JSCB FOR FOREIGN TRADE OF VIETNAM (HSX:VCB)

Reinforced Asset and Earnings Quality

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– QoQ*	Q3–FY16	*+/– YoY*
Total operating income	7,288	7,299	0%	6,060	20%
Profit before tax and provision	4,184	4,119	2%	3,557	18%
Profit before tax	2,680	2,518	6%	2,047	31%
NPAT	2,144	2,016	6%	1,637	31%

Source: VCB, RongViet Research

The income structure has shifted positively. Net interest income and service income were VND16,161B (+18.4% YoY) and VND1,965B (+24.3% YoY), respectively. In the context of favorable banking sector, most of the banks had high profit growth, which depended heavily on interest income. We appreciate VCB's diversified income stream, in which interest income accounted for just 74% and service income accounted for 9%. In addition, VCB is still out of the trend of charging fees on some services that banks provide. Therefore, we believe that its potential growth from service is still strong since VCB is the largest bank in terms of international payment, card and ATM market.

VBC may exceed its 2017 earnings target of 18%. Following the Prime Minister Directive, VCB's credit growth target in 2017 was adjusted up to 18%. However, due to high growth in the first three quarters of 2017, we forecast that its deposit and lending growth will be 18.5% YoY and 19.5% YoY in 2017, respectively. Like many other banks, the loan portfolio of VCB has shifted towards higher yield loans. We estimate that its NIM will improve slightly to 2.75%. Operating income in 2017 is forecasted to be VND29,374B (+18.1% YoY), in which net interest income and service income will account for 74.6% and 9%, respectively. Operating expenses will continue to grow strongly following the trend of the banking sector and CIR is estimated at 42%. PBT in 2017 is forecasted to reach VND10,853B (+27.3% YoY), higher than the yearly target by 18%. PAT and EPS are forecasted at VND8,664B (+26.8% YoY) and VND1,911, respectively.

Valuation and recommendation

The Q3 financial report of VCB has led us to firmly believe in the bank's high quality of operations. Given the strong growth of earnings, VCB has continued to pay its resources for asset quality enhancement. In the same shoes with BID and CTG, raising Tier 1 capital is VCB's urgent plan as its CAR is relatively lower than Basel II's requirement. We observed that VCB has been restructured its investment portfolio (i.e. divesting from the other credit institutes). This could help increase its Tier 1 capital by more than 10%.

VCB is the leading bank in most sectors (customer deposits and lending, international payment, and ATM card), and has good asset quality as well as strong brand name. In addition, it is also a large–cap stock with transparent information. We estimate that its target price in the immediate term will be around VND50,300 per share, equivalent to PBR forward 2018 at 2.8x, 20% higher than our target price updated on November Strategy Report. It plans to pay VND800 per share cash dividends for 2017. Hence, total expected return is 6.5%, and we recommend NEUTRAL rating for VCB.

BUY

CMP (VND)	48,000
Target price (VND)	50,300
Cash dividend (VND)*	800

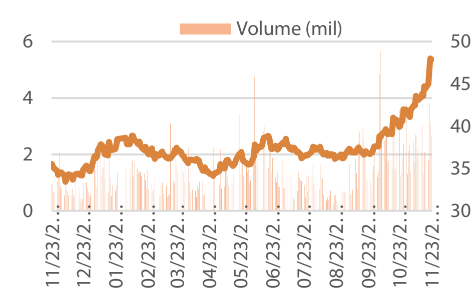
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market Cap (VND B)	172,693
Current Shares O/S	3,597,768,575
Beta	0.83
Free float (%)	7.89
52 week High	48,000
52 week Low	33,425
Avg. Daily Volume (20 sessions)	2,263,910

	FY2016	Current
EPS	1,566	2,261
EPS growth (%)	25.4	N/a
Diluted EPS	1,507	N/a
P/E	23.8	21.2
P/B	2.8	3.2
Cash dividend	1,000	800
ROE (%)	14.7	15.8

Price performance



Major Shareholders (%)

State Bank of Vietnam	77.11
Mizuho Bank, Ltd	15.0
Foreign ownership room (%)	9.3

Lam Nguyen

(084) 028- 6299 2006 – Ext 1313

lam.ntp@vdsc.com.vn

Viet Dragon Securities Corp. ("VDSC") is a foreign broker-dealer unregistered in the USA. VDSC research is prepared by research analysts who are not registered in the USA. VDSC research is distributed in the USA pursuant to Rule 15a-6 of the Securities Exchange Act of 1934 solely by Rosenblatt Securities Inc, an SEC registered and FINRA-member broker-dealer.

