EXOTIX CAPITAL | RONGVIET SECURITIES

VIETNAM BANKS

8 October 2018

ASIA FINANCIALS

ACB VN	**ACCUMULATE**
Current price (VND)	34,300
Target price (VND)	**38,000**
ETR %	12.0%
BID VN	**NEUTRAL**
Current price (VND)	34,900
Target price (VND)	**35,000**
ETR %	2.3%
CTG VN	**ACCUMULATE (from BUY)**
Current price (VND)	28,000
Target price (VND)	**31,900**
ETR %	16.4%
HDB VN	**ACCUMULATE (from BUY)**
Current price (VND)	39,000
Target price (VND)	**42,000**
ETR %	10.3%
MBB VN	**BUY**
Current price (VND)	23,200
Target price (VND)	**30,504**
ETR %	34.1%
VCB VN	**REDUCE**
Current price (VND)	65,200
Target price (VND)	**60,000**
ETR %	-6.7%

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with thanks to Phuong Pham

Near-term macro advantages still intact, valuation now less demanding

- **We remain constructive on the sector.** In light of recent share price weakness, the sector's valuation is looking more reasonable. Although the median 2.2x 2018f PB appears high versus 1.1x 2018f PB for the universe of Exotix frontier banks, we think this can be justified on macro grounds. Fundamentally, we continue to see robust top-line growth (steady volume growth, margin expansion, non-interest income improvements) and falling VAMC provision costs through to 2022f, which we expect to drive EPS growth of 26% pa. We raise our EPS forecasts for Vietnam banks by 2% median for 2018f and 5% for 2019f (via higher margins and lower risk cost projections). Our target prices (TPs) are derived from a residual income model and are unchanged (with the exception of ACB which edges up to VND38.400 (from VND38,216).
- **Our top pick: MBB upgraded to Buy (from Accumulate):** MBB has achieved significant growth in lending activity (partly due to growing consumer finance) and diversification in income sources, both of which should continue to support near-term earnings. At the current attractive multiples (1.5x 2018f PB), we believe the stock deserves an upward re-rating. We downgrade both CTG (ETR down from 20% to 14%) and HDB (ETR down from 21% to 10%) to Accumulate from Buy. We also keep ACB at Accumulate, BID at Neutral and VCB at Reduce.
- **Volume growth: some slowdown but still decent.** We expect the credit growth of our Vietnam banks universe to stay firm at 16% median in 2018f (from 19% in 2017), followed by 15% in 2019f, with retail lending growing faster than corporate lending. We see private banks (ACB, HDB, MBB) growing faster than state-owned banks (BID, CTG, VCB), with HDB growing the fastest (+18% in 2018f) and CTG the slowest (+15%). The State Bank of Vietnam (SBV) has affirmed that it will not adjust banks' 2018 credit quotas, except in special cases, but we think banks' relative capital strength will also dictate their credit expansion.
- **Margins: stable to higher.** Increasing asset yields on the back of asset reallocation optimisation (increasing retail lending) will offset higher funding costs (more longer-term debt issuance to meet tighter capital regulations). Slower loan growth than the historical highs will also likely ease some near-term funding cost pressure. Among individual banks, MBB is likely to see the fastest margin expansion on growing consumer finance (MCredit established in December 2016), while CTG could see margin contraction due to expected long-term debt issuances.
- **Services income gaining momentum.** We expect income from non-traditional services (bancassurance, credit cards, e-banking) to rise as the sector shifts towards retail banking. Within our coverage, ACB has the largest fee income contribution, while HDB and MBB are seeing the fastest growth momentum. As banks continue to clean up bad debts (on- and off-balance sheet VAMC assets) – through NPL provisioning and write-offs – we expect material recoveries to support earnings over the medium term.
- **Asset quality improving on continued asset clean-up.** We think the aggressive clean-up of legacy assets we saw in Q4 17 is likely to lower future VAMC provisioning needs. On the balance sheet, we expect asset quality to continue to improve, but the cost of risk is likely to remain elevated for the rest of 2018 due to banks' more prudent provisioning.

This is a joint report from Exotix Capital and its research partner in Vietnam, Rong Viet Securities. This report discontinues Exotix' independent coverage of BID, CTG and VCB. The changes in forecasts and ratings cited in this report are changes from Rong Viet's previous forecasts and ratings.

Vietnam banks in frontier context

Table 1: Vietnam banks relative mapping in frontier

Fundamental valuation	Valuation vs history	Macro environment	Growth	Margins	Risk	Profitability	Profit trajectory	Overall rank

Source: Rong Viet, Exotix Research. Note: green = attractive; yellow = neutral; red = unattractive.

Valuations

Vietnam banks valuations appear aggressive relative to frontier peers, both when compared with fundamentals and historical valuations. Vietnam banks are trading at 2019 PE of 11.4x (frontier peers at 6.7x) and are expected to generate 1.8% cash dividend yield (median 4.9% for peers). Comparing to the average of the past five years, Vietnam banks trade at a 33% PB premium (versus 8% discount for frontier peers) and a 10% PE premium (frontier banks 7% discount). This contrasts with Sri Lanka banks' valuations, which are at the highest discount compared with the past five years (33% for both PE ratio and PB ratio).

Macro environment

Vietnam's macro environment looks strong versus other frontier markets; the IMF expects GDP growth of 6.5% in 2019 (median 5.2% for peers). This is coupled with a strong current account balance (+2.4% of GDP compared to median 2.9% deficit for peer markets). Among the markets we cover, we think Nigeria scans well in terms of macro environment (strong GDP growth momentum, favourable current account) while Uganda and Rwanda appear to be facing tough conditions (high current account deficits).

Growth

Vietnam banks rank in the middle of the pack on this category. Although overall growth levels appear decent, with asset growth averaging 14% in 2018-20f (versus 13% for peers) and revenue growth at 16% (versus 12% for peers), momentum will likely be negative. We see median asset growth slowing to 14% in 2020 from 16% in 2018 and revenue growth also 14% in 2020 from 19% in 2018. We think Uganda and Rwanda rank well due to high growth levels and momentum over the next few years, while GCC economies scan poorly in a frontier context.

Margins

Vietnam banks rank in the middle of the pack from a margins perspective. Although the net interest margin is low (3.0% compared with the median of 4.6% for frontier banks) and margins are also expected to remain flat in 2019 (compared with an expected 10bps rise for frontier peers), NII growth is strong, at 22% in 2018. Bangladesh scans well on margins (improving trajectory forecast), while Egypt ranks lowest (lower margins likely as interest rates decline).

Risk

In terms of credit risk, Vietnam banks rank best, as both the level and momentum of asset quality indicators are favourable. The NPL ratio at Vietnam banks stood at a median of 1.4% in 2019 compared with 4.0% for frontier peers. The cost of risk stands at c100bps lower than the frontier banks median of 130bps and is expected to improve to 75bps by 2020. Sri Lanka scans well in terms of credit risk momentum; the cost of risk is likely to improve in 2019 and 2020 after the sharp increase we are seeing this year. Bangladesh is at the bottom of the pack because of its rising cost of risk and the sub-par improvement in the NPL ratio.

Profitability

Profitability appears strong at Vietnam banks compared with frontier peers, with average 2018-20f ROE at 19.8% (versus 15.9% for frontier peers), and profit growth averaging 23.2% in 2018-20f compared with 15.9% for peers. Note, however, that ROA is typically poor (1.3% versus 1.5% for frontier peers). Uganda and Rwanda scan best in terms of profitability (high margins), while Nigeria tier 2 banks rank lowest, given their ongoing asset quality issues.

Profit trajectory

Vietnam banks profit growth trajectory is comparable to that of frontier peers. ROE is expected to expand to 20.5% in 2020 compared with 18.2% in 2018 while profit growth might slow, albeit to a still very respectable 23%. Nigeria tier 2 banks are the best in terms of profit growth trajectory, due to a likely decline in credit risk costs, while Egypt banks rank lowest (falling interest rates could crimp margins).

Sector scorecard

We rank Vietnam banks in our universe based on four key metrics:

- **Valuation:** Stocks that are cheap relative to fundamentals, and also trading at a discount to history. VCB ranks the lowest, while ACB, MBB rank the highest. HDB's valuation in relation to history is not meaningful given that the stock was only listed in January 2018. Further information on valuations is provided on page 12.
- **Profitability:** Stocks with sustainable high ROEs than can grow their book values faster than peers. ACB and MBB once again take the top ranks while BID and CTG scan poorly.
- **Momentum:** Stocks where we see good, sustainable earnings growth prospects (credit growth, margins, services income, asset quality). ACB and MBB are at the forefront on this aspect. ACB scores best in services income and asset quality momentum, while MBB has the best margins and asset quality development outlook. Margins and services income generally hold back the ranking of the state-owned banks. Further information on the earnings outlook for the sector as well as individual banks is provided on page 6.
- **Structural change:** Stocks where changes in balance sheet/ business mix can lift profitability relative to history. Here, we are taking a longer view on the sector: On a five-year horizon, we expect recapitalisation (particularly at BID, CTG, VCB), and the resolution of VAMC assets and on-balance sheet bad debt (BID, CTG) to have been completed. We also expect HDB to have integrated PGBank.

Table 2: Sector scorecard

	Valuation vs. fundamentals	Valuation vs. history	Profitability	Momentum	Structural change	Total
ACB						
BID						
CTG						
HDB						
MBB						
VCB						

Source: Rong Viet

Note: green = better, yellow = in line, red = worse.

Target prices and recommendations

We remain constructive on sector fundamentals

We remain constructive on the Vietnam banks sector. We continue to see robust top-line growth (steady volume growth, margin expansion, non-interest income improvement) and falling VAMC provision costs through to 2022f. Following recent share price weakness, the sector's valuation is looking more reasonable. Although the median 2.2x 2018f PB appears high versus 1.1x 2018f PB for Exotix frontier banks overall, this can be justified on macro grounds (the IMF projects 6.6% real GDP growth and a 2.0% current account surplus/GDP for 2018).

Table 3: Vietnam banks – Market cap, share price performance, per share, dividends and ROE summary

	Market cap (US$mn)	1Y perf.	Cur. price	Target price	ETR %	P/E 2018f	P/BVPS 2018f	ROE 2018f	DY 2018f	Foreign room
ACB	1,836.0	48.6%	34,300	38,400	12.0%	8.7x	2.1x	27.4%	0.0%	0.0%
BID	5,120.7	69.4%	34,900	35,000	2.3%	20.5x	2.4x	15.2%	2.0%	27.4%
CTG	4,474.5	48.6%	28,000	31,900	16.4%	16.2x	1.5x	12.3%	2.5%	0.0%
HDB	1,642.0	N/A	39,000	42,000	10.3%	13.9x	2.4x	17.8%	2.6%	2.7%
MBB	2,151.2	29.0%	23,200	30,500	34.1%	9.3x	1.5x	18.6%	2.6%	0.0%
VCB	10,067.6	76.9%	65,200	60,000	-6.7%	24.4x	3.9x	20.6%	1.2%	9.2%
VN banks median	**3,312.8**	**48.6%**			**11.1%**	**15.1x**	**2.2x**	**18.2%**	**2.3%**	
Frontier banks median	**626.0**	**1.3%**								

Source: Rong Viet estimates. Note: Current price as of 24 September

Having run our revised earnings forecasts (see page 6) through a combination of a PB comparison method and two-stage dividend discount/ residual income model (see page 12), our target prices are largely unchanged. We currently price the sector at 20.2% median mid-cycle ROE (18.0% previously). The expected ROE of BID and ACB changes the most given that their current strategy, which focuses on the retail segment, has brought positive results and will likely be maintained in the coming years. With a higher proportion of SME and individual loans, we expect BID's NIM to remain stable at 2.9% until 2022, coupled with its high market share in lending, where BID's net interest income will continue to be the key driver. Regarding ACB, the bank has successfully completed its restructuring and firmly defined itself as a retail bank. Given it targets secured loans, we believe ACB will be less risky than other commercial banks. Therefore, its provision charges will be kept low while its NIM can remain above 3%. We also expect ACB's services income to see high growth in 2018-22 given a greater contribution from bancassurance, transaction fees and guarantee fees, among others.

Table 4: Vietnam banks – target price, rating changes and key valuation assumptions

	New ratings	Old ratings	TP new	TP old*	*Chg %*	ETR %	BVPS 2022f new	BVPS 2022f old	*Chg %*	ROE 2022f new	ROE 2022f old
ACB	Accu.	Accu.	38,400	38,216	*0.4%*	12.0%	34,920	33,329	*4.8%*	21.0%	19.6%
BID	Neutral	N/A	35,000	N/A	*N/A*	2.3%	31,969	30,084	*6.3%*	23.0%	18.8%
CTG	Accu.	Buy	31,900	31,900	*0.0%*	16.4%	31,352	30,158	*2.7%*	16.9%	16.2%
HDB	Accu.	Buy	42,000	42,000	*0.0%*	10.3%	23,723	23,637	*0.5%*	26.6%	25.6%
MBB	Buy	Buy	30,500	30,500	*0.0%*	34.1%	28,840	27,295	*5.6%*	18.5%	17.3%
VCB	Reduce	Reduce	60,000	60,000	*0.0%*	-6.7%	30,758	30,156	*2.0%*	18.3%	17.2%
VN banks median					***0.0%***	**11.1%**			***3.7%***	**20.2%**	**18.0%**

Note: ACB's old TP is adjusted for a 15% stock dividend; MBB's old TP is adjusted for a 19% stock dividend & bonus shares in Q3 18. We previously had forecasts for BID, but did not have a rating or target price. "Accu." – Accumulate.
Source: Rong Viet Securities estimates.

