

Company update

BSC

JSC Bank for Foreign Trade of Vietnam - Vietcombank

Recommendation

Target price	N/A
Closed price	79,100
Upside	N/A

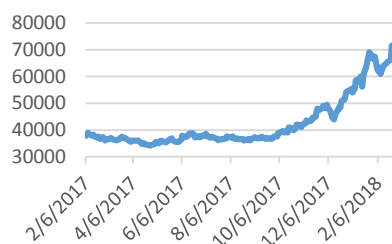
Market Statistic

Floating Shares (million shares)	3,597,8
Market cap (VND Bill.)	259
52-week highest price	74,300
10-day average volume (shares)	2,776,366

Shareholders (%)

SBV	77.11%
Mizuho Bank	15%
Forum One – VCG Partners VN fund	0.08%
SSI	0.02%
Bao Viet Life Insurance	0.02%

Price movement



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Company overviews: VCB is a leading in banking sector. The bank rank number 2 in term of chartered capital and rank number 1 in many banking services. Good assets is improving.

Valuation

On 26, February, 2018, VCB shares were traded at **VND 71,900/share, equivalent to P/E FW of 16.37x and P/B of 3.9x**, relatively high compared to local and regional banks, median P/B are 1.88x and 1.1x, respectively.

Investment highlights

- Sustainable and strong business growth. Loans grew by 17.93%. Low pure LDR is at 78%. Profit after tax increased by 32.02%, in which net income up by 18% yoy, service income rose by 21% yoy, total operating income before provisions hiked by 17% yoy. High ROA and ROE are rising, reaching 1% and 17.58%, respectively.
- Asset quality is good, provision expense for credit risk is declining. Bad debt at the end of 2017 decreased both absolutely and relatively. NPL ratio was 1.14%. VCB solved entire VAMC bond in 2016. High loans loss coverage ratio, reaching 130.67%. VCB wrote off more than VND 6,200 billion out of balance sheet, and made provision of VND 6,198 billion in 2017. Assuming that the NPL coverage ratio up to 150%, VCB wrote off VND 3,000 billion of bad debt, 2018's provision expenses decrease by 5% to VND 5.876 billion. In addition, VCB can record other income from off-balance sheet NPLs recovery. Total amount of off-balance sheet NPLs was VND 17,688 billion.
- BSC forecasts that profit after tax in 2018 will reach VND 15.781 trillion, up 74% yoy, including (1) 35% yoy profit from core operations, (2) VND 7,532 billion profit from divestment and NPLs solution. EPS after excluding bonus and welfare fund is VND 4,392/share, EPS from core operations was VND 3,393/share. Equity is estimated at VND 66,338 billion, book value is VND 18,439/share.

Catalyst:

- Selling 10% of equity to foreign investors.
- Divestment from other credit institutions, estimated profit for 2018 is about VND 1,000 billion (according to VCB chairman) and VND 3,848 billion in pre-tax according to the market value of MBB, EIB.

JSC Bank for Foreign Trade of Vietnam



Investment Highlights

Theme 1: Sustainable and strong business growth

Loans grew by 17.93% in 2017 and still has potential to grow. VCB set a credit growth target of 16-17% in 2018. VCB ranks number 3 in term of credit market share among listed banks with the size of VND 543 trillion in 2017. Credit growth is not the most important of the banks, instead, the bank focuses on quality of growth. Pure LDR was 76.7%, lower than ceiling stated by SBV (90%). The banks still has room to grow.

Retail banking is main driver of the bank. Personal loans increased by 53% yoy to VND 178 trillion, accounting for 32.7% of VCB's outstanding loans. As noted in the previous VCB update reports, the retail banking yielded higher NIM while lower NPL ratios. VCB targets that retail loans will account for 50% of the total loans, of which 40% will come from individual customers by 2020. The VCB's loans focus on the following sectors (1) Processing accounted for 27% of the loan portfolio, (2) trade and services accounted for 21%. Compared to other banks who focus on real estate and corporate loans, VCB's loan portfolio is less risky.

