

## SAI GON THUONG TIN COMMERCIAL JSB

**Recommendation: Buy**  
**Target price: VND 42,300 /share**

### Company information

Name	Sai Gon Thuong Tin Commercial JSB
Industry	Finance - Banking

### Ownership structure

	%
Domestic institutions	14.22
Foreign institutions	29.98
Domestic individuals	55.72
Foreign individuals	0.08
<b>Total</b>	<b>100</b>

Source: Website Sacombank

### Market statistics

	2007	2008	2009*
52 week range (VND)		13,000 - 40,200	
Average 30-day change (%)	6.02	-8.61	11.11
Average 90-day change (%)	18.06	-25.83	33.33
Outstanding shares (million)	444.9	511.6	511.6
Market cap. (VND bil.)	25.339	9.413	18.826

Source: Reuters

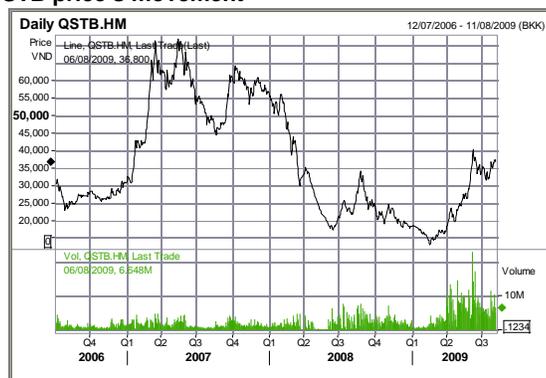
\*: from 01/01 – 31/07/2009

### Valuation

	2008	2009F
EPS	1,866	1,913
EPS (before risk provision & tax)	2,400	2,678
BVPS	15,727	15,452
PE forward		19.2
PB forward		2.4
Dividend ratio (%)		14 - 16
<b>Share price</b>		<b>42,300</b>

Source: HBBS, Unit: VND/share

### STB price's movement



Source: Reuters

- 6 August 2009 -

### Balance sheet (VND million)

	2007	2008	2009F
Cash	3,335,063	8,458,614	6,046,134
Deposits at the SBV	3,878,785	3,224,539	3,224,539
Total deposits with banks	4,656,456	7,047,583	9,582,772
Investment in valuable papers	13,320,781	9,346,607	18,342,489
Gross loans	35,378,147	35,008,871	44,461,266
Loan-loss reserve	(177,573)	(251,752)	(358,409)
Financial subs & affiliates	1,495,608	1,254,261	1,718,528
Fixed assets	1,019,813	1,696,288	2,714,288
Other assets	1,665,795	2,653,558	3,351,596
<b>Total assets</b>	<b>64,572,875</b>	<b>68,438,569</b>	<b>89,083,203</b>
Borrows from the SBV	750,177	52,161	45,666
Interbank liabilities	4,508,977	4,488,354	1,449,435
Customer deposits	44,231,944	46,128,820	57,066,644
Valuable papers	5,197,380	7,659,063	17,862,778
Official deposits	1,003,293	1,014,462	1,014,886
Other liabilities	1,531,445	1,337,085	1,290,112
Chartered capital	4,448,814	5,115,831	6,700,580
Reserves	452,645	796,706	795,111
Retained earnings	1,234,529	984,340	1,364,265
Equity	7,349,659	7,758,624	10,353,682
<b>Total liabilities and equity</b>	<b>64,572,875</b>	<b>68,438,569</b>	<b>89,083,203</b>

### Profit and Loss (VND million)

	2007	2008	2009F
Interest income	3,383,002	7,161,082	6,425,540
Interest expense	(2,231,130)	(6,014,414)	(4,523,789)
<i>Interest income</i>	<i>1.151.872</i>	<i>1.146.668</i>	<i>1.901.751</i>
<i>Non-interest income</i>	<i>1.289.711</i>	<i>1.307.291</i>	<i>1.306.424</i>
<b>Gross income</b>	<b>2.441.583</b>	<b>2.453.959</b>	<b>3.208.175</b>
Operating expenses	(741.225)	(1.269.935)	(1.413.895)
<b>Operating profit</b>	<b>1.700.358</b>	<b>1.184.024</b>	<b>1.794.280</b>
Provisions for doubtful debts	(118.387)	(74.097)	(130.642)
<b>Gross profit</b>	<b>1.581.971</b>	<b>1.109.927</b>	<b>1.663.638</b>
<b>Net profit</b>	<b>1.397.897</b>	<b>954.753</b>	<b>1.281.682</b>

