost allocating schedule of this project:

Implementation schedule of the swapping project



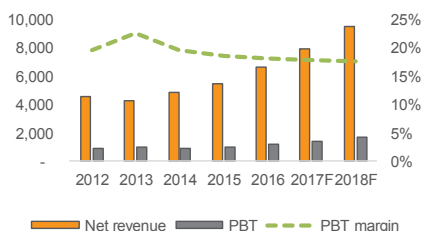
Source: VNDIRECT

Noticeably, only the costs associated with the last-mile cable to subscribers' houses, must be allocated aggressively within 2 years and those costs, in our understanding, should be prorated with the number of subscribers. Therefore, although there are more than 50 provinces, where the swapping implementation has not completed yet, but the number of subscribers in those towns only accounts for 30% of total account numbers. That lead to our estimation that the cost related to last-mile cable and modem devices of this project, which will be recorded in 2017, is only about 47% of the same cost in 2016 so this cost per subscriber in 2017 will decrease by 42% yoy, which would probably contribute to the enhancement of the broad-band's gross margin by 1.2% in 2017.

IPTV (TV-pay)'s, the new business of FOX, promotion has eroded partially profit generated by the broadband business

In August 2014, FOX launched the Tv-pay business, which provides Internet users service to watch TV online. In order to attract users at the initial phase, they have offered the promotion program, in which FPT gives their new registers a discount on the value of the end-user's device, which is recorded in the balance sheet and then allocated to expense within 1 year. Also, we think the revenue collected from this services is also insufficient to cover operating cost of this business. In our estimate, this business will continue to experience loss in period of 2017-2020, with 2017's loss of ~VND200 billion. In our understanding, the loss of IPTV considers as the promotion cost in order to compete against other competitors, especially cable-TV providers (SCTV and VTCab), whose clients do not need to buy any

Telecom services sales and profit in 2012-2018



Source: VNDIRECT

end-user devices. Besides, the direct competitor, Viettel, supplies this to their customers so FPT can not stay out of the race.

Generally, we believe the Telecom services business of FPT will see an improvement in its profitability

The loss of TV-pay, we expect at about VND200 billion in 2017, is still lower than the growth in profit of the broadband business. The total profit of FPT’s Telecom services will increase by 14% yoy, not accounting for the regulated provision for the Public fund, which is likely to be about 0.5-1.5% sales of telecom services. FPT managers still negotiate with the authority to reach the conclusion on this issue. If assuming the provision to be 1%, the bottom line of telecom services would increase by ~7% yoy.

...the potential room to offset any drop in profit in case of divesting investment at retailing and distribution businesses.

FPT currently holds ~45.6% investment at the telecom subsidiary, called FOX (the listed ticker of FPT telecom) and 50.16% ownership at FOX belong to SCIC, who has planned to divest their investment at FOX. In our understanding, listing FOX is preferable for SCIC but not for FPT because listing FOX would make the market price higher than in the OTC, which would probably be the baseline for the seller to request a higher premium. Before listing, the price of FOX in OTC market is just ~40% lower than the current market price of FOX. FPT’s senior managers, at recent meetings, addressed that they would attempt to repurchase as many as possible shares divested from SCIC. However, Mr Ngoc – CEO of FPT also mentioned that “it depends largely on the seller’s will”.

Estimated average 5-year earnings' movements caused by increasing holding at FOX

| Increase in ownership rate at FOX | 10% | 20% | 30% | 40% |
|--|-----|-----|-----|-----|
| Earnings added from lifting the holding at FOX | 197 | 395 | 592 | 790 |

Source: VNDIRECT

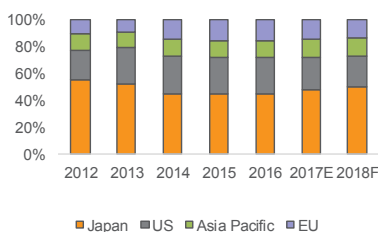
Increasing the ownership rate at FOX is one of measures to quickly offset consolidated profit taken away due to divest the retail and distribution business (currently accounting for 20% PBT, which is estimated to be lower in next years). In our estimate, FPT would spend at least VND1,300 billion to lift 10% ownership rate at FOX, which in turn makes up ~20% total profit of retail and distribution businesses mitigated by divestments. The question whether cash receiving from selling retail and distribution businesses would be sufficient for buying FOX’s shares is discussed in the below comments on retail and distribution business part of this report.

