

27/02/2019

Recommendation

BUY

Vuong Chi Tam (FA)

tamvc@bsc.com.vn

Target price	11,120
Closing price	9,100
Upside	22.2%

Le Quoc Trung (TA)

trunglq@bsc.com.vn

Target price	10,000
Cut loss price	8,500

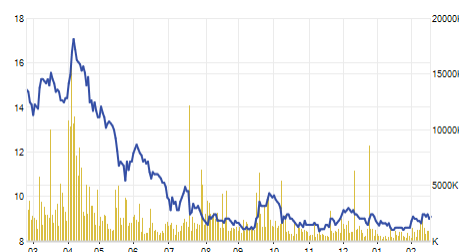
Market data

Number of shares (stock)	987
Capitalization (billion VND)	8,888
Highest price 52 weeks	17,269
The average trading volume of 10 sessions (shares)	1,015,551
Foreign ownership	29.7%

Major shareholders (%)

Vietnam Post Corp.	11.45%
Công ty TNHH H.T.H	4.52%
Nguyễn Đức Hưởng	4.47%
Nguyễn Đình Thắng	4.29%
Agribank	2.33%

Price movements



Company overview: LPB is the bank that has the advantage of the network thanks to the major shareholders of Vietnam Post Corporation. LPB is currently restructuring its transaction points and opening more branches in 2019.

SWITCH TO LISTING ON HOSE IN 2019

Valuation

We recommend BUY for LPB shares with a target price of VND 11,120 / share, 22.2% upside with P / B method = 0.8x (current industry average = 1.5x). We assess that LPB is a cheap stock with growth potential. However, the bank now has to restructure the transaction offices and reduce the amount of deposits causing the profit of LPB to be affected.

Forecast of business results 2019.

BSC forecasts that LPB will record TOI and PBT at VND 5,464 billion (+ 12% yoy) and VND 1,393 billion (+ 14.8% yoy) assuming (1) credit growth reaches 14%, (2) NPL = 1.42%, bad debt ratio = 100%, (3) NIM slightly decreased, down to 3.08%, (4) CIR = 62%, (5) social work expenses at VND 550 billion.

Investment Risk

Reduce CASA influence NIM, CIR at high level.

Business update (Refer to page 2 for details)

2018 business results. In 2018, LPB recorded TOI and PBT at VND 4,879 billion (-4.4% yoy) and VND 1,213 billion (-31.4% yoy).

Net interest income reached VND 5,020 billion (-4% yoy). Credit growth + 17.31%, lending + 18.46% yoy, mobilizing -2.59%. Loan/deposit ratio reached 95.4%, NIM = 3.14%.

Large expenses affect the bank's profit. In 2018, LPB incurred subsidies (about VND 355 billion), social work expenses (about VND 500 billion) increased CIR to 62.5% (same period 55.1%).

Bad debt + 56.5% yoy. NPL increased sharply, reaching 1.39%. Increasing bad debts led to a sharp increase in provisioning, provision expenses + 18.5% yoy, affecting the bank's profit. The rate of bad debt is at 88.25%.

LPB plans to switch to listing on HOSE in 2019. In addition, the increase of wool chartered capital of VND 10,300 billion (issuing nearly 287 million shares to existing shareholders and employees) may be implemented this year.

Business update

2018 business results. In 2018, LPB recorded TOI and PBT at VND 4,879 billion (-4.4% yoy) and VND 1,213 billion (-31.4% yoy), respectively, mainly due to a reduction in the amount of deposits from social insurance, reducing the amount of demand deposits (casa), affecting the cost of capital of LPB and increasing provisioning + operating expenses.

Net interest income reached VND 5,020 billion (-4% yoy). Credit growth + 17.31% because LPB asked for more credit limits in 4Q2018, lending + 18.46% yoy, mobilizing -2.59% yoy due to reducing the amount of deposits from social insurance + postal companies (about 50%) . Lending/deposit ratio reached 95.4%, higher than SBV's 80% allowed, resulting in NIM falling to 3.14%, decreasing by 50 bps.

Large expenses affect the profitability of banks. In 2018, LPB generated subsidies (about VND 355 billion), social work expenses (about VND 500 billion) increased CIR to 62.5% (same period 55.1%). The amount of social work expenses, according to LPB, is that according to the bank's business philosophy and orientation, LPB will continue to spend this amount in the future.

Bad debt + 56.5% yoy. NPL increased sharply, reaching 1.39%, in which group 3 debt increased sharply to 0.41%, group 2 debt fell sharply to 1.19% of debt structure. If adding VAMC bonds, LPB's NPL is currently at 1.83%, higher than the current banking industry average of 1.65%. Increasing bad debts led to a sharp increase in provisioning, provision expenses + 18.5% yoy, affecting the bank's profit. The rate of bad debt is 88.25%, down sharply from 114.3% in 2017, nearly equal to the current industry average (79.7%).

