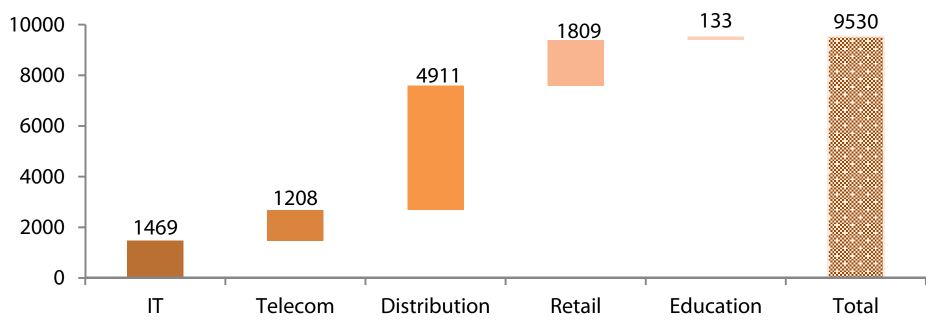
FPT GROUP (FPT – HSX)

Positive recovery in the technology business

Q1/2015: IT regains growth momentum

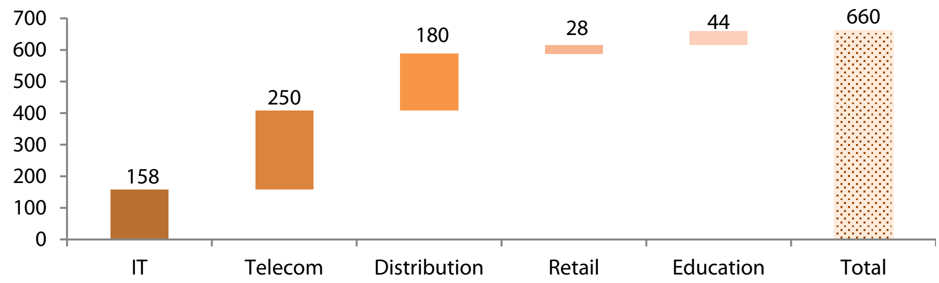
For the three-month period ending March 2015, FPT announced consolidated revenue of VND9,564 billion and EBT of VND645 billion, up by 30% and 11% from a year earlier respectively. Such strong revenue growth was thanks to more solid contribution of the technology sector (+37.4% yoy), ICT distribution (+33% yoy) and retail (+73.6%yoy). Meanwhile, PBT's growth was driven mainly by the distribution (+44% yoy), retail (+413% yoy) and IT (+19% yoy). Since FPT has withdrawn from online gaming and e-payment, sales of digital content fell sharply (-77% yoy). However, due to the offsetting revenue growth from telecommunication services, the FPT's telecommunication division still reported a slight increase in revenue (+2% yoy).

Exhibit 1: 2015Q1 revenue by business segment (VND bn)



Source: FPT, RongvietSecurities database

Exhibit 2: 1Q2015 profit-before-tax by business line (VND bn)



Source: FPT, RongvietSecurities database

Particulars (VND bn)	Q1-FY15	Q4-FY14	+/- qoq	Q1-FY14	+/- yoy
Net revenue	9,564	15,333	-37.6%	10,867	-12.0%
NPAT	425	451	-5.7%	362	17.6%
EBIT	645	737	-12.5%	617	4.5%
EBIT margin	6.7%	4.8%	194bps	5.7%	107bps

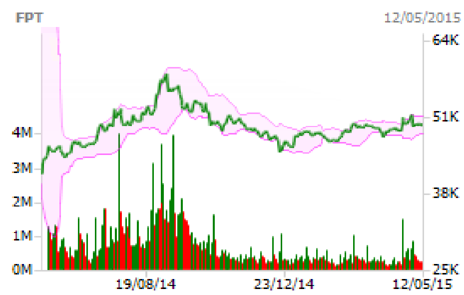
Source: FPT Financial statement, RongViet Securities' compilation and estimates

ACCUMULATE

CMP (VND)	49,200
Target Price (VND)	60,900
Investment Period	Long-term

Stock Info

Sector	Technology
Market Cap (VND bn)	16, 920
Current Share O/S	343,894,224
Beta	0.8
Free float (%)	77.4
52 weeks High	58,500
52 weeks Low	40,000
Avg. Daily Volume (in 20 sessions)	410,704



