

Vietcombank (VCB)

Positive performance despite the pandemic

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Senior Analyst - Le Anh Tung
tungla@kbsec.com.vn

VCB's 3Q results were higher than expected despite the resurgence of COVID-19

Vietcombank (VCB) announced positive 3Q21 business results with PBT reaching VND5,737 billion (+16.1% QoQ, +15.1% YoY) on total operating income (TOI) of VND13,252 billion (+2.7% QoQ, +14.4% YoY). In 9M21, VCB achieved VND19,311 billion (+21% YoY) in PBT and VND41,841 billion (+20.9% YoY) in TOI.

VCB's asset quality declined but is still within expectations

NPL ratio has increased significantly to 1.16% in 3Q from 0.74% of 2Q and special mention loans were up to 0.67% from 0.61% in 2Q. The bank made a provision of VND2,512 billion (-22.1% QoQ, +24.1% YoY), reducing the loan loss coverage ratio (LLCR) to 242.9%, which is still the highest in the industry.

The COVID-19 pandemic caused the restructured debt balance to resurge

Restructured loan balance in 3Q has doubled that of the previous quarter, reaching VND9 trillion or 1% of total outstanding loans, but is likely to be reduced in Q4 due to economy re-opening.

It is likely that VCB will raise capital in 2022

Regarding the private placement plan, we expect this to be carried out by the end of 2022. The increase in Tier 1 capital will help VCB to expand credit growth in the coming time.

We recommend to BUY VCB shares with a target price VND95,000

KBSV expects VCB's credit growth in 2021 to reach 13.5%. Basing on valuation results, business outlook as well as possible risks, we maintain our BUY recommendation for VCB shares. The target price is VND95,000/share, 21.3% higher than the closing price on December 15, 2021.

Buy maintain

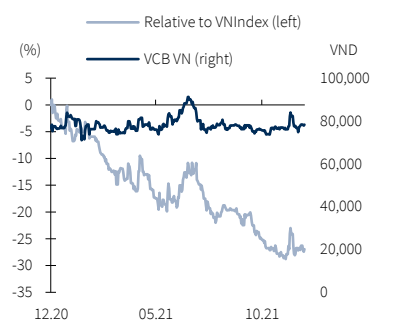
Target price	VND95,000
Upside/Downside	21.3%
Current price (Dec 15, 2021)	78,292
Consensus target price	87,500
Market cap (USDmn)	16,469

Trading data	
Free float	25.2%
3M avg trading value	USD4.4 tr
Foreign room available	6.4%
Major shareholder	SBV (74.8%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.5	-1.9	-11.0	0.3
Relative	-2.8	-1.9	-21.7	-33.4

Forecast earnings & valuation

FY-end	2020A	2021E	2022E	2023E
Net revenue (VNDmn)	36,285,475	38,820,225	42,949,843	47,878,343
Total operating income (VNDmn)	49,062,541	52,617,704	57,142,813	63,080,529
Profit before tax (VNDmn)	23,049,561	24,046,010	28,187,021	33,814,171
EPS (VND)	4,470	4,617	4,242	5,089
Book value per share (VND)	25,347	29,564	29,233	34,230
P/E (x)	17.2	18.8	22.4	20.6
P/B (x)	3.0	2.9	3.2	3.1
ROAA (%)	1.4%	1.4%	1.5%	1.6%
ROAE (%)	21.1%	18.9%	18.2%	18.0%
Dividend yield (%)	1.5%	1.3%	1.3%	1.3%



Source: Bloomberg, KB Securities Vietnam

Business performance

VCB announced positive 3Q21 business results with PBT of VND5,737 billion (+16.1% QoQ, +15.1% YoY) on TOI of VND13,252 billion (+2.7% QoQ, +14.4% YoY). In the first nine months of the year, VCB achieved VND19,311 billion (+21% YoY) in PBT and VND41,841 billion (+20.9% YoY) in TOI.

