

Vietnam: Banks

14 February 2020

Downgrade to SELL
TP upside (downside) -25%
Close 14 Feb 2020

Price	VND 50,000
12M Target	VND 37,300
Previous Target	VND 38,700
Change	-4%

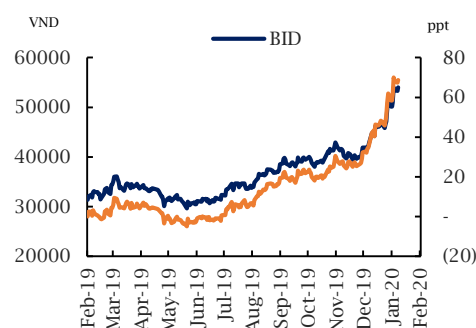
What's new?

- Loan growth forecast reduced to 14% for 2020E and 2021E vs. our previous 16% forecasts.
- Lending rate to fall to support enterprises dealing with the effects of Covid-19.
- We cut our EPS forecasts by 23% for 2020E and 21% for 2021E.

Our view

- ▶ We downgrade BID to SELL from the previous HOLD-Outperform.
- ▶ Near-term headwinds given the macro uncertainties created by the virus.
- ▶ BID is overvalued at 2.4x 2020E P/BV vs. the peer median 1.2x, especially given its 2020E adjusted ROE of just 11% vs. the sector median of 21%.

Company profile: BID is Vietnam's largest bank by assets. Its leading retail & SME banking franchise is supported by a broad network of 190 branches & 854 transaction offices. The strategic investment by KEB-Hana Bank was positive in bolstering the balance sheet, but this catalyst has played out and the shares are now overvalued, in our view.

Share price performance relative to VNIndex


Market cap	US\$8.6 bn
6M avg. daily turnover	US\$1.8 mn
Outstanding shares	4,022 mn
Free float	19%
FINI ownership	18%
Major shareholders	96%
2020E Asset/equity (x)	21
2020E P/E (x)	24.1
2020E P/B (x)	2.4
FOL remaining room	12%

Source: Bloomberg, Yuanta Vietnam

BIDV (BID VN)

Enough is enough

Cutting our loan growth assumptions. The KEB-Hana investment has improved BID's balance sheet, which should support credit growth going forward. However, we cut our loan growth forecasts to 14% for each the next two years (vs our prior 16% YoY forecasts) in line with the SBV's target loan growth for the whole sector for this year.

The increased capital reduced the bank's asset/equity leverage from 25x to 22x. It should also help reduce BID's long-term funding costs. We expect NIM to improve from 2.83% in 2019P to 2.96% (+13bps YoY) in 2020E and 3.02% (+6bps YoY) in 2021E.

However, our revised NIMs are lower than our previous forecast (see page 2) partly due to the effects of the Covid-19 outbreak. We expect that banks including BID will cut lending rates to support enterprises as they handle the impact of the disease on their businesses.

Therefore, we revise down our 2020E PBT forecast to VND13.1 tn, down -29% vs. the previous forecast but still up +21% YoY.

Overvalued...Downgrade to SELL. We are still positive on the earnings prospects for 2020-21E, but the stock has returned 54% since our initiation in March 2019 (see [Time to Make a BID](#)). The valuations are stretched and in our view are not justified.

The current price multiple of 2.4x 2020E P/BV is expensive vs our 2020E ROE forecast of 11%. This makes BID a Gordon Growth outlier relative to the sector median P/BV of 1.2x and sector median ROE of 22%. Along with our earnings revisions, we cut our target price by 4% to VND 37,300 per share, implying a still-generous 2020E P/BV of 1.8x. With 25% downside to our target price, we downgrade our recommendation to SELL from the previous HOLD-Outperform.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ARE LOCATED IN APPENDIX A.