FOX's income statement

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018F |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|
| Net revenue | 4,563 | 4,302 | 4,825 | 5,568 | 6,666 | 7,696 | 8,926 |
| Gross profit | 1,785 | 2,119 | 2,228 | 2,648 | 3,111 | 3,572 | 4,234 |
| D&A | 258 | 275 | 380 | 537 | 736 | 675 | 765 |
| EBITDA | 1,101 | 1,225 | 1,261 | 1,592 | 1,918 | 2,022 | 2,346 |
| EBIT | 843 | 950 | 881 | 1,054 | 1,182 | 1,347 | 1,580 |
| EBT | 894 | 969 | 934 | 1,040 | 1,193 | 1,359 | 1,593 |
| EAT | 740 | 769 | 766 | 882 | 1,011 | 1,155 | 1,354 |
| Minority interest | (73) | (45) | (27) | (54) | (93) | (106) | (124) |
| Profit for parent's shareholders | 667 | 725 | 740 | 828 | 918 | 1,049 | 1,230 |

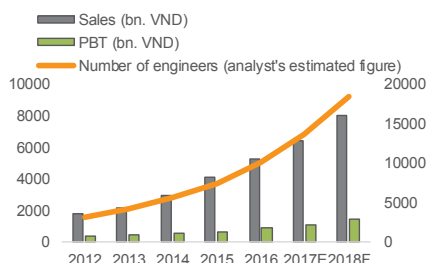
Source: VNDIRECT

Outsourcing business's market structure



Source: VNDIRECT

Software outsourcing business's performance in 2012-2018



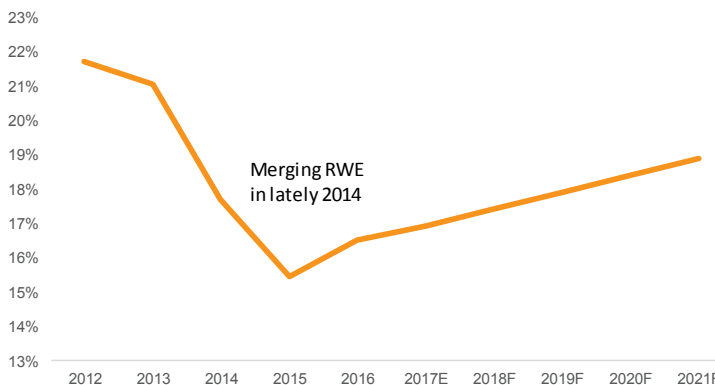
Source: VNDIRECT

The key driver: Outsourcing business grows steadily at high pace

The core market, Japan market, is powering up. The Japanese clients are considered to be very diligent but they are also famous for their loyalty. Therefore, the 2012-2016 CAGR at Japan market (accounting for about 50% revenue of FPT Software) proves that FPT Software is owning the durable room for its growth, which makes us to expect to see another 5-year CAGR of 20-25%/year in 2017-2021 as we believe that the loyalty of those clients will leverage the sales from this market higher. The experiences working with this country's clients are also the supplement for the Company's managers to deal with contracts from other regions (US, EU and Asia Pacific). Besides, the initial success at the FPT University, which provides about 600-700 IT engineers annually, and other cooperation with Top tiers state-owned colleges, such as the Campus Link program, and the 10,000 Bridge Software engineers program are s the vault for FPT to realize their ambitious plan of expanding its current engineer portfolio of over 10,000 engineers to 30,000 engineers by 2020.

We also expect the profit before tax margin to improve gradually as a result of various recent years' attempts. In recent three years, FPT has actively invested in enlarging the scale (purchasing RWE IT Slovakia), enhancing engineer team (employing the special program called 10,000 Bridge Engineers Program) with the aim to recruit and train 10,000 talented IT engineers, who are trained in Japanese) and hiring new senior sales managers (the former CIO of Unilever Japan & DHL and the former Vice President of Wipro US), who would help FPT to approach customers in those markets.

Software outsourcing business's PBT margin in 2012-2021



Source: VNDIRECT

FPT merged RWE in lately 2014, which compressed the margin immediately from about 21% to 17.7% in 2014 and then 15.4% in 2015 but initially rebounded to 16.5% in 2016. After nearly three years, we think Vietnamese engineers have progressively handled the jobs which previously taken by foreign engineers at relatively higher cost. The labor cost of an European IT engineer, typically in Slovakia, triples Vietnamese's. Therefore, we expect FPT Slovakia (RWE) would put less pressure on the margin of FPT's outsourcing business.

We believe above drivers would bring out more efficiency in 2017-2021, with our expectation to see an improvement of 0.5% (50 bps) in 2017 in the PBT margin of the technology business.

