

## CAMEL Analysis – 2Q19 Update

### Updated ranking of the 16 listed banks based on 2Q19 financial statements

We have updated our rankings of the 16 listed Vietnamese banks (those have published 2Q19 financial statements) based on the CAMEL framework, a fundamental approach to bank analysis that focuses on **Capital**, **Asset quality**, **Management**, **Earnings**, and **Liquidity**. For a detailed description of the CAMEL methodology, please see our July 5 report titled “[Vietnam Banks CAMEL Analysis – The good, the bad, and the chronically mispriced](#).” The updated rankings in this report are based on the banks’ 2Q19 unaudited financial statements, whereas our initial report was based on 2018 audited results. Table 3 inside presents detailed scores on 63 fundamental metrics for each listed bank. Clients who wish to see the underlying data are encouraged to request it from us.

**A bank’s CAMEL score does not by itself imply that its stock is a “Buy” or “Sell”.** Valuations, expectations of future business performance, and discussions with management to understand more closely their forward-looking strategies are all critical to the investment decision. However, the CAMEL framework provides us with a good platform to search for hidden diamonds and/or lumps of coal, as well as a solid reference on the overall sector trends. **Our top sector picks consist of a barbell strategy comprising 1) a core long position in VCB (BUY) as a proxy on Vietnam’s economic development and 2) an allocation to STB (BUY) as an undervalued turnaround play (think risk-reward).** We also have BUY ratings on BID and MBB.

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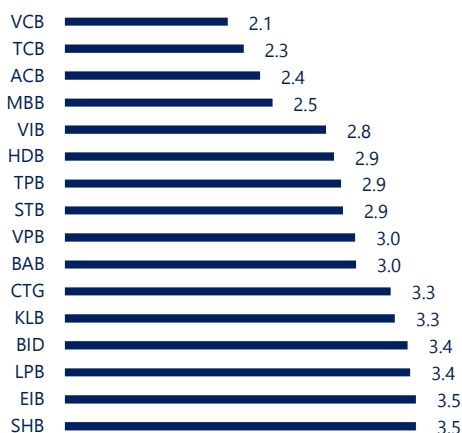
#### Themes and catalysts

- **Increased focus on fee income.** Fees reached 12.1% of total sector revenue in 2Q19, +1.2ppt QoQ and +1.8ppt YoY.
- **Earnings** increased 18.4% YoY in 1H19 for the listed banks universe.
- **Stronger solvency capital** on capital calls (increased PAT helped).

#### Risks

- **Slight deterioration in asset quality.** The sector’s NPL ratio climbed to 1.70% in 2Q19, +1bp YoY and +7bps YTD.
- **NIM pressure possible in 2H19** as yields fall on policy lending in support of priority industries.

Listed Vietnam Bank Rankings by CAMEL Scores\_2Q19



Source: Yuanta Vietnam

**VCB supplants TCB as the No. 1 CAMEL-ranked bank** on our CAMEL framework. VCB’s strong CASA deposit franchise is a core competitive advantage, demonstrated by its sector-low funding cost. The No.1 ranking is no surprise to us, as it is among our top picks in the banking sector. For more details on our view on VCB, please see our initiation note titled “[VCB: Leading funding franchise justifies the premium valuation](#)”.

**TCB (Not Rated) and ACB (Not rated) round out the top three.** TCB lost its 4Q18 crown largely on asset quality (i.e. rising NPL ratio) and earnings power (i.e. declining trend). MBB (BUY) fell from 2<sup>nd</sup> place previously to 4<sup>th</sup>, largely because of lower scores for capital adequacy (i.e. higher leverage) and liquidity (i.e., increased LDR to >90%).

**STB’s CAMEL score improved slightly from 3.0 in 2018A to 2.9 in 2Q19.** STB’s 1H19 PBT increased 51% YoY. More critically, its total net NPA ratio shrank from 22% in 4Q18 to 20% in 1Q19 and 19% in 2Q19, and its NPL ratio declined to 1.96% (-15 bps HoH). Although the balance sheet cleanup has a long way to go, we believe that STB’s [turnaround story remains intact](#) and that substantial upside awaits long-term investors.

**Banks with stronger CAMEL rankings deserve a premium valuation** relative to weaker banks, in our view. VCB ranks highly and trades at a current sector-high 3.8x P/BV (source: Bloomberg). Banks with low CAMEL rankings such as SHB or LPB trade at low P/BVs of around 0.5x (See Figure 1 in the note). By contrast, ACB and MBB trade at just 1.5x and 1.4x P/BV, despite posting similar CAMEL scores as VCB. We attribute this to the latter stocks’ full-FOL status, which confirms our [cautious tactical view](#) on full-FOL stocks.

