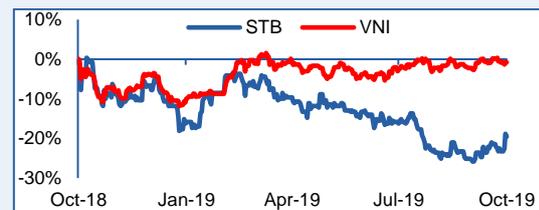


<b>Industry:</b>	<b>Banking</b>		<u>2018</u>	<u>9M 19</u>	<u>2019F</u>
<b>Report Date:</b>	<b>October 17, 2019</b>	PPOP y/y	66.3%	67.5%	40.9%
Current Price:	VND10,900	NPAT y/y	51.5%	106.4%	19.2%
Current Target Price:	VND17,600	NIM	2.66%	2.98%	2.73%
Upside:	61.5%	NPL	2.11%	2.00%	1.90%
Dividend yield:	0.0%	CIR	67.1%	61.6%	62.0%
TSR:	61.5%	Div/Sh (VND)	0	N/A	0
Rating:	BUY	P/B	0.8x	0.7x	0.7x



Market Cap:	USD855mn		<u>STB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room	USD96mn	P/E (ttm)	7.1x	8.6x	16.8x
ADTV30D	USD2.0mn	P/B (curr)	0.7x	1.5x	2.4x
State Ownership	0%	ROE (ttm)	11.1%	19.7%	14.6%
Outstanding Shares	1,804 mn	ROA (ttm)	0.7%	1.7%	2.5%
Fully Diluted Shares	1,804 mn				

**Company Overview**

STB was founded in 1991, IPO'ed in 1996 and listed in 2006. As of December 31, 2018, STB was the fourth largest among our ten coverage banks by total assets. In October 2015, STB merged with Southern Bank and the SBV took control of 51% of the voting rights from a group of shareholders deemed to have breached ownership caps.

**Q3 NIM at the highest level since 2015**

STB released consolidated results for 9M 2019 with bottom line net profit of VND1.9tn (USD82mn, +106.4% YoY), which achieved 90% our FY2019 forecast. Annualized 9M 2019 ROE and ROA stood at 10.3% and 0.6%, respectively. The results signal a high chance of significantly surpassing our 2019F net income given that loan growth is likely to exceed our forecast of 15.5%, although the wildcard drag may be fourth quarter provisioning. We see upside risk to our earnings forecasts, pending a fuller review.

- The net VAMC balance dropped 10.9% QoQ and 16.0% YTD to VND31.6tn/USD1.4bn (7% of total assets), which is a positive signal of the pace of asset recovery. However, receivables and accrued interest did not record significant movement on a quarterly basis.
- 9M 2019 loan growth was 13.2% YTD. Group 1 (current) loans tracked well with 16.1% YoY growth vs 14.6% YoY loan growth in 9M 2019. Together with an 18bp YoY increase in interest-earning asset (IEA) yield and NIM up 38bp YoY at 2.98%, this delivered strong growth in 9M 2019 NII of 34.1% YoY.
- Net fee income (NFI) growth, including FX, continued at a high level at 23.2% YoY with pure NFI growth at 21.1% YoY, despite its high base compared to peers,
- Net other income grew 176% YoY, mainly driven by interest related to late payment from previously foreclosed land disposals, in our view. We expect growth from this category will cool down in coming quarters as STB has stopped allowing late payment for 2019 disposals, per management. Total non-interest income (NOII) to TOI was 32% in 9M 2019.

**Q3 NIM surged 92 bps QoQ to 3.34%, mainly driven by a 93-bp QoQ lift in IEA yield.** 9M 2019 loan yield (calculated on Group 1 loans) stood at 9.7% vs 9.5% in H1 2019 and 9.3% in FY2018. An interbank balance surge in Q2 2019 put downward pressure on IEA yield and with over 60% retail loans in the bank's consolidated book (among the highest levels in our coverage universe), we previously viewed it is difficult to lift loan yield from the ~9.5% level. However, management disclosed that STB is testing expanding its unsecured lending book and that the bank is only working with existing clients on these products to carefully monitor NPL movements. We expect these new products contributed to the increase in loan yield in Q3. We also note that STB's LDR started to increase to 71% vs 69%/70% as of Q3 2018/Q2 2019, which positively contributed to NIM, in line with our expectation.

**Financial statements reflect a sizeable drop in VAMC balance, but receivables and accrued interest did not show significant movements.** VAMC/Net VAMC balance recorded drops of 9.2%/10.9% QoQ and 13.0%/16.0% YTD, respectively. The faster drop in the net balance indicates an increase in provisioning. However, receivables dropped only 0.9% QoQ and 9.9% YTD, we

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suspect due to the late payment scheme for STB's large Long An land disposal in 2018. Accrued interest dropped 3.1% QoQ and 11.0% YTD (**Figure 2**).

