

Prosperity Bank (VPB)

1Q21 NPAT up 38.4% YoY

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1Q21 NPAT reached VND3,202 billion, up 38.4% YoY

Vietnam Prosperity Bank (VPB) posted 1Q21 NPAT of VND3,202 billion (+38.4% YoY) on net revenue of VND9,120 billion (+13.7% YoY, +4.3% QoQ). Credit balance strongly expanded 13.3% YoY, 2.8% QoQ with this figure of parent bank increasing 3.7% QoQ.

1Q21 NIM was up 39 bps QoQ thanks to lower average cost of funds

1Q21 net interest margin (NIM) hit 9.08% (+39 bps QoQ, +16 bps YoY), of which the parent bank's NIM was 5.63% (+72 bps QoQ, +97 bps YoY). Meanwhile, FE Credit's NIM was 25.6% (-8 bps QoQ).

VPB divested a 49% stake in FE Credit to SMBC

At the end of April 2021, VPB officially sold a 49% stake in FE Credit to SMBC Consumer Finance Company, a subsidiary of SMBC Group. FE Credit was valued at USD2.8 billion at the time of the capital sale, making VPB likely to have collected about USD1.4 billion.

VPB expects to find a strategic partner by the end of 2021

VPB has been looking for strategic shareholders since 2019 and hopes to get it done by the end of 2021. Reducing the maximum foreign ownership to 15% is considered a step to pave the way for new strategic shareholders.

We recommend HOLDING VPB shares with a target price of VND76,800/share

Based on VPB's valuation results, business outlook as well as potential risks, we recommend HOLDING VPB shares with a target price of VND78,000/share, 13.7% higher than the closing price on June 24, 2021.

Hold

Target price	VND78,000
Upside/downside	13.7%
Current price (Jun 24, 2021)	VND68,600
Consensus target price	VND66,700
Market cap (VNDbn)	163,240

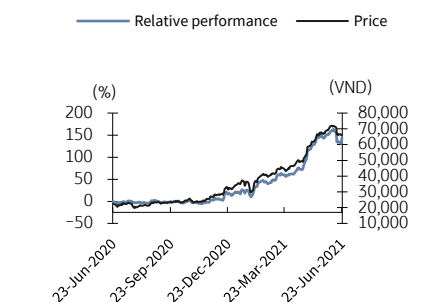
Trading data	
Free float	95.0%
3M Avg trading value (VNDbn/USDmn)	1,750/75.9
Foreign ownership	20%
Shareholder	Ngo Chi Dung (4.81%)

Share price performance				
(%)	1M	3M	6M	12M
VPB	2.1	55.1	118.0	209.4
VNIndex	4.6	17.1	27.8	60.2

Forecast earnings & valuation

Financial year-end	2019A	2020A	2021F	2022F
Revenue (VNDbn)	30,670	32,346	40,564	48,964
Pre-provision operating profit (VNDbn)	24,012	27,641	34,804	41,616
NPAT of parent bank (VNDbn)	8,260	10,414	13,373	15,894
EPS (VND)	3,265	4,116	5,255	6,245
EPS growth (%)	12	26	28	19
PER (x)	20.5	16.2	12.7	10.7
P/B (x)	16,684	20,867	35,985	44,876
PBR (x)	4.00	3.20	1.86	1.49
ROE (%)	21.5	21.9	19.8	17.5
Dividend yield (%)				

Source: Bloomberg, KB Securities Vietnam



Source: Bloomberg, KB Securities Vietnam

Business operations

1Q21 earnings reached VND3,202 billion, up 38.4% YoY

In 1Q21, VPB recorded net interest income of VND9,120 billion (+13.7% YoY, +4.3% QoQ) and non-interest income of VND1,932 billion (+2.5% YoY, -1.8% QoQ), helping TOI to reach VND11,051 billion (+11.6% YoY). Provision for credit losses stayed high at VND4,453 billion (+20% YoY, +3.1% QoQ); NPAT hit VND3,202 billion (+38.4% YoY) thanks to a sharp decrease in operating costs with a CIR of 23.5% (-970 bps YoY).

