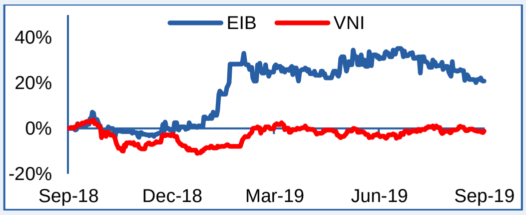
VIET CAPITAL SECURITIES

Eximbank (EIB) [NOT RATED]

Company Report

Industry:	**Banking**
Report Date:	**September 27, 2019**
Current Price:	VND16,400
Dividend Yield:	0.0%

	2016	2017	2018	H1/19
PPOP y/y	-1.0%	9.6%	-4.4%	-34.2%
NPAT y/y	672%	166%	-19.7%	-17.2%
NIM	2.76%	2.14%	2.32%	2.40%
NPL	2.95%	2.27%	1.85%	1.77%
CIR	60.4%	57.6%	65.2%	66.4%
Div/Sh (VND)	0	0	0	0
P/B	1.5x	1.4x	1.4x	1.3x
P/E	65.3x	24.5x	30.5x	37.8x



Market Cap:	USD865mn
Foreign Room:	USD0.2mn
ADTV30D:	USD0.1mn
State Ownership:	0%
Outstanding Shares:	1.229 bn

	EIB	Peers	VNI
P/E (ttm)	37.8x	8.9x	16.9x
P/B (curr)	1.3x	1.5x	2.4x
ROE (ttm)	3.5%	19.7%	14.6%
ROA (ttm)	0.3%	1.7%	2.5%

Company Overview

Founded in 1989, EIB was one of the first private banks in the industry in Vietnam and listed on HOSE on October 27, 2009. Total assets topped only TPB amongst banks in our coverage universe as at YE2018. EIB's business focus is on retail banking.

Nghia Dien
Analyst
nghia.dien@vcsc.com.vn
+84 28 3914 3588 ext. 138

Long Ngo
Associate Director
long.ngo@vcsc.com.vn
+84 28 3914 3588 ext. 123

An enigma among listed banks with many unsettled issues

- Given a retail focus with 54.1% retail lending portion in its book as at H1 2019, EIB's NIM at 2.40% is structurally low compared to its peers.
- EIB is under provisioning pressure due to legacy VAMC bonds (net balance 3% of gross loans as at H1 2019), which will weigh on the bottom line outlook for the next one to two years.
- Per management guidance, 2019F PBT is projected at VND1,077bn (USD46mn, +30% YoY).
- Valuation does not look attractive at 1.3x 2019F P/B against the peer median and STB at 1.4x and 0.7x, respectively, with 2019F ROE at 5.6% vs the sector median at 19.0% and STB at 8.3%.

EIB is a rare example of Vietnamese bank with a fluid shareholder register that has essentially been in play for the last nine years. The reasons that made EIB an attractive takeover target for ACB prior to 2012 have long receded as the banking system pivoted away from gold trading and kept on growing while EIB faltered for many years. Today the lack of a clearly identifiable controlling shareholder continues to be an attraction for domestic parties eying control of a banking platform sitting in between TPB and VPB in terms of brick-and-mortar footprint. Trading in EIB is characterised by low volume via order matching but put-through volume in H1 2019 amounted to 47.7% of shares outstanding. Additionally, shareholder squabbles have resulted in a failure to reach a quorum for 2019 AGM turnout despite repeated attempts. Therefore, we think EIB is not a suitable investment for institutional shareholders at present until liquidity and shareholder squabbles are settled.

Interest income suffers from low NIM and fee income struggles to cope with a more competitive environment for international settlement services and lack of other growth drivers. EIB is characterised by low loan growth with a 2015-2018 CAGR of 7.1%. NIM in the last two calendar years has tracked below 2.5%, at least one percentage point below what typical private banks deliver, due mainly to relatively high funding cost. Unlike STB, which has room to leverage its regulated LDR from its current level of 70% to improve NIM, EIB's regulated LDR was 76% as of H1 2019 against the cap of 80%. However, there is scope to improve interest-earning asset (IEA) yields by optimising the investment securities portfolio. On the fee side, settlement services contributed 82%/84% to fee income in 2018/H1 2019. However, EIB's international settlement volume saw 3.6% CAGR during 2013-2018 against total national export and import turnover CAGR of 12.7% during the same period, signalling increasing competition and a loss of market share. The bank entered into a five-year exclusive bancassurance contract with Generali in 2016, but its market share was still small at 1.3% as of H1 2019 and growth momentum did not show signs of outperforming peers.

Execution of business development strategy reflects unsettled BOD structure. EIB's branch network has not changed in the past three calendar years, another signpost that expansion has been on the slow burner. The BOD structure reflects shareholder squabbles and the position of chairperson has remained unsettled for over nine months now.

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Company overview

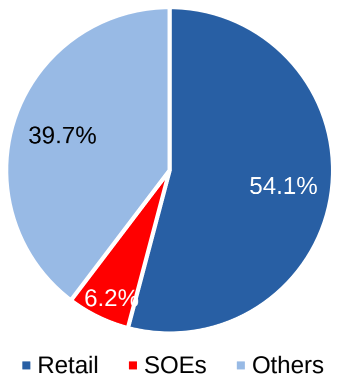
Vietnam Export Import Commercial Joint Stock Bank, or Eximbank (ticker: EIB), was founded on May 24, 1989 with an initial charter capital of VND50bn (USD12.5mn at the time). EIB was one of the first private banks in the Vietnamese banking industry (with HDB, which was also established in 1989). As at the end of H1 2019, EIB's charter capital and total shareholders' equity were VND12.4tn/USD530mn and VND15.5tn /USD665mn, respectively.

EIB follows a retail-focused business model with 54.1% retail lending portion in its loan book and 72.8% retail deposits to total customer deposits as at the end of H1 2019 (**Figure 1 & Figure 2**). As a testament to its previous dominant position in FX and international settlement, in 2018 the contributions of FX/settlement services to NFI stood at 44%/50%, respectively, amongst the highest levels in its peer group. EIB's headquarters is in HCMC and the bank has a representative office in Hanoi along with 44 branches and 163 transaction offices, which cover 22 of Vietnam's 64 provinces.

Sumitomo Mitsui Banking Corporation (SMBC) has been a strategic shareholder with a 15% stake (**Figure 7**) since 2008. In 2018, VCB sold down its stake to 4.84% (below 5% in accordance with Circular 36/2014/SBV).

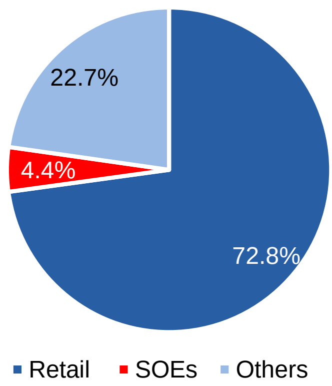
S&P assigned long/short term credit ratings of B+/B to EIB and revised its outlook to 'stable' from 'negative' on August 16, 2018. Moody's does not assign ratings on the bank.

Figure 1: Loan book breakdown (H1 2019)



Source: EIB, VCSC

Figure 2: Deposit book breakdown (H1 2019)

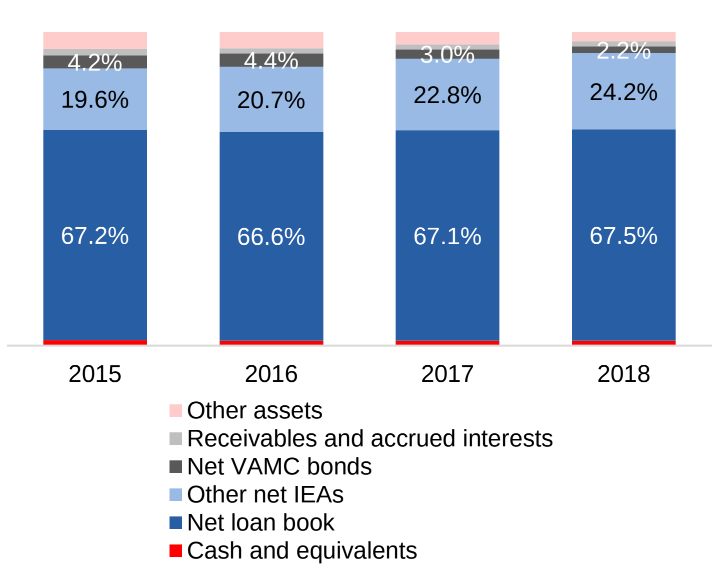


Source: EIB, VCSC

EIB's total assets recorded a 6.9% CAGR during 2015-2018 with gross loans growing at a 7.1% CAGR during the same period. The loan book fluctuated relatively closely around 67% of total assets during the last four calendar years (**Figure 3**). EIB did not have trading securities in its IEA base during 2015-2018. Investment securities (excluding VAMC bonds) contributed 57% to other IEAs (IEAs aside from customer loans) in 2015, but dropped to 31% as of YE2018. The drop was mainly because corporate bond balances dropped. As of YE2018, corporate bonds contributed only 0.4% of investment securities. Government bonds dominate EIB's investment securities (excluding VAMC bonds) category.

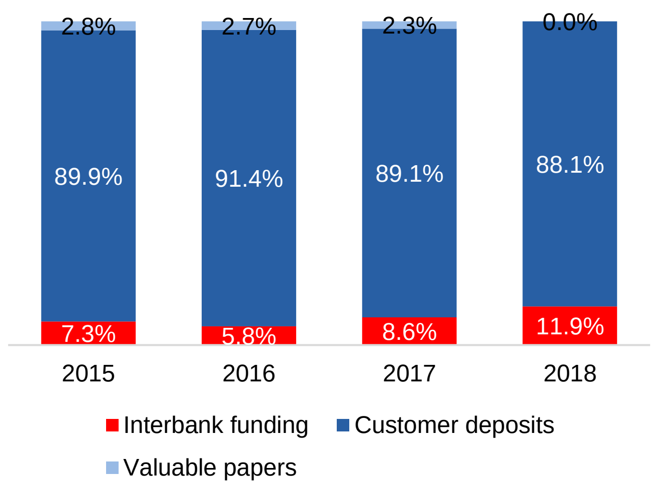
The majority of EIB's funding base is customer deposits (**Figure 4**). The bank had VND3,000bn /USD129mn of subodinated debts prior to 2017. From 2018 to the end of H1 2019, EIB did not have valuable papers in its funding base. Based on EIB's disclosures, the bank is seeking SBV's approval for its VND5,000bn/USD215mn bond issuance plan in 2019.

