

Recommendation

Target price	N/A
Closed price	13,100
Upside	N/A

Market Statistic

Floating Shares (million shares)	1,229
Market Cap (VND Bil.)	15,737
52-week highest price	13,800
10-day average volume (shares)	843,212

Shareholders (%)

SUMITOMO MITSUI FINA	15.07
BANK FOR FOREIGN TRA	8.24
VIETNAM NATL GEN EXP	1.05
QUANG THONG NGUYEN	0.01
IFAG INST FONDSLEITU	0.01

Price movement

	1M	3M	1Y
EIB	13%	6%	35%
VN-Index	9%	17%	43%

Tran Thi Hong Tuoi
tuoith@bsc.com.vn

Overview: EIB is a joint stock commercial bank with chartered capital of VND12.35 billion. EIB's network consists of 1 head office, 44 branches nationwide and 1 subsidiary

Valuation

On 08, December, 2017, EIB shares were traded at VND 12,800/share, equivalent to P/B of 1.15x.

Investment highlight

- Core business hardly improved. The progress of handling bad debts has been slow.
- Loans increased by 9.93% to VND95 trillion, of which, disbursements grew mainly in Q3 /2017.
- Deposits rose by 11%. Loan/deposit ratio was high at 84%. This may cause banks to either reduce lending or raise mobilization, thereby affecting the profitability of EIB.
- Concerned assets. NPLs were high at 2.46% and increased to 7.08% if included NPLs were sold to VAMC; Bad debt coverage ratio is low, at 41% at the end of the third quarter, 2017.
- The handling of backlogs related to profits recorded from real estate transactions with Eximbank was not approved by shareholders.
- STB divestment plan was approved by the State Bank of Vietnam. Currently, EIB has divest 4.9 million STB shares and still holds 160 million shares. We believe that EIB will continue to divest STB to meet the requirements of Circular 36 on reducing cross-ownership.

	2014	2015	2016	9M2017
Total asset	161,104	124,850	128,784	138,802
Lending	87,147	84,760	86,891	95,521
Net interest income	2,710	3,398	3,082	1,974
Pre-provision income	894	1,495	1,480	943
EAT	56	40	309	375
% yoy	-91%	-29%	672%	136%
EPS	46	33	251	427
Book value	11,443	10,692	11,002	11,159
ROE	0.39%	0.29%	2.32%	3.85%
ROA	0.03%	0.03%	0.24%	0.39%

Sources: BSC research

Business Update

Loans increased by 9.93% ytd to VND95 trillion at the end of Q3 FY2017. In particular, credit grew mainly in Q3/2017, as of the end of Q2/2017, loans to customers rose by 3.28% ytd and Q3/2017, up 6.64% ytd. EIB is a retail bank, with retail, personal and service lending accounting for 65% of total loans at the end of Q2 FY2017.

Deposits rose by 10.7% to VND113 trillion. In contrast to the loan growth, in Q3/2017, EIB deposit almost unchanged from the previous quarter. The bank's loans to deposit ratio up to 84% at the end of Q3/2017. This may force the bank to push up mobilization or curb the growth rate of output lending. Both of these could reduce the bank's NIM, thereby lowering EIB's profitability.

Up to September, 12 months NIM fall to 2.16% compared to 2.64% for 2016. Due to (1) average lending rates dropped to 8.54% in the third quarter of 2017 (8.98% in 2016); (2) Meanwhile, the average deposit rate increased from 4.98% to 5.36%, respectively. Net interest income dropped by 17% to VND1,974 billion.

Core business continued to decline. Total net fee income before loan loss provision decreased by 16% yoy as net interest income fell 17%. The non-interest business segment has not improved; Meanwhile, operating expenses/operating income was high, reaching 63% in the first three quarters of 2017, while the same period in 2016 was 60%.

Investors should be concerned about EIB's asset quality and the progress of handling bad debt.