High profitability

- NIM was 2.49% in 2017, slightly decreased compared to 2016 (2.63%) due to VND 110 trillion from divestment in SAB of ministry of industry and trade of socialist republic of Vietnam appeared at the end of 2017. Excluding this transaction, NIM in 2017 reached 2.65%. NIM of banks was high thanks to (1) high demand deposits, accounted for 28.37% of total deposits, up 26% yoy; (2) promoting the retail banking sector as mentioned above. The average lending rate increased from 7.14% to 7.2%, average bond investment rate increased from 5.46% to 5.49%.
- ROA and ROE of banks were 1% and 17.79% respectively, higher than the industry average (0.83% and 13.46%). The bank targets to maintain ROA and ROE at 1% and 13-15% to 2020.
- CIR, the bank's cost-to-income ratio (CIR) was 40.36% in 2017, lower than comparable banks (46.2%) implying that better cost control.

Profit after tax increased by 32.02% yoy, reached VND 9,087 billion. Due to (1) a 18% yoy increase in net interest income, (2) a 21% yoy increase in service income, (3) a 10% yoy increase in foreign trading, and (4) provision expenses fell slightly by 3% yoy. VCB still has room to boost services income which currently accounts for only 8.6% of total operating income with low risk.

Theme 2: Asset quality is good. Provision expense is expected to fall. Provision reserve is likely recorded.

JSC Bank for Foreign Trade of Vietnam

VCB completed provisioning for VAMC bonds from 2016. VCB is the pioneer of buying back VAMC bonds. The provision expenses for VAMC bonds no longer appears in VCB's statement since 2017. VAMC's outstanding off-balance sheet is estimated at VND 3,360 billion. If VCB recovers successfully, the bank will record the amount as other income.

Boosting NPLs solution. In 2017, the bank wrote-off over VND 6.2 trillion balance sheet debt, much higher than the target of VND 3-4 trillion per year. From 2008 to 2017, VCB wrote off-balance sheets totaling more than VND 27,122 billion while the value of recovering off-balance sheet loans reached VND 9,455 billion. Thus, about VND 17,668 billion remaining, if be recovered, will be recorded as other income of VCB.

Low NPLs are declining both absolutely and relatively, to 1.14% at the end of 2017. The total value of NPLs at the end of 2017 reached VND 6,026 billion, down from 6,936 billion in 2016. NPLs decreased from 1.51% to 1.41%. VCB has aggressively provisioned for bad loans. Bad debt coverage ratio, up to 130.67%. With conservative lending policy and high NPL coverage ratio, we believe that VCB's provision expenses will fall in the coming years. We forecast that the provisions expense down by 5% to VND 5,877 billion, while bad debt coverage ratio reach to 150%, write-off balance sheet is VND 3,000 billion.

Total doubtful assets as calculated is VND 16.090 billion, equivalent to 30% of Vietcombank's equity, the lowest among listed banks. However, investors should pay attention to some other assets. (1) Accrual interest increased from VND 1,843 billion to VND 2,345 billion. (2) External receivables increased sharply from VND 2,095 billion to VND 3,382 billion.

Theme 3: High liquidity

VCB continues to be a net lender in interbank. At the end of 2017, the total value of deposits at other credit institutions reached VND 233 trillion, while interbank lending was VND 67 trillion. Notably, at the end of 2017, VCB received VND 110 trillion deposit from divestment in SAB which add liquidity for the bank. Total outstanding loans and deposits in foreign currency of VCB reached VND 181 trillion.

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Plan and Forecast

Divestment from other credit institutions (CIs) and VNAirlines. Circular No. 36 of the State Bank stipulates that each credit institution must not own more than two other CIs and no more than 5% in each. VCB currently holds equity in 5 other CIs. VCB divested at three banks which are Saigonbank, OCB and CFC in 2017. According to Vietcombank's chairman, Nghiem Xuan Thanh, Vietcombank expects to divest from EIB and MBB in the first quarter of 2018 with expected profit of VND 1,000 billion. We calculated that with (1) the current market price of MBB and EIB, respectively VND 32,550/share and VND 15,350/share; (2) VCB holds 127 million shares MBB and 101 million shares EIB, pre-tax profit was estimated at VND 3.848 trillion. Divestment of 7.6 million shares of HVN in February 2018 will bring Vietcombank about VND 240 billion, if entire divestment from HVN, profit is estimated is at VND 690 billion.

Plan to increase by 10% charter capital. The 2017 General shareholders' meeting approved new issuance of 10%, or 360 million shares through (1) private placement or (2) to existing shareholders. This will raise VCB's equity and CAR which ensure long term growth. The bank actively completes issuance procedures and hints that the deal will be finished in 1H2018. Two potential partners are GIC and Mizuho.

