

LIENVIET POST BANK (LPB) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND7,600	VND10,000	0%	ADD	FINANCIALS

22 May 2020

Outlook – Short term: Neutral

Outlook – Long term: Neutral

Valuation: Positive

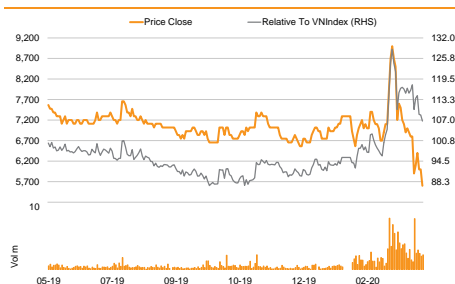
Consensus*: Add:1 Hold:0 Reduce:0

Target price / Consensus: -11.5%

Key changes in the report

> FY20-21F EPS reduced by 7.1-11.2%

Price performance



Source: VND RESEARCH

Key statistics

52w high (VND)	9,000
52w low (VND)	5,600
3m Avg daily value (VNDm)	22,505
Market cap (VNDbn)	7,425
Free float (%)	20
TTM P/E (x)	4.4
Current P/B (x)	0.6

Ownership

Vietnam Post	12.7%
H.T.H Ltd. Co.	5.0%
Mr.Nguyen Dinh Thang	3.6%
Others	78.7%

Source: VND RESEARCH

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Better-than-expected 1Q20 but high growth is unlikely for FY20F

- 1Q20 net profit rose 18.4% yoy to reach VND486bn, forming 29.8% of our FY20F forecasts.
- Maintain Add rating with unchanged TP of VND10,000/share.

Net interest income (NII) grew slightly by 2.6% yoy in 1Q20 as net interest margin (NIM) fell. Loan book grew 16.8% yoy but a 33bp yoy drop in NIM resulted in a modest rise in NII. NIM fell as LPB reduced lending rates and waive interest rates to support customers. Besides, the issuance of VND13tr bonds since 2Q19 boosted funding costs. Loan book grew 2.8% vs. end-FY19, lower than the 3.8% growth in 1Q19, amid lower loan demand due to the Covid-19 outbreak.

Improving fee income but non-interest income (Non-II) contribution to total income is still minimal. 1Q20 non-II recorded VND57bn gain vs. VND32bn loss in 1Q19, driven by : 1) 174.7% yoy surge in net fee income as LPB started selling insurance at more branches/transaction offices; 2) VND17bn gain in other income vs. VND105bn loss in 1Q19, but details were not disclosed. However, investment securities posted VND64bn loss because LPB booked provision for its holding of banking stocks as the stock market slid in 1Q20. Non-II only contributed 3.8% to total operating income (TOI), hence TOI rose 9.2% yoy on slight NII growth.

VND37bn provision reversal in 1Q20 vs. VND133bn booked in 1Q19 boosted the bottom line. 1Q20 non-performing loan (NPL) ratio was flat vs. end-FY19 at 1.4%, thus the bank did not incur new provision expense in 1Q20. In addition, LPB collected some corporate bonds, hence bonds provision was reversed. Net profit rose 18.4% yoy to reach VND486bn, forming 29.8% of our FY20F forecasts.

High growth is unlikely to remain for the year. 1Q20 results was boosted by provision reversal, mainly from corporate bonds, but similar reversal is unlikely in latter quarters. We expect bad debt to rise due to the pandemic, hence, provision expenses will increase going forwards. FY20F loan growth is forecasted at 10% and NIM is projected to dropped 36bp yoy. As such, net profit is projected to fall 5.4% yoy in FY20F.

Maintain Add rating with unchanged TP of VND10,000/share. Our TP is based on equal weight of residual income valuation (COE: 14.5%; LTG: 3%) and 0.7x FY20F P/B. We maintain Add as LPB is traded well below its fair value. Upside risk would be lower-than-expect bad debt levels. Downside risk would come from higher-than-expected operating costs due to network expansion.

Financial summary (VND)	12-18A	12-19A	12-20E	12-21E
Net interest income (bn)	5,016	6,061	6,002	7,026
Net interest margin	3.1%	3.4%	3.0%	3.2%
Total operating income (bn)	4,879	6,507	6,495	7,631
Total provision charges (bn)	(618)	(436)	(605)	(700)
Net profit (bn)	960	1,600	1,514	1,786
Net profit growth	(29.8%)	66.7%	(5.4%)	18.0%
Adjusted EPS	851	1,249	1,182	1,394
BVPS	11,776	12,876	14,491	16,319
ROAE	9.8%	14.0%	11.3%	11.9%

Source: VND RESEARCH

1Q20 recap: Ahead of our expectation due to provision reversal
Figure 1: 1Q20 results summary (VNDbn, otherwise noted)