Figure 3: Asset mix (2015-2018)



Source: EIB, VCSC

Figure 4: Funding mix (2015-2018)



Source: EIB, VCSC – Customer deposits in funding base represented above excludes margin deposits and deposits for specific purposes

Ownership structure

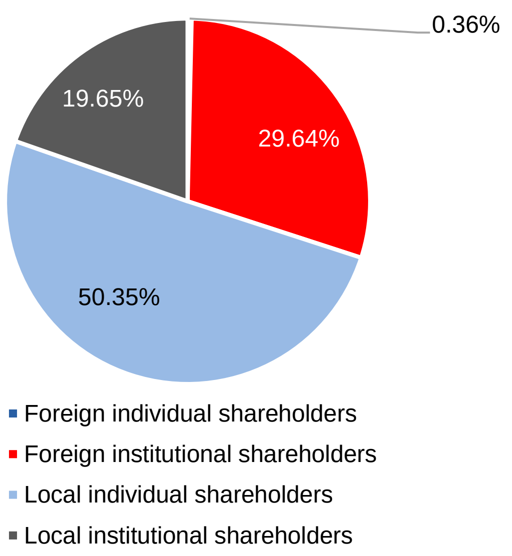
The foreign ownership limit (FOL) is at the bank industry cap of 30%. As at September 20, 2019, the foreign room was almost full with USD0.2mn available. The 'others' group of shareholders in **Figure 7** is large at 74.43%, but the shareholder structure at the bank is complex and there is no public information available to illuminate this category.

Figure 5: Total share-count (shares)

Total share-count	**1,235,522,904**
Total outstanding shares	1,229,432,904
Treasury shares	6,090,000

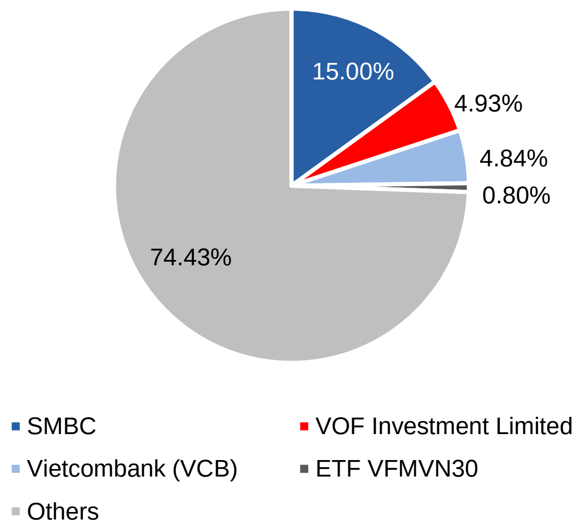
Source: EIB

Figure 6: Shareholder structure by type of investor (as at December 31, 2018)



Source: EIB

Figure 7: Shareholder structure (as at August 31, 2019)



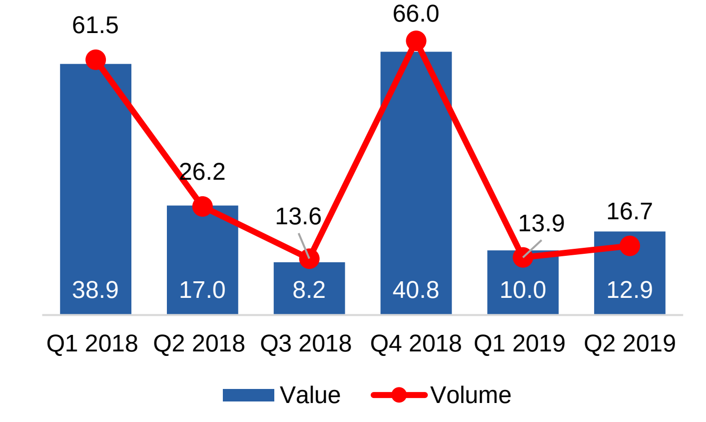
Source: Fiinpro

Trading issues

EIB is selected to be in the VN30 index as it matches the market capitalization, free float and liquidity requirements. EIB's order-matching turnover declined from the April 2018 VN-Index (VNI)'s peak, but surged in Q4 2018 as VCB sold down its stake to below 5% (from 8.24% ownership) via order matching trades (**Figure 8**). Despite the aforementioned increase in free-float, EIB saw 19.6% YTD and 18.3% YoY gains (**Figure 10** & **Figure 11**), outperforming the VN-Index and most banks under our coverage. This indicates a fairly sticky shareholder register, a feature we only see in a minority of our coverage stocks. The bank traded at a 1.3x trailing P/B based on a closing price of VND16,800 as at September 20, 2019.

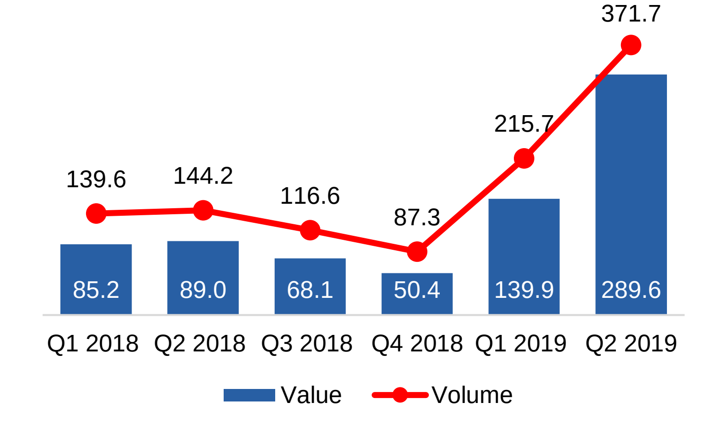
Put-through transactions saw a strong pick-up in H1 2019 (**Figure 9**) with total Q1 volume of 216 million shares (17.5% of outstanding shares) and Q2 volume of 372 million shares (30.2% of outstanding shares). There were no public disclosures on these transactions and this indicates a dynamic shareholder structure.

Figure 8: Quarterly total order-matching value (USD mn) and volume (million shares) (Q1 2018-Q2 2019)



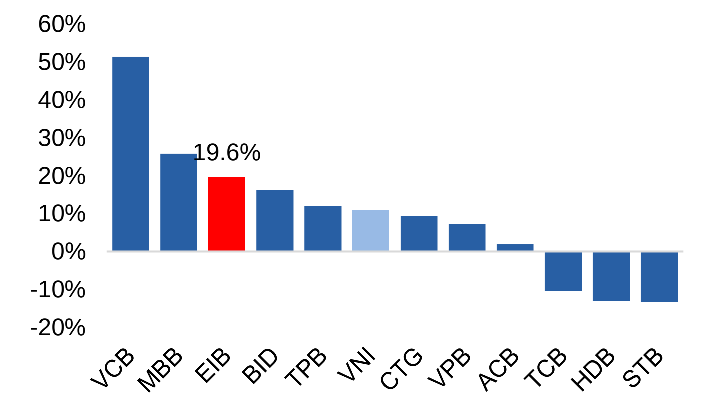
Source: Fiinpro

Figure 9: Quarterly total put-through value (USD mn) and volume (million shares) (Q1 2018-Q2 2019)



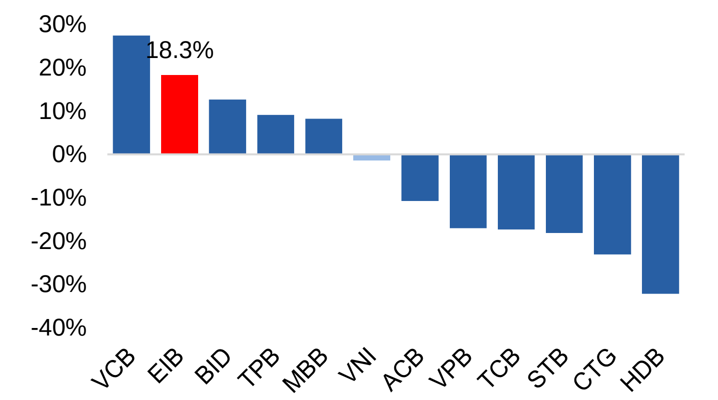
Source: Fiinpro

Figure 10: Share price performance of EIB vs banks under our coverage and the VNI index (YTD change)



Source: Bloomberg, as of September 20, 2019

Figure 11: Share price performance of EIB vs banks under our coverage and the VNI index (YoY change)



Source: Bloomberg, as of September 20, 2019

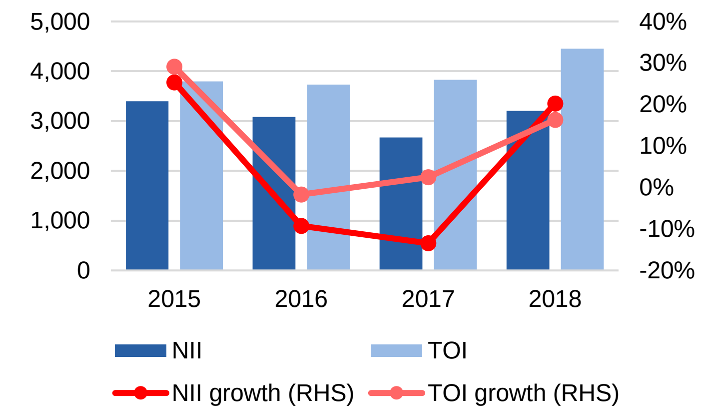
Financial performance

NII saw stagnant CAGR of -1.9% during 2015-2018 due to NIM compression. TOI saw positive but low growth during 2015-2018 with CAGR of 5.4% against the negative NII CAGR during the same period, the former assisted by a surge in recovery income from written-off debts in 2017 (11.5% of 2017 TOI) and a one-off gain from STB divestment in 2018 (11.7% of 2018 TOI), which supported non-interest income (NOII) (**Figure 27**).

