

Vietnam International Joint-Stock Commercial Bank (VIB: UPCOM)

High risk – High return



INITIAL REPORT
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INVESTMENT HIGHLIGHT

VIB holds the no.1 market share in Vietnam car loans market; Consumer finance still has a great potential for growth

In case of stable macroeconomic condition, we forecast an average growth of at least 20% per year in the next 2 to 3 years

However, VIB could be strongly hit by its unstable mobilization structure if the economy slows down

BUY recommendation for the last 2 quarters of 2019. Investors are advised to maintain an overall low weight for banking stocks

VIB is a commercial bank purely focusing on retail market with the no.1 market share in car loans and among the leading banks in terms of mortgage loans. Based on the forecast saying that retail market in general and automobile market in particular would keep its CAGR of 10% and 20% in the next 5 years, respectively, VIB has great opportunities to achieve high profit growth, supposing that the bank could effectively take advantage of its strengths.

With the fundamental of high capital adequacy ratio, VIB has confidently planned a credit growth of 35% in 2019, the highest level in the banking industry. Thanks to relatively low funding cost, VIB would be able to uphold above-average credit growth in the next 2 to 3 years, thereby boosting up net interest income. Besides, non-interest income also has a large room for improvement with our forecast for settlement fee income growth of 20 – 30% per year and bancassurance commission fee growth of 300% in 2019, then an average of 20%/year after that.

The current biggest risk of VIB relates to its mobilization structure, which is highly dependent on interbank sources and short-term deposits (< 1M). Therefore, in the event that macroeconomic comes to a difficult stage, VIB would face higher liquidity risks compared to peers. Moreover, a volatile interest rate environment could ratchet up pressure on the bank's asset quality and provision cost, as a result of current low LLR (< 50%) and highly concentrated business model.

Based on our positive view that Vietnam economy could maintain its sustainable status, at least till the end of 2019, we initiate a **BUY** recommendation for VIB stock, with target price ranging from 22,000 – 23,000 VND/share. However, investors are advised to keep a modest proportion of banking stocks to limit the cyclical risk of the overall economy.

Buy

Target price (2019)	22,200VND
Up/Down	20.2%
Current price (16/07/2019)	18,500VND
Target price	22,200VND
Market cap	VND14,729 Bn (USD0.64 Bn)
Exchange rate on 16/07/2019:	1USD= 23,185 VND

Forecast revenue and valuation

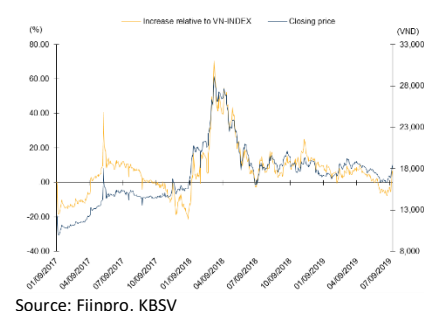
	2018A	2019F	2020F	2021F
NII (bil VND)	4,825	7,058	8,395	9,230
Growth rate (%)	46.3	18.9	9.9	9.6
TOI (VND bn)	6,086	8,561	10,253	11,241
CIR (%)	44.2	39.4	34.6	33.3
Net profit (VND bn)	2,743	4,174	5,389	6,074
Growth speed (%)	95.2	52.2	29.1	12.7
EPS (VND thousand)	2,800	4,262	5,502	6,202
BVPS (VND thousand)	13,616	17,105	19,305	21,786
P/B	1.36	1.08	0.96	0.85

Trading data

Outstanding share volume	783,467,284
10-session average trading volume	466,381
% foreign ownership	20.50%
Cash dividend	550 VND/cp

% price change

(%)	1M	3M	6M	12M
VIB	11.82%	-0.29%	6.01%	6.58%
VN-INDEX	3.71%	1.03%	8.89%	6.60%



OVERVIEW

History of development



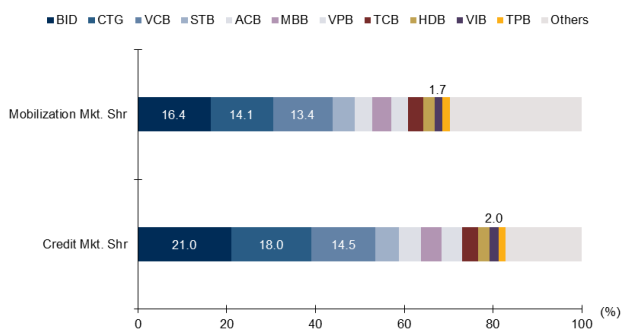
Business Scale

By the end of 2018, VIB had, in total, 163 branches and transaction offices, 1 subsidiary, VIB AMC, which has charter capital of VND100 billion and specializes on asset management for the bank. The number of employees by the end of Q1/2019 was 5,788.

Ownership Structure

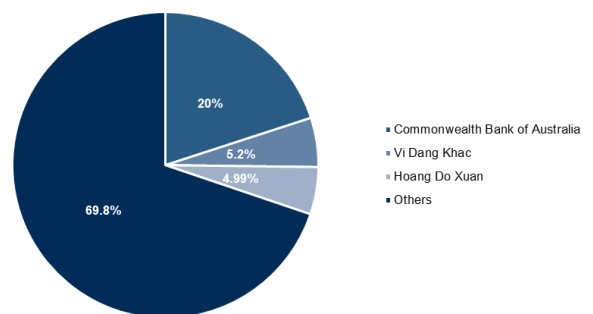
Commonwealth Bank of Australia is VIB's strategic partner, taking up 20% of the bank's shares, while other foreign investors hold just around 0.5%. BOD and related parties are controlling more than 40% of VIB's charter capital.

