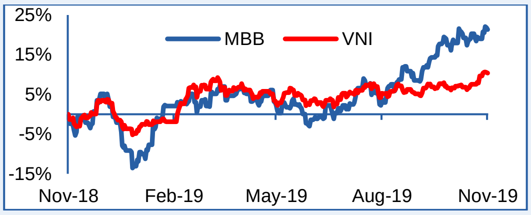
Military Commercial Joint Stock Bank (MBB) [BUY +47.8%]

Update Report

Industry:	**Banking**
Report Date:	**November 11, 2019**
Current Price:	VND23,450
Current Target Price:	VND34,000
Previous Target Price*:	VND32,000
Upside to TP:	+45.0%
Dividend Yield:	2.8%
TSR:	+47.8%

	2018	2019F	2020F	2021F
PPOP y/y	37.3%	31.6%	15.6%	16.6%
NPAT y/y	77.3%	24.3%	18.7%	18.0%
EPS y/y	72.4%	23.8%	2.8%	18.2%
NIM	4.54%	4.72%	4.73%	4.85%
NPL	1.32%	1.40%	1.50%	1.60%
CIR	44.7%	41.0%	40.5%	41.0%
P/B**	1.7x	1.4x	1.1x	0.9x
P/E	8.8x	7.1x	6.0x	5.1x



Market Cap:	USD2.3bn
Foreign Room:	USD0
ADTV30D:	USD4.5mn
State Ownership:	0%
Outstanding Shares:	2.326 bn
Fully Diluted Shares:	2.514 bn

	MBB	Peers	VNI
P/E (ttm)	7.2x	7.8x	16.6x
P/B (curr)	1.4x	1.5x	2.4x
ROE	22.4%	21.3%	14.8%
ROA	2.0%	1.7%	2.5%

** Adjusted to recent stock dividend*

Company Overview

Founded in 1994, MBB is the sixth largest bank among our ten coverage banks as calculated by total assets as of December 31, 2018. The bank had its IPO in 2004 and has listed shares since November 2011.

*** Factored in a capital raising plan for early 2020*

Outlook remains strong; expect capital raising in early 2020

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- We reiterate a BUY rating and lift our TP by 6.3% as a result of rolling our valuation date forward to YE2020, which is partly offset by a 1.1% trim in our aggregate net income during 2019F-2021F.
- We raise our 2019F net income by 0.3% to VND7.7tn (USD330mn, +24.3% YoY) as our 6.3% pre-provision operating profit (PPOP) upward revision is offset by a 21.7% lift in provision charges.
- We trim 2020F net income by 0.8% to VND9.1tn (USD392mn, +18.7% YoY), primarily due to our lift in provision charges from the expansion of the consumer finance arm, MCredit.
- We continue to maintain 2019F loan growth at 15% as we expect the corporate bond book build-up will fill the 17% credit growth quota. Interest-earning asset (IEA) yield continues to climb due to increases in retail loans (including MCredit) and the portion of corporate bonds in total IEAs; however, we see risk rising from a corporate bond build-up, most likely from the real estate sector.
- Our 2020F of pre-money ROE is 22% vs a peer median of 19%. We find MBB in line with its peer valuation while being attractive at a 2020F P/B of 1.2x.
- Downside risks: (1) capital raising does not materialize as expected (see **page 7** for more details), (2) cost of funds rising to above ~4.5% levels and (3) execution risk at MCredit that could lead to a spike in credit costs. We maintain our forecast that MCredit's contribution to the consolidated loan book will stay below 5% during our forecast period.

Traditional retail lending has headroom to deliver a 20% CAGR during 2018-2021F. MBB exhibited a clear direction of a pivot toward the retail segment with a 34% CAGR on the gross balance of traditional retail loans during 2015-2018. As of 9M 2019, retail lending (excluding MCredit) stood at 37% of the consolidated book (vs our 2019F at 38%), still lower than levels seen at retail-focused banks like TCB (48%), ACB (57%) and STB (61%). Therefore, we maintain our view that MBB will lift its retail lending portion to 41% by YE2021.

MCredit and corporate bond position to act as supportive tools to push up IEA yield. We saw a build-up of the corporate bond book in 9M 2019 as the balance grew 74% YTD to VND14.8tn/ USD637mn. Interest income from investments in debt securities increased 42.9% YoY with yield expanding to 6.5% in 9M 2019 (vs 5.2% in FY2018). The surge in the corporate bond balance will continue to have a positive impact on 2020F IEA yield, in our view. In addition, with 5.2% market share (2018) and a 3.1% contribution to the consolidated book (9M 2019), MCredit is now also making a positive yet marginal difference to the IEA yield as the majority of MCredit's book is cash loans.