NIM, on the other hand, saw a sharp drop of 62bps YoY in 2017 and has stayed below the 2.5% level since (**Figure 13**).

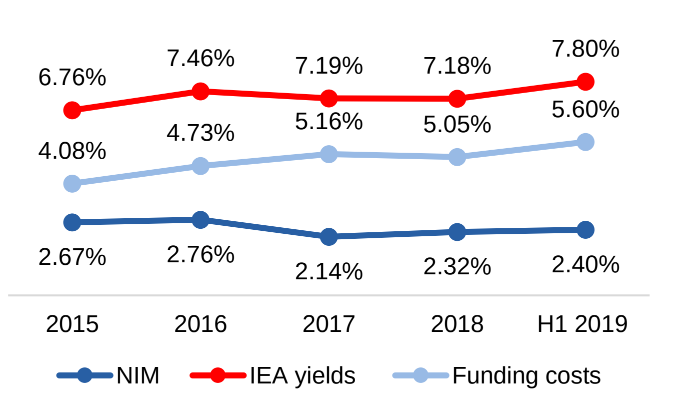
- On the IEA yield side, the retail lending portion in the loan book increased from 42.5% in 2015 to 54.3% in 2018 (**Figure 15**). At 54.1% as at the end of H1 2019, the level of retail lending portion was around the high-end vs private bank peers. That said, loan yields saw a continous increase during 2015-H1 2019. However, yields from investment securities dropped 4.08ppts during the same period to 3.08% in H1 2019 as the corporate bonds balance dropped from 25.8% of investment securities in 2015 to 0.4% as at H1 2019, dragging on IEA yields (**Fig 14**).
- On the funding costs side, the CASA ratio is on the low side relative to peers at an average level of 14.7% during 2015-2018, with the H1 2019 figure dropping to 12.3% (**Figure 15**). At the time of writing this report, EIB's 12-month term deposit rate was 1.1ppt higher than at VCB and the bank's overall struggle with funding cost can be seen in **Figure 13**.

Figure 12: NII & TOI (VND bn) and growth (%) (2015-2018)



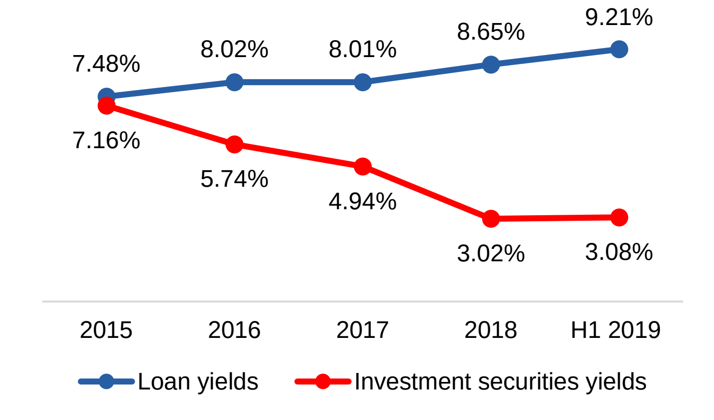
Source: EIB, VCSC

Figure 13: IEA yields, Funding costs and NIM (2015-H1 2019)



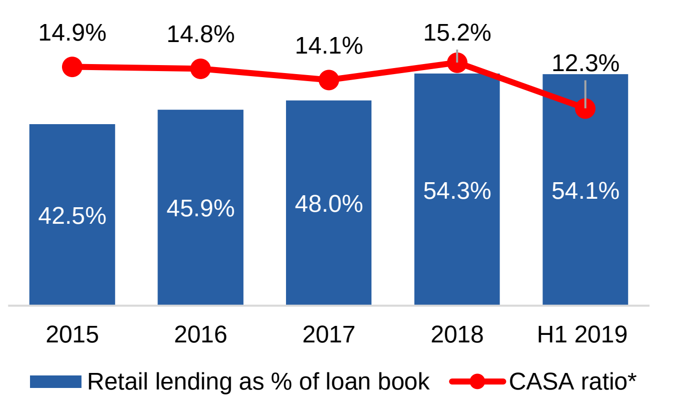
Source: EIB, VCSC – H1 2019 figures are annualized

Figure 14: Loan yields and investment securities yields (2015-H1 2019)



Source: EIB, VCSC – H1 2019 figures are annualized

Figure 15: Retail portion in gross loan book vs CASA ratio (2015-H1 2019)

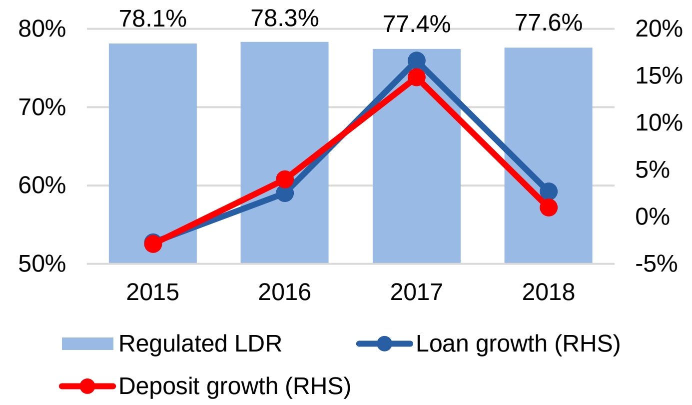


Source: EIB, VCSC - *CASA volume includes demand and margin deposits

CAR cushion above minimum requirement is high, but high level of LDR constrains loan growth. Reported CAR under Basel I was maintained above 15% during 2015-2018, higher than the minimum regulatory requirement at 9% (**Figure 17**). From 2018 until now, EIB has not had valuable papers (including subordinated debts) in its funding base. The funding base as at H1 2019 comprised of 7.4% interbank deposits and 92.6% customer deposits. Capital adequacy is not a problem at the bank, in our view. However, given elevated funding costs, it is a challenge for the bank to add relatively more expensive valuable papers into this funding mix to boost loan growth. During 2015-2018, loan growth was relatively in line with customer deposit growth (**Figure 16**).

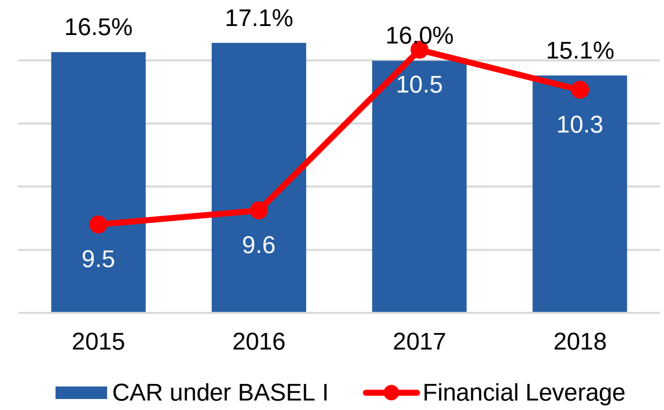
EIB has not received Basel II certification compliance from the SBV and its Basel I CAR figure is among the highest in the Vietnamese banking sector (**Figure 18**). The high Basel I CAR is mainly because of low loan CAGR during 2015-2018 of 7.1%.

Figure 16: Loan and deposit growth vs regulated LDR (2015-2018)



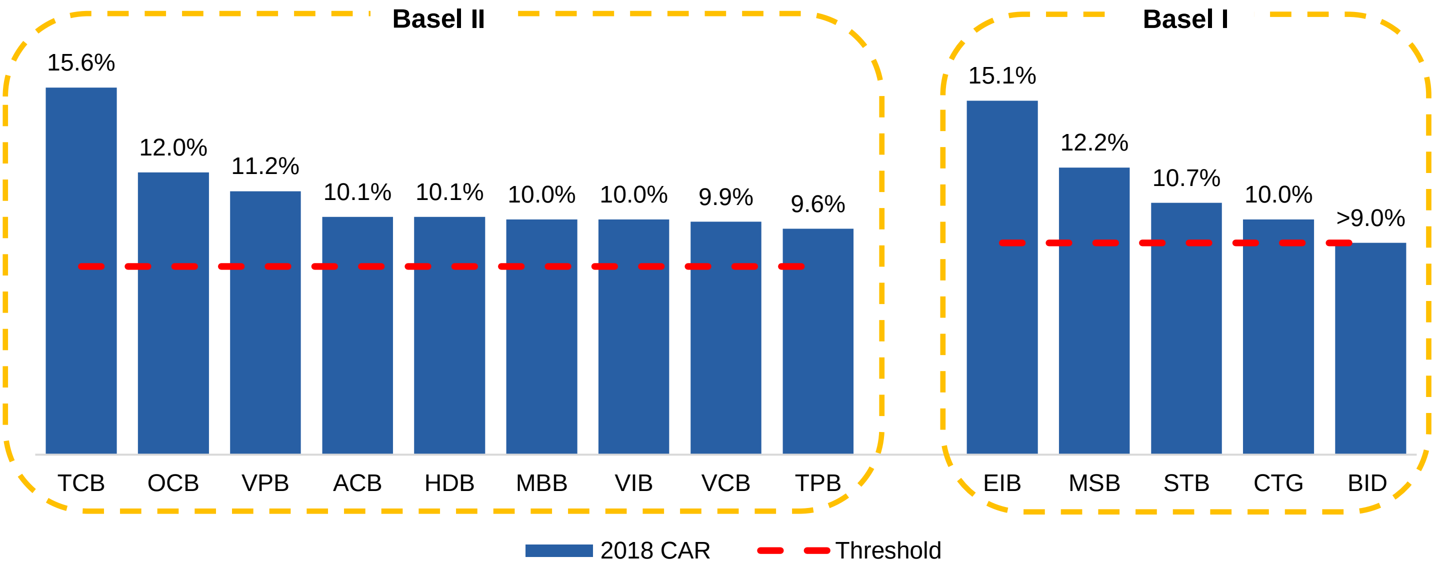
Source: EIB, VCSC

Figure 17: CAR under Basel I (%) and financial leverage (x) (2015-2018)



