

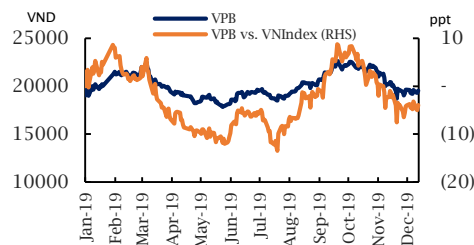
Vietnam: Banks
15 January 2020
Action
BUY
TP upside (downside) +21%
Close 14 Jan 2020
Price VND 21,150
12M Target VND 25,530
What's new?

- ▶ Pessimism over consumer finance regulation is overdone.
- ▶ FE Credit to drive ROE amid 4-year shift away from cash loans.
- ▶ Provisioning to fall from 2020E on cleaned up VAMC exposure.
- ▶ 6.8% FOL share release awaits, possibly in 2020E.

Our view

- ▶ We expect this CIR downtrend to continue given its digital transformation focus.
- ▶ We assume that provisioning cost for VAMC bonds will no longer exist, which will boost PBT from 2020E.
- ▶ The plan to sell the remaining FOL shares and the inclusion to VN-Diamond index are possible short-term catalysts.

Company profile: Vietnam Prosperity Bank (VPB) offers a solid balance sheet with strong equity capital, high profitability, and quality management. VPB's consumer finance subsidiary, FE Credit, accounts for nearly 50% of earnings and enjoys 55% market share of consumer finance as at 1H19. VPB's FOL premium is currently an undemanding 7–9%.

Share price performance relative to VNIndex


Market cap	US\$2.2 bn
6M avg. daily turnover	US\$2.0 mn
Outstanding shares	2,438 mn
Free float	73%
FINI ownership	23.2%
Major shareholders	39.6%
2020E Asset/equity (x)	8.6
2020E P/E (x)	5.2
2020E P/B (x)	1.0
Remaining foreign room	0.0%

Source: Bloomberg

Financial outlook (VND bn)

Year to Dec	2018A	2019E	2020E	2021E
NIM (%)	8.98	8.95	8.70	8.73
Fee growth (%)	10.3	34.0	32.9	28.0
CIR (%)	40.3	37.5	37.1	36.8
PPOP growth(%)	14.9	24.0	13.7	15.2
Net profit (VND bn)	7,356	7,587	9,658	10,732
ROAA (%)	2.45	2.17	2.40	2.36
ROAE (%)	22.8	20.3	21.5	19.6
PE (x)	6.8	6.6	5.2	4.7
PB (x)	1.5	1.3	1.0	0.8
Div. yield (%)	-	-	-	1.1
DPS (VND)	-	-	-	220

Source: Company data, Yuanta Vietnam. * Net profit attributable to shareholders (PATMI minus employee welfare contribution).

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VP BANK (VPB VN)

Regulatory fears are overdone

Cheap valuation: A 20% discount to peers. VPB trades at 1.0x 2020E P/BV despite 2020E ROE of 22% (higher than the peer median of 19%). This reflects an undue level of pessimism, in our view.

Fear over consumer finance regulation is a key reason... The mandatory 30% cap on cash loans sounds scary given FE Credit's c.70% cash loan ratio. However, this requirement is not immediate: consumer finance firms have until 2024 to reach the 30% cap. Assuming FEC's cash loan ratio is 70% in 2021E, 60% in 2022E, 50% in 2023E, and 30% in 2024E, our intrinsic value estimate is still 21% higher than the market price.

...and full-FOL status could be another. Full-FOL stocks have generally underperformed open-FOL stocks. We are reluctant to pound the table on full-FOL names given the premium and settlement issues, but VPB's current FOL premium of 7–9% appears reasonable to us. VPB plans to issue the remaining 260 mn FOL shares via private placement in 2020E, but liquidity may not improve much pending the adoption of NVDRs.

Digital transformation drives cost efficiencies. VPB's consolidated adjusted CIR of 37.8% in 4Q18–3Q19 is the third lowest in the sector, which is all the more impressive given its retail focus. We expect this trend to continue due to the bank's digital transformation.

VN-Diamond index inclusion could be a short term catalyst for the stock. We reckon that US\$100m in inflows into the VN-Diamond ETF would represent about 10 days' trading in VPB's shares.

We initiate coverage with BUY. We believe that VPB is mispriced and deserves a premium over its peers vs the current discount. Our target price of VND25,530 implies 1.3x 2020E P/BV.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Investment thesis

Table 1: Market Valuations

Valuation Ratios	2016A	2017A	2018A	2019E	2020E	2021E
Adjusted PER (x)	7.2	7.3	6.8	6.6	5.2	4.7
PEG	1.1	(9.1)	0.9	2.7	0.2	0.4
Adj. ROA (%)	1.79%	2.49%	2.45%	2.17%	2.40%	2.36%
Adj. ROE (%)	24.8%	26.9%	22.8%	20.3%	21.5%	19.6%
PBR (x)	1.0	0.9	1.5	1.3	1.0	0.8
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%

Source: Company data, Yuanta Vietnam

Stock price is undervalued

VPB is trading at 1.0x 2020E P/BV, which is lower than the sector median of 1.2x, despite expected 2020E ROE of 22%, which is above the peer median of 19%. In our view, higher ROE and growth prospects than the sector means that VPB deserves a premium over its peers. Currently, VPB trades at a discount despite generating higher profitability than the sector, and we view this anomaly as due to concerns over regulations on FE Credit as well as the stock's full-FOL status.

Concerns over regulation risk were overdone.... Regulatory controls aimed at reducing systematic risks of unsecured consumer lending are perhaps still a factor in the stock's undue valuation discount. In particular, the Circular 18/2019/TT-NHNN puts a cap on cash loans (above VND20 mn) at 30% of consumer finance companies' total loans starting from 2024. The date for compliance with the 30% cap was not announced in the draft regulation, leading to concerns that the change would be immediate. However, the regulation impact is less negative than the market had feared because it grants consumer finance companies plenty of time to alter their asset mix. Cash loans/total loans will be capped at 70% in 2021, 60% in 2022, 50% in 2023, and 30% in 2024. With the schedule for compliance clear (and providing plenty of time to reach compliance), we believe that this is a good opportunity to buy VPB as an undervalued stock with 2020E P/B of only 1.0x.

FOL barrier is another issue... The bank plans to release the remaining FOL shares by issuing 260 million shares via private placement (lock-up period: 1 year). This would increase the FOL room from the current level of 23.2% to 30.0%. The details (i.e. price and investors) are unclear; thus, we have not factored this into our valuation or forecasts.

The bank's full-FOL status would likely persist post this issuance (i.e., investors would have to pay a premium for FOL shares) pending the eventual approval of non-voting depository receipts (NVDR), but this is not a 2020 story. As such, the stock may remain undervalued post the private placement, in line with many FOL stocks (which outperform operationally but fail to outperform in terms of stock price).

However, we believe that the additional capital is a fundamental positive given that it will help to reduce balance sheet leverage, which should support lower wholesale funding costs given the implied reduction in credit risk for debt investors.

Valuation is cheap:

2020E P/BV of 1.0x vs. 1.2x of sector median.

2020 ROE of 22% vs. peer median of 19%.

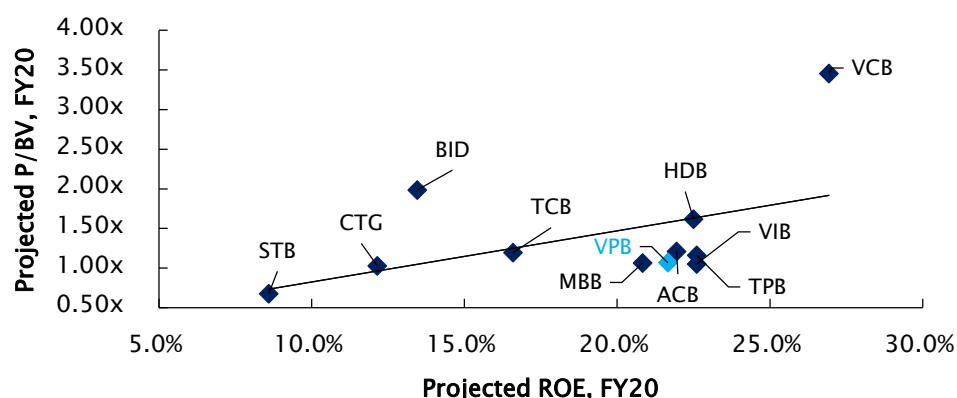
Regulatory risk is manageable.

30% cap on cash loans to / total loans is not being implemented immediately, but rather over the next four years.

Capital raising: The bank plans to issue 260 million share via private placement.

The chart below shows that VPB's stock price has been undervalued with very low P/BV even with its relatively high ROE.

Figure 1: Scatter plot between ROE and PB among banks



Source: Bloomberg for pricing and ROE estimates on CTG, TCB, ACB, VIB, and TPB projections, Yuanta Vietnam for STB, BID, MBB, VPB, HDB, and VCB.

Yuanta vs. Consensus. Our net income forecast is 3% higher than the consensus mean estimate for 2020E as we believe provisioning cost will fall in 2020E after VPB clears 100% of its remaining VAMC bonds in 2019E. We baked into our assumption that the cash loan ratio at FE Credit will be 70% in 2021E, and our net income forecast for 2021E is in line with the street's estimate.

Table 2: Yuanta vs. Consensus

Net income (VND bn)	2019E	2020E	2021E
Consensus mean	7,650	9,367	10,685
Yuanta forecast	7,587	9,658	10,732
%ge difference	-0.8%	3.1%	0.4%
Consensus high	7,894	11,488	14,226
Consensus low	7,430	7,770	7,968
EPS (VND)	2019E	2020E	2021E
Consensus mean	3,219	3,855	4,401
Yuanta forecast (adj.)	3,100	3,962	4,403
%ge difference	-3.7%	2.8%	0.0%
Consensus high	3,590	4,773	5,911
Consensus low	2,967	3,163	3,243

Source: Bloomberg, Yuanta Vietnam

Catalysts

Cost efficiency improves

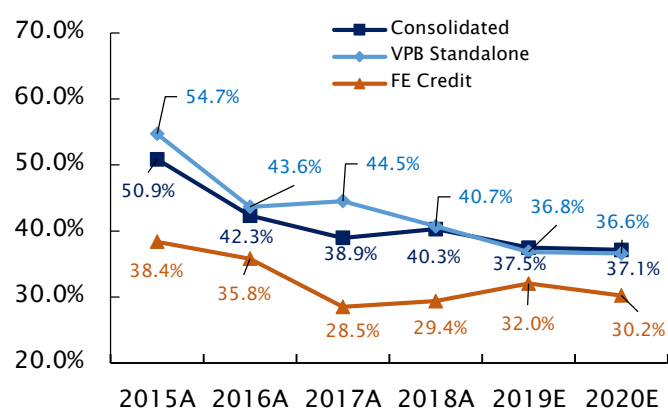
Adj. CIR in the period 4Q18-3Q19 is the third lowest in the sector.

CIR on a declining trend backed by digital transformation

In the first 9M19, the number of employees at the bank (standalone) has been reduced by 20% YTD from 11,466 to 9,144 individuals. Management attributes this to improved back-office efficiencies in line with its digital restructuring.

