

LIEN VIET POST JOINT STOCK COMMERCIAL BANK (LPB)

Current Price (OTC)	Target Price	Dividend Yield	Recommendation	Sector
~VND14,000	VND17,200	2.9%	Add	FINANCIALS



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Tran Khanh Hien

hien.trankhanh@vndirect.com.vn

Lien Viet Post Bank plans to list on UPCOM in 3Q2017. We initiate coverage on LPB with an ADD rating and target price of VND17,200 per share.

We believe that after a couple years of sluggish performance, LPB is well-positioned to capture growth given by these following points:

Key statistics	
52w high (VND)	N/A
52w low (VND)	N/A
Market cap (billion VND)	8,721
Outstanding shares (mn)	646

Source: VNDIRECT

Credit growth to remain strong. Relatively better capital buffer (CAR ~13.2% at 2016-end) and strong liquidity (LDR ~ 79% at 1Q2017-end) allow the bank to maintain the higher-than-industry-average loan growth in the next few years.

With more than 10,000 transaction points, LPB has unique advantage in providing retail banking to niche markets such as agriculture loans and pension loans,...

1H results were positive with EBT almost doubling the figure of the same period last year. The bank posted VND910bn in 1H2017 EBT, fulfilling 61% of the whole year target. As of June 30, 2017, credit growth of 16% supported NII to increase sharply by 57% yoy. Notably, investment activities contributed VND303bn in revenue meanwhile the bank recorded a loss of VND116 bn in same period last year. The bank has completed FY16 cash dividend payment of 4% in 1Q.

LPB has been approved for an additional issuance of 104 mn shares including 38.76 mn shares for stock dividend (at ratio of 100:6) and 65.25 mn shares for private placement or ESOP. The offering price is VND10,000/share with 1 year transfer restriction. If successful, LPB will raise its chartered capital to VND7,500 bn.

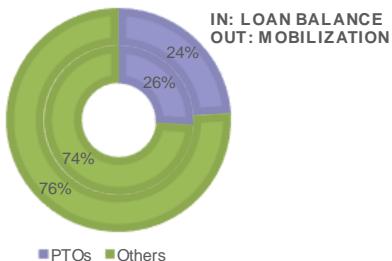
Attractive valuation: LPB is being traded on OTC market around VND13,500-14,000/share, equivalent to 1.0x of FY17 P/B, which is relatively cheap versus VIB or EIB. With headwinds on 1H17 result and our expectation for growth in FY17, we believe LPB deserves to trade broadly in line with peers. Our target price of VND17,200 represents a target P/B of 1.3x and an upside of 23% from current price.

Financial summary (VND)	12-14A	12-15A	12-16E	12-17E
Net interest income (bn)	2,291	2,894	4,024	4,974
Net interest margin	2.9%	3.1%	3.5%	3.5%
Total operating income (bn)	2,113	2,488	3,872	4,828
Total provision charges (bn)	(227)	(502)	(492)	(686)
Net profit (bn)	466	350	1,063	1,228
Net profit growth	(17.5%)	(25.0%)	203.8%	15.5%
Adjusted EPS	722	524	1,582	1,759
BVPS	11,441	11,766	12,898	13,272
ROAE	6.4%	4.7%	13.3%	13.4%

Source: VNDIRECT

Focusing on retail banking regarding the unique advantage on network

Figure 1 Proportion of Postal transaction offices



Source: LPB, VNDIRECT

LPB was established in 2008 by founders, namely Him Lam Group, SATRA and SASCO. In 2011, Vietnam Post Corp acquired LPB's stake by merging its affiliated Postal Savings Company to LPB. Until now, Vietnam Post is the biggest shareholder, owning 12.54% of the bank. Although being a newly established bank, through the merge with Postal Savings Company, LPB has quickly a large network thanks to the right to access more than 1,000 postal transaction offices (PTOs) and 10,000 transaction points nationwide. LPB is considered as the only private JSC bank that has presence in all cities and provinces, especially in remote and inaccessible areas. The bank itself owns 140 branches and transaction offices (TOs) and more than 2,000 staffs.

