



**Vietnam**

**ADD**

Consensus ratings\*: Buy 4 Hold 1 Sell 0

Current price:	VND41,600
Target price:	VND53,400
Previous target:	N/A
Up/downside:	28.4%
CIMB / Consensus:	4.7%
Reuters:	VPB.HM
Bloomberg:	VPB VN
Market cap:	US\$2,743m
	VND62,291,984m
Average daily turnover:	US\$1.91m
	VND44,471m
Current shares o/s:	1,497m
Free float:	72.7%

\*Source: Bloomberg

**Key changes in this note**

► N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.5	14.6	
Relative (%)	-11.5	-8.4	

Major shareholders	% held
Mr Ngo Chi Dzung	14.6
Mr Bui Hai Quan	7.3
Mr Lo Bang Giang	2.5

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# Vietnam Prosperity JSC Bank

## At the forefront of the consumer finance revolution

- VPB delivered ROA of 1.9% and ROE of 24.8% in FY16, the highest returns-on-capital among local peers and impressive even in a regional context.
- FY16 NIM of 7.7% was driven by a shift in loan mix towards higher yielding segments, such as consumer finance, retail, household and micro-SME loans.
- Strong topline growth in FY14-16, complemented by an improvement in operational efficiency on continued investments into technology.
- We expect strong earnings growth in FY17-20F with forecasted net profit CAGR of 25.6% and sustained high average ROE of 22.7%

### Initiate with an Add rating

Initiate coverage on VPB with Add and a VND53,400 TP (based on long-term residual income), implying FY18F P/BV of 2.3x and P/E of 11.4x. Our rating is underpinned by: 1) VPB's sound business model and focus on high-potential retail and SME segments; 2) its ability to capture sizeable opportunities in high-growth sunrise segments like consumer finance, digital banking, micro SME banking and fintech; and 3) its attractive P/E valuation, which we deem more relevant than P/BV given VPB's standout ROE.

### A top retail lender with exceptional growth and returns on capital

Established in 1993, VPB has enjoyed steady growth since inception and saw pronounced acceleration in revenue growth in 2010 when the bank embarked on a 5-year strategy developed in conjunction with consultant McKinsey & Co. This comprehensive transformation successfully led to a FY12-16 CAGR of 51% in net profit and 22% in net assets. VPB is now among the top-5 commercial banks in Vietnam in terms of profitability, with industry-leading ROA of 1.9% and ROE of 24.8% in FY16.

### The 800-pound gorilla in the sunrise consumer finance sector

Making a timely bet on the recent consumer lending boom in Vietnam, FE Credit – VPB's 100%-owned subsidiary – became the leading player with 48.4% market share in FY16 and solid PBT growth of 53% yoy. The Economist Intelligence Unit (EIU) expects consumer lending in Vietnam to sustain a 27% CAGR until 2020F. Hence, we forecast consumer finance segment's contribution to net interest income (NII) to expand from 52.1% in FY16 to 67.6% in FY20F, which would lift blended net interest margin (NIM).

### Well equipped to ride consumer lending growth while managing risk

We believe VPB has these advantages over peers: 1) it is well capitalised with CAR (non-Basel II) of 16.7% and Tier-1 CAR of 14.5% as of Sep 2017 which will allow it to maintain robust loan growth; 2) a more aggressive bad debt write-off policy to help withstand any rise in NPLs from higher-risk consumer lending activities; 3) superior risk management due to technological innovation, which helps pinpoint high-risk exposures and has also facilitated a gradual but sustained improvement in bad debt recoveries.

### Superior ROE justifies premium over regional peers' FY18F P/BV

VPB trades at 1.8x FY18F P/BV, at a 3.9% premium over regional peers' 1.7x, but at 8.9x FY18F P/E, at a 30.5% discount to regional peers' 12.8x. We think this discrepancy is due to VPB's above-regional peer ROE in FY18F (our estimate). Key risks are consumer credit and inflation risks. Our forecasts assume VPB's continued NIM expansion by diversification into loan products with higher asset yields, which could be jeopardised by unfavourable government policy to control the consumer finance industry (long-term risk).

Financial Summary	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Net Interest Income (VNDb)	10,353	15,168	20,589	25,782	31,777
Total Non-Interest Income (VNDb)	1,713	1,696	2,282	2,814	3,016
Operating Revenue (VNDb)	12,066	16,864	22,870	28,596	34,792
Total Provision Charges (VNDb)	(3,278)	(5,313)	(6,833)	(8,276)	(9,978)
Net Profit (VNDb)	2,249	3,789	5,731	7,325	9,044
Core EPS (VND)	3,072	4,485	4,606	4,664	5,758
Core EPS Growth	48.5%	46.0%	2.7%	1.3%	23.5%
FD Core P/E (x)	13.54	9.28	9.03	8.92	7.22
DPS (VND)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
BVPS (VND)	16,619	18,710	18,676	23,339	29,098
P/BV (x)	2.50	2.22	2.23	1.78	1.43
ROE	20.1%	24.8%	24.6%	22.2%	22.0%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)			1.12	0.96	1.09

SOURCE: COMPANY DATA, CIMB FORECASTS

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# At the forefront of the consumer finance revolution

## INVESTMENT THESIS

### **Sound business model and focus on high-potential retail and SME segments**

With a highly-experienced and international management team that joined the company in 2010, VPB embarked on an aggressive 5-year plan to reorient its business model to focus on retail lending. In particular, the bank's entry into the consumer finance segment in 2013 marked an inflection point in its earnings growth trajectory. Making a timely bet on the recent consumer lending boom in Vietnam, VPB became the leading player with 48.4% market share in 2016 (source: Stoxplus) and enjoyed FY12-16 CAGRs of 51% for net profit and 22% for net asset value. VPB delivered ROA of 1.9% and ROE of 24.8% in FY16, the highest returns on capital among local peers (average FY16 ROA of 0.7% and ROE of 10.2%).

### **Ability to capture sizeable opportunities in high-growth sunrise segments of Vietnam's young banking industry**

Vietnam is in the early stage of development for retail banking, consumer finance and fintech. It is a largely untapped market in ASEAN, with 20% of the population holding bank accounts and credit card penetration rate of only 6% in 2015 according to Stoxplus.

We believe VPB is better equipped than its local peers to capitalise on these opportunities for the following reasons: 1) it is well capitalised with a CAR (non-Basel II) of 16.7% and Tier-1 CAR of 14.5% as of Sep 2017, which would allow it to register robust loan growth moving forward; 2) it has a more aggressive bad debt write-off policy, which would enable it to withstand any rise in NPLs from higher-risk consumer-lending activities; 3) VPB has superior risk management due to technological innovation, which helps it to pinpoint high-risk exposures and facilitated gradual but progressive improvement in bad debt recoveries.

VPB was one of the first banks in the country to develop a 'big data' scoring model for retail customers starting in 2016. The bank also launched Vietnam's first fully-digital bank (Timo) in Aug 2015 and this is still the only fully-digital bank in the country today.

We project that VPB's net profit will expand by an enviable CAGR of 25.6% over FY17-20F, albeit a deceleration from the heady CAGR of 55.8% in FY12-16. Our lower CAGR estimate for FY17-20F reflects the bank's strategy of switching from aggressive earnings growth to sustainable, solid earnings growth with better asset quality.

### **Premium valuation for superior profitability**

VPB was listed on the Ho Chi Minh Stock Exchange (HOSE) on 17 Aug 2017 at a reference price of VND39,000 per share. The share price declined to VND36,000 under heavy selling pressure after the listing date but recovered sharply in early Oct 2017. As of 04 Dec 2017, VPB trades at VND41,600 per share, which translates into FY18F P/BV of 1.8x and FY18F P/E of 8.9x.

We observe that that VPB is trading at a 3.9% premium over regional peers' FY18F P/BV of 1.7x but at a 30.5% discount to regional peers' FY18F P/E of 12.8x.

In our view, this discrepancy between the P/BV premium over peers but P/E discount to peers is explained by VPB's above-average ROE in FY18F (based on our estimates) compared to both local and regional peers. Based on this, we think that the P/E multiple is the more appropriate metric for VPB valuation comparison than the P/BV multiple.

Based on our expected net profit CAGR of 25.6% over FY17-20F and an attractive average ROE of 22.7% over the same forecast period, we believe VPB deserves to trade at least in line with the regional peer average FY18F P/E of 12.8x.

Key risks for the stock stem are consumer credit and inflation risks. Our forecasts assume VPB's NIM continues to expand via its diversification into loan products with higher yields. This could be jeopardised if the authorities step in to control the pace of the consumer finance industry's growth. Furthermore, credit growth may be negatively affected by the return of inflation heading towards 2018F. The government may prioritise inflation control over consumer lending growth, given Vietnam's past experience with high inflation.

**Figure 1: Regional sector comparison**

Company title	Bloomberg Code	Country	Recom.	Closing price	Target price	Market cap	ROE (%)		3-year CAGR	P/BV (x)		P/E (x)	
				(local curr.)	(local curr.)		(US\$ m)	FY17F	FY18F	EPS	FY17F	FY18F	FY17F
Bank Rakyat Indonesia	BBRI IJ	Indonesia	ADD	3,300	3,520	29,279	17.7%	19.2%	14.2%	2.5	2.2	14.8	12.1
Bank Negara Indonesia	BBNI IJ	Indonesia	ADD	8,225	9,000	11,583	14.2%	14.8%	15.2%	1.6	1.4	11.7	10.0
Public Bank Bhd	PBK MK	Malaysia	HOLD	20	20	18,235	14.8%	14.7%	7.1%	2.0	1.8	14.5	13.1
BIMB Holdings	BIMB MK	Malaysia	HOLD	4	5	1,645	14.6%	14.6%	6.0%	1.7	1.5	11.7	10.9
Siam Commercial Bank	SCB TB	Thailand	HOLD	154	150	15,794	16.0%	16.1%	3.9%	1.5	1.3	11.8	10.9
Kiatnakin Bank	KKP TB	Thailand	HOLD	76	77	1,930	15.9%	17.5%	5.8%	1.5	1.5	11.8	10.4
Kasikombank	KBANK TB	Thailand	HOLD	225	228	16,239	14.0%	14.3%	2.0%	1.5	1.4	14.7	13.2
Vietcombank	VCB VN	Vietnam	NOT RATED	49,000	N/A	7,762	13.3%	14.0%	5.2%	3.3	2.9	26.1	22.2
BIDV Bank	BID VN	Vietnam	NOT RATED	25,500	N/A	3,876	11.3%	11.1%	1.5%	1.8	1.6	17.1	15.5
Military JSC Bank	MBB VN	Vietnam	NOT RATED	25,850	N/A	2,066	13.9%	14.9%	-0.4%	1.6	1.4	11.9	10.0
<i>Average by country</i>													
<i>Indonesia</i>							16.0%	17.0%	14.7%	2.0	1.8	13.3	11.0
<i>Malaysia</i>							14.7%	14.7%	6.6%	1.8	1.7	13.1	12.0
<i>Thailand</i>							15.3%	16.0%	3.9%	1.5	1.4	12.8	11.5
<i>Vietnam</i>							12.9%	13.3%	2.1%	2.2	2.0	18.4	15.9
<b>Average regional peers</b>							<b>14.6%</b>	<b>15.1%</b>	<b>6.1%</b>	<b>1.9</b>	<b>1.7</b>	<b>14.6</b>	<b>12.8</b>
Vietnam Prosperity JSC Bank	VPB VN	Vietnam	ADD	41,600.0	53,400.0	2,743	24.6%	22.2%	8.7%	2.2	1.8	9.0	8.9

NOTE: AS OF 4 DEC 2017

SOURCE: CIMB RESEARCH, COMPANY

## BACKGROUND

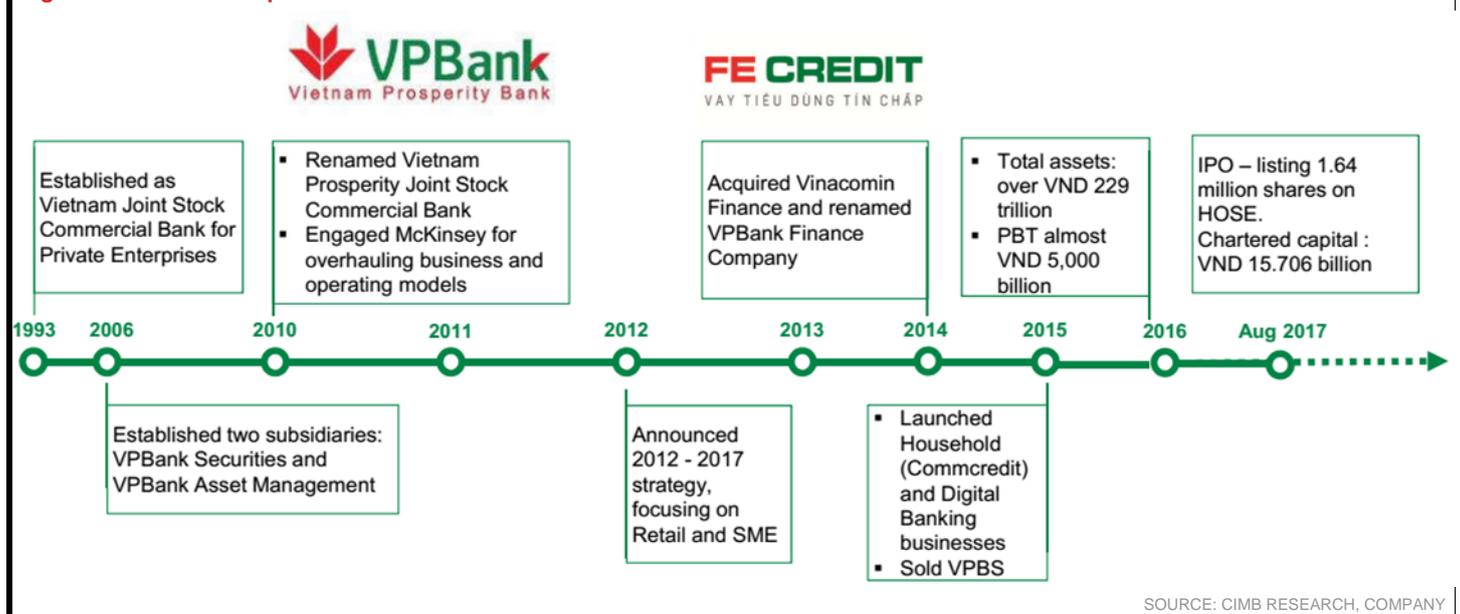
### 1.1 Ambitious strategic reorientation towards consumer lending has paid-off handsomely ►

Founded in 1993, VPB was privately held by a group of individuals and companies with the initial objective of providing financial services to Vietnamese private enterprises. In 2006, amid a wave of strategic investments by foreign banks to gain a foothold in the Vietnamese market, OCBC (OCBC SP, Add, US\$12.6) bought a 15% stake in VPB and then fully divested the holding in late 2013.

VPB embarked on an aggressive 5-year growth strategy in 2010, when top-ranked outsiders joined the management ranks, with the aim of becoming a leading retail bank. In collaboration with McKinsey & Co., the bank implemented six initiatives to change the bank's value proposition, sales model, credit underwriting system, and branch network to reorient the bank's model towards retail lending.

VPB has achieved rapid credit growth over the past 5 years to become one of best retail banks in Vietnam, specialising in the unsecured lending market. With profit before tax growing at an impressive CAGR of 51% over FY12-16, VPB is now one of the top-5 commercial banks in terms of profitability. The bank also experienced an asset CAGR of 22% over FY12-16, making it the 10th largest joint stock commercial bank in terms of assets, with total assets of VND248tr (~US\$11bn) as of Jun 2017. Listed on Ho Chi Minh Stock Exchange since Aug 2017, the bank is the 4<sup>th</sup> largest listed bank in terms of market capitalisation.

Figure 2: VPB's development milestones

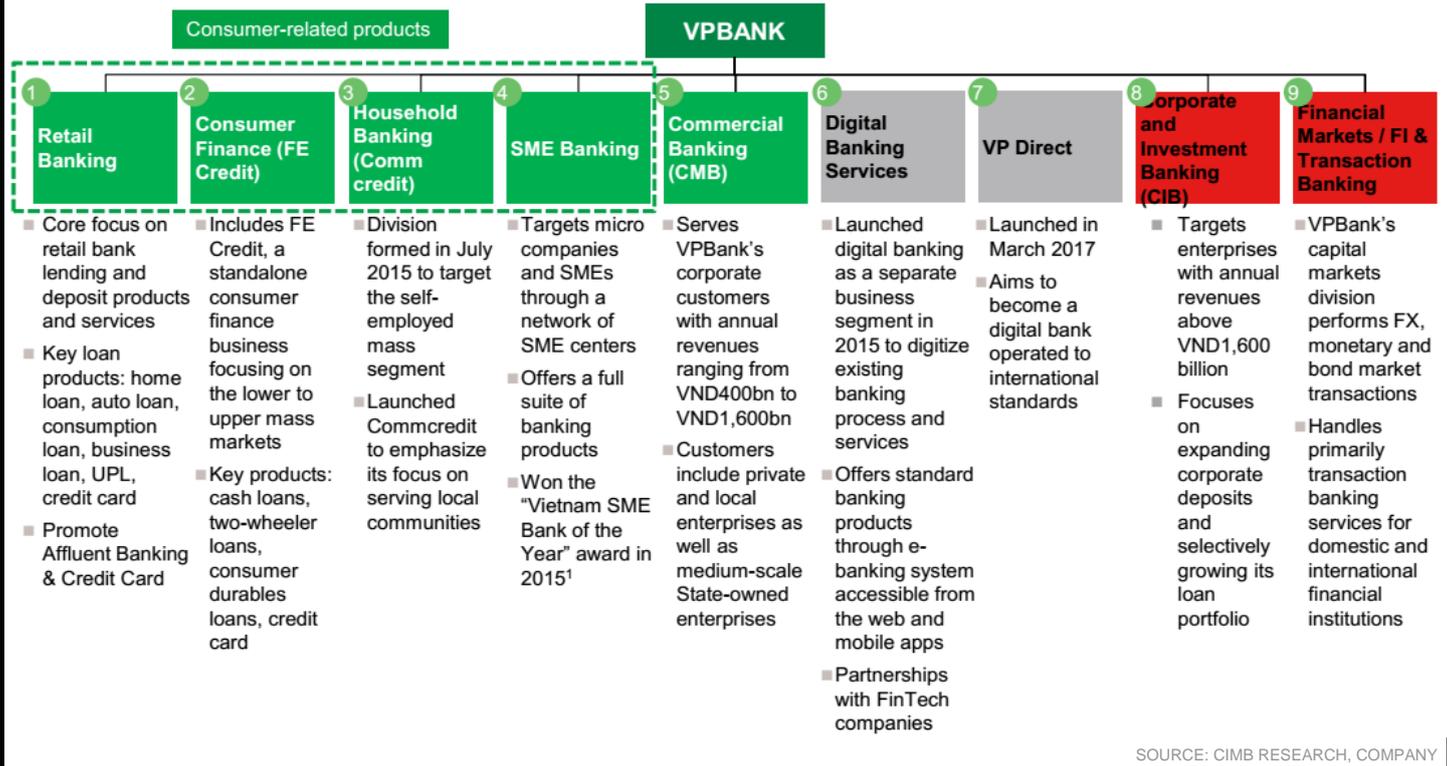


### 1.2 Innovative operating structure: centralisation and specialisation ►

VPB has one of the highest degrees of centralisation and specialisation in Vietnam. Business units are organised to focus solely on sales to different customer segments. In 2013, VPB was the only bank to have a dedicated division for consumer finance (which was subsequently transformed into FE Credit in 2014).