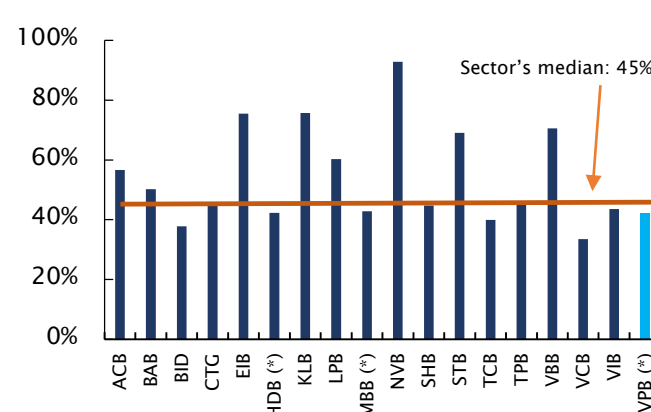
The consolidated cost to adjusted income ratio (adj. CIR) of 38% in the period 4Q18-3Q19 is the third lowest in the sector. Although part of this low CIR is likely due to the large contribution from consumer finance, it also reflects greater efficiencies at VP Bank standalone. We believe that cost efficiency will continue to improve as the bank has increasingly invested in digital banking, which will help improve operation efficiency and reduce headcount. We forecast that adj. CIR should continue to decline in 2020E. On a standalone basis, adj. CIR of 42% is still below the sector's median of 45% (figure 3).

Figure 2: Adj. CIR trending downward



Source: Company data, Yuanta Vietnam

Figure 3: Adj. CIR among banks from 4Q18 to 3Q19



Source: Company data, FiinPro, Yuanta Vietnam
(*) parent bank only

Sensitivity analysis: CIR vs. PBT

We observe that 1ppt change in CIR would cause a 3% change in PBT in 2020E, assuming others remain unchanged.

Table 3: Sensitivity analysis between CIR and PBT

CIR	35%	36%	(our CIR estimate in 2020E) 37%	38%	39%
PBT	12,780	12,427	12,073	11,720	11,366
% PBT change	3%	3%		-3%	-3%

Source: Company Data, Yuanta Vietnam

VPB clears 100% of its remaining net VAMC bonds in 2019

VPB has steadily increased provisioning coverage on its VAMC exposure from 12% in 2016A to 44% in 3Q19. We believe that VPB will clear the remaining of VND 506 bn in net VAMC exposure in 4Q19E (0.14% of 2019E's assets).

Table 4: VPB plans to clear 100% of remaining VAMC exposure in 2019E

(VND bn)	2015A	2016A	2017A	2018A	3Q19
Total VAMC bonds	4,521	4,136	4,048	3,161	909
Provisions	(567)	(496)	(817)	(790)	(402)
Provisions against VAMC bond (%)	13%	12%	20%	25%	44%
Net VAMC bond	3,954	3,640	3,232	2,371	506

Source: Company Data, Yuanta Vietnam

The bank reported that it has resolved 100% of VAMC exposure at the end of 2019. Thus, this source of NPLs should no longer factor into the bank's financial performance unless as a source of loan loss recoveries.

Capital raising: unlocking the remaining FOL to reduce leverage.

Despite VPB's strong profitability vs. peers, the share price is trading at 1.0x 2020E P/BV compare to peers' median of 1.2x P/BV. We attribute the market price partly to the stock's full-FOL status. However, the bank plans to unlock the remaining 7% of FOL shares via private placement. This issuance could occur in 2020 which could draw investor interest (although the bank will very likely remain in full-FOL status after the issuance).

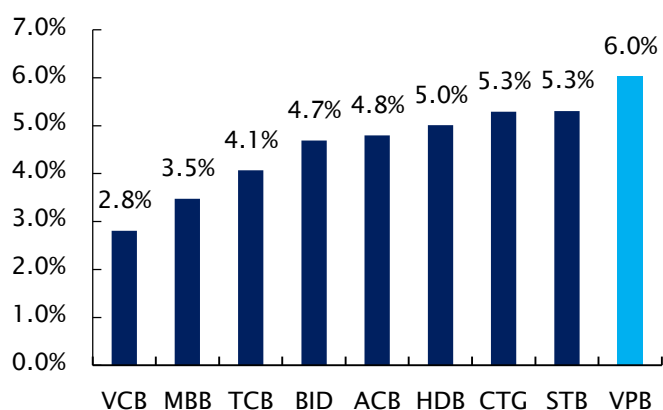
Lower cost of funding (COF) on reduced leverage. VPB's asset / equity leverage was 9.1x as at 3Q19, lower than the 9.3x ratio it posted as at 2018A. On this basis, VPB's leverage is the second lowest among listed Vietnamese banks. Admittedly, funding cost is not a competitive advantage given its retail focus (see figure 4). We believe that raising capital would further help reduce leverage, lower long-term funding cost, and support NIM.

However, we believe that VPB will not be able to maintain the high NIMs posted historically due to the impact of the Circular 18/2019/TT-NHNN (discussed in more details in the "Investment Risks" session), which regulates on cash loan ratio of consumer finance companies, including FE Credit, starting from 2021. Still, we expect average NIM of 8.41% in 2021E-24E. Total cash loans accounted for 73% of FE's total loan book in 1H19, and we estimate these loans have an average yield of 30% based on the published information at FE's website. This high NIM is the key driver to FE Credit in particular and VPB as a whole. Thus, the regulatory cap on cash loans might have a negative impact on VPB's NIMs going forward. We thus believe that 2019E may have been a peak for NIM, which we forecast to fall by 25bps in 2020.

Raising capital will help reduce leverage and should support wholesale funding cost.

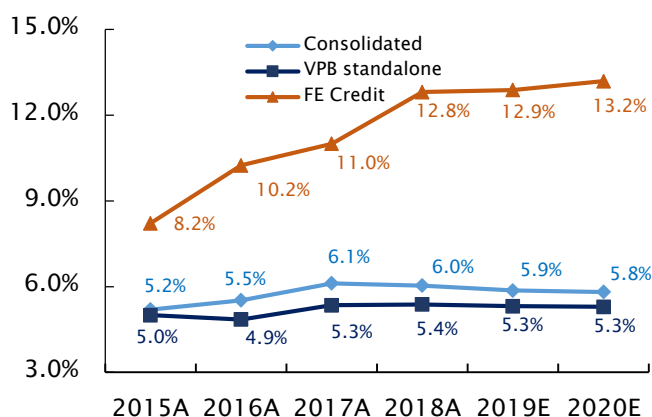
NIM might be negatively impacted by the Circular 18/2019/TT-NHNN going forward.

Figure 4: VPB's consolidated COF vs. its peers in 2018A



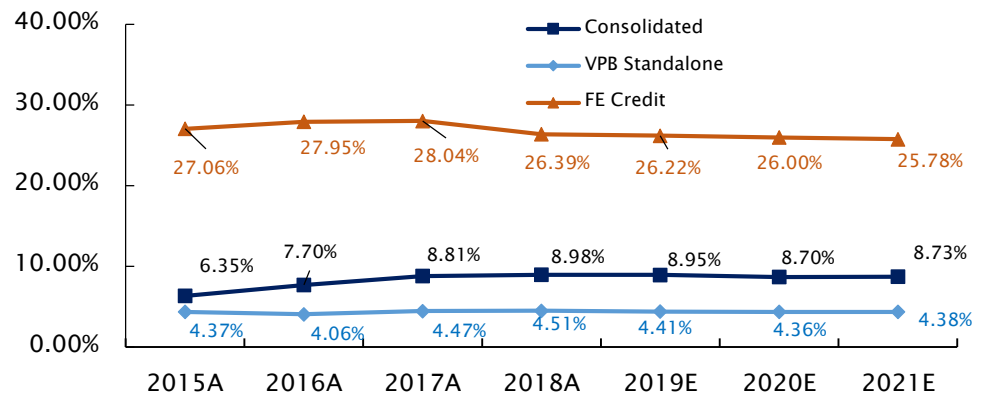
Source: Company data, Yuanta Vietnam

Figure 5: VPB's Cost of Fund (COF)



Source: Company data, Yuanta Vietnam

Figure 6: NIM forecast for 2019E-21E

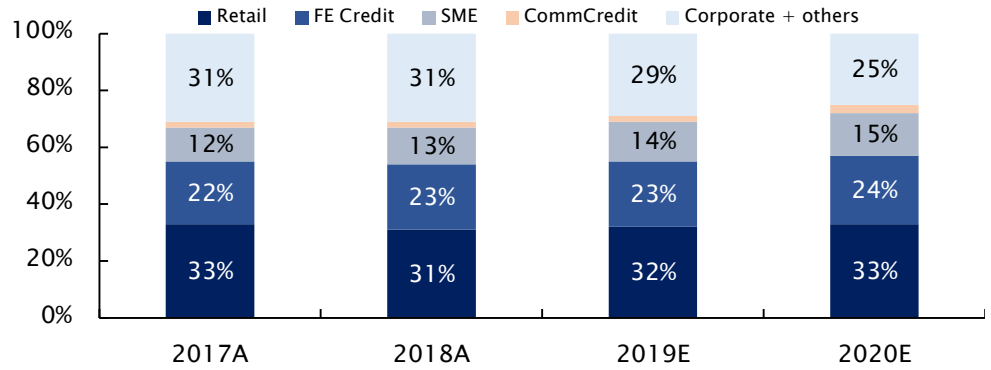


Source: Company Data, Yuanta Vietnam

VPBank background

Loan breakdown. VPB's consolidated loan book reflects its retail focus, with 31% of the total loan portfolio retail, 23% consumer finance (mostly at FE Credit), and 31% SMEs in 2018A.

Figure 7: Retail & Consumer Finance dominate loan book



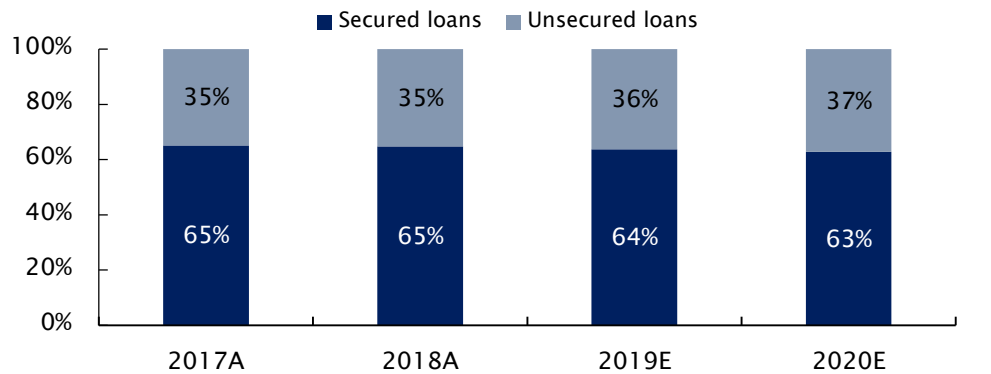
Source: Company Data, Yuanta Vietnam

(*) including corporate bonds + VAMC

(*) CommCredit: refers to Household banking, targeting at self-employed mass market.

Secured loans accounted for 65% of the total loan book, while unsecured loans represented 35% in 2018A.

