

LIENVIET POST BANK (LPB) – AGM NOTE

Market Price VND15,100	Target Price VND19,600	Dividend Yield 3.31%	Rating ADD	Sector FINANCIALS
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Outlook – Short term



Outlook – Long term



Valuation



30 March 2018

Thuy Le Minh

thuy.leminh@vndirect.com.vn

Key changes in the report

➤ N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	16,694
52w low (VND)	10,734
3m Avg daily volume (shares)	3.1mn
3m Avg daily value (VNDmn)	46,055
Market cap (VNDbn)	11,325
Outstanding shares (m)	750
Free float (%)	20
TTM P/E	8.1x
Current P/B	1.2x

Ownership

Vietnam Post	12.54%
Nguyen Duc Huong	4.95%
H.T.H Co., Ltd	4.95%
Nguyen Dinh Thang	4.31%
Khai Hung Co., Ltd	2.46%
Others	70.79%

Source: VNDIRECT

LPB recently held its AGM on 28 March 2018, and elected a new Board of Directors (BOD) and Supervisory Board for the term 2018-2023. LPB's FY18 pre-tax profit target was conservatively set at VND1,800bn, undershooting our projections by 25%.

LPB targets modest profit growth despite high credit growth in FY18. The targeted credit growth and customer deposit growth were set at 19.8% and 25.4%, respectively. FY18 pre-tax profit was targeted at VND1,800bn, translating to a modest growth of 1.8%. The bank explained that they set a low target because they plan to expand their network and continue upgrading postal transaction offices into bank transaction offices, which will result in increased operating costs. However, LPB's management caveated that the profit target set is the minimum target, while the actual result in FY18 could be higher. We think this profit target is quite conservative as LPB achieved more than VND500bn in pre-tax profit in 1Q2018, fulfilling 27.8% of the full year target (+7% versus 1Q2017). We will closely follow LPB's performance and update our projections as we see fit based on quarterly results.

Charter capital will increase by 38.3% to reach VND10,369bn. There will be three tranches of stock issuance, and the first two tranches will be completed in 2018, while the ESOP will be completed in early 2019. The detailed plan is as follows:

- 1) Issuance of 37.5m shares to pay a 5% stock dividend for FY17, using funds from retained earnings.
- 2) A 200m shares rights issuance. LPB has not disclosed the issuing price and specific timeline, but the rights issuance could be carried out at the same time as the first tranche or after the first tranche. There will be no transfer restrictions on the new shares issued in this tranche.
- 3) An ESOP issuance equal to 5% of the outstanding shares after the first two tranches. The planned number of new shares to be issued for ESOP is 49.4m shares. The issuing price will be decided later but will not be lower than the par value. The bank will not impose a lock-up period for the new ESOP shares.

Financial summary (VND)	12-16A	12-17A	12-18E	12-19E
Net interest income (bn)	4,024	5,227	6,385	7,481
Net interest margin	3.5%	3.6%	3.8%	3.9%
Total operating income (bn)	3,872	5,095	6,482	7,617
Total provision charges (bn)	(492)	(514)	(599)	(614)
Net profit (bn)	1,063	1,368	1,744	2,000
Net profit growth	203.8%	28.7%	27.4%	14.7%
Adjusted EPS	1,467	1,868	2,326	2,669
BVPS	12,168	13,074	16,002	18,290
ROAE	13.3%	15.4%	16.7%	16.3%

Note: FY18-19 forecasts are not factoring in the share issuances announced in AGM

Source: VNDIRECT

There will be a higher dividend for FY17, as LPB surpassed its FY17 profit target by 18%. In its 2017 AGM, LPB's shareholders approved a 12% dividend payment on par value but the bank increased this to 15% FY17 due to positive performance. Of the 15%, the bank paid a 10% cash dividend in advance on par value on 1st Feb 2018. The remaining 5% will be in the form of stock dividends, which will be paid within 2018. For FY18, the shareholders approved a minimum dividend payment of 12% on par value.

Retail banking remains the core business segment and continued network expansion is essential. LPB showed strong determination to focus on retail banking in the future, especially retail lending and retail deposit via postal channels. In 2017, LPB opened 7 new branches and 88 banking transaction offices, of which 27 banking transaction office were upgraded from postal transaction offices. LPB plans to open 3 new branches and upgrade 158 postal transaction offices in 2018; 5 new branches and 250 postal transaction offices in 2019. As a result, its operating costs will continue increasing in the next few years.

LPB elected a New BOD and Supervisory Board for the 2018-2023 term. The new BOD includes 8 members, of which 6 incumbent members was re-elected and 2 new members were added. The Supervisory Board consists of 3 members, all of them are members of the current Supervisory Board, and they were re-elected for another term.

