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Vietnam Banks Sector

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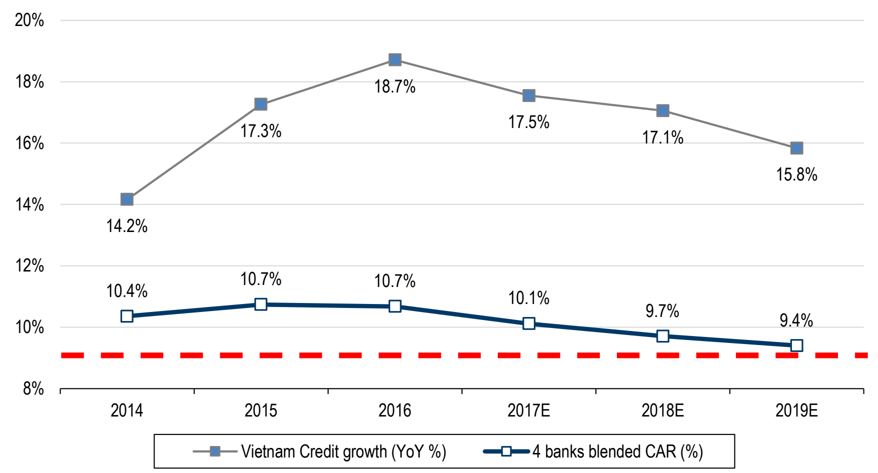
SECTOR REVIEW

Wheels not falling off yet

Figure 1: Consumer loan + Basel 2 delay can carry growth for few years

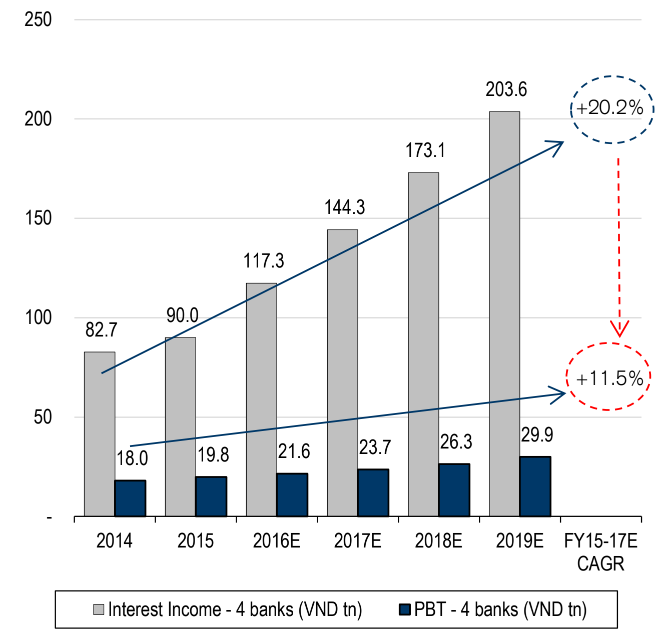


Source: Company data, Credit Suisse estimates, * Four banks under coverage: CTG, BIDV, MBB, ACB

- **Few more years of strong credit growth possible.** Vietnam might still be able to deliver 16-18% credit growth over the next few years. First, credit growth so far has been driven more by the private and consumer sector, both of which we believe still have further room to grow. Second, the Basel 2 delay till 2020 allows banks with "in-between" capital to sustain their asset growth. We note though that this growth might not fully feed through to profit growth. We expect pressure on NIM with deposit competition; operating costs are still rising, while credit costs are likely to have bottomed.
- **Long-term problems remain unresolved.** While there is room for near-term growth, the sector still needs to overcome challenges to carry growth on. First, it is still in need of major capitalisation both to accommodate growth and as a cushion against any deterioration in asset quality. Second, the sector needs a more effective way of dealing with bad debts.
- **Not all banks are equal.** Varying capital, exposure, cost structure and asset quality means each bank has different opportunities. On valuation, comparative multiples should be adjusted for asset quality and ROE should be adjusted for below-the-line costs. We upgrade MBB to OUTPERFORM as its improving growth and attractive valuation warrants a rerating. We upgrade CTG to NEUTRAL with better near-term growth, though risk-reward looks balanced. We maintain UNDERPERFORM on BIDV which is in severe need to recap, is vulnerable to deposit competition, is facing deteriorating asset quality and is expensive on valuation.

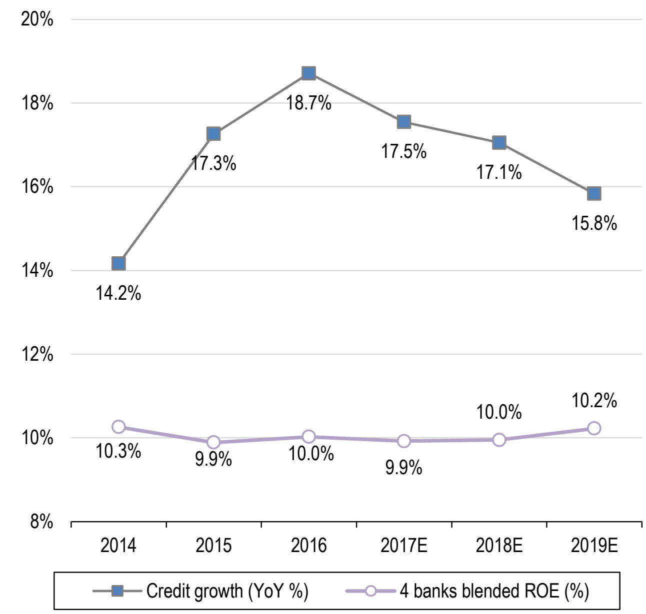
Focus charts and tables

Figure 2: But competition + bottomed credit cost mean loan growth won't fully feed through to profit



Source: Company data, Credit Suisse estimates

Figure 3: …and the banks' ROE would still remain low at only ~10% despite strong loan growth



Source: Company data, Credit Suisse estimates

Figure 4: The sector is still in need of material recapitalisation ahead of Basel 2

		Scenario 1				Scenario 2		Scenario 3			
		Comfortable for growth				Basel II Compliance		Basel II Compliance + Comfortable for growth			
		11% CAR		12% CAR		8% CAR		11% CAR		12% CAR	
	Y/E17E CAR	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap
CTG	9.9%	496	16.2%	859	28.0%	109	3.5%	1195	38.9%	1557	50.7%
BID	9.3%	627	23.7%	950	35.8%	483	18.2%	1450	54.7%	1772	66.9%
MBB	11.9%	0	0.0%	40	3.7%	0	0.0%	302	27.7%	409	37.6%
ACB	12.3%	0	0.0%	0	0.0%	0	0.0%	177	16.9%	249	23.8%
Total 4 banks		1,124	14.3%	1,848	23.5%	592	7.5%	3124	39.8%	3988	50.8%

Source: Company data, Credit Suisse estimates

Figure 5: Valuation table

	Current price (D)	Target price (D)	Upside (%)	Rating	P/E (x) FY17E	P/E (x) FY18E	P/B (x) FY17E	P/B (x) FY18E	Adjusted P/B (x) FY17E	Adjusted P/B (x) FY18E	ROE (%) FY17E	ROE (%) FY18E
Vietinbank	17,850	19,700	10.4	N	11.6	10.8	1.0	0.9	1.2	1.0	8.7	8.6
BIDV	17,000	13,500	(20.6)	U	12.3	11.6	1.2	1.1	2.7	2.0	9.9	9.6
Military Bank	14,150	17,000	20.1	O	8.1	7.6	0.9	0.8	0.9	0.8	10.5	10.1
Asia Commercial Bank	23,700	24,000	1.3	N	14.8	11.1	1.4	1.2	1.6	1.4	10.1	11.9
Blended 4 Banks					**11.6**	**10.5**	**1.1**	**1.0**	**1.7**	**1.4**	**9.6**	**9.6**
Vietnam market – IBES consensus*					**14.9**	**12.2**	**2.1**	**1.9**			**21.2**	**23.9**

* Based on IBES consensus estimates of top 40 Vietnam stocks by market caps.
Note: O = Outperform, N = Neutral, U = Underperform.
Source: Company data, Credit Suisse estimates

Wheels not falling off yet

Few more years of strong credit growth possible

Shift in growth drivers and Basel 2 delay enable few more years of loan growth…

Vietnam might still be able to deliver 15.8-17.5% credit growth over the next few years. First, credit growth over the past three years has been driven by the private and consumer sector, both of which we believe still have room to grow. Second, the delay of Basel 2 implementation to 2020 would now allow banks with "in-between" capital (i.e., their CAR would have fallen below the 8% requirement under Basel 2) to continue to grow their assets at least in the near term. Our base case now builds 17.5%/17.1%/15.8% credit growth for FY17/18/19E, and Vietnam's credit penetration could reach 147% of GDP by Y/E19E.

Not all would feed through to bottom line

…though NIM, opex, and asset quality pressure would partly offset these

This credit growth, however, might not feed through fully to the bottom line. First, we still expect pressure on net interest margins (NIMs) for some banks, as the positive impact from shift in asset mix towards higher yielding consumer and SME loans is offset by more intense deposit competition, particularly for medium-longer term deposits given regulatory requirements. Liquidity could also tighten as VND starts to depreciate more against USD.

Second, FY16A saw operating expenses across four banks rising by 16.3-22.0%, largely driven by a shift in business model—more toward consumers and retail (e.g. salary costs, branch-related expenses)—and IT system upgrades. We expect cost pressure to persist across all banks into FY17-18E as competition in the consumer and SME segment continues.

Third, while new NPL formation seems manageable and has allowed banks to reduce their credit costs (excluding VAMC) substantially in FY16A, we note that NPL and special mentioned loans (SML) have started to creep up at some banks. We believe their credit costs have likely bottomed in FY16A and could tick-up into FY17-18E.

Real long-term problems remain unsolved

Major recapitalisation might be delayed, but ultimately inevitable

It is important to highlight that while there is room for near-term growth, the sector still needs to overcome challenges to sustain that into the medium-longer term. First, the sector is still in need of major capitalisation. The delay in Basel 2 might help relieve short-term pressure but does not solve the problem. Continued asset growth with relatively low capital generation would continue to erode the capital base. Second, the sector still does not have an effective way of dealing with both existing and future bad debts as they rise.

Not all banks are equal

MBB looks ripe for a rerating, BIDV cannot go on like this

Varying capital, asset exposure, cost structure and asset quality means each bank has different opportunities for growth. On the valuation side, we highlight that in order to compare comparative multiples among banks, these multiples should be adjusted for varying asset quality and outstanding VAMC bond among banks. We should also adjust their respective earnings for different below-the-line costs such as the appropriation of the bonus and welfare fund. We have adjusted our valuation method to incorporate these adjustments. Our target prices for banks are based on the equal weighting of historical P/B against adjusted BVPS and historical 12-month forward P/E against 12-month forward EPS. We upgrade MBB to OUTPERFORM (20% potential upside) as improving growth profile and attractive relative valuation warrants a rerating. We also upgrade CTG to NEUTRAL with better near-medium term growth outlook, though risk-reward now looks balanced. We maintain our UNDERPERFORM rating on BIDV which is in severe need to recapitalise, is vulnerable to deposit competition, is facing deteriorating asset quality and is trading at expensive adjusted multiples currently.

Sector valuation

Figure 6: Regional banks comparative multiples

	EPS growth (%)		P/E (x)		ROE (%)		P/B (x)		Rating	Most preferred	Least preferred
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E			
Vietnam	**7.9**	**9.9**	**11.6**	**10.5**	**9.6**	**9.6**	**1.7**	**1.4**	**MW**	**MBB**	**BIDV**
China	2.9	5.9	6.0	5.7	13.7	13.1	0.8	0.7	MW *	CCB, CMB	PSBC
India-govt	77.7	27.2	12.6	9.9	8.5	9.9	1.0	0.9	MW	HDFC Bk, ICICI, LICHF	PNB, BOB
India-pvt	31.2	23.8	17.9	14.4	15.1	16.4	2.5	2.2			
India	43.9	24.9	16.1	12.9	12.0	13.4	1.8	1.6			
Korea	4.6	5.2	7.7	7.4	7.4	7.4	0.6	0.5	MW	KB Financial	IBK
Taiwan	8.3	5.4	10.7	10.1	10.3	10.3	1.1	1.0	UW	Mega, China Life	CHB
Indonesia	13.0	18.6	12.6	10.6	14.7	15.5	1.8	1.6	OW	BNI, BCA	BDMN
Thailand	5.3	12.1	10.4	9.3	11.6	12.0	1.2	1.1	MW	BBL, KBANK	KTB
Malaysia	15.0	10.6	11.4	10.3	11.3	11.6	1.2	1.1	UW	CIMB	PBK, MAY
Philippines	10.7	20.2	15.7	13.0	10.7	11.3	1.5	1.4	MW	MBT	BPI
Singapore	12.9	6.1	10.1	9.5	10.7	10.5	1.0	1.0	OW	DBS	-
Pakistan	11.1	15.0	9.4	8.2	16.7	18.0	1.5	1.4	OW	HBL, MCB	NBP
Australia	8.3	3.1	12.7	12.3	13.7	13.4	1.7	1.6	UW	NAB	WBC
Japan	-3.6	1.0	9.8	9.7	6.6	6.5	0.6	0.6	UW	MUFG, Shinsei	Shizuoka

Note: OW = Overweight, MW = Marketweight, UW = Underweight
Source: Company data, Credit Suisse estimates

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Few more years of strong credit growth possible

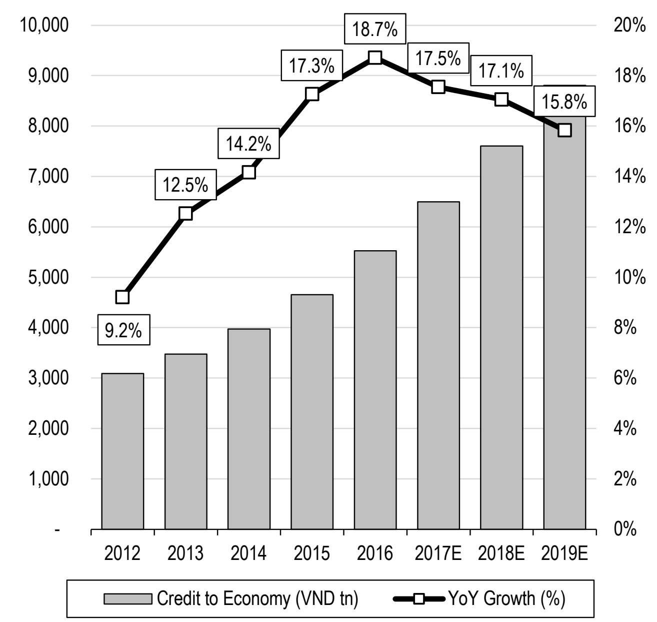
We are forecasting 15.8-17.5% credit growth over the next three years

Vietnam has delivered very strong credit growth since coming out of its banking crisis. Credit growth hit a high of 18.7% last year, an acceleration from 14.2-17.3% in FY14-15A and was among the highest in the region. This, along with continued strong FDI flow, has allowed Vietnam to sustain 6.2% YoY GDP growth in FY16A despite challenges.

This strong credit growth though has raised questions: where are these credits going? Are we repeating history? And if, or for how long, would this growth continue?

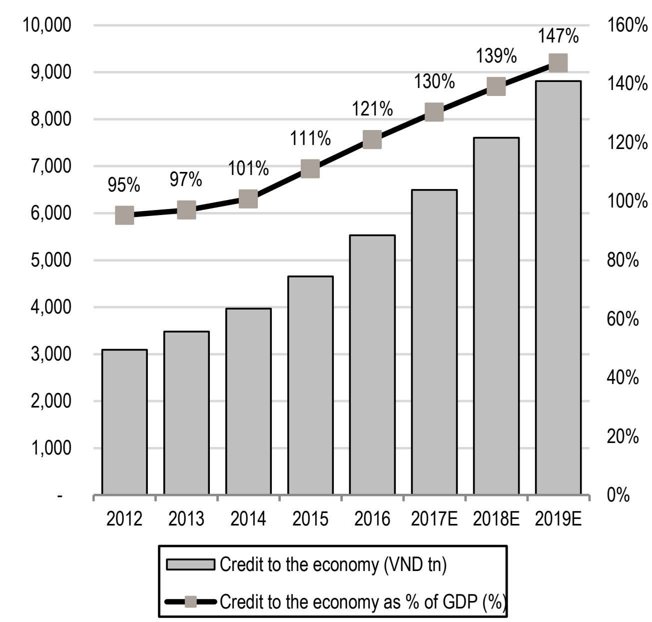
We believe Vietnam might still be able to deliver 15.8-17.5% credit growth over the next few years. First, credit growth over the past three years has been driven by the private and consumer sector, both of which we believe still have room to grow. Second, the decision to delay the Basel 2 implementation to 2020 would now allow banks with "in-between" capital (i.e. their CAR would have fallen below 8% requirement under Basel 2) to continue to grow their assets at least in the near term. Our base case now builds 17.5%/17.1%/15.8% credit growth for FY17/18/19E, which would bring Vietnam's credit penetration to 147% of GDP.

Figure 7: Vietnam—credit to economy forecasts



Source: State Bank of Vietnam (SBV), Credit Suisse estimates

Figure 8: Vietnam—credit to GDP (%)



Source: SBV, Credit Suisse estimates

Private and consumer sector can still drive growth…

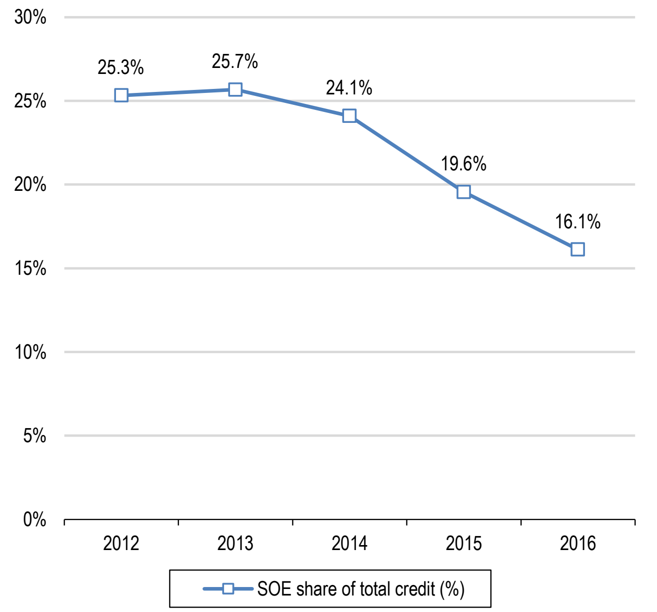
Clear shift in growth drivers mean room for further growth

With the strong (and accelerating) credit growth over the past few years, the key question has been as to where these credits are going. The answer is important. First, in determining if we are repeating the history that led to the Vietnam banking crisis in 2011-12, and second, to understand if these credits are generating enough returns, which in turn determines the corporates' ability to pay back their loans and contribute to the overall growth of the economy.

Using the data as disclosed by the State Bank of Vietnam and listed banks, we believe there are four key conclusions that we want to highlight.

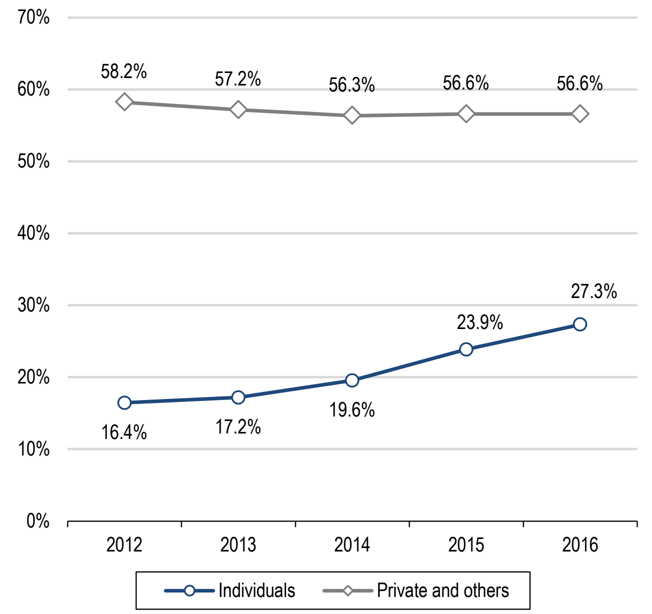
- **Private sector taking over:** Based on the breakdown as disclosed by major listed banks, the driver behind the re-acceleration of credit growth since 2014 has been quite different from the pre-crisis period, with the share of credit to SOE falling sharply to 16% in FY16E from 25-26% in FY12-13A. We do note that this also reflected the impact from the progress of privatisation as SOEs equitised and re-classified as private companies. However, we also highlight that the rise in credit to individuals has clearly been an important driver, rising from 16% in FY12 to 27% of the total credit to economy.

Figure 9: SOE's share of overall credit is falling…



Source: Company Data, Credit Suisse estimates

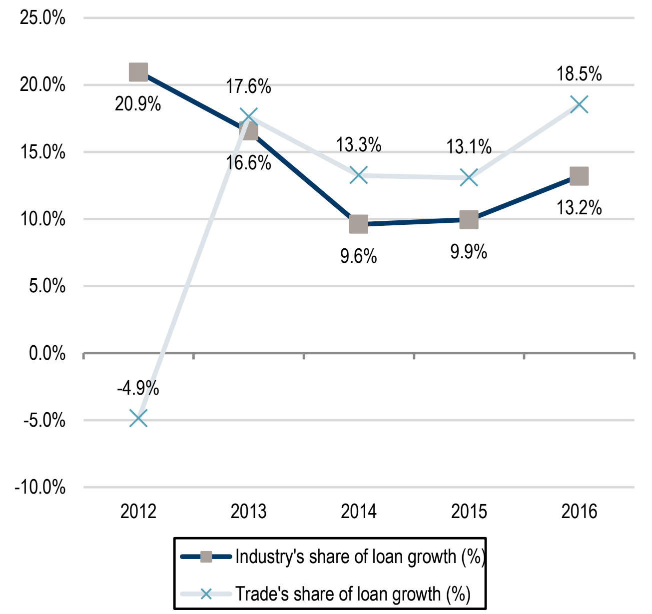
Figure 10: …individuals and private companies taking over



Source: Company data, Credit Suisse estimates

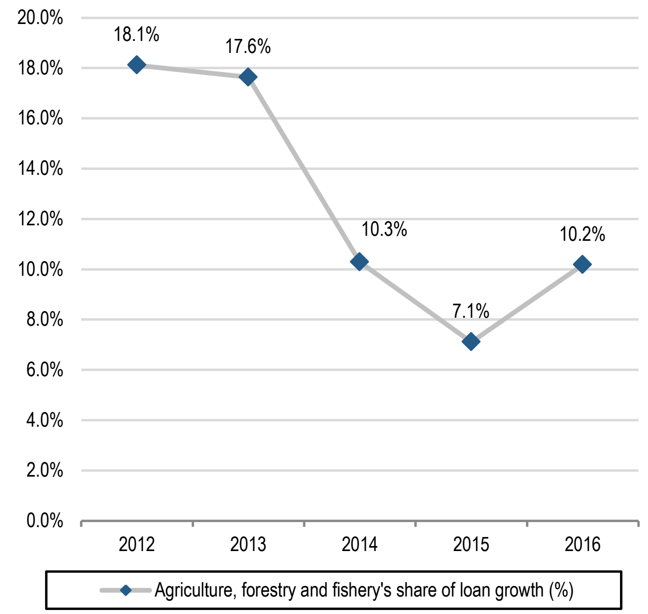
- **Engines of growth have also changed:** Based on SBV's credit to economy by sector, there has also been a clear shift in terms of sectors that have been driving credit growth, with "trade" taking up 13.1-18.5% share of credit growth, and "industry" 9.6-13.2% share over the past three years. Agriculture's share of growth, on the other hand, has declined to 7.1-10.3% over the period, from 17.6-18.1% share in FY12-13A. The significant driver, however, was classified as "others", which drove 50.0-59.3% of credit growth over the past three years. This includes loan to individuals.

Figure 11: Industry and trade are getting a bigger share of growth…



Source: SBV, Credit Suisse estimates

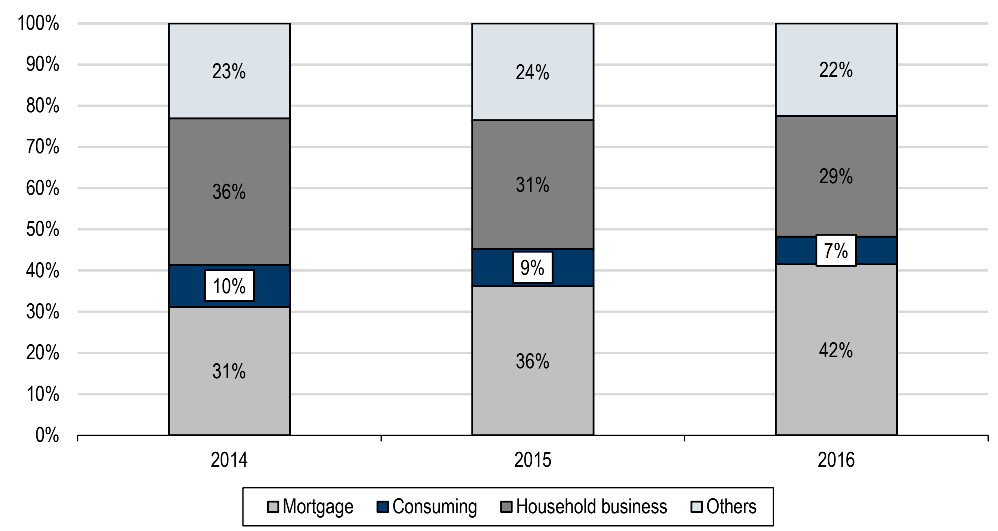
Figure 12: …while agriculture is taking a smaller share



Source: SBV, Credit Suisse estimates

- **Mortgage and small businesses drive loan to individuals:** It is clear from the reported figures from both SBV and banks, that the driver behind credit growth has been loans to individuals (50-59.3% of incremental loans in FY14-16A). What is less clear though is what exactly these loans are. Based on our discussion and data from larger banks, we estimate mortgage has been a key driver behind this, and has risen to ~42% of overall loan to individuals as at Dec-16E, from ~31% at Dec-14. The portion of car loan remains small at only ~3%.