Peformance (%)

	3M	1Y	3Y
FPT	3.8	17.3	38.8
Technology	6.6	8.1	4.2
VN30 Index	-4.6	-1.4	5.7
VNIndex	-5.2	1.7	14.9

Shareholders pattern (%)

Truong Gia Binh	7.1
State capital investment Co, Ltd (SCIC)	6.0
Red River Holding	5.7
Bui Quang Ngoc	3.7
Foreigner Investor Room (%)	0.0

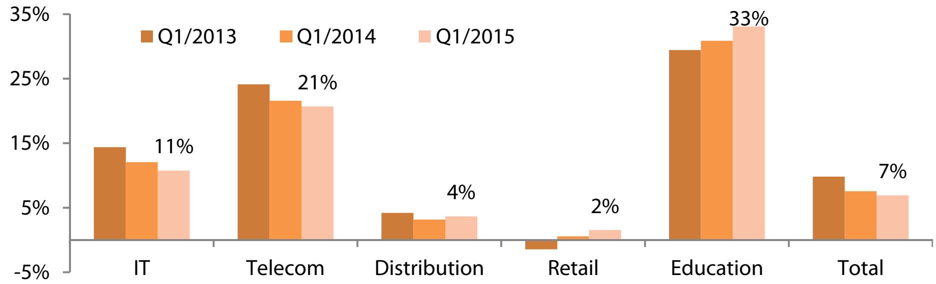
Lam Nguyen

(084) 08- 6299 2006 – Ext 323

lam.ntp@vdsc.com.vn

Margins of IT and telecom, the two business arms that made up 28% of FPT's revenue and 60% of the group's EBT, were down slightly as compared with 2014Q1 due to (1) expenses incurred after the Slovakia acquisition deal and the resulting decline of the PBT margin of software outsourcing; (2) heavier investment on fiber optic infrastructures for the telecom sector. Consequently, the overall PBT margin was reduced from 7.7% (1Q2014) to 6.9% (1Q2015).

Exhibit 3: PBT margin by business segment



Source: FPT, RongvietSecurities database

2015 Forecast

Software outsourcing: driven by Japanese and US market demand

Japan and the US are FPT's two largest markets in term of revenue contribution, accounting for 43.3% and 26.8% of 2014 net revenue respectively. In the European market, software outsourcing sales rose 117% thanks to the consolidation of RWE IT Slovakia's sales starting July 2014. After the M&A transaction, FPT signed a 5-year, nearly-80-million-dollar contract with the parent company of RWE. Under the contract, engineers of the East European firm have been training and transferring know-how to their counterparts in FPT Software for the outsource works they have received. The on-the-job training have incurred higher expenses as twice as many people have been working on the same amount of work; FPT Software thus has hardly profited from the contract. The know-how transfer will probably stretch further into 2015, extending the period of cost recognition. However, upon completion of the transfer, something we expect in 2016, the profit margin will most likely improve - that is, salary of FPT's engineers are paid less than those of RWE-.

The long-term growth prospect of software outsourcing is still substantial, because:

(1) Vietnam is becoming one of the top destinations of trust services for business process outsourcing (BPO). According to the rating-based BPO Index and the Shared Service Location Index, built by Cushman & Wakefield and ranking software outsourcing countries in term of business conditions (30%), risks (20%) and costs (50%), Vietnam is the country the best destination in the Asia - Pacific region, especially in terms of cost. Service costs in Vietnam are quite competitive, at about 40% lower than the costs for the same services in China and India.

(2) FPT Software market share in the world market for software outsourcing is still modest. According to forecasts by Gartner Inc., total global IT spending may reach about USD981 billion and spending for software outsourcing about USD299 billion in 2015. With the current market share of around 0.4% and with the advantage of low cost, FPT Software still has plenty of room to grow.

