Vietnam/Banking

Vietcombank | VCB

Update report

HOLD

November 2009

MIRAE ASSET
Building on principles

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Target price	VND64,000
Current price (Nov 18, 2009)	VND48,300
Differences to Target price	+%32.5%

Highlight

Well exploiting the opportunity of credit expansion phase

Thanks to loosing monetary policy in the first half, VCB has speeded up its credit activities at a relatively high growth rate for its scale. That helps VCB raise its interest income quite much in 3Q

But facing a narrower margin due to higher capital cost in short coming time

The race of increasing deposit rate has narrower net interest margin of such whole sale banks like VCB. Although VCB's capital cost is lower than small banks, the ceiling lending interest rate of 10.5% for enterprises limit the interest spread of VCB

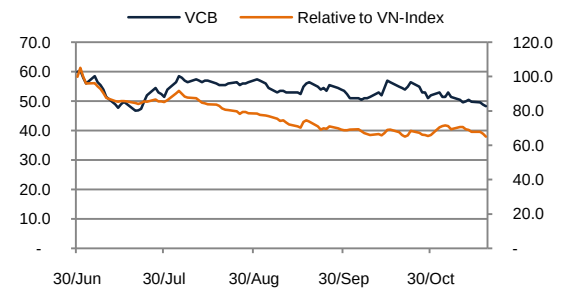
We lowered target price a bit to VND 64,000 from previous VND 67,000 as we changed some forecasting assumptions reflecting the recent business performance. However, we maintain our positive view on VCB as the bank's fundamental factors have not changed since our previous report.

Earnings forecast

(Unit: VND bn, %)

Fiscal year ending	Dec-07A	Dec-08A	Dec-09E	Dec-10E
Net interest income	4,005	6,624	6,437	6,898
Non-interest income	1,716	2,279	2,875	3,460
Operating profit	4,093	6,208	6,277	6,823
Net income	2,381	2,520	4,058	4,852
Total assets	197,363	221,950	229,224	264,034
Owners' equity	13,612	13,893	15,744	18,930
ROAA	*1.31%*	*1.20%*	*1.79%*	*1.97%*
ROAE	*19.23%*	*18.45%*	*27.38%*	*27.99%*
EPS (VND)	1,968	2,083	3,354	3,669
DPS (VND)	NA	1,200	1,200	1,200
PBR	4.3	4.2	3.7	3.1
PER	24.5	23.2	14.4	12.0

Performance



Trading data

Market cap (VND bn/US$mn)			58,447/3,269
Shares outstanding			1,210,086,026
Free float			9.28%
52-week price high/low			VND60,500/46,800
Daily avg. turnover(VND bn/US$mn)			61/3.4
Performance	**1M**	**3M**	**YTD**
Absolute	-12.2%	-13.0%	-19.5%
Relative to VN-Index	-3.7%	-21.5%	-34.8%
Major shareholders			
SCIC	90.72%		

Company contact

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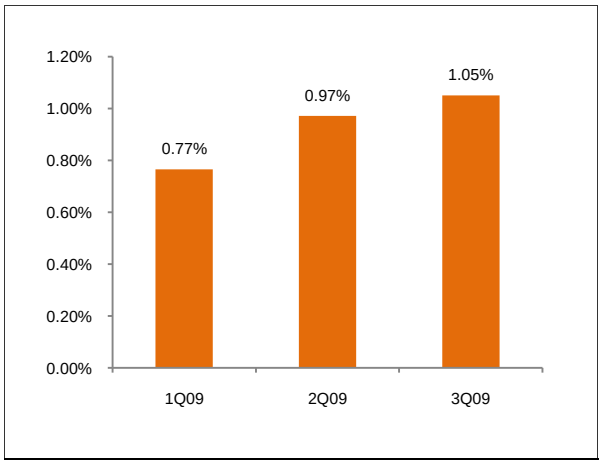
I. 3Q performance review

Well exploiting the opportunity of credit expansion phase

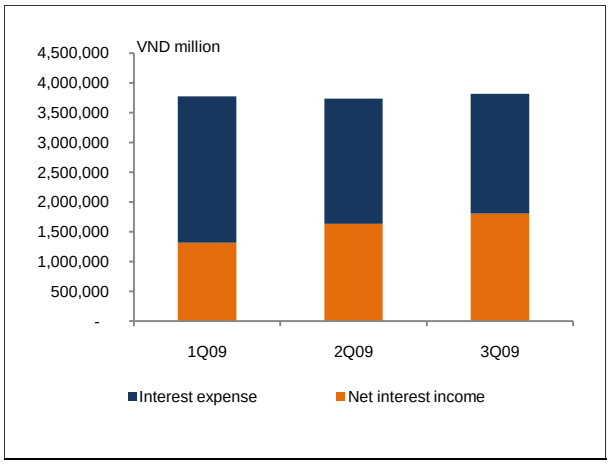
Being heavily dependent on traditional banking activities, VCB got benefit from the government loan subsidy program and loosening monetary policies for the passing time of the year. The net interest income of the third quarter increased 10.5% in comparison with the previous quarter, equivalent VND172bn. This increase contributed 73% of total operating income, which only had a light positive growth because of strong decrease of non-interest incomes.