Comments on the other businesses in the technology segment

FIS, including software solution, hardware integration and IT services, whose business result was the worst performance among FPT's business lines, remains diminishing their earnings despite many efforts to approach new clients

In 2016, the revenue increased by 6% yoy as a result of the managers' attempts in diversifying their client portfolio in recent two years but the PBT still decreased by 15% yoy, equivalent to the margin of below 6%. The proportion of traditional clients' sales (banking and government) declined from above 70% in previous years to about 55% in 2016, which means that the sales of their traditional clients are still under the saturation phase. Although many banks, traditional clients of FPT, allocated high budget for technology expenditure but sales of FPT from those clients did not grow. In our understanding, technology budget of banks currently concentrates on mobile banking systems, security systems and risk management systems upgraded in line with Basel 2 standard. Those domains may be not familiar with FPT engineer's expertise and FPT does not have tracking log in similar contracts so banks refer to cooperate with foreign companies, especially Big4 companies, who have experience of implementing alike systems in other countries. Besides, we also recognize the tendency that banks are referred to build their in-house IT team to work with agent, such as Big4 to gain knowledge and expertise and then build the system by their own team.

FIS's business result in 2012-2018 (bn. VND)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018F |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Sales | 4,204 | 4,321 | 4,084 | 4,501 | 4,770 | 5,148 | 5,558 |
| Software solution | 603 | 665 | 653 | 1,098 | 1,120 | 1,176 | 1,235 |
| System integration | 2,921 | 2,973 | 2,707 | 2,530 | 2,782 | 3,060 | 3,366 |
| IT Services | 680 | 683 | 724 | 873 | 868 | 911 | 957 |
| PBT | 539 | 463 | 222 | 292 | 247 | 234 | 279 |
| Software solution | 119 | 95 | 1 | 98 | 75 | 61 | 86 |
| System integration | 322 | 264 | 137 | 88 | 69 | 73 | 91 |
| IT Services | 98 | 104 | 84 | 106 | 103 | 99 | 102 |

Source: VNDIRECT

Although we do not expect to see the booming from traditional clients as in the past, we expect FIS will recover gradually in 2017-2020 thanks to contracts of new clients. Those are driven by the fact that (1) the Government encourages SOEs and state departments to cooperate with private enterprises to build technology system, such as the contract with VN Post (2) applying technology into monitoring transportation system, such as the contract with VETC and (3) oversea contracts which bring solutions which succeeded in VN to other countries having similar standards. However, we do not put too much expectation on FIS business in 2017, with the sales and PBT increasing by 8% and -5% yoy, respectively since we think FIS needs to remain low margin contracts with new clients to penetrate new markets.

The key driver: The divestment deals at the Distribution and Retail businesses remain its role as the catalyst for FPT's price

In 2016, according to our observation, FPT experienced a peak in price in late September due to the rumor associated with the divestment deal, which shows that many individual investors have speculated the giant profit gained from this deal. However, we think the longer they finalize the deal the lower price bargain power they get as the inversed movement in the distribution business as well as the room for the growth of the FPTShop (a brand name of FPTRetail) store chain is shrinking. This likely assisted to the decision of BODs to push the

advisory team of this deal to alter the divestment method to meet the demand of potential acquirers. They changes from compounding the distribution and the retail business as one solid deal to dividing them as two separate deals. Currently, the contribution of FPTShop and FPTTrading to FPT's value in our SOTP model is ~9% and ~5%, in line. We expect investors would probably accept higher valuation for FPT after finalizing the deals since retailing and distribution businesses, accounting for ~20% total bottom line, have inherently lower sustainability and in turn higher risk than the others'.

The scenario of money gained from divesting

We have stimulated scenarios to estimate how much FPT could get from divesting those businesses:

Scenario of divestment gain

| Decrease in ownership rate at retail and trading subsidiaries | -40% | -50% | -60% | -70% | -80% |
|---|-------|-------|-------|-------|-------|
| Gain from divestments | 2,136 | 2,670 | 3,203 | 3,737 | 4,271 |

Source: VNDIRECT

From our stimulation, the total fair value of those subsidiaries could be about ~VND4,300 billion, backed by the 2017's PE of trading and retail business at 6.x and 12.x, respectively, so the cash gained from those divestments would probably in range of VND2,000-4,000 billion, depending on the remaining shares FPT would hold at those business and FPT's bargain power.

Comments on FPT's retail and trading business

Trading – after dropping a significant portion of sales from Apple and Nokia, we think nothing worsen can happen in this year

Trading business used to be a vault for FPT to gain money easily but turns to be a burden for FPT as large retailers become resilient and expand their chains aggressively, which enhance their power to negotiate with manufacturers to purchase directly rather than buy via distributors. Apple incident is a typical evidence for such damage. In 2015, Apple announced to allow retailers as Thegoididong and Viettle to get products directly, which in turn revoked the exclusive right of FPTTrading. In 2016, sales from Apple decreased by ~50% yoy. Unfortunately, FPT Trading got another serious hurt due to Microsoft's decision to stop manufacturing and selling Lumia phones so FPT had to clear Lumia inventory costly, which was completely finalized by 2016. After those incidents, the trading sales are structured by ~65% from delivering laptops and computers and 35% from cell phones, compared to the average of 40%:60% in previous years.

