# Maybank Kim Eng

# VPBank (VPB VN)

# Covid impacts factored in; Still robust growth

### Growth decelerated in 3Q as expected

VPB's 3Q20 net profit decelerated by -1.4% YoY due to lower NIM and rising provisions. Still, 9M20 profit growth remained robust at 31% YoY, above market consensus and our forecasts for FY20E. We expect earnings growth to decelerate further in 4Q as NIM and provisioning remains under pressure due to Covid-19. We maintained our FY20-21E profit growth forecast at 11.2% and 13% YoY. We retain our BUY, with TP based on 1.2x FY21E P/BV (18% FY20-21E ROE). Strategic sale of its consumer finance subsidiary (FE Credit) represents the key catalyst.

#### Covid impacts factored in NIM and asset quality metrics

Covid-19 impacts became more pronounced in VPB's 3Q results, particularly falling lending yields that prevented its NIM from recovery despite lower CoF. NPLs also picked up notably (consolidate +15.3% YTD, NPL ratio 3.65%) driven by rising NPLs at FE Credit. Though these numbers remained at normal levels for a bank with significant exposure to consumer-finance lending, VPB's thin loan-loss buffer (48%), especially during this uncertain period makes investors more cautious about any deterioration.

#### Challenging to maintain strong growth momentum

We expect profit growth to decelerate further in 4Q20 on rising credit costs. We maintained our 11% FY20E and 13% FY21E earnings growth forecast for VPB. This implies that 4Q20 profit could fall up to 34% YoY. Under the best-case scenario, we estimate FY20E profit could grow 20% YoY. Still, this implies 4Q20 earnings growth would decelerate to -4% YoY.

#### A trading BUY

VPB's share price has risen 29% YTD, and trades at c.0.9x FY21E P/BV. The key catalyst remains the strategic sale of its consumer finance subsidiary (FE Credit). Due to Covid-19, it takes a longer time to conduct due diligence. The management guided that they expect to finalize the deal by June 2021. We believe this catalyst will support VPB's valuation at 1.2x FY21E P/BV. Maintain BUY.

| FYE Dec (VND b)        | FY18A  | FY19A  | FY20E  | FY21E  | FY22E  |
|------------------------|--------|--------|--------|--------|--------|
| Operating income       | 31,086 | 36,356 | 39,298 | 43,066 | 47,167 |
| Pre-provision profit   | 20,452 | 24,012 | 26,932 | 29,747 | 32,412 |
| Core net profit        | 7,356  | 8,260  | 9,188  | 10,341 | 11,907 |
| Core EPS (VND)         | 3,025  | 3,376  | 3,769  | 4,242  | 4,884  |
| Core EPS growth (%)    | 7.3    | 11.6   | 11.6   | 12.6   | 15.1   |
| Net DPS (VND)          | 0      | 0      | 0      | 0      | 0      |
| Core P/E (x)           | 6.6    | 5.9    | 6.5    | 5.7    | 5.0    |
| P/BV (x)               | 1.4    | 1.2    | 1.2    | 1.0    | 0.8    |
| Net dividend yield (%) | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Book value (VND)       | 14,145 | 17,315 | 21,084 | 25,326 | 30,211 |
| ROAE (%)               | 23.1   | 21.5   | 19.6   | 18.3   | 17.6   |
| ROAA (%)               | 2.4    | 2.4    | 2.3    | 2.3    | 2.3    |
| Consensus net profit   | -      | -      | 8,500  | 9,380  | 11,499 |
| MKE vs. Consensus (%)  | -      | -      | 8.1    | 10.2   | 3.6    |
|                        |        |        |        |        |        |

Quan Trong Thanh thanh.quan@maybank-kimeng.com.vn (84 28) 44 555 888 ext 8184

# BUY

 Share Price
 VND 24,350

 12m Price Target
 VND 30,400 (+25%)

 Previous Price Target
 VND 25,300

#### **Company Description**

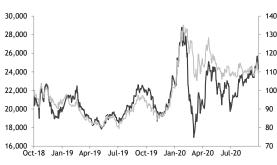
One of Vietnam's five largest private-sector bank and a leader in banking on the mass.

#### Statistics

| 52w high/low (VND)     | 28,800/16,950 |
|------------------------|---------------|
| 3m avg turnover (USDm) | 5.2           |
| Free float (%)         | 70.0          |
| Issued shares (m)      | 2,438         |
| Market capitalisation  | VND59.4T      |
|                        | USD2.6B       |

Major shareholders:
BoD and Management 41.6%
Institutional investors 36.0%
Others 22.5%

#### Price Performance



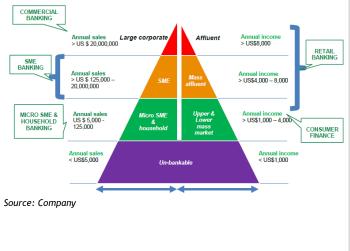
|                       | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%)          | 5   | 23  | 11   |
| Relative to index (%) | (0) | 2   | 16   |

Source: FactSet

# Value Proposition

- Clear focus on mass banking and strong execution have turned VPB into a top-5 private bank by assets and most valued banking brand among private-sector banks.
- Solid mass-banking model covering entire bankable population: SMEs, micro SMEs, households.
- Amongst the most efficient in terms of operations and returns.

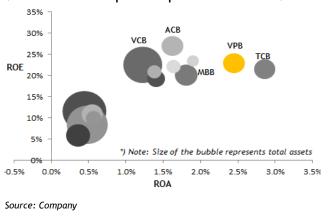
#### VPB's comprehensive banking-on-the-mass model



# **Financial Metrics**

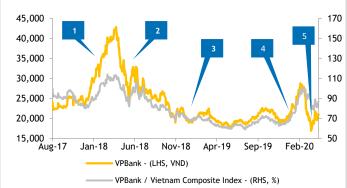
- Strong loan growth of 30% CAGR during 2013-19, driven by 37% growth in retail loans (including household loans and consumer finance) and 25% growth in MSME loans.
- Highest NIM of 9% among listed Vietnamese banks (average 3.2%), supported by high-yielding consumer finance (average 29%) and micro SME lending (12-13%).
- Thanks to robust operating income, especially from NII, and reasonable opex growth, VPB maintained industryleading CIR of 34-39% in 2015-19.
- Due to consumer finance, consolidated NPL ratio of above 3% and credit costs of 4-6% are also higher than traditional banks.

