

Orient Commercial Bank (OCB) [NOT RATED]

Listing note

Industry:	Banking		<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>9M'20</u>
Report Date:	January 25, 2021	PPOP y/y	63.5%	143.8%	28.9%	34.1%
Listing Price:	VND22,900	NPAT y/y	125.0%	113.5%	40.0%	29.3%
Exchange:	HOSE	EPS y/y	109.3%	74.2%	30.7%	20.3%
Listing Date:	January 28, 2021	NIM	3.56%	4.05%	4.01%	3.91%
		NPL	1.79%	2.29%	1.84%	2.15%
		CIR	52.2%	36.7%	37.0%	31.9%
		P/E	29.1x	13.6x	9.7x	N/A
		P/B	4.1x	2.9x	2.2x	1.6x

			<u>OCB</u>	<u>Peers</u>	<u>VNI</u>	<u>Company overview</u>
Market Cap:	USD1.1bn	P/E (ttm)	8.3x	9.2x	19.4x	Established in 1996, OCB is smaller than all of the banks in our coverage universe in terms of total assets as of December 31, 2019. OCB's strategy focuses on retail and SME banking. The bank will list 1.1 billion shares on HOSE on January 28, 2021.
Foreign Room:	USD5.3mn	P/B (curr)	1.6x	1.6x	2.5x	
State Ownership:	0.0%	ROE (ttm)	22.2%	18.2%	13.2%	
Outstanding Shares:	1,096 mn	ROA (ttm)	2.4%	1.7%	2.2%	

OCB must deliver on NFI to sustain currently high ROE

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- OCB is slated to list on HOSE on January 28, 2021, at a reference price of VND22,900/share.
- OCB is smaller than all of the banks in our coverage universe by asset size with total assets of VND133tn/USD5.7bn vs VND193tn/USD8.3bn for current last-place TPB as of Q3 2020.
- OCB's loan book composition is most like HDB because of the high concentration in retail and the smaller end of small to medium-sized enterprises (SMEs), accounting for 33% and 41% of its Q3 2020 loan book, respectively.
- The bank achieved 2020 preliminary PBT of VND4.4tn (+36.8% YoY), completing 100% of its 2020 AGM target. FY2020 ROE and ROA were 24.4% and 2.60%, respectively.
- Management targets to triple the bank's 2019 total assets by 2025 with expected annual credit and deposit growth of 20%. ROE and ROA are targeted for at least 20% and 2%, respectively.

On paper, OCB seems to have overcome its small scale to deliver one of the highest ROEs relative to our coverage universe; however, this has been highly dependent on Government bond trading since 2018. OCB's annualized ROE drops by 650 bps to 13.1% using 9M 2020 results excluding gains from investment securities, bringing its adjusted ROE ranking just above BID and STB. As such, the VCSC house view that Government bond yields will rebound slightly in 2021 does not bode well for the continuation of these outsized trading gains at OCB.

Current deposit structure challenges OCB's ability to increase the competitiveness of its cost of funds. Lending to the smaller end of SMEs and retail has secured high IEA yields for OCB. However, OCB's deposit dependence on SMEs and corporates (41.8% of its total deposits) elevates its cost of funds given that OCB has a less affluent SME base than ACB to enhance its CASA deposits (OCB's CASA of 11.4% vs peer median 17.3% as of Q3 2020). As management targets to grow assets by 21% annually from 2021-2025, we expect the reliance on corporate deposits and valuable papers will continue.

NFI has plenty of room for growth. The bank recorded 10.4% pure NFI/TOI as of 9M 2020 — a level similar to the peer median. However, with continuing investments in fintech and an exclusive collaboration with Generali to distribute bancassurance since 2019, we believe NFI is a bright spot.

NPL level subpar given major exposure to the smaller end of SMEs while all VAMC has been cleared. OCB's Q3 2020 NPL ratio was 2.15%, trending up from 1.84% at YE2019 and ranking as second highest ratio compared to our coverage in Q3 2020 — only behind VPB.

As its listing price is close to private bank peer multiples, the upside for OCB is a bet that Vietnam's macro backdrop will support an inherently riskier weighting in SME lending and OCB's ample capital buffer to pursue growth. At a listing price of VND22,900/share, OCB is trading at a trailing-12-month P/E and current P/B of 8.3x and 1.60x, respectively. Benchmarking with our coverage universe valuation, OCB is trading closely to the median peer TTM P/E and current P/B of 9.0x and 1.64x, respectively, based on closing prices on January 20, 2021.



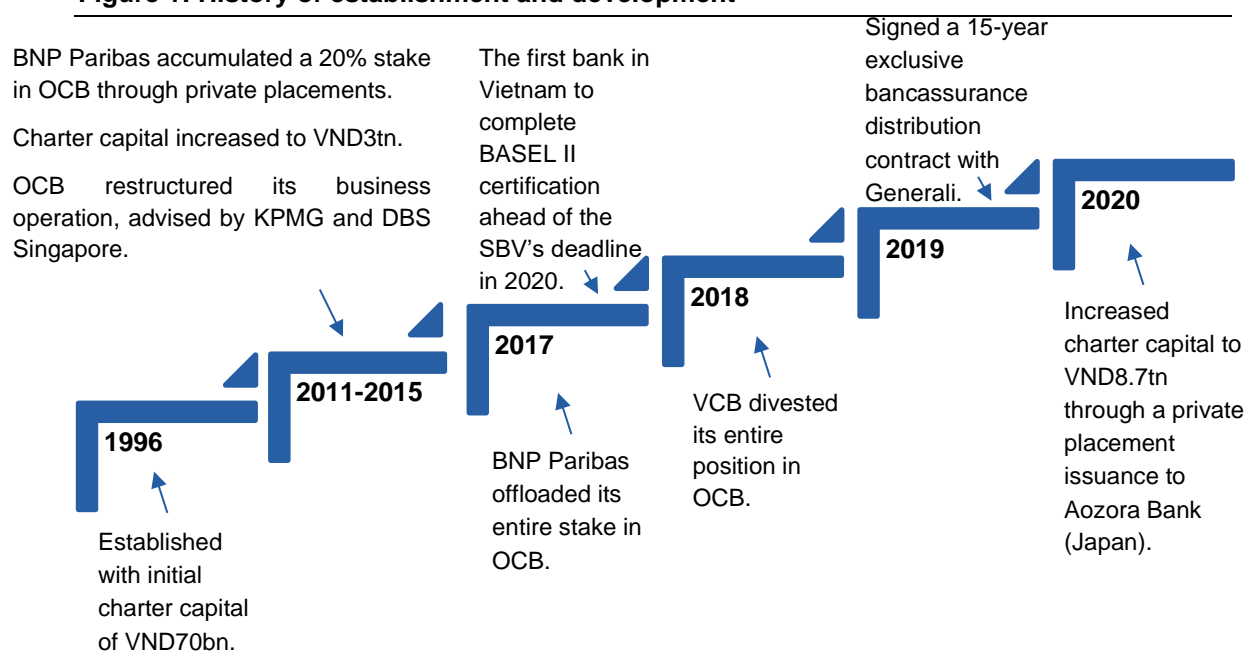
Company overview

History and corporate profile

Orient Commercial Joint Stock Bank (OCB) was established on June 10, 1996, by three founding entities: The Ho Chi Minh City People's Committee, Ben Thanh Group (a 100% State-owned company) and Vietcombank. From 2007-2011, BNP Paribas accumulated an approximately 20% stake to become a strategic shareholder, maintaining this strategic position for almost 10 years. In December 2017, BNP Paribas offloaded its entire stake in OCB. On March 23, 2020, OCB successfully issued 86.7 million shares (~9.9% of post-money charter capital) to Aozora Bank (Japan) under a strategic cooperation agreement between the two banks. On June 24, 2020, Aozora raised its holding in OCB to 15%.

As of December 25, 2020, OCB's charter capital was VND10.9tn/USD470mn. Additionally, the bank reported a network that included its headquarters in HCMC, subsidiary OCB International Money Transfer Limited Company, 38 branches and 95 transaction offices nationwide, and 5,989 employees, serving more than 1.8 million customers.