Exhibit 4: FPT's 2014 software outsourcing revenue (VND bn)

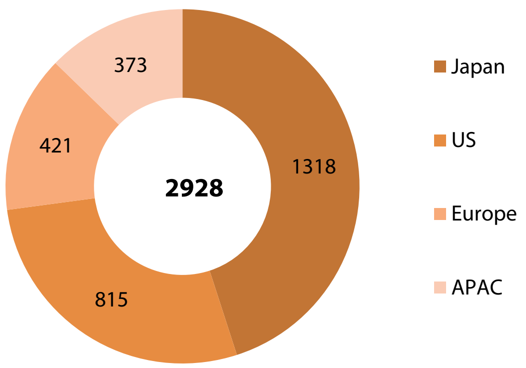
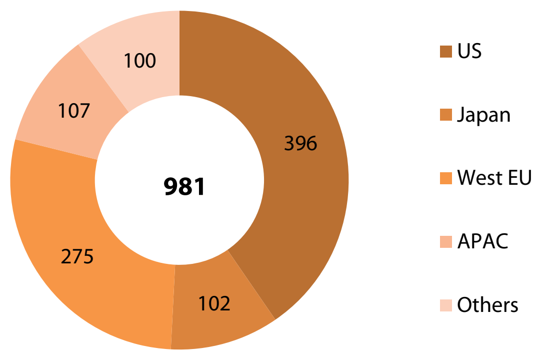


Exhibit 5: Gartner Inc.'s forecast of global IT spending in 2015 (USD bn)



Source: Rongviet Research, Annual report 2014 of FPT

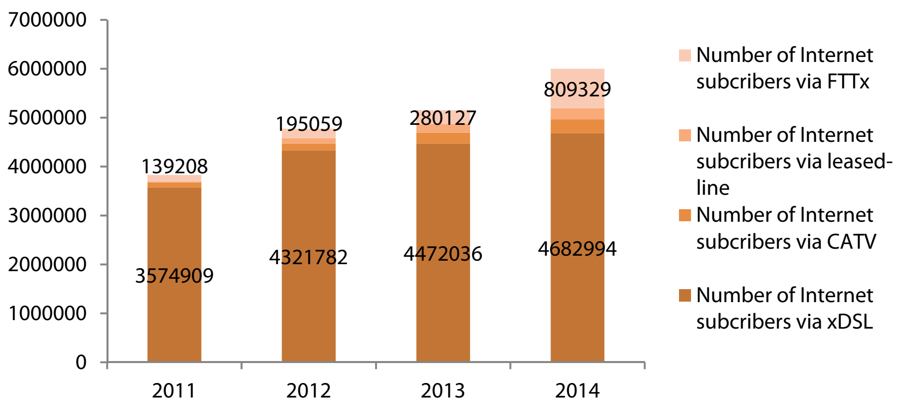
The US and Japan have been forecasted to be the world's largest IT spenders, accounting for about 50% of total global spending on IT in 2015. Therefore, we expect the revenue of FPT Software in these two markets to continue to witness strong growth. In the European market, revenue growth is projected around 37.2%, of which 50% will come from the contribution of RWE IT Slovakia. FPT Software's 2015 revenue is expected at VND3,801 billion in, up 29.8% yoy and PBT at VND646.2 billion, up 24.7% yoy, meaning the PBT margin will shrink a little more to 17% .

Telecommunications services: Margins may not recover in 2015

Telecommunication services witnessed a sharp drop in PBT margin in 2014 and 1Q2015Q1 due to additional depreciation cost from the fiber optic project. FPT has planned to invest around VND1,050 bn to replace copper cables with fiber optic cables in 2014 (VND600 billion) and 2015 (VND450 bn). As fiber optic cables generally have a useful life two years, total depreciation will increase in 2014, 2015 and 2016 where we believe 2015 will see the highest surge in depreciation expense.

Given their many advantages as broadband transmission speed is fast, stable, high security, etc., fiber optic cables serve well the needs of not only individual users (home entertainment) but also businesses (data storage, hosting...). Internet access services using FTTx (fiber optic) is increasingly popular, especially in the major cities. Data from the Department of Telecommunications in fact showed a breakthrough in fiber optic cable subscription growth in 2014.

Exhibit 6: 2014 internet subscriptions by connection type



Source: 2014 white book and VNTA, Rongviet Research collect

As seen in the graph above, xDSL has been the most popular form of fixed-line broadband Internet access. However, this structure has been shifting gradually from 87% of xDSL and 5.4% of FTTx in 2014 to 74.4% of xDS) and 17% of FTTx in 1Q2015. In Q1, FTTx subscriptions grew 31.7% while those of xDSL fell 0.2% from the end of 2014. We expect the trend will continue strengthening in the upcoming periods. With nearly 4.7 million DSL subscribers, the opportunity for deeper penetration of FTTx is enormous.