We believe the downside risk for FPT Trading is minimal because (1) current mobile portfolio is relatively diversified so the risk of big drop as Apple or Microsoft incidents are marginal (2) profit margins of distributing phones, which are not popular, are higher than trendy brands, and (3) laptop and computer markets are more fragmented than the mobile phone market where giant retailers have developed hurriedly so the power of distributors still remains significant in next few years.

Also, we add that FPT Trading's managers own close-knit relationships with FPT Retail's managers who currently run FPTShop, the second largest mobile retail chain so they can take knowledge as well as support in doing full-service package for new phone brands who intend to penetrate Vietnam market. Therefore, we believe this is a strong plus for FPTTrading to attract new clients. Therefore, managers' know-how is also fascinated for strategy investors who

intend to deploy the trading business in Vietnam, especially in the technology sector.

Retailing – is still a good business to sell

FPTShop is not leader in the market but the best follower. The leader in mobile retailing market is Thegioididong, who has not only the largest market shares but also leads how to organize the store template or either the selling policy in the mobile retail market. FPTShop's senior manager also shared that she accepted to track and follow Thegioididong. This tactic reduces risk of failure as well as initial cost for piloting a new model because they just follow the success model of Thegioididong but they will never rush out the second position in the market. Therefore, we believe that FPTRetail will probably not stayed out of grocery business if Bachhoaxanh, a grocery pilot of MWG, gains its practical prototype for its operations. This opinion is also strengthened by the fact that FPTShop recently has cooperated with Vinamilk, the largest local milk manufacturer, to sell milk bottles at their outstanding mobile stores. We understand this action as the preparation for the future expansion into the grocery retail business. In the potential retailing market as Vietnam, with over 90 million residents, the tactic of being the follower is not the perfect but still is the suboptimal choice.

Current store coverage and good teams of “experts”, who are responsible for seeking suitable locations to rent, are also attractive to strategy investors, especially foreign investors, who aim to expand their retail business to Vietnam without deep insight of Vietnamese culture. FPTshop has covered nationwide, with ~400 stores spreading from crowded cities to rural districts. Besides, the over-50-percent growth in store numbers is also an evidence for the talent of teams who are responsible to look up suitable land for opening new stores. In Vietnam, available big locations for rent are very scarce and negotiating with house owners is very complicated, especially in the Northern provinces, which is magnified by the current robust growth of the retail market where there are a lot of convenient stores racing to launch daily.

Risks

Uncertainty caused by the divestment plan.

Retail and Trading businesses deliver about 20% of total bottom line of FPT. Therefore, when lowering the percent of holding at those entities, FPT would see a sudden decline in profit in the following years in case of not adding sufficient earnings from other entities, such as failure to lift the holding at FOX. Besides, individual investors confront the uncertainty of distributing cash gained from the divestments. In our understanding, FPT would probably offer a “special dividend cash” policy, analogous to KDC case, or use such money to repurchase SCIC's shares at FOX. Individual investors would hardly intervene in the decision of how to work on the gains.

Sales from oversea markets exposes to the FX fluctuation

Overseas revenue, accounting for ~15% total revenue, includes sales consolidated from Japan (~7%). Therefore, the growth of sales in VND from Japan market is quite volatile due to movements of the JPY currency. In 2012-2016, JPY depreciated by ~12%/year, which in turn compressed the growth in FPT's outsourcing result consolidated from this market.

Drops in some trivial subsidiaries

FPT operates in a wide range of over 7 businesses so the Company usually confronts inefficient performances at some of those businesses.. Currently, they have to sustain loss at IPTV (TV-pay) business and witness the negative 5-year growth in earning at the FIS business. Those jeopardize the other blossoming businesses as well as the bottom line for investors.

FORECAST AND VALUATION

The bottom line grows higher in FY17-FY21 than the past 5 years

We estimate FPT's revenue and net profit to grow by 16% and 19% yoy, in line, in 2017. Also, we expect to see the next-five-year CAGR in earnings of 20% instead of the CAGR of 7% thanks to the robust growths at their two core businesses, technology and telecom. We expect those businesses to grow by 25% and 16% annually in 2017-2021, respectively.

