SEPTEMBER

08

TUESDAY

ADVISORY DIARY

- **Vietnam Banks Valuation compared to history and region**
- **Still no more expectation about new mechanism for bad debt settlement at market rates from VAMC**

Vietnam Banks Valuation compared to history and region

We recently used the recommendations of Morgan Stanley in terms of Asian banking industry with the sentence that" Sector multiples are now global financial crisis lows and any positive news could cause material swing. However, given weak macro backdrop, we don't expect any sustained upside." Regarding Vietnam stock market, banking stocks become a undoubtedly star in 2015, however, investors still concern about banking stock's valuation. Based on historical data as well as compared to investment valuation ratios, we make some below conclusions:

+ 4/8 stocks outperformed relative to history and VNIndex in 2015, including BID, CTG, VCB and MBB, orderly. ACB outperformed relative to VNIndex but the strength of growth was not better as above stocks.

	Absolute return					Performance relative to VNIndex				
	YTD	1M	3M	6M	12M	YTD	1M	3M	6M	12M
ACB	30%	-7%	-13%	17%	30%	26%	-1%	-11%	21%	41%
BID	**118%**	**14%**	**22%**	**56%**	**98%**	**114%**	**20%**	**24%**	**59%**	**110%**
CTG	**54%**	**-5%**	**8%**	**14%**	**45%**	**50%**	**1%**	**10%**	**18%**	**56%**
EIB	-6%	-12%	-14%	-9%	-5%	-10%	-6%	-11%	-5%	7%
MBB	**19%**	**-3%**	**10%**	**11%**	**19%**	**15%**	**3%**	**13%**	**15%**	**30%**
SHB	-10%	-14%	-11%	-17%	-25%	-14%	-8%	-9%	-14%	-14%
STB	-7%	-15%	-11%	-19%	-17%	-11%	-9%	-9%	-15%	-6%
VCB	**42%**	**-1%**	**0%**	**25%**	**55%**	**38%**	**5%**	**2%**	**28%**	**66%**

Source: RongViet Research

"Vietnam Banks Valuation compared to history and region"

+ Compared to other countries, Vietnam banking shares are not cheap.

- Valuation multiple of Vietnam banks (P/E and P/B) are not cheap, only MC/Deposits ratio is relatively lower than the other countries. This does not mean much in terms of valuation due to the characteristics favored by savings in Vietnam.
- In terms of ROE, BID and MBB are relatively high in region. While EPS growth of Vietnam banks is much lower than other countries except ACB and BID which growth is at acceptable levels.

+ Compared with the past, we find that the majority of valuation indicators were quite high

- P/B multiples are at a higher level or equivalent to the average.
- Compared to the past, P/PPP is also high, especially at the strong banks (except CTG).

In today's trading session, banking stocks became the leading tickers, from supporting to the indexes to spreading to other stocks. However, the above conclusions confirmed our opinions in September investment strategy that banking stocks are unlikely attractive. Using comparison method as well as price movement in the past, we suppose that the order from high to low is: (1) ACB; (2) CTG; (3) groups of three stocks (MBB, VCB and BID).

* See methods and calculated results in Appendix – Page 3

Still no more expectation about new mechanism for bad debt settlement at market rates from VAMC

Circular 14/2015 which was issued at the end of 08/2015 is expected to support the bad debt settlement process thanks to the complete and detail addition about issuance, use, provision and special bond repayment. Simultaneously, the Circular also specifies more issues in term of debt selling compared to the previous circular. However, the critical point of Circular 14 opens the prospect about bad debt process of VAMC through the detailed regulations on the bad debt acquisitions at market prices. Considering this issue, we believe that the investors should not put much expectation.

According to new regulations, issuing bonds from VAMC to acquire debts at market prices have several difference to special bonds: (1) risk coefficient is at 0% when calculating capital adequacy ratio (CAR), (2) provision level is 0, (3) bond term is 1 year, and could be extended for additional 3 years compared to initial period if there is the consent of of bondholders. According to our analysts, the differences demonstrate that the credit institutions could benefit in operating safety when buying debt from VAMC at market prices. In exchange, credit institutions could bear higher debt relief due to 0 in provision level. In addition, new bonds have shorter terms than special bonds; thus, create faster capital rotations to buy new debts.

