

## LIENVIET POST BANK (LPB) – UPDATE

<b>Market Price</b>	<b>Target Price</b>	<b>Dividend Yield</b>	<b>Rating</b>	<b>Sector</b>
VND11,900	VND13,100	0%	Hold	FINANCIALS

17 November 2020

**Outlook – Short term:** **Neutral**  
**Outlook – Long term:** **Positive**  
**Valuation:** **Neutral**

Consensus\*: Add:4 Hold:1 Reduce:0

Target price / Consensus: -2.2%

### Key changes in the report

- FY20F net profit increased by 15%
- FY21F net profit increased by 12%

### Price performance



Source: VND RESEARCH

### Key statistics

52w high (VND)	12,600
52w low (VND)	5,600
3m Avg daily value (VNDmn)	94,562
Market cap (VND bn)	11,870
Free float (%)	20
TTM P/E (x)	7.23
Current P/B (x)	0.92

### Ownership

Vietnam Post	12.7%
H.T.H Ltd. Co.	5.0%
Mr.Nguyen Dinh Thang	3.6%
Others	78.7%

Source: VND RESEARCH

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### Positive factors priced in

- LPB's 3Q20 net profit surged 42.5% yoy on impressive credit growth and lower provisioning.
- LPB's 9M20 pretax profit grew 6.4% yoy to VND1,741bn, driven by higher loan and fee income growth, fulfilling 91% of our FY20F forecast.
- Downgrade to Hold rating with a higher TP of VND13,100 in response to higher loan and non-interest income growth.

### Double surge in 9M20 non-interest income

Non-II was VND483bn (+99% yoy) in 9M20 on surging net fee income (+79% yoy), driven by active promotion of card products, and the change in accounting policy. Of which, expenses from other activities were reclassified into operating expenses since late 2Q19. Due to the accounting change, both 9M20 net income from other activities and operating expenses increased, 3.4x and 12% yoy respectively. However, fee income was the main contributor to 9M20 non-II, accounting for 74% of non-II.

### Deteriorating asset quality raised our concern

In 9M20, non-performing loans (NPL) grew fast with NPL ratio rose from 1.44% at end-FY19 to 1.64% at end-3Q20. We believe the increase in bad debts was due to LPB's restructuring lending strategy towards individual lending. Furthermore, loan-loss reserve (LLR) ratio dropped sharply to 73% at end-3Q20 from 85% at end-FY19 while annualized write-off ratio maintained at a low level (0.02%).

### We raise FY20/21F earnings forecasts by 12-15%

Higher net profit forecast is based on: 1) higher new credit growth; 2) higher fee income estimation, driven by new launching digital banking services and strong insurance income growth. We maintain our provision expenses forecasts with a higher credit cost (0.42%) than the current level (0.29%) as we are of the view that asset quality risks might emerge in the near term. As a result, we project 7.6%-20.2% yoy net profit growth for FY20-21F, respectively.

### Downgrade to Hold rating with higher TP of VND13,100

Our new target price is based on equal weight of residual income valuation (COE: 14.5%; LTG: 3.0%) and 0.8x FY21F P/BV. The share price rallied 38% since the bank submitted its registration documents to the main bourse (Hochiminh Stock Exchange). Thus, we downgrade LPB to HOLD as the share price is close to fair value. A possible upside to our TP is the success of the private placement for foreign investors. Downside risk is lower-than-expected NIM.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net interest income (bn)	5,016	6,061	6,552	7,765
Net interest margin	3.1%	3.4%	3.2%	3.3%
Total operating income (bn)	4,879	6,507	7,257	8,444
Total provision charges (bn)	(618)	(436)	(636)	(656)
Net profit (bn)	960	1,600	1,722	2,070
Net profit growth	(29.8%)	66.7%	7.6%	20.2%
Adjusted EPS	851	1,249	1,344	1,539
BVPS	11,776	12,876	14,704	15,294
ROAE	9.8%	14.0%	12.8%	13.4%