### Financial highlights (%)

	2007	2008	2009F
Asset growth rate	160.62	5.99	30.17
Equity growth rate	156.05	5.56	33.45
Loan growth rate	145.94	-1.26	26.89
Total customer deposit growth rate*	146.64	8.82	39.31
Operating profit growth rate	193.33	-30.37	51.54
Equity/Total assets	11.38	11.34	11.62
NPLs/Gross loans	0.24	0.60	< 2.5
CAR	11.07	12.16	10 – 12
Liquid asset ratio	18.38	27.37	21.16
Net loans/Total customer deposit*	71.21	64.62	58.86
Loan-loss reserves/Overdue loans	133.14	74.57	73.81**
ROAA	3.13	1.44	1.63
ROAE	27.36	12.64	14.15
Interest spread	2.86	2.14	2.26
Cost/Income	30.36	51.75	44.07

Source: Sacombank's audited report and HBBS data

\*: Including Customer deposits and Valuable papers;

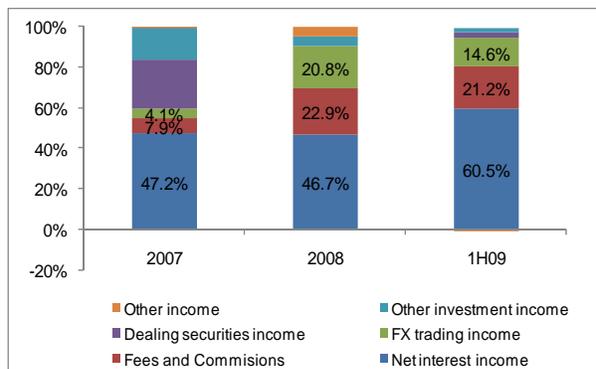
\*\* : as of 30/06/2009

## Financial performance in 1H09

### Profitability

*Significant change in income structure with largest contribution from interest income*

#### Income breakdown



*Source: STB consolidated financial reports*

Strong growths of outstanding loans and investment in valuable papers are the drivers for the surge of interest income proportion in total income to 60.5%. The remaining of income comes from fees, foreign currencies exchange, gold and securities trading, etc. The VND-208-billion reversal of provision on securities investment in 2Q09 offset the loss from the activity in 1Q09. In 1H09, STB made profit from securities investment of over VND 54.7 billion.

*Profitability improves but are still lower than previous years on average*

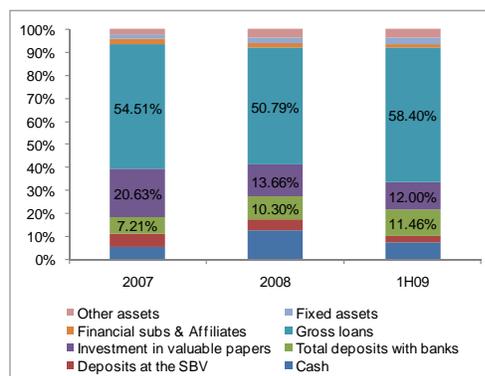
To 30/06, profit after tax amounted to VND 779 billion, equivalent to around 81.6% of the figure in 2008. Trailing ROAA and ROAE are 1.61% and 15.52%, respectively, which are remarkably higher than the corresponding figures in 2008 of 1.44% and 12.64%. However, these indicators haven't reached the average levels of 2004-2007 period of 2.29% and 20.65%, respectively. The improvement in profitability mainly resulted from the peak in interest spread ever since 1Q08 when the funding cost fell following the reduction of inter-bank funds proportion in total liability as well as lower inter-bank rates. This also reflects the lower interest rates of 2009 than that of 2008.

Cost to income ratio fell notably to 37.61% in 1H09 from the 2008's figure of 51.75% and the average of 2004 – 2007 period at 40.49%. Apparently, the bank's operation efficiency is improving.

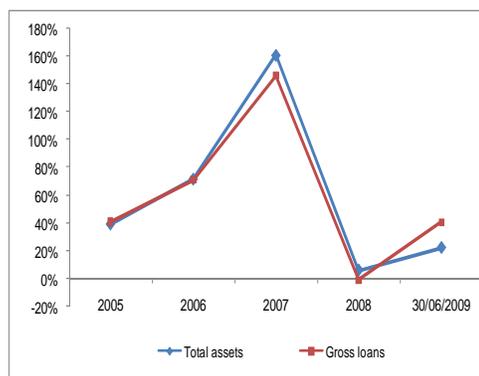
### Asset growth

*Fast growth rate and credit is the largest asset item*

#### Asset structure



#### Total assets & outstanding loans growth



*Source: STB consolidated financial reports*

There is a shift in asset structure as Sacombank switched its focus back to credit activities. As of 30/6/09, net loans accounted for 58.4% of total assets compared to the 50% at the beginning of 2009. Net loans increased 41.4% while total assets rose only by 22.2% over the opening figures of 2009. If taking into account the credit growth limit for 2009 of 25%-27% as directed by the State Bank of Vietnam (SBV), Sacombank may well have to collect loans rather than increasing loans in the second half of the year. And this not seems to be a difficult task for the bank as 62.64% of its loans are short-term.

