FPT Corporation JSC (HSX:FPT)

Revamped Business Structure

Particulars (VND B)	Q3-FY17	Q2-FY17	+/- QoQ	Q3-FY16	+/- YoY
Net revenue	10,831	9,947	9%	9,755	11%
PAT	583	512	14%	468	25%
EBIT	835	795	5%	793	5%
EBIT margin	7.7%	8.0%	-28bps	8.1%	-42bps

Source: FPT, RongViet Research

9M 2017 performance: News on the divestments held the spotlight

- Core businesses achieved steady growth. FPT Technology's revenue and NPAT went up by 7% and 16%, respectively, while FPT Telecom's revenue and NPAT went up by 14% and 10% YoY, respectively.
- Thirty percent of FPT Retail was sold to funds under the management of Dragon Capital and VinaCapital, followed by the upcoming sales of 10% to retail investors, IPO and listing plans.
- Divestment of 52% of FPT Trading is under negotiation, scheduled to complete in late 2017.

Q4 2017 potential: The divestments are expected to strengthen FPT's financials

As the divestments from FPT Retail and FPT Trading are going to conclude by the end of 2017, FPT is able to record a one-off profit in 2017 and to stop consolidating the two companies' business results. We estimate that the two divestment deals are generating nearly VND1,000 billion financial income for FPT. More importantly, there will be significant changes in FPT's 2017 consolidated financial statements.

In terms of financials, we expect a great amount of cash to improve FPT's working capital as well as financial structure while in terms of operation, it is an opportunity for FPT to concentrate on its traditional businesses. Without Retail and Trading, despite a drop in the consolidated revenue, FPT can raise its net profit margin to a two-digit figure as well as get rid of most inventory, receivables and short-term obligations tied up due to merchandising activities. Additionally, a change in the ownership structure is expected to direct FPT Retail and FPT Trading to more suitable business strategies in order to achieve profitability and stability.

***Valuation and recommendation**: We remain optimistic on the stable growth achieved by FPT's two core businesses, Technology and Telecom, which was discussed in our previous FPT Company Report. The divestments can be a strong catalyst for FPT share price in the short term as the deals are successfully concluding as expected. In the long term, regarding FPT valuation, the company's FCFF analysis shows a remarkable stability in cash generation and P/E ratio for 2018 can be revised owing to the higher contribution of Telecom and Technology, which have P/Es that are higher than those of the divested businesses.*

*We evaluate FPT price at **VND62,900/share** and anticipate a cash dividend of VND2,000 per share in the following 12 months, which results in a **12.9%** total return from the closing price on 28th November 2017 and we rate **NEUTRAL** on the stock as FPT has rallied since SCIC's divestment event. This target price is higher than that in our Company Report published in May 2017 because of an improved cash flow forecast as a result of FPT's successful divestments from FPT Trading and FPT Retail.*

NEUTRAL

CMP (VND)	57,500
Target price (VND)	62,900
Cash dividend (VND)*	2,000

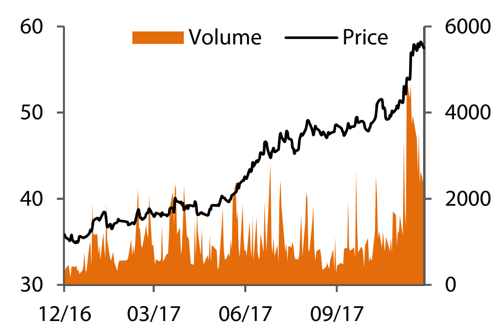
** Expected in the next 12 months*

Stock info

Sector	Technology
Market cap (VND B)	30,533
Current shares O/S	528,246,000
Beta	0.72
Free float (%)	68.6
52 week high	58,200
52 week low	34,875
Avg. daily volume (20 sessions)	2,690,675

	FY2016	Current
EPS	3,413	4,102
EPS growth (%)	2.91	24.21
Adjusted EPS	3,413	4,102
P/E	11.21	14.07
P/B	2.12	2.88
EV/EBITDA	5.67	7.65
Cash dividend	1,739	2,000
ROE (%)	19.88	22.03

Price performance



Major Shareholders (%)

Truong Gia Binh (Chairman)	7.08
SCIC	5.96
Red River Holding	4.56
Foreign ownership room (%)	0.00

