

Vietnam: Banks

8 October 2019

Action

Buy

TP upside (downside) +34%

Close 7 Oct 2019

Price	VND 10,500
12M Target	VND 14,049
Change	N/A

What's new?

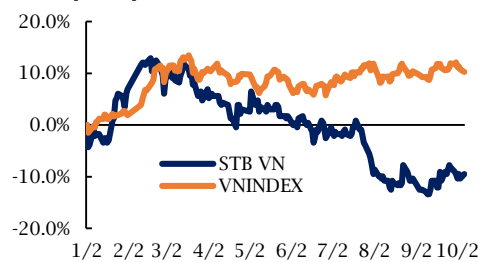
- ▶ Preliminary 3Q19 PBT was up +158% QoQ and +223% YoY.
- ▶ 9M19 PBT (+90% YoY) reached 80% of our full-year forecast and 94% of full-year guidance
- ▶ Loan loss recoveries appear to have dipped QoQ in 3Q but are still up +25% YoY.

Our view

- ▶ Asset quality continues to improve as management works off the legacy NPAs.
- ▶ STB's underlying business remains solid as indicated by a gradual rise in PPOP.
- ▶ We reiterate BUY.

**Company profile:** STB is Vietnam's 6th largest bank by assets with 4.83% market share as at 3Q18. It operates a primarily retail- and SME-focused business. A merger with the former Southern Bank in 2015 resulted in substantial asset quality woes, a challenge that the Bank's management is now addressing with strong support from government policy.

Share price performance relative to VNINDEX



Market cap	US\$816 mn
6M avg. daily turnover	US\$ 1.5 mn
Outstanding shares	1,804 mn
Free float	93.8%
FINI ownership	12.6%
Major shareholders	20.4%
2019E Asset/Equity	16.6x
2019E P/E	9.1x
2019E P/B	0.7x
FOL Room	11%

Source: Bloomberg, Yuanta Vietnam

STB's 3Q19 results at a glance

	VND bn	YoY chg	% our estimate (*)
Net II	2,925	41%	82%
Fees	747	19%	62%
Other non-II	237	50%	96%
Adj. Rev	3,904	37%	78%
"Other inc"	115	25%	77%
PBT	1,030	223%	80%

(\*) % completion of our full-year target in 9-months

Research Analyst:

Tanh Tran

+84 28 3622 6868 ext 3874

[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)

Bloomberg code: YUTA

## Sacombank (STB VN)

### Turnaround continues to progress

STB reported 9M19 preliminary adjusted operating revenue (excluding "other income") of VND10 tn, up 31% YoY. Net interest income was VND2.9 tn in 3Q19 (up 45% QoQ and 41% YoY) and VND7.4 tn in 9M19 (up 34% YoY).

Credit growth reached 13% YTD, higher than the initial quota of 7% at the beginning of the year. We thus believe that the SBV has granted an increased credit quota to STB. Though the bank has not disclosed an exact number, we expect 15%-16% credit growth in 2019, which will help boost interest income in 4Q19 and beyond.

Strong fee income. Fee income was VND747 bn in 3Q19 (up 1% QoQ and 19% YoY) and VND2.1 tn in the first 9M (up 21% YoY). Bancassurance income contributed 13% to the total YTD fees. Although this is down from the segment's 22% fee contribution in 2018A, we remain bullish on bancassurance and believe that the comps are skewed by one-off exclusivity fees collected last year.

PBT reached VND1.0 tn in 3Q19 (up 158% QoQ and 223% YoY) and VND2.5 tn in 9M19 (up 90% YoY), completing 94% of the bank's full-year target and 80% of our forecast.

Balance sheet repair appears to be on track. Other income, which we believe is mostly NPL recoveries, reached VND115 bn in 3Q19 (down 73% QoQ, but up 25% YoY) and VND845 bn in 9M19 (up 176% YoY). This indicates some slowing of non-performing asset restructuring (e.g., sales) in 3Q19. But such recoveries are typically lumpy by nature, and the YTD number is still very strong in our view.

