August, 2018

FPT Corporation JSC (HSX: FPT)

Steady Core Operations but Underestimated Financials

Particulars (VND B)	Q2-FY18	Q1-FY18	*+/-qoq*	Q2-FY17	*+/-yoy*
Net revenue	5,474	4,751	15%	9,947	-45%
PAT	594	509	17%	512	16%
EBIT	719	662	9%	795	-10%
EBIT margin	13.1%	13.9%	-81bps	8.0%	514bps

Source: FPT, RongViet Securities

6M 2018 performance: steady growth

- Core businesses continued growing steadily. FPT Technology's revenue and NPAT went up by 21% and 31%, respectively, while FPT Telecom's revenue and NPAT went up by 15% and 17% YoY, respectively.
- Outsourcing continues to be the major growth driver, new jobs from Japan help maintain strong growth.
- After divesting from FRT and Synnex FPT, FPT lowered inventory, payables and short-term debt.
- Proceeds from divestments enables FPT to spend on Capex to develop its IT and telecom businesses.

2018: healthy financial position is the critical strength

FPT took the opportunity to revamp its balance sheet. The company reduced over VND 3,000 billion of inventory. Its total liabilities decreased by roughly one third, as total liabilities/total equity has been reduced to 76% in Q2 for the first time since 2014, when FPT Retail started its expansion. We forecast that FPT's financial expense will be halved thanks to lessened short-term borrowings while its interest income can generate a stable cash flow owing to its held-to-maturity cash.

FPT's commitment to a stable dividend policy of VND 2,000 per share despite a recent 20% share dividend demonstrates its healthy financial position. FPT is capable of producing a 48% dividend payout ratio while stabilizing its cash hoard. At the current market price, FPT offers a dividend yield of nearly 5%, which is attractive compared to its VN30 peers.

***Valuation and recommendation**: We remain optimistic on the stable growth achieved by FPT's two core businesses, Technology and Telecom. The large cash flow from the divestments have make ways for aggressive capex to develop its telecom service quality and to improve its software engineering capacity. We maintain our optimistic view on FPT's outsourcing business growth thanks to the abundant new jobs from Japan and other Asia Pacific markets. We also expect that its telecom's profitability will rise in the long-term owing to the government's supportive policy and infrastructure improvements.*

*We evaluate FPT price at **VND 50,900/share** and anticipate a cash dividend of VND2,000 per share in the following 12 months, which results in a **26%** total return from the closing price on July 31st, 2018 and we recommend to **BUY** the stock. Our new target price is similar to that in the previous report, but the recommendation has changed because the stock price has reached an attractive level.*

BUY	**+26%**
CMP (VND)	42,000
Target price (VND)	50,900
Cash dividend (VND)*	2,000

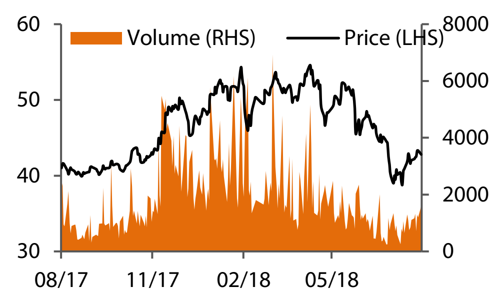
** Expected in the next 12 months*

Stock info

Sector	Technology
Market Cap (VND billion)	25,727
Current Shares O/S	607,483,000
Avg. Daily Volume (in 20 sessions)	969,176
Free float (%)	68.6
52 weeks High	54,588
52 weeks Low	38,800
Beta	0.94

	FY2017	Current
EPS	4,460.0	5,094.4
EPS growth (%)	50.3	15.5
Adjusted EPS	4,460.0	5,094.4
P/E	11.1	8.2
P/B	2.7	2.2
EV/EBITDA	5.9	6.0
Cash dividend	2,173.9	2,369.6
ROE (%)	26.0	28.6

Price performance



Major Shareholders (%)

Truong Gia Binh (Chairman)	7.05
SCIC	5.93
Red River Holding	4.54
Foreign ownership room (%)	0.00

Trinh Nguyen

(084) 028- 6299 2006 – Ext 1331

trinh.nh@vdsc.com.vn

Exhibit 1: Q2 2018 results

Particulars (VND B)	Q2-FY18	Q1-FY18	+/-(QoQ)	Q2-FY17	+/-(YoY)	2Q-FY18	+/-(YoY)
Net revenue	5,474	4,751	15.2%	9,947	-45.0%	10,225	-47%
Gross profit	2,001	1,856	7.8%	2,432	-17.7%	3,856	-14%
SG&A	(378)	(348)	8.7%	(192)	96.3%	(726)	-19%
Operating income	2,378	2,203	8.0%	2,624	-9.4%	4,582	17%
EBITDA	1,005	937	7.3%	1,045	-3.8%	1,942	0%
EBIT	719	662	8.5%	795	-9.6%	1,381	-5%
Financial expenses	70	142	-50.8%	189	-62.9%	212	-45%
- Interest Expenses	55	46	18.7%	100	-45.0%	102	-52%
Dep. and amortization	286	274	4.3%	250	14.5%	560	14%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	906	781	16.1%	783	15.7%	1,687	19%
PAT	594	509	16.8%	512	16.1%	1,103	18%
(*) Adjusted PAT	594	509	16.8%	512	16.1%	1,103	

