

BIDV (BID)

2Q21 PAT up 85% YoY

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2Q21 PAT were VND3,739 billion, up 85% YoY

In 2Q21, BIDV (BID) recorded strong business performance with profit after tax (PAT) reaching VND3,739 billion (+39.2% QoQ, +85% YoY). Outstanding loans continued to improve in 2Q21 (+5.2% QoQ, +13.3% YoY).

2Q21 NIM reached 3.03%, up 16 bps QoQ

2Q21 NIM reached 3.03% (+16 bps QoQ, +79 bps YoY) thanks to average earnings yield up 6 bps YoY with improved interest income; Capital input costs continued to decrease 10 bps, following the downtrend of the whole banking system.

2Q21 NPL ratio was 1.63%, loan loss coverage ratio hit 131.3%

2Q21 NPL ratio was 1.63%, down 13bps QoQ. During the period, BID accelerated provision to VND8,251 billion (+15% QoQ, +91% YoY), thereby raising the loan loss coverage ratio to 131.3% (+23.7% QoQ). BID would make provision of VND5 trillion for restructuring debt as per Circular 03/2021.

2022 PAT should continue to grow

We forecast 2021 PAT at VND9,734 billion (+34.8% YoY), down 5.5% compared to previous forecast, reflecting the negative impact of COVID-19. 2022 PAT is expected to be VND13,832 billion (+42.1% YoY), reflecting strong post-pandemic loan demand and improved asset quality.

We recommend BUYING BID shares with a target price of VND46,400/share

Based on valuation results, business outlook as well as potential risks, we recommend BUYING BID shares with a target price of 46,400 VND/share, 18.6% higher than the closing price on September 6, 2021.

Buy

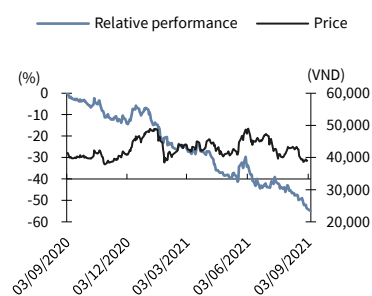
Target price	VND46,400
Up/Down	18.6%
Current price (September 6)	VND 39,100
Target price	VND 34,600
Market cap (VNDbn)	157,260

Trading data	
Free float	4.01%
Avg trading value 3M (VNDbn/USDmn)	128/5.4
Foreign ownership (%)	17.15%
Shareholder	State Bank (80.98%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-9	-13	-10	-6
Relative	-9	-11	-24	-55

Forecast earnings & valuation

Financial year-end	2019A	2020A	2021F	2022F
Net interest income (VNDbn)	35,978	35,797	40,836	44,763
Pre-provision net profit (VNDbn)	30,864	32,344	38,303	42,066
NPAT of parent bank (VNDbn)	8,368	6,997	9,686	13,763
EPS (VND)	2,081	1,740	2,148	2,837
EPS growth (%)	-3%	-16%	23%	32%
PER (x)	20.8	24.9	20.2	15.3
Book value per share	19,307	19,803	19,008	20,411
PBR (x)	2.24	2.19	2.28	2.12
ROE (%)	12.9%	9.2%	11.8%	15.0%
Dividend yield (%)	1.85%	1.85%	1.85%	1.85%



Source: Bloomberg, KB Securities Vietnam

Business operations

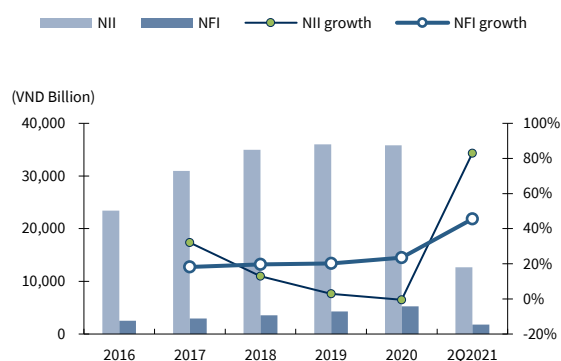
2Q21 PAT reached VND3,739 billion, up 85% YoY

In 2Q21, BID announced positive business results with net interest income of VND12,698 billion (+17.2% QoQ, +83% YoY); Non-interest income of VND4,358 billion (+15.5% QoQ, +12.2% YoY) helped TOI to hit VND17,056 billion (+16.8% QoQ, +57.6% YoY). CIR continued to surge, reaching 23.9% (-370 bps QoQ) while the provision/pre-provision net profit ratio was just 64%, helping PAT to reach VND3,739 billion (+39.2% QoQ, +85% YoY). Outstanding loans improved in 2Q (+5.2% QoQ, +13.3% YoY).