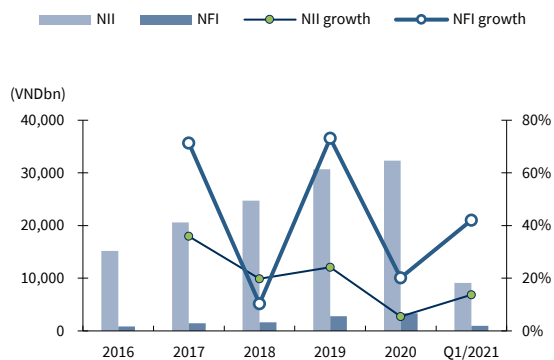
Credit growth increased 2.8% QoQ and 13.3% YoY

1Q21 credit balance maintained high growth (+13.3% YoY, +2.8% QoQ) with this figure of parent bank increasing 3.7% QoQ. Meanwhile, credit growth of FE Credit fell 0.1% QoQ versus strong recovery of the previous two quarters. The ratio of corporate bonds to total outstanding loans was 9.2% (-63 bps QoQ).

1Q21 NIM was up 39 bps QoQ thanks to a sharp drop in average cost of funds

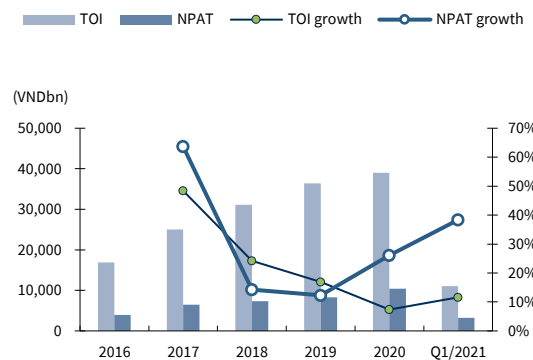
1Q21 NIM was 9.08% (+39 bps QoQ, +16 bps YoY), of which parent bank's NIM was 5.63% (+72 bps QoQ, +97 bps YoY) thanks to a sharp fall in average cost of funds, following the downtrend of the banking system during this period. Earnings yield also decreased, but remained high at 9.59%. Meanwhile, FE credit's NIM reached 25.6%, down 8 bps QoQ.

Fig 1. VPB – NII and net fee income (VNDbn, %)



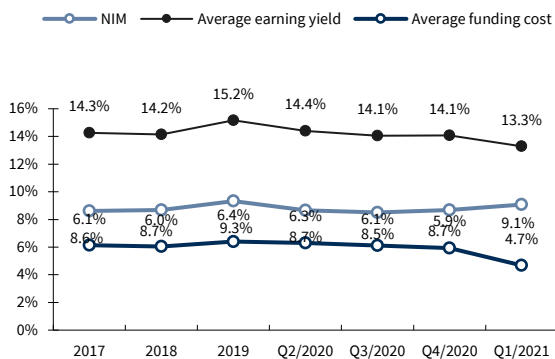
Source: VPBank, KB Securities Vietnam

Fig 2. VPB – Operating income and NPAT (VNDbn, %)



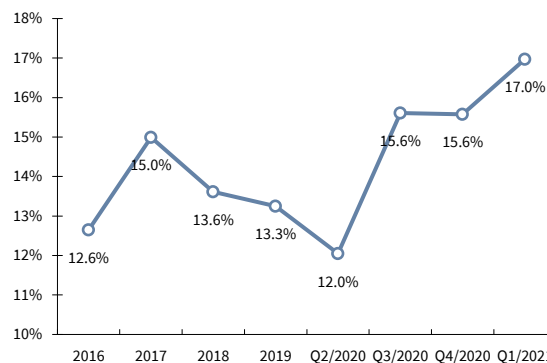
Source: VPBank, KB Securities Vietnam

Fig 3. VPB – NIM, earnings yield, cost of funds (%)



