VIETNAM INTERNATIONAL COMMERCIAL JSB (VIB) - UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND17,600	VND21,200	2.8%	ADD	FINANCIALS

Outlook – Short term

Negative Neutral Positive

Outlook – Long term

Negative Neutral Positive

Valuation

Negative Neutral Positive

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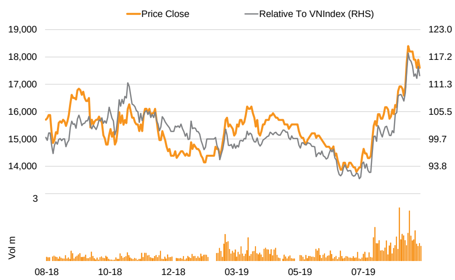
Key changes in the report

- N/A

Price performance



Source: VNDIRECT

Key statistics

52w high (VND)	18,400
52w low (VND)	13,388
3m Avg daily volume (shares)	0.7m
3m Avg daily value (VNDm)	10,993
Market cap (VNDbn)	16,363
Outstanding shares (m)	924
Free float (%)	20
TTM P/E (x)	5.2x
Current P/B (x)	1.2x

Ownership

Chairman & related parties	14.9%
Commonwealth Bank of Australia	20.0%
BOD members and related parties	12.9%
Others	52.2%

Source: VNDIRECT RESEARCH

A small-scale retail bank, VIB has grown aggressively in the last two years, driven by both interest income and fee income.

Rising retail lending exposure bolstered earnings growth. Having identified its strategic focus on retail banking, Vietnam International Commercial JSB (VIB) has actively expanded its individual loan book at a CAGR of 47.0% in FY15-18. Accordingly, net interest margin (NIM) improved by 80bp in the same period. Focusing on mortgages and auto loans, VIB is the top player in auto loans, with 23% market share by end-2018. In addition, leveraging on retail lending expansion, the bank was able to cross-sell fee-based products, resulting in a robust fee income CAGR of 64.2% in FY15-18.

VIB is active in product innovation and technology development. In recent years, VIB has actively launched products tailored to specific customer groups to attract new clients and increase usage. Currently, two drivers for fee income growth are payment fees and income from distributing Prudential's life insurance products. The bank also focuses on technology development with the launch of MyVIB app and the renovation of its website interface to increase usability and widen its reach amid a small physical network. With increasing digitalisation, cost-to-income ratio (CIR) plunged from 61.5% in FY16 to 41.6% in 1H19.

Mobilisation and asset quality need improvement. VIB has low funding costs as it relies heavily on interbank funds. But the reliance means a higher sensitivity to interest rate fluctuation and the system's liquidity. Regarding asset quality, by end-2Q19 VIB's non-performing loan (NPL) ratio (2.4%) was above the sector-wide NPL (1.9%) and its loan-loss-reserves (LLR) of 42.3% was the lowest among the listed banks.

We project a net profit CAGR of 21.0% in FY19-21F, based on 23.5% loan CAGR thanks to VIB's strong capital buffer, a slight NIM hike (+12bp) from retail lending expansion and 22.0% non-interest income CAGR, driven by payment services, card fees and bancassurance.

We have an ADD rating on VIB with a target price of VND21,200. VIB is trading at 15.1% discount to the industry average in term of FY19F P/BV although its ROE is among the highest (25.0% in 1H19). Low valuation could be due to its low liquidity, riskier asset quality and smaller network compared to other retail banks. Given its strong profit growth outlook, we view that VIB is slightly undervalued, thus we have an Add rating for VIB.

Financial summary (VND)	12-17A	12-18A	12-19E	12-20E
Net interest income (bn)	3,456	4,825	5,812	7,408
Net interest margin	3.1%	3.8%	3.8%	3.9%
Total operating income (bn)	4,089	6,086	7,462	9,440
Total provision charges (bn)	(350)	(653)	(950)	(1,357)
Net profit (bn)	1,124	2,194	2,642	3,219
Net profit growth	100.1%	95.1%	20.4%	21.8%
Adjusted EPS	1,287	2,522	2,984	3,588
BVPS	9,505	11,539	13,916	16,899
ROAE	12.8%	22.6%	22.5%	22.6%

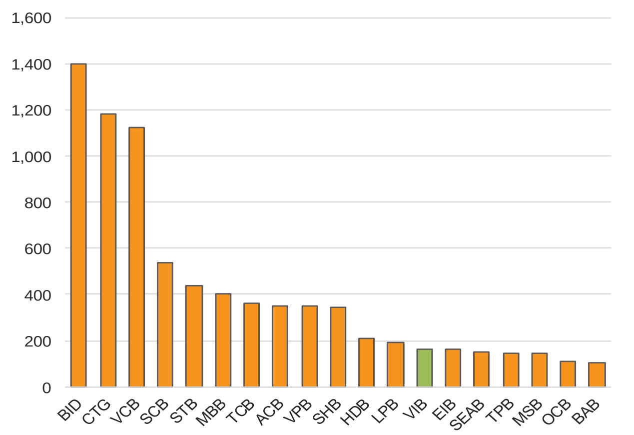
Source: VNDIRECT RESEARCH

VIB is a small-scale retail bank

VIB is a small-sized bank, ranked the 14th by total assets in the Vietnamese banking system by end-2Q19. Therefore, VIB's market share is still modest, with lending market share of 1.8% and customer deposit market share of 1.4% as at end-2Q19. The bank has emerged strongly over 2015-18, with a total assets CAGR of 18.2% while its loan book rose at a CAGR of 26.2%. VIB has not reached Vietnam's top 10 banks in terms of total assets but it is commendable that the lender has risen to the 10th position in terms of net profit.

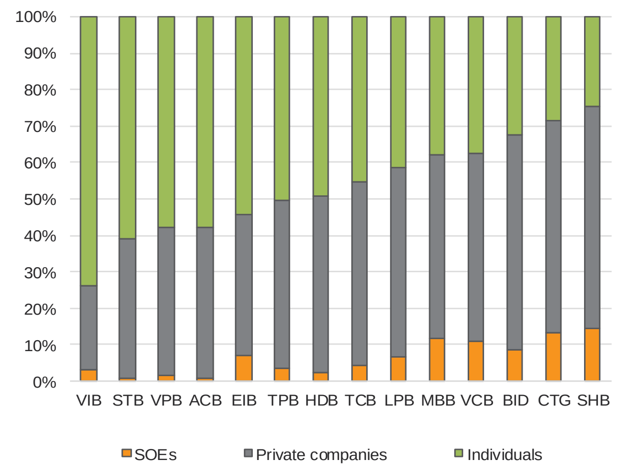
VIB focuses on retail lending, with two key products: mortgages and auto loans. VIB is well-known for its car loan products, with the top market share in this segment at 23% in 2018. VIB's individual loan book accounted for 74% of the total loan book, well above the average for retail banks of around 52%. By end-2018, VIB had 2.7% market share in individual lending, but its market share in individual deposit was still as small as 0.6%.

