Company Report| Real estate

June, 2017

Kien Long Commercial JSB (KLB – Upcom)

To Go Through the Banking Industry Difficulties

- Despites of its small-scale in terms of equity capital, KLB is well-controlled its capital adequacy
- Outstanding loans to customers grow rapidly, along with the strategy to penetrate gradually into the SMEs
- NPLs and bad debt coverage ratio poise to improvement
- More time needed to improve operating efficiency and profitability

Outlook and Valuation

Going through the restructure phase of the banking industry, the rural joint stock commercial banks group, including KLB, faced many challenges and obstacles to maintain their operations. Contrary to many other banks in the same group that need to merge with big banks or fall into the category of "zero-dong", KLB has made great "self-restructure" efforts to go through this difficult period. Compared to state-owned banks or joint stock commercial bank in Groups 1 and 2, KLB does not have much advantage in terms of liquidity deposit or brand credibility. However, with a clear development strategy, KLB has been investing quite well in the technology platform as well as completing its product portfolio. Considering what KLB is working on, we believe KLB will be able to stand strongly and have good prospects for growth.

The relatively low profitability ratios are our biggest concern for KLB. However, KLB has the capital adequacy and liquidity ratios higher than those set by the SBV, and still be able to improve these ratios further. Thanks to the Directive 24 and the Bad Debt Resolution, the business environment of the banking industry in the second half of 2017 is promise to be more favorable. KLB will also be the beneficiary of this trend. Credit growth should outweigh the deposit growth in 2017, and NIM will improve slightly to 3.54%. We project the after-tax profit to grow approximately 68% YoY, driven by rising interest incomes and continuing service growth. Estimated EPS for 2017 is VND685 (compared to VND368 in 2016).

*Using the P/B method, we estimate the reasonable price of KLB to be VND12,000/share, 20% higher than the initial price as of 29th June. We recommend investors to **ACCUMULATE** the stock in **LONG TERM.***

Key Financials

Y/E Dec (VND B)	FY2015	FY2016	FY2017E	FY2018F
Total operation	849	925	1,155	1,409
% change	1.4	9.0	24.8	23.6
NPAT	165	121	203	265
% change	-6.1	-26.8	67.7	32.8
NPAT margin (%)	19.5	13.1	17.6	18.8
ROAE (%)	4.9	3.6	5.9	7.3
ROAA (%)	0.7	0.4	0.6	0.7
EPS (VND)	531	368	685	842
Adjusted EPS (VND)	531	368	685	842
Book value (VND)	11,389	11,357	12,042	11,992
Cash dividend (VND)	400	0	0	0
PER (x)	N/A	N/A	N/A	N/A
PBR (x)	N/A	N/A	N/A	N/A

Sources: KLB, RongViet Research

ACCUMULATE

CMP (VND)	N/A
Target Price (VND)	12,000
Investment Period	**Long-term**

Stock Info

Sector	Banking
Market Cap (VND B)	N/A
Current Shares O/S	296,200,000
Beta	N/A
Free-float (%)	81.9
52 Week High	N/A
52 Week Low	N/A
Avg. Daily Volume (20 sessions)	N/A

Major Shareholders (%)

Pham Tran Duy Huyen	4.7
Vo Quoc Loi	4.7
Nguyen Thuy Quynh Huong	4.4
Bui Thanh Hai	4.3
Foreigner Investor Ownership (%)	*0.0*

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Please refer to important disclosures at the end of this report

Bloomberg: VDSC <GO>

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Despites of Its Small-scale in terms of Equity Capital, KLB Is Well-controlled Its Capital Adequacy

KLB, formerly a rural bank, was established in 1995 with a mere initial chartered capital of VND1.2 bn. Going through a restructuring phase of banking industry, KLB is one of twelve rural commercial banks that successfully transferring into urban joint stock commercial banks. With this new model, KLB has been able to do some business activities such as foreign exchange trading and nationwide expansion, for which rural banks are unable.

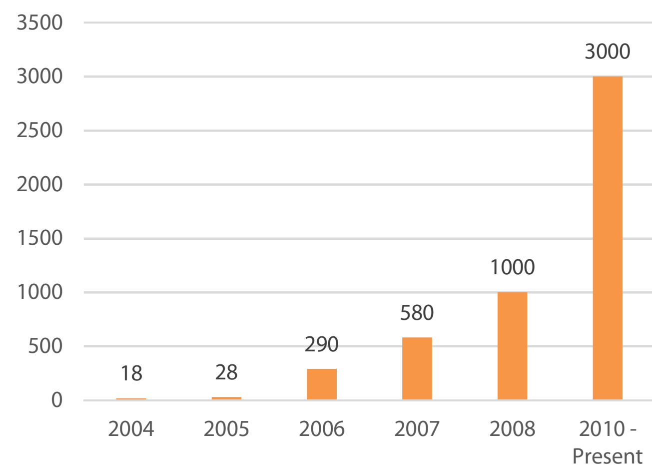
The rural banks going through the restructure process, KLB included, were classified into three groups: merging with the larger bank (Petrolimex and Mekong banks), state-owned banks or "zero-dong banks" (GP, Ocean, and Dai Tin banks), and self-restructure banks. KLB is under the third group, "self-restructure", as it always keeps their capital adequacy under well controlled.

Table 1: Rural Banks That Are Changed into Urban Banks at the Same Time with KLB

Rural Name	Latter Name	Converted year	Charter Capital at the converted time
Da Nang	Viet A	2003	190
An Binh	An Binh	2005	165
Ninh Binh	GP Bank	2006	500
Nhon Ai	SHB	2006	500
Song Kien	Nam Viet	2006	500
Kien Long	Kien Long	2006	290
Hai Hung	Ocean Bank	2007	1,000
Dong Thap Muoi	PGBank	2007	500
Co Do	Western Bank	2007	200
Rach Kien	Dai Tin	2007	504
Dai A	Dai A	2007	500
My Xuyen	MeKong Development	2008	500

Source: RongViet Research compile

Figure 1: KLB's Charter Capital Raising (VND Bil)



In 2016, KLB's capital adequacy ratio (CAR) was 16.35%. Although the ratio decreased, it was still significantly above the SBV's minimum requirement of 9%, and was the highest compared to that of other listed banks. In addition, KLB's CAR is mainly guaranteed by the Tier 1 capital and has not yet been used the Tier 2 capital. Therefore, in the case that the banking industry have to apply the stricter regulations (such as the Circular 41), KLB still has room to improve their CAR, by raising Tier 2 capital (long-term bond issuance).