Source: VPBank, KB Securities Vietnam

Fig 4. VPB – CASA (%)

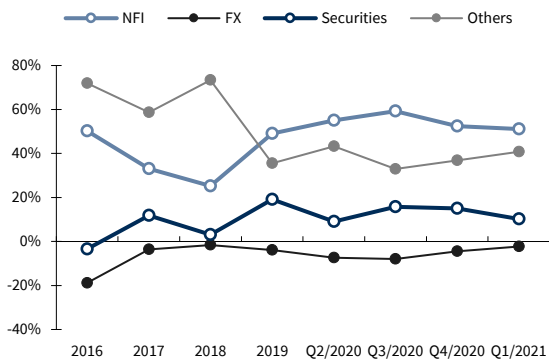


Source: VPBank, KB Securities Vietnam

1Q21 NOI reached VND1,932 billion, up 2.5% YoY

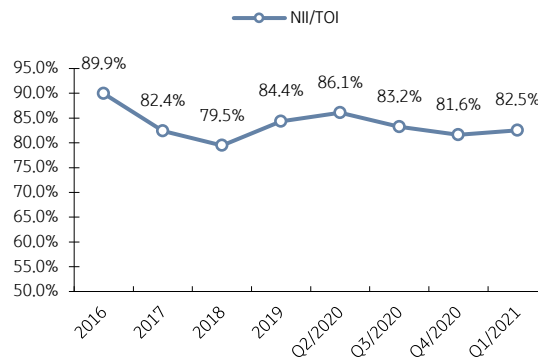
1Q21 service fees expanded 42.1% YoY, helped by lower brokerage commission and a significant increase of 64% YoY in other net incomes (contributing 40% to the service fees). Net gain from securities trading reached VND199 billion (-83.9% YoY) while profit from other activities grew 74.9% YoY thanks to a dramatic increase in loan recovery; FE Credit’s provision expense surged 109% YoY; 1Q NOI achieved VND1,932 billion (+2.5% YoY); NOI/TOI was 17.5%, down 90 bps QoQ.

Fig 5. VPB – Structure of non-interest income (%)



Source: VPBank, KB Securities Vietnam

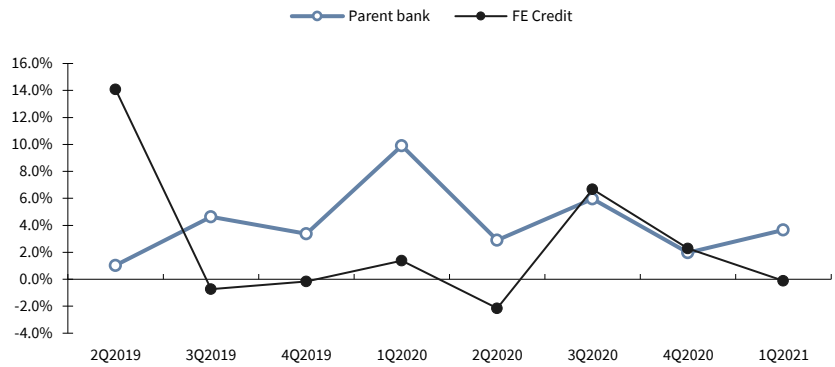
Fig 6. VPB – NII/TOI (%)



Source: VPBank, KB Securities Vietnam

Credit growth of parent bank reached 3.7% QoQ while this figure of FE Credit continued to decline to -0.1% QoQ in 1Q21.