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Research Analyst:

Tanh Tran

+84 28 3622 6868 ext 3874

tanh.tran@yuanta.com.vn

Bloomberg code: YUTA

Enough is enough

Table 1: Market Valuations

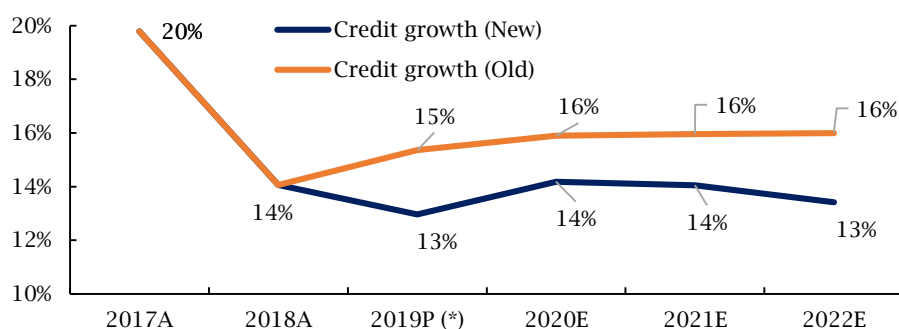
Valuation Ratios	2017A	2018A	2019P	2020E	2021E	2022E
Adjusted PER (x)	33.7	30.9	26.1	24.3	20.0	17.0
PEG	3.2	3.5	2.9	1.5	0.9	0.9
Adj. ROA (%)	0.46	0.44	0.47	0.52	0.56	0.58
Adj. ROE (%)	11.6	11.4	10.5	10.9	12.4	13.7
PBR (x)	3.5	3.2	2.6	2.5	2.3	2.2
Dividend Yield (%)	1.5	1.5	1.6	2.0	2.5	3.2

Source: Company data, Yuanta Vietnam

Improved fundamentals...

With the additional capital from the deal with KEB Hana Bank and early adoption of Basel II, we believe that the SBV will grant a higher credit growth quota for BID in 2020E. However, our previous forecasts now appear overly aggressive given the macro headwinds. Thus, we revise down our credit growth forecast to be in line with the SBV's target for the whole sector. We forecast credit growth of 14% in the period 2020E-21E vs. our previous forecast of 16%.

Figure 1: Credit growth (%)



Source: Company data, Yuanta Vietnam.

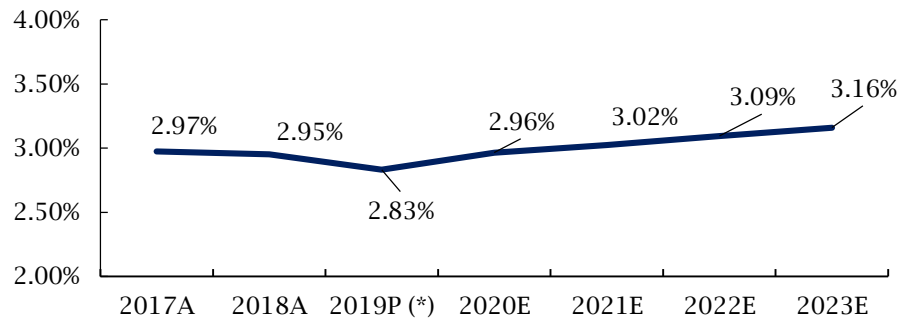
(*): — previous forecast, — preliminary data

The additional capital also helps reduce leverage and thus ease long-term funding costs, which will help improve NIM. We forecast funding cost to decline slightly from 5.9% in 2019 to 5.6% in 2020E (-30bps YoY) and 5.5% in 2021E (-10bps YoY). Thus, we expect NIM to improve from 2.83% in 2019 to 2.96% in 2020E (+13bps YoY) and 3.02% in 2021E (+6bps YoY).

However, the revised NIMs are lower than that of the previous forecast as we expect BID to cut its lending rate in line with policy to support enterprise borrowers dealing with the impact of the coronavirus. We now forecast the bank's average lending rate to decrease from 8.15% in 2019 to 8.05% in 2020E (-10bps YoY).