Table 2: KLB's Capital Adequacy and Operating Ratio

Particulars (%)	2013	2014	2015	2016
CAR	20.7	18.4	19.8	16.4
Advances to Capital Ratio	11.5	14.3	13.8	12.8
Liquidity Ratio	23.5	17.9	16.4	11.3
Short-term capital to mid- and long-term loans	27.5	20.5	26.2	36.3

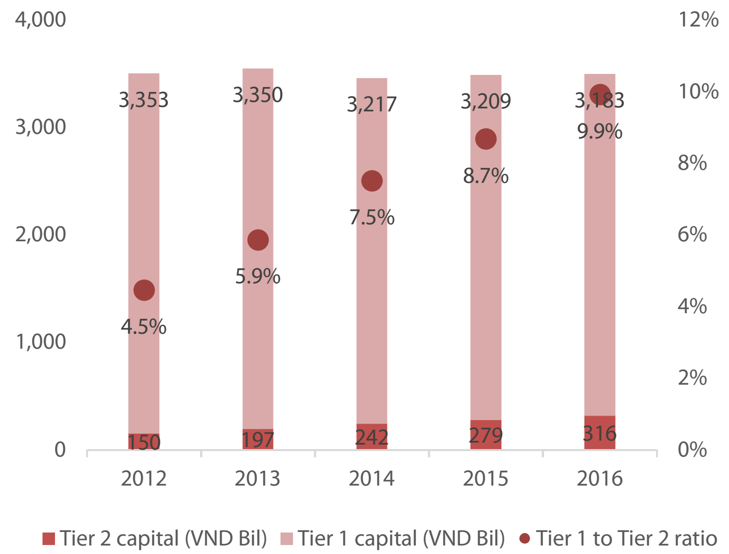
Source: KLB's annual report

Table 3: CAR of Listed Banks (%)

Banks	2013	2014	2015	2016
ACB	14.7	9.8	12.8	13.2
BID	13.2	12.8	13.0	12.8
CTG	13.2	10.4	10.6	10.4
EIB	14.5	13.6	16.5	17.1
KLB	**20.7**	**18.4**	**19.8**	**16.4**
MBB	11.0	10.7	12.9	12.5
SHB	12.4	11.3	11.4	13.0
STB	10.2	9.9	11.0	9.6
VCB	13.1	11.6	11.0	11.1

Source: RongViet Research compile

Figure 2: KLB's Tier 1 to Tier 2 Capital Ratio



Source: RongViet Research estimate

Outstanding Loans to Customers Grow Rapidly, Along with the Strategy to Penetrate Gradually into the SMEs

The 2012-2016 CAGR of total assets was 11%, mainly contributed by a rapid CAGR of 19% of customer loans. Customer deposit was also experiencing rapid growth, with a CAGR of 27% over the same period. As a result, the LDR was around 75-77% during this period, which qualify the SBV's limitation.

Although consumer loans accounted for more than 64% of KLB's assets, their market share was a mere 0.4%, far behind that of Group 1 and Group 2 banks (such as VCB, CTG, BID, ACB, and MBB). The structure of customers, however, has gradually shifted to in line with the bank's target. Specifically, the proportion of SMEs' outstanding loans was approached 30% by the end of 2016, from around 20-21% by the end of 2013.

Figure 3: Deposit Market Share

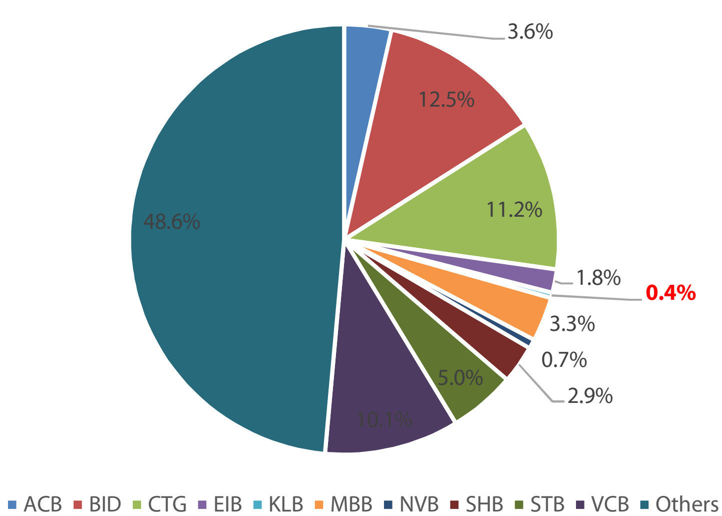
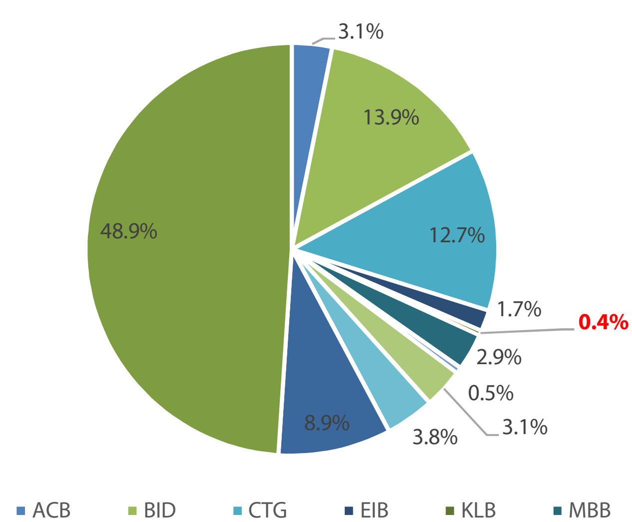


