

SACOMBANK (STB) – UPDATE

Recommendation: **BUY**

Date: 06 Oct 2009

INTRODUCTION

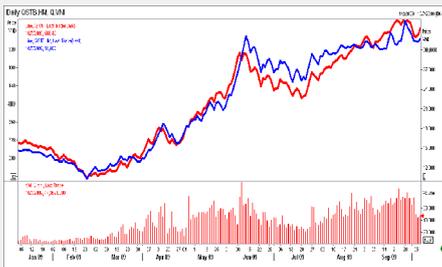
Established in 1991 with the initial chartered capital of VND 3bn and officially listed on HOSE in Jul 2006, STB is one of the top JS commercial banks in Vietnam with the current chartered capital of VND 6,700bn (STB increased its chartered capital from VND 5,115 bn to VND 6,700bn at the end of September).

STB has nationwide expansion of bank network and trading offices. At the same time, Sacombank is planning to establish corporation model with subsidiaries such as SBA Sacombank, Sacomrex, Sacombank Leasing, SBS, Investment Company, Cards Company and recently Jewelry trading company and a gold trading floor.

BASIC INFORMATION

Sector	Banking
Listed	HOSE
Ticker	STB
Chart. cap (VND bn.)	6,700
Price (06/10/2009)	31,300
Highest price in 52 weeks	40,200
Lowest price in 52 weeks	13,000
Ave. trading vol. in 10 days	7,489,355

STB vs. VN-index



HIGHLIGHT

STB is one of the largest commercial banks in Vietnam with nationwide network expansion. STB ranks fourth in the listed commercial bank system in terms of total assets, capital mobilisation and credit activities, just lower than VCB, CTG and ACB. STB also has a large customer base with 260 branches nationwide. Currently, STB also focuses on expanding its market share to neighbouring nations like China, Laos and Cambodia.

Positive business performance in 1H2009: Like the other banks in banking industry, STB achieved positive business performances in 1H2009 because the main activities have gradually increased. Net interest income was VND 1,108 bn., up 35% and profit before tax was VND 1,011 bn., up 37% over the same period last year.

After facing numerous difficulties in 2008, STB has gradually achieved its top position with 40.5% increase in credit growth in 1H2009 – higher than the industry average and in comparison with a minus 1% credit growth in 2008. Deposit growth reached 24% vs. an average growth of 4% in 2008.

Interest income increased strongly thanks to the high credit growth in quarter 2/2009, especially from disbursement of short-term loans. At the end of 1H2009, short-term loans increased significantly, up 63% against that in late 2008. The strong increase in short-term outstanding loans partly came from the 4% short-term interest subsidy loans and the expansion of individual consumption loans, securities loans when STB has a wide individual customer base.

As a result of low funding cost in 1H2009, net interest income achieved up 35% against the same period. Proportion of interest expense/interest income was down to 65% in 1H2009 in comparison with 80% of the same period last year and average of 84% in 2008. Interest expense strongly reduced in 1H2009 because most of the deposits of high funding cost in 2008 were due in quarter 1/2009. Consequently, interest expenses growth were at a slower pace in comparison with the deposit growth and STB has advantage to utilize the mobilized capital with low interest rate for lending in the next quarters when interest rate tends to trend up. NIM was up from 3.3% in quarter 1 to 3.7% in quarter 2 – higher than average of 2.1% in 2008.

Services activities grew slowly while gold and forex trading activities were no longer big contributors like in 2008: Gross revenue from banking services account for 21% while gold and forex trading revenue account for 15% of the total operating income (in 2008, this proportion was 23% and 21% respectively).

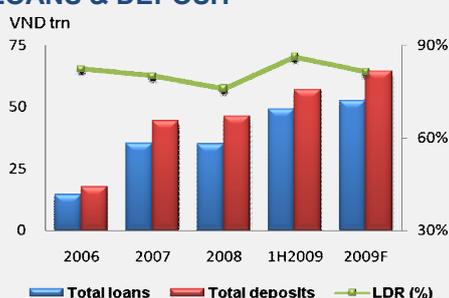
However, investment activities have been quite positive, benefiting from the stock market recovery. In quarter 2/2009, thanks to the stock market recovery, STB reversed VND 209 bn. from provision for securities investment – equal to 85% of provision made in 2008. Therefore, securities investment is expected to contribute more to the bank's profit in the coming quarters because the recovery trend of stock market is getting clearer.

STB has step-by-step re-structured its capital structure by increasing middle and long-term capital through issuing bonds. In quarter 2/2009, STB issued VND 6,000bn. CD on one-year-term. As the new regulation only allows using 30% of short-term deposit for middle and long-term loans (instead of 40%), at the end of August 2009, STB issued successfully VND 2,000bn. bond for other institutions under ANZ, Citibank and SBS's co-arrangement. Such move will comfort STB more in looking for long-term funds.