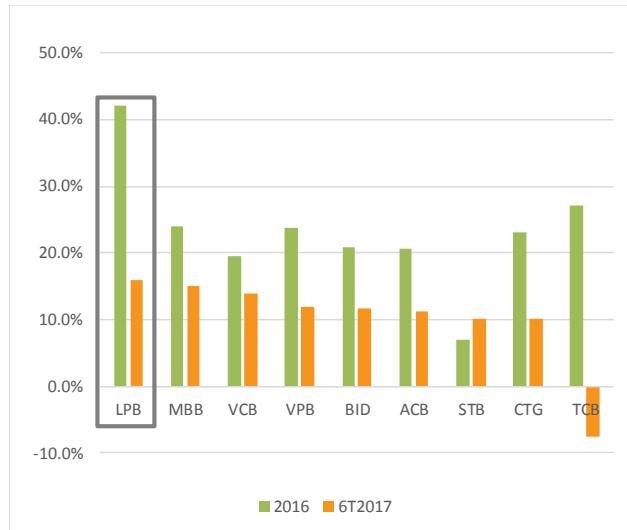
Regarding the unique advantage on network, LPB has early shifted its focus into retail banking with an aim to become "bank for everyone". Since 2011, LPB has started to provide microfinance products through PTOs throughout the country. Currently, the PTOs channel contributed 26% of deposit mobilization and 24% of loans balance.

By FY16-end, LPB ranked 13th among 35 Vietnamese banks in terms of total asset with more than VND140 trillion, also 13th in terms of lending market share with outstanding loans of VND78.7 trillion and was in the top 10 largest banks in term of earnings.

LPB's top-line heavily depended on interest income. Service income contributed only ~2% while FX and investment business still recorded a loss.

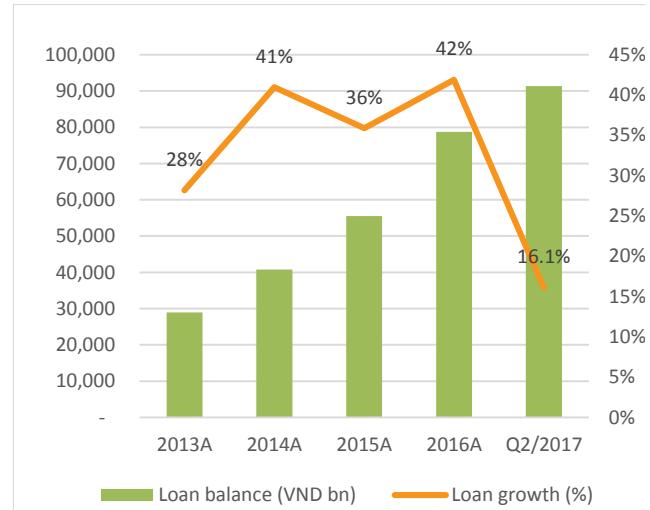
Credit growth to remain strong is a catalyst.

Figure 2 Top banks' credit growth in 2016 and 1H2017



Source: Banks, VNDIRECT

Figure 3 LPB's loan balance and growth over years



Source: LPB, VNDIRECT

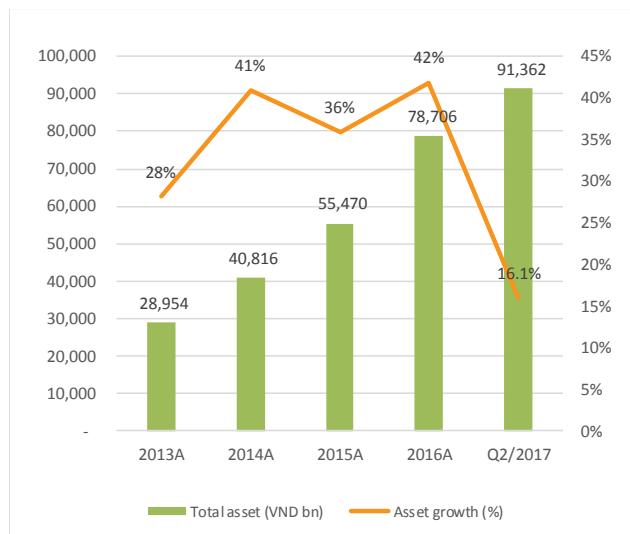
As focusing into retail segment earlier than others, LPB recorded the strongest lending growth among banks for a few recent years. The bank's loan book growth witnessed a CAGR of 37% in FY13-FY16. In FY16, retail segment recorded the highest ever credit growth of 63% yoy, driving credit growth up to 42%, much higher than industry

average of 18.7%. The share of retail saw a significant growth from 29% in FY15 to 33% in FY16.

Pursing different strategy, LPB has stronghold in niche market, eg: agriculture loans, machinery loans, pension loans and army staff loans. In 2016, the bank started to offer loans for planting macadamia trees in Lam Dong province.