MBB is our top pick

- **MBB: We upgrade to Buy (from Accumulate); TP unchanged at 30,500:** MBB has achieved significant growth in lending activities (partly thanks to increasing contribution from the consumer finance business MCredit) as well as income sources diversification. At the current attractive multiples (1.5x 2018f PB), we believe that the stock deserves an upwards re-rating.
- **CTG: We downgrade to Accumulate (from Buy); TP unchanged at VND31,900:** With more than 10% credit market share, the economy's demand for loans will help to lift CTG's net interest income by 15% in 2019, making up for expected increases in operating and provision expenses. Following the reorganisation of its operation model as well as launching a new core-banking system, CTG's services income has started to show positive results. However, CTG is already at the 30% foreign ownership limit, which may complicate its recapitalisation process. A downside risk to our rating and TP is a failure to recapitalise the bank over the medium term, which would constrain growth and earnings more than we currently factor in our forecasts.
- **BID: We have a Neutral rating and a TP of VND35,000:** Current trading multiples (2.4x 2018f PB) are demanding, given the bank's high NPL, large VAMC assets, and growth constraints due to weak capital. That said, legacy asset resolution is progressing positively and the forthcoming capital raising, if successful, should remove the current bottleneck on growth.
- **ACB: We reiterate Accumulate; TP unchanged at VND38,400.** By completing its restructuring plan for its pre-2012 legacy issues, ACB's asset quality has improved significantly. As an experienced retail bank, we expect ACB to utilise its strong capital and liquidity to enhance its power in this segment. We estimate its 2018 net profit after tax will grow 130% yoy, hence its 2018f ROE will be c27% this year, a significant improvement on 14.1% in 2017. We think ACB will pay a 30% stock dividend for 2018 and will start to pay cash dividends from 2019.
- **HDB: We downgrade to Accumulate (from BUY); maintain TP of VND42,000**: HDB has a diversified customer ecosystem, which supports retail banking strategy (through close partnerships with Vietjet, Vinamilk, Saigon Coop, and the pending acquisition/integration of PGBank). We see margin expansion and asset quality improvements supporting earnings. However, we think these positives are largely priced in at the current trading multiples (2.4x 2018f PB).
- **VCB: We reiterate Reduce, with an unchanged target price of VND60,000.** VCB is the leading bank in most sectors (customer deposits and lending, international payment, and ATM cards) and has good asset quality, a strong brand name and high financial transparency. In addition, as VCB's market cap accounts for c8% of the total market cap in HSX and there is more than 9% of room for foreign investors, VCB is an accessible and feasible investment for international funds, which means the bank trades at high valuation multiples.

Sector outlook and earnings forecasts

Changes in earnings forecasts

We raise our earnings forecasts by a median 2% for 2018f and 4% for 2019f. Our EPS forecast upgrades for ACB, HDB and VCB are offset by downgrade in our earnings projections for BID, CTG and MBB.

ACB leads the upgrades with a 36% increase in our 2018f EPS forecast, mostly driven by lowering the loan impairment charges to 39bps of loans (since the asset clean-up is now largely completed). Moreover, we think ACB can record a large amount of provision reversals in 2018 and 2019 from written-off legacy bad debts. We increase our 2018f EPS for HDB by 6%, mainly because of lower loan impairment charges and lower cost to income ratio. CTG is the recipient of the largest cut in our 2018f EPS, due to both reduced margin and increased loan impairment charge projections.

Looking further ahead, we raise our 2020-22 forecasts by 7-13%, with BID being the key beneficiary. The key reasons for this more positive assessment include NIM expansion and higher growth in services income, while the ratio of cost of operating income and provisions to operating income remains stable. Moreover, we expect BID's NIM can reach 2.9% in 2018-22, driven by fast growth in retail lending, which currently accounts for 31% of total loan book and we expect to reach 40% by 2022. At 12-13% market share in lending, the extended NIM will provide high growth in net interest income.

Table 5: Vietnam banks – EPS forecast changes, 2018-22f (VND)

	2017 actual	2018f new	2018f old	*2018f change %*	2019f new	2019f Old	*2019f change %*	*2020f change %*	*2021f change %*	*2022f change %*
ACB	1,658	3,930	2,898	36%	4,463	3,085	45%	6%	13%	16%
BID	1,547	1,706	1,751	-3%	2,571	3,203	-20%	18%	13%	28%
CTG	1,594	1,732	2,131	-19%	2,315	2,784	-17%	6%	7%	8%
HDB	1,777	2,798	2,642	6%	3,476	3,477	0%	-2%	0%	3%
MBB	1,500	2,482	2,583	-4%	2,914	2,725	7%	11%	13%	11%
VCB	2,103	2,676	2,468	8%	3,116	2,694	16%	8%	11%	13%
Exotix Viet banks median				**2%**			**4%**	**7%**	**12%**	**13%**

Source: Rong Viet estimates

Credit growth

We expect the credit growth of our Vietnamese bank universe to remain robust, at 16% median in 2018f (19% in 2017), followed by 15% in 2019f, with retail lending growing faster than corporate lending. We expect private banks (ACB, HDB, MBB) to grow faster than state-owned banks (BID, CTG, VCB), with HDB growing the fastest (+18% in 2018f) and CTG the slowest (+15%).

The State Bank of Vietnam (SBV) recently affirmed that, aside from some exceptions, it will not consider adjusting credit limits for commercial banks for 2018 (Instruction No. 4). This means that banks with aggressive credit growth in H1 18 will need to slow down in H2 18. Within our coverage, affected banks include HDB (+15% YTD, 81% of SBV quota), ACB (+12%, 79%), VCB (+12%, 75%) and MBB (+11%, 71%). Meanwhile, banks with more modest growth in H1 18, such as BID (+7%, 46%) and CTG (+8%, 56%) should be able to catch up in H2 18.

SBV has granted 14-15% credit growth in 2018f for most banks, while it is targeting 17% growth for the whole system for the year. As such, additional quota can still be given in some "special cases". These include banks participating in the restructuring of weak financial institutions. Within our coverage, VCB (supporting VNCB), CTG (supporting OceanBank and GPBank) and HDB (pending integration of PGBank) are candidates for these special cases, in our view. However, we think state-owned banks' generally weaker capital is a key factor that could potentially hold back some of their volume growth potential. VCB (6.2% equity/asset ratio in H1 18) has already stated that it is not planning to grow its credit portfolio more than the 15% SBV quota.

Table 6: Gross customer loan growth evolution and outlook

	Change yoy %	2017	Change YTD %	H1 2018	Change yoy %	2018f	Change yoy %	2019f	2018-22f CAGR %
ACB	21%	198,513	12%	221,861	16%	230,276	16%	267,120	15%
BID	20%	866,885	7%	929,168	15%	996,918	15%	1,146,456	15%
CTG	19%	790,688	10%	867,566	15%	909,291	14%	1,036,592	14%
HDB	27%	104,497	15%	120,338	18%	123,543	16%	143,210	16%
MBB	22%	184,188	11%	204,829	17%	215,500	15%	247,825	15%
VCB	18%	543,434	12%	606,053	16%	630,384	15%	721,790	15%
Viet banks median	**21%**		**11%**		**16%**		**15%**		**15%**

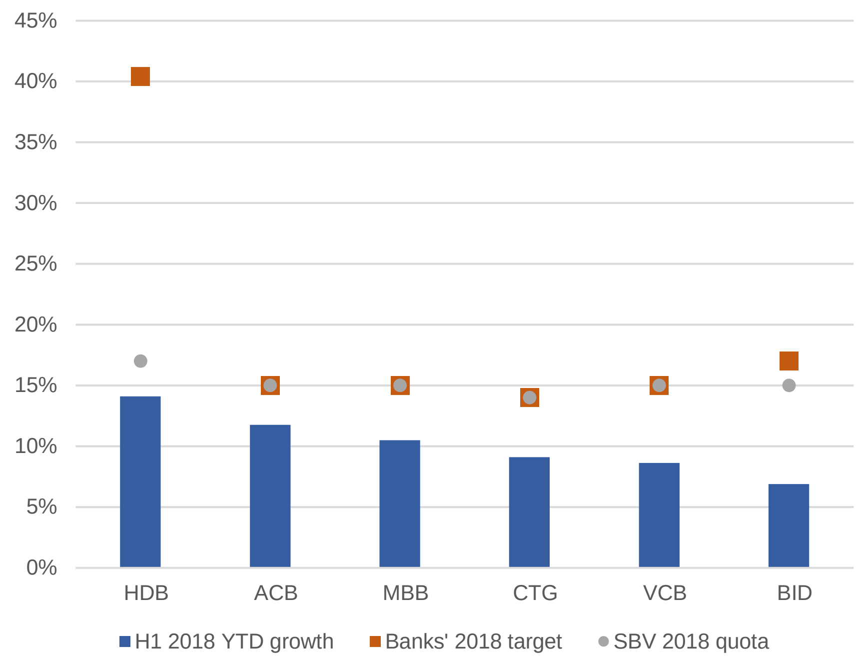
Source: Company reports, Rong Viet estimates

Table 7: Total credit* growth evolution and outlook

	Change yoy %	2017	Change YTD %	H1 2018	Change yoy %	2018f	Change yoy %	2019f	2018-22f CAGR %
ACB	19%	198,513	12%	221,861	16%	230,276	16%	267,120	15%
BID	19%	896,820	7%	958,652	15%	1,027,884	15%	1,179,271	15%
CTG	18%	837,176	9%	913,486	15%	959,981	14%	1,092,351	14%
HDB	25%	109,659	14%	125,122	18%	129,221	16%	149,456	16%
MBB	24%	190,237	10%	210,199	16%	220,827	15%	253,391	15%
VCB	17%	557,866	9%	606,053	15%	643,383	15%	737,368	15%
Viet banks median	**19%**		**10%**		**16%**		**15%**		**15%**

Source: Company reports, Rong Viet estimates
*Notes: *Credit = gross customer loans + corporate bonds.*

Figure 1: Credit growth – H1 18 versus banks' targets* and SBV's quotas



Source: Company reporting, Rong Viet

Margins

In our view, interest rates may be bottoming out, but a monetary tightening cycle is not on the immediate horizon – at least not in the form of a series of base rate increases. In such a context, we expect the net interest margin (NIM) to at least stabilise following the previous quarters' expansion, driven by the following counter-balancing factors:

- On the asset side, banks' asset allocation optimisation will remain the key positive driver, e.g. growing higher yield retail and SME loans faster than large corporate loans. This, however, is likely to be partly offset by increasing competition in retail lending given all banks are strategically pushing to expand into this segment and the SBV's recent credit quota tightening.
- On the funding side, we continue to see pressure on funding costs coming from banks' increasing mobilisation of longer-term deposits and debt issuances in response to the tougher regulatory environment for capital and funding. However, softer loan growth for many banks is likely to ease some of the funding pressure in H2 18.

MBB is seeing the fastest margin expansion momentum as the bank is growing its consumer finance business (MCredit, established in December 2016). Similarly, MBB and HDB (through its consumer finance company HD Saison) also have the highest NIM within our Vietnamese banks coverage universe.

In contrast, CTG and, to a lesser extent, ACB are likely to see margins decline in 2018 (due to expected long-term debt issuance) before stabilising in 2019. State-owned banks (BID, CTG, VCB) tend to have lower NIM than private peers, largely due to their loan books still being skewed to corporate lending.

Table 8: NIM evolution and outlook

	Change bps	2017	*YTD change bps*	H1 18	*Change bps*	2018f	*Change bps*	2019f	*2018-22f average*
ACB	10	3.27%	0	3.27%	-5	3.22%	1	3.23%	3.24%
BID	28	2.80%	3	2.83%	7	2.88%	2	2.89%	2.89%
CTG	6	2.65%	-7	2.58%	-15	2.50%	2	2.52%	2.50%
HDB	9	3.74%	16	3.90%	21	3.95%	8	4.03%	4.05%
MBB	59	3.94%	26	4.20%	41	4.35%	10	4.45%	4.54%
VCB	-13	2.41%	18	2.58%	0	2.41%	16	2.57%	2.51%
Exotix Viet banks median	**15**	**3.03%**	**9.5**	**3.05%**	**1**	**3.05%**	**1**	**3.06%**	**3.05%**

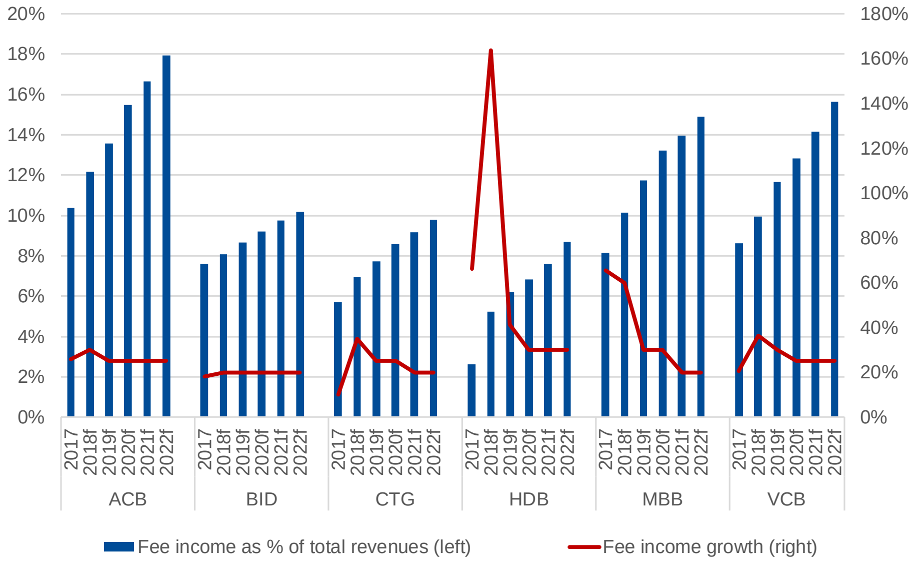
Source: Company reports, Rong Viet estimates
Note: In this report, NIM is calculated as: net interest income/average of total assets.

Non-interest income

We expect the income from non-traditional services (bancassurance, credit cards, e-banking) to improve as the sector shifts towards retail banking. Within our coverage, ACB has the largest contribution of non-interest income, while HDB and MBB are seeing the fastest growth momentum.

We expect fee income growth to be 20-30% pa to 2022 and for fee income as a percentage of total revenue to rise from 8% in 2017 to 13% in 2022 (Figure 2). Key generators of fee income include settlement and bancassurance activities. We expect HDB's fee income to surge by 164% in 2018 considering the very strong growth of 221% yoy in H1. We believe this was generated mainly from bancassurance and flight ticket commission from HDB's close partner – Vietjet.

Figure 2: Net fee income evolution and forecasts



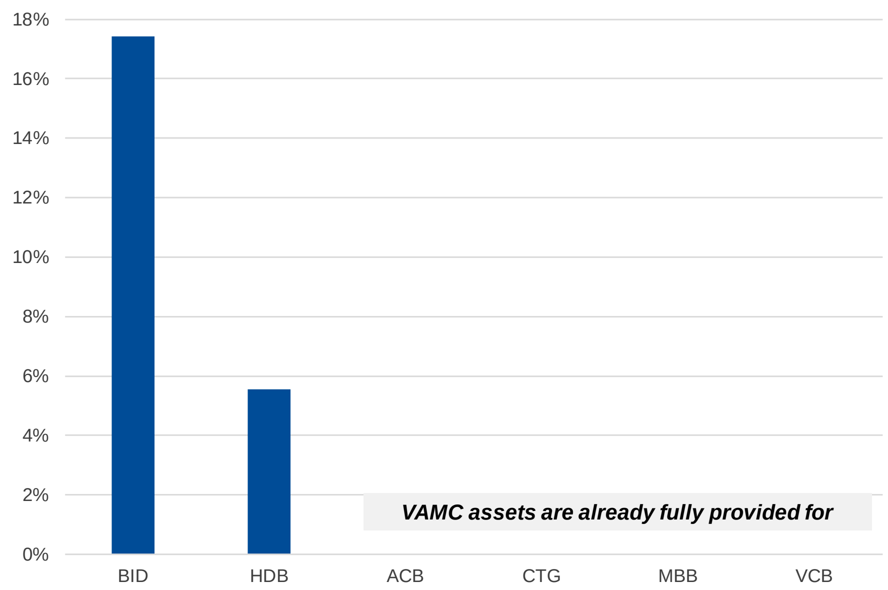
Source: Company reporting, Rong Viet Securities estimates

As banks continue to advance with the clean-up of NPLs from their balance sheets (and off-balance sheet VAMC assets) – through NPL provisioning and write-offs – we expect material recoveries to support earnings over the medium term. Improved legislation (e.g. Resolution 42/2017/QH14), which helps simplify and speed up collateral foreclosures and liquidation, is also supporting bad debt recoveries (as evident in the past three quarterly results seasons).

