

BUSINESS ANALYSIS AND VALUATION
-CASE STUDY OF FPT COMPANY IN VIETNAM-

By

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Abstract

Equity analysis and valuation techniques are being widely used nowadays as methods to give value to a business. Concerning the “herd behavior” issue showing the irrationality of a large portion of Vietnamese investors in stock selection decision, this case study provides a good understanding of what exactly business valuation is, through an in-depth illustration of FPT Company’s valuation, presenting how to synthesize financial information and forecasting into final outcome- FPT’s target price per share.

FPT is a blue-chip ICT Company in Vietnam, which has constantly maintained the leading position since its inception. Company grew up by engaging in the distribution of ICT products and became the top- level authorized partner of HP, Microsoft, IBM etc. As company scale increased, FPT started to shift focus onto high-margin businesses which were software development, system integration, telecommunication, IT services and digital content and education, showing company’s endeavor to become ‘a company guided by technological innovations’.

Two methods with a total of five valuation approaches were used. We update FPT with a revised target share price of VND 58,055 per share suggesting a 23.4% upside to the current market price. Considering FPT’s core competences, we initiate the coverage of FPT with a “Buy recommendation” and a target price of VND 58,055.

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CHAPTER 1: INTRODUCTION

1.1 Rationale of the study

The prerequisite for any wise investment decision making lies onto the adequate consideration between *cost*- the price to pay and *benefit*- the value get in return. Investors who actively analyze company's financial health, risk profile and growth prospect for the purpose of purchasing stocks, more than others, have a clear-cut distinction between price and value. Since the value investors obtain from purchasing financial asset is its future payoff- which can be in the form of future cash flows, residual income or dividend, investors evaluate possible payoffs to verify whether the asking price is reasonable or not. (Damondaran, 1994; Jerald et al, 2010 and Stephen, 2010). The general principle of investment, in a nutshell, is that the asset price should reflect future income or cash flow that is expected to generate, hence investor should not pay more for an asset than its intrinsic value. The perception of value serves as the underlying logic of this research.

The twenty- first century has marked a remarkable expansion of stock markets all over the world with the volume of stocks traded everyday increased to trillions. The grave matters of concern for investors usually are *what the real value of the stock is and whether the market price of stock properly reflects its intrinsic value*. Needless to say, trading at the right price is key factor for successful investment decision. In order to select the right portfolio, investors have the tendency to collect as much information about the stock as possible. Financial press and television network, investment forum and references from investment consultant are common sources of information. Stephen (2010) refers those endless flows of information as

‘discordant background chorus’ which can easily confuse investors. In the circumstance that there are so much noise in the market and no firm indication of the true stock value exists, investors may react differently. Some trust their instincts and buy or sell stocks when they have the hunch that these stocks are being traded at the right value. Different from those intuitive investors, others passively rely on the invisible hand of market force (which implies that market will efficiently adjust price according to the level of risk) and trade based on market price without any deeper consideration. In spite of the simplicity embedded, two above-mentioned investment styles incur significant level of uncertainty and risk, since stock value is not perceived from the angle of company’s potential risks and future investment returns, or in other words as Dammondaran (1994) points out, value is not backed up by reality. From this point, it can be said that without proper understanding of intrinsic value, investment is merely a gamble.

Problem of Vietnam stock market- Herd behavior

According to Gleason (2004), herding is the inclination of investors to imitate other investors’ actions rather than relying on their own judgment in decision- making process. Investors are considered to be following the herd then they change their investment judgment according to other investors’ actions (Ferruz, 2007). Herding behavior in that sense represents *passive investment strategy*. A variety of studies have been done by Faber, Nguyen and Vuong (2006), Ha et al (2009), My et al (2011) and Huy et al (2011) to track and find evidences on herding behavior in two major Vietnam stock markets -Ho Chi Minh Stock Exchange (HOSE) and Ha Noi Stock Exchange (HNX). Those researches find out that herding behaviors do exist in

Vietnam stock market and raise concern about Vietnamese investors' discernment in taking investment decision in a rational way. The inappropriate method of trading stocks by naively following other investors' investment trend not only poses substantial risk for Vietnamese investors but also causes negative impact on the development of Vietnam stock market in the long run. This issue triggers the importance of business/ security analysis and equity valuation techniques embedded in Vietnamese investors' decision making process.

1.2 Significance of the research

A vast array of researches have raised "herd behavior" issue, showing the irrationality of a large portion of Vietnamese investors; yet how to "instruct" investors about evaluating stock in a rational way is left untouched. Being fully aware of this gap, this research alerts the significance of business valuation and provides a good understanding of what exactly business valuation is, through the real case study showing how to synthesize financial information and forecasting into final outcome- target stock value. This study serves as a standard application of valuation model, in order for individual investors to undertake a financial valuation on their own. Not only being motivated from the desire to pursue future career as a investment consultant, through this research, the author also hopes to steer the attention of Vietnamese investors to long-term value, rather than "wave trading" to reap short-term return, which in turn contribute to the sustainable development of Vietnam stock market in the future.

1.3 Research questions and objectives

Research objectives

This paper has the following objectives:

Objective 1: To integrate the valuation method in the decision- making process of Vietnamese investors.

Objective 2: To conduct a structured financial statement analysis that facilitates forecasting and valuation.

Objective 3: To illustrate step by step how to convert financial analysis and pro-forma forecast into a valuable outcome. Based on the derived value calculated, how to make rational investment judgment- whether to buy/ sell/ hold particular stock.

Research questions

Through the discussion of various valuation methods and a vivid illustration of applying valuation techniques into FPT Company as a case study, we will be able to get the answers for the following questions:

1. Which valuation method best suit Vietnam companies in general and FPT company in particular?
2. How Vietnamese investor can translate company information into financial projection and valuation which support their investment decision?

1.4 Methodology

As being mentioned above, main objective of this research is to help integrate the valuation method in the decision making process of Vietnamese investor through an in-depth illustration of FPT Company's valuation. The reason why FPT is introduced as an object of this case study is that FPT is a reputed IT company in Vietnam with ISO certifications for all fields of operation and capability maturity model integration (CMMi) accreditation for software development. Founded in 1988, until now FPT is honored one of ten outstanding listed companies in Ho Chi Minh Securities Exchange and has become the first enterprise to develop cloud computing in Vietnam (FPT website, 2011). Company's financial reports are widely published; highly accessible and relatively transparent compared to others in the same industry, hence make the analyzing and evaluating more accurate.

Regarding the valuation methodology, there are five steps involving in the valuation process.

1. Analyzing the business
2. Forecasting company performance
3. Selecting the appropriate model, considering the company characteristics and the context of valuation
4. Estimating the value of business, based on the output of selected valuation model.
5. Valuation conclusion and recommendation for investors

The first step in valuation process is business analysis which serves as a foundation for forecasting company performance. In this part, I would like to do IT industry and competitive analysis, analysis of financial statements and other company disclosures.

From the micro- environment perspective, Porters' five forces approach will be used in assessing certain threats that may affect FPT company's profitability such as threat of the entry of new competitors, threat of substitute products or service, the bargaining power of customers/ suppliers and the intensity of competitive rivalry. In addition to the competitive analysis, analysis of FPT financial statement will be taken into consideration. The method of financial statement analysis involve income statement, asset and capital structure, financial ratio (profitability, operating efficiency, liquidity and solvency ratios) and cash flow analysis (operating, investing and financing cash flows)

Afore-mentioned analyses help to realize the second objective of this research, which is to conduct a structured financial statement analysis that facilitates forecasting and valuation. Secondary data will be collected from FPT Company' website including financial statements (balance sheet, income statement and cash flow statement) and annual reports. Besides, IT industry statistics and peer companies' financial indicators which served as input for the relative valuation approach are collected from Stock68, Vietstock, Vndirect, Viet Capital HOSE and HNX websites. For the sake of macro- environment and industry analysis, researches on overall economic overlook and Vietnam IT industry reports will be utilized.

Concerning the third objective- to illustrate step by step how to convert financial analysis and pro-forma forecast into a valuable outcome, output from above analyses serve as inputs which in turn is helpful in making reasonable forecast of FPT's future financial performance. The forecast of sales, earnings, dividends will be conducted in order to provide the inputs for valuation model. I would like to utilize absolute and relative valuation approaches to calculate

the target price of FPT Company. Based on the derived value calculated, recommendation will be given whether to buy, sell, or hold FPT stock.

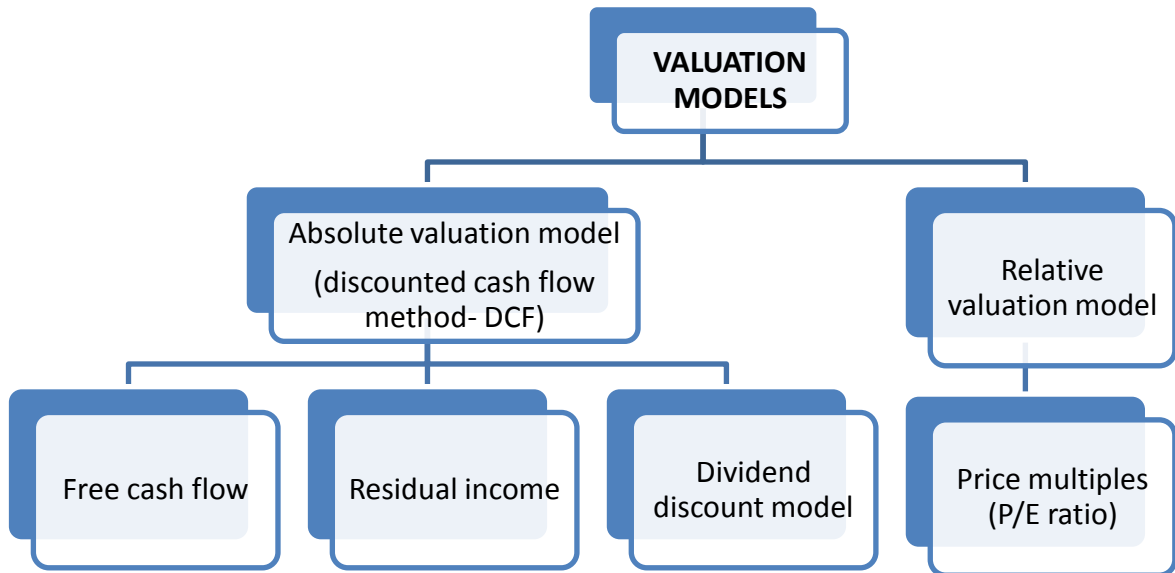
1.5 Organization of the research

This report is structured as follow. *Chapter 2* presents a quick review on the related literatures, in which the absolute and relative valuation models are explained. Next, *chapter 3* brings us to the first encounter with FPT - a leading ICT company in Vietnam. Corporate profile and history with key milestones will be briefly explained. Then, *chapter 4* delves into FPT's financial performance including profitability, operating efficiency, leverage and liquidity. Given FPT's impressive financial figures, in *chapter 5*, we analyze the internal and external factors that lead to FPT's success. *Chapter 6* deals with FPT's future prospect and forecasting of company's financial performance in the next 5 years. Based on projections on sales, earnings etc, *chapter 7* performs a detailed calculation of FPT target share price according to different valuation models. And last but not least, in *chapter 8*, investment view on FPT's key selling points will be given, together with the target share price derived from previous calculations, we will give investors recommendation on whether to buy, sell or hold FPT stocks.

CHAPTER 2: LITERATURE REVIEW

As a method of estimating an asset value based on expected future investment returns, valuation is useful in an extensive range of tasks, such as selecting stock, evaluating corporate activities (merger and acquisition, spin-offs or leverage buyout), evaluating business strategies and model, and last but not least, appraising private business (initial public offerings). Considering a number of practical applications of equity valuation, various valuation models have been established and discussed in academic literature. In the review of related literature section, I would like to delve into several studies carried out by W.A. Paton, (1936); Richard et al (1971); Andrew et al (1992); Damondaran (1994); Krishna et al (1996); Stephen et al.(1997); Jeffrey et al (1998); Tim et al (2005); Robert F. Halsey (2000); Jerald et al(2010); and Stephen (2010). According to the above-mentioned researches, there are two primary approaches or proven techniques that capture close attention in the academia: absolute and relative valuation models. Exhibit 1 demonstrates valuation methods and its possible models.

Exhibit 1: Valuation models



2.1 Absolute valuation models

Absolute valuation model is defined as a model that specifies an asset “intrinsic value” - the value given a hypothetically complete understanding of the asset’s investment characteristics-, hence is employed to generate an estimated value that can be compared with asset’s current market price (Jerald, 2010). This approach includes the production of detailed, multiple year forecast of cash flows (Krishna et al, 1996), and is widely recognized as the most reliable method among the academia (Arnold et al, 1984; Pike et al, 1993; Tim et al, 2005 and Martin et al, 2006).

The absolute valuation model can be referred as discounted cash flow approach (DCF). The underlying logic of DCF is stemmed from the principle of corporate finance, which states that value today equals future cash flows discounted at the opportunity cost of capital. Present value of an asset represents the total value of expected future economic profit accruing to the

asset holder- which is usually in the form of returns, income, dividends- through the term of their effective holding time horizon, discounted to date (W.A. Paton, 1936). In that sense, DCF model applied to equity valuation derives the value of common stock as the present value of its expected future cash flow (Damondaran 1994). Calculation in the DCF method encompasses a numerator- the returns which are expected to flow from such equity and the denominator- the required rate of return represented by the weighted average cost of capital, which also incorporates certain expectations of future economic benefits and potential risks.

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

CF = Cash Flow
r = discount rate (WACC)

As mentioned earlier, there are several sub-categories incorporated into the DCF approach in accordance to which kind of future benefit the holding of equity can generate. If the future cash flow is in the form of dividend- which means stockholders can receive dividend as future economic benefit from being stake of particular company, dividend discount model (DDM) is employed. Jerald et al (2010) categorize this method as DCF method at shareholder level. Yet, there are certain conditions in applying DDM model for valuation purpose. As Jerald et al (2010), Tim et al (2005) and Stephen (2010) point out, firstly company have to be dividend paying, and secondly, dividend policy is stable and must have constant relationship to the company's profitability.

Other sub- categories in the DCF approach which belongs to the company level (Jerald, 2010) are free cash flow and residual income methods. Free cash flow is calculated by the operating

cash flows deducted by fixed asset reinvestment and working capital. Residual income is defined as the accrual accounting earnings in excess of the opportunity cost of generating those earnings. Depending on each company's distinct characteristics, availability and quality of data and security analyst's references, free cash flow or residual income approach will be applied. Stephen et al (1997) suggests that equity valuation based on forecasting GAAP (generally accepted accounting approach) accrual earnings and book values have practical advantages over forecasting dividends and cash flows.

2.2 Relative valuation models

The second core approach of valuation is relative valuation model. Different from the idea of valuating business or equity based on its future expected returns, relative valuation model estimate the asset's value to that of other asset which share some common characteristics. The underlying assumption in this model is that similar asset should be sold at similar price (Jerald, 2010).

Relative valuation model have certain pros and cons. Regarding the advantages, Stephen et al (2010) mentions that relative valuation model do not involve forecasting, hence it is relatively simple and less costly. Tim et al (2005) perceives this method as useful shorthand for communications and helpful sanity check for your valuation. On the other hand, concerning the disadvantages of relative valuation method, Tim et al (2005) points out that it is considerably difficult to find comparable companies which their return on invested capital (ROIC), growth potential and risk characteristics match the targeted company's ROIC, growth and risk. Moreover, the differences in accounting rules, the effects of cyclicity and other

factors can further distort multiples. Andrew (1992) empirically examines the accuracy of the relative valuation method within a set of comparable firms from NYSE, ASE and OTC selected on the basis of industry, earning growth and risk from 1978 to 1986. Following the method of comparing each firm's predicted stock price with its actual price, he found out that a combination of risk and earning serves as effective criteria for selecting comparable firms. Yet, naively relying on industry average multiples can be dangerous and inaccurate.

Relative valuation is typically implemented using price multiples- which is the ratio of stock price (P) to a fundamental such as equity (E), book value (B), operating cash flow (CFO) (Krishna et al, 1996). Among the P/E, P/B and P/CFO, the most common price multiple is P/E ratio. The implication of utilizing P/E ratio in investment decision making is that a stock selling at a P/E that is low relative to the P/E of another closely comparable stock is considered undervalued, hence it is considered as a good buy (Jerald et al, 2010).

