

SACOMBANK (STB VN): AGM Takeaways

Legacy NPA recoveries are on track

BUY

Current price (04-26-19): VND 11,950

Target price: VND 14,049

Upside: 17.6%

Summary: We attended STB's AGM on April 26th. The key takeaway from the meeting is the positive progress on resolving legacy non-performing assets (NPAs). We are also impressed by the continuing turnaround in the underlying business, as outlined in our report 23 of April titled "[STB 1Q19 results bolster confidence](#)". Legacy asset recoveries and robust business results support our confidence in STB, and we reiterate our BUY rating.

52-week Price Range (VND)

VND 9,670-17,300

Market Capitalization

USD 921 mn

FY19E Dividend Yield

0.0%

Remaining Foreign Room

9.4%

Free-float

93.9%

Avg. Daily Trading Value-3 month

USD 2 mn

Price performance



Event catalysts

- Operational turnaround as legacy bad debt problems are resolved and underlying business continues to improve.
- Management's real estate expertise underlines the NPL restructuring story.

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.

Tanh Tran

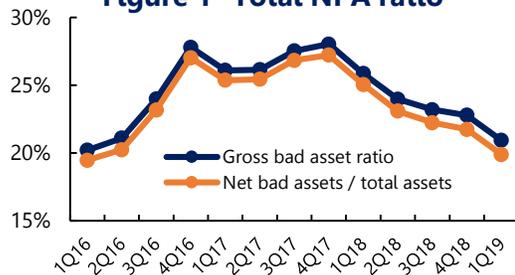
Bank Analyst

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

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.

Figure 1- Total NPA ratio



Restructuring of legacy NPAs continues. STB resolved VND12 tn of legacy assets in 2018 vs its initial target of VND 15 tn. This was down from VND 19 tn in 2017 (initial target: VND 20 tn). STB said it plans to restructure another VND 10 tn in NPAs (including VND2-4 tn of accrued interest) in 2019. Given that VND 5 tn of NPAs was resolved in 1Q19, we believe that STB should be able to fulfill their full-year target.

NPAs = 20% of assets (and that's a good thing). Net on-balance sheet NPLs, net VAMC bonds, accrued interest, and other receivables represent 20% of total assets as of 1Q19. This is obviously a very high number; but the trend has been persistently favorable since 2017A, when NPAs peaked at 27% of total assets (see figure 1). We believe that the 16% QoQ / 47% YoY jump in 1Q19 net interest income was due to 1Q19 recoveries as funds are freed up to support healthy (and therefore interest-earning) assets.

Other income (+453% YoY) was mostly credit recoveries, as expected. STB provided details on the VND305bn in "other income" from the 1Q19 P&L. Notably, VND 222 bn was from writebacks, a substantial ancillary benefit of the ongoing cleanup that we consider to be a component of credit costs rather than operating revenue and PPOP.

New branch rollout. STB said that the SBV to open four new branches in Thai Binh, Ninh Binh, Nam Dinh, and Lao Cai. STB plans to continue expanding in the North.

Dividends are not on the table for now. Numerous shareholders at the AGM expressed eagerness to receive a dividend in 2019. However, under STB's restructuring plan and the new Draft Circular (to replace Circular 19/2013/TT-NHNN), STB will not be allowed to pay a dividend until it completes the restructuring successfully. STB said it has asked for SBV approval to pay a stock dividend, but this request is still under review. This comes as no surprise to us, and we have modelled in zero dividends for this year.

We reiterate our BUY rating as outlined in our initiation report "[A turnaround story for the long haul](#)".

Table 1- STB's 2019E guidance

	VND bn	YoY chg	Vs. our estimate
Asset	456	12%	+2.9%
Gross loan	298	16%	+1.4%
Deposit	424	14%	+7.9%
PBT	2,650	18%	+13.7%
NPL ratio	< 2%		

Source: Company data, Yuanta Vietnam

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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-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.

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YUANTA SECURITIES NETWORK



YUANTA SECURITIES VIETNAM OFFICE

Head office: 4th 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

Quang Vo
Analyst (Consumer)
Tel: +84 28 3622 6868 (ext. 3872)
quang.vo@yuanta.com.vn

Tanh Tran (Banks)
Analyst
Tel: +84 28 3622 6868 (3874)
tanh.tran@yuanta.com.vn

Tam Nguyen
Analyst (Property)
Tel: +84 28 3622 6868 (ext. 3874)
tam.nguyen@yuanta.com.vn

Institutional Sales

Huy Nguyen
Head of Institutional sales
Tel: +84 28 3622 6868 (3808)
Huy.nguyen@yuanta.com.vn

Duyen Nguyen
Sales Trader
Tel: +84 28 3622 6868 (ext. 3890)
duyen.nguyen@yuanta.com.vn