VIETNAM INVESTMENT & DEVELOPMENT JSCB (HSX:BID)

Thirsty for Capital Raising

Particulars (VND B)	**Q3-FY17**	**Q2-FY17**	*+/- QoQ*	**Q3-FY16**	*+/- YoY*
Total operating income	10,881	9,017	21%	8,062	35%
Profit before tax and provision	7,418	5,399	37%	4,908	51%
Profit before tax	1,862	1,416	31%	2,430	-23%
NPAT	1,505	892	69%	1,966	-23%

Source: BID, RongViet Research

Income increased strongly, giving priority to provisions. Customer credit and deposit growth at the end of Q3 2017 were 14.4% YTD and 13.4% YTD, respectively. Compared 9M 2016, deposit growth in 9M 2017 decelerated significantly, while loan growth increased slightly. As a result, NIM and interest income increased sharply compared to its peers. In particular, net interest income grew 37.7% YoY and accounted for ~83% of BID's TOI. Net incomes from service and foreign exchange grew 24% YoY and 37% YoY, respectively, yet accounted for a mere 7.7% and 1.8% in TOI. In 9M 2017 TOI reached VND27,786B (+28.6% YoY. BID recorded VND11,900B of provisions (+70% YoY), in which provision for customer loans accounted for 67%. PBT was VND5,555B (–3.5% YoY), fulfilling 71.7% of annual target.

BID will experience a modest growth in 2017. BID's credit growth in 2017 of BID was adjusted to 18% and we kept this growth as forecasts. We expect deposit growth will be around 18%. BID has restructured its lending portfolio toward increasing individual loans. Thanks to that, its NIM has been improving significantly. Therefore, we estimate that its net interest income in 2017 will be VND31,193B (+33% YoY) and TOI will be VND37,650B (+23.7% YoY).

Given the strong earnings growth, BID will (1) accelerate provision-making for on-balance sheet bad debts and special bonds and (2) invest more to its core banking system to increase its competence in retail banking. Operating expenses and provision expenses will grow 11.3% YoY and 58% YoY, respectively, in 2017. Therefore, we believe that there will be no surprising growth in terms of BID's profits during 2017–2018. We forecast BID's PBT at around VND8,082B (+4.8% YoY), higher than the yearly target by 4.3%. NPAT and EPS will be VND6,439B (+4.9% YoY) and VND1,424, respectively.

Valuation and recommendation

Being a state-owned bank, BID not only has large size in terms of assets and equity but also has the largest market share in terms of customer lending and deposits. It is also among banks which owns the largest amount of special bonds. Therefore, it is expected that BID will be one of the banks that will benefit the most from the high credit growth in 2017 and the stipulations of Resolution 42. However, in the next few years, we believe that BID may choose to improve its asset quality and liquidity safety ratio rather than pursuing earnings growth.

Compared to the current average PBR of the listed banks (excluding VCB), BID's current market price is unattractive, especially given its high non-performing loans. Therefore, the progress of private placement for strategic partners as well as the effectiveness of Resolution 42 are two factors that BID investors should closely follow, as these will have a big impact on BID's financial picture. If the private placement is successful, it will have positive results on the bank such as significant improvement in the Tier 1 capital and management and technology supports. In the meantime, the application of Resolution 42 could help BID resolve its bad debts. The investors may pay high valuation for these expectation. BID's PBR used to reach 2.7x in the past, and its average PBR in the last three years is 1.3x.

MONITOR

CMP (VND)	25,700
Target price (VND)	N/A
Cash dividend (VND)*	700

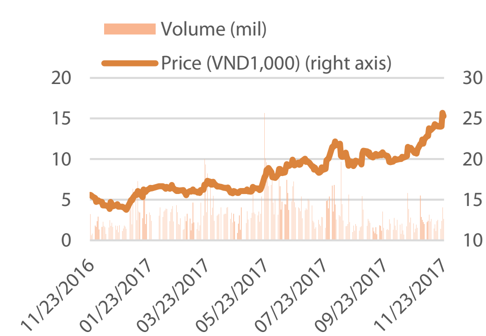
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market Cap (VND B)	87,861
Current Shares O/S	3,418,715,334
Beta	0
Free float (%)	4.72
52 week High	25,700
52 week Low	13,760
Avg. Daily Volume (20 sessions)	2,324,694

	FY2016	**Current**
EPS	1,354	1,682
EPS growth (%)	–4.2	N/a
Diluted EPS	1,357	N/a
P/E	10.2	15.3
P/B	1.1	1.9
Cash dividend	700	700
ROE (%)	14.7	12.7

Price performance



Major Shareholders (%)