Asset quality

In our view, the overall acceleration in cleaning up Vietnam Asset Management Company (VAMC) assets in 2017 and H1 18 should help lower the levels of provisioning needed in the medium term. ACB, CTG, MBB and VCB have all fully written off their legacy asset exposures, while we think BID and HDB are on track to resolve all their VAMC debts as early as 2019 after the recent ramp-up in provisioning.

Figure 3: VAMC bonds, net exposures as % of equity, H1 18



Source: Company reporting, Rong Viet Securities estimates

On the balance sheet, asset quality is also improving, largely thanks to aggressive write-offs in previous quarters. Banks' more prudent provisioning actions (on the back of improving pre-provision profitability), however, are keeping loan impairment charges elevated for the remaining of 2018, before a normalisation in 2019.

Due to their fast growth in retail banking, NPL ratios for Vietnamese banks may increase. Of our six coverage banks, we expect ACB and CTG to experience the largest rises in NPL ratio. Despite that, their NPL ratios are still well below the maximum allowed under SBV's control (not higher than 3%).

Table 9: NPL/gross loans evolution and outlook

	2017	*Change bps*	H1 18	*YTD Change bps*	2018f	*Change bps*	2019f	*Change bps*	*2018-22f Average*
ACB	0.7%	-17	0.8%	9	0.9%	20	0.9%	0	0.9%
BID	1.6%	-38	1.5%	-13	1.5%	-14	1.5%	0	1.5%
CTG	1.1%	12	1.3%	15	1.3%	16	1.2%	-10	1.2%
HDB	1.5%	6	1.4%	-10	1.6%	2	1.6%	3	1.6%
MBB	1.2%	-12	1.3%	8	1.2%	0	1.2%	0	1.2%
VCB	1.2%	-37	1.15%	1	1.1%	-6	1.1%	0	1.2%
Exotix Viet banks median	**1.2%**	**-22**	**1.30%**	**4.5**	**1.3%**	**7**	**1.2%**	**-5**	**1.2%**

Source: Company reports, Rong Viet Securities estimates

Table 10: Loan impairment charges/gross loans evolution and outlook

	2017	*Change bps*	H1 18	*YTD Change bps*	2018f	*Change bps*	2019f	*Change bps*	*2018-22f Average*
ACB	0.91%	38	0.51%	-39.5	0.41%	-50	0.34%	-7	0.35%
BID	1.24%	50	2.15%	90	1.13%	-11	1.30%	16	1.02%
CTG	0.50%	0	1.10%	60	1.02%	52	0.94%	-8	0.84%
HDB	0.33%	-3	1.01%	67.9	0.26%	-7	0.30%	1	0.26%
MBB	0.94%	34	1.71%	77.1	1.23%	30	1.08%	-15	1.07%
VCB	1.24%	37	1.09%	-15	1.15%	-9	1.00%	-15	1.05%
Exotix Viet banks median	**0.92%**	**36**	**1.10%**	**63.9**	**1.08%**	15	**0.97%**	**-11**	**0.93%**

Source: Company reports, Rong Viet Securities estimates

Profitability

We expect Vietnam banks under our coverage to generate a median ROE of 18.2% in 2018f, reaching 20.5% in 2019f. Key drivers include continued decent credit growth and NIM expansion (despite increasing funding costs) and falling VAMC bond provision charges. A growing contribution from retail-related fee income and better cost controls should also support medium-term profitability. Expected improvement in earnings should also help to both reduce leverage and enhance ROA – we expect it to increase by a median 20bps in 2018 and 10bps in 2019f.

We think ACB and MBB will achieve faster improvement in profitability in 2018f, while BID will be at the forefront in 2019f, as we expect VAMC provision charges at the latter to fall significantly in 2019. Similarly, HDB also expects to clear all VAMC bonds in H1 19; however the impact on profit is less significant as the fall in provision charges at the parent bank will be offset by a rise at HD Saison. In the case of CTG, though the bank totally bought back VAMC bonds in H1 18, there was a significant increase in provision charges for on-balance-sheet bad debt. We expect the bank will continue to make high provision expenses in H2 18 and in 2019 as well. We expect CTG's NPLs provisions coverage LLR to be maintained at c100%.

Table 11: ROE evolution and outlook

	Change bps	2017	*YTD change ppt*	H1 2018	*Change ppt*	2018f	*Change ppt*	2019f	*2018-22f average*
ACB	4	14.1%	15	28.7%	13	27.4%	-2	25.1%	23.5%
BID	0	14.9%	2	16.4%	0	15.2%	6	20.8%	21.9%
CTG	0	11.8%	1	12.9%	1	12.8%	2	15.0%	15.8%
HDB	7	14.5%	5	19.9%	3	17.8%	2	20.3%	22.4%
MBB	1	12.8%	7	19.7%	6	18.6%	0	19.1%	18.9%
VCB	3	18.1%	5	23.2%	3	20.6%	0	20.8%	19.7%
Viet banks median	**2**	**14.3%**	**5**	**19.8%**	**4**	**18.2%**	**2**	**20.5%**	**20.8%**

Source: Company reports, Rong Viet Securities estimates

Table 12: ROA evolution and outlook

	Change bps	2017	*YTD change bps*	H1 2018	*Change bps*	2018f	*Change bps*	2019f	*2018-22f average*
ACB	*21*	0.8%	84	1.7%	81	1.6%	-1	1.6%	1.6%
BID	*-5*	0.6%	-1	0.6%	-3	0.6%	19	0.8%	0.9%
CTG	*-6*	0.7%	-13	0.6%	-1	0.7%	9	0.8%	0.9%
HDB	*45*	1.0%	54	1.6%	32	1.3%	11	1.4%	1.5%
MBB	*1*	1.2%	62	1.9%	51	1.7%	9	1.8%	1.9%
VCB	*6*	1.0%	30	1.3%	12	1.1%	10	1.2%	1.2%
Viet banks median	***4***	**0.9%**	**42**	**1.4%**	**22**	**1.2%**	**10**	**1.3%**	**1.3%**

Source: Company reports, Rong Viet Securities estimates

Valuation

We change our valuation methodology from a combined residual income and PB comparison method to a combined two-stage dividend discount/ residual income model to calculate our fair value estimate for each Vietnamese bank.

- Stage 1: We estimate the present value of dividends from 2018 to 2022.
- Stage 2: We determine the terminal value using a justified PB multiple derived from ROE (at 2022), terminal growth rate and cost of equity (COE) for the respective bank. We then discount this derived value at the cost of equity.

We base our 14.0% COE assumption on an 5.3% risk-free rate (approximately equivalent to Vietnam's 10-year government bond yield), a 9% equity risk premium and a beta of 1.0x. We also assume a terminal growth rate of 6%.

For VCB we apply a 50% quality premium to our standard valuation model, to reflect the bank's leadership position, quality and transparency, its high index weighting and its foreign room.

Our Vietnam banks universe is trading on a median 15.1x 2018f PE and 2.2x PB, for median earnings growth of 26% in 2018 and 18.2% median ROE. 2018f dividend yield is 2.3%. This compares to Exotix global frontier banks coverage at median 7.3x 2018f PE and 1.1x PB on 9% median earnings growth and 13.9% median ROE.

Table 13: Vietnam banks – Valuation multiples on current prices

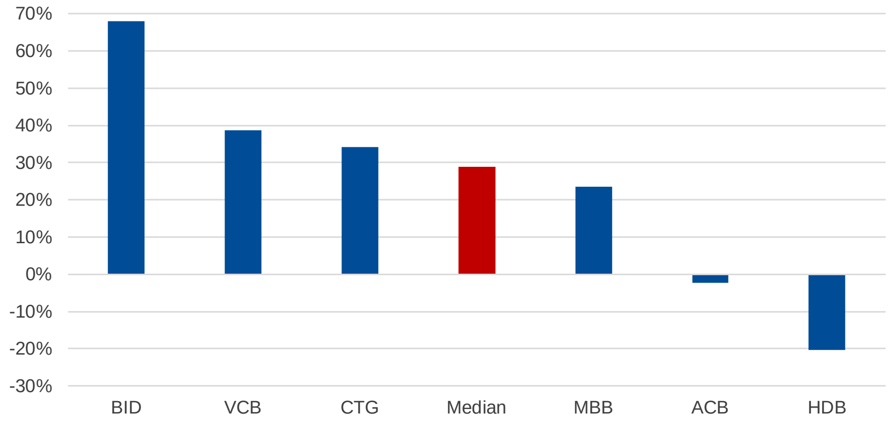
	P/E 2018f	P/E 2019f	P/BVPS 2018f	P/BVPS 2019f	DY 2018f	DY 2019f
ACB	8.7x	7.7x	2.0x	1.7x	0.0%	1.5%
BID	20.5x	13.6x	2.4x	2.0x	2.0%	2.0%
CTG	16.2x	12.1x	1.5x	1.3x	2.5%	2.5%
HDB	13.9x	11.2x	2.4x	2.2x	2.6%	2.6%
MBB	9.3x	8.0x	1.5x	1.3x	2.6%	2.2%
VCB	24.4x	20.9x	3.9x	3.3x	1.2%	1.2%
Vietnam banks median	**15.1x**	**11.7x**	**2.2x**	**1.9x**	**2.3%**	**2.1%**
Frontier banks median	**7.3x**	**6.7x**	**1.1x**	**1.0x**	**4.2%**	**4.9%**

Source: Rong Viet estimates
Note: Current prices as of 24 September 2018

Below, we present the respective discount or premium to the average valuation multiple over the past five years (we look at a blend of both trailing PE and PB multiples for this exercise). The median premium to the 5-year average stands at 29%. Putting aside HDB, which was only listed on the stock exchange in June 2018, BID is trading at the largest premium to history (68%), while ACB at the biggest discount (-2%).

After the severe restructuring period focused on clearing bad assets, Vietnam banks' balance sheet has become healthier. We expect earnings growth to peak in 2018-19 given: (1) NIM expansion resulting in high net interest income; (2) many banks' provision charges to decrease significantly as they bought back the entire special bond; (3) a huge reversal amount from written-off bad debt. In the long term, we expect there will be greater contribution from services income as banks have been focusing on more services such as bancassurance, bankcards, guarantee, etc.

Figure 4: Valuation premium/ (discount) to 5-year historical average



Source: Company reporting, Bloomberg, Rong Viet Securities
Note: Current prices as of 24 September 2018

Risks

Downside risks

- **Credit cycle risk:** Our base-case forecasts assume a gentle credit tightening towards the end of our forecast period. An earlier and more abrupt tightening in the credit cycle would result in slower growth, faster asset quality deterioration, and tighter liquidity conditions than we have forecast. One or all of these could result in downgrades to our earnings estimates and target prices.
- **Regulatory risk:** Lower credit growth quotas and tighter controls on consumer finance practices, including a pricing cap, would also slow banks' credit expansion by more than expected.
- **Execution risks:** Failure to resolve legacy assets (BID) and recapitalise (BID, CTG, VCB) would affect growth prospects and earnings outlooks for these banks.

Upside risks

- **Increased financial penetration:** Retail penetration is still relatively low in Vietnam. In a more favorable environment (stable economic growth, fiscal discipline, clear legal framework), there could be a sustained period of strong credit growth.
- **Interest risk:** With US interest rates slowly rising, and uncertainty over the global oil price outlook looming, Vietnamese policymakers are taking a more cautious tone on monetary policy. Our base case currently factors in a gradual monetary tightening from 2019-20. A quicker and larger rise in interest rates should, in general, be supportive of margins.

COMPANY SECTION

ACB: Stronger asset quality, but still a Accumulate

Recommendation: ACCUMULATE	
Price (VND)	34,300
Target price /VND)	38,400
Expected share price return	12.0%
Expected dividend yield	0.0%
Expected total return	12.0%
Market cap (VNDbn)	42,778
Avg. daily volume (VNDmn)	169,747

- **We reiterate our Accumulate rating.** With ACB trading at a multiple of 2.1x BV for 2018, our unchanged target price of VND38,400 offers an expected total return of 12.0%. By completing its restructuring pre-2012 legal issues, ACB's asset quality has improved significantly. As an experienced retail bank, we expect ACB to utilise its abundant capital and liquidity to enhance its power in this segment. Having raised net profit by 130% yoy in 2018 so far, ACB's ROE will be c26.7% this year, a significant improvement from 14.1% in 2017. The bank will pay a 30% stock dividend for the year, and will start to pay a cash dividend from 2019, in our view.
- **High quality assets, strong capital adequacy and liquidity.** As of June 2018, the loan/ deposit ratio was 78%, and consolidated CAR and Tier 1 CAR were 11.4% and 8.9% respectively. In addition, bad debt has remained under control. The NPL ratio was 0.8% in June 2018, unchanged from the end of 2017. Notably, the provisions coverage ratio stayed at 131%. We think the bank will pay a 30% stock dividend for 2018. The total, 2019 dividend per charter capital (including stock and cash dividend) will be c20%, in our view.
- **Healthy asset quality and higher credit growth.** We expect that the bank's customer loan and deposit growth will be c16% yoy and 15% yoy respectively in 2018. Moreover, the bank is still focussing on restructuring its loan book, targeting high rate loans instead of boosting credit growth. Therefore, its net interest margin will be stable at c3.25% and net interest income will be flat yoy.
- **Expanding sources of income, decreasing provisions expenses.** ACB's other businesses, including service income and forex trading, also grew strongly in H1 18, at 38% and 17% yoy respectively. This year, the bank is paying more attention to service activities such as transactions, payments guarantees, and bancassuarance. We think fees from these activities will make a notable contribution to the bank's income in 2018, as well as in upcoming years. The bank targets its services income to grow 30% per annum in 2018-19, and CAGR for 2019-24 will be 20%. Meanwhile, ACB has fully provided for VAMC bonds as well as the bad debts relating to an ex-state-owned firm and Group Six companies (G6, related to Mr Nguyen Duc Kien) in 2017. Hence, its operating and provision expenses will decline by 8% yoy and 66% yoy, respectively, in 2018, in our view. Moreover, provision reversal from these bad debts could take place later in 2018 and in 2019.
- **Future projects: ACB steps deeper into retail banking.** After more than five years spent solving its legal issues, ACB has almost finished its restructuring plan. From 2018, the bank will focus on reinforcing and developing its activities in the retail banking segment, with a big project named "Future bank". By applying technology and big data, ACB expects it can improve productivity as well as capture more clients, including affluent and mass-affluent individuals as well as micro SMEs and households.
- **Downside risks to our target price and recommendation** include slower earning growth in 2019 following strong growth in 2018.