Figure 4: Lending Market Share



Source: KLB's FS, RongViet Research compile

Figure 5: KLB's Loans Classified by Characteristic

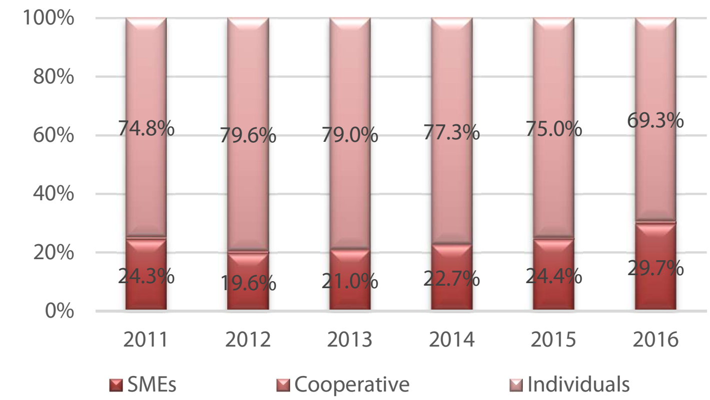
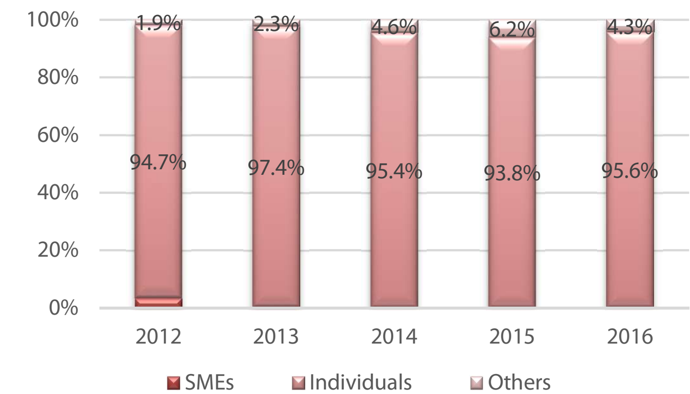


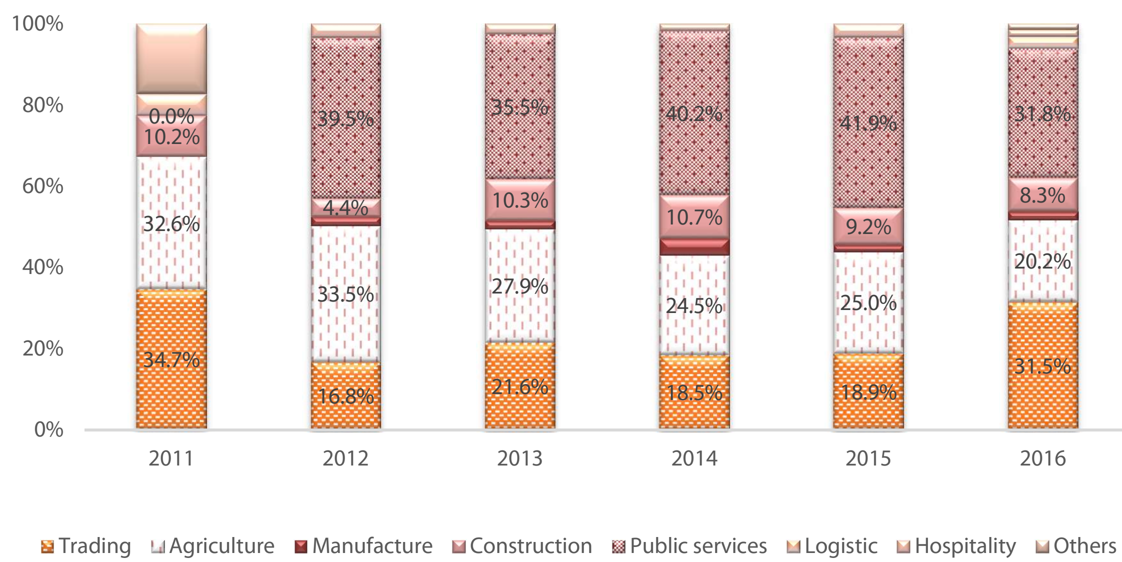
Figure 6: KLB's Deposit Classified by Characteristic



Source: KLB's FS, RongViet Research compile

Moreover, KLB focuses mainly on three main industries: rural agriculture, trading activities and public service sectors (community and education). Over the past few years, the proportion of agricultural outstanding loans has fallen significantly from over 30% in 2012 to about 20% in 2016. On the contrary, loans to trading sectors like commercial, auto and motor reparation, and personal and household equipment experienced a rapid growth.

Figure 7: KLB's Deposit Classified by Sector



Source: KLB's FS, RongViet Research compile

Security investment is quite safe but only has a small weighted in KLB's total assets

KLB's investment securities, mainly Government bond, witnessed a strong growth and accounted for more than 20% of KLB's total assets in 2012 before gradually decreased to the average of 14% during 2013-2015. The value of the investment is stable at around VND2,000 – 2,800 bn during that time. We would like to note that the bidding interest rate of Government bond was relatively high during 2011-2013. This implies that in case the bank liquidates these bonds in the upcoming years when the bidding interest rate is lower, they can realize a significant profit. In 2016, instead of investing in Government bond, KLB allocated their capital to customer and interbank loans due to higher demand on borrowing with higher interest lending rate.

