23 November 2017

Banking Industry Update Report

Macro Advantage to Drive Profit Growth of Banking Industry

New prospects for bad debt recovery. *The legal framework has continued to improve with the adoption of Resolution 42, which is considered to have resolved almost all issues that credit institutes (CIs) encounter in bad debt settlement as well as collateral foreclosure. However, to attract buyers, we think there are some other bottlenecks that need to be improved such as (1) the coordination and support of many related authorized agencies when applying the resolution and (2) the transaction market for bad debt and collateral to improve the asset liquidity. Therefore, in the short term, we think that the resolution will have a strong impact on the borrowers' sentiment. Furthermore, we believe that the recovery of the economy and consumer confidence as well as growing production will boost the recovery rate on bad debts.The combination of these three factors will be key the drivers to the success of Resolution 42.*

Banking industry's earnings experienced strong growth in 9M 2017, thanks to the loosened monetary policy. *Total operating income (TOI) of the 13 listed banks was VND83.4T (+29% YoY) and NPAT was VND17.6T (+25% YoY). We think the earnings growth was mostly supported by the eased monetary policy. Indeed, the business outlook of the banking sector has been brightened after the ratio of short-term mobilized funds financing medium- and long-term loans increased to 60% under Circular 36 (it was previously a mere 30%). The ratio decreased to 50% in 2017 under Circular 06, yet it has had a negligible impact on the performance of banks since the ratio of listed banks is still significantly lower than SBV's requirement of 50%. In addition, interest rates remained stable at low levels due to (1) low inflation and (2) larger deposits with lower cost from the State Treasury. Consequently, the banks' net interest income grew significantly. We expect this trend to continue in the second half of 2017 and early 2018.*

Banks' relative valuation has been upgraded. *The Vietnam banking sector's picture shows many positive factors in 2017: (1) credit rating agencies including Fitch, S&P, and Moody's upgraded their rating for some of Vietnam banks; (2) enjoying favorable macro environment, the banking industry has achieved high profit growth, with 6M 2017 NPAT growing 39% YoY and ROE increasing to 7.5% from 5.7% in 2016, of which state-owned banks and joint-stock commercial banks had the most improved ROE; and (3) expected recovery rate of bad debts is higher, following the initiation of Resolution 42. As a result, the banking sector's relative valuation has been reversed, with an average PBR of listed banks increasing to 2.1x from 1.7x at the beginning of the year. Excluding the impact of VCB, the listed banks' average PBR is around 1.7x, which is 20% higher than the average figure of regional banks.*

State-owned banks, with the story of raised capital and positive business results, are likely to perform well in 2018. CTG is currently having the most attractive valuation. The bank has been aggressive in reorganizing its operation model since 2014 and has accelarated its provision made for special bonds in 2017. Therefore, we expect that CTG's earnings will grow more positively in 2018–2019 .

Banking stocks rating and valuation

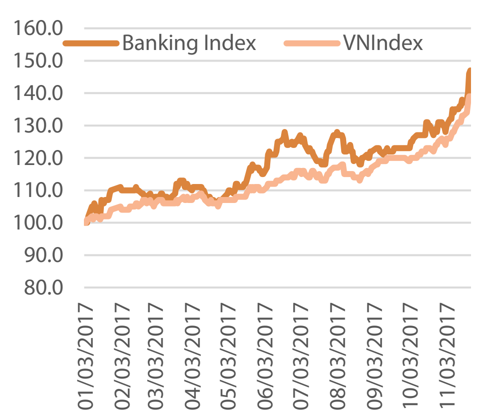
Positive

Sector	Finance
Sub–sector	Banking
Mkt. cap (VND B)	480,084
% of total mkt. cap	18.4

Share price performance

%	1M	3M	12M
ACB	10.8	28.8	94.9
BID	21.0	30.4	62.2
CTG	25.1	34.4	52.6
MBB	11.3	17.8	100.1
VCB	20.1	32.3	34.8
Banking	15.3	24.2	47.0
VNIndex	13.9	21.9	38.9

Price performance



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VCB is quite good in its leading role. We forecast its NPAT CAGR to be over 20% in 2017–2019 with high loan loss reserve (LLR). Along with its capital raising plan, the story of divesting from other credit institutions will not only help increase its Tier 1 capital but also bring extraordinary profits in 2018. Therefore, the market is likely to continue being bullish with VCB. In the most positive scenario, its PBR will be up to 3.5x whereas its average PBR in the recent three years has been around 2.7x.

We are not optimistic about BID given that our expectation for its growth in 2017–2018 will be slower than its peers due to its large non-performing loans, high special bonds, low liquidity ratios, and operating expenses that are likely to rise sharply in the upcoming years,. Meanwhile, its prospects will be more improved if it could successfully make a private placement and if Resolution 42 could work well with its bad debts. Therefore, investors need to be conservative in considering the trade-off between capital gains and risks taken when investing in BID. Its PBR used to reach 2.7x in the past, and its average PBR in the last three years is 1.3x.

The other commercial banks who will pilot Basel II are less pressured on capital raising than the state-owned banks. Most of them have paid stock dividends as a way to enhance Tier 1 capital. In this group, we are positive about ACB and MBB, which are expected to continue to grow strongly in 2018. However, we prefer ACB as the bank has constantly strengthened its asset quality and is consistent with its core business strategy in which it has experience. In contrast, MBB solved its growth story by expanding into new riskier businesses which would require more time to evaluate the effects.

Tickers	Recommen-dation	Current price (VND)	Target price (VND)	Dividend yield (%)	ROE (%)			PB (x)			PE (x)		
					2016	2017E	2018F	2016	2017E	2018F	2016	2017E	2018F
ACB	Neutral	33,900	38,400	0.0	9.9	15.1	19.4	1.3	2.2	1.8	15.3	16.3	11.6
BID	Monitor	25,700	N/A	2.7	14.7	14.3	15.0	1.1	1.9	1.7	10.2	18.3	15.8
CTG	Buy	22,650	27,000	3.1	11.5	10.8	14.4	1.0	1.3	1.1	11.7	15.4	10.6
MBB	Buy	24,200	28,700	2.1	12.1	14.2	17.6	0.9	1.5	1.3	7.9	21.6	15.4
VCB	Neutral	48,000	50,300	1.7	14.7	17.0	19.0	2.8	3.2	2.8	23.8	25.1	19.9

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Bad debt scene changes dramatically

- ***Given the strong earnings growth in 9M 2017, banks accelarated their provisions for special bonds and improved their LLR.*** *Following VCB, we expect that ACB, CTG and MBB will fully make provisions for special bonds not later than the first half of 2018. In a better case scenario, where the bad debt recovery progress in H2 2017 is as good as that in H1 2017, we think ACB and MBB could fully make the provisions in 2017. In the case of BID, we find that the bank has accelarated its provisions for non-performing loans, in which provision expenses were double that of the same period last year. In the meantime, while provisions made for special bonds are still in line with its plan, we expect this progress will be stepped up in 2018. Given the bad debt recovery rate of 3–5% per annum, BID will fully make provisions for special bonds in early 2019.*
- ***Continuing legal framework adjustment leads to a decisive stage of bad debt resolution.*** *Resolution 42 has piloted the resolution of almost all issues that CIs encounter in the bad debt settlement as well as collateral foreclosure. However, to attract buyers, we think there are some other bottlenecks that need to be improved such as (1) the coordination and support of many related authorized agencies when applying the resolution and (2) the transaction market for bad debts and collateral to improve asset liquidity. Therefore, in the short term, we think that the resolution will have a strong impact on the borrowers' sentiment. Adding to the changing of borrowers' sentiment, we believe that the recovery of the economy and consumer confidence as well as the growing production will boost the recovery rate on bad debts.The combination of these three factors will be the key drivers to the success of Resolution 42.*

Strengthening provision against bad debts

The industry's non-performing loans ratio was 2.48% at the end Q2 2017, which slightly decreased from the end of Q1 2017. Nonetheless, the growth of NPLs was somewhat faster than the growth of customer loans, which were 10% YTD and 9% YTD, respectively. Counting in the bad debts to be resolved by VAMC, the banking industry's NPL ratio would have been 5.8%, slightly lower than 5.87% by the end 2016. VAMC's bad debt recovery rate was better than that in the previous years. By the end of September 2017, the rate was over 20%, equivalent to about VND60T (*) of bad debts recovered.

(*) Updates for mid-November 2017: the total of bad debts recovered via VAMC was VND66T, corresponding to a recovery rate of over 22%.

Figure 1: Industrial NPL ratio and NPL plus SB ratio

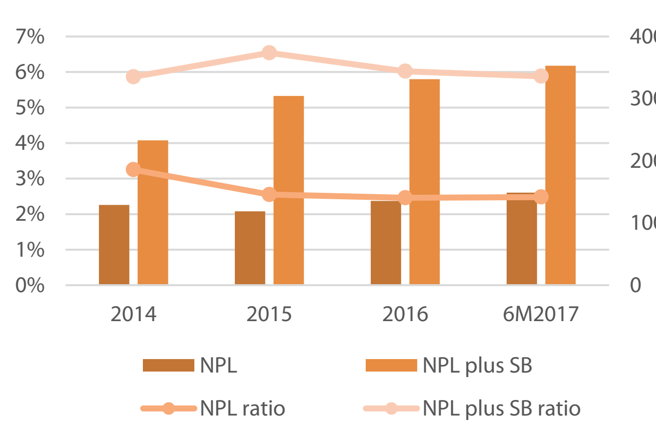
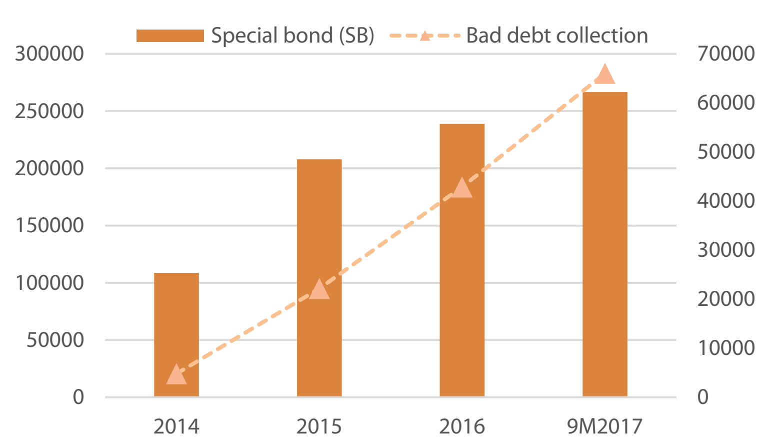


Figure 2: Special bond value and VAMC's bad debt collection (VND B)



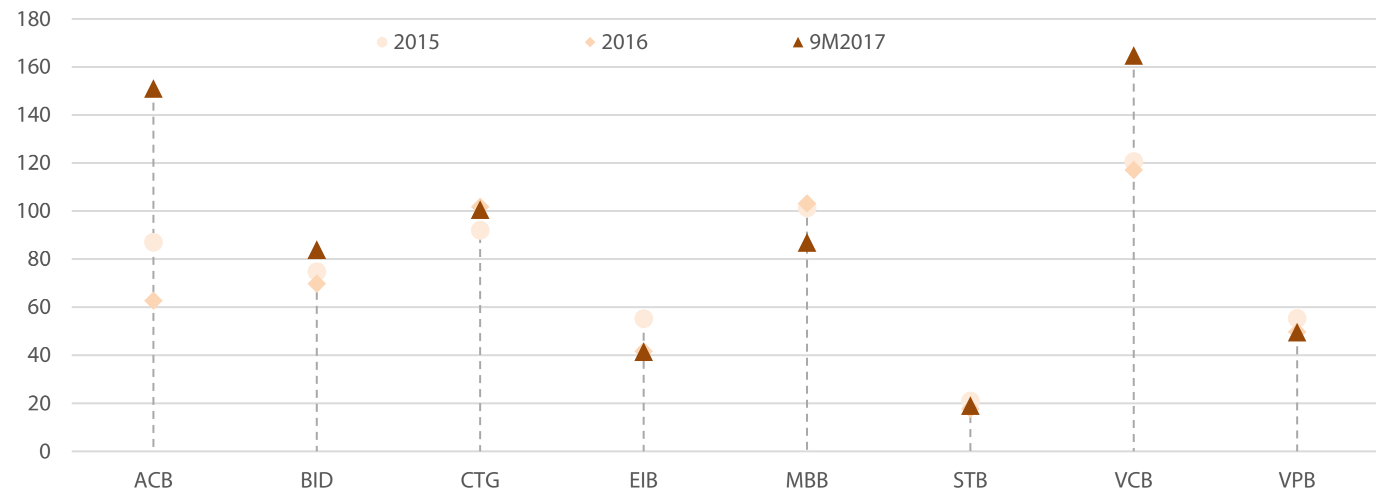
Source: SBV, VAMC, RongViet Research compile

