

Vietnam

ADD (previously HOLD)

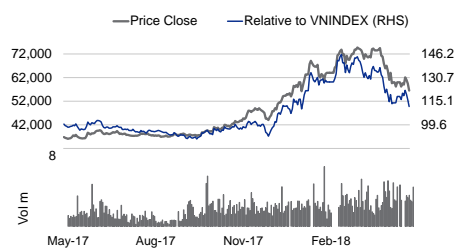
Consensus ratings*: Buy 2 Hold 3 Sell 3

Current price: VND56,500
 Target price: VND79,500
 Previous target: VND79,500
 Up/downside: 40.7%
 CGS-CIMB / Consensus: 40.2%

Reuters: VCB.HM
 Bloomberg: VCB VN
 Market cap: US\$8,928m
 VND203,273,920m
 Average daily turnover: US\$7.91m
 VND180,114m
 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 (%)	-24.2	-7.2	53.7
Relative (%)	-10.1	-9.7	11.7

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

Analyst(s)



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Vietcombank

Stellar 1Q18 performance; upgrade to Add

- VCB reported that its 1Q18 pre-tax profit grew 59.3% yoy to come in 22% above our expectations.
- We upgrade our rating to Add from Hold given VCB's solid asset quality and strong earnings growth outlook.
- Following the recent share price declines, VCB's valuation is attractive and we think this is a good opportunity for investors to buy into a best-in-class Vietnamese bank.

Robust topline income growth

VCB's NII grew 17.5% yoy in 1Q18 driven by a 15.9% yoy loan growth, 45.2% yoy of other IEAs and the bank's stable NIM of 2.5% (same as FY17's NIM). Meanwhile, non-NII surged by 85.3% yoy, of which: fee income increased 35.5% yoy due to higher charges for services such as i-banking; investment income jumped by 4x yoy, boosted by the divestment of Vietnam Airlines (HVN, Not rated) and; impressive bad debt recovery activities helped "other income" growth of 184.7% yoy.

Effective cost management supported margins

Opex grew by 29.1% yoy, led by a surge of 47.8% in salary expense, but still much slower than the 36.2% yoy growth in operating revenue. CIR improved by a significant 22bp to 41.0% in 1Q18 from 43.2% in 1Q17. We believe the bank will be able to keep CIR at 40% in 2018, or even lower as 1Q always sees a seasonal peak in CIR every year due to the timing of bonus payments for staff.

Modest provision expenses growth, but might increase later

1Q18 provision expenses grew by a moderate 7.0% yoy, which pushed annualised credit cost to 1.1%, down from 1.2% in 1Q17. The end-1Q18 NPL ratio rose 22bp from 1.1% at end-FY17 but was still below the 1.5% level seen in 1Q17. The bank did not write off any bad debt in 1Q18. Soft provisioning and a higher NPL ratio caused the LLR to slide to 121.4% at end-1Q18 (end-FY17: 130.7%). However, Vietnamese banks tend to aggressively book provisions and write-offs toward the end of the fiscal year so we refrain from linear extrapolation of 1Q figures.

We expect 25.8% earnings growth in FY18F

VCB targets 17.3% PBT growth in FY18, and 1Q has fulfilled 32.8% of guidance. So, we keep our 25.8% PBT growth forecast as we think VCB has set an overly conservative target; VCB's results have beaten its targets in the past 5 years. Our forecast is underpinned by: strong loan growth (1Q18: 6.3% loan YTD growth), buttressed by high liquidity (LDR: 77.7% as of 1Q18-end) and expansion of non-NII revenue streams.

Accumulate on price weakness

VCB is currently trading at a FY18 P/BV ratio of 3.3x vs. a 6-month historical average FY18 P/BV of 3.6x. The stock has dropped by 19.4% in the recent 1 month, in line with market performance due to strong profit-taking activities in the large cap space. We think this is an opportunity for investors to buy into a best-in-class Vietnamese bank with solid asset quality and strong earnings growth ahead. We upgrade our rating to Add, with an unchanged TP of VND79,500. Our TP is based on an equally-weighted combination of residual income valuation (COE: 13.7%, LTG: 4%) and FY19F P/BV of 4.0x.

