

## LIENVIET POST BANK (LPB) – EARNINGS UPDATE

<b>Market Price</b> VND13,900	<b>Target Price</b> VND16,700	<b>Dividend Yield</b> 3.60%	<b>Rating</b> ADD	<b>Sector</b> FINANCIALS
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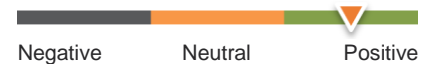
### Outlook – Short term



### Outlook – Long term



### Valuation



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**LPB posted strong earnings growth in FY17, albeit 7% below our expectations. Although the stock has rallied by 19% since January 2018, LPB still trades at a deep discount to peers. We will revisit our valuation and most likely revise up our target price in the coming weeks.**

**High profit growth in FY17 was driven by interest income with non-interest income remaining sluggish.** Net interest income grew by 29.9% yoy while non-interest income recorded a loss of VND132bn. The bank's net profit reached VND1,368bn, up 28.7%. PBT fulfilled 118% of the bank's FY17 target but was 7% lower than our forecast due to lower loan growth and higher cost-to-income ratio (CIR) in 4QFY17.

**Higher fund utilization and NIM expansion drove 29.9% growth in net interest income.** Loan book growth of 26.3% yoy outpaced deposit book growth of 15.6% yoy, raising the loan-to-deposit ratio (LDR) from 60.6% at FY16-end to 67.4% at FY17-end. Accelerating utilization of deposits and improving asset yields due to a continued push into retail lending drove a 10bps increase in NIM, from 3.5% in FY16 to 3.6% in FY17.

**Sustained high asset quality with low NPL and high provision buffer.** The NPL ratio was unchanged versus FY16-end at 1.1% while the write-off rate was low at 0.1% of the average loan book balance. Provision expenses increased by a marginal 4.4% yoy in FY17. With the NPL ratio holding steady even as provisioning ticked-up slightly, the bank's loan loss coverage ratio (LLR) continued to improve from 109.3% by FY16-end to 114.5% by FY17-end, and LPB is among banks with the highest LLR in Vietnam's banking system. Although the NPL ratio was unchanged, the absolute FY17-end NPL figure and balance of loans in group 2 rose by 21% yoy and 91% yoy, respectively. We expect a higher write-off rate in 2018 to maintain the NPL ratio at current low levels.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	16,600
52w low (VND)	10,734
3m Avg daily volume (shares)	2.8mn
3m Avg daily value (VNDmn)	36,825
Market cap (VNDbn)	9,976
Outstanding shares (m)	718
Free float (%)	20
TTM P/E (x)	7.5
Current P/B (x)	1.1

### Ownership

Vietnam Post	12.54%
Nguyen Duc Huong (Chairman)	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

Financial summary (VND)	12-15A	12-16A	12-17A	12-18E
Net interest income (bn)	2,894	4,024	5,227	6,055
Net interest margin	3.1%	3.5%	3.6%	3.8%
Total operating income (bn)	2,488	3,872	5,095	6,019
Total provision charges (bn)	(502)	(492)	(514)	(651)
Net profit (bn)	350	1,063	1,368	1,743
Net profit growth	(25.0%)	203.8%	28.7%	27.4%
Adjusted EPS	451	1,467	1,844	2,245
BVPS	11,100	12,168	13,074	15,478
ROAE	4.7%	13.3%	15.4%	16.6%

Source: VNDIRECT

**Non-interest income still posted losses but the loss narrowed from 2016 levels**, thanks to higher income from securities trading and investments which were lifted by the stellar stock market performance seen last year. The key driver for the bank's earnings growth remained interest income since non-interest income still recorded a loss of VND132bn (versus VND152bn in 2016) due to provision expenses for securities.

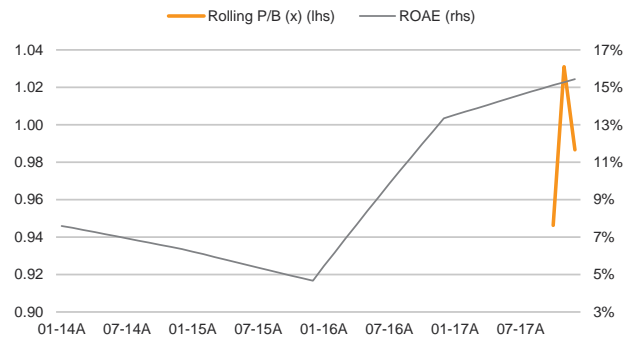
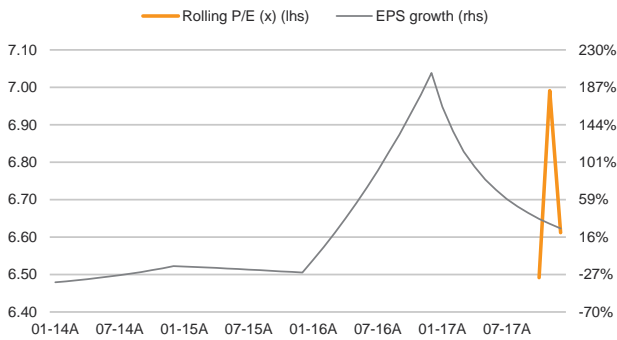
**CIR increased due to higher staff costs.** Expenses on employees (which accounted for more than half of operating expense) increased by 46.3% as the staff count jumped by 43.3%. Besides, the average salary for each staff also increased from VND14.1mn per month in 2016 to VND14.5mn per month in 2017. LPB is expanding its retail banking footprint and also transforming postal transaction offices into bank transaction offices, resulting in the expanded headcount. CIR increased from 52.5% in 2016 to 55.2% in 2017, higher than our forecasted 52%.

