

Eximbank (EIB)

VND14,100 - HOLD



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Slow credit growth hits earnings

Following the release of 3QFY12 results, we are cutting our pretax earnings forecast for FY12 by 7% to VND3,157bn because of (i) lower-than-expected credit growth, (ii) weak fee income due to the difficult business environment, and (iii) a rising cost-to-income ratio. We have revised down our target price on EIB from VND14,900 to VND14,100, which gives the stock 3% downside from last Friday's close. We maintain our HOLD rating.

Drop in credit outstanding with a contraction of net interest margin (NIM).

EIB surprisingly posted significant a 14.7% YoY drop in credit outstanding, due to a 20% plunge in short-term loans. Besides EIB's actively reducing its outstanding loan balance to improve asset quality, some businesses also repaid their loans without re-borrowing amid the current business slump. Although EIB targets a recovery in loans outstanding to last year's level in 4Q (implying 16% QoQ growth) by lending to the oil & gas, food, and airline industries, we believe loans will be down 5% YoY for the full year.

State-owned commercial banks are offering very competitive lending rates, which is forcing EIB to reduce its own lending rates in order to grow its loans. As deposit rates are now stable, we forecast its FY12 NIM to be squeezed to 3.2% from 3.7% in FY11.

NPLs unchanged, but NPL ratio up on lower loan balance

EIB is managing its NPL ratio relatively well, with its 3QFY12 NPL ratio at 1.9% vs. 1.6% FY11. The increase is due to a lower outstanding loan balance, as the absolute amount of NPLs has not changed. The bank has restructured about VND2tn of its loans, or 3.1% of its loan book. We revised down our FY12 provision charge from VND707 billion to VND362 billion because of (i) stable NPLs and (ii) EIB prefers selling collateral assets than writing off bad debts.

Gold position narrowed

Since the beginning of the year, EIB managed to close 2.7 tonnes of short positions in gold (70,200 taels) amid rising gold prices in anticipation of a 25 November 2012 deadline mandated by the SBV, partially causing a VND115 billion loss in the forex trading unit which encompasses gold trading. EIB currently has another 1.5 tonnes of short positions in gold (39,000 taels) to be closed. However, the SBV has extended the deadline until June 2013, thus EIB is not under immediate pressure to close the positions and can wait for more favourable pricing. We do not expect trading losses of this magnitude in 4Q.

Fee income drops due to weak economy

EIB's international settlement turnover through September was USD3.8 billion, down 16% YoY. 9M gold trading turnover also dropped by nearly half YoY. Only card settlement turnover improved 40% YoY in 9M FY12. As the bank now needs to cut service fees to retain big customers, we forecast a 50% drop in service fee this year for EIB.

Cost to income ratio (CIR) on the rise, yet deemed to be manageable.

EIB's 9M cost-to-income ratio rose to 36% vs. 31% in FY11 with a major rise in asset and management expense. The bank has expanded only four branches in FY12 (total: 207 units). EIB plans to keep its CIR at least at this level with a possible downward adjustment in its salary budget for FY13.

Results

Target price VND14,100
Downside 3%

Banking

Market cap US\$853m
Shares outstanding 1,235m
12M High VND20,800
12M Low VND11,795

Foreign ownership 29%
Foreign limit 30%

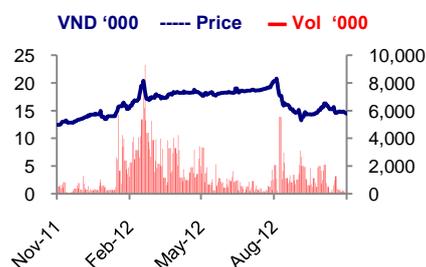
Ownership

Sumitomo 15%
Vietcombank 8%
VOF 5%

Company Description

EIB is the 6th largest bank in Vietnam with a 2.6% market share in lending and 2.3% in deposits. EIB has the 4th largest network among JSCBs with 207 branches and units. EIB's network is relatively modest vs. peers as the bank could not expand during 2003-2007 due to restructuring process. The bank was founded in 1989 and had its IPO in 2009.