(*) Bad debt sold to VAMC: not excluding the provision amount due to lack of data

CIs have increased provisions

The listed banks' NPL ratio is lower than 3% and slightly lower than the ratio at the end of 2016 (except for STB, which is under restructuring scheme). Following STB, EIB has the highest bad debt ratio. Compared to 9M 2016, banks' provision expenses increased by approximately 43% YoY, especially in some banks such as ACB (+165% YoY), BID (+71% YoY), CTG (+34% YoY), and MBB (+72% YoY). However, while most of ACB's and BID's provision expenses were allocated for on-balance sheet bad debts, CTG and MBB made provisions for their special bonds. Therefore, the LLRs of ACB and BID have improved significantly compared to the ratios in 2016, at 131% and 84%, respectively, whereas MBB and CTG's LLRs decreased by 87% and 101%, respectively. Although VCB's provision expense did not increased over that of the same period last year, the provision in 9M 2017 was fully made for its on-balance sheet NPL (the same period as for special bonds). Thus, VCB's LLR also increased to approximately 165% from 117% at the end 2016. High LLR shows that banks' ability to defend against bad debts has been better than the previous years.

Figure 3: Loan loss reserve of some listed banks



Source: RongViet Research compile and estimated

Figure 4: NPL ratio and NPL plus net SB ratio

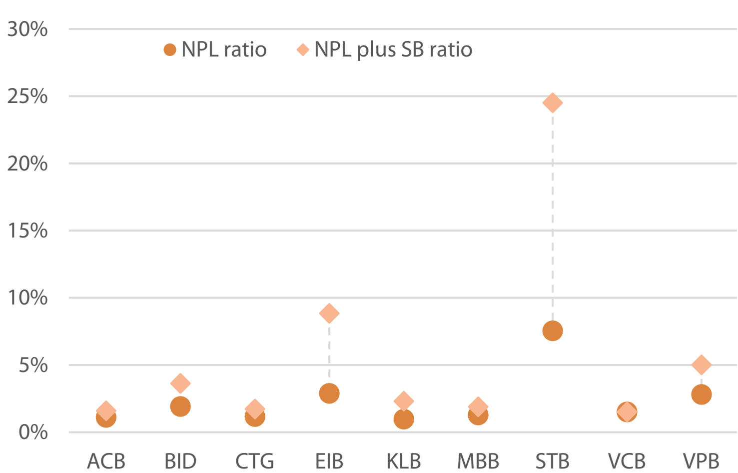
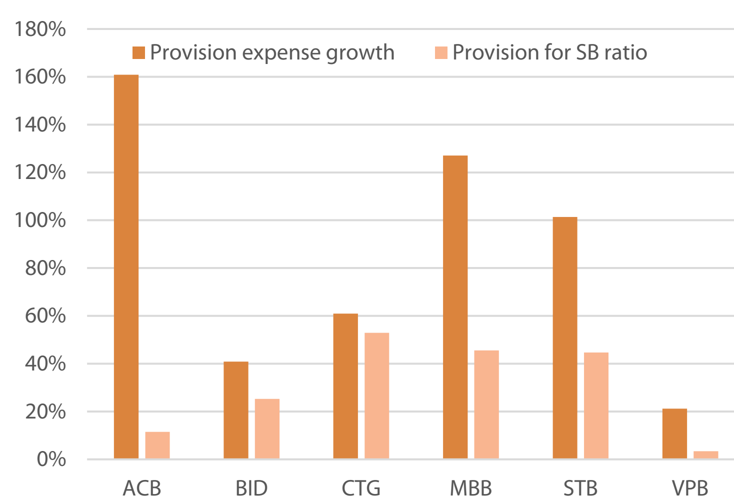


Figure 5: Provision expense in H1 2017



Source: RongViet Research compile and estimated

With positive business results in 2017, we expect banks to continue to give priority to provision-making. Following VCB, we expect that ACB, CTG and MBB will fully make provisions for special bonds not later than the first half of 2018. In a better case scenario, where the bad debt recovery progress in H2 2017 is as good as that in H1 2017, we think ACB and MBB could fully make provisions in 2017. In the case of BID, we find that the bank has accelarated its provisions for non-performing loans, in which provision expenses were double that of the same period last year. In the meantime, while provisions made for special bonds are still in line with its plan, we expect this progress will be stepped up in 2018. Given the bad debt recovery rate of 3–5% per annum, BID will fully make provisions for special bonds in early 2019.

Boosting the progress of resolving bad debts via Resolution 42

As expressed in our opinion on the banking sector report released in early 2017, we think that it would require many solutions to address the legal framework and bad debt transaction market, which must be implemented at the same time to successfully recover bad debts. Currently, we saw some progression on these issues, suggesting that the recovering pace of bad debts, especially the ones of VAMC, will be faster in 2018–2019 .

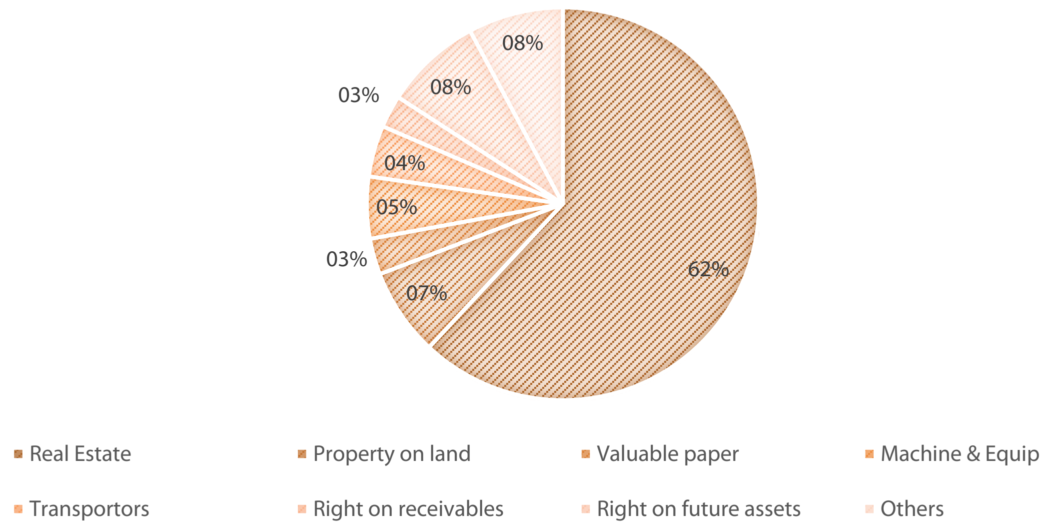
Resolution 42 allows CIs under restructuring scheme to prolong the required time for provisions on special bonds and interest receivable retirement within a maximum duration of 10 years. This will ease the pressure on provision expenses from these banks, and could cause negative effects on their business results during the restructuring period.

However, the most important point in Resolution 42 is that the legal issues have been resolved as well as debtors' rights on collateral are confirmed. The resolution (effective for five years starting 15 August 2017):

- ✓ Recognizes the CIs' right to seize collateral, concurrently apply the shortened procedures in the settlement of disputes related to collateral in court. In this way, the executives are showing their drastic measures in handling bad debts which are mostly derived from the borrowers' "lengthy intentions". Therefore, in the short term, we believe that Resolution 42 will have a strong impact on the borrowers' psychology. In the long term, the method to improve liquidity and demand for the real estate market will help release collateral better.
- ✓ Allows (1) the buyer of the bad debts secured by land use rights, assets attached to land, assets to be formed in the future and attached to land, to receive or assign these property/real estate projects as the collateral of bad debt purchased and (2) CIs, branches of foreign banks, and bad debt trading companies to transfer bad debts' collateral which are real estate projects if these projects could satisfy conditions prescribed by the resolution. This permission will be the premise for forming collateral assets trading market as well as increase liquidity for collateral assets.

Of the nearly VND434T collateral held by VAMC at the end of Q1 2017, 62% of its value is real estate, 7.2% is the property attached to land and about 7.8% is the right to assets to be formed in the future. From these figures, we can observe that the liquidity of real estate will be a prerequisite for the success of the bad debt solving process. The recovery of the real estate market in the past 3 years will help increase confidence of investors in the real estate market. In such conditions, collateral assets which are real estate projects with clear legal and location advantages will have higher liquidity.

Figure 6: Collateral at VAMC



Source: RongViet Research compile

Two months after the resolution took effect (15 August 2017), VAMC has recovered another VND5T of bad debts, equivalent to more than 30% of the value of total bad debts recovered in 2017. VAMC and other credit institutions have commenced the seizure and auction some collateral, especially high value projects such as: Saigon One Tower (District 1) which is worth VND7T; the auction of infrastructure composition projects of industrial park Viet Hoa-Kenmark at an initial price of nearly VND830B; auction of Hoan Cau's land with total value of VND2,418B. In addition, many credit organizations disclosed information seized collateral composed of LUR and condominiums, etc.

Business results prosper under supportive policies

- ***Banks' business results have grown strongly in 9M 2017.*** *Total operating income of the 10 listed banks on HSX and HNX reached over VND122T, up by 29% YoY, of which, interest income grew by 27.3% YoY and contributed ~80% (9M 2016: +11.2% YoY and contributed 81%) and service income grew 43% YoY and contributed ~9% (9M 2016 : +7.4% YoY and contributed 8%). The contribution of service activities continued to improve slightly, but interest income remained as the growth driver. We are not optimistic about the growth as it depends on interest income, which receives support from loosening of monetary policy (high credit growth, low average cost of capital mobilization, and loose liquidity ratios). After major events resulting from banking industry restructuring since 2012, we learned banks' profits will be easly hurt as their lending activity slows. Nevertheless, the positive side is that there is huge room for commercial banks to boost service income.*

- ***Credit growth of the banking sector will accelerate in Q4 2017.*** *Following the government's directive on boosting credit growth to support economic growth, the SBV has allowed many banks to raise credit growth room in 2017. With credit growth in 9M 2017 reaching 12.16% YTD, we think credit growth in Q4 2017 must be at 7.9% QoQ to reach whole year targets (21–22%), implying that VND487T will be added to the monetary market in the last quarter of 2017. This is a high growth rate compared to the average growth in Q4 of 2012–2016 (the highest growth was 6.3% in Q4 2014). In addition, we believe that credit growth will be diversified among banking groups: (1) Credit growth of the state-owned group, including BID, CTG, and VCB, will be around 18–19%; (2) Credit growth of group 1 commercial banks, such as ACB and MBB,will be around 20–22%; and (3) Credit growth of smaller JSBs, with a market share of 2–4% per bank, will fluctuate between 25–30%.*