CHAPTER 3: FPT- AN AMAZING TRACK RECORD

3.1 Company profile

The Corporation for Financing and Promoting Technology (FPT hereafter) is a USD 668 million market cap ICT company headquartered in Hanoi, Vietnam. FPT was founded in 1988

Current status of FPT Corporation

- **Head office:** Ha Noi, Vietnam
- **Founders:** A group of 13 scientists
- **Date founded:** September 13, 1988
- **Industry:** Information and Communication Technology (ICT)
- **Market capitalization:** 13,366 billion VND- equivalent to 668 million USD (as of December 2011)
- **Outstanding shares:** 216,082,676 (as of December 2011)
- **Number of employees:** 11,209 (as of December 2011)
- **Stock exchange:** HOSE (Ho Chi Minh Stock Exchange, Vietnam)

by a group of 13 scientists who “share the common dream of changing their own lives while contributing to the country’s prosperity” (FPT, 2011). Four of them presently are FPT’s chairman (Mr. Truong Gia Binh) and vice chairman (Mr. Bui Quang Ngoc and Mr. Le Quang Tien and Mr. Do Cao Bao) of the board of director, and CEO (Mr. Nguyen Thanh Nam).

During the past years, FPT has been awarded “the most prestigious IT corporation in Vietnam” and was carried off “Vietnam golden star” award. Nowadays, FPT acknowledges its presence in 11 countries (Vietnam, Laos, Cambodia, Thailand, Philippines, Malaysia, Singapore, Japan, Australia, USA and France), and operates branches in 38 provinces in Vietnam.

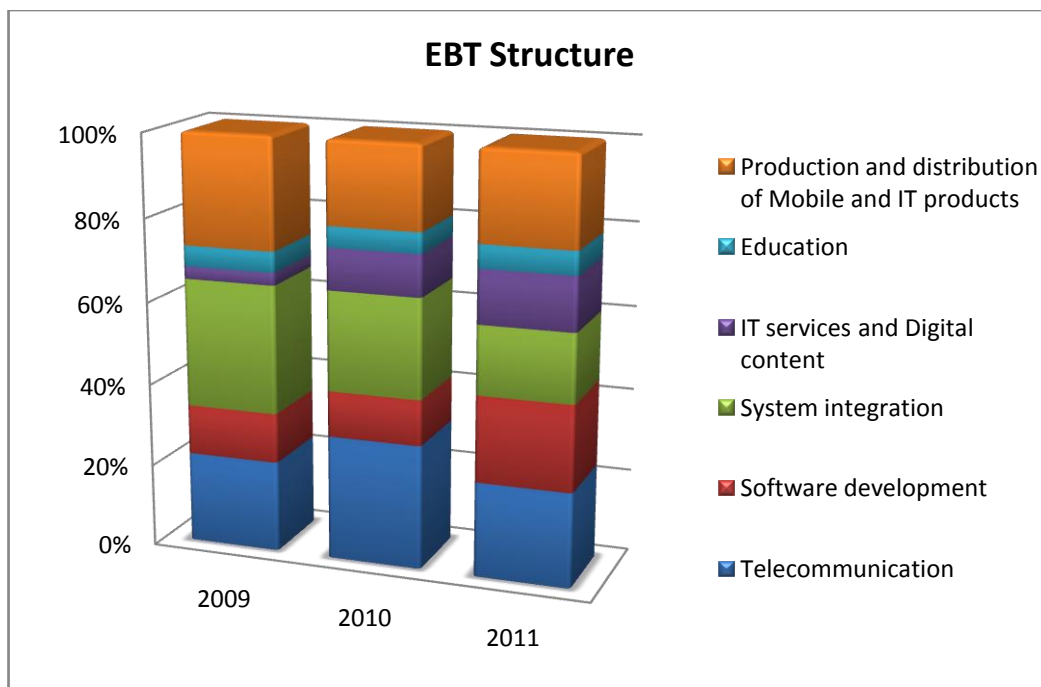
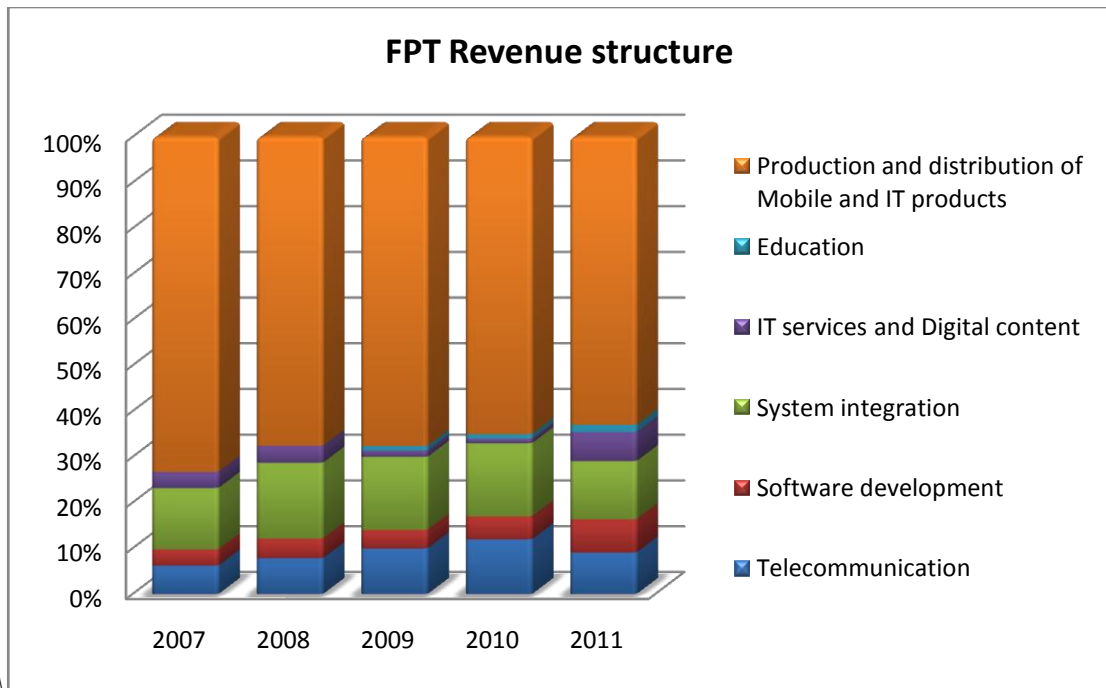
Defining core business: A shift from trading to higher margin segments

Company grew up by engaging in the distribution of ICT products as well as electronic components; and became the top-level authorized partner of prestigious company like HP, Microsoft and IBM. Capital accumulated from the fairly stable business model has underpinned growth in early stage. Later, as company scale increased, FPT started to shift focus onto high-margin core businesses in addition to the traditional trading segment, such as (1) software development, (2) system integration, (3) telecommunications, (4) IT services and digital content and (5) education; which is in line with company's long-term vision "*to be a company guided by technological innovations and committing its best to satisfy customer requirements*" (FPT, 2011).

A strategic transition from low-margin trading business to higher margin ones has reflected FPT's ambition to become a leading ICT company in Vietnam. Indeed, graphically speaking, the share of revenue from *trading* activities has been declining gradually from 73% in 2007 to 60% in 2011; meanwhile, revenue from *telecommunication, software development, IT services and digital contents and education* increased moderately. We are seeing very positive trend in FPT's earnings: high margin businesses are fuelling FPT's earnings growth. In 2011, 70% of FPT's profit before tax came from just 40% of revenue in the fastest growing high margin businesses (please refer to exhibit 2)

Exhibit 2: FPT revenue and Profit structure from 2007 to 2011

Exhibit conducted by the author. Data retrieved from FPT annual reports (2011)



Consolidation of ownership

Prior to 2010, each core segment was managed by related subsidiaries, which FPT- the parent company- hold majority of ownership, particularly:

Subsidiaries	Ownership	Core businesses	Clients/ Partners
1.FPT Trading Group	91.97%	Distributing IT devices and mobile phone, manufacturing “made-in-FPT” technology products (Elead computer, F99 series mobile phone)	Samsung, Motorola, Nokia, Microsoft, Cisco system, Toshiba, Apple, IBM
2.FPT Information System	92.26%	Providing software solutions, Enterprise Resource Planning services, IT services and engaging in system integration	<u>Banking and finance</u> field: ANZ, ACB, Citibank, Deutsche Bank, HSBC, Commerce Bank of China, Maritime Bank, Vietnam Foreign Commercial Bank etc <u>Stock and insurance companies:</u>
3.FPT Telecom	41.52%	Providing ADSL services, fixed line internet services, online advertising, online games and other online services	HOSE, HNX, Bao Viet Stock company, National Life, AIG <u>SMEs:</u> Metropole Sofitel Hanoi, Vietnam Airlines, Vietnam Textile Corporation, Vietnam Steel Corporation, Petrolimex
4.FPT Software	66.07%	Software outsourcing, development and maintenance , quality assurance testing, enterprise resource planning implementation etc ,	<u>Government Agencies:</u> Government Offices, National Assembly Office, Ministry of Finance, General Department of Taxation, State Treasury, Vietnam Road Department

5.FPT Education	100%	FPT University providing training and education specialized in computer and information technology	
6.FPT Media	100%	Operating in TV programs news, entertainment shows, ads services	<u>Advertisement</u> : Saatchi& Saatchi, Goldsun, TVPlus, Toshiba, Samsung, Motorola, Canon, Coca-cola etc <u>Media</u> : Vietnam Television Broadcast Station, Hanoi/ Ho Chi Minh City Television Broadcast Station , BBC, Reuters, Sony Picture etc

Source: FPT Annual report (2010)

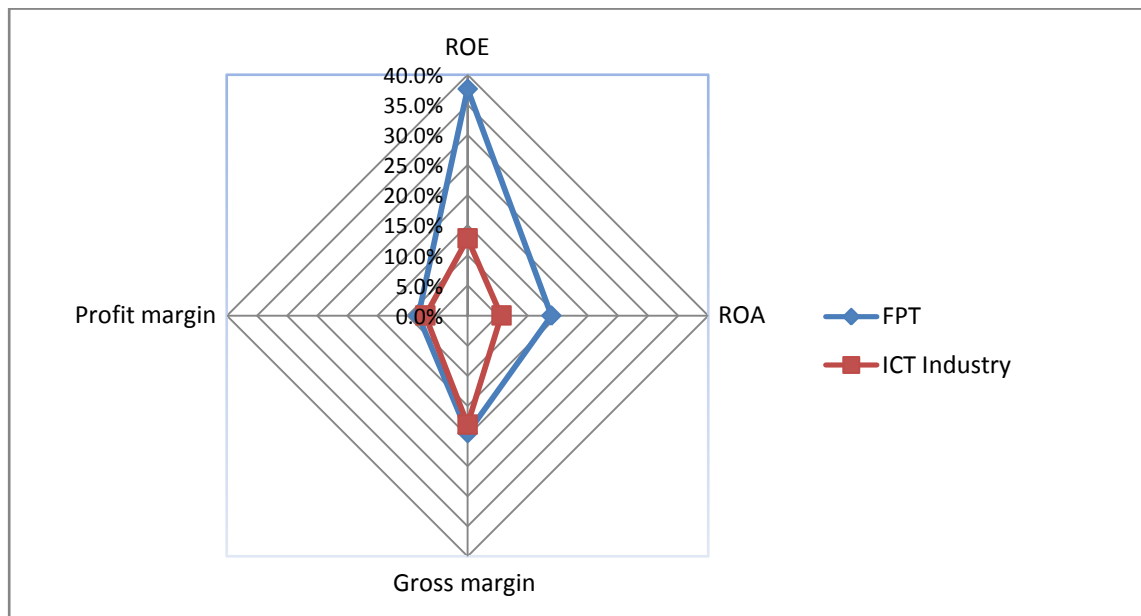
However, since 2010, FPT initiated “*one-FPT strategy*”- which aims at consolidating ownership of all FPT associates and taking advantage of synergies among different core businesses. We highly value ‘One FPT’ strategy and strongly believe in the synergy effect that it will generate in the near future. Particularly, the valuable talent pool from the FPT University will provide company with trained IT workers, and the stable trading segment will help underpin the growth of high margin businesses. Consolidating ownership help to promote efficient management and improve transparency. Additionally, gearing corporate and human resources to develop the core segments will result in higher profit margin and create value to stakeholders.

Impressive financial performance at a glance

From a humble root as a small “Food Processing Technology Company” founded by a scientist group who had nothing but a big dream, a lofty aspiration of changing their own lives and contribute to the prosperity of Vietnam, FPT has grown to become leading ICT Corporation with recorded turnover in fiscal year 2011 of VND 25 trillion (equivalent to 1.2 billion USD).

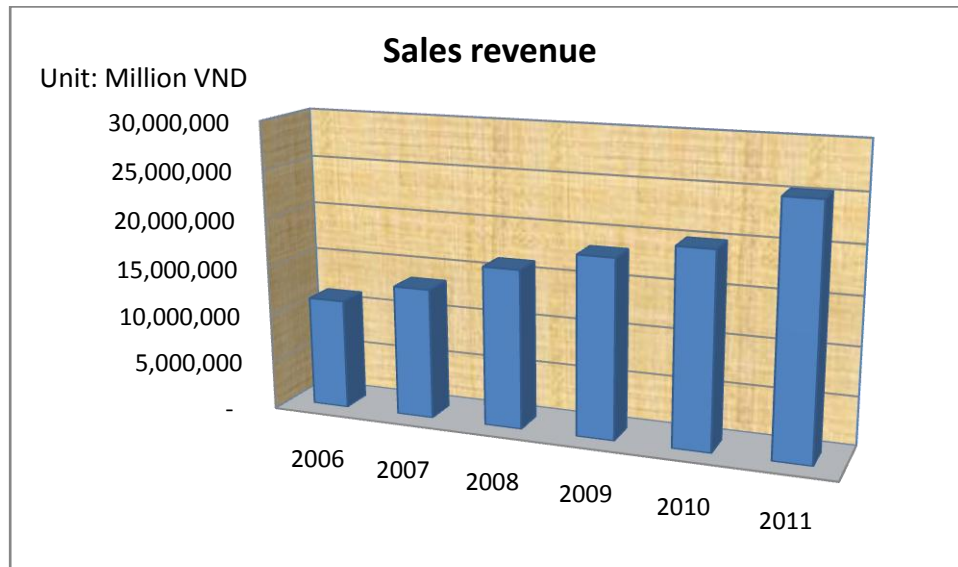
Over the last 5 years, FPT has increased 33% in profit before tax and more than 180% in equity. Company has consistently outperformed other competitors in the same industry with ROE and ROA recorded in 2011 of 37.66% and 13.91% respectively (average ICT sector’s ROE and ROA were 12.8% and 5.6% respectively). In 2011, FPT achieved 26.7% growth in sales, 22.9% growth in after-tax profit and yields the highest revenue (26 trillion VND) among all Vietnamese listed enterprises.

Exhibit 3: FPT’s profitability ratios in comparison with those of Vietnam ICT industry



Source: Vietcapital (2011)

A consistently strong growth in sales revenue



FPT’s turnover has been continuously increasing during the last 6 years; with the fiscal year 2011’s consolidated revenue reached VND 25 trillion- more than double that of 2006. Although *production and distribution of ICT products* had been making up the largest portion, its share in FPT revenue structure declined gradually from 73% in 2007 to 63% in 2011. Meanwhile, revenue from *telecommunication, software development, IT services and digital contents and education* increased moderately. Currently, 13% of FPT turnover is generated from system integration, 9% from telecommunication, 7% from software development, 6% from IT services and digital contents, and 4% from training and education.

Noticeably, even during the *2008-2009 period* when Vietnam economy was severely hit by the intertwined turmoil: macro- economic turbulence and global financial crisis, FPT still maintained an amazing 17% growth in sales, thanks to the strategic “Go- mass” direction. Following this orientation, dynamic, modern and friendlier FPT brand, FPT products and services were introduced to the mass market.

Firstly, FPT signed the USD 16 million-contract with the Vietnam General Department of Taxation to manage fifteen million taxable citizens. The “Management of Personal Income Tax” project which was successfully implemented and assessed excellent by the client, has set the groundwork for FPT Information System Company to supply products and services to mass market. *Secondly*, within the same year, FPT introduced three outstanding products which targeted the young E-citizen in Vietnam: online social network via mobile devices, mobile- based chatting software and Vietnam’s first digital roadmap. One year later, company launched its very first affordably priced F-mobile, marking the initial step in FPT’s “Go Mass” orientation- entering B2C market after earning widespread recognition in the B2B market.

