

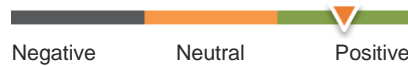
LIENVIET POST BANK (LPB) – VISIT NOTE

Market Price VND10,440	Target Price VND13,500	Dividend Yield 9.6%	Rating ADD	Sector FINANCIALS
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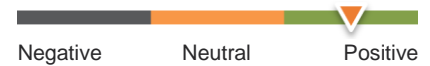
Outlook – Short term



Outlook – Long term



Valuation



8 October 2018

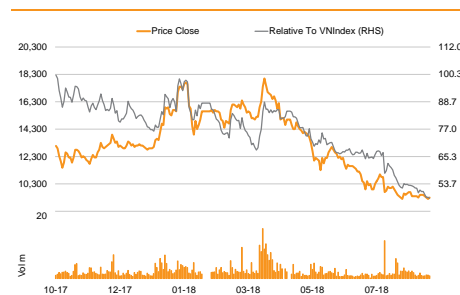
Thuy Le Minh

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Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	18,000
52w low (VND)	9,000
3m Avg daily volume (shares)	2.0
3m Avg daily value (VNDmn)	19,785
Market cap (VNDbn)	7,830
Outstanding shares (m)	750
Free float (%)	20
TTM P/E (x)	6.4x
Current P/B (x)	0.8x

Ownership

Vietnam Post	11.5%
Mr. Nguyen Duc Huong	4.5%
H.T.H Co., Ltd	4.5%
Nguyen Dinh Thang	3.9%
Khai Hung Co., Ltd	2.3%
Others	73.3%

Source: VNDIRECT

We recently met with the Deputy CEO of LPB to learn more about their recent performance. Below are some key takeaways.

Sluggish 1H18 performance was due to fast network expansion.

Fast network expansion led to a surge in individual deposits while lending at new transaction offices has yet to catch up. LPB has opened 198 new transaction offices so far this year. Currently the bank has 370 branches and transaction offices and it aims to increase this number to 400 by end-FY18. LPB plans to open a huge number of transaction offices in FY19-20F (around 200-230 offices per year) and network expansion will be completed in FY20F.

LPB could resume foreign strategic stake sale efforts in 2020.

Efforts to find strategic investors has been put on a halt as the bank wants to focus on network expansion. The bank will resume the search for strategic foreign investors after it completes network expansion in FY20F. It aims to sell a 15% to 25% stake.

Reorientation toward retail lending and possibility of restructuring a credit institution amid a limited credit quota.

The maximum credit growth quota for LPB set by the State Bank of Vietnam is 14% for FY18, much lower than the bank's target of 20% set at the beginning of the year. Therefore, LPB revised down its PBT target for FY18F by 33%, from VND1,800bn to VND1,200bn. We already reflected this change in our recent update. Due to limited credit quota, LPB will shift from wholesale lending to retail lending to increase the loan yield, and thus improve interest income. In addition, LPB is assessing the possibility of funding the restructuring of a People's (Public) Credit Fund as banks participating in restructuring another credit institution can get higher credit quotas. The deal could happen in FY19F subject to a cost-benefit analysis by management.

LPB will boost fee income from bancassurance.

Currently LPB is not really active in bancassurance; it only sells insurance at around 30 transaction offices. However, LPB plans to re-negotiate the agreement with Dai-ichi Life and is seeking an exclusive agreement for 15-20 years, which will bring sizable upfront agency fees. LPB's vast network, which will extend to every district in Vietnam, is a competitive advantage in growing bancassurance as no other bank in Vietnam has such an extensive network in rural areas.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net interest income (bn)	4,024	5,227	5,224	5,988
Net interest margin	3.5%	3.6%	3.2%	3.3%
Total operating income (bn)	3,872	5,103	4,872	5,784
Total provision charges (bn)	(492)	(522)	(469)	(530)
Net profit (bn)	1,063	1,368	1,032	1,201
Net profit growth	203.8%	28.7%	(24.6%)	16.4%
Adjusted EPS	1,467	1,740	1,236	1,428
BVPS	12,168	13,074	14,058	15,059
ROAE	13.3%	15.4%	10.4%	11.0%

Source: VNDIRECT

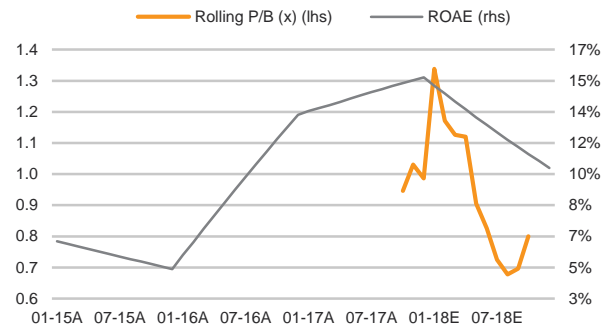
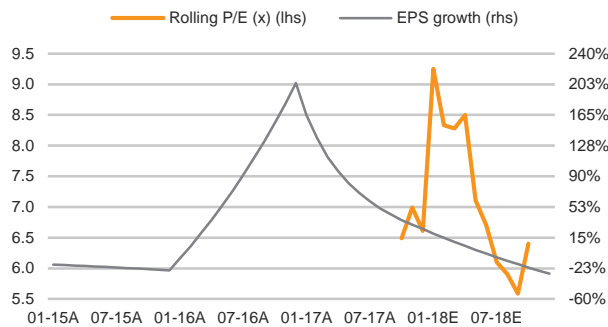
LPB has set a target of VND40bn in bancassurance revenue for FY18 which management thinks could be easily met. If LPB ramps up bancassurance distribution across its entire network, bancassurance at LPB could achieve robust growth in the coming years.

