

Vietcombank (VCB)

2Q21 PBT lower than expected

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VCB recorded 2Q21 PBT lower than expected

Vietcombank (VCB) recorded 2Q21 profit before tax (PBT) of only VND4,938 billion (-14.3% YoY) on total operating income (TOI) of VND12,895 billion (+20.1% YoY). In 2021, we forecast VCB's PBT at VND24,242 billion (+5.2% YoY) and TOI at VND51,345 billion (+4.7% YoY).

Asset quality did not show signs of deterioration in 2Q21 but VCB still raised provision

NPL ratio dropped to 0.74% in 2Q21 from 0.88% in 1Q after VCB wrote off VND618 billion of bad debts. However, given the complicated developments of the COVID-19 pandemic, VCB raised provision for bad debt to VND3,225 billion (+73.7% YoY, +41.8% QoQ). Accordingly, loan loss coverage ratio skyrocketed to 352%, the highest recorded in the industry.

The Government approved to supplement more than VND7,600 billion of State capital to VCB, helping to enhance financial potential for the bank's business operations.

We recommend HOLDING VCB shares with a target price of VND106,500 VND/share

KBSV expects VCB's credit growth in 2021 to reach 13%. Based on valuation results, business outlook as well as potential risks, we maintain our HOLD recommendation for VCB shares. The target price is VND106,500/share, 6.9% higher than the closing price on September 17, 2021.

Hold maintain

Target price	VND106,500
Upside/downside	6.9%
Current price (Sep 17, 2021)	VND99,600
Consensus target price	VND112,800
Market cap (USDmn)	16,221

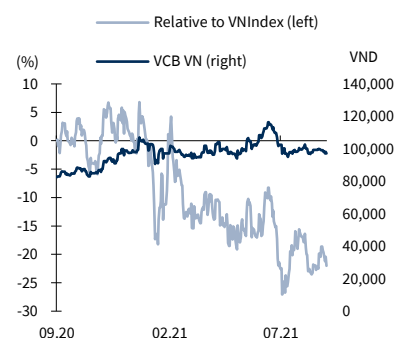
Trading data	
Free float	6.64%
3M avg trading value	USD6.9 mn
Foreign room left	6.4%
Major shareholder	State Bank (74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-3.8	-6.7	1.7	17.2
Relative	-5.1	-7.3	-10.5	-22.2

Forecast earnings & valuation

Financial year-end	2020A	2021E	2022E	2023E
NII (VNDmn)	36,285,475	37,263,777	43,282,438	47,833,374
TOI (VNDmn)	49,062,541	51,344,993	58,700,014	64,864,417
PBT (VNDmn)	23,049,561	24,241,634	31,430,993	37,693,878
EPS (VND)	4,975	4,911	6,369	7,638
Book value per share (VND)	25,346	31,821	37,714	45,271
P/E (x)	20.1	21.6	18.7	17.8
P/B (x)	3.6	3.3	3.2	3.0
ROAA (%)	1.4	1.4	1.6	1.7
ROAE (%)	21.1	22.3	18.3	18.4
Dividend yield (%)	0.8	0.8	0.8	0.8

Source: Bloomberg, Vietcombank, KB Securities Vietnam



Source: Bloomberg, KB Securities Vietnam

Updates on business performance

VCB recorded 2Q21 PBT lower than expected due to boosted provisioning

VCB recorded 2Q21 PBT of only VND4,938 billion (-14.3% YoY) on TOI of VND12,895 billion (+20.1% YoY) after boosting provision to VND3,225 trillion (+73.7% YoY) due to concerns about the negative impacts of the Coronavirus pandemic on business operations.