\* **Note:** We define the CAMEL ratings

of 1-5 as follows:

1: strong

2: satisfactory

3: weak

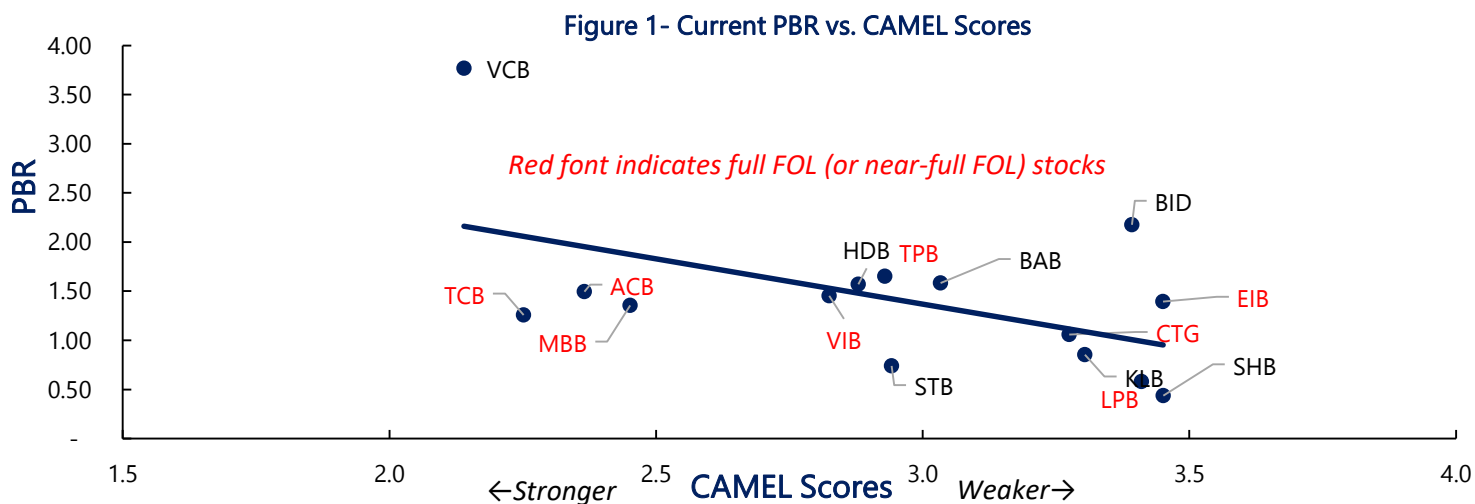
4: poor

5: unsatisfactory

**Table 1- Yuanta Vietnam Coverage universe**

Yuanta Vietnam Coverage Universe										
Sector	Company	Stock code	Market cap (USDm)	3-month ADT (USDm)	Yuanta Rating	Current price (VND)	Target price (VND)	Up (down) side	2019E Dividend yield	12-m TSR*
<b>Banks</b>	BIDV	BID VN	5,141	1.6	BUY	34,900	38,713	11%	2.5%	13%
	MB Bank	MBB VN	2,022	2.6	BUY	22,200	29,889	35%	3.2%	38%
	Sacombank	STB VN	793	1.5	BUY	10,200	14,101	38%	0.4%	39%
	Vietcombank	VCB VN	12,195	2.4	BUY	76,300	75,275	-1%	1.2%	0%
<b>Brokers</b>	HCM City Securities	HCM VN	258	0.6	BUY	19,600	36,219	85%	4.7%	89%
	Saigon Securities	SSI VN	479	1.4	HOLD	21,850	26,125	20%	4.7%	24%
	Viet Capital Securities	VCI VN	236	0.1	BUY	33,600	43,850	31%	3.7%	34%
	VNDirect Securities	VND VN	130	0.2	BUY	14,500	21,029	45%	4.7%	50%
<b>Consumer</b>	Masan Group	MSN VN	3,808	1.5	BUY	75,600	93,035	23%	2.0%	25%
	Phu Nhuan Jewelry	PNJ VN	835	1.9	BUY	87,000	118,489	36%	2.3%	38%
	Digiworld	DGW VN	42	0.5	BUY	23,500	31,574	34%	5.0%	39%
<b>Oil &amp; GAS</b>	PV Drilling	PVD VN	286	2.5	BUY	15,750	24,535	56%	3.2%	59%
<b>Property</b>	Nam Long	NLG VN	317	1.3	BUY	32,100	32,000	0%	1.6%	1%
	Vinhomes	VHM VN	11,966	3.2	BUY	82,900	94,862	14%	1.2%	16%

