SACOMBANK (STB VN)

Confidence boosted on strong 1H19 preliminary results

BUY

Current price (07-15-19): VND 11,400

Target price: VND 14,049

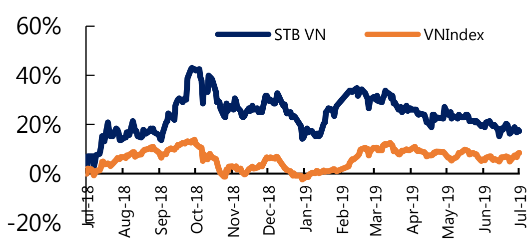
Upside: 23.2%

Summary: STB reported strong 1H19 preliminary pre-tax income of VND1.5 tn, up 51% YoY. Asset quality has continued to improve. Crucially, we estimate the bank's total NPAs ratio (including VAMC bonds and other non-performing assets) fell from 20% in 1Q19 to 17% in 2Q19E. The bank's reported NPL ratio fell to 1.96%, down 15bps HoH. The turnaround story remains intact, and we reiterate our BUY rating.

Please click here to support Yuanta Vietnam in this year's Asiamoney poll!

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV-3 month
VND 9,670-14,400	**USD 882 mn**	**0.0%**	**9.9%**	**93.9%**	**USD 1.4 mn**

Price performance



Event catalysts

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

Risks to our call

- Potential equity dilution due to legacy NPLs and Basel 2.
- Barriers to bad debt recoveries (e.g., asset selling prices 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: STB is the largest listed JOCB by assets with 6.1% market share among listed banks as at 4Q18. It operates a primarily retail- and SME-focused business. A merger with the former Southern Bank in 2015 resulted in substantial asset quality woes, but management is now tackling the challenge.

Key Financials	2018 A	2019E	2020E
NIM	2.38%	2.37%	2.42%
Fee growth	2.2%	26.0%	19.2%
Adj. CIR	*76.5%*	*70.3%*	*66.4%*
Adj. PPOP growth	*46%*	*38%*	*29%*
Adj. PPOP/Asset	*0.75%*	*0.94%*	*1.12%*
Adj. ROA	*0.36%*	*0.39%*	*0.45%*
Adj. ROE	*5.9%*	*6.5%*	*7.6%*
PER (x)	*14.60*	*12.48*	*9.93*
PBR (x)	*0.83*	*0.78*	*0.73*
Dividend yield	*0.0%*	*0.0%*	*0.5%*
Loan growth	*15.1%*	*14.7%*	*14.0%*
Deposit growth	*9.2%*	*12.5%*	*9.5%*

Source: Company Data, Yuanta Vietnam

Preliminary 1H19 PBT of VND1.5 tn (+51% YoY) completed 55% of STB's 2019E target and 65% of our forecast. The implied 2Q19 PBT of VND500bn was down c.50% QoQ. We believe that much of the apparent QoQ lumpiness is due to recognition of loan loss recoveries. However, STB reported VND1.4 tn in 1H19 net fee income, up 23.5% YoY, indicating positive underlying momentum.

Asset quality continues to improve. STB handled VND11 tn of legacy assets during 1H19, exceeding the bank's full-year target of VND10 tn. Audited 1H19 financial disclosures have not been released, but we estimate that total non-performing assets decreased to VND73 tn (or 17% of total assets). Admittedly, this is a very high number, but the trend is your friend: NPAs peaked at 27% of assets in 2017A, before falling to 20% in 1Q19 and 17% in 2Q19E. STB's reported NPL ratio decreased to 1.96% in 2Q19E from 2.11% in 2018A.

Our view: Positive NPL restructuring progress confirms our confidence in STB as a turnaround story as the bank works through its legacy NPAs. We reiterate our BUY rating (see our initiation for details) and recommend a barbell approach focused on VCB (BUY – for a quality core holding) and STB (for greater upside).

APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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.
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.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

Global Disclaimer
 The information in this report has been compiled from sources we believe to be reliable, but we do not hold ourselves responsible for its completeness or accuracy. It is not an offer to sell or solicitation of an offer to buy any securities. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice.

This report provides general information only. Neither the information nor any opinion expressed herein constitutes an offer or invitation to make an offer to buy or sell securities or other investments. This material is prepared for general circulation to clients and is not intended to provide tailored investment advice and does not take into account the individual financial situation and objectives of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, investments or investment strategies discussed or recommended in this report. The information contained in this report has been compiled from sources believed to be reliable but no representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. This report is not (and should not be construed as) a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on such business in that jurisdiction.

Yuanta research is distributed in the United States only to Major U.S. Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended and SEC staff interpretations thereof). All transactions by a US person in the securities mentioned in this report must be effected through a registered broker-dealer under Section 15 of the Securities Exchange Act of 1934, as amended. Yuanta research is distributed in Taiwan by Yuanta Securities Investment Consulting. Yuanta research is distributed in Hong Kong by Yuanta Securities (Hong Kong) Co. Limited, which is licensed in Hong Kong by the Securities and Futures Commission for regulated activities, including Type 4 regulated activity (advising on securities). In Hong Kong, this research report may not be redistributed, retransmitted or disclosed, in whole or in part or and any form or manner, without the express written consent of Yuanta Securities (Hong Kong) Co. Limited.

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

Binh Truong
Deputy Head of Research (O&G, Energy)
Tel: +84 28 3622 6868 (3845)
binh.truong@yuanta.com.vn

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

Tanh Tran
Analyst (Banks)
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