

SACOMBANK (STB VN)

1Q19 results bolster confidence

BUY

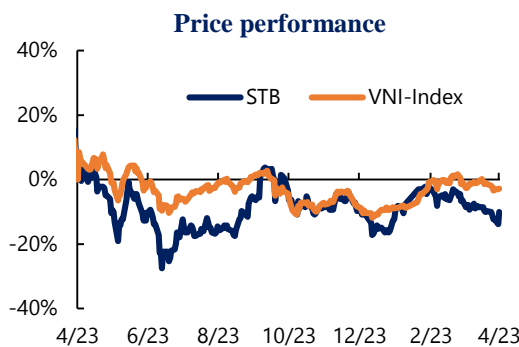
Current price (04-23-19): VND 12,050

Target price: VND 14,049

Upside: 17.1%

Summary: STB beat expectations with 1Q19A net income of VND 844bn, an increase of 113% YoY. The share price closed up 4% DoD, indicating that the Street liked the bottom line, which was likely boosted by loan loss recoveries. However, we are more impressed by the continued turnaround in STB's underlying earnings drivers – net interest income, fees, and cost efficiencies. The results boost confidence in our BUY rating on STB – a turnaround story for the long haul.

52-week Price Range (VND)	Market Capitalization	FY19E Dividend Yield	Remaining Foreign Room	Free-float	Avg. Daily Trading Value-3 month
VND 9,670-17,300	USD 937 mn	0.0%	9.4%	93.9%	USD 2 mn



Event catalysts

- Operational turnaround as legacy bad debt problems are resolved and underlying business continues to improve.
- Management's real estate expertise underlines NPL restructuring story.
- LDR is lower than peers the regulatory cap, implying 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 price and bidding procedures).
- Funding franchise is not very strong for a retail bank, and improving this may be tough.

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Company profile: Vietnam's 6th largest bank by assets, STB primarily focusses on retail and SME banking. We see it as an undervalued turnaround story. Supported by government policy, management is working through the legacy NPL issues. Underlying operations are recovering too as evidenced by incremental PPOP improvements.

STB's 1Q19A results at a glance

	VND bn	QoQ chg	YoY chg
Net II	2,458	16%	47%
Fees	642	-30%	18%
Investment inc	136	127%	89%
Adj. Rev	3,237	5%	41%
Opex	2,050	-14%	17%
Adj PPOP	1,187	65%	124%
Provisioning	430	4%	431%
"Other inc"	304	-51%	453%
Adj. credit costs	126	-159%	385%
PBT	1,061	111%	14%
PAT	844	-2%	113%

(Annualized)	1Q18	4Q18	1Q19
NIM	1.78%	2.08%	2.37%
Fees / adj revenues	24%	30%	20%
Cost / adj revenues	77%	77%	63%
Adj PPOP / Assets	0.56%	0.71%	1.12%
Provisioning / Assets	0.09%	0.41%	0.41%
OROA	0.53%	0.92%	1.02%
Leverage (x)	16.0	16.7	16.6
OROE	8.5%	15.4%	16.9%

Source: Company data, Yuanta Vietnam

Net interest income +16% QoQ / +47% YoY. The details are unclear, but we believe this was driven by a continued shift in the balance sheet as nonperforming assets are run down and funding is shifted to interest earning assets, as well as from organic new loan growth. NPL-related receivables declined by VND 3.2 trillion (-7%) from the start of the year, with the majority of asset growth (+5% QoQ) coming from net loans (+6% QoQ).

Fee income (-30% QoQ / +18% YoY) was also a highlight despite the sequential decline. We believe the 4Q18 number was boosted by lumpy bancassurance-related income as STB has reported yearly-high quarterly fee income figures in both 4Q17 and 4Q18.

Cost to adjusted revenues declined by 13.4ppt QoQ and 13.6ppt YoY to reach 63.3% in 1Q19A. Our adjusted revenue number does not include "other income" given the distorting influence of loan loss recoveries, which are not stable revenues. The positive CIR trend demonstrates a continued improvement in efficiencies at STB, where the adjusted CIR topped out at 118% in 2Q16A.

Adjusted PPOP ROA (again, excluding "other income") came in at an annualized 1.12%, up 41bp QoQ and 56bp YoY. We view the PPOP improvement as a better indicator of underlying operations than net profit for a bank engaged in a restructuring.

We reiterate our BUY rating as outlined in our initiation report "[A turnaround story for the long haul](#)". We believe that positive NPL resolution and robust underlying business improvement will drive a re-rating for the business and the stock. The bank's low valuation and open FOL room (and thus, no need for foreign investors to pay a premium) are attractive, especially given the current overall weak market sentiment. In our view, the downside is limited and investors who hesitate will miss the share price upside potential.

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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-Underperform: 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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