Orient Commercial Joint Stock Bank (HOSE: OCB)

Small bank with high growth

- **Maintaining growth and credit quality on the basis of a strong capital base and high liquidity**
- **More diverse non-interest income with contributions from the card segment and investment banking**
- **Continuously improving efficiency backed by digitization and technology**

Outlook and recommendation

Transforming itself in terms of growth strategy and management in recent years, OCB is set to become a modern retail bank focusing on providing financial products and services to small and medium enterprises (SMEs) and upper-mass individual customers. With a strong capital buffer and leading liquidity, OCB is able to maintain high credit growth compared to the industry. Low risk appetite and the supply chain financing risk management model combined with a modern technology platform help the bank control credit risk at a good level compared to other banks of the same size and customer segments, thereby stabilizing risk-adjusted NIM at an effective level. Together with an increasingly diverse service income structure and a selectively invested digital transformation strategy for the purpose of improving operational efficiency, we expect OCB to be able to maintain its top-of-the-market profitability in the next five years. The balance sheet may expand by an average growth rate of 23%/year in the period 2021-2025, following the recovery momentum of the economy and stimulus packages. The stock is trading at a 1-year forward P/B of 1.4x, 30% lower than the average of listed banks (excluding VCB), although forecasted ROE (before bonus and welfare fund) is 17% higher.

*We estimate the fair value of OCB at VND32,100/share, equivalent to a forward P/B for 2021 and 2022 of 1.7 and 1.3 times, respectively. This price is equivalent to an expected return of **22%** compared to the closing price on **December 21st, 2021**. Therefore, we issue a **BUY** recommendation for OCB.*

Key financials

Year-end Dec (VND Bn)	FY2019	FY2020	FY2021F	FY2022F
TOI	**6,613**	**8,013**	**9,120**	**11,358**
Growth (%)	*31.8*	*21.2*	*13.8*	*24.5*
PAT	**2,582**	**3,535**	**4,419**	**5,775**
Growth (%)	*46.6*	*36.9*	*25.0*	*30.7*
ROA (%)	2.4	2.6	2.6	2.8
ROE (%)	25.4	24.4	22.5	23.3
EPS (VND)	2,408	2,471	3,116	4,106
Cash dividend (VND)	10,817	12,728	15,953	20,169
BVPS (VND)	0	0	0	0
P/E (x)	-	-	8.5	6.5
P/B (x)	-	-	1.7	1.3

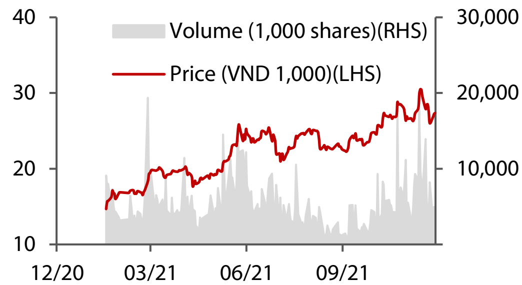
Source: OCB, RongViet Securities

BUY	**+22%**
Current price (VND)	26,250
Target price (VND)	32,100
Cash dividend*	0

(*) Forecast for the next 12 months

Stock Info

Sector	Banking
Market Cap (VND billion)	37,466
Current Shares O/S	1,369,882,863
Beta	1.3
Free Float (%)	77.4
52 weeks high	31,700
52 weeks low	14,680
Average trading volume (20 sessions)	6.746.345



Performance (%)

	3M	1Y	3Y
OCB	19	-	-
Banking	6	47	108
VN Index	9	38	60

Major shareholders (%)

Chairman Trinh Van Tuan and family	18.6
Aozora Bank	15.0
VinaCapital VOF	4.5
Ben Thanh Corporation	4.0
Foreigner Investor Room (%)	0.0

Tam Pham
(084) 028- 6299 2006 – Ext 1530
tam.ptt@vdsc.com.vn

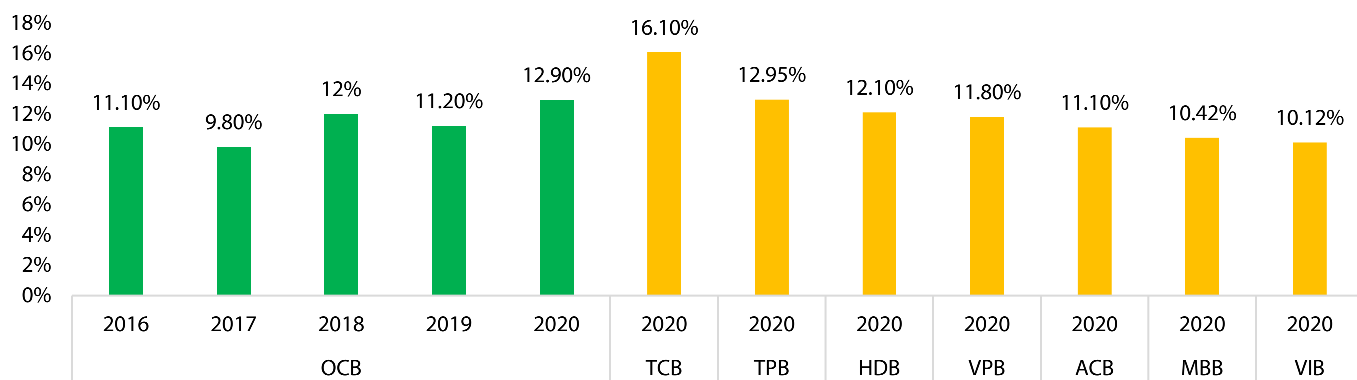
Investment thesis

Maintaining credit growth and quality on the basis of a strong capital base and high liquidity

Capital and liquidity foundation bring about strong credit growth opportunities

Having established a risk management framework in accordance with Basel 2 standards since 2013 and being one of the first three banks recognized by the State Bank of Vietnam to comply with Basel 2, OCB has continuously maintained high standards of capital adequacy and liquidity. This reflects the bank's initiative in risk and capital adequacy management. The capital adequacy ratio (CAR) fluctuated around 11-13% in the period 2016-2020, much higher than the regulated threshold of 8% and ranks third among listed banks (after TCB and TPB) with mostly tier 1 capital (including owner's contributed capital and retained earnings - the types of capital with the highest safety). This is due to the bank's low leverage with the third-highest equity/total assets ratio among the banks we track. In terms of liquidity, its low short-term component in mobilization has prevented OCB from making good use of maturity transformation (using low-cost short-term capital to finance higher interest rates medium and long-term loans) to optimize NIM. However, this helps the bank achieve LDR ratio and the ratio of short-term funds used for medium and long-term loans far higher than the thresholds set by the State Bank.

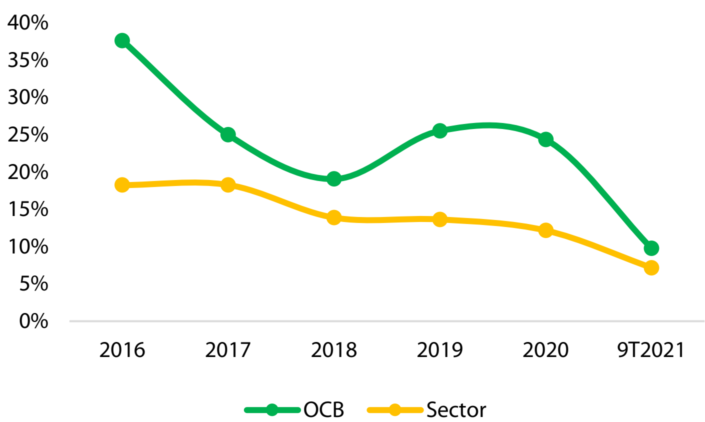
Figure 1: OCB's capital adequacy ratio compared to some commercial banks



Source: Banks' financial statements, Rong Viet Securities

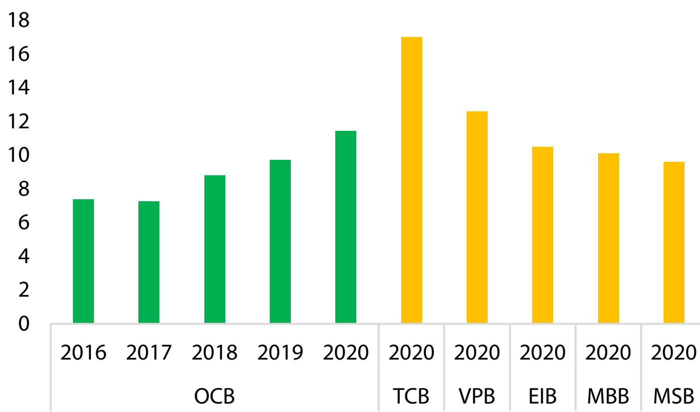
Strong capital and liquidity base combined with prudent credit policy (low loan-to-value ratio of 43-46%, and 95-96% of loans have collaterals) will ensure that a bank with a small market share like OCB can maintain its loan growth above 20%/year when the economy of Vietnam and the world enter the recovery cycle starting in 2022.

Figure 2: OCB credit growth is always higher than industry average (Ytd)



Source: OCB, SBV, Rong Viet Securities

Figure 3: Equity/Total Assets Ratio (%)

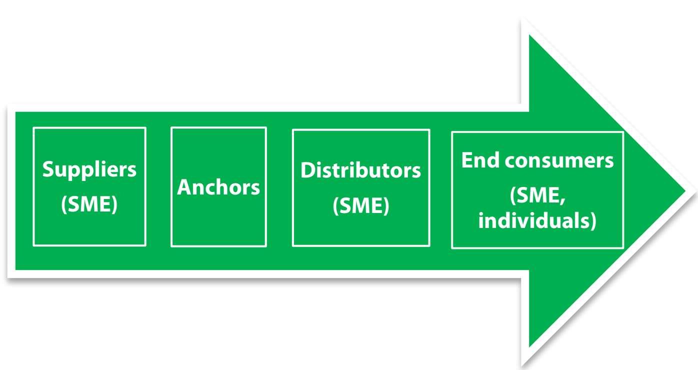


Source: Banks' financial statements, Rong Viet Securities

Good asset quality among small banks resulting from the chain lending management model with cutting-edge technology

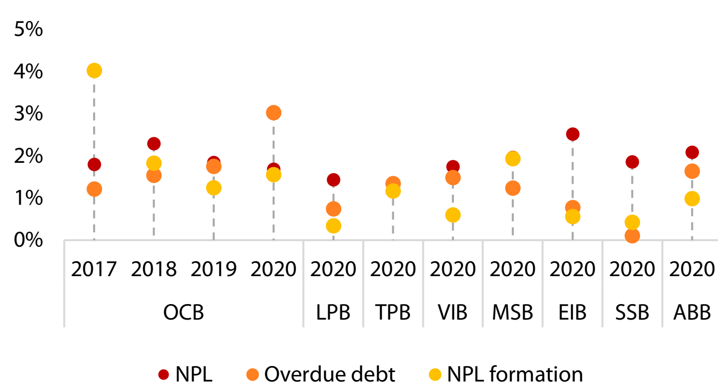
OCB's supply chain financing model has helped the bank resolve the difficulties in managing credit quality of small- and medium-sized enterprises and micro enterprises (SMEs and MSMEs) to exploit the niche market with high growth potential while ensuring asset safety. SME and MSME customers are linked into a chain based on their supplier/distributor relationships with an "anchor" large company. The anchors may or may not have a credit relationship with OCB. Combined with the OCB OMNI digital platform, the bank forms links connecting the flows of goods/services, capital and information in the supply chain, helping it to closely and comprehensively supervise and provide timely advice for all members of the chain. Therefore, OCB's asset quality is relatively good compared to other banks of the same size. The anchors which OCB have a credit relationship with are selected based on their reputable brands, good financial status, full legal status projects and good sales prospects (Thanh Cong, Khang Dien, Nam Long, Hung Thinh, Son Kim, Truong Hai, etc.). The concentration of credit in anchors is relatively low with the proportion of this group of only 6.2% of the total credit portfolio. Meanwhile, the group of anchors without credit relations are approached by providing OCB's payment and cash flow management solutions.

Figure 4: OCB's supply chain financing model



Source: OCB

Figure 5: NPL ratio, overdue debt ratio and NPL formation ratio of OCB and other banks of the same size



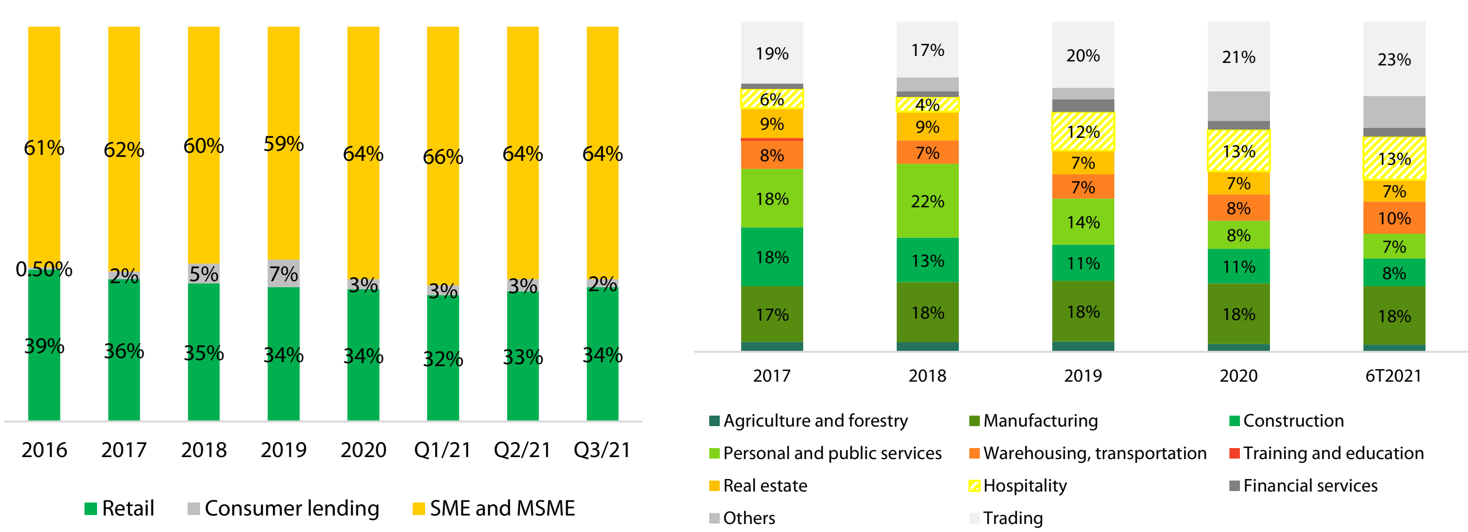
Source: Banks' financial statements, Rong Viet Securities

Retail customers are customers/employees of OCB's enterprise customers with more than 95% of retail customers in the middle-income group (VND 100-200 million/year). This is the basis that helps the bank maintain sound credit quality in the retail segment by exploiting information about customers' income and spending.