\*Note: TSR = Total shareholder return over the next 12 months inclusive of expected share price change and dividends.  
Pricing data as of close on August 13, 2019.  
Source: Bloomberg, Yuanta Vietnam



Source: Bloomberg, Yuanta Vietnam

**Table 2- Weighted ratings for each component of the CAMEL model**

	AC	BAB	BID	CT	EI	HD	KLB	LP	SH	ST	TCB	TP	VC	VP		
<b>SUMMARY</b>	B	BAB	BID	G	B	B	B	B	B	B	B	B	B	B		
<b>Capital Adequacy</b>	2.9	3.4	3.8	4.1	3.5	3.2	3.1	3.8	2.6	3.3	3.5	2.0	3.3	2.7	2.8	2.1
<b>Asset Quality</b>	2.1	2.4	3.5	2.5	3.4	3.3	3.4	3.4	2.9	4.0	3.4	3.3	3.5	2.3	3.6	4.1
<b>Management</b>	2.5	3.1	3.8	3.7	4.2	2.4	2.9	3.4	2.5	3.4	2.8	1.7	2.6	2.5	2.3	3.1
<b>Earnings</b>	2.4	3.9	3.6	3.5	4.1	2.2	3.9	3.4	1.7	3.7	3.5	1.8	1.6	1.9	1.8	2.3
<b>Liquidity</b>	1.9	2.4	2.3	2.5	2.1	3.3	3.2	3.1	2.6	2.9	1.5	2.4	3.7	1.4	3.7	3.5
<b>CAMEL Score</b>	2.4	3.0	3.4	3.3	3.5	2.9	3.3	3.4	2.5	3.5	2.9	2.3	2.9	2.1	2.8	3.0

Source: Company data, Yuanta Vietnam

Note: for CAR metric, we continued to use the 2018A data as we don't have full data for all banks' CARs in 2Q19.