Figure 1: History of establishment and development



Source: OCB, VCSC

Credit rating

In April 2020, Moody's announced its completion of a periodic review of ratings for OCB. The latest Baseline Credit Assessment (BCA) was set at B1 while the Counterparty Risk Assessment (CRA) was Ba3 and the long-term, local and foreign currency bank deposit rating was B1. The BCA given to OCB remains one notch lower than the sovereign rating of ba3 (also equivalent to the BCA rating for ACB, VCB, and MBB), which reflects Moody's view that considers OCB's rapid loan growth in recent years — as well as its loan portfolio concentration — toward riskier construction with the real estate sector holding the bank back from a top rating. Moreover, the bank's high level of reliance on interbank funds and modest deposit franchise raises liquidity risk if the domestic interbank market seizes.



Ownership structure

Figure 2: Shareholder structure (1)

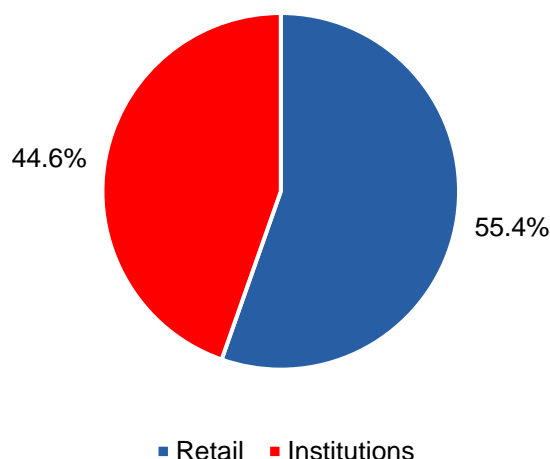
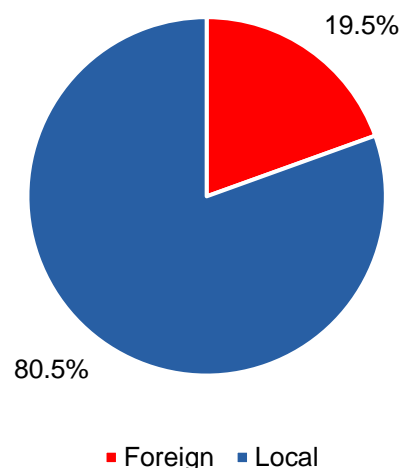


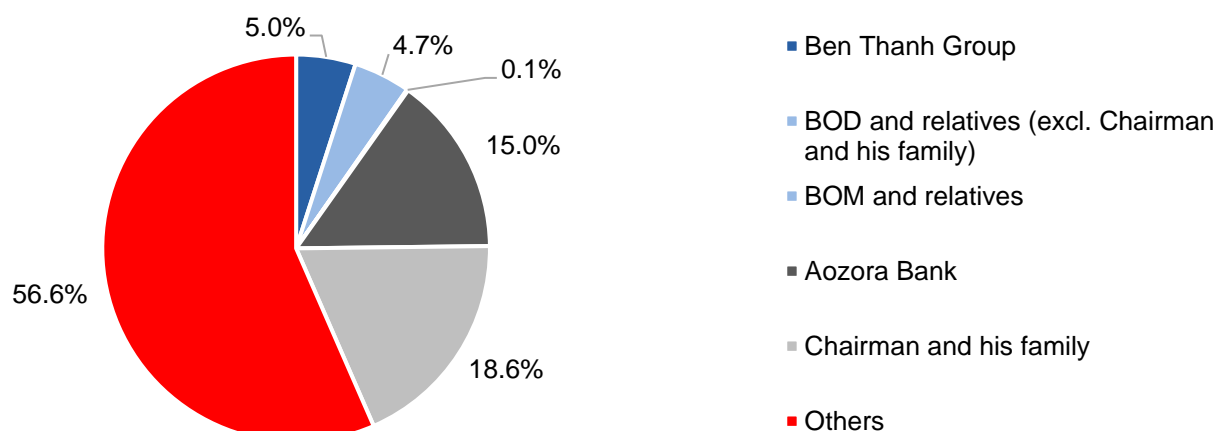
Figure 3: Shareholder structure (2)



Source: OCB, VCSC; data as of November 23, 2020

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Figure 4: Major shareholders, internal shareholders and related persons



Source: OCB, VCSC; data as of November 23, 2020

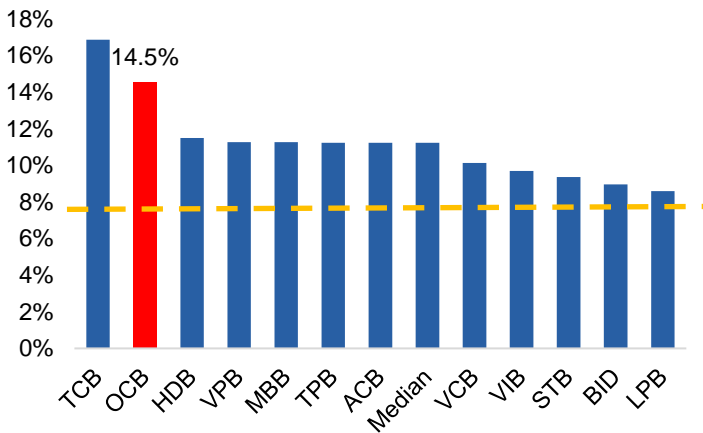
Current foreign ownership limit is locked at 20%. OCB's management shared its intention to issue new shares through private placements to foreign financial investors in the coming years. Upon listing, there will be approximately 0.5% of shares outstanding available to foreigners (equivalent to 5.5 million shares).

Current Chairman of the Board of Directors, Mr. Trinh Van Tuan, was a founding member and former Chairman of Vietnam International Bank (VIB). Mr. Trinh left VIB in 2008 and joined OCB as CEO in 2010. In May 2012, Mr. Trinh was elected to be the Chairman of OCB, thereby relinquishing his CEO role, and he continues to hold this position until now. Mr. Trinh and his family hold approximately 18.6% of OCB as of November 2020.

Business highlights

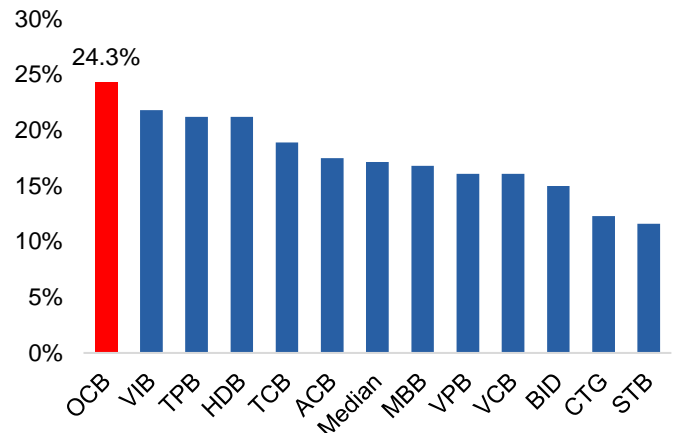
Leveraging ample equity capital position to grow assets quickly. OCB was the first private bank that received compliance certification to Basel II from the State Bank of Vietnam (SBV). CAR following Basel II was 14.5% and the Tier 1 ratio was at 14.1% as of 6M 2020, which would place OCB in the top tier of our coverage universe ranked on CAR. By having a solid capital adequacy ratio, OCB can enjoy a higher credit growth quota from the SBV than the peer average, which allows the bank to rapidly expand its loan book and assets.

Figure 5: OCB ranks second in capital adequacy ratio (6M 2020)



Source: Company data, VCSC. Basel II minimum threshold is 8%. CTG is excluded.

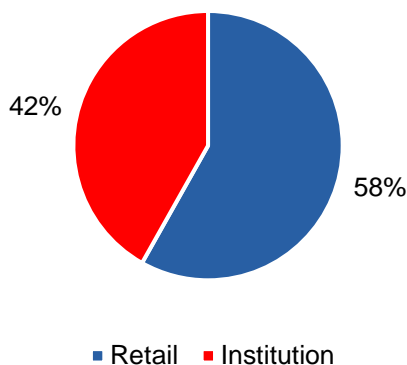
Figure 6: OCB has grown total assets faster than our coverage banks (CAGR 2015-19)



Source: Company data, VCSC. LPB excluded because of insufficient data.

