

Vietcombank (VCB)

Solid provision buffer as a growth engine

June 22, 2023

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1Q23 business results are positive in relation to the entire industry

Vietcombank (VCB) posted total operating income (TOI) of VND18,517 billion (+10.7% YoY), mainly driven by net interest income (NII) (+18.6% YoY). Provision expenses dropped 11% YoY, while operating expenses expanded by 17% YoY, dampening profit before tax (PBT). Accordingly, VCB's PBT reached VND11,221 billion (+12.8% YoY), fulfilling 26% of the objective set for 2023.

A solid provision buffer is the growth engine

The loan loss coverage ratio (LLCR) remains high (above 300%) against the general downtrend of the banking system, enabling VCB to be more flexible in making provisions and supporting earnings growth.

NIM is expected to move sideways in the coming quarters

NIM is forecast to sit at the current level or decrease slightly due to (1) VCB cut lending rates twice to aid customers and (2) VCB is one of the four major commercial banks participating in the social housing credit package worth VND120,000 billion.

Credit growth may level out due to weak credit demand

We revise down our credit growth forecast to 12.5% to mirror weakening credit demand. By the end of May 2023, the credit growth of the whole economy was only 3.17%, far below the figure recorded over the same period last year.

We recommend HOLD for VCB with a target price of VND112,500/share

Based on the equal combination of two valuation approaches, P/B and residual income, we reiterate our HOLD recommendation for VCB with a target price for 2023F at VND 112,500/share, 12% higher than the price on June 22, 2023.

Hold maintain

Target price VND 112,500

Upside	12%
Current price (Jun 22, 2023)	VND 100,400
Consensus target price	VND 100,194
Market cap (VNDbn/USDbn)	485,556/20.58

Trading data

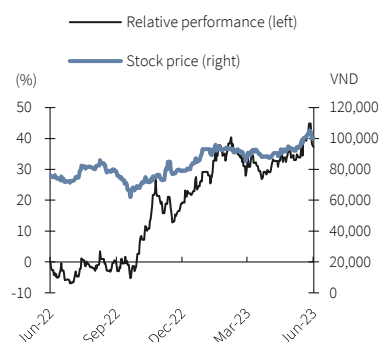
Free float	11%
3M avg trading value	423.34/1.79
Foreign ownership	23.54%
Major shareholder	State Bank (SBV) (74.8%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	4.8	13.5	9.7	-1.5
Relative	0.4	5.7	0.4	4.8

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	42,400	53,246	60,252	66,856
Pre-provision operating income (VNDbn)	39,149	46,832	53,193	59,427
NPAT of parent bank (VNDbn)	21,939	29,919	35,286	39,579
EPS (VND)	5,910	6,318	7,451	8,358
EPS growth (%)	19%	7%	18%	12%
PER (x)	7.4	7.0	5.9	5.3
Book value per share (VND)	29,421	28,663	35,465	43,223
PBR (x)	1.50	1.54	1.24	1.02
ROE (%)	21.6%	24.4%	23.3%	21.3%
Dividend yield (%)	1.36%	1.36%	1.36%	1.36%



Business performance

1Q23 PBT reached VND11,221 billion (+12.8% YoY)

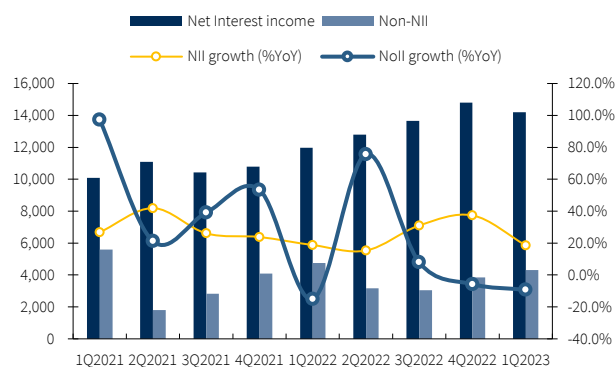
VCB recorded TOI of VND18,517 billion (+10.7% YoY), mainly driven by a 18.6% YoY increase in NII. Provision expense shrank 11% YoY, while operating expenses surged 17% YoY, dampening NPAT. Accordingly, VCB's PBT was VND11,221 billion (+12.8% YoY), fulfilling 26% of the 2023 target. NPL ratio inched up to 0.85%, one of the lowest figures recorded across all banks.