2Q21 NIM reached 3.03%, up 16 bps QoQ

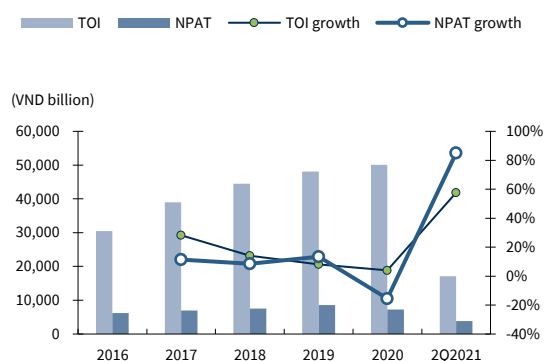
2Q21 NIM was 3.03% (+16 bps QoQ, +79 bps YoY) owing to the following reasons: (1) Average earnings yield slightly increased 6 bps YoY, helped by improved lending rates; (2) Capital input costs continued to decrease 10 bps following the downtrend of the whole banking system.

Fig 1. BID – NII, profit from services (VNDbn, %)



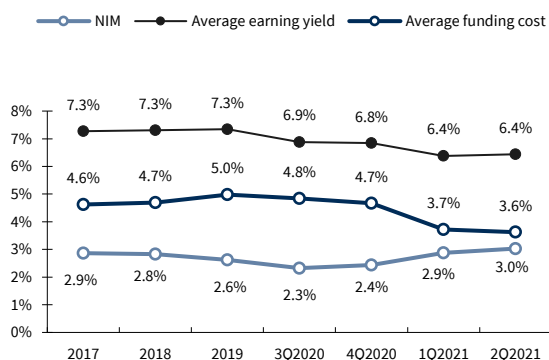
Source: KB Securities Vietnam

Fig 2. BID – TOI, NPAT (VNDbn, %)



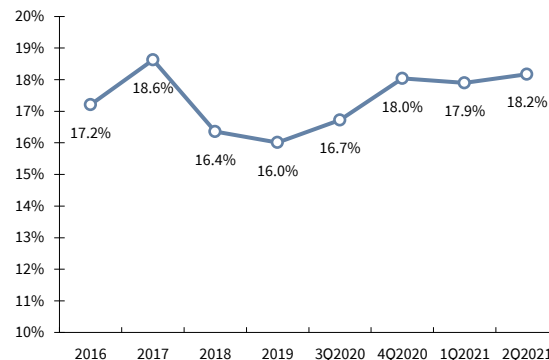
Source: KB Securities Vietnam

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



Source: KB Securities Vietnam

Fig 4. BID – CASA (%)

