



KB Securities

# Joint Stock Commercial Bank for Investment and Development of Vietnam (BID: HSX)

Patiently wait for a good opportunity

FULL REPORT  
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## INVESTMENT HIGHLIGHT

**15% charter capital is expected to be successfully issued to lower the state ownership**

The plan to issue 15% charter capital to Hana Bank was approved at the end of 2018. This is a required criteria in 2019 if BID wants to maintain its potential in expanding credit and compile with Basel II regulations on the minimum CAR of 8% in 2020. However, we think that in the long term, BID still has to face difficulties due to high leverage ratio.

**More positive signals in solving doubted assets**

Although BID's total doubted asset ratio is still high compared to other banks, more positive signals in solving these assets have been shown, including: 1) The number of off-balance-sheet bad debts has plunged for the first time since 2014; 2) High bad-debt write-off rates from 2018 shows the expectation of more drastic progress in solving bad debts in the balance sheet of BID. We think that growth and asset quality will improve significantly after 2020.

**No. 1 bank in operating network, asset and loans balance scale**

BID operating network scale ranks second in the banking sector (only after Vietinbank). In addition, the size of total loan balance and credit for retailers and SOEs rank first among listed banks. Although BID does not have high ranking in CASA mobilization, it ranks first in terms of deposit account mobilization, which shows the bank's advantage in terms of operating scale.

**HOLD recommendation as business performance may still be affected by asset quality in the next two years, and uncertain ability to raise capital successfully in 2019**

Even if BID successfully mobilizes capital from strategic investors, we still suppose that BID is not likely to see a good growth in the next two years because many issues related to asset quality may exert unfavorable impacts on the profitability of the bank. Based on the three scenario – base, positive, and negative case, we recommend to **HOLD** BID shares. If the capital is increased, the prices of shares will also benefit in the short term, but the profitability will hardly improve until 2021.

## Hold

Target price (1Y)	33,130VND
Up/Down	-4.7%
Current price (12/04/2019)	34,750VND
Target price	33,130VND
Market cap	118,800 tỷ VNĐ (5.13 tỷ USD)
Exchange rate on 13/02/2019:	1USD= 23,150 VND

### Forecast revenue and valuation

	2018A	2019F	2020F	2021F
NII (bil VNĐ)	34,956	39,822	42,414	45,647
Growth rate (%)	12.9	13.9	6.5	7.6
Total operating income (VNĐ bn)	44,491	51,186	53,262	56,868
CIR (%)	36.2	35.0	34.0	33.0
Net profit (VNĐ bn)	7,542	8,517	8,999	15,241
Growth speed (%)	8.6	12.9	5.7	69.4
EPS (VNĐ thousand)	2,206.1	2,290.3	2,632.3	4,458.1
BVPS (VNĐ thousand)	15,998.1	21,838.3	26,386.8	30,845.0
P/B	2.17	1.87	1.55	1.32

### Trading data

Outstanding share volume	3,418,715,334
10-session average trading volume	1,216,205
% foreign ownership	2.34%
Cash dividend	VND700 per share

### % price change

(%)	1M	3M	6M	12M
BID	-0.28%	9.91%	-3.14%	-11.3%
VN-INDEX	-2.81%	9.84%	-4.24%	-14.9%



Source: Fiiopro, KBSV

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## OVERVIEW

### History of development



### Board of Management (BOM)

The current CEO of BIDV is Mr Phan Duc Tu, the position of BOM Chairman has been left empty since Mr Tran Bac Ha resigned in 2016.

### Balance sheet scale (only compared to listed companies)

By the end of 2018, BIDV’s total assets reached VND1,313,038 billion, which still ranked first in Vietnam banking system. However, the bank’s charter capital which remained unchanged at VND34,187 billion for many years has fell to the 4<sup>th</sup> position. NPAT in 2018 hit VND9,473 billion, and ranked 3<sup>rd</sup> in the whole sector, surpassing CTG but still ranking after VCB and surpassed by TCB this year.

### Operating scale

According to the data in 2018, BIDV has operated with 1,062 branches and offices in all over 63 provinces and cities in the country (ranking 3<sup>rd</sup>, after Agribank and Vietinbank) and 1 abroad branch in Myanmar. The number of ATM and POS are 1,825 (10.5% total number of ATMs in Vietnam) and 41,262, respectively. Staff number on December 31, 2018 was 25,416 people.

### Credit and mobilization market share (Figure 1)

We estimated that BIDV has currently owned No. 1 market share in credit and mobilization in the whole sector, reaching about 21% and 16.4% by the end of 2018.

### Credit ratings

Moody’s ratings for long-term domestic/foreign currency deposit and long-term issuer were all kept at B1 in 2018 with a “Positive” outlook. Besides, according to S&P, long-term and short-term issuer ratings are kept at B+ and B respectively, with "stable" and "positive" outlook.

### Ownership structure & Operating model

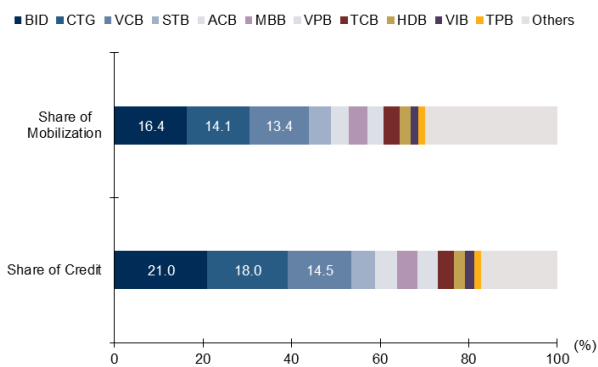
#### Ownership structure (Figure 3)

The State Bank of Vietnam (SBV) is the current representative of State capital in BIDV with 95.28% shares which has been maintained for many years. By the end of 2018, the SBV approved the plan to offer 15% shares for sale (post-issued rate) to a strategic investor, KEB Hana Bank from Korea. The plan is expected to start in 2019, if successful, the mobilized value at par value will reach VND 6,033 billion and the State ownership rate in BID will be reduced to 80.99%.

#### Operating model (Table 1)

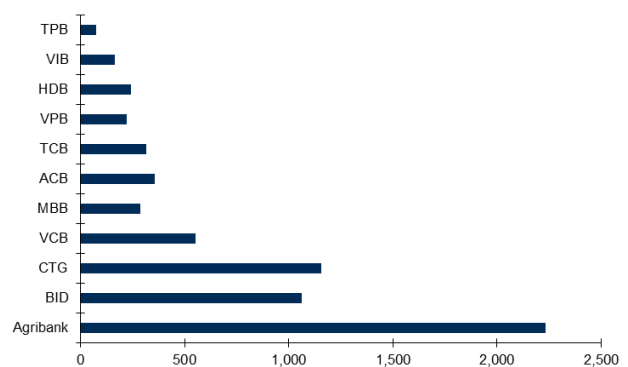
In addition to the core business operation as a commercial bank, BIDV has currently owned 13 subsidiaries which provide a variety of financial services with the main purpose on supporting the parent company. In particular, BIDV Securities Company (BSC) with a charter capital of VND1,110 billion, and ranked in Top 10 companies with the largest market share on the HOSE.

Figure 1: Credit and mobilization market share



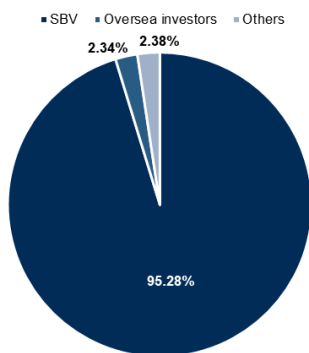
Source: SBV; Banks' financial statements; KBSV Research

Figure 2: Comparison of operating scale of banks



Source: Banks' financial statements; KBSV Research

Figure 3: BID ownership structure



Source: BID; KBSV Research

Table 1: BID operating model

Subsidiaries	Abbreviation	Business sector	% Ownership
BIDV Asset Management Company Ltd.	BAMC	Finance/Banking	100%
BIDV International Holdings Company Ltd.	BIDVI	Finance	100%
International Investment Development Company	IIDC	Finance	100%
Development Cambodia Company Ltd.	IDCC	Finance	100%
Bank for Investment and Development of Cambodia	BIDC	Finance/Banking	98.5%
BIDV Securities Joint Stock Company	BSC	Securities	88.12%
Lao - Viet J.V.Bank	LVB	Banking	65%
MHB Securities Corporation	MHBS	Securities	60%
BIDV Insurance Joint Stock Corporation	BIC	Insurance	51%
BIDV - SuMi TRUST Leasing Company Ltd.	BSL	Finance lease	50%
Lao-Viet Insurance Joint Venture Company	LVI	Insurance	33.15%
Cambodia-Vietnam Securities Plc.		Securities	98.5%
Cambodia-Vietnam Insurance Plc.		Insurance	50.24%

Source: BID; KBSV Research

## BUSINESS MODEL

### Credit structure

**Credit structure shows a clear shift from wholesale to retail, lending to SOEs has been maintained stable**

Like in VCB and CTG, BID credit structure has also seen a significant shift since 2012 as credit proportion for SOEs continuously declined (from 26.9% in 2012 to 8.7% in 2018), instead, the credit proportion for private customers surged and credit for SMEs witnessed a stable growth.