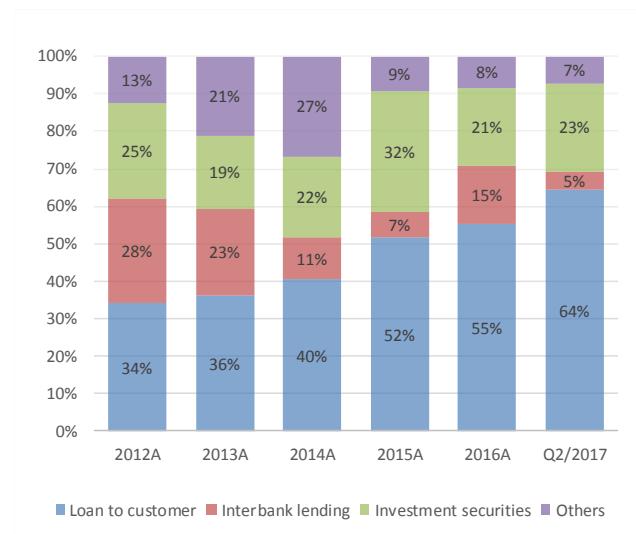
High asset growth but asset structure is still questionable

Figure 3 Total asset and growth since FY2013



Source: Banks, VNDIRECT

Figure 4 Asset structure between 2012 - 2017



Source: Banks, VNDIRECT

Rapid asset growth. The bank's total asset delivered a high CAGR of 27% during 2012 -2016. As a newly established bank, LPB almost suffered less damage during the banking crisis in 2012-2013. The bank, even, used to be an interbank market lender with inter-bank lending accounting for 28% of total asset as of FY12. As loan growth started to recover strongly since FY14, the proportion of inter-bank lending dramatically decreased to 15% as of FY16-end and even 5% by 2Q2017-end.

On the other hand, the proportion of loan significantly expanded from 34% of total asset by FY12-end to 55% FY16-end and 64% as of 2Q17. Nevertheless, ACB, a representative of retail bank, loan book's proportion is about 75%. It could be understood that LPB still has more potential room to remain strong credit growth in a few of couple years by narrowing investment activities.

Large exposure to investment asset. As of 2Q2017, the bank has more than VND33,000 in portfolio, accounting for 21% of total asset. In which, Government bonds are VND16,934 with terms from 3 to 16 years and bearing interest rates ranging from 5 to 10.8% per annum. Debt securities issued by domestic credit institutions are VND12,614 with terms from 1 to 15 years and bearing interest rates ranging from 5.4% to 12.2%. About VND2,500bn are corporate bonds with terms from 3 to 10 years and bearing interest rates ranging from 6.5% to 11%.

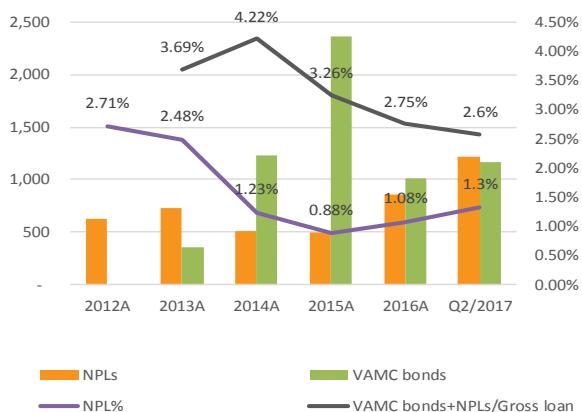
Loan book weighted towards construction and real estate. As of 2Q17, these sectors accounted for 40% of loan book with value of VND32,563bn. We concern that this proportion is relatively higher than other retail banks like ACB (6.5%), VPB (16.4%) and even higher than Techcombank (23%) – the exclusive home loan lender for Vingroup projects across country. This could be explained that Him Lam Group, one of LPB's founders, is a property developer.

In addition, as mentioned above, excluding G-bonds, the value of corporate bond is currently about VND19,434bn, equivalent to 13.7% of total asset. Although the bank does not disclose the bond issuers, it is likely that most of these bonds are related to construction and property developers. Recently, in May 2017, LPB has announced an investment of VND500bn in the bonds issued by Sacomreal, a property developer in the South. We consider heavy weight on construction and real estate, especially those related to its founding shareholder, might increase the risk against NPLs increase.