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Exhibit 1: Q3 2017 results

Particulars (VND B)	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)	3Q-FY17	+/-(YoY)
Net revenue	10,831	9,947	8.9%	9,755	11.0%	30,196	11%
Gross profit	2,416	2,432	-0.6%	2,217	9.0%	6,923	19%
SG&A	(68)	(192)	-64.7%	(26)	157.8%	(223)	22%
Operating income	2,484	2,624	-5.3%	2,243	10.7%	7,146	16%
EBITDA	1,088	1,045	4.1%	1,051	3.5%	3,028	12%
EBIT	835	795	5.1%	793	5.3%	2,284	12%
Financial expenses	139	189	-26.6%	192	-27.8%	528	-2%
- Interest Expenses	85	100	-15.0%	104	-18.4%	298	8%
Dep. and amortization	253	250	1.1%	258	-2.0%	743	10%
Non-recurring items (*)							
Extraordinary items (*)							
PBT	882	783	12.5%	754	16.9%	2,308	13%
PAT	583	512	13.9%	468	24.5%	1,507	15%
(*) Adjusted PAT	583	512	13.9%	468	24.5%	1,507	

Source: FPT, RongViet Research

Exhibit 2: Q3 2017 performance analysis

Particulars	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)
Profitability ratios (%)					
Gross margin	22.3%	24.4%	-214bps	22.7%	-42bps
EBITDA margin	10.0%	10.5%	-46bps	10.8%	-73bps
EBIT margin	7.7%	8.0%	-28bps	8.1%	-42bps
Net margin	5.4%	5.1%	23bps	4.8%	58bps
Adjusted net margin	5.4%	5.1%	23bps	4.8%	58bps
Turnover *(x)					
-Inventories	8	7	1.2	7	1.3
-Receivables	6.1	6.3	-0.1	7.0	-0.9
-Payables	5	5	-0.1	5	-0.3
Leverage (%)					
Total debt/ equity	121.0%	121.3%	-32bps	130.9%	-988bps

Source: FPT, (*) Annualized turnover

Exhibit 3: Q4 2017 performance forecast

Particulars (VND B)	Q4 2017	+/- QoQ	+/- YoY
Revenue	16,054	70%	72%
Gross profit	4,204	103%	133%
EBIT	2,379	264%	218%
NPAT	1,381	234%	202%

Source: FPT, RongViet Research; Trading & Retail's results consolidated.

Updates

In addition to the previously mentioned one-off income boosting FPT's income statement, the company's balance sheet and cash flow statements are going to better off. Regarding the income statement, FPT is likely to see an improvement in net profit margin without consolidating Trading and Retail' flat net margins while still receiving 47% of their bottom lines attributable to the parent company. In terms of financial positions, having a non-controlling interest at Retail and Trading, FPT is likely to see its inventory and receivables substantially decrease, putting less pressure on its working capital. As a result, short-term borrowing will be strongly reduced, which is likely to incur lower interest expense for the company. While FPT's cash and equivalents are unlikely to decline as a result of the divestment, the cash holdings might even be higher owing to an estimated lump sum of VND1,896 billion proceeds from sales, meaning higher interest income for the firm. RongViet Research forecasts that a higher amount of liquid assets and a lower level of debts are going to bring about larger net financial incomes for FPT from 2018. In terms of FPT's cash flow statement, all remaining businesses including Technology, Telecom and Education have been generating stable cash flow, unlike the divested segments, which feature intensive working capital.

FPT share price valuation can also be different after the divestments, as the profit structure has been changed. As a result of the divestments, Technology and Telecom will be able to increase their contribution into FPT's net income from 65% (2017) to 74% (2018). Regarding P/E valuation, we observe that regional companies in the technology and telecom industries have higher P/E ratios than the trading and retail businesses, as shown in Table 1. Therefore, we use an estimated 15.7x P/E for FPT, higher than that in our previous FPT Company Report (11.5x). Using the higher P/E in evaluating FPT share price, we expect the market to rerate FPT in 2018 owing to its revamped business structure and strengthened financial resources.

FPT Technology has entered a new segment, Automotive, which focuses on autonomous driving, telematics, human machine interface, model base design and cloud connected functions. There has been a trend of automotive technology, which offers a broad market and substantial potentials as FPT expects the market for this segment to have a CAGR of at least 25% over the next 5 years. However, in the short-term, the automotive segment will incur a great amount of R&D cost, affecting Technology's profit margins in the next few years.

FPT might not be able to raise its ownership at FPT Telecom (UpCOM:FOX) soon because SCIC plans to hold its shares at FOX until 2020. This is similar to our expectation mentioned in the previous FPT Company Report. Therefore, even though FPT's cash is sufficient for the parent company to purchase FOX shares, the catalyst on FPT's increasing holding at its telecom subsidiary might be delayed until SCIC is willing to divest.

FPT Retail (FPTSHOP) has plans for a rights issuance to current shareholders prior to an IPO by the end of 2017. Additionally, FPT Retail has also passed a resolution to list the shares on HSX and the listing event might occur in Q2 2018.

