LIENVIET POST BANK (LPB) - UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND14,900	VND19,600	3.36%	ADD	FINANCIALS

Outlook – Short term	Outlook – Long term	Valuation
Negative / Neutral / Positive	Negative / Neutral / Positive	Negative / Neutral / Positive

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Key changes in the report

- Increased our target price by 17.4%
- FY18-20 net profit CAGR increased to 12.8% from 11.9% previously

Price performance

Source: VNDIRECT

Key statistics

52w high (VND)	16,694
52w low (VND)	10,734
3m Avg daily volume (shares)	2.7mn
3m Avg daily value (VNDmn)	38,059
Market cap (VNDbn)	10,694
Outstanding shares (m)	718
Free float (%)	20
TTM P/E	8.0x
Current P/B	1.1x

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

We reiterate our ADD rating for LPB and increase the target price by 17.4% to VND19,600 as we now expect higher loan growth and lower provision expenses during FY18 to FY20 than previously expected.

The current low funding utilization rate creates headroom for high loan growth in the coming years. LPB has pursued high loan growth for the past few years, as the bank is expanding its loan book off a low base. LPB's Loan-to-deposit ratio (LDR) was 67.4% at FY17-end, well below the 80% cap. Therefore, LPB can maintain high loan growth in the next two years, while staying prepared for Basel II norms. FY17 actual LDR was 67.4% compared to our forecast of 73.7%, and as a result, we increased our loan growth projections for FY18 from 18% to 20% and from 16% to 18% for FY19-FY20.

NIM will continue rising on the back of strong retail lending growth. LPB is promoting retail lending, especially specialized products such as loans for pensioners, SOE staffs and army staff. LPB can utilize its network of 228 branches and transaction offices, as well as 1,321 postal transaction offices to expand its business to remote areas. The State Bank of Vietnam (SBV) has granted approval to LPB to transform 185 postal transaction offices to bank transaction offices, allowing LPB to follow a high-touch approach to selling banking products and client servicing in these areas. The vastly expanded network provides great potential to penetrate the unbanked population.

We reduced our provision expense projections for FY18-FY20 as we expect that the timeline for VAMC provisioning will be longer than we had previously assumed. Although LPB's FY17 pre-provision profit increased by a robust 24%, LPB did not ramp up provisioning, and provision expenses only increased slightly (+4.4% yoy) versus FY16. FY17 VAMC provisioning was below our projections and by FY17-end, the VAMC provision balance covered 43.6% of outstanding VAMC bonds. VAMC provisioning progress trailed our projections, and therefore, we extended the timeline by one more year, resulting in lower provision expenses for FY18 to FY20.

Stake sale to strategic investors will be a catalyst for LPB. LPB has locked its FOL at 5%, so that it could well be looking to sell a stake to a strategic investor. We believe that LPB is attractive to foreign strategic investors due to its competitive advantages of a large network and low cost of funds, which are advantageous for retail banking and micro-finance expansion. In addition, LPB has good asset quality and its valuation is cheap compared to peers.

LPB trades at a deep discount to peers, despite good fundamentals, which is unwarranted. LPB trades at 1.1x current P/B and 0.9x FY18 forward P/B, which are large discounts to peers' average of 2.4x and 2.2x, respectively. We increase our target price to VND19,600, implying 31.5% upside.

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%

Source: VNDIRECT

2017 RESULTS – HIGH LOAN GROWTH AND RISING ALLOCATION TO RETAIL LENDING DROVE PROFIT GROWTH

High profit growth in FY17 was driven by interest income growth, while non-interest income remained 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%. Its LPB fulfilled 118% of its FY17 profit target, though this was still 7% lower than our forecast due to its lower loan growth of 26.3% versus our forecast of 28.0% and higher cost-to-income ratio (CIR) in 4Q17.

Higher fund utilization and NIM expansion drove 29.9% growth in net interest income. LPB's loan book growth of 26.3% yoy outpaced its 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.

LPB has sustainably high asset quality with low NPLs and a high provision buffer. The NPL ratio remained stable 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 rose slightly, the bank's loan loss coverage ratio (LLR) continued to improve from 109.3% by FY16-end to 114.5% by FY17-end. LPB has one of the highest LLRs within Vietnam's banking system. Although the NPL ratio was stable, 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 FY18 to maintain the NPL ratio at the current low level.

Non-interest income still posted losses but the loss narrowed from 2016 levels, thanks to higher income from securities trading and investments; this increased because of the stellar stock market performance seen last year. The key driver for the bank's earnings growth continued to be interest income since non-interest income still recorded a loss of VND132bn (versus VND152bn in FY16) due to provision expenses for securities.

CIR increased due to higher staff costs. Employee expenses, which accounted for more than half of operating expenses, 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 FY16 to VND14.5mn per month in FY17. 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 forecast of 52.0%.

2018 FORECAST – RETAIL LENDING WILL CONTINUE TO BE THE MAIN GROWTH ENGINE

We slightly revised up our loan growth assumptions for FY18-FY20. FY17 actual loan growth (26.3%) was lower than our forecast of 28%, while actual deposit growth (15.6%) was ahead of our forecast (13%). As a result, FY17-end LDR was only 67.4% compared to our projection of 73.7%. LPB's current low LDR could accommodate higher loan growth, therefore we revised our loan growth assumptions for FY18 from 18% to 20%, and from 16% to 18% for FY19-FY20.

We forecast that NIM will increase by 22bps in FY18 due to continued increase of retail lending in total loan mix. LPB will continue to push retail lending, especially lending to pensioners, SOE staffs, and army staff. These loan products were launched in 2015, therefore they are still in the early stages of the product cycle, and we believe that there is large headroom for further expansion. LPB can tap into the large unbanked population as it has a vast network extending into remote areas, where other banks have a limited presence.