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While we agree that new circular could "fuel" the bad debt process, there are still 2 concerns:

First of all, with 2,000 billion of charter capital, the bad debt purchasing could be limited at prices and volumes. Recently, VAMC proposed to the State Bank to increase the charter capital by additional VND 1,500 billion to facilitate the bad debt purchasing plan at market prices. It could be understood that with capital capability of VAMC, new mechanism could partially support the bad debt settlement.

Secondly, according to the Circular, VAMC could be more active in term of evaluate debts and bad debts, however, related regulations about collateral assets (especially real estate) could be obstacles to the sale of bad debts from VAMC.

By the end of 8/2015, VAMC has bought VND 77,355 billion of bad debts and issued VND 68,000 billion of special bonds. Compared to earlier this year, VAMC has boosted the process of bad debt settlements in Q2 and Q3, after that, achieved the targeted VND 70,000 – 100,000 billion in 2015. From the beginning of bad debt process, VAMC has bought VND 208,000 billion of bad debts and settle only about VND 11,300 billion. Circular 14 has been in effect since 15/10/2015, after the commitment of the State Bank to reduce bad debt level to below 3%. Mechanism of buying back bad debts will be piloted in Q4 with the plan of VND 500 – 700 billion, equivalent to ¼ of VAMC's charter capital.

APPENDIX

Method:

Compare multiples of 8 banks to history (P/B; P/PPP; MC/Deposits)

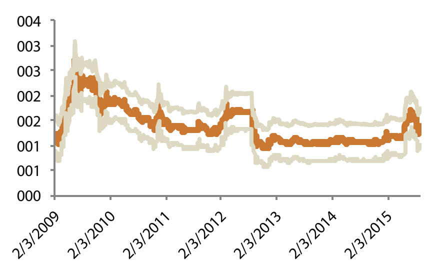
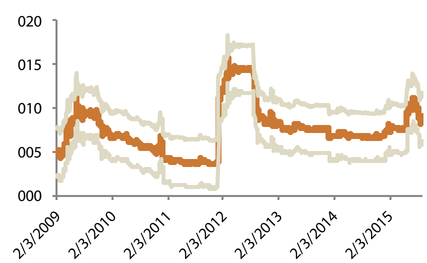
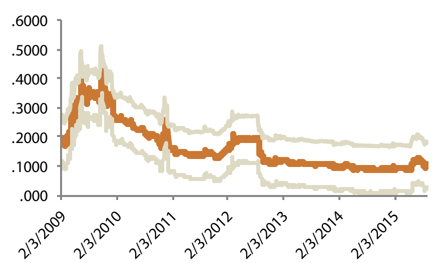
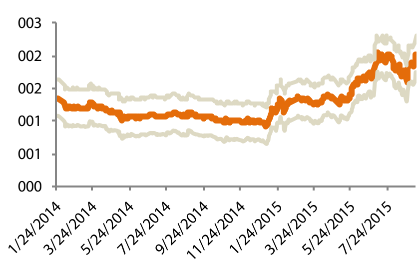
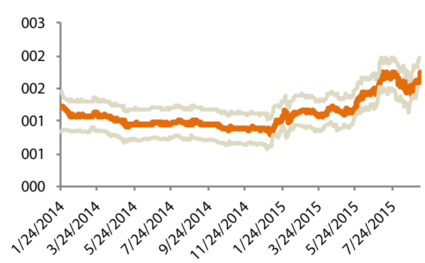
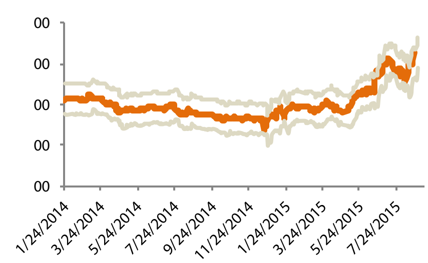
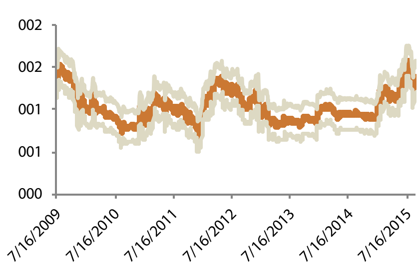
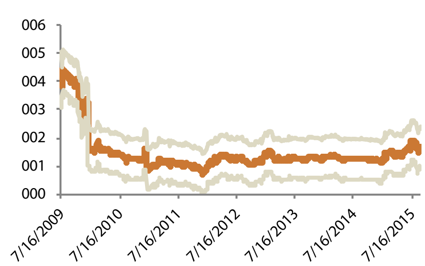
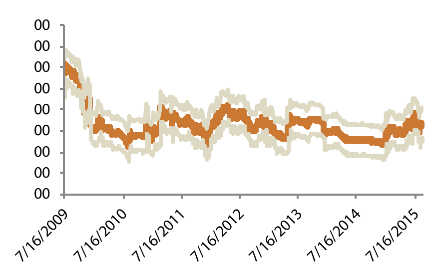
- MC/Deposits: low ratio means the interest of market for stocks underweight deposits and conversely.
- P/PPP: Price/Pre-provisioning profit