Containing credit costs and cost of funds are key for 2020F post-provision NII. As discussed in our previous report, MCredit to start pushing up consolidated yields, dated August 9, 2019, we believe MCredit's loan growth will start slowing as we project a 33% loan CAGR at MCredit during 2018-2021F (contributing 4.0% to the consolidated book by YE2021) to contain credit costs. On the funding side, we anticipate valuable papers growth will slow in 2020 as we project (1) a slow-down in MCredit's loan growth and (2) a USD244mn private placement in Q1 2020 that will ease Tier II capital needs.

9M 2019 recap: Strong growth delivered off high 2018 base

Figure 1: MBB's 9M 2019 results

	9M 2018	9M 2019	YoY	VCSC comments
Net interest income	10,430	13,111	25.7%	- The retail lending portion of the overall loan book continued to rise to 40.2% as of the end of Q3 2019, up from 37.7% at the beginning of 2019 and 39.2% as of H1 2019, positively contributing to IEA yield. - MCredit is in its growth phase and now large enough to make a marginal difference to loan yields. Our estimate of MCredit's loan book at quarter-end is VND7.5tn/USD322mn (+38.2% YTD), contributing 3.1% to the consolidated book. 9M 2019 NII contributed 73% to TOI.
Net fee income*	1,990	2,785	39.9%	- The fee income stream continued to post strong growth rates with pure net fee income (NFI) growth at 37.0% YoY in 9M 2019. Net fees from banking services recorded 20% YoY growth, which contributed 24% to pure NFI. Insurance services growth remained strong (+46% YoY) and delivered a 54% contribution to pure NFI.
Total NOII	3,394	4,846	42.8%	
Total operating income (TOI)	13,823	17,957	29.9%	
OPEX	(5,518)	(6,665)	20.8%	
PPOP	8,306	11,293	36.0%	
Provision expenses	(2,291)	(3,676)	60.5%	- Annualized 9M 2019 write-offs to gross loans of the parent/consolidated bank stood at 1.18%/1.72% vs 9M 2018 at 0.65%/0.66%. The write-off rate of the consolidated bank was still contained against H1 2019 (which hit an annualized rate of 2.23%), in our view. We also believe MCredit can comfortably operate at this level of credit costs. We see that loan growth at MCredit slowed in Q3 to 4.9% QoQ, which was in line with our expectation. - Consolidated 9M 2019 provision expenses to gross loans stood at 2.04% (vs 1.49% in 9M 2018) with the loan loss reserve ration standing at 103%. Income from the recovery of written-off debts recorded 65% YoY growth with the annualized recovery level to gross loans standing at 0.81% (numerator and denominator are 9M numbers).
Net profit	4,801	6,142	27.9%	
NIM	4.46%	4.84%	38 bps	- Given the rise in cost of funds as stated below, MBB still has room to continue to pivot towards retail lending in order to maintain its current level of NIM, in our view.
Interest-earning asset yields	7.76%	8.48%	72 bps	
Cost of funds	3.61%	4.04%	43 bps	- While the bank's CASA ratio remained at the high-end in our coverage universe, MBB also saw a 43-bp YoY and 14-bp QoQ rise in its cost of funds. While funding costs maintained at the ~4% level as of 9M 2019, we believe that they will continue to rise in coming quarters as MBB plans to issue subordinated debts in Q4 2019.
CASA ratio**	41.3%	33.5%	-7.8 ppts	
Term deposits in FX (%)	1.8%	2.0%	0.2 ppts	
CIR	39.9%	37.1%	-2.8 ppts	
NPL	1.57%	1.54%	-3 bps	
Loan growth (YTD)	11.2%	11.9%	0.7 ppts	
Deposit growth (YTD)	5.7%	5.9%	0.2 ppts	

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

2019 outlook: Bottom line growth to remain solid; finalization of capital raising could slide into Q1 2020