#### VPB is one of the top-3 most profitable banks in Vietnam



# **Price Drivers**

#### Historical share price trend



Source: Bloomberg

- 1. Strong stock-market rally + VPB's robust 1Q18 earnings.
- 2. Negative news flow on FE Credit. Regulators requested all consumer-finance companies to slow down their lending.
- 3. Draft regulation to tighten consumer-finance activities.
- 4. Draft regulations on consumer finance relaxed in final version, i.e. less-strict limits on cash loans + Introduction of new indices where VPB has the highest weighting.
- 5. Fear about Covid-19 impacts

# Swing Factors

# Upside

- Strategic sale of FE Credit at a good price.
- ETFs tracking new indices (i.e. VN Diamond, VN Financials) raise larger capital.

#### **Downside**

- Slower-than-expected economic growth adversely impacting loan growth to below our/ market expectations.
- Spike in NPLs, particularly in micro-SME and consumerfinance segments with significant unsecured loans.
- Delays in getting regulatory approval of FE Credit sale.

thanh.quan@maybank-kimeng.com.vn



# 1. Review of 3020 results

VPB's earnings decelerated significantly in 3Q20 versus the previous two quarters. 3Q20 net profit declined by 1.4% YoY due to shrinking NIM, drop in bond-trading incomes and pick-up in provisioning. Still, 9M net profit growth remained very robust at 30.6% YoY.

- Parent bank's profit grew c.36% YoY (from a low base in 3Q19),
   while FE Credit's profit dropped c.40% YoY.
- 9M consolidated profit (+30.6% YoY) was at 92% of management's FY20 target (VND10.2tr, -1.2% YoY). The management guided at previous analyst meetings that the bank could exceed the initial target by 10-15 percentage points.
- 9M ROE (annualized) reached c.21.8%, down from 23.5% in 1H20 but is higher than FY19 ROE of 21.5%. Note that the 9M ROE is based on lower balance sheet leverage ratio (i.e. Total asset/Total equity) of 8.3x. This implies that its ROA was maintained at a robust 2.5%.

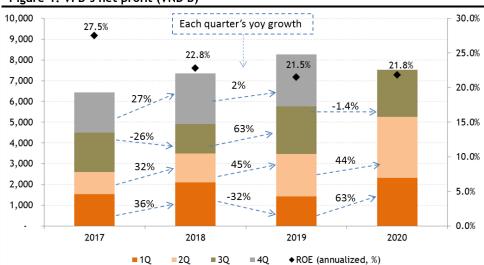


Figure 1: VPB's net profit (VND b)

Source: Company

VPB's 9M profit was above at 82% of our FY20E forecast. However, in consideration of Covid-19 impacts and its rather thin loan loss coverage, we expect earnings growth will continue decelerating in the coming quarters due to elevated credit costs.

We maintained our FY20E earnings growth forecast of 11% for VPB. We think VPB's FY20E earnings could grow by up to 20% under the best scenario; still this would imply that 4Q20 earnings growth could decelerate to -4% YoY, at least.

Figure 2: Implied earnings growth for VPB in 4Q20 under different expected full-year growth

|                          | 20%<br>FY20E growth | 15%<br>FY20E growth | 11%<br>FY20E growth |  |
|--------------------------|---------------------|---------------------|---------------------|--|
| Implied 4Q20 PBT (VND b) | 3,003               | 2,486               | 2,073               |  |
| Implied 4Q20 PBT growth  | -4%                 | -21%                | -34%                |  |

Source: MBKE estimates

Figure 3: Income Statement

| (Unit: VND b;<br>unless otherwise<br>stated) | 3Q20    | 3Q19    | YoY<br>growth | 9M20     | 9M19    | YoY<br>growth | MKE<br>FY19E old<br>forecasts | Remark  |
|--|---------|---------|---------------|----------|---------|---------------|-------------------------------|---|
| NII  | 7,884   | 7,977   | -1.2%         | 23,606   | 22,428  | 5.3%          | 33,914                        | Slightly below (@70% our full-year forecast), due to lower NIM  |
| Non-NII                                      | 1,588   | 1,524   | 4.2%          | 4,720    | 3,905   | 20.9%         | 5,385                         | Above (@88%), due to stronger securities-trading incomes  |
| Total operating incomes (TOI)                | 9,472   | 9,501   | -0.3%         | 28,326   | 26,334  | 7.6%          | 39,298                        | Below (@72%), due to lower NII  |
| Total Opex                                   | (2,787) | (3,122) | -10.7%        | (8,625)  | (9,142) | -5.7%         | (12,366)                      | Below (@70%), due to aggressive cut in staff and G&A expenses   |
| Pre-Provision<br>Operating Profit            | 6,685   | 6,379   | 4.8%          | 19,701   | 17,192  | 14.6%         | 26,932                        | Almost in-line (@73%)   |
| Provision charges                            | (3,872) | (3,523) | 9.9%          | (10,303) | (9,993) | 3.1%          | (15,448)                      | Below (@67%). We expect VPB will<br>need make more provisions in 4Q<br>to build up loan loss reserves |
| Profit before tax                            | 2,813   | 2,856   | -1.5%         | 9,398    | 7,199   | 30.5%         | 11,485                        | Above (@82%), due to lower provisions   |
| Taxes  | (561)   | (574)   | -2.2%         | (1,881)  | (1,445) | 30.1%         | (2,297)                       |   |
| Profit after tax                             | 2,252   | 2,283   | -1.4%         | 7,517    | 5,754   | 30.6%         | 9,188                         | Above (@82%), due to lower provisions   |
| Minority interest                            | -       | -       | n.m           | -        | -       | n.m           | -                             |   |
| PATMI  | 2,252   | 2,283   | -1.4%         | 7,517    | 5,754   | 30.6%         | 9,188                         | Above (@82%)  |
| EPS (VND)                                    | 923     | 929     | -0.6%         | 3,083    | 2,342   | 31.6%         | 3,769                         |   |

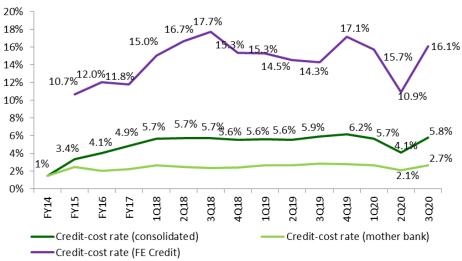
Source: Company, MKE

Annualized NIM in 3Q stabilized at 8.7% after dropping by 40bps in 2Q. Though its cost-of-funds fell notably in 3Q (Refer to discussion below), its NIM couldn't recover back to above 9% levels as in 1Q20 and FY19, because lending yields kept falling (by an additional 20bps in 3Q; 9M yield fell by 120bps to 14.1%), which in turn was attributed to falling lending rates as well as the absence of interest income from about 10% of total loans having been restructured under the Circular 01.

