

Vietnam: Technology
27 May 2024
FPT VN
BUY
Upside +26.1%
Close 24 May 2024

Price	VND 131,900
12M Target	VND 166,359
Previous Target	VND 120,740
Change	+37.8%

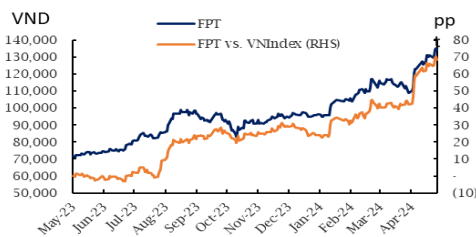
What's new?

- ▶ FPT presented at Yuanta's Global AI Investment Forum on 24 May.
- ▶ Global software & IT services spending continues to surge.
- ▶ FPT is expanding its tech services capacity to benefit from this positive trend.

Our view

- ▶ We reiterate BUY and increase our target price by +38% to VND166,359.
- ▶ Our new 2024–26 EPS forecasts are +10% higher than the consensus.
- ▶ Risk: FPT is not immune to a market correction, but this would be a great opportunity to add to positions.

Company profile: FPT provides a wide range of value-added services in Technology (60% of revenue), Telecommunications (30%), and Education (10%). FPT is Vietnam's leading IT services provider by far, with US\$1bn in Global IT service revenues in 2023. In addition, FPT is Vietnam's third largest telecommunications services company, and it is among a handful of firms that have established educational facilities to support a skilled workforce

Share price performance relative to VNI


Market cap	US\$6.7 bn
6M avg. daily turnover	US\$10.8mn
Outstanding shares	1,270mn
Free float	85.0%
FINI ownership	49.0%
Major shareholders	15.0%
Net debt/Equity	1.9%
2025E EV/EBITDA	9.5x
2025E P/E	17.1x
Trading platform	HOSE
FOL Room	0.0%

Financial outlook (VND bn)

Year to Dec	2023A	2024E	2025E	2026E
Sales	52,618	66,479	84,931	108,245
Op. profit	8,452	11,779	14,795	18,667
Net profit	6,465	8,575	11,181	14,654
EPS (VND)	4,641	6,155	8,024	10,523
EPS chg (%)	21.6	32.6	30.4	31.1
P/E (x)	29.6	22.3	17.1	13.1
ROE (%)	23.4	26.2	28.4	30.2
Div. yield (%)	1.5	1.5	1.5	1.8
DPS (VND)	2,000	2,000	2,000	2,500

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Bloomberg code: YUTA

FPT Corporation (FPT VN)
Beneficiary of Global IT Spending Surge

Global IT spending momentum to increase. Gartner projects global IT spending to reach USD5.0 trillion in 2024 (+6.8% YoY), driven by software and IT services. This expected growth is more than double the +3.3% expansion in 2023. IDC forecasts global digital transformation spending to reach USD3.4 tn in 2026E, implying 16.3% 2022–26 CAGR.

FPT is expanding to capture growth, with substantial planned investments in infrastructure and human resources. Specifically, FPT plans to invest VND 6.5 tn in 2024E (+62.5% YoY) to expand its technology services infrastructure and capabilities.

Modest 2024 guidance. 2024 guidance for revenues is VND61.9 tn (+17.5% YoY), with PBT to rise by +18.5% YoY to reach VND10.9 tn. More specifically, 2024E technology segment revenue guidance is set at VND38.2 tn (+21.3% YoY). We consider these targets to be conservative.

Solid 4M24 results. Consolidated YTD revenue growth of +20.6% YoY was primarily driven by global IT services sales growth of +29% YoY in 4M24. Preliminary 4M24 PBT reached VND3.5 tn (+19.7% YoY).

Our new 2024–26 EPS estimates are 9.6% higher than Bloomberg consensus on average. We now forecast 2024E–28E revenue CAGR of 25.8%, up from our previous 24.6% forecast, after boosting our assumptions for technology and telecom revenues. Our 2024E–28E PATMI growth forecasts imply 28.8% CAGR, up from the original 27.2%.