Table 14: ACB – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	11,439	13,017	14,768	16,294	18,922	21,955
Net income (VNDbn)	2,118	5,020	5,816	6,402	7,443	8,645
EPS (VND)	1,658	3,930	4,463	4,912	5,712	6,634
P/E (x)	20.7	8.7	7.7	7.0	6.0	5.2
BPS (VND)	12,854	16,498	20,252	24,806	29,656	34,920
P/B (x)	2.7	2.1	1.7	1.4	1.2	1.0
DPS (VND)	0	0	500	1,000	1,000	1,500
Dividend yield	0.0%	0.0%	1.5%	2.9%	2.9%	4.4%
ROA	0.8%	1.6%	1.6%	1.6%	1.6%	1.6%
ROE	14.1%	27.4%	25.1%	22.3%	21.5%	21.0%

Source: Rong Viet Securities estimates

Table 15: ACB – financial summary (VNDbn)

Income statement	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Net interest income	6,892	8,458	23%	9,901	17%	11,535	17%	13,378	16%	15,404	15%	17,682
Net fee income	944	1,188	26%	1,545	30%	1,931	25%	2,414	25%	3,017	25%	3,772
Exchange income	230	237	3%	237	0%	237	0%	237	0%	237	0%	237
Gain/ (loss) in FVIS investments	-886	603	-168%	63	-90%	0	-100%	0		0		0
Trading income (loss)	72	25	-65%	37	47%	37	0%	37	0%	37	0%	37
Dividend income	25	36	45%	27	-24%	27	0%	27	0%	27	0%	27
Other operating income	285	892	213%	1,206	35%	1,000	-17%	200	-80%	200	0%	200
Total operating income	7,563	11,439	51%	13,017	14%	14,768	13%	16,294	10%	18,922	16%	21,955
Total operating expenses	4,678	6,217	33%	5,857	-6%	6,646	13%	7,332	10%	8,515	16%	9,880
Pre-provision profit	2,885	5,222	81%	7,159	37%	8,122	13%	8,961	10%	10,407	16%	12,075
Loan impairment charge	1,218	2,565	111%	885	-66%	852	-4%	960	13%	1,104	15%	1,269
Profit before tax	1,667	2,656	59%	6,275	136%	7,270	16%	8,002	10%	9,304	16%	10,806
Tax charge	342	538	57%	1,255	133%	1,454	16%	1,600	10%	1,861	16%	2,161
Profit after tax	1,325	2,118	60%	5,020	137%	5,816	16%	6,401	10%	7,443	16%	8,645
Profit attributable to minorities	0	0		0		0		0		0		0
Profit attributable to shareholders	1,325	2,118	60%	5,020	137%	5,816	16%	6,402	10%	7,443	16%	8,645
Adjusted net attributable profit	1,275	2,068	62%	4,901	137%	5,679	16%	6,251	10%	7,268	16%	8,441

Balance sheet	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Assets												
Cash and central bank balances	8,661	13,166	52%	15,443	17%	17,182	11%	19,683	15%	21,688	10%	24,081
Interbank assets	8,152	8,942	10%	11,624	30%	15,112	30%	19,645	30%	25,538	30%	33,200
Net loans and financing	161,604	196,669	22%	227,546	16%	263,538	16%	302,646	15%	347,621	15%	399,342
Provisions	1,797	1,845	3%	2,729	48%	3,582	31%	4,541	27%	5,645	24%	6,914
Gross loans	163,401	198,513	21%	230,276	16%	267,120	16%	307,188	15%	353,266	15%	406,256
Non-performing loans (NPLs)	1,400	1,372	-2%	2,072	51%	2,404	16%	2,765	15%	3,179	15%	3,656
Net investment securities	42,801	52,718	23%	62,036	18%	72,316	17%	79,150	9%	87,614	11%	97,115
Trading securities	1,183	1,237	5%	504	-59%	504	0%	504	0%	504	0%	504
Investments in associates	190	190	0%	190	0%	190	0%	190	0%	190	0%	190
Property and equipment	2,851	3,008	6%	3,459	15%	3,978	15%	4,574	15%	5,489	20%	6,587
Other assets	8,010	8,131	2%	9,757	20%	11,220	15%	12,903	15%	14,839	15%	17,807
Total assets	233,681	284,316	22%	330,825	16%	384,306	16%	439,561	14%	503,749	15%	579,092
Equity & Liabilities												
Due to Gov and borrowings from SBV	0	0		0		0		0		0		0
Interbank liabilities	2,235	15,454	591%	20,090	30%	24,108	20%	24,108	0%	25,313	5%	26,579
Customer deposits	207,051	241,393	17%	277,602	15%	320,630	16%	368,725	15%	424,033	15%	489,759
Convertible bonds/CDs and other valuable papers issued	6,615	6,761	2%	7,437	10%	8,181	10%	8,999	10%	9,899	10%	10,889
Other liabilities	3,594	4,531	26%	4,984	10%	5,482	10%	6,030	10%	6,633	10%	7,297
Total liabilities	219,618	268,285	22%	310,249	16%	358,537	16%	407,998	14%	466,015	14%	534,659
Charter capital	8,711	9,608	10%	12,058	26%	12,058	0%	12,724	6%	12,724	0%	12,724
Reserves	2,590	2,914	12%	2,625	-10%	2,654	1%	2,686	1%	2,723	1%	2,727
Retained Earnings	2,761	3,510	27%	5,892	68%	11,056	88%	16,153	46%	22,287	38%	28,981
Shareholders' equity	14,063	16,031	14%	20,576	28%	25,768	25%	31,563	22%	37,734	20%	44,433
Non-controlling interest	0	0		0		0		0		0		0
Total Equity & Liabilities	233,681	284,316	22%	330,825	16%	384,306	16%	439,561	14%	503,749	15%	579,092

	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Per share data												
EPS stated	1,293	1,996	54%	3,930	97%	4,463	14%	4,912	10%	5,712	16%	6,634
EPS fully-diluted	1,293	1,996	54%	3,930	97%	4,463	14%	4,912	10%	5,712	16%	6,634
Adjusted EPS till present	1,022	1,658	62%	3,930	137%	4,463	14%	4,912	10%	5,712	16%	6,634
DPS - cash	0	0		0		500		1,000	100%	1,000	0%	1,500
DPS - stock	0	0		0		0		0		0		0
BPS - diluted	11,276	12,854	14%	16,498	28%	20,252	23%	24,806	22%	29,656	20%	34,920
Ratios												
NIM	3.17%	3.27%		3.22%		3.23%		3.25%		3.27%		3.27%
Fees/ assets	0.40%	0.42%		0.47%		0.50%		0.55%		0.60%		0.65%
Cost/ income	61.9%	54.4%		45.0%		45.0%		45.0%		45.0%		45.0%
NPLs/ gross loans	0.9%	0.7%		0.9%		0.9%		0.9%		0.9%		0.9%
Provisions/ NPLs	128.4%	134.4%		131.7%		149.0%		164.3%		177.5%		189.1%
Impairment charge/ gross loans	0.7%	1.3%		0.4%		0.3%		0.3%		0.3%		0.3%
Net loans/ deposits	78.1%	81.5%		82.0%		82.2%		82.1%		82.0%		81.5%
ROAA	0.6%	0.8%		1.6%		1.6%		1.6%		1.6%		1.6%
ROAE	9.9%	14.1%		27.4%		25.1%		22.3%		21.5%		21.0%

Source: Rong Viet Securities estimates

BID: Awaiting the removal of bottlenecks. Neutral

Recommendation: NEUTRAL	
Price (VND)	34,900
Target price /VND)	35,000
Expected share price return	0.3%
Expected dividend yield	2.0%
Expected total return	2.3%
Market cap (VNDbn)	119,313
Avg. daily volume (VNDmn)	81,073

- **We have a target price for BID of VND35,000**, with a VND700 cash dividend for 2018, suggesting a 2.3% expected total return. At the current market price, we estimate BID's forward PB ratio at 2.4x, which is unattractive compared to the current average of listed banks (excluding VCB), especially given BID's high NPL ratio, large VAMC bond portfolio and growth restraint due to tight capital. The bank is looking to raise capital which, if successful, will remove BID's current bottlenecks as well as improve its credit and profit growth potential. Given these ongoing uncertainties, we have a Neutral recommendation on the stock.
- **BID has restructured its loan portfolio towards retail lending.** Customer credit growth at the end of H1 18 was 7% YTD, driven by 13% growth in retail lending (31% of its loan portfolio). The bank targets to raise the retail loans weight to at least 40% by 2022, based on: 1) its strong reputation; 2) its transaction network which is the second largest in the country; 3) the application of digital banking; and 4) leveraging its existing relationships with corporates. Thanks to BID's loan book restructuring efforts, its net interest margin improved from 2.5% in 2016 to 2.8% in 2017, and again to 2.9% in H1 2018. As we expect NIM will be kept stable at c2.9% in the years to come, we raise our net interest income forecast for 2018 from VND33,969bn to VND36,748bn.
- **Giving priority to the improvement of asset quality.** BID is among those banks that set the lowest target for PBT growth in 2018 (at only 7%). In H1 18, the bank maintained moderate credit growth and accelerated provision-making for on-balance sheet bad debts and special bonds. 67% of earnings before impairment charges were spent as credit loss provisions (VND10,026bn), which is the highest ratio amongst all listed banks. The credit expense was to compensate for nearly VND10,000bn of bad debts that were written off in H1 18. As a result, provision coverage of NPLS rose to 85% instead of 81% at the end of 2017. This prudent approach, in our view, opens the door to potential other income from debt recovery soon. Given the plan to clear all outstanding VAMC bonds by H1 19, we believe that profit growth will accelerate from 2020. Accordingly, we raise our full-year 2018 forecast for credit provisions from VND13,992bn to VND17,067bn. Overall, we forecast 2018 PBT at VND9,539bn (+10% yoy).
- **Raising capital to meet Basel II standards.** Capital raising is a similar story as in 2017, when BID's CAR was a little higher than the 9% requirement of Circular 36 (and was the lowest ratio in the sector). Therefore, we think BID is in urgent need to raise capital to meet Basel II. This depends on the bank's ability to execute a private placement for strategic/financial investors. Newspaper reports indicate that BID has most likely selected a Korean bank as its strategic investor (management has confirmed they have picked a strategic investor but have not yet revealed the identity). In the meantime, BID is also organising roadshows to seek potential financial investors. However, the process is likely to take a long time due to the requirement that the issuing price cannot be lower than market price.
- **Risks to our target price and recommendation.** The progress of capital raising will have a big positive impact on BID's financial picture. Other upside risks include the extraordinary earnings due to divestment from associates (e.g. BIDV Metlife) and a lower provision burden than our expectations due to positive progress in the recovery of non-performing loans and debts sold to VAMC. Downside risks include a downturn in the credit cycle and the limited opportunities to expand NIM as too many banks are shifting towards the high-profit retail segments.

Table 16: BID – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	39,017	44,150	49,340	55,668	63,139	72,437
Net income (VNDbn)	6,787	7,487	11,279	17,405	19,882	23,103
EPS (VND)	1,547	1,706	2,571	3,967	4,531	5,265
P/E (x)	22.6	20.5	13.6	8.8	7.7	6.6
BPS (VND)	14,284	14,600	17,199	21,590	26,705	31,969
P/B (x)	2.4	2.4	2.0	1.6	1.3	1.1
DPS (VND)	700	700	700	700	700	700
Dividend yield	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
ROA	0.6%	0.6%	0.8%	1.1%	1.1%	1.1%
ROE	14.9%	15.2%	20.8%	26.2%	24.1%	23.0%

Source: Rong Viet Securities estimates

Table 17: BID – Financial Summary (VNDbn)

Income statement	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Net interest income	**23,435**	**30,955**	***32%***	**36,748**	***19%***	**41,766**	***14%***	**47,540**	***14%***	**53,866**	***13%***	**61,802**
Net fee income	**2,509**	**2,966**	***18%***	**3,559**	***20%***	**4,271**	***20%***	**5,125**	***20%***	**6,150**	***20%***	**7,380**
Exchange income	534	668	*25%*	708	*6%*	708	*0%*	708	*0%*	708	*0%*	708
Gain/ (loss) in FVIS investments	403	331	*-18%*	0	*-100%*	0		0		0		0
Trading income (loss)	455	482	*6%*	735	*53%*	735	*0%*	735	*0%*	735	*0%*	735
Dividend income	1,214	336	*-72%*	360	*7%*	360	*0%*	360	*0%*	360	*0%*	360
Other operating income	1,883	3,279	*74%*	2,040	*-38%*	1,500	*-26%*	1,200	*-20%*	1,320	*10%*	1,452
Total operating income	**30,434**	**39,017**	***28%***	**44,150**	***13%***	**49,340**	***12%***	**55,668**	***13%***	**63,139**	***13%***	**72,437**
Total operating expenses	13,527	15,504	*15%*	17,544	*13%*	19,853	*13%*	22,678	*14%*	25,405	*12%*	28,785
Pre-provision profit	**16,907**	**23,512**	***39%***	**26,606**	***13%***	**29,487**	***11%***	**32,990**	***12%***	**37,733**	***14%***	**43,652**
Loan impairment charge	9,199	14,847	*61%*	17,067	*15%*	15,218	*-11%*	11,079	*-27%*	12,731	*15%*	14,632
Profit before tax	**7,709**	**8,665**	***12%***	**9,539**	***10%***	**14,269**	***50%***	**21,911**	***54%***	**25,002**	***14%***	**29,020**
Tax charge	1,480	1,720	*16%*	1,893	*10%*	2,832	*50%*	4,348	*54%*	4,962	*14%*	5,759
Profit after tax	**6,229**	**6,946**	***12%***	**7,646**	***10%***	**11,438**	***50%***	**17,563**	***54%***	**20,040**	***14%***	**23,261**
Profit attributable to minorities	91	159	*74%*	159	*0%*	159	*0%*	159	*0%*	159	*0%*	159
Profit attributable to shareholders	**6,138**	**6,787**	***11%***	**7,487**	***10%***	**11,279**	***51%***	**17,405**	***54%***	**19,882**	***14%***	**23,103**
Adjusted net attributable profit	**5,156**	**5,288**	***3%***	**5,834**	***10%***	**8,788**	***51%***	**13,561**	***54%***	**15,491**	***14%***	**18,000**