CASA balance grew strongly 78% YoY and 33% YTD, which helped lift CASA ratio from 12%-13% in previous quarters to 15.6% in 3Q. Higher CASA mix coupled with falling deposit rates helped VPB's average cost-of-funds to reduce by 40bps in 3Q alone, and 9M average CoF was lowered by 30bps to 6.1%.

- Fee income maintained steady growth (33% YoY in 3Q and 20% YoY in 9M), largely driven by fees from payment & treasury activities. Bancassurance fees also recovered notably in 3Q, which helped narrow the contraction from -31% YoY in 1H20 to only -4% YoY in 9M20. VPB's total fees/total assets ratio (a driver of ROA) remained at 0.8%, which is higher than the 0.4% average of Vietnam banks.
- Opex was well-controlled (-11% YoY in 3Q and -6% in 9M), which lowered CIR to around 30% only. The bank aggressively downsized headcount by 18% YTD to 22.3k employees, and controlled staff salary rises at 3.1% YoY.
- Provisioning grew only 10% YoY in 3Q20, but this came off an already high base set in 3Q19. It equals to an elevated credit-cost rate of 5.8% (3Q annualised). Both the parent bank and its FE Credit subsidiary posted a significant jump in their credit-cost rates in 3Q as they had to increase provisioning to deal with impacts of Covid-19 on asset quality.

Figure 4: Credit-cost rates picked up notably in 3Q20 due to Covid-19 impacts on asset quality



Source: Company

Compared to previous quarters, VPB's 3Q20 performance was more heavily impacted by Covid-19, particularly via declining NIM (as discussed above) and asset quality metrics. Although these numbers remained at normal levels for a bank with significant exposure to consumer-finance lending, VPB's thin buffer for an unexpected rise in NPLs, especially during this uncertain period, could raise more concerns about any deterioration in trends.

Figure 5: VPB's key operating metrics

| Key ratios                  | 1Q17  | 2Q17  | 3Q17  | 4Q17  | 1Q18  | 2Q18  | 3Q18  | 4Q18  | 1Q19  | 2Q19  | 3Q19  | 4Q19  | 1Q20  | 2Q20  | 3Q20  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ROE (annualised)            | 34.3% | 23.3% | 33.8% | 33.1% | 27.3% | 18.0% | 18.1% | 30.5% | 16.0% | 22.5% | 24.3% | 26.1% | 21.3% | 26.3% | 19.6% |
| NIM (annualised)            | 9.2%  | 8.7%  | 9.8%  | 9.8%  | 9.4%  | 9.4%  | 9.2%  | 9.6%  | 9.6%  | 9.7%  | 10.2% | 10.2% | 9.1%  | 8.7%  | 8.7%  |
| Fee income/Total incomes    | 5.6%  | 5.6%  | 6.4%  | 5.7%  | 4.1%  | 4.2%  | 5.3%  | 6.8%  | 9.4%  | 5.5%  | 7.5%  | 10.3% | 7.0%  | 7.7%  | 9.9%  |
| Cost-to-Income ratio (CIR)  | 33.2% | 38.0% | 36.3% | 34.6% | 31.2% | 33.6% | 40.8% | 31.7% | 37.4% | 34.3% | 32.9% | 31.9% | 33.1% | 28.6% | 29.4% |
| Cost of Credit (annualised) | 4.5%  | 6.0%  | 4.2%  | 5.8%  | 5.7%  | 5.9%  | 5.7%  | 6.0%  | 5.7%  | 5.6%  | 5.9%  | 6.2%  | 5.7%  | 4.1%  | 5.8%  |
| Gross NPL                   | 3.50% | 2.81% | 3.06% | 3.39% | 4.14% | 4.06% | 4.70% | 3.50% | 3.62% | 3.43% | 3.50% | 3.42% | 3.03% | 3.19% | 3.65% |
| Loan Loss Coverage          | 49%   | 57%   | 50%   | 51%   | 44%   | 44%   | 42%   | 46%   | 48%   | 48%   | 50%   | 46%   | 52%   | 49%   | 48%   |
| Loan-to-Deposit ratio (LDR) | 117%  | 125%  | 131%  | 137%  | 132%  | 132%  | 128%  | 130%  | 123%  | 125%  | 124%  | 120%  | 122%  | 114%  | 115%  |
| CAR                         |       |       |       | 14.6% |       | 15.0% | 13.0% | 12.3% | 11.9% | 11.2% | 11.4% | 11.1% | 11.1% | 11.3% |       |
| TA/TE (x)                   | 12.3  | 12.7  | 9.2   | 9.4   | 9.0   | 8.9   | 9.3   | 9.3   | 8.9   | 9.1   | 8.8   | 8.9   | 8.8   | 8.4   | 8.3   |

Note: CAR figures before 2019 were under local standards; From 2019, VPB started applying Basel 2 standards to calculate its CAR.

Source: Company

- NPLs picked up notably in 3Q20, driven by a 23% YTD increase in FE Credit's NPLs. VPB's consolidated NPLs grew 15.3% YTD and reached VND10.1tr, c.3.65% of total loans.
- VPB's loan loss reserves remained rather thin and cover only 48% of the reported NPLs.
- Group-2 loans (i.e. special-mention loans) balance reduced by 12% in 3Q from 2Q. Year to date (i.e. Sep 20) the G-2 loan balance grew c.21%, equal to c.5.3% of total loans.

Figure 6: VPB's asset quality metrics

|                                      | l      |        |        |        |
|--------------------------------------|--------|--------|--------|--------|
| VPB's asset quality metrics          | 4Q19   | 1Q20   | 2Q20   | 3Q20   |
| Parent banks' NPLs (VND b)           | 5,179  | 5,258  | 5,387  | 5,690  |
| Growth (YTD)                         |        | 1.5%   | 4.0%   | 9.9%   |
| NPL ratio                            | 2.63%  | 2.60%  | 2.57%  | 2.66%  |
| FE Credit's NPLs (VND b)             | 3,619  | 2,726  | 3,227  | 4,457  |
| Growth (YTD)                         |        | -24.7% | -10.8% | 23.2%  |
| NPL ratio                            | 5.98%  | 4.43%  | 5.36%  | 6.91%  |
| Consolidated (VND b)                 | 8,798  | 7,984  | 8,614  | 10,147 |
| Growth (YTD)                         |        | -9.3%  | -2.1%  | 15.3%  |
| Loan loss coverage ratio             | 46.4%  | 52.0%  | 49.1%  | 47.9%  |
| Group-2 (Special-mention) loans (VND |        |        |        |        |
| b)                                   | 12,239 | 13,716 | 16,769 | 14,765 |
| Growth (YTD)                         |        | 12.1%  | 37.0%  | 20.6%  |
| % Total loans                        | 4.8%   | 5.2%   | 6.2%   | 5.3%   |
| % Restructured loans                 |        |        | 10.4%  |        |