Table 1. VCB – 1Q22–1Q23 business results

(VND bn)	Q1/2022	Q1/2023	+/-% YoY	Comments
Net revenue	11,976	14,203	+18.6%	
Non-interest income	4,758	4,314	-9.3%	<ul style="list-style-type: none"> - VCB no longer recognized advance upfront fees as in 1Q22. - Lower NOII was offset by foreign exchange & gold trading (+12%) and securities trading (+80.9%). - Net other income of VND1,100 billion (+124% YoY) might come NPL recovery.
Total operating income	16,733	18,517	+10.7%	
Operating expense	(4,509)	(5,274)	+17.0%	Operating expenses rose by 17% YoY, mainly due to a 21% increase in surging staff costs (accounting for more than 50% of OPEX), making CIR hit 28.5%. Nonetheless, CIR remains lower than the industry median (32%).
CIR	26.9%	28.5%		
Provision expense	(2,274)	(2,022)	-11.1%	Provision expense increased by 20.4% QoQ but dropped by 11% YoY, partially mitigating the impact of rising operating expenses on PBT.
Profit before tax	9,950	11,221	+12.8%	
NPAT	7,967	8,992	+12.9%	
Credit growth	7.0%	2.5%	-4.5ppts	Credit growth was 2.5% YTD, lower than that of other state-owned banks (BID +4.9% YTD, CTG +4.5% YTD). It was driven by corporate loans (+5.4% YTD) while retail lending remained relatively unchanged. Outstanding loans to customers accounted for 99% of total outstanding loans.
Deposit growth	1.3%	3.2%	+2.9ppts	Deposit growth (including valuable papers) was 3.2, higher than credit growth.
NIM	3.39%	3.17%	-22bps	Net interest margin (NIM) narrowed by 22bps against 1Q22 due to high cost of funds in 1Q23, which was in line with the general uptrend of the banking system. The CASA ratio fell to 30.4% in 1Q23.
NPL	0.81%	0.85%	+4bps	NPL ratio went up 15bps QoQ and 4bps YoY, similar to the trend of the whole industry, in which substandard debt increased more than 500% QoQ. LLCR remained the highest in the industry, reaching 320%.

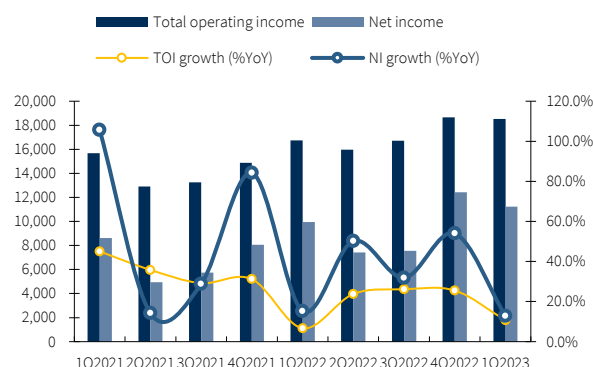
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – NII & NOII growth (VNDbn, %)



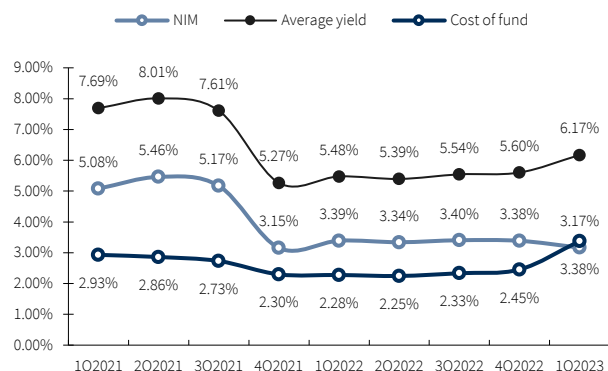
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – TOI & NPAT growth (VNDbn, %)