Figure 2: VCSC's 2019 forecasts

	2018	2019F Old	2019F New	2019F New vs 2018	VCSC comments on 2019 forecasts
Net interest income	14,583	17,305	17,408	19.4%	- We lift our 2019 NII forecast by 0.6%, mainly due to our upward revision in IEA yield from 8.05% to 8.29%. - We maintain our retail lending portion at 41% of the consolidated loan book with 37.7% from traditional retail lending and 3.3% from consumer finance. The lift in IEA yield is mainly due to the lift in yield of investment in debt securities as MBB is building its corporate bond position.
Net fee income*	3,008	4,077	4,077	35.5%	
Total NOII	4,955	6,039	6,702	35.2%	- We lift our 2019 total non-interest income (NOII) forecast by 11.0% as we revise upward income from recovery of written-off debts to 0.63% of gross loans vs previously at 0.41% as 9M performance surpassed our FY2019 forecast.
TOI	19,539	23,345	24,110	23.4%	
OPEX	(8,734)	(9,968)	(9,885)	13.2%	- We revise down our 2019F OPEX by 0.8% as MBB showed signs of bringing down CIR. Our revised 2019F CIR is 41% vs 9M 2019 at 37% as we continue to believe Q4 CIR will rise due to staff costs and bonuses.
PPOP	10,805	13,376	14,225	31.6%	
Provision expenses	(3,038)	(3,756)	(4,571)	50.5%	- We revise up our 2019F provision expenses by 21.7% with 2019F provision expenses to gross loans standing at 1.85%, mainly because of our assumption of higher write offs contains the NPL ratio.
Net profit	6,190	7,667	7,693	24.3%	- The lift in PPOP offsets the upward revision in provision expenses. Our 2019F net income increases by 0.3%.
NIM	4.54%	4.65%	4.72%	18 bps	
Interest-earning asset yields	7.72%	8.05%	8.29%	57 bps	
Cost of funds	3.48%	3.76%	3.92%	44 bps	
CASA ratio**	42.1%	34.0%	34.0%	-8.1 ppts	
CIR	44.7%	42.7%	41.0%	-3.7 ppts	
NPL	1.32%	1.40%	1.40%	8 bps	
Gross loans	214,686	246,889	246,889	15.0%	- We maintain our 2019F loan growth at 15% and believe the corporate bond build-up will fill the 17% credit growth quota in 2019. 9M 2019 loan growth and credit growth stood at 11.9% and 14.3%, respectively.
Customer deposits	239,964	268,760	263,961	10.0%	
Valuable papers	11,158	20,668	25,000	124.1%	
Total assets	362,361	415,566	410,235	13.2%	
Total equity	32,643	43,052	38,190	17.0%	- We revise our assumption for new capital raising from Q4 2019 to Q1 2020.
ROE	20.4%	20.3%	21.7%	1.3 ppts	
ROA	1.8%	2.0%	2.0%	0.2 ppts	
Regulated LDR	73.5%	74.5%	74.5%	1.0 ppts	

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

VIET CAPITAL SECURITIES

2020F: MCredit and corporate bonds are tailwinds for IEA yield to increase

Figure 3: VCSC's 2020 forecasts

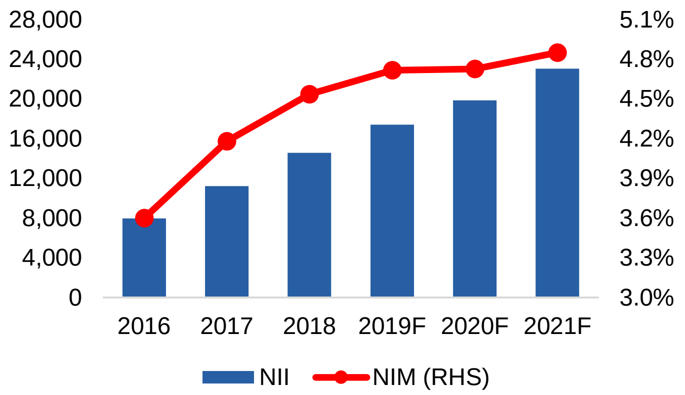
	2019F New	2020F Old	2020F New	2020F New to 2019F	VCSC comments on 2020 forecasts
Net interest income	17,408	19,987	19,872	14.2%	- We revise down our 2020F NII by 0.6%, mainly because we believe the cost of funds will continue to rise in 2020, offsetting the lift in IEA yield assumption. - We maintain our 2020F traditional retail lending/ consumer finance portion at 39.3%/3.7%. - We expect costs of funds will continue to rise as (1) we believe that it is challenging to build back CASA ratio to ~40% levels as in 2018 and (2) as MBB has planned to issue subordinated debts in Q4 2019 while the bank will continue to increase its valuable papers issuance for MCredit's funding base in 2020, in our view.
Net fee income*	4,077	5,046	5,046	23.8%	
Total NOII	6,702	7,399	7,758	15.8%	- 4.8% lift in total NOII is mainly due to an upward revision in income from our recovery of written-off debts assumption. - With our higher write-off assumption (leading to a 16.4% lift in 2020F provision expenses) we believe MBB can maintain 2019's high base of recovery income in 2020 (+1.2% YoY).
TOI	24,110	27,386	27,630	14.6%	
OPEX	(9,885)	(11,557)	(11,190)	13.2%	- We trim our 2020F OPEX by 3.2% as MBB is showing positive signs of bringing down CIR.
PPOP	14,225	15,829	16,440	15.6%	
Provision expenses	(4,571)	(4,278)	(4,981)	9.0%	
Net profit	7,693	9,205	9,131	18.7%	- 2020 bottom line forecast slightly decreases by 0.8% as the 0.9% lift in TOI and 3.2% trim in OPEX do not fully offset the lift in provisions.
NIM	4.72%	4.68%	4.73%	1 bps	
Interest-earning asset yields	8.29%	8.17%	8.40%	11 bps	
Cost of funds	3.92%	3.90%	4.05%	13 bps	
CASA ratio**	34.0%	34.5%	34.5%	0.5 ppts	
CIR	41.0%	42.2%	40.5%	-0.5 ppts	
NPL	1.40%	1.50%	1.50%	10 bps	
Gross loans	246,889	281,453	281,453	14.0%	- We project a 14% loan CAGR during 2018-2021F with traditional retail lending/consumer finance at 20%/33% during the period. - We expect consumer finance's growth momentum will slow to contain credit costs. We forecast MCredit's contribution to the consolidated loan book to be 4.0% as of YE2021.
Customer deposits	263,961	303,699	298,276	13.0%	
Valuable papers	25,000	23,768	27,499	10.0%	
Total assets	410,235	471,285	470,219	14.6%	
Total equity	38,190	50,504	51,130	33.9%	- We expect the capital raising will close in Q1 2020, of which our assumption of total proceeds is VND5.7tn/USD244mn.
ROE	21.7%	19.7%	20.4%	-1.3 ppts	
ROA	2.0%	2.1%	2.1%	0.1 ppts	
Regulated LDR	74.5%	74.7%	74.9%	0.4 ppts	