Business Plan. Vietcombank targets credit growth of 16-17%, deposits growth of 17%, bad debt ratio of less than 1%, provision for credit losses of about VND 6,000 billion and pre-tax profit of VND 12,000. -13,000 billion (excluding profit from divestment).

2018's earnings forecast. Profit before tax is forecasted at VND 19,751 billion (+74% yoy) and earning after tax is VND 15,781 billion (+74% yoy). Equity is VND 66.333 billion (not including new issuance). Book value is VND 18,439/share. Based on assumptions:

- Loan grows by 18% yoy, deposit increases by 18% yoy, pure LDR is 78%, still lower than the SBV regulations.
- Bad debt ratio is unchanged compared to 2017, reaching 1.14%. In 2017, Vietcombank cleared about 3,000 billion of bad debt.
- NIM increases and 2.53% in 2018 due to (1) VND 110 trillion appeared in the end of 2017 earns profit in 2018; (2) boosting retail banking. Net interest income increased 22% to VND 26,699 billion.
- Service income increase 18% yoy, income from forex trading increased by 15% yoy.
- Other incomes is forecasted at VND 7,532 billion, including: (1) VND 4,532 billion from MBB, EIB and HVN divestment transactions;
- CIR ratio will be maintained at 40.36% in 2017, operating cost will be VND 14,277 billion.
- Provision for credit losses will reduce to VND 5,876 billion. Bad debt coverage ratio will increase to 150%.

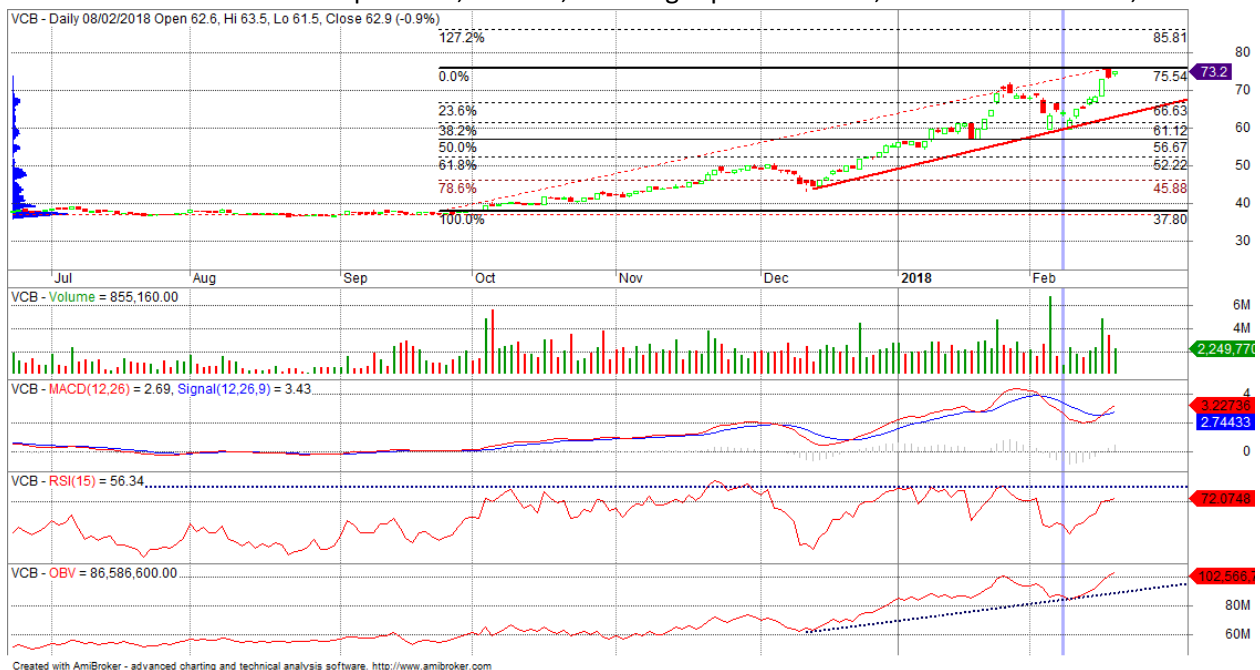
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BSC**Technical Analysis****Technical highlights:**

- Current trend: uptrend
- MACD trend: rising, diverging above the signal line
- RSI: rising
- OBV: rising

Comment: VCB is in a rising trend. The MACD indicator is rising, diverging above the signal line indicating the trend continues to increase. RSI is rising up in the overbought territory, the upper resistance, showing the upward momentum remains strong. The OBV indicator is strongly rising, confirming the uptrend. Shares will increase in the coming sessions.

