

Vietnam

ADD (no change)

Consensus ratings*: Buy 4 Hold 2 Sell 2

Current price:	VND62,100
Target price:	VND79,500
Previous target:	VND79,500
Up/downside:	28.0%
CGS-CIMB / Consensus:	35.7%
Reuters:	VCB.HM
Bloomberg:	VCB VN
Market cap:	US\$9,595m
	VND223,421,424m
Average daily turnover:	US\$6.32m
	VND144,888m
Current shares o/s:	3,598m
Free float:	7.9%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.9	1.8	61.7
Relative (%)	7.6	10.7	39.6

Major shareholders	% held
State Bank of Vietnam	77.1
Mizuho Corporate Bank	15.0

Analyst(s)



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Vietcombank

Strong earnings growth helped improve asset quality

- VCB's 1H18 pre-tax profit increased 52.6% yoy to VND8tr. This formed 62% of the bank's FY18F target and 56% of our FY18F forecast.
- Net interest income grew 19.1% yoy on strong loan growth while NIM was flat yoy.
- 1H18 non-interest income exceeded our expectations largely due to one-offs; we expect 2H18 non-interest income to be lower than in 1H18.
- Our Add is intact given strong earnings growth outlook and improving asset quality.
- We maintain our TP of VND79,500, based on an equally-weighted combination of residual income valuation (COE: 13.7%, LTG: 4%) and FY19F P/BV of 4.0x.

Net interest income (NII) rose 19.1% yoy on strong loan growth

1H18 loan book growth reached 11.5%, higher than the 7.9% growth in deposit book over the same period. VCB's 1H18 loan growth was also higher than the system credit growth of 7.9%. 1H18 NIM was flat yoy at 2.8%. However, NIM widened 32bp qoq because in 2Q18, VCB reduced interbank lending and securities investments, thus effectively increasing the share of customer loans (which have higher yields) to total interest earning assets from 59% as of end-1Q18 to 64% as of end-2Q18.

Robust non-interest income (non-II) growth exceeded expectations

Non-II grew 68.4% yoy, of which Net Fee Income (NFI) rose 31.8% yoy on higher charges for services, e.g. i-banking and mobile banking. Other non-II jumped by 88.8% yoy due to 1) 91.6% yoy rise in income from trading securities as VCB took profit on bonds as bond yields fell; 2) 162.4% yoy rise in other income on better bad debt recovery; 3) c.4x jump yoy in income from divestments of long-term equity investments, of which VND418bn was one-off income from divesting Orient Commercial Joint Stock Bank (OCB, Unlisted) and Vietnam Airlines (HVN, Not rated). Sans one-off income, non-II was up 57.0% yoy.

Asset quality improved with lower NPL and higher LLR

1H18 provision expense rose slightly by 7.8% yoy. VCB wrote-off VND1.4tr of bad debts in 2Q18 while there were no write-offs in 1Q18. The reported NPL ratio dipped from 1.4% at end-1Q18 to 1.2% at end-2Q18 due to write-offs. The increase in provision expense and the drop in NPL led to higher Loan Loss Reserves (LLR) of 140.6% at end-2Q18 vs. 121.4% at end-1Q18. The hike in provision expenses trailed the growth in pre-provision profit (+36.3% yoy), thus pre-tax profit surged by 52.6% to VND8tr.

We maintain our target price at VND79,500; reiterate Add

1H18 net profit made up 56% of our FY18F forecast. However, we deem the results largely in line given the absence of sizable extraordinary income in 2H18 and likely lower income from securities trading in 2H18 as compared to 1H18 due to a possible interest rate hike in 2H18. Our projections and target price of VND79,500 are intact. VCB now trades at a FY18F P/BV of 3.6x, lower than the 6-month historical average P/BV of 4.0x. We think this is a good opportunity to buy into a best-in-class Vietnamese bank with a strong earnings growth outlook.