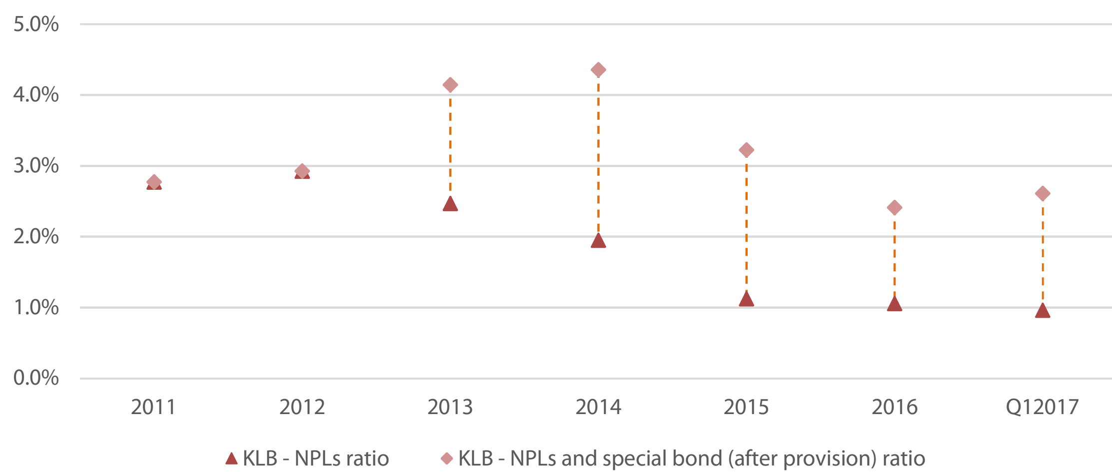
20% of KLB's investment portfolio is equity securities, which are stake of other credit institutes. Of which, the investment in STB in 2013 accounts for more than 99% of the portfolio amount, and the rest is share of Maritime bank (MSB STB is listed and quite liquate, and MSB is planned to list within 2017. Therefore, we are not concern about these two investments.

NPLs and Bad Debt Coverage Ratio Poise to Improvement

KLB has controlled their non-performing loans quite well despite the fact that they are in the 3rd Group banks. The NPLs ratio has gradually decreased since 2014 and stay at 1% by the end of 1Q2017. If we included special bond after-provision value, the ratio is 2.6%, slightly increased from the end of 2016. However, the ratio is far lower than the average 7% of the banking industry (include both NPLs in banking balance sheet and NPLs in VAMC)

Provision for bad debt has also improved in recent years. The average provision expenses (excluding provision for special bond) in the past years accounted for 14% of pre-provision profit. Thanks to that, the bad debt coverage ratio has steadily increased from approximately 41% in 2011 to 81% at the end of 2016.

Figure 8: KLB's NPLs and NPLs Added Special Bond Ratio



Source: RongViet Research compile

Bad debt at VAMC and debt recovery prospects after the pass of Bad Debt Resolution

KLB began to sell its bad debt to VAMC in 2013. Despite the high recovery rate after that, KLB still continue to sell a large amount of their bad debt to VAMC in 2016 and 2017 while many banks have gradually reduced their bad debt sales through VAMC since 2017. Hence, KLB's total provision expense has been high because of making provision for special bond.

Bad Debt Resolution, being approved on June 21st 2017, has regulated the seizure and dispose of collateral, as well as the treatment to collateral that is real estate and assets formed in the future. The aiming of the Resolution is to solve struggles arising when the borrowers are bankruptcy but do not willing to transfer the collateral to the credit institutes. Having 97% of their collateral classified as real estate, KLB would be benefit from the Resolution. However, it is difficult to forecast its effectiveness ahead of its application in August 15th 2017,. Therefore, at this time, we assume that KLB's new bad debt sold to

VAMC will be equivalent to the recovery rate. As the results, provision expense to special bond in upcoming years will equal to that of 2016.

Table 4: Special Bond at KLB

(VND Bil)	2013	2014	2015	2016	2017E	2018F
Face value of Special Bond	203	361	416	395	446	446
Outstanding loans balance by year-end	262	446	511	480	549	549
Sold in the year	*0*	*184*	*185*	*99*	*168*	*0*
Collect in the year	*0*	*0*	*120*	*130*	*100*	*0*
Provision expenses in the year	*0*	*36*	*40*	*52*	*53*	*53*

Source: KLB's FS, RongViet Research estimate

Service Activities to Contribute More in Total Operating Incomes

Interest always accounts for the largest proportion of Vietnamese banks' total operating income, with an average rate of 75-80%. However, this rate is much higher in the case of KLB: about 95% prior to 2016. The ratio slightly decreased in 2016, thanks to the higher contribution from non-interest incomes.

Figure 9: KLB's Operating Income Structure

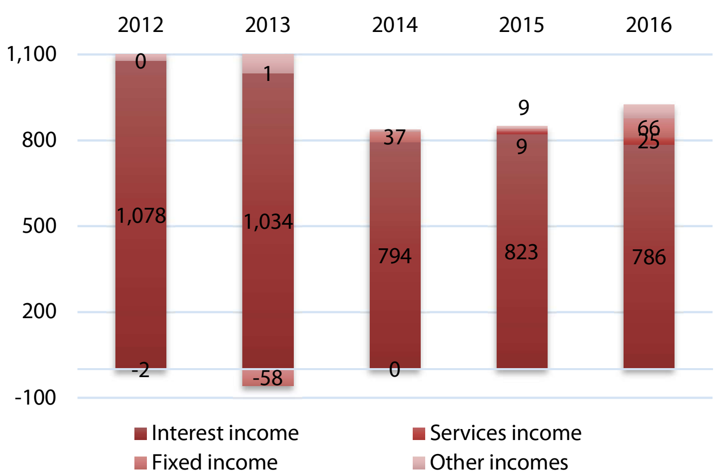
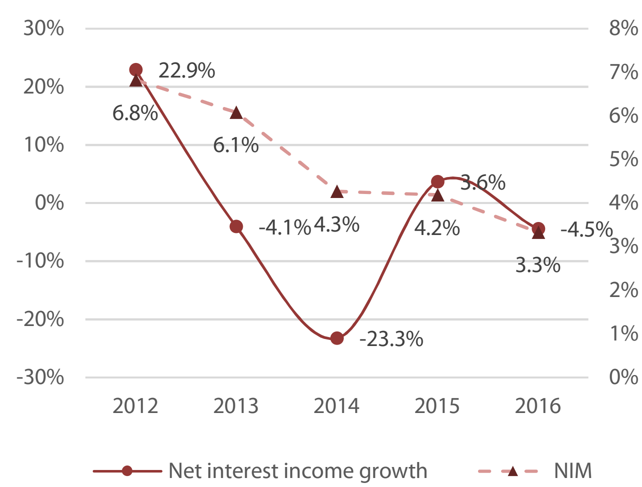


Figure 10: NIM and Net Interest Incomes



Source: KLB's FS, RongViet Research compile

Income from investment securities sharply increased in 2016 thanks to the fact that KLB realized profit of Government bond to have more capital for credit activities. As we mentioned above, KLB invested these Government bonds in 2012-2013 when the bidding coupon was quite high, and the trend is unlikely to occur again at this time. Therefore, we think that profit from security investment will not be as positive as that occur in 2016. Meanwhile, income from other activities experienced strong growth thanks to the high recovery rate of bad debt sold to VAMC. Accordingly, we believe that the proceeds from the bad debt sold to VAMC may continue to be positive in the coming years, especially after the Bad Debt Resolution goes into effect.