Balance sheet	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Assets												
Cash and central bank balances	43,817	37,622	*-14%*	37,232	*-1%*	42,649	*15%*	50,813	*19%*	59,094	*16%*	65,704
Interbank assets	61,865	118,355	*91%*	130,191	*10%*	143,210	*10%*	157,531	*10%*	173,284	*10%*	190,612
Net loans and financing	713,633	855,536	*20%*	986,993	*15%*	1,132,650	*15%*	1,301,599	*15%*	1,495,490	*15%*	1,718,026
Provisions	*10,064*	*11,350*	*13%*	*9,925*	*-13%*	*13,806*	*39%*	*16,825*	*22%*	*20,697*	*23%*	*25,590*
Gross loans	*723,697*	*866,885*	*20%*	*996,918*	*15%*	*1,146,456*	*15%*	*1,318,424*	*15%*	*1,516,188*	*15%*	*1,743,616*
Non-performing loans (NPLs)	*14,429*	*14,064*	*-3%*	*14,954*	*6%*	*17,197*	*15%*	*19,776*	*15%*	*22,743*	*15%*	*26,154*
Net investment securities	144,413	146,477	*1%*	152,015	*4%*	164,907	*8%*	181,398	*10%*	199,538	*10%*	219,492
Trading securities	10,016	9,614	*-4%*	9,133	*-5%*	9,133	*0%*	9,133	*0%*	9,133	*0%*	9,133
Investments in associates	4,330	2,580	*-40%*	2,580	*0%*	3,095	*20%*	3,714	*20%*	4,457	*20%*	5,349
Property and equipment	9,722	10,349	*6%*	11,901	*15%*	13,686	*15%*	15,739	*15%*	18,887	*20%*	22,664
Other assets	18,607	21,559	*16%*	23,714	*10%*	26,086	*10%*	28,694	*10%*	31,564	*10%*	34,720
Total assets	**1,006,404**	**1,202,284**	***19%***	**1,353,952**	***13%***	**1,535,610**	***13%***	**1,748,815**	***14%***	**1,991,641**	***14%***	**2,265,894**
Equity & Liabilities												
Due to Gov and borrowings from SBV	43,392	77,535	*79%*	77,535	*0%*	93,042	*20%*	102,347	*10%*	112,581	*10%*	123,840
Interbank liabilities	92,499	91,979	*-1%*	101,177	*10%*	111,294	*10%*	122,424	*10%*	134,666	*10%*	148,133
Customer deposits	726,022	859,985	*18%*	988,983	*15%*	1,122,496	*14%*	1,285,258	*15%*	1,471,620	*15%*	1,685,005
Convertible bonds/CDs and other valuable papers issued	66,642	83,738	*26%*	92,112	*10%*	101,324	*10%*	111,456	*10%*	122,601	*10%*	134,862
Other liabilities	22,240	28,489	*28%*	31,338	*10%*	34,472	*10%*	37,919	*10%*	41,711	*10%*	45,882
Total liabilities	**962,260**	**1,153,450**	***20%***	**1,304,041**	***13%***	**1,476,813**	***13%***	**1,675,006**	***13%***	**1,900,343**	***13%***	**2,156,601**
Charter capital	34,305	34,370	*0%*	34,305	*0%*	34,305	*0%*	34,305	*0%*	34,305	*0%*	34,305
Reserves	3,377	4,446	*32%*	4,364	*-2%*	5,865	*34%*	8,182	*39%*	10,828	*32%*	11,190
Retained Earnings	4,971	7,092	*43%*	11,189	*58%*	18,574	*66%*	31,269	*68%*	46,111	*47%*	63,745
Shareholders' equity	**42,541**	**48,834**	***15%***	**49,912**	***2%***	**58,798**	***18%***	**73,809**	***26%***	**91,297**	***24%***	**109,293**
Non-controlling interest	1,604	0	*-100%*	0		0		0		0		0
Total Equity & Liabilities	**1,006,404**	**1,202,284**	***19%***	**1,353,952**	***13%***	**1,535,610**	***13%***	**1,748,815**	***14%***	**1,991,641**	***14%***	**2,265,894**

	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Per share data												
EPS stated	1,508	1,547	*3%*	1,706	*10%*	2,571	*51%*	3,967	*54%*	4,531	*14%*	5,265
EPS fully-diluted	1,508	1,547	*3%*	1,706	*10%*	2,571	*51%*	3,967	*54%*	4,531	*14%*	5,265
Adjusted EPS till present	1,508	1,547	*3%*	1,706	*10%*	2,571	*51%*	3,967	*54%*	4,531	*14%*	5,265
DPS - cash	850	700	*-18%*	700	*0%*	700	*0%*	700	*0%*	700	*0%*	700
DPS - stock	*0*	*0*		*0*		*0*		*0*		*0*		*0*
BPS - diluted	12,443	14,284	*15%*	14,600	*2%*	17,199	*18%*	21,590	*26%*	26,705	*24%*	31,969
Ratios												
NIM	2.52%	2.80%		2.88%		2.89%		2.89%		2.88%		2.90%
Fees/ assets	0.25%	0.25%		0.26%		0.28%		0.29%		0.31%		0.33%
Cost/ income	44.4%	39.7%		39.7%		40.2%		40.7%		40.2%		39.7%
NPLs/ gross loans	2.0%	1.6%		1.5%		1.5%		1.5%		1.5%		1.5%
Provisions/ NPLs	69.7%	80.7%		66.4%		80.3%		85.1%		91.0%		97.8%
Impairment charge/ gross loans	1.3%	1.7%		1.7%		1.3%		0.8%		0.8%		0.8%
Net loans/ deposits	98.3%	99.5%		99.8%		100.9%		101.3%		101.6%		102.0%
ROAA	0.7%	0.6%		0.6%		0.8%		1.1%		1.1%		1.1%
ROAE	14.7%	14.9%		15.2%		20.8%		26.2%		24.1%		23.0%

Source: Rong Viet Securities estimates

CTG: Prudent industry leader at a discount

Recommendation: ACCUMULATE	
	(from BUY)
Price (VND)	28,000
Target price /VND)	31,900
Expected share price return	13.9%
Expected dividend yield	2.5%
Expected total return	16.4%
Market cap (VNDbn)	104,255
Avg. daily volume (VNDmn)	155,648

- **We reiterate our Accumulate rating.** Trading at a multiple of 1.7x 2018f BV, our unchanged target price of VND31,900 plus VND700 per share in cash dividend offers an expected total return of 16.4%. CTG has more than a 10% share of the credit market. The economy's demand for credit will help to grow CTG's net interest income, making up for increases in operating and provisions expenses. Following the phase of reorganising its operations as well as launching a new core-banking platform, CTG's services income is starting to show positive results.
- **Fast retail loan growth.** Customer loans and deposits growth reached 10% YTD. The trend is in contrast with last year. Investments in corporate bonds have declined, in line with the sector trend. CTG has been reducing the proportion of state-owned enterprise (SOE) loans and making credit loan room for the SME and retail segments. In the first half of 2018, CTG's SME and retail loans grew 11% YTD and 13% YTD respectively. These two groups are targeted to account for 30% and 25% of CTG's total loan books by 2020.
- **Contribution from service income keeps increasing.** CTG launched its high-tech core banking platform in Feb 2017. We expect the new system will be robust enough to: (1) serve CTG's objective of pursuing its retail banking strategy; (2) enhance the bank's capacity to develop services and products for SME and retail clients; and (3) become a payment bank on the Vietnam stock exchange, which used to be BID's playground only. Therefore, service income should experience 20-25% in growth per annum in the next 2-3 years in our view, due to higher fees from services, bankcards, insurance, transactions, and securities.
- **On-balance-sheet bad debt is still a work in progress.** The NPL ratio increased to 1.3% in Q2 18 (2017: 1.1%) and grew by 25% yoy, mostly caused by the increase of Group 3 and Group 5 loans. It should be noted that although CTG bought back all its VAMC bonds in Q1 18 (cVND500bn), the bank also made cVND4.4tn in provisions for on-balance sheet bad debts. Hence, CTG's provisions coverage ratio increased to more than 111% by the end of Q2 18, from 92% at end-2017. Moreover, given fast-growing Group 3 debt in H1 18 (the kind of loan which will be easy to become Group 4 and Group 5 debt in the near future), we think CTG's provision expense will continue to be high in next five to six quarters.
- **New hope for capital raising.** CTG's CAR has almost approached the minimum ratio under Circular 36's requirements and is at a shortfall under Basel II criteria. Therefore, CTG has an urgent need to raise Tier 1 capital. Increasing its general provision fund will also help, though it is not enough; raising charter capital will play a key role. Investors are aware that such a method has not been easy for CTG, since the state's ownership has reached the minimum of 65% and the government doesn't intend to allocate any state budget into commercial banks. Decision 986 on August 8 2018, approving the development strategy of the Vietnamese banking sector, mentions the government's plan to reduce its ownership in state-owned banks to 51%. Though we think the execution of this decision will not take place until 2020 or later, it brings new hope for CTG's capital raising ability.
- **Risks to our target price and recommendation:** Downside risks include the failure to raise Tier 1 capital to meet Basel II, which could stunt the bank's growth. In addition, a failure to recapitalise the bank over the medium term (CTG is already at the 30% foreign ownership limit, which may complicate the recapitalisation process) would constrain growth and earnings more than we currently factor in our forecasts.

Table 18: CTG – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	32,620	35,167	40,457	45,385	50,962	57,299
Net income (VNDbn)	7,432	8,077	10,799	14,049	16,073	18,415
EPS (VND)	1,594	1,732	2,315	3,012	3,446	3,948
P/E (x)	17.6	16.2	12.1	9.3	8.1	7.1
BPS (VND)	17,126	18,216	20,416	23,489	27,106	31,352
P/B (x)	1.6	1.5	1.4	1.2	1.0	0.9
DPS (VND)	700	700	700	700	700	700
Dividend yield	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
ROA	0.7%	0.7%	0.8%	0.9%	0.9%	0.9%
ROE	11.8%	12.3%	15.0%	17.2%	17.1%	16.9%

Source: Rong Viet Securities estimates

Table 19: CTG – Financial Summary (VNDbn)

Income statement	**2016**	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Net interest income	**22,405**	**27,073**	***21%***	**29,547**	***9%***	**33,885**	***15%***	**38,059**	***12%***	**42,883**	***13%***	**48,315**
Net fee income	**1,687**	**1,855**	***10%***	**2,412**	***30%***	**3,015**	***25%***	**3,768**	***25%***	**4,522**	***20%***	**5,426**
Exchange income	685	710	*4%*	715	*1%*	713	*0%*	714	*0%*	713	*0%*	714
Gain/ (loss) in FVIS investments	41	-81	*-297%*	180	*-323%*	47	*-74%*	47	*0%*	47	*0%*	47
Trading income (loss)	184	325	*77%*	213	*-34%*	213	*0%*	213	*0%*	213	*0%*	213
Dividend income	147	743	*406%*	210	*-72%*	141	*-33%*	141	*0%*	141	*0%*	141
Other operating income	1,305	1,995	*53%*	1,889	*-5%*	2,443	*29%*	2,443	*0%*	2,443	*0%*	2,443
Total operating income	**26,454**	**32,620**	***23%***	**35,167**	***8%***	**40,457**	***15%***	**45,385**	***12%***	**50,962**	***12%***	**57,299**
Total operating expenses	12,902	15,070	*17%*	15,825	*5%*	17,801	*12%*	19,516	*10%*	21,404	*10%*	23,492
Pre-provision profit	**13,552**	**17,550**	***30%***	**19,342**	***10%***	**22,656**	***17%***	**25,869**	***14%***	**29,558**	***14%***	**33,806**
Loan impairment charge	5,022	8,344	*66%*	9,213	*10%*	9,125	*-1%*	8,275	*-9%*	9,433	*14%*	10,754
Profit before tax	**8,530**	**9,206**	***8%***	**10,129**	***10%***	**13,531**	***34%***	**17,595**	***30%***	**20,125**	***14%***	**23,052**
Tax charge	1,705	1,747	*3%*	2,026	*16%*	2,706	*34%*	3,519	*30%*	4,025	*14%*	4,610
Profit after tax	**6,825**	**7,459**	***9%***	**8,103**	***9%***	**10,825**	***34%***	**14,076**	***30%***	**16,100**	***14%***	**18,442**
Profit attributable to minorities	20	27	*33%*	27	*0%*	27	*0%*	27	*0%*	27	*0%*	27
Profit attributable to shareholders	**6,805**	**7,432**	***9%***	**8,077**	***9%***	**10,799**	***34%***	**14,049**	***30%***	**16,073**	***14%***	**18,415**
Adjusted net attributable profit	**5,824**	**5,934**	***2%***	**6,448**	***9%***	**8,621**	***34%***	**11,216**	***30%***	**12,832**	***14%***	**14,702**