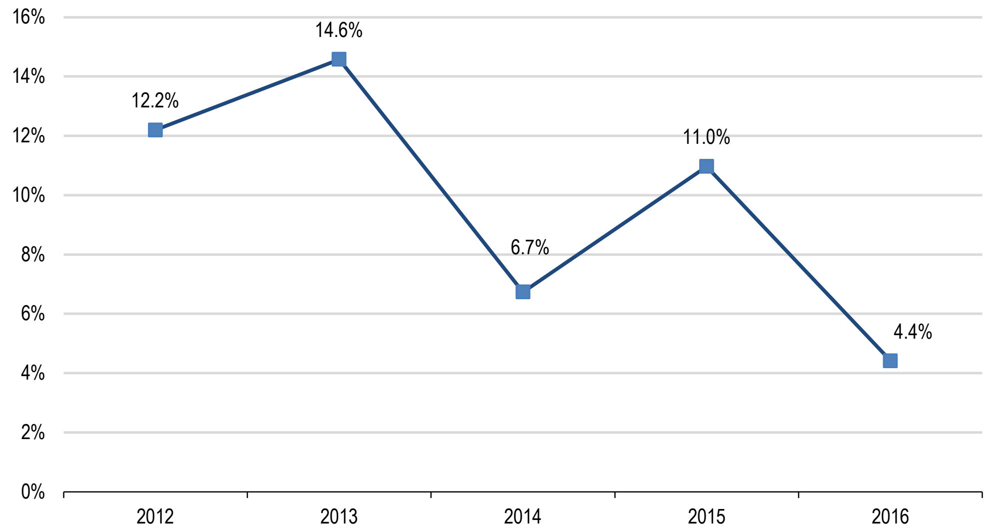
Figure 13: Mortgage and Household businesses drive loan to individuals



Source: Credit Suisse estimates

- **There has been more control on credit to the property sector** particularly on the developer side. Construction sector's share of credit growth has declined from 14.6% in FY13A to only 4.4% in FY16E. We believe this partly reflects SBV's effort to curb loans to the construction and property segment both directly (e.g. increase in risk weighting for the property sector to 200% from 150%) and indirectly (through its influence in SOCBs' strategy). We note that individual banks also experienced the same trend, with comprehensive loans to real estate (construction + transport and telecom + hospitality + real estate) for banks, for which we have FY16A loan breakdown, showing a significant decline in the share of loan growth YoY.

Figure 14: Construction sector's share of incremental credit has been declining

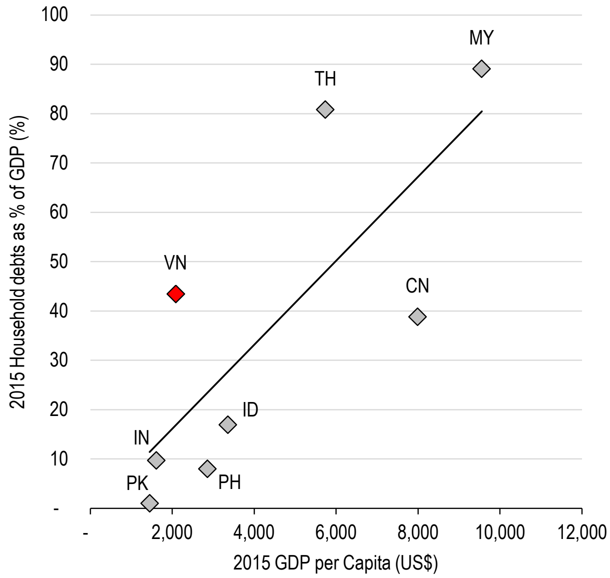


Source: SBV

Overall we believe these changes are positive on two counts.

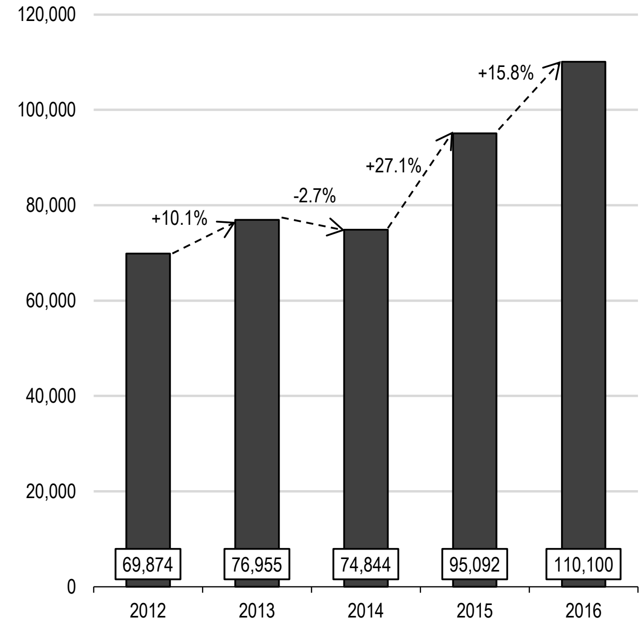
- First, we believe the shift in resource allocation away from SOEs to the private and consumer sector is positive given our view that SOEs' capital utilisation, returns and risks are generally poorer relative to the private sector.
- Second, as highlighted in our Jul-2016 report "Unfulfilled potential", we still see room for further growth into the private and consumer sector. On the consumer side, we estimate that household credit penetration is at 43% of GDP as at Dec-2015—still low relative to countries such as Thailand (81%) or Malaysia (89%) who have similar levels of headline credit penetration (121-135%). On the private company side, we note that new business registration continued to grow by 16% YoY in FY16.

Figure 15: Household debt as % of GDP



Source: Credit Suisse estimates

Figure 16: New business registration



Source: CEIC

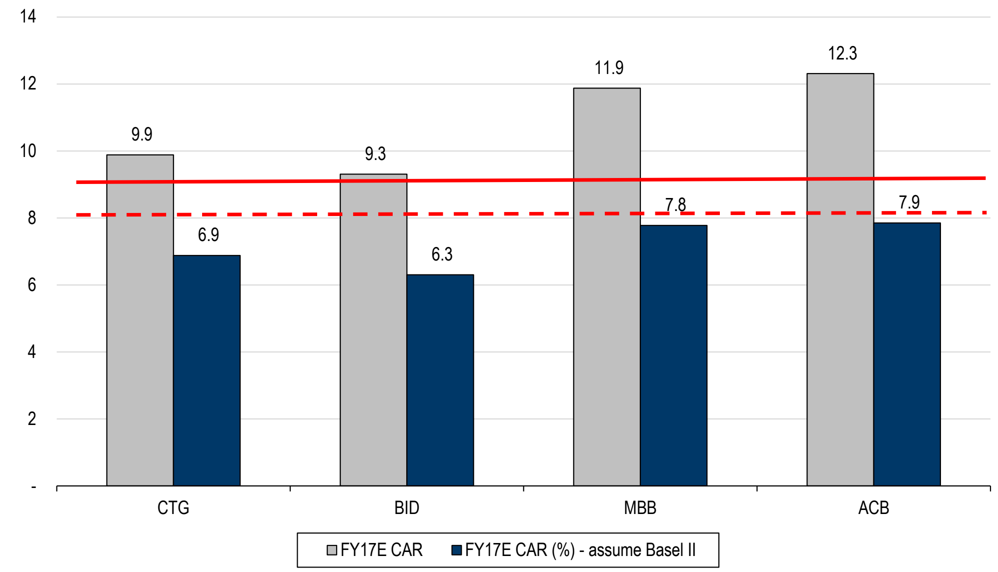
…kicking the Basel 2 can down the road to 2020

Basel 2 delay does not solve the problem, but allows near-medium term growth

As highlighted in our Aug-2016 Vietnam strategy note "Losing steam", one of our key concerns, not only for the sector but for the overall economy, was Vietnam's very heavy reliance on credit (as reflected in Vietnam's very high credit/GDP for its size and state of development) while its banks are the worst capitalised in the region, even under Basel 1.

CAR levels for the sector at Nov-2016 stood at 10.75% under Basel 1. State-Owned Commercial Banks (SOCBs), which controlled ~47% of the sector's assets were particularly weak, with only 9.81% CAR as at Nov-2016. The implementation of Basel 2, initially targeted for FY18E, together with an increase in the risk weighting for property loans from 150% to 200% from Jan-2017, would push CAR for SOCBs and some private-owned Joint Stock Commercial Banks (JSCBs) well below the 8% required under Basel 2. Without material recapitalisation, this would have potentially stunted banks' ability to grow assets.

Figure 17: FY17E CAR projection—all right on Basel 1, under on Basel 2



Source: Company data, Credit Suisse estimates

The State Bank of Vietnam (SBV)'s Circular 41 released earlier this year was therefore important. Apart from detailing the implementation of Basel 2 so that banks can finally evaluate its impact more accurately, the circular proposed full implementation of it by 2020 and no longer required 10 “pilot banks” to comply with it by 2018 as initially planned.

This delay helps relieve short-term capital pressure on the banks particularly for the "in-between" banks (i.e., the banks that are above current the 9% Basel 1 requirement but would have fallen below 8% Basel 2 requirement if it is implemented). For example, these banks include CTG (10.7% CAR as at Jun-2016). The delay also helps reduce pressure for banks which could have been above the 8% requirement if Basel 2 is implemented now, but just barely, allowing them time to recapitalise for medium-longer term growth (e.g. MBB and ACB).

We note though that this delay does not really help banks that are already close to the 9% regulatory requirement, as these banks would require recapitalisation regardless of Basel 2 in order to continue to grow. These banks include BIDV (~9% CAR) and we believe the 100% government-owned Agribank.

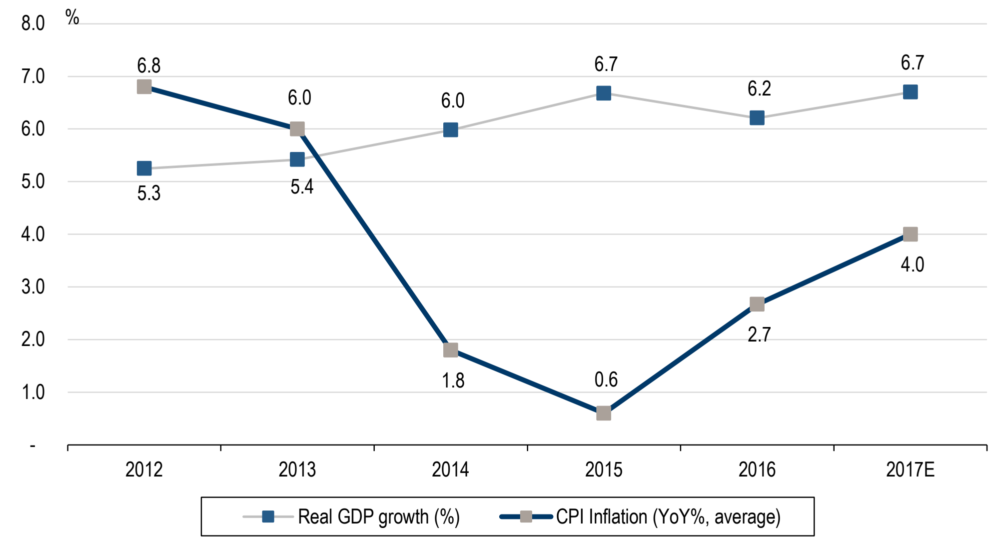
Inflation risk might limit credit growth though

Our meeting with SBV indicated clear focus on 4% inflation, and how it is ready to defend it

We met with SBV earlier in Jan-2017 to discuss its target and priorities for the year. While SBV’s 18% credit growth target for FY17E is on the aggressive side, in our view, our meetings indicated that SBV could be more focused on stability in FY17E.

SBV acknowledged the upward pressure on inflation and stated that it would work with the government (e.g., to control increase in prices for electricity, healthcare and education) as well as be ready to adjust the credit growth target, if needed, to achieve its average inflation target of 4% in FY17E. If the two goals—i.e., credit to boost growth and inflation—are conflicting, SBV stated that the credit growth target could be adjusted at any time.

Figure 18: VN government targeting both growth and stability in FY17E, but what if it needs to make a choice?



* FY17E is government and SBV's target, not CS forecasts Source: SBV, TSO, Credit Suisse research

We also note that apart from the credit growth target, SBV noted that credit would be channelled more towards the private sector and SMEs, but it would step up control on loans to the real estate sector in order to curb risks.

Different assumptions for different banks

MBB, ACB and CTG still in growth seats, Basel 2 slow down not enough for BIDV

For the four banks under our coverage, we now expect MBB, ACB and CTG to deliver 20-22% loan growth CAGR over the next three years. For BIDV, however, given its relatively weaker capital position, we only expect it to deliver 14% loan growth CAGR over the next three years.

Figure 19: Loan growth assumption (%)

	2015	2016	2017E	2018E	2019E	FY16-FY19E CAGR
CTG	22.3%	23.0%	21.0%	20.4%	19.0%	20.1%
BID	34.3%	20.9%	15.8%	14.5%	12.7%	14.3%
MBB	20.7%	24.2%	22.7%	22.1%	20.5%	21.8%
ACB	15.2%	21.9%	21.1%	20.5%	19.0%	20.2%
Industry	**17.3%**	**18.7%**	**17.5%**	**17.1%**	**15.8%**	**16.8%**

Source: Company data, Credit Suisse estimates

Not all would feed through to bottom line

However, we do not expect the strong credit growth to fully feed through to the bottom line. First, we still expect pressure on net interest margins (NIMs) for some banks. Second, we expect cost pressure from the shift in business focus and IT upgrade to persist across these banks in FY17-18E. Third, NPLs and special mentioned loans (SMLs) have started creeping up again at some banks, and we believe their credit costs have likely already bottomed.

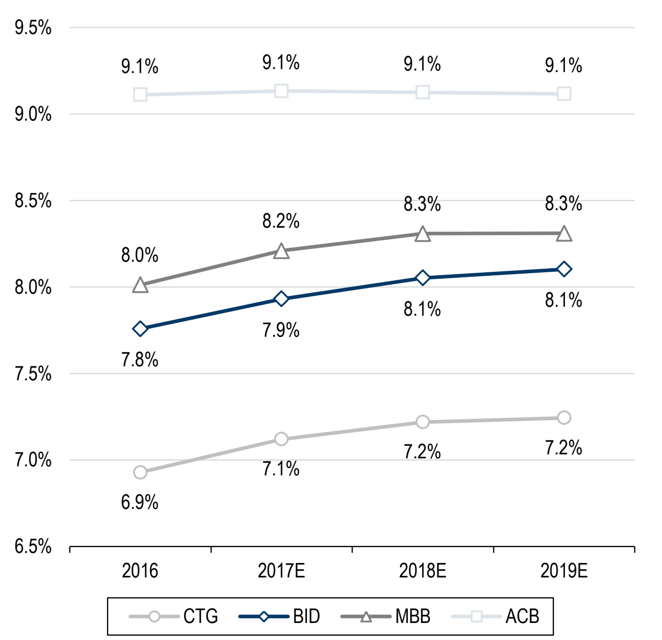
The degree of sensitivity to these factors of course varies among banks. Banks with lower LDR might have better balance sheet flexibility and hence could be less sensitive to deposit competition; banks that have already been competing in retail might spend less, while banks that are already ahead in the spending cycle might have room to improve cost efficiencies. Varying asset quality and loan loss reserve means rise in credit costs could be at different paces. Based on these matrices, we believe MBB and ACB are relatively well-positioned, CTG is moderately sensitive, while BIDV would face challenges.

We still expect pressure on NIM

Deposit competition would put pressure on net interest margin (%)

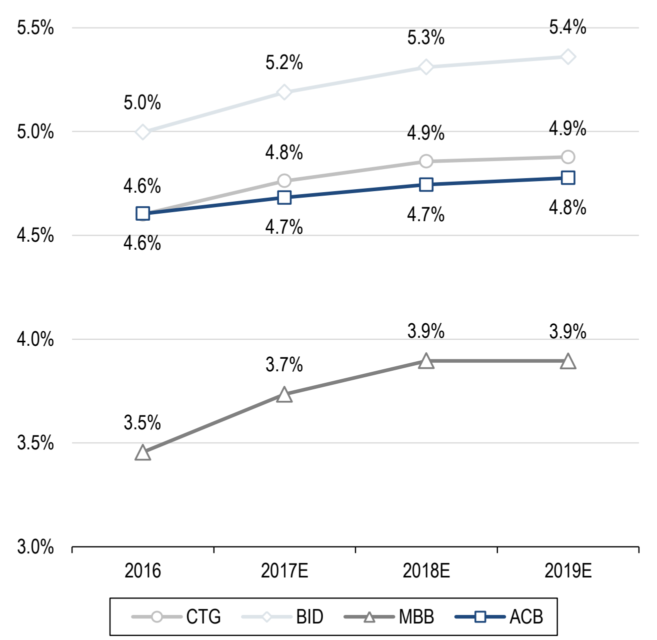
We acknowledge that the shift in asset mix more toward higher yielding consumer and SME loans (8-10% compared to 6-7% on SOEs/larger corporate loans) is positive for banks as reflected in higher yield on gross loans across all four banks under our coverage over the past three years (Figure 20). However, this higher yield so far has been offset by few factors including the maturity of high yield government bonds (from >8% to ~5-6% currently), some degree of deposit competition and the need for mobilisation particularly for banks with high LDR like CTG (101% as at Dec-2016) and BIDV (100% as at Dec-2016).

Figure 20: Average yield on gross loans



Source: Company data, Credit Suisse estimates

Figure 21: Average cost of deposits



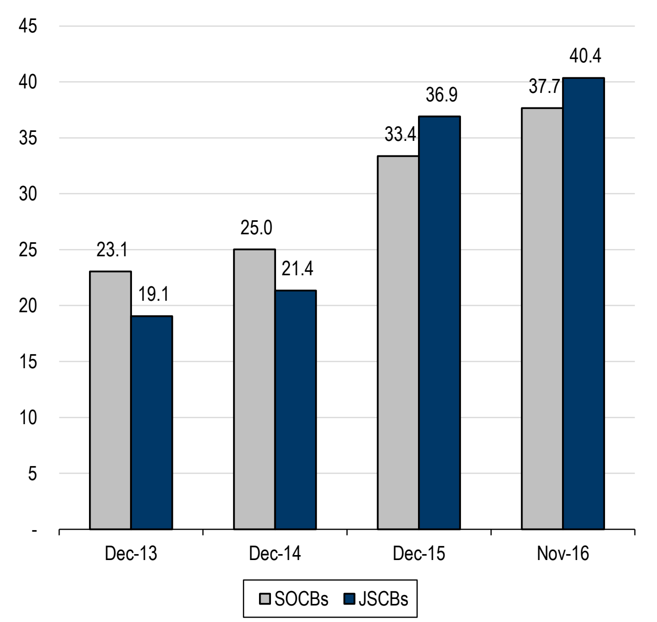
Source: Company data, Credit Suisse estimates

While we believe the adverse impact from the maturity of the high yield government bond was already largely digested in FY16, we see two factors that could continue to put pressure on banks' NIM into FY17-18E.

First, on the regulatory side, the amended Circular 36, which includes a reduction in the maximum ratio of short-term funding used for medium- and long-term loans to 50% (from

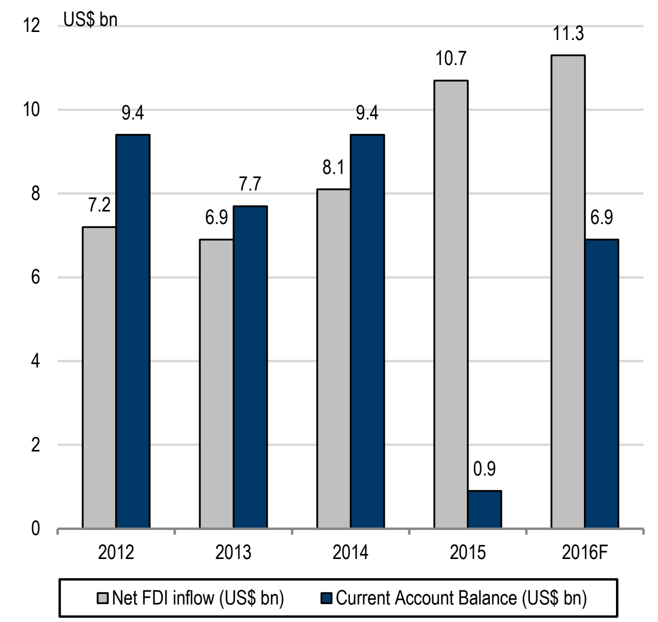
60%), has now taken effect from Jan-2017. The banks might still broadly be in compliance with the new threshold, but we note that (1) such ration has been on a clear rising trend as shown in Figure 22 and (2) the limit will be lowered further to 40% from 2018. We expect banks to adjust themselves more urgently in FY17E. Our discussion with banks indicate that mobilising medium-longer term funding is trickier than short term given Vietnamese depositors' preference and hence could lead to higher deposit costs.

Figure 22: ST funding for med-LT loans on the rise



Source: SBV, Credit Suisse research

Figure 23: FDI and CA surplus means strong inflow

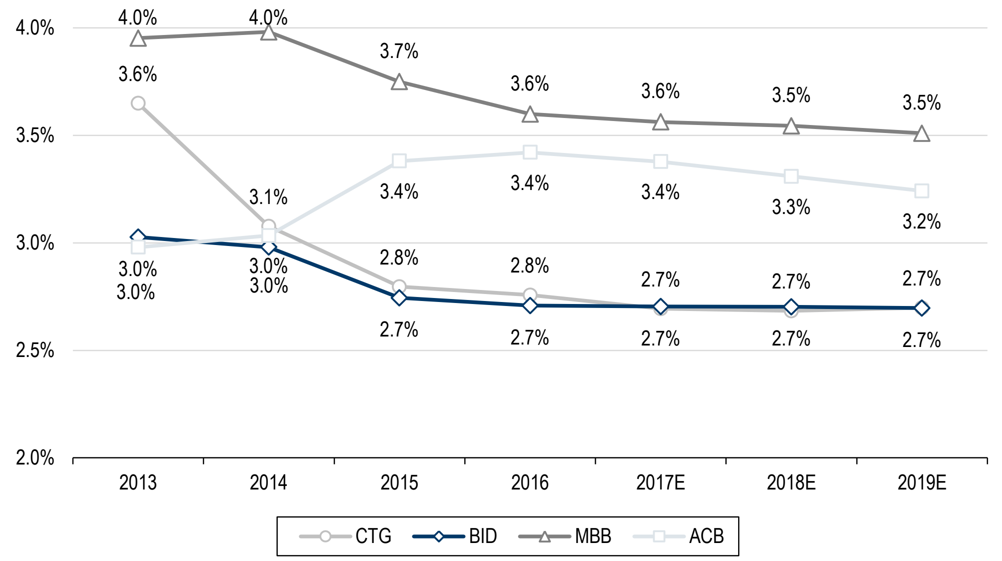


Source: Credit Suisse Economics Research Team

Second, banks during FY16 have enjoyed very good liquidity and the system's deposits grew 18.4% YoY, accelerating from 14.3% in FY15A. We believe this was partly driven by a relatively stable VND, which in turn increased investor/depositor's confidence in putting their money in VND assets. We note the gap between VND-USD deposit rate is large at 6.4-7.2% for the 12 month deposit (USD deposit earns 0% currently). While Vietnam might still enjoy strong inflow from FDI and CA surplus (which together should mean appreciation for VND), CS' economist expects strong USD appreciation in 2017, and the depreciation of VND relative to USD could reduce the attractiveness of VND-assets and make mobilisation tougher.

We also note that with the government and SBV stating that they would like to try to keep the lending rate stable YoY, indicates that the pass-through of the increase in deposit rate to lending rate could be limited.

Figure 24: NIM to be flat or decline despite improving asset mix



Source: Company data, Credit Suisse estimates

Our base case assumes that the positive impact from shift in asset mix would be fully offset by rising deposit competition, thus resulting in broadly flat NIMs for all four banks into FY17-18E.

MBB and ACB still have better funding flexibility, in our view

We note though that banks' sensitivity to deposit competition and need for mobilisation varies. We expect banks with less LDR (below 80%) to have better funding flexibility (e.g. as MBB showed in 2016); banks with better deposit franchise to be less sensitive to competition (SOCBs with a wider branch network do look better in this regard); and banks with the ability to pass on incremental costs (decent sized JSCBs might have a better chance to pass on cost than SOCBs with less national services obligations). In this regard, we believe MBB and ACB are relatively well positioned, while BID is weak.