Profit & Loss Statement	1Q20	1Q19	% yoy	4Q19	% qoq	VNDIRECT FY20F old forecasts	% VNDIRECT old forecasts	Comments
Net interest income	1,438	1,401	2.6%	1,562	-8.0%	6,780	21.2%	Below our forecast because loan growth was slow and NIM dropped in 1Q20, amid the impact of the Covid-19 outbreak. 1Q20 loan growth was 2.8%, tracking behind our old forecast of 15% for FY20F. NIM dropped 33bp yoy and 39qoq to 3.0%, compared to our projection of 3.3% for FY20F. Factors weight on NIM are lower lending rates and interest waivers to support affected customers, higher funding costs due to sizable bonds issuance in FY19 (+1.8x vs. end-FY18).
Non-interest income	57	(32)	n/m	203	-71.9%	380	15.0%	Below our forecast due to additional provision incurred for LPB's holding of banking stocks as the stock market plunged in 1Q20, driven by investors' negative sentiment caused by the pandemic. We expect non-ll to improve in 2H20, on the following reasons: 1) the recovery of banking stocks will lead to the reversal of provision; 2) improving fee income after businesses resume operation.
Operating revenue	1,495	1,370	9.2%	1,766	-15.3%	7,160	20.9%	
Operating expenses	(929)	(725)	28.2%	(1,241)	-25.2%	(4,368)	21.3%	
Pre-provision profit	566	645	-12.2%	525	7.9%	2,792	20.3%	
Provision expenses	37	(133)	n/m	(122)	n/m	(734)	n/m	Below our forecasts due to VND37bn reversal of provision for credit risk. We expect bad debt to rise going forwards, hence provision expenses will also increase in latter quarters, accordingly.
Pretax profit	604	511	18.0%	403	50.0%	2,059	29.3%	
Net profit	486	410	18.4%	289	67.9%	1,629	29.8%	Ahead of our forecasts but 1Q20 net profit was boosted by provision reversal. With the projection of higher provision expenses in the remaining quarters, 1Q20 growth is unlikely to sustain for FY20F.

Source: VND RESEARCH, COMPANY REPORTS

Figure 2: LPB's key ratios by quarters

Key ratios	1Q19	2Q19	3Q19	4Q19	1Q20
Net interest income/Total operating income	102.3%	89.6%	94.3%	88.5%	96.2%
Non-interest income/Total operating income	-2.3%	10.4%	5.7%	11.5%	3.8%
NIM (annualised)	3.3%	3.4%	3.4%	3.4%	3.0%
Non-performing loan (NPL) ratio	1.4%	1.5%	1.5%	1.4%	1.4%
Loan-loss-reserves (LLR)	93.4%	81.0%	80.6%	84.7%	82.3%
Credit cost (annualised)	0.00%	0.01%	0.01%	0.02%	0.00%
ROAA (trailing 12 months)	0.5%	0.7%	0.8%	0.8%	0.9%
ROAE (trailing 12 months)	8.9%	12.3%	12.9%	13.7%	13.6%

Source: VND RESEARCH, COMPANY REPORTS

Outlook: Likely lose growth momentum in remaining quarters
Figure 3: Earnings revision

	Old forecasts		New forecasts		Change		Comments
	FY20F	FY21F	FY20F	FY21F	FY20F	FY21F	
Net interest income	6,780	8,033	6,002	7,026	-11.5%	-12.5%	Due to the disruption to economic activities caused by the pandemic, we reduce our loan growth forecasts for FY2021F from 15% to 10% and 14%, respectively. Our FY20-21F NIM projections are also trimmed by 32-24bp, respectively because of loan rates reduction and interest payments exemption.
Non-interest income	380	442	493	605	29.5%	36.8%	We increase our projections for non-II income on our expectation of strong insurance income growth. LPB shared that they will continue rolling out insurance distribution at more branches/transaction offices, thereby bolstering insurance sales.
Operating revenue	7,160	8,475	6,495	7,631	-9.3%	-10.0%	
Operating expenses	(4,368)	(5,085)	(3,962)	(4,655)	-9.3%	-8.5%	
Pre-provision profit	2,792	3,390	2,533	2,976	-9.3%	-12.2%	Lower than previous forecasts due to downward adjustments in NII. Although we increase our non-II projections, non-II contribution to TOI will still be modest, at 7.6% by end-FY20F, as per our estimate.
Provision expenses	(734)	(849)	(605)	(700)	-17.6%	-17.5%	We lower our provision expenses projections because actual bad debt increased at a slower pace than our conservative forecasts. FY19 credit cost was 0.3%, below our forecast of 0.5%. We revise our credit cost forecasts for FY20-21F from 0.5% previously to 0.4%.
Pretax profit	2,059	2,541	1,928	2,276	-6.3%	-10.4%	
Net profit	1,629	2,011	1,514	1,786	-7.1%	-11.2%	Net profit are revised down on lower loan growth and lower NIM estimates.
No. of outstanding shares	888	888	977	977	10.0%	10.0%	In early 2020, LPB issued 10% stock dividends and bonus shares.
EPS (VND/shares)	1,272	1,571	1,182	1,394	-7.1%	-11.2%	