LPB is considering migrating to HOSE. LPB is currently listed on UPCOM. A listing on HOSE will increase liquidity for LPB and HOSE requires a higher standard of information disclosure which could improve transparency and boost the appeal of the stock to institutional investors. However, a timeline for this proposed migration has not yet been disclosed.

LPB is on track to increase its chartered capital by VND2,000bn. Capital raising will be executed via rights issue worth VND2,000bn (or 200 million shares), equivalent to 26.7% of current outstanding shares. The issuance price is yet to be disclosed but the transaction is tentatively planned for 1Q19.

We maintain our ADD recommendation on LPB and our target price remains intact at VND13,500 based on the following considerations: 1) the benefits of network expansion will materialize over the medium term; 2) there is strong potential for high fee income growth from bancassurance; 3) the listing on HOSE will improve liquidity and disclosure of information; 4) high dividend yield of 9.6% (10% dividend on par for FY18); 3) cheap valuation at FY18F P/B of 0.7x versus peer average of 1.8x despite a strong medium-term earnings outlook.

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net interest income	5,227	5,224	5,988
Non interest income	(124)	(352)	(204)
Total operating income	5,103	4,872	5,784
Total operating costs	(2,813)	(3,069)	(3,702)
Pre-provision operating profit	2,290	1,803	2,082
Total provision charges	(522)	(469)	(530)
Income from associates & JVs			
Net other income			
Pre-tax profit	1,768	1,333	1,552
Tax expense	(400)	(302)	(351)
Profit after tax	1,368	1,032	1,201
Minority interest	0	0	0
Net profit	1,368	1,032	1,201

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Gross loans to customers	100,621	114,708	131,914
Loans to banks			
Total gross loans	100,621	114,708	131,914
Securities - total	32,650	35,692	40,199
Other interest earning assets	23,292	19,491	21,441
Total gross IEAs	156,563	169,891	193,554
Total provisions	(2,015)	(2,284)	(2,673)
Net loans to customers	99,392	113,431	130,448
Total net IEAs	154,548	167,608	190,880
Cash and deposits	893	1,607	1,768
Total investments	325	357	393
Other assets	7,668	8,435	9,279
Total non-IEAs	8,886	10,399	11,439
Total assets	163,434	178,007	202,319
Customer deposits	128,275	148,799	172,607
Cds outstanding	6,157	10,159	10,159
Customer interest-bearing liabilities	134,433	158,959	182,767
Bank deposits	1,332	1,931	1,545
Broad deposits	135,764	160,889	184,311
Other interest-bearing liabilities	14,709	2,524	2,321
Total IBLs	150,473	163,414	186,632
Deferred tax liability			
Other non-interest bearing liabilities	3,577	4,050	4,393
Total non-IBLs	3,577	4,050	4,393
Total liabilities	154,050	167,464	191,025
Share capital	6,460	7,500	7,500
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	1,794	1,978	2,729
Other reserves	1,129	1,066	1,066
Shareholders' equity	9,383	10,544	11,294
Minority interest	0	0	0
Total equity	9,383	10,544	11,295
Total liabilities & equity	163,434	178,007	202,319

	12-17A	12-18E	12-19E
Growth rate (yoy)			
Cust deposit growth	15.6%	16.0%	16.0%
Gross cust loan growth	26.3%	14.0%	15.0%
Net interest income growth	29.9%	(0.1%)	14.6%
Pre provision operating profit growth	24.4%	(21.3%)	15.5%
Net profit growth	28.7%	(24.6%)	16.4%
Growth in IEAs	15.8%	8.5%	13.9%
Share value			
Basic EPS (VND)	1,951	1,385	1,601
BVPS (VND)	13,074	14,058	15,059
DPS (VND)	1,000	600	600
EPS growth	25.7%	(29.0%)	15.6%

Key ratios

	12-17A	12-18E	12-19E
Net interest margin	3.6%	3.2%	3.3%
Cost-income ratio	(55.1%)	(63.0%)	(64.0%)
Reported NPLs / gross cust loans	1.1%	0.9%	0.9%
Reported NPLs / net cust loans	1.1%	0.9%	0.9%
GP charge / average cust loans	0.6%	0.4%	0.4%
Total CAR	11.0%	10.5%	10.0%
Loan deposit ratio	74.8%	72.2%	72.2%
Margins and spreads			
Return on IEAs	7.9%	8.2%	8.4%
Cost of funds	4.5%	5.2%	5.3%
Interest return on average assets	3.4%	3.1%	3.1%
ROAE	15.4%	10.4%	11.0%

Source: VNDIRECT

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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