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

VIET CAPITAL SECURITIES

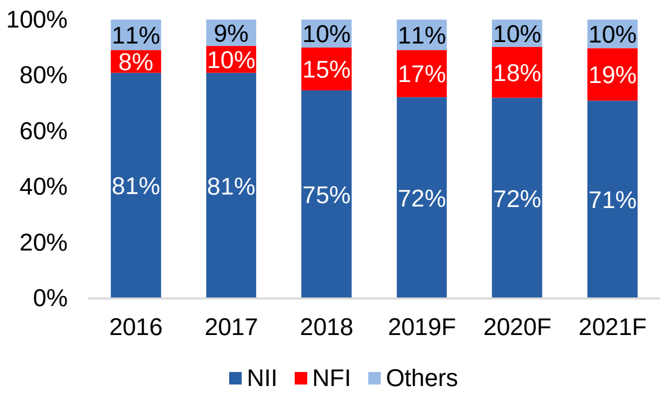
Key figures of MBB

Figure 4: NIM (%) and NII (VND bn) (2016-2021F)



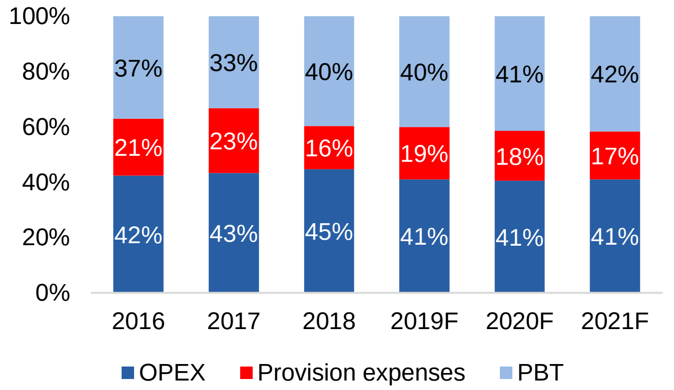
Source: MBB, VCSC

Figure 5: TOI components (2016-2021F)



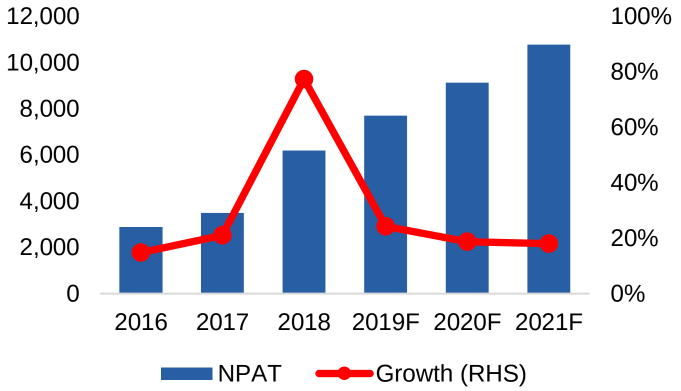
Source: MBB, VCSC

Figure 6: OPEX, provision expenses and PBT as % of TOI (2016-2021F)