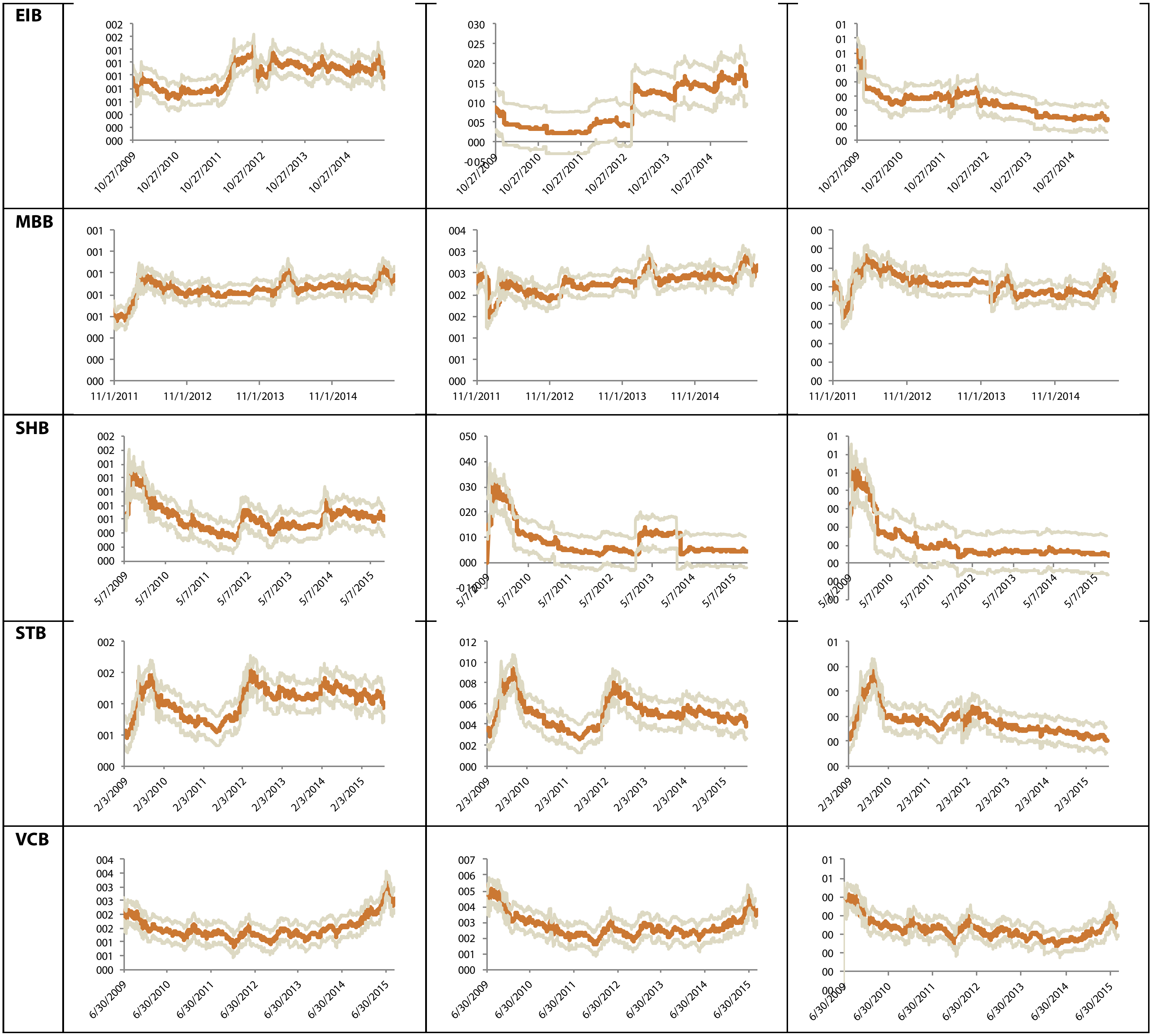
Compare to some countries in region: Malaysia, Indonesia, Philippines and Thailand.