Price Performance



See important disclosure at the end of this document

Financial Statements

Units in VND billion

Income statement	FY11	FY12E	FY13E	FY14	FY15	Balance sheet	FY11	FY12E	FY13E	FY14	FY15
<i>Interest income</i>	17,549	16,599	15,698	15,798	16,170	Cash & Precious Metals	7,295	8,260	8,260	8,591	9,278
<i>Interest expenses</i>	-12,246	-11,520	-10,627	-10,409	-10,261	Balances with SBV	2,166	1,817	1,817	1,890	2,041
Net Interest income	5,303	5,079	5,070	5,390	5,909	Loans to other CIs	64,529	49,816	40,133	35,360	34,190
<i>Fees income</i>	693	347	381	438	526	Trading Securities, net	0	0	0	0	0
<i>Fees expenses</i>	-127	-64	-70	-80	-96	<i>Trading Securities</i>	0	0	0	0	0
Net Fee Income	566	283	311	358	430	<i>Less: Provision</i>	0	0	0	0	0
Profit from forex	-88	-120	0	0	0	Derivatives	0	0	0	0	0
Profit from trading sec.	0	0	0	0	0	Net loans to customers	74,044	70,234	75,868	81,931	90,114
Profit from inv. sec.	-2	-2	-2	-2	-2	<i>Loans to customers</i>	74,663	70,930	76,604	82,733	91,006
Net other incomes	398	188	188	188	188	<i>Less: Provision</i>	-619	-696	-736	-802	-892
Profit from associates	60	-15	26	28	31	Investment Securities	26,377	26,377	30,333	34,883	40,115
G&A	-1,910	-1,894	-1,734	-1,908	-2,163	<i>AFS Securities</i>	2	2	2	2	2
Pre-provision profit	4,327	3,518	3,859	4,054	4,392	<i>HTM Securities</i>	26,375	26,375	30,331	34,881	40,113
Provision expenses	-271	-362	-500	-479	-454	<i>Less: Impairment</i>	26,375	26,375	30,331	34,881	40,113
Profit before tax	4,056	3,157	3,359	3,574	3,938	Other investment	927	100	100	100	100
Tax - current	-1,018	-792	-843	-897	-988	<i>Inv. in JVs</i>	0	0	0	0	0
Profit after tax	3,038	2,364	2,516	2,677	2,949	<i>Inv. in associates</i>	100	100	100	100	100
Less: Minority interests	0	0	0	0	0	<i>Other long-term inv.</i>	911	0	0	0	0
Net income	3,038	2,364	2,516	2,677	2,949	<i>Less: Impairment</i>	-84	0	0	0	0
Valuation	FY11	FY12E	FY13E	FY14	FY15	Fixed Assets	1,912	1,996	2,089	2,191	2,303
EPS (VND)	2,305	1,823	1,851	1,970	2,170	<i>Tangible fixed assets</i>	766	741	714	684	650
BVPS (VND)	13,195	11,209	12,561	14,031	15,701	<i>Leased assets</i>	0	0	0	0	0
P/E Multiple (x)	5.5	8.0	7.8	7.4	6.7	<i>Intangible fixed assets</i>	1,146	1,255	1,375	1,507	1,653
P/B Multiple (x)	1.1	1.3	1.2	1.0	0.9	Investment Properties	0	0	0	0	0
Profitability	FY11	FY12E	FY13E	FY14	FY15	Other Assets	6,316	6,608	6,608	6,873	7,423
Net Interest Margin	3.7%	3.2%	3.4%	3.5%	3.7%	Total Assets	183,566	165,209	165,209	171,818	185,564
Yield on Earning Assets	12.3%	10.5%	10.5%	10.4%	10.0%	Total Liabilities	167,264	149,991	148,169	152,791	164,267
Cost of Fund	9.4%	8.2%	8.0%	7.8%	7.5%	Due to Gov't and SBV	1,312	2,224	1,052	277	1,119
Cost-to-Income Ratio	30.6%	35.0%	31.0%	32.0%	33.0%	Deposits from other CIs	71,859	51,215	41,306	36,088	35,265
ROAE	20.4%	15.0%	15.6%	14.8%	14.6%	Customers deposits	53,653	61,701	70,956	80,180	90,604
ROAA	1.9%	1.4%	1.5%	1.6%	1.7%	Derivatives	157	157	157	157	157
Preprovision ROAA	2.8%	2.0%	2.3%	2.4%	2.5%	Other funds	0	0	0	0	0
Asset growth						Valuable papers	19,211	18,173	18,175	18,903	20,417
Loans Growth	19.8%	-5.0%	8.0%	8.0%	10.0%	Other liabilities	21,072	16,521	16,522	17,185	16,705
Deposit Growth	-7.7%	15.0%	15.0%	13.0%	13.0%	Shareholders' Equity	16,302	15,234	17,071	19,068	21,338
Asset quality	FY11	FY12E	FY13E	FY14	FY15	<i>Capital</i>	12,526	13,762	13,762	13,762	13,762
NPL ratio	1.6%	1.8%	1.6%	1.6%	1.6%	<i>Reserves</i>	1,116	1,471	1,848	2,250	2,692
LLR	51.5%	54.5%	59.7%	60.6%	61.3%	<i>Forex Dif. Reserve</i>	0	0	0	0	0
Reserves/Loans	0.8%	1.0%	1.0%	1.0%	1.0%	<i>Assets Revaluation</i>	0	0	0	0	0
Provision /Loans	0.4%	0.5%	0.7%	0.6%	0.5%	<i>Retained Earnings</i>	2,660	2	1,461	3,057	4,885
NPL-to-Equity	7.4%	8.4%	7.2%	6.9%	6.8%	Minority Interest	0	0	0	0	0
Liquidity	FY11	FY12E	FY13E	FY14	FY15	Liabilities & Equities	183,566	165,209	165,209	171,818	185,564
Customers LDR	139%	115%	108%	103%	100%	Deposit mix					
Interbank borrowings	44%	37%	31%	26%	23%	Current deposits	12%	12%	12%	12%	12%
CAR	15%	15%	15%	15%	15%	Term-deposits	86%	86%	86%	86%	86%
Equity/Assets	9%	9%	10%	11%	11%	Other	2%	2%	2%	2%	2%
						Loans mix					
						SOEs	12%	12%	12%	12%	12%
						SMEs	62%	62%	62%	62%	62%
						Individuals	25%	25%	25%	25%	25%