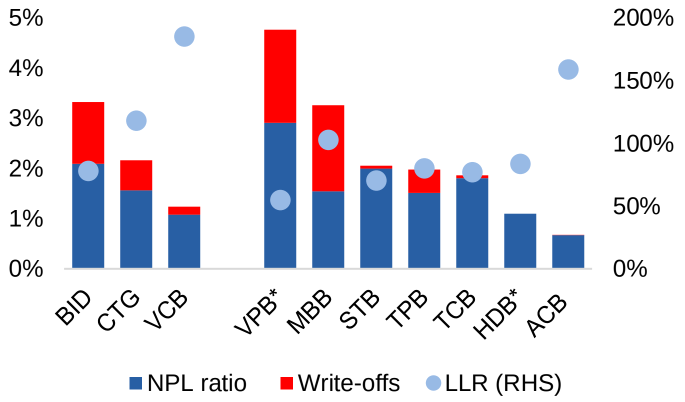
Source: MBB, VCSC

Figure 7: NPAT (VND bn) and growth (%) (2016-2021F)



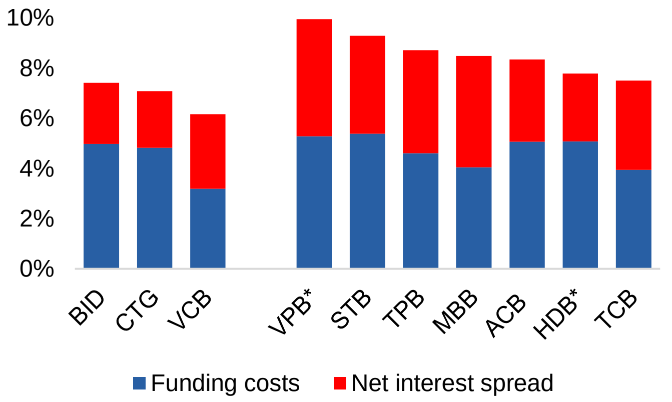
Source: MBB, VCSC

Figure 8: NPL ratio, annualized write-offs over gross loans and LLR of banks under coverage (9M 2019)**



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

Figure 9: Annualized interest-earning asset yields of banks under coverage (9M 2019)



Source: Company data, VCSC - * standalone bank only

Equity placement estimates

We revise our equity placement estimates from 161.9 million placement shares to 188.6 million shares (consisting of 141.5 million new shares in addition to the 47.1 million treasury shares that MBB bought in Q1 2019, which is equivalent to 7.5% post-placement shares) vs an approved plan of 258.4 million shares. We estimate a total outstanding share count of 2,514 million after the equity placement. MBB's current FOL remains at 20% and its BOD has committed to open more foreign room for the deal. MBB is in midst of executing this placement and we suspect the closure of the deal will slide into Q1 2020 due to it nearly being the end of 2019.

Key assumptions:

- We revert to an assumption of a private placement structure where new primary shares will be subject to one-year lock-up whereas treasury shares will have no lock-up. Therefore, pricing of the placement will implicitly incorporate this lock-up structure.
- We forecast 2020F pre-money book value at VND45.4tn/USD1.9bn.
- We assume an offering price of VND30,200 per share, implying a 1.49x 2020F post-money P/B. Our estimated proceeds of the placement are VND5.7tn/USD244mn. Our offering price assumption is similar to that stated in a Bloomberg article dated November 8, 2019, of which the expected total proceeds were ~USD240mn.

Figure 10: Estimation on equity placement

Equity Placement	VND bn	USD mn
Number of shares pre-placement (million)	2,326	
Placement shares (million)	188.6	
Number of shares post-placement (million)	2,514	
Offering price (VND per share)	**30,200**	
Pre-money equity value	70,236	3,014
Pre-money 2020F book value	45,435	1,950
Pre-money 2020F P/B	**1.55x**	
Total proceeds	**5,695**	**244**
Post-money 2020F book value	51,130	2,194
Post-money equity value	75,930	3,259
Post-money 2020F P/B	**1.49x**	

Source: VCSC estimates

Valuation

We utilize two valuation methodologies in estimating our target price, assigning equal weighting for the residual income method and target P/B multiple. We roll our valuation date forward to YE2020. Our target price is VND34,000/share.