We reiterate our BUY recommendation and raise our target price by +38% to VND 166,359 per share, implying 12-month TSR of 27.6%. Our new target price is based on a 50–50 split of our FCFE model and comparable P/E multiples. Admittedly, FPT's share price is up +45% YTD and almost +49% since our [initiation](#) in Sep 2023. Profit-taking is not impossible, but any correction would be a great opportunity to add.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Global IT spending resume strong growth

Increased global IT spending. Gartner projects global IT spending to reach almost USD 5 trillion in 2024, for an increase of +6.8% YoY, largely driven by expected spending on software and IT services. This growth expectation is substantially faster than the actual spending increase of +3.3% YoY in 2023, suggesting that momentum is building.

Specifically, Gartner forecasts software spending to increase by +12.7% YoY to reach USD 1,029bn, with IT services spending estimated to grow by 8.7% YoY to reach USD 1,501bn in 2024.

In addition, IDC estimates that global digital transformation (DX) spending will reach USD3.4 trillion in 2026, representing a four-year (2022–2026) CAGR of 16.3%.

Fig.1: IT spending resume strong growth

Sectors (bn USD)	2023 Spending	2023 Growth (%)	2024 Spending	2024 Growth (%)
Data Center Systems	243	7.1	261	7.5
Devices	700	-8.7	732	4.6
Software	913	12.4	1,029	12.7
IT Services	1,382	5.8	1,501	8.7
Communications Services	1,441	1.5	1,473	2.3
Overall IT	4,679	3.3	4,998	6.8

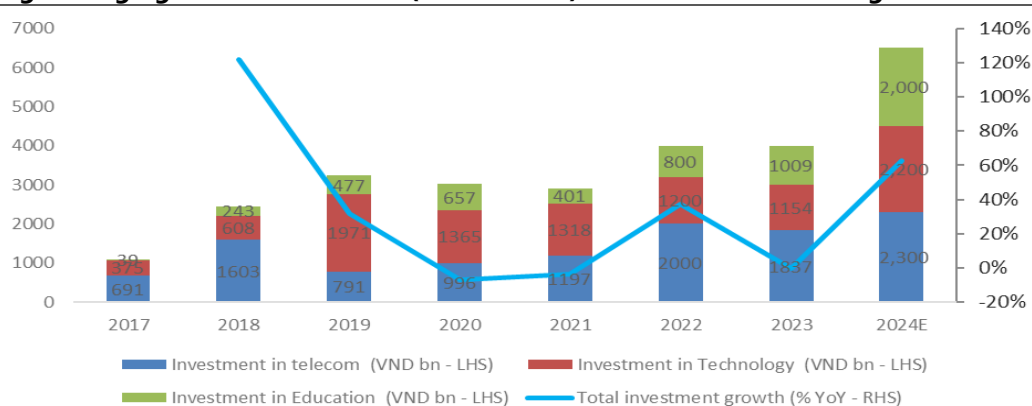
Source: Gartner, Yuanta Vietnam

FPT is expanding its technology capacity to capture this growth. As discussed in our [initiation](#), low cost is FPT's main competitive advantage in the global IT services market. However, FPT is also focused on expanding its technology services capabilities and geographical reach via a series of M&A deals and the increased employment of technologists.

In total, FPT conducted four M&A actions in 2023 and one in 1Q24. In 2023, FPT expanded its workforce by 14% YoY to 25,213 technologists. We believe that this expansion will contribute to the company's rapid growth going forward.

FPT plans to invest a total of VND6.5 trillion in new capacity in 2024E. This would reflect a +62.5% YoY surge in capex investment spread across all three business segments: technology, telecom, and education.

