

SACOMBANK (STB VN)

Company Visit: Underlying business continues to improve

BUY

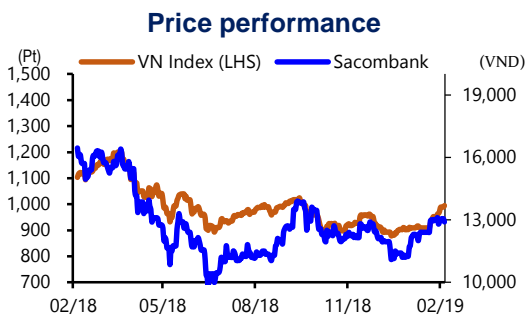
Current price (02-25-19): VND 12,900

Target price: VND 14,049

Upside: 8.9%

Summary: We met with STB management on Feb 25th, 2019 for a discussion of their business outlook. Management offered deeper insights into the NPL restructuring and collateral divestment process, while reporting that the underlying business remains very solid. We reiterate our Buy recommendation.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3 month
VND 9,670-17,300	VND23.5 tn	0.0%	9.5%	93.95%	VND50.9 bn



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 and well below the regulatory cap, implying NIM outperformance vs the sector going forward.

Risks to our call

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

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Company profile: Vietnam's 6th largest bank by assets, STB primarily focusses on retail and SME banking. We see it as an undervalued and underappreciated turnaround story. Management is making progress in the legacy NPL workout along with strong regulatory policy support, which should allow value to emerge for patient investors.

STB's 4Q18 results at a glance

	VND bn	QoQ chg	YoY chg
Net II	2,110	2%	39%
Non II	1,608	84%	5%
Total Rev	3,718	26%	22%
Opex	2,372	21%	19%
PPOP	1,346	37%	27%
Provisioning	414	-38%	-30%
PBT	932	193%	100%
Tax	74	-53%	33%
PATMI	859	427%	109%

Source: Company data

Legacy NPL restructuring: A work in progress. In 2018, VAMC bonds dropped 11% YoY to VND40,233 bn. The NPL ratio decreased to 2.11% at 4Q18 compared to 4.67% at 4Q17. Management recognizes market concerns about the delayed payment structure of previous collateral divestment, and it intends to require full payment for subsequent sales.

Capital remains an issue. Although the timing is unclear, STB is likely to prioritize raising Tier 1 capital from existing shareholders before seeking alternatives. STB does not rule out a strategic investor, but this will depend on the partner's suitability from management's perspective and that of the relevant authorities. However, any such investment is not likely to occur in the short term, as STB first wants to reduce its exposure to legacy NPLs before selling a substantial stake in the bank. STB can only raise Tier 1 capital to boost total CAR because its Tier 2 capital is already at the regulatory limit.

Retail loans continue to dominate the balance sheet at 61% of total loans while corporate loans (mainly SME loans at STB) is 39%. The yield spread for retail loans is about 5%, with lending rates at about 11% and cost of funding at about 6%. The bank targets a maximum of 8% of loans for any individual sector.

Credit growth target for FY2019 should be about 13%, slightly below the SBV's 14% target for the whole banking system. STB downplayed the potential to increase its LDR but expressed optimism about the mooted RRR cut. Management plans to focus on non-interest income by leveraging its customer base of c. 8 million individuals, of whom 5 million are currently active. Management's strategy is to deploy e-wallet services and bancassurance to this customer base to boost related fees.

Our view: We came away from the meeting with stronger confidence in our BUY rating as detailed in our January 8 [initiation note titled "STB: A turnaround story for the long haul"](#). In our view, the legacy NPLs are more than discounted in the market price, and the underlying business is improving as indicated by strengthening PPOP. Investors who wait until the restructuring is complete are very likely to miss the share price upside, in our view.

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Ratings	Total expected return within the next 12 months
BUY	Above 20%
HOLD	Between -20% to +20%
SELL	Below 20%

BUY: We have a positive 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 add to their position.

HOLD-Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

HOLD-Underperform: In our view, the stock's fundamentals are relatively less attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

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