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**1Q22 NPAT was VND11,976 billion (+18.8% YoY)**

In 1Q22, Vietcombank (VCB) posted net interest income (NII) of VND11,976 billion, up 18.8% YoY; NPAT of VND7,967 billion (+15.3% YoY), with the main driving force coming from high credit growth of 18.7% YoY and NIM up 24 bps QoQ to 3.39%.

**NPL ratio was 0.81%, with a high LLCR of 373%**

NPL ratio in 1Q22 reached 0.81%, up 18 bps QoQ and down 7bps YoY. VCB continued to promote provisioning in 1Q22, helping the loan loss coverage ratio (LLCR) reach 373%, the highest in the banking system.

**VCB revealed business plan and dividend payment plan in 2022**

VCB targets PBT growth of no less than 12% YoY, total assets up 8% YoY, outstanding credit up 15%, and deposit growth of 9%. NPL ratio should be below 1.5%. VCB plans to pay stock dividends from retained earnings in 2019 and 2020 at 18.1%.

**VCB will benefit from taking over a weak credit institution**

VCB will benefit from the takeover of a weak bank: (1) It enables increased growth rates of assets, credit, and branch networks, thereby improving competitiveness; (2) the State Bank (SBV) will not limit credit growth if VCB meets the required capital adequacy ratio; and (3) customer loans may exceed 15%/25% of VCB's core capital.

**We recommend BUY for VCB shares with a target price of VND95,000**

Based on valuation results, business outlook, and possible risks, we recommend BUY for VCB shares. The target price is VND95,000/share, 25.7% higher than the closing price on May 24, 2022.

**Buy** maintain

<b>Target price</b>	<b>VND95,000</b>
Upside/Downside	25.7%
Current price (May 24, 2022)	VND75,600
Consensus target price	VND94,800
Market cap	357,800

#### Forecast earnings & valuation

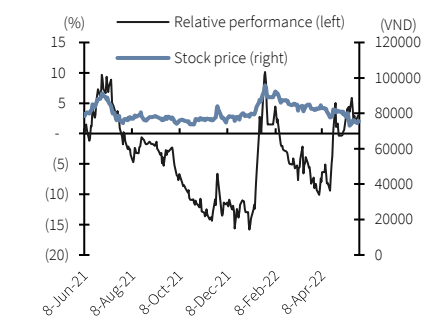
FY-end	2020A	2021A	2022F	2023F
Net revenue (VNDbn)	36,285	42,400	47,991	56,896
Pre-provision operating income (VNDbn)	33,024	39,149	43,590	51,106
NPAT of the parent bank (VNDbn)	18,451	21,919	26,839	34,180
EPS (VND)	4,975	5,116	5,609	6,789
EPS growth (%)	0%	3%	10%	21%
PER (x)	17.1	16.6	15.1	12.5
Book value per share (VND)	25,370	29,421	30,662	36,425
PBR (x)	3.3	2.9	2.8	2.3
ROE (%)	21%	22%	21%	21%
Dividend yield (%)	1%	1%	1%	1%

#### Trading data

Free float	25.2%
3M avg trading value (VNDbn/USDmn)	129.6/5.7
Foreign ownership	6.4%
Major shareholder	State Bank (74.8%)

#### Share price performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-7.2	-11.0	-1.8	-3.5
<b>Relative</b>	1.5	6.8	13.0	3.0



Source: Bloomberg, KB Securities Vietnam

## Business performance

### 1Q22 NPAT reached VND7,967 billion, up 15.3% YoY

In 1Q22, VCB achieved positive business results with NII reaching VND11,976 billion (+18.8% YoY) and service fees of VND2,711 billion (-21.1% YoY since VCB has not yet recorded upfront fees under bancassurance agreement). As a result, NPAT reached VND7,967 billion (+15.3% YoY) on TOI of VND16,733 billion (+6.7% YoY).

