

Vietcombank (VCB)

Maintain growth momentum

August 31, 2022

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2Q22 NPAT hit VND5,942 billion, up 49.9% YoY

In 2Q22, Vietcombank (VCB) obtained net interest income (NII) of VND12,797 billion (up 15.3% YoY) and NPAT of VND5,942 billion (up 49.9% YoY from the low of 2Q21). The main driving force came from high credit growth of 18.0% YoY and stable NIM of 3.34%.

Bad debt ratio was 0.61% and LLCR stayed high at 506%

Bad debt ratio in 2Q22 was 0.61%, down 21 bps QoQ and down 14 bps YoY. VCB continued to boost provisioning with loan loss coverage ratio (LLCR) reaching 506%, the highest in the entire banking system.

Credit expanded by 14.4% YTD as of the end of June

By the end of June 2022, credit had expanded by 14.4% YTD, approaching the credit growth ceiling of 15% assigned by the State Bank of Vietnam (SBV) at the start of the year.

VCB is qualified to get a higher credit growth quota

We expect the SBV will approve credit expansion from 15% to 18% for VCB, given its good asset quality and minimal investment in corporate bonds (only accounting for 1% of the outstanding loans).

We recommend BUY for VCB stocks with a target price of VND98,000/share

Based on valuation results, business outlook, and possible risks, we recommend BUY for VCB stocks with a target price of VND98,000/share, 19.2% higher than the closing price on August 29, 2022.

Buy maintain

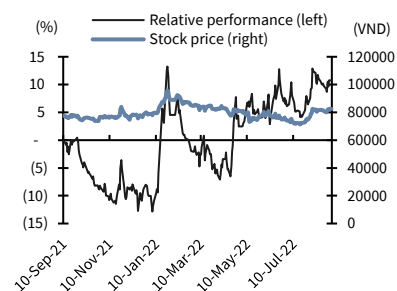
Target price	VND98,000
Upside/Downside	19.2%
Current price (Aug 29, 2022)	VND82,500
Consensus target price	VND95,200
Market cap (VNDbn)	390.4/16.7

Trading data	
Free float	25.2%
3M avg trading value (VNDbn/USDmn)	76.5/3.3
Foreign ownership	6.5%
Major shareholder	State Bank (74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	4.6	6.0	-1.6	6.1
Relative	1.3	8.0	11.0	10.8

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	36,285	42,400	50,546	59,047
Pre-provision operating profit (VNDbn)	33,024	39,149	45,619	52,210
NPAT of the parent bank (VNDbn)	18,451	21,919	29,514	34,359
EPS (VND)	4,975	5,116	6,168	6,824
EPS growth (%)	0%	3%	21%	11%
PER (x)	17.1	16.6	13.8	12.4
Book value per share (VND)	25,370	29,421	31,222	36,992
PBR (x)	3.35	2.89	2.72	2.30
ROE (%)	21.1%	21.6%	22.9%	20.6%
Dividend yield (%)	1%	1%	1%	1%



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q22 NPAT hit VND5,942 billion, up 49.9% YoY

In 2Q22, VCB posted positive business results with NII of VND12,797 billion (up 15.3% YoY). Notably, non-interest income (NOII) jumped by 75.7% YoY to VND3,151 billion. Thus, total operating income (TOI) hit VND15,972 billion (up 23.8% YoY) and NPAT was VND5,942 billion (up 49.9% YoY from the 2Q21 low). Over the first six months of 2022, NPAT picked up 27.9% to VND13,909 billion.

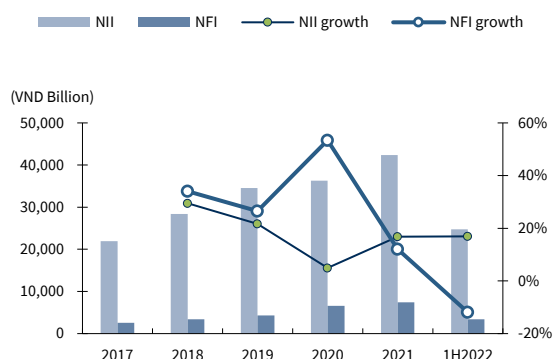
Credit growth reached 14.4% YTD, nearing the assigned credit limit of 15%

Over the past quarter, customer loans improved by 7.0% QoQ and 18.0% YoY while outstanding value of corporate bonds contributed 1% to the outstanding loans, taking the outstanding loans to VND1,112,460 billion (+19.8% YoY, +7.0% QoQ). By June-end, credit growth hit 14.4% YTD on growing credit demand after the pandemic, nearing the quota of 15% granted by the SBV.

