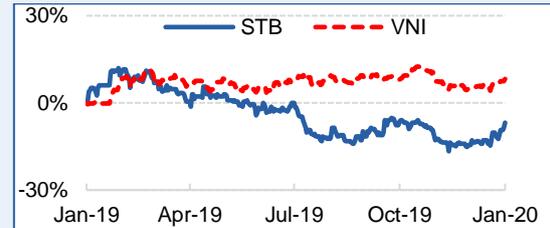


Industry:	Banking		2018A	2019F
Report Date:	January 21, 2020	PPOP y/y	66.3%	39.8%
Current Price:	VND10,900	NPAT y/y	51.5%	37.1%
Last Target Price:	VND17,800	EPS y/y	70.0%	44.3%
Upside to TP:	63.3%	NIM	2.68%	2.74%
Dividend Yield:	0.0%	NPLs/loans	2.1%	1.9%
TSR:	63.3%	CIR	67.1%	63.3%
		P/B	0.8x	0.7x
		P/E	11.0x	8.0x



Market Cap:	USD855mn		<u>STB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room:	USD103mn	P/E (ttm)	8.0x	7.5x	16.2x
ADTV30D:	USD2.2mn	P/B (curr)	0.7x	1.4x	2.4x
State Ownership:	0.0%	ROE	9.6%	21.0%	14.8%
Outstanding Shares:	1.804bn	ROA	0.6%	1.7%	2.4%
Fully Diluted Shares:	1.804bn				

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 voting rights from a group of shareholders deemed to have breached ownership caps

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Reversal of accrued interest most likely knocked Q4 NIM

STB released unaudited results for FY2019 with a bottom line of VND2.4tn (USD107mn, +37.1% YoY), surpassing our full-year forecast by 6.2% despite a lower-than-expected 2019 NIM of 2.74%. This earnings growth was mainly driven by (1) 27.5% YoY NFI growth and (2) a surge by VND534bn (or +56.2% YoY) in the other income category. The lack of a specific breakdown for the other income line restrains us from giving a detailed comment; however, we believe it mainly derives from deferred interest related to the Can Duoc land bank sale and inflow from bad debt handling.

- 2019 NII grew by 20.3% to VND9.2tn and NII in Q4 alone reached VND1.8tn (-39.3% QoQ, -15.9% YoY). While 9M 2019 NIM stood at 2.98%, NIM for full-year 2019 was only 2.74% due to a relatively low interest-earning asset yield (IEA) of 8.18% in Q4.
- 2019 gross loan growth and deposit growth were at 15.4% and 14.8%, respectively.
- Net fee income (NFI), including FX, accelerated by 27.5% YoY in 2019 with pure NFI growing 23.9% YoY. Total non-interest income (NOII) to TOI was 37.3%, which was slightly higher than the level of 35.0% reported in FY2018 and H1 2019.
- 2019 CIR significantly dropped to 63.3% from 67.1% last year.
- 2019 ROAA stood at 0.6%, up 28 ppts YoY; 2019 ROAE stood at 9.6%, up 24 ppts YoY.

Fee income continued to reach a new high. As one of the first banks to sign an exclusive bancassurance agreement with a life insurer, STB's 23.9% NFI growth during 2019 demonstrates its distribution capabilities – led by its large brick-and-mortar network – for life insurance products. Specifically, STB reported VND3.2tn in pure NFI for 2019, in which Q4 alone contributed VND1.2tn and was up 59.5% QoQ and 29.3% YoY.

Non-performing assets saw improvements in almost all aspects. As of 2019, the NPL ratio was reported to reach 1.9%, fulfilling the target set out at STB's 2019 AGM. VAMC gross and net balances were both in line with our full-year forecast at VND35tn (-3.9% QoQ, -16.4% YoY) and VND29.7tn (-6.1% QoQ, -21.1% YoY), respectively. Receivables inched up by 4.2% QoQ; however, they decreased by 6.6% YoY to VND22.2tn. Accrued interest continued to trend favorably to VND19.5tn, decreasing by 5.2% QoQ and 15.6% YoY.

NIM dropped significantly in Q4, tarnishing the achievement of the last three quarters. Despite a slight drop to 2.42% in Q2, NIM was above 3% for the other two quarters in the first nine months of 2019. In Q4 2019, STB's NIM experienced a sudden drop of 137 bps QoQ to 1.97% (-80 bps YoY). The lower-than-expected NIM in our judgement must be caused by a reversal of interest income from previous quarters and also exacerbated by a QoQ increase in interbank balance. Without taking into account the interest income reversal, IEA dropped to 8.18% in Q4 2019 vs a 9.65% in Q3 2019. The audited statement will be released later and will reveal whether this view is correct or not.

Provisioning expenses continued to strengthen. 2019 provision expenses to gross loans stood at 0.72% (vs 0.62% in FY2018), building STB's loan loss reserve ratio to 69.3% as of 2019 (vs 64.9% as of YE2018).

Figure 1: STB's consolidated Q2 2019 results

VND bn	2019	2018	YoY	Q4 2019	Q4 2018	YoY
NIM	2.74%	2.68%	6 bps	1.97%	2.77%	-80 bps
Asset yield	9.09%	9.23%	-14 bps	8.18%	9.13%	-95 bps
Cost of funds	5.47%	5.31%	16 bps	5.42%	5.27%	15 bps
CASA ratio*	17.0%	15.1%	190 bps	17.0%	15.1%	193 bps
NII	9,181	7,634	20.3%	1,776	2,110	-15.9%
Non-interest income	5,455	4,043	34.9%	1,999	1,608	24.3%
Provision expenses	-2,153	-1,592	35.2%	-469	-414	13.4%
PPOP	5,370	3,839	39.9%	1,195	1,346	-11.2%
Net profit	2,455	1,790	37.1%	532	858	-38.1%
CIR	63.3%	67.1%	-3.8 ppts	68.3%	63.8%	4.5 ppts
NPL	1.9%	2.1%	-0.2 ppts	1.9%	2.1%	-0.2 ppts
Loan growth**	15.4%	15.1%	0.3 ppts	1.9%	1.3%	0.6 ppts
Deposit growth**	14.8%	9.2%	5.6 ppts	0.4%	-2.2%	

Source: STB, VCSC – *CASA volume included demand deposits and margin deposits. **2019 and 2018 loan and deposit are YoY growth, whereas Q4 2019 and Q4 2018 loan and deposit are QoQ growth.

Figure 2: Total estimated STB non-performing assets

VND bn	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Our estimated numbers based on financial statements								
Total non-performing assets	96,708	93,904	91,540	89,976	86,223	84,040	79,417	77,242
Total ex net VAMC	55,561	53,773	52,664	52,312	49,352	48,524	47,789	47,531
Receivables	22,183	20,861	20,639	23,730	21,154	21,562	21,369	22,259
Accrued int & recs	24,174	23,791	23,959	23,155	22,387	21,260	20,611	19,539
NPLs	9,204	9,121	8,066	5,427	5,811	5,703	5,809	5,733
VAMC	43,090	42,289	40,996	40,233	39,621	38,568	35,006	33,647
Provisions	(1,944)	(2,158)	(2,120)	(2,569)	(2,750)	(3,052)	(3,378)	(3,936)
Net VAMC	41,146	40,131	38,876	37,665	36,871	35,516	31,628	29,711
Total Assets	381,252	400,686	403,602	406,041	425,033	439,170	450,200	453,581
Non-performing assets as % of total assets	25.4%	23.4%	22.7%	22.2%	20.3%	19.1%	17.6%	17.0%

Source: STB, VCSC

VCSC Rating System

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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