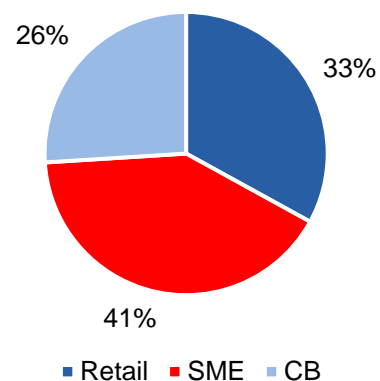
High concentration on retail and the smaller end of SME banking. OCB's loan book composition is similar to HDB because of the high concentration of retail and the small end of SMEs. Most of OCB's smaller end of SME clients have annual revenue below VND20bn and are located mainly in the southern region of Vietnam. By the end of Q3 2020, total lending to SMEs accounted for 41% of the bank's loan book. Meanwhile, retail loans experienced pronounced growth with a 25.6% CAGR in 2015-Q3 2020 to make up 33% of gross loans by Q3 2020. OCB's deposit structure has remained stable throughout the years with around 60% of funding coming from retail.

Figure 7: Deposits by type of customer (Q3 2020)



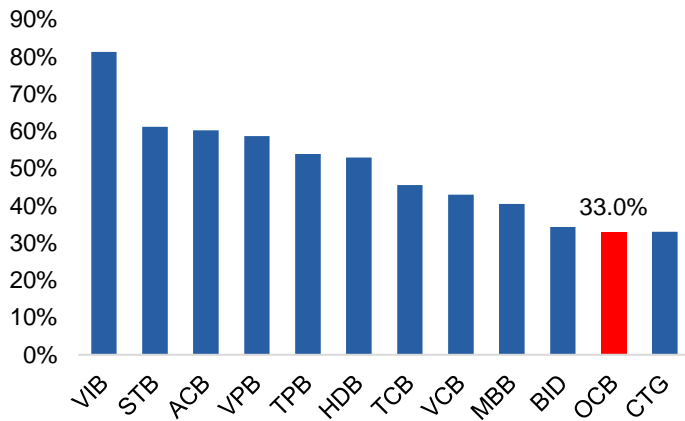
Source: OCB, VCSC

Figure 8: Customer loans by type of customer (Q3 2020)



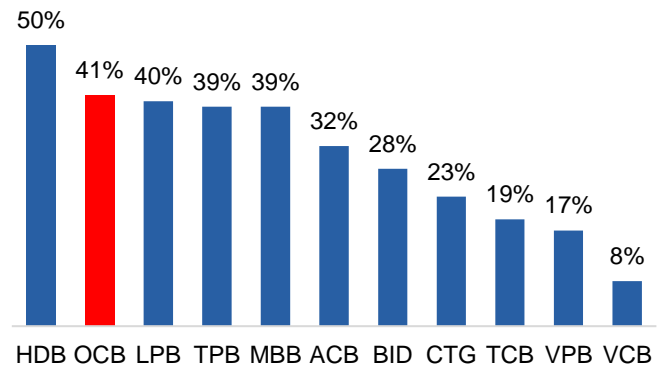
Source: OCB, VCSC; CB stands for commercial banking.

Figure 9: OCB has a moderate level of retail loans to loan book compared to banks in our coverage (Q3 2020)



Source: Company data, VCSC

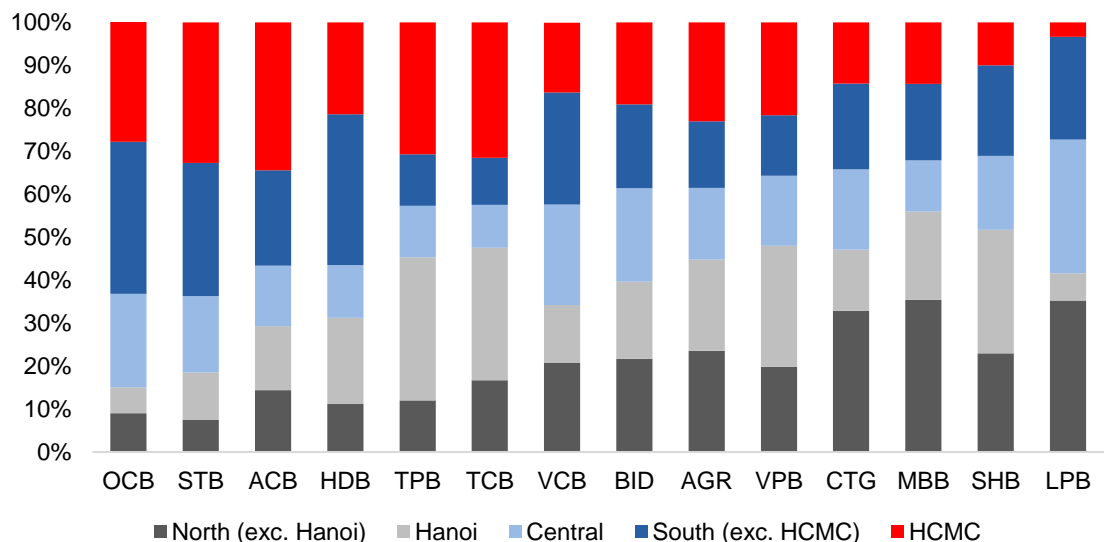
Figure 10: OCB has the second highest level of SME loans to loan book compared to banks in our coverage (Q3 2020)



Source: Company data, VCSC; VIB has negligible SME loan book and STB's data is not available.

Focus on gaining market share in niche markets. Our observation suggests that OCB has a geographic focus in the South of Vietnam (including HCMC) with 64% of its network located in this area, followed by the central region with a network coverage of 22%. Alongside LPB, OCB is one of a few private banks that has willingness to expand its presence to central Vietnam. Within its focus regions, OCB concentrates its lending activities on segments that have low penetration rates. **Figure 11** shows that while loans to production and distribution of utilities, wholesale and retail, and warehouse transportation are not focus segments at STB, ACB, HDB, TPB, TCB and LPB — all of whom have relatively high coverage in the southern and central regions — they are OCB's target segments. These three segments altogether accounted for 36% of OCB's loan book while standing in the low-teens in the proportion of the loan books of the six aforementioned banks as of the end of 2019. With a strong capital position compared to the average bank in the sector, by participating in niche markets, we believe that OCB has ample capital buffer to continue to chase market share in its target segments.

Figure 11: Physical network of banks by geography (FY2019) (sorted by summing South & HCMC)



Source: Company data, VCSC. The four SOCBs (AGR, VCB, BID and CTG) only classify their branches by geography, while private banks classify their physical networks (including both branches and transaction offices) by geography; data for VIB is not available.

Figure 12: Loans to customers by segment (FY2019)

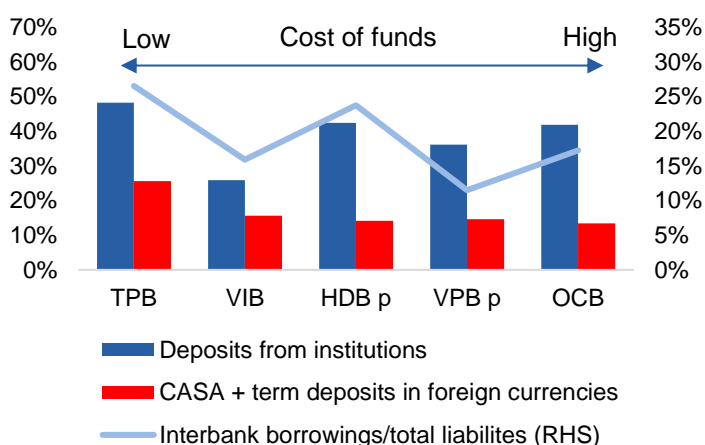
2019	OCB	STB	ACB	HDB p	TPB	TCB	VCB	BID	AGR	VPB p	CTG	MBB	LPB
Agriculture	3.1%	11.6%	0.4%	5.9%	4.7%	0.0%	2.2%	4.2%	26.9%	0.6%	4.2%	1.3%	4.3%
Mining	0.0%	0.4%	0.0%	0.2%	1.3%	0.6%	2.0%	1.1%	0.3%	0.5%	1.8%	1.5%	0.5%
Manufacturing	0.0%	7.5%	8.9%	8.0%	8.0%	8.9%	23.7%	16.5%	7.6%	6.4%	25.3%	15.5%	5.5%
Production and distribution of electricity, gas	8.4%	0.9%	0.0%	7.1%	4.4%	1.3%	4.1%	4.9%	2.8%	1.4%	3.6%	4.3%	3.7%
Construction	10.9%	5.1%	4.6%	11.7%	7.2%	3.0%	4.4%	9.5%	6.0%	11.2%	10.4%	7.8%	18.0%
Wholesale and retail; repair of cars, motorcycles, motorbikes and other motor vehicles	20.0%	9.8%	0.0%	4.9%	5.9%	11.7%	0.0%	30.4%	28.0%	15.3%	31.4%	22.7%	9.6%
Warehouse transportation	7.4%	1.6%	1.0%	2.3%	4.2%	1.2%	3.4%	4.1%	2.0%	3.8%	2.4%	3.1%	2.7%
Service and hospitality	11.6%	29.8%	21.8%	20.4%	5.8%	2.1%	19.7%	13.0%	10.4%	6.6%	14.3%	7.0%	19.6%
Real estate business	7.3%	0.0%	1.7%	8.6%	4.4%	21.8%	0.0%	2.7%	1.1%	10.7%	0.0%	2.1%	5.7%
Activities of households as employers, undifferentiated goods and services producing activities of households for own use	10.5%	13.4%	0.0%	30.2%	54.0%	0.1%	0.0%	0.0%	14.7%	26.1%	4.5%	32.1%	27.4%
Others	20.8%	19.8%	61.5%	0.8%	0.1%	49.3%	40.5%	13.7%	0.1%	17.5%	2.2%	2.6%	2.9%