An innovative “hub” model has been employed, whereby select geographic locations have been identified as service hubs, which have the capacity to support several satellite branches within a certain radius of the hub. VPB's operations division now has a centralised customer service function with customer service quality being independently assessed via a service quality department, which oversees the setting of and compliance with standards in service levels and staff training and also ensures standardisation of service levels across all branches.

Figure 3: VPB's organisation chart (Sep 2017)

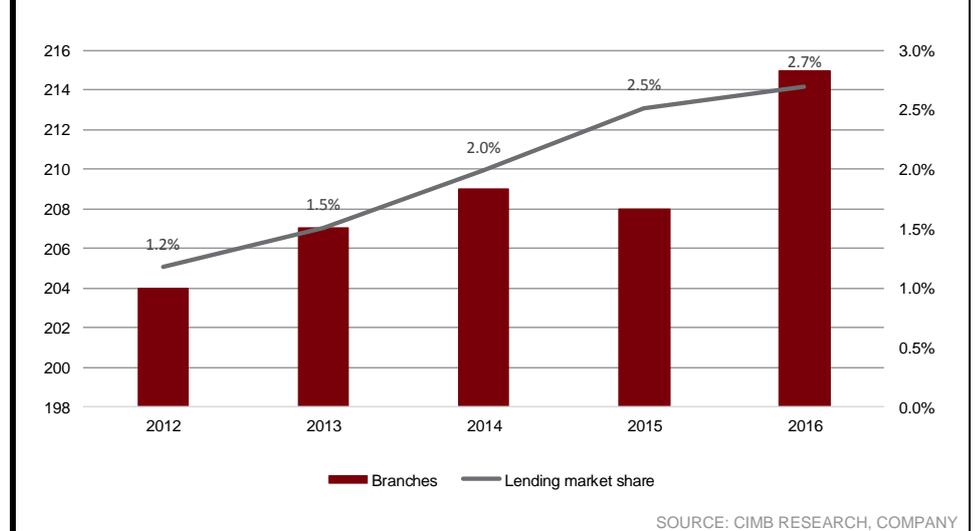


### 1.3 Branch network expanding from a low base... ➤

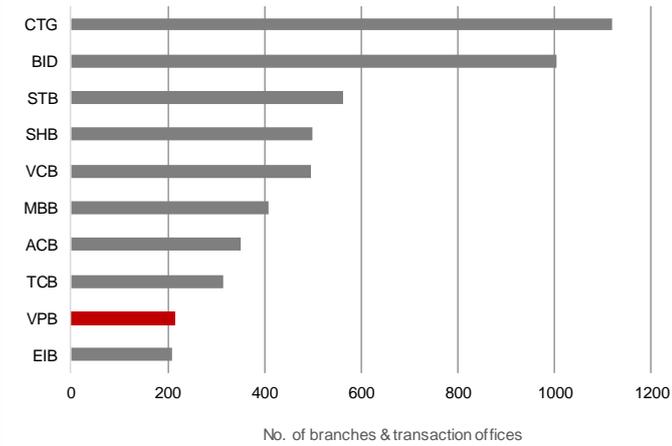
VPB's network intensity is rather limited compared to other retail banks'. VPB's network expanded from 150 branches and transaction offices in 2012 to 215 across the country in 2017F. Despite the slower expansion in branch network relative to peers, the bank managed to grow its total lending market share. VPB's lending market share improved from 1.2% at end-2012 to 2.7% by end-2016.

We estimate that the bank held a 1.7% share of the total customer deposit stock at end-2016.

Figure 4: VPB's branch expansion and lending market share growth (2012-16)

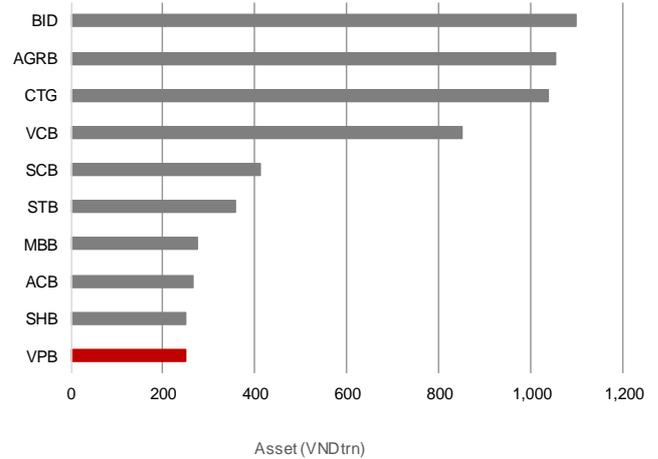


**Figure 5: VPB's network intensity is limited vs. peers (end-Jun 2017)**



SOURCE: CIMB RESEARCH, COMPANY,BANKS

**Figure 6: Vietnam banks' ranking by asset value (end-Jun 2017)**



SOURCE: CIMB RESEARCH, COMPANY,BANKS

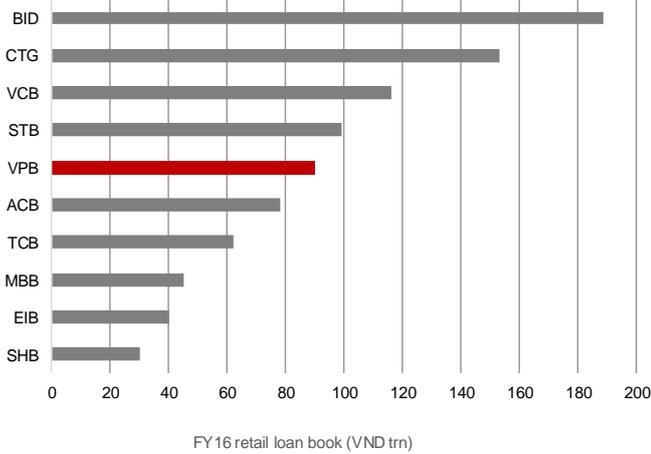
### 1.4 ...but VPB has managed to develop a leading retail-lending franchise despite its limited branch network ➤

Having identified retail banking as a major growth sector in Vietnam, we believe VPB sharpened its focus on this sector earlier than most lenders in Vietnam. It was one of the first banks to develop a 'big data' scoring model for retail customers. Retail lending enjoyed a robust FY14-16 CAGR of 49.5%, expanding its proportion of VPB's total loan book from 30.2% at end-2014 to 36.5% at end-2016. If we include consumer finance lending, this contribution was 59%, higher than the industry average ratio of 20% at State-owned commercial banks and 45% at private banks.

Currently, VPB offers the widest retail banking offering in Vietnam with 25 products, and its product mix has also moved towards high-yield products such as unsecured personal loans, consumer loans, and credit cards. Despite its modest network, by end-2016, VPB was the second-largest retail lender among the private banks and was the fifth-largest retail lender overall, lagging only behind SOE banks and Sacombank (STB VN, Not Rated). We estimated that VPB's total retail-lending market share was about 7% as at end-2016.

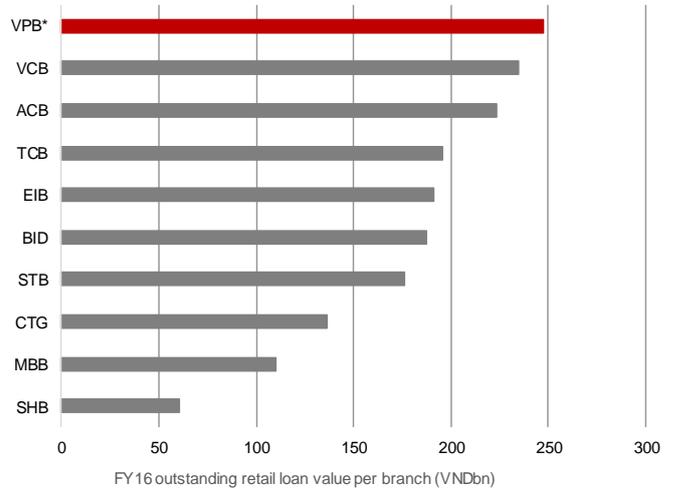
In terms of loans per branch, VPB currently stands out as having the highest loan productivity amongst peers, based on our estimates. Note that our estimation excludes the lending from FE Credit. It reflects the bank's efficiency in leveraging the entire retail network as well as in providing the right incentives and training to its sales staff.

**Figure 7: VPB amongst the top retail lenders by loan book in 2016**



SOURCE: CIMB RESEARCH, COMPANY, BANKS

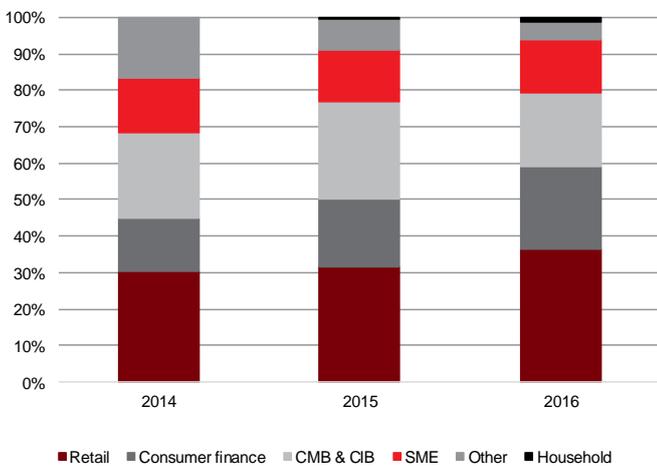
**Figure 8: Outstanding retail loan value per branch**



Note: \* Excluding FE credit loans  
SOURCE: CIMB RESEARCH, COMPANY, BANKS

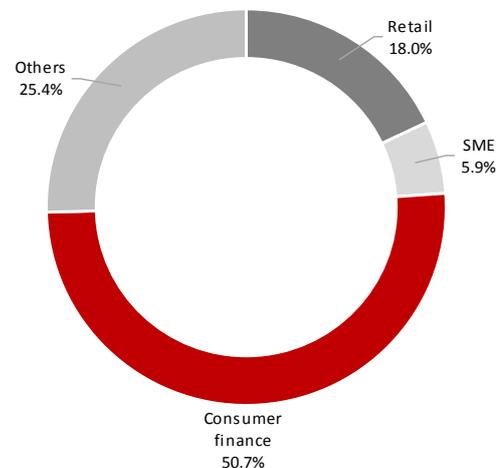
The retail segment saw stellar performance in 2016 with a 54% yoy increase in operating income, driven by loan book growth of 50% yoy. Unsecured personal loans are retail banking's headline product, with outstanding loan balance doubling in FY16 from the end-FY15 figure. Active customers reached 3.3m, rising 57% yoy while new card issuances went up by 39% yoy in FY16.

**Figure 9: VPB's loan book breakdown by division**



Note: Commercial banking (CMB), corporate and investment banking (CIB)  
SOURCE: CIMB RESEARCH, COMPANY

**Figure 10: VPB operating profit by division (FY16)**



SOURCE: CIMB RESEARCH, COMPANY

On the SME banking front, VPB saw a FY12-16 loan book expand by CAGR of 34%, accounting for 14.4% of the overall loan book at end-FY16. In FY16, the SME division managed a respectable 40% yoy growth rate in operating income thanks to loan growth of 30% yoy and deposit growth of 54% yoy.

In 2016, new products were introduced into VPB's offering such as unsecured business instalment loans (BIL). The bank is one of the few among its peers to expand its products into the micro-SME segment – an area that is considered to be underserved in the country at present. Other capital-financing products within the SME business have also enjoyed healthy growth in recent years, including business-finance loans secured by real estate and credit-programme (CP) loans secured by other assets.

### 1.5 FE Credit - The goose that lays the golden egg >

FE Credit was initially established in 2010 as VPB’s Consumer Credit division. In Jul 2014, VPB acquired Coal Mineral Finance Co. and transferred all consumer credit activities into an independent legal entity named FE Credit which had a presence in cash loans, two-wheeler loans, consumer durable goods loans and credit cards.

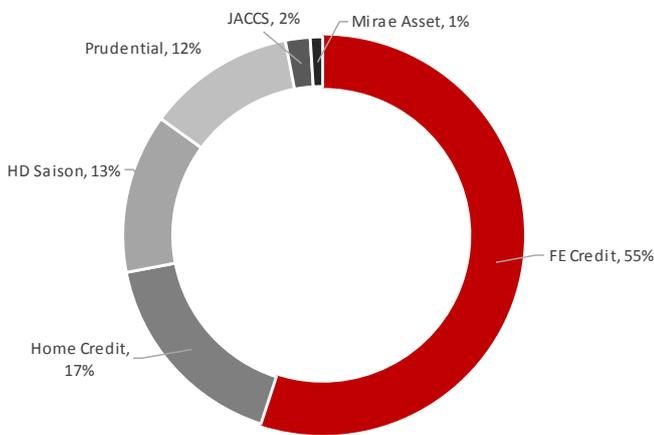
This foray was well-timed, in our view, given the consumer lending boom in Vietnam that followed, and FE Credit has experienced incredible asset growth over the past three years. Based on our estimates, inferred from the consolidated and bank financial statements, total assets jumped 58.2% yoy in FY16 and reached VND43,809bn (~US\$1.9bn) as at end-Jun 2017, nearly doubling from the figure at end-FY15 and accounting for nearly 18% of VPB’s total assets. (Noted that, As FE Credit did not publish its financial statements, we estimated this from consolidated and standalone (the bank) financial statements).

FE Credit was recently named the “Best Consumer Finance Brand, Vietnam 2016” by the Global Brands Magazine (UK) and named the “Best Consumer Finance Company Vietnam 2016” by the Global Banking & Finance Review (UK). This only reinforces our belief that VPB is really at the forefront of Vietnam’s budding consumer finance revolution.

#### FE Credit is dominating the market with an aggressive growth strategy

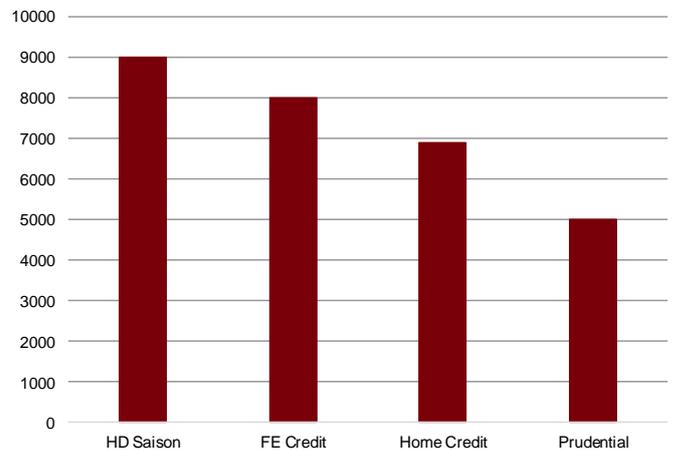
Although officially stepping into the consumer market later than its competitors, FE Credit quickly grabbed market share by following an aggressive and distinctive growth strategy. The company rapidly developed its distribution footprint with 8,000 points of sale (POS) largely in household electronics stores, motorbike showrooms and supermarkets across the country. Currently, the company is the market leader with 48.4% market share, three times larger than the 2nd largest player, Home Credit (source: Stoxplus).

Figure 11: Vietnam consumer lending market share (2016)



Note: Japan Consumer Credit Service (JACCS)  
SOURCE: STOXPLUS

Figure 12: Number of POS of top 4 consumer lenders in Vietnam (as of end-2016)



Note: As FE Credit did not publish its financial statements, we estimated this from consolidated and standalone (the bank) financial statements.  
SOURCE: STOXPLUS

While other players focus on consumer durable goods loans and two-wheeler loans, FE Credit pushed cash loans through 8,500 direct sales personnel and 2,000 telesales employees. Based on our own interviews with customers of FE Credit, the company runs a simple and quick three-step procedure for application and information verification which has made a strong impression on consumers and served the needs of farmers, manual labourers, and small traders who only earn minimal incomes and are often neglected by the banks. In 1H16, FE Credit emerged as the most popular consumer lender to be mentioned on social media (source: BrandsVietnam). In 2016, over 2.7m new customer accounts were opened, increasing FE Credit’s total customer accounts to 3.5m.