Exhibit 1: Q3 2017 Results

Particular	Q3-FY17	Q2-FY17	*+/- (QoQ)*	Q3-FY16	*+/- (YoY)*
Interest and similar income	11,597	11,443	1.3%	9,447	22.8%
Interest and similar expenses	-6,349	-5,806	9.3%	-4,959	28.0%
Net interest income	5,248	5,637	-6.9%	4,488	16.9%
Non-interest incomes	2,040	1,662	22.8%	1,572	29.8%
Net fee and commission income	*651*	*665*	*-2.1%*	*521*	*24.8%*
Net gain/(loss) from foreign currency and gold dealings	*645*	*423*	*52.5%*	*528*	*22.3%*
Net gain/(loss) from trading of trading securities	*135*	*150*	*-10.0%*	*203*	*-33.5%*
Net gain/(loss) from disposal of investment securities	*0*	*44*	*-100.5%*	*-44*	*-99.5%*
Net Other income/expenses	609	380	60.3%	364	67.3%
Total operating income	7,288	7,299	-0.1%	6,060	20.3%
Operating expenses	-3,104	-3,179	-2.4%	-2,504	24.0%
Operating profit before provision	4,184	4,119	1.6%	3,557	17.6%
Provision expenses	-1,504	-1,602	-6.1%	-1,510	-0.4%
Profit before tax	2,680	2,518	6.4%	2,047	30.9%
Corporate income tax	-531	-497	6.8%	-405	31.1%
NPAT	2,149	2,021	6.3%	1,642	30.9%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: VCB, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)
Growth (%)					
Customer loan	16.3	13.9	247 bps	15.7	64 bps
Customer deposit	16.5	10.1	641 bps	14.5	201 bps
Operating income	-0.1	0.2	-30 bps	-3.9	380 bps
Profit before tax and provision	1.6	-0.4	200 bps	-3.3	488 bps
NPAT	6.3	-8.6	1494 bps	3.3	303 bps
Total assets	14.0	7.8	618 bps	9.4	466 bps
Equity	13.1	8.7	445 bps	5.3	783 bps
Profitability (%)					
NIM	2.8	2.8	3 bps	2.9	-4 bps
Interest spread	2.8	2.7	12 bps	2.8	3 bps
ROAE	15.8	15.3	47 bps	14.3	151 bps
ROAA	1.0	1.0	1 bps	1.0	0 bps
Asset quality					
NPL (%)	1.2	1.5	-36 bps	1.7	-59 bps
Loan loss reserve (%)	164.8	140.3	2453 bps	127.7	3710 bps
Equity/total assets (x)	6.0	6.1	-9 bps	6.4	-39 bps

Source: VCB, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	H2-FY17	+/- HoH	+/- YoY
Net interest income	10,999	1%	17%
Total operating income	14,788	1%	17%
Profit before tax and provision	8,780	6%	15%
NPAT	4,441	5%	30%

Source: RongViet Research

Business updates

Maintaining good liquidity ratio. Credit growth at the end of Q3 2017 was 16.3% YTD, in which outstanding long-term loans grew 19.3%, while outstanding short– and mid-term loans grew 16.6% and 6.6%, respectively. Therefore, short-term funding for mid-long term loans ratio, as we estimated, has soared up from 18% at the end of Q2 2017 to 33.3% at the end of Q3 2017, but still in line with Circular 36. In addition, despite the sharp increase in deposits of the State Treasury (over 31% YTD), the bank still maintained its deposit growth equal to the growth of loans to customers, about 16.5%. Therefore, we believe LDR target will be maintained at 78%.