- Bad debt declined in absolute terms, however, the rate of decline was slow. Total non-performing loans reached VND 2,350 billion at the end of Q3/2017, bad debt ratio was 2.46%, still high compared to listed banks. The face value of VAMC bonds was VND 6,303 billion, the net value of VAMC bonds after deducting the provision was VND 4,745 billion. Including debt sold to VAMC, bad debt ratio increased to 7.08%. Interest and fees remained high at VND1,264 billion, equivalent to 1.32% of total outstanding loans. Assets transferring from collaterals up to 1,218 billion. EIB also has VND 238 billion of receivables from transfer of shares, which will mature in 2018 and 2019. If the bank can recover these receivables, cash flow from operations will be better, however, in the opposite direction, if the bank can not recovery of these receivables, the provision go up. Concerned assets as our calculated to be at VND 10,609 billion, equivalent to 77% of the bank's equity.
- Low provision for bad debt and VAMC bonds. EIB's bad debt coverage ratio was one of the lowest among listed banks, reaching 41% at the end of September 2017, just above STB (19%). The provision of VAMC only accounted for 25% of their par value, while many banks are going to/expected to close the VAMC bond outstanding in 2018. We believe that In the coming time, EIB should continue to focus on handling bad debt and provisioning. This can be done if the core business activity improves.
- Accumulated 9M2017, the bank recovered VND 145 billion of bad debt processed, 3.3 times higher than the same period, however, still lower than the size of bad debt of EIB. Compared to many other banks, EIB-related events have been noticed and under scrutiny since the end of 2014, so we think that most of

the bank's worst spots have been cleared. We expect the resolution of the 42th National Assembly on the handling of bad debts and collateral of credit institutions will actively support the EIB. The current question are leadership and the quality of human resources involved in dealing with bad debt.

Liquidity needs attention. EIB 's one year term net asset (asset minus debt) is negative, with a total negative spread of VND46 trillion. Total other assets, apart from lending (securities investment, capital contribution, etc.), have a term of over one year, of VND 2.7 trillion, much lower than the above negative spread.

Divestment plan at STB. Eximbank owns 8.887% of STB shares (160 million shares), higher than cap of 5% regulated by the SBV. At the annual shareholders' meeting in 2017, representatives of EIB said that the plan of divestment STB was approved by the State Bank of Vietnam. On 6/12/2017, the bank announced to divest 4.9 million shares of STB (reduced its holding from 9.16% to 8.887%). On November 28, 2017, 4 million STB shares were traded under through transaction at total value of VND 47.52 billion, equivalent to price of VND 11,880 / share. We believe that EIB will continue to divest STB, meet the requirement of cross-ownership as required by Circular 36. Currently, STB shares are traded at VND 13,000 / share. At the current price, if EIB divests all remaining shares, the expected proceeds are VND 2,084 billion, gains VND470 billion.

No dividend. As of 31/12/2016, EIB booked an accumulated loss of VND463.1 billion and VND118 billion at the end of September 2017, so the bank has not paid dividends since 2014 and will not paid dividends has 2017.

2017 earnings forecast. By the first three quarters of 2017, pre-tax profit of the bank was at 457 billion (2.26 times higher the same period). We note that EIB is still in the process of dealing with bad debt and restructuring operations, so the most important issue of the bank is dealing with bad debts and backlogs, business results after deduction not much meaning. We forecast that after tax profit of the bank will come to VND275 billion in 2017, provision expenses will increase to VND 1,263 billion.

Technical Analysis

Technical perspective:

- Current trend: Breakout
- MACD Indicator: Divergence
- RSI Indicator: Overbought

Comment: EIB rebounded from the bottom in mid-November and then accumulated in couple of sessions and continued to breakout today. The overbought RSI together with high liquidity are positive signals. In addition, the “two bottom” model supports the price level of 13.5-14.

Recommendation: Hold EIB with target price at 14.5.