Fig.2: Surging 2024E investment (+62.5% YoY) in all three business segments



Source: FPT, ODS Petrodata

Recent developments

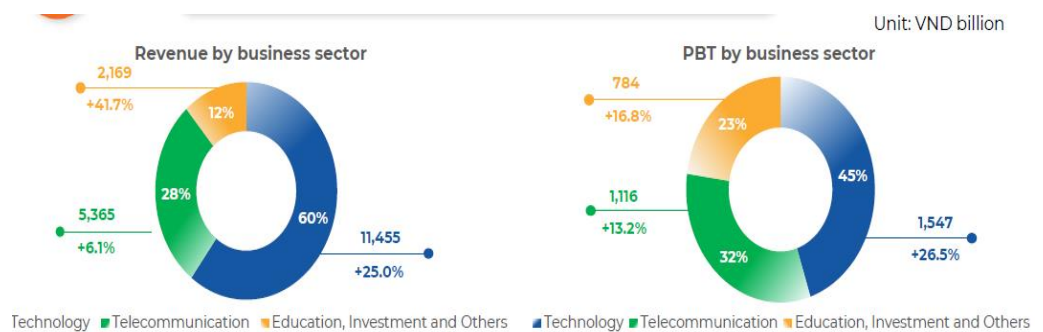
4M2024 results

FPT reported strong 4M2024 revenue growth of +20.6% YoY to reach VND 19 tn. The growth was mainly driven by the technology business. To be specific, FPT reported 4M2024 technology revenue of VND 11.5tn (+25% YoY). In addition, FPT reported a +29.2% YoY increase in Global IT services segment revenue (~ 9,450bn).

4M24 PBT rose by +19.7% YoY to reach VND 3,447bn, mainly driven by the +26.5% YoY jump in technology segment PBT to reach VND 1.6tn. Other segment growth also remains robust:

- 4M2024 Telecom PBT rose by +13.2% YoY to reach VND 1.1tn.
- 4M2024 Education and other businesses PBT rose by +16.8% YoY to reach VND 784bn.

Fig.3: FPT business segments growth remain robust



Source: FPT

Partnering with Nvidia in AI

FPT's partnership with NVIDIA has garnered substantial attention among domestic investors. Our understanding is that FPT's announced US\$200 million investment in its strategic cooperation deal with NVIDIA is to be spread out over five years, but the association has strongly boosted sentiment for FPT's stock in the past few weeks.

Specifically, on April 23 FPT and NVIDIA signed a comprehensive strategic cooperation deal to build an "artificial intelligence factory" (AI Factory) equipped with supercomputer systems powered by NVIDIA's state-of-the-art technology.

On May 9, 2024, FPT took delivery of its first DGX H100 server system from NVIDIA. This is NVIDIA's most advanced server system.

FPT thus should become a service delivery partner in Nvidia's global systems Integration network. FPT has committed to delivering comprehensive software, hardware, cloud computing services, and generative AI solutions to global clients through this partnership.

We have no wish to add to the seemingly endless hype surrounding AI. However, Stanford Institute for Human-Centered Artificial Intelligence projects global AI-related investment to reach US\$ 200bn in 2025. If so, the beneficiaries will extend beyond the creators of AI to include firms -- like FPT -- that provide the required infrastructure: in FPT's case, this includes its cloud and data center services.

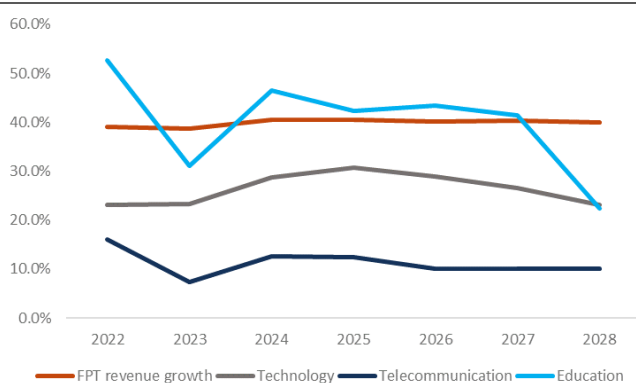
Model revisit: Raising our technology and telecom revenue forecasts

We increase our 2024E–2028E revenue forecasts. Our new forecasts imply cumulative average revenue growth CAGR in this period of 25.8%, up from 24.6% YoY in our most recent published forecasts.