Source: VND RESEARCH

**9M20 RESULTS: AHEAD OF OUR FORECAST**
**Figure 1: 9M20 results summary (VNDbn, otherwise noted)**

Profit & Loss Statement	3Q20	3Q19	% yoy	2Q20	% qoq	9M20	9M19		VNDIRECT FY20F old forecasts	% VNDIRECT old forecasts	Comments
Net interest income	1,815	1,534	18.3%	1,464	24.0%	4,717	4,498	4.9%	6,002	78.6%	Higher than our forecast as SBV lifted the credit growth quota for LPB from 13% to 21.5% in FY20F.
Non-interest income	172	92	87.7%	253	-31.9%	483	243	99.0%	552	87.5%	Higher than our forecast, driven by promotion of card products and a change in accounting policy in late 2Q20 which classified other operating expenses to operating expenses.
Operating revenue	1,987	1,626	22.2%	1,717	15.8%	5,200	4,741	9.7%	6,554	79.3%	
Operating expenses	(1,145)	(982)	16.6%	(1,063)	7.7%	(3,136)	(2,791)	12.4%	(3,998)	78.5%	Higher than our forecasts due to the reclassification of expenses.
Pre-provision profit	843	644	30.9%	654	28.9%	2,063	1,950	5.8%	2,556	80.7%	
Provision expenses	(106)	(124)	-15.1%	(253)	n/m	(322)	(313)	2.6%	(648)	49.6%	Lower than our forecasts as annualized credit cost dropped to 0.3%, compared with our expectation of 0.44%. However, in our opinion, the LLR ratio at 73% is not a good cushion on provision expenses. Thus, we expect provision expenses to surge in 4Q20, lifting provision expenses to increase by 46% yoy.
Pretax profit	737	519	41.9%	401	84.0%	1,741	1,636	6.4%	1,908	91.3%	
Net profit	589	413	42.5%	321	83.7%	1,395	1,311	6.4%	1,498	93.2%	Ahead of our forecasts.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

**Figure 2: LPB's key ratios by quarters**

Key ratios	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Net interest income/Total operating income	107.9%	96.3%	101.6%	102.3%	89.6%	94.3%	88.5%	96.2%	85.3%	91.3%
Non-interest income/Total operating income	-7.9%	3.7%	-1.6%	-2.3%	10.4%	5.7%	11.5%	3.8%	14.7%	8.7%
NIM (annualised)	2.9%	3.0%	3.1%	3.3%	3.4%	3.4%	3.4%	3.0%	2.9%	3.2%
Non-performing loan (NPL) ratio	1.0%	1.3%	1.4%	1.4%	1.5%	1.5%	1.4%	1.4%	1.6%	1.6%
Loan-loss-reserves (LLR)	112.0%	84.9%	88.2%	93.4%	81.0%	80.6%	84.7%	82.3%	72.8%	73.2%
Credit cost (annualised)	0.36%	0.49%	0.61%	0.44%	0.30%	0.33%	0.34%	-0.10%	0.30%	0.29%
ROAA (trailing 12 months)	0.7%	0.6%	0.5%	0.5%	0.7%	0.8%	0.8%	0.9%	0.8%	0.8%
ROAE (trailing 12 months)	12.5%	10.7%	9.4%	8.9%	12.3%	12.9%	13.7%	13.6%	12.0%	13.0%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

**9M20 NII grew 5% yoy on striking loan growth and lower NIM.** Funding costs slipped by 3bps yoy thanks to a recent decrease in LPB's interest rates across the maturity spectrum but assets yields narrowed by 31bps yoy as the bank reduced its lending rates to support clients hit by Covid-19. Thus, NIM fell 24bps yoy to 3.18%. Meanwhile, credit growth surged by 18% yoy (2Q20: 17.6% yoy) due to the swift recovery after the Covid-19 outbreak in 2Q20 in Vietnam.

**Modest total operating income (TOI) growth in 9M20.** LPB's 9M20 TOI edged up 10% yoy to VND5,200bn, driven by a 5% yoy increase in net interest income (NII) and a double surge yoy in non-interest income (non-II). Loan balance rose 13.3% YTD, much higher than the industry's credit growth of 6.1% YTD. Besides, SBV recently allowed LPB to lift the credit growth limit from 13% to 21.5% in FY20F, leaving the bank enough room to increase credit

growth further towards year-end. Thus, we revise up our forecast for loan book growth from 13% to 17% in FY20F.