Source: FPT, RongViet Securities

Exhibit 2: Q2 2018 performance analysis

Particulars	Q2-FY18	Q1-FY18	+/-(QoQ)	Q2-FY17	+/-(YoY)
Profitability ratios (%)					
Gross margin	36.5%	39.1%	-251bps	24.4%	1,210bps
EBITDA margin	18.4%	19.7%	-136bps	10.5%	785bps
EBIT margin	13.1%	13.9%	-81bps	8.0%	514bps
Net margin	10.9%	10.7%	14bps	5.1%	571bps
Adjusted net margin	10.9%	10.7%	14bps	5.1%	571bps
Turnover *(x)					
-Inventories	11	11	0.7	7	4.6
-Receivables	3.9	3.2	0.7	6.3	-2.3
-Payables	3	2	0.6	5	-2.3
Leverage (%)					
Total debt/ equity	85.7%	75.7%	1,000bps	121.3%	-3,559bps

Source: FPT, (*) Annualized turnover

Exhibit 3: Q3 2018 performance forecast

Particulars (VND B)	Q3-FY18	+/-(QoQ)	+/-(YoY)
Revenue	6,464	-31%	-40%
Gross profit	1,632	-21%	-32%
EBIT	559	-14%	-33%
NPAT	598	45%	3%

Source: FPT, RongViet Securities.

Updates

The Ministry of Finance has reduced the required contribution to the public telecommunication service fund from 1.5% to 0.7% of total revenue in June 2018. Accordingly, FOX can save an amount equivalent to 0.8% of its internet service revenue. Since the telecom service segment's net profit margin was only around 11% in 2017, the reduction in the government's required contribution can make way for a considerable growth in FOX's net profit starting from 2019.

While we appreciate the stability in FPT's two core businesses, we also anticipate interesting changes in its financial activities as FPT is now becoming a conglomerate:

FPT can enjoy growth in attributed profit from affiliates like FRT and Synnex FPT's growth in 2018 and 2019. In the recent FRT company report, our retail analyst considers that FRT has ample room for growth in its electric device business owing to an ambitious customer financing program. Synnex FPT, after welcoming new strategic investors, is also showing strong improvements and we believe the trading firm is going to deliver substantial improvements in the next few years. We estimate that the two affiliates can bring about VND 331 and 386 billion gains to FPT in 2018 and 2019 respectively.

FPT is expected to reduce its financial expenses thanks to the strong cutback on short-term borrowing. The corporation incurred over VND 600 billion per year during 2015-2017 in costs for financial activities, most of which was for its retail and trading segments. Therefore, we predict that the divestments from the businesses will relief FPT from a large amount of interest expenses. Our estimated financial expenses for 2018 and 2019 are VND 330 and 338 billion, nearly 50% lower than the 2015-2017 average.

FPT can enjoy a stable income from its large deposits at bank. The corporation has been known for its abundant cash balance which was nearly VND 8,000 billion at the end of 2017. We forecast that its cash balance can increase over time because its operating businesses, including technology, telecom and education, can generate stable cash flows without major working capital risks. At an estimated interest rate on cash of 4.6% per annum, FPT can record VND 184 billion of interest income in 2018. The cash hoard is not only an illustration of FPT's ability to pay cash dividend for the following years but is also a demonstration of its superior financial strengths compared to almost all other project-based companies. This is one of the important rationales that we believe investors should consider.

Appendix:

Table 1: FPT's P/E

	Contribution to 2018 net income	Segment's P/E	2018 P/E
IT	52.6%	13.99	7.36
Telecom	22.6%	13.76	3.11
Trading & Retail	14.9%	8.58	1.28
Education	9.8%	10.00	0.98
Total	**100.0%**		**12.74**

Source: Bloomberg, RongViet Securities estimated

VND in billions

Income statement	FY2016	FY2017	FY2018E	FY2019F
Revenue	39,531	42,659	23,154	26,291
COGS	31,093	32,976	17,308	19,620
Gross profit	8,438	9,682	5,846	6,671
Selling expense	2,638	3,075	1,505	1,709
G&A expense	2,751	3,441	1,634	1,935
Finance income	575	1,583	391	468
Finance expense	694	601	330	338
Other profits	50	35	35	35
Gain/(loss) from JVs	35	71	331	386
PBT	3,014	4,255	3,134	3,578
Prov. of tax	438	727	460	524
Minority's interest	585	597	670	755
PAT to equity S/H	1,991	2,932	2,004	2,299
EBIT	3,049	3,167	2,707	3,026