Figure 8: Loan breakdown by types

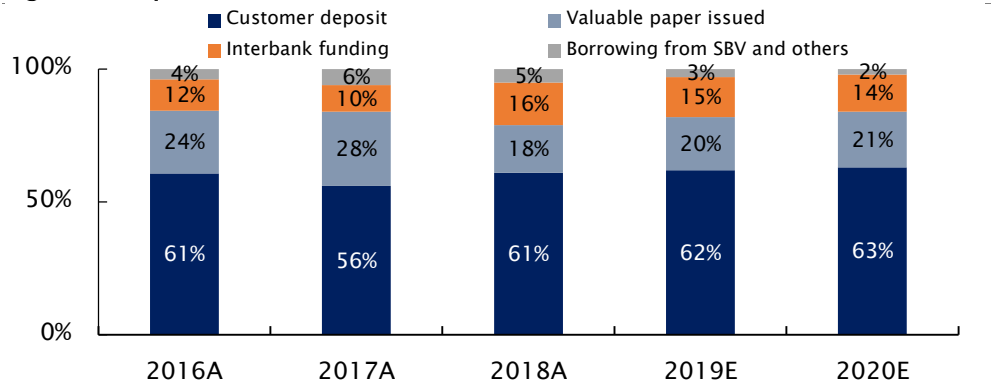


Source: Company Data, Yuanta Vietnam

(*) including corporate bonds

Deposit mix. The bank's consolidated funding source comprises mostly customer deposits (61%) and valuable papers (18%).

Figure 9: Deposit Breakdown

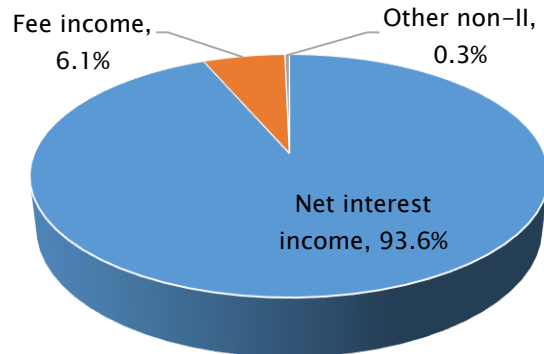


Source: Company Data, Yuanta Vietnam

Revenue breakdown

After stripping out loan loss recoveries from revenues, net interest income contributed 94% of adjusted total operating income in 2018A, with fee income at only 6%. However, given tightening credit growth policy from the State Bank of Vietnam (SBV), banks including VPB are seeking alternative income from fees, and we believe this will be a key trend going forward.

Figure 10: Revenue Mix in 2018A

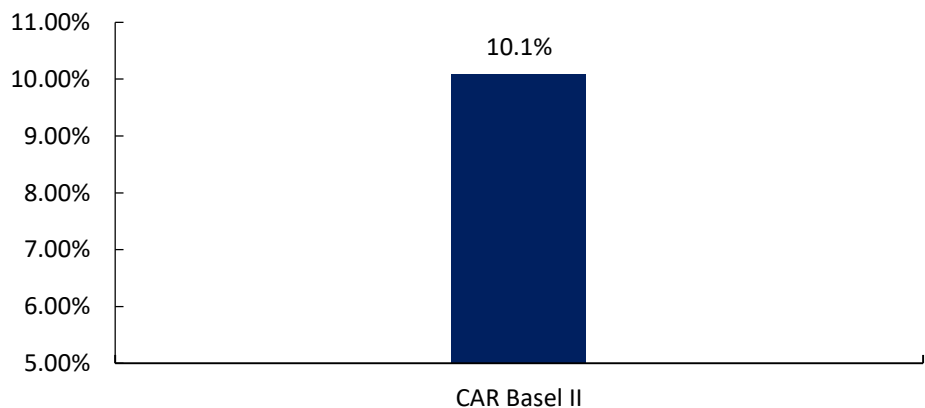


Source: Company Data, Yuanta Vietnam

CAMEL Analysis: VPBank standalone

Capital levels are strong. VPB is one of the first three banks to qualify for Basel II approval by the SBV. Total CAR under Basel II is 10.1% as at 3Q19, which is above the SBV's requirement of 8.0%. VPB says that its Tier 1 capital was 12.1% at 3Q19, but this is a confusing disclosure given that it does not include the necessary exclusion of investments in credit institutions (presumably, FE Credit). In any case, the bank's straight equity/asset ratio is 11.7%, which is the second highest among listed Vietnamese banks.

Figure 11: Capital ratios as at 3Q19



Source: Company Data

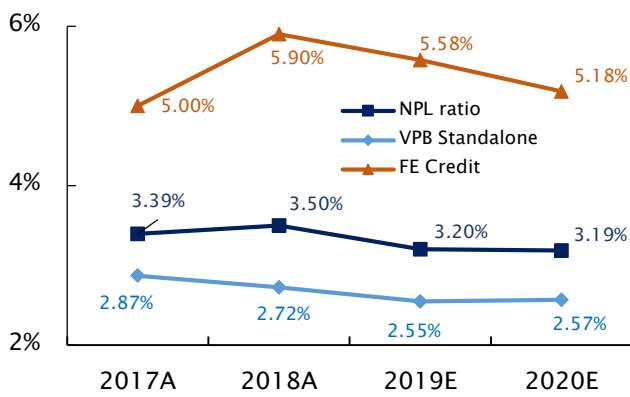
Asset quality is solid considering the high-risk nature of retail lending. The NPL ratio was 2.91% as of 3Q19 (+19bps YTD). The NPL ratio (including category 2 NPLs) was 6.16% (-30bps YTD). If we include net VAMC bonds, the total NPL ratio (cat. 3-5 NPLs and VAMC bonds) would be 3.08% (-51bps YTD). NPL coverage ratio was 55% in 3Q19 (+2.2ppt YTD), which is admittedly low. However, VPB has been aggressively provisioning and writing off NPLs; thus, if we include the amounts written off in 3Q19 to both the nominator and denominator, the NPL coverage ratio would have been 69% for that quarter.

The standalone bank's CAR was 10.1% as of 3Q19

Bank's standalone NPL ratio was 2.91% as of 3Q19.

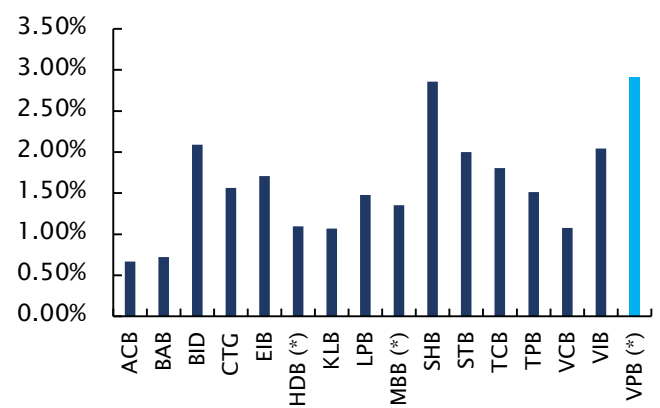
NPL coverage ratio was 55%.

Figure 12: NPL ratios



Source: Company Data, Yuanta Vietnam

Figure 13: NPL ratios among banks as at 3Q19

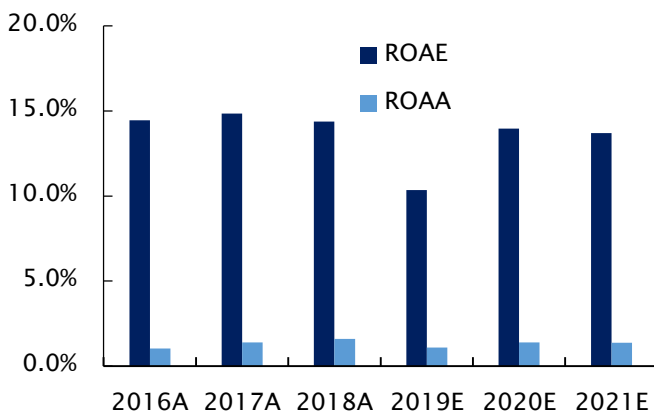


Source: Company Data, FiinPro, Yuanta Vietnam; (*) parent bank only

Management is among the more professional teams in Vietnam, in our opinion. VPB was an early mover into consumer finance and is likely to benefit from its ability to comply with whatever regulatory changes are actually implemented, which will set the bank apart from competitors that lack of scale and know-how to ramp up this business. The bank’s standalone 4Q18–3Q19 adj. CIR (excluding “other income”) of 42.3% is below the sector’s median of 45.0%, which is impressive given its retail focus. Its separated credit cost-adjusted NIM defined by the formula (net interest income minus provisioning)/assets was 2.37%, but on a consolidated basis this ratio rises to 4.66%, the highest in the sector, indicating that VPB’s credit risk management is solid.

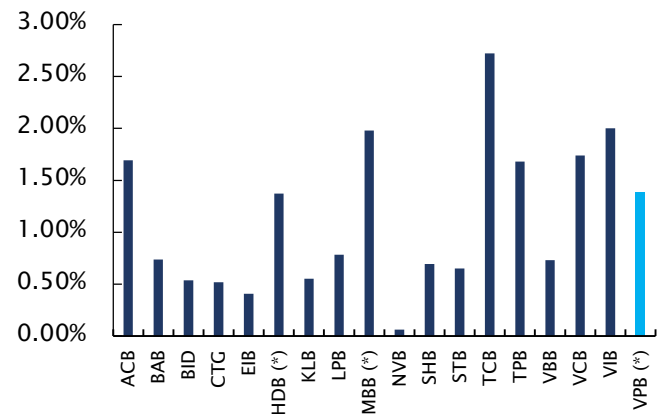
Earnings are relatively strong, with ROA of 1.38% in 3Q19. This is largely due to its high yield loan profile (9.6% as at 2018A), and efficient cost management.

Figure 14: VPB’s ROAE & ROAA



Source: Company Data, Yuanta Vietnam

Figure 15: ROAA among banks from 4Q18 to 3Q19



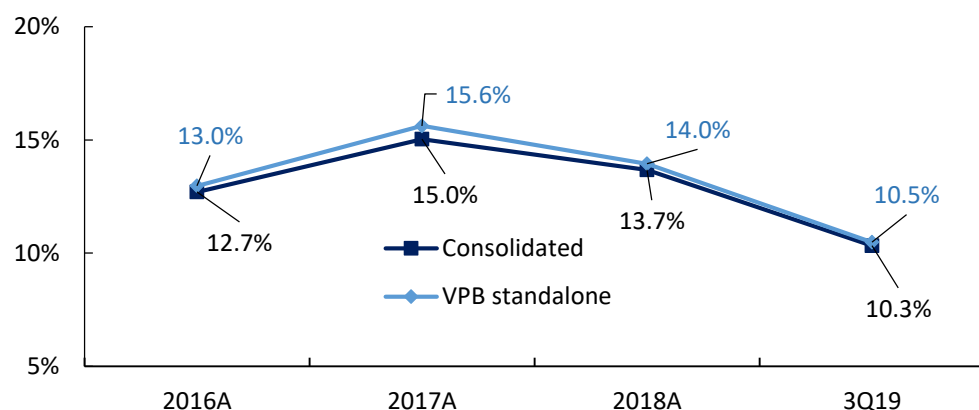
Source: Company Data, FiinPro, Yuanta Vietnam (*) parent bank only

Standalone CASA ratio was 10.5% as of 3Q19 vs. 18.3% of the sector.

