

June 20, 2023

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1Q23 EBT were VND2,550 billion, down 77.1% YoY

In the first quarter of 2023, Vietnam Prosperity Bank (VPB) achieved net interest income (NII) of VND9,534 billion (-7.3% QoQ, -3.6 % YoY), non-interest income (NOII) of VND2,825 billion (+13.7% QoQ, -66.3% YoY), and total operating income (TOI) of VND12,359 billion (-3.2% QoQ, -32.4% YoY). Earnings before tax (EBT) were VND2,550 billion (+84.4% QoQ, -77.1% YoY) since provision expense stayed high at VND6,386 billion (-12.8% QoQ, +54.5% YoY).

Estimated credit growth of 33% for 2023F is a tough row to hoe

1Q23 recorded VPB's credit growth at 4.9%, fulfilling 14.8% of the objective assigned at the 2023F AGM at 33% for the whole year. KBSV assesses that it will be a challenge for VPB to reach the guidance amid weak demand in both domestic and international market, causing softer demand for loans for business expansion.

A 15% stake should be sold to SMBC, raising VPB's equity to about VND140 trillion

On March 27, the bank announced that it had reached an agreement to sell a 15% stake to Sumitomo Mitsui Banking Corporation (SMBC), which will bring VPB VND35.9 trillion in Tier 1 capital (equivalent to VND30,160/share). This would help raise VPB's equity from VND103.5 trillion to approximately VND140 trillion.

We recommend BUY for VPB with a target price of VND24,300/share

Based on valuation results, business outlook, and possible risks, we recommend BUY for VPB stocks. The target price for 2023F is VND24,300/share, 24.9% higher than the closing price on June 19, 2023.

Buy maintain

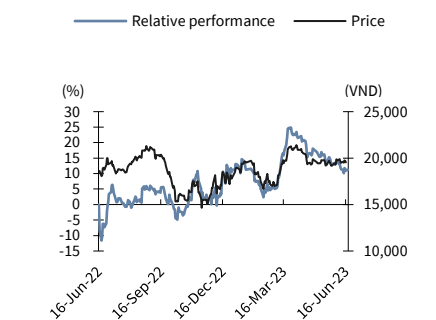
Target price	VND24,300
Upside	24.9%
Current price (Jun 19, 2023)	VND19,450
Consensus target price	VND24,296
Market cap (VNDbn/USDbn)	130,572/5.6

Trading data	
Free float	84.15
3M avg trading value (VNDbn/USDmn)	34.8/1.5
Foreign ownership	17.18
Major shareholder	Composite Capital master fund (5.0%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1	-8	8	1
Relative	-4	-14	2	11

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	34,349	41,021	44,941	56,050
Pre-provision operating income (VNDbn)	33,585	43,681	42,782	53,972
NPAT (VNDbn)	11,477	16,909	10,945	16,234
EPS (VND)	2,601	2,694	1,506	2,198
EPS growth (%)	-37%	4%	-44%	46%
PER (x)	7.5	7.2	12.9	8.9
Book value per share (VND)	19,149	15,349	18,179	20,376
PBR (x)	1.02	1.27	1.07	0.95
ROE (%)	16.5%	17.8%	8.8%	10.6%
Dividend yield (%)	0.00%	0.00%	5.18%	0.00%



Source: Bloomberg, KB Securities Vietnam

Business performance

1Q23 EBT were VND2,550 billion, down 77.1% YoY

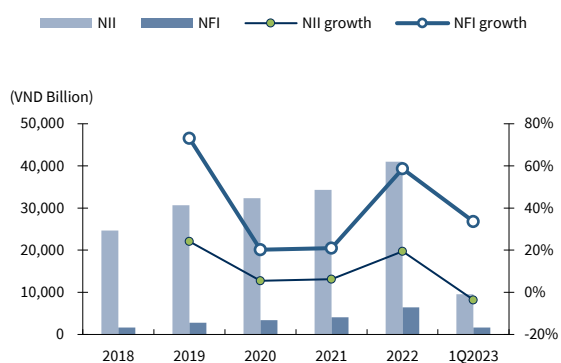
In the first quarter of 2023, VPB achieved NII of VND9,534 billion (-7.3% QoQ, -3.6 % YoY), NOII of VND2,825 billion (+13.7% QoQ, -66.3% YoY), taking TOI to VND12,359 billion (-3.2% QoQ, -32.4% YoY). EBT were VND2,550 billion (+84.4% QoQ, -77.1% YoY) since provision expense remained high at VND6,386 billion (-12.8% QoQ, +54.5% YoY).