The increase is mainly due to our more bullish assumptions for technology revenue growth, with our new forecasts implying 28% 4-year CAGR (up from 26% in the earlier model) on the back of increased global IT spending.

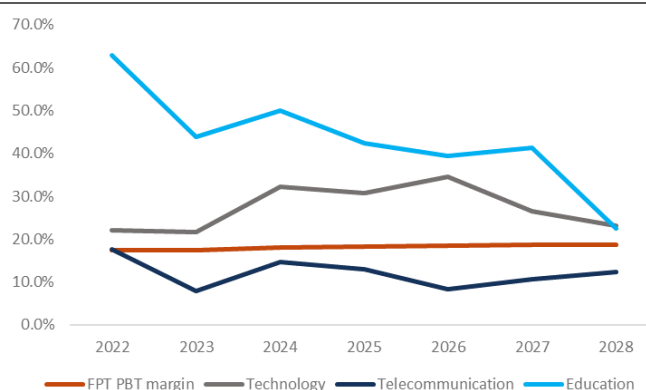
In addition, we raise our average telecom revenue growth CAGR for 2024–2028 to 11.0%, up from 10.5% in the original forecast, driven primarily by expansion in data center services driven by global demand for digital transformation, cloud services, and -- in the longer-term -- increased spending on AI.

Fig.4: Revenue growth forecasts



Source: Yuanta Vietnam

Fig. 5: PBT margin forecasts



Source: Yuanta Vietnam

Our average gross profit margin in 2024E–2028E is 40.3%, up from the original forecast of 39.6%. Thus, our average net profit growth forecast in 2024–2028 is now 28.8% YoY, up from the previous 27.2%.

Our new 2024E revenue forecast is VND 66.5tn, implying growth of +26.3% YoY driven by a +28.7% YoY increase in technology and +46.5% YoY growth in education revenue.

We expect gross profit margin to expand by 1.3 ppt to reach 39.9% in 2024. This drives our 2024 PATMI forecast of VND 8,575bn, implying +32.6% YoY growth.

Our estimated 2024E–2026E EPS is on average 9.6% higher than peers' as outlined in Bloomberg consensus.

Fig.6: 2024 forecast

FY Dec 31 (VND 'bn)	FY2023A	FY2024E New forecast	YoY Change
	VND bn	VND bn	%
Revenue	52,618	66,479	26.3%
Technology	31,449	40,475	28.7%
Telecommunication	15,806	17,798	12.6%
Education	6,173	9,040	46.5%
Others	(810)	(834)	3.0%
Cost of goods sold	(32,298)	(39,942)	23.7%
Gross profits	20,320	26,537	30.6%
Operating expenses	(11,868)	(14,758)	24.4%
Operating profits	8,452	11,779	39.4%
Pretax profits	9,203	12,027	30.7%
PATMI	6,465	8,575	32.6%
Gross profit margin	38.6%	39.9%	+1.3 ppt

Source: Yuanta Vietnam

Valuations: Reiterate BUY

We reiterate our BUY recommendation and raise our target price by +38.0% to VND 166,359 per share, equivalent to **TSR of 27.6%**. Our new target price is based on a weighted approach that applies 50% each to our FCFE model and comparable P/E multiples.

Our new target price represents a –17.5% discount to the consensus target price as indicated by Bloomberg.

Fig. 7: Valuation summary

Valuation methods	Target Price	Weight	Upside
FCFF	174,009	50%	31.9%
PER Multiple	158,709	50%	20.3%
Overall	166,359	100%	26.1%

Source: YSVN

FCFF valuation. We apply a WACC of 9.2% (slightly down from the original 9.5%, which was based on a 5.5% risk free rate), Beta of 0.9, and terminal growth of 3.0%. Applying this discount rate to our cashflow assumptions results in an FCFE-based fair value estimate of VND174,009 (implying 31.9% upside).

