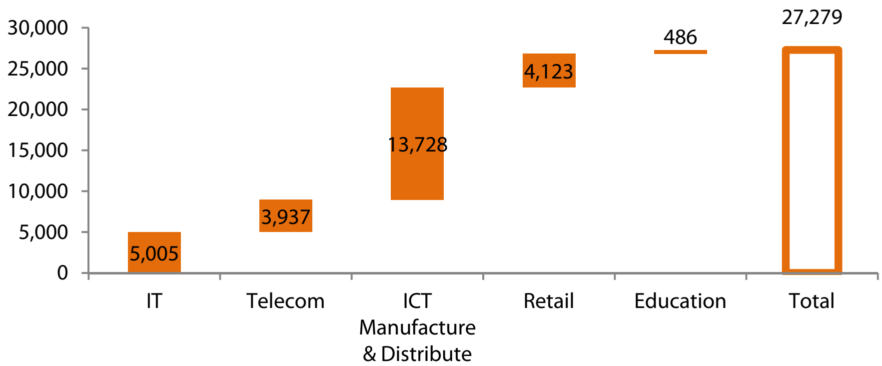
FPT GROUP (FPT – HNX)

Growth driver expected from retails

Ten-month gross margin was posted lower as the IT sector was still depressed and the conversion to fiber-optics incurred more expenses. In ten months to October, total net revenue reached VND27,296 billion and profit-before-tax (PBT) was VND2,059 billion, up by 22% yoy and 0.4% yoy respectively. Ten-month ITC distribution and retail sales, which made up 65.4% of total revenue, were up 29% yoy, resulting in a 22-percent increase of net revenue over a year earlier. In the IT & telecom business, software development and telecom services also had good sales growths, or 27% and 18%, respectively.

Graph 01. Ten-month revenue of business segments (VND bil)



Source: FTP, Rongviet Securities database

FPT's gross profit margin, however, was down from above 20% in 2013 to around 18.6% in ten months ended October 2014 because of (1) a lower profit margin for the IT sector and (2) the incurrence of expenses during the implementation of the fiber-optic conversion project. Specifically, the domestic IT market was still in difficulties as both public and private businesses have showed little willingness to allocate a larger budget for IT investment, which drove (1) system integration revenue down by 10% yoy and PBT 29% yoy and caused (2) IT service revenue to drop 1% yoy and PBT 26% yoy. Software development still performed well thanks to offshore projects but the profit margin was recorded lower and PBT was down 7% yoy as the consequence.

Particulars (VND bn)	**Q3-FY14**	**Q2-FY14**	***+/- qoq***	**Q3-FY13**	***+/- yoy***
Net revenue	13,477	10,685	26.1%	12,001	12.3%
NPAT	389	428	-9.0%	331	17.7%
EBIT	649	692	-6.3%	596	8.8%
EBIT margin	4.8%	6.5%	-167bps	5.0%	-16bps

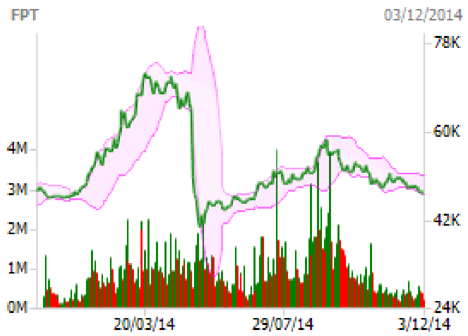
Source: FPT Financial statement, RongViet Securities' compilation and estimates

ACCOMULATE

CMP (VND)	47,700
Target Price (VND)	61,000
Investment Period	Long-term

Stock Info

Sector	Technology
Market Cap (VND bn)	16,408
Beta	343,981,599
Free float (%)	1.3
52 weeks High	77.4
52 weeks Low	58,500
Avg. Daily Volume (in 20 sessions)	36,000



Peformance (%)

	3M	1Y	3Y
FPT	-7.0	27.4	74.8
Technology	-13.6	-1.4	N/A
VN30 Index	-9.6	7.9	N/A
VNIndex	-11.1	12.0	48.3

Shareholders pattern (%)

Truong Gia Binh	7.1
State capital investment Co, Ltd (SCIC)	6.1
Red River Holding	5.7
Bui Quang Ngoc	3.7
Foreigner Investor Room (%)	0.0

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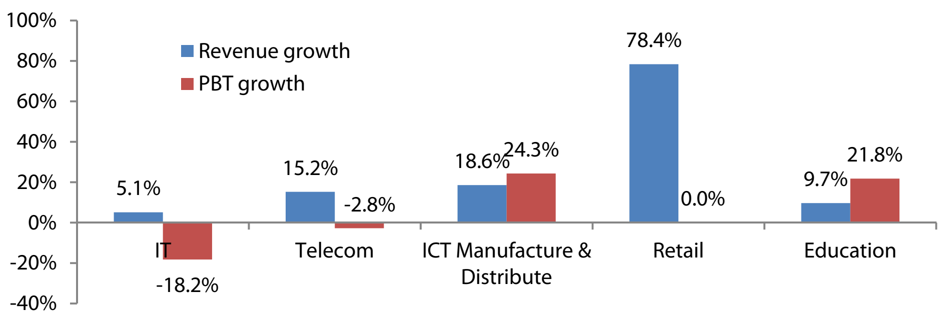
In the telecom sector, FPT spent about VND500 billion in the fiber-optic project in the ten months through October, which resulted in a decreased profit margin for the segment. Even though revenue growth was still positive at 15% yoy, PBT growth was down 6% yoy. The total budget for this project is estimated around VND1,100 billion, from which an amount about VND650 billion will be disbursed in 2014 and the rest in in 2015.