Source: EIB, VCSC

Figure 18: Reported CAR (2018)

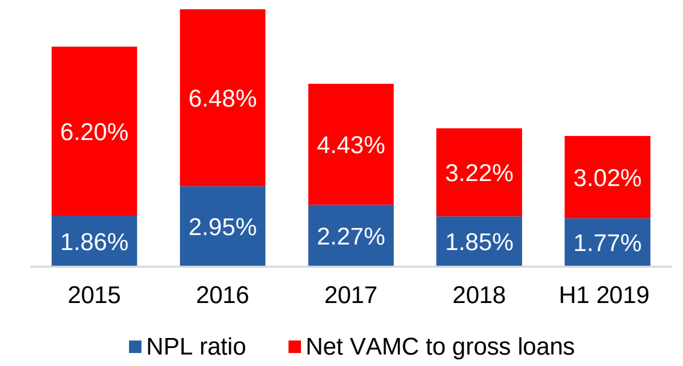


Source: Company data; OCB – Orient Commercial JSB & MSB – Vietnam Maritime Commercial JSB

Asset quality is trending in a positive direction, but the remaining net VAMC balances will place pressure on provision expense in the short-term. While both NPL ratios and net VAMC balances as a percentage of gross loans have showed a downward trend since 2016, the burden on provision expenses to clear VAMC balance remains high in the coming quarters. EIB spent VND514bn/USD22mn to provision for its VAMC balance in 2018 (11.5% of 2018 TOI). Per AGM documents, the bank plans to charge VND923bn/USD40mn in provisions for VAMC in 2019. Assuming there will be no collateral sales and 2019 loan growth will be 11% YoY as guided, EIB's net VAMC balance to gross loans will drop to 2.0% by YE2019 from 3.22% at the start of the year.

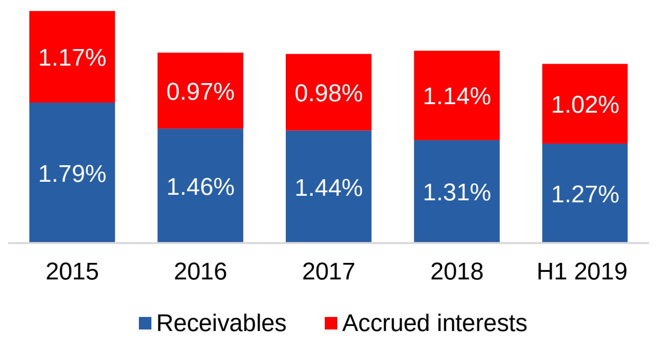
EIB has normal levels of receivables and accrued interest, in our view. Accrued interest to gross loans was relatively flat over the last 2.5 years. At 1.02% of gross loans and 1.04% of Group 1 (current) loans as of H1 2019, we believe the level of acrrued interest is normal vs VCB at 1.08% of gross loans and 1.10% of Group 1 loans. **Figure 20** shows receivables have also been kept at sound levels. In 2018, there were issues related to deposits fraud losses of VND381bn/USD16mn (28% of 2018 receivables). The bank fully reimbursed the customer and recognized this item in receivables and fully provisioned for the same amount within the year. Therefore, we do not see material risks related to EIB's receivables and accured interest.

Figure 19: NPL ratio and net VAMC balances to gross loans (%) (2015-H1 2019)



Source: EIB, VCSC

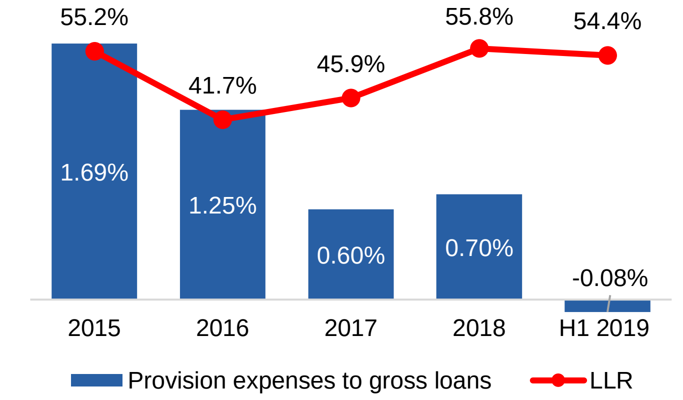
Figure 20: Receivables and accrued interests as % of gross loans (2015-H1 2019)



Source: EIB, VCSC

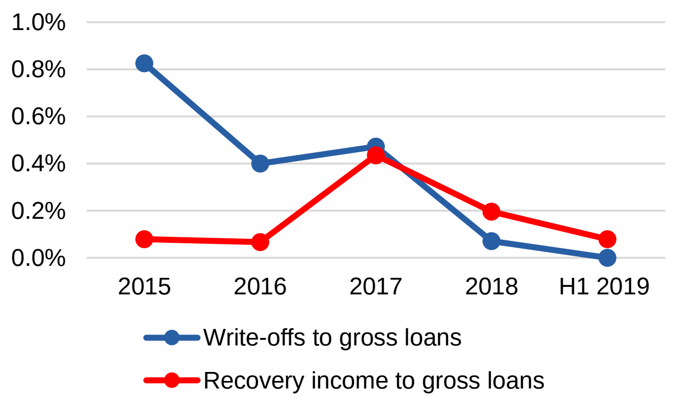
Provision buffers relatively low but immediate burden of VAMC provisioning will likely pressure the bottom line in H2 2019. EIB's loan loss reserve ratio (LLR) came in slightly above 50% as at H1 2019 and was around the lower end of our coverage universe range (**Figure 21** & **Figure 30**). Despite the aggressive provision expense guidance given at the AGM, EIB booked a reversal of provisions in H1 2019, which caused negative provision expenses to gross loans as seen in **Figure 21**. This was surprising given the relatively low level of LLR. Provision expenses will start to increase in H2 2019, in our view, to play catchup with AGM guidance. We observe EIB has slowed down its write-off momentum in accordance with the drop in pure NPL ratio (without VAMC) (**Figure 22**). Recovery income during 2016-2018 was 46% of write-offs during 2015-2017 (applying a one-year lag to the denominator). As write-offs have slowed, we do not foresee a signficant contribution from recovery income in 2019.

Figure 21: Provision expenses to gross loans and LLR* (2015-H1 2019)



Source: EIB, VCSC – H1 2019 provision expenses to gross loans is annualized, *LLR is percentage of total provision balance over NPLs

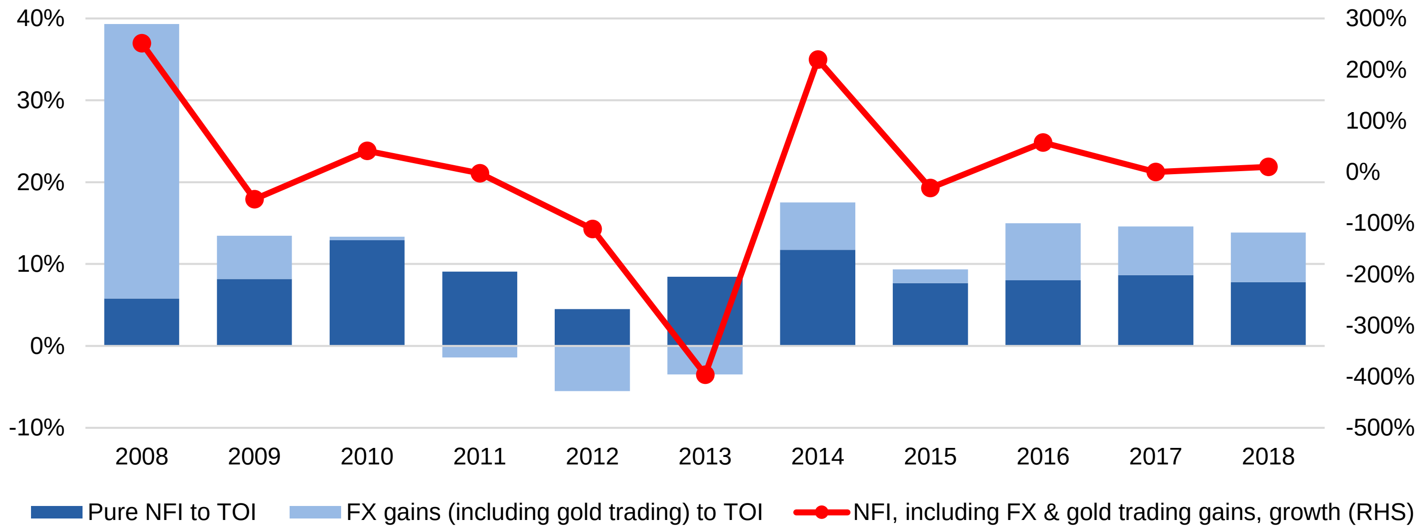
Figure 22: Write-offs to gross loans vs recovery income from written-off debts to gross loans (2015-H1 2019)



Source: EIB, VCSC – H1 2019 figures are annualized

Fee income business relies on international settlement and FX gains (including gold trading in the past) although this is unlikely to provide growth momentum going forward. EIB was a leader in the area of international trade and gold trading services prior to 2013. Net fee income (NFI), including FX/gold trading reached its peak with a 39% contribution to TOI in 2008. The average gold balance of EIB during 2008-2012 was 11% of total assets and gold deposits were roughly one-third of customer deposits. The closure of the gold trading market in 2010 by regulatory edict was a severe hit to EIB's trading activities and **Figure 23** illustrates the decline in NFI in the two years that followed. Regarding international settlement services, we observe the bank is losing market share. The bancassurance segment appears hampered by a lack of 'premiumization' of its retail customer base and has not outperformed peers in the last few years. In totality, we do not see any obvious growth drivers for NFI in the next few years (details on **page 12**).