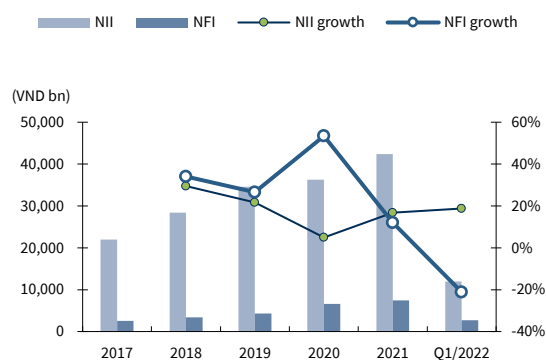
### Credit growth expanded by 18.7% YoY and 7.0% QoQ

Outstanding loans continued to improve in 1Q22 (+7.1% QoQ, +18.0% YoY) while outstanding corporate bonds contributed only a humble proportion to the total credit of 1.1%, helping the outstanding credit in 1Q22 hit VND1,040,591 billion (+18.7% YoY, +7.0% QoQ).

### NIM in 1Q22 was driven by relatively low capital costs and improved yield on earning assets

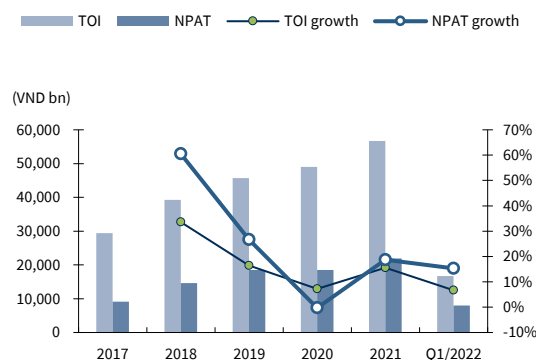
Over the last quarter, NIM grew by 24 bps QoQ to 3.39% (Figure 3), supported by: (1) relatively low cost of capital amidst low deposit interest rates. Specifically, the average earnings yield was 2.3% (flat QoQ) thanks to the CASA ratio of 33.7% (+83.3 bps QoQ) (Figure 4); and (2) yield on earning assets up 21bps QoQ to 5.5%. VCB restructured assets, making the LDR improve by 2.6% QoQ to 87.2% in the context that businesses boost borrowing to finance production and business activities in the new normal of the economy.

Fig 1. VCB – NII, service fees (VNDbn, %YoY)



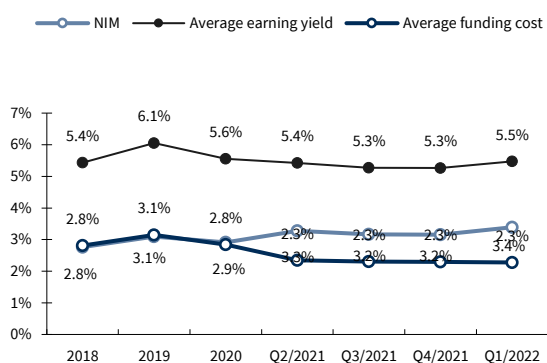
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – TOI, NPAT (VNDbn, %YoY)



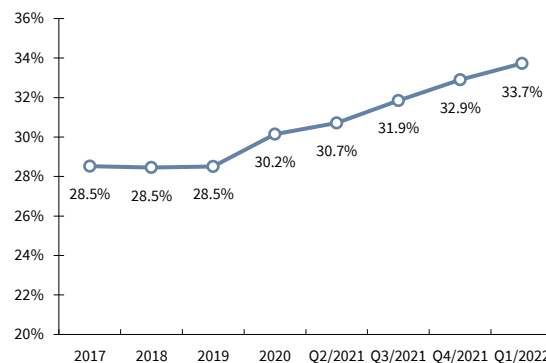
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – Interest rates, NIM (%)



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA ratio (%)

