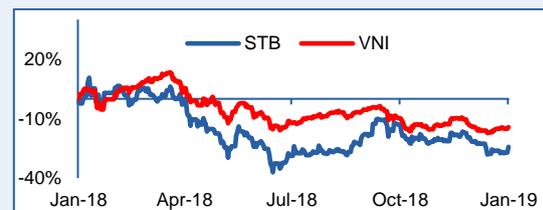


Industry:	Banking		<u>2017</u>	<u>2018</u>
Report Date:	January 21, 2019	PPOP y/y	89.4%	66.3%
Current Price:	VND11,700	NPAT y/y	214.6%	51.5%
Current Target Price:	VND15,000	NIMs	2.0%	2.6%
Upside:	28.2%	NPL	4.6%	2.1%
Dividend yield:	0.0%	CIR	73.3%	67.1%
TSR:	28.2%	Div/Sh (VND)	0	0
Rating:	OUTPERFORM	P/B	0.9x	0.8x



Market Cap:	\$0.9bn		<u>STB</u>	<u>Peers</u>	<u>VNI</u>
Foreign Room	\$105mn	P/E (ttm)	11.8x	10.2x	15.9x
ADTV30D	\$1.8mn	P/B (curr)	0.8x	1.7x	2.4x
State Ownership	0%	ROE	7.4%	16.4%	14.8%
Outstanding Shares	1,804 mn	ROA	0.4%	1.2%	2.4%
Fully Diluted Shares	1,804 mn				

Company Overview

STB was founded in 1991, IPO'ed in 1996 and listed in 2006. As of December 31, 2017, STB was the fourth largest among our ten coverage banks by total assets. In October 2015, STB merged with Southern Bank and the SBV took control of 51% of the voting rights from a group of shareholders deemed to have breached ownership caps.

Provision cool-down in Q4 helps boost earnings growth

STB released consolidated results for FY2018 with the bottom line totalling VND1.8tn (USD78mn, +52% YoY), surpassing 21% our 2018 forecast, mainly due to (1) lower provision expenses (86% of our forecast) and (2) a VND627bn (USD27mn) surge in net other income in Q4. There is no note for the other income category in the unaudited financial statement, but we expect the surge was mainly due to a recovery of written-off debt. 2018 ROAA and ROAE were 0.4% (+0.1 pts YoY) and 7.4% (+2.3% YoY), respectively. With core performance in line with our expectation yet changes in the legacy bad debt position not significantly changing in the Q4 2018, investors must wait at least another quarter to quantify progress.

The official NPL ratio was brought down to 2.1% as of YE2018 vs AGM guidance at 3.0%. Although the NPL ratio dropped significantly in Q4 2018 (vs 3.2% in Q3 2018 and 4.7% in 2017), we estimate this only accounts for c.6% of our estimate of total legacy bad debt. Receivables increased by 15% QoQ in Q4 2018, roughly accounting for the drop in official NPLs for the same period. On the other hand, accrued interest as a percentage of gross loans recorded a drop to 9.0% as of YE2018 vs 11.1% at the start of 2018. 2018 net VAMC balance dropped 9% YoY.

Interest-earning asset yields increased due to growing loan book and a small drop in total legacy debt. 2018 interest-earning asset yields stood at 9.2% (vs 8.2% in 2017). The 1-pt increase in interest-earning asset yields offset the 26-bp rise in funding cost due to an increase in valuable papers, lifting its NIM to 2.6% (vs 2.0% in 2017). Receivables, NPLs and net VAMC balance to gross loans dropped by 4 pts to 16.5% as of YE2018. With NIM expanded, NII recorded 45% YoY growth in 2018, against our 41% YoY growth forecast.

STB fully utilized its loan growth quota with Group 1 loans increasing faster than loan growth. 2018 Group 1 loans recorded 18% YoY growth vs 15% consolidated loan growth, a good signal for the bank's asset quality.

Fee income recorded a strong performance. 2018 net fee income (NFI), including FX, recorded YoY growth of 3.9%, with normalized growth calculated at 42% (taking out bancassurance upfront in 2017).

