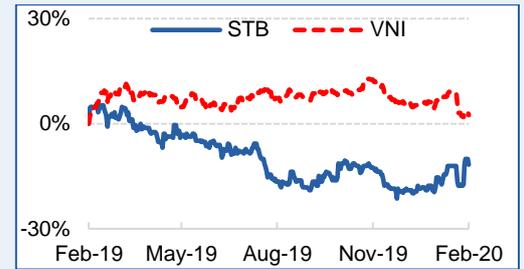


Industry:	Banking		2019A	2020F	2021F	2022F
Report Date:	February 12, 2020	PPOP y/y	39.8%	30.1%	27.9%	24.5%
Current Price:	VND11,550	NPAT y/y	37.1%	35.3%	25.1%	24.6%
Current Target Price:	VND17,150	EPS y/y	43.5%	34.9%	25.1%	24.6%
Last Target Price:	VND17,800	NIM	2.74%	3.07%	3.27%	3.44%
Upside to TP:	48.8%	NPL	1.94%	1.80%	1.70%	1.70%
Dividend Yield:	0.0%	CIR	63.3%	61.0%	59.0%	57.0%
TSR:	48.8%	P/B	0.8x	0.7x	0.6x	0.5x
		P/E	8.5x	6.3x	5.0x	4.0x



			STB	Peers	VNI
Market Cap:	USD890mn		8.5x	7.6x	16.4x
Foreign Room:	USD108mn	P/E (ttm)	0.8x	1.4x	2.2x
ADTV30D:	USD4.8mn	P/B (curr)	9.6%	21.5%	13.5%
State Ownership:	0.0%	ROE	0.6%	1.7%	2.2%
Outstanding Shares:	1.804bn	ROA			
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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Eyes turn to coming AGM for refresh on Phong Phu case

- We reiterate a BUY rating for STB but trim our target price (TP) by 3.7% to VND17,150, mainly due to lower valuations produced by market capitalization to loan and deposit methodologies. The market capitalization to loan and deposit approach accounts for 50% of our TP computation and its calculation depends on ACB and MBB's share price (as of February 7, 2020).
- We lower our 2020/21/22 net income forecasts by 3.7%/3.4%/2.6%, primarily due to a 40-bps average decline in our assumptions for interest-earning asset (IEA) yields that was partly offset by an increase by ~10% in net fee income and net other income.
- We anticipate that NIM in 2020/21/22 will reach 3.07%/3.27%/3.44%, driven by an increase weighting of performing assets following our positive view on the progress of legacy asset clearance.
- We retain our assumptions that the Phong Phu land bank will be cleared in 2020, the outstanding principal from Can Duoc land bank sale will be received in 2021 and all VAMC net balance will be cleared and provisioned by the end of 2022. We await April's AGM to confirm with the Chairman regarding the validity of these assumptions.
- Our 2020F ROE and ROA are 11.6% and 0.69% vs a peer median of 20.8% and 1.61%, respectively.
- Main risk: deterioration of the economy that stalls STB's efforts to shed its legacy assets. At present, we believe the coronavirus issue is immaterial for STB.

NIM and NFI trending up to boost earnings. 2019 NIM trailed our forecast by 33 bps, which was mainly due to a sudden drop in Q4 2019 NIM to 1.97% (-137 bps QoQ, -80 bps YoY). In our judgement, this decline was caused by a reversal of interest income. For 2020 onward, we expect to see STB's NIM increasing by an average of 20 bps per year — dependent on the fulfilment of our assumption of bad debt resolution. We foresee NFI to continue strong growth – at a CAGR of 18.3% over the next three years – backed by its large brick-and-mortar network and its high retail lending portion of more than 60%.

Trading volume spikes post-Tet, driven by increased domestic investor interest. Calculated to February 11, 2020, average daily trading volume reached 9.9 million shares post-Tet relative to 3.3 million shares in the six months before (see **Figure 10**). We think this increased trading volume will eventually pressure other brokers to actively cover STB and improve investor education regarding STB.

Pre-AGM STB guidance on legacy debt clearance for 2020F is VND12tn to VND15tn, regardless of clearing Phong Phu, but we think success in clearing Phong Phu should spike this figure. In our opinion, obtaining accurate insight into big item issues (such as Phong Phu and resolution of the Can Duoc land bank) is only available once a year at the AGM when the Chairman directly chairs the Q&A section. We are currently modeling for Phong Phu clearance by year-end 2020; however, we will adjust accordingly following the answers provided at the upcoming AGM.

2019 recap: Earnings surpass our forecast despite lower-than-expect NIM

Figure 1: STB's 2019 results

VND bn	2018	2019	YoY	% of VCSC 2019F	VCSC comments
Net interest income (NII)	7,634	9,181	20.3%	89.9%	* Q4 NII plunged to a yearly low at only VND1.8tn (-39.3% QoQ, -15.9% YoY) due to Q4's low NIM of 1.97% (-137 bps QoQ, -80 bps YoY). We suspect that lower-than-expect NIM could likely result from the reversal of accrued interest in Q4, which is reflected through Q4's low IEA yield of 8.18% (-147 bps QoQ, -95 bps YoY). 2019 NIM overall accelerated by 5.8 bps to 2.74% despite a 14-bp drop in IEA yield and a 16-bp increase in cost of funds owing to high loan growth of 15.4%, which drove 2019 NII to surge by 20.3% YoY.
Net fee income (NFI) (includes FX)	3,083	3,932	27.5%	108.4%	* NFI continued to deliver strong performance of VND3.9tn (USD171mn) thanks to 51.7% growth in FX trading. As of 2019, FX trading was recorded at VND609bn (USD26mn). * Pure NFI alone stood at VND3.3tn (USD144mn), up 23.9% YoY, which was much higher than 2018's growth of 2.2%.
Total Non-interest income (Noll)	4,043	5,455	34.9%	127.2%	* Total Noll to TOI jumped to 37.1% vs 34.6% in 2018 mainly due to high growth NFI and the other income category. 2019 net other income was reported at VND1.4tn (+56.2% YoY). 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.
OPEX	(7,838)	(9,266)	18.2%	103.0%	
Pre-provision operating profits (PPOP)	3,839	5,370	39.9%	97.4%	
Provision expenses	(1,592)	(2,153)	35.2%	82.1%	
NPAT-MI	1,790	2,455	37.1%	106.2%	
Net-interest margin (NIM)*	2.68%	2.74%	5.8 bps		
Interest-earning asset yields (IEA)*	9.23%	9.09%	-14.1 bps		
Cost of funds (COF)*	5.31%	5.47%	16.0 bps		
CASA**	15.1%	17.0%	1.9 ppts		
Cost to income ratio (CIR)	67.1%	63.3%	-3.8 ppts		* CIR continued to be well-managed, decreasing by 3.8 ppts to 63.3% from 67.1% last year.
Non-performing loans (NPLs)	2.1%	1.9%	-0.2 ppts		
Loan growth (YTD)	15.1%	15.4%	0.3 ppts		
Deposit growth (YTD)	9.2%	14.8%	5.6 ppts		