Table 1. VCB – Business performance

(VNDbln)	3Q21	3Q20	% YoY
Net interest income	10,427	8,723	19.5%
Non-interest income	2,824	2,863	-1.3%
Total operating income	13,252	11,586	14.4%
Operating expenses	(5,002)	(4,579)	9.3%
Provision expenses	(2,512)	(2,024)	24.1%
Profit before tax	5,737	4,983	15.1%

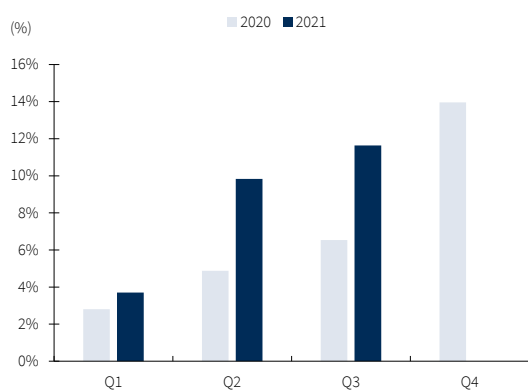
Source: Vietcombank, KB Securities Vietnam

3Q21 NII increased 19.5% YoY

3Q21 net interest income (NII) expanded 19.5% YoY, supported by the following reasons:

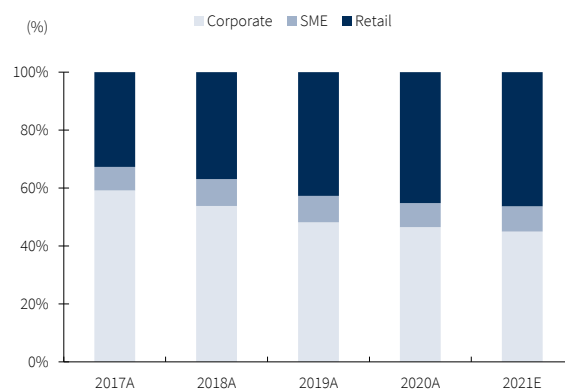
— Credit growth was positive and reached 11.6% YTD, driven by retail customers (+12% YTD).

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



Source: Vietcombank, KB Securities Vietnam

Fig 2. VCB – Loan structure (%)



Source: Vietcombank, KB Securities Vietnam

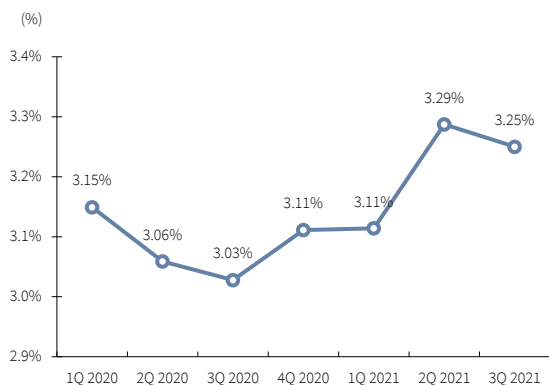
— VCB's NIM stayed unchanged in 3Q thanks to: (1) low cost of capital (low deposit interest rates and improved CASA ratio), which made up for the decrease in lending rates to support pandemic-hit customers; and (2) optimizing LDR. The scale of customer support package for the whole year 2021 is estimated at VND7.1 trillion, doubling that of 2020 at VND3.3 trillion.

— We expect VCB's NIM to sit around 3% in 2021 as VCB has proved its capacity to absorb the negative impact of the customer support package.