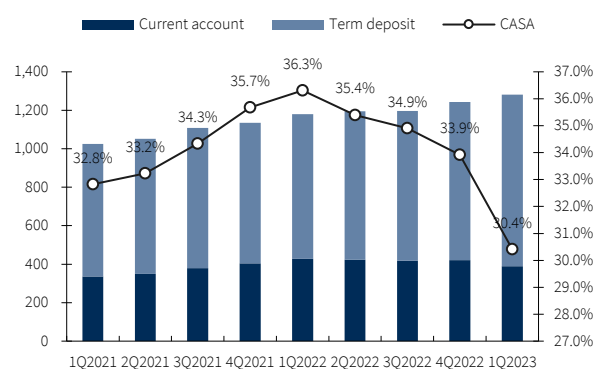
Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – NIM by quarter (%)



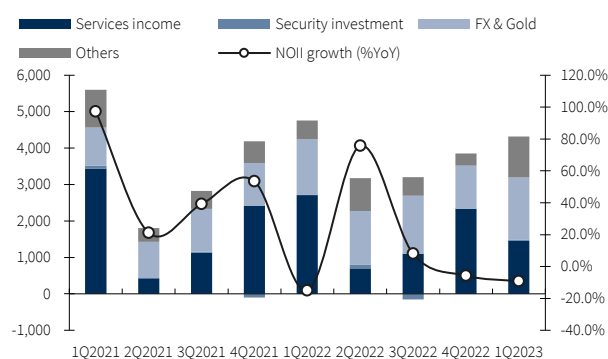
Source: Vietcombank, KB Securities Vietnam

Fig 5. VCB – CASA ratio by quarter (%)



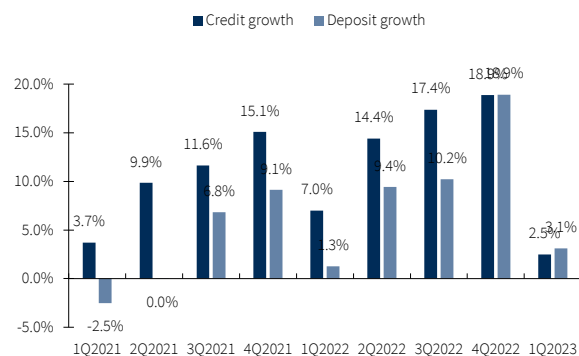
Source: Vietcombank, KB Securities Vietnam

Fig 6. VCB – Sources of net fee income (VNDbn, %)



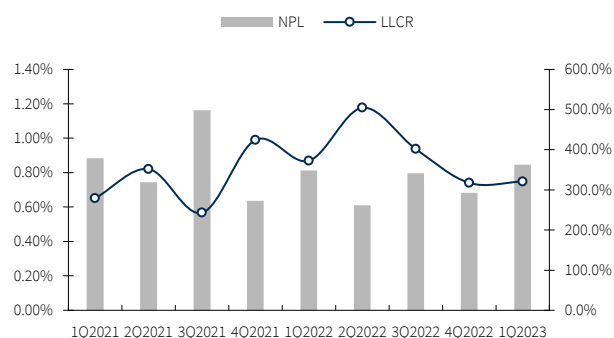
Source: Vietcombank, KB Securities Vietnam

Fig 7. VCB – Credit & deposit growth (%)



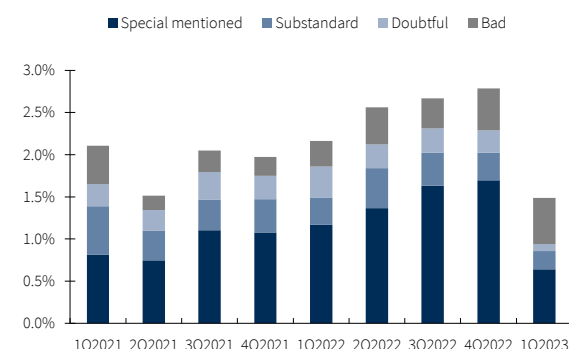
Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – NPL ratio & LLCR (%)