Figure 1: VIB is a small-scale bank in term of total assets (VNDtr-2Q19)



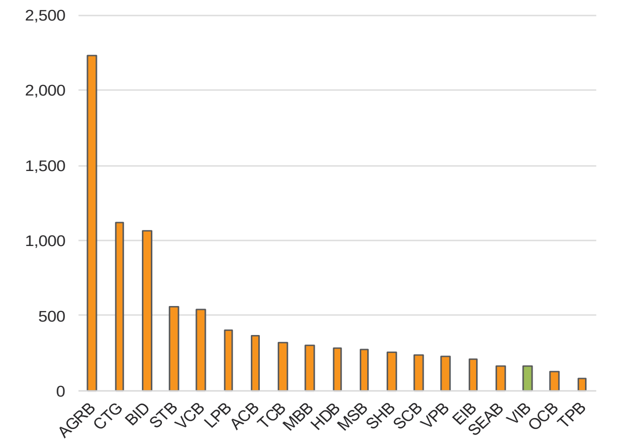
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 2: VIB focuses on individual loans (2018)



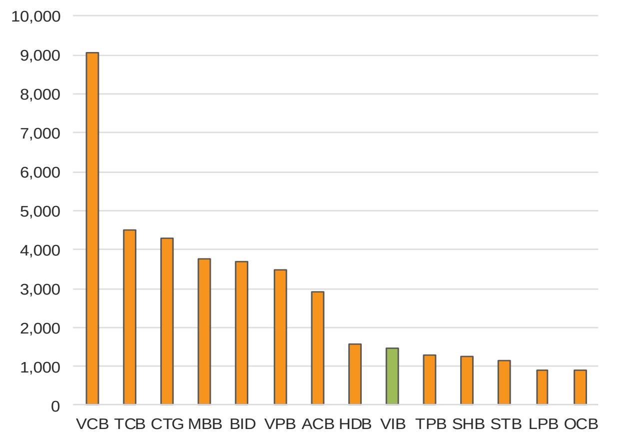
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 3: Branches/transaction offices across banks - VIB has a small network



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 4: However, VIB is in the top 10 banks in term of net profit (VNDbn - 1H19)

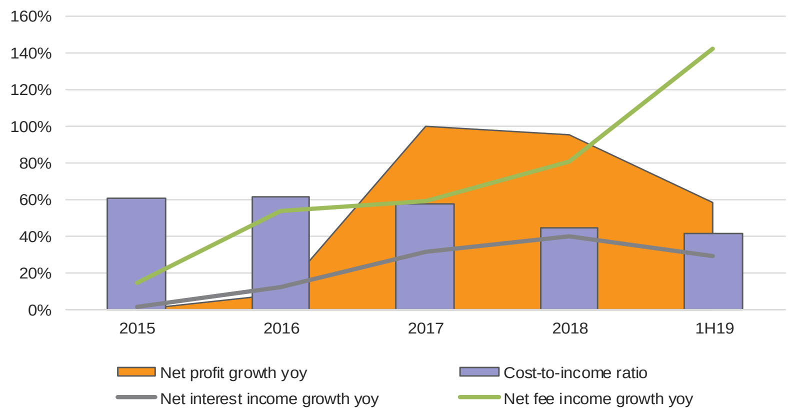


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Robust profit growth in the past two years on strong interest income and fee income

In FY17-18, VIB recorded a surge in net profit growth, at 100.1% and 95.1%, respectively. The impressive increase came from the high growth in both interest income and fee income, while the operating expenses were well-controlled thanks to banking digitalisation.

Figure 5: Net profit surged in the last two years

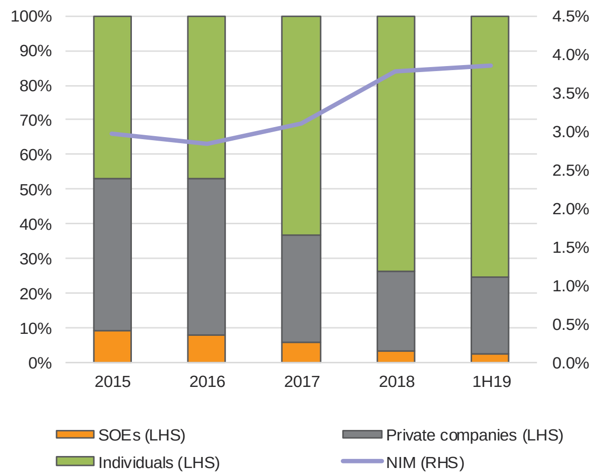


Source: VNDIRECT RESEARCH, COMPANY REPORTS

High growth in interest income was driven by individual credit

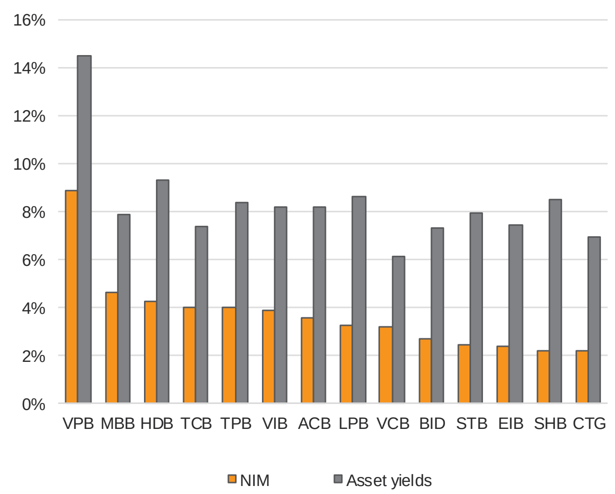
In recent years, VIB has actively promoted credit, mainly individual loans. Individual loan book posted a CAGR of 40.2% during FY15-2Q19, higher than the overall loan book CAGR of 24.4% over the same period. Therefore, the share of individual loans in the total loan book has risen significantly from 46.9% at end-FY15 to 75.5% at end-2Q19, thereby boosting NIM by 89bp. Besides, VIB maintained high loan growth in FY15-18 (2015: 25.1%; 2016: 26.0%, 2017: 32.7%; 2018: 20.4%), placing the growth rates above those of the industry. In order to boost credit, VIB has launched lending campaigns with preferential interest rates to attract customers, therefore, its asset yields and NIM are on par with the industry average, despite having the largest proportion of individual loans among the listed banks.