Source: Company



Figure 7: Balance sheet (VND b)

|                            | Sep-20  | Dec-19  | YTD<br>growth | Sep-19  | YoY<br>growth |   |
|----------------------------|---------|---------|---------------|---------|---------------|---|
| Total assets               | 413,892 | 377,204 | 9.7%          | 358,236 | 15.5%         | VPB maintained steady asset growth, driven by all interest-   |
| Interest-earning assets    | 378,432 | 341,927 | 10.7%         | 329,065 | 15.0%         | earnings assets, including: customer loans & L-T securities investment (i.e. G-bonds, Corp. bonds) vs. interbank  |
| % total assets             | 91.4%   | 90.6%   |               | 91.9%   |               | lending.  |
| Net loans                  | 273,165 | 253,100 | 7.9%          | 249,771 | 9.4%          | i) VPB maintained steady credit growth, with total credit   |
| Gross loans                | 278,025 | 257,184 | 8.1%          | 254,187 | 9.4%          | expanding 19.4% YoY and 16.5% YTD in 9M20, of which customer loan growth was 9.4% YoY and 8% YTD. The bank  |
| Loan loss reserves         | 4,861   | 4,084   | 19.0%         | 4,416   | 10.1%         | shifted focus to corporate lending, especially via corporate  |
| G-2 loans                  | 14,765  | 12,239  | 20.6%         | 12,935  | 14.1%         | bonds which grew 24.4% YoY and 14% YTD.   |
| NPLs                       | 10,147  | 8,798   | 15.3%         | 8,901   | 14.0%         | Customer loans to the real estate (including mortgage loan and construction sector decelerated in 3Q20, with a mere   |
| LLR/NPLs                   | 48%     | 46%     |               | 50%     |               | +3.3% QoQ growth (vs. +17% YTD during 1H20).  |
| Interbank lending          | 26,918  | 20,098  | 33.9%         | 16,301  | 65.1%         | The bank slowed down overall retail lending (+6% YoY and 1.7% YTD). But in 3Q, we observed that FE Credit's loan book (i.e. consumer loans) expanded again after having       |
| L-T securities investments | 78,350  | 68,729  | 14.0%         | 62,993  | 24.4%         | stayed flat in the first two quarters. FE Credit's loans grew 7% in 3Q to reach c.VND64.5tr by Sep 20, equal to 23.2% of consolidated loan book.                              |
| Fixed assets               | 1,824   | 1,923   | -5.1%         | 1,844   | -1.1%         | ii) NPLs picked up notably in 3Q, driven by a 23% YTD increase in FE Credit's NPLs. VPB's consolidated NPLs grew  |
| Others                     | 33,636  | 33,354  | 0.8%          | 27,327  | 23.1%         | 15.3% YTD to reach VND10.1tr, at 3.65% of total loans.  |
|                            |         |         |               |         |               | iii) VPB's loan loss reserves remained rather thin and cover only $48\%$ of the reported NPLs.  |
|                            |         |         |               |         |               | iv) Group-2 loans (i.e. special-mention loans) balance reduced by 12% in 3Q from 2Q. Year to date (i.e. Sep 20) the G-2 loan balance grew c.21%, equal to c.5.3% total loans. |
| Total liabilities          | 364,166 | 334,994 | 8.7%          | 317,745 | 14.6%         | Customer deposits maintained steady growth, outpacing the   |
| Customer deposits          | 241,658 | 213,950 | 13.0%         | 205,585 | 17.5%         | loan growth. CASA mix kept improving is another positive development. CASA balance grew strongly 78% YoY and 33%  |
| CASA ratio                 | 16%     | 13%     |               | 10%     |               | YTD, which helped lift up VPB's CASA ratio from 10%-13% ir  |
| Loan-to-deposit ratio      | 115%    | 120%    |               | 124%    |               | previous quarters to 15.6% in 3Q20.   |
| Interbank borrowing        | 49,543  | 50,868  | -2.6%         | 40,103  | 23.5%         |   |
| Valuable papers            | 58,952  | 57,600  | 2.3%          | 57,534  | 2.5%          |   |
| Others                     | 14,012  | 12,577  | 11.4%         | 14,524  | -3.5%         |   |
| Shareholder equity         | 49,726  | 42,210  | 17.8%         | 40,491  | 22.8%         | Balance sheet leverage kept easing.   |
| Total assets/ Equity (x)   | 8.3     | 8.9     |               | 8.8     |               | · · · · · · · · · · · · · · · · · · ·   |
| Paid-in capital            | 25,300  | 25,300  | 0.0%          | 25,300  | 0.0%          |   |
| Capital surplus            | 693     | 693     | 0.0%          | 1,289   | -46.3%        |   |
| Treasury shares            | (2,696) | (2,696) | 0.0%          | (2,492) | 8.2%          | VPB has 92.2m treasury shares, with average cost of   |
| Other funds                | 6,014   | 4,411   | 36.3%         | 3,317   | 81.3%         | VND29,235 per share.  |
| Retained earnings          | 17,720  | 11,806  | 50.1%         | 10,586  | 67.4%         |   |
| Minority interests         | -       | -       | n.m           | -       | n.m           |   |

Source: Company

# 2. FY20-21E outlook

Based on growth momentum of key earnings drivers in 9M20, particularly NIM and credit-cost rate, we expect VPB's earnings growth to continue decelerating in 4Q20.

We maintained our FY20E earnings growth forecast of 11% for VPB. In the best case scenario, we think VPB's FY20E earnings growth could grow by up to 20%. Still, this implies that 4Q20 earnings growth could decelerate to -4% YoY growth, at least. (*Please refer to Figure 2, at page 2*).