Figure 25: MBB and ACB still have better funding flexibility, in our view

	Deposit growth		LDR		Average deposit cost	
	2015	2016	2015	2016	2015	2016
CTG	16.2%	32.8%	109.2%	101.2%	4.4%	4.6%
BID	28.2%	28.6%	106.0%	99.7%	4.7%	5.0%
MBB	8.3%	7.3%	66.8%	77.4%	3.1%	3.5%
ACB	13.1%	18.4%	76.6%	78.9%	4.5%	4.6%

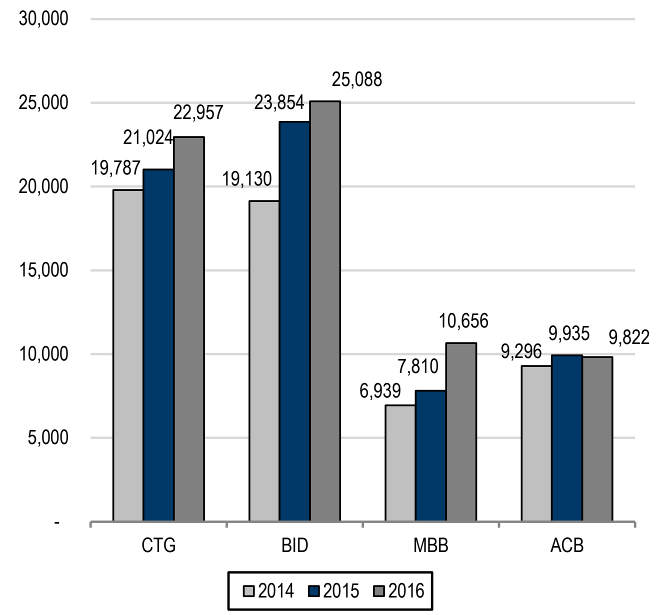
Source: Company data, Credit Suisse estimates

We still expect pressure on opex

Competition for talent and IT upgrade driving up operating expenses

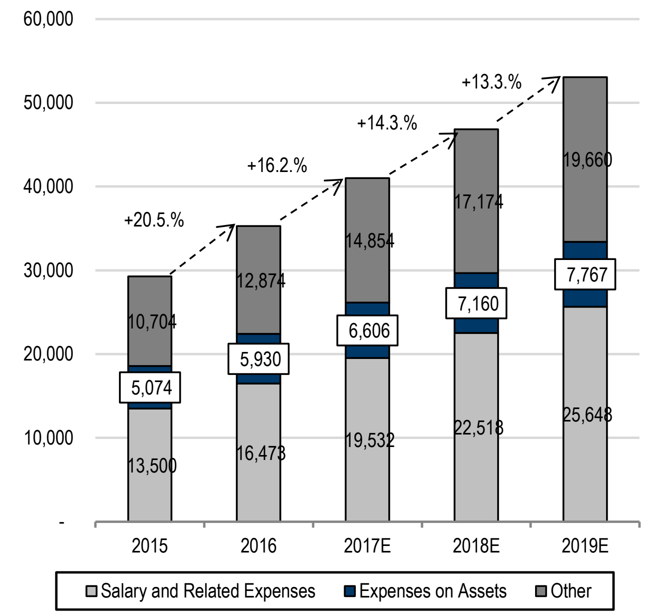
We highlight that FY16A saw operating expenses across four banks under our coverage rising by 16.3%-22.0%, resulting in an increase in cost-to-income ratio (CIR) by 1.7% and 3.1% at CTG and MBB, while BIDV's CIR also remained high relative to FY14A. ACB's CIR declined to 61.9% but note that this was affected by lower impairment expenses related to legacy assets, while its much higher CIR than other banks offers room for cost efficiency.

Figure 26: Headcount continued to grow…



Source: Company data, Credit Suisse estimates

Figure 27: …and opex continued to rise



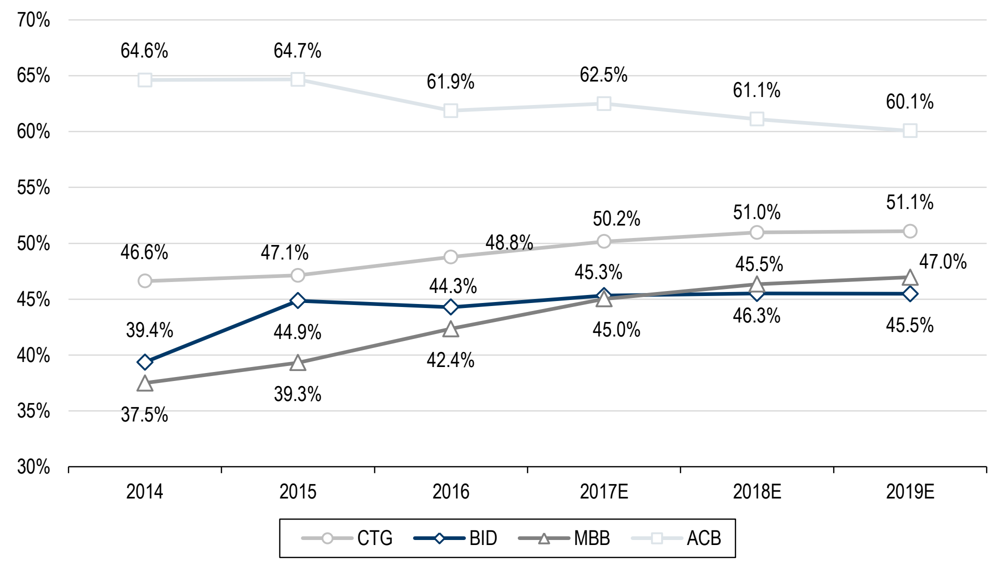
Source: Company data, Credit Suisse estimates

Figure 27 shows the breakdown of operating expenses for the four banks under our coverage. The increase was largely driven by salary and related expenses (+22% YoY, accounting for circa 47% of overall opex). This was, in turn, driven by the shift in business focus towards higher touch consumers and retail (requires more people and touch points) from SOEs, larger corporates or investment in government bonds. We note that these four banks increased their headcount by 6-54% from FY14 to FY16, as shown in Figure 26 .

Importantly, we also note that for SOCBs like CTG and BIDV, their salary and related expenses exclude the allowance for the bonus and welfare fund, which could be up to 25% of reported salary costs, and will only be deducted below the net profit line. An increase in salary and related expense would lead to an increase in this too.

Apart from the increase in employee related expense, we also highlight significant increase in expenses on assets (+17% YoY) driven both by expansion and upgrades. The upgrade of the IT system to enable these banks to offer new services also contributed to opex increase.

Figure 28: Cost to income ratio—still expected to be elevated



Source: Company data, Credit Suisse estimates

Cost-to-income ratio still expected to remain elevated

We expect the cost pressure to remain high into FY17-18E as (1) banks continue to compete for growth in the consumer and retail segment, while the talent pool is becoming more limited given the significant increase in workforce across banks and (2) banks continue to spend on branch and IT network upgrade. Our current base case builds in 2.2-2.4% bp increase in MBB and CTG's CIR over the next two years, but a decline for ACB from the high base.

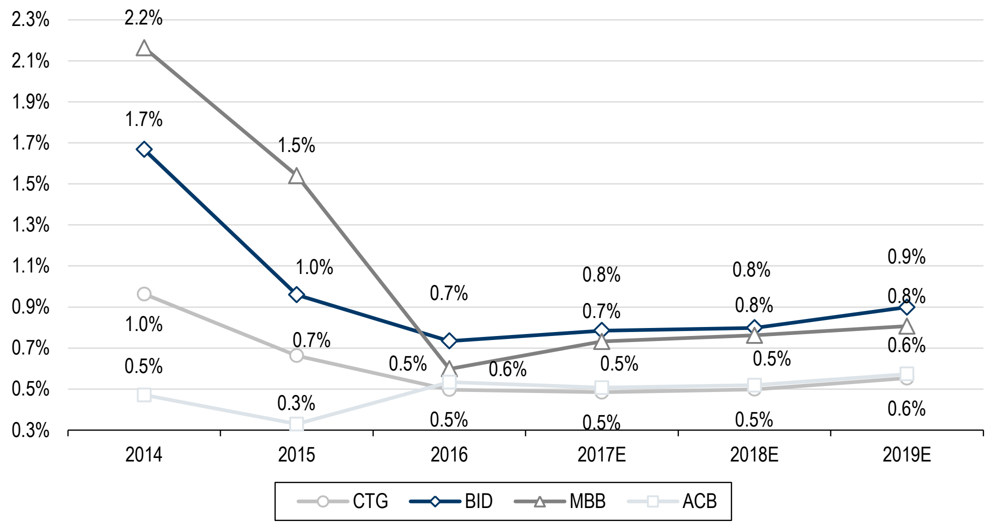
We expect pressure on credit costs

While VAMC-related amortisation cost related to bad debt sold to Vietnam Asset Management Company in FY14-15A (as a reminder, VN banks with >3% NPL sold some bad debt to VAMC in exchange for zero coupon bond which they need to amortise over 5-10 years) was a headwind on BIDV, CTG and MBB in FY16A, this higher amortisation cost was partly offset by a significant decline in credit cost YoY across all these banks.

Indeed, for all the four banks under our coverage, their FY16A credit cost (excluding amortisation cost related to VAMC) was substantially lower than their respective eight years' average.

We understand that this decline in credit costs was in part reflective of the decline in reported NPL through FY15-16A, but we also believe that it was in part due to the banks' effort to drive the result to meet their target despite increase in VAMC amortisation cost.

Figure 29: Credit cost has bottomed, should start edging up into FY17-18E

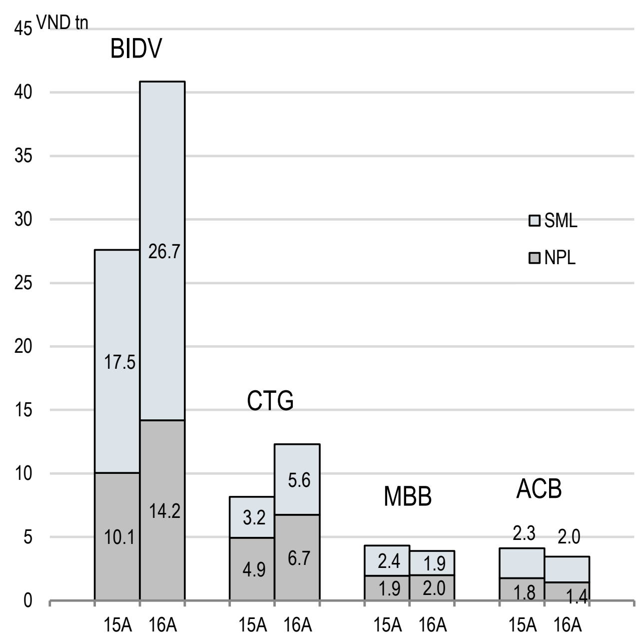


Source: Company data, Credit Suisse estimates

However, we believe that credit costs have already bottomed for most banks, and could start ticking up again into FY17-18E for three reasons.

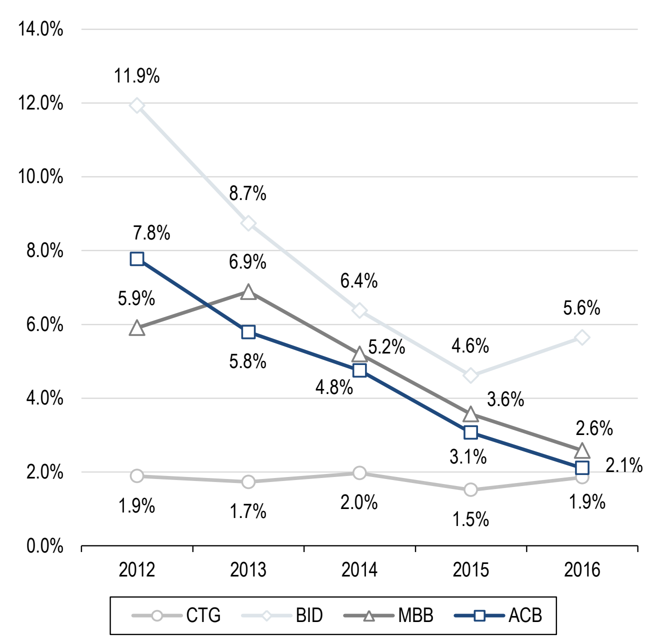
- First, after a few years of decline (partly due to the sales of bad debt to VAMC), we have already started seeing both NPLs and SMLs inching up again at CTG and BIDV. Particularly in the case of BIDV, we note that while the reported NPL remains lower than the 3% target, the absolute amount of its NPL rose 41% YoY from D10.1 tn at Dec-2015 (1.68% of gross loans) to D14.2 tn (1.96%) as at Dec-2016. Including SML, the NPL+SML ratio increased to 5.64% of gross loans at Dec-2016 from 4.60% at end Dec-2015.

Figure 30: BIDV's asset quality clearly deteriorating



Source: Company data, Credit Suisse research

Figure 31: NPL + SML as % of gross loan



Source: Company data, Credit Suisse research

- Second, the shift in asset mix away from larger corporates to SMEs, while positive to average yield, also entails higher risk. Our discussion with banks indicated that NPLs on SME loans could be ~4%, compared to ~1.5% for bigger corporates and ~1% of loans to individuals. SME accounted for 19-27% of loans at CTG and BIDV as at Dec-2015, and greater focus on SME loans would add to the challenge.

- Third, significant acceleration in credit growth only started in 2014 and we believe the reflection of that on asset quality could lag. The initial penetration into the individual and SME segment could also be on the better end of the spectrum in terms of credit quality. As penetration continues into this segment, quality could deteriorate, in our view.

BIDV's asset quality getting questionable

We do note though that the sensitivity for each bank would be different given the varying sector exposure, asset quality trend, loan-loss reserves etc. The table below sets out key matrices across four banks under our coverage. Again, we believe both ACB and MBB are still relatively well-positioned. CTG's NPL + SML remains low but is inching up. BIDV could face challenges with the significantly higher, and rising, NPL + SML level in FY16.

Figure 32: BIDV's asset quality getting questionable

	Real estate related loans (%)		NPL		NPL + SML		LLR	
	2015	2016	2015	2016	2015	2016	2015	2016
CTG	19.5%	n.a.	0.92%	1.02%	1.52%	1.86%	92.1%	101.8%
BID	25.2%	n.a.	1.68%	1.96%	4.61%	5.64%	74.8%	70.6%
MBB	13.4%	14.7%	1.61%	1.32%	3.57%	2.58%	101.4%	103.2%
ACB	7.7%	n.a.	1.32%	0.87%	3.07%	2.11%	87.0%	126.5%

Source: Company data, Credit Suisse estimates

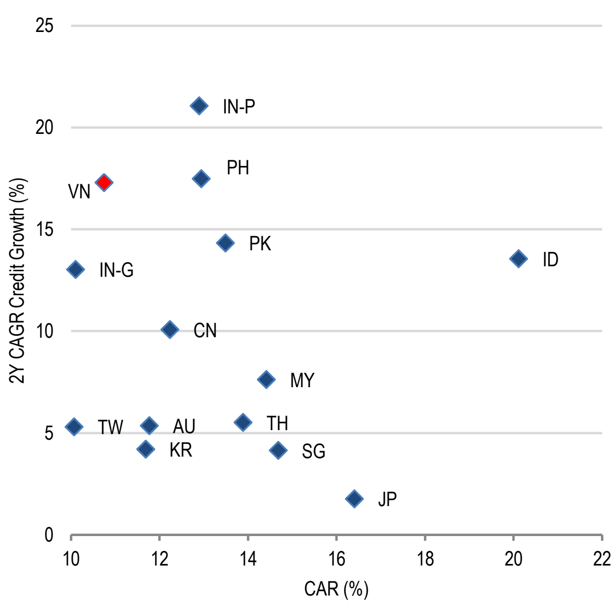
Real long-term problems remain unsolved

It is important to highlight though that while there is room for near-term growth, the sector still needs to overcome challenges to sustain the growth into medium-longer term. First, the sector is still in need of major capitalisation. The delay in Basel 2 might help relieve short-term pressure, but it does not solve the problem. The continued asset growth with relatively low capital generation would continue to erode the capital base. Second, the sector still has no effective way of dealing with both the existing and future bad debts as they rise.

Still in need of major recapitalisation

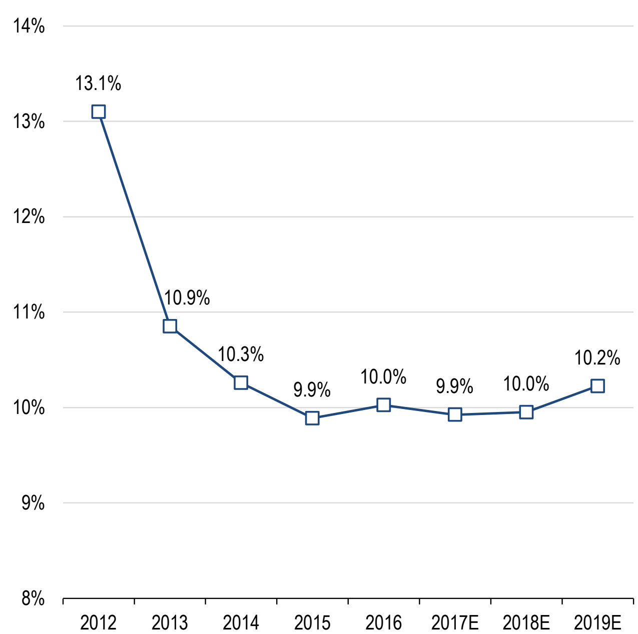
While Vietnam is delivering the highest loan growth in the Asia Pacific region, its banking sector remains the weakest capitalised bank sector in Asia, and remains under Basel 1. We would also highlight that the problem is not only the current weak capitalisation, but adding to that problem are both weak capital generation as reflected by relatively low ROE and weak capital retention at SOCBs, e.g., SOCBs have been paying almost full 25% allocation to bonus and welfare funds relative to 1-10% for ACB and MBB, and are still asked to pay cash dividend by MOF.

Figure 33: Very high loan growth, very poor capital



Source: SBV, Credit Suisse estimates

Figure 34: ROE* improving, but still low



* Blended for the four banks under our coverage
Source: Company data, Credit Suisse estimates

The delay in Basel 2 might allow strong credit growth to continue in the near term and allow more time for banks to prepare themselves. However, unless there is a significant improvement in capital generation and retention, it only serves to delay the inevitable. In fact, strong loan growth would continue to deplete capital, meaning the need for immediate recap might be delayed but the size of recap would also be bigger in the future.

Basel 2 is now targeted to be implemented in 2020, but with the detailed guideline now out, we expect to hear more details from banks on how much capital they might need and their plans. We also expect them to try to move for recap sooner than later, if possible. We estimate that in order to be in compliance with Basel 2, these banks could need US$109-483 mn (4-18% of their market cap) to be above requirement, and as much as US$0.25-1.8 tn (24-67% of their market cap) to have a more solid base for growth.

Figure 35: Still in need of material recapitalisation

		Scenario 1				Scenario 2		Scenario 3			
		Comfortable for growth				Basel II compliance		Basel II compliance + comfortable for growth			
		11% CAR		12% CAR		8% CAR		11% CAR		12% CAR	
	Y/E17E CAR	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap	US$ mn	As % of mkt cap
CTG	9.9%	496	16.2%	859	28.0%	109	3.5%	1,195	38.9%	1,557	50.7%
BID	9.3%	627	23.7%	950	35.8%	483	18.2%	1,450	54.7%	1,772	66.9%
MBB	11.9%	0	0.0%	40	3.7%	0	0.0%	302	27.7%	409	37.6%
ACB	12.3%	0	0.0%	0	0.0%	0	0.0%	177	16.9%	249	23.8%
Total 4 banks		**1,124**	**14.3%**	**1,848**	**23.5%**	**592**	**7.5%**	**3,124**	**39.8%**	**3,988**	**50.8%**

Source: Company data, Credit Suisse estimates

On a positive note though, our discussion with both the banks and SBV, as well as the government's recent comments—e.g., on potential increase in foreign ownership for the sector, plan to equitise Agribank or sector restructuring initiatives—seem to indicate that they are well aware of the problem. The actual action to solve it, however, remains slow.

Lifting FOL on banks is important, but many more steps to take

Earlier in Jan-2017, PM Nguyen Xuan Phuc stated that Vietnam could raise the Foreign Ownership Limit in banks this year. He did not mention the potential new limit for the sector, but stated that the government would consider selling out completely for more troubled banks if there was an offer.

We acknowledge that the PM's intention to lift the FOL on banks is an important step to recapitalise the sector and an indication that the government does understand the challenge that the sector is facing to some extent. However, we highlight four things that the government, the banks and the investors would need to consider.

- First, there is no clarity on the new limit. The PM did mention a potential complete sell-out from more troubled banks, but the Decision 58 issued in Dec-2016 suggested the government would like to retain 65% ownership in SOCBs, implying only 5% increase in FOL from 30%. We believe there is also a possibility that FOL could be considered only case by case.
- Second, we note that SBV currently owns 97% of BIDV, while MBB previously reserved 20% of its foreign room in an effort to find a partner (changed to 10% last year), and thus FOL has never been the real problem for them, in our view. We believe the real problem for VN banks is their relatively low ROE, and thus risk-reward is just not attractive enough. We do acknowledge though that the current limit does add to this, particularly the single shareholder cap at 20%, which limits the ability of strategic shareholders to influence decisions.

Figure 36: List of banks, foreign ownership and strategic partners

Ticker	Name	Major shareholder (%)	Strategic shareholder (%)	Local ownership (%)	Foreign ownership (%)
CTG VN	Vietinbank	SBV (64.46%)	Bank of Tokyo-Mitsubishi UFJ (19.73%)	70%	30%
BID VN	BIDV	SBV (95.3%)	n.a.	99%	1%
MBB VN	Military Bank	Viettel (15.00%)	SCIC (10.00%)	80%	20%
STB VN	Sacombank	n.a.	n.a.	91%	9%
ACB VN	ACB	Standard Chartered (15.69%)	n.a.	70%	30%
EIB VN	EXIM bank	Sumitomo Mitsui Banking Corp (15.07%)	n.a.	72%	28%
SHB VN	Saigon Hanoi bank	T&T group (10%)	n.a.	90%	10%
Unlisted	Techcombank	Masan (30%)	HSBC (20%)	80%	20%

Source: Company data, Credit Suisse estimates

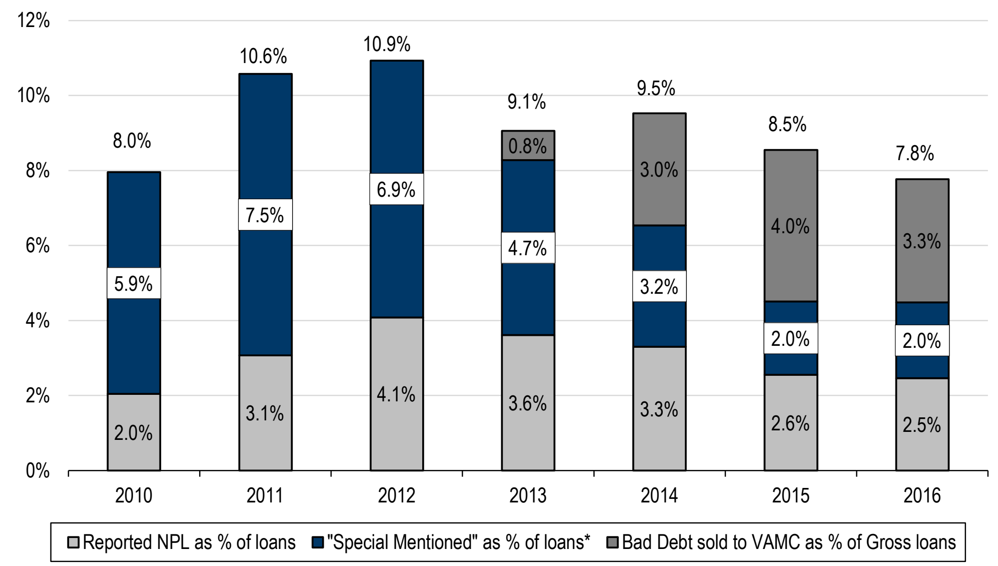
- Third, while the delay in Basel 2 would give the banks more time, the successful recapitalisation for all banks seems unlikely, and the sector remains in need of significant reforms and consolidation over the next few years.
- Fourth, and more importantly, the government would need to make important decisions beyond opening up of foreign ownership limit. The government must also think what it is willing to let go of, how much it is willing to let go, and at what price (discount) it would make economic sense. Given that the four SOCBs would need recapitalisation, the government would also need to make decisions in terms of priority as well.

Bad debt handling: What is the plan?

Vietnam's bad debt problem seems to have been contained at the moment. The creation of VAMC did not quite solve the problem, but its programme (zero coupon bond amortised over five years) together with strong credit growth over the past three years has allowed Vietnamese banks to gradually digest bad debts and try to grow out of the problem.

We estimate that a more conservative calculation of troubled assets (NPL + SML + un-amortised VAMC bond) as a percentage of overall gross loans has declined from ~10.9% as at Dec-2012 to ~7.8% as at Dec-2016.

Figure 37: Troubled assets seem to have been contained for the moment



Source: Company data, Credit Suisse estimates

We would need to highlight that (1) in absolute terms, estimated bad debt has not declined, but has instead continued to grow by ~7% p.a. in FY15-16 to ~D444.4 tn (US$20 bn), (2) out of all the bad debt sold to VAMC, only ~15-20% has been resolved and was done at the bank level than by VAMC, and (3) as discussed in the previous section, we have started to see NPL + SML ticking up again in FY16.

After the banking crisis, Vietnam made a lot of progress in establishing frameworks for handling troubled assets, e.g. Circular No.02/2013/TT-NHNN to reflect NPLs more adequately, Circular No.20/2013/TT-NHNN to establish the Vietnam Asset Management Company and Circular No. 36/2014/TT-NHNN regulating capital requirements.

We also acknowledge that there have been efforts to enhance VAMC's capability, such as an increase in its capital from ~US$25 mn to ~US$100 mn in FY15 that allows VAMC to purchase bad debt at market value rather than book value.

On the other hand, as highlighted above, the bad debt resolution process remains slow. This was due to multiple constraints including: (1) the lack of (or in some cases conflicting) necessary regulations on things like ownership and asset disposal process, (2) the lack of a proper debt trading platform and foreign ownership that would allow foreign institutions to participate more in the process, and (3) lack of alternative solutions, e.g., securitisation.

Our discussions with the government and experts suggested that they were well aware of these issues/challenges and have tried to make progress. However, changes have been slow and the government, in our view, needs to move faster to equip the sector with appropriate tools and processes now before the new round of asset quality challenges begin.

Not all banks are equal

Varying parameters, varying opportunities

As discussed in the previous sections of the report, varying capital, asset exposure, cost structure and asset quality mean each bank has different opportunities for growth.

On the revenue side, banks with stronger capital (MBB, ACB) are better positioned to continue to grow their assets, while the delay in Basel 2 allows banks with "in between" capital like CTG to also continue to grow in the near-medium term; BIDV's weak capital base (just above 9% regulatory requirement) on the other hand limits its ability to grow even with a Basel 2 delay. Asset exposure and expertise in growing segments, such as consumer and SME, also determine the banks' ability to capture quality growth.