State Bank of Vietnam	95.28
Foreign ownership room (%)	27.6

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Exhibit 1: Q3 2017 Results

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– (qoq)*	Q3–FY16	*+/– (yoy)*
Interest and similar income	21,151	19,014	11.2%	16,644	27.1%
Interest and similar expenses	-12,131	-11,827	2.6%	-10,138	19.7%
Net interest income	9,020	7,187	25.5%	6,506	38.7%
Non-interest incomes	1,861	1,830	1.7%	1,557	19.6%
Net fee and commission income	*730*	*836*	*-12.7%*	*565*	*29.2%*
Net gain/(loss) from foreign currency and gold dealings	*210*	*181*	*15.7%*	*169*	*24.2%*
Net gain/(loss) from trading of trading securities	*165*	*56*	*193.5%*	*165*	*0.2%*
Net gain/(loss) from disposal of investment securities	*32*	*50*	*-36.1%*	*23*	*39.7%*
Net Other income/expenses	725	706	2.7%	635	14.1%
Total operating income	10,881	9,017	20.7%	8,062	35.0%
Operating expenses	-3,464	-3,618	-4.3%	-3,154	9.8%
Operating profit before provision	7,418	5,399	37.4%	4,908	51.1%
Provision expenses	-5,556	-3,983	39.5%	-2,478	124.2%
Profit before tax	1,862	1,416	31.5%	2,430	-23.4%
Corporate income tax	-379	-439	-13.6%	-441	-14.1%
NPAT	1,483	978	51.7%	1,989	-25.5%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: BID, rongviet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3–FY17	Q2–FY17	+/– (QoQ)	Q3–FY16	+/– (YoY)
Growth (%)					
Customer loan	14.4	11.4	298 bps	12.8	158 bps
Customer deposit	13.4	11.6	178 bps	25.7	-1237 bps
Operating income	20.7	14.3	635 bps	18.0	263 bps
Profit before tax and provision	37.4	16.7	2066 bps	30.8	662 bps
NPAT	68.7	-51.1	11982 bps	97.5	-2880 bps
Total assets	11.9	9.2	265 bps	11.7	15 bps
Equity	9.4	13.2	-377 bps	8.7	69 bps
Profitability (%)					
NIM	3.1	2.9	13 bps	2.8	31 bps
Interest spread	3.0	2.9	11 bps	2.8	25 bps
ROAE	12.7	13.9	-117 bps	15.2	-249 bps
ROAA	0.5	0.6	-7 bps	0.7	-18 bps
Asset quality					
NPL (%)	2.1	1.9	16 bps	2.0	6 bps
Loan loss reserve (%)	84.0	82.9	103 bps	77.6	639 bps
Equity/total assets (x)	4.1	4.4	-25 bps	4.7	-55 bps

Source: BID, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	H2–FY17	+/– HoH	+/– YoY
Net interest income	17,200	23%	27%
Total operating income	20,746	23%	22%
Profit before tax and provision	12,566	25%	37%
NPAT	3,724	37%	6%

Source: RongViet Research

Business updates

High provision expense in 2017–2018. At the end of Q2 2007, BID's net value of special bonds was approximately VND13,800B. Given the slow pace of bad debts collection, we forecast that its provision expense for special bonds would be around VND5,000B in 2017. We expect that provisions for special bond will sharply increase in 2018. Following this scheme, we think BID can fulfill its obligations with special bonds in early 2019.

On piloting resolution of bad debts, Resolution 42 can be a new catalyst to help BID’s bad debt recovery rate become better. However, it will take more time to evaluate the impact of the resolution, so temporarily, we do not include this factor in BID's bad debt recovery rate assumptions.

Operating expense is expected to continue increasing as the bank plans to upgrade its core banking system. BID’s CIR in 9M 2017 was approximately 37%, lower than that of 2016 and quite low compared to the current average ratio of other listed banks. In 2017, we saw that the bank has prioritized making provisions for on-balance sheet bad debts as well as for special bonds. Thus, we forecast the bank’s CIR to be at 40% in 2017, decreased by 4.4 percentage points against that of 2016. BID may push the expansion of investment and upgrading of technological infrastructure from 2018. Therefore, we expect BID’s operation expense to sharply increase during this period, especially after the burden of provision has decreased.

BID has been thristy for raising capital. We estimated that BID’s LDR was around 83–84%, and its short-term capital financing mid- and long-term loan ratios were around 41-42% by the end of Q2 2017. These ratios have met the requirements of Circular 36 and Circular 06. However, if the draft circular amendment for Circular 36 is not approved, BID will be under pressure to mobilize capital or have to control its lending portfolio in order to keep the ratio of short-term capital financing mid- and long-term loans not higher than 40% from 2018 (according to Circular 06).

In addition, BID’s CAR at the end of Q2 2017 is approximately 9.25%, implying that it is under pressure to raise Tier 1 capital to meet the requirements of Basel II from 2019. The contract signing between BID and Hana Bank in the third quarter of 2017 is more likely to make Hana Bank a strategic partner of BID. If the deal is finalized, we think that it will still take several months for the deal to be executed, as it requires the approval from the SBV, and the issued price is also a time-consuming factor.