Recommendation: Purchase price: 71,000 - 73,200. Target price: VND 85,000. Cutloss: VND 66,600.



JSC Bank for Foreign Trade of Vietnam



Appendix 01: Comparing VCB and listed banks in 2017

	VCB	CTG	BID	MBB	ACB	STB	SHB	EIB	VIB	TCB	VPB	HDB
Scale												
Charter capital (bill. VND)	35,978	37,234	34,187	18,155	10,273	18,852	11,197	12,355	5,644	11,655	15,706	9,810
Equity (bill. VND)	54,067	63,685	48,986	29,601	16,031	23,228	14,868	14,251	8,792	26,931	29,693	11,287
Total asset ((bill. VND)	1,035,335	1,095,022	1,201,662	313,878	284,316	368,680	277,994	148,966	123,281	269,392	277,750	174,594
Equity/Total asset	5.22%	5.82%	4.08%	9.43%	5.64%	6.30%	5.35%	9.57%	7.13%	10.00%	10.69%	6.46%
Growth (ytd)												
Asset Growth	31.40%	15.44%	19.40%	22.48%	21.67%	11.04%	18.83%	15.66%	17.95%	14.46%	21.41%	25.98%
Lending Growth	17.93%	19.44%	19.66%	22.19%	21.46%	12.11%	20.79%	16.61%	32.71%	12.78%	26.26%	27.09%
Deposit Growth	19.99%	14.86%	18.42%	13.02%	16.59%	9.67%	17.70%	14.84%	15.42%	-1.43%	7.89%	16.69%
Demand Deposit	28.37%	15.34%	18.63%	30.11%	15.82%	13.85%	9.04%	13.77%	16.29%	22.36%	14.73%	12.09%
Lending/Deposit	76.70%	105.09%	100.72%	83.65%	82.22%	69.70%	100.04%	86.20%	116.76%	94.08%	136.78%	86.69%
Asset quality												
NPL ratio	1.14%	1.13%	1.61%	1.19%	0.70%	3.75%	1.90%	2.27%	2.49%	1.61%	3.39%	1.52%
NPL ratio including debt sold to VAMC	1.14%	1.49%	3.15%	1.19%	0.70%	17.48%	4.75%	6.41%	3.49%	1.61%	5.07%	2.63%
Provision for bad debt/ Total debt debt	1.49%	1.05%	1.28%	1.15%	0.93%	1.25%	1.38%	1.04%	1.14%	1.17%	1.72%	1.11%
NPL coverage ratio	131%	93%	79%	97%	133%	33%	73%	46%	46%	73%	51%	73%
Interest receivable/ Lending	1.11%	1.84%	1.11%	4.87%	1.80%	11.09%	4.22%	0.96%	1.40%	2.41%	2.09%	3.27%
Doubtful assets	16,089	38,543	69,082	15,636	8,176	93,829	30,084	9,751	4,761	15,574	34,204	11,681
% Total asset	1.55%	3.52%	5.75%	4.98%	2.88%	25.45%	10.82%	6.55%	3.86%	5.78%	12.31%	6.17%
% Equity	29.76%	60.52%	141.02%	52.82%	51.00%	403.95%	202.34%	68.42%	54.15%	57.83%	115.19%	79.15%
Business performance (ytd)												
% Interest income	74.61%	83.00%	79.37%	80.90%	73.94%	61.05%	75.05%	69.70%	84.46%	54.64%	82.42%	84.70%
Operating income before risk provision (bill. VND)	17,536	17,550	23,716	7,868	5,222	2,335	3,974	1,622	1,767	11,646	16,128	3,434
% yoy	17.46%	29.12%	40.27%	38.50%	81.01%	174.06%	61.68%	9.59%	35.09%	52.08%	57.47%	60.39%
Provision expense (bill. VND)	(6,198)	(8,344)	(14,915)	(3,252)	(2,565)	(846)	(2,035)	(605)	(361)	(3,609)	(8,002)	(1,017)
% vs operating income before risk provision	35.34%	47.54%	62.89%	41.33%	49.12%	36.23%	51.21%	37.30%	20.43%	30.99%	49.62%	29.62%
EAT (bill. VND)	9,087	7,432	6,902	3,490	2,118	1,173	1,550	823	1,125	6,446	6,438	1,746
% yoy	33.01%	8.69%	12.45%	19.85%	59.85%	1217.98%	69.77%	166.34%	100.18%	104.70%	63.61%	136.59%
NIM (TTM)	2.49%	2.77%	2.92%	4.19%	3.47%	1.81%	2.12%	2.06%	3.12%	3.89%	8.73%	4.09%
CIR (TTM)	40.36%	46.20%	39.32%	43.26%	54.35%	73.00%	39.92%	57.63%	56.82%	28.74%	35.55%	54.38%
ROA (TTM)	1.00%	0.73%	0.63%	1.22%	0.82%	0.33%	0.61%	0.59%	0.99%	2.55%	2.54%	1.03%
ROE (TTM)	17.79%	11.99%	14.82%	12.42%	14.08%	5.16%	11.03%	5.94%	12.83%	27.71%	27.47%	14.51%
EPS (VND/share) (TTM)	2,531	1,996	2,019	1,936	2,148	650	1,188	669	2,003	7,504	4,424	1,966
Book value (VND/share)	15,028	17,025	13,489	15,516	15,604	12,321	13,278	11,535	15,577	23,107	18,906	14,348