2Q22 NIM improved on low cost of funds

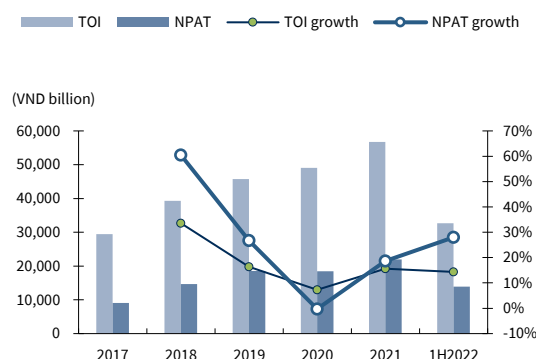
2Q22 NIM stayed consistent at 3.34%, up slightly 5bps QoQ (Figure 3) with the help of low cost of funds and low deposit rates. Specifically, the average cost of funds was flat QoQ at 2.2% thanks to high CASA ratio of 35.4%, down 92 bps QoQ but still higher than the average of 33% in 2021 (Figure 4).

Fig 1. VCB – NII, NFI growth (VNDbn, %)



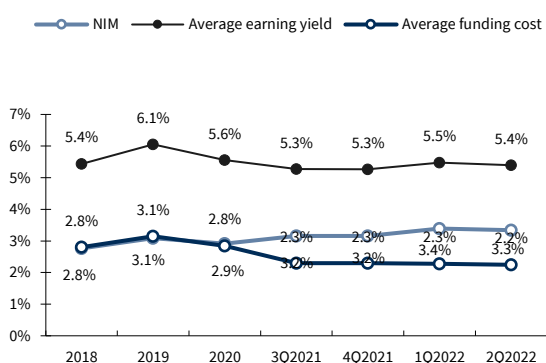
Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – TOI, NPAT growth (VNDbn, %)



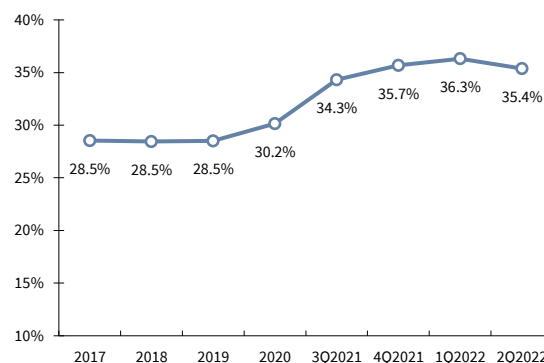
Source: Vietcombank, KB Securities Vietnam

Fig 3. VCB – NIM, average earnings yield & cost of funds (%)



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA ratio (%)