Figure 38: Loan growth assumption (%)

	2015	2016	2017E	2018E	2019E	FY16-FY19E CAGR
CTG	22.3%	23.0%	21.0%	20.4%	19.0%	20.1%
BID	34.3%	20.9%	15.8%	14.5%	12.7%	14.3%
MBB	20.7%	24.2%	22.7%	22.1%	20.5%	21.8%
ACB	15.2%	21.9%	21.1%	20.5%	19.0%	20.2%
Industry	**17.3%**	**18.7%**	**17.5%**	**17.1%**	**15.8%**	**16.8**

Source: Company data, Credit Suisse estimates

On the NIM side, we expect all banks to be affected by more deposit competition into FY17-18E, but banks with better funding flexibility—e.g. lower NIMs, access to cheaper funding, better ability to mobilise funding—could be able to navigate through the competition better. Importantly, we highlighted earlier that banks would be under pressure to mobilise medium-longer term funds into FY17-18E in order to satisfy the 40% limit on short-term funding used for medium-longer term loans from Jan-2018. BIDV is the most vulnerable in this regard with relatively high LDR (100%) and high ratio of short-term funding used for medium-longer term loans at 46-47%, meaning it needs to step up mobilisation efforts into FY17-18E.

Figure 39: MBB and ACB still have better funding flexibility

	Deposit growth		LDR		Average deposit cost	
	2015	2016	2015	2016	2015	2016
CTG	16.2%	32.8%	109.2%	101.2%	4.4%	4.6%
BID	28.2%	28.6%	106.0%	99.7%	4.7%	5.0%
MBB	8.3%	7.3%	66.8%	77.4%	3.1%	3.5%
ACB	13.1%	18.4%	76.6%	78.9%	4.5%	4.6%

Source: Company data, Credit Suisse estimates

On asset quality, both ACB and MBB have made good progress with NPL + SML inching down further to 2.1% and 2.6%, respectively, while their NPL coverage ratio has improved. CTG's NPL+SML remains low, but has started to increase suggesting its credit cost could have bottomed. BIDV's NPL + SML has deteriorated and credit cost is set to rise YoY.

Figure 40: BIDV's asset quality seems to be deteriorating

	Real estate related loans (%)		NPL		NPL + SML		LLR	
	2015	2016	2015	2016	2015	2016	2015	2016
CTG	19.5%	n.a.	0.92%	1.02%	1.52%	1.86%	92.1%	101.8%
BID	25.2%	n.a.	1.68%	1.96%	4.61%	5.64%	74.8%	70.6%
MBB	13.4%	14.7%	1.61%	1.32%	3.57%	2.58%	101.4%	103.2%
ACB	7.7%	n.a.	1.32%	0.87%	3.07%	2.11%	87.0%	126.5%

Source: Company data, Credit Suisse estimates

Multiples must also be adjusted for comparison…

On the valuation side, it is important to note that headline numbers in fact are not quite comparable among banks in Vietnam. In order to appropriately compare comparative multiples like P/B and P/E among them, the underlying numbers should first be adjusted for various differences, e.g., asset quality and below-the-line costs.

For P/B,, the book value, in our view, should be adjusted with a more conservative view on asset quality, e.g., level of special mentioned loans (overdue 10-90 days and/or restructured loans) and outstanding VAMC bond (gross VAMC bond – accumulated amortisation) which would still need to be amortised and thus would affect future P&L.

For P/E, we should adjust these banks' earnings for different below-the-line costs. One major item is the appropriation of the bonus and welfare fund, which could be up to 25% of reported salary cost (and thus translated to ~26-28% of headline net profit) for SOCBs. This amount has been much smaller for JSCBs at ~10% of salary cost (4-6% of net profit) for MBB and only ~1.5% of salary cost for ACB (~2-3% of net profit).

The figure below shows headline forecasts and multiples, their adjustments and comparisons. We highlight that (1) all banks under our coverage except MBB are trading above 1x adjusted P/B against 8.9-11.1% adjusted ROE. Their adjusted ROE is low compared to regional peers, and below the cost of capital of 13.0% for Vietnam. (2) While CTG and BIDV are trading around the same headline P/B, the adjusted multiple shows that BIDV in fact is much more expensive than CTG and peers. (3) MBB looks attractive on adjusted multiples, with 0.9x P/B and 8.1x P/E against 11.1% adjusted ROE.

Figure 41: Adjusted comparative multiples – MBB attractive, BIDV looks expensive

	CTG			BIDV			MBB			ACB		
	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E	2016	2017E	2018E
BV	62,712	65,816	71,975	42,614	47,322	52,324	25,352	28,330	31,513	14,063	15,644	17,754
P/B	**1.1**	**1.0**	**0.9**	**1.4**	**1.2**	**1.1**	**1.0**	**0.9**	**0.8**	**1.5**	**1.4**	**1.2**
Adjusted: unamortised VAMC	(6,915)	(4,847)	(2,779)	(14,415)	(10,247)	(6,080)	(2,405)	(1,596)	(786)	(1,124)	(748)	(371)
Adjusted: 50% SML	(2,779)	(3,363)	(4,050)	(13,337)	(15,444)	(17,682)	(952)	(1,169)	(1,427)	(1,012)	(1,225)	(1,475)
Adjusted BV	53,017	57,606	65,146	14,862	21,631	28,561	21,995	25,565	29,300	11,927	13,671	15,907
Adjusted P/B	**1.3**	**1.2**	**1.0**	**3.9**	**2.7**	**2.0**	**1.1**	**0.9**	**0.8**	**1.8**	**1.6**	**1.3**
Reported ROE	**11.5%**	**11.7%**	**12.1%**	**14.7%**	**14.5%**	**14.1%**	**11.9%**	**11.8%**	**11.3%**	**9.9%**	**10.9%**	**12.9%**
Less: bonus and welfare fund	-2.5%	-2.9%	-3.2%	-3.8%	-4.1%	-4.1%	-0.5%	-0.7%	-0.7%	-0.2%	-0.3%	-0.3%
Adjusted ROE	**9.0%**	**8.9%**	**8.9%**	**10.9%**	**10.5%**	**10.0%**	**11.4%**	**11.1%**	**10.6%**	**9.6%**	**10.6%**	**12.6%**

Source: Company data, Credit Suisse estimates

…and also for basis for fair valuation

We have also updated our valuation method to incorporate these adjustments. Our target prices for the four Vietnamese banks under our coverage are now based on equal weighting of (1) historical P/B against adjusted BVPS and (2) historical 12-month forward P/E against 12-month forward EPS. We apply 2x s.d. premium to MBB's historical P/B and P/E as we believe that with its improving growth profile it should re

rate to trade in line with peers.

Figure 42: Valuations and target prices

	CTG	BIDV	MBB	ACB
Historical average P/B	1.42	1.49	1.02	1.46
STDEV	0.34	0.29	0.13	0.33
Cycle factor (x s.d.)	-	-	2.00	-
Target P/B	**1.42**	**1.49**	**1.27**	**1.46**
FY17E BV	65,816	47,322	28,330	15,644
Adjusted for remaining VAMC balance	(4,847)	(10,247)	(1,596)	(748)
Adjusted for provision on SML–50%	(3,363)	(15,444)	(1,169)	(1,225)
FY17E adjusted BV	**57,606**	**21,631**	**25,565**	**13,671**
Target market cap (D bn)	81,833	32,328	32,386	20,002
Target market cap (US$ mn)	3,569	1,410	1,412	872
Target market cap under P/B method (D/share)	**21,978**	**9,456**	**18,909**	**22,316**
Historical average P/E	11.12	12.58	6.70	16.40
STDEV	2.59	2.83	0.99	7.11
Cycle factor (x s.d.)	-	-	2.00	-
Target P/E	**11.12**	**12.58**	**8.69**	**16.40**
12-mth forward adjusted earnings	5,785	4,757	3,012	1,669
Target market cap (D bn)	64,316	59,839	26,165	27,374
Target market cap (US$ mn)	2,805	2,609	1,141	1,194
Target market cap under P/E method (D/share)	**17,273**	**17,503**	**15,277**	**30,542**
Historical P/B weight	0.50	0.50	0.50	0.50
Historical P/E weight	0.50	0.50	0.50	0.50
Weighted average 2016 TP (D/share)	**19,626**	**13,480**	**17,093**	**24,026**
Credit Suisse target price	**19,700**	**13,500**	**17,000**	**24,000**
Current share price (D/share)	17,850	17,000	14,150	23,700
Potential upside/(downside)–%	**10.4%**	**-20.6%**	**20.1%**	**1.3%**

Source: Company data, Credit Suisse estimates

We upgrade MBB to OUTPERFORM (20% potential upside) as improving growth profile and attractive relative valuation warrants a rerating. We also upgrade CTG to NEUTRAL with better near-medium term growth outlook, though risk-reward now looks balanced. We maintain our UNDERPERFORM rating on BIDV which is in severe need to recapitalise, is vulnerable to deposit competition, is facing deteriorating asset quality and is trading at expensive adjusted multiples currently.

Asia Pacific/Vietnam
Regional Banks

Vietnam Bank for Industry and Trade

(CTG.HM / CTG VN)

INCREASE TARGET PRICE

Rating	(from UNDERPERFORM) NEUTRAL
Price (08-Feb-17, D)	17,850
Target price (D)	(from 15,900) 19,700
Upside/downside (%)	10.4
Mkt cap (D/US$ bn)	66,463/ 2.93
Number of shares (mn)	3,723
Free float (%)	13.2
52-wk price range	18,900-14,600
ADTO-6M (US$ mn)	0.5

Target price is for 12 months.

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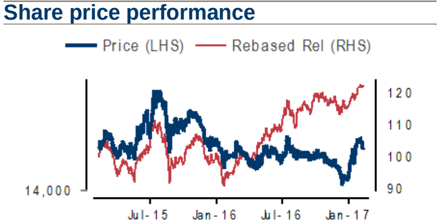
Recap pressure is off for now

- **Upgrade to NEUTRAL.** We upgrade CTG to NEUTRAL with V19,700/share target price (10% upside) based on equal weighting of historical average P/B (1.41x) on adjusted book value and P/E (11.3x) on 12-month forward EPS.
- **Kicking capital can down the road.** CTG's capital position with 10.7% CAR as at Jun-2016 is "in-between", meaning it could still be in a position to sustain strong loan growth over the next two years but would not be able to meet the 8% regulatory requirement if Basel 2 is implemented. CTG is thus a beneficiary of Basel 2's delay to 2020, giving it an opportunity to capture near-term growth to improve returns profile and more time to consider recap options. We now expect CTG to still deliver 19-21% loan growth over the next three years.
- **Some speed bumps on cost side.** We note though that (1) while CTG has reduced its LDR to 101% at Dec-2016 by growing deposit by 32.8% in FY16, this is still relatively high, in our view, and CTG could be exposed to deposit competition into FY17E. (2) We expect CTG's cost-to-income ratio to continue to increase by 1.4%/0.8% in FY17/18E given greater focus in consumer and SMEs. (3) With NPL+SML starting to tick up to 1.86% as at Dec-2016 from 1.52% at Dec-2015, we maintain that CTG's credit cost has bottomed, though it could still be lower than what we previously expected. We revised up CTG's FY17/18E EPS forecast by 9.2%/2.3% to reflect higher loan growth offset by higher opex but helped by lower credit cost assumptions.
- **Risk-reward looks balanced.** On an adjusted basis, CTG is currently trading at 1.2x FY17E adjusted P/B and 11.6x P/E vs 8.9% adjusted ROE, an improvement from 8.1% ROE in FY15E, but remains below cost of capital. We expect this to improve further to 9.2% by FY19E, but at the current level, we believe risk-reward for CTG already looks balanced. Longer term, CTG would still require material re-capitalisation both to meet the Basel 2 requirement by 2020 and to sustain growth beyond that. We believe CTG's foreign strategic shareholders, BTMU (19.7%) and IFC (8.0%), could be supportive, but the process could be tricky if the government is not willing to reduce its ownership below 64.5%.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08/02/17. On 08/02/17 the spot exchange rate was D22,650/US$1

Performance	1M	3M	12M
Absolute (%)	6.8	9.7	4.9
Relative (%)	3.9	6.6	-23.7

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
Pre-provision Op profit (D bn)	13,552.1	15,069.8	16,908.7	19,398.8
Pre-tax profit (D bn)	8,530.0	9,455.2	10,439.8	11,875.9
Net attributable profit (D bn)	5,308.4	5,710.7	6,158.4	6,933.3
EPS (CS adj.) (D)	1,426	1,534	1,654	1,862
Change from previous EPS (%)	n.a.	9.2	2.3	-
Consensus EPS (D)	n.a.	1,514	1,616	
EPS growth (%)	18.0	7.6	7.8	12.6
P/E (x)	12.5	11.6	10.8	9.6
Dividend yield (%)	0.0	0.0	0.0	0.0
BVPS (CS adj.) (D)	16,843	17,676	19,330	21,192
P/B (x)	1.06	1.01	0.92	0.84
ROE (%)	9.0	8.9	8.9	9.2
ROA (%)	0.6	0.6	0.5	0.5
Tier 1 Ratio (%)	7.5	6.9	6.7	6.5

Source: Company data, Thomson Reuters, Credit Suisse estimates

Vietnam Bank for Industry and Trade (CTG.HM / CTG VN)

Price (08 Feb 2017): **D17,850**; Rating: **(from UNDERPERFORM) NEUTRAL**; Target Price: **(from D15,900) D19,700**; Analyst: **Chate Benchavitvilai**

Earnings Drivers	12/16A	12/17E	12/18E	12/19E
Net Interest Margin (%)	2.76	2.69	2.68	2.70
Loan growth (%)	23.03	21.00	20.41	18.95
Credit cost (%)	0.50	0.48	0.50	0.55
	-	-	-	-
	-	-	-	-

Income Statement (D bn)	12/16A	12/17E	12/18E	12/19E
Interest income	52,991	64,267	75,896	88,987
Interest expense	30,586	38,265	45,912	54,149
Net interest income	**22,405**	**26,003**	**29,985**	**34,838**
Fee and commission income	1,687	2,016	2,355	2,696
Trading income	910	758	643	561
Total non-interest income	**4,049**	**4,232**	**4,505**	**4,814**
Total income	**26,454**	**30,235**	**34,490**	**39,651**
Personal expense	6,973	8,534	10,104	11,805
Other expenses	5,929	6,630	7,477	8,448
Total expenses	**12,902**	**15,165**	**17,581**	**20,253**
Pre-provision profit	**13,552**	**15,070**	**16,909**	**19,399**
Loan loss provisions	5,022	5,615	6,469	7,523
Operating profit	**8,530**	**9,455**	**10,440**	**11,876**
Other non-operating inc./(exp.)	-	-	-	-
Pre-tax profit	**8,530**	**9,455**	**10,440**	**11,876**
Taxes	1,705	1,889	2,086	2,373
Net profit before minorities	**6,825**	**7,566**	**8,354**	**9,503**
Reported net profit	**6,805**	**7,544**	**8,329**	**9,475**
Net profit (Credit Suisse)	**5,308**	**5,711**	**6,158**	**6,933**

Balance Sheet (D bn)	12/16A	12/17E	12/18E	12/19E
Gross customer loans	661,988	801,005	964,486	1,147,268
Risk provisions	6,862	8,723	10,705	13,149
Net customer loans	**655,126**	**792,283**	**953,781**	**1,134,119**
Interbank loans	107,972	110,372	113,214	116,406
Investment & securities	136,121	134,053	131,985	130,300
Cash & cash equivalents	5,187	2,490	2,383	2,742
Fixed assets	6,422	6,387	6,238	5,988
Other assets	42,063	41,742	41,420	41,099
Total assets	**948,699**	**1,083,294**	**1,245,150**	**1,426,943**
Total deposits	**744,383**	**875,851**	**1,031,524**	**1,206,357**
Other liabilities	141,344	141,344	141,344	141,344
Total liabilities	**885,727**	**1,017,195**	**1,172,868**	**1,347,701**
Shareholders' equity	**62,712**	**65,816**	**71,975**	**78,908**
Total liabilities & equity	**948,699**	**1,083,294**	**1,245,150**	**1,426,943**

Asset quality & Capital	12/16A	12/17E	12/18E	12/19E
Asset Quality (%)				
NPL/ gross loans	1.0	1.1	1.1	1.1
B/S loan loss coverage	101.8	102.8	100.9	99.7
Loan/ deposit ratio	100.1	100.1	100.0	100.0
Capital ratios (%)				
Capital adequacy ratio	10.7	9.9	9.4	9.0
Tier 1 ratio	7.5	6.9	6.7	6.5
Equity Tier 1 ratio	7.5	6.9	6.7	6.5

Per share	12/16A	12/17E	12/18E	12/19E
Shares (wtd avg.) (mn)	3,723	3,723	3,723	3,723
EPS (Credit Suisse) (D)	**1,426**	**1,534**	**1,654**	**1,862**
BVPS (D)	16,843	17,676	19,330	21,192
Tangible BVPS (D)	15,717	16,593	18,291	20,196
DPS (D)	0	0	0	0

Earnings	12/16A	12/17E	12/18E	12/19E
Growth (%)				
Revenue	16.3	14.3	14.1	15.0
Operating expense	20.4	17.5	15.9	15.2
Pre-provision profit	12.7	11.2	12.2	14.7
Net profit	18.0	7.6	7.8	12.6
Deposit	32.8	21.0	20.4	19.0

Valuation	12/16A	12/17E	12/18E	12/19E
EPS growth (%)	18.0	7.6	7.8	12.6
P/E (x)	12.5	11.6	10.8	9.6
P/B (x)	1.06	1.01	0.92	0.84
P/TB (x)	1.1	1.1	1.0	0.9
Dividend yield (%)	0.0	0.0	0.0	0.0

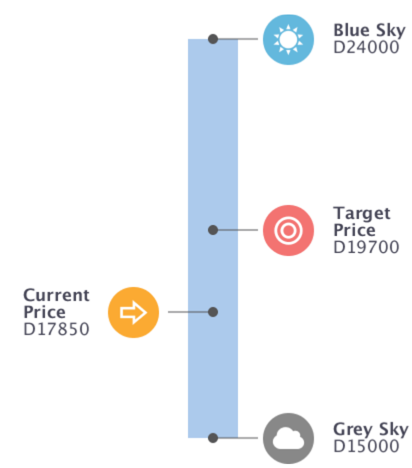
Profitability & margins (%)	12/16A	12/17E	12/18E	12/19E
ROE stated	11.5	11.7	12.1	12.6
ROE - CS adj.	9.0	8.9	8.9	9.2
ROA - CS adj.	0.6	0.6	0.5	0.5
Gearing (x)	14.6	15.8	16.9	17.7

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Vietnam Joint Stock Commercial Bank for Industry and Trade is a commercial joint stock bank incorporated in the Socialist Republic of Vietnam. The principal activities of the bank are to carry out banking activities.

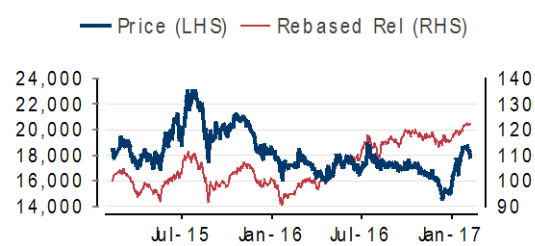
Blue/Grey Sky Scenario



Our Blue Sky Scenario (D)	(from 20,000) 24,000
Our blue sky scenario target price of D24,000 (from D20,000) is +1 std from the base case.	

Our Grey Sky Scenario (D)	(from 11,500) 15,000
Our grey sky scenario target price of D15,000 (from D11,500) is -1 std from the base case.	

Share price performance

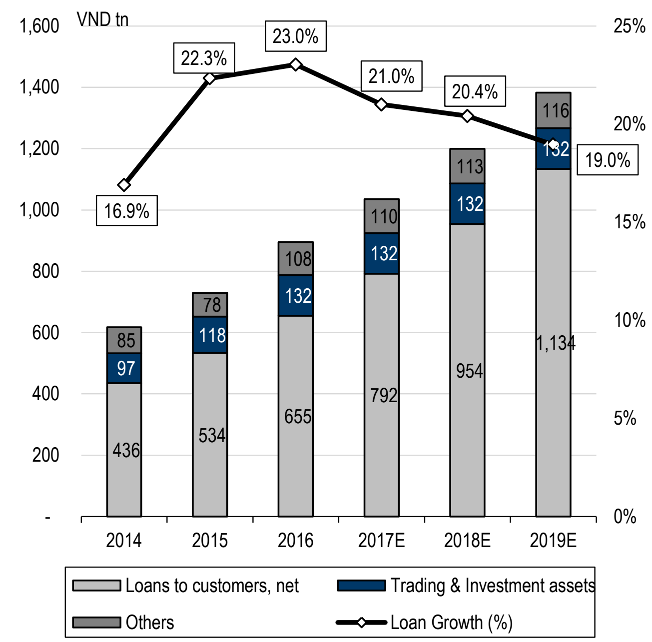


The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08-Feb-2017

On 08-Feb-2017 the spot exchange rate was D22,650/US$1

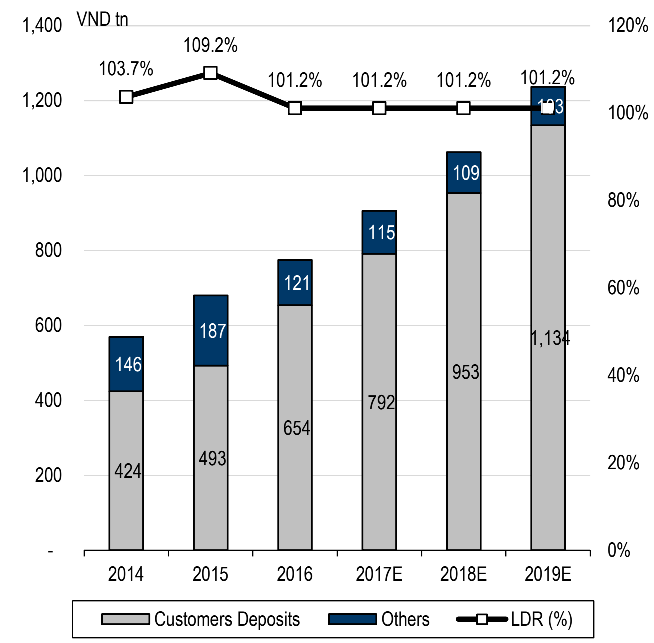
CTG: Key charts summary

Figure 43: CTG—interest earning assets (D tn)



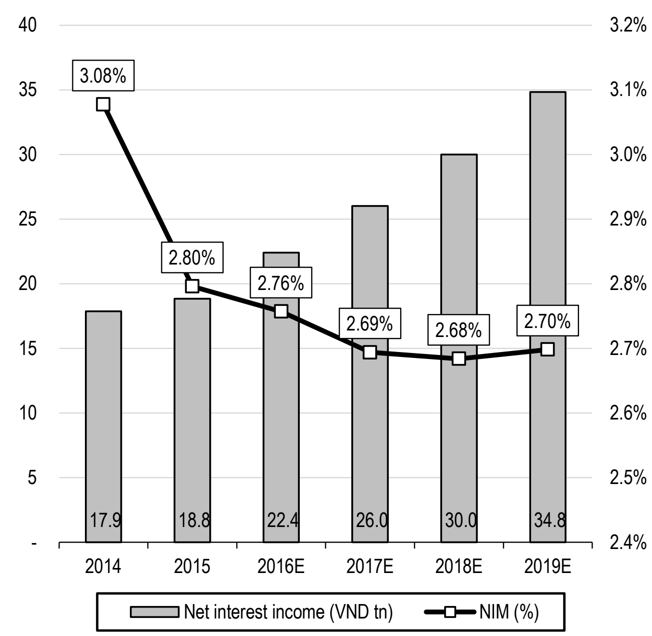
Source: Company data, Credit Suisse estimates

Figure 44: CTG—interest bearing liabilities (D tn)



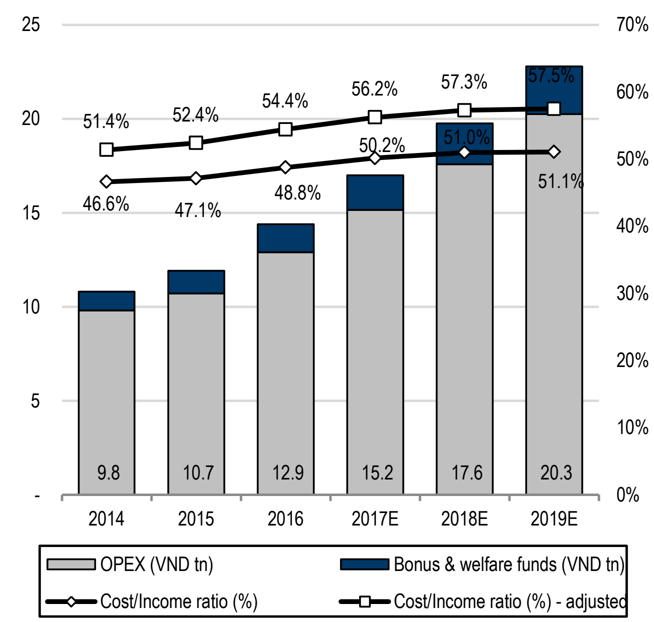
Source: Company data, Credit Suisse estimates

Figure 45: CTG—net interest income and NIM forecast



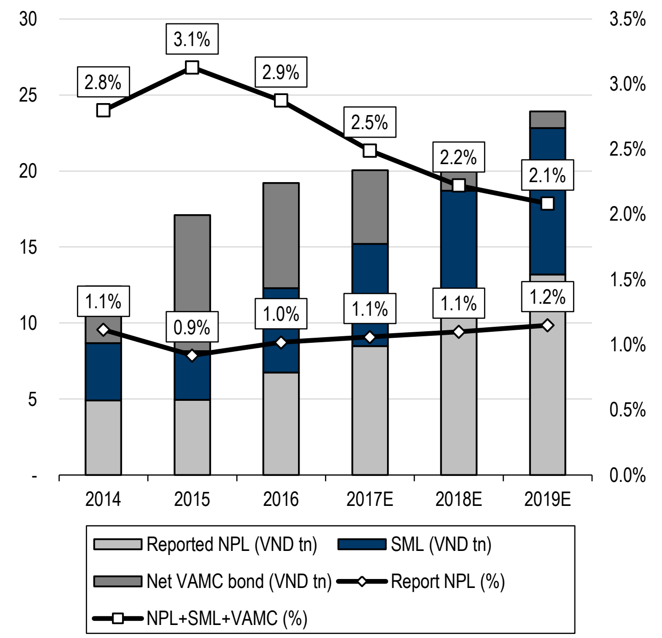
Source: Company data, Credit Suisse estimates