Source: Vietcombank, KB Securities Vietnam

Fig 9. VCB – Debt groups (%)



Source: Vietcombank, KB Securities Vietnam

A solid provision buffer is the growth engine

VCB prioritized asset quality over growth, so it stayed cautious in disbursement in 1Q23. Although provision expenses contracted 11%, VCB continued to be consistent with prudent measures related to asset quality. LLCR remained high, contrary to the industry downtrend, enabling VCB to be flexible in making provisions and support earnings growth. In 2023, VCB should recognize additional reversals of provisions regarding interbank loans of close to

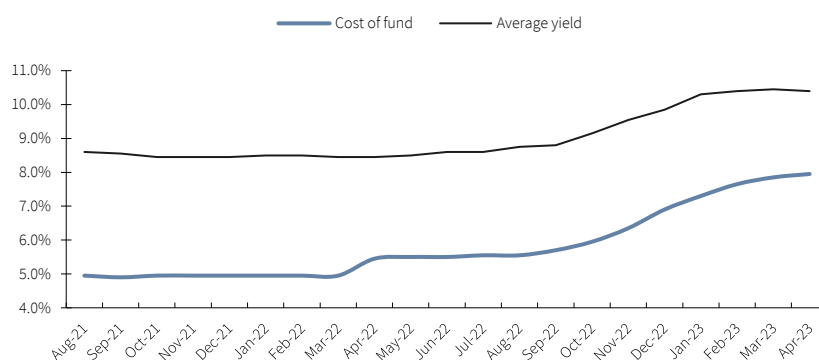
VND10,000 billion (VND4,200 billion has been reversed).

NIM is expected to move sideways in the coming quarters

Per the SBV, lending interest rates have showed signs of cooling over the past few months. This mainly came from interest rate cuts to support customers of state-owned banks (accounting for about 44% of total outstanding loans). While the group of private commercial banks has also recorded a decrease in lending interest rates, the rate of decrease was insignificant. In fact, year to date, VCB has cut lending rates twice, Agribank (AGR) has also adjusted five times, ...

The SBV has cut interest rates four consecutive times, and Circular 26/2022 helped ease pressure on the LDR ratio. We expect the cost of funds to abate in 2Q–3Q23. Nevertheless, NIM should remain at the current level or decrease slightly as (1) VCB has lowered lending interest rates twice by 0.5–1% to aid customers (first time was from January 1st to April 30th, and the second was from May 1st to July 31st). NII may have been reduced by VND600–800 billion for each period and (2) VCB is one of the four major commercial banks participating in the social housing credit package worth VND120,000 billion.

Fig 10. VCB – Deposit interest rate & average 12-month lending interest rate (%)



Source: State Bank, KB Securities Vietnam

Credit growth may level out due to weak credit demand

VCB has been one of the lenders awarded the highest credit rooms. We expect VCB will be granted a credit growth limit of ~14% thanks to its participation in restructuring a weak financial institution and lending interest rate cuts to cushion the economy, and the SBV has approved the first quota of 9% for VCB. However, from our observations over the past few months, KBSV revised down VCB's credit growth forecast to 12.5%, reflecting weak credit demand. By the end of May 2023, the credit growth of the whole economy only reached 3.17% YTD, much lower than the same period last year.

