

SACOMBANK (STB VN)

4Q results beat as NPL restructuring continues

BUY

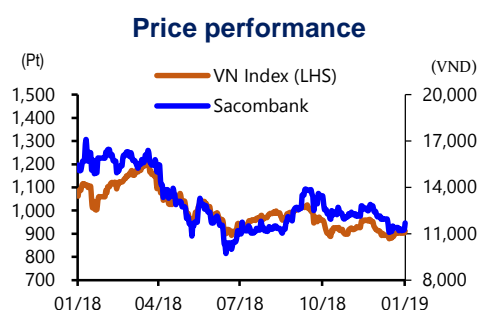
Current price (01-21-19): VND 11,700

Target price: VND 14,049

Upside: 20.1%

Summary: STB reported strong 4Q18A net income of VND 859bn, up 427% QoQ, up 109% YoY, and 11% higher than our 4Q18E forecast. The share price closed up 4% DoD, which we interpret as indicating that the results were above Street expectations despite STB's general guidance for strong 4Q18 earnings. We reiterate our BUY rating.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float (shares)	Avg. Trading Volume-3 month
VND 9,670-17,300	USD 917 mn	0.0%	11.0%	1,695 mn	5.9 mn



Event catalysts

- Operational turnaround as legacy bad debt problems are resolved and underlying business continues to improve.
- Management's real estate expertise underlines NPL restructuring story.
- LDR is lower than peers the regulatory cap, implying NIM outperformance.

Risks to our call

- Potential equity dilution due to legacy NPLs and Basel 2.
- Barriers to bad debt recoveries (e.g., asset selling price and bidding procedures).
- Funding franchise is not very strong for a retail bank, and improving this may be tough.

Tanh Tran

Bank Analyst

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Company profile: Vietnam's 6th largest bank by assets, STB is primarily a retail- and SME-focused bank. We see it as an undervalued turnaround story as the new management works out its legacy NPLs along with strong government policy support, which should allow value to emerge for patient investors.

STB's 4Q18 results at a glance

	VND bn	QoQ chg	YoY chg	4Q actual vs our forecast
Net II	2,110	2%	39%	7%
Non II	1,608	84%	5%	32%
Total Rev	3,718	26%	22%	50%
Opex	2,372	21%	19%	48%
PPOP	1,346	37%	27%	23%
Provisioning	414	-38%	-30%	91%
PBT	932	193%	100%	14%
Tax	74	-53%	33%	71%
PATMI	859	427%	109%	11%

Source: Company data

Non-interest income was the key driver of the 4Q18A earnings beat. The details are unclear but we believe that the 582% QoQ and 317% YoY boost in "other income" was driven by NPL collateral sales (i.e., positive NPL handling). The Company reported VND1,608 bn in total 4Q18 non-interest income, up 83.7% QoQ and up 5.4% YoY.

Pre-provisioning operating profits increased 37% QoQ and 27% YoY, with PPOP ROA coming in at an annualized 1.33%, up 35bps QoQ and 17bps YoY. We view the PPOP improvement positively and see it as a better indicator of underlying operations than net profit for a bank that is in a restructuring period.

Asset quality improved, but risks remain. STB's NPL ratio decreased to 2.11% at 4Q18 vs 4.67% at 4Q17. Category 3-5 NPLs declined by 47.8% YoY, of which Cat. 3 declined 86.9% YoY, Cat. 4 fell 50.3% yoY, and Cat. 5 fell 40.7% YoY. However, the bank's overall credit risk remains high, with Category 5 NPLs accounting for 91% of total NPLs. Accrued interest assets (mostly NPLs) were down -6.4% YoY, while VAMC bonds (also NPLs) fell 11% YoY and 1.9% QoQ, to reach VND40,233 bn.

We reiterate our BUY rating as outlined in last week's [initiation report "A turnaround story for the long haul"](#). We believe that the 4% DoD gain on Jan 21 indicates that the market was pleasantly surprised by the 4Q18 results, and we think that a re-rating could result from the ongoing NPL restructuring and improving underlying operations as evidenced by the uptick in pre-provisioning operating profit. In our view, investors who wait until the restructuring is complete will miss the share price upside.