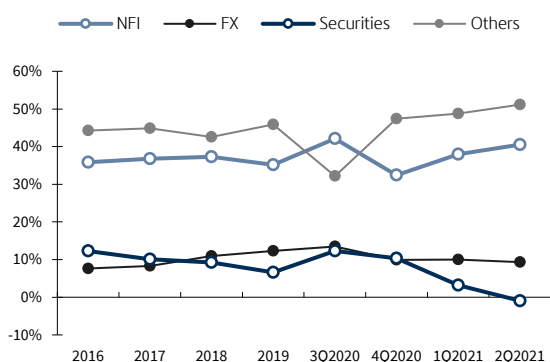


Source: KB Securities Vietnam

2Q21 NOI reached VND4,359 billion, up 12.2% YoY

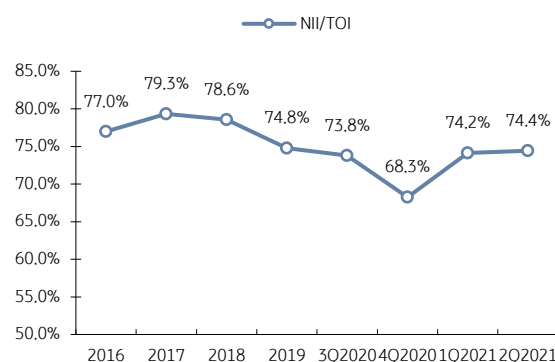
Net profit from services strongly increased 45.5% YoY; earnings from Forex gained slightly 1.9% YoY while securities investment and trading activities saw a loss of VND40 billion; income from other activities reached VND2,161 billion (+75.6% YoY) thanks to accelerated recovery of bad debts that were made provision before, helping 2Q NOI to hit VND4,359 billion (+12.2% YoY). NII/TOI was 74.4%, unchanged from the previous quarter.

Fig 5. BID - Non-interest income structure (%)



Source: KB Securities Vietnam

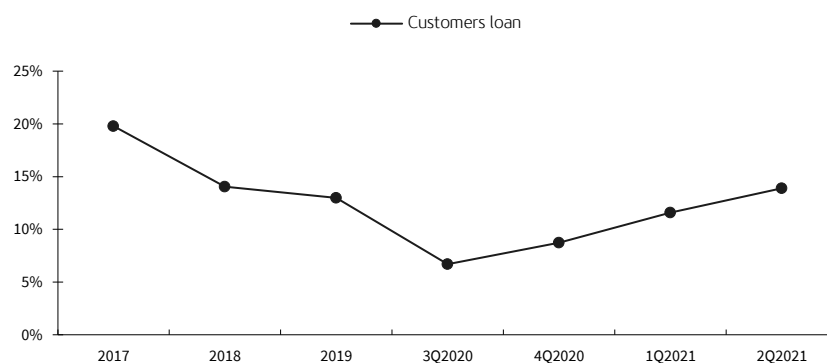
Fig 6. BID - NII/TOI (%)



Source: KB Securities Vietnam

BID's loan growth, after slowing down in the first three quarters of 2020 due to the impact of COVID-19, showed signs of strong recovery after the pandemic is better controlled.

Fig 7. BID - Loan growth (%)

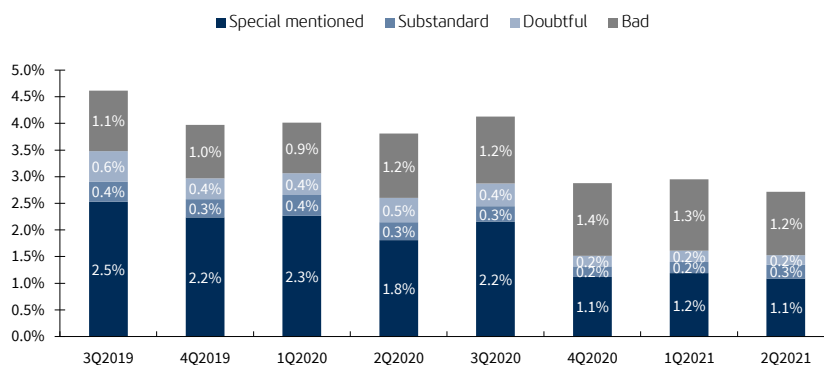


Source: KB Securities Vietnam

NPL ratio was 1.63%, down 13 bps QoQ. Provision for restructuring debts would reach VND5 trillion as per Circular 03/2021

2Q NPL ratio was 1.63%, down 13bps QoQ, of which Group 2 loans fell 10bps QoQ, bad debts dropped 15bps QoQ. During the period, BID accelerated provision to VND8,251 billion (+15% QoQ, +91% YoY), thereby raising the loan loss coverage ratio to 131.3% (+23.7% QoQ), equivalent to the industry average. As of early August 2021, restructured loans reached VND13,400 trillion, down sharply from VND23.2 trillion at the end of 1Q. BID would make provision of VND5 trillion for restructuring debt as per Circular 03/2021.