Fig. 8: FCFE valuation

FCFE	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	12,174	15,513	19,469	24,669	29,487	34,805	40,337
Less: Tax	(1,838)	(2,366)	(3,063)	(3,916)	(4,727)	(5,626)	(6,584)
add: Depreciation	2,584	3,034	3,530	4,050	4,596	5,169	5,772
less: FCIInvestment (Capex)	(6,960)	(7,656)	(8,422)	(8,843)	(9,285)	(9,749)	(10,237)
less: WCIInvestment	(1,471)	(1,845)	(2,437)	(2,981)	(2,960)	(3,493)	(4,019)
Free cash flow	4,489	6,681	9,078	12,979	17,110	21,107	25,269
Present value	4,489	6,119	7,616	9,974	12,043	13,607	14,921
Present value FCF 2024E-2030E	68,768						
Terminal value	248,777						
PV of terminal value	146,896						
Total present value	215,664						
less: debt	(18,165)						
Add: cash	23,487						
Equity value	220,986						
Outstanding shares (000)	1,270						
Intrinsic value/share	174,009						

Source: YSVN

Our FCFE-based valuation implies a 2025E P/E multiple of 21.7x, which would suggest a 9.5% premium to regional peers. In setting our target price, we apply a 50%-weighting to the median P/E multiple of 19.8x among comparable listed firms in the region, as illustrated in the table below. Applying this P/E multiple to our forecast 2025 EPS for FPT results in a P/E-based fair value estimate of VND158,709.

Notably, this median PER multiple is –11.3% lower than the five-year trailing average PER of the peer group. In other words, we think that tempering the more bullish FCFE-based fair value estimate with a relatively low-PE multiple approach is a reasonably conservative method of establishing our 12-month target price.

Fig. 9: FPT is trading at a -13.5% discount to the regional peer median P/E multiple for 2025E

Tickers	COUNTRY	Market Cap (USD mn)	2025 PER	Five-year average	ROA (%)
HCLT IN Equity	IN	43,621	19.2	20.2	16.2
Wpro IN Equity	IN	29,030	18.1	20.1	9.5
TLKM IJ Equity	ID	18,416	10.5	17.4	8.5
601919 CH Equity	CN	30,624	16.2	N/A	4.9
LTIM IN EQUITY	IN	16,894	23.5	32.6	17.9
TechM IN Equity	IN	15,312	19.8	24.5	5.3
MPHL IN EQUITY	IN	5,270	22.1	26.3	12.1
PSYS IN EQUITY	IN	6,524	32.4	38.2	15.6
TEL PM Equity	PH	5,492	8.5	14.5	4.4
OFSS IN Equity	IN	8,107	24.4	18.7	23.1
T MK Equity	MY	5,135	15.0	19.0	8.1
Coforge IN EQUITY	IN	3,510	22.6	34.3	13.7
TDC MK Equity	MY	2,095	19.3	24.6	N/A
SSOF IN EQUITY	IN	1,805	19.9	22.6	6.5
BSOFT IN EQUITY	IN	2,036	20.9	22.3	17.5
300036 CH Equity	CN	1,043	26.4	N/A	3.3
ZENT IN EQUITY	IN	1,696	19.1	17.5	15.2
			19.8	22	11
FPT VN Equity	VN	6,696	17.1	17.5	12.0

Source: Bloomberg, Yuanta Vietnam

Risks to our view:

Timing is everything. FPT's share price has advanced +45% YTD and almost +49% since our initiation in Sep 2023. A healthy market correction is certainly possible, which we would view as a great opportunity to add to positions in the stock.

Economic slowdown could lead to IT spending cuts. Forecasts of booming IT spending in 2024 aside, a potential global economic slowdown might imply slower-than-expected IT global services spending.