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	4.1	7.9	-45.7	13.5
Operating income	8.6	5.6	-10.4	12.8
EBITDA	3.9	3.9	-14.5	11.8
PAT	3.1	47.3	-31.7	14.7
Total assets	14.5	-16.2	4.6	10.4
Equity	11.0	20.0	12.1	8.3
Profitability (%)				
Gross margin	21.3	22.7	25.2	25.4
EBITDA margin	10.1	9.9	16.3	16.2
EBIT margin	7.7	7.4	11.7	11.5
Net margin	5.0	6.9	8.7	8.7
ROA	6.7	11.7	7.7	8.0
ROE	20.9	25.7	15.6	16.6
Efficiency (x)				
Receivable turnover	6.0	6.9	5.0	5.0
Inventory turnover	6.8	32.3	11.8	11.8
Payable turnover	3.9	4.9	3.3	3.3
Liquidity (x)				
Current	1.3	1.5	1.7	1.7
Solvency (%)				
Total debt/equity	104.4	41.0	43.1	44.8
Current debt/equity	96.7	36.0	35.4	35.9
Long-term Debt/equity	7.7	4.9	7.7	8.9

VND in billions

Balance sheet	FY2016	FY2017	FY2018E	FY2019F
Cash and cash equivalents	6,013	3,481	4,573	5,447
Short-term investments	3,472	4,379	4,598	4,828
Accounts receivable	6,640	6,152	4,631	5,258
Inventories	4,554	1,020	1,463	1,658
Other current assets	1,229	1,028	1,131	1,244
Property, plant & equipment	5,141	5,395	5,988	6,325
Acquired intangible assets	456	658	604	543
Long-term investments	826	1,783	2,114	2,500
Other non-current assets	1,487	1,104	1,048	1,069
Total assets	**29,819**	**25,000**	**26,150**	**28,872**
Accounts payable	7,904	6,669	5,192	5,886
Short-term borrowings	9,207	4,117	4,529	4,982
Long-term borrowings	733	565	985	1,235
Other non-current liabilities	223	96	105	116
Bonus and welfare fund	319	314	215	246
Technology-science, dev. fund	0	0	0	0
Total liabilities	**18,385**	**11,761**	**11,026**	**12,465**
Common stock and APIC	4,644	5,359	6,163	6,163
Treasury stock (enter as -)	-1	-1	-1	-1
Retained earnings	4,614	5,511	6,087	7,144
Other comprehensive income	138	385	385	385
Inv. and dev. fund	127	171	171	171
Total equity	**9,522**	**11,426**	**12,806**	**13,862**
Minority interest	**1,923**	**1,809**	**2,318**	**2,545**

Valuation ratio	FY2016	FY2017	FY2018E	FY2019E
EPS (VND)	3,245	4,778	3,253	3,732
P/E (x)	10.2	8.8	12.8	11.1
BV (VND)	20,727	21,520	20,871	22,594
P/B (x)	1.8	1.9	2.0	1.8
DPS (VND/cp)	2,000	2,500	2,000	2,000
Dividend yield	4.98%	4.55%	4.81%	4.81%

Valuation model	*Price*	*Weight*	*Average*
FCFF	54,352	50%	27,176
PE	47,538	50%	23,769
Target price (VND)			**50,900**

Valuation history	*Price*	*Recommendation*	*Period*
28/11/2017	54,700	Buy	Long term
26/05/2017	46,300	Buy	Long term
15/03/2017	41,800	Buy	Long term
05/09/2016	37,200	Buy	Long term

RESULTS UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

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ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Bernard Lapointe
Head of Research
bernard.lapointe@vdsc.com.vn
+ 84 28 62992006 (1525)

Lam Nguyen
Senior Strategist
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Market Strategy

Hieu Nguyen
Senior Analyst
hieu.nd@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Market Strategy
- Pharmaceuticals
- Aviation

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Food & Beverage
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1331)
- Steel
- Construction
- Technology

Son Phan
Analyst
son.pnt@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Utilities
- Natural Rubber

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Market Strategy
- Retails
- Consumer chemicals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Logistics
- Aviation

Thu Pham
Analyst
thu.pa@vdsc.com.vn
+ 84 28 6299 2006 (1520)
- Industrial Real Estate

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)
- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Insurance

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Banking

Vy Nguyen
Analyst
vy.ntk@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Automobile & Parts

Trinh Le
Analyst
trinh.lx@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Industrials

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

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