



**VNDIRECT**

WISDOM TO SUCCESS

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# Bank Stocks - Updates

June 2016

- **Reasons for recommendation:**
  - ✓ Clear legal framework for clearing bad debts of the banking sector
  - ✓ Credit grows 6.53% in the first 5 months of 2017 (Q1 credit grew 2.81% which means credit grew **almost 4% in Apr and May**) The Government are pushing credit growth and investment in order to reach GDP growth rate 6.7% by the end of 2017.
  - ✓ **Increase target credit growth to more than 18%** (Prime Minister recently insisted SBV to meet the target)
- **Our picks:** VCB, ACB, BID, MBB, CTG
- **Strategy:** previously, we recommended buy & hold and then sell when stocks reached its last peak price. This time, we expect stocks will overtake the last peak price and set the new higher price range thanks to better performance of the banking sector

**Recommendation: BUY**

**Target price: 42**

## Why recommended

- Industry leading stocks benefit first from policies
- NIM continue to improve
- Double digits growth on profit, cash dividend

## Trade strategy

- Target price: VND42,000/share. Upside: 9 -12%
- Hold period 1-3 months.



**High quality assets, low provision cost:** VCB has the best quality assets with bad debt only at 1.5% (about VND7,350 billion), which includes 129% provision for bad debts. **VCB is also the first bank to clear bad debts sold to VAMC.** For such reasons, we believe VCB will reduce provision from 1.5-1.8% (during 2011-2016) down to 1.1-1.2% during 2017-2019. This allows VCB to maintain its strong growth while ensuring coverage for provision.

**Strong growth from all source of income:** Q1/2017, total income increased 22% yoy: (1) net interest income increased 16% thanks to 21% credit growth and stable NIM at 2.79%, (2) non-interest income increased 22% thanks to 20% increased in service fees and 14% increased in forex, and strong growth from investing activity (dividend from MBB) and other incomes. VCB is highly expected to maintain credit growth at 16% in 2017. **Expected net income growth would be 18-20% during 2017-2019.**

**Recommendation: BUY**

**Target price: 22**

## Why recommended

- The most improved NIM among the listed banks
- Potential growth from non-credit sector
- Double digit growth on profit, cash dividend

## Trade strategy

- Target price: VND22,000/share.  
Upside: 15%
- Hold period 1-3 months.



- **Impressive performance in Q1/2017:** net interest income increased 36%, forex increased 20%. NIM significantly improved from 3.58% to 3.71% in the first quarter that, in turn, increased net income by 26%, and met 25% net income plan of the year. Stable assets with bad debt rate at 1.33% and provision at 101%, about the same as in 2016.
- **Significantly improve asset quality:** MBB had been actively reducing bad debts in the last 3 years that helped improve asset quality (NPL is at 1.32%, provision/bad debts at 10.2%). MBB expected to clear bad debts (VND1,700 billion) in 2018.
- **One of the most NIM improved banks** (1) with the highest demand deposits/total deposit in the industry (34% in 2016), MBB has great advantage in cost of capital (3.6% compared to 3.8% industry average), (2) MBB focus on consumer lending sector which offers higher margin.
- **Potential growth from non-credit sector:** focus on providing full package financial solutions: investment, insurance, asset management, which optimize income sources from services and investment.



# ACB – Strong profit growth resulted from clearing bad debts

**Recommendation: BUY**

**Target price: 30**

## Why recommended

- Positive business performance
- Actively reduce bad debts, expected abnormal profits from bad debts recovering
- Expect to recover its position from before financial crisis with P/B 1.8x

## Trade strategy

- Target price: VND30,000/share.
- Upside: 20%
- Hold period 1-3 months.



- **Strong growth in core businesses:** Net profit in Q1/2017 increased 54% yoy thanks to strong growth in core businesses: (1) net interest income increased 21% thanks to 23% increased in credit growth, and NIM is stable at 3.34%. In Q1/2017, ACB recorded highest credit growth thanks to 33% increased in consumer lending sector. (2) Service fees increased 23%, forex increased 57%, and (3) “other incomes” increase 500% mainly from reverting provision from bad debts.
- It is expected that, during 2018-2019, ACB will continue to record abnormal incomes from recovering bad debts. The collaterals relating to those bad debts value VND 3,400 billion (twice the average net income in 2016 – 2017).
- Provision is maintained at 121% (second highest in the banking industry).

**Recommendation: BUY**

**Target price: 22.5**

## Why recommended

- Strong credit growth in 2017
- Actively reduce bad debts. Expect to clear bad debts in 2018
- Low valuation for its positioning

## Trade strategy

- Target price: VND22,000/share.  
Upside: 18%
- Hold period 1-3 months.



- **Highest credit growth in the banking industry:** credit growth in Q1/2017 increased 5.8% while the industry average was 2.81%.
- **Low bad debts, more provision:** bad debts in Q1/2017 was only 1.12%, one of the lowest in the industry. During the meeting with the Governor of the State Bank of Viet Nam in 2017, CTG chairman said that he wanted to buy bad debts from the VAMC and clear bad debts 2-3 years ahead of the schedule. Currently, VAMC's bad debts need more than VND8,000 billion in provision, in which CTG will buy back VND4,000 – 6,000. Following VCB's lead, CTG could be the second bank to clear bad debts in VAMC in 2018.
- **Valuation is still low:** CTG is valued at 1.17 P/B, lower than industry average (1.6x). Stock valuation is still low for its positioning in the banking industry and its growth potential in the coming years



# BID – Tier 1 capital raising drives stock price to go up

Recommendation: **BUY**

Buy price: **18.5-19**

Target price: **21.5-22**

## Why recommended

- Strong credit growth in 2017
- News about stock issuance for strategic investors could drive up stock price in the short term

## Trade strategy

- Target price: VND22,000/share.
- Upside: 15%
- Hold period 1-3 months.



- **Credit growth is higher than industry average:** credit growth increased 4%, deposits increased 3.15%, higher than industry average
- **Tier 1 capital raising drives stock price to go up :** Due to basel II policies, many banks are looking for strategic foreign investors. State bank of Vietnam will hold maximum 65% ownership in commercial banks . Currently, only VCB and BID are able to raise tier 1 capital from stock issuance for foreign investors.
- Stock price on new stock issuance for foreign investor is rumored to be higher than the market price. This would drive the stock price up in the short term.