Re-rating catalyst and downside risks

Re-rating catalysts include higher-than-expected fee income from a potential exclusive bancassurance deal. VCB plans to invite bids from insurers for an exclusive partnership agreement to distribute life insurance through its network, which will benefit the bank with sizeable upfront agency fees and commission on insurance sales. A downside risk to our forecast is VCB's inability to raise sufficient capital to comply with Basel II implementation in 2020, which would necessitate deceleration in loan growth. Another medium-term risk is a hawkish policy stance by the State Bank of Vietnam as VCB will then need to comply with any attempts to tighten systemwide credit growth.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income (VNDb)	18,528	21,938	27,347	32,540	39,373
Total Non-Interest Income (VNDb)	6,352	7,466	8,272	9,269	10,385
Operating Revenue (VNDb)	24,880	29,403	35,619	41,810	49,759
Total Provision Charges (VNDb)	(6,406)	(6,198)	(7,108)	(8,388)	(9,943)
Net Profit (VNDb)	5,633	7,497	9,489	11,111	13,249
Core EPS (VND)	1,899	2,526	3,178	3,721	4,437
Core EPS Growth	28.6%	33.0%	25.8%	17.1%	19.2%
FD Core P/E (x)	32.70	24.59	19.54	16.69	14.00
DPS (VND)	851.1	799.9	800.0	800.0	800.0
Dividend Yield	1.37%	1.29%	1.29%	1.29%	1.29%
BVPS (VND)	13,330	15,003	17,381	20,302	23,939
P/BV (x)	4.66	4.14	3.57	3.06	2.59
ROE	14.7%	17.8%	19.6%	19.7%	20.1%
CIMB/consensus EPS (x)			0.89	0.86	0.86

SOURCES: VND, COMPANY REPORTS

1H18: Strong earnings growth helped improve asset quality

Figure 1: Results comparison (VND bn unless otherwise noted)

FYE (VND bn)	2Q18	yoy%	1Q18	qoq%	1H18	1H17	yoy%	VND FY18F forecasts	% of VND FY18F forecasts	Comments
Net interest income	6,800	21%	6,197	10%	12,997	10,913	19%	27,347	48%	In line with our forecast.
Non-interest income	2,459	48%	3,727	-34%	6,187	3,673	68%	8,272	75%	Above our forecast due to one-off income from stake divestment, high income from trading securities and higher bad debts recoveries.
Operating revenue	9,259	27%	9,924	-7%	19,184	14,586	32%	35,619	54%	Slightly above our forecast.
Operation expenses	(3,864)	22%	(4,067)	-5%	(7,931)	(6,329)	25%	(14,247)	56%	Above our forecast.
Pre-provision profit	5,395	31%	5,857	-8%	11,252	8,257	36%	21,371	53%	In line with our forecast.
Provision expenses	(1,738)	9%	(1,498)	16%	(3,235)	(3,002)	8%	(7,108)	46%	Below our forecast.
Pre-tax profit	3,657	45%	4,359	-16%	8,017	5,255	53%	14,263	56%	Above our forecast.
Net profit	2,927	45%	3,504	-16%	6,431	4,222	52%	11,433	56%	Above our forecast.

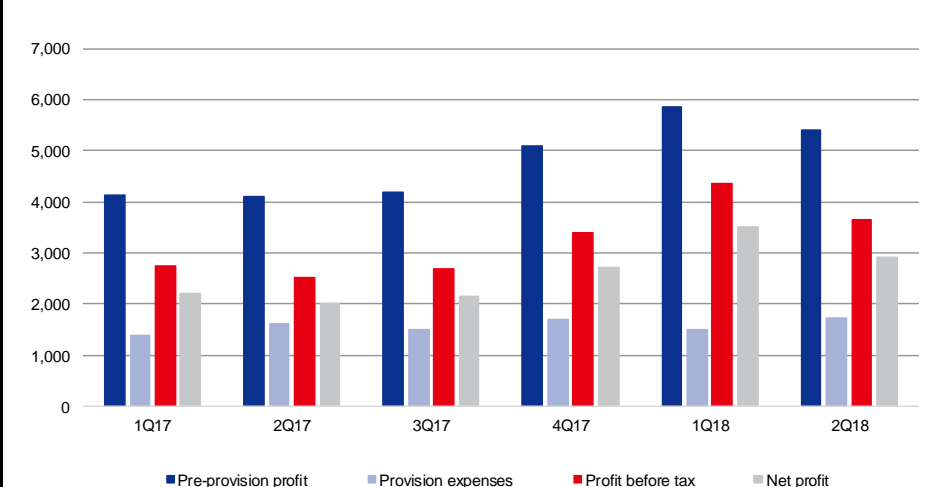
SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 2: VCB's key ratios by quarter