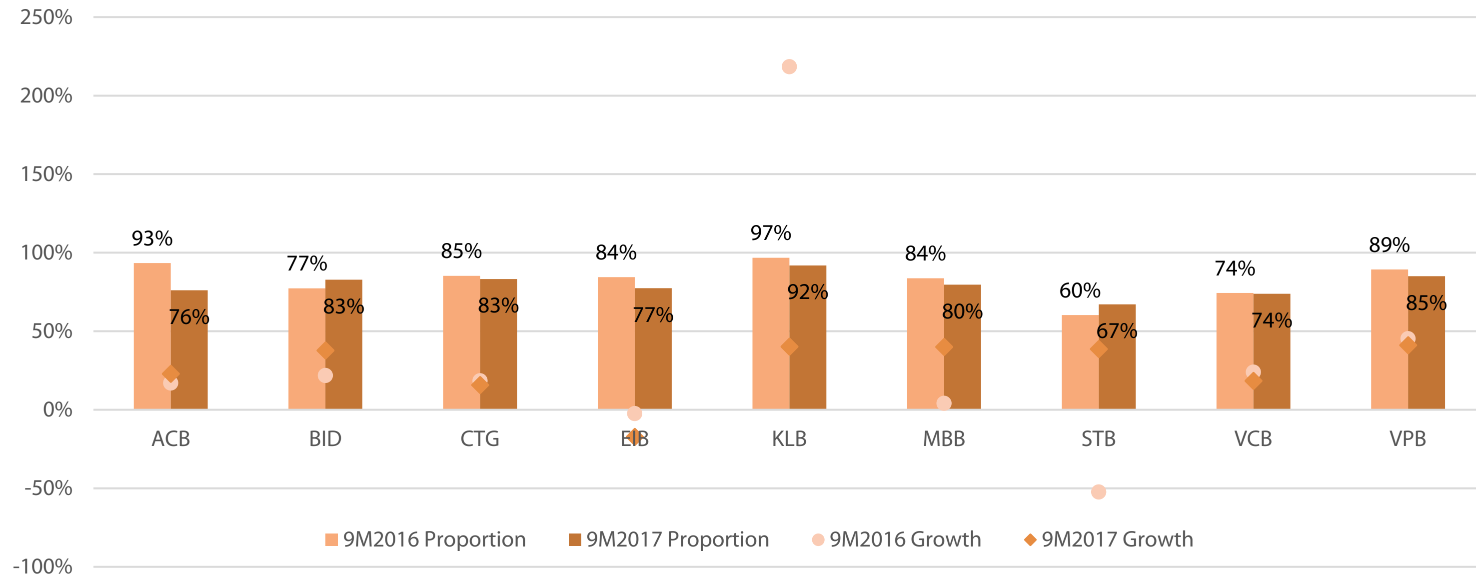
- ***The pressure on interest rates will be strengthened when banks have to step up mobilization to ensure liquidity requirement, NIM may be slightly reduced in 2018.*** *The bank's loan-to-deposit ratio (LDR) at the end of Q2 2017 was slightly higher than that at the end of 2016, as deposit growth was significantly lower than credit growth, which was partly due to the abundant deposits from the State Treasury. In addition, if the draft circular amending Circular 36 is not approved, the ratio of short-term capital financing medium– and long-term loans will fall to 40% from 2018. Thus, to have capital to offset the decrease amount, as State Treasury disburse their cash for public investment, and to ensure liquidity ratio as regulation, CIs will have to push up mobilization from the residential, thus affecting deposit rates.*

  One of the noteworthy points regarding the draft circular amending Circular 36 is that the ratio of short-term capital financing medium– and long-term loans will decrease to 45% by 2018 and to 40% from 2019. This adjustment, if approved, will reduce pressures on higher cost of capital in some banks with high short-term and medium-term loans such as BID. Meanwhile, we think that whether the adjustment is approved or not, it it will not affect ACB, MBB, and VCB, since the ratio of these banks are quite far from the regulation.

Strong operating income growth driven by lending activities

Total net interest income of the 10 listed banks stood at 27.3% YoY in 9M 2017, almost double the growth in 9M 2016. In terms of income composition, net interest income accounted for about 80%, down by nearly one percentage point over the same period in 2016. However, the proportion is strongly diversified among listed banks. In particular, ACB and VCB have relatively well controlled ratio, which is below 75%, while the ratio in the other banks are above 80%.

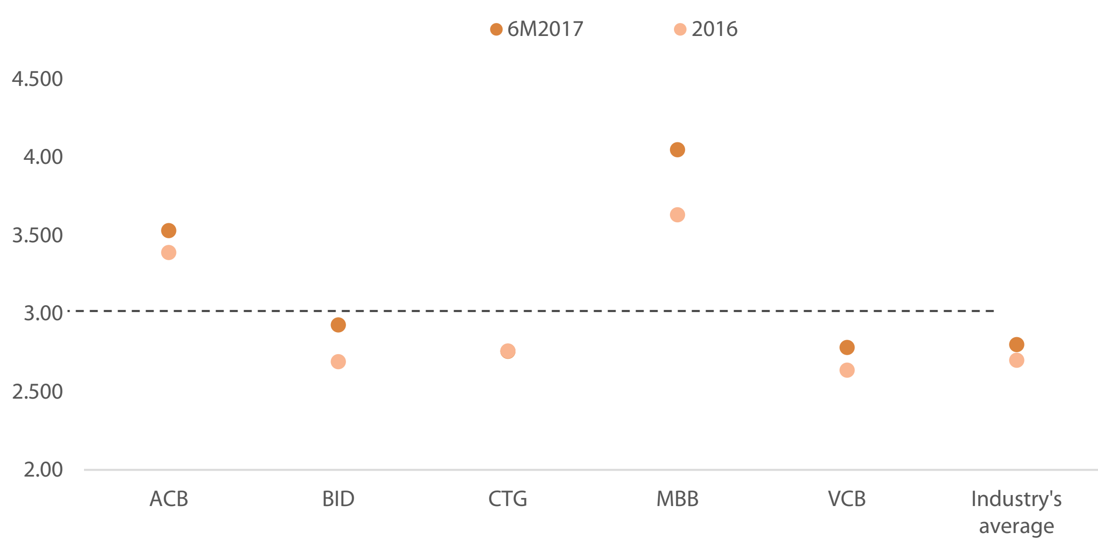
Figure 7: Growth and proportion of net interest income



Source: RongViet Research compile

Average asset yields and capital cost generally increased compared to 9M 2016, yet the increase in capital costs was lower than that of asset yield. This is due to two reasons. First, by the end of Q3 2017, customer loan and deposit growth of the 10 listed banks reached 14.8% YTD and ~12% YTD, respectively; this trend is in contrast to the situation in 2016 when deposit growth was always higher than the loan growth. Second, the slower growth of customer deposits was made up by the deposits from the State Treasury deposit, which had lower interest costs than that of other funding sources. As a result, NIM of most banks improved compared to 2016.

Figure 8: NIM



Source: RongViet Research estimated

Meanwhile, due to the narrowed growth gap between deposits and loans, the capital adequacy and liquidity ratio of listed banks declined slightly compared to the end of 2016. Hence, we think that if the deposits in 2018 from the State Treasury is not as much as in 2017 and the pressure of mobilizing deposits from customers is higher, it will be difficult to maintain NIM as in 2017.

Figure 9: Industrial lending and deposit growth in H1

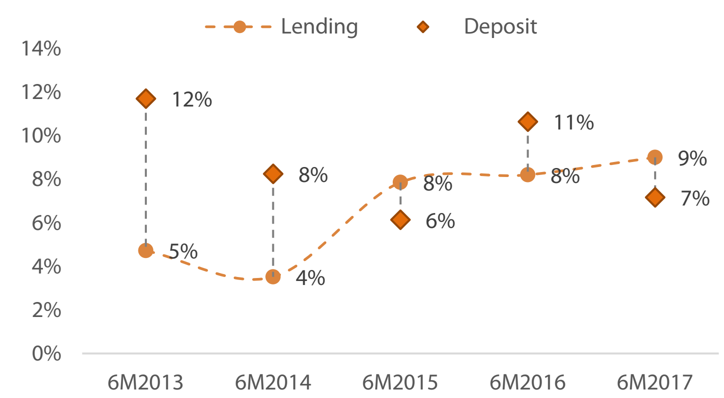
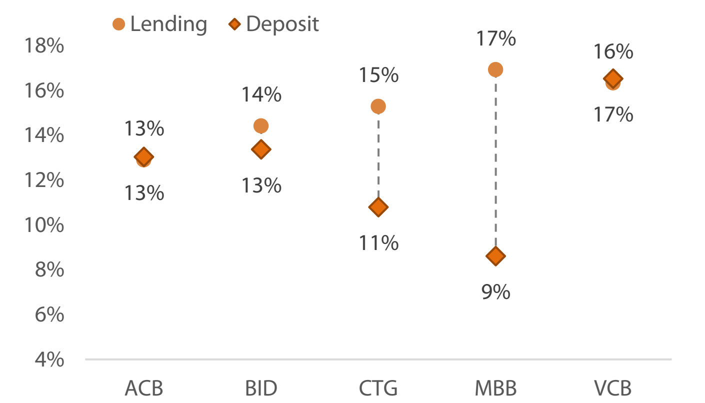
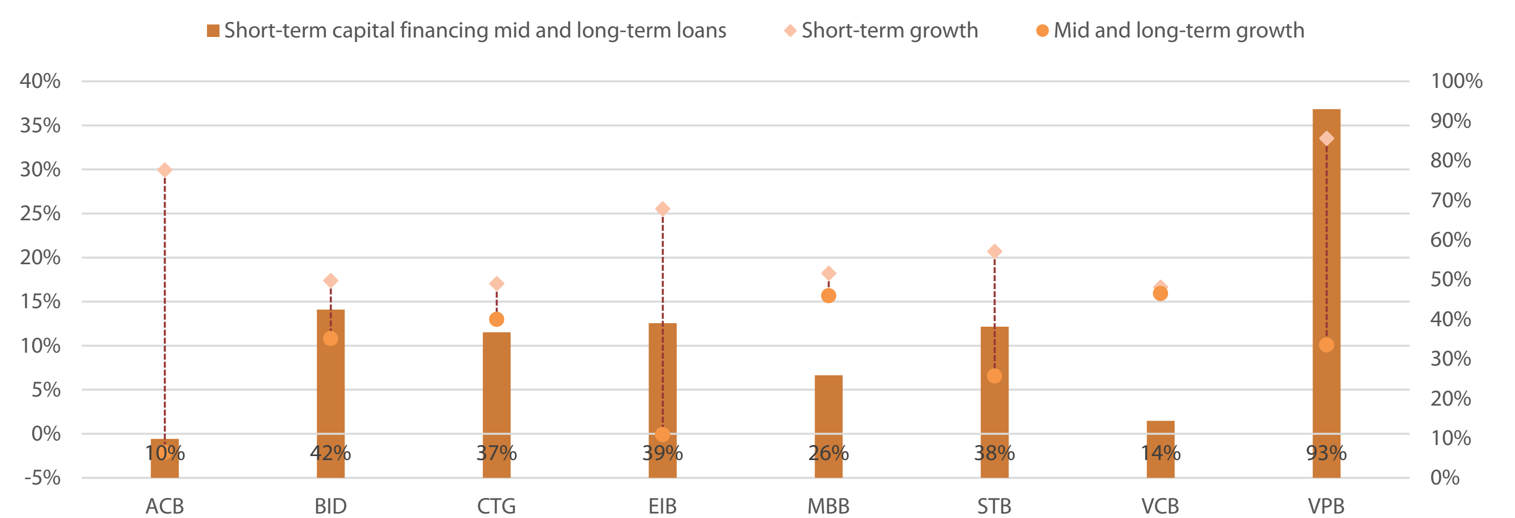


Figure 10: Listed banks' customer lending and deposit growth in 9M 2017 (YTD)



Source: SBV, RongViet Research compile

Figure 11: Growth of lending by term and the ratio of short-term **capital financing** mid- **and long**-term **loans by end of Q3 2017**



Source: RongViet Research compile and estimated

Net income from services increased sharply but the contribution was still modest

The total fee income of the 10 listed banks was VND10,875 billion (+43% YoY) in 9M 2017. The positive results came as listed banks have expanded their list of services, along with increased fees on some services.