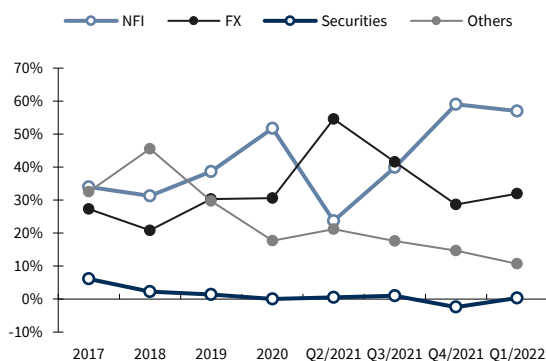


Source: Vietcombank, KB Securities Vietnam

**1Q22 NOI reached VND4,088 billion (+25.7% YoY and +44.7% QoQ)**

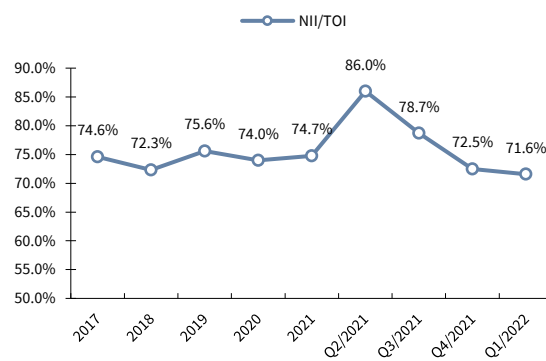
In the first three months of 2022, service fees reached VND2,711 billion (+12.3% QoQ, -21.1%YoY) since VCB did not record upfront fees under a bancassurance agreement. Foreign currency trading brought in VND1,522 billion (+46.0% YoY). Besides, net other income reached VND483 billion (-52% YoY), making NOI achieve only VND4,758 billion, down 10.9% YoY. Over the last five years, VCB's NII/TOI ratio has remained around 71%–76% (Figure 6).

Fig 5. VCB – NOI breakdown (%)



Source: Vietcombank, KB Securities Vietnam

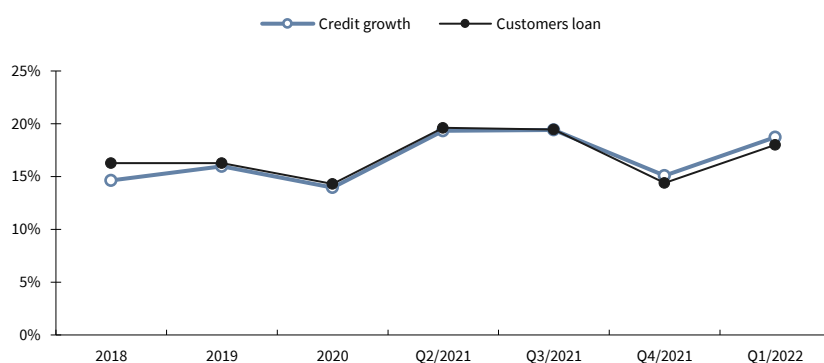
Fig 6. VCB – NII/TOI (%)



Source: Vietcombank, KB Securities Vietnam

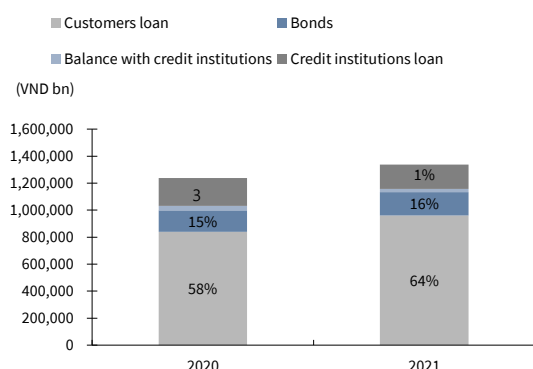
1Q22 credit growth reached 18.7% YoY

Fig 7. VCB – Credit growth, customers loan (%YoY)