Appendix:

Table 1: FPT's P/E

	Contribution to 2018 net income	Segment's P/E	2018 weighted average P/E
IT	47.4%	16.98	8.04
Telecom	26.9%	20.19	5.43
Trading & Retail	15.5%	9.28	1.44
Education	10.3%	8.00	0.82
Total	100.0%		**15.73**

Source: Bloomberg, RongViet Research estimated

VND in billions

Income statement	FY2015	FY2016	FY2017E	FY2018F
Revenue	37,960	39,531	19,493	22,335
COGS	30,466	31,093	14,388	16,758
Gross profit	7,494	8,438	5,105	5,577
Selling expense	2,227	2,638	1,267	1,452
G&A expense	2,332	2,751	1,326	1,519
Finance income	453	575	1,564	658
Finance expense	620	694	246	235
Other profits	49	50	50	50
Gain/(loss) from JVs	34	35	283	361
PBT	2,851	3,014	4,163	3,441
Prov. of tax	413	438	547	434
Minority's interest	507	585	728	920
PAT to equity S/H	1,931	1,991	2,888	2,086
EBIT	2,935	3,049	2,512	2,606

%

Financial ratio	FY2015	FY2016	FY2017E	FY2018F
Growth (%)				
Revenue	16.3	4.1	-50.7	14.6
Operating income	27.3	8.6	-10.9	7.2
EBITDA	25.7	3.9	-17.6	3.7
PAT	18.3	3.1	45.1	-27.8
Total assets	14.9	14.5	-13.8	4.9
Equity	8.4	11.0	29.9	7.7
Profitability (%)				
Gross margin	19.7	21.3	26.2	25.0
EBITDA margin	9.7	10.1	18.2	17.0
EBIT margin	7.7	7.7	12.9	11.7
Net margin	5.1	5.0	14.8	9.3
ROA	7.4	6.7	11.2	7.7
ROE	25.8	24.0	15.9	15.6
Efficiency (x)				
Receivable turnover	6.9	6.0	6.9	6.9
Inventory turnover	5.8	6.8	10.0	10.0
Payable turnover	4.7	3.9	4.8	5.3
Liquidity (x)				
Current	1.3	1.3	1.7	1.7
Solvency (%)				
Total debt/equity	102.7	104.4	62.2	59.6
Current debt/equity	95.5	96.7	55.8	53.4
Long-term Debt/equity	7.2	7.7	6.3	6.3

VND in billions

Balance sheet	FY2015	FY2016	FY2017E	FY2018F
Cash and cash equivalents	3,585	6,013	7,670	7,758
Short-term investments	2,617	3,472	3,819	3,819
Accounts receivable	5,534	6,640	2,843	3,226
Inventories	5,268	4,554	1,439	1,676
Other current assets	1,955	1,229	1,352	1,487
Property, plant & equipment	4,652	5,141	5,747	6,097
Acquired intangible assets	319	456	416	371
Long-term investments	728	826	861	897
Other non-current assets	1,374	1,487	1,562	1,640
Total assets	**26,032**	**29,819**	**25,709**	**26,970**
Accounts payable	6,467	7,904	3,021	3,184
Short-term borrowings	8,191	9,207	6,907	7,107
Long-term borrowings	614	733	783	833
Other non-current liabilities	281	223	245	269
Bonus and welfare fund	309	319	463	334
Technology-science, dev. fund	0	0	0	0
Total liabilities	**15,863**	**18,385**	**11,419**	**11,727**
Common stock and APIC	4,025	4,644	5,572	5,572
Treasury stock (enter as -)	-1	-1	-1	-1
Retained earnings	4,395	4,614	6,531	7,483
Other comprehensive income	81	138	138	138
Inv. and dev. fund	79	127	127	127
Total equity	**8,578**	**9,522**	**12,368**	**13,320**
Minority interest	**1,601**	**1,923**	**2,433**	**3,077**

Valuation ratio	FY2015	FY2016	FY2017E	FY2018F
EPS (VND)	3,637	3,750	5,360	3,893
P/E (x)	9.6	10.2	10.8	14.9
BV (VND)	21,579	20,727	23,297	25,091
P/B (x)	1.6	1.8	2.5	2.3
DPS (VND/cp)	2,000	2,000	2,000	2,000
Dividend yield (%)	4.98%	4.55%	3.45%	3.45%

Valuation model	*Price*	*Weight*	*Average*
FCFF	64,593	50%	32,296
PE	61,244	50%	30,622
Target price (VND)			**62,900**

Valuation history	*Price*	*Recommendation*	*Period*
26/05/2017	53,200	Buy	Long term
15/03/2017	48,100	Buy	Long term
05/09/2016	42,800	Buy	Long term

*adjusted price

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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