Figure 11: Cost of equity

Cost of equity	Revised	Previous report
Risk free rate	4.5%	4.8%
Beta	1.0	1.0
Market risk premium	8.7%	8.4%
Cost of equity	13.2%	13.2%

Source: VCSC

Figure 12: Valuation summary

Method	Fair value	Weighting	Contribution
Residual income (post-money)	89,361 (USD3.84bn)	50%	44,681
Target post-money P/B @ 1.6x 2020F	81,808 (USD3.51bn)	50%	40,904
Composite valuation			**85,584 (USD3.67bn)**
Number of shares post-placement (bn)			2.514
Target price (VND)			**34,000**
Upside			45.0%
Dividend yield			2.8%
TSR			47.8%
2020F P/B at TP (post-money)			1.67x
2020F P/B at TP (pre-money)			1.74x
RATING			**BUY**

Source: VCSC, units are in VND bn unless otherwise stated

Figure 13: Post-money valuation - Residual income model

Residual income	2020F	2021F	2022F	2023F	2024F
ROE (Beginning period equity)	23.9%	21.1%	20.8%	20.2%	19.7%
COE	13.2%	13.2%	13.2%	13.2%	13.2%
Economic Margin	10.7%	7.9%	7.6%	7.0%	6.5%
Equity value (Beginning period)	38,190	51,130	59,643	69,508	80,629
Residual income (RI)	4,090	4,026	4,507	4,837	5,244
PV of residual income	3,613	3,142	3,107	2,946	2,821
Sum PV of RI			15,630		
PV of terminal value (7% intermediate growth rate for 10 years and 3% perpetual growth)			35,542		
Beginning EV (2019F)			38,190		
Fair equity value			**89,361**		
Number of shares outstanding (bn)			2.514		
Fair value per share (VND)			**35,542**		

Source: VCSC, units are in VND bn unless otherwise stated

We factor in a capital raising assumption of 7.5% post placement in early 2020 and maintain our intermediate growth rate for 10 years after the explicit forecast period at 7.0% with our assumption of a perpetual growth rate of 3%. Though we maintain our conservative view on the consumer finance sector, we project MCredit's contribution to the consolidated loan book will stay below 5% during our explicit forecast period (trending up from 3.1% as of the end of Q3 2019 to 4.4% by YE2024F).

Comparable peers

MBB has been closing the valuation gap to its peers during the course of 2019 while its stock price has increased 33.5% YTD as of November 8, 2019. MBB is still trading at a discount of 3.5% to the peer median 2019F P/B at 1.44x (**Figure 14**). Our observation suggests that MBB traded at an average discount of 17.9% to the peer median trailing P/B in the past twelve months.

As of 9M 2019, MBB continued to deliver premium return metrics with TTM ROE of 22.4% (vs 20.4% in 2018) and ROA of 2.0% (vs 1.8% in 2018) against a domestic peer median TTM ROE and ROA of 21.3% and 1.7%, respectively, during the same period. The bank still has headroom to continue lifting its IEA yield via (1) lifting its retail lending portion, (2) expanding the loan book of its consumer finance arm (MCredit) and (3) building up its corporate bonds position. On the fee side, its life insurance division (MB Ageas) recently reached the break-even point in H1 2019, which is a promising contributor to its fee stream.

We forecast a net income CAGR of 16% during 2019F-2024F with a sustainable ROE of 19% (post-placement and under a well-capitalized condition). We also project that MBB will maintain its precedent of paying a cash dividend during the explicit forecast period. With strong fundamentals and sound growth outlook, we believe the current valuation is still compelling and MBB deserves a premium valuation to the peer median. We put the bank at a pre-money 2020F target P/B of 1.7x (or 1.6x post-money 2020F P/B).

Figure 14: 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	1.78	8.09	6.75	6.23	1.92	1.49	1.22	25.9%	25.1%	21.9%	1.73%	15.67	0.73%
BID VN	7.17	25.31	26.74	17.71	2.74	2.15	1.98	13.5%	13.1%	14.3%	0.54%	24.07	1.90%
CTG VN	3.60	15.41	12.87	11.43	1.24	1.15	1.03	8.5%	10.8%	12.1%	0.51%	17.26	1.58%
VCB VN	14.61	25.50	20.66	16.14	5.29	4.18	3.34	27.1%	24.3%	24.4%	1.80%	17.27	0.98%
VPB VN	2.29	7.31	7.18	6.00	1.56	1.31	1.08	22.7%	19.9%	20.0%	2.51%	9.30	3.50%
STB VN	0.85	13.97	9.49	8.21	0.80	0.69	0.63	11.1%	8.1%	8.6%	0.65%	16.48	2.13%
HDB VN	1.25	10.22	10.18	9.27	1.86	1.60	1.61	19.1%	18.6%	19.0%	1.40%	12.84	1.53%
TCB VN	3.79	9.32	9.28	7.86	1.70	1.43	1.21	17.2%	16.7%	16.7%	2.74%	6.20	1.75%
TPB VN	0.80	10.21	7.44	5.73	1.80	1.45	1.16	22.1%	21.8%	22.6%	1.74%	12.82	1.12%
Median		**10.21**	**9.38**	**8.04**	**1.75**	**1.44**	**1.20**	**20.5%**	**19.2%**	**19.5%**	**1.73%**	**14.25**	**1.56%**
MBB VN	**2.35**	**8.93**	**7.39**	**6.35**	**1.67**	**1.39**	**1.20**	**21.8%**	**20.9%**	**20.9%**	**1.98%**	**10.60**	**1.33%**