Source: STB; VCSC; (*) NIM, IAE, COF are calculated with 2018-2019 average denominators; (**) CASA consists of demand, specific purposes and margin deposits.

2020 outlook: Phong Phu clearance to lead the results

Figure 2: VCSC's 2020 forecast

VND bn	2019	2020F New	2020F Old	2020F New vs 2019	VCSC comments
NII	9,181	12,239	13,310	33.3%	* We trim our 2020F NII by 8.8.% as we decelerate our NIM forecast to 3.07% while maintaining 2020F loan growth at 15%.
NFI (include FX)	3,932	4,693	4,444	19.3%	* We revised up our 2020F NFI by 5.6% to VND4.7tn (USD204mn) as we believe STB's NFI still has more room to grow given the strong distribution capabilities of STB.
Total Noll	5,455	5,668	5,179	3.9%	
TOI	14,635	17,907	18,489	22.4%	
OPEX	(9,266)	(10,923)	(11,278)	17.9%	
PPOP	5,370	6,984	7,211	30.1%	
Provision expenses	(2,153)	(2,833)	(2,899)	31.6%	
NPAT-MI	2,455	3,321	3,449	35.3%	
NIM	2.74%	3.07%	3.39%	33 bps	* We trim our 2020F NIM by 32 bps as we lower our assumption for IEA yield and COF by 41 bps and 14 bps, respectively. The lowering down in the above metrics was resulted from Decision 2415/QD-NHNN, which reduced the cap for deposit rates lower than six months and in turn will lower the loan interest rate, in our view. The lower IEA yield projection was also due to our expectation that interbank balance will increase when Phong Phu is cleared in 2020, per our assumption, given that credit growth quota for STB remains at 15%.
IEA yield	9.09%	9.18%	9.59%	8.4 bps	
COF	5.47%	5.40%	5.54%	-6.8 bps	
CASA*	17.0%	17.3%	15.9%	22 bps	
CIR	63.3%	61.0%	61.0%	-2.3 ppts	* We retain our assumption for CIR at 61%.
NPL	1.94%	1.80%	1.90%	-14 bps	
Gross loans	296,030	340,434	339,384	15.0%	* Although STB has complied with the Basel II since January 1, 2020, and there is scope for the SBV to expand its credit quota, we forecast a relatively undemanding rate of 15% for 2020F.
Customer deposits	400,844	452,954	449,836	13.0%	* We maintain our forecast for deposit growth at 13% given that the funding burden is relieved upon (1) the realization of the Phong Phu land bank sale in 2020, per our assumption, and (2) the enactment of Circular 22/2019/TT-NHNN in 2020 that lifts LDR limit at private banks to 85%.
Valuable papers	9,490	10,439	12,583	10.0%	
Total assets	453,581	511,955	508,239	12.9%	
ROAE	9.6%	11.6%	12.0%	2.0 ppts	
ROAA	0.57%	0.69%	0.70%	0.1 ppts	
Regulated LDR	72.3%	73.6%	73.4%	1.3 ppts	

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

Figure 3: NIM and NII (VND tn) (2017-2022F)

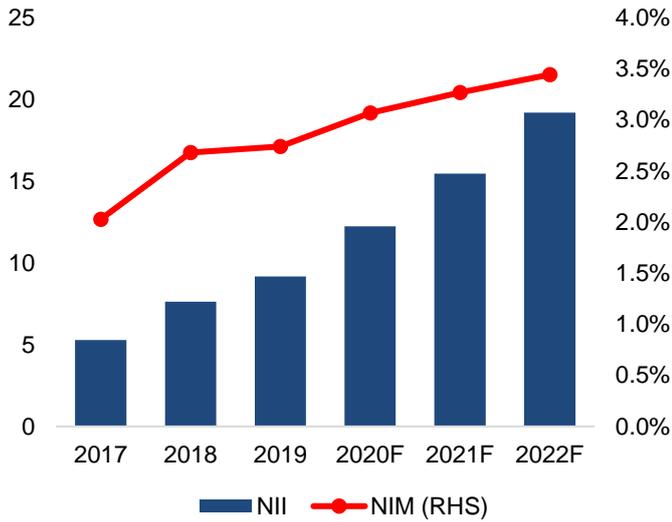
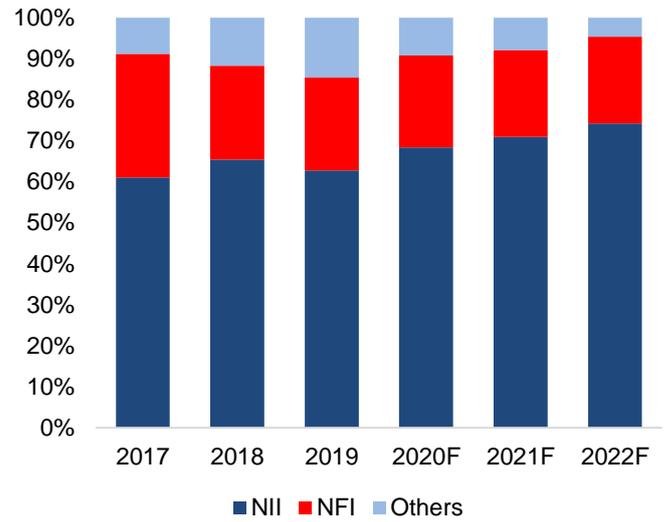