Year forecast	Old		New		diff. (new vs. old)	
	2020E	2021E	2020E	2021E	2020E	2021E
Loan growth	16%	16%	14%	14%	-2ppt	-2ppt
NIM	3.30%	3.34%	2.96%	3.02%	-34bps	-32bps

Figure 2: NIM (%)



...But the valuation is not justified following the stock's remarkable run over the past nine months

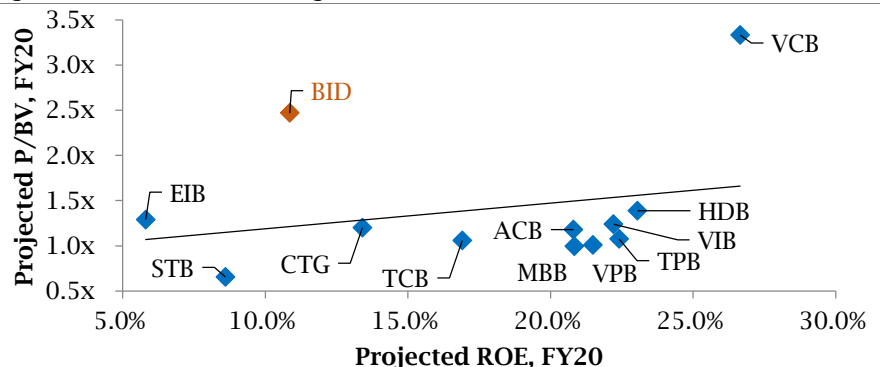
The stock has returned 54% (including dividends) since we initiated coverage last March. But last year's catalyst—the KEB Hana Bank deal—is history. And in the immortal words of Donna Summer, enough is enough. The shares have become overvalued and we can no longer justify a positive recommendation.

Although we are positive on the fundamental prospect for BID, the current valuation of 2.4x 2020 P/B is simply too high vs. our 2020E adjusted ROAE estimate of 11%. As we can see on the figure 4 below, BID's 2020E P/BV is far above all other banks except for the sector leader Vietcombank (VCB VN, HOLD-Outperform). Such a high multiple appears all the more egregious in light of BID's 2020E ROAE, which is far below the sector's average.

We still factor in a premium for BID over its peers given its improved fundamentals after the deal with KEB Hana Bank. We estimate an intrinsic value for BID's share at VND37,300, implying 1.8x 2020E P/BV, which is still higher than the sector's median of 1.2x. We think the risk here could be to the downside, depending on how the macro plays out this year (and depending on BID's role in that story, which is likely to be one of forbearance for borrowers).

However, at the current price of VND50,000 (on Feb 14, 2020), BID's share is overvalued by 25% vs. our target price. Therefore, we downgrade the stock to SELL from our previous HOLD-Outperform recommendation.

Figure 4: 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.

Valuation table

Valuation Methods	Average Fair Value (VND/share)		
	Estimated Price	Weight (%)	Price
Residual Income	38,090	50.0%	19,045
DDM Perpetuity	53,976	12.5%	6,747
DDM Multiple	30,933	12.5%	3,867
Regression	24,514	12.5%	3,064
Public Comps	36,522	12.5%	4,565
Estimated Fair Value			37,300

Residual Income approach

Terminal Net Income Growth Rate:	5.0%
Projected Net Income 1 Year After Period:	28,214
Residual Income Terminal Value:	197,994
(+) Current Common Shareholders' Equity:	77,766
(+) PV of Residual Income Terminal Value:	58,282
(+) Sum of PV of Residual Income:	17,151
Implied Equity Value:	153,199
Implied Share Price:	38,090

Source: Yuanta Vietnam

Sensitivity table: ROE vs. Cost of equity

		Initial Cost of Equity (Declines by 0.50% Annually):						
		12.00%	12.50%	13.00%	13.18%	13.50%	14.00%	14.50%
Terminal Return on Common Equity:	14.0%	50,832	49,626	48,489	48,106	47,416	46,402	45,446
	13.5%	48,316	47,116	45,983	45,602	44,914	43,906	42,953
	13.0%	45,801	44,605	43,477	43,098	42,413	41,409	40,460
	12.5%	43,285	42,095	40,972	40,594	39,912	38,912	37,967
	12.0%	40,770	39,584	38,466	38,090	37,411	36,415	35,474
	11.5%	38,254	37,074	35,961	35,586	34,910	33,918	32,981
	11.0%	35,739	34,564	33,455	33,082	32,409	31,421	30,489
	10.5%	33,223	32,053	30,950	30,578	29,908	28,925	27,996
	10.0%	30,708	29,543	28,444	28,074	27,407	26,428	25,503

Source: Yuanta Vietnam

Key financial data (Old vs. New)