Source: Company data, VCSC. (p) denotes parent bank only. (*) TCB only classified its corporate lending by area. VIB is not included as its disclosed loan classification is less detailed.

Current deposit structure challenges OCB's ability to contain funding costs. A combination of a high proportion of corporate deposits together with low CASA ratio has placed OCB's cost of funds at the top compared to peers in our coverage (see **Figure 28**). This structure is common in private banks with high exposure to SME lending (e.g., OCB, TPB and HDB), which compared to retail focused deposit franchises (especially if accompanied by high CASA) is less cost advantageous. Moreover, OCB does not have the affluent SME base of ACB to elevate its CASA deposits or a large source of foreign currency deposits from a foreign strategic shareholder like TPB to enjoy 0% interest funding. In addition, rapid expansion of the asset side at OCB also puts pressure on the bank's LDR. Thus, to optimize costs, OCB disproportionately relies on interbank funding. Although the bank has reduced this interbank reliance over the years to 17.2% of total liabilities as of Q3 2020, it is still at a high proportion compared to the median of private peers of 14.7%. Interbank borrowing in Vietnam is cheap, but it is also volatile and therefore risky when the banking system is subject to short-term shocks.

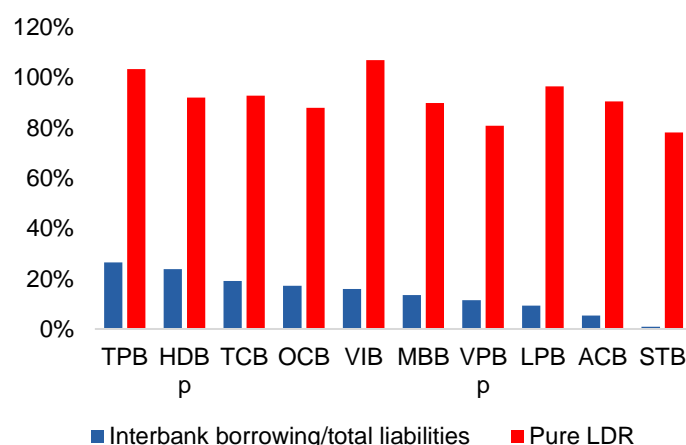
Given that management has targeted growing assets by 21% annually from 2021-2025, expanding deposits at a similar pace is necessary to maintain a healthy LDR. We expect the reliance on corporate deposits and valuable papers will continue at OCB given the competitive landscape of CASA; therefore, pressure on cost of funds will continue to place a drag NIM.

Figure 13: Four private banks with similar deposit structure to OCB (FY2019)



Source: Company data, VCSC

Figure 14: Interbank borrowing and pure LDR among private banks (FY2019)

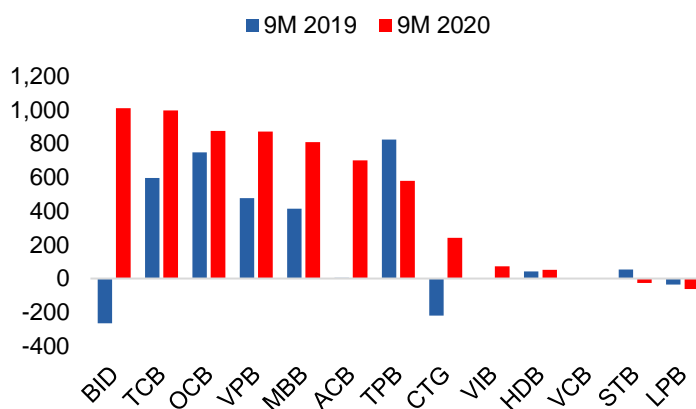


Source: Company data, VCSC; pure LDR = loans / (customer deposits + valuable papers).

Heavy reliance on bond trading income. OCB's treasury department functions in four main areas: Government bond trading, corporate bond trading, debt purchasing and foreign exchange trading. For Government bond trading, OCB is one of the highest-ranking market makers in secondary market trading of Government bonds with 5% market share according to HNX for 9M 2020. Meanwhile, the other three functions exhibited only modest market shares. Starting in 2017, the sharp decline in Government bond yields has been an opportunity for banks that are active in Government bond trading to start monetizing trading gains. OCB received the highest contribution of gains in investment securities trading to TOI vs TCB, TPB and VPB, accounting for more than 17% in 2019 and 9M 2020. OCB accumulated more Government bonds over the course of 2020 to reach 20.8% of total assets in Q3 2020 from 12.6% at the beginning of 2019. However, VCSC's house view that Government bond yields are expected to rebound slightly in 2021 does not bode well for the continuation of outsized gains from trading investment securities.

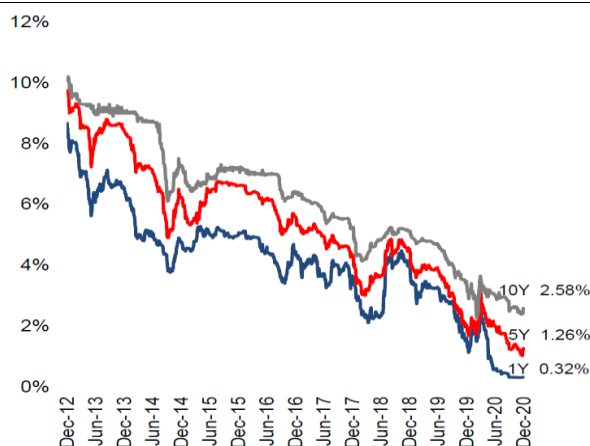
Although management is optimistic about an unrealized profit of VND900bn as of Q3 2020, we believe that such earnings exhibit more of an "extraordinary" quality given our fixed income outlook. **Figure 18** illustrates the spreads between annualized ROE and annualized ROE that have eliminated gains from trading investment securities — with the largest spreads at OCB and TPB. By excluding gains from trading investment securities, OCB's annualized ROE drops by 650 bps to 13.1% using 9M 2020 results — ranking just above BID and STB — which highlights OCB's heavy reliance on investment securities trading income compared to the remaining peers.