Table 1. VPB – 1Q22-1Q23 business results

(VNDbn)	1Q2022	4Q2022	1Q2023	+/-%QoQ	+/-%YoY	Notes
Net interest income	9,888	10,283	9,534	-7.3%	-3.6%	NII decreased as both NIM and credit growth dropped YoY.
Net fee income	1,249	1,881	1,668	-11.3%	33.6%	Positive growth came from rising transaction fees (+61.7% YoY) and brokerage fees (up from -VND276 billion a year ago to -VND50 billion).
Net other income	7,133	604	1,156	91.5%	-83.8%	Net other income contracted by 80.6% YoY as 1Q22 recorded VND5,000 billion in upfront fees from the renegotiation of the exclusive insurance distribution contract with AIA. Meanwhile, foreign currency trading lost VND347 billion vs. a loss of VND83 billion a year ago and insignificant contribution from investment securities and securities trading.
Total operating income	18,270	12,768	12,359	-3.2%	-32.4%	
Operating cost	(2,991)	(4,065)	(3,423)	-15.8%	14.4%	
Pre-provision operating income	15,279	8,703	8,936	2.7%	-41.5%	
Provision expense	(4,132)	(7,320)	(6,386)	-12.8%	54.5%	Provision expense stayed high as asset quality was affected. VPB's loan loss coverage ratio (LLCR) as of 1Q23 was only 46.0%.
NPAT	8,917	1,140	1,650	44.7%	-81.5%	
Credit growth	8.6%	8.6%	4.9%	-3.6 ppts	-3.7 ppts	Credit growth of the parent bank reached 7.3% (-3 ppts YoY) while FE Credit's outstanding loan decreased by 6.3% YTD as consumer loan requires good risk management amid general problems of the economy.
Deposit growth	2.2%	14.1%	9.1%	-4.9 ppts	6.9 ppts	The main driving force came from the growth of individual customers (+22.3% YTD). VPB is among banks with the strongest deposit growth in the entire system in 1Q23, behind MSB (+12% YTD) and HDB (+11% YTD).
NIM	7.65%	7.50%	6.25%	-124 bps	-139 bps	NIM decreased by 124bps QoQ primarily due to skyrocketing deposit rates in the period of 3Q-4Q22, mirrored in the cost of funds in 1Q23, while VPB's average earnings yield improved only 44bps QoQ, partly due to the deterioration of asset quality, dampening interest income.
Average earnings yield	11.01%	11.37%	11.82%	44 bps	80 bps	
Average cost of funds	3.86%	4.43%	6.38%	195 bps	252 bps	
CIR	16.4%	31.8%	27.7%	-4.1 ppts	11.3 ppts	
NPL ratio	4.83%	5.73%	6.24%	50 bps	141 bps	The NPL ratio of the parent bank was 3.42%, up 62bps QoQ while that of FE Credit is estimated to increase by 299bps QoQ to 22.56%. Rising NPL ratio was largely due to increased substandard debt (+88bps QoQ). Meanwhile bad debt shrank 44bps QoQ and special mentioned loan surged 278bps QoQ.

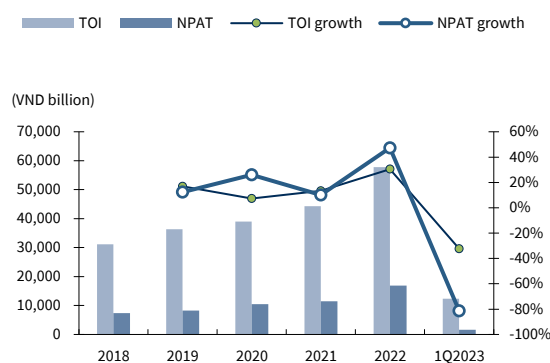
Source: VPBank, KB Securities Vietnam

Fig 2. VPB – NII & NFI (VNDbn, % YoY)