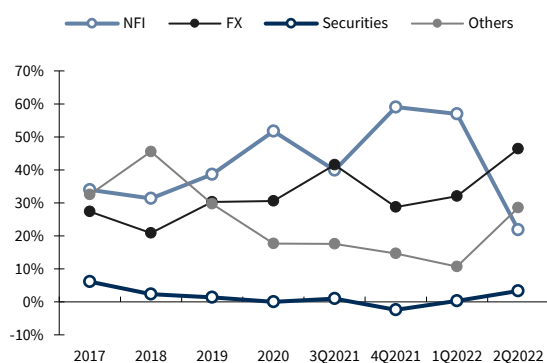


Source: Vietcombank, KB Securities Vietnam

2Q22 NOII reached VND3,151 billion, up 75.7% YoY and up 44.7% QoQ

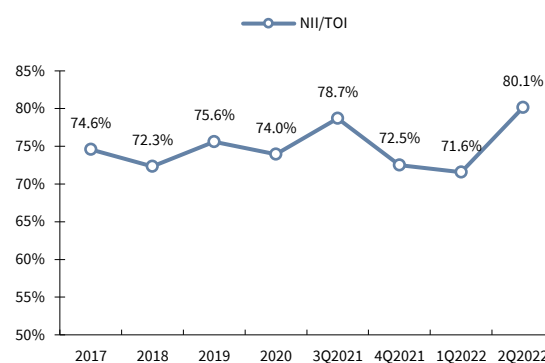
In 2Q22, net fee income (NFI) was VND695 billion (-74.4% QoQ, +62.1%YoY). It went down over the previous quarter due to no upfront fees recorded under the bancassurance agreement and the zero-fee policy of the bank. Net gain from foreign exchange was up 49.2% YoY to VND1,4724 billion. Net other income climbed 145% YoY to VND881 billion. Accordingly, NOII increased sharply by 145% YoY to VND3,151 billion against the low of 2Q21. Over the first six months of the year, NOII hit VND7,933 billion, up 7% YoY.

Fig 5. VCB – NOII breakdown (%)



Source: Vietcombank, KB Securities Vietnam

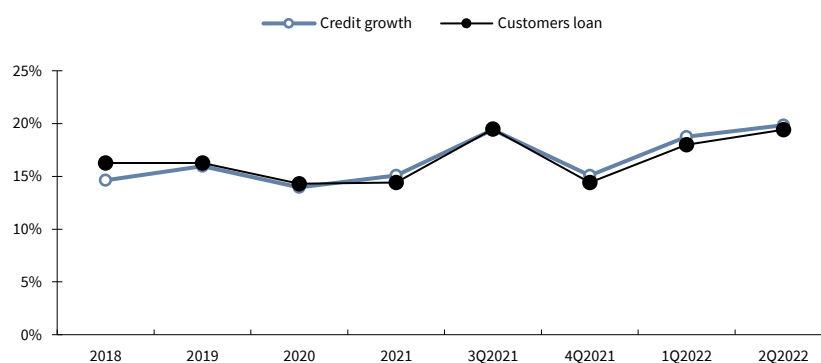
Fig 6. VCB – NII/TOI (%)



Source: Vietcombank, KB Securities Vietnam

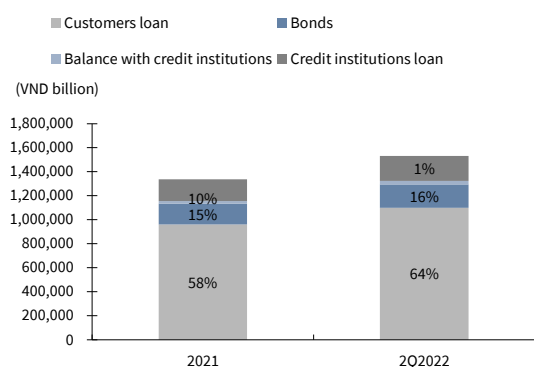
Credit had expanded by 14.4% YTD as of June 30, nearing full-year credit room assigned by the SBV at the start of 2022.

Fig 7. VCB – Credit growth and customer loans (%)



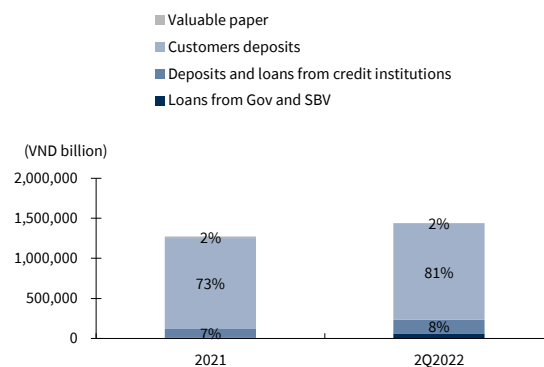
Source: Vietcombank, KB Securities Vietnam

Fig 8. VCB – Interest-earning assets (VNDbn)



Source: Vietcombank, KB Securities Vietnam

Fig 9. VCB – Sources of mobilized capital (VNDbn)