Figure 1: Credit and mobilization market share



Source: SBV, Banks' financial statements; KBSV Research

Figure 2: VIB's ownership structure



Source: VIB; KBSV Research

BUSINESS STRATEGY

Credit activities

VIB is currently a pure retail bank with the highest rate of individual & household loans to customer loans in Vietnam banking industry

VIB is currently a pure retail bank focusing on 4 strategic segments: mortgage loans, automobile loans, bancassurance and credit card, therein credit card segment would be boosted up in the near future. After the spin-off of wholesale banking part and successful merger with CBA’s branch in HCM city in 2017, the scale and the ratio of retail loans to customer loans at VIB has been continuously accelerating. By the end of Q2/2019, loans for individuals and households were VND 86,465 billion, accounting for 75.5% total customer loans, which is the highest level within the industry and outdistances other banks. To be more specific, mortgage loans, automobile loans and credit card loans accounted for 36.7%, 31.5% and 2.62% total customer loans, respectively, and the rest of 4.77% was non-purpose loans.

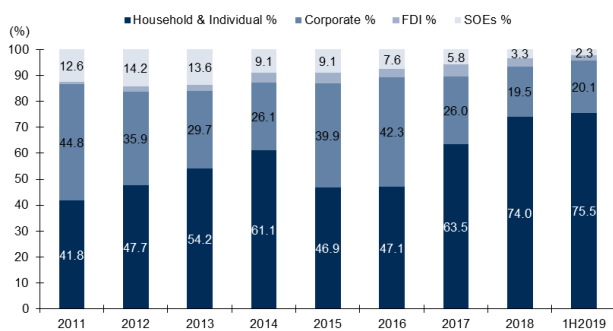
Mortgage and automobile loans are core business segments and main growth engines for VIB

Automobile loans segment targets mainly on new purchases and secondary transfers for mass affluent and affluent customers. LTV ratio of this segment ranges from 50 – 70% and NPL is around 0.9%. At mortgage lending sub-segment, VIB solely partners with real-estate exchanges to make loans directly to end-customer. There are more than 500 exchanges in metropolis associating with VIB in providing with mortgage loans. This business model is apart from common practice of creating partnerships and guarantees for developers at many other banks, hence helping VIB to lower some risks, such as developers’ competence and financial health dependency or the requirement of capital reserve for construction projects. The upper bound for LTV at this sub-segment is 70%, while NPL stays below 1%.

Wholesale loans segment would be stably maintained, targeting low-risk sectors

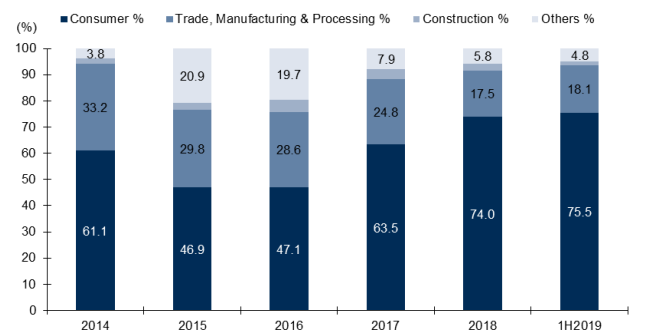
Moreover, in 20.1% wholesale loans, about 22% are SMEs loans and the rest is loans for big corporates. Term structure is equally allocated for short to long term with objective sectors towards trade, manufacturing and processing. Meanwhile, loans for risky sectors like real-estate and construction have been insignificant. VIB has no plan to nurture wholesale segment, but would maintain stable operation in modest scale and low-risk sectors.

Figure 3: Loans structure by types customers



Source: VIB; KBSV Research

Figure 4: Loans structure by purposes



Source: VIB; KBSV Research

Non-interest-income activities

Settlement services fee and bancassurance commission fee are

Beside the annual income stemming from bad debt recovery, the primary contributions to non-NII are fees from settlement services and

the two main contribution to VIB's non-NII

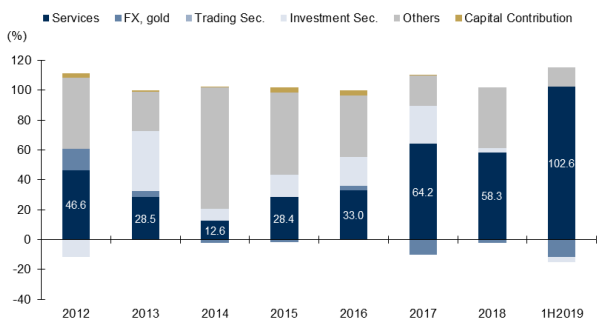
bancassurance:

- **Settlement services:** Incomes from settlement services have shown a strong growth in recent years (more than 50% in 2018 and 6M2019), which is accordant with the increasing trend of fee income as in many other banks and also VIB strategy of retail banking. Thanks to taking advantage of years of experiences and core technologies from strategic shareholder, CBA, we believe that VIB has proved itself as one of the most dynamic banks within the whole banking system in developing card products and convenient transaction system to optimize customers' experiences. At the moment, VIB is mainly focusing on mass affluent to affluent segments, who are supposed to lead the future consuming trends, thereby being able to offer customers the most suitable product packages.
- **Bancassurance:** VIB is now the main partner distributing life insurance products for Prudential, the company holding no.3 of market share in APE and also raking 3th in terms of fees through bancassurance channel in 2018. After the exclusive re-signed agreement with Prudential in 2018 with more preferable upfront income and commission fee, the insurance sales through VIB witnessed 4-fold increment in that year and is forecasted to keep its momentum in the years to come in the interest of great potential for bancassurance model in Vietnam market.

The business segment of payment card will be an important pillar in retail strategy

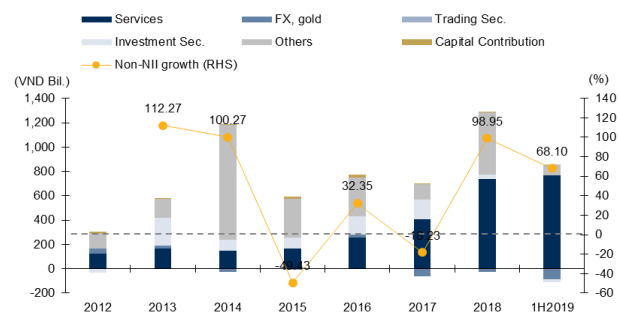
Currently, VIB is leading the market in terms of transaction value via card per customer per month, reaching an average of about USD 400 - 500 and has increased about 2 times compared to the same period last year; The number of individual customers (both active and non-active) reaches about 2 million. VIB's strategy in the near future is to focus on promoting the card business segment, besides promoting cross-selling to increase the average number of products per customer, thereby increasing fee incomes. In addition, in the near future, the trading activities of treasury department will not be strengthened as the wholesale segment is not the focus, while the activities of controlling liquidity and interest rate risks will be prioritized.