Figure 4: TOI components (2017-2022F)



Source: STB, VCSC

Figure 5: OPEX, provision expenses and PBT as % of TOI (2017-2022F)

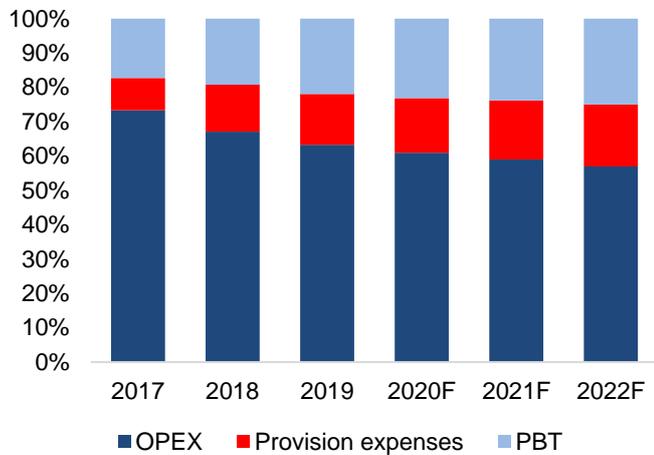
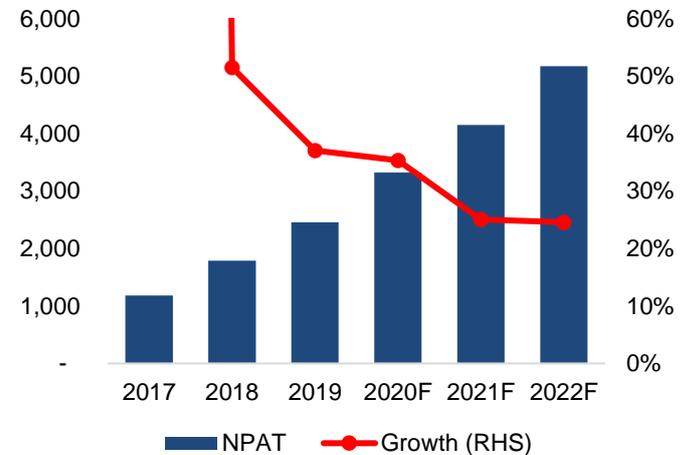


Figure 6: NPAT (VND bn) and growth (2017-2022F)



Source: STB, VCSC

Figure 7: NPL ratio, annualized write-offs over gross loans and LLR of banks under coverage (2019)**

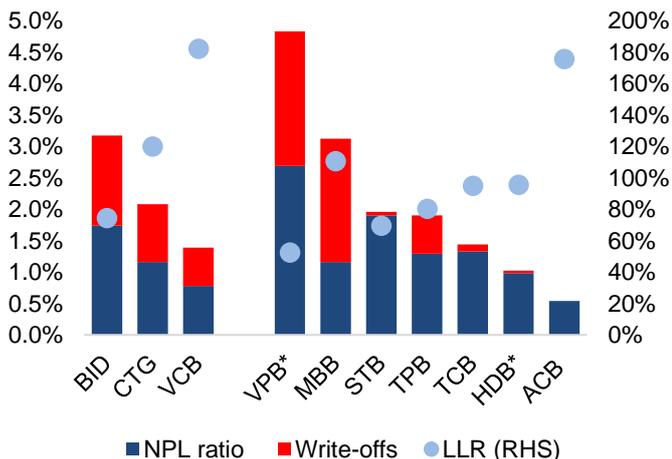
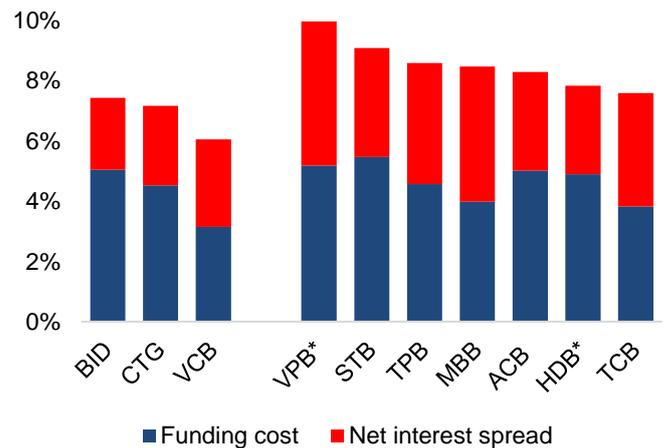


Figure 8: Annualized interest-earning asset yields of banks under coverage (2019)



Source: Company data; (*) Parent bank only; (**) LLR is percentage of total provisions over group 3-5 loans.