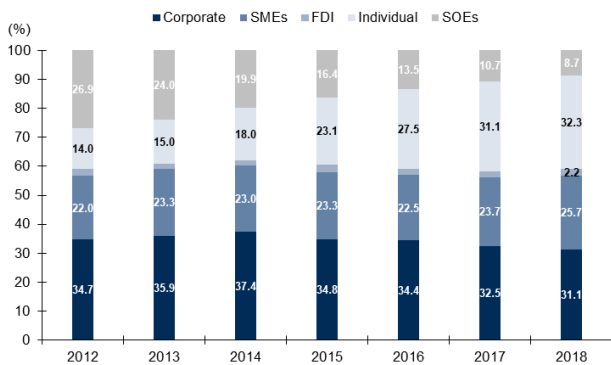
In terms of absolute value, BID's outstanding loan to SOEs always remains below VND100,000 billion for many years and there is no sign of sudden change. The total outstanding loan to SOEs of VCB, CTG and BID accounted for 60 – 70% total outstanding loan to SOEs of the whole banking sector, and BID always ranks 2<sup>nd</sup>, after CTG. It can be seen that the downward trend of outstanding loan for SOEs in the last to years. We believe that the main reason comes from the trend of equitizing state-owned enterprises as well as the shift to retail lending. It is likely that this downward trend may continue but will be slower in the coming years.

**BID holds the leading market share in many segments, including individual, SMEs and SOEs**

The proportion for private lending was 32.3% in 2018, considerably lower than the level in private commercial banks as BID still has features of a retail bank. However, in terms of market share, BID ranks first among listed banks, surpassing VCB and CTG. Private lending market share of BID tended to dip in the last two years amid fierce competition in the retail market. By the end of 2017, the proportion of loans to buy house was 32%, for buying cars and credit cards was 26%, and the rest was loans for business purposes.

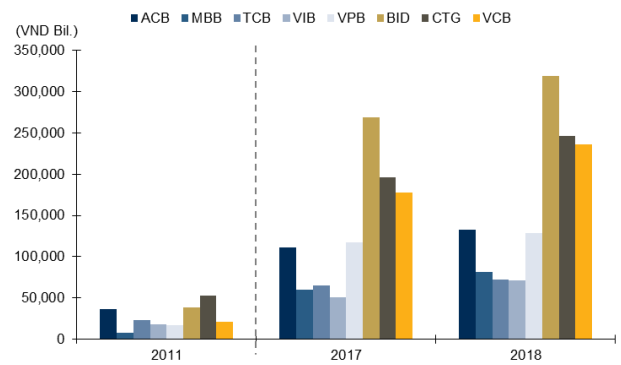
SMEs lending growth was quite strong in the last two years, increasing from 22.5% in 2016 to 25.7% in 2018, mainly focused on agriculture; trade, automobile and motorbike fixing, and processing – manufacturing industries. The total loan balance for SMEs also ranks first among listed companies, far exceeding the other two state-owned banks VCB and CTG. This also indicated that BID's business determination is more risky than that of the two other banks.

Figure 4: Credit structure by business types



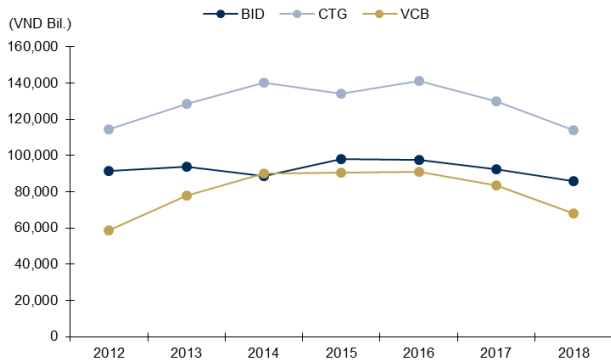
Source: BID; KBSV Research

Figure 5: Comparison of private customer lending



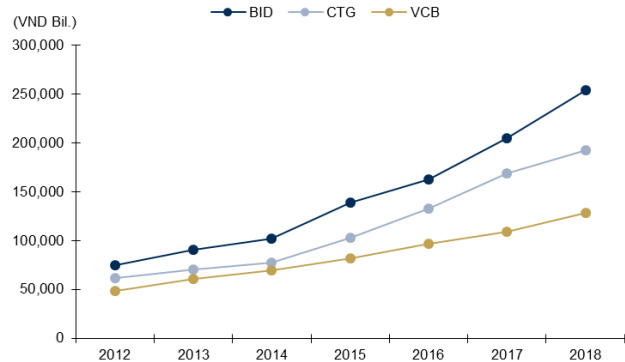
Source: BID; KBSV Research

Figure 6: Comparison of loans for SOEs



Source: BID; KBSV Research

Figure 7: Comparison of loans for SMEs



Source: BID; KBSV Research

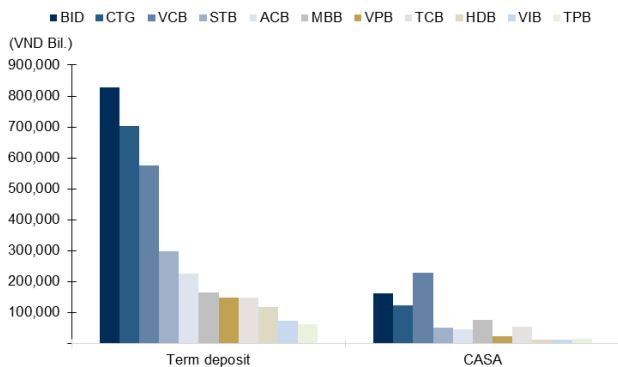
**BID is much weaker than VCB in terms of CASA mobilization, but term deposit still ranks first in the system**

**Mobilization structure**

BID as well as state-owned bank group in general has attracted a remarkably large amount of CASA compared to private joint stock commercial banks thanks to their great advantages of large operating network and the State’s guarantee (a factors that has a strong impact on deposit customers’ sentiment in Vietnam). However, regarding CASA amount in state-owned banks, BID is much weaker than VCB despite much larger asset scale. In addition, we suppose a large volume of CASA in BID and CTG has currently come from SOEs, as we have analyzed the close relationship between these two sections over many years. BID also has certain strengths against the two other state banks since it has received a large deposit from the SBV, the main capital channel for the Government projects. Nevertheless, if considering CASA from other sources, BID shows many weak points compared to VCB.

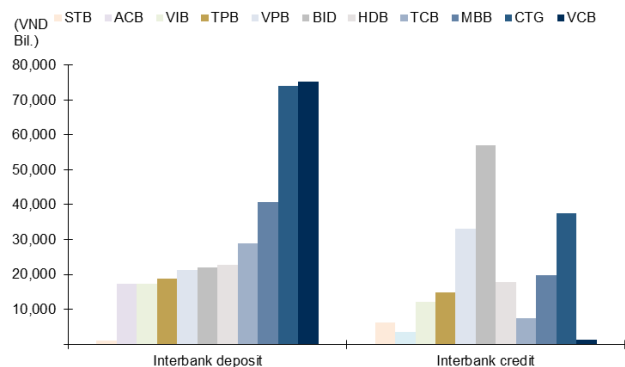
Instead, BID owns an extremely large amount of term deposit in the system (only including listed bank.) This shows BID’s strength in individual customers, especially in provinces other than Hanoi and HCMC. However, there are two problems that this bank has to face in the coming time: 1) The heavy dependence on term deposits makes BID more difficult than VCB in balancing sources, ensuring liquidity and profitability; 2) The expansion of private commercial banks as well as the development of internet banking may take away BID’s market share in the above areas if this bank does not become more active in this trend.