Asset quality has continued to improve. We have yet to see the full breakdown of NPAs, but preliminary category 3-5 NPLs decreased from 2.20% in 2018A to 1.96% in 3Q19, which is a positive indicator.

We reiterate BUY on STB, which we see as a turnaround play given its strong core operational performance amidst legacy bad asset restructuring. The Street appears to have ignored the positive operational trends, but we think the share price will eventually re-rate. We suggest that investors consider a barbell approach with VCB as a core holding and to STB for the potential re-rating.

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<b>Income Statement:</b>	<b>Units:</b>	<b>Historical</b>				<b>Projected</b>			
		<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	
(+) Interest Income:	VND bn	17,868	21,534	26,296	30,095	33,797	38,171	43,388	
(-) Interest Expense:	VND bn	(13,848)	(16,256)	(18,662)	(21,115)	(23,713)	(26,490)	(29,907)	
<b>Total Net Interest Income:</b>	<b>VND bn</b>	<b>4,021</b>	<b>5,278</b>	<b>7,634</b>	<b>8,980</b>	<b>10,084</b>	<b>11,681</b>	<b>13,481</b>	
Net Fee Income	VND bn	1,430	2,624	2,682	3,380	4,030	4,915	5,990	
Total Net Non-II:	VND bn	1,772	3,052	3,111	3,886	4,582	5,514	6,654	
Revenue (Net Operating Income):	VND bn	5,793	8,330	10,745	12,866	14,666	17,195	20,135	
Total Expenses:	VND bn	(5,678)	(6,337)	(7,837)	(8,911)	(9,781)	(11,090)	(12,603)	
Adj. PPOP:	VND bn	115	1,993	2,907	3,955	4,885	6,105	7,532	
Total Provisions:	VND bn	(696)	(817)	(1,592)	(1,932)	(2,534)	(2,712)	(3,421)	
Other Incomes:	VND bn	737	315	932	1,102	1,259	1,425	1,619	
Net Provisions:	VND bn	41	(501)	(659)	(831)	(1,274)	(1,287)	(1,802)	
Pre-Tax Income:	VND bn	156	1,492	2,248	3,125	3,610	4,817	5,730	
(-) Income Tax	VND bn	(67)	(310)	(457)	(625)	(722)	(963)	(1,146)	
<b>Net Income after tax:</b>	<b>VND bn</b>	<b>89</b>	<b>1,182</b>	<b>1,791</b>	<b>2,500</b>	<b>2,888</b>	<b>3,854</b>	<b>4,584</b>	
<b>Net Attributable Net Income to Common:</b>	<b>VND bn</b>	<b>50</b>	<b>1,000</b>	<b>1,408</b>	<b>2,072</b>	<b>2,394</b>	<b>3,195</b>	<b>3,800</b>	
Weighted Average Shares:	M Shares	1,804	1,804	1,804	1,804	1,804	1,804	1,804	
Ending Common Shares:	M Shares	1,804	1,804	1,804	1,804	1,804	1,804	1,804	
<b>Adjusted EPS</b>		<b>28</b>	<b>555</b>	<b>781</b>	<b>1,149</b>	<b>1,327</b>	<b>1,771</b>	<b>2,107</b>	