Figure 6: NIM has improved on retail lending expansion



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 7: VIB has an average NIM in the system (1H19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

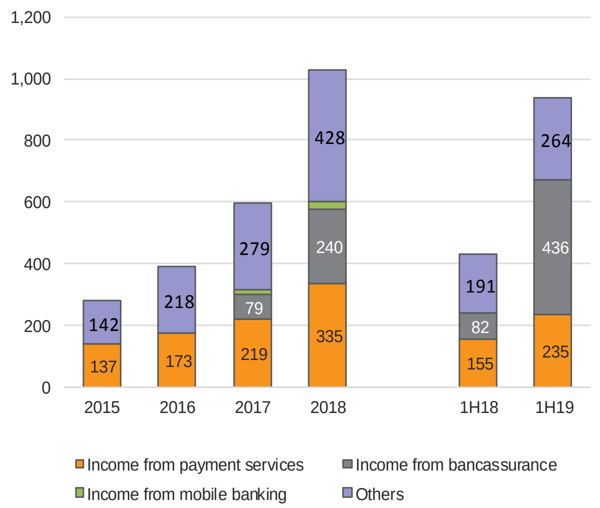
Although VIB has achieved high loan growth in recent years, it will be difficult to maintain such speed going forward because the State Bank of Vietnam (SBV) is restricting credit growth. It has cut the annual credit growth target to 14% for 2019, from the 17.0%-18.0% range set for 2017-18. Moreover, VIB's individual loan book has increased rapidly but the competition in this segment has become more intense. In addition, the loan-to-deposit ratio (LDR) rose from 72.5% at end-FY15 to 77.9% at end-2Q19, helping NIM to improve. Its LDR is now approaching the maximum level of 80% allowed by SBV, therefore, not much room is left to increase the utilisation of fundings. For the above reasons, we expect the heated rise of interest income may cool down in the coming years after the recent high growth rates.

Building a strong fee income franchise has been a strategic objective

The bank’s fee income achieved an impressive CAGR of 64.2% in FY15-18. The strong growth was driven by payment services and income from insurance distribution (bancassurance). Income from payment services recorded a CAGR of 34.9% during FY15-18, while bancassurance income began to be recorded in 2017 and tripled in 2018. In order to achieve such a high growth rate, VIB has focused on four factors: innovative products, customer-oriented services, professional salesforce and advanced technology. The bank launched a smartphone app – MyVIB – at the end of 2017, which provides all basic banking transactions with increased convenience to enhance its reach to potential customers. Currently, the number of transactions through digital banking channels accounts for about 70% of VIB’s total transactions, helping the bank reduce operating costs.

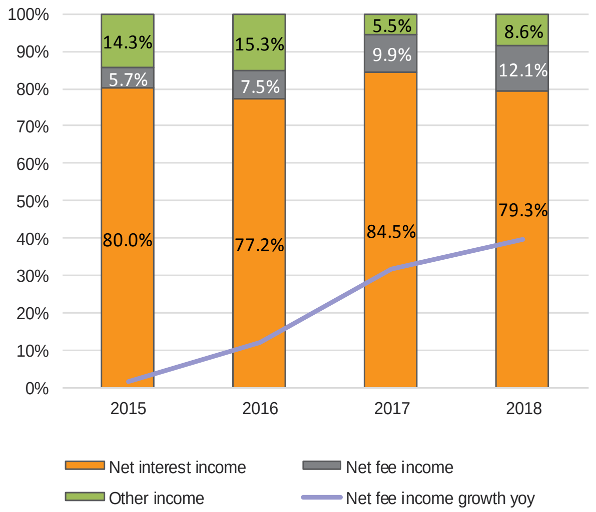
Bancassurance is another driver for fee income at VIB. The lender signed an exclusive partnership with Prudential at end-2015 and has been distributing Prudential’s products since 2016. According to Prudential, the number of new life insurance contracts sold via VIB in FY18 soared more than 200% from FY17. Income from bancassurance thus tripled in FY18 and increased by 5.3x yoy in 6M19. Another product which started to bring good growth in fee income since 2018 is credit card. In Nov 2018, VIB launched five types of credit cards specially designed for different customer groups, including: VIB Happy Drive credit card for car owners, Travel Élite card for frequent travellers, VIB Financial Free card allowing cash withdrawal up to 100% of the credit limit, VIB Cashback and VIB Rewards Unlimited card for customers who have high demand for shopping. In Apr 2019, VIB launched another type of credit card - VIB Zero Interest Rate – which charges zero interest for all card transactions for the whole five years, which is the card’s validity period, instead of 45 to 60 days as normal. With a wide range of products to meet the unique needs of each customer group, income from credit cards is expected to be one of the main drivers for fee income growth in the coming years. Thanks to the active promotion of fee-based products, the proportion of fee income in total income has risen significantly from 5.7% in FY15 to 12.1% in FY18.

Figure 8: Payment services and bancassurance are the main drivers for fee income (VNDbn)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 9: The share of fee income has consistently increased over the past few years

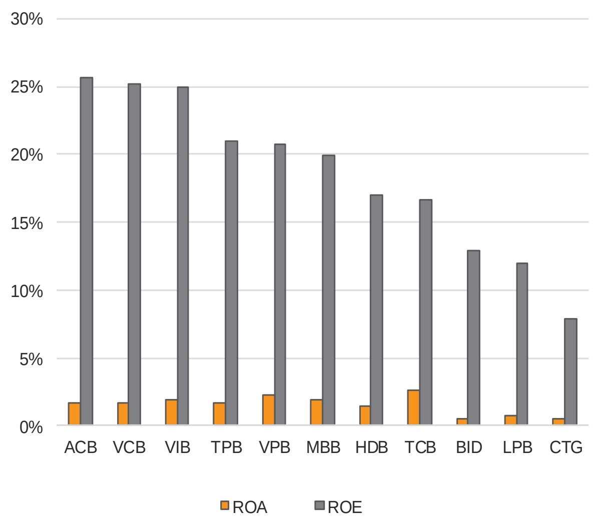


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Strong profit growth improved profitability

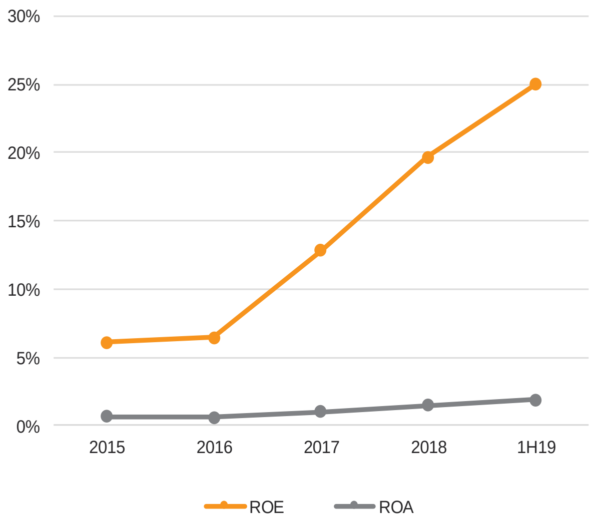
Thanks to an 89bp NIM hike over FY15-2Q19 and fee income CAGR of 64.2% in FY15-18, ROE has improved significantly from 6.1% in FY15 to 25.0% in 1H19. ROA also surged from 0.6% in 2015 to 1.9% in 1H19. Currently, VIB has the third highest ROE in the banking system, after ACB and VCB.