Figure 8: Comparison of deposit volume



Source: BID; KBSV Research

Figure 9: Comparison of interbank operations



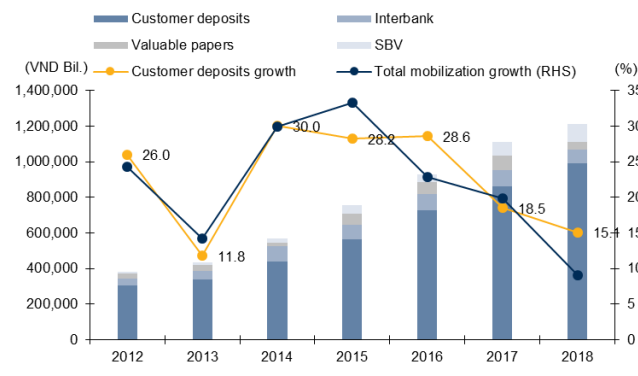
Source: BID; KBSV Research

**High mobilization pressure from interbank shows the pressure of liquidity in BID**

Mobilization on interbank market re-confirmed our point, as lending amount via this channel of BID are always highest in the system, which also shows high pressure of liquidity on this bank (especially when compared to VCB.) In addition, although BID is a state-owned bank, it has much lower interbank deposit volume compared to its competitors, which shows BID’s lower position in the current payment system.

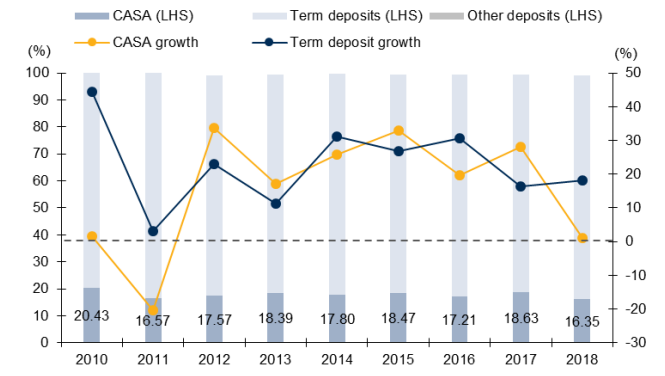
Mobilization from bank certificates of deposit (CDs) went down in 2018 due to the decrease in the number of CDs, but the volume of term bonds rose. We believe that the mobilization from CDs will rise again due to high pressure of capital, even when BID successfully mobilized capital tier 1 from strategic partners.

Figure 10: Mobilization structure by product



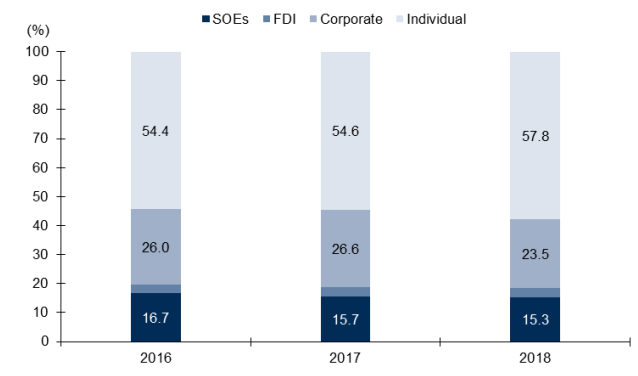
Source: BID; KBSV Research

Figure 11: Deposit structure by term



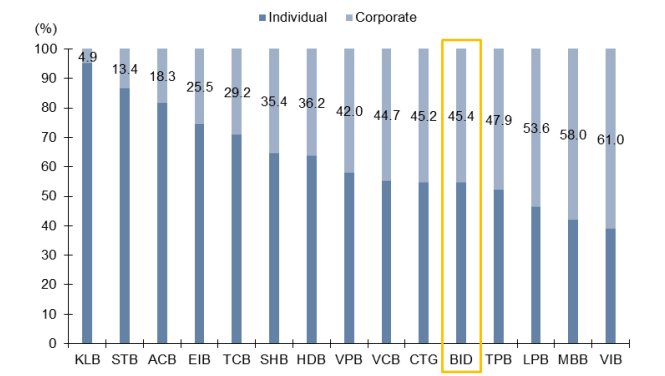
Source: BID; KBSV Research

Figure 12: Mobilization structure by customer group



Source: BID; KBSV Research

Figure 13: Comparison of mobilization structure by customer group



Source: BID; KBSV Research

## FINANCIAL ANALYSIS

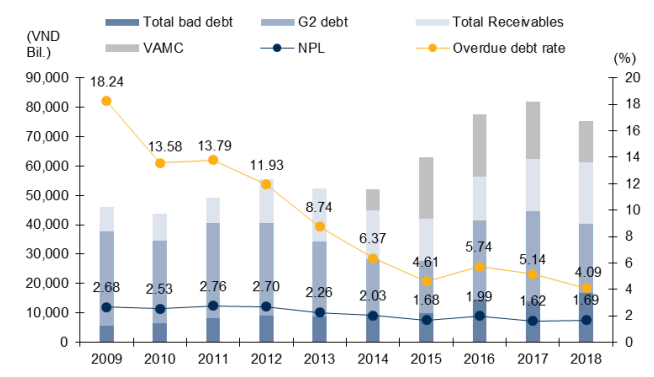
### Asset quality

**The proportion of total doubted asset of BID was the highest in the system, but started to show improvements from 2018**

BID’s main problem is group 2 loans, which have been reduced but still stay highest in the banking sector (2.4% outstanding balance) if VPB with a riskier business model is not included. The total problematic debt accounted for 5.78% loans balance, only after VPB. Additionally, the number of outstanding VAMC bonds of BID is still large, about VND14,137 billion in 2018, ranking first in the system and accounting for 1.43% total loan balance. Another big risk to BIDV comes from a large number of held corporate bonds, which have been existing for many years and have unsecured asset quality. With about VND24,221 billion corporate bonds at the end of 2018, BID and TCB are the two banks with highest number of corporate bonds in the system. BID has held about VND 5,876 billion HAGL bonds, but the business result and collateral quality of HAGL have been in a downturn in the past years, making it more difficult to reverse these bonds.

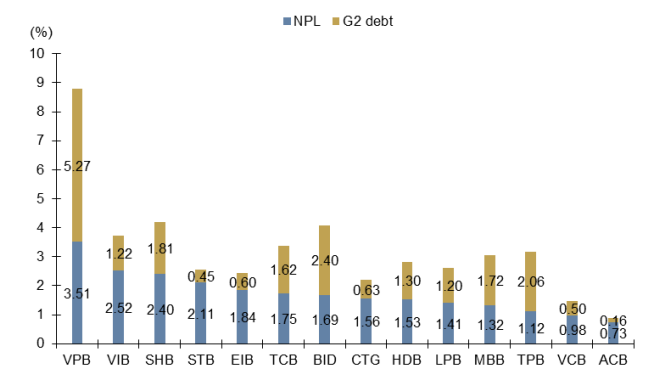
Nevertheless, improvements can be seen from 2018, namely: 1) The number of VAMC bonds is still large, but plunged for the first time in 2018, when the Decree No. 42 on NPL solving was released. This could be a positive signal about decreasing the pressure from off-balance-sheet bad debts. Besides, when considering the plan of BID on making these bonds due by 2020, we suppose that BID will accelerate provision process in the last two years; 2) The rate of bad debt formation has increased sharply in the last two years while the total number of NPLs has gradually decreased, indicating that BID is taking more drastic measures to erase debts from the provision source every year, thereby reducing the pressure on the bank in the following years while taking advantage of bad debt reversal.

