

BIDV Bank (BID VN)

KEB Hana investment bolsters earnings confidence despite lower-than-expected 1H19 PBT

BUY

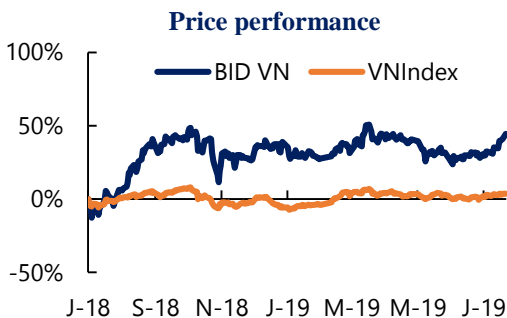
Current price (07-30-2019): VND 35,000

Target price: VND 38,713

Upside: 10.6%

Our view: The decline in PBT in the 1H19 was mainly due to increasing provision, which partly in line with our forecast to clear VAMC bonds, and loss from stock trading and investment (which is non-core business). We believe that KEB Hana investment will strengthen capital solvency and drive higher credit growth room, which will bolster earnings from the 2H19 onwards. We maintain our Buy Rating.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ATDV 3-month
VND 25,000 – 37,600	USD 5.2 bn	2.6%	26.8%	4.4%	USD 1.5 mn



Event catalysts

- Issuance of new shares to KEB Hana is the key catalyst given the additional capital for growth.
- Funding costs should fall due to reduced balance sheet leverage.
- Clearing 100% of VAMC exposure in 2019E will result in reduced provisioning in subsequent years.
- Leading SME & retail bank franchise.

Risks to our call

- National service is always a potential risk for state banks.
- Competition in retail and SME banking is rising as other banks target these segments.
- Potential technology upgrade could result in higher-than-expected operating costs.

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Company profile: BID is Vietnam's largest bank by assets with 12.2% market share as at 4Q18. Its leading retail & SME banking franchise is supported by a broad network of 190 branches & 854 transaction offices. The strategic investment by KEB-Hana Bank should boost BID's CAR to well above Basel II standards and also drive credit growth and NIM expansion.

BID's 1H19 results at a glance

	VND bn	YoY chg	% our estimate
Net II	17,683	1.2%	40.4%
Fees	1,968	14.4%	47%
Other non-II	673	-44.8%	26.4%
Adj. Rev	20,324	-0.4%	40.3%
Opex	7,217	3.0%	36.2%
Adj PPOp	13,107	-2.2%	42.9%
Provisioning	10,710	6.8%	47.6%
"Other inc"	2,375	48.9%	52.3%
Adj. credit costs	8,335	-1.1%	46.4%
PBT	4,772	-4.0%	37.9%
PAT	3,826	-4.5%	38.0%

Source: Company data, Yuanta Vietnam

BID reported net interest income of VND 9.1 tn in 2Q19 (+6.9% QoQ and +10.1% YoY) and VND17.7 tn in 1H19 (+1.2% YoY), fulfilling 40.4% of our annual forecast. Loan growth reached 7.7% YTD, completing 50.2% of our forecast. We believe that the increased capital from KEB Hana Bank will drive higher credit growth. We forecast loan growth of 15.4% in 2019E. We also believe the long-term funding costs should decline due to the reduced balance sheet leverage, which would boost NIM as a result.

Fee income of VND1.1 tn in 2Q19 (+24.6% QoQ / +11.9% YoY) and VND2.0 tn in 1H19 (+14.4% YoY) fulfilled 47% of our forecast. The Bank also reported a total net other non-interest income of VND 673 bn (-45% YoY) mainly due to the loss of VND175 bn in stock trading and investment compared to a profit of VND664 bn in 1H18, which dragged down the profit in the first half of 2019. **Other income was VND 1.1 tn in 2Q19 (-12.1% QoQ, but +11.4% YoY), and VND 2.4 tn in 1H19 (+48.9% YoY).** The detail was unclear, but we believe that income mostly came from NPL recoveries.

Provision cost was up significantly to reach VND5.5 tn in 2Q19 (+6.5% QoQ / +37.7% YoY) and VND10.7 tn in 1H19 (+6.8% YoY). We noticed that NPL ratio increased from 1.90% in 2018A to 1.98% in 2Q19, especially category 5 NPL jumped substantially 46% YTD. The increased provision cost was also in line with our expectation that BID will clear 100% of its VAMC exposure in 2019.

BID reported PBT of VND 2.3 tn in 2Q19 (-10.7% QoQ / -9.4% YoY) and VND 4.8 tn in 1H19 (-4.0% YoY) completing 45% of the Bank's target and 38% of our forecast.

Our view: BID is currently trading at 1.8x 2019E P/BV. We maintain our Buy Rating as we believe the KEB Hana investment will help bolster earnings from 2H19 onwards. Please see [our initiation](#) for the complete report on BID.

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Ratings	Total expected return within the next 12 months
BUY	Above 10%
HOLD	Between -10% to +10%
SELL	Below -10%

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.

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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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