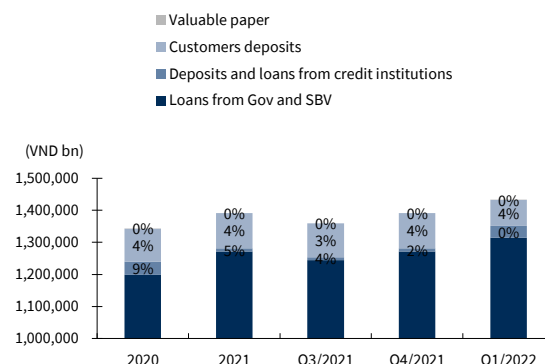
Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – Yield on earning assets (%)



Source: Vietcombank, KB Securities Vietnam

Fig 9. VCB – Deposits (VNDbn)



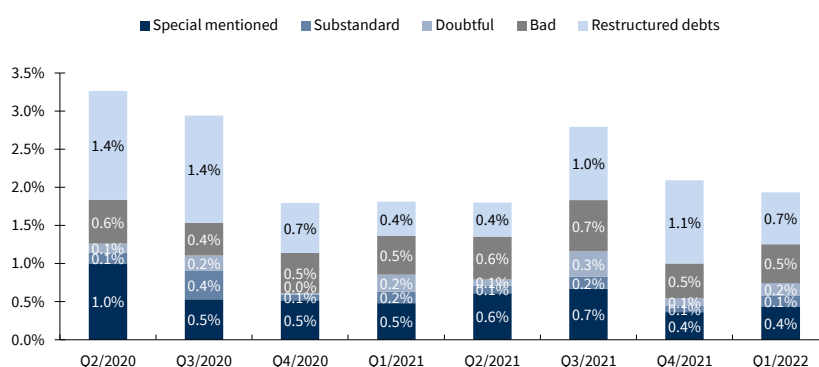
Source: Vietcombank, KB Securities Vietnam

**VCB is among the banks with the best asset quality, with its bad debt ratio remaining below 1.0%**

The NPL ratio in 1Q22 was 0.81% (+18 bps QoQ, -7 bps YoY) due to a sharp rise in subprime (+96.1% QoQ) and doubtful debts (+75.2% QoQ). The LLCR reached 373%, the highest in the banking system, which will help VCB reduce provisioning pressures in the coming time. Restructured debts in 1Q22 were VND7,000 billion (-33.3% QoQ) or 0.7% of total outstanding loans. Besides, provisions increased from VND1,945 trillion in 1Q21 to VND5,156 billion in 1Q22 (+165% YoY). However, provision expense for credit losses remained low at VND2,273 billion (flat YoY, +39% QoQ), mainly due to the reversal of VND3,000 billion in provision expenses for loans to the Construction Bank as shared by the management at the April 29 AGM. We assess VCB's asset quality to be among the best in the banking system, with its bad debt ratio remaining below 1.0% (Figure 10). Furthermore, VCB has made all provisions required for restructured debts in 2021, thereby boosting the earnings growth in 2022.

1Q22 NPL ratio remains below 1%

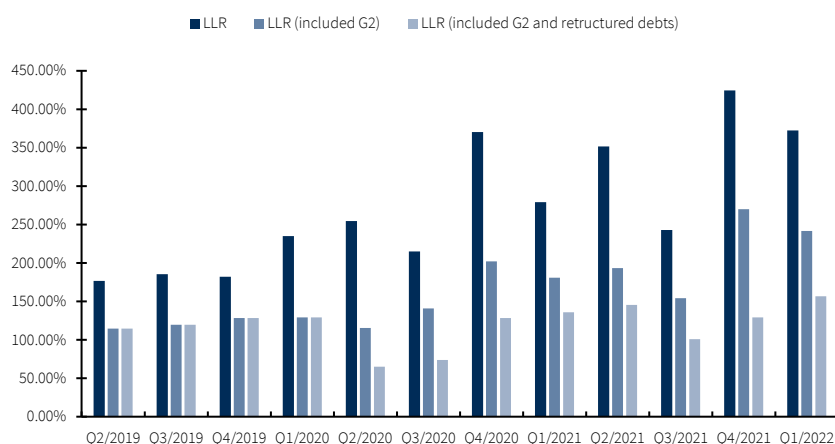
Fig 10. VCB – Groups of debt (%)