FX fluctuations. ~50% of FPT's revenue is attributable to its global business (4M2024), primarily Japan and the United States. As such, FX fluctuations in the yen and dollar can impact the company's quarterly P&L results (both positively and negatively). But this is not a structural risk, and FPT's balance sheet exposure to FX volatility is low given that its small (USD 9mn) in USD-denominated loans is fully hedged.

Education segment revenues could fail to match our bullish forecasts. Our positive view on FPT's education businesses is reflected in our relatively strong growth forecasts for this segment, which we believe to be meaningfully above the consensus.

Specifically, we expect education revenue to reach VND 31.9tn by 2028, equivalent to +30.0% CAGR in 2024-2028. But segment revenues might not meet our expectations given potential difficulties in the acquisition of sufficient landbank to build schools, economic turbulence, competition from other players, and the ever-present possibility of regulatory risk.

Human resources risks. FPT's strong growth outlook requires the company to hire and train a sufficient number of engineers and other skilled workers: a critical challenge for all IT businesses. Having acknowledged this risk, we should add that FPT has both addressed and benefited from this issue by expanding its education business, which both helps to drive the company's earnings and ensures a steady supply of talent to meet FPT's future HR requirements.

PROFIT AND LOSS (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Revenue	44,010	52,618	66,479	84,931	108,245
<i>Technology</i>	25,521	31,449	40,475	52,900	68,154
<i>Telecommunication</i>	14,730	15,806	17,798	20,008	22,494
<i>Education</i>	4,712	6,173	9,040	12,874	18,464
<i>Others</i>	(945)	(810)	(834)	(851)	(868)
Cost of goods sold	(26,842)	(32,298)	(39,942)	(51,282)	(65,547)
Gross profits	17,167	20,320	26,537	33,649	42,698
Operating expenses	(10,373)	(11,868)	(14,758)	(18,855)	(24,030)
Operating profits	6,795	8,452	11,779	14,795	18,667
Net interest expenses	311	618	(391)	(414)	(38)
Net investments income/(loss)	484	42	191	317	524
Net other incomes	73	91	53	67	86
Pretax profits	7,662	9,203	12,027	15,483	20,041
Income taxes	(1,171)	(1,415)	(1,838)	(2,366)	(3,063)
Minority interests	1,181	1,323	1,614	1,937	2,324
Net profits	5,310	6,465	8,575	11,181	14,654
<i>Core earnings</i>	5,310	6,465	8,575	11,181	14,654
EBITDA	8,628	10,738	14,758	18,548	22,999
EPS (VND)	3,818	4,641	6,155	8,024	10,523

KEY RATIOS					
	2022A	2023A	2024E	2025E	2026E
Growth (% YoY)					
Sales	23.4	19.6	26.3	27.8	27.5
<i>Technology</i>	23.1	23.2	28.7	30.7	28.8
<i>Telecommunication</i>	16.1	7.3	12.6	12.4	12.4
<i>Education</i>	52.6	31.0	46.5	42.4	43.4
<i>Others</i>	10.8	(14.3)	3.0	2.0	2.0
Operating profit	25.5	24.4	39.4	25.6	26.2
EBITDA	22.2	24.5	37.4	25.7	24.0
Net profit	22.4	21.8	32.6	30.4	31.1
EPS (VND)	22.9	21.6	32.6	30.4	31.1
Profitability ratio (%)					
Gross margin	39.0	38.6	40.5	40.5	40.2
Operating margin	15.4	16.1	17.7	17.4	17.2
EBITDA margin	19.6	20.4	22.2	21.8	21.2
Net margin	12.1	12.3	12.9	13.2	13.5
ROA	10.1	11.6	13.0	14.6	16.5
ROE	22.7	23.4	26.2	28.4	30.2
Stability					
Net debt/equity (%)	-28.0	-34.5	-15.0	-7.3	-3.4
Int. coverage (x)	10.5	10.2	9.5	11.5	18.3
Int. &ST debt coverage (x)	0.5	0.7	0.9	1.0	1.1
Cash conversion days	41.2	46.4	40.7	36.3	36.3
Current ratio (X)	1.3	1.2	1.1	1.1	1.1
Quick ratio (X)	1.2	1.2	1.0	1.0	1.0
Net cash/(debt) (VND mn)	7,105	10,337	5,322	3,153	1,854
Efficiency					
Days receivable outstanding	59	59	55	53	54
Days inventory outstanding	24	20	20	22	22
Days payable outstanding	41	33	34	39	39