Table 1: Overview (compared to average and standard deviation in history)

	P/B	P/PPP	MC/Deposit	Rate
ACB	-	Low	Low	***
BID	High	High	High	*
CTG	High	Low	-	**
EIB	-	High	Low	**
MBB	High	High	-	*
SHB	Low	Low	Low	***
STB	-	Low	Low	***
VCB	High	High	Low	*
/**/: Rate from low/equal/high compared to history**				

Table 2: Multiples

	P/B	P/PPP	MC/Deposits
ACB			
BID			
CTG			



Source: RongViet Research

Table 3: Financial and valuation indicators for Vietnam Banks

Ticker	MC	CMP	PE		PB		ROA		ROE		MC/Deposits	EPS CAGR
	8/9/2015	8/9/2015	2014	2015	2014	2015	2014	2015	2014	2015		2013-2015
ACB	17,029	19,000	14.45	18.23	1.07	1.38	0.5%	0.5%	6.7%	7.6%	10%	6.3%
BID	86,835	25,400	8.26	16.30	0.97	2.03	0.6%	0.8%	10.9%	16.3%	16%	9.1%
CTG	75,957	20,400	10.39	16.11	0.89	1.40	0.7%	0.9%	7.8%	10.4%	17%	-5.6%
EIB	14,753	12,000	278.26	-923.08	1.12	1.02	0.5%	0.0%	5.0%	-0.1%	14%	-129.0%

MBB	17,913	15,000	5.95	7.22	0.89	0.98	1.1%	1.3%	12.2%	15.2%	10%	-0.1%
SHB	6,447	6,800	8.49	7.36	0.64	0.55	0.4%	0.5%	5.7%	7.5%	5%	-1.2%
STB	18,623	16,300	10.18	8.94	1.14	0.98	1.1%	1.1%	10.8%	11.6%	10%	0.2%
VCB	118,327	44,400	20.23	29.46	1.92	2.59	0.7%	0.9%	7.6%	10.8%	26%	-1.6%