Figure 10: VIB is among banks with high profitability (1H19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 11: Profitability improved thanks to robust profit growth

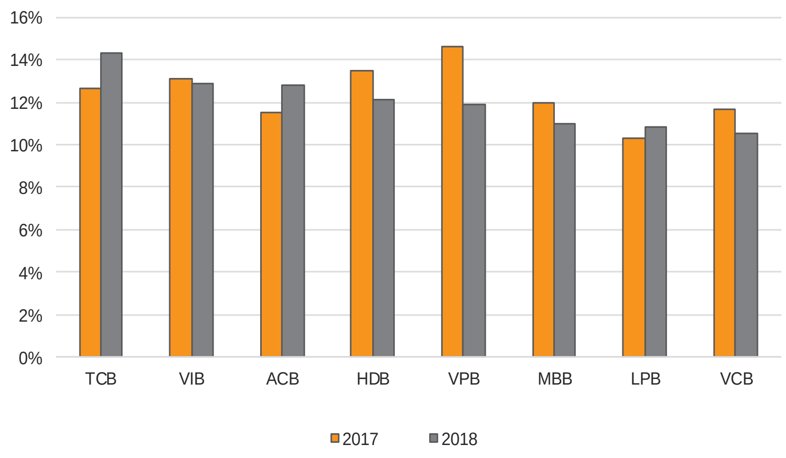


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Strong capital base meets Basel II standards

VIB currently has the second-highest capital adequacy ratio (CAR) among the listed banks (CAR according to Circular 36). At the end of 2018, VIB's CAR reached 12.9% under Circular 36 and 10.0% under Basel II standard, both were above the minimum required levels of 9% and 8%, respectively. In order to achieve a high CAR, VIB has maintained high level of stock dividends and bonus shares, helping chartered capital to increase by 61.7% in the period of FY15-18, while cash dividends was about 20% of net profit. High profit growth in recent years is another factor that helps VIB maintain a high CAR. VIB was one of the first two banks in Vietnam which got SBV's approval to apply Basel II ahead of the deadline. Therefore, VIB could receive preferential treatment of a higher credit growth quota than the sector-wide target. In 2019, VIB plans to issue 18% private placement to further improve CAR, however, the stock market is still risky, with investors being cautious due to uncertain global economic conditions, hence the bank's capital raising plan could take longer than expected.

Figure 12: VIB reports high CAR



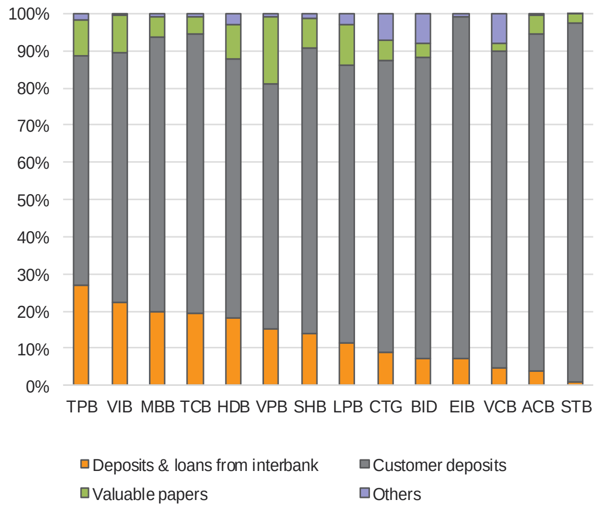
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Weak deposit franchise increases the risk exposure to interest rate volatility

Compared to other banks, VIB relies heavily on interbank deposits and borrowings, as interbank funds accounted for 22.2% of the total funding as at end-2Q19, the second-highest level among listed banks. Meanwhile, customer deposits accounted for 67.1% of the total funding, below the average of listed banks at 78.7%. Deposit mobilisation at VIB has not been effective as its small network limits VIB's reach to customers. On the other hand, VIB specialises in retail banking, thus it does not have a large corporate customer base as state-owned banks. In the private bank space, VIB has to compete with long-run retail banks which have wider networks, such as ACB and STB. For these reasons, its deposit franchise is still weak and it has to source funds from the interbank market.

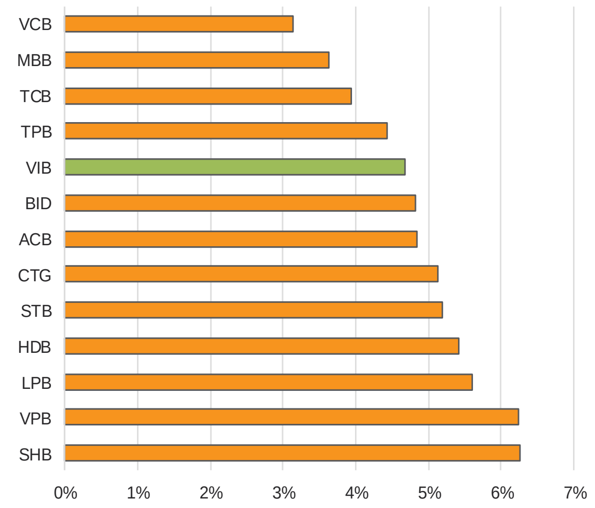
The dependence on interbank funding is not worrying in the condition of low interest rates and good market liquidity. Besides, interbank funds are cheaper than customer deposits, therefore, VIB currently has the advantage of low funding costs against other listed banks. However, if interest rates increase, lenders that depend on the interbank market will be most exposed to the fluctuations. Thus, the funding costs will rise fast while lending interest rates will not be able to adjust immediately, leading to NIM compression. In addition, when market liquidity shrinks, these banks will face more pressure on liquidity. As a result, VIB needs a long-term strategy to develop a sustainable deposit franchise and reduce its dependence on interbank market.

Figure 13: VIB is highly dependent on interbank market funding (2Q19)...



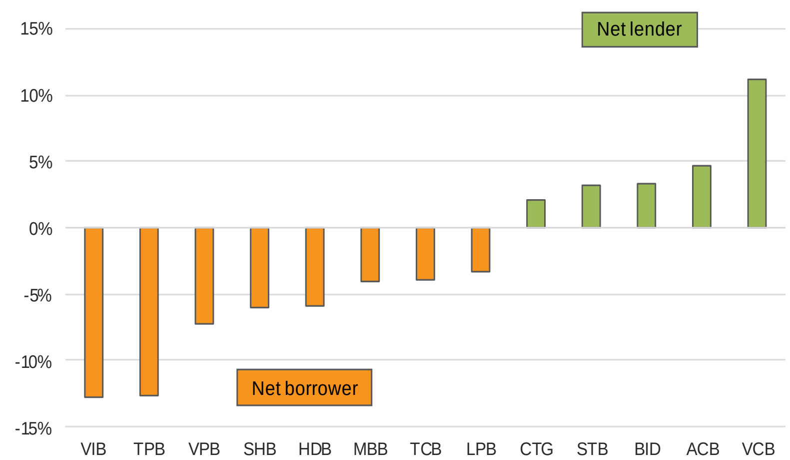
Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 14: … thus VIB enjoyed low funding costs (1H19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