Figure 14: Bad asset status in BID



Source: BID; KBSV Research

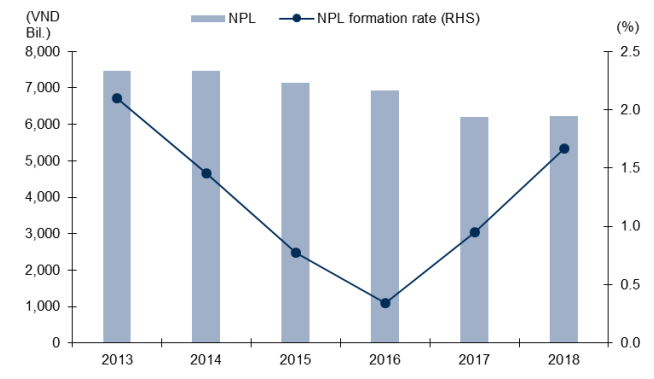
Figure 15: Comparison of NPLs of the banking sector



Source: Banks’ financial statements; KBSV Research

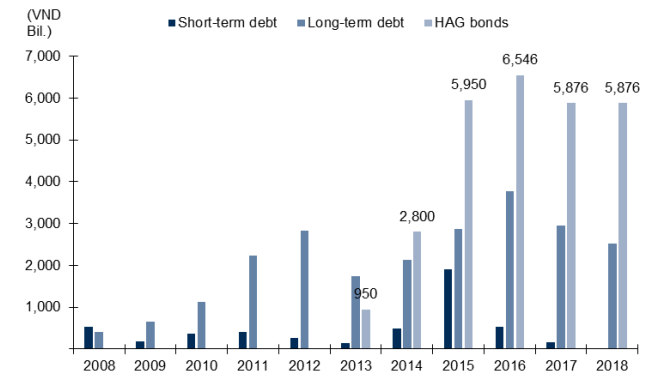


Figure 16: NPL and NPL formation rate



Source: BID; KBSV Research

Figure 17: BID's outstanding balance in HAGL



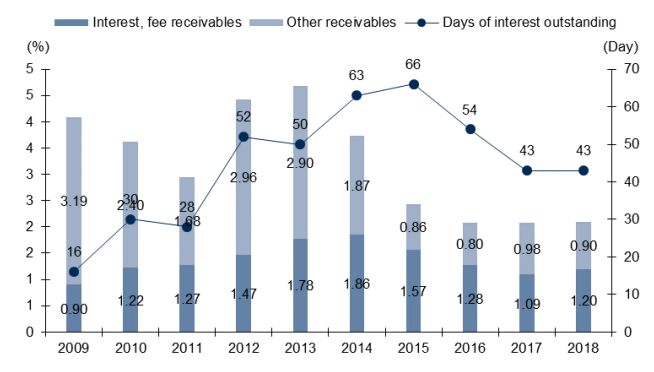
Source: BID; KBSV Research

**The risks of receivables decreased over the years and are not too strong**

In addition, BID's receivables showed more positive signs in the last three years, with the number of days of interest outstanding reduced to 43 days (equivalent to group 2 debt). However, other receivables currently equal to 1.2% of total outstanding loan still have certain risks, especially when trade finance receivables increased sharply from VND233 to VND1,071 billion in 2018.

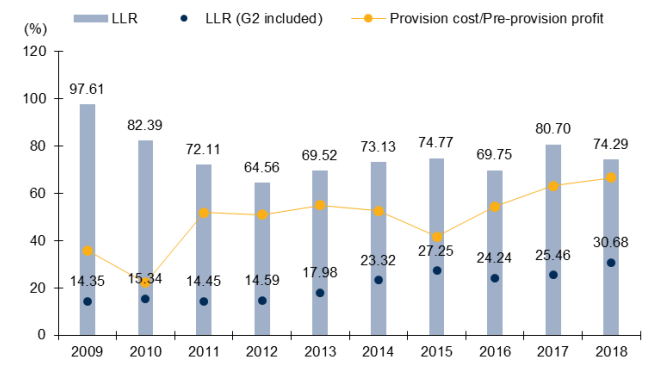
The rate of provision for bad debt risks (LLR was 74.3% in 2018) is still quite low compared to the industry average. With the increase in the rate of debt relief in 2018 and in the rate of bad debt formation, we believe that the provision for the next two years will increase quite strongly, then may decrease gradually if credit quality is well controlled.

Figure 18: Movements of receivables



Source: BID; KBSV Research

Figure 19: LLR and LLR (G2 included)



Source: BID; KBSV Research

**CAR**

**With high leverage, BID is in the group of banks with the biggest pressure on capital base to meet the requirements of Circular No.36 and Basel II.**

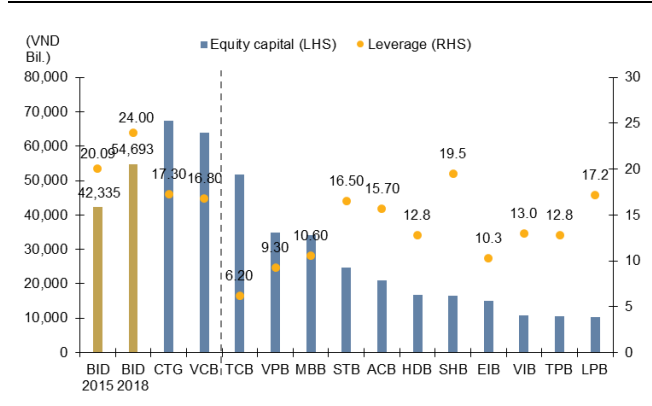
The leverage ratio of BIDV by the end of 2018 was 24x, the highest in the system, which is also very risky according to Moody's standards. Difficulties in raising capital and the pressure of provision in so many years have made BID's leverage ratio high and increasingly widening. CAR according to Circular No. 36 at the end of 2018 is about 10.6% and if adjusted according to Basel II, this rate is about 8.5%. With the current capital base, we estimate that if BID does not increase capital successfully, it will only expand credit to about 6% in 2019, not to mention the further increase of risk.

Capital raise is almost compulsory to the bank in the next two years, at least

to ensure Basel II compliance, and reduce risk level in the current credit model on a further purpose. If the plan to issue shares to Hana Bank is 100% successful according to the current price, we estimate CAR of BID may increase by 20% to 12.9% (According to Circular No.36) and about 10.3% (According to Basel II). If the plan is unsuccessful, the pressure on mobilization via bond will sharply increase, especially when previous mobilization measures via Bank CDs of BID becomes inefficient in capital tier 2 improvement as in previous years. However, we suppose that BIDV has run out of development room for capital tier 2, as Circular No. 36 regulations clarified that the volume of capital tier 2 mobilized from bonds has reached its maximum level (about VND21,000 billion). In other words, the volume of capital tier 2 could be expanded only when capital tier 1 is increased. Therefore, the capital status will be quite tightening in the next two years if the deal of share issuance for Hana Bank still comes across obstacles (The two current biggest obstacles as shared by the bank are legal issue and the prices of issued shares).

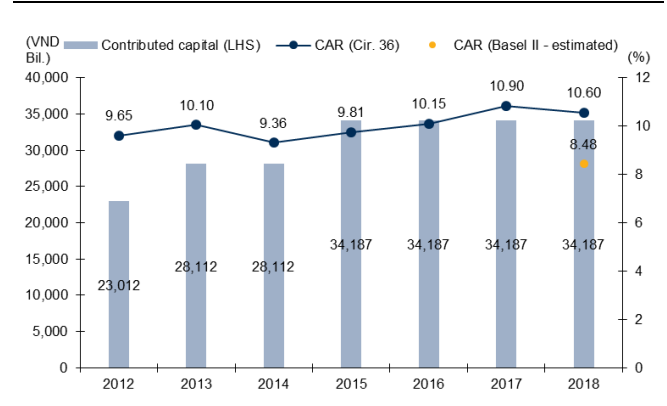
In case the bank fails to increase capital tier 1, we estimate that BID can only raise credit by 6 – 8%. In contrast, if the plan to raise capital is successful, credit growth can be lifted to around 12%. However, we suppose that the fabove avorable impact can only exist in a short term, BID’s credit growth is prone to cope with difficulties due to high leverage.

Figure 20: Comparison between equity capital and leverage



Source: BID; KBSV Research

Figure 21: BID’s CAR



Source: BID; KBSV Research

**Liquidity pressure is still quite large and there are not many signs of improvement**

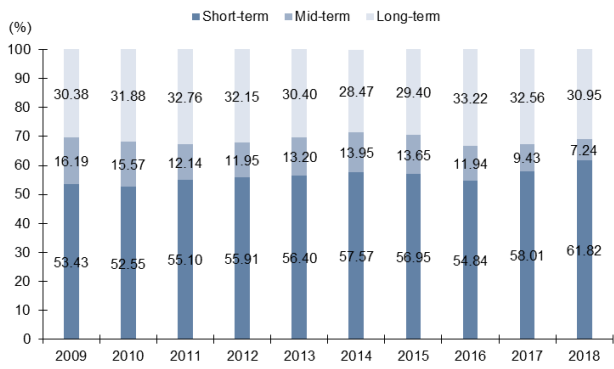
**Liquidity**

By the end of 2018, LDR according to Circular No.36 reached 83.3% and net LDR was 99.9%. BID has been making efforts to lower net LDR in recent years from the peak of 110% by gradually declining the credit growth speed and strengthening mobilization. However, to keep LDR under 90% to be in line with Circular No.36. In recent years, BID has to take advantage of more mobilization sources including strongly increasing interbank lending, CDs and a part of financing fund from the SBV. We think these new sources are not very stable and may put mobilization cost under pressure in the future.