Balance Sheet (VND bn)	Old		New		% difference (New vs. Old)	
	2020E	2021E	2020E	2021E	2020E	2021E
Gross Loans:	1,321,918	1,532,840	1,275,372	1,454,634	-4%	-5%
Total Assets:	1,746,500	2,016,577	1,695,924	1,924,409	-3%	-5%
Deposits:	1,346,809	1,570,989	1,291,050	1,480,139	-4%	-6%
Total Liabilities:	1,662,888	1,926,695	1,613,821	1,837,345	-3%	-5%
Capital & Premium:	53,702	53,702	54,780	54,780	2%	2%
Total Equity:	83,612	89,882	82,103	87,064	-2%	-3%
Total Liabilities & Equity:	1,746,500	2,016,577	1,695,924	1,924,409	-3%	-5%

Income Statement (VND bn)	Old		New		% difference (New vs. Old)	
	2020E	2021E	2020E	2021E	2020E	2021E
TOI:	59,045	69,828	49,784	58,297	-16%	-17%
Total Expenses:	(22,777)	(25,964)	(18,579)	(20,822)	-18%	-20%
PPOP:	36,268	43,865	31,204	37,475	-14%	-15%
Net Provisions:	(17,822)	(22,163)	(18,082)	(22,030)	1%	-1%
Pre-Tax Income:	18,446	21,702	13,122	15,445	-29%	-29%
(-) Tax:	(3,689)	(4,340)	(2,624)	(3,089)	-29%	-29%
Net Income	14,757	17,362	10,498	12,356	-29%	-29%
(-) Minority Interest	(339)	(399)	(216)	(254)	-36%	-36%
(-) Other Funds:	(3,542)	(4,167)	(1,942)	(1,977)	-45%	-53%
PATMI	10,876	12,795	8,339	10,124	-23%	-21%
Adj. Diluted EPS	2,704	3,181	2,073	2,517	-23%	-21%

Source: Yuanta Vietnam

Financial Statement (Revised)

Balance Sheet (VND bn)	2018A	2019E	2020E	2021E	Income Statement (VND bn)	2018A	2019E	2020E	2021E
Cash & Balances at SBV:	60,693	149,372	173,076	198,425	Total Net II:	34,956	35,995	41,823	48,755
Loans to Banks:	104,113	54,290	62,905	72,119	<i>Total Net Fee Income:</i>	3,551	4,284	5,063	6,282
Investment Securities:	133,817	144,469	167,395	191,911	<i>Other Non-II:</i>	2,161	2,432	2,898	3,259
Invest. in Associates:	2,614	2,745	3,181	3,647	Total Net Non-II:	5,712	6,716	7,961	9,542
Derivative:	80	92	107	122	TOI:	40,668	42,711	49,784	58,297
Gross Loans:	988,739	1,116,925	1,275,372	1,454,634	Total Expenses:	(16,124)	(17,280)	(18,579)	(20,822)
(-) Specific Provisions:	(5,134)	(6,389)	(13,488)	(22,791)	PPOP:	24,543	25,431	31,204	37,475
(-) General Provisions:	(7,271)	(8,041)	(9,565)	(10,910)	Gross Provisions:	(18,894)	(20,009)	(24,282)	(29,075)
Total provisions:	(12,405)	(14,431)	(23,053)	(33,701)	NPL Recoveries:	3,823	5,455	6,200	7,045
Net Loans:	976,334	1,102,494	1,252,318	1,420,934	Net Provisions:	(15,071)	(14,554)	(18,082)	(22,030)
Tangible Assets:	6,352	6,295	6,237	6,181	Pre-Tax Income:	9,473	10,876	13,122	15,445
Intangible Assets:	4,314	4,310	4,310	4,310	(-) Tax:	(1,931)	(2,211)	(2,624)	(3,089)
Accrued interests:	11,897	12,863	12,863	12,863	Net Income	7,542	8,665	10,498	12,356
Deffered tax:	34	39	39	39	(-) Minority Interest	(193)	(178)	(216)	(254)
Other Assets:	12,789	13,136	13,492	13,858	(-) Other Funds:	(1,772)	(1,863)	(1,942)	(1,977)
Total Assets:	1,313,038	1,490,105	1,695,924	1,924,409	PATMI	5,577	6,624	8,339	10,124
Deposits:	989,671	1,114,231	1,291,050	1,480,139	Adj. Diluted EPS	1,634	1,780	2,073	2,517
Due to Banks:	184,496	185,368	211,664	241,415					
Subordinated Notes:	39,991	62,772	62,772	62,772					
Derivatives & others:	12,296	12,386	14,144	16,132					
Other Liabilities:	31,890	37,581	34,191	36,887					
Total Liabilities:	1,258,345	1,412,338	1,613,821	1,837,345					
Capital & Premium:	34,397	54,780	54,780	54,780					
Reserves:	4,618	5,744	5,744	5,744					
Retained Earnings:	12,483	13,998	18,335	23,296					
Minorities Interest:	3,039	3,118	3,118	3,118					
FX Effect:	157	126	126	126					
Total Equity:	54,693	77,766	82,103	87,064					
Total Liabilities & Equity:	1,313,038	1,490,105	1,695,924	1,924,409					