Fig 10. BID – Special mentioned, substandard, doubtful, bad debts (%)

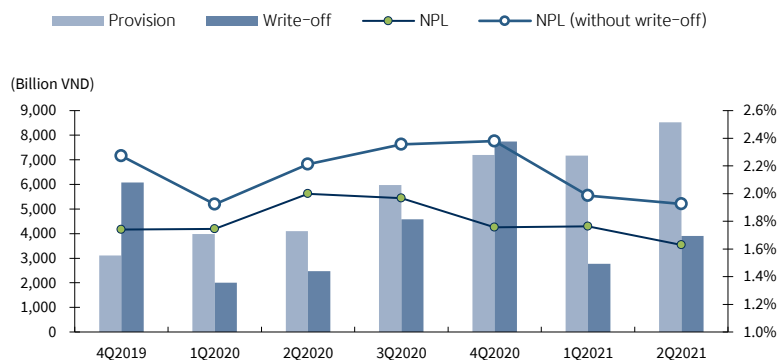


Source: KB Securities Vietnam

BID made provision at a high level compared to recent quarters.

Asset quality improved in 2Q21 with a sharp fall in NPL despite not too much provision expense spent on debt settlement.

Fig 21. BID – NPL, Provision (VNDbn, %)

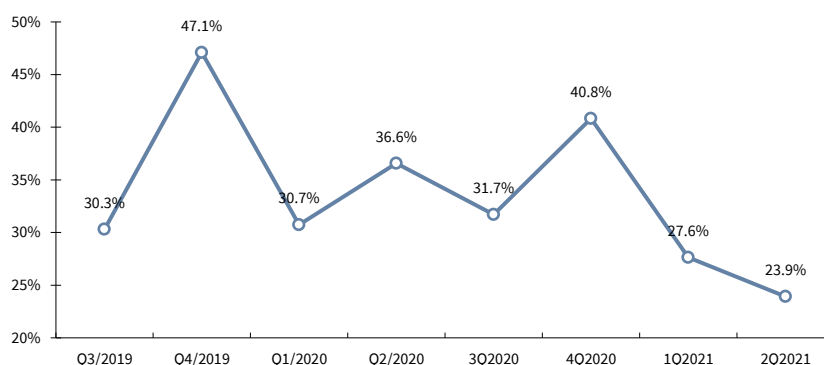


Source: KB Securities Vietnam

2Q21 CIR reached 23.9%, down 12.7% YoY, helping pre-provision net profit surge 89% YoY.

CIR in the following quarters is less likely to maintain at such level because BID’s operating costs are often high in the second half of the year.

Fig 32. BID – CIR (%)



Source: KB Securities Vietnam

2Q21 business results closely followed 2021's plan

By the end of 2Q21, BID's PBT reached VND13,000 billion, delivering 62% of the full-year plan. The profit outlook in the second half of the year seems to be subdued when: (1) BID's asset quality was adversely affected as the economy was hard hit by the fourth wave of COVID-19. BID should accelerate provisioning in the second half of the year; (2) BID would launch a preferential loan package for customers affected by the pandemic, effective between July 15, 2021 and December 31, 2021, which may cause interest income to reduce VND3.6 trillion.

However, assuming that the pandemic will be under control in 4Q along with BID's boosted provisioning in 1H21, we highly appreciate the possibility that BID can well complete the business plan in 2021. Besides, we expect BID to have a strong growth rate in 2022 with increased credit demand driven by the recovery of the economy as well as improved capital.

The plan to increase capital to VND48.5 trillion is still following the schedule

BID submitted the plan to pay stock dividends to the State Bank, which would take place in the second half of 2021. BID hopes to find a strategic partner by 2022 to make a new private placement of 341 million shares. If successful, BID's CAR will be improved, ensuring credit growth in the upcoming years.

Forecast business performance

We would make a forecast for BID in 2021 as follows:

- Credit growth should be at 11% as businesses beefed up borrowing to recover from the pandemic.
- NIM is supposed to reach 2.66%, up 23 bps YoY.
- NPL ratio should be kept at 1.8%, unchanged from the previous forecast thanks to decreased restructured debts under Circular 01/2020 and BID's enhanced provisioning.
- Provision expenses should reach VND26.135 billion, up 5.5% compared to the previous forecast, reflecting potential risks from the pandemic.
- We forecast 2021 PAT at VND9,734 billion (+34.8% YoY), down 5.5% compared to the previous forecast, reflecting the impact of the COVID-19.
- 2022 PAT is expected to reach VND13,832 billion (+42.1% YoY), reflecting strong loan demand with the assumption of better control of the pandemic and improved asset quality.

