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In 2Q23, PBT contracted by 37.5% YoY to VND2,613 billion

In 2Q23, Vietnam Prosperity Bank (VPB) achieved net interest income (NII) of VND8,762 billion (-8.1% QoQ, -16.3% YoY) and non-interest income (NOII) of VND2,362 billion (+104.3% QoQ, +84.1% YoY), taking total operating income (TOI) to VND12,782 billion (+3.4% QoQ, -3.8% YoY). Provision expense remained high, at VND6,490 billion (+1.6% QoQ, +16.2% YoY), making PBT record VND2,613 billion (+2.5% QoQ, -37.5% YoY).

NIM should see significant improvements in 2H23 and 2024

VPB's NIM should see significant improvements in 2H23 and 2024, backed by (1) lower funding costs due to cooling deposit interest rates in 2Q23 and the maturity of 6-month term deposits bearing high interest rates by the end of 2Q23 and (2) proceeds from VPB's stake sale to SMBC expected at end-September 2023.

Provision expense is forecast to stay high toward the end of this year

VPB was among banks witnessing the strongest increases in 2Q23 NPL ratio. In particular, the figure recorded 7.44% (+120bps QoQ), and that of the parent bank was 3.88% (+46bps QoQ). Special mentioned loan contracted by 3bps QoQ to 8.19%, the highest among lenders under our coverage. Provision expenses should stay high in the second half of 2023 amid asset quality deterioration and a minimal loan loss coverage ratio (LLCR) of 37.7%.

We recommend BUY for VPB with a target price of VND24,400/share

Based on valuation results, business outlook, and possible risks, we reiterate our BUY rating for VPB. The target price for 2023F is VND24,400/share, 18.7% higher than the closing price on August 22, 2023.

Buy maintain

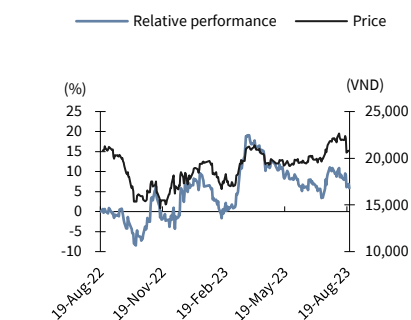
Target price	VND24,400
Upside	18.7%
Current price (Aug 22, 2023)	VND20,600
Consensus target price	VND24,831
Market cap (VNDbn/USDbn)	138,915/5.7

Trading data	
Free float	85.06
3M avg trading value (VNDbn/USDmn)	438/18.1
Foreign ownership	16.38
Major shareholder	Composite
	Capital master fund (5.0%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-6	4	18	-1
Relative	-4	-4	5	6

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net interest income (VNDbn)	34,349	41,021	39,980	57,584
PPOP (VNDbn)	33,583	43,681	40,288	55,214
NPAT (VNDbn)	11,477	16,909	8,982	12,546
EPS (VND)	2,601	2,694	1,384	1,771
EPS growth (%)	-37%	4%	-49%	28%
PER (x)	7.9	7.6	14.9	11.6
Book value per share (VND)	19,149	15,349	18,057	19,828
PBR (x)	1.08	1.34	1.14	1.04
ROE (%)	16.5%	17.8%	7.3%	8.3%
Dividend yield (%)	0.00%	0.00%	4.90%	0.00%



Source: Bloomberg, KB Securities Vietnam

Business performance

In 2Q23, PBT contracted by 37.5% YoY to VND2,613 billion

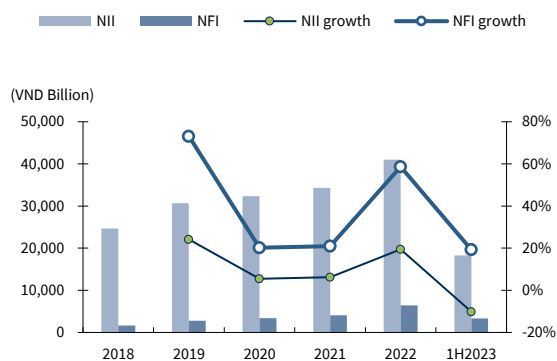
In 2Q23, VPB achieved NII of VND8,762 billion (-8.1% QoQ, -16.3% YoY) and NOI of VND2,362 billion (+104.3% QoQ, +84.1% YoY), taking TOI to VND12,782 billion (+3.4% QoQ, -3.8% YoY). Provision expense remained high, at VND6,490 billion (+1.6% QoQ, +16.2% YoY), making PBT record VND2,613 billion (+2.5% QoQ, -37.5% YoY).