<b>Balance Sheet:</b>	<b>Units:</b>	<b>Historical</b>				<b>Projected</b>			
		<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	
Cash& Balances at Central Banks:	VND bn	14,827	9,215	15,991	11,396	12,481	13,847	15,499	
Loans and Advances to Banks:	VND bn	2,484	7,372	4,822	8,198	8,608	9,038	9,490	
Investment Securities	VND bn	65,890	73,916	76,081	74,458	70,933	67,761	64,906	
Others:	VND bn	520	164	143	202	221	245	274	
<b>Gross Loans:</b>	<b>VND bn</b>	<b>198,860</b>	<b>222,947</b>	<b>256,623</b>	<b>294,286</b>	<b>335,361</b>	<b>376,910</b>	<b>432,603</b>	
(-) Specific Provisions:	VND bn	(916)	(1,152)	(1,677)	(1,286)	(1,450)	(1,638)	(1,788)	
(-) General Provisions:	VND bn	(1,516)	(1,597)	(1,846)	(2,207)	(2,515)	(2,827)	(3,245)	
Total provisions:	VND bn	(2,432)	(2,749)	(3,523)	(3,493)	(3,965)	(4,465)	(5,032)	
<b>Net Loans:</b>	<b>VND bn</b>	<b>196,428</b>	<b>220,198</b>	<b>253,100</b>	<b>290,793</b>	<b>331,396</b>	<b>372,445</b>	<b>427,570</b>	
Property, Plant and Equipment (PP&E):	VND bn	4,504	4,475	4,618	4,849	5,091	5,346	5,613	
Intangible Assets:	VND bn	3,446	3,626	3,632	3,632	3,632	3,632	3,632	
Accrued interests:	VND bn	25,336	24,742	23,155	22,064	20,594	19,035	17,387	
Deferred tax:	VND bn	106	74	63	63	63	63	63	
Other Assets:	VND bn	18,481	24,686	24,436	27,125	29,837	32,821	36,103	
<b>Total Assets:</b>	<b>VND bn</b>	<b>332,023</b>	<b>368,468</b>	<b>406,041</b>	<b>442,780</b>	<b>482,856</b>	<b>524,233</b>	<b>580,538</b>	
Deposits:	VND bn	291,653	319,860	349,389	392,964	430,384	477,494	534,463	
Due to SBV:	VND bn	3,775	231	5,293	5,293	5,293	5,293	5,293	
Due to Banks:	VND bn	8,110	12,649	7,300	7,300	7,300	7,300	7,300	
Subordinated Notes:	VND bn	1	5,601	8,066	8,066	8,066	8,066	8,066	
Investment Trust & others:	VND bn	1,404	91	88	120	137	154	177	
Other Liabilities:	VND bn	4,889	6,800	11,272	2,332	2,697	(5,673)	(9,400)	
<b>Total Liabilities:</b>	<b>VND bn</b>	<b>309,831</b>	<b>345,233</b>	<b>381,408</b>	<b>416,075</b>	<b>453,877</b>	<b>492,634</b>	<b>545,899</b>	
Share Capital & Share Premium:	VND bn	18,167	18,167	18,167	18,167	18,167	18,167	18,167	
Reserves + FX diff.:	VND bn	2,684	2,784	2,945	2,945	2,945	2,945	2,945	
Retained Earnings:	VND bn	1,341	2,286	3,521	5,593	7,868	10,488	13,528	
<b>Total Equity:</b>	<b>VND bn</b>	<b>22,192</b>	<b>23,236</b>	<b>24,632</b>	<b>26,705</b>	<b>28,979</b>	<b>31,599</b>	<b>34,639</b>	
<b>Total Liabilities &amp; Equity:</b>	<b>VND bn</b>	<b>332,023</b>	<b>368,469</b>	<b>406,041</b>	<b>442,780</b>	<b>482,856</b>	<b>524,233</b>	<b>580,538</b>	

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Attn: Research  
Yuanta Securities Investment Consulting  
4F, 225,  
Section 3 Nanking East Road, Taipei 104  
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities (Hong Kong) Co. Ltd  
23/F, Tower 1, Admiralty Centre  
18 Harcourt Road,  
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office

Yuanta Securities Building  
Euljiro 76 Jung-gu  
Seoul, Korea 100-845  
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
PT YUANTA SECURITIES INDONESIA  
(A member of the Yuanta Group)  
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SCBD Lot 9  
Jl. Jend. Sudirman Kav. 52-53  
Tel: (6221) – 5153608 (General)