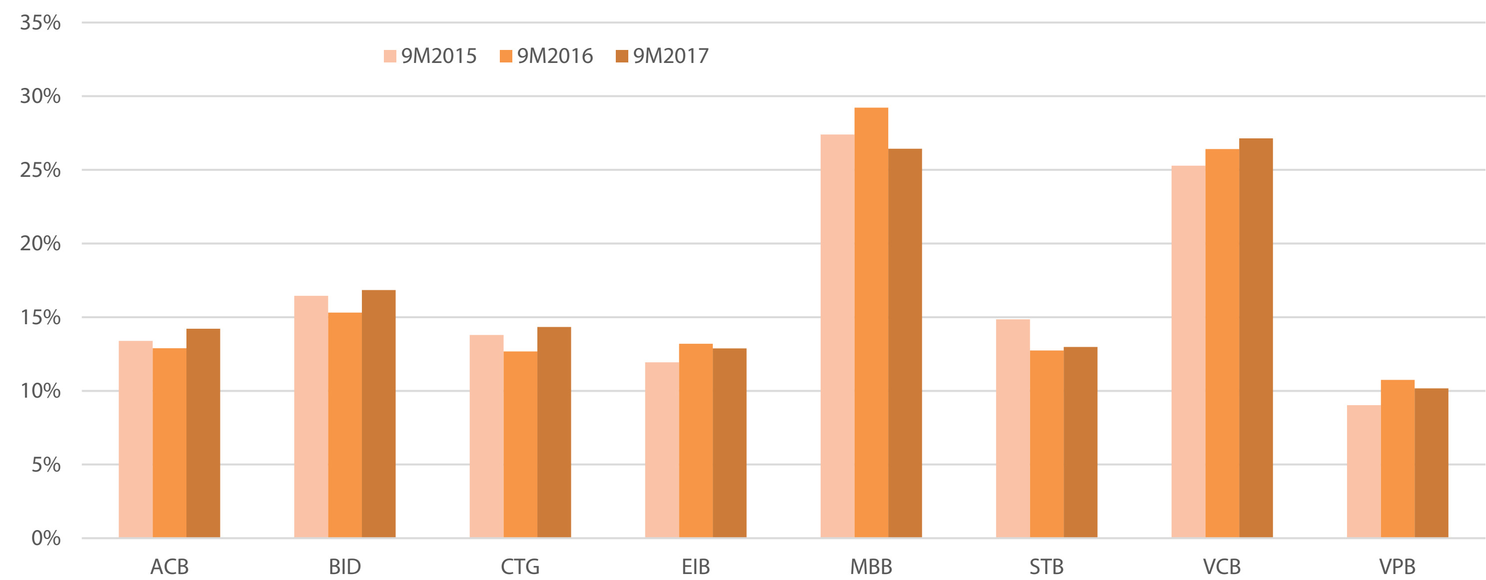
Increasing fees

Most commercial banks have increased fees related to ATM services such as cash withdrawal or money transfers. In addition, banks have started to widely charge fees on SMS and online transactions.

Expanding the list of services

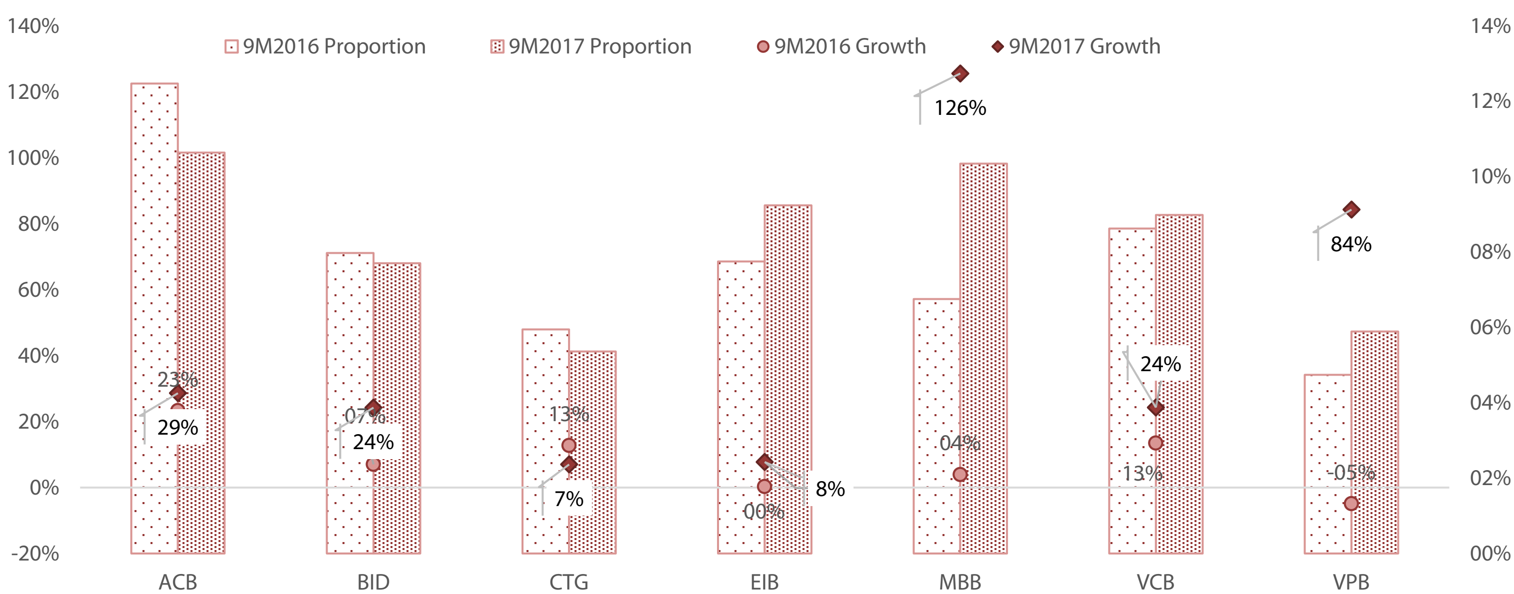
Commercial banks tend to target clients including small and medium enterprises (SMEs), micro–SMEs, and individuals. Following that, the list of services has been added with other functions such as collection and payment services, financial management services, bancassurance, or exclusive agency for insurance companies. These packages not only bring revenue to the banks but also improve their CASA.

Figure 12: Proportion of demand deposit in some listed banks



Source: RongViet Research compile

Figure 13: Proportion and growth of service income of some listed banks



Source: RongViet Research compile

Provisions and operating expenses have been expanded

Given the strong earnings growth, listed banks have prioritized to make provisions. Total provision expense of the 10 listed banks was around VND32,815 billion, up by approximately 43% YoY. Excluding VCB's unchanged provision expense and STB's provision expense which sharply decreased probably due to its restructuring plan, the expense in other listed banks sharply increased. This is because:

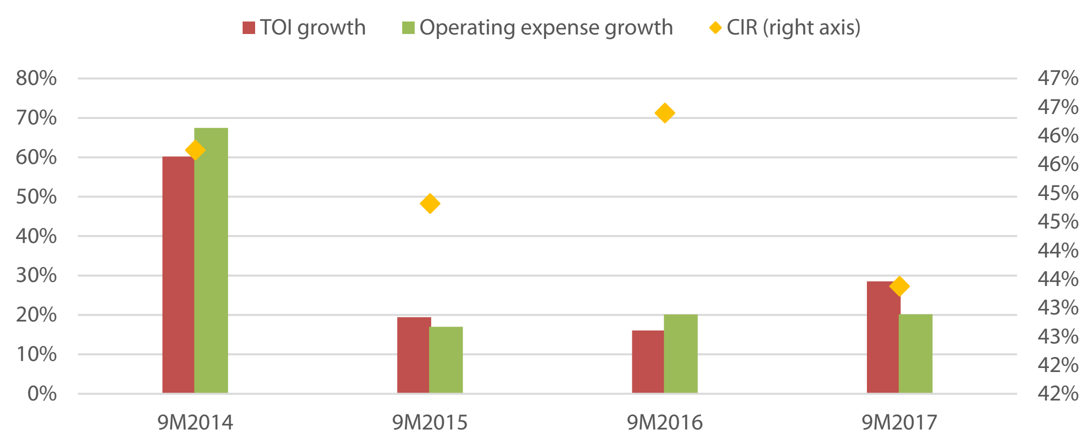
(1) Banks have stepped up provisioning for on-balance sheet bad debts to increase their defensive capabilities. This is observed in most banks as the LLR generally increased compared to that in the end of 2016. Banks with the highest LLR are ACB and VCB.

(2) Some banks increased provision for special bonds. In general, we think most banks can fully make provision for special bonds in early 2018, except BID. We estimate that the bank will complete its duty in early 2019 given its bad debt recovery rate from 3–5%.

Following 2015–2016, the operating expenses of listed banks have increased sharply, mainly due to staff and property expenses. Specifically, in H1 2017, the operating cost of listed banks was up by 23% YoY, in which staff costs increased by more than 27% YoY and property expenses increased by more than 30% YoY. This move is inevitable and expected, as banks are in the process of upgrading their core banking system and are investing in digital banking.

We expect that the bank's operating expense growth will slow down over the next few years, excluding BID. In the past few years, when its peers have focused on investing technology infrastructure to compete in the retail banking sector, BID had to focus on improving capital adequacy, liquidity, as well as managing bad debts. As these mentioned issues are gradually overcome, it will begin to focus on technology infrastructure and digital banking investment. Therefore, we believe its operating expenses will accelarate from 2018.

Figure 14: CIR, TOI and operating expense growth of nine listed banks



Source: RongViet Research compile

Applying Basel II on 10 pilot banks from 2019 and on remainders from 2020

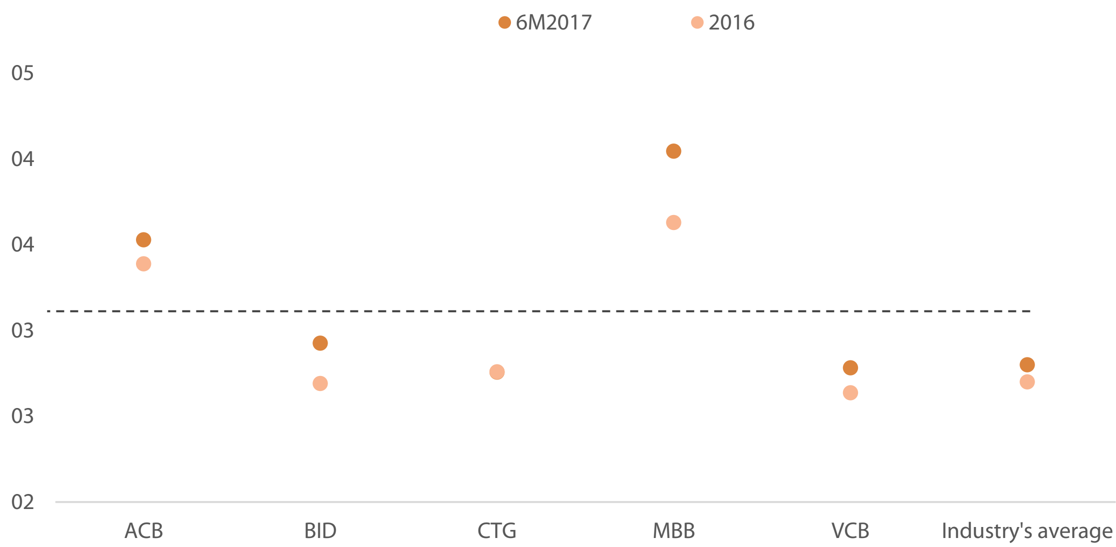
By the end of 2016, the SBV issued Circular 41 regulating the capital adequacy ratio for banks and foreign bank branches. Accordingly, 10 banks participating in piloting the Basel II must officially apply the capital adequacy ratio (CAR) regulation in accordance with Circular 41 (referred to as Basel II asymmetric) and by 2020 all the remaining banks must apply this Circular.