Source: Bloomberg as of November 8, 2019

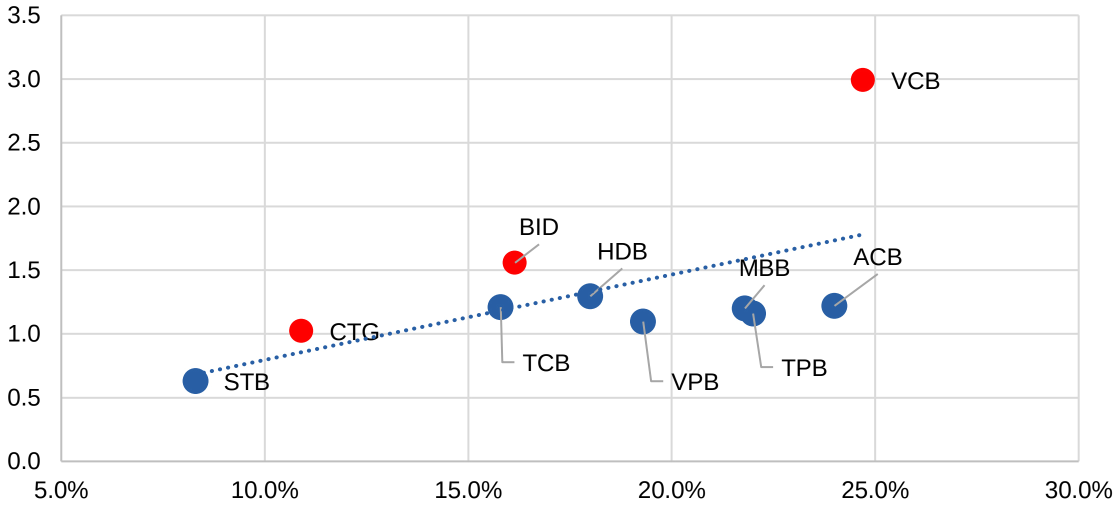
Figure 15: Sensitivity analysis of our pre-money 2020F P/B for MBB in relation to ROE (taking out new capital injection from 2020F equity) derived from the Gordon Growth Model and terminal growth rate, ceteris paribus.

		2020F ROE				
		17.8%	**19.8%**	**21.8%**	**23.8%**	**25.8%**
Terminal growth (g)	**1.5%**	1.40	1.57	1.74	1.91	2.08
	2.0%	1.41	1.59	1.77	1.95	2.13
	2.5%	1.43	1.62	1.81	1.99	2.18
	3.0%	1.45	1.65	**1.85**	2.04	2.24
	3.5%	1.48	1.68	1.89	2.10	2.30
	4.0%	1.50	1.72	1.94	2.16	2.37

Source: VCSC

The above sensitivity matrix illustrates a fair value P/B multiple for MBB at 1.85x using the Gordon Growth Model (GGM) with ROE of 21.8% (our 2020F taking out new capital injection assumption), cost of equity at 13.2% (**Figure 11**) and a terminal growth assumption of 3%. The P/B multiple derived from GGM is 6.1% higher than our 2020F projected pre-money P/B multiple of 1.74x at a TP of VND34,000/share (**Figure 12**) because our projected P/B reflects the negative impact of lower leverage, which is only partly offset by a boost to net income.

Figure 16: Vietnam banks P/B (y-axis) and ROE (x-axis) (2020F)



Source: VCSC - Red dots signify SOCB banks, excluding capital raising assumption at MBB.

Potential downside risks to our positive view: MBB may fail to execute on its high-yield business model (MCredit) due to a failure in risk management and growth strategies, which could lead to a spike in credit costs and/or cost of funds. Other risks include the failure to continue growing its retail franchise/digital banking or a macro-driven banking crisis that leads to a new cycle of NPLs.