— CASA ratio continued to increase to 34.3% in 3Q – the highest level in recent quarters thanks to the deployment of payment service packages targeting individual customers and taking advantage of the high increase in corporate CASA given the impact of the pandemic. We expect VCB's CASA ratio to remain

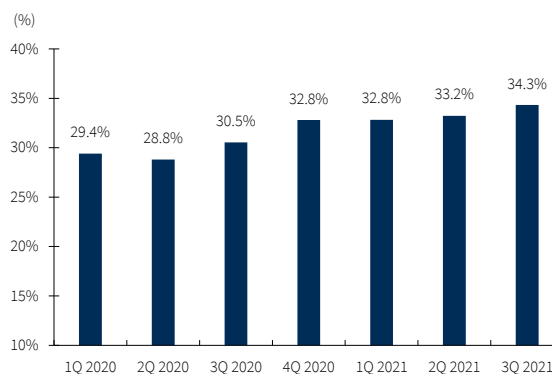
high at around 33.5% this year.

Fig 3. VCB – NIM (%)



Source: Vietcombank, KB Securities Vietnam

Fig 4. VCB – CASA ratio (%)

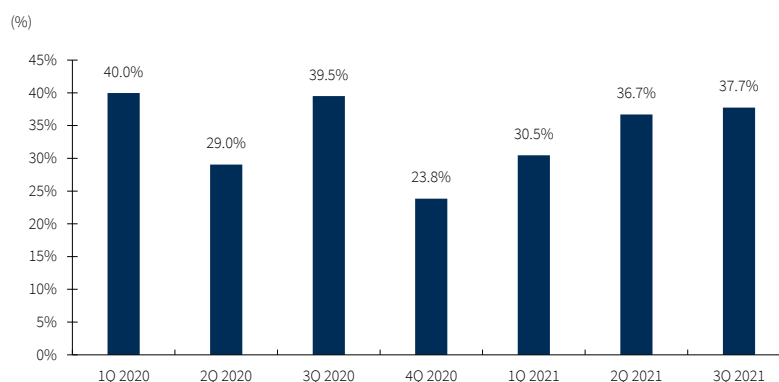


Source: Vietcombank, KB Securities Vietnam

Non-interest income in 3Q remained unchanged (-1.3% YoY), of which service contracts declined 10.3% YoY due to social distancing in 3Q but was offset by an increase in foreign exchange trading activities (+8.1% YoY).

Operating expense in 3Q expanded 9.3% YoY, leading to an increase in CIR to 37.7% from 36.7% in 2Q. However, the average CIR in the first nine months of 2021 was 35%, lower than 36.2% of 9M20, reflecting VCB's efforts to reduce costs.

Fig 5. VCB – CIR (%)



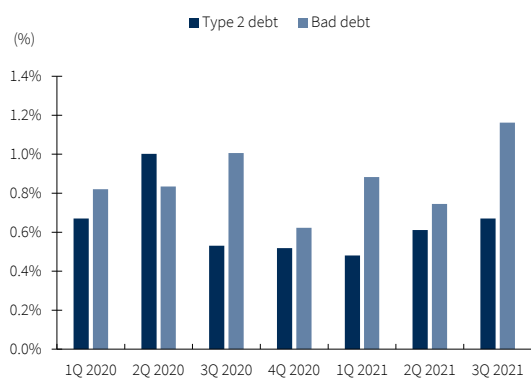
Source: Vietcombank, KB Securities Vietnam

NPL ratio has increased dramatically to 1.16% in 3Q from 0.74% in 2Q and special mention loans rose slightly to 0.67% from 0.61% in 2Q. VCB made a provision of VND2,512 billion (-22.1% QoQ, +24.1% YoY), reducing LLCR to 242.9%, which is still the highest in the industry.

In 3Q, restructured loan balance has doubled that of 2Q, hitting VND9 trillion or 1% of total outstanding loan, and is likely to continue to go up in 4Q. Earlier in the second quarter, VCB planned to make a full provision for

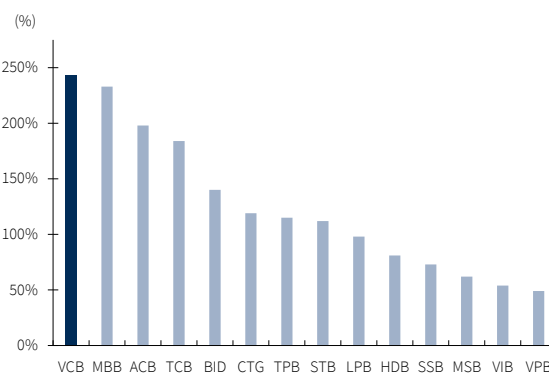
VND4 trillion of restructured debts instead of spreading it over three years. However, We expect the restructuring loan balance to gradually decrease as Vietnam begins to lift the lockdown measures in Q4.