The pressure of liquidity in BID is much higher than in other banks and has been increasing in recent years, which can be inferred from the ratio of high-

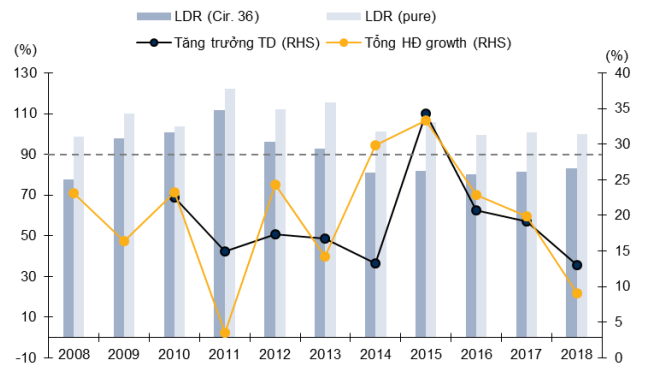
liquidity assets on total mobilization. The over-allocation of resources for credit amid not well-balanced good liquidity assets is the cause of this situation.

Figure 22: Credit structure by term



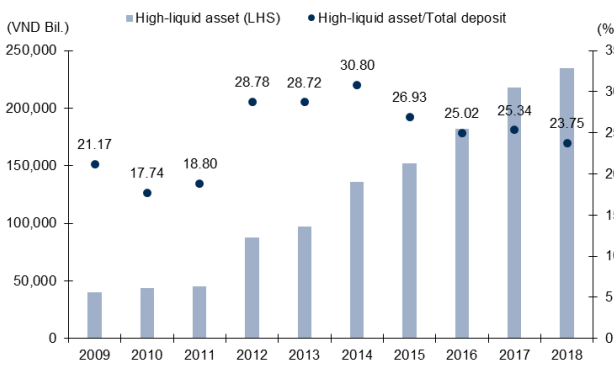
Source: BID; KBSV Research

Figure 23: Movement of LDR



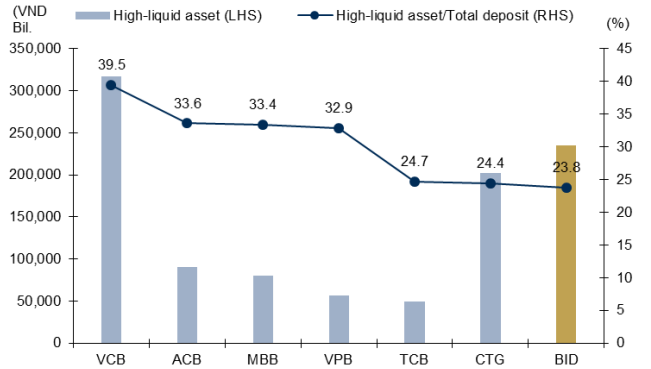
Source: BID; KBSV Research

Figure 24: Assets with good liquidity



Source: BID; KBSV Research

Figure 25: Comparison between assets with good liquidity



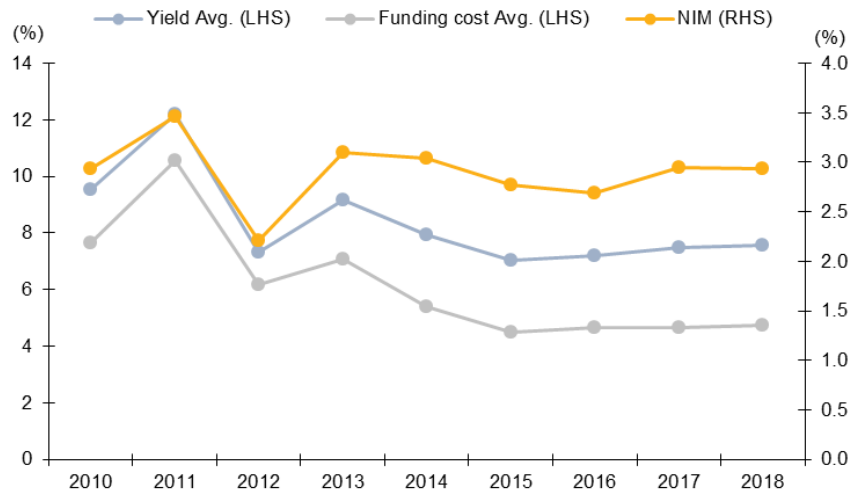
Source: Banks' financial statements; KBSV Research

### Profitability

**Profitability is hardly improved in the near future due to the pressure from both funding cost and credit expansion**

After surging to 26bps in 2017, NIM was almost in a sideways drift in 2018. Although the average interest rate has maintained its upward momentum thanks to the shift in retail lending, the pressure of funding cost increased sharply, causing NIM to move sideways. There are two main reasons leading to high pressure on funding cost: 1) Increasing interest rates to compete for mobilization due to increasing liquidity pressure while the bank has no CASA advantage; 2) Increase mobilization of valuable papers, especially long-term deposits to maintain minimum CAR. We believe that this pressure will still exist in the next two years, due to the above internal factors and the general interest rate environment which is under pressure to increase in the coming time.

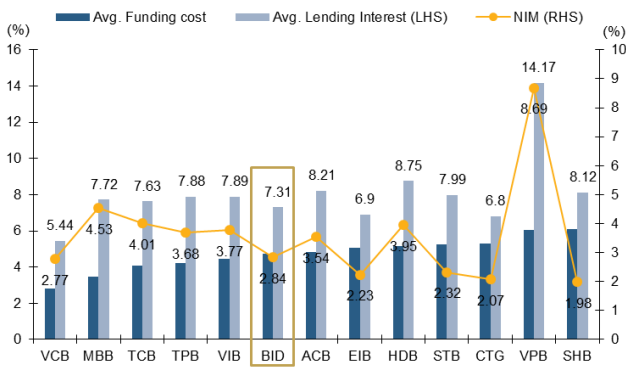
Figure 26: Movements of NIM, lending interest rates, and average mobilization



Source: BID; KBSV Research

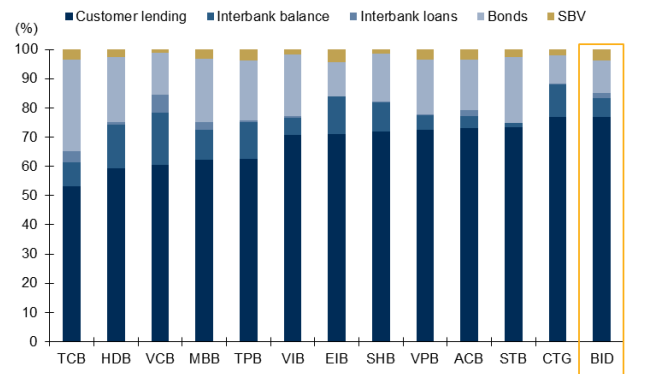
Among state-owned banks in 2018, BID's NIM is higher than that of VCB and CTG. However, in the next year, we believe that VCB will surpass BID thanks to the greater advantage of funding cost and the ability to expand credit through balancing the asset structure with better profitability (Figure 27). In addition, there are opportunities for the bank to improve interest rates thanks to the retail trend, but when compared to private commercial banks, the state-owned group will be slower, because the proportion of wholesale is still quite large. Especially when the yields are difficult to increase for 5 priority industries according to Decree 01/ND-CP (January 1, 2018), including agriculture, exports, supporting industries, SMEs and high technology.

Figure 27: Comparison between lending interest, average funding cost, and NIM



Source: BID; KBSV Research

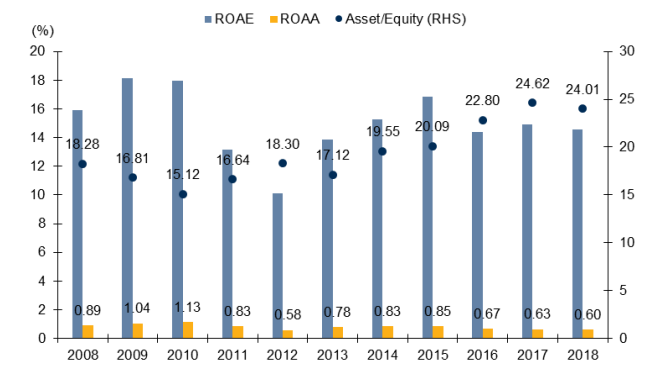
Figure 28: Comparison of interest earning asset structure



Source: BID; KBSV Research

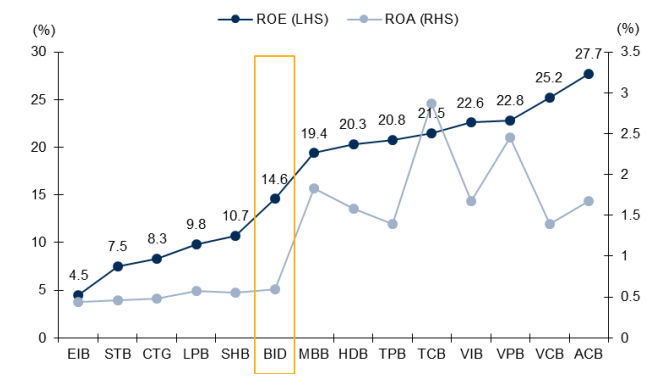
Although BID's leverage is the highest in the sector, due to low and decreasing ROA, ROE has almost not been improved. ROE in 2018 was only 14.6%, much lower than the sector's average, though the shift to retail trend helps to improve yields significantly.