Aiming to attract first-time users, FE Credit started to issue Vietnam's first ever instant credit card with the following ground breaking features:

- Customer can just walk in, apply and be approved for a card all within 20 minutes.
- Using proprietary technology, a MasterCard credit card will be issued to the customer within just 5 minutes of application approval.
- Customer can withdraw cash within the card limit (up to VND60m; note that cash withdrawal limit is lower than the loan amount limit) through agents at over 2,000 post office branches nationwide.

By end-2016, the company had issued 125,000 credit cards, after just one year of launching this product line.

According to our survey, among the top 4 consumer lenders in Vietnam, FE Credit offers smaller loan amounts with relatively higher interest rates than its competitors. However, FE Credit's application process is simpler than its peers' and requires fewer documents.

**Figure 13: FE Credit's loan product portfolio (Oct 2017)**

Products	Loan amount	Simple monthly rate on principal, varies on customer's CIC*	Late payment fee
Personal cash loan	Up to VND70m with no collateral; Tenure: 6-36 months	Rate: 1.75%-3.27%.	VND300k/time
Consumer durable loan	Up to 3 products per 1 single receipt; Tenure: 6-12 months	Rate: 0%-3.59%.	VND150k/time
Two-wheeler loan	Up to 100% of value of the motorbike; Tenure: 6-36 months	Rate: 1.75%-3.27%.	VND300k/time
Card loan	Up to VND90m with no collateral.	Rate: 3.08%-4.08%.	None

\*Note: Credit Information Center (CIC). CIC's immense database maintains information on over 30m borrowers, with the participation of 100% of credit institutions in Vietnam, over 1,000 people's credit funds and microfinance institutions, as well as other organisations within and beyond the banking system.

SOURCE: CIMB RESEARCH, COMPANY

### **Inability to mobilise retail deposits due to current regulation has not hindered fund mobilisation**

Under existing regulations, all consumer finance companies like FE Credit are classified as non-bank finance companies (NBFCs) and are not allowed to mobilise funds from retail customers. NBFCs can only raise funds from domestic or foreign institutions through term deposits, Certificates of Deposit (CD), bills of exchange, bills of credit and bonds.

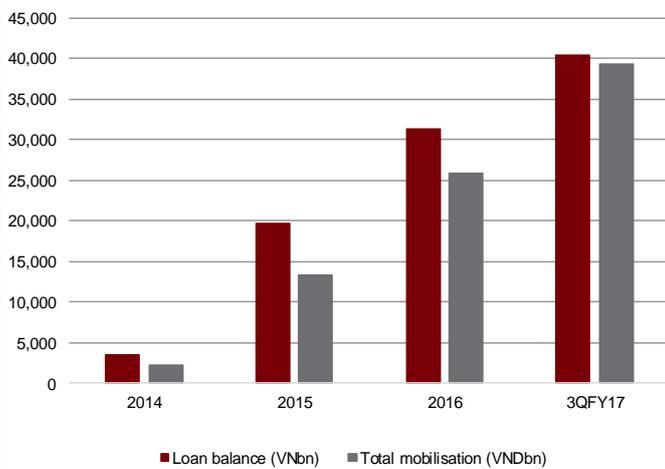
Currently, debt instruments and customer deposits account for nearly 67% and 14% of FE's funding mix, respectively. The company offers certificates of deposit with tenures ranging from 6 to 24 months and minimum deposit amounts of VND50m (~US\$2,200). Currently, the interest rates on such instruments are in the range of 9% to 11% per annum.

FE Credit's total mobilisation grew substantially by 105% yoy in FY16 and another 52.1% YTD by end-3QFY17, and has been steadily closing the gap with the loan book over the past few years. Recently, FE Credit announced that it had obtained a US\$100m senior secured term-loan committed facility from Credit Suisse, raising its total funding to about VND40,000bn (~US\$1.75bn) at end-3Q17. Besides, the company also successfully increased its charter capital to VND4,474bn from the previous VND2,790bn in Jul 2017, to support its mid- and long-term lending activities. With the current attractive interest rates on CDs compared to the deposit rates, not only FE Credit, but other consumer finance companies are also benefiting from abundant funding availability, in our view. FE Credit has started to leverage VPB's SME client base to cross-sell its CDs with a plan to initially target import-export companies and property developers. FE Credit's CDs offer payment guarantee solutions to import-export companies through letters of credit, while property developers use CDs for providing payment guarantees to contractors.

On the lending side, FE Credit also saw rapid growth with the total loan book growing at a CAGR of 197% over FY14-16 and another 28.9% in 9M17. The robust loan growth in the past has put stress on the funding base. We believe this explains why loan growth trailed fund mobilisation growth in 9M17. It also reflects

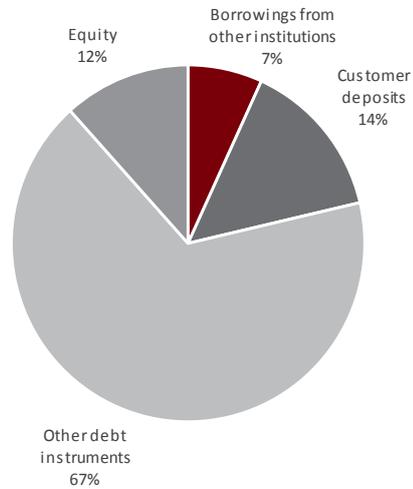
the company's deliberate efforts to slow down the lending expansion and focus on the quality of growth. We forecast a loan CAGR of 31.7% for FE Credit in FY17-20F, slower than the growth seen over FY15-16.

Figure 14: FE Credit's loan & fund mobilisation



SOURCE: CIMB RESEARCH, COMPANY

Figure 15: FE Credit's funding sources (3QFY17)



SOURCE: CIMB RESEARCH, COMPANY

**Exceptional NIM and aggressive write-offs supported both the pace and quality of growth**

Per our estimation, FE Credit's NIM reached 18.8% and 24.9% in FY15 and FY16, respectively. Strong loan growth and exceptional NIM expansion drove 112% yoy growth in FY16 NII.

As we would expect, due to the intrinsic business nature of consumer lending, FE Credit's NPL ratio is higher than the bank's, reaching 6% by end-FY16. Although the State Bank of Vietnam (SBV) imposes a cap of 7% on the NPL ratio for consumer finance companies, the bank's consolidated NPL ratio has to be maintained below 3%. Thus, FE Credit accelerated its provisioning in preparation for aggressive write-offs since it cannot transfer bad debt to Vietnam Asset Management Company (VAMC), a state-run asset management company that exclusively handles NPLs in Vietnam's banking sector, as there is no underlying collateral for consumer loans. We estimate that in FY16, FE Credit spent more than VND3,100bn on provisioning expenses (credit cost rate of ~12.0%) and wrote off another VND2,900bn (net write-off rate of 11.3%). In 9M17, VND3,700bn was charged for provisioning and nearly VND4,400bn of bad debt was written off, which dragged the NPL ratio down to 4.5% by end-3Q17.

FE Credit recorded VND1,685bn in FY16 PBT (+53% yoy) and VND2,948bn in 9M17, up 25% yoy. FE Credit's contribution to VPB's consolidated pretax profit expanded from 33% in FY16 to 52% in 9M17.

Figure 16: FE Credit's net interest income (VND bn)

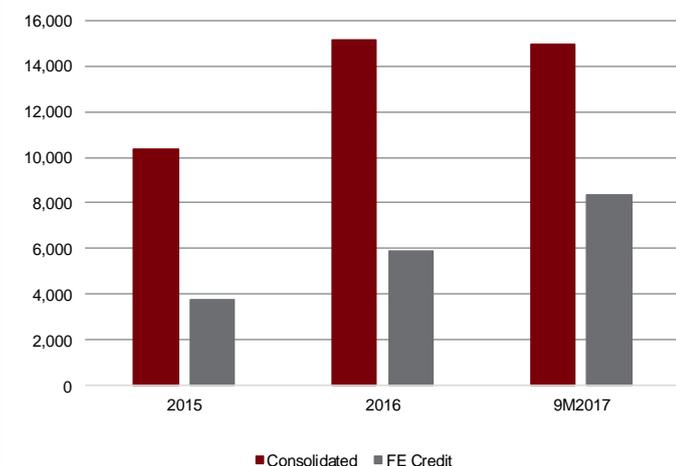
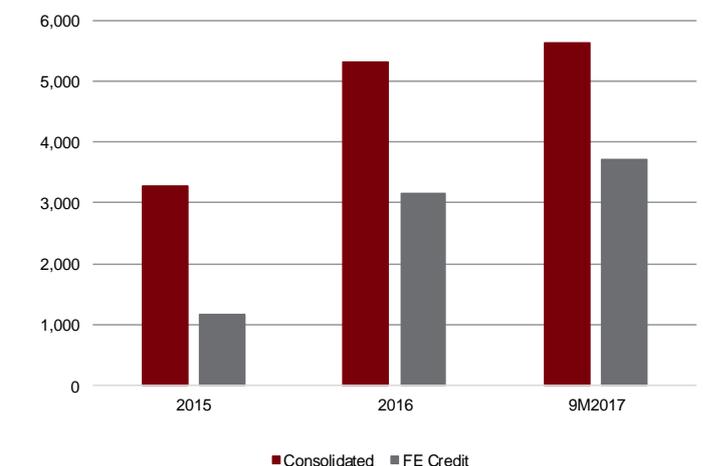


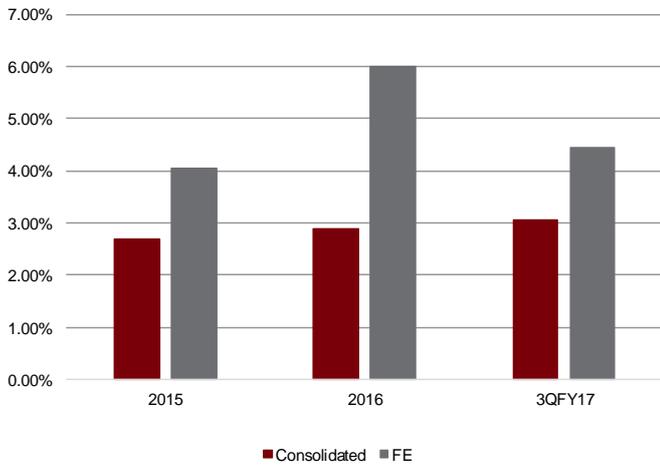
Figure 17: FE Credit's provision expenses (VND bn)



Note: "Consolidated" refers to the consolidated figures of VPB  
SOURCE: CIMB RESEARCH, COMPANY

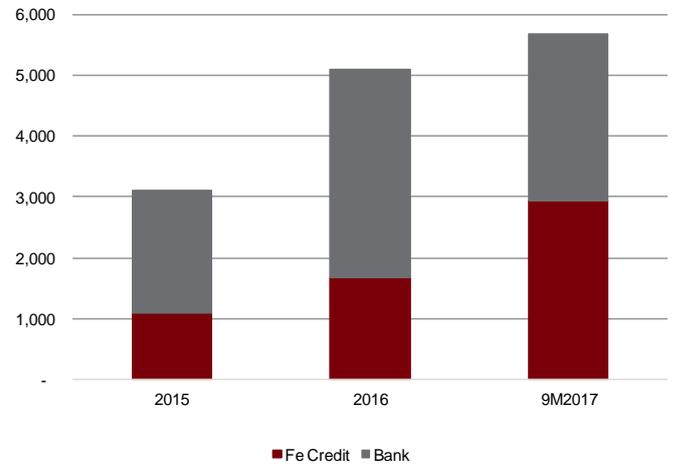
Note: "Consolidated" refers to the consolidated figures of VPB  
SOURCE: CIMB RESEARCH, COMPANY

Figure 18: FE Credit's NPL ratio



Note: "Consolidated" refers to the consolidated figures of VPB  
SOURCE: CIMB RESEARCH, COMPANY

Figure 19: FE Credit's contribution to VPB's PBT (VND bn)



SOURCE: CIMB RESEARCH, COMPANY

### 1.6 Digital banking thrust is helping attract a young and promising demographic of retail banking consumers ▶

VPB is leading the way in Vietnam in digital banking initiatives. On Aug 2015, VPB, in partnership with Global Online Financial Solution Company, launched Vietnam's first fully digital bank – Timo – with impressive initial features, including: versatile account management, mobile top-up, transfer and bill payments, money management, term deposits and loans. Timo, which stands for "Time & money", also issues debit cards for locals and expatriates.

Unlike other Internet banking services, the features that make Timo currently a phenomenon among the youth are: free transfer of funds from Timo account to any other Vietnamese bank account and ability to withdraw funds from any VPB branch, free of charge. Last but not least, Timo's physical branch office, namely Timo Hangout has been designed more as a "hang-out venue" and like a cafeteria, rather than a regular bank office. Clients only need to visit these Timo Hangouts in order to verify or change account information for Vietnamese know-your-client (KYC) banking regulations. Clients are also able to enjoy a special discount on the food and drinks menu at these hangouts. Currently, there are 4 hangouts located across HCMC, Hanoi, Danang and Can Tho.

Figure 20: Timo Hangout in District 1, HCMC



SOURCE: CIMB RESEARCH, COMPANY

Figure 21: Timo platform (Sep 2017)



SOURCE: CIMB RESEARCH, COMPANY

The bank, itself, also upgraded its e-banking platform in 2016 to provide customers with more innovative features and tools, such as card management, bill payment and personal income tax payment. Consequently, the bank enjoyed dramatic growth of 260% yoy in the number of digital users in 2016. The online savings balance also doubled from the end-2015 figure in 2016 while online loan and credit card applications experienced a dramatic 10x increase. The overall volume and value of online transactions jumped 300% yoy in 2016, which comprised about 33% of the total transactions across the bank in that year. As at end-9M17, the total digital user base climbed to 483k and online transaction value share rose to 41% of total transaction value across the bank.

### **1.7 Risk management capability powered by technological innovation and transformation of risk management apparatus ➤**

The bank adopted a highly progressive risk-management system by utilising the latest technological innovations. As mentioned above, VPB is the first bank to implement a “big data” scoring model for retail customers while credit rating models are used for institutional customers. A robust portfolio analysis applied for all existing clients along with random spot-checks during the credit review process, help weed-out high-risk exposures. Early Warning Systems have been developed and tailored to customer type to give more precise assessments of impending credit risk. An Automated Debt Collection Call Center with automatic dialling technology was established to enhance the efficiency of loan collection.

Besides technology, VPB has also invested in a risk management workforce and restructured the risk management apparatus. In 2015, in order to strengthen its risk management, VPB hired a high-profile Chief Risk Officer (CRO) with 15 years of global experience in banking, of which 10 years were spent as the CRO of various foreign banks. The new CRO has experience in developing and implementing Basel II in foreign banks, and thus has the required expertise to help the bank transform from Basel I to Basel II, in our view. VPB has also built a new risk framework and risk management policies that follow international practices and SBV requirements, to ensure any decision and strategy will not breach the bank’s risk appetite. Following the transformation of its risk management structure, risk is now managed using a matrix structure based on both systemic risks (credit, market and operational risks) and by customer type (SME risk, Corporate and Investment banking/Commercial banking risk).

### **1.8 Seasoned management with a blend of local and global expertise ➤**

VPB witnessed significant changes in 2010 as the new Chairman, who was the co-founder of Vietnam International Bank (VIB:UPCOM, Not Rated) and Techcombank (TCB VN, Not Rated), strengthened its management team by bringing in individuals with rich experience in retail banking. Currently, the Board of Directors (BOD) and their relatives own about 25% of the bank’s shares, implying that their incentives are aligned with that of the shareholders, in our view.

Its current Board of Management (BOM) has a mix of local and global expertise. Most notably, we have high regard for Mr. Nguyen Duc Vinh, who had an outstanding track record with 12 years as the CEO of Techcombank. He played a significant role in lifting Techcombank from a second-tier bank to among the Top-5 largest banks in Vietnam in terms of profit over his tenure. Besides, seven members of the BOM are global experts in banking, and we believe they can inject practical and essential expertise into the bank’s risk management and retail banking operations.