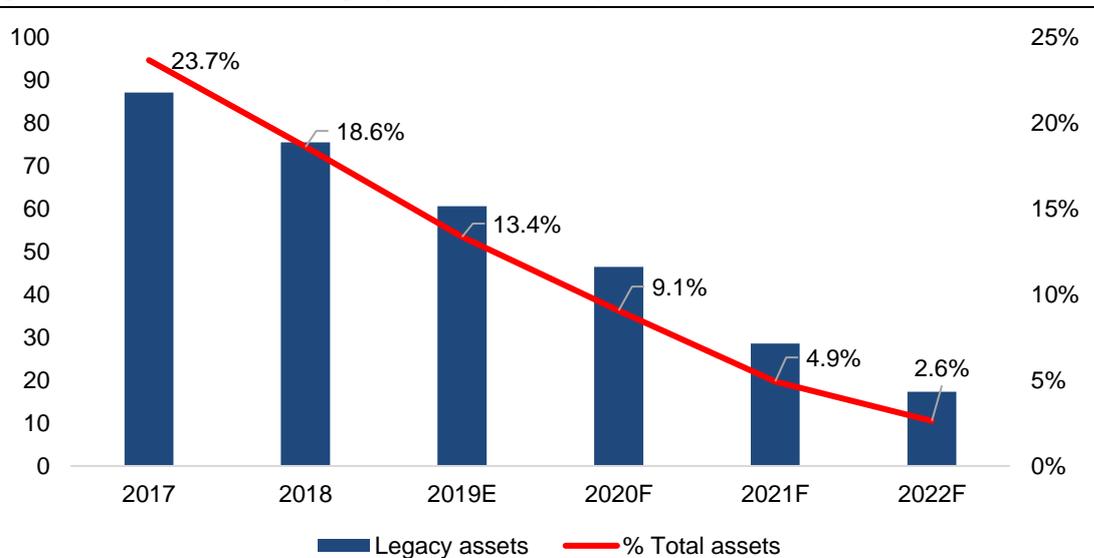
Progress of bad debt handling saw positive improvements. After the merger between STB and Phuong Nam Southern Bank in 2015, STB reported to have nearly VND97.6tn of non-performing assets sitting on its balance sheet – equivalent to approximately 30% of the total assets at year-end 2016 – setting bad debt handling as the most important task for STB. Over the past three years, STB reported to have cleared nearly VND35tn of legacy assets, implying an amount of ~VND11tn of bad debt being handled annually. Per our estimation, STB cleared ~VND14tn of legacy assets in 2019, bringing down the total amount of legacy assets to VND60.6tn. In our view, if STB could solve legal barriers related to the sale of the Phong Phu land bank by the end of 2020, receive full principal related to the Long An disposal, land sold in 2017, by the end of 2021 as well as clear all of the VAMC outstanding by the end of 2022, then STB’s legacy assets could drop to VND17tn by the end of 2022.

Figure 9: STB’s total legacy assets estimated vs reported

VND bn	FY2017	FY2018
Receivable	18,202	16,522
Interest and fees receivable	20,077	17,996
Loss loans (classified within Group 5 loans)	7,613	3,383
HTM-VAMC	41,317	37,665
Total legacy assets estimated	87,210	75,565
Total legacy assets reported by STB	87,327	74,305
Differences	-0.1%	1.7%

Source: VCSC, STB; “Legacy” here is defined to refer to assets that were part of the consolidated financial statements following the merger between STB and Southern Bank. In order to calculate legacy assets precisely, we need to look into the numbers stated in the footnote, which only appear in the audited financial statements. Therefore, the upcoming audited financial statement year-end 2020 will allow us to supplement the table above with the 2019 column.

Figure 10: Total estimated legacy assets (VND tn)



Source: VCSC, STB

As of February 2019, STB has listed nearly VND10.3tn (USD449mn)¹ of land and properties on its website. According to our aggregation, in Q4 2019, STB launched four new properties located in Ho Chi Minh City with the total amount of VND761bn (USD33.1mn). These properties lift the value of listings located in HCMC to VND8.9tn (USD385mn), accounting for nearly 86% of total listed liquidation assets (92% by value if you include the Phong Phu asset). The remainder of VND449bn (USD19.5mn) and VND400bn (USD17.4mn) of real estate properties are in Binh Duong and Hai Phong Provinces, respectively; both of which accounted for 8.2% of total liquidated assets (see Figure 11)

Figure 11: List of land/properties that STB is offering across Vietnam in 2020 (excluding Phong Phu)

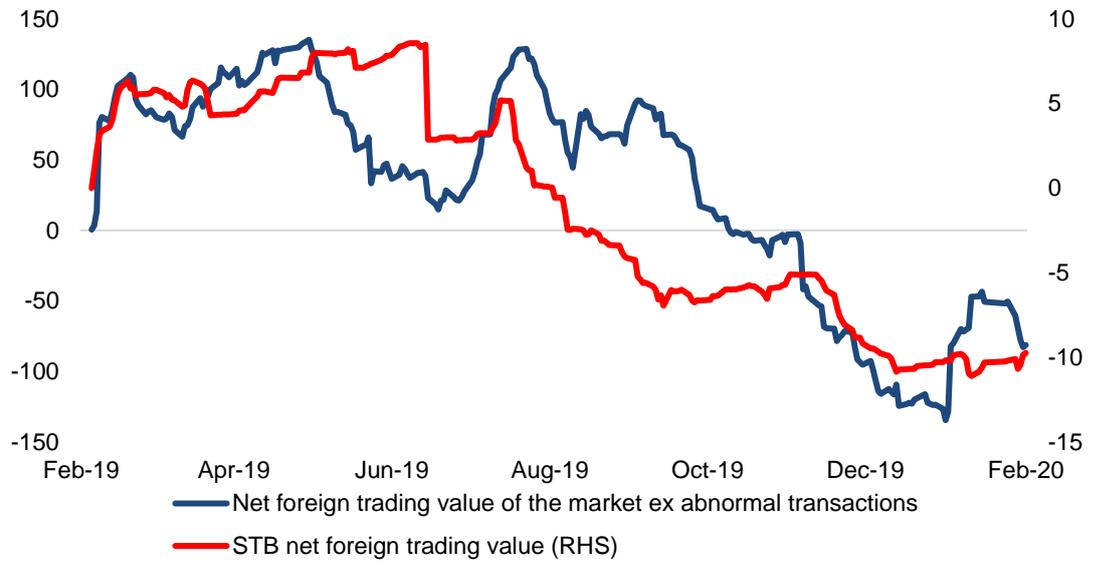
Province/City	Total estimated price (VND bn/USD mn)
HCMC	8,857/385.1
Hanoi	28/1.23
An Giang	15/0.67
Binh Duong	449/19.5
Binh Phuoc	6/0.26
Binh Thuan	1/0.03
Ba Ria - Vung Tau	156/6.78
Can Tho	133/5.76
Dak Nong	6/0.28
Dong Thap	17/0.74
Dong Nai	7/0.30
Gia Lai	42/1.83
Hai Phong	400/17.4
Hai Duong	0/0
Khanh Hoa	79/3.42
Soc Trang	1/0.04
Tien Giang	64/2.76
Thanh Hoa	1/0.06
Tra Vinh	3/0.14
Hau Giang	41/1.76
Kien Giang	15/0.65
Total	10,321/448.7

