

VPBank (VPB)

NPL ratio spiked in 2Q2022

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2Q22 PBT was VND4,177 billion, down 17% YoY

In 2Q22, VPBank (VPB) achieved VND10,466 billion (+5.8% QoQ, +13.4% YoY) in net interest income (NII) and VND2,821 billion (-66.3% QoQ, +0.2% YoY) in non-interest income (NOII). Provision expenses reached the record of VND5,586 billion (+35.2% QoQ, +33% YoY), making 2Q22 PBT touch only VND4,177 billion (-62.5% QoQ, -17% YoY). In 1H22, PBT was VND15,323 billion (+69.6% YoY).

Credit growth reached 13.6% YTD in 2Q22

Credit growth in 2Q22 rose by 29.0% YoY and 13.6% YTD. It was driven by the retail & SME groups, accounting for 61.1% of the outstanding credit of the parent bank, up 4.2% YoY.

NPL ratio hit 5.25%, up 42bps QoQ due to bad debts increasing 74bps QoQ

NPL ratio hit 5.25% (+42bps QoQ) in the second quarter, with bad debts up 74bps QoQ. During the period, provision expenses were VND5,586 billion (+35.2% QoQ, +33.0% YoY), making the loan loss coverage ratio (LLCR) drop to 62.0% (-162bps QoQ).

VPB expects to successfully make a private placement to its strategic partner in 2022

The private placement of 1.19 billion shares, equivalent to 15% of the charter capital, to a foreign investor was behind schedule due to domestic and international uncertainties. However, VPB still hopes to get it done in 2022.

We recommend BUY for VPB stock with a target price of VND43,600

Based on valuation results, business outlook, and possible risks, we recommend BUY for VPB stock with a target price of VND43,600/share, 48.3% higher than closing the price on August 4, 2022.

Buy maintain

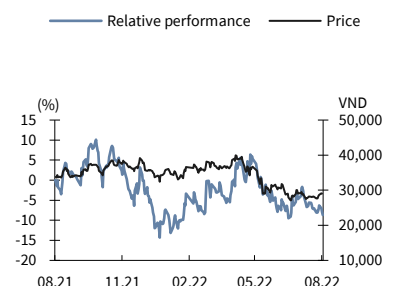
Target price	VND43,600
Upside/Downside	48.3%
Current price (Aug 4, 2022)	VND29,400
Consensus target price	VND45,390
Market cap (VNDbn)	129,785

Trading data	
Free float	88.7
3M avg trading value (VNDbn/USDmn)	332/14.1
Foreign ownership	17.38
Major shareholder	Composite Capital Master Fund LP (5.0%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	0	0	-21	-14
Relative	-7	-7	-4	-9

Forecast earnings & valuation

FY-end	2020A	2021A	2022F	2023F
Net interest income (VNDbn)	32,346	34,349	44,329	57,346
Pre-provision operating profit (VNDbn)	27,641	33,583	46,233	53,016
NPAT of the parent bank (VNDbn)	10,414	11,808	21,546	24,095
EPS (VND)	4,116	2,621	3,195	3,573
EPS growth (%)	26%	-36%	22%	12%
PER (x)	7.1	11.2	9.2	8.2
Book value per share (VND)	20,867	19,187	16,388	20,228
PBR (x)	1.41	1.53	1.79	1.45
ROE (x)	21.9%	16.7%	22.6%	21.0%



Source: Bloomberg, KB Securities Vietnam

Business performance

2Q22 PBT was VND4,177 billion, down 17% YoY

In the second quarter of 2022, VPB achieved NII of VND10,466 billion (+5.8% QoQ, +13.4% YoY). Specifically, NII of the parent bank expanded by 26.9% YoY while NII of FE Credit further dropped by 3.2% YoY. NOII was VND2,821 billion (-66.3% QoQ, +0.2% YoY) since the bank no longer records unexpected upfront fees. Provision expenses reached the record of VND5,586 billion (+35.2% QoQ, +33% YoY), making 2Q22 PBT down to VND4,177 billion (-62.5% QoQ, -17% YoY). In the first half of this year, PBT rose to VND 15,323 billion (+69.6% YoY).