Analyst Certification

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Absolute performance, long term (fundamental) rating key: The recommendation is based on implied absolute upside/downside for the stock from the target price, defined as (target price – current price)/current price, and is not related to market performance. This structure applies from 1 November 2010.

Equity rating key	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10-20% lower than the market price
SELL	If the target price is 20% lower than the market price
NOT RATED	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulation and/or firm policies in certain circumstances, including when VCSC is acting in an advisory capacity in a merger or strategic transaction involving the company.
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.

Unless otherwise specified, these performance parameters only reflect capital appreciation and are set with a 12-month horizon. Future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation, thus these performance parameters should be interpreted flexibly.

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Target price: In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock, provided the necessary catalysts were in place to effect this change in perception within the performance horizon. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Valuation Methodology: To derive the target price, the analyst may use different valuation methods, including, but not limited to, discounted free cash-flow and comparative analysis. The selection of methods depends on the industry, the company, the nature of the stock and other circumstances. Company valuations are based on a single or a combination of one of the following valuation methods: 1) **Multiple-based models** (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, and historical valuation approaches; 2) **Discount models** (DCF, DVMA, DDM); 3) **Break-up value approaches** or asset-based evaluation methods; and 4) **Economic profit approaches** (Residual Income, EVA). Valuation models are dependent on macroeconomic factors, such as GDP growth, interest rates, exchange rates, raw materials, on other assumptions about the economy, as well as risks inherent to the company under review. Furthermore, market sentiment may affect the valuation of companies. Valuations are also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries.

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History of Recommendation

Date	Recommendation	Closing price	Target price
Newest rating	HOLD	14,500	14,100
Older rating	BUY	15,700	14,900