**Figure 22: Key management profile ( as of end-2016)**

Mr Ngo Chi Dzung - Chairman	Mr Dzung graduated from Moscow Geological Prospecting Institute in 1992. From 1996 to 2004, he was the founder and a Board member of Vietnam International Bank (VIB:UPCOM). From 2005 to 2010, he was the Chairman of KBG Group (Russia) and Vice Chairman of Techcombank (TCB VN, Not Rated). He became the Chairman of VPB in Apr 2010.
Mr Bui Hai Quan – Vice Chairman	MrQuan obtained an economics degree from Kiev National Economic University, He is currently the General Director of Viet Hai Technology Trading Ltd Co and BOD member of Long Viet MDF Wooden Technology JSC. He joined the Board of Directors of VPB in Apr 2006 and became a Vice Chairman in Dec 2008.
Mr Lo Bang Giang - Vice Chairman	Mr Giang obtained a MA in economics from Kiev National Aviation University in 2002 and a BA in banking from Moscow State University in 2010. He used to work for Delta Bank (Ukraine) as the Head of Supervisory Board. He has been a Vice Chairman of VPB since Mar 2010.
Mr Nguyen Duc Vinh - Chief Executive Officer	Mr. Vinh earned two MBAs from universities in France and the US. He was Deputy General Director for Vietnam Airlines (HVN VN) before taking the positions of Vice Chairman and CEO of Techcombank. Mr. Vinh became the CEO of VPB in Jul 2012.
Ms Luu Thi Thao – Deputy CEO – Head of Finance Division	Ms Thao has experience working in PWC and KPMG Vietnam before moving to ABN AMRO Vietnam where she was appointed as the Head of Internal Audit, and then to ANZ Bank Vietnam where she served as the Chief Financial Officer. Ms Thao has been VPB's Deputy CEO cum Head of Finance Division since Aug 2011.
Mr Dmytro Kolehko – Head of Risk Management	He has over 15 years of working experience in the banking industry, with over 10 years in senior leading positions in risk management, including Chief Risk Officer (CRO) at Raiffeisenbank Ukraine, CRO at Alfabank Ukraine, Deputy CRO at Raiffesbank Aval, and national CRO for Hypo-Alpe-Adria Bank in Bosnia and Herzegovina. Since Jan 2015, he has held the position of Head of Risk Management Division (CRO) at VPB.
Mr Igor Mushakov – Head of IT Division	Mr Igor Mushakov holds BA of Technology and has 18 years of experience in platform management and development. He was the CIO and member of BOD at X5, the second-largest Russian food retailer; the CIO and Deputy CEO of Uralsib Bank, the Head of the Initiative and IT Development Department at Sberbank. Mr Igor Mushakov has been the Head of IT Division of VPBank since Jan 2016.
Mr Rajeev De Roy – Head of Operations Division	Mr Rajeev De Roy, who obtained a Masters in economics from Delhi University, India in 1977, has had over 30 years of experience in the banking industry, holding various managerial positions in The Commercial Bank of Qatar, American Express Bank in India, Mareshqbank (Dubai) and Bank of India. He served as the Chief Operating Officer (COO) in Techcombank, before becoming the Head of Operation Divisions of VPB in 2014.
Mr Sandeep Madhav DeoBhakta – Head of Retail Banking Division	Mr DeoBhakta completed an undergraduate program in India and MBA at the Sloan School of Management at Massachusetts Institute of Technology (MIT). He has accumulated 25 years of experience in the banking sector, especially retail banking and wealth management in leading banks such as Citibank, Shinsei Bank, and Standard Bank in Asia, Africa and the Middle East. He was appointed to be the Head of Retail Banking Division of VPB in 2015.
Mr Kalidas Ghose – Acting CEO of FE Credit	Mr Ghose obtained his Bachelor and Master degrees majoring in business administration in India. He was the General Director of CitiFinancial India, President cum CEO of CitiFinancial corporation in the Philippines, CEO of Prudential Vietnam Finance company and General Director of Retail Banking in Mekong Region of ANZ Vietnam. He became the Head of Consumer Finance, Retail Banking divisions and CEO of FE credit in 2011.
Mr Kiran Babu Kosaraju – Head of Household Banking Division	Mr Kosaraju has spent over 17 years in the banking industry and 25 years in different industries such as business, marketing, SME and retail banking, in which he held various managerial positions. He was the head of a commercial banking group in India, CEO of Firstsource Solution Ltd in the Philippines, Executive Manager and founding member of Fullerton India. In 2015, he served as the Head of Household Banking division of VPB.

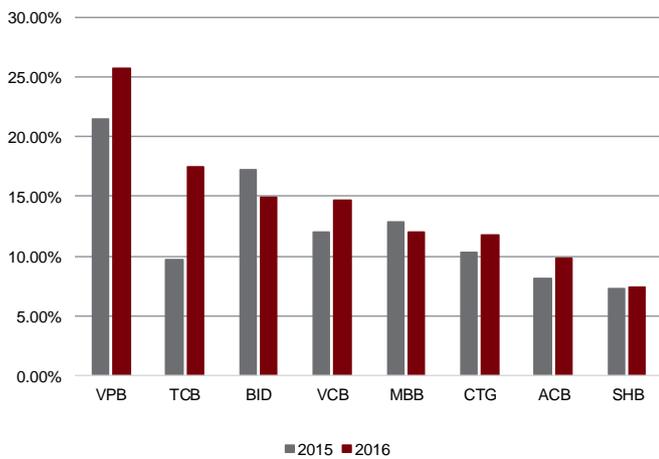
SOURCE: CIMB RESEARCH, COMPANY

## FINANCIALS

### 2.1 VPB's industry-leading profitability is underpinned by a good product mix and high operational efficiency ▶

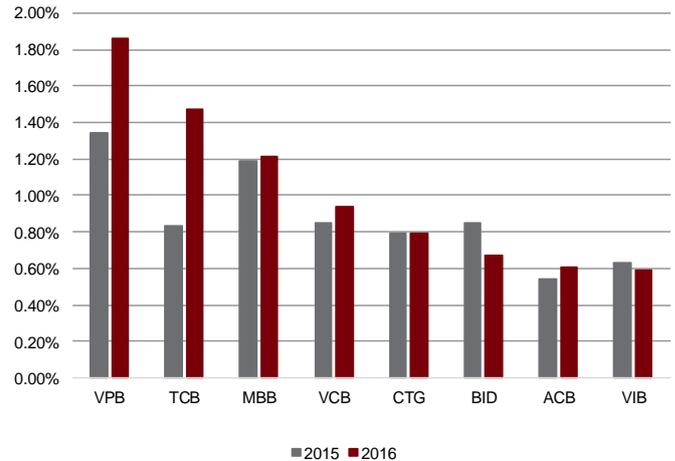
As one of the first joint-stock-commercial banks to be set up in Vietnam, VPB experienced only average growth in returns since its inception until the fast-growth phase in 2012-14, following the strategic revamp; during this mediocre growth phase, the bank had middling ROA and ROE of around 0.8% and 13%, respectively. After riding the consumer finance boom, VPB saw a complete transformation in its profit and growth profile with profitability surging around 2015 and returns on capital reaching industry-leading levels from both a local and even regional perspective.

Figure 23: Return on average equity (ROAE)



Note: In FY16, Techcombank (TCB) earned extraordinary income from provision reversals worth VND1,100bn. If we exclude this non-recurring income, TCB's ROAE was about 11.4%.  
SOURCE: CIMB RESEARCH, COMPANY

Figure 24: Return on average assets (ROAA)



Note: If we exclude non-recurring income of VND1,100bn in FY16, TCB's ROAA was 1.0%.  
SOURCE: CIMB RESEARCH, COMPANY

We believe VPB's high profitability mainly stems from:

- High NIMs supported by interest earning asset expansion.
- High cost efficiency (i.e. low cost-to-income ratio versus peers), thanks to a highly centralised and digitalised banking model.
- Well-managed provisioning expenses thanks to advanced risk management and management of asset quality.

#### Continuous rise in Interest earning assets (IEAs) and superior NIM

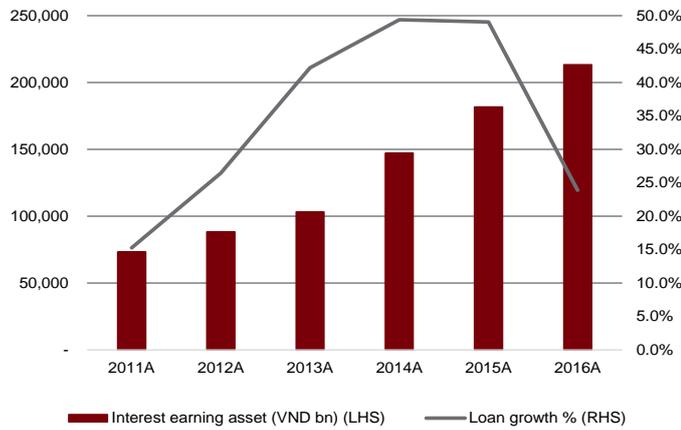
VPB's IEAs witnessed a solid CAGR of 25% during FY12-16, mostly driven by a CAGR of 41% in the loan balance, which outpaced the growth rate of other retail banks. In FY16, loan book growth was 24% yoy, of which the bank's loan portfolio grew by 17% yoy, while FE Credit's loan book jumped by 59% yoy.

Meanwhile, the rest of the industry is trying to beat the system-wide trend of NIM compression due to high competition for deposits and the decline in the Government bond yield which has pressured asset yields. VPB enjoyed a superior NIM ratio in FY15-16 compared to the rest of the industry. Blended NIM surged from 4.2% in 2014 to 6.3% in 2015, and then further to 7.7% in 2016 (vs. the industry's average of 3.4%, 3.4% and 3.3%, respectively). We estimate that the FY16 NIMs of VPB's banking operations and FE Credit's consumer finance operations were about 4.1% and 24.9%, respectively.

The improvement in NIM is mainly being driven by a shift in loan mix towards higher-yielding consumer finance assets which is, in turn, lifting blended asset yields. IEA yield rose from 9.9% in 2014 to 11.4% in 2015, then 13.0% in 2016, far above the average 7.0% yield of local peers in 2016. In FY16, the IEA yields of the bank and FE Credit were estimated at about 8.9% and 39.5%, respectively.

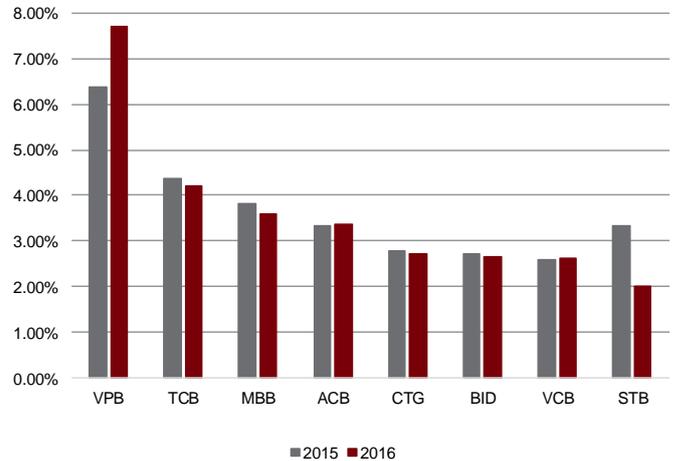
Meanwhile, on the funding side, similar to other retail private banks, VPB does not have the advantage of cheap funding sources enjoyed by SOE banks. Besides, as the consumer finance business model requires aggressive funding growth, VPB's cost of funds was also higher than competitors'. FY16 cost of funds of the bank and FE Credit were about 4.9% and 12.1%, respectively, resulting in a blended overall cost of funds of 5.5% versus the peer average of 4.3%.

**Figure 25: Loan growth boosting Interest Earning Assets**



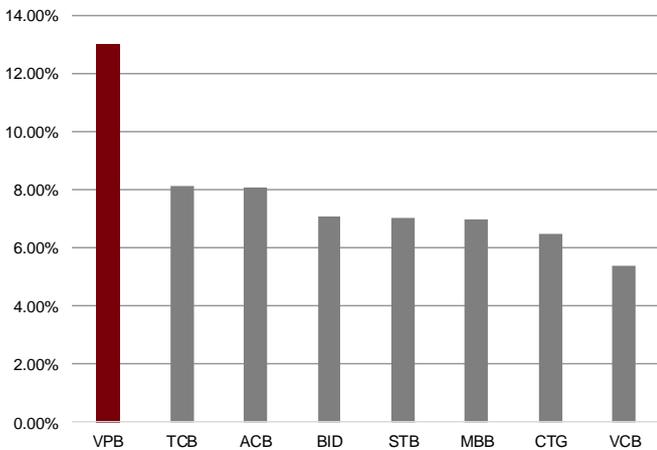
SOURCE: CIMB RESEARCH, COMPANY

**Figure 26: VPB's NIM stands out in the industry**



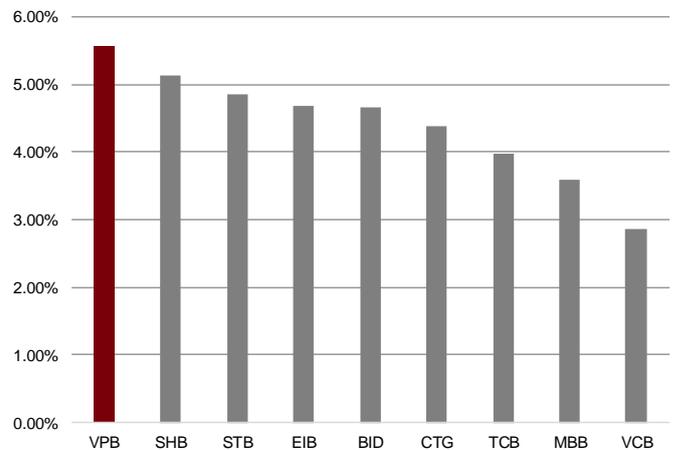
SOURCE: CIMB RESEARCH, COMPANY

**Figure 27: Industry-leading FY16 Interest Earning Asset yields...**



SOURCE: CIMB RESEARCH, COMPANY

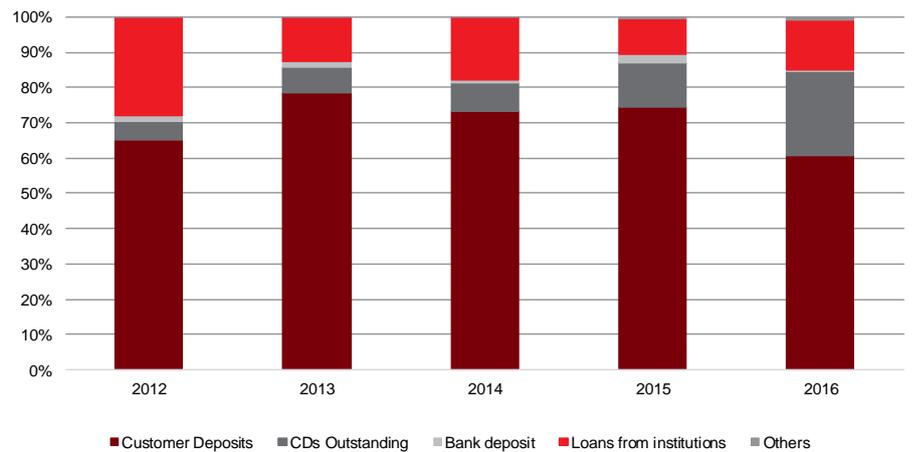
**Figure 28: ...but also higher FY16 Interest Bearing Liabilities cost**



SOURCE: CIMB RESEARCH, COMPANY

During 2015-16, mobilisation competition increased among banks against the backdrop of a tightening of the cap on percentage of short-term funds being used for medium-to-longer term loans. This cap was lowered from 60% to 50% in Jan 2017, and will further fall to 40% in Jan 2018F. In order to fuel rapid loan growth, VPB started to diversify funding sources which allowed the bank the flexibility to adjust to the changing regulatory environment.

**Figure 29: Interest-bearing liabilities mix adapted to the regulatory tightening**



SOURCE: CIMB RESEARCH, COMPANY

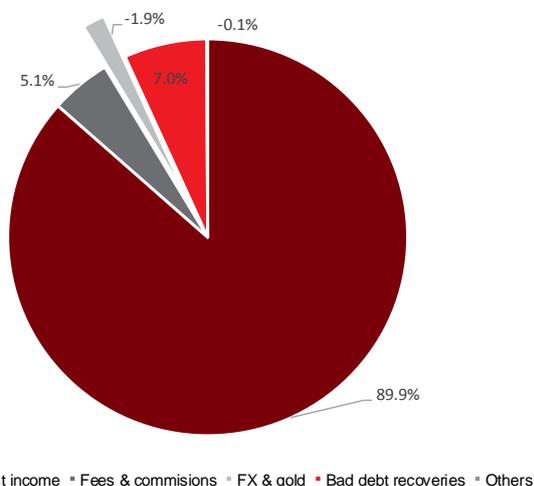
Funding sources grew at a CAGR of 22% over FY12-16, driven by a strong CAGR of 30% in deposits and certificates of deposits. The interest-bearing liabilities mix witnessed a shift from ordinary customer deposits to valuable papers, in line with the bank’s strategy to develop more stable and long-term funding sources to fuel organic growth. By end-FY16, the outstanding balance of certificates of deposit with terms ranging from 1 to 5 years was VND48.6tr, growing 123% yoy and comprising 24% of the total funding mix.

**Heavy reliance on net interest income is a potential source of vulnerability but low non-interest income base also creates an opportunity**

While other local banks saw a sustained slowdown in NII growth, VPB enjoyed a remarkable NII CAGR of 50% over FY12-16, with NII contributing around 90% of operating income during this period. Within the non-interest income mix, fee & commission income grew at an impressive 5-year CAGR of 33%, in line with the efforts of the bank to promote online payments and card issuance. However, these are still relatively small contributors to total operating income.

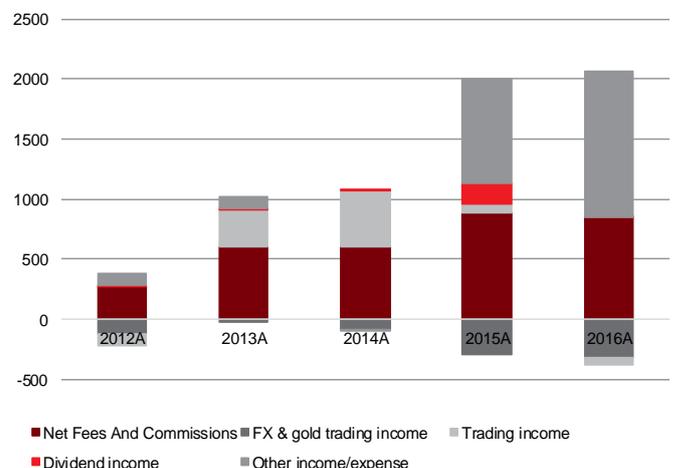
Notably, income from bad debt recoveries (included under “Other Income” in Figure 31) has accelerated since FY15 and surged by 34% yoy in FY16, to account for 7% of total operating income. This signaled an improvement in the bank’s bad debt collection capabilities.