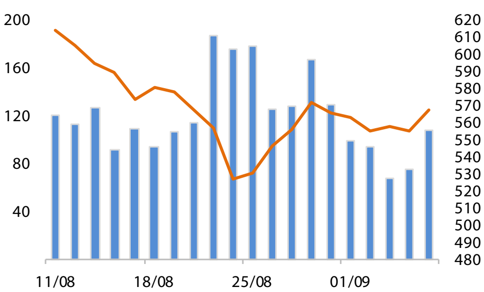
Source: RongViet Research

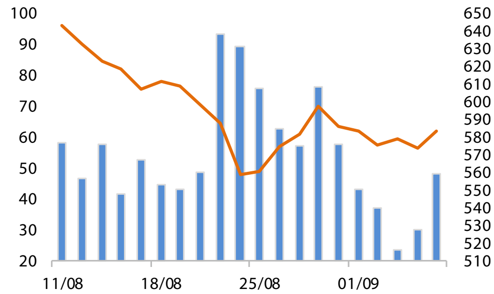
Table 4: Region Banks

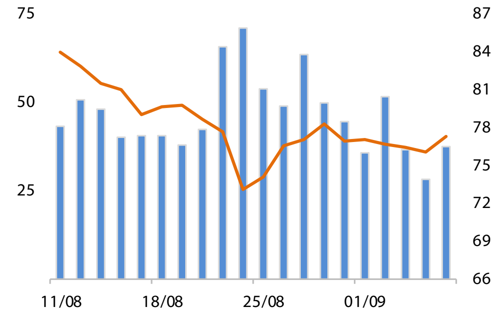
Name	MC 31/08/2015	P 31/08/2015	PE 2015	PE 2016	PB 2015	PB 2016	ROE 2015	ROE 2016	ROA 2015	ROA 2016	MC/Deposits	EPS CAGR 2014-2016
						Indonesia						
Rakyat	18	10.400	10,2	9	2,2	1,9	24%	23%	3%	3%	36%	8%
BBNI	7	5.000	9,8	8,4	1,5	1,3	16%	17%	2%	2%	26%	1%
Mandiri	15	9.075	9,8	8,3	1,8	1,6	20%	20%	2%	3%	29%	13%
BDMN	2	3.505	11	9,2	1	0,9	9%	10%	2%	2%	26%	18%
BCA	23	12.850	17,6	14,9	3,5	2,9	21%	22%	3%	3%	61%	14%
BTPN	1	2.975	8,8	8,2	1,3	1,2	16%	15%	2%	2%	28%	7%
						Philippines						
MBT	6	83,75	15,5	12,7	1,4	1,3	10%	11%	1%	1%	19%	1%
BDO	8	98,5	14,3	11,5	1,8	1,7	14%	15%	1%	1%	20%	17%
BPI	7	84,6	16,3	14,1	2,1	1,9	14%	14%	1%	1%	35%	14%
						Malaysia						
CIMB	10	5	12,9	9,2	1,1	1	9%	11%	1%	1%	13%	21%
Maybank	20	8,76	12,9	11,6	1,5	1,4	12%	13%	1%	1%	17%	1%
Public	17	18	14,5	13,8	2,3	2,1	16%	16%	1%	1%	23%	3%
AMMB	3	4,7	9,6	8,4	0,9	0,9	10%	11%	1%	1%	15%	-6%
RHBC	4	6,48	8,3	7,9	0,8	0,8	11%	10%	1%	1%	10%	1%
						Thái Lan						
Bangkok	9	167,5	9,1	8,1	0,9	0,9	11%	11%	1%	1%	15%	4%
Bbank	12	178	9,9	8,4	1,5	1,3	16%	16%	2%	2%	25%	5%
KTB	7	18	8,1	7,4	1	0,9	13%	13%	1%	1%	11%	2%
Siam	14	143	9,5	8,7	1,6	1,4	17%	17%	2%	2%	24%	3%
TISCO	1	38,25	6,8	6,3	1,1	1	17%	16%	1%	2%	16%	7%