Figure 46: CTG—cost to income ratio



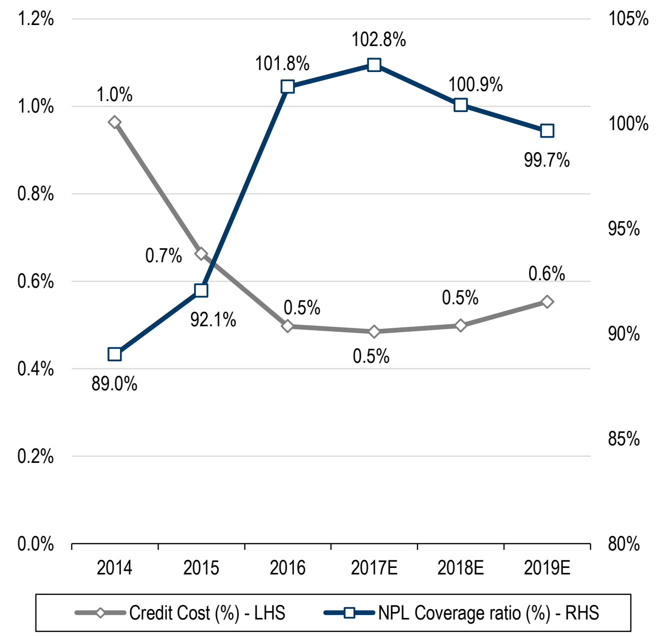
Source: Company data, Credit Suisse estimates

Figure 47: CTG—NPL + SML + net VAMC bond (D tn)



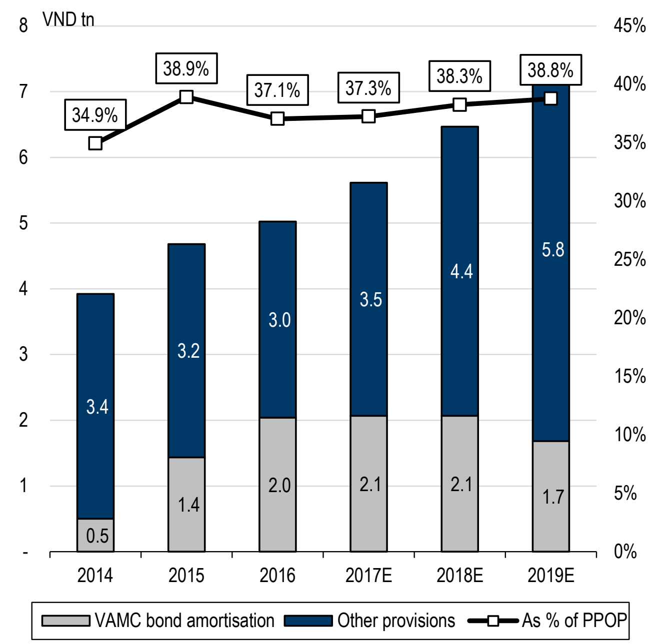
Source: Company data, Credit Suisse estimates

Figure 48: CTG—credit cost* vs NPL coverage



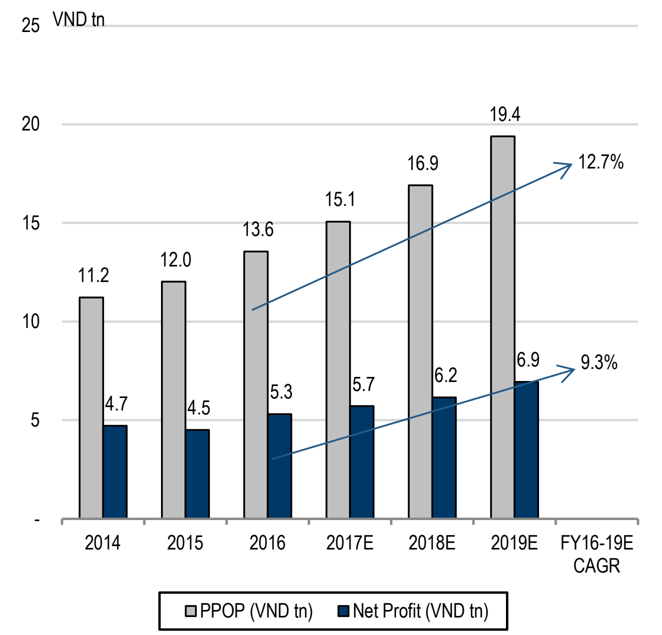
* Does not include amortisation cost related to VAMC bond.
Source: Company data, Credit Suisse estimates

Figure 49: CTG—provision costs (D tn)



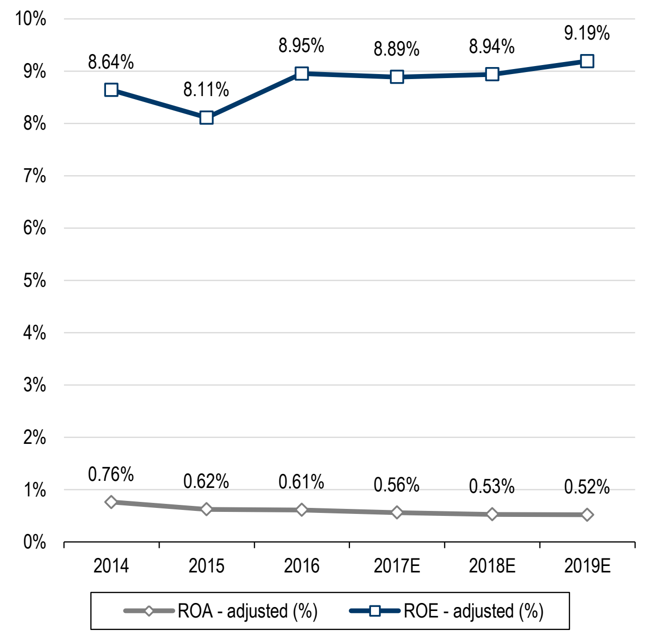
Source: Company data, Credit Suisse estimates

Figure 50: CTG—PPOP, net profit forecasts (D tn)



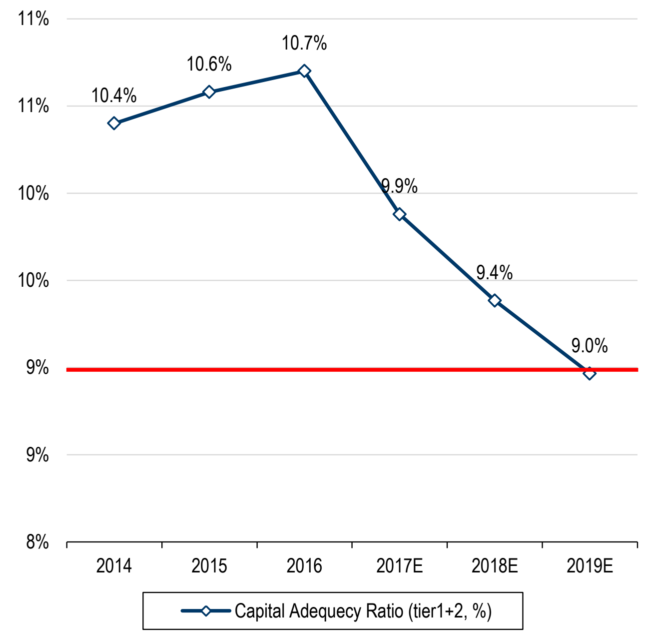
Source: Company data, Credit Suisse estimates

Figure 51: CTG—ROA and ROE forecasts



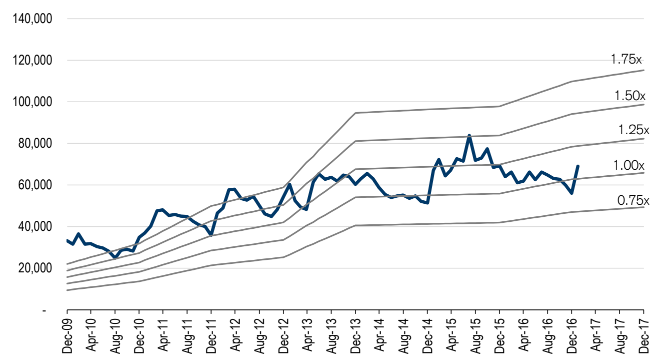
Source: Company data, Credit Suisse estimates

Figure 52: CTG—capital adequacy ratio (no Basel II)



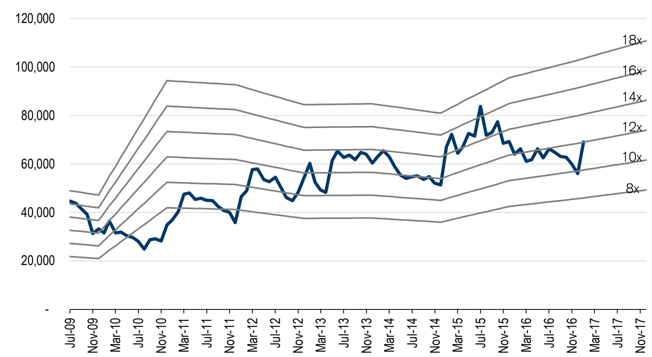
Source: Company data, Credit Suisse estimates

Figure 53: CTG—P/B band



Source: Company data, Credit Suisse estimates

Figure 54: CTG—12 month forward P/E band



Source: Company data, Credit Suisse estimates

Bank for Investment and Development of Vietnam (BID.HM / BID VN)

Rating	**UNDERPERFORM**
Price (08-Feb-17, D)	17,000
Target price (D)	(from 16,000) 13,500
Upside/downside (%)	-20.6
Mkt cap (D/US$ bn)	58,118/ 2.57
Number of shares (mn)	3,419
Free float (%)	100.0
52-wk price range	19,000-14,200
ADTO-6M (US$ mn)	1.4

Target price is for 12 months.

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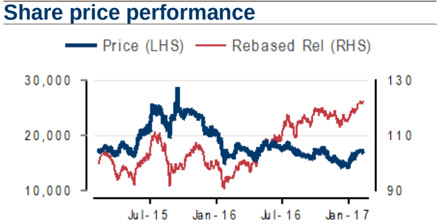
DECREASE TARGET PRICE

Can't go on like this

- **We maintain our UNDERPERFORM rating** on BIDV with V13,500/share target price (21% potential downside) based on an equal weighting of historical average P/B (1.45x) on its FY17E adjusted book value and P/E (12.8x) on 12-month forward EPS. EPS reduces by 2.7/5.6% for 2017/18E.
- **Quadruple challenges into FY17E…** First, with CAR barely above the 9% regulatory requirement, it is difficult for BIDV to sustain asset growth without significant recapitalisation even with the Basel 2 delay. Second, BIDV's ratio of short-term funds used for medium-longer term loans reached 46-47%, above the 40% limit which would be effective form Jan-2018. This means BIDV needs to step up mobilisation of medium-longer term deposits into FY17E. Third, we expect its cost-to-income ratio to continue to increase with more focus on consumer and SME. Fourth, asset quality has already started to deteriorate with the NPL + SML ratio rising to 5.64% as at Dec-2017 from 4.61% at Dec-2015, and we expect an increase in credit cost into FY17E. We cut our FY17/18E EPS forecasts by 2.7-5.6% to reflect the above.
- **…and much needed recap is increasingly difficult.** BIDV has made very limited progress in finding a strategic partner. Given that it is 97% owned by the government, foreign ownership is not the real limiting factor, in our view, but more relatively it is low profitability and asset quality challenge. Importantly, we believe the recap could be increasingly difficult for BIDV given that other banks who are competing for recap as well are offering a better return profile, while the government may have other priorities, e.g., Agribank equitisation.
- **Recent rally unjustified.** BID's share price has rallied over the past month along with the sector in light of positive newsflow on Basel 2 delay and potential increase in foreign room. We believe this rally is not justifiable. Apart from multiple challenges and the much needed recapitalisation discussed above, BIDV, on an adjusted basis, is among the most expensive banks in our coverage, trading at 2.7x FY17E adjusted P/B, while only generating 10.5% adjusted ROE. With limited room to improve this, the share price should derate.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08/02/17. On 08/02/17 the spot exchange rate was D22,650/US$1

Performance	1M	3M	12M
Absolute (%)	4.7	7.3	2.7
Relative (%)	1.8	4.2	-25.9

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
Pre-provision Op profit (D bn)	17,008.3	18,546.6	20,249.4	22,150.5
Pre-tax profit (D bn)	7,734.6	8,249.5	8,907.2	9,872.4
Net attributable profit (D bn)	4,556.6	4,708.1	5,001.6	5,573.2
EPS (CS adj.) (D)	1,333	1,377	1,463	1,630
Change from previous EPS (%)	n.a.	(2.7)	(5.6)	-
Consensus EPS (D)	n.a.	1,467	1,550	
EPS growth (%)	(16.0)	3.3	6.2	11.4
P/E (x)	12.8	12.3	11.6	10.4
Dividend yield (%)	0.0	0.0	0.0	0.0
BVPS (CS adj.) (D)	12,465	13,842	15,305	16,935
P/B (x)	1.36	1.23	1.11	1.00
ROE (%)	10.9	10.5	10.0	10.1
ROA (%)	0.5	0.4	0.4	0.4
Tier 1 Ratio (%)	5.2	5.3	5.4	5.6

Source: Company data, Thomson Reuters, Credit Suisse estimates

Bank for Investment and Development of Vietnam (BID.HM / BID VN)

Price (08 Feb 2017): **D17,000**; Rating: **UNDERPERFORM**; Target Price: **(from D16,000) D13,500**; Analyst: **Chate Benchavitvilai**

Earnings Drivers	12/16A	12/17E	12/18E	12/19E
Net Interest Margin (%)	2.71	2.70	2.70	2.70
Loan growth (%)	20.93	15.79	14.49	12.67
Credit cost (%)	0.73	0.79	0.80	0.90
	-	-	-	-
	-	-	-	-

Income Statement (D bn)	12/16A	12/17E	12/18E	12/19E
Interest income	62,957	74,633	85,202	95,624
Interest expense	39,219	47,142	54,361	61,405
Net interest income	**23,738**	**27,492**	**30,841**	**34,219**
Fee and commission income	2,504	2,853	3,251	3,705
Trading income	1,333	1,196	1,087	1,003
Total non-interest income	**6,792**	**6,428**	**6,319**	**6,413**
Total income	**30,530**	**33,919**	**37,160**	**40,632**
Personal expense	7,428	8,479	9,376	10,255
Other expenses	6,094	6,894	7,535	8,226
Total expenses	**13,522**	**15,373**	**16,910**	**18,481**
Pre-provision profit	**17,008**	**18,547**	**20,249**	**22,151**
Loan loss provisions	9,274	10,297	11,342	12,278
Operating profit	**7,735**	**8,249**	**8,907**	**9,872**
Other non-operating inc./(exp.)	-	-	-	-
Pre-tax profit	**7,735**	**8,249**	**8,907**	**9,872**
Taxes	1,487	1,618	1,781	1,974
Net profit before minorities	**6,248**	**6,632**	**7,126**	**7,898**
Reported net profit	**6,159**	**6,537**	**7,024**	**7,786**
Net profit (Credit Suisse)	**4,557**	**4,708**	**5,002**	**5,573**

Balance Sheet (D bn)	12/16A	12/17E	12/18E	12/19E
Gross customer loans	723,697	837,978	959,438	1,080,971
Risk provisions	10,016	11,893	13,728	16,298
Net customer loans	**713,682**	**826,085**	**945,710**	**1,064,674**
Interbank loans	98,687	106,881	115,439	123,983
Investment & securities	154,209	150,042	145,875	142,771
Cash & cash equivalents	7,107	6,827	6,650	6,891
Fixed assets	5,374	5,233	5,183	5,215
Other assets	31,926	31,701	31,476	31,251
Total assets	**1,006,635**	**1,122,533**	**1,246,209**	**1,370,774**
Total deposits	**862,027**	**973,123**	**1,091,695**	**1,210,574**
Other liabilities	100,391	100,391	100,391	100,391
Total liabilities	**962,418**	**1,073,513**	**1,192,086**	**1,310,965**
Shareholders' equity	**42,614**	**47,322**	**52,324**	**57,897**
Total liabilities & equity	**1,006,635**	**1,122,533**	**1,246,209**	**1,370,774**

Asset quality & Capital	12/16A	12/17E	12/18E	12/19E
Asset Quality (%)				
NPL/ gross loans	2.0	2.0	2.1	2.2
B/S loan loss coverage	70.6	70.2	68.6	70.1
Loan/ deposit ratio	98.3	98.2	98.2	98.2
Capital ratios (%)				
Capital adequacy ratio	9.5	9.3	9.1	9.0
Tier 1 ratio	5.2	5.3	5.4	5.6
Equity Tier 1 ratio	5.2	5.3	5.4	5.6

Per share	12/16A	12/17E	12/18E	12/19E
Shares (wtd avg.) (mn)	3,419	3,419	3,419	3,419
EPS (Credit Suisse) (D)	**1,333**	**1,377**	**1,463**	**1,630**
BVPS (D)	12,465	13,842	15,305	16,935
Tangible BVPS (D)	11,193	12,603	14,099	15,762
DPS (D)	0	0	0	0

Earnings	12/16A	12/17E	12/18E	12/19E
Growth (%)				
Revenue	23.5	11.1	9.6	9.3
Operating expense	22.0	13.7	10.0	9.3
Pre-provision profit	24.8	9.0	9.2	9.4
Net profit	(8.0)	3.3	6.2	11.4
Deposit	28.6	15.8	14.5	12.7

Valuation	12/16A	12/17E	12/18E	12/19E
EPS growth (%)	(16.0)	3.3	6.2	11.4
P/E (x)	12.8	12.3	11.6	10.4
P/B (x)	1.36	1.23	1.11	1.00
P/TB (x)	1.5	1.3	1.2	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0

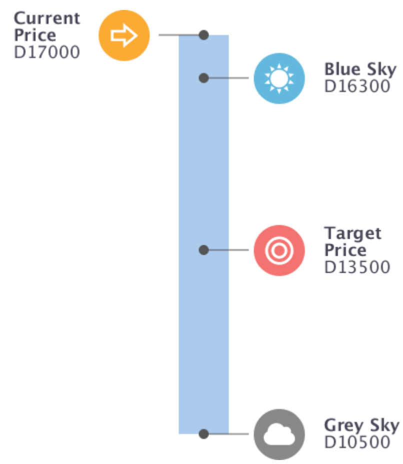
Profitability & margins (%)	12/16A	12/17E	12/18E	12/19E
ROE stated	14.7	14.5	14.1	14.1
ROE - CS adj.	10.9	10.5	10.0	10.1
ROA - CS adj.	0.5	0.4	0.4	0.4
Gearing (x)	22.2	23.7	23.8	23.7

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

The Joint Stock Commercial Bank for Investment and Development of Vietnam is a commercial joint stock bank incorporated in the Socialist Republic of Vietnam. The principal activities of the bank are to carry out banking activities.

Blue/Grey Sky Scenario



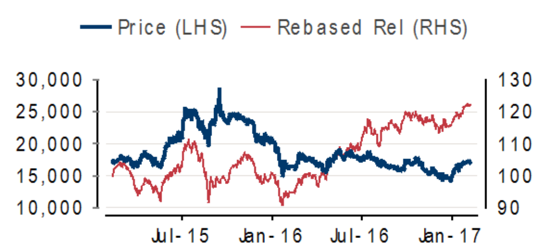
Our Blue Sky Scenario (D) **(from 20,000) 16,300**

Our blue sky scenario target price of D16,300 (from D20,000) is +1 std from the base case.

Our Grey Sky Scenario (D) **(from 12,000) 10,500**

Our grey sky scenario target price of D10,500 (from D12,000) is -1 std from the base case.

Share price performance

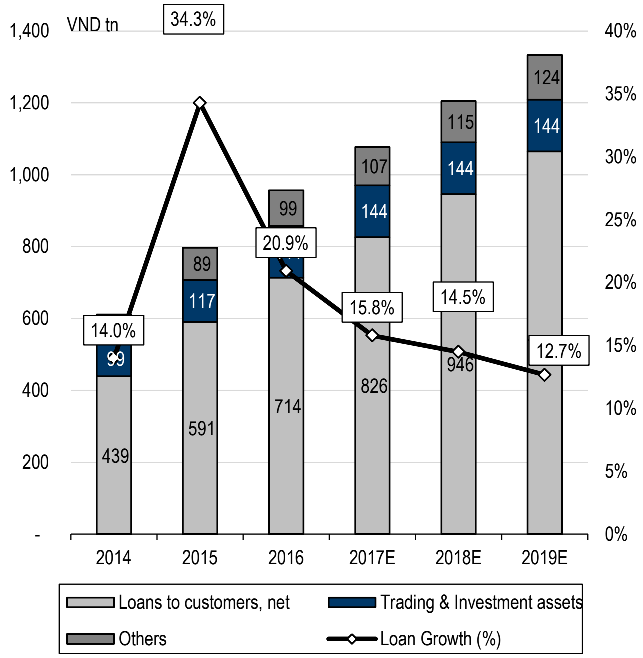


The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08-Feb-2017

On 08-Feb-2017 the spot exchange rate was D22,650/US$1

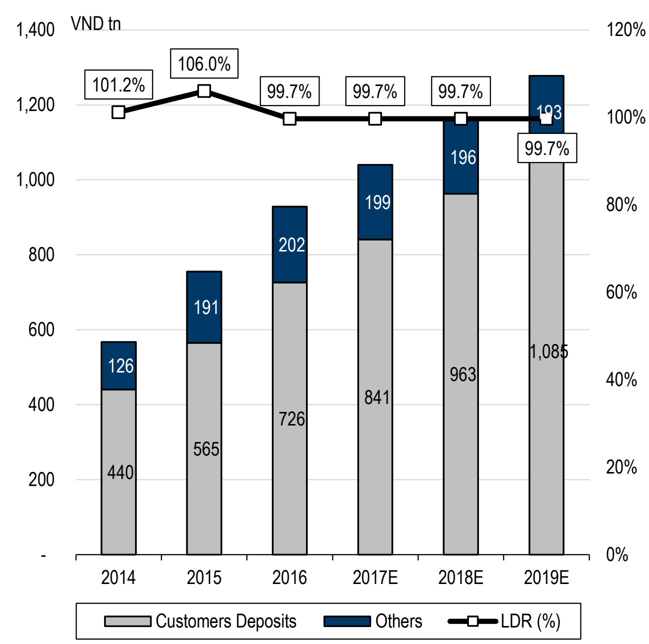
BIDV: Key charts summary

Figure 55: BIDV—interest earning assets (D tn)



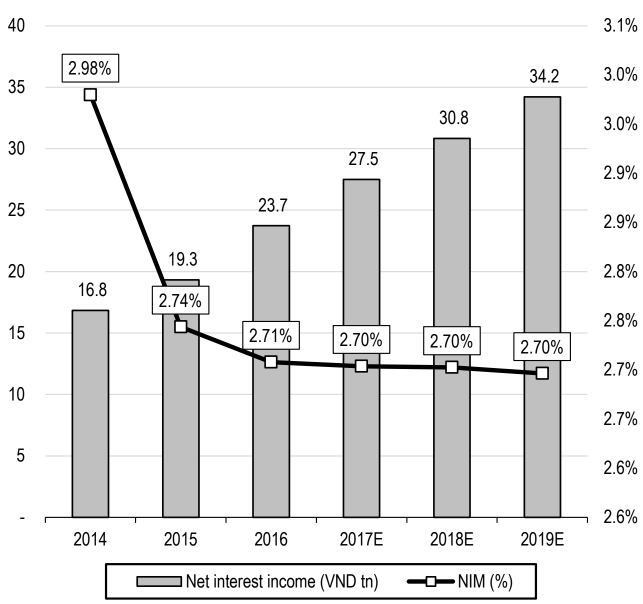
Source: Company data, Credit Suisse estimates

Figure 56: BIDV—interest bearing liabilities (D tn)



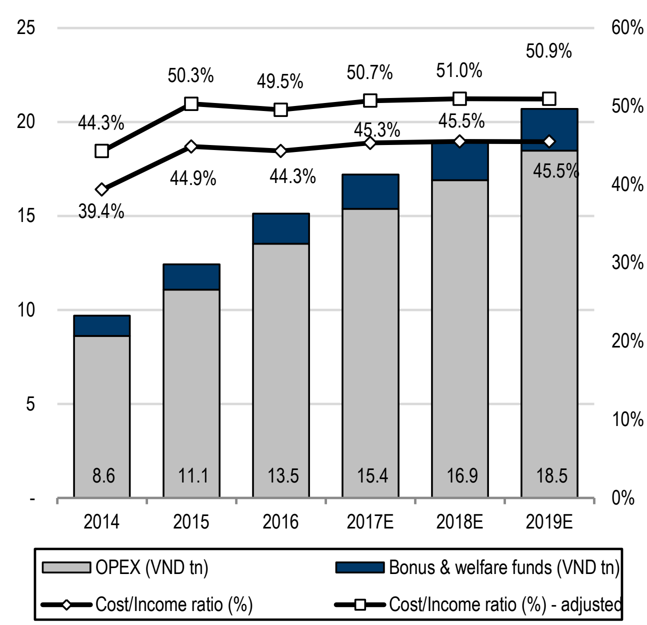
Source: Company data, Credit Suisse estimates