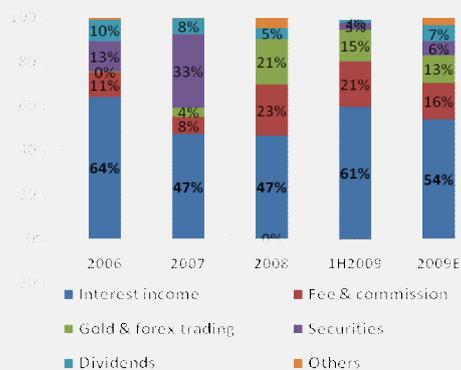
FINANCIAL PERFORMANCE 1H2009

Total assets (VND bn.)	83,634
Total loans (VND bn.)	57,067
Total deposits (VND bn.)	49,199
PBT (VND bn.)	1,011
PAT (VND bn.)	779
LDR (%)	86%
Credit growth (%)	40%
Deposit growth (%)	24%
NPL (%)	0.71%

LOANS & DEPOSIT



REVENUE STRUCTURE



VALUATION

Price (06/10/2009)	31,300
Market cap. (VND bn.)	20,971
EPS 2009F	2,085
P/E trailing	17.1
P/E 2009F	15.0
P/B 2008	2.7
P/B 2009F	2.2
ROE 2008 (%)	12.6%
ROE 2009F (%)	16.0%

Outlook:

Increase in cost of capital will reduce NIM in the last 6 months of the year; however, as the base interest rate will remain at 7%, interest expenses will not increase significantly like those in 2008. Thanks to the stabilised interest rate policy of 7%, funding cost will be reduced in comparison with the average cost of 2008 and interest expense/interest income ratio is expected to be at 72%, average NIM in 2009 is 3,0%.

Investment activities will contribute largely to STB's profits in the last 6 months of the year. STB registered to sell 1.1 mil. units of HAG in July 2009 and 2 mil. units of VFMVF1 from Feb. 2 to Aug. 2 2009. As the costs of those investments are very low, STB will record around VND54 bn. profit from investment activities in quarter 3/2009. Besides, STB is planning to equitize its securities company - SBS. Being a well-known securities company, rank 2nd in terms of brokerage activities, SBS proves to be efficient with VND180bn. profit before tax during the first 8 months of the year. Equitisation part of SBS will enable STB to restructure its capital structure and may bring significant support to the bottom line of STB in the end of 2009 and 2010.

Cost management, especially salary related expenses will be the key factor to determine total earnings for the whole year. STB has a good human resource policy with salary related expenses accounting for around 50% of its total operating cost. As STB is on the way to restructure its organization, we expect salary costs to be reduced to around 45% of its total operating cost.

Concerns on credit risks when STB has a low NPL and provisions for overdue debts are always lower than the industry average. STB's bad debts ratio (group 2-5) in late 2008 was 0.96% - lower than industry average and the other commercial banks. Until quarter 2/2009, the ratio almost remains at 0.71%. Low NPL together with low provision for bad debts usually raises some concerns about STB's risk control quality.

RECOMMENDATION

With forecasted asset growth at 41%, credit growth at 50% and deposit growth at 40% in 2009, STB expected PBT is VND1,826bn., or PAT of VND 1,397 bn., equivalent to an EPS of 2,085VND/share. At the current price of 31,300, P/E forward 2009 is 15 and P/B is 2.2, lower than industry average. With reasonable valuation and being one of leading commercial banks, we recommend a BUY for STB for medium and long-term investment.

	ACB	STB	VCB	CTG
Price (06/10/2009)	44,100	31,300	50,500	35,300
Charter cap. (VND bn.)	6,322	6,700	12,101	12,060
Market cap. (VND bn.)	27,878	20,971	61,110	42,572
PAT 1H2009 (VND bn.)	1,045	797	2,276	1,589
ROA 2008	2.3%	1.4%	1.2%	0.9%
ROE 2008	31.5%	12.6%	18.5%	14.6%
P/B 2008	3.6	2.7	5.4	3.5
P/E trailing	11.8	17.1	16.9	17.1
P/E 2009 (E)	16.7	15.0	17.5	16.6

Note:

- Market capital is calculated based on current charter capital for VCB and CTG.
- PE2009 of ACB is calculated based on the new charter capital, including the convertible bonds which will be officially listed in Q4/2009