Source: Morgan Stanley

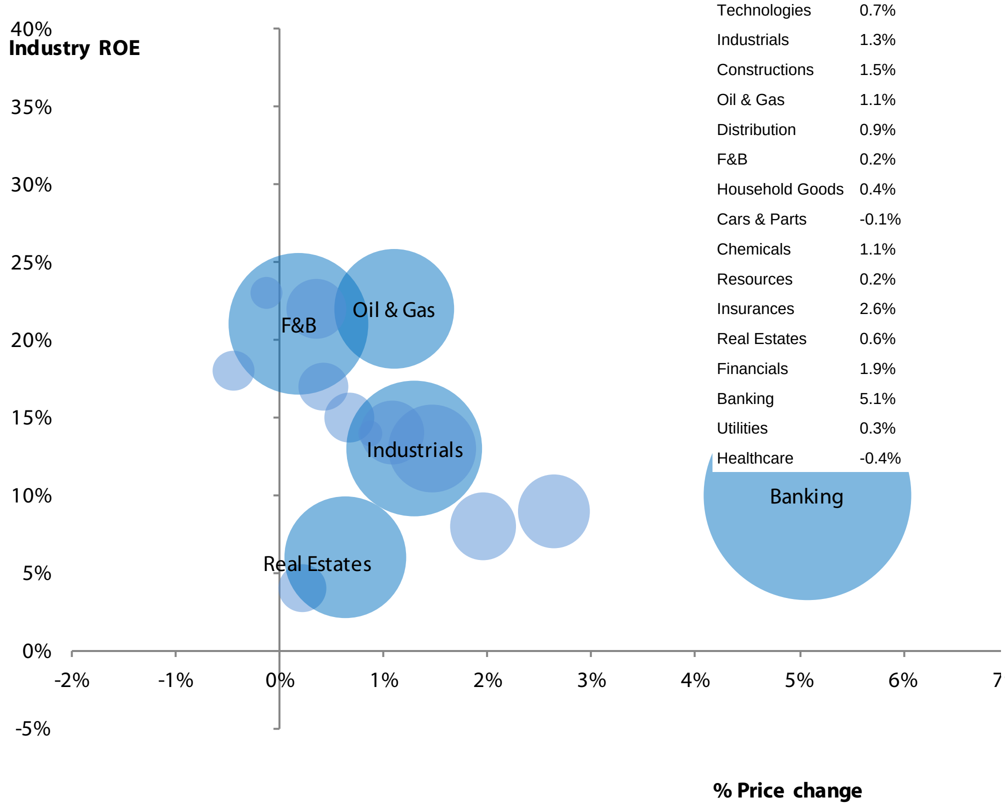
VNINDEX	2.12%	566.72	VN30	1.61%	583.35	HNXINDEX	1.67%	77.26





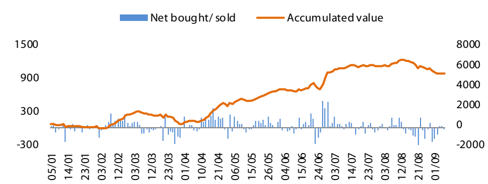


Industry Movement

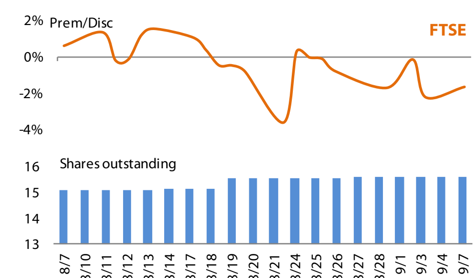


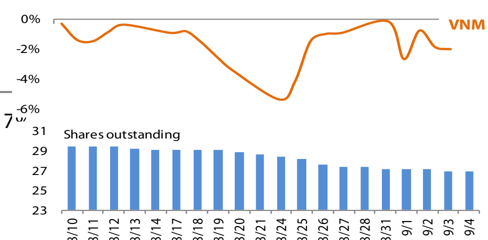
Industry	% change
Technologies	0.7%
Industrials	1.3%
Constructions	1.5%
Oil & Gas	1.1%
Distribution	0.9%
F&B	0.2%
Household Goods	0.4%
Cars & Parts	-0.1%
Chemicals	1.1%
Resources	0.2%
Insurances	2.6%
Real Estates	0.6%
Financials	1.9%
Banking	5.1%
Utilities	0.3%
Healthcare	-0.4%

Foreign Investors Trading



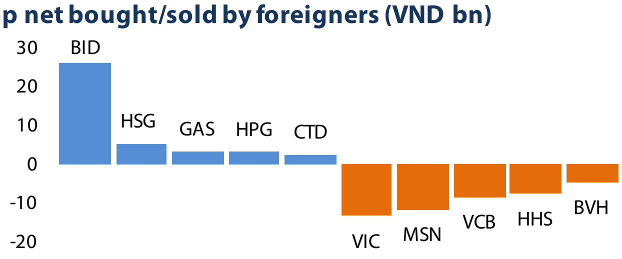
ETF



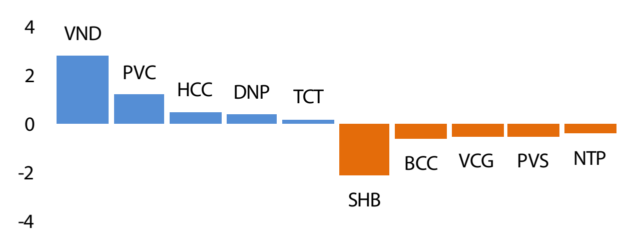


Top net bought/sold by foreigners (VND bn)