Table 1. VCB – Business performance

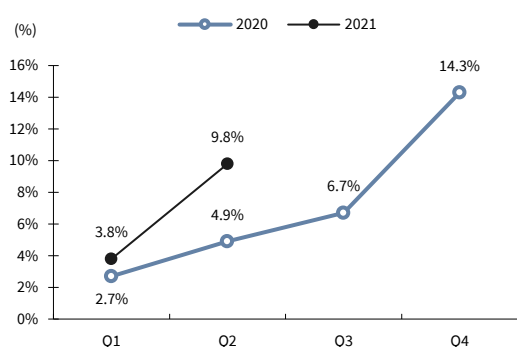
(VNDbn)	2Q21	2Q20	% YoY
Net interest income	11,088	8,077	37.3%
Non-interest income	1,807	2,656	-32.0%
TOI	12,895	10,734	20.1%
Operating expense	(4,736)	(3,118)	51.7%
Provision expense	(3,225)	(1,856)	73.7%
PBT	4,938	5,759	-14.3%

Source: KB Securities Vietnam

2Q21 net interest income increased 37.3% YoY coming from:

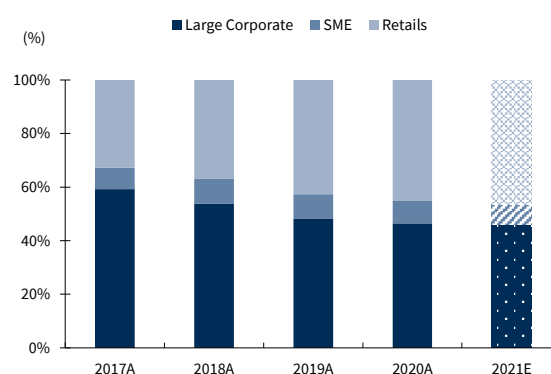
- Credit growth increased 9.8% YTD, much higher than the industry average at 5.5% YTD. Personal loans (especially for home purchase) recorded the most outstanding growth (+11.8% YTD), followed by SME loans (+9.8% YTD) and large business loans (+8% YTD).
- Credit growth in the second half of the year would depend heavily on the "variables" associated with COVID-19 and we expect credit growth at 13-13.5% for VCB, coming from two expectations: (1) Credit demand would recover in 4Q when COVID-19 is better controlled; and (2) The State Bank would approve credit room extension late this year to support economic recovery.

Fig 1. VCB – Credit growth, 2020-2021(%)



Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – Loan ratio (%)



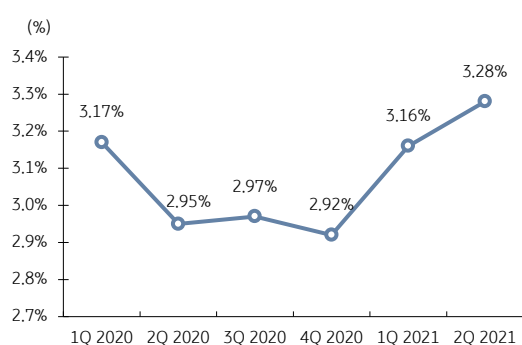
Source: Vietcombank, KB Securities Vietnam

Net interest margin (NIM) continued to improve in 2Q to 3.28% (+12 bps QoQ) thanks to: (1) taking advantage of low capital costs from decreased deposit rates and increased CASA ratio to make up for lower lending rates so as to support pandemic-hit clients; and (2) higher loan-to-deposit ratio (LDR).

CASA ratio climbed to 33.2%, the highest recorded in recent quarters owing to the launch of payment services towards individual customers and higher CASA ratio from corporates as a result of the pandemic. We expect VCB's CASA ratio to stay high at 33% this year.

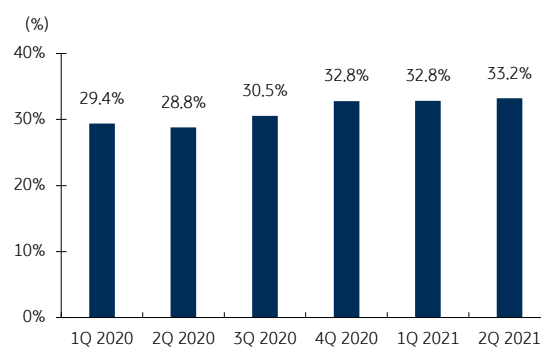
However, given the continuous deployment of interest rate cuts to support businesses suffering from COVID-19, we lower VCB's NIM in 2021 to 2.8% from 3% in 2020.