	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
NII/Total operating income (TOI)	72.4%	77.2%	72.0%	76.7%	62.4%	73.4%
Non-II/TOI	27.6%	22.8%	28.0%	23.3%	37.6%	26.6%
NIM (annualised)	2.7%	2.8%	2.5%	2.4%	2.5%	2.8%
Loan-to-deposit ratio	72.4%	72.4%	70.1%	67.4%	71.9%	72.3%
NPL	1.5%	1.5%	1.2%	1.1%	1.4%	1.2%
LLR	128.9%	140.3%	164.8%	130.7%	121.4%	140.6%
Credit cost (annualised)	1.2%	1.3%	1.1%	1.3%	1.1%	1.2%
ROAA (trailing 12 months)	1.0%	1.0%	1.0%	1.0%	1.2%	1.2%
ROAE (trailing 12 months)	14.8%	15.2%	16.0%	17.8%	19.5%	20.4%

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 3: VCB's quarterly earnings trend (VND bn)



SOURCES: VND RESEARCH, COMPANY REPORTS

Valuation

We maintain our TP at VND79,500; potential upside of 28%

1H18 net profit made up 56% of our FY18F net profit forecast. However, we deem the results largely in line with our full-year projections due to: 1) VCB probably not having such a large extraordinary income in 2H18 as it did in 1H18; 2) the opportunity for profit-taking on its bonds portfolio is more limited in 2H18 than in 1H18 due to a potential rate hike. We have not made any changes to our forecasts and maintain our target price at VND79,500, implying a 28% upside.

Figure 4: Residual income model - key assumptions, based on our estimates

General assumptions	2018F	2019F	2020F	2021F	2022F
Risk-free rate (5-year VGB yield)	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	10.1%	10.1%	10.1%	10.1%	10.1%
Beta (1 year)	0.9	0.9	0.9	0.9	0.9
Cost of equity	13.7%	13.7%	13.7%	13.7%	13.7%
Long-term growth rate					4.0%
Long-run COE					9.0%
<i>(in VNDbn, otherwise noted)</i>					
RI	4,046	4,828	5,967	5,438	6,344
PV of RI	3,559	3,736	4,061	3,255	3,341
Opening shareholder's equity	53,977				
PV of RI (5 years)	17,951				
PV of Terminal value	206,146				
Implied EV	278,074				
No. of o/s shares (m shares)	3,598				
Implied value per share (VND/share)	77,290				

SOURCES: VND RESEARCH, COMPANY REPORTS

Figure 5: Our target price calculation

Approach	Weight	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	77,290	38,645
P/BV multiple (at 4.0x FY19F BVPS)	50%	81,206	40,603
Target price (VND/share)			79,248
Target price (VND/share, rounded)			79,500