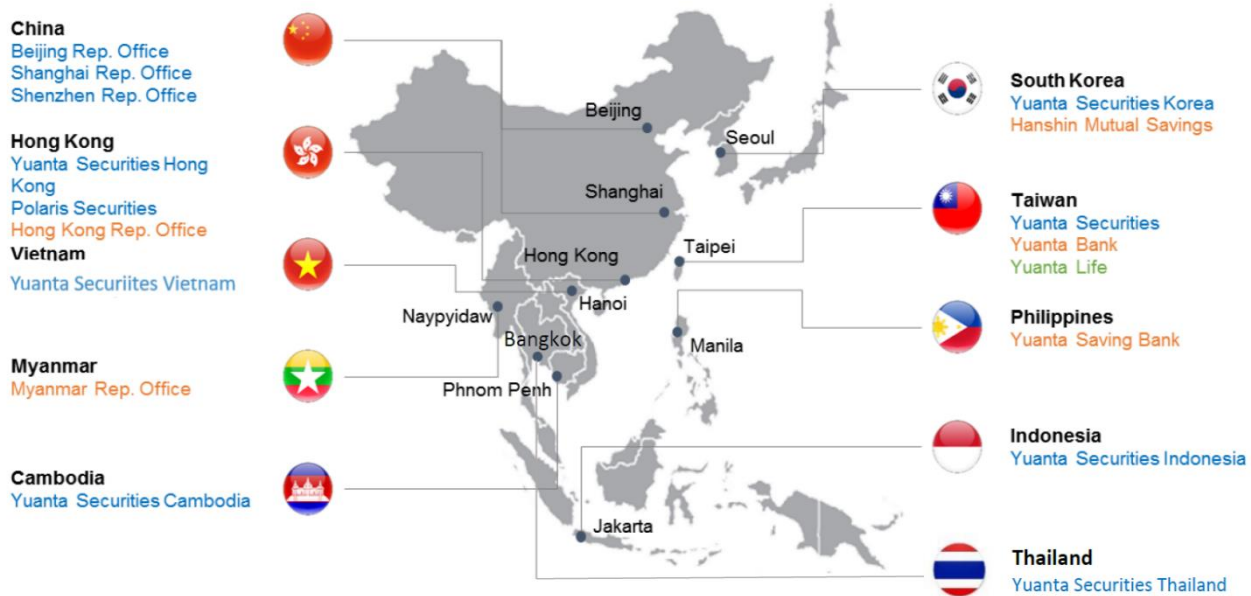
Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Thailand)  
127 Gaysorn Tower, 16th floor  
Ratchadamri Road, Pathumwan  
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Vietnam)  
4th Floor, Saigon Centre  
Tower 1, 65 Le Loi Boulevard,  
Ben Nghe Ward, District 1,  
HCMC, Vietnam

# YUANTA SECURITIES NETWORK



## YUANTA SECURITIES VIETNAM OFFICE

**Head office:** 4<sup>th</sup> 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](mailto:matthew.smith@yuanta.com.vn)

#### Quang Vo

Analyst (Consumer)

Tel: +84 28 3622 6868 (ext. 3872)

[quang.vo@yuanta.com.vn](mailto:quang.vo@yuanta.com.vn)

#### Tam Nguyen

Analyst (Property)

Tel: +84 28 3622 6868 (ext. 3874)

[tam.nguyen@yuanta.com.vn](mailto:tam.nguyen@yuanta.com.vn)

### Institutional Sales

#### Huy Nguyen

Head of Institutional sales

Tel: +84 28 3622 6868 (3808)

[Huy.nguyen@yuanta.com.vn](mailto:Huy.nguyen@yuanta.com.vn)

#### Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

[binh.truong@yuanta.com.vn](mailto:binh.truong@yuanta.com.vn)

#### Tanh Tran

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

[tanh.tran@yuanta.com.vn](mailto:tanh.tran@yuanta.com.vn)

#### Duyen Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

[duyen.nguyen@yuanta.com.vn](mailto:duyen.nguyen@yuanta.com.vn)