Balance sheet	**2016**	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Assets												
Cash and central bank balances	18,690	26,736	*43%*	48,726	*82%*	28,821	*-41%*	27,212	*-6%*	34,537	*27%*	63,741
Interbank assets	94,469	107,510	*14%*	123,637	*15%*	142,183	*15%*	170,619	*20%*	204,743	*20%*	235,454
Net loans and financing	655,126	782,385	*19%*	896,288	*15%*	1,024,526	*14%*	1,167,734	*14%*	1,331,005	*14%*	1,517,415
Provisions	*6,862*	*8,303*	*21%*	*13,003*	*57%*	*12,066*	*-7%*	*13,981*	*16%*	*16,150*	*16%*	*18,342*
Gross loans	*661,988*	*790,688*	*19%*	*909,291*	*15%*	*1,036,592*	*14%*	*1,181,715*	*14%*	*1,347,155*	*14%*	*1,535,757*
Non-performing loans (NPLs)	*6,743*	*9,011*	*34%*	*11,821*	*31%*	*12,439*	*5%*	*14,181*	*14%*	*16,166*	*14%*	*18,429*
Net investment securities	134,227	128,393	*-4%*	131,624	*3%*	144,569	*10%*	153,228	*6%*	162,753	*6%*	173,231
Trading securities	1,895	3,529	*86%*	18,041	*411%*	19,785	*10%*	21,704	*10%*	23,814	*10%*	26,136
Investments in associates	3,204	3,114	*-3%*	3,114	*0%*	3,114	*0%*	3,114	*0%*	3,114	*0%*	3,114
Property and equipment	10,615	11,437	*8%*	13,152	*15%*	15,125	*15%*	17,394	*15%*	20,003	*15%*	23,003
Other assets	29,791	31,428	*5%*	34,570	*10%*	38,027	*10%*	41,830	*10%*	50,196	*20%*	60,235
Total assets	**948,699**	**1,095,061**	***15%***	**1,269,682**	***16%***	**1,416,679**	***12%***	**1,603,363**	***13%***	**1,830,695**	***14%***	**2,102,858**
Equity & Liabilities												
Due to Gov and borrowings from SBV	4,808	15,207	*216%*	45,621	*200%*	22,810	*-50%*	11,405	*-50%*	11,405	*0%*	11,405
Interbank liabilities	85,152	115,159	*35%*	115,159	*0%*	126,675	*10%*	141,876	*12%*	158,901	*12%*	190,681
Customer deposits	654,423	752,935	*15%*	858,346	*14%*	974,223	*14%*	1,105,743	*14%*	1,255,018	*14%*	1,424,446
Convertible bonds/CDs and other valuable papers issued	23,849	22,502	*-6%*	31,502	*40%*	34,653	*10%*	38,118	*10%*	41,930	*10%*	46,123
Other liabilities	110,782	119,129	*8%*	142,954	*20%*	171,545	*20%*	205,854	*20%*	247,025	*20%*	296,430
Total liabilities	**885,727**	**1,031,296**	***16%***	**1,201,856**	***17%***	**1,340,661**	***12%***	**1,515,903**	***13%***	**1,729,767**	***14%***	**1,986,121**
Charter capital	46,209	46,209	*0%*	46,209	*0%*	46,209	*0%*	46,209	*0%*	46,209	*0%*	46,209
Reserves	6,362	7,476	*18%*	7,543	*1%*	9,122	*21%*	11,176	*23%*	13,526	*21%*	16,218
Retained Earnings	9,663	9,234	*-4%*	13,524	*46%*	20,137	*49%*	29,526	*47%*	40,643	*38%*	53,759
Shareholders' equity	**62,712**	**63,765**	***2%***	**67,826**	***6%***	**76,018**	***12%***	**87,461**	***15%***	**100,928**	***15%***	**116,737**
Non-controlling interest	260	0	*-100%*	0		0		0		0		0
Total Equity & Liabilities	**948,699**	**1,095,061**	***15%***	**1,269,682**	***16%***	**1,416,679**	***12%***	**1,603,363**	***13%***	**1,830,695**	***14%***	**2,102,858**

	2016	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Per share data												
EPS stated	1,432	1,546	*8%*	1,732	*12%*	2,315	*34%*	3,012	*30%*	3,446	*14%*	3,948
EPS fully-diluted	1,432	1,546	*8%*	1,732	*12%*	2,315	*34%*	3,012	*30%*	3,446	*14%*	3,948
Adjusted EPS till present	1,564	1,594	*2%*	1,732	*9%*	2,315	*34%*	3,012	*30%*	3,446	*14%*	3,948
DPS - cash	700	700	*0%*	700	*0%*	700	*0%*	700	*0%*	700	*0%*	700
DPS - stock	*0*	*0*		*0*		*0*		*0*		*0*		*0*
BPS - diluted	16,843	17,126	*2%*	18,216	*6%*	20,416	*12%*	23,489	*15%*	27,106	*15%*	31,352
Ratios												
NIM	2.59%	2.65%		2.50%		2.52%		2.52%		2.50%		2.46%
Fees/ assets	0.18%	0.17%		0.19%		0.21%		0.24%		0.25%		0.26%
Cost/ income	48.8%	46.2%		45.0%		44.0%		43.0%		42.0%		41.0%
NPLs/ gross loans	1.0%	1.1%		1.3%		1.2%		1.2%		1.2%		1.2%
Provisions/ NPLs	101.8%	92.1%		110.0%		97.0%		98.6%		99.9%		99.5%
Impairment charge/ gross loans	0.8%	1.1%		1.0%		0.9%		0.7%		0.7%		0.7%
Net loans/ deposits	100.1%	103.9%		104.4%		105.2%		105.6%		106.1%		106.5%
ROAA	0.8%	0.7%		0.7%		0.8%		0.9%		0.9%		0.9%
ROAE	11.5%	11.8%		12.3%		15.0%		17.2%		17.1%		16.9%

Source: Rong Viet Securities estimates

HDB: Customer ecosystem and consumer finance to drive growth. Downgrade to Accumulate

Recommendation: ACCUMULATE	
	(from Buy)
Price (VND)	39,000
Target price /VND)	42,000
Expected share price return	7.7%
Expected dividend yield	2.6%
Expected total return	10.3%
Market cap (VNDbn)	38,259
Avg. daily volume (VNDmn)	148,612

- **We downgrade the stock to Accumulate (from Buy), with a target price of VND42,000** and an expected VND1,000 cash dividend for 2018 (10.3% total return). In H1 18, HDB achieved significant growth in total credit (+14% yoy) and PBT (+134% yoy). The net interest margin continued its upward trend while asset quality improved with the NPL ratio slightly down from 1.5% to 1.4% and provisions coverage up from 73% to 80%. At the current market price, HDB's forward PB ratio is estimated at 2.4x, which we consider unattractive compared to the current average of the listed banks (excluding VCB).
- **Diverse customer ecosystem supports retail-banking strategy.** HDB has close partnerships with Vietjet Air (HSX: VJC) and some major retail-oriented companies with huge and nationwide customer bases such as Petrolimex (HSX: PLX), Vinamilk (HSX: VNM) and Saigon Coop. The bank is exploiting this customer ecosystem to grab more share by cross-selling its products, which enables HDB to expand its credit and NIM efficiently. In H1 18, the bank's lending growth of +16% YTD was the second highest in the industry, driven by retail lending (+40% YTD). NIM continued to improve from 3.7% in 2017 to 3.9% in H1 18. Total operating income grew significantly (+46% yoy), while operating expenses were well-managed (+12% yoy), leading to a significant improvement in the cost/ income ratio.
- **Significant consumer finance contribution,** though the proportion has been reduced slightly compared to 2017 due to the recent stagnation in the industry. HD Saison's total operating income contribution fell from 39% in 2017 to 36% in H1 18, and the PBT contribution declined from 21.5% to 20.3%. HD Saison's lending growth of 5% YTD in H1 18 is much lower than our expectations. We hold the view that the obstacles in consumer finance can be addressed and HD Saison will still be driving HDB's growth in the future, based on being the largest POS network as well its focus on purpose loans.
- **Merger with PGBank approved by SBV in Q3 18.** We think this is a wise move to support HDB's retail banking strategy as it strengthens the customer base and transaction network. These advantages are crucial to the bank's sustainable growth considering: (1) we are seeing increased competition in retail and SME banking; and (2) the SBV is closely monitoring credit expansion.
- **Changes to our forecasts.** Based on the SBV's new instruction, we reduce our forecast of the bank's customer lending growth in 2018 from 29% to 18%, while keeping it at 15% each year during 2019-22. We also reduce HD Saison's 2017 credit growth forecast from 40% to 20%. In the meantime, we expect consolidated NIM to reach 4.0% in 2018. We lift our consolidated service income forecast from VND319bn to VND518bn considering the 223% yoy growth in 1H. For the parent bank, we lower our credit loss provision forecast from VND558bn to VND446bn due to positive collection progress, while reducing the cost/ income ratio from 47% to 45% in 2018f. Overall, our forecast for consolidated PBT for 2018 is VND3,918bn.
- **Risks to our target price and recommendation.** Upside risks include a higher credit growth quota given by SBV due to the approved merger with PGBank, and a significant improvement in operating efficiency that drags cost/income ratio to a lower level than our expectations. Downside risks include continuous stagnation leading to very low or even negative growth rate in consumer finance. Maintaining current high margins in consumer finance can be challenging due to increasingly intense competition in the industry. The government might start to tighten regulations due to recent negative feedback regarding lending rates.

Table 20: HDB – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	7,506	9,869	11,765	13,901	16,255	18,497
Net income (VNDbn)	1,746	2,748	3,413	4,208	5,055	5,925
EPS (VND)	1,777	2,798	3,476	4,287	5,150	6,037
P/E (x)	21.9	13.9	11.2	9.1	7.6	6.5
BPS (VND)	15,045	16,389	17,973	19,795	21,760	23,723
P/B (x)	2.6	2.4	2.2	2.0	1.8	1.6
DPS (VND)	1,300	1,000	1,000	1,000	1,000	1,000
Dividend yield	3.3%	2.6%	2.6%	2.6%	2.6%	2.6%
ROA	1.0%	1.3%	1.4%	1.6%	1.6%	1.7%
ROE	14.5%	17.8%	20.3%	22.7%	24.8%	26.6%

Source: Rong Viet Securities estimates

Table 21: HDB – financial summary (VNDbn)

Income statement	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Net interest income	**4,678**	**6,347**	***36%***	**8,080**	***27%***	**9,493**	***17%***	**11,088**	***17%***	**12,796**	***15%***	**14,298**
Net fee income	**118**	**196**	***66%***	**518**	***164%***	**731**	***41%***	**951**	***30%***	**1,236**	***30%***	**1,607**
Exchange income	209	157	*-25%*	208	*32%*	249	*20%*	299	*20%*	359	*20%*	430
Gain/ (loss) in FVIS investments	151	485	*221%*	333	*-31%*	399	*20%*	479	*20%*	575	*20%*	690
Trading income (loss)	83	6	*-93%*	156	*2634%*	187	*20%*	225	*20%*	270	*20%*	324
Dividend income	12	44	*257%*	323	*635%*	413	*28%*	522	*26%*	629	*20%*	697
Other operating income	167	270	*62%*	252	*-7%*	291	*15%*	337	*16%*	390	*16%*	452
Total operating income	**5,418**	**7,506**	***39%***	**9,869**	***31%***	**11,765**	***19%***	**13,901**	***18%***	**16,255**	***17%***	**18,497**
Total operating expenses	3,277	4,072	*24%*	4,916	*21%*	5,746	*17%*	6,650	*16%*	7,592	*14%*	8,419
Pre-provision profit	**2,141**	**3,434**	***60%***	**4,954**	***44%***	**6,019**	***22%***	**7,250**	***20%***	**8,663**	***19%***	**10,078**
Loan impairment charge	994	1,017	*2%*	1,036	*2%*	1,113	*7%*	1,161	*4%*	1,330	*15%*	1,541
Profit before tax	**1,148**	**2,417**	***111%***	**3,918**	***62%***	**4,906**	***25%***	**6,089**	***24%***	**7,333**	***20%***	**8,537**
Tax charge	233	462	*98%*	784	*69%*	981	*25%*	1,218	*24%*	1,467	*20%*	1,707
Profit after tax	**914**	**1,954**	***114%***	**3,134**	***60%***	**3,925**	***25%***	**4,871**	***24%***	**5,866**	***20%***	**6,830**
Profit attributable to minorities	176	208	*18%*	386	*86%*	512	*33%*	663	*30%*	811	*22%*	905
Profit attributable to shareholders	**738**	**1,746**	***137%***	**2,748**	***57%***	**3,413**	***24%***	**4,208**	***23%***	**5,055**	***20%***	**5,925**
Adjusted net attributable profit	**735**	**1,743**	***137%***	**2,745**	***57%***	**3,410**	***24%***	**4,205**	***23%***	**5,052**	***20%***	**5,922**

Balance sheet	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Assets												
Cash and central bank balances	4,025	3,434	*-15%*	6,077	*77%*	7,198	*18%*	8,486	*18%*	9,144	*8%*	10,423
Interbank assets	18,580	21,861	*18%*	26,010	*19%*	30,657	*18%*	36,227	*18%*	42,742	*18%*	50,418
Net loans and financing	81,294	103,336	*27%*	122,070	*18%*	141,392	*16%*	163,859	*16%*	189,144	*15%*	218,372
Provisions	*930*	*1,161*	*25%*	*1,445*	*24%*	*1,786*	*24%*	*2,214*	*24%*	*2,728*	*23%*	*3,345*
Gross loans	*82,224*	*104,497*	*27%*	*123,514*	*18%*	*143,177*	*16%*	*166,073*	*16%*	*191,872*	*16%*	*221,717*
Non-performing loans (NPLs)	*1,199*	*1,583*	*32%*	*1,892*	*20%*	*2,228*	*18%*	*2,643*	*19%*	*3,090*	*17%*	*3,614*
Net investment securities	34,261	45,802	*34%*	48,116	*5%*	52,062	*8%*	57,351	*10%*	63,202	*10%*	69,676
Trading securities	397	4,690	*1082%*	5,469	*17%*	6,403	*17%*	7,524	*18%*	8,870	*18%*	10,484
Investments in associates	384	378	*-2%*	378	*0%*	378	*0%*	378	*0%*	378	*0%*	378
Property and equipment	1,352	1,527	*13%*	1,833	*20%*	2,203	*20%*	2,648	*20%*	3,183	*20%*	3,828
Other assets	9,912	8,256	*-17%*	9,815	*19%*	10,857	*11%*	11,966	*10%*	13,194	*10%*	14,481
Total assets	**150,294**	**189,334**	***26%***	**219,787**	***16%***	**251,170**	***14%***	**288,458**	***15%***	**329,876**	***14%***	**378,080**
Equity & Liabilities												
Due to Gov and borrowings from SBV	178	156	*-12%*	156	*0%*	156	*0%*	156	*0%*	156	*0%*	156
Interbank liabilities	19,685	37,217	*89%*	42,466	*14%*	48,836	*15%*	56,048	*15%*	64,330	*15%*	73,843
Customer deposits	103,300	120,537	*17%*	135,707	*13%*	152,670	*13%*	172,518	*13%*	195,807	*14%*	225,179
Convertible bonds/CDs and other valuable papers issued	11,027	9,793	*-11%*	17,556	*79%*	23,079	*31%*	30,388	*32%*	36,984	*22%*	42,834
Other liabilities	3,310	3,873	*17%*	4,725	*22%*	5,545	*17%*	6,516	*18%*	7,669	*18%*	9,036
Total liabilities	**140,352**	**174,575**	***24%***	**203,709**	***17%***	**233,538**	***15%***	**269,039**	***15%***	**308,529**	***15%***	**354,808**
Charter capital	8,105	11,852	*46%*	11,852	*0%*	11,852	*0%*	11,852	*0%*	11,852	*0%*	11,852
Reserves	465	454	*-2%*	1,021	*125%*	1,624	*59%*	2,372	*46%*	3,271	*38%*	4,316
Retained Earnings	747	1,770	*137%*	2,520	*42%*	3,470	*38%*	4,510	*30%*	5,539	*23%*	6,419
Shareholders' equity	**9,317**	**14,759**	***58%***	**16,078**	***9%***	**17,631**	***10%***	**19,419**	***10%***	**21,347**	***10%***	**23,272**
Non-controlling interest	626	684	*9%*	684	*0%*	684	*0%*	684	*0%*	684	*0%*	684
Total Equity & Liabilities	**150,294**	**189,334**	***26%***	**219,786**	***16%***	**251,169**	***14%***	**288,458**	***15%***	**329,876**	***14%***	**378,080**