Credit risk limits are classified, adjusted according to the business situation and periodically monitored to give warnings to help the bank react early and limit losses. As a result, since the early stage of the pandemic, the bank rapidly adjusted and gradually reduced outstanding loans in sensitive industries such as construction (down from 10.9% in 2019 to 8.5% at the end of Q2/2021) and real estate (down from 7.3% in 2019 to 6.6% at the end of Q2/2021). Real estate lending is limited to less than 10% of total outstanding loans in the long-term. The consumer lending segment (COM-B) was forecasted to be the business segment mostly affected by the pandemic and has also been limited in loan growth since the beginning of 2020. While total outstanding loans to customers in 2020 increased by 26.1%, outstanding loans of COM-B decreased sharply from 7.7% in 2019 to 3.3% (in proportion). The bank also aims to limit COM-B loans at a maximum level of 5% of the loan portfolio.

However, it is worth noting that the proportion of loans to the hotel and restaurant industry has increased sharply from 2019 until now (4% in 2018 to 13% in 1H2021). At the end of 2020, OCB has written off debts for customers who are no longer able to repay due to the impact of the pandemic.

Figure 6: Lending structure was adjusted to limit impact of the pandemic



Source: OCB, Rong Viet Securities

The restructured debt decreased from VND 1,500 billion (1.6% of the loan book) at the end of 2020 to a low level of VND 926 billion (1% of the loan portfolio) at the end of Q2/2021. In Q3/2021, the severe outbreak of the pandemic combined with OCB's business location concentrated in the South have caused a significant increase in restructured debt to VND 2,003 billion. A large part of which were in the transport-warehouse sector (28%), manufacturing (16%) and construction (16%). Customer in these industries will recover quickly after the pandemic restrictions are eased.

The credit risk management system has been upgraded from 2020 with the goal that by 2025, OCB will apply artificial intelligence (AI) and robots to assess customer credit risks, shortening the document processing time and analyzing data for marketing and product design. We expect these innovations to not only create cost effectiveness but also play an important role in helping the bank enhance its ability to select customers with better credit quality.

NIM will slightly expand in the medium term on the basis of optimizing deposit structure

The competitive interest rate policy for the purpose of expanding the customer base makes OCB's deposit interest rates always among the highest in the industry, thereby encouraging customers to choose term deposits rather than leave money in their current account. As a result, CASA of OCB just increased slightly from 10% to 12% in the 2015-2020 period. However, the good point is that CASA from retail customers has gradually increased its share in total CASA from 3% in 2016 to 8.1% in 2020. Due to the higher stability of retail CASA than corporate CASA, retail CASA plays an important role in helping banks reduce mobilization costs, but in general, OCB's ability to attract retail CASA is still weak. From 2H2020, while large banks recorded sharp increases in CASA ratio (mainly retail CASA) thanks to the accelerating trend of online payment during the pandemic combined with strong ecosystems and many initiatives to attract CASA, OCB's CASA ratio only slightly improved from 11.1% in the mid-2020 to 12% at the end of 2020 but after 9M2021 it declined to 10.4%. Constraints of small size and middle-income retail customers may be the reasons for the poor ability to attract and retain CASA.

Figure 7: Average deposit rate and average term deposit rate (%/year)

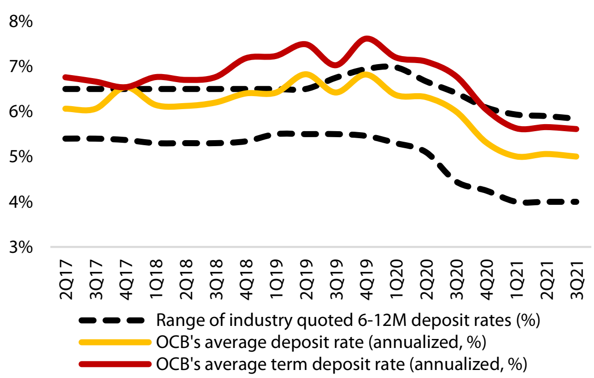


Figure 8: Size of customer base (millions of customers)

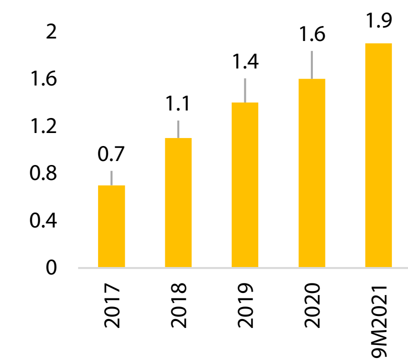
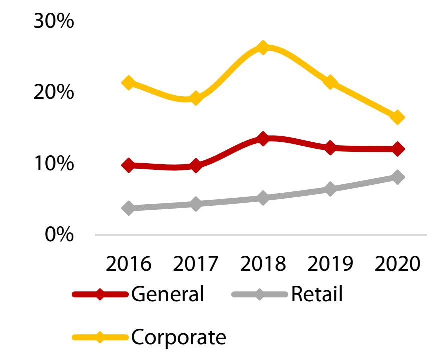


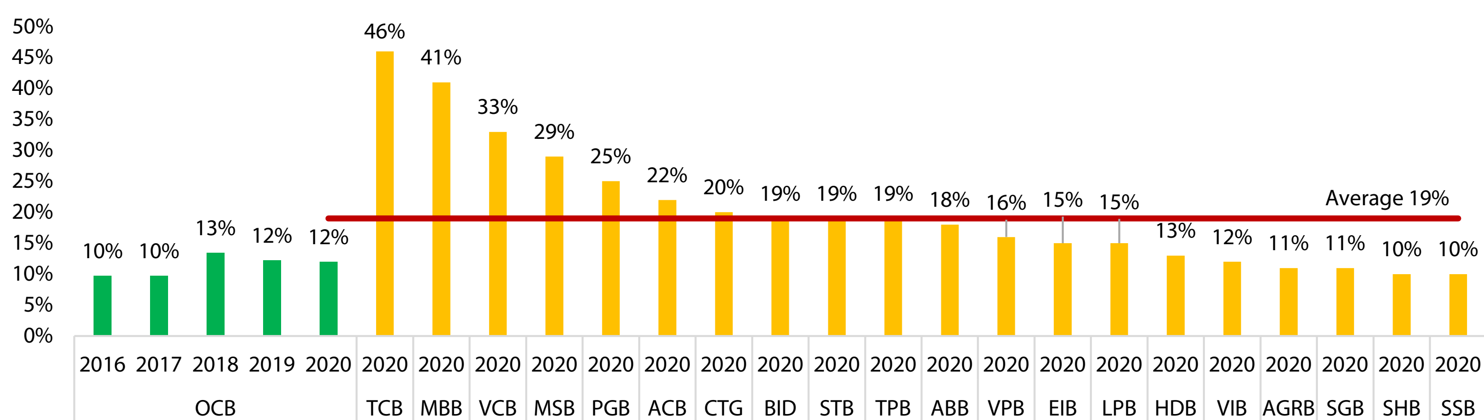
Figure 9: CASA ratio by customer group



Sources: OCB, SBV, Fiinpro, Rong Viet Securities

The digital banking strategy for the 2021-2025 period is expected to help OCB enhance its ability to attract customers by focusing on improving customer experience on omni-channel and open banking platforms. However, considering the harsh competition for CASA among banks, especially large banks with large brand coverage, along with the abovementioned constraints, we believe that the bank's goal of raising CASA ratio to 17% by 2025 will actually take more time. The opportunity to lower the cost of funding by increasing CASA ratio, thereby, is not much.

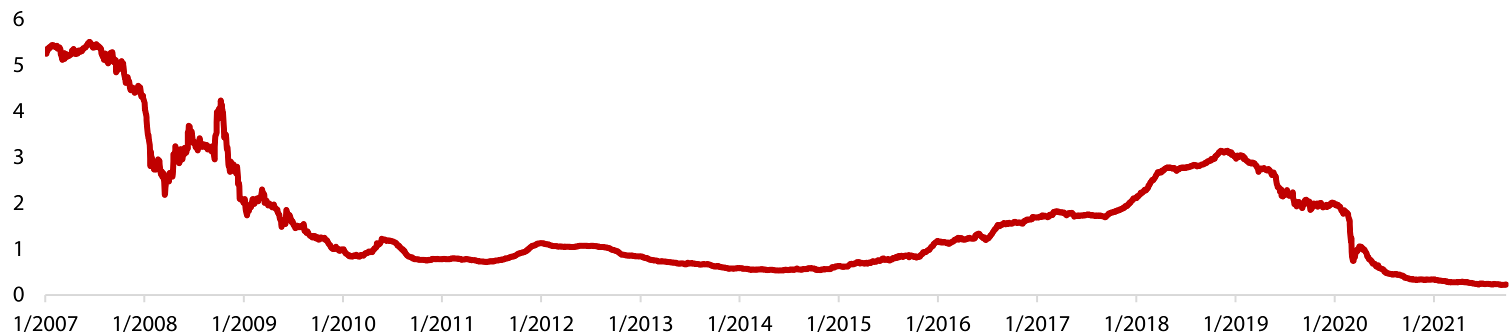
Figure 10: OCB's CASA ratio compared to other banks and average of listed banks



Source: Financial statements of banks, Rong Viet Securities

Attracting CASA from residential deposits is not OCB's strength. Instead, the bank reduces funding costs by attracting medium- and long-term funds from international financial institutions and from issuing valuable papers. From 2019 to now, thanks to its cooperation with many international financial institutions and its positive credit rating, the bank has mobilized from IFC and ADB credit packages totaling USD 405 million, contributing to diversify the bank's capital structure, reducing mobilization costs and increasing safety ratios. According to the funding terms, loans from these organizations have an interest rate equal to the USD interbank lending rate (LIBOR) plus 0.5-2%/year, which are much lower than deposit rates of the same term at OCB (6.1-6.15%/year as of the end of November 2021). Attracting more funding from international financial institutions is one of the strategic focuses of OCB in the coming time and will help the bank continue to improve funding costs.

Figure 11: 12-month Libor interest rates in USD (%/year)

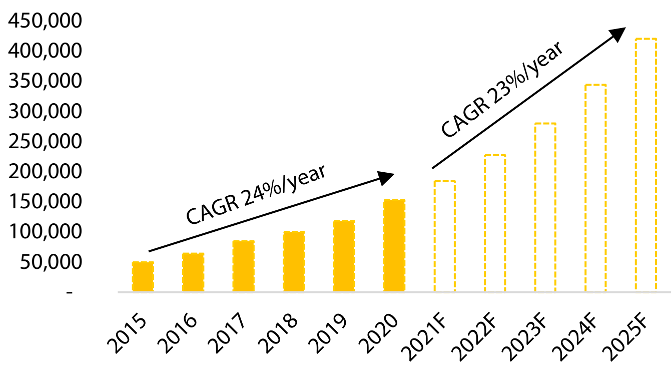


Source: Federal Reserve Bank of St. Louis

Valuable papers are also one of OCB's significant sources of mobilization since 2018. The share of valuable papers in total capital increased from 1.7% in 2017 to 10.7% in 2020. Compared with deposit rates for 24-month and 36-month term, OCB bond interest rate for 2-3 year terms was not significantly lower in the period of 2018-2020. Therefore, the sharp increase in the issuance of valuable papers during this period, in our opinion, is to prepare for the regulation of tightening the ratio of short-term capital funding medium and long-term loans in the context that the bank's credit growth is always nearly double that of the industry, rather than reducing the cost of mobilization. However, the interest rate on 2-3 year bonds issued at the beginning of 2021 until now has decreased significantly, only 4.2 - 3.5%/year, compared to 6.5-6.8%/year of the interest rate on savings deposits of the same term. Liquidity in the interbank market is abundant, but the weak demand of customers for loans has caused banks to look for other investment channels, creating conditions for OCB to lower interest rates on valuable papers. With the growing contribution of valuable papers issued during the period of low interest rates and the tenure of these bonds, we believe that OCB can achieve a level of funding costs in the period 2021-2023 better than in the period 2018-2020. The narrow and positive interest rate reset gap of the balance sheet makes it difficult for the bank to take advantage of the upward sloping yield curve trend in the early stage of the upcoming economic recovery to expand NIM.

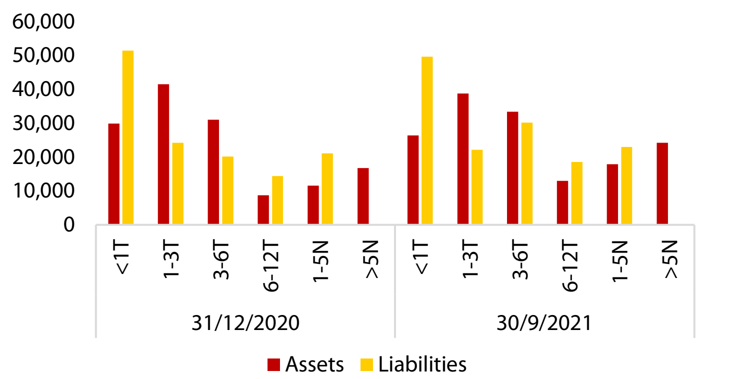
We expect the balance sheet growth in the 2021-2025 period to be lower than in the 2016-2020 period based on prudent credit risk control, provisioning buffer enhancement, and slight improvement in NIM over the period of credit expansion. ROA is approximately 2.9-3%, compared to 2.3% in 2018-2020, thanks to lower credit costs and better operation efficiency. The average ROE reached 23.3%, lower than 24.5% in the 2018-2020 period, due to the decreasing proportion of income from government bond trading.