Fig 6. VCB – Special mention and bad debts (%)



Source: Vietcombank, KB Securities Vietnam

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

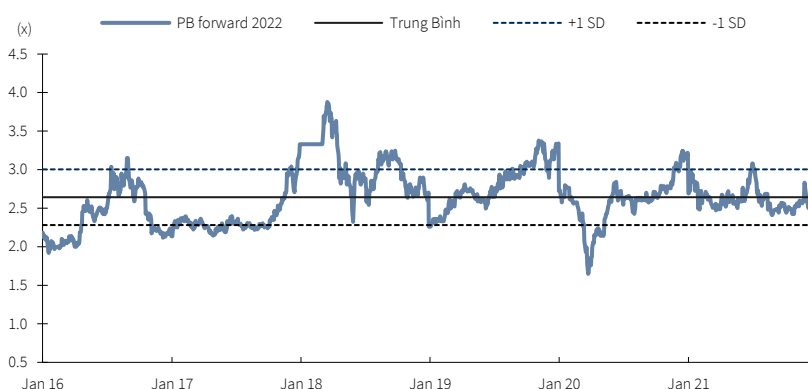


Source: Vietcombank, KB Securities Vietnam

Regarding the private placement plan, we expect this to be carried out by the end of 2022. The increase in Tier 1 capital may help VCB to expand credit growth in the future.

VCB is currently trading at a 12-month forward 2022 P/B of 2.44x, below the 5-year average at 2.64x.

Table 8. VCB – 12M forward P/B (x)



Source: Bloomberg, KB Securities Vietnam

Forecast and valuation

We make a forecast for VCB's business performance in 2021 as follows:

- We expect VCB's PBT to reach VND24,046 billion (+4.3% YoY) on TOI of VND52,617 billion (+7.2% YoY).
- Consolidated credit growth is supposed to be 13.5%.
- NIM should reach 3%. Lower lending interest rates were offset by low deposit rates, high CASA ratio (33.2%) and LDR.
- NPL ratio is at 1%

We recommend to BUY VCB shares with a target price of VND95,000

VCB is currently trading at a 12-month forward P/B of 2.44x, the highest in the industry. With its position as the top state-owned bank, non-performing loans are still under control thanks to VCB's boosted provisioning. In our estimates, VCB's 2022 forward P/B can remain close to +1SD of 5-year forward P/B. We expect Vietnam's post-pandemic economic recovery may help VCB's restructured loan balance and provision expense to fall in the coming time.

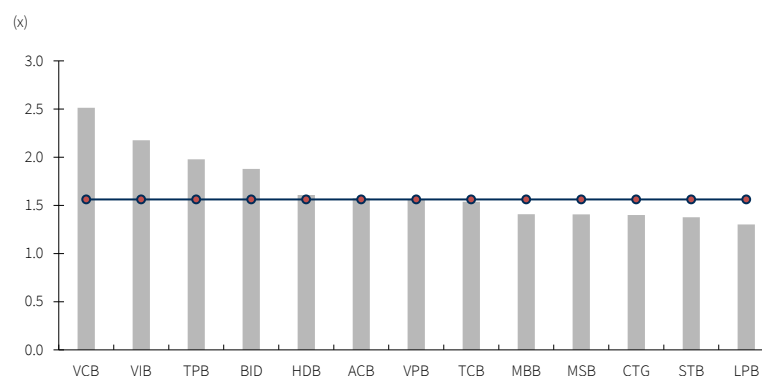
Basing on P/B valuation method, we maintain our BUY recommendation for VCB shares. The target price is VND95,000/share, 21.3% higher than the closing price on December 15, 2021. We believe VCB is a good choice to invest in in the medium and long term.