Forecast & Valuation

Table 11. VCB – 2022A–2023F business results

(VND bn)	2022	2023F	%YoY 2022	2024F	%YoY 2023F	Comments
Net revenue	53,246	60,252	+13.2%	66,856	+11.0%	Credit growth is the main driver of net interest income, although we lower our expectations for credit growth for 2023 to only 12.5%.
Net fee income	6,839	8,201	+19.9%	8,775	+7.0%	
Total operating income	68,083	78,225	+14.9%	87,521	+11.9%	
Provision expense	(9,464)	(9,085)	-4.0%	(9,954)	+9.6%	We revise down provision expense forecast on the expectation that VCB will continue to maintain the highest LLCR in the entire industry, hovering around 300%.
NPAT	29,919	35,286	+17.9%	39,579	+12.2%	
NIM	3.38%	3.23%	-15bps	3.16%	-7bps	NIM decreased slightly due to (1) negative impact of high interest rates in 1H23 and (2) lending interest rate cuts to support economic recovery.
Average earnings yield	5.60%	5.76%	+16bps	5.80%	+4bps	
Average cost of funds	2.45%	2.83%	+37bps	2.93%	+11bps	
CIR	31.2%	32.0%	+79bps	32.1%	+10bps	We revise up operating expense projection due to a strong increase in 1Q23.
NPL	0.68%	0.85%	+17bps	0.90%	+ 5bps	NPL ratio continued to be kept in check below 1% although NPLs tend to increase in the context of deteriorating asset quality of the whole industry. VCB's special mentioned and substandard debts eyed sharp increases in Q1, up 85% QoQ and up 511% QoQ respectively.
Total assets	1,813,815	2,004,460	+10.5%	2,306,680	+15.1%	
Owner equity	135,646	167,838	+23.7%	204,553	+21.9%	

Source:

We recommend HOLD for VCB with a target price of VND112,500/share

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

(1) P/B method

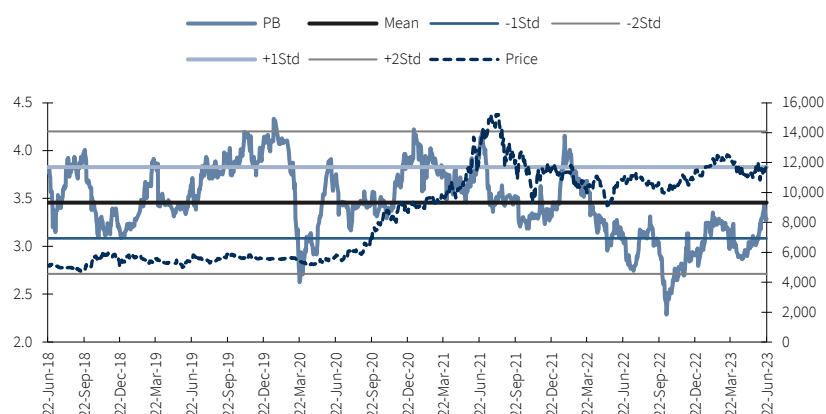
VCB is trading at a P/B of 3.0x. Given the bank's safe operation, low-risk operations, we expect VCB's 2023F forward P/B to be 3.5x, equivalent to the average P/B from 2015 to now.

(2) Residual income method

In addition, we incorporate the residual income method to reflect systemic risks and long-term expectations.

Combining the abovementioned two methods with a ratio of 50–50, we raise the target price forecast for VCB to VND112,500/share, 12% higher than the closing price on June 22, 2023.

Fig 12. VCB – Historical P/B & share price performance (x, VND)



Source: Bloomberg, KB Securities Vietnam

Table 13. VCB – Residual income method

VND bn	2023F	2024F	2025F	2026F	2027F
NPAT	35,286	39,579	46,349	52,736	62,512
Excessed return	19,736	16,129	17,914	18,584	21,523
Required rate of return (Re)	11.5%				
Growth (g)	5%				
Terminal value	193,354				
Total present value (PV)	477,704				
VCB's share price	100,941				

Source: KB Securities Vietnam

Table 14. VCB – Valuation result

Valuation method	Forecast price	Weight	Weighted price
Residual income	100,941	50%	62,064
P/B	124,127	50%	50,470
Target price			112,500