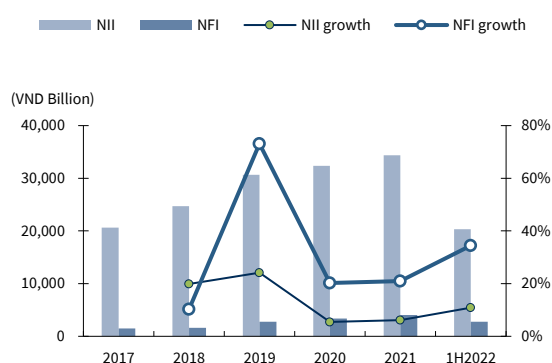
Credit growth reached 13.6% YTD in 2Q22

Credit growth in 2Q22 continued to surge 29.0% YoY and 13.6% YTD. This figure of the parent bank and FE Credit was 14.3% YTD and 10.5% YTD, respectively, both higher than these over the same period last year but lower than expected in the context of the economic recovery, rising demand, and low base in 2021. The ratio of outstanding value of corporate bonds to total outstanding loans was 9.77% (-23bps QoQ). VPB keeps focusing on retail & SME groups, accounting for 61.1% of the outstanding loans of the parent bank in 2Q22, up 4.2% YoY.

2Q22 NIM was flat QoQ with improved earnings yield

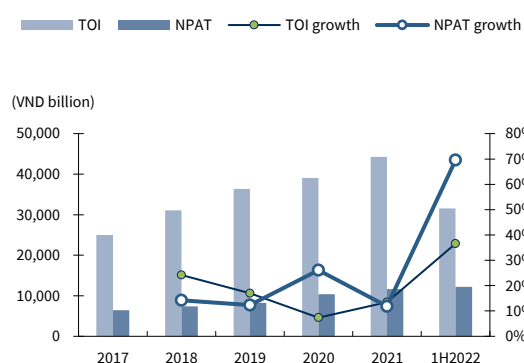
2Q22 NIM stood at 7.58% (-7bps QoQ, -146bps YoY). This figure of the parent bank was 5.37% (-7bps QoQ) as the average earnings yield increased 11bps QoQ while the average cost of funds gained 8bps QoQ. Meanwhile, NIM of FE Credit improved by 73bps QoQ to 22.2%. Consolidated CASA fell significantly to 19.0% (-253bps QoQ).

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



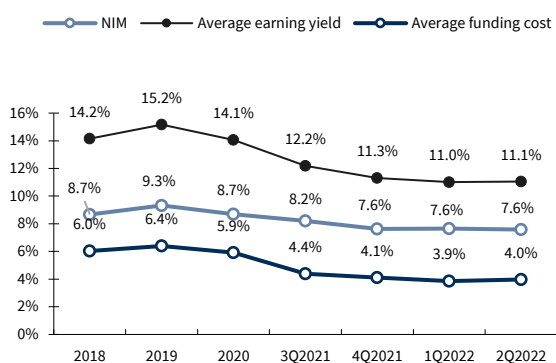
Source: VPBank, KB Securities Vietnam

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



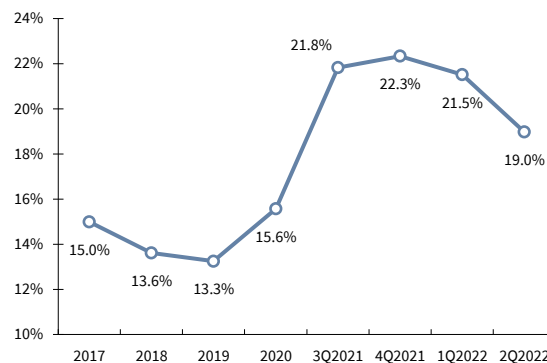
Source: VPBank, KB Securities Vietnam

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



Source: VPBank, KB Securities Vietnam

Fig 4. VPB – CASA ratio (%)