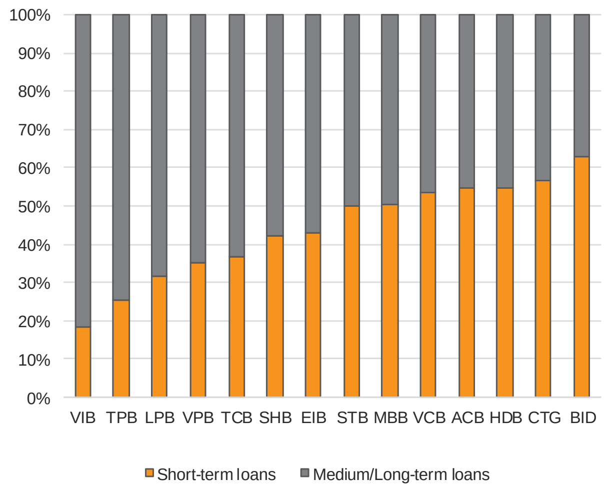
Figure 15: Net lending/borrowing on interbank market to total assets (2Q19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

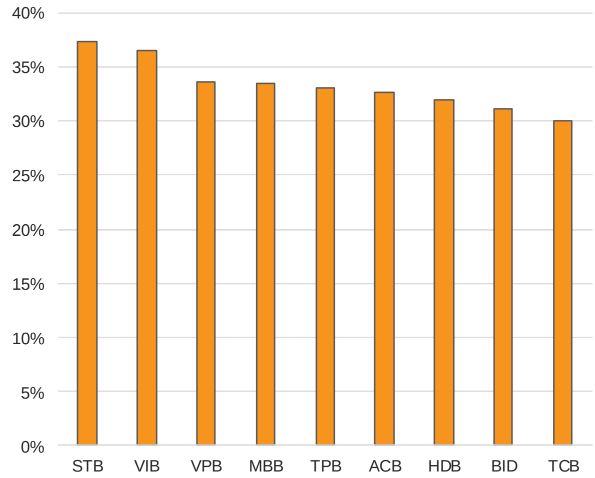
Especially, VIB finances a lot for medium- and long-term loans, which make up a combined 81.8% of its loan book. As at end-2018, the ratio of short-term funds used for medium- and long-term loans at VIB was 36.5%, lower than the 40% requirement but was the second-highest among the listed banks. With a high level of medium and long-term loans and high ratio of short-term funds used for medium- and long-term loans, VIB's funding costs will face more pressure than other banks when SBV cuts the maximum ratio of short-term fund used for medium and long-term loans from 40% now to 35% in 2020 and 30% in 2021.

Figure 16: VIB has a large medium/long-term loan book (2Q19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 17: VIB's ratio of short-term funds used for medium/long-term loans nears the ceiling (2018)

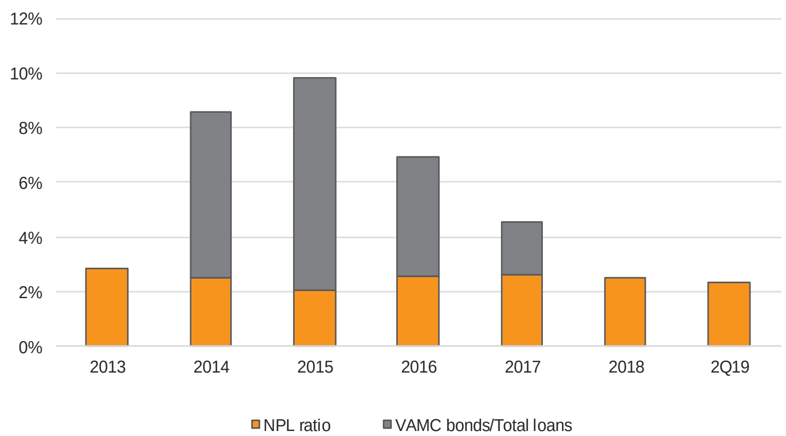


Source: VNDIRECT RESEARCH, COMPANY REPORTS

Active bad debt clearing in recent years, but asset quality is still a concern

During the period 2016-18, VIB has actively cleared bad debts by provisioning and write-offs. The level of distressed assets (including on-balance sheet NPL and debts sold to Vietnam Asset Management Company (VAMC), the government's arm in dealing with bad debts) hit a record high in 2015 at 9.8% of the total loan book. After three years of active bad debt clearing, the level of distressed assets declined to 2.4% by end-2Q19 and all of these assets were on-balance sheet NPL, while VIB fully provisioned for and bought back all the debts sold to VAMC in 2018. VIB is one of Vietnam's first five banks to have completed VAMC provisioning.

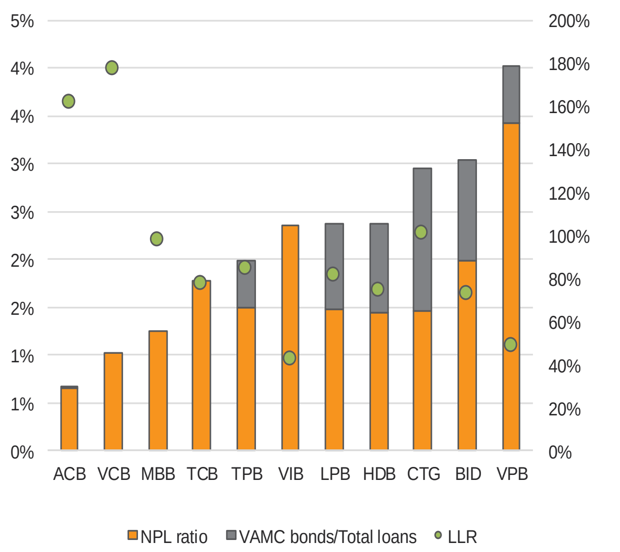
Figure 18: VIB has actively cleared bad debt in the last few years



Source: VNDIRECT RESEARCH, COMPANY REPORTS

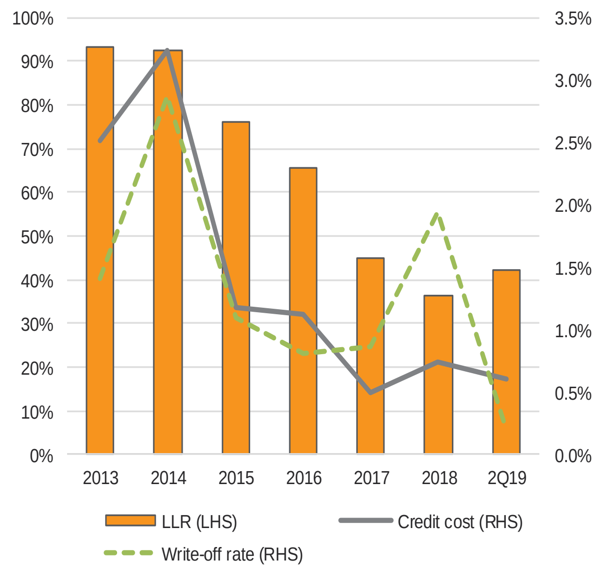
However, we are concerned over the bank' asset quality as its NPL ratio is high compared to the sector (2.4% by end-2Q19, compared to 1.9% of the entire system). In addition, VIB had the lowest LLR among the listed banks, at 42.3% by end-2Q19. After using a sizable amount of provision to write-off bad debt in 2018, VIB has not yet increased provisioning, therefore, its provision coverage dropped to a low level, raising our concern on its asset quality, especially when bad debt increases.