We observed that income from services began to have a positive contribution in 2016, in which they accounted for 2.7% of total operating income (2015: 1.1%). Payment services, appraisal, and offices and warehouses leasing services mainly contribute KLB's services. These business segments closely linked to the bank's credit activities, so their growth can be equal to the credit growth.

Prospects of service income growth

Vietnam is still enjoying a young population structure (~ 59% population is currently at working age). Small and medium enterprises, which account for 90% of the total number of enterprises and grow at an annual rate of 15% in volume, is playing a major role in the economy: contributing 25% of total exports turnover and 35% of total investment capital. Meanwhile, the level of using banking services of this segment is only limit at basic services such as account, ATM, basic payment services. Thus, targeting the retail segment is a popular trend in the banking industry, and KLB is no exception. KLB's key target customers are individual, super small, small and medium enterprises.

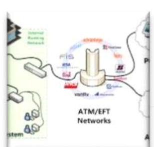
KLB's market share of customer loans and deposit mobilization and credit of KLB is quite low (around 0.4%), with key market is in the South West of Vietnam. Therefore, given the aggressive competition in retail banking, KLB will have to put a lot of effort to reach its goal when joining the retail segment. In the recent years, the Bank has also continuously invested in technology infrastructure and facilities to attract customers. During 2011-2016, KLB's network has increased by 31 transaction points. By the end-2016, the bank has 117 points, of which 64 are located in the South West and 14 in the HCMc. In addition, during 2014 – 2016, the Bank has also focused on investing in the core banking system and data center, the most important factors to develop retail customers.

KLB's product and service portfolio has been relatively adequate and they are constantly upgrading the technology platform. Meanwhile, although KLB has launched their ATM cards in the market since 2013, KLB has almost not charged service fees for this segment. Therefore, we think the growth of the service sector is still very high once the fees for e-card and card services are deployed.

Figure 11: IT Investment Roadmap

2014

- Automate the process of designing software applications
- Business Unit Performance Management, Customer Care System
- Information security measures



2015

- Building a backup data center in Long An
- Deploying services of modern banking: Internet banking, Mobile banking, BanketnetVN, eCom payment service
- System of state budget collection program
- Upgrade core banking system

2016

- Complete and put into operation the new Data Center, connected to the existing data center, ensure business continuity 24/7
- Launch hotline 19006929 and operate the new call center system
- Diversify products on the core banking system
- Fully invested and upgraded card core system

Table 5: KLB's Services by the end 2016

Corperation	International payment services		
	Foreign currency trading		
	Money transferring services		
Individuals	**ATM machine**	129	
	POS machine	99	
	Cards	**Local**	233,693
		Visa	2.563

Source: KLB's annual report

High operating costs compared to peers

KLB's source of incomes depends heavily on the interest income. Therefore, when the interest incomes experienced a strong decline, KLB's CIR sharply increased to 74% in 2016 from 51% in 2012. Compared to other listed banks, KLB's CIR is only lower than that of NVB (NVB's CIR: >80%), but significant higher than that of the others (not count in STB). It is observed that compared to State-owned banks or non-state-owned commercial banks in Group 1 and 2, rural-formed banks have less competitiveness in terms of lending or deposit. However, among Group 3 banks, KLB is a bright spot.

The CAGR 2012-2016 of operating expenses was 14%, caused by the CAGR of 20% in staff and the CAGR of 16% of depreciation expenses. We think the increase was in line with the strong growth of CIR during this period because penetrating into retail segment requires huge investment for human resources and technology infrastructure. As KLB continue its strategy to become a retail bank, its operating cost could not decrease soon.