Short-term funding for medium- and long-term loans was 28%.

Liquidity is relatively weak, as VPB is dependent on higher-cost time deposits and wholesale funding. This is mostly because FE Credit is not a retail deposit-taking institution. The consolidated CASA ratio was quite weak at 10.3% as at 3Q19 (and standalone CASA ratio was 10.5%) which is below that of the sector’s average of 18.3%, implying that funding costs are sensitive to both interest rate fluctuations and deposit competition. Consolidated short-term funding for medium- and long-term loans was 28% (–6.1ppt YTD), which is lower than the current 40% cap on this ratio. The State Bank of Vietnam (SBV) aims to reduce this ratio to 37% from Oct 1st, 2020 to Sep 30th, 2021; 34% from Oct 1st, 2021 to Sep 30th, 2022; and 30% thereafter.

Figure 16: CASA ratio



Source: Company Data, Yuanta Vietnam

Table 5- VPB standalone BALANCE SHEET (VND bn)	2017A	2018A	2019E	2020E	2021E
Cash and Balances at Central Banks:	8,454	12,188	13,065	16,422	19,071
Loans and Advances to Banks:	16,817	16,703	19,425	22,505	26,135
Investment Securities:	54,880	56,227	65,391	75,761	87,979
Investment in Associates:	4,966	7,858	9,138	10,588	12,295
Gross Loans:	137,869	168,190	195,650	222,240	252,829
(-) Specific Provisions:	(1,118)	(1,245)	(1,367)	(1,692)	(1,994)
(-) General Provisions:	(965)	(1,170)	(1,361)	(1,546)	(1,759)
Total provisions:	(2,084)	(2,416)	(2,729)	(3,239)	(3,753)
Net Loans:	135,786	165,774	192,921	219,002	249,076
Fixed Tangible asset:	303	1,259	1,228	1,412	1,624
Intangible Assets:	262	274	274	274	274
Accrued interests:	2,836	3,269	3,996	3,996	3,996
Deferred tax:	2,497	0	0	0	0
Other Assets:	7,266	10,607	11,897	11,897	11,897
Total Assets:	234,066	274,158	317,334	361,857	412,346
Deposits:	129,057	167,562	194,870	225,775	262,185
Due to SBV & Banks:	26,666	44,222	51,442	58,433	66,476
Subordinated Notes:	41,261	24,840	28,967	28,967	28,967
Investment Trust; Derivatives & others:	3,967	398	463	526	598
Other Liabilities:	7,202	6,611	10,075	11,910	12,829
Total Liabilities:	208,154	243,632	285,817	325,611	371,150
Share Capital & Share Premium:	21,572	26,589	25,479	25,479	25,479
Reserves:	1,647	2,902	2,923	2,923	2,923
Treasury Shares	-	(2,492)	(3,601)	(3,601)	(3,601)
Retained Earnings & others:	2,693	3,527	6,716	11,445	16,490
Total Equity:	25,912	30,526	31,517	36,246	41,290
Total Liabilities & Equity:	234,066	274,158	317,334	361,857	412,346

Source: Company data, Yuanta Vietnam

Table 6- VPB standalone INCOME STATEMENT (VND bn)	2017A	2018A	2019E	2020E	2021E
Total Net Interest Income:	8,935	10,459	11,865	13,539	15,545
Total Net Fee Income:	938	1,570	2,001	2,612	3,325
Total other Net Non-interest incomes:	2,171	2,970	4,588	5,617	5,868
Total Operating Income:	12,044	14,999	18,454	21,767	24,739
Total Non-Interest Expenses:	(5,361)	(6,106)	(6,793)	(7,967)	(9,013)
Pre-provisioning Operating Income (PPOP):	6,683	8,893	11,661	13,800	15,725
Gross Provisions:	(2,780)	(3,732)	(6,348)	(5,354)	(6,502)
NPL Recoveries:	1,725	2,773	3,227	3,027	3,063
Net Provisions:	(1,055)	(959)	(3,121)	(2,328)	(3,323)
Pre-Tax Income:	5,627	7,934	8,541	11,473	12,402
(-) Income Tax Expense / (+) Tax Benefit:	(847)	(1,019)	(1,211)	(1,626)	(1,758)
Net Income after tax:	3,041	4,060	3,211	4,729	5,310
Adjusted Diluted EPS	1,363	1,669	1,312	1,940	2,178

Source: Company data, Yuanta Vietnam

FE Credit: Unlock the regulation risks

Consumer finance companies have become the target of regulatory controls aimed at reducing systematic risks of unsecured lending. In particular, the Circular 18/2019/TT-NHNN puts a cap on cash loan (above VND20 mn)/ total loan at 30% from 2024 (more details in the “Investment risk” session).

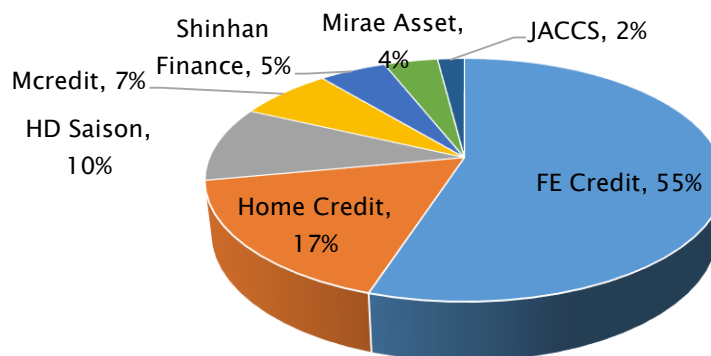
This Circular surely will affect the business strategy of FE Credit, where cash loans accounted for 73% of total loans as at 1H19 in our estimate (or 59% of the total loan book (for cash loans of above VND20 mn) as at the end of 2019 based on the IR disclosures). In addition, Circular 18 also requires consumer finance companies to provide cash loans only to existing clients with good credit rating.

Market concerns about this regulation change are overdone. Fears that the SBV would immediately apply a cap of 30% on cash loan at consumer finance companies, including FE Credit, were overly pessimistic (and also proved to be wrong). The regulation allows regulated consumer finance companies plenty of time to adopt changes. Cash loans/total loans will be capped at 70% in 2021, 60% in 2022, 50% in 2023, and 30% in 2024. Also, we believe that the impact is more than fully reflected in VPB's stock price. Thus, we believe the stock's current discount to fair value (as well as to the valuations of many of its lower-profitability peers) represents an attractive buying opportunity.

FE Credit's background

FE Credit, a subsidiary of VPB, is the largest consumer finance company in Vietnam with 55% market share as of 1H19. FE Credit accounted for 23% of consolidated loans as at 2018A. It dominates in personal loans with 60% market share among the top 7 largest consumer finance companies in Vietnam as of 1H19.

Figure 17: Total market share among the top 7 largest consumer finance companies in 1H19 in Vietnam

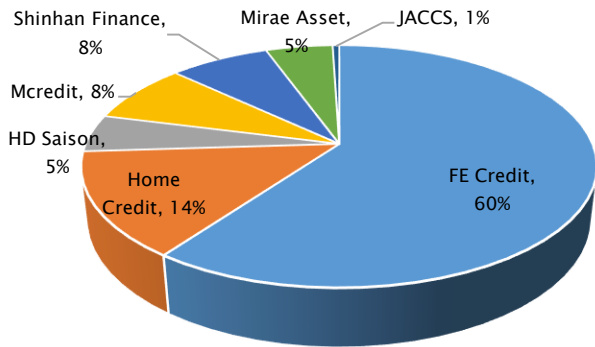


Source: Estimated from FiinGroup Report 1H.19, Company Data

FE Credit cash loan was 73% of total loans as at 1H19, based on our estimate.

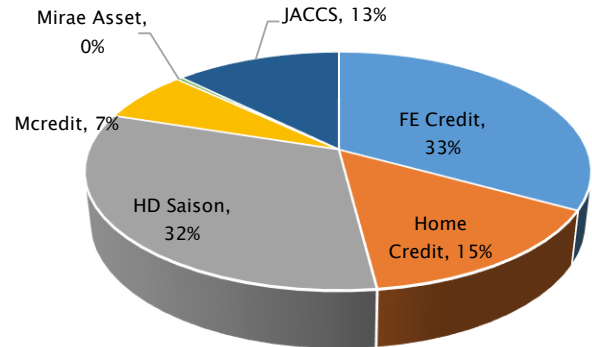
The Circular 18 allows consumer finance companies including FE Credit to reduce cash loans/total loans to 30% by 2024.

Figure 18: Personal loan market share among the top 7 largest consumer finance companies in 1H19



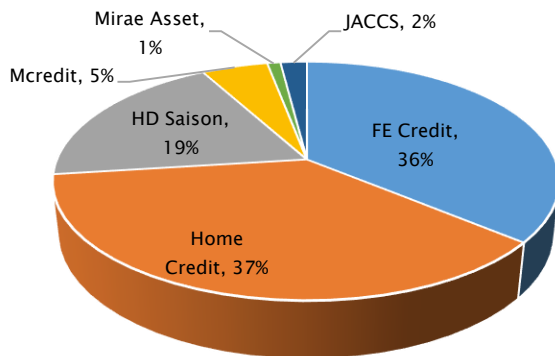
Source: Estimated from FiinGroup Report 1H.19, Company Data

Figure 19: Two-wheeler loan market share among the top 7 largest consumer finance companies in 1H19



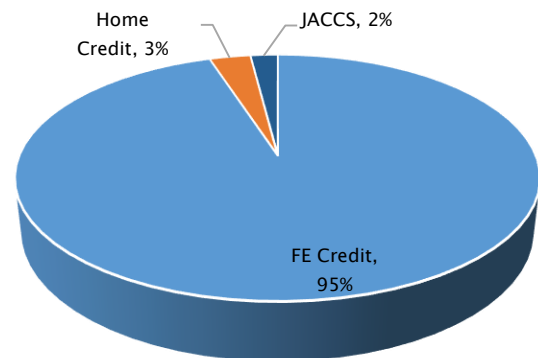
Source: Estimated from FiinGroup Report 1H.19, Company Data

Figure 20: Consumer durable loan market share among the top 7 largest consumer finance companies in 1H19



Source: Estimated from FiinGroup Report 1H.19, Company Data

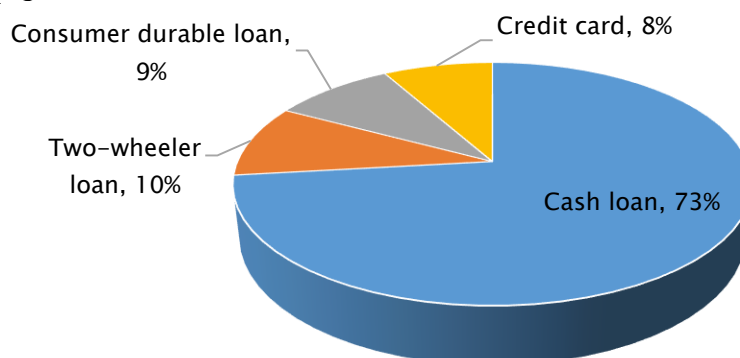
Figure 21: Credit card market share among the top 7 largest consumer finance companies in 1H19



Source: Estimated from FiinGroup Report 1H.19, Company Data

In 9M19, FE's loan book grew by 13% YTD. Total cash loan over its total loan book was 73% as at 1H19.