Figure 12: Total assets 2015-2025F (VND billion)



Source: OCB, Rong Viet Securities

Figure 13: Assets and liabilities allocation by maturity buckets (VND billion)



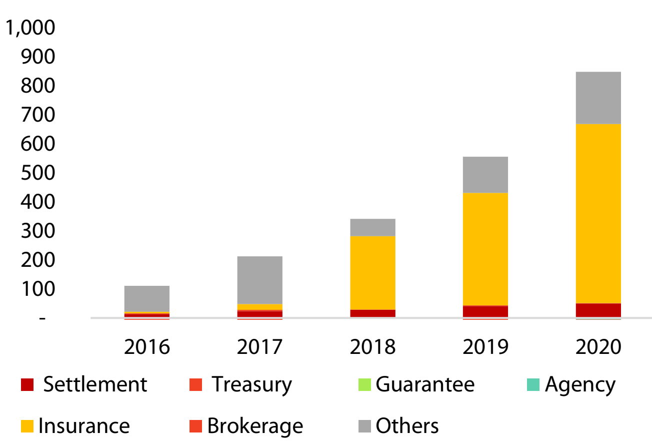
Source: OCB, Rong Viet Securities

Non-interest income will be more diverse with contributions from the card business and investment banking services

The income structure before 2018 focused on interest income with the proportion of that segment accounting for 90%. Since 2018, government bond investment has contributed largely to non-interest income, helping the proportion of non-interest income increase to 38% in 2020, the highest among the banks we are monitoring. Strong growth in non-interest income is an important factor to help the bank strengthen its capital base, limit exposure to credit risks as well as put OCB in the group of banks with the best performance in the system.

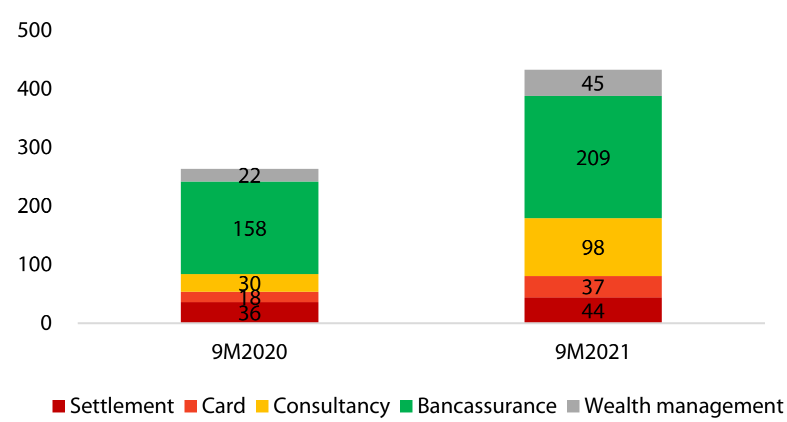
Starting to distribute Generali's life insurance since 2017 and distribute it exclusively since 2019, bancassurance commission income at OCB accounted for over 70% of net service income in the period 2018-2020. OCB's monthly life insurance sales has always been exceeded its minimum commitment with Generali by at least 30%. Given the high potentials for life insurance of Vietnam market including low penetration rate and the fast-expanding middle class, we believe the bank can maintain high growth of bancassurance income in the coming years.

Figure 14: Components of service income (VND billion)



Source: OCB, Rong Viet Securities

Figure 15: Income from key service segments increased significantly after 9M2021 (excluded supplemental support fee in 2020)



Source: OCB, Rong Viet Securitas

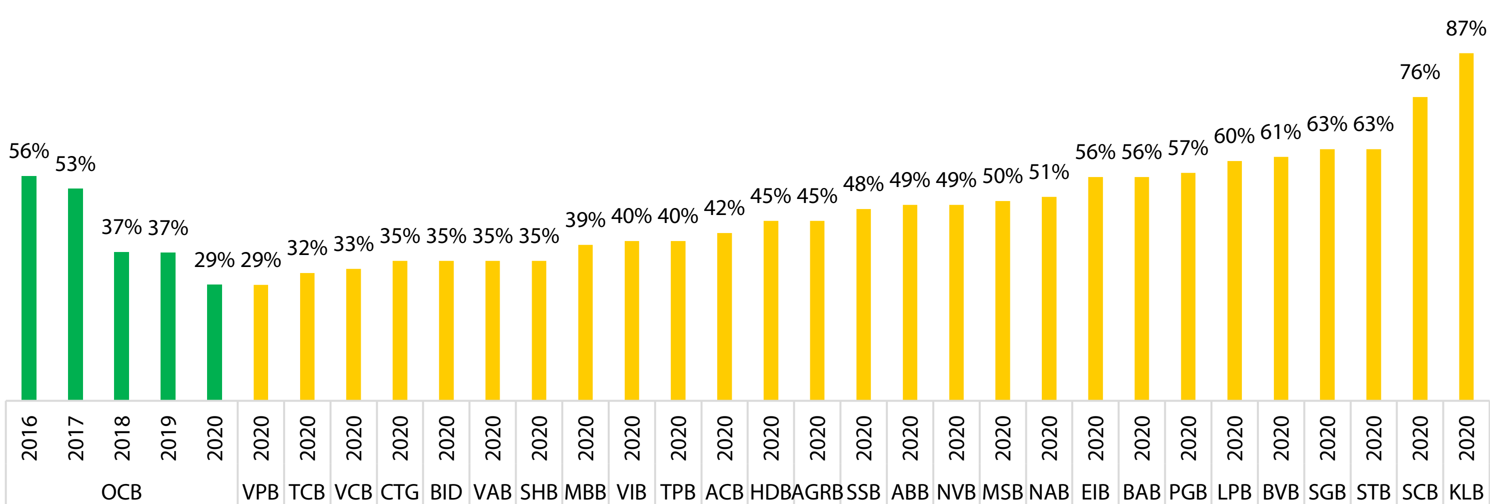
Currently, other service segments including settlement and cards contribute only 7% of fee income compared to an average of over 25% at other banks. However, we expect that settlement and card income can accelerate in the coming years thanks to the strategy of developing a priority customer group including SME owners and business household owners from 2019 along with the increasing investment in card system from 2020. Non-cash payment activities via OCB OMNI app have also increased sharply since the beginning of the pandemic. In Q2/2021, the number of transactions and transaction value through the app increased by 105% and 154% YoY. These factors, together with that the bank will put into operation marketplace for customers and continue to optimize the digital platforms OCB OMNI and OCB Open API will boost the revenue of card and settlement fees.

Advisory services on issuance, payment and distribution guarantee of corporate bonds will make a significant contribution to service income from 2021 on the basis of the cooperation between the capital department and corporate banking department and retail banking department. The cooperation relationships with large enterprises mainly in the real estate industry such as Son Kim, Nam Long, FLC, TTC, etc. creates ample growth potential for this segment, helping the bank to diversify its income sources. All corporate bonds are secured by real estate and are managed like a loan to limit credit risk.

Operation performance is continuously improving as a result of digitization and technology

Many studies show that financial technology brings the greatest benefits to individual customers and SMEs, among customer groups of the banking industry. The efficiency of operation and optimization when applying financial technology (fintech) in small-scale banks is also higher because of the simplicity and uniformity of this group compared to large banks. Since OCB applied centralized management by digitization on the multichannel platform in 2018, CIR has decreased from over 53% in 2017 to 28% in 9M2021, being among the top performing listed banks. Excluding government bond trading business, OCB's CIR of 35% at the end of Q3/2021 is still in the highly efficient group.

Figure 16: OCB's CIR versus other listed banks



Source: Financial statements of banks, Rong Viet Securities

In the coming time, OCB will continue to upgrade its T24 core banking system (expected to operate from December 2021), digitizing all main process groups and some sub-processes to form a complete digital internal platform, not just on the customer interface. If the plan is implemented on schedule, the CIR could improve further in the near future.

In order to serve an abundant source of new retail customers attracted annually from a system of 100 universities and colleges using OCB's payment and cash flow management platform, customer experience is defined as an investment focus for the following years. In the 2021-2025 roadmap, besides optimizing OCB OMNI and OCB Open API digital platforms, the bank will accelerate the diversification of financial and non-financial products and services by cooperating with fintech companies and technology startups. A diverse and homogeneous "All-in-one" experience will be a condition for OCB to retain customers, especially retail customers, thereby helping it reduce customer acquisition costs and focus on exploiting the potential customer groups that can bring the highest value.

Risks

Upside risks

Private placement of 70 million shares (5.1% of total outstanding shares). Despite being a small bank, OCB has shown outstanding performance for many years while the potential growth in the coming time is still lavish. That is why the private placement plan has attracted a lot of investors' attention. The bank is temporarily locking its foreign ownership ratio at 21.8% in preparation for greater participation of foreign shareholder(s). The private placement will be completed in Q4/2021 or early 2022 and should be a short-term catalyst for stock price.

Downside risks

Counterparty risks. Some business segments are built on the partnerships with some large developers in the real estate sector, a "sensitive" one. This strategy, on the one hand, is a strong support to the growth of customer base and income, but on the other hand, will make the bank more susceptible to risks of those partners.

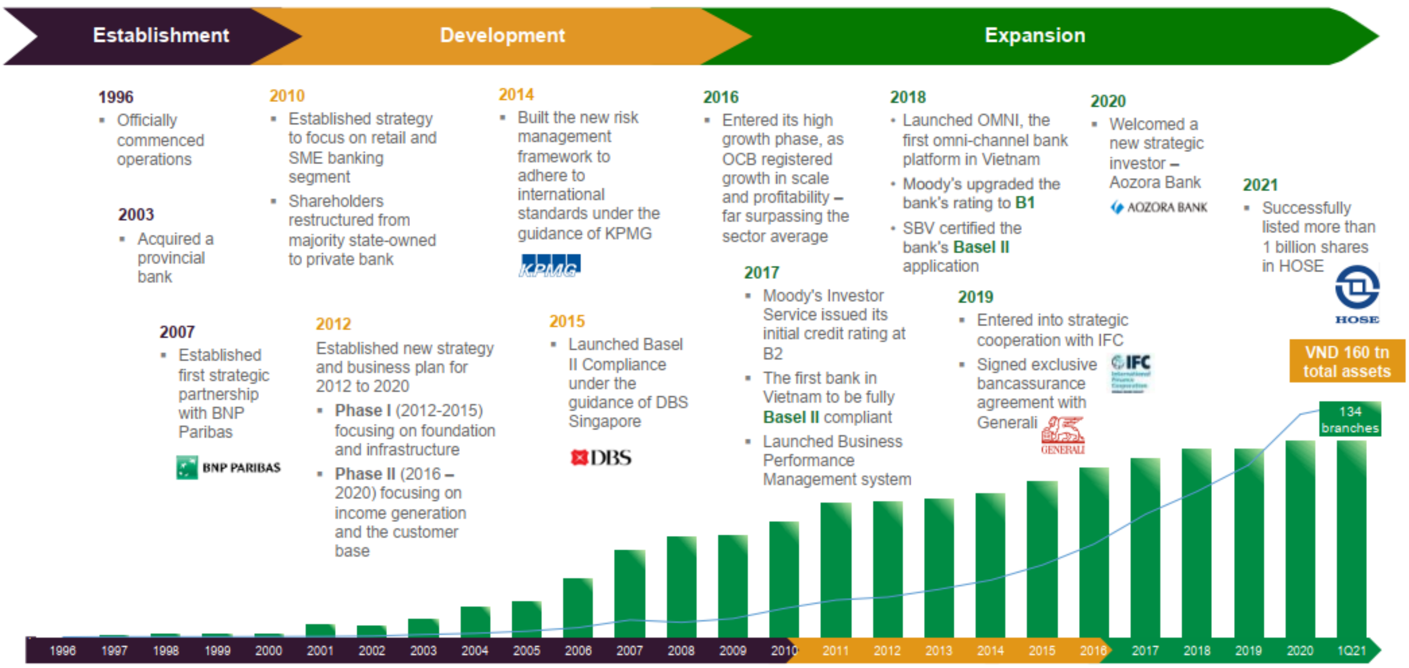
Pandemic risk. Circular 03 and Circular 14 have created a special mechanism to help banks, including OCB, ease the pressure of debt restructuring for customers affected by the pandemic by allowing spread of credit costs for three years instead of one-time record. Although strict pandemic prevention measures have been lifted, the recovery of income and cash flow of companies and people is still relatively slow. The risks are increasing but banks must lower interest rates to support customers and must keep lending to maintain balance sheet and earnings growth. If strict pandemic prevention measures are re-applied, the scale of loans at risk of becoming bad debts will increase, leading to large provision expenses. Additionally, the significant proportion of the restaurant - hotel industry in OCB's total credit portfolio is also a factor to observe as this sector was hit the most and its recovery is the most fragile among industries.

Bank overview

1. Establishment and name

Orient Commercial Joint Stock Bank (OCB) was established in 1996 in Ho Chi Minh City with four major shareholders: the Ho Chi Minh City Committee Office, Ben Thanh Corporation, Vietcombank, and BNP Paribas. By 2010, the bank began its restructuring to become a private joint stock bank and established a business strategy focusing on retail and SME businesses while reinforcing business capabilities and upgrading governance and risk management. Since 2016, the bank has entered a period of business expansion, continuously growing in size and profitability with profitability indicators among the top in the industry in 2020. Number of branches/transaction offices by the end of 2020 reached 134 and total assets VND 152 trillion. OCB established a strategic partnership with Aozora Bank (Japan) in 2020 and completed the IPO on HOSE stock exchange in early 2021. Aozora Bank is currently the sole strategic shareholder at OCB.

Figure 17: The process of formation and development of OCB



Source: OCB

2. Chartered capital

After many capital increases and IPO in early 2021, OCB's charter capital is currently VND 10,959 billion, ranking 17th in the entire Vietnamese commercial banking system.

3. Organization structure

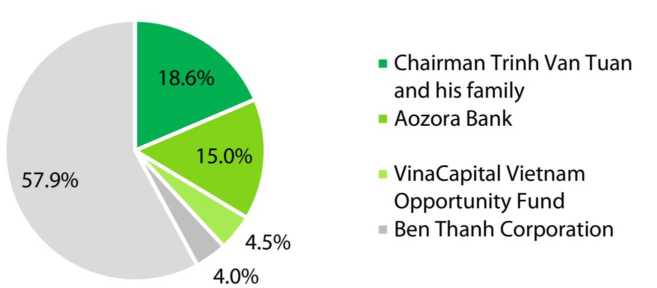
After divesting completely from Orient Securities Joint Stock Company (ORS) in 2015, OCB established a subsidiary (owning 100% of charter capital of VND 25 billion) which is Orient Commercial Bank International Money Transfer limited company (OIMT) in 2017. The main banking operations are concentrated at the parent bank.