Figure 8: FY20-22E forecasts - key assumptions

|                                | -        |                |          |               |
|--------------------------------|----------|----------------|----------|---------------|
| (Unit: VND b)                  | 2019     | 2020E          | 2021E    | 2022E         |
| Net interest income            | 30,670   | 33,914         | 37,143   | 40,449        |
| Growth (%)                     | 24.2%    | 10.6%          | 9.5%     | <b>8.9</b> %  |
| NIM (%)                        | 9.50%    | 9.25%          | 9.00%    | <b>8.40</b> % |
| Loan growth (%)                | 15.9%    | 10.8%          | 14.6%    | 14.3%         |
| Non-interest income            | 5,685    | 5,385          | 5,923    | 6,718         |
| Growth (%)                     | -11.0%   | -5.3%          | 10.0%    | 13.4%         |
| TOTAL OPERATING INCOMES        | 36,356   | 39,298         | 43,066   | 47,167        |
| Growth (%)                     | 17.0%    | 8.1%           | 9.6%     | 9.5%          |
| Operating expense (Opex)       | (12,334) | (12,366)       | (13,319) | (14,755)      |
| Growth (%)                     | 16.0%    | 0.3%           | 7.7%     | 10.8%         |
| CIR                            | 33.9%    | 31.5%          | 30.9%    | 31.3%         |
| Credit costs/Provision charges | (13,688) | (15,448)       | (16,821) | (17,528)      |
| Growth (%)                     | 21.6%    | 12.9%          | 8.9%     | 4.2%          |
| Credit-cost rate (%)           | 5.71%    | 5. <i>70</i> % | 5.50%    | 5.00%         |
| Pre-tax profit                 | 10,324   | 11,485         | 12,926   | 14,884        |
| Growth (%)                     | 12.2%    | 11.2%          | 12.6%    | 15.1%         |
| Net profit                     | 8,260    | 9,188          | 10,341   | 11,907        |
| Growth (%)                     | 12.3%    | 11.2%          | 12.5%    | 15.1%         |
| ROAA-adjusted (%)              | 2.4%     | 2.3%           | 2.3%     | 2.3%          |
| ROAE-adjusted (%)              | 21.5%    | 19.6%          | 18.3%    | 17.6%         |
| BVPS (VND)                     | 17,315   | 21,084         | 25,326   | 30,211        |

Source: MKE



# 3. Maintain BUY and TP based on 1.2x FY21 P/BV

The TP is based on an unchanged GGM-based 1.2x P/BV, but we rolled the BVPS base to FY21E. Therefore, we raised our 12-month TP by 20% to VND30,400 per share.

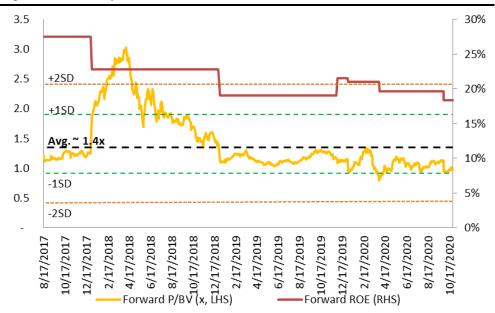
Maintain BUY rating, but we view this is more a trading BUY, with key catalyst is the strategic sale of its consumer finance subsidiary (i.e. FE Credit).

Figure 9: TP based on a target GGM-based 1.2x FY20E P/BV

| BVPS (FY2          | 1E: VND25,326)  | Target price<br>(VND) | Expected return (vs. last price: VND24,800) |     |
|--------------------|---|-----------------------|---|-----|
|                    | 1SD below the average                                   | 0.9                   | 22,800                                      | -8% |
| Target<br>P/BV (x) | Implied P/BV (GGM-based, 18.5% FY20-22 ROE, 10% growth) | 1.2                   | 30,400                                      | 23% |
|                    | Average (since listing)                                 | 1.4                   | 35,500                                      | 43% |

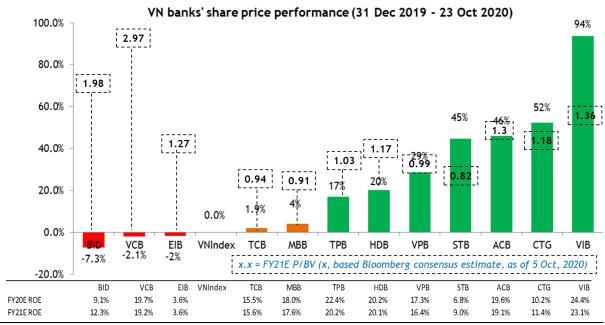
Source: MKE

Figure 10: VPB's 1-year forward P/BV valuation vs. its forward ROE



Source: Bloomberg, MKE estimates

Figure 11: VPB shares gained 29% YTD, significantly outperforming the VNIndex, driven by robust 9M profit growth, more inflows into VN Diamond ETFs, and expectation about the sale of FE Credit.