Fig 3. VCB – NIM (%)



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA (%)

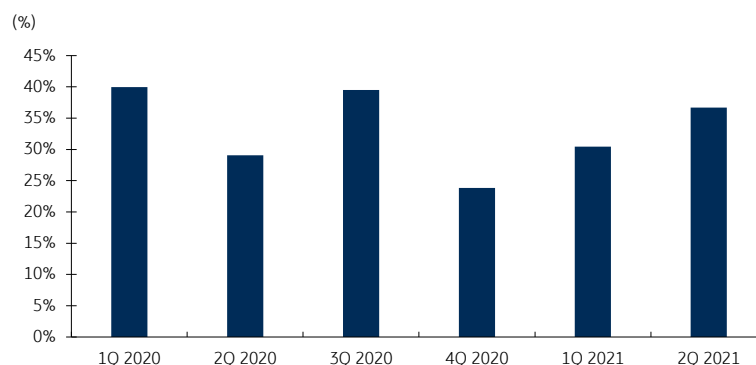


Source: Vietcombank, KB Securities Vietnam

Non-interest income in 2Q21 dropped by 32% YoY mainly due to a decrease of VND850 billion in adjusting entries after VCB recorded VND1,700 billion of prepaid bancassurance of 2021 in 1Q21. We expect this fee to be more stable in the second half of the year.

Operating expense (OPEX) grew 51.7% YoY due to the low figure recorded in the same period last year as well as considerable public service expenses. Cost income ratio (CIR) increased to 36.7% in 2Q21.

Fig 5. VCB – CIR (%)



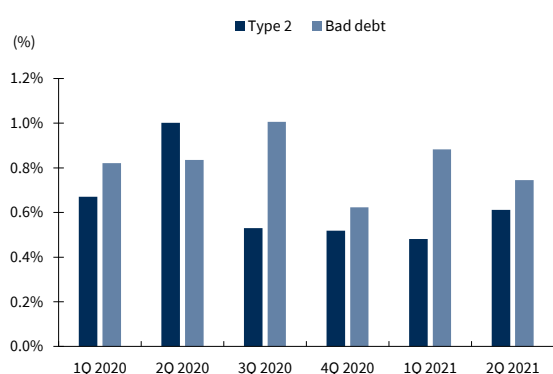
Source: Vietcombank, KB Securities Vietnam

Asset quality did not show signs of deterioration in 2Q21 but VCB still raised provision

NPL ratio dropped to 0.74% in 2Q21 from 0.88% in 1Q after VCB wrote off VND618 billion of bad debts. However, given the complicated COVID-19 developments, VCB increased provision for bad debt to VND3,225 billion (+73.7% YoY, +41.8% QoQ). Accordingly, loan loss coverage ratio skyrocketed to 352%, the highest recorded in the industry.

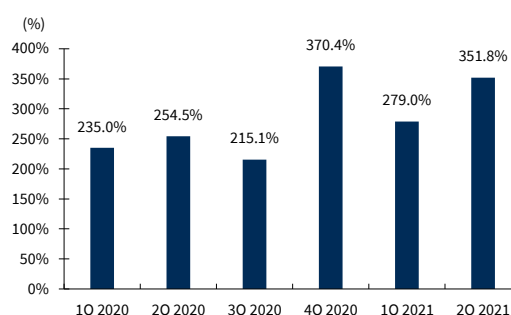
Restructured loan balance decreased 21% YTD to VND4.1 trillion, equivalent to 0.44% of total outstanding loans. VCB plans to make provision for all restructured loans as per Circular 03/2021 in 2021.