Fig 7. VPB – Credit growth (%)



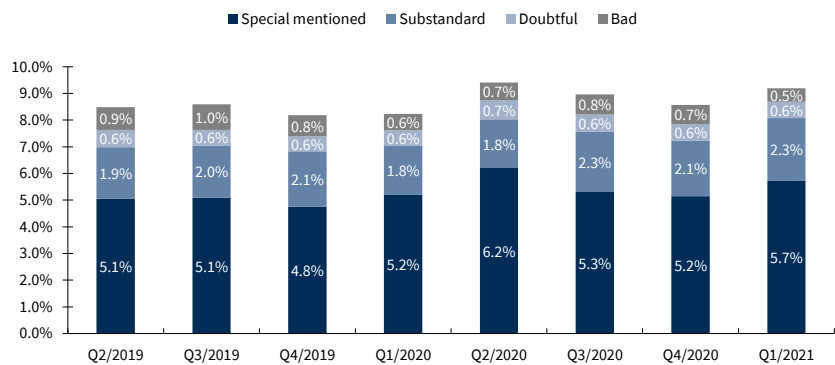
Source: VPBank, KB Securities Vietnam

NPL ratio was 3.46%, up 5 bps QoQ, loan loss coverage ratio remained low compared to leading banks in the industry

1Q21 NPL ratio was 3.46%, up 5 bps QoQ. During this period, VPB made a provision of VND4,454 billion (+3.2% QoQ, +20.0% YoY); loan loss coverage ratio was 43.86%, relatively low compared to recent quarters and leading banks in the industry. Restructured loan balance by the end of 2020 was VND28,000 billion or 9.3% of total outstanding loans. With economic recovery along with Circular No. 03/2021 on restructuring debts, KBSV believes that the provisioning pressure on VPB has been somewhat reduced compared to 2020, but it is still high compared to that of the leading banks with good asset quality.

Special mention loan (SML) increased 59 bps while NPL increased 5 bps, making SML ratio reach 9.2%, relatively high compared to that of previous quarters.

Fig 8. VPB – Special mention, substandard, doubtful, bad debts (%)

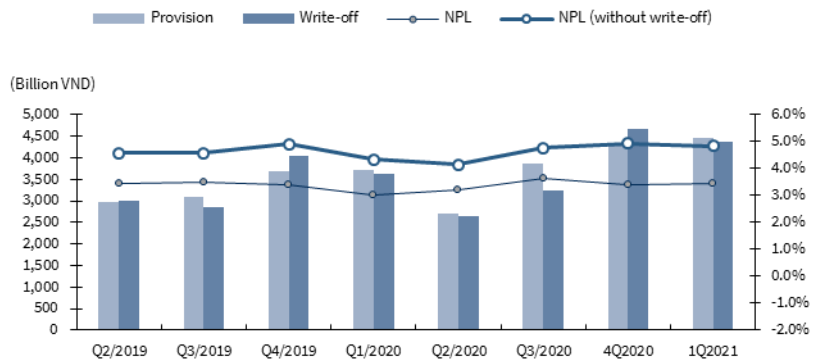


Source: VPBank, KB Securities Vietnam

VPB made a high provision in 4Q20 and 1Q21.

Asset quality did not improve as VPB still has to utilize many sources of provision to solve NPL and maintain NPL ratio at 3.5%.

Fig 9. VPB – NPL, Provision (VNDbn, %)

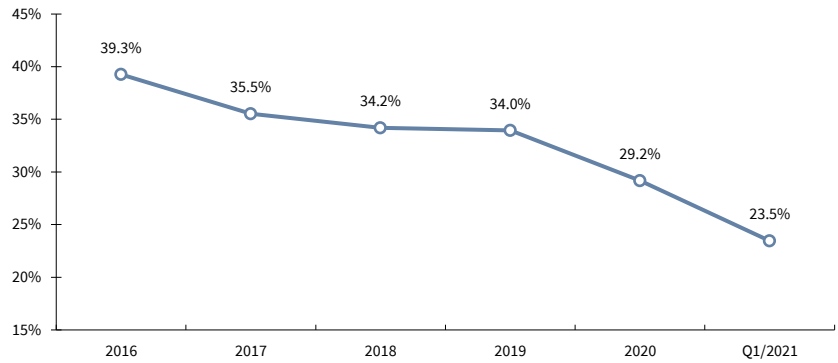


Source: VPBank, KB Securities Vietnam

1Q21 CIR reached 23.5% (-9.6% YoY), helping net profit before provision to increase 19.9%.