Figure 29: Profitability and leverage



Source: BID; KBSV Research

Figure 30: Comparison of profitability of banks



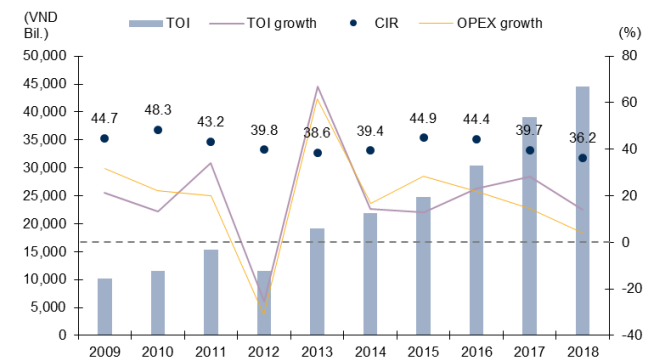
Source: BID; KBSV Research

### 2018 updated business performance

In 2018, NII was only VND34,956 billion, increasing 12.9% yoy; TOI was VND44,491 billion, gaining 14% yoy; CIR declined from 39.7% to 36.2%; the cost of provision for credit risk/pre-provisioned profit rose from 63.2% to 66.6%. NPAT of BID hit VND7,542 billion, up by 8.6% yoy. After surging from 2013 – 2015, NPAT came to a standstill due to high provision pressure, which appears when the credit quality is not safe.

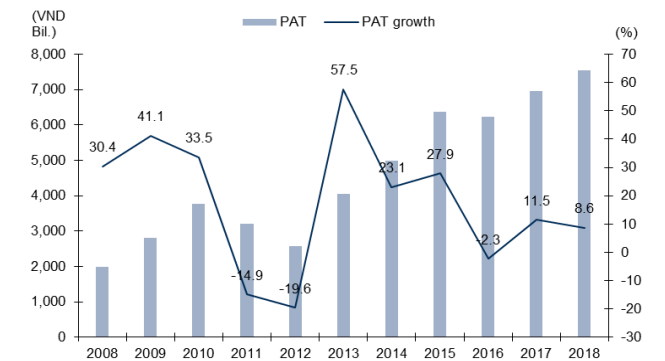
In term of NII, and TOI, BID ranks first thanks to large business scale and outpaces other banks. Operating costs are also well managed, but the pressure of provision cost is too high (the highest cost of provision for credit risk/pre-provisioned profit), making BID’s NPAT only ranks 3<sup>rd</sup> in the system, much lower than VCB and TCB.

Figure 31: Some operating indicators of BID



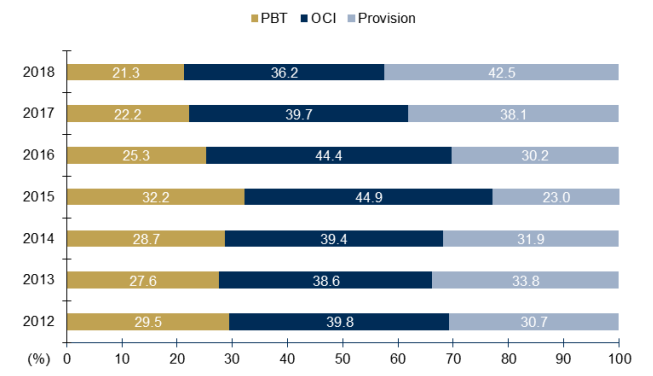
Source: BID; KBSV Research

Figure 32: NPAT movements



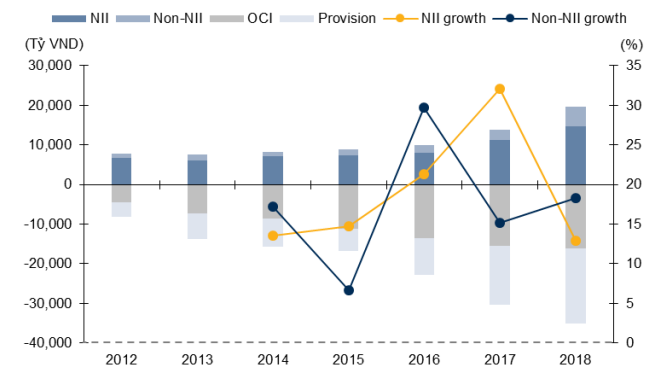
Source: BID; KBSV Research

Figure 33: PBT structure



Source: BID; KBSV Research

Figure 34: Specific business operations

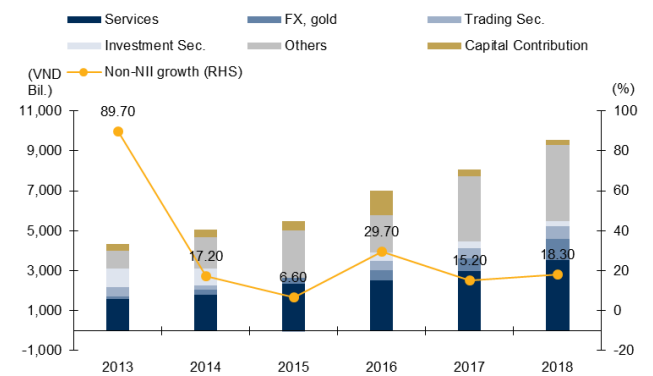


Source: BID; KBSV Research

To be more specific:

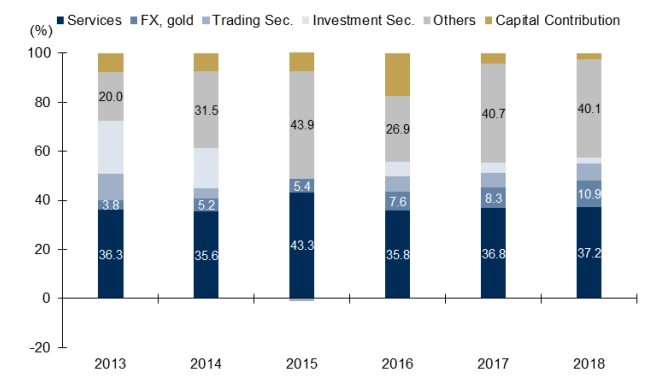
- **NII:** Net credit growth reached 13% yoy with the main forces coming from individual customers and SMEs (18.7% and 23.8% respectively), but NIM dipped 2bps, so NII only gained 12.9%, quite low compared to that in two previous years.
- **Non-NII:** Non-NII continued to see a stable growth of 18.3% in 2018, which was mainly contributed by the three key activities, namely, services, exchange rates and other interests (mostly coming from reversal from bad debts). Services maintained a growth of about 20% per year with insurance and insurance agents. Foreign exchange trading saw a strong growth rate of 55.6% thanks to thriving trade. Other interests were VND 3,823 billion, higher than the increase in 2017. This segment has reached high growth rates in the last few years as BID boosted the provisioning and debt relief, and improved bad debt reversals.
- **CIR:** CIR continued to decrease to 36.2% in 2018. Good management of cost of staff and other operating costs helped to improve CIR. The current CIR of BID is the fourth lowest in the sector, after TCB, VPB and VCB, but we assess BID's CIR is as good as VCB's (ranking 3<sup>rd</sup>) as VCB recorded low CIR in 2018 thanks to some technical factors. This was a relatively good level compared to other banks, which showed the BID's willingness to make improvements.