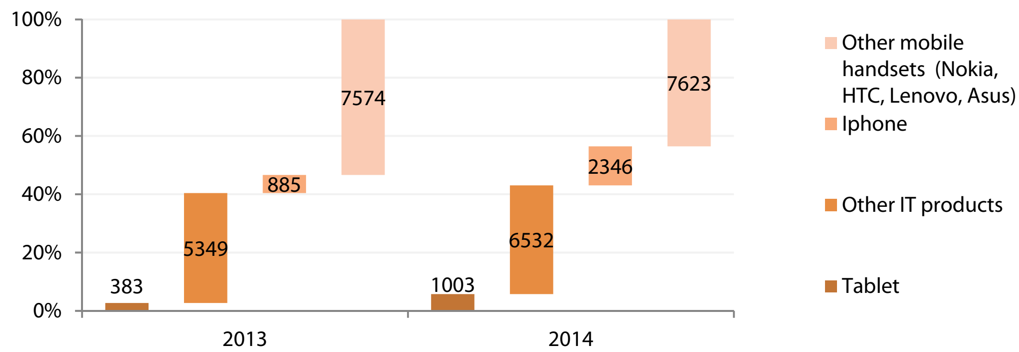
The market share of FPT Telecom in fixed broadband internet services reached 26.8% at the end of 2013. We estimate the share increased slightly 27.6% in 2014, coupled with a 20-percent growth rate in the number of subscribers. However, the average revenue per subscriber (ARPU) grew only a slight 1%. We expect the number of broadband Internet subscribers will grow about 17% in 2015 and ARPU growth will be better in 2014, because FTTH subscriber fees are generally higher than those of xDSL.

However, as mentioned above, 2015 will see a strong increase in depreciation expense from fiber optic project. Therefore, the aggregate profit margin of telecom services is expected to continue declining to 18.5% from 21.5% in 2014. Total revenue for this division may reach VND4,652 bn (+20% yoy) and PBT about VND860.6 bn (+3.2% yoy).

Distribution of IT products and mobile handsets: A slowdown

FPT Trading's 2014 revenue comprised 42.5% of IT products sales and 57.5% of mobile handset sales. Iphone and tablets offered the best sales growth and thus made up the largest parts of total distribution revenue. Specifically, Iphone sales accounted for 23% of mobile sales, up by 165% yoy and tablet sales 14% of IT product sales, d up by 162% yoy.

Exhibit 7: FPT Trading revenue of by product (VND bn)



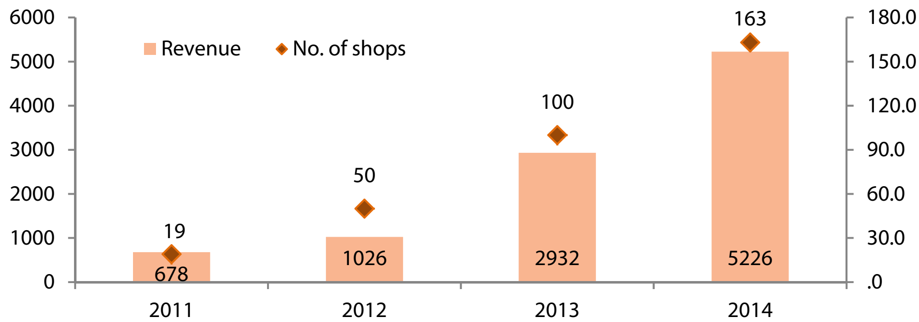
Source: Rongviet Research database

In 2015, we expect revenue from the distribution of Iphones and mobile products (tablets, phablets) to see positive but growth slowed as compared to 2014. The pace of expansion of revenue from the distribution of other products should remained stable but at a relatively low level. 2015 total distribution revenue is forecasted to increase 17.7% and EBT 14.5% to VND20,596 billion and VND627.2 billion.

Retail: Sales growth will be in line shop expansion

Retail posted the highest sales growth in all business areas, with CARG of 66.6% for the period between 2011 and 2014 thanks to the fast expansion of the FPTShop network in last two years. In the first four months of 2015, 37 new stores were added, bringing the total number of FPTShops to 200 stores.