Source: Bloomberg



| FYE 31 Dec   | FY18A               | FY19A                                 | FY20E             | FY21E             | FY22E             |
|--|---------------------|---------------------------------------|-------------------|-------------------|-------------------|
| Key Metrics  |                     | F 0                                   |                   | F 7               | F 0               |
| Core P/E (x)   | 6.6                 | 5.9                                   | 6.5               | 5.7               | 5.0               |
| Core FD P/E (x)  | 6.6                 | 5.9                                   | 6.5               | 5.7               | 5.0               |
| P/BV (x)   | 1.4<br>1.4          | 1.2<br>1.2                            | 1.2<br>1.2        | 1.0<br>1.0        | 0.8               |
| P/NTA (x) Net dividend yield (%)                             | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Net dividend yield (%)                                       | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| INCOME STATEMENT (VND b)                                     |                     |                                       |                   |                   |                   |
| Interest income  | 40,280.2            | 49,874.8                              | 54,589.5          | 60,259.2          | 66,385.0          |
| Interest expense   | (15,578.6)          | (19,204.3)                            | (20,675.6)        | (23,116.1)        | (25,936.4)        |
| Net interest income  | 24,701.6            | 30,670.5                              | 33,913.9          | 37,143.1          | 40,448.6          |
| Net insurance income   | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Net fees and commission                                      | 1,612.5             | 2,791.6                               | 3,070.8           | 3,531.4           | 4,237.7           |
| Other income   | 4,771.6             | 2,893.4                               | 2,313.7           | 2,391.3           | 2,480.5           |
| Total non-interest income                                    | 6,384.1             | 5,685.0                               | 5,384.5           | 5,922.7           | 6,718.2           |
| Operating income   | 31,085.7            | 36,355.5                              | 39,298.5          | 43,065.8          | 47,166.8          |
| Staff costs  | (6,020.8)           | (7,327.3)                             | (7,280.6)         | (7,868.2)         | (8,741.5)         |
| Other operating expenses                                     | (4,613.2)           | (5,016.5)                             | (5,085.4)         | (5,450.4)         | (6,013.1)         |
| Operating expenses   | (10,633.9)          | (12,343.7)                            | (12,366.1)        | (13,318.6)        | (14,754.6)        |
| Pre-provision profit   | 20,451.7            | 24,011.8                              | 26,932.4          | 29,747.2          | 32,412.2          |
| Loan impairment allowances                                   | (11,253.2)          | (13,687.6)                            | (15,447.7)        | (16,821.0)        | (17,528.3)        |
| Other allowances   | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Associates & JV income                                       | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Pretax profit  | 9,198.5             | 10,324.2                              | 11,484.7          | 12,926.2          | 14,883.9          |
| Income tax   | (1,842.9)           | (2,063.9)                             | (2,296.9)         | (2,585.2)         | (2,976.8)         |
| Minorities   | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Discontinued operations                                      | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Reported net profit  | 7,355.6             | 8,260.3                               | 9,187.8           | 10,341.0          | 11,907.1          |
| Core net profit  | 7,355.6             | 8,260.3                               | 9,187.8           | 10,341.0          | 11,907.1          |
| BALANCE SHEET (VND b)  |                     |                                       |                   |                   |                   |
| Cash & deposits with banks                                   | 18,427.0            | 22,556.9                              | 24,397.3          | 25,914.2          | 32,097.0          |
| Sec. under resale agreements                                 | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Derivatives financial assets                                 | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Dealing securities   | 4,202.4             | 1,566.6                               | 1,566.6           | 1,566.6           | 1,566.6           |
| Available-for-sale securities                                | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Investment securities  | 51,926.4            | 68,729.4                              | 79,038.8          | 90,894.6          | 104,528.8         |
| Loans & advances   | 218,395.2           | 253,099.9                             | 280,212.8         | 321,597.5         | 369,060.2         |
| Central bank deposits  | 10,828.6            | 3,454.1                               | 3,888.7           | 4,566.2           | 5,421.4           |
| Investment in associates/JVs                                 | 190.7               | 164.4                                 | 164.4             | 164.4             | 164.4             |
| Insurance assets   | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Fixed assets   | 1,385.6             | 1,342.7                               | 1,783.0           | 2,355.4           | 3,099.6           |
| Intangible assets  | 577.5               | 580.3                                 | 742.0             | 952.2             | 1,225.5           |
| Other assets   | 17,357.8            | 25,709.9                              | 28,474.5          | 32,672.7          | 37,417.4          |
| Total assets   | 323,291.1           | 377,204.1                             | 420,268.1         | 480,683.9         | 554,580.8         |
| Deposits from customers                                      | 170,850.9           | 213,949.6                             | 240,867.5         | 282,833.1         | 335,799.7         |
| Deposits from banks & FIs  Derivatives financial instruments | 54,231.5            | 50,868.0                              | 53,411.4          | 56,082.0          | 58,886.1          |
|  | 18.6                | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Subordinated debt Other recurities in issue                  | 2,877.0<br>46,110.7 | 262.0<br>57,675.3                     | 262.0<br>60,572.1 | 262.0<br>63.613.8 | 262.0<br>66,807.6 |
| Other securities in issue Other borrowings                   | •                   | 0.0                                   | 0.0               | 63,613.8<br>0.0   | 0.0               |
| Insurance liabilities  | 0.0<br>0.0          | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Other liabilities  | 14,452.5            | 12,239.6                              | 13,757.6          | 16,154.5          | 19,179.8          |
| Total liabilities  | 288,541.1           | 334,994.4                             | 368,870.6         | 418,945.4         | 480,935.2         |
| Share capital  | 25,299.7            | 25,299.7                              | 25,299.7          | 25,299.7          | 25,299.7          |
| Reserves   | 9,450.4             | 16,910.1                              | 26,097.9          | 36,438.8          | 48,345.9          |
| Shareholders' funds  | 34,750.1            | 42,209.7                              | 51,397.5          | 61,738.5          | 73,645.6          |
| Preference shares  | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Minority interest  | 0.0                 | 0.0                                   | 0.0               | 0.0               | 0.0               |
| Total equity   | 34,750.1            | 42,209.7                              | 51,397.5          | 61,738.5          | 73,645.6          |
| Total liabilities & equity                                   | 323,291.1           | 377,204.1                             | 420,268.1         | 480,683.9         | 554,580.8         |
|  | F : -               | · · · · · · · · · · · · · · · · · · · |                   | ,                 | · · · · · ·       |



| FYE 31 Dec                   | FY18A | FY19A  | FY20E | FY21E | FY22E |
|------------------------------|-------|--------|-------|-------|-------|
| Key Ratios                   |       |        |       |       |       |
| Growth (%)                   |       |        |       |       |       |
| Net interest income          | 19.8  | 24.2   | 10.6  | 9.5   | 8.9   |
| Non-interest income          | 49.3  | (10.9) | (5.3) | 10.0  | 13.4  |
| Operating expenses           | 21.4  | 16.1   | 0.2   | 7.7   | 10.8  |
| Pre-provision profit         | 26.8  | 17.4   | 12.2  | 10.5  | 9.0   |
| Core net profit              | 14.2  | 12.3   | 11.2  | 12.6  | 15.1  |
| Gross loans                  | 21.5  | 15.9   | 10.8  | 14.7  | 14.5  |
| Customer deposits            | 27.9  | 25.2   | 12.6  | 17.4  | 18.7  |
| Total assets                 | 16.4  | 16.7   | 11.4  | 14.4  | 15.4  |
| Profitability (%)            |       |        |       |       |       |
| Non-int. income/Total income | 20.5  | 15.6   | 13.7  | 13.8  | 14.2  |
| Average lending yields       | 14.65 | 15.53  | 14.89 | 14.60 | 14.11 |
| Average cost of funds        | 6.04  | 6.39   | 6.10  | 6.10  | 6.00  |
| Net interest margin          | 8.99  | 9.55   | 9.25  | 9.00  | 8.60  |
| Cost/income                  | 34.2  | 34.0   | 31.5  | 30.9  | 31.3  |
| Liquidity (%)                |       |        |       |       |       |
| Loans/customer deposits      | 127.8 | 118.3  | 116.3 | 113.7 | 109.9 |
| Asset quality (%)            |       |        |       |       |       |
| Net NPL                      | 1.9   | 1.8    | 1.9   | 1.9   | 2.1   |
| Gross NPL                    | 3.5   | 3.4    | 3.5   | 3.5   | 3.5   |
| Loan loss coverage           | 45.9  | 46.4   | 46.4  | 45.8  | 40.0  |
| Capital adequacy (%)         |       |        |       |       |       |
| CET1                         | na    | na     | na    | na    | na    |
| Tier 1 capital               | 10.9  | 10.5   | 11.5  | 12.1  | 12.5  |
| Risk-weighted capital        | 12.3  | 11.1   | 12.1  | 12.6  | 13.0  |
| Returns (%)                  |       |        |       |       |       |
| ROAE                         | 23.1  | 21.5   | 19.6  | 18.3  | 17.6  |
| ROAA                         | 2.4   | 2.4    | 2.3   | 2.3   | 2.3   |
| Shareholders equity/assets   | 10.7  | 11.2   | 12.2  | 12.8  | 13.3  |