Figure 22: FE's loan breakdown (1H19)

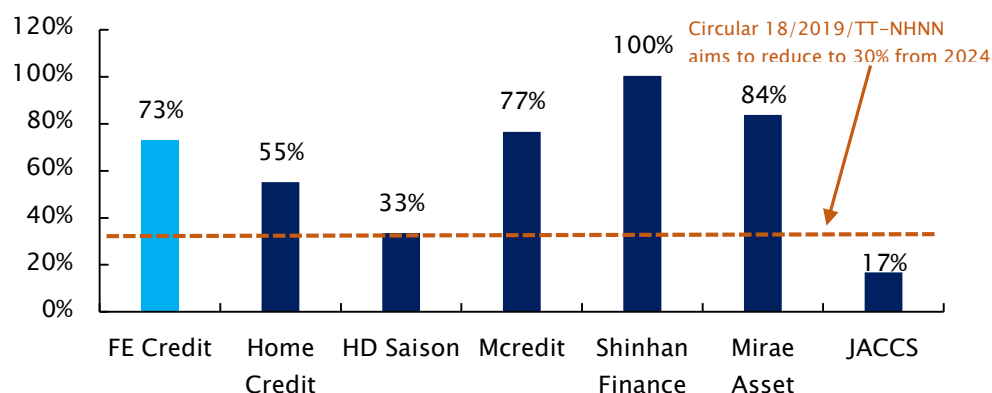


Source: Company Data, Yuanta Vietnam

High cash loan ratio is a double-edged sword, in our view. On the positive side, it is the key catalyst that has spurred FE's growth over the past few years and made it the

leader of Vietnam's consumer finance market. However, this high cash loan ratio will have to fall in upcoming years, with other types of consumer finance loans growing to shift the percentage mix away from cash loans. This clearly will affect FE Credit's business strategy.

Figure 23: Cash loans / total loans among the top 7 largest consumer finance companies in Vietnam (1H19)

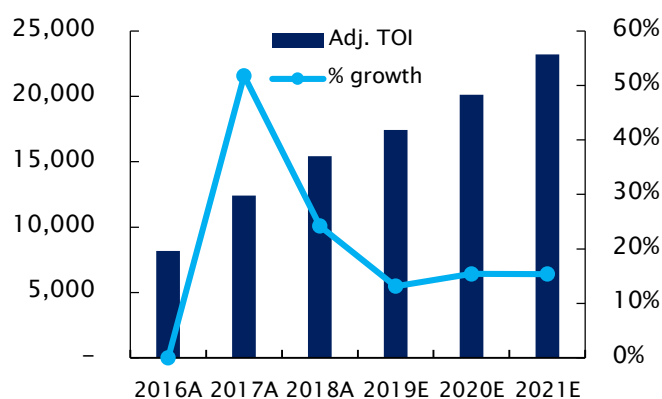


Source: Estimated from FiinGroup Report 1H.19, Yuanta Vietnam

Business operations

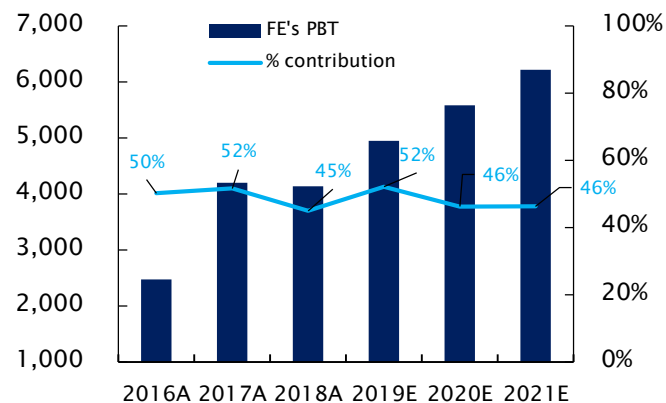
After a period of strong growth, FE's lending activities have slowed down due to the SBV's stricter controls on consumer lending. Total operating income (TOI) growth rate has fallen since 2017 (figure 23). Notably, FE Credit contributed 45% of total consolidated PBT in 2018A (figure 24). Clearly, FE Credit has played a crucial role in the ban's sector—high average consolidated NIM of 8.50% and average adjusted ROAE of 24.8% over 2016A–18A.

Figure 24: FE's adj. TOI and % growth from 2017A–21E



Source: Company Data, Yuanta Vietnam

Figure 25: FE's contribution to VPB

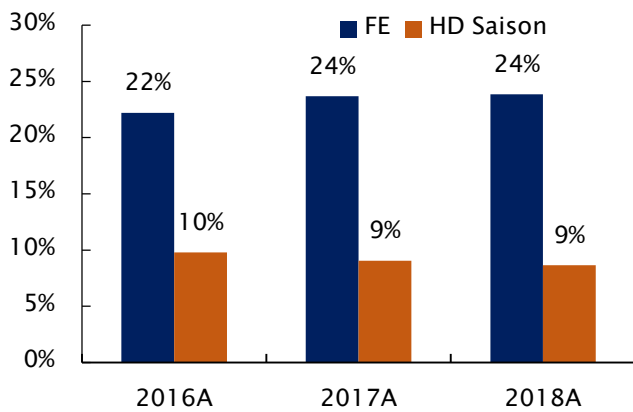


Source: Company Data, Yuanta Vietnam

FE Credit clearly plays a more significant role in contributing to consolidated results at VPB than HD Saison does at HDB (HDB VN, HOLD—Underperform, Target Price: VND30,970— please see our initiation report of Sep 2019 “Wait for clarity on the PG Bank deal” for details). We believe that comparing FE Credit with HD Saison is appropriate given that they are among the top three consumer finance firms (the third, Home Credit, is not listed). In addition, we have coverage on both of these banks which helps in analyzing their relative advantages and contributions to parent banks.

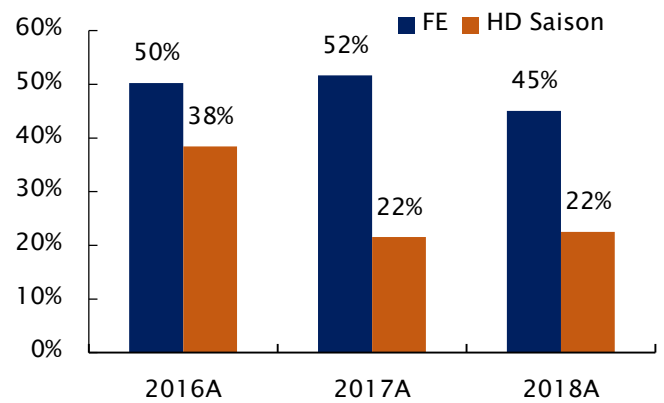
FE Credit's loans accounted for 24% and PBT represented 45% of VPB's consolidated numbers in 2018A. By contrast, HD Saison contributed only 9% of loans and 22% of PBT to HDB's consolidated numbers in 2018A.

Figure 26: Loan contribution to consolidated numbers



Source: Company Data, Yuanta Vietnam

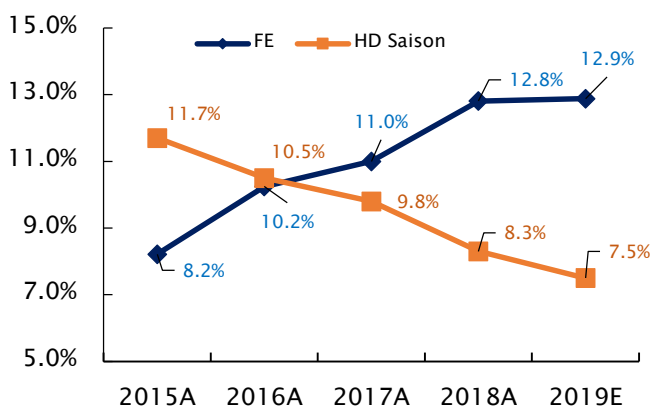
Figure 27: PBT contribution to consolidated numbers



Source: Company Data, Yuanta Vietnam

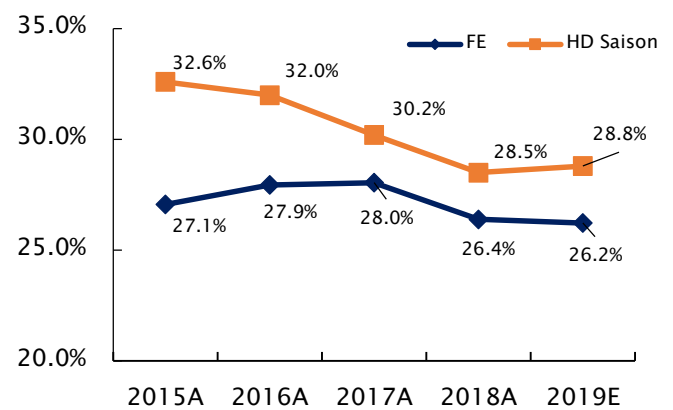
Funding cost is not a competitive advantage of FE Credit compared to HD Saison. FE's NIM was lower than that of HD Saison due to its higher funding costs. (figure 27).

Figure 28: Funding cost – FE vs. HD Saison



Source: Company Data, Yuanta Vietnam

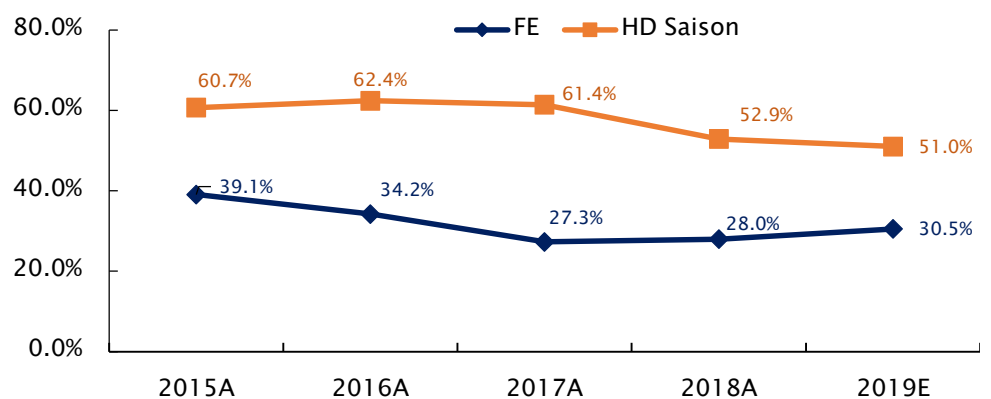
Figure 29: NIM – FE vs. HD Saison



Source: Company Data, Yuanta Vietnam

FE Credit's cost-to-income ratio (CIR) increased slightly from 27.3% in 2017A to 28.0% in 2018A. However, CIR of 28.0% was much lower compared to that of HD Saison of 52.9% in 2018A. We believe that cost efficiency will slightly improve from 2020E as FE will be able to save costs by focusing more on serving existing clients rather than acquiring new ones. This is mostly due to the restriction of the Circular 18 on providing cash loans to new customers.