FINANCIAL STATEMENT

INCOME STATEMENT	2006	2007	2008	1H2009	2009F
Net interest income	680,366	1,151,872	1,146,668	1,107,909	1,937,917
Net income for banking services	119,665	193,398	562,349	388,683	588,694
Gain/loss on gold and forex trading	4,178	100,815	510,041	266,793	448,836
Gain/loss on Securities trading	143,425	808,472	(1,397)	54,665	219,110
Gain/loss on JV and subsidiaries	104,271	183,490	120,089	30,373	262,500
Other operating gain/loss	10,590	3,536	116,209	(17,960)	131,316
Total revenue	1,062,495	2,441,583	2,453,959	1,830,463	3,588,372
Total Operating Costs	(408,264)	(741,225)	(1,269,935)	(688,465)	(1,506,998)
Pre-Provision profit / (loss)	654,231	1,700,358	1,184,024	1,141,998	2,081,374
Provision	(42,902)	(118,387)	(74,097)	(130,642)	(218,861)
Profit before tax	611,329	1,581,971	1,109,927	1,011,356	1,862,513
Tax	141,200	(184,074)	(155,174)	(232,198)	(465,628)
Profit after tax	752,529	1,397,897	954,753	779,158	1,396,885
BALANCE SHEET	2006	2007	2008	1H2009	2009F
Cash	5,840,571	11,870,304	18,730,736	18,126,804	22,053,053
Investment in securities	2,328,655	13,315,870	9,339,679	10,037,434	10,115,610
Investment in subsidiaries and affiliates	780,577	1,495,608	1,254,261	1,118,528	1,854,261
Total loans	14,394,313	35,378,147	35,008,871	49,199,467	52,513,307
Provisions	(81,418)	(177,573)	(251,752)	(358,409)	(420,106)
Net loans	14,312,895	35,200,574	34,757,119	48,841,058	52,093,200
Other assets	1,513,484	2,690,519	4,356,774	5,510,027	10,413,262
Total assets	24,776,182	64,572,875	68,438,569	83,633,851	96,529,386
Customer deposits	17,511,580	44,231,944	46,128,820	57,066,644	64,580,348
Deposits to FIs	922,473	5,259,154	4,540,515	1,495,101	3,183,577
Certificates of deposits and bonds	2,903,967	6,200,673	8,673,525	14,812,835	17,812,411
Other liabilities	567,816	1,531,445	1,337,085	2,560,011	1,291,607
Total liabilities	21,905,836	57,223,216	60,679,945	75,934,591	86,867,943
Charter capital	2,089,413	4,448,814	5,115,831	5,115,831	6,700,580
Capital surplus	158,365	1,212,723	1,212,723	1,212,723	685,348
Funds	185,474	452,645	796,706	795,111	795,894
Retained earnings	436,146	1,234,529	984,340	861,741	1,479,469
Total shareholder's equity	2,870,346	7,349,659	7,758,624	7,634,431	9,661,443
Interest earning assets	19,472,456	53,087,189	54,250,567	70,882,811	73,913,772
Interest bearing liabilities	21,338,020	55,691,771	59,342,860	73,374,580	85,576,336
RATIO	2006	2007	2008	1H2009	2009F
Asset quality					
Gross loan/Deposit (%)	82.2%	80.0%	75.9%	86.2%	81.3%
Gross NPLs/Total Loans (%)	0.6%	0.5%	0.99%	0.71%	1.2%
Equity/Assets (%)	11.6%	11.4%	11.3%	9.1%	10.0%
Cost to income ratio	38.4%	30.4%	51.8%	37.6%	42.0%
Assets Yield	8.6%	9.3%	13.3%	10.2%	10.6%
Cost of fund	4.6%	5.8%	10.5%	6.3%	6.7%
Net interest spread	3.9%	3.5%	2.9%	3.9%	3.9%
Net interest margin	3.5%	3.2%	2.1%	3.5%	3.0%
ROA	1.9%	3.1%	1.4%	2.0%	1.7%
ROE	16.4%	27.4%	12.6%	20.2%	16.0%
Growth					
Assets growth (*)	71.4%	160.6%	6.0%	22.2%	41.0%
Gross loan growth (*)	70.8%	145.8%	-1.0%	40.5%	50.0%
Deposit growth (*)	53.1%	152.6%	4.3%	23.7%	40.0%
Net interest income growth	56.5%	69.3%	-0.5%	35.0%	69.0%
Net fee income growth	68.1%	61.6%	190.8%	1.8%	4.7%
Pre-provision earning growth	101.5%	159.9%	-30.4%	43.1%	75.8%
Net profit growth	100.6%	85.8%	-31.7%	25.0%	46.3%

(*) year-to-date growth for 1H2009

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