ICT distribution & retail bolstered revenue growth. At the end of Oct 2014, the number of FPTShop was 150, which is consistent with the Company's 3-year plan. FPT intends to open ten more shops in last two months of 2014 and 50 more shops in 2015. FPT's retail shops have been running quite efficiently this year with the average revenue of a single shop around VND3.6 billion/month, up by 9% as compared to the previous year's average.

10M2014 retail sales reached VND4,123 billion, up by 77% yoy and PBT was VND36 billion (FPT recorded a loss of VND28 billion in this segment in 10M2013). Separately, distribution revenue was VND13,729 billion and PBT VND447 billion, up by 19% yoy and 21% yoy respectively.

Graph 02. Revenue and PBT growth (yoy) of all segments in 3Q2014 (%)



Source: FTP, Rongviet Securities database

In last two months of 2014, we expect ICT distribution and retail revenue to continue growing fast as the peak season comes and the FPT have had its target number of shops (150) since October. Also, high sales growth of software development and telecom services will push the Company's consolidate sales growth to a two-digit number in 2014. We revise our sales growth forecast for FPT to 24.6% from the initial forecast of 20%, which translate into 2014 net revenue of VND33,672.2 billion. However, PBT may be a little lower than the whole-year guidance and at around VND2,574.8 billion. Profit-after-tax (PAT) is estimated at VND1,675.7 billion or a diluted VND4,873 per share.

Exhibit 01: Business result in ten-month, 2014 guidance and forecast

'VND bn		Revenue			PBT	
	Actual 10T2014	**2014 guidance**	**2014 forecast**	**Actual 10T2014**	**2014 guidance**	**2014 forecast**
IT	5,005	7,561	6,564	581	1,057	753
Telecom	3,937	4,685	4,764	844	965	1,029
ICT Manufacture & Distribute	13,728	15,104	16,670	448	482	553
Retail	4,123	3,988	5,085	36	24	44
Education	486	555	573	142	143	164
Total	**27,279**	**31,893**	**33,656**	**2,051**	**2,671**	**2,543**

Source: FTP, Rongviet Securities database

2015 outlook: strong revenue growth will sustain. The recovery of the IT sector depends a lot on economic conditions and IT spendings of the public and private sectors. We expect IT investments, especially in banking sector in 2015, to be well above that in 2014. FPT, as an experienced domestic IT product developer, stands to be the first to benefit from that trend. Besides, with order backlog by the end of October 2014 at about VND3,838 billion, we expect FPT's to witness stronger IT revenue growth in 2015.

ICT distribution and retail have had some successes so far in 2014, i.e. highest revenue and PBT growth of all segments. The plan to widen retail shop network to 210-220 shops in order to gain economy of scale and reduce the fixed-cost-to-revenue ratio will help the Company sustain the current rate of revenue growth while improving its gross profit margin.

The telecom sector is expected to remain in an average growth rate of 18% yoy. However, gross profit margin may continue to be affected by spendings related to the fiber-optics project.

Outlook:

FPT just reported ten-month sales growth of 22% yoy, which is higher than our earlier forecast of 20% yoy thanks to a positive trend of ICT distribution and retail revenue growth. Hence, in our model, we adjust 2014 sales growth forecast from 20% yoy to 24.6% yoy, which translate in to net sales of VND33,672 billion. 2014's PBT is expected at VND2,574 billion and PAT at VND1,675.7 billion or a diluted VND4,873 per share. 2015 EPS is forecasted at VND5,257 billion. At the close price as of November 28th of VND48,100, the forward P/E ratio for FPT is around 9.9x for FY2014 and is 9.1x for FY2015.

FPT is a leading technology company and also among largest stocks in the HSX by market capitalization. Thus, we refer to the P/E ratio of VNIndex, around 13.9x, as a benchmark P/E for FPT. Considering the stock's very own characteristics, we apply a discount of 10% to the said multiple to arrive at P/E ratio of 12.5x, which suggests a reasonable price for FPT of VND61,087/share. At the close price at November 28th of VND48,100, FPT is trading 27% lower than the target price. Therefore, we rate the stock as a ACCUMULATE in the LONG-TERM.

Exhibit 02: Key financials

Y/E Sep (VND bn)	FY2012	FY2013	FY2014E	FY2015F
Net sales	24,594	27,028	33,672	36,081
% chg	-3.1	9.9	24.6	22.0
Net profit	1,540	1,608	1,676	1,808
% chg	-8.4	4.4	4.2	7.9
Net margin (%)	6.3	5.9	5.0	5.0
EPS (VND) (**)	10.6	10.1	8.6	8.0
Book value (VND)	26.3	24.0	20.8	19.2
Dividend (VND)	4,503	4,684	4,873	5,257
P/E (x)*	22,564	26,184	25,823	29,078
P/BV (x)*	2,000	3,000	2,000	2,000
ROA (%)	6.0	8.0	9.8	9.1
ROE (%)	1.5	1.8	1.8	1.6

*Source: Source: NTP Financial statement, RongViet Securities' compilation and estimates, *As of 02/12/2014*
(**) EPS ajusted to 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%

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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

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