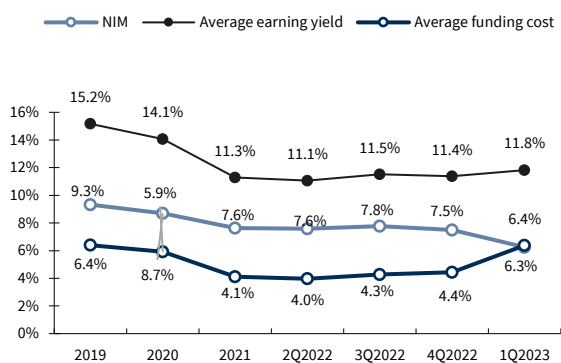
Source: VPBank, KB Securities Vietnam

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



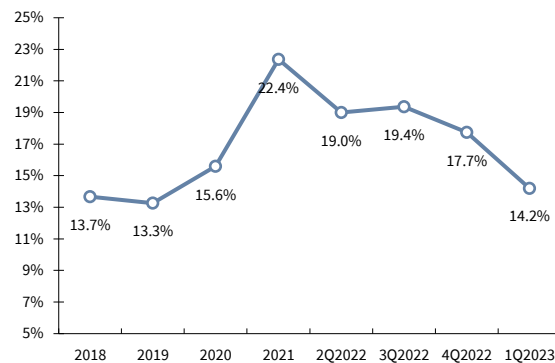
Source: VPBank, KB Securities Vietnam

Fig 4. VPB – NIM, average earnings yield & cost of funds (%)



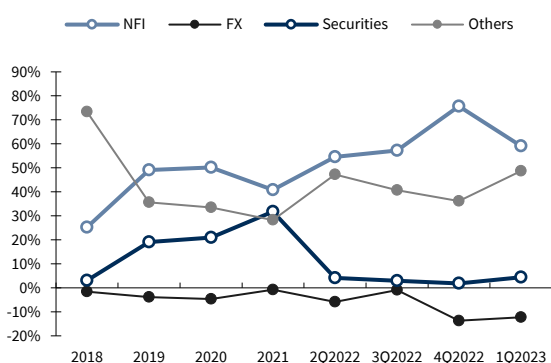
Source: VPBank, KB Securities Vietnam

Fig 5. VPB – CASA ratio (%)



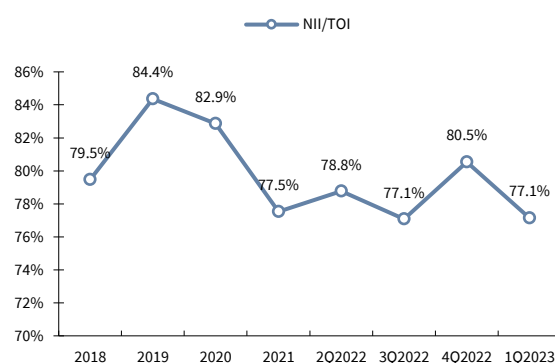
Source: VPBank, KB Securities Vietnam

Fig 6. VPB – NOII breakdown (%)



Source: VPBank, KB Securities Vietnam

Fig 7. VPB – NII/TOI (%)

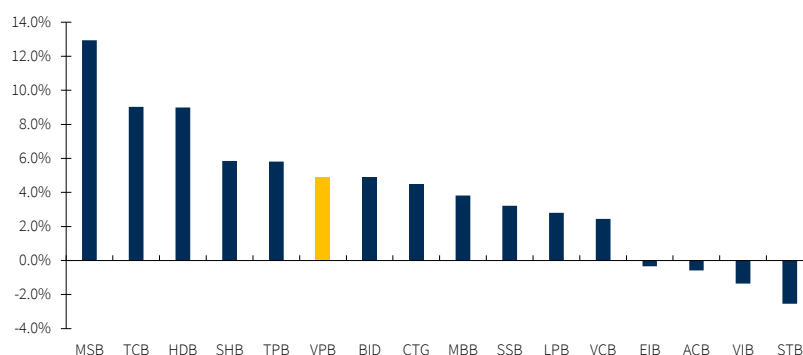


Source: VPBank, KB Securities Vietnam

Estimated credit growth of 33% for 2023F is a tough row to hoe

VPB's credit growth reached 4.9% in 1Q23, completing 14.8% against the target assigned at the 2023F AGM at 33% for the whole year. KBSV assesses that it will be a challenge for VPB to reach the guidance amid weak demand in both domestic and international market, causing softer demand for loans for business expansion. Some positive factors in the rest of the year include: (1) the SBV's move to reduce policy rates to encourage local banks to cut lending rates, thus boosting credit growth and (2) improved liquidity thanks to significant deposit growth in the deposit market in 1Q23. Besides, a solid financial foundation is also a big motivation when VPB is among banks with the highest capital adequacy ratio (CAR), reaching 14.5% by the end of 1Q23.