**NPL ratio maintained at 2.0% as at the end of Q3 2019; provisioning expensing capabilities to continue strengthening.** Group 2 (special mention) loans and NPLs grew 4.0% and 7.0% YTD, respectively, vs loan growth of 13.2% YTD. As discussed, STB plans to expand its unsecured lending book via cross-selling to existing clients to lift IEA yield. At this stage, we believe the NPL ratio is likely to remain under control at 2.0%. However, STB will have to monitor its unsecured lending book carefully going forward to contain NPLs. Provisioning continued to trend up in Q3 2019, which shows an improvement in STB's provisioning capability during its restructuring period. Annualized 9M 2019 provision expenses stood at 0.77% (vs 0.62% in FY2018). The loan loss reserve ratio continued trending up to 70.5% as of 9M 2019 (against 68.5% as of H1 2019 and 64.9% as of YE2018).

**Figure 1: STB's consolidated Q3 2019 results**

VND bn	9M 2019	9M 2018	Growth	Q3 2019	Q2 2019	Growth
NIM	2.98%	2.60%	38 bps	3.34%	2.42%	92 bps
Interest-earning asset yields	9.29%	9.11%	18 bps	9.65%	8.72%	93 bps
Cost of funds	5.39%	5.20%	19 bps	5.44%	5.35%	9 bps
CASA ratio*	16.1%	14.8%	1.3 ppts	16.1%	15.6%	0.5 ppts
CASA ratio plus term deposits in FX	19.1%	17.7%	1.4 ppts	19.1%	18.6%	0.5 ppts
NII	7,405	5,524	34.1%	2,925	2,022	44.6%
Non-NII	3,456	2,435	41.9%	1,094	1,278	-14.4%
Provision expenses	-1,684	-1,178	42.9%	-637	-616	3.4%
PPOP	4,175	2,493	67.5%	1,667	1,016	64.1%
Net profit	1,923	932	106.4%	772	307	151.3%
CIR	61.6%	68.7%	-7.1 ppts	58.5%	69.2%	-10.7 ppts
NPL	2.00%	3.18%	-118 bps	2.00%	2.04%	-4 bps
Loan growth	13.2%	13.7%	-0.5 ppts	4.0%	3.1%	0.9 ppts
Deposit growth	14.4%	11.7%	2.7 ppts	2.9%	2.9%	0 ppts

Source: STB, VCSC – \*CASA volume included demand deposits and margin deposits.

**Figure 2: Total estimated STB legacy debts**

VND bn	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
<b>Our estimated numbers based on financial statements</b>								
<b>Total legacy debts</b>	<b>100,357</b>	<b>96,708</b>	<b>93,904</b>	<b>91,540</b>	<b>89,976</b>	<b>86,223</b>	<b>84,040</b>	<b>79,417</b>
<b>Total ex net VAMC</b>	<b>59,039</b>	<b>55,561</b>	<b>53,773</b>	<b>52,664</b>	<b>52,312</b>	<b>49,352</b>	<b>48,524</b>	<b>47,789</b>
Receivables	23,892	22,183	20,861	20,639	23,730	21,154	21,562	21,369
Accrued int & recs	24,742	24,174	23,791	23,959	23,155	22,387	21,260	20,611
NPLs	10,405	9,204	9,121	8,066	5,427	5,811	5,703	5,809
VAMC	43,267	43,090	42,289	40,996	40,233	39,621	38,568	35,006
Provisions	(1,949)	(1,944)	(2,158)	(2,120)	(2,569)	(2,750)	(3,052)	(3,378)
<b>Net VAMC</b>	<b>41,317</b>	<b>41,146</b>	<b>40,131</b>	<b>38,876</b>	<b>37,665</b>	<b>36,871</b>	<b>35,516</b>	<b>31,628</b>
<b>Total Assets</b>	<b>368,469</b>	<b>381,252</b>	<b>400,686</b>	<b>403,602</b>	<b>406,041</b>	<b>425,033</b>	<b>439,170</b>	<b>450,200</b>
Legacy debts as % of assets	27.2%	25.4%	23.4%	22.7%	22.2%	20.3%	19.1%	17.6%
<b>Reported numbers</b>								
<b>Total legacy debts</b>					<b>74,300</b>		<b>63,300</b>	
Legacy debts as % of assets					18.3%		14.4%	

Source: STB, VCSC – The difference between estimated numbers based on financial statements and reported numbers is because many collateral sales have payment periods with a pre-determined penalty structure, but VAS rules will not recognize this loan resolution until full payment is received. Interest on late payments is classified as "other income".

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**Stock ratings** are set based on projected total shareholder return (TSR), defined as  $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$ , 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.
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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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