4. Ownership structure

As of the end of September 2021, OCB has 1,369,882,863 outstanding shares. The bank currently has a strategic shareholder, Aozora Bank (Japan), which owns 15% of the shares. Chairman Trinh Van Tuan and his family hold about 18.6%.

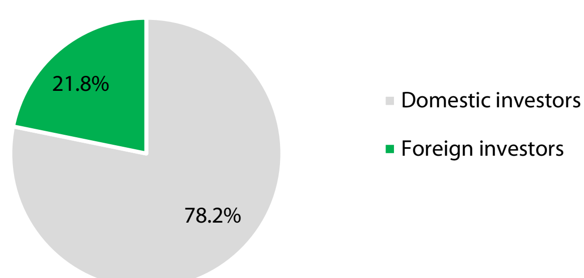
OCB's foreign ownership ratio is currently locked at 21.8%, lower than the ceiling of 30% regulated by the State Bank, in preparation for the private placement plan of 5.1% (70 million shares) for domestic and foreign investors.

Figure 18: Ownership ratio of major shareholders (as of the end of 2020)



Source: Fiingroup, Rong Viet Securities

Figure 19: Ownership structure by type of investor (as of the end of 2020)

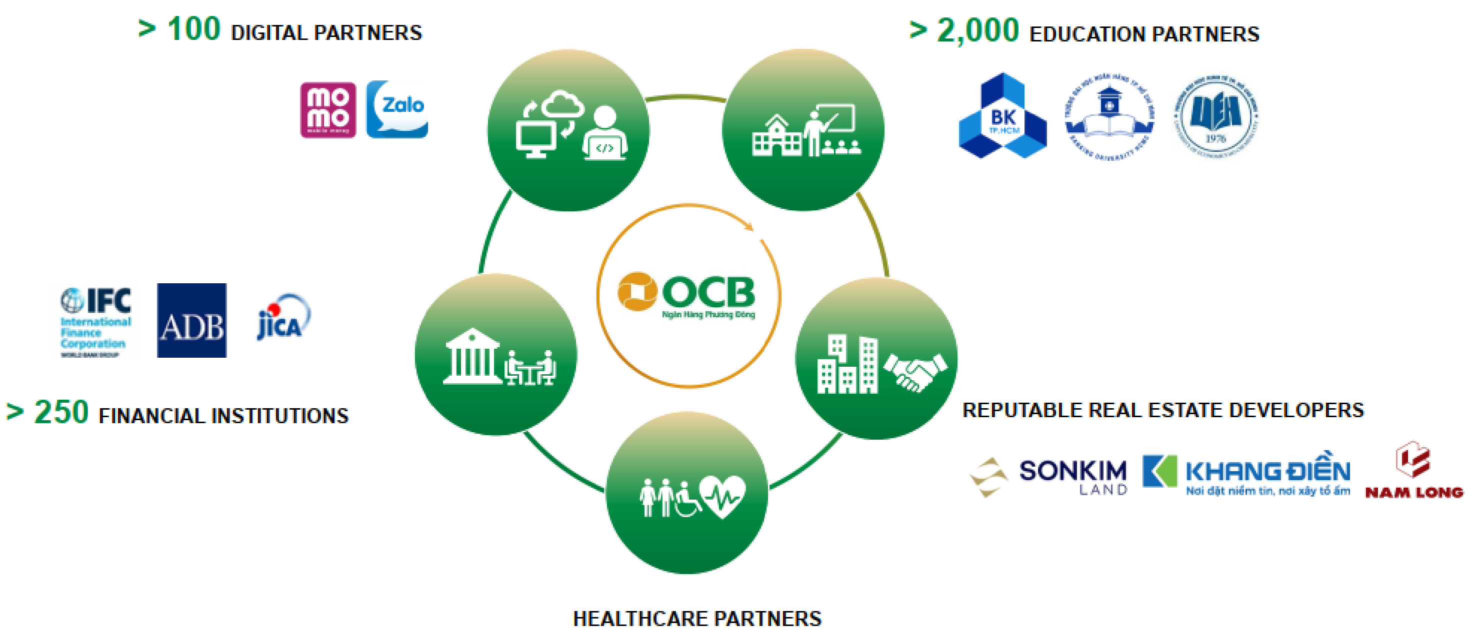


Source: Fiingroup, Rong Viet Securities

5. Strategy and key customer segments

Post restructuring, the bank started to shape its strategy to focus on retail and SMEs and proactively complied with risk management in accordance with international standards. OCB has continuously improved its operational efficiency and led the industry in terms of growth rate since 2015. The CAGR for the period 2015-2020 of total operating income and profit before tax is 41%/year and 75%/year, respectively. In the near future, OCB aims to become the fifth largest private joint stock commercial bank in terms of revenue by 2025 with a focus on connecting business segments into a chain to enhance customer experience by leveraging the ecosystem of large partners and optimize management efficiency through digital transformation. Each customer chain includes SMEs that are suppliers and distributors of a core large enterprise. Meanwhile, middle-income individual customers (VND 100-200 million/year) are approached and developed on the basis of daily needs such as education (schools and colleges), healthcare (hospitals) and housing (real estate developers).

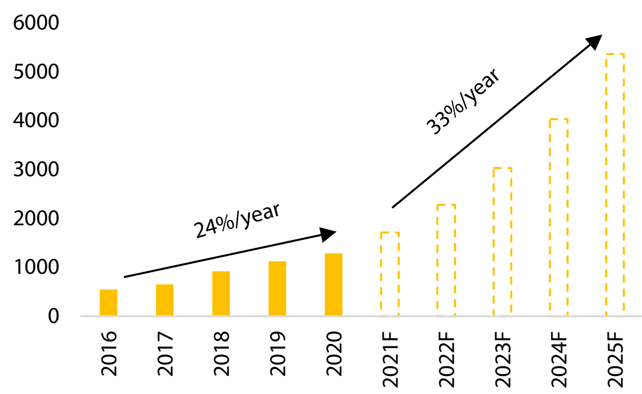
Figure 20: OCB's diverse partners ecosystem



Source: OCB

OCB's customer base grew rapidly at an average rate of 24% per year, reaching 1.3 million active customers by the end of 2020. This size is still small compared to many other banks in the system. However, the new strategy of attracting customers through exploiting the ecosystem, notably strategic cooperation with schools and universities (Polytechnic University, UEH University, Banking University, HCMC Open University, etc.), real estate enterprises (Nam Long, Khang Dien, Sơn Kim, FLC, etc.) and airlines (Bamboo Airways) will help OCB expand its customer base rapidly to 5-6 million customers by 2025, representing a compound growth rate of 33%/year, according to management's target.

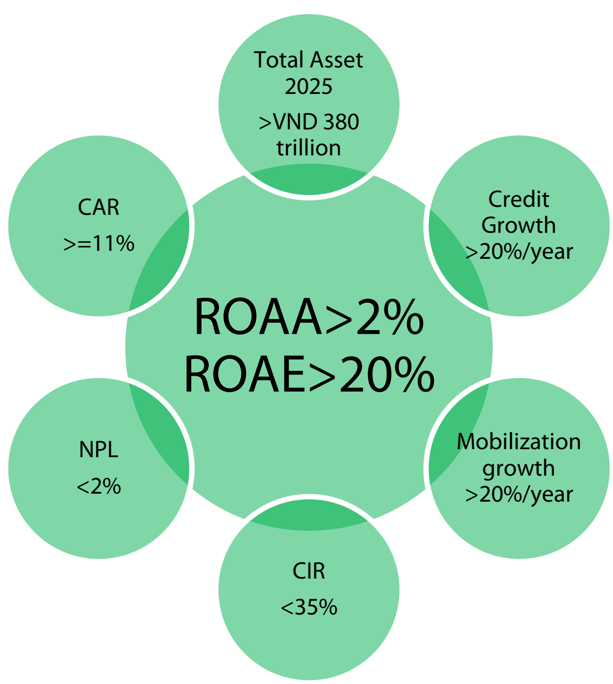
Figure 21: Customer base and target to 2025 (thousand customers)



Source: OCB, Rong Viet Securities

One thing that stands out at OCB compared to other banks is that the bank's investment in government bonds performs the best among the banks we are covering. Income from government bond trading generated an average of 19% of total operating income in the period 2018-2020. The bank believes that this business segment will continue to play an important role in the next years thanks to a team of highly qualified and experienced personnel. The increasing transaction size while participants in the Government bond market is increasingly diversified, along with improvements in management, operation and transaction infrastructure should help OCB promote well its role of a market maker and maintain income from government bond investment.

Figure 22: Key performance targets up to 2025



Source: OCB, Rong Viet Securities

6. Digital strategy

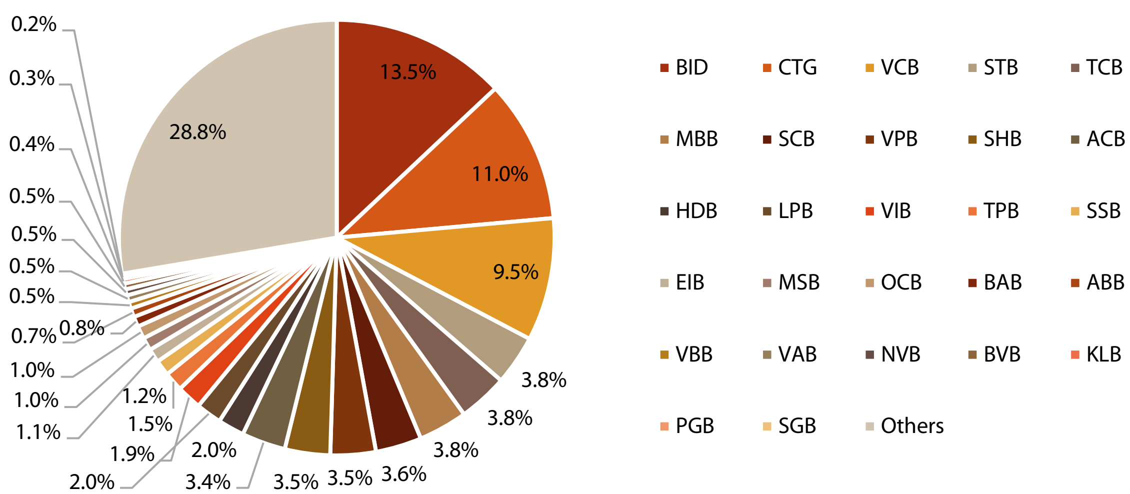
In the banking industry, investment in digital banking and digital transformation is an inevitable step and must be carried out continuously in order to maintain a competitive advantage. While many large capital banks have invested heavily from the beginning for the goal of fast and strong digital transformation, OCB as a small bank, outlines a step-by-step roadmap that is selective and suitable for its financial capacity. The first milestone in digital transformation was the OCB OMNI digital bank launched in March 2018 to help customers use banking services without having to go to a teller's counter. The highlight was placed on convenience for customers which is that one account can be used on multiple devices. The next focus is on diversifying products through building and sharing opensource code (Open API) with technology companies to shorten investment time for digital banking facilities. From 2020 onwards, the bank focuses its resources on modernizing the core banking, digitizing internal processes and upgrading risk management using robots and artificial intelligence. In addition, according to our research, OCB is one of a few banks (along with TCB, VIB, VietA Bank and PVCom Bank) that are pioneers in data migration to the cloud. This not only helps the bank to speed up real-time data processing, but also supports faster and more personalized product and service development. As a result, although the budget is not large, the pioneering and selective implementation can help OCB improve customer experience and maintain its competitive advantages.

Financial Analysis

Credit market share expands rapidly with SMEs to be the main customer segment

After the restructuring, OCB embarked in a period of rapid growth since 2016. Customer loans grew stronger than the whole industry at a CAGR 23.5% in 2016-2020 period. As a result, OCB's credit market share has expanded significantly from 0.7% in 2016 to 1% at the end of Q3/2021. The weight of loans to customers in total assets remained stable at 57-58% in the period 2016-2020. Corporate bonds account for only a very small proportion, less than 0.1% of total assets.

Figure 23: Credit market share (loans to customers and corporate bonds) as of September 30th, 2021

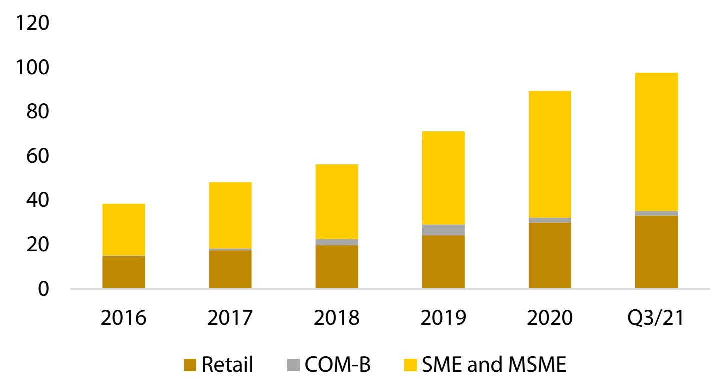


Source: Financial statements of banks, Rong Viet Securities

OCB's retail-oriented loan portfolio focuses on small- and medium-size enterprises (SMEs), individual customers and consumer credit (COM-B), accounting for 64%, 34% and 2% respectively at the end of Q3/2021. Corporate customers are managed using the supply chain model. Individual customers are employees/customers of those corporate customers, who are approached and developed based on the needs of life stages including education, healthcare and housing to take advantage of the diverse ecosystem. Additionally, the higher-income customer segment consisting of SME business owners and household business owners is prioritized to develop into a separate segment, facilitating cross-selling of card, payment and insurance products.