The capital adequacy ratio at the end of Q2 2017 slightly decreased compared to the end of 2016 due to strong credit growth. The trend of CAR has diversified between state-owned and joint–stock banks. Accordingly, CARs of JSCBs which will participate in the Basel II pilot program, including ACB, VPB, MBB, TCB, VIB, and Maritime, are at very high ratios. Therefore, these banks may not face many obstacles to the road map.

In contrast, CAR of VCB is approximately 10% while CARs of BID and CTG are lower than 10%. Thus, state-owned banks are under high pressure to raise capital to meet the above–mentioned road map. As a result, the growth potential as well as the dilution risk over the next 2–3 years will be relatively large in the state-owned banks.

- ✓ Given its good asset quality, a well–managed loan portfolio and high LLR, we think that the dilution pressure after the capital increase of VCB will not be too significant.
- ✓ After the news that BID has signed the memorandum with Hana Bank (Korean bank), investors have expected that Hana Bank will be BID’s strategic partner in the near future. If the deal is successful, it will have a positive impact on the BID’s operation such as significant improvement on Tier 1 capital, as well as management support from strategic partners.
- ✓ Among the three listed state-owned banks, CTG is unlikely to have a feasible plan to raise capital as the state ownership in CTG is around the required minimum ratio (~65%). The issuance to existing shareholders is not feasible as the policy provides that the state will not invest more in the banking sector. The current solutions for raising capital for CTG are (1) payment of stock dividends, which was discussed by the government in its regular meeting in early 2017 and (2) issuance of non-voting shares to ensure the dominance of the SBV. However, the issuance of non-voting shares has not yet been discussed and we are not optimistic that it will soon take place.
- ✓ In addition to making private placement and paying stock dividends, we find that banks are also restructuring their risky assets to increase their Tier 1 capital, as banks are required to exclude the amount of investment in other credit institutions and insurance companies from calculating Tier 1 capital. Typically, CTG divested from Aviva Insurance in H1 2017 and VCB divested from Saigonbank and CFC by the end 2017. VCB also has a plan to divest from OCB, MBB, and EIB in the late 2017 or early 2018. For VCB, we estimate that the bank's Tier 1 capital may increase by more than 12% after the divestment process.

Figure 15: CAR and ROE of some listed banks



Source: RongViet Research compiled and estimated

ACB JOINT STOCK COMMERCIAL BANK (HNX:ACB)

Strengthening Asset Quality

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– QoQ*	Q3–FY16	*+/– YoY*
Total operating income	2,535	2,775	–9%	1,851	37%
Profit before tax and provision	1,267	1,027	23%	608	108%
Profit before tax	742	667	11%	416	78%
NPAT	547	502	9%	334	64%

Source: ACB, RongViet Research

Strong income growth was driven by favorable business environment and reversal of provisions. Total operating income was VND7,986B (+58% YoY), of which interest income was VND6,075B (+19.4% YoY) and service income was VND850B (+28.6% YoY), contributing 76% and 11% of total operating income, respectively.

ACB's provision burden comes from (1) the six companies of Mr. Nguyen Duc Kien (Group 6) and (2) special bonds. ACB has been trying to handle these two problems. Provision expenses in 9M 2017 soared up, nearly tripling that of the same period last year, reaching approximately VND1,491B. In the meanwhile, since the bank made huge privisions for corporate bonds related to its legacy issues in 2016, and reversed over VND300B from Vinaline bonds in H1 2017, the provision expense related to legacy issues was actually lower than that of 9M 2016. Operating expenses increased sharply to VND4,491B (+28.7% YoY) due to provision expenses of other assets. Excluding these provisions, operating expense increased merely 10% YoY. PBT in 9M 2017 was VND2,004B (+61% YoY), fulfilling 89% of the annual target.

Growth drivers will be maintained in 2017 and 2018. ACB's liquidity and capital adequacy ratios are really good and higher than the SBV's requirements. Hence, the bank has large room to restructure its loan portfolio by increasing the proportion of higher interest rate loans. Thanks to that, we expect its NIM will continue to improve in 2017–2018. In addition, its room for credit growth in 2017 was lifted to 20%. For 2018, we expect credit growth to be around 18%.

For 2017, we forecast ACB will reach VND2,690B (+61.4% YoY), higher than the bank's target by 20%. NPAT and EPS will be VND2,152B (+62.4% YoY) and VND2,101, respectively.

Valuation and recommendation

The year 2017 marks a new chapter in ACB's operations as the bank nearly finished its burden on legacy issues arising from 2012 as well as its liabilities from making provision for special bonds. Given its strong earnings growth in 2017, ACB is also spurring provision expenses for on-balance sheet bad debts, resulting in high LLR. We also appreciate ACB due to its strategy to focus on its core business of retail banking. In addition, most of the collateral for legacy issues are stocks; the uptrend in the stock market could be a good point for ACB to collect these debts. Therefore, we expect that ACB will have large provision reversals related to these bad debts, resulting in high earnings growth for 2018.

We estimate that ACB's target price in the immediate -term will be around VND38,400 per share, equivalent to PBR forward 2018 at 2.0x, 26% higher than our target price updated on November Strategy Report. ACB pays stock dividends in recent year. Hence, total expected return is 13%, and we recommend NEUTRAL rating for ACB.

NEUTRAL

CMP (VND)	33,900
Target price (VND)	38,400
Cash dividend (VND)*	0

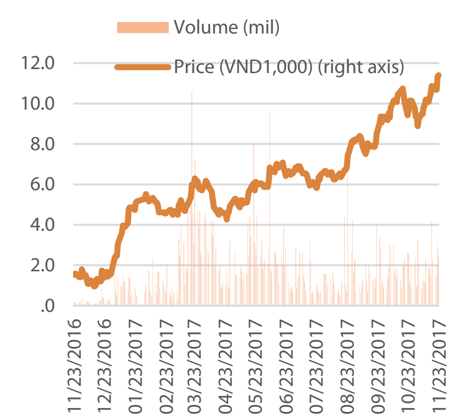
** Expected in the next 12 months*

Stock Info

Sector	Banking
Market cap (VND B)	33,422
Current shares O/S	985,901,281
Beta	0.77
Free float (%)	74.19
52 week high	33,900
52 week low	16,473
Avg. daily volume (20 sessions)	1,963,654

	FY2016	Current
EPS	1,293	1,882
EPS growth (%)	37.8	N/a
Diluted EPS	1,423	N/a
P/E	15.3	18.1
P/B	1.3	2.2
Cash dividend	0	0
ROE (%)	9.9	12.6

Price performance



Major shareholders (%)	
Standard Chartered Bank Limited	9.58
Standard Chartered APR Limited	8.77
Dragon Financial Holdings Limited	7.46
First Burns Investment Limited	4.38
Foreign ownership room (%)	0.0

Exhibit 1: Q3 2017 results

Particular (VND B)	**Q3-FY17**	**Q2-FY17**	*+/- (QoQ)*	**Q3-FY16**	*+/- (YoY)*
Interest and Similar Income	5,194	5,002	3.8%	4,143	25.4%
Interest and Similar Expenses	-3,046	-2,982	2.2%	-2,486	22.6%
Net Interest Income	2,147	2,020	6.3%	1,657	29.6%
Non-interest Incomes	388	755	-48.6%	194	99.9%
Net Fee and Commission Income	*309*	*293*	*5.4%*	*236*	*30.6%*
Net gain/(loss) from foreign currency and gold dealings	*54*	*59*	*-7.1%*	*52*	*5.2%*
Net gain/(loss) from trading of trad-ing securities	*-26*	*13*	*-298.1%*	*8*	*-443.2%*
Net gain/(loss) from disposal of in-vestment securities	*3*	*327*	*-99.2%*	*-140*	*-101.8%*
Net Other income/expenses	49	64	-23.8%	39	25.4%
Total operating income	2,535	2,775	-8.6%	1,851	37.0%
Operating expenses	-1,269	-1,748	-27.4%	-1,243	2.1%
Operating Profit Before Provision	1,267	1,027	23.4%	608	108.3%
Provision expenses	-525	-359	46.1%	-192	173.1%
Profit before tax	742	667	11.2%	416	78.4%
Corporate income tax	-195	-165	17.9%	-82	137.8%
NPAT	547	502	8.9%	334	63.8%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: ACB, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	**Q2-FY17**	**+/- (QoQ)**	**Q3-FY16**	**+/- (YoY)**
Growth (%)					
Customer loan	12.9	11.2	174 bps	19.2	-633 bps
Customer deposit	13.0	11.2	186 bps	15.1	-210 bps
Operating income	-8.6	3.7	-1234 bps	5.9	-1458 bps
Profit before tax and provision	23.4	-14.6	3800 bps	5.5	1788 bps
NPAT	8.9	5.0	396 bps	-5.4	1429 bps
Total assets	15.7	13.8	189 bps	13.6	205 bps
Equity	9.7	5.8	383 bps	7.3	234 bps
Profitability (%)					
NIM	3.8	3.5	25 bps	3.4	33 bps
Interest spread	4.2	3.7	50 bps	3.5	70 bps
ROAE	12.6	11.5	111 bps	8.8	375 bps
ROAA	0.7	0.7	6 bps	0.5	18 bps
Asset quality					
NPL (%)	1.0	1.1	-6 bps	1.1	-9 bps
Loan loss reserve (%)	151.0	130.9	2019 bps	100.4	5067 bps
Equity/Total assets (x)	5.7	5.6	11 bps	6.0	-29 bps

Source: ACB, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	**H2-FY17**	**+/- HoH**	**+/- YoY**
Net interest income	4,175	6%	16%
Total operating income	5,009	-8%	22%
Profit before tax and provision	2,141	-4%	27%
NPAT	1,172	20%	77%

Source: RongViet Research

Business updates

ACB's asset quality, capital adequacy, and liquidity ratios have improved significantly. By the end of Q3 2017, growth of customer credit and deposit was 12.9% YTD and 13.0% YTD, respectively. As a result, CAR and loan-to-deposit ratio (LDR) were maintained at an acceptable level compared to the requirements of Circular 36. By the end of Q2 2017, consolidated CAR was 12.7% and LDR was 75%.

NPL raitio was controlled at 1% while the bank increased provision expenses. As a result, LLR increased to 151%, just lower than that of VCB.

ACB may fully make provisions for special bonds in 2017. By the end of Q2 2017, outstanding loans of Group 6 was VND3,500B, in which the bank made VND3,000B provision. Regarding the special bonds, the net amount (after provision) was approximately VND883B. According to the bank's BOD, we learned that ACB will spur provision-making for these two issues to fulfill its obligation in 2017.

Major shareholder transactions. On October 17, Connaught Investor Ltd, a major shareholder holding 7.26% stake in ACB, transferred all shares to its subsidiaries, Asia Reach Investment Ltd (33.53 million shares, equivalent to 3.26% of ACB's charter capital) and to First Burn Investment Ltd (41.09 million shares, equivalent to 4% of ACB's charter capital).