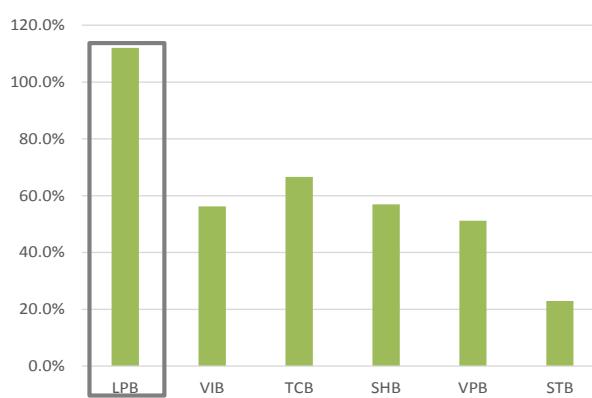
NPLs on the rise but still manageable

In terms of asset quality, reported NPL ratio looked declining between FY12-FY15 as the bank has transferred significant bad debt to VAMC. Actually, combined NPL + VAMC bond ratio was 4.22% and 3.26% of LPB's gross loans as of FY14 and FY15, respectively. According to the Management, VAMC's bond value recorded at VND358 bn as of FY13, VND1,233 bn as of FY14, and VND1,334 bn as of FY15. The bank terminated to transfer bad debt to VAMC since FY16. As of 2Q17, the amortization has covered up approx. 50% of these VAMC bonds, bringing the combined NPL + VAMC bond down to 2.6%, the lowest in recent 5 years.

Although VAMC bond were kept in check, we see the NPLs gradually increased from 0.88% as of FY15 to 1.08% as of FY16 and 1.3% by 2Q17-end. It could be explained by the fact that credit growth increased dramatically in recent 2 years meanwhile the bank did not sell bad debt to VAMC. However, the ratio of NPL + VAMC below 3% is manageable, in our view. Additionally, LPB's relatively active provisioning in FY15-16 has brought highest loan coverage ratio among banks we choose to compare with. As of FY16, loan loss coverage ratio reached 112.8% which will give the bank a cushion on provisioning expenses in this year.

Figure 8: Bad debt and VAMC bond ratios

Source: LPB, VNDIRECT

Figure 9: Loan loss coverage ratios among banks as of FY16

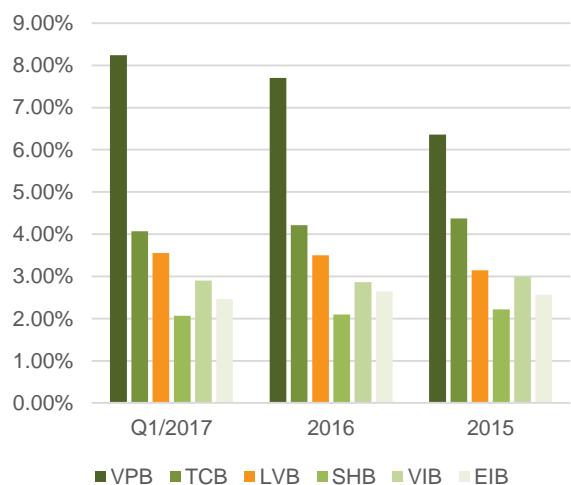
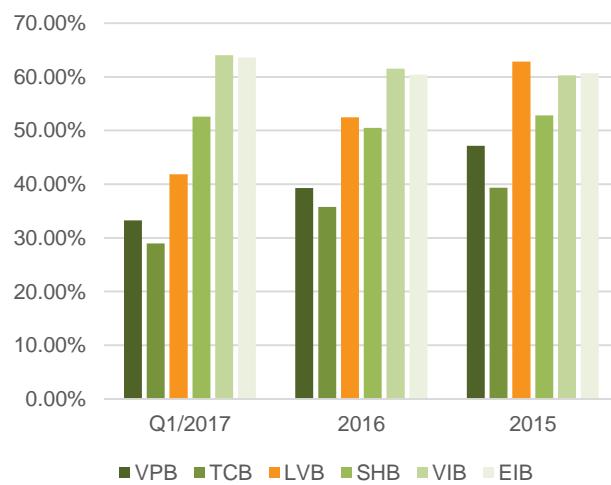
Source: VNDIRECT