CIR is rising as LPB is transforming postal transaction offices to bank transaction offices. LPB received approval from SBV to transform 185 postal transaction offices to bank transaction offices. In 2017, LPB disclosed that the bank started to transform 80 transaction offices and the rest will be transformed in 2018. In addition, LPB will need to recruit more employees for its newly upgraded transaction offices. We project that its CIR will increase to touch 56% in FY18 and 58% in FY19.

Slower than expected VAMC provisioning progress prompted us to extend the timeline for full provisioning by one more year. LPB has provisioned for VAMC bonds in the past three years, but the current VAMC provision balance only covers 43.6% of the outstanding VAMC bonds. Despite 24% growth in pre-provision profit in FY17, LPB only increased provision expenses by 4.4%. The progress of VAMC provisioning has been slower than our expectation, an therefore, we extended the timeline for completing VAMC provisions by one year, leading to a lower provision expenses forecast for FY18 to FY20. We expect that LPB will complete VAMC provisioning in 2021, instead of in 2020 as previously expected.

We forecast that profit will grow by 27.4% in FY18. We forecast that operating profit will grow by 25%, driven by high loan growth and increased NIM. Due to higher loan growth and lower provision expense projections, we project that the net profit CAGR for FY18-FY20 will be 12.8%, higher than our old forecast of 11.9%. We think that Basel II will not get in the way of this growth momentum as the current CAR is at 11%, translating to a Basel II CAR of circa 8% which is still above the minimum requirement. LPB can also increase its capital by issuing long-term bonds and paying stock dividends instead of cash dividends. As mentioned above, the fact that LPB is looking to sell a stake to a strategic investor further raises the possibility of a fresh capital injection.

VALUATION

We used a combination of the residual income and P/B multiples approaches for valuation, with the weight of each approach being 70% and 30%, respectively. The residual income approach is based on the forecasted earnings and growth of LPB, and factors in the bank's current capital buffer and its business strategy. On the other hand, the P/B multiples approach allows us to value LPB relative to other banks and factors in the market sentiment on the banking sector. Given that each bank has distinct fundamentals and earnings prospects, we have only given a 30% weighting to the relative valuation approach and assign a 70% weighting to the residual income approach.

Figure 1: Valuation

Approach	Weighting	Fair value	Contribution
Residual income	70%	18,363	12,854
P/B multiples (at 1.4x)	30%	22,403	6,721
Target price			**19,575**

Source: VNDIRECT

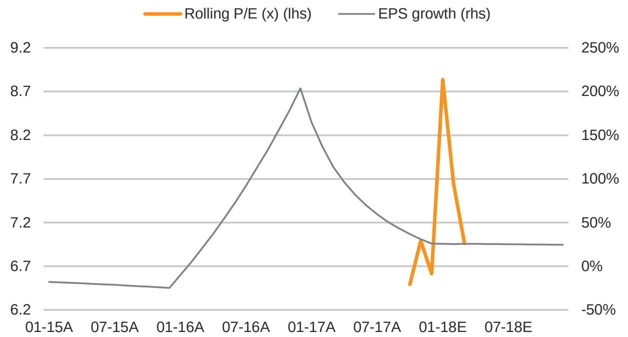
LPB is currently trading at 1.1x P/B versus its peer's average of 2.4x. Compared to its peers, LPB has a higher ROE, lower NPL and a high provisioning buffer. In addition, LPB has some competitive advantages over other retail peers, such as a large network and low cost of funds, which will be beneficial for LPB as it continues to expand its retail lending business. We are positive on its fundamentals and believe that LPB should trade at a higher multiple. However, the stock has not joined the recent banking sector re-rating and we think it needs a significant catalyst such as a stake sell to strategic investors to be re-valued. We have a target P/B of 1.4x for 2018 and by combining the residual income approach with the P/B multiples approach, we arrive at a target price of VND19,600, equating to a FY18 forward P/B of 1.2x.

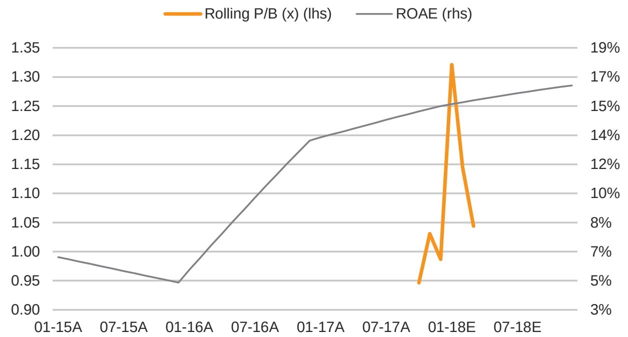
Figure 2: Banks multiple comparison

Banks	Market cap (VND bn)	ROA	ROE	FY17 P/B	FY17 P/E	FY18 P/B	FY18 P/E
BID	128,715	0.6%	15.2%	2.8	18.6	2.5	21.0
CTG	120,266	0.7%	12.0%	1.9	16.2	1.7	17.2
MBB	61,727	1.2%	13.0%	2.2	20.7	1.9	13.3
ACB	45,253	0.8%	14.1%	2.9	25.2	2.3	11.8
VIB	16,648	1.0%	12.8%	2.3	18.2	2.5	28.4
Average	**74,522**	**0.9%**	**13.4%**	**2.4**	**19.8**	**2.2**	**18.3**
LPB	**10,694**	**0.9%**	**15.4%**	**1.1**	**8.0**	**0.9**	**6.4**

Source: VNDIRECT, Bloomberg

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**

	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%

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**

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%

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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.

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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.

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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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