

## Horizon Securities

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## Company notes

**Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank):** Established in 1963, Vietcombank (VCB) is first state-owned bank equitized at the end of 2007. The bank is the third largest bank in Vietnam in term of assets and the largest bank in term of profit earned in 2008.

### Investment Highlights

- It had been promoted as one of the most important equitizations of the country's IPO history, but the actual event turned out to be rather disappointing. The State had offered 97.5 million shares to the public but was finally only able to sell 97% of the offering. Because of the sheer size of the offering the auction was only slightly oversubscribed; buyers paid an average successful price of VND107,572 (US\$6.06) per share. At the time of the offering, a decision which would have required a strategic shareholder to pay the average successful price of the auction discouraged potential foreign strategics from partnering with Vietcombank. To date the giant bank has not yet chosen any foreign strategic partners although its IPO occurred nearly a year ago.
- Circumventing a rule which requires publicly-listed companies to have at least 20% of their shares the public's hands, Vietcombank is set to list over 112.28 million shares (9.28% of chartered capital) on HOSE on June 30th 2009. The initial reference price will be VND50,000 (US\$2.82) and the stock will be allowed to trade within a +/-20% band on its first day.
- Vietcombank is wildly recognized as the best managed bank within the SOE space in Vietnam. In 2008, VCB achieved ROE and ROA of 18.4% and 1.1% respectively. During the same period, BIDV, the second most profitable SOE bank, reported ROE and ROA of 14.7% and 0.8% respectively.
- Although VCB will have the largest market cap in Vietnam, it will only initially represent 2.3% of the VNIndex calculation. Eventually however, as more shares are listed to the exchange, VCB has the potential to have a much greater weight in the VNIndex calculation. Therefore, having VCB in ones portfolio would increase the likelihood to track the VNIndex. However, at its initial reference price, VCB will debut at 23.84x FY09 PER and 3.68x FY09 P/B, which represents a 25.4% and 11.8% premium to its local peers in the banking industry.

Please refer to the important disclosures at the end of this document.

## Company note – Vietcombank (HOSE: VCB)

### Valuation

The lack of transparency and financial information makes valuing the bank a challenge at this time. Although the bank is a powerhouse we are weary that at its current valuation the company is trading at a high premium compared to local and regional peers, with little EPS growth for 2009 and 2010 to show for.

We are cautiously optimistic of the sector in general and of Vietcombank specifically in the near to medium term. Relatively low banking penetration should continue to be a key driver of the industry, however greater liberalization will lead to increased foreign competition and make life harder for the local banks. Vietcombank's well established brand name and track record may not be sufficient to shape strong earnings growth going forward.

Although loans issuances are expected to grow by about 20% this year, Vietcombank's executives have stated they do not foresee any growth in profits this year and have set a pre-tax profit target for 2009 at VND3.32trln (US\$189.26mln); almost the same level as it was in 2008. Not surprisingly management intends pay the same cash dividend level as last year. The bank announced it would pay VND1,200 (US\$0.07) per share dividend in 2009 and 2010. However, investors have voiced their discontent about dividend payments, stating that other banks offer higher dividend payments.

Investors interested in Vietcombank should also note that at the auction over 5 million shares were sold to Vietcombank's employees at a discount to the average price. Employees were offered shares at a preferred price of VND64,543 (US\$3.64) per share, and from what we understand many employees bought shares on margin which may ignite some selling pressure.

Figure 1. Quick valuation

Market price	50,000 VND	2.82 US\$			
Market cap	60,504 VND'bln	3,408.7 US\$'mln			
		<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>
Shares Outstanding	mln shares	1,210.09	1,210.09	1,322.37	1,322.37
Total Assets	VND'bln	197,363	221,950	246,365	258,254
Total Equity	VND'bln	13,528	13,790	16,445	21,521
Pre-tax profits	VND'bln	3,149	3,324	3,320	5,250
Net profits	VND'bln	2,390	2,537	2,538	3,780
EPS	VND	1,975	2,097	1,919	2,859
Book Value per share	VND	11,179	11,396	12,436	16,275
Dividend per share	VND	--	1,200	1,200	1,200
ROE	%	17.67%	18.40%	15.43%	17.56%
ROA	%	1.21%	1.14%	1.03%	1.46%
P/E	x	25.32x	23.85x	23.84x	16.01x
P/B	x	4.47x	4.39x	3.68x	2.81x