**Figure 30: Operating income structure in 2016**



SOURCE: CIMB RESEARCH, COMPANY

**Figure 31: Non-interest income performance (VND bn)**

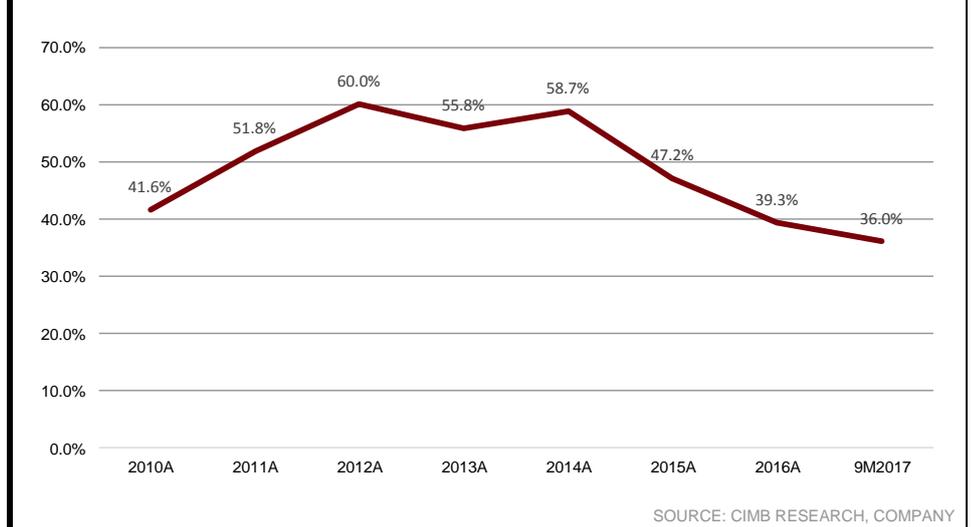


SOURCE: CIMB RESEARCH, COMPANY

**Heavy legacy investments in IT are paying off as reflected in a plummeting cost-to-income ratio (CIR).**

During 2010-14, VPB's CIR was significantly higher than peers', driven by a combination of a growing retail banking push and IT infrastructure investments. However, since 2015, the CIR rise has reversed sharply to reach just 39.3% of FY16, and headed even lower in the first half of this year. We view this as the twin impact of a normalisation of IT investments and the pay-off from the recent IT investments in terms of lifting operating efficiency.

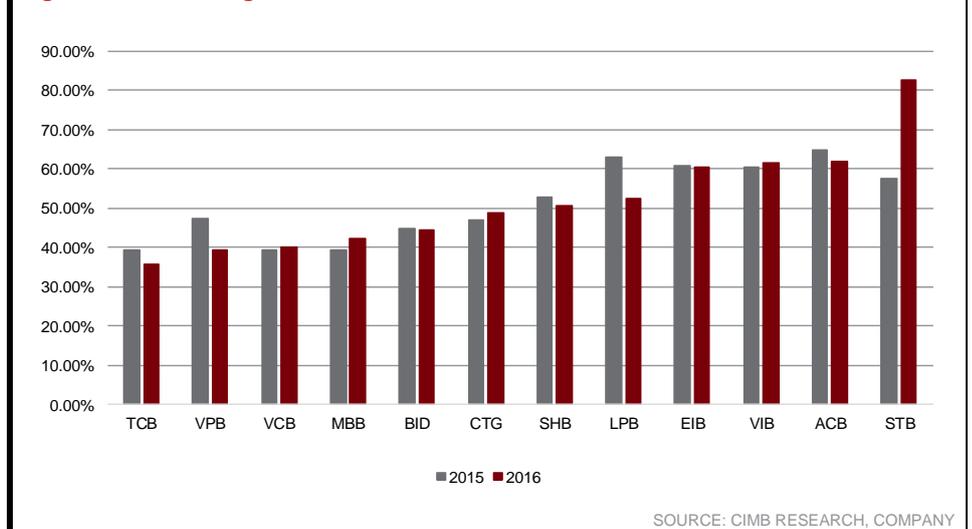
**Figure 32: Improving operating efficiency reflected in a falling CIR**



Furthermore, with high levels of centralisation and specialisation, the bank has considerable operational advantages compared to other banks, in our view. Operating activities are also centralised at head office and hubs, thereby reducing operating costs while still ensuring that service-level agreements with customers are honoured. Loan appraisal and approval are centralised at credit-processing centres, while other operations such as administration, accounting, human resources and information technology are provided centrally by departments at the head office, thereby helping to provide consistent service quality and allowing business units to focus on sales and customer service.

Today, VPB is among the most efficient banks in Vietnam with a CIR of well under 40%, impressive even by international standards.

**Figure 33: CIR among banks**



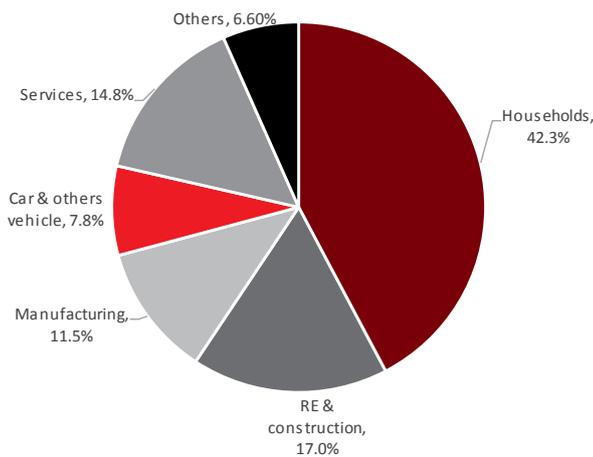
## 2.2 Impressive asset growth & aggressive management of asset quality

VPB saw its assets grow at a CAGR of 22% during 2012-16, achieved largely through aggressive loan book growth which reached 62% of total assets as at end-2016. 23% of VPB’s assets were allocated to investment securities, of which 39% comprised of Government bonds and 59% comprised of corporate bonds. Interbank lending was minimal with only 4% contribution, while other assets contributed 11%. In general, VPB’s asset mix is rather simple and opportunistic, a reflection of the less defensive (low proportion of G-bonds and interbank lending) mindset of the management team, in our view.

### Less loan book exposure to riskier SOE segment

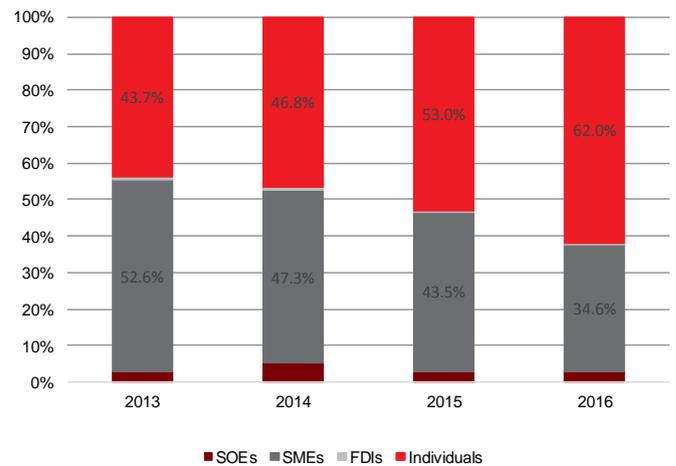
Taking a closer look at the loan book, only 3% of VPB’s outstanding loans are to SOEs (as at end-FY16), the smallest among the top 12 listed Vietnamese banks. Household and personal spending loans dominate the loan book with 42.3% total contribution as at end-FY16, while Real estate and construction sector loans account for a considerable 17% of the loan book. However, as explained by the management, a large amount of these loans was disbursed directly to house buyers with their own houses or apartments as collateral. Although the actual proportion of the real estate loan book allocated to real estate developers was not disclosed, in the analyst meeting on Apr 2017, the bank revealed that it is relatively small implying that a softening of the property market does not pose large risks, in our view.

Figure 34: FY16 loan book breakdown by sectors



SOURCE: CIMB RESEARCH, COMPANY

Figure 35: Loan book breakdown by customer types

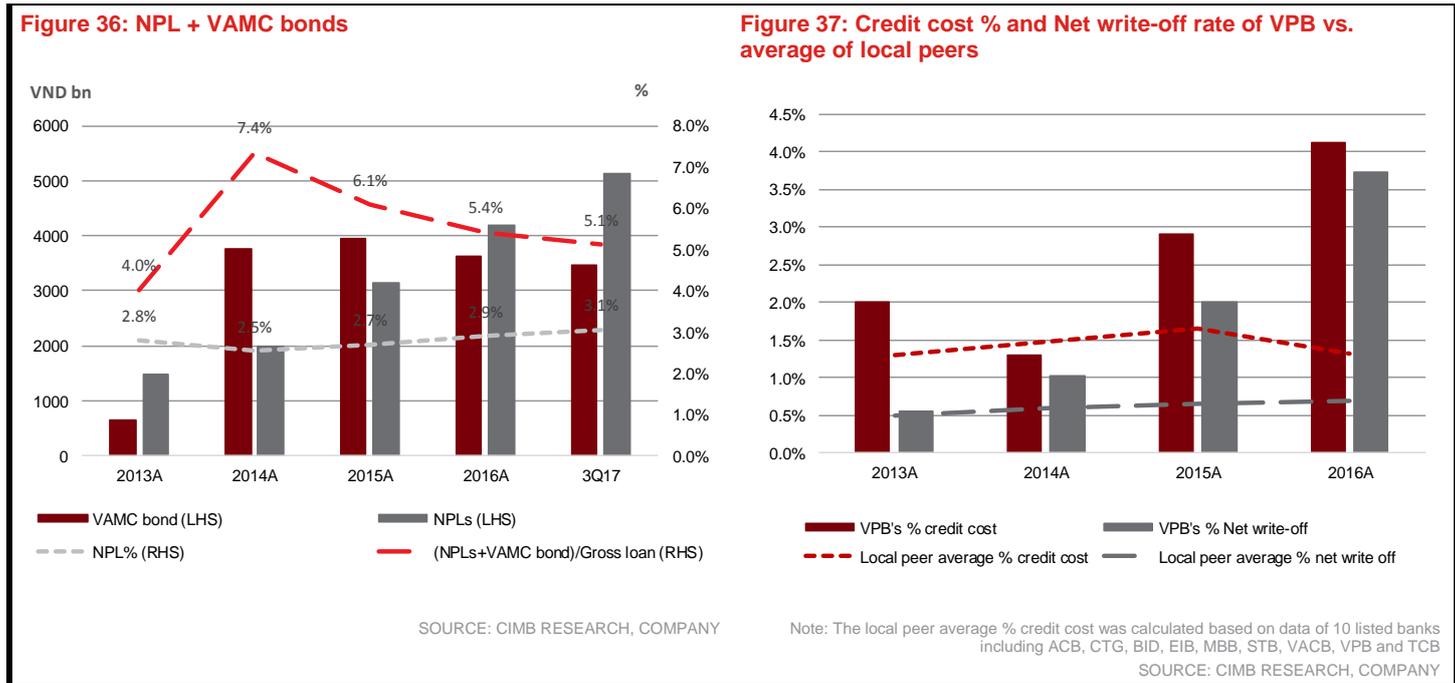


SOURCE: CIMB RESEARCH, COMPANY

### NPLs on the rise but still manageable

Recently, VPB’s reported NPL ratio started to rise in the context of dramatic loan growth. By end-FY16, consolidated reported NPL ratio was 2.9%, comprising a 2.0% NPL ratio for the bank and a 6.0% NPL ratio for FE credit.

In 2014, the bank transferred a considerable amount of VND3.3tr worth of bad debt to VAMC in order to maintain its reported NPL ratio at a healthy level of 2.5%. Currently, the ratio of (NPLs + VAMC bonds)/Gross loan balance stands at 5.4%, slightly lower than the system-wide level of 5.8%. The bank is focusing on writing off bad debt rather than accelerating provisioning against VAMC bonds.

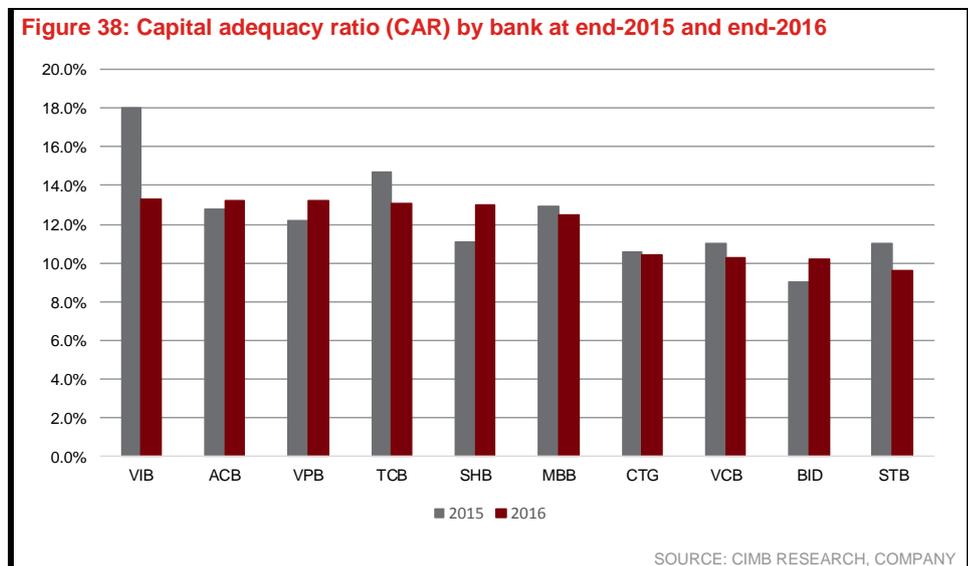


Due to the business nature of consumer finance which generally comes with inherently higher asset risk, the bank has adopted an aggressive write-off policy to purge bad debt from its balance sheet instead of maintaining high loan loss coverage. As consumer lending has no collateral requirement, the bank could neither transfer to VAMC nor recover bad debt by selling collateral. This policy allows the bank the ability to write-off bad debt in a timely fashion in order to keep the NPL ratio under control.

Consequently, we believe VPB's modest loan loss coverage of 50% as at end-FY16 is misleading as it is a symptom of this aggressive write-off policy. In our view, evidence of VPB's faster write-off policy lies in comparing both its "credit-cost rate" (provisioning charges/average loans) and its "write-off rate" (net write-off value/average loans) over the past 4 years to that of peers.

By end-FY16, net write-off rate rose by 137bp yoy to 3.7% (1.8% for the bank and 11.3% for FE Credit). The ratio of provision expense to pre-provision operating profit (PPOP) also increased from 44.5% in FY15 to 52.6% in FY16 to support the rise in the net write-off rate.

### 2.3 VP Bank is well capitalised compared to peers ➤



Total risk-weighted assets (RWA) for FY16 were recorded at VND150,204bn (+27% yoy). The bank, itself, maintained its CAR at 13.50% over 2016-6M17. Meanwhile, FE Credit's CAR saw a sharp decline from 11.95% as of FY16 to 9.45% as of 1H17, still high above the minimum of 8% (under Circular 41/2016). Note that FE Credit, as a standalone entity, is not required to comply with Basel II in 2020 and so this does not concern us much.

In Jul 2017, VPB received a US\$57m convertible loan from International Finance Corporation (IFC). IFC can transfer the loan into ordinary shares of VPB during its two-year term, amounting to a maximum of 5% of outstanding shares. The loan has promoted VPB's capital buffer with CAR (non-Basel II) from 11.3% at end-1Q17 to 16.7% at end-3Q17 without creating much dilution risk stemming from the conversion of the loan. The bank did not publish the standalone CAR of FE Credit and the bank, itself, as of 3Q17.

The bank has taken extensive preparatory steps for the implementation of Circular 41/2016– NHNN (issued 30 Dec 2016) that envisages compliance with Basel II standards on credit institution capital adequacy. The bank has initiated a system for regular computation of CAR, as per Basel II and State Bank of Vietnam requirements, and is continuously improving its risk governance according to Basel II recommendations. So far, VPB's CAR under Basel II was reported at 13.5% (as of 9M17) making it among the most well-capitalised banks in Vietnam.

Figure 39: CAR of standalone bank and FE Credit (see footnote)

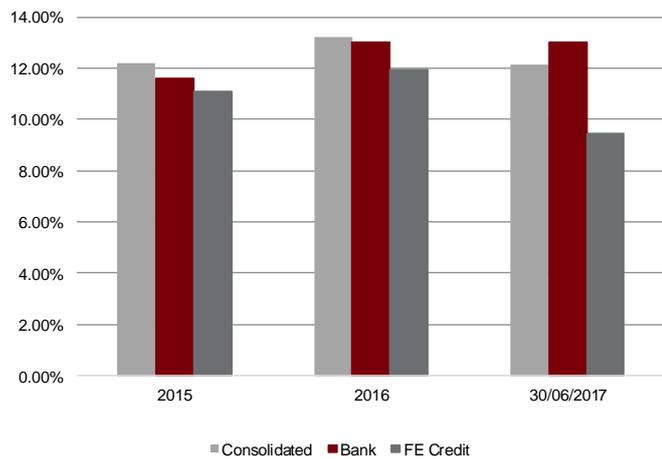
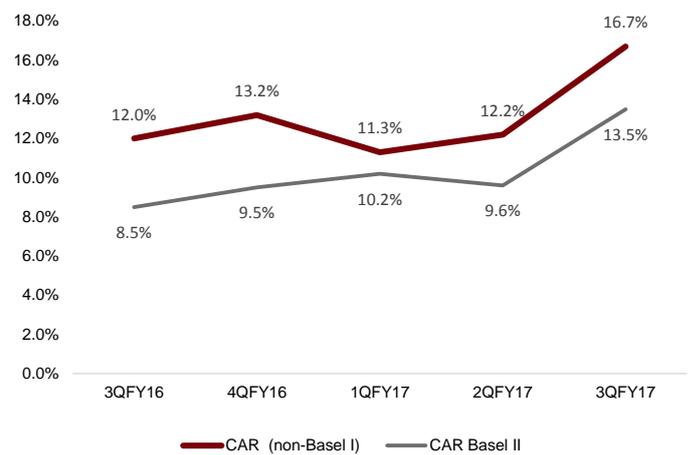


Figure 40: Blended CAR by quarter



Note: Standalone CAR of FE Credit and Bank as of Sep 2017 based on our estimates as VPB did not publish this data

SOURCE: CIMB RESEARCH, COMPANY

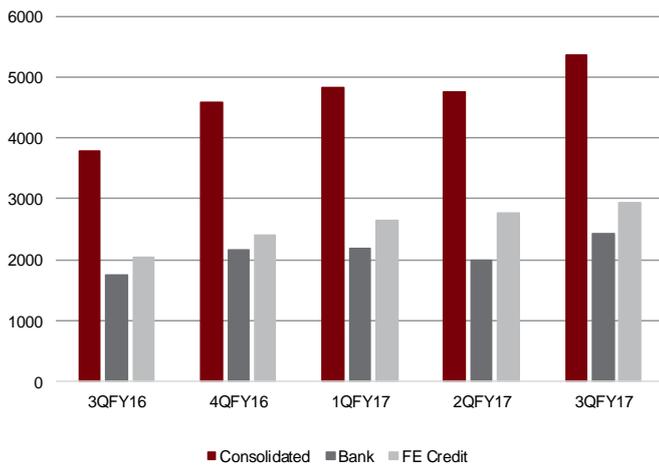
SOURCE: CIMB RESEARCH, COMPANY

## 2.4 9M17 performance update ▶

### Robust pretax profit growth in 9M17 suggests FY17 target could be surpassed

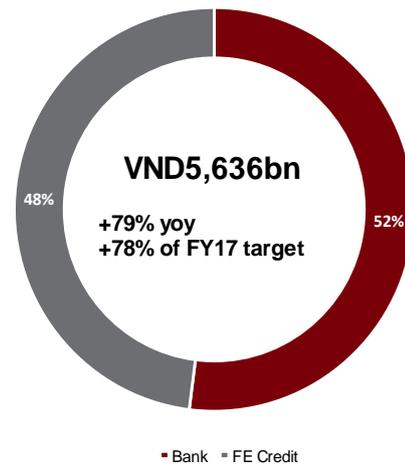
VPB saw impressive pretax profit (PBT) growth in 9M17 with all income streams recording strong growth and outpacing the growth in expenses. Total operating income grew by 48.3% yoy while operating expense and provision expense growth trailed at 33.2% and 41.9% yoy, respectively. 9M17 PBT reached VND5,636bn, up 79.1% yoy, fulfilling 78.3% of its FY17 PBT target. 9M17 PAT reached VND4,501bn, up 71.7% yoy.