Figure 19: However, VIB has high NPL ratio and low LLR (2Q19)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 20: Provision coverage dropped sharply as VIB used provision to write-off loans



Source: VNDIRECT RESEARCH, COMPANY REPORTS

1H19 RECAP: IMPRESSIVE PROFIT GROWTH BUT PROVISION COVERAGE WAS STILL WEAK

High loan growth and NIM hike fueled a 29.3% yoy surge in 1H19 net interest income. As at end-1H19, VIB's loans grew 31.2% yoy, the fastest pace in the sector. Deposits kept up with the lending growth, hitting 31.6% yoy. In 1H19, credit grew 17.9% vs end-FY18. VIB aggressively pushed for lending, with a credit growth target of 35% for 2019, however the target still needs SBV's approval. Regarding NIM, a strong growth of individual loans (+37.1% yoy) led to 30bp yoy NIM hike. The share of the individual loan book in the total loan book rose from 72.2% at end-2Q18 to 75.5% at end-2Q19, making VIB the bank with the highest penetration in individual lending. Auto loans and mortgage remained the key drivers for loan growth, rising 23% and 19% respectively vs. end-2018.

1H19 non-interest income soared 68.1% yoy on a robust fee income (+142.6% yoy). The pair driving fee income included income from payment services (+64.4% yoy) and bancassurance (+4.3x yoy). The launch of five new types of credit card in Nov 2018 and another credit card type in Apr 2019 has boosted income from payment services. Bancassurance remains a key focus at VIB and has achieved strong growth on low penetration and also thanks to the aggressive expansion of retail banking.

Operating expenses were better controlled thanks to digitalisation and continuous development of salesforce. VIB's continuous improvement in its mobile app and internet banking platform, along with new product launch helped it reach new customers and fueled strong growth in revenue. In addition, the bank is focusing on developing its salesforce with the aim to increase the salesforces to 70-80% of its total employees. Apart from the efforts to boost revenue, VIB also curbs operating costs by increasing process automation. Currently, the number of transactions via digital banking channels account for 70% of the total transactions. The cost-to-income ratio dropped to 41.6% in 1H19 from 48.7% in 1H18. As such, 1H19 operating expenses increased moderately at 15.8% yoy.

Asset quality showed little improvement but provision coverage was still low. NPL ratio was 2.4% at end-2Q19, down from 2.5% at end-4Q18 thanks to the strong loan growth. An encouraging sign is that VIB is increasing provisioning, with 1H19 provision expenses rising 36.1% yoy, thus lifting its LLR from 36.2% at end-4Q18 to 42.3% at end-2Q19. However, VIB's LLR was still the lowest among the listed banks. Given strong topline growth, we hope VIB could enhance its provision coverage in the coming time, even though better provision coverage would come at the cost of lower bottomline growth.

Figure 21: 1H19 results summary (VND bn, otherwise noted)

Profit & Loss statement	2Q19	2Q18	%yoy	1Q19	%qoq	1H19	1H18	%yoy
Net interest income	1,532	1,204	27.3%	1,385	10.6%	2,917	2,256	29.3%
Non-interest income	416	245	70.1%	329	26.6%	745	443	68.1%
Operating revenue	1,948	1,449	34.5%	1,714	13.7%	3,662	2,700	35.7%
Operating expenses	(775)	(677)	14.4%	(748)	3.6%	(1,522)	(1,314)	15.8%
Pre-provision profit	1,174	772	52.1%	966	21.5%	2,140	1,385	54.5%
Provision expenses	(163)	(139)	17.2%	(156)	4.6%	(320)	(235)	36.1%
Pretax profit	1,010	632	59.8%	810	24.8%	1,820	1,151	58.2%
Net profit	808	506	59.7%	648	24.8%	1,456	921	58.2%

Source: VNDIRECT RESEARCH, COMPANY REPORTS

OUTLOOK: HIGH PROFIT GROWTH WILL BE SUSTAINABLE IN FY19-21F

Figure 22: Profit & Loss statement key KPIs, based on our forecasts (VND bn, otherwise noted)

Profit & Loss statement	2016A	2017A	2018A	2019F	2020F	2021F	CAGR 2016-18	CAGR 2019-21F
Net interest income	**2,626**	**3,456**	**4,825**	**5,812**	**7,408**	**9,031**	**35.6%**	**24.7%**
% growth	*12.0%*	*31.6%*	*39.6%*	*20.4%*	*27.5%*	*21.9%*		
Non-interest income	**775**	**633**	**1,260**	**1,650**	**2,033**	**2,455**	**27.5%**	**22.0%**
% growth	*32.4%*	*-18.2%*	*98.9%*	*30.9%*	*23.2%*	*20.8%*		
Total operating income	**3,401**	**4,089**	**6,086**	**7,462**	**9,440**	**11,486**	**33.8%**	**24.1%**
% growth	*16.1%*	*20.2%*	*48.8%*	*22.6%*	*26.5%*	*21.7%*		
Operating expenses	**(2,093)**	**(2,334)**	**(2,690)**	**(3,209)**	**(4,059)**	**(4,824)**	**13.4%**	**22.6%**
% growth	*18.5%*	*11.6%*	*15.2%*	*19.3%*	*26.5%*	*18.8%*		
Pre-provision profit	**1,308**	**1,755**	**3,396**	**4,253**	**5,381**	**6,662**	**61.1%**	**25.2%**
% growth	*12.4%*	*34.1%*	*93.5%*	*25.2%*	*26.5%*	*23.8%*		
Provision expense	**(606)**	**(350)**	**(653)**	**(950)**	**(1,357)**	**(1,825)**	**3.8%**	**38.6%**
% growth	*19.1%*	*-42.3%*	*86.7%*	*45.4%*	*42.8%*	*34.5%*		
Pre-tax profit	**702**	**1,405**	**2,743**	**3,303**	**4,024**	**4,837**	**97.6%**	**21.0%**
% growth	*7.2%*	*100.1%*	*95.2%*	*20.4%*	*21.8%*	*20.2%*		
Net profit	**562**	**1,124**	**2,194**	**2,642**	**3,219**	**3,869**	**97.6%**	**21.0%**
% growth	*7.8%*	*100.1%*	*95.1%*	*20.4%*	*21.8%*	*20.2%*		