Source: Company data, VCSC, last update: February 7, 2020

¹ Phong Phu has been removed from STB's website; however, including Phong Phu would lift the total to VND17.9tn or USD779mn.

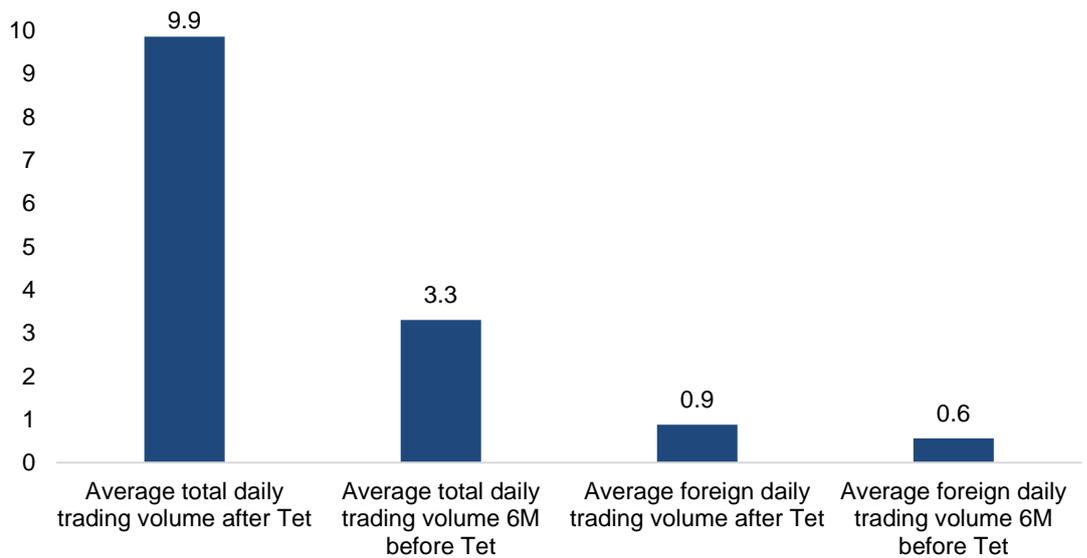
Cumulative net foreign trade activity in STB has started to plateau since the beginning of 2020. In the last two months of 2019, foreign investors engaged in prolonged net selling of the broader market and STB. Moving into the new year, cumulative net foreign trade value of the broader market saw modest net buying; meanwhile, STB saw cumulative foreign trading activity plateau.

Figure 12: 12M cumulative net foreign trading value (USD mn)



Source: Bloomberg and Fiinpro as of February 7, 2020; cumulative data set excludes the abnormal transaction of VinCommerce’s sale to SK Group in May 2019.

Figure 13: STB’s trading volume (million shares)



Source: Fiinpro as of February 11, 2020.

Valuation

We utilize three valuation methods to reach our estimated target price for year-end 2020, including (1) the residual income method with 50% weighting, (2) market cap to loans approach with 25% weighting and (3) market cap to deposits approach with 25% weighting. In our previous report, we utilize the residual income model with two scenarios: (1) STB's loan growth remains constant at 15% for the explicit forecast period (our **base case**); and (2) STB's loan growth maintains at 15% for the years that VAMC has not been cleared and at 20% for the two remaining years of the five-year explicit forecast period (our **upper case**). However, since STB has complied with Basel II from January 1, 2020, we believe that STB is likely receive approval from the SBV to expand its credit quota after VAMC clearance. In this report, we therefore assume that STB's loan growth will gradually increase and will reach 20% by 2025. We maintain our assumption for a haircut of 40% on our estimated 2019 legacy asset number of VND62.3tn in all three methodologies and maintain the following assumptions for the residual income model:

- STB will solve legal barriers related to the sale of the Phong Phu land bank by the end of 2020.
- STB will receive full principal related to the Long An disposal, land sold in 2017, by the end of 2021.
- STB will account for collateral sales by directly deducting from its VAMC balance, lowering its VAMC provisioning burden.
- STB will clear all of its VAMC net balance by the end of 2022 using the specific provision balance.
- STB will issue 15% new primary equity at VND16,000 per share in 2023 after clearing all its VAMC net balance.

In this update, we trim our target price by 3.7% as:

- The **market cap to loans** and **market cap to deposit approach** produce a lower valuation as ACB's stock price has been trending down over the past three months; meanwhile, the two methods apply **the lower** of the implied market cap per gross loans ratio between ACB and MBB and **the lower** of the implied market cap per customer deposits ratio between ACB and MBB. Both cases use the ratio of ACB.