Strong income base helps VCB to increase provisions. Provision expenses in 9M 2017 is equivalent to that of the same period in 2016, over VND4,500B, equal to 36.2% of operating income in 9 months. As such, LLR increased sharply from 117% at the end of 2016 to approximately 165%.

Planning to divest from other credit institutions and financial companies. The portfolio of VCB includes EIB (8.24%), MBB (6.97%), OCB (4.72%), SaigonBank (4.37%), and CFC (10.91%). VCB successfully divested from Saigonbank and CFC on November 20 with the average price of VND20,100 per share and VND11,550 per share respectively. We estimate net gain from the divestment is more than VND115B. It has also planned to divest from OCB, MBB, and EIB in late Q4 2017 and early 2018, respectively.

According to the bank's representative, VCB will also withdraw OCB in Q4 2017 and withdraw its EIB and MBB in early 2018. These are investments that must be excluded from Tier 1 capital. Credit institutions not only help bring profits to VCB but also increase Tier 1 capital for banks. We estimate that Tier 1 capital of VCB could increase by more than 12% after VCB completes divestment of other credit institutions.

Banks are required to exclude the amount of investment in other credit institutions and insurance companies from calculating Tier 1 capital. Therefore, the bank can not only take profit from divestment but also enhance their Tier 1 capital. For VCB, we estimate that the bank's Tier 1 capital may increase by more than 12% after the divestment process.

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	31,361	37,713	44,808	52,172
Interest and similar expenses	-15,908	-19,185	-22,896	-26,776
Net Interest Income	**15,453**	**18,528**	**21,912**	**25,396**
Non-interest Incomes	5,749	6,352	7,463	7,660
Net fee and commission income	1,873	2,107	2,633	3,160
Net gain/(loss) from foreign currency and gold dealings	1,573	1,850	2,223	1,882
Net gain/(loss) from trading securities	178	496	496	342
Net gain/(loss) from disposal of investment securities	171	-89	0	0
Net other income/expenses	1,954	1,989	2,110	2,275
Total operating income	**21,202**	**24,880**	**29,374**	**33,056**
Operating expenses	-8,306	-9,950	-12,337	-13,553
Operating profit before provision	12,896	14,929	17,037	19,503
Provision expenses	**-6,068**	**-6,406**	**-6,184**	**-5,790**
Profit before tax	**6,827**	**8,523**	**10,853**	**13,713**
Corporate income tax	-1,495	-1,672	-2,171	-2,743
NPAT	**5,332**	**6,851**	**8,683**	**10,951**
Attributable to parent	**5,314**	**6,832**	**8,664**	**10,951**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	19.7	19.0	19.5	17.0
Customer deposit	18.6	18.0	18.5	16.4
Net interest incomes	28.7	19.9	18.3	15.9
Operating income	22.7	17.3	18.1	12.5
NPAT	16.4	28.6	26.8	26.4
Total Assets	16.9	16.8	17.9	14.2
Equity	3.9	6.6	12.1	15.0
Profitability				
NIM	2.7	2.8	2.7	
Interest spread	0.0	0.0	0.0	0.0
CIR	39.2	40.0	42.0	41.0
ROAE	12.0	14.7	17.0	19.0
ROAA	0.8	0.9	1.0	1.1
Assets quality				
NPLs ratio	1.8	1.5	N/A	N/A
Bad debt coverage ratio	120.6	117.1	N/A	N/A
Equity-to-assets ratio	6.7	6.1	5.8	5.8
Operating safety ratio				
Customer loans-to-total assets	64.0	64.9	77.3	77.7
Customer loans-to-deposit ratio	80.8	91.2	94.4	94.2
CAR	11.0	11.1	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	8,519	9,692	12,555	17,679
Balances with the SBV	19,715	17,382	27,984	32,566
Loans to other CIs	131,527	151,846	182,215	200,436
Trading securities, net	9,467	4,234	9,596	11,515
Derivatives & financial assets	1	231	730	730
Loans and advances to customers, net	378,542	452,684	536,358	624,181
Investment securities	108,055	131,771	135,482	147,739
Investment in other entities and long term investments	3,557	3,628	3,628	4,353
Fixed assets	5,039	5,639	6,485	7,458
Investment properties	0	0	0	0
Other assets	9,972	10,800	14,040	14,040
TOTAL ASSETS	**674,395**	**787,907**	**929,072**	**1,060,697**
Due to Gov and borrowings from SBV	41,480	54,151	64,982	58,484
Deposits and borrowings from other credit institutions	72,135	72,238	61,403	61,403
Deposits from customers	500,528	590,451	699,590	814,141
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	0	0	12	12
Convertible bonds/CDs and other valuable papers issued	2,479	10,286	17,487	20,285
Other liabilities	12,600	12,678	31,695	44,372
Total liabilities	**629,222**	**739,805**	**875,167**	**998,696**
Shareholder's equity	**45,007**	**47,958**	**53,743**	**61,817**
Capital	32,421	36,023	36,023	36,023
Reserves	4,941	5,937	7,199	8,794
Foreign currency difference reserve	80	84	84	84
Difference upon assets revaluation	89	83	83	83
Retained earnings	7,476	5,831	10,354	16,832
Minority interest	165	144	161	185
LIABILITIES & SHAREHOLDER'S EQUITY	**674,395**	**787,907**	**929,072**	**1,060,697**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest Incomes	**42,472**	**52,991**	**63,787**	**72,422**
From customers	31,702	41,574	49,185	56,190
From other Cis	1,518	1,362	2,561	3,004
From fixed-income investment	8,524	8,958	12,041	13,228
From other activities	728	1,097	0	0
Interest Expenses	**-23,633**	**-30,586**	**-36,574**	**-41,965**
To customers	-20,125	-26,395	-34,232	-39,608
To other Cis	-92	-92	-2,610	-2,675
To fixed-income investment	-774	-1,406	-193	-306
To other activities	-124	-110	0	0
Operating expenses	**-10,719**	**-12,902**	**-14,892**	**-16,370**
Provision expenses	**-4,679**	**-5,022**	**-8,140**	**-6,597**