Source: Vietcombank, KB Securities Vietnam

The LLCR reached 373%, the highest in the banking system

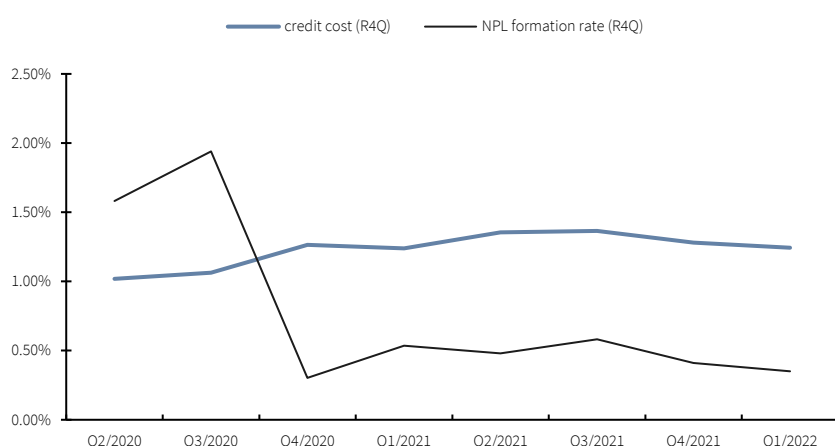
Fig 11. VCB – LLR (%)



Source: Vietcombank, KB Securities Vietnam

Stable credit cost at around 1.3% and high LLCR may help reduce provisioning pressures in the future

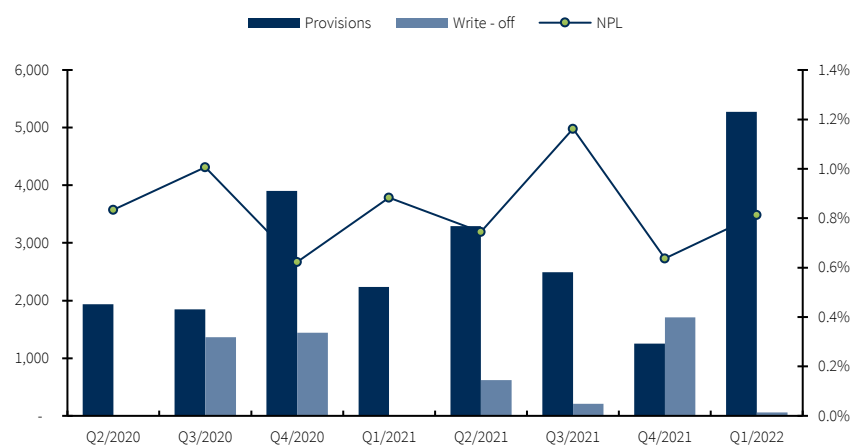
Fig 12. VCB – Credit cost & NPL formation rate (%)



Source: Vietcombank, KB Securities Vietnam

VCB continued to promote provisioning, consistent with strong credit growth. However, VCB did not record the use of provisions for bad debt handling in 1Q22.

Fig 13. VCB – Provisions, written-off debts, NPL (VNDbn, %)