Table 1. VPB – 1H23 business results

(VND bn)	2Q2022	1Q2023	2Q2023	+/-%QoQ	+/-%YoY	Comments
Net interest income	10,466	9,534	8,762	-8.1%	-16.3%	Lower NII was driven by a sharp drop in NIM amid skyrocketing deposit costs.
Net fee income	1,538	1,668	1,657	-0.7%	7.7%	The main driver came from payment and settlement services growth (+39.4% YoY) while bancassurance's contribution shrank by 28.4% YoY.
Other income	1,283	1,156	2,362	104.3%	84.1%	Gain from FX trading expanded by 26.4% YoY, and income from investment activities recovered well, up 354.3% YoY. Net other income jumped by 64.1% YoY with the major stimulus being financial derivatives (+228.3% YoY) and debt trading (+130.6% YoY). Meanwhile, recovery from written-off bad debts saw a 38.9% YoY decrease.
Total operating income	13,286	12,359	12,782	3.4%	-3.8%	
Operating expense	(3,524)	(3,423)	(3,679)	7.5%	4.4%	
Pre-provision operating profit	9,762	8,936	9,103	1.9%	-6.8%	
Provision expense	(5,586)	(6,386)	(6,490)	1.6%	16.2%	Provision expense continues to remain at a high level due to asset quality deterioration in the context that VPB's LLCR is relatively low, reaching only 37.7% as of 2Q23.
NPAT	3,324	1,650	2,452	48.6%	-26.2%	
Loan growth	13.6%	4.9%	10.1%	5.2 ppts	-3.4 ppts	Parent bank's loan growth was 13.0% (-1.3 ppts YoY), driven by corporate loans (+20% YTD) and credit cards (+18% YTD). Meanwhile, FE Credit's outstanding loans edged down 3.3% YTD as disbursement activities required good risk management against the backdrop of unfavorable economic conditions.
Deposit growth	10.8%	9.1%	20.9%	11.8 ppts	10.1 ppts	Deposit growth was driven by customer deposits (+27.9% YTD). VPB enjoyed the strongest deposit growth across all banks in 2Q23, followed by Maritime Bank (MSB, +12.3% YTD) and HDBank (HDB, +17.5% YTD).
NIM	7.58%	6.25%	5.70%	-55 bps	-188 bps	NIM picked up 55bps QoQ due to rising funding costs arising from high deposit interest rates in 3Q-4Q22 and lower average earnings yield (-35bps QoQ). CASA ratio eyed a slight recovery, up 75bps QoQ to 15.0%.
Average earnings yield	11.06%	11.82%	11.47%	-35 bps	40 bps	
Average cost of funds	3.97%	6.38%	6.58%	19 bps	261 bps	
CIR	26.5%	27.7%	28.8%	1 ppts	2.2 ppts	
NPL	5.25%	6.24%	7.44%	119 bps	218 bps	NPL ratio of the parent bank went up 46bps QoQ to 3.88% while that of FE Credit was estimated to rise 581bps QoQ to 28.37%. Surging NPLs was primarily due to doubtful debt (+78bps QoQ) and bad debt (+75bps QoQ). Special mentioned debt decreased by 3bps QoQ.

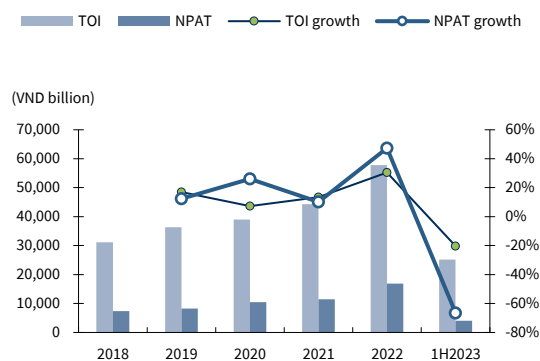
Source: VPBank, KB Securities Vietnam

Fig 2. VPB – NII, NFI growth (VNDbn, %)



