

## VIETCOMBANK (VCB)

<b>Market Price</b> VND40,600	<b>Target Price</b> VND43,100	<b>Dividend Yield</b> 2.0%	<b>Rating</b> HOLD	<b>Sector</b> FINANCIALS
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### Outlook – Short term



### Outlook – Long term



### Valuation



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### Clear balance sheet underpinned solid earnings growth

**Flat provision expense boosted bottom line growth.** In 9M2017, pre-provision profit posted 14.8% YoY growth but flat provision expense led to 25.4% YoY PBT growth and 25.9% YoY PAT growth. Good performance was observed across all major areas: net interest income rose 18.4% YoY; net fee income jumped by 24.3% YoY while other income rose by a robust 20.4% YoY. YTD PBT was VND7,934bn, fulfilling 86% of the 2017 full-year target.

### Price performance



Source: VNDIRECT

### Key statistics

52w high (VND)	41,400
52w low (VND)	34,000
3m Avg daily value (mn)	54,907
Market cap (VND bn)	146,609
Outstanding shares (m)	3,598
Free float (%)	9.37

### Ownership

State Bank of Vietnam (SBV)	77.11%
Mizuho Bank, Ltd	15.00%
Others	7.89%

Source: VNDIRECT

Figure 1: Financial summary (VND)

	9M16	9M17	Growth
Net interest income (bn)	13,646	16,161	18.4%
Net fee income (bn)	1,581	1,965	24.3%
Other income (bn)	3,114	3,748	20.4%
Pre-provision profit (bn)	10,840	12,441	14.8%
Provision expense (bn)	4,514	4,507	-0.2%
Profit before tax (bn)	6,326	7,934	25.4%
Profit after tax (bn)	5,058	6,366	25.9%
Loan book growth (%)	15.5%	16.3%	
Deposit book growth (%)	14.4%	16.5%	
Non-performing loans (%)	1.7%	1.2%	
Net interest margin (%)	2.7%	2.7%	
Loan to deposit (%)	66.4%	65.6%	
Loan loss coverage (%)	127.7%	164.8%	
Cost-to-income (%)	41.3%	42.6%	

Source: VNDIRECT

**Stable growth expected, going forward.** Given a low LDR which allows high loan growth and the fact that provision expense has normalized, VCB is stepping into a phase of stable growth but a new capital injection could help accelerate growth.

**Good loan growth was in line with deposit growth.** The loan book at the end of 3Q2017 was up 16.3% from the beginning of the year, compared to a 15.5% rise in the comparable period last year. Deposit growth was kept in line at 16.5%. As of Sep 30, 2017, we estimate that LDR (according to Circular 36) stood at 65.6%, which gives VCB plenty of headroom for credit growth (LDR cap for VCB is 90%). 18.4% YoY growth in net interest income was driven by the above mentioned loan growth, 19.5% growth in interbank loans & deposits balance and 12.8% growth in held-to-maturity securities balance.

**NIM was similar to full-year 2016 but fell by 12bps since 1Q2017.** NIM reduced from 2.77% in 1Q2017 to 2.65% in 3Q2017. The decline of NIM was due to a push in deposit growth. Deposit growth reached 3.2% in 1Q2017 but by the end of 3Q, it was pushed to 16.5%, on a

YTD basis. LDR as of 1Q and 3Q was 68.7% and 65.6%, respectively. A lower utilization of funds for loan disbursement in 3Q put a constraint on interest income, but the deposit push is a conservative move on VCB's part to build up a funding base, thus preempting a sharp rise in funding costs and preparing for credit growth in the future. We view the current NIM as being sustainable given that the current LDR is low and VCB can raise its LDR to protect NIM.

**NPL quickly dropped due to loan write-offs.** NPL fell from 1.51% at FY16-end to 1.15% at 3Q2017-end as VCB wrote-off VND2,483bn of bad debts using its specific provision. Diligent provisioning in the past helped VCB fully provision for VAMC bonds in 2016, therefore, 9M2017 provision expense was at same level as 9M2016, resulting in strong profit growth.

**Unleashed from VAMC bonds provisioning obligation, VCB actively augmented its provision balance.** As VCB fully provisioned for VAMC bonds in 2016, the bank would have saved VND1,700bn in provision expense in 9M2017. However, provision expense was similar to 9M2016 because VCB has ramped up specific provisioning in order to write-off bad debts and improve the provisioning buffer. VCB booked VND3,935bn of specific provisions in 9M2017, nearly double the figure in 9M2016. LLR was lifted from 117.1% in FY16-end to 164.8% in 3Q2017-end, the highest among the banks, affirming VCB's leading position in assets management.

**VCB to auction its stakes in Saigon Bank for Industry & Trade (SaigonBank) and Cement Finance JSC (CFC).** VCB recently announced the receipt of registration certificates for public auction sales of 13.2mn SaigonBank shares (4.3%) and 6.6mn CFC shares (10.91%), at initial prices of VND12,550/share and VND11,549/share, respectively. VCB expects to receive a total of VND241.9bn from the stake sales, of which VND47.5bn will be financial gain. The divestment is being conducted to comply with the cross-ownership regulation, which limits the bank's ownership to 2 banks and 5% of charter capital in each bank. After this divestment, VCB will still have ownership in MBB, EIB and OCB. SBV approved for VCB to keep its stake in MBB and EIB, and the bank will look to divest from OCB. The total value of this divestment is small compared to VCB's asset base and therefore its impact is minimal.

**We maintain our HOLD recommendation for VCB at a target price of VND43,100,** translating to a P/B of 2.8x of FY17 forecasted book value per share. At the current price, VCB is trading at 2.7x P/B, close to its fair value.

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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 -10% or more 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.

**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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