The outstanding loan of VCB has increased 23% from beginning of this year. Combined with timing lag of relatively cheap mobilized capital, it results a sweet increase of net interest margin (NIM).

<Figure 1> VCB's NIM for the first 3Q of 2009



<Figure 2> Interest expense and net interest income



Source: MAS Research
(NIM=quarterly net interest income/interest-bearing assets)

Despite sudden increase of operating expense, VCB had relatively brighter profitability trend

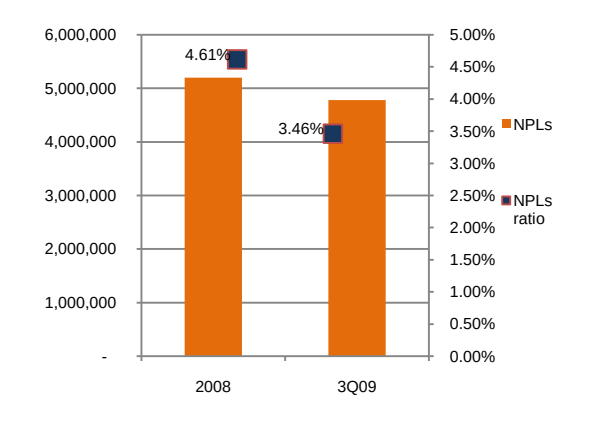
Since VCB applied new pay-sheet in third quarter, its payroll expense went up around VND200bn, playing the main part in sudden increase of operating expense of VND212bn. Being approved in the shareholders meeting held in April, the payroll expense to ex-payroll-expense before tax profit is 29.51%. Accumulatively, this ratio for the first three quarter is only 22% because VCB applied temporary pay-sheet in the first half of the year. It implies that we may see much higher payroll expense in the fourth quarter.

<Table 1>: VCB's payroll expense ratio — Unit: VND million

	2008	1Q09	2Q09	3Q09
Payroll expense (a)	1,161,320	214,109	398,034	598,034
Ex-payroll-expense before tax profit (b)	4,718,455	1,674,012	1,867,902	1,974,741
a/b	24.6%	13%	21%	30%

At the end of third quarter, VCB recorded VND4,780bn of NPLs, VND422bn decrease in comparison with end of last year. NPLs ratio is 3.46% and 4.61%, respectively. The bank's loan structure has changed in better trend so far, much lower for group D (doubtful) and E (bad). However, unavoidable increasing amount of group B (special mention) caused higher specific provision expense. If we assume that VCB has made full general provision (the amount in 3Q2009 would be VND52bn), the specific provision expense would then be VND101bn, lower than the second quarter number (VND153bn as estimated). That confirms VCB's asset quality be improving.

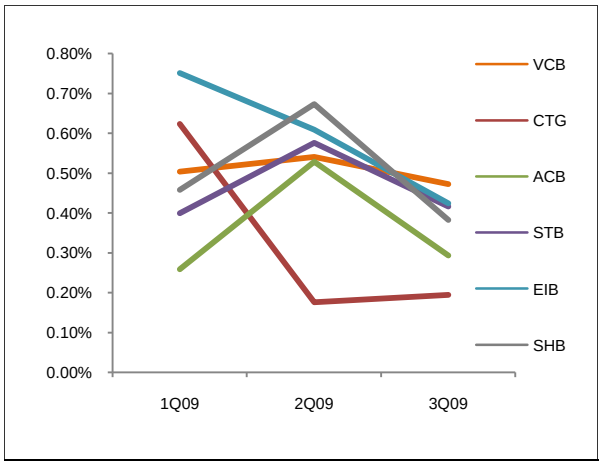
<Figure 3> VCB's NPLs



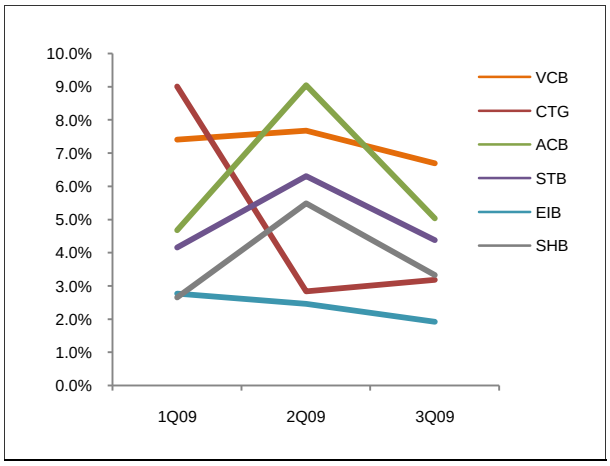
Source: MAS Research

Although the credit provision decreased, the sudden high operating expense caused a light decrease of VCB's net profit in the third quarter. However, by looking at some basic profitability indicators such as ROA and ROE, we can see VCB's trend better than peers.