Figure 12: KLB's Staffs and Transaction Points

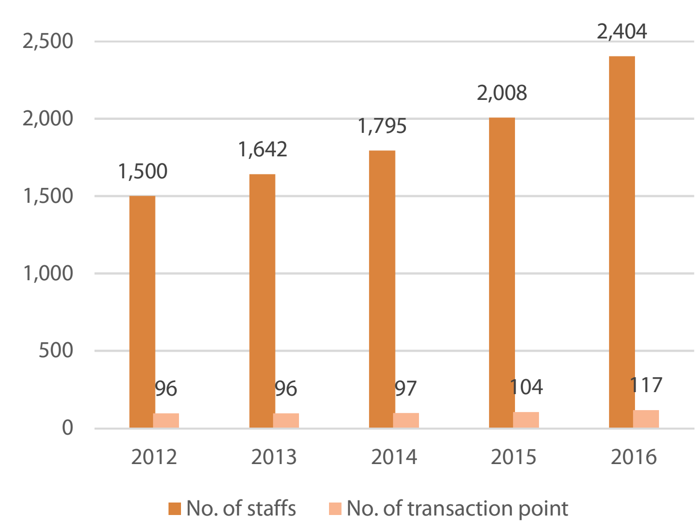
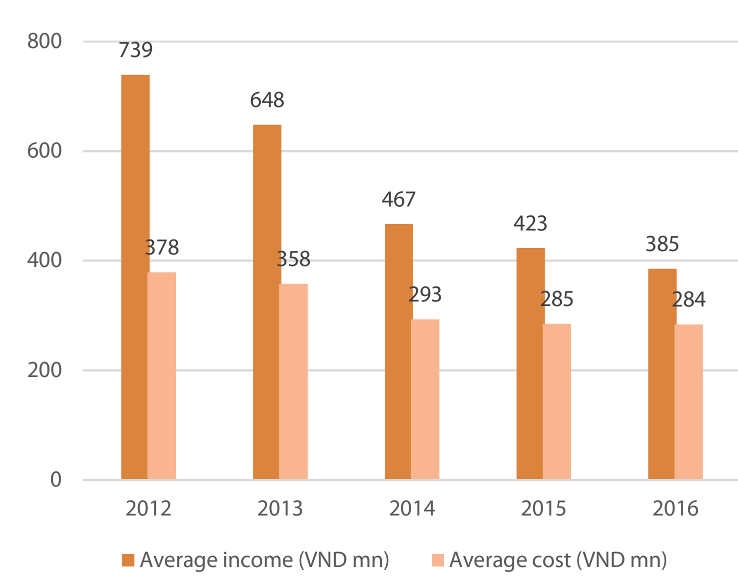
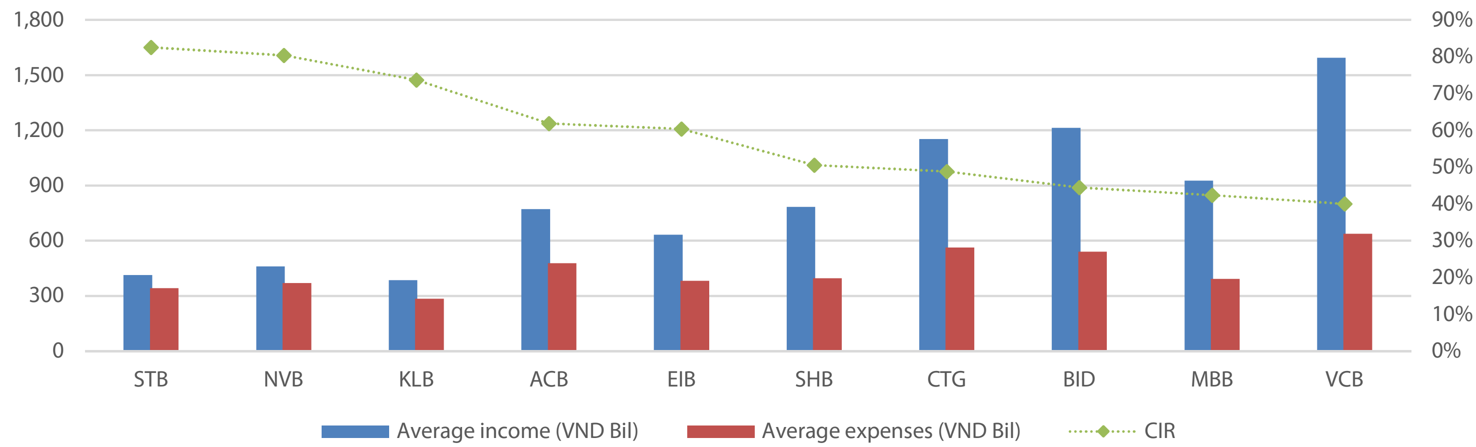


Figure 13: KLB's Average Incomes and Expenses per Staff



Source: KLB's FS

Figure 14: Average Incomes, Expenses per Staff and CIR of KLB and other Listed Banks



Source: RongViet Research compile

More Time Needed to Improve Operating Efficiency and Profitability

Due to the difficulties of banking industry since 2012, KLB's business operations has gone down, resulting in their poor profitability ratio like ROAE and ROAA. Particular, while the CAGR 2012-2016 of total assets increased by 11% while the CAGR of equity capital fell by 1%, the CAGR of NPAT fell by 21%. As a result, ROAE has fallen from 11.8% in 2011 to 3.6% in 2016, and the ROAA has fallen from 2.6% in 2011 to 0.4% in 2016.

In addition, NIM has also faced a downturn for many years. This is due to the effect of accelerating customer deposits against loans in 2014 and 2015. Moreover, KLB actively reduced lending interest rate to customers, especially in 2016. Hence, the gap of average lending interest rate and deposit interest rate continued to narrow compared to that in 2015.

Table 6: KLB's NIM in 2011-2016

Particulars (%)	2011	2012	2013	2014	2015	2016
NIM	7.3	6.8	6.1	4.3	4.2	3.3
Interest income to operating assets	19.6	17.2	14.0	11.3	10.7	9.7
Interest income to interest-paid capital	13.0	11.7	8.6	7.1	6.3	6.3

Source: RongViet Research estimate

Table 7: Profitability and Equity-to-Total Assets ratio of KLB and other Listed Banks

Particulars (%)	ACB	BID	CTG	EIB	KLB	MBB	NVB	SHB	STB	VCB
ROAE	9.9	14.7	11.5	2.3	**3.6**	12.1	0.3	7.5	1.6	14.7
ROAA	0.6	0.7	0.8	0.2	**0.4**	1.2	0.0	0.4	0.1	0.9
NIM	3.8	2.7	2.8	3.0	**3.3**	3.6	3.7	2.2	2.3	2.6
Equity/Total Assets	6.0	4.2	6.6	10.4	**11.0**	9.9	4.7	5.7	6.9	6.1

Source: RongViet Research compile và estimate

For the upcoming years, however, we think KLB still has room to improve their long-term profitability, because:

- ✓ KLB's equity-to-total assets ratio declined sharply from approximately 26% in 2010 to around 11% at the end of 2016. The ratio, however, is still higher than that of the other listed banks. This implies that there is room for KLB to increase leverage (i.e. increasing deposit balances or issuing valuable papers) in order to increase funding sources for lending activities. Regarding to KLB's mid- and long-term strategy, the CAGR of total assets is planned at 16%, CAGR of customer deposits and loans will be 22% and 20% respectively. Hence, the equity-to-total assets ratio may continue to decline in coming years, and we project the ratio will be around 6.9% by 2020.
- ✓ Capital adequacy and liquidity ratios that are well maintained will serve as a buffer for KLB to increase their leverage while maintaining operational safety requirements.