Source: Vietcombank, KB Securities Vietnam

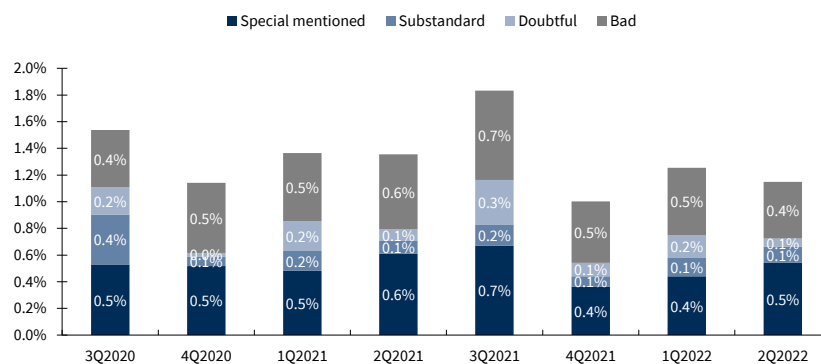
Bad debt ratio in 2Q22 remained consistent at below 1%

In the second quarter of 2022, bad debt ratio contracted by 21bps QoQ or 14bps YoY to 0.61%. VCB continued to lead the banking system with LLCR hitting 506%, easing provisioning pressure in the future. Restructured debts in 2Q22 stood at VND3,500 billion or 0.32% of the outstanding loans, down 66.7% compared to the end of 2021.

We assess VCB is among the banks with the best asset quality. VCB's bad debt ratio stayed below 1.0% (Figure 10), and the bank made all required provisions for structured debts in 2021, thereby boosting robust growth in 2022.

Bad debt ratio in 2Q2022 remained consistent at below 1%.

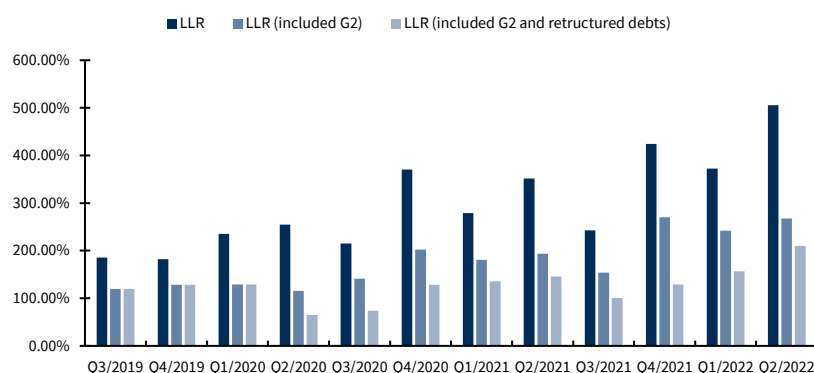
Fig 10. VCB – Groups of debt (%)



Source: Vietcombank, KB Securities Vietnam

VCB led the banking system with LLCR of 506%, showing that VCB is cautious about making provisions for possible future losses or debts.

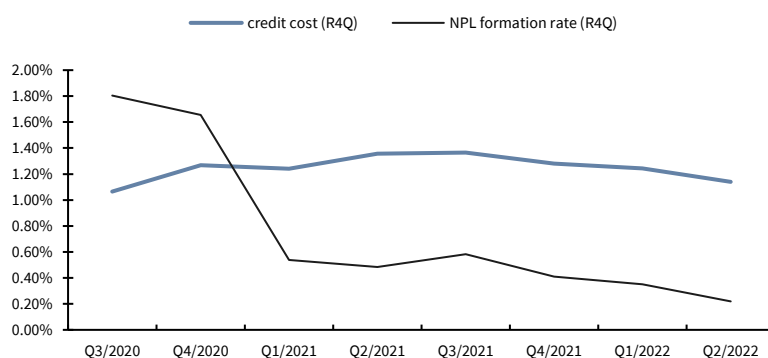
Fig 11. VCB – LLCR, provision expenses



Source: Vietcombank, KB Securities Vietnam

Credit cost tends to decrease slightly. LLCR remains high, easing provisioning pressure in the future.