Graph 8: FPT Retail revenue (VND bn) and number of FPTshop (2011 – 2014)



Source: Rongviet Research database

We expect 23 more stores in 2015. Revenues and corresponding PBT are projected to grow by 60% and 50% to VND8,372 billion and VND61.5 billion respectively.

At 2015 AGM, Chairman Truong Gia Binh mentioned the possibility of FPT's parting the the distribution and retail businesses for full focus on technology and telecom development. Such divestment, in our view, will mostly likely result in a sharp drop in total revenue; yet the decline of profits will be much less significant. However, FPT then said the divestment plan was just a suggestion in the long term and thus not something to expect in 2015 or 2016.

FPT IS: Refreshed hopes for recovery

In 2014, FPT IS (including software solutions, system integration and IT services) reported revenue and PBT down by 6.2% and 52% respectively a budget cut for IT spending in both the public and private sectors.

Exhibit 9: FPT IS revenue growth

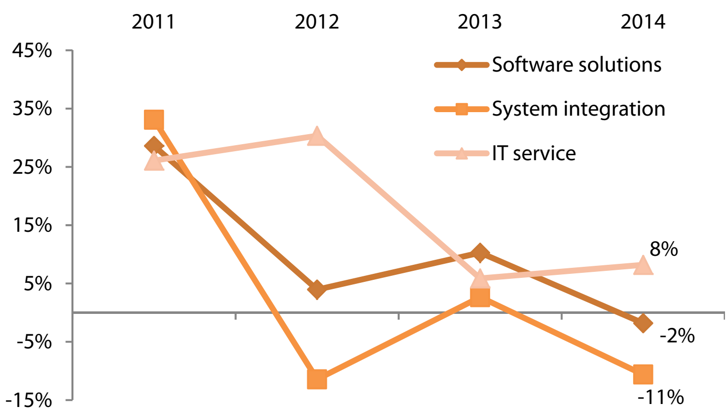
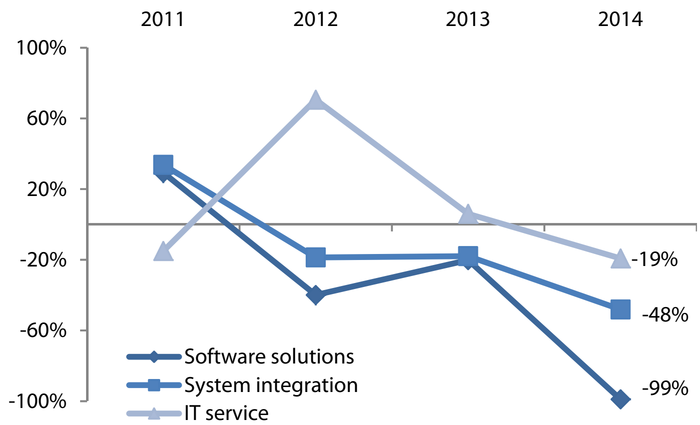


Exhibit 10: FPT IS PBT growth



Source: Rongviet Research database

However, we expect the business activities of FPT IS will be better in 2015 for following arguments:

In the public sector, the Prime Minister issued at the end of 2014 Decision No. 80/2014 / ND-TTg on the pilot scheme for IT service outsourcing in public agencies. The legislation is not just a government action aiming to remove difficulties in the funding for IT applications in public agencies, but also a suggestion that may turn the business attention of software solution and system integration service providers like FPT.

In the private sector, business conditions are seen to improve drastically from 2014 (Rongviet Research's forecast of 2015 economic growth is 6.04%). This should motivate firms to spend more on IT in order to optimize production and management processes. In the banking sector where FPT has some large clients, the investment in cutting-edge IT systems is essential to the expansion of retail banking.

For FPT, the work backlog of FPT IS at the end of 2014 amounted to VND2,650 billion, significantly higher than the average of VND1,500-1,700 billion in 2013 and 2014. This means FPT IS will have a lot to do in 2015.