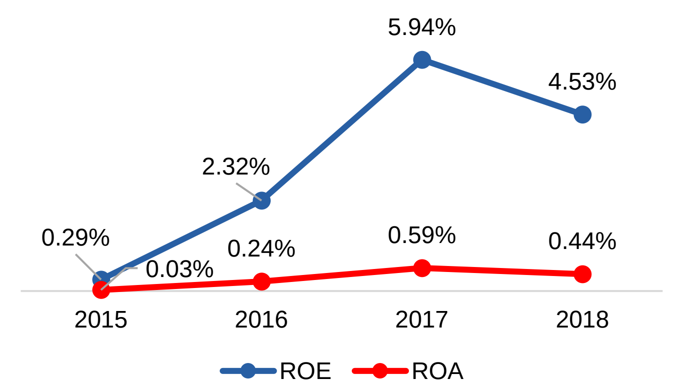
Figure 23: Pure NFI & FX gains (including gold trading) to TOI and growth (2008-2018)



Source: EIB, VCSC

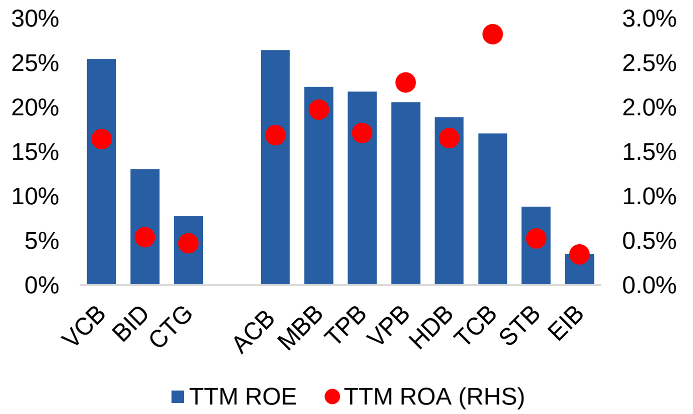
Return metrics are subpar and growth prospects are not bright relative to peer group. Challenges besetting EIB range from interest income and a legacy VAMC provisioning burden to stalling NFI growth. These result in subpar ROE and ROA figures, as illustrated in **Figure 24**. The core business performance did not show signs of a strong recovery during 2018 and H1 2019, yet the bank has to provision for its legacy debts, which could weigh on the bottom line in coming periods. In addition, we do not see the prospect of large collateral sales at EIB to boost the bottom line.

Figure 24: ROE and ROA (2015-2018)



Source: EIB, VCSC

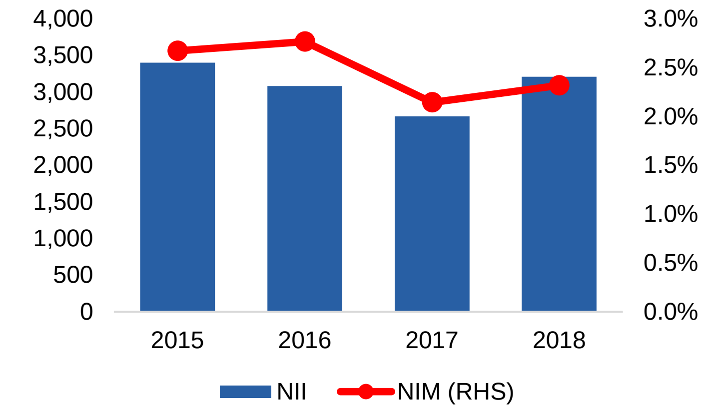
Figure 25: TTM ROE of EIB against banks under our coverage (H1 2019)



Source: Company data, VCSC

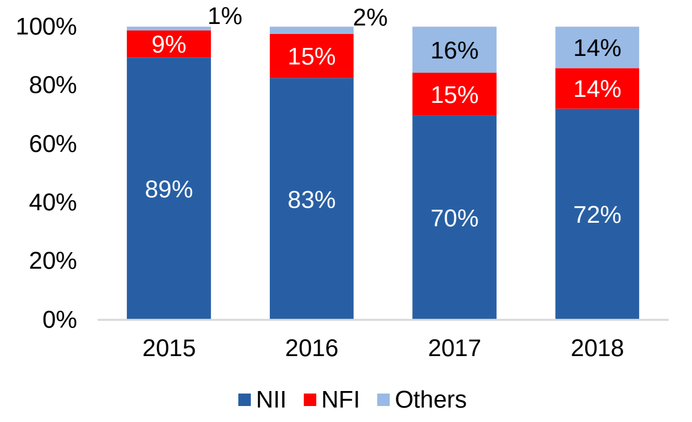
Key figures of EIB

Figure 26: NIM (%) and NII (VND bn) (2015-2018)



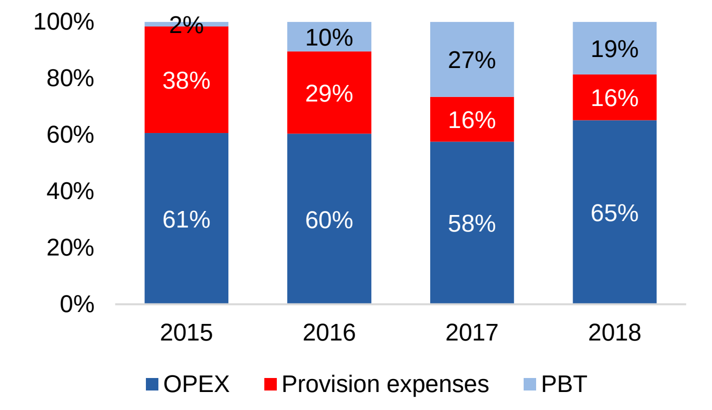
Source: EIB, VCSC

Figure 27: TOI components (2015-2018)



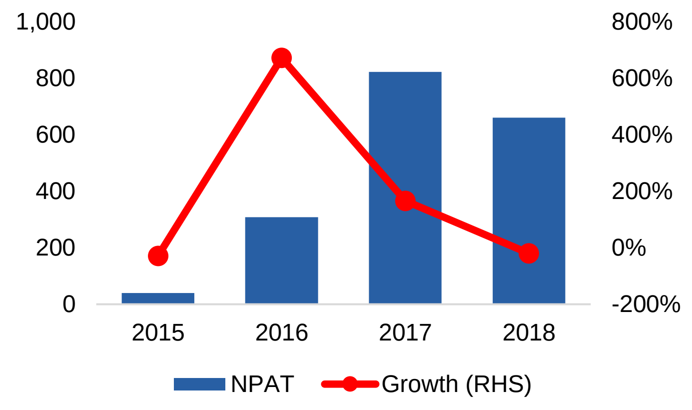
Source: EIB, VCSC

Figure 28: OPEX, provision expenses and PBT as % of TOI (2015-2018)



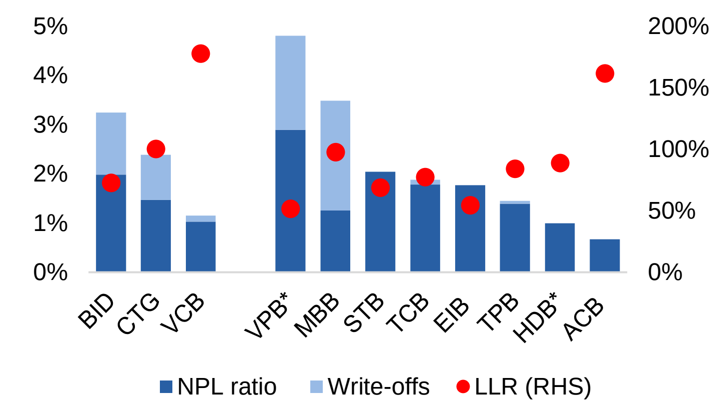
Source: EIB, VCSC

Figure 29: NPAT (VND bn) and growth (%) (2015-2018)



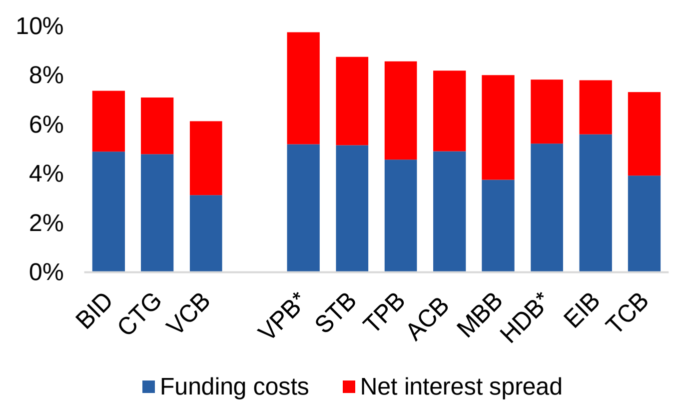
Source: EIB, VCSC

Figure 30: NPL ratio, annualized write-offs over gross loans and LLR of EIB against banks under VCSC's coverage (H1 2019)**



Source: Company data, VCSC – * standalone bank only, ** LLR is percentage of total provision balance over NPLs

Figure 31: Annualized interest-earning asset yields of EIB against banks under VCSC's coverage (H1 2019)