Figure 14: Valuation summary*

	Fair value	Weighting	Contribution
Number of outstanding shares (billion)			1.804
Residual income	19,631	50%	9,815
Market cap to loans approach	12,635	25%	3,159
Market cap to deposits approach	16,857	25%	4,214
Target Price (TP)			17,150
Current Price			11,550
Upside to TP (%)			48.8
Dividend yield (%)			0.0
TSR (%)			48.8
2020F P/B at TP			1.01
Rating			BUY

Source: VCSC; (*) values in VND per share unless otherwise stated

Residual income model

Figure 15: Cost of equity

10-year Government bond (%)	4.5
Beta	1.0
Market risk premium (%)	8.7
COE (%)	13.2

Source: VCSC

Figure 16: Residual income model

	2020F	2021F	2022F	2023F	2024F	2025F
ROE (Beginning period)	9.6%	11.6%	12.7%	13.8%	18.1%	18.5%
COE	13.2%	13.2%	13.2%	13.2%	13.2%	13.2%
Economic margin	-3.6%	-1.6%	-0.5%	0.6%	4.9%	5.3%
Equity value (Beginning period)	26,742	30,748	34,900	40,073	53,001	63,817
Residual income (RI)	(975)	(507)	(192)	240	2,574	3,394
PV of RI	-	(448)	(150)	165	1,567	1,826
Sum PV of RI						2,961.81
PV of Terminal value (3% g)						29,320
Beginning EV						26,742
PV of RI						59,024
Assumes haircut to total legacy (%)						40%
Fair equity value						35,414
Current outstanding shares (billion)						1.804
Fair value per share (VND)						19,631

Source: VCSC; values in VND bn unless otherwise stated

Market capital to loans and market capital to deposits approach

Figure 17: Benchmarking STB against ACB and MBB

VND bn	Current market cap	Gross loans	Customer deposits	Market cap/ Gross loans	Market cap/ Deposits
ACB	38,243	268,701	308,129	14.2%	12.4%
MBB	49,188	250,331	272,710	19.6%	18.0%
Lower point				14.2%	12.4%
STB	18,491	296,030	400,844	6.2%	4.6%

Source: Company data, VCSC, price as of February 7, 2020, data as of Q4 2019

Figure 18: Benchmarking STB against ACB and MBB (Cont.)

	CASA ratio	CASA + Term deposits in FX	Provision balance to gross loans	Asset yields	Cost of funds	NIM
ACB	19.1%	20.6%	0.94%	8.29%	5.01%	3.55%
MBB	38.4%	40.2%	1.28%	8.47%	3.99%	4.89%
STB	17.0%	19.6%	1.34%	9.09%	5.47%	2.74%

Source: Company data, VCSC, price as of February 7, 2020, data as of Q4 2019

Figure 19: STB valuation assuming there are no legacy debts

	Lower point	Market cap	Weighting	Contribution
Market cap/ Loans	14.2%	42,133	50%	21,066
Market cap/ Deposits	12.4%	49,750	50%	24,875
Composition				45,941

Source: Company data, VCSC, February 7, 2020, data as of Q4 2019

Figure 20 : What the market is pricing and our valuation (VND bn)

Market pricing		Market cap to deposits approach		Market cap to loans approach	
Estimated total legacy debts as of 2019	60,614	Estimated total legacy debts as of 2019	60,614	Estimated total legacy debts as of 2019	60,614
Composite valuation assuming no legacy debts	45,941	Market cap assuming no legacy debts	49,750	Market cap assuming no legacy debts	42,133
Current market cap	18,491	Fair equity value	30,410	Fair equity value	22,793
Market unadjusted discount to composite valuation ("D1")	(27,450)	Assumed adjusted discount to market cap ("D2")	(19,340)	Assumed adjusted discount to market cap ("D3")	(19,340)
Q4 2019 provision balance for investment securities	(4,040)	Q4 2019 provision balance for investment securities	(4,040)	Q4 2019 provision balance for investment securities	(4,040)
Q4 2019 provision balance for other assets	(866)	Q4 2019 provision balance for other assets	(866)	Q4 2019 provision balance for other assets	(866)
Adding back existing provision balances to D1	(32,356)	Adding back existing provision balances to D2	(24,245)	Adding back existing provision balances to D3	(24,245)
Implied market haircut to total legacy debts	53%	Assumed haircut to total legacy debts	40%	Assumed haircut to total legacy debts	40%
2020 P/B at current equity value	0.60	2020 P/B at fair equity value	0.99	2020 P/B at fair equity value	0.74

Source: VCSC

Comparable peers

STB is currently trading at a discount of 46.2% to a peer median 2020F P/B at 1.19x (see **Figure 21**). Our observation also suggests that STB has consistently traded at a discount of 45.9% to the peer median trailing P/B in the past 12 months.

Figure 21: Consensus data of Vietnamese banks from Bloomberg

Bloomberg Ticker	Market Cap. (USD bn)	P/E			P/B			ROE			ROA	Equity Multiplier	NPL
		2019	2020F	2021F	2019	2020F	2021F	2019	2020F	2021F	TTM	2019	2019
ACB VN	1.68	6.40	6.09	5.48	1.41	1.18	1.00	24.6%	20.8%	20.4%	1.68%	13.82	0.54%
BID VN	8.49	20.48	22.39	18.47	2.65	2.36	2.27	13.5%	13.7%	14.5%	0.61%	19.16	1.74%
CTG VN	4.26	10.47	10.89	8.26	1.29	1.19	1.03	13.1%	13.4%	15.5%	0.79%	16.04	1.16%
MBB VN	2.10	6.03	5.87	4.94	1.29	1.09	0.91	22.1%	21.0%	20.4%	2.02%	10.32	1.13%
VCB VN	14.18	17.77	15.72	13.72	3.85	3.04	2.57	25.1%	23.6%	22.1%	1.61%	14.27	0.78%
VPB VN	2.58	7.30	6.26	5.50	1.42	1.19	0.97	21.5%	20.8%	19.6%	2.36%	8.94	3.42%
HDB VN	1.22	8.03	7.75	6.80	1.85	1.40	1.21	19.1%	19.5%	19.6%	1.40%	12.84	1.53%
TCB VN	3.29	7.58	6.95	5.99	1.24	1.06	0.90	17.8%	17.0%	16.4%	2.86%	6.18	1.33%
TPB VN	0.74	5.65	5.41	4.64	1.32	1.08	0.89	26.1%	22.4%	21.3%	2.06%	12.59	1.29%
Median		7.58	6.95	5.99	1.41	1.19	1.00	21.5%	20.8%	19.6%	1.68%	12.84	1.29%
STB VN	0.85	8.05	6.76	5.27	0.74	0.64	0.57	9.6%	10.3%	13.2%	0.57%	16.96	1.94%