Fig 8. VPB – Credit growth across local banks (%)



Source: VPBank, KB Securities Vietnam

The agreement to sell a 15% stake to SMBC will benefit VPB in the medium and long term

On March 27, the bank announced that it had reached an agreement to sell a 15% stake via a private placement to Sumitomo Mitsui Banking Corporation (SMBC), a subsidiary of Japan's Sumitomo Mitsui Financial Group, Inc (SMFG), and SMBC officially became a foreign strategic investor of VPB. As a result, VPB would be able to collect VND35.9 trillion in Tier 1 capital (equivalent to VND30,160/share), raising its owner equity from VND103.5 trillion to approximately VND140 trillion.

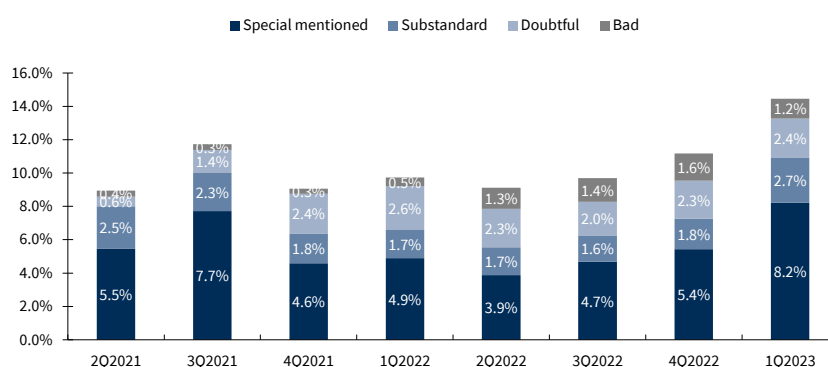
In our view, this deal will bring VPB a number of advantages:

- Tier 1 capital improves, pushing the CAR higher from currently 12.7% of the parent bank and 14.9% of consolidated CAR, thereby meeting the increased credit room after being awarded credit expansion by the SBV thanks to taking over a weak bank.
- Strategic cooperation with SMBC is an opportunity for VPB to access low-cost future offshore loans, thus improving the bank's NIM.
- SMBC's FDI corporate clients, once enter Vietnam, will likely become VPB's clients.
- As one of the three largest banking and finance groups in Japan itself, SMBC, after becoming VPB's strategic stockholder, will make significant contributions to improving VPB's business performance in the long term.

Provisioning pressure should continue till the year of the year

VPB's NPL ratio rose to 6.24% (+51bps QoQ) in 1Q23, with that of the parent bank reaching 3.42% (+62bps QoQ). VPB was among banks with a sharp increase in the NPL ratio. Special mentioned loan as a ratio to total outstanding loans also jumped 278bps QoQ to 8.22%, the highest among banks under KBSV's coverage. At the 2023F AGM, VPB set a plan to sustain the NPL ratio of the parent bank below 3%. We assess this is a challenging task as VPB will have to maintain a high loan loss coverage rate (LLCR) for the rest of the year in the context of asset quality being affected by the overall negative developments of the economy while the provision buffer of VPB is quite limited with the NPL ratio of its parent bank reaching 48.3%.

Fig 9. VPB – Groups of debt (%)



Source: VPBank, KB Securities Vietnam

Fig 10. Local banks – Correlation between NPL and special mentioned loan

	NPL ratio	QoQ	% special mentioned	QoQ	Provision expenses (VNDbn)	LLCR
VPB	6.24%	0.51%	8.22%	2.78%	-13,323	46.0%
VIB	3.64%	1.19%	5.43%	1.05%	-3,173	38.0%
SHB	2.83%	0.31%	1.98%	1.01%	-8,409	72.7%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
MSB	2.02%	0.32%	3.17%	1.81%	-1,805	65.2%
HDB	1.85%	0.18%	3.21%	0.41%	-3,290	61.8%
MBB	1.76%	0.66%	3.46%	1.77%	-11,687	138.3%
BID	1.55%	0.39%	2.32%	0.64%	-42,359	171.3%
LPB	1.45%	0.00%	1.99%	0.48%	-3,911	111.1%
TPB	1.45%	0.60%	4.02%	2.10%	-2,094	83.9%
CTG	1.28%	0.04%	2.67%	0.32%	-29,470	173.0%
STB	1.19%	0.21%	0.94%	-0.31%	-5,547	103.8%
ACB	0.97%	0.24%	0.88%	0.31%	-4,668	116.6%
TCB	0.85%	-0.06%	1.92%	-0.15%	-5,280	133.8%
VCB	0.85%	0.16%	0.64%	0.29%	-31,894	320.8%