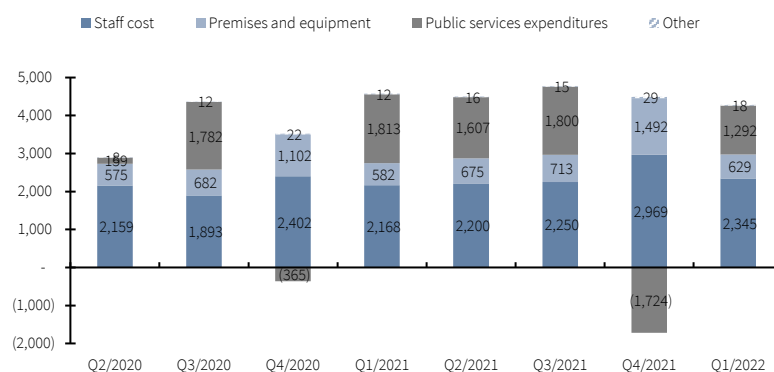


Source: Vietcombank, KB Securities Vietnam

**CIR reached 26.9% (+6.4% pts QoQ) due to rising public services expenditures**

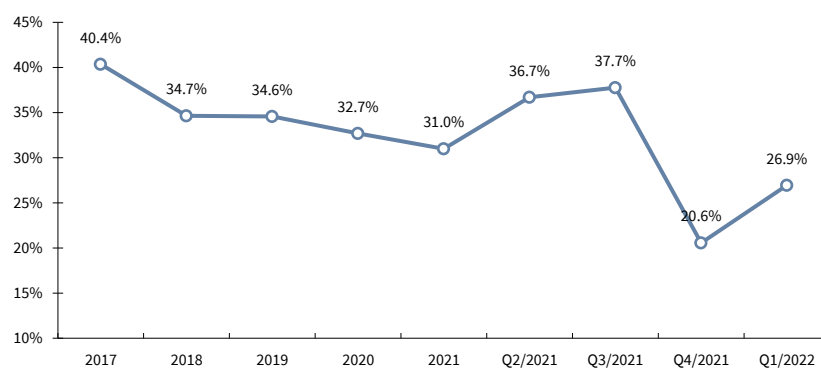
General and administrative expenses were VND4,509 billion (+47.5% QoQ, - 5.65% YoY), mainly due to rising public services expenditures, from -VND1,724 billion to VND1,292 billion. However, staff costs fell by 21% QoQ thanks to effective cost control, helping CIR reach 26.9% (+6.4 ppts QoQ). VCB is still among the banks with the lowest CIR in the system.

**Fig 14. VCB - Operating expense (VNDbn)**



Source: Vietcombank, KB Securities Vietnam

**Fig 15. VCB - CIR (%)**



Source: Vietcombank, KB Securities Vietnam

### VCB revealed business plan and dividend payment plan in 2022

For 2022, VCB targets PBT growth of at least 12%, exceeding VND30,675 billion. Total assets are expected to be VND1,530,000 billion, up 8% YoY. Outstanding credit may increase by 15% to VND1,120,000 billion, according to the credit cap assigned by the SBV, and deposit growth should advance 9% to VND1,237,500 billion. The consolidated NPL ratio is less than 1.5%.

In addition, VCB plans to pay stock dividends in 2021 from retained earnings in 2019 and 2020 at 18.1%.

KBSV assesses that VCB can fulfill its business plan, supported by the following reasons: (1) Businesses and individuals may step up borrowing to recover from the pandemic; (2) VCB should take advantage of CASA; and (3) good asset quality and high LLCR will help reduce provisioning pressures in 2022.

### VCB will benefit from taking over a weak credit institution

VCB will benefit from acquiring a weak bank under the restructuring scheme of the SBV:

- The SBV would not limit the annual credit growth of VCB if VCB meets the capital adequacy ratio as prescribed.
- It enables increased growth rates of assets, credit, and branch networks, thereby improving competitiveness.
- Customer loans may exceed 15%/25% of VCB's core capital. VCB can lend to key projects in foreign currencies in the medium and long term. VCB can also lend to international credit projects while handling accumulated losses of the weak bank.
- After restructuring the weak bank, VCB can consolidate, maintain it as a subsidiary bank, or sell it to another credit institution.
- VCB can pay stock dividends from the retained earnings after setting aside funds to raise equity capital during the years of handling accumulated losses of the weak credit institution.

Along with that, according to current regulations, VCB is not required to:

- Consolidate the weak credit institution into its financial statements.
- Contribute capital to the weak credit institution while handling its accumulated losses.
- Be responsible for the liquidity and financial obligations of the credit institution under the restructuring scheme of the SBV.

