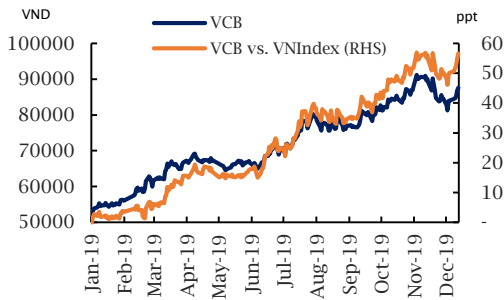


HOLD-OPF

TP upside +4%

Close 09 Jan 2019

Price **VND 88,700**
 12M Target **VND 92,035**



Market cap	US\$14.1 bn
6M avg. daily turnover	US\$2.6 mn
Outstanding shares	3,709 mn
Free float	25%
FINI ownership	23.9%
Major shareholders	92.4%
2020E Asset/equity (x)	14.1
2020E P/E (x)	13.6
2020E P/B (x)	3.3
2020E Div yield (%)	1.6%
FOL remaining room	6.1%
2020E ROA	1.82%
2020E ROE	26.7%
2019E EPS growth	16%
2020E EPS growth	56%

Source: Bloomberg, Yuanta Vietnam

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Preliminary 2019 PBT exceeds 16% vs. target

- Preliminary 4Q19 PBT was down 12% QoQ and down 16% YoY (source: [vnexpress](#)). These preliminary results are reported on a local website, and do not include the full financial statements.
- However, 2019 PBT (+27% YoY) reached 108% of our full-year forecast and 116% of full-year guidance.
- Retail loans dominate the loan portfolio, representing 52% of the total loans.

Our Take

Credit growth reached 16.4% YoY, in line with our forecast but higher than the initial target of 15.0% disclosed at the beginning of the year. SME and individual loans are the key driver to loan growth and NIM improvement, accounting for 52% of total loans.

PBT reached VND5.5 tn in 4Q19, down -12% QoQ and -16% YoY. However, preliminary 2019 PBT reached VND23.2 tn (+27% YoY), completing 116% of the bank's full-year target and 108% of our forecast for 2019.

Asset quality beat our expectations. VCB's NPL ratio was 0.77% (-21bps YoY) vs our 1.03% assumption for 2019. Loan loss coverage was 183% (+18ppt YoY) vs our 160% assumption.

Key Financial data

	4Q19	QoQ chg	YoY chg	2019P	YoY change	Full-year vs guidance	Full-year vs Yuanta forecast
PBT (VND tn)	5.5	-12%	-16%	23.2	+27%	116%	108%
Loans (VND tn)	735	+4%	+16%	735	+16%	109%	101%

Source: [www.vnexpress.vn](#), Yuanta Vietnam

Our view. We believe that NIM will continue to improve on a shift in the loan mix to increased retail lending. We estimate that NIM reached 3.05% in 2019E (+15bps YoY). Looking forward, fee income should be boosted by the bancassurance deal with FWD. We expect a US\$400 mn upfront fee in 2020, with increased bancassurance revenues going forward that should improve ROE given the capital-lite nature of the bancassurance business.

We cut our recommendation on VCB to HOLD-Outperform from the previous BUY call. This is entirely a valuation call after the stock's extremely impressive 62% YoY performance. The bank beat our 2019E PBT assumption, and we remain bullish on VCB's earnings prospects in the years ahead with forecast ROE of 27% in 2020E. However, the stock's 3.3x P/BV multiple after a 62% YoY rally leaves limited fundamental upside in our view. Our target price implies 5.4% TSR, which no longer justifies an outright BUY call.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Selected Calculated Ratios	FY17A	FY18A	FY19E	FY20E	FY21E
GROWTH PROJECTIONS					
Net interest income	18.4%	29.5%	19.3%	19.2%	17.5%
Fee Income	20.5%	34.1%	30.5%	237.2%	-5.6%
Other NII	21.6%	49.5%	-19.7%	16.9%	9.4%
Operating costs	19.4%	14.7%	13.4%	27.9%	8.8%
Gross Provision	-2.7%	19.4%	16.4%	14.9%	14.4%
Pre-provision profit	18.5%	45.3%	17.2%	50.6%	12.3%
Adjusted Net profit	32.2%	60.7%	17.4%	58.4%	11.7%
Assets	31.4%	3.7%	15.1%	13.3%	12.9%
ASSET ANALYSIS					
Earning assets to total assets	89%	97%	96%	96%	97%
Average Returns on Earnings Assets	0.86%	1.32%	1.37%	1.90%	1.86%
LOAN ANALYSIS					
Net Loan growth (% YoY)	18%	16%	16%	15%	14%
Net Loans to Interest Earnings Assets	58%	60%	61%	61%	62%
DEPOSIT ANALYSIS					
Deposit growth (YoY %)	20%	13%	13%	13%	13%
Deposits to Interest Bearing Liabilities	91%	102%	100%	101%	101%
LIQUIDITY					
Pure LDR	76%	78%	80%	81%	82%
ASSET QUALITY					
NPL ratio	1.14%	0.98%	1.03%	1.02%	1.00%
General Provisions to Gross loans	0.74%	0.89%	0.90%	0.90%	0.89%
Total provisions in a year to Gross loans	1.49%	1.63%	1.65%	1.65%	1.64%
Loan loss coverage ratio	131%	165%	160%	162%	164%
SPREAD ANALYSIS					
Int. rate received on Average IEA	5.52%	5.71%	5.95%	6.10%	6.23%
Int. rate paid on Average IBL	3.56%	3.50%	3.80%	3.84%	3.91%
Interest rate spread	1.96%	2.20%	2.14%	2.26%	2.31%
Net interest income / average IEAs (NIM)	2.62%	2.90%	3.05%	3.19%	3.30%
OTHER INCOME					
Fee income to total income	9.3%	9.4%	10.6%	25.2%	21.5%
Other Non-Interest income to total Income	10.4%	11.7%	8.1%	6.7%	6.6%
OPERATING EFFICIENCY					
Adjusted CIR	43.5%	37.8%	37.0%	33.3%	32.6%
CREDIT COSTS					
Provision/average assets	0.78%	0.96%	0.98%	0.99%	1.00%
PROFITABILITY					
Adj. ROAA	0.79%	1.22%	1.31%	1.82%	1.80%
Adj. ROAE	14.2%	22.5%	21.3%	26.6%	24.4%
Dividend Yield	0.9%	0.9%	0.9%	1.6%	1.9%
VALUATIONS					
PER (x)	44.1x	24.6x	21.2x	13.6x	12.2x
PBR (x)	6.0x	5.1x	4.1x	3.3x	2.7x