Table 2. VCB – 2021F – 2023F business results

	2021E	2022E	2023E
Net Interest Income (VNDmm)	38,820,225	42,949,843	47,878,343
TOI (VNDmm)	52,617,704	57,142,813	63,080,529
PBT (VND mm)	24,046,010	28,187,021	33,814,171
ROAA (%)	1.4%	1.5%	1.6%
ROAE (%)	18.9%	18.2%	18.0%
CIR (%)	32.5%	31.0%	30.0%
CASA (%)	33.2%	34.0%	34.7%

Source: Vietcombank, KB Securities Vietnam

Fig 9. Banks – 2022 forward P/B (x)



Source: Bloomberg, KB Securities Vietnam

VCB – 2020A – 2023E financials

Income Statement

(VNDmm)	2020A	2021E	2022E	2023E
Interest Income	69,205,134	71,914,539	84,035,547	92,551,338
Interest Expense	(32,919,659)	(33,094,314)	(41,085,704)	(44,672,995)
Net interest income	36,285,475	38,820,225	42,949,843	47,878,343
Fees & commissions	6,607,317	7,069,829	8,483,795	9,756,364
Trading foreign currencies	3,906,399	4,375,167	3,416,370	2,948,536
Securities held for trading	1,810	905	815	1,223
Investment securities	(98)	(73)	(80)	(111)
Other activities	2,261,638	2,351,651	2,292,071	2,496,174
Total operating income	49,062,541	52,617,704	57,142,813	63,080,529
SG&A expenses	(16,038,250)	(17,100,754)	(17,714,272)	(18,924,159)
Pre-provisioning OP	33,024,291	35,516,950	39,428,541	44,156,370
Provision for credit losses	(9,974,730)	(11,470,940)	(11,241,521)	(10,342,199)
Pre-tax income	23,049,561	24,046,010	28,187,021	33,814,171
Income tax expense	(4,577,043)	(4,785,105)	(5,603,177)	(6,721,779)
NP	18,472,518	19,260,906	22,583,843	27,092,392
Minority interest profit	(21,207)	(19,838)	(22,528)	(28,677)
Parent NP	18,451,311	19,241,068	22,561,316	27,063,715
EPS	4,470	4,617	4,242	5,089
DPS	1,200	1,000	1,000	1,000
Shares outstanding (mm shares)	3,709	3,709	4,733	4,733

Financial Indicators

(%)	2020A	2021E	2022E	2023E
Profitability				
ROE	21.1%	18.9%	18.2%	18.0%
ROA	1.4%	1.4%	1.5%	1.6%
NIM	3.0%	2.9%	2.9%	2.9%
CIR	32.7%	32.5%	31.0%	30.0%
CASA	32.8%	33.2%	34.0%	34.7%
Cost of fund	2.8%	2.7%	3.0%	2.9%
Asset yield	5.6%	5.4%	5.7%	5.6%
Liquidity				
LDR	81.4%	82.0%	83.0%	83.5%
Loan to Total Asset	63.3%	65.1%	66.4%	67.4%
Growth				
Asset growth	8.5%	8.4%	12.0%	13.6%
Loan growth	13.3%	15.3%	13.9%	13.8%
Deposit growth	11.2%	9.1%	14.6%	14.5%
TOI growth	7.3%	7.2%	8.6%	10.4%
PBT growth	-0.3%	4.3%	17.2%	20.0%