**Net profit inched up 6.4% yoy on weak provisioning.** 9M20 LPB's loan-loss reserve (LLR) ratio plunged to 73%, from 81% at end-3Q19, driven by a 4bps yoy decline in credit cost to 0.29% in 9M20. Thus, 9M20 provision expenses only inched up 2.6% yoy, prompting 9M20 net profit to grow by 6.4% yoy. However, in our opinion, the LLR ratio at 73% is not a good cushion on provisioning. Thus, we expect provision expenses to surge in 4Q20, lifting FY20F provision expenses to increase by 46% yoy.

**Embarking the race of digital banking.** Recently, LPB just launched its digital banking application LienViet24h. This app was developed based on the integration of its e-wallet Vi Viet, digital banking, and other card services. People without a bank account could register to use LienViet24h with their mobile phone number and electronic know your customer/client (eKYC). The bank also launched a brand new website in Nov 2020 with visualized and friendly display. We think it was one of the breakthroughs of LPB as the bank is considered a laggard to other banks in terms of technology.

## OUTLOOK

Figure 3: Earnings revision (VNDbn, otherwise noted)

	Old forecasts		New forecasts		Change		Comments
	FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	
Net interest income	6,002	7,026	6,552	7,765	9.2%	10.5%	We increase our forecasts for net interest income based on higher loan growth assumption from 13% to 17% for FY20F as SBV recently allowed LPB to lift its credit growth from 13 to 21.5% for FY20F.
Non-interest income	552	678	705	680	27.7%	0.2%	We revise up our FY20F forecasts for non interest income on strong fee income growth and new launching digital banking services.
Operating revenue	6,554	7,704	7,257	8,444	10.7%	9.6%	
Operating expenses	(3,998)	(4,700)	(4,427)	(5,151)	10.7%	9.6%	
Pre-provision profit	2,556	3,004	2,830	3,293	10.7%	9.6%	
Provision expenses	(648)	(654)	(636)	(656)	-1.8%	0.3%	
Net profit	1,498	1,845	1,722	2,070	14.9%	12.2%	
Average no. of outstanding share	977	1,026	977	1,026	0.0%	0.0%	
EPS (VND/shares)	1,169	1,372	1,344	1,539	15.0%	12.2%	Higher net profit forecast derives from an upward adjustment in net interest income and non-interest income.

Source: VNDIRECT RESEARCH, COMPANY REPORTS

## VALUATION

### Downgrade to Hold rating with higher TP of VND13,100

We upgrade our TP to VND13,100 on higher credit growth assumptions. Our target P/BV is now 0.8x on FY21F book value per share. The P/BV component of our valuation is at a large discount over regional peers' 1.1x FY21F P/BV due to LPB's lack of information disclosure and high CIR vs peers (LPB: 60%; industry average: 50%)

LPB has delivered impressive returns with its share price rising 73% since the start of this year, versus a VN-index increase of 0.7%. We think the recent rally of the stock price reflected the re-rating catalyst when the bank shifts from UPCOM to the main bourse HOSE. However, we downgrade to Hold rating as we believe the positives appear to have been priced in, while the asset quality raises uncertainty in the future.

**Figure 4: Our target price calculation**

Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	13,928	6,964
P/B multiple (at 0.8x FY21F P/B)	50%	12,235	6,117
Target price (VND/share)			13,081
<b>Target price (VND/share, rounded)</b>			<b>13,100</b>

Source: VNDIRECT RESEARCH

**Figure 5: Residual income valuation, based on our estimates**

Key assumptions	2020E	2021E	2022E	2023E	2024E	Terminal
Risk free rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
Opening shareholder's equity	12,580					
PV of RI (5 years)	515					
PV of Terminal value	512					
Implied Equity value	13,606					
No. of outstanding shares (m shares)	977					
Implied value per share (VND/share)	<b>13,928</b>					