Figure 57: BIDV—net interest income and NIM forecast



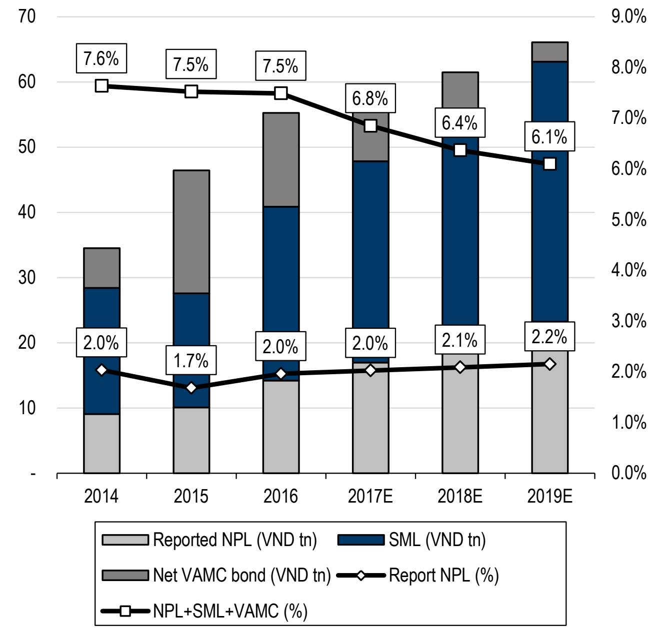
Source: Company data, Credit Suisse estimates

Figure 58: BIDV—cost to income ratio



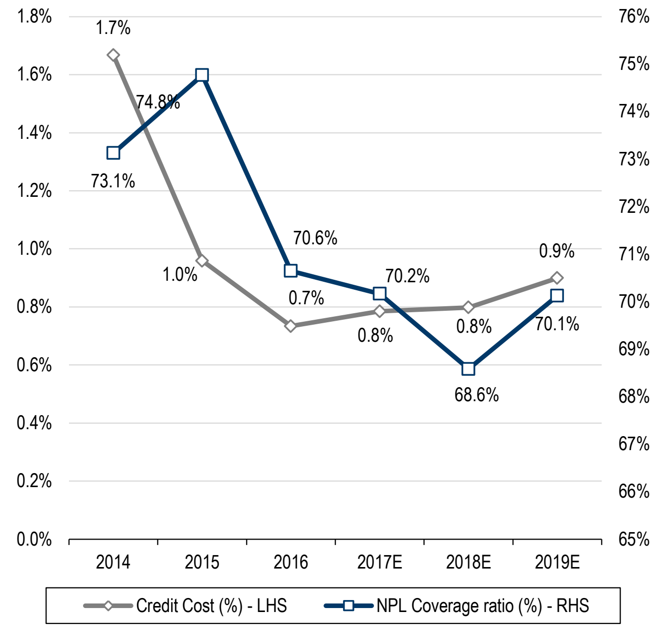
Source: Company data, Credit Suisse estimates

Figure 59: BIDV—NPL + SML + net VAMC bond (D tn)



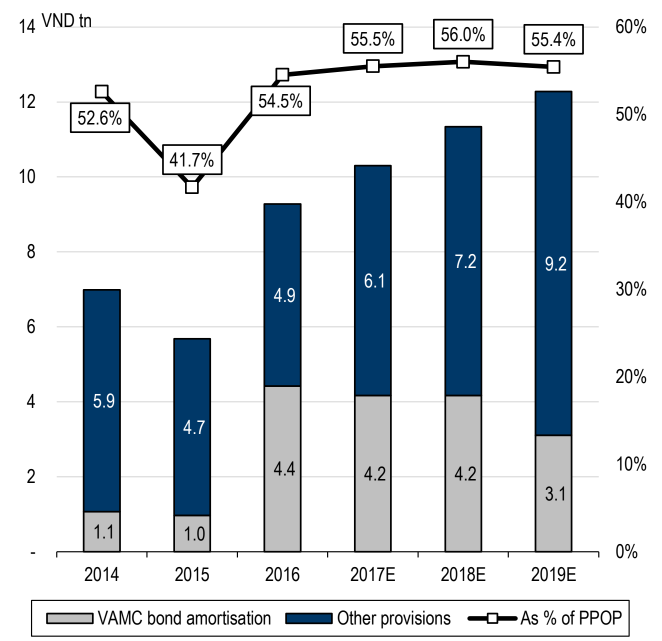
Source: Company data, Credit Suisse estimates

Figure 60: BIDV—credit cost* vs NPL coverage



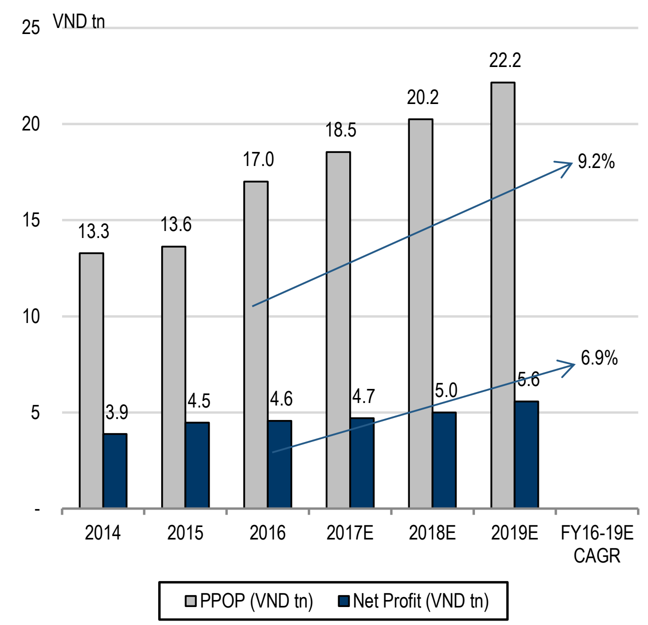
* Does not include amortisation cost related to VAMC bond
Source: Company data, Credit Suisse estimates

Figure 61: BIDV—provision costs (D tn)



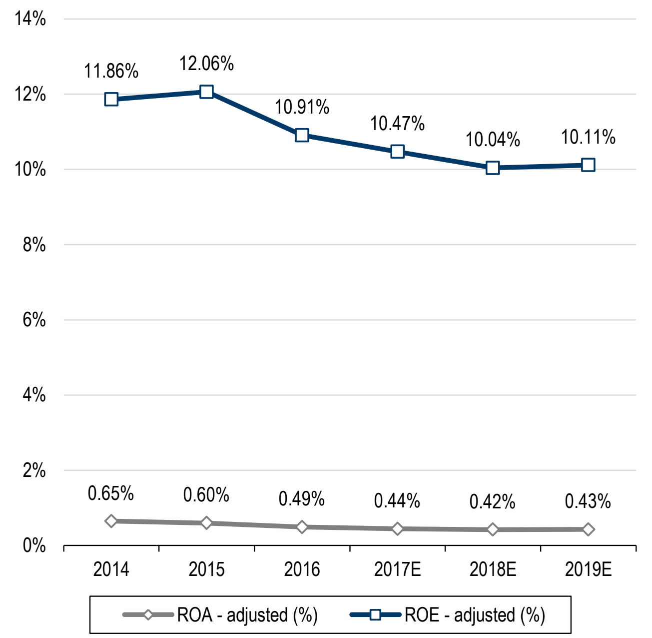
Source: Company data, Credit Suisse estimates

Figure 62: BIDV—PPOP, net profit forecasts (D tn)



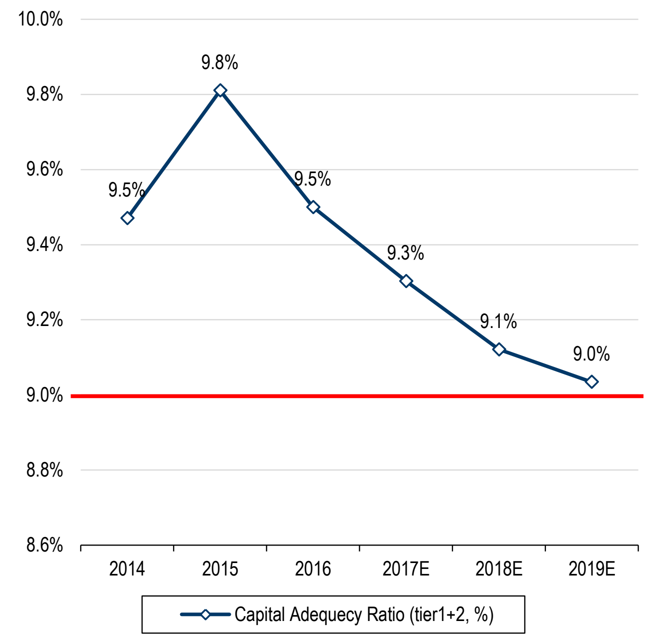
Source: Company data, Credit Suisse estimates

Figure 63: BIDV—ROA and ROE forecasts



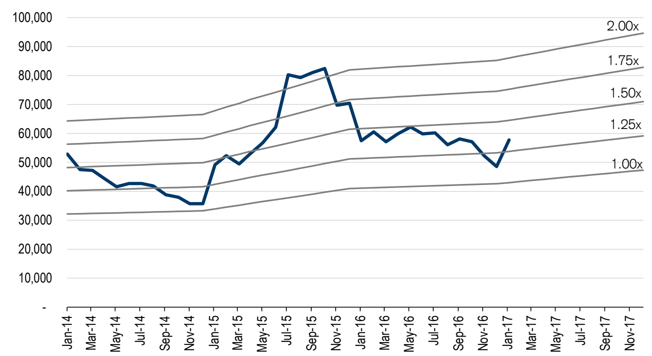
Source: Company data, Credit Suisse estimates

Figure 64: BIDV—capital adequacy ratio (no Basel II)



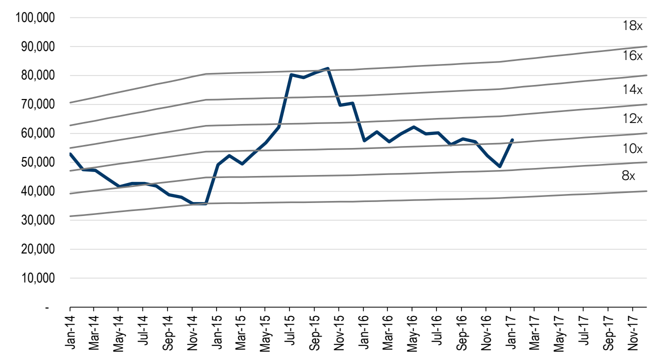
Source: Company data, Credit Suisse estimates

Figure 65: BIDV—P/B band



Source: Company data, Credit Suisse estimates

Figure 66: BIDV—12 month forward P/E band



Source: Company data, Credit Suisse estimates

Military Commercial Joint Stock Bank

(MBB.HM / MBB VN)

UPGRADE RATING

Rating	**(from NEUTRAL) OUTPERFORM**
Price (08-Feb-17, D)	14,150
Target price (D)	(from 16,000) 17,000
Upside/downside (%)	20.1
Mkt cap (D/US$ bn)	24,235/ 1.07
Number of shares (mn)	1,713
Free float (%)	36.5
52-wk price range	14,952-13,150
ADTO-6M (US$ mn)	0.2

Target price is for 12 months.

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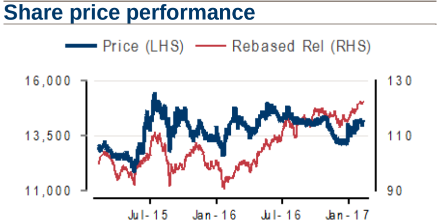
Ripe for a rerating

- **We upgrade MBB to OUTPERFORM** with V17,000/share target price (20% potential upside) based on equal weighting of 2x s.d. above its historical average P/B (1.20x) on adjusted book value and P/E (9.23x) on 12-mth forward EPS. With an improving growth profile, MBB deserves to trade broadly in line with its industry peers if not at a premium, in our view.
- **More visible growth.** We have highlighted that MBB is well equipped for growth given its relatively better capital position (12% CAR) and as the delay in Basel 2 also helps relieve near-term capital pressure. While execution has always been the question, we have seen positive signs on MBB's ability to shift its focus more toward loans to individuals (30% of loan portfolio, from 14.0% in FY13). The maturity of high yield government bonds has hurt its NIMs in FY15-16E, but that should largely be digested. This should allow loan growth and an improvement in LDR (77.4% at Dec-2016, from 66.8% at Dec-2015) to feed more through to growth in net interest income in FY17-18E.
- **Not immune, but can navigate challenges.** MBB is not immune to the challenges that the sector will face in FY17E, i.e. deposit competition, continued opex pressure and asset quality. However, MBB is relatively well equipped to navigate these compared to peers given: (1) relatively low LDR (77.4%) giving some funding flexibility and (2) as its asset quality has improved materially, with NPL+SML declining to 2.58% as at Dec-2016 from 3.57% as at Dec-2015, while coverage ratio increased to 103.2%. We do expect MBB's cost-to-income to continue to rise though, to 45-46% in FY17-18E from 39-42% in FY15-16A. Overall we raise FY17E EPS forecast by 3.2% though FY18E EPS forecast declines 4.6% on slightly higher operating expenses and provision assumptions.
- **Ripe for rerating.** MBB is trading at 0.9x FY17E adjusted P/B and 8.1x P/E. We believe MBB's share price has lagged peers over the past 12 months on poor 1H16 results (sharp decline in NIM against a sharp rise in opex) and dilution impact from an earlier capital increase. With the headwinds on 1H16 results now digested and our expectation for growth into FY17E, we believe MBB is ripe for a rerating to trade at least more in line with peers.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08/02/17. On 08/02/17 the spot exchange rate was D22,650/US$1

Performance	1M	3M	12M
Absolute (%)	4.0	3.3	2.0
Relative (%)	1.1	0.1	-26.6

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
Pre-provision Op profit (D bn)	5,680.7	6,020.2	6,661.6	7,547.8
Pre-tax profit (D bn)	3,650.6	3,981.8	4,286.9	4,860.7
Net attributable profit (D bn)	2,723.5	2,977.6	3,183.0	3,599.0
EPS (CS adj.) (D)	1,580	1,739	1,858	2,101
Change from previous EPS (%)	n.a.	3.2	(4.6)	-
Consensus EPS (D)	n.a.	1,701	1,947	
EPS growth (%)	(7.1)	10.1	6.9	13.1
P/E (x)	9.0	8.1	7.6	6.7
Dividend yield (%)	0.0	0.0	0.0	0.0
BVPS (CS adj.) (D)	14,802	16,541	18,399	20,500
P/B (x)	0.96	0.86	0.77	0.69
ROE (%)	11.4	11.1	10.6	10.8
ROA (%)	1.1	1.1	1.0	1.0
Tier 1 Ratio (%)	10.8	10.3	9.8	9.5

Source: Company data, Thomson Reuters, Credit Suisse estimates

Military Commercial Joint Stock Bank (MBB.HM / MBB VN)

Price (08 Feb 2017): **D14,150**; Rating: **(from NEUTRAL) OUTPERFORM**; Target Price: **(from D16,000) D17,000**; Analyst: **Chate Benchavitvilai**

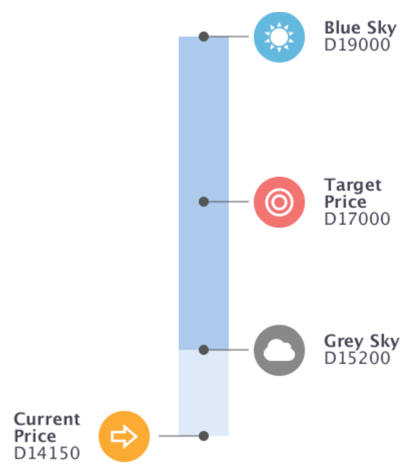
Earnings Drivers	12/16A	12/17E	12/18E	12/19E
Net interest margin (%)	3.60	3.56	3.54	3.51
Loan growth (%)	24.22	22.71	22.07	20.50
Credit cost (%)	0.60	0.73	0.76	0.81
	-	-	-	-
	-	-	-	-
Income Statement (D bn)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Interest income	15,552	18,314	21,786	25,672
Interest expense	7,574	9,194	11,202	13,303
Net interest income	**7,979**	**9,119**	**10,584**	**12,369**
Fee and commission income	683	808	927	1,038
Trading income	215	218	223	230
Total non-interest income	**1,876**	**1,831**	**1,833**	**1,863**
Total income	**9,855**	**10,951**	**12,416**	**14,232**
Personal expense	2,072	2,519	3,039	3,588
Other expenses	2,103	2,411	2,716	3,096
Total expenses	**4,175**	**4,931**	**5,755**	**6,685**
Pre-provision profit	**5,681**	**6,020**	**6,662**	**7,548**
Loan loss provisions	2,030	2,038	2,375	2,687
Operating profit	**3,651**	**3,982**	**4,287**	**4,861**
Other non-operating inc./(exp.)	-	-	-	-
Pre-tax profit	**3,651**	**3,982**	**4,287**	**4,861**
Taxes	767	796	857	972
Net profit before minorities	**2,884**	**3,185**	**3,430**	**3,889**
Reported net profit	**2,855**	**3,154**	**3,396**	**3,850**
Net profit (Credit Suisse)	**2,723**	**2,978**	**3,183**	**3,599**
Balance Sheet (D bn)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Gross customer loans	150,738	184,973	225,802	272,082
Risk provisions	2,050	2,584	3,288	4,177
Net customer loans	**148,687**	**182,389**	**222,514**	**267,905**
Interbank loans	36,955	38,399	40,523	42,994
Investment & securities	54,212	53,402	60,435	69,470
Cash & cash equivalents	1,520	1,729	2,009	2,485
Fixed assets	1,514	1,756	2,114	2,704
Other assets	14,313	14,135	13,956	13,777
Total assets	**256,259**	**290,957**	**340,786**	**398,660**
Total deposits	**219,525**	**251,215**	**297,827**	**352,064**
Other liabilities	10,145	10,145	10,145	10,145
Total liabilities	**229,670**	**261,359**	**307,972**	**362,209**
Shareholders' equity	**25,352**	**28,330**	**31,513**	**35,112**
Total liabilities & equity	**256,259**	**290,957**	**340,786**	**398,660**
Asset quality & Capital	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Asset Quality (%)				
NPL/ gross loans	1.3	1.3	1.4	1.5
B/S loan loss coverage	103.2	105.0	102.9	102.3
Loan/ deposit ratio	76.3	79.2	79.2	79.1
Capital ratios (%)				
Capital adequacy ratio	12.6	11.9	11.2	10.8
Tier 1 ratio	10.8	10.3	9.8	9.5
Equity Tier 1 ratio	10.8	10.3	9.8	9.5
Per share	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Shares (wtd avg.) (mn)	1,724	1,713	1,713	1,713
EPS (Credit Suisse) (D)	**1,580**	**1,739**	**1,858**	**2,101**
BVPS (D)	14,802	16,541	18,399	20,500
Tangible BVPS (D)	14,251	16,042	17,952	20,106
DPS (D)	0	0	0	0
Earnings	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Growth (%)				
Revenue	12.4	11.1	13.4	14.6
Operating expense	21.0	18.1	16.7	16.2
Pre-provision profit	6.7	6.0	10.7	13.3
Net profit	16.3	9.3	6.9	13.1
Deposit	7.3	18.2	22.1	20.5
Valuation	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EPS growth (%)	(7.1)	10.1	6.9	13.1
P/E (x)	9.0	8.1	7.6	6.7
P/B (x)	0.96	0.86	0.77	0.69
P/TB (x)	1.0	0.9	0.8	0.7
Dividend yield (%)	0.0	0.0	0.0	0.0
Profitability & margins (%)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
ROE stated	11.9	11.8	11.3	11.6
ROE - CS adj.	11.4	11.1	10.6	10.8
ROA - CS adj.	1.1	1.1	1.0	1.0
Gearing (x)	10.0	10.2	10.6	11.1

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Military Commercial Joint Stock Bank is a commercial joint stock bank incorporated in the Socialist Republic of Vietnam. The principal activities of the bank are to carry out banking activities.

Blue/Grey Sky Scenario



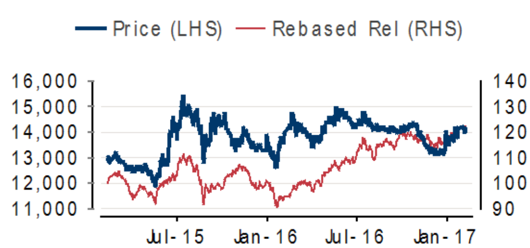
Our Blue Sky Scenario (D)	(from 18,500) 19,000

Our blue sky scenario target price of D19,000 (from D18,500) is +1 std from the base case.

Our Grey Sky Scenario (D)	(from 14,500) 15,200

Our grey sky scenario target price of D15,000 (from D14,500) is -1 std from the base case.

Share price performance

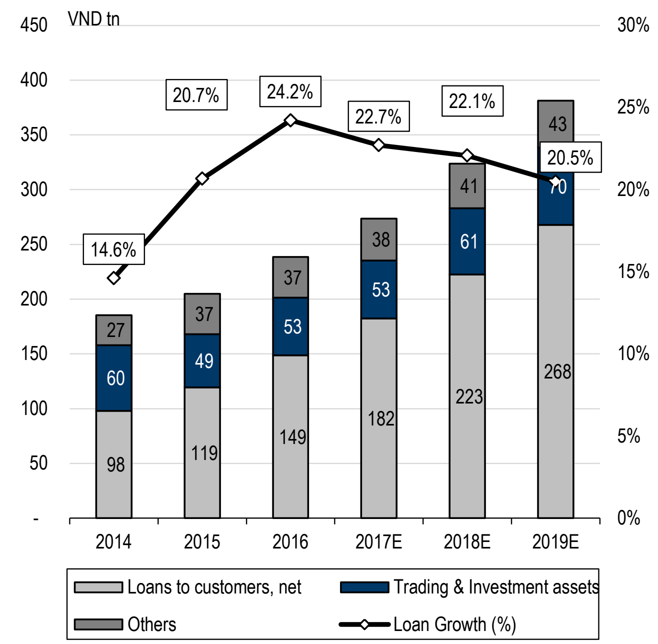


The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08-Feb-2017

On 08-Feb-2017 the spot exchange rate was D22,650/US$1

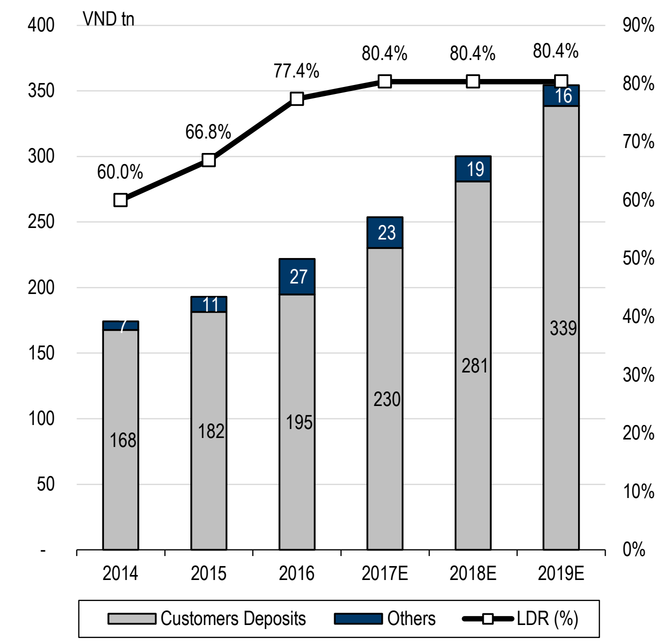
MBB: Key charts summary

Figure 67: MBB—interest earning assets (D tn)



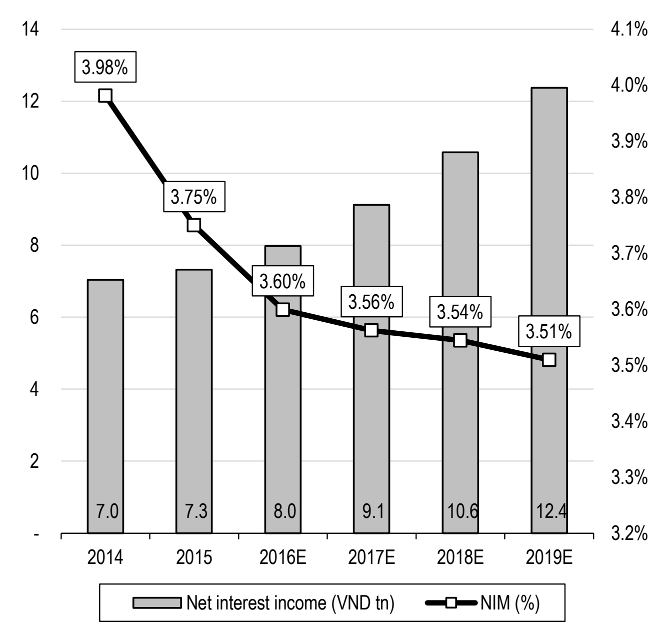
Source: Company data, Credit Suisse estimates

Figure 68: MBB—interest bearing liabilities (D tn)



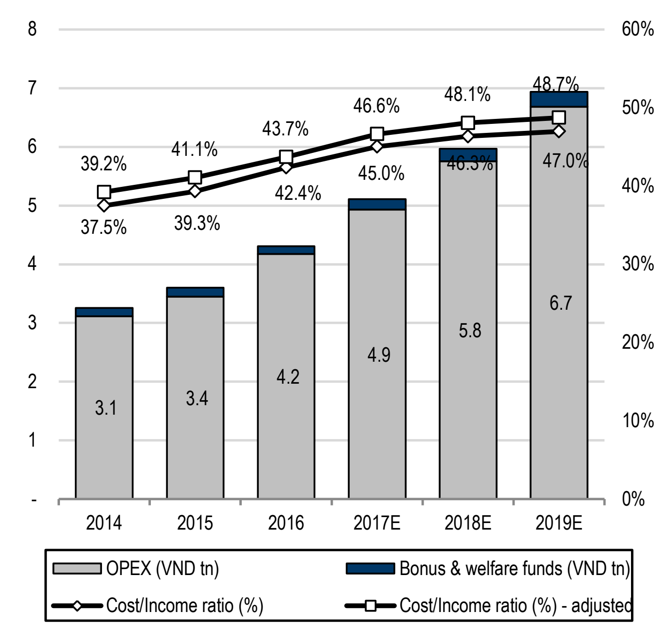
Source: Company data, Credit Suisse estimates