Figure 5: Non-NII structure



Source: VIB; KBSV Research

Figure 6: Non-NII growth



Source: VIB; KBSV Research

VIB is the leader in automobile loans market, and still has a large room for growth

INVESTMENT HIGHLIGHT

VIB is the No. 1 bank in automobile loans market: According to Vietnam Automobile Manufacturers Association (VAMA), the market share of VIB's car loan disbursement at the end of 2018 was about 25%, leading the whole system, and by the end of Q2/2019, this number has further improved. On the market where players mainly compete in lending interest rates, we believe that VIB still achieves the aforementioned position thanks to 3 main advantages: 1) Economy of scale: VIB possesses relationships with over 1,000 partners who are showrooms and dealers of most of car brands across the country, thanks to a good strategy and the early-mover-advantage; 2) The ability to disburse to meet the needs of partners and customers thanks to good capital base and relatively concentrated loan portfolio; 3) Quick disbursement speed thanks to a standardized process which takes an average of 1 - 3 days in comparison with about 5 days like that of many other banks.

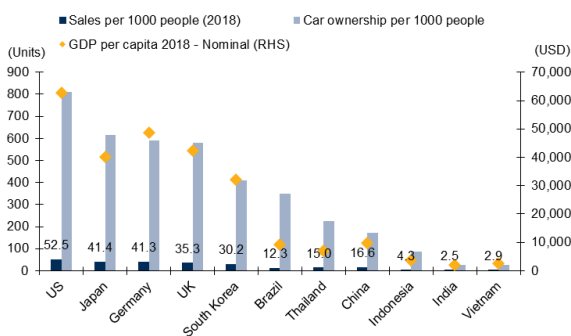
Estimated size of Vietnam's automobile market: The number of years for Vietnam's GDP per capita to catch up with the current level of Indonesia is 6 years (2024). In this future, the number of cars owned per 1,000 Vietnamese people will be equal to the current number of cars owned per 1,000 Indonesian (about 89 cars). Assuming that the population size continues to grow at CAGR of 1.1% for the next 6 years, so the average number of cars owned per 1,000 people would increase by 20% per year. Annual sales per 1,000 people and annual vehicle consumption are projected as Figure 8.

Then, assuming that the car selling price is the average price per car of THACO in 2018 (about VND 600 million) and that this price will be stable in the coming years, the size of Vietnam's automobile market may reach over VND 450,000 billion in 2024, compared to over VND160,000 billion in 2018 (our estimation). The growth of automobile sales is expected to reach 20% per year, so it can be seen that the credit growth potential of car loans is very large, even when the competition in the market is increasingly fierce.

Consumer loans keep its stable expansion

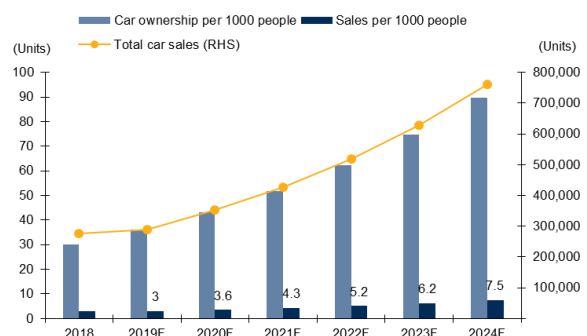
Mortgage lending may increase slowly in the short term due to the SBV's control policies for real estate loans, however, the credit for buying cars and consuming via credit cards is still very large. The growth of retail industry is expected to reach 10% per year in Vietnam. Particularly in the first 6 months, loans for buying houses and cars of VIB grew by 19% and 23% respectively. It is expected that VIB's retail credit will continue to grow steadily in the event that the macro economy in general does not encounter any "big problem".

Figure 7: Car ownership comparison among countries



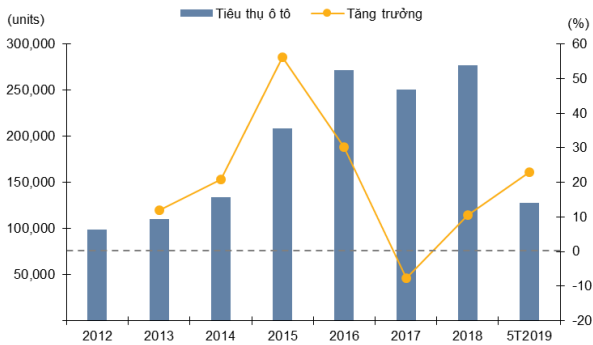
Source: KBSV Research

Figure 8: Automobile sales growth forecast



Source: KBSV Research

Figure 9: Vietnam automobile consumption growth

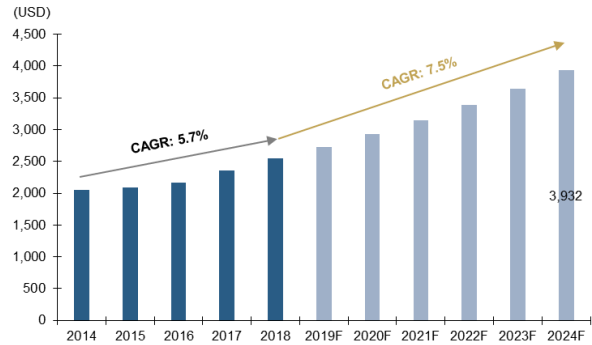


Source: KBSV Research

VIB is highly appreciated by international organizations for its focused business model, targeting on retail activities

The growth potential for NPAT is higher than industry average, reaching over 20% in 2-3 years in stable macroeconomic conditions, ...