KBSV believes that it will be hard for VPB to maintain a low CIR for the rest of the year as compared to 1Q21 as the bank is boosting investment in technology.

Fig 10. VPB – CIR (%)



Source: VPBank, KB Securities Vietnam

1Q21 business performance closely followed the 2021 target; 15 million ESOP shares from treasury stocks are supposed to be issued

At the Annual General Meeting of Shareholders, VPB set a target of VND16,654 billion (27.9% YoY) for 2021 PBT, based on the following factors: (1) Credit balance grew 16.6% YoY, outstanding deposits and valuable papers expanded 19.2% YoY, total assets grew 17.5% YoY; and (2) NPL ratio of parent bank was less than 3%. 1Q21 PBT hit VND4,006 billion (+37.6% YoY), completing 24% of full-year target. In addition, VPB plans to issue 15 million ESOP shares from available treasury stocks at VND10,000/share. Shareholders can sell 30% of these shares after one year, 35% after two years and the rest after three years.

VPB divested 49% stake in FE Credit to SMBC

At the end of April 2021, VPB officially sold a 49% stake in FE Credit to SMBC Consumer Finance Company, one of the three largest financial and banking groups in Japan. VPB might have collected USD1.4 billion thanks to the valuation of FE Credit at USD2.8 billion at the time of the capital sale, which will add a large amount of capital to VPB. This may also help improve CAR in the context that VPB's main customer segment is the middle class suffering most from the COVID-19 pandemic. Besides, the cooperation with a global corporation like SMBC is an opportunity for VPB and FE Credit to learn, enhance the management capacity, financial potential and expand the network.

VPB expects to have a strategic partner by the end of 2021, and SMBC is regarded as a bright candidate

As of May 18, 2021, the foreign ownership ratio of VPB reached 21.76%, 8.24% lower than the maximum level of 30% limited by the State Bank. VPB has been looking for strategic shareholders since 2019 and hopes to get it done by the end of 2021. Reducing the maximum foreign ownership to 15% is considered a step to pave the way for new strategic shareholders. KBSV believes that SMBC will very likely become a strategic partner of VPB because: (1) SMBC, a strategic shareholder of Eximbank (EIB) after owning 15% of the bank's capital, once offered the acquisition of PGBank (PGB). SMBC wants to show its ambition in Vietnam by cooperating with VPB, one of the best joint stock commercial banks in Vietnam although SMBC has not been as successful as its rivals such as Mizuho Bank (investing in Vietnam Bank) or MUFG (investing in Vietinbank); and (2) SMBC built a relationship with VPB after the redemption of 49% stake in FE Credit. This promised to bring enormous benefits to VPB including increasing working capital and foreign currency deposits, thereby improving CASA.

Forecast business performance

Forecast of business results in 2021

We make a forecast for VPB in 2021 as follows:

- Credit growth may reach 16.4% in 2021 as businesses and individuals boost capital borrowing for post-pandemic recovery.
- 2021 NIM is expected to reach 8.94% (+25 bps YoY), thanks to a deep fall in average cost of funds in line with the general situation of the banking system.
- NPL ratio is supposed to be at 3.45% (+4 bps YoY).
- Provision expense should be kept at VND16,975 billion (+16.1% YoY).
- We forecast 2021 earnings to reach VND14,263 billion (+37.0% YoY).
- Equity should increase 73.5% YoY thanks to the contribution of the profit from selling stake in FE Credit, assuming additional issuance of 15 million ESOP shares.