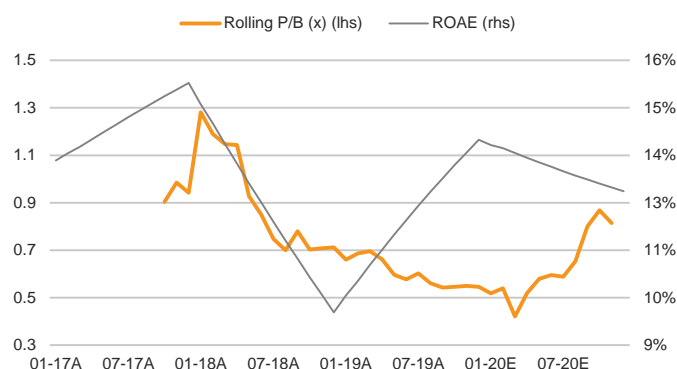
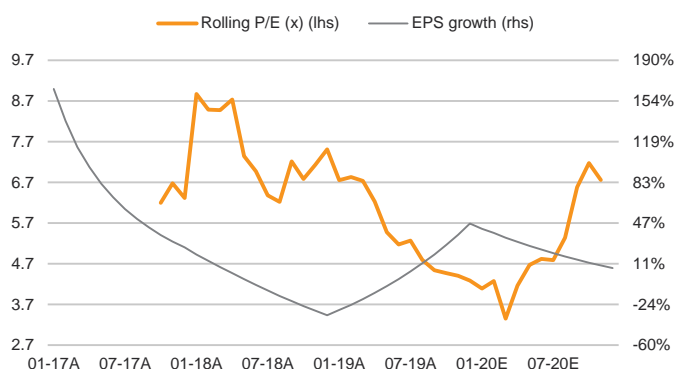
Source: VNDIRECT RESEARCH

**Figure 6: Peer comparison (data as at 17 Nov 2020)**

Banks	Bloomberg Code	Recommendation	Price Latest	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward CAGR EPS	ROE %	
			(local curr.)	(local curr.)	(US\$m)	FY20F	FY21F	FY20F	FY21F	%	FY20F	FY21F
Techcombank	TCB VN	ADD	23,350	27,400	3,474	1.1	0.9	7.5	6.5	12.5%	16.0%	15.8%
Vietnam Prosperity JSB	VPB VN	HOLD	25,000	28,000	2,577	1.1	0.9	6.1	5.3	17.8%	20.7%	19.5%
Military Commercial JSB	MBB VN	ADD	19,550	22,900	2,309	1.1	0.9	6.2	5.4	13.3%	20.0%	18.9%
Asia Commercial JS Bank	ACB VN	ADD	27,200	28,200	2,472	1.7	1.4	7.8	7.3	4.3%	20.8%	20.6%
Bank Permata	BNLI IJ	n/a	2,260	n/a	4,473	2.6	2.5	90.9	52.9	-5.5%	2.9%	4.7%
Affin Bank Berhad	ABANK MK	n/a	1	n/a	752	0.3	0.3	8.8	6.0	1.1%	3.6%	5.1%
Alliance Bank Malaysia Berhad	ABMB MK	n/a	2	n/a	909	0.6	0.6	9.3	9.5	-0.2%	6.5%	6.1%
<b>Average</b>						<b>1.2</b>	<b>1.1</b>	<b>19.5</b>	<b>13.3</b>	<b>6.2%</b>	<b>12.9%</b>	<b>13.0%</b>
LienViet Post Bank	LPB VN	ADD	11,900	13,100	523	0.8	0.8	6.8	5.9	23.9%	12.8%	13.4%

Source: VNDIRECT RESEARCH, BLOOMBERG

**Valuation**



**Income statement**

(VNDbn)	12-19A	12-20E	12-21E
Net interest income	6,061	6,552	7,765
Non interest income	446	705	680
<b>Total operating income</b>	<b>6,507</b>	<b>7,257</b>	<b>8,444</b>
Total operating costs	(4,032)	(4,427)	(5,151)
<b>Pre-provision operating profit</b>	<b>2,474</b>	<b>2,830</b>	<b>3,293</b>
Total provision charges	(436)	(636)	(656)
Income from associates & JVs			
Net other income			
<b>Pre-tax profit</b>	<b>2,039</b>	<b>2,194</b>	<b>2,638</b>
Tax expense	(439)	(472)	(567)
<b>Profit after tax</b>	<b>1,600</b>	<b>1,722</b>	<b>2,070</b>
Minority interest	0	0	0
<b>Net profit</b>	<b>1,600</b>	<b>1,722</b>	<b>2,070</b>