Figure 10: Income per capita in Vietnam



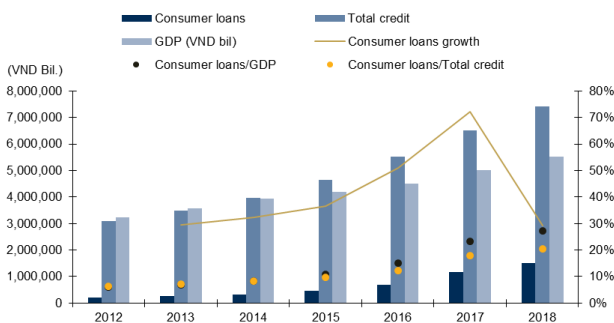
Source: KBSV Research

VIB is following the development model of commercial banks in developed markets around the world when focusing business on retail credit, supporting people's spending ability, and creating demand for the economy. In addition, by focusing on business operations and owning a good risk management model thanks to the support of Commonwealth Bank of Australia, VIB always receives high appreciation from international organizations including IFC, ADB as well as the SBV. This is an important premise for VIB to achieve more sustainable credit growth in comparison with the whole industry in the context of credit being strictly controlled.

By being one of the first 2 banks in Vietnam to meet Basel II standards and having an early credit rating system standardized by international organizations, VIB's room for credit growth in 2019 may exceed 35% as planned, the highest level within the banking system. In the first half of 2019, VIB's credit growth reached nearly 18% with customer loans increasing by 19.1%, of which, growth was especially boosted in Q2 with customer loans up 12.3% QoQ compared to just 6% in Q1.

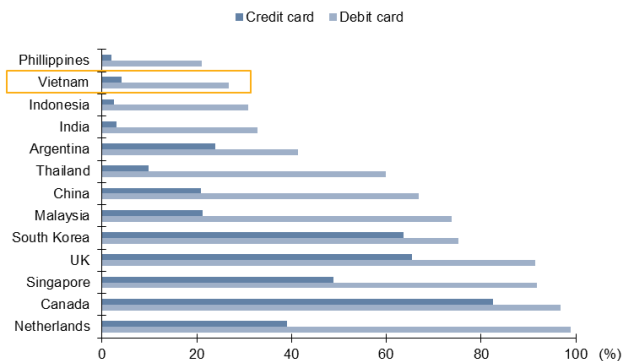
In the context of stable macroeconomic and VIB might not be significantly affected by the global economic contraction, we believe that the bank can maintain its credit growth and profit at at least 20%/year for the next 2-3 year, while assuring a reasonable capital base thanks to 3 factors: 1) High growth in both interest income (NII) and non-interest income (Non-NII); 2) Continuous improvements in return on assets (ROAA) supports for better ROE, thereby helping to improve annual capital base without resorting to new issuance.

Figure 11: Consumer loans growth



Source: SBV; KBSV Research

Figure 12: Payment card usage rate in 2017



Source: Theglobeconomy.com; KBSV Research

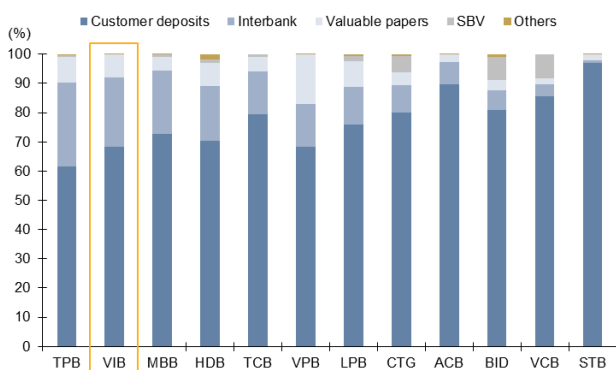
... however, risks would also be more severe than the industry average in case of economic difficulties

In order to achieve the aforementioned high growth rate, VIB may have to accept a higher level of risk. In particular, we believe that the two biggest risks VIB would face in case of economic contraction are: 1) Liquidity risk, due to a large dependence on interbank mobilization and short-term deposits, while lending structure increasingly shifted to medium and long terms (over 80% of customer loans); 2) Sensitivity to interest rate fluctuations: With a fairly high positive net interest rate duration gap and the dependence on short-term mobilizing sources, the environment of rising interest rates will have a strong impact on NIM and VIB's profitability, as well as possibly deteriorating its asset quality, leading to higher provision expenses (LLR of VIB is currently quite low compared to some other banks).

However, we believe that the risk deriving from mobilization structure has been significantly reduced compared to the end of 2016, when the proportion of interbank mobilization to total mobilization decreased from 35.2% to 22.2% (VND 32,800 billion), in which more than VND 10,000 billion (about 1/3) is a stable source from IFC and ADB, comprising 2 terms of 3-6 months and 3-5 years, with an average cost of 2 - 4.5%/year. If we combine these two items with customer deposits, the rate of customer deposits to interbank mobilization at VIB is about 4.8x, equivalent to VPB, TCB and better than TPB, HDB, even MBB. We think this is a suitable and quite sustainable capital structure for a medium-sized private commercial bank.

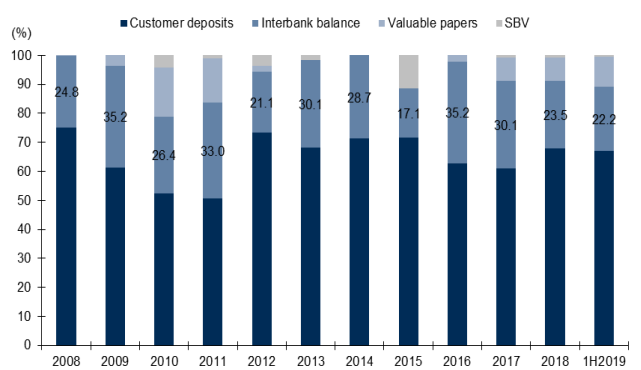
In addition, we believe that if VIB succeeds in issuing Tier 1 capital to a strategic partner to help improve its capital base, the two risks mentioned above will be significantly reduced.