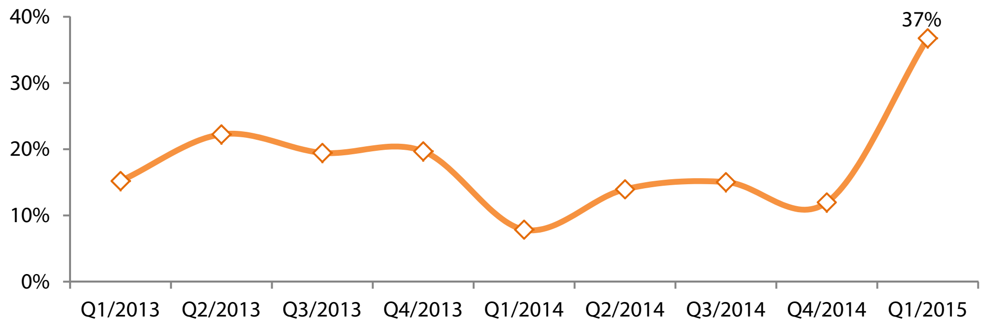
By 2015, we expect total revenue of these three sectors to reach VND4,609 billion (+12.1% yoy) and PBT VND353 bn (+59% yoy).

Digital Content: PBT margin is seen to improve as FPT steps away from online gaming and e-payment

2014 earnings of digital content were quite disappointing with revenue and PBT falling by 3.5% yoy and 27% yoy due to unfavorable situations of the online gaming and e-payment businesses. We estimate these two segments lost about VND50 billion in 2014. Following a contraction in 2013, online advertising reported some recovery where revenue and PBT increased by 7% yoy and 4% yoy respectively.

Since 2015, FPT shut down its online gaming and e-payment businesses. Thus, revenues and PBT of digital content will see the main contribution from online advertising. We expect the business to grow by 10% (to VND367.3 billion) in term of revenue and 6.3% (to VND161.6 billion)in term of PBT in 2015.

Exhibit 11: Variation of Digital content's PBT margin (2013Q1 – 2015Q1)



Source: RongViet Research database

The performance of FPT's IT (excluding software outsourcing) and distribution-retail divisions, have exhibited strong correlation with economic growth and IT spending of the public and private sectors. Hence, with a forecast of more optimistic economic growth in 2015, we expect FPT's net revenue to grow by 16.4% to VND40,892.7 billion and PBT 17.8% to VND2,897.6 billion.

In 2015 AGM, FPT's shareholders passed cash dividend of 20% of share value and stock dividend of 15% for FY2014 and 20% cash dividend for FY2015. The Company has advanced half of 2014's dividend last year and the remaining amount coupled with the stock dividend shares may be paid in 2Q2015. The dividends for FY2015, as the consequence, will be paid on the new number of shares outstanding. At the closing price on 12/05/2015 of VND49,200/share, FPT's dividend yield was about 4.77%.

Table 1: FPT's 2015 business guidance and Rongviet Research's forecasts

	Revenue					Profit-before-tax				
(VND bn)	**2014A**	**2015F**	**% change**	**FPT's guidance**	**% change**	**2014A**	**2015F**	**% change**	**FPT's guidance**	**% change**
IT	**7,038**	**8,411**	**19.5%**	**8,310**	**18.1%**	**740**	**999**	**35.0%**	**998**	**34.9%**
Software outsourcing	2,928	3,801	29.8%			518	646	24.7%		
Software solution	653	699	7.0%			1	77	7,585.8%		
System Integration	2,679	3,054	14.0%			137	156	14.0%		
IT services	779	857	10.0%			84	120	42.8%		
Telecom	**4,728**	**5,019**	**6.2%**	**5,134**	**8.6%**	**936**	**1,022**	**9.2%**	**1,005**	**7.4%**
Telecom service	3,876	4,652	20.0%			834	861	3.2%		
Digital Online	852	367	-56.9%			102	162	58.4%		
Distribution and retail	**22,730**	**28,968**	**27.4%**	**25,510**	**12.2%**	**589**	**689**	**16.9%**	**698**	**18.5%**
Distribution	17,504	20,596	17.7%			548	627	14.5%		
Retail	5,226	8,372	60.2%			41	61	50.0%		
Education	**634**	**647**	**2.0%**	**646**	**1.9%**	**194**	**188**	**-3.3%**	**149**	**-23.2%**
Total	**35,130**	**40,893 (*)**	**16.4%**	**39,600**	**12.7%**	**2,459**	**2,898**	**17.8%**	**2,850**	**15.9%**

Source: Rongviet Research database; (*) Total net revenue

Table 2: FPT's 2015 investment plan

(VND bn)	**Total**	**2,031**
Telecom	Infrastructure and service quality enhancement	600
	New products (fiber optic, payTV, other services)	800
Techonology	Office in Hanoi, Ho Chi Minh and Da Nang	400
Education and others	School construction in Hanoi and Ho Chi Minh	150
	Others	81