Figure 30: CIR – FE Credit vs. HD Saison



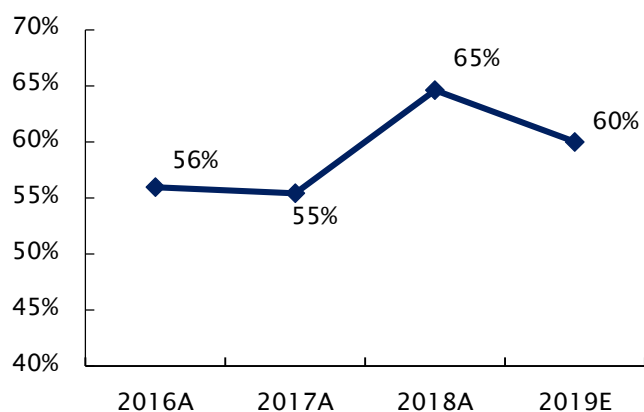
Source: Company Data, Yuanta Vietnam

Credit costs are high, but this is reflective of its unsecured consumer finance focus. Due to the high-risk nature of unsecured consumer loans, high NPLs are part of FE

Credit's business, and it has to put aside a significant amount of provision for those NPLs. The provision cost accounted for 65% of PPOP in 2018A (vs. 44% at Home Credit), which was one of the key reasons that dragged down earnings, and this was especially acute due to the reduced credit growth as a result of the SBV's policies.

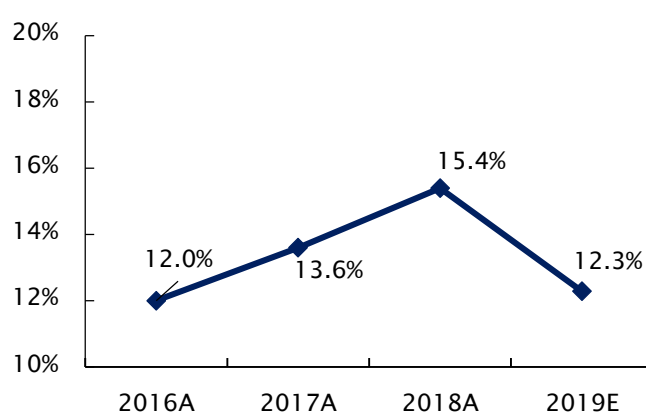
FE's credit cost (provision/total loans) was the highest among its peers at 15.3% in 1Q19 compared to 12.8% at Home Credit and 7.3% at HD Saison. FE's credit cost improved slightly in 2Q19 to 14.5% (-80bps QoQ / -90bps YTD). We expect that FE Credit will take a prudent approach in granting cash loans going forward due to the regulation tightening, which should result in lower credit costs going forward.

Figure 31: FE's Provision/PPOP



Source: Company Data, Yuanta Vietnam

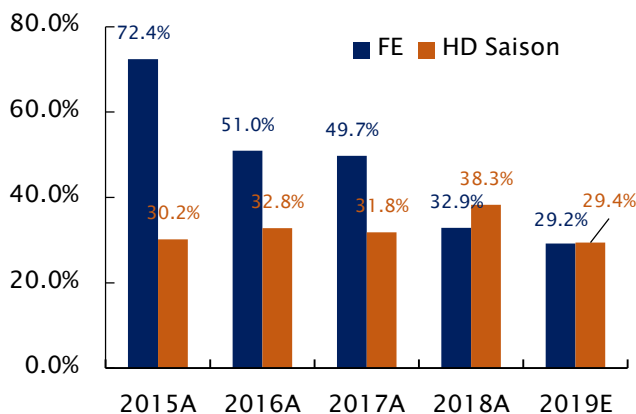
Figure 32: FE's credit cost (provision/loans)



Source: Company Data, Yuanta Vietnam

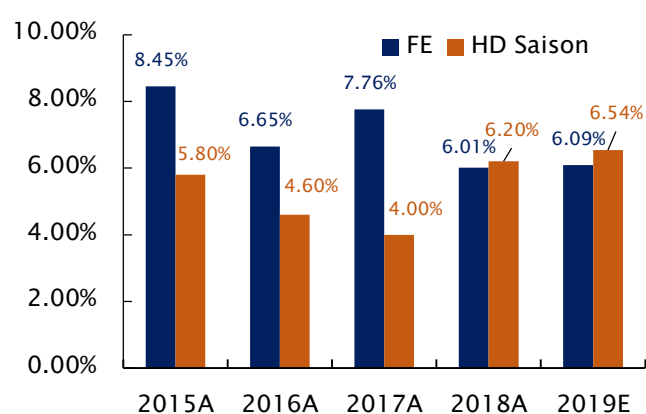
FE Credit's earnings are very strong and contribute largely to consolidated earnings, but the trend has been down. ROAE of 50% on average in the period 2016A-17A was among the highest in the sector, but it declined to only 33% in 2018A which was lower than that of HD Saison of 38% and Home Credit of 34%.

Figure 33: ROAE - FE vs. HD Saison



Source: Company Data, Yuanta Vietnam

Figure 34: ROAA - FE vs. HD Saison

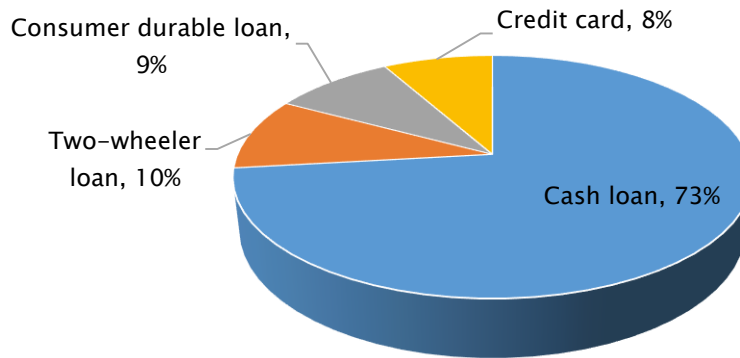


Source: Company Data, Yuanta Vietnam

Assets and Liabilities analysis

Loan breakdown. FE Credit's loans are largely on cash loans (73%), followed by two-wheeler loans (10%), consumer durable loans (9%), and credit card loans (8%) as at 1H19. Clearly, cash loans are the key driver of FE's profitability, and the regulation changes on cash loan is likely to have an impact on FE's growth.

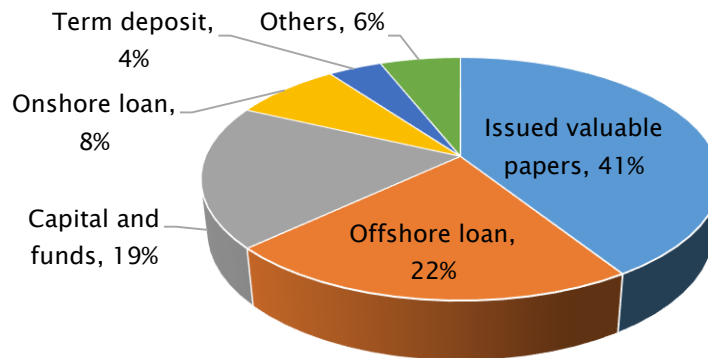
Figure 35: FE's loan breakdown



Source: Company Data, Yuanta Vietnam

Funding mix. Funding sources comprise valuable papers (41%), offshore loans (22%), equity capital (19%), and others (18%) as at 3Q19. We assume that “others” refers to interbank and other short-term wholesale funding sources.

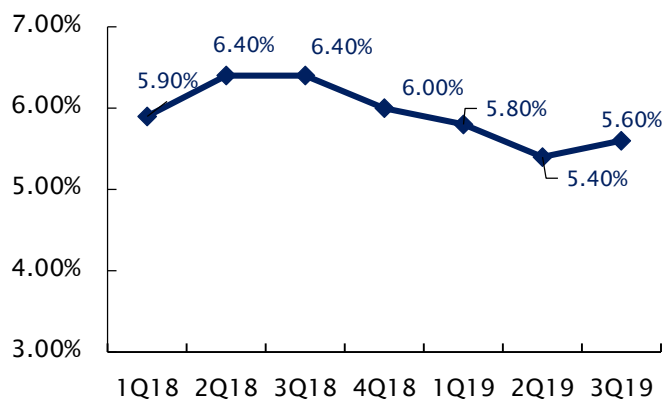
Figure 36: FE's funding mix



Source: Company Data, Yuanta Vietnam

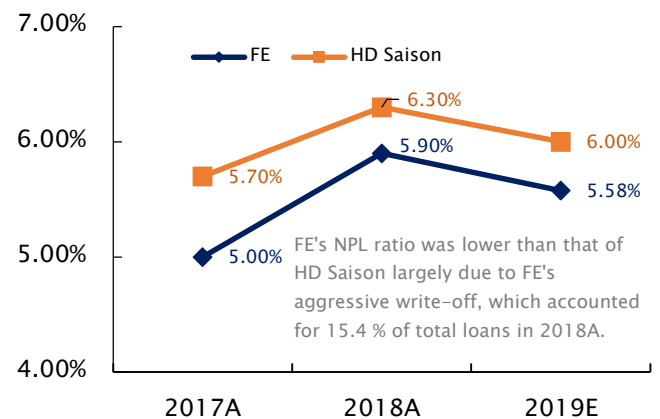
NPLs tend to be relatively high. FE Credit's 3Q19 NPL ratio was 5.60%, up 20bps QoQ. However, the trend has generally been on a decrease since 3Q18, when NPLs were 6.40%. FE Credit's NPL ratio has been slightly lower than that of HD Saison, which in our view is attributable to its aggressive write-off policy.

Figure 37: FE's NPL ratios (quarterly)



Source: Company Data, Yuanta Vietnam

Figure 38: NPL ratios – FE vs. HD Saison



Source: Company Data, Yuanta Vietnam

Table 7: FE Credit's Balance Sheet

(VND bn)	2017A	2018A	2019E	2020E	2021E
Cash and Balances at Central Banks:	581	496	848	985	1,145
Loans and Advances to Banks:	5,393	3,947	5,091	5,912	6,872
Gross Loans:	43,268	52,920	60,860	70,423	81,561
Total provisions:	(1,042)	(1,275)	(1,466)	(1,696)	(1,965)
Net Loans:	42,226	51,645	59,394	68,727	79,596
Fixed Tangible asset:	251	379	436	501	577
Intangible Assets:	33	33	33	33	33
Accrued interests:	1,055	1,290	1,484	1,717	1,988
Other Assets:	569	2,374	2,730	3,159	3,659
Total Assets:	50,108	60,165	70,016	81,035	93,871
Deposits:	4,494	3,289	4,242	4,927	5,726
Due to SBV & Banks:	7,802	9,543	10,974	12,699	14,707
Subordinated Notes:	24,844	23,818	23,818	23,818	23,818
Investment Trust; Derivatives & others:	87	87	100	116	134
Other Liabilities:	4,445	11,699	15,468	19,593	24,627
Total Liabilities:	41,672	48,435	54,603	61,145	68,945
Share Capital:	4,474	7,328	7,328	7,328	7,328
Reserves:	1,940	2,463	2,463	2,463	2,463
Retained Earnings & others:	1,872	1,660	5,622	10,092	15,066
Total Equity:	8,436	11,729	15,413	19,883	24,857
Total Liabilities & Equity:	50,108	60,165	70,016	81,035	93,871

Source: Company Data, Yuanta Vietnam

Table 8: FE Credit's Income Statement

(VND bn)	2017A	2018A	2019E	2020E	2021E
Total Net Interest Income:	11,679	13,926	16,103	18,499	21,236
Total Net Fee Income:	812	1,517	1,422	1,726	2,097
Total other Net Non-interest incomes:	(79)	(27)	(86)	(99)	(115)
Total Operating Income:	12,412	15,416	17,440	20,126	23,218
Total Non-Interest Expenses:	(3,536)	(4,526)	(5,588)	(6,080)	(6,710)
Pre-provisioning Operating Income (PPOP):	8,876	10,890	11,852	14,046	16,508
Gross Provisions:	(5,221)	(7,521)	(7,783)	(9,334)	(11,216)
Net other incomes:	545	773	885	876	926
Net Provisions:	(4,676)	(6,748)	(6,899)	(8,459)	(10,290)
Pre-Tax Income:	4,200	4,141	4,953	5,587	6,219
(-) Income Tax Expense / (+) Tax Benefit:	(840)	(828)	(991)	(1,118)	(1,244)
Net Income after tax:	3,360	3,313	3,962	4,470	4,975

Source: Company Data, Yuanta Vietnam

Investment risks

Regulation risk. Consumer finance has been a target of regulatory controls aimed at reducing systematic risks of unsecured lending. In Nov 2019, the SBV passed the Circular 18/2019/TT-NHNN to amend Circular 43/2016/TT-NHNN that includes a cap on the amount of cash loans that a consumer finance company can provide.