Source: Bloomberg data as of February 10, 2020

Statistical relationship between ROE and PB for Vietnamese banks:

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

Where:

1. $i = 1, \dots, 10$ (being 10 banks under our coverage)
2. $t = H2\ 2017, \dots, H2\ 2019$ (some banks do not have five 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: 47 (42 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 22: Regression with VCB

Parameter	Estimate	Std. Error	Sig. (p-value)
Intercept	1.042	0.568	0.085
β	0.012	0.018	0.487
γ	0.970	0.970	0.125
Akaike's Information Criterion (AIC)	63.3		

Source: Company data and VCSC

Figure 23: Regression with VCB (six months ago)

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 24: Regression without VCB

Parameter	Estimate	Std. Error	Sig. (p-value)
Intercept	1.055	0.357	0.007
β	0.018	0.015	0.237
γ	0.318	0.294	0.312
Akaike's Information Criterion (AIC)	36.7		

Source: Company data and VCSC

Figure 25: Regression without VCB (six months ago)

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

Given that the statistical relationship between P/B and ROE has completely broken down with the addition of H2 2019 data – even with exclusion of VCB – leads us to temporarily halt calculating a fair P/B based on regression analysis until such time when statistical significance returns.

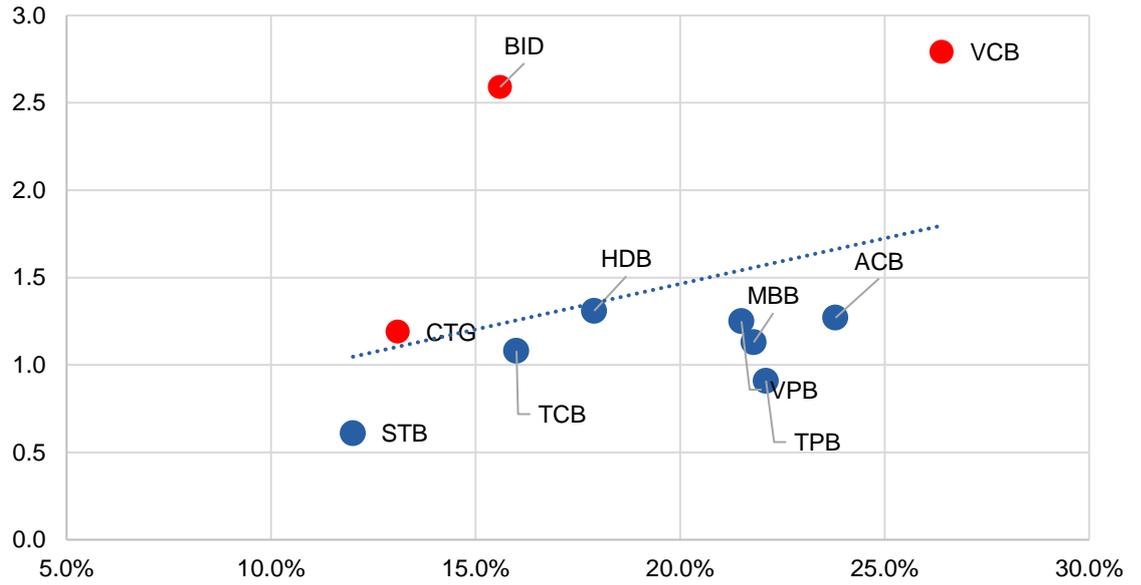
Figure 26: Sensitivity analysis of our 2020F P/B for STB in relation to ROE derived from Gordon Growth Model and terminal growth rate, ceteris paribus

	2020F ROE					
	7.6%	9.6%	11.6%	13.6%	15.6%	
Terminal growth (g)	1.5%	0.52	0.69	0.86	1.03	1.20
	2.0%	0.50	0.67	0.85	1.03	1.21
	2.5%	0.47	0.66	0.85	1.03	1.22
	3.0%	0.45	0.64	0.84	1.03	1.23
	3.5%	0.42	0.62	0.83	1.04	1.24
	4.0%	0.39	0.60	0.82	1.04	1.26

Source: Company data and VCSC

The sensitivity analysis using the Gordon Growth Model (GGM) illustrates a 'fair value' P/B multiple for STB at 0.84x with 2020F ROE of 11.6%, cost of equity at 13.2% and terminal growth of 3.0%, implying that STB is currently trading at a discount of 23.8%. However, because STB is currently still restructuring and under SBV supervision, we believe that current ROE is not reflective of long-term sustainable ROE; as a result, the GGM has a limited current application for STB.