Forecast for 2017-2021

| Revenue Breakdown | 2016's sales weight | 2012-2016 | 2017-2021 | 2016 | 2017 |
|--|---------------------|-------------|-------------|-------------|------------|
| Total sales growth (CAGR) | | 13% | 11% | 4% | 16% |
| Technology | 25% | 14% | 19% | 24% | 25% |
| Outsourcing | 13% | 31% | 26% | 26% | 22% |
| We expect Japan market, currently contributing ~50% of FPT's outsourcing sales, would continue to rise robustly because (1) successful track log in recent years backed by the attractive 12-16 CAGR growth of ~30% provides advantage for sales forces to develop their new clients' accounts (2) Vietnamese engineers' costs are relatively competitive than Chinese's. | | | | | |
| FIS | 12% | 3% | 8% | 6% | 8% |
| We gather three business lines (software solution, software integration and IT services) into one group, called FIS. Their sales growth is moderately at about 8% per year, which is backed by the assumed new contract value growth at 10% per year and the booking rate at 68%. | | | | | |
| Telecom | 17% | 10% | 16% | 22% | 15% |
| Telecom services | 15% | 22% | 16% | 21% | 15% |
| Fixed line broadband's sales (accounting for ~70% telecom services sales) increases by 15% yoy in 2017, driven by the growth of 15% in subscriber numbers, but we remain the ARPU flat in 2017 and 5% for 2018-2021. We believe FPT will gradually change the fee charged to customers, especially who has used the services more than 1 year, due to higher quality of services after swaping to FTTH. IPTV sales increases by 51% yoy, backed by an increase of 40% in subscriber numbers and 0% in ARPU. | | | | | |
| Distribution and retails | 57% | 13% | 2% | -9% | 11% |
| Distribution of IT and Mobile products | 31% | -2% | 3% | -28% | -1% |
| IT distribution sales increases by While mobile distribution decreases by 5% yoy in 2017, mainly due to the drop of Microsoft phone's sales. | | | | | |
| Retails | 26% | 79% | 2% | 35% | 25% |
| Retail sales increases by 25% yoy in 2017 thanks to the estimated same-store growth of ~5% and the contribution of new stores opened in 2016-2017. Number of the new stores accounts for 45% of total store numbers in 2017. | | | | | |
| Total Gross profit (average) | | 20% | 24% | 21% | 22% |
| Gross margin increases by 1% as (1) technology and telecom, whose margins are double and fourfold, respectively, compared to the retail and distribution's, contributes more to the total gross profit of FPT (2) gross margin of technology increases by 1% with our expectation that duplicated labor cost associated with the RWE Slovakia will lessen. | | | | | |
| S&GA/sales (average) | | 12.0% | 14.3% | 13.6% | 14% |
| EBITDA margin (average) | | 10.0% | 11.6% | 10.1% | 10% |
| EBIT margin (average) | | 8.0% | 9.5% | 7.7% | 8% |
| PBT margin (average) | | 8.4% | 9.2% | 7.6% | 8% |

Source: VNDIRECT

Target price at VND58,300 per share, upside 27%

FPT operates in 4 main different sectors, which have various natures and also owns some large financial investments so we decide to apply the Some-of-the-part (SOTP) method in evaluating the reasonable value for FPT. In this method, we also determine the fair value for retailing and distributing businesses, which FPT has planned to divest in this year.

SOTP Valuation

| Division | Ownership | Equity value | P/E 17 | Contribution to FPT Equity |
|---------------------------------|-----------|--------------|--------|----------------------------|
| FPT Software | 100% | 14,225 | 14.8 | 14,225 |
| FIS | 100% | 1,790 | 9.6 | 1,790 |
| FPT Trading | 100% | 1,700 | 6.2 | 1,700 |
| FPT Retail | 85% | 3,093 | 12.2 | 2,629 |
| FPT Telecom | 45.64% | 15,025 | 14.3 | 6,858 |
| FPT Education | 100% | 1,584 | 10.0 | 1,584 |
| Tien Phong Bank | | | | 291 |
| FPT Securities | | | | 183 |
| FPT Capital | | | | 39 |
| Total SOTP (VND bn.) | | | | 29,299 |
| Debt | | | | 11,248 |
| Cash & mkt sec | | | | 11,065 |
| Minority interest | | | | 2,223 |
| Outstanding shares (m) | | | | 462 |
| Equity value (VND bn.) | | | | 26,892 |
| Target price | | | | 58,259 |
| 2017 PE (based on target price) | | | | 11.6 |

Source: VNDIRECT

COMPANY BACKGROUND

History and profile

FPT was founded by a group of talented engineers in 1988, when Vietnam government issued a policy to encourage developing entrepreneurs. They initially specialized in the technology import, export and trade businesses, which partly paves the way for FPT's current businesses. Currently, FPT operates as a corporate group focusing on 4 key businesses: Technology, Telecommunication, Retail & Trading and Education.

FPT is the most active private company operating in the technology sector. They have penetrated into most of technology sub-sectors. Those investments are sometimes failed but we appreciate their efforts to catch the trend in the technology industry, a fast growth industry. Besides, FPT is usually a priority appointed by the government to implement their big projects due to their experiences as well as their historical development. FPT originated from a business held by the state department where the current leader, Mr. Ngo Gia Binh, also worked for when he was young.