SOURCES: VND RESEARCH, COMPANY REPORTS

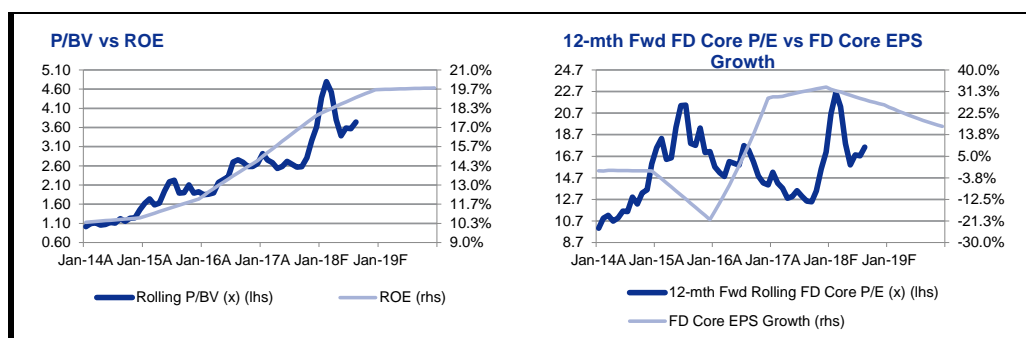
Figure 6: Regional sector comparison

Company	Bloomberg Ticker	Recomm endation	Closing price (local curr.)	Target Price (local curr.)	Market cap (US\$m)	P/BV(x)		P/E (x)		3-yr Forward CAGR EPS		ROE (%)	
						Dec-18F	Dec-19F	Dec-18F	Dec-19F	% Dec-18F	Dec-19F	% Dec-18F	Dec-19F
HDFC Bank	HDFCB IN	ADD	2,136	2,500	83,154	4.6	3.9	26.0	21.2	23.3%	19.2%	20.1%	
ICICI Bank	ICICIB IN	ADD	319	400	29,872	1.9	1.7	20.0	14.5	11.8%	9.5%	12.2%	
Indusind Bank	IIB IN	ADD	2,001	2,200	17,506	4.5	3.8	27.0	21.3	27.1%	18.1%	19.3%	
Yes Bank	YES IN	ADD	383	450	12,863	3.0	2.6	17.2	13.8	26.2%	19.0%	20.1%	
Bank Central Asia	BBCA IJ	HOLD	23,925	25,500	40,853	3.9	3.4	22.3	19.6	13.0%	18.6%	18.4%	
Bank Rakyat Indonesia	BBRI IJ	ADD	3,330	4,700	28,447	2.2	1.9	12.6	10.4	15.4%	18.5%	19.8%	
Bank Mandiri	BMRI IJ	ADD	7,325	9,800	23,674	1.9	1.7	13.1	11.1	18.9%	14.8%	15.8%	
Public Bank Bhd	PBK MK	HOLD	24	23	23,172	2.0	1.8	15.9	14.8	7.0%	13.8%	12.6%	
Military Commercial Joint Stock Bank	MBB VN	ADD	23,300	33,400	2,162	1.5	1.3	8.9	7.7	29.5%	18.6%	18.4%	
Average regional peers						2.8	2.4	18.0	14.9	19.1%	16.7%	17.4%	
Vietcombank	VCB VN	ADD	62,100	79,500	9,595	3.6	3.1	23.5	20.1	20.7%	16.3%	16.4%	

NOTE: AS OF 9 AUG 2018

SOURCES: CGS-CIMB RESEARCH, VND RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Net Interest Income	18,528	21,938	27,347	32,540	39,373
Total Non-Interest Income	6,352	7,466	8,272	9,269	10,385
Operating Revenue	24,880	29,403	35,619	41,810	49,759
Total Non-Interest Expenses	(9,950)	(11,868)	(14,247)	(16,724)	(19,904)
Pre-provision Operating Profit	14,929	17,536	21,371	25,086	29,855
Total Provision Charges	(6,406)	(6,198)	(7,108)	(8,388)	(9,943)
Operating Profit After Provisions	8,523	11,337	14,263	16,698	19,913
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Operating EBIT (incl Associates)	8,523	11,337	14,263	16,698	19,913
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	8,523	11,337	14,263	16,698	19,913
Exceptional Items					
Pre-tax Profit	8,523	11,337	14,263	16,698	19,913
Taxation	(1,672)	(2,224)	(2,796)	(3,273)	(3,903)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	6,851	9,113	11,467	13,425	16,010
Minority Interests	(19)	(26)	(35)	(39)	(46)
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	(1,199)	(1,590)	(1,944)	(2,276)	(2,714)
Net Profit	5,633	7,497	9,489	11,111	13,249
Recurring Net Profit	6,832	9,087	11,433	13,387	15,963

Balance Sheet Employment

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Gross Loans/Cust Deposits	78.0%	76.7%	77.0%	77.7%	79.0%
Avg Loans/Avg Deposits	77.7%	77.3%	76.9%	77.4%	78.4%
Avg Liquid Assets/Avg Assets	40.5%	43.5%	45.5%	44.4%	43.3%
Avg Liquid Assets/Avg IEAs	41.6%	44.6%	46.5%	45.3%	44.1%
Net Cust Loans/Assets	57.5%	51.7%	53.0%	54.2%	55.6%
Net Cust Loans/Broad Deposits	67.3%	67.4%	68.5%	69.7%	71.5%
Equity & Provns/Gross Cust Loans	12.2%	11.4%	11.2%	11.1%	10.9%
Asset Risk Weighting	62.3%	59.2%	61.2%	59.5%	59.4%
Provision Charge/Avg Cust Loans	1.51%	1.23%	1.20%	1.20%	1.20%
Provision Charge/Avg Assets	0.88%	0.68%	0.64%	0.65%	0.67%
Total Write Offs/Average Assets	0.94%	0.68%	0.53%	0.54%	0.56%