**Table 3- CAMEL RATINGS\_2Q19 Update**

	2Q19	AC	BA	BID	CTG	EIB	HD	KLB	LP	MB	SH	ST	TC	TP	VC	VIB	VP	
		B	B				B		B	B	B	B	B	B	B		B	
<b>Capital Adequacy</b>	Tier 1 CAR	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
	Tier 2 CAR	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
	CAR	2	5	4	5	1	2	1	3	3	3	3	2	3	2	2	2	
	Equity / Assets	4	3	5	4	2	3	3	4	3	4	4	4	1	3	4	3	2
	Equity / Assets + Off BS	3	3	5	4	4	3	2	4	4	4	4	3	4	4	4	4	3
	VAMC-adj equity / Adj Assets	3	3	4	3	3	2	3	4	2	4	4	1	3	3	3	3	1
	Tangible Equity / T. Assets	4	4	5	4	3	3	4	4	3	5	4	1	3	4	3	2	
	VAMC adj TE / VAMC adj TA	3	3	5	4	4	2	3	4	2	5	4	1	3	3	3	1	
	Interbank / Assets	2	2	3	3	3	3	4	2	3	2	1	3	3	4	2	2	
	Loans / Assets	5	5	5	5	5	4	4	5	3	5	4	2	4	4	5	5	
	Current FOL room (%)	5	1	1	5	5	4	1	5	1	1	2	3	5	3	2	3	
	Basel II approval	1	5	5	5	5	5	5	5	1	5	5	1	1	1	1	1	
Trend	1.2	3.6	2.5	2.3	3.0	2.2	4.1	1.4	4.4	1.7	3.0	3.6	4.2	1.0	4.4	1.8		
<b>Asset Quality</b>	SML ratio	1	1	3	1	1	2	1	2	2	3	1	2	3	1	2	5	
	Type 3 NPL ratio	1	1	2	1	3	1	1	1	2	1	1	1	2	1	1	5	
	Type 4 NPL ratio	1	1	4	4	1	4	4	4	5	3	1	1	5	1	4	5	
	Type 5 NPL ratio	1	1	4	3	3	2	2	3	1	5	5	5	1	2	5	3	
	NPL & SML ratio	1	1	5	3	3	3	2	3	3	5	3	4	5	2	4	5	
	Gross NPL ratio	1	1	3	2	3	2	2	2	2	4	4	3	3	2	4	5	
	Net NPL ratio	2	2	4	3	4	3	3	3	3	5	5	4	4	3	5	5	
	LLR / Gross loans	4	5	2	2	4	4	5	3	3	2	2	2	3	1	4	1	
	LLR / NPLs	1	1	4	1	5	4	4	4	2	5	5	4	3	1	5	5	
	GPs / Performing loans	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
	SPs / NPLs	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
	SPs / NPLs + SMLs	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
	VAMC bonds / Assets	1	2	1	1	5	3	2	3	1	1	1	1	2	1	1	2	
	Accrued interest / Assets	1	5	1	1	1	4	5	5	1	5	5	3	1	1	1	3	
Other receivables / Assets	2	1	3	2	4	4	5	3	4	5	3	2	5	3	3	5		
Trend	2.7	3.2	3.8	2.9	2.9	3.1	3.6	3.7	3.3	4.1	2.5	3.7	3.9	2.7	2.9	3.0		
<b>Management</b>	Fees / Adj income	3	4	4	3	4	4	4	5	2	3	1	1	3	4	2	4	
	Fees / Assets	3	5	3	3	4	4	3	4	2	3	2	1	2	3	2	2	
	Costs / Adj income	3	2	2	2	5	3	5	3	2	2	5	1	2	1	2	2	
	Costs / Assets	4	1	2	2	3	4	4	3	4	2	4	3	4	2	3	5	
	CASA growth	3	1	5	5	5	1	1	5	5	5	2	1	5	3	5	5	
	Credit costs / Assets	1	1	5	4	2	2	1	2	4	2	3	2	2	3	2	5	
	Credit cost adjusted NIM	1	4	5	5	4	1	3	2	1	5	4	1	1	3	1	1	
	Governance rating	3	5	3	4	5	3	4	4	2	4	3	4	3	2	2	2	
	Quality of current management	1	5	3	4	5	2	3	4	1	3	1	2	2	1	1	2	
	Trend	3.3	2.4	4.0	3.4	3.5	2.1	2.4	1.9	2.9	2.5	3.4	3.3	2.6	2.3	2.6	4.3	
<b>Earnings</b>	NIM	2	5	3	4	4	1	4	2	1	5	4	1	1	3	1	1	
	Fees / adj revenue	3	4	4	3	4	4	4	5	2	3	1	1	3	4	2	4	
	Investment inc / adj revenue	5	5	5	3	4	3	4	5	4	5	5	5	1	1	5	5	
	Total adj non-int inc / adj. rev.	3	4	3	2	3	3	2	5	1	3	1	1	1	2	2	4	
	Cost / adj revenue	3	2	2	2	5	3	5	3	2	2	5	1	2	1	2	2	
	PPOP / Assets	3	5	2	4	5	1	5	4	1	5	5	1	1	1	1	1	
	Provisioning / assets	1	1	2	1	1	1	1	1	1	1	1	1	1	1	1	5	
	OROA	1	4	5	5	5	1	5	3	1	5	5	1	1	1	1	1	
	Other income / assets	3	5	4	5	5	5	5	5	4	5	4	3	5	4	4	1	
	Pretax ROA	1	4	4	5	5	1	5	4	1	4	5	1	1	1	1	1	
	PAT ROA	1	4	4	5	5	1	4	4	1	4	4	1	1	1	1	1	
	Min. int / assets	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
	Average Leverage	3	2	5	3	2	2	2	3	2	3	3	1	2	3	2	1	
	PATMI ROE	1	4	3	5	5	2	5	4	1	4	5	2	1	1	1	1	
Trend	3.2	3.7	3.8	2.7	3.7	3.3	3.1	2.0	2.1	2.4	2.6	4.1	1.6	1.7	2.0	3.5		
<b>Liquidity</b>	Gross LDR	2	2	4	4	2	4	4	3	3	3	1	2	4	1	5	5	
	Net LDR	2	2	3	4	2	4	4	3	3	3	1	2	4	1	5	5	
	Deposits / Assets	1	1	1	2	1	4	4	3	4	2	1	4	5	1	4	5	
	Deposits / Liabilities	1	1	2	2	1	4	3	3	3	2	1	3	5	1	4	5	
	Current accounts / Deposits	2	5	3	3	3	4	5	3	1	4	2	1	2	1	3	3	
	LTMT loans/Current deposits	3	5	3	4	5	5	5	5	2	5	3	2	5	1	5	5	
	MT loans / Total loans	1	3	1	1	1	3	3	5	2	5	4	4	5	1	4	5	
	LT loans / Total loans	3	3	3	3	4	2	2	2	3	3	2	4	4	3	5	2	
	ST deposits / LTMT loans	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
	Trend	3.6	2.8	2.8	2.0	2.4	3.1	2.7	4.5	4.4	3.1	1.7	3.4	4.1	3.4	3.8	1.8	

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Ratings	Expected return within the next 12 months
<b>BUY</b>	Above 10%
<b>HOLD</b>	Between -10% to +10%
<b>SELL</b>	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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