Source: Company; Maybank

#### **Research Offices**

#### **ECONOMICS**

Suhaimi ILIAS Chief Economist Malaysia | Philippines | Global (603) 2297 8682 suhaimi\_ilias@maybank-ib.com

**CHUA Hak Bin** 

Regional Thematic Macroeconomist (65) 6231 5830 chuahb@maybank-ke.com.sg

LEE Ju Ye Singapore | Thailand (65) 6231 5844 leejuye@maybank-ke.com.sg

Linda LIU Singapore | Vietnam (65) 6231 5847 lindaliu@maybank-ke.com.sg

Dr Zamros DZULKAFLI (603) 2082 6818 zamros.d@maybank-ib.com

Ramesh LANKANATHAN (603) 2297 8685 ramesh@mavbank-ib.com

William POH (603) 2297 8683 william.poh@maybank-ib.com

#### FX

Saktiandi SUPAAT Head of FX Research (65) 6320 1379 saktiandi@mavb

Christopher WONG (65) 6320 1347 wongkl@maybank.com.sg

TAN Yanxi (65) 6320 1378 tanyx@maybank.com.sg

Fiona LIM (65) 6320 1374 fionalim@maybank.com.sg

#### STRATEGY

#### Anand PATHMAKANTHAN

(603) 2297 8783 anand.pathmakanthan@maybank-ib.com

#### FIXED INCOME

Winson PHOON, ACA (65) 6812 8807 winsonphoon@maybank-ke.com.sg

SE THO Mun Yi (603) 2074 7606 munyi.st@maybank-ib.com

#### **REGIONAL EQUITIES**

Anand PATHMAKANTHAN Head of Regional Equity Research (603) 2297 8783

anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA Head of ASEAN Equity Research (603) 2297 8686 wchewh@maybank-ib.com

**ONG Seng Yeow** Research, Technology & Innovation (65) 6231 5839 ongsengyeow@maybank-ke.com.sg

#### ΜΑΙ ΔΥSΙΔ

Anand PATHMAKANTHAN Head of Research (603) 2297 8783 anand.pathmakanthan@maybank-ib.com

Strategy

Desmond CH'NG, BFP, FCA (603) 2297 8680 desmond.chng@maybank-ib.com
Banking & Finance

LIAW Thong Jung (603) 2297 8688 tjliaw@maybank-ib.com

Oil & Gas Services- Regional Automotive

ONG Chee Ting, CA (603) 2297 8678 ct.ong@maybank-ib.com • Plantations - Regional

YIN Shao Yang, CPA (603) 2297 8916 samuel.y@maybank-ib.com • Gaming - Regional • Media • Aviation

TAN Chi Wei, CFA (603) 2297 8690 chiwei.t@maybank-ib.com • Power • Telcos

WONG Wei Sum, CFA (603) 2297 8679 weisum@maybank-ib.com

Property

LEE Yen Ling (603) 2297 8691 lee.yl@maybank-ib.com • Glove • Ports • Shipping • Healthcare Petrochemicals

Kevin WONG (603) 2082 6824 kevin.wong@maybank-ib.com • REITs • Technology

Jade TAM (603) 2297 8687 jade.tam@maybank-ib.com Consumer Staples & Discretionary

TEE Sze Chiah Head of Retail Research (603) 2082 6858 szechiah.t@maybank-ib.com

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe (603) 2297 8694 nikmohdihsan.ra@maybank-ib.com Chartist

Amirah AZMI (603) 2082 8769 amirah.azmi@maybank-ib.com · Retail Research

#### SINGAPORE

Thilan WICKRAMASINGHE Head of Research (65) 6231 5840 thilanw@maybank-ke.com.sg • Banking & Finance - Regional

• Consumer

CHUA Su Tye (65) 6231 5842 chuasutye@maybank-ke.com.sg

• REITs - Regional

LAI Gene Lih, CFA (65) 6231 5832 laigenelih@maybank-ke.com.sg • Technology • Healthcare

Kareen CHAN (65) 6231 5926 kareenchan@maybank-ke.com.sg

TAN Chin Poh Head of Retail Research (65) 6231 5928 chinpoh@maybank-ke.com.sg

Eric ONG

(65) 6231 5924 ericong@maybank-ke.com.sg
• Retail Research

Matthew SHIM

(65) 6231 5929 matthewshim@maybank-ke.com.sg

· Retail Research

INDIA

Jigar SHAH Head of Research (91) 22 4223 2632 jigars@maybank.com • Strategy • Oil & Gas • Automobile • Cement

Neerav DALAL (91) 22 4223 2606 neerav@maybank.com

• Software Technology • Telcos (91) 22 4223 2607

kshitiz@maybank.com
Banks

Vikram RAMALINGAM (91) 22 4223 2607 vikram@maybank.com
• Automobile • Media

INDONESIA

Isnaputra ISKANDAR Head of Research (62) 21 8066 8680 isnaputra.iskandar@maybank-ke.co.id Strategy • Metals & Mining • Cement
 Autos • Consumer • Utility

Rahmi MARINA

rahmi.marina@maybank-ke.co.id

Banking & Finance Aurellia SETIABUDI

(62) 21 8066 8689

(62) 21 8066 8691 aurellia.setiabudi@maybank-ke.co.id · Property

Willy GOUTAMA (62) 21 8066 8500

willy.goutama@maybank-ke.co.id

**PHILIPPINES** 

Jacqui De JESUS (63) 2 8849 8844

jacquiannekelly.dejesus@maybank-atrke.com
• Conglomerates

Romel LIBO-ON

(63) 2 8849 8844 romel\_libo-on@maybank-atrke.com

· Property

Fredrick De GUZMAN (63) 2 8849 8847

fredrickdaniel.deguzman@maybank.com

• Consumer • Banking & Finance

Bernadine B BAUTISTA (63) 2 8849 8847

bernadine.bautista@maybank.com

• Utilities

#### THAILAND

Maria LAPIZ Head of Institutional Research Dir (66) 2257 0250 | (66) 2658 6300 ext 1399 Maria.L@maybank-ke.co.th

• Strategy • Consumer • Materials • Services

Jesada TECHAHUSDIN, CFA (66) 2658 6300 ext 1395 jesada.t@maybank-ke.co.th • Banking & Finance

Kaushal LADHA, CFA (66) 2658 6300 ext 1392 Kaushal.l@maybank-ke.co.th • Oil & Gas - Regional

· Petrochemicals - Regional

Vanida GEISLER, CPA (66) 2658 6300 ext 1394 Vanida.G@maybank-ke.co.th Property

Yuwanee PROMMAPORN (66) 2658 6300 ext 1393 Yuwanee.P @maybank-ke.co.th

Ekachai TARAPORNTIP Head of Retail Research (66) 2658 5000 ext 1530 Ekachai.t@maybank-ke.co.th