Source: VNDIRECT RESEARCH

Figure 23: Key ratios, based on our forecasts

Key ratios (%)	2016A	2017A	2018A	2019F	2020F	2021F
Loan growth	26.0%	32.7%	20.4%	25.0%	25.0%	22.0%
Deposit growth	11.2%	15.4%	24.1%	23.0%	23.0%	23.0%
NIM	2.8%	3.1%	3.8%	3.8%	3.9%	3.9%
Loan-to-deposit ratio	63.7%	72.0%	77.4%	76.8%	78.8%	79.1%
Cost-to-income ratio	61.5%	57.1%	44.2%	43.0%	43.0%	42.0%
Non-performing loan ratio	2.6%	2.6%	2.5%	2.3%	2.2%	2.1%
Loan-loss-reserves	65.5%	44.8%	36.2%	40.6%	47.9%	58.0%
Credit cost	1.1%	0.5%	0.7%	0.9%	1.0%	1.1%
ROA	0.6%	1.0%	1.7%	1.7%	1.7%	1.7%
ROE	6.5%	12.8%	22.6%	22.5%	22.6%	22.3%

Source: VNDIRECT RESEARCH

We project a net profit CAGR of 21.0% for FY19-21F, based on the following assumptions:

Net interest income (NII) CAGR of 24.7% over FY19-21F, driven by 23.5% loan CAGR and a mild increase in NIM (+12bp). Our loan growth assumptions are higher than the sector-wide targets because VIB would be rewarded with a higher credit growth quota for having completed Basel II ahead of the deadline, and also due to its small size in the system. NIM is projected to rise slightly thanks to retail loan expansion, with the two key products: mortgages and auto loans. However, VIB already has high penetration in retail lending and the funding costs are likely to rise as the bank shifts toward customer deposits, therefore we only expect a 12bp increase in NIM.

Non-interest income (non-II) could maintain 22.0% CAGR over FY19-21F. VIB's efforts on banking digitalisation, product development and insurance distribution will lead to a strong growth in income from payment services, card fees and bancassurance. We project a lower non-II CAGR for FY19-21F compared to FY16-18 as in the past three years non-II rose strongly from a low base. Non-II will sustain solid growth in the coming years, but the growth rate would temper down on a higher base.

We forecast a 22.6% CAGR in operating expenses for FY19-21F, with the cost-to-income ratio (CIR) lower to 42.0% in FY21F. VIB's CIR has dropped from 61.5% in FY16 to 44.2% in FY18 on robust profit growth and banking digitalisation. The launch of MyVIB app in 2017 encouraged customers to carry out transactions using mobile app, leading to a sharp drop in CIR from 57.1% in FY17 to 44.2% in FY18. We expect CIR will further decline to 42.0% by FY21F thanks to enhanced automation in the operation process. But CIR will not fall sharply in the coming years as it did in FY16-18 because total operating income growth will temper down due to a higher base effect and the implementation in 2017 of a major digitalisation initiative (the launch of MyVIB app).

We forecast a 38.6% CAGR in provision expenses for FY19-21F, higher than the 3.8% CAGR in FY16-18. In the past three years, VIB maintained low provisioning and prioritised VAMC bonds clearing over provisioning for on-balance sheet NPL. As a result, its LLR was only 36.2% as at end-FY18, the lowest among the listed banks. VIB also has a high NPL ratio, which reached 2.4% at end-2Q19. As VIB completed VAMC provisioning in 2018 and high income growth could be sustainable in the coming years, we expect VIB to ramp up provisioning and loan write-offs to cut the NPL ratio and improve LLR. We forecast its LLR will rise to 58% and NPL will decline to 2.1% by end-FY21F.

VALUATION

We use the residual income and P/BV methodologies to value VIB, with weights of 70% and 30%, respectively. The residual income approach is based on our forecasts for VIB's earnings and growth, and factors in the bank's current capital buffer and its business strategy. As for the P/BV approach, this allows us to value VIB relative to other banks and factors in market sentiment on the Vietnamese banking sector as a whole. However, each bank has distinctly-different fundamentals and earnings prospects and, therefore, we only give a 30% weight to this relative valuation approach.

Figure 24: Our target price calculation

Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	70%	20,920	14,644
P/BV multiple (at 1.3x FY20F P/BV)	30%	21,968	6,590
Target price (VND/share)			21,234
Target price (VND/share, rounded)			**21,200**

Source: VNDIRECT RESEARCH

Figure 25: Residual income valuation, based on our estimates

Key assumptions	2019E	2020E	2021E	2022E	2023E	Terminal
Risk free rate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	1.1	1.1	1.1	1.1	1.1	1.1
Cost of equity	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%
Long-term growth rate						3.0%
(in VND bn, otherwise noted)						
Opening shareholder's equity	10,668					
PV of RI (5 years)	3,683					
PV of Terminal value	4,989					
Implied Equity value	19,340					
No. of outstanding shares (m shares)	924.5					
Implied value per share (VND/share)	**20,920**					

Source: VNDIRECT RESEARCH

VIB is currently trading at 1.3x FY19F P/BV, lower than the industry average of 1.5x. Compared to other retail banks which have high ROE such as ACB and MBB, VIB is still trading at a lower P/BV despite high ROE. In our view, VIB is valued at a discount to peers due to the following reasons:

1) The stock's liquidity is low, with the average trading volume of around 700k shares/day, while the average trading volume of the bank stocks mentioned above ranges from 1.4m to 3.4m shares/day.

2) VIB has lower assets quality, with high NPL ratio and low LLR compared to peers.

3) The bank is still small, with limited network coverage while the competition in retail banking is getting more and more aggressive. Other big retail banks like ACB and MBB have advantage over VIB in the retail race thanks to their well-established brand name and wider network coverage.

For the above reasons, we apply a target P/BV of 1.3x for FY20F, which is the 6-month average P/BV of VIB. Combining residual income valuation and P/BV multiple valuation with 70% and 30% weighting, respectively, we have a target price of VND21,200 for VIB, implying 20.5% upside.

Figure 26: Vietnam's banks comparison

Banks	Ticker	Recommendation	Closing Price	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward EPS CAGR	ROE (%)	
			(VND)	(VND)	(US$m)	FY19F	FY20F	FY19F	FY20F	%	FY19F	FY20F
Vietcombank	VCB	HOLD	77,300	83,200	12,046	3.5	2.9	19.4	16.1	19.1%	24.5%	23.3%
BIDV	BID	N/a	38,600	N/a	5,545	1.9	1.9	21.8	16.1	21.9%	13.5%	15.8%
Vietinbank	CTG	N/a	20,000	N/a	3,129	1.0	0.9	11.6	10.0	9.8%	8.4%	9.5%
Techcombank	TCB	ADD	21,700	27,400	3,188	1.2	1.1	8.1	7.1	14.6%	16.6%	16.2%
VPBank	VPB	HOLD	19,800	21,200	2,044	1.1	0.9	6.4	5.2	12.1%	19.7%	19.9%
MBBank	MBB	ADD	23,000	34,000	2,042	1.3	1.1	6.9	6.0	19.2%	21.2%	20.9%
Asia Commercial Bank	ACB	ADD	22,000	30,400	1,499	1.3	1.1	6.1	5.3	15.7%	24.8%	23.3%
HDBank	HDB	N/a	25,550	N/a	1,053	1.4	1.4	9.5	9.2	3.8%	18.2%	17.3%
TPBank	TPB	N/a	22,700	N/a	788	1.5	1.2	8.3	6.1	23.8%	20.2%	21.5%
Lien Viet Post Bank	LPB	ADD	7,700	10,000	287	0.5	0.5	6.6	5.5	22.6%	12.0%	12.2%
Average						***1.5***	***1.3***	***10.5***	***8.6***	***16.3%***	***17.9%***	***18.0%***
Vietnam International Bank	**VIB**	**ADD**	**17,600**	**21,200**	**684**	**1.3**	**1.0**	**5.9**	**4.9**	**19.6%**	**22.5%**	**22.6%**