APPENDIX

Balance Sheet

(VND bn)	2018A	2019E	2020E	2021E
Cash & balances at SBV:	23,638	36,133	35,793	36,829
Loans to Banks:	250,228	272,223	308,188	346,834
Investment Securities:	151,951	171,164	193,778	218,077
Associates & other:	2,752	3,100	3,510	3,950
Gross Loans:	631,867	734,755	842,240	959,513
(-) Specific Provisions:	(5,598)	(6,584)	(7,561)	(8,569)
(-) General Provisions:	(4,695)	(5,511)	(6,317)	(7,196)
Total provisions:	(10,294)	(12,095)	(13,878)	(15,765)
Net Loans:	621,573	722,660	828,363	943,748
Fixed Tangible asset:	4,459	4,737	5,032	5,345
Intangible Assets:	2,068	2,085	2,085	2,085
Real estate investment	0	0	0	0
Accrued interests:	7,409	7,965	7,965	7,965
Deferred tax:	7	6	6	6
Other Assets:	9,941	15,711	15,711	15,711
Total Assets:	1,074,026	1,235,783	1,400,430	1,580,550
Deposits:	801,929	903,325	1,022,670	1,150,912
Due to SBV	90,685	105,452	120,878	137,709
Due to Banks:	76,524	88,985	102,002	116,205
Subordinated Notes & other:	21,487	21,487	21,487	21,487
Other Liabilities:	21,222	36,540	35,218	36,442
Total Liabilities:	1,011,847	1,155,788	1,302,255	1,462,754
Share Capital & Share Premium:	36,322	42,429	42,429	42,429
Reserves:	9,446	9,446	9,446	9,446
Treasury Shares	-	-	-	-
Retained Earnings:	16,139	27,800	45,793	65,355
Minorities Interest:	69	81	128	143
Asset Revaluation:	119	140	222	248
FX Effect:	84	99	157	175
Total Equity:	62,179	79,995	98,175	117,796
Total Liabilities & Equity:	1,074,027	1,235,783	1,400,430	1,580,550

Profit and Loss

(VND bn)	2018A	2019E	2020E	2021E
Total Net II	28,409	33,880	40,382	47,432
Total Fee income:	3,402	4,442	14,977	14,144
Total other Non-II:	4,232	3,398	3,973	4,346
Total Net Non-II:	7,635	7,839	18,951	18,489
Total Adj. Revenue:	36,043	41,720	59,332	65,922
Total Expenses:	(13,610)	(15,429)	(19,729)	(21,464)
PPOP:	22,433	26,290	39,603	44,458
Gross Provisions:	(7,398)	(8,614)	(9,894)	(11,322)
NPL Recoveries:	3,234	3,790	4,295	4,847
Net Provisions:	(4,164)	(4,824)	(5,599)	(6,474)
Pre-Tax Income:	18,270	21,466	34,004	37,983
(-) Income Tax:	(3,647)	(4,293)	(6,801)	(7,597)
PAT:	14,622	17,173	27,204	30,387
(-) Minority Interest:	(16)	(19)	(31)	(34)
(-) Bonus:	-	-	-	-
(-) Other Funds:	-	-	-	-
(-) Bonus & Welfare:	(1,711)	(2,009)	(3,183)	(3,555)
Attributable Income:	12,895	15,145	23,990	26,797
Avg. Shares:	3,598	3,653	3,709	3,709
Ending Shares:	3,598	3,709	3,709	3,709
Adj. Diluted EPS	3,584	4,145	6,468	7,225

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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Ratings Definitions

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.

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