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	14,082	16,448	20,671	24,383
Interest and similar expenses	-8,198	-9,556	-12,568	-14,863
Net interest income	**5,884**	**6,892**	**8,103**	**9,520**
Non-interest incomes	337	671	2,357	2,621
Net Fee and Commission Income	745	944	1,133	1,360
Net gain/(loss) from foreign currency and gold dealings	121	230	250	250
Net gain/(loss) from trading securities	15	72	66	66
Net gain/(loss) from disposal of investment securities	-808	-886	417	640
Net Other income/expenses	264	310	491	305
Total operating income	**6,220**	**7,563**	**10,460**	**12,141**
Operating expenses	-4,022	-4,678	-6,090	-6,677
Operating profit before provision	2,199	2,885	4,370	5,463
Provision expenses	**-884**	**-1,218**	**-1,679**	**-836**
Profit before tax	**1,314**	**1,667**	**2,690**	**4,627**
Corporate income tax	-286	-342	-538	-925
NPAT	**1,028**	**1,325**	**2,152**	**3,702**
Attributable to parent	**1,028**	**1,325**	**2,152**	**3,702**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	15.2	21.9	20.0	18.0
Customer deposit	13.1	18.4	20.0	16.0
Net interest incomes	23.5	17.1	17.6	17.5
Operating income	2.7	21.6	38.3	16.1
NPAT	8.0	28.9	62.4	72.0
Total Assets	12.2	16.0	19.9	16.9
Equity	3.1	10.0	18.7	22.2
Profitability				
NIM	3.4	3.5	3.5	
Interest spread	0.0	0.0	0.0	0.0
CIR	64.7	61.9	58.2	55.0
ROAE	8.2	9.9	14.0	20.0
ROAA	0.5	0.6	0.8	1.2
Assets Quality				
NPLs ratio	1.3	1.8	N/A	N/A
Bad debt coverage ratio	87.0	62.7	N/A	N/A
Equity-to-Assets ratio	6.3	6.0	6.0	6.2
Operating Safety Ratio				
Customer Loans-to-Total Assets	64.0	64.9	72.0	72.8
Customer Loans-to-Deposit ratio	80.8	81.1	80.0	81.4
CAR	12.8	13.2	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	2,806	3,541	3,218	6,184
Balances with the SBV	4,609	5,119	8,696	10,088
Loans to other CIs	10,122	8,152	8,152	10,598
Trading securities, net	100	1,183	504	504
Derivatives & financial assets	48	16	0	0
Loans and advances to customers, net	132,491	161,604	193,537	227,996
Investment securities	38,679	42,801	53,825	58,261
Investment in other entities and long term investments	208	190	190	190
Fixed assets	2,480	2,851	3,278	3,770
Investment properties	62	212	266	266
Other assets	9,852	8,010	8,411	9,672
TOTAL ASSETS	**201,457**	**233,681**	**280,078**	**327,529**
Due to Gov and borrowings from SBV	5,179	0	0	0
Deposits and borrowings from other credit institutions	2,433	2,235	3,666	4,765
Deposits from customers	174,919	207,051	248,462	288,215
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	162	123	137	137
Convertible bonds/CDs and other valuable papers issued	3,075	6,615	7,164	9,664
Other liabilities	2,901	3,594	3,953	4,349
Total liabilities	**188,669**	**219,618**	**263,381**	**307,130**
Shareholder's equity	**12,788**	**14,063**	**16,697**	**20,399**
Capital	8,711	8,711	9,193	9,193
Reserves	2,374	2,590	2,941	3,544
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained earnings	1,702	2,761	4,563	7,662
Minority interest	0	0	0	0
LIABILITIES & SHAREHOLDER'S EQUITY	**201,457**	**233,681**	**280,078**	**327,529**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest incomes	**14,082**	**16,448**	**20,671**	**24,383**
From customers	10,731	13,550	16,664	19,815
From other Cis	271	181	224	258
From fixed-income investment	2,636	2,411	3,575	4,102
From other activities	444	306	207	207
Interest expenses	**-8,198**	**-9,556**	**-12,568**	**-14,863**
To customers	-7,471	-8,794	-12,041	-14,186
To other CIs	-92	-130	-145	-186
To fixed-income investment	-380	-536	-382	-491
To other activities	-255	-96	0	0
Operating expenses	**-4,022**	**-4,678**	**-6,090**	**-6,677**
Provision expenses	**-884**	**-1,218**	**-1,679**	**-836**

VIETNAM INVESTMENT & DEVELOPMENT JSCB (HSX:BID)

Thirsty for Capital Raising

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

Sources: BID, RongViet Research

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

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

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

Valuation and recommendation

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

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

MONITOR

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

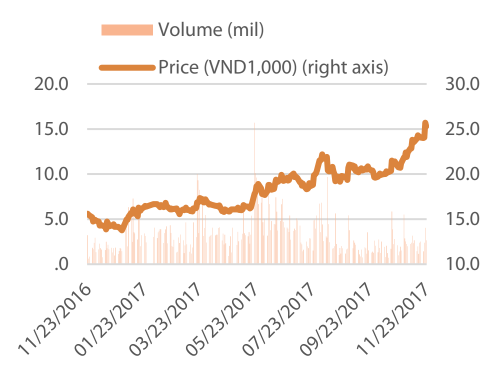
** Expected in the next 12 months*

Stock info

Sector	Banking
Market cap (VND B)	87,861
Current shares o/s	3,418,715,334
Beta	0
Free float (%)	4.72
52 week high	25,700
52 week low	13,760
Avg. Daily volume (20 sessions)	2,324,694

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

Price performance



Major shareholders (%)

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

Exhibit 1: Q3 2017 results

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

Source: BID, rongviet Research

Exhibit 2: 3QFY2017 performance analysis

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

Source: BID, RongViet Research

Exhibit 3: H2 2017 forecast

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

Source: RongViet Research

Business updates

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

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

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

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

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

VND B

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

%

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

VND B

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

VND B

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

VIETNAM JSCB FOR INDUSTRY AND TRADE (HSX:CTG)

Service Activities Not to Yield Satisfactory Results

Particular (VND B)	Q3–FY17	Q2–FY17	*+/– QoQ*	Q3–FY16	*+/– YoY*
Total operating income	7,607	8,608	–12%	7,227	5%
Profit before tax and provision	4,238	5,048	–16%	4,181	1%
Profit before tax	2,419	2,270	7%	2,212	9%
NPAT	1,950	1,873	4%	1,775	10%

Source: CTG, RongViet Research

Contribution from interest income was still high. Total operating income in 9M 2017 was VND23,928B (+18.7% YoY), in which, interest income increased by 15.8% YoY and accounted for 83% of total income. Meanwhile, service income increased merely 7% YoY to VND1,283B. Compared to its peers, the growth and contribution of CTG's service activities were rather modest and disappointing as CTG has shifted its operating model and upgraded its IT system in order to pursue retail banking model quite soon.

In 9M 2017, CTG recorded some extraordinary earnings, thanks to its divestment from Aviva Assurance and large reversal of provisions. Provision expenses sharply increased approximately 44% to VND6,663B. We estimated that more than 50% of provision expenses were made for special bonds. Resulting 9M 2017 PBT was VND7,232B (+11.5%), fulfilling 82% the year target.

CTG may prioritize to make provisions for special bonds in 2017. Its room for credit growth in 2017 is revised up to 18%. However, given its fast loans growth in 9M 2017, we forecast its full–year growth at 19%. Deposits from the State Treasury increased sharply in 2017 and partly eased the pressure on customer deposits. Hence, we estimated that its customer deposits growth will be around 14%. As NIM is still in the downtrend, we forecast its interest income to be VND27,212B (+21.5% YoY), contributing 85% to its TOI. Net operating income (before provisions) will be at VND17,134B (+26.4% YoY).

In addition, as CTG may prioritize making provisions for special bonds in 2017, provision expenses will increase over 45% to VND7,288B. Forecasted PBT is VND9,846B (+15.4% YoY), higher than the yearly target.

Valuation and recommendation

CTG's 9M 2017 earnings grew modestly compared to that of the same period in 2016. The positive point was that its liquidity ratios improved significantly over the same period in 2016, LDR and short-term capital financing mid- and long-term loan ratios are brought back to safety ratios. In addition, the bank also actively made provisions, especially for special bonds. Meanwhile, increasing Tier 1 capital is its the most urgent issue. As the time to apply Basel II is coming, we expect that the bank will soon have a solution for capital raising in 2018. If state-owned banks are allowed to pay stock dividends, it could help CTG partially solve the problem.

CTG's reorganizing plan in operation model has not delivered positive results yet. In addition, due to the lack of information discussing with the bank's BOD, investors have been quite conservative with CTG. Thus, we discounted 25% of the listed banks' average PBR (excluding VCB) to apply for CTG. We estimate that CTG's target price in the immediate-term will be around VND27.000 per share, equivalent to PBR forward 2018 at 1.3x, 27% higher than our target price updated on November Strategy Report. CTG plans to pay VND700 per share cash dividend for 2017. Hence, total expected return is 22%, and we recommend BUY rating for CTG.

BUY

CMP (VND)	22,650
Target price (VND)	27,000
Cash dividend (VND)	700

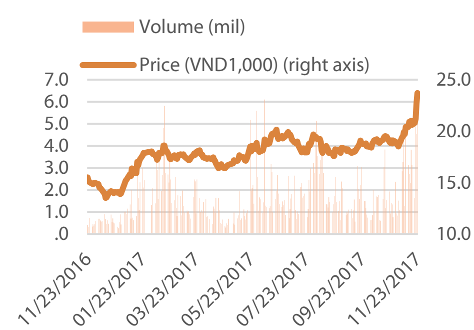
** Expected in the next 12 months*

Stock info

Sector	Banking
Market cap (VND B)	84,335
Current shares o/s	3,723,404,556
Beta	0.96
Free float (%)	10.42
52 week high	23,800
52 week low	13,541
Avg. Daily volume (20 sessions)	2,530,068

	FY2016	Current
EPS	1,457	2,008
EPS growth	19.0	N/a
Diluted EPS	1,457	N/a
P/E	11.7	11.9
P/B	1.0	1.4
Cash dividend	700	700
ROE	11.5	12.3

Price performance



Major shareholders (%)

State Bank of Vietnam	64.46
The Bank of Tokyo–Mitsubishi UFJ	19.73
IFC L.P	5.39
International Finance Corporation	2.63
Foreign ownership room (%)	0.0

Exhibit 1: Q3 2017 results

Particular (VND B)	**Q3-FY17**	**Q2-FY17**	***+/- (QoQ)***	**Q3-FY16**	***+/- (YoY)***
Interest and similar income	16,218	16,682	-2.8%	13,940	16.3%
Interest and similar expenses	-9,786	-9,363	4.5%	-8,001	22.3%
Net interest income	6,432	7,319	-12.1%	5,939	8.3%
Non-interest incomes	1,175	1,289	-8.9%	1,288	-8.8%
Net fee and commission income	*374*	*397*	*-5.8%*	*394*	*-5.0%*
Net gain/(loss) from foreign currency and gold dealings	*164*	*86*	*91.7%*	*131*	*25.3%*
Net gain/(loss) from trading of trading securities	*138*	*65*	*112.7%*	*41*	*237.4%*
Net gain/(loss) from disposal of investment securities	*-152*	*71*	*-312.1%*	*-1*	*10801.4%*
Net other income/expenses	650	670	-3.0%	724	-10.2%
Total operating income	7,607	8,608	-11.6%	7,227	5.3%
Operating expenses	-3,369	-3,560	-5.4%	-3,047	10.6%
Operating profit before provision	4,238	5,048	-16.0%	4,181	1.4%
Provision expenses	-1,820	-2,779	-34.5%	-1,968	-7.6%
Profit before tax	2,419	2,270	6.6%	2,212	9.3%
Corporate income tax	-467	-388	20.4%	-433	7.8%
NPAT	1,952	1,882	3.7%	1,779	9.7%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: CTG, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	**Q2-FY17**	**+/- (QoQ)**	**Q3-FY16**	**+/- (YoY)**
Growth (%)					
Customer loan	15.3	10.3	500 bps	16.2	-95 bps
Customer deposit	10.8	5.9	491 bps	26.9	-1609 bps
Operating income	-11.6	11.5	-2309 bps	12.1	-2372 bps
Profit before tax and provision	-16.0	9.5	-2559 bps	21.7	-3772 bps
NPAT	4.1	-7.8	1196 bps	19.3	-1512 bps
Total assets	12.0	9.2	281 bps	15.6	-358 bps
Equity	-0.7	-3.8	313 bps	9.3	-996 bps
Profitability (%)					
NIM	2.7	2.8	-7 bps	2.9	-23 bps
Interest spread	2.1	2.2	-8 bps	2.6	-50 bps
ROAE	12.3	12.1	23 bps	11.0	128 bps
ROAA	0.7	0.8	-1 bps	0.8	-3 bps
Asset quality					
NPL (%)	1.2	1.2	4 bps	0.9	35 bps
Loan loss reserve (%)	100.7	94.9	580 bps	128.2	-2748 bps
Equity/total assets (x)	5.9	5.8	4 bps	6.8	-91 bps

Source: CTG, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	**H2-FY17**	**+/- HoH**	**+/- YoY**
Net interest income	13,728	2%	23%
Total operating income	15,695	-4%	16%
Profit before tax and provision	7,477	-23%	19%
NPAT	3,140	-20%	-8%

Source: RongViet Research

Information update

NIM is still in a downtrend. Customer credit and deposit growth rates were 15.3% and 10.8% YTD in 9M 2017, respectively. Compared to customer deposits growth of 26.9% YTD in 9M 2016, the growth in 2017 has slowed down sharply. This is explained by two reasons: (1) LDR was brought back below the 90% threshold under Circular 36 requirement and (2) slower growth of customer deposits is offset by deposits from the State Treasury (+5.4x YTD) and borrowing from other CIs (+33% YTD). Nonetheless, the cost of capital continued to increase while asset yield dropped slightly, causing NIM to decrease by 20bps to 2.7%.