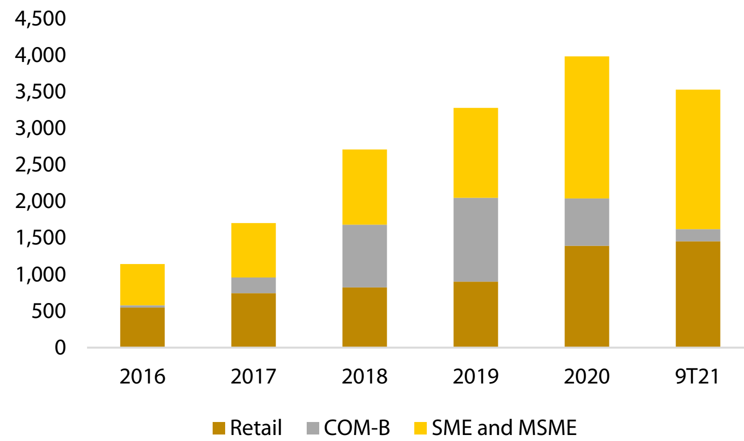
The COM-B segment (serving low-income customers) was established and promoted from 2017 to 2019. COM-B is the most profitable among all lending segments (accounting for 5% of outstanding loans but generating 35% of interest income), while the annual bad debt ratio is controlled at approximately 7%, similar to the main rivals in this segment, namely FE Credit and Mcredit. The overall NIM of the portfolio, thereby, has gradually increased from 3.11% in 2016 to 3.94% in 2019. Since the outbreak of the pandemic, COM-B segment has been temporarily scaled down from the beginning of 2020 (from 7% at 2019-end to 2% of loan portfolio at the end of Q3/2021 or reduced from about VND 5,000 billion to approximately VND 2,000 billion) to minimize the impact of the pandemic on the loan book. As the pandemic development is still uncertain, we believe that the bank will continue to be prudent with this segment growth in order to control asset quality.

Figure 24: Loan book by customer group (VND trillion)



Source: OCB, Rong Viet Securities

Figure 25: Interest income by customer group (VND billion)



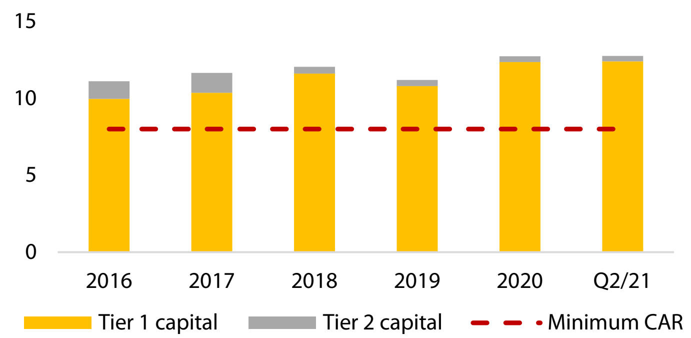
Source: OCB, Rong Viet Securities

Capital: Strong capital buffer, among the leading group in the industry

The strong profit acceleration combined with the stock dividend policy has helped OCB maintain its growth resources. OCB's current capital base is the second highest in the industry (only after TCB). OCB is one of the earliest banks to comply with Circular 41/2016/TT-NHNN stipulating the capital adequacy ratio for banks and foreign bank branches (equivalent to Basel 2) with the adequacy ratio capital of 12.85% at 2020 end, 1.5 times higher than the minimum threshold of 8% prescribed by Basel 2, while the average level of private commercial banks is 10.9% and of state-owned commercial banks is 8.94%. The early compliance shows OCB's determination and initiative in approaching advanced management standards, creating a foundation for sustainable development and resistance to shocks in the economy as seen since the COVID-19 outbreak.

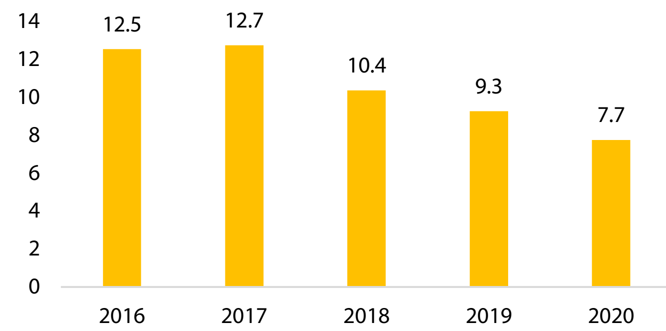
Leverage ratio (debt to equity) fell sharply in 2016-2020 period, the third best among the banks we cover. Annual NPAT growth is always higher than the growth of total assets and the stock dividend policy helps the bank to gradually increase the equity base and reinforce the capital base. In the upcoming period of high credit growth when the economy recovers, we expect OCB to maintain its current strong capital base, on the basis of maintaining its high ROA performance as in the 2019-2020 period and its policy of limiting cash dividends.

Figure 26: OCB's capital adequacy ratio (%)



Source: OCB, Rong Viet Securities

Figure 27: Debt/Equity (times)

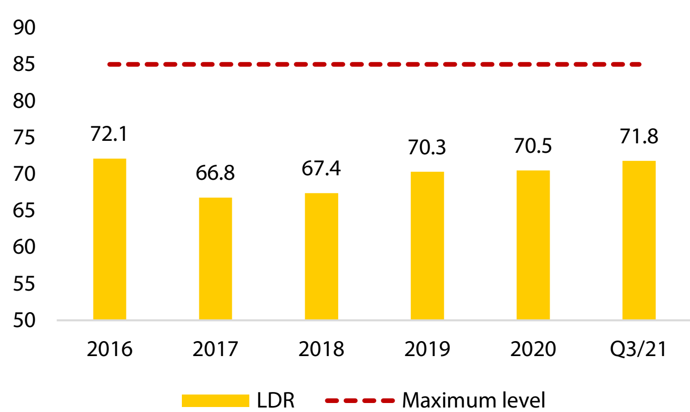


Source: OCB, Rong Viet Securities

Liquidity: Prudent liquidity management does not create conditions for NIM optimization

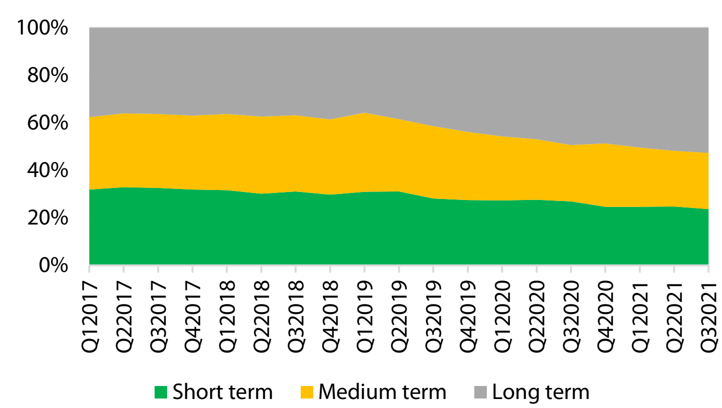
OCB maintains liquidity at a high level compared to the limits regulated by the State Bank as the term structure of deposits and loans are almost medium and long term. This is a plus point. The bank is well-prepared to absorb liquidity risks. However, this is also a limitation as OCB cannot take advantage of maturity transformation to improve NIM in the period when interest rates on liquid assets decline, requiring reasonable asset allocation. Improving NIM by increasing CASA ratio is the goal of many banks because the funding cost of this type of deposit is almost zero. However, OCB's CASA ratio is currently low and unstable. The efforts to enhance customer experience that OCB is unlikely to enable CASA to expand rapidly to achieve a better NIM, due to constraints of size, middle-income retail customer base and the fact that components of the ecosystem are not strongly connected.

Figure 28: LDR ratio (%)



Source: OCB, Rong Viet Securities

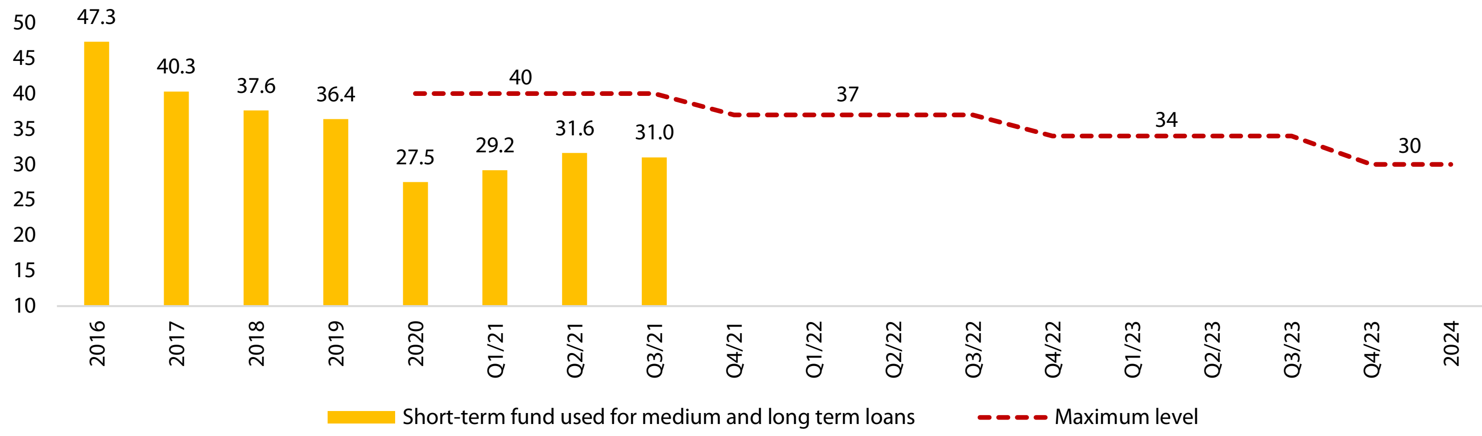
Figure 29: Loan portfolio by remaining maturity (%)



Source: OCB, Rong Viet Securities

The LDR ratio is stable around 70%, much lower than the cap of 85%, showing that OCB still has large headroom to improve its profit ratios. The ratio of short-term funds used for medium and long-term loans decreased gradually from 47.3% in 2016 to 27.5% in 2020, although it has bounced to 31% after 9M2021 partly due to the increase in the proportion of long-term loans. The capital strategy in the coming five-year period still focuses on medium and long-term sources to help maintain this ratio below the caps according to the roadmap of gradually reducing the ratio of short-term funds used for medium and long-term loans of the State Bank.

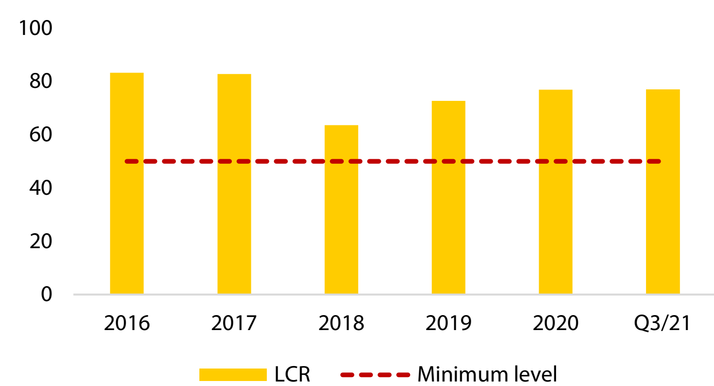
Figure 30: Ratio of short-term funds used for medium and long-term loans (%)



Source: OCB, Rong Viet Securities

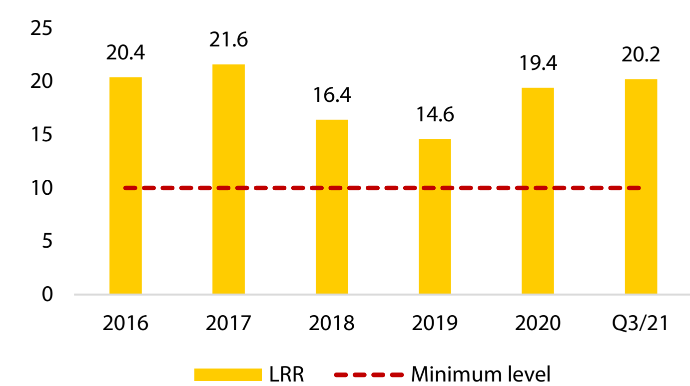
The 30-day liquidity coverage ratio (LCR) and the liquidity reserve ratio (LRR) improved in 6M2021, corresponding to a decline in the CASA ratio and an increase in the high liquidity asset ratio, mainly because the bank allocated more capital to government bonds to create the base assets for government bond market making, which is the most profitable activity (annual CIR is only about 3%, according to management). We expect these ratios to decrease slightly in the coming years following the gradual increase of CASA ratio but still maintain a high gap with regulatory limits.

Figure 31: 30-day liquidity coverage ratio (LCR, %)



Source: OCB, Rong Viet Securities

Figure 32: Liquidity reserve ratio LRR (%)



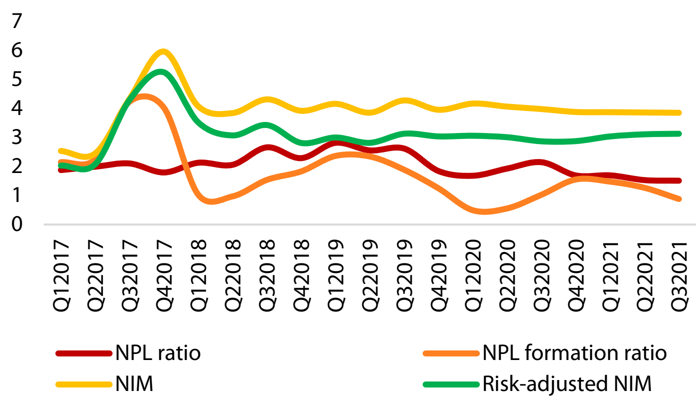
Source: OCB, Rong Viet Securities

Asset quality: Credit risk is well controlled but the provision buffer needs improvements

OCB's bad debt ratio increased sharply in 2018 due to the promotion of consumer credit from 2017 end. It gradually decreased to 1.5% by the end of Q3/2021 thanks to the contraction of the consumer credit segment from the beginning of 2020 and the handling of uncollectible debts in Q4/2020 in order to prepare for potential bad debts to face the uncertainty of the pandemic. The bad debt formation rate gradually improved from 1.83% in 2018 to 0.9% at the end of Q3/2021, although it increased to 1.55% at the end of 2020 due to the rise in bad debt formation after the Covid-19 outbreaks in 2020. Accordingly, NIM after risk adjustment slightly improved from 2.8% in 2018 to 3.3% at the end of Q3/2021. The policy of debt restructuring and maintaining classification of affected loans of the State Bank has helped the bank control the rate of bad debt formation.