Source: Company data, VCSC - * standalone bank only

H1 2019 recap: Slow growth continues to afflict EIB

Figure 32: EIB's H1 2019 results

	H1 2018	H1 2019	YoY	VCSC comments
Net interest income	1,504	1,664	10.6%	NII growth recorded a faster pace than loan growth (5.1% YoY) during the same period. H1 2019 NII contributed 77.8% to TOI.
Net fee income*	283	313	10.8%	Pure NFI growth was stagnant at 0.6% YoY. Net gains from FX remained a strength of the bank with 23.6% YoY growth. NFI, including FX, contributed 14.7% to TOI with net gains from FX contributing 7.2% to TOI.
Total NOII	862	475	-44.9%	Total NOII recorded a sharp drop YoY. This was because there was a VND521bn/USD22mn one-off gain from Sacombank (STB) divestment in H1 2018.
Total operating income (TOI)	2,366	2,139	-9.6%	Normalized TOI growth (taking out STB divestment) was 16.0% YoY in H1 2019.
OPEX	(1,273)	(1,419)	11.5%	
PPOP	1,093	719	-34.2%	
Provision expenses	(171)	43	-125.3%	The positive provision expense in H1 2019 was mainly because EIB reversed part of its provision balance for gross loans. Loan loss reserve ratio (LLR) dropped to 54.4% as of the end of H1 2019 vs 55.8% at the beginning of the year.
Net profit	737	611	-17.2%	Based on AGM documents, 2019 PBT guidance is VND 1,077bn/USD46mn (+30% YoY). Assuming effective tax rate is 20%, H1 2019's bottom line achieved 71% of management guidance for FY2019.
NIM	2.37%	2.40%	3 bps	
Interest-earning asset yields	7.42%	7.80%	38 bps	The rise in IEA yields YoY was mainly driven by 23bp YoY loan yield increase to 9.21% in H1 2019. However, IEA yield appeared lower than peers because (1) most of HTM securities were government bonds and (2) VAMC bonds still occupied 22.9% EIB's investment securities. Annualized yield from investments in debt securities in H1 2019 was 3.08%, dragging on IEA yield.
Cost of funds	5.17%	5.60%	43 bps	Funding costs were at high levels as the bank is offering attractive deposit rates to mobilize customer deposits.
CASA ratio**	13.6%	12.3%	-1.3 ppts	The 1.3 ppts YoY drop in CASA ratio was because term deposits (+15.3% YoY) grew at a faster rate than CASA volume (+2.3% YoY).
Term deposits in FX (%)	2.6%	2.3%	-0.3 ppts	
CIR	53.8%	66.4%	12.6 ppts	Normalized H1 2018 CIR (taking out STB divestment) was 69.0%. EIB's CIR remained one of the highest compared to our coverage universe in H1 2019.
NPL	2.20%	1.77%	-43 bps	Despite not writing off loans in H1 2019, NPL ratio continued to trend down to 1.77% vs 1.85% (YE2018) and a slight drop in special mention (Group 2) of 1.3% YTD are both positive signs for the bank's credit quality.
Loan growth (YTD)	-0.5%	1.9%	2.4 ppts	
Deposit growth (YTD)	-2.8%	8.9%	11.7 ppts	
TTM ROE	8.6%	3.5%	-5.1 ppts	
TTM ROA	0.9%	0.3%	-0.5 ppts	

Source: EIB & VCSC, units are in VND bn unless otherwise stated - *Net fee income includes FX gains, **CASA volume includes demand and margin deposits.

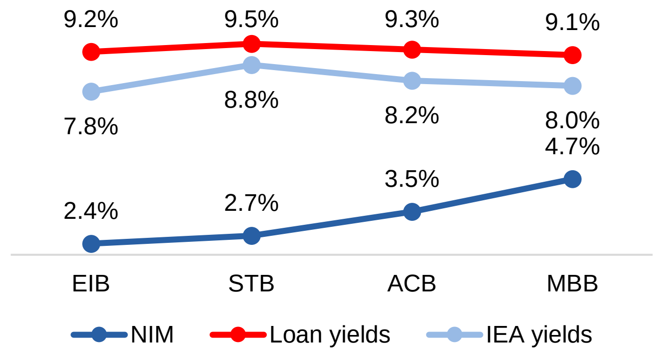
Outlook

EIB failed to achieve 2018 PBT guidance and 2019 PBT guidance is also challenging, in our view. In 2018, EIB achieved only 52% of its PBT guidance for the year. The under-delivery was mainly because of (1) VND514bn/USD22mn provisions made for VAMC balance in provision expenses and (2) VND390bn/USD17mn provisions made for receivables to fully cover two customer deposits fraud losses, with this category booked in the operating expense line. These provision charges caused a negative Q4 2018 bottom line, offsetting the one-off gain from the STB divestment.

While H1 2019 PBT stood at VND762bn/USD33mn, achieving 71% of 2019 PBT guidance (VND 1,077bn/USD46mn), EIB booked a net reversal of provision charges in H1. The net VAMC balance as of the end of H1 2019 was VND3.2tn/USD137mn (3.02% of gross loans). Based on AGM documents, the target of 2019 provision expenses for VAMC balance is VND923bn/USD40mn. Therefore, given (1) the loan book exhibits no warning flags of further credit deterioration, as discussed and (2) potential gains from plans to divest from Vinaconex (VCR) in H2 could support 2019 TOI, we expect the main negative item in H2 2019 will be a 'catch-up' provision expense related to EIB's VAMC balance, placing a heavy burden on the share of PBT in TOI.

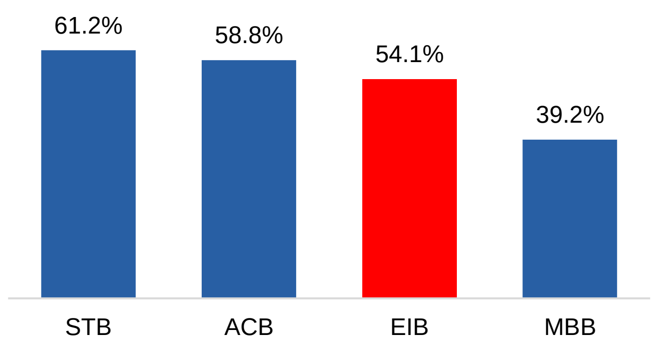
Limited scope for a NIM break-out. Given retail lending constituted 54.1% of the bank's loan book (H1 2019), EIB's annualized H1 2019 loan yield at 9.2% was around the high-end of our coverage universe. Unlike STB, which has scope to leverage its low LDR (69.8%) to improve NIMs, EIB's LDR as of H1 2019 was high at 76.3% vs the regulatory cap at 80% (**Figure 36**). As discussed, EIB's IEA yields were dragged by low yields from investment securities (**Figure 14**). We believe EIB has headroom to improve investment securities' yields after clearing its VAMC balance by accumulating corporate bonds. However, on the funding side, EIB has a low CASA ratio vs peers (**Figure 35**) and the bank is offering relatively high deposit rates to mobilize customer deposits for its funding base, placing pressure on costs. Taken together, we believe EIB's NIM has headroom to improve from the current level of 2.4%, but a break above the 3% level is challenging in the next two to three years.

Figure 33: Annualized NIM, loan yields and IEA yields comparison (H1 2019)



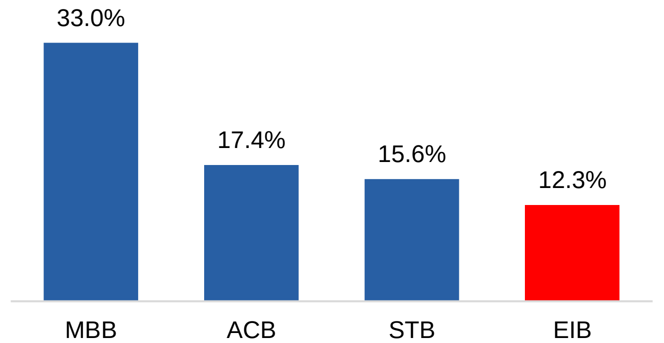
Source: Company data, VCSC

Figure 34: Retail lending as % of loan book comparison (H1 2019)



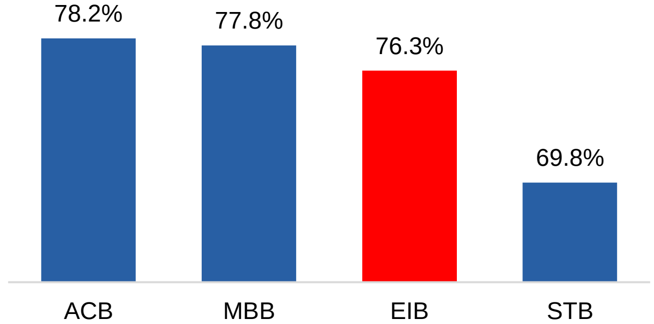
Source: Company data, VCSC

Figure 35: CASA ratio comparison (H1 2019)



Source: Company data, VCSC

Figure 36: Regulated LDR comparison (H1 2019)

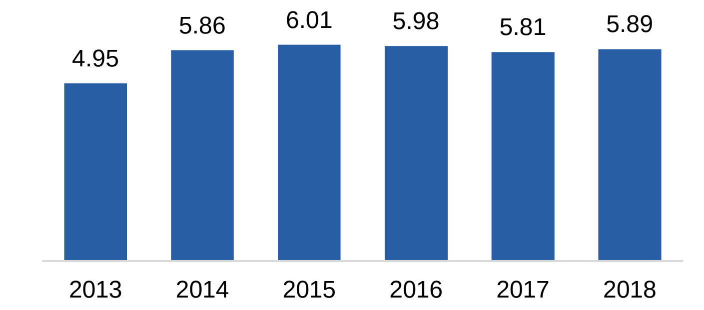


Source: Company data, VCSC

Fee income performance did not show any convincing growth shoots. EIB was a leader in the area of international trade services prior to 2013. International settlement volume at EIB, however, saw stagnant growth of 1.4% YoY in 2018 to reach USD5.9bn with cumulative five-year CAGR during 2013-2018 of 3.6% against total national export and import turnover growth of 12.2% YoY in 2018 to USD480bn and cumulative CAGR during 2013-2018 of 12.7% (**Figure 37 & Figure 38**). The stagnant growth at EIB signifies intensifying competition in this field. NFI, including FX, to average total assets is around the low-end against private bank peers (**Figure 40**). While EIB's NFI to TOI at 14.7% was at an average level (**Figure 39**), this was mainly because of a low NII base.