	2016	2017	Change %	2018	Change %	2019	Change %	2020	Change %	2021	Change %	2022
Per share data	-	-	-	-	-	-	-	-	-	-	-	-
EPS stated	833	1,963	*136%*	2,798	*43%*	3,476	*24%*	4,287	*23%*	5,150	*20%*	6,037
EPS fully-diluted	833	1,963	*136%*	2,798	*43%*	3,476	*24%*	4,287	*23%*	5,150	*20%*	6,037
Adjusted EPS till present	833	1,777	*113%*	2,798	*57%*	3,476	*24%*	4,287	*23%*	5,150	*20%*	6,037
DPS - cash	0	1,300	*#DIV/0!*	1,000	*-23%*	1,000	*0%*	1,000	*0%*	1,000	*0%*	1,000
DPS - stock	*0*	*0*		*0*		*0*		*0*		*0*		*0*
BPS - diluted	10,553	15,045	*43%*	16,389	*9%*	17,973	*10%*	19,795	*10%*	21,760	*10%*	23,723
Ratios	-	-	-	-	-	-	-	-	-	-	-	-
NIM	3.64%	3.74%		3.95%		4.03%		4.11%		4.14%		4.04%
Fees/ assets	0.08%	0.10%		0.24%		0.29%		0.33%		0.37%		0.42%
Cost/ income	60.5%	54.3%		49.8%		48.8%		47.8%		46.7%		45.5%
NPLs/ gross loans	1.5%	1.5%		1.5%		1.6%		1.6%		1.6%		1.6%
Provisions/ NPLs	77.6%	73.3%		76.3%		80.1%		83.8%		88.3%		92.6%
Impairment charge/ gross loans	1.2%	1.0%		0.8%		0.8%		0.7%		0.7%		0.7%
Net loans/ deposits	78.7%	85.7%		90.0%		92.6%		95.0%		96.6%		97.0%
ROAA	0.6%	1.0%		1.3%		1.4%		1.6%		1.6%		1.7%
ROAE	7.9%	14.5%		17.8%		20.3%		22.7%		24.8%		26.6%

Source: Rong Viet Securities estimates

MBB: Improvement in both traditional and non-traditional banking activities. Upgrade to Buy

Recommendation:	BUY (from ACCUMULATE)
Price (VND)	23,200
Target price /VND)	30,500
Expected share price return	31.5%
Expected dividend yield	2.6%
Expected total return	34.1%
Market cap (VNDbn)	50,122
Avg. daily volume (VNDmn)	167,529

- **We upgrade to Buy** (from Accumulate). Our unchanged target price of VND30,500 and expected VND600 cash dividend offer an ETR of 34.1%. MBB has achieved significant growth in lending activities as well as diversification of its income sources. Within the Vietnam banks sector MBB is our top pick because of its strong core profitability, top asset quality, and income diversification potential. The stock trades at an attractive forward PB ratio of 1.5x.
- **Top asset quality amongst commercial banks.** Similar to VCB, MBB also applied two methods early on to classify debts qualitatively and quantitatively. Therefore, the previous bad debt ratio and loan loss provisions charge were higher than at other banks. Since 2016, the bad debt ratio has hovered around 1.2-1.3%, while provisions coverage has risen sharply. Despite clearing the VAMC bond last year, MBB continued to spend 30% of its earnings before impairment charges to book provisions to on-balance-sheet bad debt in H1 18. Consequently, the provisions coverage ratio rose to 106% as of 30 Jun 2018.
- **Margin has improved steadily since end-16 due to a boost in retail lending.** The loan book structure by the end of Jun 2018 was SME (40%), Retail (36%) and Corporate (24%). Credit growth in H1 18 was 11% YTD, driven by high growth in retail lending (+33% yoy, +16% YTD). MBB's net interest margin has been improving for six consecutive quarters, reaching 4.2% in H1 18, thanks to: (1) higher bond yields; (2) higher lending rates; and (3) a restructured loan book and investment portfolio. This NIM is amongst the highest in the industry and we expect it to expand further, especially with the contribution of consumer finance from 2017.
- **MBB is making significant efforts to diversify its income sources.** MBB's orientation is to become a financial group, and it aims to push the performance of subsidiaries to diversify income sources. These subsidiaries together achieved VND326bn of PBT in H1 18 (+71% yoy, higher than the parent bank's PBT growth). MB Ageas Life and MB Shinsei (established in 2016) are expected to be new players contributing to overall income and profit. In terms of non-interest income, the contribution to total operating income in H1 18 was 24.7%, increasing from 21.5% in H1 17 and 19.1% in the entire year 2017. Service income climbed +50% yoy, mainly from the surge in banccasurance with net income of VND409bn (10x yoy). Other net income increased 115% yoy, thanks to the growth of FX income, securities trading and collection of debts written-off.
- **We adjust our 2018 forecasts.** We raise our credit growth forecast for the entire year to 17%, above the bank's initial target of 15%. We raise our service income forecast to VND1,809bn from VND1,475bn considering progresses in H1 18. Additionally, we estimate that MBB will book VND2,662bn as provision expenses for credit loss (26% of earnings before impairment charges), up 75% compared to our previous forecast. Accordingly, we expect PBT to reach VND7,427bn. This figure excludes possible profit brought by the divestment of MB Land, which is expected by the end of 2018.
- **Risks to our target price and recommendation.** Downside risks include an earlier turn in the credit cycle and the limited opportunities to expand NIM as too many banks are shifting towards the high profit retail segments. Upside risks include extraordinary earnings due to divestment from MB Land or the bank successfully issuing 10% shares to a strategic partner.

Table 22: MBB – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	13,867	17,782	19,966	23,034	26,171	29,533
Net income (VNDbn)	3,520	5,823	6,835	8,137	9,371	10,678
EPS (VND)	1,500	2,482	2,914	3,469	3,995	4,552
P/E (x)	15.5	9.3	8.0	6.7	5.8	5.1
BPS (VND)	13,701	15,230	17,894	20,960	24,598	28,840
P/B (x)	1.7	1.5	1.3	1.1	0.9	0.8
DPS (VND)	600	600	500	700	700	700
Dividend yield	2.6%	2.6%	2.2%	3.0%	3.0%	3.0%
ROA	1.2%	1.7%	1.8%	2.0%	2.0%	2.1%
ROE	12.8%	18.6%	19.1%	19.4%	19.0%	18.5%

Source: Rong Viet Securities estimates

Table 23: MBB – financial summary (VNDbn)

Income statement	**2016**	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Net interest income	**7,979**	**11,219**	***41%***	**14,496**	***29%***	**16,600**	***15%***	**18,825**	***13%***	**21,292**	***13%***	**23,984**
Net fee income	**683**	**1,131**	***66%***	**1,809**	***60%***	**2,352**	***30%***	**3,057**	***30%***	**3,669**	***20%***	**4,403**
Exchange income	113	202	*78%*	0	*-100%*	0		0		0		0
Gain/ (loss) in FVIS investments	101	144	*42%*	318	*120%*	318		318		318		318
Trading income (loss)	0	0		0		0		0		0		0
Dividend income	102	62	*-39%*	85	*37%*	83	*-2%*	83	*0%*	83	*0%*	83
Other operating income	877	1,109	*26%*	1,074	*-3%*	612	*-43%*	750	*22%*	809	*8%*	745
Total operating income	**9,855**	**13,867**	***41%***	**17,782**	***28%***	**19,966**	***12%***	**23,034**	***15%***	**26,171**	***14%***	**29,533**
Total operating expenses	4,175	5,999	*44%*	7,693	*28%*	8,538	*11%*	9,735	*14%*	10,930	*12%*	12,186
Pre-provision profit	**5,681**	**7,868**	***39%***	**10,089**	***28%***	**11,428**	***13%***	**13,299**	***16%***	**15,242**	***15%***	**17,347**
Loan impairment charge	2,030	3,252	*60%*	2,662	*-18%*	2,702	*2%*	2,905	*7%*	3,265	*12%*	3,695
Profit before tax	**3,651**	**4,616**	***26%***	**7,427**	***61%***	**8,726**	***17%***	**10,394**	***19%***	**11,976**	***15%***	**13,652**
Tax charge	767	1,125	*47%*	1,634	*45%*	1,920	*17%*	2,287	*19%*	2,635	*15%*	3,003
Profit after tax	**2,884**	**3,490**	***21%***	**5,793**	***66%***	**6,806**	***17%***	**8,108**	***19%***	**9,342**	***15%***	**10,648**
Profit attributable to minorities	-28	-29	*3%*	-29	*0%*	-29	*0%*	-29	*0%*	-29	*0%*	-29
Profit attributable to shareholders	**2,912**	**3,520**	***21%***	**5,823**	***65%***	**6,835**	***17%***	**8,137**	***19%***	**9,371**	***15%***	**10,678**
Adjusted net attributable profit	**2,734**	**3,242**	***19%***	**5,363**	***65%***	**6,295**	***17%***	**7,494**	***19%***	**8,631**	***15%***	**9,834**

Balance sheet	**2016**	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Assets												
Cash and central bank balances	11,522	8,526	*-26%*	9,523	*12%*	10,575	*11%*	11,193	*6%*	9,440	*-16%*	10,163
Interbank assets	26,953	53,497	*98%*	56,172	*5%*	58,981	*5%*	61,930	*5%*	65,026	*5%*	68,278
Net loans and financing	148,687	182,062	*22%*	212,708	*17%*	244,507	*15%*	281,150	*15%*	320,376	*14%*	364,998
Provisions	*2,050*	*2,126*	*4%*	*2,792*	*31%*	*3,318*	*19%*	*3,849*	*16%*	*4,523*	*18%*	*5,387*
Gross loans	*150,738*	*184,188*	*22%*	*215,500*	*17%*	*247,825*	*15%*	*284,999*	*15%*	*324,899*	*14%*	*370,385*
Non-performing loans (NPLs)	*1,987*	*2,218*	*12%*	*2,625*	*18%*	*3,019*	*15%*	*3,471*	*15%*	*3,957*	*14%*	*4,512*
Net investment securities	53,286	50,677	*-5%*	53,802	*6%*	56,492	*5%*	59,317	*5%*	59,317	*0%*	59,317
Trading securities	926	2,805	*203%*	3,415	*22%*	3,415	*0%*	3,415	*0%*	3,415	*0%*	3,415
Investments in associates	842	985	*17%*	1,181	*20%*	1,418	*20%*	1,701	*20%*	2,042	*20%*	2,450
Property and equipment	2,458	2,604	*6%*	2,995	*15%*	3,444	*15%*	3,961	*15%*	4,753	*20%*	5,704
Other assets	11,381	12,507	*10%*	13,133	*5%*	13,789	*5%*	14,479	*5%*	15,203	*5%*	15,963
Total assets	**256,259**	**313,878**	***22%***	**353,145**	***13%***	**392,836**	***11%***	**437,360**	***11%***	**479,786**	***10%***	**530,501**
Equity & Liabilities												
Due to Gov and borrowings from SBV	0	1,848	*#DIV/0!*	2,217	*20%*	2,661	*20%*	2,927	*10%*	3,220	*10%*	3,542
Interbank liabilities	24,713	46,101	*87%*	46,101	*0%*	46,101	*0%*	46,101	*0%*	46,101	*0%*	46,101
Customer deposits	194,812	220,176	*13%*	253,202	*15%*	284,853	*13%*	320,459	*13%*	352,505	*10%*	391,281
Convertible bonds/CDs and other valuable papers issued	2,367	6,022	*154%*	6,624	*10%*	7,287	*10%*	8,016	*10%*	8,817	*10%*	9,699
Other liabilities	7,520	9,832	*31%*	11,799	*20%*	12,979	*10%*	14,277	*10%*	15,704	*10%*	17,275
Total liabilities	**229,670**	**284,277**	***24%***	**320,241**	***13%***	**354,177**	***11%***	**392,077**	***11%***	**426,645**	***9%***	**468,194**
Charter capital	17,956	18,983	*6%*	22,433	*18%*	22,433	*0%*	22,433	*0%*	22,433	*0%*	22,433
Reserves	2,697	3,209	*19%*	4,056	*26%*	5,051	*25%*	6,235	*23%*	7,599	*22%*	9,152
Retained Earnings	4,699	5,977	*27%*	6,414	*7%*	11,175	*74%*	16,615	*49%*	23,110	*39%*	30,722
Shareholders' equity	**25,352**	**29,601**	***17%***	**32,903**	***11%***	**38,658**	***17%***	**45,283**	***17%***	**53,142**	***17%***	**62,307**
Non-controlling interest	1,237	0	*-100%*	0		0		0		0		0
Total Equity & Liabilities	**256,259**	**313,878**	***22%***	**353,145**	***13%***	**392,836**	***11%***	**437,360**	***11%***	**479,786**	***10%***	**530,501**

	2016	**2017**	***Change %***	**2018**	***Change %***	**2019**	***Change %***	**2020**	***Change %***	**2021**	***Change %***	**2022**
Per share data	-	-	-	-	-	-	-	-	-	-	-	-
EPS stated	1,602	1,799	*12%*	2,698	*50%*	2,914	*8%*	3,469	*19%*	3,995	*15%*	4,552
EPS fully-diluted	1,602	1,799	*12%*	2,698	*50%*	2,914	*8%*	3,469	*19%*	3,995	*15%*	4,552
Adjusted EPS till present	1,275	1,500	*18%*	2,482	*65%*	2,914	*17%*	3,469	*19%*	3,995	*15%*	4,552
DPS - cash	500	600	*20%*	600	*0%*	500	*-17%*	700	*40%*	700	*0%*	700
DPS - stock	*0*	*0*		*0*		*0*		*0*		*0*		*0*
BPS - diluted	11,828	13,701	*16%*	15,230	*11%*	17,894	*17%*	20,960	*17%*	24,598	*17%*	28,840
Ratios												
NIM	3.34%	3.94%		4.35%		4.45%		4.54%		4.64%		4.75%
Fees/ assets	0.27%	0.36%		0.51%		0.60%		0.70%		0.76%		0.83%
Cost/ income	42.4%	43.3%		43.3%		42.8%		42.3%		41.8%		41.3%
NPLs/ gross loans	1.3%	1.2%		1.2%		1.2%		1.2%		1.2%		1.2%
Provisions/ NPLs	103.2%	95.9%		106.4%		109.9%		110.9%		114.3%		119.4%
Impairment charge/ gross loans	1.3%	1.8%		1.2%		1.1%		1.0%		1.0%		1.0%
Net loans/ deposits	76.3%	82.7%		84.0%		85.8%		87.7%		90.9%		93.3%
ROAA	1.2%	1.2%		1.7%		1.8%		2.0%		2.0%		2.1%
ROAE	12.1%	12.8%		18.6%		19.1%		19.4%		19.0%		18.5%

