BIDV Bank (BID VN): KEB Hana to purchase a 15% stake

It's official: The capital increase boosts BID's growth prospects

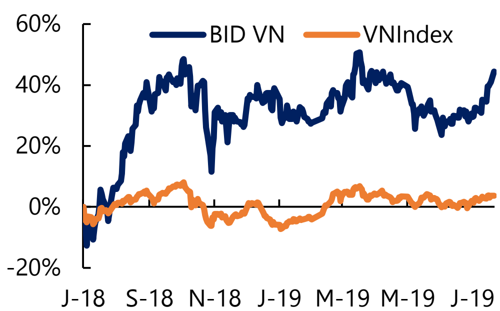
BUY

Current price (07-22-2019): VND 35,750
Target price: VND 38,713
Upside: 8.3%

BID has announced a 15% stake sale to KEB Hana Bank for US$875m. The capital injection is the key catalyst that we have been waiting for. It should allow BID to meet Basel 2 requirements and grow its business at a time when many competitors face capital constraints. We also expect the stronger balance sheet to result in lower funding costs and improved NIM. We reiterate our Buy rating on BID.

52-week Price Range	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ATDV 3-month
VND 23,250 – 37,600	**USD 5.1 bn**	**2.6%**	**26.9%**	**4.4%**	**USD1.3 mn**

Price performance



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.

Issuing price Scenarios	VND	**Offical price: 33,640**	**Vs. our estimate: 32,000**
CET 1 ratio before raising capital	%	5.9%	5.9%
CET 1 ratio after raising capital	**%**	**8.5%**	**8.4%**
CAR before raising capital	%	10.0%	10.0%
CAR after raising capital	**%**	**12.7%**	**12.5%**
Basel II CAR (our estimate)	**%**	**10.7%**	**10.5%**

Source: Company Data, Yuanta Vietnam

BID has officially announced a US$875 mn stake sale to KEB Hana Bank. BID will issue 603.3 mn shares at VND33,640 per share. This figure is 5% higher than our VND32,000 assumption.

We estimate the deal will boost BID's CAR to 12.7% under Basel I or 10.7% under Basel II. Again, these numbers are slightly higher than the assumptions in our model (which assumed the deal would be done at mid-year) due to the higher-than-expected price per share.

We expect the increased capital to drive higher credit growth. We forecast loan growth of 15.4% in 2019E and c.16% in both 2020E and 2021E, higher than BID's capital-constrained peers. We also believe that long-term funding costs should decline due to the reduced balance sheet leverage.

Short-term downside risk but long-term operational upside. BID is currently trading at 6% higher than the issuance price, so potential short-term downside for the shares is possible. However, we are highly positive on the deal in the longer-term, as it will alleviate BID's capital constraints, allow for business expansion, improve its credit rating, and build investor confidence. We thus see the deal as a key operational catalyst. This is critical given that many other banks are struggling to raise capital to meet Basel II requirements while contending with FOL limitations. We reiterate our Buy rating 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.
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