Figure 15: Gains/losses from trading investment securities (VND bn)



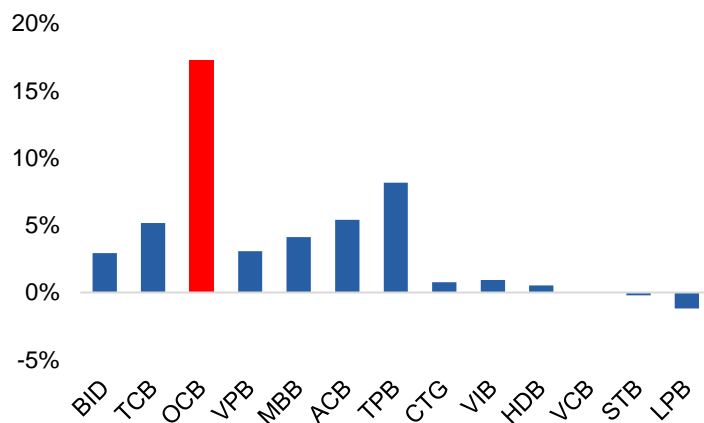
Source: Company data, VCSC

Figure 17: Government bond yields



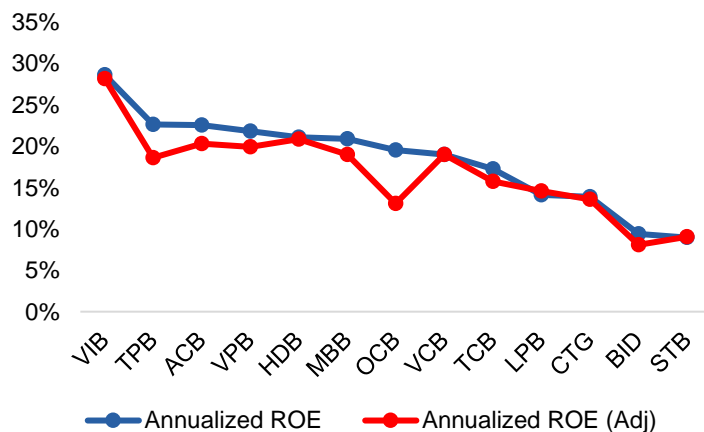
Source: Bloomberg, VCSC

Figure 16: Gains from trading investment securities over TOI (9M 2020)



Source: Company data, VCSC.

Figure 18: Annualized ROE vs adjusted annualized ROE, excluding gains from investment securities for 9M 2020



Source: Company data, VCSC

Financial highlights

Figure 19: Rapid expansion of assets - total asset breakdown (VND bn)

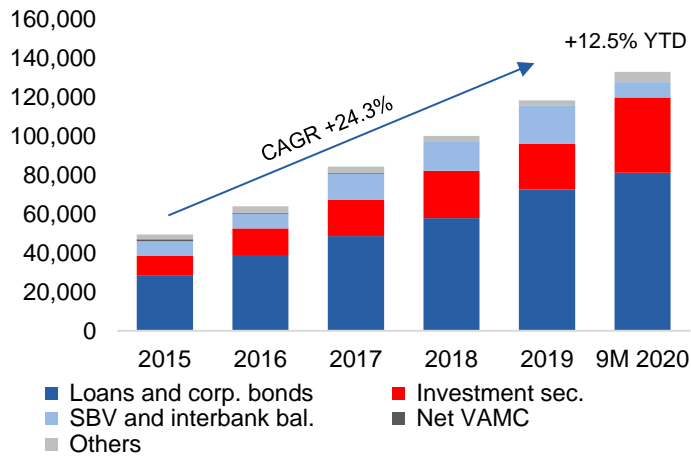


Figure 20: Funding structure is pivoting away from interbank, securing long-term and sustainable deposits from customers and valuable papers issuance – total liabilities breakdown (VND bn)

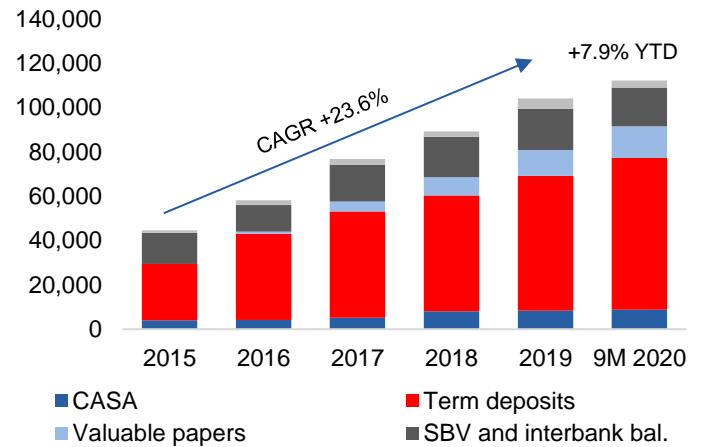


Figure 21: NIM and net interest income (NII) have trended up since 2017

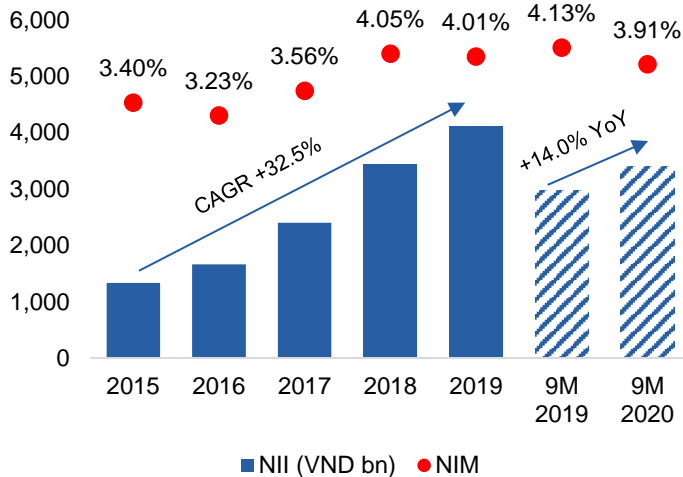


Figure 22: Gains from trading investment securities are a key driver for non-interest income (NOII) – NOII breakdown (VND bn)

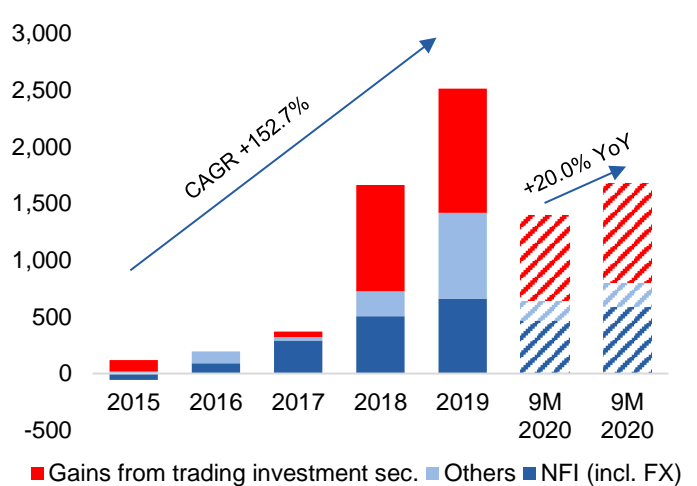


Figure 23: CIR is improving thanks to strong cost management while all VAMC bonds were resolved in 2017 - OPEX, provision expenses and PBT as % of TOI

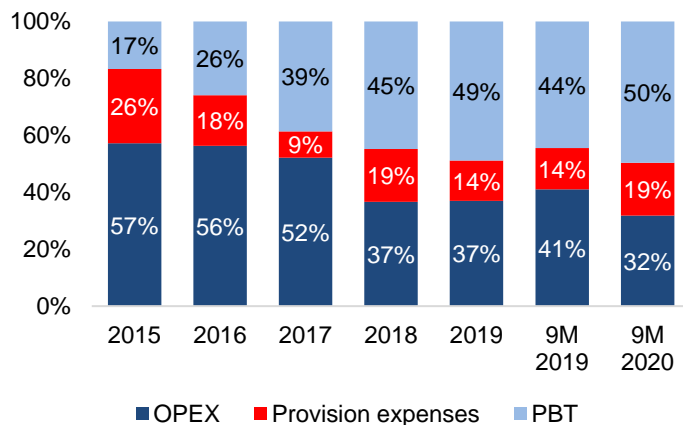
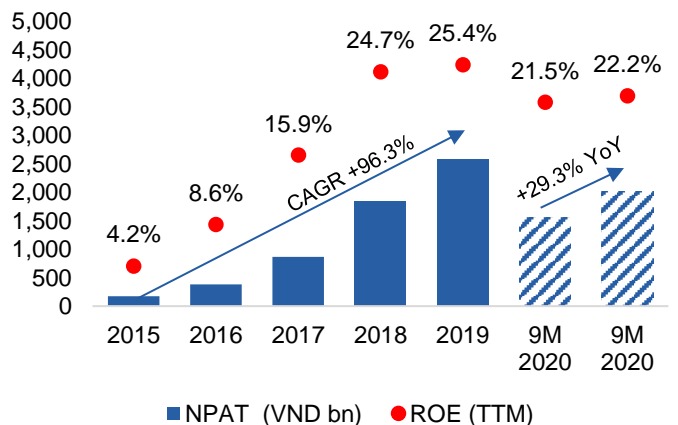


