



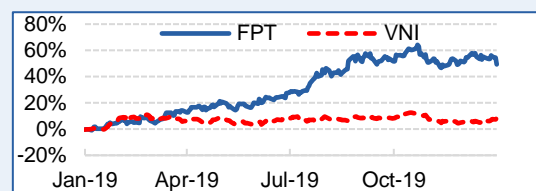
FPT Corp (FPT)

Earnings Flash

Industry:	Diversified		<u>2018</u>	<u>2019</u>
Report Date:	January 21, 2020			
Current Price:	VND55,500	Rev y/y	-45.6%	19.4%
Last Target Price:	VND76,800	EPS y/y*	22.5%	19.0%
Upside:	+38.3%	PBT margin	16.6%	16.8%
Dividend yield:	3.6%	NPM	11.3%	11.3%
TSR:	+41.9%	EV/EBITDA	N/A**	N/A**
Rating:	BUY	P/Op CF	10.5x	N/A**
		P/E	15.6x	13.2x

Market Cap:	USD1.6bn		FPT**	VNI
Foreign Room:	USD0	P/E (ttm)	13.2x	16.2x
ADTV30D:	USD3.2mn	P/B (curr)	N/A	2.4x
State Ownership:	6.0%	Net D/E	N/A	N/A
Outstanding Shares:	678.3 mn	ROE	N/A	14.8%
Fully Diluted Shares:	678.3 mn	ROA	N/A	2.4%

*Recurring; **Q4 2019 FS are not yet available



Company overview

FPT Corp is a technology and telecom conglomerate with a top three market share in Vietnam's broadband internet market and market-leading position in technology services. Driven by its globalization strategy, FPT's global IT revenue CAGR reached 28% over the last three financial years.

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IT employee bonus recognition drags Q4 results

- FPT announced 2019 revenue of VND27.7tn (USD1.2bn, +19% YoY) and NPAT-MI of VND3.1tn (USD135mn, +20% YoY). This result implies Q4 2019 NPAT-MI of VND757bn (USD33mn, -4% YoY), which we attribute to (1) a recognition of a year-end performance-based employee bonus for the Software Outsourcing and Domestic IT segments, (2) FPT recording ~VND100bn (USD4.3mn) in one-off income from reversal of provisions for long-term financial investments in Q4 2018 and (3) weak earnings at associate company FPT Retail (FRT).
- As a result of the above items, FPT's 2019 NPAT-MI fell short of our forecast by 7% while its revenue completed 98% of our forecast. Therefore, we see potential downside risk to our current earnings forecasts, pending a more extensive review.
- Management expects FPT to maintain similar growth momentum in 2020 vs 2019. Despite FPT's 2019 earnings miss vs our forecast, we maintain our optimism on the company's growth outlook, premised on its core business pillars that include Software Outsourcing, Telecom Services and Education.

Software Outsourcing: Revenue +29%, PBT +27% YoY as all markets displayed robust growth. The Japanese market (51% of Software Outsourcing's revenue) posted top-line growth of 18% in 2019. Meanwhile, revenue from the US/EU/APAC soared 47%/27%/43%, underpinned by new client acquisitions while existing contracts were renewed at greater values. Per FPT, its revenue growth in Japan this year was slower than the 30%+ achieved in previous years, which was partly due to the company's restructuring of its client portfolio in Japan as it aims to focus more on big clients. Management expects growth in Japan to rebound in 2020. On the other hand, Software Outsourcing's PBT margin contracted by 20 bps to 15.9% in 2019 due to goodwill amortization related to the acquisition of Intellinet in late 2018. If we added back this goodwill amortization, this segment's PBT margin would have expanded by 30 bps to 16.4%, per our estimate.

Telecom Services: Revenue +18%, PBT +30% YoY on double-digit broadband subscriber growth and margin expansion. Broadband revenue increased 15% in 2019 on high-teens growth in new subscribers while average revenue per user shrank as FPT penetrated deeper into second and third-tier areas. Meanwhile, revenue from other segments (leased line, voice, data center and Pay TV) jumped 24%, led by Pay TV. Telecom Services' PBT margin widened by 1.4 ppts to 15.2% in 2019, which was partly thanks to the fact that the mandatory contribution to the Vietnam Public Utility Telecommunication Service Fund fell from 1.5% to 0.7% of broadband revenue in July 2018.

Education saw robust new enrollments. As of YE2019, FPT Education recorded a total number of ~50,000 students (+40% YoY). This student base expansion bodes well for the Education segment's profit growth in 2020.

FPT's 2019 results (segmental PBT)

VND bn	2018	2019	YoY	Actual/ forecast 2019	VCSC comments
Telecom Services	1,142	1,488	30%	114%	Broadband subscribers advanced by high double digits. This segment's PBT exceeded our forecast on the back of stronger-than-expected margins.
Technology	1,519	1,973	30%	92%	
- Outsourcing	1,360	1,723	27%	95%	Robust growth across markets as FPT's competitive labor costs and strengthening track record have enabled it to consistently grow its contract book. Per management, FPT will allocate the performance-based employee bonus more evenly between quarters starting from 2020 instead of concentrating it in Q4 as in 2019.
- Domestic IT	159	250	57%	73%	Growth was off a low 2018 base, especially in terms of margins. Domestic IT revenue amounted to VND4.9tn (USD213mn) in 2019, flat vs 2018. However, its PBT margin broadened from 3.2% in 2018 to 5.1% in 2019, which was partly thanks to a bigger contribution from higher-margin IT services relative to hardware sales. Per management, FPT will allocate the performance-based employee bonus more evenly between quarters starting from 2020 instead of concentrating it in Q4 as in 2019.
Trading and retail	387	353	-9%	93%	We attribute the decline in 2019 mainly to FRT, whose earnings were affected by bad debt provisions related to its F.Friends program.
Others	810	851	5%	87%	Mainly driven by the Education segment and partly offset by sluggish growth in the Online segment as well as a lack of one-off profit from provision reversals that occurred in Q4 2018.
PBT	3,858	4,665	21%	97%	
NPAT-MI	2,620	3,135	20%	93%	

Source: FPT, VCSC

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

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MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
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