<Figure 4> Banks' ROA in the first three quarters



<Figure 5> Banks' ROE in the first three quarters



Source: MAS Research

In summary, VCB has done very well so far and there is no doubt that it will have an impressive performance this year despite possible lower profit in the last quarter.

<Table 2>: VCB's performance as percentage of our estimated net profit for the year Unit: VND million

	1Q09	2Q09	3Q09	2009E
Net profit	1,110,660	1,165,045	1,062,758	4,058,325
Net profit/2009 estimated net profit	27.4%	28.7%	26.2%	100.0%

II. 4Q and 2010 outlook

Facing a narrower margin due to higher capital cost

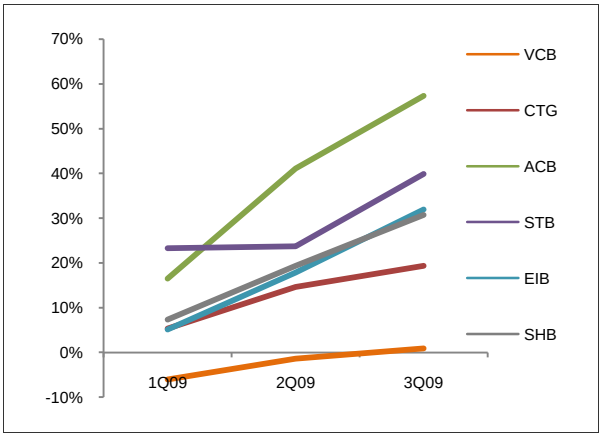
According to State Bank of Vietnam, the credit growth has reached 33.29% at the end of October, surpassing the year target (30%); and it is mainly because of loan subsidy program. The high borrowing demand from enterprises, which combined with bullish stock market forced banks in a war of raising deposit interest rate. While the ceiling lending interest rate (10.5%) is thought to be maintained, that in turn will narrower the interest spread, especially in the next quarter as our expectation.

The credit growth will not increase much for the rest of the year as banks now are worrying about liquidity and non-performing loans rather than credit expansion. Big and conservative banks like VCB can get out of the growth trap.

After a year of credit booming, we should keep an eye on the coming back of high inflation next year. Moreover, VND has depreciated quite much recently, which make higher possibility that the basic interest rate will be raised soon in early 2010. The unstableness will add more risk to banking system for the next year.

The most considerable issue of VCB in coming time is how VCB funds its growth with decreasing market share of mobilized capital. From beginning of this year, VCB has only 1% growth of customer deposit while others have impressive numbers.

<Figure 6> YTD deposit growth of listed banks



Source: MAS Research

In spite of difficulties listed above, we maintain positive view on VCB stock regarding good profit indicators and potential long-term growth. In addition, the 9.28% new issue of charter capital offered at par to current shareholders may have good effect on VCB stock price.

For the earning forecast, we adjust credit growth rate of the bank this year upward and increase interest spread simultaneously. That results a higher income from interest-based assets (the net interest and similar income is VND 6,437bn instead of VND5,705bn in previous forecasting). We also change our forecast of non-interest income including income from banking services, securities trading, etc. by a more conservative view (non-interest income decrease from previously forecasted number of VND3,203bn to VND2,875bn). We also add VND200bn more to provision for credit losses and keep in mind that payroll expense may increase in the next quarter.

<Table 3>: '09 Business forecast revision Unit: VND bn

Items	Pre-updated	Revised
Net interest income	5,705	6,437
Net non-interest income	3,203	2,875
Operating expense	2,701	3,226
Before-tax profit	5,790	5,435
Net profit	4,325	4,058

After all adjustment above, we drive net income for this year of VND4,058bn and revise our target price of **VND64,000** per share, not much different from our previous target price as our expectation of fundamental factors is not different from the previous report. We include here our revised FCFE valuation model for your reference:

Unit: VND billion	2009E	2010E	2011E	2012E	2013E	2014E	2015E	Terminal value
Net profit	4,058	4,852	6,664	6,964	5,638	6,161	7,095	
+Depr.& amort.	314	346	382	422	466	515	569	
+Provision	651	400	(576)	(432)	135	83	(360)	
-Interest income invt.	(3,240)	(13,680)	(1,220)	(1,546)	(4,263)	(296)	140	
-Arbitrage income invt.	5,452	15,124	8,029	3,893	5,219	1,938	2,265	
-Other invt.	(542)	1,449	(3,645)	36	43	51	61	
FCFE	3,353	2,705	3,305	4,571	5,240	5,066	4,838	
Discounted FCFE	**3,353**	**2,420**	**2,647**	**3,276**	**3,360**	**2,907**	**2,484**	**56,953**
Total discounted FCFE								**77,400**
Average outstanding shares								1,210,086,026
Share value (VND)								**63,962**

Disclosure Appendix

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