Figure 24: Robust growth of NPAT and trailing-12-month ROE

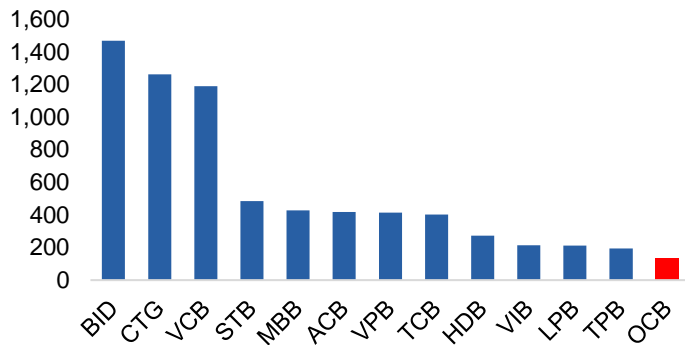


Source: OCB, VCSC

Operational benchmarking

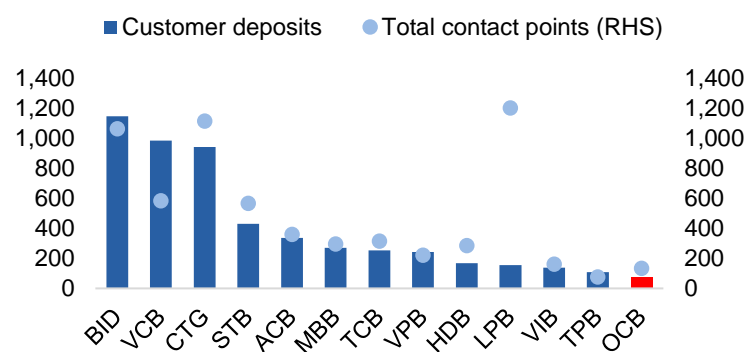
Modest customer deposits. As of Q3 2020, OCB reported 133 branches and transaction offices. As a result, each OCB node is mobilizing ~VND581bn/USD25mn on average of deposits, trailing the median peer level of VND852bn/USD37mn.

Figure 25: OCB ranks last on total assets (VND tn) (Q3 2020)



Source: Company data, VCSC

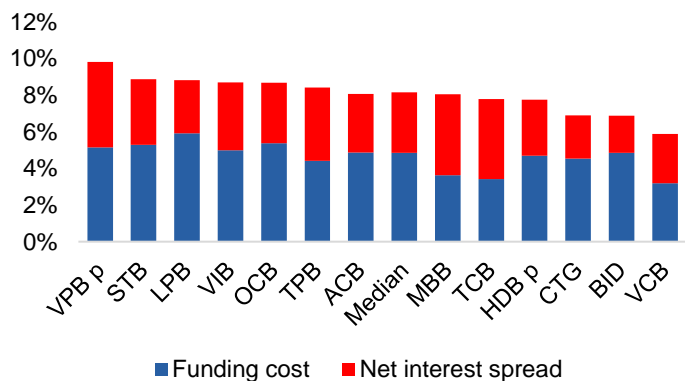
Figure 26: Customer deposits (VND tn) and number of contact points (Q3 2020)



Source: Company data, VCSC. LPB's contact points include branches, business transaction offices and postal transaction offices

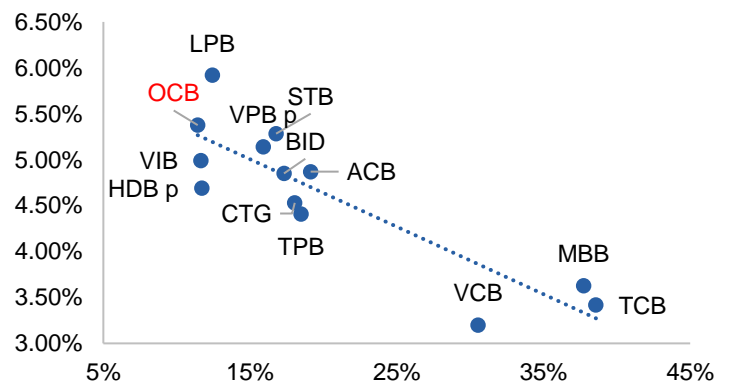
However, the high cost of funds prevents NIM from achieving the top position. OCB lacks advantages in CASA and other low-cost funding available to some banks. In 9M 2020, OCB reported only 11.4% in CASA ratio, trailing the peer median level of 17.3% (see **Figure 28**). Meanwhile, 9M 2020 OCB's cost of funds was 5.38%, significantly higher than the weighted average of peers at 4.85%.

Figure 27: OCB's IEA yield ranks three places above the peer median (Q3 2020)



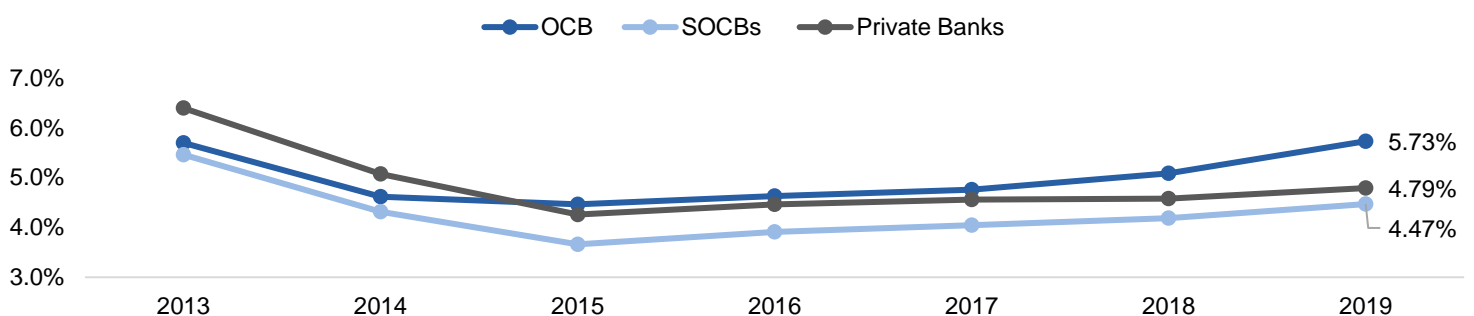
Source: Company data, VCSC; (p) parent bank

Figure 28: Cost of funds ranks in the highest band (Q3 2020) (cost of funds (y-axis) & CASA ratio (x-axis))



Source: Company data, VCSC; (p) parent bank

Figure 29: Cost of funds of OCB vs our coverage universe (weighted average by total assets)

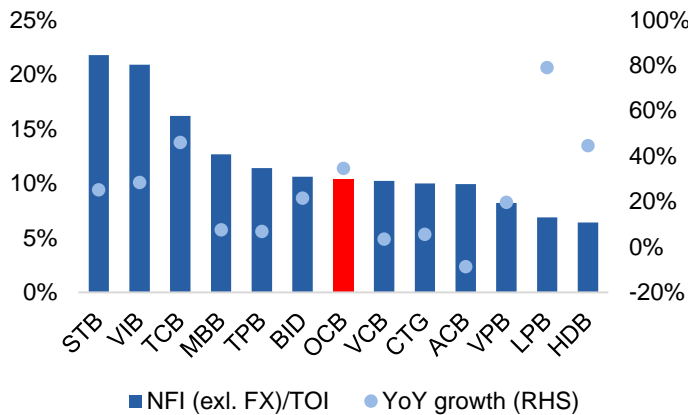


Source: Company data, VCSC; (1) SOCBs – consist of BID, CTG and VCB; (2) private banks/JSCBs – consist of STB, MBB, TCB, ACB, TPB, LPB, VIB and parent bank of HDB and VPB.

Fee income still has plenty of room to expand. Compared to its peers, OCB is at the median level in terms of pure NFI/TOI. The bank recorded 10.4% of pure NFI/TOI as 9M 2020. However, with continuing investments in fintech and its exclusive collaboration with Generali to distribute bancassurance, we believe OCB has potential to overtake a few banks ahead of it in the current rankings. Nevertheless, overtaking third-place TCB in the near future will be extremely challenging given OCB's lack of strength in cards and transaction banking.