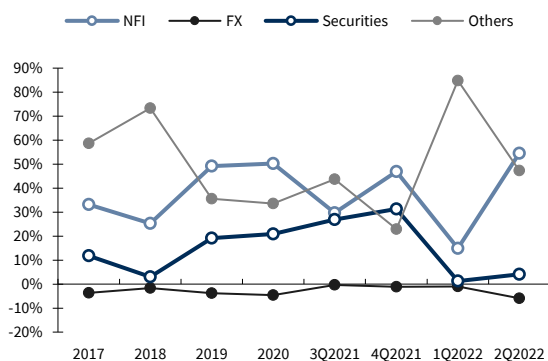


Source: VPBank, KB Securities Vietnam

2Q22 NOII was flat YoY at VND2,820 billion

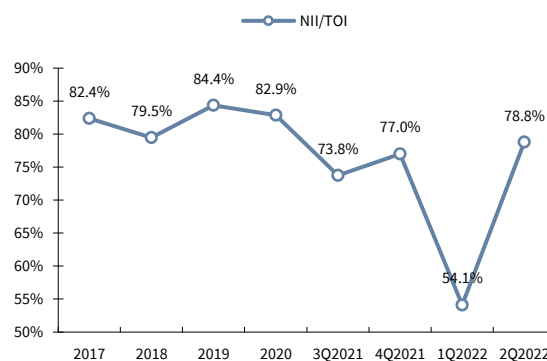
In 2Q22, net fee income (NFI) grew well to VND1,538 billion (+23.1% QoQ, +41.8% YoY). In particular, net gains from settlement services jumped 73.7% YoY and bancassurance increased 31.0% YoY. Trading securities lost VND232 billion due to rising interest rates while securities investment recorded a profit of VND349 billion (-74.9% YoY). Apart from that, net other income remained high thanks to debt recovery, helping NOII reach VND2,820 billion (flat YoY).

Fig 5. VPB – NOII breakdown (%)



Source: VPBank, KB Securities Vietnam

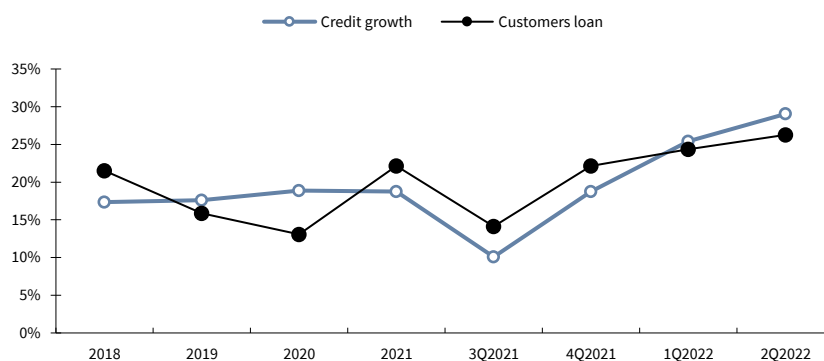
Fig 6. VPB – NII/TOI (%)



Source: VPBank, KB Securities Vietnam

Credit growth of the parent bank reached 3.7% QoQ, down from the previous quarter because VPB hit the credit growth ceiling granted by the State Bank of Vietnam (SBV) at the beginning of the year. Meanwhile, 2Q22 marked positive growth of FE Credit (+8.6% QoQ).

Fig 7. VPB – Credit growth by quarter (%)

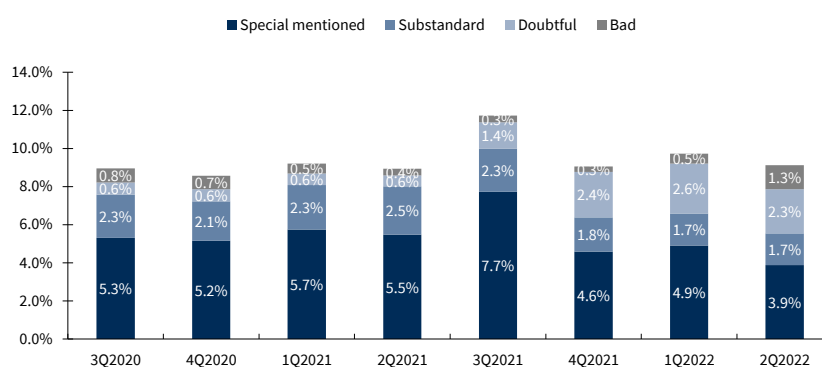


Source: VPBank, KB Securities Vietnam

NPL ratio reached 5.25%, up 42 bps QoQ due to bad debts increasing 74bps QoQ

NPL ratio in 2Q22 reached 5.25%, up 42bps QoQ mainly due to the increase in bad debts (+74bps QoQ). In particular, the NPL ratio of the parent bank picked up 57bps QoQ to 2.83%, and that of FE Credit rose 23bps QoQ to 15.0%, in our estimates. During the period, provision expenses were VND5,586 billion (+35.2% QoQ, +33.0% YoY), with VND2,221 billion (+10.3% QoQ, +27.8% YoY) from the parent bank and VND3,364 billion (+58.8% QoQ, +36.7% YoY) from FE Credit. Consolidated LLCR was 62.0%, down 162bps QoQ. Total restructured debts by the end of 2Q22 shrank to VND9.8 trillion (-22.8% QoQ, -39.2% YTD), equivalent to 2.3% of total outstanding loans. As shared by VPB, it has made 65% of the provisions required for restructured debts.