Source: Rong Viet Securities estimates

VCB: Reinforced asset and earnings quality largely priced in. Reduce maintained

Recommendation:	REDUCE
Price (VND)	65,200
Target price /VND)	60,000
Expected share price return	-8.0%
Expected dividend yield	1.2%
Expected total return	-6.7%
Market cap (VNDbn)	234,575
Avg. daily volume (VNDmn)	147,383

- **We reiterate our Reduce rating.** At a trading multiple of 3.1x 2018f BV, our unchanged target price of VND60,000 plus VND800 in cash dividend offers a negative ETR of -6.7%. VCB is the leading bank in most sectors (customer deposits and lending, international payments, and ATM cards), and has good asset quality, a strong brand name and high financial transparency. In addition, given that VCB's market capitalisation accounts for c8% of total market capitalisation on the Hanoi Stock Exchange and the fact there is more than 9% of room for foreign investors, VCB is considered a feasible and accessible investment for international funds. This contributes to the bank trading at consistently high valuation multiples.
- **Retail lending is boosting net interest margins.** Retail lending has been experiencing strong growth compared to other segments. In H1 18, individuals and SME loans grew 20% and 18% YTD respectively, almost double the growth of the entire loan portfolio. Loan growth of the retail segment will be boosted to 20% per annum and will account for 40% of total loan book by 2020, according to the company. By repositioning the loan book towards retail, we think VCB's NIM will increase to 2.6% by 2020, from 2.4% in 2017.
- **High contribution of non-interest income.** VCB has upgraded its core banking platform, which it will launch in 2019. The new system will not only be more secure but also support VCB's retail banking strategy. Therefore, non-interest income, especially services income, is estimated to account for c27% of VCB's total operating income in 2018-20. Growth momentum comes from online transaction fees (expected to grow 25-30% pa), card, bancassurance commission, etc.
- **Strong asset quality and liquidity but pressure on capital adequacy.** After buying back all VAMC bonds, VCB used more than 30% of its net total operating income to make provision for on-balance-sheet bad debt. Hence, while the NPL ratio was kept below 2%, provisions coverage improved to 140% by Q2 18. In addition, the loans/ deposits ratio is c80-85% and short-term capital financing to mid- and long-term lending is c15%, well controlled relative to the SBV's requirements. VCB is planning to raise 10% of its charter capital via private placement and expects to complete this in H2 18. If the deal cannot be successfully closed, the bank will be short of capital if it applies CAR under Basel II criteria in 2019.
- **Plan to divest from long-term investments.** As per its plan from earlier this the year, VCB said it would reduce its ownership in MBB and EIB to lower than 5% and completely divest from OCB. The bank has already disposed of OCB, while it plans to auction off MBB and EIB in Q4 18. We think these divestments can bring to the bank more than VND2.3tn in cash flow and VND1.2tn in profit. Including divestment income, we think VCB's 2018 net profit after tax will be VND12.6tn, up by 38% yoy. In addition, banks are required to exclude the amount of investment in other credit institutions and insurance companies from calculating Tier 1 capital. For VCB, we estimate that the bank's Tier 1 capital may increase by more than 12% after the divestment process.
- **Credit quality first, not growth.** The SBV has firmly commanded that it will not increase the quota of credit growth in 2018 for commercial banks, except for some special cases. VCB, as a leading bank, supports the government in terms of the stability of the entire banking system as well supporting weak banks under restructuring. Therefore, although VCB expect its credit growth for 2018 to be c15% yoy, we are slightly more bullish, forecasting credit growth of 16% yoy for 2018, implying more than 5ppt of credit growth in H2 18.
- **Risks to our target price and recommendation.** Upside risks include extraordinary earnings due to divestment deals or if the bank succeeds in issuing 10% shares to a strategic partner. Downside risks include a sudden cash outflow from the stock market, which could negatively affect a stock such as VCB that has a large weighting in the VN30 index. In addition, should the private placement take longer or the issued price be lower than expected, this could disappoint investors.

Table 24: VCB – investment summary

	2017	2018f	2019f	2020f	2021f	2022f
Operating income (VNDbn)	29,406	34,783	38,699	43,927	49,668	56,241
Net income (VNDbn)	9,091	11,564	13,467	14,971	16,838	18,975
EPS (VND)	2,103	2,676	3,116	3,464	3,896	4,390
P/E (x)	31.0	24.4	20.9	18.8	16.7	14.9
BPS (VND)	14,608	16,549	19,492	22,853	26,733	30,758
P/B (x)	4.5	3.9	3.3	2.9	2.4	2.1
DPS (VND)	800	800	800	800	800	800
Dividend yield	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
ROA	1.0%	1.1%	1.2%	1.2%	1.2%	1.1%
ROE	18.1%	20.6%	20.8%	19.7%	18.9%	18.3%

Source: Rong Viet Securities estimates

Table 25: VCB – financial summary (VNDbn)

Income statement	2016	2017	*Change %*	2018	*Change %*	2019	*Change %*	2020	*Change %*	2021	*Change %*	2022
Net interest income	**18,533**	**21,938**	***18%***	**24,950**	***14%***	**28,560**	***14%***	**32,354**	***13%***	**36,644**	***13%***	**41,458**
Net fee income	**2,107**	**2,538**	***20%***	**3,465**	***37%***	**4,505**	***30%***	**5,631**	***25%***	**7,039**	***25%***	**8,799**
Exchange income	1,850	2,042	*10%*	2,039	*0%*	1,977	*-3%*	1,977	*0%*	1,977	*0%*	1,977
Gain/ (loss) in FVIS investments	-89	-20	*-78%*	0	*-100%*	0		0		0		0
Trading income (loss)	496	476	*-4%*	487	*2%*	409	*-16%*	409	*0%*	409	*0%*	409
Dividend income	72	332	*364%*	573	*73%*	151	*-74%*	282	*87%*	334	*19%*	335
Other operating income	1,917	2,100	*10%*	3,269	*56%*	3,098	*-5%*	3,274	*6%*	3,264	*0%*	3,263
Total operating income	**24,885**	**29,406**	***18%***	**34,783**	***18%***	**38,699**	***11%***	**43,927**	***14%***	**49,668**	***13%***	**56,241**
Total operating expenses	9,939	11,866	*19%*	13,565	*14%*	15,093	*11%*	17,131	*14%*	19,371	*13%*	21,934
Pre-provision profit	**14,946**	**17,540**	***17%***	**21,218**	***21%***	**23,607**	***11%***	**26,795**	***14%***	**30,298**	***13%***	**34,307**
Loan impairment charge	6,369	6,198	*-3%*	6,738	*9%*	6,749	*0%*	8,058	*19%*	9,226	*15%*	10,564
Profit before tax	**8,577**	**11,341**	***32%***	**14,479**	***28%***	**16,858**	***16%***	**18,738**	***11%***	**21,072**	***12%***	**23,743**
Tax charge	1,683	2,231	*33%*	2,896	*30%*	3,372	*16%*	3,748	*11%*	4,214	*12%*	4,749
Profit after tax	**6,894**	**9,111**	***32%***	**11,584**	***27%***	**13,486**	***16%***	**14,990**	***11%***	**16,857**	***12%***	**18,995**
Profit attributable to minorities	19	20	*1%*	20	*0%*	20	*0%*	20	*0%*	20	*0%*	20
Profit attributable to shareholders	**6,875**	**9,091**	***32%***	**11,564**	***27%***	**13,467**	***16%***	**14,971**	***11%***	**16,838**	***12%***	**18,975**
Adjusted net attributable profit	**5,457**	**7,568**	***39%***	**9,626**	***27%***	**11,210**	***16%***	**12,462**	***11%***	**14,016**	***12%***	**15,795**

Balance sheet	2016	2017	*Change %*	2018	*Change %*	2019	*Change %*	2020	*Change %*	2021	*Change %*	2022
Assets												
Cash and central bank balances	27,074	103,718	*283%*	36,892	*-64%*	34,300	*-7%*	44,003	*28%*	55,054	*25%*	62,712
Interbank assets	151,846	232,973	*53%*	186,379	*-20%*	223,654	*20%*	257,203	*15%*	295,783	*15%*	354,940
Net loans and financing	452,722	535,321	*18%*	621,746	*16%*	712,615	*15%*	815,430	*14%*	932,252	*14%*	1,065,112
Provisions	*8,087*	*8,113*	*0%*	*8,638*	*6%*	*9,174*	*6%*	*11,019*	*20%*	*14,032*	*27%*	*18,383*
Gross loans	*460,808*	*543,434*	*18%*	*630,384*	*16%*	*721,790*	*15%*	*826,449*	*15%*	*946,284*	*15%*	*1,083,495*
Non-performing loans (NPLs)	*6,936*	*6,209*	*-10%*	*6,934*	*12%*	*7,940*	*15%*	*9,917*	*25%*	*11,355*	*15%*	*13,002*
Net investment securities	131,771	129,952	*-1%*	145,687	*12%*	159,613	*10%*	174,083	*9%*	190,309	*9%*	208,530
Trading securities	4,234	9,669	*128%*	20,259	*110%*	24,311	*20%*	29,173	*20%*	35,008	*20%*	42,009
Investments in associates	3,628	3,553	*-2%*	3,553	*0%*	4,263	*20%*	5,116	*20%*	6,139	*20%*	7,367
Property and equipment	5,730	6,162	*8%*	7,087	*15%*	8,150	*15%*	9,372	*15%*	11,247	*20%*	13,496
Other assets	10,701	13,111	*23%*	17,044	*30%*	17,044	*0%*	17,044	*0%*	18,749	*10%*	20,624
Total assets	**787,935**	**1,035,293**	***31%***	**1,039,051**	***0%***	**1,184,356**	***14%***	**1,351,830**	***14%***	**1,544,945**	***14%***	**1,775,195**
Equity & Liabilities												
Due to Gov and borrowings from SBV	54,151	171,385	*216%*	51,416	*-70%*	51,416	*0%*	51,416	*0%*	51,416	*0%*	51,416
Interbank liabilities	72,238	66,942	*-7%*	62,034	*-7%*	62,034	*0%*	62,034	*0%*	62,034	*0%*	62,034
Customer deposits	590,451	708,520	*20%*	811,255	*15%*	928,887	*15%*	1,063,576	*15%*	1,217,794	*15%*	1,400,463
Convertible bonds/CDs and other valuable papers issued	10,286	18,215	*77%*	32,253	*77%*	40,316	*25%*	48,380	*20%*	55,637	*15%*	63,982
Other liabilities	12,662	17,651	*39%*	22,552	*28%*	31,573	*40%*	44,202	*40%*	61,883	*40%*	86,636
Total liabilities	**739,790**	**982,735**	***33%***	**979,512**	***0%***	**1,114,228**	***14%***	**1,269,609**	***14%***	**1,448,766**	***14%***	**1,664,533**
Charter capital	36,023	36,322	*1%*	36,023	*-1%*	36,023	*0%*	36,023	*0%*	36,023	*0%*	36,023
Reserves	5,937	7,254	*22%*	7,203	*-1%*	8,677	*20%*	10,316	*19%*	12,160	*18%*	12,622
Retained Earnings	5,875	8,715	*48%*	16,135	*85%*	25,250	*56%*	35,703	*41%*	47,820	*34%*	61,839
Shareholders' equity	**48,146**	**52,558**	***9%***	**59,539**	***13%***	**70,127**	***18%***	**82,220**	***17%***	**96,180**	***17%***	**110,662**
Non-controlling interest	144	0	*-100%*	0		0		0		0		0
Total Equity & Liabilities	**787,935**	**1,035,293**	***31%***	**1,039,051**	***0%***	**1,184,356**	***14%***	**1,351,830**	***14%***	**1,544,945**	***14%***	**1,775,195**

	2016	2017	*Change %*	2018	*Change %*	2019	*Change %*	2020	*Change %*	2021	*Change %*	2022
Per share data												
EPS stated	1,517	2,103	*39%*	2,676	*27%*	3,116	*16%*	3,464	*11%*	3,896	*12%*	4,390
EPS fully-diluted	1,517	2,103	*39%*	2,676	*27%*	3,116	*16%*	3,464	*11%*	3,896	*12%*	4,390
Adjusted EPS till present	1,517	2,103	*39%*	2,676	*27%*	3,116	*16%*	3,464	*11%*	3,896	*12%*	4,390
DPS - cash	1,000	800	*-20%*	800	*0%*	800	*0%*	800	*0%*	800	*0%*	800
DPS - stock	*0*	*0*		*0*		*0*		*0*		*0*		*0*
BPS - diluted	13,382	14,608	*9%*	16,549	*13%*	19,492	*18%*	22,853	*17%*	26,733	*17%*	30,758
Ratios												
NIM	2.53%	2.41%		2.41%		2.57%		2.55%		2.53%		2.50%
Fees/ assets	0.27%	0.25%		0.33%		0.38%		0.42%		0.46%		0.50%
Cost/ income	39.9%	40.4%		39.0%		39.0%		39.0%		39.0%		39.0%
NPLs/ gross loans	1.5%	1.1%		1.1%		1.1%		1.2%		1.2%		1.2%
Provisions/ NPLs	116.6%	130.7%		124.6%		115.5%		111.1%		123.6%		141.4%
Impairment charge/ gross loans	1.4%	1.1%		1.1%		0.9%		1.0%		1.0%		1.0%
Net loans/ deposits	76.7%	75.6%		76.6%		76.7%		76.7%		76.6%		76.1%
ROAA	0.9%	1.0%		1.1%		1.2%		1.2%		1.2%		1.1%
ROAE	14.8%	18.1%		20.6%		20.8%		19.7%		18.9%		18.3%

Source: Rong Viet Securities estimates

DISCLOSURES

Analyst Certification

This report is independent investment research as contemplated by COBS 12.2 of the FCA Handbook and is a research recommendation under COBS 12.4 of the FCA Handbook. Where it is not technically a research recommendation because the subject of the research is not listed on any European exchange, it has nevertheless been treated as a research recommendation to ensure consistent treatment of all Exotix Capital's research. This report has been produced by Lam Nguyen (Rong Viet), Anh Nguyen (Rong Viet) and Rahul Shah (Exotix) who are the Analysts (the "Analyst").

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- Buy recommendation means – total return including dividends of more than +20% in a 12-month horizon
- Accumulate recommendation means – total return including dividends of +5% to +20% in a 12-month horizon
- Neutral recommendation means – a total return including dividends of -5% to +5% in a 12-month horizon
- Reduce recommendation means – a total return including dividends of -20% to -5% in a 12-month horizon
- Sell recommendation means – a total return including dividends of less than -20% in a 12-month horizon

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Buy	44	Sell	35	Hold	45

Preparation

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