Provisions were aggressively made for special bonds. Provision expenses in 9M 2017 was VND6,663B (+34% YoY), in which, we estimated that the provisions made for special bonds accounted for 50%. In addition, for the first two quarters, we estimated that CTG would have collected more than VND700B bad debt sold to VAMC. Thus, assuming that CTG makes VND1,000B provision for special bonds and collects about VND600B in H2 2017, we think that CTG would have nearly fulfilled its obligation of making provisions for special bonds. We expect that the bank could fulfill its obligation with special bonds in the first half of 2018.

Singapore listed bonds have matured and are scheduled to issue new bonds. After the maturity of its international bond listed in Singapore exchange in May 2017, CTG has announced to issue VND4,200B domestic bonds. The bond term is 10 years and the bank is entitled to repurchase it after 5 years.

	Volume	**Par value (VND1M/bond)**	**Total value** (VND B)
Session 1: 09–10 2017	200,000	10	2,000
Session 2: 11 2017	220,000	10	2,200

Exhibit 4: Plan on the use of mobilized capital from issuance of bonds

	Session 1		**Session 2**
Electricity	500	Water	370
Coffee	210	Cement	100
Rubber	46	Wood	32
Textile	30	Sugar cane	20
Steel	773	Steel	572
Animal feed	40	Medical	59
Transportation and storage	105	Transportation	1,047
Building materials	171		
Chemical production	25		
Food	100		
Total	**2,000**	**Total**	**2,200**

Source: Bond issue prospectus

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and Similar Income	42,472	52,991	63,787	72,422
Interest and Similar Expenses	-23,633	-30,586	-36,574	-41,965
Net Interest Income	**18,839**	**22,405**	**27,212**	**30,457**
Non-interest Incomes	3,905	4,049	4,814	4,748
Net fee and commission income	1,460	1,687	1,822	2,096
Net gain/(loss) from foreign currency and gold dealings	20	685	696	691
Net gain/(loss) from trading securities	129	184	316	205
Net gain/(loss) from disposal of investment securities	53	41	-98	-1
Net Other income/expenses	2,243	1,451	2,078	1,757
Total operating income	**22,744**	**26,454**	**32,026**	**35,205**
Operating expenses	-10,719	-12,902	-14,892	-16,370
Operating profit before provision	12,024	13,552	17,134	18,835
Provision expenses	**-4,679**	**-5,022**	**-8,140**	**-6,597**
Profit before tax	**7,345**	**8,530**	**8,994**	**12,238**
Corporate income tax	-1,629	-1,705	-1,911	-2,448
NPAT	**5,717**	**6,825**	**7,084**	**9,750**
Attributable to parent	**5,698**	**6,805**	**7,044**	**9,750**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	22.5	23.0	19.0	15.0
Customer deposit	16.2	32.8	14.0	15.0
Net interest incomes	7.2	18.9	21.5	11.9
Operating income	8.1	16.3	21.1	9.9
NPAT	-0.5	19.4	3.5	38.4
Total Assets	17.9	21.7	17.7	13.4
Equity	1.1	12.3	7.1	10.6
Profitability				
NIM	2.9	2.9	2.8	
Interest spread	0.0	0.0	0.0	0.0
CIR	47.1	48.8	46.5	46.5
ROAE	10.3	11.5	10.8	13.8
ROAA	0.8	0.8	0.7	0.8
Assets Quality				
NPLs ratio	0.9	1.0	N/A	N/A
Bad debt coverage ratio	92.1	101.8	N/A	N/A
Equity-to-Assets ratio	7.2	6.6	6.0	5.9
Operating Safety Ratio				
Customer loans-to-total assets	64.0	64.9	79.7	80.5
Customer loans-to-deposit ratio	80.8	101.4	101.9	102.1
CAR	10.6	10.4	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	5,091	5,187	7,150	12,191
Balances with the SBV	11,893	13,503	17,999	20,699
Loans to other CIs	66,019	94,469	113,363	130,368
Trading securities, net	3,346	1,895	9,416	10,318
Derivatives & financial assets	0	683	412	412
Loans and advances to customers, net	533,530	655,126	776,827	889,394
Investment securities	120,024	134,227	140,584	146,119
Investment in other entities and long term investments	3,892	3,204	3,204	3,204
Fixed assets	8,666	10,615	12,208	14,039
Investment properties	0	0	0	0
Other assets	27,022	29,791	35,750	39,325
TOTAL ASSETS	**779,483**	**948,699**	**1,116,912**	**1,266,066**
Due to Gov and borrowings from SBV	13,227	4,808	26,446	13,223
Deposits and borrowings from other credit institutions	99,169	85,152	127,728	140,501
Deposits from customers	492,960	654,423	746,042	857,948
Derivatives and other financial liabilities	118	0	0	0
Funds received from Gov, international and other institutions	54,237	6,713	6,713	8,727
Convertible bonds/CDs and other valuable papers issued	20,861	23,849	26,234	31,481
Other liabilities	42,802	110,782	116,321	139,585
Total liabilities	**723,373**	**885,727**	**1,049,484**	**1,191,465**
Shareholder's equity	**55,868**	**62,712**	**67,149**	**74,293**
Capital	46,209	46,209	46,209	46,209
Reserves	5,275	6,362	7,487	9,043
Foreign currency difference reserve	442	479	479	479
Difference upon assets revaluation	0	0	0	0
Retained Earnings	3,942	9,663	12,975	18,562
Minority interest	242	260	279	308
LIABILITIES & SHAREHOLDER'S EQUITY	**850,670**	**1,006,404**	**1,159,174**	**1,335,463**

VND B

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

MILLITARY COMMERCIAL JSB (HSX:MBB)

To Solve Growth Problems With Non-Traditional Banking Activities

Particular (VND B)	Q3-FY17	Q2-FY17	*+/- QoQ*	Q3-FY16	*+/- YoY*
Total operating income	3,632	3,479	4%	2,548	43%
PBT and provision	2,092	2,155	-3%	1,472	42%
Profit before tax	1,478	1,412	5%	926	60%
NPAT	1,195	1,075	11%	757	58%

Source: MBB, RongViet Research

Earnings results of 9M 2017 soared up with strong growth of income from interest and service. Total operating income was VND10,012B (+47.2% YoY), in which interest income accounted for 79.6% and service income accounted for 10.3%, compared to 83.8% and 6.8% in 2016, respectively. Non-interest and non-service incomes also grew significantly in 9M 2017.

Operating costs and provision expenses grew 41% YoY and 71% YoY, respectively. Therefore, PBT growth was 43.5% to VND4,002B, fulfilling more than 88% of the yearly target.

MBB will prioritize making provision for special bonds. In 2017, MBB's room for credit growth was lifted to 20%. However, given the strong credit growth in 9M 2017, we estimated MBB's credit growth to be 22% YoY, and deposit growth to be 9% YoY in 2017. Total operating income will be VND12,713B (+29% YoY). At the same time, as the bank has been expanding its business activities (to insurance and consumer finance fields), we expect operating expenses to grow 28% YoY with corresponding CIR of 42%. In addition, MBB could prioritize making provisions for special bonds in 2017. In the base case, we forecast MBB's provision expense will be VND2,127B (+4.8% YoY), of which about 57% will be made for special bonds.

We forecast 2017 PBT at VND5,246B (+43.7% YoY), 16% higher than the yearly target. NPAT and EPS in 2017 will be VND1,194B (+44% YoY) and VND1,121, respectively.

Valuation and recommendation

The combination of many factors, (1) good asset quality and high capital adequacy that helped credit activity accelerate in addition to the favorable environment and (2) the drastic measures to push service income growth (securities and insurance), helped MBB record impressive business results in 9M 2017.

Capital adequacy ratio (CAR) reached approximately 11% at the end of Q2 2017, relatively high compared to the requirement ratio under Circular 36. Therefore, MBB may not be under high pressure on capital raising to ensure its ratio according to Basel II. In addition, following the expansion to non-traditional banking activities as mentioned, it is likely that the growth concern for MBB has been resolved. However, MBB's launching of its new businesses poses a higher risk than its current business while the macro picture is very favorable. Therefore, we are cautious on its ability to drive faster earnings growth with the same asset quality in the long term.

We estimate that MBB's target price in the immediate term will be around VND28,700 per share, equivalent to PBR forward 2018 at 1.54x, 7.5% higher than our target price updated on November Strategy Report. It plans to pay VND500 per share cash dividends for 2017. Hence, total expected return is 21%, and we recommend BUY rating for MBB.

BUY

CMP (VND)	24,200
Target price (VND)	28,700
Cash dividend (VND)	500

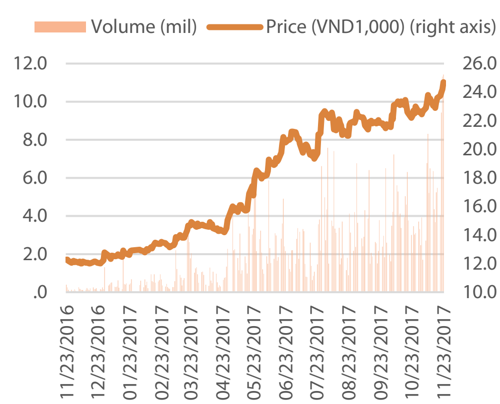
** Expected in the next 12 months*

Stock info

Sector	Banking
Market cap (VND B)	43,935
Current shares o/s	1,815,505,363
Beta	0.94
Free float (%)	55.65
52 week high	24,800
52 week low	12,067
Avg. Daily volume (20 sessions)	5,006,400

	FY2016	Current
EPS	1,706	2,141
EPS growth (%)	–4.5	N/a
Diluted EPS	786	N/a
P/E	7.9	11.5
P/B	0.9	1.6
Cash dividend	500	500
ROE (%)	12.1	14.1

Price performance



Major shareholders (%)	
Viettel	16.58
SCIC	11.05
Vietnam Helicopter	8.81
Saigon New Port	7.91
Foreign ownership room (%)	0.0