Figure 35: Non-NII movements



Source: BID; KBSV Research

Figure 36: Non-NII structure



Source: BID; KBSV Research

## **2019 FORECAST BUSINESS PERFORMANCE & VALUATION**

### **2019 Forecast business performance**

About macro situation, we still believe that Vietnam economy will maintain positive gaining momentum in 2019 as mentioned in the [Vietnam Economic Overview April 2019](#). Therefore, despite concerns about more tightening SBV credit growth from 14 – 15% as in 2018.

In a basic scenario, BIDV will successfully issue 15% shares to the strategic shareholder in 2019. Even if the bank succeeds in raising capital, BID's credit growth will still slow due to two reasons: 1) The current leverage of BID is very high, if credit is expanded without increasing profitability, the risk will be high; 2) Consumer credit will be more tightly controlled, making it difficult for the retail group to maintain its strong growth momentum as in previous years. We forecast credit growth will reach 12% in 2019.

#### **NIM will continue to dip 3 bps**

Tightly controlled consumer credit will impact BID's credit growth, limiting the expansion of average lending rates. In addition, the requirement of not raising interest rates for some priority sectors will also affect the average lending yield. The mobilization interest rate will increase slightly due to the increasing general interest rates and the increasing liquidity pressure on BID. To sum up, we believe that NIM will hardly be improved, and may even go down slightly in 2019.

#### **Non-NII may increase 20% in 2019**

In particular, we forecast interests from services and foreign exchange will continue to see a positive growth, despite a slowdown, with the increase of 15% and 30%. Particularly, we suppose that BID will have a chance to record a large profit from reversals of provision as the bank has started to take more drastical measures for debt relief in 2018, the pressure from VAMC will reduce (despite being strong in the next two years) and the reversal from bad debts.

#### **CIR will still be improved**

We believe that CIR will continue to be improved as in recent years because BID has a great advantage of operating scale. In addition, the application of modern procedures into operations will support the management of operating cost.

#### **The pressure of provision cost will be quite large until 2020, and then will gradually reduce**

BID's increasing provision from 2015 shows a more prudent view of this bank about its profit quality. With a high proportion of bad assets, we suppose that BID will continue to raise provision amount in the next years. Besides, the due of VAMC bonds in 2020 requires BID to accelerate its provision process, which will remain as a pressure in the next two years.

With the above assumption, we expect NAFT of BID in 2019 to be VND8,517 billion, climbing 12.9% yoy, ROE will reduce to 12.53% if the capital raise plan is successful. EPS and BVPS forward in 2019 (including newly issued capital) will be VND2,290 per share and VND21,838 per share, respectively (increasing 3.8% and 36.5% yoy). The newly released business plan for 2019 of the bank is quite close to our forecast.

## Valuation

We combine two valuation methods of P/B and Residual Income (RI) to find out the reasonable price of BID shares.

BID's current P/B trailing is 2.17x at the price of VND34,750 per share. If the bank successfully issues 15% new capital, P/B forward = 1.35x. In the past, BID maintained a higher P/B than the sector's average, less than VCB's and far surpassed CTG's. However, BID's past high valuation did not have as many supportive factors as VCB, while compared to CTG, BID has nothing really outstanding, considering both asset quality and profitability. In case of successful issuance and reduction of state ownership, we expect BID's price will be more reasonably reflected by the market.

Nevertheless, when comparing VCB with some banks with similar features in equivalent markets to Vietnam such as India, China, Malaysia, combined with the forecast about the looming risks of the cycle of the banking sector, we suppose that the reasonable P/B for VCB in the next one year is 3x, equal to the target price of VND71,000 per share, 12% higher than the market price at the time of valuation.

Therefore, although BID still received a relatively higher valuation compared to private commercial banks, we believe that the P/B forward of 1.5x is reasonable for BID in the next one year (slightly higher than the sector average), while the asset quality will still strongly affect the business results of the bank in the next two years. With the adjusted price after raising capital of VND29,560 per share, BID's target price in the next one year will be VND 32,757 per share, about 11% higher than the market price.

Table 2: Valuation of some banks in Vietnam

Ticker	Name	Mkt Cap (VND)	ROE (%)	P/B trailing	P/B forward	P/E trailing	P/E leading	Diluted EPS (5Y Avg. growth %)
ACB VN	ASIA COMMERCIAL BANK	39,785	27.73	1.77	1.36	7.25	5.94	35.2
MBB VN	MILITARY COMMERCIAL JCB	48,080	19.41	1.42	1.14	7.84	5.92	7.13
TCB VN	VIETNAM TECHNOLOGICAL & COMM. BANK	94,583	21.53	1.86	1.54	11.37	9.03	26.7
VPB VN	VIETNAM PROSPERITY JSB BANK	55,277	22.8	1.55	1.26	7.44	6.37	10.52
HDB VN	HDBANK	31,196	20.3	2.00	1.78	10.98	10.31	6.48
TPB VN	TIEN PHONG COMMERCIAL JSB	18,075	20.8	1.70	1.13	7.97	6.36	25.12
VIB VN	VIETNAM INTERNATIONAL JSB	14,881	22.6	1.37	1.40	7.16	6.22	8.83
CTG VN	VIETNAM JSCB FOR INDUSTRY & TRADE	87,128	8.3	1.24	1.21	7.16	16.78	-1.34
VCB VN	BANK FOR FOREIGN TRADE OF VIETNAM JSC	250,720	25.18	3.55	2.67	15.46	13.38	16.6
BID VN	BANK FOR INVT. & DEVP OF VIETNAM JSC	127,518	14.6	2.17	1.35	17.33	20.49	8.89
<b>Average</b>			<b>20.33</b>	<b>1.86</b>	<b>1.48</b>	<b>10.00</b>	<b>10.08</b>	<b>14.41</b>

Source: Bloomberg; KBSV Research

In order to have a more comprehensive reflection on the intrinsic value of the bank, we use RI method, with a forecast term of 3 years. The applied capital cost is 15.23%, based on CAPM model. The reasonable price is about VND24,000 per share after being adjusted according to the assumption of successful issuance. This price is 17.5% lower than the market price at the time of valuation.



Table 3: Valuation result according to RI method

VND Bil.	2019F	2020F	2021F
PAT	8,231.00	8,588.00	14,370.00
Residual income	-98.76	-995.34	3,478.71
Cost of Equity Capital - R	15.23%		
g	10.00%		
Terminal value	73,165.98		
Total present value (PV)	129,297.40		
<b>BID intrinsic value (VND/share)</b>	<b>37,820.6</b>		

Source: KBSV Research

### RISKS & INVESTMENT VIEWPOINT

In case the capital raise is unsuccessful due to problems in the negotiation process, BID's growth will be strongly affected in the next two years. Although the valuation of will not be strongly affected thanks to high state ownership, we think that the impact from the pressure of capital and asset quality will make it difficult to maintain a valuation as high as the in the last year. We expect a P/B of 1.8x in case BID does not mobilize capital successfully in 2019.

Furthermore, if cyclical factors happen, BID will receive a stronger impact than VCB due to the differences in asset quality and CAR. Finally, the draft of the SBV about tighter control of consumer credit, if approved, will have profound effects on BID growth in the next two years. The current portfolio for retail lending of this bank is quite large.

Based on positive, basic, and negative scenarios, we recommend to **HOLD** BID shares at the moment. Even if the bank successfully increased capital in 2019, the potential growth and asset quality have not been ensured in the next two years.

Table 4: Sensitivity analysis to target price

	Catalysts	Target Price (1Y)	Upside/ (Downside)
<b>Base case</b>	No divestment in 2019	<b>33,130 VND/share</b>	<b>-4.70%</b>
<b>Bull Case</b>	Successful divestment in 2019	<b>38,500 VND/share</b>	<b>10.80%</b>
<b>Bear case</b>	Cyclical risks Retail loans restriction	<b>28,700 VND/share</b>	<b>-17.40%</b>