Aiming to provide services to individual clients, at the end of 2008, around 47% of Sacombank's loans were to individuals. In 1H09, total lending to this sector of the banking system grew at 21% and general views are for SBV to tighten individual lending. If this happens, Sacombank's profitability would be negatively affected as lending interests to corporate customers are restricted by the prime rate.

*Although showing no improvement, the NPL ratio is lower than the banking system's average and Sacombank has made appropriate provision*

Asset quality has not improved as the NPL ratio as of 30 Jun 2009 stood at 0.7%, higher than the 1Q09 figure of 0.65% and 4Q08 of 0.6%. Bad debt ratio fell from 1.15% in 1Q09 to 0.99% on 31/06 mainly because lending grew too fast. However, compared to the industry's average NPL ratio of 2.52% as recently announced by SBV (and of 2.17% in 2008); Sacombank's ratio can be regarded as reasonable.

As of 30/06, loan loss reserve totaled VND 358 billion i.e around 104.80% of the NPLs but lower than the average of 2005 – 2008 period of 129%. With the possibility of outstanding loan reduction toward year end, Sacombank may not have to make further provision in 2H09.

*Increasing investment in debt securities*

Securities investment accounted for 12% of total assets, significantly lower than the peak of 20.63% in early 2008. Securities investment increased by 7.39% over the closing balance of 2008, in which debt securities accounted for 91.54%, rising by 6.26% (or VND 544 billion). At the end of 2Q09, securities investment (at cost) declined from VND 821 billion on 1 Jan 2009 to VND 692 billion.

*Continuity in expanding the network and subsidiaries*

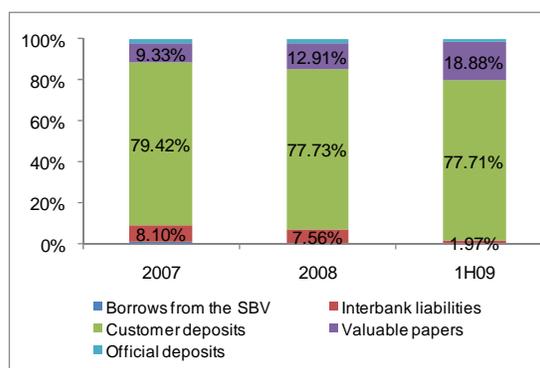
Fixed assets increased by VND 462 billion i.e 27.2% over year end 2008 and made 45% of the year capex plan on network expansion, equipment addition for card activity and IT of VND 1,018 billion. In the period, Sacombank has raised its number of transaction points by 18 to 265. Owing a widespread network is an advantage for Sacombank to achieve its aim of becoming a retail bank.

Sacombank also plans to establish a finance company and a card company in 2009. This will help the bank to professionalize its card activity and develop individual finance products.

### Funding growth

*Fund increase through issuance of valuable papers denominated in VND*

**Funding structure 2007 – 1H09**



Source: STB consolidated financial reports

Customer deposits and valuable papers significantly increased against last quarter, making 96.5% of total funds raised. In contrast, inter-bank fund slumped (contributing 1.97% to total capital mobilization), when the bank's liquidity improved and not need to rely much on inter-bank source as last year. As of 2Q09, customer deposits growth was 23.71% against 2008 year-end, 1.5 times higher than that of the industry. At present, STB's deposit rates are lower than medium-sized commercial banks but higher than ACB and VCB.

Sacombank's got an approval from the SBV's to issue a maximum of VND 10 trillion valuable papers in 2009. With the current halt in deposits from public, we suppose Sacombank's funding growth in 2H09 will depend on the success of these issuances.

#### *Equity to grow strongly in the end of 2009*

In 2009, shareholders approved for Sacombank to increase chartered capital by 31%, reaching VND 6,701 billion through bonus share issuance at the ratio of 15% to existing shareholders, and 1% to staff at face value. From 2 Jul to 7 Jul 2009, Sacombank sold over 18.26 million treasury stocks. We estimated the average selling price was VND 34,600 per share, bringing the bank VND 280 billion. In addition to the year profit, the bonus share issuance and treasury stock sale will improve the bank's capital adequacy ratio (CAR). This, however, will also load a burden on its ROAE target not only for 2009 but also for the following years.