Figure 69: MBB—net interest income and NIM forecast



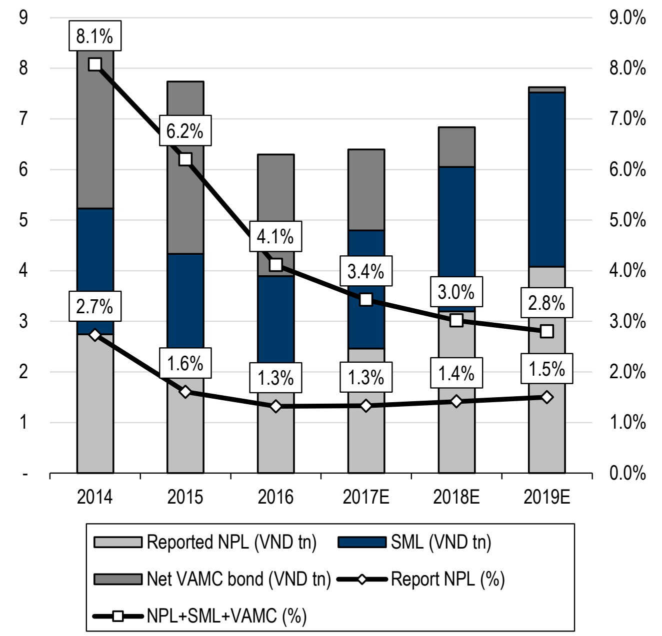
Source: Company data, Credit Suisse estimates

Figure 70: MBB—Cost to income ratio



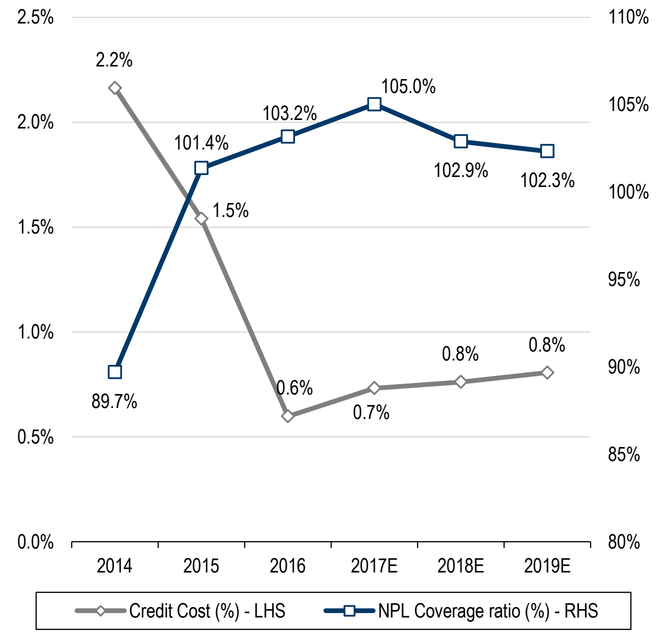
Source: Company data, Credit Suisse estimates

Figure 71: MBB—NPL + SML + net VAMC bond (D tn)



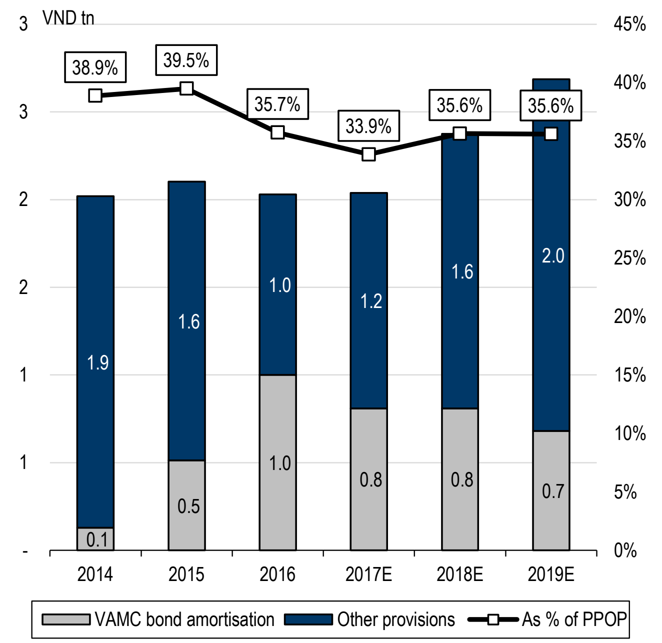
Source: Company data, Credit Suisse estimates

Figure 72: MBB—credit cost* vs NPL coverage



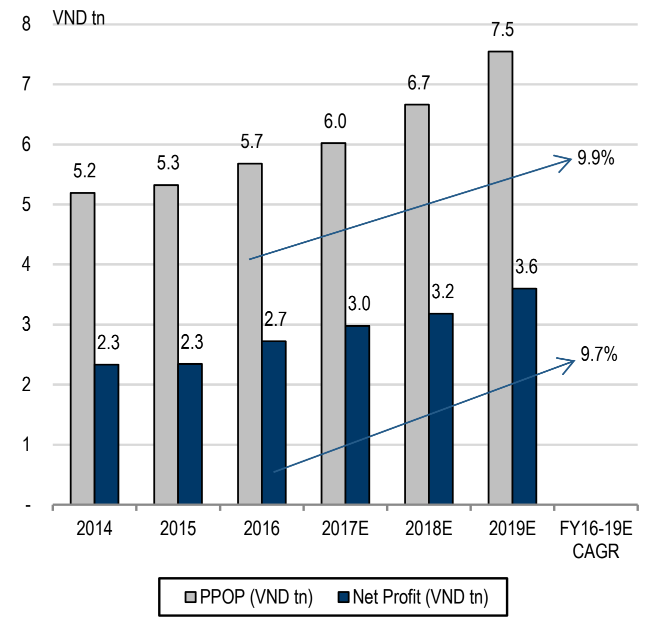
* Does not include amortisation cost related to VAMC bond
Source: Company data, Credit Suisse estimates

Figure 73: MBB—provision costs (D tn)



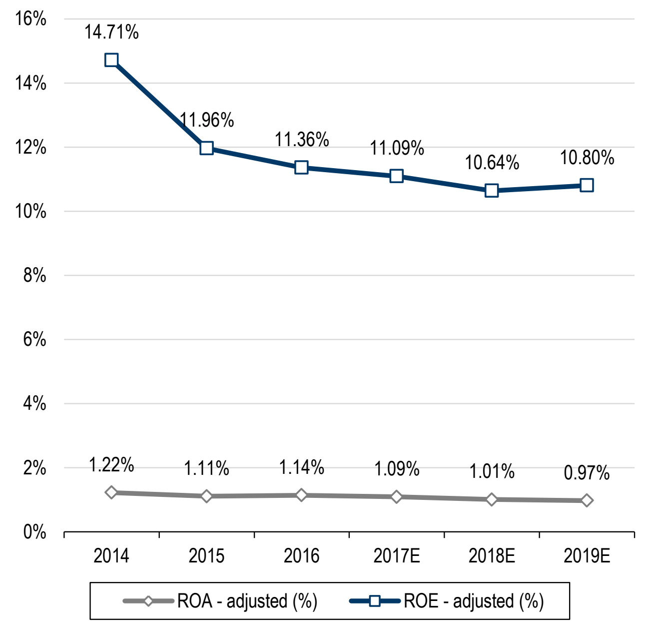
Source: Company data, Credit Suisse estimates

Figure 74: MBB—PPOP, net profit forecasts (D tn)



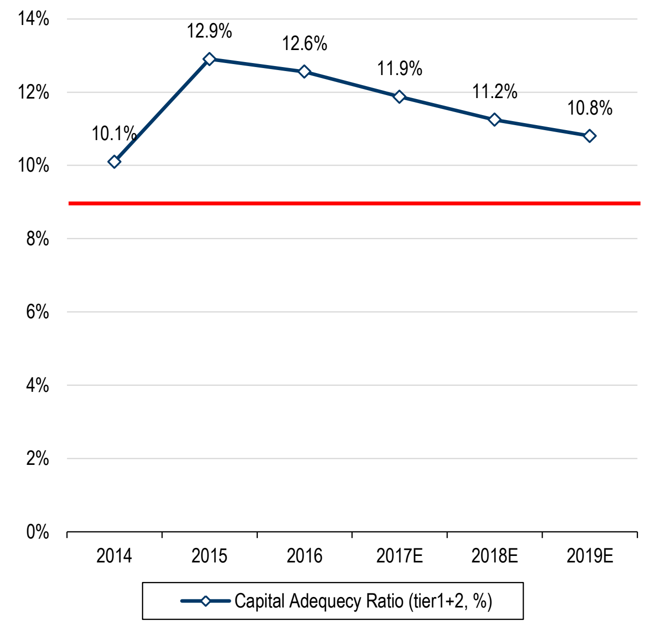
Source: Company data, Credit Suisse estimates

Figure 75: MBB—ROA and ROE forecasts



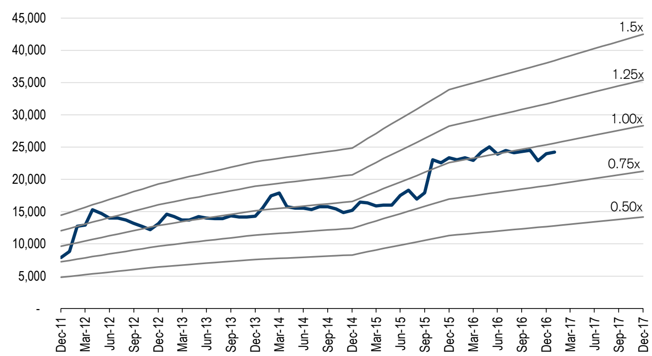
Source: Company data, Credit Suisse estimates

Figure 76: MBB—capital adequacy ratio (no Basel II)



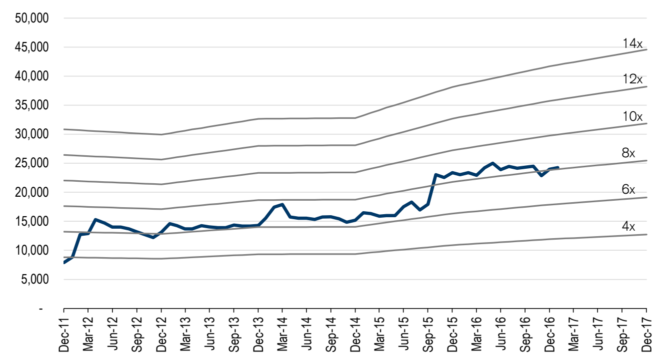
Source: Company data, Credit Suisse estimates

Figure 77: MBB—P/B band



Source: Company data, Credit Suisse estimates

Figure 78: MBB—12 month forward P/E band



Source: Company data, Credit Suisse estimates

Asia Pacific/Vietnam
Regional Banks

Asia Commercial Joint Stock Bank

(ACB.HN / ACB VN)

Rating	NEUTRAL
Price (08-Feb-17, D)	23,700
Target price (D)	(from 20,909) 24,000
Upside/downside (%)	1.3
Mkt cap (D/US$ bn)	23,366/ 1.03
Number of shares (mn)	985.90
Free float (%)	66.6
52-wk price range	24,200-15,545
ADTO-6M (US$ mn)	0.3

Target price is for 12 months.

Research Analysts

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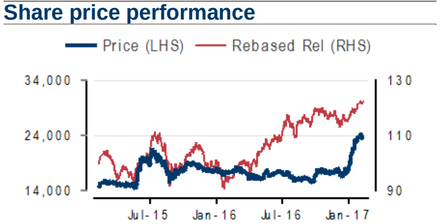
INCREASE TARGET PRICE

Positioned for growth, balanced risk-reward

- **Maintain NEUTRAL rating.** We maintain our NEUTRAL rating on ACB but revise up our target price to V24,000/share (1.3% upside) based on equal weighting of historical average P/B (1.46x) on adjusted book value and P/E (16.7x) on 12-month forward EPS.
- **Positioned for growth.** ACB is well-positioned to capture growth given its experience and focus on retail and SME segments and relatively better capital position (13% CAR at Jun-2016). Our earlier concern was that its capital could be hit hard by the implementation of Basel 2, but the delay until 2020 helps relieve near-term pressure and allows ACB to continue to grow.
- **Buffer against challenges.** ACB's relatively low LDR (78.9% at Dec-2016 compared to 100-101% for BID and CTG) and good retail franchise give it more funding flexibility, while its improvement in asset quality and good LLR allow room for credit cost to still be lower in FY17E. ACB's cost-to-income ratio has been high (partly due to legacy charges that depressed operating income), but we see room for some improvement in cost efficiencies. We revise up our net interest income forecasts for ACB by 5.9-9.7% on higher loan growth and better funding flexibility. This was partly offset by higher opex assumptions, but given operational leverage, lower provision cost and a low base, our FY17-18E EPS forecasts for ACB increased by 16.8-23.0%
- **Won't chase at this point though.** ACB's share price has outperformed both index and industry peers materially over the past three months driven both by solid operating results and positive news flow on Basel 2 delay. We believe that these positives are priced in at the current level, however, with ACB trading at an FY17E adjusted P/B of 1.6x and P/E of 14.8x. For investors, liquidity is also an issue, given its very low trading value and full foreign limit, which could prevent fair price discovery.

Share price performance



The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08/02/17. On 08/02/17 the spot exchange rate was D22,650/US$1

Performance	1M	3M	12M
Absolute (%)	13.9	36.5	36.5
Relative (%)	11.1	33.0	7.6

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
Pre-provision Op profit (D bn)	2,884.6	3,316.4	4,204.5	5,089.3
Pre-tax profit (D bn)	1,667.0	2,024.3	2,696.8	3,317.7
Net attributable profit (D bn)	1,292.8	1,580.8	2,110.2	2,598.4
EPS (CS adj.) (D)	1,311	1,603	2,140	2,636
Change from previous EPS (%)	n.a.	16.8	23.0	-
Consensus EPS (D)	n.a.	1,376	1,740	
EPS growth (%)	27.0	22.3	33.5	23.1
P/E (x)	18.1	14.8	11.1	9.0
Dividend yield (%)	0.0	0.0	0.0	0.0
BVPS (CS adj.) (D)	14,264	15,867	18,008	20,643
P/B (x)	1.66	1.49	1.32	1.15
ROE (%)	9.6	10.6	12.6	13.6
ROA (%)	0.6	0.6	0.7	0.7
Tier 1 Ratio (%)	8.7	8.3	7.9	7.7

Source: Company data, Thomson Reuters, Credit Suisse estimates

Asia Commercial Joint Stock Bank (ACB.HN / ACB VN)

Price (08 Feb 2017): **D23,700**; Rating: **NEUTRAL**; Target Price: **(from D20,909) D24,000**; Analyst: **Chate Benchavitvilai**

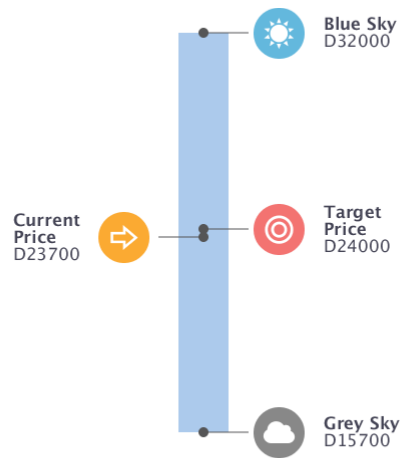
Earnings Drivers	12/16A	12/17E	12/18E	12/19E
Net interest margin (%)	3.42	3.38	3.31	3.24
Loan growth (%)	21.91	21.05	20.46	19.00
Credit cost (%)	0.53	0.51	0.52	0.57
	-	-	-	-
	-	-	-	-
Income Statement (D bn)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Interest income	16,448	19,578	23,206	27,466
Interest expense	9,556	11,511	13,739	16,387
Net interest income	**6,892**	**8,067**	**9,467**	**11,079**
Fee and commission income	944	1,030	1,116	1,191
Trading income	(584)	(429)	55	303
Total non-interest income	**671**	**774**	**1,344**	**1,667**
Total income	**7,562**	**8,841**	**10,810**	**12,745**
Personal expense	2,309	2,755	3,368	3,970
Other expenses	2,369	2,770	3,238	3,686
Total expenses	**4,678**	**5,524**	**6,606**	**7,656**
Pre-provision profit	**2,885**	**3,316**	**4,205**	**5,089**
Loan loss provisions	1,218	1,292	1,508	1,772
Operating profit	**1,667**	**2,024**	**2,697**	**3,318**
Other non-operating inc./(exp.)	-	-	-	-
Pre-tax profit	**1,667**	**2,024**	**2,697**	**3,318**
Taxes	342	405	539	664
Net profit before minorities	**1,325**	**1,619**	**2,157**	**2,654**
Reported net profit	**1,325**	**1,619**	**2,157**	**2,654**
Net profit (Credit Suisse)	**1,293**	**1,581**	**2,110**	**2,598**
Balance Sheet (D bn)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Gross customer loans	163,401	197,805	238,282	283,557
Risk provisions	1,797	2,355	3,098	4,075
Net customer loans	**161,604**	**195,451**	**235,183**	**279,482**
Interbank loans	13,271	18,328	28,381	38,283
Investment & securities	43,985	46,102	49,071	52,781
Cash & cash equivalents	3,541	4,351	4,399	5,746
Fixed assets	2,339	2,235	2,157	2,108
Other assets	9,452	9,374	9,296	9,218
Total assets	**233,681**	**275,369**	**328,054**	**387,224**
Total deposits	**209,286**	**249,393**	**299,969**	**356,540**
Other liabilities	10,332	10,332	10,332	10,332
Total liabilities	**219,618**	**259,725**	**310,300**	**366,872**
Shareholders' equity	**14,063**	**15,644**	**17,754**	**20,352**
Total liabilities & equity	**233,681**	**275,369**	**328,054**	**387,224**
Asset quality & Capital	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Asset Quality (%)				
NPL/ gross loans	0.9	1.0	1.1	1.2
B/S loan loss coverage	126.5	121.5	119.3	119.7
Loan/ deposit ratio	78.1	79.1	79.0	78.9
Capital ratios (%)				
Capital adequacy ratio	13.4	12.3	11.4	10.7
Tier 1 ratio	8.7	8.3	7.9	7.7
Equity Tier 1 ratio	8.7	8.3	7.9	7.7
Per share	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Shares (wtd avg.) (mn)	986	986	986	986
EPS (Credit Suisse) (D)	**1,311**	**1,603**	**2,140**	**2,636**
BVPS (D)	14,264	15,867	18,008	20,643
Tangible BVPS (D)	13,745	15,388	17,568	20,243
DPS (D)	0	0	0	0
Earnings	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Growth (%)				
Revenue	21.6	16.9	22.3	17.9
Operating expense	16.3	18.1	19.6	15.9
Pre-provision profit	31.2	15.0	26.8	21.0
Net profit	27.0	22.3	33.5	23.1
Deposit	18.4	19.4	20.5	19.0
Valuation	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EPS growth (%)	27.0	22.3	33.5	23.1
P/E (x)	18.1	14.8	11.1	9.0
P/B (x)	1.66	1.49	1.32	1.15
P/TB (x)	1.7	1.5	1.3	1.2
Dividend yield (%)	0.0	0.0	0.0	0.0
Profitability & margins (%)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
ROE stated	9.9	10.9	12.9	13.9
ROE - CS adj.	9.6	10.6	12.6	13.6
ROA - CS adj.	0.6	0.6	0.7	0.7
Gearing (x)	16.2	17.1	18.1	18.8

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

Asia Commercial Joint Stock Bank is a commercial joint stock bank incorporated in the Socialist Republic of Vietnam. The principal activities of the bank are to carry out banking activities.

Blue/Grey Sky Scenario



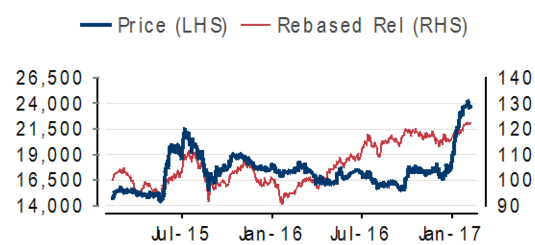
Our Blue Sky Scenario (D) (from 28,182) 32,000

Our blue sky scenario target price of D32,000 (from D28,182) is +1 std from the base case.

Our Grey Sky Scenario (D) (from 13,182) 15,700

Our blue sky scenario target price of D15,700 (from D13,182) is -1 std from the base case.

Share price performance

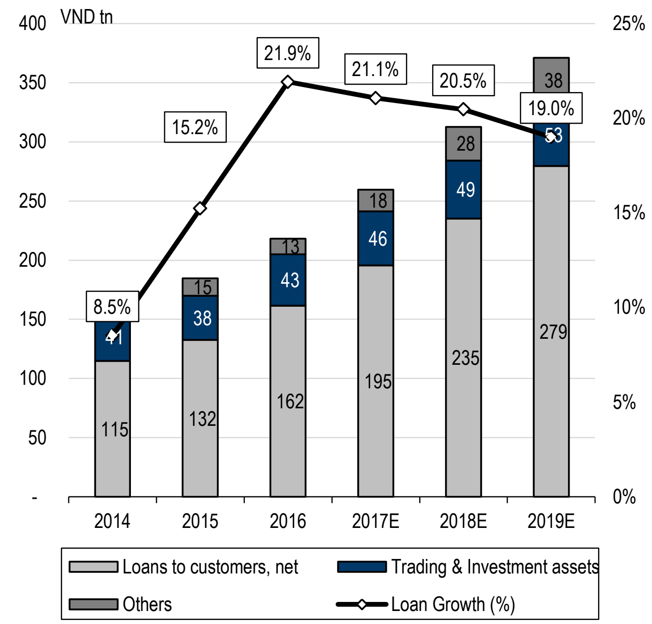


The price relative chart measures performance against the VIETNAM INDEX which closed at 702.04 on 08-Feb-2017

On 08-Feb-2017 the spot exchange rate was D22,650/US$1

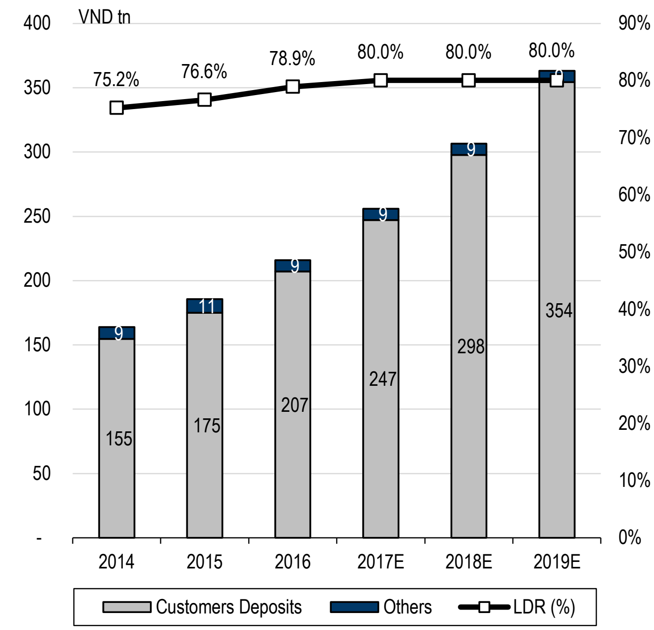
ACB: Key charts summary

Figure 79: ACB—interest earning assets (D tn)



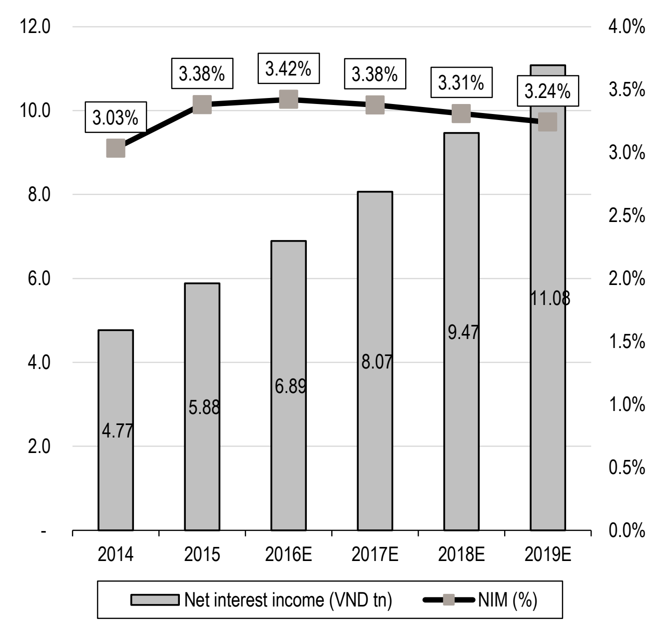
Source: Company data, Credit Suisse estimates

Figure 80: ACB—interest bearing liabilities (D tn)



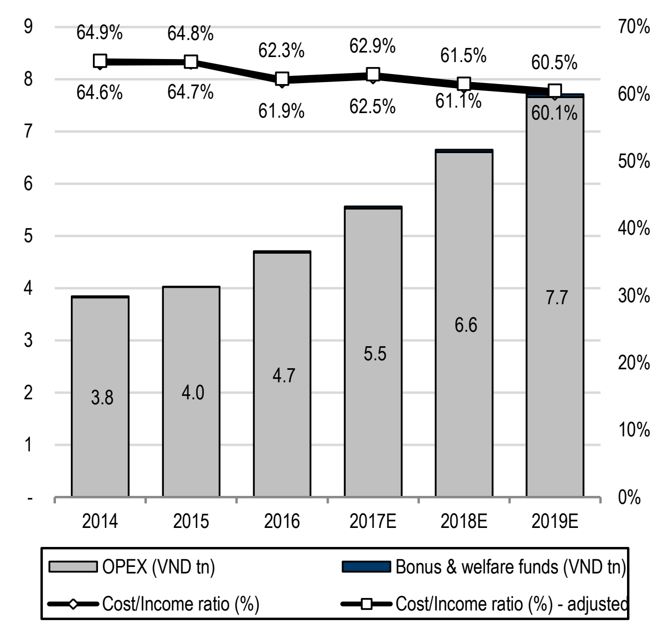
Source: Company data, Credit Suisse estimates