A surge in sales in 2010 and 2011 was a bold confirmation of FPT’s Go Mass and Focus strategies. Revenue in fiscal year 2011 reached VND 25 trillion, up 27% compared to 2010 thanks to effective execution of FPT’s business plan with strong focus on core segments such as system integration (grew 32%), telecoms and digital content (grew 41%), software (grew 30%) and training (grew 44%).

Focusing on high margin businesses to gain recognition as the high-tech company, FPT has engaged in the design and implementation of various IT systems for the government in addition to the personal income tax management; such as national driving license management system, e-signature authentication, election software for election in Ho Chi Minh City and maintaining network security at the State Bank of Vietnam. Meanwhile, FPT continued its “go mass” strategy by launching new mobile phone line F99 with application warehouse Viet F-Store, and introduced FPT Tablet. Those strategic moves have brought company to the right tracks with impressive sales growth.

3.2 Corporate history- Key milestones

- 1998: Searching for direction

The year 1988 witnessed the transition of Vietnam economy from a centrally planned to market economy under “Doi moi” (Renovation) reform. Vietnam had encountered tremendous obstacles toddling into the market- based economy and reducing its dependence on aids from other socialist countries. Within the same year, a group of intellectuals who share the common dream of changing their own lives while contributing to the nation’s prosperity has founded the *Food Processing Technology Company*- precursor of FPT nowadays. Why company got that name was an interesting story. The word “*technology*” not only indicated company’s targeted business realm, but also a compulsory name that every company under the administration of National Institute of Technology had to carry. The phrase “*food processing*” was created to be in line with Vietnam’s Communist Party’s guideline in the Doi moi period: promoting agriculture to be a strategic sector for economic development. Although technology-related business has been initially set up as long-term trajectory, the name “Food Processing Technology” would appear more society- friendly and also in line with Vietnam’s economic development goal at that time.

- 1990: Identifying core business

In 1990, company’s name was changed to *The Corporation for Financing and Promoting Technology*, confirming its focus on the informatics business.

- From 1990: Soaring eagle

1990	<i>Rising market leadership</i> Opened branch in Ho Chi Minh City
1993	Implemented software for the first foreign client- Chinfon Bank (Taiwan)
1994	Being chosen as the official distribution agent for IBM products in Vietnam
1996	Awarded No.1 IT Company in Vietnam Became HP's authorized distributor in Vietnam
2000	<i>Globalization</i> FPT's leaders decided to embark on a strategy of globalization by shifting company's focus to software exports. The Software Export Center was established in 2000 to export software products to Japan. Europe and North America. Opened FPT representative office in the United States Became the official distributor of Samsung mobile phones in Vietnam Introduced own E-lead Computer
2002	<i>Going public</i> In 2002, the Company was incorporated and changed its name to the Corporation Financing and Promoting Technology- FPT. FPT became joint stock company with initial capital of VND 20 billion.
2003	Established six member companies: FPT Information System, FPT Communication FPT Distribution, FPT Software Solutions and FPT Mobile Technology.
2004	Became the official distributor of Nokia mobile phones in Vietnam
2005	Established the FPT Japan Software Company in Tokyo Became Microsoft Gold Partner
2006	FPT's shares were officially listed on Ho Chi Minh Securities Transaction Centre (HOSE). FPT was the first ICT corporation in Vietnam to list its share on the stock market. Immediately after the listing, FPT became a blue chip in the Vietnamese stock market Signed Strategic Alliance Agreement with Microsoft for 3-year period. established FPT University

	Became the top level authorized distributor of Microsoft products in Vietnam Set up Asia Pacific FPT Software Company Ltd in Singapore
2008	FPT Software expanded to Malaysia, France, the US and Australia.
2009	F-mobile- the first mobile brand made by FPT was introduced
2010	<p><i>Changing brand identity and penetrating into mass market</i></p> <p>For the first time after inception, FPT changed its brand identity. New logo and new motto “Energizing life” marked the start of FPT’s transformation to become a more modern, active and customer- friendly company.</p> <p>Developed cloud computing in Vietnam (FPT was the first company)</p> <p>Developed the application warehouse Viet F-Store and launched the mobile phone F99</p> <p>Launched the Personal Income Tax Management application</p>
2011	One- FPT program was launched, aiming at consolidating ownership of all individual business division.

Source: FPT Website (2011)

CHAPTER 4: FINANCIAL HIGHLIGHTS

4.1 Profitability, operating efficiency, leverage and liquidity

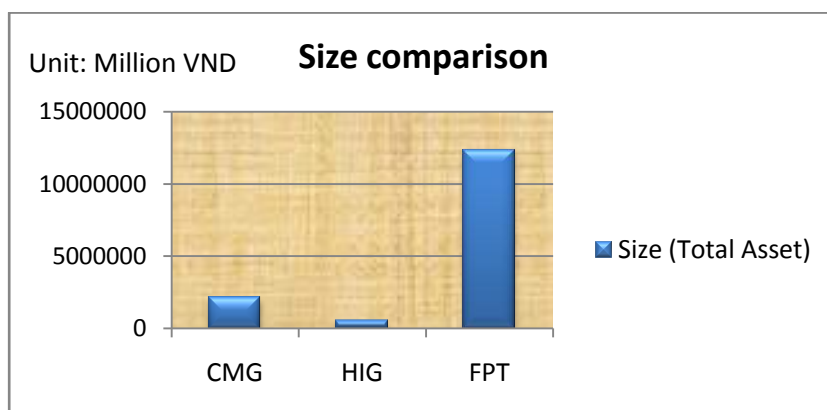
In order to make objective evaluation, we compare FPT's performance with that of Vietnam ICT industry and its peers. Since CMC Corporation (Ticker: CMG) and HIPT Corporation (Ticker: HIG) are reputed ICT companies in Vietnam whose core business segments are similar to FPT such as ICT products retailing, system integration, IT services, software development and telecoms; we select CMG and HIG as targets for FPT's peer comparison.

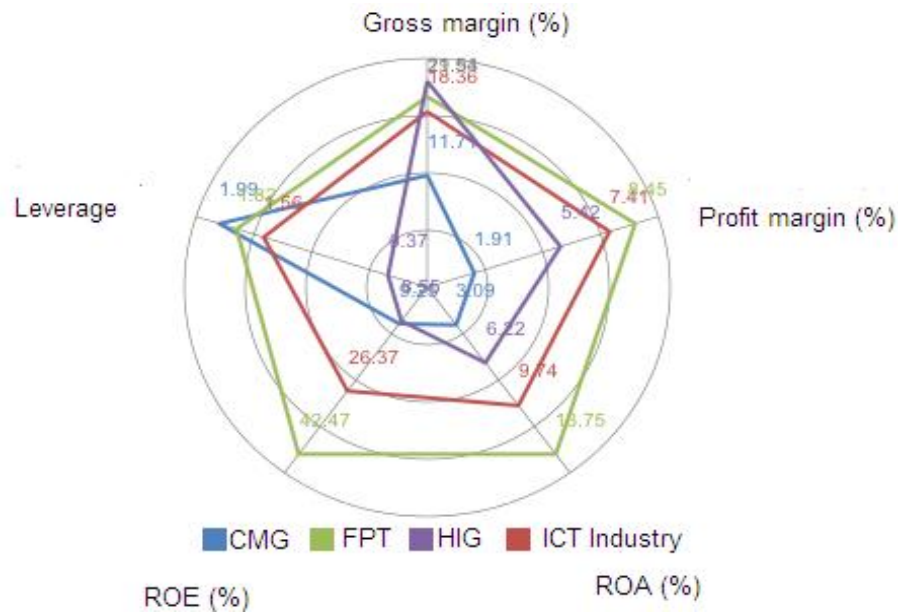
Current status of CMG

- Founded: 1991
- Market capitalization: 356.4 billion VND
- Outstanding shares: 67,242,694
- Stock exchange: HOSE (2010)

Current status of HIG

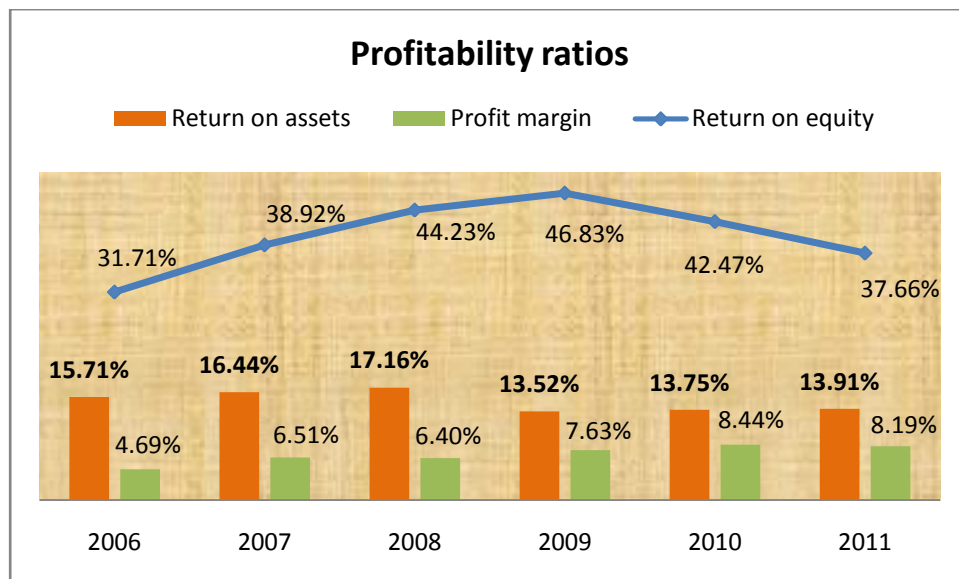
- Founded: 1994
- Market capitalization: 133 billion VND
- Outstanding shares: 17,362,291
- Stock exchange: HOSE (2007)





A quick glance at the comparison matrix shows that FPT outperformed its competitors in every aspect. FPT’ ROE in 2010 was recorded at 42%- 1.6 times higher than industry average and 4 times higher than those of CMG and HIG, revealing that fact that FPT was relatively more effective in employing funds invested by shareholders to generate return.

The period between 2006 and 2011 especially deserves our attention since it marked crucial strategic moves after FPT went public: “*Changing brand identity and penetrating into mass market*” (2009), “*Focus on high margin- high tech segments*” (2010), “*One FPT*” (2010-2011) and “*Globalization orientation*” (2011). From the below exhibit, we can observe incremental improvement in ROE, from 32% in 2006 to 47% in 2009. Yet the year after 2010 onward saw a gentle decline in ROE.

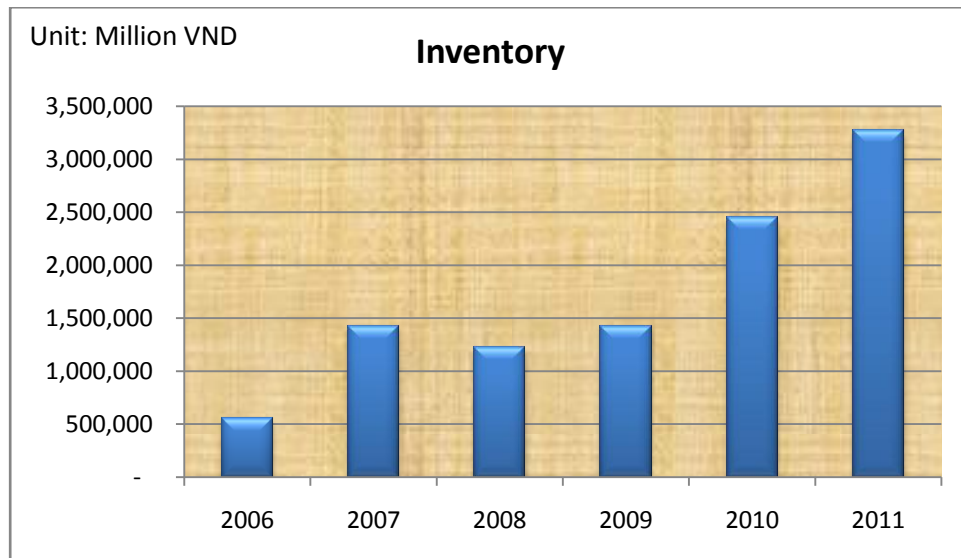


	2006	2007	2008	2009	2010	2011
Gross margin	11.97%	14.51%	18.13%	20.01%	19.90%	19.52%
Profit margin	4.69%	6.51%	6.40%	7.63%	8.44%	8.19%
Asset turnover	3.35	2.52	2.68	1.77	1.63	1.70
<i>Cash & Deposit turnover</i>	17.05	15.10	13.22	7.97	13.96	8.75
<i>Account receivable turnover</i>	6.50	7.31	8.24	7.24	6.17	6.71
<i>Inventory turnover</i>	20.57	9.47	13.42	12.92	8.19	7.75
<i>Fixed asset turnover</i>	34.64	21.07	17.10	11.24	10.02	11.81
ROA	15.71%	16.44%	17.16%	13.52%	13.75%	13.91%
Leverage	2.02	2.37	2.58	3.46	3.09	2.71
Debt/Asset	22.82%	24.34%	20.20%	39.69%	36.38%	31.28%
Current ratio	1.78	1.43	1.47	1.61	1.63	1.34
Acid test ratio	1.45	0.96	1.09	1.31	1.17	0.96
ROE	31.71%	38.92%	44.23%	46.83%	42.47%	37.66%

The gradual decline of asset turnover from 3.35 in 2006 to 2.68 in 2008 was mainly because FPT has been increasing its investment in property, land and equipment; and sales revenues have not yet increased to reflect the new investment. Particularly, FPT has been building up and improving IT infrastructure to enhance its recognition in mass consumer market as well as promote innovation and informatics technology. Several major projects

currently being implemented are HCMC Hi-tech zone, Nam An Khanh project, FPT building in Hanoi and Da Nang, FPT University, Hoa Lac Hi-tech industrial park and Da Nang FPT City project. The increasing proportion of non-current assets (which is mostly contributed by tangible fixed assets and construction) in asset structure revealed FPT's commitment to future growth in high margin businesses. By investing in IT infrastructure, FPT is setting stepping-stone into being a hi-tech company which is well-known locally and internationally.

However, a sharp drop in asset turnover during the past two years could be attributed to a strong rise in inventory as graphically depicted in the following exhibit.



Why did FPT's inventory level suddenly increase? The answer lies on "*Focus strategy*". As company focused on high margin businesses to gain recognition as the high-tech company, in addition to the traditional wholesales- retail business, FPT has also engaged in the design and implementation of various IT systems for government agencies and banks, such as personal income tax management, national driving license management system, e-signature authentication, election software for election in Ho Chi Minh City and maintenance of

network security at the State Bank of Vietnam. Since those contracts usually took more than one year to complete, the remaining work would be recorded in the following years as work in process (WIP) inventory. Compared to the traditional finished goods (IT components/products), WIP inventory was relatively higher value-added, hence contributed to augment FPT's inventory level.

FPT's gross margin and profit margin showed significant improvement during the period from 2006 to 2011, in which COGS/sales declined and SGA/sales gradually increase year on year, mainly due to gradual change in business nature, in accordance to the "Focus orientation".