Figure 13: Mobilization structure comparison



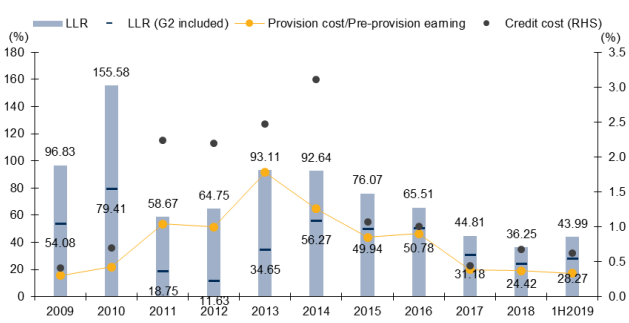
Source: VIB; KBSV Research

Figure 14: Changes in VIB's mobilization structure



Source: VIB; KBSV Research

Figure 15: Change in provision situation at VIB



Source: VIB; KBSV Research

FINANCIAL ANALYSIS

Asset quality

In spite of high NPL in the system, the risks pertaining to asset quality is under control

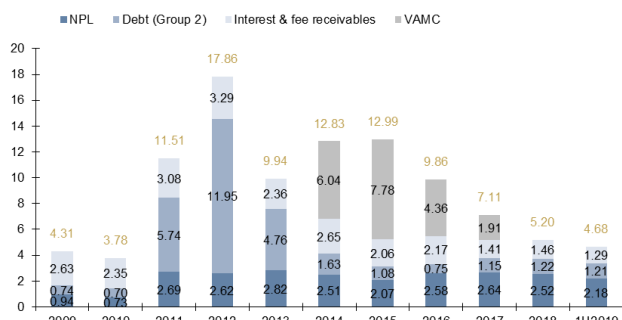
If excluding VPB with an extremely high-risk business model, VIB's NPL by the end of Q2 / 2019 is one if the highest one among listed banks, reaching 2.18%. The reason that its NPL is quite high because there are still some overdue debts from the period of 2011 - 2012, worth about VND1,500 billion (in total 2,500 billion of bad debts by the end of Q2/2019). Excluding this item, VIB's NPL of 0.9% is one of the best in the system (as well as among retail banks).

When comparing the ratio of total doubted assets to total customer loans, VIB is also rather safe in the system. In addition, the rate of interest and fee receivables to customers loans is maintained at low level (1.42%) and the number of days those receivables outstanding is about 40-50 days, which is reasonable and safe.

The above indicators of VIB have improved positively in Q2/2019 compared to Q1, but we think this is mainly due to the seasonal effect when a large amount of new loans were made in Q2. By the end of the year and subsequent years, it is likely that these indices will return to normal levels as in previous years, and will even face the risk of expanding in the environment of rising interest rates.

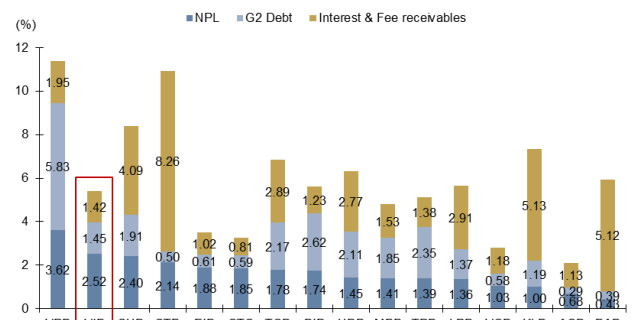
The size of VIB's collateral assets is nearly 3 times its credit balance, and 1.5 times when comparing real-estate collateral to credit balance. These are both high levels when compared to many other banks, especially in the group of private commercial banks.

Figure 16: Doubted assets at VIB



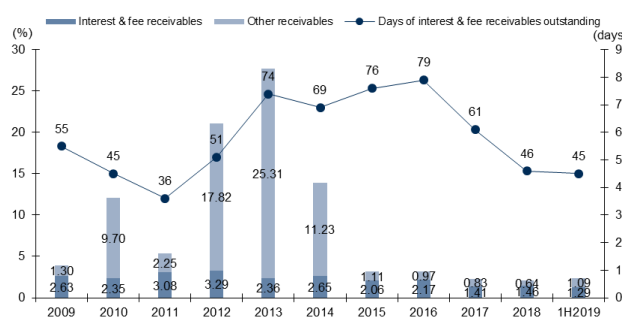
Source: VIB; KBSV Research

Figure 17: Bad debt comparison by the end of Q1/2019



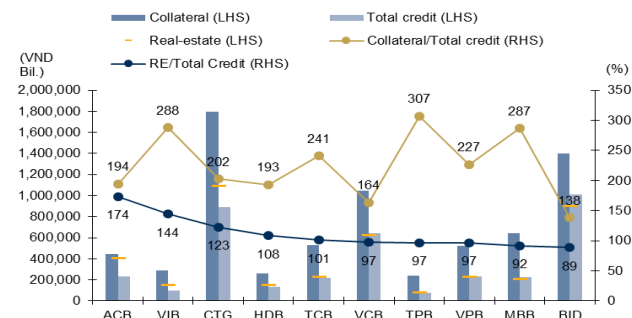
Source: Banks' financial statements; KBSV Research

Figure 18: Other assets



Source: VIB; KBSV Research

Figure 19: Collateral comparison among banks



Source: VIB; KBSV Research

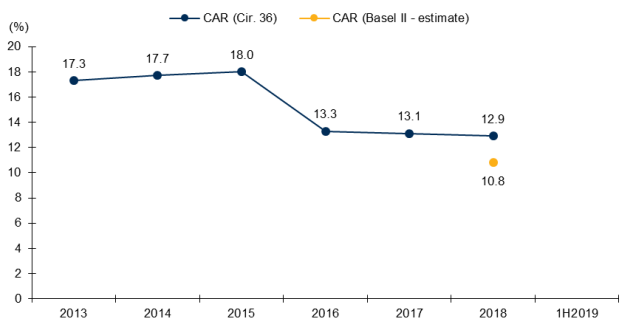
Capital adequacy & Liquidity

CAR is at safe level, while pressure might increase on customer deposits competition

CAR of VIB according to Basel II is 9.3%. VIB has not faced a great pressure of capital raising to meet the requirements about minimum CAR thanks to its well-maintained credit growth and profitability, besides the large room of Tier 1 capital issuance for strategic investors.