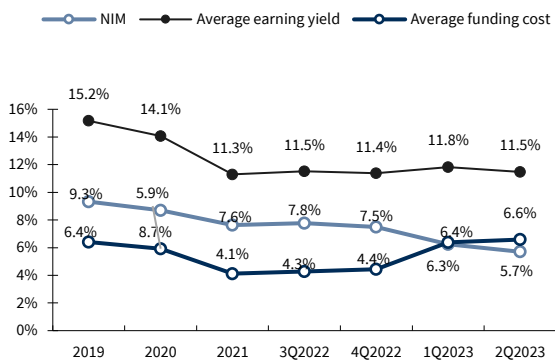
Source: VPBank, KB Securities Vietnam

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



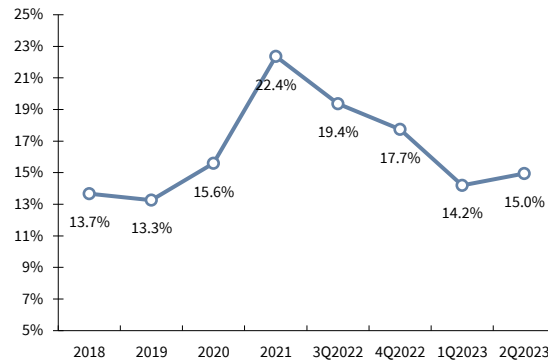
Source: VPBank, KB Securities Vietnam

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



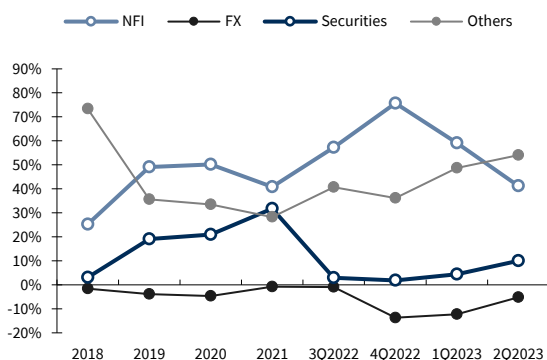
Source: VPBank, KB Securities Vietnam

Fig 5. VPB – CASA ratio in 2018–2023 (%)



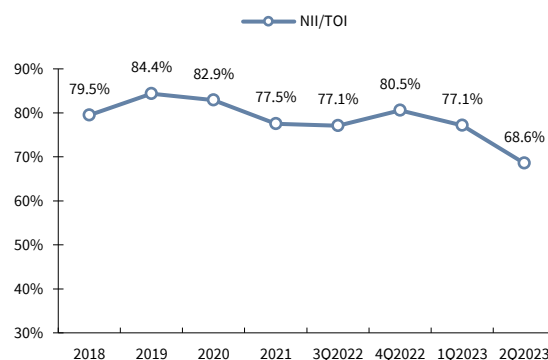
Source: VPBank, KB Securities Vietnam

Fig 6. VPB – NOII breakdown (%)



Source: VPBank, KB Securities Vietnam

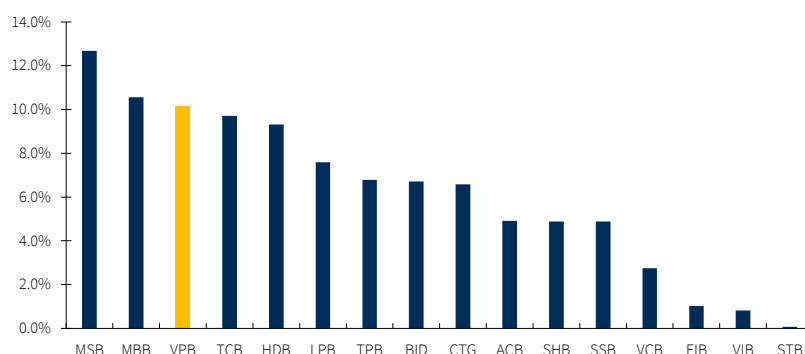
Fig 7. VPB – NII/TOI (%)



Source: VPBank, KB Securities Vietnam

Loan growth in 1H23 reached 10.1% YTD, accomplishing 30.6% out of the 33% target set at the start of the year.