Surachai PRAMUALCHAROENKIT (66) 2658 5000 ext 1470 Surachai.p@maybank-ke.co.th • Auto • Conmat • Contractor • Steel

Suttatip PEERASUB (66) 2658 5000 ext 1430 suttatip.p@maybank-ke.co.th Food & Beverage • Commerce

Jaroonpan WATTANAWONG (66) 2658 5000 ext 1404 jaroonpan.w@maybank-ke.co.th • Transportation • Small cap

Thanatphat SUKSRICHAVALIT (66) 2658 5000 ext 1401 thanaphat.s@maybank-ke.co.th
• Media • Electronics

Wijit ARAYAPISIT (66) 2658 5000 ext 1450 wijit.a@maybank-ke.co.th
• Strategist

Theerasate PROMPONG (66) 2658 5000 ext 1400 theerasate.p@maybank-ke.co.th • Equity Portfolio Strategist

Apiwat TAVESIRIVATE (66) 2658 5000 ext 1310 apiwat.t@maybank-ke.co.th · Chartist and TFEX

VIETNAM

Quan Trong Thanh (84 28) 44 555 888 ext 8184 thanh.quan@maybank-kimeng.com.vn
Banks

Le Nguyen Nhat Chuyen (84 28) 44 555 888 ext 8082 chuyen.le@maybank-kimeng.com.vn · Oil & Gas

Nguyen Thi Sony Tra Mi (84 28) 44 555 888 ext 8084 mi.nguven@mavbank-kimeng.com.vn Consumer

Tyler Manh Dung Nguyen (84 28) 44 555 888 ext 8180 dung.nguyen@maybank-kimeng.com.vn
• Utilities • Property

Nguyen Thi Ngan Tuyen Head of Retail Research (84 28) 44 555 888 ext 8081 tuyen.nguyen@maybank-kimeng.com.vn • Food & Beverage • Oil & Gas • Banking

Nguyen Thanh Lam (84 28) 44 555 888 ext 8086 thanhlam.nguyen@maybank-kimeng.com.vn • Technical Analysis



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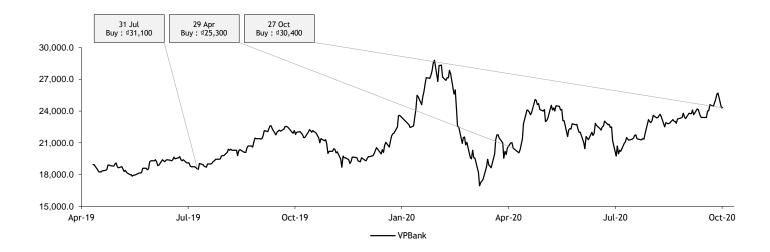
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#### Historical recommendations and target price: VPBank (VPB VN)



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## Malaysia

Maybank Investment Bank Berhad (A Participating Organisation of Bursa Malaysia Securities Berhad) 33rd Floor, Menara Maybank, 100 Jalan Tun Perak, 50050 Kuala Lumpur Tel: (603) 2059 1888; Fax: (603) 2078 4194

Stockbroking Business: Level 8, Tower C, Dataran Maybank, No.1, Jalan Maarof 59000 Kuala Lumpur Tel: (603) 2297 8888 Fax: (603) 2282 5136

# Philippines

Maybank ATR Kim Eng Securities Inc. 17/F, Tower One & Exchange Plaza Ayala Triangle, Ayala Avenue Makati City, Philippines 1200

Tel: (63) 2 849 8888 Fax: (63) 2 848 5738

#### South Asia Sales Trading

Kevin Foy Regional Head Sales Trading kevinfoy@maybank-ke.com.sg Tel: (65) 6636-3620 US Toll Free: 1-866-406-7447

Indonesia Iwan Atmadjaja iatmadjaja2@bloomberg.net (62) 21 8066 8555

New York James Lynch jlynch@maybank-keusa.com Tel: (212) 688 8886

Philippines Keith Roy keith\_roy@maybank-atrke.com Tel: (63) 2 848-5288

#### Singapore

Maybank Kim Eng Securities Pte Ltd Maybank Kim Eng Research Pte Ltd 50 North Canal Road Singapore 059304

Tel: (65) 6336 9090

### Hong Kong

Kim Eng Securities (HK) Ltd 28/F, Lee Garden Three, 1 Sunning Road, Causeway Bay, Hong Kong

Tel: (852) 2268 0800 Fax: (852) 2877 0104

#### Thailand

Maybank Kim Eng Securities (Thailand) Public Company Limited 999/9 The Offices at Central World, 20<sup>th</sup> - 21<sup>st</sup> Floor, Rama 1 Road Pathumwan, Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales) Tel: (66) 2 658 6801 (research)

#### North Asia Sales Trading

Andrew Lee andrewlee@kimeng.com.hk Tel: (852) 2268 0283 US Toll Free: 1 877 837 7635

London Greg Smith gsmith@maybank-ke.co.uk Tel: (44) 207-332-0221

India Sanjay Makhija sanjaymakhija@maybank-ke.co.in Tel: (91)-22-6623-2629

#### London

Maybank Kim Eng Securities (London) Ltd PNB House 77 Queen Victoria Street London EC4V 4AY, UK

Tel: (44) 20 7332 0221 Fax: (44) 20 7332 0302

#### Indonesia

PT Maybank Kim Eng Securities Sentral Senayan III, 22<sup>nd</sup> Floor Jl. Asia Afrika No. 8 Gelora Bung Karno, Senayan Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188 Fax: (62) 21 2557 1189

#### Vietnam

Maybank Kim Eng Securities Limited 4A-15+16 Floor Vincom Center Dong Khoi, 72 Le Thanh Ton St. District 1 Ho Chi Minh City, Vietnam

Tel: (84) 844 555 888 Fax: (84) 8 38 271 030

#### New York

Maybank Kim Eng Securities USA Inc 400 Park Avenue, 11th Floor New York, New York 10022, U.S.A.

Tel: (212) 688 8886 Fax: (212) 688 3500

### India

Kim Eng Securities India Pvt Ltd 2nd Floor, The International, 16, Maharishi Karve Road, Churchgate Station, Mumbai City - 400 020, India

Tel: (91) 22 6623 2600 Fax: (91) 22 6623 2604

#### 🐔 Saudi Arabia

In association with Anfaal Capital Villa 47, Tujjar Jeddah Prince Mohammed bin Abdulaziz Street P.O. Box 126575 Jeddah 21352

Tel: (966) 2 6068686 Fax: (966) 26068787

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