Source: VND RESEARCH

Valuation: We maintain ADD rating on valuation call; TP of VND10,000/share remains unchanged

Our target price is based on residual income valuation and multiple valuation, with equal weighting for each method. For P/BV multiple valuation, we applied a target P/B of 0.7x for FY20F book value per share, which is LPB's average P/B since listing on Oct 2017. LPB is traded at 41% discount to peers' average FY20F P/B, as there has been lack of positive changes at the banks. The process of moving to HOSE has been slow, and the fast expanded network has not bring expected outcome of strong profit growth driven by acquiring new customers. However, the bank is traded below its book value and its peers' average. As a result, we have an Add rating for LPB due to its cheap valuation. LPB could be a good medium-term investment due to improving fee income from bancassurance, bigger customer base in the medium term as their network is finalised. Another medium term catalyst is the listing on HOSE.

Figure 4: Our target price calculation

Approach	Weighting	Fair value (VND/share)	Contribution (VND/share)
Residual income	50%	9,778	4,889
P/B multiple (at 0.7x FY20F P/B)	50%	10,143	5,072
Target price (VND/share)			9,961
Target price (VND/share, rounded)			10,000

Source: VND RESEARCH

Figure 5: Residual income valuation, based on our estimates

Key assumptions	2020E	2021E	2022E	2023E	2024E	Terminal
Risk free rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Equity risk premium	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%
Long-term growth rate						3.0%
<i>(in VND bn, otherwise noted)</i>						
Opening shareholder's equity	12,580					
PV of RI (5 years)	(522)					
PV of Terminal value	(2,505)					
Implied Equity value	9,553					
No. of outstanding shares (m shares)	977					
Implied value per share (VND/share)	9,778					

Source: VND RESEARCH

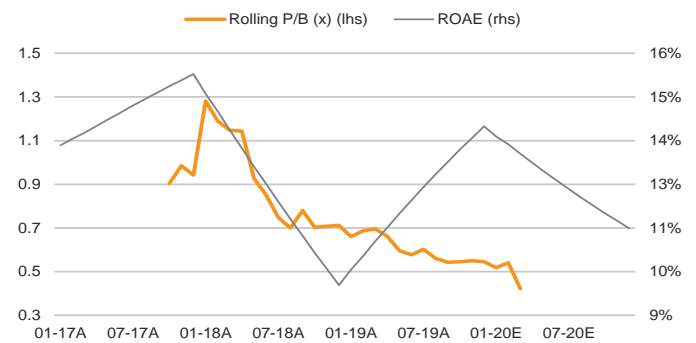
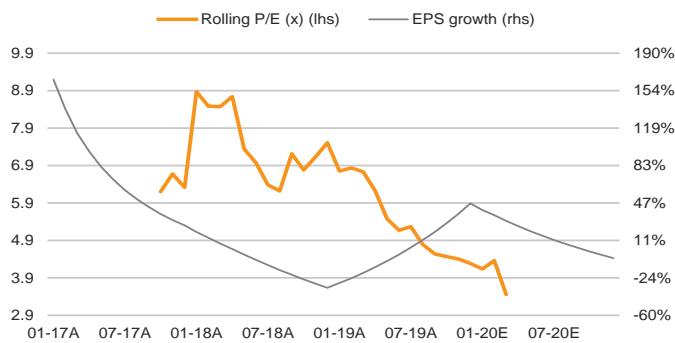
Figure 6: Peer comparison