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	49,005	62,600	77,808	90,423
Interest and similar expenses	-29,690	-39,166	-46,615	-56,453
Net Interest Income	**19,315**	**23,435**	**31,193**	**33,969**
Non-interest Incomes	5,397	6,999	6,457	7,059
Net fee and commission income	2,337	2,509	3,011	3,613
Net gain/(loss) from foreign currency and gold dealings	294	534	708	708
Net gain/(loss) from trading securities	-63	455	375	375
Net gain/(loss) from disposal of investment securities	11	403	0	0
Net Other income/expenses	2,818	3,097	2,363	2,363
Total operating income	**24,712**	**30,434**	**37,650**	**41,029**
Operating expenses	-11,087	-13,527	-15,060	-17,642
Operating profit before provision	13,625	16,907	22,590	23,386
Provision expenses	**-5,676**	**-9,199**	**-14,509**	**-13,992**
Profit before tax	**7,949**	**7,709**	**8,082**	**9,394**
Corporate income tax	-1,572	-1,480	-1,551	-1,803
NPAT	**6,377**	**6,229**	**6,530**	**7,500**
Attributable to parent	**5,822**	**6,138**	**6,439**	**7,500**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	34.6	20.9	18.0	16.0
Customer deposit	28.2	28.6	18.0	16.5
Net interest incomes	14.7	21.3	33.1	8.9
Operating income	12.8	23.2	23.7	9.0
NPAT	16.8	5.4	4.9	16.5
Total Assets	30.8	18.3	15.2	15.2
Equity	23.1	3.9	9.5	11.0
Profitability				
NIM	2.8	2.7	3.0	
Interest spread	0.0	0.0	0.0	0.0
CIR	44.9	44.4	40.0	43.0
ROAE	15.7	14.7	14.5	15.3
ROAA	0.8	0.7	0.6	0.6
Assets Quality				
Npls ratio	1.7	2.0	N/A	N/A
Bad debt coverage ratio	74.8	69.7	N/A	N/A
Equity-to-Assets ratio	4.8	4.2	4.0	3.9
Operating Safety Ratio				
Customer loans-to-total assets	64.0	64.9	79.0	80.1
Customer loans-to-deposit ratio	80.8	94.7	95.0	95.4
CAR	9.8	>9	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	6,589	7,107	9,641	13,098
Balances with the SBV	21,719	36,711	34,268	39,922
Loans to other cis	67,261	61,865	80,425	104,552
Trading securities, net	8,873	10,016	9,515	9,515
Derivatives & financial assets	102	0	0	0
Loans and advances to customers, net	590,917	713,633	834,888	964,592
Investment securities	121,565	144,413	151,667	157,819
Investment in other entities and long term investments	5,251	4,330	4,330	5,196
Fixed assets	8,535	9,722	11,180	12,857
Investment properties	0	0	0	0
Other assets	19,859	18,607	23,259	27,911
TOTAL ASSETS	**850,670**	**1,006,404**	**1,159,174**	**1,335,463**
Due to Gov and borrowings from SBV	45,402	43,392	43,392	52,071
Deposits and borrowings from other credit institutions	79,758	92,499	106,374	122,330
Deposits from customers	564,583	726,022	856,706	998,062
Derivatives and other financial liabilities	0	103	0	0
Funds received from Gov, international and other institutions	35,295	11,362	11,930	13,123
Convertible bonds/cds and other valuable papers issued	65,542	66,642	67,975	69,334
Other liabilities	17,754	22,240	24,463	26,910
Total liabilities	**808,334**	**962,260**	**1,110,840**	**1,281,830**
Shareholder's equity	**40,950**	**42,541**	**46,578**	**51,684**
Capital	34,272	34,305	34,305	34,305
Reserves	2,464	3,377	4,315	5,419
Foreign currency difference reserve	-43	-112	-112	-112
Difference upon assets revaluation	0	0	0	0
Retained Earnings	4,257	4,971	8,069	12,072
Minority interest	1,386	1,604	1,756	1,948
LIABILITIES & SHAREHOLDER'S EQUITY	**850,670**	**1,006,404**	**1,159,174**	**1,335,463**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest Incomes	**49,005**	**62,600**	**77,808**	**90,423**
From customers	39,136	51,120	66,234	77,439
From other Cis	1,346	1,413	1,701	2,211
From fixed-income investment	7,022	8,494	9,873	10,772
From other activities	1,501	1,573	0	0
Interest Expenses	**-29,690**	**-39,166**	**-46,615**	**-56,453**
To customers	-23,845	-32,214	-41,604	-51,538
To other Cis	-92	-92	-3,611	-3,278
To fixed-income investment	-2,208	-3,440	-1,252	-1,510
To other activities	-27	-235	0	0
Operating expenses	**-11,087**	**-13,527**	**-15,060**	**-17,642**
Provision expenses	**-5,676**	**-9,199**	**-14,509**	**-13,992**

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%

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