**Figure 1: FY17 results and key performance metrics (VNDbn)**

	2016	2017	YoY growth
Net interest income	4,024	5,227	29.9%
Non-interest income	-152	-132	-13.4%
Pre-provision profit	1,840	2,282	24.0%
Provision expenses	-492	-514	4.4%
Earnings before tax	1,348	1,768	31.2%
Earnings after tax	1,063	1,368	28.7%
Loan growth (YTD)	41.9%	26.3%	
Deposit growth (YTD)	43.0%	15.6%	
NPL	1.1%	1.1%	
NIM	3.5%	3.6%	

Source: VNDIRECT, Company

**Valuation**



**Income statement**

(VNDbn)	12-16A	12-17A	12-18E
<b>Net interest income</b>	<b>4,024</b>	<b>5,227</b>	<b>6,055</b>
<b>Non interest income</b>	<b>(152)</b>	<b>(132)</b>	<b>(36)</b>
<b>Total operating income</b>	<b>3,872</b>	<b>5,095</b>	<b>6,019</b>
Total operating costs	(2,031)	(2,813)	(3,190)
<b>Pre-provision operating profit</b>	<b>1,840</b>	<b>2,282</b>	<b>2,829</b>
<b>Total provision charges</b>	<b>(492)</b>	<b>(514)</b>	<b>(651)</b>
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>1,348</b>	<b>1,768</b>	<b>2,178</b>
Taxation	(285)	(400)	(436)
<b>Profit after tax</b>	<b>1,063</b>	<b>1,368</b>	<b>1,743</b>
Minority interests	0	0	0
<b>Net profit</b>	<b>1,063</b>	<b>1,368</b>	<b>1,743</b>

**Balance sheet**

(VNDbn)	12-16A	12-17A	12-18E
Gross loans to customers	79,676	100,621	120,343
Loans to banks			
<b>Total gross loans</b>	<b>79,676</b>	<b>100,621</b>	<b>120,343</b>
Securities - total	34,050	32,650	35,141
Other interest earning assets	21,516	23,292	10,438
<b>Total gross IEAs</b>	<b>135,242</b>	<b>156,563</b>	<b>165,923</b>
<b>Total provisions</b>	<b>(1,774)</b>	<b>(2,015)</b>	<b>(2,451)</b>
<b>Net loans to customers</b>	<b>78,706</b>	<b>99,392</b>	<b>118,721</b>
<b>Total net IEAs</b>	<b>133,468</b>	<b>154,548</b>	<b>163,472</b>
Cash and deposits	640	893	675
Total investments	325	325	343
Other assets	7,433	7,668	7,843
<b>Total non-IEAs</b>	<b>8,397</b>	<b>8,886</b>	<b>8,861</b>
<b>Total assets</b>	<b>141,865</b>	<b>163,434</b>	<b>172,333</b>
Customer deposits	110,985	128,275	144,225
Cds outstanding	4,100	6,157	7,191
Customer interest-bearing liabilities	115,085	134,433	151,416
Bank deposits	311	1,332	1,740
Broad deposits	115,396	135,764	153,156
Other interest-bearing liabilities	15,905	14,709	5,296
<b>Total IBLs</b>	<b>131,300</b>	<b>150,473</b>	<b>158,452</b>
Deferred tax liability			
Other non-interest bearing liabilities	2,233	3,577	2,272
<b>Total non-IBLs</b>	<b>2,233</b>	<b>3,577</b>	<b>2,272</b>
<b>Total liabilities</b>	<b>133,533</b>	<b>154,050</b>	<b>160,724</b>
Share capital	6,460	6,460	7,500
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	941	1,794	3,178
Other reserves	931	1,129	931
<b>Shareholders' equity</b>	<b>8,332</b>	<b>9,383</b>	<b>11,609</b>
Minority interests	0	0	0
<b>Total equity</b>	<b>8,332</b>	<b>9,383</b>	<b>11,609</b>
<b>Total liabilities &amp; equity</b>	<b>141,865</b>	<b>163,434</b>	<b>172,333</b>

	12-16A	12-17A	12-18E
<b>Growth rate (yoy)</b>			
Cust deposit growth	43.0%	15.6%	12.4%
Gross cust loan growth	41.9%	26.3%	19.6%
Net interest income growth	39.0%	29.9%	15.8%
Pre provision operating profit growth	99.1%	24.0%	24.0%
Net profit growth	203.8%	28.7%	27.4%
Growth in IEAs	40.5%	15.8%	5.8%
<b>Share value</b>			
Basic EPS (VND)	1,552	1,951	2,375
BVPS (VND)	12,168	13,074	15,478
DPS (VND)	450	1,000	500
EPS growth	203.8%	25.7%	21.7%

**Key ratios**

	12-16A	12-17A	12-18E
Net interest margin	3.5%	3.6%	3.8%
Cost-income ratio	(52.5%)	(55.2%)	(53.0%)
Reported NPLs / gross cust loans	1.1%	1.1%	1.1%
Reported NPLs / net cust loans	1.1%	1.1%	1.2%
GP charge / average cust loans	0.7%	0.6%	0.6%
Total CAR	13.2%	11.0%	12.2%
Loan deposit ratio	69.2%	74.8%	79.5%
<b>Margins and spreads</b>			
Return on IEAs	7.7%	7.9%	8.2%
Cost of funds	4.3%	4.5%	4.6%
Interest return on average assets	3.2%	3.4%	3.6%
ROAE	13.3%	15.4%	16.6%

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<b>Description:</b>	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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