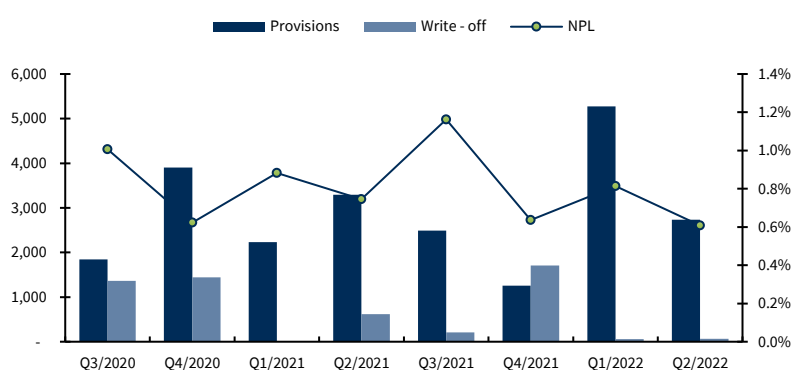
Fig 12. VCB – Credit cost, NPL formation rate (%)



Source: Vietcombank, KB Securities Vietnam

VCB continued to boost provisioning and lending. However, VCB did not record provision expenses in the first six months of 2022.

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

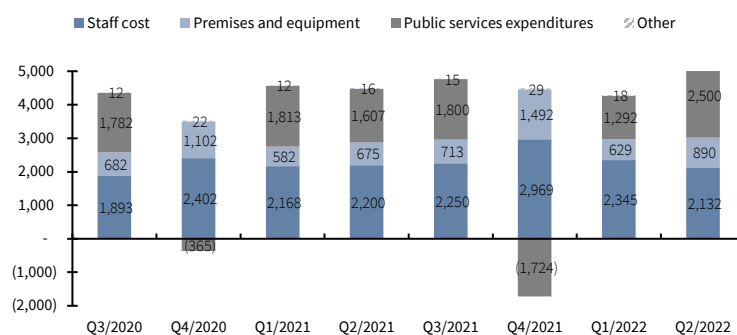


Source: Vietcombank, KB Securities Vietnam

CIR increased QoQ to 36.4% due to a sharp rise in public services expenditures

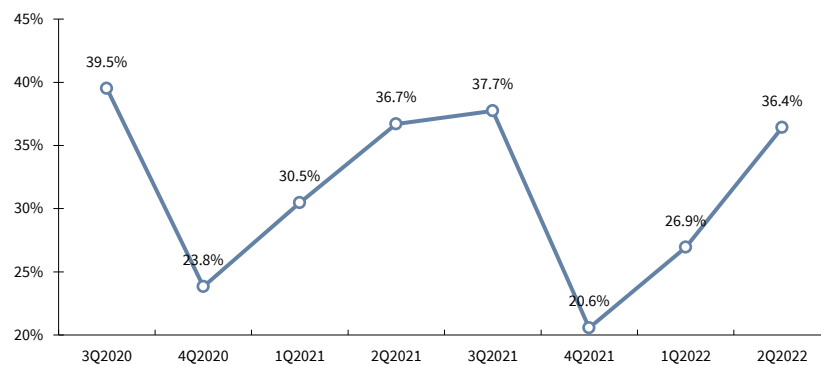
General and administrative expenses were up +29.0%QoQ and +22.8%YoY to VND5,816 billion as public services expenditures spiked 93% QoQ to VND2,500 billion while staff cost dropped by 9.1% QoQ. Therefore, CIR increased from 26.9% in 1Q22 to 36.4% in 2Q22. However, VCB is still among the banks with the lowest CIR in the industry.