SOURCES: VND, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

(VNDb)	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Gross Loans	630,036	776,356	920,759	1,092,085	1,302,936
Liquid Assets & Invst. (Current)	136,235	234,069	245,700	257,985	270,884
Other Int. Earning Assets					
Total Gross Int. Earning Assets	766,272	1,010,425	1,166,458	1,350,070	1,573,819
Total Provisions/Loan Loss Reserve	(8,124)	(8,113)	(9,298)	(10,696)	(12,353)
Total Net Interest Earning Assets	758,148	1,002,312	1,157,160	1,339,374	1,561,467
Intangible Assets	1,922	1,964	2,043	2,125	2,210
Other Non-Interest Earning Assets	18,145	20,956	21,794	22,666	23,573
Total Non-Interest Earning Assets	20,067	22,920	23,837	24,791	25,782
Cash And Marketable Securities	9,692	10,103	10,507	10,927	11,364
Long-term Investments	0	0	0	0	0
Total Assets	787,907	1,035,335	1,191,505	1,375,092	1,598,613
Customer Interest-Bearing Liabilities	600,738	726,720	854,351	1,000,247	1,171,076
Bank Deposits	72,238	66,942	68,281	69,647	71,040
Interest Bearing Liabilities: Others	54,151	171,408	174,837	178,335	181,902
Total Interest-Bearing Liabilities	727,128	965,070	1,097,470	1,248,228	1,424,017
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	12,678	16,198	31,414	53,734	88,381
Total Liabilities	739,805	981,269	1,128,883	1,301,962	1,512,398
Shareholders' Equity	47,958	53,977	62,532	73,041	86,126
Minority Interests	(144)	(89)	(89)	(89)	(89)
Total Equity	47,815	53,888	62,443	72,951	86,036

Key Ratios

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Income Growth	17.3%	18.2%	21.1%	17.4%	19.0%
Operating Profit Growth	15.8%	17.5%	21.9%	17.4%	19.0%
Pretax Profit Growth	24.8%	33.0%	25.8%	17.1%	19.3%
Net Interest To Total Income	74.5%	74.6%	76.8%	77.8%	79.1%
Cost Of Funds	2.85%	2.86%	2.70%	2.78%	2.86%
Return On Interest Earning Assets	5.30%	5.20%	5.07%	5.18%	5.31%
Net Interest Spread	2.45%	2.33%	2.37%	2.40%	2.45%
Net Interest Margin (Avg Deposits)	3.39%	3.38%	3.55%	3.60%	3.73%
Net Interest Margin (Avg RWA)	4.17%	3.98%	4.07%	4.21%	4.45%
Provisions to Pre Prov. Operating Profit	42.9%	35.3%	33.3%	33.4%	33.3%
Interest Return On Average Assets	2.53%	2.41%	2.46%	2.54%	2.65%
Effective Tax Rate	19.6%	19.6%	19.6%	19.6%	19.6%
Net Dividend Payout Ratio	47.3%	38.4%	30.3%	25.9%	21.7%
Return On Average Assets	0.77%	0.82%	0.85%	0.87%	0.89%

Key Drivers

	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Loan Growth (%)	18.8%	17.9%	18.0%	18.0%	19.0%
Net Interest Margin (%)	2.6%	2.5%	2.5%	2.6%	2.7%
Non Interest Income Growth (%)	10.5%	17.5%	10.8%	12.1%	12.0%
Cost-income Ratio (%)	40.0%	40.4%	40.0%	40.0%	40.0%
Net NPL Ratio (%)	-2.2%	-3.2%	-3.7%	-4.1%	-4.3%
Loan Loss Reserve (%)	117.4%	130.7%	130.4%	130.1%	123.5%
GP Ratio (%)	0.9%	0.8%	0.7%	0.7%	0.7%
Tier 1 Ratio (%)	9.0%	8.2%	8.1%	8.5%	8.6%
Total CAR (%)	11.1%	11.2%	10.6%	10.7%	10.6%
Deposit Growth (%)	17.8%	20.0%	17.5%	17.0%	17.0%
Loan-deposit Ratio (%)	76.7%	75.6%	75.9%	76.6%	77.9%
Gross NPL Ratio (%)	1.5%	1.1%	1.1%	1.1%	1.1%
Fee Income Growth (%)	12.5%	20.6%	20.0%	20.0%	20.0%

SOURCES: VND, COMPANY REPORTS

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