Details on FPT's key four business lines

FPT provides a full range of products and services in technology and telecommunication. They offer IT services, system integration and solutions for government, SOEs and even private companies in Vietnam and recently they even bring those to some emerging countries. They own the telecom infrastructure and stands in the third position in the fixed-line internet market, just after the two SOEs called Viettel and VNPT. They are also strong and have deep experience in trading and retailing end-user technology devices (laptop, mobile). Finally, their education business, launched in 2007, is aimed to provides good qualified engineers for the technology business.

Technology (~13% revenue and ~28.5% PBT): The largest private company has a deep insight in Vietnam economy as a consequence of a wide range of back-born projects for government

IT services

FPT has over 10,000 engineers to serve domestic as well as worldwide projects relating to business process outsourcing (BOP), ERP services, quality assurance and testing services. FPT stands in top ten offshore outsourcing company in Japan market. The Company continues to invest more for this area. For example, in 2014, FPT acquired RWE IT Slovakia, a subsidiary of a giant German Utility, in order to widen their domains to the utility sector as well as leverage their brand name. IT services' sales accounted for ~9% out of FPT's technology sales in 2016.

System Integration

FPT is usually the first choice for building core system of back-born organizations of Vietnam economy such as public finance, bank, telecommunication and health care. In those projects, FPT has provided equipment and services relating to IT infrastructure, enterprise database design and construction, system security, networks, storage and servers. FPT does not produce those equipment which they usually buy from famous producers, such as: Cisco, IBM, HP, Microsoft, Oracle, SAP, Dell, Juniper and NCR. FPT's engineers add value to those devices by employing various parts into a solid system and teaching the users how to operate the system. Besides, they are also responsible for adding more software modules to the systems to make it interactive with end-users. Their largest traditional clients are government organizations and bankers. In recent years, due to saturation at those traditional clients, FPT attempts to diversify their client portfolio by expanding their business to other local entities as well as foreign government, which in turn makes the contribution of traditional clients to sales decreased from 60% to 40%. System integration currently contributes ~28% to total sales of FPT's technology business.

Software Solutions

Taking advantage of implementing core system for most of the critical organization of Vietnam economy, FPT gains expertise knowledge of different domains so they have successfully build their smart solutions for those clients, namely FPT.eGov served as the nationwide e-government software, FPT.eCustoms served as e-customs Clearance System for Vietnam Customs. Sales from those solutions contributes about 11% sales of FPT.

Telecom – the vault to generate profit for FPT

This business contributed ~16% and ~39% to FPT's total revenue and profit before tax in 2016, respectively. Despite aggressively depreciating equipment associated with the swap project, telecom's PBT still saw a 3-year CAGR of ~13% in 2014-2016. Telecom business is operated under FOX, the subsidiary of FPT, where FPT holds ~45% ownership. FOX provides fixed-line internet services to individual as well as leased line to institutional clients. Individual clients, especially immigrants in the two biggest cities HCM and HN, usually appreciate FOX services because FOX requires less complicated documents for initially registering and the sales' services are better than the two largest providers, VNPT (a SOE company) and Viettel (a military company). However, FOX has not owned cable systems to other countries so it is less competitive to the two providers in the leased-line to institutional clients, who usually use FOX as a back-up line. Besides, FOX also provides other services in telecommunication, such as: data center, IPTV.

Trading and Retailing – it's time to divest

Trading

FPT started this business quite early, nearly in first years of their life cycle. In 1990, FPT is the first company granting the right to deliver computer in Vietnam by cooperating with the Russian Academy of Sciences. Sales from laptop and computer so far have account for 60% total trading sales. Besides, they also expand to mobile devices, whose sales is about 40% total trading sales. In last two years, FPT got problems with distributing Apple and Nokia, which used to account for over 60% total mobile trading sales). Apple applied new policy allow retailers to purchase direct phones from them while Lumia (Nokia) phone is decided by Microsoft to stop manufacturing as well as selling in the market.

Retailing

FPT launches this business via the brand FPT Shop store chain, which kicked off in 2007. After 10 years, FPT Shop has become the second largest mobile retailer. They have over 400 stores nationwide, with the attractive growth of ~90%/year in the store number. This business contributed ~26% to total sales and ~9% to PBT of FPT.

It's time to divest

Divestments at those businesses have been discussed for over 1 year but they are still not employed. However, at the recent meeting with FPT's senior managers, they announced that they should be done in this year.