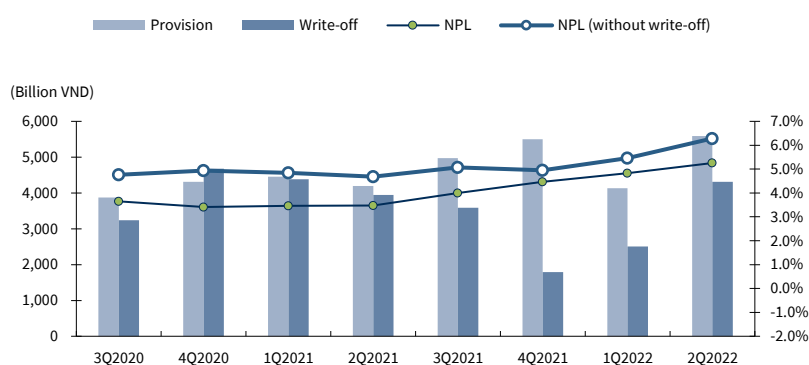
Fig 8. VPB – Groups of debt (%)



Source: VPBank, KB Securities Vietnam

Fig 9. VPB – Provision, NPL, provision expenses (VNDbn, %)

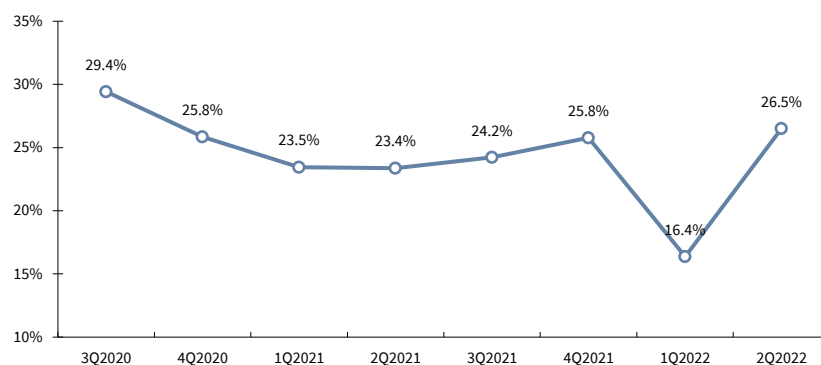
Despite accelerating provisioning and provision expenses reaching the highest levels in recent quarters, VPB still recorded a high NPL ratio since its customer base was hard hit by the COVID-19 pandemic.



Source: VPBank, KB Securities Vietnam

CIR returned to a high base as the bank no longer records extraordinary upfront fees as in 1Q22.

Fig 10. VPB – CIR (%)



Source: VPBank, KB Securities Vietnam

VPB keeps focusing on individual and SME groups

VPB keeps focusing on individual and SME customers, representing 61.1% of the outstanding loans of the parent bank as of 2Q22 against 56.9% over the same period a year ago. The comprehensive digitalization combined with the VPBank Neo application has successfully attracted a large number of customers. The number of individual customers registered through VPBank Neo was 3.7 million (+61% YoY), with the disbursement rate of above 85%. Meanwhile, online payment transactions of SME customers reached 10.2 million in 1H22 (+47% YoY), with the disbursement rate of 63%.

VPB expects to successfully make a private placement to its strategic partner in 2022

The private placement of 1.19 billion shares, equivalent to 15% of the charter capital, to a foreign investor to raise charter capital to VND79,334 billion was behind schedule due to domestic and international uncertainties. However, VPB still hopes to get it done in 2022. Besides, we will update more on the takeover of a weak bank until further details.