Source: KBSV Research

## APPENDIX

Balance Sheet					Income Statement				
(VND Billions)	2015	2016	2017	2018	(VND Billions)	2015	2016	2017	2018
<b>TOTAL ASSETS</b>	850,506.9	1,006,404.2	1,202,283.8	1,313,037.7	Interest and Similar Income	49,005.23	62,600.28	78,628.52	90,074.02
Cash and precious metals	6,588.85	7,106.55	8,203.02	10,507.56	Interest and Similar Expenses	-29,690.26	-39,165.68	-47,673.18	-55,118.16
Balances with the SBV	21,718.72	36,710.77	29,418.56	50,185.16	<b>Net Interest Income</b>	19,314.97	23,434.60	30,955.33	34,955.86
Placements with and loans to other credit institutions	67,097.94	61,865.17	118,355.29	104,113.34	Fees and Commission income	3,962.35	4,490.15	5,611.62	6,801.85
Balances with other credit institutions	47,523.97	39,849.01	76,993.46	81,792.63	Fees and Commission expenses	-1,625.82	-1,981.01	-2,645.85	-3,251.05
Loans to other credit institutions	19,574.97	22,076.46	41,421.17	22,430.35	<b>Net Fee and Commission Income</b>	2,336.53	2,509.14	2,965.77	3,550.80
Allow. for balances with other credit institutions	-1.00	-60.30	-59.34	-109.64	Net gain/(loss) from FX and Gold	293.97	534.47	668.13	1,039.69
Trading securities, net	8,872.71	10,016.12	9,613.77	673.64	Net gain/(loss) from trading of trading securities	-62.99	455.43	481.62	645.46
Trading securities	8,903.68	10,086.03	9,708.25	790.21	Net gain/(loss) from disposal of inv. securities	11.29	402.96	331.34	234.08
Less: Provision for trading securities	-30.97	-69.91	-94.48	-116.57	Other incomes	3,537.55	3,785.16	4,594.25	5,344.86
Derivatives and other financial assets	101.88	0.00	193.70	79.76	Other expenses	-1,168.16	-1,902.18	-1,315.26	-1,522.13
<b>Loans and advances to customers, net</b>	590,917.43	713,633.46	855,535.53	976,333.89	<b>Net Other Income/(expenses)</b>	2,369.39	1,882.98	3,279.00	3,822.73
Loans and advances to customers	598,434.48	723,697.41	866,885.31	988,738.78	Dividends income	448.99	1,214.49	335.54	242.01
Less: Provision for losses	-7,517.05	-10,063.94	-11,349.78	-12,404.89	<b>Total operating income</b>	24,712.16	30,434.06	39,016.72	44,490.61
Debts purchase	0.00	0.00	0.00	0.00	General and Admin expenses	-11,087.18	-13,526.62	-15,504.24	-16,124.47
Debts purchase	0.00	0.00	0.00	0.00	<b>Operating Profit Before Provision for Credit Losses</b>	13,624.99	16,907.44	23,512.48	28,366.14
Allowance for losses on debts purchase	850,506.9	1,006,404.2	1,202,283.8	1,313,037.7	Provision for credit losses	-5,676.33	-9,198.82	-14,847.31	-18,893.64
Investment securities	121,564.77	144,412.97	146,477.35	133,142.95	<b>Profit before tax</b>	7,948.66	7,708.61	8,665.18	9,472.50
Available-for-sales securities	87,421.28	113,657.16	118,097.62	111,419.20	Corporate income tax - current	-1,571.90	-1,496.53	-1,757.94	-1,926.63
Held-to-maturity securities	36,848.57	36,823.52	38,385.96	29,847.63	Corporate income tax - deferred	0.00	16.77	38.35	-4.04
Less: Provision for investment securities	-2,705.07	-6,067.70	-10,006.22	-8,123.87	Corporate income tax	-1,571.90	-1,479.76	-1,719.59	-1,930.67
Investment in other entities and long term investments	35,295.25	11,361.96	11,722.73	12,296.20	<b>Net profit for the year</b>	6,376.76	6,228.86	6,945.59	7,541.83
Investment in Joint Ventures	0.00	0.00	0.00	0.00	Minority interest	-554.49	-91.31	-158.88	-183.96
Investment in associate companies	4,871.17	3,994.12	2,409.60	2,522.84	Attributable to parent company	5,822.26	6,137.55	6,786.71	7,357.87
Investments in joint-venture	0.00	0.00	0.00	0.00	Basic EPS for profit attributable to the equity holders	1,434.00	1,354.00	1,499.00	0.00
Investments in associates	4,871.17	3,994.12	2,409.60	0.00					
Other Long-term investments	539.16	457.47	253.04	213.32					
Provision for long-term investments	-159.65	-121.79	-83.13	-122.63					
Fixed assets	8,535.31	9,721.94	10,348.52	10,666.71					
Investment properties	0.00	0.00	0.00	0.00					
Other assets	19,858.66	18,607.37	21,558.59	24,721.15					
Receivables	5,132.17	5,784.93	8,480.65	8,851.91					
Accrued interest and fee receivables	9,386.29	9,229.16	9,479.86	11,897.40					
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
<b>Total liabilities</b>	808,171.5	962,259.9	1,153,449.8	1,258,344.6					
Due to Gov and Loans from SBV	45,401.60	43,392.14	77,535.40	105,297.40					
Deposits and Loans from other credit institutions	79,758.32	92,499.22	91,978.86	79,198.15					
Deposits from other credit institutions	21,546.43	33,146.73	27,076.31	22,064.49					
Loans from other credit institutions	58,211.89	59,352.49	64,902.55	57,133.66					
<b>Deposits from customers</b>	564,692.85	726,021.70	859,985.17	989,671.16					
Derivatives and other financial liabilities	0.00	103.32	0.00	0.00					
Funds received from Gov, intl. and other institutions	35,295.25	11,361.96	11,722.73	12,296.20					
Conv. bonds/CDs and other valuable papers issued	65,542.24	66,642.04	83,738.43	39,991.36					
Other liabilities	17,481.22	22,239.53	28,489.24	31,890.31					
<b>Shareholder's equity</b>	42,335.46	44,144.25	48,834.01	54,693.11					
<b>Capital</b>	34,271.78	34,304.55	34,369.93	34,396.61					
Charter capital	34,187.15	34,187.15	34,187.15	34,187.15					
Fund for basic construction	0.00	0.00	0.00	0.00					
Share premium	30.31	30.31	30.31	30.31					
Treasury shares	0.00	0.00	0.00	0.00					
Preferred shares	0.00	0.00	0.00	0.00					
Other capitals	54.32	87.09	152.47	179.15					
<b>Reserves</b>	2,464.09	3,376.58	4,445.83	4,617.99					
Foreign currency difference reserve	-42.65	-111.57	53.52	156.58					
Difference upon assets revaluation	0.00	0.00	0.00	0.00					
Retained Earnings	4,256.50	4,970.93	7,092.01	12,483.07					
<b>OFF BALANCE SHEET</b>									
Contingent liabilities	0.00	0.00	0.00	0.00					
Letters of credit (L/C)	134,570.97	171,618.23	133,192.32	151,142.07					
Credit guarantee	45,091.00	59,046.09	0.00	0.00					
Credit commitments	88,658.34	111,567.97	131,572.18	146,429.82					

Financial Summary				
	2015	2016	2017	2018
NII	19,315	23,435	30,955	34,956
TOI	24,712	30,434	39,017	44,491
NPAT	6,377	6,229	6,946	7,542
Total Asset	850,507	1,006,404	1,202,284	1,313,038
Equity	42,335	44,144	48,834	54,693
Customer loans	598,434	723,697	866,885	988,739
Customer deposits	564,693	726,022	859,985	989,671
<b>Profitability</b>				
NIM	2.77%	2.69%	2.95%	2.93%
Average Lending Interest	7.30%	7.50%	7.90%	7.90%
Average Funding Cost	4.60%	4.80%	4.80%	5.00%
ROAA	0.85%	0.67%	0.63%	0.60%
ROAE	16.87%	14.41%	14.94%	14.57%
Leverage ratio	20.1	22.8	24.6	24.0
<b>Asset Quality</b>				
NPL	1.68%	1.99%	1.62%	1.69%
LLR	74.77%	69.75%	80.70%	74.29%
LDR	81.80%	80.30%	81.60%	83.30%
Overdue-debt rate	4.61%	5.74%	5.14%	4.09%
Provision/Pre-provision income	41.66%	54.41%	63.15%	66.61%
<b>Capital Adequacy</b>				
CAR	9.81%	10.15%	10.90%	10.60%
Equity/Total asset	4.98%	4.39%	4.06%	4.16%
<b>Liquidity</b>				
LDR	81.80%	80.30%	81.60%	83.30%
(Customers) Lending/Deposit	105.98%	99.68%	100.80%	99.91%
<b>Operating Efficiency</b>				
CIR	44.9%	44.4%	39.7%	36.2%
<b>Valuation</b>				
BVPS	12,383	12,913	14,284	15,998
EPS	1,865	1,822	2,032	2,206
P/B	1.56	1.49	1.42	1.42
P/E	15.03	13.81	12.27	7.70

Source: Fiinpro, KBSV

### Investment portfolio recommendations

**Buy:** +15% or more

**Hold:** between +15% and -15%

**Sell:** -15% or less

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