Figure 1: LPB's new BOD

	Current position at LPB	New position in BOD	Profile
Mr. Nguyễn Đình Thắng	BOD Vice chairman	BOD chairman	Mr. Thắng was elected into LPB's BOD in 2008 and held a position as BOD member until Apr 2017, when he was elected as BOD vice chairman. He is currently the BOD chairman of several other companies, including: Viet Nhat Telecommunication Company, Trung Tho Construction Company, Hong Co Technology Company, Lien Viet Holdings JSC. He is a well-known expert in the IT industry and he is in charge of developing Vi Viet - the e-wallet product of LPB.
Mr. Phạm Doãn Sơn	BOD Vice chairman cum CEO	BOD member cum CEO	Mr. Sơn has 24 years of experience in the banking and financial industry. Before joining LPB, he worked at the State Audit for 14 years. From 2008 to Apr 2012, he held a position as the Head of Supervisory Board at LPB. He was elected into LPB's BOD since Jan 2016.
Mr. Nguyễn Đức Cử	BOD Vice chairman	BOD member	Mr. Cử has held position of LPB's BOD Vice chairman since 2008. He is also the BOD vice chairman of Lien Viet Holdings JSC and CEO of Khai Hung Ltd. Co. (the company which owns a 2.5% stake of LPB).
Mr. Huỳnh Ngọc Huy	BOD independent member	BOD member	Mr. Huy has been LPB's BOD independent member since Jun 2016. He currently holds position as BOD chairman of Lien Viet Holdings JSC and BOD vice chairman of Lien Viet Securities Company. He has more than 20 years of experience and held senior management positions in several technology companies.
Mr. Lê Hồng Phong	BOD member	BOD member	Mr. Phong was appointed Deputy CEO of LPB in Jul 2009 and then CEO in Feb 2010. He was LPB's CEO until Mar 2012, when he was elected as a BOD member. He has 31 years of experience in the banking industry and used to worked at Agribank and Vietnam Bank of Social Policy at senior management levels.
Ms. Chu Thị Lan Hương	BOD member	BOD member	Ms. Hương was elected as LPB's BOD member since Jan 2016. She is the deputy CEO of Vietnam Post Company and the BOD chairwoman of EMS Vietnam.

Mr. Dương Công Toàn	Deputy CEO	BOD member	Mr. Toàn has been working at LPB for 9 years at various management positions. He was appointed as Deputy CEO in Jan 2015. Before joining LPB, he worked at Him Lam JSC as Executive Assistant to the CEO for 3 years.
Ms. Dương Hoài Liên	Does not hold position at LPB currently	BOD member	Ms. Liên has 13 years of experience working in local banks. She worked for a year at VIB and then develop her career at Sacombank. She is currently the Deputy Director of Sacombank - 8/3 Hanoi Branch.

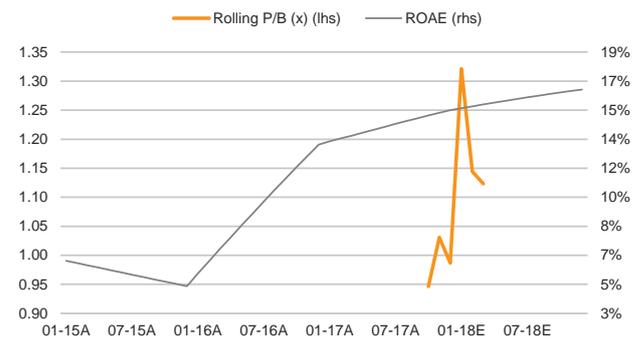
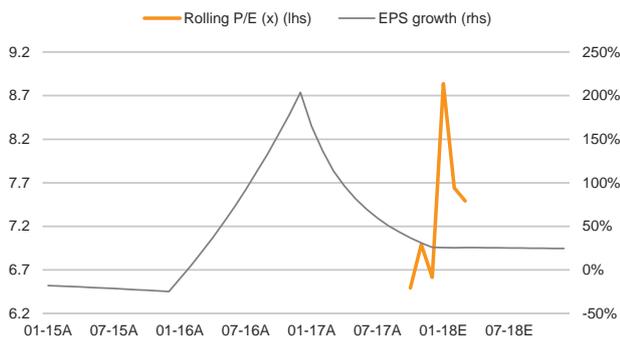
Source: Company's AGM

Figure 2: LPB's new Supervisory Board

	Current position at LPB	New position in Supervisory Board	Profile
Mr. Trần Thanh Tùng	Head of Supervisory Board	Supervisory Board member	Mr. Tùng was elected as LPB's Supervisory Board member in 2008 and was appointed as Head of Supervisory Board in Apr 2017. He used to work as accountant at the State Bank's Treasury in Lao Cai Province for 13 years and at Southern Bank for 2 years.
Mr. Phùng Thế Việt	Supervisory Board member	Supervisory Board member	Mr. Việt has worked at LPB since 2013 as a Credit Officer, and was elected as a member of the Supervisory Board in Mar 2017.
Ms. Nguyễn Thị Lan Anh	Supervisory Board member	Supervisory Board member	Ms. Lan Anh has 27 years of experience as an accountant and then manager at General Department of Vietnam Customs. She was elected as LPB's Supervisory Board member in 2013.