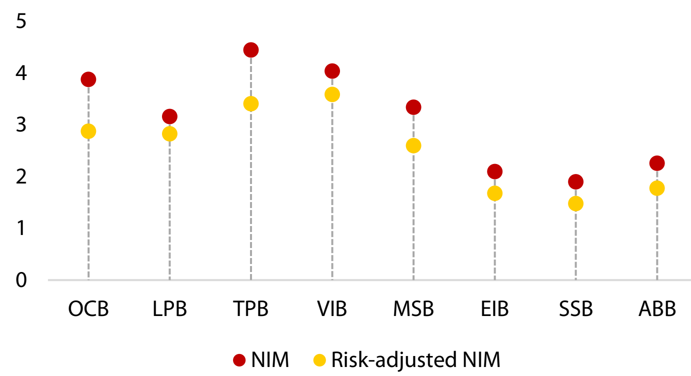
Restructured debt decreased from VND 1,500 billion (1.6% of the loan portfolio) at the end of 2020 to VND 926 billion (1% of the portfolio) at the end of Q2/2021. But the severe impact of the fourth pandemic outbreak have caused restructured debt balance to rise to VND 2,003 billion (2% of the portfolio) in Q3/2021 because SMEs were hit the hardest and the bank's business is concentrated in the Southern region. However, restructured debts centered in sectors such as transportation, warehousing (28%), manufacturing (16%) and construction (16%), which are highly likely to recover quickly from Q4 following the normalization of the economy.

Figure 33: Ratios of NPL formation and NPL, NIM and risk-adjusted NIM (%, TTM)



Source: OCB, Rong Viet Securities

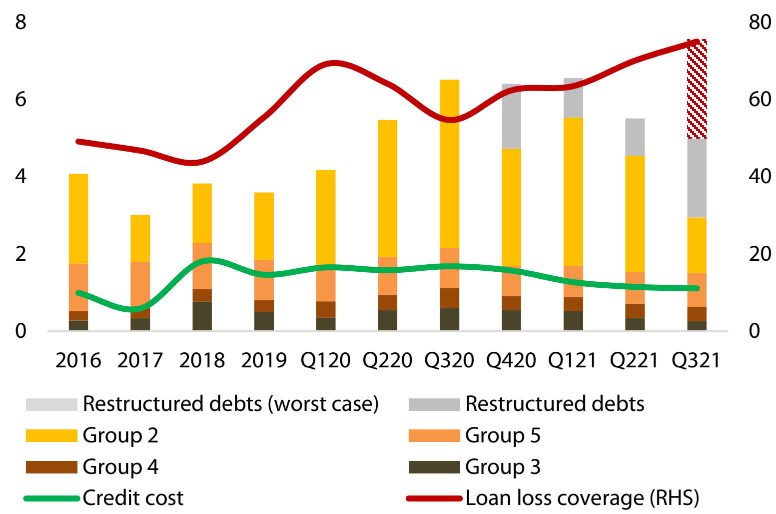
Figure 34: OCB's NIM and risk-adjusted NIM compared to banks of the same risk segment in 2020 (%)



Source: OCB, Rong Viet Securities

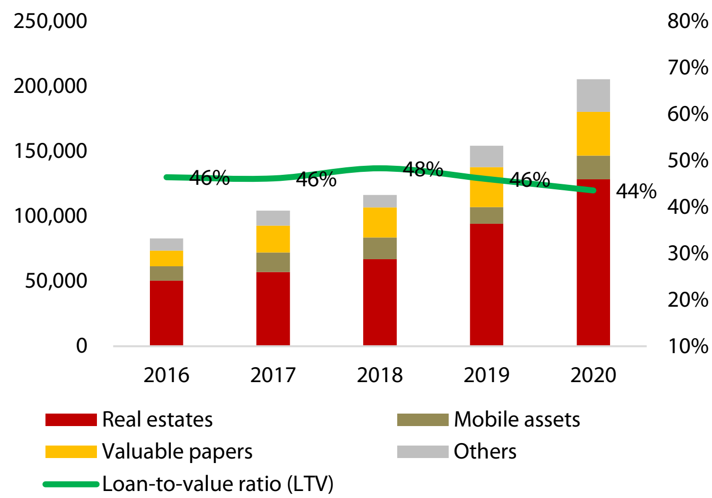
The credit cost on total loans increased sharply in 2018 to settle VAMC bonds in the same year and maintain a higher base level. This allowed OCB to use provisions to write off bad debts, improve balance sheet quality and create room for lending. The provision buffer has improved significantly but is still thin with loan loss coverage ratio reaching 75% at the end of Q3/2021. Provision balance of VND 1,105 billion at the end of 3Q2021 is equivalent to a coverage ratio of only 23% of total amount of VND 4,878 billion of group 2 debts, bad debts and restructured debts. The bank estimates that in the worst-case restructured debt could reach VND 2,500 billion by the end of 2021 and the total outstanding balance of restructured customers could be VND 11 trillion. Although OCB targets loan loss coverage ratio to reach 80% by year-end, we still prefer a "thicker" provision buffer similar to many large banks, amid the current uncertainties.

Figure 35: Overdue debt (group 2), bad debt (group 3-5), restructured debt, loan loss coverage ratio and credit cost ratio (%)



Source: OCB, Rong Viet Securities. No available data for restructured debt from Q1/2020 to Q3/2020.

Figure 36: List of collateral assets and loan-to-value ratio (VND billion, %)



Source: OCB, Rong Viet Securities

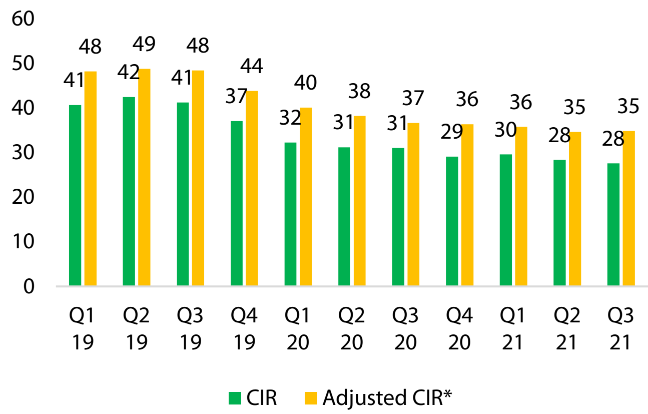
Provision expenses for total debt of customers affected in the fourth outbreak is about VND 400 billion and will be allocated according to the three-year roadmap stipulated in Circular 03. Restructured debts and bad debts may still increase in the next one or two quarter, leading to pressure on provisions. However, OCB's low risk appetite, indicated by the fact that 96% of the loan balance is secured by collaterals and more than 80% of the collateral is real estate and other highly liquid assets together with low loan-to-value (LTV) ratio, will help the bank keep credit costs under control.

OCB bets on low loan loss coverage based on stringent lending control and low LTV ratio. This has proved feasible from 2019 to the present, even in the pandemic, in addition to the support policies of the State Bank. The upcoming extended credit cycle, combined with a prudent credit strategy and ongoing management system capacity improvement projects, will continue to improve its credit assessment and approval performance, indirectly reducing the ratio of bad debt formation.

Management: Effective management supported by operation digitization

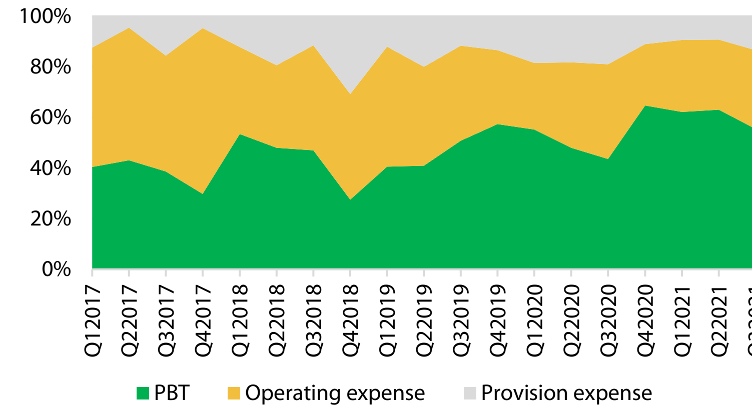
Promoting digital transformation since 2017 has been an essential boost for OCB. The CIR ratio dropped sharply from 53.1% in 2017 to 37.3% in 2018 and constantly decreased to 27.6% at the end of 3Q2021. ROA and pre-tax profit margin were also among the highest in the industry (2.61% and 55.2% in 2020). As mentioned, operating income in 2018-2020 benefited immensely from contribution of the government bond investment. This activity has a CIR of only 3%. Excluding the government bond business, the CIR of ordinary banking activities in the above period still improved significantly from 45.5% in 2018 to 34.8% at the end of 3Q2021 and similar to the industry average.

Figure 37: CIR and adjusted CIR* (%, TTM)



Source: OCB, Rong Viet Securities. (*) Adjusted for G-bond investment business

Figure 38: Distribution of total operating income (%, TTM)



Source: OCB, Rong Viet Securities

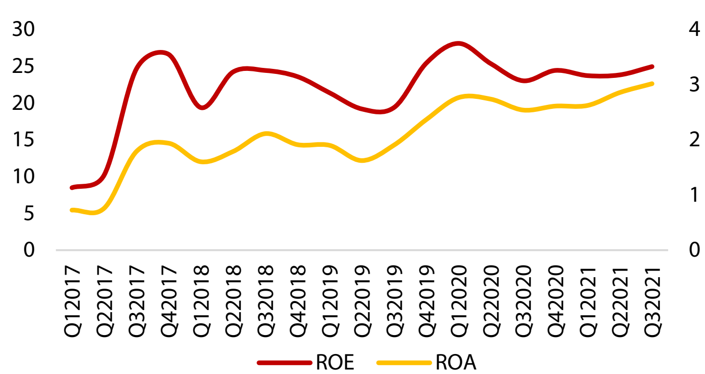
In the next five years, we evaluate that the CIR still has room for improvement based on the digital transformation strategy. Provision expenses will rise in the coming quarters as a result of the increase in the credit risk of the economy during the pandemic. These factors could cause pre-tax margin to move sideways in the short term before increasing during the economic rebound.

Profit quality: Core business performance improves with low risk appetite and continuous innovations

In the last three years, the impressive profit growth rate benefited from the contribution of the non-core activity of government bond trading. The bank's ROA has more than doubled from 1.1% in 2017 to 2.6% in 2020, corresponding to the proportion of income from government bond investment in total operating income (TOI) reaching 1.8% in 2017 and 21.9% in 2020. Excluding the impact of this activity, core business performance rose to the industry average, from 1.1% to 1.4%.

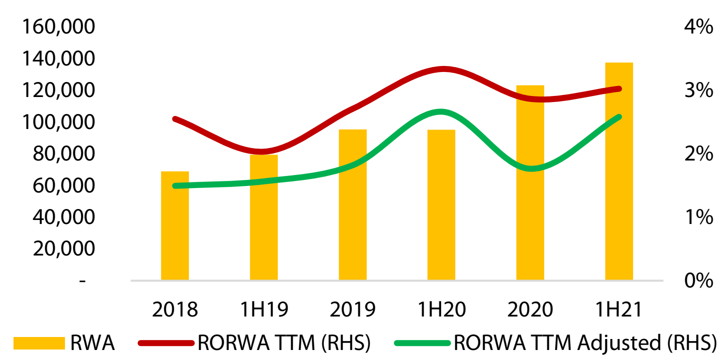
Return on risk-weighted assets (RORWA) rose sharply from 1.5% at the end of 2018 to 2.6% at the end of Q2/2021, despite a temporary decline at the end of 2020 due to the strong credit growth in the last quarter of the year. This was the result of a prudent lending strategy and continuous improvements in governance and operations. These factors, combined with the strategy of diversifying non-interest income, will lead profit quality improvement at OCB in the 2021-2025 period.

Figure 39: ROA and ROE of OCB (%, TTM)



Source: OCB, Rong Viet Securities

Figure 40: Risk-weighted asset RWA, RORWA and adjusted RORWA (VND bn, %, TTM)

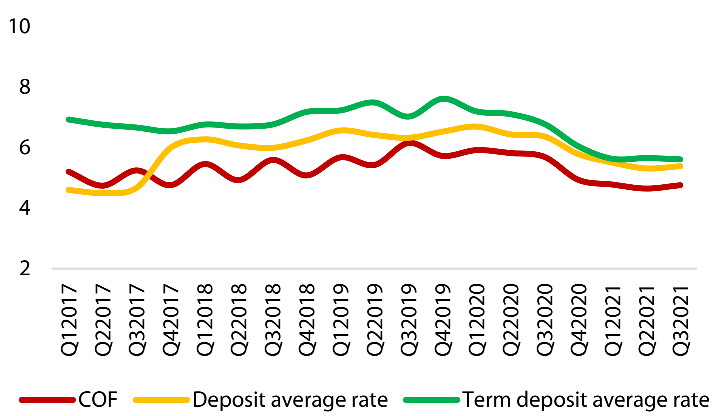


Source: OCB, Rong Viet Securities

The phenomenal growth rate (44%/year) of income in 2016-2020 was due to credit activities (+32%/year) and non-interest income (+97%/year).