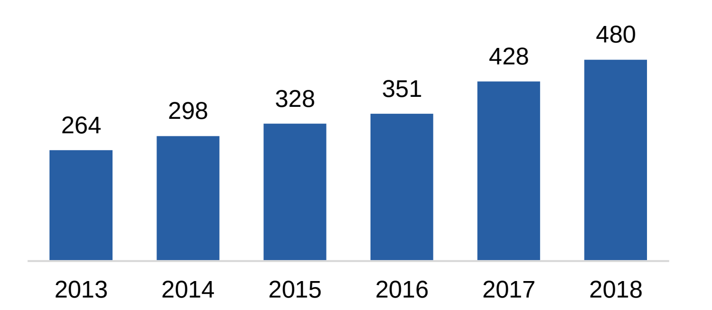
EIB entered into a five-year exclusive bancassurance contract with Generali in 2016. There is no breakdown regarding bancassurance commissions in EIB's financial statements, but we expect it was classified in the 'other fee income' line. H1 2019 other fee income stood at VND35bn/USD1.5mn, -7.4% YoY, and contributed 11.3% to NFI, including FX. Based on disclosures from the Insurance Association of Vietnam of bancassurance lines with life gross premiums of ~USD20mn and above, MBB and STB recorded more than 450% growth YoY in 2018. EIB's gross premium was USD6.4mn in 2018 (1.4% market share) and recorded only 58% YoY growth. Its bancassurance market share dropped slightly to 1.3% in H1 2019 and did not show signs of outperforming peers. The growth momentum of bancassurance services at EIB is not attractive, in our view.

Figure 37: International settlement volume of EIB (USD bn, 2013-2018)



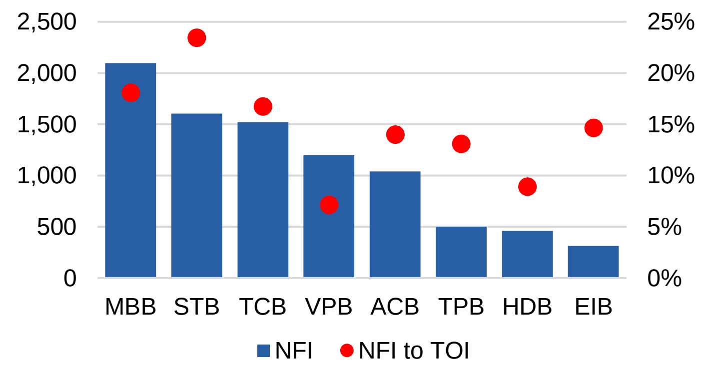
Source: EIB

Figure 38: Total national import and export turnover (USD bn, 2013-2018)



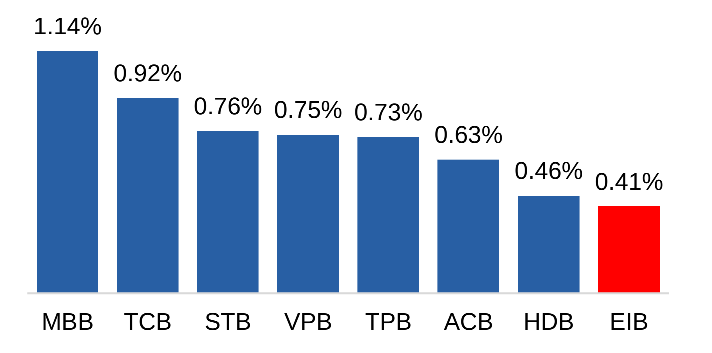
Source: Vietnam Customs, VCSC

Figure 39: NFI (VND bn) and NFI to TOI (%) of EIB against private banks under our coverage (H1 2019)



Source: Company data, VCSC

Figure 40: Annualized NFI to average total assets (%) of EIB against private banks under our coverage (H1 2019)



Source: Company data, VCSC

Conflicts between BOD and shareholders remains unsettled, representing a risk to future business strategy and development. EIB failed to hold its 2019 AGM to get shareholders' approval for its business plan. Mdm. Luong Thi Cam Tu (ex-CEO of Nam A Bank) failed to secure approval to become Chairperson of EIB after Mr. Le Minh Quoc resigned. Mr. Cao Xuan Ninh was approved to become EIB's Chairman for the period of 2015-2020 in May 2019, but recently resigned in June 2019 and the bank delegated this role to Mr. Yasuhiro Saitoh (current Vice Chairman and representative from EIB's strategic investor, SMBC) to become Acting Chairman. The on-going issues described above emanate from conflicts between shareholders and thus lays bare challenges faced by EIB to execute on its business development plan and strategy going forward.

Valuation

Comparable peers

Management guidance for 2019 PBT is VND1,077bn/USD46mn. Assuming an effective tax rate of 20%, EIB's target 2019 net income is VND862bn/USD37mn, implying a 2019F P/E and P/B at 23.5x and 1.3x, respectively. EIB is currently trading at a slight discount of 5.7% to the peer median 2019F P/B of 1.4x (**Figure 41**). Our observation suggests that EIB traded at an average discount of 20.9% to the peer median trailing P/B in the past 12 months.

EIB's return metrics are low with TTM ROE and ROA of 3.5% and 0.3%, compared to domestic peer medians at 19.7% and 1.7%, respectively. The bank is currently well-capitalized, in contrast to a sector that is hungry for new capital, with financial leverage at 10.3x as at H1 2019 and CAR under Basel I at 15.1% as at YE2018. However, as discussed, the growth outlook for EIB is not attractive and unsettled conflicts between shareholders could pose a risk to the execution of its business plan. In addition, EIB has VND3.2tn/USD137mn of net VAMC balance (206% of 2018 pre-provision operating profit). The progress of clearing VAMC will weigh on future net income. A significant rebound in return metrics is hard to foresee in the coming years.

Given a crowded field of cheap banks supported by strong fundamentals and/or a convincing equity story, EIB's valuation does not look attractive at 1.3x 2019F P/B with a TTM ROE of 3.5%, in our view.

Figure 41: Bloomberg consensus forecasts for Vietnamese banks

Bloomberg Ticker	Market Cap. (USD bn)	P/E			P/B			ROE			ROA	Equity Multiplier	NPL
		2018	2019F	2020F	2018	2019F	2020F	2018	2019F	2020F	TTM	2018	2018
ACB VN	1.62	6.75	6.62	6.04	1.58	1.47	1.11	26.4%	25.0%	22.2%	1.69%	15.67	0.73%
BID VN	5.89	19.13	22.60	15.87	2.51	2.01	1.91	13.7%	13.4%	15.8%	0.54%	24.07	1.90%
CTG VN	3.39	14.36	12.28	10.77	1.09	1.08	0.99	7.8%	10.8%	12.1%	0.47%	17.26	1.58%
MBB VN	2.17	7.41	7.11	6.08	1.49	1.35	1.15	21.7%	20.9%	20.6%	1.87%	10.60	1.33%
VCB VN	12.95	17.13	18.36	14.70	3.94	3.67	3.03	25.6%	24.0%	23.7%	1.64%	17.27	0.98%
VPB VN	2.27	7.16	7.07	5.78	1.38	1.25	1.03	20.6%	19.3%	19.5%	2.28%	9.30	3.50%
STB VN	0.80	8.59	8.75	8.03	0.73	0.69	0.63	8.8%	8.4%	9.5%	0.52%	16.48	2.13%
HDB VN	1.11	9.10	9.82	9.51	1.65	1.42	1.16	19.1%	18.2%	17.3%	1.40%	12.84	1.53%
TCB VN	3.49	9.19	8.51	7.29	1.44	1.32	1.13	17.0%	16.8%	16.6%	2.66%	6.20	1.75%
TPB VN	0.80	8.34	7.95	5.71	1.64	1.52	1.13	21.8%	20.7%	22.6%	1.68%	12.82	1.12%
Median		**8.84**	**8.63**	**7.66**	**1.54**	**1.39**	**1.13**	**19.1%**	**19.0%**	**17.8%**	**1.64%**	**14.25**	**1.58%**
EIB VN	**0.89**	**31.27**	**23.97***	**N/A**	**1.39**	**1.31***	**N/A**	**4.5%**	**5.6%***	**N/A**	**0.35%**	**10.26**	**1.85%**

Source: Bloomberg as of September 20, 2019 - *Based on 2019 management guidance.

Statistical relationship between ROE and PB for Vietnamese banks

$$P/B_{it} = \alpha + \beta ROE_{it} + \gamma Dummy_i + \mu_{it}$$

Where:

1. i = 1,…,10 (being 10 banks under our coverage)
2. t = H2 2017,…,H1 2019 (some banks do not have four entries, hence the dataset is slightly unbalanced). H2 2017 was chosen as the starting point because it captured the listing of VPB and was quickly followed by HDB.
3. ROE = trailing 12-month return on equity
4. Dummy = 1 for majority Government owned banks and 0 for Private Banks
5. P/B = current price to book ratio

Observations: 37 (33 without VCB)

Notes:

1. We control for AR1 serial correlation
2. Residuals are weighted by the gross loan book to acknowledge that SOE banks have larger balance sheets than private banks
3. Although the Dummy variable is not statistically significant, we find that including the Dummy variable improves the Akaike's Information Criterion (AIC) value of the regression and improves the statistical significance of β

Figure 42: Regression with VCB

Parameter	Estimate	Std. Error	Sig. (p-value)
Intercept	0.749	0.540	0.189
β	0.040	0.021	0.066
γ	0.847	0.467	0.124
Akaike's Information Criterion (AIC)	60.9		

Source: Company data and VCSC

Figure 43: Regression without VCB

Parameter	Estimate	Std. Error	Sig. (p-value)
Intercept	0.742	0.348	0.049
β	0.043	0.017	0.017
γ	0.380	0.244	0.162
Akaike's Information Criterion (AIC)	35.4		

Source: Company data and VCSC

Using the results of the second regression suggests a fair-trading value based on a TTM ROE of 3.5% should be 0.9x vs the current traded current multiple of 1.3x.