Source: Company data, Yuanta Vietnam

Selected Calculated Ratios	FY17	FY18	FY19	FY20	FY21	FY22
GROWTH PROJECTIONS						
Net interest income	32.1%	12.9%	3.0%	16.2%	16.6%	16.4%
Fee Income	18.2%	19.7%	20.6%	18.2%	24.1%	22.8%
Other NII	-30.3%	19.0%	12.5%	19.1%	12.5%	12.0%
Operating costs	14.6%	4.0%	7.2%	7.5%	12.1%	14.1%
Provision	61.4%	27.3%	5.9%	21.4%	19.7%	19.1%
Pre-provision profit	34.7%	21.3%	3.6%	22.7%	20.1%	18.4%
Adjusted Net profit	10.6%	8.9%	18.8%	25.9%	21.4%	17.7%
Assets	19.5%	9.2%	13.5%	13.8%	13.5%	12.9%
ASSET ANALYSIS						
Earning assets to total assets	95%	93%	88%	89%	89%	90%
Average Returns on Earnings Assets	0.49%	0.47%	0.52%	0.59%	0.63%	0.65%
LOAN ANALYSIS						
Loan growth (% YoY)	20%	14%	13%	14%	14%	13%
Loans to Interest Earnings Assets	75%	80%	84%	83%	83%	82%
DEPOSIT ANALYSIS						
Deposit growth (YoY %)	18%	15%	13%	16%	15%	14%
Deposits to Interest Bearing Liabilities	89%	95%	95%	96%	97%	98%
LIQUIDITY						
Pure LDR	99%	99%	99%	97%	96%	95%
ASSET QUALITY						
NPL ratio	1.62%	1.90%	1.30%	1.66%	1.90%	2.03%
General Provisions to Gross loans	0.72%	0.74%	0.72%	0.75%	0.75%	0.75%
Total provisions in a year to Gross loans	1.31%	1.25%	1.29%	1.81%	2.32%	2.82%
SPREAD ANALYSIS						
Int. rate received on Average IEA	7.55%	7.61%	7.93%	7.93%	7.92%	7.91%
Int. rate paid on Average IBL	5.36%	5.49%	5.86%	5.58%	5.51%	5.43%
Interest rate spread	2.20%	2.11%	2.06%	2.34%	2.41%	2.48%
Net interest income / average IEAs (NIM)	2.97%	2.95%	2.83%	2.96%	3.02%	3.09%
OTHER INCOME						
Fee income to total income	8%	9%	10%	10%	11%	11%
Other Non-Interest income to total Income	5%	5%	6%	6%	6%	5%
OPERATING EFFICIENCY						
Cost to income ratio	39.7%	36.2%	35.9%	33.2%	31.9%	31.2%
CREDIT COSTS						
Provision/avg. assets	0.94%	0.94%	0.97%	1.36%	1.75%	2.14%
PROFITABILITY						
Adj. ROAA	0.46%	0.44%	0.47%	0.52%	0.56%	0.58%
Adj. ROAE	11.6%	11.4%	10.5%	10.9%	12.4%	13.7%
Dividend Yield	1.5%	1.5%	1.6%	2.0%	2.6%	3.3%
VALUATIONS						
PER (x)	32.8x	30.1x	25.4x	23.7x	19.5x	16.6x
PBR (x)	3.4x	3.1x	2.5x	2.4x	2.3x	2.1x