**Figure 41: Quarterly net interest income (VND bn)**



SOURCE: CIMB RESEARCH, COMPANY

**Figure 42: Profit before tax contribution as of 9MFY17**



SOURCE: CIMB RESEARCH, COMPANY

**Net interest income jumped 41.1% yoy on account of accelerating loan growth and NIM expansion...**

As of 30 Sep 2017, the loan book was up 15.9% YTD, higher than the 11.3% growth seen in the same period last year, while deposit to customers growth and total funding growth were much lower at 3.2% and 5.6%, respectively. During 9M17, the unsecured loan book increased by 26.9%, pushing its weight in the total loan book from 31.0% at end-2016 to 34.4% at end-9M17. We estimate NIM increased by 122bp from FY16 to reach 8.9% in 3Q17, among the highest in the industry.

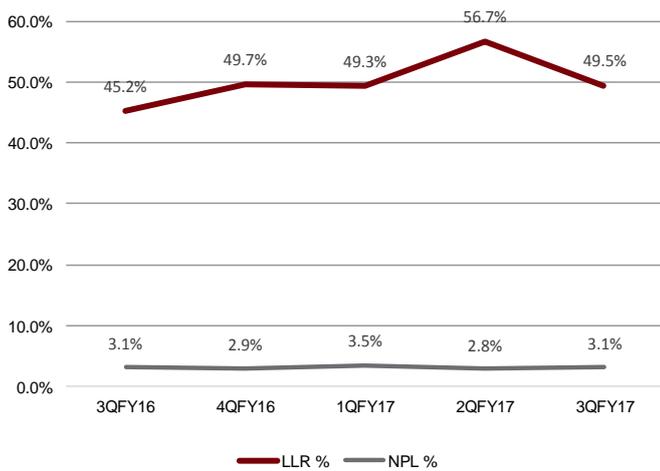
**...but slow growth in fund mobilisation led to a spike in the loan-to-deposit ratio (LDR)**

The imbalance between growth in loans and deposits pushed the LDR up from 71.3% in FY16 to 77.6% in 3Q17, slightly below the 80% cap. We believe the bank might decelerate loan growth gradually and will take measures to boost the pace of customer deposit mobilisation in the next two years.

**The improvement in fee income was encouraging**

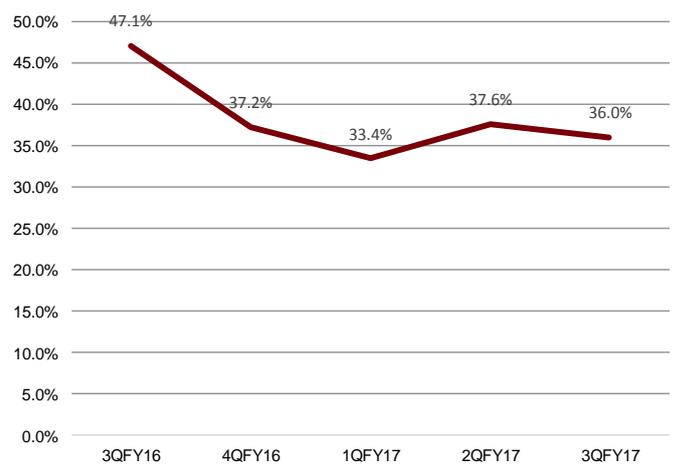
Net fee income and other income recorded impressive growth rates of 84.3% yoy and 128.5% yoy, respectively, in 9M17 as loss from foreign currency and gold trading shrunk while income from trading and investment securities improved compared to 9M16. 62% yoy growth in income from bad debt recovery was also a driver for the jump in other income. Within the fee income pie, the majority contribution came from insurance services at 70% of net fee income. Income from insurance service is the commission received upon insurance policy sales, and each unsecured loan contract often incorporates insurance services by default although customers can choose to opt out. High income from insurance services is explained by a relatively sizable and growing unsecured loan portfolio as mentioned above.

**Figure 43: Quarterly NPL% and loan loss coverage ratio (LLR%)**



SOURCE: CIMB RESEARCH, COMPANY

**Figure 44: Quarterly CIR**



SOURCE: CIMB RESEARCH, COMPANY

**Accelerated bad debt write-offs brought NPL ratio down from 3.5% in 1Q17 to 3.1% in 3Q17, but still up slightly compared to 2.9% in FY16**

In 9M17 VPB increased loan write-offs to tackle NPLs. 9M17 write-off was VND4,751bn versus VND3,858bn in 9M16. Provision expense increased by 41.9% as the bank booked more specific provisions. However, as the bank accelerated bad debts write-offs, the loan loss coverage ratio (LLR) stayed flat (49.5% in 3Q17 versus 49.7% in FY16).

**Strong growth in income along with the bank’s efforts to control operating expense paid-off.**

Cost-to-income ratio continued its slide from 39.3% in FY16 to 36.0% in 3Q17.

## OUTLOOK

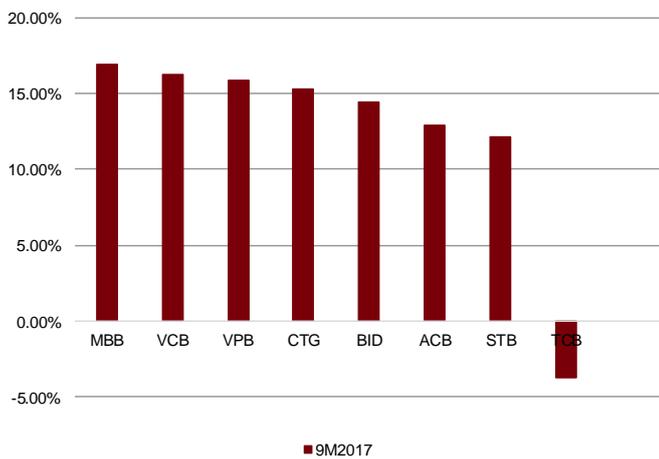
### 3.1 9M17 banking sector review: recovery gathers pace ➤

The Vietnamese banking sector began 2017 on a positive note with Moody's upgrading Vietnam's sovereign rating to "positive" from "stable" in Apr 2017. And then in May, Moody's updated its rating of 8 Vietnamese banks, re-rating some of them as "positive".

System-wide credit expanded by 12.16% in 9M17, the highest growth rate in the past six years (source: SBV). In an effort to boost economic growth, the Prime Minister asked SBV to lift the annual credit growth target to 20% from 18%. Consequently, several banks have requested the SBV to seek approvals on lifting their credit limit as they have almost used up the assigned quota for the whole year.

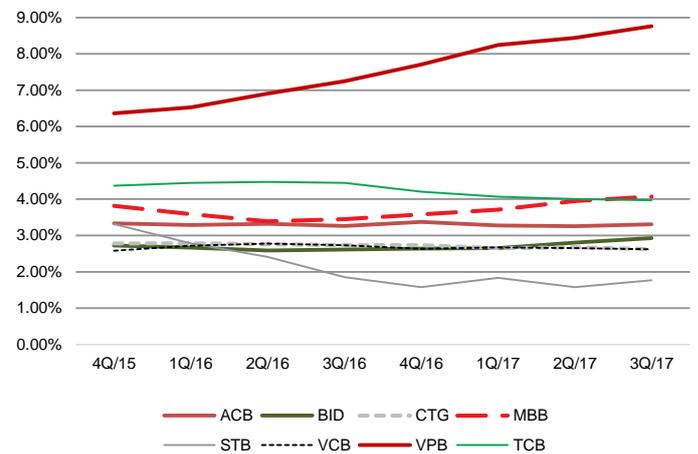
We estimate that the top-ten banks posted an increase of 32.1% yoy in aggregate pretax profit for 9M17. It should be highlighted that NIM among top-tier banks has gradually expanded, reflecting a changing asset mix towards higher yield loan segments.

Figure 45: Credit growth (YTD) among banks in 9M17 (actual)



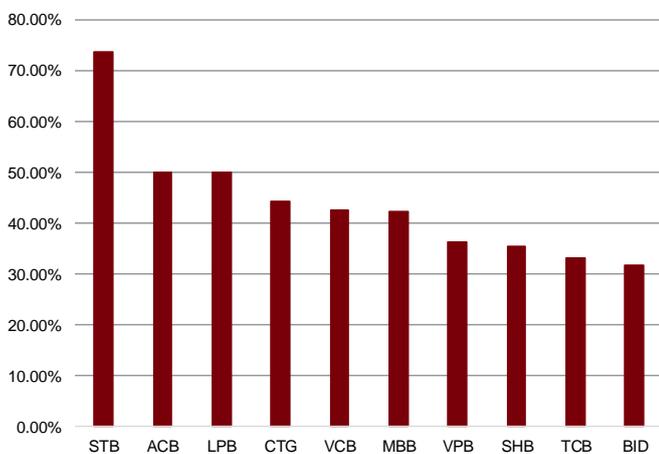
SOURCE: CIMB RESEARCH, BANKS

Figure 46: NIM of top-tier banks shows significant improvement



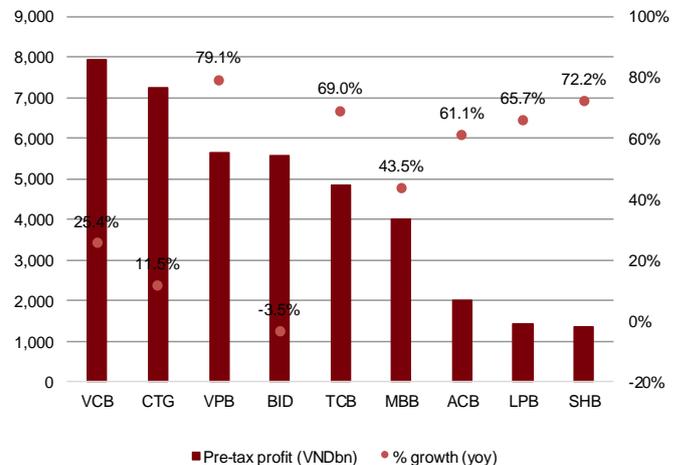
SOURCE: CIMB RESEARCH, BANKS

Figure 47: Cost-to-income ratio of top listed banks as of 9M17



SOURCE: CIMB RESEARCH, BANKS

Figure 48: Pretax profit and pretax profit growth (yoy) of top listed banks as of 9M17



SOURCE: CIMB RESEARCH, COMPANY

### 3.2 Credit growth is accelerating once again but quality is better than in the previous credit up-cycle ▶

Vietnam's credit growth has started accelerating again since 2013, driven by a combination of (1) overall improvement in economic growth led by strong FDI inflows, (2) an effective de-dollarisation campaign and (3) much lower inflation, all of which taken together have propelled business sentiment and consumer confidence to new highs.

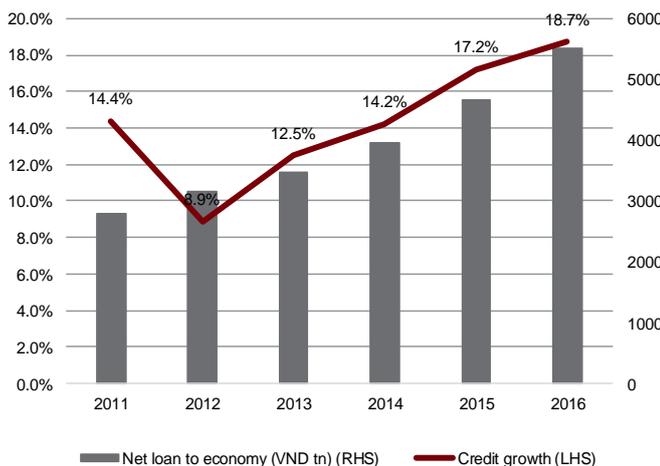
We believe Vietnam might be able to pursue 16-18% credit growth into 2018-19F based on the following considerations:

- Credit growth has recently been driven more by private businesses and consumers, both of which still have ample room to grow, in our view; consumer and small-business confidence remains high and credit penetration in these segments is still low by international standards.
- We believe broad-based economic growth, policy focus and banks' own strategic re-orientation should support SME credit appetite; examples include subsidised lending rates for preferential industry sectors such as agriculture, advanced technology and certain export-oriented sectors.
- The BASEL II implementation deadline delay to 2020 allows more time for banks to prepare themselves, which we believe implies they do not need to curb loan growth.

In a marked departure from the past, we see credit allocation to private sector enterprises and SMEs, in particular, has increased significantly in line with the Government's efforts to reduce SOE domination over the economy and capital pools as well as several recent policies supporting private and SME access to credit. For banks, we believe growing exposure to individual and private sector loans will mitigate the asset quality risk and allow banks more room to boost credit (loans to individuals carry a lower risk weighting compared with loans to the SOE segment, allowing banks to reduce the RWA and boost CAR).

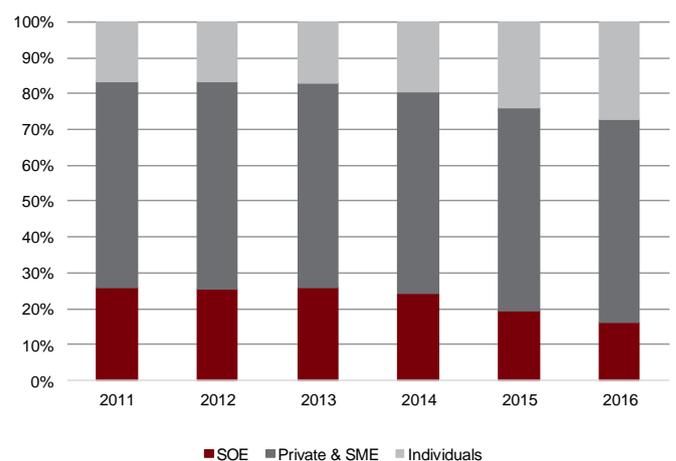
Besides, the loan exposure to real estate trading gradually fell from 17.4% as at end-2016 to 17.0% as at Sep 2017. We believe the impact from Circular 36 amendments, which increased the risk-weighting for loans to real estate trading (primarily loans to developers) to 200% from 150%, effective from Jan 2017, will incentivise banks to switch from lending to developers to lending to house buyers.

Figure 49: Credit growth in Vietnam re-accelerated since 2013



SOURCE: STATE BANK OF VIETNAM

Figure 50: ...with SOE's share of loan book on the decline



SOURCE: STATE BANK OF VIETNAM

### 3.3 Major recapitalisation still a pressing need ▶

Although Basel II will be implemented in 2020, we believe strong credit growth would deplete capital and exacerbate banks' weak internal capital generation. Our bottom-up analysis indicates that Vietnamese banks need to raise about US\$7.9bn in aggregate capital (including Tier-1 and Tier-2 capital), which translates into a system-wide need for US\$5.5bn of equity capital in order to

comply with Basel II standards while still maintaining a satisfactory ~12% CAR to support banks' continued high credit growth into FY17-18F.

Under Basel II, a bank's capital base consists of both Tier I capital (equity) and Tier II capital (long-dated, subordinated debt). The Basel II rules stipulate that the amount of a bank's Tier II capital should be capped at 50% of its Tier I capital, but in Vietnam's case we have made the assumption that the sector-wide figure will realistically be constrained to about 30%, given the difficulty that smaller banks will have in convincing investors to buy their long-dated debt. This assumption is the basis for our estimate that local banks will need to raise about US\$7.9bn of capital in aggregate, US\$5.5bn of which will be in the form of equity.

However, we think higher Foreign ownership limits (FOLs) will mitigate the under-capitalisation risk and that continued strong foreign investor appetite for Vietnamese banks is a positive in this regard. Although the process of lifting FOLs might be slow, we believe this topic will move to centre stage again as the Government continues to use credit growth to achieve economic targets.