LPB plans to switch to listing on HOSE in 2019. This will help LPB shares to be accepted in higher valuation by domestic and foreign investors. (the industry average is currently at P / B = 1.5x, while LPB is currently traded with P / B = 0.65x). In addition, the increase of wool chartered capital of VND 10,300 billion (issuing nearly 287 million shares to existing shareholders and employees) may be implemented this year.

Forecast for 2019. BSC forecasts that LPB will record TOI and PBT at VND 5,464 billion (+ 12% yoy) and VND 1,393 billion (+ 14.8% yoy) assuming (1) credit growth reaches 14%, (2) NPL = 1.42%, bad debt ratio = 100%, (3) NIM slightly decreased, down to 3.08%, (4) CIR = 62%, (5) social work expenses at VND 550 billion.

Lienviet Post Bank (LPB)

Technical analysis

LPB_Sideway

Technical highlights:

- Current trend: Accumulation
- MACD trend indicator: Negative divergence, MACD is converging with signal line.
- RSI indicator: Neutral zone, sideways trend
- MA lines: 3 MA lines have a trend to converge to the price level of 8.9 -9.5.

Outlook: LPB is in the long-term cumulative price channel 8.5-10.25. The liquidity in recent sessions is still below the 20-day average, showing that there is no motivation for price increase. RSI indicator and MACD indicator support the cumulative trend. Moving 3 MA lines narrowed to the channel of 8.9-9.5, showing that the long-term accumulation trend can still continue. Thus LPB has not yet signaled a breakthrough from the long-term cumulative price channel.

Recommendations: Position to buy at the price of 8.5 and profit when the stock hits the resistance of 9.5-10. Cut loss if the stock falls below the 8.5 threshold.

Technical chart of ACB



Source: Amibroker, BSC

Lienviet Post Bank (LPB)

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Appendix 01: Overview of MBB

	2014	2015	2016	2017	2018	2019
SCALE						
Charter capital (billion VND)	6,460	6,460	6,460	6,460	7,500	8,250
Equity (billion VND)	7,391	7,601	8,332	9,383	10,201	11,133
Total assets (billion VND)	100,802	107,587	141,865	163,434	175,095	210,034
Equity/Total assets	7.33%	7.06%	5.87%	5.74%	5.83%	5.30%
GROWTH (YOY)						
Asset growth	26.64%	6.73%	31.86%	15.20%	7.13%	19.95%
Lending growth	39.74%	36.03%	41.86%	26.29%	18.46%	14.03%
Deposit growth	40.08%	-0.25%	42.97%	15.58%	-2.59%	26.16%
CASA/mobilization	19.86%	58.93%	41.22%	28.39%	18.18%	15.13%
Loans/deposits	53.06%	72.35%	71.79%	78.44%	95.39%	86.23%
ASSET QUALITY						
NPL ratio	1.40%	0.97%	1.11%	1.07%	1.41%	1.42%
NPL ratio includes debt sold to VAMC	1.40%	0.97%	2.56%	2.01%	1.85%	1.64%
Provision for bad debts/Total outstanding loans	1.13%	1.23%	1.20%	1.21%	1.23%	1.40%
Bad debt coverage ratio/Total bad debt	82.04%	128.02%	109.34%	114.48%	88.25%	100.00%
Real interest income/Interest income (ytd)	77.92%	95.23%	107.50%	99.37%	93.50%	0.00%
Interest and fees receivable/loan	7.75%	6.29%	3.59%	2.92%	3.19%	3.19%
Doubtful property	11,480	11,756	9,230	10,141	10,490	12,188
% Total asset	11.39%	10.93%	6.51%	6.20%	5.99%	5.80%
% Equity	155.32%	154.68%	110.78%	108.07%	102.84%	109.48%
BUSINESS EFFICIENCY (YOY)						
% Net interest income	108.42%	105.31%	103.93%	102.43%	102.89%	102.74%
Net profit before credit risk provision (VND billion)	762	924	1,840	2,290	1,831	2,076
% yoy	-19.60%	21.29%	99.10%	24.44%	-20.02%	13.36%
Provision expenses for credit risk (VND billion)	227	502	492	522	618	683
% to pre-provision profit	29.77%	54.35%	26.75%	22.78%	33.77%	32.89%
Profit after tax (billion VND)	466	350	1,063	1,368	960	1,103
% yoy	-17.48%	-25.00%	203.78%	28.73%	-29.83%	14.87%
NIM (TTM)	2.95%	2.93%	3.57%	3.64%	3.14%	3.08%
CIR (TTM)	63.94%	62.85%	52.47%	55.13%	62.47%	62.01%
ROA (TTM)	0.52%	0.34%	0.85%	0.90%	0.57%	0.57%
ROE (TTM)	6.36%	4.67%	13.34%	15.45%	9.80%	10.34%
EPS (VND/share) (TTM)	685	524	1,582	2,028	1,094	1,130
Diluted EPS (TTM)	685	524	1,582	2,028	1,094	1,130
Book value (VND/share)	11,441	11,766	12,898	14,525	13,601	13,494

Source: BSC research

Lienviet Post Bank (LPB)