2017 Outlook

Early June 2017, The Government has issued Directive 24/CT-TTg, proposing to increase credit growth target to over 18% with specific solutions to extend credit room for medium & long-term loans and to speed up the process of retructuring inefficient credit institutions. Along with that, the Bad Debt Resolution will be effective in 15th August, 2017 for a period of 5 years. While Directive 24 imply the possibility of loosening credit in the second half of the year, which may help to keep interest rates stable, the Bad Debt Resolution would bring prospects for debt recovery and settlement for CIs. Therefore, we are positive about the prospect for banks in the second half of the year .

At the end of Q1/2017, total asset growth of KLB was 5.8% YTD, in which the main motive came from customer loans with a growth of 10% YTD, while customer deposit only grew at 7.3 % YTD. This is the fastest growth rate in many years of the bank, and is 2.5 times higher than the general growth of the economy. Considering the Prime Minister's plan to boost credit growth in 2H 2017, we forecast that KLB's customer loans and deposit will sustain a strong growththis year: Loans and customer deposit to increase 26% and 24%, respectively, while the LDR rate slightly increase to 78% due to the rapid credit growth.

We believe the bank's NIM has bottom out in 2016, and will recover slightly In 2017 because of the following reasons:

- ✓ The difference between average lending and deposit interest rates may continue to narrow. The reason is that the bank will continue the policy of reducing lending rates, while the average deposit rates remained stable.
- ✓ Credit growth is significantly higher than deposit growth in 2016 but this gap is likely to narrow in 2017.
- ✓ Short-term capital ratio for mid and long–term loans if adjusted further as proposed in Directive 24 will be opportunities for banks with good liquidity and capital safety ratios like KLB to optimize its capital.

We project the NIM ratio to reach 3.54%, and net interest incomes to be VND1,020 bn (+30% YoY) and contributes 88% of total operating incomes of the bank.

For the service sector, the source of incomes will come from three main activities: payment services, valuation services and offices & warehouses leasing. We expect this segment to grow 26%, similar to customer loan growth. Accordingly, KLB's net incomes from services in 2017 could reach VND31 billion, contributed 2.7 % of total operating incomes.

Non–interest incomess and services incomess may reduced significantly compared to 2016, mainly due to decreasing incomes from investment securities. However, the Bad Debt Resolution may help speeding up the progress of debt recovery for credit institutions, and thus boosting the proceeds from debt at VAMC and partially offset the decline in incomes of investment securities.

Operating expenses and loan loss provisions would remain high. Accordingly, we forecast the CIR ratio to be approximately 71% as the bank will continue to invest in technology infrastructure, facilities and human resources to compete in the retail segment. The provision for credit losses in 2017 mainly arises from the provision for special bond, for particular. In addition, according to our research, most of bad debts sold to VAMC in 2016 and 2017 are mainly restructured loans following Decision 780. KLB has completed the solution of these loans (sold through VAMC) in 2017. Therefore, in a more optimistic scenario, in which the value of debt recovered is higher than the value of additional debt selling to VAMC in the following years, the cost of the provision for credit losses for special bonds may be lower than our forecast.

Incomes from investment capital contribution should remain at the same level of 2016. However, if the bank withdraws from STB in 2017, the incomes of this item may increase sharply. Although there are no detailed disclosures on the STB investment, we believe KLB's cost fluctuating around VND13.000/share, the price STB was trading in the last quarter of 2013. As STB's current market price is VND14.200 VND/share, KLB can record a profit of over VND48 billion in case the bank divests its investment.

Table 8: Key Assumptions

	Growth (%)			Average interest rate (%)		NIM (%)	CIR (%)
	Total Assets	Customer Deposit	Customer Loans	Customer Deposit	Customer Loans		
2017 E	20.3	24.0	26.0	6.2	11.3	3.5	71.0
2018 F	19.3	23.0	22.0	6.2	11.3	3.6	70.0

Table 9: Forecasted Business Results

Particulars (VND Bil)	FY2015	FY2016	FY2017E	FY2018F
BALANCE SHEET				
Placements with and loans to other credit institutions	1,773	3,090	3,708	4,450
Loans and advances to customers, net	16,080	19,597	24,708	30,149
Investment securities	3,480	2,923	3,106	3,110
TOTAL ASSETS	**25,322**	**30,451**	**36,647**	**43,735**
Deposits and borrowings from other credit institutions	1,173	3,477	3,895	4,090
Deposits from customers	20,081	22,889	28,383	34,911
Derivatives and other financial liabilities	0	0	0	0
INCOME STATEMENT				
Net Interest Income	823	786	1,020	1,286
Non-interest Incomes	9	25	31	38
Other Incomes	18	114	103	84
Total operating income	**849**	**925**	**1,155**	**1,409**
Operating expenses	-572	-682	-820	-986
Operating Profit Before Provision	277	244	335	423
Provision expenses	-66	-92	-82	-92
Profit before tax	**212**	**152**	**253**	**331**
NPAT	**165**	**121**	**203**	**265**
EPS (VND)	531	368	685	827
Book value (VND)	11,389	11,357	12,042	11,977

Valuation

To determine reasonable value for KLB shares, we use the P/B comparison method. The chosen peer group includes the banks undergoes a same restructuring phase as KLB and the banks with equivalent capital scale. Their average P/B, weighted by their owner's equity, is approximately 1.2 times. Due to the small size of KLB compared to most of reference banks, we discount 15% over the average P/B. Accordingly, the fair value of the stock is determined to be VND12.000/share.

Tickers	Equity Capital (VND Bil)	ROE (%)	ROA (%)	NIM (%)	PB (%)
KLB	3,421	3.6	0.4	3.3	
ACB	14,556	10.7	0.6	3.8	1.8
EIB	13,597	3.1	0.3	3.0	1.2
NVB	3,238	0.4	0.0	3.7	0.8
SHB	13,457	7.4	0.4	2.2	0.6
STB	23,113	1.8	0.1	2.3	1.1
VIB	8,868	6.7	0.6	N/A	1.5

Equity-weighted average	**1,2**

Opinion

Going through the restructure phase of the banking industry, the rural joint stock commercial banks group, including KLB, faced many challenges and obstacles to maintain their operations. Contrary to many other banks in the same group that need to merge with big banks or fall into the category of "zero-dong", KLB has made great "self-restructure" efforts to go through this difficult period. Compared to state-owned banks or joint stock commercial bank in Groups 1 and 2, KLB does not have much advantage in terms of liquidity deposit or brand credibility. However, with a clear development strategy, KLB has been investing quite well in the technology platform as well as completing its product portfolio. Considering what KLB is working on, we believe KLB will be able to stand strongly and have good prospects for growth.