Banks	Bloomberg Code	Recommendation	Price Latest	Target Price	Market cap	P/B (x)		P/E (x)		3-yr Forward CAGR EPS	ROE %	
						FY20F	FY21F	FY20F	FY21F		%	FY20F
			(local curr.)	(local curr.)	(US\$m)					%	FY20F	FY21F
Techcombank	TCB VN	ADD	22,000	27,400	3,308	1.1	0.9	7.2	6.1	14.6%	16.2%	16.3%
Vietnam Prosperity JSC Bank	VPB VN	HOLD	24,700	25,000	2,587	1.2	1.0	7.3	5.9	15.5%	17.9%	18.4%
Bank Permata	BNLI IJ	HOLD	1,275	1,400	2,431	1.5	1.4	35.5	37.0	-6.2%	4.3%	4.0%
Military Commercial Joint Stock Bank	MBB VN	ADD	17,600	26,200	1,823	0.9	0.8	4.8	4.2	13.3%	20.5%	19.4%
Asia Commercial Joint Stock Bank	ACB VN	ADD	22,400	28,500	1,600	1.1	1.0	5.7	5.1	11.6%	21.7%	20.4%
Federal Bank	FB IN	ADD	39	110	1,028	0.5	0.4	3.6	2.9	28.0%	13.5%	15.0%
Alliance Bank Malaysia Berhad	ABMB MK	REDUCE	2	2	750	0.5	0.5	7.8	8.2	-9.9%	6.8%	6.2%
Affin Bank Berhad	ABANK MK	REDUCE	2	1	707	0.3	0.3	6.3	6.4	0.2%	5.2%	4.9%
Average						0.9	0.8	9.8	9.5	8.4%	13.3%	13.1%
LienViet Post Bank	LPB VN	ADD	7,600	10,000	316	0.5	0.5	6.4	5.5	11.2%	11.3%	11.9%

PRICE AS OF 21 MAY 2020

Source: VND RESEARCH, CGS-CIMB RESEARCH

Valuation



Income statement

(VNDbn)	12-19A	12-20E	12-21E
Net interest income	6,061	6,002	7,026
Non interest income	446	493	605
Total operating income	6,507	6,495	7,631
Total operating costs	(4,032)	(3,962)	(4,655)
Pre-provision operating profit	2,474	2,533	2,976
Total provision charges	(436)	(605)	(700)
Income from associates & JVs			
Net other income			
Pre-tax profit	2,039	1,928	2,276
Tax expense	(439)	(415)	(490)
Profit after tax	1,600	1,514	1,786
Minority interest	0	0	0
Net profit	1,600	1,514	1,786

Balance sheet

(VNDbn)	12-19A	12-20E	12-21E
Gross loans to customers	140,523	154,575	176,215
Loans to banks			
Total gross loans	140,523	154,575	176,215
Securities - total	35,142	36,521	42,000
Other interest earning assets	18,373	15,808	17,079
Total gross IEAs	194,038	206,904	235,294
Total provisions	(2,066)	(2,327)	(2,574)
Net loans to customers	138,802	152,467	173,830
Total net IEAs	191,972	204,577	232,720
Cash and deposits	1,214	1,286	1,364
Total investments	325	344	365
Other assets	8,548	9,061	9,605
Total non-IEAs	10,086	10,692	11,333
Total assets	202,058	215,269	244,053
Customer deposits	136,847	147,795	169,964
Cds outstanding	28,156	28,156	30,972
Customer interest-bearing liabilities	165,003	175,951	200,936
Bank deposits	287	301	316
Broad deposits	165,290	176,252	201,252
Other interest-bearing liabilities	18,692	17,815	19,481
Total IBLs	183,982	194,067	220,733
Deferred tax liability			
Other non-interest bearing liabilities	5,496	7,045	7,377
Total non-IBLs	5,496	7,045	7,377
Total liabilities	189,478	201,112	228,110
Share capital	8,881	9,769	9,769
Additional paid-in capital	0	0	0
Treasury shares			
Retained earnings reserve	2,162	2,850	4,637
Other reserves	1,537	1,537	1,537
Shareholders' equity	12,580	14,157	15,943
Minority interest	0	0	0
Total equity	12,580	14,157	15,943
Total liabilities & equity	202,058	215,269	244,053

	12-19A	12-20E	12-21E
Growth rate (yoy)			
Cust deposit growth	9.5%	8.0%	15.0%
Gross cust loan growth	17.9%	10.0%	14.0%
Net interest income growth	20.8%	(1.0%)	17.1%
Pre provision operating profit growth	35.1%	2.4%	17.5%
Net profit growth	66.7%	(5.4%)	18.0%
Growth in IEAs	16.5%	6.6%	13.8%
Share value			
Basic EPS (VND)	1,638	1,549	1,828
BVPS (VND)	12,876	14,491	16,319
DPS (VND)	0	0	0
EPS growth	46.8%	(5.4%)	18.0%

Key ratios

	12-19A	12-20E	12-21E
Net interest margin	3.4%	3.0%	3.2%
Cost-income ratio	(62.0%)	(61.0%)	(61.0%)
Reported NPLs / gross cust loans	1.4%	1.6%	1.6%
Reported NPLs / net cust loans	1.5%	1.6%	1.6%
GP charge / average cust loans	0.3%	0.4%	0.4%
Total CAR	8.4%	8.5%	8.4%
Loan deposit ratio	85.2%	87.9%	87.7%
Margins and spreads			
Return on IEAs	9.0%	8.8%	8.9%
Cost of funds	5.9%	6.2%	6.1%
Interest return on average assets	3.2%	2.9%	3.1%
ROAE	14.0%	11.3%	11.9%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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