Fig 6. VCB – Special mention & bad debt (%)



Source: Vietcombank, KB Securities Vietnam

Fig 7. VCB – Loan loss coverage ratio (%)

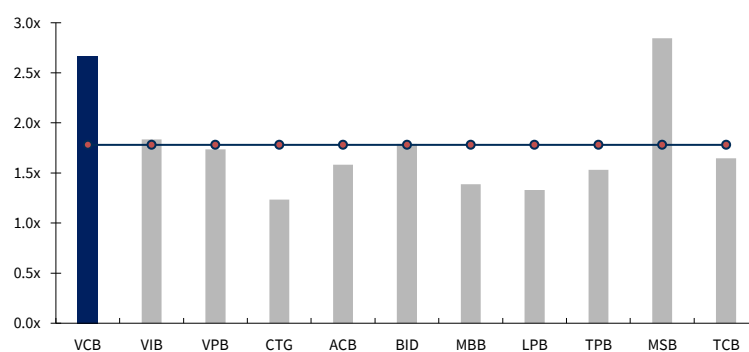


Source: Vietcombank, KB Securities Vietnam

The Government approved to supplement more than VND7,600 billion of State capital to VCB, helping to enhance financial potential for the bank's business operations.

VCB currently trades at a P/B forward 12 months of 2.7x, higher than the industry average of 1.8x. As a top state-owned bank, VCB's bad debt is still well controlled. We believe that this P/B forward 12 months is still appropriate in the current context.

Fig 8. VCB – P/B forward 12 months (x)



Source: Bloomberg, KB Securities Vietnam

Forecast business performance

In 2021, we forecast VCB's PBT at VND24,242 billion (+5.2% YoY) on TOI of VND51,345 billion (+4.7% YoY), with a P/B of VND31,821, assuming that:

- Consolidated credit growth would be 13%.
- NIM would drop to 2.8%. Lending rates would fall sharply while deposit rates remain stable; CASA rate should be 33%.
- NPL ratio is supposed to increase slightly to 0.8%.

We recommend HOLDING VCB shares with a target price of VND106,500/share

As a top state-owned bank, VCB's bad debt is still well controlled, so we give VCB a target P/B of 3.3x for 2021. Based on the P/B valuation method, we maintain our HOLD recommendation for VCB shares with a target price of VND106,500/share, 6.9% higher than the closing price on September 17, 2021. VCB shares should be invested in in the mid and long term.

Table 2. VCB – Estimated business performance

	2021E	2022E	2023E
NII (VNDmn)	37,263,777	43,282,438	47,833,374
TOI (VNDmn)	51,344,993	58,700,014	64,864,417
PBT (VNDmn)	24,241,634	31,430,993	37,693,878
ROEA (%)	22.3	18.3%	18.4
ROAA (%)	1.4	1.6	1.7
CIR (%)	32.0	31.0	30.0
CASA (%)	33.2	34.0	34.7