## Forecast & Valuation

### 2022F business results

We make our forecast for VCB in 2022F as follows:

- Credit growth should expand by 13.8% YoY as businesses step up borrowing to recover from the COVID-19 pandemic.
- We adjust NIM to 3.2%, up 10bps compared to the previous forecast, with the expectation that VCB will still take advantage of the improved CASA ratio to make up for reduced liquidity which can make input costs increase slightly.
- NOII may increase slightly by 4.4% YoY with the momentum coming from the bancassurance revenue and foreign currency trading.
- NPL ratio should be under 1.0%, thanks to good asset quality and decreased provisioning pressures.
- Provision expense is expected at VND 9,873 billion as VCB promoted provisioning in 2021 despite good asset quality.
- We forecast NPAT to be VND26,974 billion, up 22.9% YoY.

**Table 18. VCB – 2022E–2023E business results**

VND bn	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	42,400	47,991	56,896	13%	19%
Service fees	7,407	7,440	8,244	0%	11%
Total operating income	56,724	62,271	71,980	10%	16%
Provision expense	-11,761	-9,873	-8,167	-16%	-17%
NPAT	21,939	26,974	34,351	23%	27%
NIM	3.15%	3.22%	3.32%		
Average earnings yield	5.26%	5.76%	6.01%		
Average cost of funds	2.30%	2.80%	3.01%		
CIR	32.70%	31.00%	31.00%	-5%	0%
NPL	0.62%	1.00%	1.00%	61%	0%
Total assets	1,327,537	1,450,927	1,646,848	9%	14%
Equity	98,859	120,348	148,862	22%	24%

Source: KB Securities Vietnam

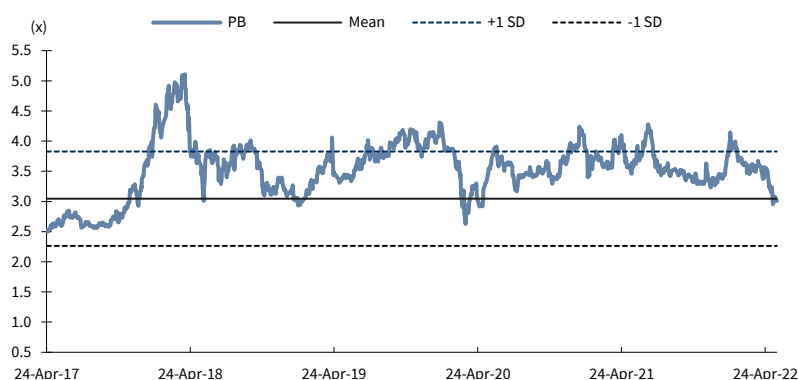


**We recommend BUY for VCB shares with a target price of VND95,000**

We use the P/B valuation method to find a fair price for VCB stock. We expect high earnings growth combined with the capital increase plan through private placement by the end of 2022 will help VCB expand credit growth in the future. As a leading bank with good asset quality, we give VCB's end-2022 target P/B of 3.1x, equivalent to VCB's five-year average P/B, lower than our previous forecast of 3.4x, reflecting concerns over rising inflation and its adverse effects on the banking system (Figure 19).

Based on the P/B valuation method, we reiterate our BUY recommendation for VCB shares with a target price of VND95,000 per share, 25.7% higher than the closing price on May 24, 2022. VCB is a potential stock to invest in in the medium and long term, in our view.