Source: Company's AGM

Valuation



Income statement

(VNDbn)	12-17A	12-18E	12-19E
Net interest income	5,227	6,385	7,481
Non interest income	(132)	97	136
Total operating income	5,095	6,482	7,617
Total operating costs	(2,813)	(3,630)	(4,418)
Pre-provision operating profit	2,282	2,852	3,199
Total provision charges	(514)	(599)	(614)
Income from associates & JVs			
Net other income			
Pre-tax profit	1,768	2,253	2,585
Taxation	(400)	(510)	(585)
Profit after tax	1,368	1,744	2,000
Minority interests	0	0	0
Net profit	1,368	1,744	2,000

Balance sheet

(VNDbn)	12-17A	12-18E	12-19E
Gross loans to customers	100,621	120,745	142,480
Loans to banks			
Total gross loans	100,621	120,745	142,480
Securities - total	32,650	34,282	35,997
Other interest earning assets	23,292	24,457	25,680
Total gross IEAs	156,563	179,485	204,156
Total provisions	(2,015)	(2,381)	(2,760)
Net loans to customers	99,392	119,190	140,586
Total net IEAs	154,548	177,103	201,396
Cash and deposits	893	937	984
Total investments	325	341	358
Other assets	7,668	8,052	8,454
Total non-IEAs	8,886	9,330	9,797
Total assets	163,434	186,433	211,192
Customer deposits	128,275	147,517	171,119
Cds outstanding	6,157	6,157	6,157
Customer interest-bearing liabilities	134,433	153,674	177,276
Bank deposits	1,332	1,398	1,426
Broad deposits	135,764	155,072	178,703
Other interest-bearing liabilities	14,709	15,816	15,109
Total IBLs	150,473	170,888	193,811
Deferred tax liability			
Other non-interest bearing liabilities	3,577	4,061	4,255
Total non-IBLs	3,577	4,061	4,255
Total liabilities	154,050	174,948	198,066
Share capital	6,460	7,177	7,177
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	1,794	3,179	4,820
Other reserves	1,129	1,129	1,129
Shareholders' equity	9,383	11,485	13,127
Minority interests	0	0	0
Total equity	9,383	11,485	13,127
Total liabilities & equity	163,434	186,433	211,192

	12-17A	12-18E	12-19E
Growth rate (yoy)			
Cust deposit growth	15.6%	15.0%	16.0%
Gross cust loan growth	26.3%	20.0%	18.0%
Net interest income growth	29.9%	22.2%	17.2%
Pre provision operating profit growth	24.0%	25.0%	12.2%
Net profit growth	28.7%	27.4%	14.7%
Growth in IEAs	15.8%	14.6%	13.7%
Share value			
Basic EPS (VND)	1,951	2,429	2,787
BVPS (VND)	13,074	16,002	18,290
DPS (VND)	1,000	500	500
EPS growth	25.7%	24.5%	14.7%

Key ratios

	12-17A	12-18E	12-19E
Net interest margin	3.6%	3.8%	3.9%
Cost-income ratio	(55.2%)	(56.0%)	(58.0%)
Reported NPLs / gross cust loans	1.1%	1.2%	1.2%
Reported NPLs / net cust loans	1.1%	1.2%	1.2%
GP charge / average cust loans	0.6%	0.5%	0.5%
Total CAR	11.0%	10.8%	10.5%
Loan deposit ratio	74.8%	78.6%	80.4%
Margins and spreads			
Return on IEAs	7.9%	8.1%	8.3%
Cost of funds	4.5%	4.5%	4.6%
Interest return on average assets	3.4%	3.6%	3.8%
ROAE	15.4%	16.7%	16.3%

Note: FY18-19 forecasts are not factoring in the share issuances announced in 2018 AGM

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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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.

Anirban Lahiri – Head of Research

Email: anirban.lahiri@vndirect.com.vn

Hien Tran Khanh – Associate Director

Email: hien.trankhanh@vndirect.com.vn

Thuy Le Minh - Analyst

Email: thuy.leminh@vndirect.com.vn

VNDIRECT Securities Corporation

1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi

Tel: +84 2439724568

Email: research@vndirect.com.vn

Website: <https://vndirect.com.vn>