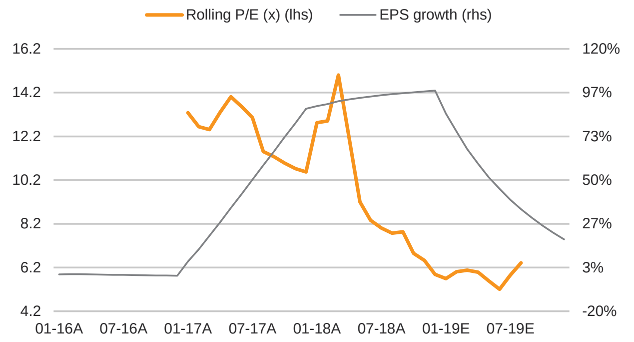
Price as of Sep 04,2019
Source: BLOOMBERG, VNDIRECT RESEARCH

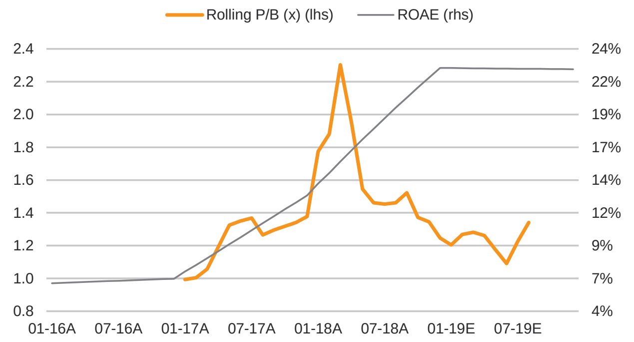
RISK

Risk of rising funding costs

Due to VIB's dependence on interbank market, its funding costs are sensitive to changes in interest rates. Especially, interest rates in Vietnam are now under pressure due to increasing competition for medium/long-term funds and the U.S.-China trade tension which creating pressure on the USD/VND exchange rate, thereby putting pressure on interest rates. SBV's intention to lower the maximum ratio of short-term funds used for medium- and long-term loans from 40%, currently, to 35% in 2020 and 30% in 2021 would further increase interest rates across the board. VIB has a high level of medium- and long-term loans, while the ratio of short-term funds used for medium- and long-term loans is approaching the permissible ceiling. Therefore, VIB's funding costs are under greater pressure than other banks. The risk of rising funding costs is key for VIB as interest rates have increased since the end of 2018 and continued trending up in 1H19.

Valuation





Income statement

(VNDbn)	12-18A	12-19E	12-20E
Net interest income	**4,825**	**5,812**	**7,408**
Non interest income	**1,260**	**1,650**	**2,033**
Total operating income	**6,086**	**7,462**	**9,440**
Total operating costs	(2,690)	(3,209)	(4,059)
Pre-provision operating profit	**3,396**	**4,253**	**5,381**
Total provision charges	**(653)**	**(950)**	**(1,357)**
Income from associates & JVs			
Net other income			
Pre-tax profit	**2,743**	**3,303**	**4,024**
Tax expense	(549)	(661)	(805)
Profit after tax	**2,194**	**2,642**	**3,219**
Minority interest	0	0	0
Net profit	**2,194**	**2,642**	**3,219**

	12-18A	12-19E	12-20E
Growth rate (yoy)			
Cust deposit growth	24.1%	23.0%	23.0%
Gross cust loan growth	20.4%	25.0%	25.0%
Net interest income growth	39.6%	20.4%	27.5%
Pre provision operating profit growth	93.5%	25.2%	26.5%
Net profit growth	95.1%	20.4%	21.8%
Growth in IEAs	13.8%	25.5%	22.4%
Share value			
Basic EPS (VND)	2,447	2,896	3,482
BVPS (VND)	11,539	13,916	16,899
DPS (VND)	567	500	500
EPS growth	97.8%	18.3%	20.3%

Balance sheet

(VNDbn)	12-18A	12-19E	12-20E
Gross loans to customers	96,139	120,173	150,217
Loans to banks			
Total gross loans	**96,139**	**120,173**	**150,217**
Securities - total	28,719	33,022	37,971
Other interest earning assets	10,890	17,226	20,613
Total gross IEAs	**135,747**	**170,422**	**208,801**
Total provisions	**(1,019)**	**(1,287)**	**(1,760)**
Net loans to customers	**95,261**	**119,051**	**148,646**
Total net IEAs	**134,728**	**169,134**	**207,040**
Cash and deposits	1,098	1,164	1,234
Total investments	115	122	129
Other assets	3,225	3,419	3,624
Total non-IEAs	**4,438**	**4,704**	**4,986**
Total assets	**139,166**	**173,838**	**212,027**
Customer deposits	84,863	104,381	128,389
Cds outstanding	10,152	20,305	26,396
Customer interest-bearing liabilities	95,015	124,686	154,785
Bank deposits	833	874	918
Broad deposits	95,848	125,560	155,703
Other interest-bearing liabilities	29,440	31,792	35,920
Total IBLs	**125,288**	**157,352**	**191,623**
Deferred tax liability			
Other non-interest bearing liabilities	3,211	3,621	4,781
Total non-IBLs	**3,211**	**3,621**	**4,781**
Total liabilities	**128,499**	**160,973**	**196,404**
Share capital	7,835	9,245	9,245
Additional paid-in capital	(719)	(719)	(719)
Treasury shares			
Retained earnings reserve	1,123	1,911	4,668
Other reserves	2,429	2,429	2,429
Shareholders' equity	**10,668**	**12,866**	**15,623**
Minority interest	0	0	0
Total equity	**10,668**	**12,866**	**15,623**
Total liabilities & equity	**139,166**	**173,838**	**212,027**

Key ratios

	12-18A	12-19E	12-20E
Net interest margin	3.8%	3.8%	3.9%
Cost-income ratio	(44.2%)	(43.0%)	(43.0%)
Reported NPLs / gross cust loans	2.5%	2.3%	2.2%
Reported NPLs / net cust loans	2.5%	2.3%	2.2%
GP charge / average cust loans	0.7%	0.9%	1.0%
Total CAR	12.9%	12.2%	12.1%
Loan deposit ratio	101.2%	96.4%	97.0%
Margins and spreads			
Return on IEAs	7.9%	8.3%	8.6%
Cost of funds	4.4%	4.9%	5.1%
Interest return on average assets	3.7%	3.7%	3.8%
ROAE	22.6%	22.5%	22.6%

Source: VNDIRECT RESEARCH

DISCLAIMER

RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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