Higher-than-average operational efficiencies

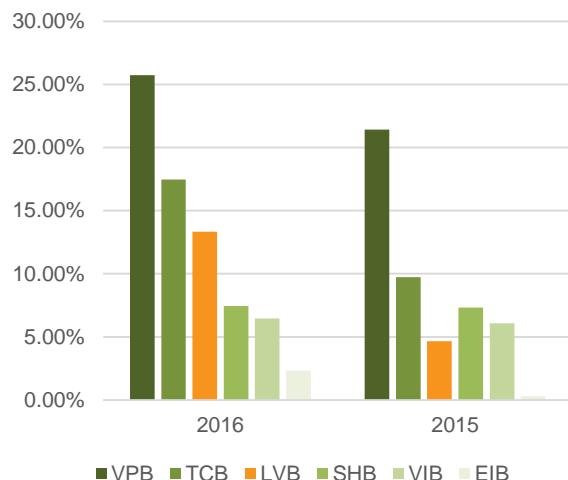
LPB posted 13.3% ROAE and 0.85% ROAA for FY16, higher than the average of Top 12-banks's ROAE 11.5% and ROAA 0.8%. Compared to other retail JSC bank, LPB's operational efficiencies stood only behind VPB bank TCB, but far above SHB, VIB, and EIB.

NIM is likely to be improved. LPB is one of the few banks which has significant improvement in NIM in recent years. NIM increased from 2.9% in FY14 to 3.1% in FY15 and to 3.5% in FY16. LPB's cost of fund was 4.3% as of FY16, below peers' average of 4.5% regarding its higher proportion of CASA (~27%). Meanwhile, as a retail bank, LPB's yield on loan yield was 7.7% as of FY16, higher than peers' average of 7.5%.

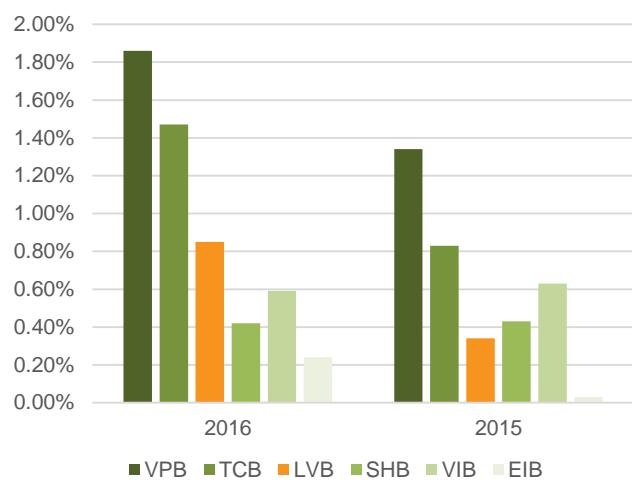
CIR is back to normal. CIR soared to 62% in FY15 due to the bank's heavy investment on core-banking system upgrade. CIR tends to be controllable since FY16 which was far below other banks such as SHB, VIB and EIB.

NIM (%)**CIR (%)**

ROE (%)



ROA (%)



Source: LPB, VNDIRECT

Source: LPB, VNDIRECT

VALUATION

We valued LPB using price-to-book multiple methods, peers comparison are listed private banks which focus on retail segment. Amongst these, TCB is going to list and being traded actively on OTC market thus we select an average OTC market price for our calculation.

Banking multiple comparison

Banks	Total asset Q1/2017	ROA FY16	ROE FY16	P/B TTM	P/E TTM
VPB	229,847	1.9%	25.8%	1.7x	6.4x
TCB	232,522	1.5%	17.5%	1.6x	8.2x
SHB	247,910	0.4%	7.5%	0.7x	22.5x
VIB	105,982	0.6%	6.5%	1.5x	39.1x
EIB	132,862	0.2%	2.3%	1.2x	8.7x
Average		0.9%	11.9%	1.3x	17.0x
LPB	132,023	0.9%	13.3%	1.0x	7.3x

Source: VNDIRECT

Based on current price ~14.000VND/share, LPB's trading at 1.0x P/B and 7.3x P/E, still at a large discount to peers. This discount is deemed due to the fact that LPB has not officially listed yet. We believe with higher-than-average efficiencies, LPB deserves to be traded at peers' average. We initiate LPB with an ADD rating and VND17,200 target price based on 1.3 FY17 P/B.

INVESTMENT RISKS

Credit risk from loans to macadamia tree projects

In 2016, the bank has revealed a plan of allocating VND20 - 22 trillion (equivalent to 25% of outstanding loan balance by FY16-end) to finance for macadamia planting projects in the Central Highlands. This is unsecured loan to be provided directly to farmers at interest rates less than 10% for terms within 7-10 years. There is no further information about this guidance since then (the bank did not disclose the loan breakdown by sectors in 2Q17 financial statements). We believe this might increase the risk on NPLs as there are still concerned about the efficiency of macadamia trees in Vietnam.