Source: Company data, YSVN

BALANCE SHEET (VND bn)					
FY Dec 31 (VND'bn)	2022A	2023A	2024E	2025E	2026E
Total assets	51,650	60,283	71,220	81,947	95,762
Cash & cash equivalents	6,440	8,279	8,993	9,179	10,139
ST Investment	13,047	16,104	14,494	13,044	11,740
Accounts receivable	8,503	9,674	11,560	14,608	18,456
Inventories	1,966	1,593	2,685	3,393	4,380
Other current assets	982	1,055	978	978	978
Net fixed assets	12,033	13,643	20,158	26,590	33,673
Others	8,680	9,934	12,352	14,155	16,396
Total liabilities	26,294	30,350	35,766	38,582	41,935
Current liabilities	24,521	29,652	34,408	37,125	40,368
Accounts payable	3,209	2,603	4,775	6,131	7,837
ST debts	10,904	13,838	17,165	17,970	18,814
Long-term liabilities	1,773	698	1,357	1,457	1,567
Long-term debts	1,478	208	1,000	1,100	1,210
Others	295	490	357	357	357
Shareholder's equity	25,356	29,933	35,454	43,365	53,827
Share capital	10,970	12,700	12,700	12,700	12,700
Treasury stocks	-	-	-	-	-
Others	2,312	3,548	3,566	3,566	3,566
Retained earnings	7,712	8,674	13,950	21,601	31,789
Minority interest	4,310	4,959	5,207	5,467	5,740

CASH FLOW (VND bn)					
FY (VND'bn)	2022A	2023A	2024E	2025E	2026E
Operating cash flow	5,054	11,335	5,081	8,393	11,456
Net income	5,310	6,465	8,575	11,181	14,654
Dep. & amortisation	1,619	2,174	2,584	3,034	3,530
Change in working capital	(825)	1,325	(1,471)	(1,845)	(2,437)
Others	(1,050)	1,371	(4,606)	(3,977)	(4,291)
Investment cash flow	5,757	(10,350)	(5,947)	(6,572)	(8,276)
Net capex	(2,927)	(3,281)	(5,734)	(6,960)	(7,656)
Change in LT investment	(499)	(1,254)	(2,419)	(1,803)	(2,241)
Change in other assets	9,183	(5,815)	2,206	2,191	1,622
Cash flow after invt.	10,811	986	(865)	1,821	3,180
Financing cash flow	(9,773)	853	1,579	(1,635)	(2,221)
Change in share capital	1,895	1,729	-	-	-
Net change in debt	(7,714)	1,664	4,119	905	954
Change in other LT liab.	(3,954)	(2,540)	(2,540)	(2,540)	(3,175)
Net change in cash flow	1,038	1,839	714	186	960
Beginning cash flow	5,418	6,440	8,279	8,993	9,179
Ending Cash Balance	6,440	8,279	8,993	9,179	10,139

KEY METRICS					
	2022A	2023A	2024E	2025E	2026E
PE (x)	43.5	35.8	27.0	20.7	15.8
Diluted PE (x)	43.5	35.8	27.0	20.7	15.8
PB (x)	8.3	7.0	5.9	4.9	3.9
EBITDA/share	6,793	8,455	11,620	14,605	18,110
DPS	2,000	2,000	2,000	2,000	2,500
Dividend yield (%)	1.2	1.2	1.2	1.2	1.5
EV/EBITDA (x)	23.6	18.7	13.9	11.2	9.1

Appendix A: Important Disclosures

Analyst Certification

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