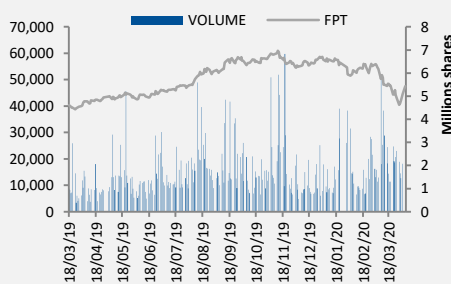


BUY (maintain)**FPT Group (HSX: FPT)**

Report date	Apr 07, 2020
Current price	VND 47,300
Previous target price	VND 71,000
Target price	VND 65,000
Upside	37%
Bloomberg	FPT VN
Market cap	USD 1,254 mn
52 weeks movement	VND 42,300 – VND 62,300
Average daily value	USD 4.24 mn
FOL	49%
Current FO	49%

Minimal effect from the pandemic**Our takeaway**

- In 2M20, FPT's revenue and EBT increased by 18% yoy and 22% yoy respectively. Overall, 1Q20 EBT growth rate is expected to be lower than 22% (1Q19 + 23% yoy) due to higher employees cost and the impact of Coronavirus disease in Mar 2020.
- For FY20, we decreased our forecasted revenue by 3% and net profit by 6.6% compared to our previous forecast as we lower results of software outsourcing segments. Our target price is VND 65,000/share (-9.1% from last report).

Price movement

Stock performance	1M	3M	12M
FPT (%)	-24%	-28%	-8%
VNIndex (%)	-23%	-31%	-39%

Source: Bloomberg

Major Shareholders

Truong Gia Binh	7.08%
SCIC	5.90%
GIC/Government of Singapore	3.50%
Bui Quang Ngoc	3.41%

**Pham Viet Duy**

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2M20 software outsourcing results maintained at high base. This segment reported an 31.4% yoy increase in revenue and an 32.2% yoy increase in EBT in 2M20. The strong growth rate of the US, EU and APAC markets offset the lower than anticipated growth rate of Japan market. However, FPT will face revenue headwind in the US and EU markets from Mar 2020 as the outbreak has begun to significantly affect these markets. Therefore, we forecast 1Q20 revenue and EBT growth rate in software outsourcing division will be around 29% (1Q19 + 37.5% yoy in revenue and + 39.6% yoy in EBT).

Lower software development outsourcing forecasts. We expect a 30% yoy increase in revenue and a 28% yoy increase in EBT for this segment in FY20, which are lower than our previous estimation of 32% and 29% growth rate in revenue and EBT respectively. It comes from (i) lowering growth rate in revenue per employees from 9.5% to 8.2% and (ii) reducing the number of employees from 19,500 to 18,975 by the end of FY20 (FY19 15,500 employees). In our view, both processes of negotiating new contracts and recruitment, training new employees will be affected by the disease situation.

Telecommunications will be the least affected by the pandemic among FPT's segments. We expect a 13.8% yoy increase in revenue and a 22% yoy increase in EBT for this segment in FY20, higher than our previous estimation of 13.5% and 20% growth rate in revenue and EBT respectively. Responding to the outbreak condition, high demand of online education and working from home will lead to the trend of upgrading internet connection and increasing the number of users. Thus, we project the number of users to grow by 11.5% yoy (previous forecast of 11%, FY19 12%) and average revenue per user to slightly decrease by 1% yoy (previous forecast of -2%, FY19 -2% yoy).

Valuation

We reduce our target price by 9.1% to VND 65,000/share (+37% upside) from VND 71,000/share, taking into account the Coronavirus effect. Despite the Mar 2020 results coming in under that of 2M20, we expect the report will still feature positive growth numbers, which lend a helping hand for FPT to stand out from the overall market. The stock price has overreacted to the disease situation, leading to FY20F P/E of 7.7x, lower than its five-year historical P/E of 9.8x. Hence, we maintain our buy recommendation.