Fig 8. Local banks – Loan growth in 2Q23 (%)

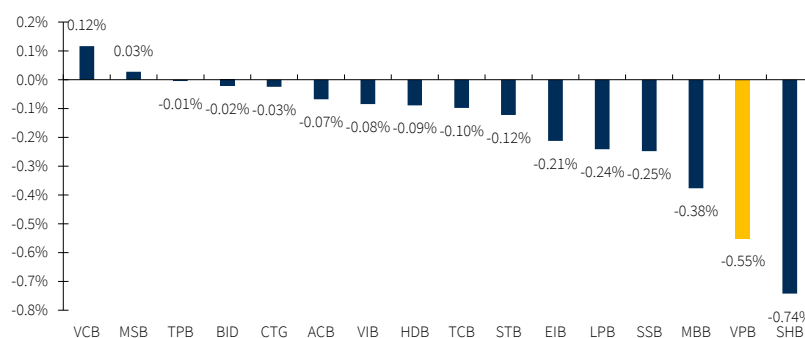


Source: Vietnamese banks, KB Securities Vietnam

NIM should see significant improvements in 2H23 and 2024

NIM narrowed 55bps QoQ in the second quarter. It can be explained by high base levels of deposit interest rates in 3Q–4Q22 plus a 35bps QoQ decrease in the average earnings yield as the bank aggressively cut lending rates to boost loan growth, which weighed on funding costs, coupled with asset quality deterioration. In KBSV's view, VPB's NIM would see significant improvements in 2H23 and 2024, backed by (1) lower funding costs due to cooling deposit interest rates in 2Q23 and the maturity of 6-month term deposits bearing high interest rates by the end of 2Q23 and (2) proceeds from selling stake to Sumitomo Mitsui Banking Corporation (SMBC) expected at end-September 2023. This amount can both optimize VPB's funding costs in the year-end period and alleviate pressure on short-term capital for medium- and long-term loans when this ratio is subject to a decline to a maximum of 30% from October 1, 2023 as per Circular 22/2021.

Fig 9. Local banks – QoQ growth of NIM in 2Q23 (%)



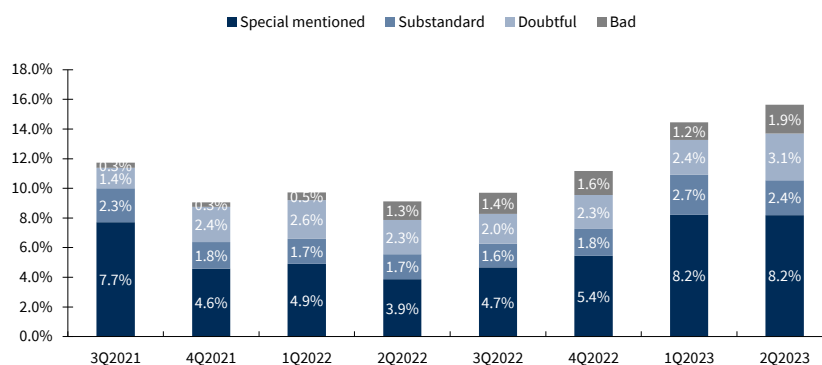
Source: Vietnamese banks, KB Securities Vietnam

Provision expense is forecast to stay high toward the end of this year

VPB was among banks witnessing the strongest increases in 2Q23 NPL ratio. In particular, the figure recorded 7.44% (+120bps QoQ), and that of the parent bank was 3.88% (+46bps QoQ). Special mentioned loan contracted by 3bps QoQ to 8.19%, the highest among lenders under our coverage. Provision expenses should stay high in the second half of 2023 amid asset quality deterioration and a minimal LLCR of 37.7%.

Fig 10. VPB – Debt groups in 2021–2023

VPB's NPL ratio has increased for four consecutive quarters, showing that asset quality has been hit by the overall health of the economy.