Risks from Management changes

In this April, Mr. Duong Cong Minh, former Chairman, has resigned and joined Sacombank's BOD. Market rumors have been raised regarding the possibility of merger between LPB and STB. We think any information relating to the former Chairman might impact on the market price of LPB.

Income statements

(VNDbn)	12-15A	12-16E	12-17E
Net interest income	2,894	4,024	4,974
Non interest income	(406)	(152)	(146)
Total operating income	2,488	3,872	4,828
Total operating costs	(1,563)	(2,031)	(2,607)
Pre-provision operating profit	924	1,840	2,221
Total provision charges	(502)	(492)	(686)
Income from associates & JVs			
Net other income			
Pre-tax profit	422	1,348	1,535
Taxation	(72)	(285)	(307)
Profit after tax	350	1,063	1,228
Minority interests	0	0	0
Net profit	350	1,063	1,228

	12-15A	12-16E	12-17E
Growth rate (yoY)			
Cust deposit growth	(0.2%)	43.0%	10.0%
Gross cust loan growth	36.0%	41.9%	35.0%
Net interest income growth	26.3%	39.0%	23.6%
Pre provision operating profit growth	21.3%	99.1%	20.7%
Net profit growth	(25.0%)	203.8%	15.5%
Growth in IEAs	7.5%	40.5%	11.1%
Share value			
EPS (VND)	524	1,582	1,759
BVPS (VND)	11,766	12,898	13,272
DPS (VND)	200	450	345
EPS growth	(27.4%)	201.9%	11.2%

Balance sheets

(VNDbn)	12-15A	12-16E	12-17E
Gross loans to customers	56,165	79,676	107,563
Loans to banks			
Total gross loans	56,165	79,676	107,563
Securities - total	32,507	34,050	34,118
Other interest earning assets	7,343	21,516	8,912
Total gross IEAs	96,015	135,242	150,593
Total provisions	(1,042)	(1,774)	(2,375)
Net loans to customers	55,470	78,706	105,992
Total net IEAs	94,973	133,468	148,218
Cash and deposits	481	640	643
Total investments	325	325	326
Other assets	11,810	7,433	7,470
Total non-IEAs	12,615	8,397	8,439
Total assets	107,587	141,865	156,657
Customer deposits	77,629	110,985	122,083
Cds outstanding	2,000	4,100	4,510
Customer interest-bearing liabilities	79,629	115,085	126,593
Bank deposits	6,345	311	373
Broad deposits	85,974	115,396	126,966
Other interest-bearing liabilities	12,294	15,905	16,667
Total IBLs	98,268	131,300	143,633
Deferred tax liability			
Other non-interest bearing liabilities	1,719	2,233	3,070
Total non-IBLs	1,719	2,233	3,070
Total liabilities	99,987	133,533	146,703
Share capital	6,460	6,460	7,500
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	364	941	1,523
Other reserves	777	931	931
Shareholders' equity	7,601	8,332	9,954
Minority interests	0	0	0
Total equity	7,601	8,332	9,954
Total liabilities & equity	107,587	141,865	156,657

Key ratios

	12-15A	12-16E	12-17E
Net interest margin	3.1%	3.5%	3.5%
Cost-income ratio	(62.8%)	(52.5%)	(54.0%)
Reported NPLs / gross cust loans	0.9%	1.1%	1.2%
Reported NPLs / net cust loans	0.9%	1.1%	1.2%
GP charge / average cust loans	1.0%	0.7%	0.7%
Total CAR	12.3%	13.2%	13.5%
Loan deposit ratio	70.5%	69.2%	85.0%
Margins and spreads			
Return on IEAs	7.5%	7.7%	7.7%
Cost of funds	4.3%	4.3%	4.3%
Interest return on average assets	2.8%	3.2%	3.3%
ROAE	4.7%	13.3%	13.4%

Source: VNDIRECT

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Phương Nguyễn Mai, CFA – Director

Email: phuong.nguyenmai@vndirect.com.vn

Hiền Trần Khánh – Associate Director

Email: hien.trankhanh@vndirect.com.vn

VNDIRECT Securities Corporation

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

Tel: +84 439724568

Email: research@vndirect.com.vn

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