Chart 2
Technical chart



Sources: Amibroker, BSC

Appendix 01: Compare EIB and listed banks

3Q 2017	EIB	VCB	CTG	BID	MBB	ACB	STB	SHB	NVB	VIB	VPB	LPB
Scale												
Charter capital (bill. VND)	12,355	35,978	37,234	34,187	18,155	10,273	18,852	11,197	3,010	5,644	14,059	6,460
Equity (bill. VND)	13,788	54,246	62,280	46,536	28,464	15,423	22,783	13,379	3,204	8,930	27,624	9,141
Total asset ((bill. VND)	138,343	898,484	1,062,292	1,125,909	291,943	270,265	363,488	264,300	63,807	116,574	253,847	148,049
Equity/Total asset	9.97%	6.04%	5.86%	4.13%	9.75%	5.71%	6.27%	5.06%	5.02%	7.66%	10.88%	6.17%
Growth (ytd)												
Asset Growth	7.41%	14.03%	11.97%	11.87%	13.93%	15.66%	9.48%	12.97%	-7.54%	11.54%	10.96%	4.36%
Lending Growth	9.93%	16.33%	15.28%	14.41%	16.92%	12.90%	12.15%	18.08%	12.79%	20.22%	15.90%	19.07%
Deposit Growth	10.70%	16.52%	10.68%	13.37%	8.61%	13.03%	7.17%	15.97%	7.58%	12.20%	3.22%	10.32%
Demand Deposit	12.88%	27.14%	14.34%	16.84%	26.43%	14.22%	12.98%	8.72%	7.19%	20.67%	10.17%	31.38%
Lending/Deposit	84.31%	77.92%	105.26%	100.60%	83.30%	78.83%	71.35%	99.25%	63.60%	108.81%	131.23%	77.48%
Asset quality												
Bad debts rate	2.46%	1.15%	1.21%	2.08%	1.33%	1.04%	5.95%	1.92%	2.37%	2.36%	3.06%	1.19%
Bad debt ratio includes debt sold to VAMC	7.08%	1.15%	2.05%	3.69%	2.06%	1.51%	19.37%	5.19%	21.32%	4.83%	5.03%	2.40%
Provision for bad debt/ Total debt	1.02%	1.90%	1.22%	1.75%	1.16%	1.57%	1.13%	1.15%	1.14%	1.18%	1.51%	1.26%
NPL coverage ratio	41%	165%	101%	84%	87%	151%	19%	60%	48%	50%	50%	105%
Collected interest	94%	97%	98%	99%	97%	100%	102%	92%	112%	99%	100%	97%
income/ Interest income (ytd)												
Interest receivable/ Lending	1.32%	1.26%	2.02%	1.22%	1.92%	1.72%	1.93%	0.00%	9.18%	1.43%	2.54%	3.22%
Suspected assets	10,609	14,532	42,440	67,394	18,821	9,733	91,332	29,283	17,796	5,175	34,119	8,477
% Total asset	7.67%	1.62%	4.00%	5.99%	6.45%	3.60%	25.13%	11.08%	27.89%	4.44%	13.44%	5.73%
% Equity	76.94%	26.79%	68.14%	144.82%	66.12%	63.11%	400.87%	218.88%	555.50%	57.95%	123.51%	92.73%
Business performance (ytd)												
% Interest income	77.37%	73.88%	83.20%	83.20%	79.64%	76.07%	68.38%	40.28%	89.74%	83.16%	85.03%	104.18%
Net income before risk provision profit (bill. VND)	943	12,441	13,895	17,333	5,938	3,495	1,205	1,149	108	1,112	11,256	1,907
% yoy	-16.18%	14.77%	21.22%	36.16%	51.62%	93.45%	-1.81%	#DIV/0!	13.78%	17.24%	58.41%	53.18%
Provision expense (bill. VND)	(486)	(4,507)	(6,663)	(11,763)	(1,936)	(1,491)	(177)	(620)	(98)	(489)	(5,620)	(474)
% vs Net income before risk provision	51.56%	36.22%	47.95%	67.86%	32.60%	42.67%	14.65%	53.97%	90.62%	43.95%	49.93%	24.83%
EAT (bill. VND)	375	6,366	5,855	4,211	3,192	1,527	729	426	7	499	4,501	1,126
% yoy	135.88%	25.87%	12.97%	-8.86%	41.15%	53.18%	58.83%	109.27%	-2.81%	51.91%	71.68%	60.97%
NIM (TTM)	2.16%	2.62%	2.62%	2.93%	4.07%	3.31%	1.77%	1.91%	1.79%	2.91%	8.76%	3.68%
CIR (TTM)	41.62%	28.80%	26.02%	23.57%	24.19%	36.91%	49.25%	35.42%	57.58%	38.01%	22.98%	49.09%
ROA (TTM)	0.39%	0.98%	0.74%	0.54%	1.39%	0.73%	0.20%	0.55%	0.02%	0.66%	2.48%	1.04%
ROE (TTM)	3.85%	15.80%	12.26%	12.48%	13.78%	12.59%	3.00%	10.17%	0.40%	8.33%	28.61%	17.24%
EPS (VND/share) (TTM)	427	2,261	2,008	1,685	2,081	1,882	380	1,253	44	1,303	4,207	2,305
Book value (đ/cp)	11,159	15,034	16,652	12,801	15,871	13,338	12,085	13,119	10,643	15,821	19,649	14,150
P/E	29.98	17.03	9.93	13.30	11.53	13.71	33.46	6.46	181.38	17.35	9.58	6.07
P/B	1.15	2.56	1.20	1.75	1.51	1.93	1.05	0.62	0.74	1.43	2.05	0.99

Sources: BSC research

Disclosure

The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).

BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

BSC Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

Website: <http://www.bsc.com.vn>
Facebook: www.facebook.com/BIDVSecurities

Bloomberg: BSCV <GO>