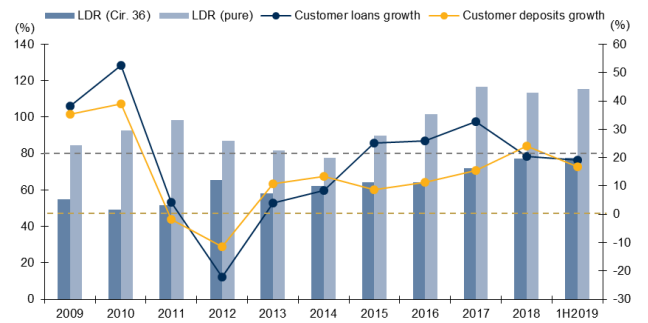
However, the imminent pressure will come from the need to increase mobilization to sustain credit growth, as LDR by the end of Q2/2019 reached 78.9%, near the regulatory ceiling of 80%. In addition, the pressure to expand average deposits term also forces VIB to seek other sources like valuable paper, which will likely increase its average cost of capital.

Figure 20: Capital Adequacy



Source: VIB; KBSV Research

Figure 21: LDR



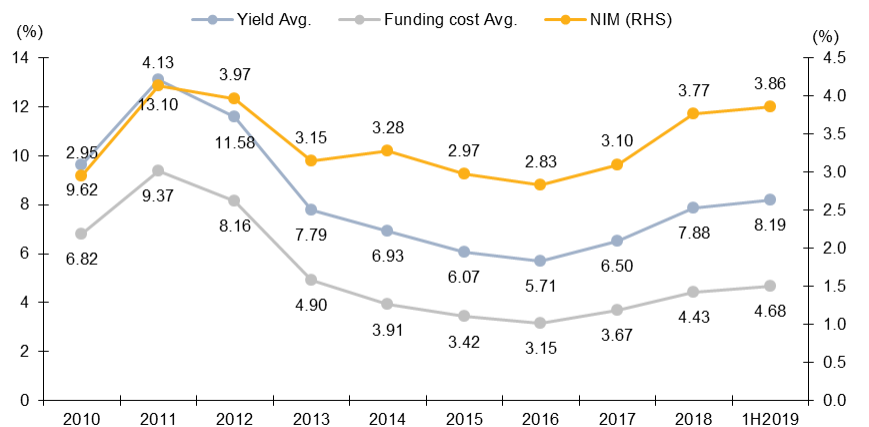
Source: VIB; KBSV Research

Profitability

NIM expanded sharply in Q1 but narrowed down in Q2, expecting a slight movement for the whole year

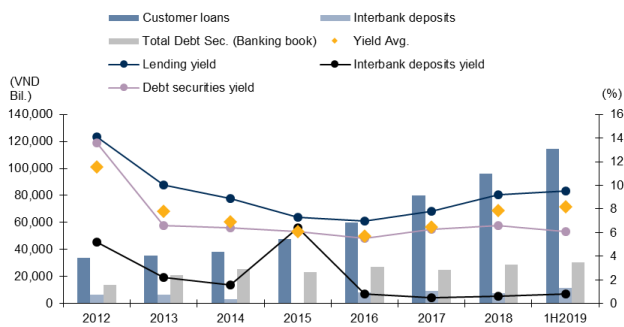
NIM has been accelerated since 2017 thanks to fast-growing lending yield as VIB has effectively utilized its low-cost funds and shown acumen in booming retail market. After 2 years of strong growth, NIM may increase slowly in 2019 due to two main reasons: 1) Retail lending will be more strictly controlled in 2019 compared to previous years; 2) Pressure from rising deposit rates comes from all three channels: customer deposits, valuable papers and interbank. However, with the ability and large room to boost retail credit, we think that VIB's NIM would still have room to improve this year.

Figure 22: NIM



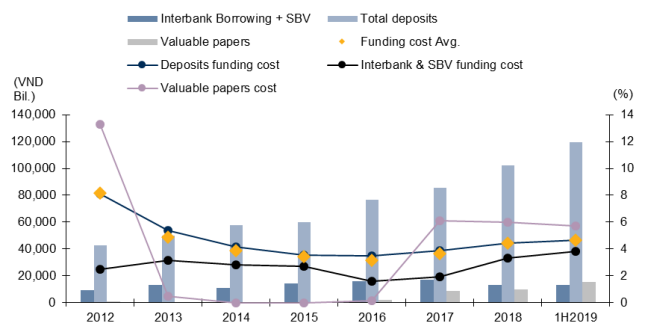
Source: VIB; KBSV Research

Figure 23: Average yield



Source: VIB; KBSV Research

Figure 24: Average funding cost

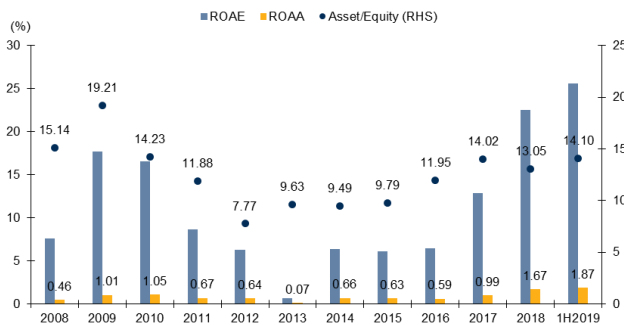


Source: VIB; KBSV Research

Profitability indicators would return to normalized levels in 2019

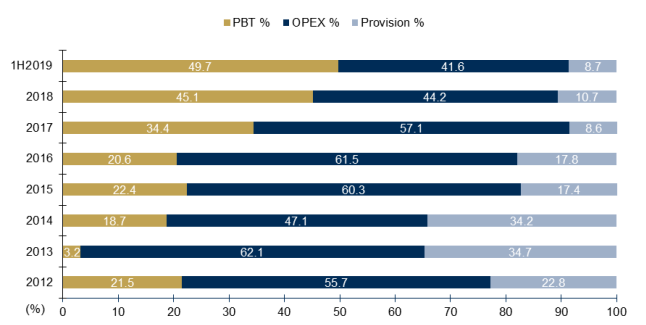
ROE and ROA increased sharply in the past two years, especially in 2018, thanks to high growth of interest income and abnormal incomes from non-interest activities in 2018. In the scenario of stable macroeconomic conditions, we believe that ROE at VIB will continue to improve strongly in 2019 to over 25%, thanks to its strong profit growth.