Source: Company data, Yuanta Vietnam

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Attn: Research
Yuanta Securities Investment Consulting
4F, 225,
Section 3 Nanking East Road, Taipei 104
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
Yuanta Securities (Hong Kong) Co. Ltd
23/F, Tower 1, Admiralty Centre
18 Harcourt Road,
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office

Yuanta Securities Building
Euljiro 76 Jung-gu
Seoul, Korea 100-845
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research
PT YUANTA SECURITIES INDONESIA
(A member of the Yuanta Group)
Equity Tower, 10th Floor Unit EFGH
SCBD Lot 9
Jl. Jend. Sudirman Kav. 52-53
Tel: (6221) – 5153608 (General)

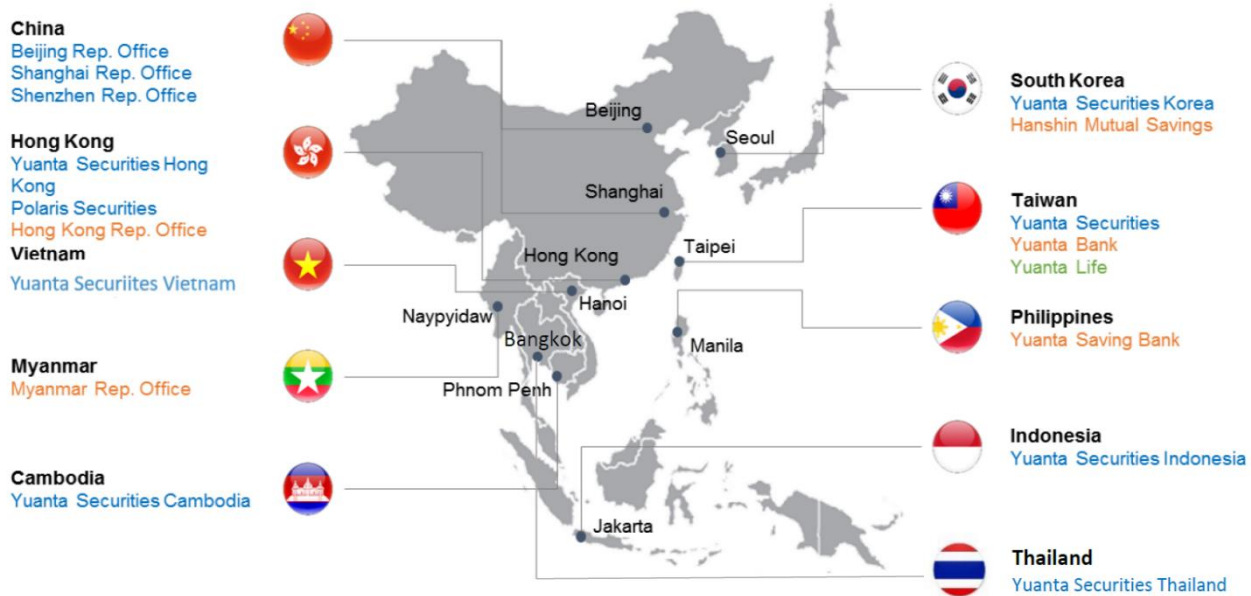
Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Thailand)
127 Gaysorn Tower, 16th floor
Ratchadamri Road, Pathumwan
Bangkok 10330

Vietnam persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department
Yuanta Securities (Vietnam)
4th Floor, Saigon Centre
Tower 1, 65 Le Loi Boulevard,
Ben Nghe Ward, District 1,
HCMC, Vietnam

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

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

Binh Truong

Deputy Head of Research (O&G, Energy)

Tel: +84 28 3622 6868 (3845)

binh.truong@yuanta.com.vn

Tanh Tran

Analyst (Banks)

Tel: +84 28 3622 6868 (3874)

tanh.tran@yuanta.com.vn

Duyen Nguyen

Sales Trader

Tel: +84 28 3622 6868 (ext. 3890)

duyen.nguyen@yuanta.com.vn