INDUSTRY OVERVIEW

Technology-Vietnam owns right property to develop the software outsourcing industry

We believe Vietnamese teenagers own quality suitable for being potential engineers. They are curious with technology and sensitive to any changes in this sector, backed by the smartphone and Internet penetration rate. Also, English becomes popular and compulsory subject at many primary schools in recent years so next generation of IT engineers, who were born in 2000s, will have higher fluency in this language. This is very important for Vietnamese IT companies' competitive in this market against other players, such as Philippine and India.

Software companies are encouraged by government to develop. Corporate tax rate charged on those companies is 10%, a half of rate charged to other corporations.

Labor cost is the outstanding competitive power for Vietnamese outsourcing companies. According to our research on the recruitment websites, Jobstreet and Monster, the average salary for the junior software development engineer in Vietnam is ~60%-75% lower than in China and India.

Telecom- turning into new phase

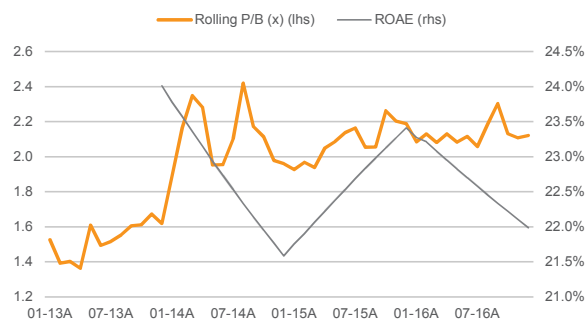
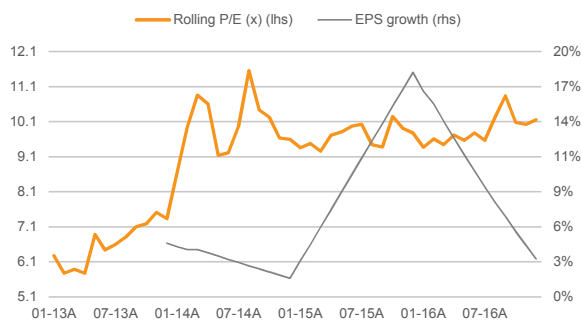
Key drivers for growing subscriber numbers are (1) development of the big cities' building and (2) rural market. According to Savills, number of real estate transactions has increased significantly, by about 76% per year since 2014, mainly focusing on HCMC and Hanoi, the two biggest cities. Those apartments backed by such transactions would be transferred to clients in 2017-2018, which in turn would lead to the great demand of registering Internet when owners move to live in those houses. In this segment, FPT and Viettel are the two players. Otherwise, Internet gradually becomes more popular in far-distant provinces but FPT is currently less competitive against VNPT in this market because VNPT has representative branches (called local post offices) and stronger infrastructure in those provinces. However, if FPT employs their sales human resources as well as infrastructures in those provinces, it could effortlessly approach clients because we believe the SOE company's services and sale staffs are worsen than FPT's.

Retail

Smartphone demand is coming to the saturation phase. Smartphone market has been developed robustly since 2012. Vietnamese have quickly adapted to the tendency of changing feature phone to smartphone due to more affordable price smartphones so the smartphone penetration rate doubled from ~20% to above 40% in 2012-2016, according to IDC's figures. Therefore, the next five-year growth drivers for this market will come from (1) high turnover rate of about 1.5-2 years, which means that an average phone user frequently changes his/her phone within 1.5-2 years (2) taking mom & pop stores' market share, currently accounting for 20% total market share.

However, cell phone retailers have gradually expanded their business by exploiting new retail. Currently, Thegioididong (HOSE: MWG) once again pioneers in this trend by launching Bachhoaxanh, the grocery store chain. FPT also cooperates with Vinamilk to sell milk at outstanding cell phone stores.

Valuation



Income statements

| (VNDbn) | 12-15A | 12-16A | 12-17E |
|--------------------------------------|--------------|--------------|--------------|
| Revenue | 37,960 | 39,531 | 45,528 |
| Cost of sales | (30,466) | (31,093) | (35,561) |
| Gen & admin expenses | (2,332) | (2,751) | (3,113) |
| Selling expenses | (2,227) | (2,638) | (3,189) |
| Operating profit | 2,935 | 3,049 | 3,664 |
| Operating EBITDA | 3,668 | 3,982 | 4,607 |
| Depreciation and amortisation | (733) | (933) | (943) |
| Operating EBIT | 2,935 | 3,049 | 3,664 |
| Interest income | 453 | 575 | 677 |
| Financial expense | (620) | (694) | (844) |
| Net other income | 49 | 50 | 0 |
| Income from associates & JVs | 34 | 35 | 30 |
| Pre-tax profit | 2,851 | 3,014 | 3,527 |
| Taxation | (413) | (438) | (513) |
| Minority interests | (507) | (585) | (699) |
| Net profit | 1,931 | 1,991 | 2,316 |
| Adj. net profit to ordinary | 1,742 | 1,796 | 2,089 |
| Ordinary dividends | (974) | (1,059) | (1,608) |
| Retained earnings | 957 | 932 | 708 |

