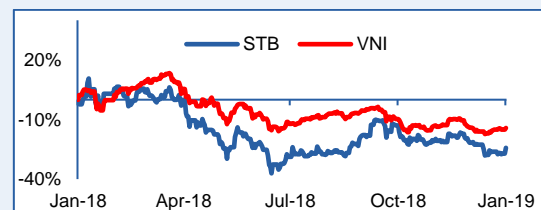


# Sacombank (STB)

# Earnings Flash

<b>Industry:</b>	<b>Banking</b>		<u>2017</u>	<u>2018</u>
<b>Report Date:</b>	<b>January 21, 2019</b>	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 ppts 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-ppt 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 ppts 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.

**Nghia Dien**

Analyst

[nghia.dien@vcsc.com.vn](mailto:nghia.dien@vcsc.com.vn)

+84 28 3914 3588 ext. 138

**Long Ngo**

Associate Director

[long.ngo@vcsc.com.vn](mailto:long.ngo@vcsc.com.vn)

+84 28 3914 3588 ext. 123

**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
<b>Total legacy debts</b>	<b>88,268</b>	<b>91,414</b>	<b>96,402</b>	<b>100,357</b>	<b>96,708</b>	<b>93,904</b>	<b>91,540</b>	<b>89,976</b>
<b>Total ex net VAMC</b>	<b>52,131</b>	<b>54,330</b>	<b>53,571</b>	<b>59,039</b>	<b>55,561</b>	<b>53,773</b>	<b>52,664</b>	<b>52,312</b>
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)
<b>Net VAMC</b>	<b>36,136</b>	<b>37,084</b>	<b>42,831</b>	<b>41,317</b>	<b>41,146</b>	<b>40,131</b>	<b>38,876</b>	<b>37,665</b>
<b>Total Assets</b>	<b>344,409</b>	<b>355,973</b>	<b>363,488</b>	<b>368,469</b>	<b>381,252</b>	<b>400,686</b>	<b>403,602</b>	<b>406,041</b>
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 (target price – current price)/current price + 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.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

**Risks:** Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

## Disclaimer

### Analyst Certification of Independence

We, Nghia Dien and Long Ngo, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Institutional Equities and Investment Banking.

VCSC and its officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). VCSC may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Copyright 2013 Viet Capital Securities Company "VCSC". All rights reserved. This report has been prepared on the basis of information believed to be reliable at the time of publication. VCSC makes no representation or warranty regarding the completeness and accuracy of such information. Opinions, estimates and projection expressed in this report represent the current views of the author at the date of publication only. They do not necessarily reflect the opinions of VCSC and are subject to change without notice. This report is provided, for information purposes only, to institutional investors and retail clients of VCSC in Vietnam and overseas in accordance to relevant laws and regulations explicit to the country where this report is distributed, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of VCSC. Please cite sources when quoting.

**U.K. and European Economic Area (EEA):** Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by VCSC issued by VCSC has been prepared in accordance with VCSC's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by VCSC in Australia to "wholesale clients" only. VCSC does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of VCSC. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, VCSC will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between VCSC and the customer in advance. **Korea:** This report may have been edited or contributed to from time to time by affiliates of VCSC. **Singapore:** VCSC and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by VCSC in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. VCSC does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of VCSC. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules. **United States:** This research report prepared by VCSC is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker&Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker&Co, LLC in the US shall be borne by Decker&Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if VCSC Broker or Decker&Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker&Co, LLC and VCSC is permitted to provide research material concerning investment to you under relevant legislation and regulations.



## Contacts

### Corporate

[www.vcsc.com.vn](http://www.vcsc.com.vn)

#### Head Office

Bitexco Financial Tower, 2 Hai Trieu Street  
District 1, HCMC  
+84 28 3914 3588

#### Transaction Office

10 Nguyen Hue Street  
District 1, HCMC  
+84 28 3914 3588

### Research

**Research Team:** +84 28 3914 3588  
[research@vcsc.com.vn](mailto:research@vcsc.com.vn)

#### Banks and Securities

##### Long Ngo, Associate Director, ext 123

- Nghia Dien, Analyst, ext 138
- Son Tong, Analyst, ext 116
- Anh Dinh, Analyst, ext 139

#### Consumer and Pharma

##### Phap Dang, Associate Director, ext 143

- Dao Nguyen, Manager, ext 185
- Nghia Le, Analyst, ext 181

#### Real Estate, Construction and Materials

##### Hong Luu, Senior Manager, ext 120

- Anh Nguyen, Senior Analyst, ext 174
- Vy Nguyen, Senior Analyst, ext 147

#### Retail Client Research

##### Duc Vu, Senior Manager, ext 363

- Ha Dao, Analyst, ext 194
- Tra Vuong, Analyst, ext 365
- Ninh Chu, Analyst, ext 129

### Institutional Sales and Brokerage

& Foreign Individuals

#### Head of Institutional Sales

Michel Tosto, M. Sc.  
+84 28 3914 3588 ext 102  
[michel.tosto@vcsc.com.vn](mailto:michel.tosto@vcsc.com.vn)

### Retail & Corporate Brokerage

#### Ho Chi Minh City

Quynh Chau  
+84 28 3914 3588, ext 222  
[quynh.chau@vcsc.com.vn](mailto:quynh.chau@vcsc.com.vn)

#### Hanoi Branch

109 Tran Hung Dao  
Hoan Kiem District, Hanoi  
+84 24 6262 6999

#### Transaction Office

236-238 Nguyen Cong Tru Street  
District 1, HCMC  
+84 28 3914 3588

**Alastair Macdonald, Head of Research, ext 105**  
[alastair.macdonald@vcsc.com.vn](mailto:alastair.macdonald@vcsc.com.vn)

#### Macro and Insurance

- Cameron Joyce, Manager, ext 163

#### Macro

- Luong Hoang, Senior Analyst, ext 364
- Nguyen Truong, Analyst, ext 132

#### Oil & Gas and Power

##### Duong Dinh, Senior Manager, ext 140

- Tram Ngo, Senior Analyst, ext 135
- Thanh Nguyen, Analyst, ext 173
- Nam Hoang, Analyst, ext 196

#### Industrials and Transportation

##### Lucy Huynh, Senior Manager, ext 130

- Phu Pham, Analyst, ext 124
- Dang Thai, Analyst, ext 149

#### Vietnamese Sales

Dung Nguyen  
+84 28 3914 3588 ext 136  
[dung.nguyen@vcsc.com.vn](mailto:dung.nguyen@vcsc.com.vn)

#### Hanoi

Quang Nguyen  
+84 24 6262 6999, ext 312  
[quang.nguyen@vcsc.com.vn](mailto:quang.nguyen@vcsc.com.vn)