

VIETCOMBANK (VCB VN)

Rising NIM from the shift to retail lending

BUY

Current price (07-15-19): VND 73,700

Target price: VND 75,270

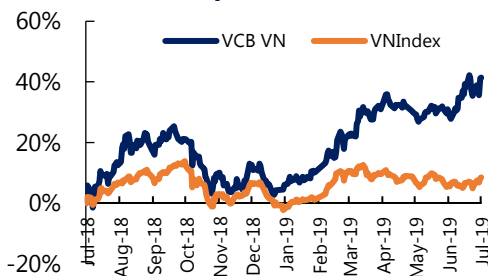
Upside: 2.1%

Summary: VCB reported strong 1H19E preliminary pre-tax income of VND11.3 tn, up 41% YoY and fulfilling 53% of our 2019E forecast. NIM improved substantially, which we attribute to the shift to retail banking. Despite the very strong YTD share price performance, we continue to recommend VCB as a core quality holding in a barbell investment approach along with STB (BUY), which is clearly higher risk but which we think offers greater reward.

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52-week Price Range	Market Cap	FY19E Dividend Yield	Remaining Foreign Room	Free-float	ADTV 3-month
VND 50,100 – 73,800	USD 11.6 bn	1.4%	6.3%	25.2%	USD 1.9 mn

Price performance



Event catalysts

- Rising NIMs from the shift to retail lending with funding costs capped by high CASA.
- B-2 compliance gives VCB a strong case for a higher loan quota than the sector.
- Bancassurance could represent a large one-off gain in 2019E or 2020E and a new source of steady fees thereafter.

Risks to our call

- Rising competition in retail banking in a fragmented market.
- The SBV may not allow VCB to expand loans by our 16% assumption.
Bancassurance exclusivity deal might be delayed (but we don't factor this into our forecasts).

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Company profile: VCB's strong (for Vietnam) CASA ratio of 30% at 2018, reasonable (for Vietnam) Basel II CAR of 9.7%, and broad national footprint (552 branches/transaction offices and 16.8 million e-banking users) are core advantages in the competitive retail banking space. Retail loans were 46% of the total in 2018 – vs just 28% in 2015. We think the trend toward retail will persist and, coupled with the bank's sustained relative funding advantage, should drive NIMs higher in 2019-21E.

Key Financials	2018	2019E	2020E
	A		
NIM	2.90%	3.05%	3.19%
Fee growth	34.1%	30.5%	29.6%
Adj. CIR	37.8%	37.0%	36.2%
Adj. PPOP growth	45.3%	17.2%	21.3%
Adj. PPOP/Asset	2.09%	2.13%	2.28%
Adj. ROA	1.22%	1.31%	1.41%
Adj. ROE	22.5%	21.3%	21.3%
PER	18.6x	16.1x	13.3x
PBR	3.9x	3.1x	2.6x
Dividend yield	1.2%	1.4%	1.9%
Loan growth	16.3%	16.3%	14.6%
Deposit growth	13.2%	12.6%	13.2%
LDR	77.5%	80%	81%
NPL	0.98%	1.03%	1.02%
Loan loss coverage	165%	160%	162%

VCB reported 2Q18-2Q19 NIM of 3.22%, up from 2.90% in 2018A. We think the increased NIM reflects the bank's successful shift into retail banking. Retail loans increased from 46% of total loans as at 2018A to 48% as at 2Q19E.

Preliminary 1H19 PBT of VND11.3 tn was up 41% YoY and a record high. This completed 55% of the bank's full-year target and 53% of our forecast.

Asset quality continues to be strong. In particular, that the bank's loan loss coverage remains very conservative at 180% in 2Q19E, compared to 165% in 2018A.

Our view: We expect increased NIM due to the shift to retail lending, with funding costs capped by the CASA franchise. VCB appears to have made solid progress in delivering this in 1H19E. Despite the stock's extremely strong YTD performance, we think investors should continue to view it as a core holding. For further details, please see our [initiation](#).

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.

Under Review: We actively follow the company, although our estimates, rating and target price are under review.

Restricted: The rating and target price have been suspended temporarily to comply with applicable regulations and/or Yuanta policies.

Note: Yuanta research coverage with a Target Price is based on an investment period of 12 months. Greater China Discovery Series coverage does not have a formal 12 month Target Price and the recommendation is based on an investment period specified by the analyst in the report.

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