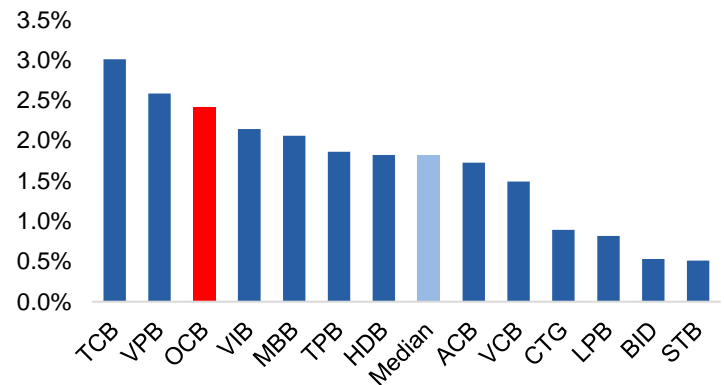
Profitable treasury operations serve as the leading non-interest income (NOII) generator for OCB. Gains from trading investment securities contributed 17.3% to TOI in 9M 2020 — by far the highest contribution compared to peers (see more in Figure 15).

Figure 30: OCB has a moderate contribution of pure NFI in TOI but captures strong YoY growth



Source: Company data, VCSC; pure NFI excludes FX trading income.

Figure 31: Robust performance of NOII lifted TTM ROA above the peer median of 1.82% (9M 2020)

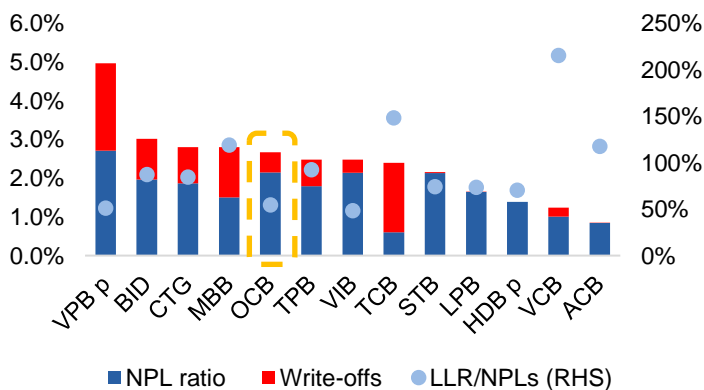


Source: Company data, VCSC

The bank has a relatively high NPL ratio given low write-offs. If we exclude the write-off rate, OCB ranks second highest on reported NPL ratio in Q3 2020 — only behind the parent entity of VPB. Meanwhile, OCB's LLR at 54.5% looked modest compared to the median peer level of 84.3% in Q3 2020.

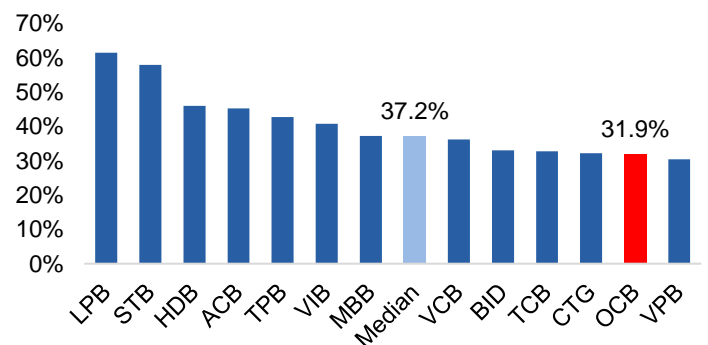
Efforts to centralize banking operations ease CIR. With a focus on digitizing customer interactions with the bank and automating back office operations, benefits to emerge for OCB are cuts in cost and an ability to provide real-time services online to customers. The largest component of OPEX was staff expenses, constituting for 65.3% of OPEX in 9M 2020.

Figure 32: Relatively high NPL ratio given low write-offs as % of gross loans (Q3 2020)



Source: Company data, VCSC; (p) parent bank; loan loss reserve (LLR) as % of NPLs.

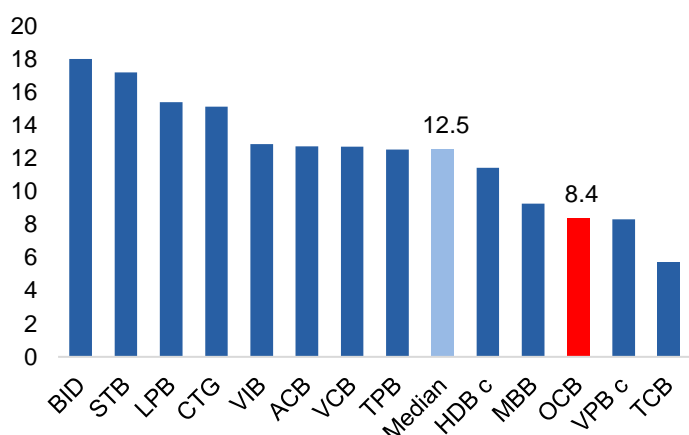
Figure 33: CIR (9M 2020)



Source: Company data, VCSC

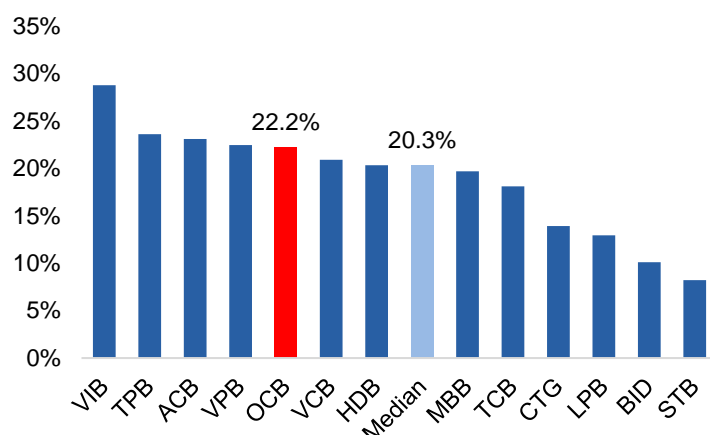
OCB sat at the top of the second quartile in ROE ranking in our coverage universe on a low leverage level. OCB's TTM ROE in 9M 2020 was 22.2% — 1.9 pts higher than the median of our coverage banks at 20.3%. We consider the leverage ratio on the low side, leaving plenty of room for increased operational leverage provided that deposit funding keeps pace.

Figure 34: Asset/equity ratio (multiple) (Q3 2020)



Source: Company data, VCSC

Figure 35: Trailing-12-month ROE (Q3 2020)



Source: Company data, VCSC

Key financial and operating targets

Figure 36: Management's guidance and targets

	2020G	YoY growth	2020-2025G
Total assets	VND152.8tn	+29%	+20% p.a.
Total deposits	VND108.6tn	+27%	+20% p.a.
Total credit	VND90.1tn	+24%	+20% p.a.
Profit before tax	VND4.4tn	+37%	+21%p.a. (except for 2021G with 15% growth due to investment expenses for staff and IT)

Source: OCB, VCSC

Listing guidelines

Listing date	January 28, 2021
Exchange	Ho Chi Minh Stock Exchange (HOSE)
Number of shares listing	1,095,906,430
Number of available shares for foreign investors	5,470,376
Reference price	VND22,900/USD0.98 per share
Price fluctuation range on the first trading day	+/- 20%

Source: OCB, VCSC; USD1 = VND23,300.



Peer comparison

Given the size of OCB's balance sheet and the fact that SOCBs trade at a premium partly because of their hefty scale, an appropriate benchmarking for OCB will depart from our customary peer comparison approach and thus be compared exclusively to private bank peers.

