

SAIGON THUONG TIN COMMERCIAL BANK (HSX-STB)

February 17, 2016

COMPANY UPDATE BRIEFS



Sacombank (STB): Pre-tax profit plunged 55 percent to VND1,289 billion (USD57.6 million) due to a spike in provision expenses of 122 percent

| Key indicators | 2015 results |
|----------------------------|--------------|
| Total assets (VND bn) | 290,807 |
| % ytd growth | 54% |
| Customer loans (VND bn) | 180,592 |
| % ytd growth | 45% |
| Customer deposits (VND bn) | 259,427 |
| % ytd growth | 59% |
| NPLs (VND bn) | 3,379 |
| 2015 NPL ratio (%) | 1.87 |
| 2014 NPL ratio (%) | 1.19 |
| 2015 PBT (VND bn) | 1,289 |
| % y-o-y growth | -55% |
| % of 2015 target | 128.6% |

STB recently released its Q4 unconsolidated financial statement. Net interest income reached VND6,273 billion (USD280 million), slightly down from last year's VND6,324 billion (USD283 million). Non-interest income reached VND1,799 billion (USD80.4 million), up six percent y-o-y. Notably, income from investment securities activities fell sharply, recording a net loss of VND49.5 billion (USD2.21 million) versus a gain of VND352 billion (USD15.7 million) in 2014. However, other income increased three times y-o-y, which helped maintain non-interest income growth.

Operating expenses increased by seven percent to VND4,608 billion (USD206 million), causing PPOP to fall by 10.4 percent, to VND3,403 billion (USD152 million). Provision expenses in Q4 alone increased by six-fold y-o-y, reaching VND1,124 billion (USD50.2 million) and accounting for 53 percent of the whole-year provision expenses, which reached VND2,114 billion (USD94.5 million), up 122 percent y-o-y.

However, profit before tax (PBT) still reached VND1,288 billion (USD57.6 million), exceeding the target of 28.6 percent, mostly due to extraordinary income from other operations mentioned above (STB did not provide detailed information).

In earlier M&A documents, STB mentioned the securitization of PNB's customer loans. However, with a credit growth rate of 45 percent, it is unlikely that the central bank has approved the implementation of this plan. We also note that fee and interest receivables increased sharply, from VND5,000 billion (USD223 million) in 2014 to VND25,000 billion (USD1.12 billion) by end of 2015, which may be partially explained by the fact that STB has restructured some loans, mostly those from PNB. Therefore STB's stated NPL ratio and bad debt balances following the merger are still relatively low compared with VPBS's projections, at 1.87 percent or VND3,379 billion (USD151 million), so provision expenses are also lower than what would be expected, inflating the growth of profit before tax. However, there is currently no detailed explanation in the financial statements.

It should be noted that this is the unaudited financial statement, and we are waiting for the audited financial statement to confirm whether the above conclusions are definitive. Therefore we recommend investors continue monitoring this stock. Yesterday, the stock price fell slightly by one percent, and STB closed at VND10,900, trading at P/B of 0.84x and P/E of 8.16x.

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