Source: Vietcombank's prospectus, HRS estimates

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## Company note – Vietcombank (HOSE: VCB)

Figure 2. Local peers comparison

	Market Cap		ROA				ROE				P/E				P/B			
	US\$m/ln	VND'bln	2006	2007	2008	2009E	2006	2007	2008	2009E	2006	2007	2008	2009E	2006	2007	2008	2009E
<b>State-owned Banks</b>																		
BIDV			0.6%	0.7%	0.8%	n/a	13.3%	13.2%	14.7%	n/a								
Agribank			0.5%	0.5%	0.5%	n/a	43.1%	10.8%	7.9%	n/a								
MHB			0.4%	0.5%	0.5%	n/a	8.0%	12.9%	12.4%	n/a								
<b>Average</b>			0.5%	0.6%	0.6%	n/a	21.5%	12.3%	11.7%	n/a								
<b>Median</b>			0.5%	0.5%	0.5%	n/a	13.3%	12.9%	12.4%	n/a								
<b>Joint stock commercial banks</b>																		
ACB	1,776	31,525	1.1%	2.1%	2.1%	1.2%	30.6%	28.1%	28.5%	22.1%	62.4x	17.9x	14.3x	14.9x	19.1x	5.0x	4.1x	3.3x
Sacombank	1,023	18,161	1.9%	2.2%	1.4%	1.2%	16.4%	19.0%	12.3%	13.1%	38.6x	13.0x	19.0x	15.8x	6.3x	2.5x	2.3x	2.1x
Vietinbank	2,944	52,260	0.4%	0.7%	0.6%	0.8%	10.7%	10.8%	9.7%	13.7%	86.7x	45.5x	42.2x	24.1x	9.3x	4.9x	4.1x	3.3x
Eximbank	1,098	19,494	1.4%	1.4%	1.5%	1.8%	13.3%	7.4%	5.5%	n/a	75.4x	42.1x	27.4x	17.3x	10.0x	3.1x	1.5x	n/a
Techcombank	991	17,591	1.5%	1.3%	2.0%	1.5%	14.6%	14.3%	20.9%	n/a	68.5x	34.5x	15.0x	14.6x	10.0x	4.9x	3.1x	n/a
<b>Average</b>	1,567	27,806	1.3%	1.5%	1.5%	1.3%	17.1%	15.9%	15.4%	16.3%	66.3x	30.6x	23.6x	17.4x	10.9x	4.1x	3.0x	2.9x
<b>Median</b>	1,098	19,494	1.4%	1.4%	1.5%	1.2%	14.6%	14.3%	12.3%	13.7%	68.5x	34.5x	19.0x	15.8x	10.0x	4.9x	3.1x	3.3x
Vietcombank	3,409	60,504	1.7%	1.2%	1.1%	1.0%	25.5%	17.7%	18.4%	15.4%	21.1x	25.3x	23.8x	23.8x	5.4x	4.5x	4.4x	3.7x

Source: HRS research

Note: Stock prices of Vietinbank, Eximbank and Techcombank are taken from OTC market (sanotc.com)