Fig 14. VCB – Operating expenses (VNDbn)



Source: Vietcombank, KB Securities Vietnam

Fig 15. VCB – CIR (%)



Source: Vietcombank, KB Securities Vietnam

Forecast & Valuation

2022F business results

We make our forecast for VCB's 2022F business results as follows:

- We revise our credit growth projection from 13.8% to 18.0% in 2022 as VCB used up most of its assigned credit quota right in 1H22. Given good asset quality and minimal investment in corporate bonds, we expect the SBV will approve credit expansion for VCB.
- NIM should reach 3.2%, unchanged from the previous forecast on the expectation that CASA ratio will remain high to offset reduced liquidity which can cause VCB's cost of funds to increase marginally.
- NOII may increase slightly by 4.4% YoY on the growth of bancassurance foreign exchange.
- Bad debt ratio will stay at 1.0% on good asset quality combined with high LLCR.
- Provision for credit losses is expected to be lower than that a year ago, reaching VND8,407 billion since VCB accelerated provisioning despite good asset quality in 2021.
- We expect NPAT in 2022 to reach VND29,663 billion, up 35.2% YoY.

Table 1. VCB – 2022E–2023E business results

	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	42,400	50,546	59,047	19%	17%
Net fee income	7,407	7,494	7,988	1%	7%
Total operating income	56,724	65,638	75,123	16%	14%
Provision expenses	(11,761)	(8,540)	(9,046)	-27%	6%
NPAT	21,939	29,663	34,532	35.2%	16.4%
NIM	3.15%	3.35%	3.38%	19bps	4bps
Average earnings yield	5.26%	5.61%	6.00%	34bps	39bps
Average cost of funds	2.30%	2.49%	2.93%	19bps	44bps
CIR	31.0%	30.5%	30.5%	-48bps	0bps
NPL	0.64%	1.00%	1.00%	36bps	0bps
Total assets	1,414,673	1,650,672	1,875,235	17%	14%
Equity	109,117	149,392	186,251	37%	25%

Source: KB Securities Vietnam

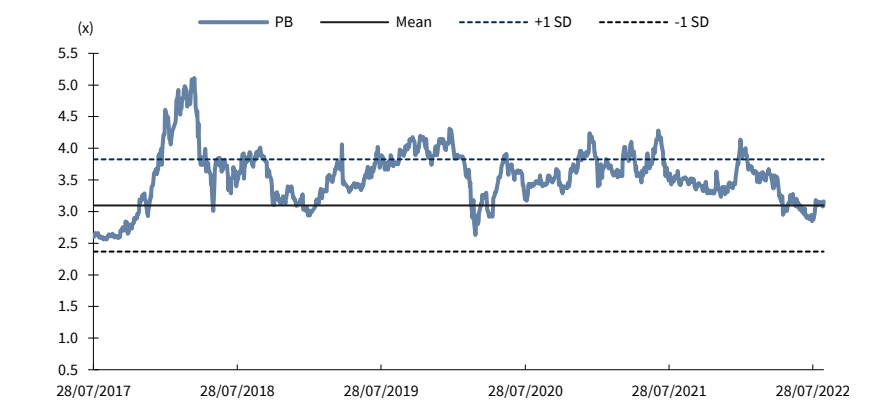
Valuation

We recommend BUY for VCB stocks with a target price of VND98,000/share

We use the P/B valuation method to find a fair price for VCB stocks. We assume high earnings growth and successful private placement to lift charter capital by the end of 2022 will help VCB expand credit growth in the future. Considering leading position in the banking system with good asset quality, we give VCB a target P/B of 3.1x, equivalent to VCB's 5-year average P/B, reflecting concerns over rising inflation and its adverse impact on the banking system (Figure 16).

Based on P/B valuation results, we reiterate our BUY recommendation for VCB stocks with a target price of VND98,000/share, 19.2% higher than the closing price on August 29, 2022. We assess VCB is a potential stock to invest in in the medium and long term.

Fig 16. VCB – P/B (x)