Source: VPBank, KB Securities Vietnam

Fig 11. Local banks – Correlation between NPLs and special mentioned loan

	% NPL	QoQ % Debt Group 2	QoQ	Provision (Billion VND)	LLCR	
VPB	7.44%	1.20%	8.19%	-0.03%	-13,704	37.7%
LPB	2.23%	0.78%	1.27%	-0.73%	-4,438	78.5%
TPB	2.21%	0.76%	3.51%	-0.51%	-2,383	60.9%
STB	1.79%	0.60%	1.16%	0.21%	-6,342	77.1%
MSB	2.56%	0.54%	3.39%	0.22%	-2,230	63.8%
ACB	1.06%	0.33%	0.87%	0.30%	-4,974	107.6%
HDB	2.15%	0.30%	5.04%	1.84%	-3,790	61.3%
TCB	1.07%	0.22%	1.96%	0.04%	-5,793	115.8%
BID	1.59%	0.05%	2.17%	-0.15%	-39,619	152.6%
CTG	1.27%	0.00%	2.59%	-0.09%	-29,228	168.9%
VIB	3.63%	-0.01%	6.42%	0.99%	-3,331	39.1%
VCB	0.83%	-0.02%	0.69%	0.04%	-37,747	385.8%
EIB	2.12%	-0.21%	1.46%	-0.26%	-319	74.0%
SHB	2.57%	-0.26%	2.21%	0.23%	-7,224	68.9%
MBB	1.44%	-0.31%	3.59%	0.13%	-11,676	156.1%

Source: Vietnamese banks, KB Securities Vietnam

Forecast & Valuation

Table 12. VPB – 2022A–2024F business results

(VND bn)	2022A	2023F	+/-%YoY	2024F	+/-%YoY	Comments
Net interest income	41,021	39,980	-2.5%	57,584	44.0%	Our higher loan growth forecast (currently 22.5% vs previously 20.7%) comes from favorable factors like falling cost of funds to boost loan growth. NII is revised down 11% from the old projection due to a stronger-than-expected drop in NIM.
Net fee income	6,438	9,131	41.8%	12,068	32.2%	
Total operating income	57,797	55,955	-3.2%	75,635	35.2%	
Provision expense	(22,461)	(29,060)	29.4%	(39,532)	36.0%	We maintain our provisioning expense forecast at a high level due to concerns over new NPLs in the remainder of 2023 in the context of high special mentioned debt in 2Q23.
NPAT	16,909	8,982	-46.9%	12,546	39.7%	
NIM	7.50%	6.14%	-136bps	7.31%	118bps	We adjust down our NIM forecast by 80bps against our previous assumption due to higher-than-expected average funding costs in 1H23. However, NIM should recover well in 2024 when funding costs return to reasonable levels and asset quality improves.
Average earnings yield	11.37%	11.55%	18bps	11.98%	43bps	
Average cost of funds	4.43%	6.32%	188bps	5.45%	-87bps	
CIR	24.4%	28.0%	358bps	27.0%	-100bps	
NPL	5.73%	7.30%	157bps	6.40%	-90bps	NPL ratio forecast is up 90bps compared to the old projection as NPLs grew stronger than expected in 2Q23.
Total assets	631,013	768,068	21.7%	923,662	20.3%	
Total equity	103,502	143,258	38.4%	157,304	9.8%	

Source: KB Securities Vietnam

We recommend BUY for VPB with a target price of VND24,400/share

We combine P/B and residual income valuation approaches to find a fair price for VPB.

(1) P/B method

We keep a 2023 forward P/B of 1.15x, equivalent to -1 standard deviation of VPB's 5-year P/B average, given concerns over the impact of asset quality on VPB's profitability in the rest of the year.

(2) Residual income method (Table 14)

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

Based on the above two methods with a ratio of 50-50, we recommend BUY for VPB with a target price for 2023F of VND24,400/share, 18.7% higher than the closing price on August 22, 2023.

