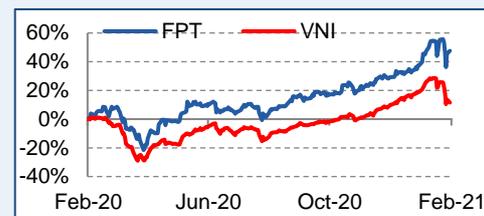


<b>Industry:</b>	<b>Technology/Telecom</b>		<u>2019</u>	<u>2020</u>
<b>Report Date:</b>	<b>February 1, 2021</b>	Rev y/y	19.4%	7.6%
Current Price:	VND63,500	EPS y/y	19.0%	12.3%
Target Price*:	VND76,500	PBT margin	16.8%	17.6%
Upside to TP:	+20.5%	NPM	11.3%	11.9%
Dividend Yield:	3.1%	EV/EBITDA	9.1x	7.9x
TSR:	+23.6%	P/Op CF	9.9x	7.9x
Rating*:	BUY	P/E	17.3x	15.6x



Market Cap:	USD2.1bn		<u>FPT</u>	<u>VNI</u>
Foreign Room:	USD0	P/E (ttm)	15.6x	16.0x
ADTV30D:	USD6.3mn	P/B (curr)	3.2x	2.2x
State Ownership:	6.0%	Net D/E	-0.2x	N/A
Outstanding Shares:	783.9 mn	ROE	21.7%	13.6%
Fully Diluted Shares:	783.9 mn	ROA	9.4%	2.2%

Company Overview

FPT Corp is a technology/telecom conglomerate with a top three market share in Vietnam's broadband Internet market as well as a market-leading position in technology services. Driven by its globalization strategy, its international revenue CAGR reached 24% over the last three years.

\*TP and rating last updated November 13, 2020

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## Management eyes return to high double-digit PBT growth

We attended FPT's online analyst meeting, which covered a wide range of topics on the company's core businesses. Overall, the meeting reinforces our optimism on the company, especially its strengthening technological and consulting capabilities in the IT business as well as a potential recovery in global IT spending.

### 1. IT business

**Software outsourcing (SO) revenue growth to return to a 20%-25% range in 2021, backed by a recovery in global IT spending and rising digital transformation (DX) demand.** Management expects FPT's new contract signing to remain strong as COVID-19 has raised the urgency for corporations to invest in IT — especially DX. In addition, citing forecasts from US market research firm Gartner and US investment bank Goldman Sachs, management expects an acceleration in global IT outsourcing services. In early 2021, FPT won a new USD100mn contract for an insurance company in ASEAN. Meanwhile, management targets DX's revenue contribution to reach at least 25%-27% in 2021 compared to 27% in 2020. Per FPT, DX generates a GPM of ~55% vs ~35% of traditional outsourcing services.

**Global delivery model to bolster SO productivity and service mix.** In early 2021, FPT established two new delivery centers in India and Costa Rica to shorten the time zone difference in order to better serve the US market. Furthermore, thanks to these new centers, FPT can (1) reduce onsite employees in the US, (2) deliver services 24 hours a day, which will particularly benefit its managed services, (3) debottleneck offshore capacity in Vietnam, and (4) enhance its labor productivity. FPT expects these benefits will more than offset higher labor costs in India and Costa Rica (more than 20% higher than Vietnam). Per management, FPT's 2020 revenue growth was curbed by flat onsite revenue that was due to disrupted employee mobilization amid COVID-19, despite a ~20% YoY jump in offshore revenue. Meanwhile, per FPT, it has had a limited presence in managed services up to now as these services require 24-hour client support while Vietnam also lacks proper human resources for these services.

**FPT expects its SO headcount to expand 25% in a high case while labor productivity is set to rise 10% in 2021 vs 9% in 2020.** FPT's SO headcount amounted to ~16,500 as of YE2020, of which 2,400 was abroad. In its best-case scenario, FPT's SO headcount will reach ~20,000 by YE2021 with new recruitment to come from both traditional tier-1 cities and lower-tier cities such as Quy Nhon and Can Tho.

**FPT eyes M&A to strengthen its consulting capabilities and ability to win big contracts, similar to its 2018 acquisition of US consultancy Intellinet.** In 2020, Intellinet made a net profit compared to losses in 2019 in addition to helping FPT win a USD100mn contract in the US.

**Competition for local labor from Indian IT companies remains minimal so far.** In late 2020, Indian IT outsourcing (ITO) service provider HCL announced its establishment of a delivery center in Vietnam. Management thinks Indian ITO companies have set up shops in Vietnam to target the Japanese market, where FPT has established a strong presence. However, up to now, FPT has not seen stiff competition from HCL for local engineers.

**Management also expects domestic IT revenue to take off from 2021.** Management expects its domestic IT revenue to grow at least 20% per annum in the next few years partly thanks to an increasing DX adoption among leading Vietnamese companies, which are FPT's main customer segment in the domestic market. Moreover, FPT expects its domestic IT PBT margin to increase from 6% currently to 8% from 2021 onward on the back of a broader contribution from software revenue — especially from FPT's in-house products — relative to hardware revenue.

Per management, instead of mainly customizing existing core platforms such as SAP, FPT aims to provide more in-house products to its clients. In 2020, FPT's in-house product revenue surged 51% YoY to USD22mn. Customers of FPT's in-house products include Japanese bank Mizuho, Vietnamese bank VietinBank, Vietnamese beverage company THP Group and Vietnamese e-commerce platform Tiki.

## 2. Telecom Services

**Both PayTV and data center sub-segments delivered strong double-digit revenue growth in 2020.** Data center and Pay TV revenues soared 22% and 28% YoY in 2020, respectively. Up to now, the capacity utilization of FPT's new data centers in Hanoi and HCMC — which came into operation in late Q2 2020 — have reached 12% and 17%, respectively.

**Management targets mid-teen PBT growth in 2021 thanks to fixed-line subscriber expansion and a ballooning contribution from the PayTV and data center sub-segments.** FPT plans to continue its fixed-line broadband expansion to tier-2 and tier-3 areas as well as condo buildings in tier-1 cities. Per management, FPT's fixed-line coverage in rural areas is only 40% currently compared to 100% in tier-1 city urban districts and 80% in tier-1 city wards. In 2021, FPT plans to employ an agent model (i.e., hiring third-party agents to recruit subscribers instead of relying on full-time employees and branches) to grow its subscriber base in rural areas.

**Due to its higher prices vs fixed-line broadband, FPT expects 5G's cannibalization of fixed-line broadband to be insignificant while 5G will open new opportunities for the company.** For example, 5G will boost demand for Internet of things (IoT) software. In addition, FPT can lease out its infrastructure to mobile telcos that are not strong in fiber.

## 3. Education

**FPT expects education revenue and PBT to grow 30%-40% per annum over the next few years.** Among sub-segments, in 2021, management believes K-12 (kindergarten to 12th grade) will post a more than 50% increase in its number of students, followed by ~50% growth in vocational training and ~30% growth in university. Notably, FPT plans to roll out a new 9+4 program for vocational schools to shorten the training time (including high school + vocational training) from six to four years in 2021. Per management, its profit margins are similar across the sub-segments.

## 4. 2021 guidance

VND bn	2021G	YoY	2021G/VCSC's current 2021 forecasts
Revenue	34,720	+16%	98%
PBT	6,210	+18%	101%
Capex	3,445*	+14%	99%

Source: FPT, VCSC compilation; \*IT and Telecom businesses will account for 26% and 58% of 2021G capex, respectively, while the remaining amount is primarily budgeted for education

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**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.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
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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