Figure 37: Consensus data of Vietnamese private banks from Bloomberg

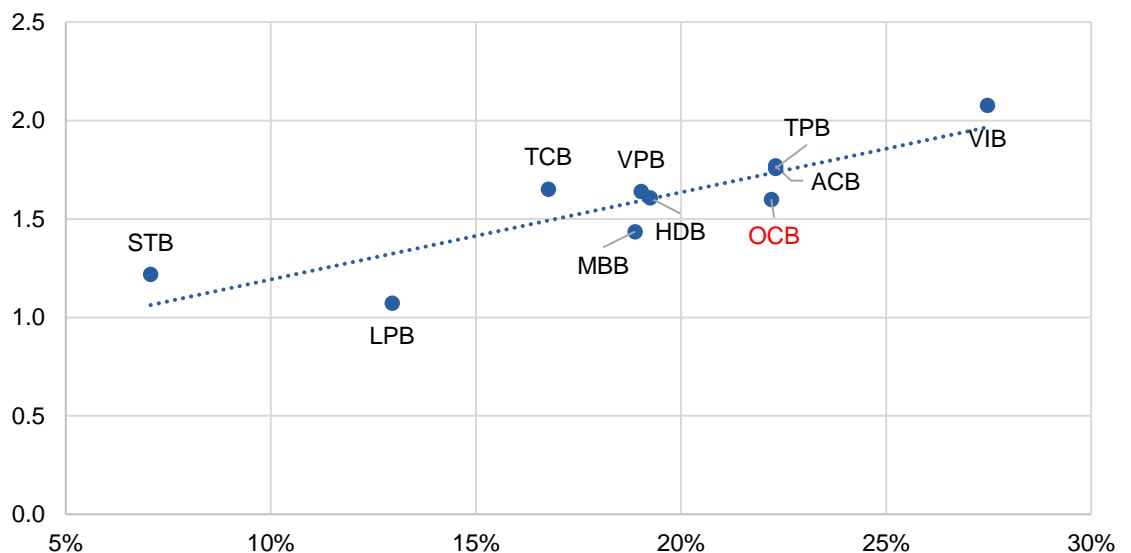
Bloomberg Ticker	Market Cap. (USD bn)	P/E		P/B		ROE		ROA	Equity Multiplier 2019	NPL ratio 2019
		2019	TTM	2019	LQ	2019	TTM	TTM		
ACB VN	2.7	10.1	9.0	2.2	1.8	23.0%	22.3%	1.72%	13.8	0.54%
MBB VN	3.0	7.9	8.6	1.7	1.4	20.0%	18.9%	1.99%	10.3	1.16%
VPB VN	3.6	10.1	9.2	2.0	1.6	22.2%	19.0%	2.60%	8.9	3.42%
STB VN	1.5	17.0	19.6	1.3	1.2	8.7%	7.1%	0.51%	17.0	1.94%
HDB VN	1.8	11.4	9.0	2.2	1.6	21.5%	19.2%	1.76%	11.3	1.36%
TCB VN	5.2	12.0	10.8	2.0	1.7	17.7%	16.8%	2.97%	6.2	1.33%
TPB VN	1.2	9.2	8.5	2.2	1.8	26.3%	22.3%	2.07%	12.6	1.29%
VIB VN	1.6	11.4	8.8	2.7	2.1	26.6%	27.5%	2.09%	13.7	1.96%
LPB VN	0.6	10.5	9.1	1.2	1.1	12.9%	13.0%	0.80%	16.1	1.44%
Median private banks		10.5	9.0	2.0	1.64	21.5%	19.0%	1.99%	12.6	1.36%
OCB VN (at listing reference price)	1.1	9.7	8.3	2.2	1.60	25.4%	22.2%	2.42%	9.7	1.84%

Source: Bloomberg (as of January 20, 2021), VCSC

At a listing price of VND22,900/share, OCB will trade at a trailing-12-month P/E and current P/B of 8.3x and 1.60x, respectively. Benchmarking with our coverage private banks valuations, OCB's listing price will start close to the peer median TTM P/E and P/B of 9.0x and 1.64x, respectively.

OCB has a similar total asset size and network scale to VIB and TPB. However, OCB has lower leverage ratio thanks to higher capital adequacy, thus it has significant capacity to increase gearing if management so desires. Therefore, there is headroom for OCB to expand its ROE to close the gap with top performers in this space such as VIB. In terms of asset quality, despite OCB's lending exposure to the smaller end of SMEs, OCB's IEA yield was among the highest range (see **Figure 27**) with TPB and VIB who have larger exposure to retail, signifying slightly higher inherent risk for OCB than this pair. Based on the listing price, OCB will be trading at a 23.8% and 11.1% discount to the current P/B of VIB and TPB, respectively.

Figure 38: Vietnam banks P/B (y-axis) and ROE (x-axis) (TTM)



Source: Bloomberg (as of January 20, 2021), OCB, VCSC



Sensitivity analysis

Figure 39: Cost of equity

Risk free rate (%)	3.1
Beta	1.0
Market risk premium (%)	9.9
COE (%)	13.0

Source: VCSC; we use a trailing average 10-year Government bond rate.

Figure 40: Sensitivity of 'fair P/B' for OCB for different ROEs and terminal growth rates derived from the Gordon Growth Model, ceteris paribus.

Terminal growth (g)	Sustainable ROE					
		17.0%	18.5%	20.0%	21.5%	23.0%
	2.0%	1.36	1.50	1.64	1.77	1.91
	2.5%	1.38	1.52	1.67	1.81	1.95
	3.0%	1.40	1.55	1.70	1.85	2.00
	3.5%	1.42	1.58	1.74	1.89	2.05
	4.0%	1.44	1.61	1.78	1.94	2.11

Source: VCSC

The above sensitivity analysis illustrates a fair value P/B multiple for OCB at 1.70x using the Gordon Growth Model (GGM) with our estimated average (2016-2025G) ROE of 20% based on 2021-2025 ROE guidance (we assume an effective tax rate at 20%). Our cost of equity assumption is 13.0% (**Figure 39**) and terminal growth assumption of 3.0%, which is the same as our average assumption for banks under our coverage.

Financial statements

P&L (VND bn)	2017	2018	2019
Interest inc.	5,613	7,657	9,638
Interest exp.	(3,212)	(4,221)	(5,537)
Net interest inc.	2,401	3,436	4,101
Net fee income	290	505	660
Other Noll	80	1,159	1,852
Total Noll	370	1,664	2,512
Total operating inc.	2,771	5,100	6,613
Non-interest exp.	(1,446)	(1,870)	(2,449)
Other G&A exp.	-	-	-
Total OPEX	(1,446)	(1,870)	(2,449)
PPOP	1,325	3,230	4,164
Provision exp.	(256)	(944)	(933)
Other inc./exp.	-	-	-
Pre-tax profit	1,069	2,285	3,231
Taxes	(205)	(441)	(649)
Net profit	864	1,845	2,582
Minorities/pref divs	-	-	-
Attributable profit	864	1,845	2,582
Wgt.ave.shares (bn)	610	699	784
EPS (VND)	1,434	2,497	3,264
DPS (VND)	-	-	-

RATIOS (%)	2017	2018	2019
Growth			
Loan growth	25.1	16.9	26.2
Deposit growth	23.6	13.5	14.5
TOI growth	49.2	84.0	29.7
PPOP growth	63.5	143.8	28.9
NPAT growth	125.0	113.5	40.0

Asset quality			
Group2 ratio	1.22	1.54	1.75
NPL ratio	1.79	2.29	1.84
LLR/NPLs	46.7	43.9	55.4
Prov exp./ loans	0.53	1.68	1.31
Liquidity			
CAR under Cir.41	11.6	12.0	11.2
Regulated LDR	63.1	64.4	68.7

B/S (VND bn)	2017	2018	2019
Cash & equiv.	649	680	713
Bal. with SBV	3,107	1,275	2,073
Due from FIs	10,381	13,448	17,494
ST investments	19,007	24,388	23,370
Net cust. loans	47,779	55,751	70,366
HTM	728	-	-
LT investments	15	15	5
Prop. & Equip.	527	529	595
Other assets	2,108	3,878	3,544
Total assets	84,300	99,964	118,160
Bal. from SBV	335	1,469	170
Bal. from FIs	16,304	16,756	18,369
Other funds	2,645	2,554	4,628
Cust. deposits	53,206	60,363	69,142
Other fin. inst.	-	-	-
Valuable papers	4,362	8,156	11,765
Other liabilities	1,309	1,868	2,579
Total equity	6,139	8,797	11,507
MI	-	-	-
Liabilities & SE	84,300	99,964	118,160

RATIOS (%)	2017	2018	2019
Profitability			
NIM	3.56	4.05	4.01
IEA yields	8.31	9.03	9.43
Funding costs	4.76	5.08	5.73
CIR	52.2	36.7	37.0
CASA ratio	9.7	13.4	12.2

ROE decomposition (as % avg total assets)			
NII	3.24	3.73	3.76
Provisions	(0.35)	(1.03)	(0.86)
Post-prov. NII	2.90	2.70	2.91
Non-Interest inc.	0.50	1.81	2.30
Operating exp.	(1.95)	(2.03)	(2.25)
Taxes & MI	(0.28)	(0.48)	(0.59)
ROAA	1.17	2.00	2.37
Equity Mult. (x)	13.6	12.3	10.7
ROAE	15.9	24.7	25.4

Source: OCB, 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
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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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