**Balance sheet**

(VNDbn)	12-19A	12-20E	12-21E
Gross loans to customers	140,523	164,411	189,073
Loans to banks			
<b>Total gross loans</b>	<b>140,523</b>	<b>164,411</b>	<b>189,073</b>
Securities - total	35,142	36,521	42,000
Other interest earning assets	18,373	15,808	17,079
<b>Total gross IEAs</b>	<b>194,038</b>	<b>216,741</b>	<b>248,152</b>
<b>Total provisions</b>	<b>(2,066)</b>	<b>(2,348)</b>	<b>(2,844)</b>
<b>Net loans to customers</b>	<b>138,802</b>	<b>162,283</b>	<b>186,418</b>
<b>Total net IEAs</b>	<b>191,972</b>	<b>214,393</b>	<b>245,308</b>
Cash and deposits	1,214	1,286	1,364
Total investment	325	344	365
Other assets	8,548	9,061	9,605
<b>Total non-IEAs</b>	<b>10,086</b>	<b>10,692</b>	<b>11,333</b>
<b>Total assets</b>	<b>202,058</b>	<b>225,085</b>	<b>256,641</b>
Customer deposits	136,847	154,637	177,833
Cds outstanding	28,156	28,156	30,972
Customer interest-bearing liabilities	165,003	182,793	208,805
Bank deposits	287	301	316
Broad deposits	165,290	183,095	209,121
Other interest-bearing liabilities	18,692	17,815	19,481
<b>Total IBLs</b>	<b>183,982</b>	<b>200,910</b>	<b>228,602</b>
Deferred tax liability			
Other non-interest bearing liabilities	5,496	9,810	11,604
<b>Total non-IBLs</b>	<b>5,496</b>	<b>9,810</b>	<b>11,604</b>
<b>Total liabilities</b>	<b>189,478</b>	<b>210,720</b>	<b>240,206</b>
Share capital	8,881	9,769	10,746
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	2,162	3,059	4,152
Other reserves	1,537	1,537	1,537
<b>Shareholders' equity</b>	<b>12,580</b>	<b>14,365</b>	<b>16,435</b>
Minority interest	0	0	0
<b>Total equity</b>	<b>12,580</b>	<b>14,365</b>	<b>16,435</b>
<b>Total liabilities &amp; equity</b>	<b>202,058</b>	<b>225,085</b>	<b>256,641</b>

	12-19A	12-20E	12-21E
<b>Growth rate (yoy)</b>			
Cust deposit growth	9.5%	13.0%	15.0%
Gross cust loan growth	17.9%	17.0%	15.0%
Net interest income growth	20.8%	8.1%	18.5%
Pre provision operating profit growth	35.1%	14.4%	16.4%
Net profit growth	66.7%	7.6%	20.2%
Growth in IEAs	16.5%	11.7%	14.4%
<b>Share value</b>			
Basic EPS (VND)	1,638	1,763	2,018
BVPS (VND)	12,876	14,704	15,294
DPS (VND)	0	0	0
EPS growth	46.8%	7.6%	14.5%

**Key ratios**

	12-19A	12-20E	12-21E
Net interest margin	3.4%	3.2%	3.3%
Cost-income ratio	(62.0%)	(61.0%)	(61.0%)
Reported NPLs / gross cust loans	1.4%	1.7%	1.8%
Reported NPLs / net cust loans	1.5%	1.7%	1.8%
GP charge / average cust loans	0.3%	0.4%	0.4%
Total CAR	8.4%	8.2%	8.1%
Loan deposit ratio	85.2%	89.9%	90.6%
<b>Margins and spreads</b>			
Return on IEAs	9.0%	8.8%	8.9%
Cost of funds	5.9%	6.0%	6.1%
Interest return on average assets	3.2%	3.1%	3.2%
ROAE	14.0%	12.8%	13.4%

Source: VND RESEARCH

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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.

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