Source: Vietcombank, KB Securities Vietnam

VCB – 2020A–2023 financials

Income Statement					Balance Sheet				
(VNDmm)	2020A	2021E	2022E	2023E	(VNDmm)	2020A	2021E	2022E	2023E
Interest Income	69,205,134	70,797,026	86,104,175	94,520,734	Total assets	1,326,230,092	1,468,958,543	1,683,227,056	1,878,218,995
Interest Expense	(32,919,659)	(33,533,249)	(42,821,736)	(46,687,360)	Cash & gold	15,095,394	13,823,661	24,056,465	22,668,741
Net interest income	36,285,475	37,263,777	43,282,438	47,833,374	Balances with the SBV	33,139,373	32,255,210	45,439,990	48,092,292
Fees & commissions	6,607,517	8,829,470	10,595,364	12,184,668	Balances with credit Institutions	267,969,645	286,727,520	315,400,272	346,940,299
Trading foreign currencies	3,906,399	3,066,016	2,650,991	2,454,547	Marketable securities	158,885,158	150,940,900	175,072,881	182,300,701
Securities held for trading	1,810	905	815	1,223	Loans to customers	820,545,467	950,376,715	1,082,540,931	1,232,364,987
Investment securities	(98)	(73)	(80)	(111)	Fixed assets	8,539,362	9,468,768	10,578,189	11,970,766
Other activities	2,261,638	2,184,899	2,170,486	2,390,716	Other assets	22,055,693	25,365,769	30,138,328	33,881,209
Total operating income	49,062,541	51,344,993	58,700,014	64,864,417	Total liabilities	1,232,135,113	1,365,496,131	1,559,940,486	1,729,935,941
SG&A expenses	(16,038,250)	(16,430,398)	(18,197,004)	(19,459,325)	Due from the SBV	41,176,995	47,692,247	41,136,555	36,970,950
Pre-provisioning OP	33,024,291	34,914,595	40,503,009	45,405,092	Deposits from credit institutions	103,583,833	104,541,439	113,666,798	123,236,499
Provision for credit losses	(9,974,730)	(10,672,961)	(9,072,017)	(7,711,214)	Deposits from customers	1,052,113,567	1,151,971,775	1,336,470,285	1,502,884,131
Pre-tax income	23,049,561	24,241,634	31,430,993	37,693,878	Valuable papers issued	21,240,197	28,491,206	30,812,111	34,640,581
Income tax expense	(4,577,043)	(4,824,033)	(6,248,032)	(7,493,010)	Other liabilities	34,020,521	32,799,464	37,854,738	32,203,781
NP	18,472,518	19,417,601	25,182,960	30,200,868	Shareholder's equity	94,094,979	125,779,552	149,054,425	178,904,301
Minority interest profit	(21,207)	(19,999)	(25,120)	(31,968)	Share capital	37,088,774	39,500,000	39,500,000	39,500,000
Parent NP	18,451,311	19,397,601	25,157,840	30,168,900	Capital surplus	4,995,389	18,300,000	18,300,000	18,300,000
EPS	4,975	4,911	6,369	7,638	Treasury shares	-	-	-	-
DPS	800	800	800	800	Capital adjustments	15,360,588	19,047,381	23,711,694	29,542,086
Shares outstanding (mm shares)	3,709	3,950	3,950	3,950	Retained earnings	36,650,228	48,932,171	67,542,730	91,562,215

Financial Indicators					Valuation				
(%)	2020A	2021E	2022E	2023E	(VND, X, %)	2020A	2021E	2022E	2023E
Profitability									
ROE	21.1%	22.3%	18.3%	18.4%	Share Price Indicators				
ROA	1.4%	1.4%	1.6%	1.7%	EPS	4,975	4,911	6,369	7,638
NIM	3.0%	2.8%	2.9%	2.8%	BVPS	25,346	31,821	37,714	45,271
CIR	32.7%	32.0%	31.0%	30.0%	Valuations				
CASA	32.8%	33.2%	34.0%	34.7%	PE	20.1x	21.6x	18.7x	17.8x
Cost of fund	2.8%	2.7%	3.0%	2.9%	PB	3.6x	3.3x	3.2x	3.0x
Asset yield	5.6%	5.3%	5.7%	5.5%	Dividend yield	0.8%	0.8%	0.8%	0.8%
Liquidity									
LDR	81.4%	82.0%	83.0%	83.5%	Capital Adequacy				
Loan to Total Asset	63.3%	65.1%	66.4%	67.4%	CAR	9.4%	9.6%	10.1%	10.5%
Growth									
Asset growth	8.5%	10.8%	14.6%	11.6%	Leverage ratio	14.1x	12.5x	11.7x	11.2x
Loan growth	13.3%	15.8%	13.9%	13.8%	Asset Quality				
Deposit growth	11.2%	11.6%	16.0%	12.5%	Special mention debts ratio	0.3%	0.5%	0.4%	0.7%
TOI growth	7.3%	4.7%	14.3%	10.5%	NPL ratio	0.6%	0.8%	0.9%	1.0%
PBT growth	-0.3%	5.2%	29.7%	19.9%	NPL + VAMC	0.6%	0.8%	0.9%	1.0%
					External receivables / Loans	0.9%	1.5%	1.6%	1.5%
					Credit cost ratio	1.3%	1.2%	0.9%	0.7%
					LLCR	368.0%	253.1%	197.5%	156.1%

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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