#### **Year-end 2009 prospect**

##### *Business environment remains difficult*

The interest subsidy scheme is expected to accelerate the non-state owned sectors hence pushing up the economic recovery. However, the scheme also creates the chances for enterprises to refinance their loans to enjoy lower interest rates. If the investment is not effective, the NPL ratio may hike in the future. In fact, banking industry's NPL ratio rose from 2.17% at 2008 year-end to 2.52% in 2Q09, nearly equivalent to the outstanding loan growth of 16%. Though Sacombank has a relatively good loan quality compared to the industry average, it is easy to understand why the bank set an NPL ratio target of below 2.5% in the year 2009 given the uncertainties in its business environment.

##### *Unchanged prime rate will decrease the bank's profit margin due to the surging funding cost*

Since early 2009 prime rate has been maintained stable at 7% and is hardly to have sudden changes given the current stable liquidity of the banking system and enterprises still need financial support for their business operation.

Nevertheless, surging credit growth from April and the interest subsidy scheme for medium and long term projects have led to a new race to increase deposit rates among banks, especially for long term deposits. NIM therefore will decrease. As of July 2009, average deposit rate of commercial banks was 8.6%/year, in comparison to 7.95% in ending April. Meanwhile, average lending rates to corporates are maintaining at 10% - 10.5%/year.

##### *USD/VND exchange rate volatility*

In addition, the VND are depreciating against USD, bringing difficulties to the bank's operation. In 1H09, USD/VND rate increased 5.3% over December 2009. In fact, banks are usually in surplus of foreign currencies for lending but in shortage of foreign currencies for selling. Bid rate therefore quoted equally to ask rate for most of the time. This has a great impact on the banks who offer import-export settlement services. Foreign currencies deposits often occupy 15% of Sacombank's customer deposits and valuable papers. Meanwhile, foreign currency loans to total loans ratio gradually fell from 23% in year-end 2007 to 12% currently.

##### *However, STB is likely to fulfill its profit target for the year*

Sacombank enjoyed quick growths in 1H09, closely following to the projections set by the bank at the beginning of the year. However, as the SBV reduces credit growth to 25% - 27% Sacombank has to shrink its credit activity. This in turn will affect the bank's scale and asset structure when outstanding loans/total asset ratios fall while investments are on the rise. Besides, funding cost tends to rise, while hardly-changing interest rates on average earnings will negatively affect 2H09 results. Nevertheless, as STB has made 63% of its year plan in 1H09, it is possible for the bank to fulfill its profit target provided that no further provision is necessary.

## VALUATION

We use comparables methods to approach Sacombank share price.

### P/EBPT

Banks normally make different ratios of provision, which largely affect their profit after tax, especially in 2008. Therefore, to achieve a more comprehensive comparison, we use profit before provision of banks in this valuation method.

*Unit: VND/share*

	VCB	CTG	ACB	Techcombank	Eximbank	MB	Avg.
P (06/08/2009)	57,000	39,500	45,200	38,500	27,500	30,500	
EBPTPS	5,131	3,320	4,167	6,534	1,786	3,184	
P/E	11.11	11.90	10.85	5.89	15.40	9.58	<b>10.79</b>

### P/E

*Unit: VND/share*

	VCB	CTG	ACB	Techcombank	Eximbank	MB	BQ
EPS	2,083	2,339	3,478	3,248	985	2,069	
P/E	27.37	16.89	13.00	11.85	27.92	14.74	<b>18.63</b>

### P/B

*Unit: VND/share*

	VCB	CTG	ACB	Techcombank	Eximbank	MB	BQ
BVPS	11,481	10,963	12,219	15,446	17,790	13,755	
P/B	4.96	3.60	3.70	2.49	1.55	2.22	<b>3.09</b>

## Share price

Sacombank's a good brand name, a comparatively large size, a widespread network, a clear strategy and is able to adapt to market changes. However, the 2008 economic turmoil has negatively affect the bank's operation reflected by sharply declining profitability ratios. Though being improved in early 2009, earning still could not catch up with the asset & equity growth. Besides, the bank has not been able to fully exploit its advantages to develop retail banking services.

We therefore believe that the STB should be traded at a premium of 5% over the market average comparables.

	Share	Weight	Value
P/EBPT	28,893	20%	5,779
P/E	35,635	30%	10,691
P/B	47,746	50%	23,873
			<b>40,343</b>
Premium			5%
<b>Share price (VND)</b>			<b>42,300</b>

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