Cash flow statement

| (VNDbn) | 12-15A | 12-16A | 12-17E |
|---|----------------|----------------|----------------|
| Pretax profit | 2,851 | 3,014 | 3,527 |
| Depreciation & amortisation | 733 | 933 | 943 |
| Other non cash gains/(losses) | 91 | 127 | (699) |
| Other non operating gains/(losses) | (56) | 23 | (227) |
| Tax paid | (438) | (531) | (513) |
| Other operating cash flow | | | |
| Change in working capital | (2,236) | 1,531 | (1,239) |
| Cash flow from operations | 945 | 5,097 | 1,793 |
| Capex | (2,090) | (1,433) | (1,764) |
| Proceeds from assets sales | 116 | 5 | |
| Others | (927) | (595) | 266 |
| Other non-current assets changes | | | 0 |
| Cash flow from investing activities | (2,901) | (2,024) | (1,497) |
| New share issuance | 31 | 67 | 23 |
| Shares buyback | (4) | (1) | 0 |
| Net borrowings | 1,941 | 1,134 | 1,309 |
| Other financing cash flow | 0 | 0 | 430 |
| Dividends paid | (974) | (1,059) | (919) |
| Cash flow from financing activities | 993 | 141 | 843 |
| Cash and equivalents at beginning of period | 4,336 | 3,585 | 6,013 |
| Total cash generated | (963) | 3,214 | 1,138 |
| Cash and equivalents at the end of period | 3,374 | 6,799 | 7,152 |

Balance sheets

| (VNDbn) | 12-15A | 12-16A | 12-17E |
|---------------------------------------|---------------|---------------|---------------|
| Cash and equivalents | 3,585 | 6,013 | 7,152 |
| Short term investments | 2,617 | 3,472 | 3,913 |
| Accounts receivables | 5,534 | 6,640 | 7,303 |
| Inventories | 5,268 | 4,554 | 4,676 |
| Other current assets | 1,955 | 1,229 | 1,821 |
| Total current assets | 18,959 | 21,909 | 24,865 |
| Fixed assets | 4,985 | 5,611 | 6,017 |
| Total investments | 728 | 826 | 826 |
| Other long-term assets | 1,374 | 1,488 | 1,637 |
| Total assets | 26,046 | 29,833 | 33,344 |
| Short-term debt | 8,191 | 9,207 | 10,450 |
| Accounts payable | 2,815 | 3,757 | 3,976 |
| Other current liabilities | 3,961 | 4,466 | 4,826 |
| Total current liabilities | 14,968 | 17,430 | 19,252 |
| Total long-term debt | 614 | 733 | 798 |
| Other liabilities | 281 | 223 | 296 |
| Shareholders' equity | 8,581 | 9,525 | 10,775 |
| Minority interests | 1,601 | 1,923 | 2,223 |
| Total liabilities & equity | 26,046 | 29,833 | 33,344 |

Key ratios

| | 12-15A | 12-16A | 12-17E |
|--------------------------|--------|--------|--------|
| Dupont | | | |
| Net profit margin | 5.1% | 5.0% | 5.1% |
| Asset turnover | 2 | 1 | 1 |
| ROAA | 7.9% | 7.1% | 7.3% |
| Avg assets/avg equity | 3 | 3 | 3 |
| ROAE | 23.4% | 22.0% | 22.8% |
| Efficiency | | | |
| Days account receivable | 43 | 45 | 45 |
| Days inventory | 63 | 54 | 48 |
| Days creditor | 34 | 44 | 41 |
| Fixed asset turnover | 9 | 7 | 8 |
| ROIC | 10.2% | 9.3% | 9.6% |
| Liquidity | | | |
| Current ratio | 1 | 1 | 1 |
| Quick ratio | 1 | 1 | 1 |
| Cash ratio | 0 | 1 | 1 |
| Cash cycle | 72 | 54 | 53 |
| Growth rate (yoy) | | | |
| Revenue growth | 16.3% | 4.1% | 15.2% |
| Operating profit growth | 25.7% | 3.9% | 20.2% |
| Net profit growth | 18.3% | 3.1% | 16.3% |
| EPS growth | 18.3% | 3.1% | 16.3% |
| Share value | | | |
| EPS (VND) | 4,204 | 4,334 | 5,041 |
| BVPS (VND) | 18,774 | 20,736 | 23,457 |
| DPS (VND) | 2,131 | 2,305 | 3,501 |

Source: VNDIRECT

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Phuong Nguyen Mai – Research Director

Email: phuong.nguyenmai@vndirect.com.vn

Huynh Minh Tuan – Analyst

Email: tuan.huynh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>