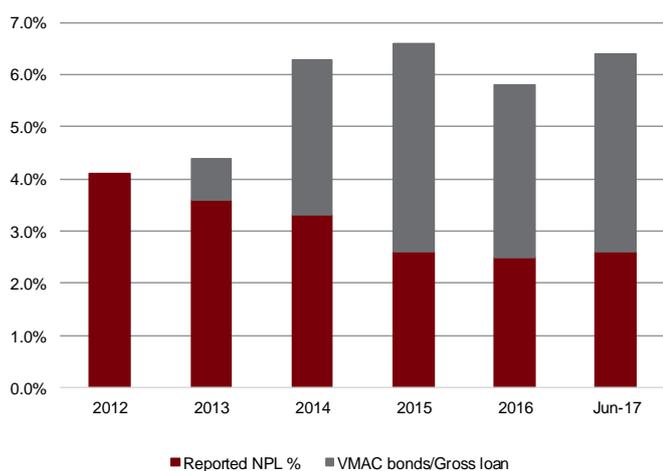
### 3.4 New policy measures to improve bad-debt handling process ▶

Led by stronger loan growth, the system-wide reported NPL ratio rose to 2.9% in Jun 2017 from 2.6% at end-2016. Currently, NPL clearing still relies on repayment by customers and internal resolutions which hurt the banks' profitability.

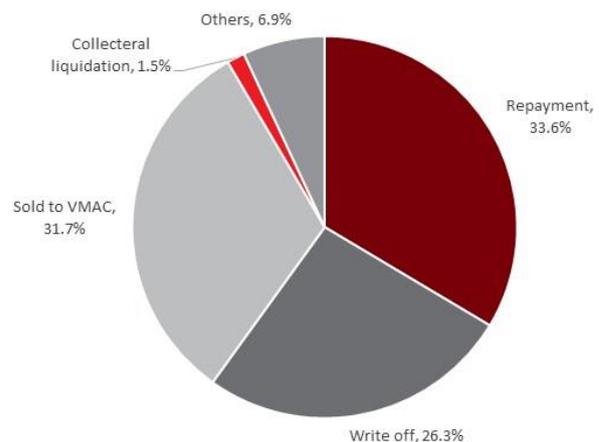
During the first 7M17, about VND45tr of system-wide bad debts were cleared, of which 31.7% were transferred to VAMC, 26.3% were addressed through the banks' write-offs, and 33.6% were recovered through customer repayments. Meanwhile, liquidation of collateral is still a challenge with this method, accounting for only 1.5% of total bad debt clearance in value terms. However, about 15% of accumulated NPLs which VAMC bought since 2014 have been resolved so far. VAMC resolved NPLs by liquidating collateral or selling bad debt to other financial institutions.

So far, both the banks' collateral liquidation efforts and VAMC's bad debt clean-up initiatives have been limited by the lack of an institutional and legal framework to enforce the lenders' right to seize collateral and their inability to sell bad debt at market prices.

**Figure 51: System-wide reported NPL and VAMC bonds (as % of total loans)**      **Figure 52: Bad debt handling by method in 7M17**



SOURCE: STATE BANK OF VIETNAM



SOURCE: NATIONAL FINANCIAL SUPERVISORY COMMISSION

In Aug 2017, the Government issued Resolution 42/2017/QH14 on piloting bad debt settlement of credit institutions to provide thorough guidance on the procedures for recovery and repossession of collateral. Six commercial banks, including Vietcombank (VCB VN, Not Rated), Vietinbank (CTG VN, Not Rated), BIDV (BID VN, Not Rated), Agribank (Unlisted), Sacombank (STB VN, Not Rated) and Asia Commercial Bank (ACB VN, Not Rated) have been selected to pioneer the application of this Resolution. The new legal framework confers lenders with

more power in collecting collateral which could be considered as the first critical step to resolve legacy assets, in our view. The new legal framework also provides incentives to encourage NPL trading, as it provides liquidity and helps price the assets through market mechanisms. It also sets a framework for a secondary debt trading market, which we believe is high on the wish list of both foreign and domestic investors.

One month after the activation of Resolution 42, VAMC has taken serious measures to accelerate bad debt resolution through collateral possession. In Sep 2017, VAMC seized Saigon One Tower, an asset mortgaged against VND7,000bn bad debt that Maritime Bank (MSB) and Dong A Bank (DAB) transferred to VAMC in Apr 2015.

We believe the new resolution has removed previously existing legal impediments and will hasten the bad debt clean-up progress.

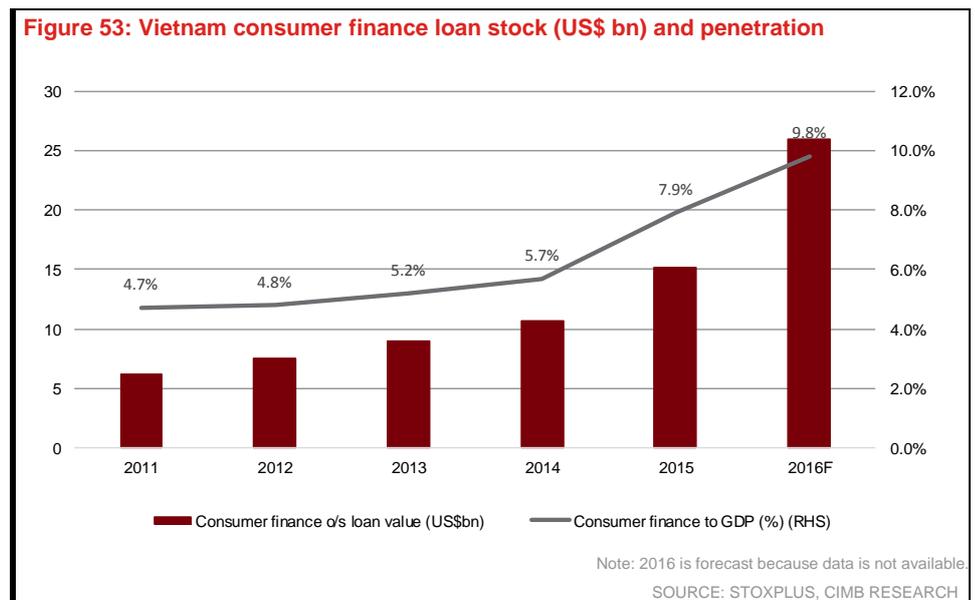
In addition, banks, including VCB, Military Bank (MBB VN, Not Rated), CTG and Vietnam International Bank (VIB VN, Not Rated) have started to repurchase bad debt from VAMC to handle them in-house, signalling an improvement in their financial capacities and confidence in the new policy measures to streamline bad debt recovery, in our view.

### 3.5 Vietnam consumer finance market – the new growth engine ►

**We expect the significant pace of growth to be sustained through to 2020F.**

Driven by golden demographics with growing levels of urbanisation, a young population, rising income levels and growing levels of home, car and durable goods ownership, Vietnam's consumer lending industry enjoyed a robust CAGR of 37.8% in terms of outstanding loans over the past 5 years. A growing propensity to borrow and rising per capita disposable income and consumption should help sustain this growth for the next few years, in our view.

According to Stoxplus, the total system-wide consumer loan balance reached approximately US\$26.6bn in 2016, an increase of 29% yoy. However, this translates into only ~9.8% of 2016 GDP, nearly 320bp lower than the average penetration ratio for regional peers (Malaysia ~14.0%, Thailand ~13.2%). Consumer finance loans have rapidly expanded their share of the total loan book, from around 5% in 2012 to 11% in 2016, becoming the new engine for overall credit growth.



According to the Economist Intelligence Unit (EIU), with rising income and acceleration in e-commerce transaction growth in Vietnam, consumer credit is predicted to sustain a CAGR of 27% until 2020F. Even though the majority of e-commerce transactions today are based on a cash-on-delivery payment model,

this is expensive and hence, online retailers are pushing for the adoption of non-cash payment solutions including credit cards and e-wallets. We believe this should boost credit card penetration which is very low by regional standards.

### **Clearer legal framework to underpin robust consumer finance growth**

Commercial banks and non-bank financial companies are the two major providers of consumer loans in Vietnam. In the last few years, several commercial banks have set up divisions specialising in consumer lending. Since mid-2014, the SBV has imposed stricter rules on consumer lending. Current regulations allow commercial banks to provide consumer loans only to “standard” customers (with collateral requirements). In order to offer these loans to “non-standard” (no collateral) customers, banks are required to set up separate finance companies.

In 2016, the SBV issued two important Circulars (Circular No 39/2016/TT-NHNN and Circular No 43/2016/TT-NHNN), pertaining to financing activities, including consumer finance. These regulations not only facilitate consumer finance, but they also protect borrowers from high credit risk through strict requirements for publication of transparent interest rates and also by detailing loan limits. Some key points of these Circulars are summarised as below:

- Loan limit: loan provided by a financial company to any one borrower at any time is limited to VND100m (~US\$4,400). However, this limit does not apply to consumer loans for the purchase of cars, where the car is to be used as collateral for the loan.
- Interest rate: must be calculated on the actual loan balance with no interest rate cap. Overdue interest rate is 150% of the interest rate applicable to the underlying loan.
- Other requirements: Standard terms for a consumer credit contract are required. Finance companies must disclose their standard form contracts and terms across their distribution channels.
- No restrictions on foreign ownership.

### **However, competition is heating-up in the consumer finance space**

Currently, FE Credit with 55% market share has left other finance consumer companies, including HD Saison (Unlisted), Home Credit (Unlisted) or Prudential Finance (Unlisted) in the dust. These top four companies dominate with 97% of the local consumer lending market. Although still a lucrative business, the market has become more competitive with an increasing number of participants jostling for space at the top.

In late 2016, MBB partnered with Shinsei Bank (8303 JP, Not Rated) to introduce a new consumer finance company, MCredit (Unlisted), with the ambition to leverage its strong customer database and wide sales network to cross-sell consumer finance and bancassurance products. From the beginning of 2017, MCredit started to set its footprint in the North with more than 100 POS to provide cash loans, 2-wheeler loans and durable loans.

In 2015, HD Bank (Unlisted) sold 49% stake in its financial arm, HD Finance (Unlisted) to Japan’s Credit Saison. The company was renamed “HD Saison” and became the third-largest consumer lender with 13% market share by 2016. In Jan 2017, HD Finance got a capital injection which boosted its charter capital from VND550bn to VND800bn.

Techcombank also bought a non-bank financial company in 2015 and renamed it TechcomFinance, but it has no noticeable activity. However, on 26 Sep 2017, Techcombank announced the transfer of a 100% stake in TechcomFinance to Lotte Card, a subsidiary of Lotte Group (Unlisted), in a deal worth VND1,734bn.

We also see an emerging competitive threat posed by fintech start-up companies who provide person-to-person (P2P) loans and day loans. They are also trying to enter the market by using digital channels to target the unbanked population.

## **3.6 Outlook on VPB – still on an upward trajectory ▶**

Given its strong fundamentals and timely entry into the consumer finance space which conferred it with a dominant leadership position, we believe that VPB has the best capacity to capitalise on the continued growth in the space and withstand the challenges that the consumer finance industry is likely to face in the coming years, particularly from a competitive and regulatory perspective.

### Steady loan growth to drive asset growth; however, deposit mobilisation needs to be improved

We project that the bank will retain its higher-than-market-average growth rate in IEAs with a CAGR of 17.0% in FY17-20F, driven by a loan CAGR of 20.3%. We believe after such robust growth over the past few years, VPB's loan book growth has to decelerate in order to control the increasing credit risk. We are forecasting a loan CAGR of 16% in FY17-20F for the standalone bank but we expect FE Credit's loan portfolio to register a CAGR of 31.7%, higher than EIU's industry-wide forecast.

On the funding side, we believe the bank might have to take measures to boost the pace of customer deposit mobilisation. Liquidity is not currently a problem for VPB given that it reported an LDR of 67% at end-FY16, far below the cap of 80% regulated by SBV (Note that reported LDR under Circular 36 is different from pure LDR as measured by international standards). However, VPB's pure LDR of 115% is relatively high, in our view, and we believe it could increase further into FY18F with credit growth of 16.7% far outpacing deposit growth of 5.2%.

Besides, according to Circular 06/2016 (revision of Circular 36), the cap on % of short-term funding used for medium-long term loans will fall to 40% from Jan 2018. Although the bank did not disclose this ratio in 2016 (43% at end-2015), we see an emerging constraint in funding. If liquidity tightens, VPB will need to increase its reliance on longer-maturity, higher-cost funding sources, i.e. certificates of deposits and valuable papers. We expect the funding exposure to CDs will expand from the current 24% up to 50% by end-FY20F.

**Figure 54: VPB's key balance sheet KPI forecasts, based on our estimates**

<i>(in VNDbn, otherwise noted)</i>	2016A	2017F	2018F	2019F	2020F	CAGR FY12-16	CAGR FY17-20F
Interest-earnings assets (excl. Provision) "IEAs"	215,337	251,181	293,127	343,219	402,296	24.8%	17.0%
Average IEAs	199,388	233,259	272,154	318,173	372,758	25.2%	16.9%
% growth	17.4%	16.6%	16.7%	17.1%	17.2%		
Loan balance	144,673	174,484	209,769	252,555	303,617	40.7%	20.3%
% growth	23.9%	20.6%	20.2%	20.4%	20.2%		
<i>in which</i>							
Bank (non-FE)	112,568	131,142	152,125	176,465	204,699	N/A	16.0%
FE Credit	32,105	43,342	57,644	76,091	98,918	N/A	31.7%
Interbanks loans	12,372	12,619	12,871	13,129	13,391	-18.6%	2.0%
% growth	-26.6%	2.0%	2.0%	2.0%	2.0%		
Securities investment	58,292	64,078	70,486	77,535	85,288	25.4%	10.0%
% growth	17.1%	10.0%	10.0%	10.0%	10.0%		
Interest bearing liabilities "IBLs"	203,959	232,170	267,492	309,120	362,964	22.2%	16.1%
Average IBLs	189,595	218,064	249,831	288,306	336,042	23.6%	15.5%
% growth	16.4%	13.8%	15.2%	15.6%	17.4%		
Customer Deposits	123,788	130,377	137,140	143,929	150,987	20.1%	5.0%
CDs Outstanding	48,651	69,553	97,374	131,455	177,464	78.7%	36.6%
Bank deposit	1,104	1,126	1,148	1,171	1,195	-5.3%	2.0%
Deposits from local credit Instns	28,836	29,454	30,086	30,734	31,396	3.0%	2.2%
Funds rec'd from Govt, Intl, and other Instns	1,581	1,660	1,743	1,830	1,922	122.5%	5.0%

SOURCE: CIMB RESEARCH, COMPANY

### Still ample room to expand NIM

We expect net interest income to grow at a healthy CAGR of 24.1% in FY17-20F, a little bit slower than realised over FY12-16. We forecast this growth to be driven by a 17.0% CAGR in IEAs as well as NIM expansion of 180bp between now and end-2020F. We believe VPB has more room to improve NIM from the current level to more than 10% into FY19F, based on the following factors:

(1) The core business (non-FE) will continue to flourish with several new business and product lines that have been recently launched or on the anvil, such as digital

banking, household banking, commercial credit and micro-SME credit. We expect the NIM of the standalone bank to range from 4.4% to 4.5% in FY18-19F.

(2) Although consumer lending activities have grown substantially in recent years, we believe Vietnam's consumer finance market is still in its nascence with an undiversified product portfolio and low credit card penetration implying that lots of "low-hanging fruit" remain to be picked.

We estimate interest expense will grow at a CAGR of 21.8% in FY17-20F, from 9.1% in FY12-16, as the bank increases fund mobilisation from higher-cost funding sources (i.e. certificates of deposits) led by FE Credit. As we mentioned above, our interest expense projection tracks the expanding share of CDs in the funding mix.

**Figure 55: VP Bank's income statement key driver forecasts for FY17-20F, based on our estimates**

<i>(in VNDbn, otherwise noted)</i>	2016A	2017F	2018F	2019F	2020F	CAGR FY12-16	CAGR FY17-20F
Interest income	25,631	33,116	41,019	50,296	61,975	25.5%	23.2%
% growth	36.6%	29.2%	23.9%	22.6%	23.2%		
Interest expense	10,463	12,527	15,236	18,519	22,616	9.1%	21.8%
% growth	24.5%	19.7%	21.6%	21.5%	22.1%		
NII	15,168	20,589	25,782	31,777	39,358	50.4%	24.1%
% growth	46.5%	35.7%	25.2%	23.3%	23.9%		
NIM	7.6%	8.8%	9.5%	10.0%	10.6%		
Non-II	1,696	2,282	2,814	3,016	3,600	78.7%	16.4%
% growth	-1.0%	34.5%	23.3%	7.2%	19.4%		
OPEX	6,621	8,691	10,981	13,325	16,410	37.0%	23.6%
% growth	16.3%	31.3%	26.3%	21.4%	23.1%		
CIR	39.3%	38.0%	38.4%	38.3%	38.2%		

SOURCE: CIMB RESEARCH, COMPANY

### Non-interest income – Other income could spring surprises

**Figure 56: Non-interest income forecasts for FY17-20F, based on our estimates**

<i>(in VNDbn, otherwise noted)</i>	2016A	2017F	2018F	2019F	2020F
Non-Interest income	1,696	2,282	2,814	3,016	3,600
% yoy	(1.0%)	34.5%	23.3%	7.2%	19.4%
Net fees & commissions	853	981	1,079	1,187	1,306
FX & gold trading income	(319)	(223)	(156)	(109)	(77)
Trading income	(58)	29	33	40	48
Dividend income	1	1	1	2	2
Other income/expense	1,219	1,494	1,857	1,897	2,322
<i>Bad-debts recoveries</i>	1,175	1,270	1,485	1,518	1,974

SOURCE: CIMB RESEARCH, COMPANY

Amid the sluggish performance of fee income and FX trading, VPB's "other income" jumped 34.4% yoy in FY16, mainly driven by bad-debt recovery (or more specifically, the increase in "other income" originating from the sale of the collateral underlying certain bad loans).

We expect VND1,200bn-2,000bn worth of bad debt settlement gains per year over FY17-20F based on the assumption that VPB has ramped up debt collection efforts. In 2016, VPB substantially increased the efficiency of its collections processes by implementing a new IT solution alongside a predictive auto-dialer. The bank has also developed comprehensive pre-collection strategies that are improving the quality of credit portfolios. Analytical tools and the new collections system allow VPB to be proactive in managing bad debt risk.