Source: Bloomberg, KB Securities Vietnam

VCB – 2019A–2023E financials

Income Statement						Balance Sheet					
(VNDbn)						(VNDbn)					
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Net interest income	34,577	36,285	42,400	50,546	59,047	Loans	724,290	820,545	934,774	1,108,736	1,241,879
Interest income	67,724	69,205	70,749	84,672	104,603	Marketable securities	1,801	1,954	2,766	3,454	3,968
Interest expense	(33,147)	(32,920)	(28,349)	(34,126)	(45,556)	Cash (ex. Reserves)	13,778	15,095	18,012	19,662	22,022
Fees & commissions	4,307	6,607	7,407	7,494	7,988	Interest earning assets	1,191,721	1,301,421	1,386,624	1,632,668	1,856,987
Other non-interest income	3,070	1,800	2,393	2,558	2,558	Fixed assets & other assets	31,067	30,595	39,941	34,904	38,189
Total operating income	45,730	49,063	56,724	65,638	75,123	Total assets	1,222,719	1,326,230	1,414,673	1,650,672	1,875,235
SG&A expenses	(15,818)	(16,038)	(17,574)	(20,020)	(22,913)	Customer deposits	928,451	1,032,114	1,135,324	1,310,816	1,468,114
Pre-provisioning OP	29,913	33,024	39,149	45,619	52,210	Borrowings & call money/repos	21,404	21,307	17,395	15,155	16,903
Provision for credit losses	(6,790)	(9,975)	(11,761)	(8,540)	(9,040)	Interest bearing liabilities	1,115,838	1,198,181	1,271,945	1,468,948	1,644,850
Other income	3,428	2,545	3,100	3,410	3,410	Other liabilities	25,988	33,954	33,610	32,332	44,134
Other expense	(358)	(744)	(707)	(853)	(853)	Total liabilities	1,141,836	1,232,135	1,305,555	1,501,281	1,688,984
Pre-tax income	23,122	23,050	27,389	37,078	43,165	Charter capital	37,089	37,089	37,089	47,849	50,349
Income tax expense	(4,596)	(4,577)	(5,450)	(7,416)	(8,633)	Capital surplus	4,995	4,995	4,995	4,995	4,995
NP	18,526	18,473	21,939	29,663	34,532	Retained earnings	26,055	36,650	48,434	77,948	112,307
Minority interest profit	(15)	(21)	(20)	(148)	(173)	Capital adjustments	-	-	-	-	-
Parent NP	18,511	18,451	21,919	29,514	34,359	Total shareholders' equity	80,883	94,095	109,117	149,392	186,251

Financial Indicators						Valuation					
(%)						(VND, X, %)					
	2019	2020	2021	2022F	2023F		2019	2020	2021	2022F	2023F
Profitability						Share Price Indicators					
ROE	25.9%	21.1%	21.6%	22.9%	20.6%	EPS	4,991	4,975	5,116	6,168	6,824
ROA	1.6%	1.4%	1.6%	1.9%	2.0%	BVPS	21,808	25,370	29,421	31,222	36,992
Pre-provision ROE	33.5%	30.2%	30.9%	28.2%	24.9%	Tangible BVPS	21,198	24,527	28,592	30,539	36,351
Pre-provision ROA	2.1%	2.1%	2.2%	2.4%	2.4%	Valuations					
Net interest margin (NIM)	3.1%	2.9%	3.2%	3.3%	3.4%	PER	17.0	17.1	16.6	13.8	12.4
Efficiency						PBR	3.9	3.3	2.9	2.7	2.3
Pure Loan to deposit ratio	79.1%	81.4%	84.6%	87.0%	87.0%	Dividend yield	0.0%	0.9%	0.9%	0.9%	0.9%
Cost-income ratio	34.6%	32.7%	31.0%	30.5%	30.5%	ROE	25.9%	21.1%	21.6%	22.9%	20.6%
Growth						Capital Adequacy					
Asset growth	13.8%	8.5%	6.7%	16.7%	13.6%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	16.5%	13.3%	13.9%	18.6%	12.0%	Asset Quality					
PPOP growth	16.5%	10.4%	18.5%	16.5%	14.4%	NPL ratio (substandard)	0.8%	0.6%	0.6%	1.0%	1.0%
Parent NP growth	26.7%	-0.3%	18.8%	34.7%	16.4%	Coverage ratio (substandard)	176.3%	368.0%	424.4%	277.7%	277.0%
EPS growth	22.9%	-0.3%	2.8%	20.6%	10.6%	NPL ratio (precautionary)	1.1%	1.0%	1.0%	1.7%	1.7%
BVPS growth	26.2%	16.3%	16.0%	6.1%	16.5%	Coverage ratio (precautionary)	122.3%	239.8%	270.0%	163.4%	162.9%

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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