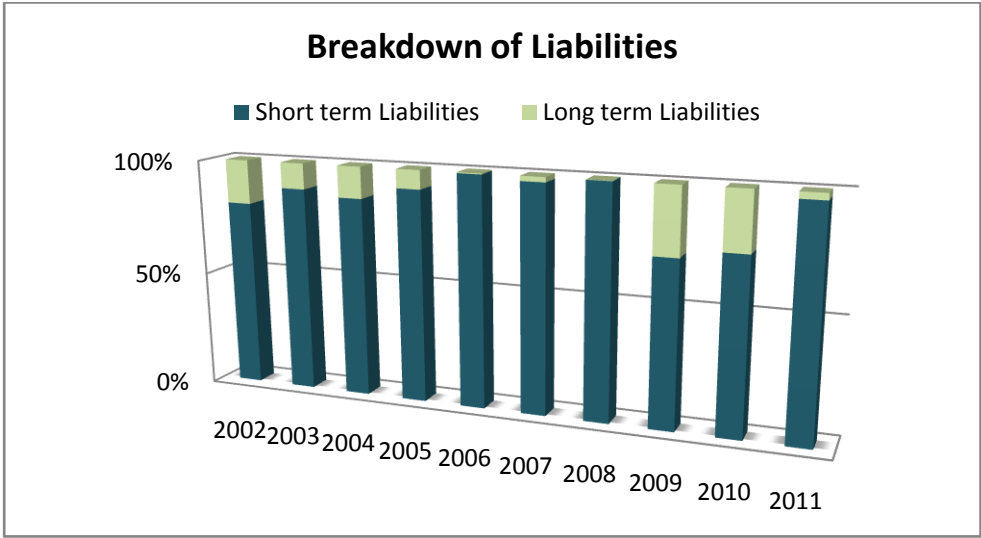
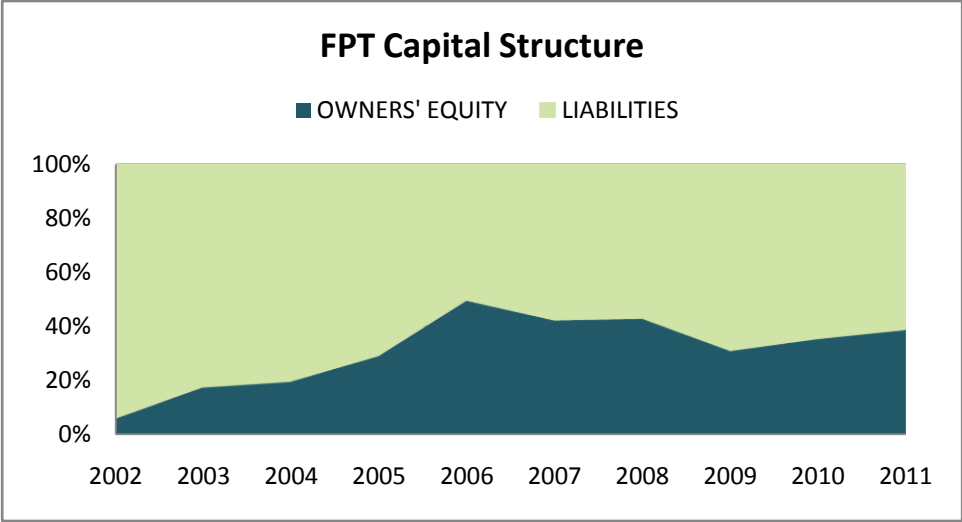
% to sale	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
COGS	89.85%	93.77%	93.84%	93.47%	87.90%	85.35%	81.58%	79.90%	79.98%	80.37%
SGA	8.16%	4.75%	3.69%	3.92%	6.95%	7.29%	9.07%	9.95%	10.06%	9.44%

Therefore, despite the decreasing trend of asset turnover, ROA remained unchanged from 2009 to 2011. In 2010, FPT's ROA is 4.4 times higher than that of CMG, more than twofold that of HIG, and is 1.7 times higher than average industry's ROA.

So, it can be concluded that the primary reason for the slight decline in ROE during the 2009-2011 period was due to lower leverage.

Look at FPT's capital structure, we can see company has transformed from a debt- intensive to more equal debt- equity financing company. As can be derived from the below chart, in 2002, 94% of FPT assets were financed by liabilities, yet in 2011, only 58% of assets were

liabilities- financed. Fiscal year 2006 was obviously a changing point to company’s capital structure. Leverage ratio rose substantially up to 2009, and started to decrease until 2011.



Most of FPT’s liabilities are short-term, which account for more than 90% of total liabilities since 2002 to 2008. In the period between 2009 and 2010, the portion of long- term liabilities increased steadily following *FPT’s issuance of VND 1,800 billion, 3 year, 7% coupon rate with detachable warrants* in Vietnamese capital market. In fiscal year 2011, due to the transfer

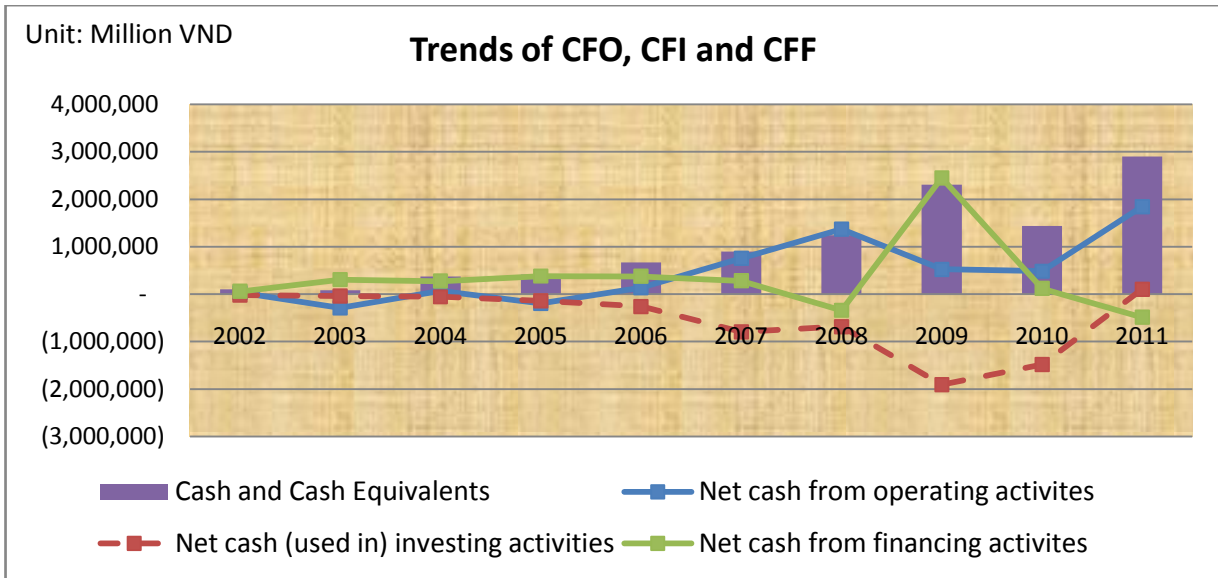
of bonds from long-term to short term in accordance with accounting standard, short-term to long- term liabilities proportion bounced back to 95%.

FPT's financial leverage ratio increased gradually from 2006 to 2009, showing that FPT has chosen to increase its asset base beyond the investment of the stockholders by using debt, mostly in the form of short-term borrowings. Nevertheless, during 2010 and 2011, leverage greatly reduced resulting in lower ROE.

Heavy reliance on debt, especially short-term borrowings, requires effective working capital management in order to meet short- term obligation. Liquidity ratios did not fluctuate strongly. In 2011, although FPT's current ratio declined from 1.63 to 1.34 and quick ratio decreased from 1.17 to 0.96; *company's liquidity was still at a safe level* compared to industry average's ones. Reason for the decline was mainly due to the transfer of bonds from long-term to short-term in accordance to accounting standard, which made the denominator bigger. We highly appreciate FPT's efficient management of working capital.

4.2 Cash flow statement analysis

The relative cash flows are graphically presented in the following exhibit. From 2002 to 2004, the cash flow was close to a 'break-even' position; then gradually in increased. Especially from 2007, FPT cash flow figures were strongly positive. FPT's overall cash activity profile reflects a large inflow of cash from operation, with additional net cash provided from financing activities that more than offset the net cash outflows from investing activities.



Cash flow from operating activities

FPT's operating cash flows (CFO) which are collected from selling activities are used in stocking up inventory, advances to suppliers, as well as paying taxes and short-term interest. From 2007, one year after the company went public, CFO increased substantially from VND 756 billion to VND 1,370 billion. However, during fiscal year 2009-2010, although profit before tax increased by 28%, CFO declined by 60% compared to 2008 due to the augmenting WIP inventory as previously explained. The fiscal year 2011 witnessed a surge in CFO from VND 485 billion to VND 1,847 billion.

Cash flow from investing activities

FPT's investing cash flows (CFI) has remained negative from 2002 to 2010, revealing the fact that company was on a *growing phase*. FPT used cash mostly for acquisition and construction

of fixed asset; secondly for investment in subsidiaries and associates, for lending and trading debt instrument for other entities and last but not least for acquisition of minority interest.

CFI exploited to acquire or construct fixed asset increased significantly from VND 247 billion in 2006 to VND 876 billion in 2010. Besides, in 2010 when the strategy of utilizing synergy among member companies was uniformly agreed at FPT Strategy Conference, FPT started to consolidate ownership of all FPT business divisions. In figure, this shows a VND 31 billion up in *payment for acquisition* in 2010. Another salient point is *cash from investment in other entities*. In 2011, FPT has spent VND 1,190 billion in two strategic investment projects. The *first* one was developing cloud- computing in collaboration with Microsoft; this project demonstrated FPT's pioneering role in Vietnam's technology development. The *second* project was buying 44% stake in EVN Telecom aiming at strengthening FPT's internet infrastructure and broadening its gateway into the mobile market supported by 3G networks. Unfortunately, the latter project was unsuccessful and in 2010, FPT regained 708 billion cash back. Those events justified reasons why FPT paid VND 1,190 billion in '*cash from investment in other entities*' in 2010 and gain VND 804 billion cash inflows one year later. In the fiscal year 2011, FPT generated VND 107 billion investing cash flow.

Cash flow from financing activities

FPT's financing activities included both stock and debt transactions. The company issued shares with proceeds of VND 590 billion in 2006 -the year when FPT was listed. From 2007 to 2011, FPT had cash proceeds of VND 20 billion each year for *the issuance of common stock*. However, the largest portion of financing cash inflows came from '*proceeds from borrowings*'.

From 2004 to 2008, FPT has issued new, presumably short-term debt with increasing amount year on year from VND 2,700 billion in 2002 to VND 6,200 billion in 2007 and 2008. Especially in 2009 and 2010, FPT stepped up borrowing from banks and issued VND 1,800 billion bond (3 year maturity, 7% coupon rate) with detachable warrant for two reasons. Firstly, proceeds from borrowing would be poured into new investment for future growth. Secondly and most importantly, as interest rate declined in late 2009, it seemed quite reasonable that FPT might want to pay off some of its existing debt (presumably at higher interest rates) and replace it with new borrowing (at lower rates). Indeed, *repayments for borrowings* increase in accordance to the proceeds from borrowing. Another category of financing cash outflows are dividend payment to shareholders. Since 2006, every year FPT extracts a fraction of its retained earnings to pay cash dividend. In 2011, a VND 728 billion of cash (tripled 2010's dividend payment) were distributed to shareholder. Consistently high dividend payout ratio (32% per year) indicates FPT as blue-chip Company.

CHAPTER 5: FPT' SECRETS TO SUCCESS- INTERNAL AND EXTERNAL FACTORS

5.1 Internal factors

Acknowledging its presence in 38 provinces in Vietnam, and 11 countries worldwide, holding number one position in Vietnam in almost business achieved the highest revenue in all Vietnamese listed enterprise in 2011 with an exceptional turnover growth of 27%; FPT is inarguably a successful company.

FPT's remarkable achievements can be attributed to a variety of factors ranging from company's internal strength to external opportunities. Strong brand recognition, widespread presence, large human resource pool, solid client base, strong corporate culture and visionary leadership have shaped FPT's competitive edges.

- ***Strong brand recognition:*** FPT is one of the leading companies in the Vietnam ICT industry with ISO certifications for every field of operation, and CMMi (capability maturity model integration) accreditation for software development, not to mention that company has obtained more than 1,000 international technology certificates granted by partners who are world leaders in technology. FPT's products and services has won the top awards of the Vietnam Association for Information Processing, the Ho Chi Minh City Computer Association, and the Vietnam Software Enterprise Association. For the past years, company had been voted "The most prestigious IT Corporation" by the Vietnam PC World magazine, "The best enterprise partner of the

year” by HP, Cisco and IBM and “The Vietnam Golden Star” award, thanks to its commitment to quality and customer satisfaction as well as devotion to innovation and technology.¹

- ***Widespread presence*** in 38 provinces in Vietnam and in 11 foreign countries. In trading, FPT accounts for 60% of ICT products distributed, especially regarding mobile phone distribution, FPT’s market share amounts to more than 80%. In Telecoms, FPT ranks the third among main broadband internet providers in Vietnam, after VNPT and Viettel. In software outsourcing, system integration and IT services, company is also on the cutting edge.
- ***Large human resource pool*** and training programmers at international standard from the FPT University and FPT Aptech Center which is inevitable to enhance long-term sustainability for the company
- ***Solid client base*** from government agencies, banks and SOEs helps sustain stable demand.
- ***Strong corporate culture and spirit***: Corporate culture- the shared trust and values- is something that FPT has always been paid special attention to build. Over the last 23 years since its inception, emerging from the arduous time, a variety of traditions and values have been shaped, making FPT an enterprise with unique characteristics. FPT respect individuality, innovation and teamwork, and FPT leaders at different levels- the keeper of this spirit- always strive to be dedicative, exemplary and perspicacious. These have become the pride of FPT employees and considerably contributed to FPT’s success today. FPT Communication and Community Department has organized

¹ Source: FPT Website <http://www.fpt.com.vn/en/>. Retrieved on January 2012

sporting and cultural events each year to enrich the spiritual life of employees and encourage them to participate in company's quarterly festivals. FPT is one of a few enterprises in Vietnam that have preserved and celebrated traditional festivals for many years which encompassing: Community Day, FPT Sport Day, FPT Art Performance Day, FPT Foundation Day, FPT Family Day, FPT Village Festival, FPT New Employee Orientation Day etc². These activities are indeed spiritual glue that connects all FPT members, both managers and employees, inspiring each of them to work harder and become more dedicated to company's development.

- ***Visionary leadership:*** FPT was found by 13 scientists who were enthusiastic about changing their own life and contributing to the prosperity of Vietnam. Still, five of them are member of FPT's board of directors. Mr. Truong Gia Binh- the founder and chairman of the BODs is a man of ideas and vision, he identified long-term plan for the company such as gearing FPT's resource from low- value added trading activities to software outsourcing, system integration and telecom. Together with Mr. Nguyen Thanh Nam, he had led FPT software to become the leading software outsourcing enterprises in Vietnam since 2007. Last but not least, and most recently, Mr. Truong proposes "one- FPT strategy" which focus on the synergy effect after FPT consolidates all of its member companies. Together with Mr. Truong Gia Binh, Mr. Le Quang Tien, Mr Bui Quang Ngoc, Mr. Do Cao Bao, Mr. Nguyen Thanh Nam have formed a group of captain to put FPT and Vietnam on the global ICT map.

² FPT's Annual Report (2011)

5.2 External environment

5.2.1 Industry analysis

Internal strength itself cannot guarantee success if external environment is not favorable. FPT's accomplishment over the past 10 years has greatly supported by various incentives from the Vietnamese government.

Policy framework and operational environment

The IT industry has been considered one of the pivotal sectors for the sustainable growth of Vietnam economy and the advancement of Vietnam society. In fact, the Vietnamese government has been supporting and giving many incentives to promote the development of IT sector for the sake of industrialization and modernization of the country.

The vision towards 2020 promulgated by the government is “Based on ICT as key elements, Vietnam will quickly transform its social economic structure to become the advanced country in term of knowledge - based economy and information society, greatly contribute for the success of country's industrialization and modernization process (Nguyen, 2008)³. Regarding aforementioned decisions, “The Strategy on Vietnam information and communication technology development till 2010 and orientations towards 2020” and “The Master Plan to make Vietnam an advanced country in IT in 2020” deserve attention. The former decision identifies principal objectives of ICT strategy till 2010 such as:

³ Journal on Information and Communications and Technologies (2008)
<http://www.tapchibcvn.gov.vn/News/PrintView.aspx?ID=18325>

- Embed the application of ICT in all sectors of the economy and build up the so-called e- Vietnam with e- Government, e- citizen, e- enterprise and e-business in order to catch up with ASEAN countries.
- Aim to achieve annual growth rate of 20-25% and turnover of USD 6-7 billion by 2010.
- Provide speedy, high- quality, high- capacity IT infrastructure with affordable price for the whole country. Particularly, according to the statistics provided by Vietnam ICT website (2008), increase telephone and PC penetration rate to 42 subscribers per 100 inhabitants and 10 PCs per 100 inhabitants respectively, 35% of the population can able to connect broadband Internet and explore IT application.