History of recommendations

Figure 17: Historical VCSC target price vs share price (VND, adjusted for all share issues)

Source: Bloomber, VCSC

Financial Statements

P&L (VND bn)	2018	2019F	2020F	2021F
Interest inc.	24,824	30,578	35,325	40,613
Interest exp.	(10,241)	(13,170)	(15,453)	(17,555)
Net interest inc.	**14,583**	**17,408**	**19,872**	**23,058**
Fee & commission inc.	2,564	3,499	4,381	5,367
Other non-interest inc.	2,392	3,203	3,377	4,061
Total non-interest inc.	4,955	6,702	7,758	9,428
Total operating inc.	**19,539**	**24,110**	**27,630**	**32,486**
Non-interest exp.	(8,734)	(9,885)	(11,190)	(13,319)
Other G&A exp.	-	-	-	-
Total operating exp.	(8,734)	(9,885)	(11,190)	(13,319)
PPOP	**10,805**	**14,225**	**16,440**	**19,167**
Provision exp.	(3,038)	(4,571)	(4,981)	(5,645)
Other inc./exp.	-	-	-	-
Pre-tax profit	**7,767**	**9,654**	**11,458**	**13,522**
Taxes	(1,577)	(1,961)	(2,327)	(2,746)
Net profit	**6,190**	**7,693**	**9,131**	**10,776**
Minorities/pref divs	(77)	(77)	(77)	(77)
Attributable net profit	**6,113**	**7,616**	**9,054**	**10,698**
Wt avg shares (mn)*	2,160	2,174	2,514	2,514
EPS (VND)	2,829	3,503	3,601	4,255
DPS (VND)	600	650	750	900

BS (VND bn)	2018	2019F	2020F	2021F
Cash & equivalents	1,737	2,161	2,433	2,704
Balances with SBV	10,548	12,152	13,832	15,619
Due from FIs	45,062	49,568	52,046	54,648
ST investments	70,889	80,925	96,919	111,326
Net customer loans	211,475	243,428	277,232	312,947
HTM	3,522	3,261	3,169	3,080
Long term investments	497	510	525	541
Property & equipment	2,730	2,832	2,938	3,048
Other assets	15,901	15,399	21,125	17,015
Total assets	**362,361**	**410,235**	**470,219**	**520,929**
	-	-	-	-
Borrowings from SBV	2,633	2,633	2,633	2,633
IB deposits & borrowings	60,471	65,529	76,235	76,235
Other borrowed funds	320	320	320	320
Customer deposits	239,964	263,961	298,276	337,051
Other financial int.	42	-	-	-
Valuable papers	11,158	25,000	27,499	31,349
Other liabilities	13,601	12,921	12,275	11,661
Shareholders' equity	32,643	38,190	51,130	59,643
MI	1,530	1,683	1,851	2,036
Liabilities & equity	**362,361**	**410,235**	**470,219**	**520,929**

RATIOS (%)	2018	2019F	2020F	2021F
Growth				
Loan growth	16.6	15.0	14.0	13.0
Deposit growth	9.0	10.0	13.0	13.0
TOI growth	40.9	23.4	14.6	17.6
PPOP growth	37.3	31.6	15.6	16.6
NPAT growth	77.3	24.3	18.7	18.0
Asset quality				
Group 2 / loans	1.71	1.90	2.00	2.20
NPL ratio	1.32	1.40	1.50	1.60
LLR	113.2	100.1	100.0	100.1
Provision exp. / loans	1.41	1.85	1.77	1.77
Liquidity				
CAR under Basel I	11.0	11.3	12.7	13.0
Regulated LDR	73.5	74.5	74.9	76.3

RATIOS (%)	2018	2019F	2020F	2021F
Profitability				
NIM	4.54	4.72	4.73	4.85
Int-earning asset yields	7.72	8.29	8.40	8.54
Funding costs	3.48	3.92	4.05	4.12
CIR	44.7	41.0	40.5	41.0
ROE decomposition (as % of avg total assets)				
NII	4.31	4.51	4.51	4.65
Provisions	-0.90	-1.18	-1.13	-1.14
Post-provision NII	3.41	3.32	3.38	3.51
Non-Interest inc.	1.47	1.73	1.76	1.90
Operating exp.	-2.58	-2.56	-2.54	-2.69
Taxes & MI	-0.47	-0.51	-0.53	-0.55
ROAA	1.83	1.99	2.07	2.17
Equity Mult. (x)	11.1	10.9	9.9	8.9
ROAE	20.4	21.7	20.4	19.5

Source: Company data, VCSC - *Our YE2019F total share outstanding is 2,326mn. The 2019F weighted average share is adjusted for a buyback in February 2019, recent 8% stock dividend and 2% ESOP. At this stage, we effectively assume the 7.5% private placement to happen right at the start of Q1 2020.

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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%
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