Figure 25: Profitability



Source: VIB; KBSV Research

Figure 26: TOI structure



Source: VIB; KBSV Research

2019 BUSINESS PERFORMANCE FORECAST & VALUATION

2019 Business performance forecast

In the base scenario that macroeconomic continues to be stable, VIB is likely to achieve credit growth of 35% as allowed by the SBV. In particular, individual and household loans continue to be the main drivers with the contribution of more than 70% in outstanding loans and growth rate equivalent to overall credit growth (Mortgage and automobile loans are expected to increase by 35 - 40%).

NIM is forecast to keep its expanding momentum but it would be difficult to increase as strongly as in 1H2019

We forecast that NIM 2019 will reach 3.87%, increasing by only 1bps compared to 1H2019, although in the first 6 months of the year NIM has increased considerably by 9bps. The reason is that the pressure on funding cost would be higher, coming from both customer deposits, interbank market and valuable papers.

Non-NII is expected to grow by 20% although there would not be abnormal returns from one-off insurance fee

We forecast that over 90% of non-interest income in 2019 will derive from service activities, in which:

- Settlement fee incomes are forecasted to grow by 30% in 2019. This is a conservative assumption in the context that in 1H2019, those incomes increased by over 50% YoY while VIB's private customer base keeps its strong growth momentum thanks to well-built payment system and competitive policies for customers. Similarly, other service fees are expected to increase by 20% for the whole year.
- Since the revolving exclusive insurance contract with Prudential at the end of 2018, fees from insurance distribution have increased sharply, reaching over 200% YoY in 2018 and 430% yoy in the first 6 months of 2019. However, for the whole of 2019, the growth is expected to shrink to about 300% yoy due to higher base level in the second half of 2018. Albeit existing long-term sustainability risks in the bancassurance business model, we think that in the next 1 - 2 years, VIB would still benefit when the insurer boosts sales through discounts and more attractive commissions to gain market share in a highly growing market.

OPEX might rise strongly but CIR remains improvement thanks to good business performance

The biggest pressure on OPEX will come from personnel costs, as VIB strengthens its sales team to boost retail credit growth as well as cross selling. The number of employees has increased by 19% in 1H2019 and is forecasted to increase by 25% for the whole year. We have not forecast the opening of new branches or transaction offices because there is no specific plan from the bank.

Provision expenses are likely to remain under control in 2019, but the pressure is likely to increase steadily in the years to come

The current credit cost of VIB is quite low (0.62%) compared to industry average. We believe that VIB can uphold this low credit cost at least in 2019 when the economy is still stable and the interest rate environment is not volatile. However, with low LLR (44%), despite focusing on mortgage lending, we believe that this provision level is quite risky in case of economic difficulties, putting great pressure on the bank's future business results.

NI is expected to increase by 52% yoy despite no longer abnormal returns

To sum up, we forecast a growth of 52% yoy in NPAT despite the fact that there would be no abnormal return from one-off upfront fee.

Valuation

We apply P/B relative valuation method to find a fair price for VIB.

P/B forward and trailing Q1/2019 are 1.08x and 1.31x, respectively, P/B trailing Q2/2019 is 1.25x. There are two factors that help VIB deserve a better P/B valuation: 1) Above-industry-average income growth, at least in 2019, thanks to its certain competitive advantages in retail market; 2) ROE would continue to improve and be among the highest in the industry (>25% in 2019). However, on the other side, there are also two risk factors to watch closely: 1) High sensitivity to fluctuating interest rates; 2) Liquidity risk when pursuing hot growth strategy. In addition, in terms of market capitalization and operations, VIB is still a relatively small bank in the system, so the valuation will generally be lower than other medium to large banks.

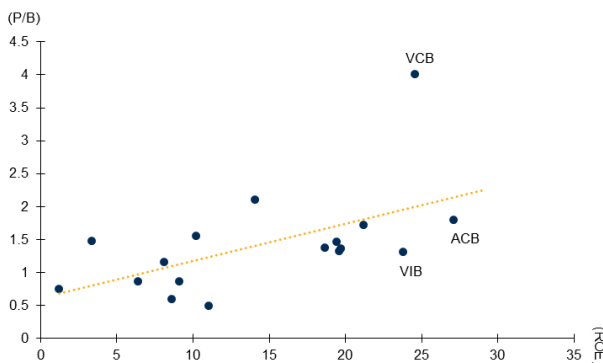
In the current situation, we come up with an expected P/B for VIB based on FY2019 result at 1.3x, assuming the bank has not issued additional shares to strategic investors. BVPS 2019 is forecast to reach VND17,105, which means the target price by the end of 2019 is 22,200, about 20% higher than the market price at the time of valuation.