Five years after “*The Strategy on Vietnam information and communication technology development till 2010 and orientations towards 2020*” was implemented and succeeded in largely coverage IT infrastructure over the country , in 2010, Vietnamese government has promulgated “*The Master Plan to make Vietnam an advanced country in IT in 2020*”- an upgraded version of the former one. This master plan highlights the strategic roles performed by IT industry, especially software and digital content segments in export and GDP growth. IT sector is expected to contribute 8-10% of Vietnam GDP by 2020, up to 30% of ICT graduates will be qualified to respond to international market openings by 2015 and 80% by 2020, more than 70% Vietnam population will be able to access Internet and the mobile broadband net work will be expanded to more than 90% of the population⁴. Additionally, domestic IT firms are encouraged to innovate in order to reduce their reliance on imports. Needless to say, all of this effort will pave the way for future trend of Vietnam IT industry: to be “a top-ten supplier of software processing service and digital content” (Nguyen, 2010).

⁴ <http://english.thesaigontimes.vn/Home/business/investment/15212/>

In order to fuel the development of Vietnam's IT industry over the next 10 years, in November 2010, the government has pledged to invest more than 8 billion USD, focusing on the construction of modern software, hardware and IT services development centers. Also according to the Business Monitor International forecast (2011), the Vietnamese IT market is expected to attain compound annual growth rate of 15% over the next 5 years. Considering the bright scenarios of industry, we have more confidence in the future prospect of Vietnamese ICT companies.

FPT's position in each ICT segment

Regarding *hardware segment*, the computer market sales show a moderate increase from \$1.1 billion to \$1.2 billion in 2008 and 2009, and then jump to \$1.4 billion in the next year (BMI, 2011). Dominating the Vietnam PC market are multinational giants such as Apple, Toshiba, Dell, HP, Intel etc, while locally produced PC introduced by Vietnamese enterprises (**FPT**, CMC) in late 2010 still find it hard to compete with established brand name. The market share of imported high- end PC seems to become bigger following the government's commitment to lower import taxes on IT products and components when Vietnam joined AFTA since 2009.

The below table shows BMI's forecast of Vietnam IT sector in the next 5 years. The optimistic expectation about the boost in computer sales is grounded from two main facts. Firstly, PC penetration in Vietnam is quite low- 15% which demonstrates the fact that large portion of population are away from technology advancement and unable to afford modern IT products; therefore *this serves as opportunity to local PC producer like **FPT** with low cost advantage to tap on the so-called "bottom of the pyramid" PC market in Vietnam.* Secondly, as part of the

government program to modernize the education by equipping Vietnamese school with 1 million computers by 2012, *enormous demand from government*, particularly the Ministry of Education and Training, *creates room for boosting FPT's PC sales in the near future*.

Table: The forecast of Vietnam IT sector (2006-2015)

	2008	2009	2010e	2011f	2012f	2013f	2014f	2015f
IT Market (US\$m)	1,524.44	1,676.88	1,928.41	2,159.82	2,505.40	2,931.31	3,429.64	3,944.08
IT Market as % GDP	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Hardware (Computer market sales) (US\$m)	1,128.08	1,224.12	1,427.03	1,587.47	1,828.94	2,125.20	2,469.34	2,839.74
Services (US\$m)	259.15	297.31	341.91	388.38	456.64	541.21	641.07	726.22
Software (US\$m)	137.20	155.45	159.48	183.98	219.81	264.90	319.23	378.13
PCs (including notebooks) (US\$m)	958.87	1,040.51	1,212.97	1,349.35	1,554.60	1,806.42	2,098.94	2,413.78
Servers (US\$m)	101.53	110.17	128.43	142.87	164.60	191.27	222.24	255.58
ICT market, nominal value growth, % y-o-y	11.60	10.00	15.00	12.00	16.00	17.00	17.00	15.00

Source: BMI (2011)- Retrieved on Jan 11, 2012

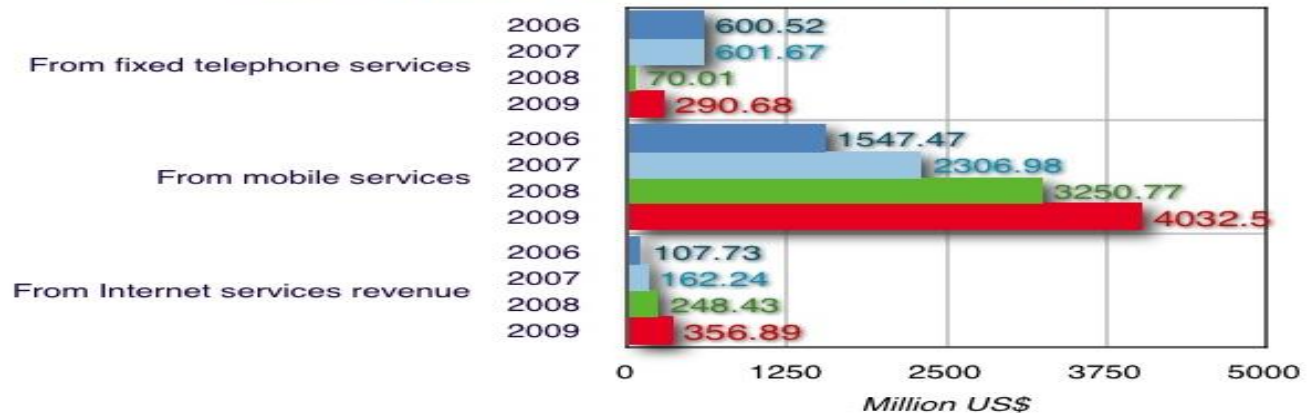
In the *software segment*, local products dominate the market, particularly local vendors serve 75% of the market, and the remaining 25% of the software products are supplied by foreign producers. The reason why local software manufacturer gain higher market is that they have good relationship with the government and SMEs which account for more than 80% of total enterprises in Vietnam (GSO, 2011) and who tend to opt for affordable locally-produced software.

From the demand side, according to statistics from BMI (2011), one of the crucial software purchasing segment which constitute around 30% of total IT expenditure in Vietnam is the *government*, representing more than 7,000 government agencies at all level (p. 29).

Currently, Vietnamese government are trying to improve the efficiency of tax collection and control system and gradually implementing *e-government* to all administrative tiers (BMI, 2011). In late 2010, **FPT Software** has successfully introduced “Personal income tax management” application customized for the Vietnamese tax agencies. Winning this important government contract not only enhances FPT Software’s foothold in domestic market, but also helps strengthen the bond between the company and Vietnamese government. The second biggest promising areas for software segment are SOEs, SMEs and larger corporations in finance/ banking, telecoms, oil and gas etc sectors. Database software, security applications, customer relation/ human resource management or platform for online trading and banking process etc offer ample opportunities for both local and foreign vendors. Especially, to prevent domino effect in the aftermath of global crisis and to survive in highly competitive environment, banks were forced to strictly comply with Basel III or Sarbanes-Oxley Act in addition to improve operational efficiency and risk management. Therefore banking sector serves as fertile ground for software companies in Vietnam like **FPT**.

The last segment in ICT industry is IT service encompassing telecoms and internet services. The below figure demonstrates Vietnam’s revenue from fixed telephone, mobile and internet service. There are three salient trends which are observable from this chart; the revenue from fixed phone services sharply declined, on the other hand, turnover from mobile services increased significantly from \$1.5 billion in 2006 to more than 4 billion in 2009 and revenue from internet services increased gradually.

Vietnam's Revenue from Fixed Telephone, Mobile and Internet Services



Resource: Vietnam Information and Communication Technology White Book 2010
Graph by: Runckel & Associates (www.Business-in-Asia.com)

Dominating the IT services segments are state-owned enterprises and some well-known joint stock companies. Regarding mobile phone service providers; Viettel, VinaPhone and MobileFone in total account for more than 90% of the market. *FPT Telecom's market share in Internet service field is 13.52%* while the largest stake is held by VNPT (72%). Fixed telephone service providers in Vietnam are VNPT (73%), Viettel (18%) and EVN Telecom (7.43%) (ICT White Book, 2011)

SWOT analysis of Vietnam ICT industry

Through detailed insight into the position of FPT in software, hardware and telecoms segment, the ICT analysis help us clarify the opportunity that FPT can grab and inherent industry's weaknesses that company have to overcome. Shortage of trained IT workers and weak hardware brand recognition are considered as major shortcomings. However, we believe FPT can overcome those industry's weaknesses since company possesses *large human resource pool* from the FPT University which help enhance long-term sustainability; and FPT creates

their *own E-Lead computer and F-Phone lines* which help establish brand recognition among other local vendors who mainly assemble PC components for multinationals.

Strength	Weaknesses
<ul style="list-style-type: none"> - IT industry is one of the strategic sectors for the sustainable growth of Vietnam economy and the advancement of Vietnam society and is achieving explosive growth rate. - Government’s incentives to improve ICT infrastructure and internet penetration ratio create demand for IT products. - Cheap IT labor compared to India and China (the salary of IT worker in Vietnam is half of Indian workers and 30%- 50% lower than Chinese IT workers) 	<ul style="list-style-type: none"> - Patchy IT infrastructure. E.g. broadband internet is not well set up in the remote and rural areas. - Shortage of trained IT workers. Additionally, language skill is a major barrier. - Local hardware brand recognition is still weak. - Relatively high level of software piracy (85%)- Vietnam software market is highly cost sensitive.
Opportunities	Threats
<ul style="list-style-type: none"> - Rural areas’ current low PC penetration rate and low internet connection rate per capita create plenty of opportunities to PC and IT service markets. - Government’s master plan to make Vietnam an advanced country in IT in 2020 will boost public spending on IT in areas such as e-education, e-business, e-government and e-taxation. 	<ul style="list-style-type: none"> - Accelerating inflation and the continued depreciation of Vietnam Dong against US Dollar would increase the cost of goods sold and wipe out profit margin of IT product distributors. - As IT market become more open after Vietnam joined WTO and AFTA, especially after the China- ASEAN free trade agreement came into effect in 2010, the IT industry competition

<p>- Banking and finance sector as well as SMEs under the pressure of improving operating efficiency, are another promising ground for Vietnam software companies.</p>	<p>turned to be more intense among established incumbents, local enterprises and low-cost Chinese vendors.</p>
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5.2.2 Competitive landscape (Porter’s 5 forces)

Competitive force 1: Rivalry among the existing firms

Although competition in the ICT industry is fierce, thanks to the first mover advantage; FPT can enjoy “monopoly” position in trading, telecoms and software domains. *We consider rivalry among existing firms for FPT is not so high.*

Firstly, regarding trading segment, FPT has the widest retailing networks in Vietnam. Company formed strategic partnership with IBM, Microsoft, HP, Nokia and Apple etc. FPT occupied 55% market share of IT product distribution, in which mobile phone segment accounts for approximately 78%. *Secondly*, in the telecoms realm, FPT is one of the big 3 broadband Internet providers after VNPT (dominates 73% market share) and Viettel (dominates 15% market share). FPT online ranks the number one in offering online ads (constitutes 50% of market share). *Thirdly*, again FPT ranks the first in software integration (constitutes 47.7% market share while CMC- the company in the same industry and operate in the exact same business segments- holds 16%). According to ICT White Book (2011), FPT is

one of two Vietnamese companies being granted CMMi-5 certificate (the highest recognition regarding software engineering and organizational development).

Competitive force 2: Threat of new entrants

As IT market become more open after Vietnam joined WTO and AFTA, especially after the China- ASEAN free trade agreement came into effect in 2010, the IT industry competition turned to be fiercer among established incumbents, local enterprises and low-cost Chinese vendors. *We believe the threat of new entrants is not so high* for FPT since there are some significant *barriers to entry*.

i. *Economies of scales/ cost advantages*

Since its establishment in 1988, FPT has been implementing various investment plans to expand and upgrade IT infrastructure (for instance in 2012, the company plans to invest in the submarine fiber-optic cable system in Da Nang, building new campuses for FPT University and FPT software at Hoa Lac High Tech Park, constructing more offices in Ho Chi Minh City and opening 150 retail stores by 2013 etc). Not to mention that FPT has already acknowledged its presence in 11 countries (Vietnam, Laos, Cambodia, Thailand, Philippines, Malaysia, Singapore, Japan, Australia, USA and France), and operates branches in 38 provinces in Vietnam, its continued investment would further enhance company's economies of scales, which resulting in driving down the cost of production in the long term.

ii. *Customer loyalty:*

FPT achieved ISO certifications for all of its operation, and was granted more than 1,000 international technology certificates by prestigious partners such as IBM, Microsoft etc. For

the past years, FPT has been voted the “most prestigious IT company” in Vietnam by the reader of Vietnam PC world magazine, and received “the Vietnam golden star” award for its endeavors to innovation, total quality management and customer satisfaction (FPT annual report, 2011). In addition, regarding software services, the strong bond with Vietnamese government and SMEs has guaranteed resilient demand for the company. From these points, *we evaluate FPT’s customer loyalty very high.*

Competitive force 3: Threat of substitute products

ICT products are inevitable goods that stimulate the economic development and the advancement of society. Hence, information technology- related products cannot be substituted; *the threat of substitute product is quite low.* Nevertheless, as software piracy ratio in Vietnam is relatively high, the ICT industry in general and FPT in particular are being exposed from unfair competition from unauthorized software.

Competitive force 4: Bargaining power of buyers

With regards to retailing business segment, FPT operates as B2C- modeled company. Product price are fixed and posted up onto the product package, hence only defects concerning quality will be assumed by FPT. Customers have no flexibility in negotiating the price. On the other hand, in case of software integration or telecoms segment, FPT operates as B2B- modeled enterprise, in which customers are companies or public institutions. They hold certain negotiating or bargaining power. However, as software package is specially curtailed to one

particular company based on their distinct operating characteristics, it is quite expensive and time-consuming for company to switch from one software provider to another. Therefore *we assess FPT's bargaining power of buyer as very low.*

Competitive force 5: Bargaining power of suppliers

Regarding to the computer segment, AMD and Intel are the only two microchip providers. Therefore, negotiating power of these two companies over FPT is very high. By the same token the Windows offered by Microsoft is considered having monopoly position in the operating system market. *Bargaining power is quite high* by that reasons.

CHAPTER 6: PROSPECTIVE ANALYSIS- FORECASTING

6.1 Company outlook and future path

6.1.1 FPT's 5- year strategic roadmap

For the last twenty- four year since its foundation, FPT has constantly maintained the leading position as the blue-chip ICT Company in Vietnam. Company grew up by engaging in the distribution of ICT products and became the top- level authorized partner of prestigious company like HP, Microsoft, IBM etc. Capital accumulated from the fairly stable business model has underpinned growth in early stage. As company scale increased, FPT started to shift focus onto high-margin business and diversified into five business segments in addition to retailing, which were software development, system integration, telecommunication, IT services and digital content and education. The growing share of high- margin businesses in the revenue and profit structure shows FPT's endeavor in becoming '*a company guided by technological innovations*' (FPT vision, 2012).

'*One FPT*' stands at the centre of company's strategy in 2011-2024. Three main pillars of this long-term strategy are:

- *Go mass*: Build strong brand equity, manage cost structure, increase market shares by utilizing strengths in IT and software, develop the supply chain infrastructure to the end-users, take advantage of electronic trading.
- *Synergy*: 'One ownership, one resource, one benefit', promoting internal communication and cooperation, restructure and integrate FPT's management system in order to better offer customer with excellent IT products, services and solutions.

- *Best- in- class*: Strive to meet world-class quality standard, lean and efficiency, nurture leadership, ensure the ‘right people’, and stimulate innovation.



Source: FPT annual report (2012)

In the past years, FPT’s business scope was not well-defined. Investors were afraid of the fact that if company is over-diversified, dispersed capital and human resources will not wisely utilized to develop strategic/ high value- added segments. Consequently, it might damage the competitive advantages of key business. However, FPT is in the progress of implementing “*One FPT*”- which aims at consolidating ownership of all FPT member companies. We highly value this strategy and strongly believe in the synergy effect that it will generate in the near future. Particularly, the valuable talent pool from the FPT University will provide company with trained IT workers, and the stable trading segment will help underpin the growth of core businesses, which are telecoms, system integration and software development and digital content. Presumably, FPT Software can support FPT University to supervise both

content and quality in training IT students, FPT Telecoms and FPT Information system can team up in the field of telecommunications and system integration; and last but not least, FPT Software and FPT Trading can jointly develop value-added services and digital content for mobile phones to launch innovative “made by FPT” products. Consolidating ownership definitely will help to promote efficient management and improve transparency. Additionally, gearing resources to develop the core segments will result in higher profit margin and create value to stakeholders. Those reasons have grounded your belief in the long- term success of the company.