Figure 81: ACB—net interest income and NIM forecast



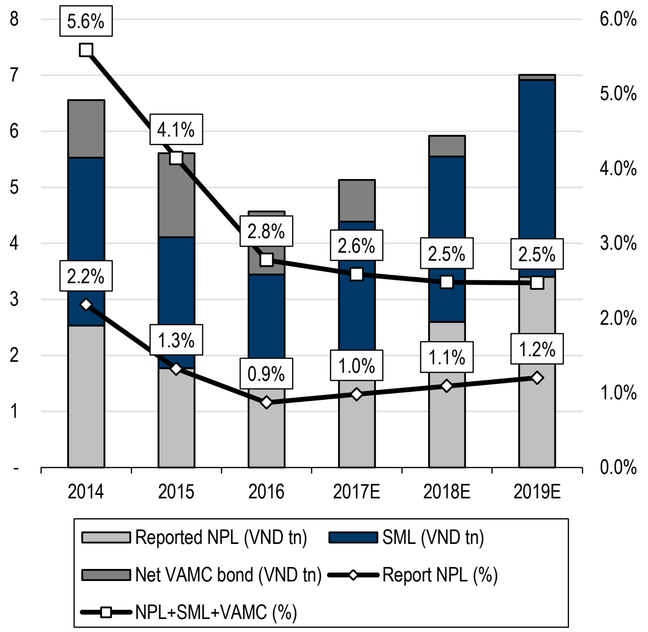
Source: Company data, Credit Suisse estimates

Figure 82: ACB—cost to income ratio



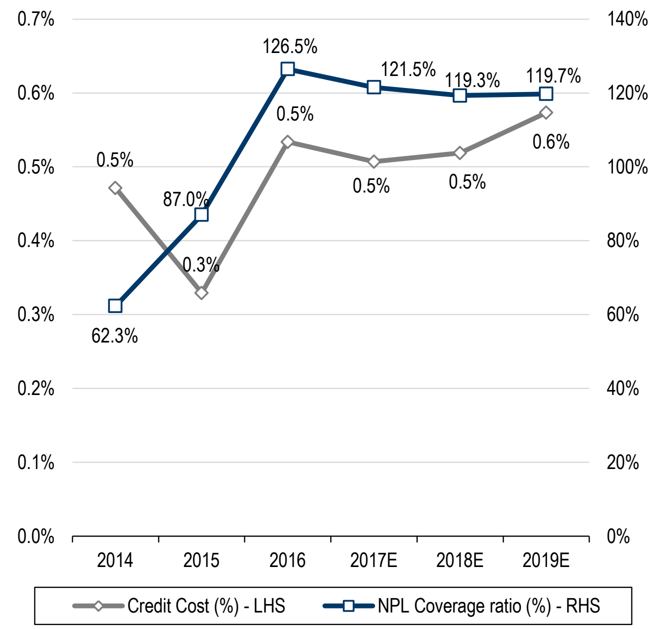
Source: Company data, Credit Suisse estimates

Figure 83: ACB—NPL + SML + net VAMC bond (D tn)



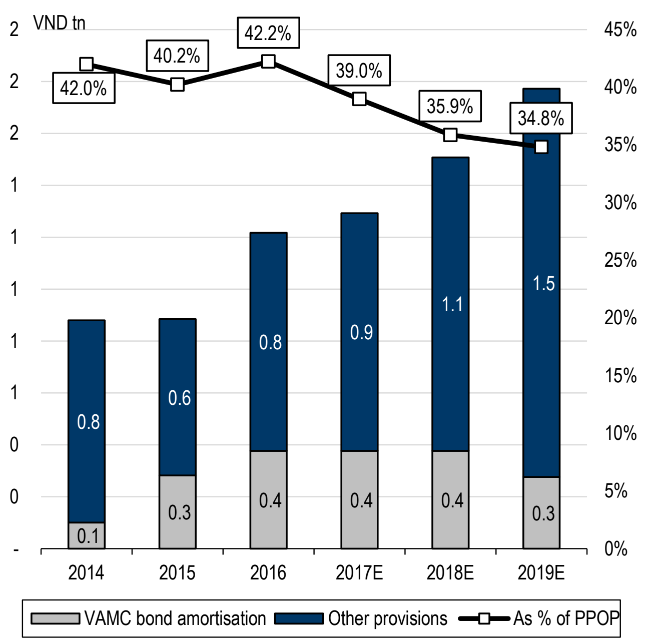
Source: Company data, Credit Suisse estimates

Figure 84: ACB—credit cost* vs NPL coverage



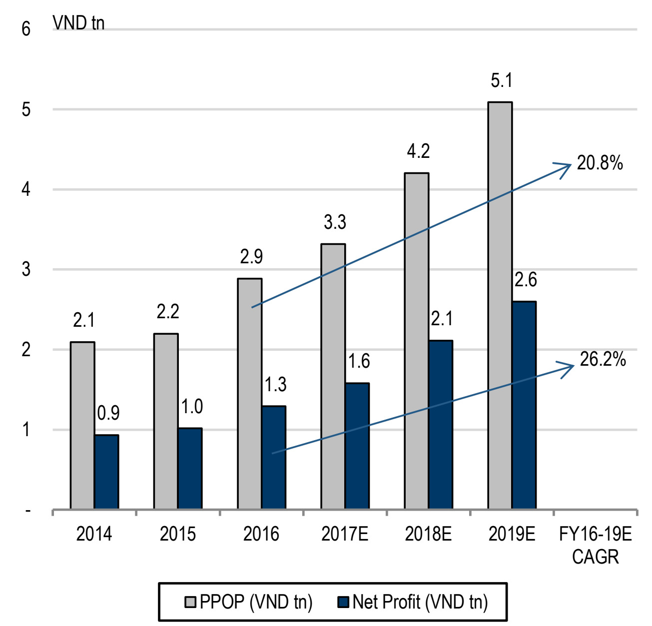
* Does not include amortisation cost related to VAMC bond
Source: Company data, Credit Suisse estimates

Figure 85: ACB—provision costs (D tn)



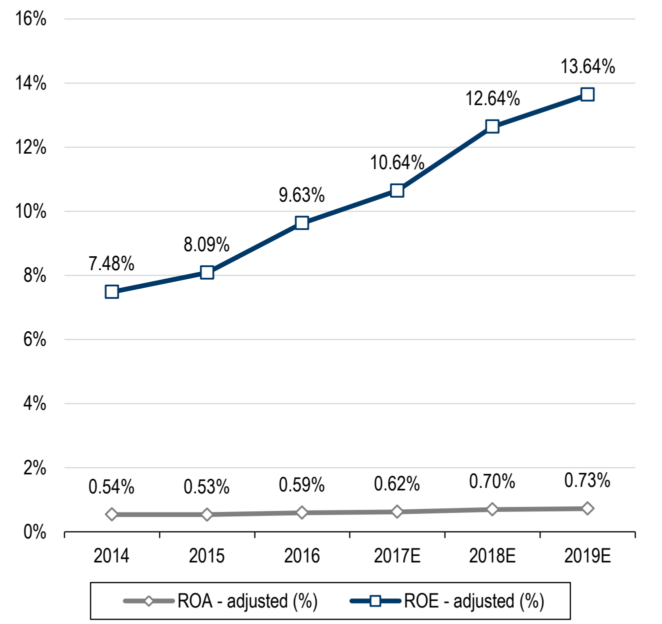
Source: Company data, Credit Suisse estimates

Figure 86: ACB—PPOP, net profit forecasts (D tn)



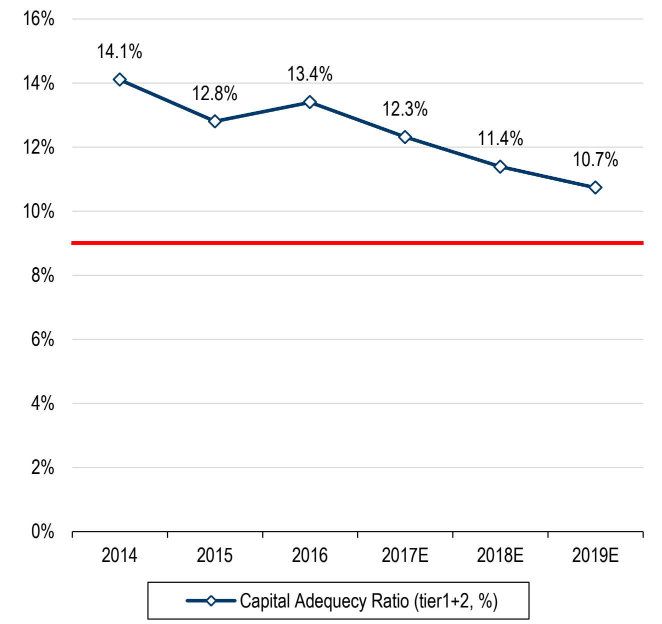
Source: Company data, Credit Suisse estimates

Figure 87: ACB—ROA and ROE forecasts



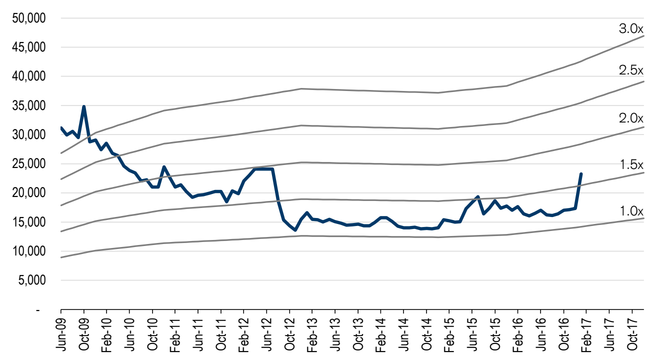
Source: Company data, Credit Suisse estimates

Figure 88: ACB—capital adequacy ratio (no Basel II)



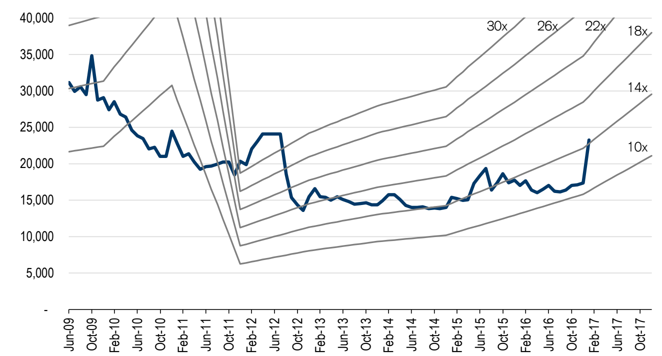
Source: Company data, Credit Suisse estimates

Figure 89: ACB—P/B band



Source: Company data, Credit Suisse estimates

Figure 90: ACB—12 month forward P/E band



Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 08-Feb-2017)*

Asia Commercial Joint Stock Bank (ACB.HN, D23700.0, NEUTRAL, TP D24000.0)
Bangkok Bank (BBLf.BK, Bt188.5)
Bank for Investment and Development of Vietnam (BID.HM, D17000.0, UNDERPERFORM, TP D13500.0)
Bank of Philippine Islands (BPI.PS, P90.9)
CIMB Group Holdings Bhd (CIMB.KL, RM5.0)
Chang Hwa Commercial Bank (2801.TW, NT$17.7)
China Construction Bank (0939.HK, HK$5.85)
China Life Taiwan (2823.TW, NT$31.15)
China Merchants Bank Co Ltd (3968.HK, HK$19.48)
DBS Group Holdings Ltd (DBSM.SI, S$18.8)
HDFC Bank (HDBK.BO, Rs1306.8)
Habib Bank Limited (HBL.KA, PRs266.88)
ICICI Bank (ICBK.BO, Rs285.85)
Industrial Bank of Korea (024110.KS, W12,850)
KB Financial Group (105560.KS, W47,250)
Kasikornbank (KBANKf.BK, Bt196.0)
Krung Thai Bank (KTB.BK, Bt19.0)
LIC Housing Finance Ltd (LICH.BO, Rs555.15)
MCB Bank Limited (MCB.KA, PRs230.98)
Malayan Banking (MBBM.KL, RM8.2)
Mega Financial Holding Co Ltd (2886.TW, NT$23.6)
Metropolitan Bank & Trust Co (MBT.PS, P77.3)
Military Commercial Joint Stock Bank (MBB.HM, D14150.0, OUTPERFORM, TP D17000.0)
Mitsubishi UFJ Financial Group (8306.T, ¥754)
National Australia Bank (NAB.AX, A$30.63)
National Bank of Pakistan (NBPK.KA, PRs78.58)
PT Bank Central Asia Tbk (BBCA.JK, Rp15,600)
PT Bank Danamon Indonesia Tbk (BDMN.JK, Rp4,530)
PT Bank Negara Indonesia (Persero) Tbk (BBNI.JK, Rp6,125)
Postal Savings Bank of China Co., Ltd. (1658.HK, HK$4.68)
Public Bank (PUBM.KL, RM19.98)
Shinsei Bank (8303.T, ¥202)
Shizuoka Bank (8355.T, ¥964)
Vietnam Bank for Industry and Trade (CTG.HM, D17850.0, NEUTRAL, TP D19700.0)
Westpac (WBC.AX, A$32.27)

Disclosure Appendix

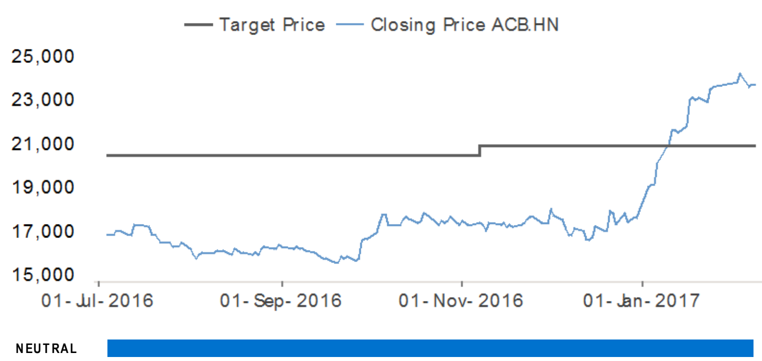
Analyst Certification

Chate Benchavitvilai and Minh Trinh each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Asia Commercial Joint Stock Bank (ACB.HN)

ACB.HN	Closing Price	Target Price	
Date	(D)	(D)	Rating
04-Jul-16	16818.18	20454.55	N *
07-Nov-16	17363.64	20909.09	

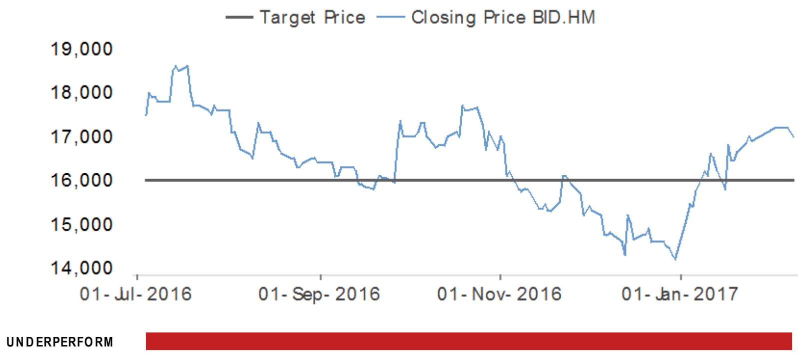
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Bank for Investment and Development of Vietnam (BID.HM)

BID.HM Date	Closing Price (D)	Target Price (D)	Rating
04-Jul-16	17500.00	16000.00	U *

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Industrial Bank of Korea (024110.KS)

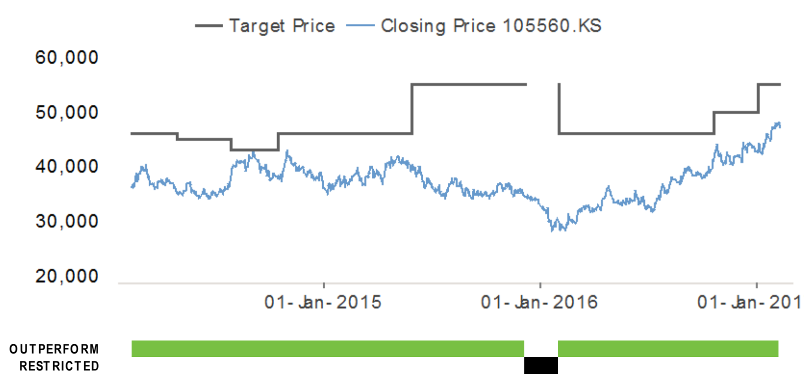
024110.KS Date	Closing Price (W)	Target Price (W)	Rating
10-Feb-14	12,200	14,000	O
03-Jul-14	13,300	14,000	N
09-Feb-15	13,000	13,000	
29-May-15	14,550	15,000	
02-May-16	11,800	13,000	

** Asterisk signifies initiation or assumption of coverage.*

3-Year Price and Rating History for KB Financial Group (105560.KS)

105560.KS Date	Closing Price (W)	Target Price (W)	Rating
10-Feb-14	36,300	46,000	O
28-Apr-14	35,050	45,000	
28-Jul-14	38,600	43,000	
16-Oct-14	37,900	46,000	
29-May-15	40,250	55,000	
07-Dec-15	34,450		R
02-Feb-16	29,350	46,000	O
20-Oct-16	41,700	50,000	
02-Jan-17	42,600	55,000	

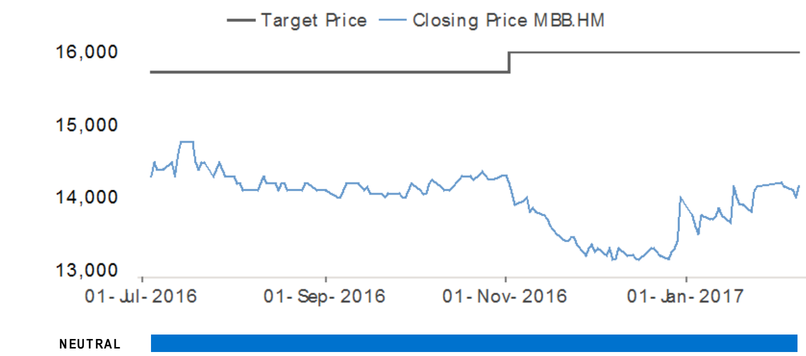
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Military Commercial Joint Stock Bank (MBB.HM)

MBB.HM Date	Closing Price (D)	Target Price (D)	Rating
04-Jul-16	14285.72	15714.29	N *
02-Nov-16	14200.00	16000.00	

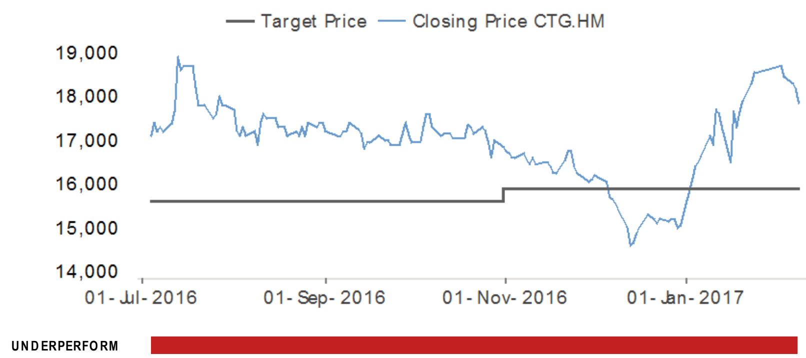
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Vietnam Bank for Industry and Trade (CTG.HM)

CTG.HM Date	Closing Price (D)	Target Price (D)	Rating
04-Jul-16	17100.00	15600.00	U *
31-Oct-16	16850.00	15900.00	

** Asterisk signifies initiation or assumption of coverage.*



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Valuation Methodology and Risks: (12 months) for Asia Commercial Joint Stock Bank (ACB.HN)

Method: Our target price of D24,000 for ACB (Asia Commercial Bank) is based on its historical price to book value (P/B, 50% weighting) and price to earnings (P/E, 50% weighting) multiples and derived target P/B of 1.46x and P/E of 16.4x. We rate ACB NEUTRAL given that while ACB is positioned for growth (experience and focus on retail and SME segment, decent capital position), we expect legacy issues (assets related to former vice chairman, very high cost-to-income ratios particularly administrative cost) to continue to affect its earnings over the next few years. The implementation could also affect its capital adequacy ratio significantly, and the pressure for ACB to recapitalise should become more apparent into FY17-18E. At our target price of D24,000, ACB would be trading at a P/B ratio of 1.7x and P/E ratio of 14.8x against adjusted return on equity (ROE) of 10.64% for FY17E.

Risk: Risks to our target price of D24,000 and NEUTRAL rating for ACB (Asia Commercial Bank) are: (1) either faster-than-expected, or slower-than-expected loan growth; (2) either faster-than-expected, or slower-than-expected growth in fund mobilisation (e.g. deposit growth) , (3) either higher-than-expected, or lower-than-expected yield on interest earning assets (e.g. lending rate, yield on investment) and/or cost of funding (e.g. borrowing rate, yield on valuable paper), (4) better-than-expected, or worse-than-expected ability to pass through any increase in cost to preserve margins, (5) future change in regulations, timing of implementation of new regulations; (6) overall economic conditions that could have direct/indirect impact on asset quality, (7) ability to raise additional capital, particularly if Basel II is implemented, and (8) higher or lower recoverable value from assets related to the group of six companies which were related to the former vice chairman.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Bank for Investment and Development of Vietnam (BID.HM)

Method: Our target price of D13,500 for BIDV (Bank for Investment and Development of Vietnam) is based on its historical price to book value (P/B, 50% weighting) and price to earnings (P/E, 50% weighting) multiples and derive a target P/B of 1.49x and P/E of 12.58x. We rate BIDV UNDERPERFORM given the overwhelming challenges it could face in the near- to medium-term including significant increase in provision cost YoY, question on asset quality but lower NPL coverage ratio, relatively high LDR means limited funding flexibility, while BIDV needs to quickly and materially recapitalise. A failure to recapitalise would limit its medium-term growth. At our target price of D13,500, BIDV would be trading at an adjusted P/B ratio of 2.1x and P/E ratio of 9.8x against adjusted return on equity (ROE) of 10.5% for FY17E.

Risk: Risks to our target price of D13,500 and UNDERPERFORM rating for BIDV (Bank for Investment and Development of Vietnam) are: (1) either faster-than-expected, or slower-than-expected loan growth; (2) either faster-than-expected, or slower-than-expected growth in fund mobilisation (e.g. deposit growth); (3) either higher-than-expected, or lower-than-expected yield on interest earning assets (e.g. lending rate, yield on investment) and/or cost of funding (e.g. borrowing rate, yield on valuable paper); (4) better-than-expected, or worse-than-expected ability to pass through any increase in cost to preserve margins; (5) future change in regulations, timing of implementation of new regulations; (6) overall economic conditions that could have direct/indirect impact on asset quality; and (7) ability to raise additional capital, particularly if Basel II is implemented.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Military Commercial Joint Stock Bank (MBB.HM)

Method: Our target price of D17,000 for MBB (Military Bank) is based on its historical price to book value (P/B, 50% weighting) and price to earnings (P/E, 50% weighting) multiples. We apply a premium of 2.0x standard deviation to reflect above-industry growth opportunities for MBB, and derive a target P/B of 1.27x and P/E of 8.69x. We rate MBB OUTPERFORM, given that with an improving growth profile, MBB deserves to trade broadly in line with its industry peers if not at a premium, in our view. We have highlighted that MBB is well equipped for growth given relatively better capital position (12% CAR) and the delay in Basel II also helps relieve near-term capital pressure. At our target price of D17,000, MBB would be trading at an adjusted P/B ratio of 1.1x and P/E ratio of 9.8x against adjusted return on equity (ROE) of 11.1% for FY16E.

Risk: Risks to our target price of D17,000 and OUTPERFORM rating for MBB (Military Bank) are: (1) either faster-than-expected, or slower-than-expected loan growth; (2) either faster-than-expected, or slower-than-expected growth in fund mobilisation (e.g. deposit growth); (3) either higher-than-expected, or lower-than-expected yield on interest earning assets (e.g. lending rate, yield on investment) and/or cost of funding (e.g. borrowing rate, yield on valuable paper); (4) better-than-expected, or worse-than-expected ability to pass through any increase in cost to preserve margins; (5) future change in regulations, timing of implementation of new regulations; (6) overall economic conditions that could have direct/indirect impact on asset quality and (7) ability to raise additional capital, particularly if Basel II is implemented.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Vietnam Bank for Industry and Trade (CTG.HM)

Method: Our target price of D19,700 for CTG (Vietnam Bank for Industry and Trade, Vietinbank) is based on its historical price to book value (P/B, 50% weighting) and price to earnings (P/E, 50% weighting) multiples and derive a target P/B of 1.42x and P/E of 11.12x. We rate the stock NEUTRAL given that at the current level, the risk-reward for CTG already looks balanced. Longer term, CTG would still require material re-capitalisation both to meet Basel II requirement by 2020 and to sustain growth beyond that. At our target price of D19,700, CTG would be trading at an adjusted P/B ratio of 1.1x and P/E ratio of 12.8x against adjusted return on equity (ROE) of 8.9% for FY17E.

Risk: Risks to our target price of D19,700 and NEUTRAL rating for CTG (Vietnam Bank for Industry and Trade, Vietinbank) are: (1) either faster-than-expected, or slower-than-expected loan growth; (2) either faster-than-expected, or slower-than-expected growth in fund mobilisation (e.g. deposit growth); (3) either higher-than-expected, or lower-than-expected yield on interest earning assets (e.g. lending rate, yield on investment) and/or cost of funding (e.g. borrowing rate, yield on valuable paper); (4) better-than-expected, or worse-than-expected ability to pass through any increase in cost to preserve margins; (5) future change in regulations, timing of implementation of new regulations.; (6) overall economic conditions that could have direct/indirect impact on asset quality and (7) ability to raise additional capital, particularly if Basel II is implemented.

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