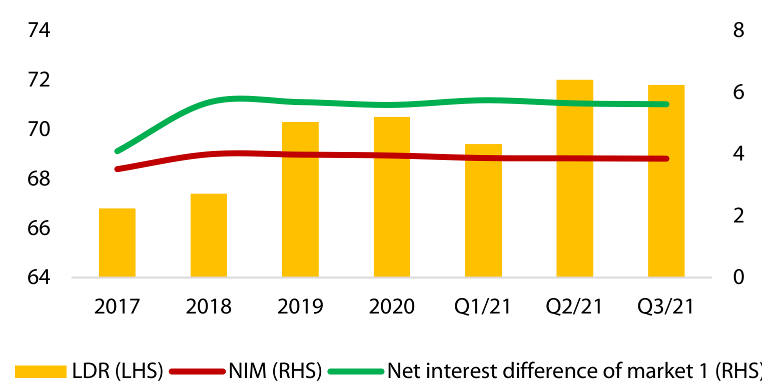
- Credit balance grew at a compounded annual rate of 23.5%. Areas of immense potential were SMEs and retail, coupled with an expanded NIM margin, resulting in a CAGR of 32%/year in net interest income.
- NIM expanded continuously from 3.14% in 2016 to approximately 4% in 2018-2019, thanks to the increased consumer credit (unsecured) component. NIM was flat in 2020 as the bank reduced funding costs in a low-interest-rate environment while narrowing the consumer credit segment with concerns that the credit risk of this segment will increase during the pandemic. After the first nine months of this year, NIM plunged to 3.85% under the combined impact of shrinking customer credit.
- Not much advantages in mobilization due to the small size, the loan portfolio allocated mainly to companies and middle-income individuals. The average deposit interest rate tended to increase/decrease following the lending interest rate and the net interest difference of market 1 (lending interest rate minus deposit rate of market 1) stable at around 5.4% in 2018-2020.
- The strategy of reducing funding costs via issuing valuable papers that OCB is implementing can help the bank temporarily cut funding costs in the low-interest-rate environment. However, in the long term, sustainable mobilization cost reductions must be based on building conditions to attract and retain retail CASA, which is more solid than corporate CASA.

Figure 41: Average funding cost, average deposit and term deposit interest rate (%, TTM)



Source: OCB, Rong Viet Securities

Figure 42: LDR, NIM and net interest difference of market 1 (%, TTM)

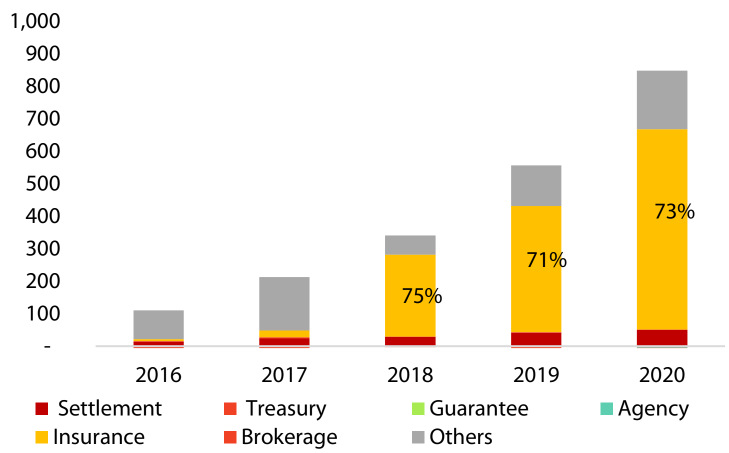


Source: OCB, Rong Viet Securities

Service income has consistently grown faster than net interest income with the development of payment services, insurance cross-selling and from 2021, investment banking services. The bank recently promoted investment in the card segment, following the trend of non-cash payment, combined with the development of digital banking to meet the needs of retail customers.

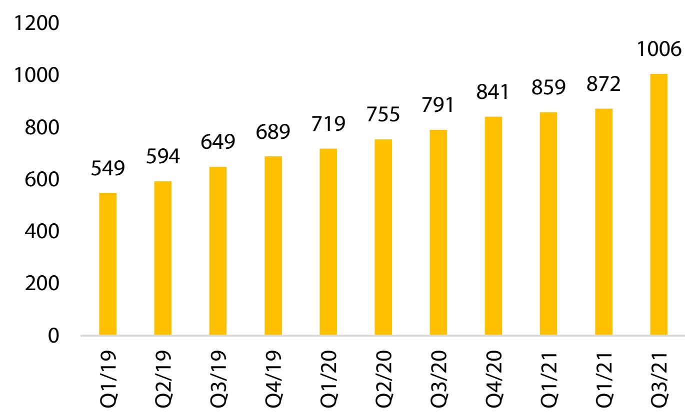
Technology capacity meets customers' needs with the number of transactions in 9M2021 reaching 9.3 million, increasing 28% compared to 2020. Transactions on digital channel accounted for 78% of total transaction value, compared with 65% in 2020. The number of customers using the OMNI app accounts for half of the total number of individual customers (1 million/1.9 million). Payment service revenue grew at an average rate of 26%/year. The gross profit margin of the payment segment is also improving, from 58.4% in 2016 to 81.9% in 2020, thanks to the development of OMNI digital channel and preferential card payment programs specialized for each customer group such as credit cards for priority customers, OCB-TTC linked credit cards, OCB Bamboo Airways co-branded credit cards, credit cards for doctors, credit cards for young people, etc. We expect gross profit margin to remain high in the coming periods due to the trend of shifting payments to digital channels, helping to lower operating costs. The upcoming marketplace on the OMNI app that connects the purchase and sale of goods will also contribute to increasing payment income.

Figure 43: Components of net service income (VND bn)



Source: OCB, Rong Viet Securities

Figure 44: Number of OMNI app users (thousands)



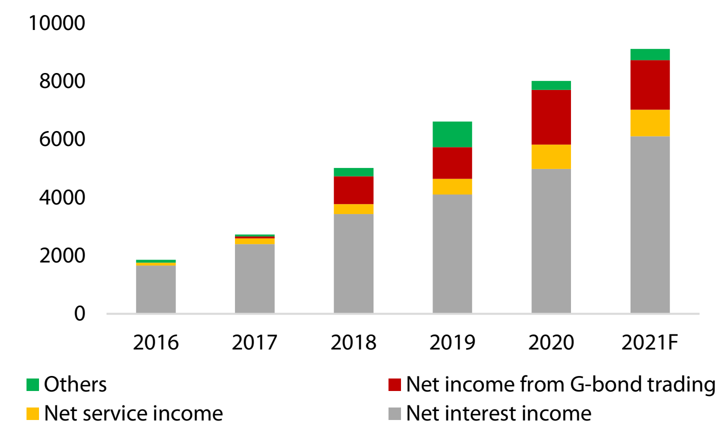
Source: OCB, Rong Viet Securities

Similar to many banks, insurance distribution activities contribute a significant part to OCB's total service income with a proportion of over 70% and a growth of 56% per year in the last three years. Exclusive distribution for Generali has continuously exceeded sales commitment. The bank plans to enhance consulting quality by developing a team of in-depth consultants and investing in infrastructure for consulting activities. The new consulting model combined with the strategy of attracting good-income customers from large corporate partners will help the bank achieve better growth in bancassurance.

Investment banking that leverages relationships with large corporations will contribute to service income from 2021. Income from consulting services in 9M2021 recorded VND98 billion, up 226% YoY and accounted for 20% of total revenue from services. The needs of retail customers for investment products are increasingly diversified, going beyond traditional products such as bank deposits, gold and real estate. This is creating opportunities for corporate bonds. Although entering the corporate bond guarantee (payment) and advisory market later than some banks and securities companies, OCB's close relationships with large real estate developers and the growth potential of the real estate market can still drive OCB to achieve good growth in consulting income.

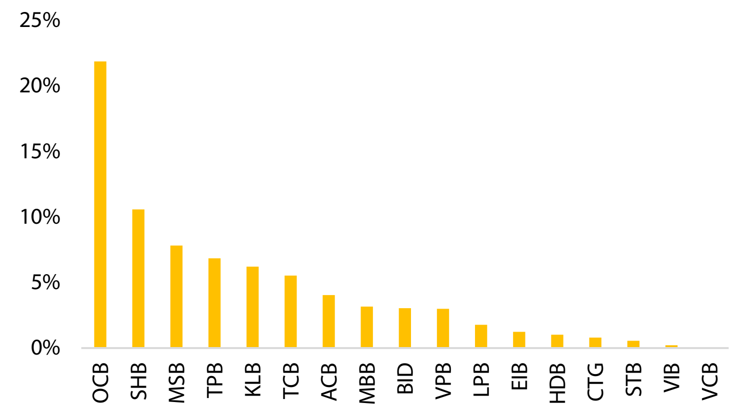
The most considerable non-interest income has been income from government bond trading in the last three years, improving the bank's non-interest income from 12% in 2017 to 38% in 2020. The bank completed the restructuring of operation and personnel for this segment in 2018. Government bond trading proportion in total operating income gradually rose from 18.7% in 2018 to 23.5% in 2020, including realizing profits of government bonds owned before 2018 (accounting for the majority) and income from carry trade. The potential for earning growth from the government bond investment activities is still considerable thanks to the increasing demand for transactions with the participation of more new investors such as voluntary pension funds, investment-linked insurance funds, and other foreign professional financial institutions. We expect that when G-bond interest rates rise in the credit recovery period, the gradually increasing income from carry trade will make up for the decreasing income from realizing profits.

Figure 45: Components of total operating income (VND bn)



Source: OCB, Rong Viet Securities

Figure 46: Proportion of income from government bond trading in total operating income in 2020



Source: Financial statements of banks, Rong Viet Securities

Total operating income is expected to grow at an average rate of 24%/year in 2021-2025, with non-interest income maintaining a high proportion of 32-33%. Reasonable cost control is reflected in the continuously decreasing core CIR. A cautious lending appetite with a high secured debt ratio, stable and relatively low bad debt ratio and bad debt formation ratio will keep credit costs at a mild level. Earnings growth, therefore, will be steady and in line with the pace of balance sheet expansion.

ROA and ROE enhanced dramatically in 2016-2020. At the end of 3Q2021, these reached 3.0% and 24.9%, respectively, outperforming the industry average (1.8% and 19.2%) while the leverage ratio, capital adequacy ratio, and liquidity were at the top tier of the sector. With the 2021-2025 strategy of diversifying profit sources, improving operation and adhering to a prudent credit management viewpoint, we expect OCB's profit to achieve a CAGR of 28%/year.

2021 and 2022 forecast

Table 1: 9M2021 performance

	9M2021	Note
Net interest income	VND 4,155 bn, +22.5% YoY	• Credit increased 21.5% YoY and deposit rose 24.3% YoY. • NIM (TTM) expanded from 3.69% at the end of Q3/2020 to 3.85% at the end of Q3/2021. • NIM decreased from 3.98% at the end of 2020 due to (1) customer support packages and interest reversal on loans of customers affected by the pandemic, (2) the proportion of loans to corporate customers increased from 48% to 64%, (3) modest CASA ratio decreased from 12% to 10.4%.
Non-interest income	VND 2,091 bn, +24,9% YoY	• Service income fell by 11% YoY but increased sharply by 61% YoY if excluding bancassurance supplement support fee[1] (about VND 235 billion) in 9M2020. Of which, card payment and service fees increased by 50%, bancassurance fees grew by 32% and income from corporate bond issuance advisory went up by 226% YoY. • Service income was weak in Q3 (down 39% YoY) because of fee reductions to support customers and low insurance sales following social distancing measures. • Income from government bond trading was stable with 21% of total operating income (TOI), up 42% YoY.
Total operating income	VND 6,246 bn, +23.3% YoY	Key drivers: net interest income and income from government bond trading.

[1] The upfront fee of the exclusive insurance distribution contract with Generali was VND 500 billion and was recorded in the 2019 result. In 2020, OCB recorded VND 350 billion supplement support fee for completing sales target of the first exclusivity year and achieving the second year renewal rate of those contracts. The supplement support fee term only applies to the first year of the bancassurance contract.

CIR	Slightly declined from 29.1% at 2020 end to 27.6% at Q3/2021 end	• Digital transformation of operating procedures. • CIR is among the most efficient among listed banks.
Provision for credit losses	VND 661 bn, +29.7% YoY	• Loan book is well controlled and Circulars 01 and 03 support debt restructuring. • NPL ratio decreased from 1.69% at the end of 2020 to 1.51%. • Debt write-off expenses contracted by 8% YoY and loan loss coverage increased from 62% to 75%.
PBT	VND 3,768 bn, +50% YoY	

Source: OCB, Rong Viet Securities

Based on these positive results, combined with a cautious view on the evolution of the pandemic, we forecast the bank's PBT could reach VND 5,526 billion, up 25% YoY. Credit in 2021 is forecasted to increase by 20% with most of it is loans to customers. Deposit is forecasted to growth at 18% while mobilization from foreign sources and valuable papers is estimated to increase by 28%, leading to a 20% increase in total mobilization, closely adhering to the strategy of maintaining high liquidity. We assess that the fourth pandemic outbreak will only have a temporary impact and credit demand will be positive again when socio-economic activities gradually normalize in the fourth quarter. In 2022, we forecast credit growth to improve by 23.9% and mobilization growth at 23.4%.

NIM in 2021 is forecasted to be flat at 3.85%, similar to 9M2021. The basis of this forecast includes OCB continuing implementation of preferential interest rates to support customers and the lag of the impact of the pandemic hindering the bank to recognize accrued interest on new restructured loans while restructured customers are recovering slowly. This pressure is greater than the reduced cost of funding via the continuing shift from customer deposits to concessional loans from foreign financial institutions and low-interest-rate valuable papers. In the base scenario where the pandemic development will be less servere from mid-2022, the pressure to support customers will be relieved, supporting NIM to improve slightly by 11 basis points to 3.96%. Low and unstable CASA will not have a positive impact on deposit rates.

From the above assumptions, we forecast 2021 and 2022 net interest income to grow by 22.7% and 25.7%, respectively.

Net service income in 2021 and 2022 will increase by 8.1% and 44%, representing 10% and 11.5% of TOI of each year, with a diversified structure due to a rise in income of investment banking and payment services. Besides, the insurance distribution segment will still be playing the leading role. As for other non-interest income, income from government bond trading will still increase in value but gradually decrease in proportion, accounting for 17.2% of 2021 TOI and 15.3% of 2022 TOI, compared to 21.9% in 2020.

Operating costs will gradually be controlled by digital transformation in sales channels and internal processes, while annual investment in technology infrastructure and physical transaction network will not be too large and non-interest income will grow sharply. CIR will decrease to 27.4% in 2021 and 26.2% in 2022, compared with 29.1% in 2020.

The 4th wave of the pandemic may put temporary pressures on the bank's asset quality with the bad debt ratio increasing from 1.51% at the end of Q3 to 1.7% at the end of 2021 then improving slightly to 1.64% in 2022. NPL formation ratio will rise to approximately 1% of total outstanding loans in the period 2021-2022, compared to 0.9% at the end of 3Q21. Restructured debt may continue to be formed in the next few quarters with Circular 14 on extending the time to restructure repayment terms. Combined with the on-balance sheet bad debt formation rate and the provision corresponding to the three-year schedule of restructured debts, provision expense could reach VND 1,095 billion (-13.3%) in 2021 and VND 1,162 billion (+6.1%) in 2022. This corresponds to a credit cost on total outstanding balance of 1.11% in 2021 before declining to 0.96% in 2022 to maintain the provision buffer.