Sensitivity analysis

Figure 44: Cost of equity

Cost of equity	
Risk free rate	4.8%
Beta	1.0
Market Risk Premium	8.4%
Cost of equity	13.2%

Source: VCSC

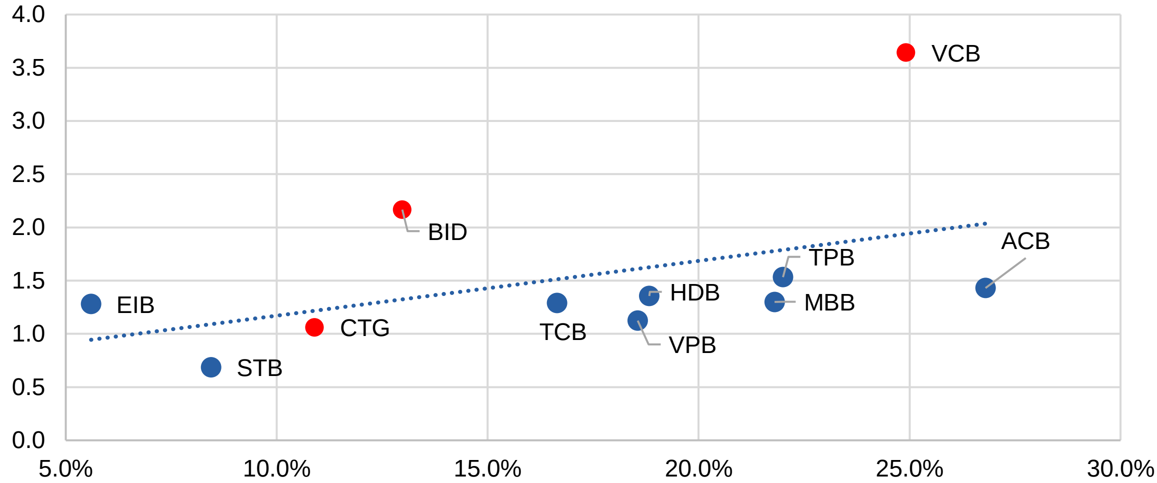
Figure 45: Sensitivity analysis of 2019F P/B for EIB in relation to ROE derived from Gordon Growth Model and terminal growth rate, ceteris paribus.

		2019F ROE				
		4.6%	**5.1%**	**5.6%**	**6.1%**	**6.6%**
Terminal growth (g)	**1.5%**	0.27	0.31	0.35	0.40	0.44
	2.0%	0.23	0.28	0.32	0.37	0.41
	2.5%	0.20	0.25	0.29	0.34	0.39
	3.0%	0.16	0.21	0.26	0.31	0.36
	3.5%	0.12	0.17	0.22	0.27	0.32
	4.0%	0.07	0.12	0.18	0.23	0.29

Source: VCSC

We use 2019F ROE based on 2019 PBT guidance in AGM documents as aforementioned. The above sensitivity analysis illustrates a fair value P/B multiple for EIB at 0.35x using the Gordon Growth Model with 2019F ROE of 5.6%, cost of equity at 13.2% (**Figure 44**) and terminal growth of 1.5%, lower than our average assumption for banks under coverage at 3.0%. While operating on a lower leverage ratio than the peer median, EIB's 2019F ROA is also low at 0.5%. However, despite the low return metrics, in our observation, banks in Vietnam which are not in distress rarely trade below par value and thus the derived P/B in **Figure 45** may prove to be purely an academic valuation.

Figure 46: Vietnam banks P/B (y-axis) and ROE (x-axis) (2019F)



Source: VCSC, Red dots signify SOCBs

Potential downside risks to management guidance: EIB may fail to meet earnings and profitability targets either due to pressure from VAMC provision charges, failure to execute on its business model, failure to continue growing its retail franchise/digital banking or a macro-driven banking crisis that leads to a new cycle of NPLs.

Financial Statements

P&L (VND bn)	2015	2016	2017	2018
Interest inc.	8,601	8,311	8,951	9,933
Interest exp.	(5,203)	(5,228)	(6,283)	(6,727)
Net interest inc.	**3,398**	**3,082**	**2,668**	**3,207**
Net fee income	292	300	331	347
Other NOII	110	353	829	898
Total NOII	402	653	1,160	1,245
Total operating inc.	**3,799**	**3,735**	**3,828**	**4,452**
Non-interest exp.	(2,305)	(2,255)	(2,206)	(2,901)
Other G&A exp.	-	-	-	-
Total operating exp.	(2,305)	(2,255)	(2,206)	(2,901)
PPOP	**1,495**	**1,480**	**1,622**	**1,551**
Provision exp.	(1,434)	(1,089)	(605)	(724)
Other inc./exp.	-	-	-	-
Pre-tax profit	**61**	**391**	**1,018**	**827**
Taxes	(21)	(82)	(195)	(167)
Net profit	**40**	**309**	**823**	**661**
Minorities/pref divs	-	-	-	-
Attributable profit	**40**	**309**	**823**	**661**
Wt avg shares (mn)	1,229	1,229	1,229	1,229
EPS (VND)	33	251	669	537
DPS (VND)	-	-	-	-

BS (VND bn)	2015	2016	2017	2018
Cash & equiv.	2,041	2,020	2,282	2,356
Bal. with SBV	2,716	3,765	3,277	6,412
Due from FIs	7,833	8,281	15,246	19,051
ST investments	3,957	9,389	9,458	10,410
Net cust. loans	83,890	85,825	100,268	102,971
HTM securities	15,161	10,807	10,562	4,492
LT investments	1,870	1,857	1,377	14
Fixed assets	4,741	3,368	3,214	3,559
Other assets	2,641	3,489	3,685	3,387
Total assets	**124,850**	**128,802**	**149,370**	**152,652**
Bal. from SBV	545	1,112	56	49
Bal. from FIs	7,933	6,484	11,256	16,011
Other funds	-	-	-	-
Cust. deposits	98,431	102,351	117,540	118,694
Other fin. int.	-	-	-	59
Valuable papers	3,000	3,000	3,000	-
Other liabilities	1,796	2,406	3,267	2,955
Total equity	13,145	13,448	14,251	14,884
MI	-	-	-	-
Liabilities & SE	**124,850**	**128,802**	**149,370**	**152,652**

RATIOS (%)	2015	2016	2017	2018
Growth				
Loan growth	-2.7	2.5	16.6	2.7
Deposit growth	-2.9	4.0	14.8	1.0
TOI growth	29.1	-1.7	2.5	16.3
PPOP growth	67.2	-1.0	9.6	-4.4
NPAT growth	-28.7	672.4	166.3	-19.7
Asset quality				
Group 2 ratio	0.58	0.47	0.44	0.60
NPL ratio	1.86	2.95	2.27	1.85
LLR	55.2	41.7	45.9	55.8
Provision exp./ loans	1.69	1.25	0.60	0.70
Liquidity				
CAR under BASEL I	16.5	17.1	16.0	15.1
Regulated LDR	78.1	78.3	77.4	77.6

RATIOS (%)	2015	2016	2017	2018
Profitability				
NIM	2.67	2.76	2.14	2.32
IEA yield	6.76	7.46	7.19	7.18
Funding cost	4.08	4.73	5.16	5.05
CIR	60.7	60.4	57.6	65.2
ROE decomposition (as % avg total assets)				
NII	2.38	2.43	1.92	2.12
Provisions	-1.00	-0.86	-0.43	-0.48
Post-provision NII	1.37	1.57	1.48	1.64
Non-Interest inc.	0.28	0.51	0.83	0.82
Operating exp.	-1.61	-1.78	-1.59	-1.92
Taxes & MI	-0.01	-0.06	-0.14	-0.11
ROAA	0.03	0.24	0.59	0.44
Equity Mult. (x)	10.5	9.5	10.0	10.4
ROAE	0.3	2.3	5.9	4.5

Source: Company data, VCSC

VCSC Rating System

Stock ratings are set based on projected total shareholder return (TSR), defined as (target price – current price)/current price + dividend yield, and are not related to market performance.

Equity rating key	Definition
BUY	If the projected TSR is 20% or higher
OUTPERFORM	If the projected TSR is between 10% and 20%
MARKET PERFORM	If the projected TSR is between -10% and 10%
UNDERPERFORM	If the projected TSR is between -10% and -20%
SELL	If the projected TSR is -20% or lower
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED, COVERAGE TERMINATED	A rating may be suspended, or coverage terminated, if fundamental information is deemed insufficient to determine a target price or investment rating or due to a reallocation of research resources. Any previous investment rating and target price are no longer in effect.

Unless otherwise specified, these performance parameters are set with a 12-month horizon. Movement in share prices may cause a temporary mismatch between the latest published rating and projected TSR for a stock based on its market price and the latest published target price.

Target prices are generally based on the analyst's assessment of the stock's fair value over a 12-month horizon. However, the target price may differ from the analyst's fair value if the analyst believes that the market will not price the stock in line with assessed fair value over the specified time horizon.

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Contacts

Corporate

www.vcsc.com.vn

Head Office
Bitexco Financial Tower, 2 Hai Trieu Street
District 1, HCMC
+84 28 3914 3588

Hanoi Branch
109 Tran Hung Dao
Hoan Kiem District, Hanoi
+84 24 6262 6999

Transaction Office
10 Nguyen Hue Street
District 1, HCMC
+84 28 3914 3588

Transaction Office
236-238 Nguyen Cong Tru Street
District 1, HCMC
+84 28 3914 3588

Research

Research Team: +84 28 3914 3588
research@vcsc.com.vn

Alastair Macdonald, Head of Research, ext 105
alastair.macdonald@vcsc.com.vn

Banks and Securities
Long Ngo, Associate Director, ext 123
- Nghia Dien, Analyst, ext 138
- Anh Dinh, Analyst, ext 139
- Truc Ngo, Analyst, ext 116

Macro and Insurance
- Cameron Joyce, Manager, ext 163

Macro
- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

Consumer and Pharma
Phap Dang, Associate Director, ext 143
- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

Oil & Gas and Power
Duong Dinh, Senior Manager, ext 140
- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Duc Le, Analyst, ext 196

Real Estate, Construction and Materials
Hong Luu, Senior Manager, ext 120
- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

Industrials and Transportation
- Nam Hoang, Senior Analyst, ext 124
- Dang Thai, Analyst, ext 149

Retail Client Research
Duc Vu, Senior Manager, ext 363
- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Trung Nguyen, Analyst, ext 129

Institutional Sales and Brokerage

& Foreign Individuals
Dung Nguyen
+84 28 3914 3588 ext 136
dung.nguyen@vcsc.com.vn

Retail & Corporate Brokerage

Ho Chi Minh City
Quynh Chau
+84 28 3914 3588, ext 222
quynh.chau@vcsc.com.vn

Hanoi
Quang Nguyen
+84 24 6262 6999, ext 312
quang.nguyen@vcsc.com.vn