6.1.2 Where is FPT heading to?

Through the narrowing down its business structure to 4 core segments back by the synergic support from FPT Education and FPT Trading, we found FPT is following the roadmap that many successful global corporations have been pursuing. Nomura Research Institute (NRI) is a case in point.

NRI was founded in 1965 from the merger of Japan’s first think tank in the private sector- the precursor Nomura Research Institute with the pioneer in system integration- Nomura Computer Systems Corporation. What Nomura have done are integrating and transferring the DNA and synergy of two business divisions to the offering of high value added services. In its business model, Nomura has utilized the wealth of knowhow in banking, finance and industrial sectors to provide consulting, then IT solutions (information system development, operation outsourcing and online platform for e-business) for corporations. Nomura has extensive client base encompassing securities, asset management and insurance companies.

Three biggest business clients that NRI has formed long-term partnership with are Nomura Holdings, Seven& I Holdings and Japan Post Group. In the mid and long term, Nomura focus on the *offering of more advanced services for the financial sectors* (particularly, online banking solutions for the banking sector, back-office systems for overseas operations of security and global asset management companies), *expanding the range of industrial sectors served* (combining consulting services with IT solutions to attract new clients in the distribution, retail and consumer industries; and last but not least, *strengthening and expanding Nomura's presence in China and Asia*⁵. Interestingly, we found Nomura's strategies through its pathway to the future greatly compatible with FPT's "Focus", "Go mass", "Synergy" and "Globalization" orientations.

Although NRI's core business (system integration) is more focused than FPT and its scale is greater, company's strength and business model are very similar. *Firstly*, both have strong client base that help sustain stable demand (in case of FPT, clients are government agencies, banks and SOEs). *Secondly*, both have similar horizontal business model that utilize the synergy among divisions to bring benefit to the corporation. Nomura's success has proved the positive result from the cooperation between consulting and IT solution division. Although FPT is on the process of restructuring company after consolidation, we expect the similar fruitful outcome from the synergies among telecoms, software development, system integration and digital content divisions. And *last but not least*, both companies are investing in R&D for future ICT innovation. Both NRI and FPT currently are researching on cloud computing to optimize and modernize existing IT platforms. Since 2010, FPT cooperated with

⁵ Nomura Research Institute Website (2011)

Microsoft to promote cloud computing development in Vietnam and has successfully tested a number of Private Cloud applications. We believe the implementation of this state-of-the-art technology will further fortify FPT's strength in four core businesses in the next 10 years.

From the success of role model Nomura Research Institute, we have good grounds for believing that the roadmap that FPT is heading to is promising. Transforming business structure from low return to higher margin business realms which focus on technology and innovation are inevitable for any ICT company that aims to 'stand in the top 500 enterprises for Forbes Global 2000' like FPT. In the next 10 years, we expect FPT to become the Nomura of Vietnam.

6.2 Financial forecasting methodology

6.2.1 Income statement forecasting approach

Forecast of world economy and Vietnamese economy in the next several years are not on the bright side and many potential risks remain.

Accelerating inflation and the continued depreciation of Vietnam Dong against US Dollar would increase the cost of goods sold and wipe out profit margin of FPT. Since FPT engages in import (more than 60% of company revenue comes from trading activities, specifically selling imported ICT products) and export (software outsourcing), company are exposed to foreign exchange risk, especially when Vietnam Dong is depreciating against US Dollar.

As Vietnam ICT market become more open after Vietnam joined WTO and AFTA, especially after the China- ASEAN free trade agreement came into effect in 2010, competition in the IT

industry turned to be more intense among established incumbents, local enterprises and low-cost Chinese vendors.

As Japan and EU are two main markets of FPT's software outsourcing (especially revenue from Japan market accounts for roughly 50% of total software export), the lingering adverse affects from the devastating earthquake and tsunami in Japan 2011 and current Euro zone debt crisis might put company's revenue in an unfavorable condition.

FPT sales have grown 27% in the last year, however, considering the mild slowdown in Vietnam GDP in 2012 forecasted to be at 5.5% against 5.9% in 2011 (Viet Capital Securities, 2012), we assume sales will grow at 18% y-o-y in the next 5 years.

Cost of goods sold and *GSA* over sales will remain the same level as in 2011, which is 80% and 9.45% respectively. We forecast financial expenses to grow 29% per year, up 5% compared to 2011 level, mainly due to higher interest expense resulting from Vietnamese government's implementation of tight monetary policy to control inflation.

We assume other income, other expense and profit from other activities will be maintained at the same small fraction of sales as in 2011.

FPT's effective tax rate in 2011 was lower than the statutory level, which is 25% since the company could enjoy some tax incentives on software production, service and IT training/education. However, in the long-run, we expect FPT to be imposed a tax rate of 25% per year.

6.2.2 Balance sheet forecasting approach

Assets

Current asset turnover declined from 2.40 in 2009 to 2.27 in 2010 and 2.23 in 2011. We make assumption that this ratio will be maintained at the average level of 2.30.

By the same token, sales over cash and inventory turnover showed declining trend in past data, and we believe they will become stable at 2011 level.

Short term financial investment is expected to grow gradually at 5% per year in the next 5 year.

Regarding non-current assets, long- term financial investment, other long term assets and goodwill are assumed to be equal the 2011 level.

Fixed assets including tangible fixed assets, financial lease assets, intangible fixed assets and construction in progress are assumed to grow 8% per year according to FPT's projection.

Liabilities

FPT's capital structure demonstrates the slight decline of liabilities over assets. We assume this trend will continue in the next 5 years. Hence, liabilities' share in assets is expected to decrease from 58% to 57% in 2012 and 56% in the four subsequent years

Short- term liabilities' proportion in liabilities shows no sign of changing over the last 10 years.

Hence, there is no reason to forecast a change. We assume short-term liabilities will continue to make up 97% total liabilities, which are also equivalent to 55% of total assets.

Sales over trade account payable and sales over long term payable ratios are assumed to become stable at 19 times and 129 times respectively. Sales over other short-term liabilities ratios will be maintained at 11.36 times- we take the average of the last two years' levels.

Similarly, regarding long term debt and other long-term liabilities, our assumption is that FPT's long term debt grows at 5% per year and other long-term liabilities' forecast is calculated by two previous years' moving average.

We calculate short-term debt by working backwards into other liabilities. Accordingly, short term debt growth rate will reduce substantially from 67% in 2012 to 19% in 2014 and 14% in 2016. Decreasing trend of new debt borrowing will ease the burden on working capital management for FPT.

Owners' equity

Minority interests and expenditure and other funds, are assumed to be as the same level as in 2011. Shareholder equity is forecasted to slightly increase, particularly a bit more than 43% of total asset.

Other assumptions

Dividend payout ratio remains at 2011 level, which is 30% of profit after tax and dividend is assumed to be paid within the year.

The 5% terminal value (long term growth rate) corresponds to our assumption of the Vietnam economy growth. We think that after 5 years of a growth cycle, FPT would grow in line with the economy.

6.3 Pro forma financial statements

PRO-FORMA INCOME STATEMENT

	Past years			Forecast			
	2010	2011	2012F	2013F	2014F	2015F	2016F
Net Sales	20,017,304	25,370,247	29,936,891	34,427,425	39,591,539	45,530,270	52,359,810
<i>Growth Assumptions</i>		27%	18%	15%	15%	15%	15%
Cost of goods sold	16,028,810	20,412,099	23,949,513	27,541,940	31,673,231	36,424,216	41,887,848
<i>Assumptions (COGS/sales)</i>		80%	80%	80%	80%	80%	80%
Gross profit	3,988,493	4,958,148	5,987,378	6,885,485	7,918,308	9,106,054	10,471,962
Revenue from financial activities	464,259	552,058	598,738	688,549	791,831	910,605	1,047,196
		2.18%	2.00%	2.00%	2.00%	2.00%	2.00%
Financial expenses	559,127	693,758	894,948	1,154,483	1,489,283	1,921,175	2,478,315
<i>Growth assumptions</i>	20%	24%	29.00%	29.00%	29.00%	29.00%	29.00%
<i>In which, interest expense</i>	238,148	249,501	700,813	777,016	867,510	970,613	1,088,118
SGA	2,016,941	2,396,439	2,829,036	3,253,392	3,741,400	4,302,610	4,948,002
<i>Assumptions (SGA/ sales)</i>		9.45%	9.45%	9.45%	9.45%	9.45%	9.45%
Net profit from operating act.	1,876,684	2,420,008	2,862,132	3,166,159	3,479,455	3,792,874	4,092,841
Other income	144,688	104,921	122,741	141,152	162,325	186,674	214,675
<i>Assumptions (other income/sales)</i>		0.41%	0.41%	0.41%	0.41%	0.41%	0.41%
Other expenses	106,012	58,923	68,855	79,183	91,061	104,720	120,428
<i>Assumptions (other expense/sales)</i>	0.53%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
Profit from other act.	38,676	45,998	53,886	61,969	71,265	81,954	94,248
<i>Assumptions (other profit/sales)</i>		0.18%	0.18%	0.18%	0.18%	0.18%	0.18%
Total profit before tax	2,023,193	2,501,543	2,969,905	3,290,098	3,621,985	3,956,783	4,281,336
Current tax expense	346,754	418,067	742,476	822,524	905,496	989,196	1,070,334
<i>Assumptions</i>	17%	17%	25%	25%	25%	25%	25%
Deferred tax income	(15,318)	4,328	0	0	0	0	0
Profit after tax	1,691,757	2,079,148	2,227,429	2,467,573	2,716,489	2,967,587	3,211,002
Dividend payout	286,254	728,267	668,229	740,272	814,947	890,276	963,301
<i>Assumption: 30% dividend payout per year</i>	17%	35%	30%	30%	30%	30%	30%
Retained earnings	1,405,503	1,350,881	1,559,200	1,727,301	1,901,542	2,077,311	2,247,702

PRO-FORMA BALANCE SHEET

	Past years			Forecast			
	2010	2011	2012F	2013F	2014F	2015F	2016F
ASSET							
CURRENT ASSETS	8,839,022	11,372,728	13,016,040	14,968,446	17,213,713	19,795,769	22,765,135
<i>Assumption: Sales/current asset</i>	2.27	2.23	2.3	2.3	2.3	2.3	2.3
Cash and Cash Equivalents	1,436,128	2,902,383	3,421,359	3,934,563	4,524,747	5,203,459	5,983,978
<i>Assumption: Sales/cash</i>	13.96	8.75	8.75	8.75	8.75	8.75	8.75
Short term financial investment	563,892	861,597	904,677	949,911	997,406	1,047,277	1,099,640
<i>Growth assumption</i>			5%	5%	5%	5%	5%
Short term Account Receivables	3,248,876	3,781,514	4,461,534	5,130,764	5,900,378	6,785,435	7,803,250
<i>Assumption: Sales/short-term account receivables</i>		6.71	6.71	6.71	6.71	6.71	6.71
Trade account inventory	2,448,472	3,275,850	3,862,825	4,442,248	5,108,586	5,874,874	6,756,105
<i>Assumption: Sales/Inventory</i>	8.19	7.75	7.75	7.75	7.75	7.75	7.75
Other Current Assets	1,141,654	551,384	365,645	510,960	682,595	884,725	1,122,161
NON-CURRENT ASSETS	3,465,522	3,570,358	3,742,429	3,928,266	4,179,146	4,455,114	4,758,678
Fixed assets	2,000,339	2,150,890	2,322,961	2,508,798	2,759,678	3,035,646	3,339,210
<i>Growth assumption</i>		8%	8%	8%	10%	10%	10%
Long term Financial Investments	978,170	865,424	865,424	865,424	865,424	865,424	865,424
Other long term assets	265,299	337,678	337,678	337,678	337,678	337,678	337,678
Goodwill	221,714	216,366	216,366	216,366	216,366	216,366	216,366
TOTAL ASSETS	<u>12,304,544</u>	<u>14,943,086</u>	<u>16,758,469</u>	<u>18,896,712</u>	<u>21,392,858</u>	<u>24,250,883</u>	<u>27,523,813</u>
Short-term liabilities	5,439,122	8,475,465	9,217,158	10,393,192	11,766,072	13,337,986	15,138,097
<i>Assumption: Short-term liabilities/ assets</i>	44%	57%	55%	55%	55%	55%	55%
Trade accounts payable	1,150,177	1,338,827	1,575,626	1,811,970	2,083,765	2,396,330	2,755,779
<i>Assumption: Sales/Trade account payable</i>	17.40	18.95	19	19	19	19	19
Short-term debt	2,675,925	4,674,454	5,005,522	5,549,810	6,196,184	6,932,614	7,771,920
Other short term liabilities	1,613,020	2,462,184	2,636,010	3,031,412	3,486,123	4,009,042	4,610,398
<i>Assumption: Sales/Other short term liabilities</i>	12.41	10.30	11.36	11.36	11.36	11.36	11.36
Long term liabilities	1,816,391	241,810	257,656	249,754	253,728	251,765	252,771
Long-term payables	10,295	196,675	232,069	214,372	223,220	218,796	221,008
<i>Assumption: Sales/ long-term payables</i>		129	129	129	129	129	129
Long-term debt	1,800,360	275	289	303	318	334	351
Other long-term liabilities	5,737	44,860	25,299	35,079	30,189	32,634	31,411
LIABILITIES	<u>7,255,513</u>	<u>8,717,275</u>	<u>9,474,814</u>	<u>10,642,946</u>	<u>12,019,800</u>	<u>13,589,750</u>	<u>15,390,868</u>

OWNERS' EQUITY	3,983,401	5,521,005	6,578,848	7,548,959	8,668,252	9,956,326	11,428,138
Shareholders' equity	3,980,651	5,518,255	6,576,098	7,546,209	8,665,502	9,953,576	11,425,388
Expenditures and Other Funds	2,750	2,750	2,750	2,750	2,750	2,750	2,750
MINORITY INTERESTS	1,065,631	704,807	704,807	704,807	704,807	704,807	704,807
TOTAL RESOURCES	12,304,544	14,943,087	16,758,469	18,896,712	21,392,858	24,250,883	27,523,813
Debt as the beginning of the year		4,476,285	4,674,729	5,005,811	5,550,113	6,196,502	6,932,948
Debt as the end of the year	4,476,285	4,674,729	5,005,811	5,550,113	6,196,502	6,932,948	7,772,270
Increase (decrease) in debt		198,444	331,082	544,303	646,389	736,446	839,322