Cost to income ratio (CIR) continued to trend down, but still at a high level due to the restructuring period. 2018 CIR stood at 67% (vs our forecast at 66%). While we see a clear downward trend in CIR over the last 1.5 years, it is challenging to push its CIR to below 50% before the end of the restructuring period, in our view.

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2018 provision expenses to gross loans improved to 0.59% vs 0.37% in 2017, lower than our forecast at 0.73%. However, its reported loan loss reserve ratio was 65% vs our forecast at 50%, mainly due to a significant drop in the reported NPL ratio as aforementioned.

Figure 1: STB's 2018 results

VND bn	2018	2017	YoY	Q4 2018	Q4 2017	YoY
NIM	2.62%	2.02%	60 bps	2.77%	2.31%	46 bps
Asset yield	9.23%	8.23%	100 bps	9.13%	8.80%	33 bps
Cost of funds	5.31%	5.05%	26 bps	5.27%	5.07%	21 bps
CASA ratio*	15.1%	14.2%	0.9 ppts	15.1%	14.2%	0.9 ppts
NII	7,634	5,278	44.6%	2,110	1,519	38.9%
Non-NII	4,043	3,367	20.1%	1,608	1,528	5.2%
Provision expenses	-1,592	-817	95.0%	-414	-592	-30.1%
PPOP	3,839	2,308	66.3%	1,346	1,058	27.2%
Net profit	1,790	1,182	51.5%	858	410	109.2%
CIR	67.1%	73.3%	-6.2 ppts	63.8%	65.3%	-1.5 ppts
NPL	2.11%	4.67%	-2.6 ppts	2.11%	4.67%	-2.6 ppts
Loan growth**	15.1%	12.1%	3.0 ppts	1.28%	-0.03%	1.3 ppts
Deposit growth**	9.2%	9.8%	-0.6 ppts	-2.25%	2.34%	-4.6 ppts

Source: STB, VCSC – *CASA volume included demand deposits and margin deposits. **2018 and 2017 loan and deposit are YoY growth, whereas Q4 2018 and Q4 2017 loan and deposit are QoQ growth.

Figure 2: Total estimated STB legacy debts

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Total legacy debts	88,268	91,414	96,402	100,357	96,708	93,904	91,540	89,976
Total ex net VAMC	52,131	54,330	53,571	59,039	55,561	53,773	52,664	52,312
Receivables	16,039	35,675	15,264	23,892	22,183	20,861	20,639	23,730
Accrued int & recs	26,009	4,752	25,042	24,742	24,174	23,791	23,959	23,155
NPLs	10,083	13,903	13,265	10,405	9,204	9,121	8,066	5,427
VAMC	37,761	38,758	44,507	43,267	43,090	42,289	40,996	40,233
Provisions	(1,624)	(1,674)	(1,676)	(1,949)	(1,944)	(2,158)	(2,120)	(2,569)
Net VAMC	36,136	37,084	42,831	41,317	41,146	40,131	38,876	37,665
Total Assets	344,409	355,973	363,488	368,469	381,252	400,686	403,602	406,041
Legacy debts as % of assets	25.6%	25.7%	26.5%	27.2%	25.4%	23.4%	22.7%	22.2%

Source: STB, VCSC

VCSC Rating and Valuation Methodology

Absolute, long term (fundamental) rating: The recommendation is based on implied total return for the stock defined as $(\text{target price} - \text{current price}) / \text{current price} + \text{dividend yield}$, and is not related to market performance.

RATING	DEFINITION
BUY	Total stock return including dividends over next 12 months expected to exceed 20%
OUTPERFORM (O-PF)	Total stock return including dividends over next 12 months expected to be positive 10%-20%
MARKET PERFORM (M-PF)	Total stock return including dividends over next 12 months expected to be between negative 10% and positive 10%
UNDERPERFORM (U-PF)	Total stock return including dividends over next 12 months expected to be negative 10%-20%
SELL	Total stock return including dividends over next 12 months expected to be below negative 20%
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	A rating that happens when fundamental information is insufficient to determine an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

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