The relatively low profitability ratios are our biggest concern for KLB. However, KLB has the capital adequacy and liquidity ratios higher than those set by the SBV, and still be able to improve these ratios further. Thanks to the Directive 24 and the Bad Debt Resolution, the business environment of the banking industry in the second half of 2017 is promise to be more favorable. KLB will also be the beneficiary of this trend. Credit growth should outweigh the deposit growth in 2017, and NIM will improve slightly to 3.54%. We project the after-tax profit to grow approximately 68% YoY, driven by rising interest incomes and continuing service growth. Estimated EPS for 2017 is VND685 (compared to VND368 in 2016).

Using the P/B method, we estimate the reasonable price of KLB to be VND12,000/share, 20% higher than the initial price as of 29th June. We recommend investors to **ACCUMULATE** the stock in **LONG TERM.**

VND Billion

INCOME STATEMENT	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018F**
Interest and Similar Income	2,110	2,294	2,759	3,414
Interest and Similar Expenses	-1,287	-1,508	-1,739	-2,128
Net Interest Income	**823**	**786**	**1,020**	**1,286**
Non-interest Incomes	27	139	134	122
Net Fee and Commission Income	*9*	*25*	*31*	*38*
Net gain/(loss) from foreign currency and gold dealings	*-11*	*6*	*6*	*6*
Net gain/(loss) from trading of trading securities	*0*	*0*	*0*	*0*
Net gain/(loss) from disposal of investment securities	*9*	*66*	*37*	*18*
Net Other income/expenses	*20*	*42*	*59*	*59*
Total operating income	**849**	**925**	**1,155**	**1,409**
Operating expenses	-572	-682	-820	-986
Operating Profit Before Provision	277	244	335	423
Provision expenses	**-66**	**-92**	**-82**	**-92**
Profit before tax	**212**	**152**	**253**	**331**
Corporate income tax	-46	-31	-51	-66
NPAT	**165**	**121**	**203**	**265**
Attributable to parent company	**165**	**121**	**203**	**265**

(%)

FINANCIAL RATIO	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018F**
Growth				
Customer loans	20.1	21.9	26.0	-65.0
Customer deposit	21.2	14.0	24.0	-65.9
Net interest incomes	3.6	-4.5	29.8	26.1
Operating income	1.4	9.0	24.8	22.0
NPAT	-6.1	-26.8	67.7	30.5
Total Assets	9.6	20.3	20.3	-66.0
Equity	0.3	-0.3	6.0	-71.5
Profitability				
NIM	4.2	3.3	3.5	3.6
Interest spread	0.1	0.1	0.0	0.0
CIR	67.3	73.7	71.0	70.0
ROAE	4.9	3.6	5.9	7.2
ROAA	0.7	0.4	0.6	0.7
Assets Quality				
NPLs ratio	1.1	1.1	N/A	N/A
Bad debt coverage ratio	75.5	81.0	N/A	N/A
Equity-to-Assets ratio	13.3	11.0	9.7	8.8
Operating Safety Ratio				
Customer Loans-to-Ttl Assets	64.0	64.9	77.5	79.1
Customer Loans-to-Deposit	80.8	86.0	88.0	88.7
CAR	19.8	16.4	0.0	0.0

VND Billion

BALANCE SHEET	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018F**
Cash and precious metals	207	299	204	213
Balances with the SBV	721	902	1,066	1,306
Placements with and loans to other credit institutions	1,773	3,090	3,708	4,450
Trading securities, net	0	0	0	0
Derivatives & other financial assets	0	0	0	0
Loans and advances to customers, net	16,080	19,597	24,708	30,149
Investment securities	3,480	2,923	3,106	3,110
Investment in other entities and long term investments	31	15	15	15
Fixed assets	1,049	1,315	1,513	1,815
Investment properties	0	0	0	0
Other assets	1,981	2,310	2,327	2,678
TOTAL ASSETS	**25,322**	**30,451**	**36,647**	**43,735**
Due to Gov and borrowings from SBV	312	201	201	201
Deposits and borrowings from other credit institutions	1,173	3,477	3,895	4,090
Deposits from customers	20,081	22,889	28,383	34,911
Derivatives and other financial liabilities	1	0	0	0
Funds received from Gov, international and other institutions	0	0	0	0
Convertible bonds/CDs and other valuable papers issued	0	0	0	0
Other liabilities	383	520	602	703
Total liabilities	**21,949**	**27,087**	**33,080**	**39,904**
Shareholder's equity	**3,373**	**3,364**	**3,567**	**3,831**
Capital	2,966	2,966	2,966	3,165
Reserves	242	267	308	363
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained Earnings	165	131	293	304
Minority interest	0	0	0	0
LIABILITIES AND SHAREHOLDER'S EQUITY	**25,322**	**30,451**	**36,647**	**43,735**

FOOTNOTES	**FY2015A**	**FY2016A**	**FY2017E**	**FY2018F**
Interest Incomes	**2,110**	**2,294**	**2,704**	**3,334**
From customers	1,930	2,110	2,463	3,038
From other Cis	53	28	96	115
From fixed-income investment	124	152	144	181
From other activities	2	3	0	0
Interest Expenses	**-1,287**	**-1,508**	**-1,739**	**-2,128**
To customers	-1,150	-1,331	-1,598	-1,972
To other Cis	-3	-12	-11	-12
To fixed-income investment	0	0	0	0
To other activities	-134	-166	-130	-143
Operating expenses	**-572**	**-682**	**-820**	**-986**
Provision expenses	**-66**	**-92**	**-82**	**-92**

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Intermediate- term (up to 6 months)	>20%	10% to 20%	-5% to10%	-15% to- 5%	<-15%
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