Figure 3. Regional peers comparison

Bank	Country	Mkt Cap US\$m/ln	ROA			ROE			P/E			P/B		
			2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Industrial and Commercial Bank of China	China	262,220	0.6%	0.9%	1.1%	10.2%	14.4%	17.9%	42.4x	24.5x	16.4x	4.3x	3.5x	3.0x
China Construction Bank Corporation	China	183,525	0.8%	1.0%	1.2%	13.7%	15.7%	19.4%	31.6x	20.2x	13.8x	4.3x	3.2x	2.7x
Bank of China Limited	China	156,374	0.8%	0.9%	0.9%	10.2%	12.0%	12.9%	29.1x	21.2x	16.9x	3.0x	2.5x	2.2x
Bank of Communications Co Ltd	China	59,245	0.7%	0.9%	1.0%	13.3%	14.6%	18.6%	38.5x	22.2x	14.5x	5.1x	3.2x	2.7x
China Merchants Bank Co., Ltd	China	46,487	0.7%	1.1%	1.3%	12.1%	21.5%	25.9%	54.6x	23.2x	15.3x	6.6x	5.0x	4.0x
Hang Seng Bank	HK	27,234	1.8%	2.4%	1.8%	24.8%	32.3%	27.2%	17.6x	11.6x	15.0x	4.4x	3.8x	4.1x
State Bank of India	India	23,091	0.8%	0.8%	0.9%	14.4%	13.8%	14.1%	18.5x	16.4x	10.4x	2.7x	2.3x	1.5x
Malayan Banking Berhad	Malaysia	11,621	1.2%	1.2%	1.1%	15.6%	15.5%	14.4%	15.6x	13.0x	13.2x	2.4x	2.0x	1.9x
Bangkok Bank PCL	Thailand	5,941	1.1%	1.2%	1.3%	11.4%	11.3%	12.0%	12.6x	10.7x	9.8x	1.4x	1.2x	1.2x
Siam Commercial Bank PCL	Thailand	5,652	1.2%	1.5%	1.8%	12.6%	15.1%	17.4%	16.1x	11.2x	8.8x	2.0x	1.7x	1.5x
<b>Average</b>			1.0%	1.2%	1.2%	13.8%	16.6%	18.0%	27.7x	17.4x	13.4x	3.6x	2.8x	2.5x
<b>Median</b>			0.8%	1.1%	1.2%	12.9%	14.9%	17.7%	23.8x	18.3x	14.1x	3.6x	2.9x	2.4x
Vietcombank	Vietnam	3,409	1.7%	1.2%	1.1%	25.5%	17.7%	18.4%	21.1x	25.3x	23.8x	5.4x	4.5x	4.4x

Source: HRS research, Reuters

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### The Bank highlights

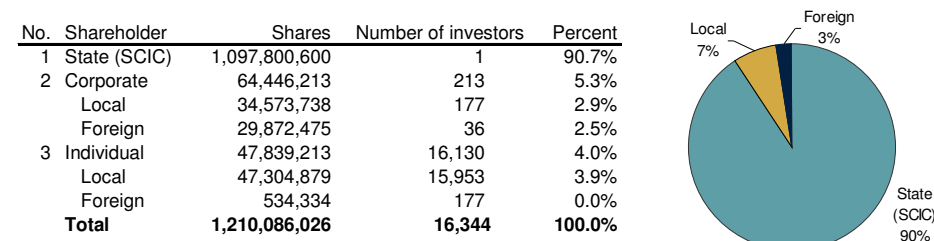
Established in April 1963, the Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) was the first state-owned bank to equitize. On June 30, 2009, Vietcombank will list on HOSE with a reference price of VND50,000 (US\$2.82). The Hanoi-based bank will become the largest market cap listed in Vietnam.

Vietcombank has a network of 269 branches and transaction offices across provinces, cities nationwide and more than 1,300 agents in 90 countries.

### Ownership

The major shareholder of Vietcombank is the State Capital Investment Corporation (SCIC) with a 90.7% in stake. However, State ownership will decrease when the bank finds a suitable foreign strategic partner.

Figure 4. Shareholder structure as of 1 Dec 2008



Source: Vietcombank

### Competitive position

With 11.8% market share in deposits and 8.7% in loans, Vietcombank has played a significant role in Vietnam's banking sector. Vietcombank is considered the leading and best managed state-owned bank in Vietnam.

Vietcombank issued Vietnam's first credit card, Vietcombank Mastercard, in 1996 and has since been the largest player in card services. In 2008, the bank held 24% market share of debit cards, 29.1% of credit cards and 17.8% of all the ATMs in the country. Furthermore, 59.7% of all card settlements in the country go through Vietcombank. By the end of 2008, the bank had issued 300,000 credit cards and owned 1,244 ATMs.

Figure 5. Market share of Vietcombank

Compared to industry	2006	2007	2008
Deposits	15.6%	12.7%	11.8%
Loans	9.8%	9.1%	8.7%
Export payment	32.0%	29.3%	26.8%
Import payment	22.8%	20.0%	19.5%
Card settlement	69.9%	57.6%	59.7%
ATMs	29.0%	24.0%	17.8%