All in all, we forecast consolidated pre-tax profit to grow by 25% and 30.7% in 2021 and 2022, respectively, to VND5,526 billion and VND7,223 billion. ROA stays at around 2.6-2.8% while ROE reaches 22.5% and 23.3% in 2021 and 2022, respectively. NIM and risk adjusted NIM both improve. Operation efficiency is maintained among the best in the industry. These factors combined with the large headroom of capital adequacy and high liquidity will create a firm foundation for the bank to maintain a 23% annual balance sheet expansion in the period 2021-2025.

Valuation and recommendation

At VND27,350/share as of December 9th, 2021, OCB is trading at a forward PE of 8.5x and a forward PB of 1.7x for 2021. One-year forward PE and PB of 6.7 and 1.4 times, respectively. The 1-year forward PB is 30% lower than the average of 26 listed banks (excluding VCB) and 33% lower than the average of private banks. Taking into account the advantages of sustaining above-average growth in profitability and balance sheet expansion, good and gradually improving asset quality, forecasted ROA and ROE among the top in the industry and low leverage, combined with disadvantages in provision base and weak CASA attraction, we think OCB deserves a valuation equivalent to the industry average.

Table 2: Forecasted profitability indicators, valuation ratio, dividend yield

	ROE 2021E	ROE 2022F	P/B 2021E	P/B 2022F	Dividend pay-out ratio 2021E	Dividend pay-out ratio 2022F
OCB	22,5%	23,3%	1,7	1,3	0,0%	0,0%

Source: Rong Viet Securities

We determine the fair value of OCB using (1) the discounted cash flow method that reflects the dividend payments prospect and medium- and long-term issuance for raising charter capital, combined with (2) comparable method using forward P/B ratio. After a sharp increase following a high performance in the first half of the year, the valuation of the entire banking industry is being heavily influenced by concerns about the impact of the fourth wave of the pandemic. Therefore, we weight the discounted cash flow method at 80% and the P/B method at 20%, in order to limit the impact of market factors on OCB's long-term valuation.

Table 3: Valuation methods and intrinsic value of OCB

Method	Price	Weight	Average
Discount Cash Flow	30,296	80%	24,237
Forward P/B	39,761	20%	7,952
Fair value			**32,189**

Source: Rong Viet Securities

We estimate the fair value of OCB at **VND32,100/share**, equivalent to a forward P/B for one-year term of 2.0x. This price is equivalent to an expected return of **22%** compared to the closing price on **December 21st, 2021**. Therefore, we recommend to **BUY** OCB.

Unit: VND bn

INCOME STATEMENT	FY2019A	FY2020A	FY2021F	FY2022F
Interest and Similar Income	9,638	10,793	12,510	15,894
Interest and Similar Expenses	-5,537	-5,812	-6,400	-8,213
Net Interest Income	**4,101**	**4,982**	**6,111**	**7,681**
Non-interest Incomes	2,512	3,031	3,009	3,677
Net Fee and Commission Income	546	841	909	1,308
Net gain/(loss) from foreign currency and gold dealings	114	95	90	170
Net gain/(loss) from trading of trading securities	-6	131	136	56
Net gain/(loss) from disposal of investment securities	1,094	1,752	1,570	1,740
Net Other income/expenses	764	211	302	402
Income from capital contribution	0	2	2	2
Total operating income	**6,613**	**8,013**	**9,120**	**11,358**
Operating expenses	-2,449	-2,329	-2,499	-2,973
Operating Profit Before Provision	4,164	5,684	6,621	8,385
Provision expenses	**-933**	**-1,263**	**-1,095**	**-1,162**
Profit before tax	**3,231**	**4,420**	**5,526**	**7,223**
Corporate income tax	-649	-885	-1,108	-1,448
NPAT	**2,582**	**3,535**	**4,418**	**5,775**
Attributable to parent company	**2,582**	**3,535**	**4,419**	**5,775**

Unit: %

FINANCIAL RATIO	FY2019A	FY2020A	FY2021F	FY2022F
Growth				
Customer loans	26.2	26.0	20.1	24.3
Customer deposit	14.5	26.1	18.0	24.0
Net interest incomes	19.4	21.5	22.7	25.7
Operating income	31.8	21.2	13.8	24.5
NPAT	46.6	36.9	25.0	30.7
Total Assets	18.2	29.1	20.6	23.5
Equity	30.8	51.5	25.3	26.4
Profitability				
NIM	3.9	3.9	3.9	4.0
CIR	37.0	29.1	27.4	26.2
ROAE	25.4	24.4	22.5	23.3
ROAA	2.4	2.6	2.6	2.8
Assets Quality				
NPLs ratio	1.8	1.7	1.2	0.9
NPLs and VAMC ratio	1.8	1.7	1.2	0.9
Bad debt coverage ratio	55.4	62.3	80.0	75.6
Equity-to-Assets ratio	9.7	11.4	11.9	12.2
Operating Safety Ratio				
Customer Loans-to-Total Assets ratio	74.4	68.9	68.9	69.4
Gross LDR	102.8	102.8	104.6	104.6
Adjusted LDR	89.7	87.2	86.7	86.5

Unit: VND bn

BALANCE SHEET	FY2019A	FY2020A	FY2021F	FY2022F
Cash and precious metals	713	932	1,045	1,007
Balances with the SBV	2,073	4,088	4,317	5,354
Placements with and loans to other credit institutions	17,494	16,384	20,316	25,192
Trading securities, net	497	929	1,135	1,388
Derivatives and other financial assets	71	66	66	66
Loans and advances to customers, net	70,366	88,688	106,504	132,420
Investment securities	22,874	33,588	41,192	50,450
Investment in other entities and long term investments	5	3	3	3
Fixed assets	595	546	736	909
Investment properties	0	0	0	0
Other assets	3,474	7,306	8,621	10,345
TOTAL ASSETS	**118,160**	**152,529**	**183,935**	**227,132**
Due to Gov and borrowings from SBV	170	152	597	307
Deposits and borrowings from other credit institutions	18,369	22,838	27,360	34,254
Deposits from customers	69,142	87,171	102,862	127,549
Derivatives and other financial liabilities	0	0	0	0
Funds received from Gov, international and other institutions	4,628	4,935	5,182	5,441
Convertible bonds/CDs and other valuable papers issued	11,765	16,335	22,052	27,565
Other liabilities	2,579	3,662	4,028	4,431
Total liabilities	**106,653**	**135,093**	**162,081**	**199,547**
Shareholder's equity	**11,507**	**17,435**	**21,854**	**27,629**
Capital	8,050	12,662	15,402	15,402
Reserves	1,076	1,605	2,252	3,097
Foreign currency difference reserve	0	0	0	0
Difference upon assets revaluation	0	0	0	0
Retained Earnings	2,381	3,168	4,200	9,131
Minority interest	0	0	0	0
LIABILITIES AND SHAREHOLDER'S EQUITY	**118,160**	**152,529**	**183,935**	**227,176**

Unit: VND bn

FOOTNOTES	FY2019A	FY2020A	FY2021F	FY2022F
Interest Incomes	**9,638**	**10,793**	**12,510**	**15,894**
From customers	7,721	8,834	10,513	13,230
From other Cis	296	157	177	282
From fixed-income investment	1,336	1,318	1,399	1,853
From guarantee	0	0	0	0
From other activities	284	484	421	529
Interest Expenses	**-5,537**	**-5,812**	**-6,400**	**-8,213**
To customers	-4,226	-4,523	-4,949	-6,301
To other Cis	-352	-259	-280	-395
To fixed-income investment	-718	-888	-971	-1,280
To other activities	-241	-141	-200	-237
Operating expenses	**-2,449**	**-2,329**	**-2,499**	**-2,973**
Provision expenses	**-933**	**-1,263**	**-1,095**	**-1,162**

Company Report

This report is created for the purpose of providing investors with an insight into the discussed company that may assist them in the decision-making process. The report comprises analyses and projections that are based on the most up-to-date information with the objective that is to determine the reasonable value of the stock at the time such analyses are performed. Through this report, we strive to convey the complete assessment and opinions of the analyst relevant to the discussed company. To send us feedbacks and/or receive more information, investors may contact the assigned analyst or our client support department.

RATING GUIDANCE

Ratings	BUY	ACCUMULATE	REDUCE	SELL
Total Return including Dividends in 12-month horizon	>20%	5% to 20%	-20% to -5%	<-20%

ABOUT US

RongViet Securities Corporation (RongViet) was established in 2007, licensed to perform the complete range of securities services including brokerage, financial investment, underwriting, financial and investment advisory and securities depository. RongViet now has an operating network that spreads across the country. Our major shareholders, also our strategic partners, are reputable institutions, i.eEximbank, Viet Dragon Fund Management, etc... Along with a team of the professional and dynamic staffs, RongViet has the man power as well as the financial capacity to bring our clients the most suitable and efficient products and services. Especially, RongViet was one of the very first securities firms to pay the adequate attention to the development of a team of analysts and the provision of useful research report to investors.

The **Analysis and Investment Advisory Department** of RongVietSecurities provides research reports on the macro-economy, securities market and investment strategy along with industry and company reports and daily and weekly market reviews.

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Head of Research
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

Vu Tran
Senior Manager
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1512)
- O&G
- Fertilizer

Tam Pham
Manager
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)
- Bank
- Insurance

Tung Do
Manager
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)
- Retails
- Aviation
- Logistics
- Market Strategy

Toan Dao
Manager
toan.dp@vdsc.com.vn
+ 84 28 6299 2006 (1518)
- F&B

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Tu Pham
Analyst
tu.pm@vdsc.com.vn
+ 84 28 6299 2006 (1536)
- Building Materials
- Pharmaceutical

Thanh Nguyen
Analyst
thanh.nn@vdsc.com.vn
+ 84 28 6299 2006 (1535)
- Bank
- Insurance
- Securities

Kiet Tran
Analyst
kiet.tht@vdsc.com.vn
+ 84 28 6299 2006 (1528)
- Real Estate
- Market Strategy

Loan Nguyen
Analyst
loan.nh@vdsc.com.vn
+ 84 28 6299 2006 (1531)
- Textile
- Fishery

Ha My Tran
Senior Consultant
my.tth@vdsc.com.vn
+ 84 28 6299 2006
- Macroeconomics

Thao Nguyen
Analyst
thao.nn@vdsc.com.vn
+ 84 28 6299 2006 (1524)
- Utilities

Thang Hoang
Analyst
thang.hm@vdsc.com.vn
+ 84 28 6288 2006 (1319)
- Real Estate

Thu Anh Tran
Analyst
anh.tt@vdsc.com.vn
+ 84 28 6288 2006 (2221)
- Sea Port
- Logistics

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Trang Tran
Assistant
trang.tnt@vdsc.com.vn
+ 84 28 6299 2006 (1522)

DISCLAIMERS

This report is prepared in order to provide information and analysis to clients of Rong Viet Securities only. It is and should not be construed as an offer to sell or a solicitation of an offer to purchase any securities. No consideration has been given to the investment objectives, financial situation or particular needs of any specific. The readers should be aware that Rong Viet Securities may have a conflict of interest that can compromise the objectivity this research. This research is to be viewed by investors only as a source of reference when making investments. Investors are to take full responsibility of their own decisions. RONG VIET SECURITIES shall not be liable for any loss, damages, cost or expense incurring or arising from the use or reliance, either full or partial, of the information in this publication.

The opinions expressed in this research report reflect only the analyst's personal views of the subject securities or matters; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or opinions expressed in the report.

The information herein is compiled by or arrived at Rong Viet Securities from sources believed to be reliable. We, however, do not guarantee its accuracy or completeness. Opinions, estimations and projections expressed in this report are deemed valid up to the date of publication of this report and can be subject to change without notice.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Viet Dragon Securities Corp. (“RONG VIET SECURITIES”), a company authorized to engage in securities activities in Vietnam. RONG VIET SECURITIES is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither RONG VIET SECURITIES nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report’s preparation or publication, or any losses or damages which may arise from the use of this research report.

RONG VIET SECURITIES may rely on information barriers, such as “Chinese Walls” to control the flow of information within the areas, units, divisions, groups, or affiliates of RONG VIET SECURITIES.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by RONG VIET SECURITIES with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Rong Viet Securities Corporation (Rong Viet), with headquarters in Ho Chi Minh City, Vietnam. Rong Viet is authorized to engage in securities activities according to its domestic legislation. This research is not a product of Tellimer Markets, Inc., a U.S. registered broker-dealer. Rong Viet has sole control over the contents of this research report. Tellimer Markets, Inc. does not exercise any control over the contents of, or the views expressed in, research reports prepared by Rong Viet.

Rong Viet is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” and other “U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Tellimer Markets, Inc., located at 575 Fifth Avenue, 27th Floor, New York, NY 10017. A representative of Tellimer Markets, Inc. is contactable on +1 (212) 551 3480. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Rong Viet. Tellimer Markets, Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission from.

Rong Viet is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Tellimer Markets, Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Tellimer Markets, Inc. or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, and does not expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months. Tellimer Markets, Inc. has never owned any class of equity securities of the subject company. There are no other actual, or potential, material conflicts of interest of Tellimer Markets, Inc. at the time of the publication of this report. As of the publication of this report, Tellimer Markets, Inc. does not make a market in the subject securities.

About Tellimer

Tellimer is a registered trade mark of Exotix Partners LLP. Exotix Partners LLP and its subsidiaries ("Tellimer") provide specialist investment banking services to trading professionals in the wholesale markets. Tellimer draws together liquidity and matches buyers and sellers so that deals can be executed by its customers. Tellimer may at any time, hold a trading position in the securities and financial instruments discussed in this report. Tellimer has procedures in place to identify and manage any potential conflicts of interests that arise in connection with its research. A copy of Tellimer's conflict of interest policy is available at www.tellimer.com/regulatory-information.

Distribution

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

Disclaimers

Tellimer and/or its members, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Tellimer may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups of Tellimer.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.