Figure 27: Vietnam banks P/B (y-axis) and ROE (x-axis) (2020F)

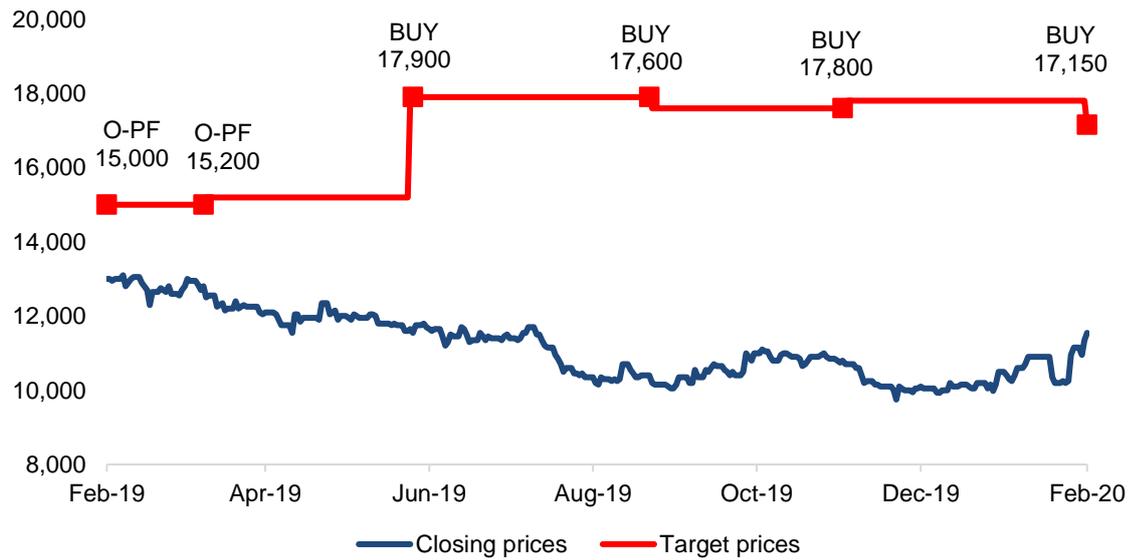


Source: VCSC; red dots signify SOCBs

Potential downside risk to our positive view: Almost all of our main assumptions in this report result from our positive view on STB’s clearance progress. Therefore, the main downside risk remains that the macro-economic health of Vietnam could stall STB’s efforts to shed its legacy assets.

Historical recommendations

Figure 28: Historical target prices (VND)



Source: Bloomberg, VCSC

Financial Statements

P&L (VND bn)	2019A	2020F	2021F	2022F
Interest inc.	30,477	36,582	43,211	50,993
Interest exp.	(21,296)	(24,343)	(27,755)	(31,801)
Net interest inc.	9,181	12,239	15,456	19,192
Net fee income	3,323	4,023	4,626	5,494
Other Noll	2,132	1,645	1,712	1,186
Total Noll	5,455	5,668	6,339	6,680
Total operating inc.	14,635	17,907	21,795	25,872
Non-interest exp.	(9,266)	(10,923)	(12,859)	(14,747)
Other G&A exp.	(1)	-	-	-
Total OPEX	(9,267)	(10,923)	(12,859)	(14,747)
PPOP	5,369	6,984	8,936	11,125
Provision exp.	(2,153)	(2,833)	(3,745)	(4,659)
Other inc./exp.	-	-	-	-
Pre-tax profit	3,216	4,151	5,191	6,466
Taxes	(762)	(830)	(1,038)	(1,293)
Net profit	2,454	3,321	4,153	5,173
Minorities/pref divs	-	-	-	-
Attributable profit	2,454	3,321	4,153	5,173
EPS (VND)	1,119	1,510	1,888	2,352
DPS (VND)	-	-	-	-

RATIOS (%)	2019A	2020F	2021F	2022F
Growth				
Loan growth	15.4	15.0	15.0	16.0
Deposit growth	14.8	13.0	13.0	14.0
TOI growth	25.3	22.4	21.7	18.7
PPOP growth	39.8	30.1	27.9	24.5
NPAT growth	37.1	35.3	25.1	24.6
Asset quality				
Group 2 ratio	0.28	0.30	0.30	0.30
NPL ratio	1.94	1.80	1.70	1.70
LLR	69.3	72.1	77.5	87.4
Prov exp./ loans	0.73	0.83	0.96	1.03
Liquidity				
CAR under Basel II	10.8	10.7	10.6	10.5
Regulated LDR	72.3	73.6	74.8	76.2

Source: STB, VCSC.

B/S (VND bn)	2019A	2020F	2021F	2022F
Cash & equiv.	8,269	9,974	11,269	11,677
Bal. with SBV	12,110	14,221	16,571	19,378
Due from FIs	13,151	23,672	40,242	52,314
ST investments	42,850	60,823	72,987	87,585
Net cust. loans	292,059	336,019	386,342	447,389
HTM	33,647	17,660	9,073	-
LT investments	104	101	98	95
Prop. & Equip.	8,290	8,389	8,489	8,591
Other assets	43,101	41,097	33,299	30,874
Total assets	453,581	511,955	578,370	657,903
Bal. from SBV	242	453	512	584
Bal. from FIs	3,526	3,361	3,205	3,056
Other funds	84	79	75	72
Cust. deposits	400,844	452,954	511,838	583,496
Other fin. inst	-	-	-	-
Valuable papers	9,490	10,439	12,527	13,780
Other liabilities	12,654	13,920	15,312	16,843
Total equity	26,742	30,748	34,900	40,073
MI	-	-	-	-
Liabilities & SE	453,581	511,955	578,370	657,903

RATIOS (%)	2019A	2020F	2021F	2022F
Profitability				
NIM	2.74	3.07	3.27	3.44
IEA yield	9.09	9.18	9.13	9.15
Funding costs	5.31	5.40	5.45	5.50
CIR	63.3	61.0	59.0	57.0
ROE decomposition				
Pre-prov. NIM	2.14	2.54	2.84	3.10
Provisions	-0.50	-0.59	-0.69	-0.75
Post-prov. NIM	1.64	1.95	2.15	2.35
Non-interest inc.	1.27	1.17	1.16	1.08
Operating exp.	-2.16	-2.26	-2.36	-2.39
Taxes	-0.18	-0.17	-0.19	-0.21
ROAA	0.57	0.69	0.76	0.84
Equity Mult. (x)	16.7	16.8	16.6	16.5
ROAE	9.6	11.6	12.7	13.8

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