Balance Sheet

(VNDmm)	2020A	2021E	2022E	2023E
Total assets	1,326,230,092	1,437,087,313	1,608,969,151	1,827,054,278
Cash & gold	15,095,394	13,665,351	15,131,140	17,908,785
Balances with the SBV	33,139,373	26,167,693	28,974,523	34,293,418
Balances with credit Institutions	267,969,645	250,919,103	277,833,483	328,835,772
Marketable securities	158,885,158	165,332,205	170,366,035	175,554,573
Loans to customers	820,545,467	946,190,033	1,077,772,028	1,226,936,066
Fixed assets	8,539,362	8,966,330	9,414,647	9,885,379
Other assets	22,055,693	25,846,597	29,477,296	33,640,285
Total liabilities	1,232,135,113	1,327,351,204	1,470,555,366	1,664,963,396
Due from the SBV	41,176,995	9,461,900	10,777,720	12,269,361
Deposits from credit institutions	103,583,833	141,928,505	113,166,063	122,693,607
Deposits from customers	1,032,113,567	1,126,416,706	1,290,744,944	1,478,236,225
Valuable papers issued	21,240,197	21,762,371	24,788,757	28,219,530
Other liabilities	34,020,521	27,781,722	31,057,882	23,544,675
Shareholder's equity	94,094,979	109,736,109	138,433,785	162,090,882
Share capital	37,088,774	37,088,774	47,325,276	47,325,276
Capital surplus	4,995,389	4,995,389	4,995,389	4,995,389
Treasury shares	-	-	-	-
Capital adjustments	15,360,588	19,122,440	23,773,262	29,613,548
Retained earnings	36,650,228	48,529,506	62,339,858	80,156,669

Valuation

(VND, X, %)	2020A	2021E	2022E	2023E
Share Price Indicators				
EPS	4,470	4,617	4,242	5,089
BVPS	25,347	29,564	29,233	34,230
Valuations				
PE	17.2x	18.8x	22.4x	20.6x
PB	3.0x	2.9x	3.2x	3.1x
Dividend yield	1.5%	1.3%	1.3%	1.3%
Capital Adequacy				
CAR	10.0%	10.8%	11.3%	11.7%
Leverage ratio	14.1x	13.1x	11.6x	11.3x
Asset Quality				
Special mention debts ratio	0.3%	0.8%	0.7%	0.7%
NPL ratio	0.6%	1.0%	0.8%	0.8%
NPL + VAMC	0.6%	1.0%	0.8%	0.8%
External receivables / Loans	0.9%	1.5%	1.6%	1.5%
Credit cost ratio	1.3%	1.3%	1.1%	0.9%
LLCR	368.0%	215.6%	229.5%	231.8%

Source: Vietcombank, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Nguyen Xuan Binh
Head of Research
binhnx@kbsec.com.vn

Equity

Duong Duc Hieu
Head of Equity Research
hieudd@kbsec.com.vn

Nguyen Anh Tung
Senior Analyst – Financials & Information technology
tungna@kbsec.com.vn

Pham Hoang Bao Nga
Senior Analyst – Property
ngaphb@kbsec.com.vn

Le Anh Tung
Senior Analyst – Oil & Gas & Banks
tungla@kbsec.com.vn

Nguyen Ngoc Hieu
Analyst – Power & Construction Materials
hieunn@kbsec.com.vn

Pham Nhat Anh
Analyst – Industrial Real Estate & Logistics
anhpn@kbsec.com.vn

Luong Ngoc Tuan Dung
Analyst – Consumers & Retailing
dunglnt@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh
Head of Macro & Strategy
anhtd@kbsec.com.vn

Le Hanh Quyen
Analyst – Macroeconomics & Banks
quyenlh@kbsec.com.vn

Thai Huu Cong
Analyst – Strategy & Mid cap Stocks
congth@kbsec.com.vn

Tran Thi Phuong Anh
Analyst – Strategy & Mid cap Stocks
anhttp@kbsec.com.vn

Support team

Nguyen Cam Tho
Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong
Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels G, M, 2 & 7, Sky City Tower, 88 Lang Ha Street, Dong Da District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

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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