Fig 13. VPB – Historical P/B in 2018–2023 (x)



Source: Fiiipro, KB Securities Vietnam

Table 14. VPB – Residual income method

VND bn	2023F	2024F	2025F
NPAT	8,982	12,546	19,460
Excessed return	-5,529	-7,539	-2,594
Required rate of return (r)	14.02%		
Growth (g)	5.0%		
Terminal value	35,923		
End-2023 fair value	176,533		
Share price	25,476		

Source: KB Securities Vietnam

Table 15. VPB – Valuation results

Valuation method	Forecast price	Weight	Weighted price
P/B	23,420	50%	11,710
Residual income	25,476	50%	12,738
Target price			24,400

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	39,980	57,584	Loans	286,319	345,390	424,662	521,800	648,381
Interest income	52,362	50,827	62,200	75,250	94,347	Marketable securities	493	6,971	7,793	11,514	14,479
Interest expense	(20,016)	(16,478)	(21,179)	(35,270)	(36,763)	Cash (ex. Reserves)	3,283	2,346	2,658	3,443	4,330
Fees & commissions	3,356	4,059	6,438	9,131	12,068	Interest earning assets	393,458	506,371	587,418	715,558	858,872
Other non-interest income	2,236	2,808	10,584	6,613	5,704	Fixed assets & other assets	26,853	47,877	54,029	63,663	77,368
Total operating income	39,033	44,301	57,797	55,955	75,635	Total assets	419,027	547,409	631,013	768,068	923,662
SG&A expenses	(11,392)	(10,719)	(14,116)	(15,667)	(20,421)	Customer deposits	233,428	241,837	303,151	372,892	468,898
Pre-provisioning OP	27,641	33,583	43,681	40,288	55,214	Borrowings & call money/repos	63,172	81,400	63,762	100,398	123,608
Provision for credit losses	(14,622)	(19,219)	(22,461)	(29,060)	(39,532)	Interest bearing liabilities	353,126	446,310	509,092	607,566	742,598
Other income	3,442	5,469	13,017	9,546	8,234	Other liabilities	13,107	14,821	18,419	17,243	23,759
Other expense	(1,206)	(2,661)	(2,433)	(2,933)	(2,530)	Total liabilities	366,233	461,131	527,511	624,810	766,357
Pre-tax income	13,019	14,364	21,220	11,228	15,683	Charter capital	25,300	45,057	67,434	79,334	79,334
Income tax expense	(2,606)	(2,887)	(4,311)	(2,246)	(3,137)	Capital surplus	366	77	-	23,990	23,990
NP	10,414	11,477	16,909	8,982	12,546	Retained earnings	17,415	22,439	16,752	19,734	33,780
Minority interest profit	-	244	1,259	2,000	1,500	Capital adjustments	-	-	-	-	-
Parent NP	10,414	11,721	18,168	10,982	14,047	Total shareholders' equity	52,794	86,278	103,502	143,258	157,304

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%	7.3%	8.3%	EPS	4,116	2,601	2,694	1,384	1,771
ROA	2.6%	2.4%	2.9%	1.3%	1.5%	BVPS	20,867	19,149	15,349	18,057	19,828
Pre-provision ROE	46.5%	38.6%	36.8%	26.1%	29.4%	Tangible BVPS	20,610	19,003	15,225	17,950	19,724
Pre-provision ROA	5.6%	5.6%	5.9%	4.6%	5.2%	Valuations					
Net interest margin (NIM)	8.7%	7.6%	7.5%	6.1%	7.3%	PER	4.7	7.5	7.2	14.1	11.0
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%	28.0%	27.0%	ROE	21.9%	16.5%	17.8%	7.3%	8.3%
Growth						Capital Adequacy					
Asset growth	11.1%	30.6%	15.3%	21.7%	20.3%	CAR	12.0%	14.3%	14.9%	>14%	>14%
Loan growth	13.1%	20.6%	23.0%	22.9%	24.3%	Asset Quality					
PPOP growth	15.1%	21.5%	30.1%	-7.8%	37.0%	NPL ratio (substandard)	3.4%	4.6%	5.7%	7.3%	6.4%
Parent NP growth	26.1%	12.6%	55.0%	-39.6%	27.9%	Coverage ratio (substandard)	45.3%	60.9%	54.4%	38.7%	41.0%
EPS growth	26.1%	-36.8%	3.6%	-48.6%	27.9%	NPL ratio (precautionary)	8.6%	9.3%	11.2%	14.8%	11.8%
BVPS growth	25.1%	-8.2%	-19.8%	17.6%	9.8%	Coverage ratio (precautionary)	18.0%	29.9%	27.9%	19.1%	22.2%

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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