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
1. PROFITABILITY															
ROE	54.38%	25.45%	56.02%	46.60%	31.71%	38.92%	44.23%	46.83%	42.47%	37.66%	33.86%	32.69%	31.34%	29.81%	28.10%
ROA	3.27%	4.48%	11.04%	13.58%	15.71%	16.44%	17.16%	13.52%	13.75%	13.91%	13.29%	13.06%	12.70%	12.24%	11.67%
ROIC	9.31%	8.32%	20.21%	46.60%	21.71%	24.69%	29.09%	19.72%	20.00%	20.39%	19.23%	18.84%	18.27%	17.57%	16.72%
Profit margin	1.19%	1.06%	2.00%	2.14%	4.69%	6.51%	6.40%	7.63%	8.44%	8.19%	7.44%	7.17%	6.86%	6.52%	6.13%
Gross margin	10.15%	6.23%	6.16%	6.53%	11.97%	14.51%	18.13%	20.01%	19.90%	19.52%	20.00%	20.00%	20.00%	20.00%	20.00%
% to sale															
Cost of good sold	89.85%	93.77%	93.84%	93.47%	87.90%	85.35%	81.58%	79.90%	79.98%	80.37%	80.00%	80.00%	80.00%	80.00%	80.00%
SGA	8.16%	4.75%	3.69%	3.92%	6.95%	7.29%	9.07%	9.95%	10.06%	9.44%	9.45%	9.45%	9.45%	9.45%	9.45%
Operating income	1.18%	1.06%	2.20%	2.37%	4.34%	7.05%	7.25%	8.66%	9.36%	9.53%	9.56%	9.20%	8.79%	8.33%	7.82%
Non-operating income	0.01%	0.01%	0.02%	0.11%	1.23%	0.77%	1.16%	1.01%	0.72%	0.41%	0.41%	0.41%	0.41%	0.41%	0.41%
Non-operating expense	0.00%	0.01%	0.00%	0.05%	0.23%	0.21%	0.62%	0.83%	0.53%	0.23%	0.23%	0.23%	0.23%	0.23%	0.23%
2. TURN-OVER CONTROL															
Current asset	2.97	4.52	5.84	6.98	3.75	3.11	3.53	2.40	2.27	2.23	2.30	2.30	2.30	2.30	2.30
Cash and deposit	14.74	51.88	23.44	33.97	17.05	15.10	13.22	7.97	13.96	8.75	8.75	8.75	8.75	8.75	8.75
Account receivable	5.49	6.69	11.55	11.77	6.50	7.31	8.24	7.24	6.17	6.71	6.71	6.71	6.71	6.71	6.71
Inventory	12.18	20.05	24.55	36.69	20.57	9.47	13.42	12.92	8.19	7.75	7.75	7.75	7.75	7.75	7.75
Collection period	66.46	54.52	31.60	30.99	56.19	49.93	44.30	50.44	59.17	54.35	54.40	54.40	54.40	54.40	54.40
Days' sales in cash	24.75	7.04	15.57	10.74	21.41	24.18	27.60	45.78	26.16	41.71	41.71	41.71	41.71	41.71	41.71
Payable period	38.55	18.05	15.67	0.00	22.80	33.55	28.80	30.72	26.19	23.94	24.01	24.01	24.01	24.01	24.01
Fixed asset	41.33	74.33	117.03	85.09	34.64	21.07	17.10	11.24	10.02	11.81	12.89	13.72	14.35	15.00	15.68
Tangible fixed asset					41.22	19.36	23.67	17.99	13.98	17.41					
Total assets turnover	2.75	4.24	5.52	6.35	3.35	2.52	2.68	1.77	1.63	1.70	1.79	1.82	1.85	1.88	1.90
3. LEVERAGE & LIQUIDITY															
Assets to equity	16.65	5.68	5.08	3.43	2.02	2.37	2.58	3.46	3.09	2.71	2.55	2.50	2.47	2.44	2.41
Debt to assets	0.29	0.36	0.35	0.00	0.23	0.24	0.20	0.40	0.36	0.31	0.30	0.29	0.29	0.29	0.28
Debt to equity	4.84	2.06	1.77	0.00	0.46	0.58	0.52	1.37	1.12	0.85	0.76	0.74	0.71	0.70	0.68
Current ratio	1.22	1.28	1.36	1.44	1.78	1.43	1.47	1.61	1.63	1.34	1.41	1.44	1.46	1.48	1.50
Acid test	0.92	0.99	1.04	1.16	1.45	0.96	1.09	1.31	1.17	0.96	0.99	1.01	1.03	1.04	1.06

CHAPTER 7: VALUATION ANALYSIS

7.1 Calculation of cost of capital using CAPM model

Beta calculation

We collect weekly closing price of FPT stock and VN-Index from January 2007 to December 2011 to observe the trend of FPT's stock price movement in accordance to the market stock price. Then we utilize regression model to calculate beta. FPT's beta of 1.0173 is show in the below output summary:

SUMMARY OUTPUT- CALCULATION OF PFT BETA

<i>Regression Statistics</i>				
Multiple R		0.677316814		
R Square		0.458758066		
Adjusted R Square		0.456730943		
Standard Error		0.05599704		
Observations		269		

ANOVA				
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>
Regression	1	0.709632798	0.709632798	226.3098923
Residual	267	0.837223486	0.003135668	
Total	268	1.546856284		

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-0.006197824	0.003417924	-1.81332994	0.070903671
X Variable 1	1.017339985	0.0676261	15.04359971	1.83383E-37

Cost of equity calculation

We opted to use “Capital Asset Pricing Model” to calculate cost of equity. According to this methodology, the cost of equity capital could be presented by the following formula:

$R_e = R_f + \text{Beta} (R_m - R_f)$; where R_e : cost of equity capital, R_f : risk-free rate and R_m : risk premium.

For the risk premium, our approach to estimate the additional return is (1) calculates the average return of Vietnam Stock Market including VNIndex and HNX index from 2002 to 2011, (2) calculate the average return of 10 years government bond in the same period; and the difference between (1) and (2) is risk premium -10.40%. We assumed 10.70% risk free rate based on the interest rate of 10-year government bond. Based on our calculation, *FPT's cost of equity is 21.28%*

Calculation of cost of equity using CAPM model

Year average return of VNIndex and HNX index	21.10%
Average return of 10- year Government bond (from 2002 to 2011)	10.70%
Risk premium	10.40%
Risk free rate (Interest rate of 10- year Government bond)	10.70%
Beta	1.0173
Cost of equity (Re)	21.28%

Cost of debt calculation

<u>Cost of debt</u>	2010	2011
Unit: million VND		
Short-term debt	2,675,925	4,674,454
Long-term debt	1,800,360	275
Total debt	4,476,285	4,674,729
Interest expense		249,501
Interest expense over average total debt in 2011		5.45%

When we apply average total debt to calculate interest expense over average debt, cost of debt is unrealistically low, which is 5.45%. This might be because total debt fluctuates during the time. In order to have better measurement, we will use cost of debt in the market at the valuation time. As lending interest rate cap of commercial banks at June 2012 for prestigious company like FPT are 18%, we assume a cost of debt of 18% in WACC calculation.

WACC Calculation

Calculation of Weighted Average Cost of Capital (WACC)

Market value of debt (2011)	D	4,674,729
Market value of equity (2011)	E	5,521,005
Total capital	D+E	10,195,734
Weighted average of debt (2011)	D/(D+E)	0.46
Weighted average of equity (2011)	E/(D+E)	0.54
Tax rate	tc	25%
Cost of debt	Rd	18%
Cost of equity	Re	21.28%
WACC	$D/(D+E)*Rd*(1-tc)+E/(D+E)*Re$	17.71%
	Unit: Million VND	

7.2 Valuation

7.2.1 FCFF and FCFE Models

Exhibit 2 shows the 5-year forecast of free cash flows to firm and to equity. FCF to the firm which represents FCF available to both equity investors and debt holders, are discounted at 17.71% (weighted average cost of capital). FPT's total value is 13,414,781 million VND. After debt is deducted, equity value arrives at 13,216,337 million VND. Equity value divided by total outstanding shares gives us the per share value of *VND 61,163/share*.

By the same token, we discount the FCF to equity at 21.28% (cost of equity) to obtain the firm value. After divided by total outstanding shares, FPT's per share value based in FCFE method is *VND 48,066/share*.

7.2.2 Dividend discount model

Based on the past data and long-term prospects of FPT, we predict FPT will maintain a consistent 35% dividend payout ratio in the next 5 years, and able to sustain a 10% constant dividend growth rate after 2016. The cost of equity (21.28%) is used to discount future dividends back to 2011. FPT's per share value according to DDM model is *VND 31,692/share* (exhibit 3).

7.2.3 Relative valuation models

P/E method: Based on the forecasted profit after tax of 2,227,429 million VND and total outstanding shares in 2011 are 216,082,676 shares, we estimate FPT's EPS in 2011 is 10,308 VND per share.

Vietnam ICT industry's average P/E is 6.7 times (Vietcapital, 2011). Since FPT is the most prestigious, highly profitable company which have dominant market position in Vietnam, we apply a 10% premium to the peer average multiple. FPT's reasonable P/E in 2012 is 7.50 times. Hence, stock price based on P/E method is set at *VND 77,312/share*.

P/B method: A company's book value is total stockholders' equity. Dividing this figure by outstanding shares, we arrive at book value per share. Because book value is less sensitive to short term events than earnings, we think P/B value ratio serves as a better proxy to measure the relative value of FPT. According to our calculation, FPT's book value per share in 2012 is 30,351; and P/B is 2.30 (equal to VN Index's P/B and higher than ICT industry's P/B -1.8 times). Based on our assumptions, FPT's stock price would be valued at *VND 70,039/ share*.

Exhibit 4: Valuation_ FCFF and FCFE methods

	2012F	2013F	2014F	2015F	2016F	Terminal value	Long-term growth
Earning Before Interest, Taxes, Depreciation and Amortization (EBITDA)	3,689,665	4,098,706	4,532,145	4,974,310	5,421,060	5,692,113	5%
Less: Depreciation and Amortization	(18,946)	(31,592)	(42,650)	(46,915)	(51,606)	(54,186)	
Earning Before Interest and Taxes (EBIT)	3,670,718	4,067,114	4,489,495	4,927,396	5,369,454	5,637,927	
Less: Interest paid	(735,854)	(815,867)	(910,886)	(1,019,143)	(1,142,524)	(1,142,524)	
Earning Before Taxes (EBT)	2,934,864	3,251,247	3,578,609	3,908,253	4,226,930	4,495,403	
Less: Tax provision	(742,476)	(822,524)	(905,496)	(989,196)	(1,070,334)	(1,123,851)	
Net Income (NI)	2,192,388	2,428,723	2,673,113	2,919,057	3,156,596	3,371,552	
Plus: Depreciation and Amortization	18,946	31,592	42,650	46,915	51,606	54,186	
Less: Increase in Working Capital	(1,110,023)	(1,092,137)	(1,243,983)	(1,418,607)	(1,619,424)	(1,700,395)	
Operating cash flow (OCF)	1,101,312	1,368,178	1,471,779	1,547,364	1,588,778	1,725,344	
Plus: Interest expense*(1-tax rate)	525,610	582,762	650,633	727,960	816,088	856,893	
Less: Increase in fixed capital	(172,071)	(185,837)	(250,880)	(275,968)	(303,565)	(303,565)	
Less: Increase in financial investment	(43,080)	(45,234)	(47,496)	(49,870)	(52,364)	(52,364)	
<i>Free cash flow to the firm (FCFF)</i>	<i>1,411,771</i>	<i>1,719,869</i>	<i>1,824,037</i>	<i>1,949,486</i>	<i>2,048,938</i>	<i>2,278,672</i>	
Less: Interest expense*(1-tax rate)	(525,610)	(582,762)	(650,633)	(727,960)	(816,088)	(816,088)	
Plus: new debt borrowing	331,082	544,303	646,389	736,446	839,322	839,322	
<i>Free cash flow to equity (FCFE)</i>	<i>1,260,322</i>	<i>1,726,644</i>	<i>1,867,288</i>	<i>2,007,843</i>	<i>2,124,536</i>	<i>2,301,906</i>	

Unit: Million VND

VALUATION OF FPT BASED ON FCFF METHOD							
	2011	2012F	2013F	2014F	2015F	2016F	Terminal value
Free cash flow to the firm (FCFF)		1,411,915	1,719,941	1,824,145	1,949,576	2,049,038	2,278,783
WACC	17.71%						17,929,058
Present value		1,199,486	1,241,329	1,118,457	1,015,516	906,741	7,933,972
Total firm value	13,415,501						
<i>Less debt</i>	<i>(198,444)</i>						
Equity value	13,217,057						
Total outstanding shares	216,082,676						
Per share (VND)	61,167						

VALUATION OF FPT BASED ON FCFE METHOD							
	2011	2012F	2013F	2014F	2015F	2016F	Terminal value
Free cash flow to equity (FCFE)		1,261,783	1,725,903	1,867,648	2,007,653	2,124,621	2,302,003
Cost of equity	21.28%						14,140,068
Present value		1,040,388	1,173,378	1,046,954	927,965	809,721	5,388,967
Total firm value	10,387,374						
Total outstanding shares	216,082,676						
Per share	48,071						

Exhibit 5: Valuation_Dividend discount model

VALUATION OF FPT BASED ON DIVIDEND DISCOUNT MODEL							
	2011	2012F	2013F	2014F	2015F	2016F	Terminal value
Dividend (D)		779,600	863,651	950,771	1,038,656	1,123,851	1,236,236
Dividend growth rate	10%						10,959,538
Cost of equity	21.28%						
Present value		642,810	587,164	532,977	480,081	428,314	4,176,825
Total value of firm	6,848,172						
Outstanding shares	216,082,676						
Per share	31,692						

Exhibit 6: Valuation_Market based models

VALUATION OF FPT BASED ON P/E and P/B					
	2012F	2013F	2014F	2015F	2016F
Profit after tax (Million VND)	2,227,429	2,467,573	2,716,489	2,967,587	3,211,002
Outstanding shares	216,082,676	216,082,676	216,082,676	216,082,676	216,082,676
EPS	10,308	11,420	12,572	13,734	14,860
P/E	7.50	7.50	7.50	7.50	7.50
Book value	30,451.54	34,938.30	40,119.62	46,079.95	52,891.63
P/B	2.30	2.30	2.30	2.30	2.30
Price (P/E)	<u>77,312</u>	85,647	94,286	103,002	111,450
Price (P/B)	<u>70,039</u>	80,358	92,275	105,984	121,651

7.3 FPT target price

Valuation model	Price per share	Percent	Weighted average
FCFF	61,167	35%	21,408
FCFE	48,071	35%	16,825
DDM	31,692	5%	1,585
P/E	77,312	10%	7,731
P/B	70,039	15%	10,506
FPT Price			58,054.86

We believe that the FCFF and FCFE are the most reliable methods, and we have confidence that those two intrinsic valuation models will yield the most accurate result for Vietnamese companies in general and FPT in particular, because all input data are collected from the financial statements, which is transparent and easily accessible. We put the lowest weight on the dividend discount model, since FPT's dividend payout track record was not long enough, in addition to the fact that company are in the high growth period, hence retained earnings might be extracted for reinvestment which resulting in lower dividend payout ratio in the future. Different scenarios lead to different dividend cash flows, so the valuation based on dividend discount model become less accurate.

We update FPT with a revised target share price of **VND 58,055** per share suggesting a **23.4% upside** to the current market price.

CHAPTER 8: INVESTMENT VIEW AND RECOMMENDATIONS

Since its inception over 23 years ago, FPT has always been on the cutting edge. From the humble root as a “Food Processing Technology Company”, founded by a group of intellectuals who share the common dream of changing their own lives while contributing to the nation’s prosperity since the beginning of Vietnam’s Renovation period, FPT has grown to a *leading telecoms and informatics technology company* in Vietnam.

Company grew up by engaging in the distribution of ICT products and became the top-level authorized partner of prestigious company such as HP, Microsoft, IBM etc. Capital accumulated from the fairly stable business model has underpinned growth in early stage. As company scale increased, FPT started to shift focus onto high-margin business and diversified into five business segments in addition to trading, which were software development, system integration, telecommunication, IT services and digital content and education.

Whether as a distributor of ICT products, as a provider of ‘state of the art’ IT system that curtailed to specific need of companies and government agencies, as a supplier of fixed line and ADSL internet services or as a software outsourcing company; FPT always strived to push the boundaries and explore new horizon. Acknowledging its presence in 38 provinces in Vietnam, and 11 countries worldwide, holding number one position in Vietnam in almost business realms and achieving the highest revenue in all Vietnamese listed enterprise in 2011 with an exceptional turnover growth of 27%; FPT is inarguably a successful company.

Investment view- Key selling points: Why should investor buy FPT?

Strong brand recognition: FPT is one of the leading companies in the Vietnam ICT industry with ISO certifications for every field of operation, and CMMi (capability maturity model integration) accreditation for software development, not to mention that company has obtained more than 1,000 international technology certificates granted by partners who are world leaders in technology. For the past years, company had been voted “The most prestigious IT Corporation” by the Vietnam PC World magazine, “The best enterprise partner of the year” by HP, Cisco and IBM and “The Vietnam Golden Star” award, thanks to its endeavors to innovation, total quality management and customer satisfaction.

Strong corporate culture and spirit: Over the last 23 years since its inception, emerging from the arduous time, a variety of traditions and values have been shaped, making FPT an enterprise with unique characteristics. FPT respect individuality, innovation and teamwork, and FPT leaders at different levels- the keeper of this spirit- always strive to be dedicative, exemplary and perspicacious. Company has organized sporting and cultural events each year to enrich the spiritual life of employees and encourage them to participate in company’s quarterly festivals. Those activities are indeed spiritual glue that connects all FPT members, both managers and employees, inspiring each of them to work harder and become more dedicated to company’s development.

Large human resource pool and training programmers at international standard from the FPT University and FPT Aptech Center serve as invaluable assets that enhance long-term sustainability for the company, considering the current shortage of trained workers in Vietnam IT industry nowadays.