Forecast & Valuation

2022F business results

We make our forecast for VPB in 2022F as follows:

- We revise our credit growth forecast from 34.6% to 23% as the SBV is quite conservative in expanding credit room in the face of inflationary pressures and high USD/VND exchange rate.
- NIM may decrease by 3bps YoY to 7.61%, given the increasing average cost of funds resulting from policy adjustments by the SBV. In addition, average earnings yield will also go up thanks to boosting credit growth among individuals and SMEs in the year-end period.
- NPL ratio is forecast at 4.5%, flat YoY.
- Provision expenses should be down 3.4% YoY to VND18,363 billion.
- We forecast the parent bank's NPAT in 2022 to reach VND21,546 billion, up 82.5% YoY.

Table 11. VPB – 2022E–2023E business results

VND bn	2021A	2022F	2023F	%YoY 2022	%YoY 2023
Net interest income	34,349	44,329	57,346	29.1%	29.4%
Net fee income	4,059	4,907	6,080	20.9%	23.9%
Total operating income	44,301	60,435	68,852	36.4%	13.9%
Provision expenses	(19,002)	(18,363)	(20,647)	-3.4%	12.4%
NPAT of the parent bank	11,808	21,546	24,095	82.5%	11.8%
NIM	7.63%	7.61%	7.89%	-3bps	28bps
Average earnings yield	11.30%	11.82%	12.35%	52bps	54bps
Average cost of funds	4.12%	5.00%	5.44%	88bps	44bps
CIR	24.2%	23.5%	23.0%	-70bps	-50bps
NPL	4.47%	4.50%	4.50%	3bps	0bps
Total assets	547,626	699,782	846,169	28%	21%
Equity	86,451	110,508	136,403	28%	23%

Source: KB Securities Vietnam

We recommend BUY for VPB stock with a target price of VND43,600/share

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

(1) P/B method

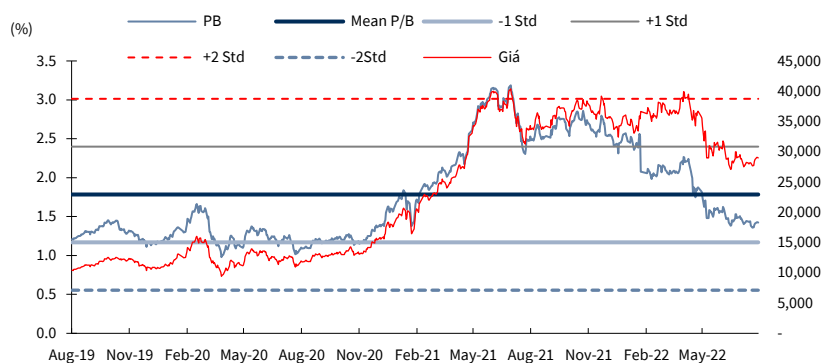
We give VPB a forward P/B of 1.76x, equivalent to VPB's three-year average P/B, down from the previous forecast of 2.3x, given concerns about the negative impacts of inflation risks and economic recession on the whole banking system.

(2) Residual income method

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

Based on the two above mentioned valuation methods with a ratio of 50-50, we recommend BUY for VPB shares with a target price of VND43,600/share, 48.3% higher than the closing price on August 4, 2022.

Fig 12. VPB – Share performance & P/B (VND/share, x)



Source: Fiiipro, KB Securities Vietnam

Table 13. VPB – Target price according to residual income method (VND/share)

VND bn	2022F	2023F	2024F
NPAT	21,546	24,095	25,704
Excessed return	11,103	10,745	9,227
Required rate of return (r)	12.08%		
Growth (g)	5.0%		
Terminal value	108,933		
End-2022 fair price	214,157		
Target price	47,530		

Source: KB Securities Vietnam

Table 14. VPB – Target price according to valuation methods

Forecast price	Forecast price	Weight	Weighted price
P/B	39,700	50%	19,850
Residual income	47,530	50%	23,765
Target price			43,600