Source: Rongviet Research collecting

Outlook

Business performance in 1Q2015 was announced positively with revenue growing 30% and PBT 11% from the previous year. Much as we expected, the IT sector has showed the first signs of recovery. Sales growth of the telecom sector remained negative due to the shut-down online gaming and e-payment businesses and shrunk PBT margin as the result of fiber optic project depreciation. For 2015, we expect the IT and distribution-retail sectors to be main growth engines of FPT. 2015's net-profit-after-tax is forecasted at VND1,861 bn, up by 18% yoy and basic EPS at VND5,418.

Operating efficiency indicators (ROE, ROA) of FPT have declined for 3 consecutive years (2012-2014) due to cyclical nature of the firm's business activities. With encouraging forecasts of economic growth and public and private sector investment spending in 2015, FPT's businesses have some tailwinds to recover. Therefore, overall operating efficiency and profitability are both seen to improve from this year.

We use the relative valuation method (P/E) to determine fair value of FPT's per-share equity. As the firm is the market leader in almost all of its business segments and its stock preferred by foreign investors, we believe it is reasonable for FPT to have the P/E ratio of VNIndex (12.5x) at a discount of 10% for the firm's particular characteristics. The resulting P/E for FPT is about 11.3x and reasonable price of the stock is VND60,900/share, 23.9% higher than closing price on 12/05/2015. Therefore, we recommend **ACCUMULATE** the stock in the **LONG TERM**. Also, foreigner ownership in FPT has reached the limit although it is one of the stocks preferred by foreign and institute investors. Therefore, information related to the lifting of the limit of foreigner ownership in public will almost certainly be an intermediate boost for FPT's stock price.

Exhibit 02: Key financials

Y/E - (VND bn)	FY2012	FY2013	FY2014	FY2015F
Net sales	24,594	27,028	32,645	40,893
% chg	-3.1	9.9	20.8	25.3
Net profit	1,540	1,608	1,632	1,863
% chg	-8.4	4.4	1.5	14.2
Net margin (%)	6.3	5.9	5.0	4.6
ROA (%)	10.6	10.1	8.1	7.9
ROE (%)	26.3	24.0	21.6	21.5
Basic EPS (VND)	5,599	4,675	4,746	5,418
Diluted EPS (VND) (**)	5,597	4,674	4,127	4,711
Book value (VND)	22,564	26,184	22,997	23,880
Dividend (VND)	2,000	2,000	3,000	2,000
P/E (x)*	6.4	7.3	10.4	9.1
P/BV (x)*	1.6	1.3	2.1	2.1

*Source: Source: NTP Financial statement, RongViet Securities' compilation and estimates, *As of 12/05/2015*
(**) EPS adjusted to stock dividend

BRIEF 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 which 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 / Return Potential	BUY	ACCUMULATE	NEUTRAL	REDUCE	SELL
Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
Long-term (over 6 months)	>30%	15% to 30%	-10% to 15%	-15% to -10%	<-15%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including: brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Satra, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

Network

Headquarter

Address: Floor 1-2-3-4, Viet Dragon Tower, 141 Nguyen Du, Ben Thanh Ward, Dist.1, Tp.HCM

Phone: 84.8 6299 2006   Fax: 84.8 6291 7986

Website: www.vdsc.com.vn

Ha Noi Branch

2C Thai Phien – Hai Ba Trung District – Ha Noi

Nha Trang Branch

50Bis Yersin - Nha Trang

Can Tho Branch

08 Phan Dinh Phung –Cần Thơ

DISCLAIMERS

This report is prepared in order to provide information and analysis to Rong Viet's clients only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase of subscribe for any investment. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. The readers should be aware that Rong Viet may have a conflict of interest with investors when does this research. Investors are advised make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. Rong Viet will not take any responsibility for any loss/damages occurred as a result of using the information herein.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

The information herein is believed by Rong Viet to be reliable and is based on public sources believed to be reliable. We do not warrant its accuracy or completeness. Opinions, estimations and projection expressed in this report represent the current views of the author as of the original publication date appearing on this report only and the information, including the opinions contained herein, are subject to change without notice.