Source: BSC research

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Appendix 02: VCB Financial ratio

	2013	2014	2015	2016	2017
Scale					
Charter capital (bill. VND)	23,174	26,650	26,650	35,978	35,978
Equity (bill. VND)	42,386	43,473	45,172	49,295	54,067
Total asset ((bill. VND)	468,994	576,989	674,395	787,907	1,035,335
Equity/Total asset	9.04%	7.53%	6.70%	6.26%	5.22%
Growth (ytd)					
Asset Growth	13.15%	23.03%	16.88%	16.83%	31.40%
Lending Growth	13.74%	17.87%	19.74%	19.03%	17.93%
Deposit Growth	16.42%	27.08%	18.55%	17.97%	19.99%
Demand Deposit	25.73%	25.80%	28.20%	27.03%	28.37%
Lending/Deposit	82.56%	76.58%	77.35%	78.04%	76.70%
Asset quality					
NPL ratio	2.73%	2.31%	1.84%	1.51%	1.14%
NPL ratio including debt sold to VAMC	3.05%	2.83%	2.59%	1.51%	1.14%
Provision for bad debt/ Total debt debt	2.35%	2.18%	2.22%	1.76%	1.49%
NPL coverage ratio	86%	94%	121%	117%	131%
Interest receivable/	1.33%	1.13%	1.25%	1.26%	1.11%
Doubtful assets	31,278	27,476	20,845	18,546	16,090
% Total asset	6.67%	4.76%	3.09%	2.35%	1.55%
% Equity	73.79%	63.20%	46.14%	37.62%	29.76%
Business performance (ytd)					
% Interest income	69.53%	69.47%	72.89%	74.47%	74.61%
Operating income before risk provision (bill. VND)	9,263	10,436	12,896	14,929	17,536
% yoy	2.16%	12.65%	23.57%	15.77%	17.46%
Provision expense (bill. VND)	(3,520)	(4,591)	(6,068)	(6,406)	(6,198)
% vs operating income before risk provision	38.00%	44.00%	47.06%	42.91%	35.35%
EAT (bill. VND)	4,358	4,567	5,314	6,832	9,087
% yoy	-0.90%	4.78%	16.37%	28.56%	33.02%
NIM (TTM)	2.52%	2.39%	2.58%	2.63%	2.49%
CIR (TTM)	40.27%	39.63%	39.18%	39.99%	40.36%
ROA (TTM)	0.99%	0.87%	0.85%	0.93%	1.00%
ROE (TTM)	10.38%	10.64%	11.99%	14.46%	17.58%
EPS (VND/share) (TTM)	1,543	1,434	1,633	1,571	2,531
Book value (VND/share)	15,905	16,312	16,950	13,702	15,028

Source: BSC research

Disclosure

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