**Fig 19. VCB - P/B (x)**



Source: Bloomberg, KB Securities Vietnam

## VCB – 2019A-2023E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Net interest income	34,577	35,258	42,400	47,991	55,598	Loans	724,290	820,848	924,774	1,067,888	1,215,000
Interest income	87,724	96,205	70,749	88,798	102,937	Marketable securities	1,901	1,994	2,788	3,818	4,122
Interest expense	(53,147)	(60,947)	(28,349)	(40,808)	(48,044)	Cash (ex. Reserves)	13,778	13,098	13,012	19,415	22,133
Fees & commissions	4,507	5,807	7,407	7,440	5,244	Interest earning assets	1,191,721	1,301,421	1,309,824	1,892,159	1,833,788
Other non-interest income	3,070	1,800	2,383	2,329	2,328	Fixed assets & other assets	31,087	30,995	39,941	38,158	40,094
Total operating income	48,730	49,083	59,704	62,271	71,980	Total assets	1,322,719	1,328,230	1,414,973	1,810,419	1,855,980
SG&A expenses	(19,318)	(19,038)	(17,874)	(18,881)	(20,874)	Customer deposits	923,481	1,032,114	1,128,824	1,224,187	1,478,370
Provisioning GP	23,913	33,024	39,349	43,990	51,508	Borrowings & call money/repos	21,404	21,307	17,598	18,951	21,420
Provision for credit losses	(6,790)	(9,078)	(11,761)	(9,873)	(5,187)	Interest bearing liabilities	1,115,838	1,108,181	1,271,948	1,450,300	1,830,338
Other income	3,428	2,848	3,300	3,100	3,100	Other liabilities	28,998	33,954	33,610	33,400	40,323
Other expense	(388)	(744)	(707)	(778)	(778)	Total liabilities	1,141,838	1,232,139	1,309,888	1,483,700	1,870,951
Profit income	25,122	23,050	27,269	35,717	42,859	Charter capital	37,059	37,059	37,059	47,949	50,349
Income tax expense	(4,598)	(4,377)	(3,480)	(3,743)	(3,558)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,328	18,473	21,999	28,974	34,551	Retained earnings	28,059	38,850	48,434	78,272	106,482
Minority interest profit	(18)	(21)	(20)	(18)	(172)	Capital adjustments	-	-	-	-	-
Parent NP	18,311	18,451	21,979	28,839	34,120	Total shareholders' equity	30,883	94,095	109,117	148,719	185,339

Financial Indicators (%)						Valuation (VND, X, %)					
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Profitability						Share Price Indicators					
ROE	25.9%	21.1%	21.0%	21.1%	20.8%	EPS	4,991	4,975	5,119	5,809	6,739
ROA	1.0%	1.4%	1.0%	1.0%	1.0%	BVPS	21,808	28,370	29,421	30,882	36,429
Preprovision ROE	33.9%	30.2%	30.9%	27.3%	24.8%	Tangible B/P/S	21,190	24,827	25,992	29,979	35,733
Preprovision ROA	2.1%	2.1%	2.0%	2.0%	2.4%	Valuations					
Net interest margin (NIM)	3.1%	2.9%	3.2%	3.2%	3.3%	PER	17.0	17.1	18.5	18.1	12.8
Efficiency						PBR	3.9	3.3	3.9	3.8	2.3
Pure loan to deposit ratio	79.1%	81.4%	84.0%	85.0%	85.0%	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cost/income ratio	34.8%	32.7%	31.0%	30.0%	29.0%	ROE	28.9%	21.1%	21.8%	21.2%	20.8%
Growth						Capital Adequacy					
Asset growth	13.9%	8.3%	8.7%	13.9%	15.1%	CAR	10.0%	9.5%	10.0%	7.6%	7.6%
Loan growth	18.9%	13.3%	13.9%	14.2%	14.1%	Asset Quality					
PPDP growth	18.9%	10.4%	13.9%	11.5%	17.2%	NPL ratio (substandard)	0.8%	0.8%	0.8%	1.0%	1.0%
Parent NP growth	28.7%	-0.5%	12.8%	22.4%	27.4%	Coverage ratio (substandard)	178.3%	388.0%	424.4%	284.9%	282.3%
EPS growth	22.9%	-0.5%	2.8%	9.6%	21.0%	NPL ratio (provisionary)	1.1%	1.0%	1.0%	1.7%	1.7%
BVPS growth	28.2%	18.3%	18.0%	4.2%	18.8%	Coverage ratio (provisionary)	122.3%	239.8%	270.0%	373.2%	388.1%

Source: Vietcombank, KB Securities Vietnam

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## Investment ratings & definitions

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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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