Table 11. VPB – Forecast business results

	2020	2021F	2022F	%YoY 2021	%YoY 2022
Net interest income	32,346	40,564	48,964	25%	21%
Service fees	3,356	5,376	6,170	60%	15%
Total operating income	39,033	49,720	59,451	27%	20%
Provision for credit losses	(14,622)	(16,975)	(19,079)	16%	12%
Net profit after tax	10,414	14,263	18,030	37.0%	26.4%
NIM	8.69%	8.94%	8.77%	25bps	-17bps
Average earnings yield	14.06%	14.04%	14.04%	-3bps	0bps
Average cost of funds	5.93%	5.80%	6.02%	-12bps	22bps
CIR	29.2%	30.0%	30.0%	81bps	0bps
NPL	3.41%	3.45%	3.45%	4bps	0bps
Total assets	419,027	543,616	636,924	30%	17%
Equity	52,794	91,580	114,209	73%	25%

Source: KB Securities Vietnam

We recommend HOLDING VPB shares with a target price of VND76,800/share

We combine two methods of valuation, P/B and residual income, to find a fair price for VPB shares.

(1) P/B method

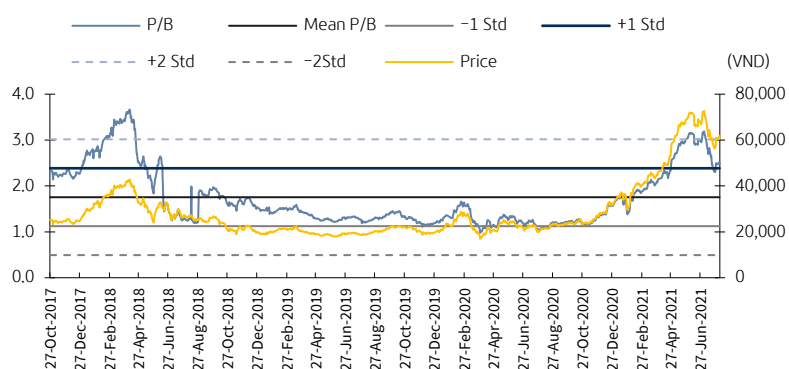
With the expectation of high profit growth in 2021, strongly improved financial position after the sale of FE Credit capital along with positive information about strategic shareholders in the near future, we believe VPB deserves a valuation with a target P/B at 2.5x.

(2) Residual income method (Table 14)

We include a residual income method to reflect systematic risk and long-term expectations.

By combining the above two valuation methods with the ratio of 50-50, we forecast the final fair price for VPB shares at VND78,000/share, 13.7% higher than the closing price on June 24, 2021.

Fig 12. VPB – Share price and P/B ratio movements (VND, x)



Source: Fiiipro, KB Securities Vietnam

Table 13. VPB – Share price according to residual method of discounting (VND)

VNDbn	2021F	2022F	2023F
NPAT	14,263.03	18,029.89	21,449.29
Excessed return	7,886.10	6,967.99	7,654.02
Required rate of return (r)	12.08%		
Growth (g)	5.0%		
Terminal value	80,637		
Present value (PV)	166,874		
Target price	65,959		

Source: KB Securities Vietnam

Table 14. VPB – Target price according to P/B and residual income methods (VND)

Method of valuation	Estimated price	Weight	Weighted price
P/B	89,961	50%	44,981
Residual income	65,959	50%	32,979
Target price			78,000