Exhibit 1: Q3 2017 results

Particular	Q3-FY17	Q2-FY17	*+/- (qoq)*	Q3-FY16	*+/- (yoy)*
Interest and similar income	5,097	4,804	6.1%	4,091	24.6%
Interest and similar expenses	-2,262	-2,072	9.2%	-2,020	12.0%
Net interest income	2,835	2,732	3.8%	2,071	36.9%
Non-interest incomes	797	747	6.7%	477	67.1%
Net fee and commission income	*375*	*428*	*-12.5%*	*180*	*108.3%*
Net gain/(loss) from foreign currency and gold dealings	*82*	*24*	*248.0%*	*14*	*477.5%*
Net gain/(loss) from trading of trad-ing securities	*0*	*40*	*-100.0%*	*145*	*-100.0%*
Net gain/(loss) from disposal of in-vestment securities	*43*	*0*	*N/A*	*0*	*N/A*
Net other income/expenses	297	254	16.8%	138	115.6%
Total operating income	3,632	3,479	4.4%	2,548	42.5%
Operating expenses	-1,540	-1,324	16.3%	-1,076	43.1%
Operating profit before provision	2,092	2,155	-2.9%	1,472	42.1%
Provision expenses	-614	-743	-17.3%	-546	12.6%
Profit before tax	1,478	1,412	4.6%	926	59.5%
Corporate income tax	-283	-304	-7.0%	-192	47.8%
NPAT	1,195	1,108	7.8%	735	62.6%
Attributable to parent	5,194	5,194	0.0%	5,194	0.0%

Source: MBB, rongviet Research

Exhibit 2: 3QFY2017 performance analysis

	Q3-FY17	Q2-FY17	+/- (QoQ)	Q3-FY16	+/- (YoY)
Growth (%)					
Customer loan	16.9	14.6	237 bps	20.0	-305 bps
Customer deposit	8.6	4.4	424 bps	2.9	573 bps
Operating income	4.4	19.9	-1548 bps	15.3	-1090 bps
Profit before tax and provision	-2.9	27.4	-3035 bps	11.3	-1422 bps
NPAT	11.2	20.8	-965 bps	-5.3	1643 bps
Total assets	13.9	7.8	613 bps	8.5	543 bps
Equity	12.3	7.7	455 bps	9.3	299 bps
Profitability (%)					
NIM	4.4	4.0	34 bps	3.6	76 bps
Interest spread	4.3	3.8	49 bps	3.4	85 bps
ROAE	14.1	12.9	119 bps	11.6	250 bps
ROAA	1.4	1.3	10 bps	1.2	21 bps
Asset quality					
NPL (%)	1.3	1.3	5 bps	1.3	-1 bps
Loan loss reserve (%)	87.0	102.9	-1595 bps	116.9	-2994 bps
Equity/Total assets (x)	9.7	9.9	-14 bps	10.3	-55 bps

Source: MBB, RongViet Research

Exhibit 3: H2 2017 forecast

Particular (VND B)	H2-FY17	+/- HoH	+/- YoY
Net interest income	5,227	2%	20%
Total operating income	6,333	-1%	13%
Profit before tax and provision	3,527	-8%	9%
NPAT	2,230	14%	66%

Source: RongViet Research

Business updates

MBB has its third consecutive year of credit growth higher than deposit growth. In the first six months of 2017, credit growth and deposit growth were 14.6% and 4.4%, respectively, in which, credit growth for SMEs was 11.8% YTD and credit growth for individuals was 16% YTD, accounting for 48.8% and 30.6% of total outstanding loans, respectively. By restructuring the loan portfolio to higher interest loans, NIM increased slightly to 3.7%. Net interest income reached VND5,139B (+42% YoY) and accounted for 81% of total operating income.

NIM of MBB improved significantly in 9M 2017 due to restructuring of loan portfolio to higher interest loans. In addition, credit growth was 16.9% YTD, nearly doubling the growth of deposits (8.6% YTD) in 9M 2017. As a result, net interest income grew approximately 40% YoY, reaching VND7,974B in 9M 2017. Service income was VND1,036B (+126% YoY) with strong growth in most segments. In particular, income from securities grew 42% YoY, payment service income grew 72% and other income grew 42% YoY. These activities contributed over 72% to the total service income of MBB. In addition, after increasing shares of MIC at the end of 2016, MBB started to record revenue from insurance services, which accounted for 26% service income.

Recovery of bad debts sold to VAMC improved. The amount of Special Bonds at the end of Q2 2017 was VND1,971B, which decreased about 42% compared to 2017. In H1 2017, the provision for Special Bonds was VND600B and the remaining amount was about VND1,044B. Under the assumption that MBB could recover bad debts of around VND1,500B and will not sell bad debts to VAMC, we forecast that MBB could buy back all the bad debts sold to VAMC in early 2018. Its debt recovery schedule looks better than expected; MBB could fulfill its obligations in 2017.

	2013	2014	2015	2016	H12017	2017E	2018F
Par value of SB	987	3,276	4,048	3,405	1,971	1,905	1,905
Provisions for SB	0	-129	-642	-1,248	-928	-1,530	-1,905
Provisions made per year	0	-129	-512	-1,001	-602	-1,204	-375

Foreign strategic partners (issuing 10% shares). MBB is still in the process of finding strategic partners and is unlikely to accomplish this within this year. It is looking for foreign strategic partners which could provide support in terms of management and technology, rather than capital pressure.

Launching of MB Shinsei Financial Limited Company on November 2nd. MB Shinsei, under the brand name MCredit, is a joint venture between MBB and Shinsei Bank (Japan), in which MBB holds 50% stake. With the advantage of the two major shareholders, MCredit is focused on developing two main groups of loans: installment loans and cash loans.

Payment of share dividends (5%) and ESOP (1% at the price of VND10,000 per share) in Q4 2017. After payment of stock dividends, total outstanding shares of MBB would be over 1.815 billion shares. In particular, 5% of shares issued to pay dividends was traded from November 10, the amount of ESOP shares has a limited time to transfer of 2 years.

VND B

INCOME STATEMENT	2015A	2016A	2017E	2018F
Interest and similar income	13,538	15,552	18,644	21,927
Interest and similar expenses	-6,219	-7,574	-8,279	-9,275
Net Interest Income	**7,319**	**7,979**	**10,365**	**12,652**
Non-interest Incomes	1,453	1,876	2,348	2,357
Net fee and commission income	544	683	1,229	1,475
Net gain/(loss) from foreign currency and gold dealings	159	113	108	0
Net gain/(loss) from trading securities	0	0	123	0
Net gain/(loss) from disposal of investment securities	134	101	118	118
Net other income/expenses	616	979	770	764
Total operating income	**8,772**	**9,855**	**12,713**	**15,008**
Operating expenses	-3,449	-4,175	-5,339	-6,303
Operating profit before provision	5,323	5,681	7,373	8,705
Provision expenses	**-2,102**	**-2,030**	**-2,127**	**-1,428**
Profit before tax	**3,221**	**3,651**	**5,246**	**7,276**
Corporate income tax	-709	-767	-1,122	-1,455
NPAT	**2,512**	**2,884**	**4,124**	**5,891**
Attributable to parent	**2,496**	**2,912**	**4,194**	**5,891**

%

FINANCIAL RATIO	2015A	2016A	2017E	2018F
Growth				
Customer loans	21.7	24.2	22.0	18.0
Customer deposit	8.3	7.3	9.0	10.0
Net interest incomes	11.9	9.0	29.9	22.1
Operating income	5.6	12.4	29.0	18.1
NPAT	-0.3	16.7	44.1	40.5
Total Assets	10.3	15.9	18.2	12.4
Equity	36.4	12.2	13.8	17.3
Profitability				
NIM	4.0	3.6	4.2	
Interest spread	0.0	0.0	0.0	0.0
CIR	39.3	42.4	42.0	42.0
ROAE	12.7	12.1	15.5	18.8
ROAA	1.2	1.2	1.5	1.8
Assets Quality				
NPLs ratio	1.6	1.3	N/A	N/A
Bad debt coverage ratio	101.4	103.2	N/A	N/A
Equity-to-assets ratio	10.2	9.9	9.5	9.9
Operating Safety Ratio				
Customer loans-to-total assets	64.0	64.9	69.5	72.0
Customer loans-to-deposit ratio	80.8	80.0	80.4	83.6
CAR	12.9	12.5	0.0	0.0

VND B

BALANCE SHEET	2015A	2016A	2017E	2018F
Cash and precious metals	1,236	1,520	3,165	2,500
Balances with the SBV	8,182	10,002	10,617	11,679
Loans to other CIs	28,659	26,953	29,648	32,020
Trading securities, net	3,469	926	880	880
Derivatives & financial assets	96	53	53	53
Loans and advances to customers, net	119,372	148,687	180,854	212,830
Investment securities	46,760	53,286	60,708	62,142
Investment in other entities and long term investments	1,606	842	842	1,011
Fixed assets	1,932	2,458	2,827	3,250
Investment properties	298	149	149	149
Other assets	9,431	11,381	13,088	13,743
TOTAL ASSETS	**221,042**	**256,259**	**302,832**	**340,257**
Due to Gov and borrowings from SBV	1,412	0	0	0
Deposits and borrowings from other credit institutions	7,509	24,713	49,426	59,311
Deposits from customers	181,565	194,812	212,346	233,580
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	318	258	271	298
Convertible bonds/CDs and other valuable papers issued	2,450	2,367	2,249	2,473
Other liabilities	4,605	7,520	8,272	9,099
Total liabilities	**197,859**	**229,670**	**272,563**	**304,762**
Shareholder's equity	**22,593**	**25,352**	**28,861**	**33,845**
Capital	16,719	17,956	18,983	18,983
Reserves	2,242	2,697	3,353	4,274
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained Earnings	3,633	4,699	6,525	10,588
Minority interest	590	1,237	1,408	1,651
LIABILITIES & SHAREHOLDER'S EQUITY	**221,042**	**256,259**	**302,832**	**340,257**

VND B

FOOTNOTES	2015A	2016A	2017E	2018F
Interest Incomes	**49,005**	**62,600**	**77,808**	**90,423**
From customers	39,136	51,120	66,234	77,439
From other Cis	1,346	1,413	1,701	2,211
From fixed-income investment	7,022	8,494	9,873	10,772
From other activities	1,501	1,573	0	0
Interest Expenses	**-29,690**	**-39,166**	**-46,615**	**-56,453**
To customers	-23,845	-32,214	-41,604	-51,538
To other Cis	-92	-3,611	-3,278	-3,759
To fixed-income investment	-2,208	-3,440	-1,252	-1,510
To other activities	-27	-235	0	0
Operating expenses	**-11,087**	**-13,527**	**-15,060**	**-17,642**
Provision expenses	**-5,676**	**-9,199**	**-14,509**	**-13,992**

JSCB FOR FOREIGN TRADE OF VIETNAM (HSX:VCB)

Reinforced Asset and Earnings Quality

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

Sources: VCB, RongViet Research

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

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

Valuation and recommendation

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

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

NEUTRAL

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

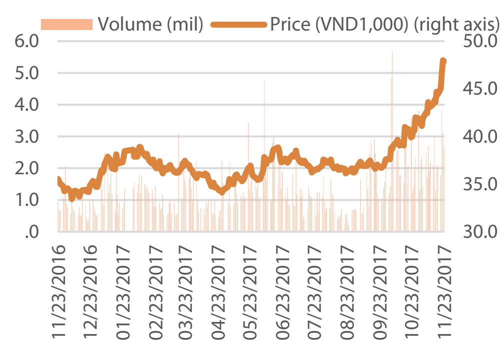
** Expected in the next 12 months*

Stock info

Sector	Banking
Market cap (VND B)	172,693
Current shares o/s	3,597,768,575
Beta	0.83
Free float (%)	7.89
52 week high	48,000
52 week low	33,425
Avg. Daily volume (20 sessions)	2,263,910

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

Price performance



Major Shareholders (%)

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

Exhibit 1: Q3 2017 results

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

Source: VCB, RongViet Research

Exhibit 2: 3QFY2017 performance analysis

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

Source: VCB, RongViet Research

Exhibit 3: H2 2017 forecast

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

Source: RongViet Research

Business updates

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

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

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

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

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

RONGVIET SECURITIES

VND B

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

%

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

VND B

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

VND B

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

SECTOR RESULT UPDATE

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

RATING GUIDANCE

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

ABOUT US

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

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

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