Table 12. BID – Projected business performance

	2020	2021F	2022F	% YoY 2021	%YoY 2022
Net interest income	35,797	40,836	44,763	14%	10%
Net profit from services	5,266	5,886	6,440	12%	9%
TOI	50,037	55,511	60,965	11%	10%
Provision expense	(23,318)	(26,135)	(24,776)	12%	-5%
EAT	7,224	9,734	13,832	34.8%	42.1%
NIM	2.43%	2.66%	2.70%	23bps	4bps
Average earnings yield	6.84%	6.53%	6.98%	-32bps	46bps
Average cost of funds	4.67%	3.97%	4.26%	-70bps	29bps
CIR	35.4%	31.0%	31.0%	-436bps	0bps
NPL	1.76%	1.80%	1.80%	4bps	0bps
Total assets	1,516,686	1,612,426	1,765,676	6%	10%
Equity	79,647	85,724	99,017	8%	16%

Source: KB Securities Vietnam

We recommend BUYING BID shares with a target of VND46,400/share

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

(1) P/B method

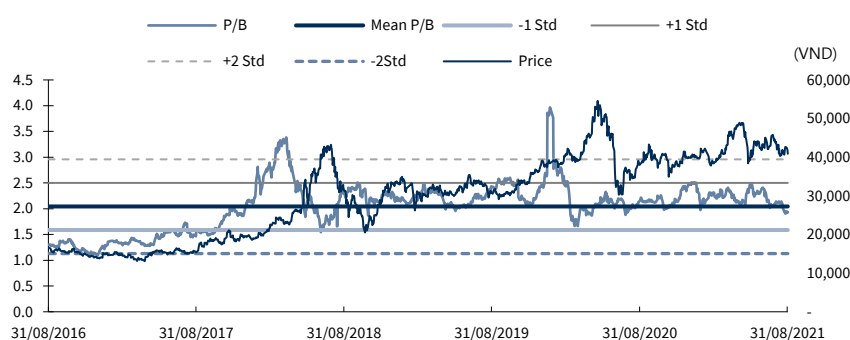
Assuming better control of the pandemic and a positive outlook for 2022, we give BID a target P/B of 2.5x, equivalent to +1 standard deviation of the 5-year P/B average of BID (Figure 13).

(2) Residual income method (Table 14)

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

Combining the above two valuation methods with the ratio of 50-50, we find the final fair price for BID shares at VND46,400/share, 18.6% higher than the closing price on September 6, 2021.

Fig 43. BID – Movement of share price, P/B (VND, x)



Source: Fiiipro, KB Securities Vietnam

Table 14. BID – Share price according to residual income method (VND)

VNDbn	2021F	2022F	2023F
EAT	9,734.40	13,831.75	17,226.92
Residual income	390.94	3,393.92	5,288.91
Cost of capital (r)	11.30%		
Growth (g)	7.0%		
Final price	95,454		
Total present value (PV)	158,845		
Share price	39,494		

Source: Fiiipro, KB Securities Vietnam

Table 15. BID – Target price according to P/B and residual income method (VND)

Method of valuation	Estimated price (VND)	Weight	Weighted price (VND)
P/B	53,284	50%	26,642
Residual income	39,494	50%	19,747
Target price			46,400