Source: KB Securities Vietnam

VPB – 2019A–2023E financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2019	2020	2021	2022F	2023F		2018	2019	2020E	2021F	2022F
Net interest income	30,670	32,346	34,349	44,329	57,346	Loans	253,100	286,319	345,607	424,660	524,205
Interest income	49,875	52,362	50,827	68,878	89,837	Marketable securities	1,567	493	6,971	9,041	11,211
Interest expense	(19,204)	(20,016)	(16,478)	(24,548)	(32,490)	Cash (ex. Reserves)	2,459	3,283	2,346	3,709	4,562
Fees & commissions	2,792	3,356	4,059	4,907	6,080	Interest earning assets	351,188	393,458	506,371	659,218	795,186
Other non-interest income	2,020	2,236	2,808	1,115	4,040	Fixed assets & other assets	27,797	26,853	47,877	48,628	59,217
Total operating income	36,356	39,033	44,301	60,435	68,852	Total assets	377,204	419,027	547,626	699,782	846,169
SG&A expenses	(12,344)	(11,392)	(10,719)	(14,202)	(16,836)	Customer deposits	213,950	233,428	241,837	312,140	383,932
Pre-provisioning OP	24,012	27,641	33,583	46,233	53,016	Borrowings & call money/repos	57,937	63,172	81,400	94,092	115,732
Provision for credit losses	(13,688)	(14,622)	(19,002)	(18,363)	(20,647)	Interest bearing liabilities	322,482	352,939	446,206	535,715	658,907
Other income	2,682	3,442	5,469	12,967	6,733	Other liabilities	12,220	13,107	14,865	53,420	50,691
Other expense	(663)	(1,206)	(2,661)	(2,853)	(2,693)	Total liabilities	334,994	366,233	461,175	589,273	709,766
Pre-tax income	10,324	13,019	14,580	27,871	32,368	Charter capital	25,300	25,300	45,057	67,434	67,434
Income tax expense	(2,064)	(2,606)	(2,930)	(5,574)	(6,474)	Capital surplus	693	366	77	77	77
NP	8,260	10,414	11,651	22,296	25,895	Retained earnings	11,806	17,415	22,500	21,669	45,764
Minority interest profit	-	-	157	(750)	(1,800)	Capital adjustments	-	-	-	-	-
Parent NP	8,260	10,414	11,808	21,546	24,095	Total shareholders' equity	42,210	52,794	86,451	110,508	136,403

Financial Indicators (%)						Valuation (VND, X, %)					
	2018	2019	2020E	2021F	2022F		2018	2019	2020E	2021F	2022F
Profitability						Share Price Indicators					
ROE	21.5%	21.9%	16.7%	22.6%	21.0%	EPS	3,265	4,116	2,621	3,195	3,573
ROA	2.4%	2.6%	2.4%	3.6%	3.4%	BVPS	16,684	20,867	19,187	16,388	20,228
Pre-provision ROE	49.9%	46.5%	38.6%	37.6%	34.4%	Tangible BVPS	16,455	20,610	19,042	16,255	20,066
Pre-provision ROA	5.5%	5.6%	5.6%	5.9%	5.5%	Valuations					
Net interest margin (NIM)	9.3%	8.7%	7.6%	7.6%	7.9%	PER	9.0	7.1	11.2	9.2	8.2
Efficiency						PBR	18	14	15	18	15
Pure Loan to deposit ratio	120.2%	124.6%	146.9%	140.0%	140.0%	Dividend yield	0.0%	0.0%	1.7%	2.2%	2.5%
Cost-income ratio	34.0%	29.2%	24.2%	23.5%	23.0%	ROE	21.5%	21.9%	16.7%	22.6%	21.0%
Growth						Capital Adequacy					
Asset growth	16.7%	11.1%	30.7%	27.8%	20.9%	CAR	10.0%	9.3%	10.0%	>8%	>8%
Loan growth	15.9%	13.1%	20.7%	22.9%	23.4%	Asset Quality					
PPOP growth	17.4%	15.1%	21.5%	37.7%	14.7%	NPL ratio (substandard)	3.4%	3.4%	4.5%	4.5%	4.5%
Parent NP growth	12.3%	26.1%	13.4%	82.5%	118%	Coverage ratio (substandard)	46.4%	45.3%	62.3%	62.7%	55.0%
EPS growth	12.3%	26.1%	-36.3%	21.9%	118%	NPL ratio (precautionary)	8.2%	8.6%	9.1%	9.1%	9.1%
BVPS growth	21.5%	25.1%	-8.1%	-14.6%	23.4%	Coverage ratio (precautionary)	19.4%	18.0%	30.7%	31.0%	27.2%

Source: VPBank, 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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