Summary of Circular 18/2019/TT-NHNN: There are two key points that worth mentioning, including:

1) Only disbursement amount of above VND20 mn will be counted as direct disbursement (or cash loan) and will be regulated under the Circular 18.

2) Cash loan cap rate will be as follows:

2021	2022	2023	2024
70%	60%	50%	30%

In our opinion, the changed regulation on consumer finance demonstrates that the authorities are aiming at 1) avoiding systematic risk in the financial market, 2) protecting relatively poor citizens from predatory financiers, and 3) providing an environment in which regulated consumer finance companies can be profitable (thus replacing unregulated and illegal loan shark operations). Although last year's concerns that the cap would be imposed immediately prove to have been overdone, the risk of subsequent additional regulations in the future should be a consideration for investors in VPB.

In any case, we believe that the changed regulation will have a negative impact on VPB's growth story in the short term. However, in the longer term, it might be benefit for FE Credit, as the regulation changes are likely to result in the exit of weak players.

Tables 9–10 present sensitivity analysis to gauge the impact of different cash loan ratios on VPB's consolidated NIM and PBT.

Table 9: FE's cash loan ratio with no regulation change

Year	2019E	2020E	2021E	2022E	2023E	2024E
Cash loan ratio	70%	70%	70%	70%	70%	70%
Cash loan amount	42,601	47,672	53,431	59,133	65,558	71,769
NIM (consolidate)	8.95%	8.70%	8.73%	8.68%	8.66%	8.77%
PBT (consolidate)	9,484	12,073	13,415	15,497	18,273	20,578
ROAE (consolidate)	20.3%	21.5%	19.6%	18.9%	18.9%	18.3%

Source: Company Data, Yuanta Vietnam

Circular 18 will take into effect starting from 2021 and put a cap on the cash loan ratio at 70% in 2021E, 60% in 2022E, 50% in 2023E, and 30% from 2024E. We have factored these ratios into our financial statement forecasts in our model.

As exhibited in Tables 9 and 10, a reduction in the cash loan ratio in 2022E from 70% to 60% would cause a 4bp decrease in NIM and a 10bp decline in ROAE in that year. Looking out to 2024, the reduction in cash loans from 70% to 30% results in a 65bp drop in NIM and a 1.9ppt decline in ROAE in that year.

Table 10: FE's cash loan ratio after regulation change (our assumptions in model)

Year	2019E	2020E	2021E	2022E	2023E	2024E
Cash loan ratio	70%	70%	70%	60%	50%	30%
Cash loan amount	42,601	47,672	53,431	50,685	46,827	30,758
NIM (consolidate)	8.95%	8.70%	8.73%	8.62%	8.28%	8.02%
PBT (consolidate)	9,484	12,073	13,415	15,314	17,009	17,781
ROAE (consolidate)	20.3%	21.5%	19.6%	18.7%	17.7%	16.1%

Source: Company Data, Yuanta Vietnam

How to mitigate the cash loan-related regulatory risks. FE Credit has been actively managing its cash loans to comply with the regulation. The company says its cash loan ratio (for cash loans of above VND20 mn) was 59% as at the end of 2019. Also, the bank plans to increase the proportion of credit card balance (which we believe largely comprises cash withdrawals rather than credit card-enabled purchases) to deal with the regulatory change.

Asset quality of unsecured lending. A possible deterioration in asset quality represents a risk given VPB's high exposure to unsecured loans (nearly 34% of total loans as at 3Q19). In Europe, where the consumer finance market is obviously more developed, the NPL ratio of consumer finance loans is about 10% on average. Stressing our model by assuming a 10% NPL ratio for FE Credit in 2019E would boost the consolidated NPL ratio by 1.09ppt to 4.29%, on our estimate. However, we believe that the bank will take a prudent approach in disbursing loans especially with the anticipated regulation change on the cash loan ratio.

Valuation: our 12-month price target is VND25,530 per share

We apply five valuation methodologies to generate our VND25,530 target price, which implies P/BV multiples of 1.3x for 2020E and adjusted PERs of 6.4x for 2020E.

Our target price is calculated on a weighted average basis. We apply a 50% weighting for residual income (the largest component) and 12.5% weightings for the other four methodologies.

We employ the following assumptions in our residual income and DDM models:

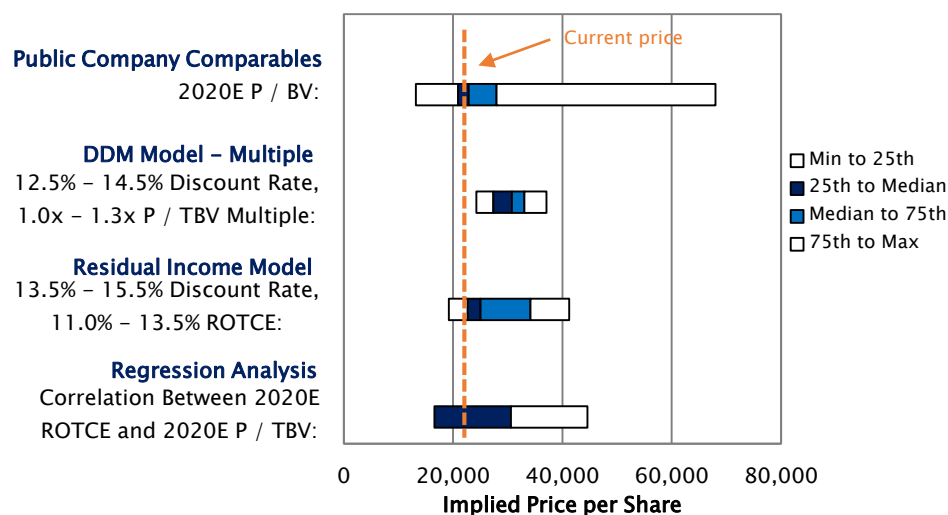
- **Cost of equity** starts at 14.8% and falls to 11.3% in Year 15 to reflect reduced risk and reduced potential returns as VPB grows.
- **ROTCE** is based on our model forecasts for Years 1–5, is set at 16.5% in Year 6, and gradually declines to 12% in Year 15.
- **Asset growth** is based on our model forecasts for Years 1–5, is set at 14% in Year 6, and gradually declines to 7% in Year 15.

Table 11: VPB's estimated fair value

Valuation Methods	Average Fair Value (VND/share)		
	Estimated Price	Weight (%)	Price
Residual Income	24,991	50.0%	12,496
DDM Perpetuity	25,493	12.5%	3,187
DDM Multiple	25,402	12.5%	3,175
Regression	30,570	12.5%	3,821
Public Comps	22,871	12.5%	2,859
Estimated Fair Value			25,538

Source: Yuanta Vietnam

Figure 39: VPB's estimated fair value graph



Source: Yuanta Vietnam, Bloomberg

Residual Income Model

Based on the residual income approach, we estimate VPB's fair value at VND24,991 per share, implying a 18% premium to the current share price (VND 21,150 at Jan 14, 2020) and a 2020E P/BV multiple of 1.2x.

Table 12: VPB's Implied fair value based on Residual Income Model

Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	21,945
Residual Income Terminal Value:	19,444
(+) Current Common Shareholders' Equity:	40,491
(+) PV of Residual Income Terminal Value:	4,103
(+) Sum of PV of Residual Income:	16,328
Implied Equity Value:	60,922
% of Implied Value from PV of TV:	6.7%
Implied Share Price:	24,991
Current Share Price:	21,150
Implied P/BV	1.2x
Premium / (Discount) to Current:	18%

Source: Company data, Yuanta Vietnam

Table 13– Residual income fair value: sensitivities to ROE and Cost of Equity

	Terminal Return on Common Equity:	Initial Cost of Equity (Declines by 0.35% Annually):									
		12.5%	13.0%	13.5%	14.0%	14.8%	15.0%	15.5%	16.0%	16.5%	
	14.5%	62,362	53,138	45,893	40,079	32,676	31,396	28,094	25,293	22,897	
	14.0%	59,073	50,385	43,560	38,081	31,100	29,893	26,778	24,135	21,872	
	13.5%	55,825	47,666	41,255	36,107	29,544	28,409	25,478	22,991	20,859	
	13.0%	52,618	44,982	38,979	34,157	28,008	26,943	24,194	21,860	19,859	
	12.0%	46,325	39,714	34,513	30,331	24,991	24,066	21,674	19,641	17,896	
	11.5%	43,238	37,130	32,322	28,454	23,511	22,654	20,438	18,552	16,932	
	11.0%	40,192	34,580	30,160	26,601	22,050	21,260	19,217	17,477	15,981	
	10.5%	37,185	32,062	28,025	24,772	20,607	19,884	18,011	16,415	15,041	
	10.0%	34,217	29,577	25,917	22,966	19,183	18,525	16,821	15,367	14,113	

Source: Yuanta Vietnam

Table 14: Peer valuation comparison table

Company	Ticker	Rating	Price	Mkt Cap (US\$ bn)	EPS (VND)			PER (x)			PBR (x)		
					2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
VPBANK	VPB VN	BUY	20,600	2.2	3,100	3,962	4,403	6.6x	5.2x	4.7x	1.3x	1.0x	0.8x
Local peers													
Asia Commercial Bank	ACB VN	NR	22,900	1.7	3,672	3,919	4,159	6.4	6.0	5.6	1.4	1.2	1.0
BIDV Bank	BID VN	HOLD-OPF	50,100	8.7	1,934	2,704	3,185	25.1	20.3	17.2	2.6	2.4	2.3
Vietinbank	CTG VN	NR	23,200	3.8	2,002	2,476	3,085	11.8	9.5	7.6	1.2	1.0	N/A
HDBank	HDB VN	HOLD-UPF	27,900	1.2	3,359	4,034	4,551	8.3	6.9	6.1	1.6	1.5	1.3
Military Bank	MBB VN	BUY	21,300	2.2	3,541	4,181	5,017	6.0	5.1	4.3	1.2	1.0	0.8
Sacombank	STB VN	BUY	10,400	0.8	1,149	1,327	1,771	9.1	7.8	5.9	0.7	0.6	0.6
Techcombank	TCB VN	NR	22,950	3.5	2,704	3,145	3,650	8.5	7.3	6.3	1.3	1.1	1.0
Tienphong Bank	TPB VN	NR	21,550	0.8	3,014	3,864	4,505	7.2	5.6	4.8	1.4	1.1	N/A
Vietcombank	VCB VN	HOLD-OPF	89,400	14.3	4,145	6,468	7,225	21.2	13.8	12.4	4.1	3.3	2.8
Vietnam International Bank	VIB VN	NR	17,200	0.7	2,978	3,588	N/A	5.9	4.9	N/A	1.3	1.0	N/A
Local Median				0.9	2,841	3,588	4,159	8.4	7.3	6.1	1.4	1.1	1.0