Source: KB Securities Vietnam

VPB – 2018A–2022E financials

Income Statement						Balance Sheet					
(VNDbn)	2018	2019	2020	2021F	2022F	(VNDbn)	2018	2019	2020E	2021F	2022F
Net interest income	24,702	30,670	32,346	40,564	48,964	Loans	213,395	253,100	286,319	332,248	398,698
Interest income	40,280	49,875	52,362	63,715	78,379	Marketable securities	4,202	1,567	493	117	140
Interest expense	(15,579)	(19,204)	(20,016)	(23,151)	(29,415)	Cash (ex. Reserves)	1,855	2,459	3,283	3,592	4,311
Fees & commissions	1612	2,792	3,356	5,376	6,170	Interest earning assets	306,585	351,188	393,458	514,441	602,198
Other non-interest income	4,681	2,020	2,236	2,685	3,222	Fixed assets & other assets	19,512	27,797	26,853	30,785	36,655
Total operating income	31,086	36,356	39,033	49,720	59,451	Total assets	323,291	377,204	419,027	543,616	636,924
SG&A expenses	(10,634)	(12,344)	(11,392)	(14,916)	(17,835)	Customer deposits	170,851	213,950	233,428	281,122	337,347
Pre-provisioning OP	20,452	24,012	27,641	34,804	41,616	Borrowings & call money/repos	49,006	57,937	63,172	85,190	100,226
Provision for credit losses	(11,253)	(13,688)	(14,622)	(16,975)	(19,079)	Interest bearing liabilities	277,540	322,482	352,939	444,803	531,766
Other income	5,364	2,682	3,442	4,475	5,369	Other liabilities	10,671	12,220	13,107	6,992	(9,251)
Other expense	(683)	(663)	(1,206)	(1,790)	(2,148)	Total liabilities	288,541	334,994	366,233	452,036	522,801
Pre-tax income	9,199	10,324	13,019	17,829	22,537	Charter capital	25,300	25,300	25,300	25,450	25,450
Income tax expense	(1,843)	(2,064)	(2,606)	(3,566)	(4,507)	Capital surplus	1,289	693	366	366	366
NP	7,356	8,260	10,414	14,263	18,030	Retained earnings	5,187	11,806	17,415	47,572	66,150
Minority interest profit	-	-	-	(890)	(2,136)	Capital adjustments	-	-	-	-	-
Parent NP	7,356	8,260	10,414	13,373	15,894	Total shareholders' equity	34,750	42,210	52,794	91,580	114,494

Financial Indicators						Valuation					
(%)	2018	2019	2020E	2021F	2022F	(VND, X, %)	2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	22.8%	21.5%	21.9%	19.8%	17.5%	EPS	2,907	3,265	4,116	5,255	6,245
ROA	2.4%	2.4%	2.6%	3.0%	3.1%	BVPS	13,735	16,684	20,867	35,985	44,988
Pre-provision ROE	50.8%	49.9%	46.5%	38.6%	32.3%	Tangible BVPS	13,507	16,455	20,610	35,679	44,615
Pre-provision ROA	5.4%	5.5%	5.6%	5.8%	5.6%	Valuations					
Net interest margin (NIM)	8.7%	9.3%	8.7%	8.9%	8.8%	PER	23.0	20.5	16.2	12.7	10.7
Efficiency						PBR	4.9	4.0	3.2	1.9	1.5
Pure Loan to deposit ratio	129.9%	120.2%	124.6%	120.0%	120.0%	Dividend yield	0.0%	0.0%	0.7%	1.0%	1.3%
Cost-income ratio	34.2%	34.0%	29.2%	30.0%	30.0%	ROE	22.8%	21.5%	21.9%	19.8%	17.5%
Growth						Capital Adequacy					
Asset growth	16.4%	16.7%	11.1%	29.7%	17.2%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	21.7%	15.9%	13.1%	16.0%	20.0%	Asset Quality					
PPOP growth	26.8%	17.4%	15.1%	25.9%	19.6%	NPL ratio (substandard)	3.5%	3.4%	3.4%	3.5%	3.5%
Parent NP growth	14.2%	12.3%	26.1%	28.4%	18.9%	Coverage ratio (substandard)	45.9%	46.4%	45.3%	43.8%	43.8%
EPS growth	-29.1%	12.3%	26.1%	27.7%	18.9%	NPL ratio (precautionary)	8.8%	8.2%	8.6%	9.3%	9.3%
BVPS growth	-27.4%	21.5%	25.1%	72.4%	25.0%	Coverage ratio (precautionary)	18.4%	19.4%	18.0%	16.3%	16.3%

Source: KB Securities Vietnam

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Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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