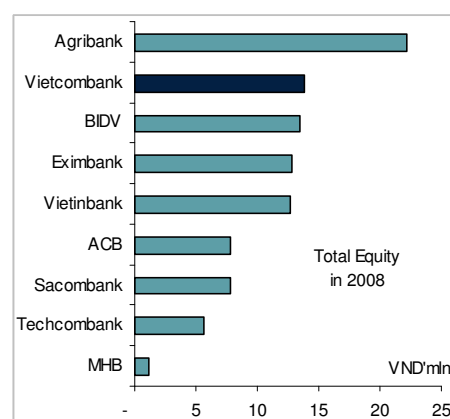
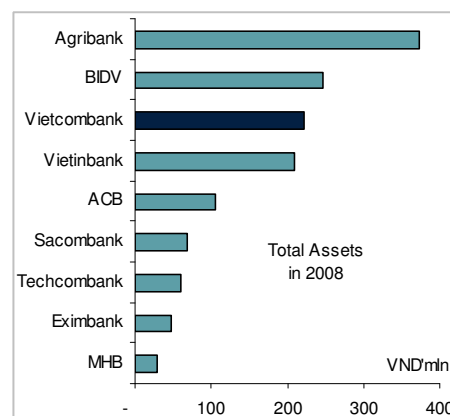
Source: Vietcombank

## Company note – Vietcombank (HOSE: VCB)

### Financial performance

Items	2006	2007	2008	2009E	2010E
	VND'mln	VND'mln	VND'mln	VND'mln	VND'mln
Chartered cap	4,356,737	4,429,337	12,100,860	13,223,715	13,223,715
growth		1.67%	173.20%	9.28%	0.00%
Equity	11,228,106	13,527,579	13,790,042	16,445,000	21,521,000
growth		20.48%	1.94%	19.25%	30.87%
Assets	167,127,832	197,363,405	221,950,448	246,365,000	258,254,000
growth		18.09%	12.46%	11.00%	4.83%
Deposits	152,124,758	177,906,381	196,506,976	225,983,022	n/a
growth		16.95%	10.46%	15.00%	n/a
Loans	67,742,519	97,631,494	112,792,965	133,095,699	n/a
growth		44.12%	15.53%	18.00%	n/a
Total revenue	5,289,140	6,113,548	8,989,814	7,562,000	11,202,000
growth		15.59%	47.05%	-15.88%	48.14%
Total expenses	1,291,160	1,627,740	2,694,119	3,038,000	4,223,000
growth		26.07%	65.51%	12.76%	39.01%
Pretax profit	3,877,256	3,148,725	3,324,460	3,320,000	5,250,000
growth		-18.79%	5.58%	-0.13%	58.13%
Net profit	2,861,079	2,389,952	2,536,554	2,538,000	3,780,000
growth		-16.47%	6.13%	0.06%	48.94%
Key ratios	2006	2007	2008	2009E	2010E
CAR	12.60%	9.20%	8.90%	8-10%	8-10%
ROE	25.48%	17.67%	18.39%	15.43%	17.56%
ROA	1.71%	1.21%	1.14%	1.03%	1.46%
NPL	2.79%	3.87%	4.69%	n/a	n/a
Loans/Deposits	44.53%	54.88%	57.40%	58.90%	n/a
Deposits/Asset:	91.02%	90.14%	88.54%	91.73%	n/a
Loans/Assets	40.53%	49.47%	50.82%	54.02%	n/a
Equity/Assets	6.72%	6.85%	6.21%	6.68%	8.33%

Source: HRS, Vietcombank



### Banking sector

There are five state-owned commercial banks (SOCBs), 38 joint-stock commercial banks (JSCBs), five foreign banks, 29 foreign banks, six joint-venture banks and 18 other credit institutions in Vietnam. Aggregate total assets of the sector by the end of 2007 reached VND1,500trln (US\$84.5bln), representing 130% of the country's GDP. Average yearly loans growth from 2002 to 2006 was 29.6% due to increased demand from both corporate and retail banking services. In 2007 alone credit grew by 54%, while in 2008 it reached 21%. For 2009, the State Bank of Vietnam forecasts a 20% growth in credit.

- SOCBs with their large assets and equity have dominated the banking market. The greatest challenge facing the SOCBs is cleaning up their nonperforming loans (NPLs), building capital adequacy up to international standards, and upgrading their technology to compete with foreign banks.
- The JSCBs are growing quickly, led by Asia Commercial Bank (ACB) and Sacombank (STB). Loan growth has also been impressive. One reason for this has been their ability to adapt and upgrade quickly compared to the larger SOCBs. They are also not burdened by high levels of NPLs.

The number of existing bank accounts represents less than 10% of the population, far lower than that in developed countries.

Please refer to the important disclosures at the end of this document.

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