Viable long-term strategy brings FPT to the right track: ‘One FPT’ aiming at consolidating ownership of all associates, in addition to the “Focus strategy” stand at the centre of company’s strategy in 2011-2024. We highly value this strategy and strongly believe in the synergy effect that it will generate in the near future. Particularly, the valuable talent pool from the FPT University will provide company with trained IT workers, and the stable trading segment will help underpin the growth of core businesses, which are telecoms, system integration and software development and digital content. Consolidating ownership definitely will help to promote efficient management and improve transparency. Last but not least, FPT is following the roadmap that many successful global corporations have been pursuing; typically Nomura Research Institute. Transforming business structures to higher margin business realms which focus on technology and innovation are inevitable for any ICT company that aims to ‘stand in the top 500 enterprises for Forbes Global like FPT. In the next 10 years, we expect FPT to become the Nomura of Vietnam.

Attractive ICT industry: The Vietnamese government has been supporting and giving incentives to promote the development of IT sector for the sake of industrialization and modernization of the country. Ample opportunities are arising from this industry. Rural areas’ current low PC penetration rate, low internet connection rate per capita create plenty of opportunities to PC and IT service markets. Government’s master plan to make Vietnam an advanced country in IT in 2020 will boost public spending on IT in areas such as e-education, e-business, e-government and e- taxation. Banking and finance sector as well as SMEs under the pressure of improving operating efficiency, are another promising ground for ICT companies like FPT. Besides, solid client base from government agencies, banks and SOEs

will help FPT sustain stable demand in system integration segment and support the telecoms, as well as software outsourcing growth.

Valuation result and recommendations

Two methods encompassing absolute and relative valuation models, with a total of 5 approaches were used. FCFE and FCFE serve as the most reliable methods; and we have confidence that those two intrinsic valuation models will yield the most accurate result for Vietnamese companies in general and FPT in particular, because all input data are collected from the financial statements, which is transparent and easily accessible. We put the lowest weight on the dividend discount model, since FPT's dividend payout track record was not long enough, in addition to the fact that company are in the high growth period, hence retained earnings might be extracted for reinvestment which resulting in lower dividend payout ratio in the future. Different scenarios lead to different dividend cash flows, so the valuation based on dividend discount model become less accurate.

We update FPT with a revised target share price of **VND 58,055** per share suggesting a **23.4% upside** to the current market price.

Considering FPT's core competences, we initiate the coverage of FPT with a "Buy recommendation" and a target price of VND 58,055.

APPENDIX

CONSOLIDATED INCOME STATEMENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Sale Revenues	1,514,960	4,148,298	8,734,781	14,100,792	11,412,178	13,518,396	16,429,738	18,422,052	20,041,458	25,397,759
Deduction revenues	-	-	-	-	(14,173)	(19,506)	(47,898)	(18,025)	-24,155	27,512
Net Sales	1,514,960	3,171,958	8,734,781	14,100,792	11,398,005	13,498,891	16,381,840	18,404,026	20,017,304	25,370,247
Cost of goods sold	1,361,252	3,890,028	8,196,631	13,179,645	10,031,489	11,537,442	13,403,403	14,718,672	16,028,810	20,412,099
Gross profit	153,709	258,270	538,150	921,148	1,366,516	1,961,448	2,978,436	3,685,353	3,988,493	4,958,148
Revenue from fin. activities	669	2,164	4,389	7,227	11,278	48,936	197,472	187,941	464,259	552,058
Financial expenses	12,851	19,772	28,326	40,367	74,259	72,344	495,236	445,371	559,127	693,758
interest expense	9,008	12,867	21,815	31,456				109,670	238,148	249,501
Selling expenses	81,804	110,995	158,411	283,983	357,567	384,773	526,659	527,091	646,360	793,284
GE expenses	41,781	85,848	164,054	269,132	435,826	600,168	963,266	1,306,345	1,370,581	1,603,155
Net profit from operating act	17,942	43,820	191,748	334,892	494,859	953,099	1,190,746	1,594,487	1,876,684	2,420,008
Other income	78	423	1,396	15,634	140,456	104,755	191,151	185,589	144,688	104,921
Other expenses	41	348	369	6,633	26,015	28,868	101,853	152,222	106,012	58,923
Profit from other act.	37	75	1,028	9,001	114,440	75,886	89,298	33,368	38,676	45,998
Total profit before tax	17,979	43,894	192,775	343,893	609,299	1,028,985	1,240,085	1,697,522	2,023,193	2,501,543
Current tax expense	5,753	14,046	53,871	42,515	(73,687)	(148,715)	212,404	329,029	346,754	418,067
Deferred tax income	-	-	-	-	-	-	(23,365)	(37,381)	(15,318)	4,328
Profit after tax	17,979	43,894	174,818	301,378	535,612	880,271	1,051,047	1,405,874	1,691,757	2,079,148
to minority interest					85,176	142,801	214,776	342,525	427,251	397,329
to equity holders					450,436	737,469	836,271	1,063,349	1,264,506	1,681,818
<i>Basic earning per share</i>				5,125	8,008	8,043	5,959	5,607	6,584	7,861

Unit: Million VND

CONSOLIDATED BALANCE SHEET

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
ASSET										
CURRENT ASSETS	509,891	917,139	1,495,173	2,020,707	3,044,564	4,342,622	4,658,263	7,678,505	8,839,022	11,372,728
Cash and Cash Equivalents	102,747	79,956	372,681	415,058	669,452	895,515	1,242,503	2,310,510	1,436,128	2,902,383
Short term financial investment	-	-	-	-	-	-	-	619,749	563,892	861,597
Short term Account Receivables	275,855	619,655	756,304	1,197,395	1,756,845	1,849,283	1,994,170	2,545,551	3,248,876	3,781,514
Trade account receivables					1,509,767	1,511,116	1,541,292	1,885,705	2,355,779	3,055,170
Advances to suppliers					162,099	160,984	271,889	395,080	241,613	202,305
Receivables from contracts					-	61,418	92,724	94,000	153,814	259,635
Other receivables					849,997	122,560	107,084	192,909	556,198	368,964
Provision for doubtful debts					(18)	(6,795)	(18,819)	(22,143)	(58,527)	(104,561)
Trade account inventory	124,333	206,909	355,824	384,296	554,669	1,428,218	1,223,958	1,426,043	2,448,472	3,275,850
Inventories					554,669	1,430,100	1,230,872	1,434,709	2,460,454	3,294,682
Provision for inventories					-	(1,882)	(6,914)	(8,666)	(11,982)	(18,833)
Other Current Assets	6,956	10,618	10,363	23,958	63,598	169,606	197,633	776,651	1,141,654	551,384
Short-term prepayments					17,263	35,807	40,371	93,984	72,424	81,838
VAT deductibles					40,847	130,809	143,680	209,296	310,144	405,238
Taxes & receivables					1,284	-	1,363	25,941	12,449	38,095
Other short-term assets					4,204	2,989	12,219	447,431	746,637	26,231
NON-CURRENT ASSETS	40,517	62,904	88,532	198,770	364,656	1,013,430	1,466,571	2,716,910	3,465,522	3,570,358
Long term Account Receivable	-	-	-	194	-	-	-	109	376	1,029
Fixed assets	36,651	55,807	74,637	165,718	329,469	641,608	960,726	1,638,512	2,000,339	2,150,890
Tangible Fixed Assets					276,837	698,227	694,250	1,023,899	1,433,735	1,458,878
Finance Lease Assets					-	-	154	147	731	596
Intangible Fixed Assets					15,939	34,571	44,566	231,520	243,377	268,331
Construction in progress					36,693	8,809	221,756	382,946	322,496	423,085
Long term Financial Investments	3,790	3,906	5,465	1,296	13,296	321,827	290,070	909,809	978,170	865,424
Investment in Associates					-	299,211	243,554	381,217	714,708	212,185
Other long-term investments					13,296	23,796	47,696	560,289	273,705	672,534
Provision					-	(1,180)	(1,180)	(31,697)	(10,243)	(19,295)
Other long term assets	76	2,381	2,381	31,562	21,891	49,996	215,775	162,482	264,923	336,649
Long-term prepayment					19,904	41,169	153,152	81,869	154,930	225,344
Deferred Tax Assets					-	-	23,365	60,746	76,064	73,225
Other non-current assets					1,987	8,827	39,258	19,867	33,928	38,080
Goodwill	-	-	-	-	-	-	-	5,999	221,714	216,366
TOTAL ASSETS	550,408	979,233	1,583,705	2,219,477	3,409,220	5,356,052	6,124,834	10,395,415	12,304,544	14,943,086

LIABILITIES	517,349	806,762	1,271,657	1,572,687	1,720,207	3,094,037	3,165,352	6,677,493	7,255,513	8,717,275
Short term Liabilities	419,101	716,761	1,098,058	1,408,121	1,713,289	3,027,492	3,160,423	4,765,833	5,439,122	8,475,465
Short-term loans	159,980	355,411	552,897		778,039	1,249,346	1,236,812	2,234,117	2,675,925	4,674,454
Trade accounts payable	143,782	192,352	351,924		626,707	1,060,379	1,057,508	1,238,652	1,150,177	1,338,827
Advances from customers	13,851	20,619	18,783		71,236	160,212	336,640	271,717	210,727	335,440
Taxes&payables to St.Budget					82,471	242,917	189,056	353,375	242,204	337,468
Payable to Employees					67,208	72,645	36,337	165,343	211,764	342,051
Accrued Expenses					460	78,377	122,982	126,992	218,872	196,159
Payable from contracts	101,487				-	10,432	7,365	11,214	30,227	16,887
Other Current Payables		148,379	174,454		67,427	43,592	57,732	74,642	286,391	708,436
Short-term Provisions					19,740	22,833	17,733	22,224	32,544	24,125
Bonus and welfare funds							61,756	86,081	155,375	194,123
Unearned Revenue							98,259	181,474	224,916	307,132
Long term Liabilities	98,348	90,001	173,618	124,922	6,919	66,546	4,929	1,911,660	1,816,391	241,810
Other Long-term payables					6,919	10,985	2,895	16,892	10,295	196,675
Long-term loans liabilities					-	54,501	147	1,892,099	1,800,360	275
Deferred tax liabilities					-	-	-	-	359	1,848
Provision					-	614	773	909	1,588	1,482
Long-term Provisions					-	446	1,114	1,760	2,937	557
Unearned Revenue					-	-	-	-	-	7,630
Sciences/tech.develop funds					-	-	-	-	853	33,343
OWNERS' EQUITY	33,059	172,471	312,049	646,790	1,689,012	2,262,015	2,376,233	3,002,251	3,983,401	5,521,005
Shareholders' equity	31,254	169,700	297,440		1,565,842	1,979,409	2,373,483	299,501	3,980,651	5,518,255
Charter Capital					608,102	923,526	1,411,621	1,438,320	1,934,805	2,106,827
Share Premium					524,866	524,866	54,851	54,851	60,012	49,647
Treasury Shares					-	(176)	1,831	(2,806)	(692)	(513)
Foreign Exchange reserve					(10)	(1,024)	3,165	5,987	17,276	19,394
Investment&Develop Funds					13,011	103	103	103	103	103
Financial reserve Funds					37,503	60,270	107,566	94,761	112,946	115,476
Retained Earnings					353,295	431,917	798,009	1,408,285	1,856,200	3,173,421
Expenditures and Other Funds	1,905	2,771	14,609	77,654	29,077	39,927	2,750	2,750	2,750	2,750
Non-business Exp Funds					29,077	39,927	2,750	2,750	2,750	2,750
Minority Interests	-	-	-	-	123,170	282,606	521,493	715,672	1,065,631	704,807
LIABILITIES AND OWNER EQUITY	550,408	979,233	1,583,705	2,219,477	3,409,220	5,356,052	6,124,834	10,395,415	12,304,544	14,943,087

Unit: Million VND

CONSOLIDATED CASH FLOW STATEMENT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CASH FLOW FROM OPERATING ACTIVITIES										
1. Profit before tax	17,979	43,894	192,775	343,893	609,299	1,028,985	1,240,085	1,697,522	2,023,193	2,501,543
2. Adjustment for										
Depreciation and amortisation	12,615	18,377	29,479	53,817	106,819	170,934	239,580	304,181	329,406	375,957
Provisions	-	-	363	363,454	(708)	10,453	12,783	35,592	20,246	59,938
Net (profit) from associates	-	-	-	-	-	(2,686)	43,907	(61,900)	(87,904)	(25,370)
Foreign exchange differences	-	-	-	-	-	(1,014)	6,050	4,275	6,764	409
(Gains) from investing activities	-	-	(2,366)	695	(651)	(3,021)	(17,516)	66,556	454,571	(300,561)
Interest expense	8,928	12,867	21,815	31,915	57,966	42,956	80,488	109,699	238,148	249,501
3. Operating profit before working capital	39,522	75,139	242,067	430,684	772,719	1,246,606	1,605,377	2,022,814	2,075,282	2,861,417
(increase) in receivables	(97,824)	(343,801)	(135,106)	(451,926)	(581,096)	(193,518)	(180,374)	(554,814)	(538,514)	(290,781)
(Increase) in inventories	(34,619)	(82,576)	(148,915)	(28,471)	(200,189)	(875,431)	199,228	(203,837)	(1,025,745)	(834,229)
Increase in accounts payable	123,733	81,497	144,006	(33,287)	391,814	804,845	160,805	47,850	796,734	974,371
(Increase)/decrease in prepaid exp				(27,302)	(1,545)	(39,809)	8,909	30,828	(51,502)	(79,827)
interest paid				(31,915)	(57,961)	(42,977)	(96,014)	(60,853)	(250,493)	(220,209)
Corporate income tax paid				(48,819)	(98,446)	(106,310)	(215,725)	(170,727)	(407,116)	(401,260)
Other cash inflows	1,223	-	-	1,050	26	-	508	-	-	-
Other cash outflows	-	(20,801)	(33,353)	(8,978)	(89,332)	(57,435)	(112,079)	(587,986)	(113,132)	(162,897)
Net cash from operating activities	32,036	(290,542)	68,699	(198,965)	135,989	756,151	1,370,637	523,274	485,515	1,846,584
CASH FLOW FROM INVESTING ACTIVITIES										
1. Acquisition/ construction of fixed assets	(22,028)	(37,533)	(52,564)	(142,136)	(246,629)	(486,955)	(708,046)	(809,933)	(875,985)	(465,352)
2. Proceeds from disposal of fixed assets		-	43	(695)	651	6,677	38,999	46,705	8,772	12,944
3. Cash from lending and trading debt instruments of other entities				-	-	-	-	(1,067,421)	340,441	(295,705)
4. Cash from investment in other entities	2,105	(116)	(1,559)	4,169	(12,000)	(306,800)	(23,900)	(144,122)	(1,190,187)	804,592
5. Interest earned, dividends/ profit received		-	2,483	-	191	-	11,750	78,053	276,456	50,538
6. Payment for acquisition(minority interests)					-	(5,000)	(1,920)	(7,332)	(38,410)	-
Net cash (used in) investing activities	(19,923)	(37,649)	(51,597)	(138,650)	(257,787)	(792,076)	(683,116)	(1,904,049)	(1,478,913)	107,017

CASH FLOW FROM FINANCING ACTIVITIES

1. Proceeds from issuing stocks	20,000	120,000	-	136,650	590,676	11,372	18,080	26,699	18,146	27,716
2. Capital contribution in subsidiaries				-	-	25,909	96,604	57,164	34,942	6,511
3. Capital withdrawals	-26,705				(19)	(604)	(2,367)	(3,605)	2,114	8,249
4. Proceeds from borrowings	64,828	185,400	2,753,800	3,764,480	5,581,874	6,181,524	6,138,973	11,750,349	10,294,348	11,504,198
5. Repayments of borrowings			(2,478,117)	(3,519,035)	(5,761,787)	(5,655,716)	(6,202,511)	(8,861,090)	(9,944,279)	(11,305,754)
6. Dividends paid	-	-	-	(2,090)	(34,569)	(280,496)	(389,312)	(521,184)	(286,254)	(728,267)
Net cash from financing activities	58,123	305,400	275,623	380,005	376,206	281,989	(340,533)	2,448,782	119,016	(487,346)
Net increase/ (decrease) in cash	70,236	(22,791)	292,725	42,377	254,408	226,063	346,998	1,068,007	(874,382)	1,466,255
Cash - beginning of the year	32,511	102,747	79,956	372,681	415,058	669,452	895,515	1,242,503	2,310,510	1,436,128
Cash - - end of the year	102,747	79,956	372,681	415,058	669,452	895,515	1,242,503	2,310,510	1,436,128	2,902,383

Unit: Million VND

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