HSX



HNX



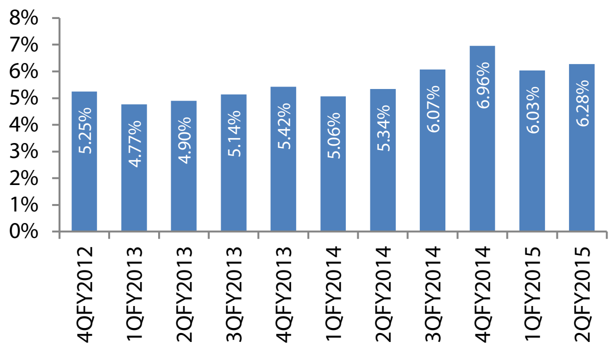
Top Active

Ticker	Price	Volume	% price change
MBB	15.0	6.01	4.2%
FLC	6.7	5.69	4.7%
CTG	20.4	5.62	5.2%
OGC	2.5	5.03	0.0%
CII	23.5	4.73	2.2%

Ticker	Price	Volume	% price change
KLF	4.7	2.75	6.8%
SHB	6.8	2.69	1.5%
TIG	11.1	1.69	1.8%
NHA	13.9	1.54	9.4%
CEO	15.7	1.28	3.3%

MACRO WATCH

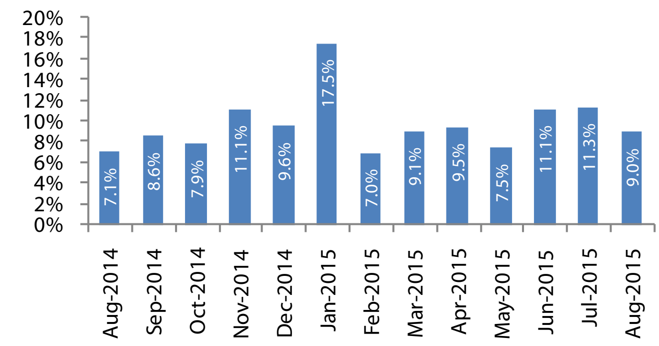
Graph 1: GDP Growth



Sources: GSO. Rongviet Securities database

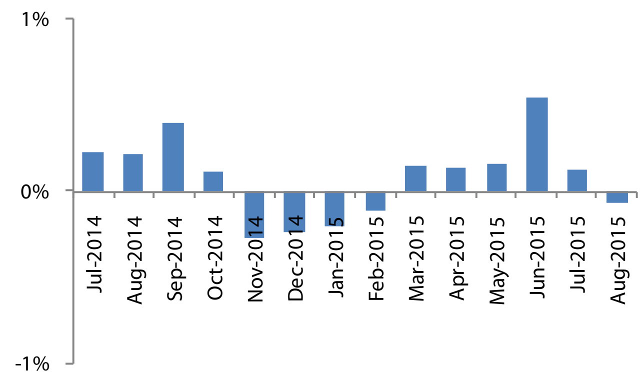
(*) Comparision price in 1994

Graph 2: IIP



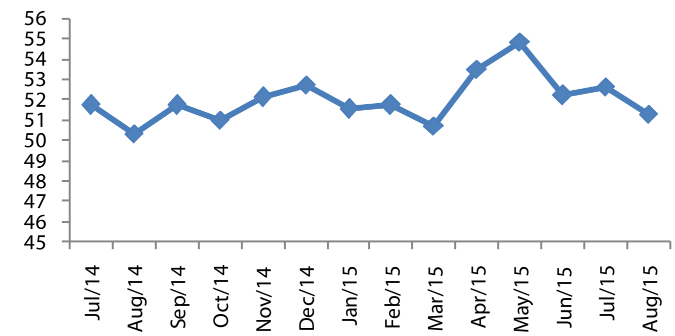
Sources: GSO. Rongviet Securities database