RESULT UPDATE

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	NEUTRAL	SELL
Total Return including Dividends in 12-month horizon	>20%	-20% to 20%	<-20%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.e Eximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongViet Securities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Truc Doan
Head of Research
truc.dtt@vdsc.com.vn
+ 84 28 62992006 (1308)

Lam Nguyen
Senior Strategist
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)
- Banking
- Conglomerates

Thien Bui
Senior Analyst
thien.bv@vdsc.com.vn
+ 84 28 6299 2006 (1321)
- Market Strategy
- Financial Services
- Personal Goods

Hoang Nguyen
Senior Analyst
hoang.nh@vdsc.com.vn
+ 84 28 6299 2006 (1319)
- Transportation
- Infrastructure
- Industrial Real Estates

Hieu Nguyen
Senior Analyst
hieu.nd@vdsc.com.vn
+ 84 28 6299 2006 (1514)
- Market Strategy
- Pharmaceuticals
- Durable Household Goods

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)
- Real Estates
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- Oil & Gas
- Food & Beverage

Trinh Nguyen
Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1331)
- Steel
- Construction
- Technology

Quang Vo
Analyst
quang.vv@vdsc.com.vn
+ 84 28 6299 2006 (1517)
- Market Strategy
- Basic Materials
- Personal Goods

Son Phan
Analyst
son.pnt@vdsc.com.vn
+ 84 28 6299 2006 (1519)
- Utilities
- Natural Rubber

Thu Le
Analyst
thu.lta@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Automobiles and Parts

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)
- Macroeconomics

Thuy Nguyen
Analyst
thuy.nb@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)
- Electronic & Electrical Equipment
- Pharmaceuticals

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. VDSC shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

This research report is copyrighted by Rong Viet Securities. All rights reserved. Therefore, copy, reproduction, republish or redistribution by any person or party for any purpose is strictly prohibited without the written permission of VDSC. Copyright 2017 Viet Dragon Securities Corporation.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. (“VDSC”), a company authorized to engage in securities activities in Vietnam. VDSC is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc., 40 Wall Street 59th Floor, New York, NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through VDSC. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority (“FINRA”) and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not ‘beneficially own,’ as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither VDSC nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

VDSC may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of VDSC.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by VDSC with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.