Unit: VND billion	FY19	FY20F	FY21F	FY22F
Revenue	27,717	32,743	38,333	45,107
EBIT	4,118	5,538	6,539	7,766
Net profit	3,912	4,587	5,377	6,331
Net profit (basic)	3,912	4,587	5,377	6,331
EPS (VND)	4,623	5,496	6,526	7,817
EPS growth rate (%)		18.9%	18.7%	19.8%
P/E (x)	9.15	7.70	6.48	5.41
EV/EBITDA (x)	8.89	6.61	5.60	4.72
Dividend yield (%)	4.13%	5.17%	6.20%	7.23%
P/B (x)	2.38	2.34	2.04	1.75
ROE (%)	22.3%	24.8%	25.4%	24.0%
Net debt/equity (%)	56.0%	52.3%	52.0%	51.8%

Source: MBS Research

Financials and Valuation Summary

Income Statement (VND bn)					Ratios				
	FY19	FY20F	FY21F	FY22F		FY19	FY20F	FY21F	FY22F
Revenue	27,717	32,743	38,333	45,107	Valuation				
Cost of good sold	17,006	19,445	22,709	26,651	EPS	4,623	5,496	6,526	7,817
Gross profit	10,711	13,298	15,624	18,456	Book value per share (BVPS)	20,691	23,688	27,714	32,531
Financial income	690	295	345	406	P/E	9.15	7.70	6.48	5.41
Financial expenses	628	733	858	1,009	P/B	2.4	2.3	2.0	1.7
SG & A expenses	6,593	7,760	9,085	10,690	P/S	1.2	1.0	0.9	0.7
Profit before tax	4,665	5,444	6,389	7,533	Dividend yield	4.13%	5.17%	6.20%	7.23%
Profit after tax	3,912	4,587	5,377	6,331	Profitability				
Profit after tax for parent company	3,136	3,729	4,427	5,303	Gross profit margin	39%	41%	41%	41%
Not-controlling interest	776	859	950	1,029	EBITDA margin	41%	40%	40%	40%
					Net profit margin	14%	14%	14%	14%
					ROE	22%	25%	25%	24%
					ROA	12%	14%	13%	13%
					Growth				
					Revenue growth		18%	17%	18%
					Profit before tax growth		17%	17%	18%
					Profit after tax growth		17%	17%	18%
					EPS		19%	19%	20%
					Total Asset		0%	20%	20%
					Equity		14%	17%	17%
					Liquidity				
					Current ratio	117%	116%	116%	117%
					Quick ratio	103%	93%	94%	95%
					Debt/Total assets	23%	25%	24%	24%
					Debt/Equity	56%	52%	52%	52%
					Interest coverage	14.78	20.15	37.81	47.28
					Operating efficiency				
					Receivables turnover	4.3	5.0	5.3	5.0
					Days sales outstanding	85.9	73.0	69.5	73.0
					Inventory turnover	13.2	11.5	11.5	11.4
					Days sales of Inventory	27.6	31.7	31.8	32.0
					Payables turnover	6.4	7.0	7.0	7.0
					Days payables outstanding	57.5	52.1	52.1	52.1

Balance Sheet (VND bn)				
	FY19	FY20F	FY21F	FY22F
Current assets	19,038	20,400	23,820	28,063
I. Cash & cash equivalents	3,458	3,139	3,804	4,707
II. Short-term investments	6,778	6,549	7,667	9,021
III. Receivables	6,520	6,549	7,667	9,021
IV. Inventory	1,284	1,688	1,979	2,334
V. Other current assets	998	2,475	2,703	2,980
Non-current assets	11,676	11,679	14,601	17,959
I. Long-term receivables				
II. Fixed assets	7,488	8,405	10,768	13,448
1. Tangible fixed assets	6,294	8,405	10,768	13,448
2. Intangible fixed assets	1,194	0	0	0
III. Property	0	0	0	0
IV. Long-term work in progress	1,174	1,174	1,174	1,174
V. Long-term investments	2,497	1,721	2,091	2,460
VI. Other non-current assets	517	379	568	877
Total assets	30,714	32,079	38,421	46,022
Liabilities	16,677	16,009	19,620	23,953
I. Current liabilities	16,327	15,642	19,253	23,586
1. Short-term payables	8,811	7,610	9,851	12,520
2. Short-term borrowings	7,516	8,032	9,402	11,066
II. Non-current liabilities	350	367	367	367
1. Short-term payables	0	0	0	0
2. Long-term borrowings	350	367	367	367
Equity	14,037	16,070	18,801	22,069
1. Share capital	6,784	6,784	6,784	6,784
2. Share premium	76	76	76	76
3. Retain earnings	5,999	8,032	10,763	14,031
4. Other capital	1,179	1,179	1,179	1,179
Non-controlling interest	2,835	3,693	4,643	5,671
Total resources	30,714	32,079	38,421	46,022

Source: MBS

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Rating	When (target price – current price)/ current price
BUY	>=15%
HOLD	From -15% to +15%
SELL	<= -15%

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