Table 1: Relative valuation method

Ticker	Mkt Cap (VND Bil.)	ROE TTM Q1/2019 (%)	P/B TTM Q1/2019	P/B forward 2019	P/E TTM Q1/2019	P/E forward 2019	EPS 5Y Avg. Growth (%)	Net income TTM Q1/2019 (VND Bil.)
VCB	293,001	24.58	4.01	3.3	18.48	16.57	17.77	15,861
BID	119,313	14.04	2.11	1.39	15.81	15.61	12.39	7,545
ACB	38,912	27.09	1.80	1.4	7.50	6.4	35.73	5,358
TPB	18,846	21.2	1.72	1.57	9.90	8.41	33.44	1,974
BAB	11,385	10.22	1.56	n/a	16.12	n/a	14.06	706
EIB	22,499	3.32	1.48	n/a	45.52	n/a	0.15	497
HDB	25,898	19.39	1.46	1.4	7.98	9.3	46.18	3,247
TCB	74,128	18.62	1.38	1.18	8.70	6.9	44.77	8,518
VPB	47,661	19.72	1.36	1.14	7.34	6.34	13.54	6,688
MBB	46,917	19.58	1.33	1.25	7.30	6.26	5.69	6,574
VIB	14,720	23.78	1.31	1.08	6.06	4.34	101.02	2,427
CTG	81,356	8.11	1.16	1.16	14.72	13.24	-0.67	5,526
STB	21,103	9.1	0.87	0.78	9.86	11.21	-17.02	2,237
KLB	3,252	6.39	0.86	n/a	13.89	n/a	-9.23	237
NVB	3,906	1.21	0.75	n/a	62.31	n/a	14.5	39
LPB	7,003	8.6	0.60	0.54	7.66	5.61	9.57	915
SHB	8,302	11.03	0.49	n/a	4.67	n/a	7.71	1,779
Average	49,306	14.47	1.43	1.35	15.52	9.18	19.39	4,125
Median	22,499	14.04	1.36	1.22	9.86	7.66	13.54	2,427

Source: Bloomberg; KBSV Research

Figure 27: P/B valuation based on Q1/2019 result



Source: KBSV Research

Figure 28: VIB's historical valuation



Source: KBSV Research

INVESTMENT VIEWPOINT

Impressive business results in 1H2019

In 1H2019, VIB's credit growth reached nearly 18% with customer loans up by 19.1%, of which, the growth especially boosted in Q2 with customer loans up 12.3% QoQ compared to just 6% in Q1. Deposit growth grew by 18% with customer deposits increasing by 16.8%, therein deposits from private customers increasing sharply by 26.1%, accounting for 72.4% of customer deposits (compared to 68.1% at the end of 2018). NIM 6M2019 continued to improve, reached 3.86%, helping NII increase by 29.3% compared to the same period of 2018. Non-NII continued to increase strongly by 68.1% yoy thanks to the promotion of settlement services and insurance activities. 1H2019 TOI structure continued to remain relatively stable with 79.7% NII and 20.3% Non-NII. OPEX rose sharply by 15.8% yoy due to a strong increase in personnel costs in Q2, but CIR still improved slightly to 41.3%. Provisions for credit losses only accounted for 17.13% of pre-provision profit (Credit cost was only 0.62%) thanks to good control of bad debts and no more pressure from VAMC bonds. Finally, EBT reached VND 1,820 billion, up considerably by 58.2% compared to the same period in 2018, EPS 4Q reached VND 3,483, up 24% compared to the end of 2018.

We recommend BUY for the last 6 months of 2019 with the target price of around 22,000 – 23,000 VND/share

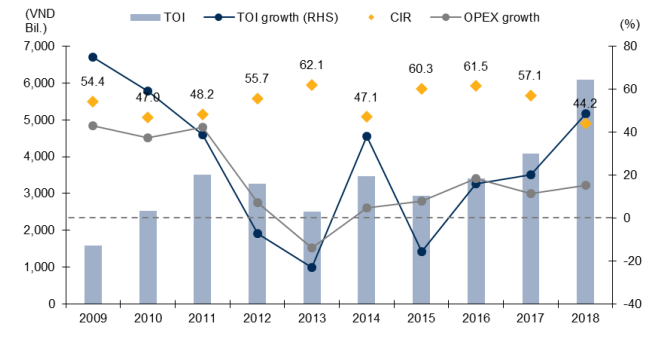
The potential for profit growth at VIB may be higher than that of the industry average in 2019 and the next 1-2 years, but the risk is also higher while the bank size is still relatively small. Therefore, within Vietnam banking industry, it is possible to classify VIB stocks into high profit potential group with high risks. In the last 6 months of 2019, the expected price can be up to about 22,000 - 23,000 VND/share in the absence of great economic instability, this possibility is quite high. Therefore, we recommend to **BUY** for VIB shares in the second half of 2019.

From an optimistic perspective, there will be a number of motivations that can push P/B valuation of VIB higher than 1.3x, including: 1) Transfer listing to HOSE and increase the level of information transparency; 2) Successfully raising tier 1 capital through issuing to strategic investors. At the moment, these information is not clear so we have not included in valuation viewpoint.

Investors are advised to follow VIB's current risks closely

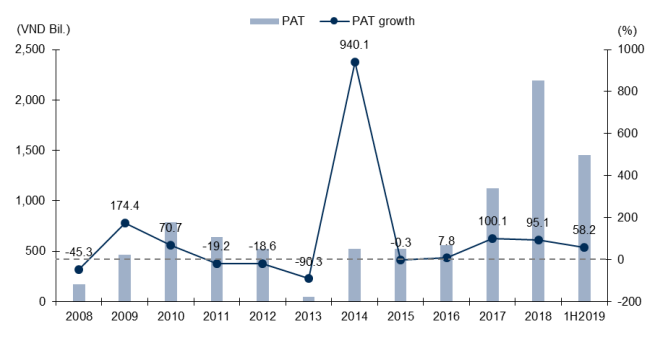
On the contrary, in terms of risks, in addition to the two main risks mentioned in the "Investment highlights" section, which are liquidity risks and interest rate risks, we believe that investors also need to consider two other issues that may affect the bank's earnings: 1) Business concentration is a bright spot, but it could also affect the long-term growth when competition in VIB's core segments increase and the bank lacks a plan to maintain its advantages; 2) The slowdown of real estate market due to SBV's control policies may affect the credit growth of the whole banking system.

Figure 29: TOI & Operating cost



Source: VIB; KBSV Research

Figure 30: Business performance update



Source: VIB; KBSV Research

Investment portfolio recommendations

Buy: +15% or more

Hold: between +15% and -15%

Sell: -15% or less

DISCLAIMER

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