Source: Fiiipro, KB Securities Vietnam

BID – 2018A–2022E business performance

Income Statement						Balance Sheet					
(VNDbn)	2018	2019	2020	2021F	2022F	(VNDbn)	2018	2019	2020E	2021F	2022F
Net interest income	34,956	35,978	35,797	40,836	44,765	Loans	976,334	1,102,366	1,195,240	1,321,976	1,467,394
Interest income	90,074	100,747	100,688	100,099	115,847	Marketable securities	674	6,346	10,170	3,762	4,176
Interest expense	(55,118)	(64,769)	(64,891)	(59,263)	(71,085)	Cash (ex. Reserves)	10,508	14,117	12,294	15,293	16,976
Fees & commissions	3,551	4,266	5,266	5,886	6,440	Interest earning assets	1,285,204	1,458,152	1,485,093	1,582,931	1,734,458
Other non-interest income	3,815	5,361	5,093	5,883	6,765	Fixed assets & other assets	38,001	39,206	38,919	40,633	43,543
Total operating income	44,483	48,121	50,037	55,511	60,965	Total assets	1,313,038	1,489,957	1,516,686	1,612,426	1,765,676
SG&A expenses	(16,117)	(17,257)	(17,693)	(17,208)	(18,899)	Customer deposits	989,671	1,114,163	1,226,674	1,347,868	1,496,134
Pre-provisioning OP	28,366	30,864	32,344	38,303	42,066	Borrowings & call money/repos	52,288	75,159	76,090	121,990	134,839
Provision for credit losses	(18,894)	(20,132)	(23,318)	(26,135)	(24,776)	Interest bearing liabilities	1,226,454	1,374,765	1,402,248	1,581,745	1,755,142
Other income	5,337	6,518	7,993	9,192	10,570	Other liabilities	32,032	37,540	34,792	(55,043)	(88,483)
Other expense	(1,522)	(1,157)	(2,900)	(3,309)	(3,805)	Total liabilities	1,258,486	1,412,304	1,437,039	1,526,702	1,666,659
Pre-tax income	9,473	10,732	9,026	12,168	17,290	Charter capital	34,187	40,220	40,220	45,100	48,510
Income tax expense	(1,931)	(2,184)	(1,803)	(2,434)	(3,458)	Capital surplus	30	14,292	14,292	14,292	14,292
NP	7,542	8,548	7,224	9,734	13,832	Retained earnings	12,341	13,857	13,517	14,715	24,597
Minority interest profit	(184)	(179)	(227)	(49)	(69)	Capital adjustments	-	-	-	-	-
Parent NP	7,358	8,368	6,997	9,686	13,763	Total shareholders' equity	54,551	77,653	79,647	85,724	99,017

Financial Indicators						Valuation					
(%)	2018	2019	2020E	2021F	2022F	(VND, X, %)	2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	14.6%	12.9%	9.2%	11.8%	15.0%	EPS	2,152	2,081	1,740	2,148	2,837
ROA	0.6%	0.6%	0.5%	0.6%	0.8%	BVPS	15,957	19,507	19,803	19,008	20,411
Pre-provision ROE	43.8%	37.3%	32.9%	37.1%	36.4%	Tangible BVPS	14,695	18,235	18,744	18,065	19,543
Pre-provision ROA	1.8%	1.8%	1.7%	2.0%	2.0%	Valuations					
Net interest margin (NIM)	2.8%	2.6%	2.4%	2.7%	2.7%	PER	20.1	20.8	24.9	20.2	15.3
Efficiency						PBR	2.7	2.2	2.2	2.3	2.1
Pure Loan to deposit ratio	99.9%	100.3%	99.0%	100.0%	100.0%	Dividend yield	0.0%	1.8%	1.8%	1.8%	1.8%
Cost-income ratio	36.2%	35.9%	35.4%	31.0%	31.0%	ROE	14.6%	12.9%	9.2%	11.8%	15.0%
Growth						Capital Adequacy					
Asset growth	9.2%	13.5%	1.8%	6.3%	9.5%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	14.1%	12.9%	8.4%	10.6%	11.0%	Asset Quality					
PPOP growth	20.6%	8.8%	4.8%	18.4%	9.8%	NPL ratio (substandard)	1.9%	1.7%	1.8%	1.8%	1.8%
Parent NP growth	8.4%	13.7%	-16.4%	38.4%	42.1%	Coverage ratio (substandard)	66.2%	75.0%	89.2%	106.7%	106.7%
EPS growth	8.4%	-3.3%	-16.4%	23.5%	32.1%	NPL ratio (precautionary)	4.2%	4.0%	2.9%	2.9%	2.9%
BVPS growth	11.7%	21.0%	2.6%	-4.0%	7.4%	Coverage ratio (precautionary)	29.8%	32.9%	54.4%	66.2%	66.2%

Source: 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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