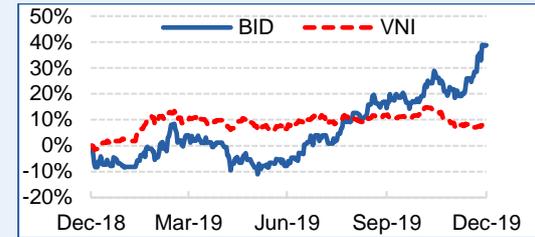


Industry:	Banking		<u>2018</u>	<u>2019</u>
Report Date:	January 30, 2020	PPOP y/y	20.6%	8.9%
Current Price:	55,500	NPAT y/y	8.6%	15.3%
Current Target Price:	33,000	NIM	2.87%	2.64%
Upside	-40.5%	NPL	1.90%	1.74%
Dividend Yield:	1.3%	CIR	36.2%	35.9%
TSR	-39.3%	P/E	25.8x	26.8x
Rating:	UNDER PERFORM	P/B	3.7x	2.9x



Market Cap:	USD9.6bn		<u>BID</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room:	USD69.2mn	P/E (ttm)	26.8x	7.5x	16.2x
ADTV30D:	USD2.2mn	P/B (curr)	2.9x	1.4x	2.4x
State Ownership:	81.0%	ROE (ttm)	12.8%	21.0%	14.8%
Outstanding Shares:	4.022bn	ROA (ttm)	0.6%	1.7%	2.4%
Fully Diluted Shares:	4.022bn				

Company overview

Founded in 1957, BID is the largest bank among our ten coverage banks as calculated by total assets as of December 31, 2019. BID has one of the top three largest bank networks in Vietnam. The bank had its IPO in 2011 and has listed shares since January 24, 2014.

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Burden from resolving bad debts drags on earnings

BID released results for FY 2019 with NPAT-MI of VND8.5tn (USD364mn, +15.3% YoY), completing 99% of our full-year 2019 forecast. FY 2019 ROA and ROE stood at 0.6% and 12.8%, respectively. All QoQ figures below are Q4 2019 vs Q3 2019 comparisons unless stated otherwise.

NIM dropped by 23 bps YoY (-17 bps QoQ) to 2.64% in 2019. The decrease in FY 2019 NIM was caused by a 37-bp YoY (+1 bps QoQ) increase in the cost of funds, accompanied by a modest growth of three bps YoY (+13 bps QoQ) in interest-earning asset yields (IEA). Pressure from cost of funds in 2019 came from the bank's decision to increase its valuable paper balance by 57.0% to USD2.7bn in order to support its long-term funding as well as maintaining the minimum CAR level. Additionally, a 44-bp shrinkage YoY to 20.0% in CASA (plus term deposits in USD) ratio compounded the generally difficult funding story.

Robust performance of fees and recovery income supported Noll. Net fee income including FX jumped 25.9% YoY to VND5.8tn (USD248mn) and contributed 47.5% to Noll. Recovery income grew 43.0% YoY to VND5.5tn (USD234mn) and contributed 44.8% to Noll. Overall, Noll constituted 25.3% of total operating income in 2019 (vs 21.4% in 2018).

Provision expenses inched up by 5.9% YoY, consuming 64.7% of pre-provisioning operating profits (PPOP). NPL ratio registered at 1.74% at the year end, declining from 1.90% at the end of 2018 and 2.09% from Q3 2019. Full-year write-offs over gross loans came in at 1.43% vs 1.66% in FY 2018. Loan loss reserve (LLR) increased to 74.2% of NPLs from 66.0% in FY 2018. There is no breakdown of VAMC bonds outstanding, but we observed a 22.1% YoY decline in the balance of HTM securities that we think is a result of a drop in the VAMC special bonds balance. However, BID trailed our forecast for resolving all VAMC special bonds within 2019.

Q4 2019 CIR rebounded back to normal level of 47.1% (vs 30.4% in Q3 2019), resulting in FY 2019 CIR to reach 35.9%. FY 2019 operating expenses (OPEX) increased by 7.2% YoY (+86.6% QoQ), of which staff expenses increased by 10.2% YoY (132.9% QoQ) to VND9.8tn (USD420mn) with a headcount increase of 419 employees in 2019 (+90 staff in Q4 2019). Staff expenses accounted for 57% of OPEX.

Figure 1: BID's FY 2019 results

VND bn	FY 2019	FY 2018	Y-o-Y	Q4 2019	Q3 2019	Q-o-Q
NIM	2.64%	2.87%	-23 bps	2.70%	2.53%	17 bps
Asset yield	7.43%	7.41%	3 bps	7.49%	7.36%	13 bps
Cost of funds	5.05%	4.69%	37 bps	5.45%	5.44%	1 bps
CASA ratio*	17.1%	17.1%	-1 bps	17.1%	15.3%	182 bps
CASA ratio plus term deposits in FX*	20.0%	20.4%	-44 bps	20.0%	18.0%	200 bps
NII	35,995	34,956	3.0%	9,597	8,715	10.1%
Noll	12,171	9,527	27.7%	4,310	2,844	51.5%
PPOP	30,885	28,366	8.9%	7,355	8,047	-8.6%
Provision expenses	(20,009)	(18,894)	5.9%	(3,507)	(5,792)	-39.4%
NPAT-MI	8,487	7,358	15.3%	2,990	1,759	70.0%
CIR	35.9%	36.2%	-35%	47.1%	30.4%	16.73 ppts
NPL	1.74%	1.90%	-16%	1.74%	2.09%	-35 bps
Loan growth	12.96%	14.06%	-109%	4.04%	0.80%	325 bps
Deposit growth	12.59%	15.08%	-249%	2.71%	2.36%	35 bps

Source: BID, VCSC; (*) CASA calculation consists of demand, margin and specific purposes deposits.

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.
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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