Appendix 02: Overview of listed banks 2018

	MBB	CTG	VCB	BID	STB	TCB	VPB	ACB	HDB	LPB	TPB	VIB
Scale												
Charter capital (billion VND)	21,605	37,234	35,978	34,187	18,852	34,966	25,300	12,886	9,810	7,500	8,566	7,835
Equity (billion VND)	34,173	67,469	63,889	54,693	24,632	51,783	34,750	21,018	16,828	10,201	10,642	10,667
Total assets (billion VND)	362,361	1,164,318	1,072,983	1,313,038	406,041	321,049	323,308	329,333	216,107	175,095	136,179	139,000
Equity/Total assets	9.43%	5.79%	5.95%	4.17%	6.07%	16.13%	10.75%	6.38%	7.79%	5.83%	7.81%	7.67%
Growth (ytd)												
Asset growth	15.45%	6.32%	3.64%	9.21%	10.20%	19.18%	16.40%	15.83%	14.14%	7.13%	9.72%	12.86%
Lending growth	16.16%	8.89%	16.26%	14.12%	14.94%	-0.89%	21.38%	15.92%	17.86%	18.43%	21.59%	20.71%
Deposit growth	8.99%	9.68%	13.23%	15.08%	9.17%	17.84%	27.93%	11.85%	6.24%	-2.59%	8.31%	24.11%
CASA	33.48%	15.02%	28.27%	16.35%	14.85%	27.14%	13.25%	16.67%	8.35%	18.18%	18.16%	14.29%
Loans/deposits	88.13%	103.16%	77.58%	98.65%	72.48%	78.20%	127.53%	84.44%	95.11%	94.21%	100.21%	112.25%
Asset quality												
NPL ratio	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
NPL ratio includes debt sold to VAMC	1.34%	1.59%	1.00%	1.71%	2.14%	1.78%	3.56%	0.73%	1.55%	1.43%	1.13%	2.54%
Provision for bad debts/Total outstanding	1.52%	1.53%	1.65%	1.27%	1.39%	1.51%	1.64%	1.12%	1.10%	1.26%	1.17%	0.92%
Bad debt coverage ratio/Total bad debt	113%	96%	165%	74%	65%	85%	46%	152%	71%	88.25%	103%	36%
Interest and fees receivable/loan	1.33%	1.86%	1.40%	2.12%	2.35%	2.17%	2.42%	1.50%	2.58%	3.46%	1.76%	1.53%
Business efficiency (ytd)												
% Net interest income	74.64%	78.34%	72.31%	78.57%	65.37%	60.64%	79.46%	73.85%	80.99%	102.89%	77.80%	79.78%
Net profit before credit risk provision (VND billion)	10,805	14,490	25,679	28,366	3,839	12,507	20,452	7,321	4,999	1,831	2,780	3,362
% yoy	37.33%	-17.44%	46.40%	20.64%	66.31%	7.40%	26.78%	40.21%	45.59%	-20.02%	66.66%	91.57%
Provision expenses for credit risk (VND billion)	(3,038)	(7,748)	(7,379)	(18,894)	(1,592)	(1,846)	(11,253)	(932)	(994)	(618)	(522)	(620)
% to pre-provision profit	28.11%	53.47%	28.73%	66.61%	41.47%	14.76%	55.02%	12.74%	19.89%	33.77%	18.79%	18.46%
Profit after tax (billion VND)	6,190	5,428	14,658	7,542	1,790	8,474	7,356	5,137	3,202	960	1,805	2,193
% yoy	77.34%	-27.23%	60.89%	8.58%	51.51%	31.47%	14.20%	142.53%	63.81%	-29.83%	87.29%	95.09%
NIM (TTM)	4.56%	2.08%	2.78%	2.98%	2.34%	4.13%	8.81%	3.56%	4.05%	3.50%	3.69%	3.79%
CIR (TTM)	44.70%	49.59%	34.64%	36.24%	67.12%	31.84%	34.21%	47.83%	47.05%	62.47%	50.59%	44.45%
ROA (TTM)	1.83%	0.48%	1.39%	0.61%	0.46%	2.87%	2.45%	1.67%	1.58%	0.93%	1.39%	1.67%
ROE (TTM)	19.41%	8.27%	25.18%	14.52%	7.48%	21.53%	22.83%	27.73%	20.27%	15.92%	20.84%	22.55%
Diluted EPS (TTM)	2,865	1,456	4,070	2,152	950	2,420	2,907	3,987	2,897	1,280	2,107	2,800
Book value (VND/share)	15,109	18,040	17,739	15,109	13,066	14,790	13,735	16,311	15,938	13,601	12,424	13,615
Valuation												
P/E	7.71	14.49	14.69	15.10	13.69	11.38	7.45	7.63	10.77	7.03	10.11	6.32
P/B	1.46	1.17	3.37	2.15	0.99	1.86	1.58	1.86	1.96	0.66	1.71	1.30

Lienviet Post Bank (LPB)

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BSC Headquarter

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Ha Noi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, Ho Chi Minh City
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

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