Source: Vietnamese banks, KB Securities Vietnam

Forecast & Valuation

Fig 11. VPB – 2022A–2024F business results

(VNDbn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Notes
Net interest income	41,021	44,941	9.6%	56,050	24.7%	Our projection is based on the assumption of 2023E credit growth approaching 20.7% and NIM revised down.
Net fee income	6,438	9,279	44.1%	12,157	31.0%	
Total operating income	57,797	58,606	1.4%	73,934	26.2%	We adjust net other income forecast down 19.0% against the previous projection, reflecting poorer-than-expected debt recovery in 1Q23.
Provision expense	(22,461)	(29,101)	29.6%	(33,680)	15.7%	We keep our provisioning expense forecast at a high level, reflecting concerns about rising NPLs in the rest of 2023 amid surging special mentioned loan in 1Q23.
NPAT	16,909	10,945	-35.3%	16,234	48.3%	
NIM	7.50%	6.94%	-56bps	7.30%	36bps	Our 45bps downward revision against the previous projection for NIM forecast is driven by weaker-than-expected NIM in 1Q23. However, NIM is expected to recover in the remaining quarters of the year.
Average earnings yield	11.37%	11.98%	61bps	11.92%	-6bps	
Average cost of funds	4.43%	5.90%	147bps	5.44%	-46bps	
CIR	24.4%	27.0%	258bps	27.0%	0bps	
NPL	5.73%	6.40%	67bps	6.40%	0bps	
Total asset	631,013	759,804	20.4%	888,029	16.9%	
Owner Equity	103,502	144,220	39.3%	161,655	12.1%	

Source: KB Securities Vietnam

We recommend BUY for VPB stocks with a target price of VND24,300/share

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

(1) P/B valuation method

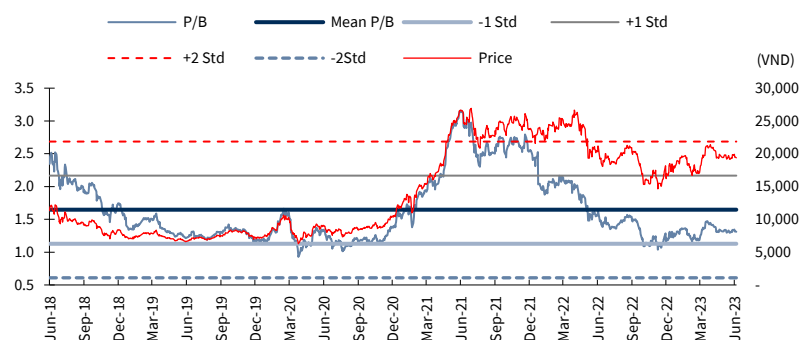
We maintain a P/B forward towards the end of 2023 for VPB at 1.15x, equivalent to -1 standard deviation of VPB's 5-year P/B average, reflecting growing concerns about the asset quality of the banking group in the near term.

(2) Residual income method (Figure 13)

In addition, we incorporate residual income method to reflect systematic risk and long-term expectations.

Based on the above two valuation methods with a ratio of 50-50, we recommend BUY for VPB shares with a target price of VND24,300/share, 24.9% higher than the closing price on June 19, 2023.

Fig 12. VPB – Historical P/B (x)



Source: Fiinpro, KB Securities Vietnam

Fig 13. VPB – Residual income method

VNDbn	2023F	2024F	2025F
NPAT	10,945	16,234	19,717
Excessed return	-3,429	-3,795	-2,734
Required rate of return (r)	13,89%		
Growth (g)	5,0%		
Terminal value	31,352		
End-2023 fair price	173,928		
Target price	25,021		

Source: KB Securities Vietnam

Fig 14. VPB – Valuation results

Valuation method	Forecast price	Weight	Weighted price
P/B	23,613	50%	11,806
Residual income	25,021	50%	12,511
Target price			24,300