Income Statement (Annually)	Units:	Historical		Projected		
		FY16A	FY17A	FY18 (Unaudited)	FY19E	FY20E
Net Interest Income:						
(+) Interest Income:	VND bn	17,868	21,534	26,296	28,641	32,707
(-) Interest Expense:	VND bn	(13,848)	(16,256)	(18,662)	(20,821)	(23,128)
Total Net Interest Income:	VND bn	4,021	5,278	7,634	7,821	9,579
Total Net Non-Interest Income:	VND bn	2,509	3,367	4,043	3,380	4,030
Revenue (Net Operating Income):	VND bn	6,530	8,645	11,677	12,105	14,594
Total Non-Interest Expenses:	VND bn	(5,678)	(6,337)	(7,838)	(7,868)	(8,907)
Pre-provisioning Operating Income:	VND bn	852	2,308	3,839	4,237	5,688
(-) Provisions for Credit Losses:	VND bn	(419)	(401)		(521)	(631)
(-) Provision for debts sold to VAMC & others	VND bn	(277)	(416)		(1,410)	(1,904)
Total Provisions:	VND bn	(696)	(817)	(1,592)	(1,931)	(2,535)
Pre-Tax Income:	VND bn	156	1,492	2,247	2,304	3,154
(-) Income Tax Expense / (+) Tax Benefit:	VND bn	(67)	(310)	(456)	(461)	(631)
Reported Net Income:	VND bn	89	1,182	1,790	1,843	2,523
Attributable Net Income to Common:	VND bn	50	798	1,402	1,528	2,092
Adjusted Earnings Per Share (EPS):	VND / Share	28	443	777	847	1,160
Dividend Per Share (DPS):	VND / share			0	0	42.36
Dividend Yield (%)	%			0	0	0.37%

Balance Sheet (Annually)	Units:	Historical		Projected		
		FY16A	FY17A	FY18 (Unaudited)	FY19E	FY20E
Cash and Balances at Central Banks:	VND bn	14,827	9,215	15,991	11,396	12,481
Loans and Advances to Banks:	VND bn	2,484	7,372	4,822	8,128	8,534
Investment Securities - Available for Sale:	VND bn	66,395	74,060	76,202	74,459	70,933
Derivative Financial Instruments:	VND bn	15	20	21	25	27
Gross Loans:	VND bn	198,860	222,947	256,623	294,286	335,361
(-) Allowance for Loan Losses:	VND bn	(2,432)	(2,749)	(3,523)	(3,493)	(3,965)
Net Loans:	VND bn	196,428	220,198	253,100	290,794	331,396
Property, Plant and Equipment (PP&E):	VND bn	4,504	4,475	4,618	4,933	5,180
Intangible Assets:	VND bn	3,446	3,626	3,632	3,626	3,626
Accrued interests:	VND bn	25,336	24,742	23,155	22,064	20,594
Deferred tax:	VND bn	106	74	65	74	74
Other Assets:	VND bn	18,481	24,686	24,915	27,154	29,870
TOTAL ASSETS:	VND bn	332,023	368,469	406,041	442,653	482,716
Deposits:	VND bn	291,653	319,860	349,197	392,964	430,384
Due to Banks:	VND bn	11,884	12,880	12,785	12,881	12,881
Subordinated Notes:	VND bn	1	5,601	8,066	8,120	8,120
Investment Trust; Derivatives & others:	VND bn	1,404	91	88	120	137
Other Liabilities:	VND bn	4,889	6,800	11,272	2,526	3,166
Total Liabilities:	VND bn	309,831	345,233	381,408	416,611	454,687
Share Capital & Share Premium:	VND bn	18,167	18,167	18,167	18,167	18,167
Reserves:	VND bn	2,684	2,784	2,721	2,784	2,784
Retained Earnings:	VND bn	1,341	2,286	3,745	5,092	7,079
Total Equity:	VND bn	22,192	23,236	24,633	26,042	28,029
TOTAL LIABILITIES & EQUITY:	VND bn	332,023	368,469	406,041	442,653	482,716

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BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

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SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th Floor, Saigon Centre, Tower 1, 65 Le Loi Boulevard, Ben Nghe Ward, District 1, HCMC, Vietnam

Institutional Research

Matthew Smith, CFA
 Head of Research
 Tel: +84 28 3622 6868 (ext. 3815)
matthew.smith@yuanta.com.vn

Quang Vo
 Analyst (Consumer)
 Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tanh Tran (Banks)
 Analyst
 Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Tam Nguyen
 Analyst (Property)
 Tel: +84 28 3622 6868 (ext. 3874)
tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen
 Head of Institutional sales
 Tel: +84 28 3622 6868 (3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen
 Sales Trader
 Tel: +84 28 3622 6868 (ext. 3890)
duyen.nguyen@yuanta.com.vn