### Provisioning: aggressive provisioning policy to continue

We expect VPB's net write-off rate to increase gradually from 4.2% in FY17F to 4.4% in FY20F, towards the end of our forecasting period, as we assume that the company will have to accelerate write-offs in order to maintain the NPL ratio well below 3%. In our base case assumptions, we do not expect the bank to sell bad debts to VAMC.

**Figure 57: Provisioning forecasts for FY17-20F, based on our estimates**

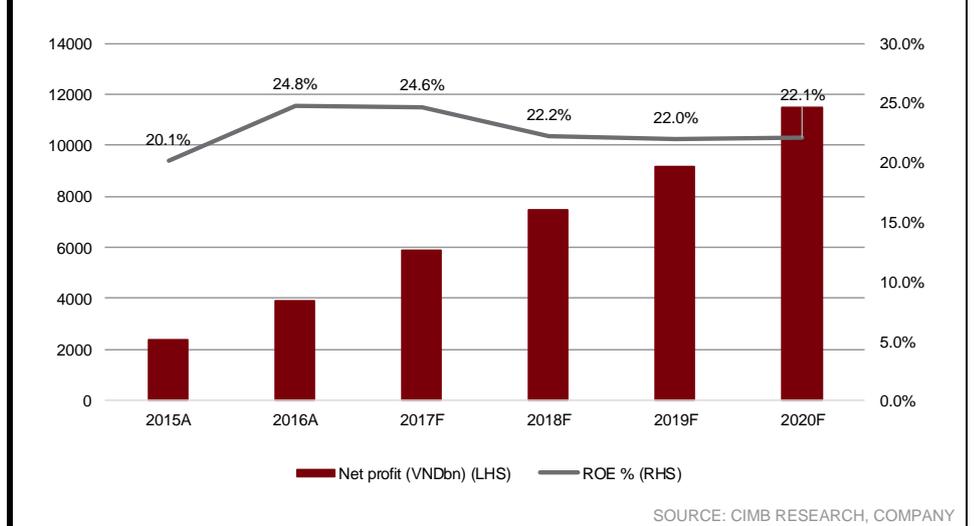
	2016A	2017F	2018F	2019F	2020F
Provision charged to P&L (VND bn)	5,313	6,833	8,276	9,978	12,181
% Provision charge/PPOP	52.6%	47.3%	47.0%	46.5%	45.9%
Loan loss coverage (LLR %)	49.7%	51.8%	54.9%	56.5%	54.1%
% Net write-off/Gross loan	3.7%	3.7%	3.9%	4.1%	4.2%
% Credit cost/Gross loan	4.1%	4.2%	4.3%	4.3%	4.4%
NPLs %	2.9%	2.9%	2.9%	2.9%	2.8%
<i>in which:</i>					
Bank (non-FE)	2.0%	2.1%	2.1%	2.0%	2.0%
FE Credit	6.0%	5.1%	5.0%	5.0%	4.7%

SOURCE: CIMB RESEARCH, COMPANY

**Strong earnings growth but at a more sustainable pace; returns on capital to stay healthy**

We project that VPB’s net profit will expand by an enviable CAGR of 25.6% over FY17-20F, lower than the extremely high growth of 55.8% seen in FY12-16. The lower pace reflects the bank’s strategy to switch from aggressive growth to solid growth with a better asset quality. We expect ROE to stay at an average of 22.7% in FY17-20F, lower than the 25% in FY16 due to the recent capital increase. We believe VPB will continue to maintain industry-leading levels of profitability over the next few years.

**Figure 58: Net profit and ROE, based on our estimates**



## INVESTMENT RISKS

### 4.1 Regulatory risk

We highlight that the liquidity/fund mobilisation could be affected by the reduction of the cap for short-term funds used for medium- to longer-term loans from 60% to 50% from Jan 2017, and to 40% from Jan 2018 (amended circular 36). Any delay or relaxation of this change would reduce mobilisation competition, particularly for medium- to longer-term deposits, which in turn could positively affect VPB's cost of funding.

Besides, slower progress by the Government in implementing the new resolution 42/2017/QH14 on piloting bad debt settlement might thwart efforts to improve bad debt recovery.

### 4.2 Consumer credit risk

Although the consumer lending market is predicted to sustain the growth pace of 27% CAGR until 2020F (*source: EIU*), the surge in consumer credit despite low consumer deposit mobilisation is creating latent risks in the monetary system. The 2003 credit card crisis in South Korea resulted from banks rushing to lend money to consumers in 2000. This serves as a warning of the risks of uncontrolled consumer lending growth, in our view.

Our forecasts are based on VPB's ability to expand NIM by diversifying into loan products in the higher-yield loan segment. This could be jeopardised if authorities step in to control the pace of consumer finance industry growth.

### 4.3 Inflation risk might limit credit growth

Inflation has picked up again. The latest consumer price index (CPI) inflation for Aug 2017 rose to 3.4% yoy, from 2.5% in the previous month. Pump prices and food prices were the key drivers while hikes in costs of healthcare services in several provinces, a result of fiscal rationalisation, have further lifted the price barometer.

We believe the Government will most likely achieve its target of keeping inflation below 4% this year despite credit expansion and monetary easing. However, heading into FY18F, the credit growth might be hurt by the return of inflation. If the two goals — i.e., boosting growth and controlling inflation — are found to be conflicting, the SBV could well prioritise inflation control, in our view.

## VALUATION AND RECOMMENDATION

### Initiate coverage with an Add rating

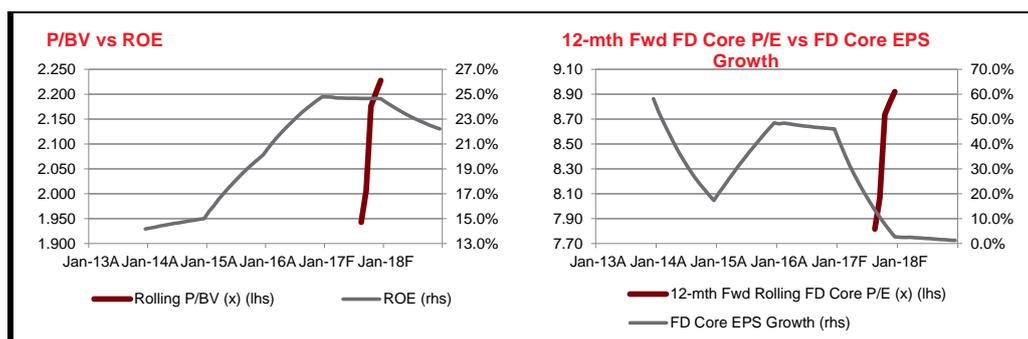
We initiate coverage on VPB with an Add rating and target price of VND53,400 (upside of 28.4%), based on a long-term residual income-based valuation. Our target price implies FY18F P/BV of 2.3x (a 35.3% premium over regional peers' average of 1.7x) and FY18F P/E of 11.4x (a 10.9% discount to regional peers' average of 12.8x). This in line with our view that VPB deserves to trade at a premium over regional peers' P/BV, given its superior FY18F ROE of 22.2% (vs. peers' average of 15.1%) based on our estimates.

**Figure 59: Residual income model – key assumptions & input, based on our estimates**

General assumptions	2016A	2017F	2018F	2019F	2020F	2021F	Terminal
Risk free rate (5-year VGB yield)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Equity risk premium	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Beta	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Cost of equity	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%	12.4%
Long-term growth rate							4.0%
<b>Residual Income Model (in VND bn)</b>							
RI		3,768	3,873	4,685	5,867	4,917	3,911
PV of RI		3,353	3,066	3,300	3,677	2,742	46,634
<i>(in VNDbn, otherwise noted)</i>							
Opening shareholder's equity		17,178					
PV of RI (5 years)		16,139					
PV of Terminal value		46,634					
Implied EV		79,950					
No. of o/s shares (million shares)		1,497					
<b>Implied value per share (VND/share)</b>		<b>53,407</b>					

SOURCE: CIMB RESEARCH, COMPANY

## BY THE NUMBERS



### Profit & Loss

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Net Interest Income	10,353	15,168	20,589	25,782	31,777
Total Non-Interest Income	1,713	1,696	2,282	2,814	3,016
<b>Operating Revenue</b>	<b>12,066</b>	<b>16,864</b>	<b>22,870</b>	<b>28,596</b>	<b>34,792</b>
Total Non-Interest Expenses	(5,692)	(6,621)	(8,691)	(10,981)	(13,325)
<b>Pre-provision Operating Profit</b>	<b>6,374</b>	<b>10,242</b>	<b>14,180</b>	<b>17,615</b>	<b>21,467</b>
Total Provision Charges	(3,278)	(5,313)	(6,833)	(8,276)	(9,978)
<b>Operating Profit After Provisions</b>	<b>3,096</b>	<b>4,929</b>	<b>7,347</b>	<b>9,339</b>	<b>11,488</b>
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
<b>Operating EBIT (incl Associates)</b>	<b>3,096</b>	<b>4,929</b>	<b>7,347</b>	<b>9,339</b>	<b>11,488</b>
Non-Operating Income/(Expense)	0	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>3,096</b>	<b>4,929</b>	<b>7,347</b>	<b>9,339</b>	<b>11,488</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,096</b>	<b>4,929</b>	<b>7,347</b>	<b>9,339</b>	<b>11,488</b>
Taxation	(700)	(994)	(1,469)	(1,868)	(2,298)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,396</b>	<b>3,935</b>	<b>5,878</b>	<b>7,471</b>	<b>9,191</b>
Minority Interests					
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	(147)	(147)	(147)	(147)	(147)
<b>Net Profit</b>	<b>2,249</b>	<b>3,789</b>	<b>5,731</b>	<b>7,325</b>	<b>9,044</b>
Recurring Net Profit	2,249	3,789	5,731	7,325	9,044

### Balance Sheet Employment

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Gross Loans/Cust Deposits	90%	117%	134%	153%	175%
Avg Loans/Avg Deposits	82%	103%	126%	144%	164%
Avg Liquid Assets/Avg Assets	39.1%	33.3%	30.5%	28.6%	26.7%
Avg Liquid Assets/Avg IEAs	42.0%	35.3%	32.4%	30.1%	28.0%
Net Cust Loans/Assets	59.3%	62.3%	64.7%	66.9%	69.0%
Net Cust Loans/Broad Deposits	67.7%	70.8%	74.9%	78.0%	81.1%
Equity & Provns/Gross Cust Loans	13.0%	13.3%	18.3%	19.1%	19.7%
Asset Risk Weighting	71.8%	73.8%	75.2%	79.3%	83.9%
Provision Charge/Avg Cust Loans	3.36%	4.06%	4.28%	4.31%	4.32%
Provision Charge/Avg Assets	1.84%	2.51%	2.76%	2.88%	2.98%
Total Write Offs/Average Assets	1.49%	2.35%	2.56%	2.63%	2.73%

SOURCE: CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(VNDb)	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Gross Loans	133,665	157,045	187,103	222,640	265,684
Liquid Assets & Invst. (Current)	49,773	58,292	64,078	70,486	77,535
Other Int. Earning Assets					
<b>Total Gross Int. Earning Assets</b>	<b>183,439</b>	<b>215,337</b>	<b>251,181</b>	<b>293,127</b>	<b>343,219</b>
Total Provisions/Loan Loss Reserve	(1,742)	(2,090)	(2,597)	(3,328)	(4,178)
<b>Total Net Interest Earning Assets</b>	<b>181,697</b>	<b>213,247</b>	<b>248,584</b>	<b>289,798</b>	<b>339,041</b>
Intangible Assets	185	201	223	247	273
Other Non-Interest Earning Assets	10,363	13,595	15,042	16,642	18,412
<b>Total Non-Interest Earning Assets</b>	<b>10,547</b>	<b>13,797</b>	<b>15,264</b>	<b>16,888</b>	<b>18,685</b>
<b>Cash And Marketable Securities</b>	<b>1,632</b>	<b>1,727</b>	<b>1,911</b>	<b>2,114</b>	<b>2,339</b>
Long-term Investments	0	0	0	0	0
<b>Total Assets</b>	<b>193,876</b>	<b>228,771</b>	<b>265,759</b>	<b>308,801</b>	<b>360,065</b>
Customer Interest-Bearing Liabilities	152,131	172,438	199,930	234,514	275,384
Bank Deposits	17,764	28,836	29,454	30,086	30,734
Interest Bearing Liabilities: Others	5,336	2,685	2,786	2,891	3,002
<b>Total Interest-Bearing Liabilities</b>	<b>175,231</b>	<b>203,959</b>	<b>232,170</b>	<b>267,492</b>	<b>309,120</b>
Bank's Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	5,256	7,635	4,258	4,653	5,245
<b>Total Liabilities</b>	<b>180,488</b>	<b>211,593</b>	<b>236,427</b>	<b>272,145</b>	<b>314,365</b>
<b>Shareholders' Equity</b>	<b>13,389</b>	<b>17,178</b>	<b>29,332</b>	<b>36,657</b>	<b>45,701</b>
Minority Interests	(0)	0	0	0	0
<b>Total Equity</b>	<b>13,389</b>	<b>17,178</b>	<b>29,332</b>	<b>36,657</b>	<b>45,701</b>

### Key Ratios

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Total Income Growth	92.4%	39.8%	35.6%	25.0%	21.7%
Operating Profit Growth	146%	61%	38%	24%	22%
Pretax Profit Growth	92.5%	59.2%	49.0%	27.1%	23.0%
Net Interest To Total Income	85.8%	89.9%	90.0%	90.2%	91.3%
Cost Of Funds	5.20%	5.52%	5.74%	6.10%	6.42%
Return On Interest Earning Assets	11.3%	12.9%	14.2%	15.1%	15.8%
Net Interest Spread	6.11%	7.34%	8.45%	8.97%	9.38%
Net Interest Margin (Avg Deposits)	8.7%	11.9%	16.2%	19.3%	22.6%
Net Interest Margin (Avg RWA)	8.7%	9.8%	11.2%	11.6%	11.6%
Provisions to Pre Prov. Operating Profit	51.4%	51.9%	48.2%	47.0%	46.5%
Interest Return On Average Assets	5.80%	7.18%	8.33%	8.97%	9.50%
Effective Tax Rate	22.6%	20.2%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	NA	NA	NA	NA	NA
Return On Average Assets	1.26%	1.79%	2.32%	2.55%	2.70%

### Key Drivers

	Dec-15A	Dec-16A	Dec-17F	Dec-18F	Dec-19F
Loan Growth (%)	49.0%	23.9%	20.6%	20.2%	20.4%
Net Interest Margin (%)	6.2%	7.6%	8.8%	9.5%	10.0%
Non Interest Income Growth (%)	74.8%	-1.0%	34.5%	23.3%	7.2%
Cost-income Ratio (%)	47.2%	39.3%	38.0%	38.4%	38.3%
Net NPL Ratio (%)	-1.2%	-4.0%	-6.7%	-9.0%	-10.9%
Loan Loss Reserve (%)	55.4%	49.7%	51.8%	54.9%	56.5%
GP Ratio (%)	0.8%	0.8%	0.8%	0.9%	0.9%
Tier 1 Ratio (%)	9.3%	10.0%	14.5%	14.8%	15.0%
Total CAR (%)	12.2%	13.2%	16.6%	16.5%	15.9%
Deposit Growth (%)	20.2%	-5.0%	5.3%	5.2%	5.0%
Loan-deposit Ratio (%)	88.3%	115.2%	131.8%	150.5%	172.6%
Gross NPL Ratio (%)	2.7%	2.9%	2.9%	2.9%	2.9%
Fee Income Growth (%)	45.7%	-3.6%	15.0%	10.0%	10.0%

SOURCE: CIMB RESEARCH, COMPANY DATA

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<b>Score Range:</b>	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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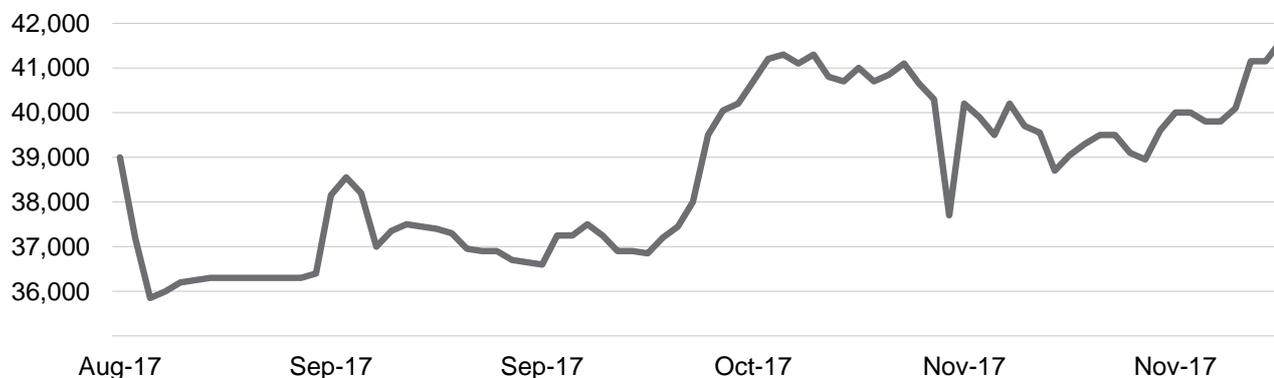
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2017		
1285 companies under coverage for quarter ended on 30 September 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

**Spitzer Chart for stock being researched ( 2 year data )**

**Vietnam Prosperity JSC Bank (VPB VN)**

— Price Close



**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017**

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

**Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:**

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

**CIMB Recommendation Framework**
**Stock Ratings**

Definition:

**Add**

The stock's total return is expected to exceed 10% over the next 12 months.

**Hold**

The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

**Reduce**

The stock's total return is expected to fall below 0% or more 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.

**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.