Downside risks and re-rating catalysts

A downside risk to our forecasts 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 that the State Bank of Vietnam turns hawkish as VCB will need to comply with any such attempts to tighten system-wide credit growth. Re-rating catalysts include higher-than-expected non-NII growth and strong loan 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)	29.75	22.37	17.78	15.18	12.73
DPS (VND)	851.1	799.9	800.0	800.0	800.0
Dividend Yield	1.51%	1.42%	1.42%	1.42%	1.42%
BVPS (VND)	13,330	15,003	17,381	20,302	23,939
P/BV (x)	4.24	3.77	3.25	2.78	2.36
ROE	14.7%	17.8%	19.6%	19.7%	20.1%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.95	0.86	0.84

SOURCES: VND, COMPANY REPORTS

Stellar 1Q18 performance

Figure 1: Result comparison

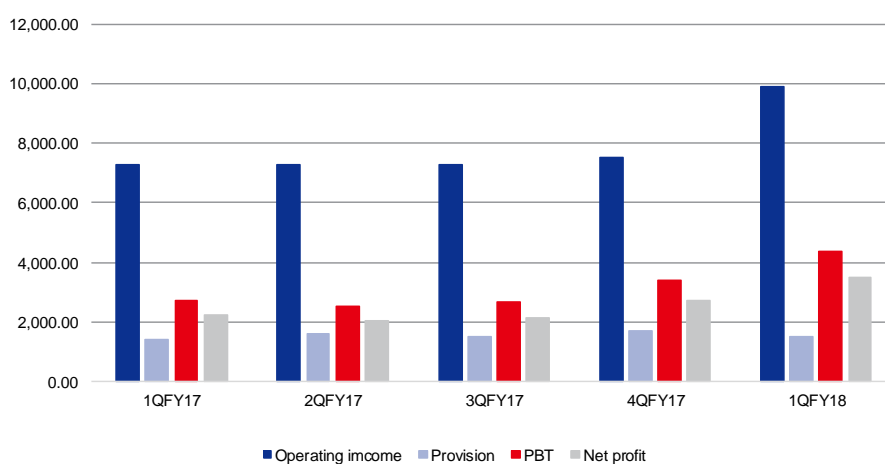
FYE (VNDbn)	1QFY18	1QFY17	yoy	4QFY17	qoq %	FY18F	Comments
			chg		chg		
Net interest income	6,197	5,276	17.5%	5,777	7.3%	27,347	slightly below our expectation, forming 23% of our FY18 forecast
Non-interest income	3,727	2,011	85.3%	1,752	112.7%	8,272	significantly outdid our expectation due to higher income from bad debt recovery
Operating revenue	9,924	7,287	36.2%	7,529	31.8%	35,619	above, forming 28% of our FY18 forecast
Operation expenses	4,067	3,150	29.1%	2,434	67.1%	14,247	slightly above as 1Q18 CIR is 41%, higher than our annualized CIR forecast of 40%. (see our explanation in 1st page)
Pre-provision profit	5,857	4,137	41.6%	5,095	15.0%	21,372	inline, forming 27% of our expectation
Total provision charges	1,498	1,400	7.0%	1,692	-11.5%	7,109	slightly below, forming 21% of our FY18 forecast
Pre-tax profit	4,359	2,737	59.3%	3,403	28.1%	14,263	above, forming 31% of our expectation
Tax rate (%)	20%	19%	N/A	20%	N/A	20%	
Net profit	3,508	2,210	58.7%	2,728	28.6%	11,467	above, forming 31% of our expectation

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Figure 2: VCB's key ratios by quarter

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
NII/TOI	72.4%	77.2%	72.0%	76.7%	62.4%
Non-II/TOI	27.6%	22.8%	28.0%	23.3%	37.6%
NIM (annualized)	2.7%	2.8%	2.5%	2.4%	2.5%
CIR	43.2%	43.6%	42.6%	32.3%	41.0%
Loan-to-Deposit ratio	80.4%	79.0%	76.4%	75.6%	77.7%
NPL	1.5%	1.5%	1.2%	1.1%	1.4%
LLR	128.9%	140.3%	164.8%	130.7%	121.4%
Credit cost (annualized)	1.2%	1.3%	1.1%	1.3%	1.1%
ROAA (annualized)	1.1%	1.0%	1.0%	1.1%	1.4%
ROAE (annualized)	17.7%	15.8%	16.2%	20.1%	25.5%

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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


SOURCES: CIMB RESEARCH, COMPANY REPORTS

Valuation

Figure 4: Residual income model – key assumptions & input, 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 yr)	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 (mn shares)	3,598				
Implied value per share (VND/share)	77,290				