Graph 3: Monthly CPI



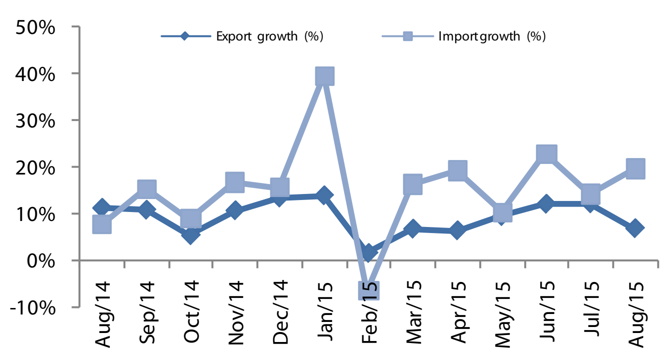
Sources: GSO. Rongviet Securities database

Graph 4: HSBC - PMI



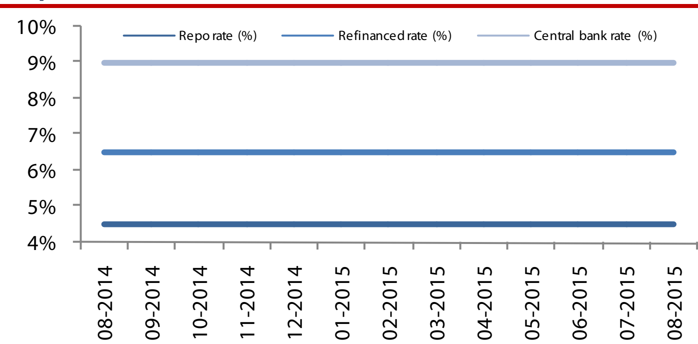
Sources: GSO. Rongviet Securities database

Graph 5: Trade Growth



Sources: GSO. Rongviet Securities database

Graph 6: Interest



Sources: SBV. Rongviet Securities database

RONG VIET NEWS

COMPANY REPORTS	Issued Date	Recommend	Target Price
PXS - Invest to strengthen construction capacity	Sept, 4th 2015	Accumulate - Intermediate	17,000
SHP - Positive over long-term	Sept, 3rd 2015	Accumulate - Intermediate	20,800
PET - Tracking the progress of Thanh Da land plot transfer	Aug, 20th 2015	Stable	N/a
VNC - Embrace the new wave of international commerce	Aug, 14th 2015	Neutral – Long term	28,900
MAC – Bigger Propellers, further waters	Aug, 7th 2015	Buy – Long term	17,600

Please find more information at http://www.vdsc.com.vn/en/companyReport.rv?categoryId=302

FUND CERTIFICATION INFORMATION

Fund name	Trading Day	Subscription Fee (% of trading value)	Redemption Fee (% of trading value)	NAV per unit at valuation date	NAV per unit last valuation date	Change in NAV
VFF	01/09/2015	0% - 0.75%	0% - 2.5%	11,861	11,797	0.54%
VEOF	01/09/2015	0% - 0.75%	0% - 2.5%	9,874	9,464	4.33%
VF1	04/09/2015	0.2% - 1%	0.5%-1.5%	22,009	22,314	-1.36%
VF4	04/09/2015	0.2% - 1%	0%-1.5%	9,806	9,626	-1.21%
VFA	04/09/2015	0.2% - 1%	0%-1.5%	7,032	7,130	-1.37%
VFB	04/09/2015	0.3% - 0.6%	0%-1%	12,303	12,293	0.08%
ENF	27/08/2015	0% - 3%	0%	11,297	11,518	-1.92%
MBVF	27/08/2015	1%	0%-1%	10,364	10,514	-1.43%
MBBF	26/08/2015	0%-0.5%	0%-1%	12,304	12,262	0.34%

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