Source: KB Securities Vietnam

VCB – 2020A–2024F financials

Income Statement						Balance Sheet					
(VNDbn)	2020	2021	2022	2023F	2024F	(VNDbn)	2020	2021	2022	2023F	2024F
Net interest income	36,285	42,400	53,246	60,252	66,856	Loans	820,545	934,774	1,120,287	1,258,667	1,420,823
Interest income	69,205	70,749	88,113	107,377	122,548	Marketable securities	1,954	2,766	1,500	1,892	2,177
Interest expense	(32,920)	(28,349)	(34,866)	(47,125)	(55,693)	Cash (ex. Reserves)	15,095	18,012	18,349	23,480	27,014
Fees & commissions	6,607	7,407	6,839	8,201	8,775	Interest earning assets	1,301,421	1,386,624	1,759,898	1,970,088	2,254,932
Other non-interest income	1,800	2,393	2,054	2,023	1,851	Fixed assets & other assets	30,595	39,941	71,157	52,028	72,477
Total operating income	49,063	56,724	68,083	78,225	87,521	Total assets	1,326,230	1,414,673	1,813,815	2,004,460	2,306,680
SG&A expenses	(16,038)	(17,574)	(21,251)	(25,032)	(28,094)	Customer deposits	1,032,114	1,135,324	1,243,468	1,533,571	1,764,443
Pre-provisioning OP	33,024	39,149	46,832	53,193	59,427	Borrowings & call money/repos	21,307	17,395	25,341	33,665	37,565
Provision for credit losses	(9,975)	(11,761)	(9,464)	(9,085)	(9,954)	Interest bearing liabilities	1,198,181	1,271,945	1,568,635	1,766,229	2,029,347
Other income	2,545	3,100	2,928	2,784	2,524	Other liabilities	33,954	33,610	109,534	70,393	72,780
Other expense	(744)	(707)	(874)	(760)	(673)	Total liabilities	1,232,135	1,305,555	1,678,169	1,836,622	2,102,127
Pre-tax income	23,050	27,389	37,368	44,108	49,473	Charter capital	37,089	37,089	47,325	47,325	47,325
Income tax expense	(4,577)	(5,450)	(7,449)	(8,822)	(9,895)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,473	21,939	29,919	35,286	39,579	Retained earnings	36,650	48,434	60,733	93,158	129,873
Minority interest profit	(21)	(20)	(20)	(22)	(24)	Capital adjustments	-	-	-	-	-
Parent NP	18,451	21,919	29,899	35,264	39,554	Total shareholders' equity	94,095	109,117	135,646	167,838	204,553

Financial Indicators						Valuation					
(%)	2020	2021	2022	2023F	2024F	(VND, X, %)	2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.1%	21.6%	24.4%	23.3%	21.3%	EPS	4,975	5,910	6,318	7,451	8,358
ROA	1.4%	1.6%	1.9%	1.8%	1.8%	BVPS	25,370	29,421	28,663	35,465	43,223
Pre-provision ROE	30.2%	30.9%	30.6%	28.0%	25.5%	Tangible BVPS	24,527	28,592	28,068	34,869	42,627
Pre-provision ROA	2.1%	2.3%	2.3%	2.2%	2.2%	Valuations					
Net interest margin (NIM)	2.9%	3.2%	3.4%	3.2%	3.2%	PER	8.8	7.4	7.0	5.9	5.3
Efficiency						PBR	1.7	1.5	1.5	1.2	1.0
Pure Loan to deposit ratio	81.4%	84.6%	92.1%	84.0%	82.5%	Dividend yield	1.4%	1.4%	1.4%	1.4%	1.4%
Cost-income ratio	32.7%	31.0%	31.2%	32.0%	32.1%	ROE	21.1%	21.6%	24.4%	23.3%	21.3%
Growth						Capital Adequacy					
Asset growth	8.5%	6.7%	28.2%	10.5%	15.1%	CAR	8.6%	9.0%	8.9%	>8%	>8%
Loan growth	13.3%	13.9%	19.8%	12.4%	12.9%	Asset Quality					
PPOP growth	10.4%	18.5%	19.6%	13.6%	11.7%	NPL ratio (substandard)	0.6%	0.6%	0.7%	0.9%	0.9%
Parent NP growth	-0.3%	18.8%	36.4%	17.9%	12.2%	Coverage ratio (substandard)	368.0%	420.5%	309.3%	269.7%	266.0%
EPS growth	-0.3%	18.8%	6.9%	17.9%	12.2%	NPL ratio (precautionary)	1.0%	1.0%	1.0%	1.4%	1.4%
BVPS growth	16.3%	16.0%	-2.6%	23.7%	21.9%	Coverage ratio (precautionary)	239.8%	267.6%	203.2%	169.8%	171.0%

Source: Vietcombank, KB Securities Vietnam

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Investment ratings & definitions

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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