Source: Company data, Bloomberg Consensus for ACB, CTG, TCB, TPB, and VIB, Yuanta Vietnam estimates for BID, HDB, MBB, STB, VCB, and VPB

Table 15: Quarterly highlights (consolidated basis)

(VND bn)	1Q	2Q	3Q	4Q	FY2018A	1Q	2Q	3Q	4Q	FY2019E
Net Interest Income	6,027	6,160	6,002	6,513	24,702	6,785	7,666	7,977	6,183	28,611
Non-Interest Income (NII)	502	247	733	220	1,703	879	651	975	153	2,658
Fee Income	314	290	400	608	1,612	745	489	709	218	2,160
Other NII	188	-43	333	-388	90	134	162	267	-65	498
Adj. Operating Income	6,529	6,406	6,736	6,733	26,404	7,664	8,317	8,952	6,336	31,269
Total Operating Costs	2,389	2,300	3,104	2,841	10,634	2,976	3,044	3,122	2,575	11,717
Adj. PPOP	4,141	4,106	3,631	3,892	15,770	4,688	5,273	5,830	3,761	19,552
Provisions	2,652	2,794	2,748	3,059	11,253	3,204	3,266	3,523	4,977	14,970
Other Income	1,131	444	866	2,240	4,681	298	553	549	3,502	4,902
Net Provisions	1,522	2,350	1,882	818	6,572	2,906	2,713	2,974	1,475	10,068
Profit Before Tax	2,619	1,757	1,749	3,074	9,199	1,782	2,560	2,856	2,286	9,484
Income Tax	530	345	350	618	1,843	361	511	574	452	1,897
Net Profit	2,089	1,412	1,399	2,455	7,356	1,421	2,049	2,282	1,834	7,587
GROWTH ANALYSIS (% QoQ)										
Net interest income	6%	2%	-3%	9%		4%	13%	4%	-22%	
Fee Income	-24%	-8%	38%	52%		22%	-34%	45%	-69%	
Other NII	3004%	-123%	-875%	-216%		-135%	21%	65%	-124%	
Operating costs	93%	96%	135%	92%		105%	102%	103%	82%	
Adj. PPOP	18%	-1%	-12%	7%		20%	12%	11%	-35%	
Provision	111%	105%	98%	111%		105%	102%	108%	141%	
Other Income	-16%	-61%	95%	159%		-87%	85%	-1%	538%	
PATMI	8%	-32%	-1%	75%		-42%	44%	11%	-20%	
LIQUIDITY										
Pure LDR	130%	129%	125%	128%		121%	123%	121%	125%	
OPERATING EFFICIENCY										
CIR	37%	36%	46%	42%		39%	37%	35%	41%	

Source: Company data, Yuanta Vietnam

Table 16- OROA Analysis

	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E
NIM	6.35%	7.70%	8.81%	8.98%	8.95%	8.70%	8.73%	8.62%
Net interest income to total adj. income	92.5%	96.9%	91.7%	93.6%	91.5%	90.4%	89.5%	88.6%
Cost to income	50.9%	42.3%	38.9%	40.3%	37.5%	37.1%	36.8%	36.6%
PPOP/Assets	3.08%	4.27%	5.42%	5.25%	5.58%	5.53%	5.64%	5.65%
Provisions to Assets	1.84%	2.51%	3.16%	3.74%	4.28%	3.63%	3.58%	3.55%
Operating Return on Assets (OROA)	1.54%	2.07%	2.71%	1.99%	1.84%	2.42%	2.57%	2.61%
Leverage (x)	14.5	13.3	9.4	9.3	9.4	8.6	8.0	7.6
Operating Return on Equity (OROE)	22.3%	27.5%	25.3%	18.5%	17.3%	20.8%	20.7%	19.8%

Source: Company data, Yuanta Vietnam

Appendix: Consolidated Financial Statements

BALANCE SHEET (VND bn)	2017A	2018A	2019E	2020E	2021E
Cash & Balances at SBV:	9,035	12,684	13,984	17,584	20,559
Loans to Banks:	17,520	16,571	19,719	22,973	26,860
Investment Securities:	40,976	47,301	56,286	65,574	76,669
Investments:	153	191	227	264	309
Corporate bonds:	14,007	8,828	10,505	12,238	14,309
Gross Loans:	182,666	221,962	258,091	288,819	323,705
(-) Specific Provisions:	(1,857)	(2,042)	(2,187)	(2,609)	(3,013)
(-) General Provisions:	(1,291)	(1,525)	(1,773)	(1,985)	(2,224)
Total provisions:	(3,147)	(3,567)	(3,960)	(4,594)	(5,237)
Net Loans:	179,519	218,395	254,131	284,225	318,468
Fixed Tangible asset:	458	1,386	1,318	1,516	1,743
Intangible Assets:	351	578	578	578	578
Real estate investment	0	0	0	0	0
Accrued interests:	3,812	4,428	5,512	5,512	5,512
Deferred tax:	0	0	0	0	0
Other Assets:	11,922	12,930	14,735	15,980	17,331
Total Assets:	277,752	323,291	376,994	426,445	482,338
Deposits:	133,551	170,851	203,305	236,854	276,929
Due to SBV & Banks:	38,090	58,013	67,456	75,487	84,605
Subordinated Notes:	66,105	48,658	57,534	57,534	57,534
Derivatives & others:	489	348	405	453	508
Other Liabilities:	9,822	10,671	8,176	6,340	2,790
Total Liabilities:	248,057	288,541	336,875	376,668	422,366
Share Capital& Premium:	21,572	26,589	25,479	25,479	25,479
Reserves:	3,558	5,466	5,821	5,821	5,821
Treasury Shares	-	(2,492)	(3,601)	(3,601)	(3,601)
Retained Earnings:	4,565	5,187	12,420	22,078	32,274
Total Equity:	29,696	34,750	40,118	49,777	59,973
Total Liabilities & Equity:	277,752	323,291	376,994	426,445	482,338

Source: Company data, Yuanta Vietnam

INCOME STATEMENT (VND bn)	2017A	2018A	2019E	2020E	2021E
Total Net II	20,614	24,702	28,610	31,942	36,317
Total Net Fee Income:	1,462	1,612	2,160	2,871	3,675
Other Net Non-II:	414	90	498	530	567
Total Net Non-II:	1,875	1,703	2,658	3,401	4,242
TOI:	22,490	26,404	31,268	35,343	40,559
Total expenses:	(8,759)	(10,634)	(11,717)	(13,117)	(14,944)
PPOP:	13,731	15,770	19,552	22,226	25,615
Gross Provisions:	(8,001)	(11,253)	(14,970)	(14,572)	(16,289)
NPL Recoveries:	2,400	4,681	4,902	4,419	4,090
Net Provisions:	(5,601)	(6,572)	(10,068)	(10,153)	(12,199)
Pre-Tax Income:	8,130	9,199	9,484	12,073	13,415
(-) Tax:	(1,689)	(1,843)	(1,897)	(2,415)	(2,683)
Reported Net Income:	6,440	7,356	7,587	9,658	10,732
(-) Minority Interest	-	-	-	-	-
(-) Bonus & Welfare:	-	-	-	-	-
PATMI:	6,294	7,356	7,587	9,658	10,732
<i>Adj. EPS (VND)</i>	2,820	3,025	3,100	3,962	4,403

SELECTED FINANCIAL RATIOS	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E
GROWTH PROJECTIONS						
Net interest income	35.9%	19.8%	15.8%	11.6%	13.7%	11.1%
Fee Income	71.4%	10.3%	34.0%	32.9%	28.0%	25.3%
Other NII	-210.2%	-78.2%	451.0%	6.5%	6.9%	6.6%
Operating costs	32.3%	21.4%	10.2%	12.0%	13.9%	11.7%
Provision	50.6%	40.6%	33.0%	-2.7%	11.8%	11.5%
Pre-provision profit	52.2%	14.9%	24.0%	13.7%	15.2%	12.7%
Adjusted Net profit	66.1%	16.9%	3.1%	27.3%	11.1%	14.2%
Assets	21.4%	16.4%	16.6%	13.1%	13.1%	11.9%
ASSET ANALYSIS						
Earning assets to total assets	92%	91%	91%	91%	92%	92%
Average Returns on Earnings Assets	2.69%	2.67%	2.37%	2.63%	2.58%	2.62%
LOAN ANALYSIS						
Loan growth (% YoY)	26%	22%	16%	12%	12%	11%
Loans to Interest Earnings Assets	70%	74%	74%	73%	72%	71%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	8%	28%	19%	17%	17%	16%
Deposits to Interest Bearing Liabilities	56%	61%	62%	64%	66%	68%
LIQUIDITY						
Pure LDR	134%	128%	125%	120%	115%	110%
ASSET QUALITY						
NPL ratio	3.39%	3.50%	3.20%	3.19%	3.12%	3.07%
General Provisions to Gross loans	0.71%	0.69%	0.69%	0.69%	0.69%	0.69%
Total provisions in a year to Gross loans	1.72%	1.61%	1.53%	1.59%	1.62%	1.66%
SPREAD ANALYSIS						
Int. rate received on Average IEA	14.59%	14.64%	14.50%	14.22%	14.17%	14.00%
Int. rate paid on Average IBL	6.11%	6.04%	5.86%	5.81%	5.73%	5.66%
Interest rate spread	8.48%	8.61%	8.64%	8.41%	8.44%	8.34%
NIM	8.81%	8.98%	8.95%	8.70%	8.73%	8.62%
OTHER INCOME						
Fee income to total income	6%	6%	7%	8%	9%	10%
Other Non-Interest income to total Income	2%	0%	2%	1%	1%	1%
OPERATING EFFICIENCY						
Cost to income ratio	38.9%	40.3%	37.5%	37.1%	36.8%	36.6%
CREDIT COSTS						
Provision/avg. assets	1.13%	1.10%	1.05%	1.08%	1.09%	1.10%
PROFITABILITY						
Pre provision ROA	4.94%	4.88%	5.19%	5.21%	5.31%	5.35%
Pre provision ROE	46.2%	45.4%	48.7%	44.7%	42.7%	40.7%
ROAA	2.54%	2.45%	2.17%	2.40%	2.36%	2.40%
ROAE	27.5%	22.8%	20.3%	21.5%	19.6%	18.7%
Dividend payout ratio	0%	0%	0%	0%	5%	10%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	1.1%	2.6%
VALUATIONS						
PER (x)	7.3x	6.8x	6.6x	5.2x	4.7x	4.1
PBR (x)	1.0x	1.5x	1.3x	1.0x	0.8x	0.7x

Source: Company data, Yuanta Vietnam

Appendix A: Important Disclosures

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