SOURCE: CIMB RESEARCH, COMPANY

Figure 5: VCB's target price, based on our estimate

Approach	Weight	Value (VND/share)
Residual income	50%	77,290
Market-based (4.0x of FY19F P/BV)	50%	81,206
Target price		79,248

SOURCES: CIMB RESEARCH, COMPANY REPORTS

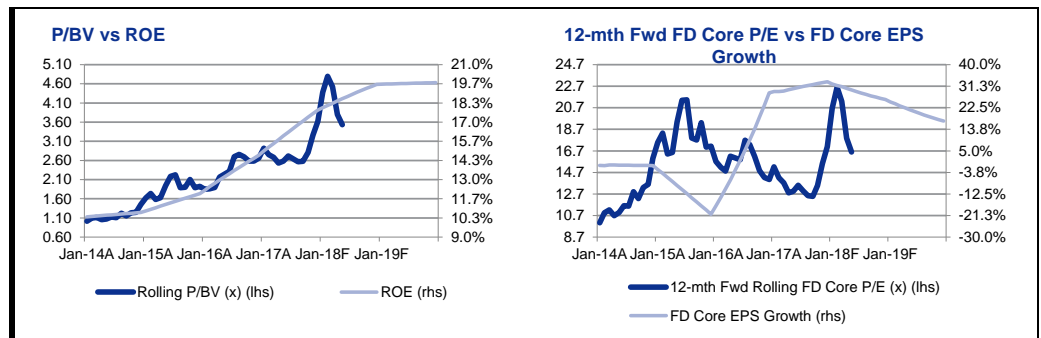
Figure 6: Regional sector comparison

Company	Bloomberg Ticker	Recommendation	Closing price (local curr.)	Target Price (local curr.)	Market cap (US\$m)	ROE (%)		3-yr Forward CAGR EPS %	P/BV(x)		P/E (x)	
						Dec-18F	Dec-19F		Dec-18F	Dec-19F	Dec-18F	Dec-19F
HDFC Bank	HDFCB IN	ADD	1,989	2,400	77,226	19.4%	20.4%	23.6%	4.3	3.6	23.8	19.3
ICICI Bank	ICICIB IN	ADD	283	390	27,192	10.9%	12.0%	10.9%	1.6	1.5	15.3	12.7
Axis Bank	AXSB IN	ADD	520	700	19,974	9.1%	14.5%	43.2%	1.9	1.7	22.4	12.6
Indusind Bank	IIB IN	ADD	1,891	2,100	16,975	17.8%	18.6%	25.6%	4.2	3.6	25.6	20.8
Yes Bank	YES IN	ADD	345	450	11,893	19.1%	20.2%	24.6%	2.7	2.3	15.4	12.4
Bank Central Asia	BBCA IJ	HOLD	22,025	25,500	38,941	18.6%	18.4%	13.0%	3.6	3.1	20.6	18.1
Bank Rakyat Indonesia	BBRI IJ	ADD	3,030	4,700	26,801	18.5%	19.8%	15.4%	2.0	1.8	11.5	9.5
Bank Mandiri	BMRI IJ	ADD	6,625	9,800	22,170	14.8%	15.8%	18.9%	1.7	1.5	11.9	10.1
Public Bank Bhd	PBK MK	HOLD	24	23	23,329	13.8%	12.6%	7.0%	1.9	1.8	15.6	14.5
BIDV Bank	BID VN	NOT RATED	32,500	12,680	4,881	11.1%	11.7%	1.5%	2.1	2.0	19.6	17.2
Military Commercial Joint St	MBB VN	NOT RATED	30,700	21,300	2,449	14.9%	16.1%	27.8%	1.7	1.5	11.9	9.8
Average regional peers						15.3%	16.4%	19.2%	2.5	2.2	17.6	14.3
Vietcombank	VCB VN	ADD	59,000	79,500	9,325	16.3%	16.4%	20.7%	3.4	2.9	22.4	19.1
<i>premium/discount to peers</i>									<i>34.7%</i>	<i>31.6%</i>	<i>27.2%</i>	<i>33.9%</i>

NOTE: AS OF 11 MAY 2018

SOURCES: CIMB RESEARCH, BLOOMBERG

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)
Prof. & 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 & Provs/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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Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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