Source: KB Securities Vietnam

VPB – 2020A–2024F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Net interest income	32,346	34,349	41,021	44,941	56,050	Loans	286,319	345,390	424,662	512,612	616,915
Interest income	52,362	50,827	62,200	77,620	91,594	Marketable securities	493	6,971	7,793	12,042	14,653
Interest expense	(20,016)	(16,478)	(21,179)	(32,679)	(35,545)	Cash (ex. Reserves)	3,283	2,346	2,658	3,393	4,129
Fees & commissions	3,356	4,059	6,438	9,279	12,157	Interest earning assets	393,458	506,371	587,418	708,516	828,086
Other non-interest income	2,236	2,808	10,584	4,409	5,712	Fixed assets & other assets	26,853	47,877	54,029	63,794	73,243
Total operating income	39,033	44,301	57,797	58,606	73,934	Total assets	419,027	547,409	631,013	759,804	888,029
SG&A expenses	(11,392)	(10,719)	(14,116)	(15,824)	(19,962)	Customer deposits	233,428	241,837	303,151	367,413	447,105
Pre-provisioning OP	27,641	33,583	43,681	42,782	53,972	Borrowings & call money/repos	63,172	81,400	63,762	97,904	116,748
Provision for credit losses	(14,622)	(19,219)	(22,461)	(29,111)	(33,680)	Interest bearing liabilities	353,126	446,310	509,092	598,774	708,338
Other income	3,442	5,469	13,017	6,364	8,245	Other liabilities	13,107	14,821	18,419	16,810	18,037
Other expense	(1,206)	(2,661)	(2,433)	(1,955)	(2,533)	Total liabilities	366,233	461,131	527,511	615,584	726,375
Pre-tax income	13,019	14,364	21,220	13,681	20,292	Charter capital	25,300	45,057	67,434	79,334	79,334
Income tax expense	(2,606)	(2,887)	(4,311)	(2,736)	(4,058)	Capital surplus	366	77	-	23,990	23,990
NP	10,414	11,477	16,909	10,945	16,234	Retained earnings	17,415	22,439	16,752	20,696	38,131
Minority interest profit	-	244	1,259	1,000	1,200	Capital adjustments	-	-	-	-	-
Parent NP	10,414	11,721	18,168	11,945	17,434	Total shareholders' equity	52,794	86,278	103,502	144,220	161,655

Financial Indicators (%)						Valuation (VND, X, %)					
	2020	2021	2022	2023F	2024F		2020	2021	2022	2023F	2024F
Profitability						Share Price Indicators					
ROE	21.9%	16.5%	17.8%	8.8%	10.6%	EPS	4,116	2,601	2,694	1,506	2,198
ROA	2.6%	2.4%	2.9%	1.6%	2.0%	BVPS	20,867	19,149	15,349	18,179	20,376
Pre-provision ROE	46.5%	38.6%	36.8%	27.6%	28.2%	Tangible BVPS	20,610	19,003	15,225	18,071	20,272
Pre-provision ROA	5.6%	5.6%	5.9%	4.9%	5.2%	Valuations					
Net interest margin (NIM)	8.7%	7.6%	7.5%	6.9%	7.3%	PER	4.7	7.5	7.2	12.9	8.9
Efficiency						PBR	0.9	1.0	1.3	1.1	1.0
Pure Loan to deposit ratio	124.6%	146.9%	144.6%	144.0%	142.0%	Dividend yield	0.0%	0.0%	0.0%	5.2%	0.0%
Cost-income ratio	29.2%	24.2%	24.4%	27.0%	27.0%	ROE	21.9%	16.5%	17.8%	8.8%	10.6%
Growth						Capital Adequacy					
Asset growth	11.1%	30.6%	15.3%	20.4%	16.9%	CAR	12.0%	14.3%	14.9%	>14%	>14%
Loan growth	13.1%	20.6%	23.0%	20.7%	20.3%	Asset Quality					
PPOP growth	15.1%	21.5%	30.1%	-2.1%	26.2%	NPL ratio (substandard)	3.4%	4.6%	5.7%	6.4%	6.4%
Parent NP growth	26.1%	12.6%	55.0%	-34.3%	46.0%	Coverage ratio (substandard)	45.3%	60.9%	54.4%	48.6%	44.2%
EPS growth	26.1%	-36.8%	3.6%	-44.1%	46.0%	NPL ratio (precautionary)	8.6%	9.3%	11.2%	12.4%	11.8%
BVPS growth	25.1%	-8.2%	-19.8%	18.4%	12.1%	Coverage ratio (precautionary)	18.0%	29.9%	27.9%	25.1%	24.0%

Source: VPBank, 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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